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India holds the cards on IMF loan

U.S. officials who want to block it should consider how creditworthy New Delhi's strong economy remains.

If the U.S. administration hopes that it can force India to make major "free enterprise" concessions by blackmailing New Delhi over its request for a $5.8 billion loan from the International Monetary Fund, it will find that the blackmail won't work. India is considered one of the best credit risks among all the LDCs (Less-Developed Countries) and will find no trouble getting all the credits it needs if the IMF loan doesn't come through.

India wants the Fund loan because it carries a somewhat lower interest charge than commercial borrowings, but there is no doubt that India will pay the latter cost before caving in to patently political demands of the sort laid out by President Reagan at the just-concluded IMF annual conference.

Instead, the U.S. may find it has merely isolated itself further from the entire developing sector. This has an economic bottom line: barring a total blowout of world finance, a growing number of LDCs are important customers for the capital goods exports of developing countries. To the extent the administration tells these nations the United States has no concern to help them, they are likely to give their business to nations like Germany and Japan.

The Indian loan, being considered under the Fund's "Special Fund Facility," is presently in the hands of Fund Executive Director Jacques de Larosière, having been favorably reported to him by the Fund's staff. The final step is for de Larosière to submit the $5.8 billion proposal to the executive board on which the U.S. may command a virtual veto should it so decide. U.S. officials have said they are not pleased about either the size of the loan or its allegedly "soft" conditionalities, and "will take a hard look" at the loan.

According to both the Fund itself and private bankers, India is considered an excellent credit risk. It has a very low ratio of debt service payments to its exports, and most of its debts are medium- and long-term debts to the World Bank or to other governments. It sought and received $680 million last December on the commercial markets at a low spread over the LIBOR for an aluminum plant in Orissa state, and an additional $200 million for development of the Bombay High oil deposit. Because it has almost no commercial debt, the banks have nearly full lending "quotas" available.

The country is nevertheless eligible for the Special Fund Facility, because a bad drought two years ago and the oil price shock of 1980 forced India from a payments surplus into a sizable current-account deficit. The Fund loan would provide much of the capital needed to eliminate the deficit, which is the stated purpose of the Facility's loans.

As for the conditionalities, a distinction is universally recognized, both by the Fund and by the private banks the Reagan administration claims to represent, between external causes of balance of payments gaps, such as afflict India, and deficits caused by domestic monetary and fiscal policy. Administration sources have made clear that they seek to force India to take measures normally reserved for the latter.

This is ironic in relation to India, a country notorious for its conservative fiscal/monetary policies. India's inflation, at under 20 percent, is moderate by Third World standards, and falling, and it finances its deficit on capital account from domestic credit markets. According to the World Bank, India has a very high savings ratio, over 20 percent, which means that there are substantial and untapped sources of investment capital in the country.

The country has also made serious efforts to limit imports to commodities useful for domestic industry or for the exporting sector.

As for the longer term, major projects in power, oil development, fertilizers, petrochemicals, cement, and coal promise to enhance India's overall economic growth while specifically allowing import substitution of oil, fertilizers, and cement by the middle of the decade. In particular, it is believed India can be self-sufficient in petroleum by 1986—petroleum import payments currently eat up more than 75 percent of India's export revenues and account for almost 50 percent of its import bill—while natural gas deposits and two major fertilizer complexes now under construction will permit total fertilizer self-sufficiency by the same date.

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