

CURRENT ACCOUNT SLIPS TO DEFICIT IN Q2

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Yawning gap:The current account deficit may exceed \$25 bn in Q3, rivalling the full-year CAD in FY20, says Nayar.PTIPTI

India's Balance of Payments (BoP) position moved to a deficit of \$9.6 billion in the quarter ended September (Q2), as widening trade deficit weighed. At 1.3% of GDP, this compares with a surplus of \$6.6 billion in the immediately previous quarter and with a surplus of \$15.3 billion a year earlier.

"The deficit in the current account in Q2 was mainly due to widening of trade deficit to \$44.4 billion from \$30.7 billion in the preceding quarter and an increase in net outgo of investment income," the RBI said on Friday.

"The current account deficit in Q2 FY22 was somewhat smaller than our expectation. Nevertheless, a huge widening lies ahead, with the large merchandise trade deficits seen in October-November 2021," said Aditi Nayar, chief economist at rating agency ICRA.

'Gap to widen in Q3'

"We expect the current account deficit to print in excess of \$25 billion in Q3 FY22, rivalling the size of the full year CAD in FY20. For the year as a whole, we foresee the CAD at \$40-45 billion, or around 1.4% of GDP," she added.

The RBI said net services receipts decreased marginally over the previous quarter but increased on a year-on-year (y-o-y) basis, on the back of robust performance in the exports of computer and business services.

Private transfer receipts, mainly representing remittances by Indians employed overseas, rose 3.7% from a year earlier to \$21.1 billion.

Net outgo from the primary income account, mainly reflecting net overseas investment income payments, increased sequentially as well as on a y-o-y basis.

Net foreign direct investment recorded an inflow of \$9.5 billion, declining from \$24.4 billion seen in the same period of the last year.

Net foreign portfolio investment fell to \$3.9 billion compared with \$7 billion.

Net external commercial borrowings recorded inflow of \$4.1 billion compared with an outflow of \$3.7 billion.

Non-resident deposits saw net outflow of \$0.8 billion as against \$1.9 billion. "There was an accretion of \$31.2 billion (on a BoP basis) in Q2 which also included SDR allocation of \$17.86 billion by the International Monetary Fund on August 23, 2021."

For the half year ended September 2021, India recorded a current account deficit of 0.2% of GDP as against a surplus of 3% in the year-earlier period, on the back of a sharp increase in the trade deficit.

Net invisible receipts were higher in the first half this year, on account of higher net receipts of services and private transfers. Net FDI inflows fell to \$21.2 billion from \$23.9 billion, RBI data showed.

“Portfolio investment recorded a net inflow of \$4.3 billion in H1:2021-22 as compared with \$ 7.6 billion a year ago,” the central bank said.

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