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 (debts) 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 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 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.

Objective of the study
To estimate trend and pattern of current account, capital account and balance of payment before devaluation.

To estimate trend and pattern of current account, capital account and balance of payment after devaluation.

To know effect of devaluation on current account, capital account and balance of payment in India.

Hypothesis
HO : There is no significant effect of devaluation on current account.
HO : There is no significant effect of devaluation on capital account.
HO : There is no significant effect of devaluation on balance of payment.

Data source and methodology: Basic methodology adopted in this study will be trend analysis. The study applies paired sample ‘t’ test for impact of devaluation on balance of payment.
In this study annual data is used from 1970-71 to 2011-12. The all data have been collected from HAND BOOK OF INDIA (RBI).

Graph 1: Trend of India's Balance of Payments during the Pre-Devaluation Period

Before the devaluation of money it can be observe from the above graph no. 9 there was very fluctuation in balance of payment. In 1970's the position of balance of payment is satisfactory. In 1980's the balance of payment is adversely affected due to trade deficits. It can be observe from the above graph that balance of payment decline sharply in 1990-91 due to domestic political developments affected confidence abroad in Indian economy.

The analysis of balance of payments pattern indicates that on an average there was significant increase during the period. It accounted from US dollar 2599 million in 1991-92 to US dollar -12832 million in 2011-2012. There was a deficit in this account in 1992-93, 1995-96, 2008-09 and 2011-2012. (Graph 2)

Graph 2: Trend of India's Balance of Payments during the Post-Devaluation Period

Graph 3: Trend of India's Current Accounts during the Pre-Devaluation Period

The analysis of pattern of current account position of India’s balance of payments shows that the deficit of this account was increased substantially during the pre-devaluation period. In absolute US dollar value. It has gone lip from 290 million during 1978-79 to 9680 million during 1990-91. It is mainly due to continuous decline of surplus in the invisible account in this period. (Graph 3)

The current account position of India’s balance of payments shows an increasing trend during the post-devaluation period. In absolute US dollar value, the deficit of this account has gone up from 1178 million in 1991-92 to 78155 million in 2011-2012. From the above graph it can be shows that there was a surplus on current account in 2001-02, 2002-03, 2003-04. It is the first time in post independent period that there was a current account surplus for three consecutive years. (Graph 4)

Graph 4: Trend of India's Current Accounts during the Post-Devaluation Period

Graph 5: Trend of India’s Capital Accounts during the Pre-Devaluation Period

The analysis of capital account pattern indicates that on an average there was significant increase during the period. It could be observed that the capital account has increased from US S 580 million in 1970-71 to US S 7188 million in 1990-1991. There was a high growth rate of current account as compared to the growth rate of capital account of the balance of payments during the pre-evaluation period. (Graph 5)

Graph 6: Trend of India’s Capital Accounts during the Post-Devaluation Period

It can be seen from the above figure that there was a substantial increase of capital surplus. The overall trend of the account shows an upward movement during the period. It could be observed that the capital account has increased from US dollar 377 million in 1990-91 to US dollar 65324 million in 2011-2012. It can be observe from the above graph that Current account inflows decline sharply in 2008-2009 due to recession foreign institution withdrawal their resources. (Graph 6)

The analysis balance of payment deficits in pre and post devaluation periods shows that there was an Increase from US dollar -68.95 million in the pre devaluation period to US dollar 12696.61 million in the post devaluation period. It is interesting to see that such an average increase of balance of payment deficit from pre to post devaluation period is statistically significant at 5 per cent level as the results of ‘t’ value depicts. Further, the analysis of current account
This paper investigates the effect of devaluation on balance of payment for India using data pre-devaluation to post-devaluation periods. It accounted to nearly US dollar -11462.14 million in the post-devaluation period as against the US dollar -2576.52 million in the pre-devaluation period.

The results of ‘t’ confirm that the change of current account between pre and post-devaluation periods is significant at 5 per cent level of significance. This situation has not been different the case of capital accounts. The results of ‘t’ suggest that there was also significant increase in the capital accounts in an absolute term from pre-devaluation to post-devaluation period.

Graph 7: Trend of India’s Current Accounts, Capital Accounts and Balance of Payment during the Pre-Devaluation Period

Graph 8: Trend of India’s Current Accounts, Capital Accounts and Balance of Payment during the Post-Devaluation Period

The mean test of balance of payments confirmed the improvement of balance of payments from pre-devaluation period to post-devaluation period. It accounts on an average US $ 12696 million during the post-devaluation period 1991-92 to 2011-12 as compared to US $ 68.95 million during the pre-devaluation period 1970-71 to 1990-91. This improvement of balance of payments of pre-devaluation and post-devaluation periods is significant at 5 per cent significance level

The mean test of current account confirmed the improvement of current account from pre-devaluation period to post-devaluation period. It accounts on an average US $11462.14 million during the pre-devaluation period 1991-92 to 2011-12 as compared to US $2576.52 million during the pre-devaluation period 1970-71 to 1990-91 This improvement of current account of pre-devaluation and post-devaluation periods is significant at 5 per cent significance level

The mean test of capital account confirmed the improvement of capital account from pre-devaluation period to post-devaluation period. It accounts on an average US $24158.90 million during the post-devaluation period 1991-92 to 2011-12 as compared to US $2507.57 million during the pre-devaluation period 1970-71 to 1990-91 This improvement of capital account of pre-devaluation and post-devaluation periods is significant at 5 per cent significance level

References

Table 1: Trend of India’s Current Account, Capital Account, and BOP Pre - Devaluation Period

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Average 1970-71 To 1990-91: -2576.52

The mean test of current account confirmed the improvement of current account from pre-devaluation period to post-devaluation period. It accounts on an average US $11462.14 million during the post-devaluation period 1991-92 to 2011-12 as compared to US $2576.52 million during the pre-devaluation period 1970-71 to 1990-91. This improvement of current account of pre-devaluation and post-devaluation periods is significant at 5 per cent significance level

The mean test of capital account confirmed the improvement of capital account from pre-devaluation period to post-devaluation period. It accounts on an average US $24158.90 million during the post-devaluation period 1991-92 to 2011-12 as compared to US $2507.57 million during the pre-devaluation period 1970-71 to 1990-91. This improvement of capital account of pre-devaluation and post-devaluation periods is significant at 5 per cent significance level

Analysis of Trends

Conclusion: This paper investigates the effect of devaluation on balance of payment for India using data 1970-71 to 2011-12. Further, the study also analyzed the trend pattern of various components of balance of payment such as current account and capital account. In this context, the present study examines it using paired sample ‘t’ test. The study derives the following inferences from the trend analysis:

Table 2: Trend of India’s current Account, Capital Account, and BOP Pre - Devaluation Period
ANALYSIS OF TRENDS


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