122-3 Rising CAD is best bridged through higher exports, rather than FDI flows. Explain.

The current account deficit in the country reached 2.8% of GDP ($23.9 Billion) up from 1.5% of GDP in Q4 of FY22. as per RBI.

The surge in current account deficit is due to decreased merchandise exports and rise in imports.

Fiscal condition

In the FY 2021-22 India's current account deficit was 1.2% of GDP despite import of goods was $613 billion and services $147 billion

The top three export commodities such as are petroleum products, jewels and jewellery largely dependent on imports. The exports of non-petroleum products is not competitive. During 2022 April to September merchandise exports increased by 12% and imports increased by 39%.

FDI is no panacea

To address the current account deficit FDI alone is not sufficient. In 2021-22 net FDI inflow was $56 billion.

Deducting the dividends and expenses on intellectual property of the net FDI inflows is just $10.8 billion. Also, the foreign investment is fluctuating due to Federal reserves monetary tightening.

Government measures to boost exports

① Creation of National logistics division under commerce ministry for integrated development of logistics.

② Remission of Duties and taxes on exported products and rebate on central and state levies to encourage exports

③ 12 champion service sectors for promoting and diversifying services exports

Prudent fiscal and monetary measures are required to keep the current account deficit target of 3% of GDP prescribed by FRBM act.