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CAD widens qoq to 1.4% of GDP in Q3

fe Bureau
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INDIA'S current account deficit (CAD) widened sharply in the third quarter of the current fiscal on a sequential basis — to $7.9 billion or 1.4% of the gross domestic product (GDP) from $3.4 billion or 0.6% of the GDP in the second quarter — as gold imports and oil price spike enlarged the merchandise trade deficit by a steep $7.6 billion quarter-on-quarter.

Compared with the year-ago quarter when the CAD stood at $7.1 billion or 1.4% of the GDP, the widening of the deficit in Q3FY17 was, however, moderate and slower than many analysts expected. For the whole of 2016-17, the CAD would yet be benign at lower than 1% of GDP, analysts said, given the figure of $11.6 billion (0.7% of GDP) for the April-December FY17 period.

Since the October-December quarter saw NRI money worth a whopping $18.5 billion flowing out owing to the redemption of foreign currency non-resident-bank (FCNR-B) deposits and a $11.3-billion portfolio investment outflows, the capital account surplus more than halved from the previous quarter to $6.1 billion, data released by the RBI on Thursday revealed. Therefore, the country's forex reserves shrank $1.2 billion in Q3 compared with accretions of $8.5 billion and $4.1 billion respectively, in the previous and year-ago quarters.

Net services receipts moderated in Q3FY17 on an year-on-year basis — to $17.6 billion from $18 billion — but services trade surplus still stood at a four-quarter high, a creditable performance given global headwinds.

"The continued decline in the secondary income balance recorded over the previous four quarters, was arrested in Q3 FY2017, with the net balance remaining at $13.9 billion in line with Q2 FY2017. The sustainability of this trend would take a cue from factors such as crude oil prices which have weakened in the ongoing month after the spike recorded in the first two months of the quarter," Aditi Nayar, principal economist at Icra, wrote.

In the light of Q3 data, Nayar's firm has has cut the F17 CAD forecast to $15 billion or 0.7% of the GDP, from $20 billion projected earlier.

The RBI data also showed that private transfer receipts — remittances from Indians abroad — stood at $15.2 billion in Q3FY17, down 3.8% from the level a year ago. Net foreign direct investment (FDI) were recorded at $9.8 billion in Q3FY17, marginally lower than the year-ago quarter. Net FDI inflows during April-December FY17, however, was still 12.3% higher than the year-ago period, at $30.6 billion.

Portfolio investment recorded a net outflow of $3.2 billion during the first nine months of FY17 compared with an outflow of $3 billion in the corresponding period in the previous year.

Gold imports rose 23.2% to $4.36 billion in November when the note ban was announced, slower than the 108% rise in the Diwali month of October. Though the precious metal imports dropped 48% in December to $1.96 billion, overall imports during the October-December quarter were still higher than in the September quarter.