

## VI. Balance of Payments

36. The steady improvement in balance of payments which took place during 1958-59 and 1959-60 could not be sustained during the last year of the second five year plan (1960-61). The withdrawal from foreign exchange reserves which had amounted to Rs. 221.3 crores in 1956-57 and Rs. 259.9 crores in 1957-58 was reduced to Rs. 42.3 crores in 1958-59 and Rs. 16.1 crores in 1959-60. But for the purchase of gold of Rs. 18.2 crores for the payment of additional subscription to the International Monetary Fund (I.M.F.) and the re-payment of Rs. 23.8 crores to that institution, there would have been an actual increase in foreign exchange reserves in 1959-60. The pressure on reserves however, was intensified during 1960-61 when reserves declined by Rs. 59.2 crores; and of this decline, only Rs. 10.7 crores could be explained in terms of repayments to the I.M.F. As a consequence, aggregate reserves (excluding gold but including government balances) at the beginning of the third plan amounted to only Rs. 186 crores as against Rs. 785 crores at the beginning of the second plan.

37. The overall balance of payments has continued to remain difficult in the first year of the third plan; and in view of the low level of reserves from which the plan started, it became necessary during the current year to draw on our second line of reserves with the I.M.F. A drawing of \$ 250 million (Rs. 119 crores), amounting to 42 per cent of our quota with I.M.F. was made in August, 1961. As against this, a sum of \$ 127.5 million (Rs. 60.7 crores) was utilised for the repayment of the earlier drawing made in 1956-57. On balance, therefore, an amount of Rs. 58.3 crores went to supplement our reserves. Even so, there was a decline in foreign exchange holdings of Rs. 11.1 crores during the first half (April—September) of the current fiscal year. Since September, there has been some improvement in response to the onset of the normal favourable export season. But if allowance is made for the rather

heavy year-end demands, there may well be a small drain during the remaining weeks of the year so that the year as a whole may show some worsening in reserves despite the net drawing of Rs. 58.3 crores on the Fund.

38. The following table summarises the major trends in India's balance of payments since 1958-59:—

*India's Overall Balance of Payments since 1958-59*

	1958-59	1959-60	1960-61*			1961-62*
			April-Sept.	Oct.-March	Total	April-Sept.
1. Imports c.i.f.	1029.0	924.5	538.7	549.3	1088.0	492.0
(a) Private	503.6	508.1	287.5	304.0	591.5	308.6
(b) Government	525.4	416.4	251.2	245.3	496.5	183.4
2. Exports f.o.b.	576.3	623.2	299.3	332.6	631.9	320.3
3. Trade Balance (2-1)	-452.7	-301.3	-239.4	-216.7	-456.1	-171.7
4. Non-monetary gold movement	..	5.9†	..	..	..	..
5. Official Donations	35.8	37.1	26.7	18.7	45.4§	19.6
6. Other Invisibles (net)	90.8	75.7	34.9	10.7	45.6‡	-6.6
7. Current Account (net) (3+4+5+6)	-326.1	-182.6	-177.8	-187.3	-365.1	-158.7
8. Errors and Omissions	-23.9	-15.7	-14.4	15.1	0.7	7.6
9. Official Loans (gross)	219.7	184.3	118.3	121.9	240.2	133.5
10. Other Capital Transactions (net)	88.0	21.7	29.6	46.1	75.7	-51.8
11. Drawings on I.M.F. (net)	..	-23.8	-10.7	..	-10.7	58.3
12. Draft on Foreign Exchange Reserves £	42.3	16.1	55.0	4.2	59.2	11.1

\*Preliminary

†Represents gold transferred from non-monetary stocks to official holdings to meet a part of the liability arising from the increased subscription to the I.M.F.

‡Includes Rs. 8.3 crores paid to the I.B.R.D. as the first instalment of India's contribution to the Indus Basin Development Fund under the terms of the Indus Water Treaty signed on September 19, 1960

§ Includes Rs. 8.4 crores earmarked by the U.S. authorities to finance export of goods and services to Nepal under the programme of economic aid to that country

£Variations in reserves include movements in the foreign assets of R.B.I. and in Government balances held abroad

39. It will be seen that unlike in 1960-61, the pressure on balance of payments in the first half of 1961-62 has persisted despite lower imports and a significant improvement in exports. The principal factor in the deterioration in the balance of payments in 1960-61 was the increase in the current account deficit from Rs. 182.6 crores in 1959-60 to Rs. 365.1 crores in 1960-61. Imports increased by Rs. 163.5 crores to Rs. 1088 crores, while there was only a modest improvement of Rs. 8.7 crores

in exports. By contrast, the balance of trade during the first half of 1961-62 shows considerable improvement over the corresponding period of 1960-61. Imports during the first half of 1961-62 were lower by Rs. 46.7 crores and exports were larger by Rs. 21 crores, so that the adverse balance of trade was reduced from Rs. 239.4 crores to Rs. 171.7 crores. Receipts from external assistance (that is, official donations and gross official loans) were also slightly higher—by Rs. 8.1 crores—during the first half of the current year.

40. The main explanation for the continuation of balance of payments difficulties despite the improvement on trade account has to be sought, therefore, in terms of the deterioration in regard to invisible transactions, both current and capital. Net receipts from invisibles on current account (excluding official donations) which amounted to Rs. 34.9 crores in April—September, 1960 have shown a net outgo of Rs. 6.6 crores during April—September, 1961. A detailed picture of recent trends in regard to current invisibles is given in the following table:—

*Current Invisibles (Net) Excluding official donations*

(A break-up of item 6 of the Table in para. 38)

	(Rs. crores)					
	1958-59	1959-60	1960-61		1961-62	
			April-Sept.	Oct-March	Total	April-Sept.
Investment Income . . . . .	-19.6	-30.9	-17.6	-24.1	-41.7	-30.7
Private Donations . . . . .	+40.6	+39.5	+15.0	+12.7	+27.7	+12.3
"Government, not included elsewhere" (GNIE)* . . . . .	+25.5	+39.5	+27.9	+13.6	+41.5	+5.9
Others† . . . . .	+44.3	+27.6	+9.6	+8.5	+18.1	+5.9
<b>TOTAL . . . . .</b>	<b>+90.8</b>	<b>+75.7</b>	<b>+34.9</b>	<b>+10.7</b>	<b>+45.6</b>	<b>-6.6</b>

\*The bulk of the receipts in this item in recent years have been on account of the reimbursements of freight differential on P.L. 480 cargo and the disbursements by the U.S. Embassy from the P.L. 480 counterpart funds

†Include foreign travel, transportation, insurance, royalties, etc

41. A part of the worsening in the current year as it appears from these figures is of an accounting nature only, since a decline in receipts due to smaller U.S. Embassy expenditures from P.L. 480 funds would be matched by a decline in payments on capital account. Similarly, reimbursements of freight on P.L. 480 cargo vary with P.L. 480 imports. Nevertheless, the basic trend in regard to current invisibles has been adverse for some years now. With the progressive decline in foreign exchange reserves and growing indebtedness abroad on both private and public account, it is only natural that there should be a steady decline over recent years in net earnings on investments. In addition,

there has been a decline in remittances from abroad during 1960-61 as well as the current year, and net receipts on account of miscellaneous items including foreign travel, transportations, etc. have been declining for some time.

42. On capital account also, the position in regard to invisibles has deteriorated sharply. Exclusive of gross official loans and I.M.F. transactions, other capital transactions which yielded a net amount of Rs. 29.6 crores during April—September, 1960 have led to a drain of Rs. 51.8 crores during the corresponding period of 1961. A large part of this reversal is due to lower P.L. 480 imports and a corresponding reduction in the accrual of counter-part funds. But growing repayment obligations on private and public external debt and a sizeable outflow of banking capital, during the slack season of 1961 have also contributed to the deterioration in the position during the current year. The major items which explain the variations in 'other capital transactions' are summarised in the following table:—

*Other Capital Transactions (Net)*

(A break-up of item 10 of the Table in para. 38)

	(Rs. crores)					
			1960-61		1961-62	
	1958-59	1959-60	April- Sept.	Oct.- March	Total	April- Sept.
Private capital . . . . .	-20.3	-7.2	-0.5	+2.6	+2.1	-5.8
Banking capital . . . . .	+4.9	+11.2	-0.4	+9.6	+9.2	-22.7
Amortisation . . . . .	+28.1†	-9.7	-9.4	-20.0	-29.4	-31.6‡
Others* . . . . .	+75.3	+27.4	+39.9	+53.9	+93.8	+8.3
<b>TOTAL . . . . .</b>	<b>+88.0</b>	<b>+21.7</b>	<b>+29.6</b>	<b>+46.1</b>	<b>+75.7</b>	<b>-51.8</b>

\*Include the rupee deposits against P.L. 480 imports

†Includes receipts from U.K. under the Pensions Resettlement scheme

‡Includes repayment of Rourkela credit which was financed by a fresh W. German credit, the receipt for which appears under official loans *i.e.* item 9 of Table in para 38

43. Some of the adverse changes in regard to invisible transactions as shown above may well prove temporary. The outflow of banking capital, for example, represents a reversal of the trend which was in evidence during the earlier years; and movements in banking capital in response to interest rate changes abroad and comparative requirements of funds at home have been a normal feature of our balance of payments. On the other hand, the reduction in investment income and growing repayment obligations represent structural changes in our balance of payments in response to our growing net indebtedness abroad. This structural change clearly highlights the importance of reducing the deficit on trade account by increasing exports.

44. Export earnings have shown a progressive increase during the last three years—from Rs. 576 crores in 1958-59 to Rs. 632 crores in 1960-61. During the first half of 1961-62 the improvement over the corresponding

period of 1960-61, as already mentioned, was about Rs. 21 crores. On present indications, export earnings during the current financial year may amount to Rs. 665 crores or so, representing an improvement of Rs. 33 crores over the previous year. It has to be borne in mind, however, that the improvement in export earnings in recent years looks rather large mainly because of the low level of Rs. 576 crores to which they had fallen in 1958-59. Export earnings in 1960-61 were still slightly below those in 1956-57. Such improvement in export earnings as took place in 1960-61 was also the result in the main of special factors such as exceptionally high prices of jute manufactures. Thus, while total earnings from exports increased by Rs. 8.7 crores in 1960-61, exports of jute manufactures went up by Rs. 24.2 crores mainly on account of higher prices. While exports of other items such as metallic ores, paper, spices and cashew kernels also registered small increases, there were significant declines in regard to important traditional items of exports such as cotton manufactures, tea, vegetable oils, hides and skins and raw cotton.

45. The performance of exports in the current year has undoubtedly been distinctly better; and the improvement has been more widespread than during the previous year. Thus, the improvement in export earnings of Rs. 21 crores during the first half of 1961-62 has been shared by a large number of items such as sugar, cotton, tea, pepper, spices, cashew kernels and jute manufactures. On the other hand, the decline in exports of cotton manufactures, vegetable oils and hides and skins which had occurred in 1960-61 continued during the first half of the current year. Altogether, the better performance of exports during the current year has been in response to the sizeable increase in agricultural production in 1960-61 and the continuation of favourable prices in respect of jute manufactures. While the improvement that has taken place during the first year of the third plan has been significant, there is little doubt that a great deal of further effort to promote exports would be necessary in the coming years if the target set in the third plan of export earnings of Rs. 850 crores a year by the end of the plan period is to be realized.

46. Import payments had been reduced sharply between 1957-58 and 1959-60 from Rs. 1,233.6 crores to Rs. 924.5 crores. This trend was reversed in 1960-61 when total imports increased by Rs. 163.5 crores in response to larger imports of foodgrains and the growing requirements of developmental and maintenance imports. During the first half of 1961-62, while total imports were lower by Rs. 46.7 crores as compared to the corresponding period of the previous year, private imports were larger by Rs. 21.1 crores. The decline in Government imports of Rs. 67.8 crores was mainly on account of smaller imports of foodgrains. There were, however, small declines in imports of railway stores and capital equipment for government projects as well. The rise in private imports was mostly in respect of machinery and capital goods, imports of which increased by Rs. 22 crores. In regard to maintenance items, small increases in imports of intermediate goods and mineral oils were offset by a decline in imports of other raw materials, especially raw cotton.