Chapter 4
BALANCE OF PAYMENTS

4.1 Balance of Payments & Its Components : Balance of Payments (BoP) statistics systematically summaries the economic transactions of an economy with the rest of the World (i.e.transactions between resident & non resident entities) during a given period. It comprises of **current and capital & financial accounts** . Adverse trade balance (or trade deficit) is reflected in Current Account of BOP, which besides covering goods and services, also covers income (investment income & compensation of employees) and current transfers (remittances, grants etc). In case the combined net effect of trade balance, income and current transfers is also negative, the same results in Current Account Deficit . The deficit needs to be financed by external borrowings and/or investments which are constituents of Financial Accounts.

- **Current Account :** As per Balance of Payment Manual(IMF), **current account** covers all transactions (other than those in financial items) that involve economic values and occur between resident and non resident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo. Specifically, the major classifications are ***goods and services, income***, and ***current transfers***. Thus, current account is a broader measure than trade balance as it also includes income(investment income & compensation of employees) & current transfers. The current account of the BoP provides information not only on international trade in goods, but also on international transactions in services. Current account of the BoP, transactions can be 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 etc); (b) Income (investment income & compensation of employees); and (c) Current Transfers (grants, gifts, remittances, etc.) which do not have any quid pro quo. Investment income covers receipts and payments of income associated, respectively, with residents' holdings of external financial assets and with residents' liabilities to non-residents. Investment income consists of direct investment income, portfolio investment income, and other investment income.

- The former balance of payments capital account has been redesignated as the **capital and financial account** as per the fifth edition of Balance of Payments Manual(IMF) and the revised account has two major components:
  - The Capital Account
  - The Financial Account

  These are in accordance with the same accounts in the System of National Accounts (SNA). Assets represent claims on residents and liabilities represent indebtedness to non residents.

- **Capital Account:** The major components of the capital account are (a) capital transfers and (b) acquisition/disposal of nonproduced, nonfinancial assets.

- **Financial Account:** The financial account records an economy's transaction in external financial assets and liabilities. All components are classified according to type of investment or by functional subdivision ((a) direct investment, (b) portfolio investment, (c) other investment,(d) reserve assets (external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes**)**).For the category of direct investment, there are directional distinctions (abroad or in the reporting economy) and, for the equity capital and other capital components within this category, asset or liability distinctions. For the categories of portfolio investment and other investment, there are the customary asset or liability distinctions. Particularly significant for portfolio investment and other investment is the distinction by type of instrument (equity or debt securities, trade credits, loans, currency and deposits, other assets or liabilities). The traditional distinction, which is based on original contractual maturity of more than one year or one year or less, between long- and short-term assets and liabilities, applies only to other investment. Classification according to Sector of the domestic transactor (general government, monetary authorities, banks and other sectors) is also used .

4.2 India's Balance of Payment – Historical Perspective* : India's BoP evolved reflecting both the changes in our development paradigm and exogenous shocks from time to time. In the 60 year span, 1951-52 to 2011-12, six events had a lasting impact on our BoP: (i) the devaluation in 1966; (ii) first and second oil shocks of 1973 and 1980; (iii) external payments crisis of 1991; (iv) the East Asian crisis of 1997; (v) the Y2K event of 2000; and (vi) the global financial crisis of 2008 and subsequent Euro zone crisis .

4.3 The first phase can be considered from the 1950s through mid-1960s. In the early 1950s, India was reasonably open. For example, in 1951-52, merchandise trade, exports plus imports, accounted for 16 per cent of GDP. Overall current receipts plus payments were nearly 19 per cent of GDP. Subsequently, the share of external sector in India's GDP gradually declined with the inward looking policy of import substitution. Moreover, Indian export basket comprised mainly traditional items like tea, cotton textile and jute manufactures. Not only the scope of world trade expansion in these commodities was less but additionally India had to face competition from new emerging suppliers, such as Pakistan in jute manufactures and Sri Lanka and East Africa in tea.

4.4 WTO NEGOTIATIONS AND INDIA While the above measures were broadly domestic policy adjustment to the emerging external-sector environment, India continued to be engaged in WTO negotiations that have an impact on the external sector as well as overall economy. The Ninth Ministerial Conference of the WTO took place in Bali during 3-7 December 2013. Ministers issued a Declaration and ten Decisions were adopted on various issues including trade facilitation and issues relating to agricultural trade rules, development, and least developed countries (LDCs).

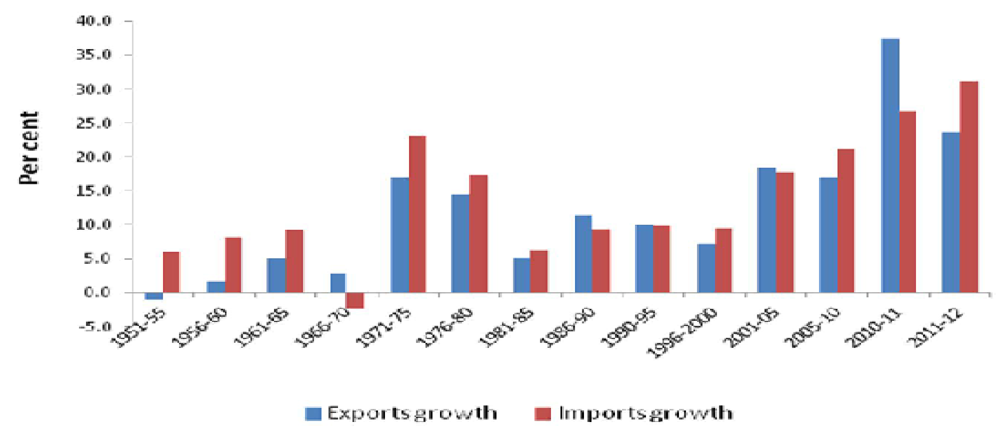
Amongst these Decisions, two are of particular significance for India, viz. the Ministerial Decision for an Agreement on Trade Facilitation and the Ministerial Decision on Public Stockholding for Food Security Purposes. The Trade Facilitation Agreement (TFA), which was also endorsed by India at the Ninth Ministerial Conference, is basically aimed at greater transparency and simplification of customs procedures, use of electronic payments and risk

4.5 During this period, policy emphasis was on import saving rather than export promotion, and priority was given to basic goods and capital goods sector. It was argued that investment in heavy industries would bring in saving in foreign exchange, as output from such industries would replace their imports in the long-run. Import-substituting strategies were expected to gradually increase export competitiveness through efficiency-gains achieved in the domestic economy. But this did not happen. Hence, exports remained modest. In fact our external sector contracted in relation to GDP from the level observed in the early 1950s. By 1965-66,merchandise trade was under 8 per cent of GDP and overall current receipts and payments were below 10 per cent of GDP.

4.6 Notwithstanding the contracting size of the external sector, as imports growth outstripped exports growth, there was persistent current account deficit (CAD). Emphasis on heavy industrialisation in the second five year Plan led to a sharp increase in imports. On top of this, the strains of Indo-China conflict of 1962, Indo-Pakistan war of 1965 and severe drought of 1965-66 triggered a major BoP crisis. India’s international economic relations with advanced countries came under stress during the Indo-Pak conflict. Withdrawal of foreign aid by countries like the US and conditional resumption of aid by the Aid India Consortium led to contraction in capital inflows. Given the low level of foreign exchange reserves and burgeoning trade deficit, India had no option other than to devalue. Rupee was devalued by 36.5 per cent in June 1966

4.7 Though India’s export basket was limited, the sharp devaluation clearly increased the competitiveness of India’s exports. Concurrently, India had to undertake a number of trade liberalising measures. Even though the net impact of devaluation was a contentious issue among the leading economists, data show that exports growth, though modest, outpaced imports growth.

In the second half of 1960’s, growth in exports was higher than that in imports.



4.8 In fact, the current account turned into a surplus in 1973-74 as not only the exports growth was significant but invisible receipts also showed a sharp turnaround from deficit to surplus mainly on account of official transfers which largely represented grants under the agreement of February 1974 with the US Government . Since surplus in current account balance (CAB) was used for repaying rupee loans under the same agreement with the US, accretion to reserves was only marginal.

4.9 Surplus in India's CAB was, however, short-lived as the first oil shock occurred by October 1973.As exports improved, particularly to oil producing Middle-East countries, BoP recovered quickly from the first oil shock. By this time, the Indian rupee, which was linked to a multi-currency basket with pound sterling as intervention currency, depreciated against the US dollar. Depreciating rupee along with other policy incentives to exporters acted as a supporting factor for India's exports. At the same time, invisible receipts grew sharply stemming from workers' remittances from the Middle East. Consequently, the current account balance turned into surplus in 1976-77 and 1977-78.

4.10 During the 1980s, BoP again came under stress. The second oil shock led to a rapid increase in imports in early 1980s. Oil imports increased to about two-fifths of India's imports during 1980-83. At the same time, India's external sector policy was changing towards greater openness. Various measures were undertaken to promote exports and liberalise imports for exporters during this period. However, several factors weighed against external stability. First, despite a number of export promotion measures, the subdued growth conditions in the world economy constrained exports growth. Second, the surplus on account of invisibles also deteriorated due to moderation in private transfers. Third, the debt servicing had increased with greater recourse to debt creating flows such as external commercial borrowings (ECBs) and non-resident Indian (NRI) deposits. Fourth, deterioration is the fiscal position stemming from rising expenditures accentuated the twin deficit risks.

4.11 Given the already emerging vulnerabilities in India's BoP during the 1980s, the incipient signs of stress were discernible which culminated in the BoP crisis in 1991 when the Gulf War led to a sharp increase in the oil prices. On top of that, a slowdown in the world trade following the recessionary conditions in industrialised countries and

the economic disruption in Eastern Europe including the erstwhile USSR had begun to affect India's exports. A large number of Indian workers employed in Kuwait had to be airlifted to India and their remittances stopped. Foreign exchange reserves had already dwindled due to significant drawdown for financing of CAD in earlier years. During 1990-91, at one point of time, the foreign currency assets had dipped below US$ 1.0 billion, covering barely two weeks of imports. With increasing recourse to the borrowings on commercial terms in the previous years, financing of CAD had also become more sensitive to creditors' confidence in the Indian economy.

4.12 Short-term credits began to dry up and the outflow of NRI deposits was also very substantial. Downgrading of India's credit rating below the investment grade also constrained India's access in the international markets for funds, especially ECBs and trade credit. Even though the stress in India's BoP was unprecedented, the Government decided to honour all debt obligations without seeking any rescheduling.

4.13 In response to the BoP crisis, a combination of standard and unorthodox policies for stabilisation and structural change was undertaken to ensure that the crisis did not translate into generalised financial instability. Such steps included pledging gold reserves, discouraging of non-essential imports, accessing credit from the IMF and other multilateral and bilateral donors. While dealing with the crisis through an IMF programme, a comprehensive programme of structural reforms was undertaken simultaneously with special emphasis on the external sector.

4.14 The broad approach to reform in the external sector was laid out in the Report of the High Level Committee on Balance of Payments (Chairman: C. Rangarajan, 1993). Trade policies, exchange rate policies and industrial policies were recognised as part of an integrated policy framework so as to boost the overall productivity, competitiveness and efficiency of the economy. In addition, to contain the trade and current account deficits and enhance export competitiveness, the exchange rate of rupee was adjusted downwards in two stages on July 1 and July 3, 1991 by 9 per cent and 11 per cent, respectively. A dual exchange rate system was introduced in March 1992 which was unified in March 1993. Subsequently, India moved to current account convertibility in August 1994 by liberalising various transactions relating to merchandise trade and invisibles.

4.15 The impact of policy changes was reflected in lower CAD and its comfortable financing in subsequent years. India could manage the external shocks that emanated from the East Asian crisis in 1997 and subsequently, the rise in international oil prices and bursting of dotcom bubble in 1999-2000. Indeed, the Indian economy remained relatively insulated from the East Asian crisis owing to the reforms undertaken in previous years and proactive and timely policy measures initiated by the Reserve Bank to minimise the contagion effect. Monetary tightening coupled with flexible exchange rate and steps to bolster reserves through issuance of Resurgent India Bonds (RIBs) helped in stabilizing the BoP.

4.16 The BoP came under some stress again in the first half of 2000-01 due to a sharp rise in oil prices and increase in interest rates in advanced countries. At the same time,

India's software exports got a boost following the demands to address the Y2K challenges. This also encouraged migration of Indian software engineers to the advanced countries. As a result, the surplus in the services exports and remittance account of the BoP increased sharply which more than offset the deficit in the trade account. Software exports rose from 0.9 per cent of GDP in 1999-2000 to a peak of 3.8 per cent of GDP by 2008-09. Private remittances also rose from 2.7 per cent of GDP to 3.8 per cent during this period. Thus, in the 2000s software exports and private emittances emerged as two main financing items for the current account mitigating to a large extent the merchandise trade deficit. Owing to a combination of factors, in fact, the current account recorded a surplus during 2001-04. Subsequently, as international oil prices started rising and domestic growth picked up, deficit in current account re-emerged during 2004-05 to 2007-08 *albeit* remained range bound.

Trend in Net Invisibles

(Per cent of GDP)

	1950-80	1980-90	1990-00	2000-09	2009-12
1. Services (Net)	0.3	0.4	0.3	2.1	3.0
2. Software (Net)	-	-	-	2.3	3.3
3.Other Services (Net)	0.3	0.4	0.3	-0.2	-0.3
4. Private Transfers (Net)	0.4	1.1	2.2	3.2	3.5
5. Total Invisibles (Net)	0.7	1.4	1.6	4.6	5.6

Composition of Current Account Balance

(Percent of GDP)

Period	1970s	1980s	1990s	2000-09	2009-12
1. Oil TB	-1.2	-1.7	-2.0	-3.5	-4.5
2. Non-Oil TB	0.4	-0.9	0.6	-0.8	-3.9
3.Non-oil CAB	1.1	-0.1	0.8	3.3	1.3
4. CAB	-0.1	-1.8	-1.3	-0.3	-3.3

TB: Trade Balance, CAB: Current Account Balance, (-): Implies deficit

4.17 After a period of stability, India's BoP came under stress in 2008-09 reflecting the impact of global financial crisis. As capital inflows plummeted, India had to draw down its foreign currency assets by US $ 20 billion during 2008-09. Stress since the collapse of Lehman Brothers largely emanated from decline in India's merchandise exports and deceleration in growth in services exports. Though there was some improvement during 2010-11 on the back of a strong pick-up in exports mainly led by diversification of trade in terms of composition as well as direction, it proved to be short-lived . BoP again came under stress during 2011-12 as slowdown in advanced economies spilled over to emerging and developing economies (EDEs), and there was sharp increase in oil and gold imports.

4.18 Financing of Current Account * : In the first three decades after the independence, CAD was mainly financed by external assistance and drawdown of forex reserves. Since much of India's planning strategy was conceived in terms of a closed economy theoretical framework, private investment inflows into the economy were not encouraged much. Therefore, foreign resources came primarily in the form of official transfers. The private investment came mainly through technology transfer, but played a

minuscule role. During this period, the development efforts and stress on BoP from time to time led India to tap diverse aid sources for specific projects.

4.19 In the 1980s, as the traditional source of official concessional flows dried up there was a need to access private capital. But, this came in the form of debt creating flows though costly external commercial borrowings (ECBs) and NRI deposits. The limitations of financing CAD through debt creating flows were exposed in the 1991 crisis. Subsequent reforms and opening up the capital account to non-debt creating flows of foreign direct investment (FDI) and portfolio equity flows not only completely transformed the sources of financing of the BoP but it also resulted in substantial addition to reserves in the 2000s.

4.20Current account developments in 2014-15 (April-September) : Data on balance of payments (BoP), which is available with a lag of approximately one quarter, indicates that in the first half of 2014-15, there was a year-on-year improvement in trade account (on BoP basis) as a result of low growth in imports overcoming the moderation in merchandise export growth. Merchandise exports grew by 7.6 per cent in 2014-15 (April-September) to US$ 167.0 billion. However, in the second quarter there was some deceleration in export growth owing to moderation in oil prices from an average of US$ 105.1 per barrel in 2013-14 (second quarter) to US$ 98.9 per barrel in 2014-15 (second quarter).The outcome in terms of imports was again somewhat mixed in the two quarters of the first half of the current fiscal relative to last year. This was largely due to the base effect of high gold imports in the first quarter of 2013-14 and a sharp correction in such imports in the second quarter of 2013-14 as against a steady pick-up in the first quarter of 2014-15 followed by a surge in imports in the second quarter reflecting seasonal demand spike and the easing of restrictions on gold imports. The mixed outcome also owed to the pickup in non-gold non-POL imports in 2014-15 relative to the compression in 2013-14. Invisible account covers (a) services, (b) transfers, and(c) income. The surplus therein has been a major factor that moderated the large trade deficits from spilling over to the CAD. Services (net) continued to be dominated by software exports and witnessed a growth of 2.4 per cent to US$ 36.1 billion in 2014-15 (April-September) as against US$ 35.2 billion in the corresponding period of the previous year . Transfers (net)—mostly remittances—were around US$ 32.7 billion in the first half of both 2013-14 and 2014-15. While software services and remittances provide surpluses, net income is an outgo that reflects interest/dividends payable and has a large bearing on the level of net international investment position. Income (net) is dominated by investment income and was US$ 13.8 billion in 2014-15 (AprilSeptember) as against US$ 13.4 billion in 2013- 14 (April-September). As a result of the above developments, CAD was placed at US $ 17.9 billion in 2014-15 (April-September) as against US$ 26.9 billion in the same period of 2013-14. As a proportion of GDP, the CAD declined from 3.1 per cent in the first half of 2013-14 to 1.9 per cent in the first half of 2014-15.

4.21 Capital / finance account developments in 2014-15 (April-September) : There was marked improvement in the net capital/financial flows both in terms of quantum and quality in the first half of 2014-15. Net financial flows were at US$ 36.0 billion in the first

half of 2014-15 compared to US$ 16.3 billion in the first half of 2013-14. Net foreign investment, an important financial flow, surged from US$ 7.8 billion in 2013-14 (April-September) to US$ 38.4 billion in 2014-15 (April-September). Net ECB was the other important item of the capital / finance account of the BoP which also improved from US$ 2.5 billion in 2013-14 (April-September) to US$ 3.4 billion in 2014-15 (April-September). Net banking capital witnessed a decline from US$ 11.5 billion to (-) US$ 0.5 billion during the same period.

4.22 The financial account was dominated by direct and portfolio investments which are non-debt creating in nature. The net flows in the form of FDI and portfolio investment were more than sufficient to finance the CAD during this period. While higher net FDI flows reflect a positive outlook about the growth potential of the domestic economy, robust portfolio inflows in 2014-15 were underpinned by reduced external-sector vulnerabilities of the domestic economy and benign global financial conditions aided by the prospect of additional European Central Bank easing. Given the net capital flows and the CAD levels, accretion in foreign exchange reserves was US$ 18.1 billion (BoP basis) in the first half of 2014-15 as against drawdown of US$ 10.7 billion in 2013-14 (AprilSeptember). In 2014-15 (up to December 2014), there has been a net inflow of US$ 28.5 billion in foreign instituinstitutional investors (FII) investment as compared to an outflow of US$ 4.5 billion in the corresponding period of 2013-14. The latest data on FDI inflows (net) available is for the period April-December 2014 and places these inflows at US $ 24.2 billion as against a level of US $ 20.7 billion in the same period in 2013-14. In so far as non-resident Indian (NRI) deposits are concerned, the lower levels of US $ 10.0 billion in April-December 2014 relative to April-December 2013 (US$ 35.1billion) become broadly similar when adjusted for the one-off swap scheme. The above developments in the current and capital accounts indicate further accretion to reserves on BoP basis beyond the first half of the current fiscal.

4.23 **Reserve Variation:** Change in foreign exchange reserves can be decomposed into change in reserves on BoP basis and valuation changes in the assets held by the RBI, which are denominated in US dollars.

4.24 Data Source : The **Reserve Bank of India (RBI)** is responsible for compilation and dissemination of BoP data. The data on India's Balance of Payments (BoP) are published by the Reserve Bank on a **quarterly basis with a lag of one quarter** BoP is broadly consistent with the guidelines contained in the BoP Manual of the International Monetary Fund.

4.25 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.

4.26 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.

4.27 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 disbursal of loans, which may differ significantly from the recording of imports at the Customs end on the basis of actual arrival of goods.

4.28 Information on Authorization & Utilization of External Assistance is maintained by Aid **Accounts & Audit Division**, **Department of Economic Affairs, Ministry of Finance**.

Terms & Definitions (including those used in the tables) **:**

- **Current transfers** consist of all transfers that do not involve (i) transfers of ownership of fixed assets; (ii) transfers of funds linked to, or conditional upon, acquisition or disposal of fixed assets; (iii) forgiveness, without any counterparts being received in return, of liabilities by creditors. All of these are capital transfers. Current transfers include those of general government (e.g., current international cooperation between different governments, payments of current taxes on income and wealth, etc.), and other transfers (e.g., workers' remittances, premiums—less service charges, and claims on non-life insurance).
- **Capital transfers** consist of those involving transfers of ownership of fixed assets; transfers of funds linked to, or conditional upon, acquisition or disposal of fixed assets; or cancellation, without any counterparts being received in return, of liabilities by creditors. It includes two components: (i) general government, which is subdivided into debt forgiveness and other, and (ii) other, which is subdivided into migrants' transfers, debt forgiveness, and other transfers.
- **Acquisition/disposal of non produced, non financial assets** largely covers intangibles—such as patented entities, leases or other transferable contracts, goodwill, etc. This item does not cover land in a specific economic territory but may include the purchase or sale of land by a foreign embassy.
- **Foreign Exchange Reserves:** It includes Foreign Currency Assets, Gold, SDRs (Special Drawing Rights) & reserve tranche position (RTP) in the International Monetary Fund (IMF). The level of foreign exchange reserves is largely the outcome of the Reserve Bank of India (RBI) intervention in the foreign exchange market to smoothen exchange rate volatility and valuation changes due to movement of the US dollar against other major currencies of the world. Foreign exchange reserves are accumulated when there is absorption of the excess foreign exchange flows by the RBI through intervention in the foreign exchange market, aid receipts, interest receipts and funding from the International Bank for Reconstruction and

Development (IBRD), Asian Development Bank (ADB), International Development Association (IDA) etc.

- **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 (Services)** : 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 (Services)** : This item covers, receipts and payments in respect of all other services (besides those mentioned in the table) 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 FIIs 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.

- **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.
- **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. 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.
- **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-Repartriable Rupee Deposits (NRNRD) introduced in June, 1992.
- **Other Capital (Capital account)** 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.

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