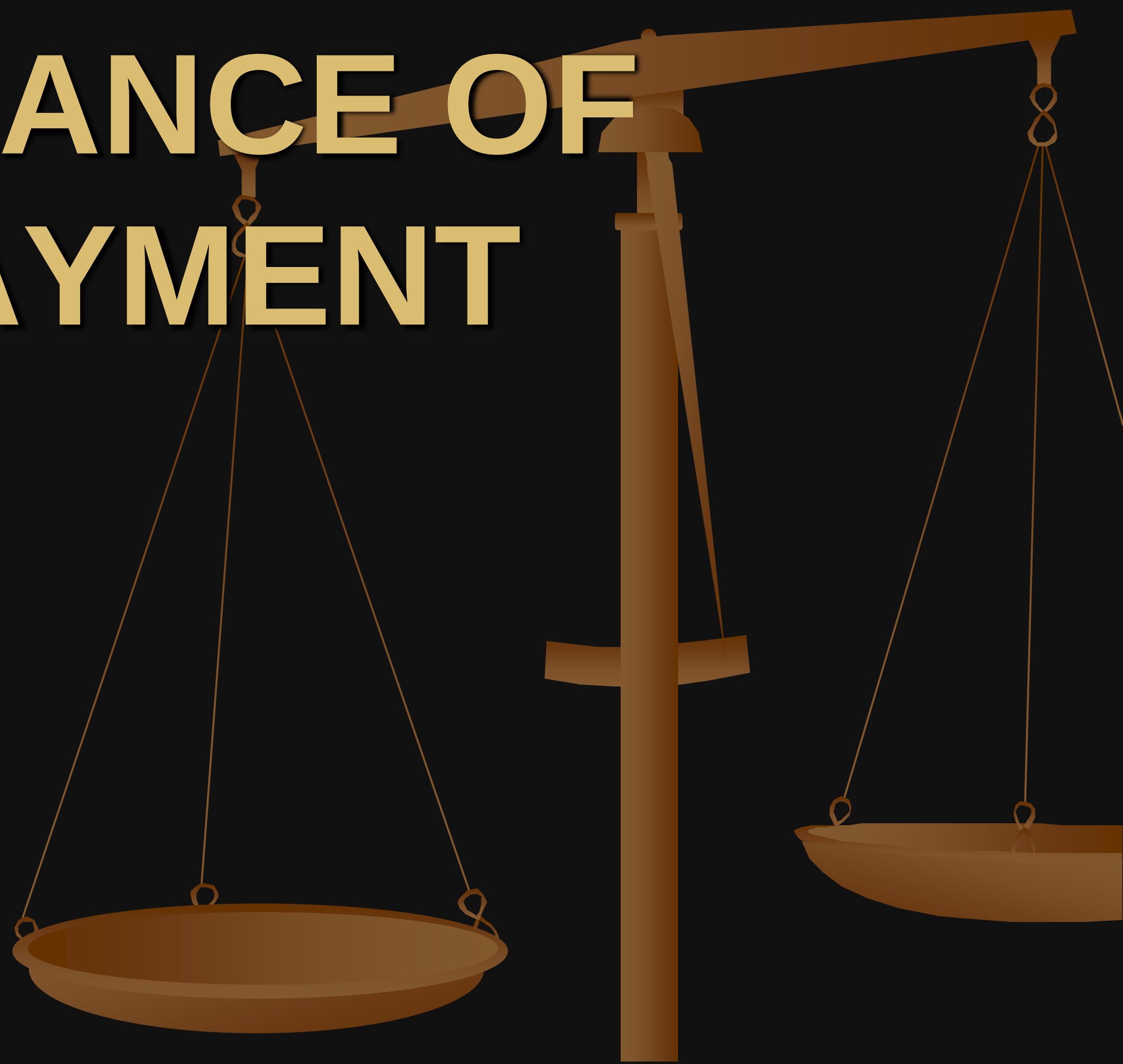
BALANCE OF PAYMENT



BALANCE OF PAYMENT:

- The balance of payments of a country is a systematic record of all economic transactions between the residents of a country and the rest of the world. It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents and payments made by theme on account of goods imported and services received from the capital transferred to non-residents or foreigners.

- **Reserve Bank of India**

IMPORTANCE OF THE BALANCE OF PAYMENTS

- BOP records all the transactions that create demand for and supply of a currency. This indicates demand-supply equation of the currency. This can drive changes in exchange rate of the currency with other currencies.
- BOP may confirm trend in economy’s international trade and exchange rate of the currency. This may also indicate change or reversal in the trend.
- This may indicate policy shift of the monetary authority (RBI) of the country.

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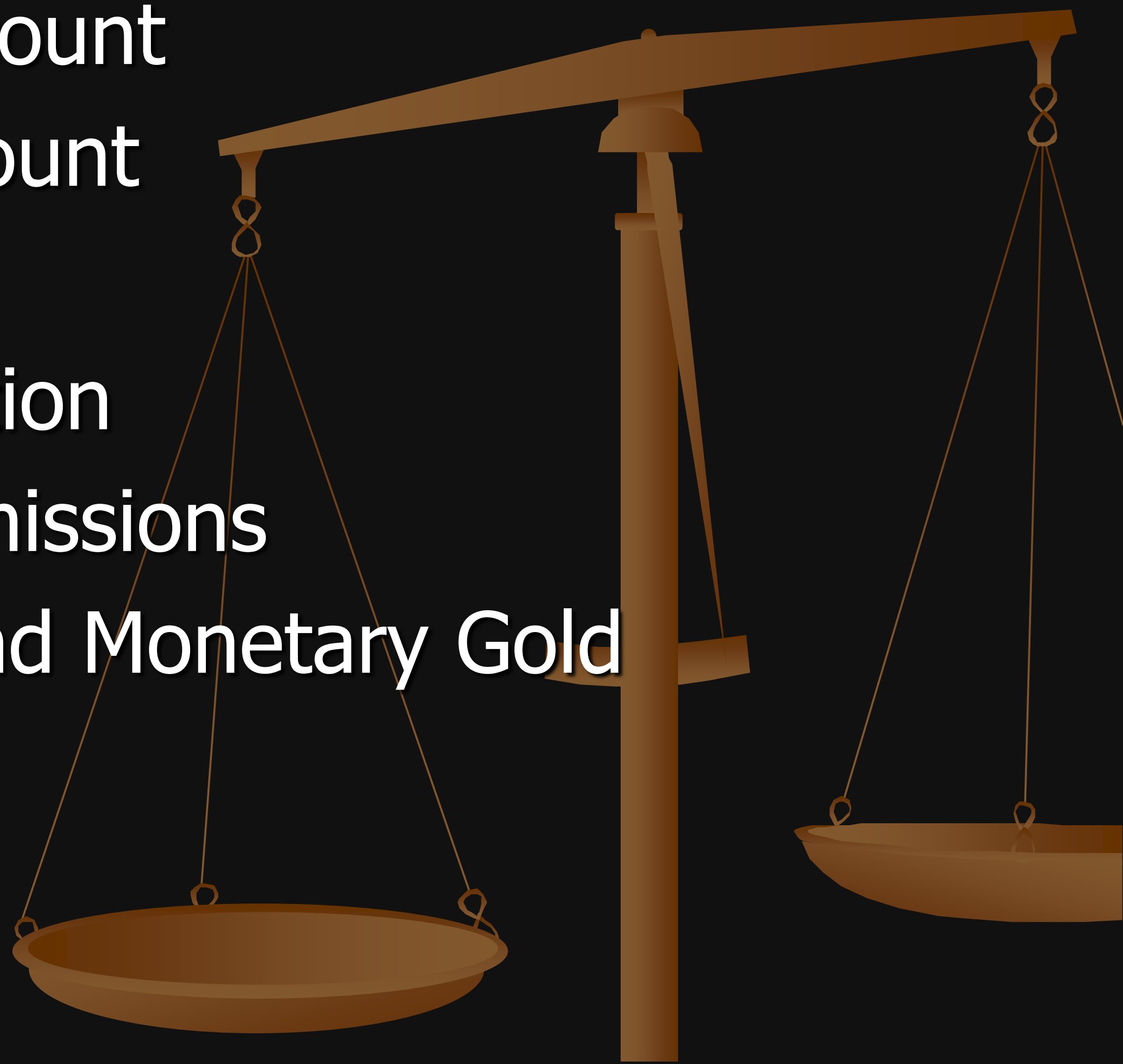
The General Rule in BOP Accounting

- a) If a transaction earns foreign currency for the nation, it is a credit and is recorded as a plus item.
- b) If a transaction involves spending of foreign currency it is a debit and is recorded as a negative item.

The various components of a BOP statement

- A. Current Account
- B. Capital Account
- C. IMF
- D. SDR Allocation
- E. Errors & Omissions
- F. Reserves and Monetary Gold



Current Account

- BOP on current account refers to the inclusion of three balances of namely – Merchandise balance, Services balance and Unilateral Transfer balance. In other words it reflects the net flow of goods, services and unilateral transfers (gifts). The net value of the balances of visible trade and of invisible trade and of unilateral transfers defines the balance on current account.

Capital Account

- The capital account records all international transactions that involve a resident of the country concerned changing either his assets with or his liabilities to a resident of another country. Transactions in the capital account reflect a change in a stock – either assets or liabilities.

The Reserve Account

- Three accounts: IMF, SDR, & Reserve and Monetary Gold are collectively called as The Reserve Account.
- The IMF account contains purchases (credits) and re-purchase (debits) from International Monetary Fund. Special Drawing Rights (SDRs) are a reserve asset created by IMF and allocated from time to time to member countries. It can be used to settle international payments between monitary authorities of two different countries.

TRENDS IN INDIA'S BALANCE OF PAYMENTS

- A country, like India, which is on the path of development generally, experiences a deficit balance of payments situation.
- This is because such a country requires imported machines, technology and capital equipments in order to successfully launch and carry out the programme of industrialization

India's Current account Balance of Payments

Period	Balance of Payments on Current account (Rs. In Crores)
First Plan (1951-56)	-42
Second Plan (1956-61)	-1,725
Third Plan (1961-66)	-1,951
Three Annual Plan (1966-69)	-2,015
Fourth Plan (1969-74)	+100 (Favorable)
Fifth Plan (1974-78)	+3,082 (Favorable)
Sixth Plan (1980-85)	-11,384
Seventh Plan (1985-90)	-38,313
Eighth Plan (1992-97)	-11,966
Ninth Plan (1997-2002)	-56,593
Tenth Plan (2002-07)	-33,315
Eleventh Plan (2007-12)	-9,67,254
Twelfth Plan (2012-13)	-4,79,600
(2013-14)	-1,87,750

FIRST PLAN

- During the first plan period, the balance of payments was affected by the Korean War boom, American recession of 1953 and favorable monsoon at home which helped to boost agricultural and industrial production.
- balance of payment on current account during the first plan was Rs. - 42 crores.

SECOND PLAN

- An important feature of the second plan period was the heavy deficit in the balance of trade which aggregated to Rs. 1725 crores due to heavey import of machines, row material and food grains.
- The foreign exchange reserves sharply declined and the country was left with no choice but to think of ways and means to restrict imports and expand exports.

THIRD PLAN

- The balance of current account was unfavorable during the third plan due to large import of military equipments and foodgrains.
- The serious adverse balance of payments which started with the second plan continued relentlessly during the third and annual plans.
- Heavy amount had to be paid by India in the form of interest payments on loans

FOURTH PLAN

- One of the objectives of the fourth plan was self-reliance – i.e., import substitution of certain critical commodities on the one side and export promotion so as to match the rising import bill.
- Accordingly the government managed to restrict imports and succeeded in expanding exports. Hence BoP was favorable during this plan

FIFTH PLAN

- During the whole of the Fifth Plan India experienced a surplus balance of payments due to a sharp increase in the exports surplus on account of invisibles.
- From 1979-80 onwards, India started experiencing very adverse balance of payments.
- India had to meet this colossal deficit in the current account through withdrawals and borrowings from IMF .

SIXTH PLAN

- The Sixth plan characterize the balance of payments position acute.
- The annual average current account deficit was of the order of rs.2600 crores during the Sixth Plan.
- During the Sixth Plan, the trade deficit was 3.3 per cent of GDP and current account deficit was 1.4 per cent of GDP.

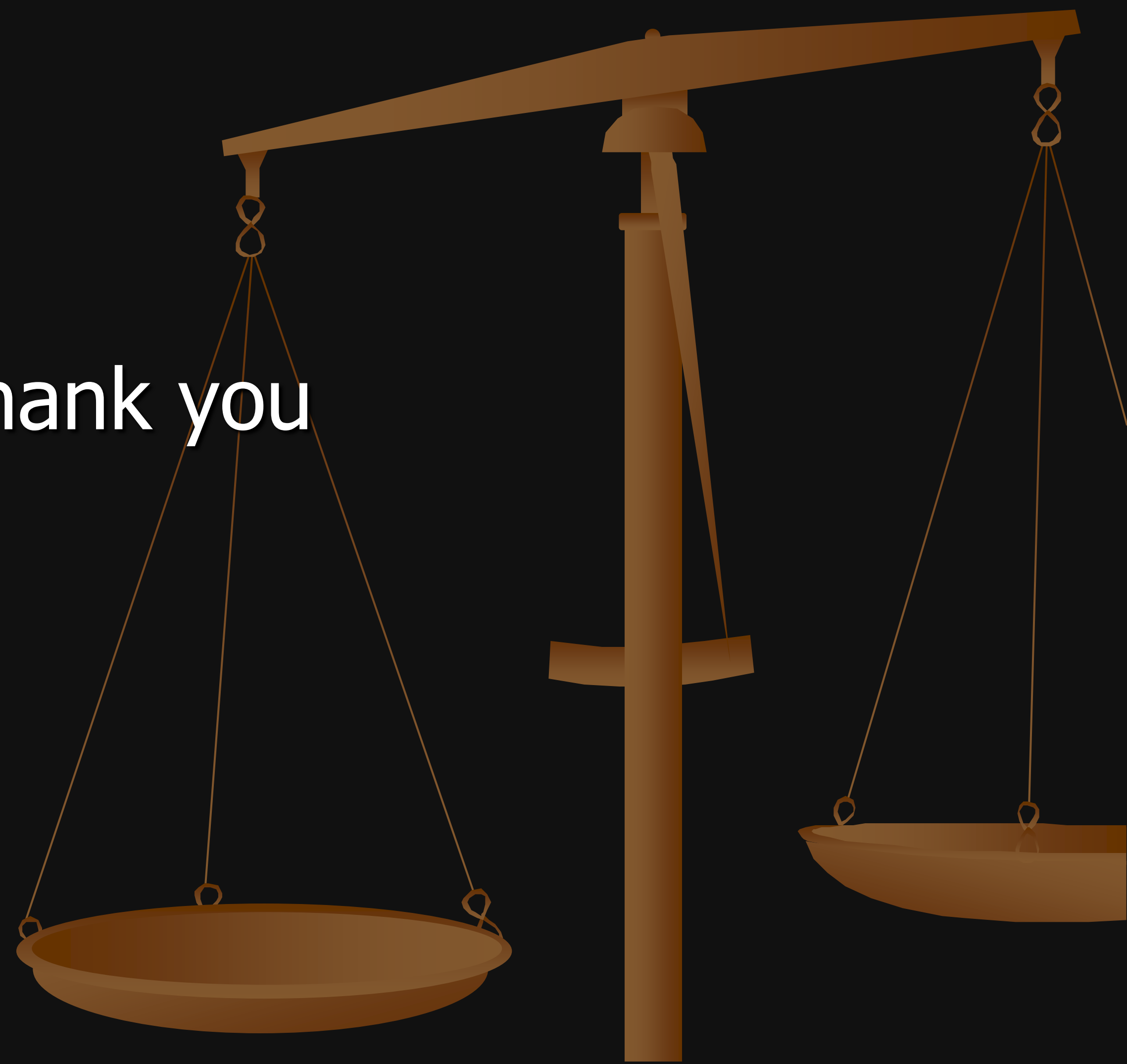
SEVENTH PLAN

- Exports performance substantially improved in the Seventh Plan with average volume growth exceeding 7 per cent.
- The share of net invisible earnings in financing trade deficit declines from 63 per cent during the Sixth Plan to 29.5 per cent during the Seventh Plan.
- The average current account deficit as a per cenr of GDP increased to 2.4 per cent in the Seventh Plan.

EIGHTH PLAN

- During this plan foreign exchange reserve were reduced to the level of Rs. 4388 crores. Known as foreign exchange crisis.
- Balance of payment deficit on current account was Rs. 11966 crores.
- Further, increased to 56993 during the ninth five year plan.
- Reduced to 33315 during the tenth five year plan

Thank you



DEVELOPMENT SINCE 1993-2000

- In the year 1993-94, India saw a remarkable turnaround from a foreign-exchange constrained control regime to a more open, market driven by liberalized economy.
- During the last three years export earnings, on average, accounted for nearly 90 per cent of the value of imports

- Exports recorded a growth of 20 per cent in dollar terms. The surplus on the invisible account doubled.
- Foreign currency reserves which were just $1205 million in 990 reached the level of $19386 million in 1994.
- The economy thus moved to a more stable and sustainable balance of payments position.

India’s Current account Balance of payment

	(April, 2005-Oct. 2006)
Exports	
2004-05	42200.62
2005-06	51516.87
Y-O-Y Growth	22.08
Imports	
2004-05	56381.09
2005-06	75032.08
Y-O-Y Growth	33.08
Trade Balance	
2004-05	-14180.47
2005-06	-23515.21

Source: Federal Ministry of Commerce, Govt. of India

India's Balance of Payments(2001-05)

US $ million

Items	2004-05 (P)	2003-04	2002-03	2001-02	2000-01	1990-91
Trade Balance	**-38,130**	**-15,454**	**-10,690**	**-11574**	**-12460**	**-9437**
Invisibles, net	31,699	26,015	17,035	17,035	9,794	-243
Current Account Balance	-6,431	10,561	6,345	6,345	2,666	-9,680
Capital Account	32,175	20,542	10,840	10,840	8,840	7,056
Overall Balance	**26159**	**31,421**	**16,985**	**16,985**	**5,868**	**-2,492**
Foreign Exchange Reserve Increase (+)/Decrease (-)	-26,159	-31,421	-16,985	-16,985	-5,842	1,278

Source: Reserve Bank of India Annual report (2004-05)

India's Foreign Trade (2004-05)

(In US $ million)

	April, 2004-March, 2005
EXPORTS	
2003-2004*	63978.78
2004-2005	79593.59
% Growth	24.41
IMPORTS	
2003-2004*	78250.86
2004-2005	106121.18
% Growth	35.62
TRADE BALANCE	
2003-04*	-14272.08
2004-05	-26527.59

Source: Federal Ministry of Commerce, Government of India
* Final figures as given by DGCI&S