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## The Study of Direction of India's Balance of Payment and Balance of Trade Position: A Contemporary Scenario

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**Key words:** Indian economy, BOP, BOT, current account transactions, capital account transactions, BOT deficit, BOP deficit etc.

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Page No.: 249-255

Volume: 14, Issue 8, 2020

ISSN: 1993-5250

International Business Management

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**Abstract:** The BOP&BOT position is essential measure for the sound health of an economy and can be studied under the major heads of export, import, current account, capital account and international reserves. Most of the developing countries are in BOP&BOT deficit and India is being no exception for this. Since, independence, Indian economy has been facing deficit or disequilibrium in terms of BOP&BOT, largely observed as a disaster in 1991, the year of the severe BOP crisis and economic reforms. Different economic activities conducted by the country with different nations in the world affect India's BOP&BOT in some or the other way. While studying Indian economy balance of payments and balance of trades is very important as BOP&BOT have impact on economic health of the country and companies. Trade policies of government, political and cultural relations with different nations, exchange rate policies, convertibility policies, economic planning and policies etc. influence international commercial activities and affect the BOP&BOT of India.

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## INTRODUCTION

**BOP&BOT:** The BOP&BOT position of the country reflects on its economic health. The BOP of any country is a comprehensive and systematic accounts of all the different transactions occurred between the residents of a country and the rest of the world during a particular period of time.

A BOP statement is a record of receipts on accounts of goods exported, services rendered, capital received, payments made by the residents for goods imported and services received, capital transferred to non-residents or Foreigners, etc. The BOT takes into account only the transactions arising out of the exports and imports of visible items.

BOP takes into account the export and import of both the visible and invisible items. In other words, it takes into consideration the import and export of goods of all kinds including consumer goods, durables, FMCG, capital goods, machinery, technical equipment and services like banking, insurance, tourism, transportation etc. and payment of salaries, benefits, interests, dividends etc.

The causes of deficits are under-investment, low productivity, high inflation, inadequate R&D, inadequate innovation, lower cost competition, over-valued of exchange rate, boom, recession, slump in global prices, increased demand, technology, etc.

**BOP Crisis of 1991:** The 1991 Indian economic crisis having BOP problems as increased imports, twin deficit, i.e., trade deficit and fiscal deficit. At the end of 1990 the situation became so, serious that the Indian Foreign exchange reserves could finance only 3 weeks of imports. The World Bank and IMF also stopped their assistance. As reserves falling, depreciation of Rupee, there was a loss of confidence leading to a flight of NRIs deposits. The crisis was caused by currency overvaluation, current account deficit and investor confidence.

Rangarajan committee recommended liberalization of current account transactions leading to current account convertibility, current account deficit, shift in capital flows, strict regulation on ECB, discouraging volatile elements, gradual liberalization of outflows and disintermediation of Government in the flow of external assistance.

A macroeconomic, structural and stabilization programme encompassing trade, industry, foreign investment, exchange rate, public finance and expansion of trade and investment. It was recognized that trade, exchange rate and industrial policies should form part of an integrated policy framework. The aim was to improve the overall productivity, competitiveness and efficiency of the economy.

#### **Literatures review**

**Sachin N. Mehta, Analysis of Trends in the BOP in India:** This study examined the trend pattern of BOP during the pre and post devaluation period and the impact of devaluation on BOP. This assessment has been carried with t-test. The results indicate substantial improvement of BOP.

**Shenti Kumar, Trend of India's BOP-An Analytical Study:** BOP record of a business of country with rest of the world. Researcher opted very vigilant approach. BOP shows strengths and weaknesses of country. It can notably affect the economic policies of a government and economy.

**Sayantani Banerjee, Analyzing the BOP Position of India:** Researcher attempted to study the current position of the BOP. It is observed in the current account that India's exports, external sector position has been comfortable with the current account deficit. It is further observed in the capital account that higher net repayments on overseas borrowings, fall in banking capital, decline in NRIs deposits, inflow of FDI and net inflow of FPI were sufficient to finance current account deficit.

**Sugandh Mittal, Balance of Payment: An Indian perspective:** Researcher provided a simple framework for understanding the BOP and its components. The purpose of this study was to analyze the trend of India's BOP position. The study also discussed the significance of BOP statement. This study provided the challenges faced by the countries deficit problem.

#### **MATERIALS AND METHODS**

**Topic of the research:** The topic of research is 'The Study of Direction of India's Balance of Payment and Balance of Trade Position: A Contemporary Scenario'.

#### **Objectives of the research:**

- To study and understand the concept of BOP&BOT in India
- To study and analyse the indicators of BOP
- To analyse the Foreign trade position of India
- To analyze the BOP position of India
- To analyse the components of India's BOP

**Scope of the research:** The period of research study was limited to data collected from 1991-92 to 2018-19

**Hypothesis of the research:**  $H_0$ : there is no significant difference in BOT & BOP position of India.

**Research design of the research:** The research design was as follows:

**Types of data:** A secondary data was used for this research study. The secondary data was already exists in some or the other form and was collected already by someone else.

**Sources of data:** The secondary data was collected from various annual reports, quarterly reports of the economy, newspapers and reference books, journals and internet media sources.

**Tools for data presentation:** The tools such as tables & line charts were used for data analysis and presentation (Table 1 and Fig. 1).

**Statistical tools for hypothesis testing:** The statistical tools such as trend analysis, mean, median, pearson correlation and standard deviation methods were used for data analysis and hypothesis testing.

Table 1: Balance of payment indicators  
Values in percentage

Years	Trade		Invisibles Net/GDP	Current account		Capital account		Import cover of reserves (Months)
	Exports/GDP	Imports/GDP		Current receipts /GDP	Current account balance/GDP	Foreign Investment/Export	Foreign Investment/GDP	
1991-92	6.8	7.8	0.6	10.3	-0.4	0.7	0	5.3
1992-93	7.6	9.8	0.8	11.4	-1.4	3	0.2	4.9
1993-94	8.1	9.6	1	12.2	-0.4	18.7	1.5	8.6
1994-95	8.2	11	1.7	13	-1	17.9	1.5	8.4
1995-96	9	12.1	1.5	13.9	-1.6	14.3	1.3	6
1996-97	8.7	12.5	2.6	14.1	-1.2	18	1.6	6.5
1997-98	8.6	12.3	2.4	14.2	-1.3	15	1.3	6.9
1998-99	8.1	11.3	2.2	14.3	-1	6.7	0.5	8.2
1999-00	8.2	12.1	2.9	14.8	-1	13.6	1.1	8.2
2000-01	9.7	12.4	2.1	16.6	-0.6	12.9	1.3	8.8
2001-02	9.2	11.6	3.1	16.8	0.7	15	1.4	11.5
2002-03	10.4	12.5	3.3	18.6	1.2	7.7	0.8	14.2
2003-04	10.9	13.2	4.6	19.7	2.3	20.7	2.3	16.9
2004-05	12	16.8	4.4	21.8	-0.3	15.3	1.8	14.3
2005-06	12.8	19.1	5.1	23.7	-1.2	14.8	1.9	11.6
2006-07	13.7	20.3	5.6	25.9	-1	11.4	1.6	12.5
2007-08	13.7	21.2	6.2	25.9	-1.3	26.1	3.6	14.4
2008-09	15.8	25.7	7.6	29.8	-2.3	4.4	0.7	9.8
2009-10	13.6	22.4	6	25.8	-2.8	27.6	3.8	11.1
2010-11	15.3	22.9	4.7	26.7	-2.9	16.4	2.5	9.5
2011-12	17	27.4	6.1	29	-4.3	12.7	2.2	7.1
2012-13	16.8	27.5	5.9	29	-4.8	15.2	2.6	7
2013-14	17.2	25.1	6.2	29.7	-1.7	8.3	1.4	7.8
2014-15	15.5	22.6	5.8	27.4	-1.3	23.2	3.6	8.9
2015-16	12.7	18.8	5.1	23.8	-1.1	12	1.5	10.9
2016-17	12.2	17.1	4.3	22.8	-0.6	15.4	1.9	11.3
2017-18	11.6	17.7	4.2	22.3	-1.8	17	2	10.9
2018-19	12.4	19	4.5	23.7	-2.1	8.9	1.1	9.6
Mean	6.8	7.8	0.6	10.3	-4.8	0.7	0	4.9
Median	11.8	16.95	4.35	22.05	-1.2	14.9	1.5	9.2

r: 0.9965; σ: 156740; https://dbie.rbi.org.in

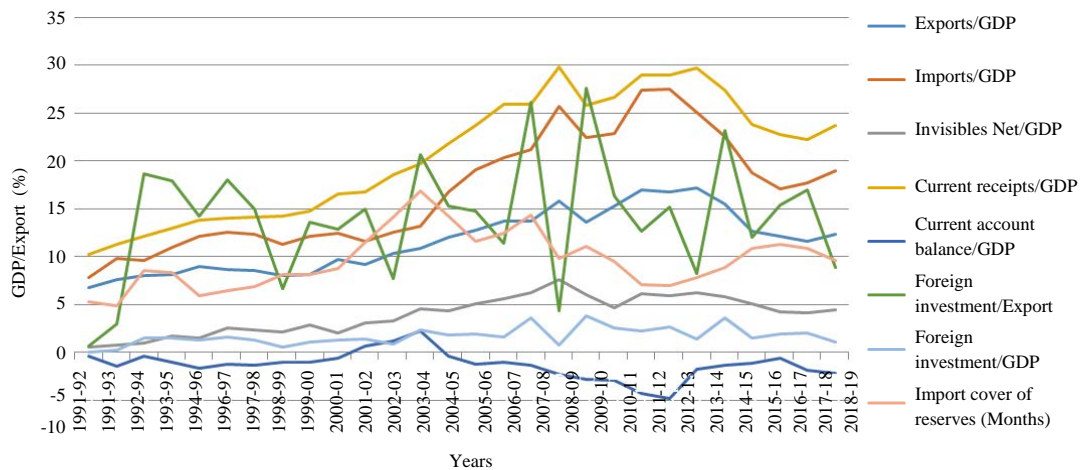


Fig. 1: BOP indicators

**RESULTS AND DISCUSSION**

**Analysis and hypothesis testing**

**BOP Indicators:** This provides an overview of how India’s balance of payment account has performed in

the last few decades starting from the post-reform period of 1991-2019. The BOP crisis in 1991 was an eye-opener for the policymakers in India. Consequent policy measures of international integration of the Indian economy led to capital

Table 2: India's Foreign trade

\$ US Million

Years	Exports			Imports			Trade balance		
	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Total
1991-92	414.7	17450.7	17865.4	5324.8	14085.7	19410.5	-4910.1	3365	-1545.1
1992-93	476.2	18061	18537.2	6100	15781.6	21881.6	-5623.8	2279.4	-3344.4
1993-94	397.8	21840.5	22238.3	5753.5	17552.7	23306.2	-5355.7	4287.8	-1067.9
1994-95	416.9	25913.6	26330.5	5927.8	22726.5	28654.4	-5510.9	3187.1	-2323.8
1995-96	453.7	31341.2	31794.9	7525.8	29149.5	36675.3	-7072	2191.7	-4880.4
1996-97	481.8	32987.9	33469.7	10036.2	29096.2	39132.4	-9554.4	3891.7	-5662.7
1997-98	352.8	34653.7	35006.4	8164	33320.5	41484.5	-7811.2	1333.1	-6478.1
1998-99	89.4	33129.3	33218.7	6398.6	35990.1	42388.7	-6309.2	-2860.8	-9170
1999-00	38.9	36783.5	36822.4	12611.4	37059.3	49670.7	-12572.5	-275.8	-12848.3
2000-01	1869.7	42690.6	44560.3	15650.1	34886.4	50536.5	-13780.4	7804.2	-5976.2
2001-02	2119.1	41707.6	43826.7	14000.3	37413	51413.3	-11881.2	4294.6	-7586.6
2002-03	2576.5	50142.9	52719.4	17639.5	43772.6	61412.1	-15063	6370.3	-8692.7
2003-04	3568.4	60274.1	63842.6	20569.5	57579.6	78149.1	-17001.1	2694.5	-14306.5
2004-05	6989.3	76546.6	83535.9	29844.1	81673.3	111517.4	-22854.8	-5126.7	-27981.5
2005-06	11639.6	91450.9	103090.5	43963.1	105202.6	149165.7	-32323.5	-13751.7	-46075.2
2006-07	18634.6	107779.5	126414.1	56945.3	128790	185735.2	-38310.7	-21010.5	-59321.2
2007-08	28363.1	134541.1	162904.2	79644.5	171794.7	251439.2	-51281.4	-37253.6	-88535
2008-09	27547	157748	185295	93671.7	210024.6	303696.3	-66124.8	-52276.6	-118401.3
2009-10	28192	150559.5	178751.4	87135.9	201237	288372.9	-58943.9	-50677.5	-109621.4
2010-11	41480	209656.2	251136.2	105964.4	263804.7	369769.1	-64484.4	-54148.5	-118632.9
2011-12	56038.5	249925.3	305963.9	154967.6	334352	489319.5	-98929	-84426.6	-183355.7
2012-13	60865.1	239535.5	300400.6	164040.6	326696.1	490736.6	-103175.4	-87160.6	-190336.1
2013-14	63179.4	251236.4	314415.7	164770.3	285443.3	450213.6	-101591	-34206.9	-135797.9
2014-15	56794.1	253557.9	310352	138325.5	309707.9	448033.4	-81531.4	-56150	-137681.4
2015-16	30582.6	231708.4	262291.1	82944.5	298063.3	381007.8	-52361.8	-66354.8	-118716.7
2016-17	31545.3	244307.2	275852.4	86963.8	297393.2	384357	-55418.6	-53086	-108504.6
2017-18	37465.1	266061.1	303526.2	108658.7	355813.3	464472	-71193.6	-89752.2	-160945.8
2018-19	46553.6	283524.5	330078.1	140920.6	371871.9	512792.6	-94367.1	-88347.4	-182714.5
Mean			17865.4			19410.5			-190336
Median			93313.2			130341.6			-37028.4

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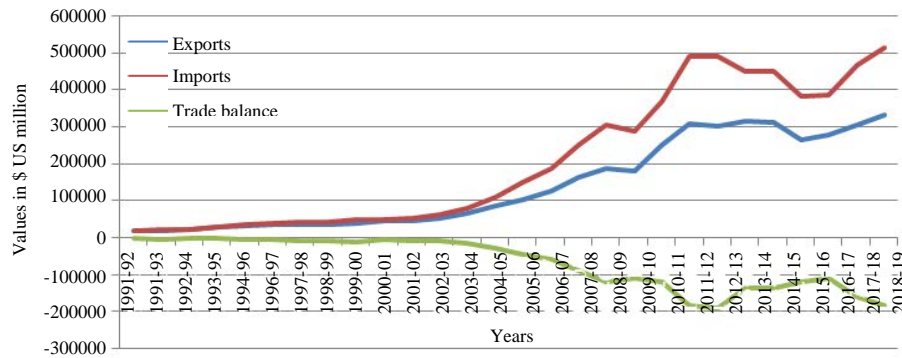


Fig. 2: Foreign trade

inflows in the form of FDI and FPI which thus transformed the funding mechanism of India's BOP.

In our view, the significant events which shaped India's BOP account are 1991 economic reforms, IT boom in 2001-2004, Economic boom in between 2004-2010 and slowdown in FPI inflows from 2015 (Table 2 and Fig. 2).

**Discussions:** Shrinking trade deficit is seen as a relief; it is a major worry for the Indian economy for two reasons<sup>[1]</sup>. First, a broad-based contraction in imports mirrors the weak domestic demand for both consumer and industrial goods which will not promise well with India's battle to reverse its domestic slowdown.

Second, given the subdued exports so far this year, if crude oil prices surge due to rising tensions between the

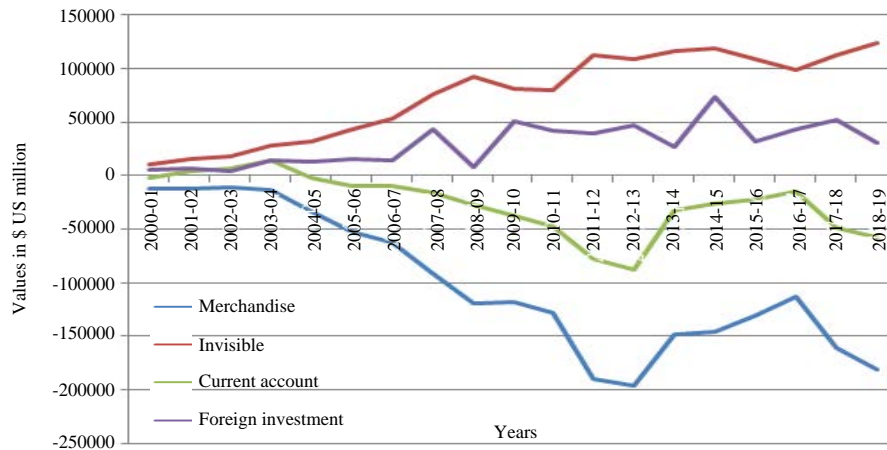


Fig. 3: Balance of payment position

Table 3: India's overall balance of payment  
\$US million

Years/Items	Merchandise	Invisibles	Current account	Foreign investment
2000-01	-12460	9794	-2666	5862
2001-02	-11574	14974	3400	6686
2002-03	-10690	17035	6345	4161
2003-04	-13718	27801	14083	13744
2004-05	-33702	31232	-2470	13000
2005-06	-51904	42002	-9902	15528
2006-07	-61782	52217	-9565	14753
2007-08	-91468	75730	-15738	43326
2008-09	-119520	91604	-27915	8342
2009-10	-118203	80022	-38181	50362
2010-11	-127322	79269	-48053	42127
2011-12	-189759	111604	-78155	39231
2012-13	-195656	107493	-88163	46711
2013-14	-147609	115313	-32296	26386
2014-15	-144940	118081	-26859	73456
2015-16	-130079	107928	-22151	31891
2016-17	-112442	98026	-14417	43224
2017-18	-160036	111319	-48717	52401
2018-19	-180283	123026	-57256	30094
Mean	-195656	9794	-88163	4161
Median	-118203	80022	-22151	30094

r: -0.9589; σ: 103059; <https://dbie.rbi.org.in>

US and Iran, import bill could soar and in turn, could widen the trade deficit. The Pearson correlation value for payment position is observed 0.9965. The standard deviation observed 156740.

**India's Foreign trade:** The BOP position of the country has been recording considerable changes in its imports and exports.

Trade deficit narrowed down to USD 11.3 billion in December as imports witnessed a broad-based contraction. The trade deficit stood at USD 14.5 billion in December 2018. A sustained fall in imports continues to remain a big worry for the Indian economy. Furthermore, adding to India's trade worries, exports continued to be in the negative zone for the consecutive years. The

contraction in imports is broad-based with imports of 25 out of 30 major commodities seeing negative growth (Table 2 and Fig. 2).

**Discussions:** The BOT records the value of merchandise trade of India with its trading partners. Trade is a key indicator for development of economy. India's trade partners include US, EU and China. India has maintained trade deficit since 1991 and in the past the deficit has increased manifold. According to the WTO, India's export of merchandise goods in 2015 was 1.5%<sup>[2-4]</sup>.

**India's overall BOP:** Deficit in the BOP position during the 6, 7, 8 and 9th Plan was the result of tremendous rate of growth of imports accompanied by a poor rate of growth of exports. The trade deficits during these plans were som heavy that it could not be offset by the flow of funds. The following table depicts a clear picture about deficits in the BOP from 2000-2018 in India (Table 3 and Fig. 3).

**Discussions:** Since, from the Independence of the country has faced series of crises such as rupee devaluation, oil shocks and, external payment crisis of 1991. Overall BOP position over the years was presented in the above chart<sup>[5]</sup>.

The BOP of India has been adversely affected by the 2008 crisis. The BOP position showed the current account deficit of \$ US -57256 million. The Pearson Correlation value for payment position is observed -0.9589. The standard deviation observed 103059 for balance of payment.

**Components of India's BOP:** India's current account deficit narrowed to 0.9% of GDP in 2019 as compared to 2.9% in 2018. The narrowing CAD is led to shrinking trade deficit which reduced to USD 38.1 billion from USD 50 billion a year ago<sup>[6]</sup>.

Table 4: Key component's of India's balance of payment

Years/ Items	Merchandise import A	Merchandise export B	Trade balance I (A-B)	Net invisibles II	Current account III (I+II)	Capital account IV	Overall balance V (III+IV)	Monetary movements VII	Reserves (+/-) VII
1991-92	18266	21064	-2798	1620	-1178	3777	2599	-2599	-3384
1992-93	18869	24316	-5447	1921	-3526	2936	-590	590	-698
1993-94	22683	26739	-4056	2897	-1159	9694	8535	-8535	-8723
1994-95	26855	35904	-9049	5680	-3369	9156	5787	-5787	-4644
1995-96	32310	43670	-11360	5447	-5912	4690	-1222	1222	2937
1996-97	34133	48948	-14815	10196	-4619	11412	6793	-6793	-5818
1997-98	35680	51187	-15507	10008	-5499	10010	4511	-4511	-3893
1998-99	34298	47544	-13246	9208	-4038	8260	4222	-4222	-3829
1999-00	37542	55383	-17841	13143	-4698	11100	6402	-6402	-6142
2000-01	45452	57912	-12460	9794	-2666	8534	5868	-5868	-5842
2001-02	44703	56277	-11574	14974	3400	8357	11757	-11757	-11757
2002-03	53774	64464	-10690	17035	6345	10640	16985	-16985	-16985
2003-04	66285	80003	-13718	27801	14083	17338	31421	-31421	-31421
2004-05	85206	118908	-33702	31232	-2470	28629	26159	-26159	-26159
2005-06	105152	157056	-51904	42002	-9902	24954	15052	-15052	-15052
2006-07	128888	190670	-61782	52217	-9565	46171	36606	-36606	-36606
2007-08	166163	257630	-91468	75730	-15738	107902	92164	-92164	-92164
2008-09	189001	308520	-119520	91604	-27915	7835	-20080	20080	20080
2009-10	182442	300644	-118203	80022	-38181	51622	13441	-13441	-13441
2010-11	256159	383481	-127322	79269	-48053	61103	13050	-13050	-13050
2011-12	309774	499533	-189759	111604	-78155	65324	-12831	12831	12831
2012-13	306581	502237	-195656	107493	-88163	91989	3826	-3826	-3826
2013-14	318607	466216	-147609	115313	-32296	47804	15508	-15508	-15508
2014-15	316545	461484	-144940	118081	-26859	88265	61406	-61406	-61406
2015-16	266365	396444	-130079	107928	-22151	40055	17905	-17905	-17905
2016-17	280138	392580	-112442	98026	-14417	35967	21550	-21550	-21550
2017-18	308970	469006	-160036	111319	-48717	92292	43574	-43574	-43574
2018-19	337237	517519	-180283	123026	-57256	53917	-3339	3339	3339
Mean	18266	21064	-195656	1620	-88163	2936	-20080	-92164	-92164
Median	95179	137982	-42803	36617	-7738.5	21146	10146	-10146	-10240

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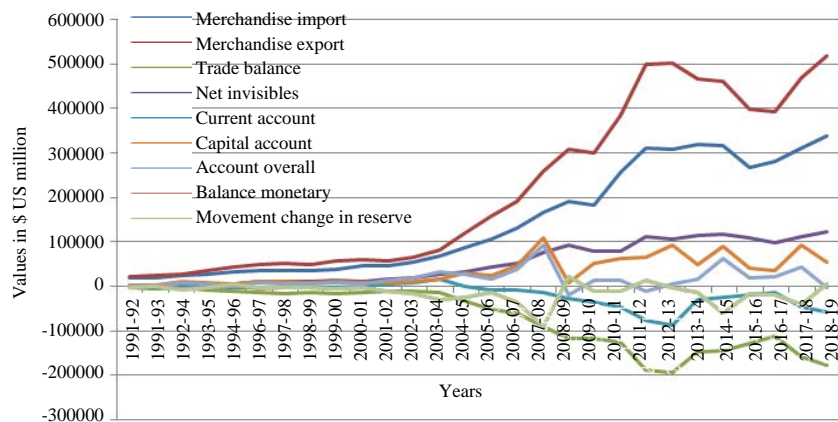


Fig. 4: Key components of BOP

FPI recorded a net inflow of USD 2.5 billion up from USD 0.2 billion in 2018-19. Slowing economic activities which in turn has lowered imports into the economy is further expected to narrow down the deficit for the 2019 (Table 4 and Fig. 4).

**Discussions:** The trend of the BOP is a valuable tool for evaluating the economic prospects of a country and also the corresponding currency exchange rate.

According to the above analysis, India faces a severe balance of payment deficits and the government needs to

take corrective measures in the form of exchange control, inflation reduction, export promotion and devaluation of currency.

### **CONCLUSION**

The BOP&BOT has become an economic barometer in growth because it is base of many countries like India, China, US, UK, etc. It helps in knowing their position in the international market and also assists many countries to develop appropriate foreign exchange rates, financial policies, funds flows between countries, etc. Inflation, national income, government restructuring and exchange rates are all factors that affect the BOP&BOT.

The trend of the BOP&BOT is valuable tool for evaluating the economic prospects of a country and also the corresponding currency exchange rate.

According to the above analysis, India faces a severe BOP&BOT deficits and the government needs to take corrective measures in the form of exchange control, inflation reduction, export promotion and devaluation of currency. The hypothesis of study proved that there is no significant difference in BOT & BOP deficit in India.

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