ET POLL OF 14 ECONOMISTS

CAD Seen Narrowing in FY24, But Unlikely to Dip Below 2% of GDP

Easing global commodity prices and strong services exports expected to help

Ishaan.Gera@timesgroup.com

New Delhi: India's current account deficit is expected to improve in FY24 but may not slip below 2% of the country's gross domestic product (GDP), an ET poll showed.

The median forecast of 14 economists pegged the current deficit at 2% of GDP in FY24, helped by softening global commodity prices and strengthening of services exports. The current account deficit for FY23 is expected at 2.5% of GDP, over double the 1.2% of GDP in the preceding year.

"We see CAD easing from here on, led by incrementally improving trade deficit amid receding commodity prices, especially for oil," said Madhavi Arora, lead economist, Emkay Global. "Additionally, the solid services trade surplus will continue to strongly offset CAD, which will now likely amount to $85 billion in 2023-24."

The forecasts in the poll ranged from 1.6% to 2.9% for FY24 and 2.1-3.3% for the current fiscal.

"In 2023-24, while exports are likely to falter, imports will also weaken, and that will help narrow the trade deficit. The strong momentum in services sector export and remittances is likely to continue next fiscal year," said Rajani Sinha, chief economist at CareEdge.

Sinha expects CAD to narrow to 1.6% of GDP in the coming fiscal.

The merchandise trade deficit eased in the past couple of months due to falling commodity prices after remaining elevated for the most of FY23.

Rahul Bajoria, MD & head of EM Asia (ex-China) economics, Barclays, said CAD might narrow further if oil prices remain at current levels. "We see risks tilted towards a smaller CAD in FY23-24, as our baseline oil assumption is at $85 per barrel," he said, adding "if oil prices stay at current market levels around $75 per barrel, it could imply an even smaller deficit, below 1.5% of GDP, which will tremendously improve macro stability."

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