

## India's Balance of Payments (BOP)

### Why in news?

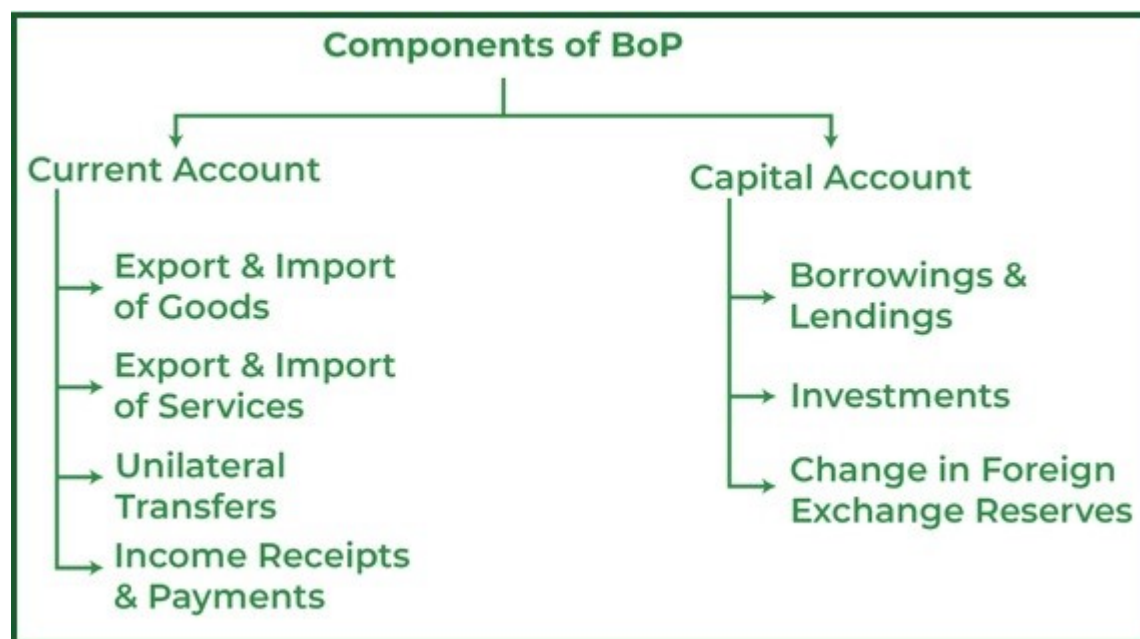
Data released by the government shows that India's exports and imports declined by 6.59% and 3.63% respectively in January 2023.

### What is balance of payments (BoP)?

#### Balance of Payments (BOP)

- The BoP record the **transactions in goods, services and assets** between residents of a country with the rest of the world for a specified time period typically a year.
- BoP follows the Double Entry System to record transactions with the rest of the world and has two sides - Credit side and Debit side

BoP Surplus	Balanced BoP	BoP Deficit
Credit Side > Debit Side	Credit Side = Debit Side	Credit Side < Debit Side



- Accounts in the BoP includes
  1. Current account
  2. Capital account

### Current Account

- It is the record of trade in goods and services and transfer payments.
- It records all the transactions that relate to the actual receipts and payments of the visible items, invisible items, and unilateral transfers during a specific period of time.

- Components of Current Account includes
  1. **Trade in goods (Visible Trade or Merchandise Transactions)** - It includes exports and imports of goods.
  2. **Trade in services (Invisible Trade)** - It includes factor income and non-factor income transactions.
    - **Factor income** - Includes net international earnings on factors of production (like labour, land and capital).
    - **Non-factor income** - It is net sale of service products like shipping, banking, tourism, software services, etc.
  3. **Transfer payments** - They are the receipts which the residents get for free without having to provide any goods or services in return. They consist of gifts, remittances and grants.
  4. **Income receipts and payments to and from abroad** - It involves investment income in the form of rent, profits, and interest.

Current Account Surplus	Balanced Current Account	Current Account Deficit
Receipts > Payments	Receipts = Payments	Receipts < Payments

*A surplus current account - The nation is a lender to other countries*

*A deficit current account - The nation is a borrower from other countries*

- **Components of Current Account includes**
  1. Balance of Trade
  2. Balance on Invisibles
- **Balance of Trade (BOT)** - It is the difference between the value of exports and value of imports of goods of a country in a given period of time.
- It is also known as Trade Balance.

Trade Surplus	Balanced BOT	Trade Deficit
Exports > Imports	Exports = Imports	Exports < Imports

- **Net Invisibles** - It is the difference between the value of exports and value of imports of invisibles of a country in a given period of time.
- Invisibles include services, transfers and flows of income that take place between different countries.
- Services trade includes both factor and non-factor income.

## Capital Account

- It includes those transactions, which cause a change in the assets or liabilities of a country's residents or its government.
- Components of Capital Account includes

1. **Borrowings and Lendings to and from abroad** - Includes all the transactions related to borrowings from abroad by the government, private sector, etc.
2. **Investments to and from abroad** - Includes all the investments by the rest of the world in shares of Indian companies, real estate, etc. The investments to and from abroad are:
  - **Foreign Direct Investment** - FDI consists of the purchase of an asset, which gives direct control to the buyer over the asset. For example, purchase of land, building, etc.
  - **Portfolio Investment** - It is the cross-border transactions and positions involving equity or debt securities, other than direct investment or reserve assets. Ex - FII (Foreign Institutional Investment).
3. **Change in Foreign Exchange Reserves** - The financial assets of the government held in the central bank are Foreign Exchange Reserves.

Capital Account Surplus	Capital Current Account	Capital Account Deficit
Capital inflows > Capital outflows	Capital inflows = Capital outflows	Capital inflows < Capital outflows

*A country could use its forex reserves to balance its balance of payments deficit.*

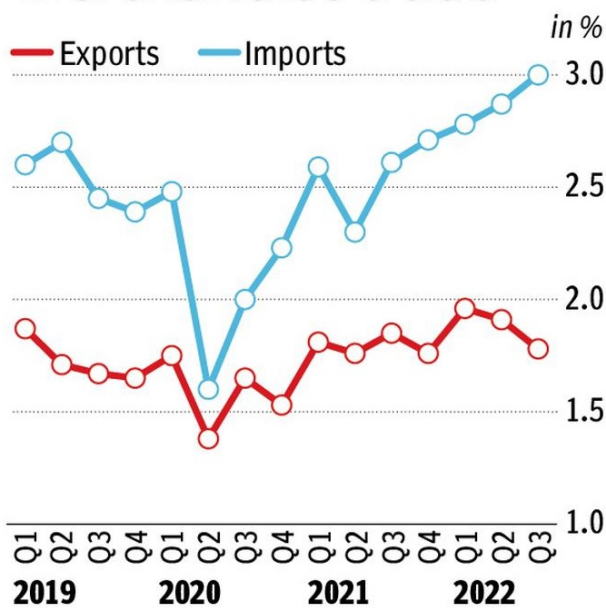
*The reserve bank sells foreign exchange when there is a deficit. This is called official reserve sale.*

*The decrease (increase) in official reserves is called the overall balance of payments deficit (surplus).*

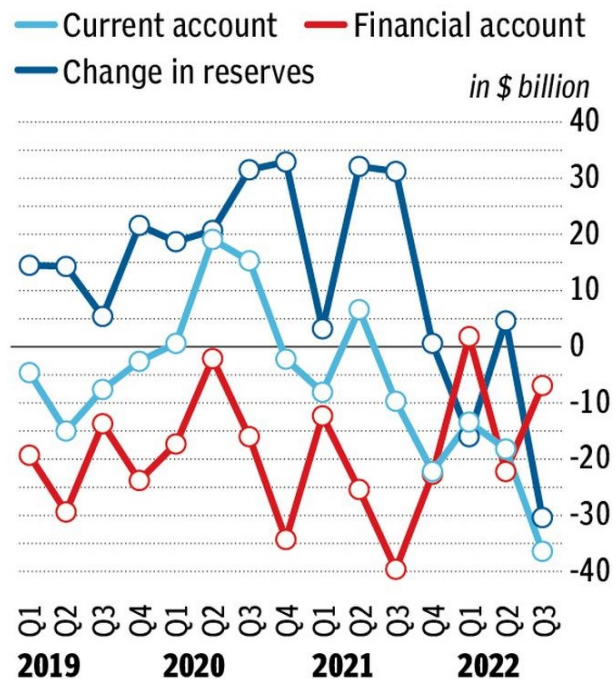
## **What is the case with India?**

- According to the RBI, the Current Account Deficit (CAD for the first half of 2022-23 stood at 3.3% of GDP.
- It is expected to moderate in the second half of 2022-23 and remain eminently manageable within the parameters of viability.
- In January 2023, trade deficit narrowed to \$17.7 billion, led by a sharp fall in non-oil imports. Also,
  - FPI outflows have come down
  - Workers' remittances went up
  - Gold imports have declined

## India's share in world merchandise trade



## India's balance of payments



### How will moderating CAD impact the market?

- The reduction in CAD due to services exports, is a positive sign.
- The rising CAD raises concerns among investors as it hurts the currency and thereby the inflow of funds into the markets.
- The value of an economy depends a lot on the value of its currency and thereby, it also supports the equity markets by keeping the fund flow intact.

### Quick facts

**Reserve assets** are financial assets denominated in foreign currencies and held by central banks that are primarily used to balance payments.

### References

1. [The Indian Express | Factors behind moderating CAD](#)
2. [The Indian Express | Exports drop by 6.6% in Jan](#)
3. [NCERT | Balance of Payments](#)