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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

August 25, 1958

MEETING ON INDIA'S FOREIGN EXCHANGE SITUATION

Text of Statement by Mr. Eugene R. Black

Gentlemen:

Welcome to Washington. It is good of you to come to this meeting at the Bank - many of you from long distances - and I much appreciate it. I know that it must have been difficult for your Governments to spare you from your other duties, particularly at this time of year, and I am grateful to them for the prompt way they responded to our invitation.

The problem that we are to discuss - India's foreign exchange difficulties - is a matter of considerable concern to all your Governments, as well as to us, and I am sure that the exchange of views that we shall have at this meeting will be valuable and helpful for everybody. The Bank, and indeed all the countries represented here, have been assisting India's development efforts as suppliers of material and equipment, as bankers and lenders, and by giving material assistance to India in one form or another. This is why we invited you to join with us in exploring possible ways and means of enabling India to pass, without intolerable strain, through the critical phase in which she now finds herself.

I should like also to welcome Mr. Cochran and Mr. Murphy of the International Monetary Fund. They come in a different capacity from that of the rest of us, as observers and not as delegates. The Fund, though not less interested in India's development than any of us, has been concerned with a somewhat different aspect of the Indian problem. Its assistance to India has been designed to meet temporary balance of payments difficulties, rather than the basic problem of how to finance a massive capital investment program with which the rest of us are concerned. But Mr. Jacobsson has told me of his lively interest in the problem, and in the outcome of these discussions, and I am happy that he has accepted the Bank's invitation to send observers.

As I mentioned in extending an invitation to your Governments, India will not take part in our discussions, but the Government has provided us with the fullest possible information on matters which we thought would be relevant. The Government of India has also put at the disposal of the meeting, for any consultations that we may feel to be necessary, the services of one of its senior officials, Mr. B.K. Nehru of the Ministry of Finance. Mr. Nehru is well known to most of you.

I do not propose in these opening remarks to go into the Indian problem in any detail. I should, however, like to say a few words on the reasons which persuaded the Bank to take the initiative in calling the meeting, and to suggest broadly the kind of consultations we had in mind.

As you know, India is a founder member of the Bank, and one of the five countries entitled to appoint a director to the Board. The Bank's relations with India as a borrower also go back a long way, our first loan having been made in 1949. During the next few years, until the end of the first Indian Five-Year Plan of development, the Bank continued to lend to India on a modest scale, and the total of our lending amounted to some $125 million by the end of the first Plan. When the second Plan was being framed in 1955, the Government of India approached us and indicated that it would wish the Bank to play a larger and more active role. Realising fully the importance of economic development in a country such as India, we agreed to send out a mission in the summer of 1956, to report on the Indian economic situation, and on the development Plan, and to recommend the ways in which the Bank's assistance could be put to the best use. We subsequently told the Government of India that it could count on substantial support for projects in the Second Plan, and indicated that the transportation sector appeared to be the top priority for Bank lending.

Since the beginning of the Second Plan in April 1956, we have already made loans to India amounting to some $300 million. With over $420 million in loans, India has now become the largest borrower from the Bank - well over 10% of our total lending having been made to that country. This is a measure of the importance which we attach, both for India's own sake and for that of the free world as a whole, to the task of helping her to move as rapidly as possible along the road to economic expansion and a better standard of life for her people.

I need not disguise the fact, that at the time of the discussions on possible Bank assistance for the Second Plan, we had considerable reservations about the size of the program on which India proposed to embark, in relation to the resources - particularly the resources of foreign exchange - likely to be available. Some of these reservations I expressed in a letter to the then Finance Minister which was subsequently published. It created something of a stir at the time. I do not say that this advice went unheeded, but the plans were already drawn up and it had little immediate effect upon policy. However, when the bills began to come in, the Government of India itself came to the conclusion that its plans would have to be trimmed, if the country's current foreign exchange reserves were not to be entirely depleted. But commitments on many of the largest projects had been entered into at an early stage in the five-year period, and although the Plan has now been rephased, the expenditures in foreign exchange which have to be made between now and the end of the Plan period - that is within the next $2\frac{1}{2}$ years - are far larger than India has any hope of meeting from her own earnings and her remaining reserves.

About a year ago, the Bank made a loan - or rather four separate loans in different currencies - of $90 million for Indian Railways. A number of countries made special releases of their 18% subscriptions for these loans. I told the Bank's Executive Directors then that we would continue to lend to India, unless the economic situation deteriorated seriously, and provided that the Government followed sound economic and financial policies, and in particular made a determined effort to increase the country's export earnings. Since then, of course, there has been a recession in world trade which has caused a marked drop in the earnings of under-developed countries, including India. In view of the continued heavy commitments, the reserves have continued to fall sharply, and are now near to what must be regarded as a minimum level.

It is clear that if further foreign assistance in substantial amounts is not forthcoming quickly, India will be forced either to make drastic cuts in essential imports, which would seriously damage the economy, or to default on her commitments. No friend of India would wish that to happen. But it is also clear that the amount of foreign assistance required is much greater than any one institution or one country could provide by itself. A concerted effort will therefore have to be made by all who are in a position to do so. That includes the Bank and all the countries represented around this table. The ways in which help should be made available is, of course, a matter for each institution and country to decide for itself, in consultation with India. It is for this reason that I do not propose that we try to arrive at any formal agreement or decisions at the end of this meeting. The purpose of the meeting is to determine the size of the problem, and to consult with one another on what might be done and on what assurance might reasonably be expected from the Indians if the necessary foreign assistance is to be forthcoming. Your Governments will then be able to take their final decisions in the light of these discussions.

As far as the Bank is concerned, the extent of any further lending to India will depend not only upon the pursuit by India of sound economic and financial policies, but also upon what other parties are willing to do, and on the terms and conditions of their assistance. We must, of course, also keep in mind the limits on our resources and the claims of other member countries. But we feel that the long-term prospects in India justify a continued program of lending on our part, provided that the gap in the requirements for the present Plan can be bridged in an appropriate way, that is, without adding unduly to India's heavy debt service obligations in foreign exchange during the early nineteen-sixties. If it appears that this can be achieved, we would expect to consider further financing for India during the remaining period of the Second Five-Year Plan in the amount of say $200 million. As a first step we would plan to commence negotiations for a $75 million loan to the Indian Railways shortly after this meeting. This would bring our total loans to India to approximately $500 million, which is as far as we are prepared to go until some definite understandings are reached along the lines I have just described.

I will now ask the leader of each delegation to make any preliminary observations he may care to offer -------