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Developments in India's Balance of Payments during the Fourth Quarter (January-March 2013) of 2012-13

Preliminary data on India's balance of payments (BoP) for the fourth quarter (Q4), i.e., January-March 2013 of the financial year 2012-13, are now available. Based on these, the BoP data for 2012-13 have been compiled, which also incorporates the revisions for the earlier quarters, if any. While Statement I presents BoP data in the format suggested in IMF's BPM6, Statement II provides details as per the old format.

Highlights of BoP during January-March (Q4) of 2012-13

- India's current account deficit (CAD) moderated sharply to 3.6 per cent of GDP in Q4 of 2012-13 from a historically high level of 6.7 per cent of GDP in Q3 of 2012-13 as trade deficit narrowed.

- Merchandise exports (BoP basis) increased by 5.9 per cent in Q4 of 2012-13 as compared with 2.6 per cent in Q4 of 2011-12.

- Merchandise imports recorded a marginal decline of 1.0 per cent in Q4 of 2012-13 as against an increase of 22.6 per cent in Q4 of 2011-12. Essentially non-oil non-gold component of imports showed a decline, reflecting slowdown in domestic economic activity.

- As a result, trade deficit narrowed to US$ 45.6 billion in Q4 of 2012-13 from US$ 51.6 billion in Q4 of 2011-12.

- Net invisibles, however, recorded a decline of 7.7 per cent in Q4 of 2012-13 as compared to a growth of 27.5 per cent in Q4 of 2011-12 on account of decline in net services, transfers and income receipts.

- Net capital inflows under financial account moderated in Q4 of 2012-13 largely due to slowdown in net portfolio investment and net repayment of loans by banks and corporate. However, net capital inflows were more than adequate to finance CAD, resulting in accretion of US$ 2.7 billion to the foreign exchange reserves.

Highlights of BoP during 2012-13

- During 2012-13, CAD stood at US$ 87.8 billion (4.8 per cent of GDP) as against US$ 78.2 billion (4.2 per cent of GDP) during 2011-12.
- Burgeoning trade deficit along with significant decline in invisible earnings caused widening of CAD during the year.

- Decline in invisible earning has essentially been on account of sizeable increase of 21.2 per cent in investment income payments, and only a modest rise in net services receipts in 2012-13.

- The net inflows under financial account during 2012-13 rose to US$ 85.4 billion from US$ 80.7 billion during the preceding year mainly on account of higher inflows under FII, non-resident deposits and short term credits and advances.

- The increase in capital inflows led to an accretion to foreign exchange reserves by US$ 3.8 billion during 2012-13.

1. **Balance of Payments for January-March (Q4) of 2012-13**

The major items of the BoP for the fourth quarter (Q4) of 2012-13 are set out below in Table 1.

Goods Trade

- On BoP basis, India's merchandise exports increased by 5.9 per cent to US$ 84.8 billion in Q4 of 2012-13 as compared to 2.6 per cent in Q4 of 2011-12. Pickup in exports could be attributed to better performance of products like tea, leather and manufactures, plastic and linoleum products, machinery and equipments, cotton yarn fabrics and carpets.

- Merchandise imports witnessed a marginal decline of 1.0 per cent at US$ 130.4 billion in Q4 of 2012-13 as against a growth of 22.6 per cent in Q4 of 2011-12, resulting mainly from a decline in non-oil non-gold imports partly reflecting a slowdown in domestic activity (Table 2).

- Trade deficit narrowed down to US$ 45.6 billion in Q4 of 2012-13 amounting to 9.0 per cent of GDP.

Services and Income Flows

Services exports increased by 0.4 per cent to US$ 37.8 billion in Q4 of 2012-13 as compared to an increase of 6.8 per cent during the same quarter in the preceding year. Moderation in exports was mainly led by a decline in other business services like research and development, professional and management consulting, technical and trade related services.

Table 1: Major Items of India's Balance of Payments												
												(US$ Billion)
	Jan-Mar 2013 (P)			**Jan-Mar 2012 (PR)**			**Apr-Mar 2012-13 (P)**			**Apr-Mar 2011-12 (PR)**		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
A. Current Account (1+2+3+4)	142.0	160.1	-18.1	137.7	159.4	-21.7	530.2	618.1	-87.8	527.0	605.2	-78.2
1. Goods	84.8	130.4	-45.6	80.0	131.7	-51.6	306.6	502.2	-195.7	309.8	499.5	-189.7
Of which:												
POL	15.8	44.7	-28.8	13.7	44.0	-30.3	60.0	169.4	-109.4	56.0	155.0	-98.9
Gold	1.8*	15.8	-14.0	1.7*	14.7	-13.0	6.5*	53.8	-47.3	6.7*	56.5	-49.7
2.Services	37.8	20.9	17.0	37.7	20.0	17.6	145.7	80.8	64.9	140.9	76.9	64.0
3. Primary Income	2.6	7.8	-5.2	2.3	6.8	-4.6	10.3	31.7	-21.5	10.1	26.1	-16.0
4. Secondary Income	16.8	1.0	15.8	17.7	0.9	16.9	67.7	3.3	64.4	66.1	2.7	63.5
B. Capital Account	0.6	0.4	0.2	0.1	0.3	-0.2	1.6	1.9	-0.3	0.9	1.0	-0.1
C. Financial Account	133.3	115.7	17.6	131.5	109.1	22.4	472.0	386.5	85.4	497.1	416.4	80.7
D. Errors & Omissions (A+B-C)			0.3			-0.6			2.7			-2.4

P: Preliminary; PR: Partially Revised *: Estimated

Note: 1. Changes in Reserve Assets are included under the Financial Account as recommended by the BPM 6.
2 Total of subcomponents may not tally with aggregate due to rounding off.

- Import of services grew at a faster rate of 4.2 per cent at US$ 20.9 billion in Q4 of 2012-13 as against a decline of 4.1 per cent in Q4 of 2011-12 on account of higher payments towards construction, telecommunication and other business services.

- Overall, net service receipts recorded a decline of 3.9 per cent in Q4 of 2012-13 over the corresponding quarter of 2011-12.

- There was a net outflow on account of primary income amounting to US$ 5.2 billion in Q4 of 2012-13 as compared to an outflow of US$ 4.6 billion in Q4 of 2011-12 led by a decline in net investment income receipts. While investment income receipts declined by 4.5 per cent (decline of 16.6 per cent in Q4 of 2011-12), investment income payments grew by 12.1 per cent in Q4 of 2012-13 (decline of 4.8 per cent in Q4 of 2011-12) (Table 2).

- Secondary income witnessed a moderation in net inflows to US$ 15.8 billion in Q4 of 2012-13 from US$ 16.9 billion in the corresponding period of 2011-12, reflecting a fall in net remittances from overseas Indians.

Table 2: Disaggregated Items of Current Account (Net) (US$ Billion)				
	Jan-Mar 2013 (P)	**Jan-Mar 2012 (PR)**	**Apr-Mar 2012-13 (P)**	**Apr-Mar 2011-12 (PR)**
1. Goods	**-45.6**	**-51.6**	**-195.7**	**-189.7**
2. Services	**17.0**	**17.6**	**64.9**	**64.0**
2.a Transport	1.1	0.4	2.5	1.8
2.b Travel	2.8	2.2	6.2	4.7
2.c Construction	-0.2	-0.1	-0.2	-0.2
2.d Insurance and pension services	0.3	0.3	0.8	1.1
2.e Financial Services	-0.1	-0.4	0.3	-2.0
2.f Charges for the use of intellectual property	-1.1	-0.9	-3.9	-2.9
2.g Telecommunications, computer and information services	17.3	16.7	64.3	60.7
2.h Personal, cultural and recreational services	0.1	0.0	0.3	0.1
2.i Government goods & services	-0.2	-0.2	-0.2	-0.3
2. j Other Business services	-0.9	-0.2	-1.9	-0.9
2.k Others *n.i.e*	-2.1	-0.2	-3.3	1.9
3. Primary Income	**-5.2**	**-4.6**	**-21.5**	**-16.0**
3.a Compensation of Employees	0.2	0.0	0.9	0.5
3.b Investment Income	-5.3	-4.5	-22.6	-16.7
3.c Other primary Income	-0.1	-0.1	0.2	0.2
4. Secondary Income	**15.8**	**16.9**	**64.4**	**63.5**
4.a Personal Transfers	15.3	16.4	62.0	61.5
4.b Other Transfers	0.5	0.4	2.3	2.0
5. Current Account (1+2+3+4)	**-18.1**	**-21.7**	**-87.9**	**-78.2**
P: Preliminary; PR: Partially Revised **Note**: Total of subcomponents may not tally with aggregate due to rounding off.				

Current Account Balance

- Reduction in trade deficit led to improvement in CAD which declined to US$ 18.1 billion (3.6 per cent of GDP) in Q4 of 2012-13 from US$ 21.7 billion (4.4 per cent of GDP) in the corresponding quarter of 2011-12.

Table 3: Disaggregated Items of Financial Account (Net) (US$ Billion)				
	Jan-Mar 2013 (P)	**Jan-Mar 2012 (PR)**	**Apr-Mar 2012-13 (P)**	**Apr-Mar 2011-12 (PR)**
1. Direct Investment (net)	**5.7**	**1.4**	**19.8**	**22.1**
1.a Direct Investment to India	7.2	4.2	27.0	33.0
1.b Direct Investment by India	-1.4	-2.9	-7.1	-10.9
2. Portfolio Investment	**11.3**	**13.9**	**26.7**	**16.6**
2.a Portfolio Investment in India	11.5	14.1	27.6	16.8
Equity	9.6	9.2	23.3	7.1
Debt	1.9	4.9	4.3	9.8
2.b Portfolio Investment by India	-0.2	-0.2	-0.9	-0.2
3. Other investment	**4.2**	**1.4**	**45.2**	**29.2**
3.a Other equity (ADRs/GDRs)	0.0	0.0	0.2	0.6
3.b Currency and deposits	2.8	4.6	15.3	12.1
Deposit-taking corporations, except the central bank: (NRI Deposits)	2.8	4.7	14.8	11.9
3.c Loans*	-1.6	0.0	10.7	16.8
3.c.i Loans to India	-1.6	0.0	11.1	15.7
Deposit-taking corporations, except the central bank	-6.3	-2.6	1.3	4.1
General government (External Assistance)	0.6	0.3	1.3	2.5
Other sectors (ECBs)	4.1	2.3	8.6	9.1
3.c.ii Loans by India	0.0	0.0	-0.4	1.0
General government (External Assistance)	-0.1	0.0	-0.3	-0.2
Other sectors (ECBs)	0.1	0.0	-0.1	1.2
3.d Trade credit and advances	4.5	0.2	21.7	6.7
3.e Other accounts receivable/payable – other	-1.5	-3.3	-2.7	-6.9
4. Financial Derivatives	**-0.9**	**0.0**	**-2.3**	**0.0**
5. Reserve assets	**-2.7**	**5.7**	**-3.8**	**12.8**
Financial Account (1+2+3+4+5)	**17.6**	**22.4**	**85.4**	**80.7**

*: includes External Assistance, ECBs and non-NRI Banking Capital

P: Preliminary; PR: Partially Revised

Note: Total of subcomponents may not tally with aggregate due to rounding off.

Capital and Financial Account

- Notwithstanding a rise in net FDI, net inflows under financial account moderated in Q4 of 2012-13 mainly on account of a decline in net portfolio investment, non-resident deposits and net repayment of loans by banks (Table 3).

- While net direct investment surged to US$ 5.7 billion in Q4 of 2012-13 from US$ 1.4 billion in Q4 of 2011-12, net portfolio investment moderated to US$ 11.3 billion in Q4 of 2012-13 from US$ 13.9 billion in the corresponding period of previous year. Moderation was more prominent in debt component of portfolio flows.

- Net repayment of overseas borrowing by banks amounting to US$ 6.3 billion in Q4 2012-13 as compared to a net outflow of US$ 2.6 billion in Q4 of 2011-12.

- Net external commercial borrowings (ECBs) rose to US$ 4.1 billion in Q4 of 012-13 from US$ 2.3 billion in the corresponding period of 2011-12.

- The growing prominence of trade credit in financing imports was reflected in the surge in net inflows under ‘trade credit & advances’ amounting to US$ 4.5 billion in Q4 of 2012-13 as compared with US$ 0.2 billion in Q4 of 2011-12.

- On BoP basis, there was accretion to foreign exchange reserves by US$ 2.7 billion in Q4 of 2012-13 as against a drawdown of reserves by US$ 5.7 billion in Q4 of 2011-12.

2. Balance of Payments during 2012-13

Burgeoning trade deficit along with significant decline in invisible earnings caused widening of CAD during the year.

Trade in Goods & Services

- Notwithstanding an improved performance in Q4 of 2012-13, trade deficit in 2012-13 remained at an elevated level of US$ 195.7 billion on account of a decline in merchandise exports by 1.1 per cent and rise in imports by 0.5 per cent on a year-on-year basis.

- Commodity-wise disaggregated figures based on DGCI&S data reveal that the setback in exports was led by decline in exports of manufactured items like engineering goods, textiles, gems & jewellery and also primary products like iron ore and minerals.

- POL and gold continued to constitute nearly 45 per cent of total merchandise imports during the year. While POL import rose by 9.3 per cent, gold import declined by 4.8 per cent during 2012-13.

- Net service receipts grew at a modest rate of 1.4 per cent and amounted to US$ 64.9 billion in 2012-13 (US$ 64.0 billion in 2011-12).

- While net receipts under travel, transport, software services, financial services, communication services increased, net receipts of insurance, business services recorded a decline during 2012-13.

Primary Income

- Primary income, comprising mainly of compensation of employees, investment income and other primary receipts, declined considerably to US$ 21.5 billion during 2012-13 mainly on account of larger outflow under investment income.

- While investment income receipts declined by 12.1 per cent to US$ 6.2 billion in 2012-13 from US$ 7.1 billion in the preceding year, investment income payments rose by 21.2 per cent to US$ 28.8 billion in 2012-13 from US$ 23.7 billion in 2011-12. Rise in investment income payments during this period is largely reflective of sizeable increase in interest payments on growing foreign debt.

Secondary Income

- Net secondary income receipts, primarily comprising private transfers, increased by 1.4 per cent to US$ 64.4 billion during 2012-13 as compared with a growth of 19.5 per cent in 2011-12.

Current Account Balance

- Thus, along with burgeoning trade deficit, decline in net invisible earnings due to sharp increase in investment income payments and only a modest rise in net services receipts led to widening of CAD to US$ 87.8 billion in 2012-13 which works out to 4.8 per cent of GDP as compared with 4.2 per cent in 2011-12.

Capital & Financial Account

- Net inflows under financial account increased from US$ 80.7 billion in 2011-12 to US$ 85.4 billion in the current year, recording a rise of 5.9 per cent in 2012-13.

- Although net direct investment fell, capital inflows surged mainly on account of an increase in portfolio investment, non-resident deposits and short term credit and advances during this period.

- While net direct investment moderated to US$ 19.8 billion in 2012-13 from US$ 22.1 billion in 2011-12, net portfolio investment increased to US$ 26.7 billion in 2012-13 from US$ 16.6 billion a year ago. While rise in portfolio investment was essentially due to increase in equity investment, debt investment by foreign institutional investors has been lower as compared to the previous year.

- During 2012-13 there was an accretion of US $ 3.8 billion in India's foreign exchange reserves (on a BoP basis) as compared to a drawdown of reserves worth US$ 12.8 billion in 2011-12.

3. External Debt for the Quarter ending March 2013

As per the existing practice, the external debt for the quarters ending March and June are compiled and released by the Reserve Bank of India, while the external debt for quarters ending September and December are compiled and released by the Ministry of Finance, Government of India. Accordingly, the data on external debt for the quarter ending March 2013 are being released by the Reserve Bank of India. The same can be accessed at www.rbi.org.in

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