BALANCE OF PAYMENTS

31 March 2021

Rising imports drive current account to deficit

India's current account went back into deficit of US$ 1.7bn (-0.2% of GDP) from surplus of US$ 15.1bn (2.4% of GDP) in Q2. Non-oil imports increased to US$ 111.8bn in Q3 from US$ 90.4bn in Q2. Software exports (+ 9% YoY) rose. Still, BoP surplus increased to US$ 32.5bn (from US$ 31.6bn in Q2) due to FPI inflows of US$ 21.2bn in Q3. Normalisation of domestic economic activity and rising oil prices imply current account deficit will increase to 1.5% of GDP in FY22. This along with stronger US$ implies depreciation bias for INR.

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Current account moves to deficit: Led by wider trade deficit of US$ 34.5bn in Q3FY21 (US$ 14.8bn in Q2), India's current account slipped back to deficit of US$ 1.7bn in Q3FY21 (surplus of US$ 15.1bn in Q2FY21). Imports jumped to US$ 111.8bn (US$ 90.4bn in Q2FY21) led by sharp increase in non-oil imports as economic activity normalised. Exports too inched up, marginal increase of US$ 1.6bn (QoQ), to US$ 77.2bn in Q3. Net invisible receipts increased to US$ 32.8bn in Q3 from US$ 29.9bn in Q2 led by higher transfers (US$ 19.3 bn in Q3 from US$ 18.4bn in Q2) and income from services—software exports—US$ 23.4bn from US$ 22bn. Investment outflows on income side increased to US$ 10.1bn in Q3 from US$ 9.4bn in Q2.

Capital account surplus rises: Capital account surplus improved to US$ 33.5bn in Q3 from US$ 16.1bn in Q2. This was led by pick up in FPI inflows which rose to US$ 21.2 in Q3 from US$ 7bn in Q2. Equity inflows increased to US$19.8bn in Q3 compared with US$ 6.8bn in Q2. Banking capital outflows eased to US$ 7.6bn in Q3 from US$11.2bn outflows in Q2. The same was the case with ECB outflows which fell to US$ 1.2bn from US$ 3.9bn in Q2. Short-term credit picked up to US$ 0.2bn against outflow of US$ 1.8bn. Overall, BoP surplus expanded to US$ 32.5bn in Q3 compared with US$ 31.6bn in Q2.

Current account deficit at 1.5% in FY22: India's current account slipped in to deficit mode at 0.2% of GDP in Q3 as trade deficit widened. This trend is likely to continue as domestic economic activity is normalizing. Higher oil prices too will put upward pressure on imports. We estimate a current account surplus of 0.9% of GDP in FY21 and a deficit of 1.5% of GDP in FY22 (Oil at 65/bbl). Accordingly, BoP surplus will be much lower. This along with a strong dollar outlook implies mild depreciation on INR. Inclusion of India into global bond index may reverse the sentiment.

KEY HIGHLIGHTS

- Current account deficit at US$ 1.7bn (0.2% of GDP) in Q3FY21 from surplus of US$ 15.1bn (2.4% of GDP).
- Trade deficit widens to US$ 34.5bn in Q3FY21 from US$ 14.8bn in Q2FY21.
- BoP surplus increased to US$ 32.5bn from US$ 31.6bn in Q2FY21 led by FPI inflows.

FIG 1 – CURRENT ACCOUNT DEFICIT IN Q3FY21, CAPITAL ACCOUNT SURPLUS EXPANDS

(US$ bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Current account	**(2.6)**	**0.6**	**19.0**	**15.1**	**(1.7)**
CAD/GDP (%)	(0.4)	0.1	3.7	2.4	(0.2)
Trade balance	(36.0)	(35.0)	(10.8)	(14.8)	(34.5)
- Merchandise exports	81.2	76.5	52.4	75.6	77.2
- Merchandise imports	117.3	111.6	63.2	90.4	111.8
- Net Services	21.9	22.0	20.5	21.2	23.6
--Software	21.5	21.1	20.8	22.0	23.4
Transfers	18.9	18.4	17.0	18.4	19.3
Other invisibles	(7.4)	(4.8)	(7.6)	(9.4)	(10.1)
Capital account	**23.6**	**17.4**	**1.3**	**16.1**	**33.5**
% of GDP	**3.3**	**2.4**	**0.3**	**2.5**	**4.5**
Foreign investments	17.6	(1.8)	(0.2)	31.6	38.2
- FDI	9.7	12.0	(0.8)	24.6	17.0
- FII	7.8	(13.7)	0.6	7.0	21.2
Banking capital	(2.3)	(4.6)	2.2	(11.3)	(7.6)
Short-term credit	(1.4)	(1.0)	(0.2)	(1.8)	0.2
ECBs	3.2	10.3	(1.2)	(3.9)	(1.2)
External assistance	1.3	0.6	4.1	1.9	1.2
Other capital account items	5.2	13.8	(3.5)	(0.4)	2.8
E&O	0.6	0.9	(0.4)	0.4	0.7
Overall balance	**21.6**	**18.8**	**19.9**	**31.6**	**32.5**

Source: CEIC, Bank of Baroda Research

FIG 2 – CURRENT ACCOUNT DEFICIT AT 1.55 IN FY22

(US$ bn)	2018	2019	2020	2021E	2022E
Current account	**(48.7)**	**(57.3)**	**(24.7)**	**25.2**	**(44.7)**
CAD/GDP (%)	**(1.8)**	**(2.1)**	**(0.9)**	**0.9**	**(1.5)**
Trade balance	(160.0)	(180.3)	(157.5)	(102.2)	(180.7)
- Merchandise exports	309.0	337.2	320.4	288	330
- Merchandise imports	469.0	517.5	477.9	391	510
--Oil imports	108.6	140.8	129.4	82	145
--Non-oil imports	360.4	376.7	348.5	308	365
- Net Services	77.6	81.9	84.9	88	96
Transfers	62.4	69.9	75.2	74.2	76
Other invisibles	(28.7)	(28.9)	(27.3)	(35.1)	(36.0)
Capital account	91.4	54.4	83.2	81.5	67
% of GDP	**3.4**	**2.0**	**2.9**	**3.0**	**2.2**
Foreign investments	**52.4**	**30.1**	**44.4**	**89.3**	**62.0**
- FDI	30.3	30.7	43.0	54.0	48.0
- FII	22.1	(0.6)	1.4	35.3	14.0
Banking capital	16.2	7.4	(5.3)	(14.5)	(2.0)
Short-term credit	13.9	2.0	(1.0)	(2.8)	(2.0)
ECBs	(0.2)	10.4	23.0	(0.9)	6.0
External assistance	2.9	3.4	3.8	10.2	2.0
Other capital account items	6.1	1.1	18.5	0.2	1.0
E&O	0.9	(0.5)	1.0	0.0	1.0
Overall balance	**43.6**	**(3.3)**	**59.6**	**106.8**	**23.3**

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

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