

*Invisibles in India's Balance of Payments: An Analysis of Trade in Services, Remittances and Income**

I. Introduction

The invisibles account in India's Balance of Payments (BoP) reflects the ongoing structural transformation within the economy as well as its increasing integration with the world economy. The emphasis on reforms and liberalization since the early 1990s has not only unfolded newer opportunities for businesses but also for skilled labour as reflected in the direction of India's trade in goods and services and nature of labour migration. This transformation is reflected in the growth of receipts under invisibles comprising international trade in services, income from financial assets, labour and property and cross border transfers mainly workers' remittances, which has kept pace with merchandise exports growth as the principal foreign exchange earners for the country. Apart from these domestic factors, an extended period of high growth and low inflation globally also contributed to the significant growth in India's invisibles, particularly since the beginning of the current decade. These developments have been reflected in India's Balance of Payments. Specifically, the current account of BoP has been characterised by two elements: persistence of higher trade deficit on account of strong economic growth and buoyant invisibles surplus, which have provided major support to the current account position on a sustained basis. Given the importance of invisibles, the developments in these areas are published in two stages *viz.*, (i) standard presentation with broad heads on a quarterly basis to meet the IMF's Special Data Dissemination Standards (SDDS) in the Reserve Bank of India's website and subsequently in the

* Prepared in the Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India.

monthly Bulletin of the Reserve Bank of India (RBI), and (ii) detailed presentation with break-up of broad heads in an annual article titled 'Invisibles in India's Balance of Payments' in the RBI's monthly Bulletin¹. The details of compilation, dissemination and definitional aspects are set out in the Annex I and II.

This article seeks to further contribute to the endeavour of providing the disaggregated information on India's trade in invisibles for the period 2006-07 (revised) and 2007-08 (partially revised) along with the time series data since 1999-2000. The article is organised as follows. Section II presents the magnitude and trends in the invisibles account at the aggregate level along with their relative importance in terms of GDP. An analysis of the various components of invisibles and their dynamics is presented in Section

III. This section also provides an international perspective to the invisibles account drawing from cross country experiences. Concluding observations and a short-term outlook against the backdrop of the ongoing global financial crisis are set out in Section IV. A detailed enumeration of concepts and definitions of different heads of invisible accounts are presented in the Annex.

II. Magnitude and Trends in Invisibles

The resurgence of invisible surplus in the 1990s, after a hiatus in the late 1980s, has significantly minimised the risk to the external payments position. Not only in absolute terms but also as a per cent to GDP, India's invisible balances have witnessed steady increases, particularly since 2002-03 (Table 1 and Chart 1). This,

Table 1: Trends in Net Invisibles : Major Components

(US \$ million)											
Item	1990-91	1995-96	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11	12
1. Travel	1,064	1,544	897	693	123	-29	1,435	1,417	1,215	2,439	2,095
2. Transportation	-110	-158	-703	-1,512	-1,306	-736	879	144	-2,012	-94	-1,500
3. Insurance	23	36	109	47	8	19	56	148	-54	553	595
4. Govt. not included elsewhere	-158	-205	312	332	235	65	28	-10	-215	-150	-46
5. Transfers	2,530	8,852	12,638	13,106	15,856	16,838	22,162	20,785	24,687	30,079	41,944
6. Income	-3,752	-3,205	-3,559	-5,004	-4,206	-3,446	-4,505	-4,979	-5,855	-7,331	-4,917
Investment income	—	—	-3,695	-4,664	-3,844	-2,965	-3,757	-4,095	-5,262	-6,762	-4,281
Compensation of Employees	—	—	136	-340	-362	-481	-748	-884	-593	-569	-636
7. Miscellaneous	161	-1,417	3,449	2,132	4,264	4,324	7,746	13,727	24,236	26,721	36,421
Total (1 to 7)	-242	5,447	13,143	9,794	14,974	17,035	27,801	31,232	42,002	52,217	74,592

¹ Previous issue of the article was published in RBI Bulletin, February 2008 covering the data 1999-2000 to 2006-07. Such data for the period 1999-2000 to 2005-06 were earlier published in the November 2006 issue of RBI Bulletin, for the period 1997-98 to 1999-2000 in the January 2001 issue of RBI Bulletin and for the period 1989-90 to 1996-97 in the April 1999 issue of the RBI Bulletin. The data for the period 1956-57 to 1989-90 were published in July 1993 in the "Monograph on India's Balance of Payments".

in turn, has been restraining the current account deficit within a narrow corridor, with the surplus in intermittent years, despite the widening trade deficit. This improvement together with significant capital inflows since the beginning of the current decade facilitated further easing of payment restrictions on current and capital account transactions both for individuals and corporates.

Another key feature of India's invisibles account has been the significant rise in gross receipts and payments, particularly since 2002-03. The growth in invisible receipts has been steady, while the growth in invisibles payments has varied from year to year (Table 2). The strong growth in services exports, especially of software and Information Technology (IT) services, and remittances from overseas

Table 2: Trends in India's Invisibles Receipts and Payments

Year	Invisibles Receipts		Invisibles Payments		Invisibles Net	
	Amount (US \$ million)	Growth (%)	Amount (US \$ million)	Growth (%)	Amount (US \$ million)	Growth (%)
1	2	3	4	5	6	7
1990-91	7,464	-0.5	7,706	12.0	-242	—
1995-96	17,664	13.6	12,217	23.7	5,447	—
1999-00	30,312	17.6	17,169	3.7	13,143	—
2000-01	32,267	6.4	22,473	30.9	9,794	-25.5
2001-02	36,737	13.9	21,763	-3.2	14,974	52.9
2002-03	41,925	14.1	24,890	14.4	17,035	13.8
2003-04	53,508	27.6	25,707	3.3	27,801	63.2
2004-05	69,533	29.9	38,301	49.0	31,232	12.3
2005-06	89,687	29.0	47,685	24.5	42,002	34.5
2006-07	114,558	27.7	62,341	30.7	52,217	24.3
2007-08	148,604	29.7	74,012	18.7	74,592	42.9

Indians have imparted stability to invisibles receipts. On the other hand, the growth in invisibles payments has been mainly led by interest payments relating to external debt, dividends/profits paid on foreign investment and payments relating to technology related and business services with a growing demand for such services. During 2007-08, while growth in invisibles receipts remained steady, growth in invisibles payments decelerated. As a result, the growth in net invisibles was higher than in the previous year.

The invisibles receipts and payments during 2007-08 constituted a major portion of the current account receipts and payments, respectively. During the period 2000-01 to 2007-08, the invisibles receipts constituted around 45 per cent of current account receipts, while invisibles payments accounted for around 25 per cent of current account payments (Table 3). The lower order of payments vis-à-vis receipts in the invisibles account contributed to the build up of significant surplus, which has

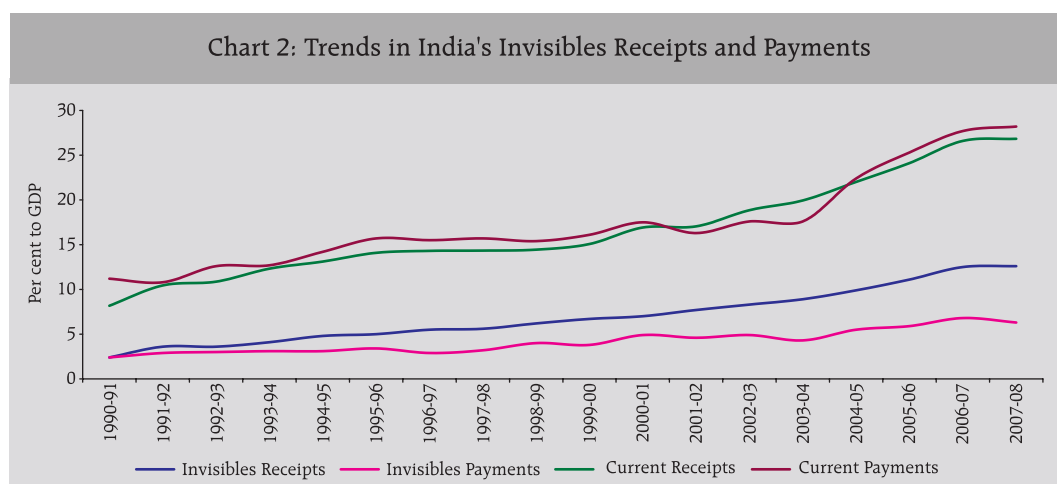
witnessed an average growth of almost 35 per cent during 2001-02 to 2007-08 and financed fully the trade deficit over the same period.

Not only in absolute terms but also as a per cent of GDP, net invisibles (invisibles receipts *minus* payments) have witnessed significant improvement. The net invisibles surplus expanded from 2.1 per cent of GDP in 2000-01 to 6.3 per cent of GDP in 2007-08 on the back of sharp expansion in gross invisible receipts which rose from 7.0 per cent of GDP in 2000-01 to 12.6 per cent of GDP in 2007-08. As a result, current receipts as a ratio of GDP have witnessed significant improvement from 16.9 per cent in 2000-01 to 26.8 per cent in 2007-08 (Chart 2).

At a disaggregated level, the major contributor to invisibles receipts in India has been services exports followed by transfers and income (Table 4). Services exports accounted for about 60 per cent of the total invisible receipts in 2007-08. Traditionally, while services relating to

Table 3: Selected Indicators on Invisibles Including Financing Trade Deficit

(Per cent)			
Year	Net Invisibles/ Trade Deficit	Invisibles Receipts/ Current Receipts	Invisibles Payments/ Current Payments
1	2	3	4
1990-91	-2.6	28.8	21.6
1995-96	48.0	35.3	21.9
1999-00	73.7	44.7	23.7
2000-01	78.6	41.5	28.0
2001-02	129.4	45.1	27.9
2002-03	159.4	43.8	27.9
2003-04	202.7	44.7	24.3
2004-05	92.7	44.9	24.4
2005-06	80.9	46.0	23.3
2006-07	84.5	47.1	24.6
2007-08	81.4	47.2	22.3



goods trade, such as transportation and financing of trade were the major constituents, the rapid developments in telecommunications and information technology has facilitated the emergence of business and computer services related to trade in investments as the main drivers. Thus, the focus of services trade has shifted from facilitating trade in goods to trade in services as an independent entity in itself with the four modes of supply (cross-border supply, consumption abroad, commercial presence and presence of a natural person)

for the delivery of services in cross-border trade opening up new opportunities. Reflecting on these factors, the importance of services exports in India has grown significantly, with the services-GDP ratio rising from 1.4 per cent in 1990-91 to 7.7 per cent in 2007-08 driven by software services, which have grown in terms of both size and destination. Reflecting this, India has emerged as a major software exporting country with a level of US \$ 40.3 billion in 2007-08, expanding at an average rate of around 34 per cent in the past eight years

Table 4: Major Components of Invisibles Account in Terms of GDP

(Per cent to GDP)

Year	Receipts				Payments				Net			
	Services	Transfers	Income	Total	Services	Transfers	Income	Total	Services	Transfers	Income	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1990-91	1.4	0.8	0.1	2.3	1.1	0.0	1.3	2.4	0.3	0.8	-1.2	-0.1
1995-96	2.1	2.5	0.4	5.0	2.1	0.0	1.3	3.4	0.0	2.5	-0.9	1.5
1999-00	3.5	2.8	0.4	6.7	2.6	0.0	1.2	3.8	0.9	2.8	-0.8	2.9
2000-01	3.5	2.9	0.6	7.0	3.2	0.0	1.7	4.9	0.3	2.9	-1.1	2.1
2001-02	3.6	3.4	0.7	7.7	2.9	0.1	1.6	4.6	0.7	3.3	-0.9	3.1
2002-03	4.1	3.5	0.7	8.3	3.4	0.2	1.4	5.0	0.7	3.3	-0.7	3.4
2003-04	4.5	3.8	0.6	8.9	2.8	0.1	1.4	4.3	1.7	3.7	-0.8	4.6
2004-05	6.2	3.1	0.7	9.9	4.0	0.1	1.4	5.5	2.2	3.0	-0.7	4.4
2005-06	7.1	3.2	0.8	11.1	4.3	0.1	1.5	5.9	2.9	3.1	-0.7	5.2
2006-07	8.1	3.4	1.0	12.5	4.8	0.2	1.8	6.8	3.2	3.3	-0.8	5.7
2007-08	7.7	3.8	1.2	12.6	4.5	0.2	1.6	6.3	3.2	3.6	-0.4	6.3

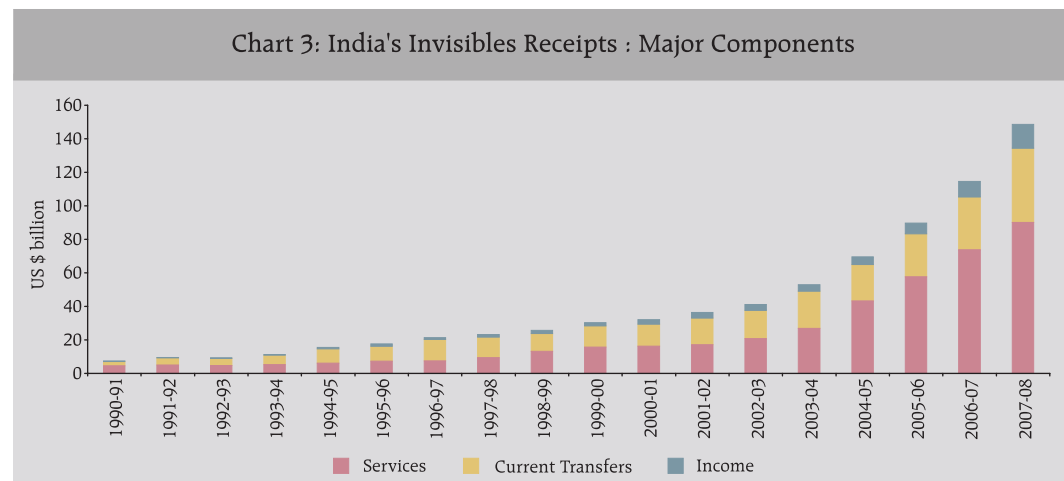
despite a global IT slowdown. With the continued buoyancy in software exports, they constituted about 44 per cent of total services exports, on an average, during 2000-01 to 2007-08. Apart from software, business services have also grown significantly, reflecting the emergence of India as a preferred investment destination following a greater integration of the domestic economy with the rest of the world and strong macroeconomic fundamentals.

Within invisibles, transfer receipts have hovered around 3 per cent of GDP reflecting a steady increase in inward remittances for family maintenance and higher local withdrawals on the back of better investment opportunities. With private transfers at US \$ 43.5 billion in 2007-08, India continued to retain its position among the leading remittance receiving countries in the world with relative stability in such inflows. The sustained expansion in remittances since the 1990s was underpinned by structural reforms, including a market-based exchange rate, current account convertibility as well as

shifts in the labour migration pattern to increasingly high skilled categories. Receipts under the income account have also increased substantially since 2003-04, reflecting mainly higher earnings on deployment of foreign currency assets. The reinvested earnings by FDI companies invested abroad have also contributed partly to the higher investment income (Chart 3).

In line with the increase in invisibles receipts, invisibles payments have also increased in recent years mainly due to services related payments, which increased from 3.2 per cent of GDP in 2000-01 to 4.5 per cent of GDP in 2007-08. The services payments have been driven by payments under business, transportation and travel reflecting increased business activities and strong growth in imports. On the other hand, payments under the income account have been broadly stable, moving in a narrow range of 1.4 - 1.8 per cent of GDP over the same period. Thus, higher receipts coupled with lower payments have resulted in a significant improvement in net invisibles, which has increased from 2.1 per

Chart 3: India's Invisibles Receipts : Major Components



cent of GDP in 2000-01 to 6.3 per cent of GDP by 2007-08.

Latest Developments

The trend observed in invisibles receipts and payments in the past few years continued during April-September 2008 notwithstanding early signs of some slowdown in the advanced economies following the financial crisis (Table 5). Growth in receipts was higher at 29.8 per cent (28.3 per cent during April-September 2007) despite growth in software, business services and investment income witnessing some slowdown. However, the declining trend in the growth of invisibles payments strengthening further in April-September

2008 on account of the moderation in business and professional services payments that resulted in a higher growth in net invisibles by 45.3 per cent (41.6 per cent growth during April-September 2007). Notwithstanding the better position on the invisibles account during April-September 2008, the global financial and economic crisis is likely to have implications for both invisibles receipts and payments in the coming quarters.

A detailed component-wise analysis of invisibles receipts and payments is discussed below for a better understanding of the dynamics of India's invisibles account, especially from a cross-country perspective.

Table 5: Invisible Gross Receipts and Payments: Recent Trend

Items	(US \$ million)							
	Invisible Receipts				Invisible Payments			
	2006-07	2007-08	2007-08	2008-09	2006-07	2007-08	2007-08	2008-09
	April-March (R)	April-March (PR)	April-Sept (PR)	April-Sept (P)	April-March (R)	April-March (PR)	April-Sept (PR)	April-Sept (P)
1	2	3	4	5	6	7	8	9
A. Services	73,780	90,077	39,477	47,946	44,311	52,512	21,505	25,070
1. Travel	9,123	11,349	4,336	5,290	6,684	9,254	3,953	4,833
2. Transportation	7,974	10,014	4,044	5,571	8,068	11,514	5,085	7,072
3. Insurance	1,195	1,639	714	720	642	1,044	469	534
4. Government not included elsewhere	253	330	162	211	403	376	238	205
5. Miscellaneous	55,235	66,745	30,221	36,154	28,514	30,324	11,760	12,426
of Which:								
Software	31,300	40,300	17,886	21,876	2,267	3,058	1,480	1,781
B. Transfers	31,470	44,259	18,336	27,246	1,391	2,315	840	1,503
C. Income	9,308	14,268	6,080	7,718	16,639	19,185	9,298	9,488
1. Investment Income	8,926	13,808	5,887	7,273	15,688	18,089	8,802	8,841
2. Compensation of Employees	382	460	193	445	951	1,096	496	647
Total (A+B+C)	114,558	148,604	63,893	82,910	62,341	74,012	31,643	36,061

R : Revised.

PR : Partially Revised.

P : Preliminary.

III. Composition of Invisibles

Invisibles receipts have been mainly dominated by software services, business services and private transfers. Invisibles payments were mainly led by interest payments relating to external debt, dividends/profits paid on foreign investment and payments relating to technology related and business services with a growing demand for such services. While both receipts and payments have been large in case of travel, transportation, business services and investment income accounts, the flows are unidirectional towards India in case of software services and private transfers. The details of trade in services, private transfers and incomes are set out below.

III.1 Trade in Services

The trade in services comprises of commercial services categorised under transportation, travel and other commercial services, and Government services, Not Included Elsewhere (GNIE). Other commercial services comprise of communication, construction, insurance, royalties and licence fees, other business services, personal, cultural, and recreational services and computer and information services.

An important feature of services exports of India has been a structural shift since 2003-04, driven by the emergence of new avenues of services exports attributed to a rapid expansion in international trade and investment facilitated by an increased liberalization and the use of technology. According to the latest data published by the International Monetary Fund (IMF), India's share in world exports of services has almost doubled between 2003 and 2007 to reach 2.6 per cent (Table 6).

Table 6: Trade in Services Exports of India

Year	Exports (US \$ billion)	Share in World Exports (%)
1	2	3
2001	17.3	1.1
2002	19.5	1.2
2003	23.9	1.3
2004	38.3	1.7
2005	55.8	2.2
2006	75.4	2.6
2007	87.0	2.6

Source: Balance of Payments Statistics Year Book 2008, IMF.

Reflecting the positive developments in terms of the comparative advantage and the continued buoyancy of India's services exports, India was ranked at 11th position in terms of its market share in the World services exports during 2007 (Table 7).

At a disaggregated level, the trade in services has been dominated mainly by software services and non-software miscellaneous services, which includes business and professional services (Table 8).

Table 7: Comparative Position of India among Top Service Exporters, 2007

Sr. No.	Country	Exports (US \$ billion)	Share (%)
1	2	3	4
1.	USA	493.2	14.6
2.	UK	278.7	8.2
3.	Germany	215.0	6.3
4.	France	145.7	4.3
5.	Spain	129.3	3.8
6.	Japan	129.1	3.8
7.	China	122.2	3.6
8.	Italy	112.0	3.3
9.	Netherlands	90.6	2.7
10.	Ireland	89.0	2.6
11.	India	87.0	2.6
12.	Hong Kong	83.6	2.5
13.	Belgium	79.1	2.3

Source: Balance of Payments Statistics Year Book 2008, IMF.

Table 8: Composition of India's Services Exports

(Per cent)							
Year	Travel	Transportation	Insurance	G.n.i.e	Software Services	Non-software Miscellaneous Services*	Total Services
1	2	3	4	5	6	7	8
1990-91	32.0	21.6	2.4	0.3	—	43.6	100.0
1995-96	36.9	27.4	2.4	0.2	—	33.1	100.0
2000-01	21.5	12.6	1.7	4.0	39.0	21.3	100.0
2001-02	18.3	12.6	1.7	3.0	44.1	20.3	100.0
2002-03	16.0	12.2	1.8	1.4	46.2	22.4	100.0
2003-04	18.7	11.9	1.6	0.9	47.6	19.2	100.0
2004-05	15.4	10.8	2.0	0.9	40.9	29.9	100.0
2005-06	13.6	11.0	1.8	0.5	40.9	32.1	100.0
2006-07 (R)	12.4	10.8	1.6	0.3	42.4	32.4	100.0
2007-08 (PR)	12.6	11.1	1.8	0.4	44.7	29.4	100.0

G.n.i.e: Government not included elsewhere.
* : Include business and professional services.
R : Revised. PR : Partially Revised.

Software services continued to be buoyant, with its share in total services exports increasing to 44.7 per cent in 2007-08 from 42.4 percent in 2006-07. Within the services exports, the rising prominence of business services reflects the high skill intensity of the Indian work force. The shares of travel and transport in total services export, after generally declining up to 2006-07, showed a marginal improvement in 2007-08. There has been a revival in international tourist interest in India in recent years.

III.1.1 Software Services

Exports of software and IT-enabled services increased to US \$ 40.3 billion in 2007-08 as compared to US \$ 31.3 billion during 2006-07 (Table 9). The Indian IT-BPO industry is a major contributor to the economy and has a multiplier effect in terms of export earnings, investment, employment and overall economic and social development. Notwithstanding

increasing competitive pressures, India remains an attractive source due to its low cost of operations, high quality of product and services and readily available skilled manpower. Furthermore, a favourable time zone difference with North America and Europe helps Indian companies achieve round the clock international operations and customer service. According to National Association of Software and Service Companies (NASSCOM), while the US (61 per cent) and the UK (18 per cent) remained the largest market for IT-BPO export in 2006-07, the industry has also been steadily expanding to other regions - with exports to Continental Europe, in particular, growing at a compound annual rate of more than 55 per cent during 2003-04 to 2006-07. At present, the Indian IT industry has over 400 delivery centres across 52 countries. This strategy of geographical diversification along with a strong focus on productivity, benchmarking, and enhanced operational efficiencies will help the industry to take

forward its competitive edge as the global leader in software services exports.

Furthermore, to withstand global competition, Indian companies have started moving up the value chain by exploring untapped potential in IT consulting and system integration, hardware support and installation and processing services. According to NASSCOM, the industry's vertical market exposure was well diversified across several mature and emerging sectors. Banking, Financial Services and Insurance (BFSI) remained the largest vertical market for Indian IT-BPO exports, followed by high-technology and telecommunications, together accounting for nearly 60 per cent of the Indian IT-BPO exports in 2006-07. Security concerns have also been duly recognised to maintain customer confidence. From a customer's point of view, the focus has been on consolidation, integration and regulation – all of which are expected to drive newer business opportunities for the Indian IT industry.

Broad-based growth across all the segments of IT services, BPO, product development and engineering services has reinforced India's leadership as the key sourcing location for a wide range of technology related services. Accordingly, India continued to be ranked first in the exports of computer and information services in the international economy since 2005 (Table 10). As per the latest data of the WTO, India's share in world exports of computer and information services was around 17 per cent in 2006. According to the NASSCOM, software exports of India is expected to grow by 16-17 per cent, factoring in the impact of the global economic crisis during the second half of the year, to reach US \$ 47 billion during 2008-09. Despite an uncertain economic environment, according to the NASSCOM, the Indian IT-BPO industry is expected to experience sustainable growth over the next two years and India's software services exports is projected to reach US \$ 60-62 billion by 2010-11.

Table 9: Software Services Exports of India

(US \$ million)			
Year	IT Services Exports	ITES-BPO Exports	Total Software Services Exports
1	2	3	4
1995-96	754	–	754
1999-00	3,397	565	3,962
2000-01	5,411	930	6,341
2001-02	6,061	1,495	7,556
2002-03	7,100	2,500	9,600
2003-04	9,200	3,600	12,800
2004-05	13,100	4,600	17,700
2005-06	17,300	6,300	23,600
2006-07	22,900	8,400	31,300
2007-08	29,400	10,900	40,300

ITES: IT enabled services. BPO: Business Process Outsourcing.

Source: National Association of Software and Service Companies (NASSCOM).

Table 10: Computer and Information Services Exports

(US \$ billion)						
Sr. No.*	Country	2000	2004	2005	2006	2007
1	2	3	4	5	6	7
1.	India	6.3	16.3	22.0	29.2	37.0
2.	Ireland	7.5	18.8	19.6	21.0	26.1
3.	U.K.	4.3	11.7	11.2	13.0	14.1
4.	U.S.A.	5.6	6.7	7.3	10.3	12.7
5.	Germany	3.8	8.1	8.4	9.7	12.2
6.	Sweden	1.2	2.5	2.7	3.6	6.5
7.	Israel	4.2	4.4	4.5	5.3	5.8
8.	Spain	2.0	3.0	3.6	4.0	5.3
9.	Canada	2.4	3.0	3.6	4.3	4.4
10.	China	0.4	1.6	1.8	3.0	4.3

*: Ranking is for the year 2007.

Source: Balance of Payments Statistics Year Book 2008, IMF and Reserve Bank of India.

III.1.2 Business and Professional Services

Business, professional and technical services are among the most thriving services sectors in developed countries as well as in some developing countries like Brazil and India. These services range from legal to management services, and from architectural to advertising services. India's

non-software miscellaneous services constituted almost 30 per cent of total services exports in 2007-08, which in turn, have supported steady growth in invisibles receipts. Within non-software miscellaneous services exports, the share of business and professional services have grown significantly in recent years and constituted around 63 per cent in 2007-08 (Table 11).

Table 11: Break-up of Non-Software Miscellaneous Receipts and Payments

(US \$ million)								
Item	Receipts				Payments			
	2006-07	2007-08	2007-08	2008-09	2006-07	2007-08	2007-08	2008-09
	April-March (R)	April-March (PR)	April-Sept (PR)	April-Sept (P)	April-March (R)	April-March (PR)	April-Sept (PR)	April-Sept (P)
1	2	3	4	5	6	7	8	9
1. Communication	2,262	2,408	1,126	1,250	796	859	411	522
2. Construction	700	763	256	371	737	758	328	344
3. Financial Services	3,106	3,217	1,444	1,763	2,991	3,138	1,151	1,593
4. News Agency	334	503	306	397	226	326	211	165
5. Royalties, Copyrights & License Fees	97	157	69	70	1,030	1,088	459	804
6. Business Services	14,544	16,771	7,652	8,702	15,866	16,715	6,700	6,629
7. Personal, Cultural & Recreational Services	243	562	196	297	117	199	88	158
8. Others	2,649	2,064	1,286	1,428	4,484	4,183	932	430
Total (1 to 8)	23,935	26,445	12,335	14,278	26,247	27,266	10,280	10,645

R : Revised. PR : Partially Revised. P : Preliminary.

Note: Break-up of Business Services (item 6) is given in Table 12.

The business services payments have also increased sharply in recent years, reflecting the ongoing technological transformation of the economy and modernisation of the Indian industry with a great deal of focus on technological up-gradation on a sustained basis.

The major constituents of business services have been management consultancy, architectural engineering and other technical services, maintenance of offices abroad and trade-related services (Table 12). Amongst these components, trade related services have grown sharply by almost 69 per cent and maintenance of offices abroad services increased by around 8 per cent, while most other services exports decelerated during 2007-08. Amongst business services payments, maintenance of offices abroad and advertising have decelerated, while there was a general increase in most other categories. With the rising demand for infrastructure and as a

favourable destination for international companies for meeting the IT needs, India is emerging as an important country for trade in engineering services. Engineering services mainly includes consultancy in designing and detailed designing services.

III.1.3 Travel

Receipts under travel represent expenditure by foreign tourists towards hotel expenses and goods and services purchased including domestic travel. Travel receipts continued to benefit from the robust growth in tourist arrivals (Table 13). Tourism earnings continued with their buoyancy witnessed since 2003-04, reflecting business, healthcare and leisure travel. Liberalization of the payments system, growing globalization, rising services exports and associated business travel as well as the preference for higher studies abroad have led to sustained growth in outbound tourism from India since the 1990s. Concomitantly,

Table 12: Business Services

Item	(US \$ million)							
	Receipts				Payments			
	2006-07 April- March (R)	2007-08 April- March (PR)	2007-08 April- Sept (PR)	2008-09 April- Sept (P)	2006-07 April- March (R)	2007-08 April- March (PR)	2007-08 April- Sept (PR)	2008-09 April- Sept (P)
1	2	3	4	5	6	7	8	9
1. Trade Related	1,325	2,233	890	1,154	1,801	2,285	1,004	826
2. Business & Management Consultancy	4,476	4,433	2,166	2,662	3,486	3,653	1,541	1,084
3. Architectural, Engineering and other Technical	3,457	3,144	1,763	1,071	3,025	3,173	1,160	1,380
4. Maintenance of Offices	2,638	2,861	1,239	1,266	4,032	3,496	940	951
5. Others	2,648	4,100	1,594	2,549	3,522	4,108	2,055	2,388
Total (1 to 5)	14,544	16,771	7,652	8,702	15,866	16,715	6,700	6,629

P : Preliminary. PR : Partially Revised. R : Revised.

Year	Arrivals (millions)
1	2
1991	1.68
1995	2.12
2000	2.65
2001	2.54
2002	2.38
2003	2.73
2004	3.46
2005	3.90
2006	4.45
2007	5.08
2008	5.37 *

* : Provisional Estimate.
Source: Ministry of Tourism and Culture, Government of India.

travel payments also increased, reflecting rising business and leisure travel in consonance with (i) growing merchandise and services trade and (ii) growing disposable incomes of residents in an environment of liberalized payments regime. The potential for greater leisure tourism and business travel indicate the continuation of a sustained growth in this segment in the near future. Travel receipts as a percentage of total services exports, after declining during 2004-05 to 2006-07, increased marginally to 12.6 per cent during 2007-08 from 12.4 per cent a year ago. The gradual hike in the amount residents are permitted to remit per financial year for any permitted current or capital account transaction under the liberalized remittance scheme operative since February 2004 (from US \$ 25,000 per calendar year in February 2004 to US \$ 2,00,000 effective September 26, 2007) along with the general appreciation of domestic currency against major foreign currencies during 2007-08 made outbound tourism attractive. This was reflected in the sharp increase in outward remittances under the category 'others', which includes education, tours and travels,

from US \$ 16.4 million in 2006-07 to US \$ 160.4 million during 2007-08. Notwithstanding this, the surplus on travel account stood at US \$ 2.1 billion during 2007-08 (US \$ 2.4 billion in 2006-07).

India's position in the world's tourist earnings has improved significantly in recent years. India's share in world travel earnings showed a marginal improvement to 1.3 per cent in 2007 as against 1.2 per cent in 2006. Accordingly, India ranked 18th in the world tourist earnings in 2007 as against 23rd in 1990 (Table 14).

Table 14: Comparative Position of India among Top Travel Earnings Countries, 2007

Sr. No	Country	US \$ billion	Share in World Travel Earnings (%)
1	2	3	4
1.	USA	119.2	14.0
2.	Spain	57.9	6.8
3.	France	54.2	6.4
4.	Italy	42.7	5.0
5.	U.K.	37.7	4.4
6.	China	37.2	4.4
7.	Germany	36.1	4.2
8.	Australia	22.3	2.6
9.	Austria	18.8	2.2
10.	Turkey	18.5	2.2
11.	Thailand	16.7	2.0
12.	Canada	15.6	1.8
13.	Netherlands	13.4	1.6
14.	Malaysia	12.9	1.5
15.	Mexico	12.9	1.5
16.	Switzerland	12.2	1.4
17.	Sweden	12.0	1.4
18.	India	10.7	1.3
19.	Poland	10.6	1.2
20.	Portugal	10.2	1.2
21.	Russia	9.6	1.1
22.	Japan	9.3	1.1
23.	Egypt	9.3	1.1
24.	Croatia	9.2	1.1
25.	Singapore	8.7	1.0

Source: Balance of Payments Statistics Year Book 2008, IMF.

III.1.4 Transportation

In view of the rising merchandise trade over the years, the receipts and payments towards transportation, which mainly represents carriage of goods and people as well as other distributive services (such as port charges, bunker fuel, stevedoring, cabotage, warehousing), have also increased over the years. Receipts under transportation increased to US \$ 10.0 billion during 2007-08 from US \$ 8.0 billion in 2006-07, while payments were higher at US \$ 11.5 billion as compared with US \$ 8.1 billion during the same period. At this level, the transportation receipts constituted 11.1 per cent of total services exports during 2007-08 as compared with 10.8 per cent in the previous year. The sharp increase in fuel prices, higher freight charges as well as the inability of some major shipping routes to meet demand continued to have a significant effect on transportation costs.

III.1.5 Insurance

Insurance consists of insurance on exports/imports, premium on life and non-life policies and reinsurance premium from foreign insurance companies. Insurance receipts and payments are generally associated with the movement in India's merchandise trade. The share of insurance receipts in total services receipts remained around 2 per cent of total services exports since the early 1990s.

III.1.6 'Other' Component in Services

In addition to the software services, business services, travel, transportation and insurance, the other component under trade in services includes a host of other

commercial services such as financial, communication, construction and personal, cultural and recreational services. However, financial and communication services are the two major components (see Table 11). Under financial services, both receipts and payments have witnessed a significant increase in recent years reflecting greater merger and acquisition activities by domestic companies abroad as well as increasing access by Indian corporates and banks to international financial markets. Financial services covers financial intermediation and auxiliary services provided by banks, stock exchanges, factoring enterprises, credit card enterprises and other enterprises. Both financial services exports and imports were around US \$ 3.2 billion in 2007-08. India ranked at 8th position in terms of financial services exports and 7th position in terms of importer of financial services in 2006 (Table 15).

Communication services exports have also increased significantly in recent years, reflecting technological transformation of the domestic economy as well as significant liberalization of the telecom sector. India ranked 4th position amongst the world's top 15 telecommunication exporters in 2006 (Table 16).

III.2 Transfers

Transfers comprise of official transfers and private transfers. Private transfers, mainly workers' remittances, have remained buoyant in recent years on the back of robust global output growth, amidst constant improvement in remittance

Table 15: Comparative Position of India among Top Financial Services Providers, 2006

Rank	Exporters	Value (US \$ million)	Share in 15 Economies	Rank	Importers	Value (US \$ million)	Share in 15 Economies
1	2	3	4	5	6	7	8
1.	European Union (27)	120,752	58.6	1.	European Union (27)	56,766	64.1
2.	United States	42,814	20.8	2.	United States	14,297	16.2
3.	Switzerland	11,696	5.7	3.	Japan	2,986	3.4
4.	Hong Kong	9,268	4.5	4.	Canada	2,864	3.2
5.	Japan	6,151	3.0	5.	Hong Kong	2,017	2.3
6.	Singapore	4,064	2.0	6.	Taipei	1,390	1.6
7.	Korea	2,543	1.2	7.	India	1,316	1.5
8.	India	2,071	1.0	8.	Switzerland	1,281	1.4
9.	Canada	1,897	0.9	9.	Singapore	972	1.1
10.	Taipei	1,232	0.6	10.	Russia	904	1.0
11.	Norway	820	0.4	11.	China	891	1.0
12.	Australia	756	0.4	12.	Norway	879	1.0
13.	Brazil	738	0.4	13.	Brazil	861	1.0
14.	South Africa	706	0.3	14.	Korea	547	0.6
15.	Russia	589	0.3	15.	Turkey	524	0.6
	Above 15	206,095	100.0		Above 15	88,495	100.0

Source: International Trade Statistics 2008, WTO.

infrastructure domestically. The details of private transfers are set out below.

Table 16: Comparative Position of India among Top Telecommunication Exporters, 2006

Country/Region	Value (US \$ million)	Share in 15 Economies
1	2	3
1. European Union (27)	30,161	65.5
2. United States	6,257	13.6
3. Kuwait	3,398	7.4
4. India	1,096	2.4
5. Russia	739	1.6
6. Malaysia	641	1.4
7. Philippines	572	1.2
8. Hong Kong	566	1.2
9. Mexico	466	1.0
10. Korea	423	0.9
11. Turkey	416	0.9
12. Morocco	387	0.8
13. Croatia	325	0.7
14. Norway	320	0.7
15. Lebanon	305	0.7
Above 15	46,070	100.0

Source: International Trade Statistics 2008, WTO.

III.2.1 Private Transfers: Remittances for Family Maintenance and Local Withdrawals from NRI Deposits

Inflows from overseas Indians are mainly in the form of: (i) inward remittances towards family maintenance, and (ii) deposits in the Non-Resident Indian (NRI) deposit schemes with the banks in India. However, remittances from overseas Indians include the inflows towards family maintenance and the funds domestically withdrawn from the NRI rupee deposits accounts (NR(E)RA and NRO deposit schemes). Such remittances from overseas Indians are treated as private transfers, which are included in the current account of the balance of payments. As against this, the inflows from overseas Indians for deposits in the NRI deposit schemes are treated as capital account transactions.

According to the IMF's Balance of Payments Manual, 5th Edition (1993), '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 the resident status of migrants.

III.2.1.1 Trends in Private Transfers (Workers' Remittances)

Workers' remittances have remained buoyant in recent years reflecting the favourable impact of macroeconomic outcomes, both domestically and globally. The surge in workers' remittances to India, responding to oil boom in the Middle East during the 1980s, and the information technology revolution in the 1990s, has placed India among the highest remittance

receiving countries in the World. The demand for semi-skilled/unskilled labour from the Middle East started in the mid-1970s and peaked in the early 1980s, which was followed by the second wave since the mid-1990s, led by the information technology boom. Thus, the labour migration pattern shifted from unskilled/semi-skilled labour to increasingly high skilled categories, mostly to America and Europe. Remittance inflows from overseas Indians increased to US \$ 43.5 billion during 2007-08 as compared to US \$ 30.8 billion in 2006-07 (Table 17). The share of private transfers in the current receipts rose to 13.8 per cent as against 12.7 per cent during 2006-07.

Private transfers continued to be around three per cent of India's GDP since 1999-2000 and helped in offsetting India's merchandise trade deficit to a large extent.

Table 17: Select Indicators of Private Transfers to India

Year	Amount (US \$ billion)	Share in Current Receipts (Per cent)	Private Transfers (Per cent to GDP)
1	2	3	4
1990-91	2.1	8.0	0.7
1995-96	8.5	17.1	2.4
1999-00	12.3	18.3	2.7
2000-01	13.1	16.8	2.8
2001-02	15.8	19.4	3.3
2002-03	17.2	18.0	3.4
2003-04	22.2	18.5	3.7
2004-05	21.1	13.6	3.0
2005-06	25.0	12.8	3.1
2006-07 (R)	30.8	12.7	3.4
2007-08 (PR)	43.5	13.8	3.7

R: Revised. PR : Partially Revised.

The relative stability in such transfers, compared to other capital account items such as NRI deposits, foreign direct investment and portfolio investment, has also enabled the containment of the current account deficit at modest levels through the 1990s. The relative stability in private transfers reflected the steady increase in inward remittances for family maintenance and higher local withdrawals on the back of better domestic investment opportunities. From the sources side, a significant share of remittances to India continued to be from the oil exporting countries of the Middle East. Another important source of remittance inflows to India is the US. In the Indian context, a major part of funds remitted by expatriate workers is channelised through inflows to non-resident deposits in the form of local withdrawals.

Several factors account for the remarkable increase in workers' remittances. First, in the 1990s, migration to Australia, Canada, and the United States, increased significantly, particularly among information technology (IT) workers on temporary work permits. Second, the swelling of migrants' ranks coincided with better incentives to send and invest money regulations and controls, more flexible exchange rates, and gradual opening of the capital account. The convenient remittance services provided by Indian and international banks have also shifted such remittance flows from informal hawala channels to formal channels. Third, non-resident Indians have also responded to several attractive deposit schemes and the policy initiatives on this front.

However, with oil prices falling significantly and the advanced economies such as the US, Europe and Japan already into recession following the global financial crisis, the outlook for remittances remain uncertain at the current juncture (Box I).

III.2.1.2 Composition of Remittances

The details of private transfers comprising those of remittances for Family Maintenance, Local Withdrawals from Non-Resident Rupee Account, Gold and Silver brought through Passenger Baggage, and Personal gifts/donations to charitable/religious institutions are set out below.

III.2.1.2.1 Remittances for Family Maintenance

The share of remittances repatriated by the overseas Indians for family maintenance, which contributed a significant share of remittance flows to India at about 60 per cent in 1999-2000 declined to around 42 per cent in 2005-06. Subsequently, however, its share increased and reached 50.4 per cent during 2007-08 (Table 18).

III.2.1.2.2 Local Withdrawals from Non-Resident Rupee Deposit Schemes

Local withdrawals from non-resident rupee deposit schemes, as part of workers' remittances, are the withdrawals from Non-Resident (External) Rupee Account [NR(E)RA] and Non-Resident Ordinary (NRO) Rupee Account by the non-resident or his dependent for local use. Such local withdrawals/redemptions from NRI

Box I : Impact of Global Financial Crisis on Remittances

The impact of the financial crisis that originated in the US has been visible across countries, both directly and indirectly. While the advanced countries including the US are already into recession due to the credit crunch, developing countries, including India, have been impacted through both trade and capital flows. There are also apprehensions about workers' remittances and NRI flows to India slowing down as a consequence of global financial crisis and the recession in major advanced economies. There is a perception that the recession induced rising job losses in the US and Europe could fall more on migrants workers. Even if there is no lay-off, workers would often have to accept lower wages as employers worldwide are seeking to cut costs in an attempt to cope better with the financial crisis. Fears have also been expressed in several quarters about the reverse migration of Indian labourers working in the Gulf countries, which could result in a decline in remittances and NRI deposits in India. The construction industry in the Gulf region, especially in the UAE, is facing a tough time due to the global meltdown and has left millions of construction workers with an uncertain future. Furthermore, declining oil prices, by reducing incomes of workers in the Gulf countries, could also lead to reduced remittances flows to India. A study was conducted by the Reserve Bank of India with the help of its Regional Offices to analyse whether there has been any reverse migration and consequent slowdown in remittances.

Although there is no official data/information available on the job losses suffered by migrants residing in the Gulf countries, the findings of the study revealed that there are no indications about workers from the Gulf region returning to India. Further, informal discussions with some of the bankers in different states/region indicate that the Banks do not have any authentic information on the issue and have not noted any trend in reverse migration. However, based on informal discussions with select Non-Resident Indians (NRIs), it was gathered that a lot of Indians as well as people from other nations are losing jobs in UAE, mainly in the construction industry, where companies are attempting to reduce their expenses. It was understood that companies are re-tendering for many projects as the rate of all construction materials has come down. As the construction sector has also been affected, workers, sub-contractors, manufacturers of all related goods have been affected. However, most of the lay-offs have affected people who were working at the entry level or lower level executives.

Based on the information collected from regional offices of the Reserve Bank, it was observed that so far there were no slowdown in the inward remittances. This could be attributed to a number of factors as noted below.

1. As inward remittances depend upon the interest differential and the exchange rate movement, due to the rupee depreciation in the recent period, there has been a significant rise in inflows, particularly through the rupee denominated NRI accounts such as NRO and NR(E)RA schemes.
2. Furthermore, the hikes in the interest rate ceilings on NRI deposits since September 2008 to LIBOR/Swap rate plus 100 basis points in case of FCNR(B) and LIBOR/Swap rate plus 175 basis points in case of NRE deposits have increased the interest differential in favour of India. This along with the weakness of the rupee *vis-à-vis* the US dollar, some of the remittances might have been attracted towards India which probably might have masked the adverse impact on inward remittances to India.
3. The variation in the NRI deposits from the Gulf is generally in response to the cyclical movement in international oil-prices.

However, while advanced countries are officially into recession due to the ongoing global financial crisis, increasing fears are being raised about its impact on the growth prospects of Emerging Market Economies (EMEs). Against this backdrop, a quick recovery is not in sight. In fact, the latest IMF forecast in January 2009 suggests global growth to reach 0.5 per cent in 2009, its lowest rate since World War II (it was 3.4 per cent in 2008). Simultaneously, the main stimulus to global growth is expected to come from India and China, which are expected to grow by 5.1 per cent and 6.7 per cent, respectively in 2009 (7.3 per cent and 9.0 per cent, respectively in 2008). With North America accounting for nearly 44 per cent of the total remittances to India, followed by the Middle East (24 per cent) and Europe (13 per cent), some slowdown in remittances due to the global financial crisis and the associated contraction in economic activity cannot be ruled out. According to the World Bank estimates (November 2008), remittances from the Gulf region, the livelihood for millions in South Asia and the developing world, could decline by 9 per cent in nominal dollar terms during 2009 as compared to a rise of 38 per cent witnessed in 2008, while global remittances to developing countries is estimated to fall by 0.9 per cent (against an increase of 6.7 per cent to US \$ 283 billion in 2008).

Table 18: Trend and Composition of Private Transfers to India

(US \$ million)					
Year	Inward remittances for family maintenance	Local withdrawals/redemptions from NRI Deposits	Gold and silver brought through passenger baggage	Personal gifts/donations to charitable/religious institutions in India	Total
1	2	3	4	5	6
1999-00	7,423	4,120	13	734	12,290
2000-01	7,747	4,727	10	581	13,065
2001-02	6,578	8,546	13	623	15,760
2002-03	9,914	6,644	18	613	17,189
2003-04	10,379	10,585	19	1,199	22,182
2004-05	9,973	8,907	27	2,168	21,075
2005-06	10,455	12,454	16	2,026	24,951
2006-07 (R)	14,740	13,208	27	2,860	30,835
2007-08 (PR)	21,920	18,919	26	2,641	43,506
2008-09(Apr-Sep) (P)	14,288	11,217	12	1,525	27,042
2007-08(Apr-Sep) (PR)	9,054	7,891	17	1,063	18,025

R: Revised. PR: Partially Revised. P: Preliminary.

deposits cease to exist as liability in the capital account of the balance of payments and assume the form of private transfers, which is included in the current account of the balance of payments.

Although the average contribution of local withdrawals to total private transfers declined from 50 per cent in the first half of the 1990s to only 29 per cent in the latter half, a reversal in this trend has been witnessed in the recent period. Since 2003-04, there has been relatively rising significance of the local withdrawal route as a conduit to remittance inflows to India (Table 19). The share of local withdrawals in the total private transfers increased to 43.5 per cent during 2007-08 as compared to 42.8 per cent during 2006-07. The rising

trend in local withdrawals could be attributed to higher income levels of migrants in the recent past as well as better domestic investment opportunities on the back of robust growth and relatively benign inflation conditions. Even under the current global financial and economic crisis, the gross inflows to NRI deposits and the steady trend in local withdrawals indicate that remittance inflows may be sustainable over the medium term. It may be noted that a major part of outflows from NRI deposits (constituting about 85 per cent, on an average) is in the form of local withdrawals from NRI deposits. However, during 2007-08, the share declined significantly to around 65 per cent reflecting higher outflows under the FCNR (B) accounts.

Table 19: Inflows and Outflows from NRI Deposits, Local Withdrawals and Remittances

(US \$ million)					
Year	Inflows	Outflows	Local Withdrawals/ Redemption from NRI Deposits	Private Transfers (included in current Account of BoP)	Local Withdrawal as % of Private Transfers (4)/(5) (Per cent)
1	2	3	4	5	6
1999-00	7,405	5,865	4,120	12,290	33.5
2000-01	8,988	6,672	4,727	13,065	36.2
2001-02	11,435	8,681	8,546	15,760	54.2
2002-03	10,214	7,236	6,644	17,189	38.6
2003-04	14,281	10,639	10,585	22,182	47.7
2004-05	8,071	9,035	8,907	21,075	42.3
2005-06	17,835	15,046	12,454	24,951	49.9
2006-07 (R)	19,914	15,593	13,208	30,835	42.8
2007-08 (PR)	29,401	29,222	18,919	43,506	43.5
2008-09(Apr-Sep) (P)	18,237	17,164	11,217	27,042	41.5
2007-08(Apr-Sep) (PR)	12,227	12,305	7,891	18,025	43.8

P : Provisional. PR : Partially Revised. P : Preliminary

III.2.1.2.3 Gold and Silver brought through Passenger Baggage

Under the liberalised policy for imports, the Government of India permitted import of gold by certain nominated agencies for sale to jewellery manufacturers, exporters, NRIs, holders of special import licences and domestic users. Nominated agencies/banks were permitted to import gold under different arrangements such as suppliers/buyers credit basis, consignment basis and outright purchase. Thus, after 1997-98 gold imports through passenger baggage by the returning Indians lost its importance as a conduit of remittance flows.

III.2.1.2.4 Personal gifts/donations to charitable/religious institutions

In recent years, the inflows under this channel have also increased, *albeit* with some moderation in 2007-08. The money repatriated is predominantly donations to charitable/religious institutions/NGOs.

III.2.1.3 Comparative Position on Remittances

In recent years, there has been a significant increase in workers' remittances particularly in developing countries. Remittances provide a safety net to migrant households in times of hardship and these flows typically do not suffer from the governance problems that may be associated with official aid flows. According to available estimates of the World Bank, officially recorded remittance flows to developing countries are expected to increase by 6.7 per cent to reach US \$ 283 billion in 2008 in nominal terms. In real terms, however, remittances as a share of GDP of the recipient countries are expected to fall to 1.8 per cent in 2008 from 2.0 per cent in 2007. Given the uncertain outlook for global growth, commodity prices and exchange rates, the outlook for remittances remains uncertain. According to the World Bank (2008), although remittances are expected

Table 20: Workers' Remittances - Top Ten Receiving Countries#

(US \$ million)								
Sr. No.	Country	2001	2002	2003	2004	2005	2006	2007
1	2	3	4	5	6	7	8	9
1.	India*	14,816	16,285	21,885	20,012	23,909	29,247	38,219
2.	Mexico	8,895	9,814	13,650	16,730	20,284	23,742	23,970
3.	Nigeria	1,167	1,209	1,063	2,273	3,329	—	17,946
4.	Phillipines	6,328	7,167	7,681	8,617	10,668	12,481	13,266
5.	China	912	1,679	3,343	4,627	5,495	6,830	10,679
6.	Egypt	2,911	2,893	2,961	3,341	5,017	5,330	7,656
7.	Spain	3,665	3,959	4,718	5,196	5,343	6,068	7,281
8.	Romania	4	7	14	18	3,754	5,509	6,834
9.	Morocco	3,261	2,877	3,614	4,221	4,589	5,451	6,730
10.	Bangladesh	2,094	2,848	3,180	3,572	4,302	5,418	6,553

* : Sourced from data on India's balance of payments published in RBI Monthly Bulletin.

: Ranking is based on the data for 2007.

Source: Balance of Payments Statistics Yearbook, IMF.

to fall in 2009, they are unlikely to fall as much as private flows and official aid to developing countries. Remittances are the largest source of external financing in many poor countries. Also, remittances have been less volatile than other sources of foreign exchange earnings in developing countries (World Bank, 2006). A cross country comparison of the recent flow of remittances to developing countries reveals that at US \$ 38.2 billion, India is the leading remittance receiving country in the world during 2007 with relative stability in such inflows (Table 20).

The macroeconomic consequences of remittance flows, however, needs to be examined in view of significant costs and benefits associated with such flows as indicated by a recent study by the IMF (2008). In view of India being a major recipient of remittances, an informal assessment of the impact of remittance flows on the Kerala economy was undertaken in accordance with the key findings of the IMF study (Box II).

III.3 Investment Income

Investment income receipts are mainly driven by the interest and discount earnings on the RBI investment of foreign exchange reserves and reinvested earnings of the Indian direct investment enterprises abroad. Investment income receipts rose significantly since the late 1990s due to the build up of foreign exchange reserves. The rise in reinvested earnings reflects the upward trend in Indian overseas investment by the Indian companies to take advantage of their access to international markets, natural resources, distribution networks, foreign technologies and other strategic assets such as brand names.

Investment income payments mainly include payment of interest on commercial borrowings, external assistance, NRI deposits and other short-term liabilities. In addition, and more importantly, it includes reinvested earnings of the FDI enterprises operating in India as well as dividend and profit payments on liabilities such as FDI

Box II : Macroeconomic Consequences of Remittances

Remittances represent one of the largest international flows of financial resources. For many remittance-receiving developing economies, remittances exceed foreign direct investment, portfolio flows from financial markets and official development assistance received from abroad. In some countries, total remittance receipts amount to a substantial portion of their imports and a significant fraction of GDP. Given the large size of aggregate remittance flows, they should be expected to have significant macroeconomic effects on the economies that receive them. In addition, remittances have been identified as a potential source of funding for economic development. Due to the large size of these flows relative to the recipient economies, the likelihood about the sustenance of these flows on account of continued globalization, and the distinctive features of these flows from those of official aid or private capital, understanding the unique characteristics of remittances and their potential economic impact have attracted the attention of policymakers and researchers in recent years.

In this context, a recent study by the IMF on 'Macroeconomic Consequences of Remittances (2008)' (IMF Occasional Paper No.259) has directly addressed two questions – how to manage the macroeconomic effects of remittances; and ii) how to harness their development potential, by reporting the results of the first global study of the comprehensive macroeconomic effects of remittances on the economies that receive them to draw summary policy implications. While it is generally agreed that remittances improve households' welfare by lifting families out of poverty and insuring them against income shocks, the IMF study, through a systematic macroeconomic analysis, yields a number of important caveats and policy considerations that have largely been overlooked in the literature. The specific findings of the study can be summarized under three main points: a) The proper measurement of remittances is essential to estimating their impact on the macroeconomy, and hence for making sound policy; b) Remittances

carry a number of potential benefits, but each is matched with a potential cost; and c) The challenge is to design policies that allow these benefits to flow to households and the economy while limiting or offsetting any counterproductive side effects.

In this backdrop, an internal study was undertaken to understand the macroeconomic effects of remittances on one of the Indian States - Kerala and was compared with the findings of the IMF Study to understand their policy implications for India. The broad findings of the internal study on Kerala highlight the following issues of relevance to India. First, there are indications that the potential benefits match costs of remittances in the (Kerala) State. According to many studies on remittances to Kerala, the improvement in the welfare of households is observable as direct potential benefits of remittances. However, the effects of the remittances on the capital accumulation in the State as well as on the fiscal capacity of the state is yet to be examined in detail in order to understand whether the State is able to extract maximum benefits of remittances. Second, available studies on remittances and its effects on Kerala also underline the presence of potential costs of remittances, at least in the form of educated unemployment. However, further exploration in this area would be required to identify the existence of other potential costs which in turn may help to design policies to ward off negative externalities of remittances, if any. Third, it was found that the remittances by stimulating consumption demand plays an active role in boosting the services sector which is the main driver of the State economy. Further, the construction sector which is also driven by remittances makes a significant contribution to the secondary sector in the State. The construction sector is responsible for generating employment in the economy. A reality check of the IMF's findings on the macroeconomic impact of remittances with respect to the internal findings from the State of Kerala suggested broad similarities (Table).

Box II : Macroeconomic Consequences of Remittances (Concl.d.)**Table: Macroeconomic Consequences of Remittances: IMF Study and Evidence from Kerala**

Findings of IMF study - Macroeconomic Consequences of Remittances	Reality Check on Kerala Economy
<p><i>Measuring the remittances flow</i></p> <p>(i) The proper measurement of remittances is essential to estimating their impact on the macroeconomy, and hence for making sound policy.</p>	<p>(i) At the national level, the data on remittances are properly captured as part of the balance of payments data. However, in Kerala there is no official estimate on the remittances flows to Kerala or the system is not yet in place to estimate remittances state-wise.</p>
<p><i>Potential benefits</i></p> <p>(i) Remittances improve the welfare of individual households.</p> <p>(ii) Remittances provide financing for current account deficits and facilitate domestic consumption.</p> <p>(iii) Effects of remittances on the efficiency of investment depend on their impact on financial development and the marginal cost of financial intermediation.</p>	<p>(i) Remittances increased households' consumption on durables and non-durables.</p> <p>(ii) Increased inter-State trade is an indication of increased consumption.</p> <p>(iii) Acceleration in remittances to the State is not matched with the corresponding increased trend in credit deposit ratio in the State reflecting inefficiency in financial intermediation.</p>
<p><i>Potential costs</i></p> <p>(i) Remittances may increase the labor-leisure trade off which, in turn, can negatively affect capital accumulation.</p> <p>(ii) The governments may take advantage of the fiscal space afforded by remittances by consuming and borrowing more.</p> <p>(iii) Evidence of remittance-driven Dutch disease effects in remittance-receiving countries.</p> <p>(iv) Remittance Trap- An Extreme case: Many a country persist in a state characterized by low growth, poor economic policy and high remittances.</p>	<p>(i) High level of educated unemployment prevalent in Kerala could be inferred as the existence of strong labor – leisure trade off.</p> <p>(ii) The increasing liabilities of the Government of Kerala are reflective of such a trend.</p> <p>(iii) Though not exactly the Dutch disease effects, poor performance of trade goods sectors is visible.</p> <p>(iv) Migration as a solution to unemployment continues in the State puzzles on the existence of a vicious cycle of high remittances and high unemployment.</p>
<p><i>Inference on Growth</i></p> <p>(i) Since remittances are compensatory in nature altering of work and investments may weaken their potential to increase economic growth.</p>	<p>(i) Remittances stimulated consumption demand which, in turn, boosted the services sectors that turned out to be the major driver of growth of the State economy.</p>

Table 21: Investment Income

(US \$ million)			
Year	Receipts	Payments	Net
1	2	3	4
1990-91	368	4,120	-3,752
1995-96	1,429	4,634	-3,205
1999-00	1,783	5,478	-3,695
2000-01	2,554	7,218	-4,664
2001-02	3,254	7,098	-3,844
2002-03	3,405	6,370	-2,965
2003-04	3,774	7,531	-3,757
2004-05	4,124	8,219	-4,095
2005-06	6,229	11,491*	-5,262
2006-07 (R)	8,926	15,688	-6,762
2007-08 (PR)	13,808	18,089	-4,281
2008-09(Apr-Sep) (P)	7,273	8,841	-1,568
2007-08(Apr-Sep) (PR)	5,887	8,802	-2,915

* Includes, *inter alia*, interest payments (US\$ 1,718 million) of India Millennium Deposits.

R : Revised. PR: Partially Revised. P : Preliminary.

and portfolio investments. While both receipts and payments under the investment account have increased in

recent years, the higher payments relative to receipts have resulted in net deficits (Table 21).

While the interest payments depend on the level of debt and the interest rate environment, the reinvested earning payments are influenced by the profitability, and reinvestment decisions of FDI enterprises operating in India. A shift in the level of investment income payments since 2000-01 partly reflects the inclusion of reinvested earnings of FDI enterprises as per the revised procedure of recording FDI in India in line with the international best practices. The growth in investment income payments, especially since 2004-05, has been mainly led by reinvested earnings and dividends and profits reflecting higher returns in the Indian capital market and improved corporate profitability (Table 22).

Table 22: Details of Receipts and Payments of Investment Income

(US \$ million)								
Item	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (R)	2007-08 (PR)
1	2	3	4	5	6	7	8	9
A. Total Receipts (1 to 5)	2,554	3,254	3,405	3,774	4,124	6,229	8,926	13,808
1. Interest Receipts on loans to Non-residents	84	201	154	198	65	101	163	1,466
2. Dividend and Profits	11	57	34	40	92	225	450	476
3. Reinvested Earnings	340	700	1,104	552	248	1,092	1,076	1,084
4. Interest/Discount Earnings on Foreign Exchange Reserves	1,950	1,757	1,835	2,115	3,014	4,519	6,641	10,124
5. Others	169	539	278	869	705	292	596	658
B. Total Payments (1 to 7)	7,218	7,098	6,370	7,531	8,219	11,491	15,688	18,089
1. Interest Payment on NRI Deposits	1,811	1,808	1,413	1,642	1,353	1,497	1,969	1,813
2. Interest Payment on ECBs	2,020	1,945	1,486	2,584	1,283	3,148	1,709	2,655
3. Interest Payments on External Assistance	827	792	1,111	822	710	825	982	1,143
4. Interest on others (ST) Loans/Bonds	80	80	22	80	400	347	200	415
5. Dividends and Profits	1,047	711	462	878	1,991	2,502	3,486	3,576
6. Reinvested Earnings	1,350	1,645	1,832	1,459	1,903	2,760	5,828	7,167
7. Others	83	117	44	66	579	412	1,514	1,320
C. Net Investment Income (A-B)	-4,664	-3,844	-2,965	-3,757	-4,095	-5,262	-6,762	-4,281

R : Revised. PR : Partially Revised.

IV. Concluding Remarks and Outlook

The resurgence of invisibles surplus since the 1990s has helped contain the current account deficit within a narrow corridor with surplus in intermittent years, despite the widening trade deficit. The persistence of current account surplus together with significant capital inflows, in turn, enabled further easing of payment restrictions on current and capital account transactions both for individuals and corporates. Another key feature of India's invisibles account has been a significant rise in gross receipts and payments, particularly since 2002-03. The growth in invisibles receipt has been steady, while the growth in invisibles payment has varied from year to year. The strong growth in services exports, especially of software and information technology services, and remittances from overseas Indians has imparted stability to invisibles receipts. On the other hand, the growth in invisibles payment has been mainly led by interest payments relating to external debt, dividends/profits paid on foreign investment, and payments relating to technology related and business services with a growing demand for such services. Not only in absolute terms but also as a per cent of GDP, net invisibles have witnessed a significant improvement in recent years. Overall, a marked feature of India's invisibles is the buoyant services exports particularly software services and business services, and private transfers which are characterised by a shift in the level as well as reduced volatility, providing stability to current receipts. The significant

technological transformation of the Indian economy as well as the growth in skilled manpower has enabled this process. The continued leading position of India in software exports as well as transfer receipts during 2007 suggests that they are likely to remain important and stable sources of financial inflows during 2008, although the deepening of the global financial crisis will have some impact.

The deepening of the global financial crisis since mid-September 2008 already pushing many advanced economies – the US, Europe and Japan - officially into recession, many EMEs, including India, started experiencing the adverse impact through various channels. The impact is visible in terms of slowdown in both trade and capital flows with consequences for related services. Furthermore, the contraction in demand, both external and domestic, could lead to a moderation in the demand for other services. Apart from services, the decline in income of the migrant workers due to reduction in wages or job losses following recession could have implications for remittances flows. Furthermore, declining oil prices by reducing incomes of workers in the Gulf countries could also lead to reduced remittances flows to India. The fall in global interest rates, capital market crash and poor corporate performance may lead to a contraction in receipts and payments of investment income. Thus, the global financial and economic crisis will have some implications for India's invisibles balance, which have historically helped in the containment of the current account deficit.

References

1. Apostolos Gkoutzinis (2005), "International Trade in Banking Services and the Role of the WTO: Discussing the Legal Framework and Policy Objectives of the General Agreement on Trade in Services and the Current State of Play in the Doha Round of Trade Negotiations" *International Lawyer*, Volume 39, No.4.
2. International Monetary Fund (1993), 'Manual on Balance of Payments Statistics', 5th edition.
3. Chami, R., A. Barajas, T. Cosimano, C. Fullenkamp, M. Gapen and P. Montiel (2008), 'Macroeconomic Consequences of Remittances', IMF Occasional Paper No.259.
4. NASSCOM (2009), 'Strategic Review 2009- The IT-BPO Sector in India'.
5. Reserve Bank of India (2007), 'Report of the Technical Group on Statistics for International Trade in Banking Services'.
6. Ratha, D., S. Mohapatra and Z. Xu (2008), "Outlook for Remittances 2008-10", Development Prospects Group, Migration and Remittances Team, The World Bank, November.
7. United Nations (2002), 'Manual on Statistics of International Trade in Services'.
8. World Bank (2007), 'Global Development Finance – The Globalisation of Corporate Finance in Developing Countries'.

Statement 1: Invisibles by Category

(US \$ million)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
I. Invisibles Receipts (A+B+C)	30,312	32,267	36,737	41,925	53,508	69,533	89,687	114,558	148,604
A. Services	15,709	16,268	17,140	20,763	26,868	43,249	57,659	73,780	90,077
1) Travel	3,036	3,497	3,137	3,312	5,037	6,666	7,853	9,123	11,349
2) Transportation	1,707	2,046	2,161	2,536	3,207	4,683	6,325	7,974	10,014
3) Insurance	231	270	288	369	419	870	1,062	1,195	1,639
4) GNIE	582	651	518	293	240	401	314	253	330
5) Miscellaneous	10,153	9,804	11,036	14,253	17,965	30,629	42,105	55,235	66,745
<i>Of which:</i>									
<i>Software Services</i>	3,962	6,341	7,556	9,600	12,800	17,700	23,600	31,300	40,300
B. Transfers	12,672	13,317	16,218	17,640	22,736	21,691	25,620	31,470	44,259
1) Official Transfers	382	252	458	451	554	616	669	635	753
2) Private Transfers	12,290	13,065	15,760	17,189	22,182	21,075	24,951	30,835	43,506
C. Income	1,931	2,682	3,379	3,522	3,904	4,593	6,408	9,308	14,268
1) Investment Income	1,783	2,554	3,254	3,405	3,774	4,124	6,229	8,926	13,808
2) Compensation of Employees	148	128	125	117	130	469	179	382	460
II. Invisibles Payments (A+B+C)	17,169	22,473	21,763	24,890	25,707	38,301	47,685	62,341	74,012
A. Services	11,645	14,576	13,816	17,120	16,724	27,823	34,489	44,311	52,512
1) Travel	2,139	2,804	3,014	3,341	3,602	5,249	6,638	6,684	9,254
2) Transportation	2,410	3,558	3,467	3,272	2,328	4,539	8,337	8,068	11,514
3) Insurance	122	223	280	350	363	722	1,116	642	1,044
4) GNIE	270	319	283	228	212	411	529	403	376
5) Miscellaneous	6,704	7,672	6,772	9,929	10,219	16,902	17,869	28,514	30,324
<i>Of which:</i>									
<i>Software Services</i>	138	591	672	737	476	800	1,338	2,267	3,058
B. Transfers	34	211	362	802	574	906	933	1,391	2,315
1) Official Transfers	0	0	0	0	0	356	475	381	514
2) Private Transfers	34	211	362	802	574	550	458	1,010	1,801
C. Income	5,490	7,686	7,585	6,968	8,409	9,572	12,263	16,639	19,185
1) Investment Income	5,478	7,218	7,098	6,370	7,531	8,219	11,491	15,688	18,089
2) Compensation of Employees	12	468	487	598	878	1,353	772	951	1,096
Net Invisibles (I-II)	13,143	9,794	14,974	17,035	27,801	31,232	42,002	52,217	74,592

R : Revised

PR : Partially Revised

ARTICLE

Invisibles in India's
Balance of Payments:
An Analysis of Trade
in Services, Remittances
and Income

Statement 2: Invisibles Receipts by Category of Transactions

Items	(US \$ million)								
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
Invisibles Receipts (A+B+C)	30,312	32,267	36,737	41,925	53,508	69,533	89,687	114,558	148,604
A) Services	15,709	16,268	17,140	20,763	26,868	43,249	57,659	73,780	90,077
1) Travel Account									
i) Tourist Expenses in India	3,036	3,497	3,137	3,312	5,037	6,666	7,853	9,123	11,349
Total	3,036	3,497	3,137	3,312	5,037	6,666	7,853	9,123	11,349
2) Transportation Account									
a) Sea Transport									
i) Surplus remitted by Indian companies operating abroad	61	34	71	50	36	208	451	452	508
ii) Operating expenses of foreign companies in India	161	87	103	145	289	462	638	924	773
iii) Charter hire charges	42	99	85	83	94	48	144	97	207
b) Air Transport									
i) Surplus remitted by Indian companies operating abroad	180	185	154	170	97	130	200	307	690
ii) Operating expenses of foreign companies in India	20	22	10	5	18	107	37	83	155
iii) Charter hire charges	24	4	18	5	18	20	21	35	42
c) Freight on exports	1,065	1,458	1,476	1,815	2,470	3,660	4,407	5,481	6,921
d) Others	154	157	244	263	185	48	427	595	718
Total (a to d)	1,707	2,046	2,161	2,536	3,207	4,683	6,325	7,974	10,014
3) Insurance Account									
a) Insurance on export	192	243	247	303	373	478	575	717	964
b) Premium									
i) Life	1	1	5	21	0	25	37	64	98
ii) Non-life	7	5	8	6	12	289	78	113	132
iii) Reinsurance from foreign companies	10	4	8	16	9	19	200	82	184
c) Commission on Business received from foreign companies	0	2	4	4	5	29	85	79	124
d) Others	21	15	16	19	20	30	87	140	137
Total (a to d)	231	270	288	369	419	870	1,062	1,195	1,639
4) Government Not Included Elsewhere									
a) Maintenance of foreign embassies and diplomatic missions in India	205	222	195	178	185	229	208	139	197
b) Maintenance of international and regional institutions in India	377	429	323	115	55	172	106	114	133
Total (a to b)	582	651	518	293	240	401	314	253	330
5) Miscellaneous Account									
a) Communication services	1,064	1,138	752	812	990	1,384	1,575	2,262	2,408
b) Construction services	389	536	144	178	458	491	242	700	763
c) Financial services	361	347	292	676	299	512	1,209	3,106	3,217
d) Software services	3,962	6,341	7,556	9,600	12,800	17,700	23,600	31,300	40,300
of which: IT Services	3,397	5,411	6,061	7,100	9,200	13,100	17,300	22,900	29,400
ITES-BPO	565	930	1,495	2,500	3,600	4,600	6,300	8,400	10,900
e) News agency services	342	114	9	59	69	171	185	334	503
f) Royalties, copyright and license fees	54	60	22	23	32	71	191	97	157

Statement 2: Invisibles Receipts by Category of Transactions (Contd.)

(US \$ million)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
g) Business services (i to xii)\$	643	334	519	807	1,296	5,167	9,307	14,544	16,771
i) Merchanting services						278	389	239	417
ii) Trade related services						429	521	1,325	2,233
iii) Operational Leasing Services						28	107	101	475
iv) Legal services						257	277	605	702
v) Accounting / Auditing services						38	68	176	228
vi) Business Management & Consultancy services	643	334	519	807	1,296	1,556	2,320	4,476	4,433
vii) Advertising/ trade fair						162	342	694	712
viii) Research & Development services						221	395	760	1,335
ix) Architectural Engineering & other technical services						1,417	3,193	3,457	3,144
x) Agricultural Mining & on-site processing services						52	32	46	57
xi) Maintenance of offices abroad services						724	1,577	2,638	2,861
xii) Environmental services						5	86	27	174
h) Personal, Cultural & Recreational services						105	189	243	562
i) Refunds/rebates	53	52	54	44	51	380	75	293	337
j) Other services\$\$	3,285	882	1,688	2,054	1,970	4,648	5,532	2,357	1,726
Total (a to j)	10,153	9,804	11,036	14,253	17,965	30,629	42,105	55,235	66,745
B) Transfers	12,672	13,317	16,218	17,640	22,736	21,691	25,620	31,470	44,259
1) Official Transfers									
i) Donations received from Non-residents	40	85	44	32	90	63	53	61	67
ii) Grant under PL 480 II	96	97	68	58	33	30	38	31	28
iii) Grants from other Governments	246	70	346	361	431	523	578	543	658
Total (i to iii)	382	252	458	451	554	616	669	635	753
2) Private Transfers									
i) Inward remittance from Indian workers abroad for family maintenance etc.	7,423	7,747	6,578	9,914	10,379	9,973	10,455	14,740	21,920
ii) Local withdrawals/redemptions from non-resident deposits	4,120	4,727	8,546	6,644	10,585	8,907	12,454	13,208	18,919
iii) Gold and silver brought through passenger baggage	13	10	13	18	19	27	16	27	26
iv) Personal gifts/donations to charitable/religious institutions in India.	734	581	623	613	1,199	2,168	2,026	2,860	2,641
Total (i to iv)	12,290	13,065	15,760	17,189	22,182	21,075	24,951	30,835	43,506
C) Income Account	1,931	2,682	3,379	3,522	3,904	4,593	6,408	9,308	14,268
1) Compensation of Employees									
i) Wages received by Indians working on foreign contracts	148	128	125	117	130	469	179	382	460

ARTICLE

Invisibles in India's
Balance of Payments:
An Analysis of Trade
in Services, Remittances
and Income

Statement 2: Invisibles Receipts by Category of Transactions (Concl'd.)

(US \$ million)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
2) Investment Income									
i) Interest received on loans to Non-residents	59	84	201	154	198	65	101	163	1,466
ii) Dividend/profit received by Indians on foreign investment	16	11	57	34	40	92	225	450	476
<i>Of which:</i>									
<i>Dividend received by Indians on foreign investment</i>	#	#	#	#	#	44	28	137	131
<i>Profit received by Indians on foreign investment</i>	#	#	#	#	#	48	197	313	345
iii) Reinvested Earning	0	340	700	1,104	552	248	1,092	1,076	1,084
iv) Interest received on debentures, FRNs, CPs, fixed deposits and funds held abroad by ADs out of foreign currency loans/export proceeds	11	18	13	14	31	182	104	64	106
v) Interest received on overdraft of VOSTRO accounts of foreign correspondents/branches by the ADs	10	6	30	40	95	333	110	262	227
vi) Payment of taxes by the Non-residents/refund of taxes by foreign governments to Indians	195	70	131	21	157	173	58	257	321
vii) Interest/discount earnings etc. earnings on RBI investment	1,383	1,950	1,757	1,835	2,115	3,014	4,519	6,641	10,124
viii) Interest/remuneration on SDR holdings	9	8	7	13	10	17	20	13	4
ix) Others	100	67	358	190	576	0	0	0	0
Total (i to ix)	1,783	2,554	3,254	3,405	3,774	4,124	6,229	8,926	13,808

Statement 3: Invisibles Payments by Category of Transactions

(US \$ million)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
Invisibles Payments (A+B+C)	17,169	22,473	21,763	24,890	25,707	38,301	47,685	62,341	74,012
A) Services	11,645	14,576	13,816	17,120	16,724	27,823	34,489	44,311	52,512
1) Travel Account									
i) Business	1,268	1,586	1,471	1,987	2,712	3,222	3,452	2,822	3,297
ii) Health Related	3	4	4	4	6	14	38	13	17
iii) Education Related	61	95	249	169	237	642	1,114	1,105	2,827
iv) Basic Travel Quota (BTQ)	379	381	518	796	449	1,164	1,240	1,800	1,967
v) Pilgrimage	137	187	113	125	16	31	27	117	88
vi) Others	291	551	659	260	182	176	767	827	1,058
Total (i to vi)	2,139	2,804	3,014	3,341	3,602	5,249	6,638	6,684	9,254
2) Transportation Account									
a) Sea Transport									
i) Surplus remitted by Foreign companies operating in India	387	408	474	330	148	1,009	1,636	1,913	1,663
ii) Operating expenses of Indian companies abroad	406	831	446	505	364	333	1,005	551	901
iii) Charter hire charges	116	157	112	111	100	87	83	84	148
iv) Freight on imports	@	@	@	@	@	876	1,504	1,347	2,952
v) Freight on exports	..	..	..	..	..	519	581	710	779
vi) Remittance of passage booking abroad	#	#	#	#	#	26	12	5	4
b) Air Transport									
i) Surplus remitted by Foreign companies operating in India	821	1,236	1,362	1,410	652	1,147	2,194	1,835	2,637
ii) Operating expenses of Indian companies abroad	134	98	111	112	132	102	286	240	565
iii) Charter hire charges	75	73	70	82	60	48	141	239	513
iv) Freight on imports	@	@	@	@	@	118	125	176	555
v) Freight on exports	..	..	..	..	..	59	41	32	27
vi) Remittance of passage booking abroad	#	#	#	#	#	31	8	13	25
c. Freight on imports	304	647	732	600	763	@@	@@	@@	@@
d. Remittance of passage booking abroad	24	12	29	17	11	##	##	##	##
e. Others	143	96	131	105	98	184	721	923	745
Total (a to e)	2,410	3,558	3,467	3,272	2,328	4,539	8,337	8,068	11,514
3) Insurance Account									
a. Premium									
i) Life	1	0	0	0	1	10	15	28	102
ii) Non-life	10	9	25	5	10	336	243	82	128
iii) Reinsurance	76	180	178	295	266	299	581	382	567
b. Commission on Business	6	0	3	0	0	12	28	23	27
c. Others	29	34	74	50	86	65	249	127	220
Total (a to c)	122	223	280	350	363	722	1,116	642	1,044
4) Government Not Included Elsewhere									
a. Maintenance of Indian embassies and diplomatic missions abroad	237	262	209	195	186	339	445	285	273
b. Remittances by foreign embassies and missions in India	33	57	74	33	26	72	84	118	103
Total (a to b)	270	319	283	228	212	411	529	403	376

Statement 3: Invisibles Payments by Category of Transactions (Contd.)

(US \$ million)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
5) Miscellaneous Account									
a) Communication services	190	127	370	965	772	738	289	796	859
b) Construction services	51	166	517	1,326	655	716	723	737	758
c) Financial services	1,632	1,973	1,264	1,388	700	832	965	2,991	3,138
d) Software services	138	591	672	737	476	800	1,338	2,267	3,058
e) News agency services	90	256	163	232	235	281	130	226	326
f) Royalties, copyright and license fees	311	235	361	352	444	712	594	1,030	1,088
g) Business services (i to xii)\$	1,152	1,022	1,501	1,812	2,550	7,318	7,748	15,866	16,715
i) Merchating services						235	123	295	716
ii) Trade related services						1,052	1,207	1,801	2,285
iii) Operational Leasing Services						355	462	941	1,154
iv) Legal services						73	82	161	402
v) Accounting / Auditing services						13	20	58	69
vi) Business Management & Consultancy services	795	546	533	648	814	1,279	1,806	3,486	3,653
vii) Advertising/ trade fair						514	420	1,786	1,302
viii) Research & Development services						57	116	201	405
ix) Architectural Engineering & other technical services						1,111	1,414	3,025	3,173
x) Agricultural Mining & on-site processing services						7	15	74	50
xi) Maintenance of offices abroad services	357	476	968	1,164	1,736	2,618	2,074	4,032	3,496
xii) Environmental services						4	9	6	9
h) Personal, Cultural & Recreational services						102	84	117	199
i) Refunds/rebates	89	64	150	152	365	762	45	365	525
j) Other services\$\$	3,051	3,238	1,774	2,965	4,022	4,641	5,953	4,119	3,658
Total (a to j)	6,704	7,672	6,772	9,929	10,219	16,902	17,869	28,514	30,324
B) Transfers	34	211	362	802	574	906	933	1,391	2,315
1) Official Transfers									
i) Grants/donations from official sector	0	0	0	0	0	356	475	381	514
Total	0	0	0	0	0	356	475	381	514
2) Private Transfers									
i) Remittance by Non-residents towards family maintenance and savings	29	124	292	757	522	421	354	823	1,585
ii) Personal gifts/donations to charitable/religious institutions	5	87	70	45	52	129	104	187	216
<i>Of which:</i>									
iii) Remittance towards personal gifts and donations						108	96	157	182
iv) Remittance towards donations to religious & charitable institutions abroad						17	7	18	24
v) Remittance towards grants and donations to other governments & charitable institutions established by the governments						4	1	12	10
Total (i to v)	34	211	362	802	574	550	458	1,010	1,801

Statement 3: Invisibles Payments by Category of Transactions (Concl.)

(US \$ million)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
C) Income	5,490	7,686	7,585	6,968	8,409	9,572	12,263	16,639	19,185
a) Compensation of Employees									
i) Payment of wages/ salary to Non-residents working in India	12	468	487	598	878	1,353	772	951	1,096
Total	12	468	487	598	878	1,353	772	951	1,096
b) Investment Income									
i) Payment of interest on NRI deposits	1,742	1,811	1,808	1,413	1,642	1,353	1,497	1,969	1,815
ii) Payment of interest on loans from Non-residents	3,037	2,930	2,855	2,594	3,469	2,450	4,320	3,792	5,070
iii) Payment of dividend/profit to Non-resident share holders	537	1,047	712	462	878	1,991	2,502	3,486	3,576
<i>Of which:</i>									
Payment of dividend to Non-resident share holder						1,578	2,400	3,235	3,348
Payment of profit to Non-resident share holder						413	102	251	228
iv) Reinvested Earning	0	1,352	1,644	1,832	1,460	1,904	2,760	5,828	7,168
v) Payment of interest on debentures, FRNs, CPs, fixed deposits, Government securities etc.	119	60	23	43	42	170	100	35	57
vi) Charges on SDRs	30	16	52	20	16	19	17	30	21
vii) Interest paid on overdraft on VOSTRO a/c Holders/ OD on NOSTRO a/c	0	0	0	4	20	255	212	406	236
ix) Payment of taxes by the Indians/refund of taxes by government to Non-residents	13	2	4	2	4	77	83	142	146
Total (i to ix)	5,478	7,218	7,098	6,370	7,531	8,219	11,491	15,688	18,089

PR : Partially Revised.

@ : For the period prior to 2004-05, the break up of 'freight on imports' between the sea transport and the air transport is not separately available. Therefore, these have been included under the head 'freight on imports'.

+ : The category 'freight on exports' was introduced in 2004-05 with a view to improve the data coverage.

: For the period prior to 2004-05, the break up between the sea transport and the air transport is not separately available. Therefore, these have been included under the head 'remittance on passage booking abroad'.

@@ : Included under the heads 'sea transport' and 'air transport'.

: Included under the heads 'sea transport' and 'air transport'.

\$: These new categories of services are available since 2004-05 as the reporting system was put in place to record such transactions.

\$\$: Till 2003-04, others included advertising, rentals, office maintenance, prizes, exhibitions & other services not included elsewhere.

Statement 4: Invisibles by Category

Items	(Rs. crore)								
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
I. Invisibles Receipts (A+B+C)	1,31,449	1,47,778	1,75,108	2,02,757	2,45,413	3,11,550	3,97,660	5,17,146	5,96,954
A. Services	68,137	74,555	81,739	1,00,419	1,23,175	1,93,711	2,55,668	3,33,093	3,61,932
1) Travel	13,166	16,064	14,975	15,991	23,054	29,858	34,871	41,127	45,524
2) Transportation	7,400	9,364	10,326	12,261	14,714	21,021	28,023	36,049	40,200
3) Insurance	1,004	1,234	1,374	1,783	1,922	3,913	4,694	5,403	6,587
4) GNIE	2,523	2,986	2,467	1,417	1,105	1,797	1,396	1,143	1,330
5) Miscellaneous	44,044	44,907	52,597	68,967	82,380	1,37,122	1,86,684	2,49,371	2,68,291
<i>Of which:</i>									
<i>Software Services</i>	17,412	29,013	36,038	46,424	58,781	79,404	1,04,632	1,41,356	1,62,020
B. Transfers	54,939	60,948	77,289	85,289	1,04,329	97,201	1,13,566	1,42,037	1,77,737
1) Official Transfers	1,659	1,156	2,197	2,174	2,531	2,762	2,970	2,864	3,025
2) Private Transfers	53,280	59,792	75,092	83,115	101,798	94,439	110,596	1,39,173	1,74,712
C. Income	8,373	12,275	16,080	17,049	17,909	20,638	28,426	42,016	57,285
1) Investment Income	7,727	11,690	15,487	16,484	17,314	18,538	27,633	40,297	55,438
2) Compensation of Employees	646	585	593	565	595	2,100	793	1,719	1,847
II. Invisibles Payments (A+B+C)	74,421	1,02,639	1,03,727	1,20,400	1,18,044	1,71,959	2,11,733	2,81,567	2,97,336
A. Services	50,467	66,650	65,850	82,775	76,794	1,24,880	1,53,057	2,00,029	2,10,873
1) Travel	9,268	12,741	14,336	16,155	16,534	23,571	29,432	30,249	37,173
2) Transportation	10,450	16,172	16,486	15,828	10,688	20,363	36,928	36,504	46,277
3) Insurance	525	1,004	1,339	1,687	1,672	3,249	4,965	2,903	4,194
4) GNIE	1,167	1,460	1,349	1,105	976	1,843	2,343	1,825	1,520
5) Miscellaneous	29,057	35,273	32,340	48,000	46,924	75,854	79,389	1,28,548	1,21,709
<i>Of which:</i>									
<i>Software Services</i>	1,600	2,705	3,202	3,565	2,175	3,579	5,954	10,212	12,299
B. Transfers	150	981	1,729	3,886	2,633	4,066	4,134	6,288	9,290
1) Official Transfers	2	0	0	0	0	1,598	2,103	1,723	2,073
2) Private Transfers	148	981	1,729	3,886	2,633	2,468	2,031	4,565	7,217
C. Income	23,804	35,008	36,148	33,739	38,617	43,013	54,542	75,250	77,173
1) Investment Income	23,747	32,885	33,830	30,847	34,586	36,947	51,112	70,955	72,769
2) Compensation of Employees	57	2,123	2,318	2,892	4,031	6,066	3,430	4,295	4,404
Net Invisibles (I-II)	57,028	45,139	71,381	82,357	1,27,369	1,39,591	1,85,927	2,35,579	2,99,618

R : Revised. PR : Partially Revised.

Statement 5: Invisibles Receipts by Category of Transactions

(Rs. crore)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
Invisibles Receipts (A+B+C)	1,31,449	1,47,778	1,75,108	2,02,757	2,45,413	3,11,550	3,97,660	5,17,146	5,96,954
A) Services	68,137	74,555	81,739	1,00,419	1,23,175	1,93,711	2,55,668	3,33,093	3,61,932
1) Travel Account									
i) Tourist Expenses in India	13,166	16,064	14,975	15,991	23,054	29,858	34,871	41,127	45,524
Total	13,166	16,064	14,975	15,991	23,054	29,858	34,871	41,127	45,524
2) Transportation Account									
a) Sea Transport									
i) Surplus remitted by Indian companies operating abroad	262	157	344	241	170	932	2,000	2,038	2,040
ii) Operating expenses of foreign companies in India	696	398	495	695	1,325	2,075	2,824	4,181	3,105
iii) Charter hire charges	181	453	407	401	433	217	637	435	833
b) Air Transport									
i) Surplus remitted by Indian companies operating abroad	781	851	739	820	444	589	885	1,389	2,751
ii) Operating expenses of foreign companies in India	87	94	44	21	84	479	165	375	625
iii) Charter hire charges	103	19	85	21	81	82	93	156	167
c) Freight on exports	4,617	6,670	7,053	8,775	11,329	16,445	19,524	24,791	27,796
d) Others	673	722	1,159	1,287	848	202	1,895	2,684	2,883
Total (a to d)	7,400	9,364	10,326	12,261	14,714	21,021	28,023	36,049	40,200
3) Insurance Account									
a) Insurance on export	832	1,111	1,179	1,466	1,711	2,148	2,548	3,243	3,874
b) Premium									
i) Life	3	4	26	101	3	114	166	294	393
ii) Non-life	31	24	32	28	54	1,302	346	514	534
iii) Reinsurance from foreign companies	43	18	40	76	40	87	876	366	737
c) Commission on Business received from foreign companies	2	7	15	18	23	131	375	358	501
d) Others	93	70	82	94	91	131	383	628	548
Total (a to d)	1,004	1,234	1,374	1,783	1,922	3,913	4,694	5,403	6,587
4) Government Not Included Elsewhere									
a) Maintenance of foreign embassies and diplomatic missions in India	887	1,019	935	860	850	1,025	923	625	795
b) Maintenance of international and regional institutions in India	1,636	1,967	1,532	557	255	772	473	518	535
Total (a to b)	2,523	2,986	2,467	1,417	1,105	1,797	1,396	1,143	1,330
5) Miscellaneous Account									
a) Communication services	4,601	5,262	3,585	3,931	4,535	6,191	7,000	10,227	9,683
b) Construction services	1,691	2,430	696	863	2,097	2,184	1,074	3,156	3,071
c) Financial services	1,569	1,577	1,387	3,276	1,372	2,279	5,355	14,010	12,918
d) Software services	17,412	29,013	36,038	46,424	58,781	79,404	1,04,632	1,41,356	1,62,020
of which: IT Services	14,929	24,758	28,908	34,334	42,249	58,768	76,667	1,03,484	1,18,198
ITES-BPO	2,483	4,255	7,130	12,090	16,532	20,636	27,965	37,872	43,822
e) News agency services	1,485	511	43	284	321	769	818	1,509	2,035
f) Royalties, copyright and license fees	237	272	104	111	146	316	862	435	631

ARTICLE

Invisibles in India's
Balance of Payments:
An Analysis of Trade
in Services, Remittances
and Income

Statement 5: Invisibles Receipts by Category of Transactions (Contd.)

(Rs. crore)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
g) Business services (1 to 12)\$	2,790	1,522	2,464	3,890	5,937	23,067	41,356	65,738	67,424
i) Merchanting services						1,248	1,725	1,071	1,676
ii) Trade related services						1,923	2,310	5,960	8,976
iii) Operational Leasing Services						123	476	451	1,909
iv) Legal services						1,126	1,230	2,736	2,822
v) Accounting / Auditing services						170	302	795	918
vi) Business Management & Consultancy services	2,790	1,522	2,464	3,890	5,937	6,955	10,285	20,231	17,819
vii) Advertising/ trade fair						726	1,528	3,122	2,862
viii) Research & Development services						985	1,754	3,430	5,364
ix) Architectural Engineering & other technical services						6,325	14,163	15,678	12,649
x) Agricultural Mining & on-site processing services						236	143	217	229
xi) Maintenance of offices abroad services						3,227	7,051	11,924	11,500
xii) Environmental services						23	389	125	700
h) Personal, Cultural & Recreational services						466	838	1,094	2,259
i) Refunds/rebates	231	238	258	213	234	1,716	332	1,312	1,354
j) Other services\$\$	14,028	4,082	8,022	9,975	8,957	20,730	24,417	10,532	6,896
Total (a to j)	44,044	44,907	52,597	68,967	82,380	1,37,122	1,86,684	2,49,371	2,68,291
B) Transfers	54,939	60,948	77,289	85,289	1,04,329	97,201	1,13,566	1,42,037	1,77,737
1) Official Transfers									
i) Donations received from Non-residents	174	393	211	156	413	256	236	281	271
ii) Grant under PL 480 II	414	439	323	280	153	135	169	142	113
iii) Grants from other Governments	1,071	324	1,663	1,738	1,965	2,371	2,565	2,441	2,641
Total (i to iii)	1,659	1,156	2,197	2,174	2,531	2,762	2,970	2,864	3,025
2) Private Transfers									
i) Inward remittance from Indian workers abroad for family maintenance etc.	32,192	35,507	31,361	47,915	47,648	44,559	46,290	73,518	93,358
ii) Local withdrawals/ redemptions from non-resident deposits	17,849	21,577	40,654	32,147	48,565	40,105	55,269	59,594	75,968
iii) Gold and silver brought through passenger baggage	57	44	61	89	86	118	69	121	106
iv) Personal gifts/donations to charitable/religious institutions in India.	3,182	2,664	3,016	2,964	5,499	9,657	8,968	5,940	5,280
Total (i to iv)	53,280	59,792	75,092	83,115	101,798	94,439	1,10,596	1,39,173	1,74,712
C) Income Account	8,373	12,275	16,080	17,049	17,909	20,638	28,426	42,016	57,285
1) Compensation of Employees									
i) Wages received by Indians working on foreign contracts	646	585	593	565	595	2,100	793	1,719	1,847

Statement 5: Invisibles Receipts by Category of Transactions (Concl.)

(Rs. crore)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
2) Investment Income									
i) Interest received on loans to Non-residents	256	384	959	745	910	293	449	739	5,882
ii) Dividend/profit received by Indians on foreign investment	68	54	273	64	184	407	992	2,036	1,908
<i>Of which:</i>									
<i>Dividend received by Indians on foreign investment</i>	#	#	#	#	#	194	122	618	526
<i>Profit received by Indians on foreign investment</i>	#	#	#	#	#	213	870	1,418	1,382
iii) Reinvested Earning	0	1,553	3,339	5,342	2,536	1,114	4,835	4,869	4,364
iv) Interest received on debentures, FRNs, CPs, fixed deposits and funds held abroad by ADs out of foreign currency loans/export proceeds	50	86	63	69	137	813	453	289	422
v) Interest received on overdraft of VOSTRO accounts of foreign correspondents/branches by the ADs	38	26	3	5	1	1,518	488	1,177	907
vi) Payment of taxes by the Non-residents/refund of taxes by foreign governments to Indians	854	313	626	100	720	774	256	1,148	1,291
vii) Interest/discount earnings etc. earnings on RBI investment	5,992	8,927	8,344	8,885	9,708	13,543	20,070	29,980	40,648
viii) Interest/remuneration on SDR holdings	37	35	37	64	46	76	90	59	16
ix) Others	432	312	1,843	1,210	3,072	0	0	0	0
Total (i to ix)	7,727	11,690	15,487	16,484	17,314	18,538	27,633	40,297	55,438

Statement 6: Invisibles Payments by Category of Transactions

(Rs. crore)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
Invisibles Payments (A+B+C)	74,421	1,02,639	1,03,727	1,20,400	1,18,044	1,71,959	2,11,733	2,81,567	2,97,336
A) Services	50,467	66,650	65,850	82,775	76,794	1,24,880	1,53,057	2,00,029	2,10,873
1) Travel Account									
i) Business	5,490	7,200	7,001	9,617	12,449	14,451	15,296	12,758	13,255
ii) Health Related	13	18	18	18	26	59	167	61	71
iii) Education Related	263	435	1,182	818	1,082	2,892	4,921	5,009	11,302
iv) Basic Travel Quota (BTQ)	1,638	1,738	2,465	3,830	2,063	5,226	5,473	8,154	7,924
v) Pilgrimage	602	867	541	604	72	144	122	527	352
vi) Others	1,262	2,483	3,129	1,268	842	799	3,453	3,740	4,269
Total (i to vi)	9,268	12,741	14,336	16,155	16,534	23,571	29,432	30,249	37,173
2) Transportation Account									
a) Sea Transport									
i) Surplus remitted by Foreign companies operating in India	1,681	1,872	2,245	1,603	683	4,529	7,274	8,640	6,685
ii) Operating expenses of Indian companies abroad	1,757	3,736	2,125	2,439	1,670	1,493	4,455	2,486	3,627
iii) Charter hire charges	501	700	534	540	459	389	369	383	595
iv) Freight on imports	@	@	@	@	@	3,924	6,659	6,076	11,851
v) Freight on exports	..	..	..	..	..	2,328	2,573	3,210	3,128
vi) Remittance of passage booking abroad	#	#	#	#	#	114	53	25	17
b) Air Transport									
i) Surplus remitted by Foreign companies operating in India	3,561	5,632	6,477	6,827	2,999	5,156	9,683	8,320	10,632
ii) Operating expenses of Indian companies abroad	580	444	529	539	611	459	1,268	1,086	2,267
iii) Charter hire charges	324	336	333	391	280	217	626	1,077	2,063
iv) Freight on imports	@	@	@	@	@	528	557	792	2,222
v) Freight on exports	..	..	..	..	..	264	180	144	110
vi) Remittance of passage booking abroad	#	#	#	#	#	138	37	58	102
c) Freight on imports	1,317	2,970	3,482	2,895	3,503	@@	@@	@@	@@
d) Remittance of passage booking abroad	104	52	136	80	48	##	##	##	##
e) Others	625	430	625	514	435	824	3,192	4,207	2,978
Total (a to e)	10,450	16,172	16,486	15,828	10,688	20,363	36,928	36,504	46,277
3) Insurance Account									
a) Premium									
i) Life	3	1	3	2	4	42	64	128	409
ii) Non-life	45	37	123	22	47	1,511	1,076	372	513
iii) Reinsurance	328	805	850	1,421	1,224	1,350	2,588	1,729	2,278
b) Commission on Business	24	1	15	3	2	54	124	103	109
c) Others	125	160	348	239	395	292	1,113	571	885
Total (a to c)	525	1,004	1,339	1,687	1,672	3,249	4,965	2,903	4,194
4) Government Not Included Elsewhere									
a) Maintenance of Indian embassies and diplomatic missions abroad	1,023	1,199	1,002	938	855	1,516	1,971	1,284	1,100
b) Remittances by foreign embassies and missions in India	144	261	347	167	121	327	372	541	421
Total (a to b)	1,167	1,460	1,349	1,105	976	1,843	2,343	1,825	1,520

Statement 6: Invisibles Payments by Category of Transactions (Contd.)

(Rs. crore)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
5) Miscellaneous Account									
a) Communication services	826	583	1,767	4,704	3,547	3,298	1,285	3,589	3,459
b) Construction services	220	757	2,446	6,391	2,995	3,217	3,209	3,337	3,047
c) Financial services	5,785	8,991	6,046	6,765	3,217	3,735	4,265	13,460	12,581
d) Software services	1,600	2,705	3,202	3,565	2,175	3,579	5,954	10,212	12,299
e) News agency services	693	1,167	777	1,122	1,080	1,251	576	1,015	1,322
f) Royalties, copyright and license fees	1,351	1,073	1,723	1,703	2,039	3,185	2,640	4,632	4,370
g) Business services (i to xii)\$	5,003	4,674	7,154	8,768	11,711	32,807	34,428	71,500	67,105
i) Merchenting services						1,055	547	1,324	2,885
ii) Trade related services						4,741	5,352	8,118	9,189
iii) Operational Leasing Services						1,584	2,052	4,249	4,626
iv) Legal services						327	363	724	1,619
v) Accounting / Auditing services						58	89	263	276
vi) Business Management & Consultancy services	3,456	2,499	2,537	3,135	3,734	5,708	10,769	15,739	14,674
vii) Advertising/ trade fair						2,298	1,860	7,974	5,236
viii) Research & Development services						254	515	906	1,628
ix) Architectural Engineering & other technical services						4,987	6,293	13,630	12,730
x) Agricultural Mining & on-site processing services						30	67	333	202
xi) Maintenance of offices abroad services	1,547	2,175	4,617	5,633	7,977	11,746	6,480	18,215	14,002
xii) Environmental services						19	41	27	38
h) Personal, Cultural & Recreational services						461	371	525	800
i) Refunds/rebates	387	292	715	736	1,677	3,437	201	1,655	2,107
j) Other services\$\$	13,192	15,031	8,510	14,246	18,483	20,884	26,460	18,621	14,618
Total (a to j)	29,057	35,273	32,340	48,000	46,924	75,854	79,389	1,28,548	1,21,709
B) Transfers	150	981	1,729	3,886	2,633	4,066	4,134	6,288	9,290
1) Official Transfers									
i) Grants/donations from official sector	2	0	0	0	0	1,598	2,103	1,723	2073
Total	2	0	0	0	0	1,598	2,103	1,723	2073
2) Private Transfers									
i) Remittance by Non-residents towards family maintenance and savings	125	581	1,392	3,668	2,387	1,887	1,569	3,719	6,348
ii) Personal gifts/donations to charitable/religious institutions	23	400	337	218	246	581	462	846	869
<i>Of which:</i>									
iii) Remittance towards personal gifts and donations						488	426	714	731
iv) Remittance towards donations to religious & charitable institutions abroad						75	32	79	97
v) Remittance towards grants and donations to other governments & charitable institutions established by the governments						18	4	53	41
Total (i to v)	148	981	1,729	3,886	2,633	2,468	2,031	4,565	7,217

ARTICLE

Invisibles in India's
Balance of Payments:
An Analysis of Trade
in Services, Remittances
and Income

Statement 6: Invisibles Payments by Category of Transactions (Concl'd.)

(Rs. crore)									
Items	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 R	2007-08 PR
1	2	3	4	5	6	7	8	9	10
C) Income	23,804	35,008	36,148	33,739	38,617	43,013	54,542	75,250	77,173
a) Compensation of Employees									
i) Payment of wages/ salary to Non-residents working in India	57	2,123	2,318	2,892	4,031	6,066	3,430	4,295	4,404
Total	57	2,123	2,318	2,892	4,031	6,066	3,430	4,295	4,404
b) Investment Income									
i) Payment of interest on NRI deposits	7,549	8,276	8,621	6,845	7,536	6,071	6,634	8,909	7,317
ii) Payment of interest on loans from Non-residents	13,167	13,401	13,599	12,565	15,920	11,001	19,215	17,136	20,387
iii) Payment of dividend/profit to Non-resident share holders	2,333	4,676	3,397	2,237	4,041	8,969	11,123	15,774	14,355
<i>Of which:</i>									
Payment of dividend to Non-resident share holders						7,120	10,674	14,634	13,442
Payment of profit to Non-resident share holders						1,849	449	1,140	913
iv) Reinvested Earning	0	6,177	7,841	8,866	6,710	8,555	12,219	26,371	28,859
v) Payment of interest on debentures, FRNs, CPs fixed deposits, Government securities etc.	512	271	103	207	192	766	532	158	225
vi) Charges on SDRs	132	73	248	96	73	86	75	135	85
vii) Interest paid on overdraft on VOSTRO a/c Holders/ OD on NOSTRO a/c	2	2	2	22	92	1,154	945	1,829	954
ix) Payment of taxes by the Indians/refund of taxes by government to Non-residents	52	9	19	9	22	345	369	643	587
Total (i to ix)	23,747	32,885	33,830	30,847	34,586	36,947	51,112	70,955	72,769

PR : Partially Revised.

@ : For the period prior to 2004-05, the break up of 'freight on imports' between the sea transport and the air transport is not separately available. Therefore, these have been included under the head 'freight on imports'.

+ : The category 'freight on exports' was introduced in 2004-05 with a view to improve the data coverage.

: For the period prior to 2004-05, the break up between the sea transport and the air transport is not separately available. Therefore, these have been included under the head 'remittance on passage booking abroad'.

@@: Included under the heads 'sea transport' and 'air transport'.

##: Included under the heads 'sea transport' and 'air transport'.

\$: These new categories of services are available since 2004-05 as the reporting system was put in place to record such transactions.

\$\$: Till 2003-04, others included advertising, rentals, office maintenance, prizes, exhibitions & other services not included elsewhere.

Annex I : Compilation and Dissemination of India's Invisibles

India's invisibles details form part of India's Balance of Payments (BoP) and are released in two stages viz., (i) standard presentation with broad heads, and (ii) detailed presentation with break-up of broad heads. In the first stage, major components of invisibles are released as part of BoP on a quarterly basis to meet the IMF's Special Data Dissemination Standards (SDDS). These quarterly details are released through the Reserve Bank of India (RBI) website and also published in the RBI Bulletin. In the first stage, the coverage is limited under broad heads of services (travel, transportation, insurance, government not included elsewhere and miscellaneous services including those of software services, business services, financial services and communication services), transfers (private and official transfers) and income (investment income and compensation of employees). In the second stage, when the data firm up and more details are available, the disaggregated details on invisibles are compiled and provided on an annual basis. These disaggregated data are published in an article titled "Invisibles in India's Balance of Payments" in the RBI Bulletin.

The details on invisibles are extracted from India's balance of payments records and the balance of payments details are compiled in accordance with the guidelines in the IMF's Balance of Payments Manual, 5th Edition (BPM5), 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.

In recognition to the growing importance of services and in order to meet the requirements of compilation under extended balance of payments statistics, the Reserve Bank based on the recommendations of a Technical Group on Statistics of International Trade in Services, which submitted its report in 2002, took the lead in putting in place an arrangement to collect comprehensive information on India's trade in services in the context of the ongoing negotiations on international trade in services under the GATS framework. The details regarding new reporting arrangements which were put in place in 2004-05, wherein a number of new purpose codes were introduced with a view to collect data separately for a number of emerging business services including those of merchanting services, trade related services, operational leasing services, legal services, accounting services, business and management services, advertising services, research and development services, architectural and engineering services, agricultural services, office maintenance services, environmental services and personal and cultural services, were first published in the November 2006 issue of the RBI Bulletin.

Annex II: Details on Definitional Aspect of Components of Invisibles

Item	Description
1. Services	
(i) 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.
(ii) Transportation	'Transportation' records receipts and payments on account of the carriage of goods and people as well as other distributive services (such as port charges, bunker fuel, stevedoring, cabotage, warehousing) performed on merchandise trade.
(iii) Insurance	'Insurance' consists of insurance on exports/imports, premium on life and non-life policies and reinsurance premium from foreign insurance companies.
(iv) Government Not Included Elsewhere (GNIE)	'Government not included elsewhere (GNIE)' represents remittances towards maintenance of foreign embassies, diplomatic missions and international/regional institutions, while payments record the remittances on account of maintenance of embassies and diplomatic missions abroad.
(v) Miscellaneous Services	'Miscellaneous services' encompass communication services, construction services, financial services, software services, news agency services, royalties, copyright and license fees, personal, cultural and recreational services, management services and business services. Business services comprise merchanting services, trade related services, operational leasing services, legal services, accounting services, business and management consultancy services, advertising services, research and development services, architectural and engineering services, agricultural services, mining and on-site processing services, office maintenance services, environmental services and distribution services.
2. Investment Income	'Investment income' represents the servicing of capital transactions (both debt and non-debt). These transactions are in the form of interest, dividend, profit and others for servicing of capital transactions. Interest payments represent servicing of debt liabilities, while the dividend and profit payments reflect the servicing of non-debt (foreign direct investment and portfolio investment) liabilities. Investment income payments move in tandem with India's external liabilities, while investment income receipts get linked to India's external assets including foreign exchange reserves. In accordance with the BPM5, 'compensation of employees' has been shown under the heading, "income" with effect from 1997-98.
3. Transfers	'Transfers' represent one-sided transactions, i.e., transactions that do not have any <i>quid pro quo</i> , 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 record grants, donations and other assistance received by the Government from bilateral and multilateral institutions. Similar transfers by the Indian Government to other countries are recorded under official transfer payments.