

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

BOP/19
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Committee on Balance-of-Payments Restrictions

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1962 CONSULTATION ON BALANCE-OF-PAYMENTS RESTRICTIONS WITH

I N D I A

Intensification of Restrictions

1. By letter dated 10 September the authorities of India have transmitted the attached statement describing recent adjustments in import controls in order to meet fresh difficulties in the country's balance of payments.
2. Contracting parties were informed of the notification by India regarding the intensification of restrictions in GATT/AIR/301. Details of the current import control policy of India are set out in the "basic document" for the consultation on India's balance-of-payments restrictions (BOP/15).

IMPORT CONTROL MEASURES TAKEN BY THE
GOVERNMENT OF INDIA RECENTLY TO AVERT
A SERIOUS DECLINE IN THEIR FOREIGN
EXCHANGE RESERVES

Statement by the Authorities of India

1. India's imports during recent years continued to be substantially in excess of the resources available for financing them. As a result, the external assets which are in the form of sterling balances have had to be heavily drawn upon. These balances which amounted to Rs. 5070 million (\$1065 million) in 1957-1958 had depleted to Rs. 1337 million (\$280 million) in March, 1962. Foreign assistance in the form of loans and other aid promised by friendly governments for the second year of the Third Five Year Plan also remained in part unconfirmed when the import policy for 1962-1963 was due for announcement. Thus, there was difficulty and uncertainty in respect of the resources for financing the import requirements of the next twelve months. The import policy for 1962-1963 which was formulated against this background, therefore, contained a number of adjustments to meet the fresh difficulties in India's balance of payments. These adjustments were in the form of small reductions in the quotas for 'Established Importers' in respect of about sixty-five products. It was estimated that these adjustments would lead to a saving in foreign exchange expenditure to the extent of Rs. 10 million (\$2.1 million) for the whole year. Some reductions were also proposed to be made in actual user licensings. Having regard to the fact that India's annual imports have been of the order of Rs. 10,780 million (\$2264 million), the additional measures, however, affected only a very insignificant proportion of the import trade.

2. Simultaneously with the new regulations for economising on imports, opportunity was taken to make improvements in the licensing procedure. Until the 1962-1963 policy came into force, licences were being given on a six-monthly basis. The current policy, however, is for a whole twelve month period. With certain exceptions and stipulations, licences are now being given on an yearly basis, with provision for adjustments in value in the second half-year, if necessary. The new system of annual licensing will reduce documentary and procedural formalities for importers. The current policy also provides, for the first time, for the grant of import licences for motor vehicle parts to co-operative societies operating fleets of vehicles. Another new provision is the policy related to the grant of supplementary licences for the import of books in sheet form. The conditions about the validity of licences for import of particular goods were liberalized in many cases.

3. Soon after the announcement of the 1962-1963 policy, the need for further economies in foreign exchange expenditure became urgent. The disconcerting developments which created a serious external payments problem are explained in the Indian Finance Minister's letter of 28 June 1962 to the Managing Director of the International Monetary Fund (see Annex) asking for a standby foreign exchange accommodation of \$100 million for a period of one year.

By the end of May 1962, the situation became critical and called for urgent remedial measures to avert a further worsening of the external payments position. Accordingly, the import priorities have been revised and some licences curtailed. The further measures taken to meet the situation are in the form of (i) a cut of fifty per cent in the individual quotas of established importers; and (ii) an overall fifteen per cent reduction in quotas in the case of products licensable to actual users. These import cuts apply also to licences already given. Where letters of credit or other firm commitments have been entered into, the full utilization of the licence is allowed on the condition that fifty per cent of the value of the licences will be adjustable against the importer's future entitlement. Exemptions from the cut in whole or in part have been given in the case of some essential imports.

4. As long as the present scarcity of foreign exchange continues, licensing restrictions and reductions in individual quotas may have to be maintained. Over the longer term, expansion of exports would lead to an improvement of the position and accordingly the highest priority is being given to the implementation of export promotion schemes. In addition to obtaining a standby foreign exchange accommodation from the I.M.F., efforts are being made to secure a part of the financial assistance promised by friendly governments in a form in which it would be available for financing imports of a general character. If these efforts succeed, there may be some easing of the immediate short-term payments problem. A tight import policy will, however, continue to be necessary.

ANNEX

Text of letter dated 28 June 1962 from Shri Morarji R. Desai, Finance Minister of India, to Mr. Per Jacobsson, Managing Director, International Monetary Fund.

1. India has been experiencing in recent months a considerable reduction of exchange reserves. At the beginning of the Third Plan, in April 1961, the reserves had stood at the equivalent of Rs. 3.04 billion (\$638 million). In the first year of the Third Plan (1961-62) the reserves were drawn down by the equivalent of Rs. 63.0 million (\$13.23 million) despite a net drawing from the Fund equivalent to Rs. 583 (\$122.5 million) in August 1961. The reserves have further declined by the equivalent of Rs. 466 million (\$97.86 million) between the end of March and 1 June 1962, and with the onset of the slack export season they are likely to go down further. As on 1 June 1962, the gold and foreign assets of the Reserve Bank amounted to Rs. 2.20 billion (\$462 million). This is close to the statutory minimum of Rs. 2.00 billion required for currency cover. Of this amount Rs. 1.18 billion (\$247 million) consists of gold which has remained stationary since before the war. In the circumstances we consider it important for the maintenance of confidence that we should avoid any further drawing down of these reserves.

2. Internally, on the other hand, the situation has been marked by overall stability accompanied by a continued expansion of production. In the ten years ending March 1961, real national income increased by 43.4 per cent. In 1961-62 the first year of the Third Plan, agricultural production has been maintained at the record level of 1960-61 despite less favourable weather conditions. Industrial production has continued to expand, the increase in 1961 being about 7 per cent.

3. Over the ten years ended March 1961 the money supply increased by 47 per cent. During 1961-62 it increased by 5.5 per cent. Thus both over the longer period and in the past year the increase in money supply has been closely related to the increase in real income and the expanding monetary needs of the economy. Since the summer of 1960, prices have on the whole been steady. Bank credit expansion has been held within reasonable limits by a policy of credit restraint. Fiscal measures have been devised to enlarge Government revenues and to restrain increases on domestic consumption, especially of exportable commodities. In the budget of the Government of India for the current year, additional taxation has been levied which, together with the imports of the year before, will cover over three fourths of the proposed tax effort of the Central Government as planned for the five year period.

4. It is on external account that the position remains difficult. The level of reserves at the beginning of the Third Plan was too low to permit their use for developmental purposes. Of the total external assistance required for the Plan of Rs. 26.00 billion (\$5.46 billion), Rs. 19.00 billion (\$3.99 billion)

represented the assistance needed for project imports. A substantial part of this has been assured through the Consortium and other sources, though there have been delays in the disbursements of such assistance. More importantly, it has not been possible for India to secure adequate external assistance in respect of Rs. 7.00 billion (\$1.47 billion) representing non-project needs. This latter figure is made up of Rs. 2.00 billion (\$420 million) for the import of components for the Plan, and Rs. 5.00 billion (\$1.05 billion) to help meet debt repayment obligations. Since assistance received has mainly been reserved to project aid, difficulties have arisen with regard to the other requirements of financing under the Plan. Since debt repayment obligations represent an immediate charge on India's foreign exchange earnings, this has, in the circumstances, reduced the proportion of earnings currently available for the imports necessary to sustain the rising levels of production and to utilize fully the growing industrial capacity in the country.

5. We expect the position to improve substantially in the current fiscal year in regard to aid utilization. The Government of India also hopes that in the forthcoming meeting of the Consortium, some part of the additional assistance would not be tied to specific projects and would be available for imports of a general character. Meanwhile, for its part, the Government of India has decided, as an emergency measure, to cut down further imports (even those already licensed) not covered by external assistance and tighten the regulations relating to invisible payments. Over the longer term, highest priority is being accorded to expansion of exports; in particular, greater attention is being paid to export oriented agricultural production. Measures such as these would take some time to become effective.

6. In these circumstances the Government of India requests the Fund to agree to a standby arrangement for \$100 million for a period of one year. If the entire amount of the standby arrangement were drawn, the Fund's holdings of Indian rupees would be equivalent to 143 per cent of the quota. The Government of India would make drawings under the standby arrangement only as and when required to prevent further serious depletion of monetary reserves. The Government of India proposes that in the event of the grant of the standby arrangement, not more than \$50 million would be drawn without the consent of the Fund within the first two months after the arrangement comes into force. India will discuss with the Managing Director the particular currencies to be purchased from the Fund prior to any purchase under the proposed standby arrangement.

7. The Government of India is aware of the important rôle of fiscal and monetary measures, designed to hold internal demand in check, in expanding exports and providing the means for repurchases in respect of any drawings from the Fund within the prescribed period. The Government consequently intends to pursue policies which will ensure that the expansion in money supply is kept in reasonable proportion to growth of real national product. In particular, it will be the Government's endeavour not to allow any increase in fiscal deficits beyond present levels. As part of the effort to tighten further fiscal and monetary policies it is proposed to readjust upwards the structure of interest rates, including that on long-term Government securities. Should any major shift in the direction or emphasis of economic or financial policy as described in this letter become necessary during the period of the proposed standby arrangement, the Government of India would, at the request of the Managing Director, be prepared to consult with the Fund, and if necessary, reach new understandings before any request for a further drawing under the standby arrangement is made.