revenue receipts. However, the consolidated public-sector deficit has not changed, which when totalled amounts to roughly 9.5 percent of GDP. The positive attempts at fiscal adjustment by the Union government have been constrained by the lack of progress at the state level toward better financial management, and by the continued support through transfers to loss-making state enterprises. This large deficit continues to fuel public debt and makes moving to a market-based system of financing under the current circumstances difficult. Privatizing the public-sector enterprises (PSEs) will be a big step toward correction.

The outlook for sustaining and accelerating economic growth rests on a number of conditions. Maintaining a commitment to prudent fiscal management and accelerating reforms remain critical. This will depend largely on the political environment and how effective co-operative federalism can work. Reducing the consolidated public deficit is a priority. This is essential in order to free up resources for investment, contain net borrowing requirements, moderate interest payments, facilitate the development of the debt market, reduce external borrowing risks, and further accelerate the process of reforms. The current policy pronouncements should give rise to continued confidence and optimism, but how well this can be achieved will depend in the short run on how reforms impact on administration, state and local levels of government, and the general mindsets of the economic players.

FINANCIAL OVERVIEW

The Government of India's economic liberalization program, initiated in 1991, has brought about highly significant changes in the Indian financial sector. Major capital-market reforms include permitting Indian companies to place equity and raise debt abroad; permitting foreign-investment firms to buy equity of Indian companies in the local stock markets; removal of restrictions on the sale price of equity sold by Indian companies; establishment of capital-market regulatory authority Securities Exchange Board of India (SEBI), etc.

The Indian rupee has been made fully convertible on the trade accounts and almost fully convertible on the capital accounts. As well, most restrictions on repatriation of profits by international companies, payment of consulting and other fees to foreign firms by Indian companies, etc., have been removed. Further changes are under discussion.

The peak import tariffs, which prior to 1991 were as high as 300 percent, have been gradually reduced to (a still high) 40 percent. As well, the range of items and services that can be freely imported has been significantly broadened, but remains limited.

Foreign-exchange reserves have soared to US$23 billion. India is one of the few countries that was able to reduce its debt in 1996; moreover, one third of this is at concessional rates while, since 1991, short-term debt has been cut by two thirds. Foreign direct investment reached US$235 billion in 1996, carrying with it access to foreign technology and, in some cases, potential access to foreign markets.

A key feature of the economic reform concerns improvements in the performance of PSEs and, in some instances, disinvestment of up to 49 percent of the share capital of selected PSEs to private investors. There are more than 1000 public enterprises, of which 245 (excluding some financial institutions) are owned by the central government (8 in the construction sector, 72 in services and 165 in manufacturing) and 700 by the states. Some of the major loss-makers are monopolies operating in the core sector, including mining, fertilizers, domestic airlines and shipyards. Privatization candidates are found in the following sectors: airlines, aluminum, cement, steel, coal, construction, electronics, insurance, oil and petrochemicals, and telecommunications. Little progress has been made to date in this area.

The government has traditionally administered the prices of a wide range of commodities, including many agricultural products, fertilizers, steel, fuel and power. Support and procurement prices are also determined annually for cereals, pulses, oilseeds, sugar cane, cotton, jute and tobacco. Continued support for these subsidies is now the subject of widespread discussion.

In common with many developing countries, India's tax regime is heavily skewed toward taxes on international trade (tariffs) and domestic production