

‘CAD at 2.5% of GDP not a worry, govt has the tools’

ENS ECONOMIC BUREAU
NEW DELHI, JUNE 19

ECONOMIC AFFAIRS Secretary Subhash Chandra Garg on Tuesday said that current account deficit (CAD) in the range of 2-2.5 per cent of Gross Domestic Product would not be a worry as the government has the required instruments to deal with any imbalance created due to foreign fund outflow.

CAD, the difference between the inflow and outflow of foreign exchange, jumped to \$48.7 billion, or 1.9 per cent of GDP, in 2017-18 fiscal. This was higher than \$14.4 billion, or 0.6 per cent, CAD in 2016-17. Increasing global crude oil prices, depreciating rupee and outflows of foreign money especially from Indian debt markets in recent months have fuelled concerns that CAD may increase further in the current year.

“2-2.5 per cent CAD is not a problem for us ... If there is stability, in the current year capital account (inflows) should be good enough to take care and we may not worry even if it (CAD) reaches 2.5 per cent,” Garg said at the 6th Growth Net Summit organised by Ananta Centre and Confederation of Indian Industry.

On fiscal management, Garg said the government has worked in a very prudent manner and has made it clear that the fiscal situation will not be allowed to deteriorate even though this is an election year. India would shortly achieve the targeted 3 per cent fiscal deficit level and it will be more permanent and sustainable in nature, Garg said. India’s tax to GDP ratio has improved and fresh private capital investment is likely as capacity utilisation has increased in the economy.

Asked about monetary policy tightening by the United States, he said India can afford to be “less edgy and concerned” than it was during Taper Tantrum in 2013. In 2013, emerging markets including India witnessed significant capital outflows in anticipation of the US Fed unwinding its accommodative monetary policy. India is now better prepared to deal with impact of capital outflows.

“We have a number of other instruments to use in that case. We have not called upon them to use so far. Last time we came out with NRE (non-resident external) deposit. We are sitting on reserves which are highest ever at \$415 billion. The place where we are is possibly not the kind of situation where we were in 2013,” he said.