

## **2. Current Account Deficit**

**Prelims Syllabus:** Capital Market

**Mains Syllabus:** GS-III Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.



### **Why in News?**

- Recently, the government released data showing that India's exports and imports decreased by 6.59% and 3.63%, respectively, in January 2023, there are indications that the country's current account deficit (CAD) will moderate despite the global slowdown triggered by the rising inflation and interest rates.

### **About the News:**

- The moderation in CAD is expected to be aided by the fall in commodity prices, rising workers remittances and services exports, and abatement of selling pressure by foreign investors.

### **What is the Current Account Deficit?**

- Current account deficit (CAD) is when the value of a country's imports of goods and services is greater than its exports.
- CAD and fiscal deficit together make up twin deficits that can impact the stock market and investors.
- Fiscal Deficit is the gap between the government's expenditure requirements and its receipts. This equals the money the government needs to borrow during the year.

### Implication:

- The CAD is significant because it affects the economy, stock markets, and people's investments.
- A lower CAD can boost investor sentiment and make the country's currency more attractive to investors.
- A surplus in the current account indicates that money is flowing into the country, which can boost foreign exchange reserves and the value of the local currency.

### Recent Status of India's CAD:

- The CAD for the first half of 2022-23 was 3.3% of GDP, but the situation improved in Quarter 3:2022-23 due to lower commodity prices and moderated imports.

### Negative Effects of CAD on Economy:

- **Weaker Currency:** When a country's imports exceed its exports, it can cause a decrease in demand for its currency, leading to a weaker currency value (depreciation).
  - ✓ This can make imports more expensive, leading to higher inflation and a reduction in purchasing power.
- **Debt Accumulation:** If a country is unable to finance its current account deficit with foreign investment, it may need to borrow to cover the gap.
  - ✓ This can lead to an increase in debt levels, which can further harm the economy.

### How India can Moderate Current Account Deficit?

- **Encourage Exports:** Increasing exports is one of the most effective ways to reduce CAD.
  - ✓ The government can provide incentives for export-oriented industries, streamline export procedures and regulations, and negotiate better trade agreements with other countries.
- **Promote Import Substitution:** Encouraging domestic production of goods that are currently being imported can help to reduce the trade deficit.
  - ✓ This can be achieved by providing incentives for domestic manufacturers and by imposing tariffs or import duties on certain goods.
- **Improve Productivity and Competitiveness:** Improving the productivity and competitiveness of the domestic economy can help to increase exports and reduce the trade deficit.
  - ✓ This can be achieved through various measures such as investments in infrastructure, technology, and education.