Worries persist over FY24 current account balance

CAD may be better than expected in FY23, but India won't be completely out of the woods next year, says official

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With India expected to be among the fastest growing major economies in financial year 2023-24 (FY24), officials in the Union government are not as worried about most major economic indicators like gross domestic product (GDP), inflation, and the fiscal deficit.

However, the current account balance is still a cause for concern for some policymakers, given how uncertain the trade component is expected to be due to recession in many western developed economies and slowdown in China.

This concern could be reflected in public statements of senior officials and in future monthly economic reports as well, and comes in spite of Reserve Bank of India (RBI) Governor Shaktikanta Das' assurances that the current account deficit (CAD) is "eminently manageable". A deficit indicates that the country imported more goods and services than it exported.

"A major concern going into next year is the current account. We are awaiting the October-December quarter data, but because of factors in the West, the trade balance could be impacted as exports may be affected," said a senior official.

The official added that while CAD for FY23 could be somewhat better than expected, it will have to be monitored in FY24. "We won't be completely out of the woods," he said. While the trade deficit has widened this year due to a rise in imports, especially due to elevated crude prices, next financial year an expected recession in the West may lead to India's exports being adversely impacted.

On Wednesday, Union Finance Minister Nirmala Sitharaman said the global slowdown and recession in advanced economies will be a challenge for India's trade, and Indian exporters have to actively engage with the government to insulate themselves from any negative impacts.

"Indian exporters have to be far more receptive of what is happening there (globally) or even foresee how it will pan out for them and keep constantly engaging with the government. Otherwise, at a time when our exporters are really readying themselves to be on their toes, such challenges can demotivate them," she had said at an event in New Delhi.

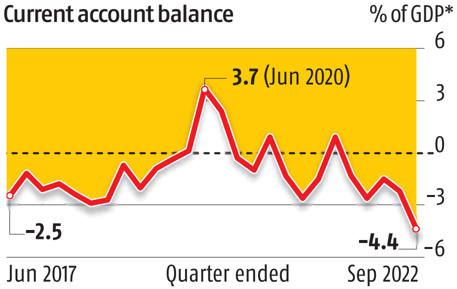
The Economic Survey 2022-23 stated that CAD will have to be monitored because global economic growth and world trade have started to slow due to aggressive and synchronised monetary tightening by central banks. "The recent Customs duty cuts and import substitution to target current account balance can only work to a certain extent. If the global economy does not show a strong recovery, CAD will be an issue. That is something we will carefully monitor," said a second official.

Recently, RBI Governor Das sought to ease concerns over India's CAD saying that it was "eminently manageable and within parameters of viability". Das said India's strong services exports and remittances would help soften the impact on external deficit due to slowing of merchandise demand globally.

The World Bank in its January 2023 Global Economic Prospects Report said that global growth was projected to decelerate sharply this year, to its "third weakest pace" in nearly three decades.

"This reflects synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine. Global growth is expected to decelerate sharply to 1.7 per cent in 2023 compared to 3 per cent expected just six months ago," the World Bank said.

WIDENING DEFICIT
Current account balance



Note: Negative figures denote deficit, while positive denote surplus
Sources: Bloomberg; *RBI
Compiled by BS Research Bureau

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