BALANCE OF PAYMENTS

30 September 2021

Current account in surplus in Q1FY22

India's current account surplus increased to 1% of GDP in Q1FY22 as trade deficit narrowed. Exports improved, while imports were lower on account of non-oil imports. Increase in foreign investment inflows, particularly FDI, lead to sharp rise in BoP surplus to US$ 31.9bn in Q1FY22 from US$ 3.4bn in Q4. Going forward, we expect a CAD of 0.7% of GDP (oil price at US$ 75/bbl). This implies a surplus of ~US$ 80bn which is positive for INR. We expect INR to trade in the range of 73-75/$ in FY22.

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Key highlights

- Current account surplus at 1% of GDP in Q1FY22 versus deficit of 1% of GDP in Q4FY21.
- In Q1FY22, capital account recorded a surplus of 4% of GDP following a surplus of 1.6% of GDP in Q4FY21.
- CAD to remain contained at 0.7% of GDP in FY22.

Current account records surplus: India's current account recorded a surplus of US$ 6.5bn (1% of GDP) in Q1FY22 compared with a deficit of US$ 8.2bn in Q4FY21 (1% of GDP). This was led by sharp reduction in trade deficit to US$ 30.7bn in Q1 from US$ 41.7bn in Q4. Exports rose at a faster pace (US$ 97.4bn in Q1 from US$ 91.3bn in Q4), while imports eased marginally (US$ 128.1bn in Q1 from US$ 133bn in Q4). Within imports, non-oil imports eased while oil imports rose. Net invisibles rose to US$ 37.2bn from US$ 33.6bn, led by improvement in services receipts (US$ 25.8bn from US$ 23.5bn). Transfers (remittances) remained stable at US$ 18.9bn in Q1 versus US$ 18.8bn in Q4.

BoP surplus expands further: BoP surplus expanded to US$ 31.9bn in Q1FY22 from US$ 3.4bn in Q4FY21 as FDI inflows picked up (US$ 11.9bn in Q1 versus US$ 2.7bn in Q4FY21). Banking capital inflows also turned positive for the first time in 8 quarters and rose to US$ 4.1bn compared with outflows of US$ 4.4bn in Q4. Short term credit picked up to US$ 1.9bn versus outflows of US$ 2.3bn in Q4. Inflows under other capital items also surged to US$ 6.3bn in Q1 (US$ 1bn outflows in Q4). On the other hand, FII inflows decelerated to US$ 0.4bn versus US$ 7.3bn in Q4. ECB inflows also moderated to US$ 0.9bn from US$ 6.1bn in Q4FY21.

CAD to remain manageable in FY22: India's current account returned to a surplus of 1% of GDP in Q1FY22 led by a dip in trade deficit. Imports softened as second wave of Covid-19 dented demand. Exports remained resilient. However, with a steady decline in Covid-19 cases since then and improvement in vaccination rates, imports are likely to see a turnaround. Higher oil prices are also likely to inflate the oil import bill. Even so, trade deficit is likely to remain contained at ~US$ 150bn in FY22 (US$ 102.2bn in FY21), supported by a pickup in exports. Services receipts are also likely to remain strong. FII inflows have picked up in Q2FY22, particularly in the debt segment. FDI inflows are also likely to pick up further. Thus, we expect a BoP surplus of ~US$ 80bn in FY22. This should support INR in the near-term. Higher oil prices remain a key risk to our view.

Fig 1 – BoP QUARTERLY ACCOUNT

(US$ bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Current account	**19.1**	**15.3**	**(2.2)**	**(8.2)**	**6.5**
CAD/GDP (%)	**3.7**	**2.4**	**(0.3)**	**(1.0)**	**1.0**
Trade balance	(11.0)	(14.8)	(34.6)	(41.7)	(30.7)
- Merchandise exports	52.2	75.6	77.2	91.3	97.4
- Merchandise imports	63.2	90.4	111.8	133.0	128.1
- Net Services	20.8	21.1	23.2	23.5	25.8
--Software	20.8	22.0	23.5	23.5	25.1
Transfers	17.0	18.4	19.3	18.8	18.9
Other invisibles	(7.7)	(9.4)	(10.1)	(8.7)	(7.5)
Capital account	**1.4**	**15.9**	**34.1**	**12.3**	**25.8**
% of GDP	**0.3**	**2.5**	**4.6**	**1.6**	**4.0**
Foreign investments	0.1	31.4	38.6	10.0	12.3
- FDI	(0.5)	24.4	17.4	2.7	11.9
- FII	0.6	7.0	21.2	7.3	0.4
Banking capital	2.2	(11.3)	(7.6)	(4.4)	4.1
Short-term credit	(0.2)	(1.8)	0.2	(2.3)	1.9
ECBs	(1.2)	(4.0)	(1.1)	6.1	0.9
External assistance	4.1	1.9	1.2	4.0	0.3
Other capital account items	(3.7)	(0.3)	2.8	(1.0)	6.3
E&O	(0.6)	0.4	0.6	(0.7)	(0.4)
Overall balance	**19.9**	**31.6**	**32.5**	**3.4**	**31.9**

Source: CEIC, Bank of Baroda Research

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