## Balance of Payments

6.5 India's balance of payments (BOP) in 2000-01 remained comfortable and the external sector experienced a distinct improvement. There were, however, some pressures on the BOP during the first half of the year on account of the significant hardening of international oil prices, the sharp downturn in international equity prices and successive increases in interest rates in the United States and Europe; but the situation eased with the mobilization of funds under the India Millennium Deposits, which helped to revert the declining trend in reserves and enhanced confidence in the strength of India's external sector. As a result, the BOP situation experienced a turnaround in the second half of the year, 2000-01. Overall, the current account deficit in 2000-01 narrowed further to about 0.5 per cent of GDP from 1.1 per cent of GDP in the previous year. This improvement in current account deficit was made possible largely because of the dynamism in export performance, a sustained buoyancy in invisible receipts, reflecting sharp increases in software service exports and private transfers, and partly due to the subdued non-oil import demand.

6.6 Exports, on BOP basis, registered strong growth of 19.6 per cent in US dollar terms in 2000-01, on the heels of a strong recovery of 9.5 per cent in the previous year (Table 6.3). Total imports, on payment basis, recorded only a moderate growth of 7.0 per cent during

**TABLE 6.2**
**Balance of Payments: Summary#**

(In US$ million)

| | 1990-91 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | (April-September) 2000-01 | 2001-02 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Exports | 18,477 | 26,855 | 32,311 | 34,133 | 35,680 | 34,298 | 37,542 | 44,894 | 21,742 | 21,558 |
| 2. Imports | 27,915 | 35,904 | 43,670 | 48,948 | 51,187 | 47,544 | 55,383 | 59,264 | 30,176 | 27,812 |
| Of which : POL | 6,028 | 5,928 | 7,526 | 10,036 | 8,164 | 6,399 | 12,611 | 15,650 | 8,306 | 7,628 |
| **3. Trade balance** | **-9,438** | **-9,049** | **-11,359** | **-14,815** | **-15,507** | **-13,246** | **-17,841** | **-14,370** | **-8,434** | **-6,254** |
| 4. Invisibles (net) | -242 | 5,680 | 5,449 | 10,196 | 10,007 | 9,208 | 13,143 | 11,791 | 5,569 | 5,316 |
| Non-factor services | 980 | 602 | -197 | 726 | 1,319 | 2,165 | 4,064 | 2,478 | 845 | 524 |
| Invest. Income | -3,752 | -3,431 | -3,205 | -3,307 | -3,521 | -3,544 | -3,559 | -3,821 | -2,067 | -1,254 |
| Pvt. transfers | 2,069 | 8,093 | 8,506 | 12,367 | 11,830 | 10,280 | 12,256 | 12,798 | 6,669 | 5,935 |
| Official transfers | 461 | 416 | 345 | 410 | 379 | 307 | 382 | 336 | 122 | 111 |
| **5. Current Account Balance** | **-9,680** | **-3,369** | **-5,910** | **-4,619** | **-5,500** | **-4,038** | **-4,698** | **-2,579** | **-2,865** | **-938** |
| 6. External assistance (net) | 2,210 | 1,526 | 883 | 1,109 | 907 | 820 | 901 | 427 | -377 | 227 |
| 7. Commercial borrowing (net)@ | 2,248 | 1,030 | 1,275 | 2,848 | 3,999 | 4,362 | 313 | 4,011 | -602 | -703 |
| 8. IMF (net) | 1,214 | -1,143 | -1,715 | -975 | -618 | -393 | -260 | -26 | -26 | 0 |
| 9. NR deposits (net) | 1,536 | 172 | 1,103 | 3,350 | 1,125 | 960 | 1,540 | 2,317 | 1,209 | 1,107 |
| 10. Rupee debt service | -1,193 | -983 | -952 | -727 | -767 | -802 | -711 | -617 | -461 | -389 |
| 11. Foreign investment (net) | 103 | 4,807 | 4,615 | 5,963 | 5,353 | 2,312 | 5,117 | 4,588 | 2,272 | 2,608 |
| of which : | | | | | | | | | | |
| (i) FDI (net) | 97 | 1,228 | 1,954 | 2,651 | 3,525 | 2,380 | 2,093 | 1,828 | 1,082 | 1,398 |
| (ii) FIIs | 0 | 1,503 | 2,009 | 1,926 | 979 | -390 | 2,135 | 1,847 | 460 | 694 |
| (iii) Euro equities & others | 6 | 2,076 | 652 | 1,386 | 849 | 322 | 889 | 913 | 730 | 516 |
| 12. Other flows (net)+ | 2,284 | 2,604 | -2,235 | -1,131 | -606 | 608 | 3,940 | -2,291 | -610 | 33 |
| **13. Capital account total (net)** | **8,402** | **8,013** | **2,974** | **10,437** | **9,393** | **7,867** | **10,840** | **8,409** | **1,405** | **2,883** |
| **14. Reserve use (- increase)** | **1,278** | **-4,644** | **2,936** | **-5,818** | **-3,893** | **-3,829** | **-6,142** | **-5,830** | **1,460** | **-1,945** |

\# Actuals.

@ Figures include receipts on account of India Development Bonds in 1991-92, Resurgent India Bonds in 1998-99 and India Millennium Deposits in 2000-01 and related repayments, if any, in the subsequent years.

\+ Include, among others, delayed export receipts and errors & omissions.

Source : Reserve Bank of India, Mumbai.

**TABLE 6.3**
**Selected Indicators for the External Sector**

**(In US$ million)**

| | 1990-91 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Growth of Exports - BOP (%) | 9.0 | 18.4 | 20.3 | 5.6 | 4.5 | -3.9 | 9.5 | 19.6 | 0.6@ |
| 2. Growth of Imports - BOP (%) | 14.4 | 34.3 | 21.6 | 12.1 | 4.6 | -7.1 | 16.5 | 7.0 | 0.3@ |
| (a) of which, POL (%) | 60.0 | 3.0 | 27.0 | 33.4 | -18.7 | -21.6 | 97.1 | 24.1 | -14.6@ |
| (b) Non-oil, non-gold-customs (%) | n.a. | 27.2 | 28.6 | -0.6 | 7.3 | 2.5 | 4.6 | -6.7 | 5.7* |
| 3. Exports/Imports - BOP (%) | 66.2 | 74.8 | 74.0 | 69.7 | 69.7 | 72.1 | 67.8 | 75.8 | 84.9@ |
| 4. Import cover of FER (No. of months) | 2.5 | 8.4 | 6.0 | 6.5 | 6.9 | 8.2 | 8.2 | 8.6 | |
| 5. External assistance (net)/TC (%) | 26.3 | 19.0 | 29.7 | 10.6 | 9.7 | 10.4 | 8.3 | 5.1 | |
| 6. ECB (net)/TC (%) | 26.8 | 12.9 | 42.9 | 27.3 | 42.6 | 55.4 | 2.9 | 47.7 | |
| 7. NR deposits/TC (%) | 18.3 | 2.1 | 37.1 | 32.1 | 12.0 | 12.2 | 14.2 | 27.6 | |
| 8. Short-term debt / FER (%) | 146.5 | 16.9 | 23.2 | 25.5 | 17.2 | 13.2 | 10.3 | 8.2 | |
| 9. Debt service payments as % of current receipts | 35.3 | 26.2 | 24.3 | 22.5 | 19.1 | 18.0 | 16.2 | 17.1 | |
| **As per cent of GDPmp** | | | | | | | | | |
| 10. Exports | 5.8 | 8.3 | 9.1 | 8.9 | 8.7 | 8.3 | 8.4 | 9.8 | |
| 11. Imports | 8.8 | 11.1 | 12.3 | 12.7 | 12.5 | 11.5 | 12.4 | 13.0 | |
| 12. Trade balance | -3.0 | -2.8 | -3.2 | -3.8 | -3.8 | -3.2 | -4.0 | -3.1 | |
| 13. Invisibles balance | -0.1 | 1.8 | 1.6 | 2.7 | 2.4 | 2.2 | 3.0 | 2.6 | |
| 14. Current account balance | -3.1 | -1.0 | -1.7 | -1.2 | -1.4 | -1.0 | -1.1 | -0.5 | |
| 15. External Debt | 28.7 | 30.8 | 27.0 | 24.5 | 24.3 | 23.6 | 22.2 | 22.3 | |
| 16. Debt Service Payments | 2.8 | 3.4 | 3.4 | 3.2 | 2.7 | 2.6 | 2.5 | 2.9 | |

@ Based on DGCI&S trade data for April-December 2001. * Based on DGCI&S trade data for April-October 2001.

**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.

2000-01, much lower than the sharp increase of 16.5 per cent in 1999-2000. The moderate growth in total imports in 2000-01 was, in fact, largely because of a 24.1 per cent increase in the oil import bill, while non-oil import growth, on BOP basis, remaining subdued at only 2.0 per cent. Non-oil, non-gold imports, on customs basis, grew at a very high rate of about 20 per cent per annum, on an average, during 1992-93 to 1995-96. The growth rate decelerated sharply to just about 3.5 per cent per annum during the next four years ended 1999-00. As expected, the growth of non-oil, non-gold imports tended to be moderate when the initial impact of trade liberalisation got absorbed, and the exchange rate providing reasonable incentives for cost-effective import substitution. This allays the fears that trade liberalisation would swamp the domestic market with cheaper imports. In 2000-01, non-oil, non-gold imports recorded a negative growth of 6.7 per cent, mainly because of the continuous industrial slowdown in recent years and the resulting lack of demand for imports.

6.7 Reflecting the trends in exports and imports, the deficit on the trade account of BOP narrowed to US $14.37 billion or 3.1 per cent of GDP in 2000-01 from US $17.84 billion (4.0 per cent of GDP) in 1999-2000 (Table 6.2). The net inflow of invisibles, at US $11.79 billion, covered about 82 per cent of the deficit on the trade account in 2000-01, leaving a financing gap of only US $2.68 billion on the current account. This deficit on the current account represented 0.5 per cent of GDP, compared with the deficit of 1.1 per cent of GDP (US $4.70 billion) in 1999-2000.

6.8 The recovery in capital flows witnessed in 1999-2000, after some set back in 1998-99, which had been a consequance of the East-Asian crisis and partly due to the economic sanctions on India, was broadly maintained. Net inflows of capital (excluding IMF) on the capital account of BOP in 2000-01 were about US $9.02 billion, which were lower than such inflows of US $10.44 billion in the previous year. This reduction is mainly accounted for some bunching of repayments of commercial borrowings and significant net outflows under banking capital. On the other hand, capital inflows in 2000-01 were bolstered by the mobilisation of funds of US $5.51 billion under India Millennium Deposits (IMD) in October/November 2000. Fresh inflows of funds for portfolio investments in India by FIIs in 2000-01 amounted to about US $1.85 billion, which was only slightly lower than the US $2.14 billion in 1999-2000. Net accretions to non-resident deposits during 2000-01 rose by over 50 per cent to US $2.32 billion. Gross disbursement of external assistance at US $2.94 billion was comparable with the normal trends in recent years. Gross borrowing on commercial terms, excluding IMD, at US $3.81 billion in 2000-01 was higher than such normal borrowings of US $3.19 billion in the previous year.

6.9 The sharp reduction in current account deficit and the funds raised under IMD making up for the dip in overall net capital inflows through normal sources during 2000-01, as indicated above, resulted in a large accumulation of official foreign exchange reserves for the fifth year in succession. On BOP basis, reserves rose by a substantial US $5.83 billion. This was on top of an increase of US $6.14 billion in 1999-2000 and an increase of US $4.51 billion per year, on an average, during the previous three years, 1996-97 to 1998-99.

6.10 Official BOP statistics, as compiled by the RBI, for the year 2001-02 are available so far only for the first half of the year. However, a tentative assessment of BOP outlook for the current year indicates that the current account deficit in 2001-02 might widen somewhat, but it is expected to remain within 1 per cent of GDP. The widening of current account deficit will be mainly due to the poor export performance. Export performance faltered in the current year, as is evident from the growth rate of about 0.6 per cent, in US dollar terms, recorded by the DGCI&S data for the first nine months of 2001-02. On the other hand, the resulting pressure on trade account will be eased to a large extent on account of moderation in oil import bill, following softening of international oil prices after September 2001. The 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 a continued buoyancy in software service exports and private transfers. The widening of the current account deficit will, however, be more than matched by the expected net capital inflows from normal sources, resulting in large accretions to reserves. During the first ten months of current financial year (2001-02), the foreign currency assets of the RBI have increased by about US $7.01 billion from US $39.55 billion at end-March 2001 to US $46.56 billion at end-January, 2002.