Economic Intelligence Cell
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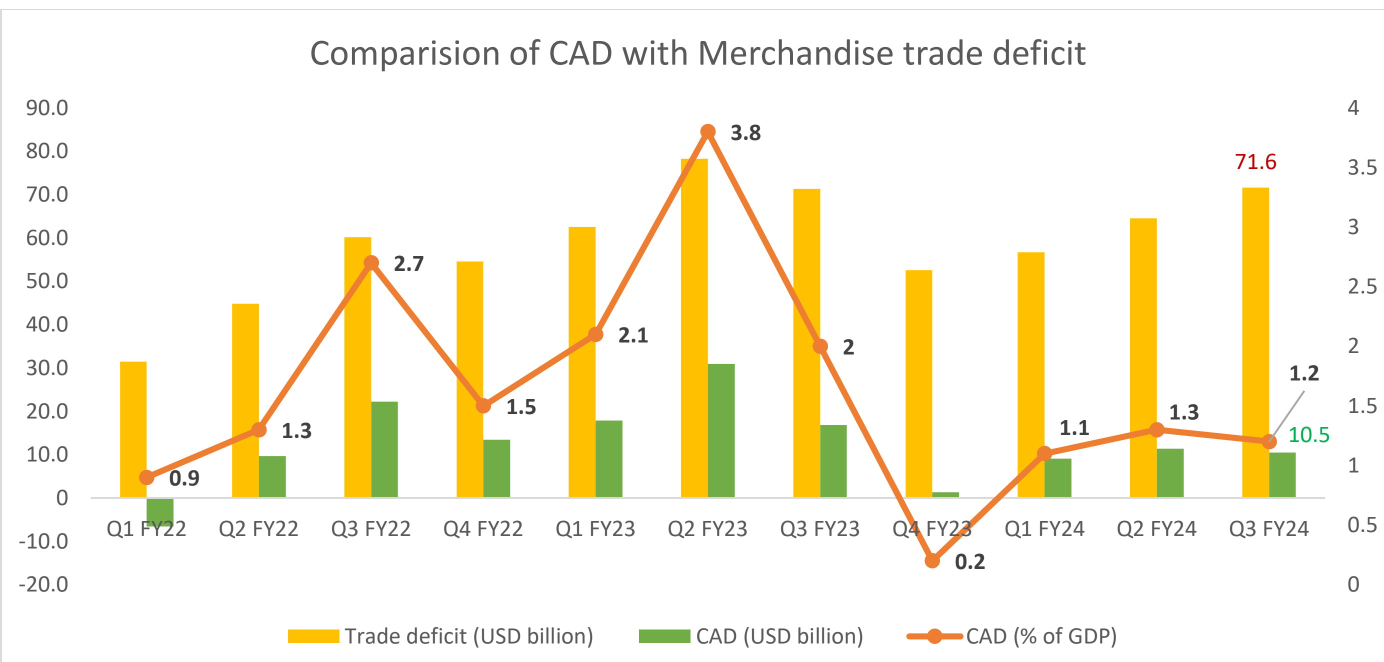
Macro Insights

Highlights:

Current Account Deficit (CAD) narrows to $10.5 billion (1.2% of GDP)

*India's CAD deficit moderated from $11.4 billion **(1.3% of GDP)** in Q2 FY'24 and remained considerably lower at $10.5 billion **(1.2% of GDP)** in Q3 FY'24 compared to $16.8 billion **(2.0% of GDP)** in Q3 FY'23*

- *Merchandise trade deficit widened to $71.6 billion in Q3 FY'24 from $64.5 billion in previous quarters.*
- *CAD narrowed despite a wider merchandise trade deficit primarily due to growth in service exports (5.2% YoY) and private transfers (2.1% YoY).*
- *Foreign Direct Investment recorded a net inflow of $4.2 billion compared with of $2.0 billion in Q3 FY'23.*



Highlights:

- India's current account balance recorded a deficit of $10.5 billion (1.2% of GDP) in Q3 FY'24, lower than $11.4 billion (1.3% of GDP) in Q2 FY'24 and $16.8 billion (2.0% of GDP) a year ago in Q3 FY'23.
- Merchandise Trade which is a major component of Balance of Payment widened to $71.6 billion from $64.5 billion in the previous quarter.
- Services export grew by 5.2% YoY basis and owing to rising exports of software, business and travel services. This increase in net services receipts helped cushioning the current account deficit.
- Private transfer receipts, mainly representing remittances by Indians overseas increased to $13.2 billion from $12.7 billion a year ago. India is the largest recipient of remittances in the world.
- Net foreign direct investment (FDI) recorded a net inflow $4.2 billion as compared with a net inflow of $ 2.0 billion in Q3 FY'23. At the same time foreign portfolio investment (FPI) recorded net inflow of $12.0 billion, higher than $4.6 billion during Q3 FY'23.
- India's Capital account surplus decreased from $17.8 billion in Q3 FY'23 to $11.3 billion in Q3 FY'24 showing a 36.5% YoY fall.
- External commercial borrowings recorded net outflow of $2.6 billion in Q3 FY'24 as compared with net outflow of $2.5 billion in Q3 FY'23.
- Non-resident deposits recorded net inflow of $3.9 billion in Q3 FY'24 as compared with net inflow of $2.6 billion in Q3 FY'23.

Views:

- Buoyant services exports coupled with decline in import dependency, is expected to create further moderation in the current account deficit. The stability of the rupee and easing global commodity prices are contributing to the reduction of our import bill.
- The surge in private remittances by overseas Indians is also providing support to the current account balance. Moreover, inflows are likely to increase further which can be attributed to reduction in transaction costs facilitated by launching of UPI channels for cross border transactions, as well as the use of local currencies and interlinking payment and the messaging system with Gulf countries.
- Funding the current account deficit in Q3 FY'24 has been smooth, attributed to significant flows from FDI and FPI. The narrowing current account deficit amidst global headwinds reflects resilient nature of domestic fundamentals.
- Going forward, funds inflow and increase in exports will lead to improvement in the current account deficit leading rupee to trade at stable level of Rs.83-84 in 2024.

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