

India: Current account deficit improves in Q1 2013

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India's current account deficit improved to USD18.2bn (3.6% of GDP) in Q1 2013 versus a historic high of 6.7% of GDP in Q4 2012 (Consensus: USD21bn, Nomura: USD21.3bn). The improvement is largely seasonal but also reflects a lower-than-expected trade deficit.

For FY13 (year ending March 2013), the current account deficit stood at a historic high of 4.8% of GDP up from 4.2% in FY12. We expect the overall current account deficit to moderate to 4.3% of GDP in FY14, as lower gold imports and lower commodity prices likely more than offset the impact of INR depreciation. However, in our view, financing the current account deficit this year will be the key challenge, as not only are there risks from lower portfolio inflows, but debt inflows such as short-term trade credit also suggest caution. Therefore, overall, we expect lower capital inflows to offset any benefit from a lower current account deficit, which will maintain upward pressure on USD/INR.

The release of the balance of payments data two days ahead of schedule suggests that the RBI is trying to calm markets following USD/INR breaching 60 yesterday evening.

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Disclosure Appendix A-1

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