

### BoP Surplus and Deficit \*

- Current account balance represents deficit or surplus in the balance of payments.
- A country that has current account deficit must finance it by selling assets or by borrowing abroad. Thus, any current account deficit is financed by a net capital inflows.
- A current account deficit implies that a country's economy is functioning on borrowed means.
- A deficit may be planned for the purpose of helping an economy's development and growth.
- When the economy has both trade deficit and budget deficit, it is said to be facing **twin deficits**.
- Trade deficits need not be alarming if the country invests the borrowed funds yielding a rate of growth higher than the interest rate.

IAS Prelims 2011

Consider the following actions which the government can take:

1. Devaluing the domestic currency.
  2. Reduction in the export subsidy.
  3. Adopting suitable policies which attract greater FDI and more funds from FIIs.
- Which of the above action/actions can help in reducing the current account deficit?  
 (a) **1 and 2** (b) 2 and 3 (c) 3 only (d) 1 and 3

### Convertibility of the rupee \*

Means	freely permitting the conversion of rupee to other major currencies and vice versa
Current account convertibility	India currently has full convertibility of the rupee in current accounts such as for exports and imports
Capital account convertibility	India does not have full convertibility of the rupee for capital transactions. There are ceilings on government and corporate debt, external commercial borrowings and equity.

CAPF-2013

Which of the following statements is correct with respect to the convertibility of Indian rupee?

- (a) It is convertible on capital account (b) **It is convertible on current account**  
 (c) It is convertible both on current and capital account (d) None of the above

IAS Prelims 2002

Consider the following statements:

Full convertibility of the rupee may mean

1. its free float with other international currencies.
2. its direct exchange with any other international currency at any prescribed place inside and outside the country.
3. it acts just like any other international currency.

Which of these statements are correct? (a) **1 and 2** (b) 1 and 3 (c) 2 and 3 (d) 1, 2 and 3

IAS Prelims 2000

Consider the following statements :

The Indian rupee is fully convertible

- I. in respect of Current Account of Balance of Payment.
- II. in respect of Capital Account of Balance of Payment.
- III. into gold.

Which of these statements is/are correct ? (a) **I alone** (b) III alone (c) I and II (d) I, II and III

IAS Prelims 1994 & 2015

Convertibility of the rupee implies

- (a) being able to convert rupee notes into gold
- (b) allowing the value of the rupee to be fixed by market forces
- (c) **freely permitting the conversion of rupee to other major currencies and vice versa**
- (d) developing an international market for currencies in India

IAS Prelims 1996

One of the important goals of the economic liberalisation policy is to achieve full convertibility of the Indian rupee. This is being advocated because

- (a) **convertibility of the rupee will stabilize its exchange value against major currencies of the world**
- (b) it will attract more foreign capital inflow in India
- (c) it will help promote exports
- (d) it will help India secure loans from the world financial markets at attractive terms