1. Rising current Account deficit is best bridged through higher exports, rather than Foreign Direct Investment flows. Explain.

Finacial year 2021-22, India faired well with boom in merchandise trade \$421 bn, crossed government's target of \$400bn post pandemic. services also grown \$255bn. These helped in containing the current Account deficit at 1.2% of GDP well within RBI's target of 3%. saving from 'twin deficit' problem, though Fiscal deficit is above ~~RP~~ FRBM target

Current situation & its implication on current Account deficit

1. The exports started to slow down eg: April-September 2022 exports grown 17%, while Import surged 39%.

2. Trade deficit widened - 96% increase ⇒ \$148billion in 1^{st} half of 2022-23.

Reasons for Deficit

Increase in the crude oil import bill, along with fertiliser, textile etc, imports.

But important fact to be noted that, before ukraine war - the average crude oil prices increased by 33%. ~~At~~ & March - september 2022 - it decreased by 19%. Another thing, is India's import from Russia with respect to crude oil increased ↑ 6% → 15.6%

So there is a cooled off in Import bill. (due to discount)

Main reason for deficit Structural factor

1. After LPG, India's export has not faired well as compared to Import.

eg: non-petroleum export - grew only 6% in overall export 17% (April-Sep 2022).

2. Import dependent nature. Largest component - Petroleum product, gems & jewellery - import dependent.

3 Services too export growing slower than import

How FDI not compensating CAD (Current Account deficit).

India's gross FDI = \$84 bn; net FDI is \$56 bn. Of these and of outflows - \$37 bn and patent fee \$9 bn, left out is mere \$10 bn. It is not sufficient to compensate rising current Account deficit

currently, it is 2.8% of GDP at beginning of 2nd quarter of 2022-23, & it expected to breach 3%, with trade deficit widened to \$63 bn from \$37 bn

so, policy makers and government must focus on increasing export led growth than relying fully on FDI.