

# Macro Insights

6<sup>th</sup> January 2022

## Balance of Payment

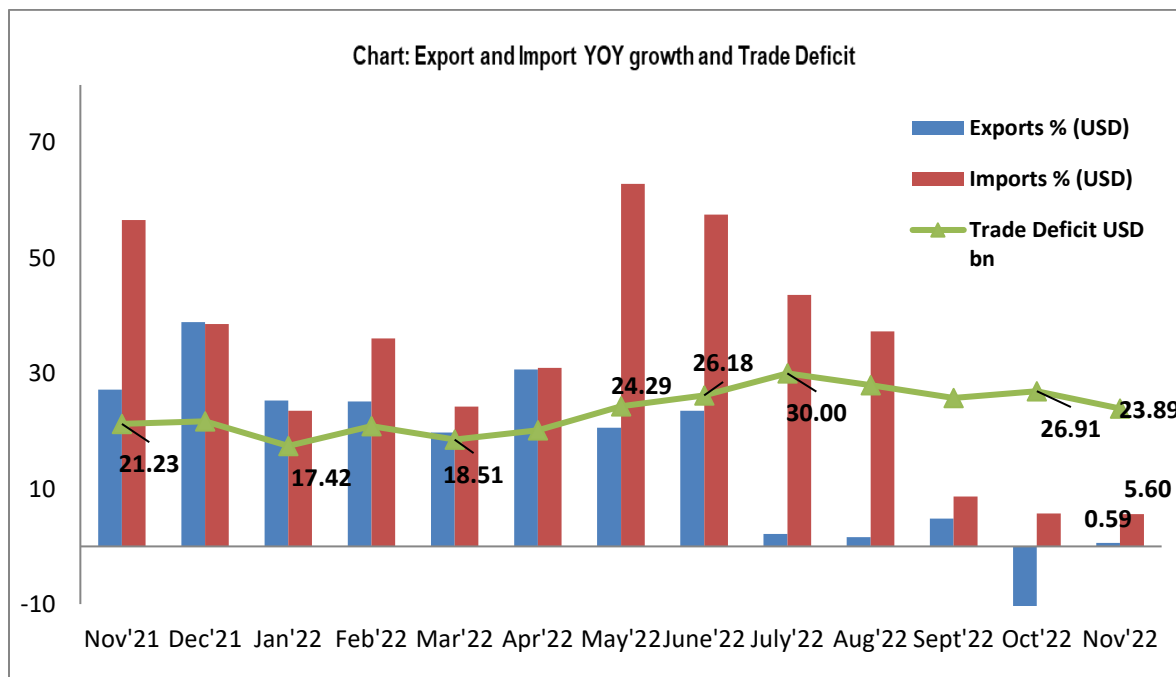
For April-September 2022 (H1FY23), the country's current account deficit increased to 3.3% of GDP from 0.2% in H1FY22.

## Trade Deficit

India's Merchandise trade deficit jumped to \$23.89 billion in November 2022 from \$21.23

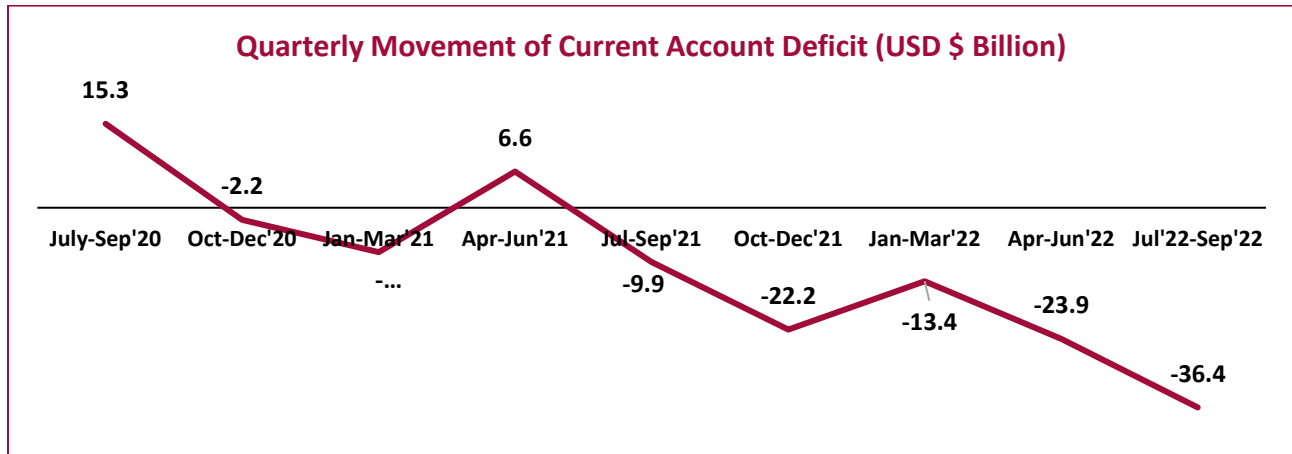
## Highlights:

- During Q2 FY'23 India's current account deficit (CAD) increased to an all-time high of \$36.4 billion, i.e. 4.4% of the country's gross domestic product (GDP).
- High level of CAD was majorly due to widening of the merchandise trade deficit to \$83.5 billion from \$63 billion in Q1FY23 and an increase in the net outgo under investment income.
- Negative surprises in the merchandise trade deficit and primary income outweighed the higher than expected services surplus and secondary income flows.
- India's merchandise exports increased by 0.59% YOY in November at \$31.99 billion, as tepid external demand and fears of a recession in developed economies continued to weigh on demand. Month-on-month, exports grew 7%
- Imports increased by 5.6%, but stands at 10-month low of \$55.88 billion in November
- Exports increased by 11% YoY in the April-November



## Views:

### CURRENT ACCOUNT DEFICIT



- ✓ Before Q2 FY'23, CAD was highest in absolute terms with \$31.8 billion during Q3 FY'13.
- ✓ CAD has been showing an increasing trend from \$9.7 billion (1.3% of GDP) during Q2FY22 to \$18.2 billion (2.2% of GDP) during Q1FY23 to \$36.4 billion (4.4% of GDP) during Q2 FY'23.
- ✓ As per the Financial Stability Report of RBI, the rise in the CAD due to the huge trade deficit in Q2FY23 reflected the impact of slowing global demand for exports, even as growth in services exports and remittances remained robust.
- ✓ India's CAD is expected to remain elevated due to the trend of higher imports and slower exports. CAD is expected to recede appreciably to \$25-30 billion in Q4 FY2023.
- ✓ High CAD creates pressure on value of Indian Rupee. Also, the continuous increasing trend in Federal Reserve rate hikes may cause Rupee to depreciate. Rupee is expected to trade between Rs 83/\$ to Rs 85/\$.
- ✓ With inflation coming within the upper tolerance level, RBI is expected to keep neutral stance in the upcoming monetary policy meetings. This may positively impact consumption and investment and in turn demand in the economy.

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