Balance of payments

6.3 The strength, resilience and stability of the country's external sector is reflected by various indicators. These include a steady accretion to reserves, moderate levels of current account deficit, changing composition of capital inflows, flexibility in exchange rates, sustainable external debt levels with elongated maturity profile and an increase in capital inflows. The current account has followed an inverted "U" shaped pattern during the period from 2001-02 to 2006-07, rising to a surplus of over 2 per cent of GDP in 2003-04. Thereafter it has returned close to its post-1990s reform average, with a current account deficit of 1.2 per cent in 2005-06 and 1.1 per cent of GDP in 2006-07. Capital inflows, as a proportion of GDP, have been on a clear uptrend during the six years (2001-02 to 2006-07) of this decade. They reached a high of 5.1 per cent of GDP in 2006-07 after a somewhat modest growth rate of 3.1 per cent in 2005-06. The net result of these two trends has been a gradual rise in reserve increase to reach 4 per cent of GDP in 2006-07 (Figure 6.1). With capital inflows exceeding financing requirements, foreign exchange reserve increase was of the order of US$ 15.1 billion in 2005-06 and US$ 36.6 billion in 2006-07 (Table 6.2). As a proportion of GDP, external debt was 17.2 per cent and 17.9 per cent in 2005-06 and 2006-07 respectively.

Figure 6.1 Current a/c balance, total capital a/c and reserve change

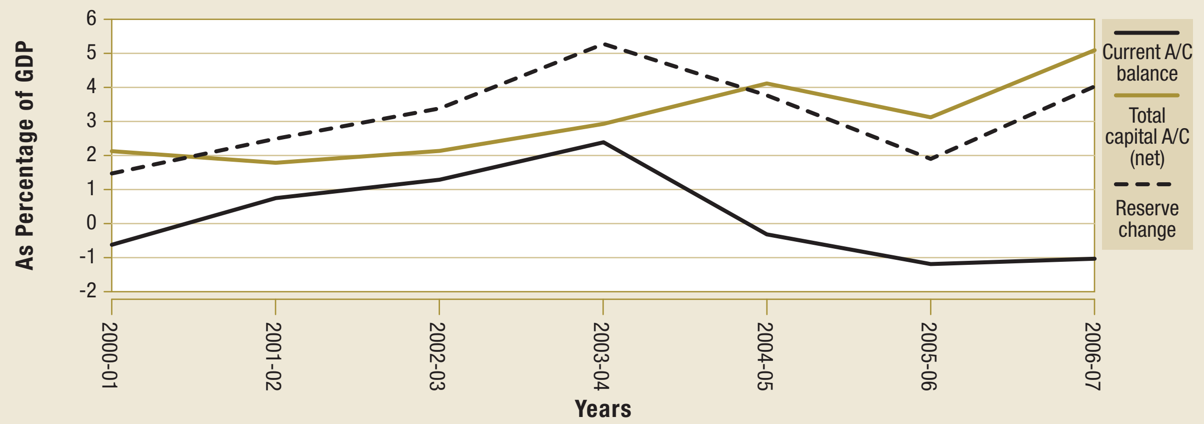

Table 6.2 Balance of Payments: Summary

(In US$ million)

	1990-91	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06R	2006-07PR	(April-September) 2006-07PR	2007-08P
1. Exports	18477	45452	44703	53774	66285	85206	105152	128083	61450	73665
2. Imports	27915	57912	56277	64464	80003	118908	157056	191254	95224	116066
3. Trade balance	-9438	-12460	-11574	-10690	-13718	-33702	-51904	-63171	-33774	-42401
4. Invisibles (net)	-242	9794	14974	17035	27801	31232	42002	53405	23434	31688
Non-factor services	980	1692	3324	3643	10144	15426	23170	31180	14497	14689
Income	-3752	-5004	-4206	-3446	-4505	-4979	-5855	-6573	-3321	-1444
Pvt. Transfers	2069	12854	15398	16387	21608	20525	24493	27941	12265	18420
5. Goods & services balance	-8458	-10768	-8250	-7047	-3574	-18276	-28734	-31361	-19277	-27712
6. Current account balance	-9680	-2666	3400	6345	14083	-2470	-9902	-9766	-10340	-10713
7. External assistance (net)	2204	410	1117	-3128	-2858	1923	1702	1767	386	729
8. Commercial borrowing (net)[a]	2254	4303	-1585	-1692	-2925	5194	2508	16155	5735	10557
9. NR deposits (net)	1537	2316	2754	2978	3642	-964	2789	4321	2210	-78
10. Foreign investment (net)	103	5862	6686	4161	13744	13000	15528	15541	6135	22214
of which :										
(i) FDI (net)	97	3272	4734	3217	2388	3713	3034	8479	4491	3880
(ii) Portfolio	6	2590	1952	944	11356	9287	12494	7062	1644	18334
11. Other flows (net)[b]	1090	-4356	-615	8321	5735	9476	-180	8967	4523	17727
12. Capital account total (net)	7188	8535	8357	10640	17338	28629	24954	46372	18989	51149
13. Reserve use (- increase)	1278	-5842	-11757	-16985	-31421	-26159	-15052	-36606	-8649	-40436

Source: Reserve Bank of India.

PR: Partially Revised, P: Preliminary, R: Revised.

[a] **Figures include receipts on account of India Millennium Deposits in 2000-01 and related repayments, if any, in the subsequent years.**

[b] **Include, among others, delayed export receipts and errors & omissions.**

6.4 The current account, after being in surplus during 2001-02 to 2003-04, reverted to a deficit in 2004-05. This was despite a robust growth in net invisibles account fuelled by software exports and private transfers. The current account deficit (CAD) is attributable to the widening trade deficit, driven primarily by the rise in international prices of petroleum products and gold. Thus large merchandise trade deficit coexists with a lower deficit on the goods and services account because of the surplus on non-factor services. Even in the years when there were some surpluses on the current account, India had deficit on goods and services account and a relatively larger trade deficit (Figure 6.2).

6.5 The rising trend in capital inflows has been accompanied by a change in its composition. The most welcome feature was the rise in gross foreign direct investment inflows of US$ 23.0 billion in 2006-07. With FDI outflows also increasing steadily over the last five years, overall net flows moderated. Portfolio investment in the first half of 2006-07 was lower in comparison because of the initial slump in equity markets. Debt flows, primarily external commercial borrowings, shot up from a level of 0.7 per cent of GDP in 1990-91 to 1.8 per cent in 2006-07. Thus, the rupee faced upward pressure in the second half of 2006-07; but on an overall yearly average basis, it depreciated by 2.2 per cent.

Figure 6.2 Trade balance, goods & services balance and non-factor services (net)