Q.10)

Ans) c

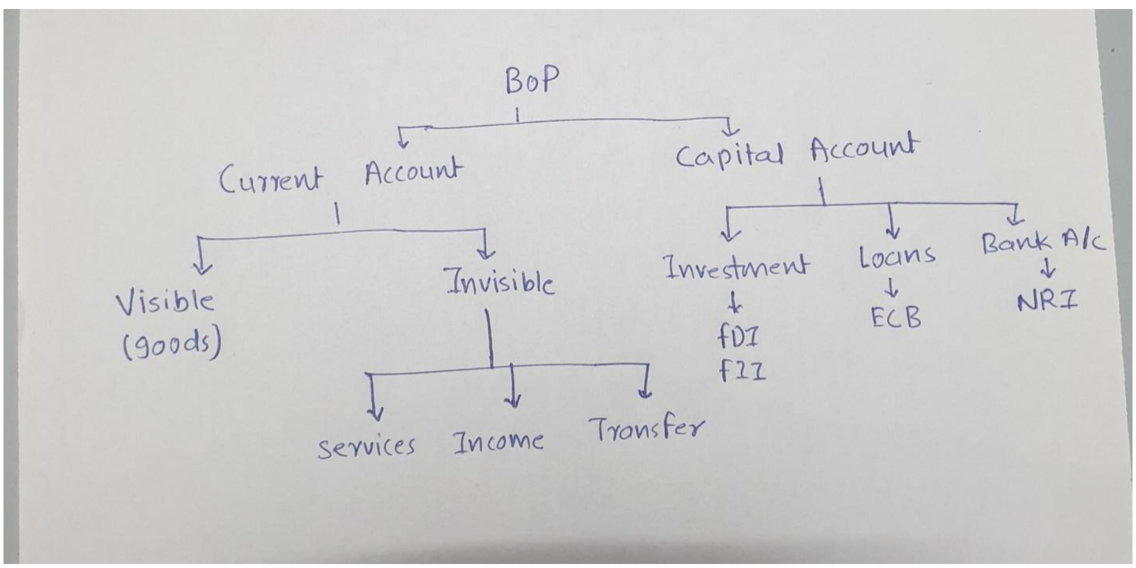
Exp) Statement 1 is correct. An increase in merchandise exports to GDP ratio has a net positive impact on Balance of Payments (BoP) position. The weakening of global demand and the increase in trade tensions over 2018-19 have led to a decline in the merchandise exports-to-GDP ratio to 11.3 per cent, as per the Economic Survey 2019-20. The BoP position, however, improved as the merchandise imports-to-GDP ratio also declined, resulting in a net positive impact.

Statement 2 is correct. Merchandise trade deficit is the largest component of India's current account deficit significantly impacting the BoP position. On average, India's merchandise trade balance has improved from 2009-14 to 2014-19, although most of the improvement in the latter period was on account of more than fifty per cent decline in crude prices in 2016-17.

Kb) India's balance of payments (BoP) in the first half of 2019-20 has improved on the back of higher Foreign Direct Investment (FDI), portfolio flows and external commercial borrowings and a narrowing current account deficit (CAD); but dwindling exports and a decline in non-POL (petroleum, oil, lubricants), non-gold imports as a proportion of GDP spells possible trouble.

Trade Deficit: - A trade deficit occurs when a country's imports exceed its exports during a given time period. It is also referred to as a negative balance of trade (BOT).

BoP is divided into two headings i.e. Current Account and Capital Account. If the overall import is greater than overall export in Current Account items then it is called as **Current Account Deficit**. Similarly, if the overall import is greater than overall export in Capital Account items then is it called as **Capital Account Deficit. Further BoP for any year has to be zero i.e. accounts need to be settled.**



Source) Economic Survey 2019-20