1

GENERAL REVIEW

Macroeconomic Overview

The economy has emerged decisively from the crisis of 1990-91. The crisis reached its peak in the summer of 1991 when foreign currency reserves had plummeted to almost $1 billion, inflation had soared to an annual rate of 17 per cent, industrial production was falling and overall economic growth had declined to 1.1 per cent (in 1991-92). The programme of stabilisation and the economic reform measures put in place in 1991-92 helped restore economic growth to 4 per cent in 1992-93 (Table 1.1), brought down the rate of inflation to 7 per cent, restored the level of foreign currency reserves to $6.4 billion and stimulated a strong recovery in exports towards the end of the financial year. The measures taken during the past two years also averted a deepening crisis in the banking sector, ensured a systematic overhaul of foreign trade and exchange rate policies, largely dismantled the cumbersome and abuse-prone system of industrial licensing, launched a more liberal policy towards foreign investment and ushered in far-reaching changes in the governance of the capital market.

2 The year 1993-94 saw further fruits of the initial array of reforms, the deepening of the reform efforts in some areas and the identification of new priorities for policy action. The balance of payments position has improved markedly. The current account deficit is expected to be less than 0.5 per cent of GDP in 1993-94. An inflow of over $2.5 billion on account of foreign direct and equity portfolio investments is expected. This reflects a quantum jump in such private capital inflows over previous years. Foreign exchange currency reserves, had reached $10.9 billion by February 4, 1994. The Stand-by Arrangement with the IMF negotiated in 1991, was successfully completed in June 1993. Access to foreign capital markets has been restored. Equity and bond issues by Indian companies have received a strong response in overseas markets. Inflation was running below 8.5 per cent in January 1994. Foodgrain stocks are at record levels due to good agricultural performance in two successive years and marked increases in procurement prices. The unorganised manufacturing sector and the consumer and intermediate goods segments of organised industry have shown reasonable recovery. The Advance Estimates of National Income by CSO place overall economic growth in 1993-94 at 3.8 per cent (Table 1.1).

3 At the same time, there were setbacks, most notably with regard to slippage in the realization of targets for fiscal deficit correction, and the associated rekindling of inflationary pressures and pre-emption of investible resources for Government borrowing. Furthermore, investment and capital goods production, which were recovering strongly in the first three-quarters of 1992-93, were derailed by the disturbances of December-March, 1992-93. For a number of reasons, the growth in this sector has remained weak and has pulled down overall industrial performance.

4 The most striking evidence of progress was in the external sector. Responding to the earlier changes in the exchange rate, the unification of the rate from March 1, 1993, the liberalization of trade policies and the strong fiscal deficit correction achieved in the previous two years, export growth soared to 19.9 per cent in dollar terms in the first nine months of the year after having been negative in 1991-92 and showing a weak growth of 3.8 per cent in 1992-93. Despite the earlier wide-ranging liberalization of import policy, imports declined by 1.3 per cent in dollar terms in the first nine months, partly because of the price-rationing effect of the unified, market-determined exchange rate system and also because of slow growth of production in organised manufacturing. For the full year 1993-94, the trade deficit is expected to be in the order of $1000 million, compared to $9437 million in 1990-91 and $4106 million in 1992-93. Similarly, the deficit in the balance of payments on current account is anticipated to be less than

TABLE 1.1
Key Indicators

	1990-91	1991-92P	1992-93P	1993-94P	1990-91	1991-92P	1992-93P	1993-94P
	ABSOLUTE VALUES				PER CENT CHANGE OVER PREVIOUS YEAR			
1	2	3	4	5	6	7	8	9
Gross national product (Rs.thousand crore)								
At current prices	468.1	540.1	616.5Q		16.2	15.4	14.1Q	
At 1980-81 prices	207.5	208.7	217.6Q	225.9E	4.7	0.6	4.3Q	3.8E
Gross domestic product (Rs.thousand crore)								
At current prices	475.6	551.6	627.9Q		16.4	16.0	13.8Q	
At 1980-81 prices	211.3	213.6	222.1Q	230.4E	4.9	1.1	4.0Q	3.8E
Agricultural production(1)	192.2	188.5	195.8	194.0A	3.0	-1.9	3.9	-0.9A
Foodgrain production (million tonnes)	176.4	168.4	180.0	179.1A	3.2	-4.5	6.9	-0.5A
Industrial production(2)	212.6	212.5	216.3	209.8 (3)	8.3	0.0	1.8	1.6 (3)
Electricity generated(TWH)	264.6	287.0	301.4	237.8 (8)	7.8	8.5	5.0	7.4 (8)
Wholesale price index(4)	191.8	217.8	233.1	251.1 (5)	12.1	13.6	7.0	8.2 (5)
Consumer price index for industrial workers(6)	201.0	229.0	243.0	264.0 (7)	13.6	13.9	6.1	8.6 (7)
Money supply (M3) (Rs.thousand crore)	265.8	317.5	362.7	413.9 (10)	15.1	19.4	14.2	14.1 (11)
Imports at current prices								
(Rs. crore)	43198	47851	63375	51477 (8)	22.3	10.8	32.4	8.4 (8)
(US $ million)	24075	19411	21882	16414 (8)	13.5	-19.4	12.7	-1.3 (8)
Exports at current prices								
(Rs. crore)	32553	44041	53688	49182 (8)	17.7	35.3	21.9	31.8 (8)
(US $ million)	18143	17865	18537	15682 (8)	9.2	-1.5	3.8	19.9 (8)
Foreign currency assets								
(Rs. crore)	4388	14578	20140	34225 (9)	-24.2	232.2	38.2	69.9 (9)
(US $ million)	2236	5631	6434	10904 (9)	-33.6	151.8	14.3	69.5 (9)
Exchange rate (Rs/US $)#+	17.94	24.65	28.96	31.36 (8)	7.2	27.2	14.9	9.0 (8)

Note : GDP and GNP figures are at factor cost

A-Anticipated ; P-Provisional Q-Quick estimates E-Advance estimates

+ Per cent change indicates the rate of depreciation of the Rupee

Composite rate from March,1992 to February,1993.

(1) Index of agricultural production (Principal crops) with base triennium-ending 1969-70=100. (2) Index of industrial production 1980-81=100. (3) Average index for April-October,1993. (4) Index with base 1981-82=100. (5) As on January 29,1994 (6) Index with base 1982=100. (7) As in December,1993. (8) April-December,1993. (9) As on February 4,1994 for 1993-94 and at the end of March,for previous years. (10) As on January 7,1994 (11) April 1,1993-January 7,1994

0.5 per cent of GDP as compared to the unsustainable level of 3.3 per cent in 1990-91and 2.1 per cent in 1992-93. These favourable developments in the current account, together with the growing inflows of foreign direct and portfolio investment, took the level of foreign currency reserves to $10.9 billion by February 4, 1994.

5 Latest available data indicate that real gross capital formation recovered sharply from a decline of 15.8 per cent in 1991-92 to a growth of 16.7 per cent in 1992-93 (Quick Estimates of CSO). The recovery of private investment, which provides a better measure of the incentive effects of the new policies, was also fairly significant: real private gross capital formation increased by 15.1 per cent after falling by 18.4 per cent in the previous year, while real private gross fixed investment increased by 6.7 per cent in 1992-93 after falling by 7.1 per cent the year before (Table 1.2).

6 The unregistered sector of manufacturing, which is very important from the employment perspective, has responded well to the policy reforms. This sector shows the fastest recovery, with growth moving from -4.3 per cent in 1991-92 to 3.7 per cent in 1992-93 (Quick Estimates of CSO). The consumer, basic and intermediate goods segments of reg-

Figure 1·1

SELECTED ECONOMIC INDICATORS

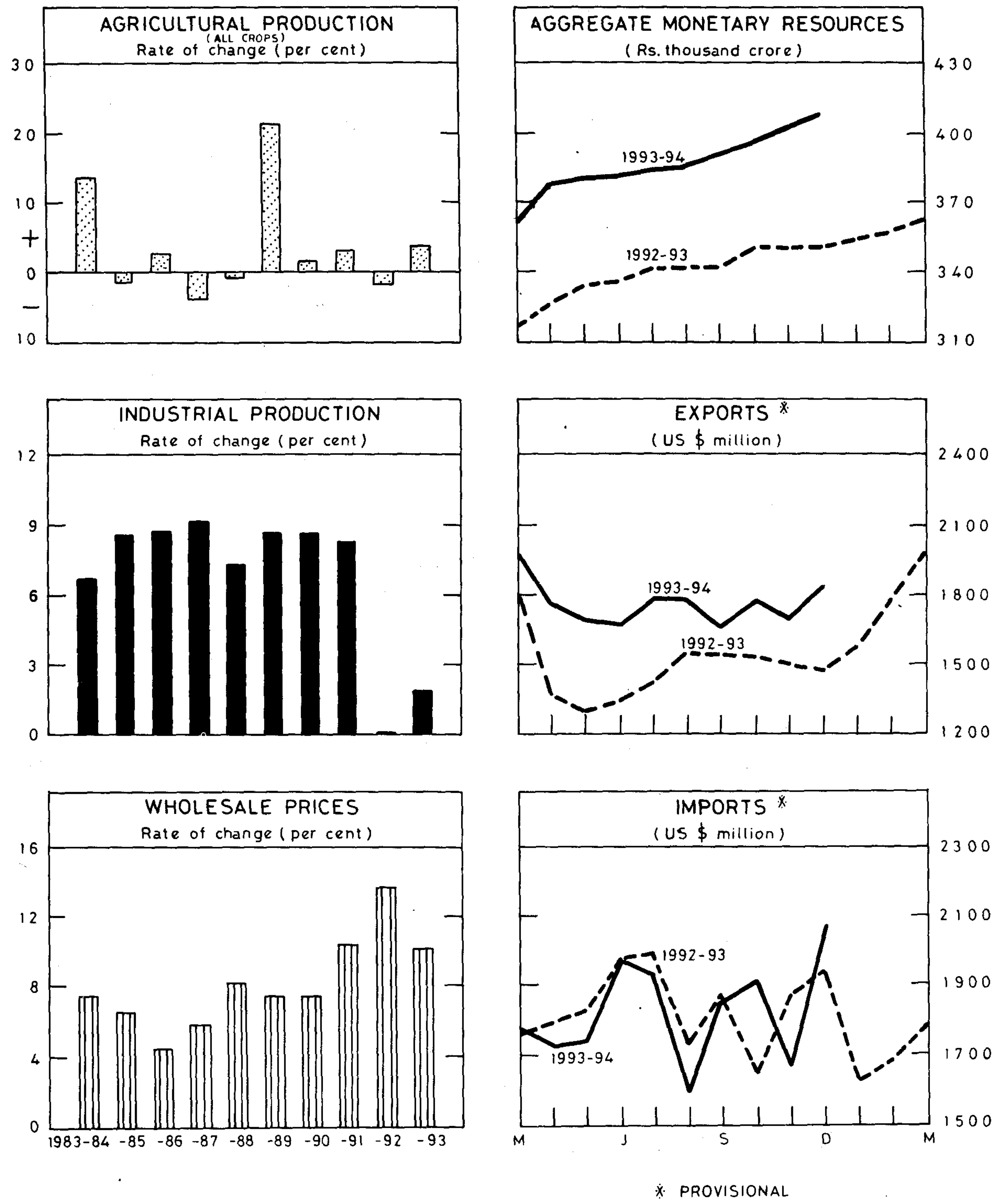

TABLE 1.2

Trends in Savings-Investment

	1987-88	1988-89	1989-90	1990-91	1991-92P	1992-93Q
1	2	3	4	5	6	7
			As percentage of GDP at current market prices			
Gross Domestic Savings	21.5	22.0	24.0	24.0	23.1	22.3
Public	2.2	2.0	1.6	1.0	1.7	2.1
Private	19.3	20.0	22.4	23.0	21.4	20.2
Gross Domestic Investment*	23.6	25.1	26.7	27.4	24.2	24.5
Public	10.5	10.7	10.6	10.5	10.0	10.3
Private	13.2	14.9	15.0	16.2	14.0	14.6
Gross Domestic Investment*	23.6	25.1	26.7	27.4	24.2	24.5
GFCF	21.7	21.6	22.5	22.8	22.0	21.3
Change in stocks	2.1	4.0	3.1	3.9	2.0	3.7
Saving-Investment Gap	-2.0	-3.1	-2.7	-3.4	-1.0	-2.2
Public	-8.4	-8.6	-9.0	-9.5	-8.3	-8.2
Private	6.2	5.0	7.4	6.8	7.4	5.5
			Growth Rate of Capital Formation (at 1980-81 prices) (per cent)			
GDCF*	18.6	19.8	6.0	11.2	-15.8	16.7
Public	-8.3	8.4	6.0	6.1	-7.1	26.4
Private	18.6	31.0	-4.1	17.3	-18.4	15.1
GFCF	11.0	7.1	8.7	8.8	-4.1	1.7
Public	-3.0	4.7	0.6	6.5	0.2	-4.8
Private	27.0	9.2	15.5	10.5	-7.1	6.7

Note: (i) Gross domestic investment denotes Gross Domestic Capital Formation (GDCF)
(ii) Figures may not add up due to rounding off
* Adjusted for errors and omissions
GFCF : Gross Fixed Capital Formation
P : Provisional estimates Q: Quick estimates
Source : Central Statistical Organisation

istered manufacturing, as measured by the index of industrial production for manufacturing (IIPM), have also recovered from the crisis. The IIPM for consumer, basic and intermediate goods grew by 1.9 per cent in 1992-93, and by 4.6 per cent in the first seven months of 1993-94. The "capital goods" segment of manufacturing initially showed an even stronger recovery, but is now a source of serious concern from the perspective of overall production and investment. The annual growth rate of the IIPM for capital goods, which was 8.5 per cent for the first three quarters of 1992-93, fell to -17.8 per cent in the last quarter of 1992-93, and to -8.8 per cent in the first seven months of 1993-94 (compared to the corresponding period in the previous year). This, in turn, brought down the performance of the entire manufacturing sector during the last four months of 1992-93 and the first half of 1993-94. The December-March 1992-93 disturbances had a strong and lasting negative effect on business confidence and private investment. There are some indirect indicators of revival of business confidence and private investment in the second half of 1993-94, but the slow revival of capital goods production remains a cause for concern.

7 The principal cause of macroeconomic concern in 1993-94 was the deterioration in the fiscal position. The key to the successful stabilisation effort of the past two years had been the reduction of the Central Government's fiscal deficit from 8.4 per cent of GDP in 1990-91 to 5.9 per cent in 1991-92 and even lower in 1992-93, despite sharp revenue shortfalls linked with the disturbances of December-March 1992-93, which entailed slippage of actual fiscal performance from the budget target of 5 per cent of GDP. In 1993-94 the Central Government fiscal deficit was budgeted to fall to 4.7 per cent of GDP. However, because of continued revenue shortfalls in indirect taxes and heavy pressures on expenditure, the deficit is expected to be substantially higher.

8 The slippage in overall fiscal performance has obliged the Centre to borrow heavily both from market sources (through auctions of Government securities and treasury

bills) and from the RBI. The first kind of borrowing has preempted investible resources from the non-government sector and slowed the reduction in interest rates (thus curbing investment demand). It is possible that high levels of Government borrowing were a constraint on the recovery of industrial investment, though as far as current output was concerned, a large fiscal deficit may well have provided an useful expansionary counterpoise to the contractionary effects of necessary financial sector reforms.

9 The second kind of borrowing, from the RBI, has, together with the increase in net foreign assets, fuelled the growth of reserve money in the economy. Reserve money increased by 16.9 per cent during 1993-94 (up to January 8, 1994), almost double the growth of 8.5 per cent over the same period in 1992-93. The growth in money supply (M3) during this period of 1993-94 at 14.1 per cent, was also higher than the 12.4 per cent growth recorded in the corresponding period of 1992-93. The slower growth of money supply (compared to reserve money) was due mainly to two factors: the unusually large increase in currency held by the public, which moderated expansionary effects of reserve money on money supply; and the inhibitions on bank lending attributable to tighter prudential norms and the post-scam, cautious environment.

10 Despite the restraints on money supply growth, the expansion of liquidity was sufficient to accommodate an acceleration of inflation from August, 1993. The point-to-point rate of increase in the Wholesale Price Index (WPI) had fallen to 7 per cent by March, and averaged 7 per cent from March to July. It rose to a higher plateau of 8 per cent in August and stood at 8.2 per cent (provisional) on January 29, 1994. With most banks holding excess reserves, the growth of reserve money accelerating in response to heavy recourse to the RBI by the Centre and the strong rise in net foreign assets, 1993-94 saw a substantial build-up of inflationary potential in the economy. In the short-run inflationary pressures will be accentuated by the recent increases in administered prices.

11 The Advance Estimates of National Income by CSO put growth of GDP (at factor cost) at 3.8 per cent in 1993-94, with agriculture growing at 2.3 per cent, manufacturing at 2.5 per cent and the growth of utilities and other service sectors ranging from 3.8 to 8.1 per cent. While the estimate of overall economic growth is more than three times higher than the growth in 1991-92, it is below the 5.6 per cent rate projected in the Eighth Five Year Plan. At the macro-economic level, the challenge for policy is to stimulate higher growth, while acting firmly to dampen the build-up of inflationary potential in the economy.

Production

12 The growth of value added in the agriculture and allied sector is estimated to be 2.3 per cent in 1993-94 (CSO). Despite a good year, agricultural production will show lower growth in 1993-94 because of the peak levels attained in 1992-93. The growth of value-added will be higher because of lower input use, including of potassic and phosphatic fertilizers. The relatively low growth in agricultural production is due to a fall in production of coarse cereals from the peak reached last year. Public food grain stocks at 22.8 million tonnes at the end of December, 1993, were at their highest level in seven years. High stock levels reflect a succession of good crop years and high procurement prices.

13 Despite a dry spell in August 1993 which affected the rice crop in a few States, production of the two major cereals, rice and wheat, is likely to grow this year. The total food grain output will be about the same as last year because of a fall in coarse grains production from the earlier peak. Pulses production at 14.5 million tonnes is likely to show a substantial growth of about 6.6 per cent. The oilseeds situation turned out to be equally good despite the setback to the Kharif groundnut crop in Saurashtra. The total oilseeds output is likely to grow by 3 per cent to the record level of 20.6 million tonnes. Conditions for sugarcane were ideal in the North but not so good in Maharashtra and hence this year's output at 231 million tonnes would be around last year's level. Fibre crop output is estimated to be lower this year because of fall in area sown, with a more pronounced decline in output of jute/mesta than in cotton. Plantation crops are expected to have fared better this year.

14 The aggregate data suggest a weak industrial recovery from the crisis. The growth of registered manufacturing in 1992-93 was 1.1 per cent in terms of value added and 1.2 per cent as measured by the IIPM. The IIPM has grown by only 1 per cent in the first seven months of 1993-94 over the same period of 1992-93. Dis-aggregated monthly data, in contrast, lead to a different conclusion of industry having responded reasonably well to the reforms. The consumer, basic and intermediate goods industries, having a combined weight of 60.7 per cent in the IIP (constituting 79 per cent of IIPM), have shown a steady recovery from the middle of 1992-93. Despite a setback in December-March 1992-93, growth recovery started in the first quarter of 1993-94 (2.6 per cent) and was in full swing in the second quarter of 1993-94 (6.7 per cent). The growth rate for the first seven months of 1993-94 was 4.6 per cent compared to 2.2 per cent in the corresponding period of 1992-93. Of the 14 sub-sectors constituting this group, only two, "textiles products" and "food products" have shown a decline in output this year. The recovery in consumer and intermediate goods is expected to continue over the second half of 1993-94, with a full year rate of 5 to 6 per cent.

15 The aggregate performance of the industrial sector appears poor because of the sharp setback suffered by the

capital goods sector constituting 16.4 per cent of the IIP (21 per cent of IIPM). Initially, this segment responded strongly to the policy reforms, with index of Industrial Production for capital goods growing at a rate of 8.5 per cent for the first three quarters of 1992-93 compared to only 2.3 per cent for IIPM for consumer, basic and intermediate goods. The December-March disturbances hit capital goods production hard, with production declining at an annual (point-to-point) rate of 21.7 per cent in January, 16.6 per cent in February and 15.9 per cent in March, 1993. The rate of IIPM growth, therefore, fell from +3.9 per cent in the first three quarters to -5.2 per cent in the last quarter of 1992-93 (over corresponding period of 1991-92).

16 The negative effects have persisted in 1993-94 with the Index of Industrial Production for capital goods showing a growth rate of -8.8 per cent in the first seven months of 1993-94 compared to 9 per cent in the corresponding period of 1992-93. This sharp fall in capital goods production is linked to a fall in investment demand, as imports of capital goods (excluding transport equipment) also showed a negative annual growth in the four months of February to May, 1993. The disturbances of December-March clearly upset business plans and expectations, and the negative effects may have been prolonged by a number of factors, including the weak finances of Central and State enterprises, relatively high interest rates, and some uncertainties in the policy environment. In any case, overall industrial performance may well have been stronger than indicated by the IIP, since the index suffers from an old base (1980-81) which accords lower weights to sectors which have grown faster and is not adequately representative of the small scale sector, which is showing much dynamism in exports this year.

17 The investment climate and expectations in the industrial sector have been mixed, with signs of improvement over the year. Share prices were generally depressed in the first half of 1993-94 but rose significantly thereafter. Primary issues (equity and debt) have also been bouyant in 1993-94. The total amount mobilised till December 1993, was about Rs. 16850 crore, representing an increase of over 25 per cent over the corresponding period of 1992-93. Much of the increase was due to public sector enterprises accessing the capital market. Indian companies have also raised about Rs.1100 crore (about $350 million) from Euro-equity issues as compared to Rs.700 crore ($240 million) in 1992-93. The inflow of about $1000 million of foreign institutional investment funds into the market has also increased the availability of funds. The growth of primary issues and the buoyancy in Euro-equities point towards a pick up in investment by the end of 1993-94 or early 1994-95.

18 On policy reforms, further progress was made by the delicensing of white goods and automobile sectors. This brings down the number of industries where a license is required to fifteen. Most of these are strategic or environment sensitive industries. There are indications that industrial and trade policy reforms are resulting in a restructuring and modernisation of existing industrial capacities to make them internationally competitive. The sharp increase in the number of companies with ISO 9000 or ISO 9002 certification is evidence of this quality improvement.

19 Infrastructure sectors(electricity, coal, steel, cement, crude oil and refinery products) constituting 28.8 per cent of the IIP, posted a growth of 5 per cent in the first three quarters of 1993-94 over the corresponding period of 1992-93. The electricity sector, constituting 11.43 per cent of the IIP, grew by 7.4 per cent compared to 4.6 per cent during the corresponding period last year. Growth has been lower in other sectors such as cement (5.9 per cent), coal (4.7 per cent), saleable steel (4.6 per cent), refinery throughput (0.1 per cent) and crude oil production (-4.5 per cent). Other infrastructure areas also showed mixed performance, with switching capacity of telecommunications increasing by 13.2 per cent, cargo handled at major ports by 6.9 per cent and revenue generating traffic of the railways by 1.6 per cent.

20 A number of policy initiatives were taken in the infrastructure sectors to promote efficiency and raise resources for expansion. In the telecommunications sector, value added services have been opened up to the private sector. A new Telecom policy which permits fresh equity and encourages greater competition is on the anvil. Videsh Sanchar Nigam Limited (VSNL) has finalised its policy to further dilute the Government share in its equity by going for a large Euro-equity issue. The Air Corporation Act has been repealed (through an Ordinance) in January 1994 to demonopolise scheduled domestic air transport service in the country. Air India and Indian Airlines will be converted into public limited companies from their statutory corporation form.

21 In the hydrocarbon sector, by 1992, permission had been accorded for entry of private Indian and foreign companies in oil exploration, development and refining. Consequent to these reforms, exploration contracts with a number of domestic and foreign companies are being finalised. A system of round the year bidding for exploration has been introduced since the Fifth Round in January 1993. Private companies have already been offered several blocks for exploration and discovered fields for further development. A major initiative in this sector during the current year is the corporatisation of ONGC. The new company, Oil and Natural Gas Corporation Ltd. (ONGC Ltd.) has commenced operation. Imports of LPG and kerosene were decanalised and private firms allowed to market these products to users. Private supply of LPG to domestic consum-

ers should help in faster elimination of the 10 million backlog of consumers waiting for connections. In the power sector the proposals for foreign equity participation are being finalised.

Money and Prices

22 The annual (12 month) rate of growth of money supply (M3) has been less than 14.2 per cent for most fortnights of 1993-94, but has shown signs of moving up. It was 16 per cent for the fortnight ending January 7, 1994. The rate of growth (12 month) of M1 has also been below 13 per cent for most of the year, but has shown a sharp increase since December, and was 19.2 per cent on January 7, 1994. This is three times the annual growth rate of 6.4 per cent a year ago. Reserve money growth shows a similar pattern and at 20.1 per cent for January 7, 1994 is nearly three times the rate of 7.0 per cent a year ago. Increase in net RBI credit to the Central Government and the rapid accumulation of net foreign exchange assets by the RBI were the main sources of this growth. Net bank credit to Government is growing at an annual (12 month) rate of 17 per cent.

23 Bank credit to the commercial sector has grown by 6 per cent during the financial year 1993-94 (till January 7, 1994) as compared to 13 per cent over the corresponding period of last year. Growth of "Other bank" credit to the commercial sector (i.e., excluding RBI) has fallen even more, from 14.2 per cent during 1992-93 to 6.2 per cent during 1993-94. The data for scheduled commercial banks shows that much of the growth has been for food credit. Food credit by scheduled commercial banks has grown by over 64 per cent during 1993-94 compared to less than 18 per cent during the corresponding period of 1992-93. The growth rate of non-food credit has fallen dramatically, from about 17 per cent during 1992-93 to less than 3 per cent during 1993-94 (till January 7, 1994).

24 A number of policy changes were introduced to impart greater flexibility to monetary operations. Interest rate on deposits and loans were reduced in line with falling inflation: the minimum lending rate for bank loans above Rs. 2 lakh was reduced by three percentage points to 15 per cent during 1993. The Cash Reserve Ratio (CRR) was reduced in two phases and brought down to 14 per cent. The Statutory Liquidity Ratio (SLR) was reduced to 34.75 per cent effective October, 1993, from 37.75 per cent at the beginning of the financial year. The incremental SLR on any increase in net demand and time liabilities was brought down to 25 per cent. At the same time the Government has increasingly met its borrowing requirements through auctioning of dated Government securities and Treasury Bills.

25 Inflationary pressures in the economy have been restrained by the monetary control established last year. Annual (point-to-point) inflation declined to 6.9 per cent for April and May, 1993, and averaged 7 per cent for the five months March to July, 1993. There was, however, a rise in inflation from August, triggered by two proximate factors. First, the 'truckers' strike' in August-September disrupted movement and supplies of raw materials and essential commodities. The second reason was the speculative increase in prices of rice and oil-seeds following the localised dry spells in some regions. As a result, inflation accelerated to 8.0 per cent in August and 8.0 per cent in September. Since then there was some deceleration with end of January inflation rate dropping to 8.2 per cent (provisional).

26 Both these factors were temporary and have since been reversed. However, the inflation rate was still running (in January) about 1.5 per cent above the rate prevailing at the end of last year and the beginning of this year. This may be attributed to pressures arising from a higher fiscal deficit starting from the last quarter of 1992-93, faster monetary (M1) growth from September 1993, and the cumulative effect of large increases in minimum support prices in agriculture. Administered price increases towards the end of the year will add to the overall inflation experienced in 1993-94.

27 Though aggregate demand factors have a strong effect on overall inflation, prices of different commodity groups are clearly influenced by sectoral factors. The continuing decline in the inflation rate during the first two months of the financial year was accompanied by a softening of prices of essential commodities. The relative prices of primary products fell, but this trend was reversed from August, in part due to inflationary expectations generated by the announcement of higher procurement prices, and in part because of temporary factors alluded to earlier. There was a further spurt towards the end of the year in sympathy with the upward adjustment in issue prices of foodgrains at the PDS. Given the good prospects for the coming Rabi crop and high levels of public foodgrain stocks available for easing supply constraints through market operations, the firming up of prices of primary goods may turn out to be temporary.

Fiscal and Financial Developments

28 The macro-economic stabilisation effort had been successful in reducing the fiscal deficit by 3.2 per cent of GDP in the 21 months ending with March, 1993. The primary deficit came down even more sharply by 3.8 per cent of GDP. The budget for 1993-94 moderated the rate of reduction in fiscal deficit with the objective of promoting a faster industrial recovery and restoring the outlays for the social sectors and poverty alleviation programmes. The process of customs duty reform was carried further through a

reduction in peak customs tariffs to 85 per cent, and general machinery rates to 35 per cent.

29 Revenue realisations in 1993-94 have been substantially short of targeted levels, because of a number of factors. These included the slowdown in industrial recovery, sluggish imports and continued strength and stability of the rupee in terms of foreign currencies. Combined with heavy pressures on expenditure, this will result in a marked slippage of the fiscal deficit from the targets stipulated in the budget. This slippage is reflected in the growth of net bank credit to Government which had increased by 16.2 per cent (till January 7, 1994). Of this, net RBI credit to the Government has increased by 8.8 per cent during 1993-94.

30 Government borrowing from commercial and cooperative banks in the form of sale of securities and Treasury bills, has increased by 25.5 per cent during 1993-94 (till January 7, 1994). This is almost twice the 14.1 per cent rate of growth in 1992-93. Though capital adequacy norms may have inclined banks to prefer zero risk Government debt, this borrowing indirectly crowds out credit to the private sector and investment by it, by keeping interest rates higher than they could be. Restraint on Governments' claims on the economy's financial resources, can help stimulate private investment and accelerate economic growth.

31 The financial sector saw major developments in identification of system problems and the start of systemic improvements. Structural changes and policy reforms during 1993-94 were designed to achieve the twin objectives of strengthening the public sector banks and introducing greater competition in this important sector. The new provisioning and income recognition norms, as announced by the RBI in April, 1992, came into force and have revealed extensive weaknesses in the financial structure of some public sector banks. These are being handled through a combination of measures including more capital infusion, tighter supervision, adherence to sound banking practices, and efficiency improvement.

32 The 1993-94 budget allocated Rs.5700 crore for improving the capital base of public sector banks so as to help them achieve the required capital adequacy norms. This has been released to the banks following performance agreements between the recipient banks and the RBI. Non-fulfillment of these commitments based on time bound improvement of performance, as measured by stipulated indicators, will invite sanctions against the defaulting banks. Legislation has been introduced to make it possible for public sector banks to access the capital market. The Banking Regulation Act has been amended through an Ordinance to raise the ceiling on voting rights from one per cent to 10 per cent along the lines previously done for State Bank of India. The Recovery of Debt Due to Banks and Financial Institutions Bill 1993 was passed by Parliament in 1993. This enabled the establishment of Special Recovery Tribunals which will start functioning in the four metropolitan cities shortly. The goal is to improve loan recoveries and reduce non-performing assets, which are at the core of the banks' financial weaknesses. A Board for Financial Supervision is being established within the RBI. This will be supported by a newly set up Department of Supervision which will report directly to the Board and will consist of personnel both from within and outside the RBI. As one approach for handling the problems of the weakest banks, The New Bank of India was merged with The Punjab National Bank. Bank specific action plans are being worked out by RBI for other weak banks. More generally, there is greater focus on enhanced managerial accountability, autonomy and technological modernisation.

33 With the objective of increasing competition in the banking system, the RBI has granted licenses to several private banking operations. Foreign banks are now also permitted to have equity participation up to 20 per cent in new banks, while NRIs can have an equity of 40 per cent in new banks. For companies receiving loans from several banks, the threshold limit requiring a consortium opproach was raised from Rs.5 crore to Rs.50 crore thus freeing a number of companies from this arrangement. This will allow the banks to compete for the business of all but the largest of borrowers.

34 Reform measures initiated over the last two years to raise the standard of money and capital market closer to international levels were continued during the year. SEBI took a number of steps to increase transparency and investor protection in primary and secondary equity markets. Disclosure and listing requirements for new issues were improved and procedures for share allocation in oversubscribed issues made more transparent. Capital adequacy norms were prescribed for financial intermediaries such as merchant bankers and stock brokers. Stock exchanges were monitored to see that their rules were transparent and properly enforced. The operations of brokers for secondary market transactions were also made more informative and less prone to misuse. Since SEBI guidelines on mutual funds came into effect, twenty private mutual funds have been registered by SEBI, and several have started operation.

35 Recognition was accorded by the Government to the National Stock Exchange of India (NSE) which will establish a screen based scripless trading system in securities. The Over the Counter Exchange of India (OTCEI) started trading in debt instruments from May, 1993. The Information Finance and Leasing Services (IFLS) Company is to act as a market maker for these instruments making it possible for investors to buy and sell securities easily. SEBI simplified the common application form for foreign institutional investors (FIIs). As of middle of January 1994, 134

FIIs which manage 175 broad-based institutional funds, had been registered by SEBI. The long-term capital gains are to be taxed at 10 per cent, short-term capital gains at 30 per cent and dividends at 20 per cent.

Balance of Payments

36 The year saw a remarkable recovery in the balance of payments position. Exports have increased by 19.9 per cent in US dollar terms during April-December 1993. Imports have shown a decline of 1.3 per cent despite liberalization of import policy and lowering of imports duties. The trade deficit at $732 million during April-December is less than a fifth of the level in 1992. By the end of the year, the trade deficit is expected to be about one billion dollars and a small surplus is expected on the invisible account. Based on this, the current account deficit in 1993-94 is likely to be less than 0.5 per cent of the GDP, the lowest since 1977-78.

37 Foreign currency reserves with the RBI stood at $10.9 billion on February 4, 1994. The year could end with reserves close to $12 billion. This represents nearly 6 months of import cover - as compared to 2 weeks of cover in May, 1991. The quality of these reserves has also significantly improved as outstanding swaps have been eliminated and short-term liabilities have been reduced.

38 A noteworthy feature of this year's balance of payments situation is the response of foreign investors and portfolio managers to the policy reforms. Inflow of foreign investment at $390 million had almost doubled in 1992-93 over 1991-92. In the present year actual inflows were more than $1.7 billion by the end of December and are expected to exceed $2.5 billion by the end of the year. This comprises direct investment, portfolio investment by foreign institutional investors and Euro-equity mobilised by Indian firms. If policy reforms are sustained and fiscal discipline maintained these private non-debt creating capital inflows can remain high.

39 The Government has taken a conscious decision to reduce the quantum of short-term debt, especially components on which the exchange risk is to be borne by the RBI or Government. The schemes under FCNR with less than one year maturity were withdrawn in May this year and those with maturity of one year and above but less than two years were withdrawn in October 1993. This measure, combined with others, including the elimination of the Foreign Currency (Banks and Others) Deposits scheme in July last year, has resulted in a reduction of the share of short-term debt in the total debt stock from 10.2 per cent in end March 1991 to 7.0 per cent by the end of March 1993. The increase in external debt in 1991-92 and 1992-93 has averaged about $3 billion per year, as compared to about $6 billion per year in the latter half of the eighties and over $8 billion in 1990-91. In the first half of 1993-94 the increase in external debt has been limited to less than $300 million.

40 Major steps were taken during the year to promote exports. The Export-Import Policy announced on April 1, 1993 amended the existing policy to provide a greater thrust to exports from agriculture and labour intensive sectors in which the country has a strong comparative advantage. The negative list for exports was significantly pruned. A new Export Promotion Capital Goods Scheme permitting import of capital goods at a concessional 15 per cent duty rate was introduced for the services sector. EOU/EPZ Units in agriculture and allied sectors were allowed to sell upto 50 per cent of their total output in the domestic market. During the year, the minimum export price for basmati rice was eliminated and export restrictions on superior quality of wheat were relaxed. Fiscal and financial policy was also deployed to support the export effort. The budget reduced import duties on capital goods used in textiles, readymade garments, leather, marine products, gems and jewellery, food processing and horticulture. The pre-shipment credit facility in foreign currency was greatly liberalised, thus, providing Indian exporters credit at internationally competitive rates of interest. A number of steps were taken to strengthen facilities and incentives available for export through Export Processing Zones, 100 per cent Export Oriented Units and Electronic Hardware Technology Parks.

41 The recently concluded Uruguay Round should enable India to expand its exports to developed country markets where tariffs will be further reduced. The phase out of the Multi-Fibre Arrangement over 10 years will enable our garment and textile exporters to increase their market shares in product categories where they have a competitive advantage. Similarly, the reduction of subsidies to agriculture in developed countries will benefit our emerging exports of agricultural and allied products. India will also benefit from a stronger multilateral discipline on unilateral measures which restrict trade. The successful conclusion of the Uruguay Round should strengthen the multi-lateral trading order which is in the overall interests of India and other developing economies.

Social Sectors and the Poor

42 The crisis, by reducing manufacturing output in 1991-92 and raising inflation, had hurt the poor. The decline in agricultural production and consequent rise in relative price of primary goods accentuated the effect on the poor and weak in our society. Following the same logic, the poor have benefitted from the reform measures, the recovery (of growth) in unregistered manufacturing and the reduction of average inflation to 10 per cent in 1992-93. Although the weather is an important factor responsible for fluctuations in agricultural production and primary prices, the continued growth in agriculture in 1993-94 is helped by the incentive effects of policy reforms. The poor have continued to

benefit from the moderation in overall inflation to 7.3 per cent and primary goods inflation to 4.3 per cent, in the first half of 1993-94. For the workers, in the organised industrial sector, the National Renewal Fund, for compensation, retraining and re-deployment of workers affected by restructuring, has helped in moderating the cost of adjustment. Budgetary provisions for the Fund were augmented during the year.

43 To ease the costs of adjustments, promote human resource development and to generate more employment opportunities, allocations for Plan programmes in social sectors, rural development and employment schemes were stepped up in the 1993-94 budget. The budget for elementary and adult education was increased by 53 per cent, health by 60 per cent, family welfare plus Integrated Child Development Service (ICDS) by 28 per cent, and Integrated Rural Development Programme (IRDP) plus Jawahar Rozgar Yojana (JRY) by 63 per cent. The ongoing programmes of poverty alleviation and employment generation are being strengthened and re-oriented in favour of the poor and more deserving groups. An employment assurance scheme was announced in August 1993 for implementation in 1752 remote and backward blocks where the revamped public distribution system is in operation. Another scheme, the Prime Minister's Rozgar Yojana, was also initiated for providing employment to the educated unemployed, by setting up micro enterprises in industries, service and business. As the private sector takes up a greater role in developing physical infrastructure, more Government funds will become available for strengthening social development and support programes for the poorest.

Issues and Priorities

44 Much has been accomplished in the last two and a half years. An unprecedented economic crisis has been surmounted. An array of long overdue reforms have been launched. But much remains to be done. And there is a clear danger that if the momentum of economic reform is not sustained, the hard won gains of the recent past could slip away all too easily. In continuing with the process of reform we must be clear about the basic goals: of growth, equity, self reliance and modernisation. The fundamental objective is to raise the living standards of India's people, especially the poor, in a sustained manner. Rapid, broad-based growth is the only way this can be achieved. To ensure the quickest alleviation of poverty, growth has to be labour-intensive, since labour is the principal, often the only, resource that the poor have.

Fiscal Policy

45 Rapid growth requires high rates of savings and investment in physical and human capital. It also requires that existing stocks of capital and new investment be deployed in the most productive manner. All this is more likely if the macro economic environment is stable, inflation is low and fiscal deficits are in check. Large fiscal deficits breed inflation, consume investible resources and put pressure on the balance of payments.

46 As we approach the end of 1993-94 it is clear that the Centre's fiscal deficit is significantly larger than budgeted and inflationary potential is building. Thus far the fiscal pressures on inflation and the balance of payments have been offset by the unused capacity in industry (due to slow recovery) and the contractionary influences of long overdue financial sector reform. But these offsetting forces can be expected to weaken over time and it is vital to reassert control over the fiscal situation to curb inflation, reduce interest rates, release resources for productive investment and sustain confidence in the economy.

47 Returning to a medium-term path of fiscal deficit contraction will entail serious changes in both expenditure and revenue policies. The key issues in expenditure policy relate to the control of major subsidies and effective prioritisation of discretionary expenditures. In a poor country some subsidy on basic foodgrain is justified. But our present large and burgeoning food subsidy is poorly targetted and wasteful. In the short-run, containment of the food subsidy requires moderation in procurement price increases, prompt adjustment of issue prices and cost reductions in Food Corporation of India operation. In the medium-term, it is essential to move to a system where the subsidy is confined to the deserving poorest sections of society and delivery costs are reduced. One possibility is to shift to a programme of food stamps for the poor. Another is to decentralize much of the procurement-distribution function of the Food Corporation of India and the Centre to the States and these organisations, with the objectives of achieving greater efficiency, accountability, improved targetting and subsidy reduction.

48 Similarly, the present large and growing subsidy on urea cannot be sustained indefinitely. The existing low prices for nitrogenous fertilizers relative to phosphatic and potash are encouraging use of inappropriate mixes, with serious potential harm to soil fertility and agriculture. Quite apart from any revision in urea prices, the system of plant-specific retention prices for urea producers encourages wasteful use of capital and energy and discourages cost saving. It is not in the long-run interests of farmers and should be replaced, over time, by a modest protective tariff combined with a subsidy targetted at small farmers.

49 Effective prioritisation of expenditure requires that limited resources be focussed on completing ongoing projects rather than starting new ones. There has been a proliferation of under-funded projects, resulting in increasing time and cost over-runs, as limited resources are spread too

thinly. The greatest benefits can now accrue from speedily completing unfinished projects. Low user charges on existing projects and programs inevitably results in non-availability of funds for maintenance and upkeep and for additions and expansions. The quality of output or service provided by the completed project, therefore, deteriorates over time. To ensure greater benefits from costly assets like irrigation and power, more effective strategies for pricing and cost recovery are vital to cover operation and maintenance costs and contribute towards financing expansions. Expenditure prioritisation and control should also be sought through systematic zero-based budgeting procedures, whereby existing programs are evaluated and low priority expenditures pruned.

50 Fiscal deficit control also requires measures to raise revenues. Broadening of the domestic direct and indirect tax base, is a critical component of the strategy for revenue generation and reduction of rates to moderate levels. A competitive industrial structure and sustained export growth requires a phased shift in the overall tax structure from customs to broad-based domestic taxes. The ratio of customs to total revenues in India is much higher than in competitor developing countries and is a serious impediment to our international competetiveness. A broadening of the domestic tax base is, therefore, critical to the achievement of deficit control and tax reform objectives.

51 The final objective of domestic indirect tax reform, a national Value Added Tax, requires agreement with the States and possible constitutional amendments. The short-term objective should be to convert the excise-modvat system into as complete a VAT as is possible. Currently exempted goods and services will have to be brought increasingly into the tax net and MODVAT credit extended to nearly all inputs and sectors. If exemptions could be drastically reduced, duty rates could be moderated and reduced in number. A single general ad-valorem rate along with a lower rate for basic necessities and separate sumptuary rates for luxury consumer goods, has been found to be effective in raising revenues in an equitable manner in other countries. It also promotes industrial efficiency by simplifying tax compliance and administration and thus reducing tax evasion.

52 Though a uniform ad valorem import duty is best for meeting revenue needs, protection objectives require some rate differentiation. The existing numerous exemptions based on user, usage and source are the anti-thesis of a rational system and are spawned by high duty rates, which in turn, are necessary when exemptions and concessions are so prevalent. This vicious circle can be broken by a reform which phases out end-use exemptions and reduces rates. Though some rate differentiation is inevitable during the phasing down of protection, the aim should be to limit these to broad categories. A shift of consumer goods from import license to tariff-based protection will also help to raise revenues and reduce unduly high protection to domestic producers of consumer luxuries.

Industrial and Trade Policy

53 Reform of the structure of taxes along the lines indicated above is essential for putting Indian producers at par with foreign competitors (both in case of imports and exports) who already have such tax systems. The remaining ambit of investment licensing, which includes several agro-processing industries, needs to be phased out. In some cases, regulatory dimensions of licensing duplicates monitoring under specific laws or acts (for example, atomic energy, narcotics, environment).

54 Restructuring of industry in response to internal and external competition is an urgent necessity. A number of laws, rules and procedures need to be changed to facilitate this process. The Urban Land Ceiling Act makes it difficult for owners to sell industrial land and use the proceeds to revive sick or dying industries. The Companies Act must be modernised in conformity with the new competitive environment. The Sick Industrial Companies Act and its implementation must be oriented towards reaching speedy decisions so that capital, land and labour are not left fallow. The legal framework for acquisitions and mergers has to facilitate such moves. The restructuring of Public Undertakings and their efficient operation and expansion will be facilitated if a greater proportion of their ownership is vested with the public (including labour) than at present.

55 Trade and exchange rate reforms, along with internal decontrol, are an essential part of the strategy of accelerating labour intensive growth. De-licensing of imports and exports, tariff reduction and exchange rate changes are already providing incentives for labour intensive agriculture, small industry and services (e.g., software, financial, tourism). The experience of many Asian countries over the last three decades is that employment grows rapidly under these conditions, and real wages of workers rise. A positive outcome can, however, be thwarted by excessively restrictive labour laws and regulations which make it unviable to expand firms beyond a certain size and push firms away from labour intensive technologies. In India, rigidities in labour laws have contributed to stagnation in organised sector employment. It would be in the long-term interests of labour and employment to eliminate such rigidities.

56 Foreign trade acts as a window on the world through which knowledge of new products, processes, technology, marketing, finance, employee training and management techniques can flow. By continuing to shut out the import and export of certain goods we are keeping this window shut for concerned producers. In the last decade,

foreign direct investment (FDI) has proved to be an even more powerful channel for the transfer of knowledge and export capability. In some East Asian countries very high rates of FDI have been associated with high rates of growth of GDP and manufactured exports. China, a socialist market economy committed to self reliance, attracted more than $15 billion of FDI in 1993 by allowing upto 100 per cent foreign equity and opening virtually every sector of the economy. India should not lag behind other Asian countries in reaping the benefits of foreign direct investment, especially for the development of infra-structure and exports.

External Sector

57 Rapid and sustained export growth remains the key to long term viability of the balance of payments and the reduction of foreign debt. It is possible to join the ranks of major exporters if the quality and cost structure of the whole economy is transformed. The remaining bias against exports provided by import licensing and high tariffs has to be eliminated over time. The handicap caused by fiscal distortions must be removed. A world class infrastructure and financial sector has to be built, and technical, marketing and management skills upgraded. Labour laws must be changed to give greater flexibility to exporters to adjust their work force in line with export orders and to hire the thousands of workers needed for volume production, without fear of becoming sick with excess labour.

58 The long term sustainability of the balance of payments also depends on the stability of capital flows. Our strategy should be to shift the weight of financing from borrowing to direct equity investment and to change the composition of commercial borrowing from short term and Government guaranteed debt to long term debt with minimum reliance on Government guarantees. During the current year steps have been taken to reduce short term exchange-risk-guaranteed FCNR debt and foreign investment (direct and portfolio) has increased rapidly. If this process continues in the next few years, as ongoing economic reforms improve future economic prospects, the debt-GDP and debt service ratios could decline substantially. Within the overall emphasis on equity flows, a greater thrust to direct investment would be desirable, as such capital tends to be more stable and brings a number of other benefits such as marketing and technology.

59 With the Indian economy increasingly integrated with the world economy, the management of the balance of payments will pose major challenges. Careful attention will need to be given to exchange rate policy, external debt strategy and foreign exchange reserve management. For example, policy must ensure that exchange rate developments do not weaken the competitiveness of our exports. The large stock of external debt has to be carefully managed to minimize the potential for sudden pressures on liquidity of the kind that disrupted the economy in 1990-91. Foreign exchange reserves must be held at levels commensurate with growing trade and capital flows and the increasing diversity and flexibility of such flows. Anticipatory action will have to be taken to guard against shocks such as a sudden rise in petroleum prices or an agricultural drought. All this will call for a judicious mixture of boldness and vigilance.

Agriculture

60 Agriculture and allied sectors provide livelihood to two-thirds of the workforce. Over 70 per cent of our people still lives in rural areas, as do the bulk of the country's poor. Sustained and broad-based development of agriculture is crucial for raising general living standards and alleviating poverty, ensuring a strong domestic market for manufactures and services, maintaining strong growth of exports and assuring food security. The long-term trend growth rate in Indian agriculture at present is around 2.2 per cent per annum. For overall economic growth to attain 6 per cent, agriculture must grow at least at 3 per cent a year. For this to be possible, a number of key problems and issues have to be faced and overcome in the agricultural sector.

61 The rate of investment in agriculture has stagnated or even declined in recent years; in many areas existing public capital assets are deteriorating for want of adequate funds for operation and maintenance. Reversal of this trend will require a shift in the balance of public expenditure for the agricultural sector from large input subsidies to creation and maintenance of public economic infrastructure. Public investment in irrigation, rural communication, schemes for control of land and water degradation must be increased. But the resources for this are likely to be available only if the massive subsidies provided for water, electricity and fertilizers are scaled down. It has to be appreciated that if the charges for water and electricity are not raised to appropriate levels then the delivery of these critical inputs is likely to worsen over time and undermine agricultural development. Consideration could also be given to commercialisation of irrigation departments with explicit subsidies provided for socially important schemes. Distribution systems could be leased to panchayats and irrigation cooperatives who could determine and collect water charges, maintain and extend distribution channels, and pay a charge for water use.

62 Policies must also be strengthened to upgrade the quality of extension and research support, develop and propagate technologies for dryland agriculture and improve water usage and land conservation. Extension and research organizations should involve panchayats, farmer cooperatives, non-Governmental organizations and private indus-

try in their effort to develop and propagate new technology and techniques. Special attention has to be given to farming systems which affect small and marginal farmers who constitute the bulk of our farming population and the majority of the poorest people. Legislation on land reform has to be effectively implemented and the Government is taking steps in this regard. Measures must also be taken to facilitate consolidation of fragmented holdings.

63 Private investment in agriculture can increase if public investment grows, remunerative prices for agricultural produce are maintained, controls on domestic trade and marketing are scaled down, opportunities for earning incomes from agricultural exports are steadily increased and preferential protection to the industrial sector is brought down.

64 Trade and exchange rate reforms have reduced the bias against agriculture and projected tariff reductions should further improve the terms of trade in favour of agriculture. Agriculture can also benefit greatly from more rapid development of food and agro processing industry in which there is an enormous potential. Food processing industries should be delicensed and decontrolled so that the farmers benefit from competition for their output. The entry of experienced domestic and foreign companies can help upgrade the agricultural chain from input supply and crop productivity through transport and storage to processing and marketing. The possibilities have been demonstrated by the dramatic increase in tomato crop productivity in Punjab.

65 The present system of agricultural credit suffers from poor recovery of loans, high costs of intermediation by cooperatives and banks and the legacy of debt write-offs which has contributed to a culture of non-recovery. Improvements in recovery of loans and re-cycling of credit are absolutely critical for augmenting the supply of rural credit. In many areas, this will require a thorough revamping of the institutional credit structure. Interest rate policies should encourage timely flow of credit to farmers. Unduly high costs of intermediation and unsustainable levels of interest rate subsidy curb the flow of institutional credit and oblige many small and poor farmers to rely heavily on very high interest loans from money lenders.

66 Most of the impetus for effective policies in the agricultural sector will need to come from the States. The Central Government also has a significant role to play. They must work together to ensure that agriculture is put on a path of sustained, broad-based development, without which progress in overall economic development and poverty alleviation will remain elusive.

Infrastructure

67 An expansion of key infrastructure services (power, irrigation, railways, ports, telecommunication) and improved quality is a pre-requisite for sustained fast growth and increased export competitiveness. Power failures, disabled telephones and clogged roads and ports can undermine the human resource advantages that we have. Most of these services had been provided by public sector monopolies, with inadequate attention to efficiency and commercial principles. User charges have often been kept at a fraction of provision costs, bringing financial disarray to supplier organisations. A clear example is the State Electricity Boards, which are running losses of about Rs. 5000 crore and find it difficult to get loans to undertake new capacity expansion. Power shortages will continue to worsen unless user charges cover costs of provision and SEBs become financially and operationally viable. Commercialisation of these providers so that they can directly raise equity and debt from the market could impart both greater discipline and flexibility to their operations. Greater private role in generation and distribution is also desirable and pricing strategies must be based on commercial principles if operation and expansion are not to be jeopardised. Appropriate independent regulatory authorities are necessary to set standards and curb monopolistic pricing practices. Such institutional reforms would also facilitate improvements in plant-load factors and reduce transmission and distribution losses.

68 Similar reforms are necessary in other infrastructure sectors. Economic infrastructure require massive investments. The shift to corporate forms of organisation and application of commercial principles will facilitate internal resource generation and access to capital markets. Foreign investment should also be tapped through joint ventures and build-operate-transfer approaches. But successful partnerships with experienced foreign companies are likely to require prior transition to corporate cultures and commercial principles in our key infrastructure sectors.

69 Petroleum products and coal are among the few industrial sectors still subject to industrial licensing, price, distribution, import and export controls, though a few items have been partly freed. With a number of private producers entering the petroleum sector, the current price setting and cross-subsidy system based in the Oil Co-ordination Committee may have to change. As with other tradeable goods, free import and export coupled with appropriate import tariffs can keep a check on prices, so that price controls can be removed. Subsidies where still needed on selected items such as kerosene, will have to be focussed on deserving beneficiaries. Similar flexibility is needed in the coal sector which can be progressively decontrolled, with import tariffs made more reasonable so that producers are subject to competitive pressure to improve efficiency.

Conclusion

70 One of the worst economic crises in decades was successfully met by a combination of macro-adjustment measures and policy reforms. Far-reaching policy reforms have been introduced with a view to transforming the structure and competitiveness of the economy and setting it on a path of fast labour intensive growth. Considerable success has been attained on the balance of payments and inflation fronts and economic growth has been rekindled. But the task ahead is long and arduous and the pressures for fiscal laxity and business-as-usual are ever present. The alternatives to fiscal responsibility and sustained reform will bring higher inflation, low growth, recurrent balance of payments problems and the accentuation of poverty. They must be firmly resisted if the goals of fast labour intensive growth, employment generation and poverty reduction are to be successfully pursued and attained.