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INDIA'S BALANCE OF PAYMENT AND BALANCE OF TRADE: AN OVERVIEW

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ABSTRACT

India's balance of payment (BoP) and balance of trade (BoT) play pivotal roles in shaping the country's economic landscape and international relations. This abstract provides a concise overview of these critical indicators and their significance in the context of India's economic development.

The balance of payment refers to the systematic record of all economic transactions between India and the rest of the world during a specific period. It comprises three main components: the current account, capital account, and financial account. The current account tracks the flow of goods, services, income, and current transfers, while the capital account measures cross-border investments in physical and financial assets. The financial account captures changes in foreign ownership of domestic assets and vice versa.

Meanwhile, the balance of trade solely focuses on the difference between the value of a country's exports and imports of goods and services. A positive trade balance occurs when exports exceed imports (trade surplus), whereas a negative balance indicates higher imports than exports (trade deficit).

India has historically faced a persistent trade deficit due to its heavy reliance on imports, especially of crude oil, gold, and electronics. However, the country's robust service sector, including IT outsourcing, has contributed to a surplus in the services trade, partly offsetting the merchandise trade deficit.

In recent years, India has undertaken several policy initiatives to boost exports, reduce import dependency, and attract foreign investment, aiming to improve its balance of payment position. The success of such measures is crucial for maintaining stable foreign exchange reserves, promoting economic growth, and ensuring sustainable development.

INTRODUCTION

Balance of payments is based on accounting method and standard bookkeeping system. In this, double entries are made for each transaction and both credit and debit of each transaction related to international payment are written. Each amount of payable and deposited should be same. For example, if an Indian sells goods worth $10,000 to an American firm, the transaction will be recorded in the balance of payments accounts of both the countries. This amount of export of goods will be booked as credit in India and payable in US. The reason for this is that India will get the same amount in exchange for exports and America will have to pay the same amount in exchange for imports.

Along with this, there will be two more entries of this deal in both the countries. Export of goods will be treated as an outflow of capital in India and hence it will be booked here as a payable entry. On the contrary, since its payment is received from America, to that extent India's deposits will also increase. On the other hand, America is getting goods worth $10,000 from India.

So he will write off such amount as payable but this transaction is also in the form of receipt of capital for America to that extent it will also be credited as capital.

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But for the sake of convenience, we enter the balance of payments account of imports and exports only directly. From this point of view, export of goods is accepted as deposit and for its double entry it is considered as outflow of capital, on the other hand import of goods is accepted as deposit and entered as receipt of capital. It is clear from the following example that when India exports goods worth $10,000, entries will be made in the balance of payments account of this transaction in India and America.

In this way, the amount of credit generated and payable in each transaction must be equal. The reason for this is that double entries are made in both the countries for every transaction related to import and export. Trade It is also possible that we can know the status of balance of payments of a country only by looking at the physical side of the deals (exports and imports).

But there are some other deals which are not written in the above mentioned form. For example, a citizen of India wants to send some foreign money (Dollar, Dinar Dirham) as a gift to a relative living abroad. In such a situation, it would be an item of credit for the receiving country. Since that country is not required to repay this amount, it will not be recorded as a deposit but only as an outflow of capital. Nevertheless, to complete the formality of double entry, the corresponding amount of such deals is written as "Donation", so that the amount deposited and payable balances.

The balance of payments reflects the country's trade interests, changes in its net position as a foreign lender or borrower, and changes in its government reserve holders.

Balance of Payment account is stated on the principle of double entry bookkeeping. Every transaction is recorded on the credit and debit side of the balance sheet, but balance of payments accounting differs from business accounting in that business accounting debit entries (-) on the left side of the balance sheet and credit entries (+) is shown on the right hand side of the balance sheet. But in the balance of payments account, it is customary to show credit entries on the left side of the balance sheet and debit entries on the right side.

When payment is received from an outside country, it is a credit transaction and when payment is made to an outside country, it is a debit transaction. The major items appearing on the credit side are receipts received and returned (and transferred) in the form of export of goods and services, gifts from foreigners, etc. Borrowings from abroad Investments made by foreigners in the country Authorized sale of reserve assets abroad and international Including gold. Major items on the debit side are imports of goods and services, transfer payments to foreigners, lending abroad, investments made by residents abroad and government purchases of reserve assets or gold from abroad and international agencies.

These credit and debit items are given vertically in the balance of payments account of the country according to the principle of double entry ledger account. Horizontally they are divided into three categories –
1.Current Account.
2. Capital Account
3. Government Payments Account.

(1) Current Account - In the current account of the country, all those transactions come which are related to the trade of goods and services and one-sided (or non-returnable) transfers. Services transactions include travel and transport, income and payments on foreign investments, etc.

Transfer payments refer to gifts, foreign aid, pensions, private remittances, charitable gifts received by foreigners from individuals and governments abroad.

There is a one-sided relationship between the balance of payments and the current accounts of any nation, that is, all the items included in the current accounts determine the balance of payments rather than depending on the balance of payments themselves. All the transactions involved in the current account are of autonomous mature nature and the

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underlying reason behind these transactions does not depend in any way on the balance of payments position. Therefore, the transactions involved in the current accounts depend on the position of the balance of payments, but the surplus or deficit of the current account definitely affects the position of the balance of payments.

According to the list published by the International Monetary Fund (IME), the payables on the current account include import of goods, foreign travel expenses, transport and insurance related payments, profit earned on the employed capital of foreign companies, amount payable to experts, etc. On the contrary, under the credit side of the current account, the expenditure incurred in the country by the export foreign tourists includes the payment received for transport and insurance, the profit received on the capital employed abroad and the amount received from the experts. Mainly the entry items in the current accounts are of three types-:
(1) Goods (import and export)
(2) Services and
(3) Gifts or presents

(2) Capital Account-: 1 Under the capital account of the country, transactions of financial assets of the country come, which are found in the form of short term and long term lending and borrowing and private and government investments. In other words capital account shows the international flow of loans and investments and captures some of the changes in the assets and liabilities of the country. Long-term transactions refer to international capital investments that have a maturity of one year or more than one year and include each investment such as setting up a foreign plant, portfolio investment such as the purchase of foreign bonds and stocks, and international debt. Lives

Those items are included in the capital account through which entry payments are possible in current accounts, in other words, the items which make possible the payments received and payable in exchange for import-export and services are written here.

There are four types of entries made in the capital account.
(i) Balance payment of personal accounts.
(ii) Payments related to international institutions.
(iii) transfer of gold and
(iv) balance payment of government accounts.

(3) Official Settlement Accounts Official Payments Account or Government Reserve Asset Account is actually a part of Capital Account. But the balance of payments accounts of England and the United States show it as a separate account. This account usually measures changes in the country's liquid and illiquid liabilities to foreign government holders and changes in the country's government reserve assets during the year. A country's government reserve assets include its gold stock, its convertible foreign currency and SDR holdings, and its net position with the IMF.
The most important item in the current account is the export and import of merchandise. The difference between exports and imports of a country is its trade balance. If direct exports increase with direct imports, then the trade balance is favourable. If the situation is vice versa, the balance of trade will be adverse.

But in fact services and transfer payments or indirect items of current account are presenting the correct form of balance of payments account and visible items determine the actual current account position. If the exports of goods and services are more than the imports of goods and services, then the balance of payments is favourable. On the contrary, it will be unfavorable.

In the current account, receipts for exports of goods and services and transfer payments are recorded as credits as they are received from foreigners, on the other hand, imports of goods and services and transfer payments made to foreigners are recorded as debits. Because foreigners are paid for them.

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CONCLUSION

To know the economic condition, the account of its balance of payments is very useful. The account of balance of payments is not only related to import and export, but services and other types of invisible items are also included under it.

In view of the important role of balance of payments, the Government of India wants to solve the problems related to the balance of payments and wants to strengthen the country's economy and for this it is doing many important things to promote exports.

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