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Balance of Payment Position in India

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Abstract: The present paper **"Balance of Payment Position in India"** provides a simple framework for understanding the balance of payments and its components. The major purpose of this paper is to analyze the trend of india's position of its balance of payment and to state the reasons for such tend. The paper also analyzes the significance of balance of payment statement. The paper provides the challenges faced by the countries having balance of deficit problem. Objectives of the paper is to understand the meaning and components of Balance of Payment, to state the significance of balance of payment, to study the trends of balance of position of India, analyze the reasons behind it and to interpret the challenges faced by the countries having balance of payment deficit. This paper is based on secondary data, which is collected through various sources like report of RBI, IMF, journals, books, Economic Survey etc. The paper will be Descriptive in nature.

Keywords:--Balance of Payment, Current account, Capital Account, Financial Account, Deficit

Introduction: The Balance of payment is a record of all monetary and economic transactions made between a country and the rest of the world within a defined period. These records include individual, company and government transactions. These records help the country monitor the flow of money and develop policies to help build a strong economy. The money coming in and the money going out should be balanced. But in most cases, this does not happen. The balance of payments (BoP) of a country should be zero in a perfect scenario. It correctly indicates whether the country has a surplus or a deficit of funds. BoP deficit indicates that imports from a country are more than exports whereas BoP surplus shows that the exports of a country are more than their imports. . Both scenarios have short- and long - term effects on the economy of the country.

COMPONENTS OF BALANCE OF PAYMENT

Current Account:--It monitors the flow of funds from trade in goods and import and export services between countries. It includes the money received or spent on products and raw materials manufactured. It includes tourism revenues, transport receipts, specialized services revenues and patent and copyright royalties. The current account also includes stocks revenue.

Capital account:-- It monitors international capital transactions flow. These transactions include the acquisition or disposal of non-financial assets and non-produced assets. It includes debt forgiveness and gift taxes. It records the flow of financial assets by migrants who leave or enter a country and the transfer, sale or purchase of fixed assets.

Financial Account:--It monitors the flow of funds for business, real estate and stocks investments. It includes government assets such as gold and SDRs held with the IMF. It includes foreign investments and assets held by nationals abroad. It includes a record of assets owned by foreign nationals.

Mrs. K. Geetha Rani, V. Aghalya and G. G. Gayathiri (2017) in their paper entitled "Balance Of Payments Problems of Developing Countries with Special Reference to India" concludes that the 1991 balance of payments crisis led policymakers to review the trade strategy and to adopt an outward-looking strategy. The government implemented several reforms in the fiscal, financial, industrial and commercial sectors. Some of the major achievements of trade sector reforms include increased trade openness, satisfactory export performance, a

reasonable level of current account deficit, and increased non-debt capital flows such as foreign investment, inflation control, industrial satisfaction and overall real GDP growth

Ch. Hymavathi and Dr. K. Kalpana (2017) in their paper entitled "A Study on Analysis of Bop Trends with Reference to India" quotes that in the capital account, exports decrease in 2011 - 2016 and imports increase first and then decrease in 2011 - 2016. In the current account, foreign investment including portfolio investment and direct investment also declines in 2011 - 2016. Population growth, demonstration effects, cyclical fluctuations, natural factors, globalization and inflation are factors that cause imbalances in the balance of payments.

Ms. Lovely Srivastava, Dr. Ambalika Sinha and Ms. GeetuYadav (2016) in their paper entitled "A Trend Analysis of Trade Imbalance of Indian Balance of Payment (Bop)" concludes that import and export are both important factors for trade imbalances. The difference between import and export creates a trade imbalance. It can cause surplus trade or trade deficits. Given factors such as exchange rate volatility, currency devaluation, economic imbalance, the global crisis, the trade deficit becomes wider. It also reduces the country's growth. The government and RBI took corrective action to improve this situation. They announce new policies, reduce rates, promote exports and discourage exports. The results of these policies have been reflected in the 2013 - 14 trade balance, which reduced the trade deficit.

Panchanan Behera (2016) in his paper entitled "India's Balance of Payments: 1990-91 to 2014-15"argues that the invisible account and capital account are critical in preventing the BOP crisis. The trade deficit remains a matter of concern because of liberal imports. Investment, FDI and FPI, can lead to economic reversals in payments and currency crises. It seems prudent to rely on short - term selective controls on trade and capital flows to moderate short - term volatility in the absence of market mechanisms.

Syeda Azra Batool, Tahir Memood and Atif Khan Jadoon (2015) in their paper entitled "What Determines Balance of Payments: A Case of Pakistan" concludes that money supply, real exchange rate, interest rate, fiscal balance and real gross domestic product are important determining factors in the balance of payments. The study shows that balance of payments and its determinants maintain long - term and short-term relations. It shows that the real exchange rate influences the balance of payments not only in the long term, but also in the short term. Inversely, the interest rate affects the balance of payments in the long term, but positively affects the BOP in the short term. With regard to the real GDP, the BOP moves both long and short-term in the positive direction. The money supply has had a positive impact on the BOP in the short term, but negatively. So the need for an hour is that the government's deliberate policy should increase Pakistan's real GDP because GDP can increase our savings and government spending and exports and improve the balance of payment balance.

Nawaz Ahmad, Rizwan Raheem Ahmed,Imamuddin Khoso, RanaImrozePalwishah and UnaibRaza (2014) in their paper entitled "Impact of Exchange Rate on Balance of Payment: An Investigation from Pakistan" analyses that the stability of exchange rates may create a positive investment incentive environment, and this can improve the balance of payment. As per their findings, it has been established that exchange rate and balance of payment has a vital correlation to each other

Matthieu Bussière (2007) in his paper entitled "Balance of Payment Crises in Emerging Markets How Early Were the Early Warning Signals?" says that the main economic variables found to predict crises are the ratio of short - term debt to international reserves, the growth rate of credit to the private sector, the over-appreciation of the nominal effective exchange rate and the contagion of other countries. He suggests that when a country faces liquidity problems or financial contagion from crises in other emerging markets, the policy response should be particularly rapid.

The balance of payments of a country reveals different aspects of the international economic position of a country. It presents the country's international financial position. It helps the government to take decisions on monetary and fiscal policies, on foreign trade and payment issues. In the case of a developing country, the balance of payments shows how much economic development depends on the financial assistance provided by the developed countries.

The greatest importance of the balance of payments lies in its service as an indicator of a country's changing international economic position. The balance of payments is the economic barometer for assessing the

short - term international economic prospects of a nation, assessing the degree of its international solvency and determining the appropriateness of the country's currency exchange rate.

The favorable balance of payments in a country cannot be taken as an indicator of economic prosperity, nor does the adverse and even unfavorable balance of payments reflect bankruptcy. A balance of payments deficit in itself is not proof of a country's competitive weakness in foreign markets. The longer the balance of payments deficit continues the more fundamental problems this economy presents.

A favorable balance of payments always makes a country complacent. A poor country may have a favorable balance of payments because of the large inflow of foreign loans and capital assets. An advanced country may have a negative balance of payments due to massive aid given to developing countries. Hence, a country's deficit or balance of payments surplus per se should not be taken as an index of economic bankruptcy or country's prosperity. The balance of payments concerns only transactions for the period under review. It does not provide data on assets and liabilities relating to another country. Despite all these shortcomings, however, the importance of the balance of payments lies in the fact that it provides vital information to understand the economic relationship of a country with other countries.

Overall Balance of Paments:--Since from the Independence of the country has faced series of crises such as rupee devaluation (1966), first (1973) and second (1980) oil shocks and, external payment crisis of 1991. The balance of payments in India has been adversely affected by the 2008 Lehman crisis. The surplus in the capital account decreased by 92 percent and the deficit in the capital account increased by 77 percent and amounted to $ 20080 million in that year. The years 2009 - 10 and 2010-11 showed a total surplus and amounted to USD 13,441 million and USD 13,050 million. In 2009 - 10, the capital account increased by 558% and in 2010 - 11 by 28%. In 2010 - 11, exports increased by 40 percent of this year's annual growth, while in 2011 - 12, India’s balance of payments position had a deficit of US$ 12,831 million, increasing petroleum products, which increased its import bill by 30% this year. In addition, India’s balance of payments position recorded a small surplus of US$ 3826 million in 2012 - 13. In 2013 - 14, India’s balance of payments position improved to US$ 51108 million, CAD (Canadian$) increased in the same year, while the capital account saw a surplus of US$ 89300 million due to a 40.81 percent increase in the capital account. Further in the 2014 - 15 India ’s balance of payments position has improved and stood to US$ 61406 million, CAD has been narrowed by-13.77 percent and stood to us$ -27937 million, and on the other hand capital account also witnessed surplus of us$ 89959 million with 84.39 percent of carg growth rate; exports are declined by 0.58 percent whereas imports are also declined by 1.13 percent; hence India’s Trade balance declined to US$ -144179 million by 3.2%, share of overall BOP to GDP was 3.0% which is more than that of the previous year(0.8%).

If a deficit in the current account is financed by borrowing, it is said to be more unsustainable. It is because borrowing is unsustainable in the long run and high interest payments are burdened on countries. For, e.g. in 1998, Russia was unable to pay its foreign debt. Similar repayment problems have arisen in other developing countries such as Brazil and African countries. There is little left for countries with large interest payments to spend on investments.

At some point, a very high balance of payments deficit can lead to a loss of confidence by foreign investors. There is therefore always a risk that investors will eliminate their investments, causing a large drop in your currency’s value (devaluation). It can lead to a decrease in living standards and investment confidence. One factor behind the 1997 Asian crisis was that countries had run large current - account deficits by attracting flows of capital to finance the deficit. But these hot money flows dried up when confidence fell, leading to a rapid devaluation and crisis of confidence. When trust fell and the exchange rate fell, a certain amount of capital flight occurred as foreign investors sought to return assets.

If you run a current account deficit, you have to have a financial / capital account surplus. It means that foreigners are increasingly claiming their assets, which they may want to return at any time. For example, if you run a current - account deficit, foreign multinationals that invest in your country or buy assets could finance it. There is a risk that foreigners could buy your best assets, reducing long - term income.

A persistent current account deficit can mean that you rely on consumer spending and the economy becomes unbalanced between different sectors, short - term consumption and long - term investment. For example, the UK has had a high share of GDP focused on consumer spending and relatively low investment levels – particularly in the manufacturing industry. This focus on domestic consumption can have long - term negative effects with fewer productivity investments. The experience of the United Kingdom could contrast with Germany, which has a current account surplus and generally considers that it has better investment levels in the economy.

A current account deficit may mean that the economy is uncompetitive and that the exchange rate is relatively overestimated. For exchange - rate countries –e.g. this is not so serious, Pound Sterling, because market forces will lead to a depreciation to restore competition. However, for countries in the euro that cannot devalue to restore competitiveness, a current account deficit may be a real problem. For example, the difference in inflation rates between 2000 and 2007 caused very large current - account deficits in the economies of the southern euro zone. This lack of competitiveness and low export demand was a factor behind Greece, Portugal and Spain's weak domestic demand during the 2008-13 recessions in the euro zone.

A country with a large current account deficit is always in danger of seeing the currency decline. If the capital flows to finance the deficit are insufficient, the exchange rate will decrease to reflect the imbalance in foreign flows. A depreciation of the exchange rate will lead to imported inflation for consumers and companies that depend on raw materials imports.

Conclusion:--The BOP has become an economic barometer because it is base of many countries such as India, China, the United States, the United Kingdom, etc. It helps in knowing their position on the international market and also assists many countries to develop appropriate foreign exchange-rate financial policies, funds flows between countries. Inflation, national income, government restructuring and exchange rates are all factors that affect the balance of payments. The historical trend of the BOP is a valuable tool for evaluating the economic prospects of a country and also the corresponding currency exchange rate. According to data, India faces a severe balance of payment deficits and the government needs to take corrective measures in the form of exchange control, inflation reduction, export promotion and devaluation of currency.

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