

CHAPTER XV

BALANCE OF PAYMENTS AND NET INCOME FROM ABROAD

In this chapter India's international transactions have been presented in a summary form for the period 1950-51 and 1955-56 to 1959-60. Considerable improvements have taken place in the balance of payments statistics since the publication of the Final Report (1954) of the NIC. These have made it possible to revise the estimates for a number of earlier years. The nature of the revision, first introduced in the national income statistics in the year 1958¹, has been discussed in paragraphs 3 and 4 of this chapter.

2. The contribution of the 'rest of the world' sector to national income is reckoned in terms of the net factor incomes received from abroad. 'This flow consists of the net receipts, from the rest of the world, of investment income such as interest, dividends and branch profits, of earnings of residents working abroad and of other factor incomes of normal residents'².

3. The two principal sources of information available on the balance of payments are (i) customs statistics for merchandise transactions compiled and published by the Director General of Commercial Intelligence and Statistics³ and (ii) exchange control statistics compiled by the Reserve Bank of India under the exchange control system⁴ providing continuous record of the foreign exchange transactions of the public. These are published⁵ regularly in the 'Monthly Bulletin of Statistics', and the 'Report on Currency and Finance' by the RBI. Data according to exchange control statistics are, however, given on 'actual payment' basis and not on 'accrual' basis as adopted for compilation of customs statistics; this difference in the basis of valuation explains the major part of the discrepancies between the two sets of data. Other limitations of the exchange control statistics arise partly from unsatisfactory classification of the transactions and partly from non-recording of all the balance of payment transactions. These have been discussed in detail in 'India's Balance of Payments, 1948-49 to 1955-56'. Instances of the latter are barter deals, foreign aid transactions, evasion of exchange control regulations, investment in kind, earnings ploughed back by foreign investors and short-term trade credits. The classificatory difficulties

¹ cf. Estimates of National Income: 1948-49 to 1956-57, March, 1958 (page 25, para 17).

² Methods of National Income Estimation—U.N. Studies in Methods Series F. 8 (page 38).

³ Monthly Statistics of the Foreign Trade of India. Prior to 1957 similar data were published in Accounts Relating to the Sea-borne Trade and Navigation in India and similar accounts relating to inland trade.

⁴ First introduced in India in the year 1939-40 attaining full coverage from July, 1947 when it was extended to the sterling areas as well.

⁵ Other ad hoc RBI publications on the subject are (i) Census of India's Foreign Liabilities and Assets, (ii) India's Balance of Payments: 1948-49 to 1955-56 and other special articles published in various issues of the RBI Bulletin.

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mostly stem from (i) incomplete classification of receipts⁶, (ii) splitting of the same transaction into a number of categories and (iii) recording of the transactions on net basis rather than on gross basis. Defects arising from (i) have, however, been largely removed since the RBI undertook two important surveys⁷ in this regard, viz. the Travel Survey and the Survey of Unclassified Receipts. The usual exchange control treatment of transportation transactions and marine insurance provides fit illustrations of the other two difficulties⁸. Suitable adjustments in the recorded transactions have, however, been made by the RBI by independently estimating the freight and insurance charges on the basis of certain sample studies on the subject, thus providing exports uniformly on an f.o.b. basis. Other improvements effected in the balance of payments statistics relate to treatment of migrant remittances as transfers in the current account under private donations rather than as capital transactions⁹, merging of transactions with Pakistan in the consolidated accounts and presentation of data on financial year basis in a comparatively simpler but more meaningful form. From the national income accounting point of view, however, the present form of accounts does not strictly lend itself to be presented according to the U.N. System of National Accounts and Supporting Tables. At present the balance of payments data published by the RBI are compiled to fulfil their membership obligations to the International Monetary Fund. Accordingly, they are compiled in accordance with the methodology laid down in the Fund's Balance of Payments Manual. A revision of the current procedures to bring them in line with the U.N.'s Standard Tables on International Transactions is at present being considered by the Fund. The RBI, therefore, hope to compile the data along the new lines after the Fund has finally adopted such revisions. The RBI have, on a special request from the NIU, recast their data on the lines of U.N. System of National Accounts and Supporting Tables with certain modifications¹⁰. The data on balance of payments on revised lines obtained from the RBI are set out in Table 15.1. The limitations of the data presented in this table have been best described by the RBI itself and reproduced below :—

4.1.1. 'Current accounts : Figures for 'passenger fares' and 'other transportation' are clubbed under one head 'transportation' for want of details. Except for 'investment income' our records do not distinguish 'factor services' from 'non-factor services'. Investment income alone is, therefore, treated as a 'factor service' and all other service items as 'non-factor services'. It may be pointed out, however, that apart from 'investment income' no other factor services are likely, in our view, to be of any significance in our balance of payments.

⁶ For example the purpose of a transaction amounting to less than Rs. 20,000/- need not be declared; the total magnitude of such transaction has been estimated at Rs. 50 crores a year by the RBI.

⁷ Travel Survey is undertaken on a continuous basis since 1952 whereas the other survey was undertaken for the quarter July-September, 1955 as the reference period.

⁸ These are discussed in India's Balance of Payments, 1948-49 to 1955-56.

⁹ Prior to 1953, they were treated as capital transactions; to this extent earlier estimates are not strictly comparable with estimates for later years in current or capital accounts either.

¹⁰ An explanatory statement setting out the various balance of payments categories against each of the items of U.N. form, is reproduced in Appendix 15.1.

Balance of Payments and Net Income from Abroad

TABLE 15.1. BALANCE OF INTERNATIONAL TRANSACTIONS
1950-51 and 1955-56 to 1959-60
(at current prices)

in Rs. crores

items	1950-51	1955-56	1956-57	1957-58	1958-59	1959-60†
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>current receipts :</i>						
1. exports of goods and non-factor services						
a) exports, f.o.b.	646.8	640.2	635.2	668.5*	575.9	623.3
b) passenger fares and transportation n.e.s.	30.1	38.3	46.2	47.4	44.6	43.0
c) travel	4.6	11.8	16.7	15.8	14.0	4.4
d) other non-factor services	54.7	67.2	64.6	71.1	84.9	96.7 ^b
2. factor services ^(c)						
a) investment income						
b) others	7.2	29.8	32.8	23.3	16.4	13.8
3. current transfers from rest of the world						
a) to households and non-profit organisation	40.8	57.6	63.6	62.2	57.3	63.4
b) to general government	2.1	46.0	39.6	34.1	34.4	35.8
total	786.3	889.9	898.6	922.4	827.4	870.2
<i>disposal of current receipts :</i>						
4. imports of goods and non-factor services						
a) imports c.i.f.	650.3	761.4	1009.5	1233.6	1029.6	923.7
b) passenger fares and transportation n.e.s.	8.6	15.0	16.1	19.0	17.7	20.3
c) travel	17.0	12.1	12.4	7.1	7.8	9.5
d) other non-factor services	34.4	38.9	43.2	44.7	47.3	43.0
5. factor services ^d						
a) investment income	31.3	29.7	23.9	28.5	31.1	38.4
b) others						
6. current transfers to the rest of the world						
a) from households and non-profit institutions	5.8	20.5	15.8	16.5	17.5	16.1
b) from general government	—	—	—	—	—	—
7. surplus (+) on current account	+38.9	+12.3	-312.3	-427.0	-327.6	-180.8
total	786.3	889.9	898.6	922.4	827.4	870.2
<i>capital receipts :</i>						
8. capital transfers from rest of the world						
a) to households and non-profit institutions	15.4	36.3	36.9	49.5	33.1	25.5
b) to general government ^e	109.4	49.7	378.6	575.4	460.3	443.4
9. international transfers from rest of the world to corporations	(e)	(e)	(e)	(e)	(e)	(e)
total	124.8	86.0	415.5	624.9	493.4	468.9
<i>disposal of capital receipts :</i>						
10. less capital transfers to rest of the world						
a) from households and non-profit institutions	29.0	25.9	58.6	46.0	48.9	31.7
b) from general government	134.7	72.4	44.6	151.9	116.9	256.4
11. less international transfers to the rest of the world from corporations	(f)	(f)	(f)	(f)	(f)	(f)
12. net lending(—) to the rest of the world	-38.9	-12.3	+312.3	-427.0	+327.6	-180.8
total	124.8	86.0	415.5	624.9	493.4	468.9

† Preliminary.

* Includes repatriation to the U.S.A. of silver valued at 74.4 crores in fulfilment of lend-lease obligations.

^b Includes non-monetary gold-movement of the order of Rs. 5.9 crores.^c Complete information on inflow and outflow are not available and as such only net investment figure is taken for the purpose.^d Includes 'errors' and 'omissions'.^e Mostly covered in 8(a) above.^f Mostly covered in 10(a) above.

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4.1.2. Capital accounts: Capital transactions are shown only under two broad categories, viz. 'private' and 'official and banking'. The former includes transactions on account of individuals as well as of business and other private non-profit institutions, with the exception of loans received by private business under government guarantee which are recorded under 'official'. The second covers all other capital transactions.

4.1.3. In the absence of complete information on the net inflow of all factor incomes, the figures of net investment income are taken here as equivalent to the total net income from abroad. As stated in paragraph 3, these figures of net investment exclude the amounts earned but reinvested by non-residents in India and amounts earned by Indian residents abroad but reinvested there. The RBI have conducted a special study on the subject of India's Investment Income Liabilities Abroad for the period 1953-58, the results of which have been published in the RBI Bulletin (August, 1960). These results have been reproduced in Appendix 15.2 along with the comparable figures of the total investment income paid by India to non-residents abroad. The difference between the two sets of figures varies between Rs. 16 crores and Rs. 33 crores per year. In the absence of similar results on the credit side of the account it has not been possible to incorporate the results of this study for arriving at the adjusted figures of net income earned from abroad.