CAD in Q1 widens to 1.1% of GDP on higher trade deficit

Rising oil prices may push it up further in Q2

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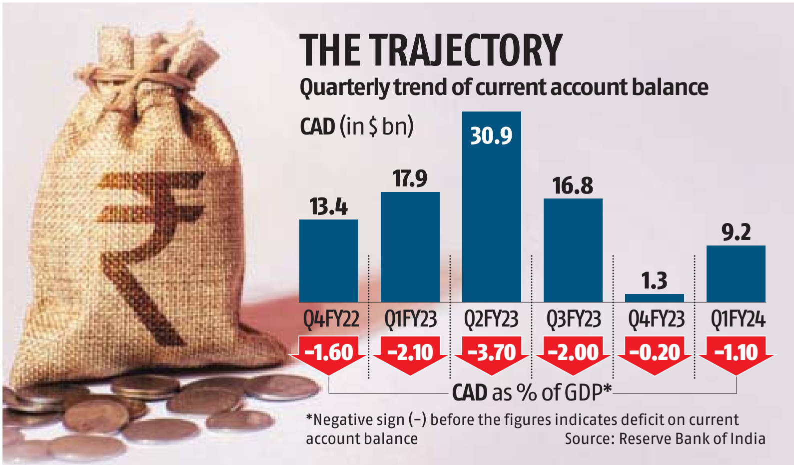

India's current account deficit (CAD) widened sequentially to $9.2 billion in the April-June quarter (Q1) of 2023-24 (FY24), accounting for 1.1 per cent of the gross domestic product (GDP).

This is an increase from $1.3 billion in the fourth quarter (Q4) of 2022-23 (FY23), which represented 0.2 per cent of GDP. In the year-ago period, CAD was $17.9 billion, or 2.1 per cent of GDP.

The widening of CAD quarter-on-quarter was primarily due to a higher trade deficit, reduced surplus in net services, and decrease in private transfer receipts, the Reserve Bank of India (RBI) said in a statement. Trade deficit increased sequentially to $56.6 billion in Q1FY24, up from $52.6 billion in Q4FY23.

Aditi Nayar, chief economist at ICRA, mentioned that CAD fell short of the rating agency's forecast, driven by a healthier-than-anticipated merchandise trade balance, notwithstanding smaller-than-expected surpluses in services trade and secondary income balances.

The average merchandise trade deficit has risen in July-August compared to Q1FY24 levels. With the recent increase in crude oil prices, CAD is estimated to widen sequentially to $19-21 billion (minus 2.3 per cent of GDP) in the second quarter, according to Nayar.

Net services receipts decreased sequentially, mainly due to a decline in exports of computer, travel, and business services, although they remained higher year-on-year (Y-o-Y).

The RBI reported that private transfer receipts, primarily representing remittances from Indians employed overseas, moderated to $27.1 billion in Q1FY24 from $28.6 billion in Q4FY23 but saw an increase Y-o-Y.

The net outgo on the income account, primarily reflecting investment payments, decreased to $10.6 billion in Q1FY24 from $12.6 billion in Q4FY23, though it was higher than a year ago.

Net foreign portfolio investment recorded inflows of $15.7 billion in Q1FY24, compared to net outflows of $14.6 billion in Q1FY23.

Additionally, net external commercial borrowings to India recorded an inflow of $5.6 billion in Q1FY24, as opposed to an outflow of $2.9 billion a year ago.

In Q1FY24, concerning the balance of payments (BoP) position, there was an accretion of $24.4 billion to reserves, which contrasts with an accretion of $4.6 billion in the same period last year.

Regarding the unfolding situation on the current account and BoP front, Madan Sabnavis, chief economist at Bank of Baroda, has mentioned that the trade deficit will face pressure due to higher oil prices.

CAD is expected to be in the range of 1.5-1.8 per cent of GDP for the current financial year (FY24), but it will depend significantly on oil economics.

RBI data indicates that CAD was 2.2 per cent of GDP for FY23.