# Invisibles in India's Balance of Payments : 1989-90 to 1996-97 (Part 1 of 5)

Since the eighties, a large number of developing countries have embarked upon liberalisation of their international transactions in invisibles in their quest for more efficient service sectors for their economies. Several countries have undertaken unilateral efforts to dismantle their barriers to international trade in invisibles; others have pursued liberalisation as part of a multilateral process to establish a free and equitable global order for trade in services. Beginning with the Uruguay Round of the General Agreement of Tariffs and Trade (GATT) in 1986, concerted efforts to build an international architecture for the progressive liberalisation of international trade in services on a multilateral basis have culminated in the General Agreement on Trade in Services (GATS) under the aegis of the World Trade Organisation in 1995.

India has been a part of this multilateral process. Invisibles play an important role in India's external sector. Surpluses in the invisible account have provided valuable balance of payments support in the face of external shocks. In the nineties, with the institution of structural reforms, there has been a rejuvenation of growth impulses in invisible receipts. A cautious strategy of liberalisation was put in place in the eighties within the overall framework of a shift in the policy stance from import substitution to export promotion. It was, however, in the aftermath of the external payments crisis of 1990-91 that the process gathered momentum. With the institution of structural reforms, the Indian economy was set on a path of progressive openness and integration with the global economy. The initial conditions for the liberalisation of invisibles were prepared in the form of a movement towards a stable and realistic exchange rate by a two step downward adjustment in the exchange rate in July 1991, a transitional period of dual exchange rates during 1992-93 and the institution of a fully market based exchange rate regime in March, 1993. Trade and industrial sector policies were liberalised and various core sectors of the economy were thrown open to foreign direct investment (FDI) which is recognised as the most important mode of delivery for trade in services. In 1992-93, portfolio investment by foreign institutional investors (FIIs) was allowed in Indian stock exchanges with full repatriability as in the case of FDI. Concomitantly, exchange control procedures for invisible transactions were relaxed beginning with delegation of releasing foreign exchange to Authorised Dealers (ADs)[@], rationalisation and simplification of documentation, easing of quantitative restrictions (both period limits and amount limits) and finally, leading up to the establishment of current account convertibility in August 1994 when India accepted the obligations under Article VIII of the Articles of Agreement of the International Monetary Fund. The policy for gold imports has been substantially liberalised. Along with improvements effected in the banking function with respect to the transfers of remittances, this has made for a large shift in the routing of remittances from informal channels to the banking system. The informal 'hawala' market for unofficial transactions in foreign exchange has virtually ceased to exist. At present, there are no requirements for approval from the Reserve Bank in respect of invisible transactions. Indicative limits have been set out to help ADs to make a smooth transition to a deregulated regime with powers to allow remittances of foreign exchange beyond these limits for bona fide applications. A three-year phasing of investment income payments adopted in the wake of instituting current account convertibility to guard against large outflows have also ceased to be operational.

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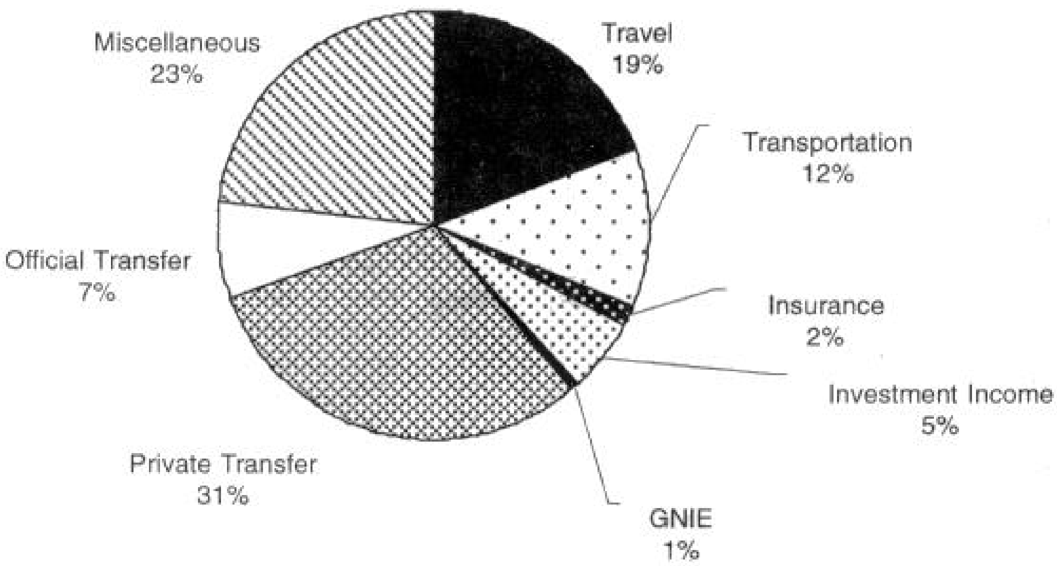
**@** **Authorised dealers are those banks and financial institutions, which are authorised to deal in foreign exchange under Foreign Exchange Regulation Act (FERA).**

A clear understanding of the behaviour of invisible trade requires comprehensive and well-defined
time series information at both national and international levels. Efforts have to be therefor made to improve the timeliness, quality and information content of balance of payments data with regard to invisibles. Balance of payments statistics provide the basic source of information on trade in invisibles in India. In keeping with the gathering interest in invisible transactions, disaggregated data on India's trade in invisibles over the period 1956-57 to 1988-89 were released by the Reserve Bank of India in its monthly Bulletin for March and April, 1992 and in its publication "Balance of Payments: 1948-49 to 1988-89", July 1993. This article extends this effort by providing disaggregated information on India's invisible transactions for the period 1989-90 to 1996-97.

In India's balance of payments, invisible transactions are recorded in pursuance of 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 and the manner of reporting by Authorised Dealers. In the standard presentation, invisibles (receipts and payments) are recorded in the non-merchandise segment of the current account and are classified under travel, transportation, insurance, investment income, government not included elsewhere, miscellaneous and transfers, both official and private. The data are compiled primarily on the basis of returns submitted by Authorised Dealers, supplemented by information furnished by various Indian embassies, the Government of India, financial institutions and the Reserve Bank's own records. For small value transactions, i.e., below Rs.1, 00,000/- (US $ 2,350 at January 1999 exchange rates), a survey is conducted in the Reserve Bank for apportioning receipts under various heads. Furthermore, a survey of freight and insurance receipts and a foreign investment survey is conducted to compile transportation and insurance receipts, non cash foreign investment and retained earnings of foreign direct investors.

Table 1 sets out data on India's invisible trade during 1989-90 to 1996-97 under these broad aggregates. Private transfers, miscellaneous receipts and travel receipts are important exchange earners. In the nineties, however, there has been progressive erosion in the shares of travel and miscellaneous receipts in gross invisible earnings with a compensating increase in the share of private transfer receipts. On the other hand, invisible payments are dominated by investment income payments although in recent years, payments for miscellaneous, transportation and travel imports have recorded modest increases in their shares in gross invisible payments. (Graphs 1, 2, 3, & 4).

**Graph 1 : INVISIBLE RECEIPTS (1989-90)**



**Travel** represents all expenditures by foreign tourists in India on the receipts side and all expenditures by Indian tourists abroad on the payments side (Statement I). Notably, expenditures on the cross-border carriage of tourists, both inward and outward, are excluded from the travel account. Internal travel by foreign tourists are, however, a component of tourism earnings. Travel receipts are principally determined by the number of foreign tourists visiting India during a given period (Graph 5), although factors like economic and social developments in India and abroad, cost conditions, absorption capacity of the tourism industry, etc also have a role to play. During the nineties, the growth of travel receipts has tended to decelerate, reflecting the slowing down of tourist arrivals especially in the period 1991-92 to 1994-95. On the payments side, travel payments are strongly influenced by rising per capita incomes reflecting a demand for leisure and the cross-border movement of domestic economic activity (Graph 6). Nevertheless, there has been a decline in travel payments in 1996-97 notwithstanding the progressive liberalisation of the trade and payments regime. The statistics on travel payments are available by purpose i.e., business, pleasure, medical, educational, religious, etc., (Statement I).

## TABLE 1 : INVISIBLES BY CATEGORY

Rs. crore

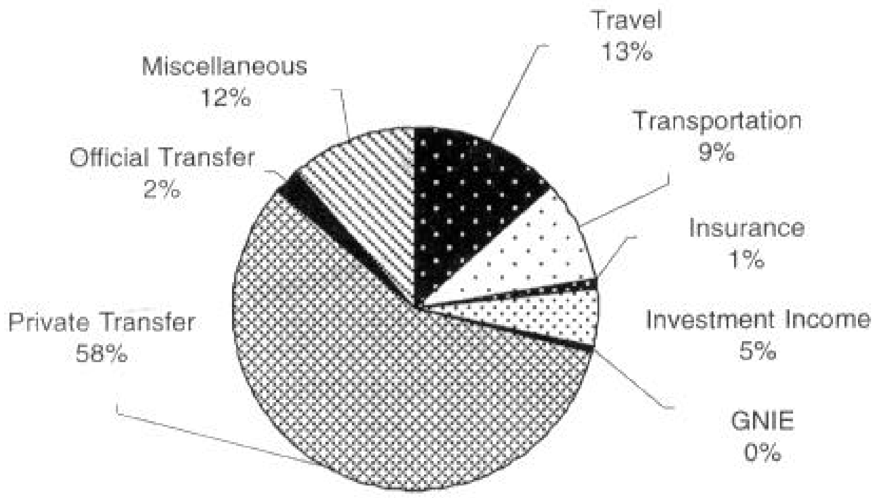
| | | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 |
|---|---|---|---|---|---|---|---|---|---|---|
| **A.** | **RECEIPTS** | | | | | | | | | |
| | Travel | 2386.2 | 2612.5 | 4891.9 | 6060.3 | 6970.3 | 7423.8 | 9150.3 | 10231.8 | 10879.6 |
| | Transportation | 1510.5 | 1764.6 | 2308.2 | 2850.4 | 4494.9 | 5328.1 | 6764.5 | 6942.4 | 6652.1 |
| | Insurance | 197.9 | 198.4 | 264.7 | 459.4 | 388.1 | 475.7 | 599.6 | 771.1 | 869.7 |
| | Investment Income | 687.8 | 660.5 | 541.8 | 1003.9 | 1237.6 | 2782.5 | 4732.0 | 3811.0 | 5794.7 |
| | GNIE | 51.9 | 27.3 | 42.0 | 219.6 | 94.5 | 28.3 | 44.0 | 256.9 | 1037.6 |
| | Private Transfer | 3823.9 | 3736.7 | 9418.9 | 11260.8 | 16582.1 | 25474.2 | 28768.4 | 44208.3 | 43929.3 |
| | Official Transfer | 902.0 | 829.3 | 1141.5 | 1055.0 | 1170.3 | 1322.9 | 1193.7 | 1507.4 | 1304.9 |
| | Miscellaneous | 2923.7 | 3564.3 | 4840.0 | 4128.4 | 4562.8 | 6002.9 | 8229.2 | 8804.9 | 15049.2 |
| | **TOTAL A** | **12483.9** | **13393.6** | **23449.0** | **27037.8** | **35500.6** | **48838.4** | **59481.7** | **76533.8** | **85517.1** |
| **B.** | **PAYMENTS** | | | | | | | | | |
| | Travel | 670.4 | 702.5 | 1111.5 | 1176.9 | 1558.5 | 2569.5 | 3908.8 | 3049.3 | 5339.6 |
| | Transportation | 1856.7 | 1961.0 | 3189.8 | 4547.0 | 5536.5 | 5851.8 | 7279.5 | 8497.1 | 9352.3 |
| | Insurance | 139.7 | 158.4 | 306.8 | 448.9 | 611.8 | 566.6 | 478.9 | 542.6 | 679.1 |
| | Investment Income | 5562.4 | 7392.9 | 9938.5 | 11506.7 | 11496.4 | 13554.5 | 15448.5 | 15579.5 | 18999.2 |
| | GNIE | 211.0 | 311.2 | 292.5 | 305.2 | 480.6 | 518.4 | 724.1 | 634.7 | 593.8 |
| | Private Transfer | 26.2 | 25.7 | 37.5 | 35.0 | 68.4 | 57.6 | 108.2 | 240.2 | 164.9 |
| | Official Transfer | 5.2 | 1.8 | 1.5 | 2.3 | 15.0 | 13.9 | 21.0 | 50.3 | 0.0 |
| | Miscellaneous | 2987.5 | 3275.0 | 4313.2 | 4541.6 | 6646.5 | 7868.7 | 13058.2 | 11219.7 | 14192.3 |
| | **TOTAL B** | **11459.1** | **13828.5** | **19191.3** | **22563.6** | **26413.7** | **31001.0** | **41027.2** | **39813.4** | **49321.2** |
| | **NET (A-B)** | **1024.8** | **-434.9** | **4257.7** | **4474.2** | **9086.9** | **17837.4** | **18454.5** | **36720.4** | **36195.9** |

(U.S. $ Mn.)

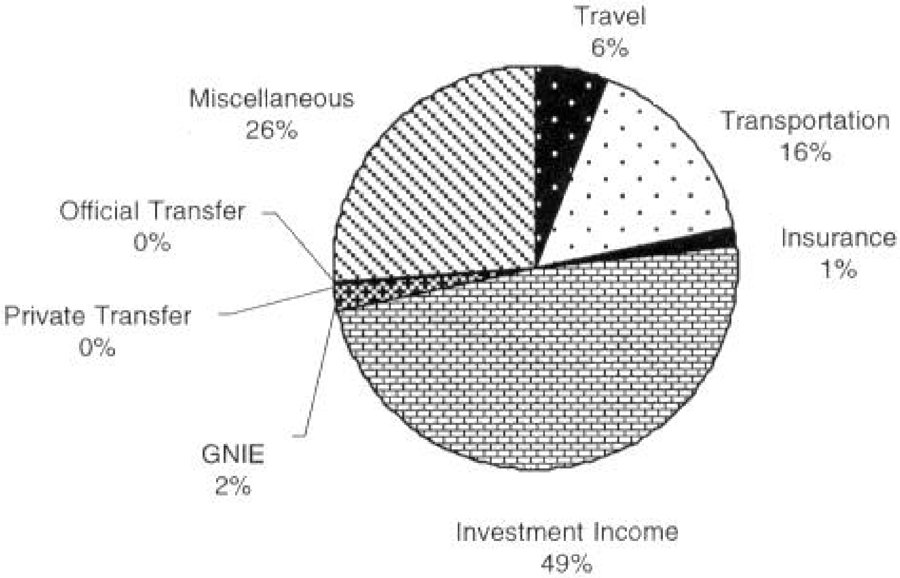
| | | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 |
|---|---|---|---|---|---|---|---|---|---|---|
| **A.** | **RECEIPTS** | | | | | | | | | |
| | Travel | 1433 | 1456 | 1977 | 2098 | 2222 | 2365 | 2713 | 2878 | 2914 |
| | Transportation | 907 | 983 | 939 | 982 | 1433 | 1696 | 2011 | 1953 | 1796 |
| | Insurance | 119 | 111 | 108 | 158 | 124 | 152 | 179 | 217 | 234 |
| | Investment Income | 413 | 368 | 221 | 376 | 395 | 886 | 1429 | 1073 | 1561 |
| | GNIE | 31 | 15 | 17 | 75 | 30 | 10 | 13 | 72 | 276 |
| | Private Transfer | 2297 | 2083 | 3798 | 3864 | 5287 | 8112 | 8539 | 12435 | 11875 |
| | Official Transfer | 542 | 462 | 461 | 364 | 373 | 421 | 351 | 423 | 351 |
| | Miscellaneous | 1756 | 1986 | 1981 | 1417 | 1455 | 1912 | 2441 | 2479 | 4033 |
| | **TOTAL A** | **7498** | **7464** | **9502** | **9334** | **11319** | **15554** | **17676** | **21530** | **23040** |
| **B.** | **PAYMENTS** | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Travel | 403 | 392 | 465 | 385 | 497 | 818 | 1167 | 858 | 1437 |
| Transportation | 1115 | 1093 | 1289 | 1485 | 1765 | 1863 | 2169 | 2394 | 2522 |
| Insurance | 84 | 88 | 126 | 146 | 195 | 181 | 143 | 153 | 183 |
| Investment Income | 3341 | 4120 | 4051 | 3799 | 3665 | 4317 | 4634 | 4380 | 5081 |
| GNIE | 127 | 173 | 119 | 100 | 153 | 165 | 218 | 178 | 160 |
| Private Transfer | 16 | 14 | 15 | 12 | 22 | 19 | 33 | 68 | 45 |
| Official Transfer | 3 | 1 | 1 | 1 | 5 | 5 | 6 | 13 | 0 |
| Miscellaneous | 1794 | 1825 | 1816 | 1485 | 2119 | 2506 | 3846 | 3165 | 3808 |
| **TOTAL B** | **6883** | **7706** | **7882** | **7413** | **8421** | **9874** | **12216** | **11209** | **13236** |
| **NET (A-B)** | **615** | **-242** | **1620** | **1921** | **2898** | **5680** | **5460** | **10321** | **9804** |

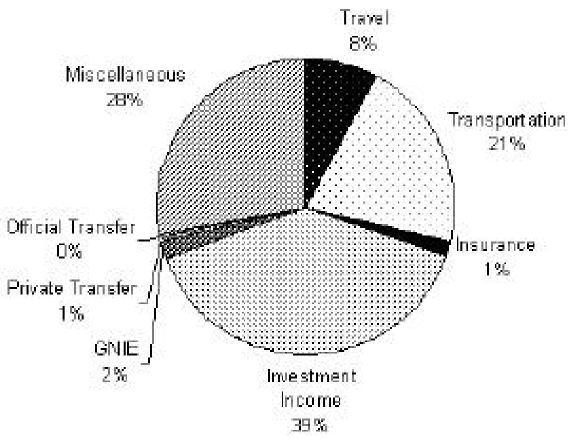
**Graph 2 : INVISIBLE RECEIPTS (1996-97)**



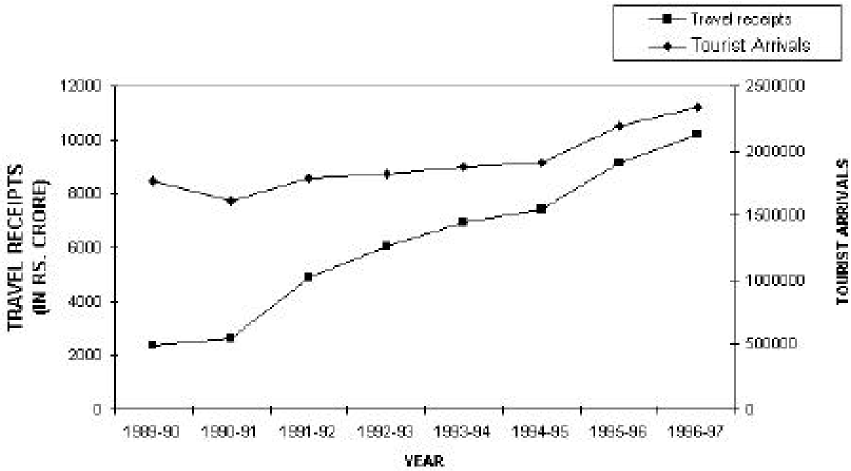

**Graph 3 : INVISIBLE PAYMENTS (1989-90)**




**Graph 4 : INVISIBLE PAYMENTS (1996-97)**

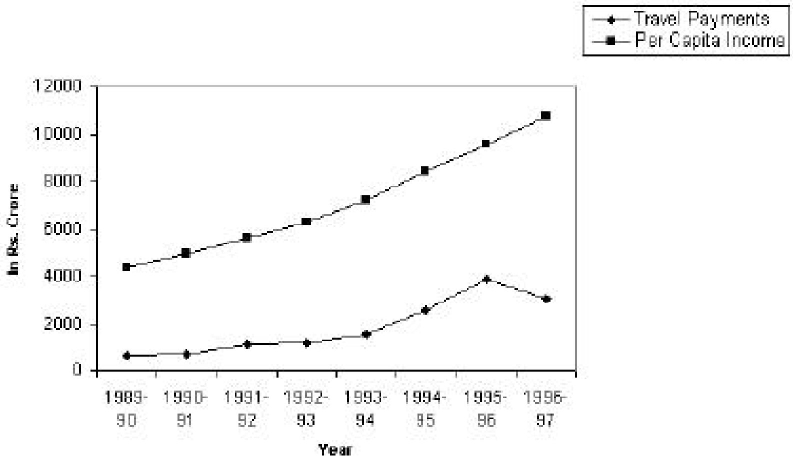



**Graph 5**

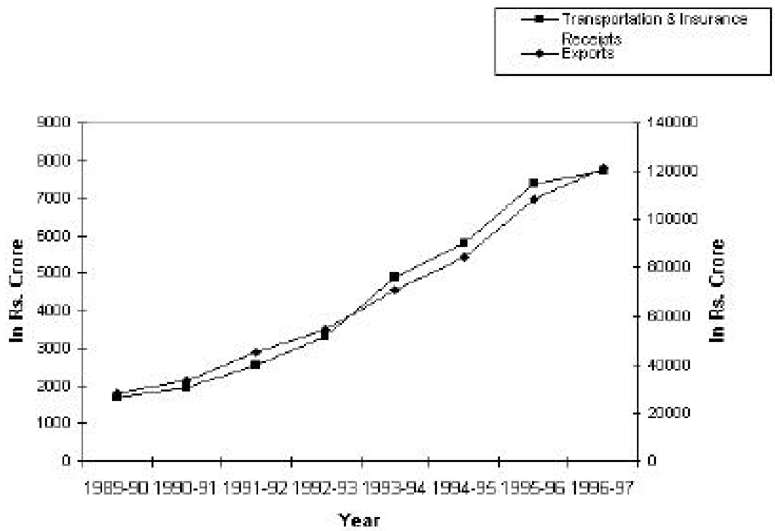



The **transportation** and **insurance** accounts record receipts and payments relating to the carriage of goods and natural persons as well as other distributive services performed on merchandise trade and tourist traffic (Statements II & III). These transactions are reported by Authorised Dealers (ADs) on a net basis i.e., inward and outward surplus remittances by transportation companies rather than in correspondence with underlying distributive activities (port charges, bunker fuel, stevedoring, cabotage, warehousing, etc). The bulks of transportation and insurance receipts consist of freight and insurance earned on merchandise exports and move in close correspondence with the latter (Graph 7). As Authorised Dealers report merchandise exports as a combination of exports on CIF basis, C&F basis and FoB basis, the results of a survey of freight and insurance are used to extract freight and insurance elements embedded in merchandise receipts. In the nineties, there has been a strong growth of transportation and insurance earnings, reflecting the robust merchandise export performance recorded in the period 1993-96. As merchandise imports are recorded on a CIF basis in India's balance of payments, symmetrical treatment as available to freight earnings is not possible for freight payments which are largely included under merchandise imports. Under transportation payments, the major items are remittances of surpluses by foreign shipping and airline companies as a result of their preponderant share in the carriage of merchandise and tourist trade, operating expenses of Indian shipping and airline companies in foreign ports of call, charter hire payments and miscellaneous freight payments. Surplus remittances of foreign shipping companies, charter hire payments and other freight payments move in tandem with the share of foreign companies in the carriage of India's foreign trade although in 1996-97 there has been a decline in this share (Graph 8). On the other hand, the operating expenses of Indian companies abroad can be linked to the share of Indian companies in the carriage of Indian cargo (Graph 9). Various bottlenecks impeding the growth of Indian shipping tonnage including the availability of capital resources have resulted in a prolonged stagnation in the Indian shipping industry. Since 1995-96, however, a modest upturn has set in. Surplus remittances of foreign airline companies relate to the transportation of international tourists visiting India (Graph 10). The upward trend in these payments in the nineties also reflects a growing preference of Indian tourists for foreign airlines alongside the progressive easing of quantitative restrictions facing the airline industry. Insurance payments, which are mainly outflows on account of reinsurance, exhibit a general co-movement with insurance receipts (Graph 11). The recording of transportation and insurance transactions on a gross basis and their reclassification from merchandise to invisibles form part of the ongoing efforts to refine and disaggregate the balance of payments statistics.

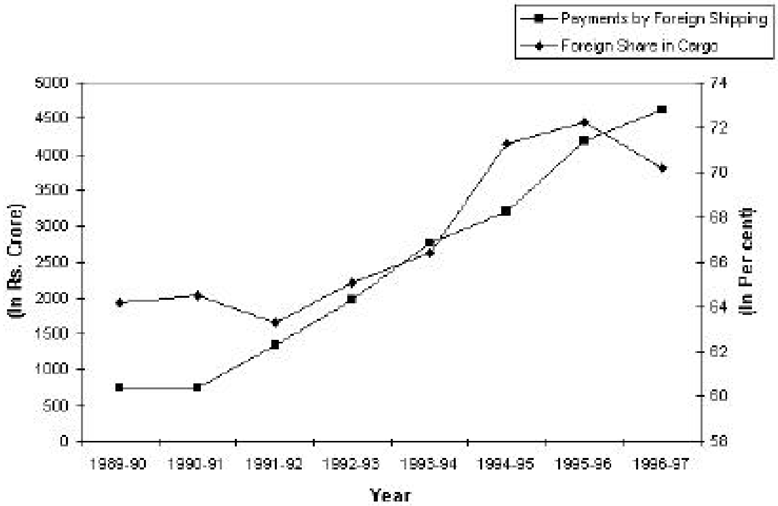
**Graph 6**



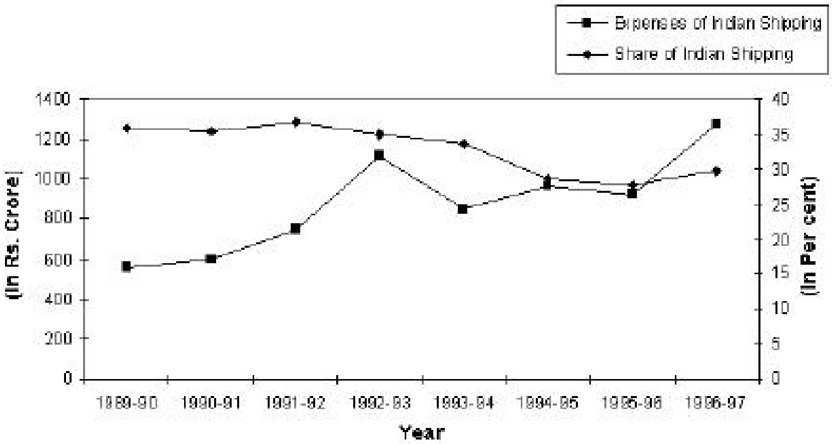

**Graph 7**




**Graph 8**

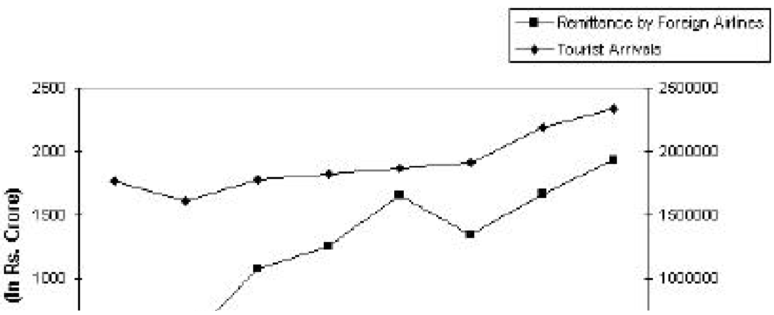


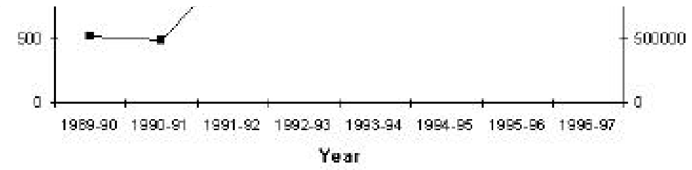

**Graph 9**



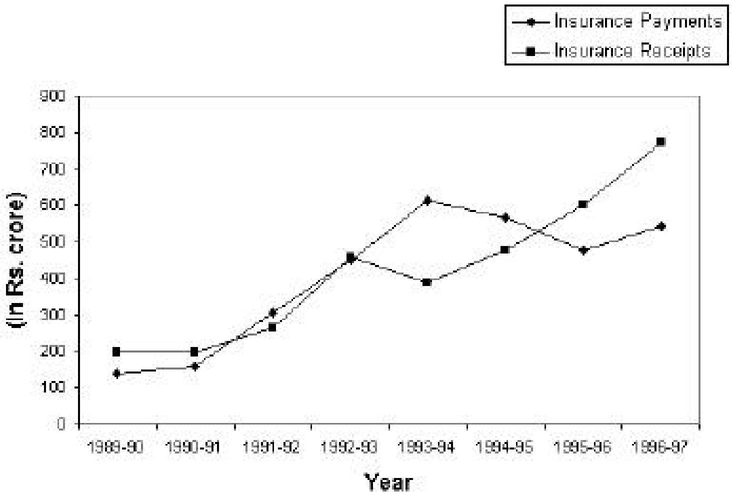

Transactions under the **investment income** account are set out in (Statement IV). They represent the servicing of capital transactions (both debt and non-debt) in the form of interest, profits and dividend. Investment income receipts are essentially the earnings on the deployment of foreign currency assets, which form part of India's foreign exchange reserves (Graph 12). With the surges in capital flows experienced since 1993, there has been a significant increase in foreign exchange reserves and investment income earnings have recorded a corresponding step up. On the other hand, investment income payments are dominated by interest payments on India's external borrowings resulting in a co-movement between investment income payments and the evolution of the stock of external debt (Graph 13).

**Graph 10**

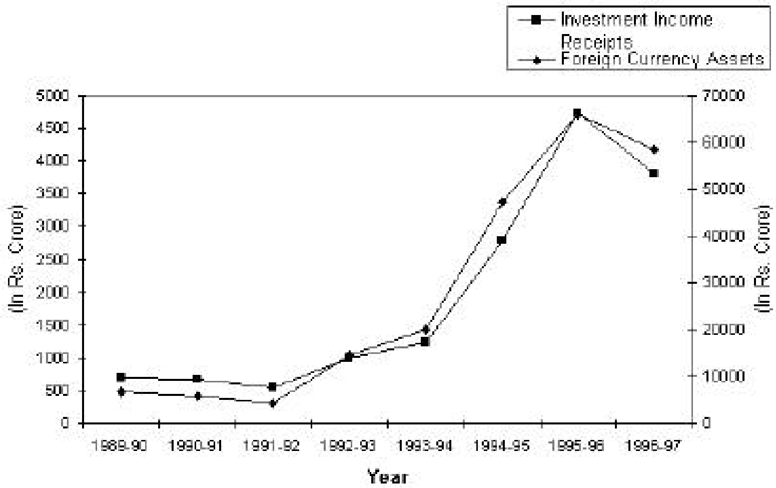




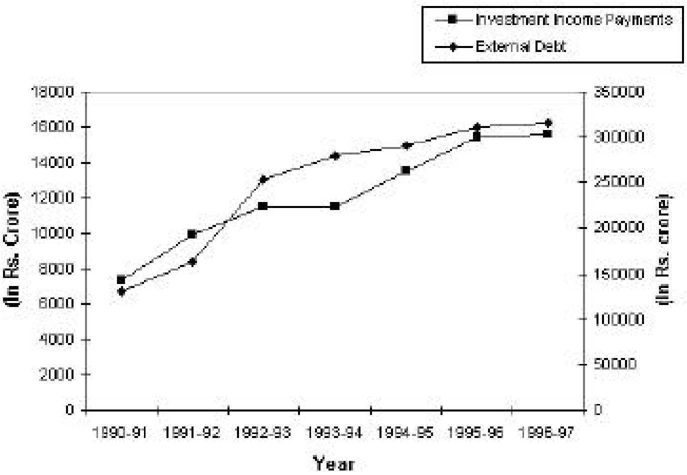

**Graph 11**




**Graph 12**




**Graph 13**



**Government not included elsewhere (GNIE)** comprise official transactions, both receipts and payments which are mainly related to expenses of embassies in India and those of Indian embassies abroad (Statement V).

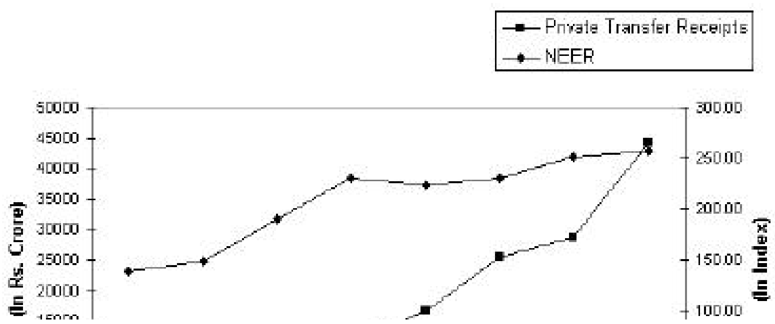
**Transfers - private and official -** represent one-sided transactions i.e., transactions, which do not involve *quid pro quo*. They include grants, gifts, donations, transfers for family maintenance, repatriation of savings and migrant transfers, the latter representing the value of property (financial and real resources) transferred as a result of the migration from one economy to another.

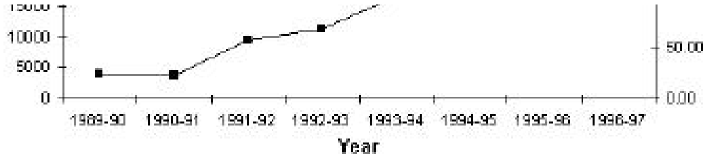
Receipts under **official transfers** are grants and other assistance provided from bilateral and multilateral donors to the Government of India while payments are grants extended by the Government of India to other developing countries (Statement VI).

**Private transfer** receipts have been the mainstay of the invisible account, providing valuable support to the balance of payments in past years, enabling adjustments to external shocks. They include current remittances for family maintenance as well as the repatriation of savings by Indians working abroad. Since 1992-93, they also include the inflow of gold and silver brought in by Indians returning from abroad in their baggage (Statement VII). With the progressive liberalisation of the foreign exchange regime and the fundamental changes brought about in the exchange rate policy with a view to obtaining a market based, realistic and stable exchange rate, there has been a large increase in private transfer receipts through the banking system, reflecting the favourable response to movements in the nominal effective exchange rate (NEER) as may be seen in Graph 14.

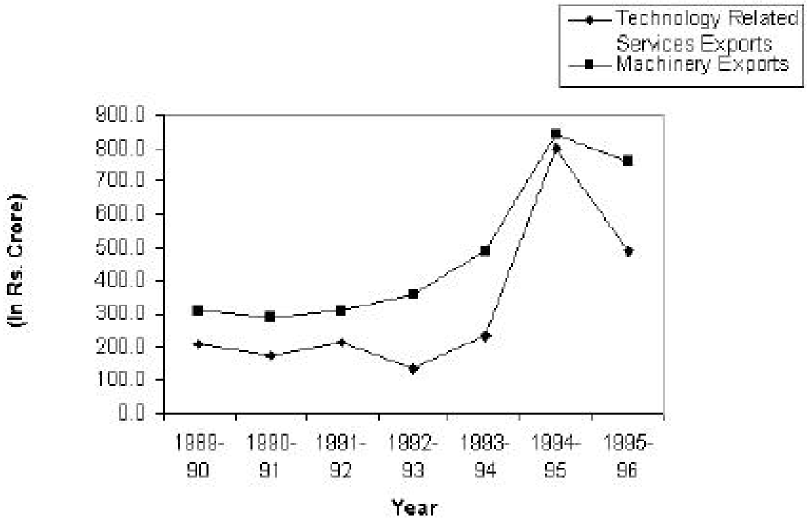
The **Miscellaneous** account comprises a host of business services (Statement VIII). These heterogeneous transactions can be broadly categorised as technology related (technicians' and professional fees, technical know-how, royalties, software, etc.) and other business services (management fees, office expenses, rebates, refunds, settlements, etc.). Receipts of technology related services are related to exports of technology from India which mainly take the form of project exports, civil construction, plant and machinery forming part of equity participation in joint ventures and wholly owned subsidiaries as well as consultancy. Thus, exports of technology services generally tend to follow the exports of machinery, transport and engineering products (Graph 15). In recent years, exports of software have emerged as an important source of foreign exchange earnings (Graph 16). Exports of other business services are dominated by management services, office expenses, and quasi-financial services. In the nineties, the growth of business services has generally coincided with the growth of foreign investment in India following the liberalisation of the foreign investment policy although the response of the former to the latter has been somewhat weak since 1993-94. Under payments, technology related services are related to foreign collaborations in India (Graph 17) while the demand for other business services is reflective of the general Improvement in domestic per capita income.

**Graph 14**

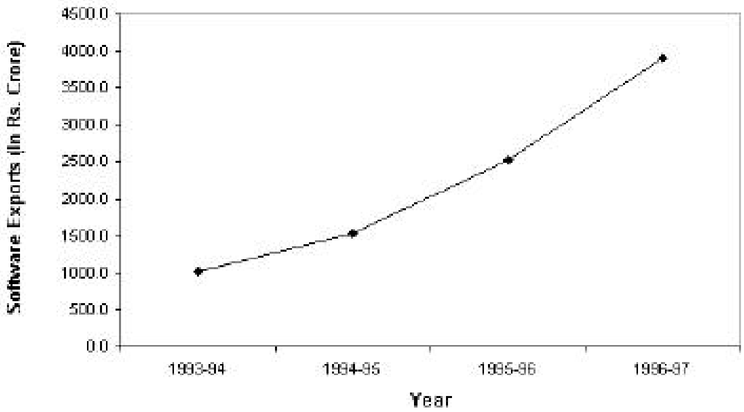





**Graph 15**

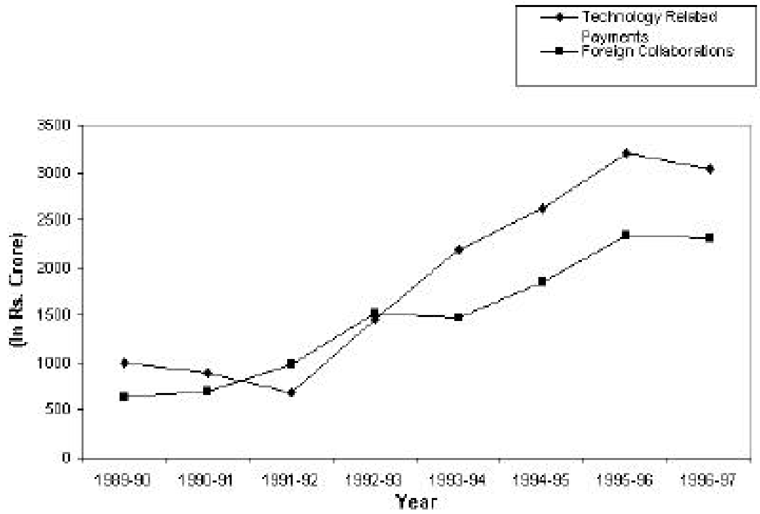



**Graph 16**

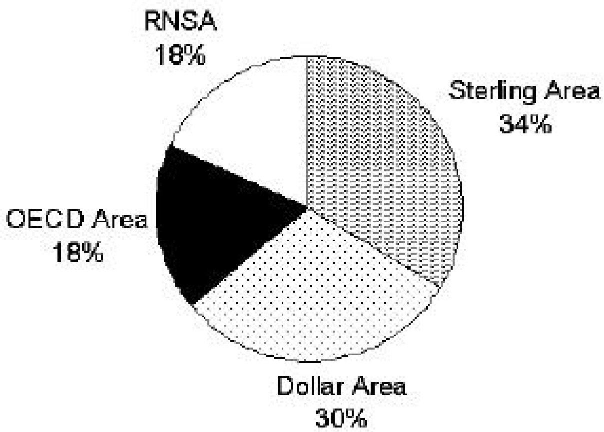



The geographical distribution of India's invisible transactions is analysed in terms of regions (Statement IX). The Sterling Area comprises the Commonwealth countries. The Dollar Area is constituted by the U.S.A. and other North American and Latin American countries. The Organisation for Economic Cooperation and Development (OECD) Area consists of the industrial countries but excludes UK and Australia (which are taken under Sterling Area), USA and Canada (Dollar Area) and Japan. All other countries are clubbed under the Rest of Non-Sterling Area (RNSA). The Statement shows the importance of the Sterling Area and the Dollar Area in invisible credits, with the latter area exhibiting a particularly high growth. During the same period, the OECD Area and the RNSA have recorded declines in shares. As regards invisible debits, the Sterling Area and the Dollar Area have increased the shares while the OECD Area and the RNSA have declined in importance as sources of India's invisible imports (Graphs 18, 19, 20 & 21).

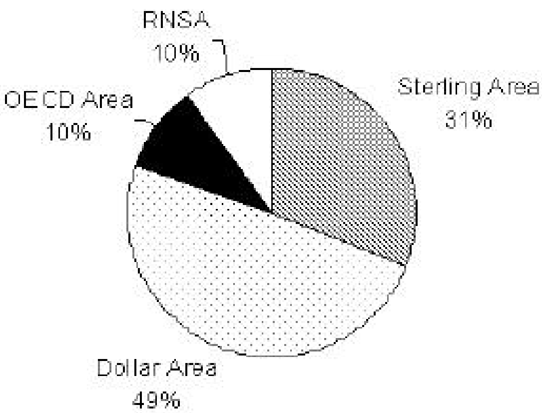
**Graph 17**



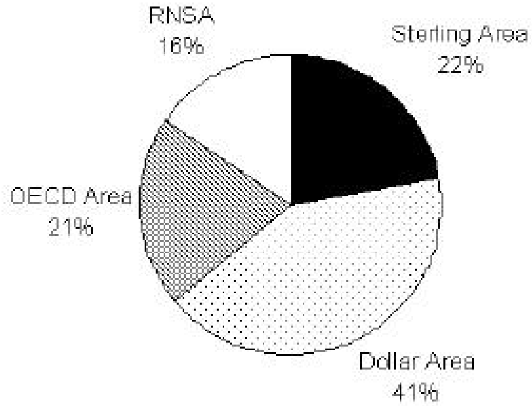

**Graph 18 INVISIBLE CREDITS BY REGION : 1990-91**




**Graph 19 INVISIBLE CREDITS BY REGION : 1996-97**




**Graph 20 INVISIBLE DEBITS BY REGION : 1990-91**




**Graph 21 INVISIBLE DEBITS BY REGION : 1996-97**