



Services surplus, softer commodity prices kept current account deficit contained at 1.2% of GDP in Q3-FY24

April 5, 2024





Current account deficit moderated to 1.2% of GDP in Q3-FY24

- In Q3-FY24, the current account deficit moderated to 1.2% of GDP from 1.3% in the previous quarter, marking the fourth consecutive month of sub-2% deficit. In the corresponding quarter of previous fiscal year, current account deficit was at 2% of GDP.
 - The improvement over the previous quarter was largely driven by an increase in the invisibles surplus amid a deterioration in merchandise trade balance. Exports fell quarter-on-quarter, though softer global commodity prices helped to contain the import bill.
- The surplus on capital account rose to 1.9% of GDP from 1.5% in Q2-FY24, marked by improvement in both FDI and FPI flows, and banking capital. Despite an improvement in capital flows, surplus was lower compared to Q3-FY23 due to drop in 'others' component of capital account in the latest quarter data. The balance on loans component also turned negative after 13 quarters amid a decline in both short term loans and ECBs.
- Overall balance of payments stood at 0.7% of GDP in Q3-FY24, up from 0.3% in the previous quarter but lower than 1.3% in Q3-FY23.

Balance of Payments - Key highlights

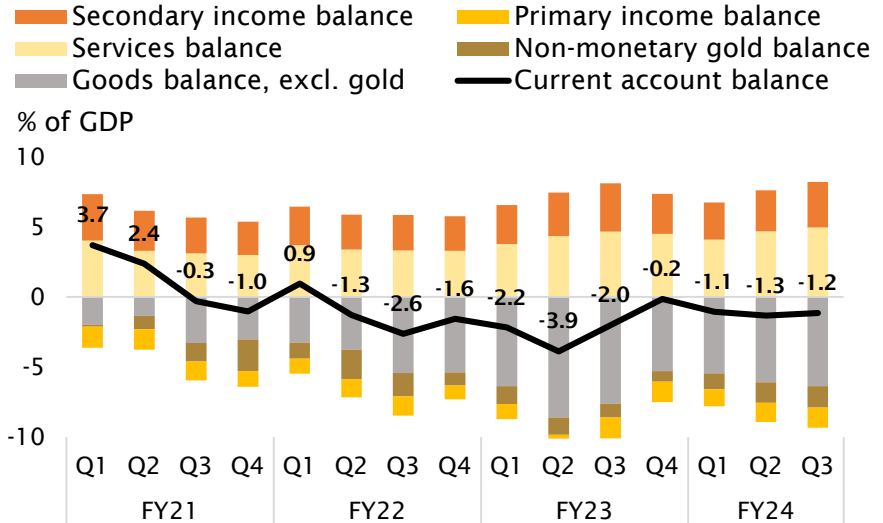
USD bn	FY23		FY24		
	Q3	Q4	Q1	Q2	Q3
Current account	-16.8	-1.4	-9.1	-11.4	-10.5
<i>% of GDP</i>	-2.0	-0.2	-1.1	-1.3	-1.2
Trade balance	-71.3	-52.6	-56.7	-64.5	-71.6
Merchandise exports	105.6	115.8	104.9	108.3	106.7
Merchandise imports	176.9	168.4	161.6	172.8	178.3
Invisibles	54.5	51.2	47.6	53.1	61.1
Services	38.7	39.1	35.1	39.9	45.0
Transfers	28.5	24.8	22.8	24.9	29.3
Income	-12.7	-12.6	-10.4	-11.8	-13.2
Capital account	28.9	6.5	34.3	13.0	17.4
<i>% of GDP</i>	3.5	0.8	4.0	1.5	1.9
FDI	2.0	6.4	4.9	-0.6	4.2
FPI	4.6	-1.7	15.7	4.9	12.0
Loans	0.5	3.1	2.2	3.3	-3.5
of which, ECB	-2.4	1.6	5.8	-2.9	-4.4
of which, ST credit	1.5	-0.3	-5.0	5.4	-2.3
Banking capital	14.4	-4.0	12.9	4.3	16.4
of which, NRI deposits	2.6	3.6	2.2	3.2	3.9
Others	7.3	2.9	-1.5	1.1	-11.7
Errors and omissions	-1.0	0.4	-0.8	0.9	-0.8
Balance of payments	11.1	5.6	24.4	2.5	6.0
<i>% of GDP</i>	1.3	0.6	2.8	0.3	0.7



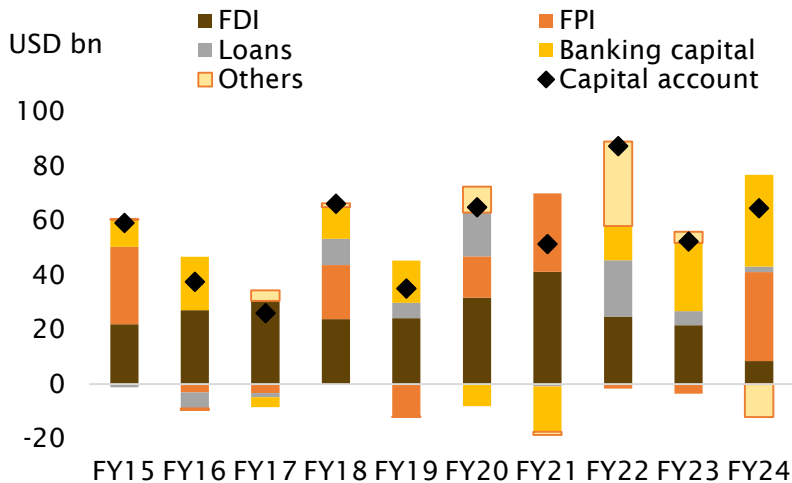
FPI flows added strongly to capital account from Q1-Q3 FY24

- In case of current account, in addition to support from the services surplus that reached 5% of GDP, there was also an improvement in secondary income balance (comprising of remittances) compared to the previous quarter.
- The improvement in capital account in the first three quarters of FY24 has been driven by foreign portfolio flows, even as FDI flows continued to moderate for the third straight year. Data on banking capital suggests an increase in assets of commercial banks that includes foreign currency holdings – probably a reflection of central bank intervention in the FX market. The ‘other’ component includes leads and lags in exports receipts, and transactions not included elsewhere.

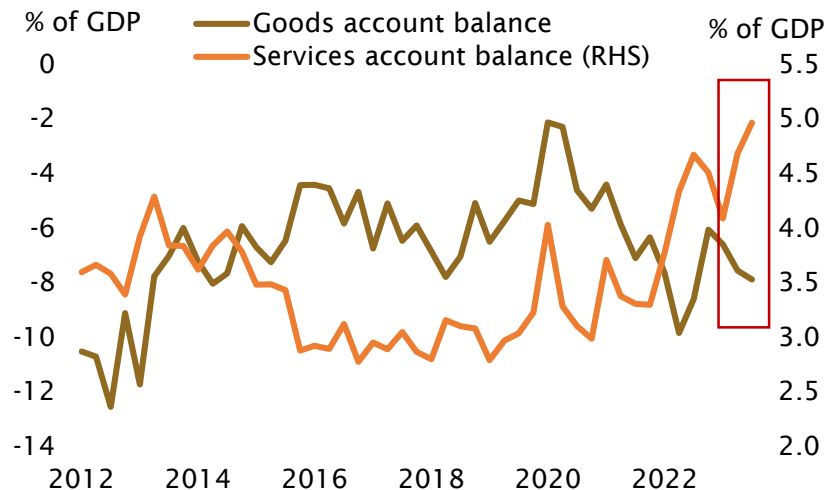
CAD remained below 2% for the fourth straight quarter



Capital account breakdown for first three quarters (Q1-Q3)



Services account surplus reached 5% of GDP in Q3-FY24

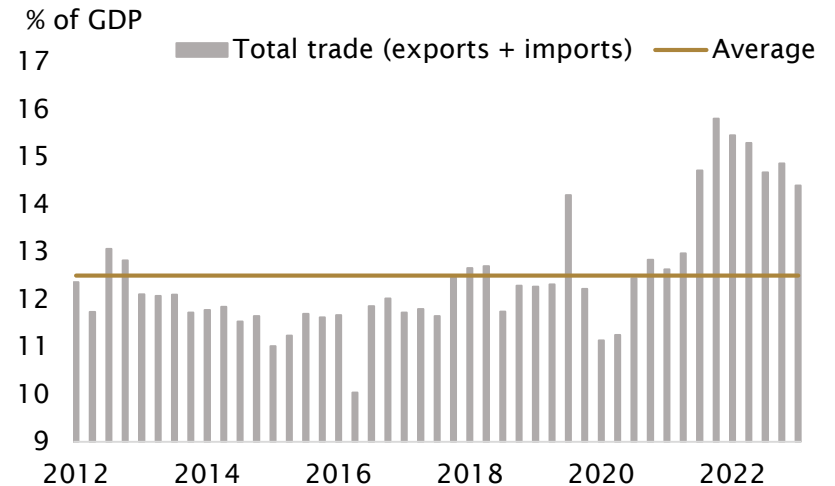




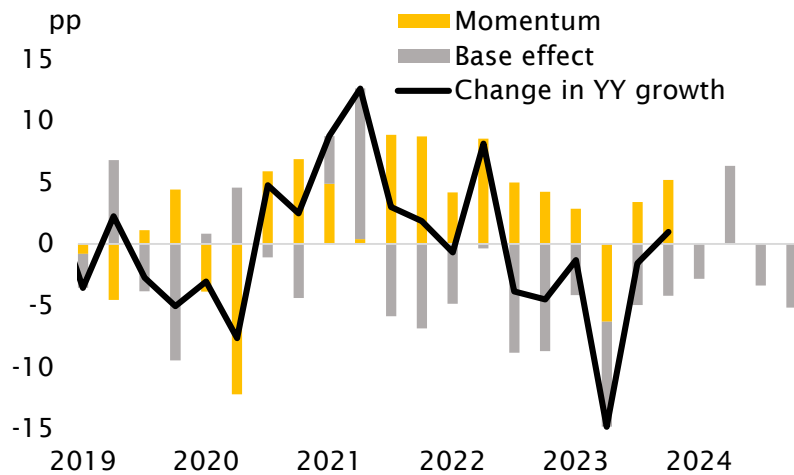
Moderation in services trade in recent quarters

- Though the support from services account surplus to overall current account balance has been a tailwind, there has been some moderation in trade after the post-pandemic recovery in services consumption peaked and is moving towards a normalizing trend.
- In technical terms, data in the coming quarters is unlikely to be supportive in terms of base effects, in case of both exports and imports, and any further improvement in services balance will largely hinge on momentum.

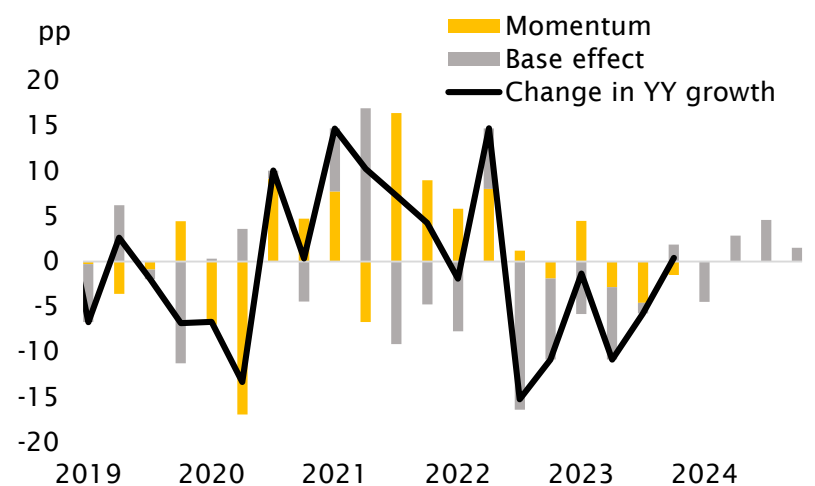
Trade in services has been moderating



Services exports



Services imports

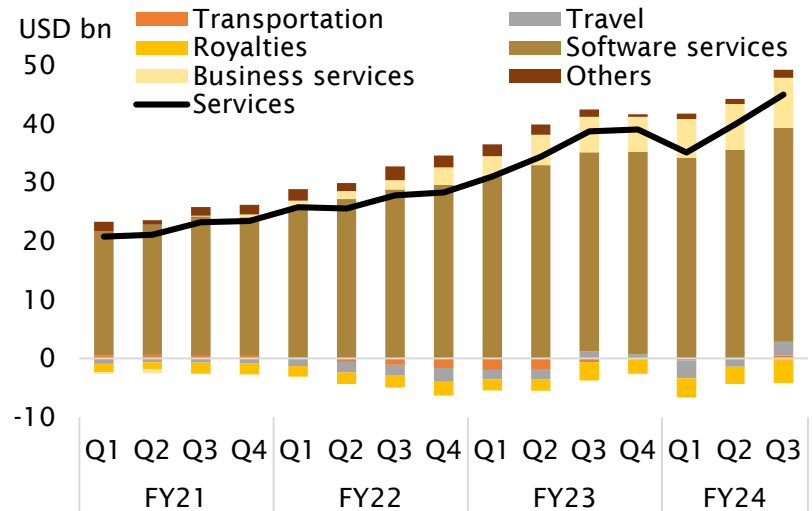




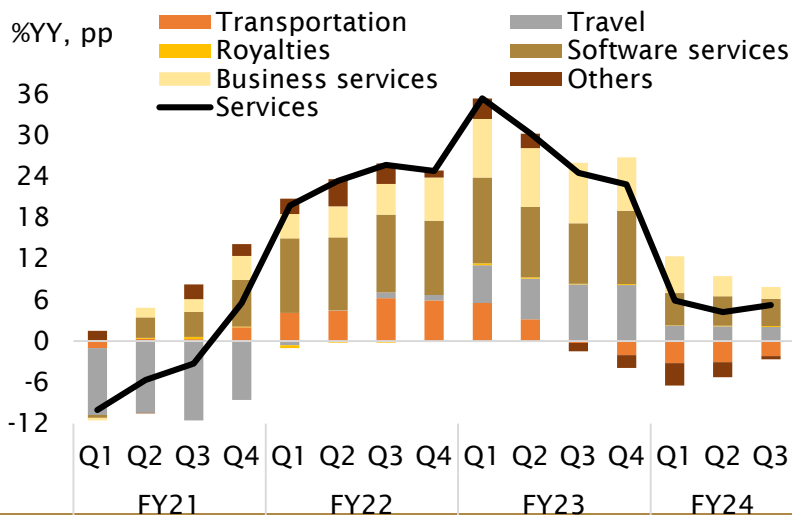
Notable easing in goods-related components of services trade

- With the easing of post-pandemic ‘revenge’ travel, there has been a marked slowdown in travel-related services exports and imports.
- The transportation component of services trade, with linkages to goods-trade, has been muted in recent quarters, due to the weak external environment pertaining to merchandise trade.
- The surplus on services account continues to be dominated by the software component that includes telecom, computer and information services.

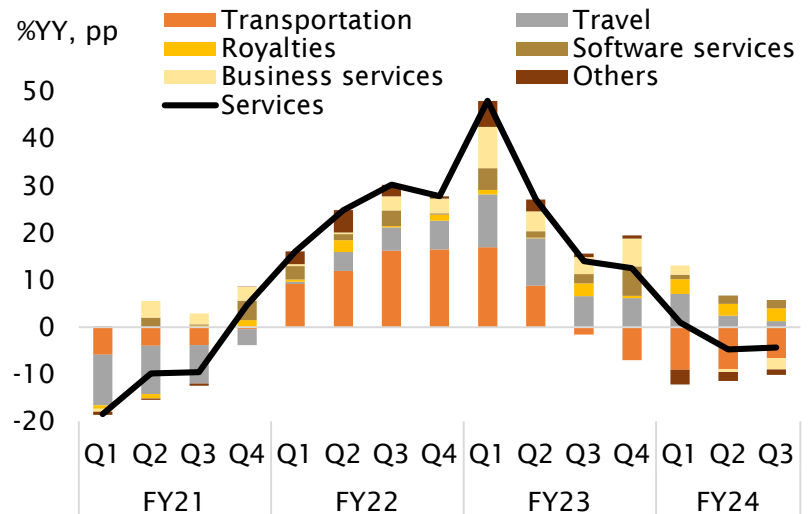
Services trade balance



Contribution to services exports growth



Contribution to services imports growth

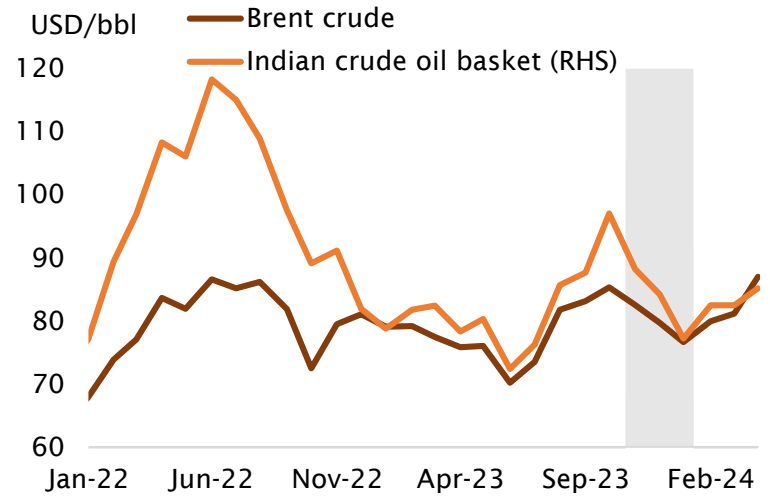




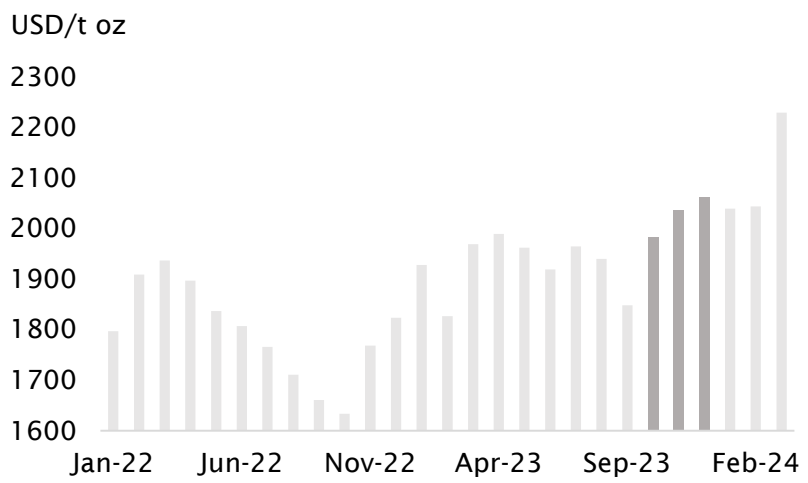
Softer commodity prices in Q3-FY24 supported lower CAD

- During Q3-FY23, both oil and non-oil global commodity prices were on a downward trend, thereby keeping the import bill contained.

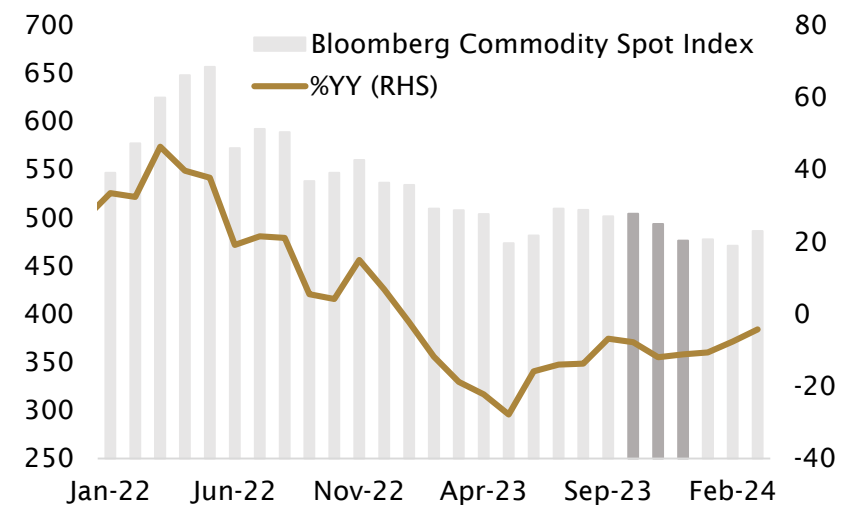
Crude



Gold



BBG commodity



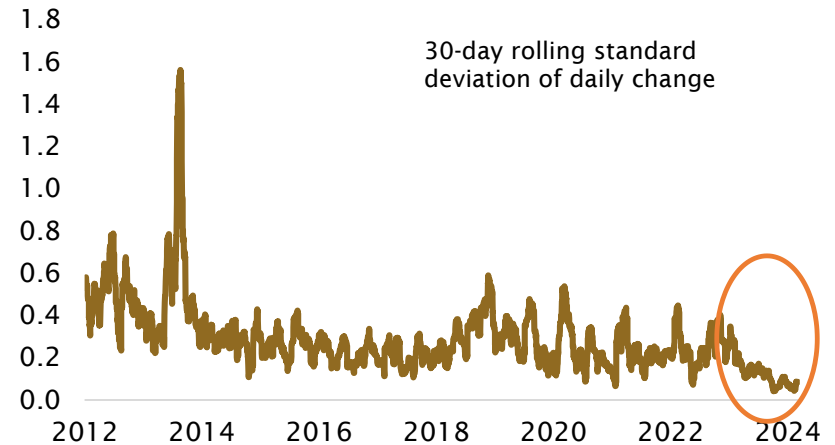


INR volatility remains low

- The Indian rupee was one of the best performing currencies relative to peers in FY24.
- The currency depreciated 1.5% against the USD in FY24, with the real effective exchange rate hovering close to the upper band of its long term average + 1SD.
- In FY25, the anticipated start of monetary policy easing by major central banks, crude oil prices, dollar and CNY movements will bear watching for their impact on INR.

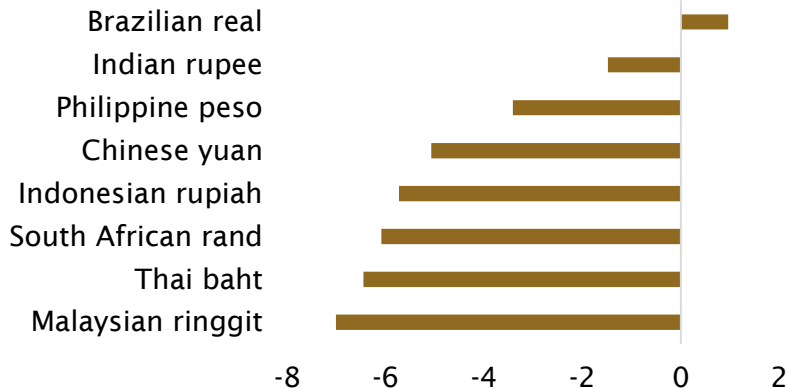
Volatility

Historical volatility - USDINR

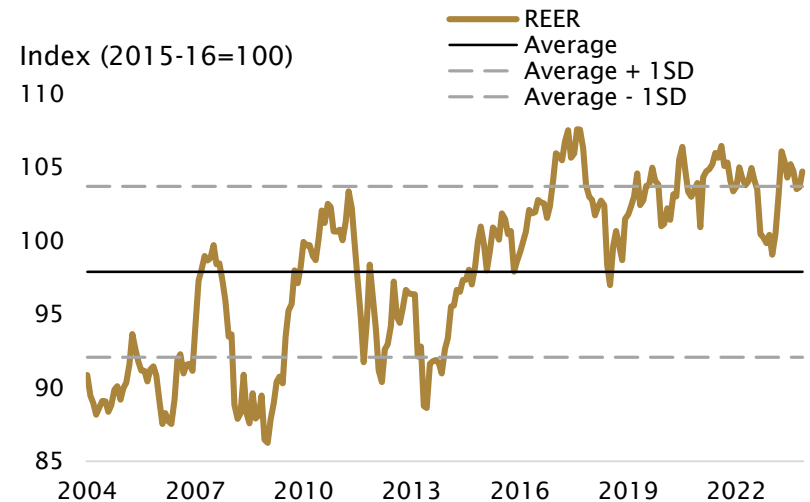


App/Dep vs other currencies

Percentage appreciation (+)/depreciation (-) against the USD in FY24



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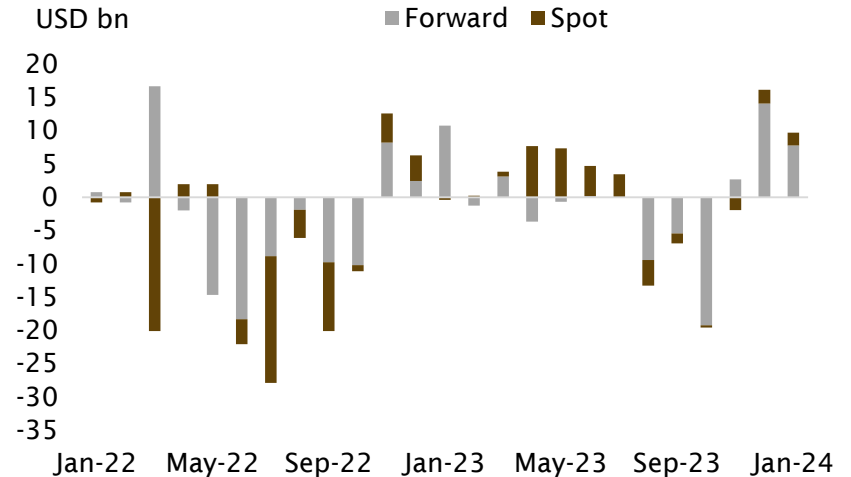




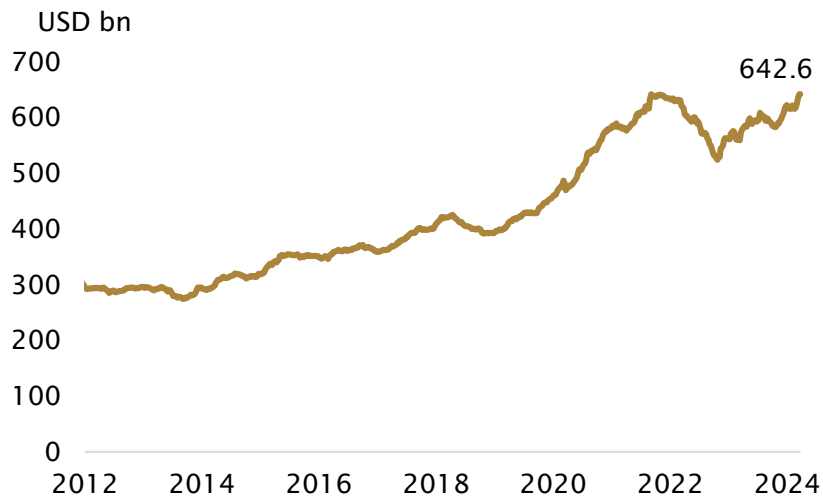
Active central bank intervention in forex market

- The RBI has been actively intervening in the forwards market, building positions on either sides, to contain volatility in the Indian rupee.
- In October, RBI's forward book slips into negative after more than three years, post which it has built up long positions in both the spot and forwards markets.
- As of March 22, foreign exchange reserves hit a new record high of USD642.6 billion.

Monthly intervention by RBI in FX market



FX reserves



Monthly intervention by RBI in FX market

(USD mn)	RBI gross sale \$	RBI gross purchase \$	RBI net purchase of \$	Outstanding forward sales (-)/purchase (+)
Jan-24	8,450	10,400	1,950	9,974
Dec-23	29,663	31,730	2,067	2,184
Nov-23	36,915	34,986	-1,929	-11,901
Oct-23	36,960	36,650	-310	-14,608
Sep-23	29,265	27,757	-1,508	4,642
Aug-23	4,356	500	-3,856	10,068
Last 12 months	1,61,716	1,82,185	20,469	



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