Invisibles

8. The decline in current account deficit during 1996-97 mirrored the rise in surplus on the invisibles account. The increase in net surplus was contributed primarily by an increase in private transfers, and a surplus on non-factor services. Invisible receipts accelerated after 1992-93 and the buoyancy was sustained in 1996-97. On an average, invisible receipts have grown at the rate of about 23 per cent per annum from US $9.3 billion in 1992-93 to US $21.3 billion in 1996-97 (See Appendix Table 6.3). The upsurge in invisible receipts has been led by the inflow of private transfer receipts. These recorded a growth of about 30 per cent per annum from US $3.9 billion in 1992-93 to US $11.1 billion in 1996-97. This reflects the incentives for inward remittances through legal channels under the market determined exchange rate system. Private transfer receipts in 1996-97 have, particularly, benefited from the inflow of a large part of redemption proceeds of India Development Bonds on maturity. A plateauing out of the growth rate of these transfers in 1997-98 is, therefore, to be expected.

9. Tourism receipts, in US dollar terms, have risen at a rate of about 8.2 per cent per annum during the four years ended 1996-97. The inflow of invisible receipts in recent years has been augmented by an improvement in software and technology related exports. These are estimated to have increased (in US dollar terms), at an annual rate of over 45 per cent during the Eighth Plan period (1992-93 to 1996-97) to reach a level of about US $1.1 billion in 1996-97. The receipts under category ‘miscellaneous’ in the invisible account, which include software exports, rose from US $1.4 billion in 1992-93 to US $3.5 billion in 1996-97. Net outflow under investment income rose moderately in 1996-97, reflecting a marginal decline in interest payments and a stable outgo under dividends and profits on foreign investment in India. Investment income receipts largely correspond to the interest and discount earned on investment of foreign exchange reserves. The net surplus under invisibles is estimated to have increased during the Eighth Plan from US $1.9 billion in 1992-93 to US $10.6 billion in 1996-97. As a result, the net inflow under invisibles financed about 74 per cent of trade deficit in BOP (in US dollar terms) in 1996-97, compared with about 35 per cent in 1992-93.

10. The process of current account liberalisation was carried forward further in 1997-98. The measures include: (a) greater flexibility in the Exchange Earner Foreign Currency (EEFC) accounts held by exporters, in terms of the proportion of earnings which can be retained in the EEFC account and the scope of utilisation of funds in the accounts; (b) more liberal indicative ceilings for release of foreign exchange by authorised dealers (ADs) for basic travel quota, studies abroad, medical expenses, casual (gift) remittances, donations, release of exchange for persons proceeding on employment abroad; (c) modification in the exchange control regulations governing remittances by exporters and importers in respect of advance payments against exports, refund of export proceeds, merchant trade and advance payments for other transactions such as service related transactions, feasibility studies, medical treatment abroad; and (d) greater flexibility for remittances for purchases of foreign services by residents.