

## **CHAPTER 18**

### **NET FACTOR INCOME FROM ABROAD**

#### **Coverage**

18.1 The net factor income from abroad consists of (i) net compensation of employees, and (ii) net income from property and entrepreneurship (i.e., interest, rent, dividend and profit). Here the term 'net' stands for receipts of current income by residents abroad minus disbursements of current income to non-residents in India.

18.2 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 factor incomes from abroad are provided by the Balance of Payments statistics compiled by the RBI. For balance of payments purposes, the term 'resident' is defined as a person or entity who may be expected to consume goods and services, participate in production or engage in other economic activities in the territory on other than temporary basis and whose 'centre of interest' lies in the country's economy. The rule of thumb adopted for determining the resident status of an individual is the stay of one year or more. Thus, residents cover Indian nationals and non-nationals residing in the country for one year or more, government agencies (comprising all departments, establishments and bodies of its Central and State Governments and Embassies and Consulates and other entities of the Government located abroad), business enterprises and non-profit organisations. International agencies are regarded as residents of an international area and not of any country. Embassies, Consulates and other entities of a foreign government are not treated as residents of the country in which they are physically located, but of the country to which they belong.

#### **Methodology and Source material**

##### **Estimates at Current Prices**

18.3 The estimates of net factor income from abroad are based on the balance of payments statistics compiled (on a quarterly as well as annual basis) by the Division of International Finance Department of Economic Analysis and Policy, RBI based on the Exchange Control records supplemented by information furnished by the Government, Government agencies etc. The data on the transactions of (i) property and entrepreneurial income and (ii) compensation of employees, which constitute net factor income from abroad, are obtained from balance of payments records compiled by the RBI. The details of estimation are given in detail in Chapter 24 on Consolidated Accounts of the Nation. The items in the balance of payments table used for estimation of factor incomes and the method of adjustment are also given there.

##### **Estimates at Constant Prices**

18.4 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 (1980-81) prices.

##### **Quality and limitations of Data base**

18.5 The exchange control data have some limitations. Economic transactions which do not get routed through authorised dealers in foreign exchange are not covered in the data reported by the Exchange Control Department. Thus, transfers of goods and services which do not give rise to monetary flows are not included in the exchange control records. This is made good by obtaining the relevant data (for example, foreign aid transactions on a direct settlement basis and foreign exchange transaction of Government agencies abroad)

from the Government and Government agencies as also from financial institutions and companies (i.e., commercial borrowings).

18.6 The RBI faces some difficulties in classification of the details under receipts reported in the exchange control records. On the receipts side beneficiaries of inward remittances of individual amounts of less than Rs. 10,000 are not required to indicate purpose-wise details of the receipts. In order to correctly classify these amounts in the balance of payments statistics, RBI conducts surveys of unclassified receipts (i.e. receipts below Rs.10,000) from time to time and the results of these surveys are used to allocate these amounts among different items of balance of payments data. On the payments side, as the remitter has to give full details of the transaction, such problems do not normally arise.

18.7 Interest payments on deposits held in Non-Resident (External) Rupee Accounts and Foreign Currency (Non-Resident) Accounts are not recorded under factor-income as it is believed that these interest payments would be, for the most part, utilised in India. When funds under these accounts are repatriated abroad they are recorded under capital account and these cover both the principal and interest depending on individual transactions. This treatment is accorded to these transactions because of non-availability of repatriated funds under principal and interest.