CAD likely to narrow below 1% in FY24

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India's current account deficit (CAD) is expected to narrow to less than 1 per cent of gross domestic product (GDP) in FY24 due to contained goods trade deficit, improved net services receipts, increased remittances and macroeconomic stability, a report by UBS Securities said.

"Heading into FY25, we estimate that CAD will modestly increase to 1.3 per cent of GDP. We estimate that India can sustain global crude oil prices up to $90/bbl, all else remaining unchanged. But, lower the oil price goes, the better it would be for India," said Tanvee Gupta Jain, UBS India Economist.

CAD implies the country is importing more goods and services in value than exports. The country could also be in current account surplus if the value of exports exceeds imports. According to Reserve Bank of India (RBI) data, India's CAD narrowed sequentially to $8.3 billion, or 1 per cent of GDP, in the quarter ended September (Q2 FY24). This is due to lower merchandise trade deficit and growth in services exports.

In recent years, CAD has not breached the sustainable range of 2.2-2.5 per cent of GDP, due to additional buffers created by higher services trade surplus and buoyant remittance flow, the UBS report said. It added that despite the buffers, India remains vulnerable to high global oil prices.

A report by IDFC First Bank also revised downwards the FY24 CAD estimates to 1 per cent of GDP from 1.2 per cent due to stronger-than-expected services surplus.

FORECAST

Current account deficit in FY24

Less than 1%: UBS
1%: IDFC First Bank
1.1%: Elara Global Research

"The reduction in FY24 CAD indicates that domestic savings have likely risen to 30.5 per cent of GDP from 29.1 per cent in FY23, reflecting higher household savings and private corporate savings," IDFC's report said.

Elara Global Research, too, has revised FY24 estimated CAD to 1.1 per cent from 1.3 per cent earlier, considering emerging trends in both merchandise and services exports and imports.

It noted that the merchandise trade deficit in January 2024 narrowed to its lowest levels this financial year amid sharp sequential decline in non-oil and non-gold imports. The report, however, has flagged risks to supply chains due to geopolitical crisis, which may hit merchandise exports. "For FY25E, we retain the CAD estimate at 1.4 per cent," Elara Global Research said. UBS has also revised its India GDP forecast for FY25 to 7 per cent in its latest report compared to 6.2 per cent in November 2023.