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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.

2 Inflation and Its Types (Source: The Hindu)

INFLATION AND ITS TYPES

WHAT IS INFLATION?

Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time, leading to a fall in the purchasing power of money.



TYPES OF INFLATION - BASED ON CAUSE

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1 DEMAND PULL INFLATION
 Demand pull inflation arises when aggregate demand in the economy becomes more than aggregate supply.
Reasons – Rise in population, black money, rise in income.
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2 COST PUSH INFLATION
 When there is decrease in aggregate supply of goods and services results in an increase in cost of production.
Reasons – Infrastructure bottlenecks cause production and distribution cost to rise, rise in minimum support price, rise in international price, hoarding and black marketing, rise in indirect taxes.
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3 BUILT-IN INFLATION
 Firms pass the higher labour costs on to their customers as higher prices. It becomes a vicious cycle of higher price-higher labour cost-higher price.
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4 MONETARY INFLATION
 RBI printing more and more money (deficit financing) can cause inflation. Monetary inflation is a sustained increase in the money supply of a country (or currency area).
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5 STRUCTURAL INFLATION
 Due to the weak structure of the institutions and markets in the economies, mostly the developing and low-income ones.
Example – Artificial shortage of foods/ goods due to hoarding and Poor agriculture produce due to poor monsoons, inadequate irrigation facilities etc.
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6 PROFIT-INDUCED INFLATION
 If the producers, due to their monopoly position, tend to mark-up their profit margin, it will lead to profit-induced inflation.

TYPES OF INFLATION - BASED ON SPEED

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1 CREEPING INFLATION (1-4%)
 When the rate of price increases slowly rises over time. For example, the price increases from 2% to 3%, to 4% a year.
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2 WALKING INFLATION (2-10%)
 When it is in single digits – less than 10%. Central Banks will be increasingly concerned.
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3 RUNNING INFLATION (10-20%)
 When it starts to rise at a significant rate. It is usually defined as a rate between 10% and 20% a year.
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4 GALLOPING INFLATION (20%-1000%)
 This is an inflation rate of between 20% up to 1000%. At this rapid rate of price increases, it is a serious problem and will be challenging to bring under control.
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5 HYPER-INFLATION
 Inflation rising at a very fast rate, can lead to a total collapse of the currency and economic crisis.

EFFECTS OF INFLATION

-  Reduces purchasing power of money
-  Hurts savings and fixed incomes
-  Creates uncertainty in investment and planning
-  May slow down economic growth
-  Leads to higher cost of living

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Green Bonds (Source: The Hindu)

GREEN BONDS

Financing a Sustainable Future

Green bonds are fixed-income instruments that raise money for projects with positive environmental and climate benefits.

KEY FEATURES

- Purpose**
Proceeds are used exclusively to finance or refinance eligible green projects.
- Environmental Impact**
Supports projects that deliver clear environmental benefits.
- Transparency**
Requires reporting on use of proceeds and environmental impact.
- Alignment**
Generally aligned with Green Bond Principles (GBP) by ICMA.

USE OF PROCEEDS - ELIGIBLE GREEN PROJECTS

- Renewable Energy
- Green Buildings
- Clean Transportation
- Sustainable Water & Wastewater Management
- Pollution Prevention & Control
- Sustainable Land Use & Forestry
- Climate Change Adaptation
- Energy Efficiency

The list is illustrative, not exhaustive. Projects must deliver measurable environmental benefits.

HOW GREEN BONDS WORK

Issuer (Government, agencies, corporates or financial institutions issue green bonds.) → Investors (Investors purchase the bonds.) → Use of Proceeds (Funds are allocated to eligible green projects.) → Impact (Projects deliver environmental and climate benefits.)

BENEFITS

- Environmental:** Helps address climate change and supports a low-carbon, resilient future.
- Economic:** Mobilizes capital for sustainable development and innovation.
- Social:** Improves quality of life through cleaner air, water and sustainable infrastructure.
- For Issuers:** Diversifies funding sources and enhances reputation.
- For Investors:** Offers impact investing opportunities alongside financial returns.

TYPES OF GREEN BONDS

- Sovereign Green Bonds**
Issued by national governments to finance green projects.
- Municipal Green Bonds**
Issued by states, cities or local authorities.
- Corporate Green Bonds**
Issued by companies to fund green projects.
- Development Bank Green Bonds**
Issued by multilateral or bilateral development banks.
- Project Green Bonds**
Issued for a specific green project or asset.

GREEN BOND PRINCIPLES (GBP) - ICMA

- Use of Proceeds**
Proceeds used for eligible green projects.
- Process for Project Evaluation & Selection**
Clear process to identify and select eligible projects.
- Management of Proceeds**
Proceeds tracked separately and managed transparently.
- Reporting**
Regular reporting on allocation of proceeds and environmental impact.

GLOBAL GROWTH

The green bond market has grown rapidly worldwide, playing a key role in channeling capital towards a sustainable and low-carbon economy.

DID YOU KNOW?

Green bonds are a powerful tool to achieve the Sustainable Development Goals (SDGs) and the goals of the Paris Agreement.

Green Bonds Today, A Sustainable Tomorrow.