

BALANCE OF PAYMENTS

31 December 2020

External position remains favourable

With revival in economic activity in Q2FY21, current account surplus narrowed to US\$ 15.5bn (2.4% of GDP) from US\$ 19.2bn in Q1. Imports picked up, leading to higher trade deficit. Services income too rose, led by software services. Capital inflows saw a rebound with a surplus of US\$ 15.4bn in Q2, led by FDI inflows of US\$ 24.6bn in Q2. FII inflows increased in Q2 and Q3. In FY21, we expect a current account surplus of 1.5% of GDP and a BoP surplus of US\$ 130bn. A weaker US\$ and buoyant inflows are positive for INR.

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Current account surplus dips: India's current account surplus narrowed to US\$ 15.5bn in Q2FY21 from US\$ 19.2bn in Q1 led by a wider trade deficit of US\$ 14.8bn in Q2 (US\$ 10.8bn in Q1). This is explained by the underlying economic recovery in Q2 due to which imports reported QoQ increase of US\$ 27.3bn in Q2 at US\$ 90.4bn. On the other hand, exports rose by US\$23.2bn (QoQ) to US\$ 73.9bn in Q2. The invisible balance was broadly stable at US\$ 30.3bn versus US\$ 30bn in Q1. Increase in transfers (US\$ 18.4bn in Q2 from US\$ 17bn in Q1) and income from services (US\$ 21.2bn from US\$ 20.5bn) was offset by higher investment income outflows (US\$ 9.3bn versus US\$ 7.5bn).

Capital account surplus improves: After shrinking to US\$ 1.1bn in Q1FY21, current account surplus improved to US\$ 15.4bn in Q2 led by higher foreign inflows. FDI inflows registered a sharp turnaround and rose to US\$ 24.6bn in Q2FY21 from outflows of US\$ 0.8bn in Q1. FII inflows too accelerated to US\$ 7bn from US\$ 0.6bn in Q1. On the other hand, banking capital outflows were higher at US\$ 11.2bn in Q2 compared with inflows of US\$ 2.2bn in Q1. Short-term credit and ECB outflows increased. Overall BoP surplus expanded to US\$ 31.6bn in Q2FY21 from US\$ 19.9bn led by higher capital account surplus.

CAD at 1.5% of GDP in FY21: India's current account surplus moderated to 2.4% of GDP in Q2 from 3.8% of GDP as trade deficit rose. Even so, BoP surplus expanded led by foreign inflows. Imports are expected to perform better than exports in H2FY21 as economic activity picks up. With a trade deficit of US\$ 83.3bn in FY21 (US\$ 157.7bn in FY20), we estimate a current account surplus of 1.5% of GDP in FY21. Foreign inflows, particularly FII inflows have picked up in Q3 and are likely to remain buoyant. Invisible receipts are also expected to remain positive led by software services. Hence, BoP surplus in FY21 is likely to be at US\$ 130bn. This should support INR.

KEY HIGHLIGHTS

- Current account surplus moderated to US\$ 15.5bn (2.4% of GDP) in Q2FY21 from US\$ 19.2bn (3.8% of GDP).
- Trade deficit widens to US\$ 14.8bn in Q2FY21 from US\$ 10.8bn in Q1FY21.
- BoP surplus increased to US\$ 31.6bn from US\$ 19.9bn in Q1FY21.



FIG 1 – CURRENT ACCOUNT SUPLUS NARROWS IN Q2FY21, CAPITAL ACCOUNT SURPLUS EXPANDS

(US\$ bn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Current account	(7.6)	(2.6)	0.6	19.2	15.5
CAD/GDP (%)	(1.1)	(0.4)	0.1	3.8	2.4
Trade balance	(39.6)	(36.0)	(35.0)	(10.8)	(14.8)
- Merchandise exports	80.0	81.2	76.5	52.4	75.6
- Merchandise imports	119.6	117.3	111.6	63.1	90.4
- Net Services	20.9	21.9	22.0	20.5	21.2
-- Software	21.1	21.5	21.1	20.8	22.3
Transfers	20.0	18.9	18.4	17.0	18.4
Other invisibles	(8.8)	(7.4)	(4.8)	(7.5)	(9.3)
Capital account	13.6	23.6	17.4	1.1	15.4
% of GDP	1.9	3.3	2.4	0.2	2.4
Foreign investments	9.8	17.6	(1.8)	(0.2)	31.6
- FDI	7.3	9.7	12.0	(0.8)	24.6
- FII	2.5	7.8	(13.7)	0.6	7.0
Banking capital	(1.8)	(2.3)	(4.6)	2.2	(11.2)
Short-term credit	(0.6)	(1.4)	(1.0)	(0.2)	(1.8)
ECBs	3.3	3.2	10.3	(1.4)	(4.3)
External assistance	0.4	1.3	0.6	4.1	1.9
Other capital account items	2.5	5.2	13.8	(3.5)	(0.7)
E&O	(0.9)	0.6	0.9	(0.4)	0.6
Overall balance	5.1	21.6	18.8	19.9	31.6

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)	40.9
CAD/GDP (%)	(0.6)	(1.8)	(2.1)	(0.9)	1.5
Trade balance	(112.4)	(160.0)	(180.3)	(157.5)	(83.3)
- Merchandise exports	280.2	309.0	337.2	320.4	278.4
- Merchandise imports	392.6	469.0	517.5	477.9	361.8
--Oil imports	86.8	108.6	140.8	129.4	84.5
--Non-oil imports	305.8	360.4	376.7	348.5	277.3
- Net Services	68.3	77.6	81.9	84.3	85.7
Transfers	56.0	62.4	69.9	75.2	71.4
Other invisibles	(26.3)	(28.7)	(28.9)	(27.3)	(32.8)
Capital account	36.3	91.4	54.4	83.2	88.5
% of GDP	1.6	3.4	2.0	2.9	3.3
Foreign investments	43.2	52.4	30.1	44.4	92.0
- FDI	35.6	30.3	30.7	43.0	52.0
- FII	7.6	22.1	(0.6)	1.4	40.0
Banking capital	(16.6)	16.2	7.4	(5.3)	(7.8)
Short-term credit	6.5	13.9	2.0	(1.0)	(4.0)
ECBs	(6.1)	(0.2)	10.4	23.0	(2.2)
External assistance	2.0	2.9	3.4	3.8	12.0
Other capital account items	7.6	6.1	1.1	18.5	(1.4)
E&O	(0.5)	0.9	(0.5)	1.0	0.0
Overall balance	21.6	43.6	(3.3)	59.6	129.5

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

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