India: Q4-FY24 clocks as expected first non-crisis C/A surplus in 17 years

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Q4-FY24 switched to C/A surplus for the first time since Mar'07 barring covid period

- In Q4 FY24, current account (C/A) balance switched to a surplus of US$ 5.7bn for the first time since March-07 except for the surplus clocked in a few quarters during covid period. The data trended in line with our expectations as highlighted in the March-24 trade data release (Refer our previous report: Q4FY24 clocks first non-crisis C/A surplus in 17 years)
- During the quarter, the seasonal improvement in merchandise trade deficit (US$ 50.9bn in Q4 vs US$ 69.9bn in Q3) was the prime driver of C/A dynamics even as services trade surplus stayed nearly flat (US$ 42.7bn in Q4 vs US$ 45.0bn in Q3).

FY24 CAD narrows to 0.7% of GDP in line with our expectations

- On a full year basis, FY24 C/A deficit moderated to US$ 23.3bn (0.7% of GDP) from US$ 67.1bn (2.0% of GDP) in FY23.
- Services trade surplus surged to US$ 162.8bn grew by 13.6% on a YoY basis in FY24 on the back of rising exports of software, travel and business services vis-à-vis US$ 143.3bn in FY23. In specific, business services contributed c.18% of services surplus in FY24 vs 14% last year, attributed to expansion of Global capability centres by MNCs in India.
- Meanwhile, remittances of US$ 105.8bn (up 5% YoY vis-à-vis US$ 100.9bn in FY23), also contributed to the sharp improvement in FY24 C/A dynamics.

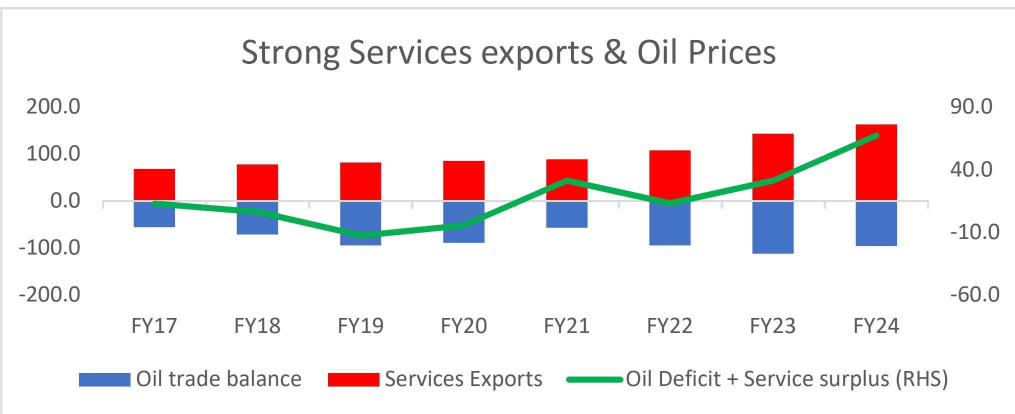
FY24 BoP switches back to a strong surplus

- Balance of payment (BoP) clocked a strong surplus of US$ 63.7bn vis-à-vis an outflow of US$ 9.14bn in FY23 amid improvement in C/A dynamics and surge in capital inflows which increased to US$ 86.28bn Vs US$ 58.94bn in FY23.
- The strong capital flows in FY24 were led by spike in FII flows, which jumped from US$ 5.2bn outflow in FY23 to US$ 44.1bn and doubling in banking capital flows vs FY23 to c.US$ 40bn.
- Meanwhile, there was a sharp fall in FDI flows to US$ 9.8bn from US$ 28bn last year and debt flows like ECBs, trade credit etc. stayed under pressure as India's rate differential with US stayed at lowest levels since 2001.

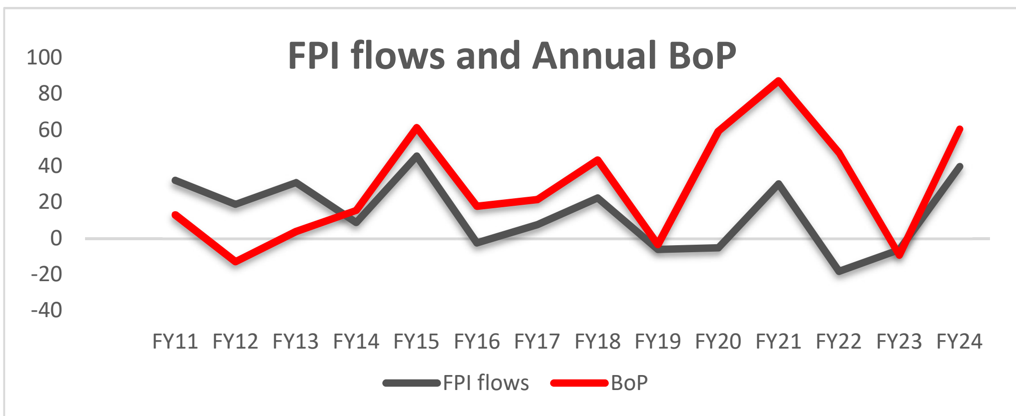
FY25 CAD likely to remain comfortable at 0.9% of GDP with BoP surplus of US$ 40bn

- Going forward, we expect c.US$ 40bn BoP surplus in FY25 with C/A deficit expected to remain comfortable at 0.9% of GDP assuming average oil price at c.US$ 85/bbl and on rise in capital flows led by global bond index inclusion.
- Sensitivity of C/A deficit to oil prices stays high with every $10/bbl move in oil price affecting annual C/A balance by close to $15bn. Hence if oil prices settle at c.$ 95/bbl, C/A deficit may be closer to 1.5% of GDP in FY25.

Sustained strength in services trade surplus helped more than offset the oil deficit (Fig 1)



FPI flows boosted FY24 BoP surplus (Fig 2)



Source: CEIC, RBI & UBI Research

Fig 1: BoP data table

USD bn	Jun-23	Sep-23	Dec-23	Mar-24	FY23	FY24	FY25F
Exports	**104.9**	**108.3**	**106.6**	**121.7**	**456.1**	**441.5**	**448.8**
%y/y	*-14.5%*	*-3.2%*	*1.0%*	*5.0%*	*6.3%*	*-3.2%*	*1.7%*
Imports	**161.6**	**172.8**	**176.6**	**172.5**	**721.4**	**683.5**	**702.5**
%y/y	*-13.0%*	*-9.1%*	*-0.2%*	*2.5%*	*16.6%*	*-5.2%*	*2.8%*
Trade balance	**-56.7**	**-64.5**	**-69.9**	**-50.9**	**-265.3**	**-242.1**	**-253.7**
Invisibles	**47.7**	**53.3**	**61.2**	**56.6**	**198.2**	**218.8**	**218.0**
Services	**35.1**	**39.9**	**45.0**	**42.7**	**143.3**	**162.8**	**170.0**
Transfer	22.8	24.9	29.3	28.7	**100.9**	**105.8**	**95.0**
Income	-10.2	-11.6	-13.1	-14.8	**-45.9**	**-49.8**	**-47.0**
Current account	**-9.0**	**-11.3**	**-8.7**	**5.7**	**-67.1**	**-23.3**	**-35.7**
Foreign investment	**20.5**	**4.1**	**16.0**	**13.3**	**22.8**	**53.9**	**50.0**
FDI	4.7	-0.8	3.9	2.0	**28.0**	**9.8**	**20.0**
FII	15.7	4.9	12.0	11.4	**-5.2**	**44.1**	**30.0**
Loans	**2.3**	**3.3**	**-5.6**	**1.8**	**8.3**	**1.7**	**3.0**
Banking capital	**12.9**	**4.3**	**16.4**	**6.9**	**21.0**	**40.5**	**20.0**
Other capital	**-1.7**	**1.1**	**-11.7**	**2.5**	**6.9**	**-9.8**	**0.0**
Capital account	**33.9**	**12.8**	**15.0**	**24.5**	**58.9**	**86.3**	**75.0**
Net errors & omissions	**-0.5**	**1.0**	**-0.3**	**0.5**	**-1.0**	**0.7**	**0.7**
Overall balance	**24.4**	**2.5**	**6.0**	**30.8**	**-9.1**	**63.7**	**40.0**

Source: CEIC, RBI & UBI research

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