

BALANCE OF PAYMENTS

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BoP in surplus in Q4, to continue in FY20

Led by higher FPI and ECB inflows, India's BoP moved to a surplus of US\$ 14.2bn from a deficit of US\$ 4.3bn in Q3FY19. Lower imports too contributed. We expect this trend to continue in FY20 on the back of oil prices continuing below US\$ 70/bbl and muted imports as consumption has moderated from H2FY19 onwards. FPI inflows continue to be positive in Q1FY20 at US\$ 5.4bn. Global backdrop of lower growth will impact exports, but lower global interest rates and higher liquidity is positive for financing India's CAD. INR to remain stable.

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CAD narrows in Q4: India's CAD narrowed sharply to US\$ 4.6bn (0.7% of GDP) in Q4FY19 from US\$ 17.7bn (2.7% of GDP) in Q3FY19 led by decline in trade deficit to 4.9% of GDP in Q4 from 7.5% of GDP in Q3. A domestic slowdown and lower oil prices led to lower imports. Invisibles remained stable at US\$ 30.6bn compared with US\$ 31.5bn in Q3.

BoP surplus at US\$ 14.2bn in Q4: Led by a lower trade deficit and higher FPI and ECB inflows, BoP surplus in Q4 increased to US\$ 14.2bn. FII inflows increased to US\$ 9.4bn from an outflow of US\$ 2.1bn in Q3. Equity markets received higher inflows than debt. ECB inflows increased to US\$ 7.2bn in Q4 from US\$ 2bn in Q3. On the other hand, banking capital outflows were US\$ 8.1bn in Q4 compared with inflow of US\$ 4.9bn in Q3.

BoP surplus US\$ 20bn in FY20, CAD at 2.1% of GDP: While CAD was 0.7% in Q4, it was much higher at 2.1% of GDP in FY19 on the back of higher oil prices and thus oil imports in Apr-Dec'18. In addition, non-oil imports were also higher as domestic slowdown started in H2FY19 and thus led to lower non-oil-non-gold imports (9.3% in H1 versus 1.4% in H2). With non-oil-non-gold imports likely to remain muted and oil prices at US\$ 65/bbl, we expect trade deficit and CAD at US\$ 189.1bn and US\$ 62.4bn (2.1% of GDP) in FY20.

BoP was in deficit of US\$ 3.3bn in FY19 compared with a surplus of US\$ 43.6bn in FY18. The reversal is attributable to higher oil prices and FPI outflows. Now with oil prices below US\$ 70/bbl and FPI inflows resuming, we expect BoP surplus of US\$ 20bn in FY20. This implies that INR is likely to trade in the range of 68-70 to US\$.

KEY HIGHLIGHTS

- CAD narrows in Q4 to 0.7% of GDP from 2.7% of GDP in Q3.
- CAD widened on FY basis to 2.1% of GDP in FY19 from 1.8% in FY18.
- BoP surplus at US\$20bn in FY20, CAD to remain steady at 2.1% of GDP.



FIG 1 – BOP QUARTERLY ACCOUNT

(US\$ bn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Current account	(13.1)	(15.9)	(19.1)	(17.8)	(4.6)
CAD/GDP (%)	(1.9)	(2.4)	(2.9)	(2.7)	(0.7)
Trade balance	(41.6)	(45.8)	(50.0)	(49.3)	(35.2)
- Merchandise exports	82.2	83.4	83.4	83.1	87.4
- Merchandise imports	123.8	129.1	133.4	132.4	122.6
--Oil imports	33	34.7	35.2	34.7	32.4
--Non-oil imports	90.8	94.4	98.2	97.7	90.2
- Net Services	20.2	18.7	20.3	21.7	21.3
--Software	18.6	18.4	19.3	19.9	19.9
Transfers	16.2	17	19.3	17.4	16.2
Other invisibles	(7.8)	(5.8)	(8.7)	(7.6)	(6.9)
Capital account	25.1	5.0	16.7	13.8	19.2
% of GDP	3.6	0.8	2.6	2.1	2.7
Foreign investments	8.7	1.6	7.7	5.2	15.9
- FDI	6.4	9.8	7.5	7.3	6.4
- FII	2.3	(8.1)	0.2	(2.1)	9.4
Banking capital	4.6	10.1	0.5	4.9	(8.1)
Short-term credit	4.5	(3.5)	4.8	(0.7)	1.5
ECBs	1.0	(1.3)	2.2	2.0	7.2
External assistance	1.4	0.5	0	1.7	1.3
Other capital account items	4.8	(2.4)	1.5	0.7	1.2
E&O	1.3	(0.4)	0.5	(0.3)	(0.4)
Overall balance	13.3	(11.3)	(1.9)	(4.3)	14.2

Source: CEIC, Bank of Baroda Research

FIG 2 – BOP ANNUAL ACCOUNT

(US\$ bn)	FY16	FY17	FY18	FY19	FY20E
Current account	(22.1)	(14.3)	(48.7)	(57.3)	(62.4)
CAD/GDP (%)	(1.0)	(0.6)	(1.9)	(2.1)	(2.1)
Trade balance	(130.0)	(112.4)	(160.0)	(180.3)	(189.1)
- Merchandise exports	266.4	280.2	309.0	337.2	348.3
- Merchandise imports	396.4	392.6	469.0	517.5	537.4
--Oil imports	82.9	86.8	108.6	140.8	145.6
--Non-oil imports	313.5	305.8	360.4	376.7	391.8
- Net Services	69.7	68.3	77.6	81.9	84.0
--Software	71.5	70.8	72.2	77.7	80.0
Transfers	62.6	56	62.4	69.9	72.5
Other invisibles	(24.4)	(26.3)	(28.7)	(28.9)	(29.9)
Capital account	41.2	36.3	91.4	54.4	82.5
% of GDP	2.0	1.6	3.6	2.0	2.8
Foreign investments	31.9	43.2	52.4	30.1	53.0
- FDI	36.0	35.6	30.3	30.7	33.0
- FII	(4.1)	7.6	22.1	(0.6)	20.0
Banking capital	10.6	(16.6)	16.2	7.4	10.0
Short-term credit	16.1	(12.4)	9.7	2.0	5.0
ECBs	(1.6)	6.5	13.9	10.4	10.0
External assistance	(4.5)	(6.1)	(0.2)	3.4	3.5
Other capital account items	3.3	7.6	6.1	1.1	1.0
E&O	(1.1)	(0.5)	0.9	(0.5)	0.0
Overall balance	18.1	21.6	43.6	(3.3)	20.1

Source: CEIC, Bank of Baroda Research | E-Bank of Baroda Estimates

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