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## THE IMPACT OF FOREIGN DIRECT INVESTMENT INFLOWS IN BALANCE OF PAYMENT

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### ABSTRACT

*India with a robust growth rate is now triumph more assimilated with world economy. The cross borders are ambiguous in a financial market and have made sway on the Indian economy as well. India after globalization has now braced the across borders trade and hence has advanced with the economic growth. Furthermore, we have endeavoured to relationship exists between some of the variables like current account and goods and services, Foreign Direct Investment and between Capital account inflows. The study investigates the impact of Foreign Direct Investment on India's Balance of Payment for a period of 2012-2016 quarter wise. Secondary data will be composed through RBI website, Journals, Research articles and newspapers. The study uses Regression to institute relation between dependent and independent variables. Here foreign direct investment, the current and capital accounts as explanatory variables, while the balance of payments is the dependent variable. The exploration is drawn for the balance of payment and an analytical conclusion is drawn for the relation of balance of payments with the independent variables.*

### KEYWORDS

FDI, current account balance, capital account balance, balance of trade.

### JEL CODES

F33, F35, F39.

### INTRODUCTION

#### MEANING OF BOP

**B**alance of payment is countries used to monitor all international monetary transactions at periodically. BOP is used to calculated quarterly are annually for every year. All trade conducted by both public and private sector are accounted in order to determine how much money is going in and out of the country. The BOP mainly categorized into three categories current, capital, financial account.

**Current account:** The current account is used to maintain inflows and outflows of a country. With the current account all debits and credits of trade and merchandise of raw material, and manufacturing goods and services that are bought and sold with rest of the world to understand the significance of the part of BOP we should start of looking at the components of current account.

**Capital account:** the capital accounting economic term it is a net change in investment and ownership. Capital account is used to measure countries inflows and out flows of private and public investments. This account is used to maintain countries balance of payment with current account. The capital account balances with foreign direct investment, foreign security investments and bank deposits, and the countries reserve account. The capital account is used to maintain by the country's central bank and used to maintain foreign securities to stabilize countries' currencies.

**Balance of trade:** Balance of trade is the difference between all imports and exports of goods and services of a country for a period of time. It is a tool that helps to understand the country's current account it explains if country's export is more than its import is known as trade surplus. If a country's Import is more than its export is known as trade deficit.

**Foreign direct investment:** FDI is a key component of globalization. FDI is cross-nation investment to create foreign enterprise in host country and residential enterprise in foreign country, which creates employment, and enhance skills of local labor through transfer of technology and manager knowledge and helps to create and integrate the domestic economy with global economy.

### REVIEW OF LITERATURE

Lovely Srivatsava (2016) analyzed the factors that influence countries trade balance and found that there are various gaps between trade among home country and rest of the world. Government is taking various initiatives to improve export and decrease import.

L. Kannan (2014) impact of Foreign Direct Investment in Imports and Exports and found that there is positive link between FDI and Exports and Imports. FDI is not the only explanatory measure for predicting exports and imports. It is impact on both public and private sector complementary trade and investment development accordingly.

### OBJECTIVES

The main objective is to show the relation between current account and balance of trade and capital account and FDI and how its effect on balance of payment of a country.

### RESEARCH METHODOLOGY

The paper is based on secondary data, which collected various sources like RBI, Investopedia, and Trading economics etc. The paper is majorly in descriptive in nature.

## DATA ANALYSIS

TABLE 1

Year	Current Account	Current Account Growth	Capital Account	Capital Account Growth
2012-13 Q1	-886		-10	
2012-13 Q2	-1232	-39%	-17	-74%
2012-13 Q3	-1,767	-43%	1	103%
2012-13 Q4	-979	45%	8	-1393%
2013-14 Q1	1,218	-24%	43	-427%
2013-14 Q2	-1158	5%	-14	132%
2013-14 Q3	-262	77%	7	150%
2013-14 Q4	-75	71%	-9	239%
2014-15 Q1	-469	-527%	1	111%
2014-15 Q2	-612	-31%	-1	183%
2014-15 Q3	-509	17%	-3	-223%
2014-15 Q4	-80	84%	-13	-372%
2015-16 Q1	-392	-390%	0	104%
2015-16 Q2	-534	-36%	0	45%

The above table and graph shows the growth in current and capital account for a period of 16 quarters from 2012-2016. The data analysis above shows the percentage change in capital and current account for a period of 16 quarters. The average growth is -46% in current account and capital account is -115%. The highest in current account deficit is recorded in the year 2015-16 Q4 and the lowest is recorded in the year 2012-13 Q3. The capital account is recorded highest in the year 43 in the year 2013-14 Q1 and the least in the year 2012-13 Q2.

TABLE 2

Model	Multiple R	R Square	Adjusted R Square	Standard Error	Significance
Balance of Trade	0.993594736	0.987230498	0.986318391	55.45658647	0.000*

Predictors : Balance of trade

Dependent variable : Current Account

\* At 95% confidence level.

The table above explains the summary for balance of trade and current account. The R value explains the correlation value of balance of trade and current account which is 0.99 that depicts there is perfectly positive correlation between balance of trade and current account.  $R^2$  determines the strength between two variables current account and Balance of Trade,  $R^2$  value is 0.98, which shows statistically significant. Beta value 1.04, which signifies there is perfect relationship. P value 0.000 which is <0.05 at 95% confidence level, hence null hypothesis rejected and infer that there is significance relationship between balance of trade and current account.

TABLE 3

Model	Multiple R	R Square	Adjusted R Square	Standard Error	Significance
FDI	0.0528299	0.0027910	-0.068438209	14.1157883	0.8459311
Capital Account		05		4	56

Predictors : Foreign Direct investment

Dependent variable : Capital Account

The table above explains the summary for Foreign Direct Investment and Capital Account. The R value explains the correlation value Foreign Direct Investment and Capital Account of which is 0.052 that depicts there is no positive correlation between Foreign Direct Investment and Capital Account.  $R^2$  determines the strength between two variables Capital Account and Foreign Direct Investment,  $R^2$  value is 0.00279, which shows statistically not significant. P value: 0.845 at 95% confidence level, hence null hypothesis accepted and infer that there is no significance relationship between Foreign Direct Investment and Capital Account.

## CONCLUSION

In this research paper, the study of Balance of Payment is made with the analysis of Current account and Capital account.

The analysis was made by using Regression analysis between Current account and Balance of Trade account. The analysis shows us that there is a significant association of Current account to the Balance of trade with Beta value as 1.04, Regression value is 0.99 and R square value is 0.987 with Significance value 0.000. This implies that the Balance of trade has a strong impact on Current account. Currently the Current account is in deficit but on a declining mode. Balance of trade having a strong association can be used as a major tool to control the deficit and decrease the deficit further.

The analysis for Capital account was also made with respect to Foreign Direct Investment using Regression analysis. The analysis shows that there is no significant association in between Capital account and Foreign Direct Investments with Beta value as -0.00403, Regression value is 0.052 and R square value is 0.0027 with Significance value 0.8459. Hence, further research has to be carried on to find out the factors, which have strong association with Capital account, as Foreign Direct Investment does not affect the Capital account. Currently Capital account is in surplus with a growth rate of 40% in Q4 of 2015-16. Hence, analysis of factors other than Foreign Direct Investments has to be made to find factors with positive association, which can be used as tool for improving the Capital Account growth rate.

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