

BALANCE OF PAYMENTS

29 March 2019

CAD moderates to 2.5% of GDP

India's Q3FY19 CAD moderated to US\$ 16.9bn from US\$ 19.1bn in Q2FY19 led by lower non-oil imports and improvement in services receipts. Remittances were lower on QoQ basis which was made up by a dip in dividends and interest outflows. On the capital account, FDI inflows were stable and higher banking capital inflows made up for decline in FII inflows and short-term trade credit. With decline in non-oil imports in Q4FY19 and higher FII inflows, outlook on INR remains positive. Uncertainty around elections and volatility in oil prices remain key downside risks.

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CAD moderates: A steady trade deficit of US\$ 49.5bn in Q3FY19 vs US\$ 50bn in Q2FY19 along with a moderate pick-up in invisible receipts led to decline in CAD to US\$ 16.9bn in Q3FY19 vs US\$ 19.1bn in Q2FY19. Within invisibles, services receipts improved while remittances dropped. The drop in remittances may be related to decline in oil prices and thus income inflows from Gulf countries. Apart from this, outflows on account of investment income also fell to US\$ 6bn in Q3FY19 from US\$ 8.7bn in Q2FY19.

FX reserves decline by US\$4.3bn in Q3: Led by FPI outflows of US\$ 2.1bn in Q3FY19, capital account moderated to US\$ 13.6bn in Q3FY19 from US\$ 16.7bn in Q2FY19. Notably, FII inflows have seen a sharp improvement in Q4FY19 to US\$ 7.3bn. FDI inflows were stable at US\$ 7.5bn in Q3FY19, flat QoQ. Banking capital inflows increased to US\$ 4.9bn in Q3FY19 from US\$ 0.5bn in Q2FY19 thus balancing the outflow on account of short-term trade credit of US\$ 0.7bn in Q3FY19 compared with inflow of US\$ 4.8bn in Q2FY19. On an overall basis, FX reserves declined by US\$ 4.3bn in Q3FY19.

CAD at 2.4% of GDP in FY19: India's CAD narrowed to 2.5% of GDP in Q3FY19 from a 21-quarter high of 2.9% in Q2 led by a decline in non-oil imports and improvement in services receipts. With decline in non-oil imports continuing in Q4FY19, trade deficit is likely to moderate further. For FY19, we expect CAD at 2.4% of GDP. Lower CAD along with FII inflows has resulted in 1% appreciation in INR in CY19. We expect INR to remain firm at current levels. Uncertainty around general elections and volatility in oil prices however remain key downside risks.

KEY HIGHLIGHTS

- CAD narrows to 2.5% of GDP in Q3FY19 from 2.9% of GDP in Q2FY19.
- BoP deficit at US\$ 4.3bn versus a depletion of US\$ 1.9bn in Q2FY19.
- Lower oil prices to help curtail CAD at 2.4% of GDP in FY19.



FIG 1 – BOP QUARTERLY ACCOUNT

(US\$ bn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Current account	(13.7)	(13.1)	(15.9)	(19.1)	(16.9)
CAD/GDP (%)	(2.1)	(1.9)	(2.4)	(2.9)	(2.5)
Trade balance	(44.0)	(41.6)	(45.8)	(50.0)	(49.5)
- Merchandise exports	77.5	82.2	83.4	83.4	83.1
- Merchandise imports	121.6	123.8	129.1	133.4	132.6
--Oil imports	29.2	33.0	34.7	35.2	38.5
--Non-oil imports	92.4	90.8	94.4	98.2	94.1
- Net Services	20.7	20.2	18.7	20.3	21.3
--Software	18.2	18.6	18.4	19.3	19.8
Transfers	16.1	16.2	17.0	19.3	17.2
Other invisibles	(6.5)	(7.8)	(5.8)	(8.7)	(6.0)
Capital account	22.5	25.1	5.0	16.7	13.6
% of GDP	3.4	3.6	0.8	2.6	2.0
Foreign investments	9.6	8.7	1.6	7.7	5.4
- FDI	4.3	6.4	9.8	7.5	7.5
- FII	5.3	2.3	(8.1)	0.2	(2.1)
Banking capital	4.6	4.6	10.1	0.5	4.9
Short-term credit	4.8	4.5	(3.5)	4.8	(0.7)
ECBs	0.4	1.0	(1.3)	2.2	2.0
External assistance	0.7	1.4	0.5	(0.0)	1.7
Other capital account items	2.4	4.8	(2.4)	1.5	0.4
E&O	0.6	1.3	(0.4)	0.5	(1.0)
Overall balance	9.4	13.3	(11.3)	(1.9)	(4.3)

Source: CEIC, Bank of Baroda Research

FIG 2 – BOP ANNUAL ACCOUNT

(US\$ bn)	FY16	FY17	FY18	FY19E	FY20E
Current account	(22.1)	(14.3)	(48.7)	(64.5)	(73.9)
CAD/GDP (%)	(1.0)	(0.6)	(1.9)	(2.4)	(2.5)
Trade balance	(130.0)	(112.4)	(160.0)	(184.5)	(201.2)
- Merchandise exports	266.4	280.2	309.0	328.8	343.0
- Merchandise imports	396.4	392.6	469.0	513.3	544.2
--Oil imports	82.9	86.8	108.6	142.1	147.0
--Non-oil imports	313.5	305.8	360.4	371.2	397.2
- Net Services	69.7	68.3	77.6	82.0	85.0
--Software	71.5	70.8	72.2	77.0	80.0
Transfers	62.6	56.0	62.4	68.7	75.0
Other invisibles	(24.4)	(26.3)	(28.7)	(30.7)	(32.7)
Capital account	41.2	36.3	91.4	60.5	86.5
% of GDP	2.0	1.6	3.5	2.2	2.9
Foreign investments	31.9	43.2	52.4	25.0	53.0
- FDI	36.0	35.6	30.3	30.0	38.0
- FII	(4.1)	7.6	22.1	(5.0)	15.0
Banking capital	10.6	(16.6)	16.2	15.0	17.5
Short-term credit	(1.6)	6.5	13.9	13.0	15.0
ECBs	(4.5)	(6.1)	(0.2)	(0.5)	(2.0)
External assistance	1.5	2.0	2.9	3.0	2.0
Other capital account items	3.3	7.6	6.1	5.0	1.0
E&O	(1.1)	(0.5)	0.9	0.0	0.0
Overall balance	18.1	21.6	43.6	(4.0)	12.6

Source: CEIC, Bank of Baroda Research | E-Bank of Baroda Estimates

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