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Fig.1: We see widening in C/A deficit nos. in FY26 to 1.2% of GDP

USD Bn	FY2024-25	FY2025-26 (P)
Exports	440.7	435.7
% y/y	-0.2	-1.13
Imports	726.7	778.7
% y/y	5.9	7.16
Trade Balance	-286.0	-343.0
Invisibles	258.4	293
Services	188.8	227.7
Transfer	119.9	118
Income	-50.3	-52.7
Current Account	-27.6	-50.0
CAD% to GDP	-0.7	-1.2

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Q4-FY25 Current account (C/A) balance switches into a surplus to \$9.5 USD Bn, 0.9% of GDP

- In Q4-FY25, current account balance C/A deficit turned into a surplus of \$9.5 bn (0.9% of GDP) from a deficit of \$11.5 bn (1.1% of GDP) in Q3-FY25.
- During Q4 FY25, trade balance turned positive on seasonal improvement, sharp drop in oil prices and frontloading of exports in March ahead of imposition of 90-day reciprocal tariff from 2nd April. We assume that remittances held up despite steep drop in oil prices on lead-lag effects seen historically.
- Merchandise trade deficit reduced to \$58.8 Bn from \$79.2 Bn in Q3-FY25 supported by both increased exports and lesser imports in Q4-FY25. Exports went up to \$115.1 bn from \$109.8 bn in Q3 while imports were \$174 bn vis-a-vis \$189 bn in Q3FY25.
- Invisibles surplus to remain almost flat at \$68.3 bn as against \$67.7 bn last quarter driven by comparatively lower remittances of \$28 bn vis-à-vis \$ 33.2 bn in Q3FY25.
- Balance of payment (BoP) turned into a surplus of \$4.6 bn in Q4FY25 from a deficit of \$37.6 bn in Q3FY25. The key driver of BoP surplus was lower merchandise deficit and improved FII flows: FDI flows were -\$1.2 bn as against -\$2.8 in previous qtr and FII were -\$6.8 bn as against -\$11.4 bn in last qtr.
- Overall, Q4-FY25 saw improvement in trade dynamics specially supported by lower merchandise trade deficit and services trade surplus during the quarter. Going forward, global tariff wars and geo-political conflicts pushing oil prices higher pose an upside risk to the C/A balance in forthcoming qtrs.

FY25 C/A deficit estimated to have narrowed to 0.7% of GDP

- We estimate FY25 C/A deficit stayed flat versus last year at 0.7% of GDP (lowers versus our projection of 0.9%; \$ 27.6 in FY25 vis-à-vis \$26.1 bn in FY24).
- There were two gamechangers in FY25 C/A dynamics; despite sharp widening in goods trade deficit, the impact was completely offset by sustained pickup in services trade surplus and remittances with both clocking fresh record highs, up by -\$26 bn and \$14 bn YoY respectively.
- Merchandise trade deficit surged to \$286 bn in FY24-25 from \$244.9 bn in FY23-24, about 17%, up driven by about 6% increase in imports from \$686.3 bn in FY23-24 to \$726.7 bn in FY24-25 and almost flat exports of \$441 bn. Services surplus saw a spurt 16% from \$162.8 bn in FY23-24 to \$188.8 bn in FY24-25.
- Remittances increased 14% y/y from \$105.8 bn in FY23-24 to \$120 bn in FY24-25 also contributed to containing current account surplus despite surge in merchandise deficit.

FY25 BoP saw net outflow of ~\$9bn

- Balance of Payments (BoP) probably recorded a sharp decline from a surplus of \$63.7 bn in FY23-24 to an outflow of \$9.2 bn in FY24-25. The fall was driven by a sharp drop in capital inflows, especially foreign investment which declined heavily from \$54.2 in FY23-24 to \$3 bn in FY24-25.
- The sharp slowdown in foreign investment flows in FY25 on weak investor sentiment is a cause for concern. FII flows were down to \$2.7 bn in FY24-25 versus, \$44 bn in previous year, as geopolitical tensions, trade tariffs etc weighed on investor sentiment. More importantly, FDI flows likely slipped to a meager \$0.4 bn (FY24: \$10bn), lowest on record, is a bigger cause of worry. While gross inflows picked up to \$81bn (FY24: \$71bn), net inflows were substantially down on spike in outflows.

We see deterioration in C/A dynamics in FY26

- We see a marginal upward risk to our estimate for current account (C/A) deficit for FY25 GDP. We continue to maintain our view of widening in C/A deficit in FY26 to 1.2% in GDP vis-à-vis an estimated 0.7% in FY25. Going forward, commodity prices especially oil and metals will remain on close watch to assess trends in trade deficit. The uptrend seen in commodity prices, if sustained, would dampen trade dynamics while global growth and export worries may limit impact. Going forward, geopolitical risks especially tariff concerns and any trade deals signed by India with US/Europe will influence trade-dynamics.
- Meanwhile, invisibles surplus stayed robust driven by strong services trade surplus \$188.75bn in FY25 vis-à-vis oil deficit of \$122.45bn, which clearly shows that C/A deficit is expected to remain comfortable. More importantly, recent flaring up of geopolitical tensions in Middle east and impact on oil prices remains on close watch. 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. (Please read our report on oil price volatility.)
<https://www.unionbankofindia.co.in/pdf/Beyond-the-Barrel-Global-and-Indian-Macro-at-the-Crossroads.pdf>

Fig. 2: Merchandize deficit narrow, while services surplus improves

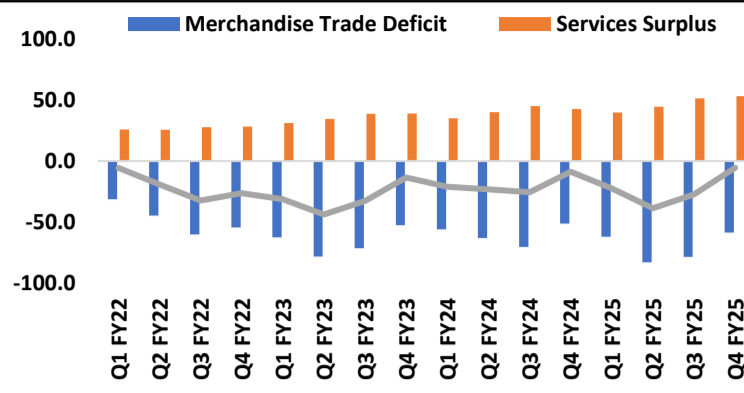


Fig. 3: BoP likely saw an outflow in Q4-FY25 tracking FX reserves (adj for valuation effects)

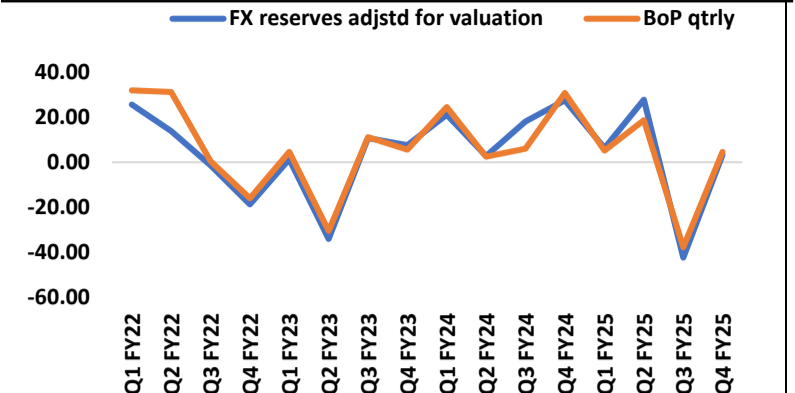


Fig. 4: While C/A deficit turned into surplus in Q4-FY25, capital outflows weighed on BoP (\$ bn)

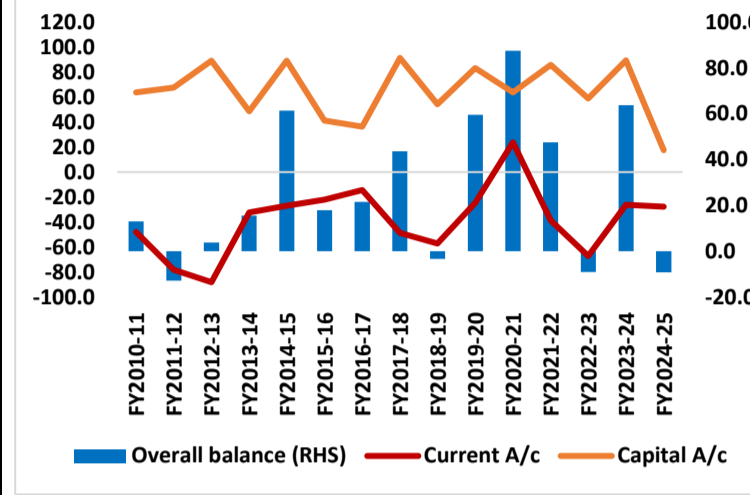


Fig. 5: Spike in transfers in FY25 was a gamechanger for C/A dynamics apart from services exports (\$ bn)

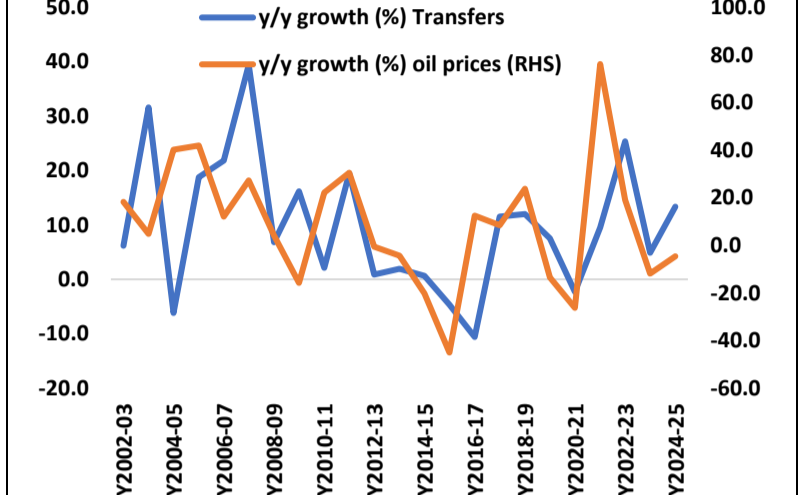


Fig. 6: C/A Deficit (as % to GDP) likely stayed flat in 25 and expected to widen in FY26

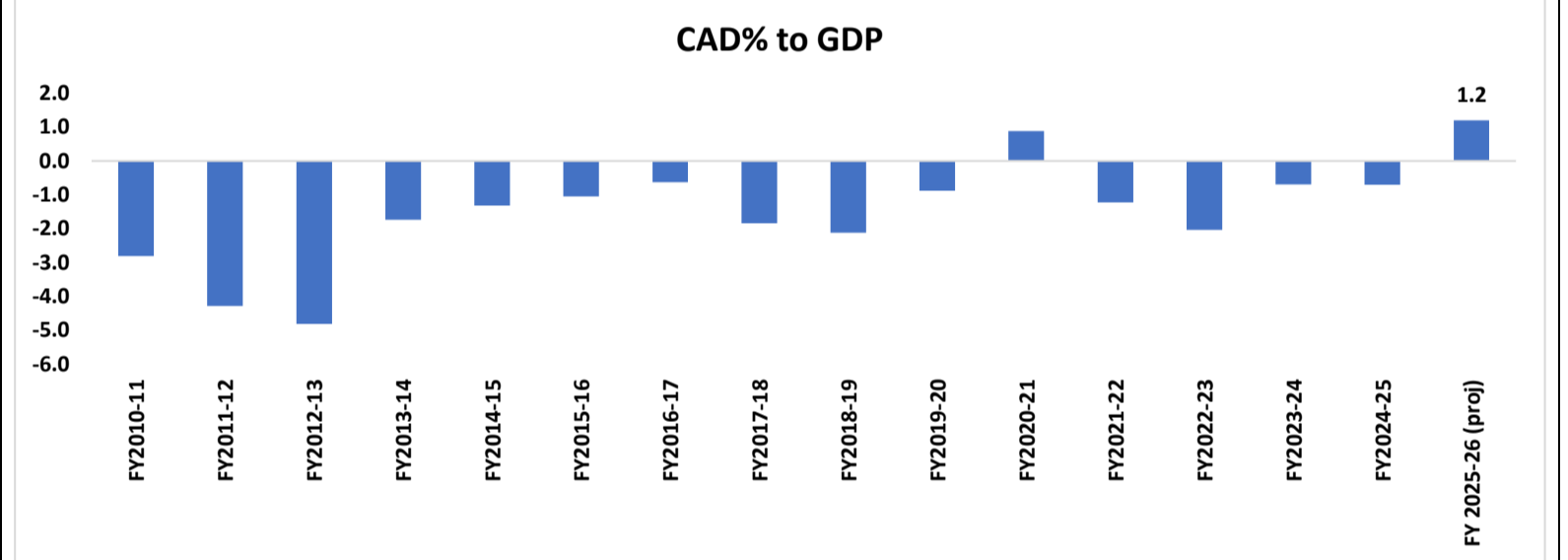


Fig 7: Balance of Payments (BoP) data table

USD bn	FY2023-24	FY 2024-25				2024-25 (P)
		Q1	Q2	Q3	Q4 (P)	
Exports	441.4	111.2	104.6	109.8	115.1	440.7
%y/y	-3.2	5.9	-3.4	3.0	-5.3	-0.2
Imports	686.3	175.0	188.8	189.0	173.9	726.7
%y/y	-4.9	8.2	9.3	6.0	0.2	5.9
Trade Balance	-244.9	-63.8	-84.3	-79.2	-58.8	-286.0
Invisibles	218.8	54.9	67.6	67.7	68.3	258.4
Services	162.8	39.7	44.6	51.2	53.3	188.8
Transfer	105.8	26.3	32.4	33.2	28.0	119.9
Income	-49.8	-11.1	-9.5	-16.7	-13.0	-50.3
Current Account	-26.1	-8.9	-16.7	-11.5	9.5	-27.6
Foreign investment	54.2	7.6	17.5	-14.1	-8.0	3.0
FDI	10.1	6.6	-2.3	-2.8	-1.2	0.4
FII	44.1	0.9	19.9	-11.4	-6.8	2.7
Loans	6.6	5.1	9.2	8.9	4.5	27.7
Banking Capital	40.5	2.9	6.1	-9.8	-1.2	10.0
Capital Account	89.5	13.4	36.1	-26.8	-5.2	17.5
Overall balance	63.7	5.3	18.6	-37.7	4.6	-9.2
CAD% to GDP	-0.7	-0.9	-1.8	-1.1	0.9	-0.7

Source: CEIC, UBI Research; Q4 and FY24-25 data are UBI estimates

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