GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:903
ANSWERED ON:01.03.2013
WIDENING CURRENT ACCOUNT DEFICIT
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken note of the country's widening Current Account Deficit (CAD);

(b) if so, the details thereof and the reasons therefor; and

(c) the steps taken / being taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b) The current account deficit (CAD) had widened to 4.2 per cent in 2011-12 from 2.8 per cent in 2010-11. In the first half (H1-April-September 2012) of 2012-13, it has further widened to 4.6 per cent of GDP as against 4.0 per cent of GDP during H1 of 2011-12.

Subdued economic and financial conditions due to euro-zone crisis led to weak external demand for India's exports. This together with higher imports of petroleum, oil lubricants (POL) and gold & silver led to widening of trade and current account deficits.

(c) The Government is seized of the matter concerning higher CAD and has undertaken several measures to address the issue, which inter-alia are as follows:

Measures to increase exports: In December 2012, given the lacklustre performance of exports sector due to global factors, the Government announced second round of incentives for export promotion, which mainly included

(i) extension of interest subvention scheme for select employment oriented sectors (including SMEs in all sectors) up to end-March 2014,

(ii) introduction of pilot scheme of 2 per cent interest subvention for project exports through EXIM Bank for countries of SAARC region,

(iii) broadening the scope of Focus Market Scheme and Special Focus Market Scheme, Market Linked Focus Product Scheme and
(iv) incentive on incremental exports to USA, EU and countries of Asia during the period January-March 2013 over the base period. Notwithstanding these measures, recovery in exports to major trading partners depend upon pickup in growth prospects both in advanced and emerging economies.

Measures to reduce imports: The Government has further enhanced the customs duty on gold and platinum from 4 to 6 per cent in January 2013 to lower the import of gold.

The Government has proposed to provide a link between the Gold ETF (Exchange Traded Fund) and the Gold Deposit Scheme with the objective to unfreeze or release a part of the gold physically held by mutual funds under Gold ETFs to enable them to deposit the gold with banks under the Gold Deposit Scheme. This would bring the gold lying in stock into circulation and will partly meet the requirements of the gems and jewellery trade. It is hoped that these measures would lead to moderation in the quantity of gold imported into the country.

The Government has revised diesel prices and capped subsidized LPG cylinders to consumers to contain the fiscal burden of subsidies in September 2012. On January 17, 2013, oil marketing companies (OMCs) were permitted to raise diesel prices in small measures periodically. These measures are expected to contain demand for oil imports.

Together these steps are expected to narrow the trade and current account deficit in the medium term.