Trade account

11. The trade deficit, on BOP basis, increased from 3.4 per cent of GDP in 1995-96 to 4.0 per cent of GDP in 1996-97. Total imports, on payments basis, grew by 10.1 per cent to US $48.1 billion in 1996-97. Imports recorded in BOP accounts include imports of gold and silver by non-residents under baggage rules. Since these imports are in the nature of transfers with no corresponding foreign exchange outgo, there is an offsetting credit in the private transfers under invisibles. The demand for imports has been subdued over the last two years, reflecting moderation in industrial activity. Non-oil imports (on BOP basis in US dollar), registered an increase of 5.2 per cent in 1996-97, as against an increase of about 32 per cent per year in the previous two years. During 1997-98, such imports (on DGCI&S basis) recovered to grow by about 14.5 per cent (provisional) over the corresponding data in 1996-97. Oil imports have fallen by 20.6 per cent in 1997-98 , after an average growth of about 30 per cent in the previous two years. This is primarily due to the softening of international prices of crude oil and petroleum products.

12. In spite of the sharp deceleration in import growth, trade deficit in 1996-97 (on BOP basis), widened by about US $2.9 billion, because growth of exports also decelerated sharply. The continued sluggishness in export growth for the second year in succession was a cause for concern. Based on BOP data, export growth, in US dollar terms, decelerated to 4.5 per cent in 1996-97 and 2.6 per cent during 1997-98 (provisional), after three successive years of increase ranging from 18 to 20 per cent per annum. The slowdown in export performance reflects a range of factors of foreign and domestic origin. A noticeable decline in the growth of world trade in 1996 and 1997, a decline in export prices of some major items of manufactured goods, and appreciation of the rupee in real effective exchange rate terms were contributory factors. The last was partly due to an appreciation of the US dollar against other major currencies in the international markets and the resultant large cross-currency variations.

13. Self-reliance, as measured by the coverage of imports by exports (on BOP basis), has improved from about 66 per cent in 1990-91 to about 85 per cent in 1993-94. The ratio, however, declined in the subsequent years reaching about 70 per cent in 1996-97. Based on provisional DGCI&S trade data, the ratio of exports to imports in 1997-98 works out to 83.3 per cent.