India posts current account surplus of $19.8 bn as trade deficit narrows

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With sharp contraction in trade deficit, India's current account balance recorded a surplus of $19.8 billion (3.9 per cent of gross domestic product, or GDP) in the first quarter (Q1) of 2020-21 (FY21). This contrasts with a deficit of $15 billion (2.1 percent of GDP) in April-June 2019 (Q1FY20).

The surplus in April-June 2020 (Q1FY21) comes on top of a surplus of $0.6 billion (0.1 per cent of GDP) in the preceding quarter (Q4FY20), said the Reserve Bank of India (RBI) statement.

Key Highlights

- The surplus was due to sharp contraction in trade deficit to $10 billion, as the country's merchandise imports declined sharply relative to exports on a year-on-year basis.

- Aditi Nayar, principal economist, ICRA, said the current account surplus in Q1FY21 was well above expectations. The domestic and global lockdowns to fight Covid-19 exuded a differentiated impact on exports and imports.

- The merchandise trade deficit shrunk to just $10 billion in Q1FY21, most of which was accounted for by the net oil balance, added Nayar.

- The net services receipts remained stable, primarily on the back of net earnings from computer services. The private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to $18.2 billion — showing a decline of 8.7 per cent from their levels a year ago — the RBI said.

- The net outgo from the primary income account, reflecting net overseas investment income payments, increased to $7.7 billion, from $6.3 billion a year ago.

- In the financial account, net foreign direct investment recorded an outflow of $0.4 billion, against inflows of $14 billion in Q1FY20.

- The net foreign portfolio investment was $0.6 billion, compared with $4.8 billion in Q1FY20, as net purchases in the equity market were offset by net sales in the debt segment.

- With repayments exceeding fresh disbursals, external commercial borrowings to India recorded a net outflow of $1.1 billion in Q1FY21, against an inflow of $6 billion a year ago, it added.

- The net inflow on account of non-resident deposits increased to $3 billion, from $2.8 billion in Q1FY20. There was accretion of $19.8 billion to the foreign exchange reserves (on a balance of payments basis), against $14 billion in Q1FY20.

SOURCE: *Business Standard*