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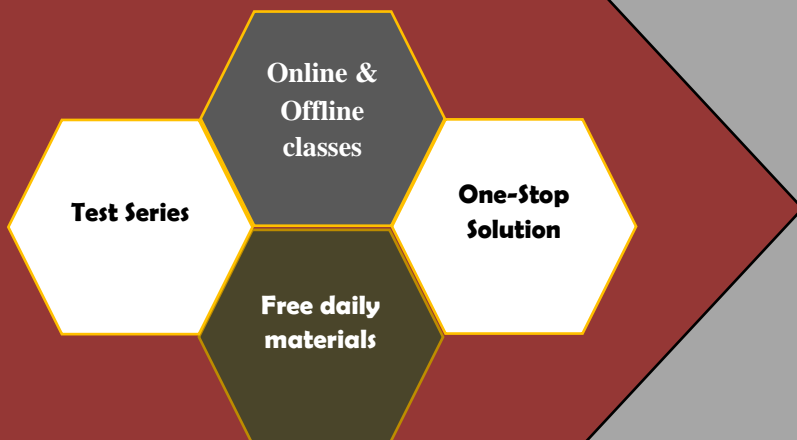
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Current Account Deficit

Notes for civil services preparation



UPSC

General Studies

Current Account Deficit

- The current account measures the flow of **goods, services, and investments** into and out of the It represents a country's foreign transactions and, like the capital account, is a **component of a country's Balance of Payments (BOP)**.
- There is a deficit in Current Account if the value of the goods and services imported exceeds the value of those exported.
- A nation's current account maintains a record of the country's transactions with other nations, that includes net income, including interest and dividends, and transfers, like foreign aid. It comprises of following components:
 - Trade of goods,
 - Services, and
 - Net earnings on overseas investments and net transfer of payments over a period of time, such as remittances.
- It is measured as a percentage of The formulae for calculating CAD is:
- $\text{Current Account} = \text{Trade gap} + \text{Net current transfers} + \text{Net income abroad}$
- $\text{Trade gap} = \text{Exports} - \text{Imports}$
- A country with rising CAD shows that it has become uncompetitive, and investors may not be willing to invest there.
- In India, the Current Account Deficit could be reduced by **boosting exports** and **curbing non-essential imports** such as gold, mobiles, and electronics.
- **Current Account Deficit** and **Fiscal Deficit** (also known as "**budget deficit**") is a situation when a nation's expenditure exceeds its revenues) are together known as **twin deficits** and both often reinforce each other, e., a high fiscal deficit leads to higher CAD and vice versa.