

## Balance of Payments

6.6 The growing strength of India's Balance of Payments (BoP) observed in the post-reform period since the crisis of 1991 continued in 2005-06. This growing strength was in spite of a widening of the current account deficit from US\$2.5 billion in 2004-05 to US \$ 9.2 billion, equivalent to 1.1 per cent of GDP, in 2005-06 (Table 6.2). With a burgeoning trade deficit, primarily on account of rising oil prices, the reversal from current account surpluses witnessed between 2001-02 and 2003-04 to a current account deficit in 2004-05 appears to be continuing into 2006-07 so far.

6.7 Rising foreign investment, both direct and portfolio, together with a sharp revival of inflows in non-resident (NR) deposits, in spite of the large repayment of India Millennium Deposits (IMD) under external commercial borrowing, maintained a strong balance in the capital account, and even after financing the

current account deficit, resulted in a reserve accretion of US\$15.1 billion in 2005-06. While reserve accretion in 2005-06 was lower by US\$11.1 billion relative to 2004-05, because of a higher current account deficit (US\$6.7 billion) and a lower capital account balance (US\$4.4 billion), India continued to be among the top nations with high levels of reserves.

6.8 Given such robust external position, RBI had deemed it opportune to revisit the issue of fuller capital account convertibility and constituted a committee headed by Shri. S. S. Tarapore to bring out a roadmap for the purpose. The committee recommended a three-phase strategy for moving towards fuller capital account convertibility (Box 6.2). Though no final view has been taken on acceptance of the recommendations in totality, RBI has initiated measures on an on-going basis beginning with the announcements in its Mid-term Review of the Annual Policy Statement for 2006-07.

**Table 6.2 : Balance of Payments : Summary**

(in US \$ million)

	1990-91	1999-00	2000-01	2001-02	2002-03	2003-04 R	2004-05 R	2005-06 PR	(April-Sept.)	
									2005-06 PR	2006-07 P
1. Exports	18477	37542	45452	44703	53774	66285	85206	105152	49255	60550
2. Imports	27915	55383	57912	56277	64464	80003	118908	156993	76364	95691
3. Trade balance	-9438	-17841	-12460	-11574	-10690	-13718	-33702	-51841	-27109	-35141
4. Invisibles (net)	-242	13143	9794	14974	17035	27801	31232	42655	19949	23458
Non-factor services	980	4064	1692	3324	3643	10144	15426	23881	11726	14298
Income	-3752	-3559	-5004	-4206	-3446	-4505	-4979	-5510	-2278	-2051
Pvt. transfers	2069	12256	12854	15398	16387	21608	20525	24102	10489	11157
Official transfers	461	382	252	458	451	554	260	182	12	54
5. Current account balance	-9680	-4698	-2666	3400	6345	14083	-2470	-9186	-7160	-11683
6. External assistance (net)	2204	891	410	1117	-3128	-2858	1923	1682	409	358
7. Commercial borrowing (net)@	2254	333	4303	-1585	-1692	-2925	5194	2723	2925	5093
8. IMF (net)	1214	-260	-26	0	0	0	0	0	0	0
9. Non-resident deposits (net)	1537	1540	2316	2754	2978	3642	-964	2789	233	2029
10. Rupee debt service	-1193	-711	-617	-519	-474	-376	-417	-572	-142	-67
11. Foreign investment (net)	103	5117	5862	6686	4161	13744	13000	17224	7542	5832
Of which :										
(i) FDI (net)	97	2093	3272	4734	3217	2388	3713	4730	2129	4218
(ii) FII	0	2135	1847	1505	377	10918	8662	9926	4529	-106
(iii) Euro equities & others	6	889	743	447	567	438	625	2568	884	1720
12. Other flows (net)+	2283	3930	-3740	-96	8795	6111	9893	392	2696	7084
13. Capital account total (net)	8402	10840	8508	8357	10640	17338	28629	24238	13663	20329
14. Reserve use (- increase)	1278	-6142	-5842	-11757	-16985	-31421	-26159	-15052	-6503	-8646

R: Revised, PR : Partially Revised, P : Preliminary

@ Figures include receipts on account of India Development Bonds in 1991-92, Resurgent India Bonds in 1998- 99 and India Millennium Deposits in 2000-01 and related repayments, if any, in the subsequent years.

+ Include, among others, delayed export receipts and errors & omissions.

Source : Reserve Bank of India.