

Balance of payments

6.5 India's external sector has performed credibly over the 1990s. Its foreign exchange reserves position has strengthened substantially from a reserve drawdown of US \$1.28 billion in 1990-91 to a reserve build-up of US \$11.76 billion in 2001-02. The balance of payments (BOP) has been in an overall surplus since 1996-97, with reserves rising, on an average, by US \$6.21 billion per annum during 1996-97 to 2001-02. The current account deficit, which signifies country's overall current liabilities, has come down from a level of 3.1 percent of GDP in 1990-91 to a current account surplus of 0.3 percent of GDP in 2001-02, implying a situation where the current receipts exceed current liabilities. On the capital account, inflows have remained buoyant (except in 1995-96) bolstering the reserves during this period. Overall balance of payments position has, thus, transformed over the past decade from a difficult one at the beginning of 1990s to a comfortable situation in 2001-02.

6.6 India's balance of payments in 2001-02 exhibited mixed developments. While exports,

on BOP basis, remained stagnant at previous year's level, imports declined by 2.8 percent, thus resulting in a decline in merchandise trade deficit, as percent of GDP, from 3.1 percent in 2000-01 to 2.6 percent in 2001-02. Given the buoyancy in invisible flows, which reached a level of 2.9 percent of GDP, the current account turned into a surplus in 2001-02, after a gap of 24 years (current account surplus was last recorded in 1977-78). The net capital flows also improved during the year (Table 6.2), thus resulting in largest reserves build-up in a single year. With the current account in surplus and fairly improved capital inflows, the net accretion to foreign exchange reserves in 2001-02 was all-time high in the past decade.

6.7 Stagnation in export growth in 2001-02 as compared with an increase of 19.6 percent in 2000-01 was partly due to weak external demand, which seems to have affected India's export performance (Table 6.3). The decline in imports, on BOP basis, was mainly due to lower POL imports. However, the non-oil and non-gold imports, on customs basis, grew at moderate rate of 8.9 percent in 2001-02. The consequential trade deficit came down from

Table 6.2 : Balance of payments : summary*(in US \$ million)*

	1990-91	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	(April-Sept.)	
									2001-02	2002-03
1. Exports	18477	32311	34133	35680	34298	37542	44894	44915	21558	24007
2. Imports	27915	43670	48948	51187	47544	55383	59264	57618	29094	30919
Of which : POL	6028	7526	10036	8164	6399	12611	15650	14000	7699	8732
3. Trade balance	-9438	-11359	-14815	-15507	-13246	-17841	-14370	-12703	-7536	-6912
4. Invisibles (net)	-242	5449	10196	10007	9208	13143	11791	14054	6075	8579
Non-factor services	980	-197	726	1319	2165	4064	2478	4199	1280	3150
Investment income	-3752	-3205	-3307	-3521	-3544	-3559	-3821	-2654	-1251	-1746
Pvt. transfers	2069	8506	12367	11830	10280	12256	12798	12125	5935	7079
Official transfers	461	345	410	379	307	382	336	384	111	96
5. Current account balance	-9680	-5910	-4619	-5500	-4038	-4698	-2579	1351	-1461	1667
6. External assistance (net)	2210	883	1109	907	820	901	427	1204	227	-570
7. Commercial borrowing (net)@	2248	1275	2848	3999	4362	313	4011	-1147	-886	-1621
8. IMF (net)	1214	-1715	-975	-618	-393	-260	-26	0	0	0
9. NR deposits (net)	1536	1103	3350	1125	960	1540	2317	2754	1363	1417
10. Rupee debt service	-1193	-952	-727	-767	-802	-711	-617	-519	-389	-357
11. Foreign investment (net)	103	4615	5963	5353	2312	5117	4588	5286	2563	1063
of which :										
(i) FDI (net)	97	1954	2651	3525	2380	2093	1828	3266	1354	1422
(ii) FII	0	2009	1926	979	-390	2135	1847	1505	694	-379
(iii) Euro equities & others	6	652	1386	849	322	889	913	515	515	20
12. Other flows (net)+	2284	-2235	-1131	-606	608	3940	-2291	2828	528	4992
13. Capital account total (net)	8402	2974	10437	9393	7867	10840	8409	10406	3406	4924
14. Reserve use (- increase)	1278	2936	-5818	-3893	-3829	-6142	-5830	-11757	-1945	-6591

@ 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.

US \$14.37 billion in 2000-01 to US \$12.70 billion in 2001-02, representing 2.6 percent of GDP. The net inflows of invisibles at US \$ 14.05 billion, not only covered the entire trade deficit, but also resulted in a surplus in current account by US \$1.35 billion, representing 0.3 percent of GDP. However, the current account surplus achieved with stagnant exports and a negative growth in imports may be a temporary feature for the economy as a sustainable current account surplus must be based on reasonable export and import growth, consistent with the rising development needs and export competitiveness of Indian products abroad.

6.8 The capital flows continued to remain strong despite uncertainties in international

financial markets. Net capital flows increased from US \$8.41 billion in 2000-01 to US \$10.41 billion in 2001-02, increase being mainly due to higher inflows of external assistance, FDI and NRI deposits. The net external assistance in 2001-02 improved to US \$1.20 billion from a level of US \$0.43 billion in 2000-01. Net commercial borrowings, however, remained negative at US \$1.15 billion in 2001-02 with lower gross disbursement due to weak domestic demand. The net foreign investment inflows in 2001-02 at US \$5.29 billion were the highest inflows during the past four years, indicating the rising confidence of international investors in Indian economy. Total portfolio investments at US \$ 2.02 billion, with investment by FII at US \$1.50 billion and

Table 6.3 : Selected indicators of external sector

Item\Years	1990-91	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
1. Growth of Exports - BOP (%)	9.0	20.3	5.6	4.5	-3.9	9.5	19.6	0.0	20.4@
2. Growth of Imports - BOP (%)	14.4	21.6	12.1	4.6	-7.1	16.5	7.0	-2.8	14.5@
(a) of which, POL (%)	60.0	27.0	33.4	-18.7	-21.6	97.1	24.1	-10.5	19.5@
3. Exports/Imports - BOP (%)	66.2	74.0	69.7	69.7	72.1	67.8	75.8	78.0	86.9@
4. Import cover of FER (No. of months)	2.5	6.0	6.5	6.9	8.2	8.2	8.6	11.3	
5. External assistance (net)/TC (%)	26.3	29.7	10.6	9.7	10.4	8.3	5.1	11.6	
6. ECB (net)/TC (%)	26.8	42.9	27.3	42.6	55.4	2.9	47.7	-11.0	
7. NRdeposits/TC (%)	18.3	37.1	32.1	12.0	12.2	14.2	27.6	26.5	
8. Short-term debt / FER (%)	146.5	23.2	25.5	17.2	13.2	10.3	8.2	5.1	
9. Debt service payments as % of current receipts	35.3	24.3	21.2	19.0	17.8	16.2	17.3	14.1	
As percent of GDPmp									
10. Exports	5.8	9.1	8.9	8.7	8.3	8.4	9.8	9.4	
11. Imports	8.8	12.3	12.7	12.5	11.5	12.4	13.0	12.0	
12. Trade balance	-3.0	-3.2	-3.8	-3.8	-3.2	-4.0	-3.1	-2.6	
13. Invisibles balance	-0.1	1.6	2.7	2.4	2.2	3.0	2.6	2.9	
14. Current account balance	-3.1	-1.7	-1.2	-1.4	-1.0	-1.1	-0.5	0.3	
15. External Debt	28.7	27.0	24.5	24.3	23.6	22.1	22.4	20.9	
16. Debt Service Payments	2.8	3.4	3.2	2.7	2.6	2.5	2.9	2.4	

@ Based on DGCI&S trade data for April-December 2002.

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.
- (vii) Debt service payments as percentage of current receipts in Table 6.3 and Table 6.14 differ due to different methods of calculation.

GDRs/ADRs etc. at US \$0.52 billion, were lower by US \$740 million compared to 2000-01. NRI deposits in 2001-02 at US \$2.75 billion were higher than the level of US \$2.32 billion in 2000-01. These capital flows, along with the surplus in the current account, resulted in an increase of US \$11.76 billion to the foreign exchange reserves in 2001-02.

6.9 The latest information on BOP, released by RBI, is available for the first half of the current financial year. The BOP statistics for

April-September 2002 show that the current account during the first half of the year continued to remain in surplus at US \$1.67 billion mainly due to buoyancy in private transfers (remittances) and software exports. Quarterly data reveal that the current account balance has continued to exhibit surplus consecutively for the previous four quarters. Given the latest trends in various components of the BOP, the current account balance in 2002-03 is likely to remain in surplus as in the previous year.