CAD widens on higher trade deficit

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Highlights

- The current account deficit (CAD) in the first quarter of 2018-19 increased by $0.8 billion.
- However, as a proportion of GDP, it declined marginally to 2.4% as compared with 2.5% in the first quarter of 2017-18 as per data released by the Reserve Bank of India (RBI).
- "The widening of the CAD on a year-on-year (y-o-y) basis was primarily on account of a higher trade deficit at $45.7 billion as compared with $41.9 billion a year ago," the central bank said in a statement.

'Fundamentals strong'

- There could be temporary blips but the **fundamentals of the economy are very strong.**
- There is no doubt that CAD should be viewed in several quarters. In one quarter it may increase due to some **temporary distractions.**
- **Oil prices** are high which is an **external factor**. We have huge forex reserves to deal with such issues.
- **Ind-Ra India Ratings and Research** (Ind-Ra) expects current account deficit in FY19 to be 2.6% of GDP and rupee to average INR68.40/USD in FY19.
    - However this is contingent on two major factors — RBI **opening a dollar window** for bulk importers, and government and RBI agreeing to **special NRI deposits** to the tune of $25 billion, similar to 2013.
- As per RBI data, **net services receipts increased** 2.1% on a year-on-year basis mainly on the back of a **rise in net earnings from software and financial services.**
- Private transfer receipts, mainly representing **remittances** by Indians employed overseas, amounted to $18.8 billion, **increasing by 16.9%** from their level a year ago, it said.
- In Q1 of 2018-19, there was a **depletion of $11.3 billion of foreign exchange reserves** (on BoP basis) against an accretion of $11.4 billion in Q1 of 2017-18, the RBI said.

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