

Current account shifted back to deficit in Q1-FY25

October 5, 2024

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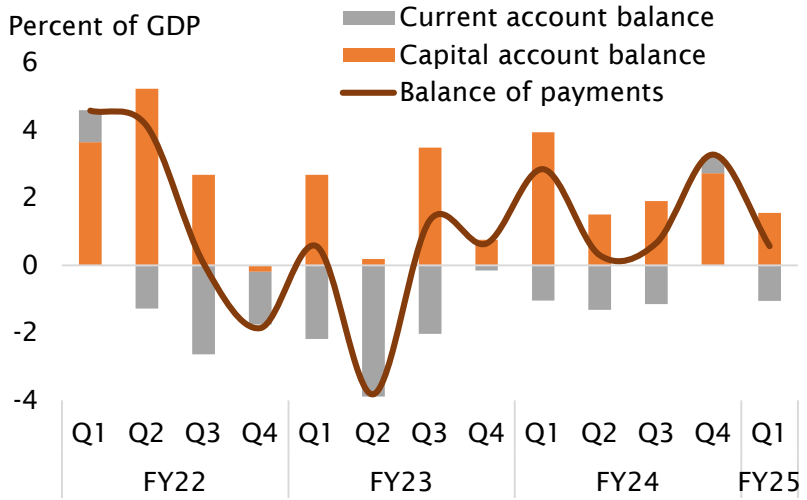
Key takeaways

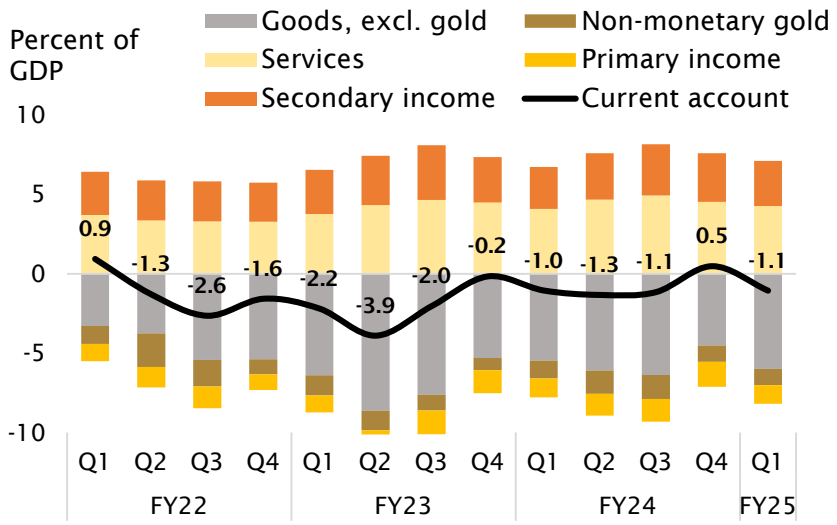
- The current account balance slipped to deficit in Q1-FY25 after briefly swinging to surplus in the previous quarter. The deficit at 1.1% of GDP (USD9.8bn) was marginally steeper than 1.0% (USD9bn) in the corresponding quarter of FY24 due to wider gap on the goods account, even as invisibles surplus improved. Remittances supported transfers, even as outflows continued under investment income.
- The surplus on capital account eased to 1.6% of GDP in Q1-FY25 (USD14.4bn) from 3.9% (USD33.8bn) in Q1-FY24, as lower portfolio flows and the banking capital account were a drag. On the bright side, FDI flows improved and NRI deposits were higher. External loans increased amid revival of short-term loans, even as ECBS were steady but muted relative to the level in Q1-FY24. The surplus on balance of payments eased to 0.6% of GDP in Q1-FY25 (USD5.2bn) from 2.8% of GDP (USD24.4bn) in Q1-FY24.
- Going forward, gains from lower crude oil prices could be offset by the recent surge in imports of precious metals, resulting from lower customs duties announced in the final Union Budget for FY25. Also, global commodity prices remain vulnerable to escalating geopolitical tensions that need to be watched out for. On the bright side, though the post-pandemic trends in services trade are normalizing, outlook remains upbeat due to solid prospects of global spending on information technology. Portfolio flows are likely to be supported by policy easing by systemic central banks and India's inclusion in global bond indices.

Current account shifted back to deficit in Q1-FY25

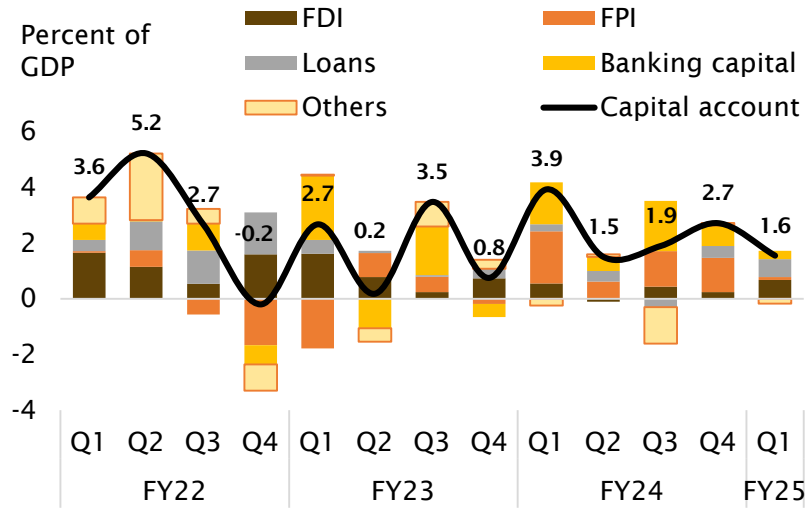


Current account shifted back to deficit in Q1-FY25

Current account balance



Capital account balance



Balance of Payments – Key highlights

	FY24				FY25
USD bn	Q1	Q2	Q3	Q4	Q1
Current account	-9.0	-11.3	-10.4	4.6	-9.8
% of GDP	*-1.0*	*-1.3*	*-1.1*	*0.5*	*-1.1*
Trade balance	-56.7	-64.5	-71.6	-52.0	-65.1
Merchandise exports	104.9	108.3	106.6	121.6	111.2
Merchandise imports	161.6	172.8	178.3	173.6	176.3
Invisibles	47.7	53.3	61.2	56.6	55.4
Services	35.1	39.9	45.0	42.7	39.7
Transfers	22.8	24.9	29.3	28.7	26.4
Income	-10.2	-11.6	-13.1	-14.8	-10.7
Capital account	33.8	12.8	17.3	25.6	14.4
% of GDP	*3.9*	*1.5*	*1.9*	*2.7*	*1.6*
FDI	4.7	-0.8	4.0	2.3	6.3
FPI	15.7	4.9	12.0	11.4	0.9
Loans	2.2	3.3	-2.8	3.9	6.0
of which, ECB	5.7	-3.0	-4.5	1.7	1.7
of which, ST credit	-5.0	5.4	-1.5	0.2	2.9
Banking capital	12.9	4.3	16.4	6.9	2.9
of which, NRI deposits	2.2	3.2	3.9	5.4	4.0
Others	-1.7	1.1	-12.3	1.1	-1.6
Errors and omissions	-0.4	1.0	-0.9	0.6	0.6
Balance of payments	24.4	2.5	6.0	30.8	5.2
% of GDP	*2.8*	*0.3*	*0.7*	*3.3*	*0.6*

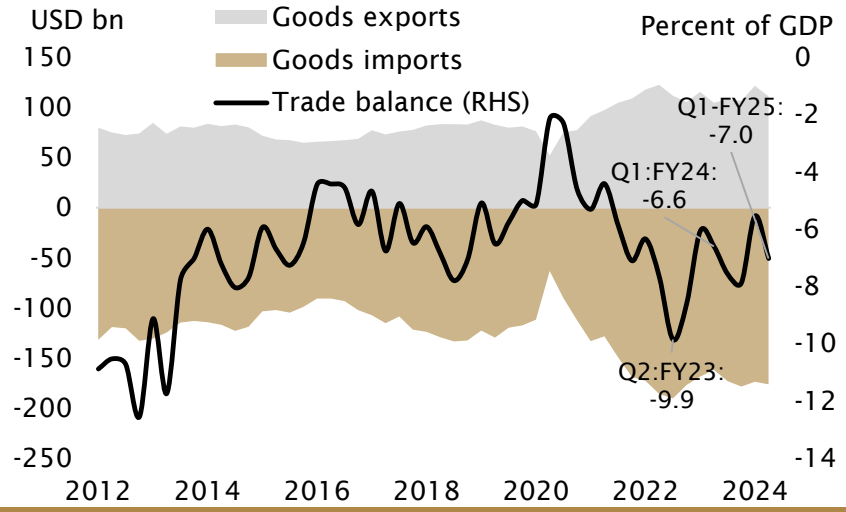
Goods deficit worsened; services surplus stayed above 4% of GDP

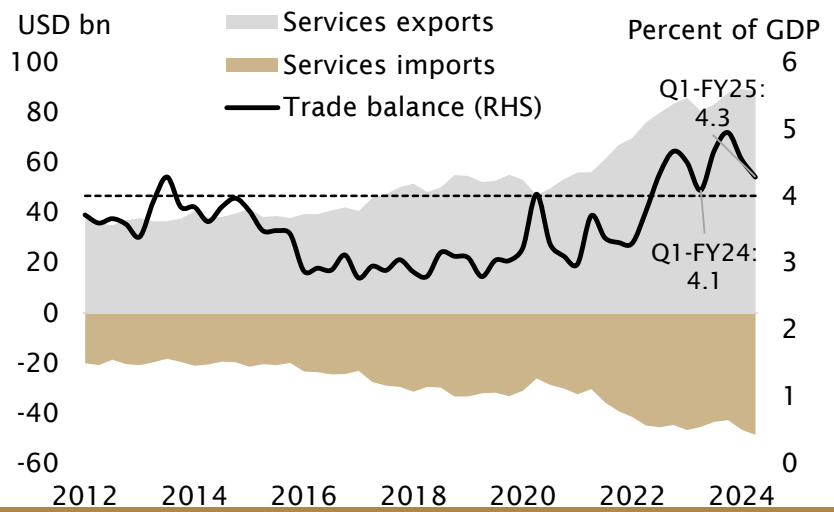
- The deficit in goods trade deteriorated in Q1 to 7% of GDP from 6.6% in the corresponding quarter in FY24. However, it remained below the recent peak of 9.9% in Q2-FY23 when crude oil prices had surged above USD120/bbl due to Russia-Ukraine war outbreak. In that context, the ongoing softening and range-bound movement in oil prices could act as a tailwind to India's external balance. Crude oil prices averaged less than USD80/bbl in the months of August and September after briefly breaching USD90/bbl in April. In September, prices fleetingly slipped below USD70/bbl, though have firmed thereafter.

- However, the recent surge in imports of precious metals could offset gains from lower crude oil prices. In August, gold imports increased, with the deficit in gems and jewellery reaching a record high, as the customs duty cut announced in the final Union Budget for FY25 partly counterbalanced the ongoing rally in global precious metal prices.

- The surplus in services trade improved to 4.3% of GDP in Q1-FY25 from 4.1% in the corresponding quarter of FY24, though it moderated from the previous quarter. However, services trade surplus has consistently been above 4% of GDP since Q2-FY23.

Despite worsening vis-à-vis Q1:FY24, goods trade deficit lower than recent peak; services surplus above 4% of GDP since Q2-FY23





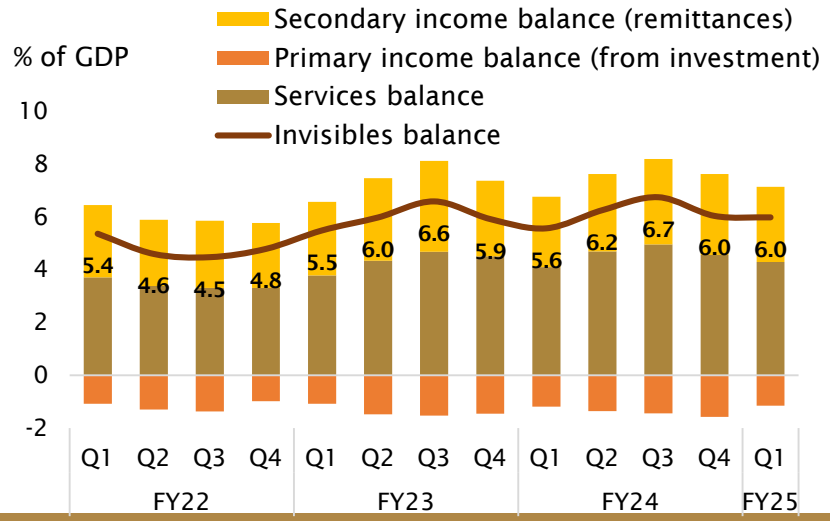
Remittances continue to remain strong post-pandemic

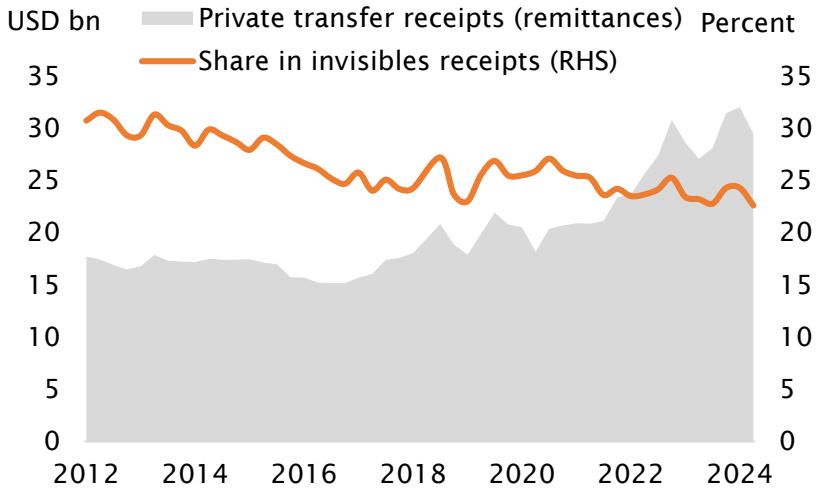
- Invisibles comprises of trade in services, primary and secondary income accounts. Primary income account mainly reflects payments of investment income, while secondary income consists of transfers, both private and official. Within this, private transfer receipts reflects remittances by Indians employed overseas.

- In Q1-FY25, the balance on invisibles trade at USD55.4bn (6% of GDP) marked an improvement from the corresponding quarter in FY24 when the balance stood at USD47.7bn (5.6% of GDP). The improvement in balance was led by services trade and higher remittances, even as net outgo under the primary income account, mainly reflecting payments of investment income, was largely stable in terms of share in GDP at 1.2% amid a marginal uptick in nominal terms at USD10.7bn from USD10.2bn in Q1-FY24.

- Private transfer receipts or remittances increased to USD29.5bn from USD27.1bn in Q1-FY24. There has been a marked increase in remittances post-pandemic. Data for FY13-20 shows average quarterly remittance at USD17.6bn that has increased to USD25.3 post-pandemic. However, the share of remittances in invisibles receipts has slightly moderated to around 24% from 27% in the pre-pandemic period.

Net outflows continued under primary income (mostly investment income); remittances continued to lift secondary income

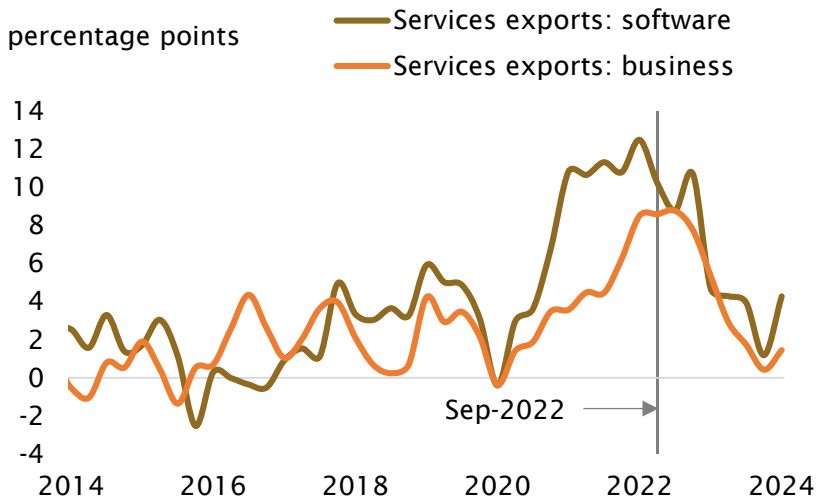




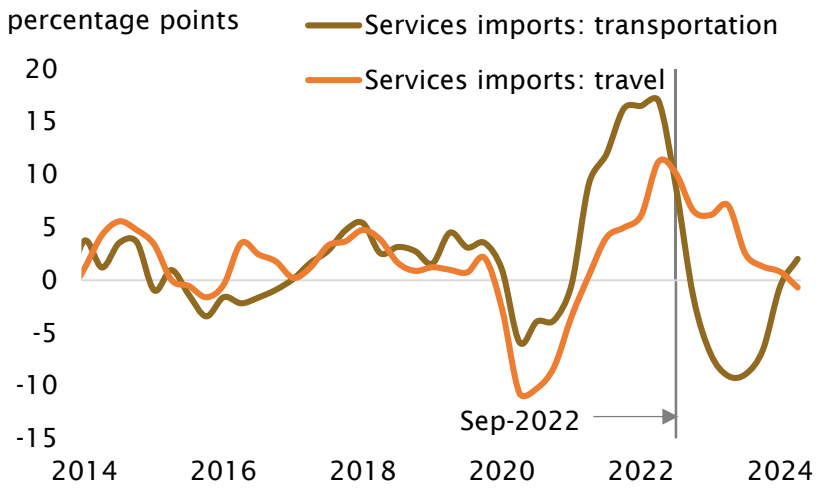
Trends in service trade are normalizing

- The persistence of services trade surplus above 4% of GDP since Q2-FY23 (September 2022) has been enabled by a few factors:
  - The year-on-year growth in services exports hit double digits in Q2-FY23 and Q3-FY23 and has been above 9% thereafter. Also, services imports growth peaked at 5.7%YY in Q2-FY23 and reached a trough of sub-5% growth in Q3-FY24 but has been recovering in the past two quarters.
  - In addition to the continued strength in software services exports, the contribution from business services exports has improved. However, these trends are normalizing and need to be watched out for, though prospects for software services remain bright. In its latest forecast update, global tech research firm Gartner predicted 7.5% growth in global IT spending in 2024 to USD5.3tn, lower than its previous estimate of 8%, but almost double the growth of 3.8% in 2023 amounting to USD4.9tn.
  - The improvement in surplus has also been enabled by lower imports of travel and transportation services. Base effects and the post-pandemic revenge spending on travel have been normalizing. Also, the Russia-Ukraine tensions triggered supply chain pressures that dragged down goods trade. A lot of the transportation services are linked to merchandise goods trade, and lower trade implied a strain on imports of transportation services. However, the nascent signs of recovery in global goods trade is already being reflecting in revival of transportation services imports.

Contribution to services exports growth



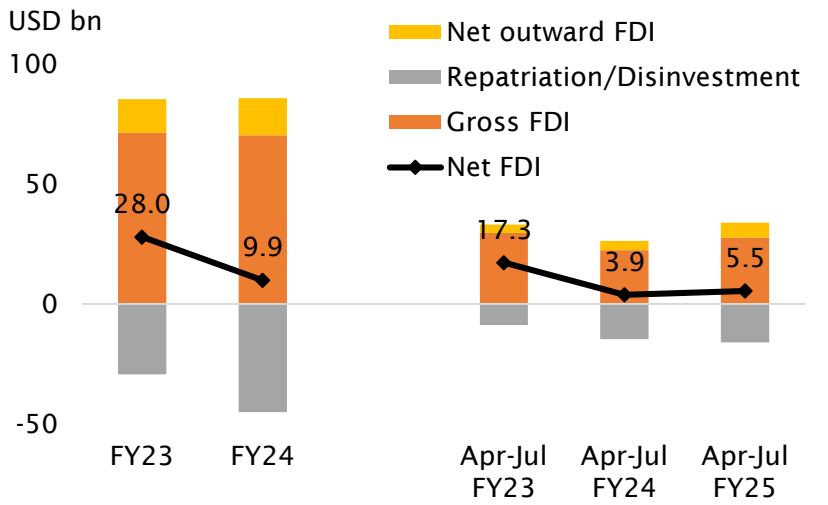
Contribution to services imports growth



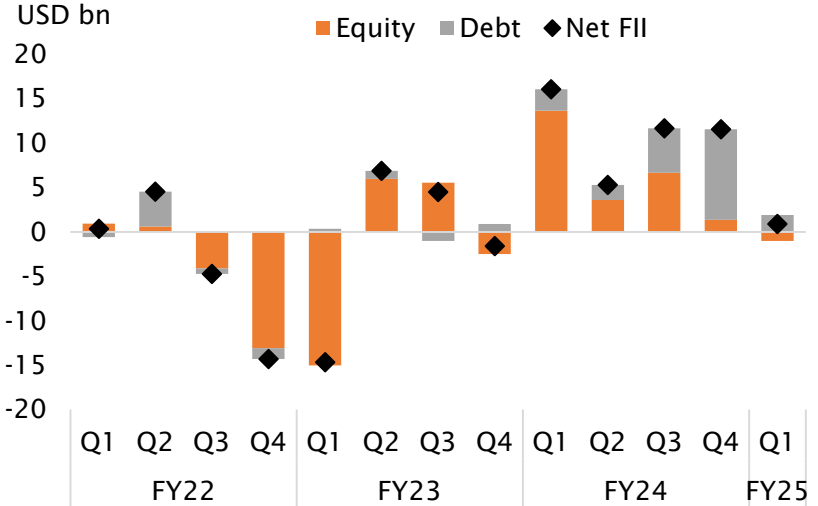
FDI flows improved; debt inflows partly offset sell-off in equities

- Foreign portfolio flows eased to USD0.9bn in Q1-FY25 from USD11.4bn in the previous quarter and USD15.7bn in Q1-FY24. In the latest quarter, equity outflows of USD1bn were offset by debt inflows of USD1.9bn.
- Debt inflows were modest after accruing over USD15bn in the previous two quarters. Since the announcement of Indian government bond inclusion in the JPMorgan index in September 2023, cumulative foreign portfolio flows in debt till August 2024 (around USD16.9bn) have outpaced investment in equities (USD9.5bn).
- Both local and global factors triggered risk-off sentiment during the quarter. On the domestic front, the uncertainty around general elections outcome spurred volatility and outflows from equities. Globally, the escalation of geopolitical tensions and reappraisal of monetary policy easing in the US due to unpalatable economic data drove slight correction in equities and a rally in yields.
- Though gross FDI inflows in FY24 were almost equivalent to the level in FY23, higher repatriation dragged down net inflows. During April-July FY25, disinvestment and outward FDI continued to outpace the year-to-date levels in FY24. However, higher gross FDI flows have enabled higher net FDI flows vis-à-vis the corresponding period in FY24, though these remain low compared to April-July FY23.

Net FDI flows have improved FYTD



Modest debt flows in Q1 mildly offset equities outflows



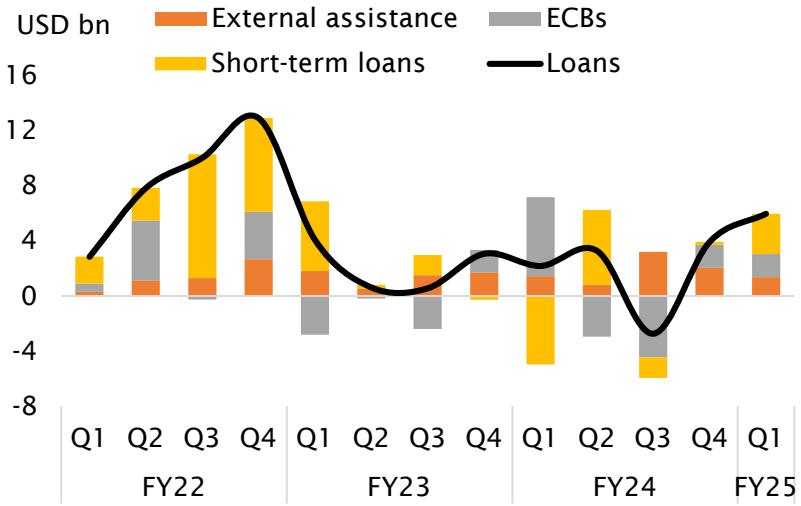
Higher inflows from loans contributed to capital account surplus

- On the capital account, loans have rebounded in the latest two quarters after a drag in Q3-FY24 when repayments of external commercial borrowings and short-term loans exceeded disbursements. In Q1-FY25, net balance on loans was at USD6bn, up from USD3.9bn in the previous quarter and USD2.2bn in Q1-FY24.

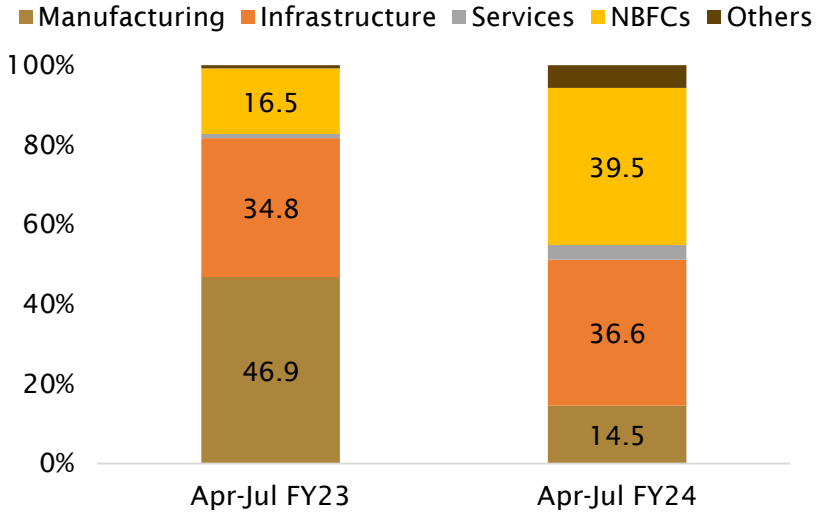
- In Q1-FY25, short-term loans amounted to USD2.9bn, with 70% of loans of less than six months duration. For FY24 as a whole, short-term loans posted negative balance of USD833mn, implying that repayments exceeded disbursements. ECBs were stable from the previous quarter at around USD1.7bn, though lower than USD5.7bn in the corresponding quarter of FY24. There was also a shift in the composition of ECB borrowers. In April-July FY24, manufacturers accounted for the largest share of ECB borrowing, but this balance shifted in favor of borrowing by NBFCs in the corresponding period of FY25. The share of infrastructure firms in ECB borrowing was stable at around 35-37%. In FY23 and FY24 as a whole, ECB balances were negative to the tune of USD12mn and USD3.8bn, respectively. This implies that repayments and loans to non-residents were higher than disbursements and repayments of loans by non-residents.

- External assistance loans have been moderating for two quarters now after reaching 11-quarter high of USD3.2bn in Q3-FY24. In Q1-FY25, these stood at USD1.4bn, almost similar to the level in Q1-FY24.

Net balance on loans within capital account



Share of ECB by borrower category



Banking capital flows continued to ease despite firm NRI deposits

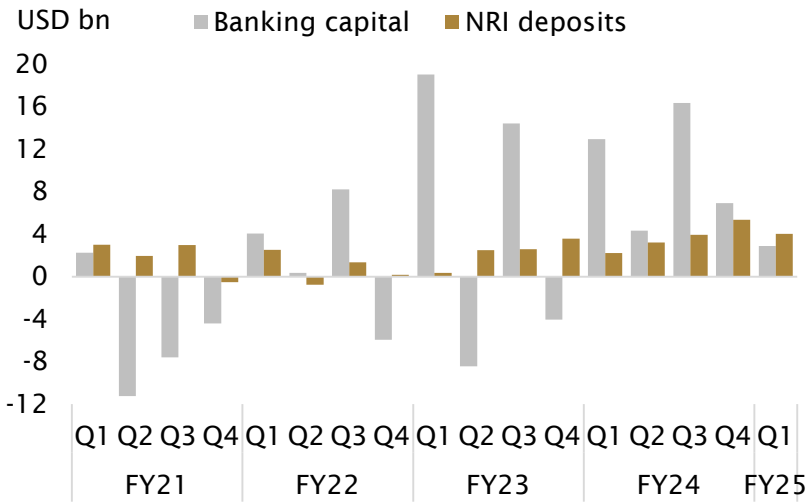
- Banking capital mainly consists of foreign assets (includes foreign currency holdings and rupee overdrafts to non-resident banks) and foreign liabilities of commercial banks (includes non-resident deposits).

- In FY23 and FY24, there was a considerable tailwind to the capital account surplus from banking capital, amounting to USD21bn (36% of capital account balance) and USD41bn (45%), respectively. In Q1, the balance on this account moderated to USD2.9bn (20%) from USD6.9bn (27%) in the previous quarter and USD12.9bn in Q1-FY24 (38%).

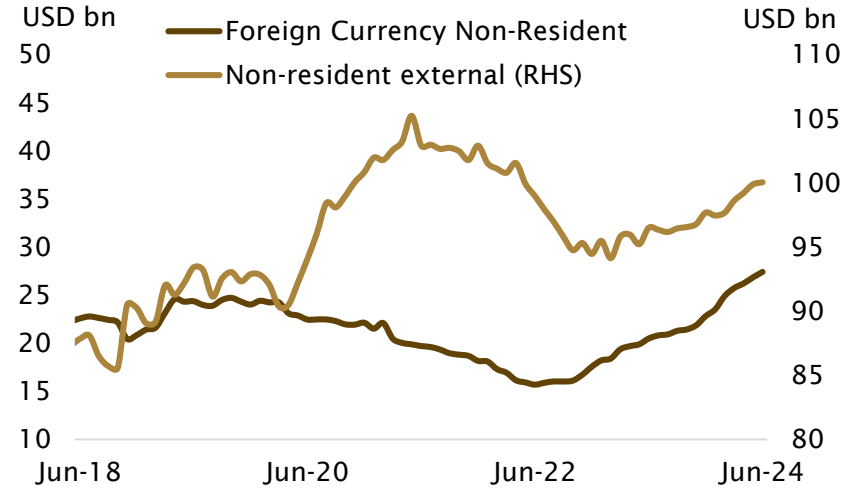
- In Q1-FY25, the balance on commercial banks' foreign assets remained negative for the second consecutive quarter. A part of this could be attributable to intervention in the forex market during April-June when the RBI was net seller of USD in the spot and forward segments.

- NRI deposit flows have been strong, exceeding USD2bn every quarter since Q2-FY23 (September 2022). The inflows of USD5.4bn in Q4-FY24 were the highest since Q2-FY16. In Q1-FY25, NRI deposit flows stood at USD 4bn, greater than USD2.2bn in Q1-FY24. Despite these strong accretions on the liabilities side, dwindling assets are acting a drag on overall banking capital flows.

Banking capital flows eased to USD2.9bn in Q1-FY25



NRI deposits outstanding on an uptrend since Sep-22

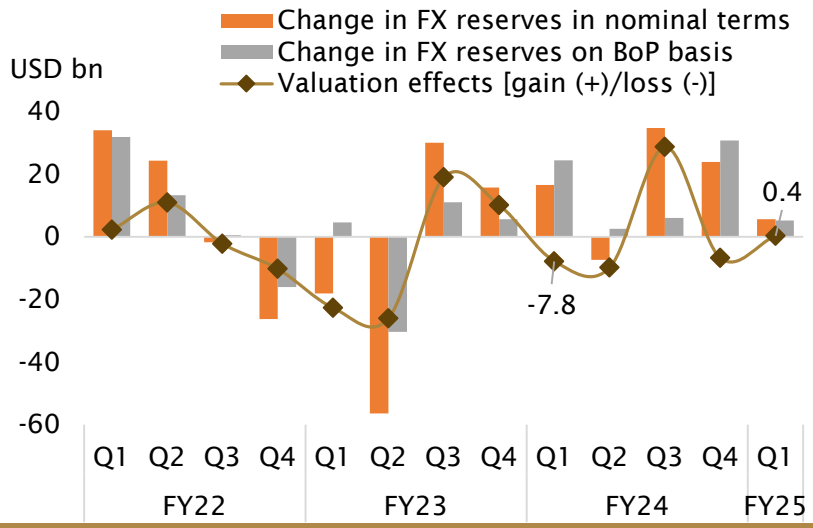


FX reserves reflected valuation gain due to higher gold prices

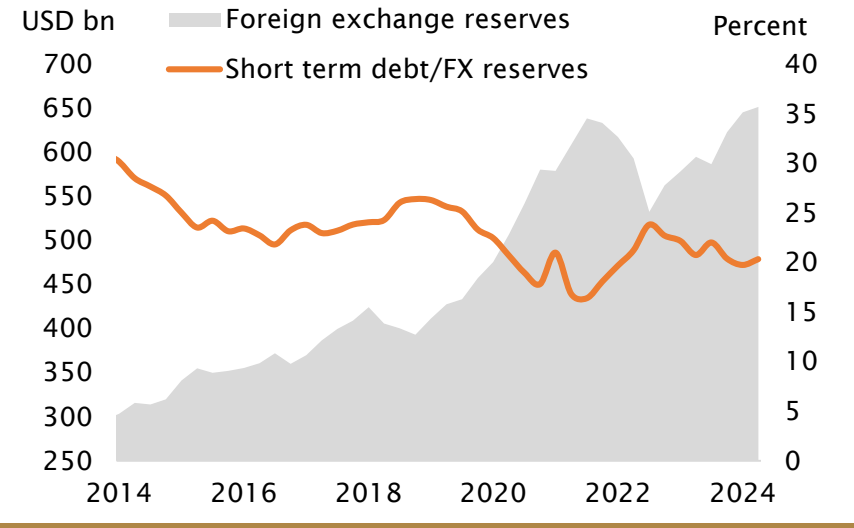
- On a balance of payment basis, which excludes valuation effects, there was accretion of USD5.2bn to foreign exchange reserves in Q1-FY25 compared to an increase of USD24.4bn in Q1-FY24. In nominal terms, which includes valuation effects, FX reserves were up USD5.6bn, lower than the increase of USD16.6bn in Q1-FY24. This amounted to a valuation gain of USD0.4bn versus a valuation loss of USD7.8bn in Q1-FY24, with the gain largely reflecting the rise in gold prices.

- At end-June 2024, India's external debt stood at USD682.3bn, marking an increase of USD13.3bn from its level at end-March 2024. Long-term debt was at USD549.6bn, up 1.5% (USD8.2bn) from its level at the end of the previous quarter. The share of short-term debt in total external debt increased to 19.4% from 19.1% at end-March 2024. The ratio of short-term debt to foreign exchange reserves rose to 20.3% from 19.7% at the end of the previous quarter.

Valuation gain in Q1-FY25 due to rise in gold prices



Ample FX reserves to address short-term repayments



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