

GENERAL AGREEMENT ON

RESTRICTED

TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

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REPORT ON THE 1989 CONSULTATION WITH INDIA

1. The Committee consulted with India on 16 October 1989, in accordance with its terms of reference, pursuant to Article XVIII:12(b) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the Chairmanship of Mr. J.-F. Boittin (France). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic document by India	BOP/292
Secretariat background paper	BOP/W/128 BOP/W/128/Corr.1
International Monetary Fund "Recent Economic Developments" dated 28 June 1989 and Corrigendum.	

Opening statement by the representative of India

3. The opening statement by the representative of India is attached as Annex I.

Statement by the representative of the International Monetary Fund

4. The statement made by the representative of the International Monetary Fund at the invitation of the Committee is attached as Annex II.

Balance-of-Payments position and prospects: alternative measures to restore equilibrium

5. Members of the Committee generally expressed their appreciation for the statements made by India and the IMF. There was broad agreement that India's reserves situation had seriously deteriorated since the previous consultation. It was recognized that India's domestic economic policies had avoided the need for further import restrictions and that India had been able to pursue a process of liberalization and rationalization of many aspects of its trade régime despite the deterioration. It was hoped that the process would continue.

6. One member noted that India's balance-of-payments situation combined difficulties in the capital account with positive developments on the trade account. The expansion of trade deficits since 1987 appeared to have

halted this year. Improved export growth was strengthening India's ability to service its external debt; debt service had dropped from roughly 30 per cent of current receipts in 1988/89 to 27 per cent for 1989/90 and would fall further as IMF amortization payments start to decline in FY 1990/91. The trade and current account deficits would probably remain relatively unchanged. To meet a temporary marked drawdown in reserves as of mid-year, India could draw on concessional lending pledged in 1989 and had good access to commercial borrowing.

7. In the longer term, India would have to finance its import needs and debt service obligations through sustained, strong export growth; it could no longer rely on large net inflows of concessional financing. To achieve such export growth, India's trade régime needed a major overhaul. India's producers could compete internationally if encouraged by a more open trading environment, including the removal of import protection which had encouraged inefficient domestic industries and suppressed the development of exports outside traditional areas.

8. India's trade barriers remained extremely high; the average unweighted tax on imports was 143 per cent (including tariffs, the drought surcharge, and "countervailing" duties) and 60 per cent of non-petroleum imports were restricted or banned through non-tariff barriers. The import régime still selectively protected a wide variety of individual sectors. Only imports which did not compete with domestic production were permitted; this was a particularly inefficient and damaging way of restricting trade for balance-of-payments purposes. India should implement a broad-based programme of import liberalization to increase returns to exporting across the economy and foster the development of export industries outside traditional areas. The selective licensing system should be replaced by a uniform price-based system for controlling imports in a non-discriminatory manner. It was generally understood that long-term restrictions contributed to the balance-of-payments problem. Selective protection promoted inefficient resource flows into administratively chosen import-competing production and discouraged exports. He believed that India would benefit substantially if it adopted an export-oriented development strategy.

9. Another member said that India's overall balance-of-payments situation still justified the maintenance of some trade measures. He fully supported India's development objectives, and recognized that there might be a number of constraints on their achievement. While increased strain on the budget gave cause for concern, a too restrictive approach might upset the achievement of India's objectives. He shared the view that a revision of the trade policy régime was necessary to improve the competitiveness of India's export industries. Several discretionary elements in India's licensing régime presented obstacles to trade on top of high tariffs. Further simplification and transparency was needed.

10. One member recognized that pressures for protection resulting from strains on India's balance of payments resulting from the recent drought, growing imports and increasing debt obligations had been largely resisted, and that there had been some welcome liberalization in several areas of industrial, financial and trade policies, which he hoped would continue. Despite this, India's regulatory framework remained burdensome and the

trade system was still highly complex; it was not clear, for example, how far multiple trade practices were in existence. The system should be streamlined. Another said that in the light of the heavy pressures on India's payments situation, it would certainly be premature to consider asking India to disinvoke Article XVIII:B; but balance-of-payments restrictions should be temporary and progressively removed. Another recognized that India was making a serious attempt to transform its industrial structure and create a stable basis for growth and development. He welcomed the increase in the number of products allowed under the Open General Licence and related provisions. He encouraged India to continue and enhance efforts to maintain a more liberal import policy. He noted that India's improved export performance could be attributed to various policy measures such as appropriate exchange rate policies, reducing bottlenecks to imports of capital and intermediate goods, the deregulation of industrial policies and liberalization of the foreign exchange market. He welcomed the improvement in transparency which would result from the exercise of organising information on trade restrictions by tariff line and looked forward to its early completion.

11. A member noted that greater emphasis on exports represented a meaningful change in India's economic policy, which had previously been orientated towards import substitution and self-sufficiency. His country's experience showed that demand for imports grew as export promotion policies were undertaken, with more need for machinery and equipment and greater dependence on imported materials. Hence, in the early stages of an export drive, the trade deficit was apt to expand. It was therefore very important to use limited foreign exchange efficiently to support industrial activities. Export promotion, the first step of incorporating the national economy into the world economy, could not be implemented successfully without a firm belief in free trade, linking export promotion closely with import liberalization. In this process, import liberalization of capital goods and intermediate products would come first; consumer goods would inevitably remain under some restriction in the short run. Further import liberalization had taken place in India despite an expanding trade deficit. Another remarked that India had successfully coped with pressures from drought, upsurge in imports and debt servicing problems, as well as avoiding severe inflation. A more export-oriented economy was developing, moving away from import substitution and self-sufficiency. Another saw India's external position as very vulnerable, especially in terms of the decline in reserves. As a counterpart to the resistance shown by India to intensifying import restrictions there was need for unhampered access to export markets.

12. In reply, the representative of India said that there was no doubt that the balance-of-payments position had worsened since the last consultation. He was struck by the community of views expressed in the Committee regarding India's situation, in particular that there was seen to be substantially greater pressure on reserves than in 1987; that India was recognized as making continued efforts toward industrial deregulation and import liberalization despite these pressures; that India had pursued sound macroeconomic policies; and that there was a clear appreciation of the link between sound balance-of-payments adjustment and strong, broad-based export growth.

System, methods and effects of import restrictions

13. Some members questioned the consistency of India's import measures with the 1979 Declaration. It was noted that countries should give preference to measures with the least disruptive effect on trade, that restrictive import measures should not be taken to protect a particular industry or sector and that simultaneous application of more than one type of trade measure should be avoided. Concern was expressed regarding the complexity and multiplicity of India's import restrictions, especially in relation to goods which compete with domestic production. Areas of concern included bans, QRs, licensing, canalization, the Phased Manufacturing Programme (PMP), "Actual User" policies, industrial policies and preferential Government purchasing; high tariffs and the drought surcharge. The long duration of India's restrictions (over 30 years) and their effects in creating a highly protected import-substitution sector and protecting inefficient or infant industries, was noted, and it was emphasised that India should invoke other GATT provisions to address these problems.

14. India's intention to set out all trade restrictions by tariff line was seen as a welcome contribution to transparency. One member asked when India would notify such information, without which he believed the Committee could not properly carry out its functions. Transparency was also the concern of another member who, seeking clarification of the main categories used in the Indian licensing system, asked which items on the "banned" and "restricted" lists were banned for balance-of-payments or other reasons, as well as for a precise definition of the "actual user" concept. Other questions addressed to the Indian representative included requests for estimates of the share of Indian imports covered by discretionary licensing or bans, the relationship between import bans and the requirement of Article XVIII:10 to allow imports in "minimum commercial quantities", and whether India had considered converting its licensing restrictions to tariffs. In this connection, reference was made to some readjustments of tariffs and licences made by India in 1986 and 1989, and India was asked about the progress of work in an interministerial committee established to lay down principles for moving towards a tariff-based régime.

15. Replying, the Indian representative said that the creation of lists showing all import restrictions on a tariff line basis should be a major contribution to transparency and understanding of India's import system. He reiterated that the aim was to complete this complex exercise in 1991, in time for the publication of the new Indian trade policy documents. This information would be provided in the interests of greater transparency.

16. He said that it should be recognized that a country invoking Article XVIII:B in respect of balance-of-payments problems should have a certain degree of freedom under Paragraph 10 of the Article to select measures according to its development needs: seen in this light, the question of determining which measures were imposed for balance-of-payments purposes became academic. In India's case, apart from a few statutory bans, all restrictions were basically justified under Article XVIII:B.

17. Very few items were banned: only beef tallow and some animal fats had been banned, for reasons of religious sensitivities, on evidence that they had been used to adulterate vegetable cooking oil. The value of trade involved was insignificant. The category "Restricted" covered items for which there was a high degree of local availability and excess production capacity, and which could therefore be easily sourced from domestic production. "Limited Permissible" items were goods for which domestic self-sufficiency was much lower and which were much more liberally treated. For these items, new "windows" for import on a post-export basis by exporters had been opened in the 1988 import policy, thus easing the situation considerably. Items under Open General Licence could be imported without import licence by anyone. The proportion of capital goods, raw materials and components falling under OGL had been steadily increasing over the last 4½ years.

18. In 1987/88, there had been 11,059 import licence applications from industrial users for import of raw materials and components; in 1988/89, 8,828. Applications for import licences for capital goods had fallen from 3,528 to 2,564 in the same period. The main reason for the decline in the number of applications was the move of many items to OGL.

19. Concerning canalized products, the list had been reduced, and again a new "window" had been opened for exporters classed as "Export Houses" or "Trading Houses" to import several canalized items on a post-export basis.

20. In general, the trend was away from discretionary licensing and towards greater liberalization. It was estimated that while in 1987/88 21 per cent of imports were controlled under discretionary licensing, in 1988/89 this share had fallen to 15.1 per cent. It was also significant that over three-fourths of the time of the office of the Chief Controller of Import and Exports was now spent on export promotion. India's manufacturing sector was strong and willing to face international competition; in turn, the maintenance of a competitive industry required access to modern technologies and equipment.

21. Specific restrictions on some components and sub-assemblies for consumer electronics products had been introduced in March 1989 to prevent exports based on "screwdriver" technology; at the same time, procedures for bona fide imports of such goods for use in manufacturing were simplified. Some of the restrictions imposed in March 1989 had been removed again in August 1989. There was no one-to-one correspondence between changes in licensing and changes in duties: in 1986, a large number of goods were transferred to OGL and some readjustments made to tariffs, but when in 1988 a much larger number of goods were transferred to OGL, no tariff changes were made.

22. There was a discussion of the meaning of the notification obligations contained in Article XVIII and the 1979 Declaration. The representative of India reiterated his view that these did not imply the notification of every import restriction and that notification was only required in the case of an increase in the "general level" of restrictions. In connection with "minimum commercial quantities" he restated India's view that Article XVIII.10 should be interpreted to mean that when imports are allowed, they should be allowed in at least minimum commercial quantities. Other members restated their disagreement with these views. The Indian representative

said that India's policies on canalization, Government purchasing and the "PMP" were fully consistent with its GATT obligations. Full information on canalization had been notified under Article XVII:4 a). He noted that India's attempts to join the Government Procurement Code had not received any encouragement from the other members of the Agreement. The representative of India also stated that differences of opinion on the notification obligations of the Article should not be taken to contradict what India had said about giving information in the spirit of greater transparency.

23. The interministerial Committee on trade policy was charged with formulating the structure of the three-year import/export policies. This process would continue in the future.

Aspects relating to Paragraph 12 of the 1979 Declaration

24. The representative of India stressed that India's ability to maintain a liberal trading régime depended considerably on adequate access to markets. In respect of textiles - a major area of importance for India - the Uruguay Round negotiations were hardly showing any progress, and the Committee should make a clear recommendation in this area. Problems had been experienced in one major market for metal manufactures because of anti-dumping and countervailing measures and consultations with the country in question showed up serious differences in interpretation of the relevant GATT Codes. In addition, selective consumer taxes on tea and coffee still affected India's exports to another major market.

25. One member said that his delegation was authorized to negotiate reductions in consumption taxes on tea and coffee in the Uruguay Round, to the extent these could be shown to inhibit trade; however, there was no clear evidence so far that this had been the case in his markets, in which per capita consumption of these products was the highest in the world. He also questioned whether liberalization of trade in textiles and clothing would necessarily bring the results sought by India.

26. Another member recalled that the linkages between trade, financial and balance-of-payments problems had been highlighted in the Punta del Este Declaration and successive communiqués of other relevant international organizations. India's export problems must be considered as an integral part of the balance-of-payments question. Although negotiations were proceeding in various Negotiating Groups, members of the Committee should draw attention in their capitals to the problems which had been mentioned and seek opportunities for encouraging further trade liberalization.

Conclusions

27. The Committee noted that India's balance-of-payments and reserves position had deteriorated markedly since the last consultation, due to a number of factors including the effects of rapid economic growth on the demand for imports and a sharp rise in debt repayment obligations. It noted that future pursuit of more rapid growth in India's economy was likely to imply continuation of pressures on the balance of payments.

28. It took note of the view expressed by the IMF that control of fiscal deficits, monetary restraint and a supportive exchange rate policy would be necessary to contain any further deterioration in the external position without intensifying import restrictions, and recognized that these efforts would need to be complemented by adequate aid flows and access to markets.

29. The Committee welcomed the steps being taken by India, despite growing difficulties, to liberalize and expand trade, including the easing and rationalization of import and export regulations and procedures. It noted that the structure of restrictions remains broad and complex, and encouraged the Indian authorities to continue as vigorously as feasible the process of simplification and liberalization, bearing in mind the provisions of the 1979 Declaration.

30. The Committee noted that the Indian authorities were in the process of improving the transparency of import policy by drawing up a detailed schedule of import restrictions on a tariff line basis, according to the Harmonized System. The Committee, welcoming this development, invited India to notify such a list to GATT as soon as possible.

31. The Committee took note of all the points made regarding elements relating to the need for access for India's exports, under paragraph 12 of the 1979 Declaration. It recognized that the Uruguay Round negotiations remained the most appropriate forum within which the problems raised by India should be resolved.

ANNEX I

Opening Statement by India

The basic document provided by India for the 1989 Consultation under Article XVIII:12(b) is before the Committee. The background paper of the GATT secretariat gives details of the general trend of economic and trade developments since the last consultations in 1987. In this statement, I would only like to provide an overview of the developments in India's balance-of-payments position since then and Government's policy responses to these developments.

2. As these documents clearly bring out, India's balance of payments has been under severe pressure in recent years owing to a number of medium-term and short-term factors. The medium-term factors include:

- the cumulative effect of the policies of industrial deregulation and import liberalization initiated around the turn of the present decade;
- the steady erosion, over time, in India's share in total official development assistance (from around 15 per cent in 1970 to 6 per cent or less in the mid 80s);
- the cumulation of debt service liabilities from past obligations, including those to the IMF and commercial creditors;
- the decline in the self-sufficiency ratio with regard to production/consumption of oil and petroleum products from the peak attained in 1984-85;
- the steady erosion in the importance of the surplus on the invisibles account of India's balance of payments; and
- the resurgence of protectionism in world trade and turbulence in global capital markets.

3. These medium-term pressures on India's balance of payments were significantly compounded in 1987-88 by the severe country-wide drought, which hurt agricultural exports and entailed heavy imports of essential commodities such as food grains, pulses and edible oils. Short-term pressures on the balance of payments continued to be strong in 1988-89, with the sharp surge in import values and volumes, reflecting:

- a spill over of essential imports necessitated by the previous year's drought;
- the buoyant import demand associated with the exceptionally strong economic recovery in 1988-89;

- the need to replenish depleted stocks; and
- the sharp rise in international prices of metals, chemicals and edible oils.

4. The continued and severe stress that these medium-term and short-term factors have placed on our balance of payments is reflected in the steady deterioration of our foreign exchange reserves position over the last few years. These reserves (IMF definition) fell from around SDRs 6.5 billion in September 1985 to a little over SDRs 3 billion at the end of August this year. When this Committee last met in October 1987, our reserves were equivalent to about 4 months of imports. By the end of August this year, our reserves accounted for hardly two months of imports.

5. Although use of import restrictions continues to be the main instrument for the management of our balance of payments, there has been an increasing reliance on more general economic instruments including prudent fiscal and monetary policies. These policies have also been largely successful in checking inflationary pressures. This, together with developments in India's basket-based system of exchange rate management, has (according to IMF estimates) led to a decline in the real effective exchange rate of over 30 per cent between 1985 and 1989. The strong growth of India's exports in recent years, estimated at around 10 per cent per year in real terms since 1985-86, testifies to the soundness of our policies for balance-of-payments management in the face of adverse pressures and developments.

6. Despite mounting pressure on the balance of payments, the trends of industrial deregulation and cumulative import liberalization have been maintained over the last two years, underlining Government's commitment to a more outward-looking policy stance. The three-year import policy introduced with effect from April 1988, contains a number of liberalization measures. The salient features have been summarized on pages 15-16 of the basic document. It would be seen that in the new policy there have been several additions to the OGL lists for capital goods, raw materials, components and consumables and drugs and medical equipment. The number of items allowed to be imported for stock and sale has also been increased. The list of canalized items has been shortened. I would like to mention in this connection that while the inadequacy of indigenous availability is the main criterion for additions to the OGL list, another important consideration is to expose the domestic industry to international competition so that the manufacturers in the country are induced to modernize their industry and become efficient.

7. Import liberalization has contributed significantly to the increase in trade deficit and to the pressure on the balance of payments. Following the introduction of the new three-year import policy, imports have increased by 23.9 per cent in rupee terms and 11 per cent in dollar terms during 1988-89 as compared to 1987-88. The imports of machinery have gone up from Rs 59,290 million to Rs 67,125 million; of artificial resin and

plastic materials from Rs 5,480 million to Rs 8,000 million and of professional, scientific control instruments etc. from Rs 4,876 million to Rs 6,886 million.

8. The complexity of the import régime was the subject of comment at the last consultation. There were requests for efforts to further increase transparency. Members would have noted that recently India has given details pertaining to State trading in its notification under Article XVII:4(a). Further, as noted in the basic document, Government has initiated action to further improve transparency of the import policy by drawing up details of import restrictions on tariff line basis.

9. Paragraph 12 of 1979 Declaration on Trade Measures taken for balance-of-payments purposes provides that the Committee shall give particular attention to the possibilities for alleviating and correcting the balance-of-payments problem through measures to facilitate the expansion of export earnings of the consulting Contracting Party. In the 1987 consultations, India had expressed the hope that effective steps would be taken, particularly in the context of the Uruguay Round, for facilitating the expansion of India's export earnings. Attention of the Committee had been drawn to some of the restrictions in this regard, of which three continue to be relevant even today. It had been pointed out that India's export earnings from textiles and clothing were severely constrained by restrictive import régimes of industrialized countries and bilateral agreements under the MFA. Secondly, anti-dumping and countervailing duty proceedings had disrupted India's exports of certain metal manufactures to an important market. Thirdly, selective consumption taxes on India's exports of tea and coffee also served to depress export earnings. At the 1987 consultations, the Committee had expressed the view that negotiations in the framework of Uruguay Round were the most promising means of facilitating the expansion of India's export earnings. However, the progress of negotiations in the Uruguay Round in this regard has been disappointing so far. With just one year to go in the Uruguay Round, we are yet to see indications of concrete progress in the areas of export interest that were outlined by India. India hopes that this aspect will be duly taken into account by the Committee.

10. Looking to the future, further import liberalization would depend largely on availability of adequate amounts of external finance on concessional terms and improvement in access conditions in the areas indicated above in which India is internationally competitive. The Committee would appreciate that India has maintained progression in liberalization to the extent that the balance-of-payments position has permitted. Despite a significant worsening of the balance of payments, there has been no back-tracking. This brings me to the most important policy consideration that has weighed with my Government in determining the pace of liberalization: we would not like to go so fast that we have to change direction in future.

ANNEX II

India - Statement by the Representative of
the International Monetary Fund

In the early 1980s, India embarked on a process of gradually easing government controls in an effort to shift toward a more outward orientation of the economy and stimulate growth. The focus of policies has been on industrial deregulation and on freeing access to imports, particularly for export production. These efforts gained momentum in the mid 1980s with a wave of industrial deregulation and the introduction of three-year trade policy programmes, the most recent of which - the Import-Export Policy for 1988-91 - pushed ahead significantly with the liberalization of imports for export production. These measures were supported through an exchange rate policy that strengthened external competitiveness.

It will be some time before the full impact of this reorientation of policies can be seen. Already, however, economic performance has improved in several respects, related in part to the shift in policies. Most evident has been a sustained increase in output growth and significantly improved export performance. Investment by the private sector has been strong, and economic efficiency has, after a long period of decline, begun to increase. Moreover, structural improvements in both the agricultural and industrial sectors have helped increase the resiliency of the economy to agricultural disturbances. A prudent monetary policy, together with lower inflation abroad and the increased responsiveness of domestic supplies, have kept inflation low.

At the same time, however, the external position has come under pressure. Liberalization, as well as a 35 per cent real effective depreciation of the rupee between 1985 and 1989, have resulted in a jump in export volume growth (from 1 1/2 per cent per annum during the first half of the 1980s to over 9 per cent per annum since 1986); nevertheless, higher growth and the relaxation of restrictions on imports have given rise to a strong increase in import demand, while growing interest payments have weakened the services account. These influences were exacerbated by a large increase in the public sector deficit, primarily on account of the Central Government, during the first half of the 1980s. Consequently the current account deficit has varied within a range of 2-2 1/2 per cent of GDP during the late 1980s, up from 1 1/2 per cent early in the decade. To finance this gap, the Government has turned increasingly to commercial financing.

The greater resilience of the economy was demonstrated during the severe drought of 1987/88 and its aftermath. Following a slump in 1987/88 (financial year beginning in April), economic growth rebounded to about 10 per cent in 1988/89. The availability of imports and large food grain stocks accumulated prior to the drought, together with relatively cautious financial policies, curtailed the inflationary consequences of the drought, and in 1988/89 wholesale prices rose by only about 6 per cent. Financial

policies supported the recovery. The deficit of the Central Government remained at the previous year's level, equivalent to about 8 per cent of GDP; broad money accelerated somewhat; and the real effective value of the rupee depreciated by about 11 per cent during the year.

On the external accounts, exports rose strongly in 1988/89, for the third consecutive year. Thus, despite a sharp drop in the invisibles surplus and a surge in imports owing to the large increase in domestic demand and the need for food imports and other post-drought restocking, the current account deficit was contained to 2 1/2 per cent of GDP. Nevertheless, notwithstanding strong inflows of aid and commercial borrowing, official reserves fell by about 20 per cent to the equivalent of just under three months of imports. By end 1988/89, outstanding external debt rose to 22 per cent of GDP, while debt service payments remained equivalent to just over 30 per cent of current receipts.

Supported by a favourable monsoon, economic growth should return to a more normal rate of about 5 per cent in 1989/90. Inflation is expected to remain at about 6 per cent. The 1989/90 budget includes a strong effort to reduce the fiscal deficit through both expenditure restraint and revenue measures. The Fund's staff projection (made at the beginning of the financial year) was for a continuation of rapid export growth while import volume growth slowed somewhat owing to the deceleration of domestic demand and the absence of grain imports. Nevertheless, with some deterioration in the terms of trade and another drop in the invisibles surplus, the current account deficit was expected to widen. However, with strong inflows of aid and additional commercial borrowing, the overall position was expected to swing back into surplus. While actual developments thus far this year suggest strong performance of the trade account, official reserves have fallen by a further 25 per cent (\$1.4 billion) between April and end August and now stand at the equivalent of only about two months of imports. The authorities are keeping a close watch on this situation and are determined to ensure that it remains viable.

In its current preparations for the Eighth Plan (1990/91-1994/95), the Government has embraced the objective of raising the average growth rate from about 5 per cent per annum during the 1980s to 6 per cent. The recent acceleration of industrial and export activity in response to reform, liberalization, and depreciation gives ground to believe that such higher growth is feasible. The import requirements associated with this growth target, however, would be large. Policies to support exports and to raise domestic savings must therefore be strengthened to prevent strains on the external position.

The Fund notes that the Indian economy has responded well to the reorientation of policies during the 1980s and compliments the authorities on their firm commitment to continue economic liberalization, to further enhance external competitiveness, and to strengthen the financial position of the public sector. Special attention must be paid to the external position which has weakened as a result of the faster pace of domestic

activity, the cumulative effects of lowering restrictions on imports, and the increase in the public sector deficit. The balance of payments was further strained by the severe drought in 1987. Foreign exchange reserves have fallen substantially despite increased resort to commercial borrowing, and important uncertainties remain for the payments outlook. The authorities have responded through the adjustment of financial policies, and this process must continue. In particular, a further reduction in the fiscal deficit, continued restraint in monetary policy, and a supportive exchange rate policy will be crucial to containing any further deterioration in the external position without resorting to an intensification of import restrictions. Moreover, the steady implementation of such policies will strengthen the underlying balance-of-payments position and thus permit a further reduction in the restrictiveness of the exchange and trade system. Such efforts are essential to meeting the Government's medium-term objectives for exports and growth. To be effective, however, they will need to be complemented by adequate aid flows and unhampered access to foreign markets.