Our Views

How balanced is the surplus Balance of Payments!

RBI has recently released the balance of payments (BoP) data for the 4th quarter and for the fiscal year 2024 and it has been quite a surprise. We posted a current account surplus of $5.7 bn, equivalent to 0.6% of the GDP for the March quarter. This comes on the back of an $8.7 bn deficit in the December quarter which is 1.0% of the GDP for the quarter. The surplus is majorly driven by higher service exports and remittances.

Overall, the current account BoP for the full fiscal year 2024 stands at a deficit of $23.3 bn or 0.7% of the GDP, as compared to a deficit of $67.1 bn or 2% of GDP last year. Notably the merchandise trade deficit narrowed to $50.9 bn from $69.9 bn in the previous quarter majorly because of the decreased global prices of the oil.

This is not the first time we have posted a current account surplus; it previously happened 8 times in the last 19 years. The recent ones include the first quarter of FY22, first two quarters of FY21 and the last quarter of FY20. These were primarily caused by the sharp fall in imports around the covid pandemic. **So that makes this quarter's surplus, effectively the first in 16 years not considering any black swan events.**

While we have historically fared well in the fourth quarter, the surplus beat expectations and at first glance, ties in well with the country's ambitions. But upon further contemplation, is this really what we need when India is at the precipice of its transformative growth journey?

The surplus means that inflows have surpassed outflows, which would be good news for a developed country, but India unfortunately is not there yet. What we require is something different. The surplus is a sign of depressed domestic demand which shows that the domestic sectors are unable to absorb imports. Total merchandise exports and imports have decreased this fiscal due to fall in global commodity prices, but imports saw a higher fall of 5.2% vs 3.2% from exports on YoY basis. This shows that the Indian industry has not been able to capitalize on the decreased global prices to increase imports and strengthen itself. The domestic manufacturing growth is still subdued and needs to grow and thrive. This growth would be indicated by rising appropriate imports, something we are currently lacking. The much-needed push for this must come in the form of private capex.

At the same time, net FDI flows have decreased significantly to $9.8 bn, just 1/3rd of their value last fiscal year or for that matter, a mere 30% of what it was a decade ago. The decreasing trend of net FDI over the past few years has become a point of concern.

On a positive note, India has undoubtedly established itself as a global center for services exports. Business services exports such as Global Captive Centers (GCCs) have recorded a 41.6% annual growth in FY24 with a room for improvement as it expands its reach. Total services exports also increased by 13.6% annually, exceeding $143.0 bn. Another milestone this year includes remittances by Indians living abroad which touched $107.0 bn, proving their faith in India's growth narrative.

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Despite posting a surplus and record high remittances this quarter, we are not likely to see a significant movement in rupee appreciation. Any change would primarily depend on the weakness of the dollar and the Fed's decision on interest rates. RBI also aims to maintain stability in this regard.

India now has the challenge of navigating the delicate balance of increasing its exports while also making sure imports are high enough to substantially grow its domestic industries. At this stage we can't take our eyes off the FDI therefore need to emerge as an attractive destination for foreign investment. **For a *fast-developing country like ours a bit of deficit is surplus!***

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