



# India's Balance of Payments (BOP)

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## Why in News?

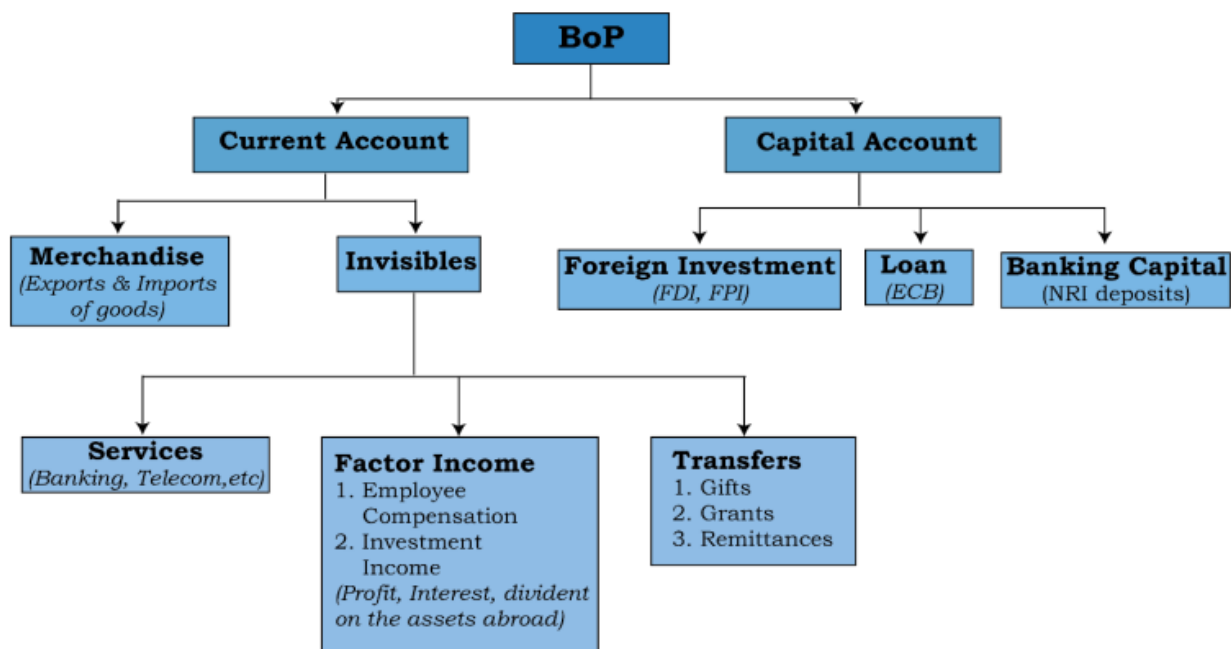
According to recent [RBI](#) data, India's [Current Account Deficit \(CAD\)](#) widened marginally to **USD 9.7 billion (1.1% of GDP)** in Q1 of 2025 reflecting the status of **India's Balance of Payments**.

- 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>

