

YoY SURGE IN CRUDE PRICES, GOLD IMPORTS IMPACT

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

ENS ECONOMIC BUREAU
MUMBAI, DECEMBER 7

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

EXPLAINED

E. Falling crude oil price may help ease concerns

WHILE THE current account deficit jumped sharply in the second quarter, the subsequent fall in global crude oil prices should provide relief on the CAD front in coming quarters. CAD, which refers to inflows of foreign currency into India being lower than outflows out of the country, is a key macroeconomic variable watched by the financial markets.

Analysts note that while worst-case scenario on the CAD front has somewhat eased with oil prices cooling off, the government needs to remain vigilant and prepared with likely measures to contain the deficit from spiraling out of control.

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.

'GOVERNMENT NEEDS TO RAISE RS 1 LAKH CR IN 3 YRS FOR PMAY-U'

The Centre will need to raise about Rs 1 lakh crore over next three years to meet its target of constructing one crore houses in urban areas under the Pradhan Mantri Awas Yojana - Urban by 2022, CRISIL Research said

12 lakh

houses constructed, against 63 lakh houses sanctioned under the scheme



23 lakh

houses sanctioned under PMAY-U were still being constructed as of Nov 26

30 lakh

houses under the scheme expected to be constructed by end-FY19

55% of sanctioned houses in Andhra Pradesh, Uttar Pradesh, Maharashtra, MP and Tamil Nadu

RS 1.5 LAKH CR government contribution needed by 2022, of which 22% has been disbursed so far

"Our calculations show the government will have to garner around Rs 1 lakh crore over the next three years to achieve the target of building one crore houses. This is going to be a tall ask given the current fiscal arithmetic,"

PRASAD KOPARKAR, SENIOR DIRECTOR, CRISIL RESEARCH