

## **Capital account**

6.45 Net capital flows to emerging market and developing countries improved rapidly in 2003. Though still short of the pre-East Asian crisis levels, total private capital flows in emerging markets experienced an increase of around US\$ 84 billion in 2003. Emerging Asia, comprising developing Asia, and the newly industrialised Asian economies, accounted for more than 60 per cent of the total private capital flows to emerging markets. An encouraging feature of these private capital flows has been the significant share of direct foreign investment in total inflows (58.5 per cent). Despite net outflows of portfolio investment from the region, buoyant direct investment inflows, along with robust other private capital flows, resulted in a large augmentation of the volume of capital flows.

6.46 In line with the trends observed for developing Asia, the capital account of India's

balance of payments strengthened further in the year 2002-03. The size of the surplus in the capital account increased by almost US\$1.8 billion in 2002-03 to US\$12.8 billion compared with US\$11.0 billion in 2001-02. Banking capital inflows were the largest contributors to the capital surplus, followed by foreign investment and 'other capital' inflows. Robust inflows under these three categories helped in overcoming the negative impact of net outflows under loans, leading to a sizeable surplus in the capital account.

6.47 BOP statistics for the first three quarters of 2003-04 point to the possibility of achieving an even larger surplus in the capital account for the full year. Compared to 2002-03, capital inflows in 2003-04 have been spearheaded by foreign investment inflows, followed by banking capital and other capital flows. Net inflows under loans continue to reflect a negative balance, principally on account of higher outflows under external commercial borrowings.