

1. What is Balance of Payments? Discuss in detail India's Balance of Payments structure.

The Balance of Payments (BoP) is a systematic record of all economic transactions between a country's residents and the rest of the world. As per the IMF, it is "a statistical statement that systematically summarizes transactions between residents and non-residents." It reflects a nation's external economic health, currency stability, and global competitiveness.

Structure of India's BoP:

India's BoP comprises three main components: the Current Account, the Capital Account, and Errors & Omissions.

1. Current Account:

It records transactions in goods, services, income, and unilateral transfers.

- **Trade Balance:** India usually has a trade deficit as merchandise exports (E.g. textiles, pharma) are lower than imports (E.g. Crude oil, gold). In 2023, the trade deficit stood at \$265 billion due to high global oil prices.
- **Invisibles (Services, Remittances):** India enjoys a strong surplus in services due to IT exports and remittances. Net service exports were \$155 billion in FY23. The World Bank (2023) noted, "Remittances remain a lifeline for India's current account."
- **Current Account Deficit (CAD):** India's CAD was 1.2% of GDP in FY23—moderate and manageable.

2. Capital Account:

It covers capital transfers and acquisition/disposal of non-financial assets.

- **Foreign Direct Investment (FDI):** India remains attractive for FDI, especially in IT, digital services, and manufacturing. UNCTAD (2023): "India is a bright spot for global investors."
- **Foreign Portfolio Investment (FPI):** Though volatile, FPI contributed \$40 billion net inflows in FY23.
- **ECB, NRI Deposits:** These are key non-debt and debt capital inflows supporting CAD.
- **Forex Reserves:** RBI manages reserves to stabilize the rupee. In March 2024, forex reserves stood at \$620 billion, covering over 11 months of imports.

3. Errors and Omissions:

These adjust for data discrepancies in BoP records.

Conclusion: India's BoP remains broadly stable, with capital inflows covering the CAD. However, reliance on volatile FPI and high import dependence are a matter of concern.

According to the Economic Survey 2023–24, "Strengthening merchandise exports, service sector growth, and resilient remittances will be the pillars of BoP sustainability."

2. What are the factors behind the declining Rupee value? Discuss the impact of the falling rupee on the Indian Economy.

The Indian Rupee (INR) follows a managed floating exchange rate system, where its value is influenced by market forces and Reserve Bank of India (RBI) interventions. A depreciating rupee reflects its declining value relative to foreign currencies, especially the US Dollar (USD). In 2024, the rupee fell by 2.8%, closing at ₹85.61/USD—its seventh consecutive year of decline.

Factors Behind Rupee Depreciation:

1. **Widening Current Account Deficit (CAD):** India's CAD increased due to high crude oil imports and stagnant export growth. In Q3 2024-25, CAD stood at \$11.5 billion (1.1% of GDP).
2. **Strong US Dollar:** The USD appreciated due to higher US interest rates and global risk aversion, pressuring emerging market currencies like the INR.

3. **FPI Outflows:** In 2024, foreign investors withdrew over \$14 billion from Indian equities, reducing capital inflows and weakening the rupee.
4. **High Oil Prices:** India imports over 80% of its oil. Rising global crude prices raised the import bill and widened the trade deficit.
5. **Geopolitical Tensions:** Events like the Russia–Ukraine war and Red Sea crisis triggered capital flight from emerging markets.
6. **RBI Intervention:** To reduce volatility, the RBI used around \$77 billion from forex reserves between Oct 2024–Jan 2025.

Impact on the Indian Economy:

1. **Imported Inflation:** A weaker rupee makes imports costlier, especially fuel and edible oil, pushing up inflation.
2. **Higher Debt Servicing:** External debt becomes costlier as repayments in foreign currency require more rupees.
3. **Trade Balance Pressure:** Though exports may become competitive, costly imports can offset these gains.
4. **Corporate Stress:** Firms with foreign currency borrowings face higher repayment costs, affecting profitability.
5. **Monetary Policy Dilemma:** Rupee depreciation limits RBI's scope for interest rate cuts, as they may further weaken the currency.

Way Forward:

- Diversify exports to reduce dependence on few sectors.
- Encourage stable FDI inflows over volatile portfolio investment.
- Build robust forex reserves.

Strengthen energy security through renewables and reduced oil dependence.

Conclusion:

Rupee depreciation in 2024 highlights vulnerabilities in India's external sector. While some industries benefit, the broader economy faces challenges in inflation, trade balance, and debt management.

As per the Economic Survey 2023–24:

“Maintaining external sector stability is crucial for sustaining economic growth.”