CAD in Q4 narrows to 0.2% of GDP

For FY23, it widens to 2% of GDP against 1.2% in FY22

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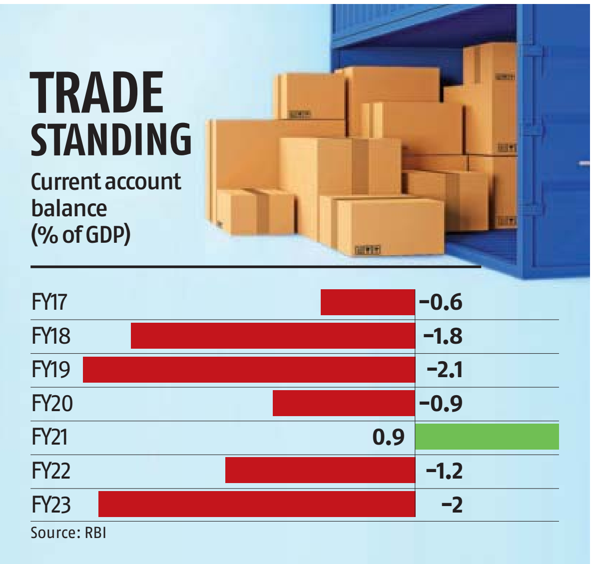

India's current account deficit (CAD) declined sequentially to 0.2 per cent of gross domestic product (GDP) in the March 2023 quarter (Q4 of FY23) from 2 per cent of GDP in the December quarter of FY23. This was mainly due to a moderation in the trade deficit, coupled with robust services exports.

CAD was also lower in Q4 of FY23 compared to 1.6 per cent of GDP in the March 2022 quarter (Q4 of FY22), according to Reserve Bank of India (RBI) data.

The CAD widened to 2 per cent of GDP in FY23 compared to 1.2 per cent in FY22. This came as an uptick in merchandise imports due to higher global commodity prices led to the widening of merchandise trade deficit, RBI said.

Referring to the quarterly deficit, Barclays, in a research report, said, "The CAD (in March quarter) printed a tad higher than expected (our expectation was for a small surplus) due to a slightly higher goods deficit, a lower-than-expected services trade surplus and secondary income." Net services receipts increased, both sequentially and on a year-on-year (YoY) basis, on the back of a rise in net earnings from computer services.

Private transfer receipts, mainly representing remittances by Indians employed overseas, increased to $28.6 billion, up by 20.8 per cent from their level a year ago, the RBI added.

Merchandise trade deficit in FY23 expanded to $265.3 billion against $189.5 billion in FY22 as economic downturn in India's key markets adversely impacted exports while higher commodity prices kept imports high.

Net services exports grew by a robust 33.3 per cent to $143.3 billion in FY23. Workers' remittances by overseas Indians remained robust at $71 billion during the fiscal year.

Rajani Sinha, chief economist at CARE Ratings, said she expects the muted performance in merchandise exports to continue in FY24. "While services exports and remittances have stayed resilient in FY23, we remain cautious on this front given the uncertain global growth scenario. There has been some moderation in services exports in the first two months of the current fiscal year, but we have to watch the trend. Overall, we project an improvement in the CAD to 1.6 per cent of GDP in FY24 supported by an improvement in India's current account position," she added.

In the financial account, while net foreign direct investment (FDI) inflows declined 27.5 per cent to $28 billion, net FPI outflows were $5.2 billion in FY23 compared with outflows of $16.8 billion a year ago.

Net external commercial borrowings (ECBs) to India saw an outflow of $4.1 billion in FY23 against an inflow of $7.4 billion in FY22. In FY23, there was a depletion of $9.1 billion in the foreign exchange reserves.

Madan Sabnavis, chief economist at Bank of Baroda, said a combination of lower CAD and stable or lower capital account will keep the rupee largely stable.

"We believe that the rupee/dollar rate will hover around 82 to begin with and then tend to appreciate towards 81/$ in the absence of any global commodity price shock," he added.

Barclays, in its report, said the current account dynamics are expected to improve, on average, in FY24.

"We forecast the CAD to print lower in FY24: both export and import values are expected to soften owing to weak external demand and lower international commodity prices. This will lead to a narrower goods trade deficit compared to the previous fiscal year. We think a larger boost to the current account balance will come from a robust services trade surplus. We thus expect the CAD to print around $40 billion (1.1 per cent of GDP) in FY23-24, and increase only modestly to 1.2 per cent of GDP in FY24-25," it added.