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A Study of Capital Account of India's Balance of Payment From 2020 To 2024

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Abstract

This paper presents a structured framework for understanding the balance of payments (BOP) and its components. To illustrate the concept, Bangladesh has been taken as a case study, with a comparative analysis of export and import figures between India and Bangladesh. The primary objective of the study is to examine the trends in India's balance of payments position and to explain the factors behind such patterns.

In addition, the paper discusses the significance of the balance of payments statement and highlights the challenges faced by countries experiencing persistent BOP deficits. The balance of payments serves as a record of a nation's international economic transactions and is a vital indicator of its economic health.

International trade plays a pivotal role in global economic growth, fostering the development of multiple sectors. Exports and imports not only stimulate production and employment but also enhance foreign currency reserves, which ultimately contribute to the overall progress of an economy.

Keywords: capital account, India balance, export and import, Balance of payments (BPO)

1. Introduction

Balance of Payments: Concept and Importance

The Balance of Payments (BOP) is a comprehensive statement of all financial and economic transactions conducted between a country and the rest of the world during a specific period, typically a quarter or a year. It records transactions made by individuals, corporations, and the government, thereby providing a complete picture of the flow of money into and out of the economy. Monitoring these transactions enables policymakers to assess external sector performance and adopt strategies to maintain economic stability.

In theory, the balance of payments should be in equilibrium, meaning that the total inflows and outflows of money are equal. However, in practice, this rarely occurs. A BOP surplus arises when a country's exports exceed its imports, indicating an inflow of foreign currency. Conversely, a BOP deficit occurs when imports surpass exports, signaling an outflow of resources. Both situations carry significant short- and long-term implications for a nation's economic health.

The BOP operates on the principle of double-entry accounting, where each transaction is recorded as both a debit and a credit. This system ensures that the statement captures the full scope of international exchanges. Broadly, the balance of payments includes two categories of external transactions:

Visible transactions – involving the trade of physical goods (exports and imports).

Invisible transactions – involving services, remittances, investment income, and financial transfers.

Thus, the balance of payments not only measures the external economic position of a country but also serves as an essential tool for framing monetary, fiscal, and trade policies.

1.1 Indian Balance of payment

Historical Perspective on India's Balance of Payments

India's balance of payments has evolved through a combination of structural shifts in economic policy and external shocks. Between 1951–52 and 2011–12, six key events left a lasting imprint on the country's external sector:

1. The 1966 devaluation of the rupee,
2. The oil shocks of 1973 and 1980,

3. The 1991 balance of payments crisis,
4. The 1997 East Asian financial crisis,
5. The Y2K-driven IT boom of 2000, and
6. The 2008 global financial crisis and subsequent Eurozone crisis.

The first phase, spanning the 1950s to the mid-1960s, reflected a relatively open economic stance. In 1951–52, trade accounted for a significant share of output: stock market transactions and imports were about 16% of GDP, while current receipts and payments together exceeded 19% of GDP. However, with the adoption of an inward-looking strategy of import substitution, the share of external trade in GDP gradually declined.

During this period, India's export basket was dominated by a few traditional commodities such as tea, cotton textiles, and jute products. These items faced limited global demand expansion, while competition intensified from emerging exporters such as Pakistan (in jute) and Sri Lanka and East Africa (in tea). As a result, India's ability to earn foreign exchange remained constrained.

In today's interconnected world, however, no nation can claim complete self-sufficiency in the production of goods and services. Countries inevitably rely on imports for commodities that are either unavailable domestically or are prohibitively expensive to produce compared to international alternatives. This underscores the continuing relevance of the balance of payments as a reflection of both domestic policy choices and global economic dynamics.

Review of Literature

Several scholars have examined the dynamics of the balance of payments (BOP) in India and other developing countries, highlighting both structural challenges and policy responses.

BOP Reforms and Policy Shifts

Mrs. K. Geetha Rani, V. Aghalya, and G. G. Gayathiri (2017), in their study "Balance of Payments Problems of Developing Countries with Special Reference to India," argue that the 1991 BOP crisis compelled policymakers to shift towards an outward-looking strategy. The government introduced reforms across monetary, fiscal, industrial, and trade sectors, leading to enhanced trade openness, stronger export performance, improved capital inflows, and overall GDP growth.

Trends and Imbalances

Ch. Hymavathi and Dr. K. Kalpana (2017), in their article "A Study on Analysis of BOP Trends with Reference to India," observed a decline in exports during 2011–2016, alongside fluctuating imports and weakening capital account inflows. They emphasized that factors such as population growth, cyclical effects, globalization, and inflation significantly influenced India's BOP imbalances. Similarly, Ms. Lovely Srivastava, Dr. Ambalika Sinha, and Ms. Geetu Yadav (2016), in "A Trend Analysis of Trade Imbalance of Indian Balance of Payment," concluded that persistent trade imbalances were largely due to exchange rate volatility, currency depreciation, fiscal deficits, and the global financial crisis. They noted that corrective measures by the Government of India and the Reserve Bank of India, such as interest rate adjustments and export incentives, helped reduce the trade deficit in 2013–14.

Capital Flows and Vulnerabilities

Panchanan Behera (2016), in his review "India's Balance of Payments: 1990–91 to 2014–15," emphasized the crucial role of invisible and capital accounts in stabilizing India's external position. However, he warned that deregulation had left the economy vulnerable to financial reversals and currency crises, suggesting the need for selective controls on trade and capital flows to reduce short-term volatility.

Determinants of BOP in Comparative Context

Expanding the scope beyond India, Syeda Azra Batool, Tahir Memood, and Atif Khan Jadoon (2015), in their article "What Determines Balance of Payments: A Case of Pakistan," identified macroeconomic variables such as money supply, real exchange rate, interest rate, fiscal balance, and GDP growth as significant determinants of BOP. Their findings suggest that exchange rates influence BOP outcomes in both the short and long run, while interest rates have divergent effects depending on the time horizon. GDP growth was found to improve BOP performance consistently, indicating the importance of sustained domestic production and savings.

Synthesis

Overall, the literature highlights three recurring themes: (i) the persistent vulnerability of India's BOP due to trade imbalances, (ii) the stabilizing but volatile role of capital flows, and (iii) the importance of macroeconomic management and policy reforms in addressing external shocks. While prior studies provide valuable insights into BOP crises, trade trends, and determinants, there remains scope to analyze India's BOP patterns in comparison with neighboring economies like Bangladesh, which forms the core focus of the present study.

3. Research Methodology

3.1 Research Design

For this study, Bangladesh has been selected as a case country because of its significant level of trade with India in terms of both value and volume. The comparative approach allows a better understanding of India's Balance of Payments (BOP) dynamics in a regional context.

3.2 Data Sources

The study relies primarily on secondary data published by recognized international and national agencies, including:

1. World Development Report
2. Global Financial Statistics Yearbook
3. Handbook of Trade and Development (IMF)
4. Report on Currency and Finance (RBI)

In addition, relevant statistical data and information from these organizations have been supplemented with other published reports.

3.3 Reference Period of Study

The chosen reference period for analysis is 2010–2024 (15 years). This span is considered appropriate as it covers significant developments in India's and Bangladesh's trade and external sector performance, including the effects of global crises and policy reforms.

3.4 Tools and Techniques

The collected quantitative data were analyzed using both descriptive and inferential statistical methods. Tools such as trend analysis, ratios, means, and percentages were employed to study patterns. For advanced analysis, data were processed with Microsoft Excel and SPSS 25.0, under expert guidance. Parametric statistical tests were also applied where necessary.

3.5 Tools for Analysis

Specific statistical tools used in the study include:

Correlation analysis – to examine relationships between trade variables.

t-test – to test the significance of observed differences and trends.

Data Analysis

4.1 India's Trade Relationship with Bangladesh

Bangladesh is the greatest advancement accomplice of India today. India has broadened 3 Lines of Credits (LOC) to Bangladesh over the most recent 8 years adding up to US$ 8 billion for advancement of framework in different areas including streets, railroads, delivery and ports. Notwithstanding LOCs, the Administration of India has likewise been giving award help to Bangladesh to different foundation projects including development of Akhara Agartala Rail Connect, Bangladesh and India Inland Waterway Drilling Bangladesh Friendship Pipeline Development.

4.1.1 India's Exports to Bangladesh:

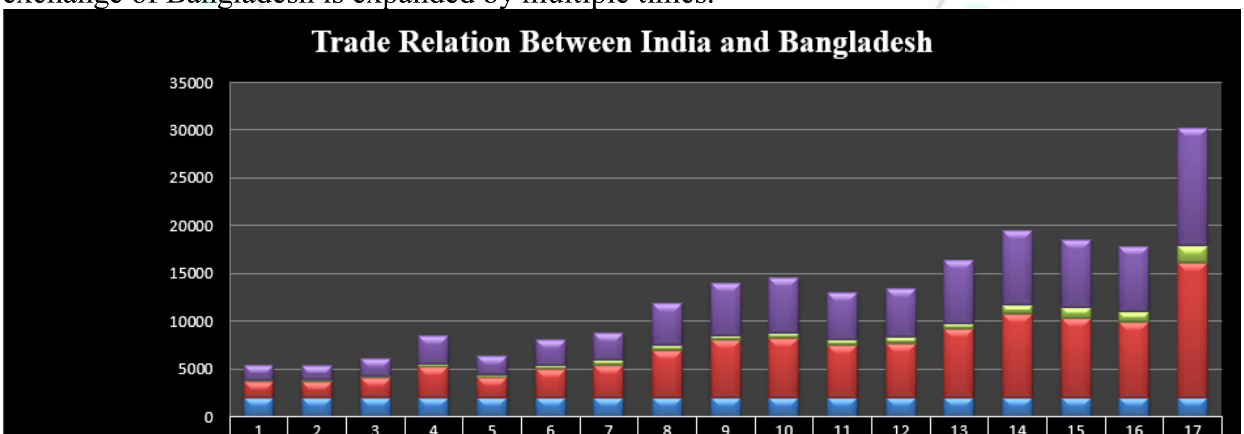
India's export to Bangladesh seems to have grown just around 8 times in 16 years, with a peak of export worth 14092.75 million dollar in 2017 over an export worth 1719.79 million dollar in 2005. Significantly, India's export to Bangladesh has been found to be steady and stable over the years, despite SAFTA.

4.1.2 India's Imports from Bangladesh:

India's import from Bangladesh seems to have grown around 17 times, in 16 years, with a peak of import worth 1764.10 million dollar in 2021 over an import worth 103.70 million dollars in 2005. Significantly, India's import from Bangladesh has been found to be growing except in few years (2009, 2012, 2013, 2014 and 2020 worth 234.42 million dollars, 567.307 million dollars, and 530.751 million dollars, 517.279 million dollars, 591.57 million dollars and 1024.44 million dollar respectively) after establishment of SAFTA.

4.1.3 Balance of trade of Bangladesh

The equilibrium of exchange measurements demonstrates that there is surplus in the BOT of India worried to Bangladesh. In view of Increasing commodity and lower import from Bangladesh India's equilibrium of Trade was in surplus in the review period. It coordinates that India's products are more than imports from Bangladesh and is really great for Indian Economy as a chance for trade. India and Bangladesh are both piece of the South Asian Subcontinent. Both are normal individuals from BIMSTEC, SAARC, and TORA. The vicinity of India to Bangladesh has made it one of its greatest exchanging accomplices. In 2005 Bangladesh marked 85 the Asia Pacific Trade Agreement (APTA). At the fourteen SAARC culminations in New Delhi in April 2007 that time legislature of India declared obligation free admittance to Bangladesh imports. From 2010 India opened its market for all Bangladesh items with the exception of 25 touchy levy lines. To that end now Bangladeshi import products appreciate zero obligation admittance to Indian market. Economic deal among India and Bangladesh accommodates article of exchange and financial co-activity, streets and railroads, trade of business and exchange appointments. India and Bangladesh the two sides are chipping away at a few economic deals to further develop exchange network and foundation. Administration of India is likewise giving purchasers credit to Bangladesh government organizations for trade, for example, spans, streets, electrical cables, rail routes, lodging and water medicines plants. EXIM bank likewise gives credit to time of long term to long term under public commodity public record. From Oct. 2013 India began trading five hundreds megawatts of power. In June 2014, Foreign Minister of India, Susma Swaraj consented to different exchange arrangements: 1) Bangladesh permitted free food grains. 2) Started transport between Guwahati, Dhaka and Shillong. 3) Proposed of extraordinary monetary zone in Bangladesh. The equilibrium of exchange of Bangladesh is expanded by multiple times.



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Balance of Trade	1,616.0	1,444.0	1,830.4	2,913.5	1,942.9	2,658.6	2,826.3	4,369.3	5,463.2	5,737.9	4,833.6	4,991.0	6,620.7	7,865.8	7,029.1	6,888.3	12,328.
Import from Bangladesh	103.70	223.81	233.31	329.78	234.42	357.90	579.13	567.31	530.75	517.28	639.73	677.06	591.31	897.15	1,213.8	1,024.4	1,764.1
Export to Bangladesh	1,719.7	1,667.8	2,063.7	3,243.3	2,177.3	3,016.5	3,405.5	4,936.6	5,993.9	6,255.2	5,473.4	5,668.0	7,212.0	8,763.0	8,242.9	7,912.8	14,092.
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021

Figure: 1 Trade Relations between India and Bangladesh

4.2 Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Total export of Bangladesh & Export of Bangladesh	16	.849	.000
Pair 2	Total Import of Bangladesh & Import of Bangladesh	16	.748	.001

Table: 1 Correlation between the Import and Export with Bangladesh

Table 1 Shows that there is critical correlation between India's Import and Export exchange with Bangladesh. Trade insights show critical relationship (r=.849; Sig - .000) and import from the world and from Bangladesh additionally demonstrates solid correlation (r=.748; Sig - .001).

	Mean	S. D	t	Df	Sig.
Total export of Bangladesh - Export of Bangladesh	249300.61882	80730.87966	12.732	16	0.000
Total Import of Bangladesh - Import of Bangladesh	379649.98059	122872.08111	12.764	16	0.000

Table: 2 Paired differences between Export and Import of Bangladesh

Table 2 Shows that there is tremendous distinction between the progressions in the India's commodity to Bangladesh (t=12.732; DF 16; sig.000) and import from the Bangladesh (t=12.764; DF 16; sig .000).

5. Result & Discussion

India’s export to Bangladesh seems to have grown just around 8 times in 16 years, with a peak of export worth 14092.75 million dollar in 2017 over an export worth 1719.79 million dollar in 2005. India’s import from Bangladesh seems to have grown around 17 times, in 16 years, with a peak of import worth 1764.10 million dollar in 2021 over an import worth 103.70 million dollars in 2005.The BOT of Bangladesh in 2005 worth 1616.09 million dollar and in 2021 worth 12328.65 million dollar. Trade insights show critical relationship (r=.849; Sig - .000) and import from the world and from Bangladesh additionally demonstrates solid correlation (r=.748; Sig - .001).

6. Conclusion

The overview of the balance of payment crisis and current account deficit explains the causes, consequences, and remedies of the crisis, as well as ways to control future dangers and how to address a crisis if it occurs in the future. It also emphasizes the importance of reducing the current account deficit. In 2010, India experienced a horrific crisis, which was terrible, but it also taught the country how to control such a situation.

The time has arrived to conclude the discussion about installment equalization difficulties. As previously said, the exchange gap must be bridged with a more real effort to boost commerce and manage imports through a well-thought-out technique of disposing of repetitious or substitutable items. It is unreasonable to assume a net drop in imports for an extended period of the economy. Depreciation is one method for resolving currency imbalances. It is fundamentally a consumption-exchanging system that operates on the value impact of the traded products. Regardless, while downgrading is depended on to expand send out income, it can't be required to close the exchange gap if the import power of local creation isn't checked and the import advancement plan continues.

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