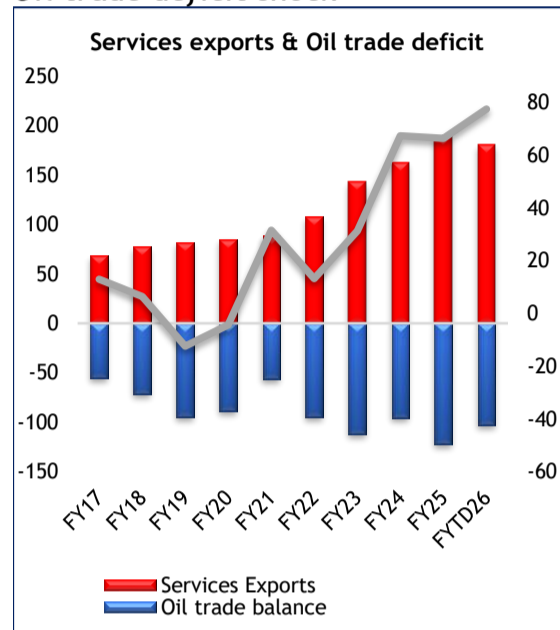


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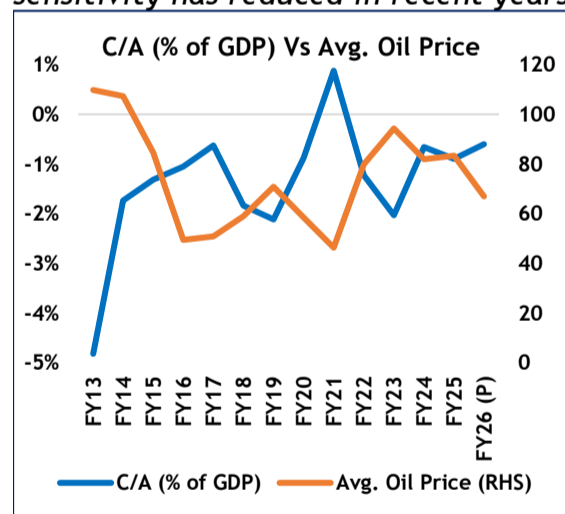
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**Fig 1: Robust Services exports offsets Oil trade deficit shock**



Source: CEIC, RBI & UBI Research

**Fig 2: C/A deficit show positive correlation with oil prices yet sensitivity has reduced in recent years**



Source: CEIC, RBI & UBI Research

**Q3-FY26 CAD moderated to 1.3% of GDP, versus an upwardly revised 1.5% (prior 1.3%) in Q2-FY26**

- In Q3-FY26, current account (C/A) balance narrowed marginally to a deficit of **\$13.2bln (1.3% of GDP)** from an upward revised deficit in Q2-FY26 of **\$14.1bln (1.5% of GDP)** (Prior: \$12.3bln: 1.3% of GDP). [Refer our report: [Jan'26 Trade Deficit widens sharply to \\$34.68bln, overshooting street estimates on Gold-led import spike; NONG deteriorates](#)]
- During the quarter, prime driver of C/A dynamics was the unprecedented levels of imports seen in merchandise trade deficit mostly in Gold and NONG; while there was an incremental demand for Oil. (\$93.6bln in Q3FY26 vis-a-vis \$89.1bln (Prior \$87.4bln) in Q2FY26).
- Meanwhile, net services receipts stayed robust at **\$57.5bln** up from **\$50.9bln** in Q2FY26 driven by record all-time high services trade surplus and strong remittances.
- Going forward, Q4-FY26 may see a seasonal improvement in trade dynamics on account of moderation in gold imports and narrower non-oil non-gold deficit even as oil deficit has been contained till now though of escalating Middle East tensions needs close watch. Hence, we see broad improvement in C/A deficit in Q4-FY26 despite upward pressure on commodity prices and gold prices which spiked to fresh record highs.

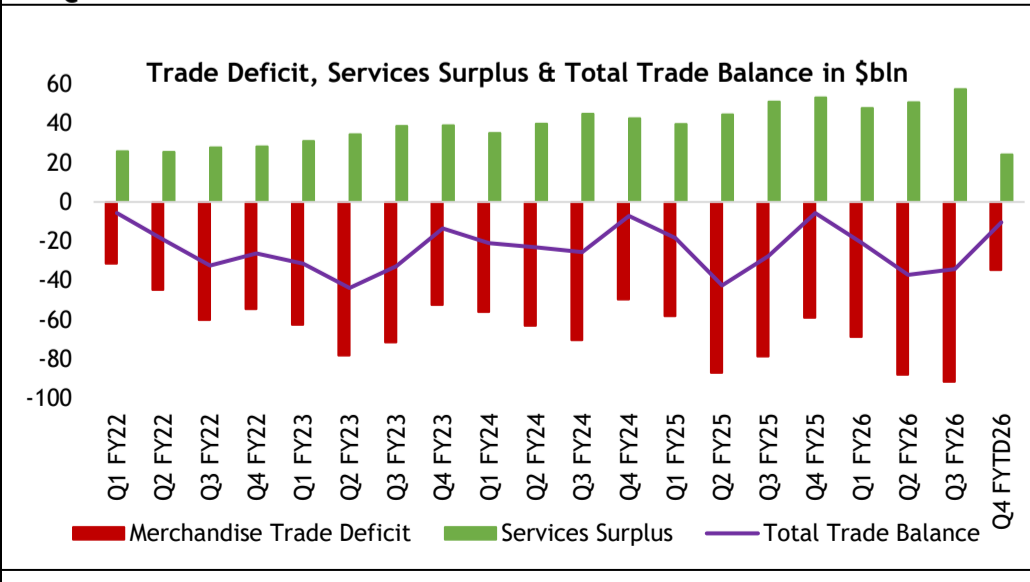
**Q3-FY26 Balance of Payment (BoP) posted an elevated deficit**

- BoP clocked a massive deficit of **\$24.4bln** vis-à-vis a deficit of **\$10.9bln** in Q2-FY26. The key driver of the sharp widening in BoP was the slip in Foreign Investment Inflows (FII) to \$3.76bln from \$2.88bln in Q2-FY26 as there was an escalation in the US-India trade tariff tensions.
- Meanwhile, net Foreign Direct Investment (FDI) **outflows surged to \$3.7bln in Q3-FY26** vis-a-vis **\$1.9bln inflows in the Q2-FY26**. However, FII flows improved in Q3-FY26 to (-)\$0.2bln vis-à-vis (-)\$5.7bln in Q2-FY26 and expected to continue the positive run in Q4-FY26 amid US-India Trade Agreement.
- Moreover, there was an uptick in ECB flows to **\$2.1bln** from **\$0.1bln** last quarter but the short-term credit surged to **\$11.4bln** in Q3FY26 from **\$4.0bln** in Q2-FY26. Going forward, we expect debt flows like ECBs, trade credit, NRI deposits etc. to increase as India's rate differential with US widens with the latter is still open for few more rate cuts in the cycle.
- In fact, our analysis of FX reserves adjusted for valuation effects (a good BoP proxy), was already showing that BoP deficit hit ~\$23bln in Q3, 2x vs Q2. During that period, the missed U.S.-India trade deal deadline heightened uncertainty, dampened investor sentiment, and added short-term pressure on Indian equities and the rupee due to concerns over export growth and tariff risks.

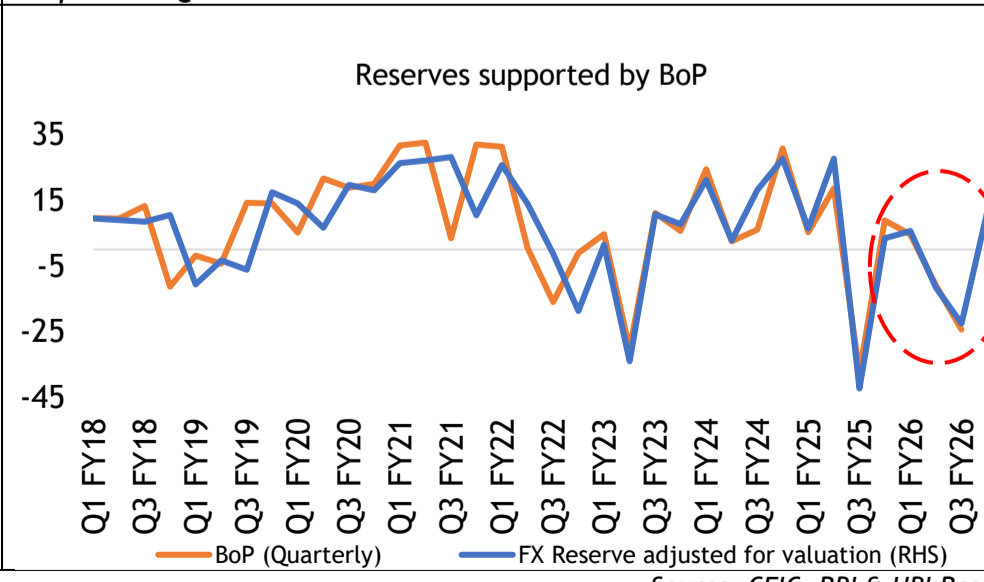
**FY26 CAD now seen higher vs our initial forecast at 0.9% of GDP with BoP deficit of \$23.8bln**

- For full year FY26, our BoP projections are currently tracking a deficit of ~\$23.8bn yet need close watch amid heightened geopolitical uncertainty. Additionally, we see seasonal improvement in C/A dynamics in Q4 yet FY26 deficit is tracking 0.9% of GDP versus our initial forecast of 0.6% initially.
- 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. Hence given the spike in geopolitical tensions, if average oil prices settle higher at c.\$80/bbl., C/A deficit may be higher by ~\$15bn over next 4 qtrs i.e. ~0.4% of GDP. Moreover, the other channel of impact of oil prices on C/A dynamics via remittances (Middle East accounts for ~40% share) is also likely to have an unfavorable impact.
- That said, elevated services exports provide a cushion against oil price spike even as we cautiously watch out for impact on overall BoP from both trade and sentiment channels.

**Fig 3: Deterioration in C/A dynamics led by wider goods trade deficit in Q3-FY26**



**Fig 4: FX reserves adjusted for valuation signals a recovery to BoP surplus in Q4-FY26**



Source: CEIC, RBI & UBI Research

Fig 5: Balance of Payment data table

\$ bln	2024-25	FY 2025-26				2025-26 (Estimated)
		Q1	Q2	Q3	Q4 (Proj.)	
<b>Exports</b>	442.1	112.7	109.0	111.7	114.0	447.4
%y/y	0.1	-2.2	8.3	1.7	-2.1	1.2
<b>Imports</b>	729.0	181.6	198.1	205.3	198.0	783.0
%y/y	6.2	3.8	4.7	8.6	12.7	7.4
<b>Trade balance</b>	<b>-286.9</b>	<b>-68.9</b>	<b>-89.1</b>	<b>-93.6</b>	<b>-84.0</b>	<b>-335.6</b>
<b>Invisibles</b>	263.9	66.0	75.0	80.4	79.8	301.2
<b>Services</b>	188.8	47.9	50.9	57.5	59.0	215.3
Transfer	123.4	30.9	36.3	35.1	33.0	135.3
Income	-48.3	-12.8	-12.2	-12.2	-12.2	-49.4
<b>Current account</b>	<b>-23.1</b>	<b>-2.9</b>	<b>-14.1</b>	<b>-13.2</b>	<b>-4.2</b>	<b>-34.4</b>
<b>Foreign investment</b>	4.5	6.4	-3.9	-3.8	1.0	-0.3
FDI	1.0	4.8	1.9	-3.7	3.0	6.0
FII	3.6	1.6	-5.7	-0.2	-2.0	-6.3
<b>Loans</b>	29.3	5.2	4.5	13.3	5.0	28.0
ECB	15.9	4.5	0.1	2.1	0.2	6.9
Short-term credit	7.2	-0.1	4.0	11.4	3.5	18.8
<b>Banking capital</b>	-9.8	-1.6	1.9	0.7	5.2	6.2
<b>ow NRI deposits</b>	16.2	3.6	2.5	5.1	0.0	11.1
<b>Rupee debt capital</b>	-0.1	-0.1	0.0	0.0	0.0	-0.1
<b>Other capital</b>	-7.4	-2.1	-0.4	-20.2	0.0	-22.6
<b>Capital account</b>	16.6	7.9	2.1	-10.0	11.2	11.3
<b>Overall balance</b>	<b>-5.0</b>	<b>4.5</b>	<b>-10.9</b>	<b>-24.4</b>	<b>7.0</b>	<b>-23.8</b>
<b>CAD% to GDP</b>	<b>-0.6</b>	<b>-0.3</b>	<b>-1.5</b>	<b>-1.3</b>	<b>-0.4</b>	<b>-0.9</b>

Source: CEIC, RBI & UBI research

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