CAD doubles to 4.4% of GDP in July-Sept

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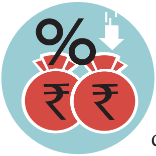
India's current account deficit (CAD) shot up to an all-time high of $36.4 billion, about 4.4 per cent of the country's gross domestic product (GDP), in the quarter ended September 2022 (Q2FY23), owing to a widening of the merchandise trade gap.



According to *Bloomberg* data, the previous highest CAD in absolute terms was $31.8 billion in the quarter ended December 2012 (Q3FY13).

The CAD was $18.2 billion (2.2 per cent of GDP) in the first quarter ended June 2022 (Q1FY23) and $9.7 billion (1.3 per cent of GDP) a year ago (Q2FY22), said the Reserve Bank of India (RBI) in a statement.

The high CAD in Q2FY23 was due to the widening of the merchandise trade deficit to $83.5 billion from $63 billion in Q1FY23 and an increase in the net outgo under investment income, the RBI added.

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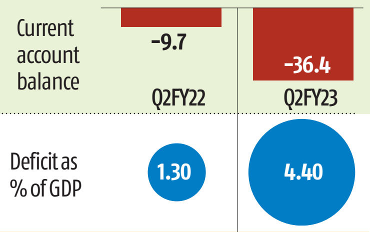
GROWING BURDEN

India's CAD profile (in $ bn)



	Q2FY22	Q2FY23
Goods	-44.5	-83.5
Services	25.6	34.4
Primary income	-9.8	-12
Secondary income	19	24.8

Note: '-' denotes deficit, '+' denotes surplus
Source: RBI

output slowdown. Global trade volume is also expected to decelerate from 10.1 per cent in 2021 to 4.3 per cent in 2022, with EMDEs bearing the brunt.

Inflation is forecast to rise to 8.8 per cent in 2022, with both headline and core inflation staying well above targets in AEs and EMDEs. On domestic inflation, the FSR said the front-loaded monetary actions are expected to bring CPI inflation within the central bank tolerance band of 2-6 per cent. It said though CPI inflation has moderated but the persistence and broadening of core inflation may exert pressure on the headline numbers.

"Frontloaded monetary policy actions are expected to bring inflation into the tolerance band and closer to the target while anchoring inflation expectations," the report said.

While acknowledging improvement in profitability and capital levels of the domestic banking system, the FSR added that domestic financial markets remain choppy due to heightened uncertainty and volatility in global markets. "Preserving macroeconomic and financial stability in the current environment assumes importance to support the recovery, ensure financial stability and bolster India's long-term potential," it said.

CAD...

Aditi Nayar, chief economist, ICRA, said while it was expected that the CAD would widen to an all-time high, the size exceeded even the upper end of "our forecast range of $31-34 billion". Negative surprises in the merchandise trade deficit and primary income outweighed the higher than expected services surplus and secondary income flows.

The FSR said the rise in the CAD due to the huge trade deficit in Q2FY23 reflected the impact of slowing global demand for exports, even as growth in services exports and remittances remained robust.

The net outgo from the primary income account, mainly reflecting payments of investment income, increased to $12 billion from $9.8 billion a year ago. Private transfer receipts, mainly representing remittances by Indians working overseas, amounted to $27.4 billion, an increase of 29.7 per cent from their level a year ago.

As for the balance of payments (BoP) position, there was depletion in reserves of $30.4 billion. This was in contrast to an accretion of $31.2 billion in Q2FY22, which included special drawing rights (SDRs) of $17.86 billion by the International Monetary Fund on August 23, 2021. Of the fall in reserves by $75 billion in 2022-23 (end-September 2022), about 66 per cent can be attributed to valuation losses as the dollar strengthened and yields on treasuries and other sovereign bonds rose, the FSR said.

For April-September 2022 (H1FY23), the country's current account deficit shot up to 3.3 per cent of GDP from 0.2 per cent in H1FY22 due to a sharp increase in the merchandise trade deficit.