Rising Current Account Deficit

What is the issue?

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An independent research has shown that current account deficit (CAD) is expected to increase significantly in 2017-18.

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What are the highlights?

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- India's CAD in the current fiscal year is forecast to be the highest in 6 years.
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- It may go up to between 1.6% and 1.8% of GDP.
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- Another prediction projects CAD to be likely at 2.4% of GDP, higher than in 2013-14.
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- This is even after taking Brent crude prices at an average of $65 per barrel (minimum possible).
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- Moreover, the overall balance of payments is also projected to slip into a deficit this fiscal.
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- As, capital inflows may be insufficient to cover the current account deficit.
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- The rupee is therefore expected to weaken.
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What are the possible reasons?

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- Crude oil price could be the major reason for a problematic CAD.
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- This is something which is beyond the government's control.
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- But besides this, within the country, there is a significant increase in imports over the past year.
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- And notably not all of it is oil-related.
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- Gems and jewellery imports have also increased.
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- Overall, the increase in imports was nearly twice as high as that in exports over the past financial year.
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- Increasing imports naturally lead to outflow of capital by way of payments.
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What are the policy shortfalls?

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- Government has imposed consumption constraints similar to the limits on gold imports.
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- Apart from this, the government does not have too many options to decrease imports.
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- But this is not the case with exports.
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- The deficit could have been balanced by encouraging the exports.
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- However, the government has failed to boost export growth.
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- Past few years had been years of stable macroeconomic indicators with a gift of cheap oil.
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- But these have not been adequately exploited to improve export growth for the country's benefit.
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- Exports have remained around or below the $300-billion mark since 2011.
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- Rival exporting countries like Bangladesh and Vietnam have vastly increased their export revenues.
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- Export growth remained in single digits even in 2017-18, the strongest year for world trade growth since 2011-12.
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- Evidently, growing trade deficit is more a consequence of failing on exports rather than increasing imports.
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What is the way forward?

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- The only sustainable path to stability on the external account is through a vibrant and globally integrated exports sector.
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- Some sector-specific “packages”, beyond just tax incentives, are essential for export growth.
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- Besides, the overall tax situation has to be improved.
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- The limitations and the resultant crunch in exporters’ working capital with GST implementation has to be sorted out.
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- If indeed the balance of payments turns adverse, then at least the rupee might fall from its current over-valued levels.
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- This could render exports cheaper.
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- So, the government must work to render other aspects of the exports supply chain competitive.
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Source: Business Standard

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