Meeting IMF-World Bank demands

By reducing the fiscal deficit to 6.5% of Gross Domestic Product (GDP) during 1991-92 and promising to bring it down to 5% of the GDP in the next year, Singh has met the demands of the IMF-World Bank. Other of their demands are: reduction of import duties from the peak of 150% to 110%, reduction of duty on general projects and machinery from 80% to 60%, reduction of duty on capital goods, significant slashing of the statutory liquidity ratio, and allowing foreign pension funds to invest in the Indian capital market.

At a press conference on the budget, a Finance Ministry official predicted that the GDP growth will increase from 2.5% in the present fiscal year to 4.0% by the end of March 1993. "The bottom point of the economy's performance was in 1991-92 and the worst is over, with a pickup in growth already being noticed from January this year," said Finance Secretary K. Geethakrishnan. He said the various steps outlined in the budget would help generate more employment opportunities by stimulating industrial and agricultural growth, as well as providing funds for social overheads, particularly poverty alleviation programs.

It is on the issue of inflation that many have expressed doubts. Finance Minister Manmohan Singh predicts that the budget will bring down inflation from the prevailing 12% to about 7% by the end of the next fiscal year. But a similar promise was made about last year's budget.

At the time of last year's budget presentation, the hike in world oil prices due to the impending Persian Gulf war was cited as a key component behind the price rise. In the interim, however, the oil price has crashed and inflation has continued.

India's *Economic Times* editorialized that the failure to curb inflation was due to two causes—excess net bank credit to the government which kept pumping high-powered money into the economy, and inflationary expectations which fueled agricultural prices.

The government has yet to tackle these issues.

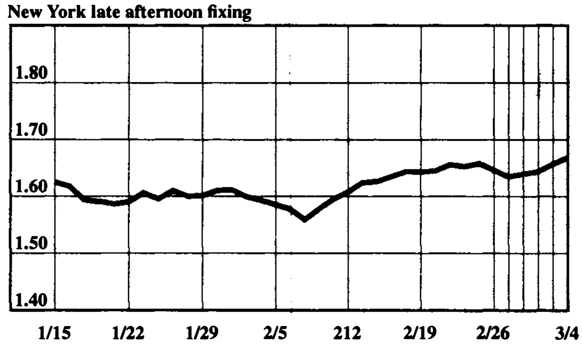
Finance Secretary Geethakrishnan told newsmen that inflation would be curbed not only by containing the fiscal deficit, but also by increasing production, raising foreign exchange reserves through expanding exports and removing import curbs.

The *Economic Times* points out that, import compression through physical Reserve Bank of India curbs had ended, but bringing all private sector imports into the convertible rupee scheme is import compression by another name. So, customs revenue, which plunged in 1991-92 and caused the revenue deficit to widen, is going to depend more and more on exports. At the same time, inflationary expectations in agriculture will worsen if the government fails to procure a large amount of wheat in the winter crop season. Already in Punjab, wheat is selling at almost 50% above the procurement price.

Currency Rates

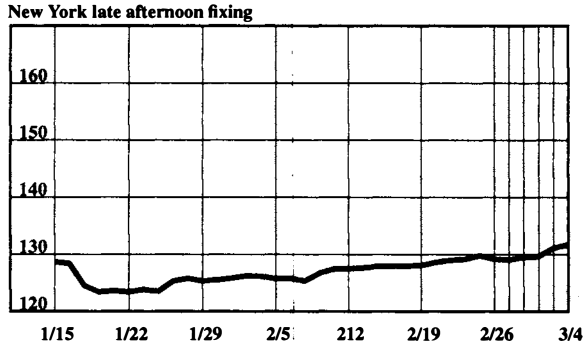
The dollar in deutschemarks

New York late afternoon fixing



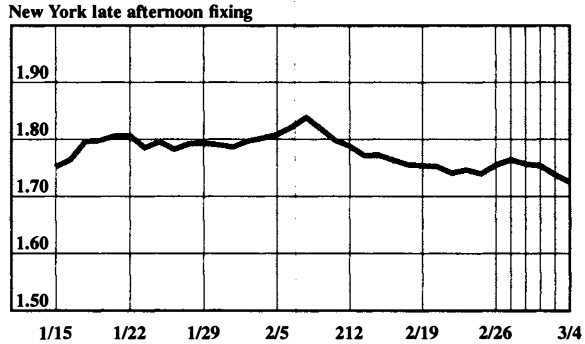
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing