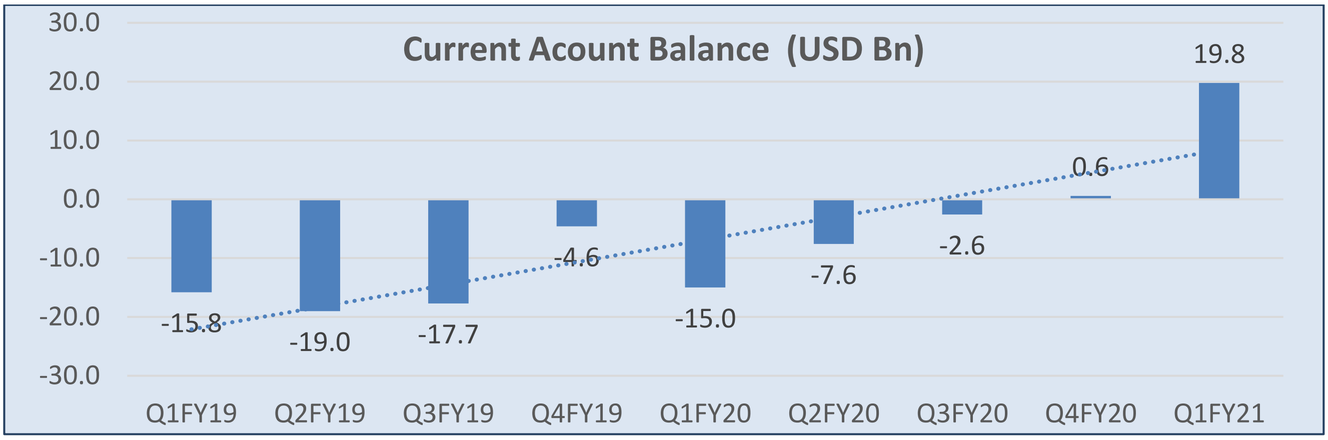
30 September 2020

Key Highlights - Macro-Economic Data Released – Q1FY21 Current Account Balance



Source: RBI, News Articles

Key Highlights:

- The country's current account surplus rose to **USD 19.8 billion or 3.9% of GDP** in the **June quarter** as merchandise imports declined amid the COVID-19 pandemic. The current account surplus stood at **USD 0.6 billion or 0.1% of GDP in the March quarter** while there was a current account deficit of **USD 15 billion or 2.1% of GDP in during the corresponding period last year.**

- The surplus in the current account in Q1FY21 was on account of a **sharp contraction in the trade deficit to USD 10.0 billion** due to sharper decline in merchandise imports relative to exports on a y-o-y basis.

- **Forex reserves saw an accretion of USD 19.8 billion in Balance of Payments terms** during the quarter as compared to USD 14 billion in the previous quarter.

- **Private transfer receipts**, mainly remittances, **fell 8.7%** in the April- June 2020 quarter from a year ago.

- **Net FDI recorded outflow of USD 0.4 billion** in the April- June 2020 quarter v/s an inflow of USD 14 billion the same quarter previous year.

- **Net portfolio investment was at USD 0.6 billion** compared to USD 4.8 billion in quarter ended June 2019.

- With repayments exceeding fresh disbursals, **external commercial borrowings also saw a net outflow of USD 1.1 billion** in quarter ended June 2020 as against an inflow of USD 6.0 billion in quarter ended June 2019.

Outlook

The temporary shift from a current account deficit to a surplus could have **two-fold implications**.

Firstly, the surplus has **allowed the Reserve Bank of India to build its stockpile of forex reserves**. As of September 25, forex reserves stood at USD 545 billion. It is expected that by the end of the fiscal the reserves would reach ~ USD 570 billion based on the assumption that for the **full fiscal too the country will report a current account surplus.**

Secondly, as the RBI absorbs dollars, it has continued to **supply rupee liquidity** to the market. Which in turn would lead to **wider pool of domestic savings** which would **support increased borrowing programme of the government**.

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