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Developments in India's Balance of Payments during the Second Quarter (July-September 2012) and Partially Revised data for the First Quarter (April-June 2012) of 2012-13

Preliminary data on India's balance of payments (BoP) for the second quarter (Q2), *i.e.*, July-September 2012 of the financial year 2012-13, are now available. These preliminary data and the partially revised data for the first quarter (Q1), *i.e.*, April-June 2012, have been taken into account for compiling the BoP data for the first half of the current financial year, *i.e.*, April-September 2012. The details of these data, as per the revised format of BoP presentation provided in IMF's BPM6, are set out in Statement I. These data as per the old format are also given in Statement II.

Highlights of BoP during July-September (Q2) of 2012-13

- India's current account deficit (CAD) widened in Q2 of 2012-13 on account of a larger trade deficit.
- On a BoP basis, merchandise exports recorded a decline of 12.2 per cent (year-on-year) during Q2 of 2012-13 as against an increase of 45.3 per cent during corresponding quarter of 2011-12.
- Similarly, on a BoP basis, imports also registered a decline of 4.8 per cent (year-on-year) during the quarter as against an increase of 38.1 per cent during same quarter last year.
- Steeper decline in the exports than that in imports led to the widening of trade deficit to US$ 48.3 billion during Q2 from 44.5 billion during the corresponding quarter previous year.
- During Q2, net services receipts recorded a rise of 11.4 per cent (year-on-year), led by software, construction, information services, business services.
- Net receipts under secondary income (private transfers) recorded a moderate increase of 2.9 per cent during the quarter and were partly offset by the net outflow under primary income (investment income).
- Notwithstanding a reasonable increase in net services receipts, net invisibles earnings could finance only a lower proportion of trade deficit as net 'primary and secondary' income flows were relatively smaller. Consequently, the CAD worsened to US$ 22.3 billion in Q2 of 2012-13 as compared to US$ 16.4 billion in the preceding quarter and US$ 18.9 in Q2 of 2011-12.
- As a proportion of GDP, CAD during Q2 of 2012-13 worked out to 5.4 per cent as compared with 4.2 in Q2 of the previous year.
- Despite the surge in net inflows under the financial account (excluding changes in reserves) during Q2 of 2012-13 led by foreign direct investment (FDI) and portfolio investment, there was a marginal drawdown of reserves by US $ 0.2 billion during the quarter, mainly due to the higher level of current account deficit.

Highlights of BoP during April-September (H1) of 2012-13

- In H1 (April-September) of 2012-13, CAD was higher at US$ 38.7 billion as compared to US$ 36.3 billion in the same period of the previous year. As a proportion of GDP, CAD rose sharply to 4.6 per cent in H1 of 2012-13 from 4.0 per cent in H1 of the previous year reflecting slowdown in GDP and a significant depreciation in rupee.
- Net inflows under the financial account were lower during April-September 2012 over the corresponding period of previous year mainly due to decline in FDI, external commercial borrowings (ECBs) and banking capital.
- Moderation in capital inflows coupled with continued elevated level of CAD led to only a marginal accretion of US$ 0.4 billion in the foreign exchange reserves during April-September 2012.

1. Balance of Payments for July-September (Q2) of 2012-13

The major items of the BoP for the second quarter (Q2) of 2012-13 are set out below in Table 1.

Goods Trade

With a steeper decline in exports relative to imports, the trade deficit widened further in the Q2 of 2012-13.

- On a BoP basis, India's merchandise exports at US$ 69.8 billion recorded a decline of 12.2 per cent (year-on-year) during Q2 of 2012-13 as against an increase of 45.3 per cent in the same quarter last year.
- On a BoP basis, merchandise imports also witnessed a decline of 4.8 per cent during Q2 as against an increase of 38.1 per cent last year.
- Trade deficit in absolute terms rose to US$ 48.3 billion in Q2 of 2012-13 as compared with US$ 44.5 billion during Q2 of 2011-12.

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

(US$ Billion)

	Jul-Sep 2012 (P)			Jul-Sep 2011 (PR)			Apr-Sep 2012 (P)			Apr-Sep 2011 (PR)		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
A. Current Account (1+2+3+4)	124.4	146.7	-22.3	131.2	150.1	-18.9	255.5	294.2	-38.7	261.7	298.0	-36.3
1. Goods	69.8	118.2	-48.3	79.6	124.1	-44.5	146.5	237.2	-90.7	158.3	247.7	-89.4
2.Services	34.8	19.2	15.6	32.3	18.3	14.0	69.6	40.0	29.6	66.0	35.7	30.3
3. Primary Income	2.8	8.4	-5.6	3.1	7.0	-4.0	5.0	15.5	-10.5	5.6	13.2	-7.6
4. Secondary Income	16.9	0.8	16.1	16.2	0.6	15.6	34.4	1.5	32.9	31.7	1.3	30.4
B. Capital Account	0.2	0.5	-0.3	0.4	0.2	0.2	0.3	0.8	-0.5	0.5	0.5	-0.03
C. Financial Account	110.0	85.7	24.2	117.4	98.4	19.0	219.6	179.7	39.9	246.1	208.4	37.7
D. Errors & Omissions (A+B-C)			-1.6			-0.4			-0.7			1.3

Changes in Reserve Assets are included under the Financial Account as recommended by the BPM 6.
Note: Total of subcomponents may not tally with aggregate due to rounding off.
P: Preliminary; PR: Partially Revised

Services and Income Flows

During Q2 of 2012-13, net services receipts were higher than that in the same quarter of the previous year. On the other hand, net income flows during the quarter were lower as increase in remittances was more than offset by the larger net outflows on account of primary income over the corresponding quarter of previous year (Table 2).

- Services exports recorded a lower growth of 7.7 per cent to US$ 34.8 billion in Q2 of 2012-13 as compared with 10.1 per cent in the same period of 2011-12 primarily due lower growth in receipts under transports, travel, insurance & pension, and software services.
- On the other hand, services imports during Q2 of 2012-13 witnessed a higher growth of 5.0 per cent to US$ 19.2 billion as compared with a growth of 2.7 per cent in the same period of 2011-12 mainly led by transport, software and other business services.
- Net outflow on account of primary income in Q2 of 2012-13 at US$ 5.6 billion was significantly higher than the level recorded during the same period of 2011-12. Receipts on account of investment income declined by 13.3 per cent as against an increase of 12.8 per cent in the corresponding quarter while investment income payments recorded an increase of 20.4 per cent (decline of 1.7 per cent in Q2 of 2011-12) mainly on account of higher interest payments.

Table 2: Disaggregated Items of Current Account

(US$ Billion)

	Jul-Sep 2012 (P)	Jul-Sep 2011 (PR)	Apr-Sep 2012 (P)	Apr-Sep 2011 (PR)
1. Goods	**-48.3**	**-44.5**	**-90.7**	**-89.4**
2. Services	**15.6**	**14.0**	**29.6**	**30.3**
2.a Transport	0.3	0.9	0.9	1.2
2.b Travel	1.0	0.7	1.4	0.9
2.c Construction	-0.01	-0.2	-0.1	-0.1
2.d Insurance and pension services	0.3	0.2	0.5	0.5
2.e Financial Services	0.2	-0.6	0.1	-1.0
2.f Charges for the use of intellectual property	-1.0	-0.6	-1.8	-1.2
2.g Telecommunications, computer and information services	15.8	13.7	31.1	28.2
2.h Personal, cultural and recreational services	0.1	0.04	0.1	0.05
2.i Government goods & services	-0.02	-0.03	-0.03	-0.1
2. j Other Business services	0.4	-0.2	-0.2	-0.5
2.k Others *n.i.e*	-1.3	0.1	-2.3	2.4
3. Primary Income	**-5.6**	**-4.0**	**-10.5**	**-7.6**
3.a Compensation of Employees	0.3	0.2	0.5	0.4
3.b Investment Income	-6.0	-4.4	-11.1	-8.3
4. Secondary Income	**16.1**	**15.6**	**32.9**	**30.4**
4.a Personal Transfers	15.5	15.1	31.6	29.4
4.b Other Transfers	0.6	0.5	1.3	1.0
5. Current Account (1+2+3+4)	**-22.3**	**-18.9**	**-38.7**	**-36.3**

Note: Total of subcomponents may not tally with aggregate due to rounding off.
P: Preliminary; PR: Partially Revised

- Secondary income (on net basis), reflecting mainly the remittances from overseas Indians, at US$ 16.1 billion recorded a moderate growth of 2.9 per cent during Q2, much lower than that of 20.4 per cent in Q2 of 2011-12.

Current Account Balance

- Notwithstanding a reasonable increase in net services receipts, net invisibles earnings could finance only a lower proportion of trade deficit as net 'primary and secondary' income flows were relatively smaller. Consequently, the CAD worsened to US$ 22.3 billion in Q2 of 2012-13 as compared to US$ 16.4 billion in the preceding quarter and US$ 18.9 billion in Q2 of 2011-12.

Capital Account

- The capital account, which includes, *inter alia*, official transfers, 'net acquisition of non-produced non-financial assets' and 'other capital receipts including migrant transfers' showed a small outflow of US$ 0.3 billion on a net basis in Q2 of 2012-13.

Financial Account

The net inflow under the financial account excluding change in reserves was significantly higher during Q2 of 2012-13 mainly on account of pickup in FDI and turnaround in FII inflows (Table 3). With lower inflows under ECBs and external assistance, there has been a distinct shift towards equity flows which financed more than two-thirds of CAD during Q2 of 2012-13 (28.3 per cent in Q2 of 2011-12).

- Net financial inflows excluding changes in reserves rose to US$ 24.0 billion during Q2 of 2012-13 (US$ 19.3 billion during Q2 in previous year). This was mainly on account of net portfolio inflows of US$ 7.6 billion during Q2 of 2012-13 as against an outflow of US$ 1.4 billion in Q2 of 2011-12.

- Net FDI inflows to India (inward FDI minus outward FDI) at US$ 8.9 billion also witnessed an improvement during Q2 of 2012-13 as compared to net inflow of US$ 6.5 billion in Q2 of 2011-12.

- Net external loans availed by banks stood at US$ 2.0 billion in Q2 of 2012-13 as compared with an inflow of US$ 3.9 billion in Q2 of 2011-12 mainly due to repayments of overseas borrowings by the banks.

- 'Net external loans availed by non-Government and non-banking sectors', *i.e.*, net ECBs stood lower at US$ 1.4 billion as compared to US$ 4.7 billion in Q2 of 2011-12 mainly due to lower disbursal during the quarter.

Table 3: Disaggregated Items of Financial Account

(US$ Billion)

	Jul-Sep 2012 (P)	Jul-Sep 2011 (PR)	Apr-Sep 2012 (P)	Apr-Sep 2011 (PR)
1. Direct Investment (net)	**8.9**	**6.5**	**12.8**	**15.7**
1.a Direct Investment to India	10.3	9.5	16.2	21.9
1.b Direct Investment by India	-1.4	-3.0	-3.4	-6.1
2. Portfolio Investment	**7.6**	**-1.4**	**5.6**	**0.9**
2.a Portfolio Investment in India	7.9	-1.6	6.2	0.9
2.b Portfolio Investment by India	-0.3	0.2	-0.6	-0.02
3. Other investment	**7.9**	**14.2**	**22.7**	**26.8**
3.a Other equity (ADRs/GDRs)	0.1	0.2	0.2	0.5
3.b Currency and deposits	3.5	3.1	9.9	4.3
Deposit-taking corporations, except the central bank: (NRI Deposits)	2.8	2.8	9.4	3.9
3.c Loans*	3.3	9.5	6.7	24.5
3.c.i Loans to India	3.6	8.9	7.0	23.9
Deposit-taking corporations, except the central bank	2.0	3.9	5.0	15.4
General government (External Assistance)	0.1	0.3	0.1	0.7
Other sectors (ECBs)	1.4	4.7	1.8	7.7
3.c.ii Loans by India	-0.3	0.6	-0.2	0.6
General government (External Assistance)	-0.1	-0.04	-0.1	-0.1
Other sectors (ECBs)	-0.2	0.6	-0.1	0.7
3.d Trade credit and advances	4.1	2.9	9.5	5.9
3.e Other accounts receivable/payable – other	-3.0	-1.5	-3.6	-8.4
4. Financial Derivatives	**-0.3**	**-**	**-0.8**	**-**
5. Reserve assets	**0.2**	**-0.3**	**-0.4**	**-5.7**
Financial Account (1+2+3+4+5)	**24.2**	**19.0**	**39.9**	**37.7**

Note: Total of subcomponents may not tally with aggregate due to rounding off.
P: Preliminary; PR: Partially Revised
*: includes External Assistance, ECBs, non-NRI Banking Capital and short term trade credit.

- Net inflows under 'trade credit & advances' at US$ 4.1 billion during Q2 of 2012-13 stood higher than the previous year level of US$ 2.9 billion reflecting larger proportion of imports financed by trade credit.
- There was a marginal drawdown of foreign exchange reserves (on a BoP basis) of US$ 0.2 billion during Q2 of 2012-13. However, the foreign exchange reserves (including valuation changes) increased by US$ 5.1 billion during the quarter, reflecting depreciation of the US dollar against major international currencies.

2. Balance of Payments for April-September (H1) of 2012-13

Trade in Goods & Services

- During April-September 2012, exports recorded a sharper decline of 7.4 per cent relative to the imports (4.3 per cent) leading to widening trade deficit. The commodity-wise data released by the DGCI&S indicates that exports declined mainly on account of items such as engineering goods, jems & jewellery and petroleum products. While decline in imports was witnessed mainly under items like 'gold & silvers', 'pearls, precious & semi precious stones', and electronic goods.
- Decline in imports was on account of lower growth in oil imports which may be partly reflected the impact of decline in the price of the Indian crude oil basket over the same period of previous year.
- Growth in exports of services moderated to 5.4 per cent during April-September 2012 from 21.5 per cent during April-September 2011. (Table 2).
- Net computer services receipts were US$ 30.6 billion during H1 of 2012-13 as against US$ 28.3 billion in the corresponding period of previous year.
- On a net basis, the services surplus recorded a marginal decline of 2.3 per cent to US$ 29.6 billion in April-September 2012 from US$ 30.3 billion in the corresponding period a year ago.

Primary Income

- Primary income mainly comprises compensation of employees, investment income and other primary receipts. Investment income receipts declined by 19.4 per cent to US$ 3.1 billion during H1 of 2012-13 reflecting lower level of interest rate abroad. Investment income payments rose by 17.0 per cent to US$ 14.2 billion during H1 of 2012-13 on account of rising external liabilities.

Secondary Income

- Net secondary income receipts that primarily comprise personal transfers increased by 8.2 per cent to US$ 32.9 billion during H1 of 2012-13 (US$ 30.4 billion a year ago).

Current Account Balance

- With a moderate growth in remittances along with slowdown in services and rise in net outflows under investment income, net invisibles posted a marginal decline during H1 of 2012-13 over the same period of the previous year. This, coupled with a higher trade deficit, led to an increase in CAD to US$ 38.7 billion in H1 of 2012-13 as compared to US$ 36.3 billion in the corresponding period of the previous year. As a proportion to GDP, CAD widened sharply to 4.6 per cent in H1 of 2012-13 from 4.0 per cent during same period of previous year.

Capital & Financial Account

- Both gross inflows and outflows under the financial account were lower in H1 of 2012-13 as compared with those in the same period a year ago.
- In net terms also, financial inflows declined to US$ 40.3 billion in H1 of 2012-13 as against 43.4 billion in H1 of 2011-12.

- The other receivables and payables that recorded a net outflow of US$ 3.6 billion during H1 of 2012-13 include leads and lags in exports, net funds held abroad, advances received pending issues of shares under FDI and miscellaneous capital receipts.
- Net accretion to reserves (on a BoP basis) during H1 of 2012-13 ay 0.4 billion was substantially lower as compared to H1 of previous year.

3. External Debt for the Quarter ending September 2012

As per the existing practice, the external debt for the quarters ending March and June are compiled and released by the Reserve Bank of India, while the external debt for quarters ending September and December are compiled and released by the Ministry of Finance, Government of India. Accordingly, the data on external debt for the quarter ending September 2012 are being released by the Ministry of Finance, Government of India. The same can be accessed at http://finmin.nic.in

Alpana Killawala
Chief General Manager

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