

2QFY21 Balance of Payments

31 December 2020

2QFY21 current account surplus at 2.4% of GDP; FY21 surplus seen at 0.9% of GDP

The current account surplus for 2QFY21 stood at US\$15.5bn (2.4% of GDP), down from a surplus of US\$19.2bn (3.8% of GDP) in the previous quarter. However, it was above our expectation as we had expected the current account surplus to narrow to 1.8% of GDP in 2QFY21. The trade deficit widened to US\$14.8bn from US\$10.8bn in 1QFY21 on higher oil and non-oil non-gold imports. Services exports and remittances were only marginally better than 1QFY21 despite improvement in growth. Services exports grew by 1.1% YoY in 2QFY21, down from the 2.1% growth registered in 1QFY21. Remittances were down 7.8% YoY in 2QFY21 compared to a 5.4% YoY decline in 1QFY21. While a large external surplus is positive from a macro stability standpoint, it is also reflective of very weak growth. Consequently, we expect the current account to return to a deficit as growth returns over the next few quarters. The capital account showed a surplus of US\$15.4bn in 2QFY21, up from US\$1bn in 1QFY21, supported by a pick-up in FDI and FPI flows.

Current account surplus to narrow as growth recovers: The current account surplus for 1HFY21 stands at 3.1% of GDP. While a large external surplus is positive from a macro stability standpoint, it is also reflective of very weak growth. Consequently, we expect the current account to return to a deficit as growth returns over the next few quarters. We are working with a current account surplus of 0.9% of GDP for FY21.

Capital account returns to surplus in 2QFY21: The capital account showed a surplus of US\$15.4bn in 2QFY21, up from US\$1bn in 1QFY21, supported by a pick-up in FDI and FPI flows. FDI flows stood at US\$24.6bn in 2QFY21, up from a net outflow of US\$0.8bn in 1QFY21 and a net inflow of US\$7.4bn in 2QFY20. FPI inflow stood at US\$7.0bn, up from US\$0.6bn in 1QFY21 and US\$2.5bn in 2QFY20.

Exhibit 1: 2QFY21 current account surplus at 2.4% of GDP

Item/ US\$b	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	1HFY21	FY19	FY20	FY21E
Current account balance	(14.3)	(6.3)	(1.4)	0.6	19.2	15.5	34.7	(57.3)	(24.7)	22.4
% of GDP	(2.0)	(0.9)	(0.2)	0.10	3.80	2.4	3.1	(2.1)	(0.9)	0.9
Trade balance	(46.2)	(38.1)	(34.6)	(35.0)	(10.8)	(14.8)	(25.6)	(180.3)	(157.5)	(99.6)
Exports	82.7	80.0	81.2	76.5	52.3	75.6	127.9	337.2	320.4	303.0
- Oil exports	11.6	10.3	11.6	9.2	4.8	7.3	12.1	48.0	42.0	32.6
Imports	128.9	118.1	115.9	111.6	63.1	90.4	153.5	517.5	477.9	402.6
- Oil	35.0	29.5	31.4	33.7	13.1	18.8	31.9	140.8	130.0	93.2
- Gold	11.5	4.4	7.3	5.2	0.7	0.1	0.8	32.0	28.2	20.0
Invisibles	31.9	31.8	33.2	35.6	30.0	30.3	60.3	123.0	132.8	122.0
Services (net)	20.0	20.4	21.9	22.0	20.5	21.2	41.7	81.94	84.92	82.00
Transfers (net)	18.0	20.0	18.7	18.4	17.0	18.4	35.4	69.95	75.21	70.00
Other income (net)	(6.1)	(8.6)	(7.4)	(4.8)	(7.5)	(9.3)	(16.8)	(28.9)	(27.3)	(30.0)
Capital account balance	27.9	12.1	22.4	17.4	1.0	15.4	16.5	54.4	83.2	62.5
Net FDI	13.9	7.4	10.0	12.0	(0.8)	24.6	23.8	30.71	43.01	35.00
Net FII	4.8	2.5	7.8	(13.7)	0.64	7.0	7.6	(0.6)	1.4	5.0
Loans	9.9	3.2	3.1	9.9	2.5	(4.2)	(1.7)	15.85	25.69	12.50
-External assistance	1.5	0.4	1.3	0.6	4.09	1.9	6.0	3.41	3.75	3.50
-Commercial borrowings	6.4	3.4	3.2	12.6	(1.4)	(4.3)	(5.7)	10.4	23.0	7.0
- Short term credit	2.0	(0.6)	(1.4)	(1.0)	(0.2)	(1.8)	(2.0)	2.02	(1.0)	2.00
Banking capital	(3.9)	(1.8)	(2.3)	(4.6)	2.2	(11.2)	(8.9)	7.4	(5.3)	8.0
-NRI deposits	2.8	2.3	0.8	2.8	3.0	1.9	4.9	10.4	8.6	10.0
Rupee debt service	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)	0.0	(0.1)	(0.0)	(0.1)	-
Other capital	3.2	0.8	3.7	13.8	(3.5)	(0.7)	(4.2)	1.1	18.5	2.0
Errors and Omissions	0.4	(0.7)	0.7	0.9	(0.4)	0.6	0.2	(0.5)	1.0	-
Overall balance	14.0	5.1	21.6	18.8	19.8	31.6	51.4	(3.3)	59.5	84.9
Foreign reserves	429.8	433.7	459.9	477.8	505.7	544.7	544.7	412.9	477.8	562.7

Source: RBI, Nirmal Bang Institutional Equities Research

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