



India's Balance of Payments (BOP)

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Why in News?

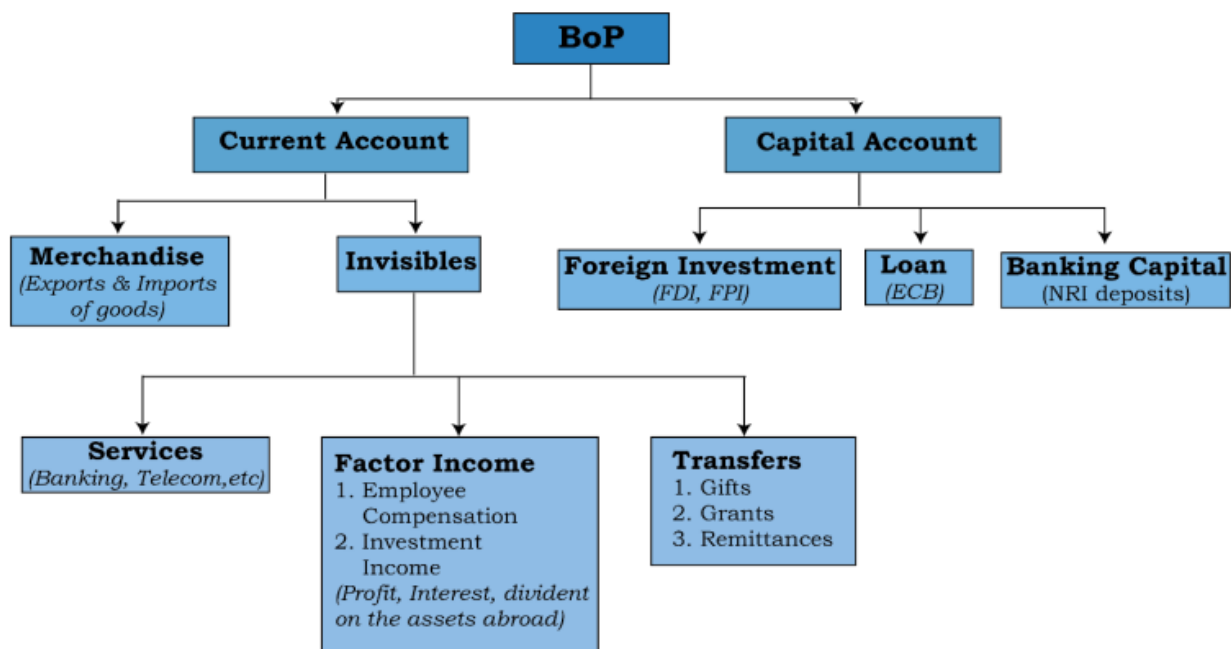
According to recent [RBI](#) data, India's [Current Account Deficit \(CAD\)](#) widened marginally to **USD 9.7 billion (1.1% of GDP)** in Q1 of 2025 reflecting the status of **India's Balance of Payments**.

- CAD occurs when the total value of goods and services a country **imports exceeds** the total value of goods and services it **exports**.

What is Balance of Payments?

- **About:** The [balance of payments \(BOP\)](#) is the record of **all international transactions** made by the residents of a country.
 - It measures the **relative demand for the rupee** against foreign currencies, crucially influencing exchange rates and economic stability.
- **Constituents of BoP: The Current Account and Capital Account** are the two main constituents of BoP.
 - **Current Account:** It includes those transactions that do not change the assets or liabilities position of a country.
 - **Merchandise:** It includes trade in **physical imports and exports**, indicating the balance of trade. A deficit suggests **higher imports than exports**.
 - **Invisibles:** It includes **services** (e.g., banking, insurance IT, tourism, transport, etc.), **transfers** (e.g., gifts, grants, remittances etc), and **factor incomes** (such as the income earned from investments).
 - **Capital Account:** It reflects the net change in a nation's assets and liabilities over a specific period.
 - **Assets:** It reflects investments such as [Foreign Direct Investment](#) and [Foreign Institutional Investor \(FII\)](#), essential for economic growth and stability.
 - **Liabilities:** It also reflects factors such as [commercial borrowings](#), loans, and capital.

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India's Efforts to Reduce Current Account Deficit

- **Encourage Exports:** The [Foreign Trade Policy \(FTP\) 2023](#) aims to boost India's exports to **USD 2 trillion by 2030**. It can counterbalance imports and **reduce CAD**.
- **Promote Import Substitution:** [Atmanirbhar Bharat Abhiyaan](#) is vigorously pursued and provides incentives to domestic manufacturers for the domestic production of goods. E.g., [Production Linked Incentive Scheme](#).
- **Increase Productivity:** Enhancing productivity and competitiveness in the domestic economy can **boost exports** and help reduce the trade deficit. E.g., **'future friendly' skills building, Innovation etc.**

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which of the following has/have occurred in India after its liberalisation of economic policies in 1991?(2017)

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below:

- (a) 1 and 4 only
- (b) 2, 3 and 4 only
- (c) 2 and 3 only

(d) 1, 2, 3 and 4

Ans: (b)

Q. With reference to Balance of Payments, which of the following constitutes/constitute the Current Account? (2014)

1. Balance of trade
2. Foreign assets
3. Balance of invisibles
4. Special Drawing Rights

Select the correct answer using the code given below:

(a) 1 only

(b) 2 and 3

(c) 1 and 3

(d) 1, 2 and 4

Ans: (c)

PDF Reference URL: <https://www.drishtiias.com/printpdf/india-s-balance-of-payments-bop>

