

EFFECT OF FIVE YEAR PLANS ON BALANCE OF PAYMENTS IN FEDERAL INDIA.

Dhammanand Sambhajirao Gaikwad

Ph.D. Research Student.

Dr.Babasaheb Ambedkar Marathwada University,Aurangabad.

ABSTRACT - India's BOP evolved reflecting both the changes in our development paradigm and Exogenous shocks from time to time. In the total 12 plan span of country, 1951-52 to 2016-17, six Events had a lasting impact on our BOP: these are important events which will consider framing the chapter for the same. (i) The devaluation in 1966; (ii) First and second oil shocks of 1973 and 1980; (iii) External payments crisis of 1991; (iv) The East Asian crisis of 1997; (v) The Y2K event of 2000; and (vi) The global financial crisis of 2008.(vii) GREEN GDP. (Note: - also changing the pattern of GDP to Green GDP will Impact on BOP, so that it may one of the important event in upcoming days.

This study will examines the trend pattern of BOP during the period before and after implementation of each plan from first (1951-56) to twelve (2012-17) plan also will study the important factors of BOP Statements for each Five year plan and there effect on economy of the country. It will analyze both positive and negative impacts of BOP with relation to GDP.

This study will examines the trend pattern of BOT during the period before and after implementation of each plan from first (1951-56) to twelve (2012-17) plan also will study the important factors of BOT Statements for each Five year plan and there effect on economy of the country. It will analyze both positive and negative impacts of BOT with relation to BOP.

This study will examines the trend pattern of GDP during the period before and after implementation of each plan from first (1951-56) to twelve (2012-17) plan also will study the important factors of GDP Accounts for each Five year plan and there effect on economy of the country. It will analyze both positive and negative impacts of GDP with relation to Growth rate of the country.

This study will examines the trend pattern of inflation during the period before and after implementation of each plan from first (1951-56) to twelve (2012-17) plan also will study the important factors of inflation for each Five year plan and there effect on economy of the country. It will analyze both positive and negative impacts of inflation with relation to economy of the country.

I. INTRODUCTION

In the recent years, India's integration with the global economy has increased significantly. This is reflected in our expanding volume of external trade and financial transactions. The risks to our BOP have increased both in the global and domestic context: **first**, following the global financial crisis trade volumes have slumped and capital flows have become volatile; **Second**, slowing domestic growth coupled with a large fiscal deficit alongside a high CAD poses twin deficit risks. This is reflected in current account deficit (X-M) which needs to be financed by external borrowings and/or investments. In normal times external finance may not be a problem. **However**, it could be challenging if both the **global** and **domestic** economic outlook are not very favorable. Against this background, my scheme of Ph.D research will be as follows: identify the key events those shaped India's BOP since independence as per considering India's five year plan; examine the changes in the composition of capital inflows; and in conclusion highlight a few risks and make some suggestions to reinforce India's BOP.

(BOP) India's balance of payment has been under increasing stress recently. Experts have declined while imports have not fallen significantly, resulting in increasing trade and current account deficits. India growing external exposures can also be attributed to the increasing integration of India's economy with the rest of the world.

(ECONOMIC GROWTH) Economic growth of the country is an indicator of wealth, reflecting the quantity of the resources available to a society. Economic growth is an increased economic capacity to produce goods and services, compared from one period of time to another which is conventionally measured by increased in country's GDP or GNP or NDP .

(ECONOMIC PLANNING) Every county run to earn maximum growth and wanted to become financial strong then previous and others too. For that they need to plan the economic policy for there development. The economic planning refers to the path of actions in terms of policy measures to be followed in future, in pursuance of pre-determined objectives. Planning commission defines

economic planning as the utilization of country's resources for developmental activities in accordance with national priorities. Which objectives are high rate of growth, modernization of economy, economic self-reliance, economic stability & etc.

(PLANNING COMMISSION) After independence in 1950, the planning commission was set-up and to formulate plan plans for the economic development of the country on the basis of available physical, capital and human resources to achieve rapid economic development. Development plans were formulated and carried out within the framework of the mixed economy.

(FIVE YEAR PLANS) In India, economic planning was adopted in the form of five year plans and was seen as a development tool on account of various reasons. So far, 12th Five year plan (2012-2017), came into force once it was approved by the NDC on 27th December, 2012.

II. OBJECTIVE OF THE STUDY.

Prime objective of this research is to search "the effects of five year plan on balance of payments in India."

- **To estimate trend and pattern of current account, capital account and balance of payment before commencement of each five year plans.**
- **To estimate trend and pattern of current account, capital account and balance of payment after implementation of each five year plans.**
- **To know effect of five year plans on current account, capital account and balance of payment in India.**

III. HYPOTHESIS.

Hypothesis is a conjectural statement that describes the relationship among variable even negative or positive. Null hypothesis which is represent by H₀ symbol to show that the relationship between independent and dependent variable is not exist. However alternate hypothesis is representing by H₁ symbol to show that the relationship is existing between both dependent and independent variable.

According to Sakaran (2004), a hypothesis defines as a logically conjectured relationship between two or more variables expressed in the form of testable statement. Relationship a conjectured on the basis on the network of associations established in the theoretical framework formulated for the research study.

There are two hypotheses that can describes the correlation exists between dependent variable and independent variables. Therefore the hypothesis that can be tested as follows:

Five year plan and BOP.

H₀: there is no significant relationship between Five year plan and BOP.

H₁: there is a significant relationship between Five year plan and BOP.

Five year plan and CURRENT ACCOUNT.

H₀: there is no significant relationship between Five year plan and Current A/c.

H₁: there is a significant relationship between Five year plan and Capital A/c..

Five year plan and CAPITAL ACCOUNT.

H₀: there is no significant relationship between Five year plan and Capital A/c.

H₁: there is a significant relationship between Five year plan and Capital A/c.

IV. RESEARCH METHODOLOGY.

Basic methodology adopted in this study will be trend analysis. The study applies paired sample 't' test for impact of five year plan on balance of payment.

In this study annual data will be use from 1 April 1951 to 31 March 2017. The all data have been collected from HAND BOOK OF INDIA (RBI), ECONOMIC SURVEY, UNION BUDGET,

TYPE OF RESEARCH: - this is the combination of Analytical, Applied, Quantitative and Qualitative Conceptual Research. Then a trend analysis is performed on the import, export and commodity which form the bulk of the trade between the major trading partners of the country using the derived data. Using this data the relationship between inflation, exchange rate and the balance of payments is found out using regression and similarly the relationship between balance of payments and the growth rate of the GDP could be design. Thus overall the balance of payment is regressed and analyzed.

ANALYSIS AND PROCEDURE:-

The balance of payment data is initially collected from Reserve bank of India. The crucial parameters of current account balance, capital account balance and overall balance of payment is taken from the overall balance sheet. This is the crucial data required for our analysis. This data will then be regressed with inflation, exchange rate (which is obtained from IMF financial statistics) and their effect is observed on the balance of payments. This shall be part of final results. The GDP values are obtained and regressed with the balance of payments and the effect of balance of payments on the GDP and its growth rate is observed and is tabulated as a part of the result.

NATURE OF STUDY: - Desire to research.

TYPE OF ANALYSIS: - Basic methodology adopted in this study will be trend analysis. The study applies paired sample ‘t’ test for impact of five year plan on balance of payment.

SOURCES OF INFORMATION

The sources of data include secondary sources & all data have been collected from HAND BOOK OF INDIA (RBI), ECONOMIC SURVEY, UNION BUDGET, etc

SAMPLE DESIGN.

- Pattern of India’s five year plan & there investment.
- Trend of India’s Balance of Payments during the Pre-Implementation of five year plan Period.
Trend of India’s Balance of Payments during the Post-Implementation of five year plan Period.
- Trend of India’s Current Account during the Pre-Implementation of five year plan Period.
Trend of India’s Current Account during the Post-Implementation of five year plan Period.
- Trend of India’s Capital Account during the Pre-Implementation of five year plan Period.
Trend of India’s Capital Account during the Post-Implementation of five year plan Period.

POPULATION: - “Overall Indian Economy since from first plan to twelve plan of the country.”

SAMPLE SIZE: - INDIAN ECONOMY, Balance sheet of five year plans & parameters of BOP.

SAMPLE ELEMENT:- Statement of five year plan, Statement of economic performance, Statement of GDP, Statement of Exchange Rate, Statement of Inflation Rate, Statement of BOP, Capital account, current account & balance of payments.

SAMPLING PROCEDURE: - Initially the data for balance of payments (RBI), exchange rates (IMF), inflation rates (IMF), import, export and commodity details (department of trade and commerce), GDP values (CIA fact book) are all obtained. Then a trend analysis is performed on the import, export and commodity which form the bulk of the trade between the major trading partners of the country using the derived data.

THEORETICAL FRAMEWORK

(BALANCE OF PAYMENTS :)

Statement of the Balance of Payments		
1		Current Account

	A.	Goods and Services	
			Goods
			Services
			Transportation
			Travel
			Government services
			Other services
	B.	Income	
			Compensation of employees
			Investment income
			Of which: Interest on external debt
	C.	Current Transfers	
2		Capital and Financial Account	
	A.	Capital Account	
			Capital transfers
			Acquisition/disposal of non-produced, nonfinancial assets
	B.	Financial Account	
			Direct investment, net
			Portfolio investment, net
			Other investment, net
			Loans, trade credits
			Use of IMF credit and loans from the Fund.

			Reserve assets
			Monetary gold
			SDRs
			Reserve position in the IMF
			Foreign exchange
			Other claims
Source: IMF, Balance of Payments Manual, 1993.			

Let will discuss from the basics. What is BoP? It is our transaction account with the rest of the world. It can be better appreciated in terms of the national income accounting identity: $GDP = C+G+I+X-M$. In other words, domestic output (GDP) is equal to private consumption (C), plus government consumption (G), plus domestic investment (I), plus net exports (X-M). If net exports of goods and services (X-M) are negative, the domestic economy is absorbing more than it can produce. In other words, absorption (C+G+I) by the domestic economy is greater than domestic output (GDP). This is reflected in current account deficit (X-M) which needs to be financed by external borrowings and/or investments.

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and, if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance. But in practice this is rarely the case and, thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

The BOP is divided into three main categories: the current account, the capital account and the financial account. Within these three categories are sub-divisions, each of which accounts for a different type of international monetary transaction.

The Current Account: The current account is used to mark the inflow and outflow of goods and services into a country.

Earnings on investments, both public and private, are also put into the current account. Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold or given away (possibly in the form of aid). Services refer to receipts from tourism, transportation (like the levy that must be paid in Egypt when a ship passes through the Suez Canal), engineering, business service fees (from lawyers or management consulting, for example), and royalties from patents and copyrights. When combined, goods and services together make up a country's balance of trade (BOT). The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports. If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports. Receipts from income-generating assets such as stocks (in the form of dividends) are also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly worker's remittances, which are salaries sent back into the home country of a national working abroad, as well as foreign aid that is directly received.

The current account shows the net amount a country is earning if it is in surplus, or spending if it is in deficit. Current account is nothing but the difference between a nation's total exports of goods, services and transfers, and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities

The Capital Account: The capital account is where all international capital transfers are recorded. This refers to the acquisition or disposal of non-financial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, like a mine used for the extraction of diamonds. The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies, and, finally, uninsured damage to fixed assets.

The capital account records the net change in ownership of foreign assets. It includes the reserve account (the international operations of a nation's central bank), along with loans and investments between the country and the rest of world (but not the future regular repayments / dividends that the loans and investments yield, those are earnings and will be recorded in the current account). The net results includes foreign direct investment, plus changes in holdings of stocks, bonds, loans, bank accounts, and currencies.

The Financial Account: In the financial account, international monetary flows related to investment in business, real estate, bonds and stocks are documented. Also included are government-owned assets such as foreign reserves, gold, special drawing rights (SDRs) held with the International Monetary Fund, private assets held abroad, and direct foreign investment. Assets owned by foreigners, private and official, are also recorded in the financial account.

A balance of payments (BOP) sheet is an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. The BOP summarizes international transactions for a specific period, usually a year, and is prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as a negative or deficit item.

When all components of the BOP sheet are included it must balance – that is, it must sum to zero – there can be no overall surplus or deficit. For example, if a country is importing more than it exports, its trade balance will be in deficit, but the shortfall will have to be counter balanced in other ways – such as by funds earned from its foreign investments, by running down reserves or by receiving loans from other countries.

While the overall BOP sheet will always balance when all types of payments are included, imbalances are possible on individual elements of the BOP, such as the current account. This can result in surplus countries accumulating hoards of wealth, while deficit nations become increasingly indebted.

In the context of BOP and international monetary systems, the reserve asset is the currency or other store of value that is primarily used by nations for their foreign reserves. BOP imbalances tend to manifest as hoards of the reserve asset being amassed by surplus countries, with deficit countries building debts denominated in the reserve asset or at least depleting their supply. Under a gold standard, the reserve asset for all members of the standard is gold. In the Bretton Woods system, either gold or the US Dollar could serve as the reserve asset, though its smooth operation depended on countries apart from the US choosing to keep most of their holdings in dollars.

Following the ending of Bretton Woods, there has been no de jure reserve asset, but the US dollar has remained by far the principal de facto reserve. Global reserves rose sharply in the first decade of the 21st century, partly as a result of the 1997 Asian Financial Crisis, where several nations ran out of

foreign currency needed for essential imports and thus had to accept deals on unfavorable terms.

EXCHANGE RATES:

In finance, the exchange rates (also known as the foreign-exchange rate, forex rate or FX rate) between two currencies specify how much one currency is worth in terms of the other. It is the value of a foreign nation's currency in terms of the home nation's currency. For example an exchange rate of 44 Indian rupees (INR, Rs) to the United States dollar (USD, \$) means that Rs 44 is worth the same as USD 1. The foreign exchange market is one of the largest markets in the world. By some estimates, about 3.2 trillion USD worth of currency changes hands every day. A market based exchange rate will change whenever the values of either of the two component currencies change. A currency will tend to become more valuable whenever demand for it is greater than the available supply. It will become less valuable whenever demand is less than available supply.

Increased demand for a currency is due to either an increased transaction demand for money, or an increased speculative demand for money. The transaction demand for money is highly correlated to the country's level of business activity, gross domestic product (GDP), and employment levels. The more people there are unemployed, the less the public as a whole will spend on goods and services. Central banks typically have little difficulty adjusting the available money supply to accommodate changes in the demand for money due to business transactions.

The speculative demand for money is much harder for a central bank to accommodate but they try to do this by adjusting interest rates. An investor may choose to buy a currency if the return (that is the interest rate) is high enough. The higher a country's interest rates, the greater the demand for that currency. It has been argued that currency speculation can undermine real economic growth, in particular since large currency speculators may deliberately create downward pressure on a currency by shorting in order to force that central bank to sell their currency to keep it stable (once this happens, the speculator can buy the currency back from the bank at a lower price, close out their position, and thereby take a profit).

INFLATION RATES:

In economics, the inflation rate is a measure of inflation, the rate of increase of a price index (for example, a consumer price index). It is the percentage rate of change in price level over time. The rate of decrease in the purchasing power of money is approximately equal.

As inflation increases, prices increase also in other countries from which we buy, because their inflation increases their prices and thus the cost of our imports. At the same time prices are likely to increase also because our government may be printing more money to cover its own deficit, to cover the amount by which its spending exceeds its income. As prices increase so do percentage markups such as profits and dividends which in this way increase automatically in line with increasing prices.

The higher prices are felt by wage and salary earners who demand increases in line with increasing prices, in line with the increasing cost of living. Prices increase as a result, the increase depending both on the extent to which wage and salary demands are satisfied and on how much of the price consists of labour costs.

Our prices have increased, our exports have become more expensive, we sell less abroad, our payments deficit gets even worse. When this condition persists and gets worse then we can devalue our currency, the extent of the devaluation depending on whether we are devaluing: (1) to stay competitive or (2) to become more competitive.

As a result of the devaluation our exports become cheaper abroad but we have to pay more for imports. The increased cost of imports in turn increases our own prices but only to the extent to which imports figure in the price. However, this has already been allowed for when deciding the extent to which we devalue.

The devaluation reduces our standard of living relative to others abroad as they find our produce cheaper while we find theirs more expensive. We now have to produce and sell a greater volume of exports so as to earn as much foreign currency as we did before and have to sell even more if we are to improve our position, if we are to benefit from the devaluation.

GDP:

The gross domestic product (GDP) or gross domestic income (GDI) is the amount of goods and services produced in a year, in a country. It is the market value of all final goods and services made within the borders of a country in a year. It is often positively correlated with the standard of living, alternative measures to GDP for that purpose.

$$\mathrm{GDP} = C + \mathrm{Inv} + G + \left(\mathrm{eX} - i \right)$$

C – Consumption, Inv - investment, G – Government expenditure, eX – exports, I - imports

From the formula it is evident that balance of payments forms a part and chunk of our GDP and when it increases the GDP and growth rate increases and vice versa is also true.

V. CONCLUSION.

India had faced pressure on balance of payments, since planning period due to either internal or external factors. Trade balance has always been in deficit since imports have always exceeded exports. When current account deficits are larger than capital account surpluses, foreign exchange reserves are also used to cover these deficits.

Every five year plan consist some objective regarding about to develop the economy, and they try to cover the target figure which decided. But it found that they could not get the decided target. It was realized that, by closing economy to global influence the country was missing on technology development and also the gains from global trade. India needs exports, FDI, FII for stability of balance of payments. Worldwide, countries were embracing market model of growth e.g. china, with proven result. So, India could make the historical shift from centralized planning to market based model of growth.

“In this context, I propose to capture the evolution of India’s BOP in the historical context as per five year plans of India and trace how it responds as per their objective.”

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