Current Account Deficit

According to the data released by the **Reserve Bank of India (RBI),** the **Current Account Deficit** (CAD) of the country came down to 2% of GDP in the first quarter of the current financial year (April 2019- June 2019) from 2.3% of GDP, reported during the same period in the previous year (2018).

According to the RBI, the CAD declined on a year-on-year basis, because of a number of factors such as:

- **Invisible Account: Higher invisible receipts** at $31.9 billion as compared with $29.9 billion a year ago. For e.g., rise in net earnings from travel, financial services, and telecommunications, computer and information services.
- **Trade Visible: Trade deficit** has been lower recently, due to **lower crude oil** prices and also due to the **declining demand.**
- Rising Private transfers **(Remittances).**

- 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).**
- 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 GDP. 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, i.e., a high fiscal deficit leads to higher CAD and vice versa.

Source: TH