CAD may hit 9-year high in Q1 as net exports soar

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India's current account deficit (CAD) may hit a nine-year high in the June quarter of FY23 with the net exports ratio touching 5.3 per cent of gross domestic product (GDP) in the first quarter.

A part of the GDP figures, the net exports data — which is usually negative for India — captures the difference between exports and imports of both goods and services, while the CAD data, released by the Reserve Bank of India (RBI), also factors in private transfer receipts. Thus, CAD represents remittances by Indians employed overseas, along with net exports.

Net exports, which are considered a proxy for CAD, came in highest since the June quarter of 2013, the national account data released on Wednesday for the June quarter showed. CAD in the June quarter of 2013 was 4.9 per cent of GDP, while net exports stood at 5.9 per cent of GDP.

India's CAD stood at 1.5 per cent of GDP in the March quarter of FY22 compared to a CAD of 2.6 per cent of GDP in the December quarter.

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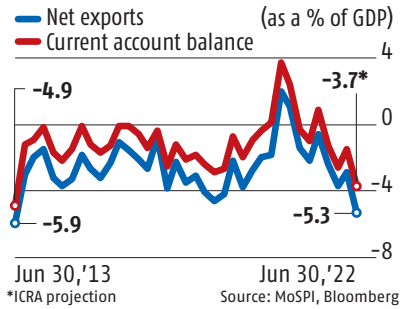

*ICRA projection
Source: MoSPI, Bloomberg

Aditi Nayar, chief economist at ICRA sees CAD of $30-32 billion (3.7 per cent of GDP) in the June quarter of FY23 — as the fallout of higher commodity prices and domestic demand — which is equivalent to around 80 per cent of the full year figure for FY22. "Lower commodity prices should temper the trade deficit in August-September 2022, although the strength of merchandise and services exports in the face of global slowdown fears remains crucial. Following the massive trade deficit for July, we are concerned that CAD may widen to as much as 4.3-4.5 per cent of GDP in Q2 of FY23, before easing considerably in the next two quarters on the back of a correction in commodity prices and seasonally stronger exports," she added.

India's trade deficit widened to a record $30 billion in July as exports grew at a much slower pace compared to imports on the back of softening global demand due to recessionary fears in most of the developed world.

RBI Governor Shaktikanta Das in his briefing after the monetary policy decision last month said export of goods and services, together with remittances, are expected to keep CAD within sustainable limits. "The current account deficit is expected to remain within manageable limits. The Reserve Bank has the ability to finance the current account deficit based on our assessment," he said.

From an external financing perspective, Das said net foreign direct investment (FDI) at $13.6 billion in Q1 of FY23 was robust as compared to $11.6 billion in the same quarter a year ago. "Foreign portfolio investment, after remaining in exit mode during the June quarter, turned positive in July," he added.

Elevated net exports also became a significant drag on the GDP growth in the June quarter as high commodity prices fuelled imports. "With fears of global growth slowdown and high commodity prices, decline in net exports will remain a cause of concern," said CARE Ratings Chief Economist Rajani Sinha.