

Developments in India's BoP in FY23

India's CAD widened to -2% of GDP in FY23 from -1.2% of GDP in FY22. Uptick in merchandise imports due to higher global commodity prices led to the widening of trade deficit. This was offset to some extent by resurgent services exports as well as remittances. On a sequential basis, CAD moderated to 0.2% of GDP in Q4FY23 from 2% of GDP in Q3FY23. We expect further improvement on the back of lower commodity prices. Merchandise exports are expected to remain downbeat as global growth weakens. Overall, we expect CAD in the range of 1.2% to 1.6% of GDP in FY24.

Current account: India's current account deficit (CAD) increased to US\$ 67.1bn in FY23 from US\$ 38.7bn in FY22. This translates into a CAD of -2% of GDP in FY23 versus -1.2% of GDP in FY22. Trade deficit increased to a record high of US\$ 265.3bn in FY23 (7.8% of GDP) from US\$ 189.5bn in FY22 (6% of GDP), as imports increased sharply by 16.6% in FY23.

In contrast, merchandise exports rose by only 6.3%. Support came from the surplus in invisibles account which improved to US\$ 198.2bn, primarily led by services (US\$ 143.3bn). Within services, exports of software services increased to US\$ 146.8bn. Private transfers, which include remittances from Indians living abroad also increased to US\$ 112.5bn in FY23 versus US\$ 89.1bn in FY22. On the other hand, outflows on account of investment income picked up pace.

Capital account: Capital account surplus narrowed from US\$ 85.9bn in FY22 to US\$ 59bn in FY23. This was on account of lower FDI inflows which moderated to US\$ 28bn in FY23 from US\$ 38.6bn in FY22. FPI outflows were at US\$ 5.2bn, even though it was lower than outflows of US\$ 16.8bn in the same period last year. With higher global interest rates, even ECB inflows were lower. In fact, there was net outflows in ECBs at US\$ 3.8bn. Even short-term credit moderated to US\$ 6.5bn in FY23 from US\$ 20.1bn in FY22. On the other hand, inflows on account of banking capital increased to US\$ 21bn in FY23 versus US\$ 6.7bn in FY22. In FY23, India's foreign exchange reserves saw a depletion of US\$ 9.1bn versus an accretion of US\$ 47.5bn in FY22.

Outlook: India's CAD for FY23, CAD at -2% of GDP was more or less in line with our estimate. In FY24, we expect CAD to moderate. This will be underpinned by lower commodity prices, services exports and robust remittances receipts. However, growth in merchandise exports is likely to be lower as global growth slows down. Some effect on services exports too cannot be ruled out. For FY24, we expect CAD in the range of -1.2% to -1.6% of GDP. Even in capital account, some improvement is expected as FDI and FPI inflows pick up. This should keep INR range bound.

Item	April-March 2022-23 P		
	Credit	Debit	Net
\$ mn			
A. CURRENT ACCOUNT			
I. MERCHANDISE	4,56,073	7,21,364	2,65,291
II. INVISIBLES (a+b+c)	4,65,804	2,67,568	1,98,236
a) Services	3,25,329	1,82,046	1,43,283
Miscellaneous	2,58,229	1,09,620	1,48,609
<i>Of which :</i>			
Software Services	1,46,775	15,491	1,31,284
b) Transfers	1,12,630	11,753	1,00,877
i) Official	165	1,064	-900
ii) Private	1,12,465	10,689	1,01,776
c) Income	27,845	73,769	-45,923
Total Current Account (I+II)	9,21,877	9,88,932	-67,055
B. CAPITAL ACCOUNT			
1. Foreign Investment (a+b)	3,85,089	3,62,255	22,834
a) Foreign Direct Investment (i+ii)	75,232	47,246	27,986
b) Portfolio Investment	3,09,857	3,15,009	-5,152
2.Loans (a+b+c)	1,00,598	92,329	8,269
a) External Assistance	11,574	6,053	5,521
b) Commercial Borrowings(MT<)	20,695	24,485	-3,790
3. Banking Capital (a+b)	1,29,368	1,08,388	20,980
<i>of which: Non-Resident Deposits</i>	64,274	55,285	8,989
4. Rupee Debt Service	0	68	-68
5. Other Capital	57,499	50,571	6,928
Total Capital Account (1 to 5)	6,72,554	6,13,611	58,943
C. Errors & Omissions	900	1,924	-1,024
D. Overall Balance (A+B+C)	15,95,331	16,04,466	-9,135

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