

Trend of India's Balance of Payment An Analytical Study

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ABSTRACT

Balance of Payment is a statistical record of a business of country with rest of the world. Balance of payment is one of the major indicators of country's progress. India has been facing this deficit or disequilibrium in terms of BOP. Restrictions on international trade were detached, foreign investments were allowed and a completely new Liberalized Exchange Management System was brought in to garner the benefits of competition. We opted for a very vigilant approach and at present after having surmounted the initial glitches of a newly liberalized economy. BOP shows strengths and weaknesses of country. It can notably affect the economic policies of a government and the economy itself.

Keyword: BOP, Balance of Trade, Deflation, Devaluation, RBI

I. INTRODUCTION

Balance of Payment is a statistical record of a business of country with rest of the world. It is wider term compared to Balance of Trade. Balance of Trade means export and import of goods only. Balance of payment includes both goods and services. Most of the developing countries are deficit in their Balance of Accounts, India being no exception. Since independence, India has been facing this deficit or disequilibrium in terms of BOP. We opted for a very vigilant approach and at present after having surmounted the initial glitches of a newly liberalized economy. BOP management still remains a tough walk for policy makers. The New Economic Policy of the nineties targeted for opening up of the economy, to permit free trade and competition and condense the role of government considerably in foreign trade issues. Restrictions on international trade were detached, foreign investments were allowed and a completely new Liberalized Exchange Management System was brought in to garner the benefits of competition and offset the drawbacks of a closed, inward looking trade policy. Balance of payment is one of the major indicators of country's progress. BOP shows strengths and weaknesses of country. It can notably affect the economic policies of a government and the economy itself. This paper attempts to weigh up the trends and emerging challenges of India's Balance of Payments.

II. OBJECTIVES OF THE STUDY

- To know the various component of Balance of Payment
- To access the trend changes in Balance of payment.
- To find out the causes of disequilibrium of Balance of Payment.
- To give suggestion to correct adverse BOP

III. RESEARCH METHODOLOGY

The study is based on secondary data. The data is collected from RBI and other websites and from Books available in library. Data is collected from 2000-2016. For presentation table is used and for analysis absolute figures

IV. COMPONENTS OF BALANCE OF PAYMENTS

Balance of payment has three main parts

A) Current Account. B) Capital Account. C) Over all Balance of Payment

A) Current Account: Balance of Payment on current accounts is a statement of actual receipts and payments in short-period. It includes the value of imports and exports of both visible and invisible items. Current account transactions are called account by actual transaction.

Items of Current Account

Receipts or Credit	Payments or Credit
1. Exports of Goods	1. Imports of Goods
2. Exports of Services	2. Imports of Services
3. Services of Domestic experts	3. Expenditure of country' Tourists Abroad.
4. Receipts from foreign Investment	4. Payment for the domestic use of foreign Transportation.
5. Receipts from transportation Services	5. Gifts and Donations to the foreigners
6. Gifts and Donations received from foreign countries	6. Mixed Expenditure in foreign Countries
7. Mixed expenditure by foreigners.	7. Government Expenditure in foreign countries

B) Capital Account: Capital Account refers to financial transactions. Capital account consists all short-term and long-term global capital transfers, movement of gold, payments on private accounts, payments and receipts on national institutional account and government loans, interest, grants, etc.

Items of Capital Accounts

C) Overall Balance of Payments: Total of a country's Current Account and Capital Account is reflected in overall balance of payments. It is always in balance; because the deficit or surplus of current account is offset by capital accounts and that of capital account is offset by current.

Table : Trend Of India's Balance Of Payments

(□ Ten Million)

Year	Current	Capital	Error	Overall Balance of Payment
2001-02	16426	41080	-913	56593
2002-03	30660	52366	-989	82037
2003-04	63983	77227	2783	143993
2004-05	-12174	125367	2714	115907
2005-06	-43737	111965	-2332	65896
2006-07	-44383	203673	4344	163634
2007-08	-63478	427927	5240	369689
2008-09	-127629	29004	1511	-97114
2009-10	-179699	244048	-113	64236
2010-11	-219654	291167	-12062	59451
2011-12	-375973	319029	-11560	-68504
2012-13	-479610	485734	14578	20702
2013-14	-187136	289819	-6629	96054
2014-15	-163313	547550	-6312	377925
2015-16	-143762	266338	-6746	115830

Source: Reserve Bank of India, [Www.Rbi.Org](http://www.Rbi.Org)

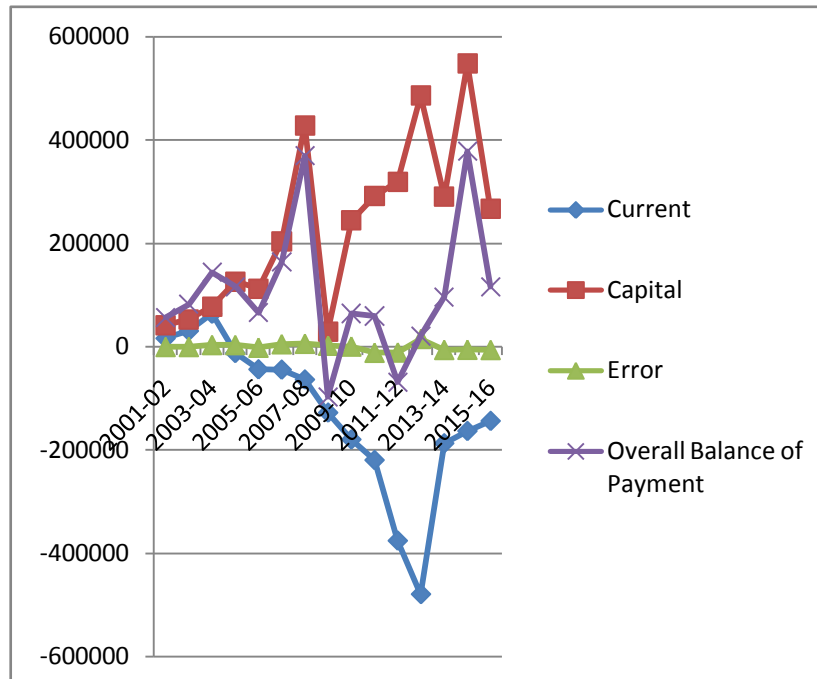


Figure: Balance of Payment from 2001-2016

After analyzing the above data and figures it is observed that current accounts are positive from the year 2000-04 and after that it showed the negative slop. In the year 2004-05 current account is -12174(□ Ten Million) that has increased to -479610(□ Ten Million) in the year 2012-13. This fact certifies the phenomenon that Indian trade flows was hit by the global crisis, but with a lag. However, Indian economy could find way out of the crisis driven path to the recovery as a result of various measures implemented by the Reserve Bank of India. After that Current Account has decreased -143762(□ Ten Million) in the year 2015-16. Capital account is very fluctuating in the period of 2001-16.

V. CAUSES OF DISEQUILIBRIUM IN BALANCE OF PAYMENTS:

- Natural Causes : Natural Calamities like famines, droughts, earthquakes, floods etc. cause disequilibrium in balance of payment, Imports of a country multiply under the impact of these calamities leading to disequilibrium in balance of payments.
- Economics Development Plans: Heavy dose of investment is main cause of disequilibrium in balance of payment. Developing countries have to depend on developed foreign countries for their economic development.
- Price Cost Effect: On account of development planning , costs and prices in export industries generally go up. It leads to fall in the total volume of exports and balance of payments becomes adverse.
- Cyclical Fluctuations: Business cycles in international sphere also cause disequilibrium in balance of payments.
- Population Explosion: Due to rapid increase in population ,aggregate consumption demand in under developed countries increase. Consequently, export surplus falls down and balance of payments becomes adverse.
- Political factors: Political instability of the country may also have adverse affect on the balance of payments of country. If the international relations of a country is full of tense, these may have unfavorable on the balance of payments.

VI. MEASURES TO CORRECT ADVERSE BALANCE OF PAYMENTS

- **Deflation:** Deflation refers to that monetary policy under which the volume of currency is reduced; consequently prices and monetary income of the people are brought down. In India, Reserve Bank of India, the Central Bank contracts the volume of credit in the economy by using quantitative and qualitative methods of credit control(raising the Bank rate and open market operations).
- **Devaluation:** Devaluation is that monetary measure under which government of a country lowers the value of its currency in terms of foreign currencies. Therefore, imports become dearer and exports cheaper. In this way adverse BOP is corrected.
- **Exchange depreciation:** If in the international sphere, rate of exchange is flexible, government need not resort to policy of devaluation. Under flexible rate of exchange, in case of adverse BOP, rate of exchange goes down automatically, as a result, export will increase and adverse BOP will be corrected.

- **Exchange control:** Central Bank of the country exclusively controls the use of foreign exchange. Without the permission of RBI foreign exchange is not made available to any one. Thus imports are restricted and controlled under this method and balance of payments of the country is corrected.
- **Import Duties:** To discourage imports, their value is raised by levying new import duties. In this way, imports become dearer but their demand also goes down and consequently adverse BOP will be corrected.
- **Export Promotion:** By raising the export, adverse BOP will be corrected. All duties and restriction should be withdrawn and export industries be given special concession and facilities. Intensively publicity and advertisement should be undertaken to increase the demand for domestic product in foreign countries.
- **Encouragement to Foreign investment:** Investment of foreign capital in the county constitutes a credit item and so has a favourable effect on the balance of payment position.
- **Attraction to foreign tourists:** In order to attract tourists, government has to develop recreation parks and entertainment programmes. Foreign tourists bring along with them large amount of foreign currency which serves the same purpose as the exports.
- **Changes in Basis political Ideology:** Changes in basis ideologies like , socialism, capitalism, nationalism etc. also help correct an adverse balance of payments.
- **Social measures:** Balance of Payment can be corrected through the medium of social psychology. Awakening of swadeshi spirit had adversely affected the BOP of British India. Presently import of petrol and petroleum product is one the major causes of adverse balance of payment of India. If social awareness is aroused the people to make economical use of petrol, it will have a salutary effect on the balance of payment.

CONCLUSION

Most of the developing countries are deficit in their Balance of Accounts, India being no exception. India has been facing this deficit or disequilibrium in terms of BOP since 1947. We opted for a very vigilant approach and at present after having surmounted the initial glitches of a newly liberalized economy. BOP management still remains a tough walk for policy makers The New Economic Policy of the nineties targeted for opening up of the economy, to permit free trade and competition and condense the role of government considerably in foreign trade issues. Balance of payment is one of the major indicators of country's progress. BOP shows strengths and weaknesses of country. It can notably affect the economic policies of a government and the economy itself.

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