

## From New Delhi by Susan Maitra

### India goes to the IMF

*The loan package is almost finalized, but the Gulf war could still blow it to bits.*

**B**urdened with a massive \$62 billion foreign debt and depleted foreign exchange reserves (which dipped to a mere \$1.33 billion, or two weeks of imports, in mid-December), as well as a chronic balance of payments crisis, Indian officials are now in Washington, D.C. negotiating with the International Monetary Fund for a \$1.5 billion loan. The IMF has said it will also make available a stand-by credit and assistance to the tune of \$400-800 million under the Compensatory and Contingency Financing Facility.

The talks have reached an advanced stage, according to Asian News International (ANI), and it is expected the loan will be finalized by the end of January. Although neither the size nor category of the loan has been determined, it is reported here that the IMF will impose conditions requiring India to cut farm product subsidies, reduce annual budget deficits, and slash non-developmental expenditure. A senior IMF source told ANI that "intense negotiations" were under way on the economic and fiscal adjustments demanded by the IMF.

India's decision to go to the IMF was finally taken by the present Chandra Shekhar government, but the seeds were sown earlier. Previous Prime Minister V.P. Singh's finance minister, Madhu Dandavate, a self-proclaimed socialist, stated several times that despite his misgivings about conditionalities, India would keep open the IMF option.

In subsequent months, particularly after details of the V.P. Singh government's disastrous economic dispensation became known, pressure to

go to the IMF increased. Except for a few die-hard Marxists, all and sundry who comment on the Indian economy had reached unanimity that the IMF loan was necessary.

Some, like Pranab Mukherjee, finance minister of the late Prime Minister Indira Gandhi, have pointed out that the loan India took from the IMF in November 1981 in fact helped strengthen the economy. In 1981, India negotiated a \$5.8 billion Extended Financing Facility loan. India declined to take the last tranche, and ultimately used about \$4.52 billion of the loan. But due to the subsequent sharp devaluation of the Indian rupee against the IMF's Special Drawing Right (SDR), India has had to repay twice as much as it borrowed in rupee terms. The last repayment is due in February.

Mukherjee acknowledges that the large loan repayments to the IMF during the latter half of the 1980s did aggravate the balance of payments, but maintains that at the time, India got the loan on favorable terms. The "structural adjustment" demanded by the IMF was incorporated into the Sixth Five Year Plan (1981-85)—one might say "buried" there. And, as Mukherjee points out, the adjustments did not hamper subsidies to the needy, nor were public sector units closed down or handed over to the private sector.

Indeed, India's ability to resist conditionalities that are not consistent with real development needs and the country's own economic strategy, is well established. The bigger problem is the prospect of a prolonged war in

the Persian Gulf, which would certainly blow holes in all calculations. In the event of continuing crisis in the Gulf, \$1.5 billion will do little to aid India's foreign exchange crisis.

For starters, India imports about 50% of all the petroleum and petroleum products it consumes, the bulk of it from the Gulf. Besides proximity, which reduces shipping charges, Gulf crude oil is cheaper to refine. India has been negotiating with non-OPEC members for alternate supplies, but it is already clear that their exorbitant shipping charges and poorer quality will drastically raise oil prices within India. This will affect not only mass transportation, but industry and agriculture as well.

With limited foreign exchange reserves and ballooning foreign debt, India will be forced to slash imports of essential raw materials, intermediate goods, and capital goods, to sustain the essential petroleum product imports.

Further, a Gulf war will trigger a contraction of world trade, at a time when it is more urgent than ever that India boost exports.

India's frantic attempts to muster bilateral assistance from the oil-rich Gulf nations have so far yielded little. Proponents of the IMF loan point out that it will enable the government to go to the international commercial markets for further borrowings.

In this view, the IMF loan would raise the international market's confidence, which took a dive last year when both Moody's and S&P downgraded India's credit-rating by a notch. Then, India could get loans at reasonable rates of interest and repayment terms.

It is evident, however, that there is no real thinking here about how the debt will be repaid and what measures will be taken to reverse the chronic trade imbalances.