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वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001
DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

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Developments in India's Balance of Payments during the Fourth Quarter (January-March) of 2011-12

Preliminary data on India's balance of payments (BoP) for the fourth quarter (Q4), *i.e.*, January-March, of the financial year 2011-12, are now available. They are set out in Statement I in the revised format as recommended by IMF in its *Sixth Edition* of BoP Manual. These data as per the old format are also given in Statement II.

Highlights of BoP during January-March (Q4) of 2011-12

The stress witnessed in India's BoP in Q3 continued during Q4 of 2011-12 as well due to large increase in imports. While capital inflows improved reflecting significant increase in portfolio investment and non-resident deposits, they fell short of financing requirements, resulting in a drawdown of foreign exchange reserves. The trade deficit during the fourth quarter exceeded US$ 50 billion (10.6 per cent of GDP) and CAD rose to US$ 21.7 billion (4.5 per cent of GDP).

- On a BoP basis, growth in merchandise exports (y-o-y) decelerated sharply to 3.4 per cent during Q4 of 2011-12 from 46.9 per cent during the corresponding quarter of 2010-11.
- Imports registered a growth of 22.6 per cent during Q4 of 2011-12 as compared with 27.7 per cent in the corresponding quarter of the preceding year.
- With export growth remaining substantially lower than import growth, the trade deficit widened to US$ 51.6 billion in Q4 of 2011-12 as compared with US$ 30.0 billion in Q4 of 2010-11.
- Growth in net services exports in Q4 of 2011-12 also decelerated to 21.1 per cent as compared to 72.0 per cent in Q4 of 2010-11.
- As a result of the falling exchange rate, net secondary income (private transfers) receipts rose significantly by 24.0 per cent (y-o-y) to US$ 16.9 billion in Q4 of 2011-12 as compared with US$ 13.6 billion in Q4 of 2010-11.
- The primary income account (mainly investment income) showed a net outflow of US$ 4.6 billion in Q4 of 2011-12, broadly the same as in the corresponding quarter of the previous year.
- Consequently, the current account deficit (CAD) widened to US$ 21.7 billion in Q4 of 2011-12 which works out to 4.5 per cent of GDP (US$ 6.3 billion in Q4 of 2010-11 *i.e.*, 1.3 per cent of GDP).
- Capital and Financial account (excluding change in foreign exchange reserves), on a net basis, recorded a higher inflow of US$ 16.5 billion in Q4 of 2011-12 as compared with US$ 9.1 billion in Q4 of 2010-11.
- Despite significant improvement in the capital inflows in Q4 of 2011-12, there was a drawdown of foreign exchange reserves of US$ 5.7 billion (excluding valuation) as against an increase of US$ 2.0 billion in the corresponding quarter of 2010-11, mainly because of the deterioration in the current account.

Highlights of BoP FY 2011-12

- In 2011-12, the CAD rose to US$ 78.2 billion (4.2 per cent of GDP) from US$ 46.0 billion (2.7 per cent of GDP) in 2010-11, largely reflecting higher trade deficit on account of subdued external demand and relatively inelastic imports of POL and gold & silver.
- Net inflows under Capital and Financial account (excluding changes in reserve assets) were higher at US$ 67.8 billion during 2011-12 as compared with US$ 62.0 billion during 2010-11. However, there was a drawdown of reserves to the extent of US$ 12.8 billion during the year as against an accretion of US$ 13.1 billion in 2010-11.

1. Balance of Payments for January-March (Q4) of 2011-12

The major items of the BoP for Q4 of 2011-12 and for the full year 2011-12 are set out in Table 1.

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

(US$ Billion)

	Fourth Quarter January-March		Full Year April-March	
	2011 (PR)	2012 (P)	2010/11 (PR)	2011/12 (P)
1. Goods exports	77.4	80.0	250.6	309.8
2. Goods Imports	107.4	131.7	381.1	499.5
3. Trade Balance(1-2)	-30.0	-51.6	-130.4	-189.7
4. Services Exports	35.3	37.7	131.7	140.9
5. Services Imports	20.7	20.0	83.0	76.9
6. Net Services (4-5)	14.6	17.7	48.7	64.0
7. Goods & Services Balances (3+6)	-15.4	-34.0	-81.8	-125.7
8. Primary Income, Net (Compensation of employees and Investment Income)	-4.5	-4.6	-17.3	-16.0
9. Secondary Income, Net (Private Transfers)	13.6	16.9	53.1	63.5
10. Net Income (8+9)	9.1	12.3	35.8	47.5
11. Current Account Balance (7+10)	-6.3	-21.7	-46.0	-78.2
12. Capital and Financial Account Balance, Net (Excl. change in reserves)	9.1	16.5	62.0	67.8
13.Change in Reserves (-)increase/(+)decrease	-2.0	5.7	-13.1	12.8
14. Errors & Omissions (-)(11+12+13)	-0.8	-0.6	-3.0	-2.4
P: Preliminary; PR: Partially Revised				

Goods Trade

- On a BoP basis, growth in merchandise exports (y-o-y), decelerated sharply to 3.4 per cent during Q4 of 2011-12 as compared to 46.9 per cent in the same quarter of previous year.
- Despite the slowdown in economic activity and rupee depreciation, growth in merchandise imports moderated only mildly from 27.7 per cent in Q4 of 2010-11 to 22.6 per cent in Q4 of 2011-12, reflecting inelastic demand for gold and oil. The non-oil non-gold segment of imports however grew by 15.4 per cent, much lower than the 26.1 per cent in Q4 of the previous year.
- As import growth was faster than the export growth, the trade deficit increased to US$ 51.6 billion in Q4 of 2011-12 (10.6 per cent of GDP) as compared with US$ 30.0 billion in Q4 of 2010-11, showing a y-o-y rise of around 72 per cent.

Table 2: Disaggregated Items of Current Account (net) (US$ Billion)				
	Fourth Quarter January-March		Full Year April-March	
	2011 (PR)	2012 (P)	2010/11 (PR)	2011/12 (P)
1. Goods	**-30.0**	**-51.6**	**-130.4**	**-189.7**
2. Services	**14.6**	**17.7**	**48.7**	**64.0**
2.a Transport	0.9	0.4	0.4	1.8
2.b Travel	1.3	2.2	4.2	4.7
2.c Construction	-0.2	-0.1	-0.5	-0.2
2.d Insurance and pension services	0.3	0.3	0.5	1.1
2.e Financial Services	-0.4	-0.4	-1.0	-2.0
2.f Charges for the use of intellectual property	-0.5	-0.9	-2.2	-2.9
2.g Telecommunications, computer and information services	15.5	16.7	53.8	60.7
2.h Personal, cultural and recreational services	-0.1	0.05	-0.3	0.1
2.i Government goods & services	-0.1	-0.2	-0.3	-0.3
2. j Other Business services	-0.9	-0.2	-3.9	-0.9
2.k Others *n.i.e*	-1.3	-0.2	-2.1	1.9
3. Primary Income	**-4.5**	**-4.6**	**-17.3**	**-16.0**
3.a Compensation of Employees	-0.2	0.01	-0.9	0.5
3.b Investment Income	-4.3	-4.6	-16.4	-16.5
4. Secondary Income	**13.6**	**16.9**	**53.1**	**63.5**
4.a Personal Transfers	13.1	16.4	51.5	61.5
4.b. Other Transfers	0.5	0.4	1.6	2.0
5. Current Account (1+2+3+4)	**-6.3**	**-21.7**	**-46.0**	**-78.2**
Note: Total of subcomponents may not tally with aggregate due to rounding off. P: Preliminary; PR: Partially Revised				

Services and Income Flows

- During the quarter, while growth in services receipts on y-o-y basis, moderated to 6.7 per cent (27.4 per cent in Q4 of 2010-11), services payments declined by 3.4 per cent largely on account of contraction in payments of financial services. Net services exports amounted to US$ 17.7 billion (US$ 14.6 billion in Q4 of 210-11), contributed mainly by software services.
- Under the primary income account, there has been a net outflow of US$ 4.6 billion during the quarter, marginally higher than in Q4 of 2010-11. This essentially reflects the combined effect of lower earnings on the foreign exchange reserves and rising interest payments on growing external debt.
- Secondary income (on a net basis), reflecting mainly the remittances from overseas Indians, recorded a sharp increase of 24.0 per cent during the quarter (8.1 per cent in Q4 of 2010-11), largely responding to fall in rupee value.
- On account of larger trade deficit, the CAD rose sharply to US$ 21.7 billion in Q4 from US$ 6.3 billion in Q4 of 2010-11 (Table 2). At this level, CAD worked out to 4.5 per cent of GDP (highest ever) in Q4 of 2011-12 as compared with 1.3 per cent a year ago.

Capital and Financial Account

- With the revival in inflows under portfolio investment and Non-Resident Indian Deposits, net financial flows (excluding reserve assets) amounted to US$ 16.5 billion in Q4 of 2011-12 (US$ 9.1 billion in Q4 of previous year) (Table 3). This partly reflects the deregulation of the interest rate on non-resident rupee deposits.

- While net FDI inflows to India (inward FDI minus outward FDI) increased marginally to US$ 1.4 billion, rising risk aversion and deleveraging in global financial markets seem to have impacted the availability of commercial borrowings and trade credits. Under loans, there was a net outflow of US$ 0.03 billion during the quarter as against a net inflow of US$ 1.0 billion in Q4 of 2010-11. It was mainly reflected in repayments of overseas borrowings and build up of foreign currency assets by banks. Similarly, net inflows under short-term trade credits fell to mere US$ 0.2 billion during the quarter under reference as against an inflow of US$ 2.7 billion in Q4 of 2010-11.
- Widening current account deficit and inadequate capital flows resulted in a net drawdown of foreign exchange reserves to the extent of US$ 5.7 billion during Q4 of 2011-12 as against a reserve build-up of US$ 2.0 billion in Q4 of 2010-11.

Table 3: Disaggregated Items of Financial Account

(US$ Billion)

	Fourth Quarter January-March		Full Year April-March	
	2011 (PR)	2012 (P)	2010/11 (PR)	2011/12 (P)
1. Direct Investment (net)	**1.1**	**1.4**	**9.4**	**22.1**
1.a Direct Investment to India	5.5	4.2	25.9	33.0
1.b Direct Investment by India	-4.4	-2.9	-16.5	-10.9
2. Portfolio Investment	**-0.01**	**13.9**	**28.2**	**16.6**
2.a Portfolio Investment in India	-0.03	14.1	29.4	16.8
2.b Portfolio Investment by India	0.02	-0.2	-1.2	-0.2
3. Other investment	**8.1**	**1.4**	**24.4**	**29.2**
3.a Other equity (ADRs/GDRs)	0.2	0.03	2.0	0.6
3.b Currency and deposits	2.0	4.6	3.8	12.1
Deposit-taking corporations, except the central bank: (NRI Deposits)	0.9	4.7	3.2	11.9
3.c Loans*	1.0	-0.03	18.6	16.8
3.c.i Loans to India	0.7	-0.02	18.3	15.7
Deposit-taking corporations, except the central bank	-2.7	-2.6	1.2	4.1
General government (External Assistance)	0.8	0.3	5.0	2.5
Other sectors (ECBs)	2.7	2.3	12.2	9.1
3.c.ii Loans by India	0.3	-0.01	0.3	1.0
General government (External Assistance)	-0.01	-0.04	-0.03	-0.2
Other sectors (ECBs)	0.3	0.0	0.3	1.2
3.d Trade credit and advances	2.7	0.2	11.0	6.7
3.e Other accounts receivable/payable – other	2.2	-3.3	-11.1	-6.9
4. Reserve assets	**-2.0**	**5.7**	**-13.1**	**12.8**
Financial Account (1+2+3+4)	**7.1**	**22.4**	**48.9**	**80.7**

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.

2. Balance of Payments for April-March, 2011-12

Goods Trade

- During the financial year 2011-12, while growth in exports decelerated sharply to 23.6 per cent (37.5 per cent in 2010-11), imports grew by 31.1 per cent as compared with 26.7 per cent in the previous year, mainly reflecting higher imports of POL and gold & silver.
- Imports of oil, which grew by 46.9 per cent, and of precious metals which grew by 49.4 per cent, together contributed nearly 45 per cent of total imports during the year. Notably, international price of the Indian basket of crude oil increased from US$ 85.1 per barrel in 2010-11 to US$ 111.9 per barrel in 2011-12.
- Consequently, the trade deficit widened to US$ 189.7 billion in 2011-12 from US$ 130.4 billion in 2010-11.

- As regards services, decline in imports along with moderate growth in exports led to increase in net surplus by around 32 per cent. The surplus was primarily on account of transport, travel, insurance, financial services and ‘telecommunication, computer & information services’ (Table 2).

Primary Income

- In net terms, investment income remained in deficit with an outflow of US$ 16.5 billion almost same as in the previous year. However, compensation of employees witnessed a turn around and recorded a small surplus of US$ 0.5 billion during the year.

Secondary Income

- Secondary income receipts primarily consisting of private transfers increased by 18.9 per cent to US$ 66.1 billion during 2011-12 from US$ 55.6 billion during the previous year, which, among other factors, could be attributed to depreciation of rupee.

Current Account Balance

- During the year, CAD widened to the highest ever level both in absolute terms and as a proportion of GDP. The CAD at US$ 78.2 billion was 4.2 per cent of GDP in 2011-12 as compared with US$ 46.0 billion or 2.7 per cent of GDP during the previous year. The rise in CAD-GDP ratio was also resulted from slower GDP growth and its contraction in dollar terms due to depreciation of rupee.

Capital and Financial Account

- FDI inflows and NRI deposits, in net terms, were higher at US$ 22.1 billion and US$ 11.9 billion, respectively, while portfolio net flows slowed down to US$ 16.6 billion in 2011-12.
- Net inflows under Capital and Financial account (excluding change in foreign exchange reserves) were higher at US$ 67.8 billion during the year 2011-12 as compared with US$ 62.0 billion in the previous year.
- During the year, there was a net drawdown of reserves (on a BoP basis) to the extent of US$ 12.8 billion as compared to a net accretion of US$ 13.1 billion recorded during the previous year.

3. External Debt for the Quarter ending March 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 March 2012 are being released by the Reserve Bank of India. The same can be accessed at www.rbi.org.in .

Alpana Killawala
Press Release : 2011-2012/2101 Chief General Manager