A STUDY ON TRENDS AND PERFORMANCE OF INDIAS BALANCE OF PAYMENT POSITION

Dissertation submitted

St. Teresa's College (Autonomous), Ernakulam

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BY

SREEJA N R

Register No: AM21ECO018

Under the Guidance of

DR. THUSHARA GEORGE

DEPERTMENT OF ECONOMICS

ST. TERESA'S COLLEGE

ERNAKULAM

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CERTIFICATE

This is to certify that this dissertation entitled "**A STUDY ON TRENDS AND PERFORMANCE OF INDIAS BALANCE OF PAYMENT POSITION"** is a record of the original research work conducted by SREEJA N R (Register No: AM21ECO018) under my guidance and supervision in partial fulfillment of the requirements for the award of the degree in Master of Arts in Economics to the St. Teresa's College Autonomous **(Affiliated to Mahatma Gandhi University, Kottayam)**. The research work has not previously formed the basis for the award of any Degree, Diploma, Associate ship, Fellowship or any other similar title and it represents a contributory work on the part of the candidate.

Dr. Mary Liya C.A

Head of the department

Dr. Thushara George

Guide and Supervisor

DECLARATION

I hereby declare that this dissertation titled **"A STUDY ON TRENDS AND PERFORMANCE OF INDIAS BALANCE OF PAYMENT POSITION"** is a bonafide work done by me and this work has not been previously formed the basis for the award of other Academic qualification, fellowship of other similar title of any other University or board.

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Name of Guide	Dr. THUSHARA GEORGE
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ABBREVIATIONS

1. BOP-Balance of Payments
2. ODA-Official Development assistance
3. NRI-Non Resident Individuals
4. FDI-Foreign Direct Investment
5. EU-European Union
6. CAD- Current Account Deficit
7. GDP-Gross Domestic Product
8. DTR-Daily Trade Return
9. RBI-Reserve Bank Of India
10. AD-Authorized Dealers
11. NFAB = net foreign assets of the banks

CHAPTER 1

INTRODUCTION

BALANCE OF PAYMENT IN INDIA

1.1 INTRODUCTION

The sum of all transactions between units of one country and units of the rest of the world during a period of time, such as a quarter or a year, is called the balance of payments (BOP), sometimes called the balance of international payments. It compiles a list of all transactions that citizens, businesses and government agencies make in the country with foreign partners. Both the current account and the capital account are part of the balance of payments. The current account reflects the country's net trade in goods and services, net income from international investments and net transfers. Fluctuations in exchange rates prevent the total volume of balance of payment transactions from zero. Transactions concerning the balance of payments (BOP): ·

- Direct investments , Share capital , Reinvested income , Other capital · Securities investments , Equity securities , Debt securities , Money market instruments , Derivatives .
- Other investments include trade credits, loans, cash and deposits.
- Other assets and liabilities the terms "direct investment", "portfolio investment" and "other investments" are defined in advance. It is important to note that the financial accounts above represent capital investment or capital flows, while the income from these flows is recorded in the current account. For example, if you (a US resident) invest $1 million in Japan, it should be recorded as a negative flow in a US financial account. Any profit or dividends and interest you earn on this investment will be recorded as investment income in a US checking account.

The sum of the current account and the financial balance of the private sector is called the total balance, or the official current balance. It summarizes the trade and investment flows of the informal sector in the balance of payments. Such flows represent the supply and demand of a country's currency in the foreign exchange market and affect the exchange

1.2 IMPORTANCE OF BOP IN INDIAN ECONOMY

The balance of payments report gives a clear picture of the economic relations of various countries. It is an integral part of international economic management. The balance sheet report provides information on the demand and supply of a country's currency. A country's payments picture determines its potential as a constructive economic partner. In addition, a country's payments picture shows its position in international economic growth. By carefully examining the balance of payments report and its parts, the state could identify beneficial or harmful trends for the economy and take the necessary measures. The balance of payments is an important document or event in the financial department because it reveals the financial state of the country and the economy. The following factors can be used to determine the importance of BOP:

- It analyzes the total exports and imports of products and services of a country over a period of time.
- It helps the government to identify the export growth potential of a particular industry and develop policies conducive to economic growth.
- It provides the government with a comprehensive overview of various import and export taxes. The government's balance of payments components then take steps to raise and lower taxes to reduce imports and increase exports and achieve self-sufficiency.
- If the economy needs import assistance, the government plans to direct cash flows and technology to the disadvantaged sector of the economy to achieve future growth, according to the BOP.
- The government can also use the balance of payments to identify the state of the economy and plan expansion. The monetary and fiscal policy of the country is based on the balance of payments.

1.3 COMPONENTS OF BOP

- Current Account: This account keeps tabs on every good and service that comes into and goes out of the nation. All payments for raw materials and completed goods are made from this account. Among the different deliveries described in this category are those related to tourism, engineering, stocks, commercial services, transportation, and royalties from licenses and copyrights. The sum of these elements constitutes a nation's BOP.
- Capital Account: This account keeps track of capital transactions like buying and selling non-financial assets like real estate. This account also keeps tabs on the flow of taxes and the acquisition and disposal of fixed assets by immigrants moving to a new country. The capital account's financing determines whether the current account is in deficit or surplus.

1.4-TRENDS IN INDIA'S BALANCE OF PAYMENTS

India has occasionally had pressures on BOP because of both internal and external forces. Depending on the nature of the BOP problem, the general macroeconomic environment, and the state of the foreign aid situation, the entire period, which spans about four and a half decades, can be divided into four sub-periods. The following are the four sub-periods:

Period I1975–1976

Period II, 1976–1979–80

Period III, 1980–1981–89–90

Period IV, the most current period, 1990–98

- **Period I (1975–1976)**

India's BOP had a very difficult time during the entire era, in part because to the slow development of exports in comparison to import requirements and in part due to unfavorable external variables. Despite severe import regulations.

- **Period II (1976-77 to 1979)**

These few years stand out as the golden years for India's BOP. India had a small current account surplus (0.6 per cent of the GDP on an average) and foreign Balance of Payments 29 exchange reserves equivalent to about seven months' imports. Export growth was good but the primary reason for the sharp improvement in BOP was the dramatic improvement in net invisibles. Net invisibles increased from a paltry Rs.194 crore in 1974-75 to Rs. 2,486 crore in 1979-80.

- **Period III (1980-81 to 1989-90)**

The period largely corresponds to that of the Sixth and Seventh Plans. The Sixth Plan was launched when the economy was facing serious balance of payments problems. In 1981, India entered into an agreement with the International Monetary Fund for a loan of SDR 5 billion under the Expanded Fund. The amount was to be paid within three years. Balance of payments deficits were particularly acute during the Seventh Plan. During the entire plan period, the current account deficit was as low as 2.2 percent of the gross domestic product, while in the sixth plan period it was 1.3 percent of the gross domestic product.

- **Period IV (from 1990-1991)**

The balance of payments crisis reached its peak in 1990-1991; the current account deficit increased to a maximum of 3.26 percent of GDP as shown in Table 1 below:

YEAR	EXPORTS	IMPORTS	TRADE BALANCE	NET INVISIBLE	CURRENT ACCOUNT DEFICIT
1990-91	6.2	9.4	-3.2	-0.1	-3.2
1991-92	7.3	8.3	-1.1	-0.7	-0.4
1992-1993	7.8	9.8	-2.0	-0.2	-1.8
1993-1994	8.8	9.7	-0.9	-0.8	-0.4
1994-1995	8.9	10.5	-1.6	1.5	-0.8
1995-1996	8.6	12.0	-3.6	2.6	-1.6
1996-1997	8.3	12.3	-3.7	2.3	-1.2

India was facing a serious payment crisis. Therefore, a comprehensive strategy has been put in place to address this. Although the payment picture continued to be under pressure in 1992-1993, the improvement of the crisis situation of mid-1991 was clear. Since then, the payment picture situation has continued to improve, although we have not fully come out of the shadows.

1.5 - COUSES BOP TEJN

1) The balance of payments deficit will continue for some time. Let's take a broader look at the factors that influence these deficiencies and try to identify them more clearly in the context of real admissions.

2) Trade Deficit: The main cause of India's payment imbalance is the country's constant trade deficit, which it has had to deal with since the beginning of the growth process. Without corresponding export growth, the import needs of the economy continued to grow, which led to an increase in the trade deficit. There is now ample evidence that due to increasing global competition and demand for cutting-edge technology, Indian industry is becoming increasingly dependent on imports. This trend is undeniable.

3) Declining trade surplus in invisible goods: One of India's balance of payments was a net surplus in invisible goods. Remittances from Indians working abroad and additional money from travel-related activities brought in a lot of invisible income. The result of two competing forces - a surplus of travel services, government transfers and private bank transfers on the one hand, and a deficit of investment income on the other - would determine an invisible net position in the long run. . .

4) The rest is the deficit of investment income. However, the combination of these two opposing forces would not change the trend in the near future, and the invisible trade would continue to generate surplus for some time. However, there is a strong possibility that in the long run the negative forces of investment income will outweigh the positive effects of other items, leading to an invisible trade deficit and causing further complications in the balance of payments.

In the early stages of economic development, current account deficits can easily be caused by cheap aid from bilateral and multilateral sources. In the late 1980s, however, the various sources of reduced subsidies began to weaken as the current account deficit widened. In the current economic environment, the probability of receiving increasingly reduced aid amounts seems small, mainly due to the following four factors: Most developed countries are reluctant to increase, and in some cases even maintain, their contributions. (a) a generally deteriorating Official Development Assistance (ODA) environment and (b) the perception that the Indian economy is now ready for commercial sources of foreign exchange financing;

1.6- BOP INVESTMENT 2022-2023

The Economic Review for the financial year 2022-23 released by the Finance Ministry today states that the current account deficit (CAD) is expected to remain within sustainable limits for the rest of the 23rd financial year due to the fall in crude oil prices. . CAD refers to a country's measure of trade when the value of imported goods and services exceeds the value of exported goods and services. "While recognizing possible downward trends, it is important to consider the buffers inherent in India's external sector. India's services exports, which are primarily software, business and travel services, have remained strong year to date, but reflect higher exports. India is consolidating its position as the world's largest recipient of remittances. , with domestic remittances expected to reach record levels in 2022," the study said. "Hence, a significant surplus in services and remittances would help offset growing trade imbalances. Net FDI flows have been strong this year, while net FPI flows have turned positive in recent months, accounting for an increasing share of outstanding flows in CAD. Years. Balance of payments data from the Reserve Bank of India show that in 2022-23 In the second quarter of 2018, India's CAD doubled from $18.2 billion to $36.4 billion, an all-time high and about 4.4 percent of the country's GDP. That's a significant increase from $9.7 billion a year earlier. According to the study, growth in trade was a key factor contributing to widening of the current account deficit (CAD) to $83.5 billion in the second quarter of FY23. In April-September 2022 (H1FY23), India had a deficit of 3.3% of CAD GDP due to increase in trade, compared to 0.2% in FY22. "Overall, the adverse global economic situation has put pressure on India's balance of payments (BOP) in 2022. The impact of the sharp rise in oil prices has been reflected in CAD expansion, tightening and tightening of policy by the US Federal Reserve. As result, as net financial flows fell short of the Canadian dollar, foreign exchange reserves decreased in the balance of payments in the first half of 2010 based on 25

23 to 0.8 billion US dollars, rather than an increase of 63.1 billion US dollars in the first half of 2012. However, large impairment losses ($48.9 billion) contributed to a net loss of nominal reserves of $74.6 billion in the period," the study said. The country's foreign exchange reserves stood at $562.72 billion at the end of December 2022, enough to cover 9.3 months of imports, while at the end of September 2022 the external debt-to-GDP ratio stood at a manageable 19.2%. India had the sixth largest foreign exchange reserves at the end of November 2022, according to data compiled by the International Monetary Fund. The financial report highlights that India's exports have shown resilience in FY23 (till December 2022) amid record exports. Level in the 22nd financial year. The most important exports were petroleum products, gems and jewelry, organic and inorganic chemicals, drugs and medicines. However, due to the weakening of the global economy and the slowdown in trade, a decline in India's exports is inevitable. The study shows that various export promotion strategies are considered/implemented in the medium and long term, considering the important role of exports in increasing the sustainability of the external sector. These initiatives would strengthen the inherent comparative advantage of Indian export companies. According to the economic study, the national logistics policy will reduce domestic frictions to promote India's exports by lowering domestic logistics costs. It also argues that recent free trade agreements, such as those with the United Arab Emirates and Australia, reduce external friction by allowing exports at reduced tariffs and removing non-trade barriers. As a result, the entire ecology would gradually become more export-friendly. According to the economic survey, import growth was not only affected by the increase in the price of crude oil, but also by the recovery of economic activity. Oil, petroleum and products; electronic products; coal, coke and briquette etc.; machinery, electric and non-electric, and gold were the most important imported products. It mentions that while continued deterioration in the outlook for global commodity prices will continue to moderate imports, non-gold and oil imports may not slow significantly. According to the study, India recorded an all-time high in merchandise exports worth $422 billion in FY22. In April-December 2022, exports of goods were $332 billion, while in April-December 2021 they were $305 billion. Exports of pharmaceuticals and pharmaceutical products, electronic products and organic and inorganic chemicals sector saw significant jumps in FY22. India maintained its dominant position in world services trade in FY22. India's services exports stood at $254.5 billion in FY22, up 23.5% over FY21 and 32.7% in April-September 2022. The total value of exports of goods and services in April-December 2022 is estimated at $568.6 billion, which is 16% more than in April-December 2021. The study emphasizes that efforts are ongoing to promote international trade in the

Indian rupee. The study notes that the framework is significant as it can largely reduce the net demand for foreign currencies and help Indian exports receive advances in Indian rupees from foreign customers. It mentions that in the long run, this could promote the Indian rupee as an international currency as the rupee payment mechanism becomes stronger. As for the balance of payments (Bop), it was under pressure during the reporting year, according to the Economic Survey. While the impact of the sharp rise in oil prices was seen in the widening of the Current Account Deficit (CAD) despite an excess in Invisibles (Services, Transfers and Incomes), a tightening of the policy of the Federal Reserve of the United States and a strengthening of the US Dollar led to foreign portfolio investment (FPI) outflows

As a result, the capital account surplus was lower than the Canadian dollar, leading to a depletion of foreign exchange reserves on a balance of payments basis. The Economic Review expresses optimism that going forward, the expected decline in crude oil prices, resilience in net services exports and strong remittances would lead to a lower CAD in FY23 and is expected to remain within sustainability limits. The foreign bank expects the country's current account deficit to be $24 billion this fiscal year and $5.5 billion next year, compared to $47.5 billion surplus last year. “Higher commodity prices, better growth in India relative to the rest of the world and higher global interest rates amid cautious risk appetite could keep the C/A (current account) deficit high and limit capital inflows.

1.7 DISEQUILIBRIUM IN BALANCE OF PAYMENT

A balance of payments imbalance means a surplus or deficit. A balance sheet surplus occurs when total income exceeds total payments.

So BOP = CREDIT>DEBT.

A balance sheet deficit occurs when the total amount of payments exceeds the amount of total income.

So BOP= CREDIT and DEBIT.

1.8 A CASE FOR EQUALITY

- Circular fluctuations
- Exports have decreased recently.
- Economic development

Rapid population growth, structural changes, natural disasters and global capital movements are just a few examples.

1.9 MEASURES FOR CALIBRATION OF THE BALANCE OF PAYMENTS

a) Monetary policy deals with the supply of money and credit in the economy. The central bank can increase or decrease the money supply in the economy by appropriate measures affecting prices.

b) Fiscal policy is the revenue and expenditure policy of the government. The state pays development costs and non-development costs. It receives income from taxation and tax-free sources. Depending on the situation, public spending can be increased or decreased.

c) Depreciation of exchange rates by reducing the value of the domestic currency, the government can correct the imbalance of the payment picture of the economy. Weakening exchange rates lowers the value of the domestic currency against the foreign currency. As a result, imports become more expensive and exports become cheaper. This also leads to inflationary trends in the country

d) Devaluation - devaluation is a decrease in the exchange value of the official currency. When a country devalues its currency, exports become cheaper and imports more expensive, which reduces the balance of payments deficit?

e) Deflation is the process of reducing the amount of money in circulation to lower prices and wages. When the currency depreciates in the domestic market, the average person's income decreases Consumption will decrease and the government will be able to expand exports and earn more money abroad.

f) Exchange control, the monetary authority instructs all exporters to hand over their foreign exchange earnings, and any available currency is distributed among authorized importers. The licensee can import any goods, but only in the amount allowed by the financial institution.

g) Export marketing - to promote exports, export taxes can be reduced, financial support and subsidies can be offered to exporters to increase exports, and products intended for export can be exempted from all taxes to promote exports.

h) Import substitutes Initiatives may be taken to promote the production of import substitutes. It saves foreign exchange in the short term by replacing imports with these import substitutes.

i) Import control Imports can be controlled by imposing various measures such as quotas and tariffs. In a quota system, the government sets the maximum amount of goods and services that can be imported during a certain period of time.

1. Quotas - In a quota system, the government can determine and allow a maximum quantity or value of a commodity for a certain period of time. By limiting imports through the quota system, the deficit will decrease and the balance of payments will improve.

2. Tariffs - Tariffs are import duties (taxes). If customs duties were imposed, import prices would increase by the tariff. Increased prices reduce the demand for imported goods and at the same time force domestic producers to produce more import substitutes.

1.10 - GENERAL RULE FOR ACCOUNTING FOR ECONOMIC LAND

- If the transaction earns currency for the country, it is a credit and is recorded in the surplus account.
- If the transaction involves the use of foreign currency, it is a debit and is recorded as a negative entry.

1.11 BOP CHARACTERISTICS

- It is a systematic record of all economic transactions between one country and the rest of the world
- It includes all events, both visible and invisible. • It is period related. This is usually an annual report.
- It adopts a double entry system of accounting. It has two sides: the credit side and the payment side. Receipts are recorded on the credit side and payments on the debit side.

1.12 GOVERNMENT POLICY TO IMPROVE BALANCE OF PAYMENTS IN INDIA

1. Exchange rate policy - countries generally want to keep exchange rate fluctuations within a range that does not significantly affect fundamental indicators. After the introduction of a market-based exchange rate system in 1993, significant capital flows entered India. The inflow exceeded the current account deficit and the foreign exchange market was oversupplied. For the government, the definition of monetary and exchange rate policy has now raised a new question. In such a situation, a flexible exchange rate system is needed. Due to the favorable pass-through of exchange rates into domestic prices, this curbs inflation

2. Activities Of The Central Bank In The Foreign Exchange Market - In the case of India, the Reserve Bank (RBI) intervenes in the foreign exchange market before sterilizing the additional liquidity that arises. Thus, it controls currency circulation. However, this procedure involves obvious fiscal costs and increases in real interest rates, which can attract more capital flows.

3. Trade restrictions are eased so that capital flows complement domestic saving. This can contribute to economic development. However, extreme care must be taken to ensure that investment rather than consumption increases. Otherwise, debt management can get out of control and become unsustainable. The government may relax the ban on capital outflows. The benefits are the diversification of the portfolio of domestic residents and the improvement of the general productivity of the financial system. This often leads to more confidence and more income

4. Authorities can also re-impose restrictions to limit the speed of imports. Restrictions may take the form of stricter regulations for companies accessing international capital markets, an

increase or decrease in withholding tax on foreign interest payments, or a higher reserve requirement for foreign deposits. Foreign loans must comply with prudential regulations and the end-use conditions must be observed.

2.1- OBJECTIVES

- To study the trends of balance of position of India and analyse the reason behind it
- To interpret the challenges faced by the countries having balance of payment deficit

2.2-SCOPE AND SIGNIFICANCE OF THE STUDY

A statement that lists all transactions between organizations, government agencies or people from one country to another over a period of time is called the balance of payments. The report contains all the transactional information that gives the institution a clear picture of the flow of money. After all, the inflow and outflow of the fund must match if the entries are included in the statement. A country's balance sheet shows whether that country has a surplus or deficit. It shows whether a country's exports are greater than its imports or vice versa. The balance of payments is a tool used by governments to keep track of all global financial transactions at a given time. Usually, the payment level is calculated every quarter and every calendar year. Although the balance of payments as a whole must be in balance, a surplus or deficit in any of its components can lead to imbalances between countries. Current account imbalances are a common problem. Current account deficits cause countries to incur more debt or increase their foreign ownership. The balance of payments calculates the amount of money entering and leaving a country, taking into account all transactions in the public and private sectors. A country is said to have a credit when it has received money, and a country is said to have a debit when it has paid or given money. The balance of claims and liabilities, or the balance of payments, should theoretically be zero; however, this rarely happens in real life. As a result, the balance of payments allows the observer to know whether a country has a deficit or a surplus and which sector of the economy is responsible for the differences.

The balance of payments is crucial in the management of the world economy for the following reasons:

First, the balance of payments affects the supply and demand of a country's currency. For example, if outflows are greater than inflows, demand in the domestic foreign exchange market will likely exceed supply in the foreign exchange market, all else being equal. It follows that the currency would be under pressure to depreciate against other currencies. On the other hand, if inflows exceed outflows, its currency would likely appreciate.

Second, information about a country's payments picture can indicate whether a country has the potential to be a profitable trading partner elsewhere in the world. A country suffering serious balance of payments problems may not be able to increase imports from abroad. Instead, a country can implement policies that limit imports and prevent capital outflows to improve the balance of payments. Conversely, a country with a significant balance of payments would be more inclined to increase imports, providing opportunities for foreign firms to sell themselves, and would be less likely to impose currency restrictions.

Third, balance of payments data can be used to assess the country's performance in international economic competition. A country with a trade deficit year after year can be a sign that the domestic industry is not internationally competitive. A balance of payments crisis, also known as a currency crisis, occurs when a country is unable to pay for essential imported goods or service its foreign debts. This is usually accompanied by a rapid depreciation of the currency of the country in question. Crises are usually preceded by large capital flows, which are initially associated with rapid economic growth. However, a point is reached where foreign investors worry about the debt incurred by future capital and decide to withdraw their money. Sometimes it only takes one or two big investors to cause mass panic due to herd effects. The resulting outflow of capital is associated with a rapid depreciation of the currency of the country in question. This creates problems for companies in the country in question that have received inward investments and loans, because their income is mostly domestic, but their liabilities are often denominated in the reserve currency. Once a country's government has used up its foreign exchange reserves in an attempt to prop up the value of its domestic currency, its policy options are very limited. It can raise its interest rate to prevent further depreciation of its currency, but while this may help those with foreign currency-denominated debt, it tends to put additional pressure on the local economy. Lower income countries are more prone to these types of crises, while

economic growth and exchange rate accumulation are particularly useful in preventing them. An increase in the value of the country's currency against other currencies weakens the competitiveness of the country's exports and makes imports cheaper, thus correcting the current account surplus. It also tends to make investment flows into the capital account less attractive, so it also helps create a surplus there. On the contrary, the depreciation of the government currency makes it more expensive for citizens to buy imports and increases the competitiveness of their exports, helping to correct the deficit (although the solution often does not have an immediate positive effect, because the marshal pupil condition). Governments can influence exchange rates. In the early years of the Bretton Woods system, international markets heavily restricted capital controls, and exchange rate controls were often problematic because markets often wanted the currency to move in the opposite direction to governments. Developing countries in particular would often struggle, although even developed economies such as Britain had problems. Black Wednesday was an example of the fact that in a rules-based or regulated monetary system, there are not enough tools to fight the market, and when left to float freely, the market tends to change in a direction that restores balance. When a country sells more than it imports, the demand for that currency increases because ultimately other countries need the currency of the selling country to pay for exports. Economic policy objectives could in principle is the norm for the balance of payments politics at the same time, exchange rate policy is treated as income policy. F. De Roos (1982) affirms that only the balance of payments can be considered as a long-term criterion balance of payments policy when exchange rates are stable. For flexible exchange rates the criterion is found in the degree of stability of the domestic economy. Under current account goods, services and income transactions are covered. Product information is available from two sources, namely (a) Directorate General of Business Intelligence and Statistics (DGCIandS) on a customs basis and (b) by RBI in respect of payments (which includes both receipts and payments) basis. The Daily Trade Return (DTR) is the primary source for recording export data DGCIandS while RBI mostly depends on R returns submitted by Authorized Dealers (ADs) export and import of data. BOP goods export information has been prepared .The DGCIandS data are after adjusting for time and exchange rate differences. Balance of payment services consist of travel, transport, insurance and government not elsewhere specified and "miscellaneous" services. Traveller's check details are calculated based on the number of tourist arrivals in India and the tourism survey Expenditure of Ministry of Tourism, Government of India. Of expense patterns of tourists in various regions are different; it would be advisable to do research tourism expenditure per

inhabitant in large areas. The details of the services are covered in the gross amount with a few exceptions such as receipts from Indian shipping companies and airlines operate abroad. Two types of transactions are recognized in revenue via employee benefits and investment income. Investment income includes income and dividend payments and profits from foreign investments, as well as income and expenses interest income and other income. Software export has become one of the most important service export. Software exports are generally divided into two type's via on-site services and off-site services. On-site development means work done at the customer's location, while external export can be in physical form (software is produced magnetic tapes and stationery) and in non-physical form. There is no software export the physical form, on the other hand, is directly related to the transfer abroad through owned land stations and satellite links must be registered on the prescribed SOFTEX forms For Reserve Bank. Software export in physical form is stored Trade data compiled by DGCIandS presented in Exports of Goods in Information on balance of payments according to international practice. Export of software in non-physical form is listed under "miscellaneous" services as part of non-author services. After reporting The RBI mechanism covers software revenue to the extent transferred to India, National Software and Services Corporation (NASSCOM) developed the format consultation with RBI to collect data on exports of used software e.g. gross income benchmark. The capital account has both equity and debt flows covered Debt beds consist of commercial loans, foreign aid and short-term business credit and non-resident Indian (NRI) deposits, while equity flows consist of foreign Direct investment (FDI) and securities investment. BPM5 defines direct investment as international permanent investment in a company in which the investor owns at least 10 percent part of cents. However, BPM5 allows flexibility based on the 10 percent criterion depending on the presence of an effective voice of foreign investors in Management Company Currently, direct investments in the country by people living abroad are freely allowed most sectors are subject to certain sector-specific stock maximums. Direct investment internally the prescribed sectoral ceilings are freely allowed under the automatic route of the RBI. Direct investment limited exceeding the maximum amounts prescribed for the activity and sector requires prior approval Through the Secretariat for Industrial Assistance (SIA) and foreign investment Promotion Board (FIPB). Equity can also be increased through foreign direct investments shares by buying shares. Security investment consists of the accumulated amount Indian companies through Global Depository Receipt (GDR) or American Depository Receipts (ADR), Foreign Institutional Investors (FII) Investments in Indian Stock Market and high net worth individuals and

foreign funds. When replacing currency Course Management Act (1999) Regulation Act (1973) with Policy Deregulation and liberalization, the information system for balance sheet transactions must be supported more and more about aggregated positions provided by AD and differential data from magazines or advertisements such studies. Even the extradition of a foreigner is affected by the rules of trade As export trade is liberalized, it would be increasingly difficult to obtain statistics on it exchange of goods upon payment of AD. In such a scenario, the trade data would be in the balance of payments is prepared only on the basis of the information contained in the customs records, as is usual in several industrialized countries. Also further liberalization of capital account transactions may require the use of surveys even for aggregate information

2.3- RESEARCH METHODOLOGY

The balance of payments (BOP) is the method by which countries measure all of the international monetary transactions within a certain period. The BOP consists of three main accounts; the current account, capital account, and the financial account.

Research methodology includes

1. secondary data (surveys ,observations ,experiments ,questionnaire, personal interviews, etc. . government publications ,websites ,books ,journals articles internal records etc.
2. Company websites, Government statistics, industry associations, published market research reports, trade publications.

2.4-SCHEME OF THE STUDY

- Chapter 1-Introduction-First chapter deals with Balance Of Payments Introduction, , Objectives, Significance and Need of study, Methodology and Limitations
- Chapter 2-REVIEW OF LITERATURE
- Chapter 3-- Balance Of Payments-An Overview
- Chapter4—DATA ANALYSIS AND INTERPRETATION
- Chapter 5-Findings,Recommendation and Conclusion

2.5-LIMITATIONS OF THE STUDY

- Time period was very limited

CHAPTER 2
REVIEW OF LITERATURE

REVIEW OF LITERATURE

1) The Balance of Payments in Review (1996) –Richard N Cooper YALE UNIVERSITY-In this review the balance of Payments statistics of the United States have done at the hands of distinguished committee chaired by Edward Bernstein. The first part of this review describes and accesses the reports and findings for improvement and quality of presentation of statistics and about how deficit in balance of payments can be defined
2) A review of Empirical Literature on Balance of Payments as a Monetary Phenomenon (2013) by A.O Akpansung defines the evidence of disparity in the Balance of Payment is always necessitated by disturbances in the Monetary variables in the countries concerned
3) Macro econometric Assessment of Monetary Approach to Balance of Payments in a small open economy (2020) –AtoiNgozi Victor studies on monetary model with data from 2007 to examine the link between monetary factors and Balance of Payment in Nigeria. It is estimated through Two Stage Least Squares.
4) The Determinants Factors of Balance of Payments :An investigation from Sudan (1980-2016) -F.M Yousif, Almahdi Musa Attahir Musa investigates the determinants of Sudan balance of payments using annual data on BOP,Foreign Debt,Infaltion,GDP.The paper elaborates the problem regarding impact of foreign debt on BOP
5) India Balance of Payment (2016) –Panchanan Behera argued that invisible account and capital account were critical in preventing BOP crisis .The trade deficit remains a matter of concern because of liberal imports
6) Impact Of Exchange Rate on Balance of Payments (2014) Nawaz Ahmad, Riswan Raheem,Khoso Rana analysed that the stability of exchange rates may create a positive investment incentive can improve BOP
7) Balance Of Payment Crisis In Emerging Markets (2007)-Matthieu Busseire analyse that main economic variables found to predict crisis are the ratio of short term debt to international reserves,growth rate of credit to private sector..
8) Trend Analysis of India's Trade Imbalance of Payments (2016) - Ihana Srivastava, Ambalika Sinha pointed out that exports and imports are important factors trade imbalance. The difference between the two creates an imbalance.

9) Nayyar (1982) presented a systematic analysis of India's balance of payments since 1970 and evaluated the policies of the government. The author pointed out that the general the comfortable position of the Indian BOP in the 1970s (especially in the second half of the 1970s) made won't last long. At the end of the decade, there were serious difficulties with the payment picture, because a huge trade deficit in 1979-80 which widened in 1980-81. The author draws this conclusion the formulation of our economic policy in general and trade policy in particular was based on instead of long-term planning for short-term crisis management. Nevertheless, the policy was adopted in the late 1970s; import liberalization was emphasized with export promotion. The beginning of a new long-term perspective on trade policy and industrialization.

10) S. Suriaganth and Dr. A. Mohamed Abdullah 1935 when the current account became surplus In the two years after the first oil shock, the current account deficit increased significantly in 2010 two years after the second oil shock. It was observed that from 1985-86 to 1989-90 i.e. Bose and Jha (2011) investigated causal relationships government budget deficit and India's current account deficit, taking into account quarterly data from the 1st quarter of 1998 to the 1st quarter of 2011. They used interest and exchange rates as connection variables. The traditional hypothesis the causality runs from fiscal deficit to interest rates to exchange rates and beyond their results only partially support the external deficit, while the evidence the popularity of reverse causation is very strong. An increase in the price of oil helps to reach the conclusion chain of reverse causation in the double deficit hypothesis for India as a direction the causality clearly extends from the price of oil to the external deficit public finance deficit. The two deficits were then seen to move in opposite directions In the middle of the 1990s, when the government began to significantly reduce the budget with the implementation of FRBM Act 2003.

CHAPTER 3

BALANCE OF PAYMENTS-AN OVERVIEW

BALANCE OF PAYMENTS

Balance of payments difficulties may develop slowly over time and can result from developments such as a progressive loss of key export markets, high and rising import dependency, declining capital inflows, rising foreign debt, unsustainable current account deficits, sustained currency overvaluation and banking sector weaknesses. These difficulties can become acute where foreign loans become inaccessible and international reserves fall to such a low level that they cannot cope with import and export fluctuations or reductions in net capital inflow .Growing current account deficits are usually a precursor to balance of payments difficulties. Funding of current account deficits requires capital inflows, other net currency inflows or a drawdown in foreign currency reserves. Some Pacific island microstates are heavily dependent on imports (including necessities, food and fuel) which far outstrip their export capacity. As well, microstates often have small public and private domestic savings relative to investment needs. To compensate for inadequate domestic savings and to maintain standards of living, foreign borrowings may rise, current account deficits may increase and there may be greater reliance on foreign aid flows. These savings-and-capital-poor countries may have difficulty in financing current account deficits if foreign currency inflows are disrupted. Internal and external economic shocks may also bring underlying financing difficulties to a head by reducing foreign investment, exports, remittances and tourist receipts; impacting adversely on domestic savings; or requiring increased imports. In these circumstances, the capacity of governments to increase foreign currency borrowings from private sources and other governments usually diminishes (and borrowing costs escalate) as credit ratings decline and sovereign risk increases.

As balance of payments difficulties intensify, and the scope for monetary policy action becomes increasingly constrained by the need to protect foreign currency reserves, countries with fixed exchange rates may decide to ration imports or impose or strengthen capital and foreign exchange controls on outflows (including, for example, limits on profit, dividend and capital remittances abroad). Directives may also be issued to repatriate funds and assets held offshore. In the short-term, the tightening of foreign exchange and import controls may retain local savings for domestic use, protect the fixed exchange rate and foreign currency reserves, and take some pressure off the need for monetary policy adjustment. However, aggressive, extensive and long-lasting controls are generally undesirable, as they can deter foreign investment; cause infrastructure to be run down (as imports of machinery and spare parts are

cut-back) with additional consequences for exports; reduce business confidence; because distortions in the pattern of imports according to the pattern of government controls and, in extreme cases, lead to currency inconvertibility. Other potential costs with capital, import and foreign exchange controls include a loss of economic efficiency, an on-going contraction in economic activity, a decline in living standards and an increase in poverty. If conditions continued to deteriorate and the exchange rate remained fixed then exchange rate pressures are likely to precipitate the development of a black market in the currency, and (often related to this), an official exchange rate that is out of line with economic fundamentals if the controls are sufficiently broad to disrupt the demand and supply of foreign currency. The problem of balance of payment arises when there is rise in the balance of payment deficit. This problem can be managed when exports start rising and imports start reducing. Policies must be created which will help in stimulating exports. Conditions should be created where people are more interested in purchasing domestic goods rather than importing goods. The rise of global financial transactions and trade in the late 20th century stimulus BOP and macroeconomic liberalization in many developing countries Along with the look due to the explosion of the market economy, developing countries were encouraged to get rid of capital and financial account transactions to take advantage of these capital flows. Many of them countries had restrictive macroeconomic policies with regulations that discouraged foreigner's ownership of financial assets and other assets. The rules also restricted transfer money abroad with the liberalization of capital and financial balance, the capital market began to function grow, allowing investors a more open and developed market, but also foreign direct investment. If there is an important payment picture ahead expenditure-reduction policies (restrictive monetary and fiscal policies) to lower domestic expenditure, consumption and investment relative to domestic savings, and to reduce the demand for imports. Expenditure-switching policies (for example, devaluation, import tariffs, import rationing, and import replacement and export subsidies) designed to stimulate exports and economic growth, reduce import dependency and lower the trade and current account deficits. For countries with a fixed (pegged) exchange rate regime devaluation may be warranted as a means to attempt to avoid a looming balance of payments crisis. In this case the exchange rate adjustment could work to reduce the prices of all domestic goods to foreigners, increase exports and reduce some of the volatility in foreign currency reserves, and conserve reserves. If the devaluation is successful, the authorities may eventually have greater independence in the conduct of macroeconomic policies. If an IMF-member country is experiencing severe balance of payments difficulties and reserve depletion is advanced that country may request

assistance from the IMF. Under this approach the IMF may provide a loan to the country in exchange for macroeconomic policy conditionality. IMF financing, usually with structural adjustment-related financing support from the multilateral development banks or other donors, involves commitment to appropriate economic stabilization policy objectives, provides for economic and balance of payments adjustment and seeks to avoid a crisis, allowing the capacity for loan repayment to develop within a reasonable period of time.

THE BALANCE OF PAYMENTS AND MONEY SUPPLY

Balance of payments statistics are also used in explaining changes in the money supply, an important indicator for the determination of monetary policy. Increases in the money supply are usually closely correlated with price increases over the long term. Money supply can be defined in various ways. Normally it consists of coin and banknotes in circulation outside the banking sector plus the deposits of the non-bank private sector with banks or, in some countries, with closely related financial institutions. The more narrowly defined money supply is then defined to include only deposits with a short maturity, whereas the more broadly defined money supply could include all deposits of the non-bank private sector. If for the sake of simplicity it is assumed that the definition of the money supply is restricted to deposits of banks, the money supply would form part of the consolidated liabilities of banks. An accounting identity could then be established in which the money supply would be equal to the sum of all the assets of banks less those liabilities of banks that have not been included in the money supply. Such an identity would allow changes in the money supply to be explained in terms of changes in the consolidated assets and liabilities of banks. For analytical purposes, the banks' assets may be classified into gold and foreign assets, claims on the government sector, claims on the non-bank private sector and a residual category, "other assets". The liabilities not included in the money supply can also be classified in foreign liabilities, government deposits, deposits of the non-bank private sector not included in the money supply and "other liabilities".

- If these liabilities are offset against the corresponding category of assets, the identity would take the following form:
- M = NFAB + NCG + NCPS + NOA

- where M = the money supply NFAB = net foreign assets of the banks NCG = net claims on the government sector NCPS = net claims on the non-bank private sector and NOA = net "other assets"

THE BALANCE OF PAYMENTS AND MONEY MARKET OPERATIONS

Balance-of-payments data also play an important role in the money market operations of central banks. As in the case of the money supply, the link between the balance of payments and the money market can perhaps best be illustrated by an identity which, in this case, can be derived from the balance sheet of the central bank. There are various ways of analysing the liabilities and assets of the central bank in this manner, depending on the type of system that the central bank chooses to follow. If the purpose is to determine the liquidity requirement or the accommodation that a central bank has to provide to banks, such a liquidity requirement could be defined and the other assets and liabilities would then form the accounting causes of changes in the liquidity requirement. The size of the liquidity requirement will reflect the outcome of spontaneous market developments or may be the outcome of deliberate actions taken by the Bank. Factors influencing money-market liquidity over which the central bank has no direct control are — changes in banknotes and coin in circulation outside the central bank; — autonomous balance-of-payments transactions which affect the net foreign assets of the central bank; — changes in government deposits held with the central bank; and — surpluses or deficits arising from transactions in the forward market.

History of Balance of Payments (BOP)

Before the 19th century, international transactions were in gold, which offered little flexibility for trade deficit countries. Growth was slow, which stimulated a trade surplus was the main way to strengthen the economic position of the country. The national economy was not well integrated so that acute trade imbalances rarely led to crises. Industrial revolution more and more intensified international economic integration and balance of payments crises began to appear more and more often. The Great Depression caused countries to abandon the gold standard to participate in the race The devaluation of their currencies, but the Bretton Woods system that has prevailed since the end of the world The second war until the 1970s

brought others a dollar convertible to gold with a fixed exchange rate currencies However, as the US money supply grew and the trade deficit deepened, the government was unable to fully redeem the dollar reserves of foreign central banks into gold and the system was abandoned. After the Nixon shock - as was the end of the convertibility of the dollar into gold Currencies have been known to float freely, which means that a country with a trade deficit can artificially depresses its currency—for example, by accumulating foreign reserves—in order to produce its own products more attractive and increases its exports. Due to increased cross-border mobility of capital sometimes there are balance of payments crises that cause a sudden devaluation of the currency which hit Southeast Asian countries in 1998. The Great Depression made countries surrender the gold standard engages in competitive devaluation of its currencies, but Bretton Woods The system, which operated from the end of World War II until the 1970s, adopted a golden convertible based on fixed dollar exchange rates against other currencies.

SPECIAL CONSIDERATIONS

Balance of payments and foreign assets data are critical for national design and international economic policy. Some aspects of balance of payments data, such as payments imbalances and FDI are key issues that the country's policy makers are trying to address, Although the country's balance of payments necessarily cancels the current and capital accounts, imbalances can and do occur between the current accounts of various countries. It was in the United States the world's largest current account deficit in 2020, $616 billion. China had the largest surplus in the world, with $274 billion. Economic policy often aims at specific goals, which in turn affect the balance fees For example, one country may adopt policies specifically designed to attract foreign investment in a certain sector, while another country may try to artificially hold its currency. Promote exports and increase our foreign exchange reserves. The impact of these policies is ultimately captured in the balance of payments data.

DEVELOPMENTS IN INDIAS BALANCE OF PAYMENTS 2022-2023

1. India's current account balance recorded a deficit of US$ 23.9 billion in 2022-23
2. Net services receipts increased
3. Underlying the current account deficit in 2022-23 was the widening of merchandise trade deficit to US$ 68.6 billion
4. Service sector grew by 35.4%

5. Private transfer receipts amounted to increase by 22.6%
6. Net outgo on the income account primarily payments of investment income increased to US$ 9.3 BILLION
7. Net foreign portfolio investment increased to US$ 14.6 billion
8. Net external commercial borrowings to India recorded an outflow of US$ 3.0 billion in 2022-23 as against an inflow of US$ 0.2 billion

Table 1: Major Items of India's Balance of Payments

(US$ Billion)

	July-September 2022 P			**July-September 2021**			**April-September 2022 P**			**April-September 2021**		
	Credit	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**
A. Current Account	225.2	261.6	-36.4	194.3	204.0	-9.7	456.0	510.6	-54.5	374.4	377.5	-3.1
1. Goods	112.0	195.5	-83.5	104.8	149.3	-44.5	234.8	381.4	-146.6	202.2	277.4	-75.2
Of which:												
POL	24.0	59.2	-35.2	15.7	38.6	-22.9	51.0	112.7	-61.7	28.6	69.5	-41.0
2. Services	80.0	45.6	34.4	61.4	35.8	25.6	156.1	90.6	65.5	117.6	66.2	51.4
3. Primary Income	5.8	17.8	-12.0	6.9	16.7	-9.8	12.0	33.2	-21.1	12.5	29.8	-17.3
4. Secondary Income	27.5	2.7	24.8	21.2	2.1	19.0	53.1	5.5	47.6	42.1	4.0	38.0
B. Capital Account and Financial	183.6	146.4	37.3	209.8	201.4	8.4	376.3	321.6	54.8	373.9	372.0	1.9

Account												
Of which:												
Change in Reserves [Increase (-)/Decrease (+)]	30.4	0	30.4	0.0	31.2	-31.2	30.4	4.6	25.8	0.0	63.1	-63.1
C. Errors & Omissions (-) (A+B)	0.0	0.9	-0.9	1.3	0.0	1.3	0.7	0.9	-0.2	1.3	0.1	1.2
P: Preliminary												

The BOP crisis is a special case of imbalance. By studying the theoretical model of the BOP crisis and the economic variables affected by the crisis, we can choose resilience indicators from another perspective. Krugman proposed the first generation of BOP crisis model, arguing that when a country's money supply exceeds its money demand for a long period of time, foreign exchange reserves will continue to fall and currency speculators will attack at some point to disintegrate the fixed exchange rate system, causing the country's currency to devalue and the economy to collapse. Obstfeld proposed a second-generation model of BOP crises, noting that when domestic macroeconomics is weak, currency speculation leads governments to abandon fixed exchange rate regimes on their own initiative, which triggers a chain reaction. Third-generation BOP crisis models are more inclined to examine the financial sector, which is called "capital item crisis theory."

Sen improves the BOP model's first generation in order to more accurately predict when BOP crises would occur. According to Wang , who looked at the third-generation BOP crisis model, the crisis would cause a considerable currency depreciation, which would negatively affect macroeconomic stability, as well as a fast decline in real investment, which would negatively affect the real economy. The crisis will result in a substantial fiscal deficit, claim Yin and Li . Wang investigates the factors such as inflation and fiscal conditions that have contributed to the three BOP crises that have occurred such as inflation. The paper ultimately briefly describes this component as the transmission path of BOP imbalances, as described below. BOP imbalances will impact the foreign exchange market, resulting in changes in exchange rates, foreign exchange reserves, and foreign investment. As a result of the abovementioned market changes, the imbalance will further affect domestic macroeconomic growth and stability, as well as inflation, unemployment, and GDP growth rate, which can affect quality of economic growth.

Table 1: Major Items of India's Balance of Payments						
						(US$ Billion)
	April-June 2021 P			April-June 2020		
	Credit	Debit	Net	Credit	Debit	Net
A. Current Account	180.0	173.5	6.5	122.4	103.3	19.1
1. Goods	97.4	128.1	-30.7	52.2	63.2	-11.0
Of which:						
POL	13.0	31.0	-18.0	4.8	13.2	-8.3
2. Services	56.2	30.4	25.8	47.0	26.2	20.8
3. Primary Income	5.4	13.0	-7.5	5.0	12.7	-7.7
4. Secondary Income	20.9	1.9	19.0	18.2	1.2	17.0
B. Capital Account and Financial Account	155.3	161.4	-6.1	120.2	138.6	-18.5
Of which:						
Change in Reserves [Increase (-)/Decrease (+)]	0.0	31.9	-31.9	0.0	19.8	-19.8
C. Errors & Omissions (-) (A+B)		0.4	-0.4		0.6	-0.6
P: Preliminary						

TRENDS IN INDIAS CURRENT, CAPITAL ACCOUNT AND BOP IN PRE – DEVALUATION PERIOD

YEAR	CURRENT ACCOUNT	CAPITAL ACCOUNT	BOP
1984-85	2417	3147	730
1985-86	4867	4506	-361
1986-87	4560	4512	-47
1987-88	-4852	5047	195
1988-89	7997	8064	68
1989-1990	-6841	6977	136
1990-91	9680	7188	-2492
1991-1992	9890	8488	-116

The payment plan was 2020/21. With a surplus of $3.4 billion in the last quarter of the fiscal year, compared with a surplus of $18.8 billion a year earlier

FDI – Despite the pandemic, net FDI inflows of $44 billion in FY21 were higher than $43.0 billion in 2019-20. Net investment in foreign securities also increased by $36.1 billion in FY21 compared to $1.4 billion a year ago.

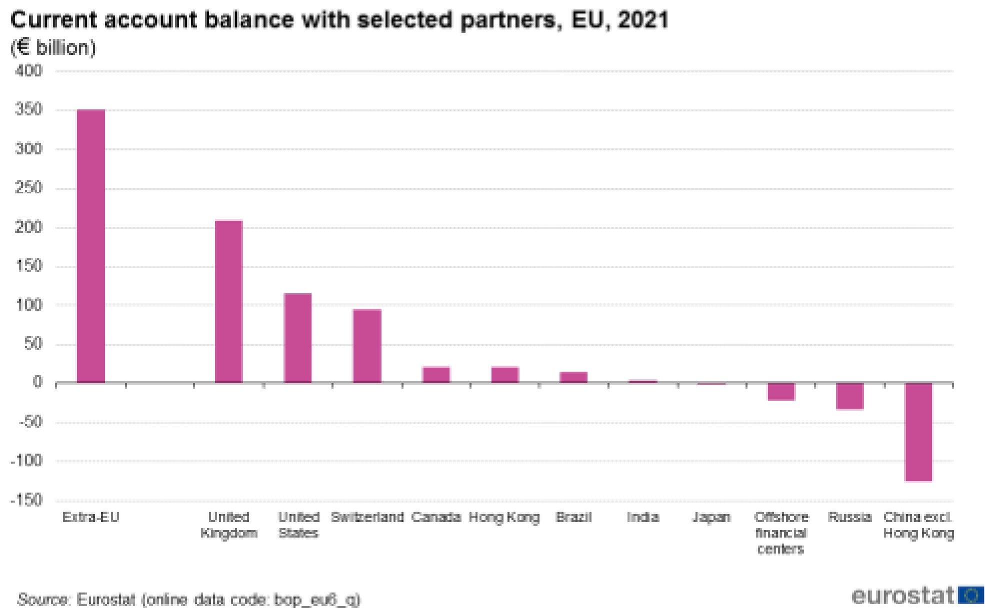
The external trade loans of India Inc. recorded $0.2 billion, up from $21.7 billion in 2019-20, RBI data showed.

Foreign Exchange Reserves - Foreign exchange reserves accumulated to $87.3 billion on a balance of payments basis.

CHAPTER 4
DATA ANALYSIS AND INTERPRETATION

DATA ANALYSIS AND INTERPRETATION

The current account of the INDIA showed a surplus of €350.4 billion in 2021, corresponding to 2.4 % of gross domestic product (GDP). By comparison, in 2020 the current account surplus was €315.9 bn. The surplus in the current account balance for the EU increased significantly since 2010 from 0.6 % of GDP or €64.6 billion to 3.2 % in 2016 or €402.5 bn. Since then, it has been slowly decreasing in absolute values as well as a share of GDP. The current account surplus of the EU for 2021 was mostly based on a significant surplus in the goods account (1.7 % of GDP), while the services account contributed 0.9 % of GDP and the primary income account 0.4 % of GDP to the positive balance while the secondary income account (-0.5 % of GDP) recorded a deficit. The capital account displayed balanced figures (0.0 % of GDP). Among the partner countries and regions shown, the EU's current account deficit was by far the largest with China, standing at €125.2 bn in 2021, followed by Russia (€33.2) and offshore financial center (€21.3). On the other hand, the highest current account surpluses were recorded with the United Kingdom (€209.5), the United States (€114.6) and Switzerland (€95.1). Surpluses were also recorded with Canada, Hong Kong, Brazil and to a minor extent with India. There were 15 EU Member States that reported current account deficits in 2021, and 12 that recorded surpluses. The largest relative deficits measured as a share of GDP were observed in Cyprus (7.3 %), Romania (7.0 %) and Malta (6.1 %), while Ireland (13.9 %), the Netherlands (9.5 %) and Denmark (8.3 %) reported the largest surpluses relative to GDP in their current accounts. In absolute terms however Germany recorded by far the largest current account surplus (€265.3 billion) and Romania the largest current account deficit (€16.7 billion).



In spite of having a negative balance for the secondary income account (€75.4 bn), it is clear from a closer examination of the current account components that the EU's current account surplus with the rest of the world in 2021 was primarily supported by positive balances in the goods and to a lesser extent in the services and primary income accounts (€242.6 bn, €132.6 bn, and €50.6 bn, respectively). The massive surplus in goods trade (€290.2 billion), the sizable positive net exports of services (€95.9 billion), the surplus in primary income (€63.3 billion), and the sizable deficit in secondary income were all responsible for the euro area's current account surplus (€291.6 billion). and decrease due to a substantial deficit in secondary revenue (€157.8 billion). While more than half of the EU Member States (17 nations) had negative balances in their goods accounts in 2021, the three greatest net exporters of goods outside the EU in terms of absolute value were Germany (€192.4 bn), Ireland[2] (€172.9 bn), and the Netherlands (€70.1 bn). Of those, France (68 billion euros) was by far the biggest net importer of commodities, followed by Greece (25.6 billion euros) and Romania (23.2 billion euros). The largest net exporters of services in 2021 were Spain ($38.9 billion), France ($37.8 billion), and Poland ($26.4 billion), whereas the only net importers were Italy ($9.4 billion), Ireland ($3.1 billion), Finland ($2.3 billion), and Sweden ($0.8 billion). Among EFTA countries, Switzerland €63.8 reported a significant current account surplus in 2021 due to a huge surplus for goods 95.0 despite considerable negative balances for services 6.4 , primary income (€13.0) and secondary income 1.8. Figure 3 shows that although 23 Member States recorded service surpluses with the rest of the world in 2021, a total of 10 Member States recorded surpluses for products. Ireland (41.0% of GDP), the Netherlands (8.1% of GDP),

and Germany (5.4% of GDP) were among nations with the highest relative exposure to goods surpluses. The countries with the biggest relative service surpluses according to GDP were Luxembourg (34.1%), Malta (19.9%), and Cyprus (19.5%). Cyprus (18.4% of GDP), Croatia (18.2% of GDP), Malta (16.7% of GDP), and Finland (0.9% of GDP) were the economies with the biggest relative net deficits in goods. Around 58.7 % of EU Member States' international trade in goods and almost half of their trade in services (48.8 %) were related to trade with other EU countries in 2021 — see Figure 4. Cross-border trade in goods with EU partners was highest in Luxembourg (79.8 %) and 10 other Member States recorded shares of over 70 %. The lowest share was reported by Ireland (36.2 %). Cross-border trade in services with other EU economies was most prominent in Slovakia (74.4 %), Austria (74.3 %) and Slovenia (74.0 %) and lowest in Ireland (23.1 %).The capital account of the EU displays traditionally a deficit, resulting from considerable net capital transfers to the rest of the world. In 2021, this trend was continued with a capital account deficit of €6.2 billion. Among the Member States, Italy recorded the highest absolute capital account deficit (€2.3 billion 0.1 % of GDP), whereas significant relative capital account surpluses were reported by Estonia (9.2 %), Hungary (2.5 %), Croatia (2.3 %), Greece (2.2 %) and Romania (2.2 %) mostly due to net receipts from EU institutions. In case of the financial account consists FDI, portfolio investment, other investment, (net) financial derivatives and reserve assets. Financial account transactions are split in assets and liabilities that are recorded as net values (net acquisition of assets, net incurrence of liabilities). Accordingly, the financial account balance is interpreted as net lending to the rest of the world when positive, and net borrowing from the rest of the world when negative. In 2021 the overall net value of the EU financial account was firmly positive (€413.9 bn), as was the net value of the euro area financial account (€316.8 bn). These surpluses related to 2.9 % of GDP (EU) and 2.6 % of GDP (euro area). Apart from the EU and the euro area a total of 17 EU Member States were net lenders to the rest of the world in 2021, showing surpluses in their net financial accounts. The highest value relative to their GDP was reported by Ireland (12.9 %) and Denmark (9.3 %). By contrast, 10 EU Member States were net borrowers, among those Romania (-5.4 % of GDP) exhibited the highest relative deficit in regards to its GDP

In case of the financial account consists of DIRECT INVESTMEBT, portfolio investment, other investment, (net) financial derivatives and reserve assets. Financial account transactions are split in assets and liabilities that are recorded as net values (net acquisition of assets, net incurrence of liabilities). Accordingly, the financial account balance is interpreted as net

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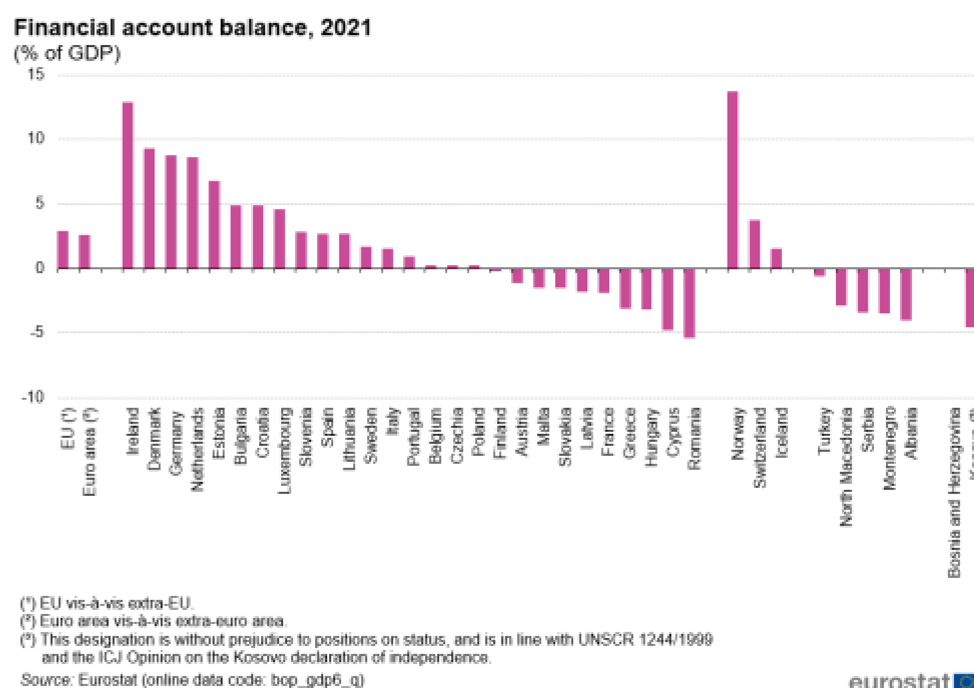


In 2021, the largest net lender in absolute terms in the EU was Germany with 314.7 The German financial surplus was achieved mainly due to net acquisitions of foreign assets in portfolio (255.1) and direct investment (101.8) while activities in other investment (-135) reduced the positive net figure. The major hubs for financial account transactions in the EU in 2021 were Germany, Ireland and Luxembourg.

France was in absolute terms the largest net borrower from the rest of the world in 2021 with a financial account deficit of €47.5 (1.9 % of GDP). The negative net financial account of France resulted mainly from net incurrences of liabilities in other investment (50.9), portfolio investment (€22.8) and direct investment (€14.4) that were much higher than the corresponding net acquisitions in net financial derivatives and employee stock options (€17.8) and reserve assets (€22.8).

For the EU transactions in direct investment 172.6 in acquisitions of net assets and -103.0 in acquisitions of net liabilities) contributed positively (275.6) to the net financial account value in 2021. Germany recorded the highest transaction values for net acquisitions of assets (€163.7 bn) and Luxembourg for net acquisitions of liabilities (-188.1) in direct investment. The highest surplus was displayed by Germany (101.8) and the largest deficit 20.9 by Poland.

In 2021 the overall net financial account surplus of the EU was mainly supported by transactions in portfolio investment with the rest of the world that displayed €654.6 in net acquisitions of assets and only €331.0 in net acquisitions of liabilities. Ireland recorded the highest transaction values for net acquisitions of assets 356.3) and Luxembourg for net acquisitions of liabilities (455.9). Germany reported the largest surplus (255.1) and Luxembourg the biggest deficit (112.0). For other investment the EU's financial account exhibited in 2021 a significant net deficit of €414 bn. Germany recorded the highest transaction figures for net acquisitions of assets (€366.8) and for net acquisitions of liabilities (€501.8. The Netherlands recorded the highest surplus (€37.2 bn) while Germany 135.0 and Italy (€121.1 recorded the largest deficits in other investment. For the EU, financial derivatives and employee stock options component of financial account exhibited a net surplus of €60.5 bn (0.4 % of GDP). Germany (€61.0 bn) displayed the highest positive net figures while Sweden (€8.2 bn) showed the largest net deficit. Among EFTA countries, Norway recorded by far the highest surplus in the financial account (€56.1 bn). Switzerland (€25.3 bn) and Iceland (€0.3 bn) were also net lenders in 2021. Norway's positive balance in its financial account was determined mainly by considerable surpluses in portfolio investment (€36.9 bn) and in direct investment (€8.7 bn). Switzerland's net lending status was supported mainly by a positive development in reserve assets (€41.4 bn) and net lending in portfolio investment of €31.7 bn while other investment and direct investment activities contributed negatively. Iceland's positive financial account balance with the rest of the world resulted from a surplus in reserve assets. Financial instruments that are linked to another particular financial instrument, indicator, or commodity are known as financial derivatives (other than reserves), and it is through them that certain financial risks can be traded in financial markets on their own. Financial derivative transactions are not seen as integral components of the value of the underlying transactions to which they may be tied, but rather as independent transactions. Only the net value of assets and liabilities is reported derivatives (other than reserves) are financial instruments that are linked to another specific derivative. Other investment is a residual category, which is not recorded under the other headings of the

financial account (direct investment, portfolio investment, financial derivatives or reserve assets) and in principal covers four types of instruments — currency and deposits (in general, the most significant item), trade credits/advances, loans, and other assets and liabilities. Reserve assets are foreign financial assets that are in the possession of and under the supervision of monetary authorities; they are employed for a variety of reasons, including financing and controlling payments imbalances. In terms of both foreign investment and international trade of goods and services, the EU is a significant player in the world economy. Statistics on the balance of payments paint an accurate picture of all external transactions for the EU and each of its Member States. In fact, these figures can be used to gauge the inherent macroeconomic risks for the economy and investigate the international exposure of various sectors of the EU's economy, highlighting its relative advantages and disadvantages with the rest of the world. The financial and economic crisis of 2007–2008 highlighted the significance of developing such economic statistics insofar as improvements in the accessibility of data on the global real and financial economies could have aided policymakers and analysts at the time the crisis began. For instance, if globally comparable information about financial transactions and exposure to particular assets and liabilities had been available earlier.

BOP-2022-23

The Reserve Bank of India (RBI) has released data showing that India's current account deficit, an important measure of the balance of payments, has decreased to $18.2 billion, which is equivalent to 2.2% of the GDP, during the December quarter of the current fiscal year. This decrease can be attributed to the reduction in the merchandise trade deficit, which stood at $30.9 billion or 3.7% of the GDP in the second quarter of the fiscal year 2022-23

2022	2023
CURRENT ACCOUNT BALANCE -22.2	CURRENT ACCOUNT BALANCE –18.2
GOODS-59.7	GOODS-72.7
SERVICES-27.8	SERVICES-38.7
PRIMARY INCOME-11.5	PRIMARY INCOME-12.7
SECONDARY INCOME-21.3	SECONDARY INCOME-28.5
CURRENT ACCOUNT BALANCE-2.7	CURRENT ACCOUNT BALANCE-2.2
CURRENT ACCOUNT DEFICIT-22.9	CURRENT ACCOUNT DEFICIT-22.3

The lower current account deficit in the 3rd quarter of 2022-23 is due to the decline in the current account. Trade deficit, which narrowed from $78.3 billion in the second quarter of 2022 to $72.7 billion In addition, strong services and private bank transfer receipts also contributed to this decline. RBI data shows that net income from services has increased both quarter-on-quarter and year-on-year. Based on the year, behind the growth is a 24.5% increase in the export of services compared to a year ago to the increase in exports of software, business and tourist services. Receipts of Private Transfers, remittances from Indians working abroad were $30.8 billion In the December quarter, which reflects a 31.7% increase from last year's level. Network in the same quarter foreign direct investment fell to $2.1 billion from $4.6 billion last year. However, the net amount of foreign securities investments was 4.6 billion dollars in the December quarter an outflow of $5.8 billion in the third quarter of 2021-2022. Net income from primary income the account, which primarily reflects investment income payments, grew from $11.5 billion to $12.7 billions of years ago. In addition, net foreign deposits were $2.6 billion in the third quarter of this fiscal year compared to net imports of $1.3 billion last year time period India's current account deficit was 2.7 percent of GDP for the year, according to RBI April-December 2022 compared to the 1.1 percent deficit in the same period last year in the year. The current account deficit was 1.2 percent of GDP in 2021-22 A 0.9 percent surpluses in 2020-21 as the trade deficit widened to $189.5 billion from $102.2 billion. Billions of years ago.

 Invisible net income was higher in 2021-2022 due to growth in services and net private sector exports. Transfer income, although net income was higher than a year ago. Net FDI of $38.6 billion in 2021-22 was down from $44.0 billion in 2020-21. Net FPI recorded an outflow of US$ 16.8 billion in 2021-22, while inflows for the year were US$ 36.1 billion.

 in 2021-22, FDI in India was $7.4 billion compared to $0.2 billion. In 2021-2022, foreign exchange reserves have accumulated to 47.5 billion dollars

India's current account was in surplus at $6.5 billion (0.9% of GDP) in Q1 2021-22 compared to a deficit of $8.1 billion (1.0% of GDP) in 2020-21. in the fourth quarter of the year and with a surplus of USD 19.1 billion (3.7% of GDP) a year ago [i.e. Quarter 1: 2020-2021]. The current account surplus in Q1: 2021-22 was mainly a narrowing of the trade deficit to USD 30.7 billion from USD 41.7 billion in the previous quarter and the increase in net income from services. Both net incomes from services increased consecutively and annually (y-o-y) based on the strong development of net exports. Computer and business services

Private remittance receipts representing remittances mostly from Indians People working abroad were worth US$20.9 billion, up 14.8% from a year ago. Net income from the primary income account, which primarily reflects net income from foreign investments payments decreased both in the third quarter of 2011 and annually. External network on the financial account foreign direct investment inflows were $11.9 billion compared to $0.5 billion

Quarter 1: 2020-21. Net foreign securities investments were $0.4 billion compared to $0.6 billion

Quarter 1: 2020-2021. The inflow of external commercial loans to India was $0.5 billion

Q1: 2021-22 compared to an outflow of $0.6 billion a year ago. Net income #10 domestic deposits fell to US$2.5 billion □ from US$3.0 billion in Q1 2020-21. It was the increase in foreign exchange reserves based on the balance of payments compared to 31.9 billion US dollars $19.8 billion in Q1 2020-2021.

STERILIZATION OF FOREIGN CAPITAL

Refers to state action/intervention to the central bank to protect the economy against the possible adverse effects of foreign capital flows A key question that a financial institution considers is whether capital whether the income streams are permanent and sustainable in nature or whether such income streams are temporary and subjective turning Proper management of monetary policy may require monetary institutions consider partially or fully offsetting the effects of such currency market interventions to maintain the objective of monetary policy through such intervention. Most techniques for impact balancing Forex earnings can be classified into market-based or non-market approaches. Supermarket the underlying approach involves financial transactions between the central bank and the market, resulting in improve or strengthen liquidity as the case may be. The non-market approach includes the use of quantitative barriers, rules or restrictions in market operations intended to preserve a possible increase in liquidity outside the domestic financial system. A market-based approach whose purpose is to partially or completely neutralize the financial impact of foreign income is called sterilization the stages of the sterilization process are as follows:

a) Decision of the financial institution intervenes by replacing foreign currency with domestic currency if there is too much capital.

b) A decision to further intervene in the bond or money market to replace the domestic currency exempted from intervention in the currency market with bonds or other eligible articles marketing activity. In addition to exchange rate flexibility and foreign exchange market interventions, there are several other policy measures that can be used to manage large capital flows, such as trade liberalization, investment promotion, capital account liberalization, external debt management, taxation income streams and use of foreign exchange reserves, etc.

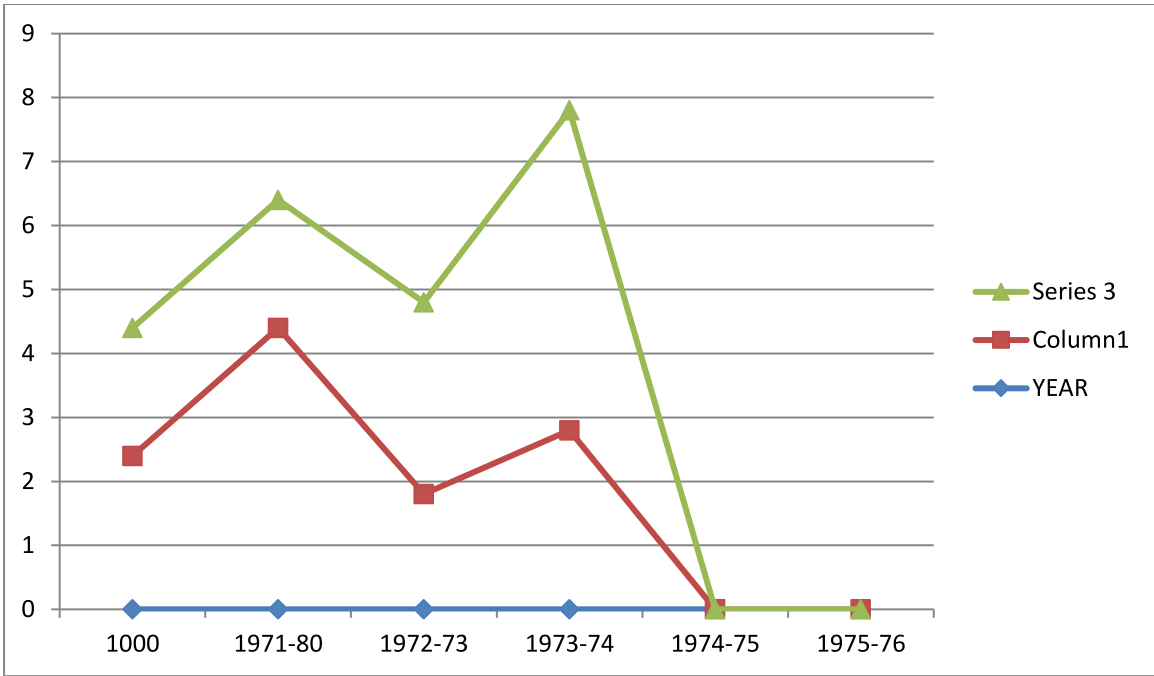
INTERNATIONAL RESERVES

Foreign exchange reserves of a country or the reserve of international currencies other than the home currency facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market. The foreign exchange reserves of India consist of four categories namely a. Foreign Currency Assets, b. Gold, c. Special Drawing Rights (SDRs) and d. Reserve Tranche Position in the IMF. The total foreign exchange reserves reached the milestone of 100 $ billion only in 2004 whereas it took just four years to reach the 300 $ billion mark owing to the immense amount of foreign funds flowing into the country due to opening up the current account and a lot of capital account transactions too. However, the forex reserve fell sharply immediately after the global financial crisis of 2008. India was forced to sell dollars close to U$35 billion in the spot markets in Financial Year 2009 due to 22% depreciation in rupee (against the dollar) in the same fiscal year 2009. Therefore, the stability in foreign exchange rate, reduction in trade deficits, favorable foreign investment options and above all a stable financial system is essential to maintaining foreign exchange reserves as it acts as the first line of defence in case of an economic slowdown. The balance of payment position of India has undergone considerable amount of periodic pressures and evolved through the instabilities arising out of various internal and external crisis. There have been structural changes to address volatility in foreign capital, exchange rate movements, and current account deficits and to have a stronger forex reserves. 2013-14 2014-15 2015-16 2015-16 H1 2016-17 H1 Current Account Balances -32.4 -26.9 -22.2 -14.7 -3.7 Total Capital Account (Net) 47.9 88.3 40.1 25.3 19.2 Reserve Movement (- increase) and (+ decrease) -15.5 -61.4 -17.9 -10.6 -15.5 Trade balance/GDP (%) -7.9 -7.1 -6.3 -7.1 -4.6 Invisible Balance/GDP (%) 6.2 5.8 5.2 5.7 4.3 Current Account Balance/GDP (%) -1.7 -1.3 -

1.1 -1.5 -0.3 Net Capital Flows/GDP (%) 2.6 4.3 1.9 2.5 1.8 Source: Economic Survey 2016-17 The summary of balance of payments shows not so worrying figures at present. While the CAD has progressively contracted to 1.1% in 2015-16, the same trend can be expected to be followed and the figure could even be below the 1% level. In 2016-17 (H1), sharp contraction in trade deficit outweighed the decline in net invisible earnings. The downward spiral in international crude oil prices resulted in a decline in oil import bill by around 18 per cent which together with a sharp decline in gold imports led to a reduction in India's overall imports (on BoP basis).According to study (Rajan Goyal 2012), CAD between 2.4 to 2.8 per cent of GDP is sustainable over the medium term under the assumptions that GDP growth ranges between 6.0 and 8.0 per cent, inflation hovering around 5.0 per cent level and interest rate and size of capital flows broadly following their trends in the recent past. In H1 of 2016-17, India's foreign exchange reserves increased by US$ 15.5 billion on BoP basis (i.e., excluding valuation effects), while in nominal terms (i.e., including valuation effect) the increase was to the tune of US$ 11.8 billion. The loss due to valuation changes of US$ 3.7 billion mainly reflects the appreciation of the US dollar against major currencies. In the capital account, robust inflow of foreign direct investment (FDI) and net positive inflow of foreign portfolio investment (FPI) were sufficient to finance CAD leading to an accretion in foreign exchange reserves in H1 of 2016-17. Inflows on account of FIIs, particularly into the equity segment, and positive sentiments generated by a narrower CAD in H1 of 2016-17 also helped the rupee to move in a narrow range. The rupee depreciation has been the lowest among other emerging market economies. There was net inflow of portfolio investment of 7900 US$ Million in 2016-17 as against negative 4100 US$ Million in 2015-16. Thus the balance of payment position looks comforting to the government and promising to foreign investors with constant vigilance from the central bank.

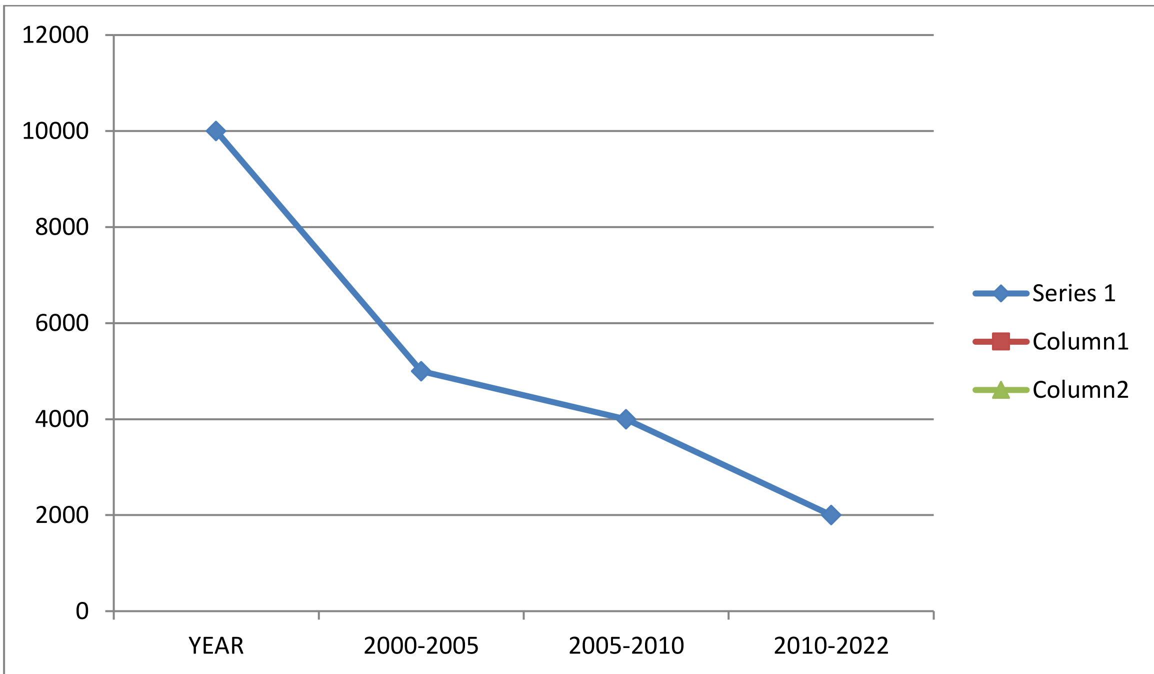
POST-DEVALUATION PERIOD

Table shows that a fluctuation in BOP occurred before the devaluation of the currency. The balance of payments situation was acceptable in the 1970s. Owing to trade deficits, the balance of payments was negatively affected in the 1980s. Graph 1 shows that the balance of payments deteriorated sharply in 1990-91 because of domestic political developments that affected confidence in the Indian economy abroad.



The study of the current account position trend of the Indian balance of payments shows that, during the pre-devaluation period, the deficit of this account increased significantly. This is primarily due to the continuous decrease of the invisible account surplus during this time

TRENDS DURING POST-DEVALUATION PERIOD



There is a downward trend in BOP position from 10000 in 2000-2005 to 2000 in 2010-2022. The change of the balance of payments from the pre-devaluation period to the post-devaluation period has been verified by the mean balance of payments measure. During the post-devaluation period 1991-92 to 2014-15, it accounts for an average of US$ 14473.71 million compared to US$ 68.95 million during the pre-devaluation period 1970-71 to 1990-91 This increase in the balance of payments of the pre-devaluation and post-devaluation periods is important at the5 per cent level of significance.

CHAPTER 5

FINDINS, RECOMMENDATIONS, CONCLUSION

FINDINGS

- ✓ Balance of Payments (BOP) statistics systematically summarize economic transactions with the outside world during a certain period. The compilation and dissemination of balance of payments data is the primary responsibility of the RBI. In India, the compilation of balance of payments statistics is largely in line with the guidelines of the International Monetary Fund (BPM5) Balance of Payments Manual, 5th edition. The format for presenting balance of payments data for 1990-1991 is based on the recommendations of the Advanced Balance of Payments Commission (Chairman: Dr. Rangrajan).
- ✓ Although the basic format follows the recommendations of the Rangarajan Committee, several committees and groups have been appointed from time to time to refine the data and ensure timeliness of the data, namely the Technical Group on Balance of Payments Coordination and DGCI and Trade Commodities Data. 1995; Foreign Exchange Transaction Reporting Subgroup, 1997; Balance of Payments Data Subgroup, 1998, Trade Data Research Group, 2000; and Technical Group on International Trade in Services Statistics, 2000. Current status
- ✓ Customs records import information based on entry lists prepared for goods arriving in the customs area. Post-balance sheet import information is compiled mainly on the basis of the returns transmitted by AD, to which is added information on transactions outside the banking channel, for example imports financed by credit taken abroad. When importing balance of payments data, it is based on the date of payment or the date of payment of loans, which can be significantly different from the reporting of imports at the customs office based on the actual arrival of the goods.
- ✓ RBI collects data required for balance of payments from various sources including R feedback and other data provided by authorized dealers, exchange control data and various surveys. Detailed quarterly balance of payments in US dollars and Indian rupees will be published on the RBI website and in the RBI Bulletin by the end of the next quarter. India is a signatory to the International Monetary Fund's Special Data Dissemination Standards (SDDS) and thus meets the timely requirement. The business data released by DGCIandS with a delay of about one month is also published in the RBI bulletin. RBI publishes important time series

data on foreign trade and balance of payments in the Manual of Economic Statistics of India.

- ✓ With the replacement of the Foreign Exchange Regulation Act (1973) with the Foreign Exchange Management Act (1999) along with the policy of deregulation and liberalization, the balance sheet transaction information system must rely more and more on aggregate positions reported by AD detailed information on periodic or ad hoc surveys. Also, as the rules on the transfer of exporters' currency in trade are relaxed, it would become increasingly difficult to obtain trade statistics from ADs on a payment basis. In such a situation, commercial data for the payment image must be compiled only on the basis of data from customs records, as is the practice in many industrialized countries. Similarly, additional disclosure of capital account transactions may require the use of queries even to obtain aggregate data.
- ✓ In terms of capital account, information on the decline in foreign resident holdings in India and investment abroad by residents is not fully available and hence is not fully included in the balance of payments. Information on securities investments is not fully covered because information such as information on sovereign wealth fund securities investments is not available. Supply credit with terms up to 180 days is not included in "other investments" because such information is not available.
- ✓ There is some overlap in current and capital transactions related to domestic investments. For example, it is assumed that all private transfers of foreign persons come from national income, since the current account does not distinguish domestic credit institutions from other non-residents. Similarly, local withdrawals and refunds of foreign deposits are treated as part of private remittances with counter entry to the relevant NRI deposit account. As the political system tends to be less discriminatory between NRIs and other non-residents as part of liberalization, NRI transactions are increasingly channeled through conventional channels. For example, in the case of foreign direct investment (FDI) into India, the treatment of domestic investment is currently similar to that of other foreign persons with a few exceptions. Therefore, time series data for NRIs must be interpreted with caution

RECOMMENDATIONS

- ✓ The main task of the RBI is to compile and disseminate balance of payments statistics. Due to the importance of balance sheet statistics, several committees previously focused on different aspects of data reporting. As a result of implementing the recommendations of these committees, the scope, coverage and timeliness of balance of payments data has increased significantly. The DGCIandS website provides monthly frequency data on business with a one-month lag. BOP data now largely conforms to global standards. Quarterly balance of payments is now available with a quarterly lag, which is also consistent with the IMF's SDDS requirements. However, anomalies remained in the data and new areas emerged that require further investigation. For example, discrepancies between DGCI and RBI trade import and export data continued. More detailed information is needed on the business of services, which has grown to an important part of the payment picture. It is important to examine the problems caused by changes in transaction methods caused by technology, such as online shopping. The Commission notes that several of these challenges are currently being addressed by various committees and groups. According to the commission, usually a few The Commission therefore recommends:
- ✓ Implementation of recommendations made in the reports of various committees and groups has already been established to scrutinize various aspects of balance of payments data to clarify the balance of payments statistics entries will be accelerated. In fact, it should be a continuous review of the methods for collecting information about the payment image development of liberalization of external sector transactions, both in terms of current and capital balance. In particular, this would be necessary due to the additional review of repatriation and transfer current account requirements and capital balance release.
- ✓ Measures should be taken to identify and reduce discrepancies in business data Directorate General of Business Intelligence and Statistics (DGCIandS) and prepared by them RBI reports are based on payments. The coverage of the Electronic Data Interchange (EDI) system should be extended to more ports and different types of waybills to facilitate the matching of export data on a daily basis Trade Repatriation (DTR) and Export Negotiated Contracts (ENC). It would follow not only to narrow

the gap between DGCI and RBI export data but also facilitates the registration of export data based on ENC statements describing the change property

- ✓ The scope of DGCI and S import data should be expanded to include defense equipment, aircraft, oil rigs etc. This would help reduce the gap between DGCI and RBI data. Import information should be prepared free of charge on board (f.o.b.). RBI should investigate opportunities to conduct surveys to gather information on freight and insurance components DTR information which in time would facilitate collection of imports f.o.b. base Access codes required by authorized merchants to report currency transactions (AD) for RBI should be expanded to provide more disaggregated data on international trade services In addition, the mechanism for reporting ADs should be supplemented by research important service areas. In its assessment, RBI uses tourist arrival figures compiled by the Ministry of Tourism traveler's checks The Ministry of Tourism should improve the quality of these reviews to conduct research on the travel style of tourists from various parts of the world regularly While RBI collects data on software exports through software export (SOFTEX) forms, it uses NASSCOM data as the dominant total of total revenue from software exports. However there is a current method of collecting software export data must be reconsidered. Hence, the RBI should constitute a technical group with RBI, Ministry of Commerce, CSO, NASSCOM and some of the leading software companies are taking a deep look at data reporting mechanism for exporting software.
- ✓ In a liberalizing economy, it is increasingly important to rely on research to gather information gaps RBI should periodically conduct surveys on foreign direct dividends and profits investments (FDI) and securities investments separately.
- ✓ RBI needs an inquiry into termination of foreign and resident investments in India and abroad. Indians respectively. RBI should take necessary steps to collect data on securities of MMFs improve the coverage of the capital account in the balance of payments. RBI should create a mechanism to ensure full coverage of short-term credit collection of supplier credit information up to 180 days that would affect capital balance of payments this information is also required on a stock basis for better coverage foreign debt statistics. We provide ten recommendations to help the BOP ensure that its disciplinary decisions are sound, consistent and timely. Recommendations focus on securing investigative and judicial powers the stages of the disciplinary system operate independently and allegations of misconduct remain is fully condemned; the reasons for the relaxation of discipline are sufficiently

documented; BOP workers receive similar penalties for similar violations across the balance of payments; there are abuses must be investigated and evaluated in a timely manner; and that the balance of payments develops into a check disciplinary decisions to ensure continuity of balance of payments.

At BOP, we recommend:

- Strengthen the current practice of reporting allegations of employee misconduct by BOP staff to relevant authorities if necessary.
- Force CEOs to take cases with continuing charges for the entire sentence a step make sure that if the decision official mitigates the proposed discipline, the decision letter contains an adequate explanation of the reasons.
- Remove CEOs from reviewing and approving employee research reports in cases of misconduct when they act as a decision-making official by coercion an alternative review process that preserves the independence of the researcher and stages of judgment.
- Reinforce the existing policy that all required documents are kept in the disciplinary office files. Develop and monitor procedures to ensure that discipline is consistently imposed throughout the payment picture
  Discipline to ensure consistency across the agency in regularly following these procedures

- Strengthen the current practice of CEOs reporting allegations of employee misconduct within the time limits required by the OIA. Strengthen the current practice of reporting allegations of misconduct by the OIA to the OIG required deadlines. Establish written timelines for the investigation and trial phase disciplinary system. Require the BOP to review the closed sample periodically disciplinary documents to assess whether disciplinary decisions were acceptable, consistent, and current.

CONCLUSION

A fair disciplinary system ensures reasonable, consistent and timely discipline all employees. By addressing the issues identified in this report, we believe that the balance of payments can better make sure his disciplinary decisions are consistent with those basic goals. BOP disciplinary decisions sometimes it didn't seem reasonable. First, in some cases with serious continuums based on allegations, CEOs did not unilaterally take disciplinary action or impose informal discipline without fully addressing cases or documenting the reasons for taking these actions. Second, some of the punishments did not seem reasonable in the judgment of the CEOs officials, mitigated without adequately explaining the reasons for the proposed discipline decision letter as needed. Third, CEOs value and have the ability to influence investigative reports on cases where they also act as decision makers. It can endanger the independence of the BOP investigation and judgment phase disciplinary process and create an opportunity for unjustified departures. Except for the BOP the guidelines require CEOs to impose similar penalties for similar misconduct and in every institution. However, the balance of payment does not require employees to be inside similar facilities receive similar penalties for similar violations. BOP instead requires only that CEOs as decision-making officers in each of its agencies be consistent your previous decisions because it is the level of consistency that is required. The MSPB upholds the agency's disciplinary decisions if the employee appeals. Despite the MSPB's claims, this should be ensured through a fair disciplinary system all BOP employees receive essentially the same discipline for similar violations. Finally, the BOP did not consistently address employee misconduct in a timely manner. The BOP did not report the alleged employee misconduct to the appropriate authorities required deadlines. In addition, there are no written standards in the payment picture measure the timeliness of the investigative or judicial phases of its disciplinary system.

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