Current Account Surplus in India

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While India has traditionally been at a disadvantage due to current account deficit (imports exceeding exports), the lockdown imposed and consequent lack of economic activities has led to unexpected developments. However, the present current account surplus in itself can't be an advantage unless backed by an increase in export competitiveness.

Current Account Surplus

- India's current account may turn surplus in the June quarter after a gap of 12 years as a stringent coronavirus **lockdown squeezed domestic economic activity** and crimped imports. The last time India's current account turned positive was in the March quarter of 2006-07.
- **Merchandise exports in April and May shrank 47.5% while imports fell 54.7%, leading to a trade deficit of $9.9 billion against a $30.7 billion deficit a year ago.** Sharp decline in crude oil prices and depressed domestic demand for gold imports have also reduced the import bill.
- Meanwhile, the country also took a hit on foreign portfolio investment as it witnessed a sharp outflow of $16.16 billion in March this year compared to an inflow of $1.02 billion during the previous month (it impacts the capital account and thus balance of payment as well).
- India's CAD is also supported by **low levels of external debt servicing.** During COVID-19 times, the external debt and its repayment burden is a major challenge being faced by some emerging market economies.
- However, India is not vulnerable on this count as its

external debt to GDP ratio has remained low at about 20% during the last three years.

Is Current Account Surplus good or bad?

- A current account surplus has a direct positive impact on the rupee. The current account reflects all payments between countries for goods, services, dividends and interests.
- A surplus in the current account means that the country is expected to receive payment in rupees. This means other countries are likely to buy rupee and sell foreign currencies. This means the rupee could appreciate in the near future.
- While a current account surplus is welcome, it is important to understand how the surplus has been achieved. **A current account surplus occurs partly due to an increase in exports.** This leads to a stronger economy and an increase in consumer spending.
- On the other hand, i**t could also be a result of weak domestic demand**. This could result in lower consumer spending and decrease in imports. Meaning, exports did not rise, but imports fell. Hence, analysts in some quarters feel that such a surplus indicates a **weak economic growth** in the country.

Source: ***Live Mint, Economic Times***