

## Meaning of Disequilibrium in Balance of payments (BOP)

A country's balance of payments is in equilibrium when there is perfect equality between the supply and the demand for foreign exchange. A position of disequilibrium in the balance of payments of a country exists when the demand for foreign exchange exceeds its supply or vice-versa. When the demand for foreign exchange exceeds its supply, there is said to be a deficit in the balance of payments. On the contrary, when the supply of foreign exchange exceeds its demand, there is said to be a surplus in the balance of payments. Whether the BOPs is in surplus or in deficit, there exists a disequilibrium which is not desirable in the larger economic interest of the country. It is very seldom that there is a perfect equilibrium in the country's BOPs. It is either in deficit or in surplus. The disequilibrium in the BOPs whether it is due to deficit or surplus is undesirable and ~~bad~~ bad for the country concerned. The surplus disequilibrium may not be so bad for the country as the deficit disequilibrium is, the reason is that the burden of bringing about adjustment in BOPs falls more heavily on the deficit than on the surplus countries.

# Types of Disequilibrium in Balance of Payments page 16

There are main 4 main types of disequilibrium in the balance of payment (BOP). They are:

- ① Cyclical disequilibrium
- ② Structural " "
- ③ Short-run " "
- ④ Long-run " "

① Cyclical Disequilibrium: It occurs on account of trade cycle. Depending upon the different phases of trade cycles like prosperity and depression, demand and other forces vary, causing changes in the terms of trade as well as growth of trade and accordingly a surplus or deficit will result in BOP.

② Structural Disequilibrium: It emerges on account of structural changes occurring in some sectors of the economy at home or abroad which may alter the demand or supply relations of exports or imports or both. Suppose the foreign demand for India's jute products declines because of some substitutes, then India's exports may decline whereas with imports remaining the same disequilibrium in the BOP will arise.

③ Short-run Disequilibrium: A short-run disequilibrium in a country's BOP will be a temporary one, lasting for a short period, which may occur

once in a while, when a country borrows or lends internationally, it will have short-run disequilibrium in its BOP, as these loans are usually for a short period, they are repayable later on. So, the position will be automatically corrected and poses no serious problem. As such, a disequilibrium arising from international lending and borrowing activities is perfectly justified, However, a short-run disequilibrium may also emerge if a country's imports exceed its exports in given year. This will be a temporary one.

④ Long-run Disequilibrium :- The long-run disequilibrium refers to a deep-rooted, persistent deficit or surplus in BOP of a country. A long-term deficit in the BOP of a country, tends to deplete its foreign exchange reserves and the country may not be able to raise any more loans from foreigners during such a period of persistent deficit.

In short, true disequilibrium is a long-term phenomenon. It is caused by changes in dynamic forces or factors such as capital formation, population growth, territorial expansion, technological advancement, innovation etc.

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