B.A. 6th Sem (Major)

Paper- International Economics

Unit -2 BALANCE OF PAYMENTS.

Q.1 What is Balance of payments?

Ans: The balance of payments is a summary of all the international transactions of a country and its citizens during a specified period of time.

Q.2 Show the Indian structure of balance of payments accounts.

Ans: The balance of payments account of a nation follows the procedure known as double-entry book-keeping. Each international transactions is recorded twice. Once on the credit side and once on the debit side, of an equal amount. It is done because every transactions has two sides. Suppose a country exports goods worth Rs. 100 crores. This item will be included on the credit side (+) of the merchandise account as it will entitle a country to receive payment from the foreigners. But at the same time, this amount is treated as a short term capital debit (-) because it represents a short term capital outflow from the exporting country.

The structure of balance of payments accounts in India consists of:

1. Trade Balance
2. Current Account
3. Capital Account
4. Account of Financing
5. **Trade Balance**: This account includes the imports and exports of visible items during a given period.
6. **Current Account**: The current account includes trade balance, net non-monetary gold movements and the net of invisible exports and imports.
7. **Capital Account**: This capital account includes the net private non-banking short term and long term capital receipts or payments, net banking receipts or payments excluding those of R.B.I. and net miscellaneous government receipts or payments.
8. Account of Financing: The surplus or deficit on account of current account, capital account and errors and omissions is financed or bridge up through external assistance (loans), gross drawing from IMF, allocation of SDR’s and increase (-) or decrease (+)

in reserves.

The different components of balance of payments account of India can be shown through the following table:

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| 1. Imports  2. Exports  3. Trade Balance (2-1)  4. Invisibles  (a) Receipts  (b) Payments  (c) Net  5. Current Account Net (3+4)  6. Capital Account  (a) Net Foreign Investment  (b) Net external Assistance (loans)  (c) Net Commercial Borrowings  (d) Net Banking (Receipts-payments)  (e) Rupee Debt. Service  (f) Other Capital (Net)  (g) Errors & omissions  7. Total Capital (a to g)  8. Overall Balance (5+7)  9. Monetary Movement  (a) IMF Transactions (Net)  (b) Increase (-)/Decrease (+) in Reserves  10. Total (8+9) |