CAD may shoot up as net exports hit 9-year high

Net exports came in highest since April-June quarter of 2013

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India's current account deficit (CAD) may shoot up in the July-September quarter (second quarter, or Q2) of 2022-23 (FY23), with the net export ratio touching a fresh nine-year high at 5.89 per cent of gross domestic product (GDP) in Q2.

A part of the GDP figure, the net export 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 April-June quarter (first quarter, or Q1) of 2013, the national account data released on Wednesday for the September quarter showed.

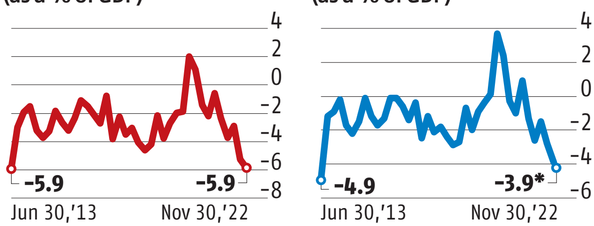
CAD in Q1 of 2013 was 4.9 per cent of GDP, while net exports stood at 5.93 per cent of GDP.

India's CAD stood at 2.8 per cent of GDP in Q1FY23, compared with 1.5 per cent of GDP in the January-March quarter of 2021-22.

ILLUSTRATION: BINAY SINHA

TRACKING THE GRAPH

Net exports (as a % of GDP) | **CAD** (as a % of GDP)



*ICRA estimate

Source: MOSPI, Bloomberg data

Aditi Nayar, chief economist at ICRA, said GDP data for Q2 indicates a further widening in net exports on a sequential basis, which would be partly offset by secondary income inflows.

"Overall, we project CAD for that quarter to deteriorate to $31-35 billion, or 3.9 per cent of GDP," she added.

Madan Sabnavis, chief economist at Bank of Baroda, said higher net exports in Q2 is a result of slowing exports and rising imports already witnessed during the period.

"A lot will depend upon whether or not invisibles are able to counter this effect. Given the relative slowdown in nominal GDP in Q2 relative to Q1 and a higher trade deficit of $81 billion, we expect CAD to be around 3-3.25 per cent for Q2," he added.

Rajani Sinha, chief economist at CARE Ratings, said a sharp weakening of net exports in Q2, compared with the year-ago levels, has also weighed on overall GDP growth. "With fears of global growth slowdown and a weaker currency, the decline in net exports will remain a cause for concern," she added.

Upasna Bhardwaj, chief economist at Kotak Mahindra Bank, said net export is likely to come under further stress, given a looming global slowdown.

"Exports are already reflecting a slowdown, with October's print falling to $29.8 billion — the first sub- $30 billion reading since February 2021," she added.

Goldman Sachs in its India 2023 Outlook Report released last week said in the second half (H2) of 2023, growth is likely to re-accelerate as global growth recovers, drag from net exports diminishes, and investment cycle picks up.

"We expect a lower GDP growth drag of 2.2 percentage points from net exports in H2 of 2023, compared with a drag of 3 percentage points in the first half (H1) of 2023," it added.

Replying to a query in the monetary policy press conference, RBI Deputy Governor Michael D Patra said he expects CAD to widen modestly in H1 of 2023, but narrow in the second half.

"Overall, we expect it (CAD) to be under 3 per cent of GDP," he added.