Economic Intelligence Cell
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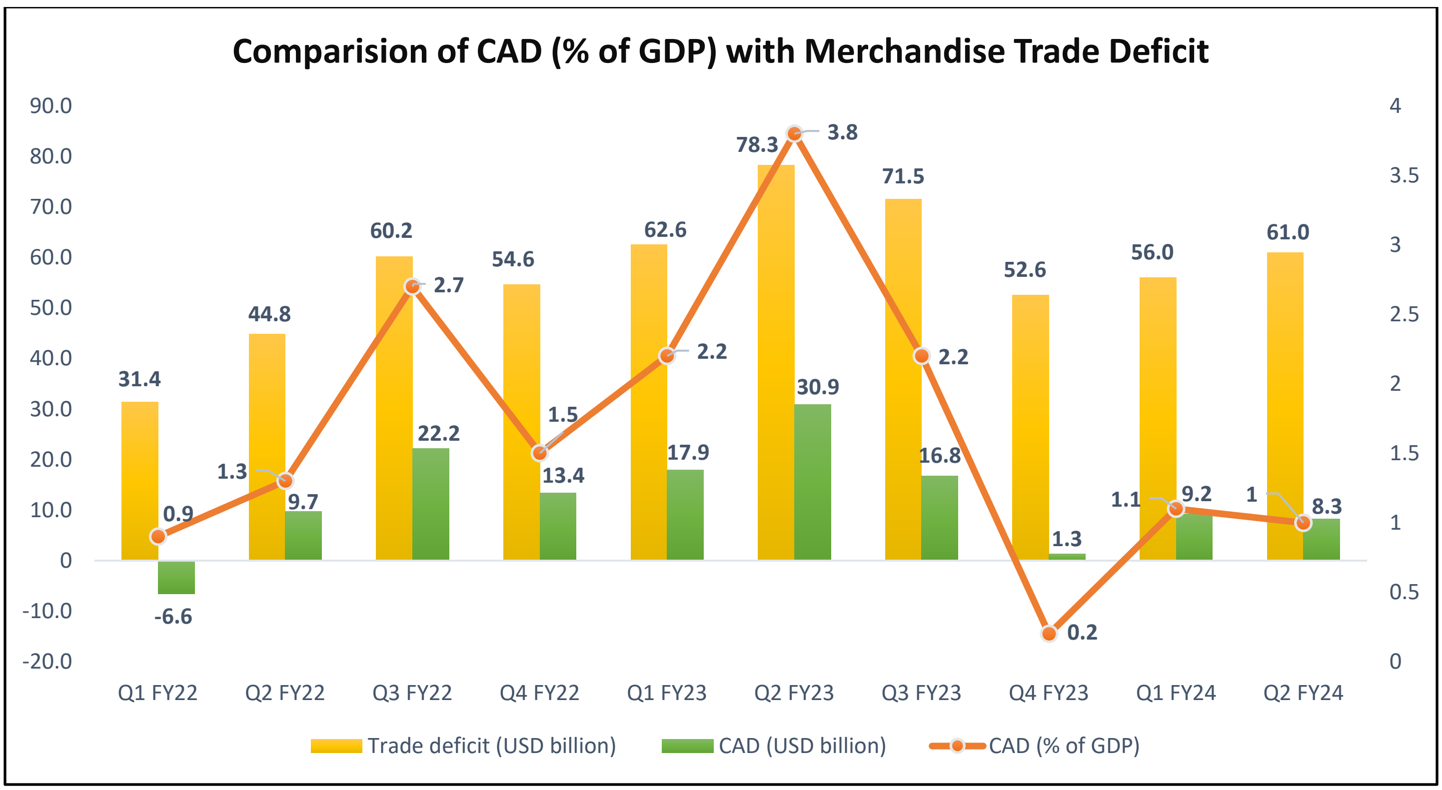
Macro Insights

Highlights:

Current Account Deficit (CAD) narrows to $8.3 billion (1% of GDP)

*India's CAD deficit moderated from $9.2 billion **(1.1% of GDP)** in Q1 FY'24 and remained significantly lower at $8.3 billion **(1% of GDP)** in Q2 FY'24 compared to $30.9 billion **(3.8% of GDP)** in Q2 FY'23*

- *CAD occurs when the value of imports of goods and services is greater than the value of exports of goods and services*
- *A lower CAD was on account of lower merchandise trade deficit. Merchandise trade deficit stood at $61 billion in Q2 FY'24 in comparison to $78.3 billion in Q2 FY'23*
- *Healthy receipts from services exports, decent growth in private transfer receipts (mainly remittances) and robust inflows in non-resident deposits also helped narrow the CAD.*



Highlights:

- India's current account balance recorded a deficit of $8.3 billion (1.0% of GDP) in Q2 FY'24, lower than $9.2 billion (1.1% of GDP) in Q1 FY'24 and $30.9 billion (3.8% of GDP) a year ago in Q2 FY'23.
- Merchandise Trade which is a major component of Balance of Payment moderated on account of slowing global economy. The decrease in CAD was on account of a lower merchandise trade deficit. Merchandise trade deficit narrowed to $61.0 billion from $78.3 billion in Q2 FY'23.
- Total services export grew by 4.2% YoY basis and stood at $83.4 billion and at the same time services imports fell by 4.8% YoY to $43.4 billion. Services surplus stood at $40 billion up by 16.28% YoY basis.
- Private transfer receipts, mainly representing remittances by Indians overseas, amounted to $28.1 billion, a 2.6 per cent YoY increase. India is the largest recipient of remittances in the world.
- Net foreign direct investment (FDI) witnessed an outflow of $0.3 billion as against an inflow of $6.2 billion in Q2 FY'23. At the same time foreign portfolio investment (FPI) recorded net inflow of $4.9 billion, lower than $6.5 billion during Q2 FY'23.
- India's Capital account surplus decreased from $31.8 billion in Q2 FY'22 to $7.5 billion in Q2 FY'24 showing a 76.4% YoY fall.
- External commercial borrowings recorded net outflow of $1.8 billion in Q2 FY'24 as compared with net outflow of $0.5 billion in Q2 FY'23.
- Non-resident deposits recorded net inflow of $3.2 billion in Q2 FY'24 as compared with net inflow of $2.5 billion in Q2 FY'23.

Views:

- India used to be dependent on capital account surplus in the past to balance CAD (largely on account of merchandise trade deficit) but now buoyant services exports and remittances are able to negate the effect of merchandise trade deficit even when the capital account surplus fell drastically.
- A narrowing current account deficit is good for INR as a wider deficit would put downward pressure on rupee at a time when rising US yield is already causing emerging economies currency to depreciate.
- Narrowing of CAD led to accretion of foreign exchange reserves to the tune of $ 2.5 billion in Q2 FY'24 as against a depletion of $ 30.4 billion in Q2 FY'23. A healthy amount of forex reserve instills confidence in the economy that it could meet its financial obligation. India has a forex reserve to cover 11 months of its imports.

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