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At $15.5bn, Q2 current a/c surplus at 2.4% of GDP

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Mumbai: India's current account surplus moderated to $15.5 billion, which is around 2.4% of the gross domestic product (GDP) for the second quarter ended September 2020, from a high of $19.2 billion (3.8% cent of GDP) in the quarter ended June 2020. This is the third consecutive quarter that the economy has seen a current account surplus. Last year, the comparable quarter (ended September 2019) saw a current account deficit of $7.6 billion (1.1% of GDP).

Economists expect the economy to record a current account surplus for FY21 — the first in over 15 years — despite a likely moderation in December 2020. "For the entire year, we could still expect a current account surplus, which is already 3.1% of GDP in H1 (first half). This can be 1-1.5% of GDP. It should be remembered that the ratio is seeming higher because the denominator is declining as real GDP has contracted in H1," said Madan Sabnavis, chief economist at Care Ratings.

The current account surplus largely refers to the difference between value of exports and imports of goods and services. While a surplus is generally a positive indicator and helps bridge government deficit, it can also be because of domestic demand dipping due to a recession.

Releasing the balance of payment data, the RBI said that the narrowing of the current account surplus was on account of a rise in the merchandise trade deficit to $14.8 billion from $10.8 billion in the preceding quarter. Among the positive developments, services receipts increased — both sequentially and on a year-on-year basis — primarily on the back of higher net earnings from computer services. Export of computer services brought in $25 billion as compared to $22.6 billion in the preceding quarter.

Private transfer receipts, which represent remittances by Indians employed overseas, declined on a year-on-year basis but improved sequentially by 12% to $20.4 billion in Q2FY21. In the financial account, net foreign direct investment recorded a robust inflow of $24.6 billion as compared with $7.3 billion in Q2 of 2019-20, thanks partly to the large investments mobilised by Reliance Jio.

Net portfolio investment by foreign institutional investors was $7 billion as compared with $2.5 billion in Q2 of 2019-20, as negative rates in the west resulted in a wave of capital flowing into emerging markets. Deleveraging by Indian corporates resulted in external commercial borrowings to India recording a net outflow of $4.1 billion in Q2 of 2020-21 as against an inflow of $3.1 billion a year ago. However, investment in bank deposits by non-resident Indians slipped to $1.9 billion from $2.3 billion in Q2 of 2019-20.

RBI's purchase of dollars to neutralise the impact of capital flows resulted in an accretion of $31.6 billion to the country's foreign exchange reserves. In the second quarter last year, the total addition to reserves was only $5.1 billion.

The current account surplus for the first half stood at 3.% of GDP as against a deficit of 1.6% for the quarter ended September 2019. Foreign investors pumped in $23.8 billion by way of direct investment and $7.6 billion into equity markets. In the first half the foreign exchange reserves rose by $51.4 billion.