

## BALANCE OF PAYMENTS

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**CAD expands led by higher imports**

India's current account registered a deficit of 1.3% of GDP in Q2FY22 following a surplus of 0.9% in Q1 as trade deficit widened. With pick up in domestic economy, imports picked up faster than exports. Capital inflows were robust, due to SDR allocation. FII and ECB inflows too picked up. Despite this, BoP surplus eased a tad on account of trade deficit. We expect trade deficit at US\$ 180bn and CAD at 1.5% of GDP in FY22. INR is likely to trade in the range of 74-76/\$ in the near-term.

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**Current account in deficit:** India's current account recorded a deficit of US\$ 9.6bn (1.3% of GDP) in Q2FY22 compared with a surplus of US\$ 6.6bn (0.9% of GDP) in Q1FY22. This was due to widening of trade deficit to US\$ 44.4bn in Q2 from US\$ 30.7bn in Q1. Both exports and imports picked up pace. Exports were up at US\$ 104.8bn in Q2 from US\$ 97.4bn in Q1, while imports rose more sharply to US\$ 149.3bn in Q2 from US\$ 128.2bn in Q1. Within imports, non-oil imports rose (US\$ +12.9bn QoQ) more steeply than oil imports (+US\$ 8.2bn QoQ). On the other hand, net invisibles eased to US\$ 34.8bn from US\$ 37.2bn, owing to higher outflows under 'other invisibles' (US\$ 9.7bn versus US\$ 7.5bn) and marginal dip in services receipts (US\$ 25.6bn versus US\$ 25.8bn), despite higher software receipts. Transfer receipts remained stable at US\$ 18.9bn.

**Capital account surges:** Capital account surplus swelled to US\$ 40.1bn in Q2FY22 compared with US\$ 25.6bn in Q1. This was led by a sharp jump in "other capital account items" to US\$ 18.8bn (US\$ 6.6bn in Q1), mainly reflecting US\$ 17.9bn SDR allocation by IMF. Further, while FPI inflows rose to US\$ 3.9bn in Q2 versus US\$ 0.4bn in Q1, FDI inflows moderated to US\$ 9.5bn in Q2 from US\$ 11.7bn in Q1. ECB inflows also picked up to US\$ 4.1bn in Q2 from US\$ 0.6bn in Q1. On the other hand, banking capital inflows eased to US\$ 0.4bn in Q2 from US\$ 4.1bn in Q1. Despite higher capital inflows, BoP surplus narrowed marginally to US\$ 31.2bn in Q2FY22 from US\$ 31.9bn in Q1, due to a widening of current account deficit.

**CAD at 1.5% of GDP in FY22:** From a surplus of 0.9% of GDP in Q1FY22, India's current account slipped into a deficit of 1.3% of GDP (9-quarter high) as trade deficit rose sharply. This was led by a surge in non-oil imports as domestic demand improved due to decline in Covid-19 cases and higher vaccination rates. While exports have softened a bit recently, imports have continued to show resilience. However, the spread of Omicron poses considerable uncertainty to the outlook going forward. Overall, we expect trade deficit at US\$ 180bn in FY22 (US\$ 102.2bn in FY21) and CAD at 1.5% of GDP. Further with a dip in foreign inflows, particularly FIIs, we expect BoP surplus to shrink in H2FY22 (US\$ 63.1bn in H1). INR is likely to trade in the range of 74-76/\$ in the near-term.

**Key highlights**

- Current account deficit at 1.3% of GDP in Q2FY22 versus surplus of 0.9% of GDP in Q1.
- In Q2FY22, capital account recorded a surplus of 5.3% of GDP following a surplus of 3.7% of GDP in Q1.
- CAD to remain contained at 1.5% of GDP in FY22.



**Fig 1 – BoP QUARTERLY ACCOUNT**

(US\$ bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Current account</b>	<b>15.3</b>	<b>(2.2)</b>	<b>(8.2)</b>	<b>6.6</b>	<b>(9.6)</b>
<b>CAD/GDP (%)</b>	<b>2.4</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>0.9</b>	<b>(1.3)</b>
Trade balance	(14.8)	(34.6)	(41.7)	(30.7)	(44.4)
- Merchandise exports	75.6	77.2	91.3	97.4	104.8
- Merchandise imports	90.4	111.8	133.0	128.2	149.3
- Net Services	21.1	23.2	23.5	25.8	25.6
--Software	22.0	23.5	23.5	25.1	26.8
Transfers	18.4	19.3	18.8	18.9	18.9
Other invisibles	(9.4)	(10.1)	(8.7)	(7.5)	(9.7)
<b>Capital account</b>	<b>15.9</b>	<b>34.1</b>	<b>12.3</b>	<b>25.6</b>	<b>40.1</b>
<b>% of GDP</b>	<b>2.5</b>	<b>4.6</b>	<b>1.6</b>	<b>3.7</b>	<b>5.3</b>
Foreign investments	31.4	38.6	10.0	12.1	13.3
- FDI	24.4	17.4	2.7	11.7	9.5
- FII	7.0	21.2	7.3	0.4	3.9
Banking capital	(11.3)	(7.6)	(4.4)	4.1	0.4
Short-term credit	(1.8)	0.2	(2.3)	1.9	2.4
ECBs	(4.0)	(1.1)	6.1	0.6	4.1
External assistance	1.9	1.2	4.0	0.3	1.1
Other capital account items	(0.3)	2.8	(1.0)	6.6	18.8
E&O	0.4	0.6	(0.7)	(0.2)	0.7
<b>Overall balance</b>	<b>31.6</b>	<b>32.5</b>	<b>3.4</b>	<b>31.9</b>	<b>31.2</b>

Source: CEIC, Bank of Baroda Research

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