

DISEQUILIBRIUM IN THE BALANCE OF PAYMENTS

When the receipts are equal to the payments of a country then it is called equilibrium in the Balance of payments and if the receipts and payments are not equal then it is called disequilibrium. If the receipts are greater than payments it is called as surplus balance of payment and it is good for the country.

If the payments are greater than receipts it is called deficit and it is harmful to the country. Generally the disequilibrium in the Balance of payments means a deficit in the Balance of payments. The deficit in the Balance of payments affects the economic growth.

Causes for Disequilibrium in the Balance of Payments

If the payments are greater than the receipts of a country then it is called deficit or disequilibrium in the Balance of payments. The causes for the disequilibrium in the Balance of payments may be classified into four types.

I. NATURAL FACTORS.

II. ECONOMIC FACTORS.

III. POLITICAL FACTORS.

IV. OTHER FACTORS.

I. NATURAL FACTORS.

The Mother Nature plays a major role in the production of a country. The production may be affected by some natural calamities like flood, famine, excess rainfall, earthquake, Tsunami, pandemics etc. These may affect the production; as a result the export falls and imports increases that will bring disequilibrium in the Balance of payments.

II. ECONOMIC FACTORS.

1. Inflation.

Inflation means continuous increase in the price level. If the price level increases our goods will become costlier and the foreign countries will reduce the purchase from our country, as a result our exports fall. On the other hand if our goods become costlier our people increase the purchase from foreign countries as a result the import increases and it brings disequilibrium in the Balance of payments.

2. Dumping.

Dumping is a technique used in international trade. Dumping means selling the commodity produced in our country costlier in our country and selling the same commodity cheaper in a

foreign country. Developed countries are using this dumping, as a result the Balance of payments of developing countries will become deficit.

3. Trade cycle.

Trade cycle means the cyclical changes in the overall economic activities. The trade cycle has four phases Boom, recession, depression, recovery. If there is depression in foreign countries it will affect the exports and causes disequilibrium.

4. Propensity to consume foreign goods.

Usually in developing countries like India the people have more willingness to use foreign goods. This increases the imports and causes disequilibrium in the Balance of payments.

III. POLITICAL FACTORS.

The political factors may also cause disequilibrium in the Balance of payments. The political instability, revolution, war, terrorist activities may cause reduction in the foreign investment and it brings disequilibrium in the Balance of payments.

IV. OTHER FACTORS.

1. Changes in the taste, preferences and habits of the people may also cause disequilibrium in the Balance of payments.
2. The invention of new substitute may also cause deficit in the Balance of payments.