

## Capital Account

*Prelims: Current events of national and international importance | Economy*

### Why in news?

*India has a structural capital account deficit (CAD) problem in external balance of payments (BOP) transactions.*

- **BOP (Balance of Payments)** - A record of all economic transactions (goods, services, investments, transfers) between a country and the rest of the world over a period.
- **3 components of BOP** - Current account, Capital account & Financial account.
  - **Current Account** - It records trade in goods (visible items) and services (invisible items), includes unilateral transfers like remittances, gifts, and donations.
  - **Capital Account** - It tracks capital transactions such as purchase/sale of land, property, and fixed assets, includes loans, borrowings, investments, and foreign exchange reserves. It helps to finance deficits in the current account.
  - **Financial Account** - It records cross-border investments in real estate, business ventures, FDI, and portfolio investments, it shows changes in ownership of assets between domestic and foreign entities.
- **Current Account Deficit (CAD)** - A situation where the value of goods, services, and transfers a country imports is greater than what it exports.
- **Impact** - A persistent CAD can signal a country's reliance on foreign capital, affecting exchange rates and economic stability.
- **Role of Capital Inflows** - Normally, India finances its CAD through capital inflows -
  - Foreign Portfolio Investment (FPI)
  - Foreign Direct Investment (FDI)
  - External Commercial Borrowings (ECBs)
- When these inflows dry up, the rupee faces pressure because the balance

of payments cannot be sustained.

- **Current Situation** - Foreign capital inflows have ***sharply declined***, especially FPIs, but ***this is contradictory*** because India's GDP growth remains strong, yet investors are pulling back.
- **Net Capital Inflows Plunged** - Net foreign capital inflows hit a 16-year low of **\$18 billion in 2024-25**, falling below the CAD of **\$23.1 billion** for the same fiscal year.
- **Continued Shortfall** - The trend continued in April-September 2025, with only **\$8.6 billion** in net capital inflows against a CAD of **\$15.1 billion**.
- **Pressure on Rupee** - This imbalance (inflows < CAD) means insufficient dollars are coming in to cover the deficit, creating downward pressure on the rupee.
- **Reasons include** - Global monetary tightening (higher US interest rates), risk aversion among investors, concerns about India's external vulnerabilities.

## Difference between a Current Account and Capital Account

|                           | Current Account  | Capital Account   |
|---------------------------|--|---|
| <b>Meaning</b>            | Looks at the trade balance, net income, and direct payments of a nation.       | Evaluation of capital expenditures and capital investments.           |
| <b>Components</b>         | Exports/imports, investment income, and transfers                              | Foreign direct investment, portfolio investment, and foreign loans    |
| <b>Measures</b>           | Exports and imports of a nation's goods and services                           | Trading of foreign assets and liabilities                             |
| <b>Balance of Payment</b> | Negative balance equal to net borrower<br>Positive balance equal to net lender | Surplus equal to inflow of money<br>Deficit equal to outflow of money |
| <b>Represents</b>         | Trade balance of a nation, direct payments, and net income.                    | Capital investments and expenditures                                  |

## References

1. [Indian Express | Why the rupee has a capital account problem](#)
2. [Investopedia | Current vs. Capital Accounts](#)



**SHANKAR**  
**IAS PARLIAMENT**  
*Information is Empowering*