

BoP in Q3 FY10: Current a/c deficit widens and Capital inflows also moderate

The overall balance of payment declines to \$1.8 bn in Q3 from \$9.4 bn in Q2 FY10 on worse than expected trade deficit, lower invisibles and slower capital inflows.

Current account deficit widens to worse than expected:

- India's current account deficit widened to \$12 bn in Q3 FY10 (3.4% of GDP), worse than expected from \$11.9 bn in Q2.
- The trade deficit narrowed slightly to \$30.7 bn in Q3FY10 from \$31.9bn in Q2, while invisibles moderated to \$18.7 bn from \$20 bn. Within invisibles, software services exports rebounded by 18.4% yoy in Q3, as demand picked up in developed market but non-software exports of business, communication and financial services remained weak. Remittances remained buoyant at \$ 12.8 bn, though moderated slightly compared to Q2.

Capital account moderates to \$14.7 bn:

- Capital inflows moderated to \$14.7 bn in Q3 FY10 after it surged to \$22.6 bn in Q2, due to lower inflows in FII, FDI, seasonal moderation in banking capital and outflows from 'other capital'.
- Flows into growth sensitive equity components of capital account slowed but interest-rate sensitive debt components accelerated.
- The overall balance of payment surplus was \$1.8 bn in Q3 lower than \$9.4 bn in Q2 FY10.

FX Reserves increased due to revaluation

- Foreign exchange reserves, on BoP basis, had an accretion of \$1.8 bn in Q3 of FY10 as against a decline in reserves of \$17.9 bn in Q3 FY09.

Bottom Line:

- Going forward, higher oil prices and increased domestic investment activities resulting in higher capital goods import along with slower export pick up (as our export destination countries recover slowly) will increase the import bill and keep the current account deficit higher than expected.
- But stronger growth, higher interest rate differential, abundant global liquidity will continue to attract net capital inflows. This will be more than sufficient to fund our current account deficit.
- We expect overall BoP surplus of around \$20 bn for FY10, much lower than expected before as trade deficit (and current account deficit) is considerably higher than expected.

Economy Update

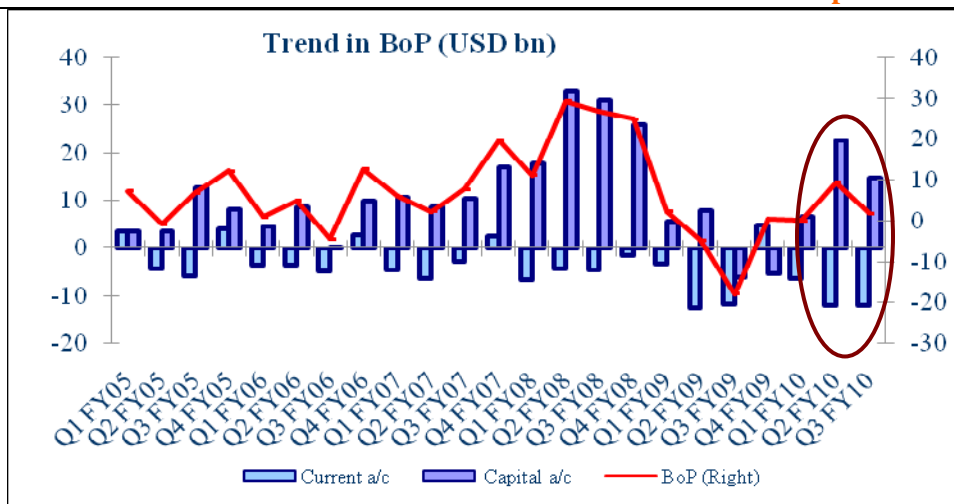
Balance of Payment (BoP) in Q3 FY10

Quarterly and Annual Trends in the Balance of Payments (US\$bn)

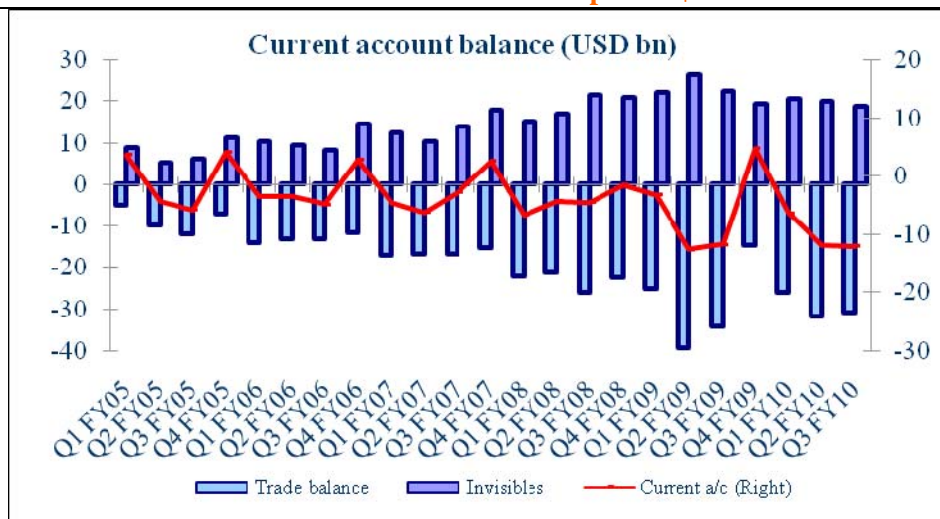
	FY08				FY09				FY10		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1) Current Account (a+b)	-6.7	-4.3	-4.5	-1.5	-3.3	-12.6	-11.7	4.7	-6.4	-11.9	-12.0
Exports	34.4	38.3	41.0	52.5	57.5	53.6	39.4	39.8	37.9	41.9	44.6
Imports	56.3	59.5	67.0	74.9	82.7	92.8	73.5	54.4	64.8	73.8	75.4
a. Trade Balance	-22.0	-21.2	-26.1	-22.3	-25.3	-39.1	-34.0	-14.6	-26.0	-31.9	-30.7
b. Invisibles	15.3	16.9	21.5	20.8	22.0	26.5	22.4	19.3	20.5	20.0	18.7
2) Capital Account	17.8	33.2	31.0	26.0	5.5	7.8	-6.1	-5.3	6.5	22.6	14.7
FII	7.5	10.9	14.9	-3.7	-4.2	-1.3	-5.8	-2.7	8.3	9.7	5.7
FDI	2.7	2.1	2.0	8.5	9.0	4.9	0.4	3.2	7.0	6.5	3.9
ECB	7.0	4.2	6.2	5.2	1.5	1.7	3.8	1.1	-0.4	1.2	1.5
Short Term Trade Credit	2.0	4.6	4.1	6.5	4.5	0.4	-4.2	-5.5	-1.5	0.8	3.3
NRI deposits	-0.4	0.4	-0.9	1.1	0.8	0.3	1.0	2.2	1.8	1.0	0.6
Other Capital	-0.7	4.2	3.0	3.0	-8.9	-1.4	4.7	1.1	-4.1	-0.1	-1.6
Overall Balance (BoP)	11.2	29.2	26.7	25.0	2.2	-4.7	-17.9	0.3	0.1	9.4	1.8

Source: RBI

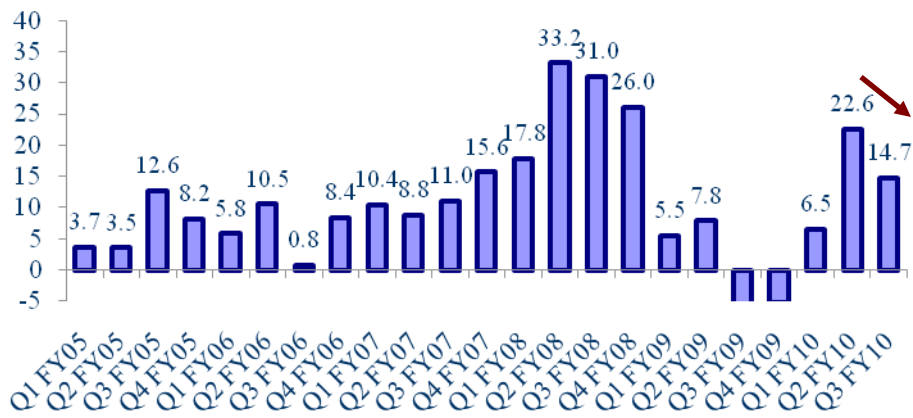
BoP declined on wider current account deficit and moderation of capital inflows



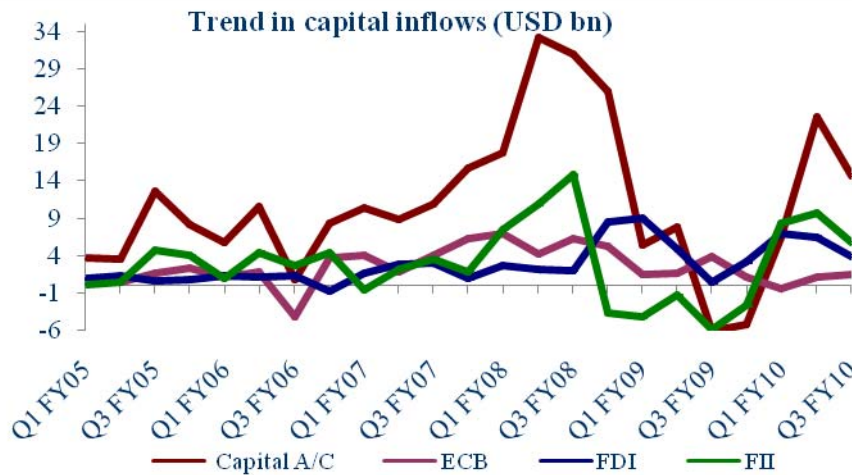
Current account deficit widened to a worse than expected \$12bn as Invisibles slowed



Net capital inflows moderated to \$14.7bn in Q3 FY10 after surging in Q2 FY10



Lower net inflows in FDI, FII and ECBs slowed Capital Account



Forex reserves showed an accretion of \$ 1.8 bn in Q3 FY10 vs. a decline of \$ 17.9 bn in Q3 FY09

