NSE

Macro Review

June 25, 2024 | Vol. 6, Issue 6

Current account turns surplus in Q4; FY24 CAD at 0.7% of GDP

India's current account recorded a surplus of US$5.7 bn or 0.6% of GDP in Q4FY24 after 10 consecutive quarters of deficit. This was primarily due to a sharp fall in merchandise trade deficit to a 10-quarter low, partly offset by a sequential decline in net services receipts. A surge in non-petroleum exports (electronics, textiles and engineering goods), notable improvement in petroleum exports and a sharp decline in non-oil imports cumulatively supported the sequential fall in merchandise trade deficit in the fourth quarter. Capital account surplus widened sequentially to US$24.5 bn in Q4FY24 (vs. US$15 bn in Q3FY24) on the back of higher loans and external commercial borrowings, partly offset by tepid net foreign investments during the quarter. For the full-year FY24, India's current account deficit (CAD) narrowed to a three year low of US$23.3 bn or 0.7% of GDP, almost one-third of the deficit in FY23 (US$67.1 bn or 2% of GDP), aided by lower merchandise trade deficit and higher services exports. Record-high net foreign portfolio investment and banking capital inflows more than made up for a sharp drop in foreign direct investment, resulting in capital account surplus expanding to a six-year high of US$86.3 bn in FY24, thereby adding meaningfully to India's foreign exchange reserves (+US$63.7 bn in FY24).

India's external sector has displayed strong momentum and resilience in FY24 amidst a challenging global environment. Going forward, an expected improvement in the global landscape, and consequently global trade, is likely to bolster India's exports. Strong macroeconomic fundamentals, coupled with the inclusion of Indian debt in global bond indices, should continue to support foreign portfolio inflows, while policy stability and an expected revival in consumption and private investments should provide a fillip to FDI inflows. Notwithstanding the risks from lingering geopolitical concerns, global monetary policy divergence and rising commodity prices, India's external situation is expected to remain comfortable in FY25. This, along with adequate foreign exchange reserves (US$652.9 bn as of June 14th, 2024), is expected to continue to impart stability to the INR.

- **Merchandise trade deficit fell to a 10-quarter low:** Trade deficit fell by a steep 27% QoQ to a 10-quarter low of US$50.9 bn (5.4% of GDP) in Q4FY24, compared with US$70 bn (7.7% of GDP) in the previous quarter. This was led by a 14.1% QoQ growth in exports and a contraction of 2.3% QoQ in imports. India's exports displayed strong momentum, despite the lingering Red Sea crisis in the last quarter of FY24. Both oil and non-oil exports rose by 10.3% and 15% QoQ respectively in Q4, with the growth in the latter aided by robust gains in textiles, engineering goods and electronic goods exports. The contraction in imports, on the other hand, was solely due to non-oil imports that fell by 5.9% QoQ, even as oil imports rose by 7.9%, aided by higher volumes. For the full year FY24, merchandise trade deficit came off by 8.8% to US$242 bn vs. US$265 bn in the previous year, led by a steep 14.7% contraction in oil trade deficit.

- **Current account turned into surplus in Q4 after 10 consecutive quarters of deficit:** India's current account recorded a surplus of US$5.7 bn or 0.6% of GDP in Q4FY24 as against a deficit of US$ 8.7 bn (1% of GDP) in Q3FY24 and deficit of US$ 1.3 bn or 0.2% of GDP in the last quarter of FY23. This was primarily due to a significant contraction in trade deficit, partly offset by lower services receipts and sequential moderation in remittances and higher investment income outgo. Net services receipts moderated by 5.2% QoQ to US$42.7 bn in Q4FY24, even as it was up 9.2% on a YoY basis, thanks to higher software (+6.6% YoY), travel (154.1% YoY) and business services (+4.8% YoY) receipts. Personal transfers (including workers' remittances) fell marginally to US$28.7 bn but registered a notable growth of 16% in YoY terms, while net outgo of investment income rose to a record high of US$15.7 bn in the last quarter.

India's current account balance recorded a surplus of US$ 5.7 bn or 0.6% of GDP in Q4FY24 v/s deficit of US$ 8.7 bn (or 1% of GDP) in Q3FY24

- **CAD narrowed to a three year low in FY24:** Current account deficit narrowed to a three-year low of US$23.3 bn in FY24 (0.7% of GDP), almost one-third of the deficit in FY23 (US$67.1 bn or 2% of GDP), aided by lower trade deficit and double-digit growth in net services receipts (+13.6%). Within services, growth was led by software and business services receipts, up 8.2% and 41.6% in FY24. Remittances also grew by a steady 4.8% on top of a 25% growth in the previous year to record-high of US$106.6 bn in FY24.

- **Balance of Payments registered strong surplus in FY24:** Capital account surplus widened sequentially to US$24.5 bn in Q4FY24 (vs. US$15 bn in Q3FY24). Higher loans and external commercial borrowings (US$ 3.5 bn in Q4FY24 vs. -US$10.1 bn in Q3FY24) were partially offset by a sequential decline in net foreign direct and portfolio investments during the quarter. Large repatriation of foreign direct investment outside India to a 40-quarter high of US$ 5.8 bn has led to a sequential decline in the net FDI flows. Foreign portfolio flows recorded a sustained momentum, albeit at a slower pace, due to impending election ebullience and India's inclusion in global bond indices, even as stretched valuations and elevated US bond yields capped the upside. Capital account surplus widened to a six-year high of US$86.3 bn in FY24 (vs. US$59 bn in FY23), supported by buoyant FPI and banking capital flows, which were partially offset by tepid net FDI inflows. Notably, while net FPI inflows at US$44.1 bn in FY24 were the highest ever, net FDI inflows dropped to a 17-year low of US$9.8 bn.
- **External outlook manageable:** India's external sector has displayed strong momentum and resilience in FY24 amidst a challenging global environment. Going forward, an expected improvement in the global landscape, and consequently global trade, is likely to bolster India's exports. Strong macroeconomic fundamentals, coupled with the inclusion of Indian debt in global bond indices, should continue to support foreign portfolio inflows, while policy stability and an expected revival in consumption and private investments should provide a fillip to FDI inflows. Notwithstanding the risks from lingering geopolitical concerns, global monetary policy divergence and rising commodity prices, India's external situation is expected to remain comfortable in FY25. This, along with adequate foreign exchange reserves (US$652.9 bn as of June 14th, 2024), is expected to continue to impart stability to the INR.

Table 1: Balance of Payments – Quarterly account

US$ bn	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Current account	**-13.4**	**-18.0**	**-30.9**	**-16.8**	**-1.4**	**-9.0**	**-11.3**	**-8.7**	**5.7**
CAD/GDP (%)	-1.5	-2.1	-3.8	-2.0	-0.2	-1.0	-1.3	-1.0	0.6
Trade balance	-54.5	-63.1	-78.3	-71.3	-52.6	-56.7	-64.5	-69.9	-50.9
Trade balance/GDP (%)	-6.3	-7.5	-9.7	-8.6	-6.1	-6.6	-7.5	-7.7	-5.4
Merchandise exports	118.0	122.8	111.9	105.6	115.8	104.9	108.3	106.6	121.7
Merchandise imports	172.5	185.9	190.2	176.9	168.4	161.6	172.8	176.6	177.7
Oil imports	49.4	53.2	53.4	52.0	50.8	41.9	42.1	46.0	49.6
Non-oil imports	123.1	132.7	136.7	124.9	117.6	119.8	130.7	130.5	122.9
Invisibles	41.1	45.1	47.4	54.5	51.2	47.7	53.3	61.2	56.6
Net services	28.3	31.1	34.4	38.7	39.1	35.1	39.9	45.0	42.7
Software earnings	29.3	30.7	32.7	33.5	34.4	33.9	35.2	36.3	36.6
Transfers	21.1	22.9	24.8	28.5	24.8	22.8	24.9	29.3	28.7
Investment income	-9.2	-9.8	-12.6	-13.5	-13.4	-11.2	-12.5	-14.2	-15.7
Capital account	**-1.7**	**22.1**	**1.5**	**28.9**	**6.5**	**33.9**	**12.8**	**15.0**	**24.5**
Capital acc./GDP (%)	-0.2	2.6	0.2	3.5	0.8	4.0	1.5	1.6	2.6
Foreign investments	-1.4	-1.2	12.7	6.6	4.7	20.5	4.1	16.0	13.3
FDI	13.8	13.4	6.2	2.0	6.4	4.7	-0.8	3.9	2.0
FII	-15.2	-14.6	6.5	4.6	-1.7	15.7	4.9	12.0	11.4
Loans	12.9	4.1	0.6	0.5	3.1	2.3	3.3	-5.6	1.8
ECBs	3.4	-2.8	-0.2	-2.4	1.6	5.9	-2.9	-4.5	1.7
Banking capital	-6.0	19.0	-8.4	14.4	-4.1	12.9	4.3	16.4	6.9
NRI deposits	0.2	0.3	2.5	2.6	3.6	2.2	3.2	3.9	5.4
Others	-7.2	0.2	-3.4	7.3	2.8	-1.8	1.1	-11.7	2.5
Errors & Omissions	-0.9	0.5	-0.9	-1.0	0.4	-0.5	1.0	-0.3	0.5
Overall balance (BoP)	**-16.0**	**4.6**	**-30.4**	**11.1**	**5.6**	**24.4**	**2.5**	**6.0**	**30.8**

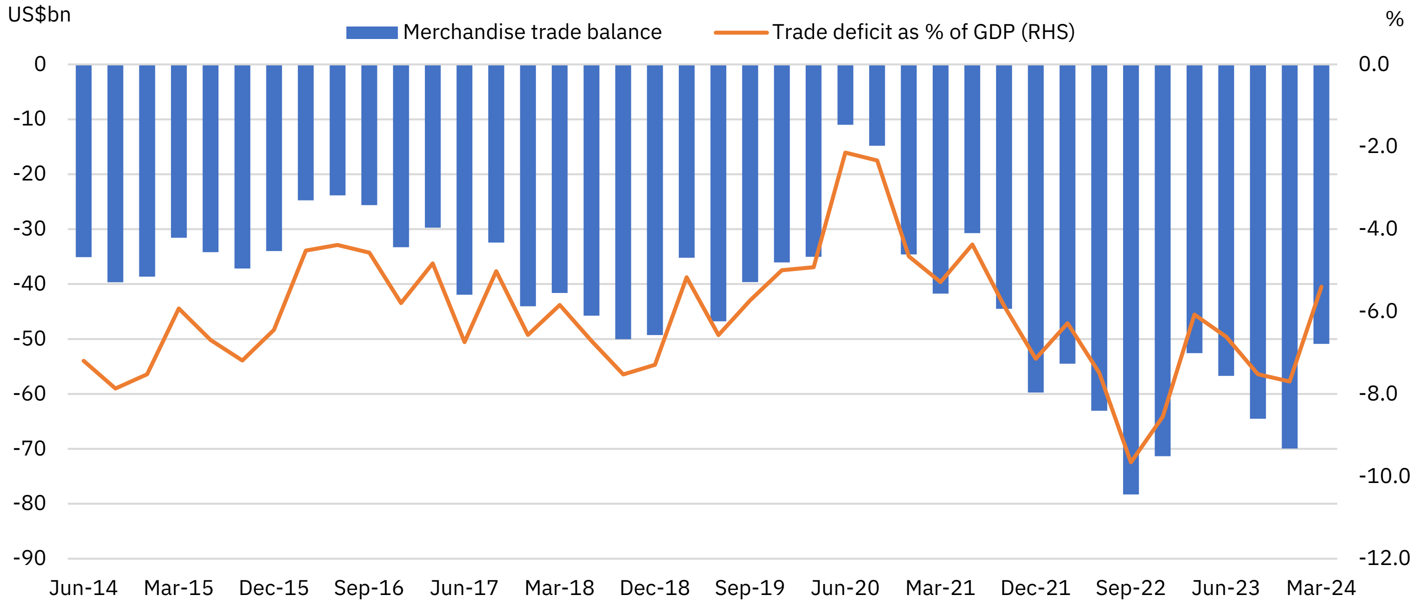
Source: RBI, CMIE Economic Outlook, NSE EPR.

Table 2: Balance of Payments – Annual account

US$ bn	FY21	FY22	FY23	FY24
Current account	**23.9**	**-38.8**	**-67.1**	**-23.3**
CAD/GDP (%)	0.9	-1.2	-2.0	-0.7
Trade balance	-102.2	-189.5	-265.3	-242.1
Trade balance/GDP (%)	-3.8	-6.0	-7.9	-6.8
Merchandise exports	291.0	422.3	450.6	437.2
Merchandise imports	393.0	613.6	715.3	675.5
Oil imports	82.4	162.1	209.3	179.7
Non-oil imports	310.6	451.6	504.0	495.9
Invisibles	126.1	150.7	198.2	218.8
Net services	88.6	107.5	143.3	162.8
Software earnings	89.7	109.5	131.3	142.1
Transfers	73.5	80.4	100.9	105.8
Investment income	-39.2	-40.6	-49.2	-53.6
Capital account	**63.7**	**85.8**	**58.9**	**86.3**
Capital acc./GDP (%)	2.4	2.7	1.8	2.4
Foreign investments	80.1	21.8	22.8	53.9
FDI	44.0	38.6	28.0	9.8
FII	36.1	-16.8	-5.2	44.1
Loans	6.9	33.6	8.3	1.7
Banking capital	-21.1	6.7	21.0	40.5
NRI deposits	0.5	5.1	9.6	23.7
Others	-2.2	23.7	6.9	-9.8
Errors & Omissions	-0.3	0.5	-1.0	0.7
Overall balance (BoP)	**87.3**	**47.5**	**-9.1**	**63.7**

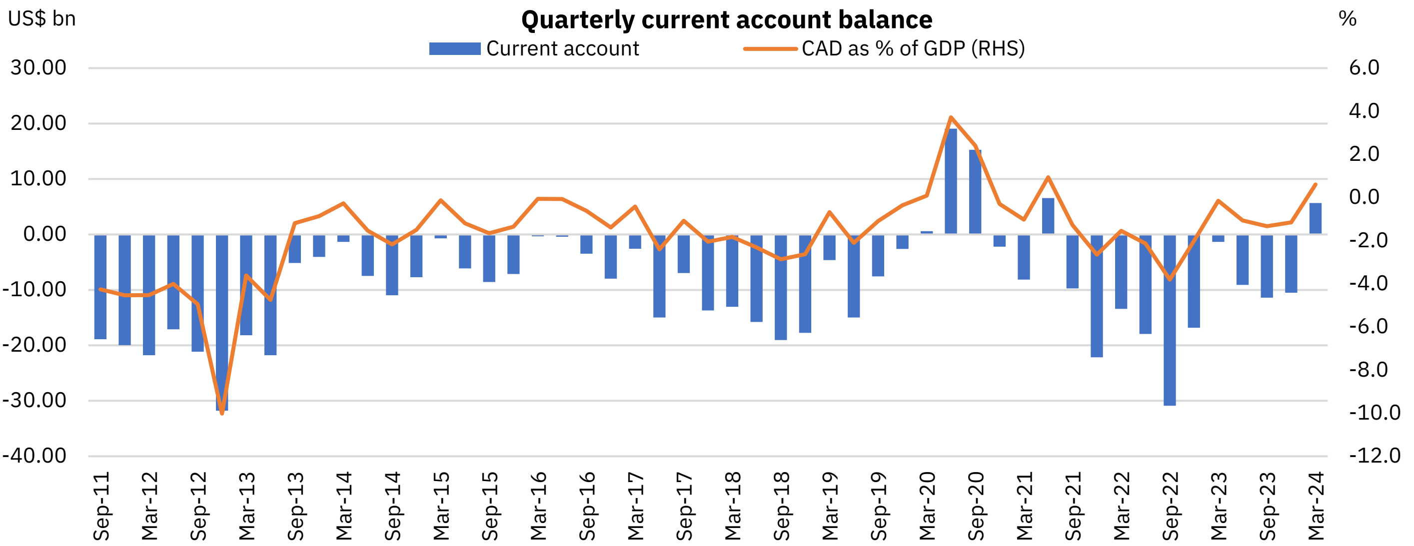
Source: RBI, CMIE Economic Outlook, NSE EPR.

Figure 1: Quarterly trade deficit trend



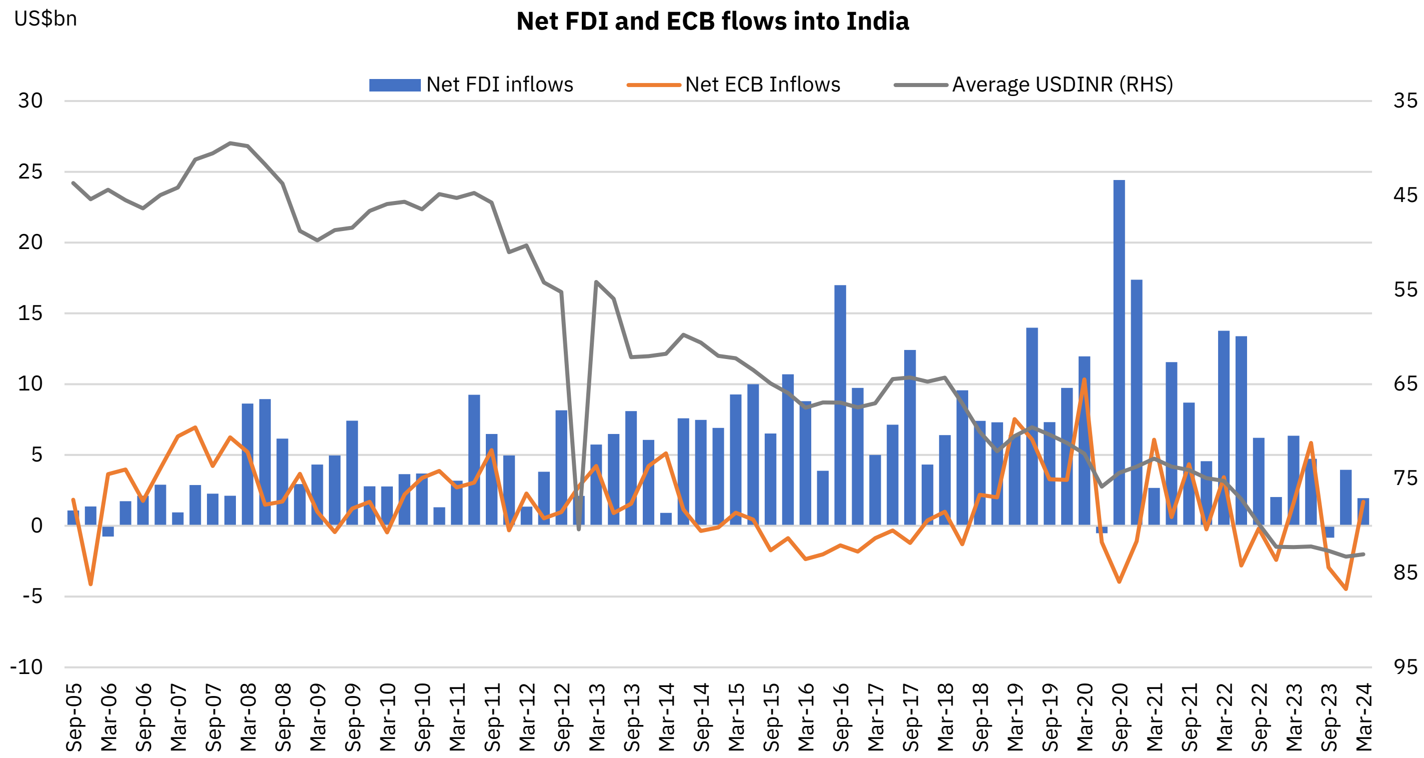
Source: RBI, CMIE Economic Outlook, NSE EPR.

Figure 2: Quarterly current account balance trend



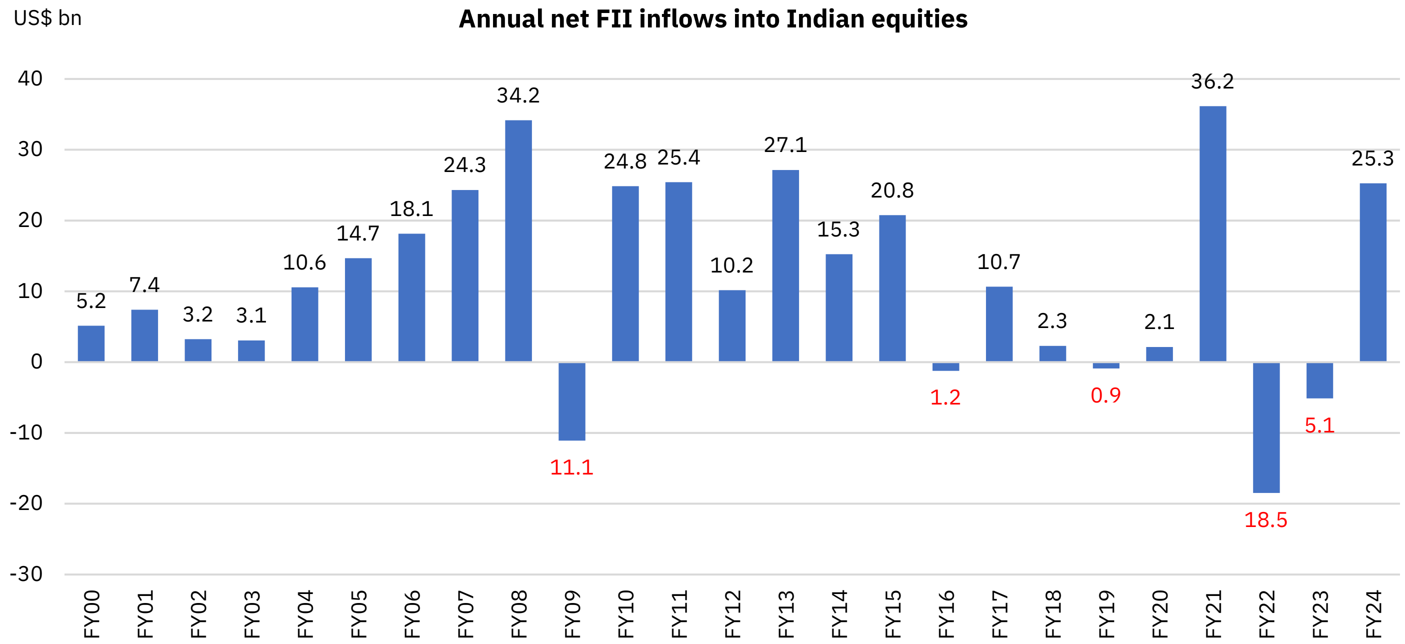
Source: CMIE Economic Outlook, NSE EPR.

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



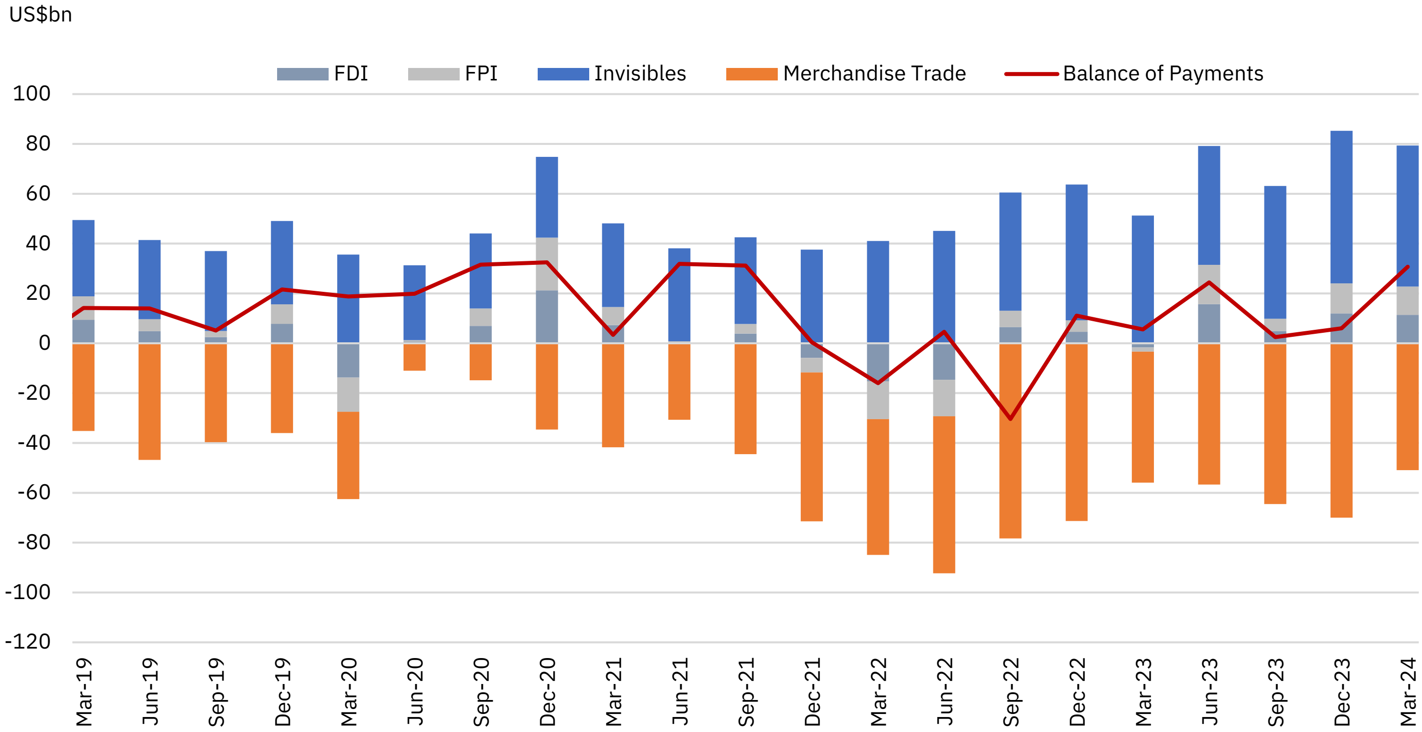
Source: CMIE Economic Outlook, NSE EPR.

Figure 4: Annual net FII inflows into Indian equities



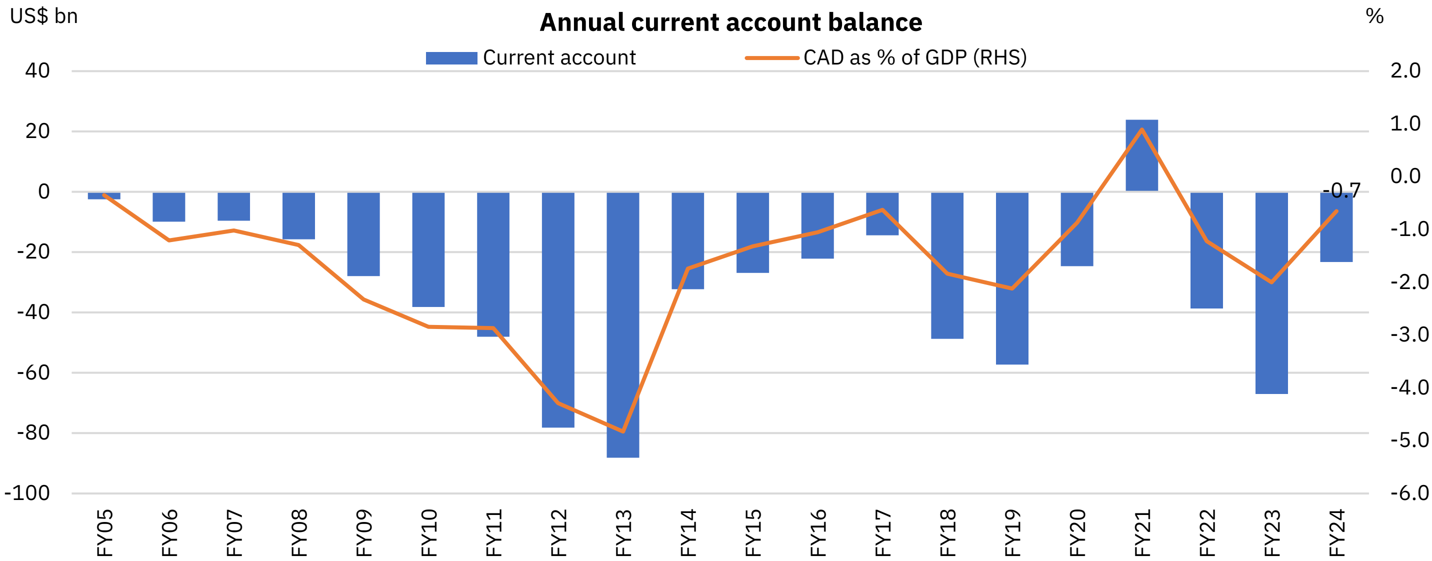
Source: Refinitiv Datastream, NSE EPR.

Figure 5: Quarterly Balance of Payments trend by channels



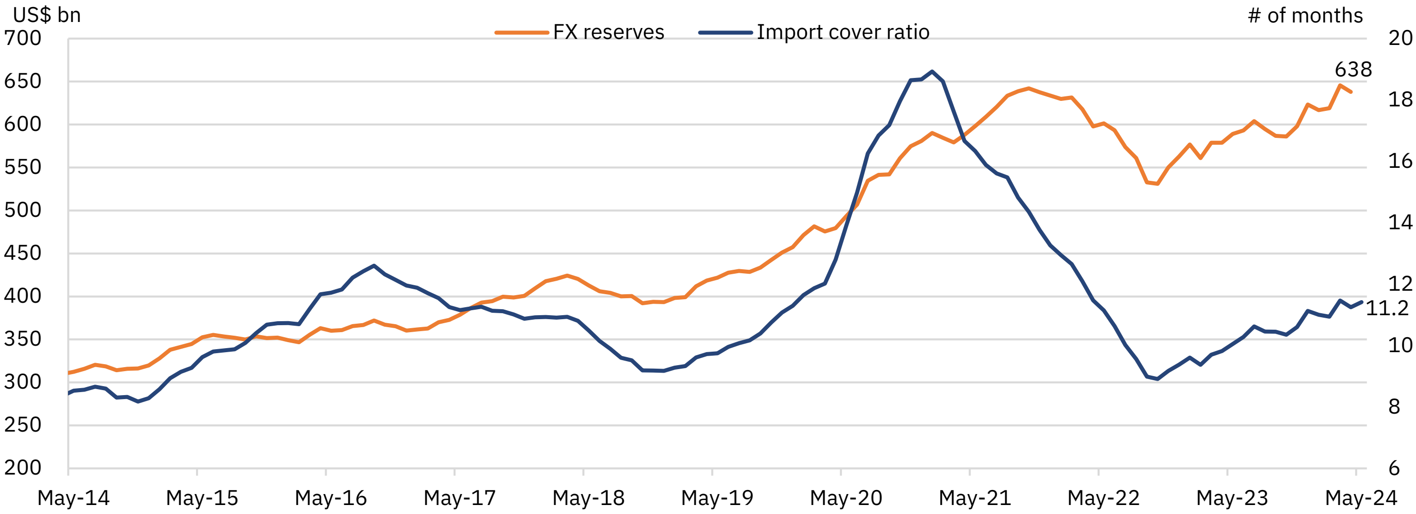
Source: CMIE Economic Outlook, NSE EPR.

Figure 6: Annual current account deficit trend



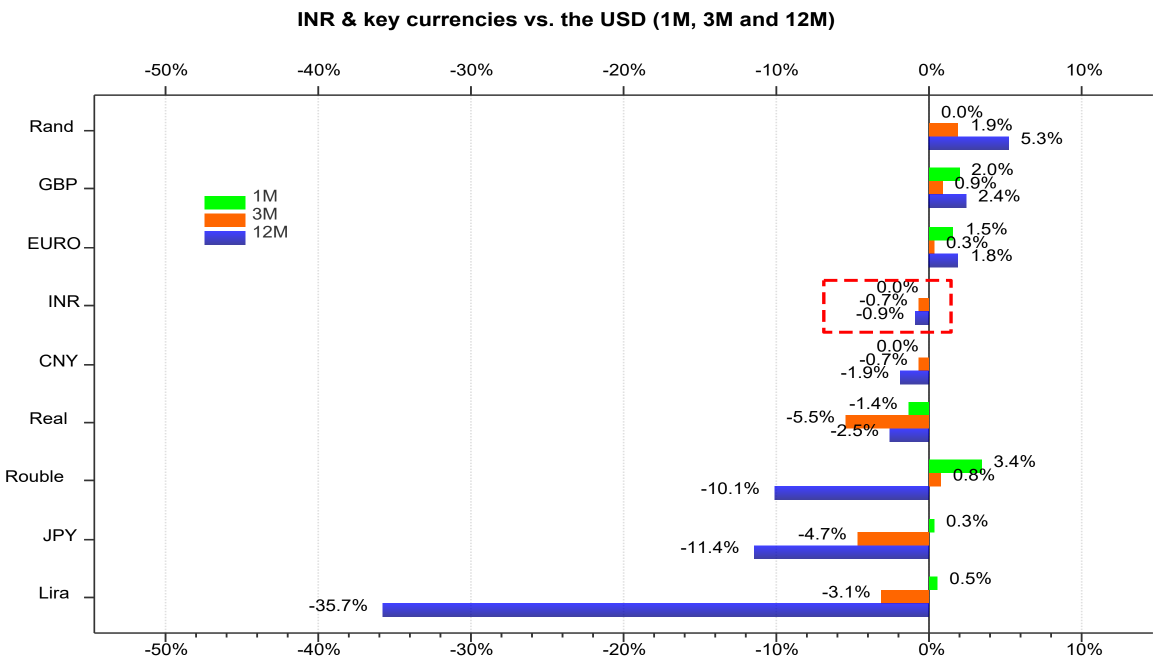
Source: CMIE Economic Outlook, NSE EPR.

Figure 7: Foreign exchange reserves and import cover



Source: CMIE Economic Outlook, NSE EPR.

Figure 8: INR vs. other key Asian market currencies



Source: LSEG Datastream, NSE EPR. As of May 31st, 2024.

Economic Policy & Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Prerna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Prosenjit Pal	ppal@nse.co.in	+91-22-26598163
Sushant Hede	shede@nse.co.in	+91-22-26598237
Ansh Tayal	atayal@nse.co.in	+91-22-26598163
Anand Prajapati	aprajapati@nse.co.in	+91-22-26598163
Shuvam Das	shuvamd@nse.co.in	+91-22-26598163
Gautam Sodani	gsodani@nse.co.in	
Sumiti Manchanda	smanchanda@nse.co.in	