

BALANCE OF PAYMENTS

30 June 2021

Rising oil prices=wider current account deficit

India's Current account deficit increased to 1% of GDP in Q4FY21 led by rising trade deficit. Foreign investment inflows too moderated leading to sharp reduction in BoP surplus to US\$ 3.4bn in Q4 from US\$ 32.5bn in Q3. However, in FY21, India managed to report a current account surplus of US\$ 23.9bn (0.9% of GDP) as imports shrank. Going forward, we expect a CAD of 1.5% of GDP (oil price at US\$ 75/bbl). This implies a modest BoP surplus. INR is likely to trade in a narrow band of 73-75/\$ in near-term.

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Current account deficit widens in Q4: India's current account deficit rose to US\$ 8.2bn in Q4FY21 (1% of GDP) from US\$ 2.2bn in Q3 (0.3% of GDP). This was led by an increase in trade deficit to US\$ 41.7bn in Q4 from US\$ 34.6bn in Q3. Imports rose at a faster pace (US\$ 133bn in Q4 from US\$ 112bn in Q3), led by higher oil and non-oil imports. Exports rose to US\$ 91bn in Q4 from US\$ 77bn in Q3. Net invisibles rose to US\$ 33.6bn from US\$ 32.4bn, led by stable services receipts (US\$ 23.5bn). Transfers (remittances) fell to US\$ 18.8bn in Q4 from US\$ 19.3bn in Q3.

BoP surplus shrinks in Q4: BoP surplus shrank to US\$ 3.4bn in Q4FY21 from US\$ 32.5bn in Q3FY21 led by sharp reduction in FDI inflows to US\$ 2.7bn in Q4 from US\$ 17.4bn in Q3. FII inflows also moderated to US\$ 7.3bn in Q4 from US\$ 21.2bn in Q3. While ECB inflows increased to US\$ 6.1bn, external assistance improved to US\$ 4bn and banking capital outflows decelerated to US\$ 4.4bn in Q4 respectively, drop in foreign investments was far larger at US\$ 28.6bn in Q4 (over Q3).

Current account surplus at 0.9% of GDP in FY21: India's current account recorded a surplus of US\$ 23.9bn (0.9% of GDP) in FY21 versus a deficit of US\$ 24.7bn (0.9% of GDP) in FY20. This was led by a lower trade deficit of US\$ 102bn at 3.8% of GDP (16-year low) from 5.5% of GDP in FY20. With India's GDP contracting by 7.3% in FY21, imports fell sharply. Exports did better as global economy fell by only 3.3% in 2020. Services receipts remained resilient. Capital account inflows narrowed to US\$ 63.8bn in FY21 from US\$ 83.2bn in FY20 on account of lower ECB inflows (-US\$ 0.1bn from US\$ 23bn) and banking capital outflows (US\$ 21.1bn from US\$ 5.3bn). Foreign investment inflows were higher. As a result, BoP surplus rose to its highest level since FY08 at US\$ 87.3bn in FY21 versus US\$ 59.6bn in FY20.

INR in 73-75/\$ range: For FY22, we expect current account deficit to range between US\$ 29.7bn (1% of GDP) or US\$ 46.3bn (1.5% of GDP) depending upon oil prices at US\$ 65/bbl or US\$ 75/bbl. Exports are likely to see a sharp improvement. So is the case with imports, as India's growth rebounds to 9.7% in FY22. BoP surplus in FY22 will be far lower at US\$ 20.7bn (US\$ 75/bbl). We expect INR to trade in a narrow band of 73-75/\$. Rising oil prices remain a key risk.

Key highlights

- Current account deficit at 1% of GDP in Q4FY21 versus 0.3% of GDP in Q3FY21.
- In FY21, current account recorded a surplus of 0.9% of GDP from a deficit of 0.9% of GDP in FY20.
- Rising oil prices imply wider current account deficit in FY22.



Fig 1 – BoP QUARTERLY ACCOUNT

(US\$ bn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Current account	0.6	19.1	15.3	(2.2)	(8.2)
CAD/GDP (%)	0.1	3.7	2.4	(0.3)	(1.0)
Trade balance	(35.0)	(11.0)	(14.8)	(34.6)	(41.7)
- Merchandise exports	76.5	52.2	75.6	77.2	91.3
- Merchandise imports	111.6	63.2	90.4	111.8	133.0
- Net Services	22.0	20.8	21.1	23.2	23.5
--Software	21.1	20.8	22.0	23.5	23.5
Transfers	18.4	17.0	18.4	19.3	18.8
Other invisibles	(4.8)	(7.7)	(9.4)	(10.1)	(8.7)
Capital account	17.4	1.4	15.9	34.1	12.3
% of GDP	2.4	0.3	2.5	4.6	1.6
Foreign investments	(1.8)	0.1	31.4	38.6	10.0
- FDI	12.0	(0.5)	24.4	17.4	2.7
- FII	(13.7)	0.6	7.0	21.2	7.3
Banking capital	(4.6)	2.2	(11.3)	(7.6)	(4.4)
Short-term credit	(1.0)	(0.2)	(1.8)	0.2	(2.3)
ECBs	10.3	(1.2)	(4.0)	(1.1)	6.1
External assistance	0.6	4.1	1.9	1.2	4.0
Other capital account items	13.8	(3.7)	(0.3)	2.8	(1.0)
E&O	0.9	(0.6)	0.4	0.6	(0.7)
Overall balance	18.8	19.9	31.6	32.5	3.4

Source: CEIC, Bank of Baroda Research

Fig 2 – BoP ANNUAL ACCOUNT

(US\$ bn)	FY18	FY19	FY20	FY21	FY22E Oil@65	FY22E Oil@75
Current account	(48.7)	(57.3)	(24.7)	23.9	(29.7)	(46.3)
CAD/GDP (%)	(1.8)	(2.1)	(0.9)	0.9	(1.0)	(1.5)
Trade balance	(160.0)	(180.3)	(157.5)	(102.2)	(155.7)	(172.3)
- Merchandise exports	309.0	337.2	320.4	296.3	372.6	378.3
- Merchandise imports	469.0	517.5	477.9	398.5	528.3	550.7
--Oil imports	108.6	140.8	129.4	82.5	145.1	167.5
--Non-oil imports	360.4	376.7	348.5	316.0	383.2	383.2
- Net Services	77.6	81.9	84.9	88.6	92.0	92.0
Transfers	62.4	69.9	75.2	73.5	75.0	75.0
Other invisibles	(28.7)	(28.9)	(27.3)	(36.0)	(41.0)	(41.0)
Capital account	91.4	54.4	83.2	63.8	67.0	67.0
% of GDP	3.4	2.0	2.9	2.4	2.2	2.2
Foreign investments	52.4	30.1	44.4	80.1	62.0	62.0
- FDI	30.3	30.7	43.0	44.0	48.0	48.0
- FII	22.1	(0.6)	1.4	36.1	14.0	14.0
Banking capital	16.2	7.4	(5.3)	(21.1)	(2.0)	(2.0)
Short-term credit	13.9	2.0	(1.0)	(4.1)	(2.0)	(2.0)
ECBs	(0.2)	10.4	23.0	(0.1)	6.0	6.0
External assistance	2.9	3.4	3.8	11.2	2.0	2.0
Other capital account items	6.1	1.1	18.5	(2.1)	1.0	1.0
E&O	0.9	(0.5)	1.0	(0.4)	0.0	0.0
Overall balance	43.6	(3.3)	59.6	87.3	37.3	20.7

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

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