प्रेस प्रकाशनी PRESS RELEASE

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December 2, 2013

Developments in India's Balance of Payments during the Second Quarter (July-September) of 2013-14

Preliminary data on India's balance of payments (BoP) for the second quarter (Q2), *i.e.*, July-September 2013, of the financial year 2013-14, are now available and presented in Statements I and II. While Statement I presents BoP data in BPM6 format, Statement II provides the same as per the old format.

Developments in India's BoP during July-September 2013

- India's current account deficit (CAD) narrowed sharply to US$ 5.2 billion (1.2 per cent of GDP) in Q2 of 2013-14 from US$ 21.0 billion (5.0 per cent of GDP in Q2 of 2012-13), also much lower than 4.9 per cent of GDP in Q1 of 2013-14. The lower CAD was primarily on account of a decline in the trade deficit as merchandise exports picked up and imports moderated, particularly gold imports.
- On a BoP basis, merchandise exports increased by 11.9 per cent to US$ 81.2 billion in Q2 of 2013-14 on the back of significant growth especially in the exports of 'textile and textile products', 'leather & leather products' and chemicals.
- On the other hand, merchandise imports at US$ 114.5 billion, recorded a decline of 4.8 per cent in Q2 of 2013-14 as compared with a decline of 3.0 per cent in Q2 of 2012-13, primarily led by a steep decline in gold imports,which amounted to US$ 3.9 billion as compared to US$ 16.4 billion in Q1 of 2013-14 and US$ 11.1 billion in Q2 of 2012-13.
- As a result, the merchandise trade deficit (BoP basis) contracted to US$ 33.3 billion in Q2 of 2013-14 from US$ 47.8 billion a year ago.
- Net invisibles during Q2 of 2013-14 improved, essentially reflecting a rise in net services exports. Net services at US$ 18.4 billion recorded a growth of 12.5 per cent in Q2 of 2013-14 (y-o-y) mainly on account of 'computer services'.
- Net outflow on account of primary income (profit, dividend and interest) amounting to US$ 6.3 billion in Q2 of 2013-14 was higher than that in the preceding quarter (US$ 4.8 billion) as well as the corresponding quarter (US$ 5.6 billion) of 2012-13. Gross transfers receipts at US$ 17.3 billion showed an increase of 2.6 per cent (y-o-y).
- While foreign direct investment recorded net inflows of US$ 6.9 billion in Q2 of 2013-14, net portfolio investment registered an outflow of US$ 6.6 billionin the wake of indication given by US Federal Reserve about the tapering of its quantitative easing programme.There was a marginal net outflow of US$ 0.8 billion under equities while the debt component of net FII flows recorded a higher outflow of US$ 5.7 billion.
- 'Loans'(net) availed by deposit taking corporations (commercial banks)witnessed an outflow of US$ 6.7 billion in Q2 of 2013-14 owing to repayments of overseas borrowings and a build-up of their overseas foreign currency assets. Under 'currency & deposits', net inflows of NRI deposits amounted to US$ 8.3 billion in Q2 of 2013-14

as compared to US$ 2.8 billion in the corresponding quarter of 2012-13. Loans (net) availed by others (ECBs) at US$1.3 billion, however, showed an increase of 8.8 per cent over the same quarter of the preceding year. Trade credits and advances recorded a decline mainly on account of higher repayments.

- On a BoP basis, there was a drawdown of foreign exchange reserves of US$ 10.4 billion in Q2 of 2013-14 as compared to that of US$ 0.2 billion in Q2 of 2012-13 (Table 1).

Developments in India's BoP during April-September 2013

- The turnaround in export growth and decline in imports from July 2013 onwards led to a sharp improvement in the trade deficit to US$ 83.8 billion in H1 of 2013-14 from US$ 91.6 billion in H1 of 2012-13.
- Contraction in the trade deficit coupled with a rise in net invisibles receipts resulted in a reduction of the CAD to US$ 26.9 billion (3.1 per cent of GDP) in H1 of 2013-14 from US$ 37.9 billion (4.5 per cent of GDP) in H1 of 2012-13.
- Net inflows under the capital and financial account (excluding change in foreign exchange reserves) declined to US$ 15.1 billion in H1 of 2013-14 from US$ 37.0 billion in H1 of 2012-13 owing to net outflows of portfolio investment.
- Notwithstanding a lower CAD during H1 of 2013-14, there was a drawdown of foreign exchange reserve to the tune of US$ 10.7 billion as against an accretion of US$ 0.4 billion in H1 of 2012-13 mainly due to a decline in net capital inflows under the financial account.

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

(US$ Billion)

	Jul - Sep 2013 (P)			Jul - Sep 2012 (PR)			Apr-Sep 2013 (P)			Apr-Sep 2012 (PR)		
	Credit	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**
A Current Account	**138.3**	**143.5**	**-5.2**	**127.3**	**148.3**	**-21.0**	**269.3**	**296.2**	**-26.9**	**257.7**	**295.6**	**-37.9**
1. Goods	81.2	114.5	-33.3	72.6	120.4	-47.8	155.2	238.9	-83.8	147.6	239.2	-91.6
Of which:												
POL	17.9	41.0	-23.1	14.2	40.7	-26.4	32.0	83.0	-51.0	27.5	80.0	-52.5
2.Services	36.7	18.3	18.4	35.0	18.7	16.3	73.2	37.9	35.2	70.8	39.5	31.3
3. Primary Income	3.1	9.4	-6.3	2.8	8.4	-5.6	5.6	16.8	-11.2	5.0	15.4	-10.5
4. Secondary Income	17.3	1.2	16.1	16.9	0.8	16.1	35.3	2.6	32.8	34.4	1.5	32.9
B. Capital Account and Financial Account	**130.7**	**125.8**	**5.0**	**109.9**	**89.1**	**20.8**	**265.7**	**239.9**	**25.8**	**219.4**	**182.8**	**36.6**
Of which:												
Change in Reserve (Increase (-)/Decrease (+))	10.4		10.4	0.2		0.2	10.7		10.7		0.4	-0.4
C. Errors & Omissions (-)(A+B)			0.2			0.2			1.1			1.3

P: Preliminary; PR: Partially Revised.

Note: Total of sub-components may not tally with aggregate due to rounding off.

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Press Release : 2013-2014/1112