

## NET FACTOR INCOME FROM REST OF THE WORLD

### Introduction

3.1 In the system of national accounts, the accounts relating to the resident institutional sectors portray various facets of economic activity, i.e., production, the generation, distribution and redistribution of income, consumption and accumulation. The relevant accounts capture both transactions taking place between the resident institutional sectors of the total economy and transactions with non-resident units. Statistics on these transactions are compiled by the Reserve Bank of India (RBI) and published under tables relating to India's overall balance of payments.

### Coverage

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

3.3 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 (BoP) statistics compiled by the RBI. For BoP 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 organizations. 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 of data

3.4 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 RBI based on the foreign exchange records supplemented by information furnished by the Government, its agencies and other organisations etc. The data on the transactions of (i) property and entrepreneurial income including reinvested earning of foreign companies and (ii) compensation of employees, which constitute net factor income from abroad, are obtained from BOP records compiled by the RBI

### Estimates at constant prices

3.5 On recommendations of Advisory committee on National Accounts, the estimates at constant (1999-2000) prices are derived by following double deflation method. The current price estimates of exports are deflated by unit value index of imports and Imports by unit value index of exports with base 1999-2000=100. In the earlier series, because of the deficit nature of the overall net factor income from abroad, the estimates at current prices were deflated by the index of unit value of Imports only.

### Quality and limitations of database

3.6 The data available from foreign exchange records have some limitations. Economic transactions which do not get routed through authorized dealers in foreign exchange are not covered in the data reported by the Foreign Exchange Department. Thus, transfers of goods and services which do not give rise to monetary flows are not included in the foreign exchange 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).

3.7 The RBI faces some difficulties in classification of the details under receipts reported in the foreign exchange records. On the receipts side beneficiaries of inward remittances of individual amounts of less

than Rs. 500,000 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. 500,000) 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.

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