

# Balance of Payments

By

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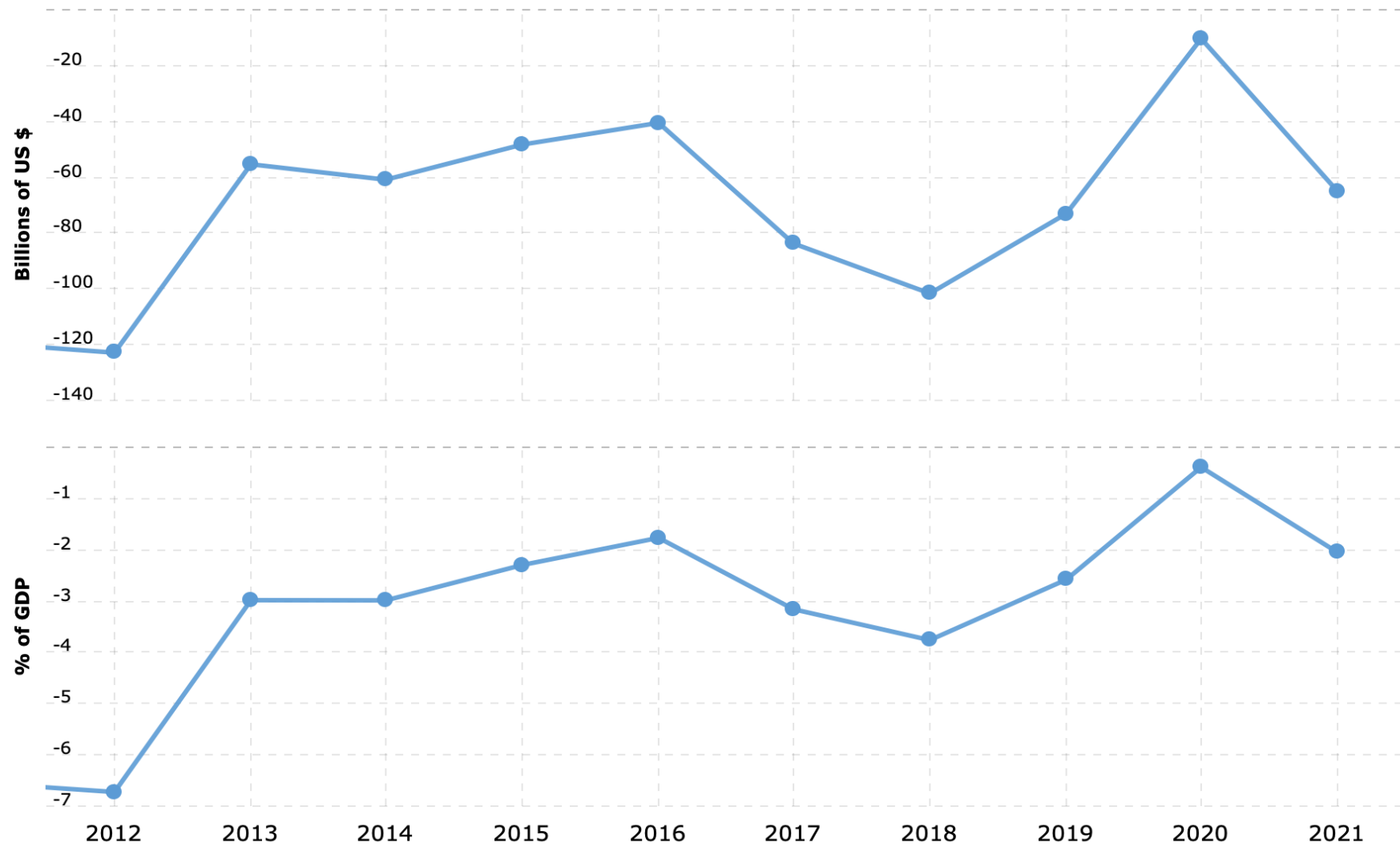
Current  
Account

Capital  
Account

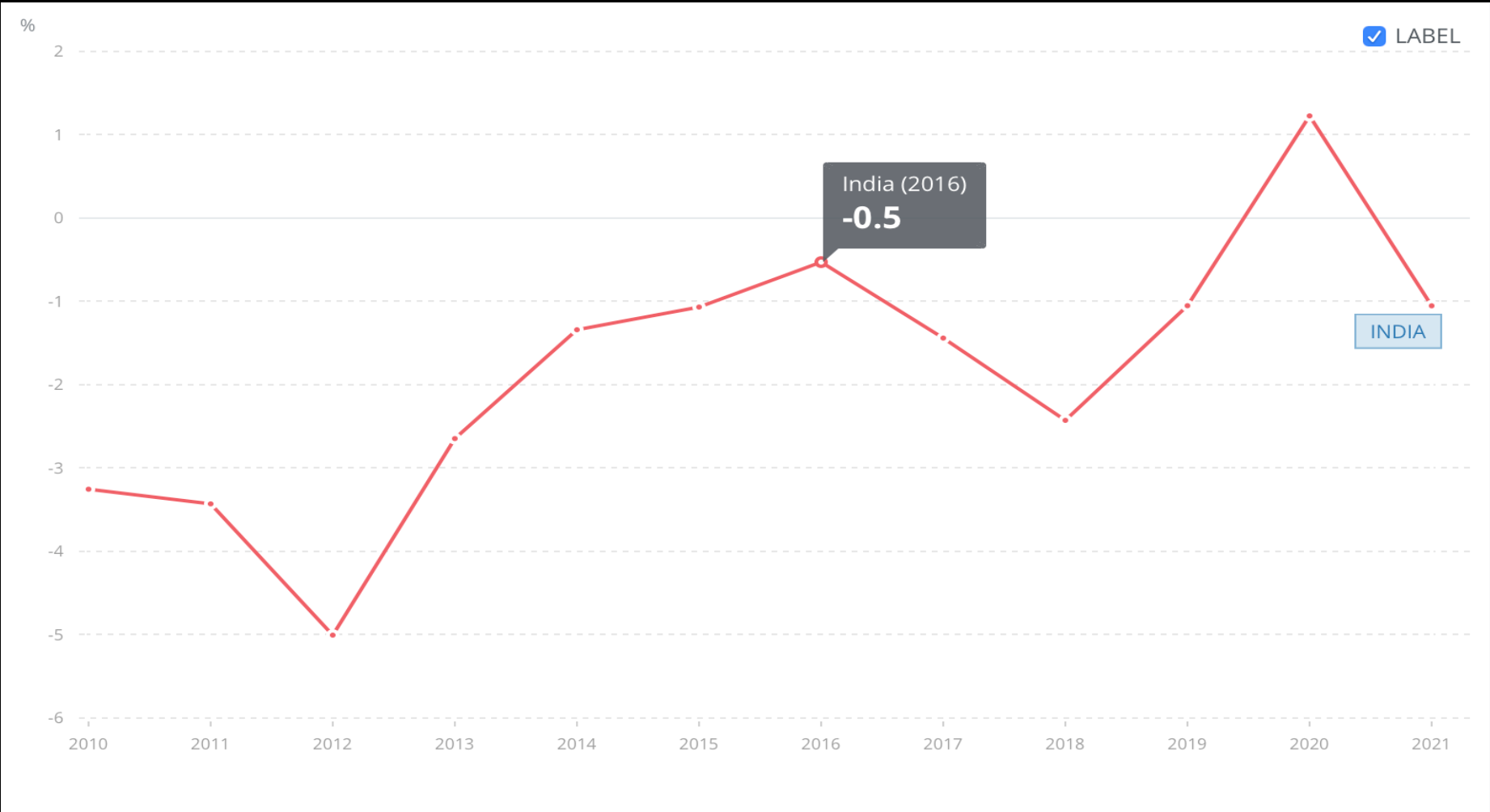
Balance  
of  
Payment

A diagram illustrating the components of the Balance of Payment. It features a central red circle labeled "Balance of Payment". To the left, a green speech bubble labeled "Current Account" has an arrow pointing towards the central circle. To the right, a brown speech bubble labeled "Capital Account" has an arrow pointing towards the central circle.

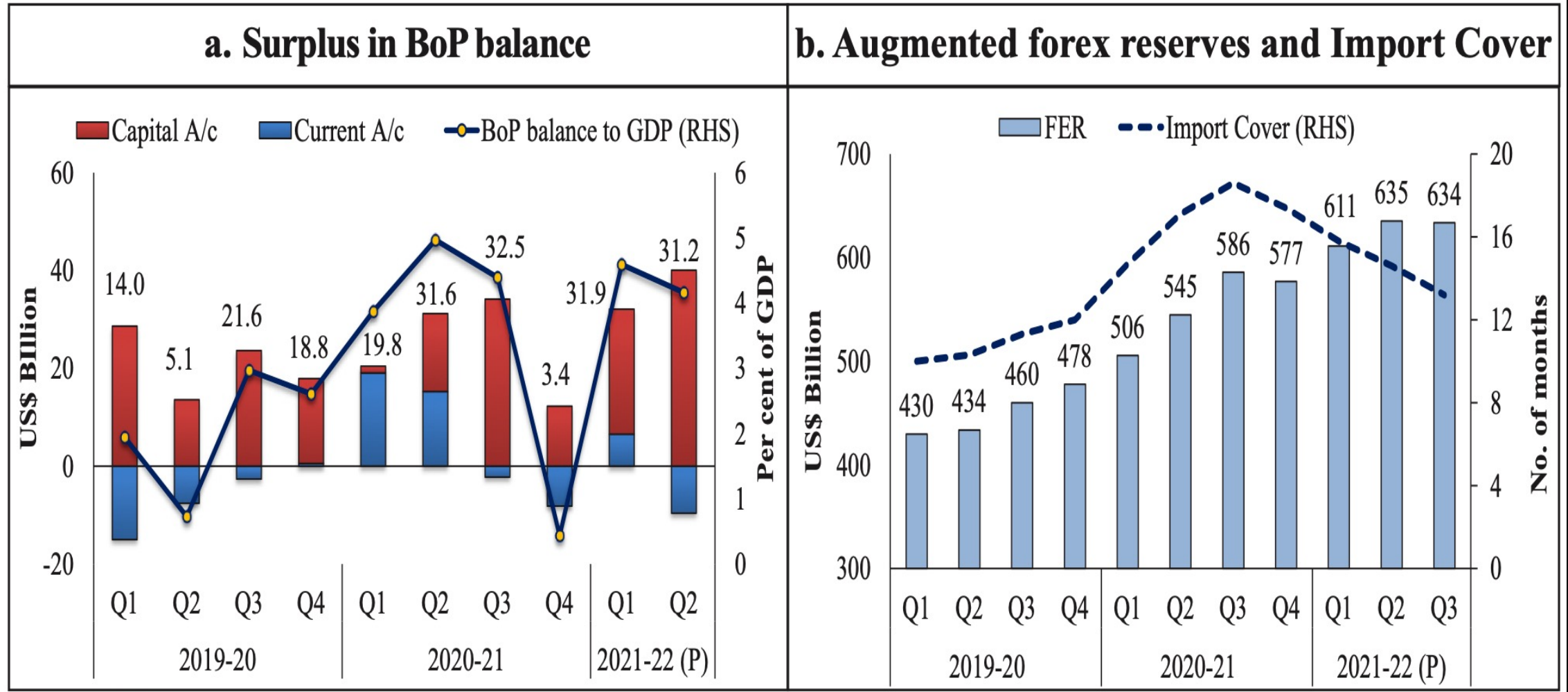
# Trend in Trade Deficit



# Trend in Current Account Deficit



**Figure 17: Overall BoP Balance and Forex Reserves**



The Balance of Payments of a country is a systematic record of

- (a) All import and transactions of a during a given period normally a year
- (b) Goods exported from a country during a year
- (c) Economic transaction between the government of one country to another
- (d) Capital movements from one country to another

With reference to Balance of Payments, which of the following constitutes/constitute the Current Account?

(1) Balance of trade

(2) Foreign assets

(3) Balance of invisibles

(4) Special Drawing Rights

Select the correct answer using the code given below.

(a) 1 only

(b) 2 and 3

(c) 1 and 3

(d) 1, 2 and 4

In terms of economy, the visit by foreign nationals to witness the XIX commonwealth games in India amounted

- (a) Export
- (b) Import
- (c) Production
- (d) Consumption



Which of the following best describes the term 'import cover', sometimes seen in the news?

(a) It is the ratio of value of imports to the Gross Domestic Product of a country

(b) It is the total value of imports of a country in a year

(c) It is the ratio between the value of exports and that of imports between two countries

(d) It is the number of months of imports that could be paid for by a country's international reserves

Which of the following constitute Capital Account?

(1) Foreign Loans

(2) Foreign Direct Investment

(3) Private Remittances

(4) Portfolio Investment

Select the correct answer using the codes given below.

(a) 1, 2 and 3

(b) 1, 2 and 4

(c) 2, 3 and 4

(d) 1, 3 and 4

Both Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII) are related to investment in a country.

Which one of the following statements best represents an important difference between the two?

- (a) FII helps bring better management skills and technology, while FDI only brings in capital.
- (b) FII helps in increasing capital availability in general, while FDI only targets specific sectors.
- (c) FDI flows only into the secondary market while FII targets primary market
- (d) FII is considered to be more stable than FDI.

With reference to Foreign Direct Investment in India, which one of the following is considered its major characteristics?

- (a) It is the investment through capital instruments essentially in a listed company.
- (b) It is largely non-debt creating capital flow:
- (c) It is the investment which involves debt-servicing.
- (d) It is the investment made by foreign institutional investors in the Government securities.

Which one of the following groups of items is included in India's foreign-exchange reserves?

- (a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
- (b) Foreign-currency assets, gold holdings of the RBI and SDRs
- (c) Foreign-currency assets, loans from the World Bank and SDRs
- (d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

Consider the following:

1. Foreign currency convertible bonds
2. Foreign institutional investment with certain conditions
3. Global depository receipts
4. Non-resident external deposits

Which of the above can be included in Foreign Direct Investments?

- a) 1, 2 and 3
- b) 3 only
- c) 2 and 4
- d) 1 and 4

With reference to the international trade of India at present, which of the following statements is/are correct?

(1) India's merchandise exports are less than its merchandise imports.

(2) India's imports of iron and steel, chemicals, fertilisers and machinery have decreased in recent years.

(3) India's exports of services are more than its imports of services.

(4) India suffers from an overall trade/current account deficit.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 2 and 4 only

(c) 3 only

(d) 1, 3 and 4 only

The problem of international liquidity is related to the non-availability of

(a) Goods and Services

(b) Gold and Silver

(c) Dollars and other hard currencies

(d) Exportable surplus



# Factors Affecting BoP

Consider the following statements:

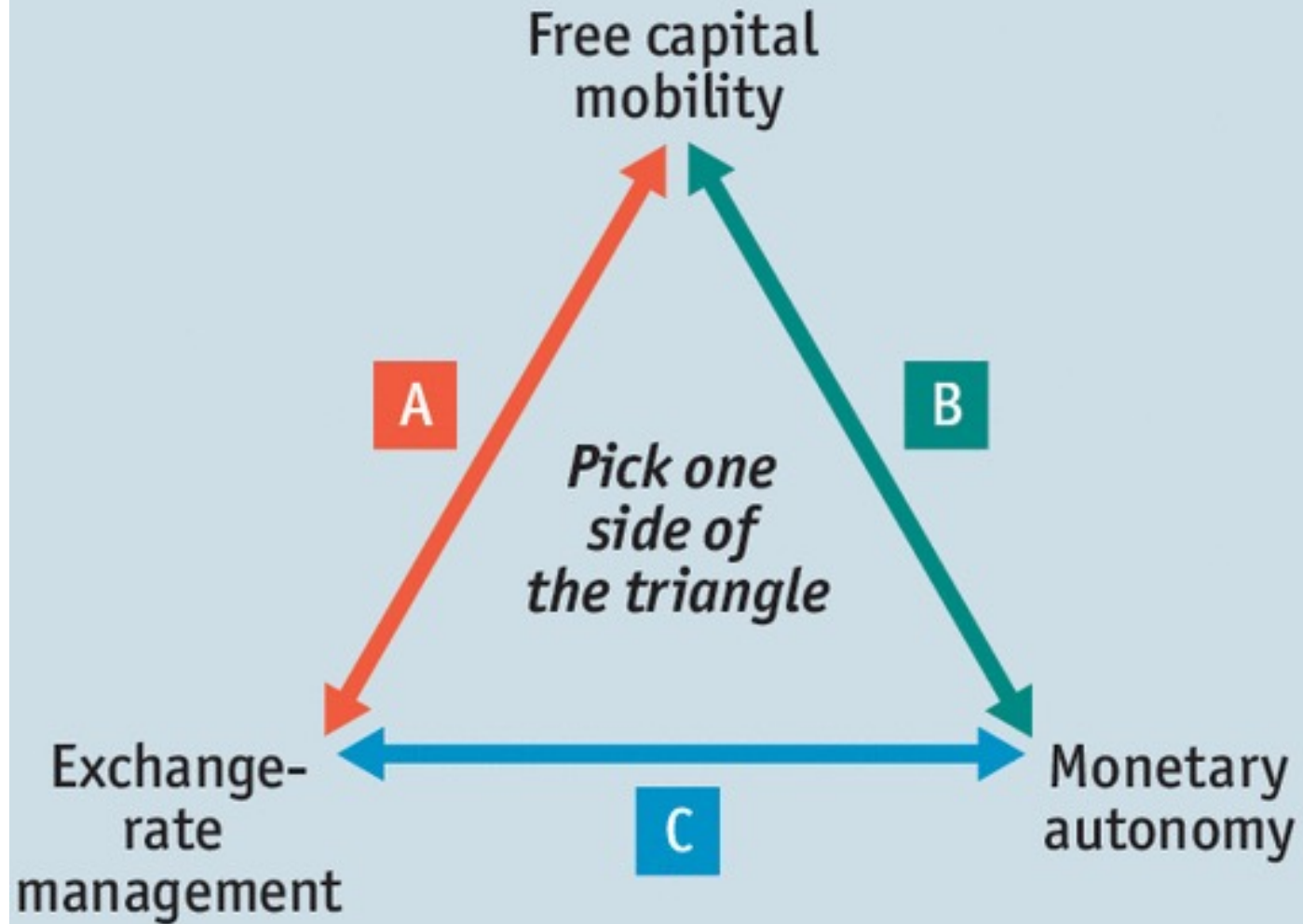
1. Tight monetary policy of US Federal Reserve could lead to capital flight.
2. Capital flight may increase the interest cost of firms with existing External Commercial Borrowings (ECBs).
3. Devaluation of domestic currency decreases the currency risk associated with ECBS.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3



# The policy trilemma



# Nominal Vs Real Exchange Rate

# Purchasing Power Parity(PPP)

Consider the following statements

(1) Purchasing Power Parity (PPP) exchange rates are calculated by comparing the prices of the same basket of goods and services in different countries.

(2) In terms of PPP dollars, India is the sixth-largest economy in the world.

Which of the statements given above is/are correct?

(a) 1 only

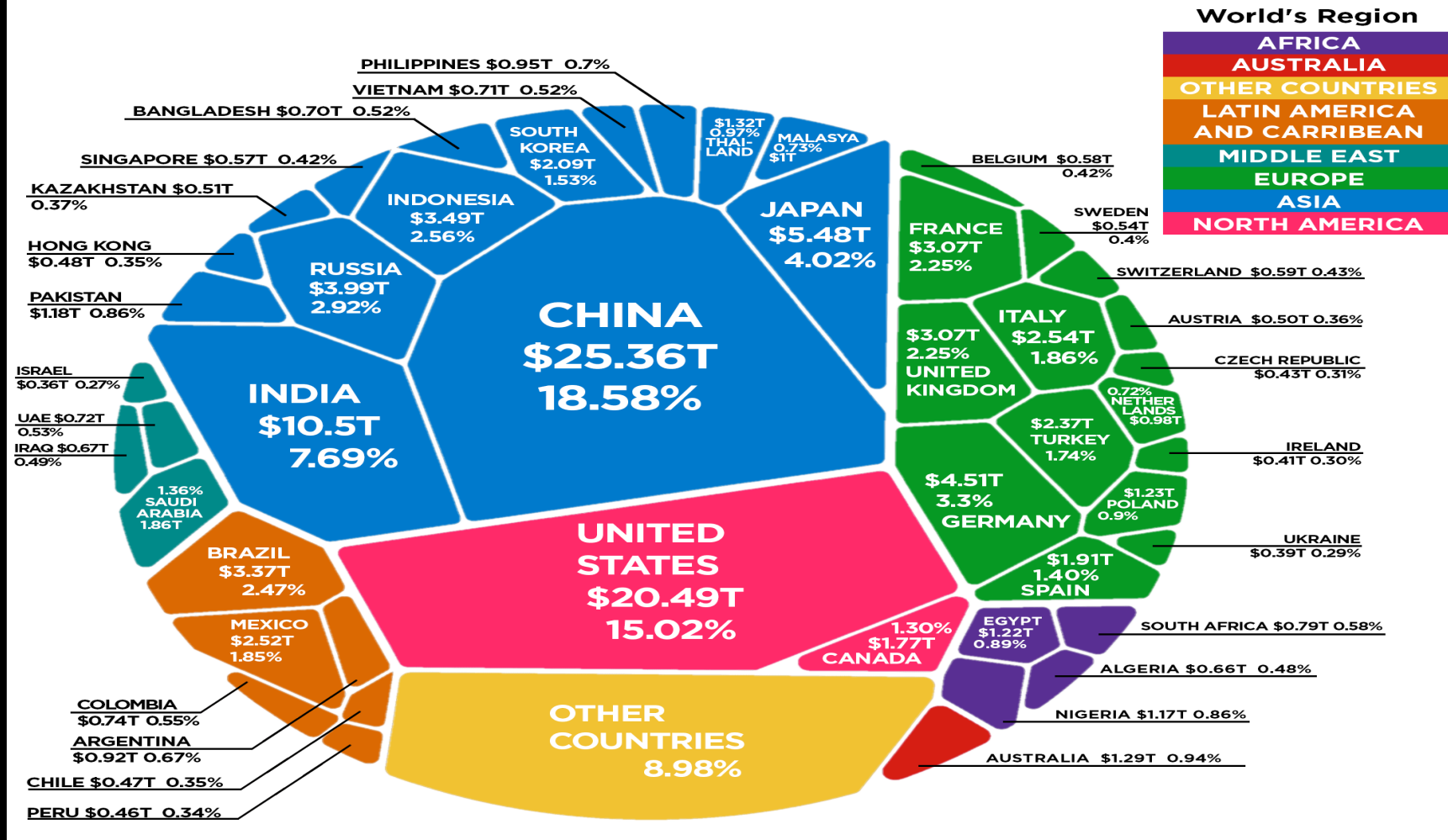
(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

# The World Economy Under Price Parity

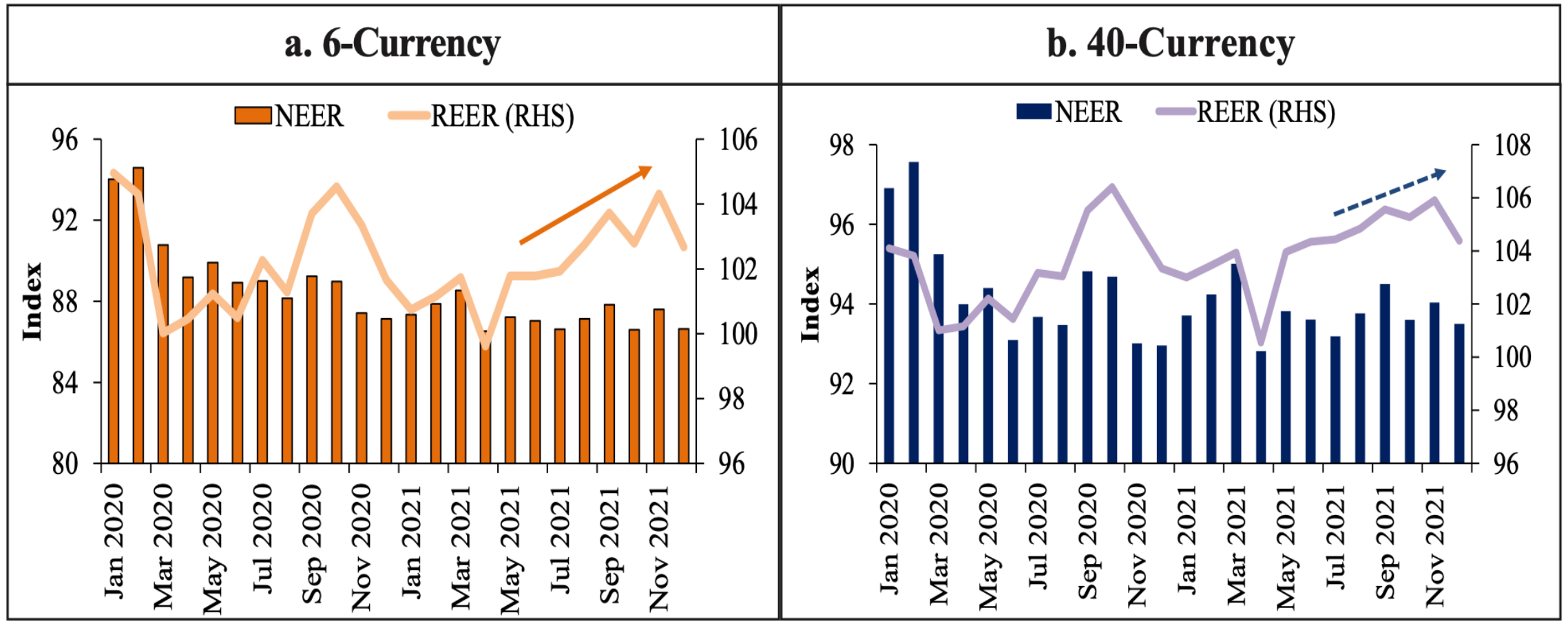
GDP at Power Purchase Power Parity (PPP) by Country in 2018





# NEER Vs REER

**Figure 19: Index of 6-Currency and 40-Currency NEER and REER  
(Trade Based Weight) (Base Year: 2015-16 =100)**



With reference to the Indian economy, consider the following statements:

1. An increase in Nominal Effective Exchange Rate (NEER) indicates the appreciation of rupee.
2. An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.
3. An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER.

Which of the above statements are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

With reference to the Indian economy, consider the following statements:

1. An increase in Nominal Effective Exchange Rate (NEER) indicates the appreciation of rupee.
2. An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.
3. An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER.

Which of the above statements are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

- Why?
- Impact?
- How to Contain?

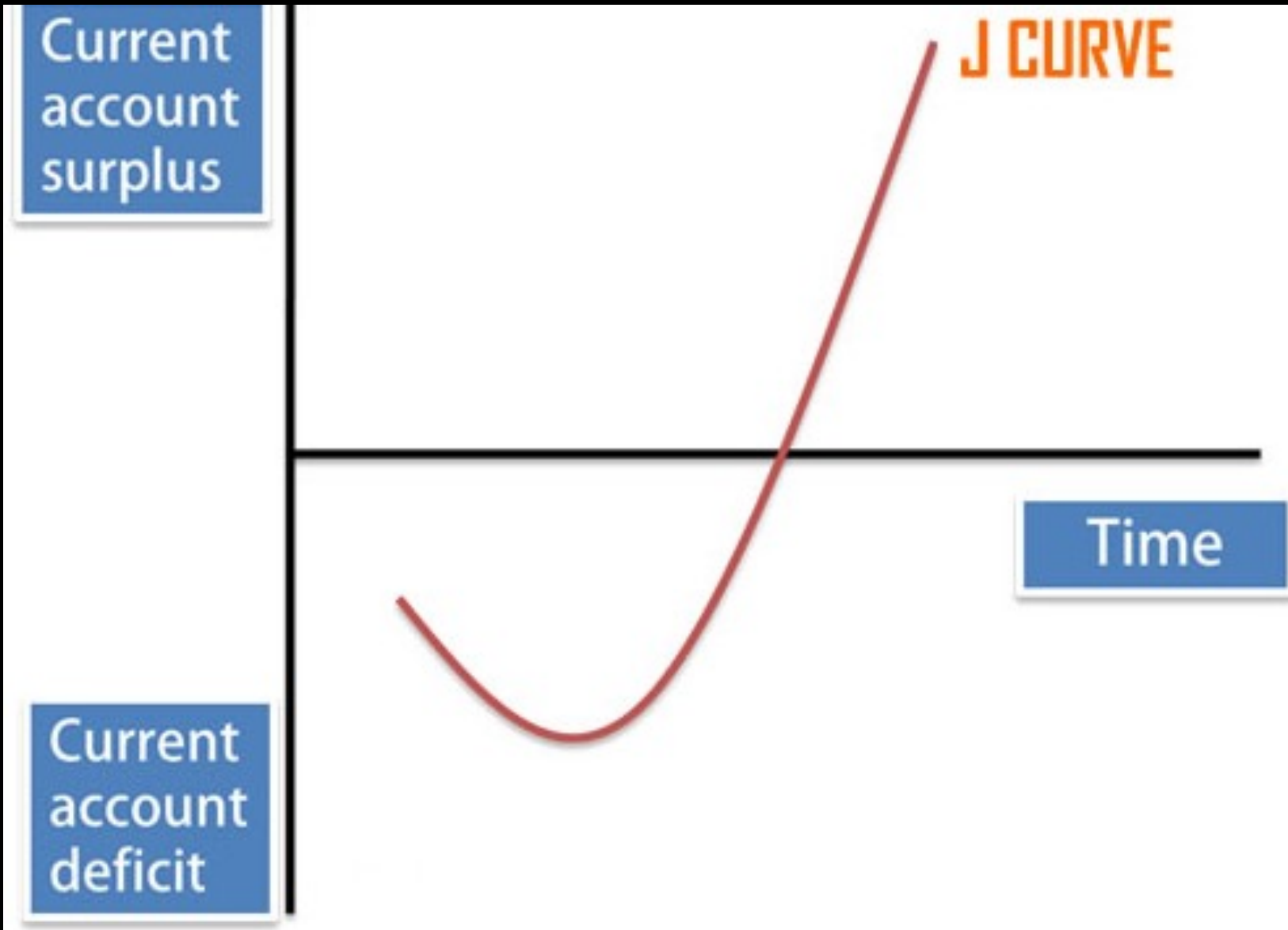


# Foreign Trade Policy - 2023

## SALIENT FEATURES

- ▶ Targets **\$2 trillion** exports by 2030
- ▶ Continuous and responsive framework with no end date
- ▶ Making rupee a global currency
- ▶ Making India a trade hub
- ▶ Digitisation and faster processing of applications
- ▶ Amnesty scheme for shortfall in export obligations
- ▶ Restructuring of Department of Commerce
- ▶ Over 50% reduction in threshold for recognition of star trade houses

- Merchandise Exports from India Scheme (MEIS Scheme)
- Service Export from India Scheme (SEIS Scheme)
- Rebate of Taxes and Duties on Export items (RoDTEP Scheme)
- Duty-free Import Authorisation (DFIA Scheme)
- Duty Drawback Scheme (DBK Scheme)
- RoSCTL Scheme: Rebate on State and Central Taxes and Levies
- Export Promotion Capital Goods Scheme (EPCG Scheme)
- Transport and Marketing Assistance Scheme (TMA Scheme)
- Market Access Initiative (MAI Scheme)
- Market Development Assistance (MDA) Scheme
- Towns of Export Excellence (TEE)
- Interest Equalisation Scheme (IES)



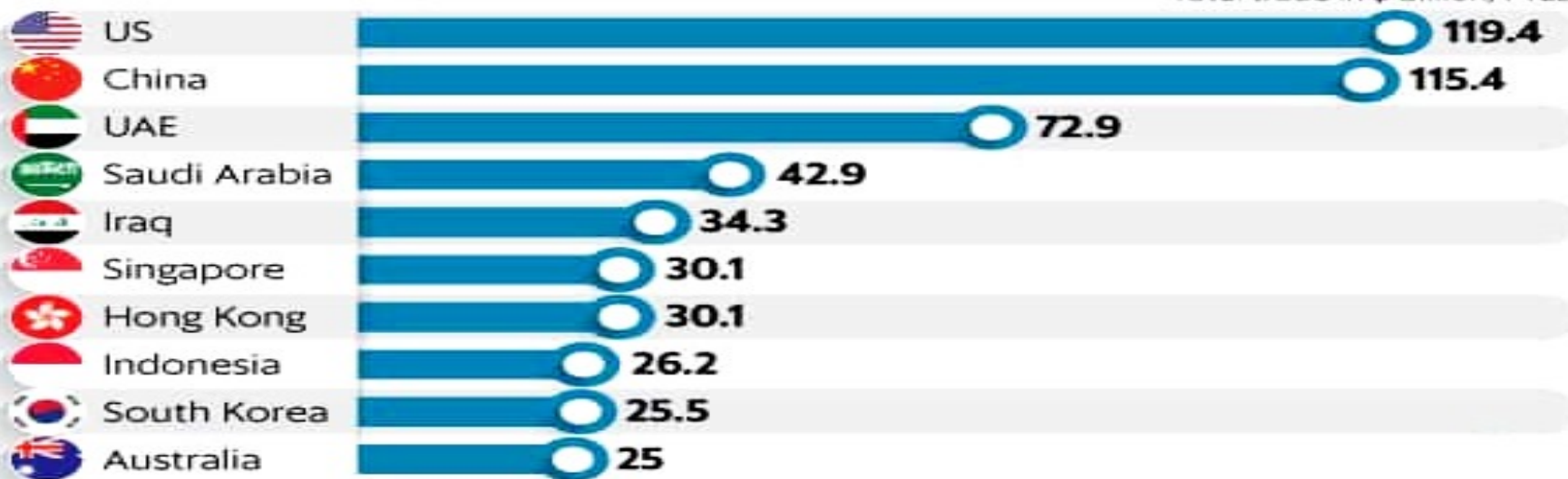


# RUPEE SWITCH

The new measure will promote trade growth, with an emphasis on exports from India, and support the interest of the trading community in rupee, RBI said.

## India's top trading partners

Total trade in \$ billion, FY22

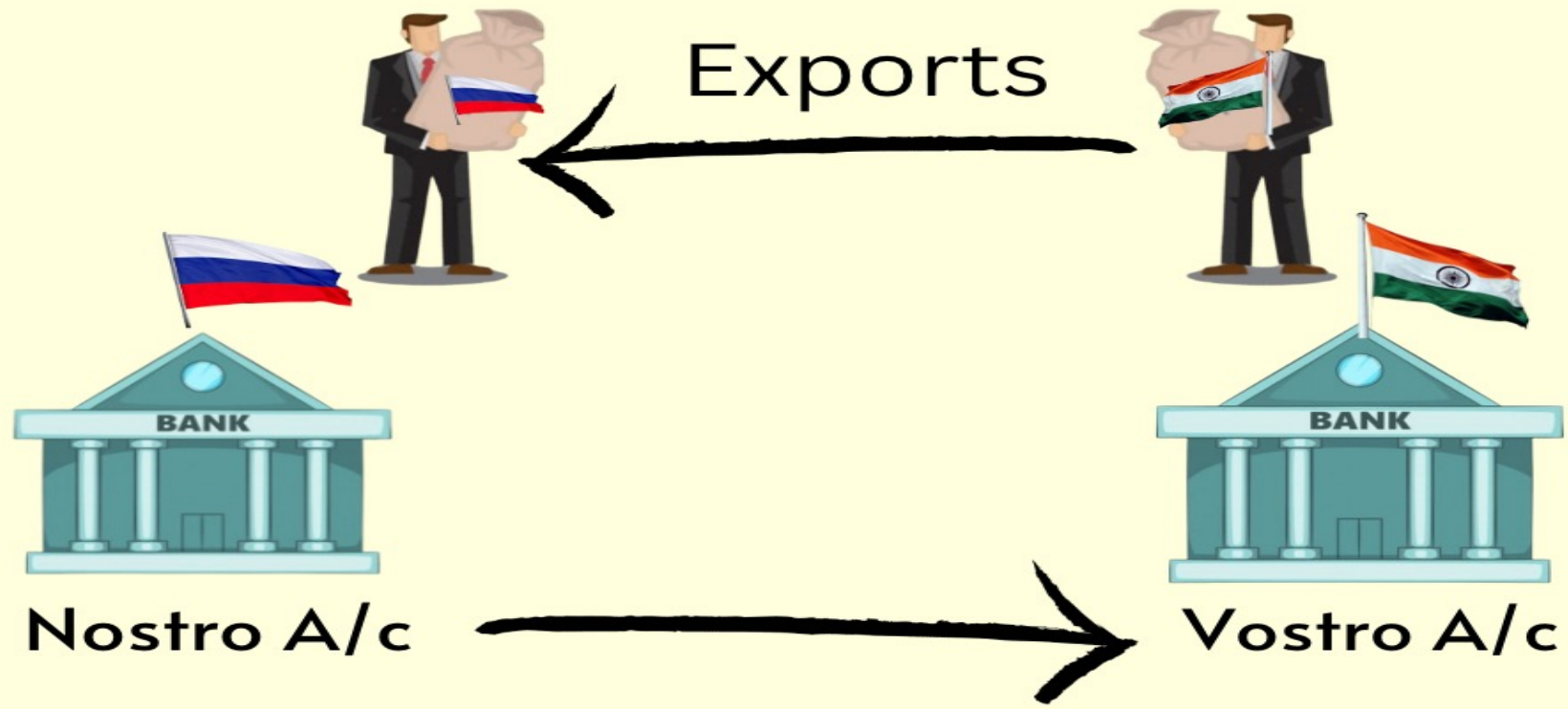


## COLLATERAL GAIN

**THE** pressure on India's forex reserves is likely to diminish

... **RBI'S** measure shows Russia's significance as India's trading partner

... **SOME** analysts see RBI's move as a step to stabilize the rupee



Vostro a/c debited  
Exporter's a/c credited



Consider the following statements:

The effect of the devaluation of a currency is that it necessarily

1. Improves the competitiveness of the domestic exports in the foreign markets
2. Increase the foreign value of the domestic currency
3. Improves the trade balance

Which of the above statements is/are

- a) 1 only
- b) 1 and 2
- c) 3 only
- d) 2 and 3

Which one of the following is not the most likely measure the Government/RBI takes to stop the slide of Indian rupee?

- (a) Curbing imports of non-essential goods and promoting exports
- (b) Encouraging Indian borrowers to issue rupee-denominated Masala Bonds
- (c) Easing conditions relating to external commercial borrowing
- (d) Following an expansionary monetary policy

In the context of India, which of the following factors is/are contributors to reducing the risk of a currency crisis?

- (1) The foreign currency earnings of India's IT sector
- (2) Increasing the government expenditure
- (3) Remittances from Indians abroad

Select the correct answer using the code given below.

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 only
- (d) 1, 2 and 3

# Assignment

The craze for gold in Indians has led to a surge in import of gold in recent years and put pressure on the balance of payments and external value of the rupee. In view of this, examine the merits of the Gold Monetization Scheme.

- Why?
- Impact?
- How to Contain?



Consider the following statements:

The price of any currency in international market is decided by the:

1. World Bank
2. Demand for goods/services provided by the country concerned
3. Stability of the government of the concerned country
4. Economic potential of the country in question

of these statements:

Codes:

- (a) 1,2,3 and 4 are correct
- (b) 2 and 3 are correct
- (c) 3 and 4 are correct
- (d) 1 and 4 are correct



Consider the following actions which the government can take:

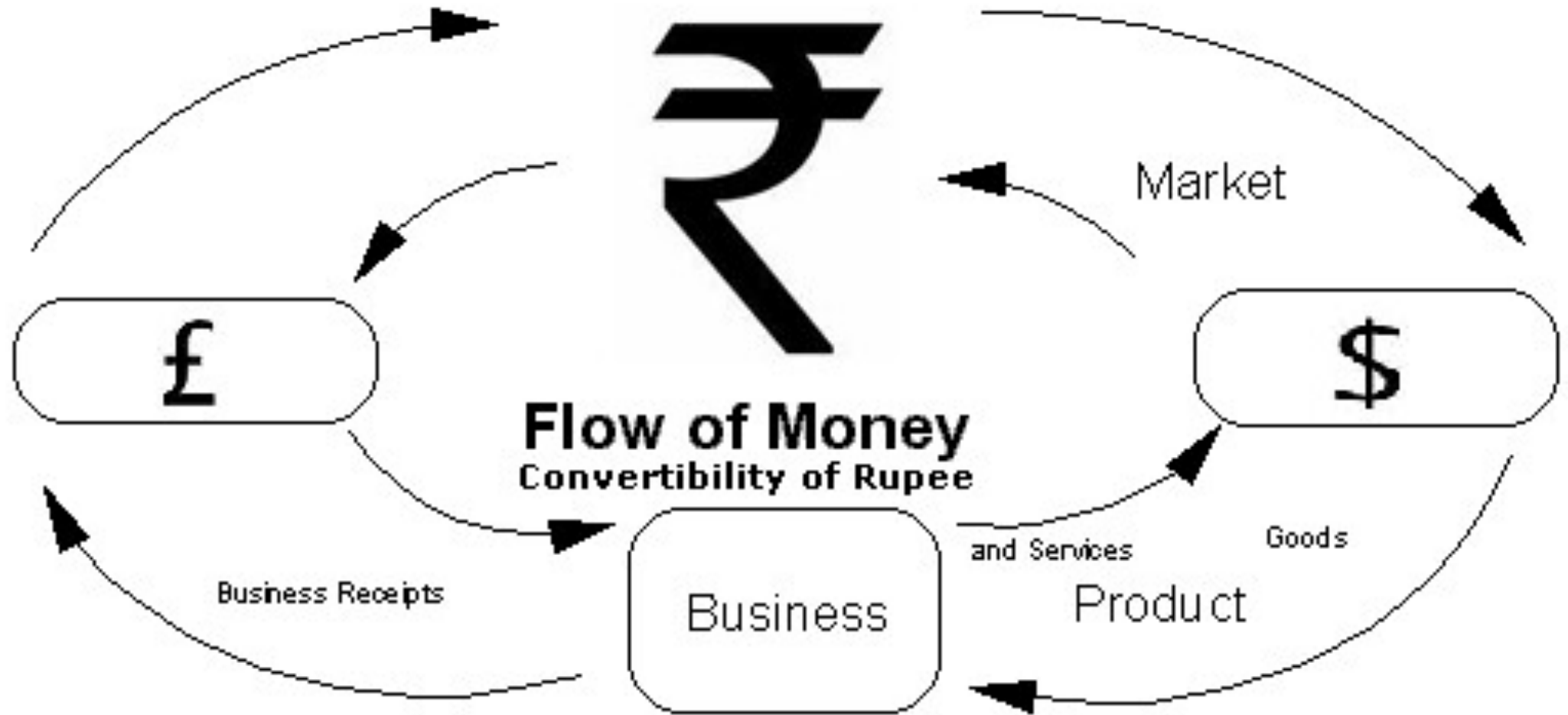
1. Devaluing the domestic currency.
2. Reduction in the export subsidy.
3. Adopting suitable policies which attract greater FDI and more funds from FIIs.

Which of the above action/actions can help in reducing the current account deficit?

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 only
- (d) 1 and 3

Which one of the following activities of the Reserve Bank of India is considered to be part of 'sterilization'?

- (a) Conducting 'Open Market Operations'
- (b) Oversight of settlement and payment systems
- (c) Debt and cash management for the Central and State Governments
- (d) Regulating the functions of Non-banking Financial Institutions



# The East Asian Crisis





Convertibility of rupee implies

- (a) Being able to convert rupee notes into gold
- (b) Allowing the value of the rupee to be fixed by market forces
- (c) Freely permitting the conversion of rupee to other currencies and vice versa
- (d) Developing an international market for currencies in India

Consider the following statements:

Full convertibility of the rupee may mean:

1. Its free float with the international currencies
2. Its direct exchange with any other international currency at any prescribed place inside and outside the country
3. It acts just like any other international currency

Which of these statements are correct?

- (a) 1 and 2
- (b) 1 and 3
- (c) 2 and 3.
- (d) 1,2 and 3

Consider the following statements:

The Indian rupee is fully convertible:

1. In respect of Current Account of Balance of payment
2. In respect of Capital Account of Balance of payment
3. Into gold

Which of these statements is/are correct?

- (a) 1 alone
- (b) 3 alone
- (c) 1 and 2
- (d) 1,2 and 3



If another global financial crisis happens in the near future, which of the following actions/policies are most likely to give some immunity to India?

- (1) Not depending on short-term foreign borrowings
- (2) Opening up to more foreign banks
- (3) Maintaining full capital account convertibility

Select the correct answer using the code given below :

- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 1, 2 and 3

One of the important goals of the economic liberalisation policy is to achieve full convertibility of the Indian rupee. This is being advocated because:

- (a) Convertibility of the rupee will stabilize its exchange value against major currencies of the world
- (b) It will attract more foreign capital inflow in India
- (c) It will help to promote exports
- (d) It will help India secure loans from the world financial markets at attractive terms

In the context of India, which of the following factors is/ are contributor/contributors to reducing the risk of a currency crisis?

1. The foreign currency earnings of India's IT sector.
2. Increasing the government expenditure.
3. Remittances from Indians abroad.

Select the correct answer using the code given below.

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 only
- (d) 1,2 and 3 only

# Assignment

Justify the need for FDI for the development of the Indian economy. Why is there a gap between MOUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India.

Foreign direct investment in the defence sector is now said to be liberalized. What influence this is expected to have on Indian defence and economy in the short and long-run?

# Assignment

Though India allowed Foreign Direct Investment (FDI) in what is called multi-brand retail through the joint venture route in September 2012, the FDI, even after a year, has not picked up. Discuss the reasons.

# Assignment

How would the recent phenomena of protectionism and currency manipulations in world trade effect macroeconomic stability of India?

Thank you