

Balance of Payments

6.3 India's balance of payments in 1999-2000 remained comfortable. The current account deficit in 1999-2000 was contained to 0.9 per cent of GDP, despite an unfavourable international trade and financial backdrop, including a near two-third hike in India's oil import bill. This was made possible because of a strong recovery of exports, and a surge in net inflow of invisibles, reflecting sharp increases in software service exports and private transfers.

6.4 Exports, on BOP basis, during 1998-99 had faltered with a negative growth rate of 3.9 per cent in US Dollar value, following sluggish growth rates witnessed in the previous two years (Table 6.3). During 1999-2000, exports made a welcome recovery of 11.6 per cent, with the recovery being moderate in the first half and strong in the second half of the year. Total imports, on payment basis, expanded sharply by 16.5 per cent during 1999-2000, compared with a decline of 7.1 per cent in 1998-99, largely because of a 63.8 per

cent increase in the oil import bill, with non-oil customs import growth remaining subdued at 2.1 per cent. Reflecting the trends in exports and imports, the deficit on the trade account of the BOP widened to US \$ 17.10 billion or 3.8 per cent of GDP in 1999-2000 from US \$ 13.25 billion (3.2 per cent of GDP) in 1998-99 (Table 6.2). Net inflow of invisibles at US \$ 12.94 billion covered three quarters of the deficit on the trade account in 1999-2000, leaving a financing gap of US \$ 4.16 billion on the current account. This deficit on the current account represents 0.9 per cent of GDP, compared with the deficit of 1.0 per cent of GDP (US \$ 4.04 billion) in 1998-99.

6.5 After some set back in 1998-99, mainly as a fall out of East-Asian crisis and partly due to the economic sanctions on India, capital flows improved significantly in 1999-2000. Net inflows of capital on the capital account of BOP rose by US \$ 2.4 billion to US \$ 10.31 billion in 1999-2000 from the low of US \$ 7.87 billion in the previous year. This improvement was brought about mainly through the sharp recovery in portfolio investments by Foreign Institutional

TABLE 6.2
Balance of Payments : Summary#

(In US \$ million)

	1990-91	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	(April-September)	
									1999-2000	2000-01
1. Exports	18477	22683	26855	32311	34133	35680	34298	38285	17808	21742
2. Imports	27915	26739	35904	43670	48948	51187	47544	55383	25358	30976
Of which : POL	6028	5754	5928	7526	10036	8164	6399	10482	4464	8306
3. Trade balance	-9438	-4056	-9049	-11359	-14815	-15507	-13246	-17098	-7550	-9234
4. Invisibles (net)	-242	2898	5680	5449	10196	10007	9208	12935	4683	5236
Non-factor services	980	535	602	-197	726	1319	2165	3856	629	511
Investment income	-3752	-3270	-3431	-3205	-3307	-3521	-3544	-3559	-1831	-2067
Pvt. transfers	2069	5265	8093	8506	12367	11830	10280	12256	5762	6670
Official transfers	461	368	416	345	410	379	307	382	123	122
5. Current Account Balance	-9680	-1158	-3369	-5910	-4619	-5500	-4038	-4163	-2867	-3998
6. External assistance (net)	2210	1901	1526	883	1109	907	820	901	121	-377
7. Commercial borrowing (net)@	2248	607	1030	1275	2848	3999	4362	313	80	-105
8. IMF (net)	1214	187	-1143	-1715	-975	-618	-393	-260	-156	-26
9. NR deposits (net)	1537	1205	172	1103	3350	1125	1742	2140	932	1362
10. Rupee debt service	-1193	-1053	-983	-952	-727	-767	-802	-711	-521	-461
11. Foreign investment (net)	103	4235	4807	4615	5963	5353	2312	5117	2406	1766
of which :										
(i) FDI (net)	97	586	1228	1943	2938	3525	2380	2093	1057	1082
(ii) FII's	0	1665	1503	2009	1926	979	-390	2135	954	-46
(iii) Euro equities & others	6	1984	2076	663	1099	849	322	889	395	730
12. Other flows (net)+	2283	2800	2604	-2235	-1131	-606	-174	2805	826	379
13. Capital account total (net)	8402	9882	8013	2974	10437	9393	7867	10305	3688	2538
14. Reserve use (- increase)	1278	-8724	-4644	2936	-5818	-3893	-3829	-6142	-821	1460

Actuals.
 @ Figures include receipts on account of India Development Bonds in 1991-92 and Resurgent India Bonds in 1998-99 and related repayments, if any, in the subsequent years.
 + Include, among others, delayed export receipts and errors & omissions.

TABLE 6.3
Selected Indicators of External Sector

Item\Years	1990-91	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01@
1. Growth of Exports - BOP (%)	9.0	20.2	18.4	20.3	5.6	4.5	-3.9	11.6	20.4
2. Growth of Imports - BOP (%)	14.4	10.0	34.3	21.6	12.1	4.6	-7.1	16.5	9.0
(a) of which, POL (%)	60.0	-5.7	3.0	27.0	33.4	-18.7	-21.6	63.8	78.2
3. Exports/Imports - BOP (%)	66.2	84.8	74.8	74.0	69.7	69.7	72.1	69.1	84.6
4. Import cover of FER (No. of months)	2.5	8.6	8.4	6.0	6.5	6.9	8.2	8.2	
5. External assistance (net)/TC (%)	26.3	19.2	19.0	29.7	10.6	9.7	10.4	8.7	
6. ECB (net)/TC (%)	26.8	6.1	12.9	42.9	27.3	42.6	55.4	3.0	
7. NR deposits/TC (%)	18.3	12.2	2.1	37.1	32.1	12.0	22.1	20.8	
8. Short-term debt / FER (%)	146.5	18.8	16.9	23.2	25.5	17.2	13.5	10.6	
9. Debt service payments as % of current receipts	35.3	25.6	26.2	24.3	21.2	19.0	18.0	16.0	
As per cent of GDPmp									
10. Exports	5.8	8.3	8.3	9.1	8.9	8.7	8.2	8.5	
11. Imports	8.8	9.8	11.1	12.3	12.7	12.5	11.4	12.3	
12. Trade balance	-3.0	-1.5	-2.8	-3.2	-3.8	-3.8	-3.2	-3.8	
13. Invisibles balance	-0.1	1.1	1.8	1.6	2.7	2.4	2.2	2.9	
14. Current account balance	-3.1	-0.4	-1.0	-1.7	-1.2	-1.4	-1.0	-0.9	
15. External Debt	28.7	33.8	30.8	27.0	24.5	24.3	23.6	21.9	
16. Debt Service Payments	2.8	3.1	3.4	3.4	3.0	2.7	2.6	2.4	

@ Based on DGCI&S trade data for April-December 2000.

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) Rupee equivalents of BOP components are used to arrive at GDP ratios. All other percentages shown in the upper panel of the table are based on US dollar values.

Investors (FIIs), and continued buoyancy in non-resident (NRI) deposits. Fresh inflow of funds for portfolio investments in India by FIIs rose sharply to US \$ 2.14 billion in 1999-2000 in contrast to an outflow amounting to US \$ 390 million in 1998-99. Net accretions to non-resident deposits during 1999-2000 rose by 23 per cent to US \$ 2.14 billion. Gross disbursement of external assistance rose moderately by US \$ 348 million to US \$ 3.07 billion in 1999-2000 from the economic sanction hit level of US \$ 2.73 billion in 1998-99. Gross borrowing on commercial terms (ECB) at US \$ 3.19 billion in 1999-2000 was only marginally higher than such borrowings (excluding Resurgent India Bonds) of about US \$ 3 billion in 1998-99.

6.6 The moderation in current account deficit and the sharp increase in net capital inflows

during 1999-2000, as indicated above, resulted in a large accumulation of official foreign exchange reserves. On BOP basis, they rose by a substantial US \$ 6.14 billion. This was on top of an increase of US \$ 4.51 billion per year, on an average, during the previous three years, 1996-97 to 1998-99.

6.7 Official BOP statistics, as compiled by the RBI, for the year 2000-01 are available so far only for the first half of the year. According to these data, the current account deficit during April-September 2000 amounted to US \$ 3998 million (or 1.6 per cent of GDP on an annualised basis), compared with the deficit of US \$ 2867 million during April-September 1999. The rise in current account deficit during the current period is largely explained by a 86 per cent increase in value of POL imports, widening the gap on trade account of BOP by US \$ 1684

million to US \$ 9234 million. Net inflow of invisibles, which rose by about 12 per cent to US \$ 5236 million during April-September 2000, could offset 57 per cent of the deficit on trade account. Total net capital flows recorded a decline from US \$ 3688 million in April-September 1999 to US \$ 2538 million in April-September 2000, largely reflecting net outflows under external assistance, commercial borrowings and portfolio investments by FIIs during the period. As a result, foreign exchange reserves, on BOP basis, showed a decline of US \$1460 million during April-September 2000.

6.8 A tentative assessment of BOP outlook for the current year indicates that the current account deficit in 2000-01 might widen somewhat to about 1.5 to 1.7 per cent of GDP. This is mainly due to the surge in India's oil import bill, because of the tripling of international oil prices between early 1999 and mid-2000. On the other hand, non-oil import growth

remains subdued. Exports, however, are expected to remain buoyant, as is evident from the growth rate of about 20.4 per cent, in US dollar terms, recorded by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) data for the first nine months of 2000-01. Net inflow of invisibles, despite larger outflows on account of interest and dividend payments, is expected to remain broadly at last year's level, supported by the continued buoyancy in software service exports and private transfers. The widening of the current account deficit will, however, be more than matched by expected net capital inflows. The capital flows in 2000-01 have been augmented by the funds raised by the SBI from NRIs/OCBs through India Millennium Deposits (IMD) of US \$ 5.51 billion in October/November 2000. Foreign currency assets of the RBI have consequently increased by about US \$ 3.30 billion from US \$ 35.06 billion at end-March 2000 to US \$ 38.36 billion at end-January 2001.