BALANCE OF PAYMENTS

30 June 2020

Current account turns surplus

After a span of 13 years, India reported a current account surplus. Lower non-oil imports, steady services income and lower investment payments are the reasons behind a surplus. On the capital flows, FPI outflows were balanced by higher FDI and ECB inflows. We expect the trend of higher FDI inflows and current account surplus to continue in FY21 as well as trade deficit will shrink further from US$ 158bn in FY20. However, remittance and software inflows will be lower. With BoP surplus of ~US$ 50bn in FY21, we remain positive on INR.

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Current account in surplus in Q4: India's current account registered a surplus of US$ 0.6bn in Q4FY20 versus a deficit of US$ 2.6bn in Q3. Lower trade deficit as well as improvement in net invisibles contributed to the surplus. Goods trade deficit narrowed to US$ 35bn from US$ 36bn in Q3 as non-oil imports fell. Within invisibles, other invisibles comprising of investment income payments dropped the most to US$ 4.8bn in Q4 from US$ 7.4bn in Q3. Remittances inflows eased by US$ 0.5bn in Q4 from Q3 levels.

BoP surplus at US$ 18.8bn in Q4: Despite a current account surplus and higher FDI/ ECB inflows, BoP surplus in Q4 eased to US$ 18.8bn from US$ 21.6bn in Q3. This was due to FII outflows of US$ 13.7bn in Q4 compared with inflows of US$ 7.8bn in Q3. FDI and ECB inflows however improved to US$ 12bn and US$ 9.4bn respectively. Inflows under 'other capital' or in other words FPIs' outstanding balances with custodian banks and pending issuance of shares by FDI companies surged to US$ 13.8bn in Q4. Banking capital outflows increased to US$ 4.6bn in Q4 from US$ 2.3bn in Q3.

BoP surplus expands in FY20 as CAD narrows to 0.9% of GDP: Overall, CAD narrowed sharply from US$ 57bn in FY19 to US$ 25bn in FY20 led by lower trade deficit (US$ 180bn to US$ 158bn in FY20). Surplus in invisibles at US$ 132bn also was supportive. A surge in FDI (US$ 43bn) and ECB inflows (US$ 23bn) also contributed positively. As a result, BoP surplus increased to a 12-year high at US$ 59.5bn in FY20 versus a decline of US$ 3.3bn in FY19.

While merchandise and services exports are expected to remain muted in the near-term, we expect a current account surplus in FY21 on the back of lower oil prices and muted domestic demand. However lower remittances receipts as well as FII outflows imply that BoP surplus will shrink marginally to ~US$ 50bn in FY21.

KEY HIGHLIGHTS

- Current account in surplus in Q4FY20 at US$ 0.6bn (0.1% of GDP).
- In FY20, CAD narrowed to 0.9% of GDP compared with 2.1% of GDP in FY19.
- BoP surplus also increased to US$ 59.5bn in FY20.

FIG 1 – BOP QUARTERLY ACCOUNT

(US$ bn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Current account	**(4.6)**	**(15.0)**	**(7.6)**	**(2.6)**	**0.6**
CAD/GDP (%)	**(0.7)**	**(2.1)**	**(1.1)**	**(0.4)**	**0.1**
Trade balance	(35.2)	(46.8)	(39.6)	(36.0)	(35.0)
- Merchandise exports	87.4	82.7	80	81.2	76.5
- Merchandise imports	122.6	129.5	119.6	117.3	111.6
--Oil imports	32.4	35.3	29.6	31.4	32.4
--Non-oil imports	90.2	94.2	90.0	85.9	79.2
- Net Services	21.3	20.1	20.4	21.4	22.4
--Software	19.9	21.0	21.1	21.5	21.1
Transfers	16.2	18.0	20.0	18.9	18.4
Other invisibles	(6.9)	(6.3)	(8.8)	(7.4)	(4.8)
Capital account	**19.2**	**28.7**	**13.6**	**23.6**	**17.4**
% of GDP	**2.7**	**4.1**	**1.9**	**3.3**	**2.4**
Foreign investments	15.9	18.8	9.8	17.6	(1.8)
- FDI	6.4	14.0	7.3	9.7	12
- FII	9.4	4.8	2.5	7.8	(13.7)
Banking capital	(8.1)	3.4	(1.8)	(2.3)	(4.6)
Short-term credit	1.5	2.0	(0.6)	(1.4)	(1.0)
ECBs	7.5	6.1	3.3	3.2	10.3
External assistance	1.3	1.5	0.4	1.3	0.6
Other capital account items	1.2	(3.1)	2.5	5.2	10.8
E&O	(0.4)	0.4	(0.9)	0.6	0.9
Overall balance	14.2	14.0	5.1	21.6	18.8

Source: CEIC, Bank of Baroda Research

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