

20. Taking the plan as a whole, the gap between its estimated cost, Rs.18,400 million, and the estimated finance that can be mobilised internally, Rs.10,300 million, represents the amount of external finance necessary for the execution of the programme, Rs.8,100 million (£607 million). The injection into the economic system of this amount of foreign capital would provide a further stimulus to the capital market. During the six-year period the availability of outside finance would allow the importation of additional goods. This should serve not only to reduce the price level somewhat, but also to provide incentives to industrial and agricultural workers.

21. In spite of import restrictions India incurred balance of payments deficits (excluding transactions with Pakistan) of the order of £75 million in 1948 and £119 in 1949. These deficits were financed mainly by drawings on the sterling balances in London, and in part by drawings on the International Monetary Fund, and by loans from the International Bank for Reconstruction and Development. Since devaluation the balance of payments position has improved. This has been due partly to an increase in exports, and partly to a previous tightening of import restrictions. The level of imports is still being kept down by rigorous restrictions, in the absence of which the demand for imports would be substantially larger. The estimated deficit for the year 1950-51 is £104 million, which can be met from available external resources.

22. The balance of payments estimates for 1951-52 and 1952-53, excluding transactions with Pakistan, have been worked out on the assumption that external finance will be available in addition to drawings on sterling balances. They take into account the imports of consumer goods and industrial raw materials related to the projects contained in the programme: they also allow for an expected increase in exports. On this basis, the estimates show deficits of £163 million for 1951-52 and £154 million for 1952-53. It is assumed that up to £35 million per annum of the deficit will be met by drawings on sterling balances. The amount of £607 million represents the difference over the six-year period between the estimated balance of payments deficit and what would be covered by drawings on sterling balances.

23. At the end of the six-year period, there will be a sharp decline in public investment. This will lead to a considerable curtailment in the level of governmental imports, although the increased demand for imports on private account may in part offset this reduction. However, 1957 and after should see an increase in domestic production of consumer goods and industrial raw materials. The need for imports will thus be reduced, while simultaneously earnings of foreign exchange will be increased as a result of higher exports. Though precise calculations are difficult to make over such a long period, it is expected that there will be a considerable improvement in the overall position in the longer term, though a small deficit may persist for a short time after 1957.

24. The external finance envisaged in the programme is necessary both to cover the balance of payments deficit and to enable the Government to raise the rest of the internal finance required. This will be done either by the sale of foreign exchange to private importers, or by the direct sale of imported consumer goods, such as food, which are mainly imported by the Government. The provision of some external finance for this purpose is important in existing conditions because, even if the developmental imports required were forthcoming, the carrying out of the plan would be stultified if this supplement to internal finance were not available to the Government. It is expected that the measure of external finance necessary during the six-year period will decline from year to year as the programme generates additional