Current account deficit may hit record high of 6.4% in Q3

India's current account deficit (CAD) for the quarter ended December is expected to come at an all time high of 6.4 percent against 5.4 percent in the July-Sept period, a CNBC-TV18 poll showed. The Reserve Bank of India will announce CAD number for third quarter at 5 pm today.

The aggregate CAD is expected to rise to USD 31 billion from USD 22.4 billion a quarter ago and USD 16.5 billion a year ago. The finance minister has repeatedly shown concerns over the widening current account deficit and had also taken measures like raising gold import duty to rein in the ever-increasing crevasse.

In his Budget speech finance minister P.Chidambaram noted, “CAD continues to be high mainly because of our excessive dependence on oil imports, the high volume of coal imports, our passion for gold, and the slowdown in exports. This year, and perhaps next year too, we have to find over $75 billion to finance the CAD."

High CAD increases our dependence on foreign funds, which is not a good sign in the current volatile global environment. In a time when the government’s priority is to revive economic growth, high CAD can be a huge deterrent as it does not allow the central bank to take pro-growth initiatives In its recent monetary policy review, Reserve Bank of India had stated that high current account deficit gave a limited scope for cutting key rates.

However, there have been some signs of improvement in this situation. India’s exports recorded a growth of 4.2 per cent on a YoY basis in February 2013. It is the first time since February last year that export grew at this pace.

In its recent report credit rating agency CRISIL noted, “India's merchandise exports may recover further in 2013 due to an improved global economic outlook and government’s efforts to support exports. The FM in his budget speech stated that very soon a new trade policy will be announced to boost exports. On the other hand, lower crude oil prices coupled with the deregulation of diesel prices is likely to keep the oil import bill under check.”

Prime Minister's Economic Advisory Council (PMEAC) Chairman C Rangarajan believes that CAD is likely to come down in the fourth quarter of the current fiscal, ending March 31, on the back of improvement in exports in the last few months. “Perhaps the third quarter current account deficit will be higher but it could come down in the fourth quarter. Because exports have shown some sign of improvement in the last few months," he told reporters at a recent event.

Also improving capital inflows are likely to support high deficit. A CNBC-TV18 poll expects Foreign Institutional Investment to grow to USD 7 billion up from USD 1.8 billion year ago. Pro-reform announcement post September have improved foreign investment in the country.

As some other measures, the government may cut withholding tax on rupee-denominated debt to percent after reducing the tax on foreign borrowings to 5 percent from 20 percent, CNBC-TV18 had earlier reported.

(Money Control)