

Current account deficit widens to 1.1% of GDP in 1QFY25

Led by the higher merchandise trade deficit

- India's Current Account Deficit (CAD) widened marginally to USD9.7b (or 1.1% of GDP) in 1QFY25 vs. USD8.9b (1% of GDP) in 1QFY24 and against a surplus of USD4.6b (0.5% of GDP) in 4QFY24. The number was slightly higher than the market consensus of USD9.4b and our expectation of USD9.5b (*Exhibit 1*).
- The widening of CAD on a year-to-year basis can be attributed to a rise in merchandise trade deficit to USD65.1b (7% of GDP) in 1QFY25 from USD56.7b (6.6% of GDP) in 1QFY24. On the other hand, net service receipts increased to USD39.7b (4.3% of GDP) in 1QFY25 from USD35.1b (4.1% of GDP) in 1QFY24. Additionally, the surplus on income account stood at USD15.7b (1.7% of GDP) in 1QFY25 vs. USD12.6b (1.5% of GDP) in 1QFY24. (*Exhibit 2*).
- The higher services account surplus is attributed to robust service exports (9.8% YoY, highest in five months), on account of the rising exports of computer services, business services, and travel and transportation services. Additionally, private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to USD29.5b, up 8.9% YoY. Net outgo on the primary income account, mainly reflecting payments of investment income, increased to USD10.7b in 1QFY25 from USD10.2b in 1QFY24. Overall, the invisible surplus increased to USD55.4b (6% of GDP) in 1QFY25 from USD47.8b in 1QFY24 (5.6% of GDP).
- Merchandise imports stood at USD176.3b in 1QFY25, higher than USD161.6b in 1QFY24. While imports of petroleum products increased to USD51.5b in 1QFY25 from USD41.9b in 1QFY24, imports of valuables decreased to USD15.4b in 1QFY25 from USD16.1b in 1QFY24. Merchandise exports increased 5.9% YoY in 1QFY25 (USD111.2b) vs. a decline of 14.5% in 1QFY24 (USD104.9b).
- Notably, India's Current Account Balance (CAB), excluding petroleum products and valuables, posted a surplus of USD32.3b (or 3.5% of GDP) in 1QFY25 vs. a surplus of USD23.6b in 1QFY24 (or 2.7% of GDP) (*Exhibit 3*). Excluding gold, India's Current Account Surplus (CAS) was -0.02% of GDP in 1QFY25, down from a surplus of 1.5% of GDP in 4QFY24 and a deficit of 0.1% of GDP in 1QFY24. CAS, excluding petroleum products, surged to USD22.8b (or 2.5% of GDP) in 1QFY25 vs. USD13.9b (1.6% of GDP) in 1QFY24.
- Capital account inflows declined sharply to USD14.4b (1.6% of GDP) in 1QFY25 from USD33.4b (3.9% of GDP) in 1QFY24 on account of lower inflows under foreign portfolio investment. Net inflows under foreign portfolio investment moderated sharply to USD0.9b in 1QFY25 vs. USD15.7b in 1QFY24. On the other hand, foreign direct investments recorded a net inflow of USD6.3b compared to a net inflow of USD4.7b in 1QFY24. Additionally, non-resident deposits recorded a higher net inflow of USD4b than USD2.2b a year ago. Accordingly, FXR accretions came down to USD5.2b in 1QFY25 from USD24.8b in 1QFY24 (*Exhibit 4*).
- Based on India's investments and CAD, the implied Gross Domestic Savings (GDS) stood at 31.8% of GDP in 1QFY25 from 32% of GDP in 1QFY24 (*Exhibit 5*).
- We have lowered our CAD forecasts to 0.8%/0.6% of GDP (USD32.4b/USD26.0b) in FY25/FY26, compared to 1.2%/1.3% estimated earlier. This is due to a downgrade in GDP growth, an expected moderation in gold imports, and continued strength in services in FY25/FY26. In the absence of any global shock, India's foreign exchange reserves will likely continue to rise to mitigate the appreciation bias in the Indian Rupee (INR). (*Exhibits 6 and 7*).

Exhibit 1: India's CAD widened to 1.1% of GDP in 1QFY25...

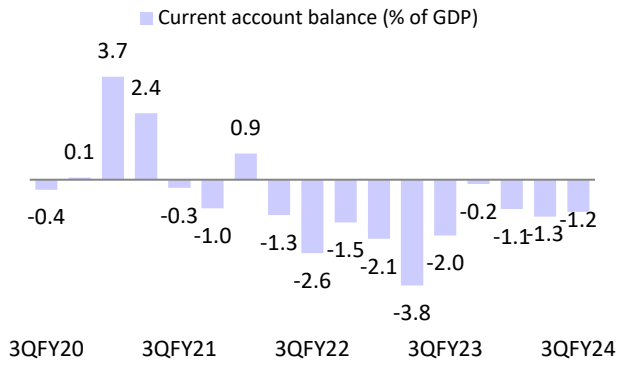


Exhibit 2: ...led by higher merchandise trade deficit

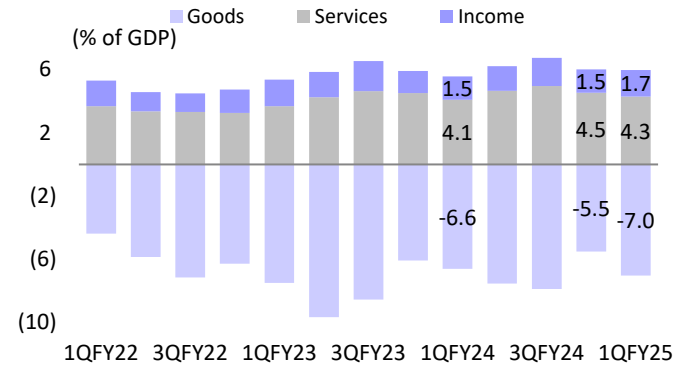


Exhibit 3: CAS, excluding gold and petroleum products, declined sharply

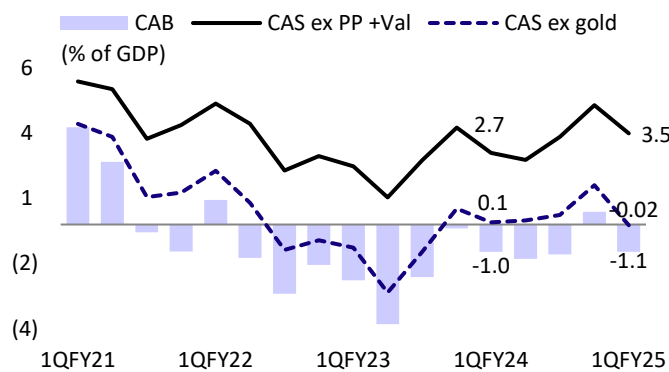
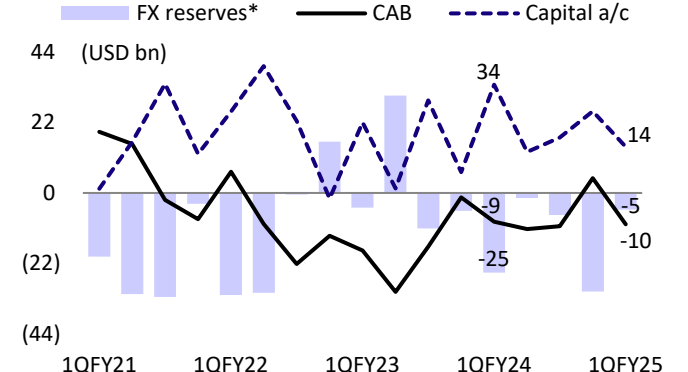


Exhibit 4: FXR accretions in 1QFY25 amounted to USD5.2b



*(-) implies accretion to reserves, (+) implies withdrawal (reduction)

Exhibit 5: India's domestic savings stood at 31.8% of GDP in 1QFY25

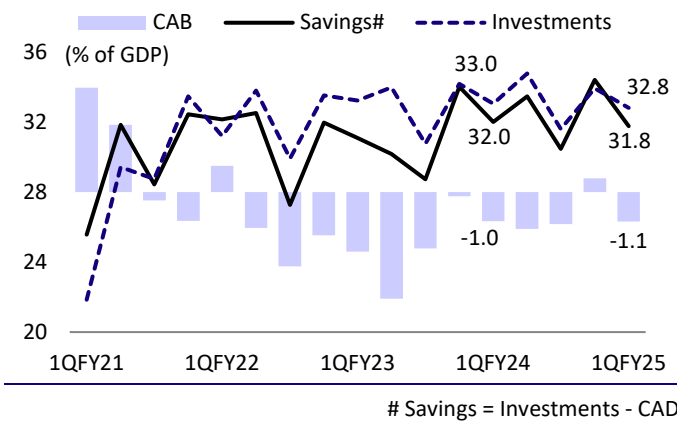


Exhibit 6: We expect CAD at 0.8% of GDP in FY25

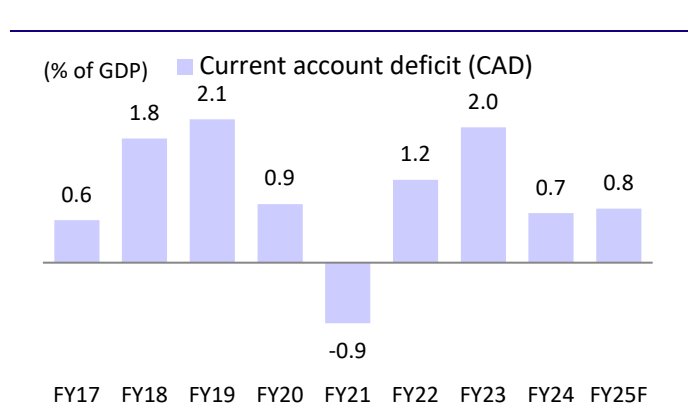


Exhibit 7: Key components of India's Balance of Payments (BoP)

	FY22	FY23	FY24	1QFY24	1QFY25	1QFY25
Current Account Balance (CAB)	-38.7	-67.0	-26.0	-8.9	4.6	-9.7
% of GDP	-1.2	-2.0	-0.7	-1.0	0.5	-1.1
Goods	-189.5	-265.3	-244.9	-56.7	-52.0	-65.1
of which:						
Oil imports	-94.3	-111.9	-98.7	-22.8	-28.8	-32.5
Gold imports	-46.2	-35.0	-45.5	-9.7	-9.6	-9.5
Services	107.5	143.3	162.8	35.1	42.7	39.7
Income	43.3	55.0	56.1	12.6	13.9	15.7
Financial account#	85.9	59.0	89.5	33.8	25.5	14.3
FDI	38.6	28.0	10.1	4.7	2.3	6.3
FPI	-16.8	-5.2	44.1	15.7	11.4	0.9
Foreign exchange reserves*	-47.5	8.1	-63.4	-24.8	-30.8	-5.2
Memo: CAS excl. gold and oil	101.8	80.0	118.3	23.6	43.0	32.3
% of GDP	3.2	2.4	3.3	2.7	4.6	3.5

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