

BALANCE OF PAYMENTS (BoP)

6.5 Emerging market economies like India were not significantly affected by the global financial crisis in the initial stages, which had set in around August 2007. In fact, the initial effect of the global financial crisis was positive, as India received huge Foreign Institutional Investment (FII) inflows of US\$ 22.5 billion during September 2007 to January 2008, as against US\$ 11.8 billion during April-July 2007. This contributed to the debate on “decoupling”, where it was believed that the emerging economies might remain largely insulated from the crisis and provide an alternative engine of growth to the world economy. The argument was proved unfounded as the global financial crisis intensified and spread to emerging economies through capital and current account routes of the balance of payments (BoP).

6.6 The global crisis began to impact emerging market economies through slowing down and reversal of capital flows. The portfolio flows to India (net) turned negative due to sale of equity stakes by Foreign Institutional Investors (FIIs) to replenish overseas cash balances. This had knock-on effect on the stock market and the exchange rates through creating a supply-demand imbalance in the foreign exchange market.

6.7 The current account was also affected after September 2008 through slowdown in exports. The exports of US\$ 36.7 billion in the third quarter (October-December, Q3) of the 2008-09 indicated 10.4 per cent decline over the third quarter of 2007-08, as against an increase of 33.0 per cent in Q3 of 2007-08 over Q3 of 2006-07. During 2008-09 (April-December 2008), the current account deficit was 4.1 per cent and capital account surplus 1.8 per

Table 6.2 : Balance of payments : Summary

		(US\$ million)						
Sl. No.	Items	2003-04	2004-05	2005-06	2006-07	2007-08	Apr-Dec. 2007	Apr-Dec. 2008
						PR	PR	P
1.	Exports	66285	85206	105152	128888	166163	113614	133527
2.	Imports	80003	118908	157056	190670	257789	182894	238864
3.	Trade Balance	-13718	-33702	-51904	-61782	-91626	-69280	-105337
4.	Invisibles (net)	27801	31232	42002	52217	74592	53772	68868
	Non-Factor Services	10144	15426	23170	29469	37565	29998	37133
	Income	-4505	-4979	-5855	-7331	-4917	-4657	-3341
	Pvt. Transfers	21608	20525	24493	29825	41705	28323	34904
5.	Goods and Services Balance	-3574	-18276	-28734	-32313	-54061	-39282	-68204
6.	Current Account Balance	14083	-2470	-9902	-9565	-17034	-15508	-36469
7.	External Assistance (net)	-2858	1923	1702	1775	2114	1274	1861
8.	Commercial Borrowing (net)	-2925	5194	2508	16103	22633	17410	7114
9.	Non-resident Deposits (net)	3642	-964	2789	4321	179	-931	2115
10.	Foreign Investment (net)	13744	13000	15528	14753	44957	40197	4032
	of which							
	(I) FDI (Net)	2388	3713	3034	7693	15401	6905	15373
	(II) Portfolio	11356	9287	12494	7060	29556	33292	-11341
11.	Other Flows (net) ^a	5735	9476	2427	9219	39315	34732	967
12.	Capital Account Total (net)	17338	28629	24954	46171	109198	82682	16089
13.	Reserves (increase -) / decrease (+)	-31421	-26159	-15052	-36606	-92164	-67174	+ 20380

Source : RBI

PR: Partially Revised

P: Preliminary

a Includes, among others delayed export receipts and errors and omissions.

cent of GDP, leading to decline in foreign exchange reserves (excluding valuation) of US\$ 20.4 billion, as against an accretion to reserves of US\$ 67.2 billion in April-December 2007. However, despite setback, the BoP situation of the country continues to be resilient.

6.8 The current account, which had recorded an annual average surplus of 1.4 per cent of GDP during 2001-02 to 2003-04, returned to an annual average deficit of 1.1 per cent during 2004-05 to 2007-08. The current account deficit widened to 4.1 per cent of GDP during April-December 2008, following the slowdown in external demand and deceleration in capital flows.

6.9 Capital inflows, as a proportion of GDP, were on an uptrend during 2003-04 to 2007-08. They reached a high of 9.3 per cent of GDP in 2007-08 after a modest growth of 3.1 per cent in 2005-06 and 5.1 per cent in 2006-07. Capital inflows were lower at 1.8 per cent of GDP during 2008-09 (April-December) due to the global financial crisis.

6.10 With capital inflows exceeding current account deficits, foreign exchange reserves increase, on BoP basis (excluding valuation changes), was of the order of US\$ 15.1 billion in 2005-06 (1.9 per cent of GDP), US\$ 36.6 billion in 2006-07 (4.0 per cent of GDP) and US\$ 92.2 billion (7.9 per cent of GDP) in 2007-08. During 2008-09 (April-December), foreign exchange reserves decline was US\$ 20.4 billion (2.3 per cent of GDP) (Table 6.2).

Table 6.3 : International Comparison of Balance on Current Account

(as per cent of GDP)

Country/ Country Group	2001	2005	2006	2007	2008
Country					
Russia	11.1	11	9.5	5.9	6.1
China	1.3	7.2	9.5	11.0	10.0
India	0.3	-1.3	-1.1	-1.0	-2.8
Korea	1.6	1.8	0.6	0.6	-0.7
Brazil	-4.2	1.6	1.3	0.1	-1.8
Mexico	-2.6	-0.5	-0.5	-0.8	-1.4
South Africa	0.3	-4.0	-6.3	-7.3	-7.4
Country Group					
Advance Economies	-0.8	-1.1	-1.3	-1.0	-1.1
Central and Eastern Europe	-1.9	-4.8	-6.5	-7.7	-7.6
Developing					
Asia	1.5	4.0	6.0	6.9	5.8
Middle East	6.4	19.7	21.0	18.2	18.8

Source : World Economic Outlook Database, April 2009.

6.11 A comparison of current account position across country groups during 2001-08 reveals that advanced economies and central and eastern Europe recorded current account deficits, while developing Asia and Middle East showed current account surpluses. The current account surplus of China improved steadily from 1.3 per cent of GDP in 2001 to 11.0 per cent in 2007 and was 10.0 per cent in the year 2008, characterized by an adverse external environment (Table 6.3). India's current account deficit moved in a narrow range of 1.0-1.3 per cent and was 2.8 per cent in 2008.

6.12 The rising trend in capital inflows in India has been accompanied by a significant change in composition. The most welcome feature was the rise in inward foreign direct investment inflows (net) to US\$ 22.7 billion in 2006-07, which further increased to US\$ 34.2 billion in 2007-08. Notwithstanding a steady rise in outward FDI (net) from US\$ 15.0 billion in 2006-07 to US\$ 18.8 billion in 2007-08, the overall net FDI flows increased. In the fiscal 2008-09 (April-December), inward FDI flows (net) was US\$ 27.4 billion while the outward FDI (net) was US\$ 12.0 billion, resulting in net FDI of US\$ 15.4 billion. Net portfolio investment also increased from US\$ 7.1 billion in 2006-07 to US\$ 29.6 billion in 2007-08. During 2008-09 (April-December), however, there was a net outflow of US\$ 11.3 billion on account of global financial crisis.

6.13 On the debt side, net external assistance increased from US\$ 1.8 billion in 2006-07 to US\$ 2.1 billion in 2007-08. In 2008-09 (April-December) net credit from external assistance sources was US\$ 1.9 billion. Net external commercial borrowings (ECBs) increased from US\$ 16.1 billion during 2006-07 to US\$ 22.6 billion in 2007-08, before falling to US\$ 7.1 billion during April-December 2008. Net non-resident Indian (NRI) deposit flows which had declined from US\$ 4.3 billion in 2006-07 to US\$ 0.2 billion in 2007-08 increased to US\$ 2.1 billion during 2008-09 (April-December), reflecting the impact of an upward adjustment in interest rates on NRI deposits. The net trade credit to India, which had increased from US\$ 6.6 billion in 2006-07 to US\$ 17.2 billion in 2007-08, was only US\$ 0.5 billion during 2008-09 (April-December).