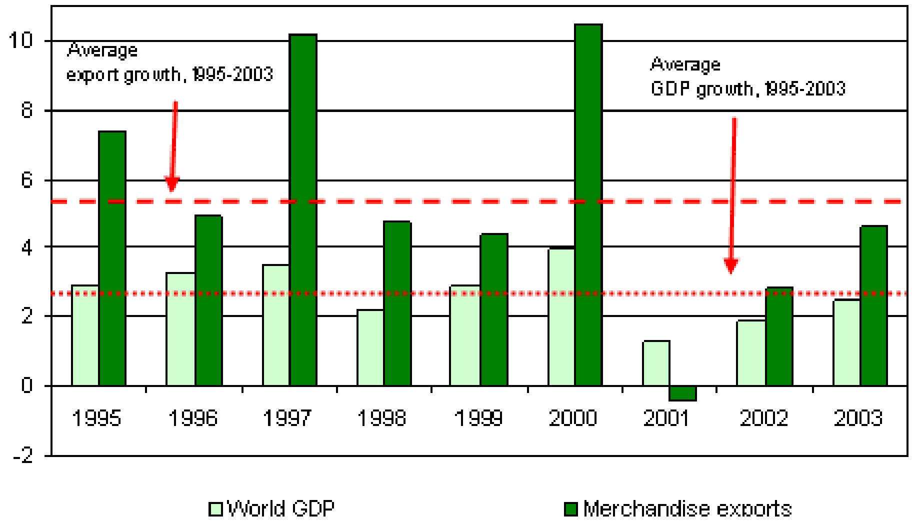
Merchandise trade

6.13 According to World Trade Organization (WTO), after a sharp downturn in 2001, the volume growth of world merchandise trade rebounded to 3.0 per cent in 2002 and grew somewhat faster at 4.5 per cent in 2003. The trade recovery in 2002 and 2003 benefited from strong import demand in developing Asia, the transition economies and the United States, with the sluggish economies of Western Europe and Latin America posting weak import growth. The most dynamic trading regions in 2003 were Asia and the transition economies, recording exports and imports expansion in real terms between 10 per cent and 12 per cent. United States' import growth at 5.7 per cent exceeded global trade expansion, thus contributing significantly to world trade growth. However, US import growth continued to exceed export growth, further widening its trade deficit. While the growth in world merchandise exports was stronger than expected especially in the wake of the outbreak of SARS, build up of tension in the Middle East and sluggish growth in Western Europe, trade expansion in real terms in 2003 remained below the average recorded since 1995 (Figure 6.1). World trade is projected to expand by 7.5 per cent in 2004, assuming the continued improvement in global economy.

6.14 The rebound in global trade was, however, stronger in nominal terms, with value of world merchandise exports registering a rise of around 16.0 per cent in 2003, two thirds of the rise being attributable to dollar price changes. The pick up in global exports in 2003 was the strongest annual increase in nominal terms since 1995 and reflected, besides recovery in activity and demand, a recovery in global commodity prices. Commodity prices and exchange rate changes are estimated to have resulted in a 10.5 per cent strengthening of world merchandise trade prices in dollar terms, with prices in all the broad categories (viz. fuels, non fuel commodities and manufactured goods) rising in 2003. However, the impact of price and exchange rate developments on nominal trade flows differed sharply by region. While price changes accounted for most of the nominal increase in exports of Western Europe, due to strong appreciation of these currencies vis-à-vis the dollar, in Asia price changes accounted for less than one-third of the increase in the dollar value of the region's merchandise exports.

Fig. 6.1 **Real GDP and merchandise exports, 1995-2003**
(Annual percentage change)



Source : WTO

6.15 India's annual average merchandise export expansion at around 8 per cent in the latter half of the nineties was higher than the growth of overall world trade and expansion of trade of developing countries (Table 6.4), resulting in a rise in the share of India's exports in world exports from 0.6 per cent in 1995 to 0.7 per cent in 2000. Between 2000 and 2003, India's exports have increased by around 32 per cent as compared to a rise of around 17 per cent in world exports, suggesting some improvement in overall competitiveness of Indian exports. In 2002, India emerged amongst leading exporting nations as the world's fastest growing exporter after China, recording a robust growth of 13.8 per cent in dollar value. The growth in exports has been broadly maintained in 2003, resulting in retention of India's share in world exports at 0.8 per cent (Table 6.4). Currently India is 31st leading exporter and 24th leading importer in world merchandise trade.

6.16 Aided by recovery, *albeit slow*, in global demand and world trade, India's exports (in US dollar value), according to Directorate General of Commercial Intelligence and Statistics (DGCI&S), witnessed a sharp turnaround to 20.3 per cent in 2002-03 from a decline of 1.6 per cent in 2001-02. The vigorous revival was achieved notwithstanding an external environment dominated by rising uncertainties related to Iraq war, volatility in international crude oil prices and fallout of the decline in equity markets and internal factors like the drought and a sluggish domestic economy. Almost the entire increase was accounted for by higher volume of exports, with unit price of exports remaining sluggish (Table 6.5). The net terms of trade, which had been witnessing a continuously deteriorating trend since 1999-00, eroded further by 9.4 per cent in 2002-03. These terms of trade, which measure the relative changes in import and export prices, seem to have been affected, inter alia, by the resurgence of international crude oil prices during the year. However, import purchasing power of exports, as measured by income terms of trade has consistently improved during the 1990s (except 1996-97), rising on an average by 11.7 per cent per annum, on account of the strong growth in exports in volume terms. This capacity to import based on exports alone increased further by 10.3 per cent in 2002-03. While export growth in 2002-03 might have been partly buoyed up by the low base of 2001-02, recovery in international commodity prices, movements in cross currency exchange rates, a faster repatriation of export proceeds and various policy initiatives for export promotion and market diversification contributed to the upsurge.

Table 6.4 : Export growth and share in world exports of selected countries

	Percentage growth rate					Share in world exports			
Country	**1995-99**	**2000**	**2001**	**2002**	**2003**	**2000**	**2001**	**2002**	**2003**
1. China	10.4	27.7	6.8	22.4	34.5	3.9	4.3	5.1	5.9
2. Malaysia	8.1	16.3	-10.4	6.0	6.5	1.5	1.4	1.5	1.3
3. Indonesia	4.3	27.7	-9.1	3.0	7.8	1.0	0.9	0.9	0.8
4. Singapore	4.0	20.2	-11.6	2.8	16.1	2.2	2.0	2.0	2.0
5. Thailand	5.7	18.2	-5.7	5.6	17.1	1.1	1.1	1.1	1.1
6. India	**7.7**	**18.8**	**2.3**	**13.8**	**13.5**	**0.7**	**0.7**	**0.8**	**0.8**
7. Korea	8.9	19.9	-12.7	8.0	19.3	2.7	2.5	2.5	2.6
8. Developing countries	7.1	24.7	-4.5	7.7	19.1	37.1	36.8	37.8	38.8
9. World	5.9	12.9	-3.6	4.7	16.0	100.0	100.0	100.0	100.0

Source: Compiled from IFS statistics, IMF.

Table 6.5 : Performance of the foreign trade sector (Annual percentage change)						
Year	Export Growth		Import Growth		Terms of Trade	
	Volume	Unit value	Volume	Unit value	Net	Income
1997-98	-6.3	16.8	9.8	1.1	15.5	8.3
1998-99	3.4	3.8	14.6	0.9	2.9	6.4
1999-00	15.5	-1.2	9.4	10.5	-10.5	3.3
2000-01	23.9	3.3	-1.0	8.2	-4.5	18.3
2001-02	3.7	-1.0	5.0	1.1	-2.1	1.5
2002-03	21.7	0.3	9.5	10.7	-9.4	10.3

Source : DGCI&S.

6.17 The growth in exports by 17.1 per cent in 2003-04 provided significant support to domestic demand during the year. In response to favourable policy mix, exports from Special Economic Zones (SEZs) grew faster by 46.1 per cent. Export growth which seemed to have been dampened in the first half of 2003-04 by weak demand, SARS related concerns and slower than anticipated pace of global economic recovery, recovered in the second half because of improved global growth and accompanying acceleration in world merchandise trade. The firming up of domestic manufacturing activity provided a supporting export base. The strong export performance is also a measure of India's growing export competitiveness, especially in view of the gradually appreciating nominal value of the rupee vis-à-vis the US dollar during this period. There are indications of productivity gains following the restructuring of domestic industry partly in response to opening up of the Indian economy. Export growth continues to be robust in the current fiscal, with exports growing by 24.9 per cent in April-May, 2004. However, with the increase in international dollar prices, growth in exports in real terms is likely to have decelerated between 2002-03 and 2003-04.

6.18 Macro and sector-specific policies were formulated in the Union Budget 2003-04, EXIM policy and various Departmental schemes to enhance manufacturing sector efficiency, including promotion of exports and further acceleration of the reform process (Box 6.1). This included provision of fiscal incentives to important designated industries like textile, pharmaceuticals, telecom, biotechnology, gems & jewelry and IT industry. Suitable thrust was also provided to areas of core competence in exports, like services and agro exports. Additional fiscal incentives and trade facilitation measures to help exports were announced in January 2004.

6.19 The export growth in 2003-04 has coincided with the strengthening of the Rupee vis-a-via the US dollar. The Indian rupee, which started strengthening from June 2002 onwards, on monthly average basis, had appreciated 8.8 per cent by March 2004. On annual average basis, vis-a-vis the US dolloar, the rupee after depreciating by 1.5 per cent in 2002-03, appreciated by 5.3 per cent in 2003-04. These movements in the rupee value were smooth and orderly, avoiding any significant undue adjustment costs to industry. Furthermore, while the rupee appreciated against the US dollar in 2003-04, it depreciated against the currencies of major non dollar trading partners. While the appreciation of practically all major currencies vis-a-vis the US dollar was a general feature during 2003, the relative appreciation of the rupee was not high (Table 6.6). Moreover, given the inflation differential, the appreciation has been less pronounced in trade weighted effective terms, with the Real Effective Exchange Rate (REER) of the rupee, (5-country index with base 1993-94), appreciating by around 2 per cent on an annual basis in 2003-04.

Box : 6.1 Recent policy measures announced in the foreign trade sector

I. Measures announced in the Union Budget 2003-04 and reform package announced in January 2004

- Peak rate of customs duty reduced from 30 per cent to 25 per cent (excluding agricultural and dairy products) and duty structure on designated items rationalized. In a further reform package taking effect from January 9, 2004, the peak rate was further reduced to 20 per cent, Special Additional Duty of (SAD) of 4 per cent was abolished and customs duty on project imports, with investment of at least Rs 5 crore in plant and machinery, was reduced from 25 per cent to 10 per cent.
- The Budget announced a revival package (setting up of a Price Stabilization Fund and creation of separate Fund and Development Account for modernization and rehabilitation) for the plantation crops, and fiscal concessions for marine food industry which is likely to impact positively on exports of tea, coffee and marine products
- To improve the efficiency and competitiveness of the manufacturing sector, including promotion of exports, incentives have been provided for designated industries like the textile industry, pharmaceuticals, telecom and Information Technology (IT) industry, bio-technology and gems & jewelry. The reforms package of January 9, 2004 provided further incentives, in the shape of lower duties, for various sectors including power, IT/electronics, health, civil aviation and water supply.
- Trade facilitation measures announced in the Budget include: increasing the interest free period for warehoused goods (from 30 to 90 days) and reduction in the interest rate for the period beyond 90 days to reflect the market rate of interest; and the replacement of the existing system of concurrent audit of import documents by post-clearance audit. Other measures announced in January 2004 included extension (from 9 to 23 formations) of the round-the-clock electronic filing of customs documents for clearance of goods, customs clearance to be based on self-assessment and selective examination, liberalization of baggage rules and extension of electronic filing of service tax returns to all the 58 taxable services. These measures would contribute to further reduction in transaction costs of exports and imports.
- The share capital of ECGC has been increased to Rs 80 crore, to provide greater credit insurance cover to exports from the country.
- SSI reservations withdrawn from another 75 items of laboratory chemicals and reagents, leather and leather products, plastic products, chemicals and chemicals products and paper products.

II. Measures announced in the modified EXIM Policy 2003-04

- The policy provides a massive thrust to export of services by introducing duty free import facility for the service sector units having a minimum foreign exchange earning of Rs 10 lakhs. The scheme is likely to provide a major boost to export of services like health care, entertainment, professional services and tourism.
- Corporate sector with proven credentials would be encouraged to sponsor Agri-Export Zones for boosting farm exports. Another significant measure announced is the factoring in of the cost of pre-production of inputs (such as fertilizers, pesticides, seeds) in the fixation of DEPB rates for selected agro products.
- EPCG scheme made more flexible and attractive so that even the small scale sector could set up and expand its manufacturing base for exports. Major changes include allowing import of capital goods for pre-production and post-production facilities also, rationalization of export obligations by linking it to the duty saved, allowing import of spares to facilitate upgradation of existing plant and machinery, dispensing with the existing condition of imposing an additional export obligation of 50 per cent for products in the higher value chain, greater flexibility for fulfillment of export obligation under the scheme by allowing export of any other product manufactured by the exporter, allowing capital goods up to 10 years old under this scheme and counting royalty payments received from abroad etc. for discharge of export obligation under the EPCG scheme.
- Incentives for fast growing Status Holders include duty free entitlement for status holders having incremental growth of more than 25 per cent in exports in free foreign exchange, introduction of facility of Advance License to enable status holders plan their bulk imports, fixing of Input-Output norms for status holders on priority basis within a period of 60 days and permission to status holders in Software Technology Parks India (STPI) for free movement of professional equipments.

- Simplification and codification of rules, regulations and procedures applicable to SEZ and EOU units by putting all these rules and regulations in one place, thus greatly facilitating both potential investors and existing units. Sales from DTA to SEZs would be treated as exports thus entitling domestic suppliers to drawback/DEPB benefits etc. Further, SEZ units in agricultural/horticulture processing would be allowed to provide inputs and equipments to contract farmers in DTA to promote production of goods as per the requirements of importing countries. Other measures introduced include exemption from SAD for domestic sales by SEZ, removal of restriction of the one year period for remittance of export proceeds, permission for netting of exports, permission to take jobwork abroad and export goods from there only, permission to capitalize import payables, permission for duty-free import of goods required for operation and maintenance of SEZ units and uniform amortization over 10 years of the value of capital goods imported by SEZ units. The Policy also includes special measures to promote exports of gems and jewelry and electronic hardware from the SEZs.

- To increase the overall competitiveness of export clusters, a scheme for upgradation of infrastructure in existing clusters/industrial locations would be implemented. Efforts under the scheme would be supplemented by the Assistance to the States for Infrastructure Development of Exports (ASIDE) and other schemes. To begin with, 10 such clusters with high growth potential would be reinvigorated to bridge technology and productivity gaps in identified clusters.

- Other miscellaneous measures included in the EXIM Policy are: Extension of Duty Free Replenishment Certificate (DFRC) scheme to deemed exports and reduction in its value addition norms from 33 per cent to 25 per cent; introduction of facility of provisional DEPB rate to encourage diversification and promotion of new export products; anti dumping and safeguard duty exemption to advance license for deemed exports for supplies to EOU/SEZ/EHTP/STP; permission for extension of export obligation period for revival of sick units based on BIFR rehabilitation schemes; removal of Actual User condition for import of second hand capital goods up to 10 years old; reduction in penal interest rate from 24 per cent to 15 per cent for all old cases of default under EXIM Policy; permission to export free of cost goods for export promotion at 2 per cent of average annual exports in preceding three years; and removal of restrictions on export of warranty spares. Towards further reducing transaction cost, the policy continues with its thrust on placing high priority on EDI implementation programme.

III. Trade Facilitation Measures announced on January 28, 2004

- EPCG scheme made more attractive by providing flexibility in discharge of export obligations by extending the scope to include exports of products/services by group companies, refixation of export obligations of past EPCG licenses in line with existing policy, permitting clubbing of licenses, import of spares and doing away with “nexus certification for licenses upto designated ceiling.

- Imports of gold and silver liberalized

- Further liberalization of Duty Exemption scheme and procedural simplifications of deemed exports

- Introduction of major EDI initiatives like digital signature facility and electronic fund transfer facility with reduction in application fee by half for digitally signed online applications.

IV. Other measures

- Flexibility provided, beginning January 2004, to exporters in realization of export proceeds beyond 180 days and write off of outstanding export dues, up to 10 per cent of their export proceeds in a calendar year.

- Relaxation of labour and insurance laws for SEZ units by extending these units five year holiday from contribution to provident fund and employees’ insurance scheme, provided they have similar schemes of their own in operation.

- Duty exemption restored on goods procured for trading by EOU units that were in existence before March 31, 2002 and have been permitted to continue under the scheme.

- New foodgrain export policy announced enabling exporters to undertake direct grain purchase from the market instead of from the food corporation of India.

Table 6.6: Appreciation (+)/Depreciation (-) of major currencies against the US Dollar					
Country	**1999**	**2000**	**2001**	**2002**	**2003**
Indian Rupee	-4.17	-4.20	-4.76	-2.93	4.36
Euro	-	-13.52	-2.87	5.17	19.93
Pound Sterling	-2.31	-6.31	-5.02	4.26	8.87
Japanese Yen	14.92	5.70	-11.32	-3.08	8.16
Thailand Baht	9.37	-5.73	-9.72	3.43	3.56
Philippines Pesos	4.62	-11.55	-13.34	-1.18	-4.79
Korean Won	17.88	5.12	-12.40	3.19	4.99
Indonesian Rupiah	27.48	-6.73	-17.92	10.20	8.56
Singapore Dollar	-1.26	-1.68	-3.78	0.06	2.78

Source: Computed from International Financial Statistics, IMF, April, 2004.

6.20 Thus, while the profit margin of some exporters, especially of traditional goods with low import content and high value addition, may have been impacted adversely by the hardening of the rupee, such concerns in general need to be tempered by the fact that a strong rupee would have brought down the cost of imported inputs for other exporters with a high import-content in their exports. Other positive spin-offs of an appreciating rupee include gains to borrowers of foreign currency, benefits to consumers from softening of inflation and a fall in the rupee value of external debt. In any case, the impact of real appreciation of the rupee on exports also depends on productivity growth. Any attempt to simply relate the export growth deceleration to appreciation of the rupee misses out on the important issue of productivity growth and the benefits of a market determined exchange rate regime. Achieving such productivity gains may, however, necessitate a broad policy stance of further deepening of domestic reforms and reduction in tariff, which could also help check further strengthening of the rupee. Constraints on productivity like infrastructure bottlenecks, outdated/inflexible labour laws and SSI reservations need to be addressed. Exporters need to pay more attention to non-price factors such as product quality, brand image, packaging, delivery and after sales service. With the scope for sector-specific fiscal incentives getting reduced in a general atmosphere of declining tariff rates and fiscal reforms, export strategy needs to focus more on easing supply side constraints and providing infrastructure and institutional support to exporters.

6.21 Availability of adequate export credit at competitive rates continues to be accorded highest priority. Initiatives taken by the Government so far in this direction include export credit target of 12 per cent of net bank credit (NBC), rationalization of interest rates on export credit, reduction of Prime Lending Rate (PLR) linked ceiling rates and providing the option to exporters for availing pre-shipment and post-shipment credit either in rupees or in foreign currency from banks in India. At present banks are permitted to extend foreign currency loans to exporters with a ceiling of LIBOR plus 0.75 per cent so as to cover cost of funds. Interest rates on rupee export credit have been deregulated with ceiling interest rate on pre-shipment credit up to 180 days and post-shipment credit up to 90 days being currently at benchmark PLR (BPLR) minus 2.5 percentage points. Banks are free to decide interest rates to be charged on pre-shipment credit beyond 180 days (and up to 270 days) and post shipment credit beyond 90 days (and upto 6 months) from the date of shipment. To provide greater flexibility to banks to source foreign currency funds for extending pre-shipment credit in foreign currency to exporters, banks have been permitted to use foreign currency funds borrowed from abroad, as also those generated through buy-sell swaps in the domestic foreign exchange market for granting such loans. Banks are also encouraged to utilize balances held under the Foreign Currency Non-Resident (FCNR) scheme for extending foreign currency loans to exporters. Other sources of funds that the banks can use to extend foreign currency loans to exporters include balances in Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts (RFC), Escrow Accounts, Exporters' Foreign Currency Accounts and overseas line of credit without any limit. As per latest available information, there has been an acceleration of export credit in 2003-04 (Table 6.7). Reserve Bank of India (RBI), in consultation with select banks and exporters announced a Gold Card scheme on May 27, 2004, to facilitate easy availability of export credit for credit worthy exporters. Better terms of credit including softer rates of interest than those extended to other borrowers by the banks, faster and simpler processing of applications for credit, sanction of 'in principle' limits for a period of three years with a provision of timely renewal, preference for grant of packing credit in foreign currency, are available for the Gold Card holders.

6.22 An increasing use of contingency trade policy and non tariff measures (NTMs) had its impact on the international trade environment. Growing use of unconventional NTMs like health and safety measures, technical regulations, environmental controls, customs valuation procedures and labour laws by developed countries has become a major barrier to market access to exports from developing countries. Such market barriers are considerably stiffer for products with lower value addition and technological content (agriculture products, textiles, leather products etc), products, which are of major interest to countries like India. According to one estimate, about 35 per cent of India's total exports to USA in value terms faced NTMs in 2002, with their incidence in other developed countries being more or less similar. Similarly, use of contingent protection measures like anti-dumping duties and countervailing duties has increased over time, with 98 anti-dumping cases and 39 subsidy cases having been initiated against India's exports so far. Major initiators of these cases against India include European Union, USA, South Africa, Canada and Brazil. India has also been a leading user of the anti-dumping instrument (Table 6.8), although there has been a significant decline in new investigations in 2003. The countries prominently figuring in these investigations include China, EU, Korea, Taiwan, Japan, USA, Singapore and Russia with chemicals petrochemicals, pharma-ceuticals, fibres/ yarn, steel and other metals as the major product categories of such investigations. As of March 2004, the Directorate of Safeguards had initiated 17 investigations so far, out of which safeguard duty had been imposed on 10.

6.23 Import growth, after stagnating for two years, accelerated in 2002-03, registering a growth of 19.4 per cent in US dollar value. Both enhanced volume and higher unit prices contributed to this growth. While POL imports increased by 26.0 per cent, reflecting mainly the resurgence in international crude oil prices, non-POL imports rose by 17.0 per cent, indicating a recovery in the manufacturing sector. An important moderating influence on growth in non-POL imports was the decline by 6.4 per cent in imports of gold & silver on account of volatility in international gold prices. Excluding these imports, non -POL, non bullion imports increased by 20.3 per cent in 2002-03, as against a moderate rise of 8.8 per cent in the previous year. Benefiting from lower tariffs, a cheaper dollar and a buoyant domestic economy, imports continued to surge in 2003-04, rising faster than exports at 22.8 per cent

Table 6.7 : Export credit

Outstanding as on	Export credit (Rs crores)	Variations (Per cent)	Export credit as per cent of NBC
March 24, 2000	39118	9.0	9.8
March 23, 2001	43321	10.7	9.3
March 22, 2002	42978	-0.8	8.0
March 21, 2003	49202	14.5	7.3
March 19, 2004	57687	17.2	7.5

Source : Report on trends and progress of banking in India, RBI, various issues.

Table 6.8 : Top ten users of anti-dumping measures, 1995–2003

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	1995 -2003
India	**6**	**21**	**13**	**27**	**65**	**41**	**79**	**81**	**46**	**379**
United States	14	22	15	36	47	47	76	35	37	329
European Union	33	25	41	22	65	32	29	20	7	274
Argentina	27	22	14	8	23	45	26	14	1	180
South Africa	16	33	23	41	16	21	6	4	6	166
Australia	5	17	42	13	24	15	23	16	8	163
Canada	11	5	14	8	18	21	25	5	15	122
Brazil	5	18	11	18	16	11	17	9	4	109
Mexico	4	4	6	12	11	7	5	10	14	73
China, P.R	NA	NA	NA	NA	NA	6	14	30	22	72
All Countries	157	224	243	256	355	294	366	311	210	2416

Source : WTO

(in dollar value). Bulk of the increase was contributed by growth in non-POL imports, which shot up from 17.0 per cent in 2002-03 to 26.2 per cent in 2003-04, reflecting higher domestic demand and industrial growth. The increase was powered in the most part by higher imports of capital goods, industrial raw materials and intermediate goods. Imports of 300 sensitive items, which constitute around 5 per cent of total imports and are being monitored separately, increased at a higher rate of 29.7 per cent in 2003-04, mainly because of higher imports of edible oil, cotton & silk, fruits & vegetables, automobiles, rubber, milk & milk products and alcoholic beverages. The accelerating trend in import growth continues in the current fiscal, with total imports rising by 25.8 per cent in April-May 2004.

6.24 The spurt in POL imports by 26.0 per cent in 2002-03 was contributed more by increase in international crude oil prices (around 20 per cent) than by enhanced volume of imports (3.2 per cent). By contrast, in 2003-04, the volume impact (11.3 per cent) dominated with average already high international crude oil prices rising further on an annual average basis by 5.4 per cent. In absolute terms, the average international crude oil prices increased from $23.0 per barrel in 2001-02 to $27.6 per barrel in 2002-03 and further to $29.0 per barrel in 2003-04. The price (Brent) increased to around $ 38 per barrel in May 2004 and peaked to $39 per barrel on June 1, 2004. Rising demand, lower than normal fuel inventories and rising concerns about the security of Middle East supplies contributed to this spike in prices. OPEC decision to increase production, by 2 million barrels a day in July, 2004 and add 50,000 barrels a day more in August 2004, calmed the market, resulting in a decline in crude oil prices to around $ 36 per barrel as on June 11, 2004. Increasing dependence on crude oil imports, in the face of rising domestic refining capacity, and a stagnant domestic crude production, has imparted a downside risk to the country's oil economy from volatility of such external shocks. Currently, almost two thirds of country's crude oil requirements are imported, with POL imports constituting around 27 per cent of India's total imports. Hence, an important feature of sourcing of POL imports in the recent past has been the diversification of India's POL imports away from the geo-politically sensitive regions like the Middle East. Another development has been the decision to build up strategic oil reserves, equivalent of about 15 days requirement, to minimize external shocks due to crude oil price volatility in the short term.

6.25 Gold and silver imports (excluding imports through passenger baggage) declined by 6.4 per cent in 2002-03 on account of volatility in international gold prices, decline in rural incomes on account of drought and a sluggish domestic economy. Despite continued rise in international bullion prices, imports picked up in 2003-04, rising sharply by 61.9 per cent in April-February 2003-04. These imports seem to have been buoyed up by recovery in domestic demand and strengthening of the rupee against the US dollar. The reduction in duty on imported gold from Rs 250 to Rs 100 per 10 gram announced in the Union Budget 2003-04 and liberalization of these imports as per trade facilitation measures announced in January 2004, may have also provided a fillip to demand for the metal. International gold prices, up almost by one third in last two years, had pierced the psychological barrier of $400 per troy ounce and stood at $425.5 per troy ounce on January 13, 2004. Much of the rise in prices reflected the dollar decline, spurring investors to turn to the metal as a safe heaven. International gold prices have moderated in April and May 2004 and currently (June 11, 2004) rule around $385 per troy ounce. A weak dollar, still recovering equity markets, low inflation and interest rates and ongoing geo-political tension may continue to provide support to the current level of international gold prices in the near future.

6.26 The trade deficit, which reflects changes in the relative growth rates of exports and imports, has showed a widening trend in the recent years and stood at $8.7 billion in 2002-03, notwithstanding the export acceleration. Given the surge in imports, the deficit widened further by around 57 per cent and stood at a record level of $13.7 billion in 2003-04. The deficit was higher by 28.5 per cent in April-May 2004 over corresponding previous period.