5. EXTERNAL SECTOR STATISTICS

This chapter covers the concepts and definitions relating to India's external sector statistics covering balance of payments, external debt, foreign investment inflows, NRI deposits, international investments position, foreign exchange reserves, etc. The data on each of these components are compiled following the international best practices. The detailed aspects of each of the components are outlined below.

5.1. BALANCE OF PAYMENTS

In India's balance of payments (BoP), transactions are recorded in accordance with the guidelines given in the fifth edition of IMF's Balance of Payments Manual (1993), with minor modifications to adapt to the specifics of the Indian situation. The Manual defines BoP as a statistical statement that systematically summarises, for a specific time period, the economic transactions of an economy with the rest of the world. Transactions between residents and non-residents consist of those involving goods, services, and income; involving financial claims on and liabilities to the rest of the world; and those classified as transfers, involving offsetting entries to balance one-sided transactions. The data are received from the banking system as part of the Foreign Exchange Management Act (FEMA), 1999. The data are received by the Reserve Bank of India mainly from the banking system (authorized dealers) as part of the Foreign Exchange Management Act (FEMA), 1999.

The basic structure of the Balance of Payments (BOP) of India consists of:

(i) Current account: exports and imports of goods, services, income (both investment income and compensation of employees) and current transfers;

(ii) Capital account: assets and liabilities covering direct investment, portfolio investment, loans, banking capital and other capital;

(iii) Statistical discrepancy;

(iv) International reserves and IMF transactions.

5.1.1. Current Account

5.1.1.1. Merchandise Trade

Merchandise credit relates to export of goods while merchandise debit represent import of goods. These are mainly based on reporting from the authorized dealers (ADs) supplemented by the information from other sources such as DGCI&S, USAID, Government of India. The item "Non-monetary Gold Movement" has been excluded from Invisibles in conformity with the IMF Manual on BOP (4th edition) from May 1993 onwards; these entries have been included under merchandise. Data on gold and silver brought in by the Indians returning from abroad have been included under imports payments with contra entry under Private Transfer Receipts since 1992-93.

5.1.1.2. Services

Services receipts and payments are compiled based on the information received from ADs supplemented with other sources such as Air India, embassies, NASSCOM, Full-fledged money changers, Government of India.

5.1.1.2.1. Travel

Travel' represents all expenditure by foreign tourists in India on the receipts side and all expenditure by Indian tourists abroad on payments side. Travel receipts largely depend on the arrival of foreign tourists in India during a given time period.

5.1.1.2.2. Transportation

'Transportation' records receipts and payments on account of the carriage of goods and natural persons as well as other distributive services (like port charges, bunker fuel, stevedoring, cabotage, warehousing, etc.) linked to merchandise trade.

5.1.1.2.3. Insurance

'Insurance receipts' consist of insurance on exports, premium on life and non-life policies and reinsurance premium from foreign insurance companies. Insurance on exports is directly related to total exports from India.

5.1.1.2.4. Government not included elsewhere (GNIE)

'Government not included elsewhere (GNIE)' receipts represent inward remittances towards maintenance of foreign embassies, diplomatic missions and offices of international/regional institutions in India, while GNIE payments record the remittances on account of maintenance of Indian embassies and diplomatic missions abroad and remittances by foreign embassies on their account.

5.1.1.2.5. Miscellaneous

'Miscellaneous services' comprise of a host of business services, viz., communication, construction, financial, software and news agency services, royalties, copyright and license fees, management services and others. Of late, data on software services – receipts and payments, are presented separately.

5.1.1.3. Transfers (Official, Private)

Transfers represent one-sided transactions, i.e., transactions that do not have any quid pro quo, such as grants, gifts, and migrants' transfers by way of remittances for family maintenance, repatriation of savings and transfer of financial and real resources linked to change in resident status of migrants. Official transfer receipts include grants, donations and other assistance received by the Government from bilateral and multilateral institutions. Similar transfers by Indian Government to other countries are recorded under official transfer payments.

5.1.1.4. Income

Transactions are in the form of interest, dividend, profit and others for servicing of capital transactions. Investment income receipts comprise interest received on loans to non-residents, dividend/profit received by Indians on foreign investment, reinvested earnings of Indian FDI companies abroad, interest received on debentures, floating rate notes (FRNs), Commercial Papers (CPs), fixed deposits and funds held abroad by ADs out of foreign currency loans/export proceeds, payment of taxes by non-residents/refunds of taxes by foreign governments, interest/discount earnings on RBI investment etc. Investment income payments comprise payment of interest on non-resident deposits, payment of interest on loans from non-residents, payment of dividend/profit to non-resident share holders, reinvested earnings of the FDI companies, payment of interest on debentures, FRNs, CPs, fixed deposits, Government securities, charges on Special Drawing Rights (SDRs) etc.

In accordance with the IMF's Balance of Payments Manual (5th edition), 'compensation of employees' has been shown under head, "income" with effect from 1997-98; earlier, 'compensation of employees' was recorded under the head "Services – miscellaneous".

5.1.2. Capital Account

The data on capital account are compiled on the basis of various returns filed by the entities engaged in capital account transactions to the Reserve Bank of India or Government of India. These include reporting on foreign direct investment, foreign institutional investment/ ADR/GDR, external commercial borrowing (ECBs)/foreign currency convertible bonds (FCCBs), trade credit, NRI deposits and other banking liabilities/assets. The data on external assistance are obtained from the Government of India.

5.1.2.1. Foreign Investment

Foreign investment has two components, namely, foreign direct investment and portfolio investment. Foreign direct investment (FDI) to and by India up to 1999-2000 comprise mainly equity capital. In line with international best practices, the coverage of FDI has been expanded since 2000-01 to include, besides equity capital. reinvested earnings (retained earnings of FDI companies) and 'other direct capital' (inter-corporate debt transactions between related entities). Data on equity capital include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad) besides equity of incorporated bodies. Data on reinvested earnings for the latest year (2002-03) are estimated as average of the previous two years as these data are available with a time lag of one year. In view of the above revision, FDI data are not comparable with similar data for the previous years. In terms of standard practice of BoP compilation, the above revision of FDI data would not affect India's overall BoP position as the accretion to the foreign exchange reserves would not undergo any change. The composition of BoP, however, would undergo changes. These changes relate to investment income, external commercial borrowings and errors and omissions. In case of reinvested earnings, there would be a contra entry (debit) of equal magnitude under investment income in the current account. 'Other Capital' reported as part of FDI inflow has been carved out from the figure reported under external commercial borrowings by the same amount. 'Other Capital' by Indian companies abroad and equity capital of unincorporated entities have been adjusted against the errors and omissions for 2000-01 and 2001-02.

5.1.2.2. Portfolio Investment

Portfolio investments mainly include FIIs' investment, funds raised through GDRs/ADRs by Indian companies and through offshore funds. Data on investment abroad, hitherto reported, have been split into equity capital and portfolio investment since 2000-01.

5.1.2.3. External Assistance

External assistance by India denotes aid extended by India to other foreign Governments under various agreements and repayment of such loans. External Assistance to India denotes multilateral and bilateral loans received under the agreements between Government of India and other Governments/International institutions and repayments of such loans by India, except loan repayment to erstwhile "Rupee area" countries that are covered under the Rupee Debt Service.

5.1.2.4. Commercial Borrowings

Commercial borrowings cover all medium/long term loans. Commercial Borrowings by India denote loans extended by the Export Import Bank of India (EXIM bank) to various countries and repayment of such loans. Commercial Borrowings - to India denote drawls/ repayment of loans including buyers credit, suppliers credit, floating rate notes (FRNs), commercial paper (CP), bonds, foreign currency convertible bonds (FCCBs) issued abroad by the Indian corporate, etc. It also includes India Development Bonds (IDBs), Resurgent India Bonds (RIBs), India Millennium Deposits (IMDs).

5.1.2.5. Short-Term Loans to India

It is defined as the drawls in respect of loans, utilized and repayments with a maturity of less than one year.

5.1.2.6. Banking Capital

It comprises three components: a) foreign assets of commercial banks (ADs), b) foreign liabilities of commercial banks (ADs), and c) others. 'Foreign assets' of commercial banks consist of (i) foreign currency holdings, and (ii) rupee overdrafts to non-resident banks. 'Foreign liabilities' of commercial banks consists of (i) Non-resident deposits, which comprises receipt and redemption of various non-resident deposit schemes, and (ii) liabilities other than non-resident deposits which comprises rupee and foreign currency liabilities to non-resident banks and official and semi-official institutions. 'Others' under banking capital include movement in balances of foreign central banks and international institutions like IBRD, IDA, ADB, IFC, IFAD, etc., maintained with RBI as well as movement in balances held abroad by the embassies of India in London and Tokyo.

5.1.2.7. Rupee Debt Service

Rupee debt service includes principal repayments on account of civilian and non-civilian debt in respect of Rupee Payment Area (RPA) and interest payment thereof.

5.1.2.8. Other Capital

Other capital comprises mainly the leads and lags in export receipts. Besides this, other items included are funds held abroad, India's subscription to international institutions, quota payments to IMF, remittances towards recouping the losses of branches/subsidiaries and residual item of other capital transaction not included elsewhere.

5.1.3. Movement in Reserves

Movement in reserves comprises changes in the foreign currency assets held by the RBI and SDR balances held by the Government of India. These are recorded after excluding changes on account of valuation. Valuation changes arise because foreign currency assets are expressed in US dollar terms and they include the effect of appreciation/depreciation of non-US currencies (such as Euro, Sterling, Yen) held in reserves.

In accordance with the provisions of IMF's Balance of Payments Manual (5th Edition), gold purchased from the Government of India by the RBI has been excluded from the BOP statistics. Data from the earlier years have, therefore, been amended by making suitable adjustments in "Other Capital Receipts" and "Foreign Exchange Reserves". Similarly, item "SDR Allocation" has been deleted from the table.

5.1.4. Exchange Rates

Foreign currency transactions have been converted into rupees at the par/central rates up to June 1972 and on the basis of average of the Bank's spot buying and selling rates for sterling and the monthly averages of cross rates of non-sterling currencies based on London market thereafter. Effective March 1993, conversion is made by crossing average spot buying and selling rate for US dollar in the foreign exchange market and the monthly averages of cross rates of non-dollar currencies based on the London market.

5.1.5. Data Sources

Data on BoP are primarily compiled on the basis of International Transaction Reporting System (ITRS) in the form of fortnightly R-Returns filed by ADs/banks dealing in forex transactions. In accordance with the Foreign Exchange Management Act (FEMA), 1999, all foreign exchange transactions must be channeled through banking system and the banks that undertake foreign exchange transactions must submit various periodical returns and supporting documents prescribed under the FEMA to RBI.

The above information is further supplemented by information available from the Directorate General of Commercial Intelligence and Statistics (DGCI&S), various embassies/consulates including Indian embassies/consulates abroad, various ministries/government agencies/ departmental undertakings, USAID, National Association of Software Service Companies (NASSCOM), Air India, financial institutions and commercial banks (independent of reporting under ITRS), corporate sector and the RBI's own records.

5.1.6. Data Dissemination

At present, BoP statistics are published in two formats, viz., standard presentation with broad heads and detailed presentation with break-up of broad heads. The standard presentation with broad heads is compiled in accordance with the methodology set out in the IMF Balance of Payments Manual, 5th edition (BPM5) and is published every quarter with a lag of three months as per IMF's Special Data Dissemination Standards (SDDS) requirements. The disaggregated data on invisibles are finalised and published once the firm data on components become available. Invisibles are broadly classified under three heads, viz., services, transfers and income. While services, comprise travel, transportation, insurance, government not included elsewhere (GNIE) and miscellaneous (i.e. other services); transfers constitute private transfers and official transfers and income includes investment income and compensation of employees.

5.1.7. Revisions Policy for India's Balance of Payments Data

India's balance of payments statistics are published as 'preliminary', 'partially revised' and 'revised' data. Preliminary data are quarterly and are released with a lag of three months from the reference date (i.e., data for the quarter ending March 2004 are available at the end of June

2004). Preliminary data are subjected to some revisions during the year and partially revised data are released with lags of six months, nine months and twelve months from the reference date, alongside preliminary data for the relevant quarter(s). Partial revisions in the annual data are carried out with a lag of eighteen months from the reference date. Thereafter, the data are 'frozen' and final revisions are incorporated in the revised data, which are released within a lag of twenty-four months from the reference date. Extraordinary revisions may be undertaken within this cycle in the event of methodological changes in respect of data collection and compilation procedures and/or significant changes indicated by data sources that cause structural shifts in the data series. These extraordinary revisions are documented at the time of release. Preliminary, partially revised and revised data are clearly identified in the text and tables.

5.2. EXTERNAL DEBT

The definition of gross external debt adopted by India is based on the definition provided in 1988 by the International Working Group on External Debt Statistics (IWGEDS), which was set up jointly by the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD) and the World Bank. The core definition of external debt given by the IWGEDS is "gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal".

The coverage of data is broadly consistent with the recommendations made in IMF's "External Debt Statistics – Guide for Compilers and Users", 1993. The external debt classification distinguishes between type of debtor/creditor, by maturity, i.e., long term and short term, by type of transactions, i.e., deposit or trade related and by element of concessionality.

5.2.1. Scope of the data

The gross external debt of the country is classified under eight categories: (i) multilateral, (ii) bilateral, (iii) IMF, (iv) trade credits, (v) commercial borrowings, (vi) NRI deposits, (vii) rupee debt and (viii) short-term debt of maturity up to one year. In contrast to the liabilities side of the international investment position (IIP), the external debt data do not include any financial liabilities arising from foreign direct investment (except loans obtained by FDI enterprises in India from their parent company abroad) and equity component of foreign portfolio investment.

5.2.2. Accounting Conventions

External debt data are compiled and disseminated on original maturity basis. External debt is compiled and presented both in terms of US dollar and Indian rupees. The external debt figures are first compiled in terms of Indian rupees and then converted into US dollar at the spot exchange rate on the reference date.

5.2.3. Nature of the Basic Data Sources

At present various sources are used for obtaining information on various components of the external debt. The office of the Controller of Aid, Accounts and Audit Division, Ministry of Finance (MoF), Government of India (GoI) collects information on (i) multilateral and bilateral debt, excluding that part of multilateral/bilateral non-conessional debt to non-government entities for which approval needs to be sought under the ECB route; (ii) bilateral component of trade credit.

The External Debt Management Unit (EDMU) of the Department of Economic Affairs, MoF, GoI, collects data on rupee debt and export credit component for defence purposes. Securities and Exchange Board of India (SEBI) is the source for data on FII investment in debt instruments. Information on all other components of debt, *viz.*, commercial borrowings, NRI deposits and trade credits (both long and short term) is collected by the Reserve Bank of India.

5.2.4. Compilation Practices

India's external debt data are disseminated under two broad heads namely, long-term and short-term. Long term debt is classified into multilateral, bilateral, IMF, export credit, commercial borrowings, rupee debt and NRI deposits. Short-term debt comprises NRI deposits and trade related credits. The further disaggregation of long-term and short-term debt is based on creditor source and the status of borrower.

- Loans raised by India under external assistance programme or Official Development Assistance (ODA) are covered for the most part under multilateral and bilateral classification. Under multilateral, the following creditor sources have been identified: IDA, IBRD, ADB, EEC(SAC), OPEC, ISO, NIB, and IFC(W). Loans raised from all the above international bodies except IFC(W) are included under multilateral. The latter is treated as a part of commercial borrowings. Multilateral group comprises the loans extended by the above international institutions to the Government under ODA as well as loans to non-Government entities including those at market determined interest rates (commercial borrowings).

- Bilateral group represents loans received from bilateral sources. Certain bilateral credits to Government of India contain an export credit component, for example French and German credits as well as Swiss mixed credits, which is not treated as bilateral but as a part of export credit. Loans raised by non-Government entities including those at market related interest rates (commercial borrowings) from bilateral sources, for example EXIM Japan, EXIM USA and KFW Germany, are covered under bilateral category.

- The multilateral and bilateral loans are classified into Government and Non-Government borrowings. Government borrowings are those which pass through Central Government's budget. Non-Government borrowings include all loans raised by the non-government bodies with or without Government guarantee. Government and Non-Government credits are further disaggregated into concessional and non-concessional. Concessional loans are those loans under ODA, which carry grant element of more than 25 per cent. Rest are all non-concessional.

- "IMF" classification represents use of Fund credits. "Export credits" essentially include long-term trade credits. "Buyers' credits' are export credits raised through commercial banks with insurance cover from export credit agency of the donor country. "Suppliers' credits' are credits extended by the suppliers with or without insurance cover by export credit agencies. "Export credit component of bilateral loans' are export credits routed through commercial banks and are part of the package of bilateral assistance.

- "Commercial borrowings" comprise borrowings from international capital markets on commercial terms. "Commercial banks loans' refer to borrowings by Indian entities from international banks and other financial leasing and lending by overseas branches of Indian commercial banks to Indian residents. 'Securitised Borrowings' include funds raised through the issue of securitised instruments like bonds (including for example India Development Bonds and Resurgent India Bonds), Floating Rate Notes, Euro-Commercial Paper, Note Issuance Facility, etc., and Non-convertible/ convertible debentures. India Millennium deposits (IMDs) also figure here. FII investment in Government securities is treated as part of securitised borrowings. "Loans/securitised borrowings with multilateral/bilateral guarantee and IFC(W)" covers borrowings of Indian residents from international capital market with a guarantee from multilateral/bilateral agencies.

- NRI deposits consist of deposits under Foreign Currency Non-resident (Banks) (FCNR)(B) and Non-resident (External) Rupee Account (NR(E)RA). Back data include Foreign Currency Non-resident Account (FCNRA) which was withdrawn with effect from August 1994.

- Rupee debt covers civilian and non-civilian (defence) rupee debt owed to Russia which are payable through exports.
- Short-term debt represents all borrowings including NRI deposits with maturity of six months to one-year.

5.2.5. Other Aspects

The Reserve Bank of India compiles and publishes quarterly data on India's external debt for quarters ending March and June and the Ministry of Finance, Government of India releases external debt data for quarters ending September and December. The data are not seasonally adjusted. The data are preliminary when first released and are revised in about one year, by which time they become final.

5.3. FOREIGN INVESTMENT INFLOWS

Foreign investment inflows can be broadly categorised as Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI is the process whereby residents of one country (the home country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country). According to International Monetary Fund (IMF) definition contained in the Balance of Payments Manual, Fifth Edition (BPM-5), FDI has three components, viz., equity capital, reinvested earnings and other direct capital. India reports FDI inflows in accordance with the IMF definition, which include reinvested earnings and other direct capital flows, besides equity capital. Portfolio Investment includes investment in equity securities and debt securities in the form of bonds and notes, money market instruments and other instruments such as American Depository Receipts (ADRs)/Global Depository receipts that usually denotes ownership of equity.

5.3.1. Scope of the data

Following the IMF practice and in line with other country practices, foreign investment data are published under two broad heads: Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI data for India is published under the following three broad heads, viz., equity capital, reinvested earnings and intra-company loans. FPI includes portfolio flows through issuance of American depository receipts (ADRs)/global depository receipts (GDRs) and investment by Foreign Institutional Investors (FIIs).

5.3.2. Accounting Conventions

Foreign Investment data is compiled and presented in terms of US dollar.

5.3.3. Nature of the Basic Data Sources

The basic source for obtaining information on various components of foreign investment is the Reserve Bank of India.

5.3.4. Compilation Practices

In India, foreign investment data including FDI and FPI are compiled on a monthly basis by the RBI, using an international transactions reporting system (ITRS) as the principal source of information. Following the methodology prescribed in BPM5, data on fresh inflows of foreign direct investment are being captured through reporting of these transactions by the companies who receive these funds. The companies who receive the foreign investment report send these receipts data with full details to the Reserve Bank, which are then consolidated and used for compilation of direct investment data. Amount raised by the corporates through issuances of ADRs/GDRs are reported to the Reserve Bank.

The Reserve Bank also separately obtains from the custodians, on a weekly basis, the details of actual inflows/outflows into the accounts of the FIIs. Data on reinvested earnings and other capital is captured through annual surveys on FDI companies. These different components are then, finally compiled and consolidated to obtain the data on aggregate foreign investment in India.

5.3.5. Other Aspects

RBI publishes foreign investment data on a monthly basis in the RBI Bulletin, which provides component-wise details of direct investment and portfolio investment. Direct investment comprises of inflows through (i)

Equity via Government (SIA/FIPB) route, RBI automatic route, NRI, acquisition of shares and equity capital of unincorporated bodies, (ii) Reinvested Earnings and (iii) Other capital. Portfolio investment covers: (i) GDRs / ADRs (ii) FIIs, and (iii) offshore funds and others.

5.4. NON RESIDENT DEPOSITS

Non resident Indians (NRIs) are allowed to open and maintain bank account in India under special deposit schemes – both rupee denominated and foreign currency denominated. Such deposits are termed NRI deposits. For the purpose of opening and maintaining NRI deposits, Non resident Indian and Overseas corporate bodies are defined as follows:

- An Indian Citizen residing outside India and a Foreign Citizen of Indian origin residing outside India for employment/ carrying on business or vocation outside India or staying abroad under circumstances indicating an intention for an uncertain duration of stay abroad are defined as Non-Resident Indians. Persons posted in United Nations organizations and officials deputed abroad by Central/State Governments and public sector undertakings on temporary assignments are also treated as non-residents.

- Foreign citizens of Indian origin are treated at par with NRIs for certain facilities under bank deposits and investments in India. 'A person of Indian origin' means an individual (not being a citizen of Pakistan or Bangladesh or Sri Lanka), who at any time, held an Indian passport; or who or either of whose parents or whose grandparents were citizens of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955).

5.4.1. Scope of the data

NRI deposits include deposits under Foreign Currency Non-resident (Banks) (FCNR)(B) and Non-resident (External) Rupee Account (NR(E)RA). Back data include NR(NR)RD which was withdrawn in 2002.

FCNR(B) deposits are designated in foreign currency. The deposits can be made by NRIs. They are accepted in Pound Sterling, US Dollar, EURO, Japanese yen, Australian dollar and Canadian dollar. FCNR(B) deposits are accepted for the tenure of one year and above but less than two years, two years and above but less than three years and three years only.

NR(E)RA and NR(NR)RD, on the other hand, are a rupee denominated deposit schemes, where in NRIs can park their funds in both term deposits as well savings accounts.

5.4.2. Accounting Conventions

FCNR (B) deposits are compiled and disseminated in US dollar. For FCNR (B) deposits, conversion into a numeraire currency (US dollar) is done on the basis of average monthly exchange rate. NRE and NRNR deposits data are first compiled in terms of Indian rupees and then converted into US dollar. The stock data at the end of each month is calculated on the basis of end-period exchange rate for the respective month. For compilation of the monthly net flow figures, the average rupee-US dollar exchange rate for the month is used for conversion.

5.4.3. Nature of the Basic Data Sources

The basic source for obtaining information on various components of NRI deposits is the Reserve Bank of India.

5.4.4. Compilation Practices

At present, the monthly outstanding balances under the existing Non-Resident Deposit schemes are compiled on the basis of fortnightly statement on external liabilities received by Reserve Bank of India (RBI) under Section 42(2) of the RBI Act. These data are supplemented by information received in the form of monthly statements submitted by ADs to the Reserve Bank for calculating the maturity structure and comparing the balances under various deposits.

5.4.5. Other Aspects

The figures on NRI deposits are published in the Reserve Bank of India Bulletin on a monthly basis. It is also published every quarter in the table on Balance of Payments of the Bulletin.

5.5. INTERNATIONAL INVESTMENT POSITION OF INDIA

The International Investment Position (InIP), compiled as at the end of a specific period such as quarter-end or year-end, is the balance sheet of the stock of external financial assets and liabilities of a country. The net InIP (the stock of external assets less the stock of external liabilities) shows the difference between what an economy owns in relation to what it owes. Reflecting the increased world interest in levels of foreign investment, InIP has been included under Special Data Dissemination Standard (SDDS) of the IMF to provide key information for assessing a country's economic relations with the rest of the world. The conceptual framework for the InIP was introduced in the fifth edition of the International Monetary Fund's (IMF's) Balance of Payments Manual (BPM5) in 1993. The position at the end of a specific period reflects financial transactions, valuation changes, and other adjustments that occurred during the period and affected the level of assets and/or liabilities.

RBI disseminates InIP data annually as per the format prescribed under the SDDS by the International Monetary Fund (IMF). This manual presents the detail compilation procedure followed to compile the InIP of India.

5.5.1. Concept

The underlying concept of Balance of Payments (BoP) and InIP are same [ref. BPM5 (1993), BoP Compilation Guide (1995), BoP Text Book (1996)]. Transactions between residents and non-residents of an economy are shown in the BoP under three accounts, viz., current account, capital account and financial account. The international investment position measures the economy's stock of external financial assets and liabilities; the BOP financial account measures transactions during the period in these assets and liabilities.

5.5.2. InIP Components: Definition and Classification

Foreign Assets and Foreign Liabilities

International investments made by a country in non-resident entities constitute foreign assets whereas international investments received by a country from non-resident entities form its foreign liabilities. These assets/liabilities are primarily financial assets and financial liabilities. Assets are divided into direct investment, portfolio investment, financial derivative, other investment and reserve assets. Liabilities are divided the same way except for reserve assets, i.e., direct investment, portfolio investment, financial derivative and other investment.

Direct Investment and Portfolio Investment

As per the IMF manual, international investments are broadly classified under five categories viz. direct investment, portfolio investment, financial derivatives, other investment and reserve assets. Direct investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy. Direct investment includes equity capital, reinvested earnings, and other capital (inter company debt). Claims on and liabilities to affiliated enterprises are shown separately. The "lasting interest" aspect is translated in terms of holding of ordinary share or voting power, a threshold of ten percent is indicated by IMF. Otherwise the investment is classified as portfolio investment in equity.

The manual states that portfolio investment includes equity securities and debt securities in the form of bonds and notes, and money market instruments. Excluded are any of the aforementioned instruments included in the categories of direct investment and reserve assets. Portfolio investment under each instrument then is sub-classified by institutional resident sectors viz. Monetary authorities, General government, Banks and Other sectors.

Financial Derivatives

Financial derivatives are financial instruments that are linked to another specific financial instrument, indicator, or commodity and through which specific financial risks can be traded in financial markets in their own right. The derivatives are classified by the four institutional resident sectors, viz., Monetary authorities, General government, Banks and Other sectors. All financial derivatives are included here except those reported under reserve assets.

Other investment

The fourth category of investments, viz., 'Other investment' includes investments other than in equities and securities such as Trade credits, loans, currency and deposits and other assets/ liabilities. (such as capital subscriptions to international, non-monetary organizations and miscellaneous accounts receivable and payable). Other investment are also classified by sector and lastly by original maturity (long term and short term).

A detail discussion on data sources for the above items are available in InIP Guide (2002) published by the IMF.

Reserve Assets

Reserve assets are foreign financial assets available to, and controlled by, the monetary authorities or financing or regulating payments imbalances or for other purposes.

5.5.3. Dissemination of InIP of India

India has been disseminating data pertaining to InIP since 1951. The first study on India's InIP entitled "Census of India's Foreign Liabilities and Assets (as on June 30, 1948)" was published by the RBI in 1951 [RBI(1951)]. However, with India's subscription to SDDS, India committed to disseminate InIP as per the SDDS format prescribed by IMF. Currently annual data as on March are released by September of the same calendar year through RBI website . Data are released as per the prescribed format under SDDS and are available from end March 1997.

5.5.4. Compilation Methodology/Procedure

The format of the InIP as prescribed by the IMF is presented in the Annex 5.1. At present two methods are followed to compile the data as stated below:

- In the case of direct investment (DI) data, BoP data are added to the previous year stock value. Necessary exchange rate changes are taken into account in the final compilation. In the case of DI assets, data are first compiled based on US Dollars (USD) values and then converted to Indian rupee values. In the case of DI liabilities, data are first compiled in Indian rupee (INR) and then converted to USD. Exchange rate of USD as on end-March vis-à-vis INR of the reference year is used for conversion. Data as on end-March 1997 that was compiled through a census and published in 2000 provide the base value [RBI(2000)].
- Data pertaining to Banks, Government and Monetary authority are compiled based on published sources or collected from the corresponding agencies. If the published data of the stock values are available in USD as well as in INR (e.g. reserves, external debt, etc.), then the published information is used for InIP. If the data are available in either currency only, end-March exchange rate of USD vis-à-vis INR of the reference year is used for necessary conversion.
- Data pertaining to corporate sector (other than direct investment and portfolio investment) are compiled based on survey, viz., survey on foreign liabilities and assets on non-financial companies, mutual funds, insurance companies.

5.5.5. Limitation of the current methodology

Changes in InIP over a period occur due to four reasons, viz., financial transactions, price and exchange rate changes, and other adjustments as shown in Table 5.1.

Table 5.1: Changes in InIP

	Changes				
Position at the beginning of the period	Financial Transactions	Price Changes	Exchange Rate	Other Adjustments Changes	Position at the end of the period

At present a few items, viz., reserves, non-resident deposits, are compiled incorporating all the changes mentioned above. However, in the case of all other items, changes due to financial transactions and exchange rate only are taken into account as information on price changes and other adjustments are not readily available.

Following the above, the sources of data of various components and compilation procedures are given in Table 5.2.

Table 5.2. Compilation of Guidelines for International Investment Position

	Flow	Stocks	Source
A. Assets			
1. Direct Investment Abroad			
1.1 Equity Capital and Reinvested Earnings	BoP Table: 43 (in USD) - Latest (as relevant)	Net flow is added to base data on stock, which are available in the article titled 'Census of India's Foreign Liabilities and Assets as on March 1997; RBI Bulletin (October 2000)'.@	RBI Bulletin for Flow data (Statements on BoP data)
1.1.1 Claims on Affiliated Enterprises		NA	
1.1.2 Liabilities to Affiliated Enterprises (-)		NA	
1.2 Other Capital	BoP Table 43 (in USD) - Latest (as relevant)	Net flow is added to base data on Stock, which are available in the article titled 'Census of India's Foreign Liabilities and Assets as on March 1997; RBI Bulletin (October 2000)'. @	RBI Bulletin for Flow data
1.2.1 Claims on Affiliated Enterprises		NA	
1.2.2 Liabilities to Affiliated Enterprises (-)		NA	
2. Portfolio Investment			
2.1 Equity Securities	BoP Table: 43 (in USD) - Latest (as relevant)	As mentioned for items 1.1 & 1.2	RBI Bulletin for Flow data
2.1.1 Monetary Authorities		Not Applicable	
2.1.2 General Government		Not Applicable	
2.1.3 Banks		International Banking Statement (IBS) (Statement-II) Item 3.1: other Assets: Investment in Equity Abroad : Locational Banking Statistics	RBI Bulletin – Articles on International Banking Statistics.
2.1.4 Other Sectors		2.1-2.1.3	
2.2 Debt Securities	–		
2.2.1 Bonds and Notes			
2.2.1.1 Monetary Authorities		Not Applicable	

	Flow	Stocks	Source
2.2.1.2 General Government		Not Applicable	
2.2.1.3 Banks	–	IBS (Statement-II) Item 2.2 → Investment in Other Debt Securities	RBI Bulletin - Articles on International Banking Statistics
2.2.1.4 Other Sectors	Articles on	Survey data	Foreign Liabilities and Assets Survey (FLAS) canvassed by DESACS (BPSD)
2.2.2 Money-market Instruments			
2.2.2.1 Monetary Authorities		Not Applicable	
2.2.2.2 General Government		Not Applicable	
2.2.2.3 Banks	–	IBS (Statement-II) Item 2.1 → Investment in Foreign Govt. securities	RBI Bulletin - Articles on International Banking Statistics
2.2.2.4 Other Sectors	–	Survey data	Foreign Liabilities and Assets Survey (FLAS) conducted by DESACS (BPSD)
3. Financial Derivatives	–	NA	
3.1 Monetary Authorities			
3.2 General government			
3.3 Banks			
3.4 Other sectors			
4. Other Investment	–	As per item 4.1.2	
4.1 Trade Credit			
4.1.1 General Government		Not Applicable	
4.1.1.1 Long-term			
4.1.1.2 Short-term	–		
4.1.2 Other Sectors			
4.1.2.1 Long-term		As per the survey	Foreign Liabilities and Assets Survey (FLAS) conducted by DESACS (BPSD)
4.1.2.2 Short-term	–		Collected from Department of Economic Analysis and Policy (Division of International finance); Data pertain to Export proceeds not realised by Corporate Sector

	Flow	Stocks	Source
4.2 Loans			
4.2.1 Monetary Authorities		Not Applicable	
4.2.1.1 Long-term			
4.2.1.2 Short-term			
4.2.2 General Government			
4.2.2.1 Long-term		(1) Advances to Foreign Govt. and (2) Partition Debt Payable by Pakistan	Data on item (1) are compiled by RBI (Department of Economic Analysis and Policy)Data on item (2) were published by RBI (Census of India's Foreign Liabilities and Assets as on March 1997, RBI Bulletin, October 2000).
4.2.2.2 Short-term		NA	
4.2.3 Banks		Banks Assets and Liabilities (BAL) (Item-5)	Compiled by RBI (DESACS)
4.2.3.1 Long-term		Banks' Assets and Liabilities (BAL) (Item-5)	Compiled by RBI (DESACS)
4.2.3.2 Short-term		NA	
4.2.4 Other Sectors		Survey data	Foreign Liabilities and Assets Survey (FLAS) conducted by RBI, (DESACS)
4.2.4.1 Long-term		Not Applicable	
4.2.4.2 Short-term		Not Applicable	
4.3 Currency and Deposits			
4.3.1 Monetary Authorities		Nil	
4.3.2 General Government		Balances Held Abroad by Embassies of India	RBI (Department of Economic Analysis and Policy)
4.3.3 Banks		BAL-Currency (Item-1)+Deposits (Item-2)	Compiled by RBI (DESACS)
4.3.4 Other Sectors		Survey	Foreign Liabilities and Assets Survey (FLAS) conducted by RBI (DESACS)
4.4 Other Assets			
4.4.1 Monetary Authorities		Nil	
4.4.1.1 Long-term			
4.4.1.2 Short-term			

	Flow	Stocks	Source
4.4.2 General Government			
4.4.2.1 Long-term		Subscriptions to international Institutions after conversion: Annual Reports	Included are AFD, IFC, IDA, IBRD, MIGA, ADB. Data are collected from respective website.
4.4.2.2 Short-term		Not Applicable	
4.4.3 Banks			
4.4.3.1 Long-term		(1)Consolidated Balance Sheet of Overseas Branches of Indian Banks (Liabilities : Head Offices i.e. HO funds) and (2) BAL [Vostro (Debit)]	Item (1) from RBI (Department of Banking Supervision)Item (2) compiled by by RBI (DESACS)
4.4.3.2 Short-term		NA	
4.4.4 Other Sectors		Survey: LIC, Insurance, Mutual Fund, Corporate	Foreign Liabilities and Assets Survey (FLAS) conducted by RBI (DESACS)
4.4.4.1 Long-term		-do-	-do-
4.4.4.2 Short-term		-do-	-do-
5. Reserve Assets			
5.1 Monetary Gold		Data are published by RBI	RBI, RBI Bulletin (Table 4.4)
5.2 Special Drawing Rights		-do-	-do-
5.3 Reserve Position in the Fund		-do-	-do-
5.4 Foreign Exchange		-do-	-do-
5.4.1 Currency and Deposits		Data Template on International Reserves	IMF's SDDS site (India page)
5.4.1.1 With Monetary Authorities		-do-	-do-
5.4.1.2 With Banks		-do-	-do-
5.4.2 Securities		-do-	-do-
5.4.2.1 Equities			
5.4.2.2 Bonds and Notes			
5.4.2.3 Money-market Instruments			
5.4.3 Financial Derivatives (net)			
5.5 Other Claims			
B. Liabilities			
1. Direct Investment in Reporting economy			
1.1 Equity Capital and Reinvested Earnings	BoP Table 42 (In Indian	Net flow is to be added to Stock; base data are available in the	RBI Bulletin, October 2000

	Flow	Stocks	Source
	Rupee)-Latest (as relevant)	article titled 'Census of India's Foreign Liabilities and Assets as on March 1997.	
1.1.1 Claims on Direct Investors (-)		NA	
1.1.2 Liabilities to Direct Investors		NA	
1.2 Other Capital	BoP Table 42 (In Indian Rupee)-Latest (as relevant)	Net flow is to be added to Stock; base data are available in the article titled 'Census of India's Foreign Liabilities and Assets as on March 1997.	RBI Bulletin, October 2000
1.2.1 Claims on Direct Investors (-)		NA	
1.2.2 Liabilities to Direct Investors $$$		NA	
2. Portfolio Investment			
2.1 Equity Securities			
2.1.1 Banks @@			
2.1.2 Other Sectors $$	BoP Table 42 (In Indian Rupee)-Latest (as relevant)	Net flow is to be added to Stock; base data are available in the article titled 'Census of India's Foreign Liabilities and Assets as on March 1997;	RBI Bulletin, October 2000
2.2 Debt securities			
2.2.1 Bonds and notes			
2.2.1.1 Monetary Authorities		Nil	
2.2.1.2 General Government		Non resident Government (NRG) (Purpose code '02')	RBI (DESACS)
2.2.1.3 Banks		External Debt—V.b) Securitised borrowings (excluding FCCB)	External Debt Statistics
2.2.1.4 Other Sectors ##		India's External Debt - V.b) Securitised Borrowings [Only FCCB]	External Debt Statistics; RBI
2.2.2 Money-market Instruments			
2.2.2.1 Monetary Authorities		Nil	
2.2.2.2 General Government (DESACS)		NRG (Treasury Bill)	Compiled by RBI
2.2.2.3 Banks		Nil	
2.2.2.4 Other Sectors		Nil	
3. Financial Derivatives		NA	
3.1 Monetary Authorities			
3.2 General Government			
3.3 Banks			
3.4 Other Sectors			

	Flow	Stocks	Source
4. Other Investment			
4.1 Trade Credits			
4.1.1 General Government			
4.1.1.1 Long-term		Export credit component of Bilateral credits - India's External Debt	External Debt Statistics, MoF, GoI.
4.1.1.2 Short-term		NA	
4.1.2 Other Sectors			
4.1.2.1 Long-term		India's External Debt - suppliers' credit + Export credit for defence purposes	External Debt Statistics, MoF, GoI.
4.1.2.2 Short-term		India's External Debt: Others: Trade related (Short term debt over six months)	External Debt Statistics, MoF, GoI.
4.2 Loans			
4.2.1 Monetary Authorities			
4.2.1.1 Use of Fund Credit & loans from the fund		International Financial Statistics (IFS): Page 534 : India : Total fund credit & loans outstanding Excluding SDR	IMF
4.2.1.2 Other Long-term		Nil	
4.2.1.3 Short-term		Nil	
4.2.2 General Government			
4.2.2.1 Long-term		India's External Debt –Multilateral (A)+Bilateral (A)+Rupee Debt	External Debt Statistics, MoF, GoI.
4.2.2.2 Short-term		Nil	
4.2.3 Banks		Nil	
4.2.3.1 Long-term		India's External Debt[Multilateral →Non Govt-→Non concessional → Financial Institutions + Bilateral → Non Govt. → (Concessional → Financial Institutions + Non concessional → financial institutions)]	External Debt Statistics. MoF, GoI
4.2.3.2 Short-term		Nil	
4.2.4 Other Sectors			
4.2.4.1 Long-term**		India's external Debt-[Multilateral → Non Govt. → Non concessional → a)Public sector + b) Private sector)] + [Bilateral → Non Govt. → concessional → (Private + Public sector) + Bilateral -> Non Govt. → Non concessional → (Private + Public sector)] + Buyer's credits + Commercial Banking	External Debt Statistics, MoF, GoI.RBI (DESACS)

	Flow	Stocks	Source
		loans + Loans/ securitized borrowings etc. with multilateral/ bilateral guarantee and IFC(W)]—ECB(FDI component collected from ECB section	
4.2.4.2 Short-term		Nil	
4.3 Currency and Deposits			
4.3.1 Monetary Authorities		NRG(Purpose'01')	Compiled by RBI (DESACS)
4.3.2 General government		Nil	
4.3.3 Banks @		India's External Debt-. NRI & FC Deposits+ NRI deposits up to 1 year	External Debt Statistics
4.3.4 Other sectors		Nil	
4.4 Other Liabilities			
4.4.1 Monetary Authorities		Nil	
4.4.1.1 Long-term			
4.4.1.2 Short-term			
4.4.2 General Government		Nil	
4.4.2.1 Long-term			
4.4.2.2 Short-term			
4.4.3 Banks			
4.4.3.1 Long-term		Nil	
4.4.3.2 Short-term		BAL NOSTRO (Debit: Code (convert into Indian rupees then into USD with March end exchange rate of the reference year)	Compiled by RBI (DESACS)
4.4.4 Other sectors	Survey		Foreign Liabilities and Assets Survey (FLAS) conducted by RBI (DESACS)
4.4.4.1 Long-term			
4.4.4.2 Short-term			

NA : Not Available

$$: Foreign Direct Investment (FDI) & Portfolio Investment are not adjusted for price changes.

$$$: All liabilities (other than equity) between direct investor & direct investment enterprises are treated as other capital.

@ : Include accrued interest. Do not include non-resident non-repatriable deposits from 1997-2001.

** : Includes Buyers' Credit. Loan transactions between direct investor & direct investment enterprises are treated as other capital.

@@ : Equity Investments in Banks by Non-residents included under FDI.

Reference:

RBI Census of India's Foreign Liabilities and Assets as on March 1997; RBI Bulletin (October 2000). (2000)

5.6. STATISTICS ON FOREIGN EXCHANGE RESERVES

Reserve Bank of India has been publishing the data on Foreign Exchange Reserves to fulfill statutory and international obligations as a member of International Monetary Fund (IMF). The data on Foreign Exchange Reserves are published at prescribed intervals in various publications and/or on its official website www.rbi.org.in for use by domestic and international entities and Research personnel.

5.6.1. Concepts of India's International Reserves

India's concept of international reserves conforms to IMF's Balance of Payments Manual, fifth edition, Chapter XXI. Reserves are held for the purpose of intervention in the domestic foreign exchange markets, providing foreign currency liquidity to the Government and as backing for domestic currency.

Data are classified and presented under these heads.

5.6.2. Concepts and Definitions of Foreign Exchange Reserves

The Foreign Exchange Reserves consist of the following components:

i. Foreign Currency Assets (FCA)

ii. Gold

iii. Special Drawing Rights (SDR)

iv. Reserve Tranche Position in IMF (RTP)

Reserve Bank of India has direct control over the Foreign Currency Assets and Gold, which are reflected in its Balance sheet while Special Drawing Rights and Reserve Tranche Position in IMF are reflected in the books of Government of India. SDRs and RTP, which appear in the books of the Government but are readily available to Reserve Bank (monetary authority) for use, are included in Foreign Exchange Reserves.

Foreign exchange reserves are deployed as per the provisions of the Reserve Bank of India Act 1934. Broadly, the FCA comprises:

i. Cash Balance in Nostro accounts maintained with various Central Banks.

ii. Deposits with

  a. Central Banks

  b. Foreign Commercial Banks

  c. Bank for International Settlements

  d. International Bank for Reconstruction and Development (IBRD)

iii. Treasury Bills - Sovereign

iv. Securities and bonds (Foreign Securities) – Sovereign and supranational

The Foreign Currency Assets are reflected in the balance sheet of Reserve Bank as:

i. Foreign Securities (Issue Department Balance sheet)

ii. Balances held abroad

iii. Investments

Foreign Exchange Reserves or Reserve Assets are defined as consisting of those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes. The category of *reserve assets,* as defined in the *Manual,* comprises Monetary Gold, Special Drawing Rights of IMF, RTP with IMF, Foreign Exchange Assets (consisting of currency and deposits and securities), and other claims. Securities that do not satisfy the requirements of *reserve assets* are included in *direct investment* and *portfolio investment*.

Foreign Exchange or Currency Assets includes monetary authorities' claims on nonresidents in the forms of ECUs, currency bank deposits, government securities, other bonds and notes, money market instruments, financial derivatives, equity securities, and non-marketable claims arising from arrangements between central banks or governments. (Foreign exchange covers claims that are shown as the foreign exchange component of the series for international liquidity published by the Fund in *International Financial Statistics*.)

Monetary Gold is gold owned by the authorities (or by others who are subject to the effective control of the authorities) and held as a *reserve asset*. Other gold (non-monetary gold, possibly including commercial stocks held for trading purposes by authorities who also own monetary gold) owned by any entity is treated in this *Manual* as any other commodity. Transactions in monetary gold occur only between monetary authorities and their counterparts in other economies or between monetary authorities and international monetary organizations. Like SDRs, monetary gold is a *reserve asset* for which there is no outstanding financial liability.

Special Drawing Rights of IMF (SDRs) are international *reserve assets* created by the International Monetary Fund to supplement other *reserve assets* that are periodically allocated to IMF members in proportion to their respective quotas. SDRs are not considered liabilities of the Fund, and IMF members to whom SDRs are allocated do not incur actual (unconditional) liabilities to repay SDR allocations. The Fund determines the value of SDRs daily by summing, in U.S. dollars, the values—which are based on market exchange rates—of a weighted basket of currencies. The basket and weights are subject to revision from time to time. SDRs can be used to acquire other members' currencies (foreign exchange), to settle financial obligations, and to extend loans. Changes in the SDR holdings of monetary authorities can arise through (i) transactions involving SDR payments to or receipts from the Fund, other participants in the SDR Department of the Fund, or other holders or (ii) allocation or cancellation. Transactions such as those enumerated under (i) are included in the balance of payments; allocations or cancellations are not entered in the balance of payments but are reflected in the international investment position.

Reserve Tranche Position of IMF member is defined as the member's position in the IMF's General Resource Account which is recorded under the category for *reserve assets*. The member's reserve position is the sum of the reserve tranche purchases that a member may draw upon and any indebtedness of the Fund (under a loan agreement) that is readily repayable to the member. Reserve tranche purchases are purchases from the Fund of other currencies that do not cause Fund holdings of a member's currency to exceed the member's quota (minus holdings that reflect the member's use of Fund credit). A purchase from the Fund is recorded as an increase in foreign exchange holdings and a decrease in the member's reserve position in the Fund; a repurchase is recorded as a decrease and an increase, respectively. Purchases in the reserve tranche are not regarded as a use of Fund credit, are not subject to charges, and do not require repurchase. RTP, shown as a memo item with effect from May 23, 2003, is included in the reserves from the weekend ended April 2, 2004.

5.6.3. Special Data Dissemination Standards (SDDS) of the International Monetary Fund (IMF) - International Reserves and Foreign Currency Liquidity Data Template

The SDDS was established in 1996 to guide countries that have, or that might seek, access to international capital markets in the dissemination of economic and financial data to the public.[1] This site provides information about economic and financial data disseminated by member countries that subscribe to the SDDS.

Reserve Bank subscribed to SDDS effective December 27, 1996. Metadata was posted on the DSBB – Dissemination Standards Bulletin Board on October 30, 1997. Reserve Bank completely subscribed to Metadata on December 14, 2001. The IMF requires that data should be available at regular intervals in public domain. The Reserve Bank publishes these data in its publications. The Reserve Bank also publishes on its website, advance dissemination of release calendars for these data categories in accordance with SDDS requirements.

5.6.3.1. Coverage characteristics

There are two publications relating to the reserve assets i.e Foreign Exchange Reserves under WSS and the data Template on International Reserves

1. http://dsbb.imf.org/Applications/web/sddshome

and Foreign Currency Liquidity under SDDS. Data is disseminated in US dollars (in millions) and Indian Rupees (in crores, where one crore = 10 million) on the Foreign Exchange Reserves (comprising Foreign Currency Assets and Gold held by RBI and SDRs and RTP with IMF) under WSS and in US dollars (in millions) only under data template on International Reserves and Foreign Currency Liquidity.

5.6.3.2. Periodicity

Data are released on weekly basis (on week-end) for the Foreign Exchange Reserves and on monthly basis (on month-end) for the Data Template on International Reserves and Foreign Currency Liquidity.

5.6.3.3. Timeliness

Data are released one week after the reference week-end with respect to Foreign Exchange Reserves and one month after the reference month-end for the Data Template on International Reserves and Foreign Currency Liquidity.

5.6.4. Integrity and Quality of Data

The terms and conditions of dissemination of official statistics include those relating to the confidentiality of individually identifiable information. The data is compiled in accordance with the terms of Section 53 (1) of the *Reserve Bank of India Act* 1934, which requires that the RBI furnish a weekly statement of accounts of the Issue Department and the Banking Department to the Central Government. The *RBI Act* 1934 is published in Hindi and English and is available, for a fee, from book stores selling government publications, from the Controller of Publications, Civil Lines, Delhi - 110006, India. The data on international reserves are disseminated by the RBI as a service to the public.

Data are compiled according to the 5th edition of the IMF's "*Balance of Payments Manual*". The methodology used for compilation is indicated in footnotes in the monthly "*Reserve Bank of India Bulletin*" and in the Data Template on International Reserves and Foreign Currency Liquidity.

5.6.5. Dissemination of Foreign Exchange Reserves or Assets

The statistics related to country's Foreign Exchange Reserves are disseminated by Reserve Bank in the following publications and frequency.

- At weekly intervals (under Table 2) in the Weekly Statistical Supplement (WSS) with a lag of one week at every week-end. The data are presented in Indian Rupees as well as US dollar. Data include variation in Reserve Asset (component-wise) over previous week, over last December and close of previous financial year, i.e., March 31.
- At monthly intervals (under Table No.44) in Reserve Bank of India Bulletin; the data include reserve assets (component-wise) for month-wise position for the current and immediately preceding two financial years. The working notes are indicated under "Notes on Tables" of the bulletin.
- Weekly, monthly, quarterly, and annual data on Foreign Exchange Reserves are also published in the Handbook of Statistics on Indian Economy (Table 154; Table 197 and Table 201). These data were included earlier in the Report on Currency and Finance, Vol.II for current and previous years under reference of the publication.
- The RBI "*Annual Report*" publishes quarterly time series data for the last three years on: Foreign currency assets, gold, SDRs and the RTP with IMF

5.7. THE NOMINAL EFFECTIVE EXCHANGE RATE (NEER) AND THE REAL EFFECTIVE EXCHANGE RATE (REER) OF THE INDIAN RUPEE

The indices of NEER and REER are often used as indicators of external competitiveness. These indices are essentially drawn from the purchasing power parity doctrine. NEER is a weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies. REER is a weighted average of NEER adjusted for inflation differential between India and the trading partner. Generally speaking, a country has to adjust its exchange rate (in case of fixed exchange rate) or the exchange rate adjusts itself (in case of flexible exchange rate) to the basic fundamentals of the domestic economy vis-à-vis major trading partners like inflation differential and the movement in the other exchange rates.

There has been considerable discussion on movements in Nominal and Real Effective Exchange Rate (NEER and REER) of the Indian rupee. The stated stand of the RBI on this issue in the recent period has been that RBI does not consider REER to be an effective tool for management of short-term movements in exchange rate. As there is certain arbitrariness with respect to selection of base year, weights and prices, the use of REER could be suited to track the movements of currency over of time rather than exchange rate levels at any particular point of time.

REER movements are subject to various influences, including capital flows, and the estimation of REER raises several methodological issues, e.g., the choice of a basket of currencies, the choice of the base period, the choice of weights and the choice of price index. Nevertheless, in the long run, this index could be useful to assess the movements in the exchange rate of rupee *vis-à-vis* cross currency movements and inflation differential.

The Reserve Bank of India has been constructing five-country and thirty six-country indices of NEER and REER as part of its communication policy and to aid researchers and analysts. The five-country (U.S.A, Germany, France, Japan and U.K) NEER and REER, which is a quick index, was introduced by the RBI (Department of External Investments and Operations (DEIO)) in July 1998 and was published in the RBI Bulletin every month. Additionally, the 5-country NEER and REER were constructed on a daily basis for close monitoring of the nominal and real movement in the exchange rate of the rupee. The changing trade pattern of India, which rendered the fixed trade weights in the case of 5-country NEER/REER anachronistic and the introduction of single euro notes and coins for the entire Eurozone with effect from January 1, 2002, replacing the existing national currencies, some of which formed part of RBI's existing indices of NEER/REER, necessitating the exploration of possibility of computing new series of NEER/ REER with revised set of currencies and new weights. In December 2005, RBI replaced its existing 5-country indices with new six-currency indices of NEER/REER. It also revised its thirty six-country indices and replaced them with a new 36-currency indices of NEER/REER.

The new six-currency indices include U.S.A, Eurozone, U.K., Japan, China and Hong Kong SAR. The new indices have two new currencies - both Asian - the Chinese Renminbi and the Hong Kong Dollar. Two currencies in the existing five-country series, *viz*., French franc and Deutsche mark have been replaced by Euro in the new indices. China and Hong Kong SAR have become India's important trading partners and together accounted for around 9 per cent of India's foreign trade in 2004-05. The six countries/regions, represented by the six currencies, together accounted for around 40 per cent of India's total foreign trade in 2004-05 as compared with a lower coverage of around 22 per cent of India's total foreign trade in the case of the existing five-country index. China's share in India's foreign trade, which stood at a paltry 0.19 per cent in 1991-92 increased to 6.1 per cent in 2004-05. The increase has been especially pronounced in the last 4 years. China is likely to emerge as a major trading partner of India in the years to come and a big competitor too. Thus, including China takes account of third country competition in a limited way. The Chinese renminbi (RMB) is likely to gain in importance in future as China has already taken some steps on July 21, 2005 to make its exchange rate regime more flexible. Thus, it makes eminent sense to include China in the new 6-currency indices of NEER/REER. Including Hong Kong in the new indices takes care of the trade with mainland China, which is being routed through Hong Kong. The inclusion of China and Hong Kong SAR also takes care of the problem of falling share in India's total foreign trade of the countries included in existing 5-country indices and reflects an increasing recognition of the Indian economy's rapidly growing integration with the rest of Asia.

5.7.1. Note on Methodology

5.7.1.1. Definition

The six-currency trade based NEER and REER are constructed on a daily as well as monthly basis. The currencies chosen are US Dollar, Euro, Pound sterling, Japanese yen, Chinese renminbi and Hong Kong Dollar.

NEER: NEER is the weighted geometric average of the bilateral nominal exchange rates of the home currency in terms of foreign currencies. In terms of formula,

$$\text{NEER} = \prod_{i=1}^{6} (e/e_i)^{w_i}$$

REER : REER is the weighted average of NEER adjusted by ratio of domestic inflation rate to foreign inflation rates. In terms of Formula,

$$\text{REER} = \prod_{i=1}^{6} [(e/e_i)(P/P_i)]^{w_i}$$

Where e : Exchange rate of rupee against a numeraire (SDRs)

(i.e., SDRs per Rupee) (in index form)

e_i : Exchange rate of currency i against the numeraire (SDRs) (i.e., SDRs per currency i)

(i= US Dollar, Euro, Pound Sterling, Japanese Yen, Chinese Renminbi, Hong Kong Dollar)

w_i: Weights attached to currency/ country i in the index

P : India's wholesale price index (in Index form)

P_i : Consumer Price Index of Country i (in Index form)

5.7.1.2. Weighting Scheme

The existing five-country indices use fixed trade weights, which are based on the average of India's bilateral trade (exports plus imports) with the countries in the index during the five-year period from 1992-93 to 1996-97. The new indices will use 3-year moving average trade weights in place of the present fixed trade weights in order to suitably reflect the changing pattern of India's foreign trade with its major trading partners.

The weights are constructed on the basis of geometric average of India's bilateral trade (exports plus imports) with countries/regions represented by the six-currencies during the three year period, which gets updated every year. Thus, unlike the earlier practice of having fixed weights, the new set of weights will be different every year. The average share of each country in the average total trade for the three years, e.g., 2002-03 to 2004-05, is normalised to arrive at the requisite weights (wi). Weights used in the computation of new six-currency series are as follows (Table 5.3):

Table 5.3: Weighting Pattern for Six-Currency Series

(In per cent)

Year	Euro	Japan	UK	USA	Hong-kong	China
1993-94	42.06	14.01	12.04	26.33	4.55	1.01
1994-95	40.25	13.50	11.73	26.95	5.40	2.17
1995-96	39.22	13.44	11.33	26.95	6.07	2.98
1996-97	38.95	12.87	11.25	27.29	6.15	3.49
1997-98	39.28	11.76	11.55	27.46	6.03	4.20
1998-99	38.71	11.03	11.82	28.21	6.03	4.20
1999-00	37.79	10.64	11.86	28.59	6.68	4.44
2000-01	36.67	9.92	12.15	29.12	7.48	4.65
2001-02	35.88	9.30	12.06	29.08	8.02	5.67
2002-03	35.55	8.31	11.67	29.51	7.67	7.29
2003-04	35.52	7.85	10.84	28.90	7.55	9.34
2004-05	35.12	7.15	10.13	28.19	7.45	11.96

5.7.2. Sources and Procedures

For data on exchange rate, the daily morning eastern market exchange rates of the five currencies, viz., euro, pound sterling, Japanese yen, Hongkong dollar and Chinese renminbi are crossed with SDR-USD rate. For US dollar, SDR-USD rate is taken into consideration. In the case of the Indian rupee, RBI's reference rate for US Dollar, announced at 12.00 noon, is crossed with SDR-USD rate to arrive at SDR-Rs. rate. The weekly all commodities wholesale price index (WPI) is used as an index of inflation for India in REER. The WPI data are updated every week. These data are available with a time lag of 2 weeks. For the 6 countries/regions represented by the 6 currencies, monthly consumer price indices (CPI) are used as a measure of inflation in these countries. In the case of euro, Harmonised Index of Consumer Prices (HICP) has been used. China does not provide inflation indices but provides year-on-year monthly growth rates, which have been converted into indices by taking 1993-94 as the base year. The CPI data of these countries/regions are taken from online information system like Bloomberg as soon as these are announced by them. Later, these CPI data are substituted, wherever possible, by the price indices available in the International Financial Statistics (IFS), International Monetary Fund, which comes with a time lag.

The exchange rates have been defined in indirect quotes so that the appreciation/depreciation of the rupee is directly reflected by a rise/fall in index value. Thus, a rise in index represents an appreciation of rupee relative to the six currencies and a fall in index represents depreciation of rupee relative to these currencies. As against the practice of having three base years in the case of five-country indices, viz., 1991-92, 1993-94 and 2003-04 (financial years based on monthly averages), the last being a moving base updated every year to facilitate comparison with a more recent period, the new six-currency indices will have 1993-94 as fixed base and 2003-04 as a moving base, which would change every year as at present. In this connection, it may be mentioned that since the indices are geometric series, the percentage difference between any two period would be same in such a series, whatever be the base year.

The base year 1993-94 will remain fixed for several years, while the base year 2003-04 will be a moving one (i.e., from April 1, 2006 the base of 2003-04 would be changed to 2004-05 and so on). The indices are given on a financial year basis (average) since 1993-94.

REER and NEER of their respective national currencies are being computed by most of the country authorities and also by many global financial institutions/investment banks/ multilateral institutions like IMF to gauge the competitiveness of various currencies and their likely future movements. Many countries are reporting NEER and REER to the IMF. These data are published in the International Financial Statistics (IFS), which is a monthly publication. Depending on the availability of data, IMF also publishes REER for some advanced countries based on other cost indicators like relative unit labour cost and relative value added deflators, relative export unit values in manufacturing and relative wholesale prices, apart from REER based on consumer prices. The methodology used by RBI for computing 6-currency REER and NEER indices is in consonance with best international practice adopted by top multilateral institution like IMF and other countries/institutions in this regard.

Indices of six-currency NEER and REER of the Indian Rupee are published in the Reserve Bank of India Bulletin under Table 51.

5.8. STATISTICS ON TURNOVER IN FOREX MARKET

5.8.1. Data Source

Foreign exchange turnover data provides a measure of market activity and can also provide a rough proxy for market liquidity. To gauge the size of the foreign exchange markets, forex turnover data is collected from authorized dealers in India.

The Reserve Bank of India, Forex Markets Division, Foreign Exchange Department, collects data in respect of foreign exchange transactions on a daily basis through the FEMIS a wide area network. All the authorized dealers are required to send a file containing details of Merchant (Spot, Forwards and Cancellation of Forwards) and Interbank (Spot, Swap & Forwards) purchases and sales data. The data so collected is then sent to Press Relations Division for dissemination on a weekly basis through the Weekly Statistical Supplement.

5.8.2. Definitions of terms related to forex transactions

Merchant: Where one of the parties to the contract is not a bank (AD).

Interbank: Where both the parties to the contract are banks (includes transactions with RBI)

Spot transaction: Single outright transaction involving exchange of two currencies at a rate agreed on the date of contract, for value or delivery within two business days and includes cash (same day delivery)& tom (next day delivery) transactions.

Outright forward: Transactions involving the exchange of two currencies at a rate agreed on the date of contract for value or delivery at some time in future (more than two business days later).

Cancellation of forwards: On the purchase side the forward merchant sale contracts cancelled and on the sale side cancelled forward purchase contracts are indicated.

Swap: Transaction which involves the actual exchange of two currencies (principal amount only) on a specific date at a rate agreed at the time of the conclusion of the contract and a reverse exchange of the same two currencies at a date further in the future at a rate agreed to at the time of the contract. Only foreign exchange swaps between ADs are to be reported. Double counting is not eliminated.

The data forwarded by ADs through the dial up mode is merged in the FEMIS system and reports are generated on-line.

Spot Rate: The rate of exchange quoted for transactions involving immediate settlement. It usually refers to the current market rate for a currency. Interest is either added on (premium) or subtracted from (discount) this rate to determine pricing for non-spot trades, which are referred to as forwards in the FX market.

Forward Premium: Forward premium is the difference between the respective forward rate (i.e. the rate at which a foreign exchange contract is struck today for settlement at a specified future date) and spot rate. This indicates the supply and demand of foreign exchange for this duration. This also indicates “expectation on interest differentials”.

Forward Rate Agreement (FRA): A contract for borrowing or lending at a stated interest rate over a stated time period that begins at some time in the future Parties wishing to protect themselves against future interest-rate movements use FRAs.

5.9. STATISTICS ON PURCHASE/SALE OF FOREX BY RBI

Over the years, the exchange rate of rupee has evolved from one being fixed by the central bank to one being determined by the market forces of demand and supply. During the period 1975-92, the exchange rate of rupee was officially determined by the RBI in terms of weighted basket of currencies of India’s major trading partners and the exchange rate regime was characterized by daily announcement, by the RBI, of its buying and selling rates to Authorized Dealers. Following the recommendations of the Rangrajan Committee on Balance of Payments, the Liberalised Exchange Rate Management System (LERMS) involving dual exchange rate for the rupee was instituted in March 1992. Under LERMS, foreign exchange amounting to 40 per cent of the receipts from current account transactions was to be surrendered by the ADs to RBI, at the official pre-announced exchange rate. The exchange rate for the sale of the remaining 60 per cent could be market-determined. LERMS was meant to be transitional mechanism for enabling a movement from the managed regime to a market-determined system. The switch to market-determined exchange rate regime took place in March 1993, wherein the exchange rate of rupee was determined by the market forces of demand and supply in the forex market.

5.9.1. Exchange rate management objectives

The exchange rate policy of RBI has been articulated from time to time in monetary policy statements, annual publications and also in various speeches on the subject by the Top Management of the Bank. The objective has been maintenance of orderly conditions in the market, correcting any temporary mismatch in the system and curbing excessive volatility or speculative activity. During times of volatility, RBI has also been issuing press releases for communicating its own assessment of the market movements, reiterating its commitment of maintaining orderly conditions in the market and announcing policy measures, if any, for stabilizing the market. The data on purchase/ sales operations is placed in the public domain with a one month lag. (Table No 48- RBI Bulletin).

5.9.2. Intervention operations of RBI

Foreign exchange intervention can be defined as a transaction by an official agent of the government, to influence the value of the exchange rate. Put simply, it can be defined as the official purchase or sale of foreign assets against domestic assets in the foreign exchange market.

According to Section 40 of the RBI Act, Reserve Bank can buy or sell foreign currency to any authorized person. In addition to US dollar, RBI has the option to use the Euro as an intervention currency. Generally, intervention is used as a tool for regulating the external value of rupee. However, intervention can also be used as a tool of monetary policy because of its impact on liquidity. When the central bank buys foreign exchange from the market, it infuses an equivalent amount of rupee funds into the system (injection of liquidity); the opposite happens when it sells foreign exchange in the domestic market. Over the years RBI has intervened in the spot, forward and swap markets either directly or indirectly

- Direct intervention - Banks are contacted directly and asked to quote a two way price and the RBI buys or sells at the quoted rate. In 1995-96, most of the transactions were done directly with the authorized dealers.
- Indirect intervention - RBI intervenes indirectly through select public sector banks. These banks, in turn, buy or sell on behalf of RBI in the market. Indirect interventions became the primary mode of intervening in the forex market by RBI since 1997-98.

Interventions are ordinarily done in the spot market. However, RBI also operates in the forward and swap markets for purposes such as correcting distortions in the forward premia, mitigating cash-dollar shortage in the market, creating forward forex assets (to meet large bullet redemption like RIB), etc.

5.9.3. Statistics On Daily Foreign Exchange Reference Rates

Effective from March 1, 1993, following the unification of exchange rates, the era of free floating market determined exchange rate regime of the rupee, based on demand and supply began. Accordingly, the Reserve Bank is announcing the rupee reference rate for the US Dollar and Euro daily at 12.00 noon. This is an indicative rate, which is the average of the middle rates of the 12.00 noon quotes obtained from a few select banks in Mumbai. The Reference Rate is given out in a Press Release daily and is placed on the RBI website, and also in the RBI Bulletin (Table No. 47).

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1. BPM5(1993): Balance of Payments Manual (5-th edition), 1993, International Monetary Fund (IMF).
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