

Current account shifted to surplus in Q4-FY24 after ten quarters; full year deficit lower than in FY23

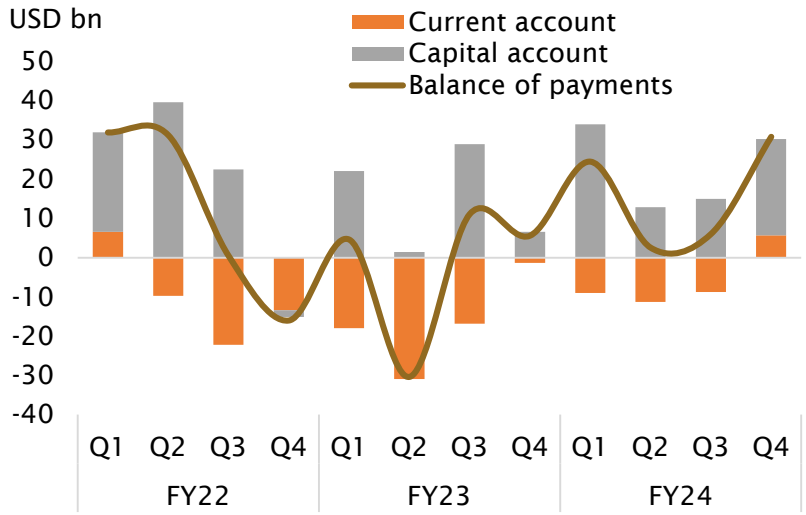
July 3, 2024

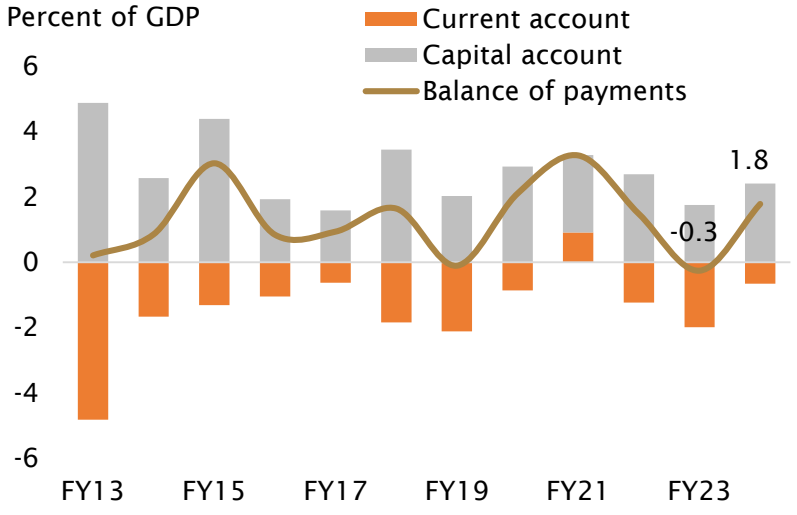
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Key takeaways

- **The current account balance posted a surplus in Q4-FY24 after remaining in deficit for ten quarters. For the entire year FY24, current account deficit was lower at 0.7% of GDP compared to 2% in FY23.**
- **The improvement in both quarterly and annual data was enabled by lower deficit in merchandise trade, higher surplus in services trade, and strong remittances that buoyed transfers. However, within invisibles trade, deficit under income account widened due to higher outflows in investment income.**
- **The improvement in capital account surplus, both in annual and quarterly basis, was driven by FPI inflows and banking capital amid lower FDI inflows.**
- **As a result, overall balance of payments improved to surplus of 1.0% of GDP in FY24 from a deficit of 0.3% in FY23.**

Current account posted surplus in Q4-FY24 after ten quarters; full year FY24 current account deficit lower than FY23





Current account shifted to surplus in Q4-FY24 after ten quarters

- The current account balance shifted to a surplus of 0.6% of GDP (USD5.7bn) in Q4-FY24 after a gap of ten quarters. Current account deficit was at 0.2% of GDP in Q4-FY23 (USD1.4bn). The reason for surplus vis-à-vis deficit in the corresponding quarter of FY23 was moderation in merchandise trade deficit and an increase in invisibles surplus. Lower deficit in goods trade was on account of year-on-year increase in exports and a decline in imports. The improvement in invisibles trade surplus was driven by services and transfers even as higher outflows continued under investment income.

- The surplus on capital account rose to 2.6% of GDP in Q4-FY24 (USD24.5bn) from 0.8% in Q4-FY23 (USD6.5bn). There were inflows in FPI and banking capital account compared to outflows in the corresponding quarter of FY23 that offset the moderation in FDI flows. The balance on external loans component was lower as repayments on short-term loans continued to exceed disbursements, and external commercial borrowings were only slightly higher compared to the level in Q4-FY23.

- Overall balance of payments stood at 3.3% of GDP in Q4-FY24 (USD30.8bn), also the highest in ten quarters, compared to 0.6% of GDP in Q4-FY23 (USD5.6bn).

Balance of Payments – Key highlights

	FY23	FY24			
USD bn	Q4	Q1	Q2	Q3	Q4
Current account	-1.4	-9.0	-11.3	-8.7	5.7
% of GDP	*-0.2*	*-1.0*	*-1.3*	*-1.0*	*0.6*
Trade balance	-52.6	-56.7	-64.5	-69.9	-50.9
Merchandise exports	115.8	104.9	108.3	106.6	121.7
Merchandise imports	168.4	161.6	172.8	176.6	172.5
Invisibles	51.2	47.7	53.3	61.2	56.6
Services	39.1	35.1	39.9	45.0	42.7
Transfers	24.8	22.8	24.9	29.3	28.7
Income	-12.6	-10.2	-11.6	-13.1	-14.8
Capital account	6.5	33.9	12.8	15.0	24.5
% of GDP	*0.8*	*3.9*	*1.5*	*1.6*	*2.6*
FDI	6.4	4.7	-0.8	3.9	2.0
FPI	-1.7	15.7	4.9	12.0	11.4
Loans	3.1	2.3	3.3	-5.6	1.8
of which, ECB	1.6	5.9	-2.9	-4.5	1.7
of which, ST credit	-0.3	-5.0	5.4	-4.4	-2.0
Banking capital	-4.0	12.9	4.3	16.4	6.9
of which, NRI deposits	3.6	2.2	3.2	3.9	5.4
Others	2.9	-1.7	1.1	-11.7	2.5
Errors and omissions	0.4	-0.5	1.0	-0.3	0.5
Balance of payments	5.6	24.4	2.5	6.0	30.8
% of GDP	*0.6*	*2.8*	*0.3*	*0.7*	*3.3*

Current account deficit narrowed to 0.7% of GDP in FY24

- For the entire fiscal year FY24, current account deficit narrowed to 0.7% of GDP (USD23bn) from 2% of GDP in FY23 (USD67bn). The lower deficit was on account of moderation in merchandise trade deficit and an improvement in invisibles trade surplus. In case of merchandise trade, both exports and imports fell after growing at firm rates in FY23, with imports falling at a sharper rate than exports in FY24. Within invisibles, higher services surplus was driven by decline in imports amid moderation in exports growth. Transfers, which include remittances, increased while outflows under investment income further rose.

- The surplus on capital account rose to 2.4% of GDP (USD86bn) in FY24 from 1.8% (USD59bn) in FY23. The moderation in FDI flows was more than offset by FPI inflows and higher surplus in banking capital. There was an increase in commercial banks' liabilities under banking capital, as reflected in higher NRI deposits. External loans were lower amid decline in short-term credit. However, external commercial borrowings were mildly positive, as disbursements to India and repayments of loans extended to non-residents (inflows) exceeded repayments by India and loans extended to non-residents (outflows), reversing the trend in FY23.

- Overall balance of payments recorded a surplus of 1.8% of GDP (USD64bn) versus deficit of 0.3% of GDP (USD9bn) in FY23.

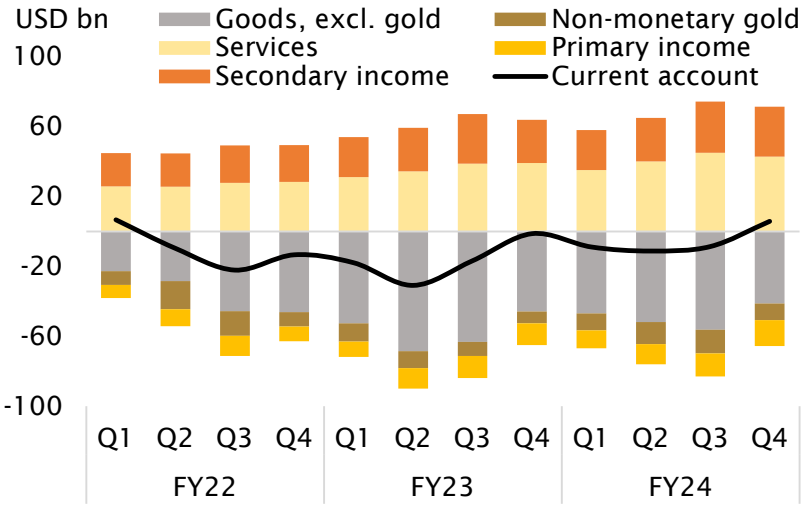
Balance of Payments – Key highlights

USD bn	FY19	FY20	FY21	FY22	FY23	FY24
Current account	-57	-22	24	-39	-67	-23
% of GDP	-2.1	-0.9	0.9	-1.2	-2.0	-0.7
Trade balance	-180	-154	-102	-189	-265	-242
Merchandise exports	337	321	296	429	456	441
Merchandise imports	518	474	398	619	721	684
Invisibles	123	132	126	151	198	219
Services	82	84	89	108	143	163
Transfers	70	75	73	80	101	106
Income	-29	-27	-36	-37	-46	-50
Capital account	54	82	64	86	59	86
% of GDP	2.0	2.9	2.4	2.7	1.8	2.4
FDI	31	44	44	39	28	10
FPI	-2	1	36	-17	-5	44
Loans	16	26	7	34	8	2
of which, ECB	10	23	0	8	-4	0
of which, ST credit	2	-1	-4	20	7	-6
Banking capital	7	-13	-21	7	21	41
of which, NRI deposits	10	9	7	3	9	15
Others	1	23	-2	24	7	-10
Errors and omissions	0	1	0	0	-1	1
Balance of payments	-3	59	87	48	-9	64
% of GDP	-0.1	2.1	3.3	1.5	-0.3	1.8

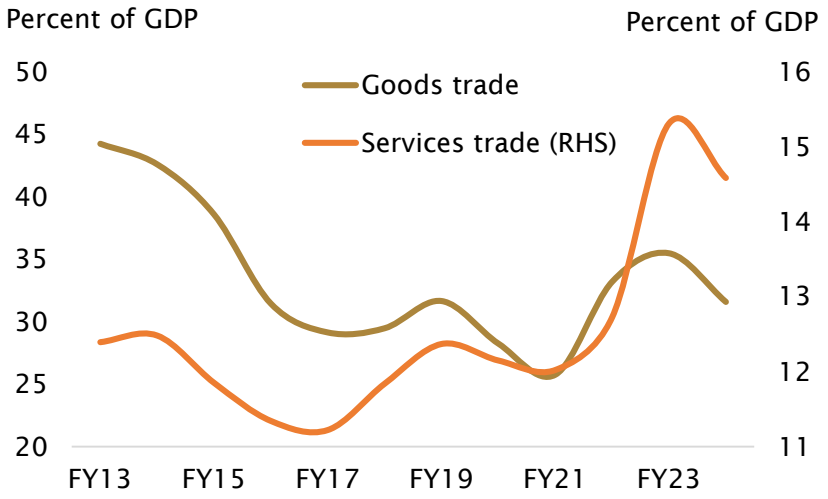
Lower imports supported current account balance in FY24

- The improvement in current account balance, both in terms of quarterly and annual data, was driven by lower merchandise trade deficit, higher surplus in services trade, and strong remittances that buoyed transfers (secondary income under BPM6). The deficit under income account (primary income under BPM6) further widened due to higher outflows on investment income.
- Another noteworthy feature in current account data was the moderation in trade flows (exports plus imports) of both goods and services. While global trade is expected to recover in 2024 as per various international agencies, the tailwind from lower imports is unlikely to prevail in FY25 amid expected recovery in domestic consumption. This could add some pressure on current account balance in FY25.

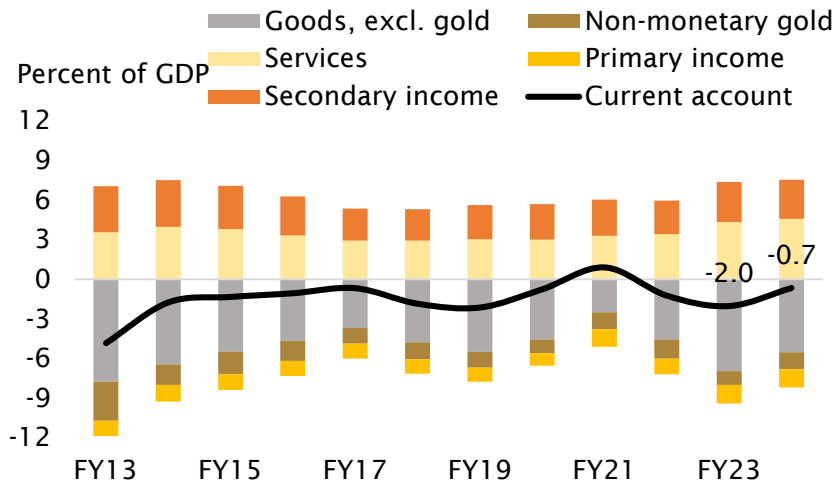
Quarterly data: Current account breakdown



Moderation in goods and services trade in FY24



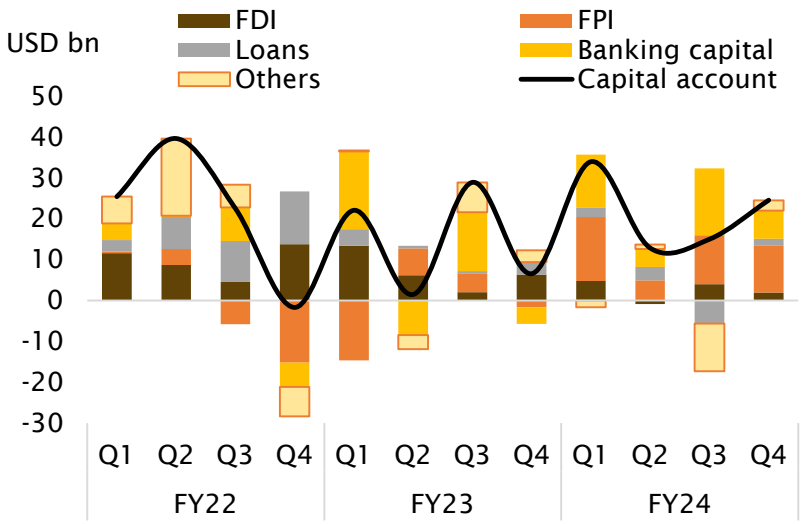
Annual data: Current account breakdown



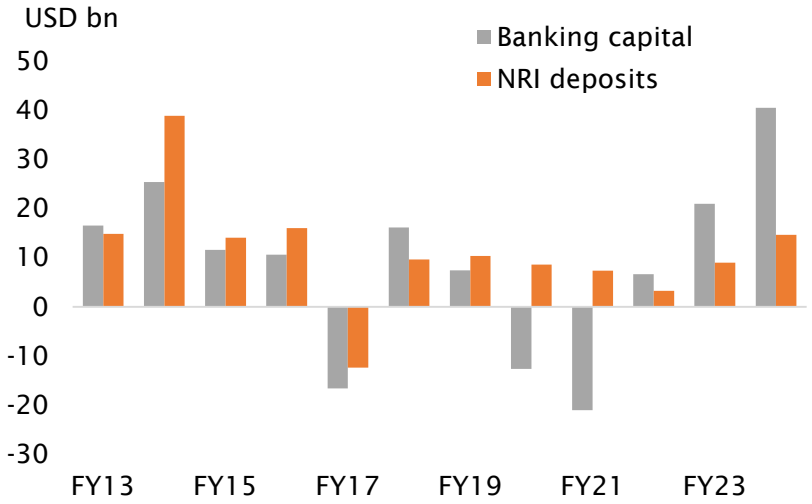
Capital account surplus buoyed by FPI flows, banking capital

- The improvement in capital account surplus, both in annual and quarterly basis, was driven by FPI inflows and banking capital amid lower FDI inflows.
- The banking capital account recorded a surplus for the third consecutive year marked by increase in foreign assets (that includes foreign currency holdings) and liabilities (that includes non-resident deposits) of commercial banks.
- The 'others' component in capital account captures 'leads and lags' in recording of exports and imports arising out of discrepancies in data collection from customs versus banking channel.

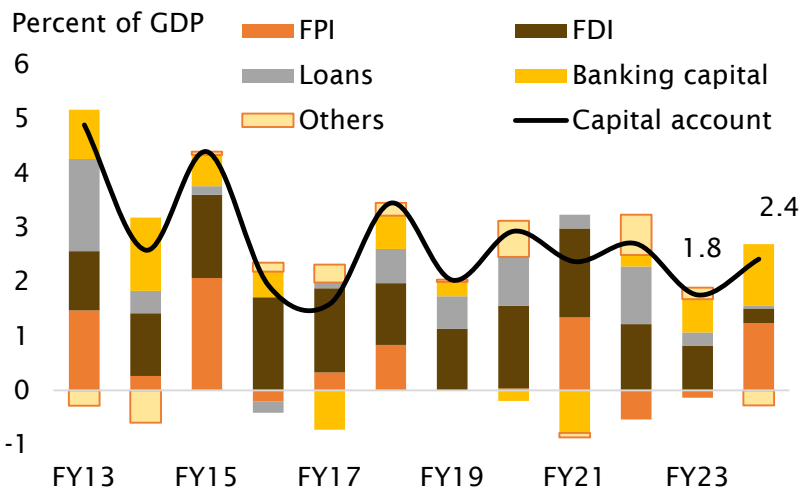
Quarterly data: Capital account breakdown



Banking capital in surplus for third straight year



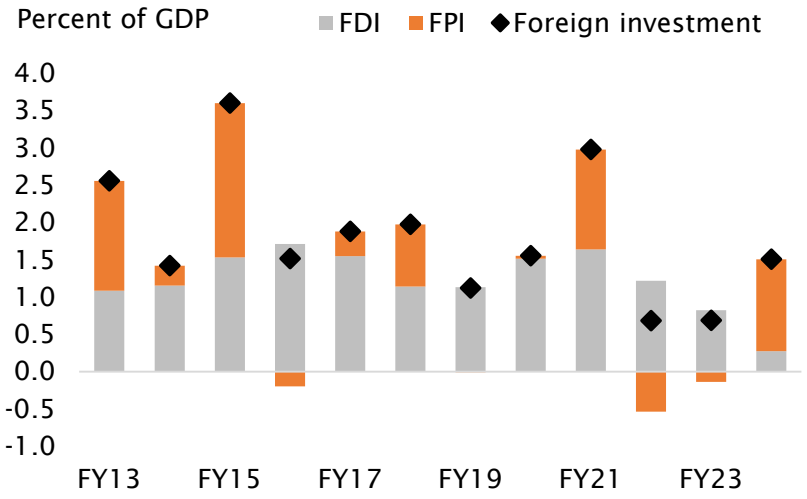
Annual data: Capital account breakdown



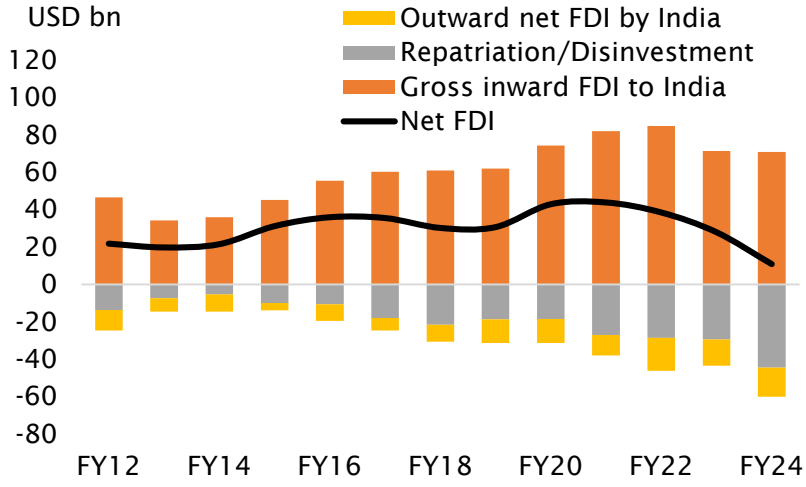
Net FPI flows turned positive in FY24; FDI flows moderated

- Under capital account, foreign investment increased in FY24 as portfolio flows turned positive after two years, even as direct investment continued to moderate. Net FDI inflow was USD9.8bn compared to USD28bn in FY23 amid higher repatriation.
- Net portfolio inflow was USD44.1bn versus outflow of USD5.2bn in FY23. Inclusion of India's sovereign bonds in global EM bond indices spurred inflows in the debt segment of USD12.7bn compared to USD1.1bn in FY23. Equity flows turned positive after two years, amounting to USD31.9bn in FY24.
- There was an accretion of USD63.7bn to foreign exchange reserves on a BoP basis versus depletion of USD9.1bn in FY23.

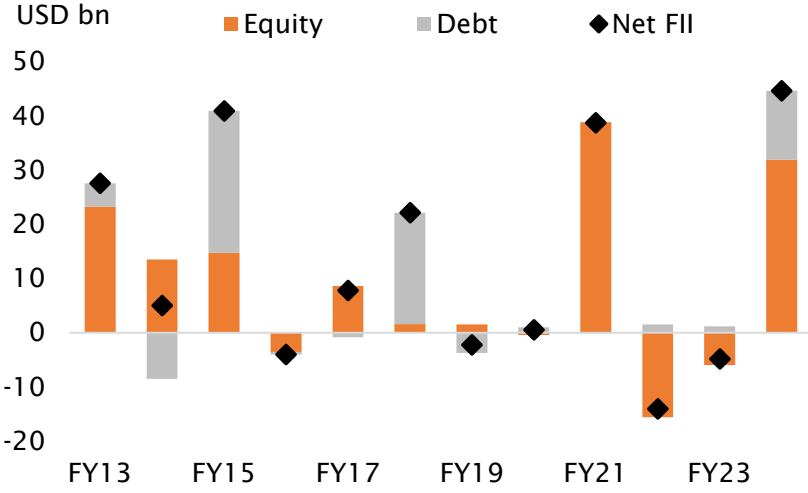
Inclusion of IGBs in global indices spurred FPI inflows



Moderation in FDI flows due to higher repatriation



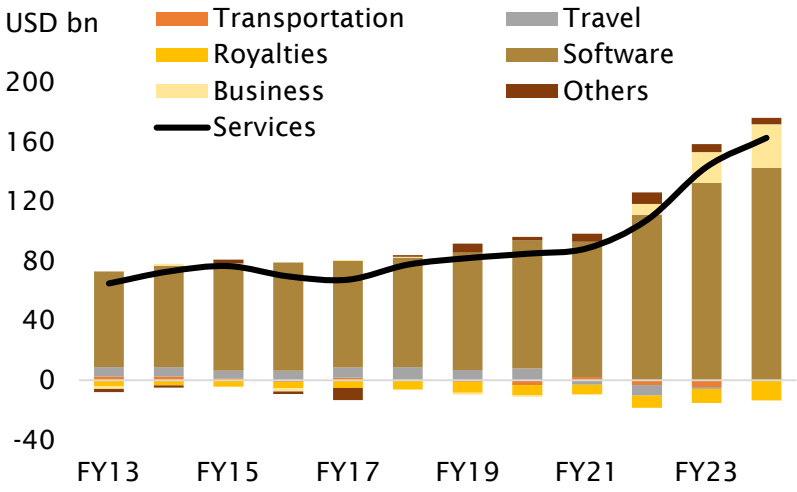
Net FII equity inflows turned positive in FY24 after two years



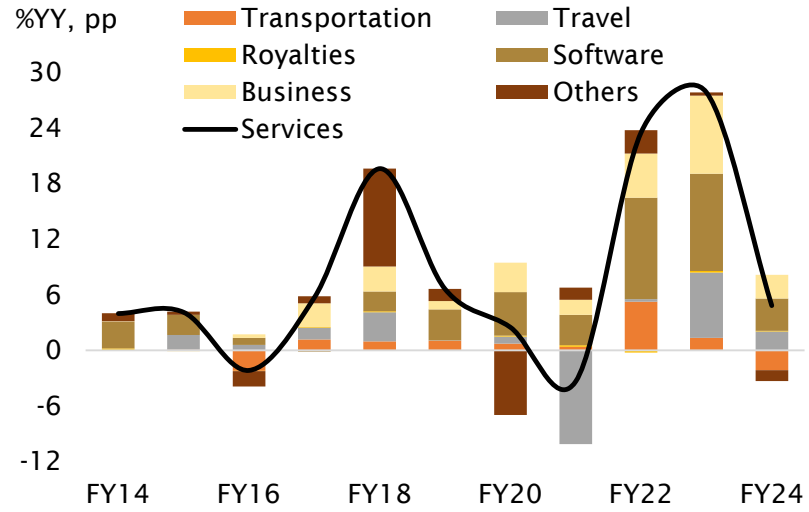
Improvement in services trade surplus aided by lower imports

- After posting double-digit growth in both exports and imports in FY22 and FY23, services trade moderated in FY24, in line with the trend in goods trade. The improvement in services surplus in FY24 was driven by a decline in imports amid a slowdown in exports growth.
- The broader trends were largely unchanged, with rising share of business services in exports and moderation in share of software exports, though the latter continued to have a dominant share.
- In FY24, the drag on services imports was from transportation, which includes services linked with goods trade. This trend could reverse in FY25 amid an expected pick up in merchandise trade.

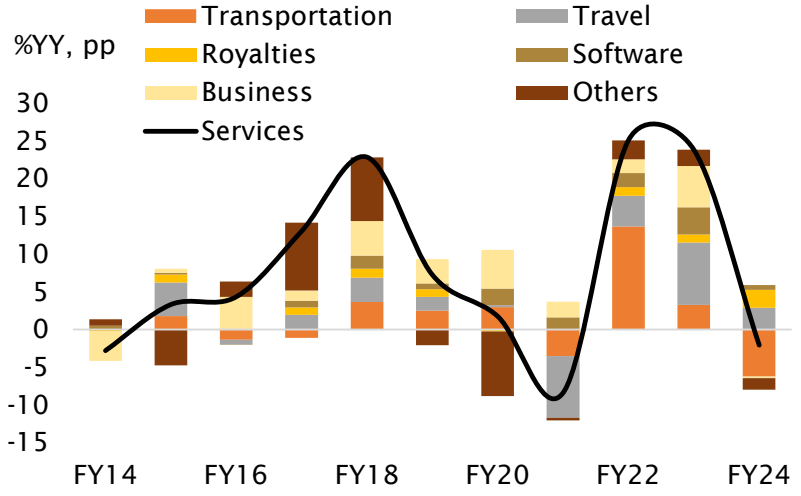
Services trade balance



Contribution to services exports growth



Contribution to services imports growth



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