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**INDIA'S WIDENING CURRENT  
ACCOUNT DEFICIT (CAD) AMID  
GLOBAL UNCERTAINTY**

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## INDIA'S WIDENING CURRENT ACCOUNT DEFICIT (CAD) AMID GLOBAL UNCERTAINTY

### Context

- India seems headed for a **third consecutive year** of a **balance-of-payments deficit** with the rest of the world.

### About Current Account Deficit (CAD)

- Current Account** records **transactions of goods, services, income, and transfers** between a country and the rest of the world, and its deficit occurs when a country's **total imports of goods, services, and transfers exceed its exports**.
  - CAD is if total outflows is more than inflows.
- It reflects the **external imbalance** and indicates that the country is a **net borrower from the rest of the world**.
- Components of Current Account:**
  - Trade Balance (Exports – Imports of goods)
  - Services (IT, tourism, etc.)
  - Income (interest, dividends)
  - Transfers (remittances)

### Recent Trends in India's CAD

- IMF projects India's CAD at **\$84.46 billion**, one of the highest in two decades.
- Comparable to the **2012 crisis period (~\$87.84 billion)**.
- India may face a **third consecutive Balance of Payments (BoP) deficit**.
- CAD is driven by **external factors (oil prices)**, not domestic instability.

### Reasons for Widening CAD in India

- Rising Crude Oil Prices:** It is a major driver of CAD increase. India **imports nearly 85% of its crude**, leading to higher import bill and wider trade deficit.
  - Oil price assumptions increased to **\$82–85/barrel** (IMF & RBI estimates)
- High Import Dependence:** Imports of energy (oil, gas), gold, and electronics. Rapid economic growth increases demand for imports faster than exports.
- Slower Export Growth:** Global slowdown reduces demand for Indian exports. Structural issues like low manufacturing competitiveness, and dependence on limited export sectors.
- Weak Capital Inflows:** CAD needs financing via Foreign Direct Investment (FDI); Portfolio flows (FPI); and External borrowings.
  - Global uncertainty leading to investors becoming risk-averse and lower inflows of capital.
- Global Economic Uncertainty:** Geopolitical tensions, inflation, and monetary tightening in advanced economies reduce trade demand, and capital flows.
- Currency Depreciation:** Rupee depreciation increases cost of imports (especially oil), leading to worsening trade deficit and CAD.
- Growth-Import Link:** According to **Thirlwall's Law**, faster GDP growth leads to higher imports. CAD widens, if exports don't grow equally.

### What is CAD Sustainability?

- CAD-to-GDP Ratio:** Earlier threshold (Rangarajan Committee, 1993): **1.6% of GDP**
  - Current consensus: **2–2.5% of GDP is sustainable**

- ◆ India's CAD projected around **2% of GDP** which is **within manageable limits**. CAD-to-GDP ratio still within sustainable range.
- **Inter-temporal Borrowing:** CAD is sustainable if borrowed funds today lead to **future growth and repayment capacity**.
- **Net Foreign Liabilities:** Sustainability depends on maintaining a stable **external debt-to-GDP ratio**.
- **Adjustment Risks:** Unsustainable CAD may lead to sharp **currency depreciation**, high **interest rates**, and economic slowdown.

### Policy Measures & Way Forward

- **Short-Term:**
  - ◆ Diversify energy imports and promote **strategic reserves**
  - ◆ Encourage stable capital inflows
  - ◆ Manage exchange rate volatility
- **Long-Term:**
  - ◆ Boost **export competitiveness** (PLI schemes, manufacturing push)
  - ◆ Reduce import dependence (especially energy)
  - ◆ Strengthen **services exports** (IT, digital economy)

### Conclusion

- India's widening CAD reflects global shocks more than domestic weakness.
- Sustained external imbalances could constrain growth unless export performance improves and import dependence reduces, while current levels remain manageable.

Source: LM

### Daily Mains Practice Question

- [Q] Discuss the causes of the rising Current Account Deficit (CAD) in India and examine its sustainability. Suggest policy measures to manage external sector vulnerabilities.

