

Balance of payments

6.5 A current account surplus for the third successive year, coupled with an expanding capital account, further strengthened India's balance of payments in 2003-04. The year witnessed accumulation of reserves of US\$31.4 billion (excluding valuation changes, gold, Special Drawing Rights and Reserve Tranche at the IMF). Almost one third of the reserves were contributed by the surplus in the current account (Table 6.2). Rising surpluses in the current account have been one of the distinguishing features of India's balance of payments in the current decade,

as it has been for most other major Asian economies (e.g. China, Hong Kong, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand). While for the predominantly export-oriented South East Asian economies (e.g. Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand), strong growth in merchandise exports has been the main driver behind the current account surpluses, buoyant invisible inflows, particularly private transfers comprising remittances, along with software services exports, have been instrumental in creating and sustaining current account surpluses for India.

Table 6.2 : Balance of payments : summary

(in US \$ million)

	1990-91	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	(April-Sept.)	
									2003-04	2004-05
1. Exports	18477	35680	34298	37542	45452	44703	53774	64723	27960	34451
2. Imports	27915	51187	47544	55383	57912	56277	64464	80177	37319	51892
3. Trade balance	-9438	-15507	-13246	-17841	-12460	-11574	-10690	-15454	-9359	-17441
4. Invisibles (net)	-242	10007	9208	13143	9794	14974	17035	26015	11550	14182
Non-factor services	980	1319	2165	4064	1692	3324	3643	6591	1726	4727
Income	-3752	-3521	-3544	-3559	-5004	-4206	-3446	-3972	-1600	-1917
Pvt. Transfers	2069	11830	10280	12256	12854	15398	16387	22833	11270	11114
Official Transfers	461	379	307	382	252	458	451	563	154	258
5. Current Account Balance	-9680	-5500	-4038	-4698	-2666	3400	6345	10561	2191	-3259
6. External assistance (net)	2204	885	799	891	410	1117	-3128	-2742	-216	363
7. Commercial Borrowing (net) @	2254	4010	4367	333	4303	-1585	-1692	-1526	167	2120
8. IMF (net)	1214	-618	-393	-260	-26	0	0	0	0	0
9. Non-resident deposits (net)	1537	1125	960	1540	2316	2754	2978	3642	2190	-1250
10. Rupee debt service (net)	-1193	-767	-802	-711	-617	-519	-474	-376	-303	-279
11. Foreign Investment (net)	103	5353	2312	5117	5862	6686	4161	14776	5122	2554
of which										
(i) FDI (Net)	97	3525	2380	2093	3272	4734	3217	3420	1610	2042
(ii) FIIIs	0	979	-390	2135	1847	1505	377	10918	3287	339
(iii) Euro equities & others	6	849	322	889	743	447	567	438	225	173
12. Other flows (net)+	2283	-595	624	3930	-3740	-96	8795	7086	4905	6641
13. Capital account total (net)	8402	9393	7867	10840	8508	8357	10640	20860	11865	10149
14. Reserve -use (-increase)	1278	-3893	-3829	-6142	-5842	-11757	-16985	-31421	-14056	-6890

@ Figures include receipts on account of Resurgent India Bonds in 1998-99 and India Millennium Deposits in 2000-01 and related repayments, if any, in the subsequent years.
+ Includes, among others, delayed export receipts and errors & omissions.
Source : Reserve Bank of India.

6.6 The strength provided by the surplus in the current account was reinforced by robust capital inflows in 2003-04. During the year, capital account surplus was almost double its previous year's level (Table 6.2). While major components of loans (e.g. external assistance and commercial borrowings) recorded net outflows, foreign investment flows increased more than three-fold. Heavy portfolio inflows, comprising essentially FII investment, shored up total foreign investment and the overall capital account surplus. Banking capital inflows, particularly expatriate deposits, also contributed to the expanding surplus.

6.7 Balance of payments estimates for April-September 2004-05 indicate the emergence of a current account deficit in the first half of the year (Table 6.2). The surplus in the current account in the first quarter of the current year was more than neutralized by the deficit in the second quarter to result in a deficit of US\$3.3 billion in the first half. Significantly, the current account has turned deficit in the first half of

the year for the first time since 2000-01, and the second quarter of 2004-05 has produced a deficit after four successive surplus quarters. The emergence of the deficit can be attributed to a large merchandise trade deficit. Imports, fuelled by high global crude oil prices and sustained demand for non-oil imports from a buoyant domestic industry, grew rapidly by 39.0 per cent (Table 6.3). The widening trade deficit could not be compensated by surpluses in invisibles (net). The capital account, however, recorded a healthy surplus, but was about US\$1.7 billion lower in size compared to that in April-September 2003. Like in 2003-04, buoyant foreign investment inflows have continued to sustain the capital account, along with robust inflows of commercial borrowings. The deficit in the current account has moderated the accumulation of reserves to around US\$7 billion in the first half of 2004-05, which is roughly half of the reserve accretion achieved in April-September 2003-04.

Table 6.3 : Selected indicators of external sector

	1990-91	1998-99	1999-00	2000-01	2001-02	2002-03	(April-Sept.)		
							2003-04	2003-04	2004-05
1 Growth of Exports-BOP(%)	9.0	-3.9	9.5	21.1	-1.6	20.3	20.4	9.0	23.2
2 Growth of Imports-BOP(%)	14.4	-7.1	16.5	4.6	-2.8	14.5	24.4	23.6	39.0
3 Exports/Imports-BOP(%)	66.2	72.1	67.8	78.5	79.4	83.4	80.7	74.9	66.4
4 Import cover of FER(No of months)	2.5	8.2	8.2	8.8	11.5	14.2	16.9	14.8	13.8
5 External Assistance (net)/TC %	26.2	10.2	8.2	4.8	13.4	-29.4	-13.1	-1.8	3.6
6 ECB (net)/TC %	26.8	55.5	3.1	50.6	-19.0	-15.9	-7.3	1.4	20.9
7 Non-Resident deposits/ TC %	18.3	12.2	14.2	27.2	33.0	27.99	17.5	18.5	-12.3
As % of GDPmp									
8 Exports	5.8	8.3	8.4	9.9	9.4	10.6	10.8		
9 Imports	8.8	11.5	12.4	12.7	11.8	12.7	13.3		
10 Trade balance	-3.0	3.2	-4.0	-2.7	-2.4	-2.1	-2.5		
11 Invisibles balance	-0.1	2.2	2.9	2.2	3.1	3.3	4.3		
12 Current Account Balance	-3.1	-1.0	-1.0	-0.5	0.7	1.2	1.8		
13 External Debt	28.7	23.6	22.1	22.6	21.2	20.3	17.8		
Notes :									
(i) TC: Total capital flows (net).									
(ii) ECB: External Commercial Borrowing.									
(iii) FER: Foreign Exchange Reserves, including gold, SDRs, and IMF reserve tranche.									
(iv) GDPmp: Gross domestic product at current market prices.									
(v) As total capital flows are netted after taking into account some capital outflows, the ratios against item no. 5, 6 and 7 may, in some years, add up to more than 100 per cent.									
(vi) Rupee equivalents of BOP components are used to arrive at GDP ratios. All other percentages shown in the upper panel of the table are based on US dollar values.									