



WHY IS INDIAN CURRENT ACCOUNT SUDDENLY IN SURPLUS DURING PANDEMIC?

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Abstract

The last two year has been difficult for the world and their economy too . COVID- 19 pandemic effected economy account badly. Repeated waves of pandemic criticize markets and distribution channel and more recently inflation have created particular challenging times for policy making. Faced with these challenges, the government of India immediate response was bouquet of safety-net to cushion the impact on various sectors. It next paused through a significant increase in capital expenditure on infrastructure to build back medium term demand as well as aggressively implemented supply-side measure to prepare the economy for a sustains long term expansion. This article focused how to Indian (BOP) current account surplus during pandemic and which drive effects surplus.

Advance estimates suggest that the economy is expected to witness real GSD expansion of 9.2 per cent in 2021-2022 after contracting in 2020-2021. This implies that overall economic activity has recovered past the pre pandemic levels.

INTRODUCTION

CURRENT ACCOUNT BALANCE

The balance of payment (BOP) is the place where countries record their transactions with rest of the world. Examining the current account balance of the country BOP can provide a good idea of its economic activity.

There are four component of a current account

Goods ,service ,income and current transfers.

Theoretically the current account should be zero, but in the real world this is improbable. If the current has a surplus or a deficit, it is informed by the government and state of the economy to public. India was the fourth largest forex reserve holder in the world after China, Japan and Switzerland as end of November 2021.

Current Account Balance

Years/items (net)	2019-20	2020-21	2020-21 H1	2021-22H1
Current Account Balance (US\$ Billion)	-24.7	23.9	34.3	-3.1
Current Account Balance (US\$ Billion)	-0.9	0.9	3.0	-0.2

Source: Reserve Bank of India

We see above table clearly during 2020-21 our current account in the balance of payment ended in a surplus to the extent of 0.9 per cent of GDP in FY the first time in 17 years as trade deficit narrowed due to contraction in pandemic induced import demand.

Driver of account surplus

The main driver of India's who help to current account surplus was lower imports due to subdued domestic demand and lower prices of oil, which narrowed down the trade deficit by US\$ 102.8bn in 2020.

The lower value of import was behind \$558 million current account surplus, and therefore, it is likely to be short-lived once economic activity normalized post the pandemic.

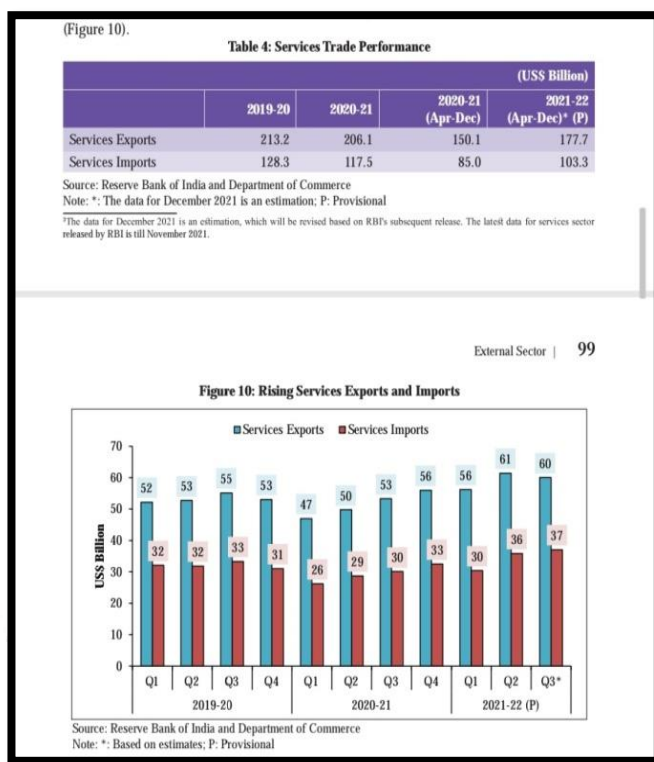
Rank	Commodity	(US\$ Billion)				Share (in Per cent)			
		2019-20	2020-21	2020-21	2021-22 (P)	2019-20	2020-21	2020-21	2021-22 (P)
				(Apr-Nov)				(Apr-Nov)	
1	Petroleum Products	41.3	25.8	15.3	39.5	13.2	8.8	8.8	14.9
2	Pearl, Precious, Semiprecious Stones	20.7	18.1	9.8	18.1	6.6	6.2	5.6	6.8
3	Iron and Steel	9.3	12.1	7.7	15.9	3.0	4.2	4.4	6.0
4	Drug Formulations, Biologicals	15.9	19.0	12.4	12.4	5.1	6.5	7.1	4.7
5	Gold and other precious metal jewellery	13.7	6.6	3.8	7.6	4.4	2.3	2.2	2.8
6	Organic Chemicals	8.3	7.6	4.8	7.4	2.7	2.6	2.8	2.8
7	Electric Machinery and equipment	9.0	8.1	5.1	6.4	2.9	2.8	2.9	2.4
8	Aluminium, Products of Aluminium	5.1	5.8	3.6	6.1	1.6	2.0	2.1	2.3
9	Products of Iron and Steel	7.0	6.6	3.9	5.4	2.2	2.2	2.2	2.0
10	Marine Products	6.7	6.0	4.0	5.4	2.1	2.0	2.3	2.0
Total of above 10 commodities		137.1	115.8	70.3	124.1	43.8	39.7	40.4	46.7
India's Total Exports		313.4	291.8	174.2	265.7	100	100	100	100

Strong international demand for Indian goods -

Rise in global crude oil prices, petroleum product continued to be the most exported commodity in April-November 2021, whose exports have more than doubled and their share rose to 14.9 percent from 8.8 per cent in corresponding period a year earlier.

Exports of pearls, precious, semi-precious stones and gold & other precious metal jewelers have shown substantial growth of 88% in April-November 2021. and also aluminum products have great export growth in 2021.

90 | Economic Survey 2021-22

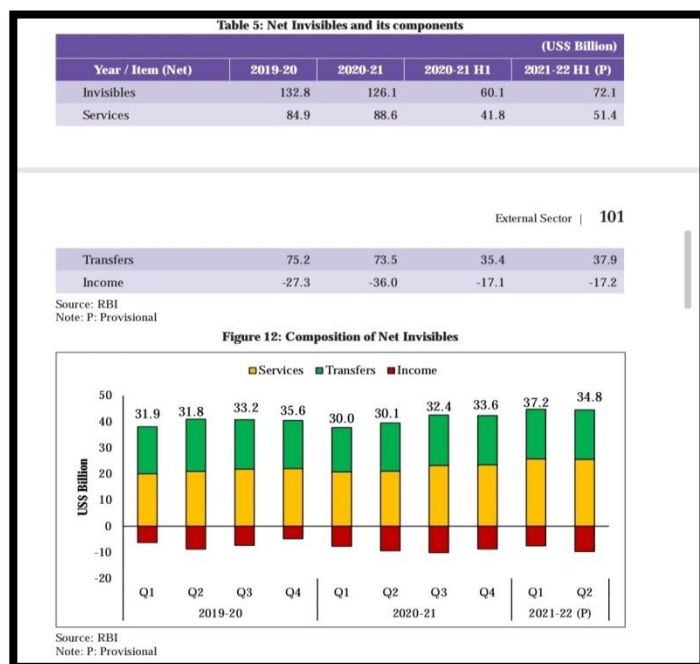


Services exports -

Induced global restrictions and weak tourism revenues, india;s service exports recorded growth of 18.4 per cent US\$ 177.7 billion during 2021-22 (April – December), over corresponding period a year earlier and 11.0 per cent growth over 2019-2020 (april-december). business Surpassing the pre-pandemic levels this was on account of top three computer,

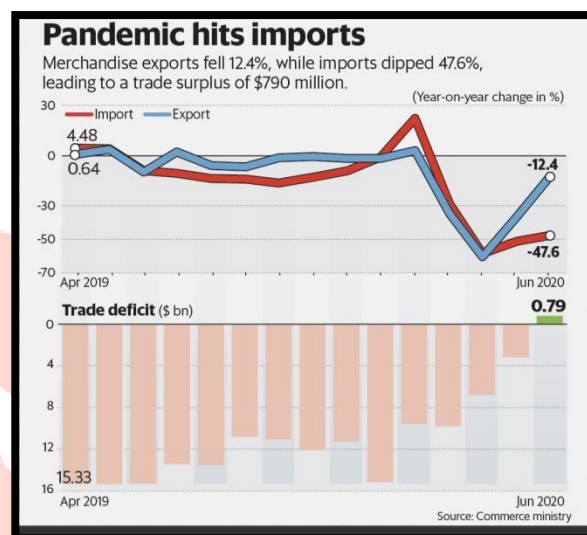
business and transportation service that consitute more than 80% of total sevice exports.

● INVISIBLE



On account of higher net service receipts and private transfer, net invisibles

Were higher at US\$ 72.1 billion in H1:FY22, compared to US\$ 60.1 billion last year and US\$ 63.7 billion H1:FY20 , surpassing the pre-COVID levels. Following the trend of service and transfer net invisible also experienced increase beyond Q1:FY2



● LOWER IMPORT DUE TO SUBDUED DEMAND

The account surplus be a result of weak domestic demand, this could result of weak domestic demand. This could result in lower consumer spending and decrease in import. The shrinking trade deficit contributed in large measure to turn current account balance to positive .while export shrank by 7.5%, import went down by a whopping 16.6%. There was a sharp declined in the petroleum, oil and lubricants (POL) imports by 58%, from 130.6 billion in 2019-20 to \$ 82.6 billion in 2020-21.

CONCLUSION

If a country records a current account surplus, it means that it is exporting a greater value of goods and services than it is importing. Of course, other factors affect the current account too, apart from trade values. India has run a current account deficit for most of its independence history. Things are changing now, however

- A current account surplus has a direct positive impact on the rupee. The current account reflects all payment between countries for goods, services, dividends and interests.
- High exports leads to increased employment in export sector
- Imports fallen is one of the best opportunities for our country domestic market to increase our growth rate.

But surplus is also bad in some sectors

- In the last four months itself, imports fell by 16.33% due to lower gold and oil imports. This reflects poorly on the investment opportunities in the country.

- Today, India is investing so little that it has a savings surplus. Fear of unemployment and of catching COVID has depressed shopping and entertainment.
- Banks are afraid to lead easy money the RBI to corporations. The huge current account surplus implies that a poor country that badly needs investment find economic prospects so weak that it is not investing
- Something similar is evident in the foreign exchange reserve. These by \$28 billion in the april-june quarter to a total of \$468 billion.
- Since then they have shot up to \$501 billion. Reserve need to keep pace with imports, but these are contracting , not rising.

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