

BALANCE OF PAYMENTS

The unprecedented payments crisis which emerged in the first quarter of 1991-92 was overcome by the concerted policy reforms initiated by the Government in July 1991. As a result of these policy reforms and successful mobilisation of exceptional financing, there was marked improvement in the external payments situation. This was reflected in the build-up of foreign exchange reserves by an additional amount of US\$ 3.57 billion during 1991-92. The increase in reserves combined with stabilisation and structural reforms restored international confidence and also provided the basis for further liberalisation of trade, tariff, export credit and foreign investment policies during 1992-93. The 1992-93 Budget saw the introduction of LERMS which constituted a dual exchange rate mechanism.

As a result of these measures, foreign currency assets which had plummeted to US\$ 1.1 billion in June 1991 rose to US\$ 6.9 billion in the middle of July 1992 and were US\$ 5.0 billion on 12 February 1993. Net inflows to the FCNR accounts have again become positive and there has been an acceleration in direct foreign investment proposals and approvals in the current financial year.

Exports have increased at 3.4 per cent during the first nine months of 1992-93 compared to a decline of 3.7 per cent in 1991. This disguises a faster rate of growth at 11.4 per cent to the general currency area because exports to the Rupee payment area declined by 64.4 per cent in dollar terms. Given the expected lag in pushing up export growth and the immediate import needs of the economy, the current account deficit may continue to be around 2 per cent of GDP in the medium term. This could be met to some extent by an improvement in utilisation of committed external funding. However, there will continue to be a need for exceptional financing in the medium term.

The balance of payments continued to be under pressure in 1992-93; but there was a distinct improvement compared to the crisis situation prevailing in the middle of 1991. The foreign exchange position, which had deteriorated rapidly after the Gulf war in the second half of 1990 and reached a crisis in June 1991, eased considerably by the end of 1991-92. The severe import restrictions introduced in 1990-91, which had produced a highly disruptive import squeeze, were relaxed in the second half of 1991-92 as the foreign exchange situation improved and international confidence was gradually restored. By the end of 1991-92, foreign exchange reserves had been built up to a respectable level of \$ 5.63 billion from a low of \$ 1.29 billion at the end of July 1991.

5.2 The trade policy regime was substantially liberalised in March 1992 when the liberalised exchange rate management system (LERMS) was introduced. Under LERMS, forty per cent of foreign exchange earnings of exports of goods and services are required to be surrendered at the official exchange rate; this supply of foreign exchange finances import of essential items such as petroleum, fertilisers or life-saving drugs. The remaining sixty per cent is to be sold in the market and finances all other imports. Along with this change in the exchange rate regime, the import licensing mechanism was virtually abolished, almost all capital goods, raw materials, intermediates and components being made freely importable, subject only to tariff protection. The peak tariff was also lowered in the Budget 1992-93 with the objective of gradually reducing protection to levels comparable with those in other developing countries.

5.3 An essential element in the strategy for managing the balance of payments was the mobilisation of external assistance from the IMF, the World Bank, the ADB and bilateral donors to support the balance of payments until the new economic policy generated a substantially higher level of exports. The package was designed to eliminate bureaucratic delays and arbitrariness in import licensing and to give exporters a more realistic exchange rate.

5.4 The results obtained in the first year have been encouraging. Imports have increased significantly but this was necessary and desirable given the artificially depressed level of imports in 1991-92. The growth of exports to the General Currency Area (GCA) has been very encouraging though overall export performance has suffered from the collapse of trade with the former Soviet Union and other Rupee Payment Area (RPA) countries. Despite the increase in imports to more normal levels during 1992-93, it has been possible to manage the balance of payments with a stable exchange rate and comfortable foreign exchange reserves throughout the year.

Recent Developments in the Balance of Payments

5.5 The main components of the balance of payments from 1988-89 onwards are summarised in Table 5.1. It is evident that the balance of payments was under pressure since 1988-89, when the current account deficit was almost \$ 8 billion and there was a significant draw down of reserves. The situation improved in 1989-90 but then deteriorated again in 1990-91.

5.6 The worsening in the current account deficit in 1990-91 was partly on account of the Gulf war and the higher price of POL imports. However, as pointed out in last year's Economic Survey, this was only one factor in the crisis of 1990-91. The higher price of POL imports was in part offset by lower level in other imports; the trade balance in 1990-91 was only marginally worse than in the previous year. However, the trade deficit was exacerbated by a deterioration in the invisibles account because of lower remittances and higher interest payments; the current account deficit was thus \$7727 million in 1990-91 compared with \$6837 million in the previous year.

5.7 The worsening in the current account deficit in 1990-91 came at a time when the ability to finance the deficit had weakened massively. Political uncertainty at home, coupled with rising inflation and widening fiscal deficits, led to a loss of international confidence. External commercial borrowing dried up and there was an outflow from NRI deposits. This forced substantial recourse to the IMF with net borrowings of \$1.2 billion (gross borrowings of \$ 1.8 billion) and a large reserve drawdown (\$ 1.3 billion).

TABLE 5.1
Balance of Payments: Key Indicators

	1988-89	1989-90	1990-91*	1991-92**	(Apr.-Sep.)**	
					1991	1992
1	2	3	4	5	6	7
	(US\$ million)					
1 Exports f.o.b.	14257	16955	18491	18135	8275	8720
2 Imports c.i.f.	23618	24411	26241	21213	10535	13003
Oil	3009	3768	6028	5365	2308	3074
-Non-oil (DGCI&S)	16488	17504	18045	14031	6827	8097
-Non-DGCI&S	4121	3139	2168	1817	1400	1832
3 Trade balance (1-2)	-9361	-7456	-7750	-3078	-2260	-4283
4 Non-monetary gold movement	0	4	0	191	0	0
5 Invisibles (net)	1364	615	23	52	-378	287
6 Current account (3+4+5)	-7997	-6837	-7727	-2835	-2638	-3996
7 External assistance (net)	2217	1856	2268	2803	1353	227
8 Commercial borrowings (net)	1894	1777	729	1805@	45	-88
9 Non-resident deposits (net)	2511	2403	1259	-747	-818	44
10 Other capital	1442	938	979	1767	1000	3045
11 Capital account (7 to 10)	8064	6974	5235	5628	1580	3228
12 Overall balance (6+11)	67	137	-2492	2793	-1058	-768
13 IMF borrowings (net)	-1068	-877	1214	781	626	472
14 Official reserves (- increase, + decrease)	1001	740	1278	-3574	432	296
Memo (per cent of GDP)						
Exports	5.2	6.3	6.2	7.3		
Imports	8.7	9.0	8.9	8.6		
Trade balance	-3.4	-2.8	-2.6	-1.2		
Invisibles balance	0.5	0.2	0.0	0.0		
Current account	-2.9	-2.5	-2.6	-1.1		

* Provisional estimates

** Quick estimates

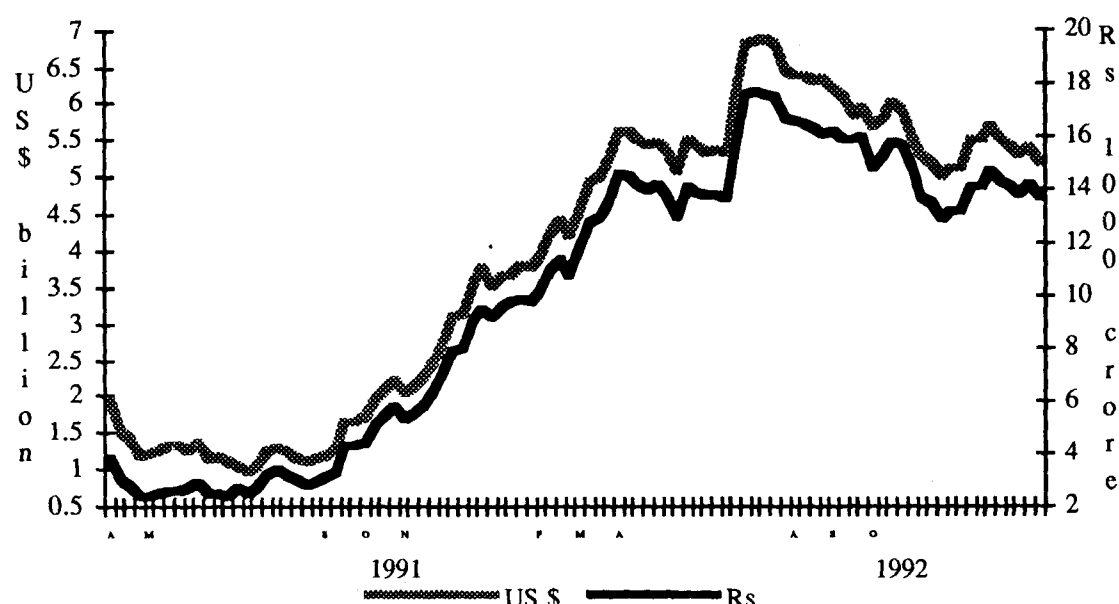
@ Includes India Development Bonds of US\$ 1627 million.

Note: Official grant receipts are taken as current account receipts on invisibles account. Interest payments forming part of withdrawals under FCNRA deposits have been put under invisible payments. Similarly, interest accrued during the year and credited to NRI deposits has been treated as notional outflow under invisible payments and added as re-investment in NRI deposits in capital account. Therefore, invisibles (net), current account, and inflow under NRI deposits may not tally with those elsewhere in the Survey.

5.8 The situation continued to deteriorate in the first quarter of 1991-92. By the time the new Government took over in June 1991, it had reached crisis proportions. Foreign exchange reserves had declined to \$1.1 billion and a default in payments appeared imminent. The new Government took a series of measures to restore viability in external payments. The exchange rate was adjusted downwards. Steps were taken to restore macro-economic stability by reducing the fiscal deficit from 8.4 per cent of GDP in 1990-91 to 6.2 per cent of GDP in 1991-92. These efforts at macro-economic stabilisation were accompanied by far-reaching reforms in the area of trade and industrial policy. Simultaneously, the Government negotiated access to external finance from multilateral agencies and bilateral donors to support the balance of payments over the next two to three years (Box 5.1). The new economic policies can be expected to generate substantially faster export growth which is the only lasting solution to the balance-of-payments problem, but

this export response will take time. In the intervening period, additional financing is unavoidable if the recovery is not to be choked for want of imports.

Figure 5.1. Foreign currency assets



5.9 Developments in 1991-92 show the after-effects of the severe import squeeze introduced in the previous year, combined with the favourable effect of the restoration of international confidence and the availability of external assistance. The severe compression in imports from \$26.2 billion in 1990-91 to \$21.2 billion in 1991-92 meant that the current account deficit declined sharply from \$7.7 billion in 1990-91 to \$2.8 billion in 1991-92. The reversal of the import squeeze introduced in the second half of 1990-91 in response to the Gulf crisis had to wait because the payments position was deteriorating until June 1991 and remained precarious for some more months until the new policy initiatives began to gain credibility. Besides, it was necessary to rebuild foreign reserves to a more respectable level before relaxing import controls; this was possible only by the third quarter of 1991-92.

5.10 However, while imports could not begin to get back to normal levels until the last quarter of 1991-92, there was a distinct improvement in international confidence even earlier. In October 1991 the Government negotiated a standby arrangement with the IMF for a total loan of \$ 2.3 billion over a 20-month period i.e. up to May 1993. This was followed by the negotiation of a Structural Adjustment Loan from the World Bank in December 1991.

5.11 Export performance in 1991-92 was disappointing with a marginal fall in exports in dollar terms reflecting depressed conditions in world markets and a virtual collapse in exports to the former Soviet Union. However, with imports continuing to be constrained, the trade deficit declined by \$ 4.7 billion compared with the previous year (Table 5.1). At the same time, foreign exchange reserves increased by \$ 3.57 billion.

5.12 The year 1991-92 closed with important changes in trade and exchange rate policies announced in the Budget for 1992-93. There was a shift to a new system of exchange rate management, liberalisation of import licensing and tariff reductions. These changes were particularly necessary in the interest of eliminating the cumbersome system of import licensing, which was characterised by bureaucratic delay and arbitrariness, and for

promoting greater competitiveness of Indian industry. They were made feasible by the improvement in the foreign reserves position and the availability of quick-disbursing external assistance.

5.13 The balance-of-payments data for the first half of 1992-93 are compared with data for the same period of the previous year in Table 5.1. There has been a significant revival of imports. Total imports are about 25 per cent higher than in the previous year. Even then, non-oil DGC&S imports in 1992-93 are likely to reach about the same level as in 1989-90.

5.14 The strategy of mobilising external finance from multilateral institutions has been continued into 1992-93. The first year's programme under the IMF Standby Arrangement was successfully concluded, and the programme for the second year was negotiated. The World Bank's Structural Adjustment Loan conditions were also successfully met and new quick-disbursing assistance from the World Bank was negotiated under the Social Safety Net Project which was approved in December 1992. Similarly, a quick-disbursing loan for financial sector reforms has been negotiated with Asian Development Bank.

5.15 The utilisation of external assistance in the first half of 1992-93 has been significantly lower than in the previous year. This reflects resource constraints in some of the Departments and States which are implementing externally assisted projects. Efforts are being made to accelerate disbursement.

Merchandise Trade

5.16 Exports in dollar terms increased by 3.4 per cent during April-December 1992 compared with a decline of 3.7 per cent during April-December 1991. Imports in April-December 1992 increased by 16.5 per cent compared with a decline of 22.5 per cent during April-December 1991 (Table 5.2). Hence the trade deficit rose from \$1.6 billion in 1991 to \$3.5 billion this year. Although the levels of month-wise imports during current year indicate substantial recovery from the depressed levels during 1991-92, the total imports in dollar terms during 1992-93 are unlikely to reach the 1990-91 level.

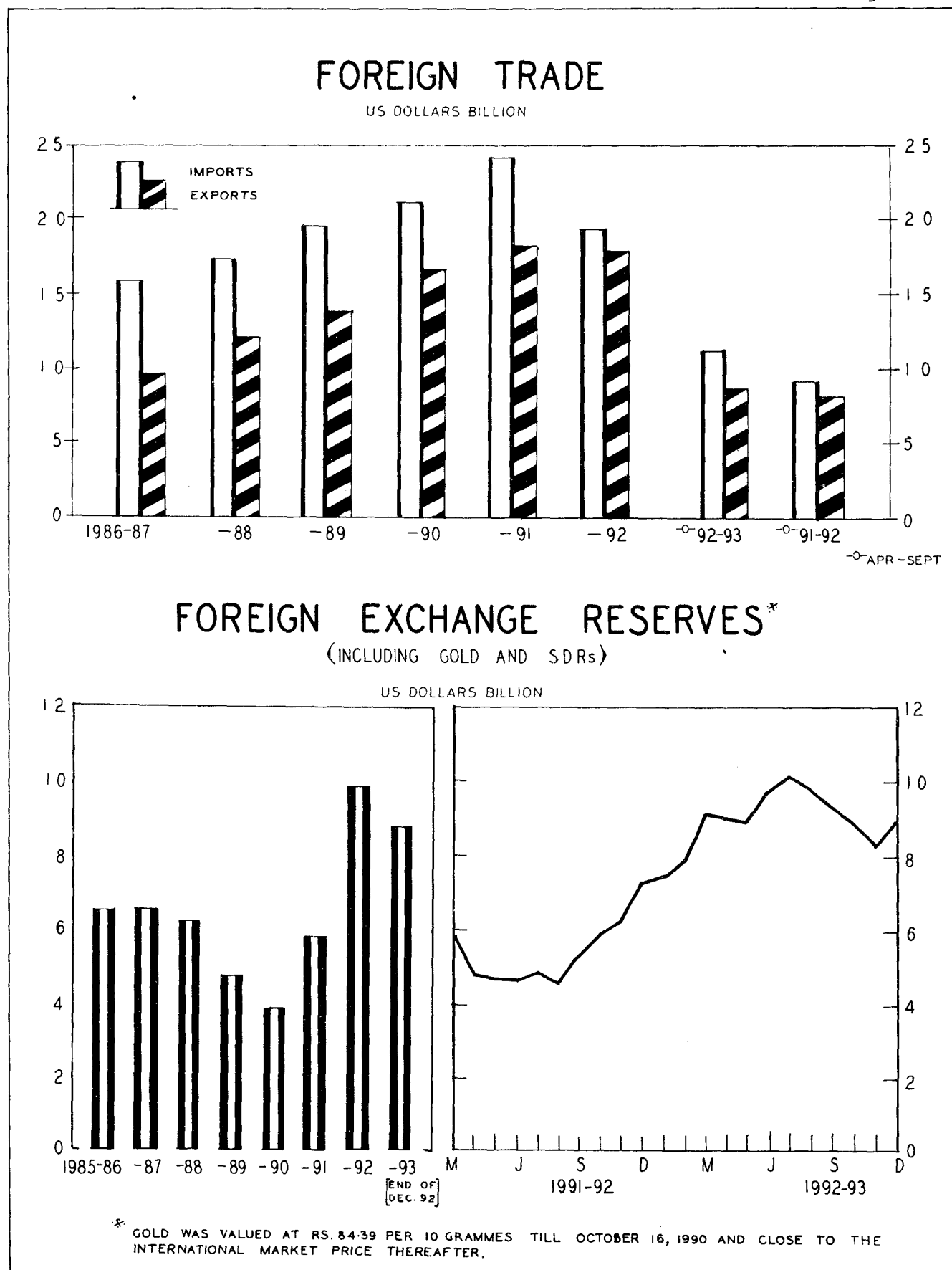
TABLE 5.2
Trends in Foreign Trade

Year	Imports	Exports	Trade Balance	Changes in		Trade Balance
				Imports	Exports	as % of exports
1	2	3	4	5	6	7
		(Rs. 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	21.9	17.6	32.7
1991-92	478.5	440.4	-38.1	10.8	35.3	8.7
April-Dec 1992	474.8	373.3	-101.5	38.7	23.1	27.2
April-Dec 1991	342.4	303.3	-39.1	7.9	30.8	12.9
		(US\$ billion)			(Per cent)	
1986-87	15.7	9.7	-6.0	-2.1	9.4	61.4
1987-88	17.2	12.1	-5.1	9.1	24.0	41.9
1988-89	19.5	14.0	-5.5	13.6	15.6	39.6
1989-90	21.3	16.6	-4.6	9.1	19.0	27.9
1990-91	24.1	18.1	-5.9	13.2	9.1	32.7
1991-92	19.4	17.8	-1.6	-19.4	-1.5	8.7
April-Dec 1992	16.6	13.1	-3.5	16.5	3.4	27.2
April-Dec 1991	14.2	12.6	-1.6	-22.5	-3.7	12.9

Note : Data for April-December 1992 are provisional.

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

Figure 5.2



Imports

5.17 Table 5.3 shows imports by major categories and commodities for 1991-92 and for the first half of 1992-93. The share of bulk imports, consisting food products, raw materials and intermediates, decreased marginally from 46.4 per cent in 1990-91 to 46.1 per cent in 1991-92; while the share of non-bulk imports increased from 47.1 per cent to 47.9 per cent over the same period. The decline in the levels of bulk imports in 1991-92 was contributed, besides POL, by pulses, edible oils, non-ferrous metals, iron and steel, ores and metal scrap and paper & paperboard. The deceleration in growth of non-bulk imports in 1991-92 was largely on account of a fall in the import of capital goods, textile fabrics and yarn, chemicals, non-metallic minerals and professional instruments. Imports have picked up significantly during April-September 1992 with substantial increase in the imports of POL, cereals, edible oils, fertilisers, non-ferrous metals, coal, ores and metal scrap, chemicals, professional instruments and export-related imports as a consequence of partly a decline in domestic production of petroleum products and partly the liberalised import policy. The share of bulk imports in total imports has increased to 48.5 per cent during April-September 1992 compared with 45.1 per cent during April-September 1991, while that of non-bulk imports has declined to 46 per cent in April-September 1992 compared with 49 per cent during April-September 1991.

Exports

5.18 The slow-down in export growth during 1990-91 continued during 1991-92. In the previous four years 1986-87 to 1989-90, exports grew at 17 per cent per annum in dollar terms. By contrast in 1990-91, export growth was modest at 9.1 per cent in dollar terms and during 1991-92, dollar exports actually declined by 1.5 per cent. This deceleration was caused by a number of factors, such as slow-down in the expansion of world trade, recession in the major industrial economies, loss of markets in the Middle East consequent to the Gulf crisis, and a virtual collapse of exports to the erstwhile Soviet Union.

5.19 Total exports have increased by 3.4 per cent in dollar terms in April-December 1992. However, the aggregate figures hide the fact that exports to GCA increased by 11.4 per cent while exports to the RPA decreased by 64.4 per cent (Table 5.4).

5.20 Composition of exports by major commodities and groups for 1991-92 and April-September 1992 along with the respective growth rates are given in Table 5.5. The data reveal that while exports of manufactured goods increased by 0.2 per cent in 1991-92, exports of agricultural and allied products declined by 5.2 per cent. Consequently, the share of manufactured goods in total exports increased from 72.9 per cent in 1990-91 to 74.2 per cent in 1991-92 while the share of agricultural commodities slipped from 19.4 per cent to 18.7 per cent. Among agricultural and allied products, while there was significant improvement in exports of marine products, oilcake, spices, cashew kernels, rice and sugar, some of the traditional export commodities such as tea, coffee and raw cotton either stagnated or declined. Among manufactured goods, while there was a modest growth in exports of chemicals and textiles, exports of most other items particularly readymade garments and gems and jewellery declined. During April-September 1992, exports of oilcakes, rice, engineering goods, readymade garments and jute manufactures picked up. While exports of agriculture and allied products as a whole declined by 11 per cent during April-September 1992, exports of manufactured products increased by 11.1 per cent during the same period.

TABLE 5.3
Imports by Major Commodity Groups

Items	1990-91	1991-92	1991-92 Apr-Sep	1992-93 Apr-Sep(P)	1990-91	1991-92	1991-92 Apr-Sep	1992-93 Apr-Sep(P)	1990-91	Composition (\$ terms)		1992-93 Apr-Sep	Growth rate (\$ terms)	
										1991-92	1991-92 Apr-Sep		1991-92/ 1990-91	Apr-Sep92/ Apr-Sep91
										(Per cent)	(Per cent)		(Per cent)	(Per cent)
I Bulk imports	200.2	219.7	94.8	146.3	11158	8951	4111	5421	46.4	46.1	45.1	48.5	-19.8	31.9
(a) Food & Allied Products	9.9	6.8	2.7	4.9	552	275	117	173	2.3	1.4	1.3	1.5	-50.2	47.9
1 Cereals etc.	1.8	1.7	0.7	2.1	100	69	30	74	0.4	0.4	0.3	0.7	-31.3	142.4
2 Edible oils	3.3	2.5	0.6	1.1	184	101	26	39	0.8	0.5	0.3	0.3	-44.9	48.1
3 Pulses	4.8	2.6	1.4	1.7	268	105	61	60	1.1	0.5	0.7	0.5	-60.6	-1.9
(b) Fuel	116.1	141.7	58.0	90.1	6470	5787	2515	3451	26.9	29.8	27.6	30.9	-10.6	37.2
1 POL	108.2	131.3	53.8	82.1	6030	5365	2333	3171	25.1	27.6	25.6	28.4	-11.0	35.9
2 Coal	7.9	10.4	4.2	8.0	440	422	182	280	1.8	2.2	2.0	2.5	-4.2	53.9
(c) Ores & metals	47.4	39.8	18.3	29.5	2642	1615	793	1033	10.9	8.3	8.8	9.3	-38.9	30.3
1 Iron and steel	21.1	19.7	9.6	13.1	1176	799	416	459	4.9	4.1	4.6	4.1	-32.0	10.2
2 Non-ferrous metals	11.0	8.4	3.3	5.6	613	341	143	196	2.5	1.8	1.6	1.8	-44.4	37.1
3 Ores & metal scrap	15.3	11.7	5.4	10.8	853	475	234	378	3.5	2.4	2.6	3.4	-44.3	61.6
(d) Fertilisers	17.7	23.5	11.7	17.5	986	953	507	613	4.1	4.9	5.6	5.5	-3.4	20.8
(e) Paper, board & pulp	9.1	7.9	4.1	4.3	507	320	178	151	2.1	1.7	1.9	1.3	-36.8	-15.3
II. Non-bulk imports	203.5	229.4	103.1	146.6	11341	9306	4470	5136	47.1	47.9	49.0	46.0	-18.0	14.9
(a) Capital goods	104.7	104.4	48.6	62.2	5835	4235	2107	2179	24.2	21.8	23.1	19.5	-27.4	3.4
(b) Mainly export-related imports	66.0	88.3	38.2	61.5	3678	3582	1656	2154	15.3	18.5	18.2	19.3	-2.6	30.1
1 Pearls and precious stones	37.4	48.2	21.7	33.0	2084	1955	941	1156	8.7	10.1	10.3	10.3	-6.2	22.9
2 Chemicals	22.9	34.0	13.9	24.4	1276	1379	603	855	5.3	7.1	6.6	7.7	8.1	41.8
3 Textile yarn, fabrics etc.	4.4	3.4	1.8	2.3	245	138	78	81	1.0	0.7	0.9	0.7	-43.8	3.2
4 Cashewnuts	1.3	2.7	0.8	1.8	72	110	35	63	0.3	0.6	0.4	0.6	51.2	81.8
(c) Other non-bulk items	32.8	36.7	16.3	22.9	1828	1489	707	802	7.6	7.7	7.8	7.2	-18.6	13.5
1 Professional instruments etc.	10.6	10.0	4.5	7.4	591	406	195	259	2.5	2.1	2.1	2.3	-31.3	32.9
2 Chemicals	9.2	10.5	4.2	6.8	513	426	182	238	2.1	2.2	2.0	2.1	-16.9	30.8
3 Plastics & resins	10.9	14.0	6.6	7.3	607	568	286	256	2.5	2.9	3.1	2.3	-6.5	-10.6
4 Non-metallic minerals	2.0	2.2	1.0	1.4	111	89	43	49	0.5	0.5	0.5	0.4	-19.9	13.1
III. Unclassified	28.3	29.4	12.4	26.0	1573	1154	538	614	6.5	5.9	5.9	5.5	-26.6	14.2
IV. Total	431.9	478.5	210.3	318.9	24072	19411	9119	11171	100.0	100.0	100.0	100.0	-19.4	22.5

(P) Provisional.

Notes: 1. Item I (d) 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 pharmaceuticals & dyeing & colouring material.

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

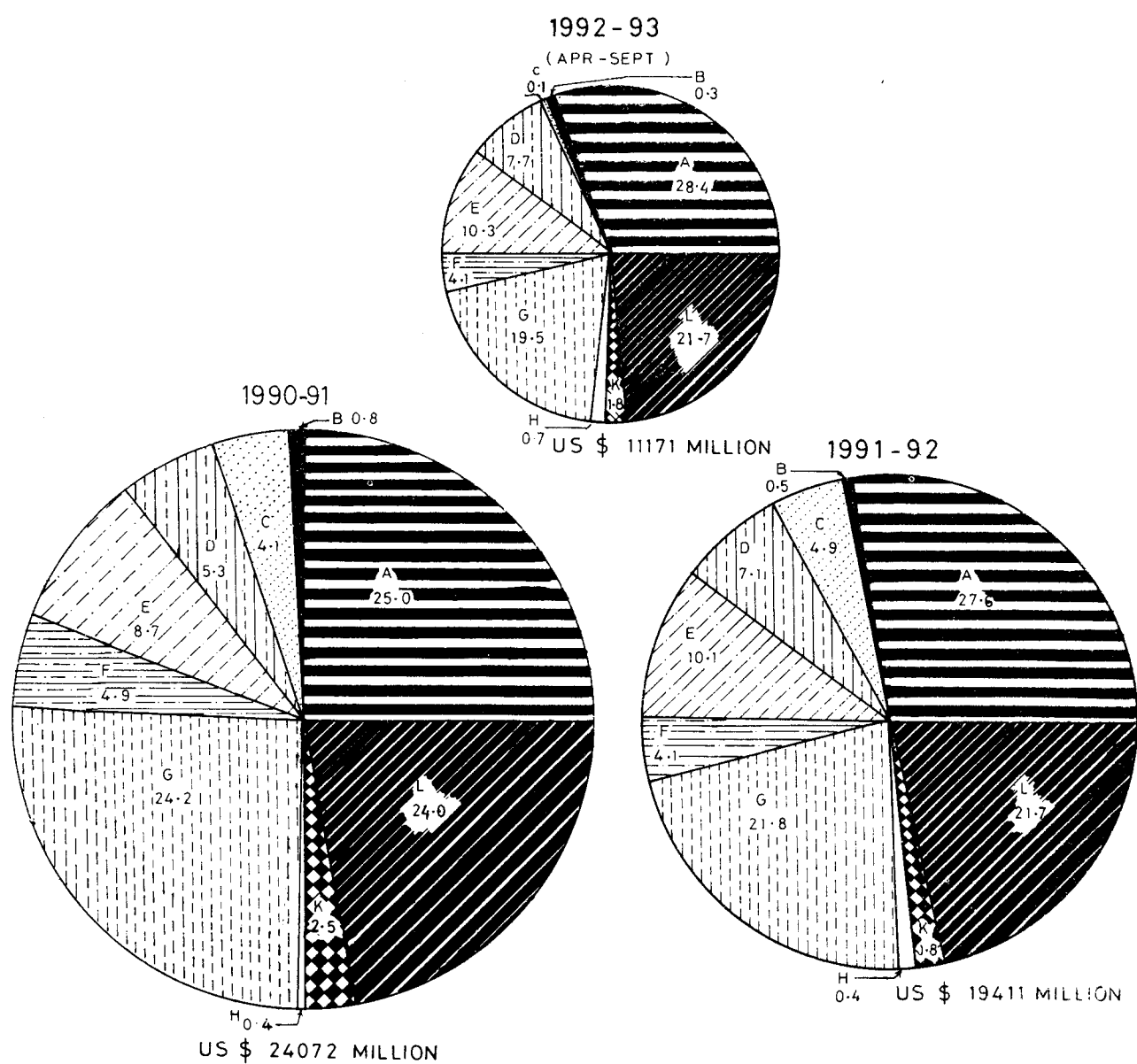


TABLE 5.4
Exports to GCA and RPA Countries

Year 1	GCA 2	Exports RPA 3	Total 4	GCA 5	Changes RPA 6	Total 7
	(Rs. 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	396.8	43.6	440.4	47.6	-23.1	35.3
1992-93 :						
April	36.72	2.88	39.60	43.34	-26.2	34.1
May	36.07	0.97	37.03	50.01	-61.3	39.6
June	36.70	1.67	38.37	63.55	-49.7	49.0
July	39.62	1.00	40.62	26.56	-62.0	19.7
August	42.35	1.87	44.23	30.63	-15.3	27.7
September	42.49	1.69	44.18	29.40	-56.4	20.3
October	42.57	1.29	43.86	31.89	-66.5	21.4
November	41.61	1.03	42.63	26.64	-74.5	15.6
December	41.60	1.17	42.77	10.84	-79.4	-1.0
April-Dec 1992	359.7	13.6	373.3	32.6	-57.6	23.1
April-Dec 1991	271.3	32.0	303.3	44.4	-27.4	30.8
	(US\$ billion)			(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	11.1	0.0	9.1
1991-92	16.1	1.8	17.8	7.3	-41.9	-1.5
1992-93 :						
April	1.27	0.10	1.37	-1.6	-49.4	-8.0
May	1.26	0.03	1.30	8.1	-71.5	0.6
June	1.29	0.06	1.35	21.0	-62.9	10.2
July	1.39	0.04	1.42	12.2	-62.6	6.9
August	1.49	0.07	1.56	16.8	-16.0	14.9
September	1.50	0.06	1.56	17.3	-60.9	8.9
October	1.50	0.05	1.54	19.6	-69.8	10.0
November	1.46	0.04	1.50	14.9	-77.0	4.7
December	1.44	0.04	1.48	-1.8	-82.1	-12.5
April-Dec 1992	12.6	0.5	13.1	11.4	-64.4	3.4
April-Dec 1991	11.3	1.3	12.6	6.3	-46.5	-3.7

Note: Data for April-December 1992 are provisional
Sources: DGC&S for trade data and RBI for exchange rate.

5.21 The direction of India's foreign trade for the year 1990-91, 1991-92 and April-September 1992 is depicted in Figures 5.5 and 5.6 (See also Appendix Table 7.4). During the last decade, our trade with West Europe improved substantially, while trade with Eastern Europe, OPEC and developing countries declined. While the shares of exports to West Europe and America improved, those for the U.K., Netherlands, Asia and Oceania remained more or less unchanged and there was a marked decline in the share of exports to the USSR, Romania and oil-rich countries of Kuwait and Iraq. While the share of West Europe, Asia and Oceania, Saudi Arabia and Africa in imports improved, that of America, Canada, and OPEC countries declined. The share of the U.K. has more or less remained unchanged.

TABLE 5.5
Exports by Major Commodity Groups

Items	1990-91	1991-92	1991-92 Apr-Sep	1992-93 Apr-Sep(P)	1990-91	1991-92	1991-92 Apr-Sep	1992-93 Apr-Sep(P)	Composition (\$terms)				Growth rate(\$terms)	
									1990-91	1991-92	1991-92 Apr-Sep	1992-93 Apr-Sep	1991-92/ 1990-91	Apr-Sep92/ Apr-Sep91
1	2	3 (Rs. hundred crore)	4	5	6	7 (US\$ million)	8	9	10	11 (Per cent)	12	13	14 (Per cent)	15
I. Agriculture & allied products	63.2	82.3	36.5	40.2	3522	3338	1583	1408	19.4	18.7	19.5	16.5	-5.2	-11.0
1. Cashew kernels	4.5	6.8	3.5	3.5	251	276	152	123	1.4	1.5	1.9	1.4	10.0	-19.2
2. Coffee	2.5	3.3	1.3	1.6	139	134	56	56	0.8	0.7	0.7	0.7	-3.9	-0.6
3. Marine products	9.6	14.4	6.0	7.1	535	584	260	249	2.9	3.3	3.2	2.9	9.2	-4.4
4. Oil meals	6.1	9.2	3.4	5.4	340	373	147	189	1.9	2.1	1.8	2.2	9.8	28.3
5. Raw cotton	8.5	3.0	2.8	0.3	474	122	121	11	2.6	0.7	1.5	0.1	-74.3	-91.3
6. Rice	4.6	7.6	2.5	4.8	256	308	108	168	1.4	1.7	1.3	2.0	20.3	55.1
7. Spices	2.3	3.7	1.7	1.8	128	150	74	63	0.7	0.8	0.9	0.7	17.1	-14.5
8. Sugar	0.4	1.6	0.6	0.6	22	65	26	21	0.1	0.4	0.3	0.2	191.1	-19.2
9. Tea & mate	10.7	12.1	4.8	4.5	596	491	208	158	3.3	2.7	2.6	1.8	-17.7	-24.3
10. Tobacco	2.6	3.8	2.4	2.6	145	154	104	91	0.8	0.9	1.3	1.1	6.4	-12.5
II. Ores and minerals	15.0	20.3	8.7	7.5	836	823	377	263	4.6	4.6	4.7	3.1	-1.5	-30.4
11. Iron ore	10.5	14.4	5.9	4.4	585	584	256	154	3.2	3.3	3.2	1.8	-0.2	-39.7
III. Manufactured goods	237.4	326.9	137.7	189.3	13231	13261	5971	6631	72.9	74.2	73.7	77.6	0.2	11.1
12. Engineering goods	38.8	55.1	21.5	33.2	2162	2235	932	1163	11.9	12.5	11.5	13.6	3.4	24.8
13. Chemicals	25.4	39.2	16.0	19.1	1416	1590	694	669	7.8	8.9	8.6	7.8	12.3	-3.6
14. Textiles	21.0	32.0	14.1	18.3	1170	1298	611	641	6.5	7.3	7.5	7.5	10.9	4.9
15. Jute manufactures	3.0	4.0	1.4	2.0	167	162	61	70	0.9	0.9	0.7	0.8	-3.0	15.4
16. Leather & mfrs.	26.0	31.3	13.7	17.6	1449	1270	594	617	8.0	7.1	7.3	7.2	-12.4	3.8
17. Readymade garments	40.1	54.2	21.5	32.5	2235	2199	932	1139	12.3	12.3	11.5	13.3	-1.6	22.1
18. Handicrafts	61.7	83.5	38.1	48.6	3439	3387	1652	1703	19.0	19.0	20.4	19.9	-1.5	0.0
Of which:														
Gems and jewellery	52.5	67.5	31.6	39.1	2926	2738	1370	1370	16.1	15.3	16.9	16.0	-6.4	0.0
IV. Mineral fuels and lubricants	9.5	10.4	3.7	7.0	529	422	160	245	2.9	2.4	2.0	2.9	-20.3	52.8
19. POL	9.4	10.2	3.6	6.8	524	414	156	238	2.9	2.3	1.9	2.8	-21.0	52.6
V. Others	0.6	0.5	0.3	0.0	34	21	13	0	0.2	0.1	0.2	0.0	-38.2	-100.0
VI. TOTAL	325.5	440.4	186.9	244.0	18142	17866	8104	8548	100.0	100.0	100.0	100.0	-1.5	5.5

(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. Item 13 excludes rubber, glass, paints and other products.

4. Item 14 includes cotton yarn, fabrics, made up etc.

5. Item 18 includes handicrafts, carpets (handmade) & gems and jewellery.

COMPOSITION OF INDIA'S EXPORTS

(PER CENT)

- A — AGRICULTURE AND ALLIED PRODUCTS*

B — ORES AND MINERALS

C — MINERAL FUEL AND LUBRICANTS

D — ENGINEERING GOODS**

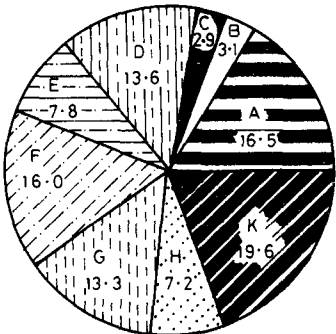
E — CHEMICALS
- F — GEMS AND JEWELLERY

G — READYMADE GARMENTS

H — LEATHER AND LEATHER MANUFACTURES

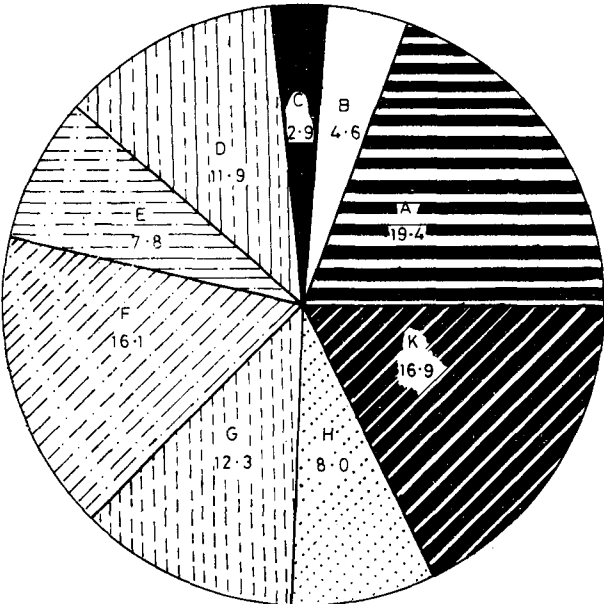
K — OTHERS

1992 - 93
(APR - SEPT)



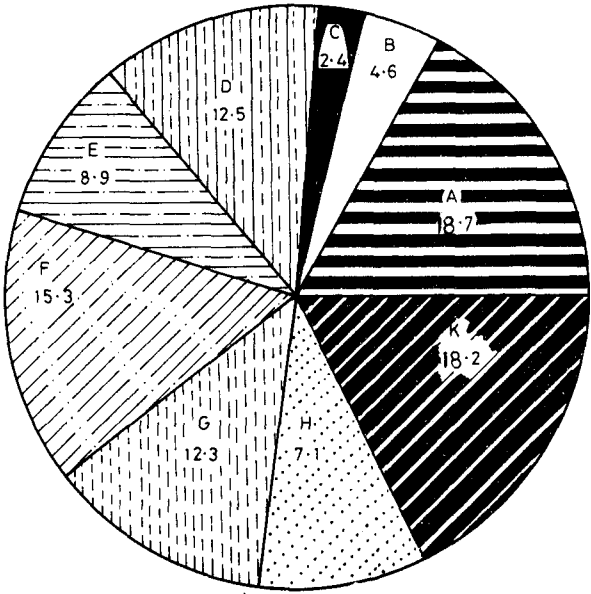
US \$ 8548 MILLION

1990-91



US \$ 18142 MILLION

1991-92



US \$ 17865 MILLION

* 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.

DESTINATION OF INDIA'S EXPORTS

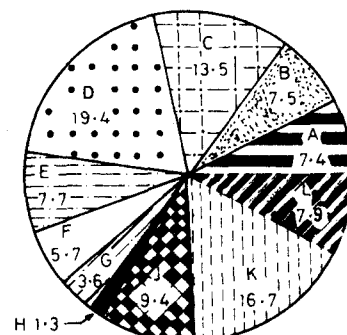
(PER CENT)

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

G — U.S.S.R.
H — OTHER EAST EUROPE
J — O.P.E.C.
K — DEVELOPING COUNTRIES (NON-O.P.E.C.)
L — OTHERS

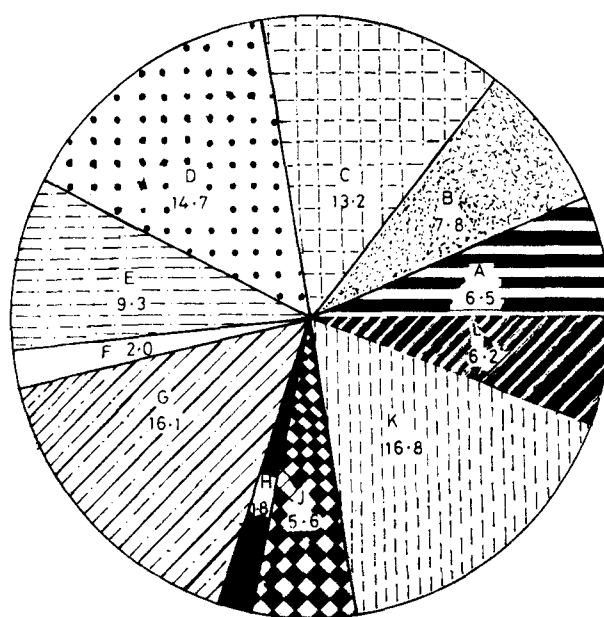
1992-93

(APR-SEPT)



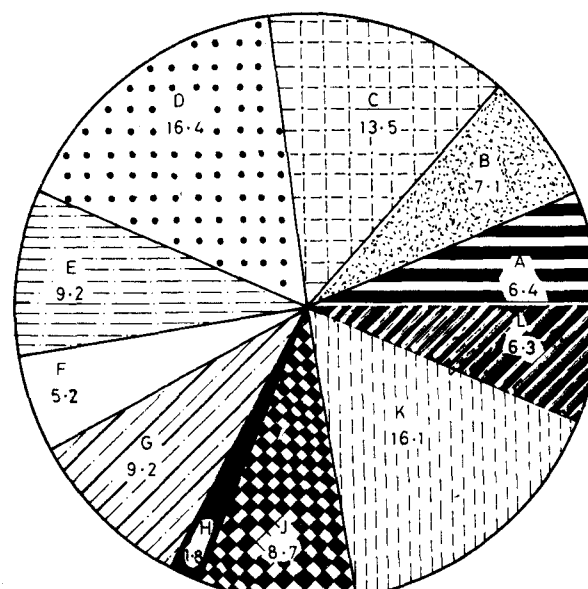
US \$ 8548 MILLION

1990-91



US \$ 18142 MILLION

1991-92



US \$ 17865 MILLION

Direction of Trade

5.22 The share of OPEC in exports improved from 5.6 per cent in 1990-91 to 8.7 per cent in 1991-92 and that of North America from 15.6 per cent to 17.4 per cent, whereas the share of East Europe declined substantially from 17.9 per cent to 10.9 per cent, that of EEC marginally from 27.5 per cent to 27 per cent and that of Asia from 23.6 per cent to 22.6 per cent. The shares of Africa, Oceania, Latin America and Caribbean remained more or less unchanged. During the first half of 1992-93, the country's direction of exports has shown similar trends.

5.23 The share of OPEC in India's imports improved from 16.3 per cent in 1990-91 to 19.7 per cent in 1991-92 and Africa's from 2.2 per cent to 4.1 per cent, while the share of North America declined from 13.4 per cent to 11.7 per cent, Eastern Europe's from 7.8 per cent to 5.1 per cent and Asia's from 21.5 per cent to 16.7 per cent; the share of EEC and Oceania remained more or less unchanged in 1991-92. As mentioned earlier, India's trade was adversely affected by economic and political disruptions in the erstwhile USSR. The USSR accounted for 95 per cent of the total trade turnover between India and the three countries under RPA viz. the USSR, Czechoslovakia and Romania. The total trade (exports plus imports) with RPA fell 45.2 per cent between 1990-91 and 1991-92. The decline was mostly in exports of agricultural and allied products to RPA. The decline in imports was mainly in imports of crude oil and petroleum products from Russia. The issue of valuation of Rouble debt also affected trade with Russia. It was finally settled in January 1993.

External Sector Policies

5.24 The broad strategy for management of the balance of payments followed by the Government is presented in Box 5.1. In pursuit of this strategy, a number of policy initiatives were taken in 1992-93.

Liberalised Exchange Rate Management System (LERMS)

5.25 A new system of exchange rate management was introduced in the Budget for 1992-93. The foreign exchange surrendered at official exchange rate is utilised to import essential items. All other imports of raw materials, components and also capital goods have been made freely importable on OGL but foreign exchange for these imports has to be obtained from the market. There is a specified negative list of items which continue to be importable against licences. Foreign exchange required for other payments on private account including travel, debt service payments, dividends, royalties and other remittances has to be obtained at the market rate.

5.26 The new system has been introduced as a transitional arrangement towards a unified exchange rate with current account convertibility. Meanwhile, it has simplified the trade policy regime by eliminating detailed exchange control.

Liberalisation of Import Licensing

5.27 The import licensing system developed over the years was characterised by bureaucratic delays and arbitrariness and was also vulnerable to charges of corruption and misuse. The system operated to the disadvantage of smaller enterprises which typically found it much more difficult and costlier to obtain licences. A step towards the simplification of the system was taken in July 1991 with the introduction of eximscrips, which were essentially tradable import licences issued to exporters for 30 per cent of the value of exports. Eximscrips could be used to import a wide range of items which were earlier importable against supplementary licences; and with the introduction of eximscrips, supplementary licences were abolished. Eximscrips traded at a premium which accrued to exporters of goods and services as well as to those making remittances to India. However, eximscrips also had to be issued case by case like other import licences, required physical handling, and needed surveillance as they could be forged.

BOX 5.1

Principal Elements of Balance of Payments Strategy

Fiscal and Monetary Discipline

- Strict fiscal and monetary discipline to control aggregate demand. The Central fiscal deficit reduced from 8.4 per cent of GDP in 1990-91 to 6.2 per cent of GDP in 1991-92 and to be further reduced to 5 per cent of GDP in 1992-93. Monetary policy aimed at slowing down the growth of money supply from 18.5 per cent in 1991-92 to 10.5 per cent in the current year. As a result, inflation brought under control.

Liberalised Exchange Rate Management System (LERMS)

- LERMS, a dual exchange rate system, introduced in the Budget for 1992-93. Under this system, 40 per cent of foreign exchange earnings to be surrendered at the official exchange rate. Remaining 60 per cent to be converted at a market-determined rate. The foreign exchange surrendered at official exchange rate is utilised to import essential items. The foreign exchange converted at the market rate is available to finance all other imports. Represents a transitional stage to full convertibility on current account.
- Import restrictions on capital goods, raw materials and components virtually eliminated. Thus, excess import demand will be reflected in a higher market exchange rate and self-correcting mechanism will operate to keep trade deficit in check. Considerable reductions in peak tariffs, tariffs on capital goods. Cash margins and interest surcharge on import credit abolished. Harmonised system of customs classification introduced.

Structural Reforms

- Substantial deregulation of industry and trade. Many industries delicensed. Competition promoted by the opening up of many areas previously reserved for the public sector to private and foreign investment. Policies put in place to attract foreign direct and portfolio investment. Amendment of SICA to permit public enterprises to be examined by BIFR. Financial sector reforms.

Mobilisation of Exceptional Financing

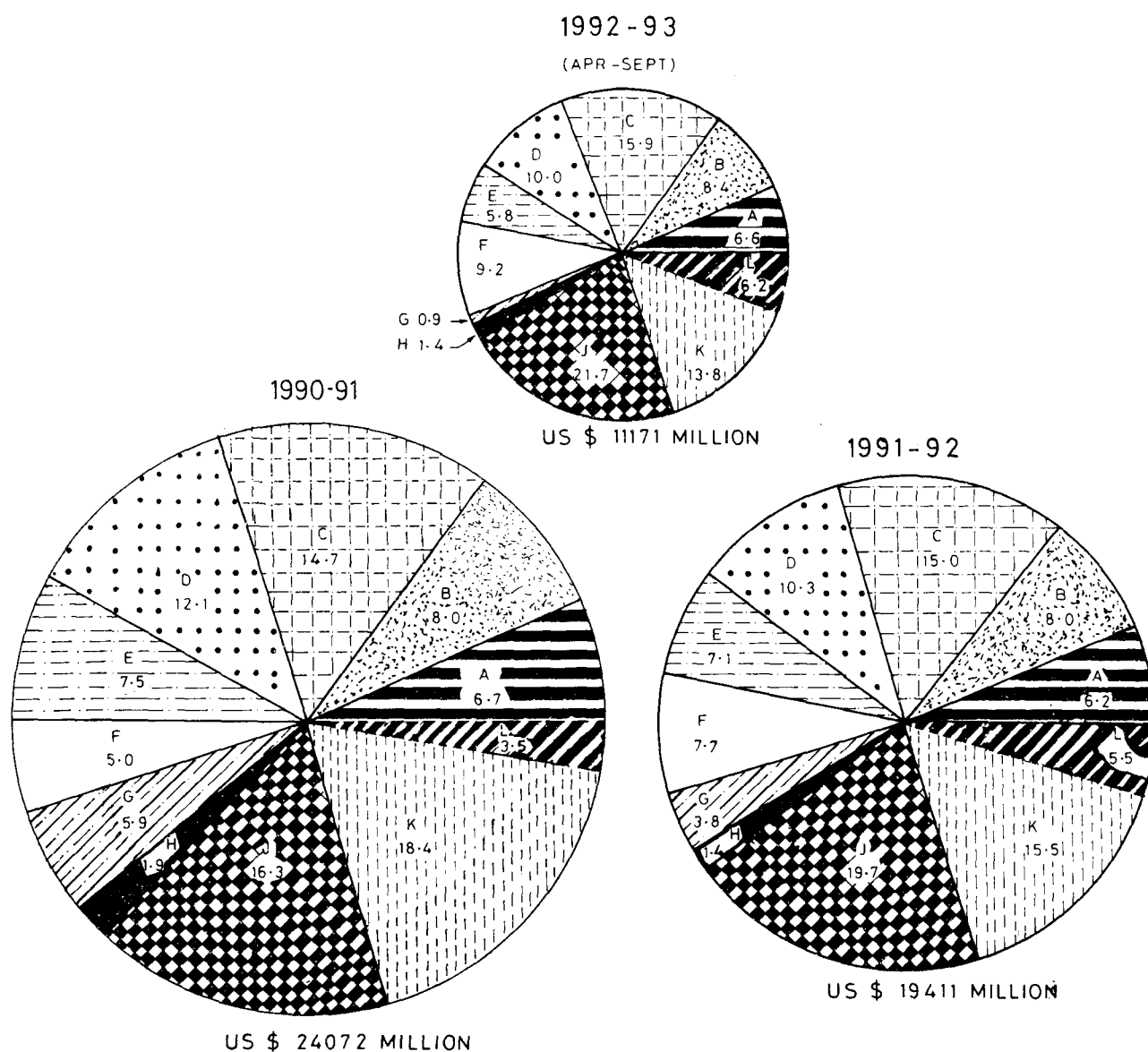
- Mobilisation of exceptional financing from multilateral agencies and bilateral donors. Standby arrangement with the IMF. Structural adjustment and social safety net loans from World Bank. Financial sector loan negotiated with ADB.

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 — USSR
H — OTHER EAST EUROPE
J — OPEC
K — DEVELOPING COUNTRIES (NON-OPEC)
L — OTHERS



LERMS - Main Features

- Forty per cent of the proceeds of exports and inward remittances is purchased at the official rate of exchange by Reserve Bank of India for official use. All other receipts and payments are converted at the market rate of exchange.
- Receipts and payments on capital account continue to be subject to controls. These transactions are made at market rates except in the case of IMF flows and disbursements from multilateral agencies against Rupee expenditures.
- All foreign exchange receipts are surrendered to the authorised dealers on the day of realisation.
- All transactions are conducted within the framework of exchange control regulations which are being liberalised progressively.
- Imports under advance and imprest licences and replenishment imports against gems and jewellery exports are paid at official rate to the extent of 40 per cent of the value of the imports.
- As the US dollar has assumed prime importance in the invoicing pattern, the RBI has the flexibility to choose either the Pound sterling or US dollar as the intervention currency depending on the circumstances. So far, the currency of intervention had been the Pound sterling.
- Forward sales of US dollars or Pound sterling have been discontinued for the present.
- RBI can enter the free market and intervene at its discretion.
- Exporters and recipients of inward remittances are allowed to maintain 15 per cent of their receipts in a foreign currency account.
- Export processing zones (EPZs), 100 per cent Export Oriented Units (EOUs), units in Electronics Software Technology Parks (ESTPs) and Electronics Hardware Technology Parks (EHTPs) are allowed to convert all their exchange earnings at the market rate.

TABLE 5.6
Trends in Rupee's Nominal and Real Effective Exchange Rate

Year/month	Nominal effective exchange rate (NEER)		Real effective exchange rate (REER)	
	2	3	4	5
	5-country index	10-country index	5-country index	10-country index
1985	100.00	100.00	100.00	100.00
1986	82.14	81.25	89.51	88.92
1987	72.61	71.01	83.57	82.21
1988	64.08	62.98	78.43	77.48
1989	57.69	56.84	75.16	74.25
1990	52.03	50.24	69.99	67.86
1991				
January	47.32	45.60	66.39	64.36
February	45.36	43.70	64.77	62.73
March	46.32	44.89	66.49	64.75
April	45.53	44.34	65.79	64.52
May	44.37	43.24	64.34	63.15
June	44.17	43.21	64.70	63.70
July	36.25	35.50	54.02	53.22
August	35.70	34.85	55.12	54.14
September	34.96	34.09	54.74	53.90
October	34.65	33.83	54.60	53.57
November	34.12	33.20	53.79	52.56
December	33.65	32.68	53.34	52.02
1992				
January	33.42	32.55	54.04	52.88
February	33.86	33.04	54.86	53.78
March	32.01	31.23	52.02	51.03
April	30.94	30.18	50.29	49.29
May	30.85	30.10	50.43	49.45
June	30.37	29.58	50.00	48.94
July	29.81	28.88	49.65	48.31
August	29.77	28.77	50.11	48.63
September	29.74	28.81	50.45	49.04
October	30.32	29.49	51.98	50.75
November	31.32	30.64	53.50	52.53
December	30.75	30.12	NA	NA
1993				
January	30.86	30.36	NA	NA

Note: These are export-weighted indices with weights based on the direction of India's exports in 1982-83. The U.S.A, Japan, the U.K, Germany, and France are included in the 5-country index and Netherlands, Italy, Belgium, Switzerland, and Australia are included in addition in the 10-country index.

5.28 On 1 March 1992, the system of eximscrips was itself abolished and was replaced by LERMS under which virtually all capital goods and raw materials and components were made freely importable subject to tariff protection as long as the foreign exchange to pay for these imports was obtained from the market. The Trade Policy announced on 1 April, 1992 substantially pruned the negative list of licensable imports. Three import items are banned, 71 items are restricted and 7 items are canalised. Under the new system exporters benefit from the higher market rate obtained on 60 per cent of the foreign exchange surrendered at market rates instead of the premium earlier available in eximscrips.

Export Promotion Capital Goods Scheme

5.29 The Export Promotion Capital Goods (EPCG) scheme, under which import of capital goods is permitted at a concessional import duty of 25 per cent subject to export obligation of three times the CIF value of imports to be achieved over a period of four years, was further liberalised also to allow imports of capital goods at a lower concessional customs duty of 15 per cent subject to an export commitment equivalent to four times the CIF value of imports to be achieved over a period of five years. As shown in Table 5.7, imports of capital goods permitted under the EPCG scheme during the first three-quarters of 1992-93 have been higher than the total imports permitted under the scheme in the previous two years.

TABLE 5.7
Approvals of Imports of Capital Goods under EPCG Scheme

Year/ period	Number of applications approved	CIF value of imports (Rs.crore)	Additional export obligation offered (Rs.crore)
1	2	3	4
1990-91	306	376	1129
1991-92	339	444	1369
April-Dec 1992	1344	2223	8892

Improvements in Advance Licensing

5.30 A system of value-based advance licences has been introduced. This permits duty-free imports of necessary raw materials and components up to a stipulated percentage of the value of indicated exports. Physical quantities and norms are not laid down for individual inputs. Self-certification advance licences are available for Export Houses, Trading Houses and Star Trading Houses. All licences under duty exemption schemes are also transferable.

Export Oriented Units/ Export Processing Zone Schemes

5.31 The Export Oriented Unit (EOU) and the Export Processing Zone (EPZ) schemes have been liberalised and extended to agriculture, horticulture, aquaculture, poultry and animal husbandry. EOU and EPZ units may also export through Export Trading & Star Trading Houses and install machines on lease. Inter-unit transfers are also allowed. The definition of deemed exports has been streamlined. Supplies to EOU/EPZ units, supplies against EPCG licences and against advance licences will be treated as deemed exports. EPZ/EOU units can convert their entire export earnings at market rates; and 100 per cent foreign equity participation is allowed in these units. They also enjoy a corporate tax holiday for a period of any block of five years during the first eight years of operations and can import all their requirements duty-free. The units can sell up to 25 per cent of their output in the domestic market on payment of duty and as long as the product is allowed to be imported. Despite these concessions, the performance of EPZ/EOUs has not been up to expectations (Table 5.8).

TABLE 5.8
Performance of Export Processing Zones since 1989

Name of Zone	No. of units in operation as on Mar 31, 1992	Employment	Exports					
			1989-90	1990-91	1991-92	1989-90	1990-91	1991-92
			4 (Rs. million)	5	6	7 (US\$ million)	8	9
KAFTZ	107	11000	3382	4566	4272	203.14	254.47	173.29
SEEPZ	115	10500	2905	3890	5002	174.48	216.80	202.90
NEPZ	71	4500	519	446	722	31.17	24.86	29.29
MEPZ	107	6616	296	613	1225	17.78	34.16	49.69
CEPZ	23	2170	110	55	286	6.61	3.07	11.60
FEPZ	12	400	169	250	279	10.15	13.93	11.32
Total	435	35186	7381	9820	11786	443.33	547.29	478.10

Notes : KAFTZ -Kandla Free Trade Zone
SEEPZ -Santacruz Electronics Export Processing Zone
NEPZ -NOIDA Export Processing Zone
MEPZ -Madras Export Processing Zone
CEPZ -Cochin Export Processing Zone
FEPZ -Falta Export Processing Zone

Special Import Licences

5.32 Certain categories of exports and exporters such as deemed exports; Export Houses, Trading Houses and Star Trading Houses; manufacturer-exporters with ISO 9000 or BIS 14000 series or equivalent certification; and exports to ACU (Asian Clearing Union) countries would be eligible for the issue of special import licences in order to enable them to import specified items which are on the restricted list. These licences would be freely tradable in the market. The entitlements of special import licences to the eligible category of exports as announced in October 1992 are indicated in Table 5.9. Under these special licences, imports of 18 specified consumer durable items listed in the negative list have been allowed subject to payment of normal customs duty. These items include gold, integrated monocoque buses, air-conditioning units of buses, diesel generating sets up to 1500 kv., electric portable generators up to 3.5 kv., spare parts for automobiles and tractors, computer systems including personal computers of cif value below \$5000, integrated circuits and chips for clocks and timepieces, video magnetic tapes, video cameras, electronic typewriters, electronic cameras and electronic games. No special licences would be granted in respect of any ACU exports or deemed exports for which payment has been received in hard currency.

TABLE 5.9
Entitlement to Special Import Licences

Category	Maximum value of special import licences (as per cent of net foreign exchange)
1	2
1 Exports to ACU countries	20.0
2 Deemed exports	15.0
3 (a) Star Trading Houses	10.0
(b) Trading Houses	7.5
(c) Export Houses	5.0
4 Manufacturers who have acquired the ISO 9000 or the BIS 14000 (series) or other international certificate of quality	5.0

Tariff Rationalisation

5.33 India's tariff structure has become highly complex and difficult to administer because of a large number of end-use exemptions. The average tariff is far above world standards and the tariffs vary enormously. The Government, following the recommendations of the Tax Reforms Committee, reduced the peak level of tariffs to 150 per cent in 1991-92 and further to 110 per cent in 1992-93. Further, import duties on capital goods, project imports, basic feedstocks for petro-chemicals, etc. were brought down. The Government proposes to further reduce the average and maximum tariffs and simplify and rationalise the tariff structure. This will bring the country's tariff structure in line with those of other developing countries.

Export Credit Policy

5.34 With a view to ensure adequate availability of credit to exports RBI instructed the scheduled commercial banks on 11 November 1992 that at least 10 per cent of net outstanding credit be allocated for exports by July 1993. While export credit is provided at a special low interest rate of 14 per cent, care has been taken to ensure that export credit is attractive to the banks; they are provided with liberal refinance facilities at 11 per cent.

Foreign Investment Policy

5.35 Policy towards foreign investment was liberalised in 1991 to permit automatic approval for foreign investment up to 51 per cent equity in 34 industries. The Foreign Investment Promotion Board (FIPB) was also set up to process applications in cases not covered by automatic approval. During 1992-93 several additional measures were taken to encourage investment flows: direct foreign investment, portfolio investment, NRI investment and deposits and investment in global depository receipts. They are given below:

- (i) The dividend-balancing condition earlier applicable to foreign investment up to 51 per cent equity is no longer applied except for consumer goods industries.
- (ii) Existing companies with foreign equity can raise it to 51 per cent subject to certain prescribed guidelines. Foreign direct investment has also been allowed in exploration, production and refining of oil and marketing of gas. Captive coal mines can also be owned and run by private investors in power.
- (iii) NRIs and overseas corporate bodies (OCBs) predominantly owned by them are also permitted to invest up to 100 per cent equity in high-priority industries with repatriability of capital and income. NRI investment up to 100 per cent of equity is also allowed in export houses, trading houses, star trading houses, hospitals, EOUs, sick industries, hotels and tourism-related industries and without the right of repatriation in the previously excluded areas of real estate, housing and infrastructure. Foreign citizens of Indian origin are now permitted to acquire house property without the permission of the Reserve Bank of India.
- (iv) Disinvestment of equity by foreign investors no longer needs to be at prices determined by the Reserve Bank. It has been allowed at market rates on stock exchanges from 15 September 1992 with permission to repatriate the proceeds of such disinvestment.
- (v) India has signed the Multilateral Investment Guarantee Agency Protocol for the protection of foreign investments on 13 April 1992.
- (vi) Provisions of the Foreign Exchange Regulation Act (FERA) have been liberalised through an Ordinance dated 9 January 1993 as a result of which companies with

more than 40 per cent of foreign equity are also now treated on par with fully Indian-owned companies.

- (vii) Foreign companies have been allowed to use their trade marks on domestic sales from 14 May 1992.

5.36 The early results from the new policy are encouraging. In the period August 1991 to December 1992 the Government approved 2154 foreign collaboration proposals including 894 cases with foreign equity participation. The total value of equity in foreign investment proposals approved is Rs.42.9 billion, more than three times the Rs.12.7 billion of foreign investment approved in the last decade (1981-1990). Nearly 80 per cent of the approvals are in priority sectors.

5.37 The government has allowed reputed Foreign Institutional Investors (FIIs) including pension funds, mutual funds, asset management companies, investment trusts, nominee companies and incorporated or institutional portfolio managers to invest in the Indian capital market subject to the condition that they register with the Securities and Exchange Board of India (SEBI) and obtain RBI approval under FERA. Portfolio investments by the FIIs in the primary and secondary markets are subject to an overall ceiling of 24 per cent of the issued share capital in any company and the FIIs are required to allocate their total investment between equities and debentures in the ratio of 70:30. FIIs investing under the scheme enjoy a concessional tax rate of 20 per cent on dividend and interest and 10 per cent on long-term capital gains.

TABLE 5.10
Countrywise Breakup of Foreign Investment Approved, 1990-1992

	1990	Total approvals 1991	1992	1990	Shares 1991	1992
1	2	3	4	5	6	7
	(Rs million)			(per cent)		
1 U.S.A	344.8	1858.5	12315.0	26.9	34.8	31.7
2 Switzerland	135.0	355.0	6897.6	10.5	6.6	17.7
3 Japan	50.0	527.1	6102.3	3.9	9.9	15.7
4 U.K.	90.6	321.0	1176.7	7.1	6.0	3.0
5 Netherlands	37.6	559.2	967.9	2.9	10.5	2.5
6 Germany	195.1	418.0	862.7	15.2	7.8	2.2
7 Italy	68.2	178.1	893.9	5.3	3.3	2.3
8 Australia	6.3	26.1	776.2	0.5	0.5	2.0
9 Hongkong	11.5	211.5	570.8	0.9	4.0	1.5
10 Malaysia	1.2	1.8	744.3	0.1	0.0	1.9
11 Singapore		13.7	602.1	0.0	0.3	1.5
12 France	88.8	193.3	296.4	6.9	3.6	0.8
13 Sweden	3.3	69.8	484.1	0.3	1.3	1.2
14 Korea (Rep. of)	70.6	61.5	394.0	5.5	1.2	1.0
15 Denmark	27.2	111.7	252.3	2.1	2.1	0.6
16 Russia	71.8	86.1	115.9	5.6	1.6	0.3
17 Belgium		16.1	237.0	0.0	0.3	0.6
18 Taiwan	8.4	4.5	237.0	0.7	0.1	0.6
19 Finland	5.6	25.3	105.0	0.4	0.5	0.3
20 NRIs	52.4	197.0	4391.3	4.1	3.7	11.3
21 Others	14.8	105.8	452.9	1.2	2.0	1.2
Total	1283.2	5341.1	38875.4	100.0	100.0	100.0

5.38 The Indian corporate sector has also been encouraged to access global capital markets through Global Depository Receipts Mechanism (GDR) as described below: (a) Foreign investors can invest in Indian companies through the GDR route without any lock-in period. (b) These Receipts can be listed on any of the overseas stock exchanges and denominated in any convertible foreign currency. However, the underlying shares would be denominated in Indian Rupees. (c) Private placement with US investors is also permissible in accordance with the US Securities Act. (d) Short-term capital gains are taxable at the rate of 65 per cent along with business income. Long-term capital gains (computed on holdings for more than 12 months) are taxable at the rate of 10 per cent.

5.39 The Government has liberalised the guidelines for Indian joint ventures abroad, providing for automatic approval in 30 days for all cases involving an equity of up to \$2 million with a cash remittance component of \$ 0.5 million. The remainder of the Indian direct foreign investment may be contributed in the form of Indian plant, machinery and equipment, export of goods to the foreign concern or payments to the Indian party as fees, royalties and commissions for the supply of technical know-how, consultancy and managerial or other services. It is expected that these liberalised norms would allow Indian companies greater flexibility not only for internationalising their operations but also in facilitating the export drive by setting up trading centres. Till 31 December 1991 there were 161 overseas joint ventures and another 84 were under implementation. Total equity invested by Indian companies in these joint ventures is around Rs.150 crore. Of the total 245 joint ventures, 130 were in Asia, 58 in Europe, 37 in Africa and 12 in the USA. Malaysia, Singapore, Thailand, Nigeria, CIS countries and Sri Lanka are India's major joint venture centres.

External Finance

5.40 The strategy for balance of payments management includes substantial support in the form of external financial flows including external assistance and external borrowings including fast-disbursing assistance from official multilateral and bilateral sources and also through new schemes to attract funds from non-residents, their corporate bodies and foreign banks.

External Assistance

5.41 The gross inflows under external assistance from both multilateral and bilateral sources increased substantially from \$ 3.74 billion in 1990-91 to US\$ 4.69 billion in 1991-92, i.e., by 25 per cent (Table 5.11). Of the total external assistance, US\$ 1.11 billion - about a quarter - was fast-disbursing not linked to projects. This included the first tranche of the Structural Adjustment Loan (SAL) of US\$ 300 million, and the Oil & Gas Sector Programme Loan of US\$ 150 million from the World Bank; US\$ 150 million for Special Assistance Projects and US\$ 125 million as the first tranche of the Hydrocarbon Sector Loan from the Asian Development Bank; and about US\$ 380 million from Japan, Germany, and the U.K.

5.42 The Aid-India Consortium, which met in Paris in June 1992, pledged to provide US\$ 7.2 billion of assistance in 1992-93; this represents an increase of US\$ 500 million or about 7.5 per cent more over the pledges of the previous year. The quick-disbursing component of this assistance is US\$ 1.79 billion, i.e., 25 per cent of the total, US\$ 1.13 billion from multilateral sources and the rest from bilateral sources.

5.43 A worrying aspect of India's balance of payments in 1992-93 has been the low utilization of external assistance. In spite of the larger pledges from the Aid-India Consortium donors this year, the disbursements have been running at a much lower level than last year; Up to December 1992, the gross disbursements have amounted to only US\$ 2 billion against US\$ 3.16 billion during the same period last year - 36.7 per cent lower. As a result, for the first three quarters of 1992-93, net capital transfer under

TABLE 5.11
External Assistance

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	April-December 1991	1992
1	2	3	4	5	6	7	8	9	10
	(Rs. hundred crore)								
1 Authorisations	56.50	61.60	92.65	130.70	108.26	81.23	127.07	67.24*	33.62*
2 Gross disbursements	29.36	36.05	50.52	53.04	58.02	67.04	116.15	75.82	60.77
3 Debt service payments	13.67	20.29	26.24	29.46	36.86	42.82	66.56	39.92	60.79
(a) Amortisation	7.76	11.76	15.81	16.46	19.87	23.29	36.50	21.51	32.47
(b) Interest payments	5.91	8.53	10.43	13.00	16.99	19.53	30.06	18.41	28.32
4 Net capital inflow (2-3a)	21.60	24.29	34.71	36.58	38.15	43.75	79.65	54.31	28.30
5 Net capital transfer(2-3)	15.69	15.76	24.28	23.58	21.16	24.22	49.59	35.90	-0.02
	(US\$ billion)								
1 Authorisations	4.62	4.82	7.15	9.03	6.50	4.53	5.51	2.92*	1.11*
2 Gross disbursements	2.40	2.82	3.90	3.66	3.48	3.74	4.69	3.16	2.00
3 Debt service payments	1.12	1.59	2.02	2.03	2.21	2.39	2.69	1.66	2.00
(a) Amortisation	0.63	0.92	1.22	1.14	1.19	1.30	1.47	0.90	1.07
(b) Interest payments	0.48	0.67	0.80	0.90	1.02	1.09	1.21	0.77	0.93
4 Net capital inflow (2-3a)	1.77	1.90	2.68	2.53	2.29	2.44	3.22	2.26	0.93
5 Net capital transfer (2-3)	1.28	1.23	1.87	1.63	1.27	1.35	2.00	1.50	-

* For the period April-Sept 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, commercial borrowings and IMF credits other than Trust Fund loan. These figures do not tally with those in Table 5.1 as the latter exclude loans under non-Government account which are included under commercial borrowings in Table 5.1, and also grants.

external assistance has been zero. This is in spite of the drawal of about US\$ 625 million fast-disbursing funds during April-December 1992 - US\$ 200 million as the last tranche of World Bank's SAL, about US\$ 100 million from World Bank under Social Safety Net Loan, US\$ 150 million from ADB under Financial Sector Loan, US\$ 125 million from Japan under Hydrocarbon Sector Loan, and about US\$ 50 million from Germany during 1992-93 up to December 1992. The recent decision to pass on to the States the entire external assistance as additional central assistance in respect of all sectors (not just in respect of only social sectors as before) and to release advance central assistance to meet the initial liquidity requirements of State Governments are important steps in the direction of speeding up aid utilization.

External Commercial Borrowing

5.44 The Gulf crisis and the consequent downgrading of India's credit rating below the investment grade effectively prevented India from accessing international capital markets. This resulted in net outflows on ECB account both in 1990-91 and 1991-92 (Table 5.12). The successful handling of the BOP crisis and the series of structural reforms introduced since July 1991 restored external investors' confidence to some extent. It would, however, be imprudent to conclude that the markets have opened up on a normal basis for Indian borrowers to take recourse to such borrowings on a significant scale. Moreover, the Government has decided to reduce the share of short-term borrowings in total debt. Consequently, a major portion of the commercial borrowings raised during the last two years have been by way of export credits supported by official export credit agencies such as the US Exim Bank, the Japanese Exim Bank, the ECGC of the U.K, etc. Overall, the improvement in outlook in 1992-93 is evident from the fact that authorizations have amounted to US\$ 1.6 billion during April-September compared to US\$ 680 million in the corresponding period of 1991-92.

TABLE 5.12
External Commercial Borrowings*

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	April-December 1991	1992
1	2	3	4	5	6	7	8	9	10
(Rs. hundred crore)									
1 Authorisations	17.00	13.96	26.54	43.14	54.79	34.14	52.76	15.59	48.06
2 Gross disbursements	17.99	24.74	22.52	40.69	41.96	30.50	27.14	14.06	16.68
3 Debt service payments	11.75	15.65	17.36	22.24	30.41	40.06	53.93	21.69	30.65
(a) Amortisation	5.65	7.96	8.71	11.03	14.55	21.37	28.98	11.12	18.25
(b) Interest payments	6.10	7.69	8.65	11.21	15.86	18.69	24.95	10.57	12.40
4 Net capital inflow(2-3a)	12.34	16.78	13.81	29.66	27.41	9.13	-1.84	2.94	-1.57
5 Net transfer (2-3)	6.25	9.09	5.16	18.45	11.55	-9.56	-26.79	-7.63	-13.97
(US \$ billion)									
1 Authorisations	1.39	1.09	2.05	2.98	3.29	1.90	2.13	0.68	1.59
2 Gross disbursements	1.47	1.94	1.74	2.81	2.52	1.70	1.10	0.61	0.55
3 Debt service payments	0.96	1.22	1.34	1.54	1.83	2.23	2.18	0.94	1.01
(a) Amortisation	0.46	0.62	0.67	0.76	0.87	1.19	1.17	0.48	0.60
(b) Interest payments	0.50	0.60	0.67	0.77	0.95	1.04	1.01	0.46	0.41
4 Net capital inflow(2-3a)	1.01	1.31	1.07	2.05	1.65	0.51	-0.07	0.13	-0.05
5 Net transfer (2-3)	0.51	0.71	0.40	1.27	0.69	-0.53	-1.08	-0.33	-0.46

* Excludes borrowings up to 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. The data in this table does not tally with that given in Table 5.1 which also include external assistance on non-Government account, suppliers' credits from East-European countries repayable in rupees, and also the funds raised through India Development Bonds in 1991-92. US\$ 1.63 billion was raised through India Development Bonds in 1991-92.

5.45 There have been some encouraging signs recently in this context. International banks are showing readiness to conclude liability management transactions with Indian entities, and the offers for lead managing bond issues by Indian entities in the Yankee and the Samurai Bond markets received from leading international investment banks/security houses are indications that interest in India is picking up.

5.46 The Japanese Bond Research Institute (JBRI) in its latest global credit risk survey has upgraded India slightly. The tendency of the rating agencies is to downgrade ratings quickly at the first signs of trouble and be cautious of revising ratings upwards. However, most of the leading merchant bankers make their own assessments; there are indications that India's credit rating in the international financial markets is being informally upgraded. These indications are confirmed by the reduction in the cost of short-term trade-related credit facilities.

5.47 While restoration of our credit rating is important, it is not the policy of the Government to permit a large expansion of commercial debt. It is intended to keep a close watch on the buildup of debt to ensure that it remains within manageable limit. In particular, the Government has evolved a clear-cut policy on short-term debt i.e. maturities between six months to one year. Its basic thrust is that short-term debt should not be used as an instrument for protecting the reserves. While the existing exchange control provisions, which permit normal trade-related credits up to six months, are adequate to

BOX 5.3

ECB Guidelines

- A cap on access to ECB to ensure that debt is kept at a sustainable level.
- Priority to infrastructure and core sectors, export-oriented and import-substitution units and also medium sized/small scale units.
- Only for meeting the foreign exchange cost of capital investment; no borrowings to meet rupee expenditure.
- Minimum final maturity of five years.
- A High Level Committee on Debt Management to review and monitor the magnitudes, composition and allocation of debt.

meet the requirements of Indian borrowers, any short-term debt not governed by these regulations should be specifically approved by Reserve Bank of India after satisfying itself that recourse to such debt was on genuine cost-related considerations or trade-related considerations.

Non-Resident Deposits

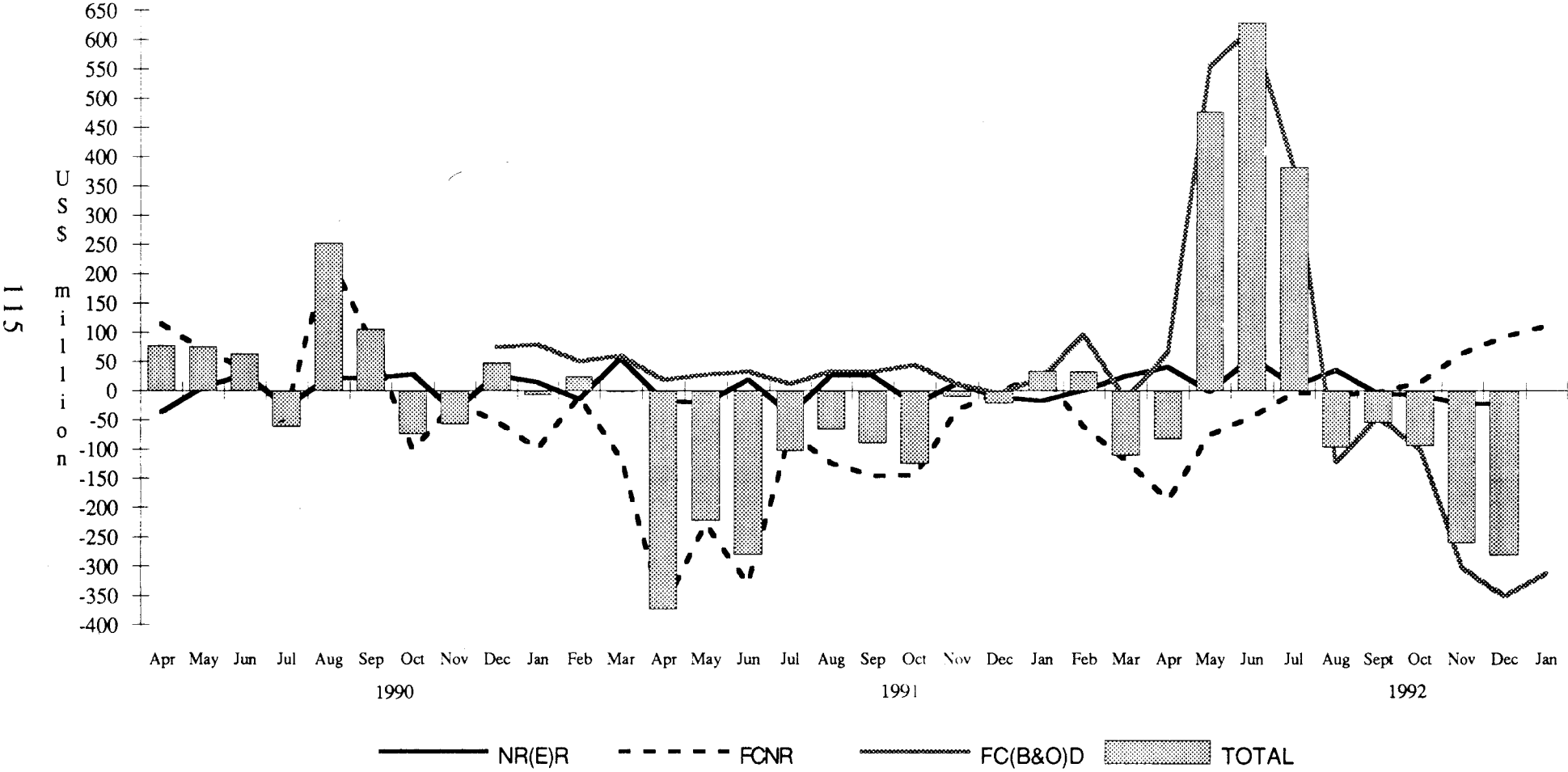
5.48 As with external commercial borrowings, dependence on NRI deposits, which are on commercial terms as well as of relatively short maturity, was significant from 1985-86 to 1989-90 (Appendix Table 8.5). The outflow from non-resident deposits, which started in October 1990 following the erosion of international confidence, had assumed alarming proportions in the second quarter of 1991. From over US\$ 300 million a month then, the outflow slowed with the introduction of the package of new policy measures to about US\$ 75 million a month in the remaining part of the year. It further declined to less than US\$ 50 million a month in 1992-93 up to September; inflows have begun in Foreign Currency Non-Resident (FCNR) accounts since October 1992 (Table 5.13).

5.49 As the external finance crisis unfolded, Reserve Bank of India introduced a new scheme in November 1990 similar to the FCNRA scheme to mobilize foreign funds. This scheme was called the Foreign Currency (Banks and Others) Deposit [FC(B&O)D] scheme; it is also open to foreign citizens or banks and other institutions, but withdrawals are not allowed before maturity unlike in the case of NRI deposits. It attracted relatively small amounts of US\$ 262 million in 1990-91 and US\$ 304 million in 1991-92. In the current year, it attracted large net inflows of about US\$ 1.62 billion up to July 1992. As reserves mounted the scheme was suspended from end-July 1992. There have been since outflows from these deposits as they were repaid (Figure 5.7).

5.50 Interest rates on NR(E)R deposits have been aligned with domestic deposit rates from 9 October 1992, term deposits under NR(E)RA for all maturities would be subject only to the stipulation that they must not exceed 13 per cent per annum (one per cent above the maximum domestic deposit rate). Similarly, the interest rate on saving deposits under NR(E)RA has been raised from 5 per cent to 6 per cent per annum.

5.51 Interest rates for FCNR deposits are aligned to international interest rates. In response to the fall in international interest rates, deposit rates on FCNR deposits were reduced on 13 July 1992 and 12 October 1992. Interest rates for deposits designated in the Pounds sterling and the Deutsch marks were further reduced from 2 November 1992 whereas the interest rates on US dollar deposits were raised. On 1 February 1993,

Figure 5.7. Flows of NRI and FC(B&O) deposits



there was a further reduction in interest rates of FCNR deposits in Pounds sterling, Deutsch marks and Japanese yens. The changes in the structure of interest rates on NR(E)R and FCNR deposits from March 1990 till 2 November 1992 are given in Appendix Tables 8.5(A) and 8.5(B) respectively. The latest interest rate structure of non-resident deposits is indicated in Table 5.14.

TABLE 5.13
Monthly Inflows/Outflows under NR(E)R, FCNR and FC(B&O)Deposits

(US\$ million)												
Month	1990-91				1991-92				1992-93			
	NRER	FCNR	FCBOD	Total	NRER	FCNR	FCBOD	Total	NRER	FCNR	FCBOD	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
Apr	-37	115		78	-18	-373	18	-373	52	-188	65	-71
May	6	70		76	-21	-228	27	-222	-5	-76	555	474
Jun	27	37		64	18	-330	32	-280	57	-45	617	629
Jul	-27	35		8	-41	-73	11	-103	8 *	-4	378	382
Aug	21	231		252	26	-125	33	-66	35 *	-9	-123	-97
Sep	21	85		106	25	-147	32	-90	-6 *	-3	-46	-55
Oct	28	-102		-74	-23	-146	44	-125	-8 *	14	-100	-94
Nov	-35	-22		-57	12	-33	11	-10	-23 *	64	-301	-260
Dec	26	-52	74	48	-12	-4	-5	-21	-23 *	93	-351	-281
Jan	14	-100	79	-7	-18	30	22	34	NA	110	-313	-203
Feb	-15	-11	50	24	1	-63	95	33				
Mar	55	-116	59	-2	24	-119	-16	-111				
Total	87	168	262	517	-27	-1627	304	-1350	87 *	-44	381	424

* Provisional

NR(E)R Non-Resident (External) Rupee Accounts

FCNR Foreign Currency Non-Resident Accounts

FC(B&O)D Foreign Currency (Banks & Others) Deposits

Note: Monthly figures may not add up to the total due to exchange rate changes.

TABLE 5.14
Rates of Interest on Term Deposits under Non-Resident (External)
Rupee Accounts and Foreign Currency Non-Resident Accounts

(Per cent per annum)

Maturity	NR(E)RA	Pound Sterling	FCNRA		Yen
			US Dollar	DM	
1	2	3	4	5	6
(a) 6 months and above but less than 1 year	Not more than 13 %	7.50	4.50	8.75	4.50
(b) One year and above but less than 2 years	-do-	7.50	5.00	8.75	4.75
(c) 2 years and above but less than 3 years	-do-	8.00	6.00	8.50	5.00
(d) 3 years	-do-	8.50	6.75	8.50	5.50

Drawals from the IMF

5.52 Substantial drawals have been made from the IMF from 1990-91 onwards under one or other facility. Besides the Reserve tranche drawings of SDR 487 million (US\$ 666 million), India drew SDR 1269 million (US\$ 1814 million) from the Fund in 1990-91. In 1991-92 the drawal was SDR 905 million (US\$ 1240 million). India made a 20-month standby arrangement with the Fund in October 1991 for a total loan of SDR 1656 million (US\$ 2262 million); two instalments worth SDR 270 million (US\$ 382 million) were drawn in 1991-92. In April-December 1992 SDR 924 million (US\$ 1306 million) has been availed of, leaving a balance of SDR 462 million (US\$ 650 million) to be drawn till May 1993 (Table 5.15).

TABLE 5.15
Drawals from International Monetary Fund, 1990-1992

Date	Facility	SDR (million)	US\$ (million)	Rs. (crore)
1	2	3	4	5
July-Sept 1990	RT	487	666	1168
23-01-1991	FCT	552	789	1450
23-01-1991	CCFF	717	1025	1884
22-07-1991	CCFF	166	221	570
16-09-1991	CCFF	469	637	1647
15-11-1991	UCT	85	117	305
02-01-1992	UCT	185	265	683
02-07-1992	UCT	462	663	1717
09-12-1992	UCT	462	643	1685
Expected in Feb '93	UCT	231	325	845
Expected in May '93	UCT	231	325	845
RT Reserve tranche				
FCT First credit tranche				
CCFF Compensatory and contingency financing facility				
UCT Upper credit tranche.				

Foreign Exchange Reserves

5.53 Movements in the country's foreign exchange reserves given in Table 5.16 reflect the net result of external transactions. The new balance of payments adjustment strategy adopted since July 1991 has resulted in a considerable improvement in reserves during 1991-92 and 1992-93. Foreign exchange reserves stood at US\$ 9220 million at the end of March 1992, an increase of US\$ 3386 million over the end-March 1991 level. Among the three components of the foreign exchange reserves, foreign currency assets stood at US\$ 5631 million at the end of March 1992, an increase of US\$ 3395 million in 1991-92 as against a decline of US\$ 1132 million in 1990-91. Foreign currency assets reached US\$ 6.9 billion in the middle of July 1992 and stood at US\$ 5096 million as on 5 February 1993 showing a decline of US\$ 535 million over the end-March level. The decline of foreign currency assets during 1992-93, in spite of recourse to IMF resources as discussed earlier, was mainly due to a substantial increase in imports as industry recovered and replenished its inventories.

External Debt

5.54 The growing payments deficits and external borrowings after the mid-eighties coincided with a deterioration in the quality of external financing. Maturities shortened and the average rate of interest increased. This is reflected in an increase in the total debt. Table 5.17 provides a picture of India's external debt since 1980-81. The total debt outstanding at the end of September 1992 stood at US\$ 71 billion. These developments have necessitated a close monitoring of the size, composition and growth of external debt in the future.

TABLE 5.16
Movements in Foreign Exchange Reserves

Year	Foreign currency assets at the end of the year		Reserves at the end of the year @		Movements in 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*	1106*
1991-92	14578	5631	23850#+	9220#+	12434#+	3386#+	2078	780
1992-93	13688	5237	22720	8693	-1130	-527	2625	1006
(upto end Jan 1993)								

@ 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 (US \$ 191 million) from Government of India.

TABLE 5.17
External Debt and Debt Servicing: Key Indicators

	1	2	3	4	5	6	7	8
		1980-81	1985-86	1988-89	1989-90	1990-91	1991-92	Sep.'92
Year-end external debt								
US\$ billion		23.50	37.35	53.90	58.63	63.40	67.58	71.11
Rs. hundred crore		194.70	459.61	844.92	1003.76	1229.50	1989.67	2029.72
Debt service payments								
US\$ billion		1.41	2.61	5.65	6.02	6.43	6.44	
Rs. hundred crore		11.16	31.89	81.77	100.22	115.41	159.28	
Total Debt as per cent of GDP		13.7	17.4	19.7	21.5	21.4	27.3	
Debt service as per cent of current receipts		9.3	16.7	26.5	25.2	24.7	24.6	

Note: Data on short-term debt and estimated interest payments on NRI deposits are not available prior to 1988-89, hence the series from 1988-89 onwards is not strictly comparable with that prior to 1988-89. The external debt data conform to the reclassification suggested by the Report of the Task Force and the Policy Group on External Debt Statistics of India, 1992 from 1988-89.

5.55 Until recently there were differences in debt statistics of the Government of India, Reserve Bank of India, and international agencies. Reserve Bank of India in consultation with the Ministry of Finance set up a Task Force and a Policy Group on External Debt Statistics which submitted its report recently. The report made recommendations on the standardization of collection and compilation of external debt statistics and their monitoring

by a Debt Unit for the External Sector (Box 5.4). The major recommendations of the Task Force and Policy Group have been accepted by the Government and the Reserve Bank of India and are in the process of being implemented.

BOX 5.4

Task Force on External Debt Statistics: Recommendations

- Extension of coverage and reclassification of external debt data for transparency and in conformity with internationally accepted definitions.
- Regular reports on the external debt position.
- A review of existing policies regarding the confidentiality of the defence debt.
- The setting up of a debt unit for the external sector (DUES) as an apex body to integrate debt data and as a Management Information System to aid decision making.

5.56 India's external debt is now being reported in the framework suggested by the Task Force and Policy Group and the data from end-March 1989 to end-September 1992 in this format are given in Appendix Tables 8.4(A) and 8.4(B) respectively in terms of Rupees and US dollars. Reflecting the large current account deficits financed through debt flows in the recent past, India's aggregate external debt, excluding defence debt and civilian Rouble debt, rose from US\$ 53.90 billion (Rs.84500 crore) at the end of March 1989 to US\$ 67.58 billion (Rs.199000 crore) at the end of March 1992, i.e., at the rate of about US\$ 4.5 billion (Rs.38000 crore) a year. As a proportion of GDP, the external debt rose from 19.7 per cent in 1988-89 to 27.3 per cent in 1991-92. India's external debt moved up to US\$ 71.11 billion (Rs.203000 crore) at the end of September 1992.

5.57 India's debt to the erstwhile USSR stood at about 9.871 billion Roubles at the end of March 1992 - 8.899 billion Roubles incurred for defence imports and the rest for civilian imports. As per the recently concluded negotiation, this debt, to be denominated henceforth in Rupees, has been valued at Rs.31342 crore. Of this, Rs.19660 crore is to be repaid as per the existing schedule. The remaining Rs.11682 crore will bear no interest and is to be repaid over the next 45 years. The negotiations have resulted in a net reduction in the debt owed to the former Soviet Union according to the 1978 Protocol, by about 32 per cent. US\$ 2.18 billion is also owed to GCA countries for defence purchases.

5.58 Reflecting the large share of concessional element in India's debt, debt service payments have risen slowly from about US\$ 5.65 billion in 1988-89 to US\$ 6.44 billion in 1991-92. Their share in total current account receipts (excluding net official transfer receipts) declined from 26.5 per cent in 1988-89 to 24.6 per cent in 1991-92. Although in terms of outstanding external debt India is one of the largest debtors among the developing countries, in terms of debt service payments it does not rank so high. The World Bank ranks India among Moderately Indebted Low-Income Countries (MILICS).

Outlook

5.59 The short-term liquidity crisis in India's payments has been overcome and international confidence restored. The improvement in the balance of payments situation during 1991-92, reflected in a substantial build-up of foreign exchange reserves, provided the underpinning for further reforms and liberalisation in the external sector during 1992-

93. Export growth accelerated, but imports increased faster and resulted in a widening of the trade deficit during the first three quarters of 1992-93. A lasting solution to the payments problem would need more vigorous attempts at a micro level to sustain and also strengthen the present momentum in export growth.

5.60 Exports would benefit from relaxation of the import licensing, reduction of lending rates and customs duties, and the dual exchange rate adopted under LERMS. However, high cost of domestic production, constraints on domestic infrastructure and recessionary conditions in the world economy are important impediments. The inconclusive Uruguay Round of Multilateral Trade Negotiations and the consequences thereof also cause concern. While exports to the RPA have declined sharply over the past two years we can expect a recovery in exports to this region in 1993-94 as a result of the recent settlement of the Soviet debt with Russia and the likely recovery of the CIS economies.

5.61 Given the world-wide recession and the slow recovery in the industrialised countries, growth of Indian exports may not be sufficient to meet the import needs of the economy in the transitional period. There would also be a time lag to attract direct foreign investment and mobilise portfolio investment on a substantial scale. Therefore there would be need for some exceptional financing in the medium term.