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YoY SURGE IN CRUDE PRICES, GOLD IMPORTS IMPACT

CAD worsens to 2.9% in Sept quarter on higher trade deficit

ENS ECONOMIC BUREAU
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HIT BY higher trade deficit, mainly due to a rise in the oil import bill, India's current account deficit (CAD) at $19.1 billion, or 2.9 per cent of GDP, in the quarter ended September 2018 increased from $6.9 billion (1.1 per cent of GDP) in September 2017 and $15.9 billion (2.4 per cent of GDP) in the preceding quarter, the Reserve Bank of India has said.

The CAD, which is the difference between the inflow and outflow of foreign currency, stood at 1.9 per cent of GDP in 2017-18 fiscal and 0.6 per cent of GDP in 2016-17. According to the 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 $50.0 billion as compared with $32.5 billion a year ago.

Following the year-on-year surge in crude oil prices, India's net import bill related to petroleum, crude and crude related products increased by a sharp 60 per cent to $23 billion in September quarter this fiscal, from $14 billion in the same period last fiscal, rating firm ICRA said. Additionally, gold imports rose by 61 per cent to $9 billion in the September quarter, from $6 billion in the year-ago period.

"These two item groups account for around 80 per cent of the rise in India's merchandise trade deficit in the second quarter of the fiscal, relative to the year-ago quarter," ICRA said.

However, Brent crude futures which was trading around 80 dollar to a barrel in September, has fallen to around 62 dollar a barrel. "The recent correction in crude oil prices has doused concerns regarding the size of India's current account deficit in H2 (October-March) FY2019. Moreover, a seasonal uptrend in exports should help moderate the current account deficit in H2 FY2019 relative to H1 FY2019," ICRA principal economist Aditi Nayar said.

The CAD increased to 2.7 per cent of GDP in the first half of 2018-19 from 1.8 per cent in H1 of 2017-18 on the back of widening of the trade deficit. India's trade deficit increased to $95.8 billion in H1 of 2018-19 from $74.4 billion in H1 of 2017-18, the RBI said. The RBI said net services receipts increased by 10.2 per cent on a y-o-y 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 $20.9 billion, increasing by 19.8 per cent from their level a year ago.

In the financial account, net foreign direct investment at $7.9 billion in Q2 of 2018-19 moderated from $12.4 billion in Q2 of 2017-18. Portfolio investment recorded net outflow of $1.6 billion in Q2 of 2018-19 as compared with an inflow of $2.1 billion in Q2 last year on account of net sales in both the debt and equity markets. "Net receipts on account of non-resident deposits increased to $3.3 billion in Q2 of 2018-19 from $0.7 billion a year ago," the RBI said.

In Q2 of 2018-19, there was a depletion of $1.9 billion of the foreign exchange reserves (on BoP basis) as against an accretion of $9.5 billion in Q2 of 2017-18.

According to the RBI, net FDI inflows in H1 of 2018-19 moderated to $17.7 billion from $19.6 billion in H1 of 2017-18. Portfolio investment recorded a net outflow of $9.8 billion in H1 of 2018-19 as against an inflow of $14.5 billion a year ago.

The RBI said in the first half of 2018-19, there was a depletion of $13.2 billion of the foreign exchange reserves (on a BoP basis). On a balance of payments basis (i.e., excluding valuation effects), the foreign exchange reserves decreased by $13.2 billion during April-September 2018 as against an increase of $20.9 billion during April-September 2017. The foreign exchange reserves in nominal terms (including the valuation effects) decreased by $24.0 billion during April-September 2018 as against an increase of $30.3 billion during the same period of the preceding year.