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RESERVE BANK OF INDIA

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September 30, 2008

**India's Balance of Payments Developments during the First Quarter of 2008-09
(i.e., April-June 2008)**

Preliminary data on India's balance of payments (BoP) for the first quarter (Q1) of the financial year 2008-09 *i.e.*, April-June 2008, are now available. Full details of the BoP data in the standard format of presentation are set out in Statements 1 and 2.

The BoP developments during the Q1 of 2008-09 are set out in the following paragraphs.

April-June 2008

The major items of the BoP for Q1 of 2008-09 are set out in Table 1.

Table 1: Major Items of India's Balance of Payments				
(US \$ million)				
Item	April-June		April-March	
	2008-09 P	2007-08 PR	2007-08 P	2006-07 PR
1	2	3	4	5
1. Exports	43,703	35,752	158,461	128,083
2. Imports	75,277	56,453	248,521	191,254
3. Trade Balance (1-2)	-31,574	-20,701	-90,060	-63,171
4. Invisibles, net	20,850	14,400	72,657	53,405
5. Current Account Balance (3+4)	-10,724	-6,301	-17,403	-9,766
6. Capital Account*	12,959	17,501	109,567	46,372
7. Change in Reserves# (- Indicates increase)	-2,235	-11,200	-92,164	-36,606

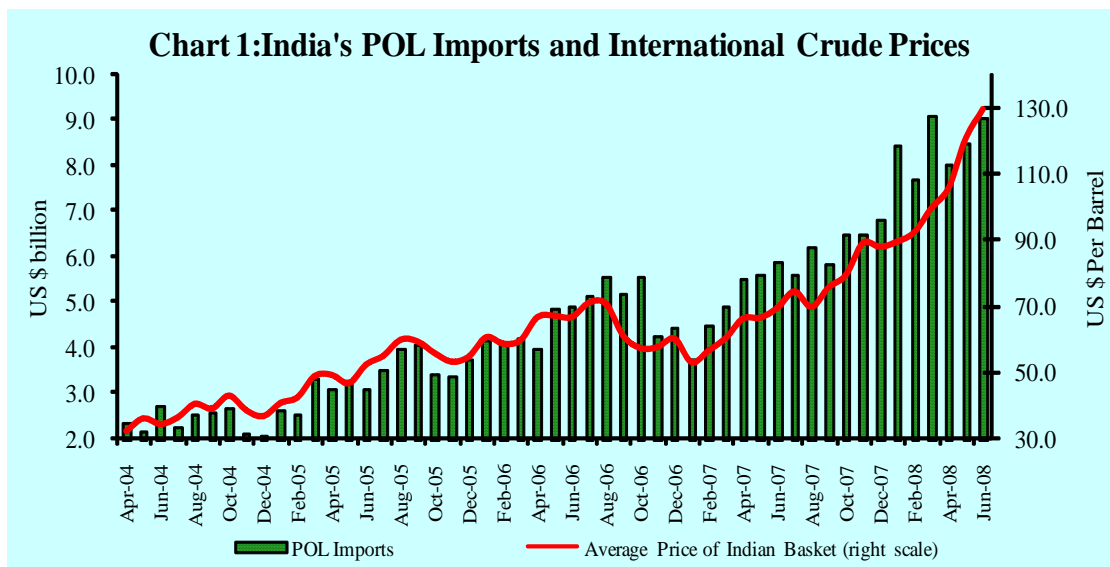
*: Including errors and omissions. #: On BoP basis excluding valuation.
P: Preliminary PR: Partially Revised.

Merchandise Trade

- On BoP basis, India's merchandise exports witnessed a higher growth at 22.2 per cent in Q1 of 2008-09 than that of 20.7 per cent in Q1 of 2007-08.
- Import payments, on BoP basis, also increased substantially and recorded 33.3 per cent growth in Q1 of 2008-09 (21.1 per cent in Q1 of 2007-08).
- According to the data released by Directorate General of Commercial Intelligence and Statistics (DGCI&S), while oil imports recorded a significant growth of 50.4 per cent in Q1 of 2008-09 (23.9 per cent in Q1 of 2007-08), non-oil imports showed

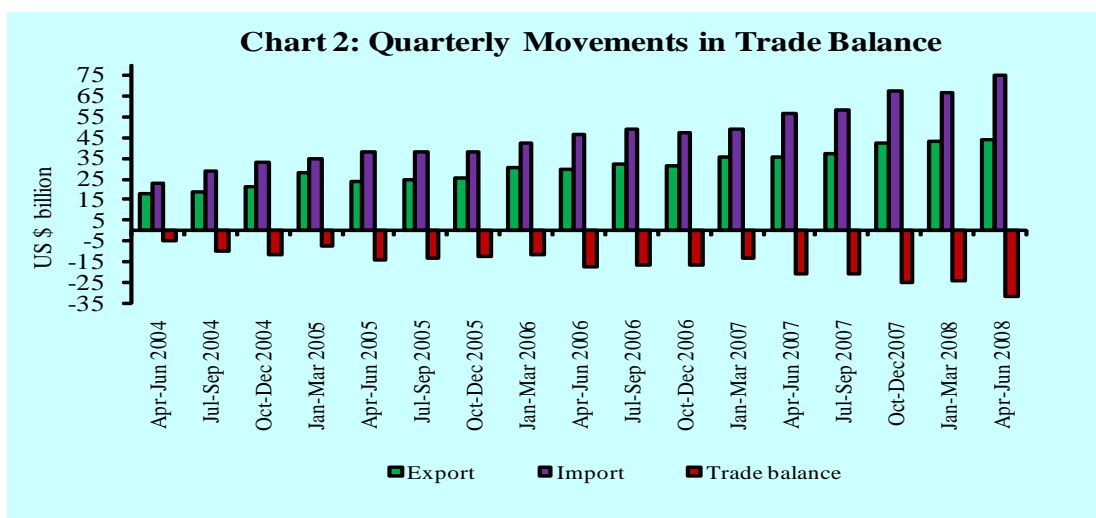
relatively a modest growth of 20.9 per cent (45.1 per cent in Q1 of 2007-08). Reflecting this, the oil imports in Q1 of 2008-09 accounted for about 35 per cent of total imports (30 per cent in Q1 of 2007-08).

- According to the DGCI&S data, out of total increase in imports of US \$ 16.8 billion in the Q1 of 2008-09 over the Q1 of 2007-08, the oil imports contributed an increase of US \$ 8.6 billion (51.0 per cent as against 21.1 per cent in Q1 of 2007-08), while non-oil imports contributed an increase of US \$ 8.2 billion (49.0 per cent as against 78.9 per cent in Q1 of 2007-08).
- The sharp increase in oil imports reflected the impact of increasing oil price of the Indian basket of international crude (a mix of Oman, Dubai and Brent varieties), which increased to US \$ 118.8 per barrel in Q1 of 2008-09 from US \$ 66.4 per barrel in the corresponding quarter of the previous year (Chart 1).



Trade Deficit

- On BoP basis, the trade deficit rose sharply to US \$ 31.6 billion in Q1 of 2008-09 (US \$ 20.7 billion in Q1 of 2007-08) mainly on account of higher growth in import payments (Chart 2).



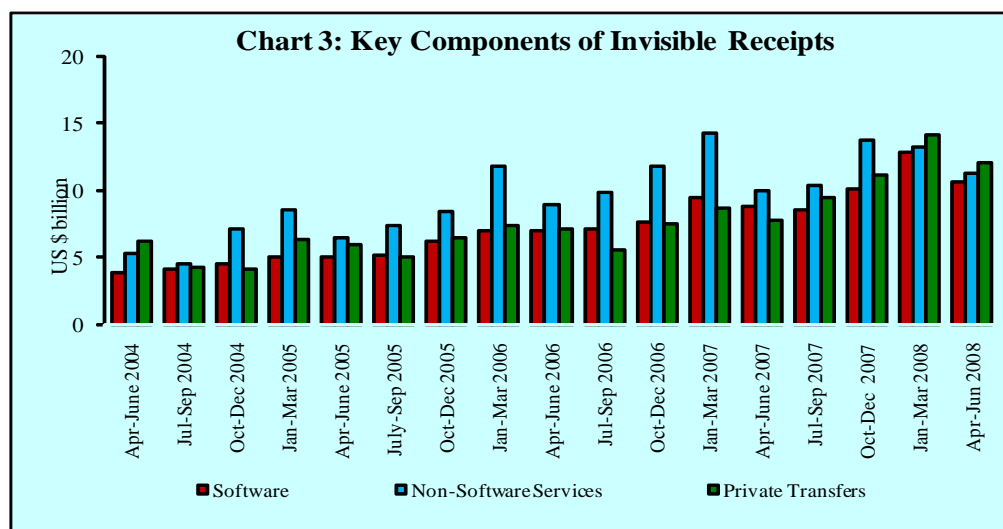
Invisible Account

Receipts

- Invisible receipts, comprising services, current transfers and income, rose by 29.7 per cent in Q1 of 2008-09 (16.7 per cent in Q1 of 2007-08) mainly due to increase in receipts under private transfers along with the steady growth in software services exports, travel and transportation (Table 2 and Chart 3).

Item	Invisible Receipts				Invisible Payments			
	April-June		April-March		April-June		April-March	
	2008-09 P	2007-08 PR	2007-08 P	2006-07- PR	2008-09 P	2007-08 PR	2007-08 P	2006-07 PR
1	2	3	4	5	6	7	8	9
1.Travel	2,504	2,088	11,349	9,123	2,159	1,881	9,231	6,685
2.Transportation	2,435	1,905	9,503	8,050	3,316	2,492	11,610	8,068
3.Insurance	338	369	1,585	1,202	224	184	1,042	642
4.Govt. not included elsewhere	130	96	331	250	111	112	382	403
5.Transfers	12,188	7,951	43,343	29,589	666	433	2,326	1,421
6.Income	3,573	2,325	14,227	9,304	4,706	4,172	20,137	15,877
<i>Investment Income</i>	3,418	2,255	13,799	8,908	4,376	3,974	19,038	14,926
<i>Compensation of Employees</i>	155	70	428	396	330	198	1,099	951
7.Miscellaneous Of Which:	16,562	14,366	64,919	57,556	5,698	5,426	27,872	28,573
<i>Software</i>	10,656	8,836	40,300	31,300	857	796	3,249	2,267
<i>Non-Software</i>	5,906	5,530	24,619	26,256	4,841	4,630	24,623	26,306

P: Preliminary PR: Partially Revised.
Note: Details of Non-software services under miscellaneous (Item 7) are given in Table 5.



- Private transfers mainly consist of (i) Inward remittances from Indian workers abroad for family maintenance, (ii) Local withdrawal from Non-Resident Indian Rupee deposits, (iii) Gold and silver brought through passenger baggage, and (iv) Personal gifts/donations to charitable/religious institutions.
- Private transfer receipts, comprising mainly remittances from Indians working overseas, increased to US \$ 12.0 billion in Q1 of 2008-09 as compared to US \$ 7.8 billion in Q1 of 2007-08. Private transfer receipts constituted 14.8 per cent of current receipts in Q1 of 2008-09 (12.0 per cent in Q1 of 2007-08).
- Under Private transfer, the inward remittances for family maintenance accounted for about 53 per cent of the total private transfer receipts, while local withdrawals accounted for about 42 per cent in Q1 of 2008-09 (Table 3).

Table 3: Details of Private Transfers to India			
(US \$ million)			
Year	Total	Of Which:	
		Inward remittances for family maintenance	Local withdrawals/redemptions from NRI Deposits
1	2	3	4
2006-07 (PR)	28,951	13,561	13,208
2007-08 (P)	42,589	20,950	19,019
April-June 2007 (PR)	7,798	3,859	3,495
April-June 2008 (P)	12,037	6,390	5,029

P: Preliminary PR: Partially Revised

- NRI deposits when withdrawn domestically, form part of private transfers because once withdrawn for local use these become unilateral transfers and do not have any *quid pro quo*, e.g. 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.
- Under NRI deposits, both inflows as well as outflows remained steady in the recent past (Table 4). A major part of outflows from NRI deposits is in the form of local withdrawals. During Q1 of 2008-09, the share of local withdrawals in total outflows from NRI deposits was 61.0 per cent (61.4 per cent in Q1 of 2007-08) (Table 4).

Table 4: Inflows and Outflows from NRI Deposits and Local Withdrawals			
(US \$ million)			
Year	Inflows	Outflows	Local Withdrawals
1	2	3	4
2006-07 (PR)	19,914	15,593	13,208
2007-08 (P)	29,321	29,142	19,019
April-June 2007 (PR)	5,243	5,690	3,495
April-June 2008 (P)	9,061	8,248	5,029

P: Preliminary PR: Partially Revised

- Software services exports at US \$ 10.7 billion in Q1 of 2008-09 (US \$ 8.8 billion in Q1 of 2007-08) recorded a growth of 20.6 per cent (25.5 per cent in Q1 of 2007-08).
- Miscellaneous receipts, excluding software exports, stood at US \$ 5.9 billion in Q1 of 2008-09 (US \$ 5.5 billion in Q1 of 2007-08). The break-up of these data is presented in Table 5.

Table 5: Break-up of Non-Software Miscellaneous Receipts and Payments

(US \$ million)

Item	Receipts				Payments			
	April-June		April-March		April-June		April-March	
	2008-09 P	2007-08 PR	2007-08P	2006-07PR	2008-09 P	2007-08 PR	2007-08P	2006-07PR
1	2	3	4	5	6	7	8	9
1.Communication Services	594	513	2,436	2,099	226	200	837	659
2.Construction	119	86	780	332	134	167	693	737
3.Financial	745	630	3,085	2,913	627	613	2,847	2,087
4.News Agency	182	174	643	334	64	154	413	219
5.Royalties, Copyrights & License Fees	30	34	157	97	495	220	1,038	1,038
6.Business Services	4,072	3,980	16,624	19,266	3,224	3,194	16,668	17,093
7.Personal, Cultural, Recreational	107	77	559	173	59	34	174	116
8.Others	57	36	335	1,042	12	48	1,953	4,357
Total (1 to 8)	5,906	5,530	24,619	26,256	4,841	4,630	24,623	26,306

P: Preliminary PR: Partially Revised. Note: Details of Business Services (item 6) are given in Table 6.

- Business services receipts mainly include trade related services, business and management consultancy services, architectural and engineering services and other technical services, and office maintenance services. These reflect the underlying momentum in trade of professional and technology related services (Table 6).
- Reflecting the accretion to reserves, investment income receipts rose by 51.6 per cent in Q1 of 2008-09 as against 35.9 per cent in Q1 of 2007-08.

Payments

- Invisible payments showed an increase of 14.8 per cent in Q1 of 2008-09 (22.6 per cent in Q1 of 2007-08). The invisible payments comprise payments relating to those of travel, transportation, business and management consultancy, engineering and other technical services, dividends, profit and interest payments. The moderation in growth rate of invisible payments during Q1 of 2008-09 was mainly due to moderate payments relating to a number of business and professional services.
- Reflecting the rising volume of imports, transportation payments in Q1 of 2008-09 were higher by 33.1 per cent than that of 24.8 per cent in Q1 of 2007-08. In addition, the higher payments may also be attributed to the rising freight rates on international shipping due to surge in international crude oil prices.
- The business services payments comprise payments related to the trade related services, business and management consultancy services, architectural, engineering and other technical services and the services relating to maintenance of offices (Table 6).

Table 6: Details of Business Services

(US \$ million)

Item	Receipts				Payments			
	April-June		April-March		April-June		April-March	
	2008-09 P	2007-08 PR	2007-08P	2006-07PR	2008-09 P	2007-08 PR	2007-08P	2006-07PR
1	2	3	4	5	6	7	8	9
1. Trade Related	492	342	2,223	939	447	580	2,258	1,655
2. Business & Management Consultancy	1,184	1,161	4,215	7,346	600	671	3,400	5,027
3. Architectural, Engineering and other Technical	860	1148	3,287	6,134	548	593	3,235	3,673
4. Maintenance of offices	552	570	2,867	2,334	413	375	2,827	3,424
5. Others	984	759	4,032	2,513	1,216	975	4,947	3,314
Total (1 to 5)	4,072	3,980	16,624	19,266	3,224	3,194	16,668	17,093

P: Preliminary PR: Partially Revised.

- Investment income payments, representing the interest payments on commercial borrowings, external assistance and non-resident deposits, and reinvested earnings of the foreign direct investment (FDI) enterprises operating in India, amounted to US \$ 4.4 billion in Q1 of 2008-09 as compared with US \$ 4.0 billion in Q1 of 2007-08 (Table 7).

Table 7: Details of Receipts and Payments of Investment Income				
(US \$ million)				
Item	April-June		April-March	
	2008-09 P	2007-08 PR	2007-08 P	2006-07 PR
1	2	3	4	5
A. Receipts	3,418	2,255	13,799	8,908
<i>Of which:</i>				
1. Reinvested Earnings on Indian Investment Abroad	271	271	1,084	1,076
2. Interest/discount Earnings on Foreign exchange reserves	2,672	1,631	10,124	6,640
B. Payments	4,376	3,974	19,038	14,926
<i>Of which:</i>				
1. Interest Payment on NRI deposits	348	501	1,813	1,971
2. Interest Payment on ECBs	696	552	4,202	1,685
3. Interest Payments on External Assistance	266	269	1,143	982
4. Dividends and Profits	933	577	3,255	3,485
5. Reinvested Earnings of FDI companies in India	1,721	1,721	6,885	5,091
C. Net Investment Income (A-B)	-958	-1,719	-5,239	-6,018

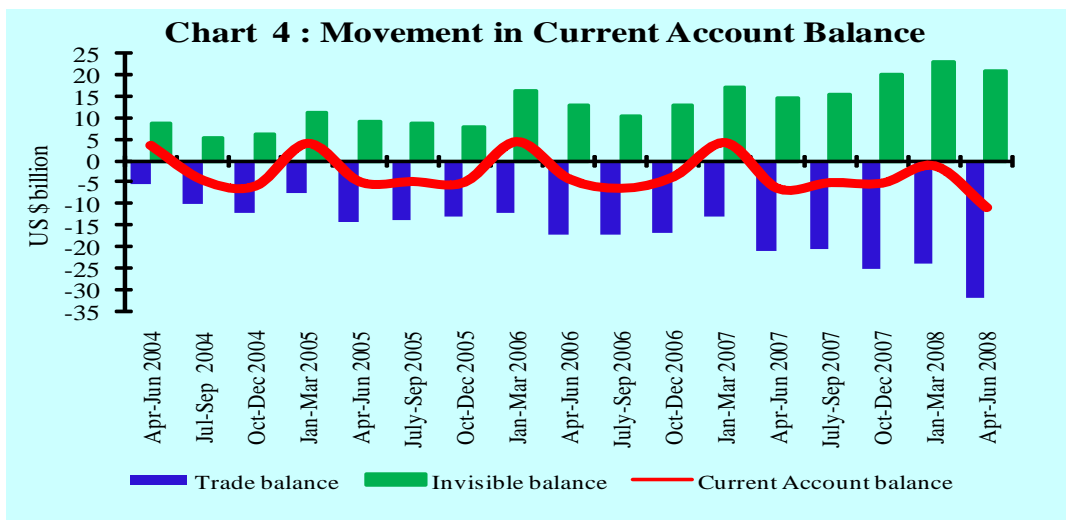
P: Preliminary PR: Partially Revised.

Invisibles Balance

- Net invisibles (invisibles receipts minus invisibles payments) stood at US \$ 20.9 billion during Q1 of 2008-09 (US \$ 14.4 billion in Q1 of 2007-08) mainly led by higher growth in private transfers and software exports. At this level, the invisible surplus financed about 66.0 per cent of trade deficit in the Q1 of 2008-09 as against 69.6 per cent in Q1 of 2007-08.

Current Account Deficit

- Despite higher net invisible surplus mainly emanating from private transfers and software exports, the widening trade deficit mainly due to higher imports led to higher current account deficit at US \$ 10.7 billion in Q1 of 2008-09 (US \$ 6.3 billion in Q1 of 2007-08) (Chart 4).



Capital Account

- The balance of payments developments during Q1 of 2008-09 were dominated by both gross capital inflows as well as outflows. The gross capital inflows to India during Q1 of 2008-09 amounted to US \$ 88.4 billion (US \$ 68.5 billion in Q1 of 2007-08) as against an outflow of US \$ 75.2 billion (US \$ 51.2 billion in Q1 of 2007-08) (Table 8).
- Reflecting volatile movement of capital flows, the net capital flows were lower at US \$ 13.2 billion in Q1 of 2008-09 than that of US \$ 17.3 billion in Q1 of 2007-08 (Table 9).
- Foreign direct investments (FDI) broadly comprise equity, reinvested earnings and inter-corporate loans. Net FDI flows (net inward FDI minus net outward FDI) were higher at US \$ 10.1 billion in Q1 of 2008-09 as against US \$ 2.7 billion in Q1 of 2007-08. Net inward FDI remained buoyant at US \$ 12.1 billion during Q1 of 2008-09 (US \$ 7.0 billion in Q1 of 2007-08) reflecting the continuing pace of expansion of domestic activities, positive investment climate and continuing liberalization measures to attract FDI. FDI was channeled mainly into manufacturing (23.6 per cent) followed by construction sector (18.9 per cent) and financial services (14.4 per cent). Net outward FDI moderated to US \$ 2.0 billion in Q1 of 2008-09 (US \$ 4.3 billion in Q1 of 2007-08) reflecting the slowdown in global business activities.

Table 8: Gross Capital Inflows and Outflows								
(US \$ million)								
Item	Gross Inflows				Gross Outflows			
	April-June		April-March		April-June		April-March	
	2008-09 P	2007-08 PR	2007-08 P	2006-07 PR	2008-09 P	2007-08 PR	2007-08 P	2006-07 PR
1	2	3	4	5	6	7	8	9
1. Foreign Direct Investment	12,397	7,757	34,924	22,959	2,280	5,099	19,379	14,480
2. Portfolio Investment	40,764	34,680	2,35,630	1,09,622	44,972	27,222	2,06,369	1,02,560
3. External Assistance	909	732	4,241	3,763	558	491	2,127	1,996
4. External Commercial Borrowings	2,782	8,273	29,851	20,973	1,223	1,283	7,686	4,818
5. NRI Deposits	9,061	5,243	29,321	19,914	8,248	5,690	29,142	15,593
6. Banking Capital excluding NRI Deposits	9,964	3,308	26,412	17,295	8,042	3,780	14,834	19,703
7. Short-term Trade Credits	9,952	7,568	49,411	29,992	7,779	5,764	31,728	23,380
8. Rupee Debt Service	0	0	0	0	30	43	121	162
9. Other Capital	2,585	987	18,950	7,724	2,067	1,830	9,323	3,771
Total (1 to 9)	88,414	68,548	4,28,740	2,32,242	75,199	51,202	3,20,709	1,86,463

P: Preliminary PR: Partially Revised.

- Portfolio investment primarily comprising foreign institutional investors' (FIIs) investments and American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) witnessed large net outflows (US \$ 4.2 billion) in Q1 of 2008-09 (net inflows of US \$ 7.5 billion in Q1 of 2007-08) due to large sales of equities by FIIs in the Indian stock market reflecting bearish condition in stock market and slowdown in the global economy. The inflows under ADRs/ GDRs amounted to US \$ 999 million in Q1 of 2008-09 (US \$ 316 million in Q1 of 2007-08).

Table 9: Net Capital Flows				
(US \$ million)				
Item	April-June		April-March	
	2008-09P	2007-08PR	2007-08P	2006-07PR
1	2	3	4	5
1. Foreign Direct Investment	10,117	2,658	15,545	8,479
2. Portfolio Investment	-4,208	7,458	29,261	7,062
<i>Of which:</i>				
FIIs	-5,177	7,089	20,328	3,225
ADR/GDRs	999	316	8,769	3,776
3. External Assistance	351	241	2,114	1,767
4. External Commercial Borrowings	1,559	6,990	22,165	16,155
5. NRI Deposits	813	-447	179	4,321
6. Banking Capital excluding NRI Deposits	1,922	-472	11,578	-2,408
7. Short-term Trade Credits	2,173	1,804	17,683	6,612
8. Rupee Debt Service	-30	-43	-121	-162
9. Other Capital	518	-843	9,627	3,953
Total (1 to 9)	13,215	17,346	108,031	45,779

Note: Details of Other Capital (Item 9) are given in Table 10.

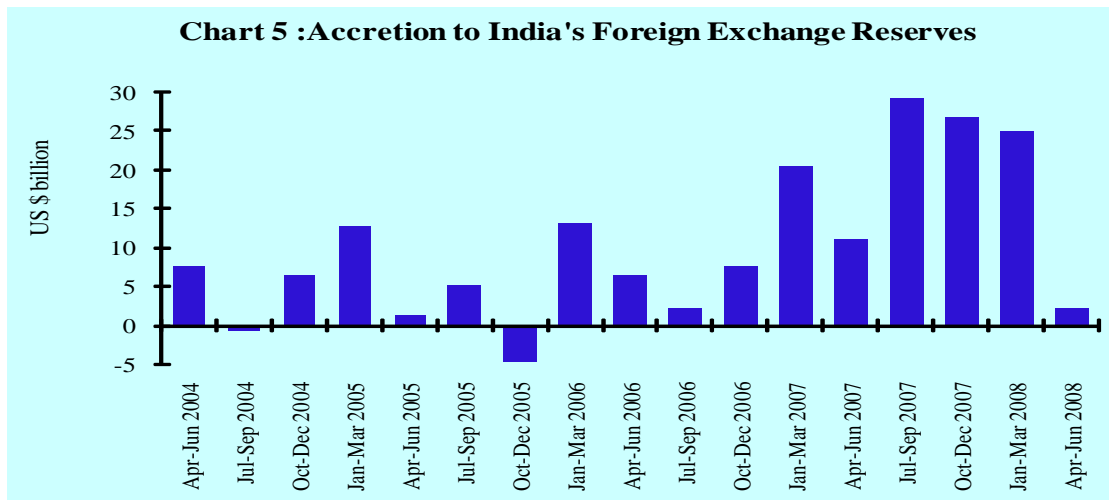
P: Preliminary PR: Partially Revised

- The net external commercial borrowing (ECB) inflows (disbursements/inflows minus repayments/outflows) to India amounted to US \$ 1.3 billion in Q1 of 2008-09 (US \$ 6.9 billion in Q1 of 2007-08). Net ECB inflows were lower at 11.8 per cent of net capital flows during Q1 of 2008-09 as against 40.3 per cent of net capital flows in Q1 of 2007-08.
- Banking capital primarily represents foreign assets and foreign liabilities of commercial banks (ADs). Among the components of banking capital, Non-Resident Indian (NRI) deposits witnessed a net inflow of US \$ 813 million in Q1 of 2008-09, a turnaround from net outflow of US \$ 447 million in Q1 of 2007-08.
- Banking capital, excluding NRI deposits, registered higher net inflows at US \$ 1.9 billion during Q1 of 2008-09 (net outflows of US \$ 0.5 billion in Q1 of 2007-08). The net inflows under commercial banks assets in Q1 of 2008-09 primarily reflected the drawdown of assets held abroad by the Indian banks while the net inflows under commercial banks liabilities was mainly due to the overseas borrowings of the banks.
- Net short term trade credit was at US \$ 2.2 billion (inclusive of suppliers' credit up to 180 days) during the Q1 of 2008-09 as against US \$ 1.8 billion during the same period of the previous year. Out of total short-term trade credit, the suppliers' credit up to 180 days amounted to US \$ 0.7 billion during Q1 of 2008-09 (US \$ 0.7 billion in Q1 of 2007-08).
- Items under 'Other Capital' include leads and lags in exports, funds held abroad, advances received pending issue of shares under FDI and other capital receipts not included elsewhere (n.i.e). Net other capital receipts amounted to US \$ 518 million in Q1 of 2008-09. The details of other capital are set out in Table 10.

Table 10: Details of 'Other Capital' (Net)				
(US \$ million)				
Item	April-June		April-March	
	2008-09 P	2007-08 PR	2007-08 P	2006-07 PR
1	2	3	4	5
1. Lead and Lags in Exports	1,432	397	1,981	773
2. Net Funds Held Abroad	-1,044	-137	-4,780	496
3. Advances Received Pending Issue of Shares under FDI	850	-	8,700	-
4. Other capital receipts not included elsewhere (n.i.e)	-720	-1,103	3,726	2,684
Total (1 to 4)	518	-843	9,627	3,953
P: Preliminary PR: Partially Revised - : Nil.				

Reserves Accretion

- The net accretion to foreign exchange reserves on BoP basis (*i.e.*, excluding valuation) was US \$ 2.2 billion in Q1 of 2008-09 (US \$ 11.2 billion in Q1 of 2007-08) (Chart 5). Taking into account the valuation gain, foreign exchange reserves recorded an increase of US \$ 2.4 billion in Q1 of 2008-09 (US \$ 14.2 billion in Q1 of 2007-08). [A Press Release on the sources of accretion to foreign exchange reserves is separately issued].
- At the end of June 2008, with outstanding foreign exchange reserves at US \$ 312.1 billion, India held the third largest stock of reserves among the emerging market economies.



- To sum up, the key features of India's BoP that emerged in Q1 of 2008-09 were: (i) widening trade deficit (US \$ 31.6 billion) led by higher imports, (ii) significant increase in invisible surplus (US \$ 20.9 billion) on account of remittances from overseas Indians and software services, (iii) higher current account deficit (US \$ 10.7 billion) due to high trade deficit, (iv) volatile and relatively lower net capital inflows (US \$ 13.2 billion) than Q1 of 2007-08 (US \$ 17.3 billion) and (v) lower accretion to reserves (excluding valuation) at US \$ 2.2 billion (US \$ 11.2 billion in Q1 of 2007-08). The details of key indicators are set out in Table 11.

Table 11: Key Indicators of India's Balance of Payments				
Item	April-June		April-March	
	2008-09	2007-08	2007-08	2006-07
1	2	3	4	5
Merchandise Trade				
1. Exports (US \$ on BoP basis) Growth Rate (per cent)	22.2	20.7	23.7	21.8
2. Imports (US \$ on BoP basis) Growth Rate (per cent)	33.3	21.1	29.9	21.8
3. Crude Oil Prices, Per Barrel (Indian Basket)	118.8	66.4	79.5	62.4
4. Trade Balance (US \$ billion)	-31.6	-20.7	-90.1	-63.2
Invisibles				
5. Net Invisibles Surplus / Trade Deficit (per cent)	66.0	69.6	80.7	84.5
6. Invisibles receipts / current receipts (per cent)	46.3	44.9	47.8	47.3
7. Services receipts / current receipts (per cent)	27.0	29.0	28.9	31.3
8. Private Transfers / current receipts (per cent)	14.8	12.0	14.0	11.9
Current Account				
9. Current Receipts (US \$ billion)	81.4	64.9	303.7	243.1
10. Current payments (US \$ billion)	92.1	71.2	321.1	252.9
11. Current Account Balance (US \$ billion)	-10.7	-6.3	-17.4	-9.8
Capital Account				
12. Gross Capital Inflows (US \$ billion)	88.4	68.5	428.7	232.2
13. Gross Capital outflows (US \$ billion)	75.2	51.2	320.7	186.5
14. Net capital flows (US \$ billion)	13.2	17.3	108.0	45.8
15. Net FDI / Net capital flows (per cent)	76.5	15.3	14.4	18.5
16. Net portfolio investment / net capital flows (per cent)	-31.8	43.0	27.1	15.4
17. Net ECBs / Net Capital Flows (per cent)	11.8	40.3	20.5	35.3
Reserves				
18. Import cover of Reserves (in months)	14.0	12.7	15.0	12.5
19. Outstanding Reserves as at end period (US \$ billion)	312.1	213.4	309.7	199.2

Reconciliation of Import Data

- During Q1 of 2008-09, based on the records of the DGCI&S imports data and the BoP merchandise imports, the difference between the two data sets works out to about US \$ 2.0 billion (Table 12).

Table 12 : DGCI&S and the BoP Import Data			
(US \$ million)			
Item	April-June	April-March	
	2008-09 P	2007-08 P	2006-07 PR
1	2	3	4
1. BoP Imports	75,277	2,48,521	1,91,254
2. DGCI&S Imports	73,283	2,39,651	1,85,749
3. Difference (1-2)	1,994	8,870	5,505
P: Preliminary PR: Partially Revised.			

Alpana Killawala
Chief General Manager

Press Release : 2008-2009/413