Current account woes

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Current account woes-Proper structural reforms are needed to boost exports, reduce dependence on imported oil

- The latest trade figures published by the Reserve Bank of India confirm the damage caused by high global oil prices in the last few months.
- India's current account deficit (CAD) widened to 2.9% of gross domestic product (GDP) in the July-September quarter, a four-year high, under increasing pressure from the oil bill.
- This is in contrast to the same quarter a year ago when the CAD was only 1.1% of GDP.
- The government, however, may not be too worried about the widening CAD figures as the major factor that was behind the phenomenon has abated; global oil prices have dropped sharply since early October.
- Brent crude is down almost 30% from the high it reached in early October.
- So the size of the deficit is likely to come down in the quarter ending December.
- As usual, medium to long-term risks to the external sector remain.
- For one, there is the threat of price volatility faced by heavy importers of oil.
- Unless India manages to diversify its energy base by tapping into local sources of energy, this will remain a perennial threat to economic stability.
- A widening current account deficit per se should not be a cause for worry as long as foreign capital inflows into the economy are brisk enough to fund its huge import needs.
- The trouble arises when foreign inflows dry up and restrict the ability to purchase essential imports.
- So as liquidity conditions continue to tighten across the world, India's heavy import dependence is a cause for concern.
- Meanwhile, when Western central banks tighten their monetary policy, the RBI will be forced to tighten its own policy stance in order to retain

investment capital and defend the rupee.
- This will impact domestic economic growth negatively.
- In order to bring about any meaningful change, the government should also try implementing proper structural reforms that can boost exports, thus helping fund imports through means other than capital inflows, and end the over-reliance on imported oil.

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