

Capital account

6.53 In 2005-06 and 2006-07 so far, capital flows into India remained strong on an overall basis with capital account surplus rising simultaneously with current account deficit, albeit with varying movements in the different components. Debt creating flows, particularly external assistance and external commercial borrowings (ECBs), which had turned into net outflows in 2002-03 and 2003-04, became positive inflows in 2005-06. Non-resident deposits (net) rebounded after an outflow of about US\$1 billion in 2004-05 to an inflow of US\$2.8 billion in 2005-06. The developments in the first half of 2006-07 indicate some deviation from 2005-06, particularly in FII flows.

6.54 For 2006, the WEO, in both April and September 2006, had projected a moderation of private net capital flows to emerging market economies and developing countries from their torrid pace of 2005, and with overall net surpluses in their current account to result in continuation of the process of reserve accumulation in such countries. For emerging Asian economies, WEO 2006 (both April and September issues) had projected FDI to remain stable but portfolio flows to remain negative (outflows) as in 2005. These projections for 2006 followed the increased volatility observed in stock market crashes and exchange rates pressures in the first half of 2006, after a period of relative calm. The Indian experience in the first half of 2006-07 was more or less in conformity with the WEO projection.