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Implications of Balance of Payments during Post- Covid-19 Period in India

Dr. Anil Kumar

Associate Professor in Economics, Government Degree College, Rakkar, Kangra, Himachal Pradesh

ABSTRACT

India is an emerging economy of the world. The balance of payments represents the transactions of economy and plays essential role in determining the position of an economy. International trade is vital for all nations over the world. Trade stimulates the growth of various sectors of economy. The growth of economy depends on the exports and imports as these increases the foreign currency which leads to the overall development. The present study intends to examine the performance of balance of trade and analyze status of the indicators of balance of payments of Indian economy. The data has been collected for the current year from the secondary sources. The findings conclude that the balance of trade and balance of payments are the important components of Indian economy and these are moving in positive direction.

INTRODUCTION

The balance of payments is considered as the balance of international payments which presents the record of all economic transactions of a country and with world. These transactions are mainly generated by companies, residents, and government. The balance of payments contains the two types of external transactions of a nation. These are: The visible. The non-visible This shows the addition of claims of current demand and supply of a nation on the foreign currencies. This includes the foreign claims on the domestic currency. These transactions include the payments for import and exports. The payments such as cash, cash capital, and cash transfers are taken into consideration. The Sources of funds are the surplus such as receipts of export payments, investments. The Uses of funds are the negative things such as payment for import in foreign countries. BOP is considered as a summarized statement which shows the transactions of a nation with the world. The balance of payments is regarded as the balance of international payments that includes all transactions between a nation and foreign consisting the various claims, product, income, services, transfers and liabilities. The balance of payments represents these transactions in current accounts and capital account. The current account contains the transactions in transfers, gain, product and services. The capital account takes the transactions basically in cash instruments. The current account shows the net amount which a nation is earning. Balance of trade = earnings on exports- payments for imports Current account = balance of trade + factor income + cash transfers. The capital account includes the net adjustments in the foreign assets. Current account + capital account + balancing item =0 Visible trade means recording the imports and exports of physical goods. Invisible trade is the recording of services including the transfer and gain. BOP surplus=current account surplus + capital account surplus
The present paper intends to analyze the status of balance of payment of India. This has been done through the analysis of indicators of balance of payments. These are as: invisible items, current account items and capital account items.

REVIEW OF LITERATURE

Konya and Singh (2006) explained that export and import growth is very important for providing the base for economic growth in developing nations and international trade provides the link between output and growth. Awokuse (2008) explored the total share of trade related to exports and imports for increasing the economic growth and concluded that export promotion contributes in the economic growth and development. Gazi et.al (2010) made an attempt to study the relationship between GDP and import. The performance of international trade has been measured from 1980 to 2005. Thus, export growth has been proven in various economies. Both export and GDP leads to more import, because international trade is very significant for the development of the nations. Athukorala (2011) examined the components of balance of payments Asian countries and China The author showed that a nation with positive balance of trade and effective trade policy can increase the export performance and national output. Mukherjee and shahana (2012) analyzed the performance of exports of India and the indicators of balance of payment. There are many factors which are determined by the authors for contributing the growth. The authors concluded that total share of exports of India is more in overall balance of trade. Kumari and Malhotra (2014) made an attempt to examine the effect of negative balance of payment and trade on economic growth of a nation. The authors revealed that China is fastest growing nation of Asia. The author concluded that balance of payment affects the overall economy. Ghose and Thankur (2015) explained that instrumental in the development of an economy, particularly developing nations. The major factors have been found out for promoting the export. The authors conclude that balance of payment determines the growth of export and trade in economies. Mahesh et. al (2015) explored the International Trade as important component of economy. The economic performance of a country depends on the contribution of exports and strong position of balance of trade.

OBJECTIVES OF THE STUDY

To examine the performance of trade balance of Indian economy.
To analyze the status of indicators of balance of payments of economy of India.

Features of Balance of payment conditions

India's current account deficit (CAD) decreased to US$ 13.4 billion (1.5 per cent of GDP) in Q4:2021-22 from US$ 22.2 billion (2.6 per cent of GDP) in Q3:2021-22.The sequential decline in CAD in Q4:2021-22 was mainly on account of a moderation in trade deficit and lower net outgo of primary income.Net services receipts increased, both sequentially and on a year-on-year (y-o-y) basis, on the back of a rise in net earnings from computer and business services. Private transfer receipts, mainly representing remittances by Indians employed overseas, increased to US$ 23.7 billion, up by 13.4 per cent from their level a year ago.Net outgo from the primary income account, largely reflecting net income payments on foreign investment, decreased sequentially as well as on a y-o-y basis.In the financial account, net foreign direct investment (FDI) at US$ 13.8 billion was higher than US$ 2.7 billion in Q4:2020-21.Net foreign portfolio investment (FPI) recorded an outflow of US$ 15.2 billion – mainly from the equity market.Net external commercial borrowings (ECBs) to India were lower at US$ 3.3 billion in Q4:2021-22 as compared with US$ 6.1 billion a year ago. There was a drawdown of US$ 16.0 billion in the foreign exchange reserves (on a BoP basis)as against an accretion of US$ 3.4 billion in Q4:2020-21.

Balance of payments of India during 2021-22

The current account balance recorded a deficit of 1.2 per cent of GDP in 2021-22 as against a surplus of 0.9 per cent in 2020-21 as the trade deficit widened to US$ 189.5 billion from US$ 102.2 billion a year ago.Net invisible receipts were higher in 2021-22 due to increase in net exports of services and net private transfer receipts, even though net income outgo was higher than a year ago.Net FDI inflows at US$ 38.6 billion in 2021-22 were lower than US$ 44.0 billion in 2020-21.Net FPI recorded an outflow of US$ 16.8 billion in 2021-22 as against an inflow of US$ 36.1 billion a year ago.Net ECBs to India recorded an inflow of US$ 7.4 billion in 2021-22 as compared with US$ 0.2 billion in 2020-21.In 2021-22, there was an accretion of US$ 47.5 billion to foreign exchange reserves (on a BoP basis)

The Capital Account

The capital account is a small portion of the BoP that was redefined by the Bureau of Economic Analysis (BEA) in 1999 in order to bring US national accounting closer in line with international standards2. It is a small subset of the transactions formerly recorded in the transfers portion of the current account. It records capital transfers and the buying and selling of non-produced and non-financial assets. The major components of the capital transfers sub-component of the BoP are migrant transfers and debt forgiveness. Migrant transfers are transfers of ownership like title of US land, business deeds, from foreigners residing in the US to foreigners living abroad. These transfers must be distinguished from transfers of income earned in the US by foreigners or abroad by American residents that are included in the current account under compensation of employees.- The major components of non-produced and non-financial assets are the transfer of ownership in natural resources, intellectual property rights, franchises and leases. Compared to the current and financial accounts, the capital account is negligible in its size.

Financial account

The Financial Account Broadly speaking, the financial account tracks financial flows coming in and going out of the economy. The importance of financial flows has grown significantly in the past half-century, from being a relatively unimportant consideration in the 1960s to becoming a major component of the BoP. The three major categories included in the financial account are foreign direct investment (FDI), portfolio investment (PI), and official reserve transactions (ORT).

Foreign Direct Investment

Foreign direct investment consists in long-term financial investment abroad, characterized by large ownership stakes (over 10 percent) in foreign firms. The 10 percent rule is a bit arbitrary, but economists think of foreign investment as highly non -liquid. While one can easily sell a foreign bond, large stakes in foreign enterprises are thought to represent ownership interests that cannot be liquidated at the tip of a hat. For example Samsung Corporation of South Korea might see a potentially profitable financial investment opportunity in a Japanese startup, and thus acquires more than 10% of the startup's stock. This transaction is recorded as a debit on South Korea's BoP, since it is a purchase of foreign assets (by analogy the purchase of foreign goods, an import, is also a debit). The purchase of financial assets is accompanied by some payment – with double entry accounting – and this payment corresponds to a flow of financial capital from Korea to Japan. It is thus clear that a purchase of assets abroad will trigger a capital outflow – domestic financial capital is put to work abroad. Since goods exports are recorded as a credit on the BoP, one might mistakenly think that South Korea's capital "exports" should also be recorded in the same manner. However, from the point of view of South Korea, Samsung is purchasing Japanese assets, and all purchases are recorded as a debit (just like imports, the purchase of foreign goods).

The Official Reserve Transactions

The final component of the financial account consists of official reserve transactions (ORT). The ORT subsection of the financial account tracks the international currency dealings of a country's central bank. The central bank interacts not only with the domestic bond and money markets, but also with international currency markets, with foreign central banks, and with international institutions like the International Monetary Fund, and the World Bank. It is important to remember that the central bank is an independent branch of government. It does not issue government debt, such as US treasury bills – which are issued by the treasury department. The central bank has no ties to the fiscalauthorities and central bank charters clearly indicate that their sole task is to conduct monetary policy. All the other non-central bank international transactions carried out by the government are recorded under government assets, in the category called other than official reserve assets. Any time a central bank buys foreign currency on the international open market, the transaction is recorded as a debit in the BoP because it is equivalent to a purchase of foreign asset. In terms of double entry accounting, such a purchase is at the same time a sale of domestic currency to the foreigners. So a purchase of domestic currency is a debit and a sale a credit in the financial accounts. As part of its task of conducting monetary policy at the national level, the central bank may hold a diversified international portfolio that includes international currency reserves and foreign government bonds.

CONCLUSION

Exports and imports are the significant elements of balance of trade which show the status of trade of economy. The present study concludes that various items of balance of payments namely capital items, current items and visible items are moving in positive direction. There has been observed a change under the period of study. The balance of trade shows the amount of total exports and imports which predicts the condition of exchange reserve of a nation. Trade balance was negative throughout the period of study. The Indian economy needs to focus on the negative trade balance. The corrective actions should be taken to resolve the negative trade balance. The government should strengthen the policy of trade to increase the level of export so that the problem of negative balance can be solved.

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