

Fig. 1: C/A deficit expected to deteriorate in FY26 to 1.2% of GDP

USD Bn	FY2024-25	FY2025-26 (P)
Exports	441.8	435.7
% y/y	0.1	-1.13
Imports	729.0	778.7
% y/y	8.3	7.16
Trade Balance	-287.2	-343.0
Invisibles	263.8	293
Services	188.8	227.7
Transfer	123.4	118
Income	-48.4	-52.7
Current Account	-23.4	-50.0
CAD% to GDP	-0.6	-1.2

Fig. 2: FY25 BoP switched to a deficit with dramatic shifts in underlying sub-segments

USD bn	FY2023-24	2024-25	Change (FY25 vs FY24)
Trade balance	-244.9	287.2	-42.3
Invisibles	218.8	263.8	45.1
Services	162.8	188.8	26.1
Transfer	105.8	123.4	17.6
Income	-49.8	-48.4	1.4
Current account	-26.1	-23.4	2.7
Foreign investment	54.2	4.5	-49.7
Loans	6.6	29.2	22.6
Banking capital	40.5	-9.8	-50.3
Other capital	-11.8	-7.1	4.7
Capital account	89.5	16.8	-72.7
Overall balance	63.8	-5.0	-68.8

Source: CEIC, UBI research

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### Q4-FY25 Current account and BoP surplus came above our expectations

- In Q4-FY25, C/A deficit turned into a surplus, as projected by us (refer [our BoP preview](#)), though the surplus came above our expectation (\$9.5 bn, 0.9% of GDP) at \$13.5 bn, 1.3% of GDP as against a deficit of \$11.3 bn in Q3FY25.
  - One of the main drivers of data surprise were remittances which came in higher at \$31.5 bn as against our estimate of \$28 bn. This was surprising as because of lower oil prices, the projections were kept lower but the sensitivity prima facie was not as much as feared. However, it will be a crucial factor to watch out for in FY26.
  - That said, strong services trade surplus partially contributed to set-off the merchandise trade deficit and kept the overall trade deficit under control even as positive seasonality played its role.
- In Q4 FY25, BoP too turned strongly positive to \$8.8 bn as against our expectation of \$4.6 bn and vis-à-vis a deficit of \$37.7 bn in Q3FY25.
  - While C/A switched to surplus, Capital a/c stayed negative and almost flat vs Q3FY25.
  - FDI and FII outflows persisted even as there was improvement versus Q3 and Banking capital flows continued to be weak and flat at -\$9 bn as against -\$9.8 bn in Q3FY25. Meanwhile, loans saw net inflows at \$5.5 bn partially offsetting impact.

### FY25: C/A and BoP have outperformed our expectations

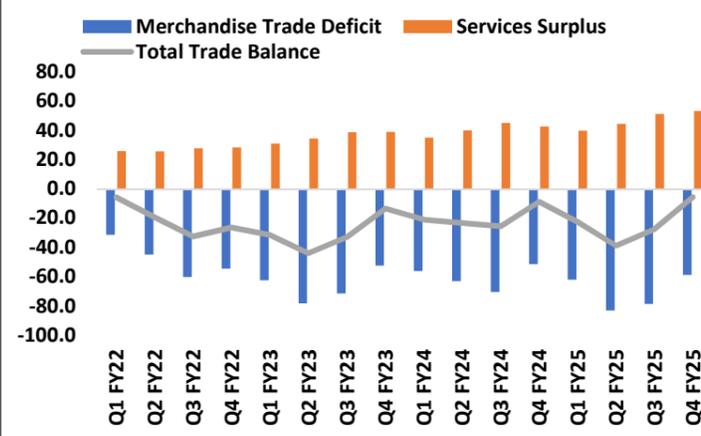
- While C/A deficit in FY25 clocked 0.6% of GDP, almost similar vs 0.7% in FY24, in absolute terms, the underlying sub-segments saw significant shifts. Merchandise trade deficit deteriorated (up by \$42.3 bn) while services and remittances (up by \$26bn & \$ 17bn resp.) saw sharp spikes thereby more than offsetting the impact.
- BoP in FY25 switched to a deficit of \$5 bn (our estimate of \$9.2 bn) from a surplus of \$63.8bn. This is despite narrowing of C/A deficit in absolute terms in FY25 to \$23.4 bn from \$26.1 bn in FY24.
  - Foreign investment has sharply come down in FY25 to \$4.5 bn from a robust \$54.2 bn in FY24. Both FDI & FPI flows clocked a dramatic slowdown as investor sentiment came under pressure on Trump's trade tariffs, geopolitical tensions among others.
  - Additionally, banking capital clocked outflows of \$9.8 bn vs \$40.5bn inflows in FY24. Meanwhile, higher loans flows at \$29.2 bn (FY24: \$6.2 bn) helped cushion some impact.

### FY26: C/A deficit may almost double to 1.2% of GDP, amid trade & geopolitical tensions

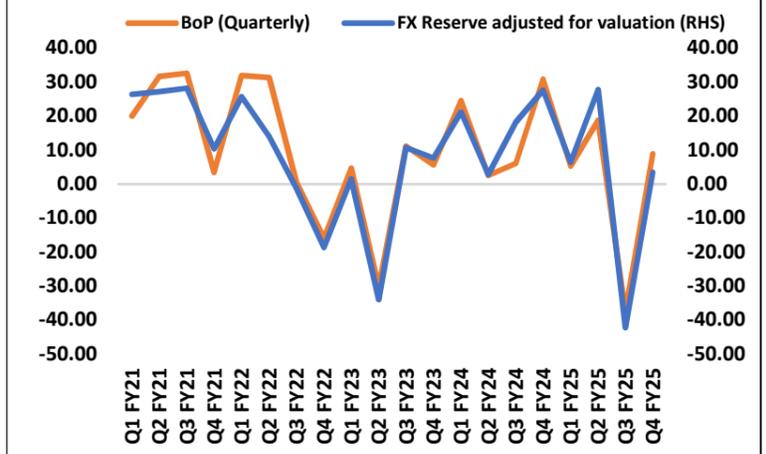
Going forward, we continue to maintain our view of widening in C/A deficit in FY26 to 1.2% in GDP, double versus FY25. Global tariff trade uncertainties, slowdown and any kind of reescalation of geo-political conflicts may further weigh on C/A. Commodity prices especially oil and metals will remain on close watch to assess trends in trade deficit. 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 \$16 bn. Also, while the sensitivity of remittances to oil prices though not yet visible, needs to be watched closely assuming oil prices stay subdued. Further, the impact of 5% tax on remittances by Trump may also become visible in the current fiscal. More importantly, geopolitical risks especially tariff concerns and any trade deals signed by India with US/Europe will influence trade-dynamics. However, positive surprise is likely if services exports and remittances sustain their positive momentum.

From BoP perspective, FX reserves adjusted for valuation effects show that BoP surplus of ~\$13bn has already been clocked in FYTD26. That said, we will watch out for key BoP risks viz. investor appetite on persistent geopolitical tensions even as US exceptionalism theme has seen a setback, volatility in commodity prices and trends in US-India rate differential on rising expectations of further Fed rate cuts later this year while the bar for further easing by RBI has been raised higher.

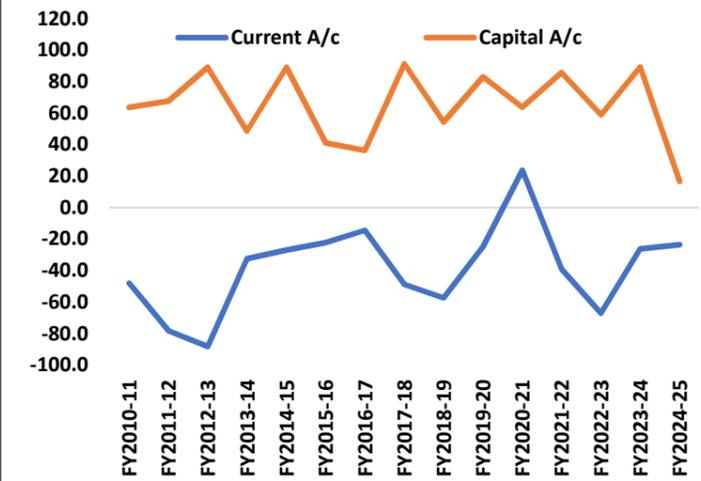
**Fig. 3: Trade deficit narrows in Q4 FY25, while services surplus remained almost flat**



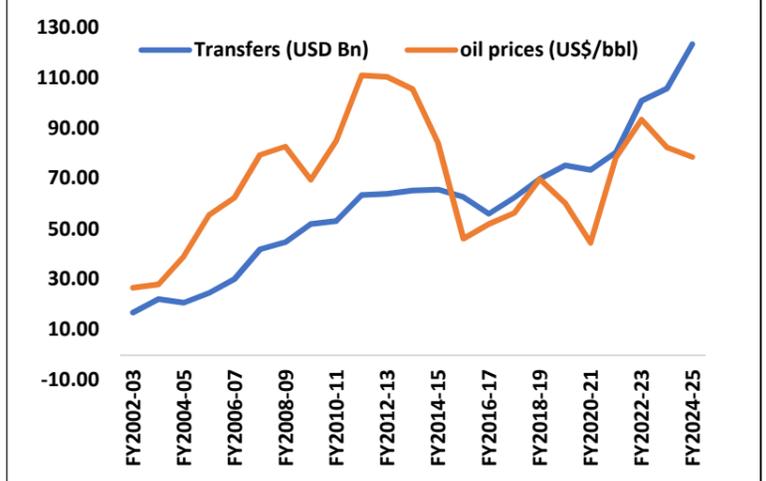
**Fig. 4: FX reserves adjusted for valuation effects lower than BoP surplus in Q4-FY25 (\$bn)**



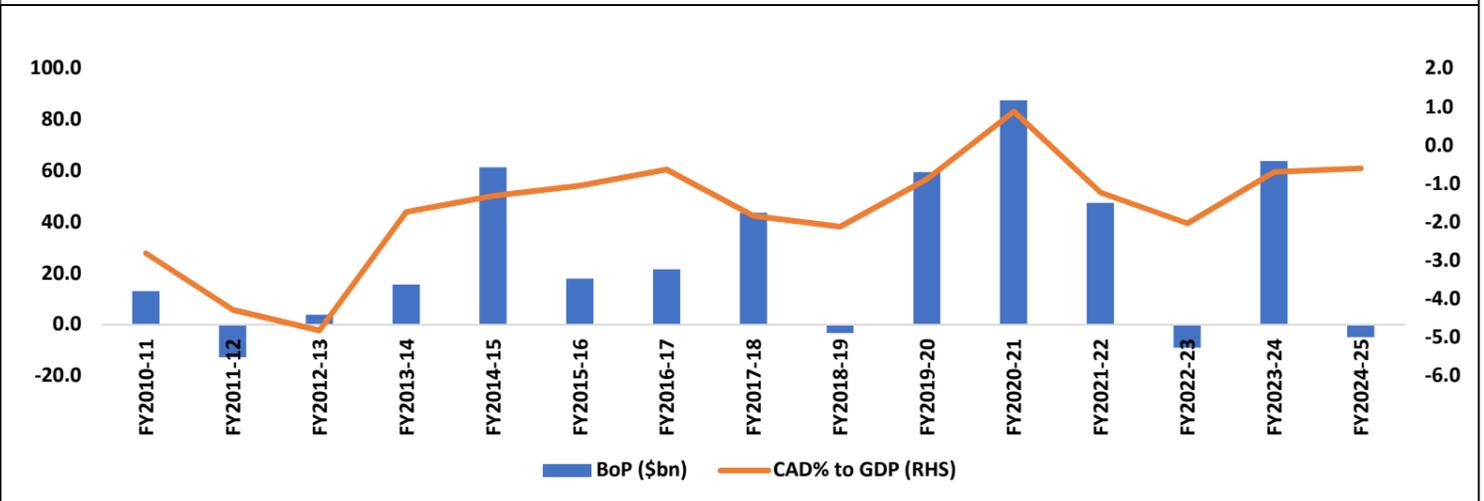
**Fig. 5: In FY'25 current a/c continued to be in deficit while capital a/c surplus falls sharply (\$bn)**



**Fig. 6: Spike in transfers in FY25 is a gamechanger**



**Fig. 7: BoP turned negative while CAD improved in FY2024-25**



**Fig.8: Movement of BoP (\$bn)**

USD bn	FY2023-24	FY 2024-25				2024-25
		Q1	Q2	Q3	Q4	
Exports	441.4	111.2	104.5	109.8	116.3	441.8
%y/y	-3.2	5.9	-3.4	3.0	-4.4	1.1
Imports	686.3	175.0	189.2	189.1	175.8	729.0
%y/y	-4.9	8.2	9.5	6.1	1.2	25.0
<b>Trade Balance</b>	<b>-244.9</b>	<b>-63.8</b>	<b>-84.6</b>	<b>-79.3</b>	<b>-59.5</b>	<b>-287.2</b>
Invisibles	218.8	55.1	67.8	68.0	72.9	263.8
Services	162.8	39.7	44.6	51.2	53.3	188.8
Transfer	105.8	26.3	32.4	33.2	31.5	123.4
Income	-49.8	-10.9	-9.2	-16.4	-11.9	-48.4
<b>Current account</b>	<b>-26.1</b>	<b>-8.7</b>	<b>-16.8</b>	<b>-11.3</b>	<b>13.5</b>	<b>-23.4</b>
Foreign investment	54.2	7.2	17.0	-14.2	-5.5	4.5
FDI	10.1	6.2	-2.8	-2.8	0.4	1.0
FII	44.1	0.9	19.9	-11.4	-5.9	3.6
Loans	6.6	5.1	9.4	9.1	5.5	29.2
Banking Capital	40.5	2.9	6.1	-9.8	-9.0	-9.8
Capital Account	89.5	13.1	35.9	-26.6	-5.6	16.8
<b>Overall balance</b>	<b>63.8</b>	<b>5.2</b>	<b>18.6</b>	<b>-37.7</b>	<b>8.8</b>	<b>-5.0</b>
<b>CAD% to GDP</b>	<b>-0.7</b>	<b>-0.9</b>	<b>-1.8</b>	<b>-1.1</b>	<b>1.3</b>	<b>-0.6</b>

Source: CEIC, UBI Research

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