

CHAPTER 4

BALANCE OF PAYMENTS

4.1. Balance of Payments (BoP) statistics systematically summaries the economic transactions of an economy with the rest of the World for a specific period. The Reserve Bank of India (RBI) is responsible for compilation and dissemination of BoP data. BoP is broadly consistent with the guidelines contained in the BoP Manual of the International Monetary Fund.

4.2. Balance of payment (BoP) comprises of current account, capital account, errors and omissions and changes in foreign exchange reserves. Under current account of the BoP, transactions are classified into merchandise (exports and imports) and invisibles. Invisible transactions are further classified into three categories, namely (a) Services-travel, transportation, insurance, Government not included elsewhere (GNIE) and miscellaneous (such as, communication, construction, financial, software, news agency, royalties, management and business services); (b) Income; and (c) Transfers (grants, gifts, remittances, etc.) which do not have any quid pro quo.

4.3. Under the Capital Account, capital inflows can be classified by instrument (debt or equity) and maturity (short or long-term). The main components of the capital account include foreign investment, loans and banking capital. Foreign investment, comprising Foreign Direct Investment (FDI) and Portfolio Investment consisting of Foreign Institutional Investors (FIIs) investment, American Depository Receipts/Global Depository Receipts (ADRs/GDRs) represents non-debt liabilities, while loans (external assistance, external commercial borrowings and trade credit) and banking capital, including non-resident Indian (NRI) deposits are debt liabilities.

4.4. The data on merchandise trade are available from two sources namely; (a) from the Directorate General of Commercial Intelligence and Statistics (DGCI&S) on customs basis; and (b) from RBI on payments (which includes both receipts and payments) basis. The Daily Trade Return (DTR) is the primary source of recording exports data at DGCI&S, while RBI relies mainly on the R-return furnished by Authorised Dealers (Ads) to compile the exports and imports data. The data on merchandise exports in BoP are compiled on the basis of information available from the DGCI&S, after adjusting for time and exchange rate differences. The merchandise export data is recorded on free on board (F.O.B.) basis. It may be noted that export of software in physical form is captured by DGCI&S.

4.5. The customs record data on imports on the basis of the Bill of Entry prepared for goods entering in the customs area. The data on

imports under BoP statistics are compiled mainly on the basis of returns submitted by Ads supplemented by information on the transactions not passing through the banking channel such as imports financed through credit taken abroad.

Imports under the BoP data are recorded on the basis of date of payment or date of disbursement of loans, which may differ significantly from the recording of imports at the Customs end on the basis of actual arrival of goods.

4.6. Under the Capital Account, both equity and debt flows are covered. Debt flows comprise commercial borrowings, external assistance, short-term trade credits and Non-Resident Indian (NRI) deposits, while the equity flows comprise Foreign Direct Investment (FDI) and Portfolio Investment. At present, direct investment into the country by non-residents is freely allowed in most sectors subject to certain sectoral ceilings on equity holdings. The FDI within the prescribed sectoral ceilings is freely allowed under RBI automatic route, FDI in restricted activities and in excess of the prescribed sectoral ceilings requires prior Government approval through the Secretariat for Industrial Assistance (SIA) and the Foreign Investment Promotion Board (FIPB). The non-resident FDI investors are also allowed to raise their stakes through acquisition of shares. The portfolio investment consists of the amount raised by Indian corporate through Global Depository Receipts (GDRs) or American Depository Receipts (ADRs), investments in Indian stock markets by foreign institutional investors (FIIs) and high net worth individuals and offshore funds.

4.7. Some of the Important Terms used in the Chapter are:

Invisibles Travel Credit — This item represents foreign tourist's expenditure during their stay in India, expenditure incurred by resident travelers abroad and on the debit side it covers exchange sold for private and official travel.

Transportation — Transportation covers receipts and payments on account of international transportation services.

Insurance — Insurance comprises receipts and payments relating to all type of insurance services as well as reinsurance.

Investment Income — Receipts include interest earned on the investments of RBI and on holdings of SDRs, and payments include interest and commitment charges on foreign loans, on purchases from the IMF and those on cumulative allocation of SDRs.

Government not included elsewhere — The item includes receipts and payments on account of maintenance of embassies and diplomatic missions and offices of international institutions as well as receipts and payments on government account not included elsewhere.

Miscellaneous — This item covers, receipts and payments in respect of all other services such as communication services,

construction services, software services, technical know-how, royalties etc.

Transfers of payments — (official, private) represent receipts and payments without a quid pro quo. Official transfer receipts represent

Contra entries for cash receipts and value of aid received in kind from foreign Governments and institutions and debits cover contributions to international organisations and official grants in cash or kind extended to foreign Government. Private transfer receipts include repatriation of savings, remittances for family maintenance, contributions and donations to religious and charitable institutions and the like.

Investment Income transactions — are in the form of interest, dividend, profit and others for servicing of capital transactions. Investment income receipts comprise interest received on loans to non-residents, dividend/profit received by Indians on foreign investment, reinvested earnings of Indian FDI companies abroad, interest received on debentures, floating rate notes (FRNs), Commercial Papers (CPs), Fixed Deposits and funds held abroad by ADs out of foreign currency loans/export proceeds, payment of taxes by non-residents/refunds of taxes by foreign governments, interest/discount earnings of RBI investment etc. Investment income payments comprise payment of interest on non-resident deposits, payment of interest on loans from non-residents, payment of dividend/profit to non-resident share holders, reinvested earnings of the FDI companies, payment of interest on debentures, FRNs, CPs, fixed deposits Government securities, charges on Special Drawing Rights (SDRs) etc.

Foreign Investment — Data on investment abroad, hitherto reported, have been split into equity capital and portfolio investment since 2000-2001

Foreign Direct Investment (FDI) — to and by India up to 1999-2000 comprise mainly equity capital. In line with international best practices, the coverage of FDI has been expanded since 2000-2001 to include, besides equity capital, reinvested earnings (retained earnings of FDI companies) and other direct capital (inter-corporate debt transactions between related entities).

Portfolio investment — mainly includes FII investment, funds raised through GDRs/ADRs by Indian companies and through offshore funds..

External assistance by India — denotes aid extended by India to other foreign Governments under various agreements and repayment of such loans. External Assistance to India denotes multilateral and bilateral loans received under the agreements between Government of India and other Governments/International institutions and repayments of such loans by India, except loan repayment to erstwhile Rupee area

countries that are covered under the Rupee Debt Service.

Commercial borrowings — cover all medium/long term loans. Commercial Borrowings by India denote loans extended by the Export Import Bank of India [EXIM Bank] to various countries and repayment of such loans.

A short term loan — denotes drawals in respect of loans, utilized and repayments with a maturity of less than one year.

Banking capital — comprises of three components : (a) foreign assets of Commercial Banks (ADs); (b) foreign liabilities of Commercial Banks (ADs); and (c) others. Foreign assets of Commercial Banks consist of (i) foreign currency holdings; and (ii) rupee overdrafts to non-resident banks. Foreign liabilities of commercial banks consists of (i) Non- resident deposits, which comprises receipt and redemption of various non-resident deposit schemes; and (ii) liabilities other than non- resident deposits which comprises rupee and foreign currency liabilities to non-resident banks and official and semi-official institutions. Others under banking capital include movement in balances of foreign central banks and international institutions like IBRD, IDA, ADB, IFC, IFAD etc. maintained with RBI as well as movement in balances held abroad by the embassies of Indian in London and Tokyo.

Non-resident deposits — Credits under this item include remittances received towards various non-resident deposit schemes which are continuing. Other schemes have been discontinued. A few of them are Non Resident (External) rupee Account (NR(E)RA) (Since February, 1970), Non-resident Non-repatriable Rupee Deposits (NRNRD) introduced in June, 1992.

Others — These include movement in balances of foreign central banks and international institutions like IBRD, IDA, ADB, IFC, IFAD etc. maintained with RBI as well as movement in balances held abroad by the Embassies of India in London and Tokyo. This also includes movements in technical credit granted to the erstwhile East European countries and their investments in Government Treasury Bills and deposits with the Government.

Rupee Debt Service — Interest payments on and principal repayments on account of civilian and non-civilian debt in respect of Rupee Payment Area (RPA), are clubbed together and shown separately under this item.

Other capital — comprises mainly the leads and lags in exports receipts (difference between the custom data and the banking channel data). This is a residual item and includes all capital transactions not included elsewhere. It particularly includes funds held abroad, advance receipts under deferred exports, India's subscription to International institution, quota payments to IMF, delayed export receipts, remittances towards recouping the losses of branches/subsidiaries and the like.

Movement in Reserves— Movements in the reserves comprises changes in the foreign currency assets held by the RBI and SDR balances held by the Govt. of India. These are recorded after excluding changes on account of valuation. Valuation changes arise because

foreign currency assets are expressed in US dollar terms and they include the effect of appreciation/ depreciation of non-US currencies (such as Euro, Sterling, and Yen) held in reserves.

4.8. Some of the Important Highlights of the Sector are as follows:

- ✚ Global economy have impacted the Indian economy causing drop in growth, higher current account deficit (CAD) and declining capital inflows. During 2011-12, Current Account Deficit in absolute terms(₹ 3760 billion)) was higher than in 2010-11(₹ 2101 billion). The widening of India's CAD during 2011-12 reflects the impact of growth asymmetry between India and the rest of the world. India's export and import growth momentum, gained in 2010-11, continued during 2011-12. This is mainly due to higher trade deficit of ₹ 3165 billion in 2011-12 as compared to 2010-11.
- ✚ Inward FDI and outward FDI are showing a declining trend in 2011-12 vis-avis 2010-11. Inward FDI declined from ₹ 13159 billion in 2011-12 to ₹ 11212 billion in 2010-11.
- ✚ The gross capital inflow (₹ 3190) in 2011-12 has increased by 12.6 % (from ₹ 2833 billion) in 2010-11. The net capital flows in absolute terms were also higher during 2011-12 vis-a-vis the corresponding period of 2010-11
- ✚ During 2011-12, large net capital amount inflows (₹ 3190 billion) is higher than net capital amount inflows in 2010-11 (₹ 2833 billion). It is mainly on account of higher Non-Resident Deposits of ₹ 710 billion in 2011-12 as compared to ₹ 220 billion in 2010-11.
- ✚ Portfolio investment witness net inflow of ₹ 1394 billion in 2010-11 as against a net inflow of ₹ 856 billion in 2011-12.
- ✚ During 2011-12, India has taken maximum loan of ₹ 162 billion from Japan, followed by ₹ 155 billion from International Bank for Reconstruction and Development (IBRD) and ₹ 114 billion from International Development Association(IDA). During the same period a loan of ₹ 107 billion has also been taken. Whereas in 2010-11 India has taken loan around 49.2% of total loan from International Development Association (IDA), followed by International Bank for Reconstruction and Development (IBRD) (24.8%) and then Asian Development Bank (ADB) (21.1%).
- ✚ During the same period i.e. in 2011-12, in India, only 53% of fund from Japan has been utilized. Out of total utilized funds 23% are from Japan, 23% % from International Development Association (IDA), followed by 20 % are from Asian Development Bank (ADB).

