



CAD to Widen to 2.5% of GDP

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According to Moody's and other experts, India's current account deficit is likely to widen to 2.5% in Financial Year 2018-19, up from 1.5% in fiscal 2017 due to higher oil prices and strong non-oil import demand as domestic demand accelerates.

The situation has been intensified further by the rupee depreciation.

- A key driver for depreciation is the gradual U.S. Fed's **monetary policy tightening**, economic crises in large emerging markets which have made global investors more cautious about emerging markets' currencies and equities.
- The rupee's depreciation will have both the positive and negative impact on the economy.
- On the negative side, it will increase the oil import bill leading to higher Current Account Deficit (CAD). Also, costly oil import would seep into the economy via higher inflation, make infra and other projects, which have a large import content, expensive and will make critical imported defence items more expensive.
- On the positive side it will improve the export competitiveness of Indian goods and services.

[Read more about Rupee Depreciation...](#)

Current Account Deficit (CAD)

- CAD, is the difference between the inflow and outflow of foreign exchange. It reflects that the imports of goods, services and investment incomes into the economy outstripped the value of its exports.
- **Current Account Deficit** and **Fiscal Deficit** (also known as "budget deficit", it is a situation when a nation's expenditure exceeds its revenues) are together are known as **twin deficits** and often both reinforce each other i.e. High fiscal deficit leads to higher CAD and vice versa.

- The trade position may worsen in the short term because of the oil/other items import bill rising immediately, while the benefit of export competitiveness would largely be in the medium to long term.
- Since, the rupee depreciation is not occurring in isolation, as many other emerging markets currencies have also shown significant depreciation against the USD, therefore, India's relative competitiveness against many emerging markets competitors has not improved despite the rupee depreciation against the USD.
- Moody's expects the recovery in growth to continue driven by the underlying growth momentum in the economy, pre-election spending and a pickup in rural demand. This will largely offset the impacts of a weaker rupee and rising oil prices.