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India's Balance of Payments Status

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ABSTRACT

This study, "Balance of Payment Position in India," offers a straightforward framework for comprehending the balance of payments and its constituent parts. Analyzing the trend of India's balance of payments position and outlining the causes of that tendency are the main goals of this research. Additionally, the significance of the balance of payments statement is examined in the article. The report outlines the difficulties that nations with balance of deficit issues confront. The paper's goals are to comprehend the concept and elements of balance of payments, to articulate the importance of balance of payments, to examine India's balance of position trends, to examine the causes of these trends, and to interpret the difficulties faced by balance of payment nations.

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INTRODUCTION

The balance of payments serves as a comprehensive record of all financial and economic transactions conducted between a nation and the global community over a specified timeframe. This documentation encompasses transactions involving individuals, corporations, and government entities. Such records are essential for the country to track monetary flows and formulate policies aimed at fostering a robust economy. Ideally, the inflow and outflow of funds should be equal; however, this is often not the case. In an ideal situation, the balance of payments (Bop) would equal zero, accurately reflecting whether the nation is experiencing a surplus or a deficit in its financial resources. A Bop deficit signifies that a country is importing more than it is exporting, while a Bop surplus indicates the opposite. Both situations can have significant short-term and long-term implications for the nation's economy.

Components of Balance of Payment

Current Account: It tracks the movement of financial resources resulting from the trade of goods and the provision of import and export services among nations. This encompasses the funds received or expended on manufactured products and raw materials. Additionally, it accounts for income generated from tourism, transportation services, specialized services, as well as royalties from patents and copyrights. Furthermore, the current account incorporates revenue from stocks.

Capital Account: It oversees the movement of international capital transactions, which encompass the acquisition or disposal of both non-financial and non-produced assets. This includes instances of debt forgiveness and gift taxes. Additionally, it tracks the flow of financial assets associated with migrants entering or leaving a country, as well as the transfer, sale, or purchase of fixed assets.

Financial Account: It oversees the movement of capital for business ventures, real estate, and stock market investments. This encompasses government-held assets like gold and Special Drawing Rights (SDRs) with the International Monetary Fund (IMF). Additionally, it accounts for foreign investments and assets owned by citizens residing overseas, as well as a registry of assets possessed by foreign nationals.

Literature Review

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.

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

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.

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.

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.

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.

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.

The balance of payments for a nation illustrates various facets of its international economic standing. It reflects the nation's financial position on a global scale and aids the government in making informed decisions regarding monetary and fiscal policies, as well as foreign trade and payment matters. For developing nations, the balance of payments indicates the extent to which their economic progress relies on financial support from developed countries. A positive balance of payments in a nation should not be viewed as a sign of economic success, nor should a negative or unfavorable balance be interpreted as a sign of financial failure. A deficit in the balance of payments does not inherently indicate a country's lack of competitiveness in international markets. However, the persistence of a balance of payments deficit may reveal deeper issues within the economy. A positive balance of payments can lead to complacency within a nation. A less affluent country might exhibit a favorable balance of payments due to significant inflows of foreign loans and capital investments. Conversely, a developed nation may experience a negative balance of payments as a result of substantial aid provided to emerging economies. Therefore, a country's deficit or surplus in its balance of payments should not be viewed solely as an indicator of economic failure or success. The balance of payments reflects only the transactions occurring within the specified period and does not account for assets and liabilities associated with other nations. Despite these limitations, the balance of payments remains crucial as it offers essential insights into a country's economic interactions with the rest of the world.

Overall Balance of Payments

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 cargo 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%).in 2015-16, India recorded a balance of payments surplus of US$-17914 million due to robust FDI inflows and low oil prices . in 2016-17, a surplus of US$ -21642 million was posted, supported by service exports and remittances. However, in 2017-18 the Balance of payments weakened with a CAD expansion to 1.8% of GDP because of rising oil prices. The 2018-19 year saw global trade tensions affecting India, with a moderate Balance of payments surplus of US$-14300 million. The COVID-19 pandemic in 2019-20 resulted in India's first current account surplus in 17 years, driven by a sharp fall in imports ending the year with strong capital inflows. In 2020-21despite a second COVID-19 wave, India recorded a Balance of payments surplus of US$ -87300 million, led by resilient exports and investments, in 2021-22 India's Balance of payments position came under strain with the CAD widening to 2.6% of GDP on account of higher oil and commodity price triggered by the Russian-Ukraine war. The capital. account saw outflows amid tightening monetary policies by major central banks. Overall The balance of payments registered a deficit of US$-16700 million.

In 2022-23, The CAD narrowed to 2.0%of GDP as exports of services remained strong and imports moderated slightly capital inflows picked up in the second half of the year due to easing global financial conditions. overall, the Balance of payments recorded a small surplus of US$-7500 million.

In 2023-24, India balance of payments improved substantially with declining crude oil prices, stable remittances inflows and strong software services exports, the CAD narrowed further to 1.5% of GDP. The capital account witnessed a surplus of US$-95400 million driven by higher FDI in manufacturing and renewable energy sectors. The overall Balance of payments surplus stood at US$-95400 million and the share of Balance of payments to GDP was around 2.1% reflecting a stable external sector outlook for the country.

When a current account deficit is financed through borrowing, it is considered to be more unsustainable. This is due to the long-term nature of borrowing being unsustainable, as it imposes significant interest payment burdens on nations. For instance, in 1998, Russia faced challenges in repaying its foreign debt. Similar issues have been observed in other developing nations, including Brazil and various African countries. Consequently, countries with substantial interest obligations have limited resources available for investment. At some point, a significant balance of payments deficit can erode foreign investors' confidence. This creates a risk that investors may withdraw their investments, leading to a sharp decline in the value of the currency (devaluation). Such a situation can adversely affect living standards and diminish investment confidence. A contributing

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factor to the 1997 Asian financial crisis was that nations had accumulated large current account deficits by attracting capital inflows to cover these deficits. However, when confidence waned, these volatile capital flows ceased, resulting in rapid devaluation and a crisis of trust. As confidence diminished and the exchange rate fell, capital flight occurred as foreign investors sought to liquidate their assets. If a current account deficit exists, it necessitates a surplus in the financial or capital account. This indicates that foreign entities are increasingly claiming their assets, which they may wish to withdraw at any moment. For example, a current account deficit may be financed by foreign multinationals investing in your country or acquiring assets. However, there is a risk that foreigners could purchase your most valuable assets, thereby diminishing long-term income.

A sustained current account deficit may indicate an overreliance on consumer expenditure, leading to an imbalance within various economic sectors, particularly between immediate consumption and long-term investment. For instance, the United Kingdom has exhibited a significant proportion of its GDP directed towards consumer spending, coupled with relatively low levels of investment, especially in the manufacturing sector. This emphasis on domestic consumption could result in adverse long-term consequences due to insufficient investments in productivity. In contrast, Germany, which maintains a current account surplus, is perceived to have superior investment levels within its economy. A current account deficit may also suggest a lack of competitiveness, potentially resulting in an overvaluation of the exchange rate. In countries with flexible exchange rates, such as the Pound Sterling, market dynamics may lead to depreciation, thereby restoring competitiveness. However, for nations within the Eurozone that cannot devalue their currency, a current account deficit poses a significant challenge. For example, the disparity in inflation rates from 2000 to 2007 led to substantial current account deficits in the southern Eurozone economies. This decline in competitiveness and diminished export demand contributed to the weak domestic demand experienced by Greece, Portugal, and Spain during the Eurozone recessions from 2008 to 2013. A nation with a considerable current account deficit faces the constant risk of currency depreciation. Should the capital inflows necessary to finance the deficit fall short, the exchange rate will likely decline to address the imbalance in foreign capital. Such depreciation can result in imported inflation for consumers and businesses reliant on imported raw materials.

CONCLUSION

The Balance of Payments (BOP) serves as a crucial economic indicator for numerous nations, including India, China, the United States, and the United Kingdom. It provides insights into their standings in the global market and aids countries in formulating effective foreign exchange rate policies and managing capital flows. Various elements such as inflation, national income, governmental reforms, and exchange rates influence the balance of payments. Analyzing the historical patterns of the BOP is instrumental in assessing a country's economic outlook and its currency's exchange rate. Current data indicates that India is experiencing significant balance of payments deficits, necessitating government intervention through measures such as exchange controls, inflation management, export enhancement, and currency devaluation.

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