

# India's Balance of Payments - An Overview

**\*Krishne Gowda B S. Assistant professor, Department of Commerce, Government College for Women, Chintamani-563125, Karnataka**

**Abstract:** The balance of payments is a comprehensive record of all economic transactions between a country and the rest of the world over a specific period. A trade surplus occurs when a country's exports exceed its imports. A trade deficit occurs when a country's imports exceed its exports. The balance of payments provide a more complete picture of a country's economic interactions with the rest of the world, encompassing not only trade in goods but also services, financial transactions, capital flows. This paper made an attempt to know the balance of payments in terms of trade balance, current account deficit, capital account surplus, invisible income and to identify the bilateral trade surplus and deficit countries. To know all these results the data have been collected from the various secondary sources like books, magazines and other concerned annual reports. The collected numerical data have been analyzed and presented in the tables.

**Keywords:** Balance of trade, balance of payments, bilateral trade, India.

## Introduction

A balance of payments statement is essentially a double-entry system of record of all economic transactions between the 'residents' of a country and the rest of the world carried out in a specific period of time. It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents, and payments made by them on account of goods imported and services received from, and capital transferred to 'non-residents' or foreigners. Thus, balance of payments is a much wider term as compared to balance of trade. Whereas the latter refers only to merchandise imports and exports, the former refers to all economic transactions with the outside world.

The balance of payments statement is divided into two major accounts, viz., current account and capital account. Transactions relating to goods, services and income constitute the current account, while those relating to claims and liabilities of a financial nature, which go to finance the deficit on current account or to absorb its surplus, form the capital account. The sum of these current and capital account transactions together constitutes the basic balance on the balance of payments and theoretically it should be finally rounded up and the double-entry accounting should be closed with the help of: (a) purchases and repurchases from the IMF essentially as an international agency for the country's balance of payments support, (b) allocation of the IMF's Special Drawing Rights (SDRs) which was intended to supplement the relatively inadequate international reserves and also serve as a principal reserve asset of the international monetary system, and (c) the build-up or drawn-down of the country's own reserve assets. This is the theoretical position. However, because of inaccurate estimation, clandestine capital flight and various other discrepancies, the credit side of the double-entry accounting does not match the sum of all debit entries. Therefore, the balancing act is performed by an item called 'errors and omissions' a negative sign in it implying an overstatement of receipts or understatement of payments, generally a combination of both, and a positive sign signifying the reverse.

**Current Account.** The transactions relating to goods, services and income, constituting the current account on the balance of payments, are functionally classified into two broad categories: merchandise and invisibles. As per the IMF's Balance of Payments Manual, imports and exports of goods (merchandise) should be presented on a free-on-board (f.o.b.) basis, i.e., without including freight and insurance costs. Such freight and insurance costs should logically be covered under 'invisibles'. However, due to data constraints, the Indian authorities present imports on c.i.f. (cost, insurance and freight) basis while the exports are presented on f.o.b. basis.

As far as 'invisibles' are concerned, they comprise costs of services, income, and transfer payments (i.e., payments and remittances unrequited or without quid pro quo or without any repayment obligations). The IMF Manual classifies invisible account into as many as 21 items while the Indian authorities provide the 'invisibles' account data only under the following 8 heads: (1) travel, (2) transportation, (3) insurance, (4) investment

income, (5) government, not included elsewhere, (6) miscellaneous (receipts/payments for patents and royalties), (7) transfer payments- official, and (8) transfer payments--- private.

**Capital Account.** Capital account in India is classified into three main sectors: (i) private capital, (ii) banking capital, and (iii) official capital. Private capital is sub-divided into (a) long-term and (b) short-term, with loans of an original maturity of one year or less constituting the relevant dividing line. Long-term private capital covers foreign investments (both direct and portfolio), long-term loans, foreign currency deposits (FCNR and NRER) and an estimated portion of the unclassified receipts allocated to the capital account. Banking capital essentially covers movements in the external financial assets and liabilities of commercial and cooperative banks authorized to deal in foreign exchange. Official capital transactions, RBI's holdings of foreign currency assets and monetary gold (SDRs are held by the government), are classified into (i) loans, (ii) amortization, and (iii) miscellaneous receipts and payments. 1

Since balance of payments accounts are prepared on the double-entry system of accounting, sum of all debits equals the sum of all credits and the accounts are always in balance. However, this does not mean that a country cannot face balance of payments difficulties. If a country faces a deficit in its current account and this is met by liquidation of its assets or through borrowing abroad, it is indeed facing a balance of payments difficulty. If such steps have to be resorted to repeatedly, a serious balance of payments problem can result forcing the country to draw down its foreign exchange reserves and borrow at high rates of interest from international markets (if requisite amount of concessional aid is not available). The burden of debt repayment is likely to increase substantially under such circumstances jeopardizing the long-run economic and political interests of the country.

### Objectives of the study

This study aims the following objectives

1. To Know the concept of balance of trade
2. To examine the India's balance of payments
3. To identify the bilateral trade surplus and deficit countries

### Methodology

This paper is completely based on secondary data and in the nature of analytical and descriptive. The secondary data have been collected from the various secondary sources like books, magazines, journals and other annual reports of concerned area. The available numerical data have been collected for the 17 years study period in connection with the current account and capital account from 2000-01 to 2016-17. Again balance of payments on current account in connection with the trade balance data have been collected for the ten years period from the year 2007-08 to 2016-17. The numerical data relating to the bilateral trade surplus and bilateral trade deficit countries also collected form the 2012-13 to 2016-17. The collected data have been analyzed and presented in the tables.

## Data Analysis

**Table-1: India's Balance of Payments from the year 2000-01 to 2016-17 (US \$ Million)**

Year	Trade Balance	Invisibles (Net)	Current Account (Net)	Capital Account Total (Net)	Reserve Use (-increase)
(1)	(2)	(3)	(4)	(5)	(6)
2000-01	-12460	9794	-2666	8530	-5864
2001-02	-11574	14974	-3400	8358	-11757
2002-03	-10690	17035	-6345	10640	-16985
2003-04	-13718	27801	-14083	17338	-31421
2004-05	-33702	31232	-2470	28629	-26159
2005-06	-51904	42002	-9902	24954	-15052
2006-07	-61782	52217	-9565	46171	-36606
2007-08	-91468	75730	-15738	107902	-92164
2008-09	-119520	91604	-27916	7836	+20080
2009-10	-118203	80022	-38181	51622	-13441
2010-11	-127322	79269	-48053	61103	-13050
2011-12	-189759	111604	-78155	65324	+12831
2012-13	-195656	107493	-88163	91989	-3826
2013-14	-147609	115313	-32296	47804	-15508
2014-15	-144940	118081	-26859	88265	-61406
2015-16	-130079	107928	-22151	40056	-17905
2016-17	-112442	98026	-14417	35967	-21550

**Source:** Reserve Bank of India, Handbook of Statistics on Indian Economy 2013-14 (Mumbai, 2014), Table, 142, P. 229 and handbook of Statistics on Indian Economy 2016-17 (Mumbai, 2017), Table 139, pp. 218-9.

**Interpretation:** The above table no 1 shows that the trade balance, invisibles, current account and capital account balances from the period 2000-01 to 2016-2017. It shows clearly the role played by invisibles in the balance of payments since 2000-2001. The trade balance was 12460 US \$ Million during the year 2000-2001 and in the same year invisible income was 9794 US \$ Million, again current account was showing deficit of 2666 US\$ Million and capital account recorded surplus of 8530 US\$ Million in the same year. It is observed that trade balance has increased from -12460 US\$ Million in the year 2001-02 to -112442 US \$ Million in the year 2016-17. The important feature observed from the table is that, the invisible income has increased proportionately during the study period from 2001-02 as 9794 US \$ Million to 107928 US \$ Million 2015-16 and it has declined to 98026 US \$ Million in the year 2016-17, it is registered as 98026 US \$Million. It is also observed that there are certain up and downs in the current account deficit and also there are certain up and downs in the surplus of capital account. The current account deficit registered in the year 2001-02 as 2666 US \$ Million and the deficit has reached to 14417 US \$ Million in the year 2016-17. The capital account surplus was 8358 US \$ Million in the year 2001-02 and it has reached to 35967 US \$ Million in the year 2016-17. Another important feature it is observed that, trade deficit in the year 2012-13, rose to \$ 195.6 billion. Net earnings from invisibles were \$ 107.5 billion leaving a current account deficit of \$ 88.2 billion which was a high as 4.8 per cent of GDP. However, there was a marked improvement in 2013-14 with the current account deficit being contained \$ 32.4 billion as against 88.2 billion in 2012-13. The difficult international trade environment impacted the invisible transactions adversely with the results that earnings from invisibles net fell from \$ 11.8 billion in 2014-15 to \$ 10.8 billion in 2015-16.

**Table-2: Balance of Payments of India on Current Account from the year 2007-08 to 2016-17 (Rs. in Crore)**

Year	Trade Balance	Net Invisibles	Balance of Payments
2007-08	-3,67,664	+3,04,185	-63,479
2008-09	-5,47,452	+4,19,821	-1,27,631
2009-10	-5,59,900	+3,80,200	-1,79,700
2010-11	-5,80,500	+3,60,000	-2,19,700
2011-12	-9,12,100	+5,36,200	-3,75,900
2012-13	-10,64,456	+5,84,846	-4,79,610
2013-14	-8,84,845	+6,97,095	-1,87,750
2014-15	-8,85,862	+7,22,912	-1,62,950
2015-16	-8,49,531	+7,05,769	-1,43,762
2016-17	-7,54,452	+6,57,536	-96.916

**Source: Report on Currency & Finance (2009-10) & Economic Survey, (2016-17)**

**Interpretation:** Table no 2 reveals that the trade balance, net invisibles and balance of payments. It is observed that the trade balance deficit was Rs.3, 67, 664 crore in the year 2007-08 and it has increased to Rs. 7, 54, 452 crore in the year 2016-17. Simultaneously, the net invisibles were Rs. 3, 04,185 crore in the year 2007-08 and it has increased to Rs.6, 57, 536 Crore in the year 2016-17. In case of balance of payments, it was Rs. 63,479 crore deficit in the year and it has increased to Rs. 96,916 crore in the year 2016-17. During the ten years study period from 2007-08 to 2016-17 the balance of payments completely recorded negatively. It is also observed that, the trade balance increased gradually from the year 2007-08 to 2016-17 with slight variations. One important feature observed that in the year the balance of payments deficit has declined in the year 2016-17 comparatively previous years. It might be increasing the exports and thanks to Indian foreign trade.

**Table-3: Bilateral Trade Surplus and Deficit Countries (US \$ billion)**

Trade Surplus Countries	2012-13	2014-15	2015-16	2016-17
U S A	11.0	20.6	18.6	19.9
U A E	2.8	6.9	10.8	9.7
Bangladesh	4.5	5.8	5.3	6.1
Nepal	2.5	3.9	3.5	5.0
U K	2.3	4.3	3.6	4.9
Trade Deficit Countries	2012-13	2014-15	2015-16	2016-17
China	-38.7	-48.5	-52.7	-51.1
Switzerland	-31.0	-21.1	-18.3	-16.3
South Arabia	-24.2	-16.9	-13.9	-14.9
Iraq	-18.0	-13.4	-9.8	-10.6
South Korea	-8.9	-8.9	-9.5	-8.3
<b>Total Trade deficit</b>	<b>-190.3</b>	<b>-137.6</b>	<b>-118.7</b>	<b>108.5</b>

**Source: Government of India, Economic Survey, 2017-18 (New Delhi)**

**Interpretation:** The above table reveals that, the trade deficit and trade surplus countries. Among India's trading partners, the top five countries with which India's bilateral trade balance was negative in 2016-17 were China, Switzerland, Saudi Arabia, Iraq and South Korea, while the top five countries with which it had surplus trade balance in this year were USA, UAE, Bangladesh, Nepal and UK. It is clear from the table 3, the major contributor to India's total trade deficit is its trade deficit with China and the share of which increased from 20.3 per cent in 2012-13 to 47.1 per cent in 2016-17.

## Conclusion

The balance of payments is a comprehensive record of all economic transactions between a country and the rest of the world over a specific period. It is found that during the study period there are some up and downs in trade balance. Capital account surplus as well as current account deficit also increased proportionately during the study period with some up and downs. Net income of invisibles also remarkably increased and registered in a good extent. In case of balance of payments on current account, during the study period almost registered negative balance of payments, though net invisible income recorded positively slight variations. The USA is in top position in trade balance surplus of bilateral trade and China is in first place in deficit trade balance of bilateral trade. It is suggested that, to increase the surplus and decrease the deficit the government has to concentrate towards manufacturing sector and to promote more manufacturing goods.

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