Strong Balance of Payments

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Why in News

According to the Ministry of Commerce and Industry, India's **Balance of Payments (BoP)** in 2020-21 is going to be very strong.

Key Points

- **Strong BoP:** The BoP is going to be strong on the back of **significant improvement in exports and a fall in imports.**
  - The exports in July 2020 is at about 91% export level of July 2019 figures.
  - Imports are still at about 70-71% level as of July 2019.
- **Trade Surplus in June 2020:** India's trade has turned surplus for the first time in 18 years as imports dropped by 47.59% in June 2020 as compared to June 2019.
  - The country posted a trade surplus of USD 0.79 billion in June 2020.
- **Domestic Manufacturing Being Boosted:** The government is taking steps to support and promote domestic manufacturing and industry.
  - It has **increased curbs on imports** of products and parts, especially from China, as part of its **'Atmanirbhar' Initiative.**
  - The government also reviewed all **Free-Trade Agreements (FTA)** done between 2009 and 2011 and found most of them to be **asymmetrical.**
    - FTAs done earlier have permitted foreign goods to come easily into the country. But Indian goods have not been allowed reciprocal entry.
    - E.g. European countries have opposed technical standards imposed by India on import of tyres, even as they have restricted export of tyres from India.
- **Change in Mode of Manufacturing:** The government has also asked firms investing in the country to **stop having an "assembly workshop" approach** that has typically characterised Indian manufacturing.

Balance of Payment

- **Definition:**
  - Balance of Payment (BoP) of a country can be defined as a systematic statement of all economic transactions of a country with the rest of the world during a specific period usually one year.
  - It indicates whether the country has a **surplus or a deficit on trade.**
    When exports exceed imports, there is a **trade surplus** and when imports exceed exports there is a **trade deficit.**
- **Purposes of calculation of BoP:**
  - Reveals the **financial and economic status** of a country.
  - Can be used as an **indicator** to determine whether the **country's currency value is appreciating or depreciating.**
  - Helps the Government to decide on **fiscal and trade policies.**
  - Provides important information to analyze and understand the economic dealings of a country with other countries.
- **Components of BoP:**
  - For preparing BoP accounts, economic transactions between a country and rest of the world are **grouped under - Current account, Capital account and Errors and Omissions.** It also shows **changes in Foreign Exchange Reserves.**
  - **Current Account:** It shows export and import of **visibles (also called merchandise or goods - represent trade balance)** and **invisibles** (also called non-merchandise).
    Invisibles include services, transfers and income.
  - **Capital Account:** It shows a **capital expenditure and income for a country.**
    - It gives a summary of the net flow of both private and public investment into an economy.
    - **External Commercial Borrowing (ECB)**, **Foreign Direct Investment**, **Foreign Portfolio Investment**, etc form a part of capital account.
  - **Errors and Omissions:** Sometimes the balance of payment does not balance. This imbalance is shown in the BoP as errors and omissions. It reflects the country's inability to record all international transactions accurately.
  - **Changes in Foreign Exchange Reserves:** Movements in the reserves comprises changes in the foreign currency assets held by the **Reserve Bank of India (RBI)** and also in **Special Drawing Rights (SDR)** balances.
  - Overall the **BoP account can be a surplus or a deficit.** If there is a deficit then it can be bridged by taking money from the **Foreign Exchange (Forex) Account.**
    If the reserves in the forex account are falling short then this scenario is referred to as **BoP crisis.**

Source: TH