













Balance Of Payment


- Balance of Payment **records all economic transactions** between residents of a country and the rest of the world.
- Inflows are recorded as **positive and outflows as negative.**
- **BOP is maintained by RBI** in India according to IMF guidelines.
- **BOP has 2 major parts:** current account and capital account.
- **Current account includes** goods, services, income and transfers.
- **Capital account includes** FDI, FII, loans, banking capital and investments.
- **Balance of Trade includes** only goods.
- India generally has **goods trade deficit** and **services trade surplus.**
- CAD means **current account outflows** are greater than inflows.
- **BOP formula is** Current Account + Capital Account + Errors and Omissions.
- **Forex reserves include** foreign currencies, gold, SDR and Reserve Tranche Position.

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- **SDR is an IMF reserve asset** based on 5 major currencies.
 - Fixed **exchange rate** is controlled by government or central bank.
 - Floating exchange rate is determined by **demand and supply**.
 - India follows a managed floating exchange rate system.
 - **Depreciation** and **appreciation** happen under floating exchange rate.
 - **Devaluation** and **revaluation** happen under **fixed exchange rate**.
 - India is not fully **convertible** on capital account.
 - **Twin deficit** means fiscal deficit and current account deficit together.



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