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1 Current Account Deficit (CAD) (Source: The Hindu)

A current account deficit occurs when a country's total payments to the rest of the world exceed its total receipts from the rest of the world on the current account.

- It is an important component of the **Balance of Payments (BoP)**

Formula

- **Current Account Balance**=Trade Balance+Net Services+Net Primary Income+Net Transfers
  - **Trade Balance**: Exports and imports of merchandise.
  - **Net Services**: Software services, tourism, shipping, banking, insurance, etc.
  - **Net Primary Income**: Interest, dividends and profits received from or paid to foreign countries.
  - **Net Transfers**: Remittances, gifts and foreign aid.

Causes of CAD

- **Domestic Causes**
  - Rapid economic growth increases imports of capital goods, energy and raw materials.
  - Low export competitiveness.
  - High dependence on imported crude oil and gold.
  - Weak manufacturing and limited value addition.
  - Appreciation of the domestic currency can make exports relatively expensive.
  - Excessive domestic demand and consumption.
- **External Causes**
  - Rise in global crude-oil prices.
  - Global slowdown reducing demand for exports.
  - Supply-chain disruptions.
  - Depreciation of the domestic currency increasing the import bill.
  - Higher interest and dividend payments to foreign investors.

Effects of a High CAD

- **Pressure on the Currency**: Demand for foreign currency rises, causing depreciation of the rupee.
- **Imported Inflation**: Imported fuel, fertilisers and raw materials become costlier.
- **External Vulnerability**: The country becomes dependent on foreign capital to finance the deficit.
- **Higher External Debt**: Borrowing may increase if stable capital inflows are insufficient.
- **Reduced Investor Confidence**: A persistent and large CAD may make investors concerned about external stability.
- **Pressure on Foreign-Exchange Reserves**: The central bank may need to use reserves to manage excessive currency volatility.

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2 Inflation and Its Types (Source: The Hindu)

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3 Green Bonds (Source: The Hindu)