Journal Homepage: - www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

Article DOI: 10.21474/IJAR01/15033
DOI URL: http://dx.doi.org/10.21474/IJAR01/15033

ISSN NO. 2320-5407

RESEARCH ARTICLE

ANALYZING INDIA'S BALANCE OF PAYMENTS POSITION DURING THE PANDEMIC PERIOD

Dr. S. Saravanan and Dr. V. Vijaya Kumar

Manuscript Info

Manuscript History
Received: 15 May 2022
Final Accepted: 18 June 2022
Published: July 2022

Key words:-
Current Account, Capital Account, BOP, Trade Surplus

Abstract

The current pandemic scenario is trying with the administration limits and wellbeing health frameworks across countries, and handles its socio-economic consequences. According to different reports, the health emergency which initially began as a wellbeing crisis has converted a worldwide financial turmoil on scales like the incredible downturn of 2007-08. According to the World Economic Outlook, the projection of worldwide development in 2020 will tumble to - 3 percent which is essentially lower than the development paces of - 0.1 percent during the 2009 financial turmoil. This has the monetary effect of Covid-19 far more highly contrasted with the 2009 worldwide financial crisis, making it the most exceedingly terrible downturn since the Great Depression of 1930s. An earnest attempt has been made in this paper to articulate the India's Balance of payment position during the pandemic period. To conclude, No doubt the India's balance of payment is surplus after a long gap of 18 years.

Introduction:-

The balance of payments, also known as the balance of international payments an abbreviated B.O.P., of a country is the record of all economic transactions between the residents of the country and the non-residents of, rest of the nations in a particular financial year (quarterly, Hal-ferly or annually). These transactions are made by household, firms and government institutions. Thus the balance of payments includes all international visible and non-visible transactions of a nation.

The basic structure of the Balance of Payments (BOP) of India consists of:

1. Current account: exports and imports of goods, services, income (both investment income and compensation of employees) and current transfers;
2. Capital account: assets and liabilities covering direct investment, portfolio investment, loans, banking capital and other capital;
3. Errors and Omission
4. International reserves and IMF transactions.

Assistant Professor & Head, Department of Economics, Indira Gandhi Colloge of Arts and Science, Puducherry – 605009.
[2] Assistant Professor, Department of Commerce, B S Abdur Rahman Crescent Institute of Science & Technology, (Deemed to be a University under Sec.3 of UGC Act, 1956), Chennai-600 048.

Corresponding Author:- Dr.V. Vijaya Kumar

The Balance of payment can be better appreciated in terms of the national income accounting identity: GDP = C+G+I+X-M. In other words, domestic output (GDP) is equal to private consumption (C), plus government consumption (G), plus domestic investment (I), plus net exports (X-M). When the net exports of goods and services (X-M) are negative, the domestic economy is absorbing more than it can produce.In other words, absorption (C+G+I) by the domestic economy is greater than domestic output (GDP). This is reflected in current account deficit (X-M) which needs to be financed by external borrowings and/or investments (Mohanty 2012). After the adaption of New Economic Policy in 1991, external financial assistance is easily available and investments have been flowing in the form of Foreign Investment which includes like FDI and FPI. However, in such situations the domestic economy is more exposed to react to global imbalances of trade. Import substitution is also necessary in order to control the domestic absorption in long run. Ganguli (1957) maintained that the pull of the comparatively free play of domestic demand upon exportable commodities, combined with rising costs, has created a situation where there is a tendency for diversion of goods from the external to the domestic market.

.

Table 1:- India's Balance of Payment Position during pandemic period.

	July-September 2020-21 P			**July-September 2019-20**			**April-September 2020-21 P**			**April-September 2019-20**		
	Credit	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**
A. Current Account	**151.0**	**135.4**	**15.5**	**161.6**	**169.1**	**-7.6**	**273.4**	**238.7**	**34.8**	**322.2**	**344.8**	**-22.5**
1. Goods	75.6	90.4	-14.8	80.0	119.6	-39.6	127.9	153.5	-25.6	162.7	249.1	-86.4
of which:												
POL	7.3	18.8	-11.5	10.1	29.8	-19.7	12.1	32.0	-19.9	21.2	65.2	-44.0
2. Services	49.9	28.7	21.2	52.8	31.8	20.9	96.7	55.0	41.7	105.0	64.0	41.0
3. Primary Income	5.0	14.3	-9.3	6.8	15.7	-8.8	10.1	26.9	-16.8	12.7	27.7	-15.1
4. Secondary Income	20.4	2.0	18.4	22.0	2.0	20.0	38.6	3.2	35.4	41.9	4.0	38.0
B. Capital Account and Financial Account	**152.7**	**168.8**	**-16.2**	**142.2**	**133.8**	**8.4**	**280.5**	**315.5**	**-35.0**	**280.5**	**257.5**	**23.0**
of which:												
Change in Reserves												
(Increase (-)/Decrease(+))	0.0	31.6	-31.6	0.0	5.1	-5.1	0.0	51.4	-51.4	0.0	19.1	-19.1
C. Errors & Omissions (-) (A+B)	**0.6**		**0.6**		**0.9**	**-0.9**	**0.2**		**0.2**		**0.5**	**-0.5**

Source: RBI

India's current account surplus moderated to US$ 15.5 billion (2.4 per cent of GDP) in July –September of 2020-21 from US$ 19.2 billion (3.8 per cent of GDP) in April -June of 2020-21; a deficit of US$ 7.6 billion (1.1 per cent of GDP) was recorded a year ago [i.e. Q2 of 2019-20].The narrowing of the current account surplus in Q2 of 2020-21 was on account of a rise in the merchandise trade deficit to US$ 14.8 billion from US$ 10.8 billion in the preceding quarter.Net services receipts increased both sequentially and on a year-on-year basis, primarily on the back of higher net earnings from computer services. Private transfer receipts, mainly representing remittances by Indians employed overseas, declined on a y-o-y basis but improved sequentially by 12 per cent to US$ 20.4 billion in Q2 2020-21.Net outgo from the primary income account, primarily reflecting net overseas investment income payments, increased to US$ 9.3 billion from US$ 8.8 billion a year ago.

In the financial account, net foreign direct investment recorded high inflow of US$ 24.6 billion as compared with US$ 7.3 billion in Q2 of 2019-20.Net foreign portfolio investment was US$ 7.0 billion as compared with US$ 2.5 billion in Q2 of 2019-20, largely reflecting net purchases in the equity market.With repayments exceeding fresh disbursals, external commercial borrowings to India recorded net outflow of US$ 4.1 billion in Q2 of 2020-21 as against an inflow of US$ 3.1 billion a year ago.Net accretions to non-resident deposits moderated to US$ 1.9 billion from US$ 2.3 billion in Q2 of 2019-20.There was an accretion of US$ 31.6 billion to the foreign exchange reserves (on a BoP basis) as compared with that of US$ 5.1 billion in Q2 of 2019-20.

BOP during April-September 2020-21

India recorded a current account surplus of 3.1 per cent of GDP in first Half (Half-yearly)of 2020-21 as against a deficit of 1.6 per cent in first half of 2019-20 on the back of a sharp contraction in the trade deficit.Net invisible receipts were lower in first half of 2020-21, mainly due to decline in net private transfer receipts.Net FDI inflows at US$ 23.8 billion in first half of 2020-21 were higher than US$ 21.3 billion in first half of 2019-20.Portfolio investment recorded a net inflow of US$ 7.6 billion in first half of 2020-21, almost at the same level as a year ago. In first half of 2020-21, there was an accretion of US$ 51.4 billion to the foreign exchange reserves (on a Bop basis).

To conclude an overview of the RBI first half yearly report on BOP for the financial year 20-21 (April-Sept.) depicts there is a current account surplus after a long gap of 18 years.

References:-

1. Reserve Bank of India Occasional Papers
2. B N Ganguli (1957), "The Outlook for India's Balance of Payments- Re-examination of trade policy necessary", The Economic Weekly Annual, January, pp. 125-128.
3. Deepak Mohanty (December 2012): "Perspectives on India's Balance of Payments", BIS central bankers' speeches, Speech given at the School of Manage-ment, KIIT University, Bhubaneswar, 7 December.
4. Economic Survey, Government of India, Ministry of Finance, Department of Economic Affairs, Economic Division, January, 2021.
5. Rajan Goyal (2012), "Sustainable Level of India's Current Account Deficit" RBI Working Paper Series 16/2012, 8 August.