

CHAPTER—XVI

NET FACTOR INCOME FROM ABROAD

Coverage

16.1. The net factor income from abroad consists of : (i) net compensation of employees; (ii) net income from property and entrepreneurship (i.e. interest, rent, dividends and profits) and (iii) retained earnings of branches of foreign companies and foreign controlled rupee companies in India. The term 'net' here is conceived as receipts minus disbursements.

16.2. The factor incomes are reckoned in terms of factor incomes of residents abroad and non-residents living in the country. Factor incomes of residents are to be considered as inflows while factor incomes of non-residents are to be considered as outflows. The data for net factor income from abroad are provided by the Balance of Payments Statistics compiled by RBI. For balance of payments purposes, the term 'resident' is defined as a person who ordinarily resides in that country and whose centre of interest lies in the country. It thus covers nationals, non-nationals residing in the country, government agencies and most of the business enterprises and non-profit organisations. International agencies, therefore, are regarded as residents of an international area and not of the country in which they are located.

16.3. In applying the concept of resident in actual practice there arises a large number of border line cases where classification difficulties arise. There is thus a large number of Indians living abroad with an undefined political status. Also, due to partition and similar other situations a large number of refugees migrate from one country to the other. Such borderline cases regarding the determination of centre of interest cause difficulties in determining the balance of payments and net in-flow of factor incomes into the countries.

Methodology and Source Material

Estimates at current prices

16.4. The estimates of net factor income from abroad are based on exchange control data

(quarterly as well as annual) compiled by the Balance of Payments Division of the Economic Department, RBI, in connection with the preparation of India's Balance of Payments Accounts (current and capital). The data on the transactions on (i) property and entrepreneurial income (excluding retained earnings); (ii) retained earnings and (iii) compensation of employees which constitute net factor income from abroad are obtained from the RBI.

Estimates at constant prices

16.5. Because of the deficit nature of the overall net factor income from abroad, the estimates at current prices are deflated by the index of unit value of imports to arrive at the estimates at constant (1970-71) prices.

Reliability, Objectivity and Current Status of Data

16.6. The balance of payments data are collected by the RBI in connection with the Exchange Control, first introduced in this country in the year 1939-40. The information is available with full coverage from July 1947 when the scope was extended to the sterling areas as well.

16.7. The balance of payments data have limitations from national income point of view. Economic transactions which do not get routed through exchange banks or other foreign exchange institutions do not get recorded in balance of payments data<sup>65</sup> compiled by the RBI. Transfers of goods and services which do not give rise to monetary flows are not included in the exchange control records. Retained earnings of branches of foreign companies and foreign controlled rupee companies do not enter balance of payments statistics. Private investments in kind by foreign controlled companies may not get included in exchange control statistics. The extent of evasion of exchange control regulations is not known and cannot be estimated independently.

<sup>65</sup>. Exchange control records are a major source from which information is drawn to compile the balance of payments statistic. These records cover the transactions routed through the authorised dealers. Most of the government transactions however, are not routed through the authorised dealers. Payments for merchandise imports are directly made by the Indian, embassies abroad, which also make payments for non merchandise transactions on government account, including payment of interest on official loans, in addition to receiving some of the foreign loans and grants. In respect of the foreign exchange transactions which are not routed through the authorised dealers, information is therefore, secured by the compilers of the balance of payments statistics from government agencies abroad, the Ministry of Finance and other relevant sources.

16.8. The RBI also faces classificatory difficulties as the details given in the Exchange Control records are not adequate for the compilation of Balance of Payments Accounts. Often one and the same transaction is split under different categories for purpose of classification. On the other hand some of the transactions are recorded on a net basis while they should have been entered on a gross basis<sup>56</sup>.

16.9. Data on retained earnings are available in respect of foreign controlled rupee companies and branches of foreign companies in India. No data are however available in respect of the retained earnings of Indian owned companies abroad. The estimates of retained earnings are, therefore, not completely accounted for in the External Transaction Account <sup>57</sup>.

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<sup>56</sup> All foreign exchange payments, other than those routed through the government need to have the approval of the Reserve Bank of India. At the time of granting the approval, the remitter is required to indicate the purpose of the foreign exchange payment. As such, there is no classificatory problem so far as the payment entries of the balance of payments data is concerned. The exchange control regulations also require the purpose of the foreign exchange receipt to be reported in all cases where the inward receipts are individual amount of Rs. 10,000 or more. However, beneficiaries of the inward remittances in individual amounts of less than Rs. 10,000 are not required to indicate purposewise details of the receipts. On the receipts side, therefore, the classification of inward remittances of individual amounts below Rs. 10,000 creates problems. In order to appropriately classify these amounts in the balance of payments statistics, RBI conducts surveys of unclassified receipts from time to time and the results of these surveys are used to allocate such amounts among the different items of the balance of payments data.

<sup>57</sup> Information on earnings retained by companies and attributable to non resident owners and net indebtedness of branches of foreign companies to their principals are not available in the exchange control records. The detail about the retained earnings of foreign controlled companies and about the net indebtedness of branches of foreign companies non in India are collected through the surveys of India's international investment position conducted by the Reserve Bank from time to time.