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Monthly Bulletin, December 2013

The Reserve Bank of India today released the December 2013 issue of its monthly Bulletin. The Bulletin includes six special articles: (1) Flow of Funds Accounts of the Indian Economy: 2010-11 and 2011-12; (2) Survey of Professional Forecasters; (3) Developments in India's Balance of Payments during First Quarter (April-June) of 2013-14; (4) India's External Debt as at the end of June 2013; (5) South-West Monsoon 2013: A Review (June 1 to September 30, 2013); and (6) Remittances from Overseas Indians: Modes of Transfer, Transaction Cost and Time Taken. Also, the Bulletin includes a Calendar of articles for the year 2014.

1. Flow of Funds Accounts of the Indian Economy: 2010-11 and 2011-12

This article analyses the Flow of Funds accounts for the two fiscal years, 2010-11 and 2011-12, along with revised/updated data for 2009-10. The previous article on Flow of Funds accounts which covered the fiscal years 2008-09 and 2009-10 was published in the December 2012 issue of the RBI Bulletin. The Flow of Funds accounts show the transactions in financial instruments between the major sectors of the economy on a 'from whom-to-whom basis'.

Main Findings:

- The Indian economy rebounded strongly in 2009-10 and 2010-11 but lost momentum in 2011-12 on account of domestic and external factors. These factors impacted the sectoral and overall saving-investment gaps and the concomitant flow of funds across sectors.
- The overall resource gap (or the current account deficit), as ratio to GDP, remained steady during 2010-11 but then increased in 2011-12. Underlying this was the widening of the resource gap of the public sector (after a one-off improvement in 2010-11) and the dwindling of the financial surplus of the household sector for the second consecutive year, even as the resource gap of the private corporate sector contracted after a temporary expansion in 2010-11.
- In line with the trends in economic activity, total financial claims issued by all the sectors, as ratio to net national income, increased in 2010-11 but declined in the following year, even as it was placed somewhat above the average during 2003-04 to 2007-08.
- The composition of aggregate financial claims indicates that over the years, the banking sector has generally been predominant, followed by the private corporate business (PCB) sector, government sector, other financial institutions (OFI) sector, household sector and then the rest of the world (ROW) sector. During 2011-12, the claims issued (as a ratio to net national

income) by the PCB, banking and the government sectors were higher than their respective averages during 2003-04 to 2007-08, while those issued by the ROW, household and the OFI sectors were lower.

- The resource gap of the PCB sector has been predominantly financed by the ROW sector (largely through FDI and portfolio inflows and external commercial borrowings), followed by the OFI and banking sectors.
- The banking and the OFI sectors continue to be the major providers of funds to the government sector in the recent period.
- The financial surplus of the household sector has been largely channelised towards the banking sector, followed by the OFI sector (which includes insurance, mutual funds and provident funds). Household financing of the government sector has depleted over the years, largely reflecting the deflection from small savings.
- Loans and advances have been the most preferred instruments for financial transactions across sectors, followed by currency and deposits. The share of government securities in total claims issued has generally increased reflecting preference for risk-free investment avenues apart from a substantial increase in the government's funding requirements. On the other hand, the share of instruments of household financial saving *i.e*., small savings, life funds and provident and pension funds, has declined steadily.
- The finance ratio, the financial inter-relations ratio and the new issues ratio have generally moved in tandem with the growth of the real economy.

Accompanying Statements 1 to 8 on the flow of funds accounts are being web released simultaneously with this press release. The data on instrument-wise Flow of Funds accounts for each of the sectors are presented in Statements 1 to 6. The annual inter-sectoral flows are summarised in Statements 7.1 to 7.3. Instrument-wise financial flows are summarised for each year separately in Statements 8.1 to 8.3.

2. Survey of Professional Forecasters

Forecasts of key macroeconomic indicators, such as output growth and inflation, are important pre-requisites for forward-looking macroeconomic policy making. The Reserve Bank has been conducting the Survey of Professional Forecasters (SPF) since September 2007 at quarterly intervals.

The survey asks around 40 forecasters in India and abroad to gauge their expectations in short-term to longer-term for macroeconomic indicators in real sector, monetary and banking sector, fiscal sector, financial markets and external sector in India. In this article, forecasts for the two financial years 2013-14 and 2014-15 and for the next four quarters are presented. Also, the forecasts of implicit growth and inflation based on the probability distribution are examined.

The weighted average forecasts, with weights based on the accuracy of past forecasts of individual forecasters, were found to be superior than the median based forecasts.

3. Developments in India's Balance of Payments during First Quarter (April-June) of 2013-14

This article provides details on developments in India's balance of payments during April-June 2013 (Q1of 2013-14).

Main Findings:

India's external sector came under stress in Q1 of 2013-14 as current account deficit (CAD) worsened owing to the widening merchandise trade deficit and a slow recovery in net invisibles (income and services). Notwithstanding an increase in capital flows, particularly in FDI and bank loans, there was a marginal drawdown of foreign exchange reserves in Q1 of 2013-14. Major developments of BoP during the first quarter of 2013-14 are set out below.

- India's CAD worsened to US$ 21.8 billion in Q1 of 2013-14 from US$ 16.9 billion in Q1 of 2012-13, primarily led by a burgeoning trade deficit. As a percentage of GDP, CAD worsened to 4.9 per cent in Q1 of 2013-14 from 4 per cent in Q1 of 2012-13.
- On a BoP basis, merchandise exports declined by 1.5 per cent to US$ 73.9 billion in Q1 of 2013-14. In contrast, merchandise imports recorded an increase of 4.7 per cent at US$ 124.4 billion in Q1 of 2013-14 on account of a rise in POL and gold imports.
- Net invisibles, however, recorded a growth of 7.2 per cent in Q1 of 2013-14 as against a decline of 2.6 per cent in Q1 of 2012-13 on account of a rise in net export of services.
- Notwithstanding a net outflow in portfolio investment, particularly from debt segment of FII, net inflows under capital and financial account (excluding changes in foreign exchange reserves) mainly on account of an increase in FDI and loans availed by banks were almost sufficient to finance the CAD. Nevertheless, there was a marginal drawdown of reserves of US$ 0.3 billion in Q1 of 2013-14.

4. India's External Debt as at the end of June 2013

With sharp widening of CAD during the first quarter of 2013-14 as compared to the preceding quarter and increased reliance on debt financing, external debt remained at an elevated level. However, the rise in external debt was more than fully offset by the valuation gains resulting from appreciation of the US dollar against other major currencies and against rupee. Therefore, during April-June 2013, there has been an absolute decline in the external debt in US dollar terms as compared to the preceding quarter.

Main findings:

- India's external debt, as at end-June 2013, was placed at US$ 388.5 billion showing a decline of US$ 3.6 billion or 0.9 per cent over the level at end-March 2013. Excluding the valuation gains, the external debt as at end-June would have increased by US$ 5.9 billion over end-March 2013.
- In terms of major components, the share of commercial borrowings continued to be the highest at 30.7 per cent of total external debt, followed by short-term debt (24.9 per cent). The share of short-term debt in total debt, by original maturity, was 24.9 per cent. However, on residual maturity basis, short-term debt accounted for 43.8 per cent of the total external debt as at end-June 2013.
- The ratio of short-term debt (original maturity) to foreign exchange reserves rose to 34.3 per cent as at end-June 2013 from 33.1 per cent as at end-March 2013. At end-June 2013, the foreign exchange cover to external debt was lower at 72.7 per cent as compared with 74.5 per cent at the end of March 2013.

- The debt denominated in US dollar continued to be the highest with a share of 58.9 per cent in total external debt as at end-June 2013.

5. South-West Monsoon 2013: A Review (June 1 to September 30, 2013)

The South-West monsoon during June-September 2013 was 6 per cent above the long period average (LPA) of 89 cm (average of 1951-2000) as against 8 per cent below LPA last year. This was 8 per cent higher than the India Meteorological Department (IMD) forecast of 98 per cent LPA for the season, and the highest margin by which the season's precipitation has exceeded the LPA in the last nineteen years. Additionally, the monsoon has been accompanied by other favourable factors, namely, on time arrival and well distribution –spatially and temporally. These favourable factors have immensely benefited *kharif* sowing for 2013 which has surpassed the area sown last year and its normal level. The result is higher estimated production of most *kharif* crops including foodgrains, pulses and oilseeds by 0.9 per cent, 1.7 per cent and 14.8 per cent, respectively, during 2013-14 as per the first advance estimates which are expected to be revised upward as the season progresses. As regards *rabi* crops, with the reservoir levels continuing to be above normal and the previous year and the North-East monsoon so far turning out to be much above LPA, the prospect of a good harvest has improved. On the whole, the confluence of these favourable factors is expected to significantly boost agricultural growth prospects during 2013-14 to a level higher than the previous year.

6. Remittances from Overseas Indians: Modes of Transfer, Transaction Cost and Time Taken

This study is based on a sample survey of the bank branches across the major centres in India. This survey is done on a triennial basis. Similar survey was conducted earlier in July 2006 and November 2009 and the results of those surveys were published in November 2006 and April 2010 issues, respectively, of the RBI Bulletin. This study, based on the survey conducted during January-March 2013, reveals the following important dimensions of inward remittances from overseas Indians.

Main findings:

- While electronic wires/SWIFT continue to be the dominant mode of transferring remittances by the overseas Indians, in the recent period, there has been a significant increase in the share of remittances transmitted through direct transfer to bank accounts and through on-line mode.
- Out of the total remittance transfers to India, the high value remittances (₹50,000 and above) accounted for 63 per cent of the total value of remittance inflows.
- The cost of remittances across various modes of transfer has moderated over the years reflecting increasing competition and introduction of fast money transferring infrastructure.
- The major sources of remittances are Gulf countries and North America accounting around 37 per cent and 34 per cent of total remittances, respectively. Major portion of remittances to India is dollar denominated (57 per cent) followed by Saudi Riyal/UAE Dirham (16 per cent).
- A predominant portion of the remittances received (49 per cent) is utilised for family maintenance. The share of remittances for investment has gradually increased.

The rates for Bulletin, Weekly Statistical Supplement and other select publications have been revised for 2014. The details on rates are available on recent publications section of the Bulletin.

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