VII BALANCE OF PAYMENTS AND FOREIGN AID

104. India's balance of payments became even more favourable in 1968-69 as compared to 1967-68, due to a reduction in import payments and a substantial increase in export earnings. Over the year, there was an accretion to foreign exchange reserves of Rs. 38·1 crores after making a repurchase of Rs. 58·5 crores from the International Monetary Fund. The overall improvement in the reserves position was thus Rs. 96·6 crores. This was a substantial improvement on the increase, on a similar basis, of Rs. 35·8 crores recorded in 1967-68 and the loss in reserves of Rs. 88·5 crores witnessed in 1966-67. The improvement noticed in 1968-69 has continued through the current year and foreign exchange reserves at the end of January 1970 are estimated at Rs. 671 crores, showing an increase of Rs. 94 crores over the first ten months of the current fiscal year, even after a repurchase of Rs. 119·6 crores from the IMF. A further sum of Rs. 5·6 crores is due for repayment before the end of the year and when this is made, India's short-term indebtedness to the IMF which amounted to Rs. 337·5 crores at the end of 1967-68 would come down to Rs. 153·8 crores at the end of 1969-70, showing a considerable improvement in India's liquidity position with the IMF. The allocation of the Special Drawing Rights of Rs. 94·5 crores in January 1970 has similarly had a favourable impact on India's liquidity position.

TABLE XIII

India's Foreign Exchange Reserves

(Rs. crores)

At the end of	Foreign exchange reserves	Variation over the previous year/period 1	Net drawings on(+) repayments(—) to IMF	Overall variation in reserves position net of transactions with IMF (3-4)
1	2	3	4	5
1966-67 . . .	478·4	+9·0	+97·5	—88·5
1967-68 . . .	538·6	+60·2	+24·4	+35·8
1968-69 . . .	576·7	+38·1	—58·5	+96·6
January 1970[2] . .	671·0	+94·3	—119·6	+213·9[3]

1. Inclusive of transactions with IMF shown in Col. 4

2. Estimate.

3. Exclusive of SDR allocation of Rs. 94·5 crores.

105. The improvement in the balance of payments in 1968-69 was mainly the result of a substantial narrowing of the trade deficit, as a result of a steep fall in imports and a sharp rise in exports. Imports fell by about 15 per cent from Rs. 2043 crores in 1967-68 to Rs. 1741 crores in 1968-69. Exports on the other hand showed an increase of 9 per cent from Rs. 1255 crores in 1967-68 to Rs. 1367 crores in 1968-69*. As a result, the adverse trade gap narrowed sharply from Rs. 788 crores in 1967-68 to Rs. 373 crores in 1968-69. At this level, the trade deficit in 1968-69 was the lowest, on a comparable exchange rate, since the commencement of the Second Five Year Plan. The factors responsible for this striking improvement can be enumerated briefly. The improvement in the food situation following two good harvests in 1967-68 and 1968-69 enabled a reduction in imports of food grains, both against aid as well as out of free foreign exchange resources. Similarly, the progress in import substitution, which was given a push by the rise in the rupee costs of imports following devaluation, and the lack of a sufficient pick up in industrial activity led to a decline in imports of some of the machinery and metal items. On the other hand, there was some increase in imports in certain industries oriented towards agriculture and exports, but this was not large enough to neutralise the decline in overall imports. Almost the entire increase in exports was due to non-traditional items, such as engineering goods, iron and steel, iron ore and other miscellaneous items, reflecting the effect of years of promotional activity. The overall level of exports of traditional items did not show any large increase; there was a decline in exports of tea and jute manufactures offset by increases in items like cashew kernels, precious and semi-precious stones, leather and leather manufactures and fish and fish preparations. The spurt in exports in 1968-69 was particularly gratifying because by building up the image of India as a manufacturing nation, the foundation of a long term export programme has been laid.

106. To the improvement in the trade account should be added the better performance of current invisibles. Excluding interest payments on foreign loans, the invisibles yielded a larger surplus of Rs. 50 crores in 1968-69 as compared to Rs. 8 crores in the previous year. There was a substantial increase of 26 per cent in receipts on account of private transfers, indicating a switch of private remittances from abroad to normal channels. It also indicates a lower demand abroad for such funds to finance illegal activities like smuggling. The outflows on account of profits, dividends and interest (other than on official loans) declined by Rs. 6 crores. If however payments of interests on official loans, which increased by Rs. 16 crores to Rs. 184 crores in 1968-69, are taken into account, there was a net outflow on current invisibles. Even so, the net outflow in 1968-69 was 16 per cent less than in the previous year.

107. The improvement in the merchandise and the invisibles accounts reduced the current account deficit in 1968-69 to Rs. 508

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*These are figures based on exchanged control records and other sources, and differ from customs data published by the D.G.C.I.S. Customs data for 1968-69 would show a 7·3 per cent fall in imports and a 13·5 per cent increase in exports over 1967-68.

crores, which was Rs. 441 crores or 46·5 per cent less than in 1967-68. However, aid utilised in 1968-69 was Rs. 852 crores, Rs. 272 crores less than in the previous year. This reflected partly the reduction in imports of foodgrains under the U.S. commodity assistance scheme, and partly the fall in aid authorisation in 1967-68. Repayments of loans and credits in 1968-69 were at about the same level as in the previous year, due to larger debt rescheduling. There was a net outflow of banking capital in 1968-69 in contrast to an inflow in the previous year. Taking into account the unidentified transactions classified under 'errors and omissions', the net improvement in the current account was however large enough to offset the adverse movements in the capital account and yield a surplus of Rs. 97 crores.

108. The continued increase in reserves in 1969-70 reflects mainly a decline in imports. It is estimated that food imports would show a further decline in the current year. The effects of import substitution seem to dominate the rest of the import picture. Unlike last year, the contribution of exports to this improvement was not significant in 1969-70.

Imports

109. The largest decline in imports between 1967-68 and 1968-69 was recorded in foodgrains and it amounted to Rs. 181·6 crores. With the record harvest in 1967-68 and the maintenance of foodgrains production at approximately the same level in 1968-69 it was not felt necessary to import foodgrains on the same scale as before. While in earlier years imports had to be made to sustain domestic consumption, in 1968-69 with the easing of the pressure on the public distribution system, they were also used for the building up of a buffer stock. Better internal procurement also made it necessary to import smaller quantities from abroad for both these purposes.

TABLE XIV

Imports : Broad Commodity Groups

(Rs. crores)

Commodity	1966-67	1967-68	1968-69	1968-69		1969-70
				April-Sept.	Oct.-March	Apr.-Sept.
1	2	3	4	5	6	7
1. Food	651·0	518·2	336·6	222·5	114·1	160·9
2. Cotton	56·5	83·0	90·2	64·9	25·3	42·0
3. Jute	20·6	1·8	9·3	0·1	9·2	1·1
4. Animal and vegetable oils & fats	14·8	34·4	19·3	7·7	11·6	19·8
5. Fertilizers and Fertilizer materials	124·9	209·5	198·1	113·4	84·7	46·6
6. Petroleum Products . .	63·1	74·8	83·7	49·6	34·1	32·0
7. Metals	183·6	195·2	175·2	90·6	84·6	70·3
8. Machinery & Transport-Equipment	576·1	503·1	516·5	270·2	246·3	196·2
9. Others	387·8	387·6	432·7	161·0	271·7	204·5
Total	**2078·4**	**2007·6**	**1861·6**	**980·0**	**881·6**	**773·4**

Source : Monthly statistics of Foreign Trade of India, DGCIS, Calcutta

110. According to the DGCIS data the total decline in imports in 1968-69 was only Rs. 146 crores. It was considerably less than the decline in food imports, because simultaneously the imports of many other commodities increased. This was true of items like raw cotton and raw jute, the production of both of which had suffered during the year 1968-69. Acute shortage of raw jute due to a very small crop had to be relieved by importing substantial quantities of raw jute. The import of jute rose from Rs. 1·8 crores in 1967-68 to Rs. 9·3 crores in 1968-69. Similarly the shortfall in the production of raw cotton had to be met by imports which rose by Rs. 7·2 crores from the level of Rs. 83 crores in 1967-68.

111. On the other hand, the revival of industrial activity within the country led to an increase in the imports of many items which were raw materials for industries. For instance, with the growing demand and the increase in domestic refining capacity, import of petroleum, oils and lubricants increased substantially between 1967-68 and 1968-69. The imports of raw cashewnuts rose from Rs. 25 crores in 1967-68 to Rs. 31 crores in 1968-69 and the imports of uncut precious and semi precious stones rose from Rs. 12·3 crores to Rs. 27·7 crores, along with the sharp increase in the exports of cashew kernels and finished precious stones.

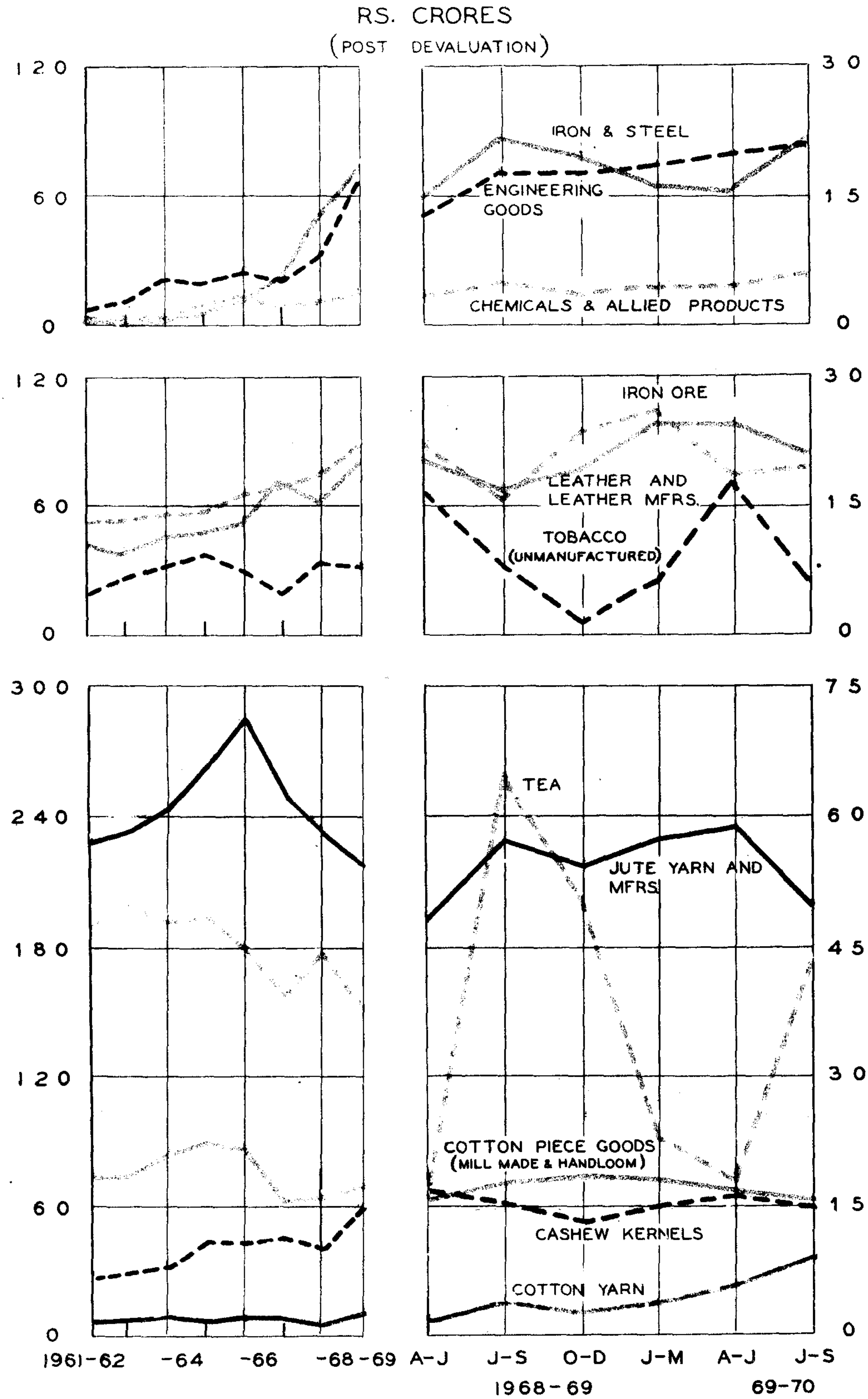
112. The increase in industrial capacity in the country and the demand situation in other fields had, however, the opposite effect on many imports. For instance, the imports of aluminium declined by Rs. 13 crores due to increased domestic production. Imports of transport equipment declined by about Rs. 16 crores because of ability to manufacture rail transport equipment and road vehicles. Similarly, the imports of electrical machinery and apparatus and appliances, declined from Rs. 86 crores to Rs. 81 crores because of import substitution within the economy. Again although imports for the group non-electrical machinery rose from Rs. 337 crores to Rs. 370 crores, most sub-groups under this head showed a declining trend. The import of power generating machinery other than electric machinery, which includes items like diesel engines, boilers, steam engines, etc. declined from Rs. 42·5 crores in 1967-68 to Rs. 34·8 crores in 1968-69 because of increased domestic manufacture. The import of metal working machinery declined from Rs. 42·7 crores to Rs. 34·2 crores and of textile and leather machinery from Rs. 31·8 crores to Rs. 18·6 crores largely because of lower demand. Only the import of components seems to have gone up in the wake of increased industrial activity in the country.

113. This trend seems to have continued in the first half of 1969-70. Figures for April—September, 1969 indicate a further drop in food imports. Imports of capital goods and components of all kinds show a further decline; the imports of both aluminium and iron and steel also showed a decline. On the other hand the imports of cashewnuts and precious stones show an upward trend because of their good performance in the export field. The acute scarcity of vegetable oils and fats due to a decline in the production of oilseeds during 1968-69 and the lack of any improvement during the current year had led to a sharp increase in their imports during the current half year.

Exports in 1968-69

114. The performance of exports during 1968-69 was a development comparable to the growth of foodgrain production in 1967-68. Exports rose by 13·5 per cent from Rs. 1199 crores in 1967-68 to Rs. 1360 crores in 1968-69 (DGCIS data). It appeared that the export promotion efforts which have been made continuously since the beginning of the Third Plan were at last bearing fruit.

115. What was even more significant about the increase in exports was the fact that this was achieved in spite of a not very satisfactory showing on the part of the three major traditional exports, namely, jute, tea and cotton textiles. The exports of jute manufactures declined by Rs. 16·1 crores from the level of Rs. 234·1 crores in 1967-68 and those of tea by an even larger figure *viz.*, Rs. 23·7 crores from a level of Rs. 180·2 crores in 1967-68. Cotton textile exports showed a small increase of Rs. 5 crores.



MINISTRY OF FINANCE, ECONOMIC DIVISION.

116. The shortfall in raw jute production during 1968-69 was responsible for the decline in exports. The jute and mesta crop for 1968-69 was only 4·0 million bales as compared to 7·6 million bales in the previous year and total availability amounted to only 6·3 million bales as against 9·5 million bales in 1967-68. The decline in the value of exports was prevented from being even larger by the increase in prices because of a worldwide shortage of raw jute and the increase in the unit value by 7 per cent. The decline in tea exports was wholly due to a fall in the unit value of tea of 12 per cent. Apart from the fact that the commoner teas from India are facing severe competition from those grown in East Africa, the worldwide surplus which is emerging in tea has been exercising a depressing influence on tea prices. The meagre increase in the performance of cotton textiles is to be attributed to long standing factors like competition from Hong Kong, Portugal and some developing countries, inadequate achievement regarding modernisation of Indian mills which could lower production costs, the Long-term Textile Agreement and the protection which developed countries are giving to their domestic textile industries. The situation last year was somewhat worsened by the shortage of raw cotton due to a smaller cotton crop.

117. The poor performance on the part of these traditional items was made up by the large increases achieved in the exports of engineering goods, iron and steel, leather and leather manufactures, cashew kernels, iron ore, precious and semi-precious stones and vegetable oils and oil cakes. Exports of engineering goods at Rs. 67 crores were slightly more than double those in 1967-68. Similarly the exports of iron and steel increased by 44 per cent to Rs. 75 crores. The increase in the exports of leather manufactures amounted to Rs. 19 crores and that of cashew kernels to Rs. 18 crores. Iron ore exports also increased by 18 per cent between the two years. There has been a significant increase in the exports of precious and semi-precious stones from Rs. 30·4 crores in 1967-68 to Rs. 44·8 crores in 1968-69. In addition to this, smaller increases were recorded in the exports of manganese ore, fish and fish preparations, mineral fuels and lubricants and chemicals.

118. It would be natural to conclude from this performance that the diversification in exports and the replacement by manufactured products of primary exports desired by all developing countries has gone some length in the case of India; and that she is moving away from exports, the markets for which are either stagnant or growing slowly, to those whose markets are elastic and expanding. While a useful beginning had been made in this direction, it would be too early to conclude that this has happened firmly in the case of India. India's dependence on primary exports is still substantial considering that jute, tea and cotton textiles accounted for as much as 35 per cent of her total exports. Also some of the items in which substantial growth has occurred and is expected to occur are really primary products like iron ore, vegetable oils, oil cakes, cashew kernels and fish. Even though a rapid increase has taken place in

the exports of iron and steel and engineering goods, they still account for less than 10 per cent of total exports.

Export Performance During 1969-70

119. The rate of growth of exports has declined considerably in 1969-70, and was, according to DGCIS data, 1·5 per cent during the first nine months of the current year, as compared to the same period last year. The deceleration was primarily due to a sharp fall in the exports of tea and the absence of any improvement in the exports of jute goods and cotton textilte fabrics. There was, however, a large increase in the exports of cotton yarn. Except for engineering goods, fish and fish preparations and leather and leather manufactures, exports of no other commodity have shown any significant growth. On the other hand items like vegetable oil and oil cakes actually showed a decline. Both exports of iron ore and iron and steel did not show any improvement over the performance last year.

120. The very sharp fall in the exports of tea was due to a decline of 25·6 per cent in value and 17·2 per cent in volume. The unit value realised fell by 10·1 per cent. The factors responsible for this situation, *viz.*, the excess of supply over demand in the world tea market and greater competition from East Africa, seem to have operated with greater vehemence this year. While world demand for tea is rising at the rate of 2·2—2·7 per cent per annum the rate of increase of production is about 3·2 per cent per annum.

121. The shortage of jute experienced last year led to a sharp increase in jute prices. Although the much larger production during the current year has led to prices being easier, they still continue to be significantly higher than the levels of last year. The strike in the jute industry also affected the industry's capacity to effect shipments. Competition from Pakistan in the market for hessian and sacking was even sharper due to these factors. Competition from synthetics to exports of carpet backing, which is a major item of India's exports of jute manufactures is also increasing sharply because of the fluctuation in prices and quantities of such exports. In the case of cotton yarn the demand from other countries which are developing their own textile capacity has led to an increase in yarn exports of Rs. 8 crores. On the other hand due to factors like the Long-term Textile Agreement and the protection resorted to by developed countries, such as the U.K., to domestic cotton textile industry, the scope for increasing cotton fabric exports continuously is diminishing year by year. The recovery of internal demand due to better economic conditions and a somewhat smaller production during the current year may also have partly affected the exports of cotton piece-goods. The decline in the output of oilseeds last year and the anticipation of a not much better crop this year have led to a sharp rise in prices and affected greatly the exports of oil and oil cakes.

122. Internal demand for many commodities seems to be increasing to an extent that export supplies are being affected. To some extent this is true of cotton textiles. It is more so in the case of items like iron and steel. The demand for iron and steel from the engineering goods industries and from the construction industry has increased so much that the availability of iron and steel for purposes of exports both as iron and steel—particularly billets, skelp and structurals—and as engineering goods is being affected. It looks now as if the exports of iron and steel during 1969-70 would not be higher than those in 1968-69. However in 1969-70 the exports of engineering goods will show a substantial increase over the level of 1968-69; with greater availability of steel, it would not have been difficult to push them up to still higher levels. Arrangements have been made to make steel available on a priority basis to exporters and to import quickly 37000 tonnes of steel, especially sheets and plates.

123. Exports of iron ore have not shown much improvement because of a bargemen's strike in Marmugoa harbour from February to July, 1969. An increase in unit value of 18 per cent has prevented the value of exports from declining sharply because of the lower volume. There is every reason to hope that by the end of the year they will recover from this set-back. The market for iron ore is large, particularly in Japan. The closure of the Suez Canal would mean that supplies to European markets can be made competitively only if ore can be shipped in large carriers for the long voyage, round Africa. Indian port facilities are not, however, expanding adequately for this purpose. Even for the Japanese market it is necessary to lower freight costs because competing suppliers like Australia and Brazil are able to reduce costs and increase their competitiveness by shipping ore in giant carriers.

124. The exports of leather and leather manufactures have increased by 22 per cent in the first six months of 1969-70. The leather manufactures exported are simple ones and the fashion industry in the West apparently provides a growing market for our finished leathers including East India kips. Exports of leather travel goods are also on the increase. The export of footwear on the other hand is not making much headway.

125. Another item which has made rapid strides particularly during the current year is fish and fish preparations. Exports of fish were about 75 per cent higher in value during the first half of this year. The increasing demand for fish comes from the U.S. Here again, as in the case of iron and steel, capacity seems to be a limitation on further growth of exports. Unless deep sea fishing makes more headway than it has done so far the scope for further growth of exports seems limited.

126. The export experience during the current year has two or three important lessons. Firstly, there is the reminder that notwithstanding the exports of engineering goods and iron and steel India is still dependent upon the exports of primary products and therefore vulnerable to changes in the world market conditions for

primary products and the agricultural production at home. Secondly, exports which increased in the past two years were the result of surpluses in the economy and there is every danger that they may decline as the slack is taken up by domestic expansion. Therefore a check has to be exercised on domestic demand. Thirdly, it indicates the vital need to expand capacity in certain directions if export effort is not to be stultified. Now that a foothold has been obtained in many markets and an image established, it is necessary to maintain regular supplies if growth in exports is to take place over time. An intermittent supplier cannot build up a market, and it is absolutely necessary to build up markets if India is to emerge as a major exporter of manufactured articles. In short, export surpluses have to be deliberately created by suitable priority in the pattern of investment in response to international demand rather than allowed to emerge *ad hoc* from a given pattern of investment in the light of fluctuations in internal demand.

Trade Policy

127. Several changes have been introduced in the current year in the import and export policy with a view to achieve greater production for exports and to promote exports. Industrial units in the priority and non-priority sectors, which exported 10 per cent or more of their production, are granted facilities for expansion of their production capacity and for import from preferred sources of supply. Industrial units with substantial export performance are to be assisted in expanding their capacity, in the import of equipment and in obtaining financial and other help to maintain their export capability. On the other hand, industrial units in priority industries which failed to export 5 per cent of their output are liable to have their import licences reduced in value in addition to losing the facility to import from preferred sources.

128. A new scheme has been introduced to strengthen export houses in their export marketing efforts. Licences will be issued to export houses to enable them to build a ready stock of industrial materials essential for export production. This will enable them to undertake export marketing of a larger volume of products of small scale units. There is also provision for import replenishment licences to be issued to export houses against exports undertaken by them. For greater stability a scheme for registration of long-term export contracts has been introduced. This will make exporters eligible for the package of assistance in force on the date of the registration of contracts.

129. Six more items have been added to the list of commodities, the import of which will be canalised through the STC/MMTC in order to gain the advantages of bulk buying and to arrange for orderly marketing. These are copra, mutton tallow, soyabean oil, palm oil, cork wood and sodium nitrate. Imports of natural rubber, sulpha products, vitamins and anti-biotics will be normally arranged through the STC for meeting the requirements of actual users, although these have not been included in the list of canalised commodities. In respect of certain other industrial raw materials, such as,

carbon black, aluminium oxide, phosphoric acid and titanium dioxide the STC will act as an indenting house on behalf of actual users.

130. The policy introduced last year regarding the grant of additional cash assistance for increased exports of selected non-traditional goods has been extended for the current financial year. Besides cash assistance at varying rates has been allowed on exports of certain new products such as special model bicycles, potassium permanganate, graphite, electrodes, bamboo pulp, aluminium chloride, anhydrous etc.

131. The budget for 1969-70 contained certain reductions in export duties on tea, jute manufactures and mica. Raw wool was exempted from export duty with effect from 3rd April 1969 and earlier the export duty on light and pinhead varieties of black pepper was abolished as from 26th February 1969. The export duty on jute carpet backing cloth was reduced by Rs. 300 per tonne with effect from 10 December, 1969. Simultaneously the jute industry decided to reduce the prices of carpet backing cloth by Rs. 300 per tonne, thus making it cheaper by Rs. 600 per tonne.

132. Tax payers other than foreign companies incurring expenditure for the development of export markets are allowed a deduction of 1⅓ times of such expenditure from their income. The items for expenditure include overseas publicity offices, submission of tenders etc. In order to encourage the export of know-how and technical services, income received by Indian companies from foreign firms for supplying these services is exempt from tax.

133. Because of the shortfall in exports which has occurred in the first eight months of the current financial year, a programme to boost exports in the next few months has been formulated by Government The emphasis of the programme is primarily on

(a) Speedy removal of obstacles and bottlenecks in the way of exports;

(b) Encouragement for increasing exports ex-stock and from scheduled production;

(c) Utilisation of idle capacity for exports through adequate supply of raw materials, either imported or indigenous and other essential inputs;

(d) Endeavouring through State Governments to improve labour management relations so that production for exports is not adversely affected;

(e) Expeditious movements, especially at the ports of export consignments; and

(f) Special marketing efforts by public and private enterprises. At the same time, investments with an export potential such as those in improved port facilities and iron-ore mining are being expedited. Promotion of tourism has also continued to receive urgent attention.

External Assistance

134. The total amount of external assistance available during 1968-69, comprising aid in the pipeline (Rs. 2070 crores) and fresh authorizations including aid in the form of debt rescheduling/postponement (Rs. 804 crores), amounted to Rs. 2,874 crores. This was considerably less than Rs. 3,271 crores available during 1967-68 and reflected the tapering of aid in the pipeline due to a sharp drop in fresh commitments during 1967-68. Fresh authorizations during 1968-69 at Rs. 804 crores were even lower than the authorizations of Rs. 900 crores in 1967-68. If, however, food and PL 480 assistance are excluded, authorizations for 1968-69 amounted to Rs. 623 crores as compared to Rs. 582 crores in 1967-68. The increase was due to an IDA non-project credit of Rs. 94 crores ($ 125 million) and U.S. assistance for the Trombay fertilizer project and for the purchase of two jumbo jets.

135. The Aid India Consortium which met in May 1969 agreed that India needed substantial new commitments of non-project as well as project aid if the general recovery of the economy was to be maintained and consolidated. It was also agreed that for the year which began on April 1, 1969, India required non-project assistance of about Rs. 525 crores ($ 700 million) including approximately Rs. 75 crores ($ 100 million) in the form of debt relief. India's need for increased project assistance as an essential complement to non-project aid was also recognized and Consortium members agreed that India's request for Rs. 300 crores ($ 400 million) was reasonable and that efforts would be made to meet it. Preliminary data show that Rs. 157 crores ($ 209 million) of non-project aid including debt relief was authorised up to the end of January 1970; project aid of Rs. 180 crores ($ 240 million) has also been authorised.

136. The pipeline (amounts authorised less amounts disbursed) of project and non-project assistance started to decline in 1967-68. From a level of Rs 2,199 crores at the beginning of the year it fell by Rs. 300 crores to Rs. 1,899 crores at the end of the year. The pipeline of aid declined further by Rs. 82 crores during 1968-69 and on 1st April 1969 it amounted to Rs. 1,817 crores, comprising of Rs. 1,200 crores of project assistance and Rs. 617 crores of non-project assistance.

137. The aid utilised during 1968-69 amounted to Rs. 896 crores. This was Rs. 298 crores lower than in 1967-68. A decline in food assistance from Rs. 330 crores in 1967-68 to Rs. 186 crores in 1968-69 accounted for Rs. 144 crores. The balance was accounted for by a decline in non-food aid from Rs. 864 crores in 1967-68 to Rs. 710 crores in 1968-69. Disbursement of non-project aid in 1968-69 amounted to Rs. 411 crores while project aid was Rs. 272 crores. Project aid was marginally lower in 1968-69 as compared to the preceding year; but non-project assistance utilised was lower by 18 per cent, reflecting a smaller authorisation in the previous year.

TABLE XV

Inflow of Foreign Assistance : Gross and Net

(Rs. crores)*

Items	1966-67	1967-68	1968-69	1969-70 (Apr.-Sept.)†
1	2	3	4	5
I. Gross aid disbursement . .	1134	1194	896	485
of which:				
(a) PL 480 Food Aid** .	338	285	131	84
(b) PL 480 Non-food Aid**	22	57	27	35
(c) Other food aid . .	70	45	55	12
II. Gross aid excluding food aid	726	864	710	389
III. (a) Amortisation payments .	160	212	236	133
(b) Interest payments .	114	121	139	72
Total debt servicing . .	274	333	375	205
IV. Net aid flow . . .	860	861	521	280
V. Net aid flow exclusive of food aid	452	531	335	184

*In post-devaluation rupees.

†Provisional.

**Include assistance by way of the rupee value of imports and under convertible currency credits.

Gross aid disbursements take into account debt relief inclusive of debt rescheduling/postponement, etc. Debt service payments relate to those involving foreign exchange.

138. Total debt service charges rose from (post-devaluation) Rs. 143 crores in 1961-62 to (post-devaluation) Rs. 227 crores in 1965-66. These payments increased further to Rs. 333 crores in 1967-68 and Rs. 375 crores in 1968-69. Debt service payments will continue to be heavy during the next few years and are estimated to be around Rs. 412 crores during 1969-70. The effect of this increase (and of reduced authorisations) has been a sharp reduction in net aid received. In 1966-67 and 1967-68 it amounted to Rs. 860 and Rs. 861 crores respectively; in 1968-69 it was only Rs. 521 crores. If allowance is made for specially large food imports during the past years, net aid excluding food aid drops sharply from Rs. 531 crores in 1967-68 to Rs. 335 crores in 1968-69

139. The economy could manage with such low volumes of net assistance because of the slack in the economy and relatively low volume of investment activity during the recession and the immediate post-recession years. With the revival of industrial activity the need for both maintenance imports as well as capital goods imports

would increase. Already, as pointed out above, select items of maintenance imports have gone up and scarcities are developing in some sectors. The licensing for imports of raw materials, components and spare parts has gone up by about 30 per cent in the first seven months of this year. And as the present tempo continues there is no doubt that imports would go up still further. Particularly, if the investment proposed in the Fourth Plan in fields like fertilizers, petrochemicals, metals, ports and power is to take place, the need for both project and non-project assistance will increase. The existence of a diversified machinery-making industry would mean an increase in the need for non-project assistance to meet the increased demand for capital equipment. Also the machine making capacity built up is not large enough to meet all the requirements of development in the Fourth Plan. Therefore, there is an urgent need for project assistance as well.

140. Debt service payments this year amount to about 30 per cent of expected exports. This is a really high proportion and affects greatly the country's capacity to import. Further aid receipts should not contribute to increase this proportion. There is, therefore, a need to reiterate the proposition that aid should be on softer terms. While there has been a general movement in this direction, through extension of maturity periods and lowering of the rates of interest, the requirement that PL 480 assistance should be repaid in foreign currency is a step in the other direction. The debt relief granted by Consortium countries, which amounted to Rs. 76 crores ($ 101 million) in 1968-69 has been useful in this regard.