

BALANCE OF PAYMENTS

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Current account surplus expands

After reporting a current account surplus of US\$ 0.6bn in Q4, India reported a surplus of US\$ 19.8bn (3.9% of GDP) in Q1FY21 as imports fell more sharply than exports. Services income led by software services was relatively stable. However, capital account saw a sharp reduction to US\$ 0.6bn as FDI and ECB inflows dropped even as FPI inflows resumed and external assistance inflows increased. For FY21, we expect a current account surplus of 1.1% of GDP and a BoP surplus of US\$ 82.6bn. This should support INR in the near-term.

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Record current account surplus in Q1: India's current account registered a record surplus of US\$ 19.8bn in Q1FY21, compared with a surplus of US\$ 0.6bn in Q4FY20. Sharp reduction in imports relative to exports in Q1 contributed to the current account surplus. The invisible balance was lower on account of 7.7% QoQ decline in transfers and higher investment income outflows of US\$ 8.4bn in Q1 compared with US\$ 5.6bn in Q4. Income from software services was marginally lower at US\$ 20.8bn, (-) 1.7% QoQ.

Capital account surplus shrinks: Capital account surplus narrowed to US\$ 0.6bn in Q1FY21 from US\$ 17.4bn in Q4FY20. The decline can be explained by net FDI outflow of US\$ 0.4bn (inflow of US\$ 12bn in Q4) and ECB outflow of US\$ 1.6bn (inflow of US\$ 10.3bn in Q4). On the other hand, FPI inflows turned positive at US\$ 0.6bn in Q1FY21 compared with outflow of US\$ 13.7bn in Q4. External assistance and banking capital inflows were at US\$ 4.1bn and US\$ 2.2bn respectively compared with US\$ 0.6bn and (-) US\$ 4.6bn respectively in Q4.

BoP surplus to expand further: India's current account surplus rose to a historic high of 3.9% of GDP in Q1FY21 as trade deficit narrowed. We expect a current account surplus even in Q2 and Q3 followed by a deficit in Q4. This coincides with India's economic recovery. For FY21, we expect trade deficit to narrow to US\$ 98bn from US\$ 158bn in FY20. At the same time, invisible receipts have held up, particularly for software services and are expected to remain so. Along with FPI inflows even FDI inflows will pick-up thus driving a BoP surplus of more than US\$ 80bn in FY21 compared with US\$ 59.6bn in FY20. This should support INR in the near-term.

KEY HIGHLIGHTS

- Current account surplus expands to US\$ 19.8bn (3.9% of GDP) in Q1FY21.
- Trade deficit narrows sharply to US\$ 10bn in Q1FY21 from US\$ 35bn in Q4FY20.
- BoP surplus also increased to US\$ 19.9bn versus US\$ 18.8bn in Q4FY20.



FIG 1 – CURRENT ACCOUNT SUPLUS AT A RECORD HIGH IN Q1FY21

(US\$ bn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Current account	(15.0)	(7.6)	(2.6)	0.6	19.8
CAD/GDP (%)	(2.1)	(1.1)	(0.4)	0.1	3.9
Trade balance	(46.8)	(39.6)	(36.0)	(35.0)	(10.0)
- Merchandise exports	82.7	80.0	81.2	76.5	52.3
- Merchandise imports	129.5	119.6	117.3	111.6	62.3
--Oil imports	35.3	29.6	31.4	32.4	33.4
--Non-oil imports	94.2	90.0	85.9	79.2	28.9
- Net Services	20.1	20.9	21.9	22.0	20.5
--Software	21.0	21.1	21.5	21.1	20.8
Transfers	18.0	20.0	18.9	18.4	17.0
Other invisibles	(6.3)	(8.8)	(7.4)	(4.8)	(7.7)
Capital account	28.7	13.6	23.6	17.4	0.6
% of GDP	4.1	1.9	3.3	2.4	0.1
Foreign investments	18.8	9.8	17.6	(1.8)	0.2
- FDI	14.0	7.3	9.7	12.0	(0.4)
- FII	4.8	2.5	7.8	(13.7)	0.6
Banking capital	3.4	(1.8)	(2.3)	(4.6)	2.2
Short-term credit	2.0	(0.6)	(1.4)	(1.0)	(0.2)
ECBs	6.1	3.3	3.2	10.3	(1.6)
External assistance	1.5	0.4	1.3	0.6	4.1
Other capital account items	(3.1)	2.5	5.2	13.8	(4.2)
E&O	0.4	(0.9)	0.6	0.9	(0.5)
Overall balance	14.0	5.1	21.6	18.8	19.9

Source: CEIC, Bank of Baroda Research

FIG 2 – INDIA TO REPORT A CURRENT ACCOUNT SURPLUS IN FY21

(US\$ bn)	2017	2018	2019	2020	2021E
Current account	(14.3)	(48.7)	(57.3)	(25.3)	28.0
CAD/GDP (%)	(0.6)	(1.8)	(2.1)	(0.9)	1.1
Trade balance	(112.4)	(160.0)	(180.3)	(157.5)	(97.8)
- Merchandise exports	280.2	309.0	337.2	320.4	281.0
- Merchandise imports	392.6	469.0	517.5	477.9	378.8
--Oil imports	86.8	108.6	140.8	129.4	84.5
--Non-oil imports	305.8	360.4	376.7	348.5	292.8
- Net Services	68.3	77.6	81.9	84.3	85.5
Transfers	56.0	62.4	69.9	75.2	69.0
Other invisibles	(26.3)	(28.7)	(28.9)	(27.3)	(28.7)
Capital account	36.3	91.4	54.4	83.2	54.6
% of GDP	1.6	3.4	2.0	2.9	2.1
Foreign investments	43.2	52.4	30.1	44.4	50.5
- FDI	35.6	30.3	30.7	43.0	40.0
- FII	7.6	22.1	(0.6)	1.4	10.5
Banking capital	(16.6)	16.2	7.4	(5.3)	(0.8)
Short-term credit	6.5	13.9	2.0	(1.0)	(4.0)
ECBs	(6.1)	(0.2)	10.4	23.0	1.0
External assistance	2.0	2.9	3.4	3.8	8.0
Other capital account items	7.6	6.1	1.1	18.5	(0.2)
E&O	(0.5)	0.9	(0.5)	1.0	0.0
Overall balance	21.6	43.6	(3.3)	59.6	82.6

Source: CEIC, Bank of Baroda Research, E: Bank of Baroda Estimate

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