*Developments in India's Balance of Payments during First Quarter (April-June) of 2013-14**

The data on India's Balance of Payments (BoP) are published by the Reserve Bank on a quarterly basis with a lag of one quarter. This article presents the analysis of major developments in India's BoP during the first quarter (April-June) of 2013-14.

Balance of Payments during April-June (Q1) of 2013-14

Highlights

- India's current account deficit (CAD) as per cent of GDP widened to 4.9 per cent in Q1 of 2013-14 from 3.6 per cent in Q4 of 2012-13 and 4.0 per cent in Q1 of 2012-13 as trade deficit widened owing to the sharp rise in imports and contraction in merchandise exports.
- Merchandise exports (BoP basis) declined by 1.5 per cent to US$ 73.9 billion in Q1 of 2013-14 as compared with a decline of 4.8 per cent at US$ 75.0 billion in Q1 of 2012-13. In contrast, merchandise imports recorded an increase of 4.7 per cent at US$ 124.4 billion in Q1 of 2013-14 as against a decline of 3.9 per cent at US$ 118.9 billion in Q1 of 2012-13 primarily led by a rise in POL and gold imports.
- As a result, trade deficit (BoP basis) widened further to US$ 50.5 billion in Q1 of 2013-14 from US$ 43.8 billion a year ago.
- Net invisibles, however, recorded a growth of 7.2 per cent in Q1 of 2013-14 as against a decline of 2.6 per cent in Q1 of 2012-13 on account of a rise in net export of services.
- Notwithstanding a net outflow of portfolio investment, inflows under capital and financial account, excluding changes in foreign exchange reserves, rose by 25.2 per cent to US$ 20.5 billion in Q1 of 2013-14 from US$ 16.4 billion in Q1 of the previous year mainly on account of an increase in FDI and loans availed by banks. There was, however, a marginal drawdown of foreign exchange reserves by US$ 0.3 billion in Q1 of 2013-14 as against an accretion of US$ 0.5 billion in Q1 of 2012-13.

India's external sector came under stress in the quarter ending June 2013 as CAD worsened owing to the widening merchandise trade deficit and a slow recovery in net invisibles. Notwithstanding an increase in capital flows, particularly in FDI and bank loans, there was a net drawdown of foreign exchange reserves in Q1 of 2013-14 (Table 1).

Table 1: Major items of India's Balance of Payments

(US$ Billion)

	Apr-Jun		Jan-Mar
	2013-14 (P)	2012-13 (PR)	2013-14 (P)
1. Goods Exports	73.9	75.0	84.8
2. Goods Imports	124.4	118.9	130.4
3. Trade Balance(1-2)	**-50.5**	**-43.8**	**-45.6**
4. Services Exports	36.5	35.8	37.8
5. Services Imports	19.7	20.8	20.9
6. Net Services (4-5)	**16.9**	**15.0**	**17.0**
7. Goods & Services Balances (3+6)	**-33.6**	**-28.9**	**-28.7**
8. Primary Income, Net (Compensation of employees and Investment Income)	-4.8	-4.9	-5.2
9. Secondary Income, Net (Private Transfers)	16.7	16.8	15.8
10. Net Income (8+9)	**11.8**	**11.9**	**10.6**
11. Current Account Balance (7+10)	**-21.8**	**-16.9**	**-18.1**
12. Capital and Financial Account Balance, Net (Excl. change in reserves)	20.5	16.4	20.5
13. Change in Reserves (-)increase/(+) decrease	0.3	-0.5	-2.7
14. Errors & Omissions (-) (11+12+13)	0.9	1.1	0.3

P: Preliminary; PR: Partially Revised.
Note: Totals may not tally because of rounding off.

* Prepared in the Division of International Trade and Finance, Department of Economic and Policy Research, Reserve Bank of India. Time series data on BoP are available on the RBI website at dbie.rbi.org.in. In addition, the disaggregated quarterly data on invisibles are being released separately on the RBI website.

Goods Trade

- On a BoP basis, merchandise exports declined by 1.5 per cent to US$ 73.9 billion in Q1 of 2013-14 as compared with a decline of 4.8 per cent at US$ 75.0 billion in Q1 of 2012-13.
- India's export performance in Q1 of 2013-14 was mainly affected by a decline in exports of manufacturing items like 'engineering goods', 'gems & jewellery' and also primary products like 'ores and minerals'.
- While exports to countries like the UK, Japan, Korea, Malaysia and Singapore showed considerable improvement in Q1 of 2013-14, exports to major export destinations, *viz.*, the US, China and the UAE either slowed down or declined significantly during the quarter.
- Led by a sharp rise in gold and POL imports, merchandise imports rose by 4.7 per cent to US$ 124.4 billion in Q1 of 2013-14 as against a decline of 3.9 per cent in Q1 of 2012-13 at US$ 118.9 billion.
- Notwithstanding a successive rise in customs duty and other measures to curb gold demand and a moderation of international gold prices by around 12 per cent, demand for gold imports remained strong in Q1 of 2013-14.
- Imports of POL items also grew by 6.6 per cent in Q1 of 2013-14 despite a marginal decline in the international prices of crude oil (Indian basket), reflecting growing domestic consumption of petroleum products**.**

Trade Deficit

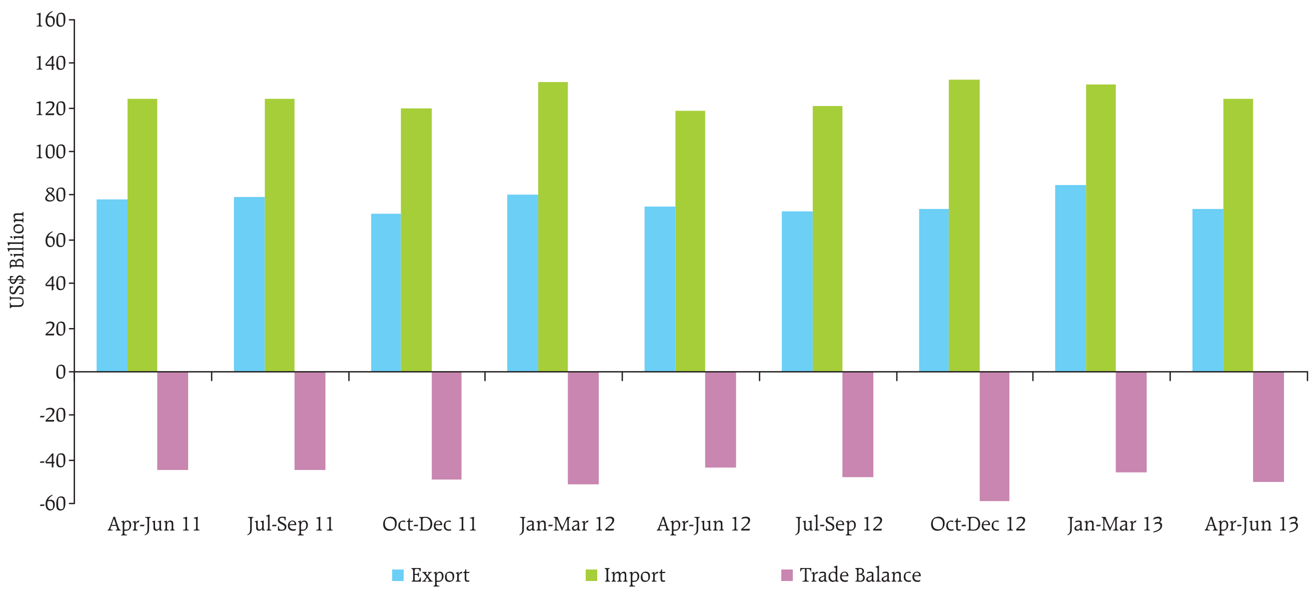
- Moderation in exports coupled with a rise in imports widened the trade deficit to US$ 50.5 billion in Q1 of 2013-14 (about 11.3 per cent of GDP) compared to US$ 43.8 billion (10.2 per cent of GDP) in Q1 of 2012-13 (Chart 1).

Services

During Q1 of 2013-14, net receipts on account of exports of services recorded a growth of 12.6 per cent at US$ 16.9 billion over the corresponding quarter of 2012-13. The decline was mainly on account of rise in exports of services coupled with a pronounced decline in imports of services on a year-on-year basis.

- Services export growth, however, decelerated to 2.1 per cent in Q1 of 2013-14 as compared with 6.1 per cent during the same quarter in the preceding year. While sectors like 'travel',

Chart 1: Quarterly Movements in Trade Balance



'telecommunication, computer and information services', 'financial services', 'professional and management consulting services' played a key role in boosting growth in services of exports, which, however, was partly offset by decline in exports of 'transport', 'charges for intellectual property' and 'technical, trade related and other business services'.

- Import of services, at US$ 19.7 billion, posted a decline of 5.5 per cent in Q1 of 2013-14 as against an increase of of 19.3 per cent in Q1 of 2012-13, mainly on account of a moderation in imports of 'professional and management consulting services', 'technical trade related and other business services' and 'personal cultural and recreational services'.

Income

While net outflow under primary income account moderated marginally in Q1 of 2013-14 at US$ 4.8 billion from US$ 4.9 billion in Q1 of 2012-13, owing to a rise in investment income receipts, net secondary income receipts also remained almost stable at US$ 16.7 billion in Q1 of 2013-14 (Table2).

- During Q1 of 2013-14, receipts on account of investment income, largely representing earnings on foreign currency assets, grew by 21.5 per cent (decline of 26.7 per cent in Q1 of 2012-13). Investment income payments, comprising mainly the interest payments on the external commercial borrowings (ECBs), NRI deposits and profits & reinvested earnings of FDI companies in India, recorded a growth of 5.1 per cent (12.9 per cent in Q1 of 2012-13).

- Net remittances from overseas Indians grew only marginally as there was a sharp rise in remittance payments (by 76 per cent) as compared with remittances receipts (by 6.6 per cent) in Q1 of 2013-14. Thus, net flows of secondary income remained stable in Q1 of 2013-14 as compared to that in Q1 of 2012-13.

- NRI deposits, when withdrawn domestically, form part of private transfers as they become unilateral

Table 2: Disaggregated Items of Current Account (Net)

(US$ Billion)

	Apr-Jun		Jan-Mar
	2013-14 (P)	2012-13 (PR)	2013-14 (P)
1. Goods	**-50.5**	**-43.8**	**-45.6**
2. Services	**16.9**	**15.0**	**17.0**
a. Transport	0.4	0.6	1.1
b. Travel	0.8	0.4	2.8
c. Construction	0.0	-0.0	-0.2
d. Insurance and pension services	0.2	0.3	0.3
e. Financial Services	-0.6	-0.1	-0.1
f. Charges for the use of intellectual property	-1.0	-0.7	-1.1
g. Telecommunications, computer and information services	16.2	15.3	17.3
h. Personal, cultural and recreational services	0.2	0.0	0.1
i. Government goods & services	-0.2	-0.0	-0.2
j. Other Business services	0.6	-0.6	-0.9
k. Others *n.i.e.*	0.1	-0.0	-2.1
3. Primary Income	**-4.8**	**-4.9**	**-5.2**
a. Compensation of Employees	0.2	0.2	0.2
b. Investment Income	-5.1	-5.1	-5.3
4. Secondary Income	**16.7**	**16.8**	**15.8**
a. Personal Transfers	16.2	16.1	15.3
b. Other Transfers	0.6	0.7	0.5
5. Current Account (1+2+3+4)	**-21.8**	**-16.9**	**-18.1**

P: Preliminary; PR: Partially Revised.
Note: Totals may not tally because of rounding off.

Table 3: Inflows and Outflows from NRI Deposits and Local Withdrawals

(US $ Billion)

Year	Inflows	Outflows	Local Withdrawals
2012-13 (P)	65.3	50.5	32.0
2011-12 (PR)	64.3	52.4	32.5
Apr-June 2013-14	18.3	12.8	8.1
Apr-June 2012-13	19.3	12.8	8.1

P: Preliminary. PR: Partially Revised.

transfers and do not have any *quid pro quo.* In Q1 of 2013-14, the share of local withdrawals in total outflows from NRI deposits was 63.1 per cent, almost same as in Q1 of the previous year (Table 3).

- As a proportion of total private transfers, inward remittances for family maintenance increased to 51.0 per cent in Q1 of 2013-14 from 49.0 per cent in Q1 of 2012-13. The share of local withdrawals from NRI deposits, however, declined to 45.3 per cent in Q1 of 2013-14 from 46.4 per cent in the corresponding period (Table 4).

Current Account

- Widening of merchandise trade deficit, along with a slow recovery in net invisibles (income & services), led to worsening of CAD to US$ 21.8 billion in Q1 of 2013-14 from US$ 16.9 billion in Q1 of 2012-13. As a percentage of GDP, CAD worsened to 4.9 per cent in Q1 of 2013-14 from 4.0 per cent in Q1 of 2012-13 (Chart 2).

Table 4: Details of Private Transfers to India

(US$ Billion)

Year	Total Private Transfers	*Of Which:*			
		Inward remittances for family maintenance		Local withdrawals/ redemptions from NRI Deposits	
		Amount	Percentage Share in Total	Amount	Percentage Share in Total
2012-13 (P)	67.6	33.0	48.9	32.0	47.2
2011-12 (PR)	66.1	31.3	47.3	32.5	49.1
Apr-June 2013-14	17.9	9.1	51.0	8.1	45.3
Apr-June 2012-13	17.5	8.5	49.0	8.1	46.4

P: Preliminary. PR: Partially Revised.

Capital & Financial Account

The capital account, which includes, *inter alia,* 'net acquisition of non-produced non-financial assets' and 'other capital receipts including migrant transfers' showed a negligible inflows on a net basis in Q1 of

Chart 2: Movement in Current Account Balance

Table 5: Disaggregated Items of Financial Account (Net)

(US$ Billion)

	Apr-Jun 2013-14 (P)	Apr-Jun 2012-13 (PR)	Jan-Mar 2013 (P)
1. Direct Investment (net)	**6.5**	**3.8**	**5.7**
a. Direct Investment to India	6.5	5.9	7.2
b. Direct Investment by India	0.0	-2.1	-1.4
2. Portfolio Investment	**-0.2**	**-2.0**	**11.3**
a. Portfolio Investment in India	-0.5	-1.7	11.5
b. Portfolio Investment by India	0.2	-0.3	-0.2
3. Other investment	**14.1**	**15.4**	**4.2**
a. Other equity (ADRs/GDRs)	0.0	0.1	0.0
b. Currency and deposits	5.6	6.4	2.8
Deposit-taking corporations, except the central bank (NRI Deposits)	5.5	6.6	2.8
c. Loans*	5.9	3.5	-1.6
c.i. Loans to India	5.4	3.5	-1.6
Deposit-taking corporations, except the central bank	4.7	3.0	-6.3
General government (External Assistance)	0.3	0.1	0.6
Other sectors (External Commercial Borrowings)	0.4	0.4	4.1
c.ii. Loans by India	0.4	0.1	0.0
General government (External Assistance)	-0.1	-0.1	-0.1
Other sectors (ECBs)	0.5	0.1	0.1
d. Trade credit and advances	2.5	5.4	4.5
e. Other accounts receivable/payable-other	0.2	-0.1	-1.5
4. Financial Derivatives	**-0.5**	**-0.6**	**-0.9**
5. Reserve assets	**0.3**	**-0.5**	**-2.7**
Financial Account (1+2+3+4+5)	**20.1**	**16.1**	**17.6**

P: Preliminary; PR: Partially Revised.
*: Includes External Assistance, ECBs and Banking Capital.
Note: Totals may not tally because of rounding off.

2013-14. Notwithstanding a net outflow in portfolio investment, particularly from debt segment of FII, net inflows under capital and financial account (excluding changes in foreign exchange reserves) rose by 25.2 per cent to US$ 20.5 billion in Q1 of 2013-14 from US$ 16.4 billion in Q1 of 2012-13. The rise was mainly on account of increase in FDI and overseas loans availed by banks (Table 5).

- Net FDI inflows witnessed a significant rise in Q1 of 2013-14 to US$ 6.5 billion from US$ 3.8 billion in Q1 of 2012-13, primarily on account of fresh FDI inflows to India and a significant decline in net FDI by India.

- Net FDI to India increased by 9.5 per cent from US$ 5.9 billion in Q1 of 2013-14 to US$ 6.5 billion in Q1 of 2012-13. The rise in FDI to India was reflected under both equity and debt flows.

- However, on a sectoral basis, gross FDI inflows through SIA/FIPB routes have shown a marginal decline owing to a moderated inflows in sectors *viz.,* 'financial services', 'business services', 'electricity and others', 'construction' and 'computer services' (Table 6). FDI from all major source countries (except Singapore) was lower in Q1 as compared with corresponding quarter of 2012-13. In Q1 of 2013-14, Singapore became the largest source of investment along with Mauritius (Table 7).

- Sector wise, gross FDI outflows from India moderated across all sectors ranging from 'financial, insurance, real estate and business services', 'transport, storage and communication services', 'wholesale, retail trade, restaurants and hotels' excluding sectors like 'manufacturing',

Table 6: Sector-wise FDI – Inflows and Outflows

(US$ Billion)

Gross FDI inflows to India#				Gross FDI outflows from India*			
Industry	2012-13	Apr-Jun 2013	Apr-Jun 2012	Industry	2012-13	Apr-Jun 2013	Apr-Jun 2012
1	2	3	4	5	6	7	8
Manufacturing	6.5	1.6	1.4	Manufacturing	3.3	0.9	0.8
Financial Services	2.8	0.6	0.7	Financial, Insurance, Real Estate and Business Services	2.7	0.3	0.6
Electricity and others	1.4	0.2	0.4	Transport, Storage and Communication Services	1.7	0.3	0.6
Construction	2.6	0.2	0.3	Agriculture , Hunting, Forestry Fishing and Mining	1.1	0.1	0.1
Business Services	1.6	0.1	0.2	Wholesale, Retail Trade, Restaurants and Hotels	0.7	0.1	0.2
Restaurants and Hotels	0.9	0.1	0.1	Construction	0.6	0.1	0.1
Communication Services	1.5	0.0	0.0	Community, Social and Personal Services	0.3	0.1	0.0
Computer Services	0.7	0.0	0.1	Electricity, Gas and Water	0.1	0.01	0.0
Others	0.3	0.5	0.3	Miscellaneous	0.3	0.0	0.0
Total	**18.3**	**3.3**	**3.5**	**Total**	**10.8**	**1.8**	**2.4**

#: Includes equity FDI through SIA/FIPB and RBI routes only and hence are not comparable with data in other tables.
*: Includes equity (except that of individuals and banks), loans and guarantee invoked, and hence are not comparable with data in other tables.

'agriculture, hunting, forestry, fishing and mining', 'construction' which either witnessed a rise in outflow or remained same during the period (Table 6).

- With an increase in gross FDI outflows to Mauritius during Q1 of 2013-14, it became one of the largest recipient countries along with Singapore, Netherlands and the USA (Table 7).

- During Q1 of 2013-14, India's outward FDI through joint ventures and wholly owned subsidiaries stood at US$ 1.8 billion which was around 25 per cent lower than the outward investment made in Q1 of 2012-13. While the investment financed through equity declined by 26.1 per cent during the quarter, the loan component registered a fall of 23.2 per cent from

Table 7: Country-wise FDI – Inflows and Outflows

(US$ Billion)

Gross FDI inflows to India#				Gross FDI outflows from India*			
Country	2012-13	Apr-Jun 2013	Apr-Jun 2012	Country	2012-13	Apr-Jun 2013	Apr-Jun 2012
1	2	3	4	5	6	7	8
Mauritius	8.1	0.7	1.1	Mauritius	1.7	0.3	0.2
Singapore	1.6	0.7	0.3	Singapore	1.8	0.3	0.5
Japan	1.3	0.2	0.2	Netherlands	0.9	0.3	0.3
Netherlands	1.7	0.1	0.5	USA	1.4	0.3	0.3
Cyprus	0.4	0.1	0.2	British Virgin Islands	0.5	0.1	0.1
UK	1.0	0.0	0.4	UK	0.5	0.1	0.2
South Korea	0.2	0.0	0.1	UAE	0.6	0.1	0.1
U.S.A	0.5	0.0	0.1	Switzerland	0.5	0.03	0.1
UAE	0.2	0.0	0.1	Australia	0.2	0.02	0.02
Others	3.3	1.5	0.5	Others	2.7	0.3	0.6
Total	**18.3**	**3.3**	**3.5**	**Total**	**10.8**	**1.8**	**2.4**

#: Includes equity FDI through SIA/FIPB and RBI routes only and hence are not comparable with data in other tables.
*: Includes equity (except that of individuals and banks), loans and guarantee invoked, and hence are not comparable with data in other tables.

Table 8: India's Outward FDI

(US$ Billion)

Period	Equity*	Loan	Guarantees Invoked	Total
Apr-Jun 2013-14 (P)	0.9 (46.6)	1.0 (53.3)	0.0 (0.0)	**1.8**
Apr-Jun 2012-13 (PR)	1.2 (45.3)	1.3 (54.7)	0.0 (0.0)	**2.4**
2012-13	6.3 (58.3)	4.4 (40.7)	0.1 (-0.3)	**10.8**
2011-12	5.5 (49.0)	5.7 (51.0)	0.0 (0.0)	**11.2**

*: The equity data do not include equity of individuals and banks.
Note: Figures in brackets relate to percentage share in total outward FDI for the period.

US$ 1.3 billion in Q1 of 2012-13 to US$ 1.0 billion in Q1 of 2013-14 (Table 8).

- Volatile trend in portfolio investment continued during Q1 of 2013-14 despite a moderation in net outflows. While equity investments by FII witnessed a net inflow of US$ 4.9 billion in Q1 of 2013-14 as compared with a net outflow of US$ 1.7 billion in Q1 of 2012-13 (inflow of US$ 9.6 billion in Q4 of 2012-13), net FII investment in debt witnessed a reverse trend. There was a significant outflow of US$ 5.4 billion in Q1 of 2013-14 from the domestic debt market as compared to an outflow of US$ 0.1 billion in Q1 of 2012-13 (inflow of US$ 1.9 billion in Q4 of 2012-13), primarily led by the signaling of a probable tapering of the US quantitative easing by the Fed.
- Net loans availed by banks recorded a rise of 57.5 per cent in Q1 of 2013-14 on a y-o-y basis owing to a rise in fresh borrowings by banks amounting to US$ 4.7 billion in Q1 of 2013-14 from US$ 3.0 billion in Q1 of 2012-13.
- Simultaneous increase in 'external loans availed by non-Government and non-banking sectors', *i.e.*, ECBs and repayments during the quarter led to a marginal rise in net ECBs by 6.5 per cent as against a decline in net ECBs by 86.9 per cent in Q1 of the previous year.
- Net inflows under 'trade credit and advances' declined to US$ 2.5 billion in Q1 of 2013-14 from US$ 5.4 billion in Q1 of 2012-13 owing to a greater rise in repayments relative to fresh credit availed during the quarter.
- Inflows under currency and deposits of commercial banks, *i.e.*, NRI deposits moderated to US$ 5.5 billion in Q1 of 2013-14 from US$ 6.6 billion in Q1 of 2012-13.
- Net capital flows under financial account were almost sufficient to finance the CAD as there was only a marginal drawdown of foreign exchange reserves of US$ 0.3 billion in Q1 of 2013-14 as against an accretion of US$ 0.5 billion in Q1 of 2012-13.
- 'Other receivables/payables' that include 'leads and lags in exports', 'net funds held abroad', 'advances received pending issue of shares under FDI', and 'other capital not included elsewhere' recorded a net inflow of US$ 0.2 billion in Q1 of 2013-14 as against an outflow of US$ 0.1 billion in Q1 of the previous year (Table 9).

Table 9: Details of 'Other Receivables/ Payables' (Net)

(US $ Billion)

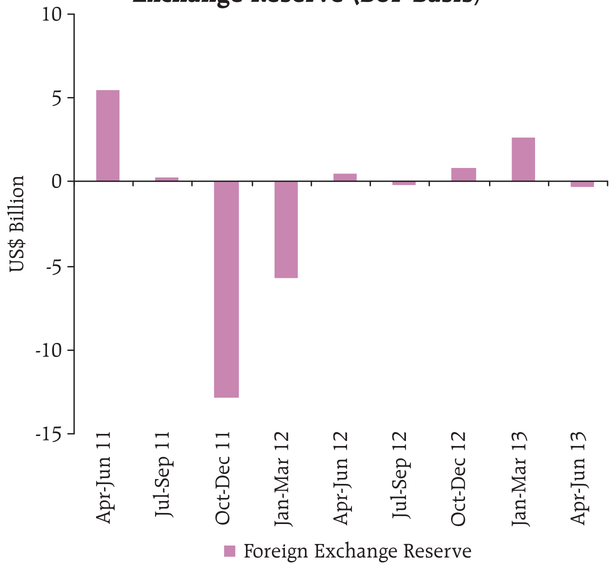
Item	2012-13 (P)	2011-12 (PR)	April-June	
			2013-14 (P)	2012-13 (PR)
Lead and Lags in Exports	-10.8	-10.4	-2.1	-1.0
Net Funds Held Abroad	-8.6	-2.8	-1.2	-1.0
Advances Received Pending Issue of Shares under FDI	9.2	2.7	3.5	1.8
Other capital not included elsewhere#	7.5	3.6	0	0.1
Total	**-2.7**	**-6.9**	**0.2**	**-0.1**

#: Inclusive of derivatives and hedging, migrant transfers SDR allocation, rupee debt service and other capital transfers.
P: Preliminary. PR: Partially Revised.

Reserve Variation

- Net capital inflows were almost sufficient to finance the CAD and there has been a marginal drawdown of foreign exchange reserves to the extent of US$ 0.3 billion in Q1 of 2013-14 as against an accretion of the amount US$ 0.5 billion in the previous year. At the end of June 2013, foreign exchange reserves stood at US$ 282.45 billion (Chart 3).

Chart 3: Variation In India's Foreign Exchange Reserve (BoP Basis)



Difference between DGCI&S and Balance of Payments

- The data on imports based on DGCI&S (custom statistics) and the BoP (banking channel data) are given in Table 10. The discrepancy between the two data sets are likely to get reduced when both the data sets are revised later (Table 10).

Table 10: DGCI&S and the BoP Import Data

(US$ Billion)

Item	2012-13	April-June	
		2013-14	2012-13
1. BoP Imports	502.2	124.4	118.9
2. DGCI&S Imports	491.5	122.6	115.2
3. Difference (1-2)	10.7	1.8	3.7