Q4-FY24 clocks first non-crisis C/A surplus in 17 years

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Trade Deficit improved in Mar'24 led by gold and NONG

- Merchandise Trade Deficit improved in Mar'24 to $15.6 bn from $18.7 bn in Feb'24 led by narrowing in gold deficit as well as higher than expected drop in Non-oil-non-gold (NONG) trade deficit. This was a positive surprise as we expected improvement in the deficit on monthly basis however the quantum of improvement was higher than our ($18bn deficit) as well as market estimates.

C/A Balance turned back into surplus in Mar'24

- Services trade balance remained in surplus however it narrowed in March and the previous month's figure also revised lower, according to RBI data.
- After touching record high levels in the month of Jan'24 as well as remaining above the $16 bn mark for two consecutive months in Dec'23 and Jan'24; services trade surplus dropped to $13.10 bn in Feb as per RBI's revised figures. According to provisional data by the Ministry of Commerce, Mar'24 witnessed services surplus of $12.7 bn.
- Total trade deficit (goods and services combined) nearly halved to $2.9 bn in Mar'24 vs Feb'24 and stayed below the FY24 monthly average of $6.5 bn. As per our estimate, the current account (C/A) balance adjusted for remittances and investment outflows swung back in surplus in the month of Mar'24 after likely slipping into deficit territory in Feb'24.
- On balance, Q4-FY24 clocked C/A surplus. After excluding crisis years especially covid-19, this is the first quarterly C/A surplus clocked in 17 years (since Q4-FY07).

Oil deficit back in double digits while Gold and NONG deficit narrowed sharply

- Gold imports dropped as prices clocked fresh record highs in March thereby weighing on demand in line with our expectations. As per our estimates, import volumes likely dropped from c.100 tons in Feb'24 to c.20 tons in Mar'24. Going forward, while demand may partly recover on festive season effects, record prices may keep the impact muted this year.
- Oil deficit swung back into double digits zone after a gap of 4 months as avg Brent crude prices remained elevated at c.$85/b levels. Going forward there are risks that oil deficit may widen further with oil prices remaining elevated on persistent geo-political tensions.
- Non-oil-non-gold-old deficit dropped to $1.5bn, lowest since August 2021, when commodity prices were relatively lower and were keeping the overall trade deficit close to $10bn. Drop in the deficit is primarily attributed to positive seasonality witnessed in the last quarter of the fiscal year. However, given the recent spike in commodity prices, this trend is unlikely to sustain in the coming months.
- In Jan-Mar'24, average monthly NONG trade deficit dropped to $4.1 bn vs $10.8 bn in prior quarter. Most of the improvement in NONG deficit was contributed by Chemicals (55%) Machinery (36%), Metals (12%) and Textiles (11%).
- For FY24, average monthly merchandise trade deficit narrowed to $ 20bn vs $ 22bn in FY23. Both oil and non-oil-non-gold deficit narrowed due to relatively lower commodity prices. However, gold deficit rose on strong demand *(Fig 5)*.

C/A deficit for FY24 tracking 0.7% of GDP; rising risks for 0.9% FY25 forecast

- In the current year, considering the latest reading, C/A deficit is tracking broadly in line with our forecast of 0.7% of GDP. This includes a possibility of C/A surplus in Q4-FY24 after clocking a deficit of 1.2% of GDP in Q1-Q3 FY24.

- However, in FY25, our forecast of 0.9% of GDP C/A deficit is at risk from higher oil prices given our assumption of oil price of $ 85/b. Oil price sensitivity of C/A deficit stays high with every $ 10/b move in oil price affecting annual C/A balance by $15bn. Hence if oil prices settle at c.$ 95/b, C/A deficit may be closer to 1.5% of GDP in FY25.

- Going forward, we will continue to monitor commodity prices especially after the geo-political tension resurfaced. Spike in gold and broader metal prices is another factor to watch out for. Also, sustainability of strength in services exports amid global growth slowdown especially in the US economy will be closely watched.

Fig.1: **Current A/C balance likely swung back to surplus in March** *(in $ mn)*

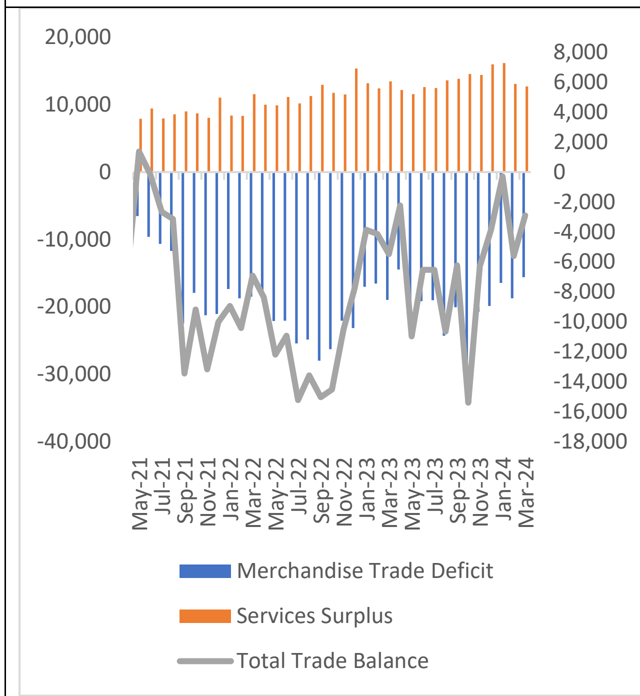

Fig.2: **Despite Red Sea crisis, exports rose however imports shrunk sequentially** *(in $ mn)*

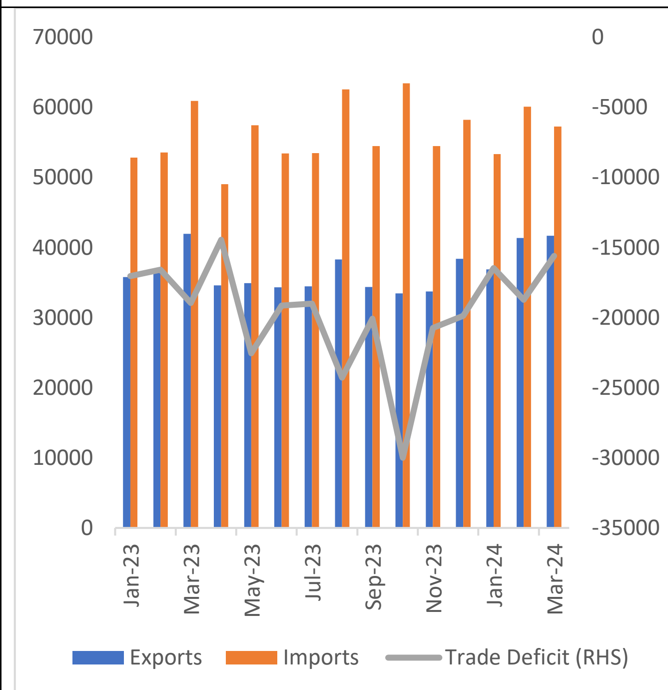

Fig.3: **Trade deficit narrowed on due to drop in Gold and NONG deficit; oil deficit swung back to double digits** *(in $ mn)*

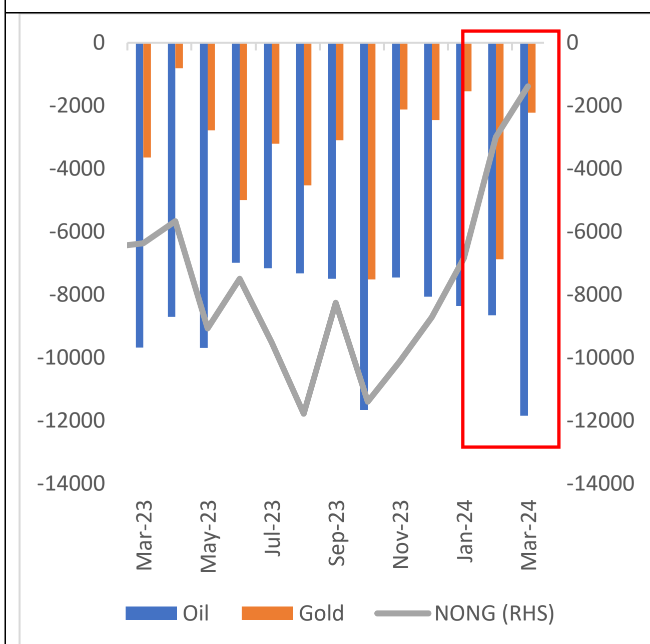

Fig.4: **NONG Trade deficit showing improvement in Jan-Mar Quarter due to seasonality** *(monthly avg NONG Trade Balance in $ mn)*

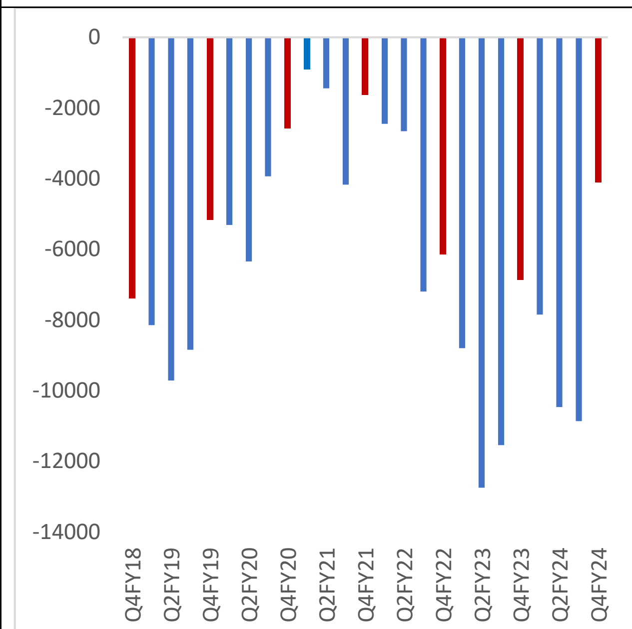

Fig.5: **Data Table** *(monthly average trade deficit)*

USD bn	Exports	Imports	*Oil Imports*	*Gold Imports*	Trade deficit	Oil deficit	Gold/ jewellery deficit	Non-oil-non-gold deficit
FY20	26.1	39.6	10.9	4.5	-13.5	-7.4	-1.5	-4.5
FY21	24.3	32.9	6.9	4.0	-8.6	-4.7	-2.2	-2.3
FY22	35.2	51.1	13.5	6.7	-15.9	-7.9	-3.4	-4.6
FY23	37.6	59.7	17.5	5.9	-22.1	-9.3	-2.8	-10.0
FY24	36.4	56.5	15.0	7.0	-20.1	-8.0	-3.7	-8.3

Source - CEIC, Ministry of Commerce and UBI Research

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