

A Study on Analysis of Bop Trends with Reference to India

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Abstract: *Globalization is severely impact the country's foreign exchange reserves. Leadership changes and Macro Economic factors are going to affect the countries trade balances. The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. This paper examines the trend pattern of balance of payment during the period 2011-12 to 2015-16 and the factors which have effected during that period and the impact on balance of payment. And latest developments in current as well capital account, which factors in economy as well as contemporary issues leads to developments since 2011-2012. There are some reasons which causes Disequilibrium in balance of payments like population growth, Demonstration effect, cyclic fluctuations etc. It also tells about in Bop statement how changes happen in current account and capital account from 2011 to 2016. The trend graph is explaining the India's current situation and how the future growth will be.*

Keywords: Balance of Payments, contemporary issues, economy, current account, capital account

1. Introduction

In the modern world, there is hardly any country which is self-sufficient in the sense that it produces all the goods and services it needs. Every country imports from other countries the goods that cannot be produced at all in the country or can be produced only at an unduly high cost as compared to the foreign supplies.

2. Objectives of the Study

- 1) To estimate trend and pattern of current account, capital account and balance of payment.
- 2) To elaborate the recent BOP developments.
- 3) To analyze future trends and correlate the latest trends with the contemporary factors.

3. Balance of Payment (BOP)

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country. If a country exports goods and services more than the imports of goods and services from other countries then we called country has surplus balance. In the same way if a country imports goods and services during a period more than the exports made by that country then we called that country has deficit balance. The BOP is divided into three main categories: the current account, the capital account and the financial account. Within these three categories are sub-divisions, each of which accounts for a different type of international monetary transaction.

The Current Account: The current account is used to record the inflow and outflow of goods and services into a country. Earnings on investments, both public and private, are also put into the current account. In current account we

should maintain both debit and credit columns but a small change have to be made (i.e., take Dr at right hand side and cr at left hand side), This includes goods such as raw materials and manufactured goods that are bought, sold or given away (possibly in the form of aid). Services refer to receipts from tourism, transportation, engineering, business service fees (from lawyers or management consulting, for example), and royalties from patents and copyrights. When combined, goods and services together make up a country's balance of trade (BOT). The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports. If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports. Receipts from income-generating assets such as stocks (in the form of dividends) are also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly worker's remittances, which are salaries sent back into the home country of a national working abroad, as well as foreign aid that is directly received.

Current account transactions:

The current account records the receipts and payments of foreign exchange in the following ways. They are

Current account receipts

- 1) Export of goods
- 2) Invisibles
- 3) Services
- 4) Unilateral transfers
- 5) Investment income
- 6) Non-monetary movement of gold

Current account payments

- 1) Import of goods
- 2) Invisibles
- 3) services
- 4) Unilateral transfers
- 5) Investment income

6) Non-monetary movement of gold

The Capital Account

The capital account is where all international capital transfers are recorded. This refers to the acquisition or disposal of non-financial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, like a mine used for the extraction of diamonds.

The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies, and, finally, uninsured damage to fixed assets.

Capital account transactions:

Similarly, capital account transaction takes place in following ways

Capital account receipts

- 1) Long term inflow of funds
- 2) Short term inflow of funds

Capital account payments

- 1) Long term out flow of funds
- 2) Short term out flow of funds

4. Distinction between Current Account and Capital Account:

- 1) The distinction between the current account and capital account of the balance of payment may be noted. The current account deals with payment for currently produced goods and services. It includes also interest earned or paid on claims and also gifts and donations.
- 2) The capital account, on the other hand, deals with capital receipts and payments of debts and claims. The current account of the balance of payments affects the level of national income directly. For instance, when India sells its currently produced goods and services to foreign countries, the producers of those goods get income from abroad.
- 3) In other words, current account receipts have the effect of increasing the flow of income in the country. On the other hand, when India imports goods and services from foreign countries and pays them money which would have been used to demand goods and services within the country money flows out to foreign countries.
- 4) Thus, current account payments to foreigners involve reduction of the flow of income within the country and constitute a leakage. Thus, the current account of the balance of payments has a direct effect on the level of income in a country. The capital account, however, does not have such a direct effect on the level of income; it influences the volume of assets which a country holds.

Balance of Trade and Balance of Payments:

Balance of trade and balance of payments are two related terms but they should be carefully distinguished from each

other because they do not have exactly the same meaning. Balance of trade refers to the difference in values of imports and exports of commodities only, i.e., visible items only. Movement of goods between countries is known as visible trade because the movement of goods is open and visible and can be verified by the custom officials.

During a given period of time, the exports and imports may be exactly equal, in which case the balance of trade is said to be in balance. But this is not necessary because those who export and import are not necessarily the same persons. If the value of exports exceeds the value of imports, the country is said to have an export surplus. On the other hand, if the value of its imports exceeds the value of its exports, the country is said to have a deficit balance of trade.

Dis Equilibrium

Though the credit and debit are written balanced in the balance of payment account, it may not remain balanced always. Very often, debit exceeds credit or the credit exceeds debit causing an imbalance in the balance of payment account. Such an imbalance is called the disequilibrium. Disequilibrium may take place either in the form of deficit or in the form of surplus

Disequilibrium of **Deficit** arises when our receipts from the foreigners fall below our payment to foreigners. It arises when the effective demand for foreign exchange of the country exceeds its supply at a given rate of exchange. This is called an 'unfavorable balance'.

Disequilibrium of **Surplus** arises when the receipts of the country exceed its payments. Such a situation arises when the effective demand for foreign exchange is less than its supply. Such a surplus disequilibrium is termed as 'favorable balance'.

5. Causes of Disequilibrium in Balance of Payment

1) Development Programmes

Developing countries which have embarked upon planned development programmes require to import capital goods, some raw materials which are not available at home and highly skilled and specialized manpower. Since development is a continuous process, imports of these items continue for the long time landing these countries in a balance of payment deficit.

2) Demonstration Effect

When the people in the less developed countries imitate the consumption pattern of the people in the developed countries, their import will increase. Their export may remain constant or decline causing disequilibrium in the balance of payments.

3) Natural Factors

Natural calamities such as the failure of rains or the coming floods may easily cause disequilibrium in the balance of payments by adversely affecting agriculture and industrial production in the country. The exports may decline while the

imports may go up causing a discrepancy in the country's balance of payments.

4) Cyclical Fluctuations

Business fluctuations introduced by the operations of the **trade** cycles may also cause disequilibrium in the country's balance of payments. For example, if there occurs a business recession in foreign countries, it may easily cause a fall in the exports and exchange earning of the country concerned, resulting in a disequilibrium in the balance of payments.

5) Inflation

An increase in income and price level owing to rapid **economic development** in developing countries, will increase imports and reduce exports causing a deficit in balance of payments.ased their surplus. The poor marketing facilities of the developing countries have pushed them into huge deficits.

6) Flight of Capital

Due to speculative reasons, countries may lose foreign exchange or gold stocks. People in developing countries may also shift their capital to developed countries to safeguard against political uncertainties. These capital movements adversely affect the balance of payments position.

7) Globalization

Due to globalization there has been more liberal and open atmosphere for international movement of goods, services and capital. Competition has been increased due to the globalization of international economic relations. The emerging new global economic order has brought in certain problems for some countries which have resulted in the balance of payments disequilibrium.

8) Population Growth`

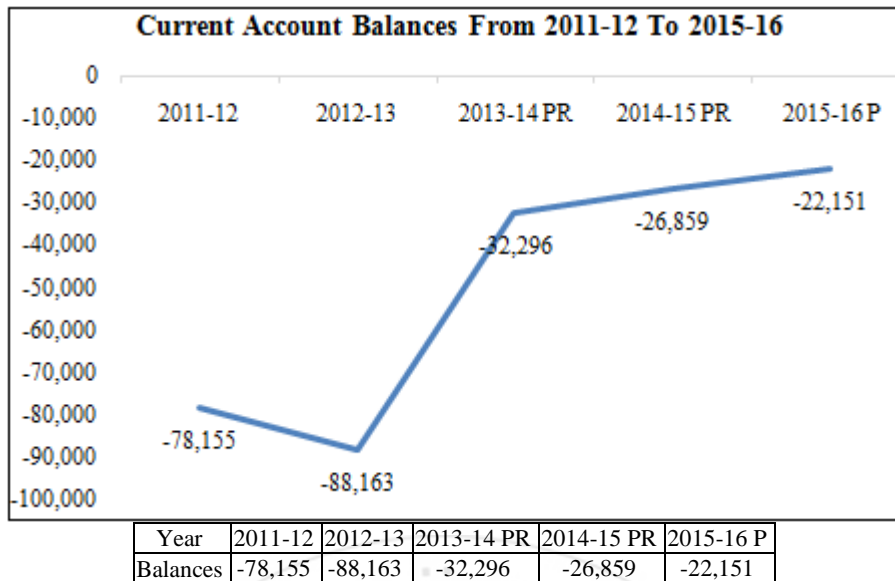
Most countries experience an increase in the population and in some like **India** and **China** the population is not only large but increases at a faster rate. To meet their needs, imports become essential and the quantity of imports may increase as population increases.

The following table represents BOP statement of Indian Economy since 2011

India's BOP statement for last five years					
(US \$ million)					
	2011-12	2012-13	2013-14 PR	2014-15 PR	2015-16 P
1	2	3	4	5	6
A. CURRENT ACCOUNT					
1 Exports, (f.o.b).	309,775	306,583	318,606	316,544	266,366
2 Imports, c.i.f.	499,534	502,238	466,217	396,445	396,445
3 Trade Balance	-189,760	-195,657	-147,610	-144,930	-130,080
4 Invisibles, Net.	111,605	107,494	115,312	118,082	107,929
a) 'Non-Factor' Services of which :	64,098	64,916	73,067	76,528	69,677
Software Services	60,957	63,504	67,002	70,400	71,454
b) Income.	-15,988	-21,455	-23,028	-24,140	-24,375
c) Private Transfers	63,469	64,342	65,481	66,264	63,139
5 Current Account Balance	-78,155	-88,163	-32,296	-26,859	-22,151
B. CAPITAL ACCOUNT					
1 Foreign Investment, Net {a+b}	39,232	46,712	26,387	73,456	31,892
a) Direct Investment	22,061	19,819	21,564	31,251	36,021
b) Portfolio Investment	17,171	26,892	4,823	42,204	-4,131
2 External Assistance, Net	2,297	983	1,031	1,724	1,504
3 Commercial Borrowings, Net	10,344	8,485	11,777	1,570	-4,529
4 Short Term Credit, Net	6,669	21,658	-5,043	-112	-1,611
5 Banking Capital of which :	16,226	16,570	25,449	11,618	10,630
NRI Deposits, Net	11,919	14,841	38,891	14,055	16,053
6 Rupee Debt Service	-78	-57	-51	-80	-72
7 Other Capital, Net*	-6,928	-5,042	-10,762	1,108	3,314
8 Total Capital Account	67,754	89,300	48,786	89,286	41,129
C. Errors & Omissions	-2,431	2,688	-984	-1,022	-1,074
D. Overall Balance [A(5)+B(8)+C]	-12,832	3,822	15,509	61,405	17,906
E. Monetary Movements (F+G)	12,831	-3,826	-15,508	-61,406	-17,905
F. IMF, Net					
G. Reserves and Monetary Gold (Increase -, Decrease +) of which : SDR allocation	12,831	-3,826	-15,508	-61,406	-17,905
Memo: As a ratio to GDP					
1 Trade Balance	-10.4	-10.7	-7.9	-7.1	-6.3
2 Net Services	3.5	3.5	3.9	3.7	3.4
3 Net Income	-0.9	-1.2	-1.2	-1.2	-1.2
4 Current Account Balance	-4.2	-4.8	-1.7	-1.3	-1.1
5 Capital Net (Excl. changes in reserves)	3.7	4.9	2.6	4.4	2.0
6 Foreign Investment, Net	2.2	2.6	1.4	3.6	1.5

PR: Partially Revised. P: Provisional.

Current account developments:



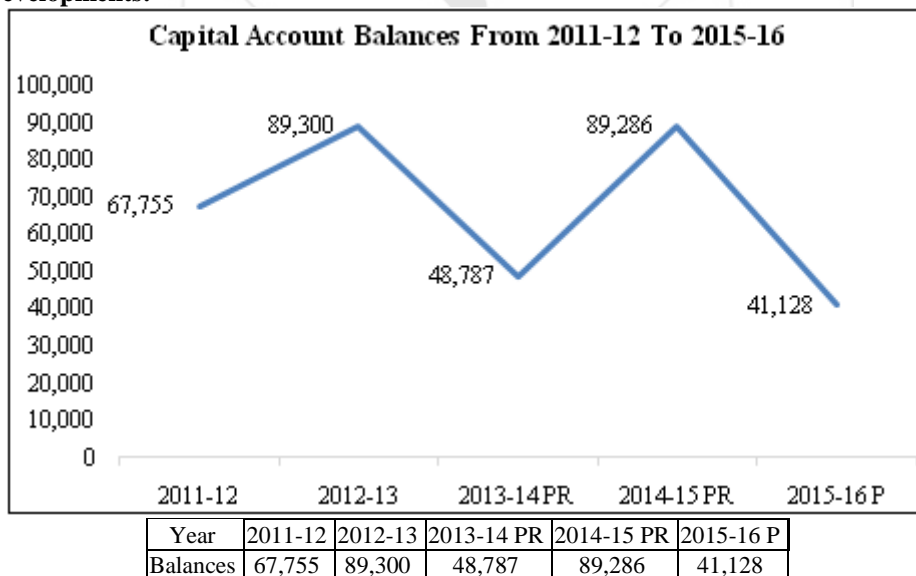
Interpretation:

Current account balances are showing a decline trend from the year 2014-15 to 2015-2016 by \$4.78 millions. which is a positive sign for the Indian economy. Although current account balances are showing 22.15million deficit balance it will be a positive sign to Indian economy because when compared the deficit balance of FY 2014-15-26.85million the deficit balance came down by 4.78 million. Because of

drastical fall in imports leads this change. During 2015-16 the imports was 396,444 million against 396,444 millions in the FY 2014-15. It could happened because of government policies and make in India campaign.

If Indian could follow the same trend definitely the amount spent on foreign goods will get down soon.

Capital Account Developments:



Interpretation

Capital account balances are showing a decline trend from the year 2014-15 to 2015-2016 by \$48.15 millions. which is a positive sign for the Indian economy. Although capital account balances are showing 23.46 million deficit balance it will be a positive sign to Indian economy because when compared the deficit balance of FY 2014-15 50.41million the deficit balance came down by 48.15 million. Because of drastic fall in Exports leads this change. During 2015-16 the imports was 316,544 million against 266,366 millions in the FY 2014-15.

6. Conclusion

In capital account , Exports decreases in the year 2011-2016 and imports increases initially and after that decreases in the year 2011-2016. In current account, foreign investment (which includes Portfolio investment and Direct investment) also decreases in the year 2011-2016. Population growth, Demonstration effect, cyclic fluctuations, Natural factors, Globalization and inflation are the factors which causes disequilibrium in balance of payments.

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