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Q1-FY25 switched back to C/A deficit to 1.1% of GDP from surplus in Q4-FY24

- In Q1-FY25, current account (C/A) balance widened to a deficit of US\$ 9.7bln (1.1% of GDP) from a surplus clocked in Q4-FY24. The data trended in line with our expectations as highlighted in the Jun'24 trade data release (Refer our previous report: [India: Q4-FY24 clocks as expected first non-crisis C/A surplus in 17 years](#))
- During the quarter, prime driver of C/A dynamics was the seasonal deterioration was seen in merchandise trade deficit (US\$65.1bln in Q1FY25 vis-a-vis US\$ 52bln in Q4-FY24).
- Meanwhile, invisibles surplus stayed robust at US\$ 55.4bln from US\$56.6bln in Q4-FY24 driven by strong services trade surplus (US\$ 39.7bln in Q1-FY25 vis-a-vis US\$42.7bln in Q4-FY24) and remittances (Figure 1).
- Going forward, Q2-FY25 saw a sharp deterioration in trade dynamics on account of spike in gold imports and wider non-oil non-gold deficit even as lower prices kept a lid on oil deficit. Hence, we see further widening in C/A deficit in Q2-FY25 despite downward pressure on commodity prices except gold prices which spiked to record highs.

Q1-FY25 BoP narrowed but stays in surplus

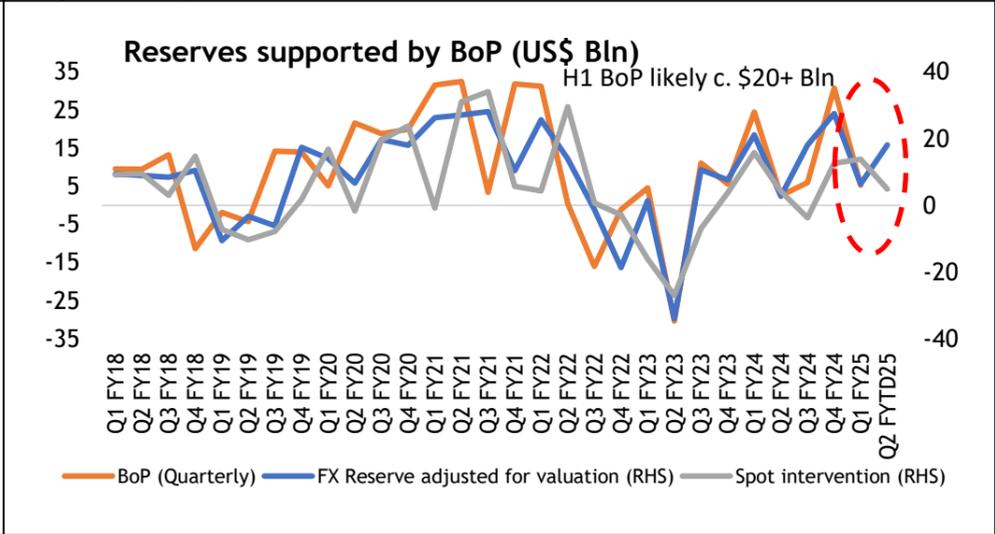
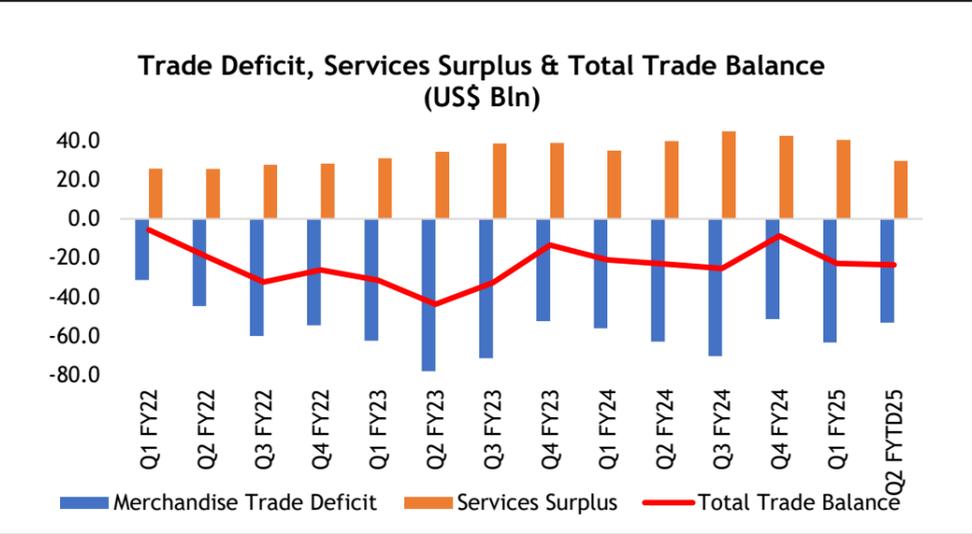
- Balance of payment (BoP) clocked a moderate surplus of US\$ 5.2bln vis-à-vis an inflow of US\$ 24.4bln in Q1-FY24. The key driver of the sharp moderation in BoP was the slip in foreign portfolio investment (FPI) flows to US\$ 0.9bln from US\$ 15.7bln in Q1-FY24 as this was a period of risk aversion.
- Meanwhile, net foreign direct investment (FDI) inflows increased to US\$ 6.3bln in Q1-FY25 vis-a-vis US\$ 4.7bln in the same period of Q1-FY24.
- Moreover, there was a sharp fall in ECB flows to US\$ 1.7bln from US\$ 5.7bln last year YoY basis but the short-term credit improved \$2.9bln in Q1FY25 from deficit of \$5.0bln in Q1-FY24. Going forward, we expect debt flows like ECBs, trade credit, NRI deposits etc. to increase as India's rate differential with US widens with the latter already initiating its rate cut cycle.
- In fact, our analysis of FX reserves adjusted for valuation effects (a good BoP proxy), shows that BoP surplus spiked to c. US\$ 18bln in Q2, 3x vs Q1. India's inclusion in JP Morgan global EM bond index in end-June also supported rise in flows during this quarter.

FY25 CAD likely to remain comfortable at 0.9% of GDP with BoP surplus of US\$ 40bn

- Going forward, we expect c.US\$ 40bn BoP surplus in FY25 with C/A deficit expected to remain comfortable at 0.9% of GDP assuming average oil price at c.US\$ 85/bbl and on rise in capital flows led by global bond index inclusion.
- In terms of C/A dynamics, lower oil prices at c.US\$70-75/bbl on global demand concerns likely to support as our assumption of annual average oil price is \$85/bbl. We are also watching for risk from spike in Gold prices amid US rate cut and strong volume demand along with still elevated non-oil non-gold deficit.
- Sensitivity of C/A deficit to oil prices stays high with every \$10/b move in oil price affecting annual C/A balance by close to \$15 bn. Hence if average oil prices settle lower at c.\$75/b, C/A deficit may be closer to 0.5% of GDP in FY25.

Deterioration in C/A dynamics led by wider goods trade deficit

FX reserves adjusted for valuation effects signals a spike in BoP surplus in Q2-FY25



Source: CEIC, RBI & UBI Research

Fig 1: BoP data table

USD bn	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	FY24	FY25F
Exports	104.9	108.3	106.6	121.7	111.2	441.5	448.8
%y/y	-14.5%	-3.2%	1.0%	5.0%	5.9%	-3.2%	1.7%
Imports	161.6	172.8	176.6	172.5	176.3	683.5	703.9
%y/y	-13.0%	-9.1%	-0.2%	2.5%	9.1%	-5.2%	2.6%
Trade balance	-56.7	-64.5	-69.9	-50.9	-65.1	-242.1	-255.1
Invisibles	47.7	53.3	61.2	56.6	55.4	218.8	218.0
Services	35.1	39.9	45.0	42.7	39.7	162.8	170.0
Transfer	22.8	24.9	29.3	28.7	26.4	105.8	95.0
Income	-10.2	-11.6	-13.1	-14.8	-10.7	-49.8	-47.0
Current account	-9.0	-11.3	-8.7	5.7	-9.8	-23.3	-37.1
Foreign investment	20.5	4.1	16.0	13.3	7.3	53.9	50.0
FDI	4.7	-0.8	3.9	2.0	6.3	9.8	20.0
FII	15.7	4.9	12.0	11.4	0.9	44.1	30.0
Loans	2.3	3.3	-5.6	1.8	6.0	1.7	3.0
Banking capital	12.9	4.3	16.4	6.9	2.9	40.5	20.0
Other capital	-1.7	1.1	-11.7	2.5	-1.6	-9.8	0.0
Capital account	33.9	12.8	15.0	24.5	14.4	86.3	73.0
Overall balance	24.4	2.5	6.0	30.8	5.2	63.7	40.0

Source: CEIC, RBI & UBI research

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