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India's CAD at comfortable level

India's current account deficit was recorded at 1.1% of GDP in Q1 FY25, compared with a surplus of US$ 0.5% of GDP in Q4 FY24. This was led primarily by a pickup in merchandise deficit. Services receipts and remittance inflows also slowed marginally. There was a precipitable slowdown in the capital account surplus, led by a sharp moderation in FPI inflows, even as FDI inflows saw a much-needed revival. As a result, there was a marked reduction in BoP surplus, to US$ 5.2bn compared with US$ 30.8bn in Q4. The outlook for India's balance of payment position remains positive, led by lower commodity prices and an expected recovery in merchandise exports. Services receipts and remittances too are expected to be higher, as the global monetary policy cycle turns favourable. Overall, we expect CAD at 1-1.2% of GDP in FY25.

Current account in deficit:

India's current account swung back into a deficit of US$ 9.7bn or 1.1% of GDP in Q1 FY25 from a surplus of US$ 4.6 bn in Q4 FY24 (0.5% of GDP). In Q1 FY24, the current account deficit (CAD) stood at US$ 8.9bn or 1% of GDP. The sequential pickup in CAD was led by higher merchandise deficit, which picked up to US$ 65.1bn in Q1, from US$ 52bn in Q4 FY24. Net services receipts were lower at US$ 39.7bn in Q1 versus US$ 42.7bn in Q4. This was led by non-software exports, as software receipts noted an improvement despite challenging macroeconomic landscape. Remittances receipts also moderated sequentially from U$ 28.7bn in Q4 to US$ 26.4 bn in Q1 but are expected to pick up in the remaining quarters. Support for CAD stemmed from lower outflows on account of investment income, which moderated to US$ 10.7bn in Q1 compared with US$ 14.8bn in Q4 FY24.

Capital account surplus:

Capital account surplus in Q1 FY25 moderated sharply on a sequential basis from US$ 25.6bn in Q4 to US$ 14.5bn in Q1. This was majorly led by a sizeable slowdown in FPI inflows which eased to US$ 0.9bn from US$ 11.4bn in Q4 FY24. This was concentrated mainly in the equity segment, and can be attributed to a widespread risk-aversion in the domestic markets during the election period. This was further exacerbated by a slowdown in both banking deposit inflows, particularly NRI deposits. On the positive side, there are signs of a revival in FDI inflows. In Q1 FY25, net FDI inflows rose to a 5-quarter high at US$ 6.3bn, compared with a paltry US$ 2.3 bn in Q4 FY24. ECB inflows were steady at US$ 1.7bn.

Overall, India's balance of payments recorded an accretion of US$ 5.3bn in Q1 FY25, compared with US$ 30.8bn in Q4 FY24. This was led entirely by a pickup in merchandise deficit and slowdown in FPI inflows as valuation impact was minimal.

Outlook:

Despite the pickup in CAD, India's external position remains strong by historical standards. In the first 5-months of FY25, the trade deficit is tracking higher than last year (US$ 116.6bn vs. US$ 99.2bn last year), as import growth has outpaced the growth in exports. Progressive easing of export curbs on certain agricultural commodities as well as benefits accruing from the PLI scheme are key tailwinds for India's exports. Further impetus is likely to stem from rate cuts in key markets which will spur economic activity. Recovery in China remains a key monitorable in this regard. Import bill is also likely to remain contained led by benign commodity prices, especially for oil. Services and remittances receipts are expected to benefit from a recovery in global growth. On the funding side as well, the outlook remains bright. FDI inflows have seen an improvement this year, led by India's strong macro fundamentals and government thrust. FPI inflows too have recovered well after a brief lull in Q1. Lower global interest rates and a stable exchange rate will also support a revival in ECB inflows. This will further be supported by robust inflows under NRI deposits.

Overall, we expect CAD to remain in a manageable range of 1.5% of GDP, with accretion of US$ 50-60bn in India's balance of payments.

Table 1: India's Balance of Payment

(USDbn)	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**
Current account	**(9.0)**	**(11.3)**	**(10.4)**	**4.6**	**(9.7)**
CAD/GDP (%)	**(1.0)**	**(1.3)**	**(1.1)**	**0.5**	**(1.1)**
Trade balance	(56.7)	(64.5)	(71.6)	(52.0)	(65.1)
Trade balance/GDP (%)	(6.6)	(7.5)	(7.9)	(5.5)	(6.7)
- Exports	*104.9*	*108.3*	*106.6*	*121.6*	*111.2*
- Imports	*161.6*	*172.8*	*178.3*	*173.6*	*176.3*
Invisibles (net)	47.7	53.3	61.2	56.6	55.4
- Services	35.1	39.9	45.0	42.7	39.7
o/w Software	*33.9*	*35.2*	*36.3*	*36.6*	*37.4*
o/w Non-software	*1.2*	*4.7*	*8.7*	*6.0*	*2.3*
- Transfers	22.8	24.9	29.3	28.7	26.4
- Other invisibles	(10.2)	(11.6)	(13.1)	(14.8)	(10.7)
Capital account	**33.9**	**12.8**	**17.3**	**25.6**	**14.5**
% of GDP	**4.0**	**1.5**	**1.9**	**2.7**	**1.5**
Foreign investment	20.5	4.1	16.0	13.7	7.3
- FDI	*4.7*	*(0.8)*	*4.0*	*2.3*	*6.3*
- FPI	*15.7*	*4.9*	*12.0*	*11.4*	*0.9*
Banking capital	12.9	4.3	16.4	6.9	2.9
Short-term credit	(5.0)	5.4	(1.5)	0.2	2.9
ECBs	5.7	(3.0)	(4.5)	1.7	1.7
External assistance	1.4	0.8	3.2	2.0	1.4
Other capital account items	(1.7)	1.1	(12.3)	1.1	(1.6)
E&O	(0.4)	1.0	(0.9)	0.6	0.6
Overall balance	**24.4**	**2.5**	**6.0**	**30.8**	**5.2**

Source: CEIC, Bank of Baroda Research

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