

EXTERNAL SECTOR

The balance of payments situation in 1996-97 and in 1997-98 remained manageable, despite some concerns on the export front. Export growth slowed down significantly because of international and domestic factors (Table 6.2). Import growth also decelerated on account of continued industrial slackness. Net inflow on the invisibles account surged and reached a new peak in 1996-97, benefiting from the return flow associated with the redemption of India Development Bonds (IDB) and buoyant software exports (Table 6.1). The deficit on the current account of balance of payments declined to 1.0 per cent of GDP in 1996-97 from 1.8 per cent of GDP in 1995-96. In 1997-98, it is estimated to be about 1.5 per cent of GDP, which is well within the sustainable level.

2. The capital account of balance of payments exhibited a handsome surplus in 1996-97, following sustained buoyancy in foreign investment flows and a surge in net inflow of non-resident deposits. Total net capital inflow in 1997-98 is expected to have been at about the 1996-97 level. The surpluses in the capital account of balance of payment in 1996-97 and 1997-98 exceeded the deficits in the current account by substantial margins, resulting in large accretions to foreign currency assets of the Reserve Bank. The foreign currency assets increased by US \$5.3 billion in 1996-97 and further by US \$3.6 billion in 1997-98 to attain US \$26.0 billion at the end of March 1998.

3. The rupee was fairly stable during 1996-97. Vis-à-vis the US dollar, it moved in a narrow range of Rs.34.24 (April 1996) and Rs.35.87 (March 1997). The stability in the exchange rate

of the rupee was disturbed in the last week of August 1997, when the currency experienced a mild contagion effect of currency turmoil in Southeast Asia. Beginning the second week of November 1997, the exchange rate of the rupee against the US dollar came under renewed downward pressure, triggered by the continuing East Asian crisis and (according to some assessments) the uncertainty created by political developments. The rupee depreciated to a low of Rs.40.36 per US dollar by January 16, 1998, but recovered to about Rs.39.50 by the end of March, 1998, marking a total depreciation of 9.1 per cent against the US dollar compared with the rate at the end of March 1997. Over the past few years, the real *effective* exchange rate of the rupee has shown a gradually appreciating trend on account of the inflation differential between India and her major trading partner countries. The market movement in the rupee-dollar rate during the third quarter of 1997-98, therefore, offset the appreciation in the real *effective* exchange rate since 1996-97. It also offset a part of the competitive disadvantage arising from the recent sharp depreciation of currencies of competitors in Southeast Asia.

4. External debt declined from 28.2 per cent of GDP at the end of 1995-96 to 25.9 per cent of GDP at the end of 1996-97. It has declined further to 23.8 per cent of GDP at the end of September 1997 (based on estimated GDP for 1997-98). The debt service ratio also declined from 24.3 per cent in 1995-96 to 21.4 per cent in 1996-97, despite the bunching of repayments of India Development Bonds. In 1997-98, the ratio is expected to decline further to about 18 per cent.

TABLE 6.1

Balance of Payments : Summary

(In US \$ million)

	1990-91 (P)	1991-92 (P)	1992-93 (P)	1993-94 (P)	1994-95 (P)	1995-96 (P)	1996-97 (P)
1. Exports	18477	18266	18869	22683	26855	32311	33764
2. Imports	27915	21064	24316	26739	35904	43670	48063
Of which : POL	6028	5364	6100	5753	5928	7526	10067
3. Trade balance	-9438	-2798	-5447	-4056	-9049	-11359	-14299
4. Invisibles (net)	-242	1620	1921	2898	5680	5460	10638
Non-factor services	980	1207	1129	535	602	-186	2407
Investment income	-3752	-3830	-3423	-3270	-3431	-3205	-3250
Pvt. transfers	2069	3783	3852	5265	8093	8506	11071
Official Grants	461	460	363	368	416	345	410
5. Current Account Balance	-9680	-1178	-3526	-1158	-3369	-5899	-3661
6. External assistance (net)	2210	3037	1859	1901	1526	883	1109
7. Commercial borrowings (net)*	2248	1456	-358	607	1030	1275	1009
8. IMF (net)	1214	786	1288	187	-1143	-1715	-975
9. NRI deposits (net)	1536	290	2001	1205	172	1103	3536
10. Rupee debt service	-1193	-1240	-878	-1053	-983	-952	-727
11. Foreign investment (net)	103	133	557	4235	4807	4604	5834
of which :							
(i) DFI (net)	97	129	315	586	1228	1943	2524
(ii) FIIIs	0	0	0	1665	1503	2009	1926
(iii) Euro-equities and others	6	4	242	1984	2076	652	1384
12. Other flows (net)+	2284	101	-245	2800	2604	-2235	-307
13. Capital account total (net)	8402	4563	4224	9882	8013	2963	9479
14. Reserve use (- increase)	1278	-3385	-698	-8724	-4644	2936	-5818

(P) Preliminary Actuals.

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

+ Include, among others, 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).

TABLE 6.2
Selected Indicators of External Sector

ITEM / YEARS	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 *	
1. Growth of Exports - BOP (%)	-5.9	9.0	-1.1	3.3	20.2	18.4	20.3	4.5	2.6 @	
2. Growth of Imports - BOP (%)	10.1	14.4	-24.5	15.4	10.0	34.3	21.6	10.1	5.8 @	
(a) of which, POL (%)	-7.8	60.0	-11.0	13.7	-5.7	3.0	27.0	33.4	-20.6 @	
3. Exports/Imports - BOP (%)	54.7	66.2	86.7	77.6	84.8	74.8	74.0	70.2	83.3 @	
4. Import cover of FER (No. of months)	4.5	2.5	5.3	4.9	8.6	8.4	6.0	6.6	7.0	
5. External assistance (net)/TC (%)	31.9	26.3	66.6	44.0	19.2	19.0	29.8	11.7		
6. ECB (net)/TC (%)	22.2	26.8	31.9	-8.5	6.1	12.9	43.0	10.6		
7. NR deposits/TC (%)	33.7	18.3	6.4	47.4	12.2	2.1	37.2	37.3		
8. Short-term debt / FER (%)	—	146.5	76.7	64.5	18.8	16.9	23.2	25.5	19.8 #	
9. Debt service payments as % of current receipts	18.7	35.3	30.2	27.5	25.6	26.2	24.3	21.4	18.3	
			As per cent of GDPmp							
10. Exports	4.4	6.2	7.3	7.8	8.8	8.8	9.7	9.4		
11. Imports	8.1	9.4	8.3	10.2	10.3	11.7	13.1	13.8		
12. Trade balance	-3.7	-3.2	-1.1	-2.4	-1.6	-2.9	-3.4	-4.0		
13. Invisibles balance	1.4	-0.1	0.7	0.6	1.1	1.9	1.6	3.0		
14. Current account balance	-2.3	-3.2	-0.4	-1.8	-0.4	-1.1	-1.8	-1.0	-1.5	
15. External Debt	17.6	30.4	41.0	39.8	35.8	32.3	28.2	25.9	23.8 #	
16. Debt Service Payments	1.2	3.0	3.3	3.3	3.3	3.6	3.6	3.3	2.8	

* Projections; @ Based on provisional DGCI&S trade data for 1997-98; # Data correspond to end September 1997.
Notes :

- (i) TC: Total capital flows (net).
- (ii) ECB: External Commercial Borrowing.
- (iii) FER: Foreign Exchange Reserves, including gold and SDRs.
- (iv) GDPmp: Gross domestic product at current market prices.
- (v) As total capital flows are netted after taking into account some capital outflows, the ratios against item no. 5, 6 and 7 may, in some years, add up to more than 100 per cent.
- (vi) Data for 1985-86 against items 9, 15 & 16 do not include defence and short-term credits and related debt service payments due to non-availability of data for the year.
- (vii) Rupee equivalents of BOP components are used to arrive at GDP ratios.