6

EXTERNAL SECTOR

1. The balance of payments situation in 1995-96 reflected a renewal of economic growth with an increase in the current account deficit, as a proportion of GDP, to 1.7 per cent from 0.9 per cent in the previous year. However, the increased deficit was easily financed by a higher level of capital inflows and a reduction in foreign exchange reserves of US $2.9 billion (excluding reserve valuation changes). Despite the reserve drawdown, the level of foreign currency assets at the end of 1995-96 was US $17.0 billion, which was quite comfortable. Developments so far in 1996-97 in the balance of payments point to an easing of pressure on the current account and to an increased buoyancy in capital inflows resulting in an increase in reserves. Foreign currency assets of the RBI rose from US $17.0 billion at end-March 1996 to over US $19.8 billion at end-January 1997.

2. The current account deficit is expected to decline to about 1.4 per cent of GDP in the current year, despite a slow-down in export growth and a decline in net invisible receipts, mainly because of a sharp deceleration in the growth of non-oil imports. This improvement in the current account is reinforced by a marked rise in net capital inflows, brought about by an upsurge in non-resident deposits and a revival of funds raised abroad through Euro-equities. These developments in the current and capital accounts have allowed the RBI to reconstitute its foreign currency assets during the first ten months of the current year to about 5.5 months of estimated imports in 1996-97.

3. The foreign exchange market for the rupee has been more or less stable so far during the current year. The exchange rate of the rupee against the US dollar, which had been driven down by speculation to the monthly average of Rs. 36.6 in February 1996, recovered to Rs. 34.2 in April 1996. In the subsequent months, the rate moved in the narrow range of Rs. 35.0 to Rs. 35.9. Taking into account the inflation differentials between India and trade partners, the rupee appreciated in real effective terms.

4. India's external debt declined from US $99.0 billion at end-March 1995 to US $92.2 billion at end-March 1996. The downsizing of external debt resulted in a decline in the external debt-to-GDP ratio to less than 29 per cent in 1995-96. In 1996-97, despite a bunching of repayments arising from the redemption of India Development Bonds, total debt service payments, comprising repayments of principal and interest payments, is expected to remain within manageable limits. Such payments, as a proportion of current receipts, are projected to decline from about 26 per cent in 1995-96 to about 25 per cent in 1996-97.

5. The India Development Bonds (IDBs), issued in early 1992, fell due for redemption after five years in mid-January and mid-February, 1997. Of the IDBs falling due in mid-January, redemption of only about a half in net foreign currency terms continued to demonstrate the relative attractivness of investment in India.

Balance of Payments

6. The deficits in trade and current accounts of the balance of payments widened significantly after 1993-94 (Table 6.1 and 6.2). The current account deficit, as a proportion of GDP, rose from 0.5 per cent in 1993-94 to 1.7 per cent in 1995-96. The gap between domestic savings and investment required to support the accelerating growth momentum of the economy widened in the aftermath of reforms, including trade liberalisation. The increase in the current account deficit since 1993-94 reflects the availability of foreign savings, or external resources, to bridge this higher savings-investment gap. The magnitude of the deficit itself should be no cause for alarm as long as the deficit finances higher capital formation, and is sustained by capital inflows without compromising prudent management of India's external debt position. In fact, capital inflows during the years 1993-94 and 1994-95 have not only financed the current account deficits, but also led to

a foreign currency assets build-up of US $14.4 billion— from US $6.4 billion at the end of 1992-93 to US $20.8 billion at the end of 1994-95. Furthermore, the capital inflows have been preponderantly of the non-debt creating variety with net foreign borrowings constituting only about 20 per cent of the total capital inflows during 1993-95. External debt and debt service indicators have moved in a favourable direction, reflecting substitution, on a relatively large scale, of non-debt creating foreign investment for other forms of debt-creating capital flows, especially since 1993-94.

TABLE 6.1

Balance of Payments: Key Indicators

(In US$ million)

	1990-91 (P)	1991-92 (P)	1992-93 (P)	1993-94 (P)	1994-95 (Q.E.)	1995-96 (Q.E.)
1. Exports	18477	18266	18869	22683	26857	32467
2. Imports	27915	21064	23237	25069	31840	41412
Of which : POL	6028	5364	6100	5754	5928	7547
3. Trade balance	-9438	-2798	-4368	-2386	-4983	-8945
4. Invisibles (net)	-242	1620	842	1228	2349	3511
Non-factor services	980	1207	1129	535	-371	94
Investment income	-3752	-3830	-3423	-3270	-3952	-4479
Pvt. transfers	2069	3783	2773	3595	6200	7480
Official Grants	461	460	363	368	472	416
5. Current Account Balance	-9680	-1178	-3526	-1158	-2634	-5434
6. External assistance (net)	2210	3037	1859	1901	1434	780
7. Commercial borrowings (net)[1]	2249	1456	-358	607	1029	527
8. IMF (net)	1214	786	1288	187	-1146	-1710
9. NRI deposits (net)	1536	290	2001	1205	811	945
10. Rupee debt service	-1193	-1240	-878	-1053	-1050	-963
11. Foreign investment of which :	102	139	555	4235	4895	4143
(i) FDI	97	135	313	586	1314	1929
(ii) FIIs	0	0	0	1665	1503	2009
(iii) Euro-equities and others	5	4	242	1984	2078	205
12. Other flows[2]	2284	286	-213	2940	1620	-1207
13. Capital account total (net)	8402	4754	4254	10022	7593	2515
14. Reserve use (-increase)	1278	-3576	-728	-8864	-4959	2919
Memo Items:			*As per cent of GDP*[3]			
Exports	6.2	7.3	7.8	8.8	8.8	9.9
Imports	9.4	8.3	9.8	9.7	10.5	12.6
Trade balance	-3.2	-1.1	-2.0	-0.9	-1.6	-2.7
Invisibles balance	-0.1	0.7	0.2	0.5	0.8	1.1
Current account balance	-3.2	-0.4	-1.8	-0.5	-0.9	-1.7

(P): Preliminary Actuals; Q.E. : Quick estimates

[1] Figures include receipt on account of India Development Bonds in 1991-92 and related repayments, if any, in the subsequent years.

[2] Include delayed exports receipts and errors and omissions. For the year 1992-93, it also includes errors and omissions arising out of dual exchange rates applicable under the Liberalised Exchange Rate Management System (LERMS).

[3] Rupee equivalents of BOP components are used to arrive at GDP ratios.

TABLE 6.2
Ratios of selected items of the Balance of Payments

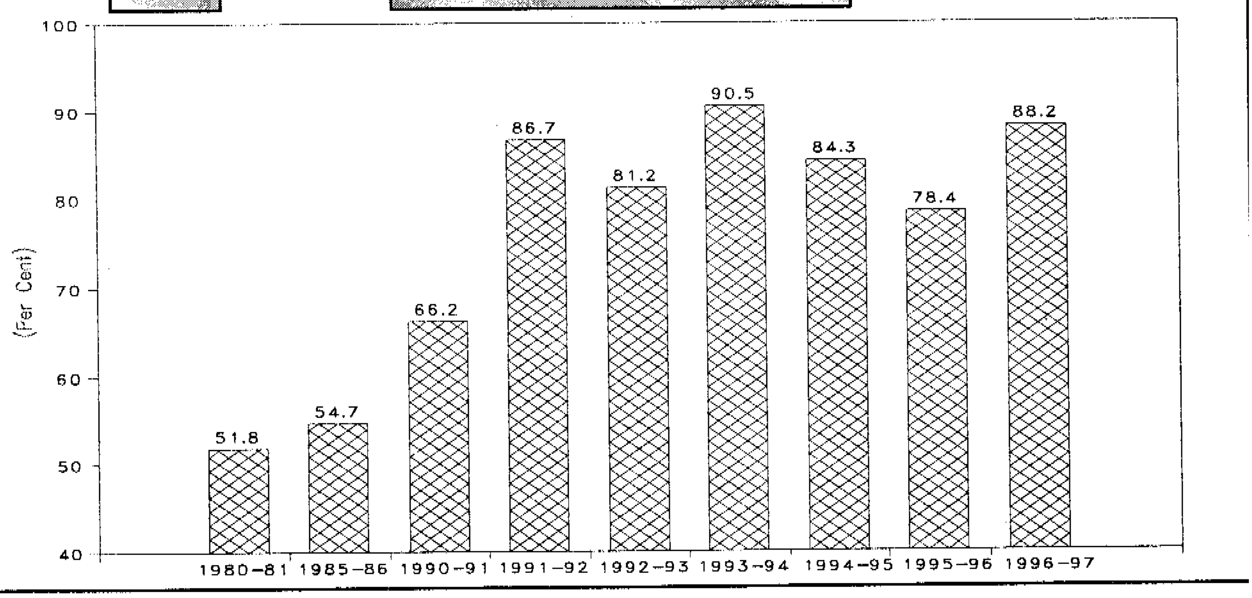
Item\Years	1980-81	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97[1]
1. Exports/Imports (%)	51.8	54.7	66.2	86.7	81.2	90.5	84.3	78.4	88.2[2]
2. Current account deficit (US$ million)	2804	4867	9680	1178	3526	1158	2634	5434	4860
3. Current account/GDP (%)	-1.6	-2.3	-3.2	-0.4	-1.8	-0.5	-0.9	-1.7	-1.4
4. ECB/TC (%)	12.6	22.2	26.8	30.6	-8.4	6.1	13.6	21.0	n.a.
5. NRI deposits/TC (%)	11.3	33.7	18.3	6.1	47.0	12.0	10.7	37.6	n.a.
6. External assistance/TC (%)	70.4	31.9	26.3	63.9	43.7	19.0	18.9	31.0	n.a.
7. External Debt (End of period) (US$ million)	23500	37350	83801	85285	90023	92695	99008	92199	n.a.
8. External Debt/GDP (%)	14.3	17.5	30.4	41.0	39.8	35.9	32.7	28.7	n.a.
9. Debt service payments as a % of current receipts	10.2	18.7	35.3	30.2	28.6	26.9	27.5	25.7	25.1

[1] Projections; [2] Based on DGCI&S trade data for April-December 1996.

Notes:
(i) TC: Total capital flows (net).
(ii) GDP: Gross domestic product at current market prices.
(iii) ECB: External Commercial Borrowings.
(iv) NA: Not Available
(v) As total capital flows are netted after taking into account some capital outflows, the ratios against item no. 4,5 and 6 may in some years add up to more than 100 per cent.
(vi) Data for 1980-81 and 1985-86 against items 7, 8 and 9 do not include defence and short-term credits related debt service payments and some others owing to the non-availability of data for these years.
(vii) Rupee equivalents of BOP components are used to arrive at GDP ratios.

7. Foreign investment flows continued to dominate the capital account inflows, which helped to mitigate the pressure on the overall balance of payments from the current account in 1995-96. External assistance and commercial credits remained subdued. Non-resident deposits were stable. Repayments to the International Monetary Fund peaked in 1995-96. Residual financing requirements were met by drawing down foreign currency assets from US $20.8 billion at end-March 1995 to US $15.9 billion by end-February 1996, as part of a policy to manage the balance of payments and to counter the periodic speculative pressures on the exchange rate of the rupee during the second half of 1995-96. The management of the foreign exchange situation in February and March 1996 brought about a turnaround in exchange market sentiments, and reserves grew by over US $1 billion to reach a level

Fig 6.1 Exports as a Per Cent of Imports



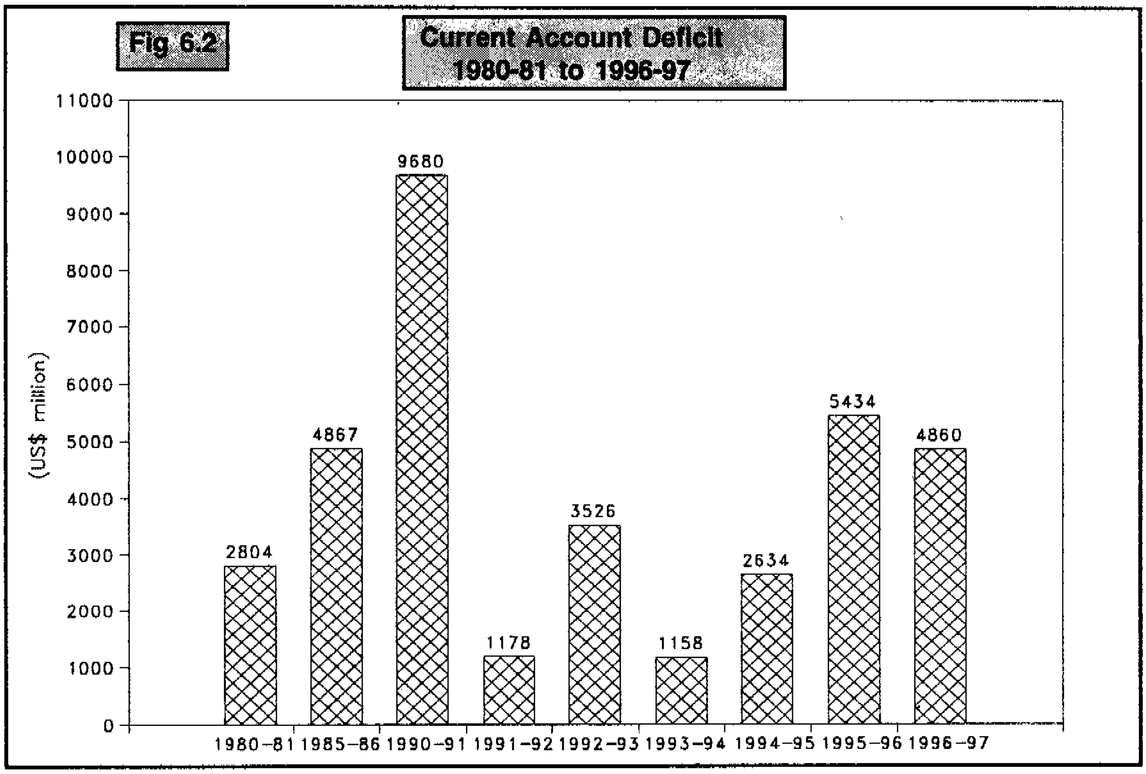


Fig 6.2
Current Account Deficit
1980-81 to 1996-97
(US$ million)
11000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
2804
4867
9680
1178
3526
1158
2634
5434
4860
1980-81
1985-86
1990-91
1991-92
1992-93
1993-94
1994-95
1995-96
1996-97

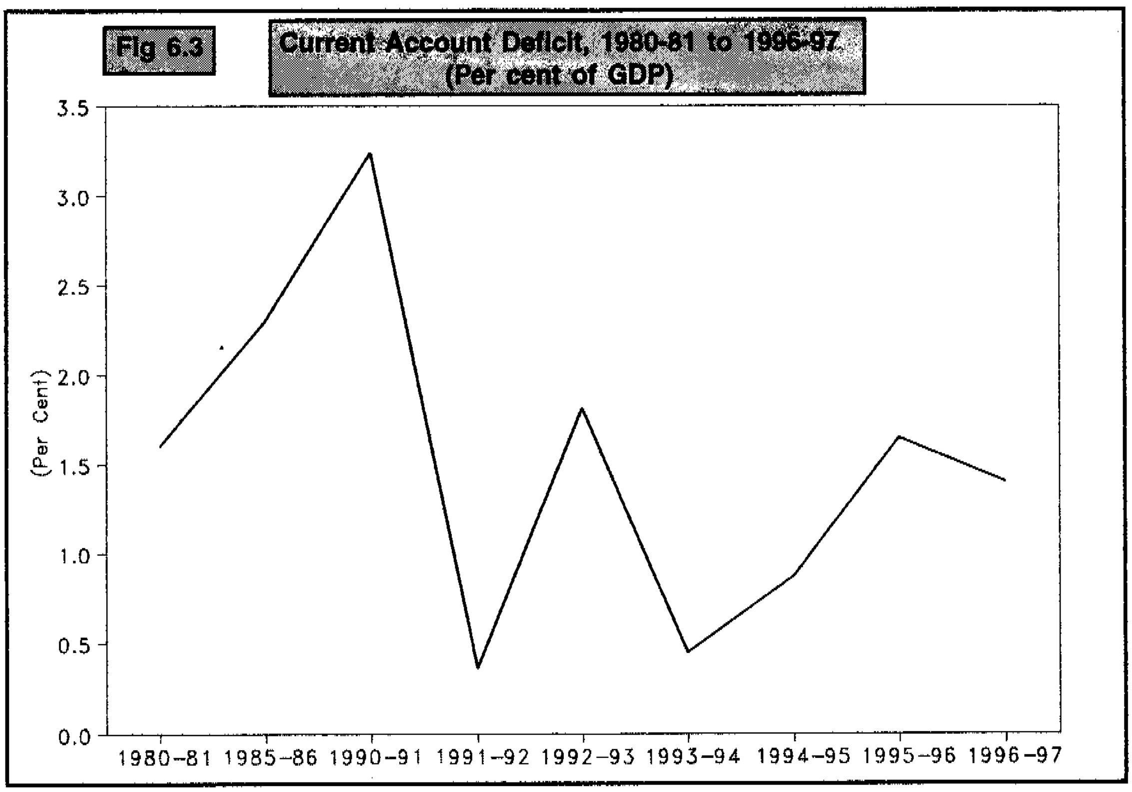


Fig 6.3
Current Account Deficit, 1980-81 to 1996-97
(Per cent of GDP)
(Per Cent)
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1980-81
1985-86
1990-91
1991-92
1992-93
1993-94
1994-95
1995-96
1996-97

of US $17.0 billion by end-March 1996. The improvement in reserves since March, 1996 has also been supported by the stance of monetary policy announced by the RBI in early February 1996. The movements in the nominal exchange rate of the rupee were, on the whole, consistent with maintenance of the competitiveness of Indian products in international markets.

8. Developments on the trade account so far during 1996-97 have led to an easing of the pressure on the current account of the balance of payments. There are signs of a deceleration in the growth of foreign trade, particularly of imports. The current trend seems to indicate that the initial impact of trade liberalization, which resulted in very high growth rates in exports and imports during the last three years, is petering out and trade flows are reverting back to their normal trend determined by world demand and domestic activity. Export growth in 1996-97 is likely to be only about 8 to 10 per cent in US dollar terms compared to 18 to 21 per cent in the last three years. Similarly, import growth, which averaged about 29 per cent (on BOP basis) in the last two years, is likely to be only about 6 per cent in the current year. The sharp deceleration in the growth of imports of items other than petroleum and petroleum products is only partly explained by the slow-down in industrial growth. The improvement in the trade deficit brought about by the slow-down in imports will be largely offset by the anticipated decline in net invisible receipts. As a result, the current account deficit in 1996-97 is likely to decline to about US $4.9 billion or 1.4 per cent of GDP from US $5.4 billion (1.7 per cent of GDP) in 1995-96 (Figures 6.2 and 6.3).

9. Net capital inflows in 1996-97 are expected to more than double over last year's level, largely because of buoyant inflows under non-resident deposits, significant increase in Euro-equities and a sizable decline in repayments to the IMF. Such inflows are likely to finance not only the current account deficit, but also a sizable build-up in the foreign exchange reserves in 1996-97.

International Trade and India

10. The important place commanded by India in world trade in coffee, tea, leather and spices on a historical basis has continued in recent years as well. In 1994, India accounted for 2.4 per cent, 13.6 per cent, 2.5 per cent and 9.1 per cent of world trade in coffee and coffee substitutes, tea and mate, leather, and spices, respectively. Furthermore, there has been a significant progress in export diversification, and India has emerged as an important exporter of iron ore and concentrates, and pearls, precious and semi-precious stones. In 1994, India accounted for 6 per cent of world exports of iron ore and concentrates and 10.9 per cent of world exports of pearls, precious and semi precious stones (Source: 1994 United Nations International Trade Statistics Year Book,1995).

11. During 1950, India accounted for about 1.8 per cent (1.85 per cent of exports and 1.71 per cent of imports) of world trade (Table 6.3). After gradually declining to 0.57 per cent by 1980, India's share improved marginally to 0.63 per cent by 1985. The reason for improvement in the share was that while world trade declined in the period 1980-85, India's trade continued to grow. However it came down again to 0.53 per cent by 1991. The first half of the nineties witnessed a sharp increase in India's trade relative to the growth of world trade, and India's share improved to 0.61 per cent in 1994. Between 1991 and 1994, on average, India's exports and imports have grown in dollar terms annually by 12.4 per cent and 9.4 per cent, respectively. The corresponding growth rates of world trade was about 5.7 per cent. The secular decline in India's share in world trade has been arrested and reversed, and the years ahead are likely to see a continuation of this increasing trend.

12. The trade policy components of the reform process (Box 6.1) undertaken since July 1991 have been motivated by a full recognition of the important role that trade can play in promoting growth. The utilisation of the expanded scope for specialising in areas of comparative advantage is manifest in the improved growth performance of the economy. Furthermore, while exports have vigorously responded to the removal of the anti-export bias of a protectionist environment, domestic industry appears to have been stimulated by the expanded availability of imported inputs and capital goods as well as the challenge of competing in the international market

TABLE 6.3
India : Share in World Trade

Year	Exports	Imports	Trade
		(In per cent)	
1950	1.85	1.71	1.78
1960	1.03	1.69	1.36
1970	0.64	0.65	0.65
1980	0.42	0.72	0.57
1990	0.52	0.66	0.59
1991	0.50	0.56	0.53
1992	0.53	0.61	0.57
1993	0.58	0.60	0.59
1994	0.60	0.63	0.61

Source: UNCTAD Handbook of International Trade and Development Statistics, 1994, United Nations, 1995.

BOX 6.1

EXIM Policy

- In an effort to remove the anti-export bias of extant policies, improve efficiency of resource allocation as well as competitiveness of domestic markets, India has made steady progress in eliminating quantitative restrictions, licensing and discretionary controls over imports since 1991. Imports of capital goods, raw materials and components have been delicensed, tariffs on such imports have been reduced substantially, and tariff categories have been reclassified with an eye on streamlining and simplification. As a result, all goods can now be freely imported and exported, except those belonging to two negative lists.
- With the objective of accelerating the pace of reforms, sustaining high export growth and enhancing the opportunities for the domestic economy's participation in the dynamics of foreign trade, the EXIM Policy 1992-97 has been reviewed and revised in several ways during the current year to further phase out quantitative and qualitative restrictions. The revisions include measures for trade promotion as well as further simplification of procedures.
- A number of items from the negative/restricted list have been permitted free for import and many others have been shifted to the list of items which can be imported under the special import license (SIL) scheme. For example, 40 items were removed from the negative list and made freely importable and 14 others shifted to SIL list on 21st August, 1996. Similarly, a notification was issued on 13th September, 1996, whereby two restricted items were made free for imports and 55 restricted items were permitted against SIL. By another notification issued on 10th February, 1997, as many as 69 items in the SIL list have been moved to the free list and another 95 items have been taken off the restricted list and placed on the SIL list.
- In an effort to promote trade with Latin America, a notification has listed forty-three South American countries, and made exports undertaken after April 1,1996 to these countries eligible for double weightage benefit for recognition as export house/trading house/star trading house/super star trading house.
- To give a fillip to indigenous manufacturers of capital goods and to help improve infrastructure facilities in the power sector, the supply of capital goods to power projects which are done under the procedure of competitive bidding have been made eligible for refund of terminal excise duty as also for special import licenses.
- Minerals and Metals Trading Corporation (MMTC) was the only canalising agency for import of urea until October 1, 1996. In an effort to bring about progressive decanalisation, the State Trading Corporation (STC) and Indian Potash Ltd. (IPL), apart from the MMTC, were also authorised to import urea from October 1, 1996.
- To encourage eradication of child labour in the carpet industry and for rehabilitation of carpet weavers, the export of hand-knitted carpets and floor coverings excluding cotton durries and floor coverings, was again subjected to production of Registration-cum-Membership certificate from the Carpet Export Promotion Council, New Delhi, from August 1, 1996.
- Given the domestic demand/supply imbalance in wheat in the current year, export of wheat products, which had been earlier allowed without any restriction, was subjected to a quantitative ceiling from October 1, 1996. For the period October, 1996 to March, 1997, a ceiling of 1.5 lakh tonnes has been announced for export of wheat products and placed at the disposal of APEDA for further disbursement.
- In accordance with the terms of the General Agreement on Tariffs and Trade, a country is required to lift quantitative restrictions on imports imposed for Balance of Payments reasons when the position improves. As the position of foreign exchange reserves is comfortable, India is bound to phase out quantitative restrictions in respect of all items.

place. The positive response of Indian industry to liberalisation is amply demonstrated by the capital goods sector. The tariff on capital goods was as high as 85 per cent in the pre-reforms period. This has been reduced to about 25 per cent covering about 80 per cent of capital goods in 1995-96. The capital goods industry which witnessed a negative growth of 12.8 per cent in 1991-92, registered an average growth of about 23 per cent during 1994-96.

Terms of Trade

13. The terms of trade, which measure the terms of exchange between a unit of exports and a unit of imports, have been improving in the post-reform period. Two common ways of measuring the terms of trade are the net terms of trade (NTT) and the income terms of trade (ITT). A time series (Appendix Table 7.6) indicating all parameters of terms of trade (TOT) for India since 1969-70 with the base of

1978-79 =100 indicates that there have been wide fluctuations in the TOT. The NTT (1978-79=100), which is an index of export prices divided by an index of import prices, improved from 109.3 in 1990-91 to 152.4 in 1994-95. It is, however, estimated at 138 for the year 1995-96. This decline is because of a marginal fall in the unit value of exports from 495 in 1994-95 to 484 in 1995-96, whereas the unit value of imports increased from 325 to 351 during the same period. Despite this, the ITT (1978-79=100), which indicates the purchasing power of exports by expressing the quantity of imports as a proportion of the value of exports, improved from 446 in 1994-95 to 530 in 1995-96 because of a sharp increase in the volume index of exports from 293 to 384 and a marginal increase in the volume index of imports from 408 to 515 during the same period.

14. It may be mentioned that India's purchasing power of exports as reflected through ITT has been improving continuously since 1985-86. The value index of exports at 484 stands much higher than that of imports at 351 and hence, in terms of value, India has gained. But in terms of volume, the index of exports has been much less at 384 in comparison to that of imports at 515. This means that the volume of imports is increasing faster, though India is getting a better price for her exports.

15. Compared to the experience of other developing countries, the improvement in the terms of trade for India has been very impressive. The NTT (1990=100), as presented in the UN's International Trade Statistics Year Book, 1995, is reproduced below:

Economies	1980	1985	1990	1991	1992	1993	1994
Developed	90	91	100	100	102	104	104
Developing	125	109	100	98	99	100	96
India	65	92	100	91	114	NA	NA

16. Developing economies, with exports dominated by primary products, lost out to developed economies. Relative abundance of supply of primary products as well as the superior bargaining strength of developed countries have often been adduced as two major reasons for the deterioration in the terms of trade. Gains in the terms of trade for India in the comparable period perhaps reflects her diversified export base as well as the relatively low international prices of oil in the relevant period.

Merchandise Trade

17. The analysis in this section is based on trade data provided by the DGCI&S. The openness of the Indian economy, as measured in terms of the ratio of foreign trade to GDP (in rupee terms), improved from 11.6 per cent in 1985-86 to 14.1 per cent in 1990-91, and further to 21 per cent in 1995-96. As part of the process of increasing global integration, India's exports in dollar terms, after growing by 20 per cent and 18.4 per cent in the two previous years, grew by a further 20.8 per cent in 1995-96. Although exports for April-December, 1996, estimated at US$ 24.2 billion, showed a growth of only 6.4 per cent compared to the growth of 24.2 per cent in the corresponding period of the previous year, it is expected to show renewed resurgence of the growth momentum in the coming months.

18. After growing by 22.9 per cent in 1994-95, imports, again buoyed up by an acceleration in industrial growth, grew by a further 28 per cent in 1995-96. With the gradual absorption of the initial effects of trade liberalisation, the period April-December 1996 witnessed a significant slow-down in import growth (in dollar terms) to 4.4 per cent compared to a growth of 29.3 per cent in the same period a year ago. Imports of petroleum and petroleum products (POL) are estimated to have been as much as 25.6 per cent of total merchandise imports of US $27.5 billion during April-December, 1996. The corresponding share of POL imports was only 18.9 per cent in 1995-96. In the first nine months of the current financial year, while POL imports grew by 41.4 per cent in reflection of the hardening of international oil prices and the decline in domestic crude production, import of non-POL items registered a decline of 4.2 per cent as against an increase of 32.1 per cent a year ago.

19. The faster deceleration in growth of imports relative to exports in 1996-97 so far (Table 6.4) has led to a lower trade deficit of US $3.3 billion in April-December, 1996 compared to US $3.5 billion in the same period a year ago. Self-reliance, as measured by the coverage of imports by exports (as per DGCI&S data which is different from that in Table 6.2 and Figure 6.1), has improved from 53.4 per cent in the beginning of 1980s and a little over 75 per cent by 1990-91 to 95.4 per cent in 1993-94, reflecting the gains from liberalisation. Although the coverage of imports by exports declined somewhat to 86.7 per cent a year ago following higher growth rates of imports than those of exports during 1994-96, it has improved to 88.2 per cent during April- December, 1996.

20. The decline in export performance in the recent months must be viewed in the backdrop of a steep decline in non-POL import growth from a high of 32 per cent during April-December 1995 to a negative 4.2 per cent during April-December 1996. The decline reflects a modest slow-down in industrial activity compared to the economic dynamism of last year, and domestic cyclical fluctuations have no doubt played a role. These factors appear to have been compounded by several external developments, including a fall in import demand by industrial countries, regional groupings of the developed

TABLE 6.4

Percentage change in Exports and Imports over the corresponding month of the previous year

1995-96			1996-97		
Month	Exports	Imports	Month	Exports	Imports
April	24.1	15.4	April	13.7	31.9
May	30.1	47.1	May	15.2	16.6
June	29.2	50.4	June	14.9	-1.3
July	36.4	43.5	July	2.7	-14.9
August	21.3	30.0	August	3.6	0.0
September	18.7	14.2	September	10.5	7.8
October	14.5	20.1	October	9.9	13.7
November	24.4	35.4	November	-5.9	-6.2
December	22.2	15.3	December	-3.5	2.6
January	7.4	37.3			
February	14.9	26.3			
March	17.2	7.2			

Source : DGCI&S, Calcutta

economies and the effect on exports of large movements in the cross currency exchange rates. The impact of variations in the cross-currency rates is evident from the fact that during the first nine months of 1996-97, exports valued in SDR terms grew by 12.7 per cent compared to only 6.4 per cent when valued in US dollar terms.

Composition of Trade

Exports

21. Export performance varied across products during 1995-96 and the first half of the current year (Table 6.5). During 1995-96, exports of agriculture and allied products and electronics showed impressive performance. During the first half of 1996-97, the growth of agricultural and allied group of exports over the corresponding period of the previous year was very impressive at 42 per cent. This group contributed 64 per cent to the total growth of exports during the first six months of the year. Within the agricultural group, the items showing exemplary growth have been: raw cotton (934 per cent), oil meals (62 per cent), and spices (41 per cent), followed by cereals (30 per cent). There were some signs of a revival of growth for exports of marine products and cashew. However, exports of unmanufactured tobacco declined by 36 per cent, and that of tea by 3.3 per cent. Growth of exports of ores and minerals was very sluggish at 1.5 per cent compared to 18.9 per cent a year ago. In fact, iron ore registered a decline of 11.8 per cent. Similarly, manufactured products showed a poor performance by growing at only 4.3 per cent compared to 16.5 per cent a year ago. Amongst the items in the manufactured goods category, which showed a spurt in export growth during April-September, 1996, are electronic goods (32 per cent), machinery and instruments (31.6 per cent), manufactures of metals (31.1 per cent), and cotton yarn, fabrics, made-ups etc. (24.1 per cent). Export performance was quite poor for primary and semi-finished iron and steel (-19 per cent), gems and jewellery (-8.9 per cent), and leather and manufactures (-8.3 per cent).

22. Significant variations in the growth rates of exports of various categories resulted in a pronounced change in the composition of India's exports during April-September 1996 compared to the corresponding period in 1995 (Table 6.6 and Figures 6.4 and 6.5). The share of agricultural and allied products in total exports increased sharply from 16.1 per cent in April-September 1995 to 20.6 per cent in April-September, 1996. The share of manufactured goods has been declining over the years. From 78.1 per cent in 1994-95, it came down to 73.5 per cent in April-September, 1996. The shares of ores and minerals, and crude and petroleum products, and others remained more or less unchanged.

Imports

23. Reflecting the buoyancy in the industrial sector and the continued effect of trade liberalisation, imports surged by 28 per cent in dollar terms in 1995-96 (Table 6.7). High growth was observed in the import of fertilizers (60 per cent), edible oils (240 per cent), paper board, manufactures and newsprint (92 per cent), and capital goods (34 per cent). Import of pearls, precious and semi-precious stones, mainly for re-export after value addition, registered an increase of 29 per cent in 1995-96. While there was a sharp decline in the import of cereals (19 per cent), negative growth was also noticed in the case of transport equipments.

24. During April-September 1996, the import bill of US $18 billion was 5.3 per cent higher than the import bill in the corresponding period a year ago. The modest increase in total imports was mainly on account of rapid growth in POL imports (Box 6.2). Import of POL grew by over 40 per cent, and contributed 145 per cent of the total growth in imports during the first half of the financial year.

TABLE 6.5

Exports by Commodity Group

(US$ million)

Commodity Group	1994-95	1995-96	Apr-Sept 1995-96	Apr-Sept 1996-97	Apr-Mar 1995-96 (% Change)	Apr-Sept 1996-97 (% Change)
I. Agriculture & allied, of which	4210.5	6094.2	2348.5	3330.5	44.7	41.8
1. Tea	310.7	350.1	164.0	158.5	12.7	-3.3
2. Coffee	335.3	449.3	227.6	258.6	34.0	13.6
3. Cereals	406.4	1480.5	504.6	657.4	264.3	30.3
4. Unmanufactured tobacco	58.6	113.2	58.5	37.4	93.1	-36.1
5. Spices	194.9	237.2	104.1	147.1	21.7	41.3
6. Cashewnuts	396.4	369.4	184.9	204.8	-6.8	10.8
7. Oil meals	572.6	702.2	213.2	344.3	22.6	61.5
8. Fruits & vegetables	171.6	212.7	96.6	98.2	23.9	1.6
9. Marine products	1126.4	1010.9	409.3	479.5	-10.3	17.1
10. Raw cotton	44.5	60.9	21.1	218.6	36.7	934.4
II. Ores and minerals, of which	987.9	1175.0	584.3	593.0	18.9	1.5
11. Iron ore	413.3	514.5	260.9	230.1	24.5	-11.8
12. Processed minerals	263.8	329.5	147.0	178.7	24.9	21.6
13. Other ores and minerals	275.7	294.0	162.6	174.6	6.7	7.4
III. Manufactured goods, of which	20567.4	23959.3	11371.5	11865.4	16.5	4.3
14. Leather & manufactures	1061.2	1147.6	549.3	503.6	8.1	-8.3
15. Leather footwear	549.5	583.4	174.0	176.2	6.2	1.3
16. Gems & jewellery	4500.4	5275.2	2475.6	2256.4	17.2	-8.9
17. Drugs, pharmaceuticals & fine chemicals	800.2	1019.1	446.7	530.4	27.4	18.7
18. Dyes / intermediates & Coal tar chemicals	479.7	486.5	230.7	265.9	1.4	15.3
19. Manufactures of metals	706.1	826.5	373.0	488.9	17.1	31.1
20. Machinery and instruments	726.6	827.8	392.7	516.7	13.9	31.6
21. Transport equipments	771.3	924.6	430.4	430.8	19.9	0.1
22. Primary & semi-finished iron & steel	420.8	524.6	256.7	208.1	24.7	-19.0
23. Electronic goods	412.3	672.3	295.1	389.5	63.0	32.0
24. Cotton yarn, fabrics, madeups etc	2233.8	2576.8	1195.9	1484.1	15.4	24.1
25. Ready made garments	3281.9	3675.8	1759.6	1828.1	12.0	3.9
26. Handicrafts	1033.4	1102.9	556.3	558.2	6.7	0.3
IV. Crude & petroleum products	416.9	453.8	233.3	261.4	8.8	12.0
V. Others & unclassified items	147.8	114.8	72.0	89.7	-22.3	24.6
Grand Total	26330.5	31797.1	14609.6	16140.0	20.8	10.5

Source:DGCI&S, Calcutta

Figure 6.6

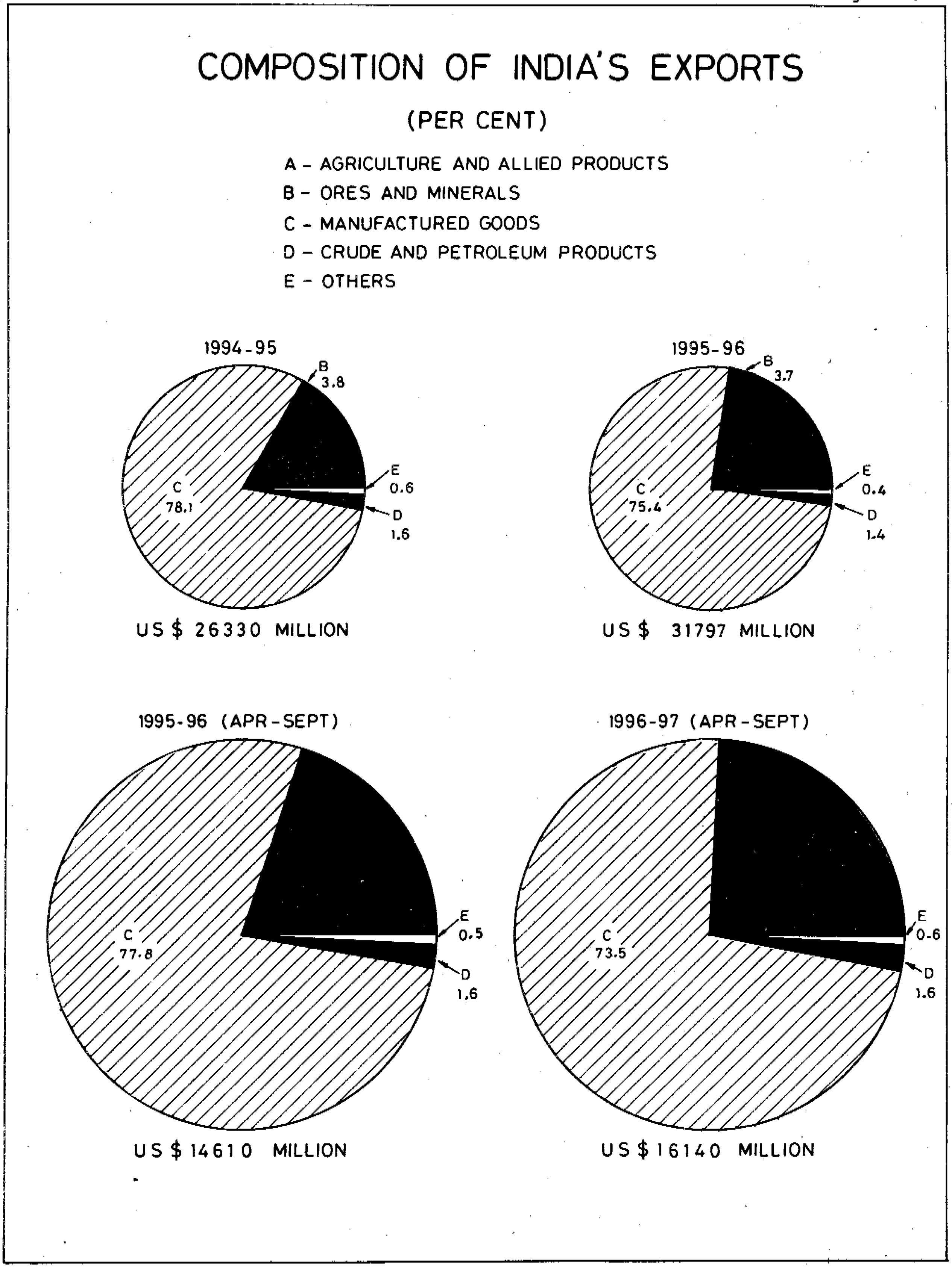

COMPOSITION OF INDIA'S EXPORTS
(PER CENT)
A - AGRICULTURE AND ALLIED PRODUCTS
B - ORES AND MINERALS
C - MANUFACTURED GOODS
D - CRUDE AND PETROLEUM PRODUCTS
E - OTHERS
1994-95
B 3.8
C 78.1
E 0.6
D 1.6
US $ 26330 MILLION
1995-96
B 3.7
C 75.4
E 0.4
D 1.4
US $ 31797 MILLION
1995-96 (APR-SEPT)
C 77.8
E 0.5
D 1.6
US $ 14610 MILLION
1996-97 (APR-SEPT)
C 73.5
E 0.6
D 1.6
US $ 16140 MILLION

Figure 6.7

COMPOSITION OF INDIA'S IMPORTS

(PER CENT)

A – FOOD AND ALLIED PRODUCTS
B – FUEL
C – FERTILIZERS
D – PAPER BOARD, MANUF. AND NEWS PRINT
E – CAPITAL GOODS
F – OTHER BULK ITEMS
G – OTHERS

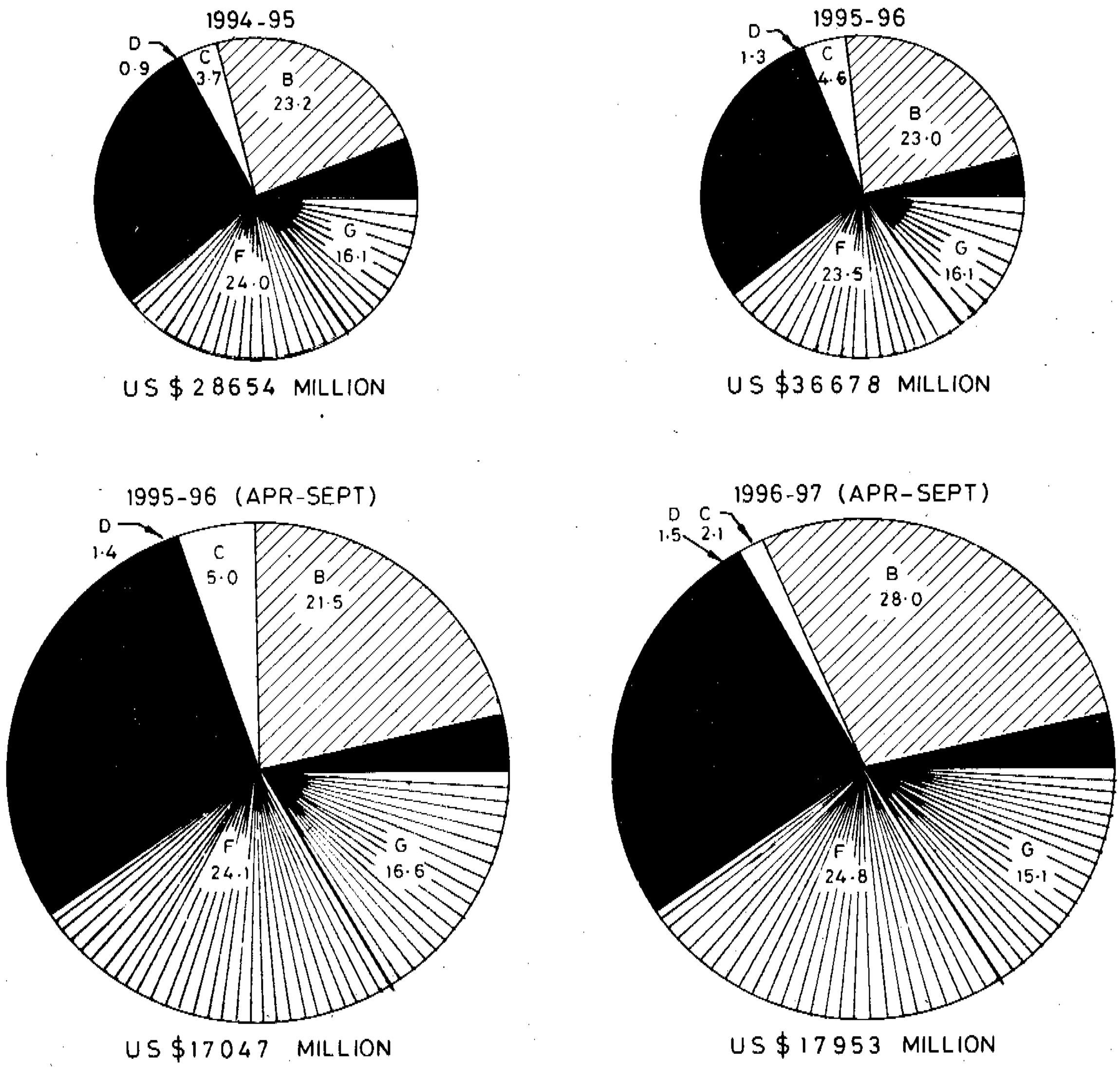


TABLE : 6.6

Composition of India's Export

(Percentage shares)

Commodity Group	1994-95	1995-96	Apr-Sept 1995-96	Apr-Sept 1996-97
I. Agriculture & allied, of which	16.0	19.2	16.1	20.6
1. Tea	1.2	1.1	1.1	1.0
2. Coffee	1.3	1.4	1.6	1.6
3. Cereals	1.5	4.7	3.5	4.1
4. Unmanufactured tobacco	0.2	0.4	0.4	0.2
5. Spices	0.7	0.7	0.7	0.9
6. Cashewnuts	1.5	1.2	1.3	1.3
7. Oil meals	2.2	2.2	1.5	2.1
8. Fruits & vegetables	0.7	0.7	0.7	0.6
9. Marine products	4.3	3.2	2.8	3.0
10. Raw cotton	0.2	0.2	0.1	1.4
II. Ores and minerals, of which	3.8	3.7	4.0	3.7
11. Iron ore	1.6	1.6	1.8	1.4
12. Processed minerals	1.0	1.0	1.0	1.1
13. Other ores and minerals	1.0	0.9	1.1	1.1
III. Manufactured goods, of which	78.1	75.4	77.8	73.5
14. Leather & manufactures	4.0	3.6	3.8	3.1
15. Leather footwear	2.1	1.8	1.2	1.1
16. Gems & jewellery	17.1	16.6	16.9	14.0
17. Drugs, pharmaceuticals & fine chemicals	3.0	3.2	3.1	3.3
18. Dyes / intermediates & Coal tar chemicals	1.8	1.5	1.6	1.6
19. Manufactures of metals	2.7	2.6	2.6	3.0
20. Machinery and instruments	2.8	2.6	2.7	3.2
21. Transport equipments	2.9	2.9	2.9	2.7
22. Primary & semi-finished iron & steel	1.6	1.6	1.8	1.3
23. Electronic goods	1.6	2.1	2.0	2.4
24. Cotton yarn, fabrics, madeups etc	8.5	8.1	8.2	9.2
25. Ready made garments	12.5	11.6	12.0	11.3
26. Handicrafts	3.9	3.5	3.8	3.5
IV. Crude & petroleum products	1.6	1.4	1.6	1.6
V. Others & unclassified items	0.6	0.4	0.5	0.6
Grand Total	100.0	100.0	100.0	100.0

Source: DGCI&S, Calcutta

TABLE : 6.7
Imports by Commodity Groups

(US$ million)

Commodities	1994-95	1995-96	Apr-Sept 1995-96	Apr-Sept 1996-97	1995-96 (Apr-Mar) (%Change)	1996-97 (Apr-Sept) (%Change)
I. Food and allied products, of which	1658.7	1317.8	647.0	650.6	-20.6	0.5
1. Cereals	29.4	24.0	12.0	11.0	-18.5	-8.4
2. Pulses	188.8	205.0	100.2	92.7	8.6	-7.5
3. Cashewnuts	220.1	227.2	79.0	64.1	3.3	-18.9
4. Edible oils	198.8	676.3	364.6	440.7	240.2	20.9
II. Fuel, of which	6636.2	8451.9	3659.5	5031.1	27.4	37.5
5. Coal	708.4	925.6	393.7	448.7	30.7	14.0
6. POL	5927.8	7526.3	3265.9	4582.4	27.0	40.3
III.Fertilizers	1052.4	1682.8	849.5	368.4	59.9	-56.6
IV.Paper board, manufactures & newsprint	246.2	473.4	235.0	264.0	92.2	12.4
V.Capital goods, of which	7594.6	10210.1	4725.1	4480.0	34.4	-5.2
7. Machinery except elec. & machine tools	2727.8	3924.6	1761.0	1907.8	43.9	8.3
8. Electrical machinery & electronic goods	1479.7	2138.9	935.2	828.6	44.6	-11.4
9. Transport equipments	1113.6	1105.2	512.3	485.3	-0.8	-5.3
10. Project goods	1853.6	2391.2	1230.9	914.0	29.0	-25.7
VI.Others, of which	6866.6	8633.7	4100.1	4455.6	25.7	8.7
11. Chemicals	2945.3	3614.7	1768.7	1745.0	22.7	-1.3
12. Pearls, precious & semi-precious stones	1629.5	2106.2	979.9	1241.9	29.3	26.7
13. Iron & steel	1082.1	1339.7	592.3	683.0	23.8	15.3
14. Non-ferrous metals	717.9	904.0	433.0	521.0	25.9	20.3
15. Professional instruments, optical goods etc	491.8	669.1	326.2	264.7	36.1	-18.9
VII. Unclassified items	4599.7	5908.3	2830.7	2703.6	28.4	-4.5
Grand Total	28654.4	36677.9	17046.9	17953.2	28.0	5.3

Source: DGCI&S, Calcutta

In fact, non-POL imports registered a decline of 3.6 per cent. Among non-POL items, high and positive growth was recorded in the imports of edible oils (21 per cent), coal (14 per cent), paper board, manufactures and newsprint (12 per cent), pearls, precious and semi-precious stones (27 per cent), iron and steel (15 per cent) and non-ferrous metals (20 per cent). However, large declines in imports of fertilizers (57 per cent), project goods (26 per cent), professional instruments (19 per cent), cashewnuts (19 per cent), electrical machinery (11 per cent), and a few other sundry items resulted in an overall decline in non-POL imports.

25. Divergent growth rates in imports of various commodity groups led to some noticeable changes in the composition of imports during April-September, 1996 (Table 6.8). The share of capital goods in total imports came down from 27.7 per cent during April-September 1995 to 25 per cent during the same period in 1996, while the share of fertilizers dropped from 5 per cent to 2.1 per cent. Fuel imports

BOX 6.2

POL imports

- The import bill on account of petroleum and petroleum products (POL) has a large impact on the balance of trade, the balance of payments, and on the general health of the economy. In 1995-96, the POL-import bill went up by 27 per cent to US $7,526 million. In April-December, 1996, POL imports, estimated at US $7039 million, are higher by 41 per cent over the corresponding period last year. The share of POL imports in total imports has steadily increased from 20.6 per cent in 1994-96 to 26 per cent in April-December, 1996. The value of imports of POL in rupee terms is relatively higher because of the depreciating rupee value. The sharp increase in the value of POL imports essentially reflects the increase in the demand for hydrocarbons with economic development, the shortfall in domestic production of crude, and a hardening of international prices for petroleum and petroleum products.
- India's crude output, which averaged less than 0.25 million metric tonnes (MMT) in early 1950s, shot up to over 1 MMT in 1962 after the development of Ankleswar field in Gujarat and increase in production in Assam. The discovery and subsequent development of the Bombay field in western offshore in 1974 led to a pick up in production to 10 MMT in 1977. With addition of Bombay High and other fields in the western offshore area, India's crude output touched a peak of 34.09 MMT in 1989-90. Crude oil balance recoverable reserves also increased rapidly from 127 MMT in 1973 to 801 MMT in 1992.
- The outturn in the hydrocarbon sector has not been encouraging during the Eighth Plan. Since 1989-90, the production of crude declined steadily to a low of 27.17 MMT in 1993-94, before reviving to an all time high of 35.15 MMT in 1995-96. The cumulative production of crude oil during April-October, 1996 was 18.47 MMT against a target of 20.03 MMT representing an achievement of 92 per cent of the target. This was even lower than the production of 20.57 MMT attained during the corresponding period of the previous year. Similarly, the balance of recoverable reserves of crude oil have also been on the decline since 1992. Accretion to reserves has been falling short of current production, even though production itself has been falling as well. As of April 1, 1996, recoverable reserves are estimated to be 738 MMT, against a prognosticated reserves of about 21,000 MMT.
- The prices of oil in the international market are highly volatile. They have shown a hardening trend recently although it is expected that they may stabilise, or even come down, with resumption of oil supplies from Iraq in the medium term. Nevertheless, with economic growth and modernisation, demand for petroleum and petroleum products in India, which has been on the rise, is expected to increase further. Rationalisation of the price structure for petroleum products as well as domestic crude is imperative for containing the demand for hydrocarbons, promoting energy conservation and the use of alternative energy sources, as well as enhancing domestic exploration and production.

constituted as much as 28 per cent of total imports during April-September, 1996 compared to only 21.5 per cent in the same period a year ago. The shares of other items remained more or less at the same levels as in April-September, 1995.

Direction of Trade

26. Changes in the direction of India's foreign trade (Table 6.9, and Figures 6.6 and 6.7) in 1995-96 as well as in the subsequent six months show clear signs of diversification. For example, the OECD countries as a group accounted for 56.3 per cent of India's exports and 50.5 per cent of India's imports during April-September, 1996 compared to 57.1 per cent and 52.7 per cent, respectively, during the corresponding period a year ago. Similarly, the share of trade – both exports and imports — with East European countries declined in April-September, 1996. Imports from OPEC countries was about three times the value of exports to these countries during the first six months of the financial year, mainly on account of our dependence on these countries for POL imports. While our exports to LDCs (other than OPEC countries) increased from 25 per cent in April-September, 1995 to 25.9 per cent in April-September, 1996, our imports from these countries decreased from 18.8 per cent to 17.2 per cent. The importance of East Asian countries in India's foreign trade has been steadily increasing in recent years. However, in April-September 1996, the share of total exports to East Asian countries declined marginally from 15.1 per cent in the same period a year ago to 14.9 per cent (Table 6.10).

27. Negative growth rates (in dollar terms) were observed in exports to Romania (41 per cent), Russia (19 per cent), France (6 per cent), Germany (2 per cent) and Belgium (2 per cent) during April-Septmber, 1996. There were large declines in imports from Russia (28 per cent), Japan (21 per cent), USA(15 per cent), Canada (7 per cent) and Germany (7 per cent). However, inspite of these developments, the USA, UK, Germany and Japan continued to be the four largest trading partners of India (Table 6.9). The combined share of these

TABLE : 6.8

Composition Of India's Imports

(Percentage shares)

Commodities	1994-95	1995-96	Apr-Sept 1995-96	Apr-Sept 1996-97
I. Food and allied products, of which	5.8	3.6	3.8	3.6
1. Cereals	0.1	0.1	0.1	0.1
2. Pulses	0.7	0.6	0.6	0.5
3. Cashewnuts	0.8	0.6	0.5	0.4
4. Edible oils	0.7	1.8	2.1	2.5
II. Fuel, of which	23.2	23.0	21.5	28.0
5. Coal	2.5	2.5	2.3	2.5
6. POL	20.7	20.5	19.2	25.5
III. Fertilizers	3.7	4.6	5.0	2.1
IV. Paper board, manufactures & newsprint	0.9	1.3	1.4	1.5
V. Capital goods, of which	26.5	27.8	27.7	25.0
7. Machinery except electrical & machine tools	9.5	10.7	10.3	10.6
8. Electrical machinery & electronic goods	5.2	5.8	5.5	4.6
9. Transport equipments	3.9	3.0	3.0	2.7
10. Project goods	6.5	6.5	7.2	5.1
VI. Others,of which	24.0	23.5	24.1	24.8
11. Chemicals	10.3	9.9	10.4	9.7
12. Pearls, precious & semi-precious stones	5.7	5.7	5.7	6.9
13 Iron & steel	3.8	3.7	3.5	3.8
14 Non-ferrous metals	2.5	2.5	2.5	2.9
15. Professional instruments, optical goods etc	1.7	1.8	1.9	1.5
VII. Unclassified items	16.1	16.1	16.6	15.1
Grand Total	100.0	100.0	100.0	100.0

Source: DGCI&S, Calcutta

TABLE: 6.9

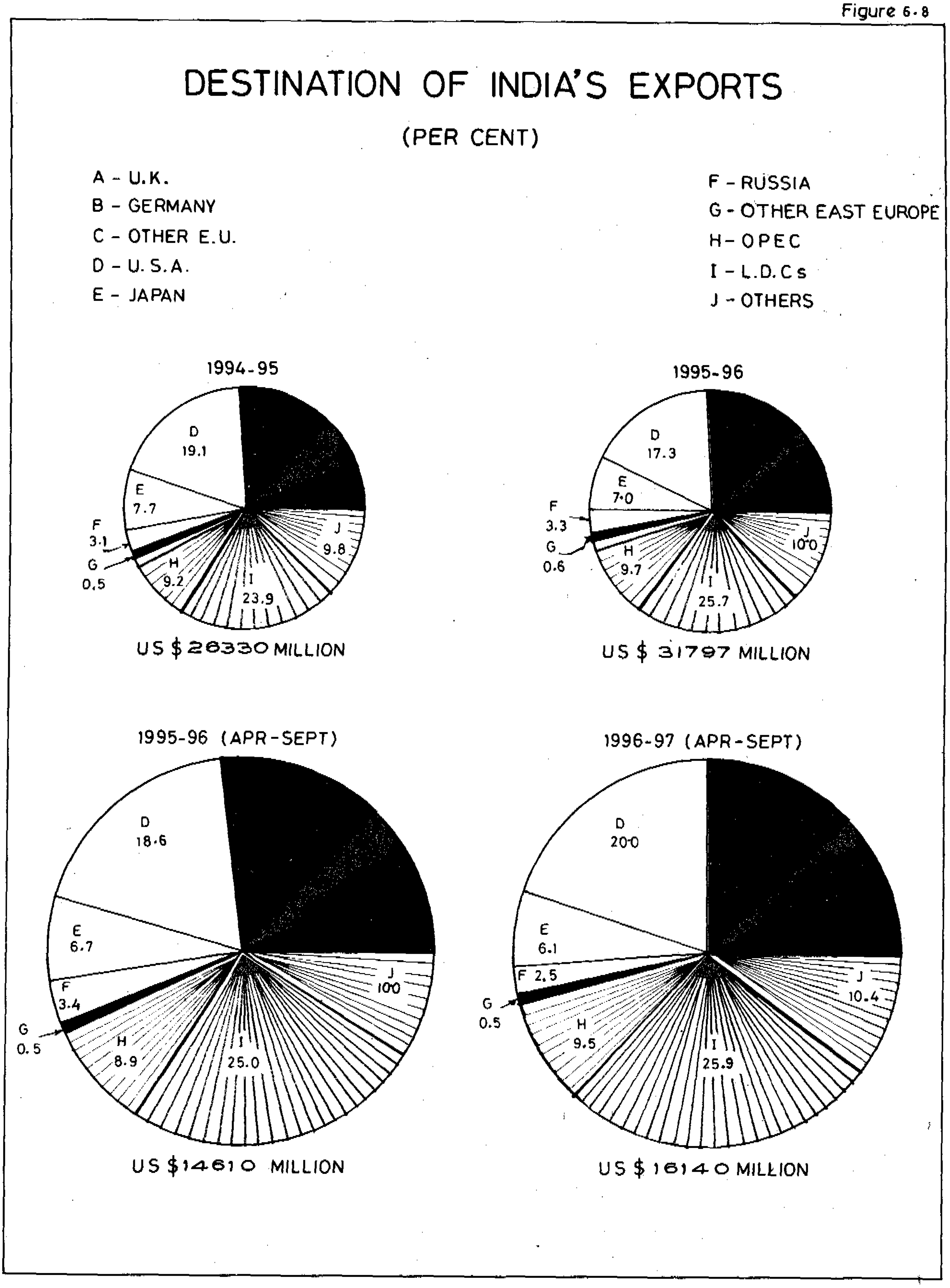
Direction Of India's Trade

(Percentage shares)

Country	Exports				Imports			
	1994-95 (Apr- March)	1995-96 (Apr- March)	1995-96 (Apr-September)	1996-97 (Apr-September)	1994-95 (Apr- March)	1995-96 (Apr- March)	1995-96 (Apr-September)	1996-97 (Apr-September)
A: U.K	6.42	6.31	6.48	6.48	5.44	5.29	4.99	5.74
B: Germany	6.64	6.23	6.38	5.66	7.63	8.63	8.64	7.63
C: Other EC	13.65	13.89	14.00	12.91	11.75	12.90	11.86	12.56
D: U.S.A	19.07	17.34	18.56	19.98	10.14	10.53	11.07	8.98
E: Japan	7.70	6.96	6.70	6.11	7.12	6.63	7.63	5.74
F: Russia	3.07	3.29	3.37	2.46	1.76	2.35	2.52	1.72
G: Other East Europe	0.54	0.56	0.55	0.56	0.61	1.09	0.82	0.94
H: OPEC	9.23	9.64	8.95	9.54	21.12	20.99	20.57	24.75
I: Other LDCs	23.86	25.90	25.05	25.89	19.64	18.32	18.61	17.20
J: Others	9.83	9.87	9.95	10.41	14.59	13.30	13.09	14.73
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: DGCI&S, Calcutta

Figure 6.8



DESTINATION OF INDIA'S EXPORTS
(PER CENT)
A - U.K.
B - GERMANY
C - OTHER E.U.
D - U.S.A.
E - JAPAN
F - RUSSIA
G - OTHER EAST EUROPE
H - OPEC
I - L.D.Cs
J - OTHERS
1994-95
D 19.1
E 7.7
F 3.1
G 0.5
H 9.2
I 23.9
J 9.8
US $ 26330 MILLION
1995-96
D 17.3
E 7.0
F 3.3
G 0.6
H 9.7
I 25.7
J 10.0
US $ 31797 MILLION
1995-96 (APR-SEPT)
D 18.6
E 6.7
F 3.4
G 0.5
H 8.9
I 25.0
J 10.0
US $ 14610 MILLION
1996-97 (APR-SEPT)
D 20.0
E 6.1
F 2.5
G 0.5
H 9.5
I 25.9
J 10.4
US $ 16140 MILLION

Figure 6.9

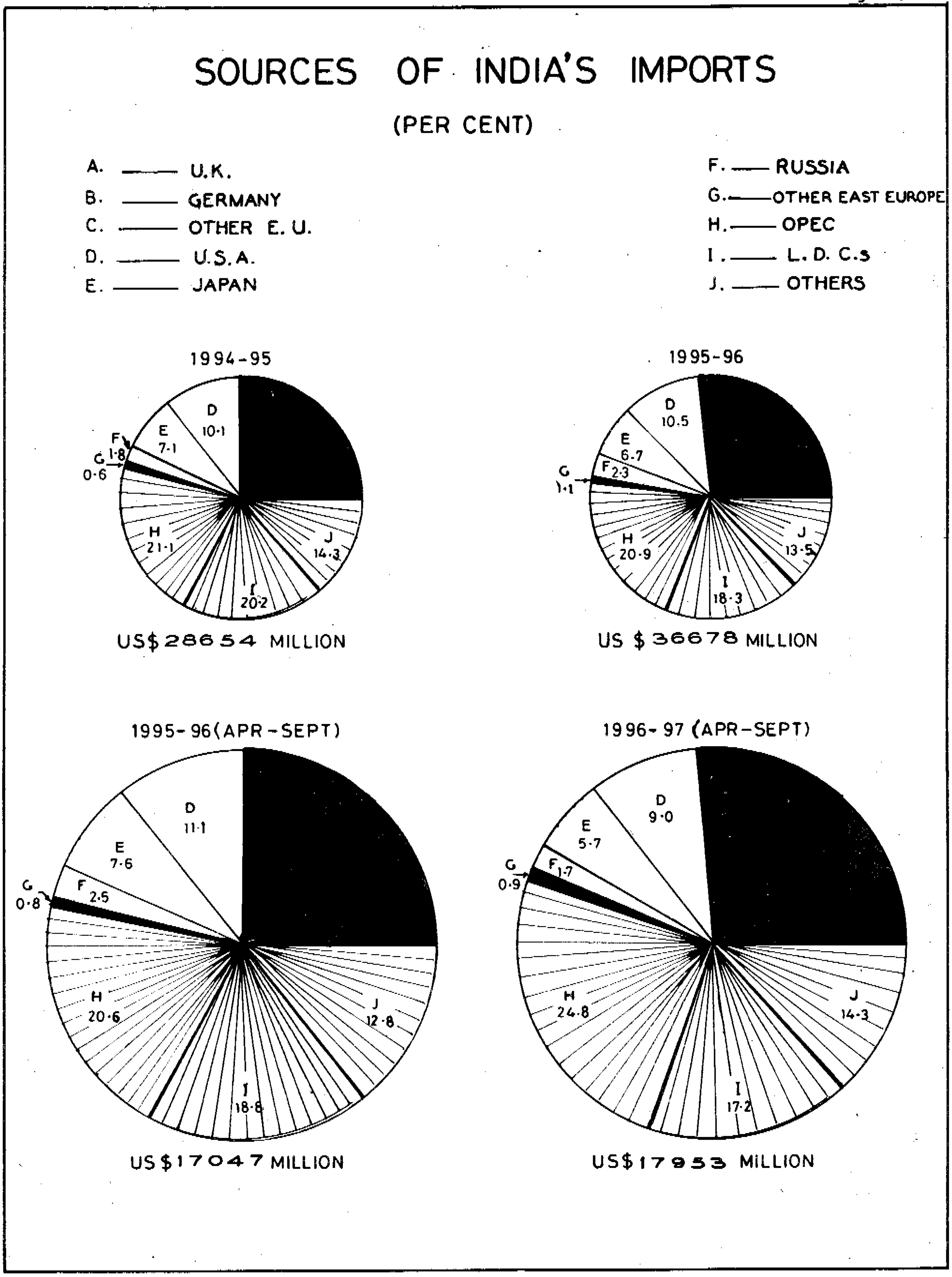

SOURCES OF INDIA'S IMPORTS
(PER CENT)
A. U.K.
B. GERMANY
C. OTHER E.U.
D. U.S.A.
E. JAPAN
F. RUSSIA
G. OTHER EAST EUROPE
H. OPEC
I. L.D.C.s
J. OTHERS
1994-95
D 10·1
E 7·1
F 1·8
G 0·6
H 21·1
I 20·2
J 14·3
US$28654 MILLION
1995-96
D 10.5
E 6·7
F 2·3
G 1·1
H 20·9
I 18·3
J 13·5
US $36678 MILLION
1995-96(APR-SEPT)
D 11·1
E 7·6
F 2·5
G 0·8
H 20·6
I 18·8
J 12·8
US$17047 MILLION
1996-97 (APR-SEPT)
D 9·0
E 5·7
F 1·7
G 0·9
H 24·8
I 17·2
J 14·3
US$17953 MILLION

TABLE : 6.10

Direction Of India's Trade With Selected East Asian Countries

(Percentage shares)

Country	Exports							Imports						
	1991-92	1992-93	1993-94	1994-95	1995-96	1995-96	1996-97	1991-92	1992-93	1993-94	1994-95	1995-96	1995-96	1996-97
	(April - March)					(April - Sept)		(April - March)					(April-Sept)	
A:Indonesia	0.8	0.7	1.1	1.1	2.1	1.6	1.5	0.3	0.3	0.5	1.1	1.3	1.1	1.5
B:Malaysia	1.1	1.0	1.1	1.1	1.2	1.2	1.5	2.0	1.9	1.1	1.7	2.5	2.6	3.0
C:Hong Kong	3.4	4.1	5.6	5.8	5.7	6.0	5.4	0.6	0.8	0.9	1.0	1.1	1.0	1.0
D:South Korea	1.4	0.9	0.9	1.3	1.4	1.3	1.5	1.7	1.6	2.4	2.2	2.2	2.3	1.9
E:Singapore	2.2	3.2	3.4	2.9	2.8	2.6	2.5	3.6	2.9	2.7	3.1	3.0	3.2	3.0
F:Thailand	1.1	1.4	1.6	1.5	1.5	1.5	1.3	0.3	0.3	0.2	0.9	0.5	0.5	0.5
G:Chinese Taipei	1.0	1.0	1.2	1.0	0.8	1.0	1.2	1.5	1.0	0.8	1.0	1.0	1.0	1.0
Total	11.1	12.3	14.9	14.6	15.6	15.1	14.9	9.9	8.8	8.6	11.1	11.5	11.7	11.9

Source: DGCI&S, Calcutta

four countries was 38.2 per cent in exports and 28.1 per cent in imports.

Invisibles

28. Invisible receipts, in US dollar terms, have recorded a growth rate of about 16.6 per cent per annum during the five years ending 1995-96. The growth in invisibles was supported by a rise in tourism earnings and buoyant private transfer receipts. Tourist arrivals, which received a serious set back during 1992-93 to 1994-95, showed a smart recovery in 1995-96 and grew by 14.8 per cent compared to the anaemic growth of 2.3 per cent per annum during the previous three years. In April-November 1996, tourist arrivals grew by 5.9 per cent, and on current trends, may be expected to accelerate further in the remaining months of the current financial year. In recent years, private transfers have been stimulated by the incentive provided by the market determined exchange rate for channeling remittances through formal routes. There was a sharp rise in private transfer receipts from US $6.2 billion in 1994-95 to US $7.5 billion in 1995-96. In 1996-97, these receipts are expected to remain buoyant.

29. Payments of investment income, a major component of invisible payments, have marked significant increases in recent years as a result of the hardening of the rates of interest payable on external borrowings resorted in the past as well as repatriation of higher dividends and profits on the higher volume of foreign investments flowing into the country. Receipts and payments for royalty appear under the miscellaneous category of invisibles. Royalty flows, especially payments, have shown an upawrd trend after 1985-86. These flows may rise substantially in the medium term in the context of the newly instituted Intellectual Property Rights (IPRs) under the WTO agreement (Box 6.3). While the net surplus under invisible account amounted to US $3.5 billion in 1995-96, the surplus is expected to go down somewhat in the current year because of a further rise in investment income payments and some decline in private and official transfers.

Capital Flows

30. The capital account of the balance of payments underwent a major compositional change after 1992-93 with non-debt creating inflows, namely foreign investment (direct plus portfolio), emerging as the dominant components. Total foreign investment, which surged from US $0.4 billion in 1992-93 to US $4.2 billion in 1993-94, rose further to US $4.9 billion in 1994-95 (Table 6.11). However, in 1995-96, there was a modest decline in such investment flows to US $4.3 billion, mainly due to a sharp fall in the issue of Euro-equities abroad. There has been a distinct improvement in the market for Euro-equities in the current year. The buoyancy of foreign investment has revived with inflows of US $4.1 billion during April-December 1996. The growth in foreign investment flows in the first nine months of the current year, over such flows in the corresponding period a year ago, was an impressive 55 per cent.

31. Foreign direct investment (FDI) flows were US $2.1 billion in 1995-96. During April-December 1996, FDI flows were US $1.7 billion compared with US $1.5 billion in the corresponding period of 1995. A major share of such direct investment is flowing into the engineering sector, electrical and electronic

BOX 6.3
Intellectual Property Rights (IPRs)

- As a part of the WTO agreement, India was required to bring her laws and regulations into conformity with her obligations under the agreement. As a result, it was required to amend the Patent Act, 1970 in accordance with the provisions of the agreement of trade related aspects of IPRs of the WTO agreement. India has a transition period of five years with effect from January 1, 1995 to apply the provisions of the agreement. An additional transition period of five years is also available for extending product patent protection to areas of technology not protected so far.

- India, which does not provide for product patents in the areas of pharmaceuticals and agro-chemicals, was required to provide, with effect from January 1, 1995, the mechanism to receive product patent applications for pharmaceuticals and agro-chemicals, and on fulfillment of certain conditions, grant of exclusive marketing rights for a period of five years, or until the patent is granted, or is rejected, whichever is shorter. These changes were made effective with effect from the beginning of 1995 by issue of an ordinance on December 31, 1994. A Bill moved subsequently to replace the ordinance lapsed with the dissolution of the Tenth Lok Sabha. Similarly, a Bill undertaking comprehensive review of the Trade and Merchandised Marks Act, 1958, was moved in the Parliament, but lapsed.

- Several measures have been taken to streamline and strengthen the administrative system to implement IPRs. To an existing stock of about 30 million patent documents published so far, about a million – covering approximately 400,000 inventions — is added every year. It is estimated that about 80 per cent of the world's knowledge of viable and adaptable technologies is contained in patent documents. In order to make information contained in these documents available to industry, a Modern Patent Information System has been established through upgradation and mechanisation of procedures relating to collection, retrieval and dissemination of patent information using state of the art technology and trained personnel. The project for modernisation of patent information system was completed in June, 1996.

- Promoting the use of, and providing effective protection for, trade marks enhance consumer welfare. Accordingly, a project for modernisation of the trade marks registry was completed in May, 1996. The capacity of the registry has been expanded by modernising and streamlining the trade marks registration procedure and strengthening the logistics at the head office as well as branches. Further modernisation, with special emphasis on computerising the process of granting of patents and designs, establishing a network between branch offices, and providing on-line linkages with international patent and design data bases, is under active consideration of the Government.

TABLE 6.11
Foreign Investment Flows by Category[1]

(US$ million)

	1991-92	1992-93	1993-94	1994-95	1995-96	1995-96 (Apr-Dec.)[2]	1996-97 (Apr-Dec.)[2]
A. Direct investment	150	341	586	1314	2133	1500	1710
a. RBI automatic route	—	42	89	171	169	76	83
b. SIA/FIPB route	87	238	280	701	1249	872	1181
c. NRIs (40% & 100%)	63	61	217	442	715	552	446
B. Portfolio investment	8	92	3649	3581	2214	1121	2343
a. FIIs[3]	—	1	1665	1503	2009	1002	1511
b. Euro-equities[4]	—	86	1602	1839	149	64	812
c. Offshore funds & others	8	5	382	239	56	55	20
Total (A+B)	158	433	4235	4895	4347	2621	4053

1 Figures shown in this table are based on actual inflows. These may differ from foreign investment flows given in the balance of payments table 6.1, which are on an accrual basis.
2 Provisional.
3 Represents fresh inflows of funds by FIIs.
4 Represents the amount repatriated to India by the corporates from their GDR proceeds.

equipments (including computers), manufacturing and finance companies. The USA is the largest source of FDI inflows into India. Germany, Singapore, Hong Kong and France are becoming increasingly important as sources of FDI flows into India.

32. FDI constitutes an important source of non-debt creating private capital flows, and developing countries continued to attract large inflows on this account. The magnitude of FDI into developing countries is estimated to have been about US $100 billion in 1995. Two thirds of the FDI flows into developing countries went to the countries of South, East and South East Asia, with China as the largest recipient (Table 6.13). With progressive liberalisation, India has succeeded in attracting a growing share of FDI inflows into developing countries. The progressive relaxation of norms of equity participation and dividend repatriation announced and implemented since 1991 and recent restructuring of the Foreign Investment Promotion Board and setting up of the Foreign Investment Promotion Council for fast approval may be expected to accelerate the inflow of FDI into India in the coming years. Besides, for the first time, detailed guidelines for foreign investment were announced in January 1997. List of industries eligible for automatic approval of foreign investment was expanded considerably.

33. Portfolio investments by Foreign Institutional Investors (FIIs) have emerged as an important source of capital inflows with such flows surging to

TABLE 6.12

Direct Foreign Investment : Actual Inflows vs Approvals

	1991	1992	1993	1994	1995	1996[1]	Total (1991 to 1996[1])
Approvals							
Rs crore	739	5256	11189	13591	37489	29513	97777
US$ million	325	1781	3559	4332	11245	8367	29608
Actual Inflows							
Rs crore	351	675	1786	3009	6720	5877	18418
US$ million	155	233	574	959	2100	1670	5690
Actual as % of Approvals	48	13	16	22	19	20	19

[1] Upto September, 1996.

Note : The approval and actual figures include NRI Direct Investment approved by RBI. All figures relate to calendar year.

TABLE 6.13

FDI Inflows, by host region

(US $ Million)

COUNTRY	1990	1991	1992	1993	1994	1995(E)
China	3487	4366	11156	27515	33787	37500
Hong Kong	1728	538	2051	1667	2000	2100
India	162	141	151	273	620	1750
Indonesia	1093	1482	1777	2004	2109	4500
Korea, Republic of	788	1180	727	588	809	1500
Malaysia	2333	3998	5183	5006	4348	5800
Singapore	5575	4879	2351	5016	5588	5302
Taiwan Province of China	1330	1271	879	917	1375	1470
All developing countries (including China)	33735	41324	50376	73135	87024	99670
Share of India in all devloping countries(%)	0.48	0.34	0.30	0.37	0.71	1.76

Figures for India in this table may differ from those in Table 6.12 because of differences in coverage and source of information.

(E) : Estimates.

Source : World Investment Report 1996, United Nations.

a little over US $2 billion in 1995-96 from about US $1.5 billion in each of the preceding two years. The rapid growth in FII investment continued during April-December 1996, with such investments amounting to US $1.5 billion, compared to US $1 billion in the corresponding period of 1995. With the decline in share prices in late 1996, FII flows may accelerate further to reap the benefits of "bottom fishing", but some uncertainty remains. In 1996-97, the guidelines for investment by FIIs were further liberalised. The limit of investment for an individual FII was raised from 5 per cent to 10 per cent subject, however, to the aggregate limit of 24 per cent for all FIIs. The FIIs are also allowed to invest in unlisted companies in the same manner as they are allowed to invest in listed companies. FII investments in debt securities of companies as 100% debt funds have been allowed subject to certain guidelines. FIIs are also allowed to invest in the gilt-edged government securities within the framework of guidelines, and Proprietary Funds have been allowed to invest in the country through the FII route. The amount raised by Indian companies through Global Depository Receipts (GDRs) so far this year is substantially higher than the amount raised in the same period a year ago, but the market still remains ambivalent.

34. Guidelines for Euro-issues were liberalised in June 1996. The requirement of consistently good record of performance for three years has been relaxed for companies wanting to raise GDRs or Foreign Currency Convertible Bonds (FCCBs) for financing investment in infrastructure. Restrictions on the number of issues that can be floated by an individual company or a group of companies during a financial year have been withdrawn. Earlier norms regarding end-uses of GDRs have been relaxed to include financing of import of capital goods, capital expenditure including domestic purchase/installation of plant, equipment and building, investments in software development, prepayment scheme entailing repayment of earlier external borrowings, investments abroad where these have been approved by competent authorities, and equity investment in Joint Ventures (JVs)/Wholly Owned Subsidiaries (WOs) in India. A company raising GDRs can use the proceeds upto the extent of 25 per cent for the purpose of meeting working capital requirements and general corporate restructuring. Furthermore, banks, financial institutions and non-banking finance companies registered with the RBI may raise GDRs without making reference to any end-uses. However, investment in the stock market and real estate is not permitted out of GDR proceeds.

35. Since 1994-95, compared to the previous four years, there has been a significant slow-down in the gross disbursements of external assistance. This mainly reflects the tapering off of programme assistance secured for balance of payments stabilisation under the Fast Disbursement Operations (FDO) of donors. In 1995-96, gross disbursements (including official grants) amounted to only US $3.3 billion as against US $4.7 billion in 1991-92. During the current financial year, upto December 1996, gross disbursements were US$ 2.0 billion. Repayment of borrowings under external assistance, on the other hand, has risen gradually over the years. During 1995-96 and April-December 1996, repayments of principal are estimated to have been a little over US $2 billion and US $1.4 billion, respectively.

36. The total net inflows, including accrued interest, into various Non-Resident deposit accounts remained subdued in 1993-94 to 1995-96 (Table 6.14). These flows gained momentum during the first half of 1996-97 in response to the relaxation of reserve requirements and rationalization of interest rates on deposits. During April-November 1996, net inflows reached an all time high of about US $2.9 billion. While the inflows under FCNR(B) account increased modestly during April-November 1996 compared to 1995-96, the flows under NR(NR)RD sustained the upward trend of the total. Outstanding balances under all the Non-Resident deposit schemes increased from US $17,438 million at end-March, 1996 to US $19,990 million at the end of November, 1996. Excluding the balances under NR(NR)RD accounts, which are liabilities in domestic currency, the external liability on account of Non-Resident deposits at end-November 1996 amounted to US $14,911 million.

37. External commercial borrowings (ECBs) provide an additional source of funds for Indian corporates for financing the expansion of existing capacity and new investment, to augment the resources available domestically and, at the same time, to take advantage of the relatively lower interest rates prevailing in international markets. ECBs are permitted within an annual ceiling, consistent with prudent debt management. In 1995-96, while gross borrowings under ECB were US $3.9 billion, repayments under the same head were US $3.3 billion.

38. At the beginning of the current financial year, the ECB guidelines were modified to increase the transparency of policy and to simplify the procedures to give Indian industry easier access to external funds (Box 6.4). The policy provides preferential access for the Indian Development Finance Institutions (DFIs), to enable these institutions to borrow from abroad and on-lend these funds to Indian enterprises which may not have direct access to international capital markets. The policy also provides preferential terms for infrastructural sectors and exporters. The revised guidelines, by increasing the flexibility for small scale borrowing, are expected to help the small and medium firms.

TABLE 6.14
Outstanding Balances and Net Flows under various Non-Resident Deposit Schemes
A. Outstanding Balances under Different Schemes[1]

(US$ million)

Schemes	As at the end of March 93	March 94	March 95 (revised)	March 96 (revised)	Nov. 96 (P.E.)
FCNR(A)	10617	9300	7051	4255	3460
FCNR(B)	—	1075	3054	5723	6805
NR(E)RA	2862	3590	4556	3916	4646
NR(NR)RD	610	1797	2479	3544	5079
FC(B&O)D	1044	533	—	—	—
Total	15133	16295	17140	17438	19990

B. Net flows under Non-Resident Deposits[1]

(US$ million)

Schemes	1992-93	1993-94	1994-95 (revised)	1995-96 (revised)	1996-97 (P.E.) (Apr-Nov.)
Foreign Currency Non-Resident (Accounts) (FCNR(A))	825	-1317	-2249	-2796	-795
Foreign Currency Non-Resident(Banks) (FCNR(B))	—	1075	1979	2669	1082
Non-Resident (External) Rupee Accounts (NR(E)RA)	335	728	964	-208	894
Non-Resident (Non Repatriable) Rupee Deposits (NR(NR)RD)	610	1187	682	1280	1704
Foreign Currency (Banks & Others) Deposits (FC(B&O)D)	350	-576	-558	0	0
Total	2120	1097	818	945	2885

P.E. Provisional Estimates.
1 All figures are inclusive of accrued interest.

BOX 6.4
Revised ECB Guidelines

The major changes in the ECB guidelines, announced in June 1996, are:

- Telecommunications, power and railways have been permitted to use ECB for financing project-related rupee expenditure, in addition to meeting the foreign currency capital expenditure. License fee is an approved use of ECB in the telecom sector.
- Telecommunications and oil exploration and development (excluding refining) have been permitted to raise ECB at a minimum of 5 years average maturity instead of 7, even for borrowings exceeding US $15 million equivalent.
- Exporters have been permitted to raise ECB for meeting project-related rupee expenditure upto the equivalent of US $15 million, or the average annual exports of the previous three years, whichever is lower.
- The maximum limit under the US $1 million window has been enhanced to US $3 million, to help small and medium firms to meet their working capital requirements.
- All infrastructure and greenfield projects have been permitted to avail of ECB to the extent of 35 per cent of total project cost, as appraised by a recognized financial institution or bank. However, greater flexibility is allowed on merits to power projects. In January 1997, the ECB limit for Telecommunication Sector was raised to 50 per cent of total project cost.

39. In July 1995, the Japan Bond Research Institute confirmed that the sovereign rating of India, which was upgraded to 'investment grade' in the previous year would continue during 1995-96 too. Moody's similarly maintained an investment grade rating of Baa3 during 1995-96. Standard & Poor's affirmed their BB+ long term foreign currency rating, and BBB+ for long term local currency credit rating. The outlook on both were also revised upward to "Positive" from the earlier rating of "Stable". This revision reflects the improvements in India's economic performance and external payments position.

Foreign Exchange Reserves

40. India's foreign exchange reserves, comprising foreign currency assets, gold holdings of the RBI and the Special Drawing Rights (SDRs), which peaked at US $25.2 billion at end-March 1995, declined to US $21.7 billion at end-March 1996, and further to US $21.6 billion at the end of May 1996 (Figure 6.8). However, reserves rose steadily in subsequent months to reach US $24.0 billion at the end of January 1997. The current level of total foreign exchange reserves covers 6.7 months of imports.

41. The trend in reserves is largely governed by the trend in the foreign currency assets component, which tends to move on either direction on a day to day basis. The level of foreign currency assets at US $19.8 billion on January 31, 1997 was equivalent to 5.5 months of imports of goods and 4.0 months of imports of goods and services (Table 6.15). Although the current level of reserves is comfortable, there is a need for a further build-up in reserves to have greater flexibility in exchange rate management, to absorb any unanticipated external shocks, to facilitate India's move towards full capital account convertibility, and to impart confidence in the international investor community about the soundness of India's balance of payments. Most developing countries (of East Asia), barring Indonesia, hold foreign exchange reserves at levels much higher than India (Table 6.16).

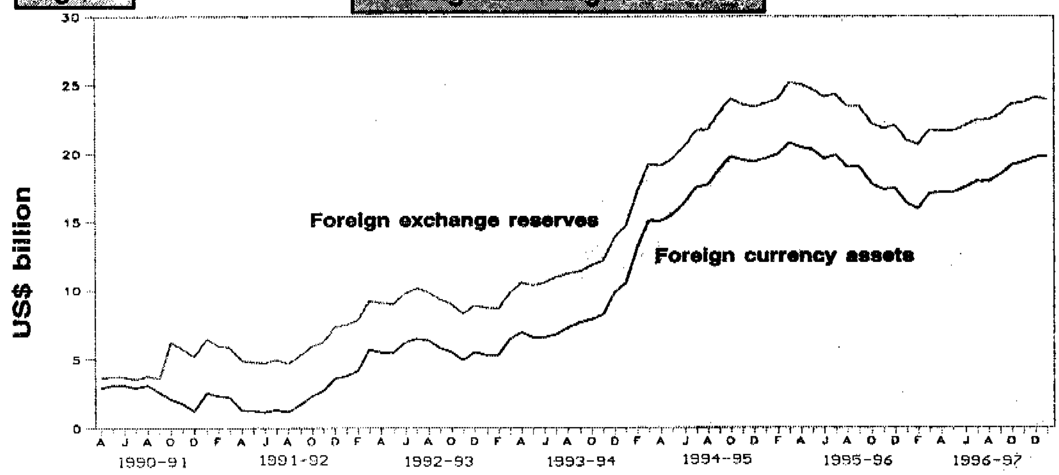
TABLE 6.15
Foreign Exchange Reserves[1]: Historical Perspective

(US$ million)

Years	Foreign Exchange Reserves[2]	Import Cover (No of Months)[3]	Current Payments Cover[4] (No of Months)[3]
1950-51	1914	16.8	14.6
1955-56	1648	12.2	10.6
1960-61	390	2.0	1.7
1965-66	383	1.6	1.3
1970-71	584	2.9	2.2
1975-76	1657	3.2	2.8
1980-81	5850	4.3	3.8
1985-86	5972	4.1	3.5
1990-91	2236	1.0	0.8
1991-92	5631	3.2	2.3
1992-93	6434	3.3	2.5
1993-94	15068	7.2	5.4
1994-95	20809	7.8	5.8
1995-96	17044	4.9	3.8
1996-97[5]	19847	5.5	4.0

[1] Excluding gold and SDRs.
[2] Year-end level.
[3] Based on foreign exchange reserves of respective year-end levels.
[4] Current payments represent sum of merchandise imports and invisibles payments.
[5] Reserve level at end-January, 1997.

Fig. 6.8 **Foreign Exchange Reserves**



Foreign Exchange Reserves = Foreign Currency Assets + Gold + SDRs.

TABLE 6.16
Foreign Exchange Reserves in Selected Countries, 1990-96

Country	1990	1991	1992	1993	1994	1995	1996 (Latest)
			(US$ million)				
India	1205	3580	5461	9807	19386	17467	19742[3]
China[1]	28594	42664	19443	21199	51620	73579	98850
Indonesia	7353	9151	10181	10988	11820	13306	15058
Malaysia	9327	10421	16784	26814	24888	22945	25214
South Korea	14459	13306	16639	19704	25032	31928	32318
Thailand	13247	17287	20012	24078	28884	35463	38029
Taiwan[2]	35790	40275	43534	44295	43380	40871	40100
			Import cover, number of months				
India	0.6	2.1	2.8	5.2	8.7	6.1	6.7
China	6.5	8.2	3.1	2.5	5.4	6.8	9.2
Indonesia	4.0	4.2	4.5	4.7	4.4	3.9	4.4
Malaysia	3.8	3.4	5.1	7.0	5.0	3.5	3.9
South Korea	2.5	2.0	2.4	2.8	2.9	2.8	2.9
Thailand	4.8	5.5	5.9	6.3	6.4	6.0	6.5
Taiwan	7.8	7.7	7.2	6.9	6.1	4.7	4.6

1 Prior to 1992, foreign exchange included foreign exchange holdings of the Bank of China also; from 1992, figures include foreign exchange holdings of the People's Bank of China only.

2 Total reserves minus gold

3 Foreign exchange reserves as at the end of December, 1996.

Source : International Financial Statistics, IMF.

Exchange Rate

42. As reported in the last year's Economic Survey, the second half of 1995-96 witnessed periodic speculative pressures on the exchange rate of the rupee, and the exchange rate of the rupee vis-á-vis the US dollar depreciated from a monthly average of Rs. 31.6 in August 1995 to Rs. 36.6 in February 1996. While some easing of the nominal exchange rate of the rupee in the second half of 1995-96 was consistent with economic fundamentals and maintaining India's competitiveness abroad, speculative pressures had led to an overshooting. The RBI's policy responses in early-February 1996 to counter speculative pressures against the rupee were effective in rapidly restoring stability in the foreign exchange market and correcting the demand-supply imbalance. The exchange rate of the rupee per US dollar recovered to Rs. 34.4 in March 1996 and further to Rs. 34.2 in April 1996.

43. The foreign exchange market has behaved in an orderly fashion in 1996-97 so far. The exchange rate of the rupee vis-a-vis the US dollar moved in a narrow range of Rs. 35.0 to Rs. 35.9 between May 1996 and January 1997. However, the rate of inflation in India, which is significantly higher than the inflation rates in India's partner countries, has tended to offset the competitive advantage gained by the nominal depreciation of the rupee. In 1996-97, the effect of the adverse inflation differential was reinforced by the nominal appreciation of the rupee against the Japanese Yen, Deutsche Mark and the French Franc, following the strengthening of the US dollar against these currencies in the international currency markets. As a result, according to the export-weighted real effective exchange rate (REER) of the rupee, which takes into account the exchange rate of the rupee against the currencies of five major trading partners of India and the inflation differentials between India and these countries, the rupee in November 1996, stood appreciated by about 8.1 per cent relative to its value in March 1993, and by about 3.7 per cent relative to its average value in 1993-94 (Figure 6.9). While some real appreciation is to be expected with rapid productivity gains in the tradables sector, it is difficult to quantify the extent of such productivity gains.

44. The stability in the foreign exchange market and the revival of market confidence about the short-term movements in the exchange rate of the rupee have brought down the forward premia steadily since March 1996. The 3-month and 6-month forward premia (annualized) declined from 27.1 per cent and 23.4 per cent, respectively, in March 1996 to 7.0 per cent and 7.3 per cent, respectively, in January 1997.

45. The rupee was made convertible on the current account of the balance of payments in August 1994 (Box 6.5). Capital account convertibility implies the right to transact in financial assets with foreign countries without restrictions. Although the rupee is not fully convertible on the capital account, convertibility exists in respect of certain constituent elements of the capital account. Foreigners and Non-Resident Indians, undertaking direct and portfolio investments in India, are permitted to bring in and repatriate their funds, net of taxes, if any to be paid by them. Similarly, Indian investments abroad upto US $4 million are eligible for automatic approval by the RBI, subject to certain conditions. In September 1995, the RBI instituted a special committee to process all applications involving Indian investments abroad that exceed US $4 million or that do not qualify for fast-track clearance. Resident Indians, however, are required to get approval for borrowing from abroad. But, the rules governing external commercial borrowing have been liberalized over time.

BOX 6.5

Convertibility of the Rupee

CURRENT ACCOUNT CONVERTIBILITY

- The rupee was made convertible on the current account of the balance of payments in August 1994. Current account transactions refer to transactions in goods and services. There has been further relaxation of restrictions on current transactions in 1995-96 and 1996-97.
- Indian exporters exporting to Asian Clearing Union (ACU) countries and receiving the export proceeds in rupees or in Asian Monetary Units (AMU), or in the currency of the participating country, were permitted to receive payments in any permitted currency through banking channels provided it is offered by the overseas buyer in the ACU country.
- Authorised Dealers (ADs) were empowered to release exchange without prior approval of the Reserve Bank in certain types of foreign travel even in excess of the indicative limits provided that they are satisfied about the bonafides of the applicant and the need to release exchange in excess of the prescribed scale.
- Interest income on Non-Resident Non-repatriable (NRNR) Rupee deposits which were not eligible for renewal could be renewed along with principal for deposit accounts opened on or after October 1, 1994.
- ADs were empowered to allow remittances by a family unit of residential Indian nationals to their close relatives residing abroad for their maintenance expenses up to US $5,000 in a calendar year per beneficiary subject to certain conditions.
- ADs were permitted to allow Exchange Earners' Foreign Currency (EEFC) account holders to utilise funds held in such accounts for making remittances in foreign exchange connected with their trade and business related transactions which are of a current account nature.
- ADs were permitted to export their surplus stocks of foreign currency notes and coins for realisation of proceeds to private money changers abroad, in addition to their overseas branches or correspondents.
- In January 1997, the Reserve Bank of India announced major relaxations in exchange control. The monetary ceilings prescribed for remittance of foreign exchange for a wide range of purposes were removed and ADs can now allow remittances for these purposes without prior clearance from the Reserve Bank of India (RBI). This will reduce delay and thus further facilitate all current transactions.

CAPITAL ACCOUNT CONVERTIBILITY

- Capital account convertibility implies the right to transact in financial assets with foreign countries without restrictions. Although the rupee is not fully convertible on the capital account, convertibility exists in respect of certain constituent elements of the capital account.
- Capital account convertibility exists for foreign investors and Non-Resident Indians (NRIs) for undertaking direct and portfolio investment in India.
- Indian investment abroad upto US $4 million is eligible for automatic approval by the RBI subject to certain conditions.
- In September 1995, the RBI appointed a special committee to process all applications involving Indian direct foreign investment abroad beyond US $4 million or those not qualifying for fast track clearance.

Fig 6.9A

Nominal and Real Effective Exchange Rate of the Rupee (5 Country Index) (1985=100)

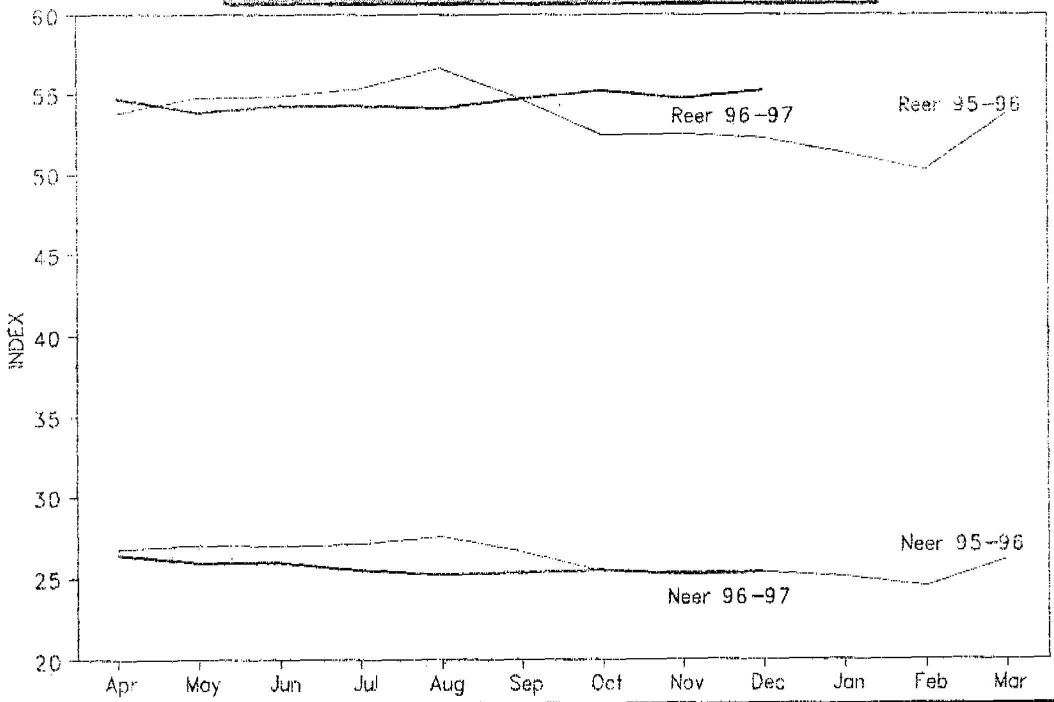
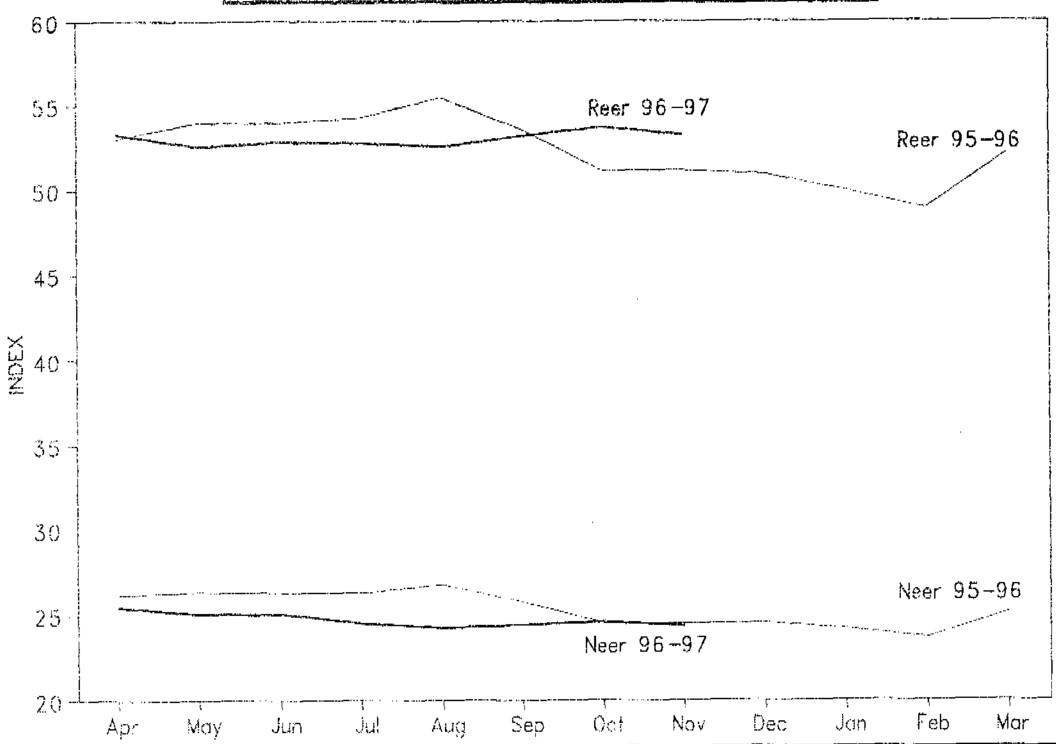


Fig 6.9B

Nominal and Real Effective Exchange Rate of the Rupee (10 Country Index) (1985=100)



Neer = Nominal effective exchange rate; Reer = Real effective exchange rate

External Debt

46. India's external debt declined from a peak of US $99.0 billion at end-March 1995 to US $92.2 billion at the end of March 1996. The debt indicators have shown steady improvements over the last few years. The debt-to-GDP ratio declined from 41 per cent in 1991-92 to about 29 per cent in 1995-96. Similarly, the debt service ratio fell from a high of about 35 per cent in 1990-91 to about 26 per cent in 1995-96 (Table 6.17).

47. India's external debt is characterised by high share of multilateral and bilateral debt which accounts for nearly two-thirds of the total long-term debt. Interestingly, the share has remained virtually unchanged between 1990-96. The share of concessional debt in the total was 45.5 per cent at the end of March 1996. The ratio has also remained fairly stable in the recent past. The share of short-term debt in the total debt stock was 5.5 per cent at the end of March 1996 and is low by international standards. This is important because high short-term debt can precipitate crisis especially when balance of payments is under strain.

48. Despite improvements in recent years and other redeeming features, India's external debt may still be considered to be relatively high by international standards. The World Debt Tables ranked India as the fourth largest debtor among developing countries. The World Bank also uses Present Value (PV) based criterion for inter-country comparison of external debt magnitude. This is arrived at by discounting the future debt service payments stream by an appropriate market related discount rate. As a result, debt on concessional rates has a lower PV vis-á-vis borrowings at market terms. Since India has a high component of concessional debt, its PV of debt of 1994 (March end 1995) was calculated at US $70.7 billion by the World Bank, which places India in the sixth position among developing countries (Table 6.18).

49. External debt management will continue to be an area of policy priority. In particular, there is a need for consolidating the gains already made with focus on management of existing liabilities and planning of future borrowings. Optimisation of the currency, interest and maturity mix of debt to minimize costs and exposure risks, as well as scenario building for sustainable future borrowing levels will have to be important elements of India's debt management strategy.

International Economic Environment

50. With the progress of economic reforms in many countries of the world and deregulation of financial markets, the importance of private capital flows relative to official financing is increasing rapidly. For example, net private capital flows into Asia has increased from US $76.8 billion in 1994 to US $98.0 billion in 1995, while net official flows increased marginally from US $5.6 billion to US $6.4 billion during the same period. Similarly, while there were considerable official flows to Mexico and the transition countries in 1995 in support of their comprehensive adjustment programmes, net private capital flows to the developing countries increased from US $140.4 billion in 1994 to US $166.6 billion in 1995. India has had modest, but increasing, success in attracting a growing part of these private capital flows. Furthermore, much of these private capital inflows into India has been of the non-debt creating variety, and helped to boost the balance of payments as well as the availability of investible resources in the economy.

51. The international financial community is appreciative of India's economic performance in the

TABLE 6.17
Debt Service Payments and Debt Ratios

(US Dollar million)

Year	Principal	Interest	Total Debt Service	Debt Service ratio(%)	Debt GDP ratio(%)
1990-91	5028	3954	8982	35.3	30.4
1991-92	4705	3545	8250	30.2	41.0
1992-93	4181	3477	7658	28.6	39.8
1993-94	4783	3818	8601	26.9	35.9
1994-95	6825	4099	10924	27.5	32.7
1995-96	8063	4315	12378	25.7	28.7

Source: Government of India, Ministry of Finance.

TABLE 6.18

External Debt and debt indicators, 1994—International comparison

Sl. No.	Country	(EDT) (US$ Billion)	EDT/GNP (%)	PV of Debt (US$ Bn)	PV/GNP (%)	PV/XGS (%)	TDS/XGS (%)	Concessional/EDT(%)
1.	Brazil	151.104	27.9	139.994	32.0	311.0	31.8	1.8
2.	Mexico	128.302	35.2	117.331	33.0	224.0	33.9	1.3
3.	China	100.536	19.3	85.682	16.0	75.0	8.9	15.9
4.	**India**	**98.990**	**34.2**	**70.665**	**26.0**	**214.0**	**26.3**	**48.2**
5.	Indonesia.	96.500	57.4	84.194	54.0	186.0	30.0	29.9
6.	Russian Fed.	94.232	25.4	86.861	19.0	158.0	6.2	7.0
7.	Argentina	77.388	27.8	68.521	29.0	406.0	31.8	3.2
8.	Turkey	66. 332	51.4	56.913	37.0	188.0	31.2	12.1
9.	Thailand	60.991	43.1	60.037	39.0	96.0	15.6	11.3
10.	Korea Rep.	54.542	15.3	49.743	14.0	45.0	6.8	9.0
11.	Philippines	39.302	59.3	35.027	56.0	163.0	18.5	28.7
12.	Malaysia	24.767	36.9	22.112	34.0	38.0	7.7	13.5

Source: a) All the figures and ratios have been taken from World Debt Tables, 1996 (Vol I & II).
b) For PV based ratios, three year averages are used.

EDT — External debt total.
PV — Present value.
GNP — Gross National Product.
XGS — Export of goods and services.
TDS — Total debt service.

last two years, but concerns continue to be expressed about the high fiscal deficit, the slowing down of structural reforms, continued restrictions on consumer goods imports, and tariff levels considerably higher than in other countries. Also, references are often made to India's move towards capital account convertibility (with some observers advocating a cautious approach), high level of subsidies, inadequate disinvestment in the public sector, need for further relaxation of rules to attract foreign investment and the continued high stake of the government in the public sector banks. On the whole, the international community is very positive about India's effort to achieve a high rate of growth.

52. Participants in the India Development Forum (IDF) meeting in September 1996 acknowledged the strong performance of the Indian economy and appreciated the new Government's declaration to continue reform measures to strengthen the social programmes as set out in the Common Minimum Programme (CMP). Various delegates stressed the importance of (i) fiscal consolidation, (ii) sustaining programmes in the social sectors, (iii) infrastructure, (iv) poverty eradication, (v) reforms in agriculture, public sector, and financial sector, and (vi) strengthening of legislation against child labour. In support of India's economic development, the donor countries pledged official assistance in 1996-97 of US $6.7 billion. Inclusion of US $400 million in long-term finance, promised on a bilateral basis at market rates, will raise this total to above US $7 billion. About 33 per cent of the total could be in the form of grants and interest-free loans.

53. With effect from January 1, 1997, India subscribed to the Special Data Dissemination Standards (SDDS) of the International Monetary Fund (IMF). By subscribing to the SDDS, India has committed itself to streamlining the statistical system of the country to produce most of the data categories with a much shorter time lag, improved quality and coverage by December 31, 1998.

Outlook

54. The balance of payments adjustment in the aftermath of the 1991 crisis has been remarkably smooth. The adjustment was made possible mainly because of the dynamic growth in exports and large foreign investment flows. International prices of petroleum were also favourable for most part of the period. The balance of payments outlook in the medium term will depend critically on several factors.

First of all, as reiterated in the earlier Economic Surveys, it is absolutely imperative to sustain rapid export growth to assure external sector viability. Tremendous efforts would be required to ensure this on an increasing base of exports and in the context of a difficult international trading environment. Second, taking into account the importance of POL in the total import bill and the uncertainty surrounding the future movement of oil prices, concerted efforts on the demand and supply sides are required to contain the POL import bill at manageable levels. The rapid rise in POL consumption in recent years is a matter of concern. The growth of consumption of petroleum products will have to be contained through an appropriate pricing policy, and by effecting energy efficiency in the use of petroleum products in the transport and other sectors of the economy which are major users of petroleum. On the supply side, concerted efforts are required to increase domestic production of crude oil and augment refining capacity. The saving on POL imports will allow sufficient room for imports of raw materials, components and capital goods consistent with the requirements of a growing economy without undue pressure on the balance of payments.

55. Earnings from tourism have been a major component of invisibles. Tourism industry, apart from being a major foreign exchange earner, contributes substantially to sustainable human development, including poverty alleviation, employment generation, environmental regeneration and advancement of women. The sector also helps to preserve and promote handicrafts, arts and the cultural heritage of the country. Inadequate infrastructure has become the main impediment to the accelerated growth of tourism in India. In fact, there is an acute shortage of approved accommodation, transport and other tourist facilities in all the metro cities and other major tourist centers. The Department of Tourism has initiated several measures for attracting large scale private investment in the tourism sector, including declaration of tourism as a priority sector for foreign investment, provision of incentives and setting up of an investment facilities cell to provide information about investment opportunities and to facilitate investment. The State/Union Territory Governments are also offering a number of financial and fiscal incentives to tourism industries. These efforts are to be sustained and intensified to make India an all-season attractive tourist destination in the world.

56. The importance of foreign investment, as a major source of capital flows for sustaining a high current account deficit without imposing an excessive burden on the external debt management ability, has been described amply in the earlier sections. In order to strengthen the balance of payments and garner more foreign savings to meet the investment needs of the economy, India needs to maintain a welcoming stance towards direct foreign investment and continue to clarify policies in areas where there may be ambiguities.

57. Borrowings under external assistance constitute the most desirable form of debt creating capital flows, because of their favourable terms in regard to period of maturity and interest rates, conferring significant benefit in the form of concessionality. Given the international aid environment, though India may have reached a stage of graduating from being eligible for large flows as in the past, the substantial build-up of aid in the pipeline offers enormous scope for increasing the level of disbursements from the commitments secured so far. India should also take advantage of the offer of currency choice for existing IBRD currency pool loans and the offer of a broad range of terms for new IBRD loan commitments. This provides the borrowers flexibility to select terms that are consistent with their debt management strategy and suited for their debt servicing capability.

58. Even with the optimistic outlook for foreign investment and sustaining the normal trends in other traditional sources of capital flows, there will still be a large uncovered gap between domestic savings and investment requirements, if the economy were to grow at a sustained rate of about 7 per cent per annum. This will imply that borrowings on commercial terms will be inescapable. However, such borrowings should be consistent with the achievement of a sustainable balance of payments position over the medium and long term.

59. Capital account convertibility entails some risk of capital flight and possible macroeconomic instability arising from movements of short-term, cross-border capital flows. Such risks and vulnerability remain contained as long as prudent macroeconomic policies are followed and the financial system is sound and flexible to rapidly adapt to changing situations. Thus, a reduction in fiscal deficit, moderation in inflation, a sustained dynamic export performance, strengthening of domestic financial institutions, and a further build-up of foreign exchange reserves are some of the pre-conditions for a move towards capital account convertibility. It should also be recognized that capital account convertibility indirectly imposes discipline on the conduct of policies by increasing the cost associated with policy failures. However, strengthening the prudential supervision of financial institutions, and putting in place appropriate institutional arrangements for speedy foreign exchange and payments clearing systems constitute major elements in ensuring a smooth transition to full convertibility.