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A LITERATURE REVIEW ON BALANCE OF PAYMENT

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Abstract:-Balance of payment accounts are an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's export and imports of goods, services, financial capital, and financial transfers. The Balance of Payment accounts summarize international transactions for a specific period, usually a year, and are prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items. When all components of the Balance of Payment accounts are included they must sum to zero with no overall surplus or deficit. The objective of this article is to throw a light on the existing literature on Balance of Payment, so the reader can get the different aspect of balance of payment at one place.

Keywords: Balance of Payment, Review of Literature.

LIST OF ABBREVIATIONS:

BOP: Balance of Payment
RBI: Reserve Bank of India

INTRODUCTION

The balance of payments (BOP) is a statistical statement that systematically summarizes, for a specific period (typically a year or quarter), the economic transactions of an economy with the rest of the world. It covers (a) all the goods, services, factor income and current transfers an economy receives from or provides to the rest of the world; and (b) capital transfers and changes in an economy's external financial claims and liabilities.

The principle of double-entry accounting is used in compiling BOP statement where every recorded transaction is represented by two entries, a credit and a debit, with equal values but in opposite sign, so that the resulting sum of the credit entries should always be in balance with the debit entries.

In the BOP, the term credit is used to denote a reduction in assets or an increase in liabilities, and the term debit is used to denote a reduction in liabilities or an increase in assets. Such usage has been supplemented by the rule that every recording of a debit movement shall be matched by the recording of a credit movement and vice versa.

The double-entry accounting conventions used for compiling a BOP Account are summarized in the following table:

CREDIT	DEBIT
➢ Exports of goods and services. ➢ Income receivable from abroad. ➢ Transfers from abroad. ➢ Increases in external liabilities. ➢ Decreases in external assets.	➢ Imports of goods and services. ➢ Income payable abroad. ➢ Transfers to abroad. ➢ Decreases in external liabilities. ➢ Increases in external assets.

OBJECTIVES

Explaining BOP model.
Analysis of India's Balance of Payments.
Comparison of India's BOP with China and Russia BOP.
Measures for improvement.
Obstacles in India's success.

REVIEW OF LITERATURE

Gupta (2009), said BOP positions indicate various signals to businesses. BOP comprises current account, capital account and financial account and services, income and current transfers. Often financial and capital accounts are treated as one. BOP gives many signals like large current account transactions indicate towards openness of an economy, it may also reflects well-developed capital markets of an economy. Healthy BOP positions or surplus in capital and current account keeps confidence in the economy and among investors. For Developing countries , current account surplus is more important as they need it for funding of investments, whereas, for Developed countries Capital account surplus is more important because they have sufficient fund for their investments. Large balances often attract foreign investors into an economy, thus bringing in precious foreign exchange. Bop also affects credit rating, decisions of policy makers, affects tariff policies and foreign flow's policies. Etc. The share of current account transactions in total BoP transactions has decreased from 60% in the year 1991-92 to 44% in the year 2007-08. There is also a shift from import substitution to free trade. India's current account deficit has increased from $1,178 million in 1991-92 to $17,403 million in 2007-08, the main reason been a rising oil import bill. Merchandise trade position has declined but there is a rise in services position. India has done fairly well on the capital account side. In 2007-08 it had a capital account surplus of $108,031 million, as foreign investment has increased manifold. Overall deficit has accounted for $20,380 million for April-December 2008. It was concluded that recent profitability and growth numbers have indicated signs of revival, also political change and expected stability might bring in foreign exchange and may improve India's Capital account position and research, which will have positive effects on Business and investments.

FxExperts (2010), gave a model which holds that a foreign exchange rate must be at its equilibrium level - the rate which produces a stable current account balance. A balance of payments (BOP) sheet is an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. The BOP summarizes international transactions for a specific period, usually a year, and is prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as a negative or deficit item. When all components of the BOP sheet are included it must balance – that is, it must sum to zero – there can be no overall surplus or deficit. A balance-of-payments crisis, also known as a currency crisis, is a speculative attack in the foreign exchange market. It occurs when the value of a currency changes quickly, undermining its ability to serve as a medium of exchange or a store of value. It is a type of financial crisis and is often associated with a real economic crisis.

Chapungu, said the balance of payments provides information about the economic interdependence of an economy with foreign countries. It records the value of all economic transactions between residents and foreigners for a given period. Exports and investments are registered as positive or alternatively as surplus items, while imports or other capital deployments in foreign countries, are registered as negative or deficit entries. The big difference of such entries with a record in the business sense is that the balance of payments records flows and not stocks. It therefore considers the change of an item over a period and not the total balance measured at one time. The official balance of payments of a reserve bank is also part of the balance of capital transfers account. This balance represents funding up to a statistical change in the remaining stock of net foreign assets. In the financial account, any changes in assets and liabilities are recognized as foreign assets. The two possible entries related to this involve the export of capital which translates to an increase in assets or decrease in external liabilities, while capital imports point to a decrease in receivables and increase in external liabilities. The balancing item pertains to an amount used to bear any numerical errors, in ensuring the current and capital accounts add up to zero. An entry in the current account leads to an entry in the capital account, and in total these two accounts must show a balance.

The foreign currency balance sheet describes the change in the official (national) currency reserves of the central bank. The reserves include cash and foreign exchange holdings, the gold holdings, reserve position with International Monetary Fund (IMF), and any existing special drawing rights.The basic idea of the double entry of payments, is that companies and individuals must pay for the services received (goods, services) from abroad and vice versa. Each performance draws a financial transaction after transaction, and therefore affects the performance and the financial account.

CAPITAL FLOWS AND MACROECONOMIC MANAGEMENT: TEQUILA LESSONS

Calvo (1998), examines the financial debacle in Mexico and its effects on other emerging markets. It is argued that

financial and liquidity considerations are opposed to current account sustainability and appear to have played a prominent role. Special attention is given to financial factors in Latin America and on this basis it is concluded that Mexico and Argentina were particularly vulnerable to speculative attacks. It was analyzed that Austria was in remarkable stability may be due to the low volatility of its monetary aggregates. It was also argued that financial sector could account for multiple self-fulfilling equilibrium , helping to explain the sudden and deep reversals in Mexico and Argentina. It was concluded that aside from the usual fiscal prudence advice, countries should pay special attention to the banking system and the maturity of public debt. Furthermore, the appropriateness of an exchange rate regime should take into account the characteristics of the financial sector.

DOES INDIA FACE A BALANCE OF PAYMENT CRISIS?

Dhar (2008), he said liquidity crunch is not the only problem. In October' 2008 there was a decline of 12% in exports. The fall in exports has primarily been responsible for the swelling of the trade deficit by nearly 60% over the corresponding period in the previous year. Current account deficit, which was around $6 billion in the first quarter of 2007-08, had increased to over $10.7 billion during April-June 2008. This was despite the fact the invisible receipts during the first quarter in the current fiscal had registered increase in excess of $8 billion over the corresponding period in the previous fiscal. The burgeoning trade account imbalance is a cause for concern for it comes at a time when services exports from India are facing the crunch in the face of the slowdown in the western world. IMF estimated that current account deficit is likely to increase over 3% of the GDP from 1.5% of the GDP in 2007-08. Second problem is of Ways and Means of financing it. Third problem is of confidence due to global meltdown. He concluded that this problem can be solved through by pursuing projects that help India to build competitive edge in the integrated world economy and sustained improvements in the country's production enterprises that can, in turn, lend to the vibrancy of the markets through creation of jobs.

Lamont (2011), said India had the widest current account deficit among emerging economies in the year 2009, alongside double-digit inflation as the biggest challenges for the Indian Economy. India's current account deficit has widened in the past year as fast-paced economic growth drives greater demand for imported goods, and is forecast to grow larger in the year ahead, current account deficit had grown to 2.9 per cent in 2009-10 from 2.4 per cent in the previous year. Reason as given by the central bank is the deterioration in the balance of payments was a decline in an “invisibles surplus”, caused in part by falling revenues to India's prized outsourcing sector, and according to Subir Gokarn, (the deputy governor of the RBI) said he detected risks with global capital flow volatility. He said there had been “a sharp change in the global scenario with a flight to safety exiting from Indian and other emerging markets, which put some pressure on what looks like a comfortable balance of payments.” India's current account deficit, the largest among BRIC countries, could hit 3 per cent in the coming months to extend the widest margin for three decades. As per RBI annual report for 2009-10 “A higher current account deficit led to a stronger absorption of foreign capital.” India'sforeign exchange reserves have fallen to $278 billion from a high of $315 billion in May 2008. A current account deficit occurs when a country's imports of goods and services is greater than its exports of goods, services and transfers. A wide current account deficit is not necessarily a bad thing for a fast-growing developing country provided that it is attempting to boost local productivity and exports.

Brazil's current account deficit has widened to $43.76bn, or about 2.24 per cent of GDP, on strong demand for imports. China and Russia, by comparison, both run current account surpluses. Capital flows in the initial months of 2010-11 moderated somewhat, reflecting the drop in appetite of global investors in response to the sovereign risk concerns in the Eurozone. It was concluded that given the stronger growth outlook of India and the probability of monetary exit being delayed by the advanced economies, capital flows could be expected to accelerate, which will have to manage.”

Edelweiss (2011), shows that on quarter-to-quarter basis for the year 2010 there was a slowdown on the capital account side whereas, the current account was largely stable. Trade deficit, which was on a widening trend since March,2009 , shrunk marginally from $32billion in quarter two to $31billion quarter three. Even exports have climbed to around 13% year-to-year in quarter of 2010. Imports also registered a growth of 2.6% year-to-year basis. This largely reflects the ongoing recovery in the domestic economy and global trade. Among major heads of invisibles, gross software earnings improved. However, the positive effect of increased software earnings was negated by reduction in private remittances. Capital account surplus in quarter three of the financial year 2010 was at $14billion was significantly lower than $21billion in the previous quarter. Such slowdown in the capital account took place largely on the back of lower foreign direct investment and portfolio inflows. From an overall deficit of around $20billion in April- December 2008 Bop turned into a surplus of around $11billion during the corresponding period in 2009. The large swing was triggered mainly by the capital account. Trade deficit also improved over the stated period on account of faster fall in imports as compared with exports. Exports and Imports continue to show improvement on sequential basis on the back of recovering global economy.

THE EXTERNAL PAYMENTS' BALANCE AND THE ROMANIAN ECONOMIC GROWTH BETWEEN 1996 AND 2006

Ciprian-Ionel and Danut Vasile (2008), said External payments balance illustrates the summation of a country's economic transactions fluxing in its reports with the foreign countries, completed in a certain time period, usually a year. At the

end of a year, EPB can be found in one of the following situations: a) Balance – the surpluses and the deficits compensate each other; b) Surplus – the surpluses exceed the deficits; c) Deficit – the deficits exceed the surpluses An external payments balance (EPB) with surplus or in balance can facilitate the economic growth of a country. An EPB with deficit causes foreign borrowings; witch can be least favorable for the economic development process. The paper's objective is to analyze the relationship between the economic growth and the EPB's balance account in Romania, for the 1996-2006 period. Although for this period both ECU and EURO were subjected to erosion, caused by inflation, its influence was relatively small, so the actualization wasn't all that necessary. Data subjected to analyze is EPB's balance account and the Romanian GDP, for the 1996-2006 time period. For the modeling of the relationship between the economic growth and the EPB's balance account was used the GDP's growth rate and the EPB's deficit growth rate. They analyzed that the EPB's deficit has an amplifying tendency, emphasized especially in the 2003-2006 period. The evolution of the Romanian EPB's balance account is related to the shape of a hyperbola. The disadvantage of this model is that it doesn't allow the underlying of major evolution changes in the future; it only allows the extension of a descending trend. The estimated cubic model is given by the following relation: Yt = a + b1 Xt + b2 Xt2+ b3 Xt3, where a, b1, b2, b3 are the parameters estimates of the regression model. The cubic model with no constant explains 98.6%. of the variation of Romanian EPB's balance account for the 1996-2006 period. The ANOVA test shows that the correlation coefficient is statistically significant, and so is the estimated regression model. The Runs test results show that the errors' independence hypothesis is accomplished. The model estimated with a cubic function explains statistically significant the variation of the Romanian EPB's balance account for the 1996-2006 period. Based on this model, prediction for the future periods can be made. The obtained model shows that an EPB's balance account rate's growth leads to economic growth up to a certain level, after which an economic regress is recorded. For Romania, the ongoing growth of the EPB's deficit draws a fall into the economic growth, which can create, on long term, the appearance of major macroeconomic dysfunctions. These changes in the EPB's balance account's evolution can't be predicted, it can only be investigated. The relationship between GDP's growth rate and the EPB's deficit growth rate depend on the each economy's specificity.

BALANCE OF PAYMENT CRISIS AND CAPITAL FLOWS: THE ROLE OF LIQUIDITY.

Goldfajn and Valdes, said Mexican external crisis of 1994 brought into questions of basic understanding of this type of events. Other prominent Bop crisis is of Chile (1982), Finland (1992), and Mexico (1982). All of them denoted three features a.) They all experienced a capital inflow surge in the year's preceding the crisis, b.) This capital inflow was intermediated, at least in part, by the domestic financial sector increased its proportion of short term liabilities, c.) The external collapses were accompanied by severe banking crisis. The analysis of Mexican crisis, it was argued that the volatility of capital flows played a major role in the crisis. It was found that FDI is not the driving force behind these crises. Other capital which is more associated with intermediation explains the bulk of the inflow like bonds, direct borrowing and other short and long run fixed income instruments. The higher capital inflows are related to increasing intermediation is a phenomenon that has a strong counterpart in the real world. Even banking crisis was indeed an important consideration to policy makers. It is difficult to explain major external crisis in a context where all agents – investors, intermediaries and policy makers are rational given the magnitude of the currency crisis and the relatively small size of the underlying shocks, in comparison it is easier to explain major crisis in association with the observed capital swings and banking crisis. The traditional theoretical framework on Bop crisis is based on the government inconsistent policy combined with a fixed exchange rate regime, which would eventually have to collapse. The main candidate for government inconsistency is its fiscal policy. The normal measures of fiscal budget indicated that Mexico was running budget surpluses up to the year of the crisis. This paper focuses on the interaction between liquidity, capital flows and exchange rate collapses. The introduction of intermediaries in the model is a synonym for liquidity creation and all its side effects. This paper shows the asymmetry between the time needed for investment to mature and the timing of investors. This paper analyzed two types of shocks namely productivity and international interest rates. The interaction between exchange rate collapses and runs against the intermediaries is especially interesting. This affects in both directions. Intermediaries transform illiquid assets into liquid one's, and intermediation helps to increase the capital inflows of the economy and may generate runs and large capital outflows, amplifying initial shocks that otherwise would not have generated crisis.

BALANCE OF PAYMENT REFORM-GATT: URUGUAY ROUND UPDATE

Ann, said Balance of payments reform refers to reform of Article XVIII:B of the GATT, and the 1979 Declaration on Trade Measures Taken for BOP Purposes, under which developing countries that are experiencing balance of payments problems may impose import restrictions such as quotas or licensing restrictions. The rules state that such restrictions should be temporary and should not be applied to protect individual industries. However, some of the developing countries have used BOP as an all-purpose GATT legal cover for trade barriers that protect certain products and are frequently maintained for decades. The United States believes that this loophole must be closed. As long as this loophole remains, concessions made by the developing countries in other areas of the Round could easily be negated by BOP restrictions. The United States recognizes that the developing countries are justified in their use of Article XVIII:B if they are facing severe BOP problems. Indeed, the developed countries may justify their own use of import restrictions for BOP reasons under Article XII (although this article is

really used). Any member of the GATT also may invoke Article XIX (safeguards) to compensate for a situation in which a domestic industry is threatened by a sudden surge of imports. We believe that the developed countries have acted with restraint in invoking these articles. In contrast, the economies of some developing countries have become dependent on the protection provided by Article XVIII:B. The United States tabled a proposal on BOP reform in December 1989, which was co-sponsored by Canada. Specifically, the United States wishes to clarify the criteria for assessing trade restrictions applied for BOP purposes; to provide guidelines for the limited types of actions countries facing serious BOP problems are entitled to take; and to strengthen disciplines and procedures which apply to countries wishing to take measures in excess of those specified in the guidelines. The U.S.-Canada proposal sets guidelines for "allowable" measures taken for BOP reasons. In February, the European Community tabled its own proposal for BOP reform, which is similar to the U.S. proposal in many respects. Prior to the June meetings of the Negotiating Group, the United States and Canada tabled a new text which merges the old U.S.-Canada proposal with the EC proposal. This new paper preserves the essentials of the original U.S.-Canada proposal.

An enormous rift divides the developed and the developing countries on BOP reform. Developing countries are clinging tenaciously to the special privileges they have enjoyed under Article XIII:B. Developed countries are just as insistent that this loophole should be closed. It is likely that this divergence of opinion will continue through the coming months and may only be resolved at the final stages of the Uruguay Round.

THE GLOBAL ECONOMIC CRISIS AND INDIA: AN ANALYSIS

Vashisht & Pathak (2009), said the impact of the global crisis on India can broadly be divided into three different aspects: (1) the immediate direct impact on its financial sector; (2) an indirect impact on economic activities; and (3) potential long-term geopolitical implications. Fortunately, India, like most of the emerging economies, was lucky to avoid the first round of adverse effects. However, the indirect –or second-round– impact of the crisis has affected India quite badly, as it not only led to massive outflows of Foreign Institutional Investment (FII) but also compelled Indian banks and companies to shift their credit demand from external sources to the domestic banking sector. It thereby exerted pressure on domestic market liquidity, thereby giving rise to a credit crunch. Coupled with the ensuing loss of confidence, this increased the risk aversion of Indian banks, hurting credit expansion in the domestic market.

Merchandise exports shrank by more than 17% from October 2008 to May 2009. The decline in exports has accelerated, with a drop in May 2009 of 29.2% compared with May 2008. Likewise, exports of services are also facing a steep downturn. In the third quarter of 2008-09, growth in services exports declined to a mere 5.9%, compared with 34% in the same period a year back. Earnings from travel, transport, insurance and banking services have contracted, while the growth of software exports declined by more than 21 percentage points. The real shock came in the fourth quarter of 2008-09 when services exports contracted by 6.6% over the same period a year back.

In any case, India has long-standing border disputes with at least two of its neighbours in South Asia –Pakistan and China– and faces the threat of militant terrorist organisations operating from Pakistani territory. Furthermore, Bangladesh, another of India's South-Asian neighbours, is suspected of being a shelter for militants who have repeatedly caused extensive damage in India. Therefore, although India has escaped the financial crisis without much damage, it can be argued that because of its geopolitical location in South Asia, the consequences of the global financial crisis could become severe. Given the global financial crisis, India faces both opportunities and challenges. For instance, it could exploit the opportunity created by the crisis to consolidate its economic interaction with its neighbours. Without a politically stable and economically prosperous neighbourhood, India will find it difficult to foster its regional and global interests. As the economic crisis hits India's more fragile neighbours –such as Bangladesh, Pakistan, Sri Lanka and Nepal– it could push for a South-Asian Economic Recovery Initiative, which could lead to a higher degree of economic integration and cooperation in the region.

THE SUSTAINABILITY OF TRADE BALANCES IN CHINA

Yin & Hamori (2011), examines the China's trade balance surplus has increased in recent years. The problems that arise are not caused by the rising exports but by the imbalance between export and import growth. Without a stable balance between the two, newly emerging trade imbalances will tend to increase (Hamori, 2009). Husted (1992) was the first important empirical study on trade balance sustainability. He developed a theoretical model that explains the existence of a long-run equilibrium relationship between exports and imports. The model implies that if inter-temporal budget constraints are valid in an open economy, exports and imports have a co-integrating relationship, and thus, trade balance is sustainable. This study uses annual data for China from 1982 to 2009. This sample period is based on the availability of the data. Both real exports of goods and services (t EX) and real imports of goods and services plus net transfer payments and net interest payments (t MM) are measured in constant local currency units. The data source is the World Development Indicator published by the World Bank. This study uses non-stationary time series approach to test the sustainability of the current account deficits in China over the period from 1982 to 2009. It is essential to know whether imports (t MM) and exports are co-integrated or not in order to design and evaluate the current and future macro policies aimed at achieving trade balance (Arize, 2002). Their empirical results suggest that, despite the co-integrating relationship between imports (t MM) and exports in China, the intertemporal external

constraints may be violated. Thus, the trade balance surplus experienced over the past several years cannot be sustainable in the future. It is therefore necessary to ensure that an effective policy for controlling changes in trade accounts is established.

THE UK BALANCE OF PAYMENTS

Riley (2006), examines why is the export sector of the economy vital for the UK? The reasons cited are Aggregate demand & the multiplier, Manufacturing industries, Regional economic health. Now they have cited the underlying causes of the UK trade deficit like Short-term factors (Strong consumer demand, High income elasticity of demand for imports, The weakness of the global economy), Medium-term factors(Shift in comparative advantage, Substitution effect), Long-term factors (Structural factors, Supply side deficiencies, Manufacturing sector has been in long-term decline). It is useful to group the explanations for the record trade deficit in goods into short-term, medium-term and long-term factors. Some relate to the demand-side of the economy, others to supply-side economics influences. It also shares The Effects of Changes in the Balance of Payments on the UK Economy and it Consider the effects of a slowdown in exports and a faster growth in imports of goods and services caused by a rise in the value of sterling against other currencies that leads to a worsening of the balance of payments. This has further effects on the economy as a whole: Reductions in demand in the circular flow, Lost jobs, Dip in business confidence and investment, Reductions in inflationary pressure.

ANALYSES OF INDIA'S BALANCE OF PAYMENT SITUATION SINCE 1991.

Akrani (2010), said the balance of payments of country is a systematic record of all transactions between the residents of a country & the rest of the world c3arried out in a specified period of time.

Trade balance =exports-imports
Current account=trade balance & invisibles
Capital account=foreign direct investments + foreign institutional investors
Reserves(FERs)

India had a trade deficit of $51,841 billion $9438 billion 1990-91. This paper also told us that India's current account deficit is decreased to $2,666 million in the year 2000-01 from $9,680 in 1990-91 and even it recorded a surplus in 2003-04 of $14,083million. The main reason for this is the success of invisible items. The main contributing factor to rise in invisible receipts is non-factor receipts and private transfers. As far as private transfers are concerned the main constituent is workers remittance from abroad. This paper also told us that NRI deposit and foreign investment both portfolio and direct have helped to a great extent in capital account.

INDIA'S BALANCE OF PAYMENTS

Chanda(2010), said the basis of a sound BOP situation lies in the inner economic strength of the country. The domestic economy has to be strong enough to face international challenges. After independence, India adopted inward oriented policies with this very objective. The objective by itself was good, no doubt; but the planners and politicians became so obsessed with domestic, indigenous self-sufficiency that the country was almost completely sealed from all foreign influence. The advantages of foreign trade were overlooked year after year. Indian entrepreneurs were dragging with cheap, obsolete technology and devouring subsidies, creating a huge national burden of large sick public sector units. Instead of acting as an incentive, government protection in fact harmed our industrial development. The New Economic Policy of the nineties aimed at opening up the economy, to allow free trade and competition and reduce the role of government significantly in foreign trade matters. Restrictions on international trade were removed, foreign investments were allowed and a new Liberalized Exchange Management System was introduced to reap the benefits of competition and counter the disadvantages of a closed, inward looking trade policy. The changes towards liberalization and globalization of the Indian economy were carried out very cautiously in phases. After overcoming the initial hiccups and doubts in the last decade (1991-99), the Indian economy has finally got a sound base with a strong BOP.

Foreign Investment

India successfully attracted foreign investors to the country with its sincere positive economic changes like reduced paperwork and other cumbersome formalities. From a meagre US$103 million net foreign investment in the year 1990-91, it has grown to us$ 8669 million in 2008-09.

Foreign exchange reserves

Foreign exchange reserves (FER) are an essentially important factor in the country's economy, reflecting its economic strength in the global scenario.

From a low level of US $ 5.8 billion at end- March 1991, FER gradually increased to US $ 25.2 billion by end-March 1995, US $ 113.0 billion by end-March 2004 and US$ 314.6 billion in end-May 2008.

The reserves declined to US$ 252.0 billion at end-March 2009. This decline was due to the global crisis/recession and the strengthening of US Dollar against other international currencies. During 2009-10, the level of foreign exchange reserves from US$ 252.0 billion at end-March 2009 to US$ 283.5 billion at the end of December 2009, due to depreciation of the US dollar. Today India is the fourth largest foreign exchange holder in the world after China, Japan and Russia.

Exchange Rate

The RBI monitors and manages the exchange rate with flexibility, while allowing the market demand and supply conditions to determine its movements over a period of time. RBI intervenes to reduce excess volatility, to prevent destabilizing speculative activities and maintaining adequate levels of reserve. In 2008-09, the Rupee depreciated against major international currencies due to the decline in capital flows and widened trade deficit. But it strengthened again as capital inflows in the form of FDI and NRI deposits increased in 2009-10.Current Account of BOP The current account of BOP comprises of the merchandise trade (export and import) and the invisibles (services, transfers etc.) Exports and imports both recorded double digit growth rate. India is now a mainly manufactured goods and services exporter enjoying a better terms of trade, compared to what it was, primary goods exporter, prior to 1991. The share of India's exports in world trade has risen from 0.7 % in 2000 to 1.2 % in 2008. Services too have expanded to various fields catering to both domestic and international clients. India having cruised fairly successfully through the rough patch of recession can look forward to reaping greater benefits from world market, at least till the time the advanced economies which were badly affected by recession, revive fully. Our reserves are comfortable, exchange rate is competitive, service sector exports are also buoyant and capital inflow through FDI is also encouraging. In short, the BOP situation is quite well managed and comfortable. However, learning from the experiences of the financial crises occurring from in various parts of the world from time to time, we need to continue our cautious approach towards BOP management. The country cannot afford a setback to its economic growth achieved through drastic changes in national economic policies. India certainly has come a long way since the days of the protectionist policies, but there is yet a lot to be achieved, particularly in the infrastructure sector, in order to become a truly strong economy.

CURRENT INDIA'S POSITION IN BOP

In the year 2012-13, India had a current account deficit of Rupees 4,796 billion, and capital account surplus of Rupees 4,857 billion which is higher than the current account deficit of Rupees 3,760 billion and capital account surplus of Rupees 3,190 billion in the previous year 2011-12 as shown in the Table below.

TABLE: INDIA'S OVERALL BALANCE OF PAYMENT

Item	₹ billion			US $ million		
	2010-11 PR	2011-12 PR	2012-13 P	2010-11 PR	2011-12 PR	2012-13 P
1	2	3	4	5	6	7
A. CURRENT ACCOUNT						
1 Exports, f.o.b.	11,657	14,825	16,677	256,159	309,774	306,581
2 Imports, c.i.f.	17,461	23,946	27,321	383,481	499,533	502,237
3 Trade Balance	-5,805	-9,121	-10,645	-127,322	-189,759	-195,656
4 Invisibles, Net	3,608	5,362	5,848	79,269	111,604	107,493
a) 'Non-Factor' Services	2,006	3,078	3,532	44,081	64,098	64,915
of which :						
Software Services	2,417	2,992	3,583	53,100	62,212	65,867
b) Income	-818	-768	-1,168	-17,952	-15,988	-21,455
c) Private Transfers	2,420	3,050	3,501	53,125	63,469	64,342
d) Official Transfers	1	2	-17	16	25	-309
5 Current Account Balance	-2,197	-3,760	-4,796	-48,053	-78,155	-88,163
B. CAPITAL ACCOUNT						
1 Foreign Investment, Net (a+b)	1,935	1,887	2,547	42,127	39,231	46,711
a) Direct Investment	541	1,032	1,082	11,834	22,061	19,819
of which :						
i) In India	1,324	1,550	1,470	29,029	32,952	26,953
Equity	718	1,068	875	15,737	22,833	16,032
Re-invested Earnings	597	393	537	13,102	8,205	9,880
Other Capital	9	89	57	191	1,914	1,041
ii) Abroad	-783	-518	-388	-17,195	-10,892	-7,134
Equity	-367	-183	-87	-8,048	-3,874	-1,614
Re-invested Earnings	-71	-58	-65	-1,569	-1,208	-1,189
Other Capital	-345	-277	-236	-7,578	-5,809	-4,331
b) Portfolio Investment	1394	856	1,465	30,293	17,170	26,891
In India	1447	867	1,513	31,471	17,409	27,770
Abroad	-53	-12	-48	-1,179	-239	-878
2 External Assistance, Net	225	113	53	4,941	2,296	982
Disbursements	359	274	257	7,882	5,646	4,735
Amortisation	134	161	204	2,941	3,350	3,752
3 Commercial Borrowings, Net	554	479	461	12,160	10,344	8,485
Disbursements	1098	1,562	1,502	24,123	32,590	27,617
Amortisation	544	1,083	1,041	11,963	22,247	19,132
4 Short Term Credit, Net	549	306	1,177	12,034	6,668	21,657
5 Banking Capital	220	710	903	4,962	16,226	16,570
of which :						
NRI Deposits, Net	148	582	807	3,238	11,918	14,842
6 Rupee Debt Service	-3	-4	-3	-68	-79	-58
7 Other Capital, Net @	-567	-301	-279	-12,416	-6,929	-5,047
8 Total Capital Account	2,912	3,190	4,857	63,740	67,755	89,300
C. Errors & Omissions	**-121**	**-116**	**146**	**-2,636**	**-2,432**	**2,689**
D. Overall Balance [A(5)+B(8)+C]	**595**	**-685**	**207**	**13,050**	**-12,831**	**3,826**
E. Monetary Movements (F+G)	**-595**	**685**	**-207**	**-13,050**	**12,831**	**-3,826**
F. IMF, Net	-	-	-	-	-	-
G. Reserves and Monetary Gold (Increase -, Decrease +)	**-595**	**685**	**-207**	**-13,050**	**12,831**	**-3,826**
of which : SDR allocation	-	-	-	-	-	-

P : Provisional. PR : Partially Revised. -: Nil/Negligible

@ : Includes delayed export receipts, advance payments against imports, net funds held abroad and advances received pending issue of shares under FDI.

Note : 1. Gold and silver brought by returning Indians have been included under imports, with a contra entry in private transfer receipts.
2. Data on exports and imports differ from those given by DGCI&S on account of differences in coverage, valuation and timing.

Source: RBI Annual report 2012-13.

AN ANALYSIS

The India's BOP started improving since 1992-93 because of:

a.High earnings from invisibles.
b.Rise in external commercial borrowings.
c.Encouragement to Foreign Direct Investment.

According to RBI Source Data:

(In US $ million)-

	2005-06($)	2010-11($)
Current account	-51,904	-1,40,572
Capital account	25,470	53,602

FER = $295 billion on Dec. 24, 2010 (this amount is enough to just about cover imports for 10 months.)

India's invisibles consists of services such as transportation, insurance, travel, software & business & finance services & private & govt. currency transfers, have remained stagnant for the past 3 years.

Energy imports are the single largest category of items in India's import basket. The US energy information administration estimates that India imports about 70% of its total crude oil requirements.

Energy in the form of crude oil & petroleum products make up 25% to 32% of India's total import bill. With, oil prices on the rise again, the current account could take another large hit in 2011.

Does India face balance Of Payment Crisis?

Liquidity crunch was not the only problem India is also facing a problem of decline in exports. India's exports has declined by 12% during October, 2008 which was highest in comparison to last 7 years. This shows TELL-TALE sign of the global economic crisis reached India's shores. This decline in exports showed Trade deficit nearly 60% over the corresponding period in the previous year. Current account deficit has increased to $10.7billion in the Ist quarter of2007-08 from$6 billion in the Ist quarter of 2007-08 even when the invisible receipts on the Ist quarter have increased in excess of $8 billion in comparison to the corresponding period in the previous fiscal year.

In the year 2009, India has the widest current account deficit among large emerging economies. Demand for imported goods has gone up to 2.9% in the year 2009-10 from 2.4% in the previous year. India current account deficit is largest among BRIC countries for the same year. According to RBI annual report of 2009-10, "A higher current account deficit leads to a stronger absorption of foreign capital. India's foreign exchange has fallen to $278 billion from a high $315 billion in May, 2008.

Balance of Payments from a Comparative Perspective

Table 6 Current Account and Financial Accounts (Annual Average, Millions of US $

	1994 - 96	1997 - 98	1999 - 01	2002 - 04	2005 - 07
China					
Current Account	5256	34217	19679	49985	260839
Direct Investment (Net)	34567	41396	37272	49050	83168
Portfolio Investment (Net)	2026	1605	-11543	6925	-17940
Other Investment (net)	603	-35620	-11732	9306	-20132
Net Errors and Omissions	-14384	-20489	346	17754	-4414
Reserve Assets	-28217	-21075	-22126	-132965	-305262
India[1]					
Current Account	-4398	-3502	-2502	3462	-12234
Direct Investment (Net)	1701	2972	3393	3487	9019
Portfolio Investment (Net)	3680	1244	2522	7195	16272
Other Investment (Net)	3686	4670	3532	8604	27955
Net Errors and Omissions	176	-762	162	639	-773
Reserve Assets	-3319	-4233	-7910	-24853	-43485
Russia					
Current Account	8551	70	35130	41039	84890
Direct investment (net)	1175	1587	285	-60	6301
Portfolio investment (net)	662	27197	-3978	-321	3833
Other investment (net)	-3435	-20421	-13631	-690	24576
Net Errors and Omissions	-5604	-9527	-9563	-7494	-6050
Reserve Assets	-1883	1685	-8667	-27658	-105952

Notes: [1] = For India, every recording year begins April and ends March.

Source: www.rbi.org.in

In the year 1994-96, current account position of Russia was the best as compared to India and China with a surplus of $8551 million, & India was having a current account deficit of $4398 million.
India's position has improved in the year 2002-04 when its current account showed a surplus of $3462 million but it was still very low in comparison to China & Russia when they were having a current account surplus of $49985 million and $41039 million respectively which was more than 91% in comparison to India.

PROBLEMS

1)It is a matter of concern as it arises when comes at a time when service exports from India are facing a slowdown in the western world. IMF estimated that current account deficit is likely to increase over 3% of the GDP from 1.5% of GDP in 2007-08.
2)It is of ways and means of financing BOP deficit.
3)Due to global meltdown, there is a fall in confidence.
4)The lack of demand in the west, which is the principle market for Indian software and business services, has made the situation worse.
5)According to Subir Gokarn, the deputy governor of the RBI, said he detected risks with global capital flow volatility. He said there had been “a sharp change in the global scenario with a flight to safety [resulting in capital] exiting from Indian and other emerging markets, which put some pressure on what looks like a comfortable balance of payments.”
6)Double Digit inflation.

SOLUTIONS

To invest in Projects that help India to build competitive edge in the integrated World economy.
High earnings from invisibles because in India 55% sector constitutes service sector (in GDP).
Encouragement to FDI because this will increase India's GDP & export potential.
Vibrancy of market through creating jobs.

CONCLUSION

The main aim of this paper was to review the studies that the BOP structure over the period of years shows immense change and still there is a hope for India to comeback with more foreign exchange reserve to stabilize its position. The final verdict can be drawn as:

Trade deficit leads to Reduction in Foreign Exchange Reserves, due to which Rupee value depreciates, this makes exports cheaper & imports relatively expensive so it improves BOP position.
Capital Inflows in the initial months of 2010-11 moderated somewhat, reflecting the drop in appetite of global investors in response to the sovereign risk concern in the rest parts of the World.
Given the stronger growth outlook of India & the probability of monetary exit being delayed by the advanced economies, capital flows could be expected to accelerate, which will have to be managed.

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