

CAD contracts to 0.2% of GDP in Q4, expands in FY23

India's current account deficit expectedly contracted to a seven-quarter low of US\$ 1.4bn or 0.2% of GDP in Q4FY23 from US\$16.8bn or 2% of GDP in the previous quarter. This was primarily on the back of a significant drop in merchandise trade deficit on a sequential basis, along with continued traction in services exports, partly offset by lower remittances. Capital account surplus, however, came off sharply in Q4FY23 to US\$ 6.5bn from US\$ 28.9bn in the previous quarter, thanks to net outflows of banking capital and foreign portfolio investments. Consequently, the Balance of Payments (BoP) surplus moderated by 50% QoQ to US\$ 5.6bn in Q4FY23. In FY23, CAD expanded to 2% of GDP from 1.2% in the previous year, largely owing to high trade deficit in H1FY23, with a strong growth in services receipts and remittances providing some downside support. Capital account surplus also contracted sharply in FY23 and stood at six-year low as a % of GDP, weighed down by reduced net FDI inflows (Lowest in last nine years), and a significant decline in short-term loans and external commercial borrowings. As such, the BoP balance slipped into deficit of US\$9.1bn in FY23—the first deficit in four years and the highest in last 11 years. Notably, India has reported a BoP deficit in only seven out of last 33 years (FY91-23).

External situation is expected to improve in FY24, supported by contraction in merchandise trade deficit owing to lower commodity prices and sustained momentum in services exports, even as subdued external demand is likely to weigh on overall exports. Notwithstanding strong foreign capital inflows in FY24 till date, they are likely to remain volatile amid heightened financial market uncertainty. This, in turn, may put pressure on the INR, even as built up of forex reserves over the last few months should provide the requisite support.

- Lower trade deficit leads to a sharp contraction in Q4FY23 CAD...:** India's current account deficit narrowed sharply to US\$ 1.4 bn or 0.2% of GDP in Q4FY23 from US\$ 16.8bn (2% of GDP) in the previous quarter and US\$ 13.4bn (-1.6% of GDP) in Q4FY22. This was primarily on account of lower merchandise trade deficit and continued traction in services receipts, more than making up for lower remittances. The merchandise trade deficit moderated by 26.3% QoQ/3.5% YoY to six-quarter low of US\$ 52.6bn or 6% of GDP in Q4FY23. This was owing to a strong 9.2% QoQ growth in exports (-2.5% YoY), while imports fell by 6.1% QoQ (-3.7% YoY), with the latter weighed down more by falling crude oil prices.
- ...Further supported by resilient services receipts:** Net invisible receipts rose by a strong 24.8%YoY in Q4 FY23 but fell by 6% QoQ to US\$51.2 bn. The sequential moderation was partly on account of lower remittances—that fell by 12.4% QoQ to US\$25.1bn. This was partly offset by continued expansion in net services receipts to fresh record high of US\$39.1bn (+38% YoY / 0.9% QoQ), aided by robust software services receipts (+17.4% YoY / 2.5% QoQ).
- Reduced foreign capital inflows translates into a lower BoP surplus in Q4:** The capital account surplus shrank by 77.3% QoQ to US\$ 6.5bn in Q4FY23. This was on the back of renewed foreign portfolio outflows (-US\$1.7bn in Q3FY23 vs. net inflows worth US\$4.9bn/US\$6.5bn in Q3/Q2FY23) and net outflows of banking capital, partly offset by a steady increase in NRI deposits to a five-year high of US\$3.6bn and sequential improvement in foreign direct investments (US\$6.4bn in Q4FY23 vs. US\$2.1bn in Q3). Consequently, notwithstanding a significant moderation in current account deficit, the BoP surplus moderated by ~50% QoQ to US\$ 5.6bn in Q4 vs. US\$ 11.1bn in Q3FY23.
- CAD in FY23 widens; BoP balance turns into deficit:** In FY23, CAD expanded to a decadal high (in value terms) of US\$67.1bn or 2% of GDP from US\$38.7bn or 1.2% of GDP in the previous year. This was largely owing to a steep jump in trade deficit in the first half of the fiscal (+88% YoY in H1FY23), even as a strong growth in services receipts (+33% to US\$143bn) and remittances (+25% to US\$102bn)

India's current account balance recorded a deficit of US\$1.4 bn or 0.2% of GDP in Q4FY23.

provided some downside support. Trade deficit widened by 40% to US\$265bn in FY23 or 7.8% of GDP (The highest in nine years as a % of GDP) as weak external demand weighed on non-oil exports (-0.6%), while non-oil imports grew by a strong 11.6% on resilient domestic demand. Capital account surplus, however, fell by 31% to US\$58.9bn or 1.7% of GDP—the lowest in six years. This was due to a sharp decline in net FDI inflows (To a nine-year low of US\$28bn), short-term loans (-68% to US\$ 6.5bn) and external commercial borrowings (-US\$ 3.8bn vs. +US\$ 8.1bn in FY22), partly compensated by strong banking capital inflows that stood at a nine-year high of US\$21bn in FY23. As such, the BoP balance slipped into deficit of US\$9.1bn in FY23—the first deficit in four years and the highest in last 11 years.

- External balances to improve in FY24 even as uncertainties remain:** Subdued external demand is likely to continue to weigh on India's exports—evident from a 11%+ YoY decline in the merchandise export bill in the first two months of FY24. Imports are also likely to see a contraction this year, primarily led by lower commodity prices, even as the ongoing domestic capex recovery should limit the downside. Services surplus, on the other hand, is likely to sustain the momentum, notwithstanding some pressure from softening external demand. Notwithstanding strong foreign capital inflows in FY24 till date, they are likely to remain volatile amid heightened financial market uncertainty, even as the BoP balance is expected to turn surplus again in FY24. In the light of global uncertainty, INR may remain under pressure, even as built up of forex reserves over the last few months (+US\$17bn in FY24TD to US\$596bn) should provide the requisite support.

Table 1: Balance of Payments – Quarterly account

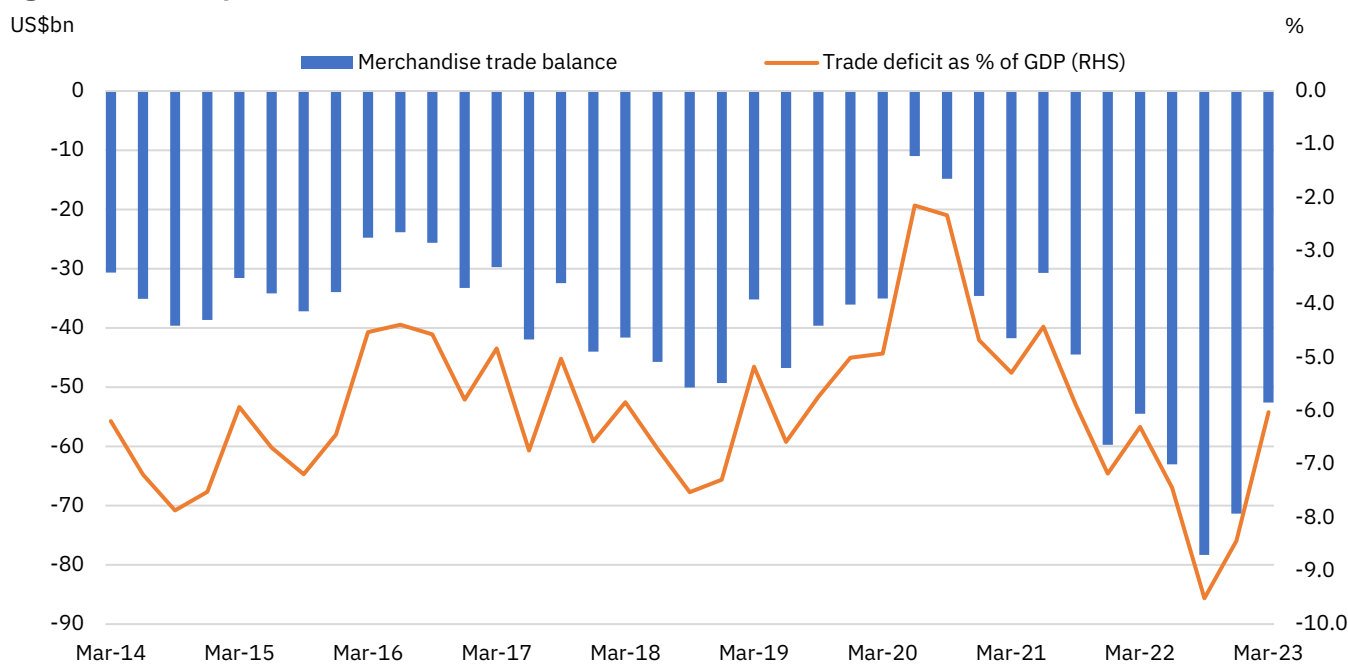
US\$ bn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Current account	-8.2	6.6	-9.7	-22.2	-13.4	-18.0	-30.9	-16.8	-1.4
<i>CAD/GDP (%)</i>	-1.0	0.9	-1.3	-2.6	-1.6	-2.1	-3.8	-2.0	-0.2
Trade balance	-41.7	-30.7	-44.5	-59.7	-54.5	-63.1	-78.3	-71.3	-52.6
<i>Trade balance/GDP (%)</i>	-5.3	-4.4	-5.9	-7.1	-6.3	-7.4	-9.5	-8.4	-6.0
Merchandise exports	90.4	95.6	102.7	106.8	171.7	183.5	189.0	104.5	114.1
Merchandise imports	131.7	127.1	147.5	167.0	171.5	183.6	189.1	176.1	165.4
Oil imports	28.7	30.9	38.6	43.0	49.4	53.2	53.4	52.0	50.8
Non-oil imports	102.9	96.2	108.9	124.0	122.3	130.3	135.6	124.1	114.6
Invisibles	33.6	37.3	34.8	37.6	41.1	45.1	47.4	54.5	51.2
Net services	23.5	25.8	25.6	27.8	28.3	31.1	34.4	38.7	39.1
Software earnings	23.5	25.1	26.8	28.4	29.3	30.7	32.7	33.5	34.4
Transfers	18.8	19.0	19.0	21.3	21.1	22.9	24.8	28.5	24.8
Investment income	-9.7	-8.4	-10.5	-12.4	-9.2	-9.8	-12.6	-13.5	-13.4
Other invisibles	0.9	0.9	0.7	0.9	0.8	0.9	0.8	0.8	0.8
Capital account	12.3	25.4	39.6	22.5	-1.7	22.1	1.5	28.9	6.5
<i>Capital acc./GDP (%)</i>	1.6	3.7	5.2	2.7	-0.2	2.6	1.5	0.8	0.5
Foreign investments	10.0	12.0	12.6	-1.3	-1.4	-1.2	12.7	6.6	4.7
FDI	2.7	11.6	8.7	4.6	13.8	13.4	6.2	2.0	6.4
FII	7.3	0.4	3.9	-5.8	-15.2	-14.6	6.5	4.6	-1.7
Loans	7.7	2.8	7.8	10.0	12.9	4.1	0.6	0.5	3.1
Banking capital	-4.4	4.1	0.4	8.2	-6.0	19.0	-8.4	14.4	-4.0
NRI deposits	-0.5	2.5	-0.8	1.3	0.2	0.3	2.5	2.6	3.6
Others	-1.0	6.5	18.9	5.6	-7.2	0.2	-3.4	7.3	2.8
Errors & Omissions	-0.7	-0.1	1.3	0.1	-0.9	0.5	-0.9	-1.0	0.4
Overall balance (BoP)	3.4	31.9	31.2	0.5	-16.0	4.6	-30.4	11.1	5.6

Source: RBI, CMIE Economic Outlook, NSE EPR.

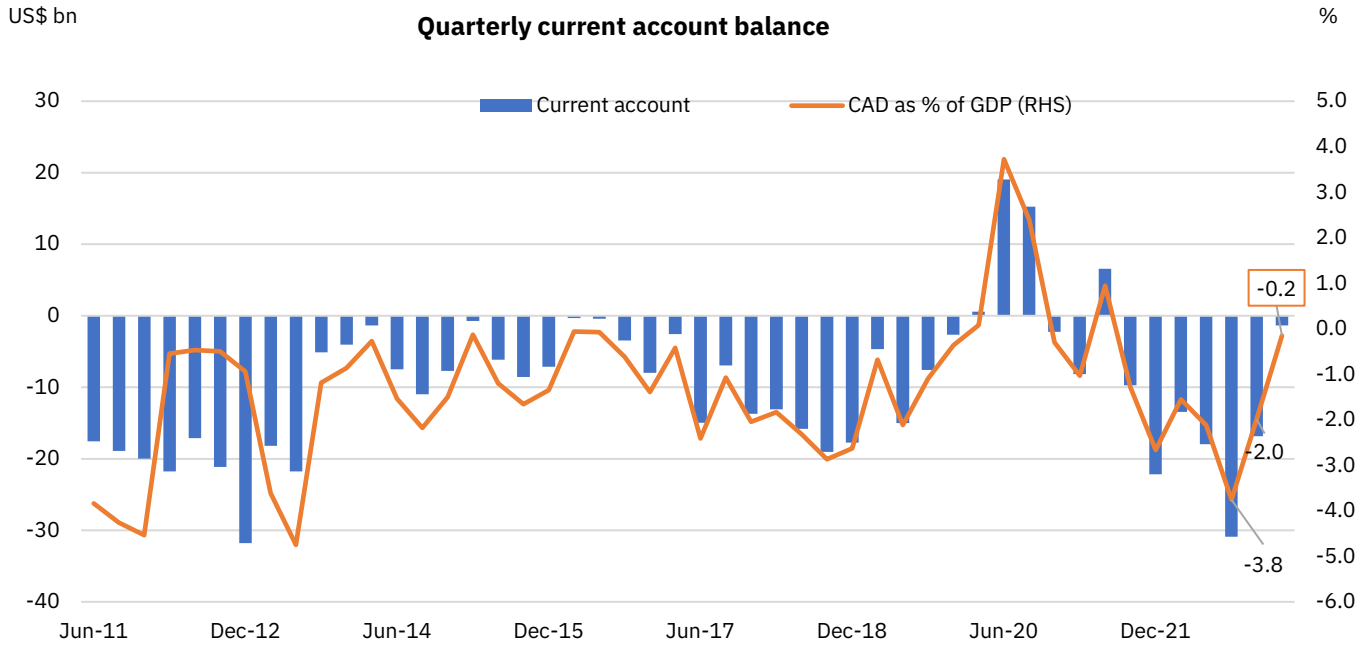
Table 2: Balance of Payments – Annual account

US\$ bn	FY20	FY21	FY22	FY23
Current account	-24.7	23.9	-38.8	-67.1
<i>CAD/GDP (%)</i>	-0.9	0.9	-1.2	-2.0
Trade balance	-157.5	-102.2	-189.5	-265.3
<i>Trade balance/GDP (%)</i>	-5.5	-3.8	-6.0	-7.8
Merchandise exports	320.4	296.3	429.2	449.9
% YoY	-5.0	-7.5	44.8	6.5
Merchandise imports	477.9	398.5	618.6	713.4
% YoY	-7.6	-16.6	55.3	16.3
Oil imports	130.5	82.4	162.1	209.3
Non-oil imports	347.4	316.1	456.5	504.0
Invisibles	132.8	176.7	150.7	198.2
Net services	84.9	88.6	107.5	143.3
Transfers	75.2	73.5	80.4	131.3
Other invisibles*	-27.3	-36.0	-37.3	100.9
Capital account	83.2	63.7	85.8	58.9
<i>Capital acc./GDP (%)</i>	2.9	2.4	2.7	1.7
Foreign investments	44.4	80.1	21.8	22.8
FDI	43.0	44.0	38.6	28.0
FII	1.4	36.1	-16.8	-5.2
Loans	25.7	6.9	33.6	8.3
Banking capital	-5.3	-21.1	6.7	21.0
NRI deposits	8.6	7.4	3.2	9.0
Others	18.4	-2.2	23.7	6.9
Errors & Omissions	1.0	-0.3	0.5	-1.0
Overall balance (BoP)	59.5	87.3	47.5	-9.1

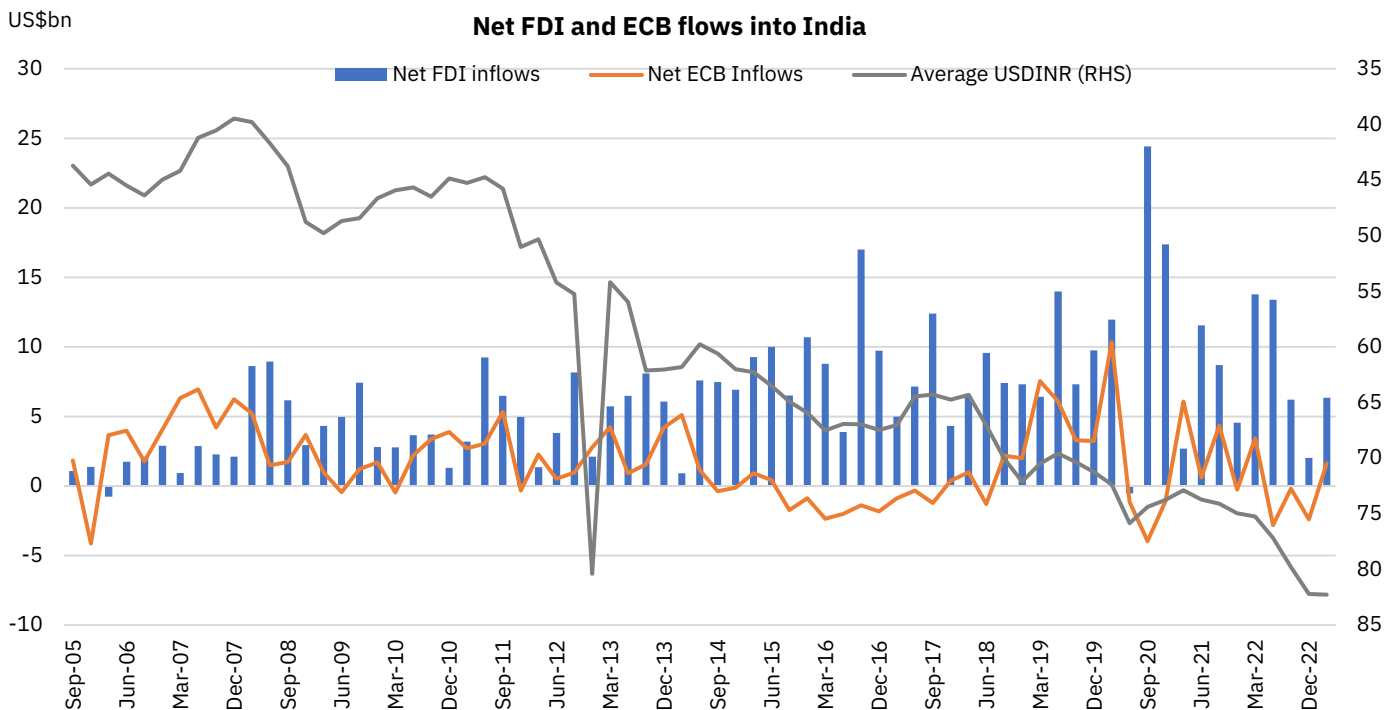
Source: RBI, CMIE Economic Outlook, NSE EPR. *Includes Investment Income.

Figure 1: Quarterly trade deficit trend


Source: RBI, CMIE Economic Outlook, NSE EPR.

Figure 2: Quarterly current account balance trend


Source: CMIE Economic Outlook, NSE EPR.

Figure 3: Quarterly net FDI and ECB inflows vs. INR


Source: CMIE Economic Outlook, NSE EPR.

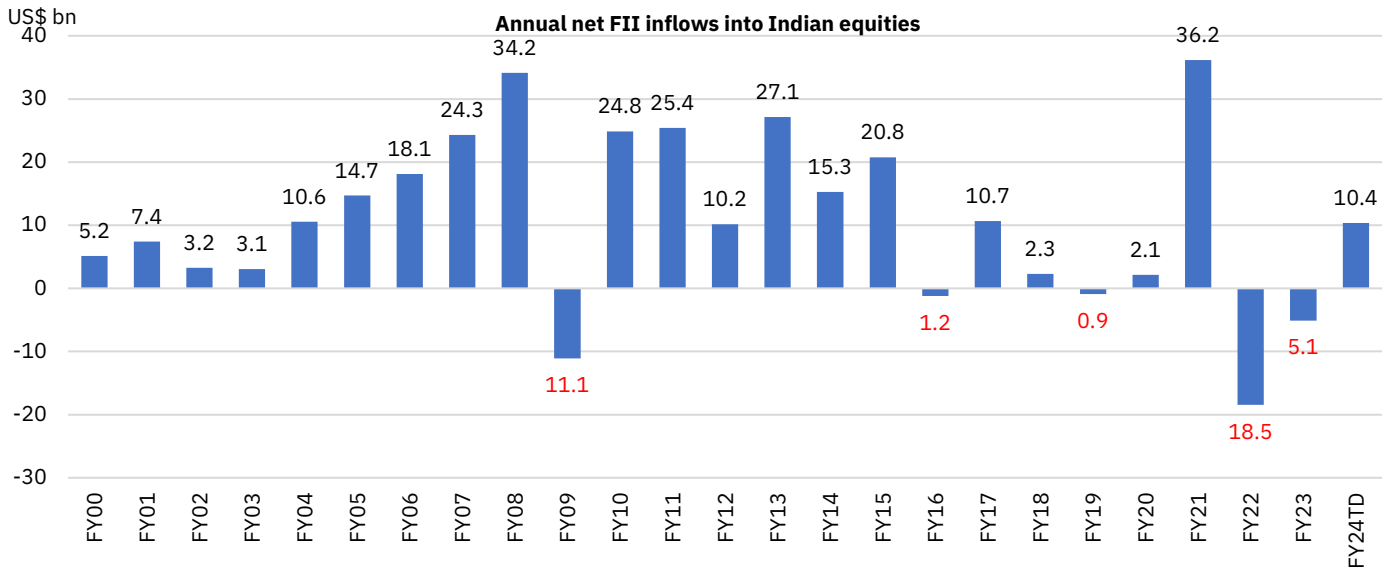
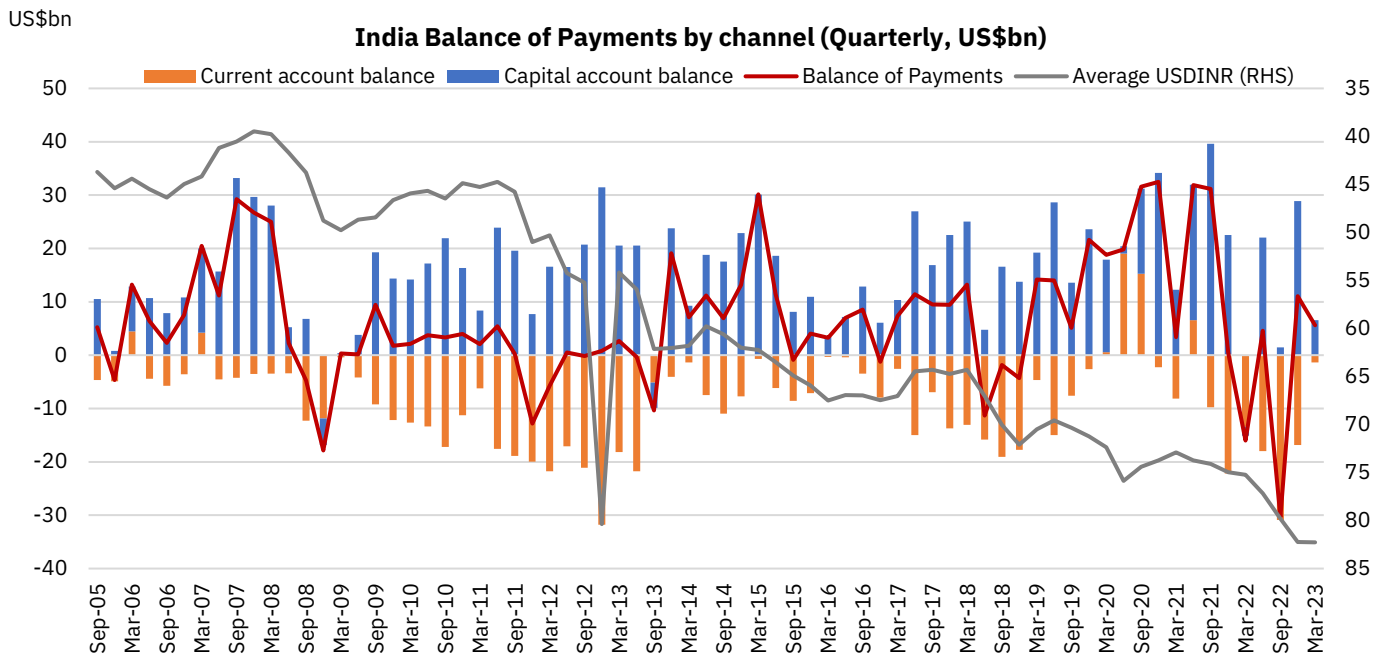
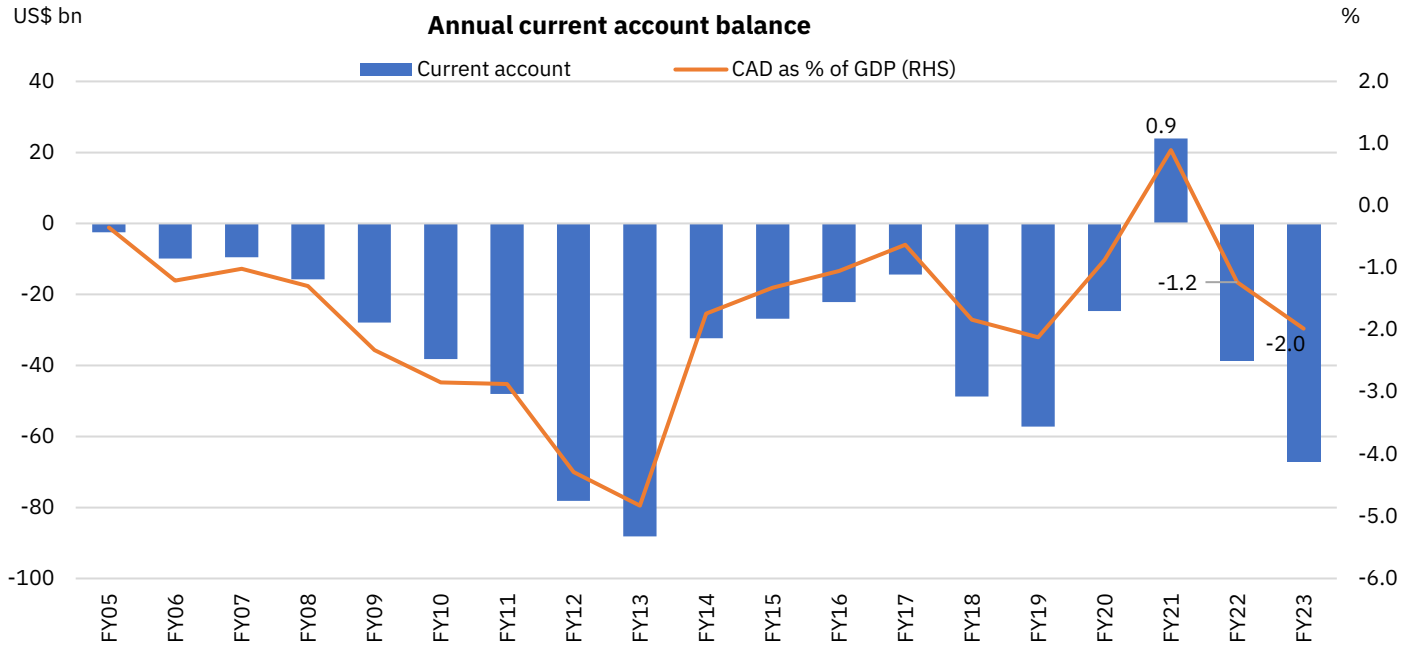
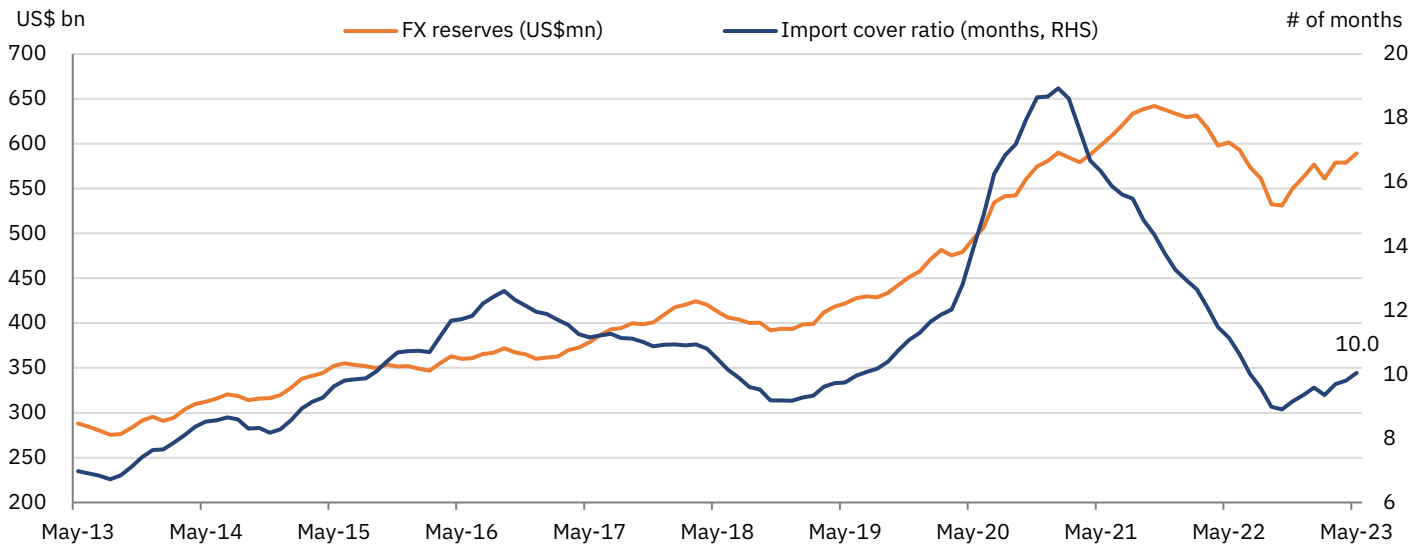
Figure 4: Annual net FII inflows trend

 Source: Refinitiv Datastream, NSE EPR. Data for FY24 is as of June 22nd, 2023.

Figure 5: Quarterly Balance of Payments trend by channels


Source: CMIE Economic Outlook, NSE EPR.

Figure 6: Annual current account deficit trend


Source: CMIE Economic Outlook, NSE EPR.

Figure 7: Foreign exchange reserves and import cover


Source: CMIE Economic Outlook, NSE EPR.

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