

# India Current Account Balance Update

Economic Update | 30th December 2022

## CAD Widens To Record 4.4% Of GDP In Q2 FY23

| Event                   | Actual   | Consensus | Previous |
|-------------------------|----------|-----------|----------|
| Current Account Balance | \$-36.4B | -\$35.5B  | \$-18.2B |

### Highlights:

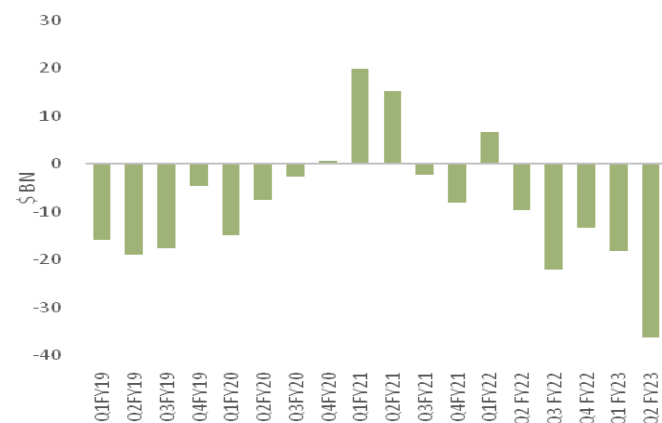
- India's current account deficit continued to widen in Q2 (July-September) FY22-23 amid a rising merchandise trade deficit.
- The current account deficit increased to \$36.4 billion or 4.4% of the GDP in Q2 FY22-23, up from \$18.2 billion or 2.2% of GDP in Q1 FY23 and \$9.7 billion, or 1.3% of the GDP a year earlier.
- The underlying reason was the widening of the merchandise trade deficit in Q2 FY22-23 to \$83.5 billion from \$63.0 billion in Q1 FY22-23 and an increase in net outgo under investment income.
- Services exports reported a growth of 30.2% YoY on rising exports of software, business, and travel services. Net service receipts increased both sequentially and on a YoY basis.
- Net outgo from the primary income account, mainly reflecting payments of investment income, increased to \$12.0 billion from \$9.8 billion a year ago.
- Private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to \$27.4 billion, an increase of 29.7% from their level a year ago.
- In the financial account, net foreign direct investment decreased to \$6.4 billion from \$8.7 billion a year ago.
- Net foreign portfolio investment recorded inflows of \$6.5 billion, up from \$3.9 billion during Q2 last year.
- Net external commercial borrowings from India recorded an outflow of \$0.4 billion in Q2 FY22-23 as compared to an inflow of \$4.3 billion a year ago.
- Non-resident deposits recorded net inflows of \$2.5 billion as against net outflows of \$0.8 billion in Q2 FY22.
- There was a depletion of foreign exchange reserves (on a BoP basis) to the tune of \$30.4 billion in Q2 FY22-23 as against an accretion of \$31.2 billion in Q2 FY21-22.
- While the Current Account Deficit print was in expected line, negative surprises came in the merchandise trade deficit and primary income that outweighed the higher-than-expected services surplus and secondary income flows.
- As the average trade deficit in October-November 2022 was much lower than the previous three months and services trade balance in October 2022 was robust, the size of the CAD is likely to reduce appreciably to around \$25-28 billion in Q3 FY22-23.

**Sutapa Biswas**

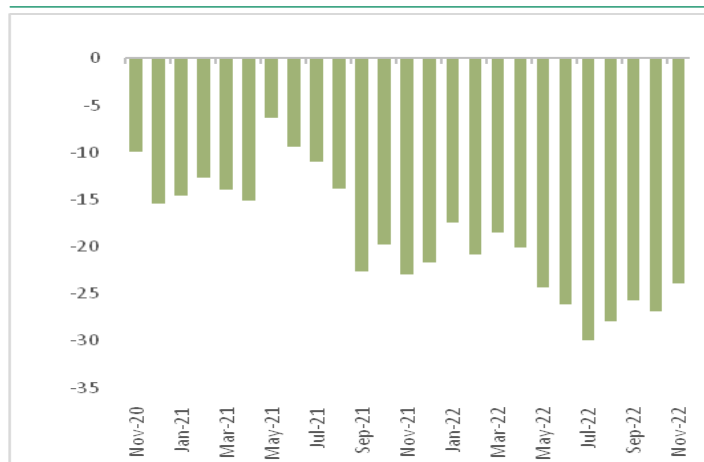
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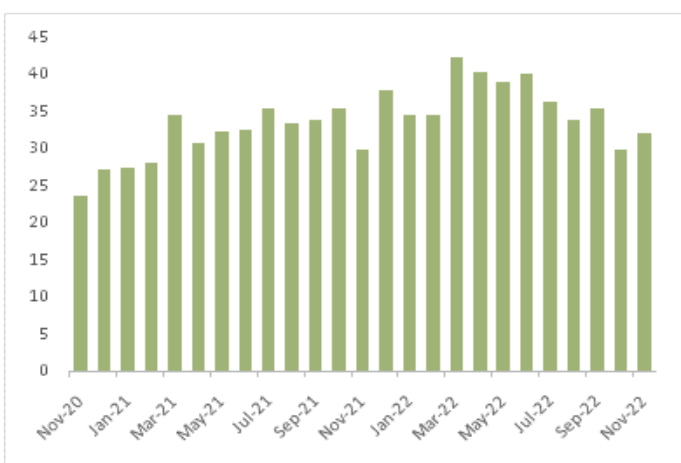
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**Fig 1: Current Account Balance Trend (\$Bn)**


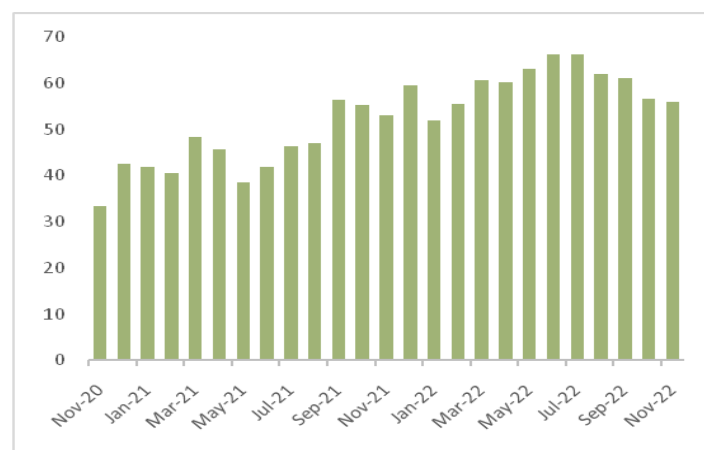
Source: RBI, SMIFS Research

**Fig 2: Trade Balance Trend (\$Bn)**


Source: Mospi, SMIFS Research

**Fig 3: Exports Trend (\$Bn)**


Source: Mospi, SMIFS Research

**Fig 4: Imports Trend (\$Bn)**


Source: Mospi, SMIFS Research

**Tab 1: Current Account Balance Table**

|                        | \$Bn       |            |            |            |
|------------------------|------------|------------|------------|------------|
|                        | Jul-Sep-22 | Jul-Sep-21 | Apr-Sep-22 | Apr-Sep-21 |
| <b>Current Account</b> | -36.4      | -9.7       | -54.5      | -3.1       |
| 1. Goods               | -83.5      | -44.5      | -146.6     | -75.2      |
| Of which:              |            |            |            |            |
| POL                    | -35.2      | -22.9      | -61.7      | -41.0      |
| 2. Services            | 34.4       | 25.6       | 65.5       | 51.4       |
| 3. Primary Income      | -12.0      | -9.8       | -21.1      | -17.3      |
| 4. Secondary Income    | 24.8       | 19.0       | 47.6       | 38.0       |

Source: RBI, SMIFS Research

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