International Finance
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Lecture - 2
International Financial Transactions

Now, we will discuss about session two of our international financial management. Session two is devoted to international financial transaction. Before discussing about international financial transaction we should, we should first briefly outline the experiences from India.

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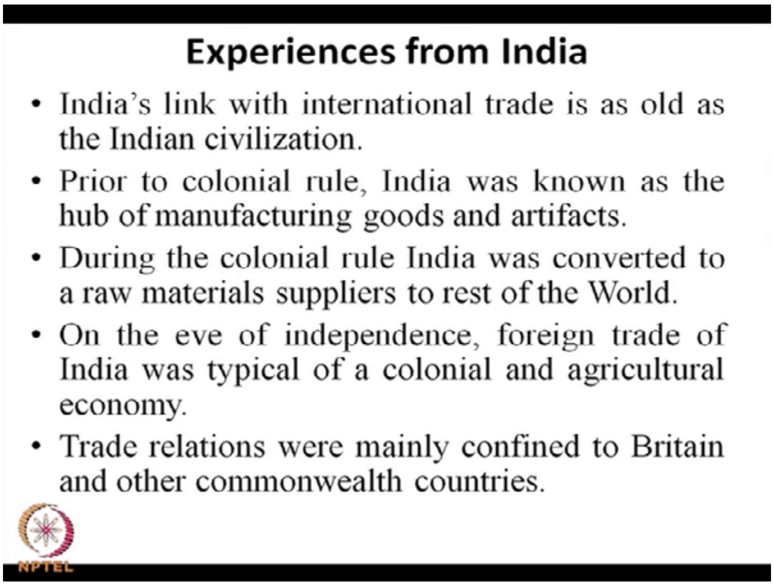

India's link with international trade is as old as the Indian civilization itself. If you analyse the Indian civilization still from the early Mohenjo-Daro civilization to till now we are more linked to the international environment. The Mohenjo-Daro civilization if you see, if you analyse there was a trade link with the Egyptian civilization, also with the other part of the world. After nineteenth century, early seventeenth, eighteenth century prior to the colonial rule when the Britishers came to India prior to that, India was known as the hub of manufacturing goods and Artefact. India was more developed that time than rest of the world. Indian goods and services particularly the manufacturing goods was more demand, was more demand in the rest with the outside of the country and that time realising that India is a manufacturing hub, the colonial other country came to India and tried to develop their international link with India. The colonial, during the colonial rule India was converted into a raw material supplier to the rest of the world. The manufacturing hub, manufacturing goods and services was demolished with a knowingly to convert Indian economy into a economy of what is called suppliers raw material to the rest of the world. This process was continuing till 19 early part of the twentieth century and when India got independence, the foreign trade India was typically colonial and agriculture economy.

What does it mean? It means that Indian economy at present at the time of independence at the it was a export of agricultural commodity. It was exporter, it was export centre for raw material to the rest of the world. The trade relation during the time of independence confined was confined to commonwealth country and the Britain. India did not establish a trade relation with the other European country and with the rest of the world.

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After the liberalisations after your, after getting independence India tried to develop its economy. However, that time the sufficient capital was not available. Indian economy was a devastating mode of second world war and even India was more dependent with the rest of the world then converting itself as its zone of export for a zone of what is called a financial hub. Export at that during the time of independence consists of raw material, plantation crop, plantation crop, raw material and also some mineral export. The traditional exports are handicraft. Handicraft was there, import consists of primarily the petroleum imports, capital goods imports, imports of essential commodities which are not produced by the country and Indian export imports were more tilted towards imports side than export. We had a huge trade deficit, huge trade deficit and this was a burden on the world Indian economy.

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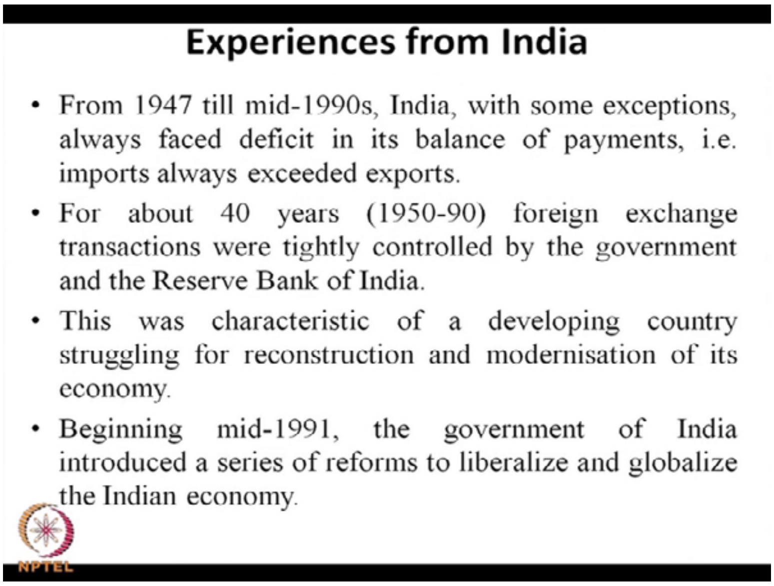

This process was continued from 1947 to till mid of 90s and our trade deficit was increasing ever increasing and we face what is called a balance of payment crisis. India was not in a position 1991 India was not in a position to pay for it essential imports and this lead, this has created what is called insolvency for the foreign and the Indian economy. Rest of the world or the international financial institution they did not give any loan to India and India was an insolvency state of insolvency that time.

Realising these problems after forty years we started liberalising liberalising our trade region, we started liberalising our economy and we follow what is we follow the path of the rest of the world particularly Latin American country like Mexico, Brazil and tried to integrate with the world economy by establishing a establishing a functional trade regime. A functional trade regime primarily means a trade regime which more linked to the world economy. In beginning of the 1991 government of India introduced a series of measures, series of reform measure to liberalise the (( )) Indian economy and these measures the reform measures primarily devoted to the external sector by (( )) external sector in the form of liberalising the current account and capital account. Allowing the world capital to come to India and correct our trade regime, to correct our international balance sheet.

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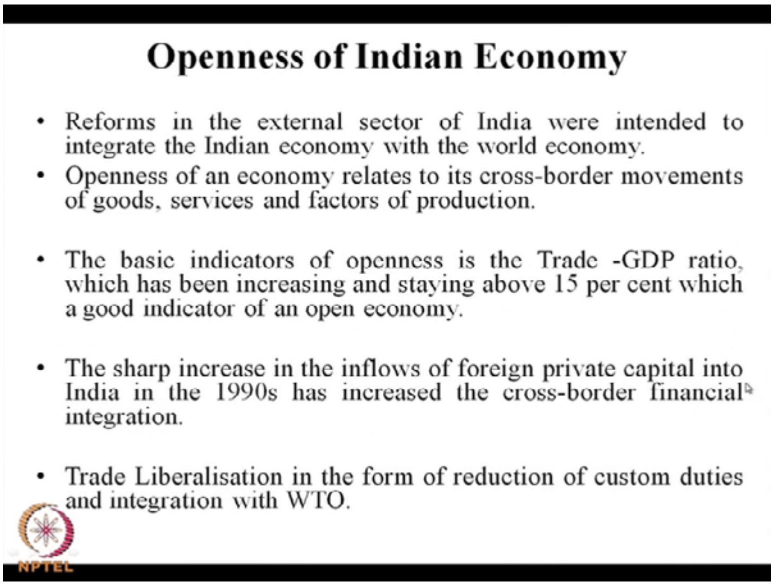

In this context, in this context we have to understand whether Indian economy at present is more globalised or it was earlier before. At present Indian economy is not so globalised as compared to the seventeenth or the eighteenth century because we tried to impose some kind of restriction till now to protect the domestic economy or domestic environment because international liberalisation mean welcoming international instability to the domestic economy which we do not want at present because it may create more affable in the domestic financial markets, in the domestic environment which need to be, need to be protected for the for the benefit of the common man. In this context we have to understand that what actually mean it open economy or a closed economy.

Generally, we measure the open economy in the form of trade GDP ratio. The basic indicators of open, openness, we call it openness the basic indicators of openness is the trade GDP ratio. The trade say GDP ratio if it is more than 15 percent we generally called the economy is relatively open and Indian context after the 1991 liberalisation the trade GDP ratio has been increasing substantially over the year and this has, this has, this has the trade earlier say 15 percent to increase to a level of 38 40 percent at present because we have introduced a series of liberalisation measure which increase our trade

GDP ratio. Indian, India also a member of WTO. WTO world trade organisation, India has been a member of GATT which earlier version of WTO.

India has been arguing that, arguing with the world trade organisation to allow the developing country to get more freedom in establishing their, establishing their economy. They need more protection in the form of their domestic economy, they need also a protection in the form of intellectual capital, they need also protection to develop their own domestic environment, Indian economy. If you see the openness of the Indian economy at present is more than it was earlier before. The financial reform, the financial liberalisation in the form of FII investment, in the form of capital account convertibility has brought a huge amount of capital, foreign capital to the domestic economy. Our foreign exchange reserve which was nearly almost nil during the time of 1991has increased to almost 300 billion, primarily in the form of FII investment, NRI deposit NRI deposit, in the form of FDI investment also.

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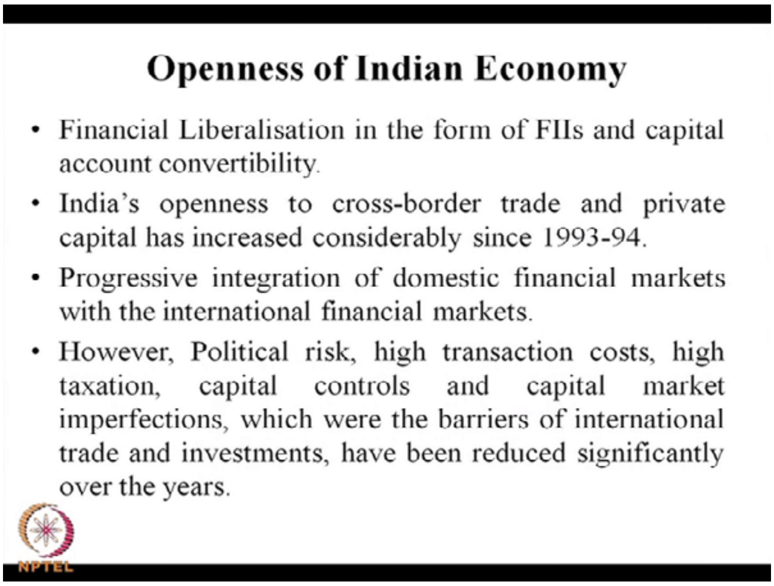

India's openness to cross-border trade particularly the private capital flow has increased significantly. Since 1993 because 1993-94 we liberalised our capital, liberalised our current account and also significant liberalisation measure taken again during the time of per capital account, capital account also. The progressive integration of domestic financial market with the international financial market or international international your domestic economy, domestic financial institution has domestic financial institution particularly the banking sector, particular the other financial institution they allowed to move across the globe. They have been allowed to raise the capital from the abroad. This has this has allow them to progressively integrate with the world financial system. Our domestic company are allowed to raise fund in the form of international debts, in the form of international equity from outside of the country. They, here the sovereign risk, sovereign risk concept is coming over here because sovereign risk is not good with contradicts is low then our cost of capital cost of capital for the domestic MNC will be quite high.

So, government of India has taken significant liberalisation measure to protect the fiscal deficit, to reduce the fiscal deficit over the year because the fiscal deficit or the current account deficit primarily linked with the sovereign risk, sovereign risk or sovereign rating. If you see the political, the political risk, the political risk at transaction cost, high cost of capital, high cost of high taxation, the capital control measure these are the imperfection in the environment in the in your, in our international financial movement and this has been reduced over the year Indian context. However, however, till now our political risk is quite high compared to, compared to other developed countries. Political instability is still there Indian context. Our transaction cost in the form of, in the form of, in the form of movements of capital also quite high. Our taxation though it has been reduced over the year, over the year till it comparable, comparably high if we compared to our domestic neighbours. The capital control till we are imposing some kind of capital control to, so, that to protect the domestic economy from the international financial instability.

However compared to compared to 19, prior to 1991 our economy, our international environment which quite developed and it has it has created a environment where domestic MNC, domestic FDI, the domestic MN, domestic companies are growing capital from the abroad, our international environment has allow the foreign counter foreign counter prior particularly with the MNC’s to come to India and invest, these are increase our international capital inflow.

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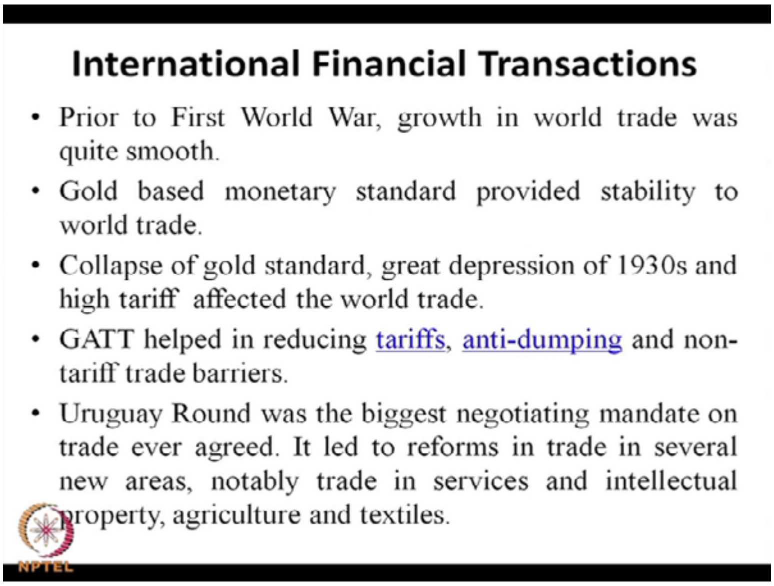

Capital inflow and this with this example we will let us try to move try to move to the other part of the world trade system because if the international financial transaction not only depends upon the domestic environment, but also the world economy as a whole. In world economy issue the prior to the first world war the growth was world trade was quite smooth because there was no such kind of, such kind of problem in convertibility because the gold standard, gold was the primary currency over the primary currency all over the world. There was no such kind of problem in exchange of currency.

However, however with the collapse of the gold standard, gold standard, with the collapse of the gold standard the world monetary system, monetary system quite got quite unstable, quite unstable and this has further created problem with the first world war and second world war. After the world after the say first and second world war many country got their independence and they started in the form of creating a tariff, creating a tariff barrier particularly to protect the domestic economy and this has affected the world, smooth flow of world trade, smooth flow of world trade and realising this realising this barrier world level, world political world economist, world level economist and a financial analyst. They analyse that it is this tariff barrier has created some kind of difficulties in the movement of trade and services and they established what is called the world level financial institution particularly the GATT and IMF for the, for the smooth flow of world trade. Member countries of IMF and the GATT they over the year negotiated for many such activity. So, that they can, country can reduce their tariff barrier for the smooth flow of world, smooth flow of world trade.

In this context you have to understand that we have established the GATT. The GATT I have already we discussed in the session one GATT is general agreement of trade and tariff. The GATT is essential, GATT was world level institution which help in reducing the tariff, the custom duty, the anti-dumping duty, a non-tariff barrier for the smooth flow of goods and services. There are, over the last 50 years, last 50 years GATT has negotiated with the different member country for the reducing the tariff barrier. One such negotiation round we generally called Uruguay round where the biggest negotiation take place and in this negotiation the member country agreed to reform the many such area of world trade. Particular the area of what is called services export, agricultural commodity export, textile exports, intellectual properties and also intellectual capital flow. And in this context the Uruguay round is known as the rapid rapid liberalisation round and the Uruguay round we established what converts the GATT into WTO world trade organisation. World trade organisation has been campaigning for a tariff free world economy where the all country will get the benefit of trade liberalisation.

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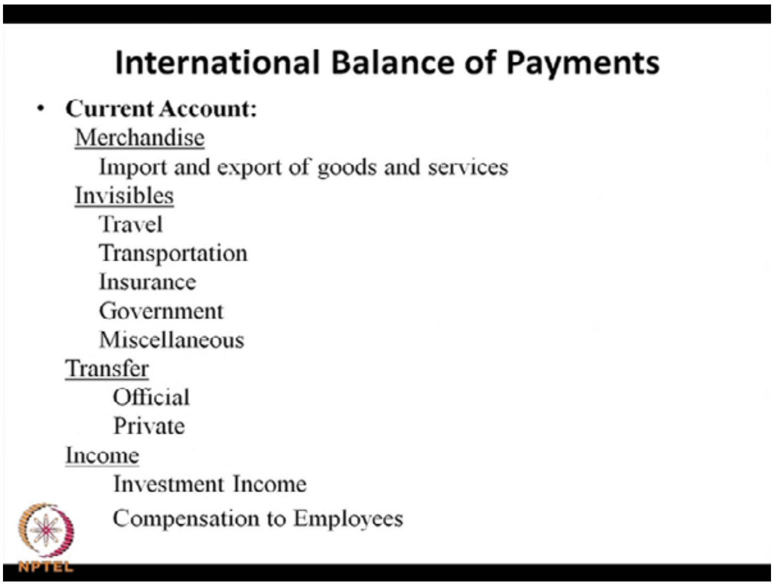

With this, with this discussion let us move that to what is called a international balance sheet because movements of goods and services and foreign capital is lead to, lead to a different kind of balance of payment, balance of payment and this balance of payment is essential to understand because the balance of payment taken to account international international foreign currency. We call this balance of payment, international balance of payment where the because international currency will be a part of the, international transaction of goods and services will be the part of the international balance sheet. If you see the international balance sheet, in international balance sheet there are two aspect. First aspect is called current account and second is called capital account. In the current account we have export import. Third is called merchandise, merchandised account, in merchandise account we have export import, country export country export and import different goods and services that will be the part of the, the part of the merchandise account.

Second is all second within the current account we have a invisible account. Invisible means there is no link to any export import, in goods or goods export import goods it is primarily services export import. We call it international travels, we call it transportation, we call insurance government's account flow and many miscellaneous will be there like interest payment, insurance payment, it is the part of the invisible account. And in next part is called transfer account because government of India government to transfer of funds, transfer of transfer of funds will be the part of that. Here also private transfer of funds also there, corporate bodies also transfer their funds from one corporate to another corporate among the countries. So, that also part of the transfer account transfer account transfer account and also we have an income. Income, it called investment income compensation to employee because many country, many countries have their own embassies, foreign, foreigners are also working there. So, their income will be part of the income investment income in compensation to employee, these are the income side.

So, current account we have called merchandise account, invisible account, transfer account and income account. The current account primarily the merchandise account is largest in nature. We have seen Indian context the current account we have export import. The export is as import is quite larger than the export and which is called the deficit we call trade deficit. When export import export minus import is the negative in Indian context because our import is more than the our export and for that reason we have a negative merchandise account or trade account and these negative has been increasing over the year and the exports, export our exports are not in a position to pay for a for import for that reason, for that reason we have a negative trade deficit. The negative trade deficit is offset or reduces by a positive flow, positive flow of invisible account. Indian context we have a significant invisible inflow, the invisible inflow in the form, invisible inflow in the form of, in the form of a NRI deposit, in the form of our peoples are working abroad, in the form of our in in the form of our FII investment, these are the part of the invisible account and this invisible account, invisible account net, net is positive for India and because of that reason our trade deficit is, trade deficit is contrived is contrived is reduces.

However, trade deficit reduces, at present when the current account the current account in Indian context we have merchandise account, export imports. Our imports are less than our imports are more than our export, for that reason we have current account deficit particularly merchandise account deficit and trade deficit is, trade deficit, this trade deficit try to, we have been correcting that trade deficit through invisible import inflow. The invisible inflow in Indian context is primarily that primarily the NRI deposit FII, FII investment, invisible short term capital flow the invisible in Indian context is Indian context increasing after their liberalisation measure and for that reason we have, we have reduces our current account deficit. However, with because of the world recession we have where invisible side is reducing and this has created a more current account deficit. So, current account deficit is primarily because primarily in Indian context is in Indian context because the, our imports are, imports are not, imports are quite larger than our export. Our exports are not in a position to pay for our imports and this invisible can need to be, these current account deficit need to be corrected through a trade liberalisation or a current account liberalisation by allowing more inflow of invisible. If you current account, current account is important because the current account helps current account, current account as a indicators of our financial sector stability. If high current account deficit, high current account deficit lead to financial instability and this has, this will, this will create more problem for the domestic economy because our domestic currency will depreciate and further and the depreciation lead to more increase in our import value import in value term and our export may also suffer.

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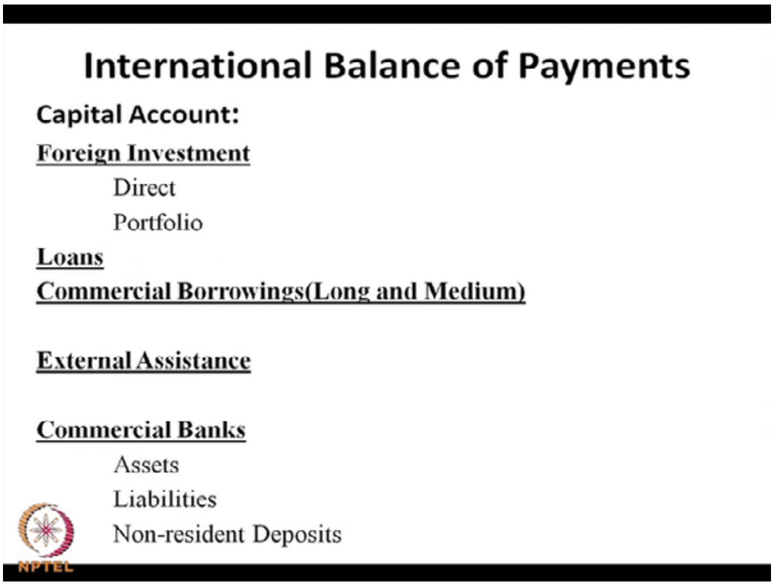

If you come to the current capital account side, the capital account side, a capital account side, the capital account have, capital account have foreign investment that is may be direct and in portfolio investment. The foreign direct investment foreign direct investment is called direct project investment or the technology or the MNC's coming to India establishing the company in India, that is direct investment and portfolio investment primarily invest in stock market, the portfolio investment, the foreign or may invest in bond market in the form of, in the form of investment. Our many MNC also invest many invest foreign investor also invest in our bond market or treasury bill, common debt market, these also part of the foreign investment. Also our domestic economy domestic MNC, domestic company borrow from abroad in the form of loan, they borrow from the international financial market, they borrow from international financial institution that is called commercial borrowing, long and short term borrowing. Our external assistance many such countries are there, world trade buddies are there, they also give assistance to our economy in the form, that assistance may link to some kind of project finance, some kind of, some kind of goods and services. It may be direct financial assistance, it may be in the form of assistance in the form of goods and services. Our foreign, our banks are there they have, they have branches in abroad. So, their commercial banks assets and liabilities may also be in the form of foreign currency and non-resident deposit which are coming through the commercial bank is part of the commercial banks, asset liability and liability side and all these are called capital account.

Capital account in India is, capital account in India is significantly liberalised in the form of direct foreign direct investment. Many of our, many of our industry many our industry particularly different sector of the economy has been, has been open to foreign investment for both, for direct investment and portfolio investment, this has, this has created environment for India, this has created environment where foreign MNC's are coming and investing in India and our foreign currency, foreign currency reserve is increasing.

When our domestic company has got the freedom to raise investment raise money from abroad in the form of loans and commercial borrowing there because there is no, there is, there is, there is no requirement on the part of the domestic company to borrow from abroad, there are only (( )) are there for different sector. External assistance is not significant in Indian context. However, NRI deposit in the form of commercial bank is quite high. So, this has, this has give boost to our current capital account. Capital account liberalisation is essential for more flow of foreign capital to Indian country to India. After knowing this capital account and current account, we should also discuss the linkages between capital account and current account, if you see the current account is generally 1 year in nature, our export import generally get their payment within 3 month 180 days, 3 month to 6 month, the invisible is a continuous flow in nature, transfer payment, official transfer payment also in continuous in nature, current account, current account the merchandise account and invisible account is quite significant.

If you go to the capital account, the capital account only the foreign investment and foreign investment, annual commercial borrowing loans and commercial borrowing is quite significant. Commercial, external assistant is not significant in Indian context. So, in capital account we have foreign investment that is direct in portfolio is quite significant, loans and commercial borrowings are quite significant. If you current account if you go the merchandise account an individual account quite significant and the current account as I mentioned that current account we have deficit because our exports are not in a position to pay for our imports. However individual inflow has reduced, has reduced the current account deficit significantly. In our export side we have significant part of portfolio investment which are portfolio investment rather than direct investment. So, direct investment has been increasing over the year, but our, the primary contribution of foreign capital inflow, it is a portfolio investment. Portfolio investment create instability in capital account because the portfolio investment linked with the, linked with the your linked to our stock market and these are hot money movement and these hot money movement may go out from the country any movement.

So, the for stability of the capital account we need foreign direct foreign inflow, direct FDI investment and loans and commercial borrowing rather than portfolio investment. However portfolio investment, portfolio essential also have contributed significantly in the growth of our foreign exchange reserve, but for stability of our foreign exchange reserve we need more direct foreign FDI and export. If you, if you see the stability of the international balance sheet of our country, the stability required we have to our export import our exports should pay for our import. We should have a invisible net invisible, at the same time in the capital account we should have more foreign direct investment and foreign direct investment and also we have, we should have more loans and commercial borrowing.

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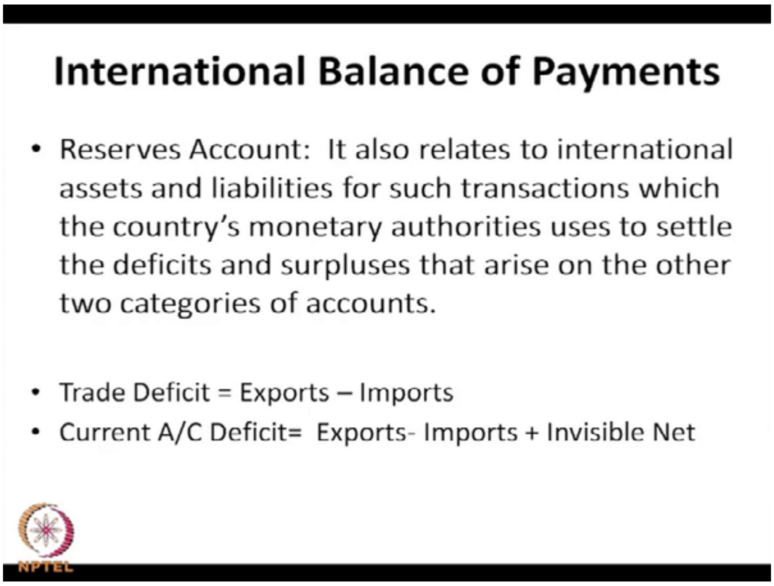

At the realising these, realising these we have to give more importance to the liberalisation of the capital account current account and more liberalisation to the capital account. At present Indian economy is, Indian economy is, more is completely liberalised in the form of current account. However, capital account we have significant liberalisation and if you, if you, if you see the international balance sheet generally some country have a third account. It is called reserve account which is nothing, but their transaction of the central bank. The monetary authority in case of India it is RBI, in the monetary authority some other country is also there. Among them the transaction takes place, it is a through the reserve account. Our reserve account, international assets and liability for which transaction conducted by the monetary authority that is RBI is called the reserve account. After knowing these current account, capital account and the reserve account you should also understand, you should also understand what is called trade deficit.

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Current Account Position of India

(US $ million)

Year/ Item	I. Merchandise - A) Exports, f.o.b.	I. Merchandise - B) Imports, c.i.f.	I. Trade balance (A-B)	II. Invisibles, net	III. Current account (I+II)
2001-02	44703	56277	-11574	14974	3400
2002-03	53774	64464	-10690	17035	6345
2003-04	66285	80003	-13718	27801	14083
2004-05	85206	118908	-33702	31232	-2470
2005-06	105152	157056	-51904	42002	-9902
2006-07	128888	190670	-61782	52217	-9565
2007-08	166162	257629	-91467	75731	-15737
2008-09	189001	308520	-119519	91605	-27915
2009-10	182442	300644	-118202	80022	-38180
2010-11	250468	381061	-130593	84648	-45945
2011-12	309774	499533	-189759	111604	-78155

Trade deficit as I mentioned here, trade deficit is export minus import and also you should understand current account deficit. Current account deficit is export minus import plus net invisible net. Net means invisible pay receivable minus invisible payables, we. So, the trade deficit in Indian context is negative because our export is less than our import and current account deficit also in Indian context is negative in nature because our, the significant part of the, negative part of the current account is a trade deficit. Some extent the net invisible inflow has corrected the current account deficit or reduce the or reduce the current account deficit. However, over the year we have current account deficit. So, current account deficit need to be corrected because our sovereign rating, country rating depends upon the current account deficit. With current account deficit increasing then we will get a, we will get a bad rating, bad ratings from the international rating agency.

At the same current account deficit is increasing our rupee will depreciate and this will affect our, this will this will give, this will increase our value term of imports or take our essential exports essential imports would be affected because significant part of our essential import are the petroleum import with the depreciation with the appreciation of, depreciation of the rupee with the more current account deficit, the value of the import will also increases. Many of our import also have capital import or the imports in the form of essential raw material, capital goods inflow, capital good import, this also this also be affected because with the depreciation of rupee. So, to we need to correct the trade deficit and also we need to correct the current account deficit. So, after realising the, after analysing the international balance of payment we should also understand, we should also understand a current account position in case of India. The current account position in case of India I have given a table to you, table this table from RBI, with RBI handbooks on trade and RBI handbooks on Indian economy, that on Indian economy. This I have given here that capital current account last 10 years. If you see the current account first with the merchandise exports merchandise account what is called export and import, the trade export minus import if you, you will get that trade balance. That trade balance is if you see the trade balance invisible net, trade balance is negative and it has been increasing over the year, it has been increasing over the year you see the we are (( )) million something how 11,000 million which has increased to 1, 1, 1 a, 189759 million, this is because over the year the trade deficit, trade deficit is increase in Indian context, the trade deficit increasing primarily no doubt our export is increasing or or at the same time our import also increasing.

Import bills, import bills also increasing, though if you see last 10 years that export has increased, export has increased significantly. At the same time import is also increased significantly, no way in a not a single where we have a export is more than our import. Similarly, our invisible though it is increased it has increased, it has been increasing over the year, but which is not in a position to control that trade current account deficit, few years particularly that 2001-2 to till 2004-5 2003-4 we have current account deficit current account surplus.

This current account surplus primarily because of the invisible inflow invisible because in 2001-2 to 2003-4 our trade balance that is export minus import is more, is a negative, but the trade balance that is export minus import is negative. However invisible flow has corrected the trade current account deficit, current account deficit and we enjoy for the 2001-2 to 2003-4 a surplus current account. However, after that current account deficit has been increasing over the year because the inflow of inflow of invisible account in net position though increasing is not in a position to reduce the current account deficit, not in a position to reduce the current account deficit, current account deficit over the year. Current account deficit, current account deficit has been increasing over the year.

If you go see the export, import, analysis then our export though increasing, though increasing our import also increasing at the same time. The import is primarily inelastic in nature in Indian context because significant part of the our imports are oil import, crude oil import which inelastic in nature in the sense that despite the, despite the, despite that we have a current account deficit we are forced to import because it is the essential import, but our export is primarily elastic in nature some extent because it because some manufacturing goods are there in the basket of export and export also last for 10, 10 years our export is the soft export, export in the form of what is called the software product software computer software is has been increasing and it has given a good strength over export basket.

If you go further, if you go further that current account deficit, current account deficit the invisible net, invisible net if you see the invisible side, the invisible travel, transportation, insurance, government and miscellaneous. These are invisible account, this travel is for the tourism side, transportation also insurance travel insurance our, we are paying insurance in the form of our port, our freight, our export imports are going exports our export imports are there, we pay insurance payment for that, that is a part of the invisible insurance payment. However, travel tourism if the India is a destination of travel and tourism for that reason we are getting significant amount of foreign exchange that is the part of the invisible. If you see the other part of the other part the commercial bank non-resident deposit.

So, non-resident deposit is the significant part of our country inflow to, foreign exchange inflow to the country. Non-resident is our gulf country or many of our country citizens are working in abroad, they are sending the money in the form of the deposit, in the foreign currency deposit. That is a part of our commercial bank, that is a part through our commercial bank there is a part of our capital inflow, if the part this has also help in reducing the current account. If you see the portfolio foreign investment, the portfolio investment has increased significantly over the year. Foreign direct investment has contribute has not been contributed significantly to the capital inflow, but the portfolio investment, portfolio investment is I already told you unstable in nature and it create volatility high volatility in our stock market. However government of India has been liberalising the capital account through the liberalisation measure in the form of trade liberalisation, in the form of reducing, in the form of opening of the economy to the foreign direct investment. So, that that only can breach the current account and capital account deficit. The, if you, if you, if you see over the year the portfolio investment has contributed significantly to the capital to the capital inflow.

If you see our composition of our export, composition of our capital account, capital account it is the portfolio investment which has contributed significantly. However, on the other hand our domestic companies have raised significant fund, significant capital from the abroad in the form of diluting their equity in the form equity or by directly borrowing from the international capital market. That also, this also has brought, this also have brought significant part of significant amount of foreign currency to the country. In this context if we, if you see in this context the merchandise export import, merchandise side of export import you have to go further because to understand the export import basket, the export import basket contains they contain the true picture of our merchandise our own money because if you see the owned money, own foreign exchange earning, the earning of the country is nothing but the export side or the some part of the invisible side, but when export import, export import are not in a position to balance, the other word our export not in a pay for our import then we will face a trade deficit which need to be corrected through the invisible input, invisible inflow.

But invisible inflow also linked to the what is called a business cycle because in a, in a recessionary environment invisible inflow may not be there significantly and these because at present also if you see at present particularly that too after the subprime crisis world economy is recession phase and this has, this has reduces our, this has reduced our invisible import, invisible flow to the country, invisible flow in the form of travel tourism, in the form of, in the form of government inflow. These are reduced over the year and this has increase our trade deficit, this has increased our current account deficit.

At present particularly 2007-8 onwards, 07-08 onwards if you see the data I have said 2007-8 onwards the trend, the current account deficit has increased significantly because the invisible part, invisible part, invisible part though increasing it is not increase as much as it was earlier. This has become that trade individual part also linked to business cycle and the world economy in a phase of recession cannot generate significant part, significant amount invisible or invisible flow and for that reason you have to, you have to liberalise our trade account, trade account in such a way that our exports should pay for our import. It generally mention that, it generally mention that if you see economic literature, that when a economy is a balance economy, when economy is a balance in nature, the economy will be balance when our export pay for our import. This only gives a true picture to the international payment account. The international balance sheet balance of payment will be, will be, will be stable in nature if our export pay for import by, however, since Indian destiny, India as a country where the significant part of our imports are oil import which are inelastic in nature, which are essential in nature we cannot pay, cannot reduce it. Only you can do we have to increase our export. An export if you see our export over the year has increased. However, however this has not in a position to pay for our imports and in this context we have to understand that nature of our export and the composition of our export.

We have to change our composition of our export to move, to go more over what is called value added export rather than a destination of export for export for raw material or the non traditional goods. Now, before coming to the end of this session let me tell you one thing here that trade deficit definitely will have because we are, our country not in a, not in a position to reduce the import side which is inelastic petroleum imports, but we have to increase our export basket to pay to maintain a trade deficit in a trade deficit, we should not affect or should not give a high amount of current account deficit and the other hand you should give more important to our invisible inflow which also a have larger bearing on current account deficit. A current account deficit can be reduced by increasing our exports and increasing our, increasing our invisible inflow.

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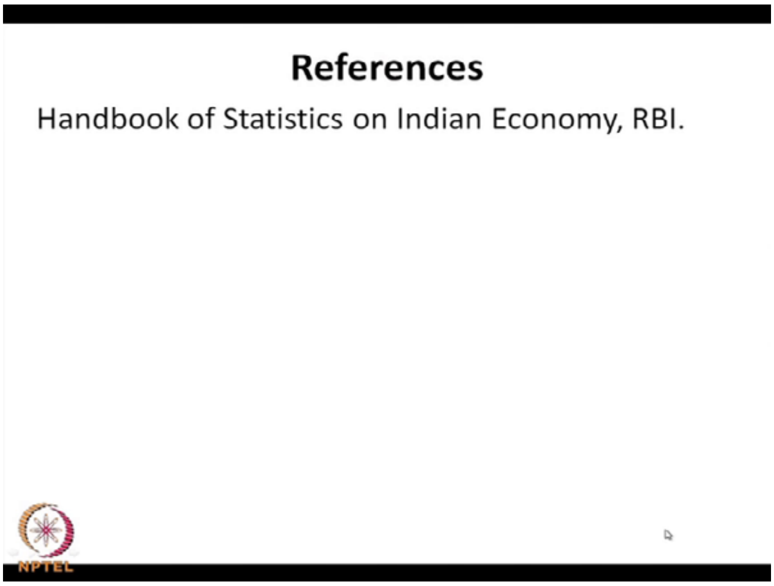

Before coming to end, let me, let me let you, let me tell you that if you want to understand the, understand the direction of our exports, direction of our imports composition of our export import, the composition of international balance sheet, you have to go to the RBI website and see the handbook of statistics on Indian economy. RBI publish every year this statistic and this will help you in understanding our export basket or import basket or various component of invisible export import, invisible side and also the composition of export composition of our capital account that is whether our capital account is more foreign direct, FDI side or more portfolio investment. There is reference handbook of statistics on Indian economy published by RBI .

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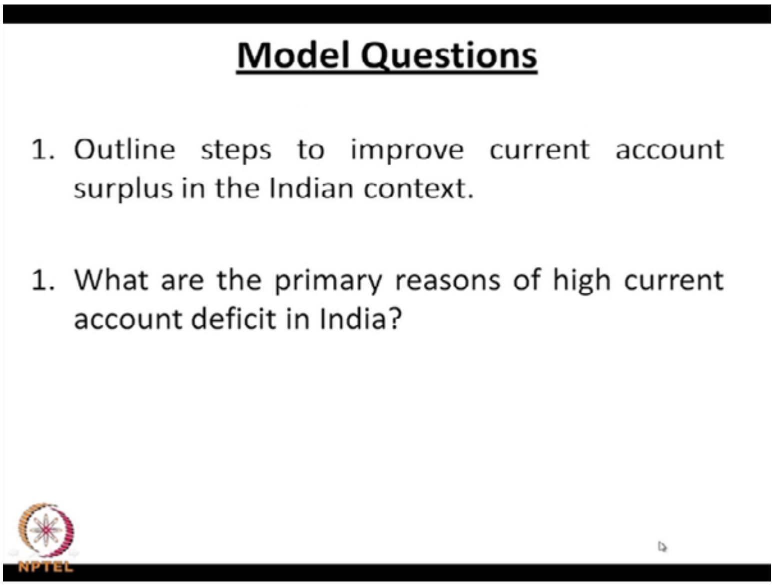

The model question is here before coming to end let me tell you one thing here, you have to discuss our model question the outline here the outline the step to improve the current account surplus in Indian context the first model question. Second model question is here the, what are the primary reasons of high current account deficit in India. First question if you I will give you some brief out, brief bullet point for these first question, the outline the step to improve current account surplus in Indian context. To maintain the current account surplus which is you have to see what are the main component of the current account. As I mentioned in the session discussion part the current account have export import in invisible side, the export import as I as export imports are merchandise account for trade account, the export import contain, export import in Indian context the exports are less than our imports though we have a current trade deficit and also in invisible side, invisible side we have tourism inflow, we have inflow of insurance, freight, inflow of interest payment other things are there in the invisible side. To improve our current account surplus we have to go, we have to control our import side, non essential import you have to reduce. We have to increase our export side by more going for more value added export, more manufacturing export. So, to improve the, to give, to improve the export basket at the same time we have to we have to, we have to go for more exports export oriented unit, established the export oriented unit.

So, that gives more incentive to the company which are providing, which are exporting goods and services. The exports sector finance should be given should be provided by the government of India. Those companies, those companies, those sector of the economy which are exporting more they should be given more freedom in by reducing the export duty, they should give more liberalised or low interest finance, they should also should not be taxed, should not be less taxed, should be less tax and the same time also there should be more freedom in the form of, in the form of, in the form of allowing them the having more access to port, more access to transportation sector. So, that they can export more goods and services, at the same time government should transfer the technology to export oriented unit. So, that more export can be can be possible Indian context. At the same time we also see how we can improve the direction of our export to other country. We have not tapped the market of South Africa side, African countries side, we have not tapped the market of the many other Asian countries. So, that we can, if you tap this market we can export more also.

Same way this surplus can only an, only be possible current account surplus can only be possible if you if we improve our export side and at the, but input side non necessary non essential import particularly the gold import which are non value added import we should reduce the gold import also because significant part of the, our import basket also have, also have gold import which are not, which are consumed in domestic market and recently particularly the 2011-12 our gold import is more and which has contributed significantly in current account deficit. So, non essential imports should be reduced and essential import, essential import tried essential import tried to be, tried to, tried to optimize or tried to use in a productive way. And second question is your what are the primary reason of high current account deficit in India. I told you we mention in our discussion part also I the high current account deficit in Indian context is the current account trade import, trade deficit. Trade deficit primarily because of the non, because of our essential oil import and our imports are so much that our export are not in a position to pay for our import because of this reason we have a high current account deficit. And in the at the same time if you see if you segregate the import basket from essential oil oil import, technology import, raw material import and some essential commodity import, the non essential non essential import should also be, should also be reduced. Then I also I mention in our in the first question while discussing the non essential import is the particularly the gold import. The gold import should be reduced by imposing more tax on the non essential gold import and only these we can reduce the current account deficit.

Other reason of current account deficit is the depreciation of rupee, depreciation because when current account deficit is more the rupee depreciated more. When rupee depreciate our value of our import in the form of US dollar will be more and this and also the import of essential goods, technology manufacturing goods which help in our export oriented export, which help in our export also costly also costly and these further affect our export. So, in this context we have to understand that current account deficit is a, is a what is called a problem itself and once you start, it create more current account deficit because current account deficit lead to depreciation of rupee lead to, lead to, lead to increase of what is called decrease of sovereign rating or country rating and lead to create instability in the economy. And current account deficit once started very difficult to reduce it and current account deficit need to be controlled by controlling the non essential import, increasing the export basket and also increasing our invisible inflow.

Current account deficit, current account deficit is a problem with itself. In this context, in in this context we have to look the current account deficit what that the contributory part of the current account deficit, the contributive part of the current account deficit some time it is non essential import or may be depreciation of rupee, depreciation of the domestic currency and this depreciation of domestic currency can be controlled by liberalising the current account and capital account itself, by allowing the capital inflow to the country, by allowing the, allowing the our export to go across the world by controlling the, controlling the non essential import side.

And in in coming to the end, coming to end let me tell you one more thing here that the international environment particularly the domestic environment, domestic environment, domestic environment and international environment they go together. We have a domestic stability then only we can provide a international stability. Domestic stability, domestic stability is essential for the stability of the international balance of payment because our domestic stability provides a, provides a environment for inflow of foreign currency to the domestic market, foreign currency to the domestic market come to come then only possibilities are there our current account deficit will be corrected or and our balance of payment will be in a stable format. And the stability of the balance of payment not only requires the stability of the domestic economy also.

Thank you.