

# Services trade surplus hits record \$44.9 bn in Dec qtr

Grew 16% over a year earlier; current account deficit likely to reduce

ASIT RANJAN MISHRA  
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India's services trade surplus shot up to a record \$44.9 billion in the October-December quarter (third quarter, or Q3) of 2023-24 (FY24), growing 16 per cent year-on-year, showing resilience amid strong global headwinds. This is likely to reduce the current account deficit (CAD) in Q3.

According to the Reserve Bank of India (RBI) data, services exports grew 5.2 per cent to \$87.7 billion during Q3, while services imports contracted 4.3 per cent to \$42.8 billion during the same period.

India's CAD moderated to 1 per cent of gross domestic product (GDP) in the first half (April-September) of FY24 from 2.9 per cent of GDP during the same period of 2022-23 (FY23), on the back of a lower merchandise trade deficit and higher net services receipts.

Fitch Ratings has projected CAD to narrow to 1.4 per cent of GDP in FY24 and 2024-25 from 2 per cent of GDP in FY23.

IDFC Bank has revised downward its CAD estimate to 1.2 per cent of GDP from 1.5 per cent,



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incorporating a higher monthly services surplus.

In the Economic Review released ahead of the Interim Budget, the finance ministry last month said services exports, with a compound annual growth rate (CAGR) of 7.1 per cent during 2011-12 through FY23, combined with the CAGR of remittances of 4.5 per cent during the same period, enabled India's current account balance to remain within a comfortable range.

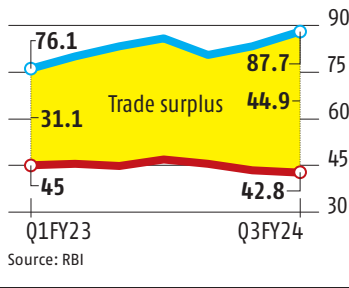
India's services exports range from information technology to services provided by doctors and nurses abroad.

While the RBI doesn't release

## RIDING THE WAVE

Services trade (\$ bn)

Exports Imports



Source: RBI

monthly disaggregated services exports data, its classification of services exports released quarterly with balance of payment data includes transport, travel, construction, insurance and pensions, financial services, telecommunications, computer and information services, and personal, cultural and recreational services, and other business services.

While software exports dominate India's services exports, "other business services" exports that primarily include global capability centres (GCCs) have seen a strong ramp-up recently, accounting for 26.4 per cent of the total services exports in the first

half (April-September) of FY24, from 19 per cent in 2013-14.

The Economic Review said GCCs account for more than 1 per cent of India's GDP, imparting resilience to India's services exports.

"The sharp increase in business services exports is also linked to the sudden proliferation of GCCs in India. The availability of a highly skilled workforce capable of research and innovation, using high-end technology, and possessing managerial skills has led to the setting up of GCC in India to support the conglomerates in significant corporate functions. This, together with vastly improved digital and physical infrastructure, imparts a competitive edge to India as a favoured destination for GCCs," it added.

Through GCC and other business services, India also exports professional business services composed of research and development, management consulting and public relations, and engineering services, among others.

Increased demand for digitisation and preference for online delivery of services after the outbreak of the pandemic also encouraged the export of business services.