CHAPTER 5

BALANCE OF PAYMENTS

The domestic political developments and the Gulf crisis during 1990-91 in the context of a fragile balance of payments situation culminated in a payments crisis of unprecedented dimension in the first quarter of 1991-92. Its prime manifestations were difficulty in financing current imports and in meeting debt service obligations together with the erosion of confidence of short-term lenders and NRI depositors. Short-term credits became difficult to obtain and inflows into non-resident deposits became outflows of an alarming magnitude. This brought the country to a near-default in July 1991. Default would have entailed widespread shortages of essential imported commodities and led to a cutback in industrial output, layoffs and inflation. India's brush with default was the outcome of an uncertain and disturbed situation in the domestic polity which made it difficult to execute a medium-term balance of payments strategy. Besides, the trade deficit widened during 1990-91 as a result of surge in import bill and a deceleration in export growth.

During the current year, trade deficit has shrunk largely because of severe compression in imports arising out of import tightening effected in the recent past. Given the large current acount deficit and the consequent need to finance it through large-scale external borrowing, it became essential to restore international confidence.To this end, a new balance of payments strategy was put in place by the new Government which assumed office towards the end of June 1991. It laid emphasis on exchange rate adjustment, fiscal correction and structural reforms in industrial and trade policy. Besides, recourse to exceptional financing from the IMF of the order US $ 2.3 billion was negotiated under the stand-by arrangement. This was necessitated by the need to provide foreign exchange as an immediate means of support to the balance of payments . As a result of the balance of payments adjustment strategy adopted, there has been a distinct improvement in the external payments position within a short period as reflected in the steady build-up in the reserves during the latter half of the current year. Foreign currency assets, which had plummeted to US $ 1.1 billion in June 1991, rose to about US $ 4.2 billion by the middle of February, 1992. However, a lasting improvement in the balance of payments position depends upon a strong revival in exports. Export performance in 1991-92 has been adversely affected by the severe disruption of trade with the erstwhile Soviet Union and continuing recession in industrialised countries.

Introduction

India entered the decade of the nineties with large internal and external financial imbalances which made the economy highly vulnerable to exogenous shocks. These imbalances were exacerbated by the Gulf crisis and the uncertain and distrubed situation in the domestic polity during 1990-91 and the first quarter of 1991-92. The Gulf crisis resulted in a higher import bill and the loss of export markets and remittances. Taken together, these developments contributed to erosion of international confidence in India. The internaional credit rating agencies started placing India either under watch or downgraded credit rating of Indian entities between August 1990 and July 1991. It became exceedingly difficult to get access to international capital markets and there was massive erosion in the net accruals under non-resident deposits. These developments culminated in a severe external liquidity crunch and a crisis of unprecedented dimensions.

5.2 During 1990-91, total foreign exchange reserves declined by Rs. 1382 crore (US $ 1137 million) net of revaluation of gold. This was despite borrowings from the IMF to the tune of Rs. 3334 crore (US $ 1814 million) under various facilties. A further erosion of Rs. 2073 crore (US $ 1151 million) occured between end-March and end-June, 1991 notwithstanding considerable compression in imports. This massive depletion of reserves became inevitable in the absence of a medium-term BOP adjustment strategy. The new Government, which assumed office on June 21, 1991, promptly took corrective steps to restore international confidence and announced a comprehensive adjustment package invovling exchange rate adjustment, fiscal correction, and structural reforms, towards ensuring a viable balance of payments. As a result, the gross foreign exchange reserves stabilised. These amounted to Rs. 19392 crore (US $ 7501 milion), of which foreign currency assets comprised Rs. 9766 crore (US $ 3774 million) at the end of January, 1992. Foreign currency assets showed an increase of Rs. 5378 crore (US $ 1538 million) between end-March, 1991 and end-January, 1992.

Adjustment Strategy

5.3 Given the large current account deficit and the consequent need to finance it through large-scale external borrowing, it became essential to restore international confidence. This required the management of the BOP and the Budget in a manner which ensured viability of the BOP and strengthened the debt-servicing ability of the economy. To this end, a new BOP adjustment strategy was put in place. It comprises three main elements, viz., exchange rate adjustment, fiscal correction and structural reforms in the area of trade and industrial policy. The rationale of the elements of adjustment strategy is briefly mentioned below.

(a) *Exchange Rate Adjustment* : A downward adjustment of about 18 per cent in the external value of the Indian Rupee was effected in two steps on July 1 and 3, 1991 followed by the abolition of cash export subsidies designed to improve export incentives and make them more uniform. Apart from improving the profitabilty of exports, this adjustment quelled destabilising market expectations.

(b) *Fiscal Correction* : Reduction in the fiscal deficit was envisaged by about two percentage points from around 8.4 per cent of GDP to 6.5 per cent of GDP within the remaining eight months of the current financial year, to be followed by continued fiscal consolidation. This fiscal correction has been complemented with a restrictive monetary stance. These are aimed at reducing aggreate expenditure and thereby the current account deficit.

(c) *Structural Reforms*: These have been intiated in the field of trade and industrial policy with a view to further integrating the Indian economy with that of the world. In the realm of trade policy, the new measures have replaced import licensing for a wide range of intermediate products with the tradeable import entitlements carrying a uniform replenishment rate of 30 per cent of export value. The new instrument, known as Eximscrips, is freely tradeable, providing added incentives to exporters and enabling the allocation of imports according to the market forces within the available pool of Eximscrips. In the area of industrial policy, the system of licensing that regulated the entry and expansion of firms has been largely eliminated, exclusive reservations for the public sector have been sharply curtailed, and a significant reduction in barriers to foreign investment has been effected. These structural reforms are designed to improve the efficiency and competitiveness of the Indian economy and facilitate export expansion and other supply responses needed to support long-term growth and balance of payments viability.

(d) *Mobilisation of Exceptional Financing* : The Government has negotiated a stand-by arrangement with the IMF for SDR 1656 million(US $ 2.3 billion) over a 20-month period. This has been necessitated by the need to provide adequate foreign exchange cover for imports and maintain confidence of the foreign investors during the adjustment phase.

5.4 During the latter half of 1990-91 and the first quarter of 1991-92, primacy was accorded to the short-term management of the BOP. The much needed corrective action to curb domestic demand through fiscal measures could not be taken due to the uncertain internal political situation. Thus it was mainly left to monetary and credit policy to redress external imbalances and, in particular, the liquidity crunch. In addition, the import regime was made more restrictive by shifting a large number of items from OGL to restrictive/licensable categories and making prior approval from RBI for effecting large value imports essential. The monetary measures taken in this regard were mainly of two types. The first set of measures raised the cost of the financing foreign trade. These include the imposition of cash margins and high interest rates on import finance and export credit aimed at import compression and accelerating the realisation of export proceeds. The second set of measures involved interest rate increases relating to deposits and loans by commercial banks with a view to reducing aggregate expenditure and thereby the current account deficit.

Balance of Payments and Foreign Exchange Reserves

5.5 Table 5.1 shows the evolution of key BOP indicators during the Sixth (1980-85) and the Seventh (1985-90) Plan periods and also for the years 1989-90 and 1990-91 (quick estimates).

TABLE 5.1

Key Indicators of India's Balance of Payments

(As per cent ot GDP)

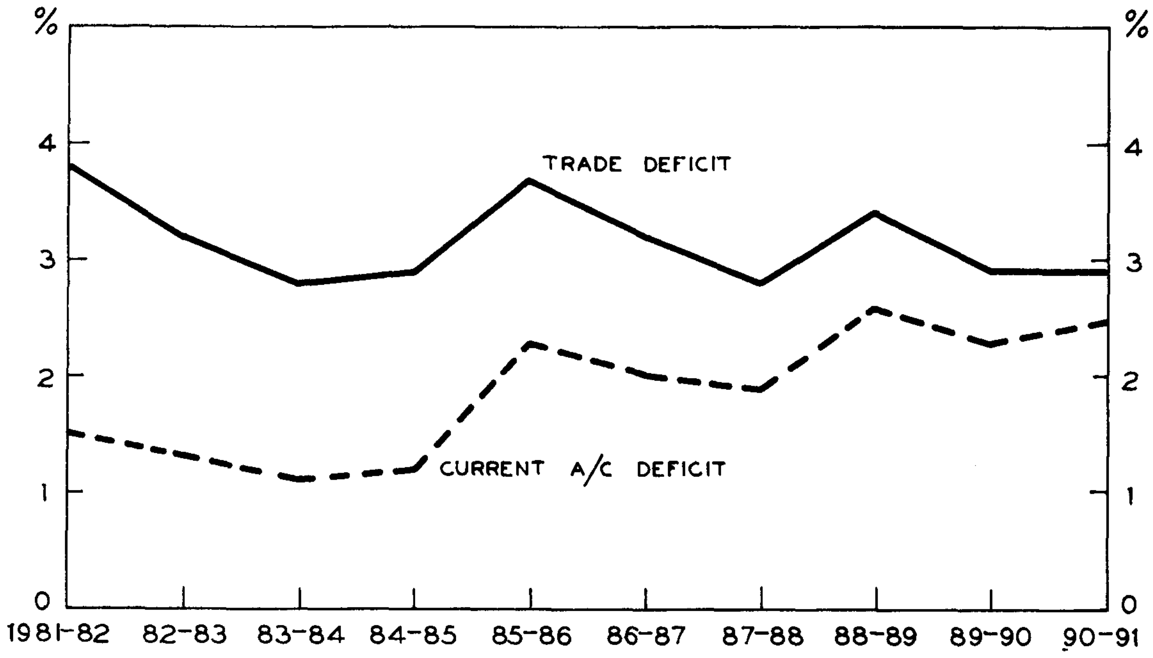
Year/Period	Exports	Imports	Net invisibles	Trade balance	Current A/c balance
Average 1980-85	5.0	8.4	2.2	—3.4	—1.3
Average 1985-90	5.1	8.2	1.0	—3.2	—2.2
1989-90	6.3	9.0	0.6	—2.8	—2.2
1990-91 (QE)	6.3	9.1	0.4	—2.9	—2.5

NOTE : *The ratios have been computed on the basis of balance of payments data as given in Appendix Table 6.2 and the CSO estimates of GDP at current market prices. Official grant receipts and US embassy expenditure in India out of PL-480 Rupee funds are taken as current account receipts in conformity with the balance of payments statistics published by the RBI.*

QE : Quick estimates

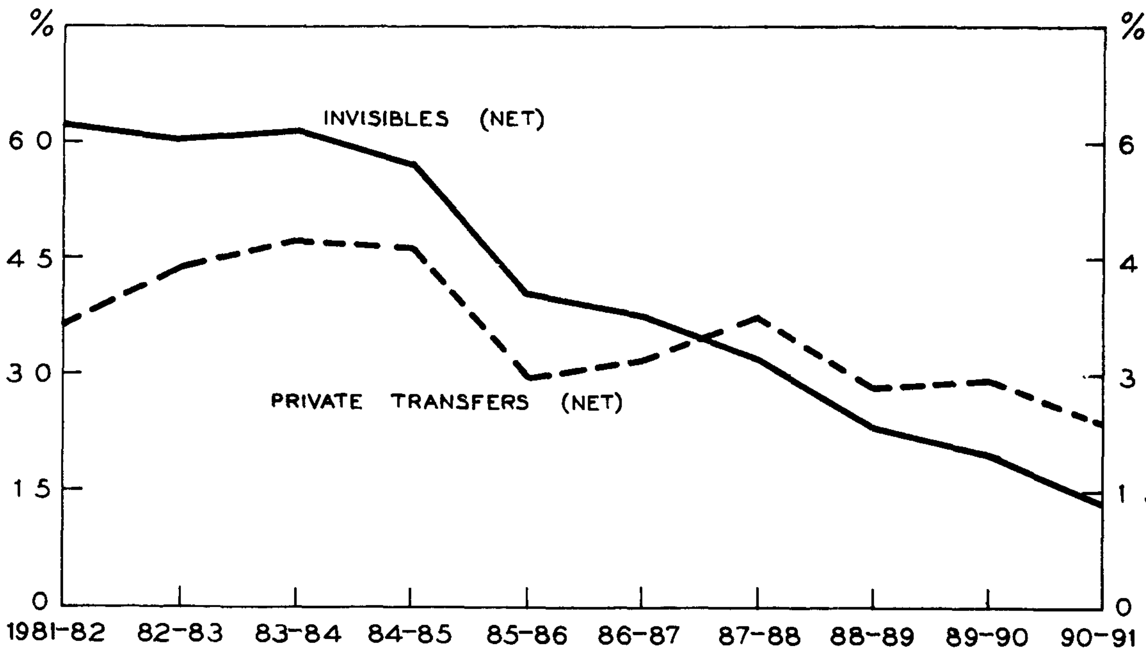
TRADE AND CURRENT A/C DEFICITS

AS PER CENT OF GDP



INVISIBLES (NET) AND PRIVATE TRANSFERS (NET)

AS PER CENT OF TRADE DEFICT



While the symptoms of the emerging BOP crisis had begun to appear during the Seventh Plan period, the problem was aggravated by global developments subsequently. In particular, the position worsened during 1990-91. The proximate causes for this deterioration were a surge in imports owing to an increase in the POL import bill and a contraction in net invisible receipts as a result of escalation in interest payments. The pressure on the external sector intensified during 1990-91 and the first quarter of 1991-92. Durnig 1990-91, while various medium-term adverse factors were still in operation, certain short-term factors got superimposed on them. Foremost was the fallout of the Gulf crisis which entailed an additional cost of Rs. 5180 crore (US $ 2887 million) on the current account alone during the year 1990-91. Secondly, the disturbed conditions in the domestic polity generated unfavourble market perceptions and expectations concerning India. This affected both the current account and capital account components of an already vulnerable BOP position and, at the same time, made the financing of the former extremely difficult.

5.6 On the current account, there was a precipitous fall in invisible receipts in the form of private remittances, travel and toursim earnings, etc. The number of foreign tourist arrivals into India declined by 8.8 per cent during 1990-91. The temporary loss of confidence resulted in virtual cessation of commercial lending by private foreign banks to India and a massive erosion in accruals under non-resident deposits (NRDs). The seriousness of the former is evident from the fact that the approvals accorded to such loans fell from Rs. 2296 crore (US $ 1379 million) in 1989-90 to Rs. 596 crore (US $ 341 million) in the first six months of 1990-91 and to a mere Rs. 28 crore (US $ 15 million) in the second half. Net inflows of NRDs fell from a level of about US $ 1306 million in 1989-90 to US $ 229 million in 1990-91. Foreign Currency Non-Resident Account (FCNRA) deposits were particularly hit. The net infows into these deposits turned negative beginning October 1990 (Table 5.2). The monthly average outflows from the FCNRA were of the order US $ 67 million during the second half of 1990-91 which accelerated to more than US $ 310 million during the first quarter of 1991-92. This average monthly rate of outflow has decelerated to US $ 91 million during July-December 1991. Inflows into NRDs had earlier financed about one-forth of the current account deficit.

TABLE 5.2

Monthly Inflows/Outflows under NR(E)RA and FCNRA

(in U.S. Dollar Million)

Month	1990-91			1991-92		
	NR(E)RA	FCNRA	Total	NR(E)RA	FCNRA	Total
1	2	3	4	5	6	7
April	—37	115	78	—18	—373	—391
May	6	70	76	—21	—228	—249
June	27	37	64	18	—330	—312
July	—27	35	8	—43	—89	—132
August	21	231	252	27	—125	—98
September	21	85	106	18*	—147	—129*
October	28	—102	—74	—19*	—146	—165*
November	—35	—22	—57	—24*	—33	—57*
December	26	—52	—26	—24*	—4	—28*
January	14	—100	—86			
February	—15	—11	—26			
March	55	—116	—61			
Total	**87**	**142**	**229**	**—85***	**—1475**	**—1560***

* Provisional.

NR(E)RA : Non-Resident (External) Rupee Accounts.

FCNRA : Foreign Currency Non-Rresident Accounts.

Note : Monthly figures shown in US $ million may not add to the total due to the exchange rate factor.

5.7 As a percentage of GDP, the current account deficit is estimated to have gone up to 2.5 per cent in 1990-91 from 2.2 per cent in 1989-90. The results of the quick estimates prepared by the RBI place the current account deficit in 1990-91 at Rs. 13088 crore (US $ 7295 million) as compared to Rs. 9824 crore (US $ 5900 million) during 1989-90. This sharp increase in the current accont deficit of Rs. 3264 crore (US $ 1395 million) during 1990-91 is made up of a larger trade deficit coupled with a smaller net invisible receipts. Trade deficit during 1990-91 on a payments basis stood at Rs. 15142 crore (US $ 8440 million), higher by Rs. 2729 crore (US $ 985 million) over the preceding year's (1989-90) level of Rs. 12413 crore (US $ 7455 million). The trade deficit on a payments basis as reported by the RBI is higher compared with the trade deficit reported by the DGCI&S based on customs valuation owing to differences in the timing, coverage and valuation of the trade data. Estimates of other net invisible receipts showed a decline to Rs. 1200 crore (US $ 669 million) from Rs. 1686 crore (US $ 1013 million) in 1989-90.

5.8 Movements in the country's foreign exchange reserves given in Table 5.3 manifest the net result of transactions in the external sector since 1980-81. Among the three components of foreign exchange reserves, the foreign currency assets of the RBI declined by Rs. 1399 crore (US$ 1132 million) in 1990-91 as against a decline of Rs. 818 crore (US $ 858 million) in 1989-90. As a result of the BOP adjustment strategy, there has been a distinct turnaround in BOP situation as reflected in the steady buildup in the foreign currency assets of the RBI. These have risen to Rs. 10958 crore (US $ 4243 million) on February 14, 1992 and were higher by Rs. 6570 crore (US $ 2007 million) over the end-March 1991 level.

TABLE 5.3

Movements in Foreign Exchange Reserves

(In Rupees Crore and U.S. Dollar Million)

Year	Foreign currency assets of RBI at the end of year		Foreign exchange reserves at the end of the year@		Movements in foreign exchange reserves		Net drawals on IMF	
1	2	3	4	5	6	7	8	9
	Rs.crore	$ million	Rs. crore	$million	Rs.crore	$million	Rs.crore	$million
1980-81	4822	5850	5544	6823	—390	—538	814*	1029*
1981-82	3355	3582	4024	4390	—1520	—2433	637	639
1982-83	4265	4281	4782	4896	758	506	1893	1958
1983-84	5498	5099	5972	5649	1190	753	1342	1298
1984-85	6817	5482	7243	5952	1271	303	63	53
1985-86	7384	5972	7820	6520	577	568	—327*	—267*
1986-87	7645	5924	8151	6574	331	54	—840*	—690*
1987-88	7287	5618	7687	6223	—464	—351	—1388*	—1123*
1988-89	6605	4226	7040	4802	—647	—1421	—1749*	—1175*
1989-90	5787	3368	6251	3962	—789	—840	—1688*	—1035*
1990-91	4388	2236	11416†	5834	5165†	1872†	—2043*	—1183*
1991-92 . . . . (up to end—Jan.)	9766	3774	19392†+	7501†+	7976†+	1667†+	2169	794

@ Includes foreign currency assets of RBI, gold holdings of RBI and SDR holdings of Government.

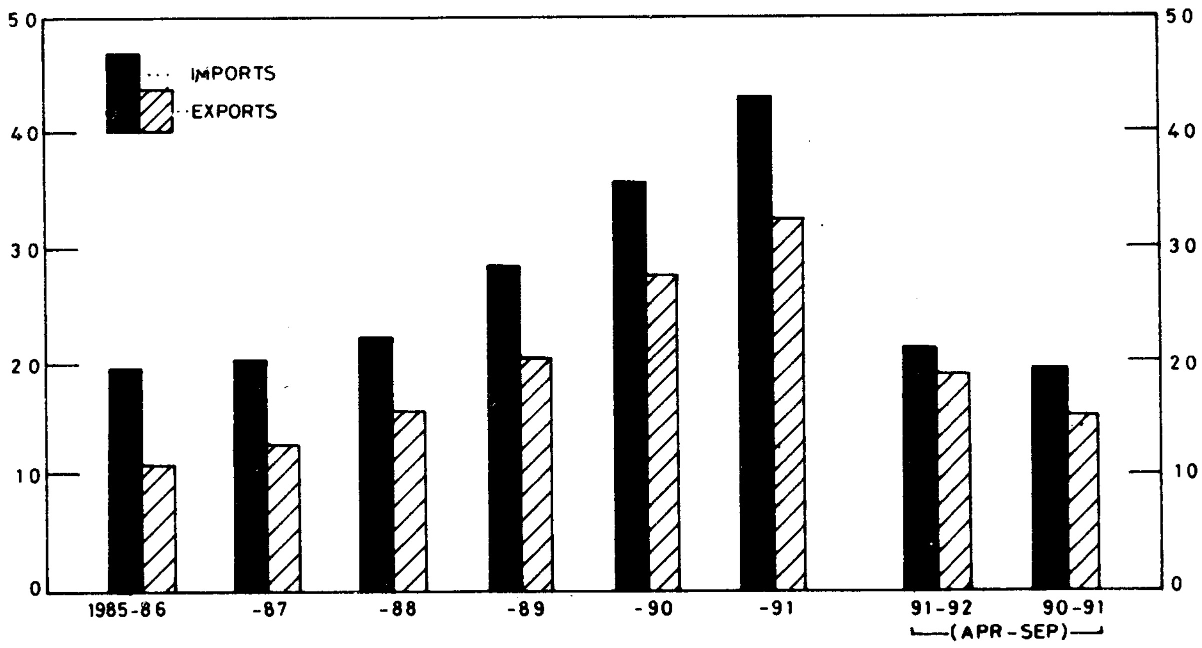
* Includes Trust Fund loan drawals and repayments.

† Effective October 17, 1990 gold is revalued close to international market price at the end of every month. For earlier periods gold is valued at official rate of Rs. 84.39 per 10 grammes.

+ Includes purchase of gold of Rs.494 crore and US $ 191 million from Government of India on December 23, 1991 and January 7, 1992.

FOREIGN TRADE

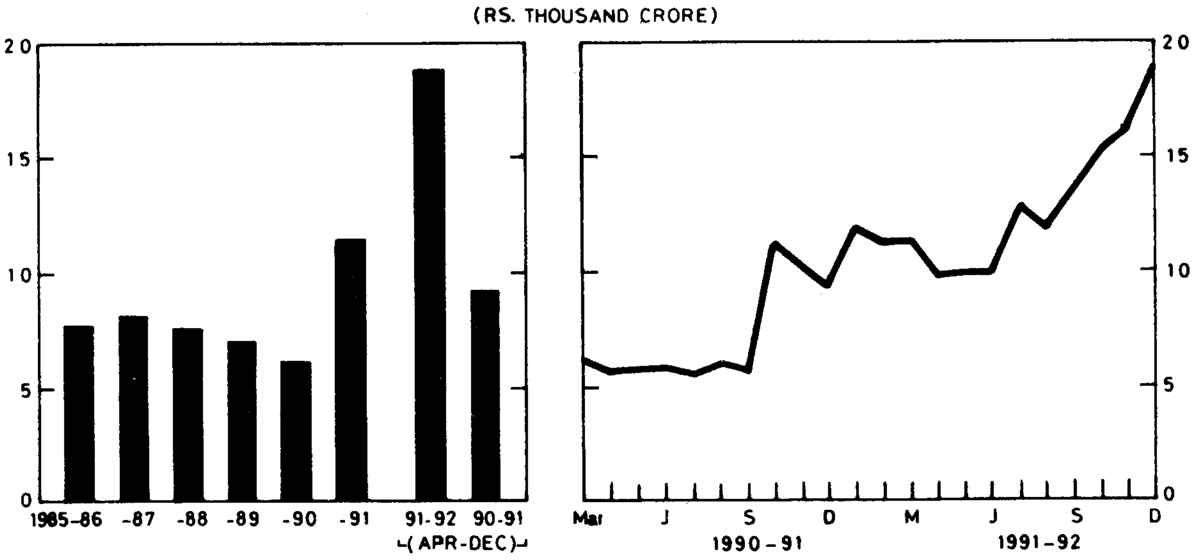
(RS. THOUSAND CRORE)



FOREIGN EXCHANGE RESERVES

(INCLUDING GOLD & SDRs)

(RS. THOUSAND CRORE)



Gold was valued at Rs. 84.39 per 10 grammes till october 16, 1990 and close to international market price thereafter.

5.9 The BOP data so far available for the current year are incomplete. However, available official data on trade and capital flows do provide an indication of the likely current account and capital account outturn of the balance of payments in 1991-92. On the whole, the current account deficit is expected to decline from 2.5 per cent of GDP in 1990-91 to less than 2 per cent in 1991-92. This reduction signifies the adjustment-cum-stabilisation measures now in place.

5.10 On the trade front, in terms of dollars, both exports and imports declined during the first six months of 1991-92 leading to a substantial reduction in trade deficit reflecting that the import compression measures introduced in the previous several months began to take effect. In US dollar terms, the imports and exports showed a decline of 17.5 per cent and 6.2 per cent, respectively. However, in view of the exchange rate adjustment effected in July 1991, imports and exports showed an increase of 9 per cent and 23.9 per cent, respectively in Rupee terms. These trends reduced trade deficit by Rs. 1878 crore (US $ 1405 million) from a level of Rs. 4234 crore (US $ 2426 million) during April-September 1990 to Rs. 2356 crore (US $ 1021 million) during April-September 1991.

5.11 The capital account, however, is expected to deteriorate during 1991-92 because of the curtailment in access to external commercial borrowings and the outflow of non-resident deposits. During April-December 1991, there was a net outflow in FCNR deposits of the order US $ 1475 million compared with a net inflow of US $ 397 million for the same period of 1990. Besides, net disbursements on account of external commercial borrowings (including export credit) were only Rs. 294 crore (US $ 128 million) during April-September 1991. There has, however, been a significant step-up in net aid disbursements (aid receipts minus repayments) from a level of Rs. 2407 crore (US $ 1363 million) during April-December 1990 to Rs. 5431 crore (US $ 2264 million) during the same period of 1991.

5.12 Despite improvement in the current account position, the adverse trends in the market-related capital inflows would necessitate exceptional financing of the order US $ 3.2 billion during 1991-92. This is expected to be largely covered by the World Bank structural adjustment loan, purchases under the stand-by arrangement with the IMF, and by additional financing from multilateral and bilateral sources.

5.13 In response to the rapidly dwindling foreign exchange reserves, the Government leased 20 tonnes out of the confiscated gold to the State Bank of India which, in turn, entered into a sale arrangement in the international market for a sum of US $ 200 million with a repurchase option. Further, the RBI, both as part of its reserve management policy and as a means of raising resources temporarily, took a decision to keep its gold abroad up to the limit permitted by the RBI Act (under Section 33(5) of the Reserve Bank of India Act, the RBI has the power to keep up to 15 per cent of its gold abroad). A total quantity of 46.9 tonnes was sent by the RBI to the vaults of the Bank of England to raise a sum of $ 405 million from the Bank of England and the Bank of Japan. These two transactions put together enabled the raising of a little over US $ 600 million and help tide over the serious liquidity crunch. With improvement in the country's reserves position, the gold pledged abroad was redeemed.

5.14 To mobilise foreign exchange resources, the State Bank of India launched India Development Bonds (IDBs) effective from October 1, 1991 with full repatriation benefits (for both interest earned and principal) to non-resident Indians/overseas corporate bodies. A sum of US $ 1378 million (US $1085 million in dollar bonds and UK £ 165 million in pound sterling bonds) was mobilised under this scheme (up to February 10, 1992). Besides, a scheme known as the 'Remittances in Foreign Exchange (Immunities) Scheme, 1991' was introduced to encourage repatriation of remittances. In respect of such remittances, their source, purpose and nature would not be subject to scrutiny under exchange control regulations and Direct Tax Laws. A sum of US $ 766 million has been mobilised up to February 10, 1992.

Exchange Rate Adjustment

5.15 The primary objective of the exchange rate adjustment is one of strengthening the viability of external payments position, i.e., to ensure that exchange rate movements maintain a reasonable incentive for export promotion and encourage efficient import substitution activities, and at the same time, to stem the flight of capital from India and discourage flow of remittances from abroad through illegal channels. In the immediate short run, exchange rate adjustment is expected to facilitate realisation of outstanding export receipts and accelerate, in general, the inflow of remittances by quelling destabilising market expectations. Downward adjustment in the exchange rate raises the relative price of traded goods (by increasing the domestic price of foreign currency) to non-traded (or home) goods, thereby encouraging production of tradeables while discouraging their consumption. This expenditure-switching effect at a macro level results in correcting the imbalances in the trade and current account.

5.16 The real effective exchange rate (REER) of a currency, which is the nominal exchange rate adjusted for the relative change in prices in the respective countries, is a proxy for a country's degree of competitiveness in world markets. Appreciation in REER reflects a deterioriation in the country's international competitiveness, while a depreciation in REER reflects the converse.

5.17 Many of India's trade competitors made substantial exchange rate adjustments over the past few years. China and Indonesia, for instance, depreciated their currencies against the US dollar more than India did despite their lower inflation. Over the period end-December 1980 to end-December 1989, China depreciated by 68 per cent and Indonesia by 65 per cent while India depreciated by only 53 per cent against US dollar, whereas the increase in consumer prices in China and Indonesia were lower at 100 per cent and 111 per cent, respectively, against India's 114 per cent over the same period.

5.18 Between October 1990 and March 1991 the REER of the Rupee appreciated by about 2 per cent as a result of a much slower rate of depreciation in the nominal exchange rate (2.4 per cent against the major five currencies over the same period) and the widening inflation differentials as the country's domestic inflation accelerated after October 1990. Further, in the five month period between February 1991 and June 1991, the nominal effective exchange rate of Rupee decreased only by 2.5 per cent while the inflation differentials continued to widen. All this resulted in an erosion of India's international competitiveness.

5.19 To restore the competitiveness of our exports and to bring about a reduction in trade and current account deficits, a downward adjustment of the Rupee had become inevitable. The Reserve Bank of India effected the exchange rate adjustment in two steps in early July 1991. The timing of the exchange rate adjustment was necessitated by the need to nullify adverse expectations and restore international confidence. On the other hand, the magnitude of the adjustment was predicated on the need to restore competitiveness of the country vis-a-vis her competitors in trade. On July 1, 1991 the value of the Rupee declined by 8 to 9 per cent against the major currencies (the pound sterling, the US dollar, the deutsche mark, the yen and the French franc). On July 3, 1991, the value of the Rupee was further lowered by 10 to 11 per cent against the major currencies.

5.20 In determining the extent of adjustment, the relevant factors were : differentials in the price levels between India and her major trading partners; the extent of real depreciation of the currencies of competitors; the degree of correction required in our balance of payments; and market expectations. Taking all these factors into account the magnitude of downward adjustment in the external value of the Rupee by about 18 per cent was appropriate.

5.21 A basic requirement for the success of this policy is that relative price change should bring forth requisite change in production and consumption patterns. Exchange rate depreciation could lead to an improvement of the current account only if export volumes rise and/or import volumes fall sufficiently to outweigh the price effect. Besides, lags in such response to exchange rate changes are also to be reckoned with. There is the well known "J Curve" effect of the improvement in balance of trade occuring after an initial deterioration. However, following the stringent monetary restrictions on imports, the expected deterioration of trade deficit did not happen. The trade deficit during the first six months of the current financial year contracted significantly.

Merchandise Trade

5.22 Overall trends in merchandise trade, on customs basis, during the recent years, both in Rupee and dollar terms, are given in Table 5.4.

This performance is marked by a high trade deficit, about $ 5.4 billion per annum during the last five years. The capacity of exports to finance imports (export/import ratio) declined in 1990-91 to about 75 per cent from around 78 per cent in the previous year, in the face of a fall in the growth of exports and sizeable growth in imports. However, during the first half of the current financial year, the trade deficit has been curtailed by nearly sixty per cent (in dollar terms) due to a sharp reduction in imports.

Imports

5.23 The high rate of growth in imports witnessed during the previous three years continued in 1990-91 when imports increased by 13.2 per cent in dollar terms or 22 per cent in Rupee terms. The acceleration in 1990-91 was mainly attributable to higher oil imports as POL imports in dollar terms increased by 60 per cent as a result of both a hike in world oil prices following the Gulf crisis as well as increased volume of oil imports as domestic production was impaired by supply difficulties. Non-oil imports during the year rose by only 3.1 per cent (in dollar terms). The compression of non oil imports resulted from a series of measures taken by the Government and the RBI in view of acute scarcity of foreign exchange reserves.

TABLE 5.4

Trends in Foreign Trade

Year	Imports	Exports	Trade balance	Changes in imports	Changes in exports	Trade balance as % of exports
	Rupees hundred crore			*Per cent*		
1986-87	201.0	124.5	—76.4	2.2	14.3	61.4
1987-88	222.4	156.7	—65.7	10.7	25.9	41.9
1988-89	282.4	202.3	—80.0	26.9	29.1	39.6
1989-90	354.2	276.8	—77.3	25.4	36.8	27.9
1990-91	431.9	325.5	—106.4	22.0	17.6	32.7
1991-92*	210.7	187.1	—23.6	9.0	23.9	12.6
	Billion US Dollars			*Per cent*		
1986-87	15.7	9.7	—6.0	—2.1	9.4	
1987-88	17.2	12.1	—5.1	9.1	24.0	
1988-89	19.5	14.0	—5.5	13.6	15.6	
1989-90	21.3	16.6	—4.6	9.1	19.0	
1990-91	24.1	18.1	—5.9	13.2	9.1	
1991-92*	9.1	8.1	—1.0	—17.5	—6.2	

Data for 1989-90 & April-September, 1991-92 are provisional.

* April-September, 1991-92

Source : DGCI&S for trade data and RBI for exchange rate.

5.24 During the first half of 1991-92, import curbs were extended and intensified in the wake of a precarious balance of payments situation. The structural changes in trade policy announced during the year also aimed at optimal import compression by linking imports to exports (through the mechanism of Eximscrips), thereby encouraging efficiency in the use of imported inputs. Thus, imports during April-September, 1991 declined sharply by 17.5 per cent in dollar terms, contributed by a 22.7 per cent fall in non-POL imports.

5.25 Table 5.5 shows imports by major categories and commodities for 1990-91 and April-September 1991-92 along with growth rates for 1990-91 and the first half of 1991-92. The share in total of bulk imports, which largely consist of consumption goods as well as raw materials and some key universal intermediates, increased from 41.6 per cent in 1989-90 to 46.3 per cent in 1990-91 and stood at 45.1 per cent during April—September, 1991-92. Non-bulk imports constituted slightly more than half of total imports in 1989-90, 47.1 per cent in 1990-91 and 48.4 per cent during April—September, 1991. The acceleration in bulk imports was contributed, besides POL, by higher imports of pulses, edible oils, coal, ores and metal scrap and paper & paperboard. The deceleration in growth of non-bulk imports in 1990-91 was largely on account of a fall in the import of gems and jewellery, which is export-related, and a deceleration in the growth of imports of professional instruments and plastic material & artificial resins.

TABLE 5.5

Imports by major commodity groups

Item	1990-91	1991-92 April-Sept(P)	1990-91	1991-92 April-Sept(P)	Per cent change (Rs. terms)		Per cent change ($ terms)	
					1990-91 / 1989-90	April-Sept.91 / April-Sept. 90	1990-91 / 1989-90	April-Sept.91 / April-Sept.90
	(Rs hundred crore)		(Billion US Dollars)					
1	2	3	4	5	6	7	8	9
I. *Bulk imports*	**200.2**	**94.9**	**11.1**	**4.1**	**35.9**	**15.0**	**26.1**	**—13.0**
(a) *Essential imports*	**141.9**	**70.1**	7.9	3.0	**43.5**	**22.2**	**33.1**	**—7.5**
1. POL	108.2	53.8	6.0	2.3	72.4	35.4	60.0	2.4
2. Cereals etc.	1.8	0.7	0.1	0.0	—51.8	—20.1	—55.3	—39.6
3. Edible oils	3.3	0.6	0.2	0.0	54.5	—66.4	43.4	—74.6
4. Fertilisers	17.7	11.6	1.0	0.5	—0.6	19.8	—7.8	—9.3
5. Non-ferrous metals	11.0	3.4	0.6	0.1	—12.1	—35.7	—18.4	—51.3
(b) *Other bulk imports*	**58.3**	**24.8**	**3.2**	**1.1**	**20.4**	**—1.4**	**11.7**	**—25.4**
6. Pulses	4.8	1.4	0.3	0.1	111.2	—38.5	95.9	—53.4
7. Coal	7.9	4.2	0.4	0.2	40.5	23.8	30.3	—6.3
8. Iron and steel	21.1	10.9	1.2	0.5	—8.3	19.3	—14.9	—9.8
9. Paper, board & pulp	9.1	4.1	0.5	0.2	38.1	—4.2	28.2	—27.6
10. Ores & metal scrap	15.3	4.2	0.8	0.2	41.0	—31.0	30.8	—47.8
II. *Non-bulk imports*	**203.5**	**102.0**	**11.3**	**4.4**	**11.1**	**7.6**	**3.1**	**—18.6**
(a) *Capital goods*	**104.7**	**48.7**	**5.8**	**2.1**	**18.5**	**9.5**	**10.0**	**—17.2**
(b) *Mainly export-related imports*	**66.0**	**38.7**	**3.7**	**1.7**	**—2.9**	**12.7**	**—9.9**	**—14.8**
(1) Pearls and precious stones.	37.4	21.7	2.1	0.9	—11.9	28.7	—18.2	—2.6
(2) Chemicals	22.9	14.4	1.3	0.6	7.2	0.4	—0.5	—24.1
(3) Textile yarn, fabrics, etc.	4.4	1.8	0.2	0.1	26.8	—21.3	17.6	—40.5
(4) Cashewnuts	1.3	0.8	0.1	0.0	74.8	—6.0	62.2	—28.9
(c) *Other non-bulk items*	**32.8**	**14.7**	**1.8**	**0.6**	**22.0**	**—8.5**	**13.2**	**—30.8**
(1) Professional instruments etc.	10.6	4.6	0.6	0.2	19.6	—19.6	11.0	—39.2
(2) Chemicals	9.2	2.5	0.5	0.1	44.4	—34.9	34.0	—50.8
(3) Plastics & resins	10.9	6.6	0.6	0.3	9.9	26.3	2.0	—4.4
(4) Non metallic minerals	2.0	1.0	0.1	0.0	20.8	—20.2	12.1	—39.6
III. *Unclassified*	**28.3**	**13.7**	**1.6**	**0.6**	**19.7**	**—14.1**	**11.1**	**—35.0**
IV. Total	**431.9**	**210.7**	**24.1**	**9.1**	**22.0**	**9.0**	**13.2**	**—17.5**

(P)—Provisional.

NOTES : 1. Item I (a) 4 includes fertiliser crude, manufactured & fertiliser material.

2. Item II (b) 2 includes organic and inorganic chemicals.

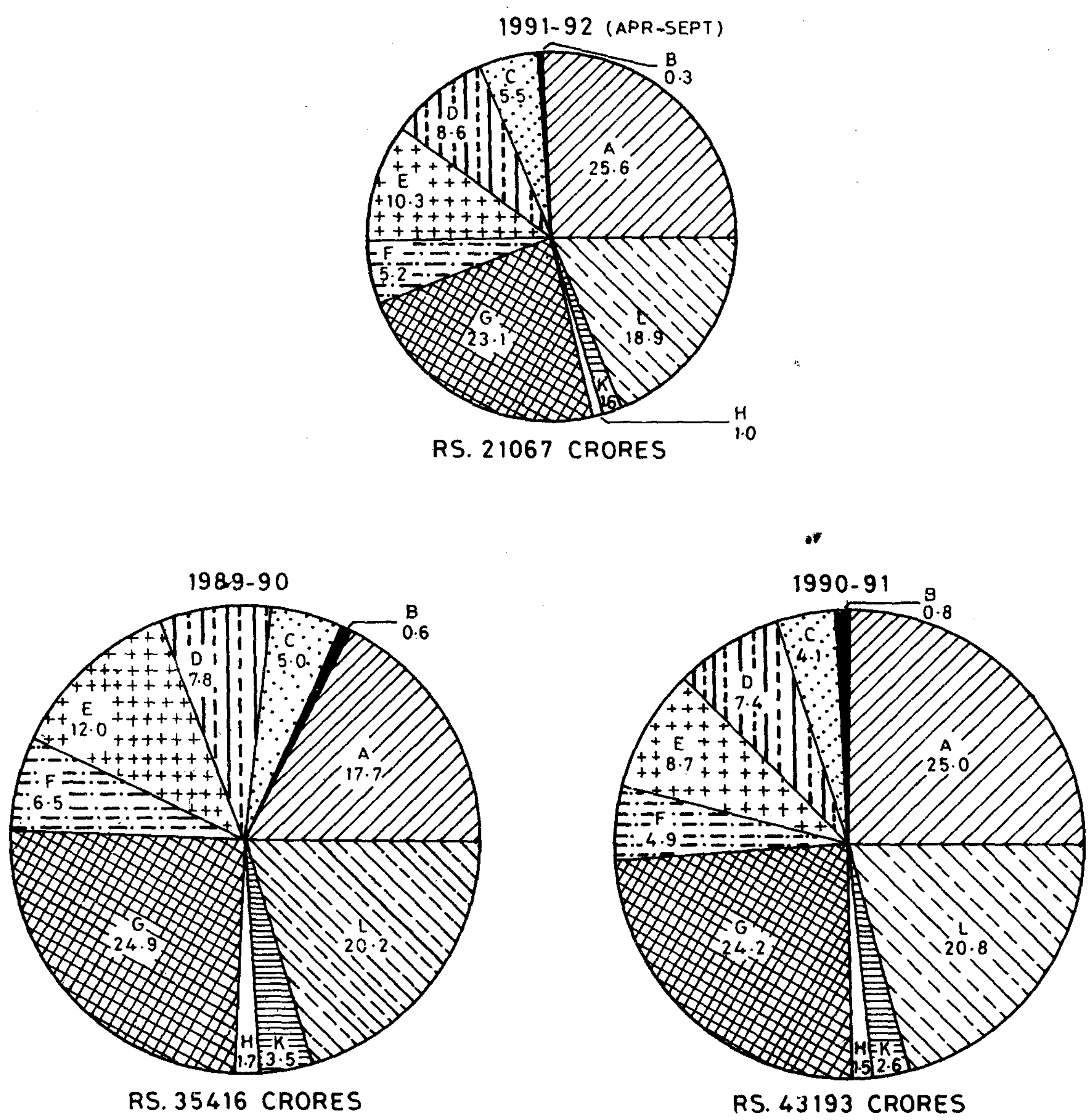
3. Item II (c) 2 relates to materials and products including pharmaceutical & dyeing & colouring material.

4. A zero in column 5 indicates a negligible amount.

COMPOSITION OF INDIA'S IMPORTS

(PER CENT)

A - PETROLEUM OIL AND LUBRICANTS
B - EDIBLE OILS
C - FERTILISERS AND FERTILISER MATERIALS
D - CHEMICALS
E - PEARLS AND PRECIOUS STONES
F - IRON AND STEEL
G - CAPITAL GOODS
H - CEREALS AND PULSES
K - NON FERROUS METALS
L - OTHERS



5.26 During April—September, 1991-92 imports declined across the board in dollar terms, excepting POL, the fall being substantial in imports of capital goods, chemicals, non-metallic minerals, ores and metal scrap, non-ferrous metals and edible oils. Imports of export-related items, in dollar terms, declined by around 10 per cent in 1990-91 and about 15 per cent during April—September, 1991.

Import Compression Measures

5.27 In view of the precarious foreign exchange reserves position, the Government sought to achieve import compression by fiscal and monetary means rather than by means of physical controls, although the latter were also resorted to during 1990-91 and the first quarter of 1991-92. To this end, the RBI continued and further tightened restrictions on import financing introduced in the second half of 1990-91. In May, 1991 the RBI imposed a 25 per cent interest rate surcharge on bank credit for imports subject to a commercial rate of interest of a minimum of 17 per cent, to discourage the use of bank credit to finance imports. The fiscal measures adopted to contain imports included an increase in the issue price of fertilizers and selective reduction in subsidies, an increase in the price of petroleum products and a continuance of the Gulf surcharge.

5.28 The new trade policy also aimed at optimal import compression by increasing the size of Eximscrips and simultaneously shifting various categories of imports out of the realm of licensing requiring the release of free foreign exchange into the expanded Eximscrip market. Such a shifting of a large part of unsatisfied import demand to the Eximscrips market permitted the creation of a self-balancing mechanism whereby imports would automatically adjust to availability of foreign exchange through an increase in the Eximscrips premium, which in turn would provide an incentive to exporters.

5.29 An important direct import compression measure introduced in October, 1990 was the requirement of a cash margin of 50 per cent on payments for most imports other than capital goods. In March-April, 1991 these cash margins for imports other than capital goods were increased substantially, first to 133 ⅓ per cent and then to 200 per cent (for all OGL imports) and 150 per cent for imports under specified licenses. Even in the case of 100 per cent EOUs, advance licenses, etc., a cash margin of 50 per cent was imposed. However, with the improvement in the reserve position, these cash margins were relaxed to 150 per cent in October, 1991, to 50 per cent in December, 1991 and then to 25 per cent in January, 1992.

5.30 Restrictions were also placed in March, 1991 on sale of foreign exchange for import of capital goods, which were allowed initially only under foreign lines of credit available with financial institutions. Subsequently, in November, 1991 relaxations were made permitting such imports up to a limited extent against suppliers credit. Import of capital goods up to a value of Rs. 50 lakhs was also permitted against free foreign exchange, and up to a value of Rs. 100 lakhs if the importer could arrange, suppliers credit for 360 days. Import of capital goods would also be allowed (i) against a matching inflow of foreign equity, (ii) against release of free foreign exchange upto 15% of the cost of import up to a limit of Rs. 100 lakhs where 85% of the cost is financed by external commercial borrowings, (iii) for export-oriented entities against borrowings for a minimum period of two years provided the borrowings are liquidated out of the net foreign exchange earnings of the borrowing unit.

5.31 In March, 1991 the Government introduced a system of prior centralised approval by RBI for opening letters of credit and remittances against imports not under letters of credit where the amount involved was Rs. 25 lakhs and above. This arrangement was further tightened in April, 1991 by the regulation that whenever the cumulative value of letters of credit and remittances taken together exceeded Rs. 2 crores for a single importer, all further letters/remittances would have to be specifically cleared by the RBI. These prior clearance requirements on the cumulative value of imports were eliminated in August, 1991. In December, 1991 the requirement of centralised clearance in those cases where the prescribed cash margins were to be maintained (imports other than capital goods) was waived.

Exports

5.32 There was a major slowdown in export growth during 1990-91 signalling a reversal of the buoyancy witnessed in earlier years. During 1986-87 to 1989-90, exports grew at 17.0 per cent per annum in dollar terms or 26.5 per cent in Rupee terms. In contrast, export growth in 1990-91 was modest at 9.1 per cent in dollar terms or 17.6 per cent in Rupee terms. This deceleration in exports was caused by a number of factors, such as, (i) a slowdown in the expansion of world trade (volume of world trade decelerated from 7.3 per cent in 1989 to 4.2 per cent in 1990 and further to 0.9 per cent in 1991) and recessionary conditions in some major industrial economies; (ii) loss of export markets in the Middle East due to the Gulf crisis; (iii) political and economic upheavals in Eastern Europe, which earlier provided a sheltered market to Indian exports; (iv) import curbs introduced during 1990-91 in response to the foreign exchange shortage and intensified after the Gulf crisis, affecting export-related imports; (v) movement in the exchange rate which was broadly supportive of exports since 1986-87 becoming adverse thus affecting competitiveness of exports; and (vi) internal law-and-order problems in some states.

TABLE 5.6

Exports by major commodity groups

Commodity	1990-91	1991-92 April—Sept(P)	1990-91	1991-92 April—Sept(P)	Per cent change (Rs terms)		Per cent change ($ terms)	
	(Rs hundred crore)		(Billion US Dollars)		1990-91/ 1989-90	April-Sept.91/ April-Sept. 90	1990-91/ 1989-90	April-Sept.91/ April-Sept.90
1	2	3	4	5	6	7	8	9
I. *Agriculture and allied products*	**63.2**	36.7	**3.5**	**1.6**	**29.5**	**18.8**	**20.1**	**—10.1**
1. Cashew kernels	4.5	3.5	0.2	0.2	21.6	46.9	12.8	11.1
2. Coffee	2.5	1.3	0.1	0.1	—27.3	2.8	—32.6	—22.2
3. Marine products	9.6	6.0	0.5	0.3	39.7	54.8	29.6	17.1
4. Oil meals	6.1	3.5	0.3	0.1	—0.3	19.5	—7.5	—9.6
5. Raw cotton	8.5	2.9	0.5	0.1	558.9	—45.2	511.4	—58.6
6. Rice	4.6	2.5	0.3	0.1	8.2	23.6	0.4	—6.5
7. Spices	2.3	1.7	0.1	0.1	—15.5	42.7	—21.6	8.0
8. Sugai	0.4	0.6	0.0	0.0	15.6	140.3	7.2	81.8
9. Tea & mate	10.7	4.8	0.6	0.2	16.7	—10.2	8.3	—32.1
10. Tobacco	2.6	2.4	0.1	0.1	50.5	77.4	39.6	34.2
II. *Ores and minerals*	**15.0**	**8.8**	**0.8**	**0.4**	**9.8**	**47.6**	**1.9**	**11.7**
11. Iron ore	10.5	5.9	0.6	0.3	13.1	50.4	5.0	13.8
III. *Manufactured goods*	**237.4**	**137.4**	**13.2**	**6.0**	**14.9**	**25.3**	**6.6**	**—5.2**
12. Engineering goods	38.8	21.3	2.2	0.9	17.9	18.2	9.4	—10.6
13. Chemicals	25.4	16.0	1.4	0.7	18.7	38.7	10.1	5.0
14. Textiles	21.0	14.2	1.2	0.6	39.3	58.9	29.3	20.2
15. Jute manufactures	3.0	1.4	0.2	0.1	0.7	—12.8	—6.6	—34.0
16. Leather & mfrs.	25.7	13.6	1.4	0.6	31.6	15.6	22.1	—12.5
17. Readymade garments	40.1	21.5	2.2	0.9	24.3	20.0	15.4	—9.2
18. Handicrafts	61.7	38.1	3.4	1.7	—0.0	32.7	—7.2	0.4
Of which :								
Gems and jewellery	52.5	31.6	2.9	1.4	—0.9	28.5	—8.1	—2.8
IV. *Mineral fuels and lubricant*	9.5	3.9	**0.5**	**0.2**	**28.2**	**—1.1**	**18.9**	**—25.2**
19. POL	9.4	3.7	0.5	0.2	34.6	—6.0	24.9	—28.9
V. *Others*	**0.6**	**0.3**	**0.0**	**0.0**	**37.3**	**—44.3**	**27.4**	**—57.9**
Total	**325.5**	187.1	**18.1**	**8.1**	**17.7**	**23.9**	**9.8**	**—6.2**

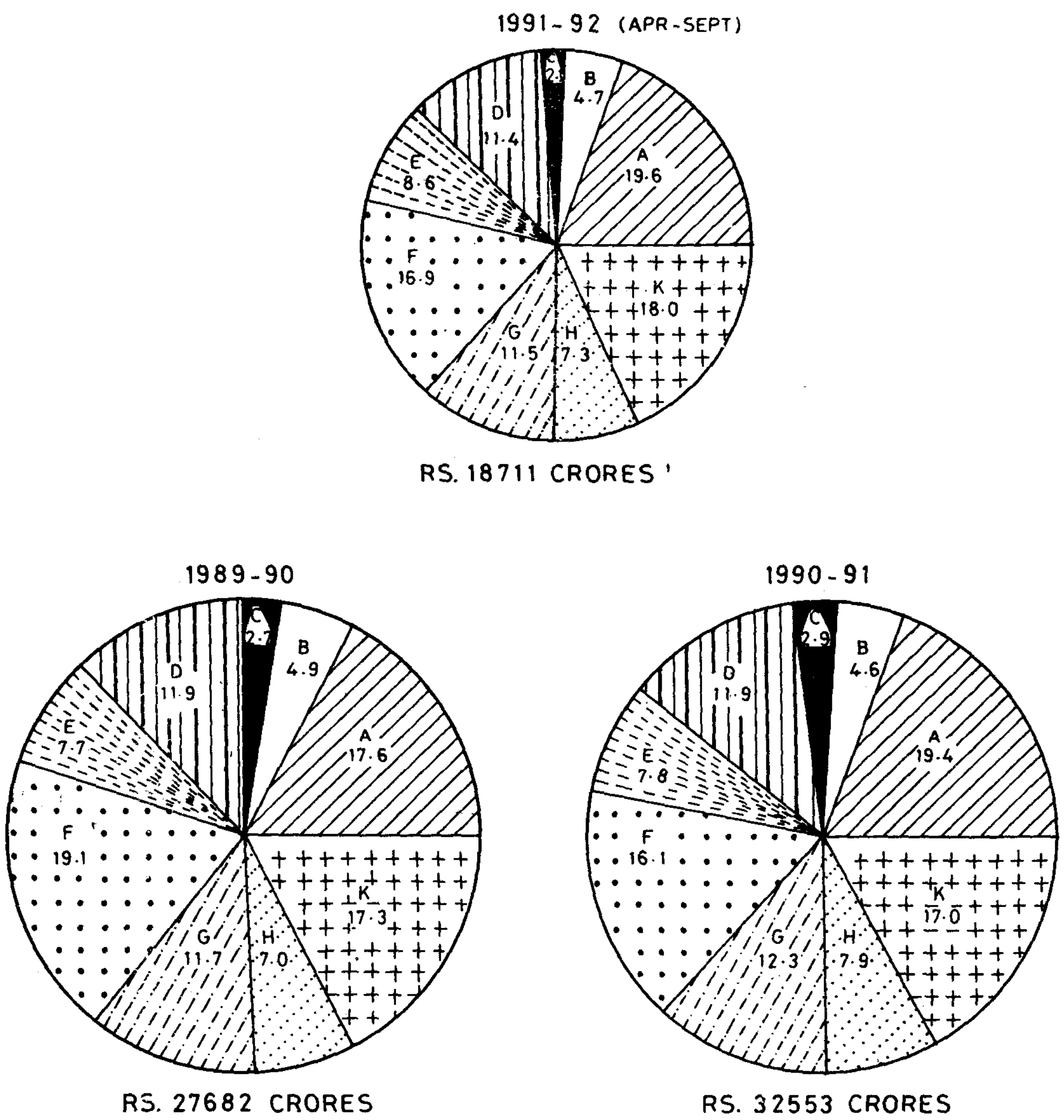
(P)—Provisional.

NOTES : 1. Item 12 includes Machinery, Transport equipment, metal manufactures (including iron and steel), electronic goods and computer software.
2. Group IV includes coal.
3. The group totals pertaining to I, II, III, IV & V are provisional tentative estimates bassed on preliminary details.
4. Item 13 excludes rubber, glass, paints and other products.
5. Item 14 includes cotton yarn, fabrics, made up etc.
6. Item 18 includes handicrafts, carpets (handmade) & gems and jewellery.
7. Group totals may not add up to the total due to errors and omissions.
8. Others include errors and omissions.
9. A zero in column 5 indicates a negligible amount.

COMPOSITION OF INDIA'S EXPORTS

(PER CENT)

A — AGRICULTURE AND ALLIED PRODUCTS *
B — ORES AND MINERALS
C — MINERAL FUEL AND LUBRICANTS
D — ENGINEERING GOODS **
E — CHEMICALS
F — GEMS AND JEWELLERY
G — READYMADE GARMENTS
H — LEATHER AND LEATHER MANUFACTURES
K — OTHERS



* INCLUDE COFFEE, TEA, OILCAKES, TOBACCO, CASHEWNUTS, SPICES, SUGAR, RAW COTTON, RICE AND MARINE PRODUCTS.

** INCLUDE MACHINERY, TRANSPORT EQUIPMENT, METAL MANUFACTURES (INCLUDING IRON & STEEL), ELECTRONIC GOODS AND COMPUTER SOFTWARE.

5.33 Export data for major commodities for the years 1990-91 and April—September, 1991-92, together with growth rates for 1990-91 and the first half of 1991-92 are given in Table 5.6. They reveal that while export growth of agricultural commodities remained buoyant in 1990-91, that of manufactured goods decelerated. Consequently, the share of agricultural product exports in total exports increased from 17.6 per cent in 1989-90 to 19.4 per cent in 1990-91 while the share of manufactured goods slipped from 74.6 to 72.9 per cent during the same period. Nevertheless, the unit value realisation of many primary exports like coffee, rice, spices, oilcakes, sugar and raw cotton (which together account for roughly 40 per cent of total agricultural exports) recorded a decline during 1990-91. Much of the drop in the export performance of manufactured goods is attributable to a decline in actual levels or a deceleration in the export growth of gems and jewellery, engineering goods, readymade garments and chemical & allied products which had been performing strongly during the last few years.

5.34 During 1991-92 (April-September), export performance has been quite disappointing with exports declining by 6.2 per cent in dollar terms (although in Rupee terms these increased by 23.9 per cent). Exports were adversely affected partly by the severe import curbs and the tight monetary policy impacting on export credit and import of raw material and components. The growth in industrial production could not be sustained once the accumulated inventories were drawn down resulting in a decline in industrial production during the first six months of the current financial year. Another reason for the poor performance of exports in the first half of 1991-92 was a perceptible fall in exports to the Rupee Payment Area (RPA), as shown below. However, exports to General Currency Area went up by 5.4 per cent.

TABLE 5.7

Exports to GCA ana RPA Areas

YEAR	GCA	RPA	Total	Changes GCA	Changes RPA	Total
	Rupees hundred Crore				*per cent*	
1988-89	170.7	31.6	202.3	..	..	29.1
1989-90	225.1	51.7	276.8	31.9	63.8	36.8
1990-91	268.8	56.7	325.5	19.4	9.7	17.6
1991-92*	169.0	18.1	187.1	39.4	—39.0	23.9
	Billion US Dollars				*per cent*	
1988-89	11.8	2.2	14.0	..	..	15.6
1989-90	13.5	3.1	16.6	14.7	42.7	19.0
1990-91	15.0	3.1	18.1	10.8	1.6	9.1
1991-92*	7.3	0.8	8.1	5.4	—53.8	—6.2

Data for 1989-90 & April-September, 1991-92 are provisional

* April-September, 1991-92

Export Promotion Measures

5.35 Given the tight foreign exchange reserve position, the Government accorded the highest priority to lifting those import restrictions which affected exporters i.e. on export-related imports. The RBI exempted or relaxed the minimum cash margin requirements for imports of various export-related goods. Requirement of cash margins for imports (other than capital goods) against Eximscrips, issued after the realisation of export proceeds, was exempted and centralised clearance by RBI for imports against Eximscrips was also waived. Prior approval requirements were also relaxed in some cases in order to promote exports. The minimum ceiling of Rs. 3 crore in reckoning the permissible tolerance level for arriving at export outstanding to decide waiver/requirement of cash margins was also dispensed with in

December, 1991. It is the Government's policy to further relax restrictions on export-related imports with the progressive strengthening of foreign exchange reserves position. Ministry of Commerce has also identified about 30 items for 'extreme focus' for stepping up their exports substantially in the medium and the long run. Besides, the structural trade policy reforms carried out by the Government, inter alia, aimed at promoting exports.

5.36 The Union Budget for 1991-92 also contained certain export promotion measures. The tax concession under section 80 HHC of income tax act was extended to exports of software and processed minerals; expanded coverage of specified machinery items was permitted under concessional duty for marine products industry; to promote leather exports, customs duty was reduced on certain raw materials and the coverage of concessional duty available to specified capital goods of leather industry was expanded; import duty on zirconium oxide and yttrium oxide was reduced to encourage indigenous manufacture of cubic zirconium and jewellery exports therefrom; and larger coverage of drug intermediates & bulk drugs was made eligible for a concessional rate of import duty.

Export Credit

5.37 In view of the paramount need of timely and adequate credit to increase exports, the RBI credit policy for the second half of 1991-92 effected a change in the export credit refinance formula. To provide an added incentive to banks for extending export credit, banks would be provided export credit refinance to the extent of 60 per cent of the increase in outstanding export credit over the monthly average level of 1988-89 up to the monthly average level of 1989-90 plus 125 per cent of the increase over the monthly average level of outstanding export credit in 1989-90. The modified two-tier formula was to be implemented in two stages. The second tier of refinance was to be raised from 100 per cent to 110 per cent effective November 2, 1991 and from 110 per cent to 125 per cent from December 28, 1991.

5.38 Further, interest rates on pre-shipment and post-shipment export credit were also increased. Interest rates on pre-shipment credit were increased from 12.5 per cent per annum to 15 per cent per annum for credit upto 180 days and from 14.5 per cent per annum to 17 per cent per annum for credits beyond 180 days and upto 270 days. Similarly, interest rates on post-shipment credit were increased to 15 per cent (from 12.5 per cent) for credit up to 90 days, 20 per cent (from 18 per cent earlier) for credit beyond 90 days and upto six months and 15 per cent (from 12.5 per cent) for deferred credit for the period beyond 180 days. There was no change in the interest rate of 25 per cent for post-shipment credit beyond six months from the date of shipment. The increase in export credit interest rates together with the liberalisation of the export refinance formula are expected to facilitate a significant and enduring increase in flow of credit to the export sector. A pre-shipment export credit scheme denominated in foreign currency was introduced by EXIM bank to enable exporters access to imports of raw materials/components. To enable the exporters to avail of post-shipment credit denominated in foreign currency and pay interest at rates applicable to foreign currency concerned, a new scheme of "Post-shipment Export Credit Denominated in Foreign Currency" was introduced with effect from January 1, 1992.

Direction of Trade

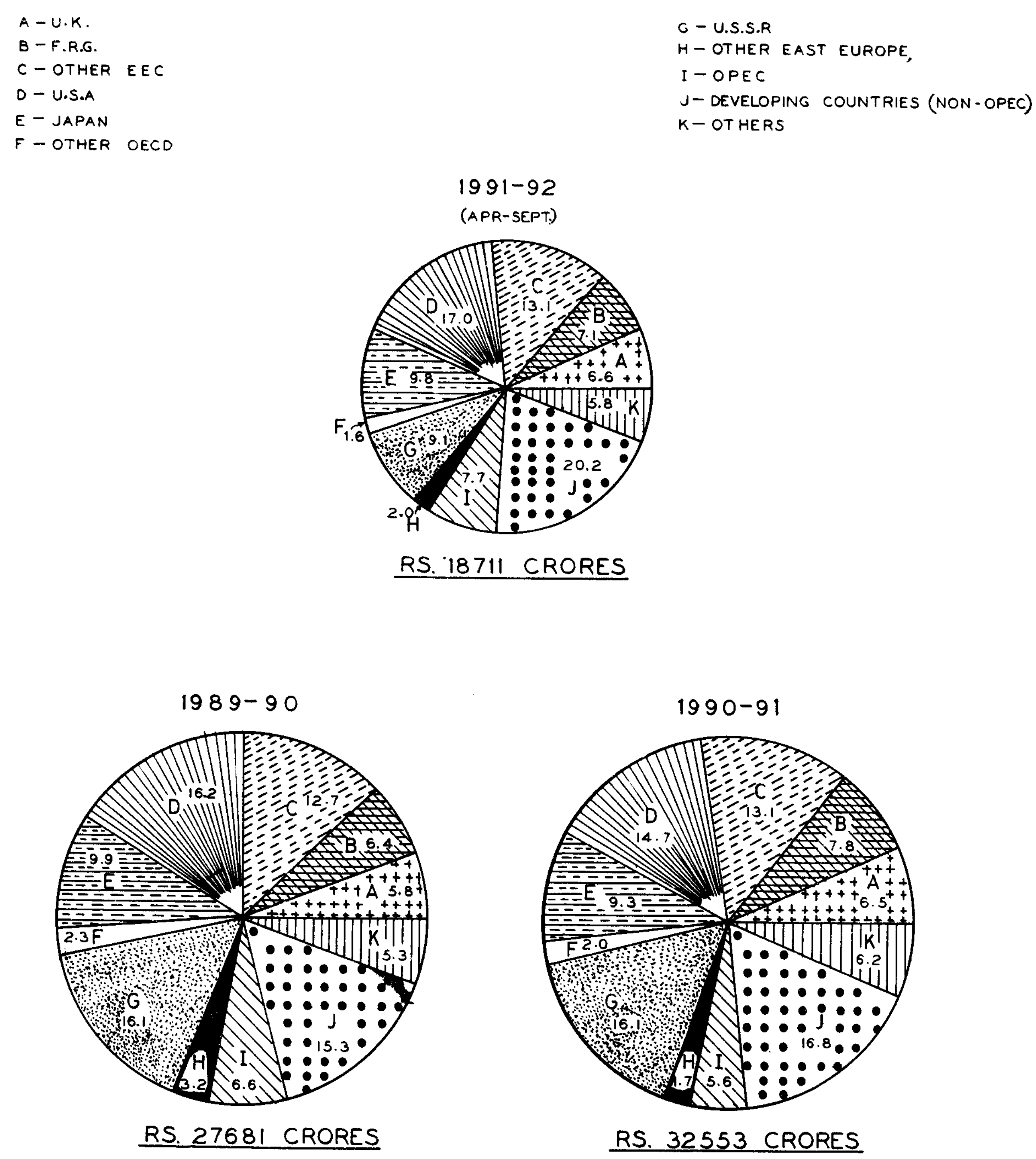
5.39 The direction of India's foreign trade for the years 1989-90, 1990-91 and the first half of 1991-92 is depicted in charts on the following pages. Currently, slightly more than half of the exports are accounted for by OECD, a little less than a fifth by Eastern Europe, about a sixth by non-OPEC developing countries and around a twentieth by OPEC countries. As regards sources of imports, slightly more than half are from OECD, about a fifth from the developing countries (non-OPEC), around a sixth from OPEC and around a twelfth are from Eastern Europe. During the current financial year (April—September, 1991-92), the share of USSR in total exports declined from 16.1 per cent in 1990-91 to 9.1 per cent. Agreements with the independent Republics of the former USSR are urgently required to be effected for protecting these markets.

New Trade Policy

5.40 The reversal of trends in export growth during 1990-91 and the current year required a massive export thrust. In contrast, the earlier economic policy environment had a constraining effect in this regard. High tariff walls and strict import licensing had produced a domestic cost structure which was out of line with the world prices. The high cost structure and the various limitations on entrepreneurial decision-making, introduced by many of the policies, had resulted in the industry becoming uncompetitive in the international market making it extremely difficult to export without extensive subsidies and other special incentives.

DESTINATION OF INDIA'S EXPORTS

(PER CENT)



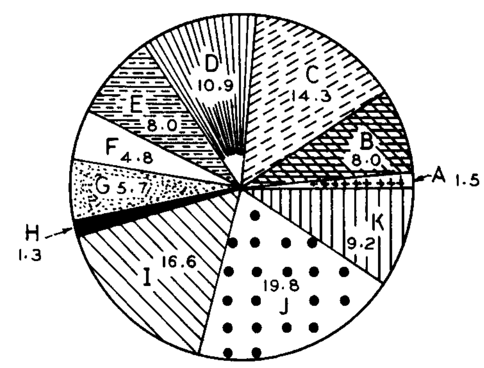
SOURCES OF INDIA'S IMPORTS

(PER CENT)

A — U.K.
B — F.R.G.
C — OTHER EEC
D — U.S.A.
E — JAPAN
F — OTHER OECD

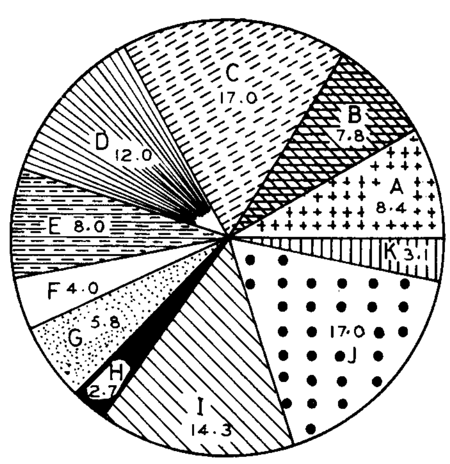
G — U.S.S.R.
H — OTHER EAST EUROPE
I — OPEC
J — DEVELOPING COUNTRIES (NON OPEC)
K — OTHERS

1991-92
(APR-SEPT.)



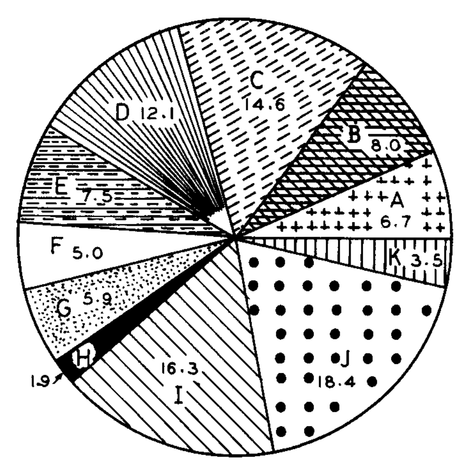
RS. 21067 CRORES

1989-90



RS. 35416 CRORES

1990-91



RS. 43193 CRORES

5.41 To redress this situation and to step up the rate of growth of exports, which is crucial for the medium-term recovery of the economy, adjustments in the exchange rate of the Rupee were effected twice in July, 1991. These exchange rate adjustments are expected to improve the country's international competitiveness in the short and medium term thus boosting growth of exports. This, however, assumes that inflation would be controlled and production for exports augmented. These exchange rate policy changes were followed by major structural reforms in trade policy aimed at substantial liberalisation of controls and licenses, decanalisation of many items of trade, reduction in peak tariff rates, abolition of export subsidies and other measures to encourage competitiveness and enterprise in the economy. Further, changes in industrial policy undertaken by the Government would also help in improving the international competitiveness of Indian industry and thus promoting exports. Supportive tight fiscal and monetary policies were also adopted to correct the trade imbalance.

5.42 During July—August, 1991 the Government announced far reaching changes in trade policy. These policy changes aimed at strengthening export incentives, eliminating a substantial volume of import licensing and optimal import compression. Essential imports of sensitive items (such as POL and fertilizers) were fully protected, but other imports of raw materials and components were linked to export performance through enlargement and restructuring of the replenishment licensing system. The system of cash compensatory support was abolished consequent upon the change in the exchange rate and other measures of reform which provided substantial incentives for exports across the board. The major policy changes introduced are highlighted below.

(i) The new trade policy makes major changes in the import licensing system by replacing large part of administered licensing of imports by import entitlements linked to export earnings. The import replenishment system was enlarged and restructured and renamed as Eximscrips. Eximscrips will be freely tradeable and the premium on the scrips, set by the market, will represent a further incentive for exporters and a means of allocating imports according to market forces. This will improve the export profitability with maximum incentives to exporters whose import intensity is low. The increased coverage by Eximscrip and the requirement under new policy to encourage financing more and more imports by purchasing Eximscrips would imply a major expansion in demand for Eximscrips leading to increased market premium and export profitability. The Eximscrips will have the following features :

(a) All the export products would have a uniform Eximscrip rate of 30 per cent of FOB (as against 5 to 20 per cent earlier) except for metal based handicrafts, newspapers/journals/periodicals, exposed cinamatographic films and gems/jewellery sector which would continue to enjoy the higher benefits of replenishment as were earlier admissible. Further, in respect of some notified export products such as value added agricultural products, marine products, drugs, electronic products, high technological engineering products, the exporters would be eligible for an additional Eximscrips entitlement of 10 per cent of the FOB value of exports

(b) Exports generated from the General Currency Area (GCA) and the Rupee Payment Area (RPA) will enjoy the benefit of import replenishment for use from the GCA and the RPA, respectively

(c) The scope of export services has been enlarged and the rate of replenishment of service exports has been increased from 10 per cent to 30 per cent of net foreign exchange earnings (NFE)

(d) For exports made on the basis of duty-free imports obtained against Advance Licenses, Eximscrips will be available at the general rate of 30 per cent, but this will be applied to the NFE

(e) Eximscrips will be tradeable and can be used to import any item in the limited permissible list (Appendix 3), the non-sensitive canalised list (Appendix 5A), all OGL items for actual users (Appendix 6, List 8 Part I and Appendix 6, List 10) and non-OGL capital goods other than those in the restricted list (Appendix 1A) of the Import Export policy, 1990...93

(f) The system of supplementary licenses has been discontinued and the category of unlisted OGL abolished (except for small scale industries and for manufactures of specified life saving drugs and equipment) and all these import requirements will be met through Eximscrips.

(ii) The system of advance licenses, designed to provide exporters with duty-free access to the inputs they need to produce competitively for world markets, is an important instrument of trade policy, especially in our situation where import tariff levels are still high. The new trade policy has strengthened this system of advance licences by simplifying and speeding up the process of issuing these licenses, reduction in the number of documents required, larger coverage of items for prescribing norms, specifying the value of an advance license in free foreign exchange, permission to adjust fluctuations in prices of imported individual items within the overall CIF value of the advance license, delegation of powers to revalidate these licenses, streamlining the procedure for obtaining bank guarantee and legal undertaking, permission to dispose off the materials imported against such licenses without seeking prior permission of the licensing authority (in cases where no MODVAT facility has been availed of) and removal of substantial manufacturing activity condition for exports to GCA for these licenses.A new Scheme of Transferable Advance License for GCA exports in selected thrust areas, whereby exporters can undertake exports based on duty paid inputs obtained from the market and subsequently obtain advance licenses for replenishment of these inputs, was also introduced. These changes in the advance license scheme will give greater freedom to exporters procuring duty-free raw materials and strengthen it as an instrument of export promotion.

(iii) The procedure for import of capital goods (CG) has been simplified following the Statement on Industrial Policy. New units and units undergoing substantial expansion will be automatically granted licenses for import of capital goods (other than those in the Restricted List—Appendix I Part A) without any clearance from the indigenous availability angle, provided their import is fully covered by foreign equity or the import requirement is up to 25 per cent of the value of plant and machinery subject to a maximum of Rs. 2 crore. By way of further relaxation in January, 1992 the requirement of licence for import of CG under the above scheme of direct foreign investment up to 51 per cent foreign equity in high priority industries has been done away with. Import of OGL capital goods (Appendix 1, Part B), non-OGL capital goods (non-Appendix 1, Part A and B) and Restricted goods (Appendix 1, Part A) will be allowed without a specific licence on the basis of the clearance given by the Reserve Bank of India in cases where foreign exchange for import of capital goods is fully covered by foreign equity. Import of such capital goods against foreign equity will be only for actual use. As a measure of rationalisation, payment for imports of capital goods may also be allowed to be made directly in the foreign country by the foreign investor. Such payment will be treated as his contribution to the foreign equity of the company. Access to non-OGL capital goods (other than those in the Restricted List) has also been expanded for all exporters and export houses by permitting their imports against Eximscrips. The clearance from the indigenous angle has been waived for import of capital goods in the case of externally financed projects in which international competitive bidding procedure is followed.

(iv) The new trade policy also includes measures to strengthen the development of Export Houses and Trading Houses as an instrument for promoting exports. These include a widened range of items permitted to be imported by Export Houses, Trading Houses and Star Trading Houses against their additional licences during 1991-92 and additional entitlement of Eximscrips at the rate of 5 per cent of FOB for these houses w.e.f. 1st April, 1992. Government has also permitted the setting up of Trading Houses with 51 per cent foreign equity for the purpose of promoting exports. Such trading houses would be eligible for all the benefits available to domestic export and trading houses.

(v) The list of Restricted items was reviewed and 98 items were shifted from the restricted list to the limited permissible list. The list of OGL items was also reviewed and 37 items shifted from the limited permissible list to the OGL list. Similarly, the list of OGL items was reviewed and 76 items were shifted initially and 34 in December, 1991 from OGL to Limited Permissible List.

(vi) Over the years, a number of items of exports and imports have been canalised for export or import through specified public sector agencies. The new policy aims at progressively reducing the extent of canalisation. The Government has decontrolled 116 items allowing their exports without any licensing formalities. Another 29 items have been shifted to OGL. In the case of imports, 6 items were decanalised and placed on OGL while 16 items were decanalised and listed in Appendix 3 where they will be available for import against Eximscrips.

(vii) The Export Processing Zones (EPZ) scheme and the 100 per cent EOU scheme, which were introduced to provide for duty free enclaves, enabling production exclusively for exports, have not taken off as expected and have also not attracted foreign investment for tapping export markets to the desired extent. After a review of the working of these schemes, the following changes were made :

(a) All EOU/EPZ units will be eligible for Exmiscrips at the basic rate of 30 per cent applied to NFE.

(b) The duty applicable on DTA sales from EOU/EPZ units has been reduced to 50 per cent of the normal customs duty subject to the duty payable not being less than the excise duty on the same product. DTA sales will be permitted in the ratio of 25 : 75 in relation to export sales in case of units whose use of indigenous raw material is more than 30 per cent of production. In all other cases, the ratio of permissible DTA sales to export sales will be 15 : 85.

(c) The NFE earned by EOU or EPZ units can be clubbed with the earnings of their parent/associated companies in the DTA for the purpose of according Export House, Trading House or Star Trading House status for the latter.

(d) The IPRS scheme for supply of steel has been extended to EOUs and EPZ units.

(e) Capital goods imports for these units will be allowed under the automatic approval procedure if they are fully covered by foreign equity or if they do not exceed 50 per cent of the value of plant and machinery subject to a ceiling of Rs. 3 crore.

Besides, procedural improvements like the delegation of approval powers, allowing entry of imported raw materials on a provisional basis to expedite customs clearance, replacement of a Multiple bond by a Single bond for obtaining import clearance and permitting units under EPZ and EOU schemes to supply/transfer finished goods among themselves, were also announced by the Government.

(viii) The Actual user requirement in respect of OGL capital goods and OGL raw materials and components has been removed. The condition of having registration/industrial approval from the concerned authority for import of OGL capital goods, raw materials, components, consumables and spares, was also dispensed with.

(ix) It is also realised that the extent of tariff protection is unduly high, constraining the movement towards international competitiveness. The Budget and Trade Policy statement indicate that customs duties would be reduced over time, in tandem with improvements in the fiscal and balance of payments position. The Union Budget, 1991-92 has already begun the process of tariff reforms with a reduction in peak tariff rates to a maximum of 150 per cent (from as much as 300 per cent or more) and a moderate across the board reduction in tariffs on capital goods imports. Rationalisation and simplification of the tariff structure would also need to be emphasised as part of these reforms.

(x) Harmonisation of Trade and Customs Classification since October, 1991 has introduced greater transparency in import policy including tariff structure.

(xi) Objectives of public sector Trading Organisations, which have traditionally depended on canalised trade, would be reoriented towards their emerging as international Trading Houses capable of operating in a competitive global environment, of serving as effective instruments of public policy and of providing adequate support to the small scale/cottage industries.

(xii) The Government has decided to allow established exporters to open foreign currency accounts in approved banks and allow exporters to raise external credits, pay for export-related imports from such accounts, and credit export proceeds to such accounts. This will facilitate payments by exporters for their essential imports.

5.43 The medium-term objective of the Government is to progressively eliminate licensing and quantitative restrictions on capital goods and raw materials/components so that all these items can be placed on OGL save for a small carefully defined negative list. The Ministry of Commerce has already set up a High Level Committee on Trade Policy Reforms to work out the modalities of achieving this transition.

External Capital Flows

5.44 The crisis in the balance of payments during 1990-91 and the first quarter of 1991-92 necessitated extra efforts in mobilising additional external funds to fill the substantial financing gap. The task of the Government became particularly difficult in the context of the weakening of international confidence in the economy resulting in unprecedented setback in the net accruals under non-resident deposits and erosion in the country's credit rating, coupled with the general shortage of capital in the international financial markets, resulting in drying up of the source of commercial borrowing. In the end, the Government could mobilise substantial additional financial resources from the IMF, the World Bank and also bilateral donors especially Japan.

External Assistance

5.45 Last year's survey pointed out the hardening of terms of India's external assistance in the 1980s arising from the falling share of IDA assistance in the World Bank's lending profile as well as the shortening of the maturity period of IDA lending since 1987. This is reflected in a declining net transfer under external assistance even in Rupee terms during the recent period, 1987-88 to 1989-90 (see Table 5.8). This trend was reversed in 1990-91 with a nearly 15 per cent rise in net capital transfer in that year in Rupee terms and about 6 per cent in dollar terms. Indications are that, in the current year, net capital transfer under external assistance would rise substantially. This indicates larger disbursements which would more than compensate the rising debt service payments.

TABLE 5.8

External Assistance

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92**
			(Rs. hundred crore)				
1. Authorisations	56.50	61.60	92.65	130.70	108.26	81.23	67.24*
2. Gross disbursements	29.36	36.05	50.52	53.04	58.02	67.04	75.82
3. Debt service payments	13.67	20.29	26.24	29.46	36.86	42.82	39.92
(a) Amortisation	7.76	11.76	15.81	16.46	19.87	23.29	21.51
(b) Interest payments	5.91	8.53	10.43	13.00	16.99	19.53	18.41
4. Net capital inflow (2—3a)	21.60	24.29	34.71	36.58	38.15	43.75	54.31
5. Net capital transfer (2—3)	15.69	15.76	24.28	23.58	21.16	24.22	35.90
			($ Billion)				
1. Authorisations	4.62	4.82	7.15	9.03	6.50	4.53	2.92*
2. Gross disbursements	2.40	2.82	3.90	3.66	3.48	3.74	3.16
3. Debt service payments	1.12	1.59	2.02	2.03	2.21	2.39	1.66
(a) Amortisation	0.63	0.92	1.22	1.14	1.19	1.30	0.90
(b) Interest payments	0.48	0.67	0.80	0.90	1.02	1.09	0.77
4. Net capital inflow (2—3a)	1.77	1.90	2.68	2.53	2.29	2.44	2.26
5. Net capital transfer (2—3)	1.28	1.23	1.87	1.63	1.27	1.35	1.50

** For the period April-December 1991 only.

* For the period April-September 1991 only.

NOTE : The data include Government and non-Government loans and grants (including food assistance but excluding other commodity grant assistance). These figures do not include suppliers' credits, commereial borrowings and IMF credits other than Trust Fund loan.

5.46 In the context of the present shortage of foreign exchange, utilisation of already authorised assistance assumes significance. Efforts were made in recent years to identify and remove the constraints in aid utilisation. The major constraints in the speedy utilisation of the committed assistance are the paucity of Rupee resources due to limited Plan allocations, delays in procurement of stores and equipment, problems connected with land acquisition and rehabilitation and resettlement of displaced persons. The measures already taken to improve aid utilisation include waiver of DGTD clearance for import of capital goods under all externally-aided projects, enhancement of additional central assistance to the states to 100 per cent in the case of social sector projects, formation of standard bid documents and simplification of other procedures. These steps are in the right direction but by themselves not adequate, and new measures may have to be introduced in order to step up the utilisation of external assistance in pipeline which amounted to about $ 30 billion at the end of November 1991.

5.47 The Aid-India Consortium which met in Paris late in September 1991, pledged to provide $ 6.7 billion of assistance in 1991-92 which represents an increase of $ 400 million, or about 6 per cent over the previous year. Taking into account the immediate liquidity requirements of the country, the Consortium decided to provide a large component of overall commitments at $ 2.3 billion or one-third, in the form of fast-disbursing assistance mainly from the IBRD, ADB and bilateral donors such as Japan and Germany.

5.48 The World Bank approved a Structural Adjustment Loan of $ 500 million in December 1991 in order to help the country in the process of reforms in industrial and trade policy, of which $ 300 million has already been released. The Asian Development Bank sanctioned a Programme Loan of $ 250 million for assisting the restructuring of the Oil and Natural Gas Commission and associated policy reforms in the oil sector, of which half the amount has been drawn by January 1992. Japan also assisted India with two fast-disbursing loans of $ 150 million each for the import of diesel and to help the refinance operations of the SIDBI for loans to small-scale industries.

External Commercial Borrowing

5.49 The country's reliance on external commercial borrowing has been substantial in recent years up to 1989-90 after which there has been a steep decline in this source of external capital. The fall in disbursements coupled with a sharp rise in debt-service payments, resulted in a net negative transfer under external commercial borrowing in 1990-91. The situation deteriorated in the first half of 1991-92 (Table 5.9).

TABLE 5.9

*External Commercial Borrowing**

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92**
			(Rs. hundred crore)				
1. Authorisations	17.00	13.96	26.54	43.14	54.79	34.14	15.59
2. Gross disbursements	17.99	24.74	22.52	40.69	41.96	30.50	14.06
3. Debt service payments	11.75	15.65	17.36	22.24	30.41	40.06	21.69
(a) Amortisation	5.65	7.96	8.71	11.03	14.55	21.37	11.12
(b) Interest payments	6.10	7.69	8.65	11.21	15.86	18.69	10.57
4. Net capital inflow [2—3(a)]	12.34	16.78	13.81	29.66	27.41	9.13	2.94
5. Net capital transfer (2—3)	6.25	9.09	5.16	18.45	11.55	—9.56	—7.63
			($ Billion)				
1. Authorisations	1.39	1.09	2.05	2.98	3.29	1.90	0.68
2. Gross disbursements	1.47	1.94	1.74	2.81	2.52	1.70	0.61
3. Debt service payments	0.96	1.22	1.34	1.54	1.83	2.23	0.94
(a) Amortisation	0.46	0.62	0.67	0.76	0.87	1.19	0.48
(b) Interest payments	0.50	0.60	0.67	0.77	0.95	1.04	0.46
4. Net capital inflow [2—3(a)]	1.01	1.31	1.07	2.05	1.65	0.51	0.13
5. Net capital transfer (2—3)	0.51	0.71	0.40	1.27	0.69	—0.53	—0.33

* Excludes borrowings upto 1 year maturity. The estimates are based on data base of ECB Division of the Department of Economic Affairs, Ministry of Finance. External commercial borrowing includes loans from commercial banks and other financial institutions, bonds & FRNs, suppliers' credit, buyers' credits and credits from export credit agencies of concerned Governments, IFC(W), private sector borrowings from ADB, etc.

** For the period April-September 1991 only.

5.50 Several factors are responsible for the fall in the availability of commercial credit to India in 1990-91 and 1991-92. A major factor has been the overall shortage of capital in the international market due to the low level of savings in some of the major developed countries and the heavy demand on world savings arising from the unification of the Germanys, post-Gulf war reconstruction in West Asia, and restructuring of the East European countries. Banks were also diverting funds from credit expansion towards strengthening their capital base in order to meet capital adequacy requirements of the Bank for International Settlements. The Gulf crisis, political instability, and the erosion of international confidence in the economy resulted in successive downgrading of India's creditworthiness by international rating agencies further constraining India's access to commercial credits.

5.51 The fall in fresh borrowing from external commercial sources since 1990-91 is accompanied by a major shift in the composition of ECB approvals. Whereas the share of bank loans and bonds fell considerably in this period, that of export credits rose. Indeed, in the second half of 1990-91 and first half of 1991-92 there was a spurt in approvals under export credits partly compensating for the drying up of other sources of commercial credit. This is not surprising as export credits are not that much affected by the loss of creditworthiness as bank loans and bond issues, for the lender in the former case is usually protected by insurance cover offered by credit insurance agency of the concerned country.

5.52 The International Finance Corporation, Washington (IFC-W) is the major multilateral agency promoting productive private investment in developing countries by providing long-term loans and risk capital at commercial rates for maturity of 7 to 12 years. Since 1959, the IFC(W) has approved investments in India amounting to about $ 1.0 billion the bulk of which has been in the form of long-term loans. The IFC(W) investments in India have been mainly in sectors like power, iron and steel, automobiles, chemicals and petrochemicals, and general manufacturing. Approvals for 1990-91 were $ 126 million and for 1991-92 up to November $ 222 million. In the context of deregulation of the Indian economy, IFC(W) is expected to play a more active role in promoting productive private investment, attracting foreign direct investment and also in mobilising resources from international capital markets.

Non-Resident Deposits

5.53 Non-resident deposits which had been a source of considerable support to India's balance of payments over past years received a serious setback in 1990-91 when they registered an accretion of only about $ 250 million against $ 1.3 billion in 1989-90. This reflected the erosion of international confidence in the Indian economy from the latter half of 1990-91 which worsened in the early half of 1991-92 leading to a further outflow of $ 1.5 billion during April-December, 1991 under the FCNR accounts alone against an inflow of $ 397 million in the corresponding period of last year. The NR(E)R deposits also suffered, although marginally, showing an outflow of about $ 90 million during April-December, 1991 against an inflow of $ 30 million in the same period last year. As a result, the total outstanding balances under these two accounts put together declined from $ 10.6 billion at end-March, 1991 to $ 8.5 billion at end-December, 1991 (Table 5.10).

TABLE 5.10

Stocks and Flows under Non-resident Deposit Accounts

Year	NR(E)R Accounts		FCNR Accounts		Total	
	Outstanding at year end@	Inflow(+)/ Outflow(—)	Outstanding at year end**	Inflow(+)/ Outflow(—)	Outstanding at year end	Inflow(+)/ Outflow(—)
1	2	3	4	5	6	7
			(Rs. hundred crore)			
1985-86	34.61	6.16	21.89	11.51	56.50	17.67
1986-87	43.36	4.77	35.11	11.73	78.47	16.50
1987-88	51.07	4.77	49.47	13.63	100.54	18.40
1988-89	58.99	2.35	82.55	22.30	141.54	24.65
1989-90	65.07	—0.04	113.24	21.79	178.31	21.75
1990-91	73.49	1.56	134.05	2.55	207.54	4.11
1991-92*	77.13	—2.02	142.63	—32.45	219.76	—34.47
			($ Billion)			
1985-86	2.81	0.50	1.78	0.94	4.59	1.44
1986-87	3.35	0.37	2.72	0.92	6.07	1.29
1987-88	3.94	0.37	3.83	1.05	7.77	1.42
1988-89	3.77	0.16	5.28	1.54	9.05	1.70
1989-90	3.78	..	6.58	1.31	10.36	1.31
1990-91	3.74	0.09	6.84	0.14	10.58	0.23
1991-92*	3.00	—0.09	5.50	—1.47	8.50	—1.56

@ Inclusive of accrued interest.
* Up to December 31, 1991 and provisional.
** Exclusive of accrued interest.

5.54 The interest rates on NR(E)R deposits have not been altered since April 1991 although the rates on domestic deposits were hiked by 1-2 percentage points in October 1991. In response to the fall in interest rates in international markets, deposit rates on FCNR accounts were adjusted downward first on December 12, 1991 by 1-1.25 percentage points for all deposits except deposits designated in deutsche mark and later on January 27, 1992 by 1-0.5 percentage points for dollar and yen deposits. The latest interest rate structure of non-resident deposits can be seen from Table 5.11.

TABLE 5.11

Rates of Interest on Term Deposits under Non-Resident (External) Rupee Accounts [NR(E)RA] and Foreign Currency Non-Resident Accounts (FCNRA)

(Per cent per annum)

Maturity	NR(E) RA	FCNRA			
		Pound sterling	US dollar	DM	Yen
1	2	3	4	5	6
(a) One year and above but less than 2 years	10.50	12.00	5.75	10.25	7.00
(b) 2 years and above but less than 3 years	11.00	12.00	6.75	10.50	7.00
(c) 3 years and above but less than 5 years	13.00	12.00*	7.50*	10.50*	7.00*
(d) Five years and above	14.00	..	..	..	..

* Three years only.

5.55 Two additional schemes were introduced to attract foreign exchange resources from non-resident Indians in the second half of 1991-92. On October 1, 1991, the State Bank of India launched its India Development Bonds for non-resident Indians (NRIs) and their overseas corporate bodies (OCBs). The bonds have a five-year maturity period and are denominated in US dollars and pound sterling. The dollar bonds carry an interest rate of 9.5 per cent and the sterling bonds 13.25 per cent. They are freely transferable among NRIs/OCBs as also among Indian residents who receive them as gifts from the former. These bonds are also free from income, wealth and gift taxes in India. The offer which was initially open up to November 30, 1991 was extended up to January 31, 1992. An amount of $ 1085 million and £ 165 million ($ 293 million) had been collected under the scheme as per information available till February 10, 1992.

5.56 The second new scheme for mobilising additional foreign exchange resources was entitled 'The Remittances in Foreign Exchange (Immunities) Scheme, 1991'. Under this, the source of funds, purpose and the nature of remittance would not be subject to scrutiny under the exchange control regulations and Direct Tax Laws. However, any income received by the person on the remitted amount would be subject to income tax. A sum of $ 766 million had been received under this scheme as per information available up to February 10, 1992.

Foreign Investment

5.57 Foreign investment has played a very limited role so far in the Indian economy (for example, direct foreign investment approvals in India during 1986-90 had been Rs. 900 crore or about Rs. 180 crore per annum) resulting from a relatively restrictive foreign investment regime followed by the Government till recently. Foreign investment was allowed generally in areas of hi-tech, sophisticated technologies and substantial exports. The normal ceiling for foreign investment was 40 per cent of the total equity capital, but a higher percentage of foreign equity was considered in priority industries if the technology was sophisticated and not available in the country, or if the venture was largely export-oriented.

5.58 The Government has established a more liberalised foreign investment policy as a part of the new industrial policy announced in July 1991. The new regime of foreign investment contains the following : (i) as against the past policy of considering all foreign investment on a case-by-case basis and that too within the normal ceiling of 40 per cent of total equity investment, the new policy provides for automatic approval of direct foreign investment up to 51 per cent foreign equity holding in 34 specified high-priority, capital-intensive, hi-technology industries provided the foreign equity covers the foreign exchange involved in importing capital goods and outflows on account of dividend payments are balanced by export earnings over a period of 7 years from the commencement of production; (ii) foreign technology agreements are also liberalised for the 34 industries with firms left free to negotiate the terms of technology transfer based on their own commercial judgement and without the need for prior Government approval for hiring of foreign technicians and foreign testing of indigenously developed technologies; (iii) in order to avail of professional marketing activities for systematic exploration of world markets for foreign products, foreign equity holding up to 51 per cent would be permitted for trading companies as well; and (iv) a special Board (Foreign Investment Promotion Board) has been set up to look into large foreign investment projects where higher foreign equity limits of more than 51 per cent may be permitted.

5.59 Although it is too early to expect a substantial inflow of foreign investment resulting from the above changes, the response of the new foreign investment policy measures has been encourging so far. The overseas investment approvals reached a peak of Rs. 522 crores during 1991 (including approvals given by the Reserve Bank of India up to December 22, 1991) as against only Rs. 128 crores during 1990.

Drawals from the IMF

5.60 In the context of heavy withdrawals from non-resident deposits and the drying up of the source of commercial credits, the much needed support to the country's balance of payments was provided mainly by the IMF. After the completion of the drawings under the extended arrangement in April 1984, India did not take any recourse to the IMF till December 1990. The gross drawings from the Fund from January 1991 to January 1992 amounted to SDR 2.2 billion equivalent to $ 3.0 billion or Rs. 65 hundred crore. Details of these drawals are given in Table 5.12.

TABLE 5.12

*Drawals from the IMF, January 1991 to January 1992**

Period	Name of Facility	Amount		
		SDR bn.	$ bn.	Rs. hun. cr.
January 1991	First credit tranche	0.55	0.79	14.50
Jan.—Sep. 1991	Compensatory and contingency financing facility (CCFF)	1.35	1.88	41.08
Nov. 1991— Jan. 1992	Stand-by credit**	0.27	0.38	9.88

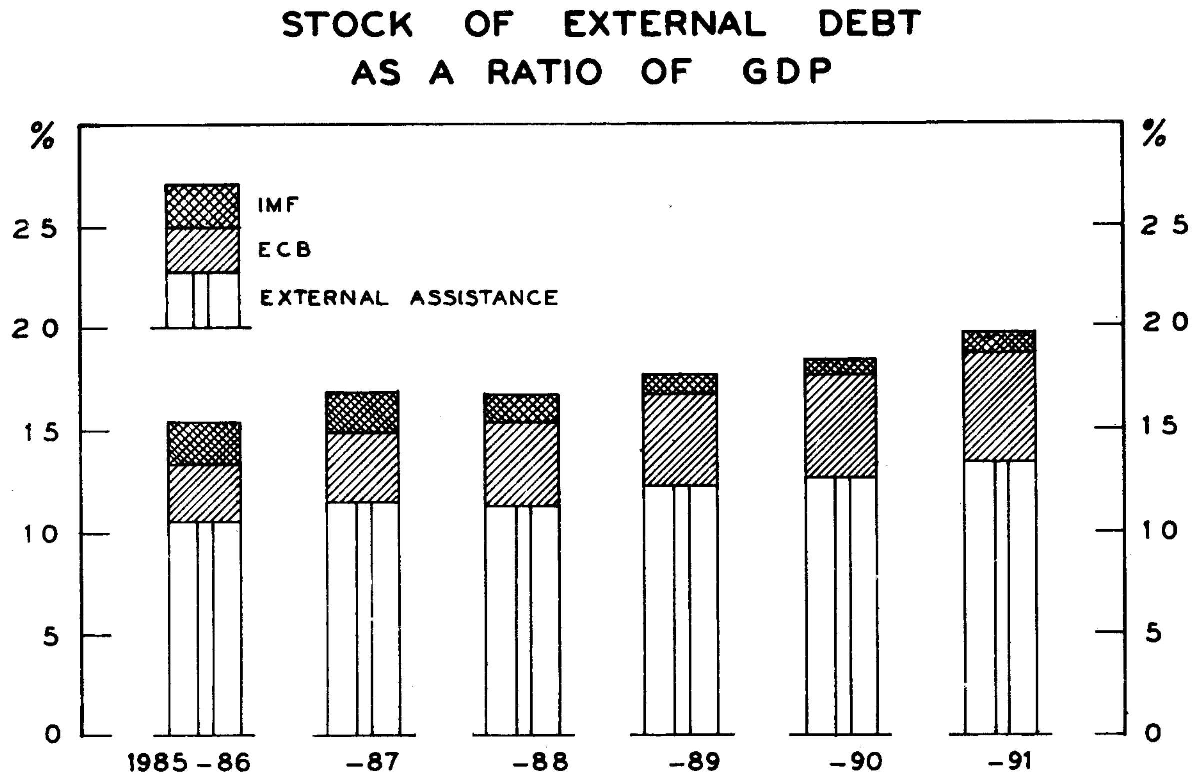
* The drawal of SDR 487 million during July—September 1990 of the reserve tranche is not regarded as the use of Fund credit as it is treated as part of the country's external resources which can be drawn up to its full amount at any time without conditions.

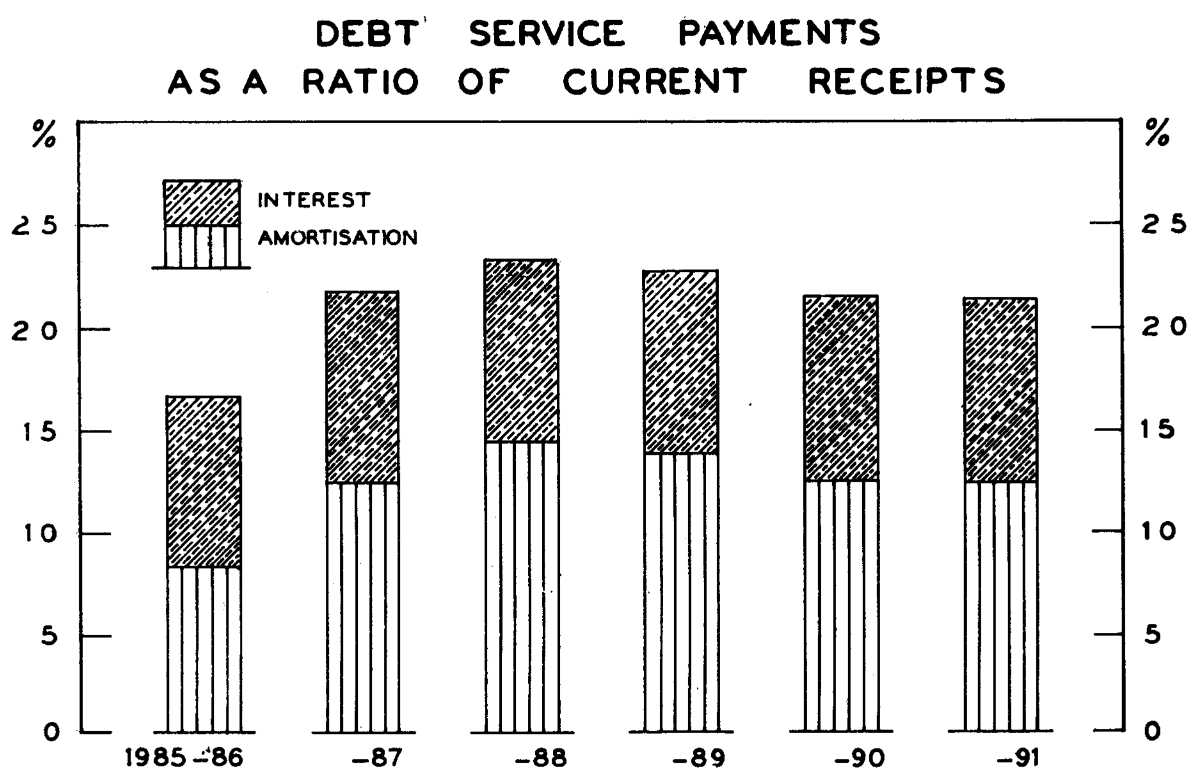
** A total of SDR 1,656 billion ($ 2,262 billion) to be disbursed in 8 tranches over a 20-month period from November 1991 to June 1993.

External Debt

5.61 India's medium and long-term external debt, consisting of external assistance on Government and non-Government accounts, external commercial borrowings and the IMF liabilities, amounted to Rs.1,004 hundred crore ($ 51.1 billion) at the end of 1990-91 which constituted about 19 per cent of GDP. Including NRI deposits, the country's external debt (other than short-term debt) stood at Rs.1212 hundred crore ($ 61.7 billion) constituting about 23 per cent of GDP. Adding the estimates of short-term debt of maturities up to one year, India's aggregate external debt amounted to Rs. 1,307 hundred crore or $ 66.5 billion as on March 31, 1991 which was around 25 per cent of the country's GDP.

5.62 It may be noted that short-term debt constitutes a relatively low proportion of India's aggregate debt; the share of short-term debt in total external debt rose from about 4 per cent at the end of 1988-89 to about 7 per cent at the end of 1990-91. The short-term debt is in the nature of suppliers' credits to finance normal import trade as well as bankers' acceptance facilities arranged through Indian banks. India's short-term debt is largely owed by public sector canalising agencies incurred for the import of POL, fertilisers, edible oil and essential raw materials. From the second quarter of 1990-91, Indian banks found it increasingly difficult to raise resources through short-term credit on the one hand, and the cost of alternative sources of short-term credit through suppliers' credits and credits from non-Indian banks


STOCK OF EXTERNAL DEBT
AS A RATIO OF GDP
%
IMF
ECB
EXTERNAL ASSISTANCE
0
5
10
15
20
25
1985 - 86
-87
-88
-89
-90
-91


DEBT SERVICE PAYMENTS
AS A RATIO OF CURRENT RECEIPTS
%
INTEREST
AMORTISATION
0
5
10
15
20
25
1985 - 86
-87
-88
-89
-90
-91

rose, on the other. The situation, however, has improved since July 1991 as there has been a gradual restoration of international confidence. Besides, with the increase in the country's foreign exchange reserves it has been possible to stabilise the level of short-term credit.

5.63 The debt-service payments on India's medium and long-term external debt (excludingNRI deposits) reached a peak of 23.5 per cent of exports and gross invisible receipts in 1987-88. The ratio declined thereafter and in 1990-91, it stood at 21.3 per cent. The declining trend in India's debt-service ratio is partly on account of a substantial growth in the value of exports during the recent years and partly to progressive termination of liability towards the IMF on account of the EFF loan.

Outlook

5.64 The short-term liquidity crisis on India's external sector has been overcome and the country's foreign exchange reserves have registered a substantial improvement. International confidence has been restored.

5.65 However, the underlying weaknesses of the balance of payments remain; the falling support from net invisible receipts resulting from rising interest payments, the poor industrial and export performance, and the high domestic inflation are problems in the way of return to a sustainable balance of payments. The gradual relaxation of import controls as the reserve position improves, will help in restoring growth in industrial sector and exports. However, the tight monetary policy may have to continue for some more time in view of the high inflation.

5.66 With the restoration of international confidence in the economy, India may be able to attract funds from abroad through foreign investment, external commercial borrowing and non-resident deposits. A stable low oil price and low interest rates in the international market would help India's balance of payments. However, the medium-term turnaround in the balance of payments hinges largely on the country's ability to boost exports.

5.67 Exports are to benefit from the relaxation of import controls which are under way. However, the continued high domestic inflation and recessionary conditions in the world economy are two important impediments to sustained growth of India's exports. The emergence of a number of independent states in the erstwhile U.S.S.R. and the continued uncertainty in the region are bound to affect the country's exports adversely. The inconclusive Uruguay Round of Multilateral Trade Negotiations and the consequences thereon do not augur well for the future. The prospect of the system collapsing into various regional trade blocks is not good for countries such as India. Thus India's balance of payments will continue to be under strain in the near future.