

THE EXTERNAL SECTOR

The year 1993-94 has seen a significant improvement in the country's balance of payments. Exports are expected to increase by 20 per cent in dollar terms. Import growth will be limited to four per cent despite large scale liberalisation of import policy over the last two years. The trade deficit (DGCI&S) in the first nine months of 1993-94 was only \$732 million which was less than one fourth of the level in the corresponding period of 1992-93. The current account deficit in 1993-94 is expected to be less than 0.5 per cent of the GDP. The year has also seen a sharp increase in inflow of foreign investment. The total quantum of foreign investment flows during 1993-94 could be about \$3 billion as compared to \$585 million in 1992-93 and \$148 million in 1991-92. As a result of these improvements in trade, current account and capital flows, foreign currency assets of the Reserve Bank of India had built up to \$10.9 billion on February 4, 1994. It is expected that these reserves could climb as high as \$12 billion by the end of March 1994. This will imply a build up of about 5.5 billion during 1993-94. The year under review has, therefore, seen the country emerge decisively out of its balance of payments crisis of the past three years.

2 The much needed recovery in export growth has occurred during the current year. This has provided the basis for a significant improvement in the external sector. Current account improvement has been achieved largely on the basis of sound macroeconomic policies. These have included the continued restraint on fiscal deficit, bringing inflation under control and keeping the money supply in check. The size and quality of foreign exchange reserves have also improved significantly. The year also witnessed some notable policy advance starting with the unification of the exchange rate and floating of the Rupee announced in the Budget. The trade policy was further liberalised and a number of measures taken to promote agricultural exports. Exchange controls were further relaxed

with the amendment of the FERA and other laws. Yet, the situation hardly brooks any complacency. The overall macroeconomic policy discipline must be continued and the relevant parameters continuously monitored and kept under check. The importance of keeping the fiscal deficit in tight control and in line with the estimates put forward in the Finance Ministry's Discussion Paper can hardly be overemphasised in this context. Exports have to continue to increase at more than 15 per cent in dollar terms in coming years to absorb the higher growth in imports which may be expected. Inflows on capital account have to be strengthened and utilised faster to ensure that external financing gaps are eliminated.

3 The external sector has to be geared up to meet the debt-servicing commitments which are expected to peak towards the end of the Eighth Plan. Exports will also have to pay for increasing volume of imports of energy and other essential commodities which will pick up as economic growth gathers momentum in the coming years.

Recent Developments in Balance of Payments

4 Key indicators of India's balance of payments from 1990-91 onwards are given in Table 5.1, using the new balance of payments format adopted by the Reserve Bank in line with the recommendation of the High Level Committee on Balance of Payments.¹

Balance of Trade

5 The trade balance has shown a significant improvement in the first half of 1993-94 as compared to the previous year. The trade deficit of \$846 million (Rs.2653 crore) during April-September 1993 was less than one third of the trade deficit during these months in 1992 when it was \$3132 million (Rs.8941 crore). This improvement on the

TABLE 5.1 Balance of Payments: Key Indicators (US\$ million)					
	1990-91*	1991-92**	1992-93***	Apr-Sep*** 1992 1993	
1	2	3	4	5	6
1. Exports	18477	18223	18789	8720	10590
2. Imports	27914	20347	22895	11852	11436
-Oil	6028	15364	6100	3133	3045
-Non-oil (DGCI&S)	18045	14047	15626	8038	7747
-Non-DGCI&S	3841	936	1169	681	644
3. Trade balance (1-2)	-9437	-2124	-4106	-3132	-846
4. Invisibles balance	-242	-11	-815	-336	-92
5. Current account (3+4)	-9679	-2135	-4921	-3468	-938
6. External assistance (net)	2210	2916	1842	259	59
7. Commercial borrowings (net)	2249	1647 @	-451	-82	254
8. NRI deposits (net)+	1536	-454	1949	1705	657
9. Rupee debt service	-1193	-1332	-977	-458	-690
10. Foreign investment	165	148	585	392	608
11. Other capital (net)++	2221	2004	1413	926	1007
12. Capital account (6 to 11)	7188	4929	4361	2742	1895
13. Overall balance (5+12)	-2491	2794	-560	-726	957
14. IMF borrowing (net)	1214	781	1288	468	235
15. Official reserves (- increase/+ decrease)	1277	-3575	-728	258	-1192
Memo items:					
	(As per cent of GDP)				
Exports	6.2	7.3	7.7		
Imports	9.4	8.1	9.3		
Trade balance	-3.2	-0.9	-1.6		
Invisibles balance	-0.1	-0.0	-0.4		
Current account balance	-3.3	-0.9	-2.1		
* Preliminary estimates ** Provisional estimates *** Quick estimates					
@ Includes India Development Bonds of US\$ 1627 million + Including FC(B&O) deposits					
++ Other capital includes movements in banking capital, bilateral balances, short-term credit, etc.					
Note: Balance of payments for 1992-93 and 1993-94 exclude gold and silver brought in by returning Indians under the liberalised baggage rules.					

trade account was primarily due to a growth of 21 per cent in dollar value of exports and a decline in imports of 3.5 per cent. Exports were estimated to be \$10590 million (Rs.33210 crore) during the first half of 1993-94. Imports at \$11436 million (Rs.35863 crore) were substantially below expected levels. Taking seasonality factors into account, exports appear to be on track for a 20 per cent growth in dollar terms during 1993-94 (Figure 5.1). Imports appear to be heading for less than 4 per cent growth in 1993-94 (Figure 5.2). As a result, the trade deficit is expected to be about \$1000 million in 1993-94.

Invisibles Account

6. The trade in invisibles reveals an estimated deficit of

\$92 million during the first half of 1993-94. This is significantly lower than the deficit of \$336 million on invisibles account during April-September 1992. It is estimated that by the end of the year the invisibles account may show a modest surplus. Net outflows on account of interest payments, included under investment income, had decreased from \$3.8 billion in 1990-91 to \$3.6 billion in 1992-93. These are expected to be about the same level in 1993-94. At the same time private transfers or remittances have improved and are expected to reach a level higher than last year. Tourist earnings have been one of the major contributors to invisibles receipts. These have weakened over the past few years having risen by only 1.6 per cent in 1990-91 in dollar terms, declined by 7.6 per cent in 1991-92 and risen

Figure 5.1

MONTHWISE EXPORTS: PROJECTIONS VS ACTUALS

1993-94

(US\$ MILLION)

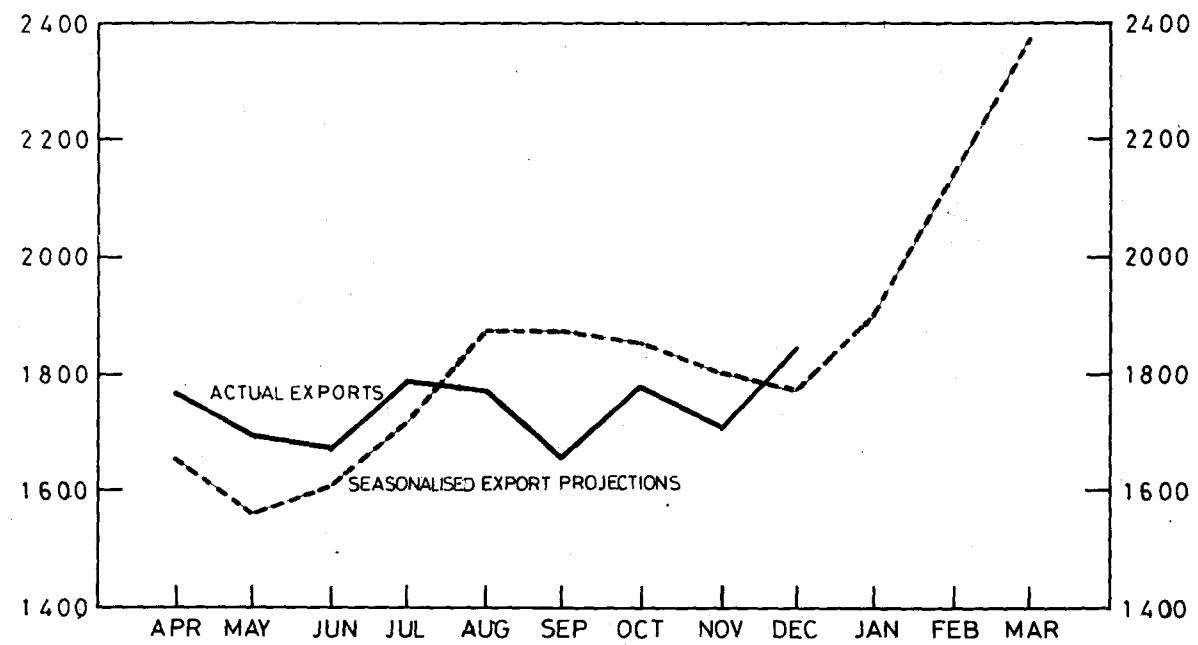
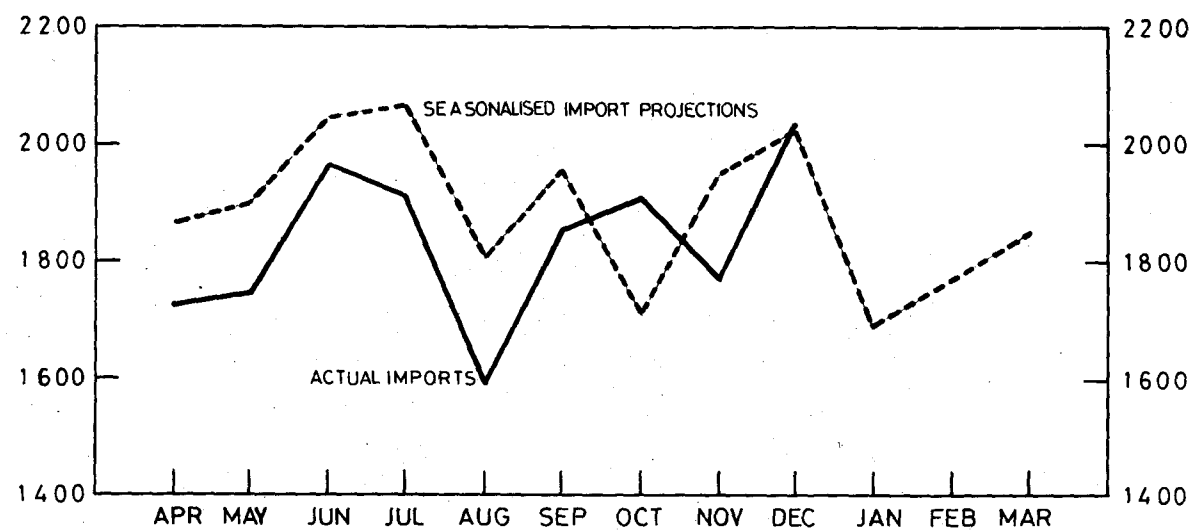


Figure 5.2

MONTHWISE IMPORTS: PROJECTIONS VS ACTUALS

1993-94

(US\$ MILLION)



NOTE:- THE EXPORT PROJECTIONS ARE BASED ON 20% GROWTH AND IMPORT PROJECTIONS ON 4% GROWTH FOR THE YEAR 1993-94.

only marginally by 2.4 per cent in 1992-93. In the first half of 1993-94 these have shown a decline of 5.5 per cent. There are indications that these earnings have picked up in the third quarter of the year.

Current Account

7 The current account during 1993-94 reflects the improvement in the country's balance of trade and invisibles account. The current account deficit, it may be recalled, had risen to 3.3 per cent of the GDP during 1990-91 compared with 2.3 per cent on average over the Seventh Plan. These were unsustainable levels and were the principal underlying cause for the external sector crisis which overtook the economy in 1990-91. With the help of strong fiscal stabilisation measures of the last two years, the current account deficit was brought down to 2.1 per cent in 1992-93. It was estimated at \$938 million (Rs.2942 crore) in the first half of 1993-94 as compared to \$3468 million (Rs.9901 crore) during the same period of 1992-93. Given the likely trends in trade and invisibles flow, the current account deficit is expected to be less than 0.5 per cent of GDP in 1993-94.

Capital Account

8 The current account deficit has been traditionally financed by recourse to external assistance flows from bilateral and multilateral sources and access to commercial credit. However, the most significant development on the capital account in the current year has been the positive response of the foreign investors to economic policy reforms.

External Assistance

9 Over the years, the contribution of external assistance to capital inflows has come down significantly as gross inflows have tended to rise only marginally and principal repayments of past disbursements falling due have increased. Net inflows of external assistance (excluding grants) have consequently declined from \$2.2 billion in 1990-91 to \$1.8 billion in 1992-93.

10 In the first half of the current year only \$59 million of external assistance (excluding grants) accrued on a net basis in comparison to \$259 million during the same period last year. Utilisation levels have come down during the past three years. Fiscal stringency of the past three years, and extensive procedural difficulties faced by implementing agencies have contributed to the decline in utilisation levels. A Project Monitoring Unit has been set up in the Ministry of Finance to monitor projects both in the Central and State sectors so as to reduce implementation delays. The report of the Task Force set up to evolve a standard format for bidding documents and streamline procurement procedures for externally-funded projects was submitted in December 1993.

11 It is important to note that the committed concessional loans or external assistance in the pipeline does not attract interest charges until these are disbursed. These are available to the country on payment of marginal commitment charges of 0.25 per cent. This pipeline will always exist because it is made up of project-linked funds which have a life cycle varying from 3-5 years. At any point of time only 20-25 percent of these resources can be disbursed. All these resources are not in the nature of grants and their utilisation does increase the volume of external debt. Credits available as part of external assistance carry concessional terms of interest and relatively longer maturity periods as compared to commercial credit. Yet, they do constitute a component of the country's overall external debt.

External Commercial Borrowing

12 The growth of external commercial borrowings (ECB) during the 1990s has come down. During 1990-91 and 1991-92 this was on account of lack of access to international credit markets. Since 1992-93 ECB has been brought down as part of the policy to reduce the country's external debt. Gross disbursements have been about \$1.8 billion per annum during the 1990s, as compared to \$2.3 billion per annum during 1986-87 to 1989-90. In 1992-93, gross disbursements of \$1.2 billion were short of repayments resulting in a negative net inflow of \$451 million. In 1993-94 gross disbursements have increased and are expected to be about \$3 billion by the end of the year. These include Euro-convertibles. In the first half of the current year, a net inflow of only \$254 million has occurred on account of ECB and for the full year 1993-94 the net inflow is expected to be about \$1 billion.

13 The Indo-Russian payment protocol was signed in 1993. This has finalised the annual repayment obligation. The Russian debt and its servicing is now denominated in Rupees rather than Roubles. As Table 5.1 shows, the debt service is close to a billion dollars per annum and includes both interest payments and amortisation. Clubbing the two together is in line with the recommendation of the High Level Committee on Balance of Payments. The entire debt servicing is to be made in terms of exports of goods and services to Russia. This does not directly affect the state of the country's foreign exchange reserves. The amounts, as they fall due, are deposited by the Government in a special account in the RBI, thrice a year. These are used to finance imports by Russia. Undrawn amounts not exceeding Rs. 300 crore at any point of time are invested in 91-day treasury bills. A facility for swing credit of Rs.300 crore is also available under the protocol. All other transactions with Russia would be in convertible currencies. This would, inter alia, avoid accounting problems as had been experienced in the past two years.

Non-resident Deposits

14 Non-resident deposits have been a major component of the country's capital inflows during the past decade. To attract such inflows, which were required to bolster our reserves, the interest rates offered were higher compared to global market rates and the banks taking these deposits were provided the exchange risk. The present situation, where access to international capital markets has been restored and foreign investment flows are picking up, does not perhaps warrant the continuation of such high costs to attract these flows. During 1991-92 non-resident deposits as a whole showed a decline of \$454 million. In 1992-93 these deposits grew by \$1.9 billion partly due to the improvement in the balance of payments situation and partly also due to the introduction of a new deposit scheme, i.e., the Non-Resident (Non-Repatriable) Rupee Deposit scheme.

15 There have been some significant changes in non-resident deposit schemes this year.² These changes have been made to reduce the dependence on FCNRA deposits. Interest rates on FCNR deposits were adjusted downward so as to moderate the differential between the rates offered on these deposits and global interest rates. Further, the facility for deposits with less than one year maturity (with exchange rate guarantee) was withdrawn from the FCNRA scheme in May 1993. Again, in October 1993, the facility for maturities of one year and above but less than two years was also abolished from the scheme. There was an aggregate net inflow of \$657 million from all the non-resident deposit schemes taken together in the first six months of the current year.³ There was a net outflow from FCNRA deposits (including accrued interest) of \$199 million and \$216 million from the FC(B&O)D during the first half of the year. This was more than compensated by inflows of \$721 million (exclusive of accrued interest) under the newly launched Non-Resident (Non-Repatriable) Rupee Deposits [NR(NR)RD] and \$267 million (inclusive of accrued interest) of Foreign Currency Non-Resident (Banks) [FCNR (B)] deposits and \$130 million (inclusive of accrued interest) of NR(E)RA deposits.

16 The RBI has permitted the commercial banks since May 1993 to collect foreign currency deposits under the FCNR(B) scheme for which the banks bear the exchange risk. The statutory cash and liquidity ratio and priority sector lending requirements do not apply to these deposits. Banks, therefore, have an incentive in attracting such deposits which they are free to advance at higher rates. They are thus willing to offer exchange risk cover for these deposits. Due to the lowering of interest rates and the withdrawal of short-term maturities from FCNRA scheme and the withdrawal of Foreign Currency (Banks & Others) Deposits [FC(B&O)D] scheme the composition of non-

resident deposits is expected to change during 1993-94 and subsequent years. In the light of a relatively more comfortable foreign exchange reserves position, the Government's objective is to eliminate the volatility and cost of bearing the exchange risk from these deposits.

Borrowing from the IMF

17 The standby arrangement negotiated with the IMF continued to be operational during 1992-93. Under this arrangement, a net inflow of \$1288 million (Rs.3363 crore) was available during 1992-93 as compared to \$781 million (Rs.2077 crore) in 1991-92. This facility drew to a close with the release of its last tranche in June 1993 which amounted to \$325 million. In 1993-94, therefore, the net drawals from the IMF will be limited to \$191 million (Rs.600 crore). Some discussions have been undertaken with the IMF for a medium-term arrangement under the Extended Fund Facility with a blend of resources under the Enhanced Structural Adjustment Facility. A final decision, however, will be taken keeping in view the overall balance of payments situation and the prospects for the external sector of the economy.

Exceptional Finance

18 Fast-disbursing aid or exceptional financing has been provided by bilateral and multilateral donors to help the country tide over the balance of payments crisis. Such exceptional financing amounted to \$1.14 billion in 1991-92, and \$855 million in 1992-93. During the Aid-India Consortium in June 1993 a total of \$2.2 billion of fast-disbursing aid was pledged for 1993-94. Of this it is expected that about \$800 million will be mobilised by the end of this financial year (almost the same level as last year). These fast-disbursing loans will support policy shifts and adjustments in the external sector, and contribute to the development of capital markets and also small-scale industries.

Foreign Investment

19 Since July 1991 the Government has consistently pursued the objective of attracting larger volumes of foreign investment to augment the resource availability in infrastructural and other critical areas of the economy. A number of policy measures, detailed in the last two Economic Surveys were taken to attract both direct and portfolio investment from foreign investors. Among the new measures announced include the extension of the rate of tax of 30 per cent in respect of short-term capital gains to the foreign institutional investors (FIIs) and the permission given to foreign brokers to do business in India on behalf of the FIIs. The efforts at mobilising non-debt creating foreign capital inflows, have now begun to yield results. In terms of approvals, equity investment proposals worth \$3.6 billion (Rs.11000 crore) were cleared since July

BOX 5.1

Foreign Investment

- The approvals of direct foreign investment proposals rose from \$73 million (Rs. 128 crore) in 1990 to \$235 million (Rs. 535 crore) in 1991, to \$1318 million (Rs. 3888 crore) in 1992 and to \$2091 million (Rs. 6577 crore) during January-October, 1993.
- Actual inflows under total foreign investment rose from \$165 million during the financial year 1990-91 to \$585 million during 1992-93 and is expected to rise sharply to \$3.0 billion during 1993-94.
- In 1993-94, direct foreign investment is expected to be about \$600 million, portfolio investment by foreign institutional investors (FIIs) of \$1.2 billion and inflows through Euroequity issues of about \$1.2 billion.
- In the current financial year up to December 1993 the country received foreign investment flows of \$1.8 billion consisting of a direct investment of \$425 million, portfolio investment by FIIs of \$1.0 billion (up to mid-January 1993) and Euroequity issues of \$358 million.

Foreign Investment Flows by Different Categories

	1991-92	1992-93	1993-94*			
			(US\$ million)			
			Apr-Jun	Jul-Sep	Oct-Dec	Apr-Dec
A. Direct investment	148.0	343.5	161.4	137.5	126.4	425.3
a. RBI automatic route	0.2	42.6	4.9	18.6	26.8	50.3
b. SIA/FIPB route	85.4	239.9	89.6	75.9	50.2	215.7
c. NRIs (40%&100% schemes)	62.4	61.0	66.9	43.0	49.4	159.3
B. Portfolio investment	—	241.5	45.5	263.8	1050.7	1360.0
a. FIIs	—	1.0	45.5	194.8	761.7#	1002.0#
b. Euroequities	—	240.5	0.0	69.0	289.0	358.0
Total (A+B)	148.0	585.0	206.9	401.3	1177.1	1785.3

* Provisional # Up to January 13, 1994.

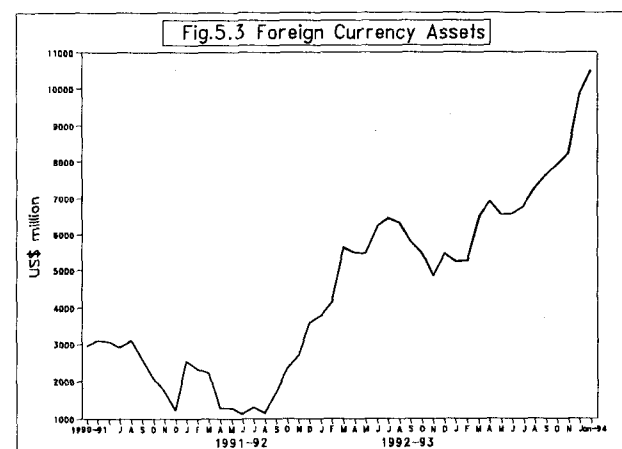
1991 up to October 1993. About 80 per cent of these approvals are in the priority sector. The year-wise break up of approvals from 1990 onwards may be seen from Box 5.1.

20 During 1992-93 actual inflows of both direct and portfolio investment together were \$585 million which was a marked improvement over earlier years. In 1993-94 actual inflows of foreign investment have been reported to be around \$1.8 billion during April-December 1993. It is interesting to note that the total foreign investment inflows were \$207 million in the first three months of 1993-94 (April-June) \$401 million in the next three months (July-September) and \$1.2 billion in October-December 1993 (Box 5.1). Given stable political conditions and non-inflationary economic environment, foreign investment inflows may be expected to pick up even further in the remaining months of this year.

Foreign Exchange Reserves

21 A summary and overall evaluation of the country's balance of payments and external sector condition is perhaps provided by the state of foreign exchange and foreign currency assets. Foreign exchange reserves includ-

ing gold held by the RBI and SDR balances held by the Government, increased from \$9.2 billion (Rs. 23850 crore) at the end of March 1992, to \$9.8 billion (Rs. 30744 crore) by the end of March 1993. They were \$13.9 billion (Rs. 43434 crore) at the end of December 1993. Foreign currency assets of the RBI recorded an increase of \$3.4 billion in 1991-92. By the end of March 1993, foreign currency assets had reached \$6.4 billion (Figure 5.3) as compared to \$2.2 billion at the end of March 1991 (and \$1.1 billion in June 1991). Thus, the loans from the IMF under the standby and earlier arrange-



ments had been used effectively to build up the country's foreign exchange reserves and place the external sector on a more stable footing.

22 During the current year, between April to November 1993, foreign currency assets have increased by \$1.8 billion to reach a level of \$8.2 billion. They crossed \$10 billion and stood at \$10.9 billion on February 4, 1994. This build up was achieved at a time when there was a net outflow of \$1.7 billion (excluding accrued interest) from the FCNRA scheme by the end of January 1994, a repayment of \$1.1 billion (between April and October 1993) on account of State Bank of India liabilities taken on behalf of IOC during 1991-92, and a settlement of all outstanding swaps with a net sale of \$1.2 billion between April and October 1993. Thus, the build up in reserves has occurred alongwith a marked improvement in the quality of these reserves. The present stock of foreign currency assets represents about five months of likely imports. The build up of these reserves has provided the much needed flexibility to the Government to further deregulate the external sector and rationalise the tariff structure.

23 Overall, the current year has witnessed a marked improvement in the country's balance of payments position. The narrowing of the trade deficit is a result of significant expansion in exports and decline in imports. The decline in imports can only be partly attributed to weakness of industrial recovery. It perhaps reflects a more fundamental change in terms of a decline in import-intensity of national output. This is a result of lower protection for some industries causing a shift in terms of trade in favour of sectors which are less import-intensive. Growth has been higher in agriculture, services and industrial sectors such as garments, textiles, and leather goods etc. in which import requirements are lower. Further, the depreciation of the exchange rate has made import-substitution more remunerative. The elimination of industry-specific export incentives and policy thrust for agricultural exports may have also resulted in a lower import-intensity of exports.

24 The reduction in current account deficit reflects the improvement in trade balance. The current account deficit is now at levels which can be financed by normal inflows of external assistance, commercial borrowing and foreign investment. The level of exceptional balance of payments support as had to be resorted to during the past two years may not be necessary. To ensure medium-term external financial stability, however, some exceptional financing may still be required especially in the light of the capital account problem arising from the large debt repayment obligations in coming years for debts incurred during the 1980s. The acceleration in inflows of foreign investment as also the improvement in the composition of non-resident de-

posits and in the quality of the country's reserves are noteworthy features of external sector performance in 1992-93 and the current year.

Merchandise Trade

Exports

25 The slow growth in total exports during 1992-93 was commented upon in last year's Survey. Various economic and other factors combined to keep export growth down to 3.8 per cent. This was achieved despite a 62 per cent decline in exports to the Rupee Payment Area (mainly markets of erstwhile Soviet Union) which followed upon a decline of 42 percent in 1991-92. The collapse of India's exports to Russia and East European countries is best revealed by noting that monthly exports to these markets were on an average about \$56 million (Rs. 162 crore) during 1992-93 as compared to \$255 million (Rs. 458 crore) per month during 1990-91. It can be safely expected that this performance will improve during the current and succeeding years.

26 Exports to the General Currency Area (GCA) increased by 10.8 per cent in dollar terms during 1992-93 which was a distinct improvement over a 6.3 per cent growth in 1991-92. Excluding the two months of December 1992, and January 1993, during which exports were adversely affected by post-Ayodhya developments, exports to GCA recorded an average growth of 13.1 per cent during 1992-93. This provided a sound basis to build up export performance during 1993-94.

27 The current year started with export growth of 27.8 per cent, in dollar terms, during the first quarter. To some extent this was due to a spill-over from the previous quarter when disturbances in Bombay had disrupted supplies and shipments. But it also represented the positive effects of policy changes of the previous two years. The export growth was adversely affected in August and September 1993 by the transporters' strike reinforcing the seasonal downturn. The exports growth of 19.9 per cent in dollar terms in the first nine months of 1993-94 is markedly higher than that of 3.4 per cent during the same period in 1992-93 and of 9.2 per cent in 1990-91. Exports appear on track for a 20 per cent growth in 1993-94.

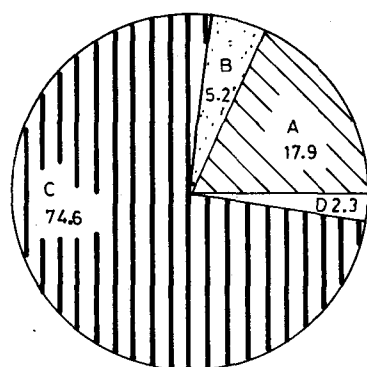
28 Manufactures accounted for 74.6 per cent of total exports in 1991-92. Their share increased to 76.3 per cent in 1992-93. Share of agricultural and agro-processed products declined from 17.9 per cent in 1991-92 to 16.4 per cent in 1992-93 (Table 5.2 and Figure 5.4). These trends are apparently being reversed in 1993-94. Agricultural exports increased by 38 per cent while manufactured exports grew by 19 per cent during first half of 1993-94 (Table 5.3). Within manufactures, the highest growth was recorded by plastic and linoleum products (119 per cent), followed by gems

COMPOSITION OF INDIA'S EXPORTS

(PER CENT)

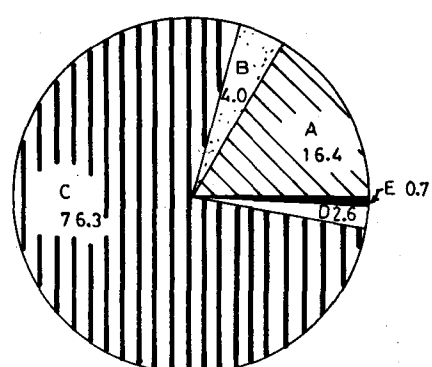
- A. AGRICULTURE AND ALLIED PRODUCTS
- B. ORES AND MINERALS
- C. MANUFACTURED GOODS
- D. CRUDE AND PETROLEUM PRODUCTS
- E. OTHERS UNCLASSIFIED ITEMS

1991-92

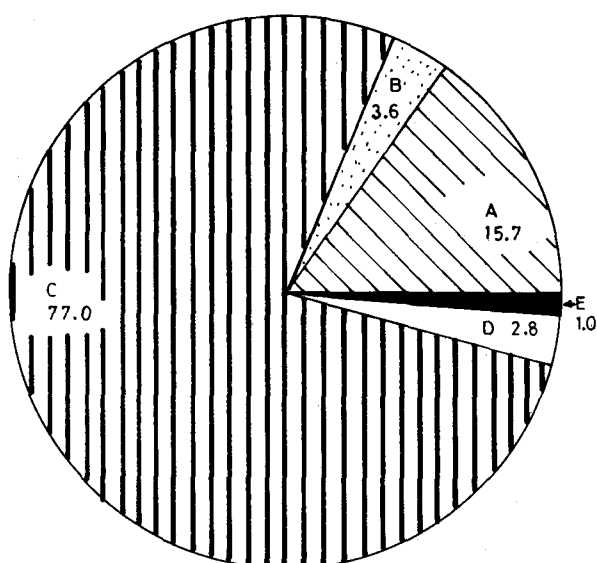


US \$ 17865.4 MILLION

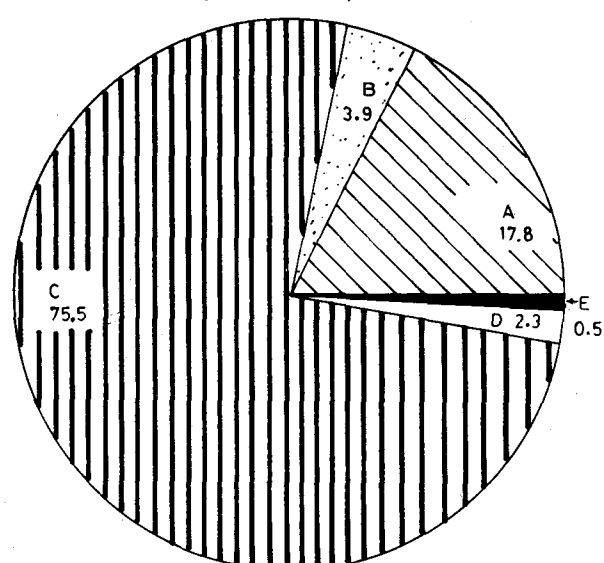
1992-93



US \$ 18537.1 MILLION

1992-93
(APR - SEPT)

US \$ 8534.6 MILLION

1993-94
(APR - SEPT)

US \$ 10351.1 MILLION

TABLE 5.2 Composition of Exports (Percentage share)				
Commodity Group	1991-92	1992-93	Apr - Sep 1992 1993	
1	2	3	4	5
I. Agriculture & allied, of which	17.9	16.4	15.7	17.8
1. Tea	2.8	1.8	1.9	1.6
2. Tobacco				
manufactured	0.1	0.2	0.2	0.2
3. Oil meals	2.1	2.9	2.2	2.9
4. Sugar & molasses	0.4	0.2	0.3	0.4
5. Processed fruits & juices	0.2	0.2	0.3	0.2
6. Cotton raw incl. waste	0.7	0.4	0.1	1.6
II. Ores and minerals, of which	5.2	4.0	3.6	3.9
7. Coal	0.0	0.1	0.0	0.0
III. Manufactured goods, of which	74.6	76.3	77.0	75.5
8. Leather & manufactures	4.5	4.7	5.0	4.0
9. Footwear of leather	2.6	2.1	2.2	2.1
10. Gems & jewellery	15.3	16.5	16.1	18.1
11. Plastic & linoleum products	0.6	0.8	0.7	1.3
12. Manufactures of metals	2.7	3.2	2.9	3.1
13. Transport equipment	2.8	2.8	3.0	2.5
14. Iron & steel bar/rod, etc.	0.3	0.8	0.5	0.4
15. Primary & semi- finished iron & steel	0.5	0.8	0.8	2.2
16. Ready-made garments	12.3	12.9	13.3	11.7
17. Handicrafts	4.7	4.6	4.8	4.2
IV. Crude & petroleum products	2.3	2.6	2.8	2.3
V. Others & unclassified items	0.0	0.7	1.0	0.5
Grand Total	100.0	100.0	100.0	100.0
Source: DGCI&S, Calcutta				

and jewellery (37 per cent) and metal manufactures (30 per cent). A uniform incentive structure, comprising a favourable exchange rate and income tax exemption for all export earnings, provides greater incentives for promoting exports which have a high proportion of domestic value addition. This is a positive trend which needs to be strengthened. It generates backward linkages within the domestic economy and stimulates growth. This incentive structure may be expected to boost exports of agro-processed and labour-intensive and light engineering products, sectors in which the country has a distinct natural comparative and competitive advantage.

Imports

29 Imports reached a level of \$21.9 billion during 1992-93

showing a growth of 12.7 per cent during that year. The current year is expected to end up with an import growth of less than four per cent. Imports during April-December 1993 were \$16.4 billion as compared to \$16.6 billion in the corresponding period of 1992. This represents a decline of 1.3 per cent. The overall trade deficit which stood at \$3556 million in April-December 1992 has dropped to \$732 million during April-December 1993, showing an improvement of \$2.8 billion.

30 POL imports reached a level of \$6100 million during 1992-93 showing a growth of 20.9 per cent. During the first nine months of 1993-94, POL imports were \$4291 million representing a decline of 10.1 per cent over the corresponding period of previous year. Imports of POL have constituted an increasing share in total imports in the past few years. In 1989-90 they accounted for 17.8 per cent of total imports and this increased to 27.9 per cent in 1992-93 (Table 5.4 and Figure 5.5). During the first half of 1993-94, POL imports at \$3045 million accounted for 28.2 per cent of total imports. The increase in import share of POL has coincided with the decline in domestic production specially from off-shore fields. It is important for balance of payment reasons to reverse the decline in domestic production. Other steps like rationalising the pricing structure of petroleum products, reducing subsidies and encouraging conservation through a system of fiscal penalties and incentives will be required to bring down energy intensity in industry and agriculture.

31 Non-POL (DGCI&S) imports peaked in 1990-91 at a level of US\$ 18.04 billion. These imports suffered a sharp decline of 22 per cent during 1991-92 as a consequence of import compression measures instituted in that year. They recovered in 1992-93 and grew by 8.7 per cent. During the first half of 1993-94, non-POL imports have declined by 3.6 per cent over the same period last year despite liberalisation of import policy and lowering of import duties. During the first nine months of the current year, non-POL imports have shown a growth of 2.2 per cent over the corresponding period of last year.

32 The composition of non-POL imports has remained virtually unchanged over the years. Capital goods, pearls, precious and semi-precious stones, chemicals, fertilizers and iron & steel together account for more than two-thirds of non-POL imports (Table 5.5). Imports of fertilizers, iron and steel and chemicals have declined during the first half of 1993-94. Consequently, the share of fertilizers has come down from 4.9 per cent in 1991-92 to 3.6 per cent during April-September 1993, of chemicals from 7.8 per cent to 5.8 per cent; and of iron and steel from 3.6 per cent to 2.9 per cent.

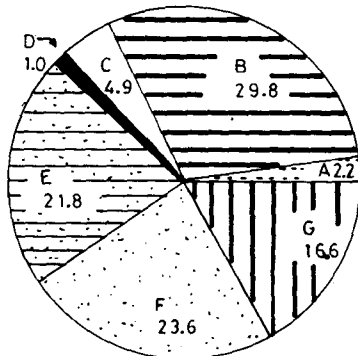
33 All such decline in imports cannot be explained away by pointing towards the slow recovery in industrial out-

COMPOSITION OF INDIA'S IMPORTS

(PER CENT)

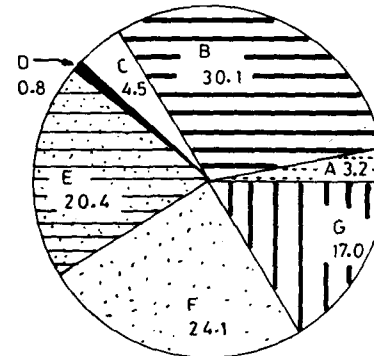
- A. FOOD & ALLIED PRODUCTS
- B. FUEL
- C. FERTILISERS
- D. PAPER BOARD MANUF. & NEWS PRINT
- E. CAPITAL GOODS
- F. OTHER BULK ITEMS
- G. UNCLASSIFIED ITEMS

1991-92

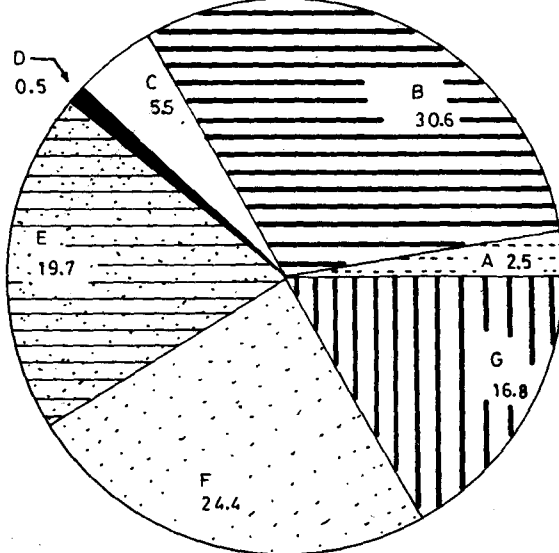


US \$ 19410.5 MILLION

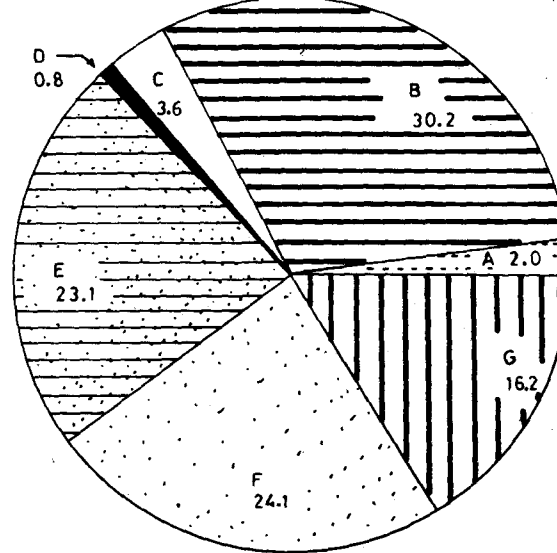
1992-93



US \$ 21882.0 MILLION

1992 - 93
(APR - SEPT)

US \$ 11149.1 MILLION

1993 - 94
(APR - SEPT)

US \$ 10791.6 MILLION

TABLE 5.3 Growth of India's Exports by Commodity Groups (US\$ million)						
Commodity Group	1991-92	1992-93	Apr-Sep 1992-93	Apr-Sep 1993-94	Apr-Sep 1992-93 (per cent change)	Apr-Sep 1993-94 (per cent change)
1	2	3	4	5	6	7
I. Agriculture & allied, of which	3193.5	3035.3	1338.3	1846.1	-5.0	37.9
1. Tea	491.5	335.8	158.1	164.5	-31.7	4.0
2. Tobacco manufactured	25.5	40.6	14.3	16.3	58.9	13.8
3. Oil meals	373.8	531.2	190.1	301.9	42.1	58.8
4. Sugar & molasses	63.8	37.1	21.5	46.5	-41.8	116.3
5. Processed fruits & juices	33.8	42.9	21.7	23.7	26.9	9.1
6. Cotton raw incld. waste	124.1	67.5	8.1	164.7	-45.6	1920.9
II. Ores and minerals, of which	929.7	740.9	309.2	408.4	-20.3	32.1
7. Coal	6.1	17.6	2.8	3.9	188.6	40.4
III. Manufactured goods, of which	13325.5	14151.1	6567.8	7812.6	6.2	19.0
8. Leather & manufactures	804.9	867.2	427.3	410.4	7.7	-4.0
9. Footwear of leather	463.8	390.5	191.3	212.4	-15.8	11.0
10. Gems & jewellery	2738.2	3051.9	1371.2	1875.0	11.5	36.7
11. Plastic & linoleum products	112.1	148.1	61.3	134.1	32.1	118.9
12. Manufactures of metals	484.2	585.5	251.3	325.7	20.9	29.6
13. Transport equipment	496.4	524.3	255.8	256.3	5.6	0.2
14. Iron & steel bar/rod etc.	62.0	140.2	39.4	39.1	126.3	-0.7
15. Primary & semi-finished iron & steel	1299.3	1356.4	640.2	718.6	4.4	12.2
16. Ready-made garments	2199.2	2388.7	1137.5	1215.7	8.6	6.9
17. Handicrafts	835.9	848.9	413.2	437.1	1.6	5.8
IV. Crude & petroleum products	414.7	476.2	237.2	236.7	14.8	-0.2
V. Others & unclassified items	2.0	17.1	82.0	47.3	743.8	-42.3
Grand Total	17865.4	18537.1	8534.6	10351.1	3.8	21.3
Source: DGCI&S, Calcutta						

put. Fertilizer imports have declined as a result of decontrol of prices of phosphatic and potassic fertilisers, the resultant rise in prices and the subsidy in favour of domestic units. These imports will pick up again as the farmers revert to their use to correct the imbalance in use of nutrients. Imports of other commodities, which are largely in the nature of intermediate inputs, may have declined on account of weak industrial recovery but perhaps more so because of exchange rate changes. At the new exchange rates, domestic substitutes, whose quality is improving, have become more economical. Therefore, it appears that the decline in imports is attributable more to the exchange rate changes and lowering of import intensity of output rather than being primarily a result of industrial slowdown.

Direction of Trade

34 Direction of India's foreign trade has undergone a significant change with the collapse of Russian and some of the East European trading arrangements. This directional change both in exports and imports was reported in the previous year's Survey and has continued during 1992-93 (Table 5.6 and Figures 5.6 and 5.7). Exports to Russia (former Soviet Union) accounted for as much as 16.1 per cent of India's total exports in 1990-91. This came down to 9.2 per cent in 1991-92 and further to 3.2 per cent in 1992-93. This decline continued during the first half of 1993-94 with exports to Russia now constituting only 2.4 per cent of total exports. The collapse of the Russian market has been a major shock to our export effort. However, exporters have

Figure 5.6

DESTINATION OF INDIA'S EXPORTS
(PER CENT)

- A. U. K.

B. GERMANY

C. OTHER E C

D. U. S. A.

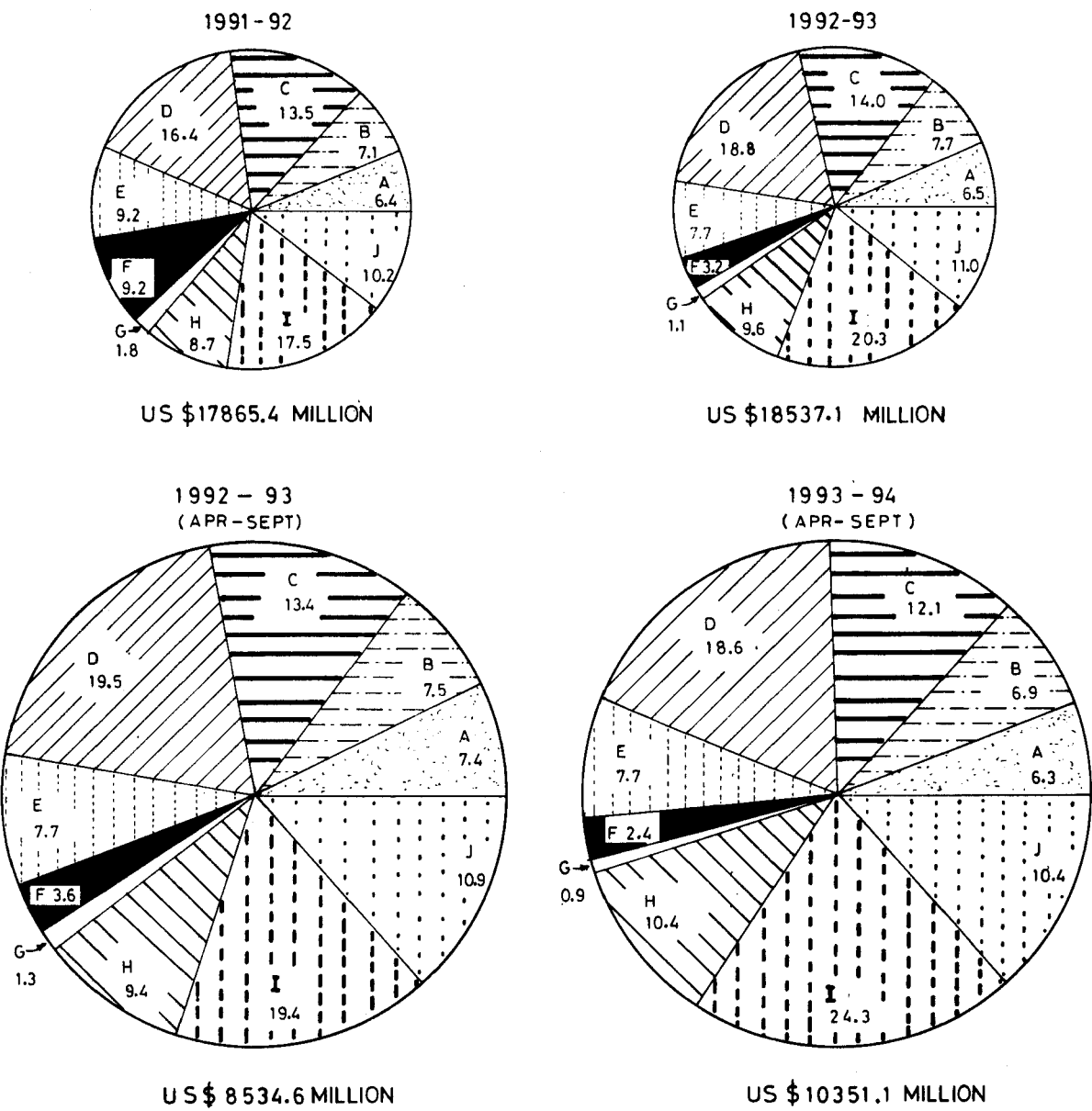
E. JAPAN
- F. RUSSIA

G. OTHER EAST EUROPE

H. OPEC

I. OTHER LDCs

J. OTHERS



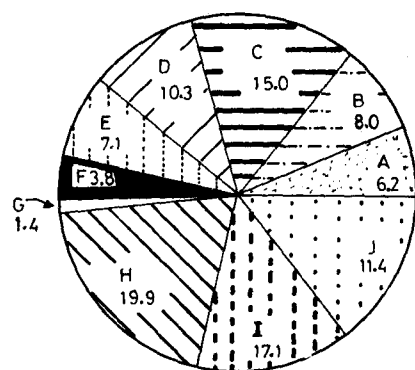
SOURCES OF INDIA'S IMPORTS

(PER CENT)

A. U. K.
B. GERMANY
C. OTHER E C
D. U. S. A.
E. JAPAN

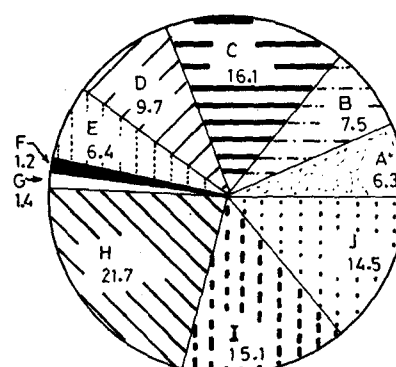
F. RUSSIA
G. OTHER EAST EUROPE
H. OPEC
I. OTHER LDCs
J. OTHERS

1991 - 92



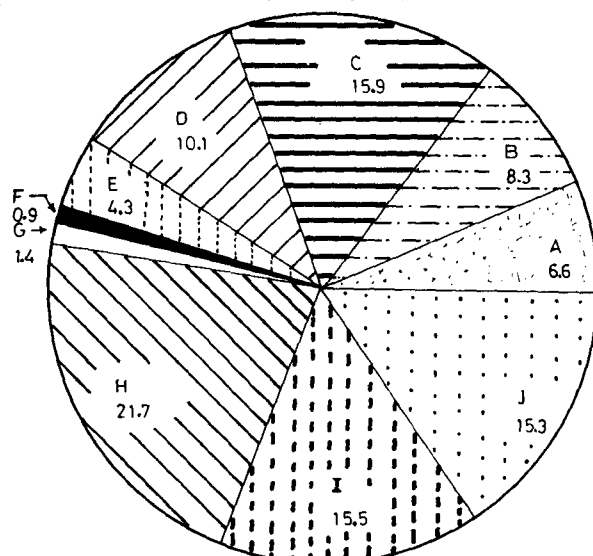
US \$ 19410.5 MILLION

1992 - 93



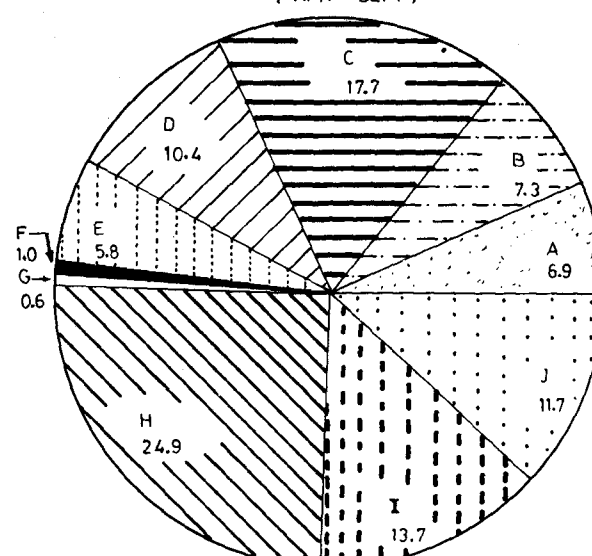
US \$ 21882.0 MILLION

1992-93
(APR - SEPT)



US \$ 11149.1 MILLION

1993-94
(APR - SEPT)



US \$ 10791.6 MILLION

Commodity Group	1991-92	1992-93	Apr - Sep 1992 1993	
1	2	3	4	5
I. Food and allied products, of which	2.2	3.2	2.5	2.0
1. Cereals	0.4	1.5	0.7	0.6
2. Pulses	0.5	0.5	0.5	0.6
3. Edible oils	0.6	0.6	0.6	0.4
II. Fuel, of which	29.8	30.1	30.6	30.2
4. Coal	2.2	2.2	2.5	2.0
5. POL	27.6	27.9	28.1	28.2
III. Fertilizers	4.9	4.5	5.5	3.6
IV. Paper board, manufactures & news print	1.0	0.8	0.5	0.8
V. Capital goods, of which	21.8	20.4	19.7	23.1
6. Transport equipment	1.9	2.1	1.5	4.7
7. Project goods	7.6	5.5	5.7	5.4
VI. Others, of which	23.6	24.1	24.4	24.1
8. Chemicals	7.8	7.4	8.3	5.8
9. Pearls, precious and semi-precious stones	10.1	11.1	10.4	13.2
10. Iron & steel	3.6	3.3	3.5	2.9
11. Professional instruments, optical goods, etc.	2.1	2.3	2.2	2.1
VII. Unclassified items	16.6	17.0	16.8	16.2
Grand Total	100.0	100.0	100.0	100.0

Source: DGCI&S Calcutta

demonstrated creditable flexibility and competitiveness in successfully switching exports to the General Currency Area and preventing the decline in exports to Russia from affecting the overall export performance. It is expected that as the Russian economy recovers and the working of the Indo-Russian Agreement is streamlined, exports to Russia will pick up in the second half of this year.

35 The data for the first half of 1993-94 indicate an increase in the share of developing countries, including OPEC, in India's exports. Their share increased to 35 per cent from 29 per cent in the first half of 1992-93 (Table 5.6 and Figure 5.6). The table reveals a substantial growth in dollar terms in India's exports to OPEC (34 per cent) and non-OPEC developing countries (54 per cent) during the first half of 1993-94. It may also be noted that exports to selected East Asian countries (Indonesia, Malaysia, Hongkong, South Korea, Singapore, Thailand, and Chinese Taipei) have boomed, increasing on the average by 61 per cent in dollar terms during the first six months of 1993-94. The percentage export growth to these countries is about three times the overall export growth.

36 The share of foreign trade in the country's GNP has been rising over the years. It was 11.7 per cent in 1985-86, 14.5 per cent in 1990-91 and 16.9 per cent in 1992-93. In

1993-94 with plausible growth scenarios its share would be close to 19 per cent. It still remains one of the lowest in comparison with other developing countries (Table 5.7). With an increasing share in the country's GNP, foreign trade will have a more pervasive and significant effect on the country's economic performance in coming years than in the past. It is, therefore, important that trade performance and policies are now monitored closely and accorded high priority in policy making.

Changes in Exchange Rate and other Government Policies

37 The year 1993-94 started on a high note with the announcement of the unification of the exchange rate and the floating of the Rupee. The exchange rate was henceforth to be determined by demand for and supply of foreign exchange in the market. This marked the culmination of a policy sequence which had started with the two-step downward adjustment of the exchange rate and the introduction of 'eximscrips' in July 1991. It included a year-long experience with the dual exchange rate regime under the Liberalised Exchange Rate Management System (LERMS). The exchange rate unification and floating of the Rupee provide the basis for a phased shift to full convertibility of the Rupee. This can be achieved once the remaining controls and restrictions on the current account transactions have

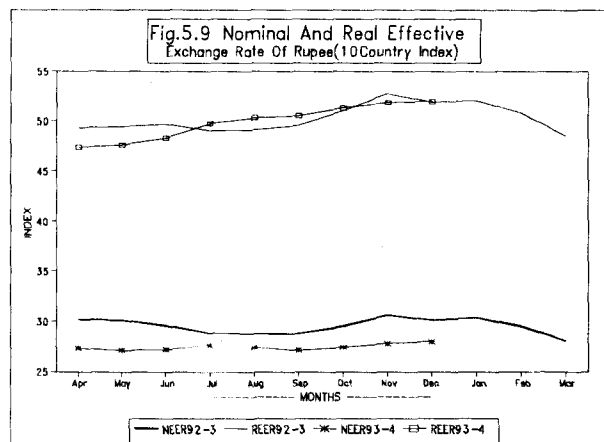
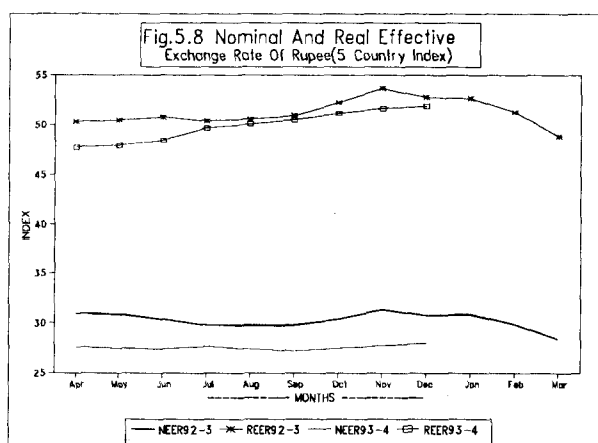


TABLE 5.5 Growth of India's Imports by Commodity Groups <i>(US\$ million)</i>						
Commodity	1991-92	1992-93	Apr-Sep		Apr-Sep	
			1992	1993	1992	1993
					(per cent change)	
1	2	3	4	5	6	7
I. Food and allied products, of which	430.7	702.9	274.9	211.9	63.2	-22.9
1. Cereals	70.3	320.1	83.0	64.1	355.1	-22.8
2. Pulses	103.6	109.1	59.2	62.5	5.3	5.6
3. Edible oils	100.5	59.5	35.6	14.3	-40.8	-60.0
II. Fuel, of which	5784.4	6576.2	3415.0	3259.4	13.7	-4.6
4. Coal	420.4	476.2	282.0	214.4	13.3	-24.0
5. POL	5364.0	6100.0	3133.0	3045.0	13.7	-2.8
III. Fertilizers	954.2	976.1	612.9	386.8	2.3	-36.9
IV. Paper board, manufactures & news print	197.9	166.6	58.4	85.3	-15.8	46.1
V. Capital goods, of which	4231.8	4463.1	2191.2	2496.1	5.5	13.9
6. Transport equipment	371.1	461.2	172.1	502.6	24.3	192.0
7. Project goods	1470.5	1194.7	633.9	579.8	-18.8	-8.5
VI. Others, of which	4585.6	5274.9	2724.6	2601.1	15.0	-4.5
8. Chemicals	1515.1	1619.8	924.1	628.0	6.9	-32.0
9. Pearls, prcs and semiprcs stones	1957.1	2420.6	1164.3	1428.3	23.7	22.7
10. Iron & steel	706.4	722.3	391.0	314.7	2.3	-19.5
11. Profl instrmts, optical goods etc.	407.1	512.3	245.2	230.1	25.8	-6.1
VII. Unclassified items	3225.9	3722.2	1872.0	1751.0	15.4	-6.5
Grand Total	19410.5	21882.0	11149.1	10791.6	12.7	-3.2
Source: DGCI&S, Calcutta						

been eliminated and the crucial macro-economic parameters like the fiscal deficit, the growth of money supply and inflation rate are firmly under control.

38 After an initial depreciation during February-April, 1993 the nominal effective exchange rate for the Rupee (NEER) held steady (Figures 5.8 & 5.9 and Appendix Table 6.6). As a result of this stability in the nominal exchange rate, the real effective exchange rate (REER), has tended to appreciate since May 1993. As Figure 5.9 reveals, the index for 10-country REER for 1993-94 has recorded an appreciation of 9.6 per cent from May till December 1993 and crossed the 1992-93 level in July this year. It will be important to maintain a stable REER so as to prevent an erosion in incentives available to our exporters.

39 The premium in the 'hawala' market for the US Dollar had come down sharply by the end of 1992-93 to about ten

percent. It reached its historically lowest level of 6 per cent in mid-June 1993. This was a result of exchange rate policy and the liberalisation of bullion imports. The premium temporarily went up during August to October 1993 when it reached 13 per cent. It has declined during the subsequent months. The six-month forward rate, quoted by authorised dealers for the US Dollar has come down to below one per cent recently which is significantly lower than the interest rate differentials between global and Indian markets. This represents a market confidence that the Rupee will retain its position vis-a-vis the major currencies.

40 The unification of the exchange rate and floating of the Rupee, have provided new opportunities for the foreign exchange market to develop and mature. Recently, banks were permitted by the RBI to deploy funds held in foreign currency accounts of their customers in certain kinds of overseas investments. Banks have also been al-

TABLE 5.6								
Direction of India's Trade								
(Percentage share)								
Country	Exports				Imports			
	1991-92 (Apr-Mar)	92-93	92-93 (Apr-Sep)	93-94	1991-92 (Apr-Mar)	92-93	92-93 (Apr-Sep)	93-94 (Apr-Sep)
1	2	3	4	5	6	7	8	9
U.K.	6.4	6.5	7.4	6.3	6.2	6.3	6.6	6.9
Germany	7.1	7.7	7.5	6.9	8.0	7.5	8.3	7.3
Other EC countries	13.5	14.0	13.4	12.1	15.0	16.1	15.9	17.7
U.S.A.	16.4	18.8	19.5	18.6	10.3	9.7	10.1	10.4
Japan	9.2	7.7	7.7	7.7	7.1	6.4	4.3	5.8
Russia@	9.2	3.2	3.6	2.4	3.8	1.2	0.9	1.0
Other East Europe	1.8	1.1	1.3	0.9	1.4	1.4	1.4	0.6
OPEC	8.7	9.6	9.4	10.4	19.9	21.7	21.7	24.9
Other LDCs	17.5	20.3	19.4	24.3	17.1	15.1	15.5	13.7
Others	10.2	11.0	10.9	10.4	11.4	14.5	15.3	11.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
@: Former Soviet Union for 1991-92. Source: DGCI&S, Calcutta.								

TABLE 5.7								
Share of Merchandise Trade in GNP in Selected Countries, 1985-92								
	1985	1986	1987	1988	1989	1990	1991	1992
1	2	3	4	5	6	7	8	9
India*	11.7	11.2	11.5	12.4	14.1	14.5	15.2	16.9
China	24.2	26.7	27.3	27.3	26.1	30.8	35.8	36.1
Malaysia	95.0	94.7	103.3	114.9	133.2	143.7	155.6	n.a
Mexico	20.6	23.2	25.4	24.4	23.9	24.7	23.4	23.1
Thailand	44.6	44.2	51.6	61.8	67.3	70.6	n.a	n.a
Indonesia	31.0	27.2	25.3	24.2	24.3	26.8	27.0	n.a
South Korea	68.4	64.5	68.4	65.2	58.6	55.7	54.6	53.8
* Data for India relates to financial years, April-March. Source: IMF International Financial Statistics Year Book and Government of India.								

lowed to rediscount export bills abroad without the prior approval of the RBI with certain interest rate ceilings. Another important development in the area is the permission given to banks to write cross-currency options for their customers by resorting to arrangements with their overseas branches or other banks abroad.

41 Another major policy initiative with regard to the external sector includes the extension of Dollar-denominated credit facilities for pre-shipment finance. Under this scheme

of pre-shipment credit in foreign currency (PCFC), announced by the RBI in October 1993, exporters with confirmed/firm orders and/or letters of credit can avail of credit in major currencies at LIBOR-related interest rates. In conjunction with the facility for post-shipment credit in foreign currencies at a fixed rate of 6.5 per cent, PCFC will now provide Indian exporters access to credit at globally competitive rates. The RBI has also, since November 1992, taken steps to ensure that credit availability for exports is in line with expanding requirements and that commercial

banks have sufficient incentives to increase the share of export credit in total advances. As a result, export credit as a percentage of total net bank credit increased from 8.8 per cent on March 20, 1992 to 10.8 per cent on March 19, 1993. The share of export credit in total net bank credit was 10.5 per cent on November 12, 1993. The Government, along with the RBI, has been closely monitoring the export credit and other aspects of banking operations to ensure that the country's export effort is not constrained by inadequate credit availability or the inferior quality of banking services.

42 The EXIM Policy (1992-97) was modified in March 1993, giving a new thrust to exports for agricultural and allied sectors, and services in which the country has comparative advantage. The Budget for 1993-94 made substantial reduction in customs duties on capital goods, ferrous & non-ferrous metals and chemicals. Import duties on specified capital goods for export thrust areas such as textiles, leather, marine products, gems & jewellery, food processing, horticulture and floriculture industries were reduced. The Budget also announced a reduction in maximum import duties to 85 per cent and a cut in the duties on personal baggage to 150 per cent from 255 per cent. Tariffs applicable to personal baggage were lowered again in June 1993 to 100 per cent. Commercial policy measures announced during 1993-94 included the following:

- (i) decanalisation of imports of kerosene oil liquefied petroleum gas, low sulphur heavy stock/low sulphur waxy residue amongst petroleum products and of phosphatic and potassic fertilizers;
- (ii) abolition of minimum export price for basmati and reduction in minimum export price of non-basmati rice from \$275 to \$200 per tonne;
- (iii) permitting the export of 50000 tonnes of sunflower seeds and superior (Durum) quality of wheat;
- (iv) permitting export-oriented units engaged in agriculture and allied activities to avail of duty-free capital goods imports under the EOU/EPZ scheme even if they export only 50 per cent of their output;
- (v) pruning of negative list of exports by removing 146 entries;
- (vi) introduction of a new scheme called the Export Promotion Capital Goods Scheme for the Services Sector which permits import of capital goods at 15 per cent import duty by professionals on an undertaking to meet a stipulated export obligation;
- (vii) enlarging the definition of capital goods so as to include sectors like agriculture, mining and services;

- (viii) removing the value of domestic inputs from the calculation of value-added criterion for EPU/EOZ units;
- (ix) change in the criterion for recognition as an export or trading or star trading house from net foreign exchange earned to the gross f.o.b. value of physical exports. The award of Special Import Licences for these houses as well as for the electronic sector will also be based on this criterion;
- (x) permitting large units in ready-made garments - an item so far reserved exclusively for small/ancillary units - subject to 50 per cent export obligation, an overall investment limit of Rs.3 crore in plant and machinery and 5 per cent of the export obligation to be achieved in non quota markets;
- (xi) announcement of duty drawback rates for 333 new items and improvement in rates for 84 products. Drawback on packing materials used in the export of all commodities has been made payable by making a special provision to that effect and individual rates for different packing materials have been announced;
- (xii) introduction of electronic hardware technology park (EHTP) scheme which permits 100 per cent foreign investment in electronic sector and provides benefits on par with EOU/EPZ units;
- (xiii) setting up of an exporters grievance cell in the Ministry of Commerce to facilitate action on problems being faced by exporters; and
- (xiv) lifting of ban on trading with South Africa.

43 The above policy changes, admittedly incremental in nature have helped to maintain the momentum of trade policy reforms. Our trade reforms received across-the-board recognition from GATT contracting parties at the first trade policy review for India which was completed by GATT in September 1993. Yet, there is substantial ground still to be covered. Our agricultural and allied exports continue to be severely constrained by policy-imposed restrictions. These exports pose no danger to the objective of food security and will in fact help the processes of capital formation and productivity enhancement in agriculture. Removal of these restrictions will provide our farmers with fresh incentives to increase output and put agriculture at par with the industry. On the other hand, a major share of bulk imports continues to be canalised and more than a third of our tariff lines are still covered by some form of licensing. Quantitative restrictions on import of consumer goods provide very high levels of effective protection to these sectors. This results in mis-allocation of investible

resources away from sectors where the country may possess a competitive advantage. Overall, it can be concluded that while significant progress has been made in trade policy reforms since July 1991, large areas still remain to be covered. Given that achievement of export competitiveness and export expansion is perhaps the most important policy objective, policy reforms in the above-mentioned and related areas merit urgent and coordinated Government action.

44 It is important to focus attention on the infrastructural requirements for export expansion. Exports will rise above \$22 billion (Rs.69,000 crore) for the first time in 1993-94. Facilitating a further expansion by 15-20 per cent in Dollar terms in 1994-95 will expectedly put a severe strain on country's infrastructural facilities. It will also require that internationally competitive infrastructural services, in terms of both prices and quality, are available for exporters. Therefore, to prevent physical infrastructural facilities and their quality from emerging as binding constraints on the country's export effort, policy action has to be urgently initiated in these sectors. An increasing share of foreign trade in national output calls for a corresponding reorientation and development of the economy's non-tradable sector.

External Debt

45 The events of 1990-91 when the country faced a severe external financial crisis and the downgrading of India's creditworthiness raised genuine concerns about the overall indebtedness of the country. In response to these concerns and with a view to reconcile external debt statistics from various sources the Government published a Status Report on External Debt in October 1993.

46 The Status Report has attempted to bring out all the dimensions of the country's external debt. As stated in the Status Report, monitoring and precise estimation of debt is an ongoing process. Some anomalies in methodology for estimation of outstanding stocks of FCNRA debt and of interest accrued on them have recently been identified. The RBI has instituted a special audit to secure a full reconciliation of FCNRA liabilities. The recent estimates reveal that total outstanding external debt on account of non-resident deposits [including FCNRA, NR(E)RA and FC(B&O)D] stood at \$12415 million (Rs.21387 crore) at the end of March 1990. This increased to \$14111 million (Rs.27686 crore) at the end of March 1991 and declined by \$1121 million to \$12990 million (Rs.34994 crore) by the end of 1991-92. At the end of March 1993, the outstanding stock of external debt attributable to non-resident deposits was estimated to be \$14627 million (Rs. 45852 crore). The external debt on account of non-resident deposits (including also FCNR(B) introduced in May 1993) declined to

\$14540 million (Rs.45614 crore) at the end of September 1993.

47 Taking into account the revisions in stock of non-resident deposits, the estimates for outstanding stock of external debt have undergone a change (Table 5.8). The total outstanding stock of the country's external debt (including defence) increased sharply by \$ 8.1 billion in 1990-91 to \$ 83.96 billion. This increase coincided with a decline in the foreign exchange reserves of \$ 1.3 billion. This signifies the gravity of the external payments crisis faced by the country in that year. In 1991-92 the growth of external debt was limited to \$ 1.4 billion. This small increase in total debt was despite a net borrowing from the IMF of about \$ 800 million. The increase was limited on account of a decline in short-term debt of \$ 1.5 billion in 1991-92. At the same time, foreign exchange reserves were built up by \$ 3.6 billion. This reflects the success of Government policy in not only restraining the growth of external debt but using it for building up the country's foreign exchange reserves. In 1992-93 total debt increased by \$ 4.8 billion yielding an average growth of total external debt of \$ 3.1 billion for the two years 1991-92 and 1992-93. In the first half of 1993-94 the increase in external debt has been marginal of \$ 296 million. This is a result of conscious Government policy which has limited the growth of external commercial borrowing, reduced defence debt and encouraged non-debt creating equity flows.

TABLE 5.8
External Debt and Debt Servicing

	1989-90	1990-91	1991-92	1992-93	Apr-Sep 1993(P)
1	2	3	4	5	6
Period-end outstanding debt stock					
US\$ billion	75.90	83.96	85.33	90.09	90.39
Rs. thousand crore	130.28	163.31	253.03	280.98	282.90
Change in debt stock					
US\$ billion		8.06	1.37	4.76	0.30
Debt-service payments					
US\$ billion	7.60	8.13	8.22	8.17	
Debt as per cent of GDP*	28.5	30.7	41.1	39.8	
Debt service as per cent of current receipts**	31.7	31.9	31.2	30.8	
<p>P Provisional.</p> <p>* This is computed by dividing the year-end debt numbers in rupees by GDP numbers of corresponding years.</p> <p>** Current receipts include gross receipts under merchandise exports and invisibles except official transfers.</p> <p>Note : The data on external debt and debt servicing differ from what had been published earlier as the latter was based on estimated accrued interest credited to FCNRA deposits whereas the former is based on actual accrued interest obtained from an initial census count which are being subjected to a further special audit by the RBI.</p>					

48 It emerges that India's overall debt is within manageable limits, both in terms of its serviceability and in relation to total GDP of the country. The total debt (including defence) to GDP ratio has come down from 41.1 per cent in 1991-92 to 39.8 per cent in 1992-93. The rate of growth of external debt has been contained during the past three years. The debt service payments as a proportion of current receipts have also declined from 31.9 per cent in 1990-91 to 30.8 per cent in 1992-93. The danger of slipping into a debt trap has been thwarted. Yet, the importance of rapidly expanding exports in order to keep debt-servicing within manageable limits can hardly be over emphasised.

49 With global real interest rates at exceptionally low levels this may perhaps be an opportune time to replace existing high cost debt by new flows bearing lower interest rates. This may require a liberalisation of existing regulations and conditions governing access to and use of external commercial credit. At the same time, given the size of the country's external debt and the exchange rate risk, the Government will monitor the build up of external debt closely and keep the debt-servicing within conservative prudential limits.

International Economic Environment

50 The state of the global economy has not been supportive of India's reform efforts. The year 1993 marks the fourth year in succession when world economic growth will remain below par and stalled at two per cent. In 1992 it was 1.8 per cent and in 1991 it was even less than one per cent. The continuing weakness of global economic growth is reflected in a slow growth of world trade which has recorded a growth of only 4.2 per cent in 1992 and 2.3 per cent in 1991. In 1993 global trade is expected to increase again by about four to 4.5 per cent. This slow down in world economic and trade growth reduces export opportunities and intensifies pressures for protectionism in developed economies which are major markets for our exports.

51 Prospects for growth of world output and trade depend greatly on the willingness of developed economies to more effectively coordinate their macroeconomic financial and trade policies. The successful conclusion of the Uruguay Round of multilateral trade negotiations in Geneva in December 1993 will also have a strong impact on the nature and strength of global economic recovery in coming years. India has been urging the OECD countries, at all available fora to adopt a more coordinated policy stance and thereby put growth back on the agenda. The GATT agreement reached in Geneva would benefit India in a number of areas such as textiles, agriculture and services (Box 5.2). It is important to note that the strengthening of a well-functioning multilateral trading system directly serves our interests. It will be difficult, if not impossible, for us to

expand our market share if bilateral and unilateral trading arrangements become rampant and regional trading blocs become the order of the day. It has been, therefore, important for India that the multilateral trade negotiations have been concluded successfully.

52 The continuing softness in world commodity prices specially oil prices has helped to keep our import bill down. The crude oil prices (Dubai) slipped below \$ 14 per barrel level in early November and are slated to remain below \$ 15 per barrel during the next six months. This has provided a cushion at a time when the decline in domestic production has continued during 1993-94 as well.

53 The interest rate in major currencies have continued to fall. In the U.S., the discount rate was 3.0 per cent in July 1993, in Japan it was 2.5 per cent. Germany brought down its discount rate from above eight per cent to about 6.8 per cent and in the UK too there has been a fall of four per cent from ten to six per cent in the base lending rate between July 1992 to July 1993. These low interest rates have come about at a time when the international banking system has adjusted to the debt crisis and capital and bond markets are again accessible to developing economies. These developments will augur positively for the country's prospects for attracting foreign equity and portfolio investment which can be attracted on account of higher returns available in India. This of course assumes that the country risk perception for India improves and the economy is not subjected to unforeseen shocks. During 1993-94 India has established economic ties with both Israel and South Africa. The prospects for expansion of trade and investment flows with these two countries are potentially quite large. Similarly, new trading opportunities are emerging in Central Asian Republics and the CIS economies, as the conditions in these countries begin to stabilise and these economies attain growth momentum. With the possible recovery in developed economies, for which the objective conditions now prevail, the country will be able to exploit the full benefits of the reforms in trading and industrial policies which have been undertaken in the last two years.

Outlook

54 It is expected that exports will achieve a rate of growth of 20 per cent in dollar terms in 1993-94. With a substantially lower increase in imports, the trade deficit and also the current account deficit is expected to narrow significantly as compared to previous years. The financing gap will, therefore, also be correspondingly smaller. With the pick up in foreign investment flows, both equity and portfolio, it is expected that foreign currency assets will be close to \$12 billion by the end of 1993-94. The year under review has, therefore, seen a qualitative improvement in the external sector balances of the economy.

55 This provides a very sound basis to put our balance of payments position on a stable path in the medium term. Concerted policy action is required to ensure that exports maintain their rate of growth in the medium term and the

BOX 5.2

Uruguay Round and India

Uruguay Round of Multilateral Trade Negotiations was launched at Punta del Este in September 1986 and concluded successfully in Geneva on December 15, 1993. These talks were the most ambitious and complex so far. Negotiations covered not only traditional GATT subjects such as tariff and non-tariff measures and the improvement of GATT rules and disciplines on subsidies, safeguards, etc. but also extended to new areas not dealt with by GATT earlier, such as Trade Related Intellectual Property Rights (TRIPs), Trade Related Investment Measures (TRIMs) and Trade in Services.

Although the negotiations were to conclude in four years, differences among participating countries in certain areas including agriculture, textiles, TRIPs and anti-dumping defied resolution. To break the impasse, Mr. Arthur Dunkel, then Director General of GATT, submitted a comprehensive document on December 20, 1991. This document embodied results of negotiations where results had been reached till that date and presented compromise proposals in areas where differences persisted.

The Dunkel proposals have been the subject of a lively debate in India as well as other participating countries. An agreement was finally hammered out in Geneva which will be formally signed in Marrakesh, Morocco, in April 1994 and is scheduled to go into effect in 1995. Although every one is unhappy with parts of GATT accord, no country wanted to be accused of blocking it. The spirit of multilateralism seems to have triumphed over alternative arrangements. What has India gained?

General

- India can increase its exports by \$1.5-2.0 billion per annum due to a general expansion of world trade following substantial lowering of tariffs.
- India will benefit from a multilateral trading system. MFN treatment will be accorded to member countries. Rule-based trade will ensure transparency.
- India will be protected by a multilateral dispute settlement system. Unilateral trade action will be subject to multilateral review.

Textiles

- It was agreed to phase out Multi-Fibre Arrangement (MFA) within a finite time frame of ten years. Pressures were resisted to open our markets on reciprocal basis and to increase the time span of phasing out of MFA to 15 years. Agreement on textiles will strengthen the areas of comparative advantage for India.

TRIPs

- The accord provides for ten year transition period for introduction of product patents in drugs, chemicals and food products. Product patents would not affect majority of drugs and for the rest, the government can undertake compulsory licensing for non-commercial public use as well as to prevent situations of either inadequate availability or exorbitant pricing.
- Adoption of international standards in IPR protection would enhance flow of foreign direct investment (FDI) and technology.
- While providing for plant-breeders' rights, farmers and researchers rights can be protected under the *sui generis* system to be adopted by us. Farmers' right to produce and exchange seeds will not be affected; only commercial sale of branded seeds will be affected. Moreover, Indian laboratories engaged in path breaking research in plant varieties and seeds for tropical regions would benefit.

Agriculture

- The reduction in export subsidies on agriculture by developed countries will make Indian agricultural exports more competitive in world markets.
- Clubbing of product and non-product agricultural subsidies will allow much greater flexibility to provide subsidies for agricultural production. The agreement provides for a subsidy level of ten per cent of the value of agricultural produce which is far higher than the current level of subsidy in India.
- Under the Uruguay Round agreement, consumer subsidies under the public distribution system (PDS) for the rural and urban poor are legitimate and are permitted. Our PDS can therefore continue.

Services

- Access of service personnel into markets of member countries will henceforth be possible on a non-discriminatory basis under a transparent and rule-based system. India can now open services sector on MFN basis as opposed to bilateral arrangements. Under the agreement India will gain in skilled services exports such as computer software, consultancy, medical services, films, etc.

trade deficit is not allowed to widen despite the likely recovery in imports during 1994-95 and the remaining years of the Eighth Plan. On the invisibles account the declining trend in tourist earnings needs to be reversed. Some signs of recovery were already visible in the third quarter of 1993-94. It may be expected that with the smoother functioning of foreign exchange markets in the country the 'parallel market' operations will decrease in their magnitude and the remittances on the official account from the non-resident Indians will increase more rapidly. These inflows are required to pay for the increasing debt-service payments which are likely to emerge in the last three years of the Eighth Five Year Plan. Debt servicing is expected to peak

in 1996-97 and because of the large interest and principal repayments a substantial financing gap may be expected to remain in the coming three years. The year under review has amply demonstrated the benefits of the reforms that have been undertaken. This should strengthen the resolve to press ahead with these reforms. The underlying condition for the success of these reforms is the overall macroeconomic stability which must be ensured. This requires continued restraint on growth of fiscal deficit and keeping the expansion of money supply under control. At the same time a special thrust is required to maintain the rate of growth in exports and encouraging non-debt creating capital inflows in the remaining years of the Eighth Plan.

Footnotes

1. The new format segregates the debt service on defence credit which was included under imports in the earlier format. The interest payments relating to GCA defence debt are clubbed together with investment income payments under the current account and repayments relating to GCA defence debt on the capital account under commercial borrowing. Defence debt service, both repayment and interest payments, relating to Rupee debt is clubbed with debt service on civilian Rupee debt and shown as a separate item named "Rupee debt service" under the capital account. Besides, the new format includes defence-related imports in total imports with credits financing such imports shown under capital account.
2. At present there are five non-resident deposit schemes in

operation. They are (i) Non-Resident (External) Rupee Accounts [NR(E)RA], (ii) Foreign Currency Non-Resident Accounts [FCNRA], (iii) Foreign Currency Non-Resident Accounts (Banks) [FCNR(B)], (iv) Foreign Currency (Ordinary Non-Repatriable) [FC(ON)], and (v) Non-Resident (Non-Repatriable) Rupee Deposits [NR(NR)RD]. Another non-resident deposit scheme introduced in November 1990 called the Foreign Currency (Banks and Others) Deposits [FC(B&O)D] was abolished in July 1992.

3. The balance of payments data presented in Table 5.1 may undergo some revision on account of accounting changes effected under FCNRA pending the availability of the results of special audit to be conducted by the RBI.