Macro Review
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CAD widened to 1.1% of GDP in Q1; uncertain outlook ahead

India's current account deficit expectedly widened to US$ 9.2bn or 1.1% of GDP in Q1FY24 from US$ 1.4bn or 0.2% of GDP in the previous quarter but was nearly half of the value in the same period last year. This sequential expansion was primarily due to widening of trade deficit, weighed down by a steep drop in imports as well as moderation in net services receipts—both of which indicate weakening global demand. The capital account surplus, however, jumped sharply to US$ 34.4bn in Q1FY24 from US$ 6.5bn in the previous quarter, thanks to renewed inflows of foreign portfolio investments, banking capital and external commercial borrowings. Consequently, the Balance of Payments (BoP) surplus expanded to a seven-quarter high of US$ 24.4bn in Q1FY24.

Sustenance of global demand weakness in the foreseeable future is likely to continue to weigh on India's exports performance—merchandise as well as services. This, along with increase in crude oil prices (US$ 92/bbl currently vs. US $63/bbl in the beginning of July), is expected to result in further widening of trade deficit over the coming quarters. After a significant surge in the first four months of the fiscal, foreign capital inflows meaningfully subsided in August and have in fact turned negative in September. Amidst emerging global risk-off environment and rising US bond yields, foreign portfolio flows are likely to remain volatile. This, along with dollar strengthening, may keep the INR under pressure in the near-term, even as FPI inflows expected from India's inclusion in the JP Morgan's global bond index (estimated between US$ 22-30bn) may provide some support in the medium-term.

India's current account balance recorded a deficit of US$9.2 bn or 1.1% of GDP in Q1FY24.

- **Higher trade deficit led to expansion in CAD…:** India's current account deficit widened to US$ 9.2 bn or 1.1% of GDP in Q1FY24 from US$ 1.4bn (0.2% of GDP) in the previous quarter, however remained lower than US$ 18 bn (2.1% of GDP) in the same period last year. This was primarily on account of sequential widening of merchandise trade deficit, thanks to steep drop in exports, as well as a significant moderation in net services receipts and transfers. While exports fell by a steep 9.3% QoQ (-14% YoY), imports fell by a much lower 3.1% QoQ (-12.7%YoY). The fall in exports was primarily driven by a double-digit contraction in oil exports (-20% QoQ/-29.3% YoY), while non-oil exports fell by 6.5%QoQ and 9.6% YoY, reflecting weakening global demand and lower crude oil prices as compared to the year ago period. In Q1FY24, merchandise trade deficit widened to US$56.6 bn vs. US$52.6 bn in Q4FY23 but was 10.2% lower than US$ 63bn in Q1FY23.
- **…further widened by lower net services exports:** The net invisible receipts contacted by 7.5% QoQ owing to a 10.1% QoQ contraction in service receipts to US$ 35.1bn and a 7.7% QoQ drop in remittances to a five-quarter low of US$22.9bn. The service receipts were majorly pulled down by travel and insurance receipts, with the former usually declining in Q1 owing to seasonal effects. However, on a YoY basis, the net invisible receipts expanded by 5.1% YoY, thanks to a 13.1% YoY growth in net services receipts, even as remittances remained flat. The YoY expansion in services was broad-based, with software, financial and business services rising by 10.6% YoY, 405.3% YoY and 92.2% YoY respectively.
- **BoP surplus expanded on higher FPI flows, banking capital and external borrowings:** The captial account surplus expanded substantially on a squential basis to a seven quarter high of US$ 34.4bn from US$ 6.5bn in Q4FY23. This was primarily on the back of renewed foreign portfolio inflows (+US$15.7bn in Q1FY24 vs. net outflows of US$ 1.7bn/US$ 14.6bn in Q4FY23/Q1FY23), even as foreign direct investments remained weak, down 20% QoQ/62% YoY. Further, banking capital inflows also expanded meaningfully to US$ 12.9bn as compared to net outflows of US$ 4bn in the previous quarter. External commercial borrowings (ECBs) also rose to a nine-quarter high of US$ 5.8bn in Q1. Consequently, notwithstanding a significant expansion in current account deficit, the BoP surplus

expanded to US$ 24.4bn in Q1 (+US$ 5.6bn in Q4FY23)—the highest in seven quarters.

- **External outlook uncertain; INR to face headwinds:** Trade deficit is expected to widen over the coming quarters, weighed down by falling merchandise exports amid a sustained weakness in global demand and rising crude oil prices in the light of an extended production cut by OPEC+. Services exports are also likely to continue to feel the brunt of global growth slowdown. On the capital front, FPI flows, after strengthening meaningfully during the first four months of the fiscal, have subsided meaningfully, weighed by global risk-off environment, and are likely to remain volatile amid rising US bond yields (US 10Y up ~80bps in Q2 FY24). This, along with dollar strengthening, is likely to keep the INR under pressure in the near-term. On the positive side, FPI inflows expected from inclusion of India's debt in the JP Morgan's global bond index (estimated between US$ 22-30bn) may provide some support in the medium-term.

Table 1: Balance of Payments – Quarterly account

US$ bn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Current account	**6.6**	**-9.7**	**-22.2**	**-13.4**	**-18.0**	**-30.9**	**-16.8**	**-1.4**	**-9.2**
CAD/GDP (%)	*0.9*	*-1.3*	*-2.6*	*-1.6*	*-2.1*	*-3.8*	*-2.0*	*-0.2*	*-1.1*
Trade balance	-30.7	-44.5	-59.7	-54.5	-63.1	-78.3	-71.3	-52.6	-56.6
Trade balance/GDP (%)	*-4.4*	*-5.9*	*-7.1*	*-6.3*	*-7.4*	*-9.5*	*-8.4*	*-6.0*	*-6.7*
Merchandise exports	95.6	102.7	106.8	117.1	120.9	110.7	104.5	114.7	104.0
Merchandise imports	127.1	147.5	167.0	171.5	183.6	189.1	176.1	165.4	160.3
Oil imports	30.9	38.6	43.0	49.4	53.2	53.4	52.0	50.8	43.3
Non-oil imports	96.2	108.9	124.0	122.3	130.3	135.6	124.1	114.6	116.9
Invisibles	37.3	34.8	37.6	41.1	45.1	47.4	54.5	51.2	47.3
Net services	25.8	25.6	27.8	28.3	31.1	34.4	38.7	39.1	35.1
Software earnings	25.1	26.8	28.4	29.3	30.7	32.7	33.5	34.4	33.9
Transfers	19.0	19.0	21.3	21.1	22.9	24.8	28.5	24.8	22.9
Investment income	-8.4	-10.5	-12.4	-8.4	-8.9	-11.8	-12.7	-12.6	-10.6
Other invisibles	0.9	0.7	0.9	28.3	31.1	34.4	38.7	39.1	35.1
Capital account	**25.4**	**39.6**	**22.5**	**-1.7**	**22.1**	**1.5**	**28.9**	**6.5**	**34.4**
Capital acc./GDP (%)	*3.7*	*5.2*	*2.7*	-0.2	2.6	0.2	3.4	0.7	4.0
Foreign investments	12.0	12.6	-1.3	-1.4	-1.2	12.7	6.6	4.7	20.8
FDI	11.6	8.7	4.6	13.8	13.4	6.2	2.0	6.4	5.1
FII	0.4	3.9	-5.8	-15.2	-14.6	6.5	4.6	-1.7	15.7
Loans	2.8	7.8	10.0	12.9	4.1	0.6	0.5	3.1	2.2
Banking capital	4.1	0.4	8.2	-6.0	19.0	-8.4	14.4	-4.0	12.9
NRI deposits	2.5	-0.8	1.3	0.2	0.3	2.5	2.6	3.6	2.2
Others	6.5	18.9	5.6	-7.2	0.2	-3.4	7.3	2.8	-1.6
Errors & Omissions	-0.1	1.3	0.1	-0.9	0.5	-0.9	-1.0	0.4	-0.7
Overall balance (BoP)	**31.9**	**31.2**	**0.5**	**-16.0**	**4.6**	**-30.4**	**11.1**	**5.6**	**24.4**

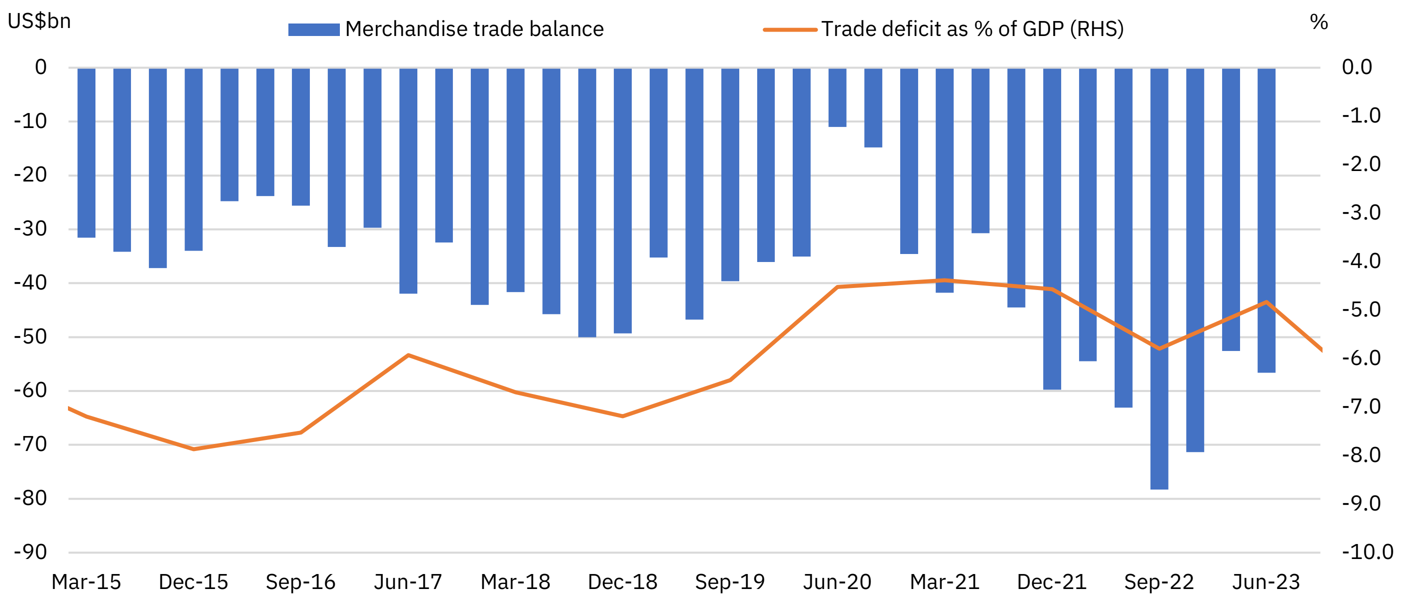
Source: RBI, CMIE Economic Outlook, NSE EPR.

Table 2: Balance of Payments – Annual account

US$ bn	FY20	FY21	FY22	FY23
Current account	**-24.7**	**23.9**	**-38.8**	**-67.1**
CAD/GDP (%)	*-0.9*	*0.9*	*-1.2*	*-2.0*
Trade balance	-157.5	-102.2	-189.5	-265.3
Trade balance/GDP (%)	*-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**
Capital acc./GDP (%)	*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**

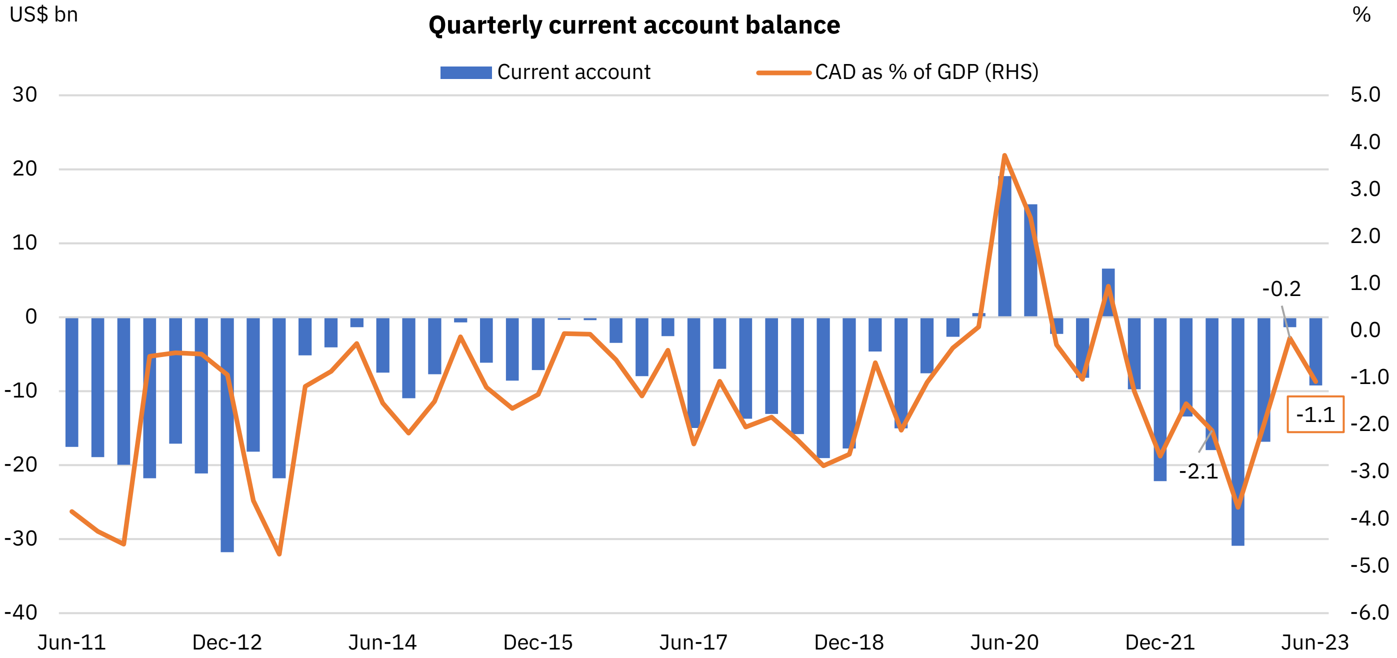
Source: RBI, CMIE Economic Outlook, NSE EPR. *Includes Investment Income.

Figure 1: Quarterly trade deficit trend



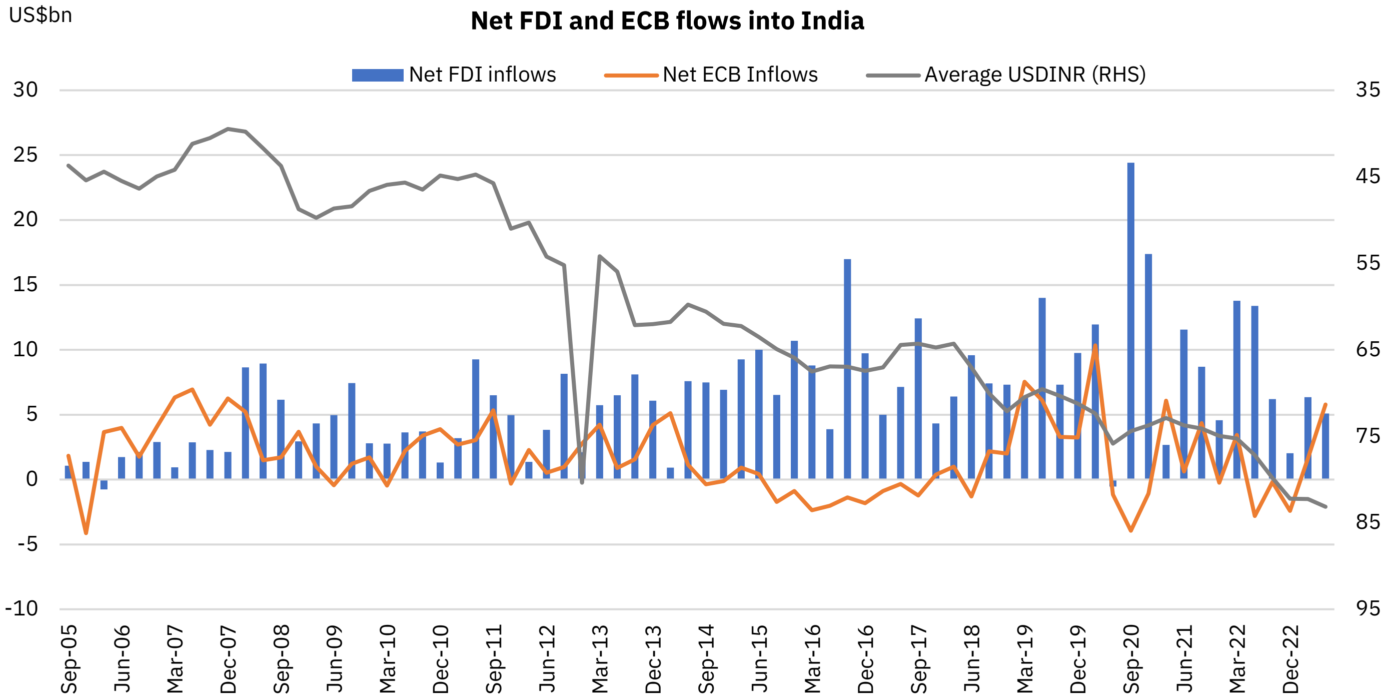
Source: RBI, CMIE Economic Outlook, NSE EPR.

Figure 2: Quarterly current account balance trend



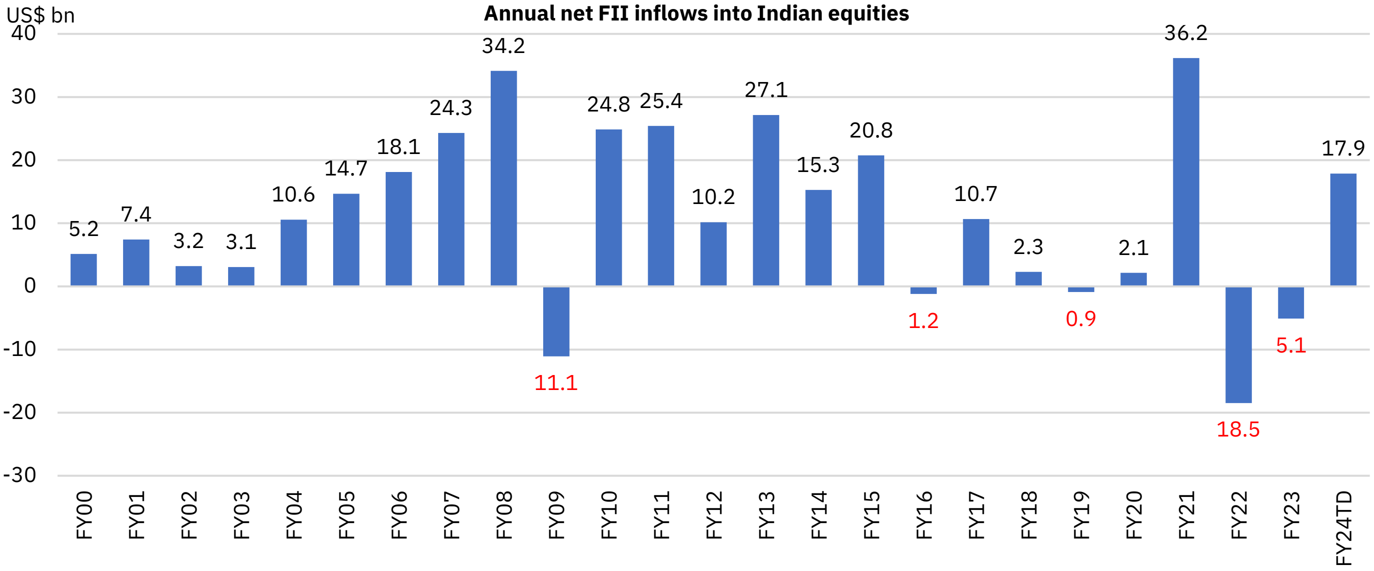
Source: CMIE Economic Outlook, NSE EPR.

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



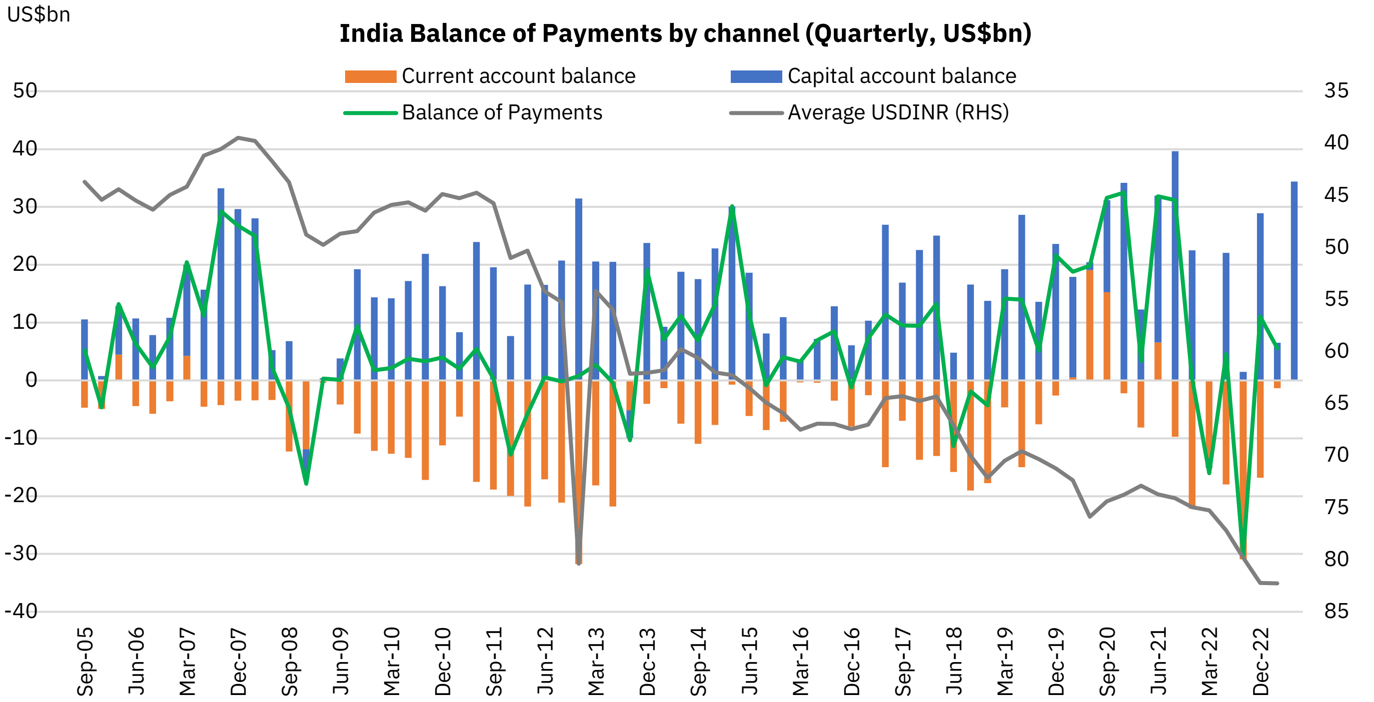
Source: CMIE Economic Outlook, NSE EPR.

Figure 4: Annual net FII inflows trend



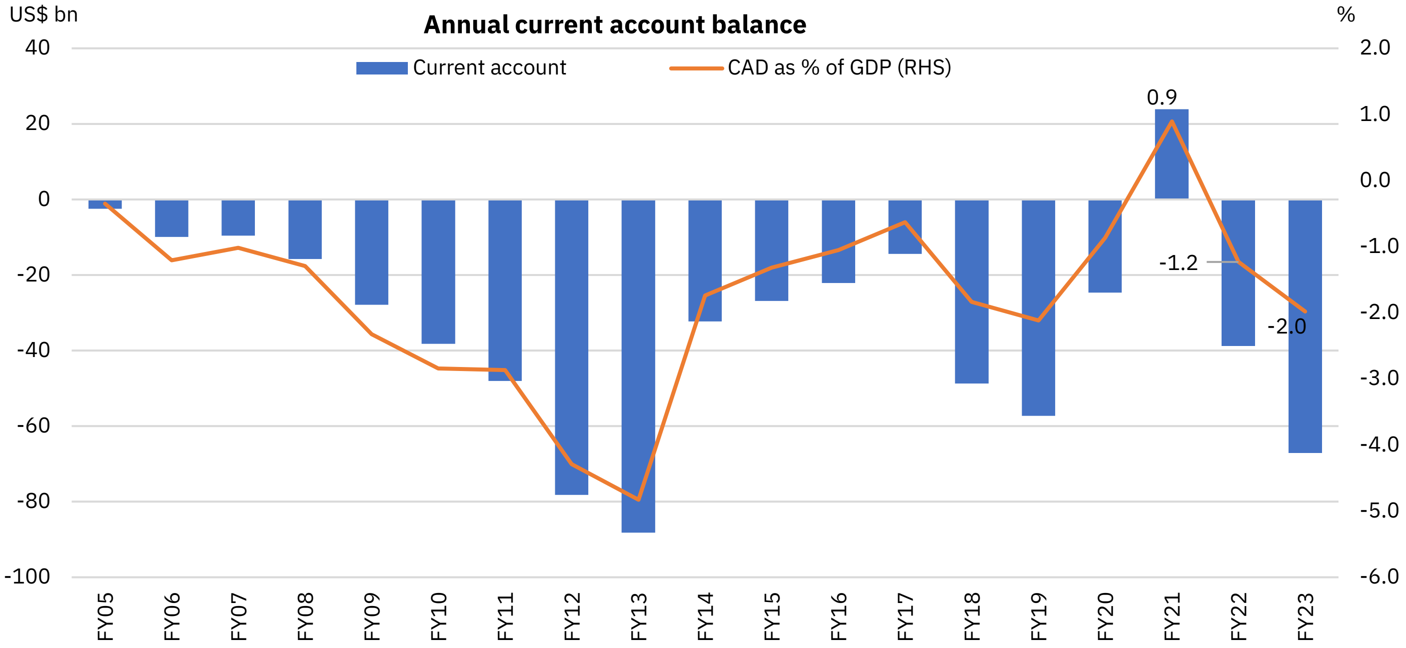
Source: Refinitiv Datastream, NSE EPR. Data for FY24 is as of September 28th, 2023.

Figure 5: Quarterly Balance of Payments trend by channels



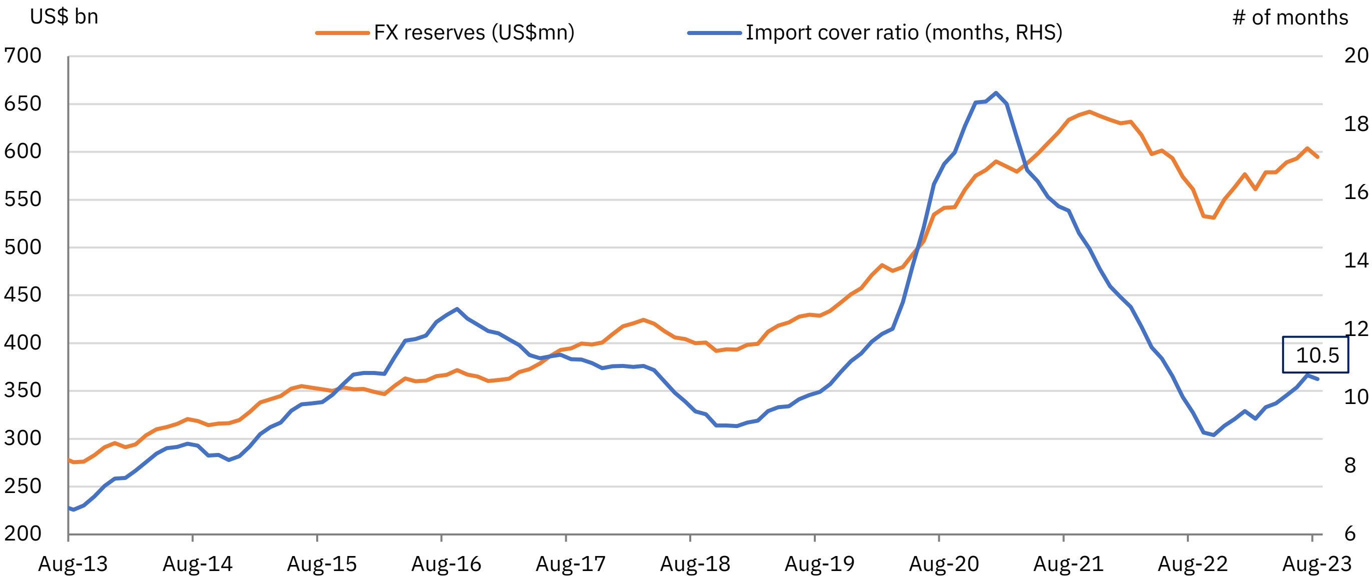
Source: CMIE Economic Outlook, NSE EPR.

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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