Trade account

7. The trade deficit, on BOP basis, increased from 3.7 per cent of GDP in 1996-97 to 3.9 per cent of GDP in 1997-98. Total imports, on payments basis, grew by only 4.4 per cent to U.S.$ 51.1 billion in 1997-98. During April-September 1998, such imports show significant deceleration to 0.9 per cent over April-September 1997. Imports recorded in the BOP accounts include imports of gold and silver by non-residents under baggage rules. Since these imports are in the nature of transfers with no corresponding foreign exchange outgo, there is an offsetting credit in the private transfers under invisibles. The demand for imports has been subdued over the last two years, reflecting moderation in industrial activity. During 1997-98, non-oil imports (on BOP basis) excluding imports of gold and silver grew by only 5.0 per cent in U.S. Dollar terms over 1996-97. Moreover, substantial softening of international crude and petroleum products meant that the oil import bill fell by 18.1 per cent in 1997-98 and further by 25.6 per cent in the first six months of 1998-99, after an average growth of about 30 per cent in the previous two years.

8. In spite of the sharp deceleration in import growth, the trade deficit in 1997-98 (on BOP basis), widened by about U.S.$ 1.5 billion and by about US $ 1.1 billion during April-September 1998, because growth of exports decelerated even more. The continued sluggishness in export growth for the third year in succession in 1998-99 is a cause for concern. Based on BOP data, export growth, in U.S. dollar terms, slowed to 5.6 per cent in 1996-97, 2.1 per cent in 1997-98 and declined by 5.1 per cent during April-September 1998, after three successive years of increase ranging from 18 to 20 per cent per annum. The unimpressive export performance reflects a range of factors. A noticeable decline in the growth of world trade since the second half of 1997, a decline in export prices of some major items of manufactured goods, growing infrastructure bottlenecks and appreciation of the Rupee in real effective exchange rate terms were contributory factors. The last was partly due to an appreciation of the U.S. dollar against other major currencies in the international markets and the resultant large cross-currency variations.

9. Self-reliance, as measured by the coverage of imports by exports (on BOP basis), improved from about 66 per cent in 1990-91 to about 85 per cent in 1993-94. The ratio, however, has declined in the subsequent years reaching about 68 per cent in 1997-98. Based on provisional DGCI&S trade data for April-December 1998, the ratio of exports to imports works out to 76.9 per cent.