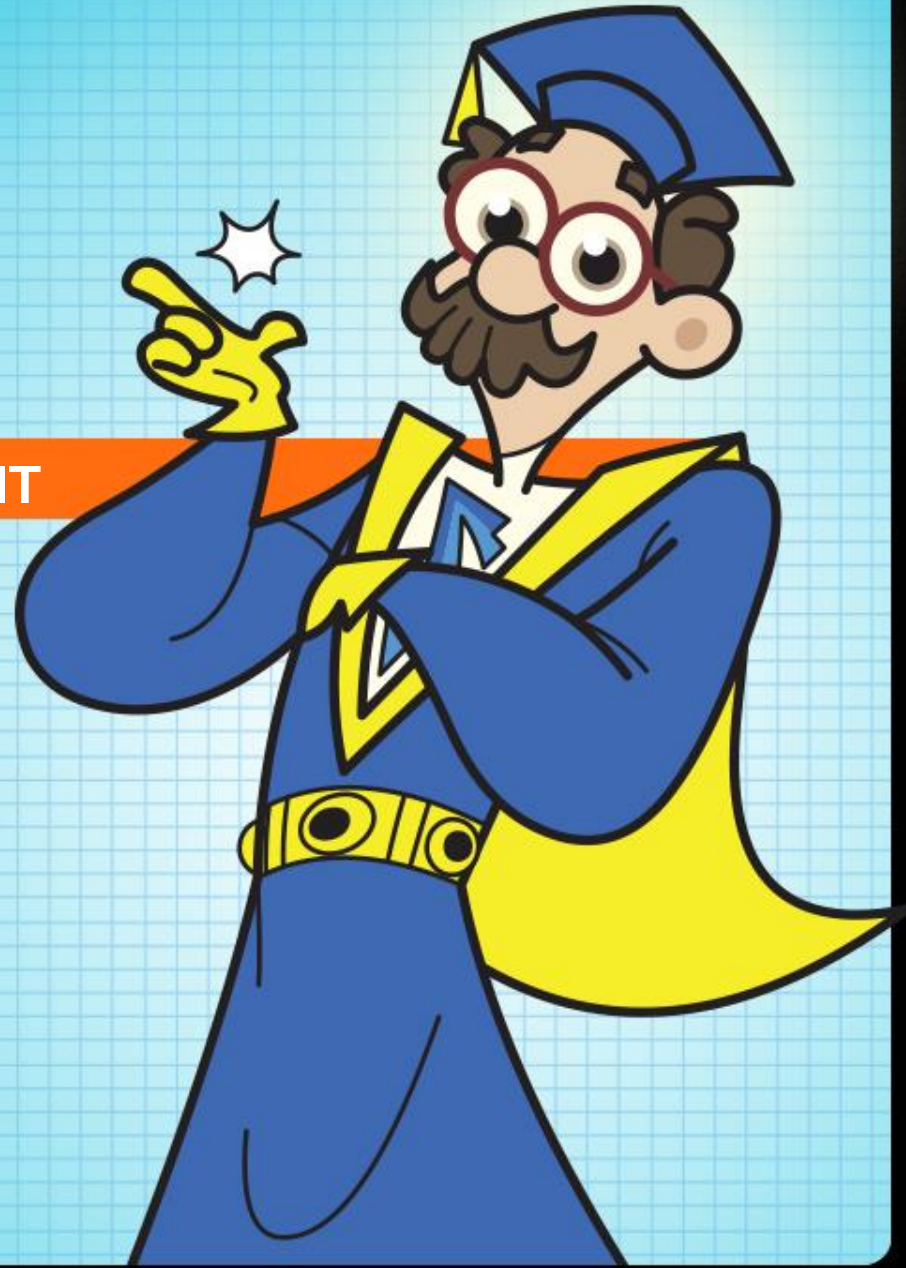
CURRENT ACCOUNT DEFICIT



Understanding

Current Account Deficit

CURRENT ACCOUNT DEFICIT

Let's understand this concept through an interesting story!

CURRENT ACCOUNT DEFICIT

Rajendra and Vinay travel together to work by train every day. As a usual morning practice, Vinay was reading a business paper when he came across the term 'Current Account Deficit'. He wondered what it meant and asked Rajendra to explain.

CURRENT ACCOUNT DEFICIT

Rajendra tells him that if he answers a few questions, the meaning of the term Current Account Deficit will get clear.

CURRENT ACCOUNT DEFICIT

Rajendra asks Vinay to name the sources of his income?

Vinay identifies them as Salary, Interest income from Fixed Deposits and Dividends from mutual funds.

CURRENT ACCOUNT DEFICIT

On hearing this, Rajendra says, "Ok. But how about festival grants and birthday gifts received in cash?"

Vinay agrees "Yes, sometimes".

CURRENT ACCOUNT DEFICIT

Rajendra then asks Vinay to list his expenses?

On hearing this Vinay promptly responds, “Monthly house expenses, Children's school fees, Birthdays & Anniversary, occasional shopping and medical expenses.”

CURRENT ACCOUNT DEFICIT

Rajendra then explains, “ Now assume your expenses exceed your income this month. Then what will you do?”

Vinay after a pause says, “Oh… then I will have to borrow money from someone.”

CURRENT ACCOUNT DEFICIT

Rajendra continues to speak, “Exactly. When your expenses exceed income, it is known as 'Deficit'. And then you become indebted to the lender who lends you money.”

“Ok. That is easy to understand.” says Vinay.

CURRENT ACCOUNT DEFICIT

Rajendra continues explaining, “Similarly, Current Account for a country is expressed as the difference between the value of EXPORT of goods and services and the value of IMPORT of goods and services.

In this context exports are “earnings” while imports are like “expenses”.

SimplySimple.in

CURRENT ACCOUNT DEFICIT

A deficit then means that the “expenses” of the country are more than the income.

In other words the country is importing more goods and services than it is exporting.

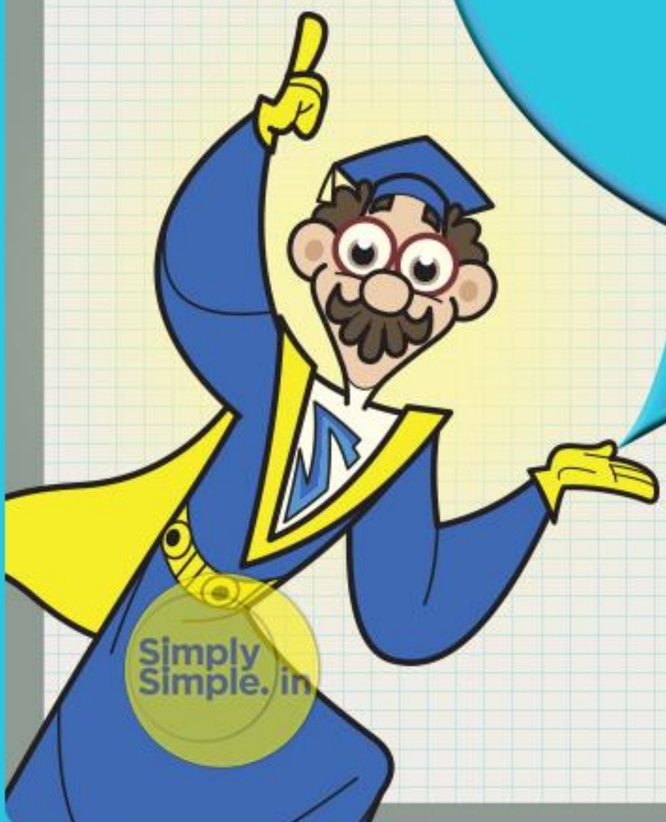
CURRENT ACCOUNT DEFICIT

Current account also includes net income (such as interest and dividends from Capital Inflows or Outflows) and transfers from abroad (such as Workers' Remittances, Foreign Donations, Aids & Grants and Official Assistance), which are usually a small fraction of the total.

CURRENT ACCOUNT DEFICIT

A deficit implies that

India is a net debtor to the world.



CURRENT ACCOUNT DEFICIT

Let us see the formula of the

Current Account Balance (CAB)

CURRENT ACCOUNT DEFICIT

CAB = X - M + NI + NCT

X = Exports of goods and services

M = Imports of goods and services

NI = Net income abroad ***[Salaries paid or received, credit / debit of income from FII & FDI etc.]***

NCT = Net current transfers **[*Workers' Remittances (unilateral), Donations, Aids & Grants, Official Assistance and Pensions etc]***

CURRENT ACCOUNT DEFICIT

Hope this story has clarified the Concept of Current Account Deficit

Thinking of Investment

Contact

vEcoSys

Simply Simple.in

DISCLAIMER

The views expressed in this lesson are for information purposes only and do not construe to be any investment, legal or taxation advice. The lesson is a conceptual representation and may not include several nuances that are associated and vital. The purpose of this lesson is to clarify the basics of the concept so that readers at large can relate and thereby take more interest in the product / concept. In a nutshell, Professor Simply Simple lessons should be seen from the perspective of it being a primer on financial concepts. The contents are topical in nature and held true at the time of creation of the lesson. This is not indicative of future market trends, nor is vEcoSys IMF Pvt. Ltd. attempting to predict the same. Reprinting any part of this material will be at your own risk. vEcoSys IMF Pvt. Ltd. will not be liable for the consequences of such action.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Simply Simple.in