

Economic Crisis, Structural Reforms, and the Prospects of Growth in India

Nirupam Bajpai

Abstract

This paper traces the genesis of India's 1991 economic crisis and analyzes the policy response of the government in terms of macroeconomic stabilization and structural reforms. It is suggested that the economic crisis was primarily due to the large and growing fiscal imbalances over the 1980s. Large fiscal deficits, overtime, had a spill over effect on the trade deficit culminating in a external payments crisis. A program of economic policy reform has since been put in place which has yielded very satisfactory results so far. While a lot still remains on the unfinished reform agenda, the prospects of macro stability and growth are indeed encouraging.

Nirupam Bajpai is a Research Associate at the Harvard Institute for International Development. He received his Ph.D. in economics from the University of Lucknow in 1988.

Economic Crisis, Structural Reforms, and the Prospects of Growth in India

Nirupam Bajpai

1. INTRODUCTION:

Statistics bear testimony to the fact that the genesis of the economic crisis in India, which surfaced in 1991, lies in the large and persistent macroeconomic imbalances that developed over the 1980s. A detailed examination of the government expenditures, over the 1980s, suggests that the root cause of the crisis was the large and growing fiscal imbalance. Large fiscal deficits emerged as a result of mounting government expenditures, particularly during the second half of the 80s. These fiscal deficits led to high levels of borrowing by the government from the Reserve Bank of India (RBI), with an expansionary impact on money supply leading directly to high rate of inflation Table 1. Also, because of the dynamic interrelationship between the fiscal and trade deficits, the former resulted in large current account deficits in the balance-of-payments. In order to meet these deficits, large external commercial borrowings were undertaken which in turn aggravated the problem of external indebtedness. However, the spill over of the fiscal deficit on to the trade deficit will be analyzed later since first a detailed analysis of the mounting government expenditures and their impact on fiscal deficits would be in order.

The gross fiscal deficit of the government (center and states) rose from 9.0 percent of GDP in 1980-81 to 10.4 percent in 1985-86 and to 12.7 percent in 1990-91. For the center alone, the gross fiscal deficit rose from 6.1 percent of GDP in 1980-81 to 8.3 percent in 1985-86 and to 8.4 percent in 1990-91. Since these deficits had to be met by borrowings, the internal debt of the government accumulated rapidly, rising from 35 percent of GDP at the end of 1980-81 to 53 percent of GDP at the end of 1990-91.¹ As a result, interest payments increased from 2 percent of GDP and 10 percent of total central government expenditure in 1980-81 to 4 percent of GDP and 20 percent of total central government expenditure in 1990-91.²

The trend of government expenditure, both in per capita terms (at 1981-82 prices) and as a proportion of GDP can be classified in three distinct phases. During the first phase, from 1974-75 to 1981-82, per capita expenditure had some degree of year-to-year fluctuations though, on the average, grew at 4.7 percent per year. The expenditure-GDP ratio increased from 18.9 percent in 1974-75 to 24.5 percent in 1981-82 Tables 2 and 3. In the second phase, from 1981-82 to 1986-87, the growth rate was steady and showed a significant acceleration to average 7.6 percent per year with the result that the expenditure-GDP ratio during these five years increased from 24.5 percent in 1981-82 to 30.5 percent in 1986-87. In the third phase, from 1986-87 to 1990-91, the growth rate declined to broadly equal the growth rates seen in the first phase, at a little below 5 percent per year. As a ratio of GDP, government expenditure actually showed a decline during the last phase to reach 29.3 percent in 1990-91 Table 2.

¹Economic Survey 1991-92, Part II, P.13

²For data on interest payments, Economic and Functional Classification of the Central Government Budget, Ministry of Finance, annual issues. For data on GDP at current market prices, CSO, National Accounts Statistics, annual issues.

Corresponding to the three phases mentioned above, expenditure growth can be explained by the state of the economy and particularly by the stringency of resource constraint. The political uncertainties in the second half of the 1970s and the oil shock in 1979-80 resulted in the per capita net national product in real terms increasing at just 1.5 percent per year on the average during 1974-75 to 1981-82 and the annual growth of per capita (constant prices) revenues during this period was only 3 percent. The slow and fluctuating growth of revenues during this period could not sustain very high growth of expenditures, nevertheless expenditures grew faster than the revenues.

The second phase (1981-82 to 1986-87) is marked by a significant acceleration in the rate of growth of expenditures. One may attribute this mainly to the economy shifting to a higher growth path. The per capita real NNP on an average during this period increased at 2.2 percent per year. The government revenues, on the other hand increased at even higher rates (5.7 percent per year). Apart from high growth leading to larger revenue collection, the replacement of physical restrictions on imports with tariffs also contributed to revenue buoyancy. By contrast to the first phase, both political stability and buoyant revenues resulted in significant acceleration of government expenditures. Besides, this was further fueled by the emergence of significant revenue deficits since 1982-83 and their feed-back in terms of increased interest payments (Tables 4 and 5 for revenue deficits and Table 3 for interest payments).

Finally, in the third phase, the growth in government expenditure could not be sustained with the hardening of the budget constraint from 1986-87 due to two important factors. First, buoyant revenue expenditures had to be increasingly financed out of borrowed resources and in order to maintain relative price stability, governmental borrowing beyond a certain level could not be sustained. In fact, the increase in the net liabilities of the government reached the highest level of 12 percent of GDP, in 1986-87, and in the same year the RBI's net credit to government was also the highest, at close to 5 percent of GDP (Dandekar, 1992). Second, as a result of the implementation of the recommendations of the Fourth Pay Commission, the emoluments of the government employees increased substantially Table 3. Both the central and state government employees had their pay revision in 1987-88 and 1988-89 respectively. The effect of pay revision in the States alone was estimated to increase total wages and salaries by 18 percent. In addition, the unprecedented drought of 1987-88 not only necessitated diversion of resources to meet relief expenditures, but also decelerated the growth of revenues to average 5 percent per year after 1986-87.

A substantial part of the increase in government expenditure in the early 1980s was due to the phenomenal expansion in revenue expenditures Tables 2 and 5. The largest increase in the share of revenue expenditures came about on account of increase in interest payments. The expenditure on interest payments as a proportion of GDP increased from 1.9 percent in 1980-81 to 4.0 percent in 1990-91 and as a proportion of total expenditure, it increased from 10 percent to 19 percent over the same period Tables 3 and 5. In absolute terms, interest payments rose from Rs.22.5 billion in 1980-81 to Rs.199.4 billion in 1990-91. The increase in the interest payments over the 1980s is largely attributable to increase in both the volume of indebtedness of the government and in the effective rates of interest on government borrowings.

Over the 1980s, government expenditure in India grew at a phenomenal rate, faster than both GDP and government revenues. With low and declining level of cost recoveries, the subsidies grew at a rate faster than government expenditures. As a proportion of total expenditure, subsidies rose

from 8.5 percent in 1980-81 to 10.2 percent in 1990-91. In absolute terms, expenditure on subsidies rose from Rs.19.1 billion in 1980-81 to Rs. 107.2 billion in 1990-91 Table 3. The financing of most of these government expenditures has been done not through better cost recoveries but by increasing resort to budget (fiscal) deficits Table 4. Fiscal imbalances in India, which assumed serious proportions since the mid 1980s, had two important facets. First, the outpacing of the rate of growth of revenues by the expenditure growth considerably reduced the resources available for public investment in the economy. The increasing use of borrowed funds to meet current expenditures rendered the latter self-propelling. Second, the increasing diversion of household savings to meet public consumption requirements not only resulted in the expansion of public debt to unsustainable levels, but also reduced the resources available for private investment.

As regards the linkage between fiscal deficit and the current account imbalances, a formal analytical framework that attempts to establish the transmission of fiscal imbalances into the current account is required. Since fiscal policy is an important aspect of domestic economic policy, any change with respect to government taxation, expenditure, and financing requirements would significantly affect the complex behavioral interaction in the economy. Of course, the consequential impact on the balance-of-payments would depend on the degree of integration of the domestic economy with the world economy.

Apart from this indirect effect, there could be a direct and immediate impact of change in budgetary policy on the current account. For instance, increased expenditure on government imports particularly defense, and outflow on account of interest payments on external debt would deteriorate the current account balance. Besides, more important than the direct impact is the implication that fiscal expansion holds for trade balance through its effect on prices, aggregate demand, real output, private sector absorption, and imports. A survey of literature reveals that a number of theoretical and empirical models have been developed for systematic analysis of the nature and extent of relationship between the fiscal deficit and current account imbalances. Some of these are, (Kelly, 1982), (Mansur, 1989), (Bartoli, 1989), and (Easterly & Hebbel, 1993).

Although, a large part of the problem concerning external imbalances in India could be attributed to extraneous developments, such as two oil-shocks during the last decade, growing protectionism and loss of competitiveness of exports due to adverse exchange rate movements, fiscal policy too was a dominant factor causing deterioration in the trade balance. Table 6 shows year-to-year movement of the fiscal and trade deficits as a percentage of GDP. Notwithstanding fluctuations in the latter, the period of fiscal expansion coincided with the growing trade gap. During the period 1970-71 to 1977-78, the trade gap on an average remained within 1 percent of GDP and the fiscal deficit also remained almost stable as a percentage of GDP. On the other hand, beginning with the second oil shock and the rapid deterioration in the fiscal situation that followed in the eighties, the trade account experienced continuous pressures and the trade deficit shot up to an average of 3.4 percent of GDP between 1979-80 to 1990-91.

An unprecedented balance-of-payments crisis emerged in early 1991. The current account deficit doubled from an annual average of \$2.3 billion or 1.3 percent of GDP during the first half of the 1980s, to an annual average of \$5.5 billion or 2.2 percent of GDP during the second half of the

1980s.³ In order to meet these large and persistent current account deficits, large scale commercial borrowings were undertaken along with contraction of substantial short-term debt. This, in turn, aggravated the problem of external indebtedness. The external debt, inclusive of non-resident Indian (NRI) deposits, rose from 12 percent of GDP at the end of 1980-81 to 23 percent of GDP at the end of 1990-91.⁴ Consequently, the debt service burden rose from 10 percent of current account receipts and 15 percent of export earnings in 1980-81 to 22 percent of current account receipts and 30 percent of export earnings in 1990-91.⁵

The capital account of the balance-of-payments began experiencing strains after 1986 with the bunching of repayment obligations to the IMF and some of the private creditors. IMF repurchases were \$1.4 billion in 1987-88; \$1.5 billion in 1988-89; and \$1.2 billion in 1989-90. Similarly, repayments made to private creditors, excluding commercial banks and bonds were also very large during the same period. These amounted to \$1.0 billion in 1987-88; 1.4 billion 1988-89; and \$1.4 billion in 1989-90. In addition, the Gulf war accentuated the crisis. Apart from the loss of export revenues and remittances, the more important implication of the war was the panic buying of oil from the spot markets at high prices. According to the Economic Survey 1992-93, while \$3.7 billion was spent on oil purchases in 1989-90, the oil bill for 1990-91 was as high as \$6.0 billion.

The balance-of-payments came under severe strain from one liquidity crisis experienced in mid-January 1991 to another in late June 1991. On both occasions, the foreign exchange reserves dropped significantly and the government had to resort to measures, such as using its stocks of gold to obtain foreign exchange, utilization of special facilities (CFF, CCFE, and ESAF)⁶ of the IMF, and also emergency bilateral assistance from Japan and Germany among others. Having resorted to these measures, the government was able to avoid a default in terms of meeting its debt service obligations and financing of imports. Subsequently, the government embarked upon a comprehensive program of economic reforms. The program comprises policy measures for attaining macro stability and the resumption of growth via structural adjustment. What has so far been accomplished on the macro stability front is discussed next.

2. FISCAL CONSOLIDATION

The fiscal deficit of the central government which stood at 8.3 percent of GDP in fiscal 1990-91 was brought down to 5.7 percent by the end of 1992-93. However, there was a major slippage in 1993-94 when the fiscal deficit bounced back to 7.5 percent of GDP. In 1995-96 it is planned at 5.5 percent. On this basis, the average fiscal deficit for the 5 years 1991-96 would be around 6.3 percent of GDP as against the corresponding average of 8.2 percent over the Seventh Plan period (1985-90). This progress has materialized as defense expenditure and subsidies as well as capital

³ See Reserve Bank of India, Report on Currency and Finance, annual issues.

⁴For 1980-81, Report of the Economic Advisory Council, The Current Economic Situation and Priority Areas for Action, December 1989. For data on GDP 1990-91, see Economic Survey 1991-92, Part II.

⁵Report of the Economic Advisory Council, December 1989, and Economic Survey 1991-91, Part II.

⁶Compensatory Financing Facility (CFF), Contingency and Compensatory Financing Facility (CCFF), and Enhanced Structural Adjustment Facility (ESAF).

expenditure net of interest payments on past debt declined as per cent of GDP. However, a major part of the fiscal deficit, namely, the revenue deficit (revenue expenditure minus revenue receipts) currently running around 3.4 percent of GDP remains the core problem area (Bajpai 1995). Considering the continuing inflationary strains, the as yet excessive pre-emption of the community's savings by the government, the potential for crowding out the requirements of the enterprise sector, the pressure on interest rates, and rising interest payments on government debt, it is essential to reduce the fiscal deficit still further, and more aggressively, mainly by lowering the revenue deficit.

In assessing the progress in fiscal correction, the following aspects deserve attention:

(a) The monetization of the fiscal deficit by the RBI which amounted to 2.1 percent of GDP in 1991-92 is expected to decline to 0.5 percent in 1995-96. It is proposed to phase out such monetization by 1997-98. Though this has raised government's average cost of borrowing, it will improve RBI's control over creation of primary liquidity and inflation. This is a fundamental improvement in the fiscal-cum-monetary policy area.

(b) The ongoing tax reform has already made some noteworthy advances. The corporation tax rate has been reduced, although marginally. The marginal rate of income tax on non-corporate entities has been brought down. Customs tariffs have been lowered but still remain quite high. Excise taxes have been reduced and rationalized with a decisive move away from many specific to ad valorem duties. Many end-use exemptions have been withdrawn.

(c) Government securities including treasury bills are now placed in the market through periodical auctions and thus carry market clearing interest rates. While this makes government borrowing more costly, it should promote a secondary market in government securities, expand the scope for open-market operations by the RBI, and improve profitability of the banking sector.

(d) The devaluation of the rupee in mid-1991 has increased external debt service in rupee terms. Even if repayment of principal is replaced by fresh debt (the external debt stock has been stagnant at about US\$ 90 billion since 1992), the increased payment of interest in rupees is being accommodated by the budget.

Two caveats should, however, be entered. First, the sale proceeds of equity in selected public sector companies are at present taken towards reduction of the fiscal deficit rather than debt. This is a soft option. Secondly, budgetary correction has hardly begun in the states whose combined fiscal deficits stand at around 3 percent of GDP. Correction of these deficits would, inter alia, require considerable refocusing and reduction of large hidden subsidies associated with underpricing of crucial infrastructural services like electric power, irrigation and higher education. Notwithstanding the qualifications, there has been significant progress in reducing the fiscal deficit of the central government. The trend is in the right direction and its acceleration through more qualitative adjustment should reduce government dissaving and ameliorate price pressures.

3. RESTRAINING INFLATION

Though the fiscal situation is gradually on the mend, inflation had been a cause for concern up until mid-1995. The rise in the wholesale price index which was as high as 13.4 percent in 1991-92 declined to 7 percent in the following year but has ruled in the range of 10-11 percent during

1993-95. As against this, annual inflation in the Seventh Plan period averaged 6.7 percent with a growth rate of 5.8 percent. High fiscal deficits, devaluation of the rupee, periodical increases in administered prices (especially in official procurement and issue prices of food grains), weather conditions, shortages of some commodities of common consumption, and large money creation due to acquisition of foreign currency reserves have contributed, in varying degrees and at different points of time, to the relatively higher inflation in the first half of the 1990s. As excessive price rise hits the poor particularly hard and is potentially disruptive of the growth process, its containment has acquired a high priority.

The current developments in the economy should be conducive to a decline in the inflation rate in 1996. Importantly, on the demand side, there has been a noteworthy change in the source of reserve money creation. Over the decades, monetization of the budgetary deficits by the RBI had accounted for a predominant part of reserve money creation and the resultant growth, often excessive, in money supply. In the recent period, monetization of the budget deficit has, as already indicated, declined sharply. During 1993 and 1994, primary liquidity was created mainly in the process of the RBI accumulating foreign currency reserves due to large inflows of foreign investment. With interest rates rising in most industrial economies, the impact of the Mexican crisis and the steps taken by the government of India to regulate the recourse of Indian industry to foreign financial markets, these inflows have now moderated. Consequently, foreign currency reserves have hovered around US\$ 16 billion in January 1996, down from \$20.8 billion in March 1995. Industrial recovery is already reflected in higher imports and these could pick up further as investment and manufacturing gather momentum. This should facilitate the utilization of capital inflows for growth rather than for building foreign exchange reserves.

As government's borrowing is still very high and demand for commercial credit is also strong, satisfying both the government and enterprise sectors will pose a difficult challenge to the monetary authorities who would like to restrain money growth to keep inflation under check. However, as pressures for reserve money creation abate, the RBI should be in a better position to balance the objectives of economic growth and moderation in prices. Indeed, the monetary policy announced in April 1995 seeks to restrict the growth of money (M3) to 15.5 per cent and to contain the rate of inflation to 8 percent. The maximum bank deposit rate has been raised by one percentage point to 12 per cent and refinance facilities have been curtailed. Bank lending rates for loans above Rs.200,000 were freed in October 1994 and would rise in response to the hike in the ceiling deposit rate. This can help put a curb on excessive credit.

Satisfactory production of both food and non-food crops should subdue inflationary expectations. Supply side management would be facilitated by large food stocks and high foreign exchange reserves. Releases of food stocks into the open market and through the public distribution system should keep cereal prices under check. The public stocks can also be used for food-for-work programs. Government has indicated that it would avoid excessive increases in food grains procurement prices. Commodities such as sugar, edible oils and cotton which were in short supply in 1994-95 have already been placed on the open general license and are thus freely importable. India has experienced a series of satisfactory monsoons and near-term economic forecasts assume another normal monsoon. Even if adverse weather conditions develop, the economy should be able to handle the situation without much difficulty.

4. THE EXTERNAL SECTOR

The set of policies regarding the external sector including devaluation of the rupee, making the rupee convertible on current account, liberalization of the trade regime, allowing imports of gold, encouraging foreign direct investment and technology inflows, opening the capital market to portfolio investment by foreign institutional investors, and permitting domestic companies to access foreign capital markets have brought about a dramatic turnaround and steady progress in the balance of payments. The export-import ratio has averaged nearly 90 per cent during 1991-94 compared to an average of about 65 percent for the preceding three years. Exports in fiscal years 1993-94 and 1994-95 rose strongly. Non-oil imports in 1994-95 have also surged (by 28 percent) but the current account deficit remains at less than one percent of GDP. This is partly because the deficit in the invisible account has been converted into a surplus as a market-determined exchange rate of the rupee has encouraged inward remittances through legal channels. Refer to Table 7 for detailed data on the balance-of-payments.

There has been an unprecedented build up of foreign currency reserves in the last couple of years. Foreign currency assets of the RBI more than doubled in 1993-94, increasing from US\$6.4 billion at end March, 1993 to US\$ 15.1 billion a year later. These assets rose to US\$ 20.8 billion by end March, 1995. However, they declined to \$16.3 billion as of January 1996. The build up reflects the steep decline in the current account deficit as well as large net capital inflows. The composition of these inflows is changing towards equity and away from debt. External assistance, external commercial borrowing, IMF loans, and NRI deposits declined progressively from 85.8 percent of net capital inflows in 1990-91 to 40 percent in 1993-94. By contrast, inflows of foreign investment (FDI, FII, and euro equities) increased from \$3.75 billion in 1993-94 to \$4.66 billion in 1994-95. Between April and September 1995, these flows stood at \$1.4 billion.⁷ Approvals for FDI have witnessed sharp increases. The total FDI approved between 1991 and September 1995 amounts to \$15 billion, against just under \$1.0 billion approved during the previous decade (1981-90). The actual FDI inflows rose from \$154 million in 1991-92 to \$958 million in 1994-95. During April-September 1995, the actual inflow of FDI was around \$1517 million.

The exchange rate of the rupee since July 1993 at around Rs.31.37 to a dollar continued through 1994-95. However, the nominal effective exchange rate of the rupee depreciated in 1994-95 as the dollar depreciated against stronger currencies. With inflation in India ruling higher than in the major industrial countries, the real effective exchange rate of the rupee rose in the latter half of 1993 and has been stable through 1994. The relative strength of the rupee is due to the remarkable improvement in both the current and the capital accounts of the balance-of-payments. It is, however, essential to bring down the rate of inflation to maintain the stability of the rupee's exchange rate. Large net capital inflows at a time when the current account was almost in balance enabled RBI to build up foreign currency reserves and to prevent appreciation of the rupee. This, however, led to excessive money creation and price pressures despite the considerable sterilization of money undertaken by the RBI. The pressures have eased with the capital inflows moderating over the recent months.

⁷For details refer to Economic Survey, 1995-96, p.92.

Following the Mexican crisis questions have been raised whether India could face similar problems due to volatility of some of the capital inflows. Though the two cases are not comparable (India's current account deficit of less than one percent of GDP and short-term debt at 3.5 percent of total external debt are way below the Mexican current account deficit of 8 percent of GDP and short-term to total external debt proportion of over 30 percent) it is important for India to persist with sound macro-economic policies, avoid overvaluation of the rupee, maintain a reasonably high level of foreign currency reserves to cushion disruptive outflows, and encourage long-term foreign direct investment. The authorities are striving to pursue these policies. Pending further improvement in the macroeconomic situation, they have adopted a cautious approach to the question of the rupee's convertibility on capital account.

The improvement in the balance-of-payments has enabled the government to substantially reduce the growth of external debt. During 1993-94, the increase in external debt was a mere \$740 million. In the first half of 1994-95, the debt, in fact, declined by \$270 million. As a ratio of GDP, external debt came down from 41 percent in 1991-92 to 36 percent in 1993-94. The debt service ratio has been declining since 1990. It fell sharply from 30.3 percent in 1992-93 to 24.8 percent in 1993-94. The share of the short-term component in aggregate debt came down from 10.2 percent at end 1990-91 to only 3.1 percent in September 1994. The proportion of external commercial borrowing and costly NRI deposits in total debt have also declined. The share of concessional debt in total debt at 46.7 percent is exceptionally high in the Indian case. Keeping all these facts in view, the Japan Bond Rating Institute and Moody Investor Services have raised their assessment of Indian paper to investment grade.

The government is following a conservative approach to external debt management and does not foresee much addition to outstanding stock of debt till the end of the current decade. With rising GDP and exports, the relevant debt ratios should improve considerably, raise the country's credit standing still further, and create substantial capacity to borrow which could be utilized if and when the authorities so decide. Of the non-debt creating inflows, priority should attach to FDI which is long-term in character and also brings technology, management and marketing inputs. Expedient translation of approved FDI proposals into actual investment require more transparent sectoral policies, bidding and selection procedures, and a drastic reduction in time-consuming redtapism. The states are becoming increasingly interested in attracting both domestic and foreign investment and should expedite their decision making processes, especially for provision of land, electricity, water and other infrastructural services to investors. Infrastructural projects on which survey and project work has already been done could be offered to prospective investors.

As economic growth acquires further momentum and the investment-saving gap widens, equity inflows through GDRs and Euro-convertible bonds could be encouraged without triggering inflationary pressures. Over-dependence on volatile FII should, however, be avoided. Thanks to its phenomenal growth for many years, the Indian capital market now ranks high in the list of emerging markets and can attract substantial inflows of capital given the strong performance of the Indian economy and the very satisfactory profitability of the corporate sector. Such inflows would, however, fluctuate depending on relative conditions in the Indian and competing markets.

India's balance of payments is now underpinned by sound exchange rate and trade policies as well as substantial foreign exchange reserves, and can be regarded as eminently viable over the

medium term. The fiscal position has also improved though more progress in that area is called for. Inflation is likely to moderate significantly in 1995-96. All this should presage sustainable economic growth in the coming years provided, of course, the saving and investment picture remains satisfactory. What are the prospects in that respect?

5. SAVINGS AND INVESTMENT

The average gross domestic saving rate in the 1980s was 21 percent of GDP. Together with an average inflow of foreign savings of the order of about 2 percent of GDP, average investment over the decade was around 23 percent of GDP. Responding to high growth in the Seventh Plan period, gross domestic savings during 1989-92 ranged from 22.3 percent to 23.7 percent, yielding an annual average of 23.1 percent. During 1992-94, however, the saving rate declined to about 20.1 percent. This presumably is due to lower average GDP growth of 3.2 percent over 1991-94. However, with higher growth during 1994-96, savings have picked up. While the lower saving of the public sector was compensated by the higher contribution of the private corporate sector, the main erosion was in the household sector where financial savings held up but, intriguingly, saving in the form of physical assets fell. Such fluctuations in the saving rate were experienced in the 1980s too. Another development has been the steep decline in the current account deficit of the BOP in recent years. Consequently, the capital inflow from abroad has gone into foreign currency reserves rather than imports. Arguably, GDP growth of 6.3 percent in 1994-95 without a significant current account deficit is qualitatively better than similar growth rates in the 1980s with substantially higher deficits. The realization of higher savings would be facilitated if the public sector increases its saving. Besides, as investment gains strength, India should be able to mobilize and absorb foreign savings of the order of at least 2 per cent of GDP without running into payment problems. This is because its sources of external finance have diversified beyond borrowing towards FDI and portfolio inflows.

An average investment rate of 24-25 per cent of GDP should yield a growth rate of around 6 percent. In fact, a lower investment average of 23.1 per cent during the Seventh Plan period (1985-90) did result in annual compound growth rate in gross national product of 5.8 per cent with average inflation rate of below 7 percent. The actual performance of the economy would, however, depend crucially on the availability and quality of infrastructural services. Over the decades, India's infrastructure has expanded steadily but bottlenecks have often been encountered. In particular, the gap between demand and supply of electricity has ranged between 8 to 10 percent over the last two decades with significant regional variations. The rail, road, ports and telecommunications capacities and efficiencies have also remained below desirable levels and are in need of expansion and up gradation.

It would appear that due to past and ongoing investments in capacity creation and gradual increase in efficiency and capacity utilization, the availability of infrastructural services relative to demand in the next few years may be of the same order as in the 1980s (e.g. infrastructural industries as a group grew by 8 percent in 1994-95). The picture beyond that period would depend on how much new investment goes into the infrastructure. This is an area of concern as budgetary support for infrastructure has reduced over the last 4-5 years. Some public sector enterprises are able to directly access the capital market to maintain their investment levels but others are not so successful. The government has opened up crucial areas like power, telecommunications, oil exploration,

development and refining, mining, highways, domestic airlines and some port services to private including foreign investment.

There is considerable private sector interest in investment in infrastructure, particularly electric power and telecommunications. However, actual private sector investment in these areas would depend on how quickly clear-cut sectoral policies relating to such investment are evolved and modalities finalized for facilitating the process. Financial requirements of the infrastructure sector are likely to be very large and would call for special mobilization in both domestic and external markets. All this could take time. In any case, private sector investment in infrastructure may not form all that large a proportion of the needed resources in the next few years. Therefore, public sector investment in infrastructure would continue to be the mainstay. Resource availability in the public sector can improve considerably if its services such as electricity, road transport and irrigation are properly priced and more efficiently delivered. The reform of the public sector has so far been slow and calls for more effective and prompter measures. The ongoing structural reforms of the economy should contribute to higher productivity and better performance. Reference has already been made to India's macroeconomic policies and their impact. On the structural, microeconomic side, there has been considerable progress in areas of industrial policy, trade policy and financial sector reforms.

6. INDUSTRIAL POLICY

Capacity creation, expansion and modernization of most industries have been delicensed. This has promoted competition, speeded up market-based investment decisions, and should help avoid distortions such as uneconomic size, location, and product mix of industrial units. The new liberal policy regarding foreign direct and portfolio investment and import of technology has increased inflow of foreign capital and technology and is speeding up modernization of the economy. Joint ventures and technical collaborations are increasing. Prices have been largely freed and now apply to a limited commodities and services mostly managed by government monopolies. Price controls on pharmaceuticals have been considerably relaxed. Indian industry has responded well to the new policies. Industrial investment is picking up strongly, with enhanced emphasis on technology up gradation, restructuring and exports.

Many areas previously reserved for the public sector have been opened up to the private sector. Part of the government equity in selected public sector enterprises is being disinvested. While such disinvestment helps reduce the fiscal deficit, it does not indicate a change in management as government intends to remain a majority stake holder in public sector enterprises. Many sick public sector units have been referred to the Board for Industrial and Financial Reconstruction (BIFR) for rehabilitation or, where necessary, for winding up. The latter option has been rarely exercised. The public sector is still hamstrung by excessive government and bureaucratic controls. The option of privatization has not yet been seriously considered. Progress in some other industrial policy areas has also been slow. The present regulations for retrenchment of surplus labor are regarded as being far too rigid. Similarly, large industrial units require government permission before they can close down and such permission is difficult to secure. However, many industries do restructure their manpower with the co-operation of labor. Market solutions to the problem of sick enterprises through voluntary mergers and takeovers are becoming more common. Such companies can also be either rehabilitated or liquidated by recourse to the BIFR.

The past import substitution policies characterized by pervasive quantitative restrictions on imports and steep customs duties are undergoing a sea-change. Quantitative restrictions on imports of capital goods, intermediates and raw materials have virtually been abolished. These, however, survive in the case of final consumption goods though even here gradual relaxation is underway. Customs duties have been gradually reduced. The maximum duty rate has declined from 250 per cent to 50 per cent. Tariffs on most capital goods, plants and machinery now stand at 25 per cent as against 80-85 per cent earlier. Duties on intermediates and raw materials have also been lowered. The process is still continuing so that the Indian tariff structure would be in line with that in most other developing countries in the next few years. Liberalization of trade has reduced costs of Indian industry, relieved production bottlenecks, promoted technology up gradation and export orientation and, above all, encouraged competition. The gradual trade liberalization has enabled domestic industry to adjust to the new situation. Though apprehensions persist in some quarters about external competition, Indian industry has generally accepted the need for and logic of the ongoing change.

7. FINANCIAL SECTOR REFORMS

India has a well-developed financial system. Its strong points are its vast geographical and functional reach, capacity to mobilize savings, institutional diversity, and large trained manpower. Over time, the system had also developed some weaknesses due to its rapid expansion, externally induced constraints on bank profitability, an over-regulated interest rate regime, and internal organizational deficiencies. Profitability in the banking sector has been low and some banks had become financially weak. The reform of the banking sector has not only addressed these problems but has also sought to develop the money market as well as a secondary market in long-term government debt.

Very high statutory liquidity requirements through which banks were compelled to invest in government securities have been substantially reduced. Government paper now carries market clearing rates. There is only one ceiling rate on term deposits prescribed by the RBI. Interest rates on money market instruments have been freed. With government securities now carrying market rates, the basic requirement for developing a secondary market in such paper has been met. Institutions and fora have been created to help develop trade in money and long-term debt markets. To improve the working of banks, a strong prudential regime regarding capital adequacy, income recognition, loan-loss provisions and transparency of accounts has been established. Financially weak banks have been recapitalized. Profitable banks have been permitted to access the capital market to augment their capital.

For nationalized banks, this involves dilution of government equity in these institutions. Commercial banks are increasingly entering new businesses such as merchant banking, underwriting, mutual funds and leasing, usually through subsidiaries. Efforts are on for expediting computerization of bank operations. To enhance competition, many new private sector banks, including some more foreign banks, have been allowed entry into the market. RBI supervision over commercial banks and other financial institutions including non-bank financial companies has been strengthened. Issues relating to autonomy of bank managements are also receiving attention. These measures should assist in creating a financially strong, dynamic and responsive banking system.

Over the last decade and a half the capital market has grown phenomenally in terms of capital raised, listed companies, trading volumes, market capitalization, and investor base. The number and diversity of market intermediaries - merchant banks, underwriters, custodians, share registrars and transfer agents, mutual fund, rating agencies etc. - have grown rapidly. There are 23 stock exchanges. The Over-the Counter Exchange of India (OTCEI) and the National Exchange have screen based trading and are developing a nationwide reach. Broadly, reform of the capital market is proceeding on the following lines:

(a) The capital market has been considerably liberalized. Corporates are now free to issue capital and price their issues. FIIs (about 280 in number) have been permitted to invest in the Indian market and about 80 of them are quite active. Many Indian companies are accessing foreign markets for raising equity and debt finance.

(b) The regulation of the primary and stock markets as well as of stock exchanges and market intermediaries has been greatly strengthened through the establishment of the Securities and Exchange Board of India (SEBI). SEBI is trying to control insider trading, regulate large acquisition of shares, and improve the trading practices in stock exchanges. It has been able to revamp the governing boards of stock exchanges which till recently were predominantly the domain of the broker community.

(c) Though the primary market has grown dramatically, the stock market infrastructure, practices and procedures are relatively inadequate and slow. Many market intermediaries also lack sufficient capacity to handle growing business and paper work. Share transfers take considerable time. A major challenge is to expand the market infrastructures, upgrade technology, and establish institutions and practices for reducing paper work and delays. Several measures have been taken along these lines. Apart from the National Exchange and OTCEI, the Bombay Stock Exchange has recently made a beginning with screen based trading. Measures are also underway to improve clearing and settlement procedures and to establish a national depository system with a view to moving towards scrip less trading in due course. This would require several changes in existing laws.

Though it will take considerable time to achieve a desirable level of reform of the financial sector, reasonable progress has already been made. The banking sector as well as the capital market have expanded steadily and are able to provide effective support to industry and trade. Private and public sector corporates have wider financing choices and can raise large amounts of money on the strength of their performance. The government is also considering the report of the Committee on Reform of the Insurance Sector. It has set up an insurance regulatory authority in the mean time, presumably as a first step towards introduction of competition in insurance industry which, for some decades, has been a government monopoly.

8. CONCLUSIONS

The step-up in India's growth rate in the 1980s was partly due to allocative efficiency gains arising from the rather limited deregulation and halting liberalization of only a few aspects of the then prevailing control regime. The continuing structural change in industrial, trade and financial areas, among others, is much wider and deeper and should contribute more meaningfully to higher productivity of the economy. This reinforces the probability of the country registering a sustained

average growth of around 6 percent up to the end of the current decade. Indeed, there is potential for still higher growth of 7-8 percent. Among other things, this would require the following:

(i) a major effort at raising the rate of domestic savings beyond 24 percent of GDP, especially by reducing government dissaving at the central and state levels through cuts in and refocusing of explicit and implicit subsidies, stricter control of non-developmental expenditure, improvement in the tax ratio through stronger tax enforcement, and strengthening incentives for savings;

(ii) larger investment in and better performance of infrastructural services, both in the public and private sectors;

(iii) a more vigorous pursuit of economic reforms at the center and in the states; in particular, reform of the public sector enterprises which handle most of the country's infrastructural services and, more generally, of public administration deserves high priority, and

(iv) greater attention to and larger resources for agriculture, social sectors and rural development programs to increase employment, reduce poverty and create a mass base in support of economic reforms. In conclusion, it is worth reiterating the crucial importance of higher savings and investment. All fast growing countries of the Asia-Pacific and the South-East Asian region (the tigers and the cubs) have had very high domestic savings. If India does grow at around 7/8 percent, this itself is likely to push up its domestic savings in the next few years. Besides, stronger growth should attract more foreign savings, especially foreign direct investment, and thus raise the investment rate. The prospects are indeed encouraging.

REFERENCES

Bajpai, Nirupam, "Developing Country Debt with special reference to India", Report prepared for the Ministry of Finance and the Reserve Bank of India, Indian Council for Research on International Economic Relations, June, 1995.

Bartoli, G., "Fiscal Expansion and External Current Account Imbalances", in B.I. Mario and Chu Ke Young (Eds.), Fiscal Policy, Stabilization and Growth in Developing Countries (IMF: Washington, D.C., 1989).

Dandekar, V.M., "Forty Years After Independence", in Bimal Jalan (ed.) The Indian Economy: Problems and Prospects, Viking, New Delhi, 1992.

Easterly, W. and K.S. Hebbel, "Fiscal Deficits and Macroeconomic Performance in Developing Countries", The World Bank Research Observer, Vol. 8, No. 2, (The World Bank, 1993).

Government of India, Economic Survey, various issues.

Government of India, National Accounts Statistics, Central Statistical Organization, various issues.

Government of India, "The Current Economic Situation and the Priority Areas for Action", Report of the Economic Advisory Council, December 1989.

Kelly, R.M., "Fiscal Adjustment and Fund Supported Programs, 1971-80", IMF Staff Papers, Vol. 29, No. 4, (IMF, 1982).

Mansur, H.A., "Effects of a Budget Deficit on the Current Account Balances: The Case of Philippines", in B.I. Mario and Chu Ke Young (Eds.), Fiscal Policy, Stabilization and Growth in Developing Countries (IMF: Washington, D.C., 1989).

Reserve Bank of India, Report on Currency and Finance, various issues.

TABLE 1
Key Indicators

	1992-93	1993-94P	1994-95P	1995-96P	1992-93	1993-94P	1994-95P	1995-96P
	Absolute Values				Per cent Change Over Previous Year			
1	2	3	4	5	6	7	8	9
Gross national product								
(Rs. billion)								
At current prices	6184	7085	8395 Q	NA	13.9	14.6	18.5 Q	NA
At 1980-81 prices	2201	2301	2456 Q	2611 E	5.0	4.5	6.7 Q	6.3 E
Gross domestic product								
(Rs. billion)								
At current prices	6302	7231	8541Q	NA	14.0	14.7	18.1Q	NA
At 1980-81 prices	2249	2361	2510Q	2665 E	5.1	5.0	6.3Q	6.2E
Agricultural production (1)	151.5	156.9	164.1	163.9A	4.1	3.6	4.6	-0.1A
Foodgrain production (million tonnes)	179.5	184.3	191.1	190.0A	6.6	2.7	3.7	-0.6A
Industrial production(2)	218.9	232.0	252.0	262.6 (3)	2.3	6.0	8.6	12.0 (3)
Wholesale price index(4)	233.1	258.3	285.2	298.0 (5)	7.0	10.8	10.4	5.0 (5)
Consumer price index for industrial workers(6)	243	267	293.0	317 (7)	6.1	9.9	9.7	9.7 (7)
Money supply (M3) (Rs. billion)	3668	4344	5308	5702 (10)	15.7	18.4	22.2	7.4 (11)
Imports at current prices								
(Rs. billion)								
(US \$ million)	633.75	731.01	899.71	860.64 (8)	32.4	15.3	23.1	34.9 (8)
Exports at current prices								
(Rs. billion)								
(US \$ million)	536.88	697.51	826.74	744.93 (8)	21.9	29.9	18.5	29.6 (8)
Foreign currency assets								
(Rs. billion)								
(US \$ million)	201.40	472.87	660.06	595.40 (9)	38.2	134.8	39.6	-9.8 (9)
Exchange rate (Rs./US \$)	28.96	31.37	31.40	33.03 (12)	14.9	7.7	0.1	4.9 (12)

Notes : Gross national product and Gross domestic product figures are at factor cost.

A - Anticipated; P - Provisional; Q - Quick estimates; E - Advance estimates

1. Index of agricultural production (principal crops) with base triennium ending 1981-82=100.

2. Index of industrial production 1980-81=100.

3. April-September 1995

4. Index with base 1981-82=100. Percentages relate to point-to-point changes in the index over the year.

5. As on January 27, 1996 for 1995-96 and for the last week of March for the earlier years.

6. Index with base 1982=100. Percentages relate to point-to-point changes in the index over the year.

7. As in December, 1995 and in March for the earlier years.

8 April-December, 1995.

9. At the end of January 1996 for 1995-96 and at the end of March for previous years.

10. As on January 5, 1996.

11 April 1, 1995-January 5, 1996.

12. April-January 1995-96. Percentages relate to point-to-point changes over the year.

Source : The Economic survey, 1995-96.

TABLE 2

Year	Government Expenditure as a Percentage of GDP			Per Capita Expenditure in Constant (1980-81) Prices			Share of capital expenditure in total
	Revenue	Capital	Total	Revenue	Capital	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974-75	13.2	5.7	18.9	256.0	109.9	365.9	30.0
1981-82	17.1	7.4	24.5	385.3	166.3	551.6	30.1
1985-86	21.0	7.4	28.4	570.2	201.2	771.4	26.1
1986-87	22.3	8.2	30.5	625.9	231.0	856.9	27.0
1987-88	22.7	7.0	29.7	658.2	201.6	859.8	23.4
1988-89	23.1	6.2	29.3	698.9	195.1	894.0	21.8
1989-90	23.9	6.4	30.3	765.2	210.5	975.7	21.6
1990-91	23.5	5.8	29.3	726.3	182.6	908.9	20.1
1991-92	24.1	4.8	28.9	735.4	151.1	886.5	17.0
1992-93	23.5	5.5	29.0	750.6	178.4	929.0	19.2

Source : 1. Indian Economic Statistics, Ministry of Finance, Government of India
2. Central Statistical Organisation, Ministry of Planning, Government of India
3. Registrar General, Government of India

Table 3
Economic Classification of Total Expenditure of Central Government

	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
1	2	3	4	5	6	7	8	9	10	11	12
	(Rs.billion)										
1 Consumption expenditure	51.7	94.2	112.1	146.6	165.5	187.6	207.8	223.5	244.6	272.1	299.3
a) Defence	35.7	66.4	79.6	104.3	118.7	132.3	142.9	153.1	162.5	173.8	190.5
b) Other Government administration	16.0	27.8	32.4	42.2	46.7	55.2	64.8	70.4	82.1	98.3	108.7
2 Transfer payments (Current)	69.1	149.3	183.4	212.4	253.8	313.9	378.7	451.3	513.7	590.7	623.5
a) Interest payments	22.5	56.4	70.9	86.4	107.0	133.4	165.2	199.4	249.5	302.7	359.0
b) Subsidies	19.1	44.8	50.7	55.4	59.7	78.5	108.6	107.2	103.2	101.8	77.3
c) Grants to States & UTs (including local bodies)	18.1	28.6	39.2	42.0	49.6	58.3	57.2	76.6	87.9	100.5	101.2
d) Others	9.3	19.4	22.6	28.4	37.4	43.6	47.6	67.9	73.0	85.4	86.0
3 Gross capital formation Out Of budgetary resources	90.1	175.5	214.7	243.2	257.7	289.7	330.1	350.5	351.6	388.2	440.1
a) Physical assets	19	41.2	45.5	59.0	59.6	70.5	81.3	86.0	92.5	119.1	147.7
b) Financial assets	71.0	134.2	169.1	184.1	198.0	219.2	248.7	264.5	259.0	269.0	292.4
4 Others	13.9	19.6	20.7	37.9	26.0	22.6	33.7	24.2	17.2	26.4	17.1
5 Total expenditure	224.9	438.7	531.1	640.2	703	814	950.4	1049.7	1127.3	1277.5	1380.2
As per cent of total expenditure	(per cent)										
1 Consumption expenditure	23.0	21.5	21.1	22.9	23.5	23.0	21.9	21.3	21.7	21.3	21.7
a) Defence	15.9	15.1	15.0	16.3	16.9	16.3	15.0	14.6	14.4	13.6	13.8
b) Other Government administration	7.1	6.3	6.1	6.6	6.7	6.8	6.8	6.7	7.3	7.7	7.9
2 Transfer payments (Current)	30.7	34.0	34.5	33.2	36.1	38.6	39.8	43.0	45.6	46.2	45.2
a) Interest payments	10.0	12.9	13.3	13.5	15.2	16.4	17.4	19.0	22.1	23.7	26.0
b) Subsidies	8.5	10.2	9.5	8.7	8.5	9.7	11.4	10.2	9.2	8.0	5.6
c) Grants to States & UTs (including local bodies)	8.0	6.5	7.4	6.6	7.1	7.2	6.0	7.3	7.8	7.9	7.3
d) Others	4.2	4.4	4.3	4.4	5.3	5.4	5.0	6.5	6.5	6.7	6.2
3 Gross capital formation Out Of budgetary resources	40.1	40.0	40.4	38.0	36.7	35.6	34.7	33.4	31.2	30.4	31.9
a) Physical assets	8.5	9.4	8.6	9.2	8.5	8.7	8.6	8.2	8.2	9.3	10.7
b) Financial assets	31.6	30.6	31.9	28.8	28.2	26.9	26.2	25.2	23.6	21.1	21.2
4 Others	6.2	4.5	3.9	5.9	3.7	2.8	3.6	2.3	1.5	2.1	1.2

Source: Economic Survey, Government of India, various issues.

Table 4

Central Government Deficit
(percent of GDP at current market prices)

1	Budget deficit 2	Revenue deficit 3	Monetised deficit 4	Fiscal deficit 5	Primary deficit 6
1975-76	0.5	1.1	0.0	4.1	2.5
1980-81	1.8	1.5	2.6	6.2	4.3
1981-82	0.9	0.2	2.0	5.4	3.4
1982-83	0.9	0.7	1.9	6.0	3.8
1983-84	0.7	1.2	1.9	6.3	4.0
1984-85	1.6	1.8	2.6	7.5	5.0
Average Sixth Plan	1.2	1.1	2.2	6.3	4.1
1985-86	2.0	2.2	2.4	8.3	5.5
1986-87	2.8	2.7	2.4	9.0	5.8
1987-88	1.7	2.7	2.0	8.1	4.7
1988-89	1.4	2.7	1.6	7.8	4.2
1989-90	2.3	2.6	3.0	7.8	3.9
Average Seventh Pla	2.1	2.6	2.3	8.2	4.8
1990-91	2.1	3.5	2.8	8.4	4.4
1991-92	1.1	2.6	0.9	5.9	1.6
1992-93	1.8	2.6	0.8	5.7	1.3
1993-94	1.2	4.3	-	7.4	2.7
1994-95	0.7	3.6	-	6.0	1.0

Source: The Economic Survey , Government of India, various issues.

Table 5
Centre's Revenue Receipts and Revenue Expenditure

1	(Per cent of GDP)										
	2	3	4	5	6	7	8	9	10	11	12
	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
1 Tax revenue (Net of State's share)	6.9	7.6	8.1	8.3	8.4	8.5	8.4	8.1	8.1	8.3	8.4
2 Non-tax revenue	2.5	2.9	3.1	3.4	3.1	2.8	3.4	2.6	2.9	3.3	3.1
3 Total current revenue (1+2)	9.4	10.5	11.1	11.7	11.5	11.4	11.9	10.7	11.0	11.5	11.5
4 Total current expenditure	10.9	12.3	13.3	14.4	14.2	14.0	14.5	14.2	13.7	13.9	13.7
a) Interest payments	1.9	2.6	2.9	3.2	3.4	3.6	3.9	4.0	4.3	4.6	4.8
b) Subsidies	1.2	1.6	1.8	1.9	1.8	2.0	2.4	2.0	1.7	1.4	1.0
c) Defence expenditure	2.4	2.8	2.9	3.4	3.0	2.4	2.1	2.0	1.9	1.8	1.7
d) Grants to States & UTs	2.1	2.3	2.7	2.6	2.8	2.5	1.9	2.5	2.6	2.6	2.5
e) Others	3.4	3.1	3.1	3.3	3.3	3.5	4.1	3.6	3.3	3.5	3.8
5 Revenue Account surplus (+)/ deficit (-)[3-4]	-1.5	-1.8	-2.2	-2.7	-2.7	-2.7	-2.6	-3.5	-2.6	-2.4	-2.2

Note : The figures may not add up to the total because of rounding.
Source: Economic Survey, Government of India, various issues.

TABLE 6

Fiscal Deficit, Trade Deficit, Current
Account Balance as percentage of GDP

Years	Fiscal Deficit	Trade Deficit	Current Account Balance
1970-71	5.3	1.0	-1.0
1971-72	6.6	1.0	-0.9
1972-73	6.2	0.3	-0.5
1973-74	5.3	0.8	+2.1
1974-75	5.4	1.8	-0.9
1975-76	6.1	1.5	+0.4
1976-77	6.4	0.4	+1.8
1977-78	6.3	0.6	+1.8
1978-79	7.3	2.1	+0.2
1979-80	7.5	3.0	-0.2
1980-81	9.0	4.6	-1.2
1981-82	8.3	4.1	-1.5
1982-83	9.5	3.8	-1.3
1983-84	10.0	3.3	-1.1
1984-85	11.1	2.9	-1.2
1985-86	10.4	3.7	-2.3
1986-87	12.3	3.2	-2.0
1987-88	11.6	2.8	-1.9
1988-89	11.2	3.4	-2.6
1989-90	12.2	2.8	-2.2
1990-91	12.7	2.6	-2.3
1991-92	10.6	1.2	-0.8

Source : Economic Survey, Govt. of India,
Report on Currency and Finance,
Reserve Bank of India.
Annual Report, RBI

Table 7
INDIA : Balance of Payments
(US\$ Millions)

	1991/92	1992/93	1993/94	1994/95 Q.E.	1995/96 * Q.E.
A. CURRENT ACCOUNT					
Exports f.o.b.	18223	18908	22700	26763	14980
Imports c.i.f.	20347	23000	23985	31269	18165
of which:					
Non-Oil	14983	16900	18332	25387	15052
Oil	5364	6100	5653	5882	3113
Trade Balance	-2124	-4092	-1285	-4506	-3185
Invisibles					
Receipts	8160	8033	11145	NA	NA
Payments	8171	7545	10175	NA	NA
of which:					
Interest Payments	3304	3614	4002	NA	NA
Invisibles (net)	-11	488	970	2191	445
Current Account Balance	-2135	-3604	-315	-2315	-2740
B. CAPITAL ACCOUNT					
External Assistance (net) /a	3014	1775	1074	1250	-40
Disbursements	4450	3296	3463	NA	NA
Amortisation /b	-1436	-1521	-2389	NA	NA
Commercial Borrowings (net)	730	-1504	590	1029	25
Disbursements	2696	1188	2872	NA	NA
Amortisation	-1966	-2692	-2282	NA	NA
NRI deposits (net)	-454	2188	940	847	59
Inflow	600	2788	1140	NA	NA
Outflow	-1054	-600	-200	NA	NA
Other Capital (net) /c	2152	585	6388	4895	1490
Of which:					
FDI	148	341	620	1314	856
FII	-	1	1700	1503	533
GDR	-	86	1456	NA	NA
OSF	-	-	334	NA	NA
Total Capital Account	5442	3044	8992	7072	1451
C. IMF (net)					
IMF purchases	570	1288	191	---	----
IMF repurchases	1233	1623	325	---	----
IMF repurchases	663	335	134	---	----
D. TOTAL CAPITAL ACCOUNT (incl. IMF)					
	6012	4332	9183	7072	1451
E. TOTAL CURRENT & CAPITAL ACCOUNT (incl. IMF)					
	3877	728	8868	4757	1289
F. Errors and Omissions					
	0	0	0	0	0
G. Foreign Currency Reserves (+ Decrease / - Increase)					
	-3877	-728	-8868	-4757	1289

Notes: a. External Assistance (net) for 1993/94 is \$ 1819 million.
b. includes \$ 745 million as Rupee Debt Service for 1993/94.
c. includes \$ 2004 million as Short-term Debt, delayed exports, bilateral balances, and movements of banking capital for 1991/92, and \$ 2278 million for 1993/94.

* Data is for the period April-September 1995.

Q.E. :Quick estimates.

Source: The Reserve Bank of India and The Economic Survey, 1994-95 and 1995-96.