Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the Current Account Deficit (CAD) and the reasons for it narrowing down this fiscal: about External Commercial Borrowings (ECBs)

News: India’s current account deficit (CAD) narrowed to 0.9% of GDP, or $6.3 billion, in the September 2019 quarter, on account of lower trade deficit. It had stood at 2.9% of the gross domestic product (GDP), or $19 billion, in the corresponding quarter of 2018-19.

On a sequential basis, CAD had printed 2% of GDP, or $14.2 billion, in the June 2019 quarter. “The contraction in the CAD was primarily on account of a lower trade deficit at $38.1 billion as compared with $50 billion a year ago,” the Reserve Bank of India (RBI) said in a release on Tuesday.

Yearly trend of various parameters in 2019 vis-à-vis 2018

- During the first half of the current financial year, CAD narrowed to 1.5% of the GDP from 2.6% in the corresponding period in 2018-19, on the back of a reduction in the trade deficit, which shrank to $84.3 billion as compared with $95.8 billion a year ago. The balance of payments stood at $5.12 billion in the second quarter and $19.1 billion during the first half of this fiscal.
- Net services receipts increased 0.9% in July-September on a year-on-year basis, on the back of a rise in net earnings from computer, travel and financial services, the RBI said.
- In the second quarter of 2019-20, private transfer receipts, mainly representing remittances by Indians employed overseas, rose to $21.9 billion, a rise of 5.2% compared to a year ago.
- The net inflow on account of external commercial borrowings (ECB) was $3.2 billion in the second quarter as compared with $2 billion a year earlier.

About Balance of Payments (BOP)

Balance of Payment is systematic record of overall international economic transactions during specific time period

- It takes into account the export and import of both Goods(Visible items) and
Services (Invisible items)

- World’s net Balance of Payment is always zero.
- The BOP of a country gives information about its ability to pay for its imports. It gives information about the position of the country with respect to issues like currency crisis, capital flows and its impact on the economy etc. It also gives valuable insights into its economic output which is required for its economic growth.

Components of the Balance of payments (BOP)

The components of the balance of payment are:

Current account: It includes the financial transactions dealing with the export and import of goods, services, unilateral transfers, investment income etc.

Capital account: It includes the financial transactions dealing with assets such as foreign direct investment, foreign portfolio investment, foreign loans etc.

Official reserve transactions: It conducted by the central bank in case of the BOP deficit or BOP surplus.

Errors and omissions: It is the element of BOP (other than the current account and the capital account) which refers to the balancing items reflecting the inability to record all the international financial transactions.