



Current Account Deficit

How Can We Tackle The Current Account Deficit?



01

About Current Account Deficit

What is Current Account

Current Account = Trade gap + Net current transfers + Net income abroad

Trade gap = Exports – Imports

Deficit

Imports
>
Exports



Short Term

Fuels Economic Growth

Long Term

Economy have to go into debt to pay for consumption.

Surplus

Exports
>
Imports



Short Term

Boost Economic Growth

Long Term

Economy becomes too dependent on export-driven growth.

What Causes CAD

Causes Of CAD

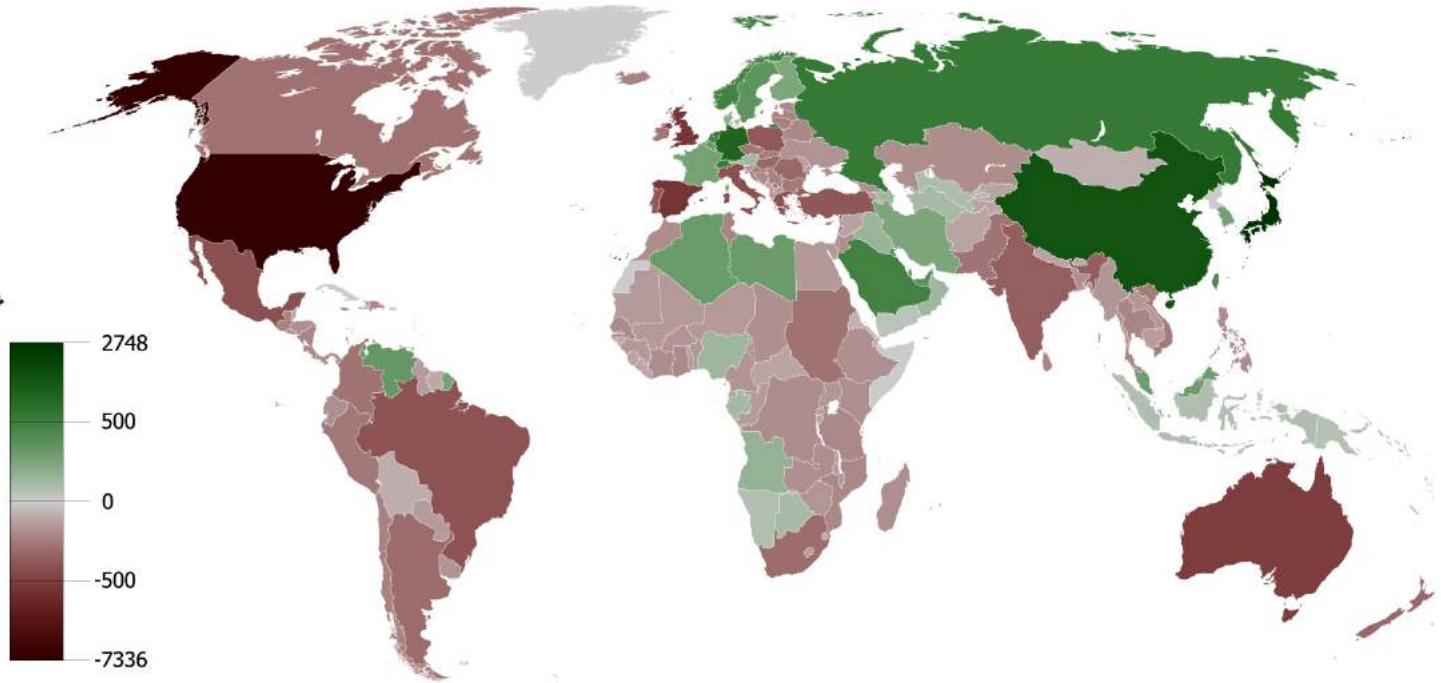
Structural

- Under-investment
- Relatively Low productivity
- Persistently high relative inflation
- Inadequate R&D and innovation
- Emergence of lower cost competition

Cyclical

- Over-valued exchange rate
- Boom in domestic demand
- Recession in key export market
- Slump in global prices of export
- Increased demand for imported technology

Worldwide View of Current Account



Cumulative Current Account balance (US\$ billions) based on the IMF data

Why CAD Harmful

Foreigners will have greater claims on assets

Domestic country may benefit. E.g. Chinese investments in Africa

Large deficit could be unsustainable – if financed by borrowing from abroad.

Alternate – Long-term investment, which improves productive capacity

Indicative of unbalanced economy with focus on short term consumption rather than long term investment.

An account deficit can enable economy to have higher standard of living.

Large deficit can cause a depreciation in exchange rate and inflation.

Moderate depreciation would restore competitiveness.

In countries with fixed exchange rate, CAD indicates in competitiveness due to high inflation and reduced domestic demand

For countries in floating exchange rate – market forces should adjust to correct level in long-term.

Why Is CAD Not Necessarily Harmful



01

Job & Investment

A CAD could occur during a period of inward investment (surplus on financial account). This inward investment can create jobs and investment



02

Strong Economy

A CAD may just indicate a strong economy, which is growing rapidly.



03

Devaluation

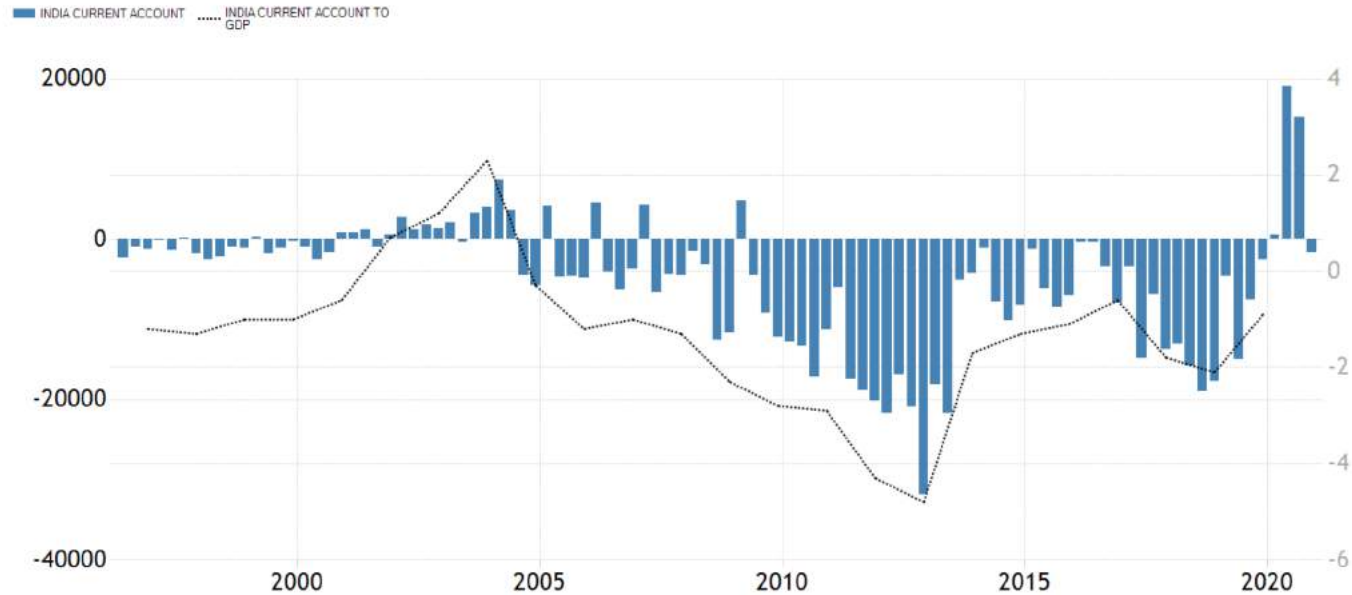
With a floating exchange rate, a large CAD should cause a devaluation which will help automatically reduce the level of the deficit.

A stylized map of India is the central focus, rendered in light blue and green watercolor-like washes. The number '02' is prominently displayed in a large, bold, dark blue font over the northern part of the map. Below it, the text 'India's Current Account Deficit' is written in a smaller, bold, dark blue font. The map is surrounded by decorative elements: a cluster of small dark blue dots in the top right, a thin dark blue line curving from the top right towards the bottom right, and another cluster of small dark blue dots in the bottom left. A simple line drawing of a hand with fingers spread is positioned in the bottom right corner, pointing towards the map.

02

**India's
Current Account Deficit**

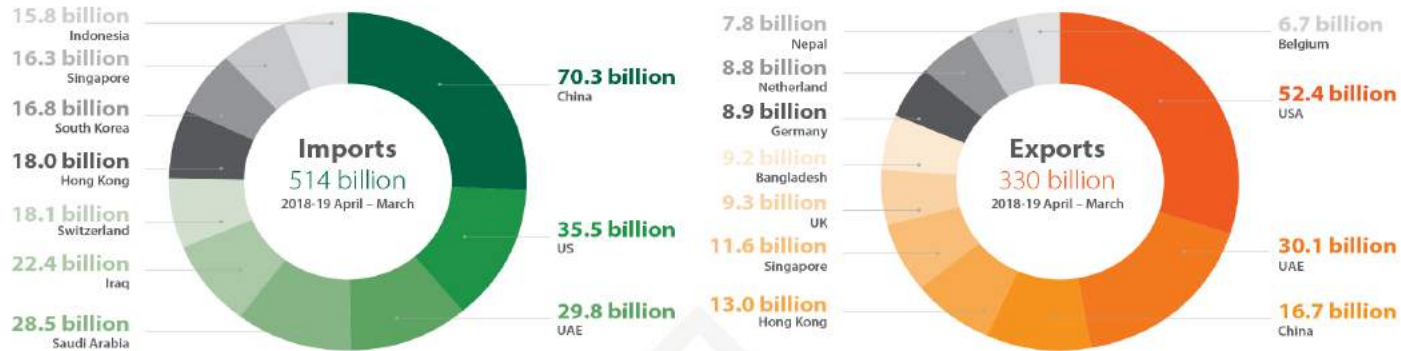
India's Past Trends of CAD



Actual	Previous	Highest	Lowest	Dates	Unit	Frequency	
-1723.59	15123.73	19022.34	-31857.18	1949 - 2020	USD Million	Quarterly	Current Prices, NSA

India's CAD - Imports > Exports

India's Imports and Exports, US\$



India's Top Import Items (2018-19), US\$



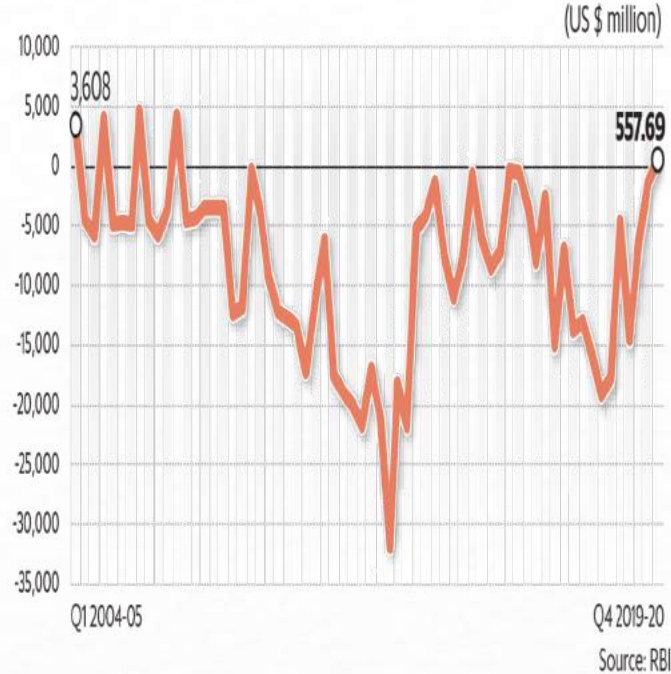
India's Top Export Items (2018-19), US\$



India's exports are very less in comparison to imports and that's why India always has Current Account Deficit

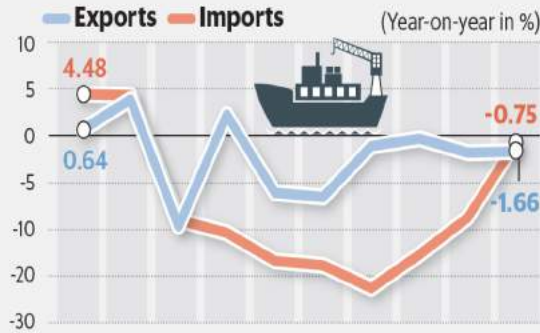
How COVID Impacted CAD

Rare occurrence

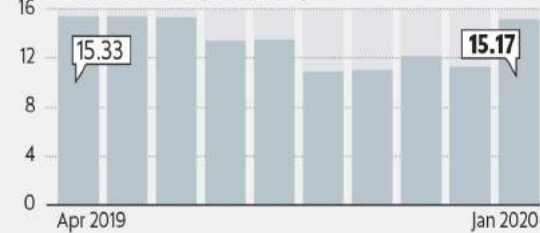


Downward slope

India's exports fell by 1.7%, while imports declined by 0.75% in January, leading to a trade deficit of \$15 billion.

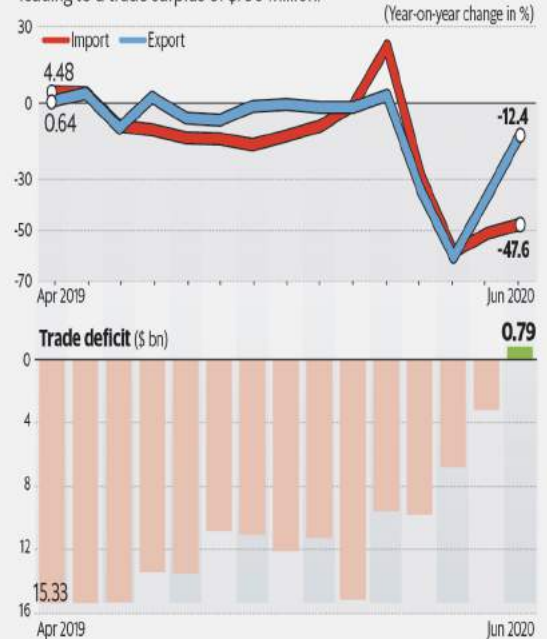


Trade deficit (in \$ billion)



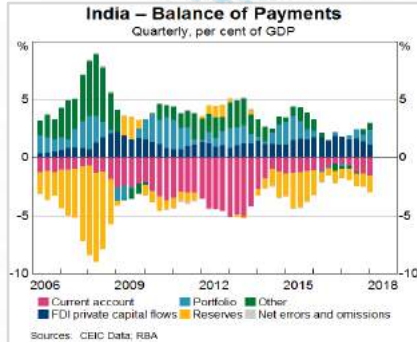
Pandemic hits imports

Merchandise exports fell 12.4%, while imports dipped 47.6%, leading to a trade surplus of \$790 million.



Implications of CAD on Indian Economy

Depletion of Reserves



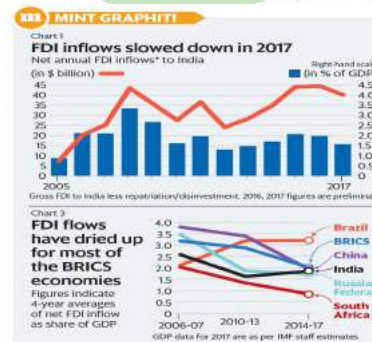
Without equal or more amount of \$ inflow, a deficit puts strain on a India's reserves.

Depreciation of Rupee



Depreciation of rupee causes an internal vicious cycle which has lot of consequences for economy.

Low Investments



A high CAD can led to decline in India's credit rating, directly affecting investment.

Rise in Inflation



High CAD and weakening rupee cause inflation to grow less as we rely more on imports and we spend more.



03

How to Tackle CAD

General Policies to Reduce CAD



Devaluation

It involves reducing the value of the currency against others.

Make exports cheaper and imports more expensive.



Monetary Policies

Tight monetary policy involves increasing interest rates.

Cost of debt and mortgage increases – people have less money to spend. Import decreases.

Cause a fall in AD - reduce economic growth - reduce inflation - make exports more competitive.

Pressure on manufacturers to reduce costs - will lead to more competitive exports and imports may increase in the long run.

Issue - It will tend to cause hot money flows and an appreciation in the exchange rate. Makes exports less competitive, and imports more attractive.



Fiscal Policies

Alternative to monetary policy. A fiscal policy for example, the government could increase income tax.

Reduce consumer discretionary income and reduce spending on imports.

Advantage - It would not have an adverse effect on the exchange rate. Higher tax would also improve government finances.

Issue - Conflict with other macroeconomic objectives – with lower aggregate demand (AD), growth is likely to fall causing higher unemployment. A government is unlikely to want to risk higher unemployment just to reduce a current account deficit.



Supply Side Policies

Policy to boost supply side example to boost manufacturing sector

Mandatory currency hedging for some sectors.

To reduce wages. Lower wages will reduce costs of production and improve competitiveness.

The government could ease the rules for manufacturing industries to increase growth and reduce imports



Government Regulations

Government's control on imports and exports

The government could increase tariffs on imports or even impose quotas. Both these measures would have the impact of reducing imports and therefore improve the current account.

An Example – 2018 India's Measure



HIGH FIVE

RUPEE AND CAD

Decisions taken at meeting called by PM

RBI AND FINANCE MINISTRY MADE PRESENTATIONS ON

Mandatory currency hedging for infrastructure to be reviewed

Easier rules for manufacturing entities to raise funds overseas

Review of debt investment limits for FPIs

Exemption from withholding tax for masala bonds

Removal of restriction on Indian banks' market making of masala bonds

These measures expected to yield **\$8-10 billion**

IMPORT CURBS

Govt said it will look to boost exports and curb non-essential imports

Items that could face heat are mobiles, electronics and gold

A mix of steps to tackle Current Account Deficit.

04

Steps to Tackle India's CAD



Reduce Petroleum Import

Oil imports constitute a third of India's imports and half of its CAD

India's oil import – value & volume



STEPS

- Government push to use alternate fuel.
- Deregulated oil prices.
- Subsidy on solar energy, electric vehicles etc.

SUGGESTIONS

- Bring incremental pricing for large consumers.
- Slowly remove all subsidies.
- Strong policy on alternate fuel or energy

NGV Sales Penetration by 2030

50%



CNG Stations

10,000 stations in the next 10 years



Target Segments for CNG

Cars, 3Ws, LCVs and Buses



Target Segments for LNG

Trucks

INR 11
Lakh Crore

Crude Oil Import Savings



Crude Oil Import
Savings

10%

Of the Central Budget
Expenditure on Welfare
Schemes on an
annualised basis



Growth in Income of
3W and LCV Drivers

Up to INR
5,000 - 8,000
per month



Employment Generation

4 Lakh
new jobs

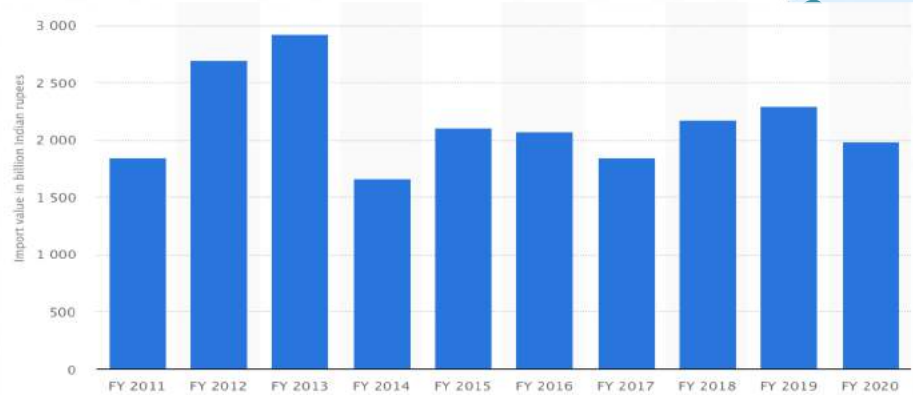
Reduce Gold Import

STEPS

- Government aimed mobilizing the idle gold held by households through GMS.
- Government promoted national savings schemes, gold bonds, securities to move away investors from gold.
- Government regulated gold import through increased tax and duty.

SUGGESTIONS

- Provide high growth alternate saving schemes.
- Regulate the gold imports through strict custom and border protections.
- Strong vigilante on gold imports.
- Regulate jewelers and related industry through strong policies.



Aimed at mobilising idle gold held by households and institutions, provide a fillip to the gems and jewellery sector and reduce reliance on import of gold over time to meet the domestic demand

Proposed Gold Monetisation Scheme

- A person or entity can earn **interest in either cash or gold units**, by depositing the precious metal with the banks
- Interest payable **after 30/60 days** of opening of the account
- Threshold limit for deposit-**30 gms**
- Interest earned on it **exempted** from income tax and capital gains tax
- A person or institution holding surplus gold can get it valued from BIS-approved hallmarking centres
- Minimum period for Gold Savings Account -**One year**



India imports as much as 800-1000 tonnes of gold each year
Though stocks of gold in India are estimated to be over 20,000 tonnes, mostly this gold is neither traded, nor monetised

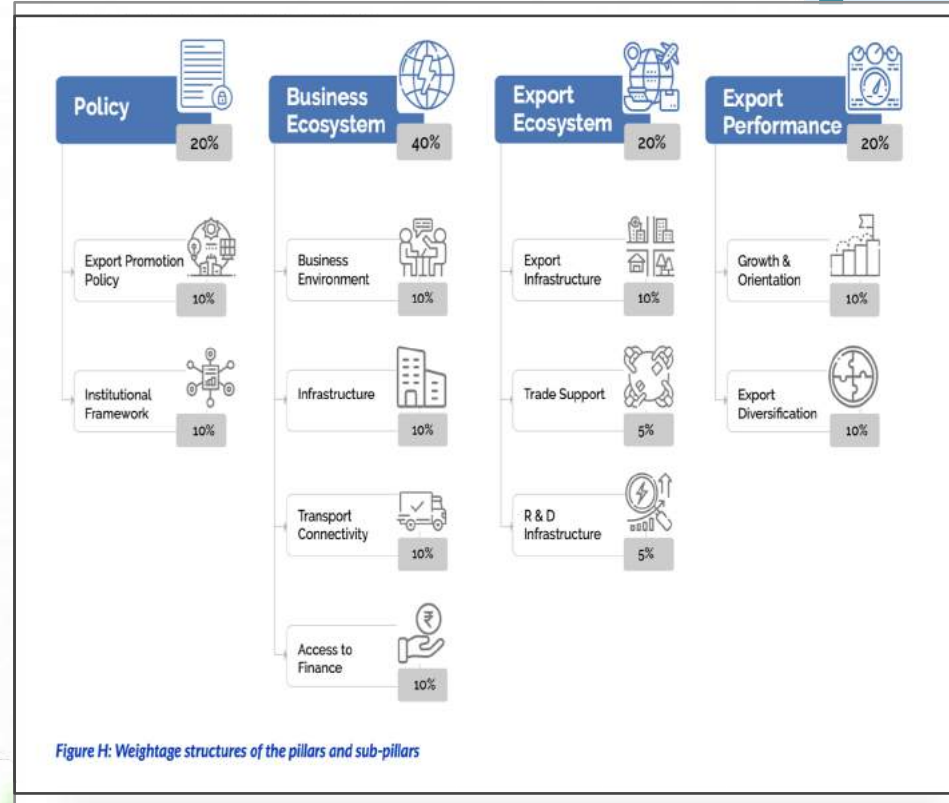
Increase Exports

STEPS

- **The Foreign Trade Policy (2015-2020) and (2021-2026)** was introduced to improve the share of India's foreign trade.
- **Ease of Doing Business 2018/19**; India has made major improvements in "Trading Across Borders".
- **Atmanirbhar Bharat** aims to make India self reliant.
- **The Export Preparedness Index (EPI) 2020** aims to assess the readiness of the states, in terms of their export potential and their performance.

SUGGESTIONS

- There is an opening for other developing economies to enter and subsume those lines of production from where China had been either weakened or its influence toned down.
- Bring favorable export promotion policies.
- Create necessary infrastructure for exports.
- Exports diversification and add India to Global value chain.
- Make India more Atmanirbhar.



Attract Investments (FDI & FII)



MAKE IN INDIA

MAKING INDIA AN INVESTMENT HUB OF THE WORLD

Setting up of Empowered Group of Secretaries (EGoS)

- Facilitate investors for investments into India
- Synergies in investment & related incentive policies
- Timely clearances from different Departments/ Ministries
- Promote 'Make in India'

Cabinet Secretary will act as the Chairperson of EGOS

#InvestInIndia

TO BOOST MAKE IN INDIA

MOVE Begin online sales before setting up brick-and-mortar stores



IMPACT Will help foreign players get a strong footprint, can open stores within 2 years

MOVE Sourcing from India, even for exports, to be counted towards 30% obligation



IMPACT Easier for companies to meet the requirement of 30% sourcing from Indian entities

MOVE Sourcing can be done directly, by group companies (resident or non-resident), or via third party

IMPACT Make it attractive for foreign players to invest and yet meet sourcing norms

MOVE Total sourcing from India to be counted



IMPACT Easier to comply with rules now. Currently, only incremental sourcing, after entering single-brand retail space is counted towards obligation

FDI POLICY FURTHER LIBERALISED IN KEY SECTORS



FII/FPIs

Allowed to invest in power exchanges through primary market



Civil aviation

49%

Foreign airlines can invest in Air India with government approval



Single brand retail trading

100%

under automatic route



Construction development

100%

under automatic route



Medical devices

Definition amended in FDI policy

Easier Terms

Current FDI policy for defence

Up to **49% FDI** Automatic route Over **49%** Case by case

Under consideration

Higher FDI limit, even up to **74%**
Discussions between DPIIT & defence min begin
Easier export policy



How will it help

India is one of the biggest arms imports

It has been trying to step up domestic production

Higher FDI limit will encourage investments

It will help cut down on imports

STEPS

- Make in India** - aims to bring external and internal investors to invest in India manufacturing sector.
- Continuous change FDI policy** - changes in FDI policies to make conditions more favorable and attract new player or increase current investments.


SUGGESTIONS

- Increase ease of doing business.
- Promote MSME and startups more.

The background features a large, irregular watercolor shape in shades of light blue and green. The top portion is a lighter blue, while the bottom portion transitions into a light green. Scattered around this central shape are numerous small, dark blue dots of varying sizes. A thin, dark blue line curves from the top right, passing behind the central shape and ending near the bottom right. In the bottom right corner, there is a stylized, hand-drawn line graphic that resembles a series of connected loops or a signature.

05

Conclusion



India, being a developing and emerging market economy, typically will run a deficit on the current account to supplement domestic savings with foreign savings to fund higher investment.

Government policies and steps will ensure that it stays within limits.

A stylized world map with continents in light green and oceans in light blue. The map is centered on the Atlantic Ocean, with North and South America on the left and Europe and Africa on the right. The text is overlaid on the map.

**“India needs manageable current account deficit,
not a surplus.”**

**–All India’s Finance Ministers,
Economic Advisors, RBI Governors etc.**

The background is a light cream color. It features a large, irregular watercolor splash in shades of teal and turquoise, centered behind the text. Scattered around the edges of this splash are numerous small, dark teal dots. A thin, dark teal line curves from the top right towards the bottom right, ending in a small loop.

THANKS