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The bottom-line remains that under Trump 2.0, subdued oil prices apart from our persistent strength in services trade is keeping current account (C/A) dynamics comfortable. However, great rotation of capital flows away from emerging markets including India, as Trump attempts to “Make America Great Again” is weighing on Balance of Payment (BoP) dynamics.

**Q3-FY25 Current Account deficit slightly narrows to \$ 11.5 USD Bn, 1.1% of GDP.**

- In Q3-FY25, C/A deficit narrowed to \$11.5 Bn (1.1% of GDP) from a \$16.7 Bn in Q2-FY25.
- During Q3 FY25, prime driver of C/A dynamics was the seasonal normalization in merchandise trade deficit to \$79.2 Bn from \$84.3 Bn in Q2-FY25 supported by increased exports in Q3-FY25. However, merchandize imports were higher during Q3 FY25, especially due to spike in gold imports.
- Invisibles surplus was well maintained at \$67.7 Bn in Q3-FY25 unchanged from previous quarter, driven by consistent increase in services trade surplus to \$ 51.2 Bn in Q3-FY25 from \$ 44.6 Bn in Q2-FY25. Remittances flow during the Q3 FY25 was at \$ 33.2 Bn, higher from \$ 32.4 Bn in Q2 FY 25, adding to invisibles surplus during the quarter.
- Going forward, Q3-FY25 saw improvement in trade dynamics specially supported by strong services trade surplus and narrowing in merchandize trade deficit during the quarter. Despite global volatility and restrictive tariff policies, we expect Current Account balance to report surplus in Q4-FY25 owing to support from strong service trade surplus and remittances.

**Q3-FY25 BoP clocks record deficit after remaining in surplus for last six quarters**

- Balance of payment (BoP) reversed its earlier surplus to record deficit at \$ 37.6 Bn in Q3 FY25 vis-à-vis surplus of \$18.6 Bn in Q2-FY25. The key driver of BoP deficit was outflow of foreign investment (FDI+FPI) to the extent of \$14.1 Bn in Q3-FY25 from inflow of \$17.5 Bn in Q2-FY25 owing to global policy shifts and uncertainty under Trump 2.0.
- Net Foreign Portfolio investments recorded first of its outflow of \$ 11.4 Bn in Q3 FY 25, after recording inflow for past six quarters. Net foreign direct investment (FDI) outflows remained subdued at \$ 2.7 Bn in Q3-FY25 vis-a-vis outflow of \$2.3 in Q2-FY25.
- External Commercial Borrowing were amongst the highest in last four quarters at \$ 4.3 Bn, doubling from \$ 2.0 Bn in previous quarter. Short-term credit narrowed to \$ 3.8 Bn in Q3 FY25 from \$ 5.0 Bn in Q2 FY25. This is partly attributed to some widening of US-India rate differentials as Fed has reduced rates by 100 bps vis-à-vis 25 bps by RBI.

**FY25 CAD likely to remain comfortable at 0.5% of GDP with BoP deficit of \$ 15.4 Bn**

- We expect BoP deficit at \$ 15.4 Bn in FY25 with C/A deficit staying marginally low at 0.5% of GDP vs. 0.7% of GDP in FY24, assuming average oil price at -US\$ 78/bbl.
- Under Trump 2.0, while oil prices are likely to stay subdued (he asserted ‘leave the oil to me’), metal prices are facing upward pressure, with gold touching record highs on safe haven demand.
- Going forward, we see some deterioration in C/A dynamics in FY26 with widening in deficit to 0.9% of GDP, on disruptions under Trump 2.0. Meanwhile, if oil prices settle lower at \$70/bbl versus \$75/bbl assumption, we see downside revision of 20bps to our forecast. Sensitivity of C/A deficit to oil prices stays high with every \$10/b move in oil price affecting annual C/A balance by close to \$15 bn.

Fig: 1 Trade deficit narrows in Q3 FY25, though services surplus unchanged

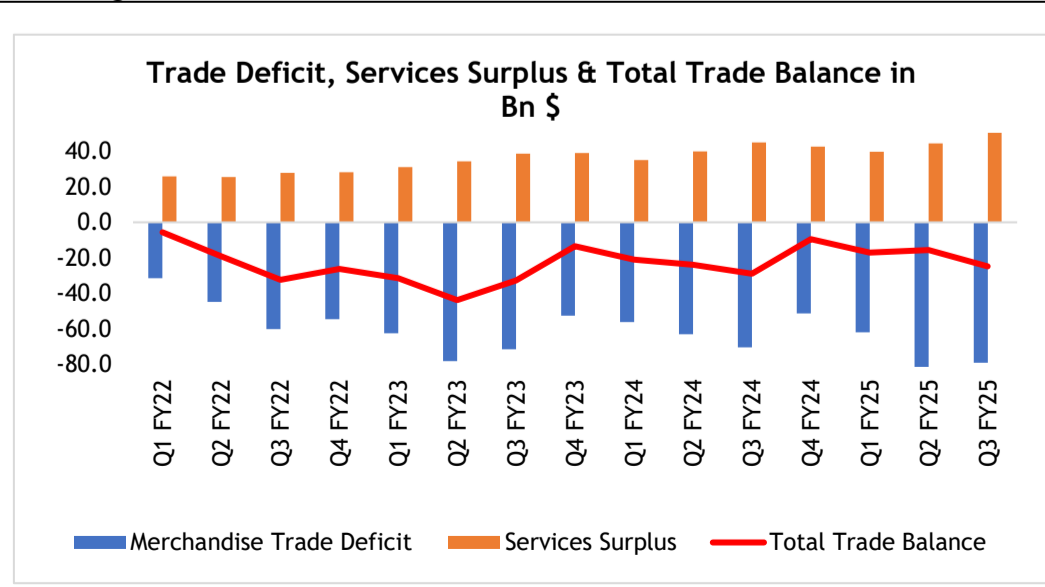
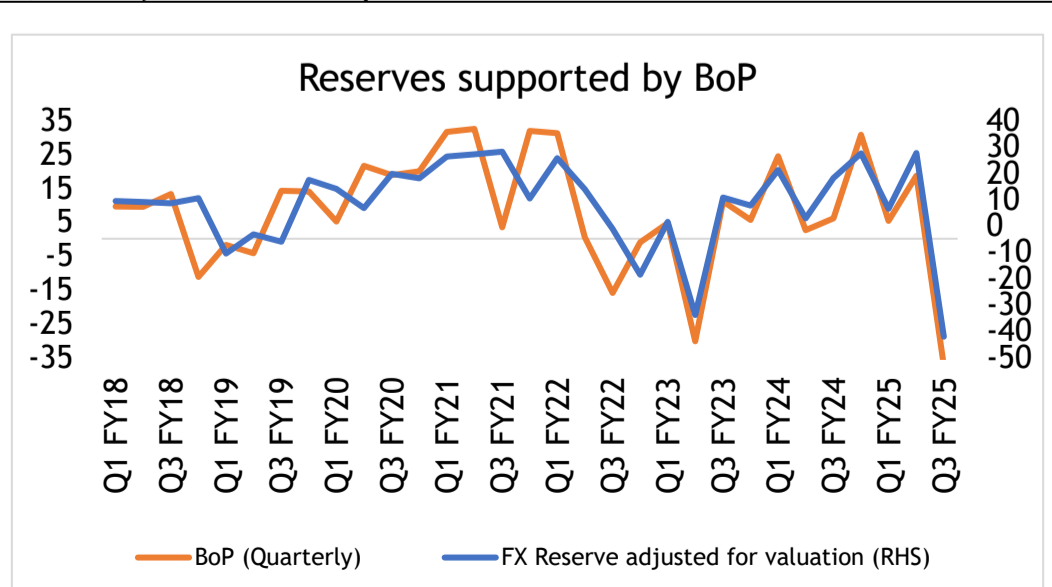
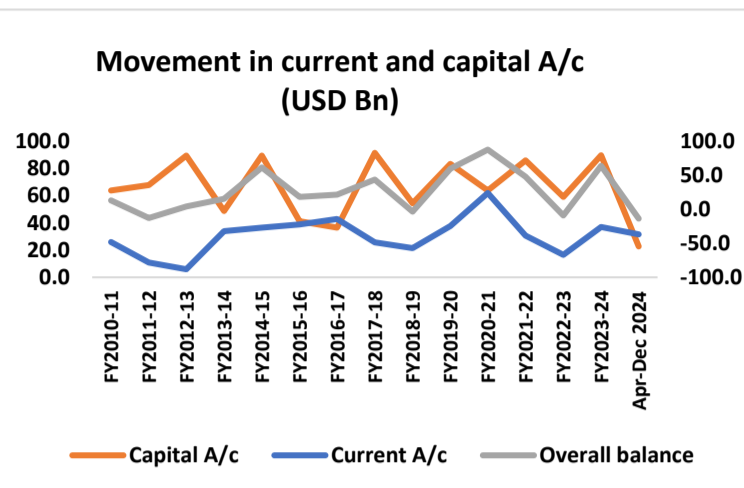


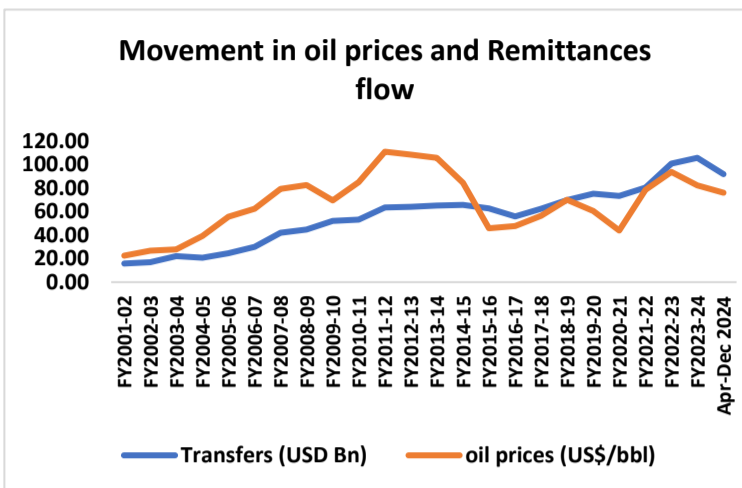
Fig 2: FX reserves adjusted for valuation effects signals BoP deficit in Q3-FY25 from earlier surplus



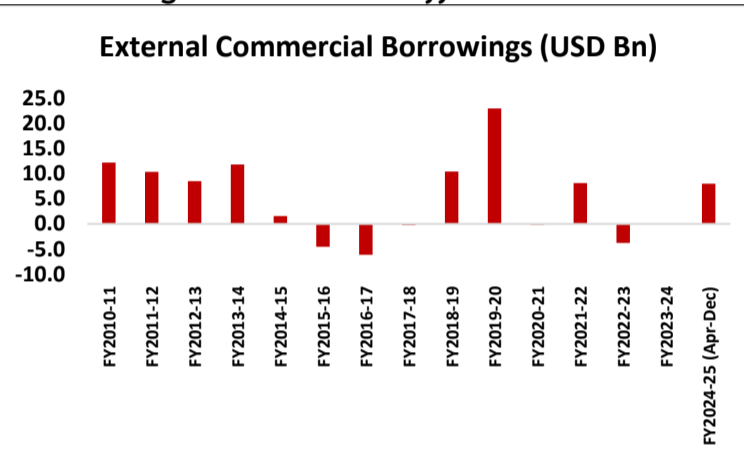
**Fig 3 While current a/c deficit narrowed in Q3-FY25, capital a/c slips into deficit**



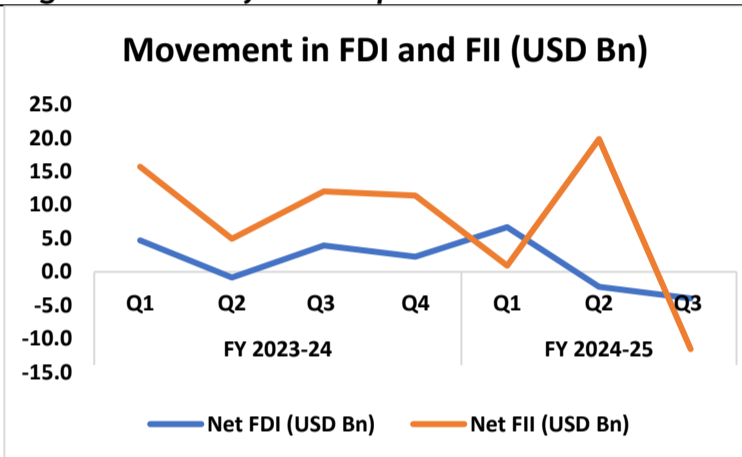
**Fig 4 Remittances stay strong despite lower oil prices**



**Fig 6: ECB flows trend higher (highest after FY20) on widening US-India rate differentials**



**Fig 7 Net foreign investments (FII) enters negative zone after six quarters.**



**Movement in Balance of Payments**

USD bn	FY 2023-24				FY 2024-25			FYTD 2024-25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Exports	104.9	108.3	106.6	121.6	111.2	104.6	109.8	325.5
%y/y	-14.5	-3.2	1.0	5.0	5.9	-3.5	3.0	1.8
Imports	161.6	172.8	178.3	173.6	175.0	188.8	189.0	552.8
%y/y	-13.0	-9.1	0.8	3.1	8.2	9.3	6.0	7.8
<b>Trade balance</b>	<b>-56.7</b>	<b>-64.5</b>	<b>-71.6</b>	<b>-52.0</b>	<b>-63.8</b>	<b>-84.3</b>	<b>-79.2</b>	<b>-227.2</b>
Invisibles	47.7	53.3	61.2	56.6	54.9	67.6	67.7	190.1
Services	35.1	39.9	45.0	42.7	39.7	44.6	51.2	135.5
Transfer	22.8	24.9	29.3	28.7	26.3	32.4	33.2	91.9
Income	-10.2	-11.6	-13.1	-14.8	-11.1	-9.5	-16.7	-37.3
<b>Current account</b>	<b>-9.0</b>	<b>-11.3</b>	<b>-10.4</b>	<b>4.6</b>	<b>-8.9</b>	<b>-16.7</b>	<b>-11.5</b>	<b>-37.1</b>
Foreign investment	20.5	4.1	16.0	13.7	7.6	17.5	-14.1	11.0
FDI	4.7	-0.8	4.0	2.3	6.6	-2.3	-2.8	1.6
FII	15.7	4.9	12.0	11.4	0.9	19.9	-11.4	9.4
Loans	2.2	3.3	-2.8	3.9	5.1	9.2	8.9	23.2
Banking capital	12.9	4.3	16.4	6.9	2.9	6.1	-9.8	-0.8
<b>Capital account</b>	<b>35.6</b>	<b>11.7</b>	<b>29.6</b>	<b>24.5</b>	<b>13.4</b>	<b>36.1</b>	<b>-26.8</b>	<b>22.7</b>
<b>Overall balance</b>	<b>26.6</b>	<b>0.4</b>	<b>19.1</b>	<b>29.1</b>	<b>5.3</b>	<b>18.6</b>	<b>-37.7</b>	<b>-13.8</b>

Source: CEIC, RBI & UBI research

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