

**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.”