BALANCE OF PAYMENTS

30 September 2019

CAD expands in Q1, but will moderate

Despite an increase in CAD to US$ 14.3bn in Q1 from US$ 4.6bn in Q4, India's BoP surplus remained stable at US$ 14bn. Higher FDI inflows and reduction in banking capital outflows explains this. Going ahead, we expect FDI inflows to remain resilient and trade deficit to moderate as domestic demand is subdued. Lower oil prices will also ensure decline in trade deficit in FY20 to US$ 170bn from US$ 180bn in FY19. The above backdrop is positive for INR and we expect it to remain in 70-72/$ range with an appreciation bias.

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CAD expands to 2% of GDP in Q1FY20: Led by a higher trade deficit, India's CAD expanded to US$ 14.3bn in Q1FY20 from US$ 4.6bn in Q4FY19. Trade deficit in Q1FY20 increased to US$ 46.2bn (6.6% of GDP) from US$ 35.2bn (4.9% of GDP) in Q4FY19 led by higher oil and gold imports. Merchandise exports too declined. Services receipts moderated from US$ 21.3bn in Q4FY19 to US$ 20bn in Q1FY20 even as software services receipts were higher. Remittances too rose to US$ 18bn compared with US$ 16.2bn in Q4.

BoP surplus at US$ 14.0bn in Q1FY20: BoP surplus remained stable at US$ 14bn in Q1FY20 versus US$ 14.2bn in Q4FY19. While trade deficit increased by US$ 11bn on a QoQ basis, sharp increase in FDI inflows at US$ 13.9bn (US$ 6.4bn in Q4) helped contain a depletion in FX reserves. Outflows on account of banking capital also moderated to US$ 3.9bn compared with US$ 8.1bn in Q4. On the other hand, FII and ECB inflows moderated. After touching an 8-quarter high at US$ 9.4bn in Q4, FII inflows slowed to US$ 4.8bn in Q1FY20, particularly in the equity segment. ECB inflows too rose by only US$ 6.4bn compared with US$ 7.5bn in Q4FY19.

BoP surplus US$ 33bn in FY20, CAD at 1.5% of GDP: Notwithstanding, the increase in CAD to 2% of GDP in Q1 from 0.7% of GDP in Q4, we expect CAD in FY20 to decrease to 1.5% of GDP in FY20 from 2.1% in FY19. This will be led by 1) lower oil prices (US$ 65/bbl in FY20 versus US$ 70 in FY19), 2) subdued domestic demand, 3) resilient services exports and 4) stable remittances. India may see a large increase in FDI inflows as visible in Q1. FII inflows have moderated in Q2 but given the spate of reforms announced by government, overall inflows are expected at US$ 10bn in FY20. The above backdrop implies INR is likely to remain in the range of 70-72 to the US$ with an appreciation bias. The key risk to our call remains 1) sharp increase in international oil prices and 2) Yuan depreciation.

KEY HIGHLIGHTS

- CAD widens to 2% of GDP in Q1FY20 from 0.7% of GDP in Q4FY19.
- BoP surplus at US$14bn in Q1FY20 led by FDI inflows.
- CAD to narrow to 1.5% of GDP in FY20. BoP surplus at US$ 33bn.

FIG 1 – BOP QUARTERLY ACCOUNT

(US$ bn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Current account	**(15.8)**	**(19.1)**	**(17.8)**	**(4.6)**	**(14.3)**
CAD/GDP (%)	**(2.3)**	**(2.9)**	**(2.7)**	**(0.7)**	**(2.0)**
Trade balance	(45.8)	(50.0)	(49.3)	(35.2)	(46.2)
- Merchandise exports	83.4	83.4	83.1	87.4	82.7
- Merchandise imports	129.1	133.4	132.4	122.6	128.9
--Oil imports	34.8	35.2	34.7	32.4	35.0
--Non-oil imports	94.3	98.2	97.7	90.2	93.9
- Net Services	18.7	20.3	21.7	21.3	20.0
--Software	18.6	19.3	19.9	19.9	21.0
Transfers	17.1	19.3	17.4	16.2	18.0
Other invisibles	(5.8)	(8.7)	(7.6)	(6.9)	(6.1)
Capital account	**4.8**	**16.7**	**13.8**	**19.2**	**27.9**
% of GDP	**0.7**	**2.6**	**2.1**	**2.7**	**4.0**
Foreign investments	1.4	7.7	5.2	15.9	18.7
- FDI	9.6	7.5	7.3	6.4	13.9
- FII	(8.1)	0.2	(2.1)	9.4	4.8
Banking capital	10.1	0.5	4.9	(8.1)	(3.9)
Short-term credit	(3.5)	4.8	(0.7)	1.5	2.0
ECBs	(1.3)	2.2	2.0	7.2	6.4
External assistance	0.5	0	1.7	1.3	1.5
Other capital account items	(2.4)	1.5	0.7	1.2	3.2
E&O	(0.3)	0.5	(0.3)	(0.4)	0.4
Overall balance	(11.3)	(1.9)	(4.3)	14.2	14.0

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)**	**(45.1)**
CAD/GDP (%)	**(1.0)**	**(0.6)**	**(1.9)**	**(2.1)**	**(1.5)**
Trade balance	(130.0)	(112.4)	(160.0)	(180.3)	(170.2)
- Merchandise exports	266.4	280.2	309.0	337.2	320.5
- Merchandise imports	396.4	392.6	469.0	517.5	490.7
--Oil imports	82.9	86.8	108.6	140.8	132.8
--Non-oil imports	313.5	305.8	360.4	376.7	357.9
- 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	71.0
Other invisibles	(24.4)	(26.3)	(28.7)	(28.9)	(29.9)
Capital account	**41.2**	**36.3**	**91.4**	**54.4**	**78.5**
% of GDP	**2.0**	**1.6**	**3.6**	**2.0**	**2.6**
Foreign investments	31.9	43.2	52.4	30.1	50.0
- FDI	36.0	35.6	30.3	30.7	40.0
- FII	(4.1)	7.6	22.1	(0.6)	10.0
Banking capital	10.6	(16.6)	16.2	7.4	7.5
Short-term credit	16.1	(12.4)	9.7	2.0	4.0
ECBs	(1.6)	6.5	13.9	10.4	12.5
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)	33.4

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

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