India's external sector position broadly in line with the level implied by fundamentals and desirable policies: IMF External Sector Report 2019

According to IMF External Sector Report 2019, after narrowing sharply in the aftermath of the global financial crisis, overall current account surpluses and deficits reached 3% of world GDP in 2018, declining marginally while rotating toward advanced economies in recent years. The IMF's multilateral approach suggests that about 35–45% of overall current account surpluses and deficits were deemed excessive in 2018.

Selected Economies: Current Account Balance, 2015–18

	In Billions of USD				In Percent of World GDP				In Percent of GDP			
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
Top 15 Surplus Economies in 2018												
Germany	288	294	296	291	0.4	0.4	0.4	0.3	8.5	8.4	8.0	7.3
Japan	136	198	202	175	0.2	0.3	0.3	0.2	3.1	4.0	4.2	3.5
Russia	68	24	33	114	0.1	0.0	0.0	0.1	5.0	1.9	2.1	6.9
Netherlands	49	63	87	99	0.1	0.1	0.1	0.1	6.3	8.0	10.5	10.8
Korea	105	98	75	76	0.1	0.1	0.1	0.1	7.2	6.5	4.6	4.4
Saudi Arabia	–57	–24	10	72	–0.1	0.0	0.0	0.1	–8.7	–3.7	1.5	9.2
Switzerland	76	63	45	72	0.1	0.1	0.1	0.1	11.2	9.4	9.8	10.2
Taiwan Province of China	75	73	83	68	0.1	0.1	0.1	0.1	14.2	13.7	14.4	11.6
Singapore	53	56	55	65	0.1	0.1	0.1	0.1	17.2	17.5	16.4	17.9
Italy	27	47	54	53	0.0	0.1	0.1	0.1	1.5	2.5	2.8	2.6
China	304	202	195	49	0.4	0.3	0.2	0.1	2.7	1.8	1.6	0.4
Thailand	32	48	50	35	0.0	0.1	0.1	0.0	8.0	11.7	11.0	7.0
Norway	31	15	23	35	0.0	0.0	0.0	0.0	7.9	4.0	5.6	8.1
Ireland	13	–13	28	34	0.0	0.0	0.0	0.0	4.4	–4.2	8.5	9.1
United Arab Emirates	18	13	26	28	0.0	0.0	0.0	0.0	4.9	3.7	6.9	6.6
Top 15 Deficit Economies in 2018												
United States	–408	–433	–449	–478	–0.5	–0.6	–0.6	–0.6	–2.2	–2.3	–2.3	–2.3
United Kingdom	–142	–139	–88	–109	–0.2	–0.2	–0.1	–0.1	–4.9	–5.2	–3.3	–3.9
India[2]	–22	–14	–49	–68	0.0	0.0	–0.1	–0.1	–1.0	–0.6	–1.8	–2.5
Canada	–55	–49	–46	–45	–0.1	–0.1	–0.1	–0.1	–3.5	–3.2	–2.8	–2.6
Indonesia	–18	–17	–16	–31	0.0	0.0	0.0	0.0	–2.0	–1.8	–1.6	–3.0
Australia	–57	–42	–35	–29	–0.1	–0.1	0.0	0.0	–4.6	–3.3	–2.6	–2.0
Argentina	–18	–15	–32	–27	0.0	0.0	0.0	0.0	–2.7	–2.7	–4.9	–5.2
Turkey	–32	–33	–47	–27	0.0	0.0	–0.1	0.0	–3.7	–3.8	–5.6	–3.5
Mexico	–31	–24	–20	–22	0.0	0.0	0.0	0.0	–2.6	–2.3	–1.7	–1.8
Pakistan	–3	–5	–13	–20	0.0	0.0	0.0	0.0	–1.0	–1.7	–4.1	–6.3
Algeria	–27	–26	–22	–16	0.0	0.0	0.0	0.0	–16.4	–16.5	–13.2	–9.1
Lebanon	–10	–12	–14	–15	0.0	0.0	0.0	0.0	–19.3	–23.1	–25.7	–27.0
Brazil	–54	–24	–7	–15	–0.1	0.0	0.0	0.0	–3.0	–1.3	–0.4	–0.8
Colombia	–19	–12	–10	–13	0.0	0.0	0.0	0.0	–6.3	–4.3	–3.3	–3.8
France	–9	–19	–15	–9	0.0	0.0	0.0	0.0	–0.4	–0.8	–0.6	–0.3

Source: PHD Research Bureau compiled from IMF, World Economic Outlook;
Note: [1] Sorted by size (in US dollars) of surplus and deficit in 2018.
[2] For India, data are presented on a fiscal year basis.

Meanwhile, net creditor positions have continued to increase and, at about 20 percent of global GDP, are at a historical peak—four times the level prevailing in the early 1990s, with net debtor positions reaching a similar magnitude. With output near potential in most systemic economies, a well-calibrated macroeconomic and structural policy mix is necessary to support rebalancing. Exchange rate flexibility remains key to facilitate external adjustment, with limited evidence of this mechanism weakening over time.

Indian Economy Assessment

Overall Assessment: The external sector position in 2018 was broadly in line with the level implied by fundamentals and desirable policies. India's low per capita income, favorable growth prospects, demographic trends, and development needs justify running CA deficits. External vulnerabilities remain, as highlighted by bouts of turbulence in 2018. India's economic risks stem from volatility in global financial conditions and an oil price surge, as well as a retreat from cross-border integration. Progress has been made on FDI liberalization, whereas portfolio flows remain controlled. India's trade barriers remain significant.

Potential Policy Responses: Whereas the external position is broadly in line with fundamentals, measures to rein in fiscal deficits should be accompanied by efforts to enhance credit provision through faster cleanup of bank and corporate balance sheets and strengthening the governance of public banks. Improving the business climate, easing domestic supply bottlenecks, and liberalizing trade and investment will be important to help attract FDI, improve the CA financing mix, and contain external vulnerabilities. Gradual liberalization of portfolio flows should be considered, while monitoring risks of portfolio flows' reversals. Exchange rate flexibility should remain the main shock absorber, with intervention limited to addressing disorderly market conditions.

- As of end-2018, India's Net International Investment Position (NIIP) improved to –15.9% of GDP, from –17.3% of GDP at end-2017. Gross foreign assets and liabilities were 22.2 and 38.1% of GDP, respectively.

- The CA deficit is estimated to have increased to 2.5% of GDP in fiscal year 2018/19 from 1.9% of GDP in the previous year, due to higher commodity prices and strong domestic demand in the first half of the fiscal year.
- The average REER in 2018 depreciated by about 3.8% from its 2017 average. As of May 2019, the rupee had appreciated by about 7.7% in real terms compared with the average REER in 2018.

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