BALANCE OF PAYMENT

&

POVERTY

Poverty

1. **Absolute Poverty**: Severe deprivation of Basic Human needs
2. **Relative Poverty**: Household income lower than the median income
3. **Subjective Poverty**

Poverty Estimation

Pre Independence

- 1st done by: Dadabhai Naroji, gave unofficial poverty line through his book **"Poverty and UnBritish Rule in India"** → Talked about drain of wealth from India

- He made the earliest estimation of poverty

National Planning Committee, 1938 → Subash Chandra Bose
  ↳ **1st Chairman**: J L Nehru

Bombay Plan, 1944

- It was a set of proposals by influential businessman leaders for the development of India
- ₹75 per capita per year

Post Independence

1. **Dandekar and Rath Committee, 1971**
- Made the 1st systematic assessment of Poverty
- Used the data of NSSO (National Sample Survey Office)
- Expenditure based poverty line → Under MoSPI

2. **Alagh Committee, 1979**
- Nutrition based poverty line
  - **Rural**: 2400 Calories
  - **Urban**: 2100 Calories

3. **Lakdawala Committee, 1993**
- Poverty line based on CPI-IW, CPI-AW
- State-wise poverty line ↳ Rural ↳ Urban

Uniform Reference Period
  ↓ Replaced by
Mixed Reference Period (Health/education)

*4. **Tendulkar Committee, 2009**
- Health and Education should also be taken under Basic Needs
- Poverty line based on Purchasing Power Parity: if someone is spending more than ₹33/day (not poor), not more than ₹33/day (poor)

Poverty Line (2011-12)
1. **Rural: ₹816/month**
2. **Urban: ₹1000/month**

- % of people below poverty line: 21.9% (2011–12)

  Urban → 13.7%
  Rural → 25.7%

Poverty Ratio: 29.5%
- Urban: 26.4%
- Rural: 30.9%

$$\text{Head count ratio} = \frac{\text{No. of multidimensionally poor people}}{\text{Total Population}}$$

- Head count Ratio: Proportion of Population BPL

5. Rangarajan Committee, 2014
- Created categories within nutritional requirements

  Calories
  · Protein
  · Fat

- Also, talked about Modified Mixed Reference Period

Balance of Payment
- Record of a Nation's Financial Transaction (import and export)

  · Borrowing/Lending
  · Change in Foreign exchange reserve

Current Account
- Visible items
- Invisible items
- Goods (visible)
- Services (invisible)
- Transfer payments
- Remittances

  India is top receiver of remittances (1st)

Capital Account
· Investments

Foreign Direct Investment
- Long-term investment
eg: Walmart acquired majority stakes of Flipkart

Foreign Institutional Investors/
Foreign Portfolio Investments
- Short-term investments
- Also called as Hot Money
Eg: borrowing, lending, sale/ purchase of assets, NRI deposits

Current Account Deficit (CAD): 3.3% of GDP (currently)

- Value of imports > Value of Exports

- Twin Deficit: CAD + Fiscal Deficit

Balance of Payment Crisis
→ Empty of FOREX Reserves

- **1991**: Balance of payment crisis in India (then PM, P V Narasimha Rao, Manmohan Singh (then Finance Minister)

→ **LPG Reforms**

Liberalisation   Privatisation   Globalisation
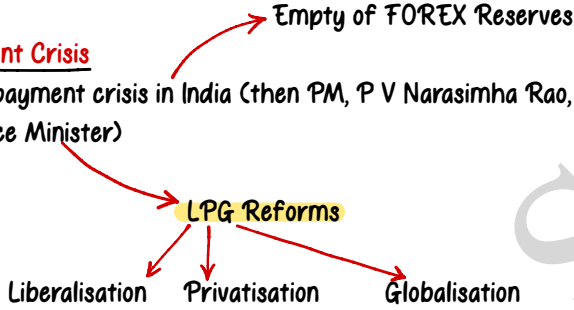
FOREX Reserves

Currencies

1. Foreign currency assets
2. Gold reserves
3. Special Drawing Rights (SDR)

→ USA
→ Euro
→ Yen (Japan)
→ Yuan (China)
→ Pound (Britain)

4. Reserve Tranche Position: required quota to be maintained within the IMF

Debaters in IMF

- **1st**: Argentina
- **4th** Pakistan

IMF (International Monetary Fund)

- **Headquarter**: Washington D.C.

- UN Monetary and Financial Conference

Bretton Woods Conference, 1944 → **44 Nations** → **730 delegates**

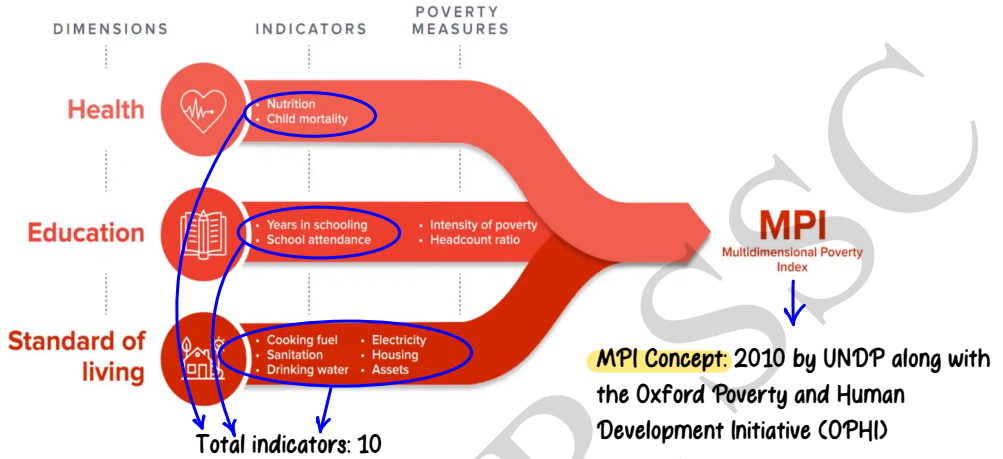IMF   World Bank
→ **HQ: Washington, D.C.**

- **NOSTRO:** Our account/money in your bank

  Eg: Bank X has an account with Bank Y in Bank Y's home currency

- **VOSTRO:** Your account/money in our bank

  Eg: City Banks partners with HDFC Bank based in India and opens an account with the denoted currency INR

- **FERA:** Foreign Exchange Regulation Act, 1973

  replaced by

- **FEMA:** Foreign Exchange Management Act, 1999

- **Depreciation:** Decrease in value of domestic currency → Exporters will benefit in case of depreciation

- **Appreciation:** Increase of value of domestic currency
  - Due to market forces
  - Floating Exchange Rates

- **Devaluation:** it is Official Depreciation

- **Revaluation:** it is Official Appreciation
  - Government interference
  - Fixed Exchange Rates

Lorenz Curve: wealth distribution, talks about income inequality

Line of equality

Less Inequality   More Inequality
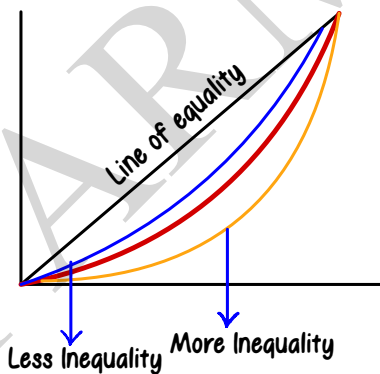
- **Gini Coefficient:**

  0 → 1

  0: perfect equality

  1: perfect inequality

DIMENSIONS   INDICATORS   POVERTY MEASURES

Health — Nutrition, Child mortality

Education — Years in schooling, School attendance — Intensity of poverty, Headcount ratio

Standard of living — Cooking fuel, Sanitation, Drinking water, Electricity, Housing, Assets

Total indicators: 10

MPI Multidimensional Poverty Index

MPI Concept: 2010 by UNDP along with the Oxford Poverty and Human Development Initiative (OPHI)

· **NITI AAYOG launched:** 12 indicators → National Multidimensional Poverty Index

Multidimensional Poverty in India since 2005–06

Recently → 24.82 Cr people have escaped poverty

In Uttar Pradesh max people have escaped poverty

· **Lorez Curve** – Inequality in distribution of income or wealth
· **Phillips Curve** – Inflation and Employment
· **Engel Curve** – Income and proportion of expenditure on food
· **Laffer Curve** – Tax rates and tax revenue

· Gini Coefficient or Gini Ratio can be associated with measurement of income inequality in an economy

· Devaluation of currency will be more beneficial if prices of exports rise proportionately