

INDIA'S POLITICAL INSTABILITY SEEN SLOWING GROWTH.By **Chaitanya Kalbag**

572 words

22 November 1989

Reuters News

English

(c) 1989 Reuters Limited

NEW DELHI, NOV 22, Reuter - Political instability likely to result from this week's elections could dangerously slow India's economic growth, economic analysts said.

They said the new government could also face a resource crisis brought on by plunging foreign exchange reserves, unbridled domestic demand and a complacent monetary policy.

Leading opinion polls have said Prime Minister Rajiv Gandhi could lose his majority in parliament in the voting on Wednesday, Friday and Sunday, but Gandhi predicted victory after he voted on Wednesday in New Delhi.

"I think the concern now is more one of whether the political uncertainty is going to slow the rate of growth," a senior international economist said.

India's gross domestic product growth, boosted by good rainfall and a record foodgrain harvest, is seen at a real 10 pct in 1988/89 ended March from 3.6 pct the year before.

But a senior government economist said there was unease about election promises made by Gandhi, who announced a 50 billion rupee (three billion dollar) welfare scheme for women last Sunday, and the opposition, which has promised a massive shift of resources to the rural sector.

Over the past four years, India has pursued a policy of boosting exports to help finance a growing foreign debt and imports that outstrip exports by about 50 pct.

The World Bank estimates India's foreign debt grew to 48.8 billion dollars at end-1988 from 46.4 billion at end-1987.

"The temptation to restrain imports will be great for the new government. It could slip into more import controls," the economist said. But import cutbacks would hit industrial growth, which has averaged over eight pct since 1985.

The fiscal management of the Reserve Bank of India (RBI) is another area of concern, he said.

"They are letting reserves slip away without any plan of action," the economist added.

RBI figures show that broad money supply (M3), which comprises currency with the public, aggregate deposits with banks, and other deposits with the RBI, jumped 17.6 pct to 1.92 trillion rupees in 1988/89 from 1.63 trillion in 1987/88.

In its report for the year ended June 30, the RBI said: "It is necessary to ensure that expansion of M3 during 1989/90 is contained to a level lower than the average of the last four years (16.7 pct)."

But official figures show that M3 in fact grew by 18.5 pct to 2.06 trillion rupees at end-September from 1.74 trillion a year earlier.

At the same time, the government's budget deficit rose to 79.4 billion rupees in 1988/89 ending March from 74.8 billion a year earlier and 58.2 billion in 1987/88.

So far, the economist said, the deficit has not squeezed out private capital because domestic investments continue to boom, but at some point India might be forced to go back to the International Monetary Fund (IMF) for help.

"But a really weak government would have difficulty putting together an economic programme that would earn IMF approval," the economist added.

"Keeping government expenditure under wraps is going to be pretty important. I certainly don't think there should be a spending programme," the government economist said.



Call today, 800-221-5544. **See for yourself** why we're the industry's leading provider of **24-hour, 7-day-a-week** emergency service. We're the only company that can help you with any problem, anytime, anywhere. We're the only company that can help you with any problem, anytime, anywhere. We're the only company that can help you with any problem, anytime, anywhere.

...I have a number of going day and plan to visit my mother," says Sarah Hagar, one of those who worked.

CHIVE

