INSTABILITY SEEN SLOWING GROWTH IN RESOURCE-STRAPPED INDIA.

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

They said the new government would 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 told Reuters.

Helped by good rainfall and a record foodgrain harvest, India's gross domestic product growth is estimated at 10 per cent in real terms in 1988/89 ending March after 3.6 per cent a year earlier.

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 per cent.

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 per cent 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," he 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 per cent to 1.92 trillion rupees (113 billion dollars) in 1988/89 from 1.63 trillion (96 billion dollars) 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 per cent)."

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

At the same time, the government's budget deficit rose to 79.4 billion rupees (4.6 billion dollars) in 1988/89 ending March from 74.8 billion rupees (4.4 billion dollars) a year earlier and 58.2 billion (3.4 billion dollars) 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," he 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.

He said concern was also growing over galloping domestic demand from a middle class estimated at more than 100 million. "Overheated domestic demand knocks exports flat," he added.

Fiscal indiscipline has occurred at the same time as a sharp fall in foreign exchange reserves.

Official figures show foreign exchange reserves, excluding gold and special drawing rights, fell to a low of 2.9 billion dollars at end-August from 4.9 billion at end-March.

Exports grew 38 per cent in the April-August period this year to six billion dollars from a year earlier. Exports in 1988/89 jumped 29 per cent to 12.07 billion dollars from 1987/88.

But imports have also ballooned, and official figures show the trade deficit rose to 4.4 billion dollars in 1988/89 from 3.9 billion in 1987/88.

The World Bank estimates that as a result, the current account deficit shot up to 5.4 billion dollars in 1988/89 from 4.5 billion a year earlier.

"If the opposition does win, one thing they have in their favour is that they could impose an austerity programme and blame it on Gandhi," the government economist said.

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