

operation. We can't just walk in.

Q: What kinds of reforms do you want the state governments to undertake?

Dolenc: The revenue base is not properly developed. Their expenditures could be streamlined, collection has to be improved. Spending for human resources in some cases could be improved, be better targeted to get more bang for the buck. We would not be lending for current expenditures, but rather to improve the system. Consolidation of state finances, having states acquire market training so they can issue their own securities. . . . We are thinking about it but we have not yet approved a loan for this type of program. In the future we would.

Q: The economy is 70-80% agricultural?

Dolenc: Seventy percent of the population derives their livelihood from the land, but that's not the share in GDP. The share of agriculture in GDP is about a third. Agriculture is 38%, industry is 26%, and services are 36%. Services are very large; they also include transportation, not just financial services. There is also tourism.

Q: But will Singh be able to get rid of the agricultural subsidies?

Dolenc: These are issues which clearly need to be addressed, especially as the ability of the fiscal budget to support these subsidies is beginning to shrink, so by force, they'll have to address it. It's not something you just take scissors and cut.

The fact is that India solved its hunger, food production and distribution problem, by intervening with a large spoon. Now that the food production problem and distribution and feeding of the population is solved, now the time comes for this system to gradually become self-sustaining, which means phasing the subsidies out. But that is a long process and they're not there yet. So it is a problem.

For example, electric power is delivered to farmers at nominal rates, and even that is not collected; it's a major problem, probably the first one to be dealt with. Then comes the problem of subsidized fertilizer. Food production is market based, why should you really require subsidies?

But to disassemble such a system in India without disrupting the production is a major task, it should not be taken lightly. Rather than throw agricultural production into disarray, having seen what's happened to Russia, Indians want to be very certain that they're not causing more disruption under the guise of "bringing market forces to bear" in agricultural production.

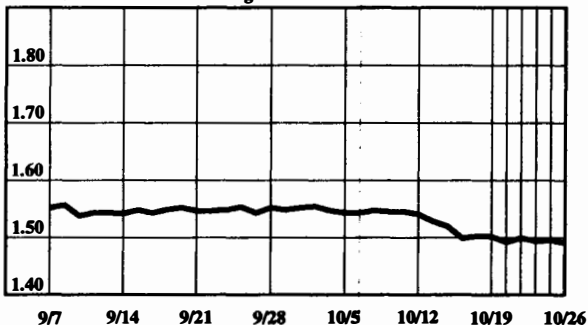
Q: Minister Singh has the support of the World Bank, then, in doing this gradually, but in doing it?

Dolenc: It's an ongoing dialogue but clearly the bank would say "if subsidies have to be targeted, subsidies have to be targeted; they must be cut."

Currency Rates

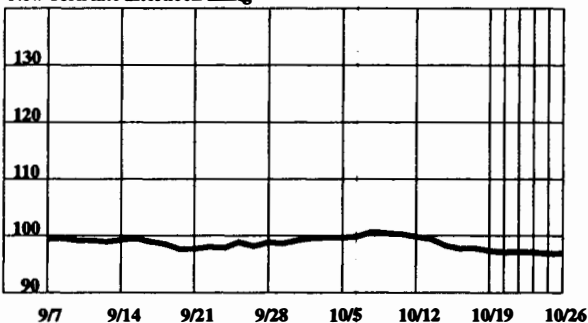
The dollar in deutschemarks

New York late afternoon fixing



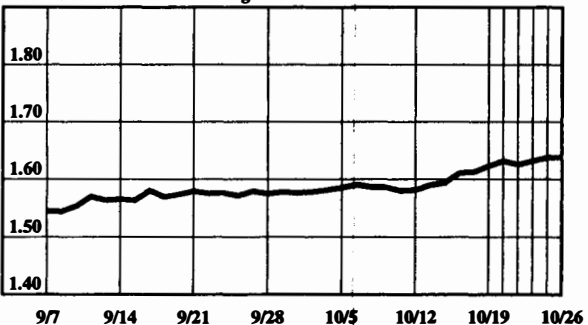
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

