Macroeconomics | FIRST CUT

Rebalanced

Current account turns surplus in fourth quarter of fiscal 2024

June 2024

India's current account recorded a surplus of $5.7 billion, i.e. 0.6% of gross domestic product (GDP), in the fourth quarter of fiscal 2024 vs a deficit of $8.7 billion (1.0% of GDP) in the third quarter, and $1.3 billion (0.2% of GDP) in the fourth quarter of fiscal 2023.

Improvement in current account balance to 0.6% of GDP surplus in Q4 fiscal 2024, from a deficit of 0.2% of GDP a year ago reflects improvement on all three fronts i.e. merchandise trade defict narrowed, services trade surplus increased and remittances rose.

Along with these, financial flows improved, both on-quarter and on-year, leading to a foreign exchange (forex) reserve accretion of $30.8 billion during the fourth quarter, the highest in 10 quarters. As on June 14, 2024, the country's forex reserves totalled $652.9 billion.

Even though inward FDI continues, there has been a rise in outward FDI, leading to a reduction in net FDI inflows. However, there is a cushion from additional capital flows due to India's inclusion in bond indexes.

Healthy momentum in goods exports and expected moderation in imports suggest the current account deficit (CAD) is likely to remain manageable this fiscal as well. To be sure, strong external buffers are crucial at this juncture because global risks, stemming from geopolitical uncertainties, and tariff and trade wars, have heightened.

Key data points for the fourth quarter

- Current account surplus was 0.6% of GDP vis-à-vis 1.0% deficit in the third quarter
- Trade deficit narrowed to 0.9% of GDP from 2.7% in the third quarter. Interestingly, this was primarily on account of merchandise trade deficit, which narrowed to 5.4% of GDP from 7.7%, even as services trade surplus moderated to 4.5% from 5.0%
- Primary income account deficit, though, widened slightly to 1.6% of GDP from 1.4% in the third quarter, whereas secondary income account surplus declined to 3.0% from 3.2%
- Not only did the current account balance improve, but also net financial inflows rose to 2.6% of GDP from 1.7% in the previous quarter
- As a result, forex reserves increased $30.8 billion, sharply up from $6.0 billion accretion in the third quarter

Merchandise trade deficit narrows, services surplus and secondary income increase in fiscal 2024

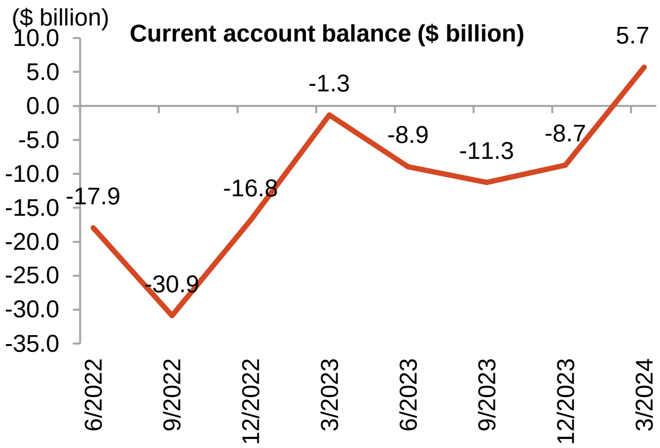
- India's CAD narrowed sharply to $23.2 billion (0.7% of GDP) in fiscal 2024 from $67.0 billion (2.0% of GDP) in fiscal 2023

- Goods trade deficit narrowed to $242.1 billion from $265.2 billion, owing to a sharper fall in imports (-5.2% on-year) vis-à-vis exports (-3.2% on-year)

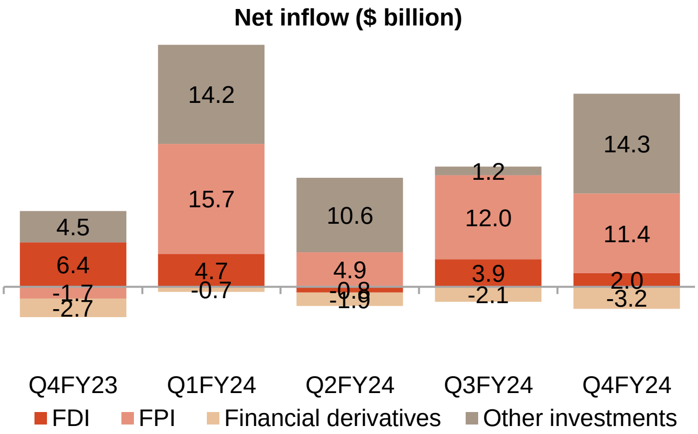
- Meanwhile, services trade surplus rose to $162.7 billion from $143.3 billion in the previous fiscal, as 'telecom, computer and information services' ($142.7 billion[1] vs $132.5 billion) and 'professional and management consulting' services ($45.3 billion vs $40.8 billion) performed better. Travel services, too, improved, posting a mild surplus compared with a deficit of $1.4 bilion in the previous fiscal

- Also, secondary income surplus, reflecting remittances from abroad, improved to $105.8 billion in fiscal 2024 from $100.9 billion in fiscal 2023

Current account balance in surplus…



…and financial flows improve



Source: Reserve Bank of India, CRISIL

Other investments dominate capital inflows

The current account turned to surplus in the fourth quarter of fiscal 2024, with net financial flows rising on-quarter, leading to forex accretion. Among the various financial flows:

- Net inflow from foreign portfolio investors was $11.39 billion , marginally lower than $12.01 billion in the third quarter, owing to a decline in net inflow into debt ($3.6 billion vs $5.0 billion), even as net equity inflows rose ($8.0 billion vs $6.7 billion)

- Net FDI inflow stood at $2.0 billion, as against $3.9 billion in the third quarter and $6.4 billion in the fourth quarter of fiscal 2023. Even as FDI inflows rose to $19.8 billion during the fourth quarter from $17.0 billion in the year-ago period, FDI outflows acclerated to $17.9 billion from $10.7 billion

- Other investments, comprisig non-resident Indian (NRI) deposits, external commercial borrowings (ECBs), other loans and trade credit, jumped to $14.28 billion in the fourth quarter from $1.22 billion in the third quarter. Within the category, net inflow under NRI deposits rose to $5.4 billion from $3.9 billion, and ECBs recorded inflow of $2.6 billion compared with outflow of $2.7 billion

Considerable increase in forex reserves

- Forex reserves surged $30.8 billion in the fourth quarter compared with $6.0 billion in the previous quarter. As of end-March 2024, the reserves stood at $642.63 billion

[1] On net basis

- The rupee appreciated 0.27% during the quarter to average 83.02/$. In comparison, the currency had depreciated 0.7% in the third quarter

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Ltd
dharmakirti.joshi@crisil.com

Adhish Verma
Senior Economist, CRISIL Ltd
adhish.verma@crisil.com

Meera Mohan
Economic Analyst, CRISIL Ltd
meera.mohan@crisil.com

Media contacts

Aveek Datta
Media Relations
CRISIL Limited
M: +91 99204 93912
aveek.datta@crisil.com

Roma Gurnani
Media Relations
CRISIL Limited
M: +91 70662 92142
roma.gurnani@ext-crisil.com

Sanjay Lawrence
Media Relations
CRISIL Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

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