

# Current a/c deficit widens to 2.8% in Q1, worst in 4 years

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Mumbai: India's current account deficit (CAD) for the April-June quarter widened to 2.8% of the gross domestic product (GDP) – the highest in four years, but lower than the 3-3.5% forecast by many economists.

In absolute terms, the CAD for the first quarter of current fiscal was \$23.9 billion (2.8% of GDP), up from \$13.4 billion (1.5% of GDP) in preceding quarter Q4FY21 and a surplus of \$6.6 billion (0.9% of GDP) in Q1FY22.

“While trade deficit has widened, a lot of support has come from Invisibles account, with both software and remittances witnessing higher net inflows of \$30.7 billion and \$23 billion, respectively. These numbers were higher than the trailing four quarters and came at a time when the Ukraine war was at its peak,” said Bank of Baroda chief economist Madan Sabnavis.

The CAD worsened in 2022 after the commodity price shock, which began with supply and logistic issues and was exacerbated by the Russia-Ukraine conflict. While the second quarter saw oil prices come off its \$120 peak levels, India's export earnings have also started falling. Capital flows from foreign investors, which helped to ensure the balance of payments, also dried up after global funds turned risk-averse in the wake of a Fed rate hike.

India's CAD had touched a high of 4.7% in the April-June 2013 quarter. In absolute terms, the CAD's high was \$31.8 billion in October-December 2012. This was the time the country was impacted by the 'taper tantrums' resulting from the withdrawal of liquidity by the US Fed.

The rupee on Thursday recovered from record lows to settle 8 paise higher at 81.86 against the US dollar ahead of the RBI monetary policy decision scheduled to come out on Friday. Heavy capital outflows restricted the rupee gain.

“On the positive side, the country’s external debt came down marginally to \$617 billion, which is 95.5% of GDP,” said Sabnavis. The decline in external debt was largely because of the depreciation of non-dollar currencies. Valuation gains due to the appreciation of the US dollar vis-a-vis Indian rupee and major currencies such as the yen, drawing rights with the International Monetary Fund, and euro stood at \$14.4 billion. Excluding the valuation effect, external debt would have increased by \$11.9 billion instead of a decrease of \$2.5 billion at the end-June 2022 over the end-March 2022.