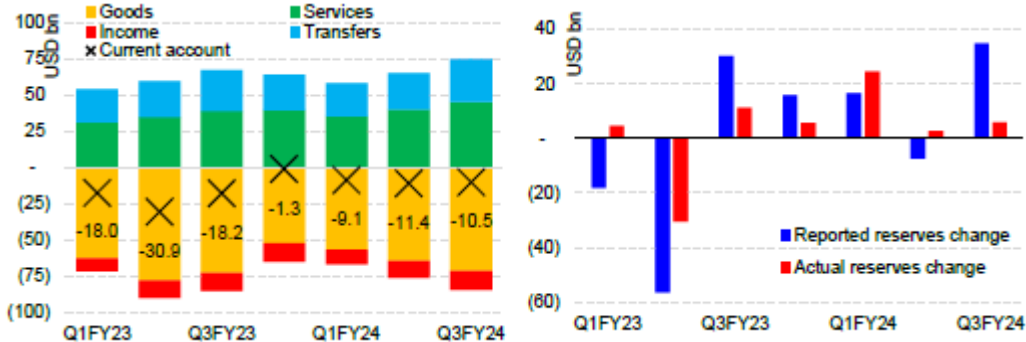


India Data BOP Update

CAD narrows in Q3 as services offset seasonal imports.

Exhibit: India current account deficit (L) and changes to FX reserves (R)



Source: Axis Bank Business and Economic Research

India Q3 current account deficit narrows despite festive rise in imports

India's Q3 current account deficit narrowed to USD 10.5 bn or 1.1% of GDP, from the upwardly revised print of 11.4 bn (1.3% of GDP) despite increase in the merchandise trade deficit with increase in gold/silver, transportation, fertilisers and coal given seasonal trends. This increase was more than offset by stronger invisibles income, with seasonal travel inflows adding to exports of modern services including software, GCC, etc., as well as a surge in worker remittances (seen also in Q3FY23 but not in Q3 before this) likely on the mildly weaker INR, all of which made up for larger net dividend outflows.

Despite good investment inflows, sterilized RBI intervention required

The financial account showed good inflows in FDI and FPI matching already known numbers, as well as expected repayment of ECBs and trade finance, partly offset by receipt of NRI deposits with conditions domestically. However, these flows were largely offset by other accounts receivable/payable, with presentation of numbers indicating that these would be allocated within the financial account in the coming release. This would have led to a draw on RBI FX reserves, but for sterilized intervention that showed in banking assets (sell leg of s/b swaps in response to sterilization). Operations led to an increase in FX reserves of USD 6 bn, largely interest received of USD 3.6 bn.

Q4 likely to see current account surplus, with (some) reserve accretion

Merchandise and services trade data available for Q4, added to likely income inflows indicate a current account surplus in Q4 and numbers appear even closer to this than in Q4FY23 where this also appeared probable. With decent financial inflows, the overall surplus corroborates the wiping out of the net short position (will be seen in reversal of banking assets), increase in FX reserves in weekly data after stripping out valuation, as well as anecdotes of RBI intervention in Q4 so far. The numbers indicate an FY24 current account deficit at around 1% of GDP. However, increased income through merchandise and services income in the past has led to increased consumption thus leading to higher imports. With this likely to be the case in FY25, we pencil in a higher CAD at 1.3% of GDP for the year. At the same time, ongoing, if slower QT, will likely keep the flow of global savings limited when compared to past easing cycles, limiting reserve accretion as well as arguing for the INR to weaken over time in line with our projections.

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