

Invisibles account

6.8 The current account surpluses in India's balance of payments in recent years are attributable to the expanding invisibles surpluses. In the first three quarters of 2003-04, the trade deficit estimated at around US\$15 billion, was more than compensated by an invisibles surplus of US\$ 18.2 billion, resulting in a positive current account balance of US\$ 3.2 billion. The size of the invisibles surplus has increased by almost sixty per cent over the period 2000-01 to 2002-03 (from US\$ 10.8 billion in 2000-01 to US\$ 17 billion in 2002-03).

6.9 Buoyant inflows of private transfers have been one of the main factors contributing to the remarkable growth in invisibles. Net aggregate transfers at US\$14.6 billion (mostly private transfers of US\$ 14.5 billion) during April-December 2003-04, far exceeded US\$ 11.3 billion of such transfers in the corresponding period of the previous year. It is worth noting that the magnitude of net private transfers during the first nine months of 2003-04 (US\$ 14.5 billion) is almost equivalent to that of net private transfers for the full year 2002-03 (US\$ 14.8 billion).

6.10 The current high level of private transfers, which comprise largely inflows of remittances from Indians working abroad, have made India the highest global recipient of remittances. The bulk of these remittances come in from expatriates in the US and the Middle East. The crucial role of private transfers in strengthening India's balance of payments is evident from the fact that the net private transfers exceeded the trade deficit in

2002-03 and almost fully financed it during April-December 2003-04.

6.11 In addition to transfers, the contribution of non-factor services to the invisibles account has been increasing steadily since 2001-02. This contribution was seen to have enhanced further in 2002-03. Among non-factor services, miscellaneous services have played the most significant role in enlarging the invisibles surplus on account of buoyant earnings from software services. Net inflows from software services increased from US\$6.9 billion in 2001-02 to US\$ 8.9 billion in 2002-03. In the year 2003-04, net inflows from software services have crossed US\$ 9.0 billion during the first three quarters itself, compared with US\$ 5.8 billion in the corresponding period of 2002-03. Apart from miscellaneous services, travel and transportation have recorded net positive inflows during April-December 2003-04, compared with net outflows in April-December 2002-03.

6.12 The high skill-intensity of the Indian workforce has imparted a decisive comparative advantage to Indian software services exports and has helped the country in carving out a niche in the global market for software and IT-enabled services. Besides, in recent years, India has emerged as one of the most preferred destinations for offshoring of IT services from advanced economies. While software and services exports have more than trebled between 1998-99 to 2002-03, exports of IT-enabled and business process outsourcing (BPO) services have increased significantly in recent years.