CAD narrowed to 1.2% of GDP in Q3

Services exports grew due to rising software exports, business, travel services

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The current account deficit (CAD) narrowed sequentially to $10.5 billion in the quarter ended December 2023 (Q3 FY24) — 1.2 per cent of gross domestic product (GDP) — from $11.4 billion in Q2 FY24 (1.3 per cent of GDP).

The deficit was also down from $16.8 billion or 2 per cent of GDP in the year-ago period (Q3 FY23).

Reserve Bank of India (RBI) data showed that the rise in net services receipts more than compensated for a slight rise in merchandise trade deficit in Q3 FY24. This helped cushion the CAD.

Services exports grew by 5.2 per cent year-on-year (Y-o-Y) on the back of rising exports of software, business and travel services.

"The CAD narrowed in the quarter despite a wider merchandise trade deficit, cushioned by a record high services trade surplus and secondary income," Barclays said in the note.

"Positive foreign direct investment (FDI) and foreign portfolio investment (FPI) flows kept the balance of payments (BoP) in surplus. We expect current account financing needs to remain manageable this financial year and next," it added.

The merchandise trade deficit was at $71.6 billion in Q3 FY24 compared to $71.3 billion a year ago.

Net services receipts rose to $45 billion in Q3 from $38.7 billion in Q3 of last year, RBI said in a statement.

Madan Sabnavis, chief economist, Bank of Baroda, said services exports are doing well and global commodity prices have softened Y-o-Y. This has helped reduce the CAD during the third quarter. The trend is expected to continue for the current quarter (Q4 FY24) also.

Net outgo from the primary income account, mainly reflecting payments of investment income, increased to $13.2 billion in the December 2023 quarter, from $12.7 billion a year ago.

Private transfer receipts, representing mainly remittances from Indians employed overseas, amounted to $31.4 billion, an increase of 2.1 per cent Y-o-Y, RBI said.

INDIA'S CURRENT ACCOUNT BALANCE PROFILE

(in $ bn)	Q3FY23	Q3FY24
Current Account Balance	-16.8	-10.5
Current Account Balance as % of GDP	-2%	-1.20%
Goods	-71.3	-71.6
Services	38.7	45
Primary income	-12.7	-13.2
Secondary income	28.5	29.3

Note : – denotes deficit
Source: RBI

As for the BoP position in Q3 FY24, there was an accretion of $6 billion to the reserves. This is lower than the $11.1 billion in the year-ago period.

For April-December 2023, the country's CAD moderated to 1.2 per cent of GDP, against 2.6 per cent of GDP in the same period of the previous year, on the back of a lower merchandise trade deficit, RBI said.

Net invisible receipts were higher in the first nine months of FY24, on account of services and transfers.

As for the BoP position in April-December 2023, there was accretion of $32.9 billion, against depletion of $14.7 billion in the year-ago period, the RBI said.

According to Radhika Rao, senior economist, DBS Bank, the FY24 full-year CAD may narrow to -0.8 per cent of GDP. This compares to the previous forecast of -1.5 per cent of GDP.

For FY25 current account, the Singapore-based bank has estimated a slower rise in services exports and a wider goods deficit on post-election pick-up in capital imports, leaving the CAD at -1.1 per cent of GDP.