

International Investment Position as on March 2003

September 30, 2003

The Reserve Bank of India today released India's International Investment Position (InIP) as on March 2003. The InIP represents the stocks of external financial liabilities and assets as at the end of a specified period. It represents the value and composition of an economy's claims on the rest of the world and value of that economy's financial liabilities to the rest of the world as at the end of the specified period and covers all the sectors of the country, viz., monetary authority, banking sector, government sector and other sectors including corporate sector. The difference between the two sides (i.e., external financial assets net of financial liabilities) of the economy gives the net international investment position of the economy. The International Monetary Fund has prescribed that the data on this head should be released at least on an annual basis but preferably at quarterly interval. The estimates for InIP of India as on March 2003 have been compiled using the methodology devised in the Balance of Payments Statistics Division of Department of Statistical Analysis and Computer Services (DESACS) of the Reserve Bank of India.

Highlights of Results

Overall Position

Net foreign liabilities of India have fallen from US\$ 81.1 billion as on March 1997 to US\$ 60.1 billion as on March 2003[@]. Further, net foreign liabilities of India as a per cent of nominal GDP has fallen from 23.41 per cent as on March 1997 to 12.70 per cent as on March 2003. Thus, country's net international investment position has improved significantly over the period of 1997-2003.

The decline in net foreign liabilities of India was mainly due to build up of foreign exchange assets by the Reserve Bank of India during the period 1997-2003. The foreign exchange assets have gone up from US \$ 22.4 billion as on March 1997 to US \$ 71.9 billion as on March 2003, an increase of US \$ 49.5 billion.

The loan liabilities of the Government sector in US dollar terms have fallen from US\$ 47.6 billion as on March 1997 to US\$ 42.7 billion as on March 2003, a fall of approximately 10.3 per cent.

Significant Changes in Foreign Assets Position

Of the increase in gross foreign assets of the country by US\$ 21 billion during 2002-03, significant increase in foreign assets is reported in the following categories

- Increase in direct investment abroad of US\$ 1 billion and
- Increase in reserve assets^{@@} of US\$ 21.4 billion.

The banking sector (excluding monetary authority) has reported a steep fall in its foreign assets (mainly due to a fall in nostro balances) during 2001-02 and 2002-03 since the appreciation of Indian rupee vis-à-vis US dollar. Loans extended by banks in India to non-residents have also fallen by US\$ 0.9 billion during 2002-03. This might indicate a preference for holding domestic assets as against foreign assets by the corporate and banking sector during the year 2002-03 due to continuous appreciation of Indian rupee vis-à-vis US dollar.

Significant Changes in Foreign Liabilities Position

The gross foreign liabilities of the country has increased by US\$ 12.3 billion during 2002-03. This is, mainly on account of :

- Increase in foreign direct investment stocks (i.e., flows and valuation) by US\$ 5.4 billion,
- Increase in portfolio investment stocks in equity securities by US\$ 1.5 billion,
- Increase in short-term trade credit availed by the corporate sector by US\$ 0.8 billion due to availability of cheaper short-term funds overseas, and
- Increase in banking sector liabilities in the form of non-residents repatriable deposits to the tune of US\$ 7 billion (approximately) (inclusive of transfer of non-resident non-repatriable (NRNR) deposits to Non-Resident External (NRE) on maturity)^{@@@}.

Further, the corporate sector debt securities liabilities in the form of foreign currency convertible bonds (FCCBs) and loan liabilities in the form of external commercial borrowings also declined by US\$ 1 billion (approximately) and US\$ 1.5 billion (approximately), respectively, during 2002-03.

Conclusion

The changes in the composition of assets and liabilities of the Indian economy strongly indicate at the :

- (i) Increasing strength of the economy as reflected in the substantial improvement in its net international investment position.
- (ii) Emerging composition of assets held abroad and foreign liabilities incurred by various sectors of the economy possibly reflects the fact that international market condition vis-à-vis domestic market conditions are becoming important determinant of Asset Liability Management (ALM) related decision-making process of the banking and corporate sector. This is also a reflection of the increased integration of the Indian economy with the rest of the world.

[@] Net Foreign Liabilities = Foreign Liabilities minus Foreign Assets = minus (net International Investment Position)

^{@@} Reserve assets include Monetary Gold, Special Drawing Rights, Reserve Position in the Fund and Foreign Exchange assets.

^{@@@} Effective from April 1, 2002, Non-Resident Non-Repatriable (NRNR) scheme has been discontinued.

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Press Release : 2003-04/441