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Current Account Deficit

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- 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:
- Current Account = Trade gap + Net current transfers + Net income abroad
- Trade gap = Exports – 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.