

Comparative Analysis of Components of Balance of Payments: An Empirical Study on Indian Economy

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ABSTRACT- Indian economy has become the fastest growing economy over the world. The position of balance of payments reflects the economic health of a nation. It is a comprehensive record of transactions of economy and vital for determining the position of an economy. The growth of economy depends on the performance of international trade and exports because it increases the level of foreign exchange reserve which leads to the overall development. The balance of payments is regarded as the balance of international payments that includes all transactions between a nation and foreign nation. The measurements of the components of balance of

I. INTRODUCTION

In the era of globalization, all nation exchange goods and services with each other because it is not possible for any nation to produce all goods and services so, nation buys goods from another nation. In other words, a nation imports goods which is unable to produce. In the same way, a nation exports to other the goods which other nations want to buy from foreign instead of producing them. Exports-imports are the important components of balance of trade. The balance of payments is the wider term than the balance of trade. The balance of payments is the systematic records of all transactions of a resident with the other nation for a specified period.

The balance of payments determines the measurements of all economic transactions to estimate the economic position of a nation in international market. This helps the country in effective decision making regarding the formulation of policies such as trade policies. There is difference in the terms balance of trade and balance of payments.

Balance of trade = value of exports – value of imports (visible items only)

When, exports = imports, the balance of trade is in balance.

payments is helpful in formulating the policies such as fiscal, trade and monetary policies for effective decision making. The present study intends to examine the performance of exports-imports and compare the components of balance of payments of Indian economy. The data has been collected for 6 years (2011-2016) from the secondary sources. The findings conclude that the components of balance payments are moving in positive direction and the position of economy is sound and strong.

Key words: Balance of payment, exports-imports, invisible items, Indian economy.

If, value of exports > value of imports = export surplus.

On the other hand, Value of imports > value of exports = deficit balance.

The balance of payments is known as the balance of international payments which contains the record of all economic transactions of a country. The balance of payments includes the external transactions of a nation. These are:

- The visible transactions (physical goods)
- The non-visible transactions

The surplus is the part of the surplus of funds like export payments, investments. The payments and deficit are the parts of uses of funds which are negative things such as import goods. There are two types of accounts in the statements of balance of payments. These are: current account and capital account. Balance of payment on current account includes the both visible and invisible items and it is more comprehensive in nature. It includes items such as insurance, interest earned and other services. The current account of the balance of payments directly influences the level of income of a nation. Whereas the capital account consist the capital receipts and payments. The current account includes the transactions such as transfers, gain,

product and services. The capital account generates the transactions in cash instruments.

Current account = balance of trade + factor income + cash transfers.

The capital account includes some net adjustments in the foreign assets.

Current account + capital account + balancing item = 0

BOP surplus = current account surplus + capital account surplus

II REVIEW OF LITERATURE

Konya and Singh (2006) made an attempt to explain that export and import growth is very significant in strengthening the economic growth of a nation and international trade provides the link between output and growth. Gazi et.al (2010) examined the relationship between GDP and import. The performance of trade was measured from 1980 to 2005. Thus, export and growth in GDP leads to the development of the nations. Athukorala (2011) examined the indicators of balance of payments of Asian countries and China. The author concluded that positive balance of trade leads to the export performance and more national output. Mukherjee and Shahana (2012) identified the components of balance of payment and performance of exports. The factors of balance of

BOP is known for the well- summarized statement that maintains the transactions of a nation with the world. The present study examines the status of exports-imports with measuring the rate of exports-imports and GDP% contribution of exports-imports and the components of balance of payments have been compared including current account, capital account and visible items of trade.

payment contribute in the growth of an economy. The study concluded that exports contribution for India is higher in overall balance of trade. Tomar (2014) explored the economic variable and the Impact of variables on the Indian exports. The author concluded that Indian GDP% of exports have increased very sharply in past decades. The author analyzed impact of macro-economic indicators such as GDP on the export performance. Ghose and Thankur (2015) explored the factors contributing in the promotion of the export. The study suggested that balance of payment ascertain the performance of exports and trade. Mittal and Sharma (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.

III OBJECTIVES OF THE STUDY

- To examine the status of export-import of Indian economy.

- To compare the components of balance of payments of India.

IV RESEARCH METHODOLOGY

The descriptive approach has been used in the present study. Secondary sources such as online publications, magazine, Economic Survey, Books

and Journals has been used and data has been taken for the period of six years 2011 - 2016. The analysis of the study was done with the help of graphs and charts comparing the items of balance of payments of Indian economy.

V DATA ANALYSIS

Table 1: COMPARISON OF EXPORT-IMPORT/GDP % AND RATE OF EXPORT-IMPORT

FINANCIAL YEAR	EXPORTS / GDP %	RATE OF EXPORT (%)	IMPORTS /GDP %	RATE OF IMPORT (%)
2010-11	15	34.5	22.4	23.4
2011-12	16.8	28.9	27.1	39.3
2012-13	16.7	11.5	27.4	13.8
2013-14	17	16.6	24.9	17
2014-15	15.4	5.0	22.5	5.2
2015-16	12.8	6.1	19.1	5.1

Source: Reserve Bank of India

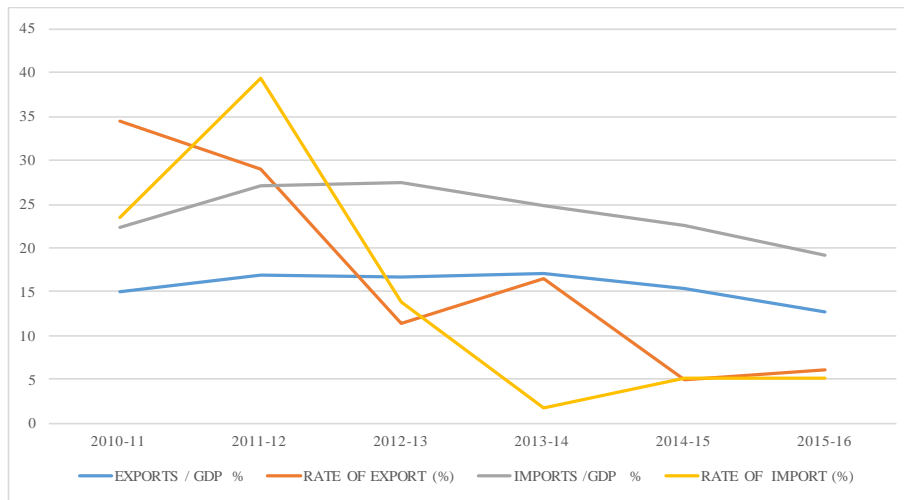


Figure 1: Comparison of Export-Import/Gdp % and Rate of Export-Import

Source: Author's compilation

Interpretation: The graph shows the comparative analysis of exports and imports based on the rate of exports-imports and GDP % of export and import (2011-16). The exports and imports rate were declined very sharply after 2011. Imports were

higher than exports in case of calculations of rate and GDP %. The imports GDP % stood at 27.4% in 2012-13 and export reached higher at 17% in 2013-14.

2. COMPARISON OF COMPONENTS OF BALANCE OF PAYMENTS

Table: 2.1 Invisible Items

Financial years	Receipts/ GDP%	Payments/ GDP%
2010-11	11.1	6.5
2011-12	11.9	5.8
2012-13	12.2	6.3
2013-14	12.4	6.3
2014-15	11.6	5.9
2015-16	11.3	6.1

Source Reserve Bank of India

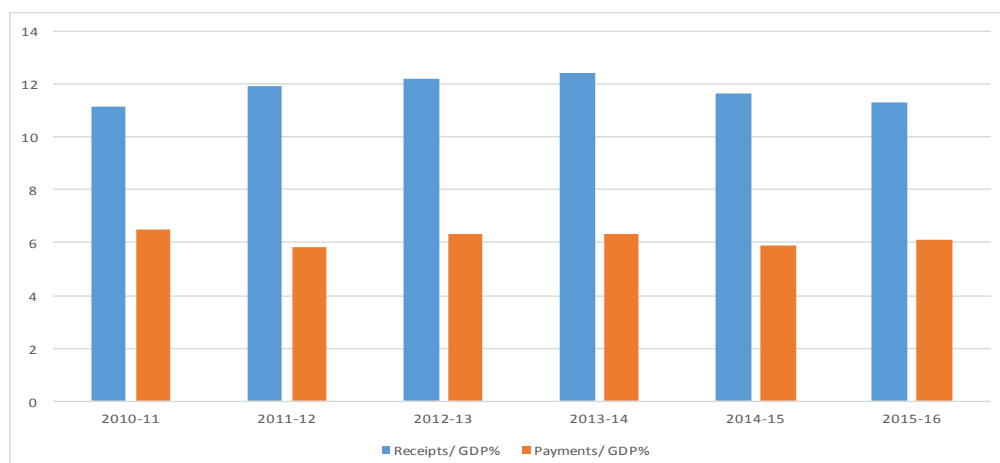


Figure 2.1: Invisible items

Source: Author's Compilation
 Interpretations: The chart describes the invisible items (receipts and payments) of balance of payments as total percentage of GDP. Receipts

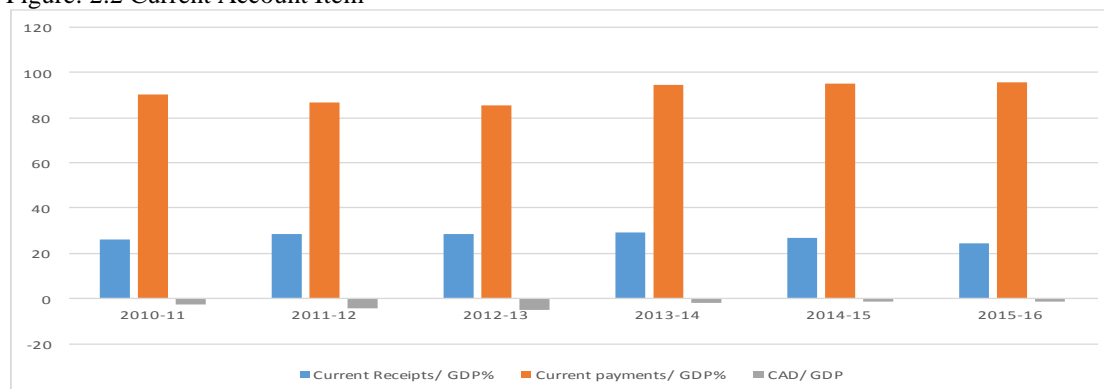
were found higher than payments. The receipts recorded higher in 2013-14, at 12.4% and payments were 6.5% in 2010-11.

Table: 2.2 Current Account Items

Financial years	Current Receipts/ GDP%	Current payments/ GDP%	CAD/ GDP
2010-11	26.1	90.2	-2.8
2011-12	28.7	87	-4.2
2012-13	28.9	85.7	-4.8
2013-14	29.4	94.3	-1.7
2014-15	27	95.1	-1.4
2015-16	24.2	95.7	-1.1

Source: Reserve Bank of India

Figure: 2.2 Current Account Item



Source: Author's compilation

Interpretations: The current account items are being shown in the above graph. Current payments were found more than current receipts. The CAD/GDP was negative throughout the periods of the study.

Currents receipts in 2013-14 were higher recorded at 29.4 and current payments were seen higher in 2015-16, found at 95.7.

Table: 2.3 Capital Account Items

Financial years	Foreign Investment/Exports %	Foreign Investment/ GDP%	Import cover Reserves %
2010-11	23.6	3.5	9.5
2011-12	16.3	2.7	7.1
2012-13	17.8	3	7
2013-14	11.2	1.9	7.8
2014-15	24.5	3.8	8.9
2015-16	15.5	2.0	10.9

Source: Reserve Bank of India

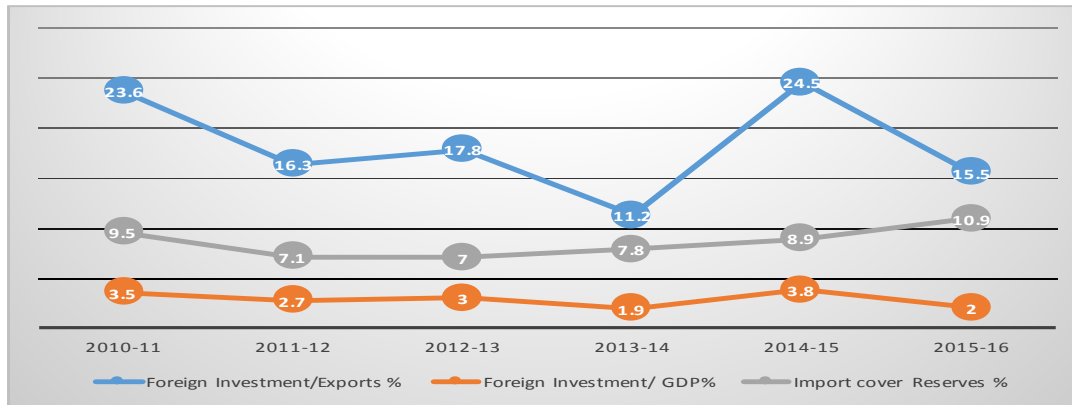


Figure: 2.3 Capital Account Items

Source: Author's Compilation

Interpretation: The capital account items such as foreign investment/exports, GDP and import reserves have been presented in the graph. The foreign investment/exports and GDP were 23.8 and

3.7 respectively in 2014-15. The import reserves were higher in 2015-16. The all items of capital account are having both increasing and decreasing trend throughout the six years of the study.

Table 2.4: comparison of invisible and current account items

Financial years	Receipts/ GDP%	Current Receipts/ GDP%	Payments/ GDP%	Current payments/ GDP%
2010-11	11.1	26.1	6.5	90.2
2011-12	11.9	28.7	5.8	87
2012-13	12.2	28.9	6.3	85.7
2013-14	12.4	29.4	6.3	94.3
2014-15	11.6	27	5.9	95.1
2015-16	11.3	24.2	6.1	95.7

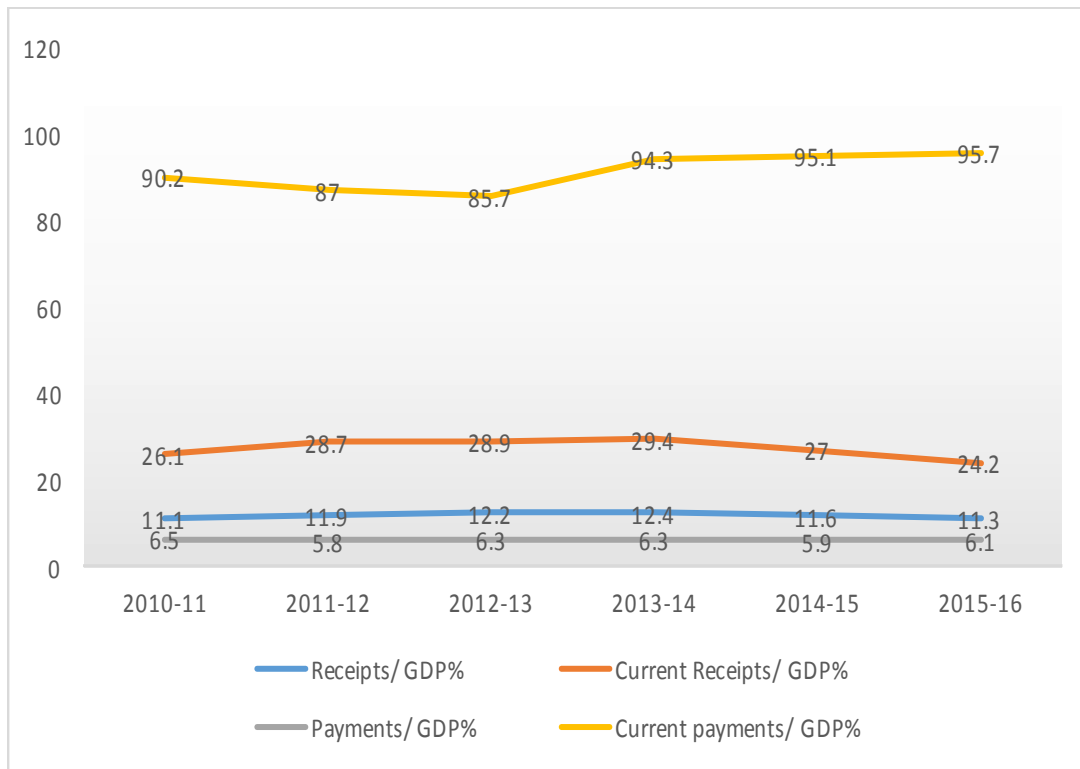


Figure 2.4: comparison of invisible and current account items

Source: Author's compilation

Interpretations: The chart presents the comparative analysis of both invisible and current account items of balance of payment. Receipts/GDP has been calculated higher than payments/GDP whereas the current payments were more than current payments/GDP. The receipts/GDP were higher in

2013-14, reached at 12.4% and payments recorded higher in 2010-11 stood at 6.5%. Current payments and receipts were observed greater than receipts and payments/GDP

VI CONCLUSIONS

The present study concludes that components of balance payments are showing positive trend and depicts that Indian economy is moving in positive direction. The performance of export-import in relation to GDP is sound and the rate of export-import is increasing. The components and indicators of balance of payments show the overall performance of Indian balance of payments and true picture of economy about its trade. In the present study, it has been found that performance of all items such as invisible, current and capital account items is satisfactory and contributing positively in Indian GDP except the CAD. The CAD is showing negative trend throughout the period of study. Thus, it is suggested that Indian economy needs to focus on promoting the exports so that issue of negative trade balance and CAD can be resolved. The government will have to reformulate and strengthen the trade policies and regulations to increase the effectiveness of trade for improving the balance of payments.

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