

Q3FY24 CAD eased to 1.2% of GDP post data revisions in Q2

- India's Q3 FY24 CAD narrowed to USD 10.5bn (1.2% of GDP) from USD 11.4bn (1.3% of GDP) in Q2. Despite widening of trade deficit q/q, CAD narrowed on account of record high services exports and remittances flows.
- Q2 CAD numbers were revised higher from USD 7.1bn previously, on data revisions primarily in merchandise imports.

BoP stays in surplus, yet “other capital outflows” spring a surprise

- Capital flows picked up in Q3 led by pickup in foreign investment and banking capital flows while loans sub-segment switched back to outflows. . FDI switched to net inflow of USD 4.2bn vs USD 0.6 bn in Q2 while FII more than doubled q/q.
- Meanwhile, we were surprised by record “other capital” outflows of USD 11.7bn in Q3. This in our view was the key factor restricting BoP surplus to USD 6bn in Q3, despite our double-digit estimate of reserves adjusted for valuation effects (good BoP proxy) for Q3. It probably signals a large sterilised intervention to limit FX pressures in Q3.

FY24 CAD expected at 0.7% of GDP with BoP surplus of c.USD 50bn

- Q1-Q3 CAD has clocked 1.2% of GDP while it is expected to switch to a surplus in Q4 as seasonal narrowing in goods deficit has been funded by strong remittances & services exports flows. Hence, we expect full year CAD at 0.7% of GDP.
- Meanwhile, BoP is estimated at USD 47.9bn with reserves adjusted for valuation effects signaling a surplus of c.USD 15bn vs USD 32.9bn during Q1-Q3.
- Going forward, we expect a repeat of c.USD 50bn BoP surplus in FY25 with CAD expected to remain comfortable at 0.9% of GDP assuming average oil price at c.USD 85/bbl and on rise in capital flows led by index inclusion of bonds.

USD bn	Jun-23	Sep-23	Dec-23	FY23	FY24E	FY25F
Exports	104.9	108.3	106.7	456.1	439.6	414.8
%y/y	-14.5%	-3.2%	1.0%	6.3%	-3.6%	-5.6%
Imports	161.6	172.8	178.3	721.4	687.3	665.0
%y/y	-13.0%	-9.1%	0.7%	16.6%	-4.7%	-3.2%
Trade balance	-56.7	-64.5	-71.6	-265.3	-247.7	-250.2
Invisibles	47.6	53.1	61.1	198.2	221.8	212.7
<i>Services</i>	35.1	39.9	45.0	143.3	166.1	166.1
<i>Transfer</i>	22.8	24.9	29.3	100.9	102.1	93.0
<i>Income</i>	-10.4	-11.8	-13.2	-45.9	-46.4	-46.4
Current account	-9.1	-11.4	-10.5	-67.1	-26.0	-37.5
Foreign investment	20.7	4.3	16.2	22.8	49.2	65.0
<i>FDI</i>	4.9	-0.6	4.2	28.0	12.5	25.0
<i>FII</i>	15.7	4.9	12.0	-5.2	36.7	40.0
Loans	2.2	3.3	-3.5	8.3	-1.9	14.0
<i>ECB</i>	5.8	-2.9	-4.4	-3.8	-4.6	4.0
<i>Short-term credit</i>	-5.0	5.4	-2.3	6.5	-3.8	6.0
Banking capital	12.9	4.3	16.4	21.0	51.2	10.0
Other capital	-1.5	1.1	-11.7	6.9	-23.8	0.0
Capital account	34.3	13.0	17.4	58.9	74.6	89.0
Net errors & omissions	-0.8	0.9	-0.8	-1.0	-1.6	0.0
Overall balance	24.4	2.5	6.0	-9.1	47.9	51.5

Source: CEIC, UBI research

Thank you!

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