Current Account

The current account measures the flow of goods, services, and investments into and out of the country. It represents a country’s foreign transactions and, like the capital account, is a component of a country’s Balance of Payments (BOP).

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 -

- Visible trade - Export and import of goods,
- Invisible trade - Export and import of services
- Unilateral transfers
- Investment - Income from factors such as land or foreign shares

Current Account Deficit

There is a deficit in Current Account if the value of the goods and services imported exceeds the value of those exported. It is measured as a percentage of GDP, the formulae for calculating CAD is as follows

\[
\text{Current Account} = \text{Trade gap} + \text{Net current transfers} + \text{Net income abroad}
\]

\[
\text{Trade gap} = \text{Exports} - \text{Imports}
\]

- A country with rising CAD shows that it has become uncompetitive, and investors may not be willing to invest there.
- Current Account Deficit and Fiscal Deficit are together known as twin deficits and both often reinforce each other, i.e., a high fiscal deficit leads to higher CAD and vice versa.
- For the fiscal year 2019-20, the current account deficit narrowed to 0.9% of the GDP, compared with 2.1% in FY2018-19.