Widening CAD & Indian Economy

Recently India's current account deficit (CAD) widened to a four-quarter high at 2.4% of gross domestic product (GDP) in the April-June period from 1.9% in the January-March quarter of 2017-18.

- The current account measures the flow of goods, services and investments into and out of the country.
- Current account balance measures the external strength or weakness of an economy. It largely consists of the country's trade balance in goods and services with the rest of the world, and private transfer receipts, primarily representing remittances in the case of India.
- A current account surplus implies that the country is a net lender to the rest of the world, while a deficit indicates it is a net borrower.

Why is CAD Rising?

- High crude prices above the $75-a-barrel mark because of tensions in the Gulf region, US sanctions on Iran and the instability in key oil exporting nation Venezuela.
    - Moreover, being a net importer of fuel, India's trade deficit is going up.
- A weakening rupee has made imports costlier.
- The China-US trade war may further hamper export growth.
- Rising investment demand will lead to more imports.

Concerns

- CAD is financed through a mix of Foreign direct investment (FDI), portfolio flows, foreign reserve management and because of rising global volatility, its financing is a worry.
- Although the FDI flows rose in recent years, a strong dollar, tighter global financial conditions have put more pressure on portfolio investments.
- Based on India's historical cash flows, capital inflow curbs, International Monetary Fund (IMF) has predicted that the global markets may not be able to finance a CAD above 3% of GDP.
- Higher CAD will further put the rupee under pressure and may raise the cost of overseas borrowing. Depleting forex reserves could raise CAD further.