



This rising CAD has enough potential to put further pressure on already weakening rupee. (Reuters)

Even though strong capital inflows is a good thing for India currently, current account deficit (CAD) and rupee may become a casualty in the long run. In India's case, where foreign capital inflows have remained strong for sometime now, 'Dutch disease' is an apt phrase to describe the scenario. Neelkanth Mishra, Managing Director and India Economist and Strategist, Credit Suisse, states in a column in The Indian Express that India has consumed more goods and services than it produced and holds a current account deficit (CAD) and foreign capital funded this excess consumption.

Dutch disease is used in economics to describe the paradoxical situation where seemingly good news, such as the discovery of large oil reserves, has a negative impact on a country's broader economy.

Neelkanth Mishra writes, "The persistence of the CAD and the consequent dependence on external flows to keep the currency stable raise questions on sustainability. A point of serious concern is that the annual "rent" on foreign capital we have received thus far is already in excess of 1 percent of GDP."

Weakening rupee

This rising CAD has enough potential to put further pressure on already weakening rupee. The higher current account deficit will put downward pressure on the rupee and it may also raise the cost of Indian borrowing abroad, a recent note from Edelweiss Securities Ltd points out. “The stress on BoP is already visible in Q1FY19 with the INR depreciating 4%; the [RBI](#) had to intervene to stem the depreciation,” it says.

“To keep the rupee from depreciating further, the clamour for another large dollar loan from non-resident Indians (like the one that stemmed the crisis in 2013) has already started,” he writes further.

What’s the solution?

Neelkanth Mishra says that well thought out economic measures such as a change in India’s energy mix, greater indigenisation of electronics and defence manufacturing, and higher agricultural exports may help the economy tide over the worryingly frequent bouts of rupee volatility.

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