

WELCOME



BALANCE OF PAYMENTS – 2

Disequilibrium :

Causes and Remedies

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BoP Disequilibrium

- **BoP Balance:** Autonomous Receipt = Autonomous Payment in accounting sense with the help of accommodating transactions. Does not necessarily mean BoP Equilibrium.
- **BoP Equilibrium:** Autonomous Receipt = Autonomous Payment without the help of accommodating transactions. Automatically implies BoP Balance. Here sum of accommodating transactions being zero.
- **BoP Disequilibrium :** Deficit or surplus of Autonomous Transaction
- **BoP Disequilibrium + accommodating Transaction making BoP overall Balance**

CONTD..

- BoP disequilibrium:
- Autonomous receipt/credit not equal to autonomous payment/ debit
- Receipt > payment then Bop is in surplus or favourable
- Payment > receipt then BoP is in deficit or unfavourable or adverse

Causes of Disequilibrium

1. Temporary changes : random fluctuations, seasonal variations for short term and expected to be autocorrected.
2. Fundamental causes: long run and persistent causes which are chronic and caused by dynamic factors like change in consumer taste, supply inelasticity of export or excessive demand of import, capital outflow due to import of capital good, external indebtedness, low international competitive strength, inflation in economy etc.

CONTD..

3. Structural changes : technology of production import restrictions, resource deficiency, direction and regularity of capital flow
4. Changes in exchange rate
5. Cyclical fluctuations
6. Changes in national income hence increase in import due to inflation in domestic economy if at full employment.
7. Price changes
8. Stage of economic development
9. Capital movements
10. Political conditions

REMEDIES

- 1. Adjustment through depreciation(price effect)
- 2. Devaluation or expenditure switching
- 3. Direct control
- 4. Capital movements
- 5. Adjustment through income changes
- 6. Stimulation of export and import substitutes
- 7. Expenditure reducing policies

THANK YOU