The concern over current account deficit

Why in news?

In its latest review of the economy, the Finance Ministry is positive about India's economic recovery and has asserted that macro-economic risks have subsided over the past six weeks.

What is Current Account Deficit (CAD)?

- The current account deficit is a measurement of a country's trade where the value of the goods and services it imports exceeds the value of the products it exports.
- The current account includes net income, such as interest and dividends, and transfers, such as foreign aid, although these components make up only a small percentage of the total current account.
- The current account represents a country's foreign transactions and, like the capital account, is a component of a country's balance of payments (BOP).

What is India's status on the current account deficit?

- The Government's cautious optimism is tinged with impending concerns of a speedier tightening of monetary policies by the U.S. Federal Reserve.
- The resultant dip in asset markets can mar sentiment and consumption, on top of persistent geopolitical strife.
- Interest rate hikes and measures to curtail the outflow of dollars announced by the central bank, with several steps from the government such as the imposition of windfall taxes and higher import duties on forex-drainers like gold, will help to overcome the dark clouds of the economy.
- Despite excise duty cuts on petrol and diesel, the Ministry of Finance believes India's fiscal math for the year will not unravel due to the recent tax levies, and healthy Goods and Services Tax collections.
- Industrial metal prices slipping to 16-month lows, prices for some food items falling off their peaks, and crude oil prices descending in the face of fears of a recession in many developed nations, have helped.
- However, through a sustained and meaningful drop in food and energy prices, India's current account deficit will deteriorate in 2022-23 on

account of costlier imports and tepid exports in the merchandise account.
- **Fuel:** India's high import dependence on fuel means oil price trajectories affect most macro parameters, including inflation, growth, current account balances, fiscal management, and the rupee, and the current account deficit (CAD) widening sharply from the 1.2% of GDP last year.
- Slowing exports and costlier inelastic imports of oil have triggered record merchandise trade deficits for two consecutive months, exacerbating the CAD which is tripping the rupee, making imports even costlier, and widening the CAD further.
- The CAD has hit 2.7% of GDP in the first quarter, however, if developed economies slow down as expected and shale oil supplies pick up, crude oil prices could drop lower and the full-year deficit may improve.

What is the way forward?

- Finance Minister has assured the country of a pointed 'item by item' attack on inflation to ensure growth prospects are not hindered.
- If the fiscal deficit is not a concern, and tax revenues may, overshoot Budget estimates owing to high inflation.
- The Government can consider reviewing its fiscal capacity and think of more measures to stimulate growth and mitigate the detrimental effects of high inflation and interest rates on consumption and investments.

Reference

1. https://www.thehindu.com/opinion/editorial/deficit-doubts-the-hindu-editorial-on-concern-over-current-account-deficit/article65644248.ece