Decrease in India's CAD Status in the Past 10 Years

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Abstract

When the total worth of a nation's "imports" is higher than the whole worth of its "exports," it is recognized as a "Current Account Deficit (CAD)." Both the CAD and the "Fiscal Deficit" can have an effect on the stock market and investors. The current paper shows how current account deficits are measured, how the "current account deficit" impacts the economy in the short run and long run, and the current account deficit status in India. One hundred fifty-three (153) journals, books, and magazine articles were examined for the study. These articles were first published in places like Research Gate, Google Scholar, Scopus, Science Direct, and others. In the study, the validity, external impacts, citations, and review method of 33 publications were judged to be pertinent during the final screening. The results of the study revealed that there had been fluctuations in the CAD status of India in the last ten years, Sometimes it was good, and occasionally it was terrible. It has also been found that covid and the rise in oil prices because of the war between Russia and Ukraine affected the current account deficit adversely. Further, it can be concluded that It was encouraging to see a drop in the trade deficit in January 2023, owing to lower imports, but analysts agree that the pattern must be maintained for a while longer before the external account can be considered stable. The worth of the CAD and the economy as a whole depend on the currency's ability to remain stable.

Keywords: *Current Account Deficit; Sustainable CAD; CAD Status; Balance of Payment*

1. Introduction

One of the most important indications of an external imbalance in the economies of the world is the "current account deficit." The Balance of Payments (BOP) account details a nation's international business and financial transactions. The BOP structure has two subaccounts. Both the capital account & the current account are included. The balance of a nation's

commerce may be found in its current account, while the movement of capital can be found in its capital account. For each and every nation, the "difference between the current account balance and the capital account balance equals zero" (Sadiku, et al., 2015)

The balance of payments consists of two subcategories:

Current account: visible imports & exports; intangible items relating to payments & receipts for a number of services like insurance, banking, travel, and shipping; and another unilateral transfer of payments like taxes, grants, and donations.

Capital account: The "capital accounts" of the "balance of payments" comprise all recent "economic activities" for the nation's foreign "financial position" that modify foreign financial assets and liabilities. Capital transactions are made in the public, banking, & private sectors (Jose & Mehra, 2022).

The current account deficit grew as a direct result of the flawed trade and globalization policies that promoted limitless imports. The policy of outsourcing production to low-wage markets, combined with rising domestic demand, has led to a dramatic increase in imports (Garrison, 2001).

As a result, the Current Account Deficit (CAD) widens for many nations as they progress toward economic growth. Current account deficits have been the norm rather than the exception for India, reflecting the country's status as a developing economy. Therefore, finding a sustainable level of CAD that allows for development funding and economic growth without endangering the economy is paramount for India (Raju & KU, 2020).

1.1 Current Account Deficits and their Impacts on the Economy

A country that engages in commerce is considered to be in a situation of "current account deficit" when the worth of the services and goods that its "imports" is more than the worth of the goods that it "exports." Net earnings, which might include dividends & interest, & transfers, which may involve assistance from other nations, are all included in the "current account," despite the fact that altogether they account for only a tiny percentage of the overall "current account." The "current account" is a component of a country's balance of payments (BOP), similar to the capital account in that it represents the nation's dealings that take place across different nations (BANTON, 2022).

Formula to Calculate Current Account Deficit (CAD)

"Current Account Deficit = Total value of Imports – Total value of Exports"

The gap between an economy's net imports and exports is recognized as the "current account deficit" (Dhyani, 2022). A negative result for the CAD may be explained by the fact that it measures things like trade gaps, net current transfers, and net income from abroad. Unlike BOP, CAD takes into account capital movements within a country. As a result, these threaten economic stability by influencing the flow of foreign currency.

1.1.1 Impacts of CAD (Current Account Deficit)

Following are the "long-term" and "short-term" effects of the "current account deficit" on the economy of India:

Short-Term Effects

The effects of CAD in the near term are as follows:

i. A significant current account deficit puts pressure on the native currency, which ultimately leads to a depreciation of the currency and, as a result, higher prices for imported goods.

ii. When the value of the national currency drops, foreign investors move their money out of the country, which starts a domino effect of money leaving the nation & additionally weakening the "value of the currency."

iii. The "government" is required to fund the current account deficit by making interest payments & external borrowing, money is drawn out of the "domestic economy," which in turn heads to "higher interest rates."

iv. An increase in interest rates will make it more expensive to borrow money, which will have the effect of slowing down the domestic economy.

v. A sluggish growth rate in the economy contributes to a larger unemployment rate and social instability throughout the nation.

Long-Term Effects

Consequences of CAD in the long run include:

i. A persistent current account deficit causes a loss of trust among foreign investors in a nation like India, where foreign direct investment (FDI) plays an essential role.

ii. If Current Account Deficit (CAD) levels remain high for an extended period of time, hyperinflation will emerge in the "domestic economy."

iii. If "interest rates" remain high for extended time periods, this will cause a downturn in the economy.

iv. The collapse of the economy will result in an increase in unemployment as well as disorder in society.

v. The average man will be priced out of purchasing basic necessities, which would ultimately result in hunger across the nation.

vi. Prolonged unemployment will inevitably result in a loss of literacy and intellectual capacity.

vii. India will be invaded by foreign forces looking for an easy victim, and these invaders will follow the well-known pattern established by Muslim monarchs in the 10th century (Uma, 2022).

Constant disparities in the "current account" & increasing trade deficit levels pose concerns about the "sustainability" of strong economic development & "macroeconomic stability," making the current account deficit a focal point of policy considerations in a rapidly developing country like India (Tiwari, 2012).

1.2 Importance of Sustainability of Current Account Deficits

If the circumstances that led to the "current account deficit" can be easily repaired in the future, then the deficit can be sustained. When it indicates systemic flaws in the economy that might trigger radical shifts, it cannot be sustained. Neither beneficial nor detrimental on its own, a "current account deficit" becomes problematic when it is persistently large, promotes consumption rather than investment, coincides with excessive growth in domestic credit, is supported by a currency that is overvalued, or is accompanied by unchecked fiscal deficits. While a shrinking "net foreign asset" is a common side effect of a widening "current account deficit," the age, size, & currency composition of "gross financial stocks" may be more indicative of near-term financial risks (Devadas & Loayza, 2018).

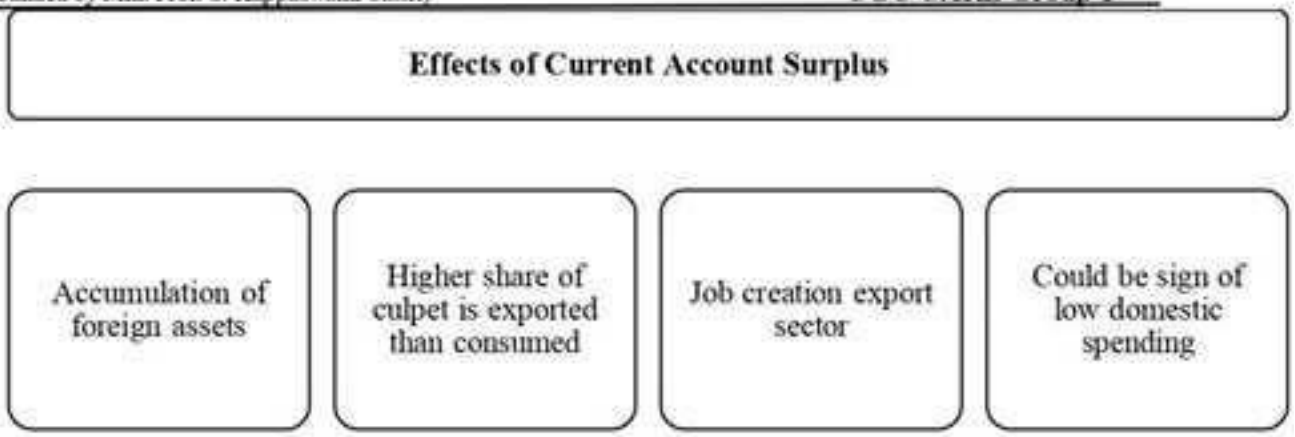

Figure 1 Effects of Current Account Surplus

Source: Pettinger, T. (2019, February 17). The effect of a current account surplus - Economics Help. Retrieved from https://www.economicshelp.org/blog/9996/trade/effect-current-account-surplus/

According to the concept that is widely acknowledged, as long as a nation's ability to pay back the existing debts that it owes to the outside world is not in doubt by anyone and is not turned into a topic of worry, it may be able to obtain financing from the worldwide "Financial Markets." When a nation has substantial and chronic current account deficits, it is afflicted with the syndrome of over-borrowing, which increases the possibility that the nation would fail in the repayment of its foreign debt. As a result, "risk-averse international investors" are hesitant to loan money to such a nation. Therefore, the size of the CAD acts as a limitation on both the borrower's capability of borrowing and the lender's desire to lend. Large "current account deficits" have been a precursor to a number of different crises, including those that hit Iceland in 2008, Chile in 1981, Greece in 2010, Thailand in 1997, Finland in 1991, the United States in 2007, and Mexico in 1994 (Ramakrishnan, et al., 2020).

How Does the Current Account Deficit Work

These days, nations rely on foreign suppliers for everything from food and medicine to defense and development machinery. The term "imports" is used to describe the practice of importing goods and materials from other countries. When a neighbor asks for resources in exchange, this is known as an export. A nation's budget deficit grows when its annual spending exceeds its annual revenue. It's very much like a profit-and-loss statement when spending more than income results in an economic catastrophe.

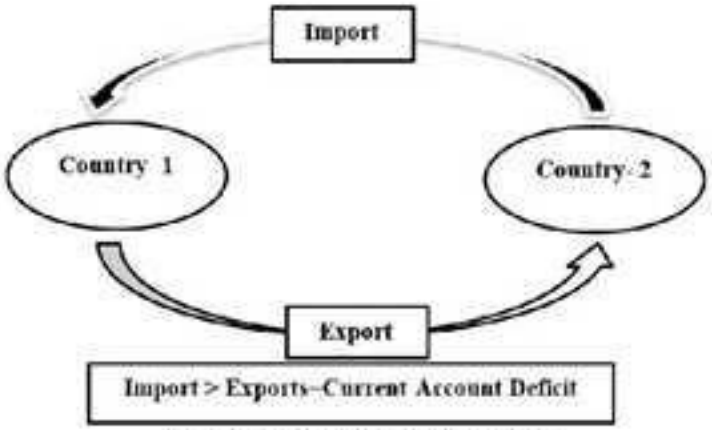

Figure 2 Current Account Deficit Working

1.3 Real-World Examples of Current Account Deficits

Market factors have a big role in how a country's "current account" fluctuates. The "deficit" can alternate, even in countries that knowingly sustain "deficits." For example, after the results of the "Brexit referendum" in 2016, the United Kingdom's "current deficit" decreased.

The United Kingdom always had a "deficit" as it is a borrower nation that pays for its excessive "imports" with borrowed money. Declining "commodity prices" have lowered profits for domestic enterprises, which is problematic because commodities make up a substantial portion of the "nation's exports." Since fewer funds are entering the nation, "the United Kingdom's current account deficit" widens as a result of the cutback.

The nation's debt was, however, reduced after the "British pound" lost value as a consequence of the "Brexit vote," which took place on June 23, 2016. This decline happened as a result of "domestic commodities firms' increasing foreign dollar revenues, which increased the country's cash inflows" (Reid, 2018).

1.4 Current Account Deficit in India FY 2023

i. "The Reserve Bank of India (RBI)" reported that "in the quarter ending December (Q3FY23), India's current account deficit (CAD), which is the difference between the inflow and outflow of foreign exchange, fell to $18.2 billion, or 2.2 percent of GDP, from the previous quarter's CAD of $4.4% of GDP."

ii. The merchandise trade deficit contributed heavily to the widening of the "current account deficit" (CAD) from 0.2% of "GDP" in the first half of 2021-22 to 3.3% of "GDP" in the first half of 2022-23.

iii. The decrease in Q3FY23 CAD was due to a combination of factors, including a smaller merchandise trade deficit ($72.7 billion compared to $78.3 billion in Q2) and stronger services and private transfer revenues.

iv. "The current account deficit for Q3 has printed well below the estimates as a result of the Q2 FY2023 current account deficit's downward adjustment, resulting in a compressed print of US$67 billion for April to December 2022." (Sen, 2023).

2. Systematic Literature Review

Banik, N., & Velamuri, S. R. (2023) examined the cause for the rise in the first quarter "current account deficit" of the "fiscal year 2022-23". Authors found that increasing reliance of India on fossil fuels was a contributing factor to the expanding CAD. The lack of pricing competitiveness was also a factor that was hindering exports. When it came to technology, India exports low-value commodities while importing high-value ones. The Indian government and the "Reserve Bank of India" have taken the necessary steps to rein in the ballooning trade gap. External circumstances, "such as geopolitical tensions and the United States Federal Reserve System's move of quantitative tightening," made it tough to regulate CAD, despite some of these measures having an effect. similarly, **Patil, S., & Chavan, R. R. (2020)** investigated the extent to which Indian small and medium-sized enterprises (MSME) were doing at exporting their wares. An investigation of the expanding exports of "India's micro, small, and medium-sized enterprises" (MSMEs) and the barriers companies faced in achieving even greater export success and increasing their worldwide competitiveness. Every country relies heavily on its exports to fuel its economic development. India's government takes its trade practices seriously and actively looked out for new prospects in international markets. India's micro, small, and medium-sized enterprises played an important role in the export and international competition, as evidenced by the country's rising share percentage in the sector; however, India continues to require enhancing its export achievements in order to lower its current account deficit. On the other hand, **Takhi, H. (2022)** analyzed *the factors influencing the "current account deficit" in the "Indian economy." The authors investigated the "Current account" patterns of other emerging nations to determine if any conclusions can be drawn from there that could be relevant here. The authors found that*

a big and sustained current account deficit was a constant threat to any economy. Economists generally supported a deficit of about -3 percentage points. Any increase above that was seen as problematic by those not familiar with the economic system. There should be no fear of running a negative current account deficit for a country like India. However, a large and lasting current account deficit should never be tolerated. On a similar note, **Chitgupi, A. (2021)** reported the robustness of India's current account and the veracity of the inter-temporal budget constraint (IBC). Estimating the cointegrating link between exports and imports, accounting for software services exports (SSE) and private transfers (remittances), from 2000-2001:Q1 to 2016-17:Q3 demonstrated the long-term viability of the current account. Findings revealed that uncertainty over immigration policies in wealthy nations like the United Kingdom, the United States, Gulf Cooperation Council (GCC), and Europe the as a result of the development of nationalist agendas and rising trade frictions, particularly with the United States, may have a negative effect on important providers of invisible. Therefore, policies should be geared toward creating new channels and markets for migration and service exports (especially software services, where India has a competitive advantage). Similarly, **Sharma, V., et al., (2021)** evaluated the effect of "fiscal deficit (FD)" on "current account deficit (CAD)" ("also known as the twin deficit theory") in India. "Using data from 1970–1971, as well as the private saving–investment gap (SI) and the exchange rate (EXR)." The findings confirmed the existence of the 'Twin Deficit Hypothesis' in India, confirming the conventional wisdom of "the Keynesian approach" that fiscal deficit has a beneficial effect on the current account deficit. More specifically, the data showed that SI improved CAD, whereas EXR worsened it. The asymmetric effect of fiscal deficit on the current account deficit presented compelling arguments for developing policies that may respond to shifts in internal and external sector dynamics. Similarly, **Ramakrishnan, R., et al., (2020)** reported the expansion of many countries has been accompanied by a rise in their level of imports relative to their level of exports, which resulted in an increase in their Current Account Deficit (CAD). The challenges that pertain to the long-term viability of India's CAD were the focus of the study, which covered the years 1971-2018. According to the findings, the levels of CAD that constituted a critical threshold were "2.1% and 3.4% of GDP for the pre-reform and post-reform periods, respectively". Similarly, **Sharma, P. (2019)** examined the reasons for the country's "current account deficit." The study was based on secondary data obtained from a variety of sources, including reports from the International Monetary Fund, the Reserve Bank of India, and the Economic Survey (ES). The impact of trade imbalances on India's current

and capital accounts has been addressed, as well as the relationship between the two. Findings revealed that in Long-term, the correlation between the exchange rate and the current account was shown to be negative. It has been suggested that there was a mismatch of currency rates, as Indian exports have not been benefiting from the lower exchange rate. Therefore, export competitiveness was unquestionably necessary to alleviate the disparity. On a similar note, **Patalay, S. (2018)** found that the most important measure of macroeconomic health was a country's current account deficit. In the study, the author examined the "current account deficit (CAD)" in India and how alterations to the CAD impact the value of the rupee. The author constructed a model to shed light on how Canadian dollars (CAD) affect the value of the local currency (the Rupee). The model was developed using hypothetical data, with the Indian economy and currency (in terms of $) serving as a case study. Since most Indian transactions were settled in US dollars, the model accounts for the impact of the Dollar's Supply and Demand functions on the country's currency swings. On the other hand, **Banday, U. J., & Aneja, R. (2017)** reported that Granger causality test findings supported the Keynesian premise in India and showed that there was bidirectional causation between BD and CAD. The findings, supported by the Cholesky decomposition approach, indicated that fluctuations in macro variables, including inflation, currency rate, interest rate, and money supply (MS), lead to CAD and BD. The beneficial consequences of fluctuating exchange rates and rising costs, however, cannot be entirely avoided and can only be mitigated at most. Similarly, **Fayaz, M., & Kaur, S. B. (2016)** reported that to better create strategies for a "sustainable Current Account Deficit" (CAD), an understanding of the elements impacting the "current account" was essential. The study aimed to add to what has been known about the causes, dynamics, and patterns of India's current account deficit since 1996. Long-term relationships were determined using the Johansen Cointegration method, while short-term relationships were deduced using the "Vector Error Correction Model (VECM)." A "long-run equilibrium" link between the current account and the variables of interest was indicated by the findings of the Johansen Cointegration test, suggesting that these factors affected India's current account. The analysis found that an improvement in India's current account would arise from a steady rise in its Net Foreign Assets (NFAs), while an increase in imports caused by a weakening currency would keep the country's CAD under pressure. On a similar note, **Kalita, M. S. (2016)** aimed to investigate the internal and external effects of CAD on India's economy. The technique was exploratory, and the data came from secondary sources like RBI bulletins and publications. Findings showed that over the course of the past two months, the

Reserve Bank of India had announced a number of steps intended to reduce fluctuations in the "country's currency exchange rate." The Reserve Bank of India (RBI) has set curbs on individual outbound foreign currency transactions and outbound Indian direct investment. On a similar note, **Singh, T. (2015)** examined the "intertemporal budget constraint (IBC)" and the viability of "current account deficits (CADs)" in India. Annual data from 1950-1951 through 2009-2010 were utilized to estimate the long-run model. There was a preponderance of evidence in favor of cointegration between imports and exports, as opposed to evidence that was either neutral or contradictory. The validity of IBC and the long-term viability of CADs were confirmed by estimations of the slope parameter greater than zero and by the preponderance of support for co-integration between imports and exports. For inflation control, increased export competitiveness, and stable foreign exchange rates, sustainable short-term management techniques must be paired with long-term productivity gains. On a similar note, **Seshaiah, S. (2014)** stated that recent years had seen a lot of focus on India's current account performance since it has become a politically and controversially charged topic. Very little research has been done on what caused current account deficits, especially in India, following liberalization. Authors have identified the short-term and long-term factors that contributed to current account deficits by employing the "vector error correction mechanism," the "Variance decomposition," and "the Johansen Cointegration method." It appeared from the data that the "current account deficit" was significantly linked to savings, investment, & economic openness in the "long run." Deficits in the "current account" were impacted by the degree of economic openness by 33.96 percentage points, and by fiscal deficits, savings, the real exchange rate, and the output gap, collectively, by 35.42 percentage points. While, **Kubendran, N. (2013)** stated that Dr. Bimal Jalan (Former Governor of the "Reserve Bank of India") premised on the long-term viability of India's current account and external sector situation during the past two decades. The study suggested, based on empirical data, that India's current account deficit has widened due to a worsening trend in goods trade and an unfavorable pattern of traded commodities, and that the deficit was unsustainable if it continues to grow at its current rate. On the Basis of the findings of the study, the Indian government should implement policies like a tariff wall for gold imports, complete elimination of petroleum product subsidies, and a peak rate of import tariff on unnecessary consumer goods in order to reduce the trade deficit, stabilize the "current account deficit," and maintain a sustainable "balance of payments." Similarly, **Tiwari, A. K. (2012)** examined the oil and non-oil exports and imports over time to uncover the "sustainability" of India's

"current account deficit." Due to the fact that unit root analysis revealed structural changes in both variables, the author conducted a cointegration study with structural breaks to get the final destination. While the author could not find any evidence of a long-run association between oil imports & exports but found substantial indication of a "long-run relationship" between non-oil imports & exports, that means that India can sustain a trade deficit for goods other than oil, not vice versa.

3. Research Questions

i. What is the impact of current account deficit on the economy of India in past 10 years?

ii. What is the importance of a sustainable current account deficit?

iii. How does a current account deficit work?

iv. What is the current status of the current account deficit in India?

4. Methodology

A plan for conducting an empirical investigation is known as a research technique. One approach is to look at the methods researchers use to complete their tasks. A number of research techniques were investigated, along with the underlying assumptions and procedures. The researcher must be well-versed in a number of research methods. Secondary information acquired from a number of freely accessible sources was used in the research. The analysis included 153 articles from different publishers. These publications were obtained from several internet sources, including Science Direct, Research Gate, Google Scholar, Scopus, and others. In addition, 68 papers were chosen for the second screening based on their titles, keywords, abstracts, and other relevant details. The 33 papers that passed the final screening were examined for correctness, external impacts, citations, and review procedures. The screening method for the study is shown in Figure 3.

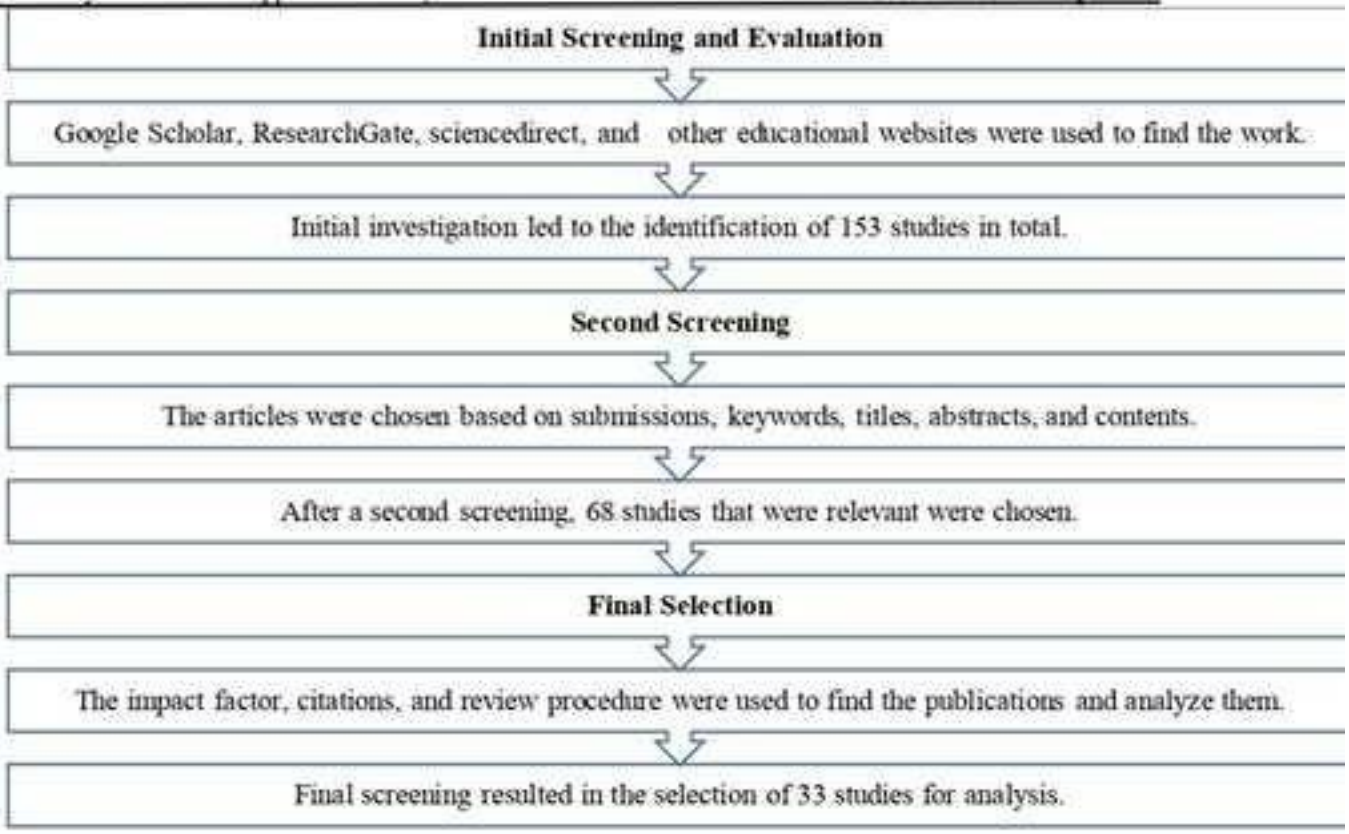

Figure 3 Screening Procedure

5. Discussion

In the context of the review study, several authors' perspectives and findings from earlier studies on the Decrease in India's CAD status in the past 10 years were looked into and assessed. Many authors contributed their opinions on the current account deficit, its effects, and India's present situation with it. The study used a screening methodology, in which the articles used for the investigation were carefully examined. 33 publications, in all, were found during the investigation to have relevant information. Several of the reviews that were supplied will be examined in this section.

According to the numbers, a major contributor to India's rising trade imbalance was the country's reliance on energy and fossil fuel imports. The political tension caused by the conflict between Russia and Ukraine has resulted in an exogenous shock, an increase in the price of crude oil, which has had an undesirable impact on the trade balance & caused the value of the rupee to decline (Banik & Velamuri, 2023). While Calderón, et al., (2007) hone down on low-income countries and those with growing economies. The authors observed, among other things, that the current account deficit worsens due to things like a rise in the "real exchange rate" (in line with the Mundell-Fleming model) and a decline in the overall

terms of trade (in line with the impact of Harberger-Laursen-Metzler, HLM). According to the findings of the research carried out by Takhi, (2022), economists generally favor a deficit of about -3 percentage points. Foreign investors always express concern over anything over that level. There should be no fear of having a negative current account deficit for a country like India. However, a large and ongoing gap in the current account should be avoided under all circumstances. According to Thomas, (2019), the positive effects of growth in gross exports of the primary traded services would be nullified if the "import" portion of business services "exports" continued to climb in the future, having a negative impact on India's CAD. The concerning thing was the 13-year downward trend in the "domestic value-added content of exports" across all "service sub-sectors," which was seen between 1995 and 2008. Whereas, as per the AKCAYIR, (2023), the increased budget deficit might cause a current account deficit even if the country has a savings surplus. The greater savings deficit might cause the government to have a current account deficit despite its budget surplus. While Kathiravan, et al., (2023) stated that according to Livemint, a $10 per barrel decline in oil prices reduces the current account deficit by $9.2 billion. That amounts to over 0.43 percent of GDP, a measure of economic output. According to the findings of the research carried out by Chitgupi, (2018), the "current account as a percentage of GDP" was -1.5 in 1980-81 and worsened to 3% in 1990-91 as a result of the "balance of payments" crisis. During the period 1992–2000, the ratio somewhat improved, hovering around -1.14 percent on average, thanks to the New Economic Policies of 1991–1992. India has not had a "current account surplus" in the previous 35 years, with the exception of four years in the early 2000s (2000-03). Strong exports and a trade boom in the information technology industry drove the surplus to a high of 2.2% in 2003–04 and a low of -4.7% in 2012–13, when oil prices rose, and gold imports were high. India's average "current account deficit" as a percentage of "GDP" from 1980 through 2015 was 1.47 percent. According to Sangvikar, et al., (2019), the current account deficit has risen to about 2 percent due to the influx of electronic goods and the rise in the price of oil. 13.5 billion US dollars, or 2% of GDP, was the size of the "current account deficit" in the balance of payments. It's a huge increase from the $8 billion recorded at the conclusion of the December 2017 quarter. Moreover, as per Ramakrishnan, et al., (2020), the data indicated that the pre-reform and post-reform thresholds for CAD were 2.1 percent of GDP and 3.4 percent of GDP, respectively. Using probit regression for the time span 1971-2018, authors then calculated the likelihood of a crisis owing to CAD given the threshold level. For the analysis, the authors selected a 2% CAD cut-off because that was the standard established by the

academic community. As per Behera & Yadav, (2019), after staying below 1.6 percent of GDP from 1991 to 2008, India's CAD jumped rapidly to 4.8 percent of GDP in 2012-2013, from roughly 2 percent of GDP in the quarter ending December 2017 and was likely to climb owing to rising oil prices. As projected, "the CAD climbed to 2.7 percent of GDP in the first half of 2018–2019, which further broadened to 2.9 percent of the GDP in the second quarter of the fiscal from 1.8 percent in the similar period of 2017–2018."

6. Conclusion

The gap between the country's exports & its imports, known as the "current account deficit", is an essential measure of the state of the economy. A "developing economy" will always be forced to run a current account deficit because it must borrow more money to pay for its various forms of economic development as the country expands and its population rises. CAD is a possible danger to a country's economy, notwithstanding the many strategies connected to transitioning to cheaper spending options and cutting overall expenditures. The present increase in borrowing indicates a movement of Indian cash out of the country, which puts pressure on the value of the rupee. A substantial value of the "current account deficit" can eventually lead to economic instability, but only if countries do not follow a strategy of allowing their exchange rates to fluctuate. Numerous policymakers, academics, economists, and members of a variety of other groups in the academic world of economics have been passionately arguing and doing research on the topic of "what is the sustainable level of current account deficit that will prevent an economy from collapsing into a crisis, etc."

In the last three months of 2022, India's current account deficit shrank to $18.2 billion, or 2.2% of GDP, from $22.2 billion, or 2.7% of GDP, a year earlier, and below projections of $23 billion. Exports of services, such as software, business, and travel, drove a 24.5% year-over-year increase in the surplus from $27.8 billion to $38.7 billion. A $28.5 billion increase in the surplus from secondary income was also recorded. There was a 31.7% increase to $30.8 billion in private transfer receipts, which largely reflect remittances sent home by Indians working abroad. However, the goods deficit expanded to $72.7 billion, up from $59.7 billion, and the primary deficit grew to $12.7 billion, up from $11.5 billion, mostly as a result of payments related to investment income. Compared to the $25.3 billion deficit, or 1.1% of GDP, in the April–December 2021 period, the country's current account gap increased to $67 billion, or 2.7% of GDP, in the April–December 2022 period (source: reserve bank of India).

The gap between the influx and outflow of foreign exchange in India has decreased to $18.2 billion, or 2.2 percent of GDP, in the October-December quarter (Q3FY23) from $4.4 billion, or 4.4 percent of GDP, in the previous quarter, according to the data released by the "Reserve Bank of India (RBI)."

"it has been anticipated that the magnitude of the CAD to continue to decline, to roughly $10-12 billion in Q4 FY2023, due to a significant reduction in the average trade deficit in January-February 2023 compared to the previous three months. The resulting forecast for the CAD in FY2023 is $77-80 billion (-2.3 percent of GDP), which is far lower than the levels of concern in mid-2022" (Sen, 2023).

Finally, it is possible to identify a variety of initiatives India might take to reduce its CAD. The first thing the government can do to boost exports is to streamline regulations & export procedures, as well as negotiate more favorable "trade agreements" with other nations. It can potentially increase India's export profits and narrow the country's trade gap.

Second, the government might encourage domestic manufacture of commodities that are now imported to increase import substitution. It can be achieved by providing subsidies to domestic producers and imposing tariffs or import fees on selected items.

Finally, by investing in its infrastructure, technology, and education, India can increase domestic economic productivity and competitiveness. India's current account deficit may be reduced as a result of these efforts, which aim to boost exports and decrease the trade imbalance.

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