

Financing high CAD year after year a challenge: Chidambaram

Finance Minister P Chidambaram today said that financing current account deficit (CAD) year after year is a challenge and the only way to deal with the problem is by increasing exports.

"The more difficult task is to finance the CAD. It was not even in vocabulary of discourse until a few years ago. It has become a serious issue because imports are rising faster than exports. And the gap has to be financed through invisibles and capital account. "... but to do that year after year is a challenge. Long term answer to the CAD is to improve the exports," he told PTI in an interview here.

Chidambaram, who met Commerce Minister Anand Sharma earlier in the day, said: "We have reviewed the (export) figure this morning. First quarter figures are not encouraging."

CAD, which occurs when total imports of goods, services and transfers is greater than the exports, had hit a record high of 4.8 per cent of the GDP in 2012-13 as rising oil and gold import widened the trade gap to USD 195.7 billion.

"I am sure some measures will be taken to reverse this trend (declining exports) and our exports will be back on a moderate growth path so that trade balance does not expand," he said.

Chidambaram said the government had financed the CAD through foreign inflows last year and also added about USD 3.8 billion to the foreign exchange reserves.

The government has been taking steps to encourage overseas investment and is in the process of relaxing FDI caps in various sectors.

A high CAD is putting pressure on the rupee which had touched a record low of 60.76 to a dollar amid outflow of foreign funds from debt securities on fears of early withdrawal of US monetary stimulus.

Gold imports have been a major cause of worry as it widens the CAD, which in turn puts pressure in the domestic currency. Gold and silver imports rose nearly 90 per cent to USD 8.4 billion in May. Cumulatively, in April-May the import of precious metals stood at USD 15.88 billion.

The government and the RBI have been taking steps to curb gold imports. The government has hiked import duty on gold three times in a year and recently raised it by 2 per cent to 8 per cent to curb demand.

(Economic Times)