

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

L/2447
23 June 1965

Limited Distribution

Original: English

INDIAN IMPORT LEVY

Communication from the Government of India

The communication received from the Indian Government on this subject, which was reproduced in GATT/AIR/457, referred to a statement made in the Indian Parliament by the Union Finance Minister.

A copy of the statement is attached.

INDIAN TEMPORARY SURCHARGES

Statement by the Union Finance Minister
Shri T.T. Krishnamachari
in Parliament on 17 February 1965 on the
Foreign Exchange Situation

1. I crave the indulgence of the House for making this statement on the opening day of the Parliament as I wish to take honourable members into confidence, at the earliest opportunity, about the extremely difficult foreign exchange position in which we find ourselves at present. Our foreign exchange reserves have declined more or less steadily during the current fiscal year. Some decline during the months of April-September, when export receipts are usually low, is a normal feature of our balance of payments. The decline in reserves during April-September 1964, however, was almost twice as large as in the same period of 1963. What is even more disturbing, the decline in reserves has continued during the past four or five months when we should normally be gaining reserves in order to meet the requirements of the coming lean season for exports. On 12 February 1965, the foreign assets of the Reserve Bank stood at about Rs.79 crores. As honourable members are aware, the Reserve Bank is required to hold as a minimum Rs.200 crores of reserves in the form of gold and foreign securities. The Reserve Bank has been able, in fact, to abide by this requirement for some time only on the basis of a transfer to the Bank of gold which the Government had acquired over the years.

2. The recent decline in reserves is the result of a variety of factors. In view of shortages of foodgrains in the country and the pressure on prices, we have had to provide for larger imports of food and fertilizers against free foreign exchange. Payments on account of defence imports have also been increasing; and we have had to provide for larger repayment obligations in respect of the growing volume of our indebtedness abroad. While exports have been rising, the increase this year has not been as large as in 1963-64; and it has not been reflected fully in the receipt of foreign exchange. A part of the increase in exports has been to countries with whom settlements in trade and payments are made in rupees, and bring, therefore, no free foreign exchange. There is reason also to believe that export earnings have been slower in coming because of higher interest rates elsewhere. A part of the decline in reserves may, therefore, be short term in character and may be expected to reverse itself over the coming months. Even so, honourable members would appreciate that, given the low level to which reserves have already fallen and the requirements during the coming months, the adoption of all possible remedial measures cannot brook any delay.

3. First and foremost, we have to reduce inflationary pressures in the economy. The strictest fiscal and monetary discipline has to be observed in the interest both of stability of prices and of improvement in the payments position. The budget of the Central Government for the year 1965-66 will be announced ten days

from now, and I do not wish to say anything about this at this stage. But it is clear that the financial operations of the Central and State Governments as well as those of public and private sector enterprises will necessarily have to be guided by the overriding consideration of avoiding inflation. I have taken this up with the State Governments and I have no doubt that in the present grave situation I can count on their whole-hearted co-operation.

4. On the monetary side, several measures have been taken during the past year to bring about an orderly increase in interest rates and to slow down the pace of monetary expansion. The Reserve Bank has just announced further measures to this end. The Bank rate has been increased from 5 per cent to 6 per cent. Coupled with this, the terms governing the rates at which scheduled banks are eligible to borrow from the Reserve Bank have been made stiffer. Banks will be able to borrow at the Bank rate only when their net liquidity ratio comes to 30 per cent or more as against 28 per cent at present. The borrowing rate of the individual schedule bank will increase by $\frac{1}{2}$ per cent for every 1 per cent decline in its liquidity ratio below 30 per cent.

5. The Reserve Bank has also taken steps to make appropriate changes in other interest rates in the economy. Thus, banks have been asked to raise the interest rates on their term deposits as well as savings bank deposits. The ceiling limit to the lending rates of banks has been raised from 9 per cent to 10 per cent. The Reserve Bank lending rate to co-operative banks would also now be higher by 1 per cent. Appropriate changes in other interest rates, including those paid and charged by Government and other financial institutions, are also being made. These measures should limit the expansion of bank credit and bring about an appreciable reduction in inflationary pressures in general by encouraging a greater flow of savings and a greater sense of economy in the use of scarce capital resources. The Reserve Bank will watch carefully the expansion of credit and money supply in the economy in the light of genuine requirements of growing production and will take whatever further measures that might be necessary in this regard.

6. In the present foreign exchange position, we have also to take every possible measure to bring about the utmost economy in imports. Import allocations for the current half year have already been reduced. However, some financial restraint for bringing about greater economy in imports is also necessary. I propose, therefore, to take advantage of the powers already available for this purpose. A notification is being issued to levy a regulatory customs duty of 10 per cent of the value of imports on all imports with the exception of foodgrains, fertilizers, pesticides, books and accessories for family planning. This notification will come into effect immediately.

7. We propose to review all commitments for Government imports against free foreign exchange with a view to achieving all possible economies in this regard. Import allocations in future will have to be based strictly on the success of the measures that we are now taking in bringing about a quick improvement in our reserves.

8. The Aid-India Consortium organized by the World Bank is to meet in Paris towards the middle of next month to consider our requirements of assistance during the coming year. In view of our difficult payments position and the continuing shortage of imported raw materials and components, we propose to request the Consortium for maximum possible assistance for financing non-project imports and for providing immediate relief to our balance of payments in other ways.

9. Our export performance over the past two or three years has been a matter of some satisfaction. Given our needs, however, we have to make even more strenuous efforts to promote a further increase in exports. Higher exports inevitably imply some sacrifice of domestic consumption and investment. But in the context of our difficult foreign exchange situation, larger exports must take precedence over domestic requirements, however urgent. We shall continue, therefore, to explore all possible avenues for increasing our export earnings. We are reviewing all our export promotion measures with a view to taking whatever additional steps that may be necessary to ensure a continuing increase in export earnings. Import entitlement licences against exports will be increasingly related to actual receipt of export earnings.

10. The measures we are now taking will take some time before their full effects are realized. In the meanwhile, it will be necessary for us to have some support from outside to tide over our immediate difficulties. I have, therefore, authorized our Executive Director on the Board of the International Monetary Fund to request that institution for a stand-by credit to the maximum extent possible. I cannot emphasize too strongly that accommodation from the International Monetary Fund is available only for meeting short-term difficulties. We have large outstanding repayment obligations amounting to \$200 million to the Fund in respect of the drawings we made at the beginning of the current Plan period. Any accommodation that we may get from the Fund now will also have to be repaid over the next few years. Efforts to strengthen our balance of payments by utmost fiscal and monetary discipline as well as by vigorous export promotion and economy in imports will have to be maintained, therefore, over a number of years and indeed reinforced from time to time in the light of prevailing circumstances. It is only by continuous attention on the highest priority basis to this task of improving our payments position that we can avoid in future the kind of critical situation in regard to foreign exchange that we have faced so often in the recent past and are facing once again at the present moment. I have every confidence that honourable members would extend to the Government utmost co-operation in this task of restoring and preserving the external viability of the economy.