this fiscal year, and the IMF crowd is demanding a big rupee devaluation.

Nevertheless, Finance Minister Singh himself told a Singapore audience on Oct. 12 that the IMF shock therapy will continue. Reforms "require a broad consensus and political acceptability. Therefore, we have to move at a pace at which our system can sustain the pace of reforms," he told the World Economic Forum. "Having said that, there is no basis for conclusion that reforms are slowing down," he said. "Our revenue is broadly on target." Singh said the government had a five-year agenda to implement the reforms, and that he intends to move forcefully to bring India's deficit down even further. He also promised to cut state subsidies to agriculture.

Debt before lives

As for the future, the IMF has tried to lock India out of expanded spending on health, infrastructure, and vital services by continuing budget cut pressure and by prioritizing payments on India's huge national debt. Under IMF deregulation of interest rates the government pays on debt, World Bank India loan officer Gregar Dolenc said, India's Treasury now pays 11-12% to borrow on the markets, whereas before it had gotten credit more cheaply.

Plague? "So what?" Dolenc told an investigator on Oct. 21. "The reforms are on course. . . . What must be looked at now is the fiscal deficit in India," he insisted. "The public debt entails problems not dissimilar from those of the United States. About one-third of the budget is interest payments on the debt, and the servicing costs are even higher, quite substantial. . . . The government has little room to increase social spending because their existing revenues are earmarked already at the gate as to on what they will be spent."

"We want them to implement the hard budget constraints," said Ray of the World Bank, calling for extensive firings of workers from both public and private sector industries which, he said, are "overmanned."

The IMF and World Bank want the critical agriculture sector deregulated next, the bankers insisted, although millions of Indians barely have enough to eat. "That will mean getting rid of fertilizer subsidies, power subsidies, and water subsidies," said Mr. Datta of American Express. "Politically it is very difficult. The fertilizer subsidy causes enormous repercussions when they cut it; they haven't reduced it to the extent it was originally thought possible, but there are plans to do so."

The bankers are optimistic that the Indian people will suffer with this politically, because the only alternative to Prime Minister Narasimha Rao's ruling Congress Party is the chaos of former times and racial warfare such as championed by the fundamentalists in the opposition Bharatiya Janata Party, who brutally destroyed the Ayodhya mosque in 1991. "If Rao has a clear win" in the Dec. 1 and 5 elections in his home state Andhra Pradesh, said Ray, "the future is bright for accelerated reform."

"There is enough consensus that the alternative is far worse," said Datta of American Express. The banking community is counting on Prime Minister Rao to keep Singh and his IMF reforms no matter what. "There's really only one person" on whom the bankers can count, said Datta, "and that's the finance minister. Ultimately if it were not for his total commitment to this new economic policy, the edifice would be in great danger."

Despite the bankers' beliefs, however, the Indian population is furious. Prime Minister Rao's electioneering claims that he has brought the economy back to health fool no one, and are viewed as a hoax. Finance Minister Singh must go, and the Congress Party must move reform away from financial manipulation toward infrastructure and high-technology development of industry.

Interview: Will Mansa

Mr. Mansa of Standard and Chartered Bank was interviewed by telephone at his London office by a journalist.

Q: How does your bank feel about investing in India, given public anger at the reforms and the plague?

Mansa: Really, all these things are very short term. India is about entrepreneurism; and if there's a riot or a problem with the plague or whatever, after 2-3 days most Indians get back to making money. It doesn't have any bearing on business sentiment locally or internationally.

There's a broad section of opposition to the government's reforms. There are very archaic restrictive labor practices in India. Probably more than any other country in the world there is overmanning in all sectors, with a labor union movement which has brought this about and seeks to make sure it prevails. So it takes bold management to cut across union doctrine to eliminate this.

Q: And Finance Minister Singh and Prime Minister Rao agree with what the IMF wants done?

Mansa: They realize that those objectives are onerous on the economy and politically sometimes unpopular, but one of the most impressive things about the Indian government, even with all these areas of unpopularity at the moment, is that it *is* sticking very hard with liberalization.

Q: What about IMF calls for deregulation of agriculture through the removal of subsidies? Will they go ahead?

Mansa: They're determined to do so, and the underlying strength of the economy should allow them to carry it through in a way they couldn't have done several years ago. There's been a sea change in sentiment, particularly in the business community. They've decided that they're going to go for this. . . . I don't think there will be any U-turns.

Q: You're not worried about populists saying, "We've got enough foreign exchange, please get out now"?
Mansa: No. There was a major scam on the Bombay market two years ago, which was a catalyst for anyone against foreign banking to rise up and try to produce sanctions and to try to exclude foreign banks.

But there is no doubt now that the Indian government feels that it needs the major foreign banks in a very big way to assist with the liberalization—and to be in place to assist the major new trade flows which India will soon have as a result of liberalization. Banks such as ours, and also Citibank, Bank of America, Hongkong and Shanghai, are absolutely vital to this process. There doesn't seem to be any sentiment contrary to foreign banks. . . .

Q: Minister Singh will be able to ride straight on?
Mansa: He's had a rocky time, but now this is an issue of which he's in control, yes.

Interview: Gregar Dolenc

Mr. Dolenc, World Bank loan officer for India, was interviewed in Washington.

Q: Will the Rao governnment backpedal on reforms now that the public is so upset about the plague outbreak?
Dolenc: Have you seen any indication that they are backpedaling? The answer is no, they won't. The reforms are on course. It's slow, but it's on course. . . . Anything that happens in India can be made into a drama, but it's not necessarily a real drama. What have you seen in India, which has reversed the flow of foreign investment? Anything? We have not seen any such thing.

Q: What is the size of foreign investment in India?
Dolenc: The investment flows to India in fiscal 93-94 ended March 31, 1994 was to the tune of approximately $5 billion, of which direct investment [in factories] was 20% and the rest was portfolio investment [hot money, stocks—ed.]. Based on what I've seen since then, such a flow has essentially continued at comparable levels. Prior to the opening in late 1991 the average inflow was perhaps $200 million per year.

Q: How do you judge India's budget deficit?
Dolenc: We think that the fiscal discipline is being maintained. However, notwithstanding, the fiscal deficit is still too high. The deficit must be controlled in order to handle the stock of government debt.

What must be looked at is that the fiscal deficit in India; the stock of public debt entails problems not dissimilar from those of the United States. About one-third of the budget is interest payments on the debt, and the servicing costs are even higher, quite substantial. In addition you have obligations on current expenditures. . . . So the government has precious little room left for investment. . . .

Q: Won't there be pressure to increase social and health spending because of the plague outbreak?
Dolenc: Yes, but so what? Social spending is under control; they are trying all sorts of cost-saving measures. They have improved collection of tax revenue, the shortfall of which in '93-94 caused the deficit.

The point is that a large part of U.S. government current expenditure is circumscribed by the fact that it has to maintain the debt service at market terms. You mentioned social spending in India. The government has little room to increase social spending because their existing revenues are earmarked already at the gate.

Singh has made changes to cut off the government's former unlimited access to borrowing from the Reserve Bank of India [central bank]. . . .

In the past, the banking sector was nationalized and the banks were forced to hold in their portfolio a minimum amount of government securities. . . . The government was at liberty to offer to pay any rate it wanted, which resulted in relatively cheap servicing costs on the public sector debt. This prompted too liberal spending. . . .

So within India's reforms one of the key events which happened this year was that the government has now been subjected to servicing its debt, the bulk of its debt, at market terms. This is a big element of the stabilization plan. . . . So the low-cost funding the government has used in the past will now be subjected to market pressure and such financing will be substantially controlled. . . .

The rates on the old debt were in high single digits, which is relatively cheap compared to what the market will charge now . . . 11 or 12%.

There was also "priority lending," in which financial institutions, government and private, had to have a certain share of their portfolio invested into a priority activity, i.e., agriculture, rural credit. That will have to go. At present, much has been eliminated, statutory reserves have been reduced, mandatory cash reserves have been reduced, much has been done to free the banks from previous controls—but there is still quite a bit of control and these things will have to go.

Q: Is the World Bank now going to lend separately to state governments?
Dolenc: The World Bank can only lend with the Union government guarantee. Some states need to restructure their finances because they won't be viable in the long run, provided the federal government favors such an