

Current account was in surplus in Q4. What next?

BY RHIK KUNDU

India's current account recorded its first surplus in about four years in Q4 of FY24. The last time was in Q1 of FY21, after which GDP shrank as the pandemic set in. Now, the fundamentals are more robust. *Mint* looks at the significance of these numbers, and the challenges ahead.

Turning positive

India's current account jumped to a surplus in the final quarter of FY24.

India's balance of payments in current account (\$ billion)



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Source: RBI

PRANAY BHARDWAJ/MINT

1 How has India's recent performance been?

India's current account recorded a surplus of \$5.7 billion, or 0.6% of GDP, during the March quarter, compared with a deficit of \$8.7 billion, or 1% of GDP, in the previous quarter due to higher services exports, and a deficit of \$1.3 billion, or 0.2% of GDP, in the year-ago quarter. During FY24, India's current account deficit (CAD) moderated to \$23.2 billion, or 0.7% of GDP, from \$67 billion, or 2% of GDP, during the previous year, due to a lower merchandise trade deficit. However, during FY24, India's CAD was the lowest since FY17 if we exclude covid-hit FY21 due to a services surplus and solid remittances.

2 What factors led to the surplus in Q4?

The turnaround was due to a narrowing of the merchandise trade deficit to a 10-quarter low of \$50.9 billion in Q4 FY24 from \$69.9 billion in Q3 FY24. Meanwhile, there was a robust expansion in the services trade surplus. Services exports grew by 4.1% annually during the fourth quarter of FY24 due to rising shipments of software, travel and business services, according to the latest Reserve Bank of India (RBI) data. During Q4 of FY24, net services receipts at \$42.7 billion were higher than the \$39.1 billion a year ago, contributing to the surplus in the current account balance during the quarter.

3 What can we expect in the forthcoming quarters?

Experts expect the CAD to rise slightly in FY25 owing to a widening in the merchandise trade deficit due to domestic demand and higher commodity prices, but it will remain manageable at 1-1.2% of GDP. Assuming an average price of the Indian crude basket at \$85 per barrel, this would be easily financed, given expectations of large FPI-debt inflows, says Ica.



4 What are the challenges ahead?

The Q4 numbers were aided by a decline in the merchandise trade deficit for the year. The overall trade deficit, including both merchandise and services, shrank to \$78.12 billion in FY24 from \$121.62 billion in FY23. However, the merchandise trade deficit is on the rise again, widening to a four-and seven-month high in April and May, due to a surge in imports. Exports have also been hit by slowing global growth amid tightening of interest rates and geopolitical challenges, including conflicts in West Asia and Ukraine.

5 Any weaknesses that could hit the balance?

While foreign portfolio investment experienced a net inflow of \$44.1 billion in FY24 compared to a net outflow of \$5.2 billion in FY23, net foreign direct investment inflow dropped to \$9.8 billion from \$28 billion. There has also been an outflow of Indian savings, showing that domestic savings couldn't find local avenues of investment. This indicates a weakness in the economy. The difference between the real and nominal effective exchange rates has also been widening since FY21, eroding India's export competitiveness.