

The Impact of Banking Capital Components of Balance of Payments on Economic Growth of India

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Abstract – *The present study intends to examine the performance of balance of trade and analyze status of the indicators of balance of payments of Indian economy. The data has been collected for last 10 years (2005-2015) and from the secondary sources. The findings conclude that the balance of trade and balance of payments are the important components of Indian economy and these are moving in positive direction.*

Keywords: *Balance of Trade, Balance of Payment, Current and Capital Account, Indian Economy.*

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1. INTRODUCTION

Balance of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy. When all the elements are correctly included in the BOP, it should sum up to zero in a perfect scenario. This means the inflows and outflows of funds should balance out. However, this does not ideally happen in most cases.

BOP statement of a country indicates whether the country has a surplus or a deficit of funds i.e when a country's export is more than its import, its BOP is said to be in surplus. On the other hand, BOP deficit indicates that a country's imports are more than its exports. Tracking the transactions under BOP is something similar to the double entry system of accounting. This means, all the transaction will have a debit entry and a corresponding credit entry.

The balance of payments is considered as the balance of global payments which exhibits the record of every economic exchange of a nation and with world. These exchanges are mostly created by organizations, inhabitants, and government. The balance of payments contains the two sorts of outer exchanges of a country. These are:

- The obvious
- The non-obvious

2. INDIA'S BALANCE OF PAYMENTS

A verifiable audit of India's outside segment uncovers that with the exception of the primary portion of the 1950s and the last 50% of the 1970s it kept on staying under strain. There was, notwithstanding, some distinction in power and nature of strain during various periods. The extent of current record shortage during the 1980s and the mid-1990s was very colossal when contrasted with that till mid-1970s.

The two oil stuns since the mid-1970s influenced unfavorably the present record of nation's balance of payments. Moreover, huge import of nourishment grains and composts added fuel to the issue. Aside from this, the Indian government's internal looking system of industrialization was likewise answerable for the ascent in import of capital products and components. The arrangement of government changed during the 1980s for outward-looking methodology. Imports were changed particularly since 1985, however its prompt effect was show in developing imports. In addition, notwithstanding different motivations accommodated sends out, fares couldn't keep pace with imports. The Indian household showcase was ensured because of high duties and it was more profitable than send out market. An investigation of capital record shows that till the 1970s, outer help was accessible at concessional paces of premium and was practically adequate to meet the present record shortage. Be that as it may, during the 1980s there was a decrease in the accessibility of official guide which was deficient to back the present record shortfall and

the administration was constrained to go for business borrowings.

In addition, the developing monetary deficiency was another factor behind the developing inflow of business borrowings. Therefore, the accessibility of assets at harder terms diminished the net store accessibility and expanded outer obligation. Therefore, the administration had to move toward IMF. India's outside obligation including the obtaining from IMF was so colossal during the late 1980s that the obligation/send out proportion was equivalent with the estimation of such proportion in 17 vigorously obliged nations of Asia, Africa and Latin America.

India's Macroeconomic strategy from 1964 to 1991 have recognized four emergency periods which are – first emergency (1965-67), second crisis(1973-75), third emergency (1979- 81) and fourth emergency (1990 and past) , and bring up that the initial three emergencies were basically brought about by exogenous stuns while the fourth was to a great extent approach actuated (Joshi and Little, 1994). The decade from 1980-81 to 1990-91 was every decade in which there were visit good and bad times in India's balance of payments. In 1980-81 the present record shortfall was 1.2 percent of GDP and fluctuated between 1.1 percent and

1.5 percent of GDP till 1984-85. It came to 2.3 percent of GDP in 1985-86 and was 2.7 percent of GDP in 1988-89. At last, it rose to 3.2 percent of GDP in 1990-91. Simultaneously, India's outside obligation to GDP proportion remained at 18.3 percent, and the obligation to send out proportion was 20.2 percent toward the finish of March 1990. The obligation administration proportion remained at 21 percent in 1989-90. India, along these lines inferable from expanding current record shortfall, for all intents and purposes arrived at the phase of an obligation trap in 1990. This required some radical measures to fix the things. In this manner, the general image of India's balance of payments was not truly agreeable until the 1990s or at the hour of propelling changes. The technique of changes presented in India, July 1991 presents a blend of macroeconomic adjustment and auxiliary alteration; or at the end of the day, it was guided by both the present moment and long haul targets.

The changes demonstrated to be sensibly effective. A portion of the accomplishments of changes would incorporate – improvement in India's fares and fares development, decrease in outer obligation, regulation of monetary shortfall, controlling swelling, increment in remote direct venture and outside institutional speculation, increment in exchange receptiveness, increment in outside trade saves, settling the conversion scale of rupee and move towards capital record convertibility .

The accomplishment of India's obligation the board approach is reflected in a slow and enduring

improvement in the obligation manageability markers during the 1990s. It is significant that as far as obligation characterization, the World Bank has arranged India as a less – obliged nation since 1999 (Report on Currency and Finance 2002 – 03). Outer part change has been the combination of outside obligation in the nineties, particularly momentary obligation. The proportion of momentary obligation to add up to obligation has descended from 10.2 in 1990-91 to 4.4 in 2002-03. The obligation administration proportion has descended from 35.3 in 1990-91 to 14.7 in 2002-03.

As saw by RBI one significant achievement which was accomplished after usage of changes was the transforming of current record shortage into an excess. Furthermore, this there was likewise an improvement in Net terms of exchange and Income terms of exchange. India's BOP information shows that there was a surplus in the present record of BOP for three sequential years from 2001 – 02 to 2003 – 04. In such manner, a perception from a present record surplus for the third back to back year combined with a growing capital record additionally reinforced India's BOP in 2003-04. Rising current record surplus has been one of the distinctive highlights of India's BOP in the present decade (Economic Survey 2004 – 05).

The quality strength and dependability of the nation's outside area is reflected by different markers. These incorporate an unfaltering accumulation to saves, moderate degree of current record shortfall, changing creation of capital inflows, adaptability in return rates, economical outside obligation levels with lengthened development profile and an expansion in capital inflows. The present record has pursued an upset "U" molded example during the period 2001 – 02 to 2006-07 ascending to an overflow of more than 2 percent of GDP in 2003 – 04. From there on it has returned near its post-1990s change normal with a CAD of 1.2 percent in 2005-06 and 1.1 percent of GDP in 2006-07 (Economic Survey 2007 – 08).

The Global Financial Crisis, influenced Indian outer area in 2008, is viewed as the most recent in the arrangement of the monetary emergency to antagonistically influence world economies. In contrast to the previous barely any emergencies, the present emergency has not saved any of the nations or market segments and has crushed economies that were customarily solid. It is expressed that an unreasonably free fiscal approach during the 1990s in major formed economies changed into worldwide imbalances and an out and out money related and financial emergency for every one of the economies of the world (Rakesh, 2009).

Table No.1.3 explains the key indicators of the balance of payments of India.

**Table No 1.3 KEY INDICATORS OF INDIA'S
 BALANCE OF PAYMENTS**

(selected years)

Particulars	1990 - 91	2000 - 01	2010 - 11	2013 - 14
Exports /GDP (In Per cent)	5.6	9.5	14.9	17
Imports /GDP (In Per cent)	8.5	12.1	22.4	24.7
Trade /GDP (In Per cent)	14.1	21.6	37.3	41.7
CAD /GDP (In Per cent)	- 2.9	- 0.5	-2.8	-1.6
External Debt /GDP (In Per cent)	27.8	19.6	15.1	19.5
Short term Debt / Total Debt (In Per cent)	10.2	4	20.1	23.6
Debt Service Ratio (In Per cent)	35.3	17.1	5.8	5.9
Foreign Exchange Reserves (In Rs. Billion)	400	18368	141695	182007
Exchange Rate of Rupee (Rs. Per US Dollar) (Annual Average)	17.4	44.9	45.7	58.5

Source:-Reserve Bank of India – Handbook of Statistics on Indian Economy – 2014-15.

Table No. 1.1 gives a depiction of key pointers of India's Balance of Payments for select a very long time during the post-globalization period. It is obvious from table that there has been an improvement in a portion of the key markers of the balance of payments. For example, India's fares/GDP proportion which was 5.6 percent in 1990 – 91 has nearly multiplied to 9.5 percent in 2000 – 01. It further went up to 17 percent in 2013-14. Thus, India's import/GDP proportion expanded from 8.5 percent in 1990 – 91 to 12.1 percent in 2000 – 01. In 2013-14 it was 24.7 percent. The exchange/GDP proportion shows the degree of receptiveness of a nation. It tends to be seen that this proportion expanded from 14.1 percent in 1990 – 91 to 21.6 percent in 2000 – 01. It further went up to 41.6 percent in 2013-14. Additionally, the adjustment in the present record shortage/GDP proportion shows a critical improvement. The CAD/GDP proportion was as high as 2.9 percent in 1990 – 91, which declined impressively to 0.5 percent in 2000 – 01. In 2013-14, CAD/GDP proportion was 1.6 percent, well inside reasonable breaking points.

3. RESEARCH METHODOLOGY

Period of Study

Endeavors were made to gather information for most extreme number of free factors relying on their accessibility since 1980. The investigation secured the period 1980-81 to 2005-06. However, to make the similar investigation of parity of installments position and to know the effect of advancement and globalization on parity of installments since 1991, the entire time frame has been bifurcated into two sub-periods for example pre-advancement period (1980-81

to 1989-90) and post-progression period(1992-93 to 2005-06).

In order to meet the specified objectives, several statistical techniques were applied to analyze the data as discussed below:

3.1 Tabular Analysis

Tabular analysis technique was largely used. Ratios, percentages, averages etc. were also worked out.

3.2 Rate of Change

To know the annual changes in balance of payments and its various components, annual rate of change was calculated as following:

$$X_t = \frac{X_t - X_{t-1}}{X_{t-1}} * 100$$

3.3 Trend Analysis

To realize the patterns in equalization of installments over a time of 26 years (1980-81 to 2005-06) and for two sub-periods (1980-81 to 1989-90) and (1992-93 to 2005-06), pattern investigation has been determined:

$$y = a + bt$$

Where t is timeframe, 'a' is consistent and 'b' is the direct time pattern y is the reliant variable. These pattern esteems were additionally tried for centrality by applying t-test.

4. COMPOUND ANNUAL GROWTH RATE

To investigate the progressions after some time in parity of installments and its parts, compound yearly development rates have been determined by utilizing the accompanying condition:

$$y_t = a b^t e^{ut}$$

Changing the above condition in log direct structure

$$\log Y = \log a + t \log b + u_t$$

Where is value of dependent variable in year t, t is trend variable, U_t is stochastic disturbance term and 'a' and 'b' are constants. From the estimated regression coefficients 'b', the rate of growth 'r' can be calculated as follows:

$$r = \{antilog(\hat{b} - 1)\} * 100$$

5. RESULTS AND DATA ANALYSIS

Components of Banking Capital: Banking capital account has been divided into two accounts

- Commercial Banks
- Others

6. COMMERCIAL BANKS

Information given in Table 4.19 mirror that business banks capital record shows fluctuating wonders during post-progression period. This record indicated a surplus in every one of the years aside from three years (for example 1994-95, 1997-98 and 2000-01). Net inflows on this record expanded colossally from Rs.3195.8 crore in 1990-91 to Rs.14007.61 crore in 1992-93. Yet, after that these inflows demonstrated a shortage of Rs.2544.69 crore in 1994-95 which transformed into an excess of Rs.24724.61 crore in 2003-04 and remained at Rs.1212.19 crore in 2005-04. Surplus was greatest in the year 2002-03 (i.e.Rs.42594.94 crore) because of decrease in installments at the pace of 23.85 percent during that year while deficiency was most extreme in the year 2000-01 (Rs.8149.68 crore) because of higher development pace of installments (40.04 percent).

Table 4.19 Growth Behaviour of Components of Banking Capital of Capital Account (at Constant Prices) (Rs. Crore)

	Commercial Banks				Others				
Year	Receipts	Payments	Net	Receipts/ Payments (percent)	Receipts	Payments	net	Receipts/ Payments (percent)	Total
1990-91	28157.05	24961.24	3195.81	112.80	7592.27	8374.93	-784.631	90.63	2411.15
1991-92	38929.3	37885.5	1043.80	102.76	7490.41	6195.19	1295.22	120.91	2340.75
	(38.25)	(51.77)	(-67.33)		(-1.34)	(-24.04)	(-264.65)		(-2.92)
1992-93	46427.18	32419.57	14007.61	143.21	7152.38	2145.87	5004.52	333.31	19014.12
	(19.26)	(-14.42)	(1241.98)		(-4.51)	(-65.36)	(284.53)		(712.31)
1993-94	48368.92	4200.62	44168.29	1151.47	4040.79	1278.64	2760.7	314.02	10313.39
	(4.18)	(-87.04)	(215.31)		(-43.51)	(-40.41)	(-44.85)		(-45.76)
1994-95	26123.03	28667.72	-2544.69	91.12	2309.83	1130.39	1179.43	204.34	-1365.25
	(-45.99)	(582.46)	(-105.76)		(-42.84)	(-11.59)	(-57.27)		(-113.24)
1995-96	24838.41	21154.53	3683.88	117.41	1080.19	1843.73	-763.54	58.59	2921.53
	(-4.91)	(-24.20)	(-244.76)		(-53.23)	(63.10)	(-164.73)		(-313.99)

1996-97	30901.38	21870.39	9030.99	141.29	1532.96	1551.24	-18.27	98.82	9012.72
	(24.41)	(3.38)	(145.14)		(41.91)	(-15.86)	(-97.60)		(208.49)
1997-98	33182.67	38117.18	-4934.51	87.05	2984.78	1537.25	1447.53	194.16	-3484.98
	(7.38)	(74.29)	(-154.64)		(94.77)	(-0.90)	(-8020.0)		(-138.69)
1998-99	32537.08	34279.23	-1742.15	94.92	6214.75	1241.29	4973.45	500.67	3231.29
	(-1.95)	(-10.06)	(-64.69)		(108.71)	(-19.25)	(243.58)		(-192.67)
1999-00	44496	34486	10010	129.03	1716	2509	-793	68.39	9217
	(34.75)	(0.60)	(-674.57)		(-72.38)	(102.12)	(-115.94)		(185.24)
2000-01	40144.47	48294.15	-8149.68	83.12	1332.61	1714.16	-383.55	77.65	-8533.23
	(-9.77)	(40.04)	(-181.41)		(-22.34)	(-31.59)	(-51.83)		(-192.58)
2001-02	57498.44	45939.3	11559.14	125.16	2054.54	1204.38	852.16	170.76	12411.3
	(43.22)	(-4.88)	(-241.83)		(54.32)	(-29.82)	(-322.17)		(-245.45)
2002-03	77577.83	34980.89	42594.94	221.77	2285.78	1037.48	1248.29	220.32	43845.23
	(34.02)	(-23.85)	(268.51)		(11.14)	(-13.85)	(44.48)		(253.26)
2003-04	71672.8	46987.49	24724.61	152.54	1283.66	3061.29	-1777.63	41.93	22948.97
	(-7.61)	(34.42)	(-41.95)		(-43.84)	(195.06)	(-242.40)		(-47.69)
2004-05	49678.17	36097.7	13580.47	137.62	961.94	1323.45	-361.50	72.68	13218.96
	(-30.68)	(-23.17)	(-45.07)		(-25.06)	(-54.76)	(-79.66)		(-42.39)
2005-06	67781.89	66569.7	1212.19	101.82	3558.55	463.77	3094.78	767.31	4304.97
	(34.44)	(84.41)	(-91.07)		(269.93)	(-64.95)	(-954.08)		(-67.42)
Mean	44894.79	34807.08	10090.29	187.07	3349.59	2288.51	1060.87	208.53	8862.99
Compound Annual Growth Rate	5.18	4.98	-	-1.68	-8.55	-8.46	-	-0.09	-

Source: Handbook of Statistics on Indian Economy, Reserve bank of India (Various Issues) Note: Figures in parentheses are annual rates of change.

Table 4.19(a) Trend Analysis of Components of Banking Capital of Capital Account E

Year	Receipts	Payments	Net	Receipts/Payments (percent)
1990-91	11024.63	4197.34	6829.29	262.71
1991-92	12003.72	10304.24	1697.48	114.47
	(8.86)	(145.54)	(-75.14)	
1992-93	5241.12	6554.92	-1313.8	79.96
	(-54.33)	(-34.39)	(-177.39)	
1993-94	13097.34	5627.47	7469.87	232.74
	(149.89)	(-14.14)	(-668.57)	
1994-95	8919.30	904.58	8014.73	984.02
	(-31.89)	(-83.92)	(7.29)	
1995-96	2954.19	13311.2	-10355	22.208
	(-64.85)	(1371.54)	(-229.2)	
1996-97	10724.16	11727.95	-1001.79	91.46
	(262.83)	(-11.89)	(-90.32)	
1997-98	15818.88	10034.23	5784.65	157.65
	(47.47)	(-14.44)	(-677.42)	
1998-99	19971.26	12267.37	7703.90	162.80
	(24.54)	(22.25)	(33.17)	
1999-00	19839	9804	10035	202.36
	(-0.66)	(-20.98)	(30.25)	
2000-01	12083.14	10859.71	1223.43	111.27
	(-39.01)	(10.76)	(-87.80)	
2001-02	9878.24	6524.54	3353.70	151.40
	(-18.24)	(39.91)	(174.12)	
2002-03	7753.69	5305.02	2448.67	144.16
	(-21.50)	(-18.69)	(-24.98)	
2003-04	16425.76	9840.58	6585.17	164.92
	(111.84)	(85.49)	(168.92)	
2004-05	23664.14	20925.37	2740.76	113.09
	(44.07)	(112.64)	(-58.37)	
2005-06	19658.98	15535.58	4123.39	124.54
	(-14.93)	(-25.75)	(50.44)	
Mean	13064.61	9607.88	3458.71	195.91
Compound Annual Growth Rate	5.31	4.88	-	-1.47

Source: Handbook of Statistics on Indian Economy, Reserve bank of India (Various Issues)

Note: Figures in parentheses are annual rates of change.

Table 4.20(a) Trend Analysis of Other Capital Component of Capital Account Other Capital = f (Time)

	b₀	b₁	r²
Receipts	7568.18 (2.86)	644.87 (2.36)*	0.28
Payments	5044.55 (2.27)	534.63 (2.34)*	0.28
Net	2521.63 (0.94)	110.25 (0.39)	0.01
Receipts/Payments (percent)	282.71 (2.44)	-10.24 (-0.86)	0.050

Source: Computed from data given in Table 4.20

During post-liberalization period, average receipts on commercial banks capital account were Rs. 44894.79 crore while average payments were Rs.34807.08 crore which reflects a sure plus of Rs. 10090.29 crore in this account. Payments increase data higher rate (4.98 percent) than receipts (5.18 percent). Consequently, self-financing ratio decreased at the rate of 1.68 percent. Regarding the trend analysis, both receipts and payments increased at a significant rate while net receipts increased at non-significant rate. Self-financing ratio declined at non-significant rate during post-liberalization period.

7. OTHERS

Data reveal that other banking capital account showed deficit in seven years out of sixteen years under study. The account showed a deficit of Rs.184.63 crore in 1990-91 which turned into surplus of Rs.2760.7 crore in 1993-94, which further rose to Rs.4973.45 crore in 1998-99 and finally stood at Rs.3094.79 crore in 2005-04. Though, net inflows in this account remained almost the same. Self-financing ratio declined from 90.63 percent in 1990-91 to 72.68 percent in 2004-05 thus showing that capacity of receipts to finance payments declined during post-liberalization period.

While average receipts on this account were Rs.3349.59 crore and average payments were Rs.2288.51 crore which led to surplus in this account of Rs. 1060.87 crore. On an average, receipts financed 208.53 percent of payments. Both receipts and payments showed a declining trend while receipts declined at marginally higher rate (8.55 percent) than payments (8.46 percent) leading to decline in self-financing ratio at the rate of 0.09 percent. Trend analysis showed that receipts and payments declined at significant rate while net receipts declined at non-significant rate. Self-financing ratio increased but at non-significant rate.

7.1 Other Capital

Other capital involves mostly the leads and slacks in send out receipts. Other than this, different things included finances held abroad, India's membership to

universal establishments, quote installments to IMF, settlements towards recovering the advances of branches or auxiliaries and leftover thing of other capital exchanges excluded somewhere else.

Information given in Table 4.20 show that this record indicated a surplus in every one of the years (aside from three years for example 1992-93, 1995-96 and 1996-97). Surplus on this record at first diminished from Rs.6829.29 crore in 1990-91 to Rs.5784.65 crore in 1997-98 and further to Rs.2448.67 crore in 2002-03 lastly remained at an overflow of Rs.4123.39 crore in 2005-04. Surplus on this record diminished from Rs.6829.29 crore in 1990-91 to Rs.4123.39 crore in 2005-06 because of higher development pace of installments (4.88 percent) than receipts (5.31 percent). Shortfall was greatest in the year 1995-96 because of most noteworthy ever increment in installments at the pace of 1371.54 percent during that year. Self-financing proportion likewise declined from 262.71 percent in 1990-91 to 124.54 percent in 2005-06 (in this way declined at the pace of 1.47 percent) during post-advancement period.

During this period, normal receipts were Rs.13064.6 crore while normal installments were Rs.9607.88 crore which lead to an excess of Rs.3458.71 crore. On a normal, receipts financed 195.61 percent of installments. The pattern examination indicated that receipts just as installments both demonstrated a noteworthy and a positive increment while net receipts expanded at non-critical rate along these lines indicating no improvement in this record.

In general, the investigation uncovers that capital record balance stayed in surplus during the entire time frame. The investigation shows that however the receipts of capital record expanded during post-advancement period. During pre-progression period, surplus in capital record was for the most part because of a surplus in a private exchange balance, advances equalization and banking balance barring RBI which repaid the deficiency given by amortization parity and government various parity while during post-progression period, the segments of capital record indicated a dissimilar example. As during the previous long periods of post-advancement period, banking capital was the single biggest part contributing surplus in capital record, trailed by outside venture and advances which repaid the shortage given by rupee-obligation administration and other capital. Be that as it may, during later long stretches of post-progression period, the surplus experienced by capital record was because of remote speculation, trailed by credits and banking capital. In this manner, the portion of outside direct venture expanded essentially while the portion of credits diminished during later long periods of post-advancement period along these lines showing the expanded significance of FDI inflows for financial improvement during ongoing years.

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