Invisibles

10. Net inflow of invisibles continued to provide major support to the viability of the balance of payments. Invisible receipts accelerated after 1992-93 (following the shift to a market determined exchange rate) and the buoyancy was sustained in 1997-98. On an average, invisible receipts have grown at the rate of about 20 per cent per annum from U.S.$ 9.3 billion in 1992-93 to U.S.$ 23.0 billion in 1997-98 (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 25 per cent per annum from U.S.$ 3.9 billion in 1992-93 to U.S.$ 11.9 billion in 1997-98. This reflects the incentives for inward remittances through legal channels under the market determined exchange rate system.

11. Tourism receipts, in U.S. dollar terms, have risen at a respectable rate of about 6.8 per cent per annum (on average) during the five years ended 1997-98, but growth appears to have faltered in 1998-99. The receipts under the 'miscellaneous' category in the invisible account, which include software exports, rose from U.S.$ 1.4 billion in 1992-93 to U.S.$ 4.0 billion in 1997-98. Software and technology related exports continued their strong performance and reached to an estimated U.S.$ 1.7 billion in 1997-98 (Box 6.1). Net outflow under investment income rose moderately in 1997-98, reflecting a modest rise 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, excluding the IDB return flow in 1996-97, is estimated to have increased from U.S.$ 9.3 billion in 1996-97 to U.S.$ 9.8 billion in 1997-98, thereby financing about 60 per cent of the trade deficit in the BOP in 1997-98, compared with about 35 per cent in 1992-93.

12. During April-September 1998, net inflow of invisibles declined marginally to US $ 4.99 billion from US $ 5.43 billion in April-September 1997. This decline was largely due to decline in net private transfers from US $ 6.61 billion during April-September 1997 to US $ 5.27 billion during April-September 1998, reflecting a sharp decline in (contra-entry for) imports of gold and silver through baggage route in 1998-99. On the other hand, net inflow under non-factor services surged to US $ 744 million in April-September 1998 from only US $ 50 million in April-September 1997, following continued strong performance of software and technology related exports.

BOX 6.1

Software Development and Exports

- The software industry has been one of the fastest growing industries in the Electronics Sector, in terms of both exports and domestic use. During the 8th Plan period (1992-93 to 1996-97), software exports have registered an impressive annual growth of about 43 per cent from US $ 174 million in 1991-92 to US $ 1042 million in 1996-97. In the same period, software for domestic use has grown at an annual rate of about 52 per cent from Rs. 320 crore in 1991-92 to Rs. 2600 crore in 1996-97.
- The striking performance of the software industry has been sustained in subsequent years. In 1997-98, software exports have risen by about 68 per cent to US $ 1749 million and domestic software, essential for sustaining the growth of software exports, grew by over 33 per cent to Rs. 3470 crore.
- India's share in world software market has been very low; nevertheless, in the segment of customised software services (OEM professional services), India commands a 16 per cent market share in the world. India has a very good opportunity in the world software market since it enjoys an advantage in terms of possessing the world's second largest pool of scientific English speaking manpower and its relatively low cost.
- To boost software exports from the country as a primary objective, Software Technology Parks of India (STPI) was established in June 1991 with its centres at Pune, Bangalore, Bhubaneswar, Hydrabad, Noida, Gandhinagar (near Ahmedabad) and Thiruvananthapuram. The scheme is a 100 per cent export oriented scheme for the development and export of computer software using both data communication links and in the form of physical media, including export of professional services. STPI has recently opened three new centres at Mohali-Chandigarh, Jaipur and Navi Mumbai.
- An integrated network service called "softNET' was designed and established in the STPs for providing a wide variety of Value Added Services that are needed for software development and export operations.
- The reforms on international technology and software development were strengthened in 1998-99. A National Task Force on Information Technology and Software Development submitted a 108 point Action Plan in July 1998. The recommendations have been accepted by the Government and directions for their implementation have been given to all concerned departments.
- Besides, Internet policy with free entry for Internet Service Providers (ISPs) has been introduced.
- Software and technology related exports have been critical in sustaining the buoyancy of net invisible earnings in the balance of payments, especially at a time when factor and non-factor service payments have tended to rise following establishment of current account convertibility in India. With growing opportunities in the world market, India has an excellent opportunity to capture a sizeable portion of the global world market. To achieve this, concerted efforts will have to be made to overcome remaining weaknesses and effectively deal with competition.