

BoP posted surplus in Q4-FY25; mild deficit for entire FY25 due to moderation in capital account surplus

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Key takeaways

- **Quarterly data** shows that the current account balance switched to surplus of USD13.5bn in Q4-FY25 (1.3% of GDP) after remaining in deficit for three straight quarters. The surplus was higher than USD4.6bn (0.5% of GDP) in the same quarter of FY24 due to increase in invisibles trade surplus that more than offset the steeper deficit in goods trade. The capital account remained in deficit for the second straight quarter in Q4-FY25, albeit at a shallower level of USD5.6bn (-0.5% of GDP) than in Q3. In Q4-FY24, capital account had posted a surplus of USD25.5bn (2.7% of GDP). The surplus in current account more than offset the deficit in capital account, so that overall balance of payments (BoP) switched to surplus of 0.9% of GDP in Q4-FY25 (USD8.8bn) from the steep deficit of (-)3.8% of GDP in Q3 (USD37.7bn). But the surplus was lower than 3.2% of GDP in Q4-FY24 (USD30.8bn), when both current and capital accounts were in surplus.
- As per **annual data**, in the year FY25, current account deficit narrowed mildly to 0.6% of GDP (USD23bn) from 0.7% of GDP in FY24 (USD26bn). Goods trade deficit widened, as imports rose at a faster pace than exports. The improvement in invisibles trade surplus was driven by higher surplus in services trade and transfers (includes remittances), and lower outflows under investment income. The capital account surplus eased sharply in FY25 to 0.4% of GDP (USD17bn) from 2.5% (USD89bn) in FY24. The moderation was due to lower foreign net investment flows in India, both direct and portfolio, and decline in banking capital. Overall BoP posted deficit of 0.1% of GDP (USD5bn) in FY25 vs. surplus of 1.7% of GDP (USD64bn) in FY24.
- In terms of **outlook**, there are many factors that are likely to keep prospects for the external sector uncertain in FY26, particularly 1) changes in the global trade order 2) geopolitical flare-ups that impart volatility to commodity prices. Historical annual data since FY98 shows only five instances when the BoP was negative. Despite an expected mild uptick in current account deficit in FY26, it is plausible that capital flows to emerging markets (including India) improve, as the world adjusts to a new normal of an uncertain policy environment that corrodes some of the risk-off sentiment. This could swing the BoP back to slight surplus in FY26.

(Percent of GDP)	Balance of payments	Current account	Capital account
FY23	-0.3	-2.0	1.8
FY24	1.7	-0.7	2.5
FY25	-0.1	-0.6	0.4
Pre-pandemic average (FY16-20)	1.1	-1.3	2.4
Post-pandemic average (FY23-24)	0.7	-1.4	2.1
Long-term average (FY01-25)	1.7	-1.2	3.0

Current account shifted to surplus, while capital account remained in deficit in Q4-FY25

- The current account balance switched to surplus of USD13.5bn in Q4-FY25 (1.3% of GDP) after remaining in deficit for three straight quarters. The surplus was higher than USD4.6bn (0.5% of GDP) in the same quarter of FY24 due to increase in invisibles trade surplus that more than offset the steeper deficit in goods trade. Within invisibles, services trade and transfers posted higher surplus, while outflows under investment income moderated.

- The capital account remained in deficit for the second straight quarter in Q4-FY25, albeit at a shallower level of USD5.6bn (-0.5% of GDP) than in Q3. In Q4-FY24, capital account had posted a surplus of USD25.5bn (2.7% of GDP). The change in balance vis-à-vis the same quarter a year ago could be attributable to outflows under portfolio account and banking capital, and lower direct investment flows. The increase in ECBs more than offset the decline in short-term loans, driving the increase in external loans. Under banking capital, there was moderation in NRI deposits, while commercial banks' assets remained in contraction for the fourth successive quarter, likely reflecting central bank intervention in the foreign exchange market.

- The surplus in current account more than offset the deficit in capital account, so that overall balance of payments (BoP) switched to surplus of 0.9% of GDP in Q4-FY25 (USD8.8bn) from the steep deficit of (-)3.8% of GDP in Q3 (USD37.7bn). But the surplus was lower than 3.2% of GDP in Q4-FY24 (USD30.8bn), when both current and capital accounts were in surplus.

Balance of Payments – Key highlights

	FY24	FY25			
USD bn	Q4	Q1	Q2	Q3	Q4
Current account	4.6	-8.7	-16.8	-11.3	13.5
% of GDP	*0.5*	*-0.9*	*-1.8*	*-1.1*	*1.3*
Trade balance	-52.0	-63.8	-84.6	-79.3	-59.5
Merchandise exports	121.6	111.2	104.5	109.8	116.3
Merchandise imports	173.6	175.0	189.2	189.1	175.8
Invisibles	56.6	55.1	67.8	68.0	72.9
Services	42.7	39.7	44.6	51.2	53.3
Transfers	28.7	26.3	32.4	33.2	31.5
Income	-14.8	-10.9	-9.2	-16.4	-11.9
Capital account	25.5	13.1	35.9	-26.6	-5.6
% of GDP	*2.7*	*1.4*	*3.8*	*-2.7*	*-0.5*
FDI	2.3	6.2	-2.8	-2.8	0.4
FPI	11.4	0.9	19.9	-11.4	-5.9
Loans	3.9	5.1	9.4	9.1	5.5
of which, ECB	1.6	1.5	2.0	4.4	7.9
of which, ST credit	0.2	2.2	5.3	4.0	-4.4
Banking capital	6.9	2.9	6.1	-9.8	-9.0
of which, NRI deposits	5.4	4.0	6.2	3.1	2.8
Others	1.1	-2.0	3.3	-11.7	3.4
Errors and omissions	0.6	0.8	-0.4	0.3	0.9
Balance of payments	30.8	5.2	18.6	-37.7	8.8
% of GDP	*3.2*	*0.6*	*2.0*	*-3.8*	*0.9*

BoP switched to deficit in FY25; lower surplus on capital account offset moderation in current account deficit

- In the year FY25, current account deficit narrowed mildly to 0.6% of GDP (USD23bn) from 0.7% of GDP in FY24 (USD26bn). Goods trade deficit widened, as imports rose at a faster pace than exports. In FY24, both exports and imports had declined, with imports falling at a sharper pace than exports. The improvement in invisibles trade surplus was driven by higher surplus in services trade and transfers (includes remittances), and lower outflows under investment income. Both services exports and imports surged by double digits, with exports growing at a quicker pace than imports.

- The capital account surplus eased sharply in FY25 to 0.4% of GDP (USD17bn) from 2.5% (USD89bn) in FY24. The moderation was due to lower foreign net investment flows in India, both direct and portfolio, and decline in banking capital. The latter was dragged by contraction in commercial banks' assets, earlier seen in FY21, reflecting central bank intervention in the foreign exchange market. Other capital captures 1) leads and lags in trade data due to discrepancies in data collection from customs vs. banking channel, and 2) transactions not included elsewhere. This component remained in contraction, albeit at a lower level. Despite these factors, the overall capital account posted surplus, aided by rise in external loans amid increases in ECBs and short-term credit.

- Overall BoP posted deficit of 0.1% of GDP (USD5bn) in FY25 vs. surplus of 1.7% of GDP (USD64bn) in FY24.

Balance of Payments – Key highlights

USD bn	FY21	FY22	FY23	FY24	FY25
Current account	24	-39	-67	-26	-23
% of GDP	0.9	-1.2	-2.0	-0.7	-0.6
Trade balance	-102	-189	-265	-245	-287
Merchandise exports	296	429	456	441	442
Merchandise imports	398	619	721	686	729
Invisibles	126	151	198	219	264
Services	89	108	143	163	189
Transfers	73	80	101	106	123
Income	-36	-37	-46	-50	-48
Capital account	64	86	59	89	17
% of GDP	2.4	2.7	1.8	2.5	0.4
FDI	44	39	28	10	1
FPI	36	-17	-5	44	4
Loans	7	34	8	7	29
of which, ECB	0	8	-4	0	16
of which, ST credit	-4	20	7	-1	7
Banking capital	-21	7	21	41	-10
of which, NRI deposits	7	3	9	15	16
Others	-2	24	7	-12	-7
Errors and omissions	0	0	-1	0	2
Balance of payments	87	48	-9	64	-5
% of GDP	3.3	1.5	-0.3	1.7	-0.1

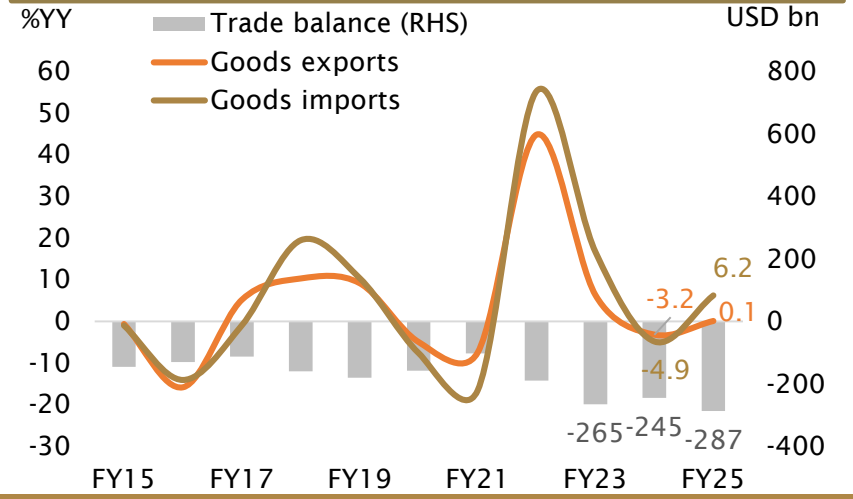
Merchandise trade deficit deteriorated slightly in FY25 amid higher imports growth

- Merchandise trade deficit worsened to USD287bn in FY25 (7.3% of GDP) from USD245bn in FY24 (6.7% of GDP). Imports rose at a faster pace of 6.2%YY than exports growth of 0.1%. Both exports and imports had declined in FY24, with imports falling at a sharper rate that had led to slight narrowing of deficit. In the pre-pandemic period (FY16-20), goods trade deficit averaged 5.9% of GDP, while the long term average (FY01-25) stands at 6.3%, so that the post-pandemic prints (FY23-24 average at 7.3%) signal worsening of deficit vis-à-vis historical patterns, with the latest data being in line with recent trends.

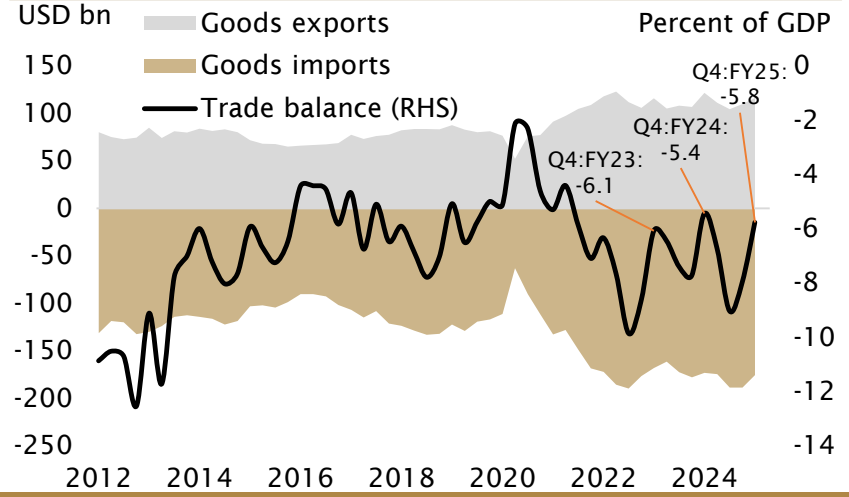
- Details for FY25 shows that deficit in all the key groups of petroleum, gems and jewellery, and core goods worsened. Crude oil prices softened to sub-USD80/b in FY25, but the tailwind from lower import bill was more than offset by the double-digit contraction in petroleum exports for the second straight year. The value of gold imports surged due to the rally in global prices on safe haven demand, along with the cut in customs duties on precious metals announced in the Union Budget for FY25 that fueled domestic demand. The increase in core trade deficit in FY25 was mild at less than USD1bn.

- In Q4-FY25, merchandise trade deficit widened to USD59bn (5.8% of GDP) from USD52bn (5.4% of GDP) in the corresponding quarter of FY24. Exports fell 4.4%YY in Q4-FY25, compared to 5.0% growth in Q4-FY24. Imports grew 1.2%YY, slower than the increase of 3.1% in the same quarter of FY24.

Goods deficit worsened after narrowing mildly in FY24



Good deficit also widened year-on-year in Q4-FY25



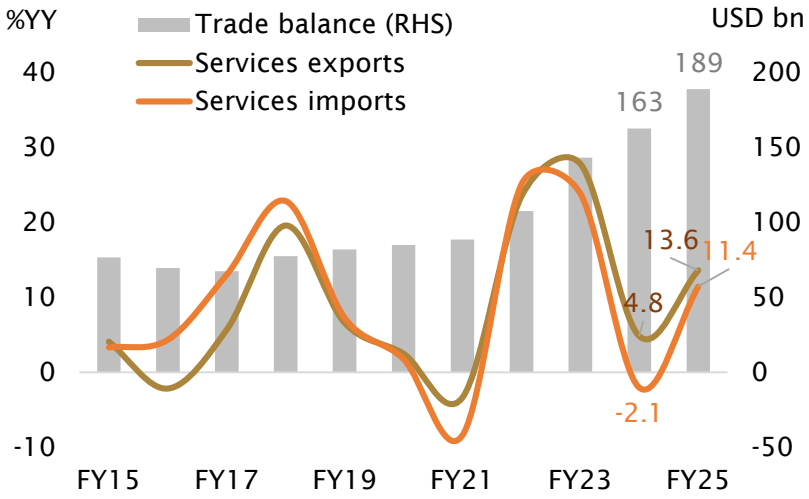
Services trade surplus improved further in FY25, led by software and business services

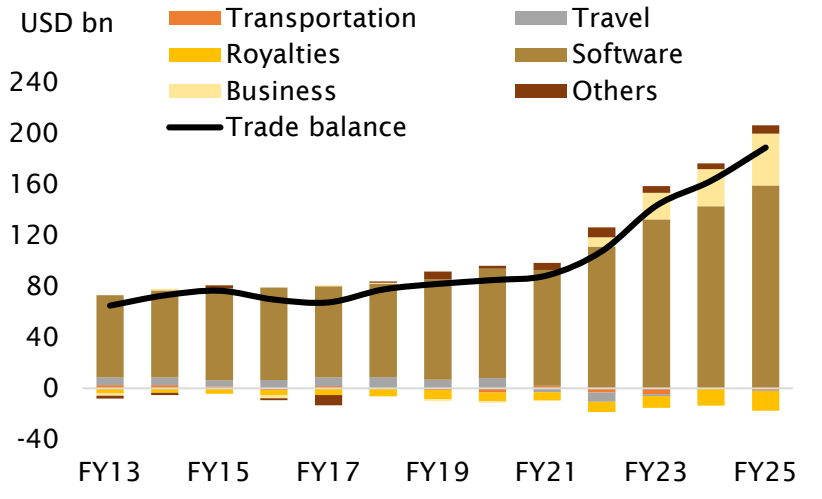
- Services trade surplus improved to USD189bn (4.8% of GDP) in FY25 from USD163bn (4.5% of GDP) in FY24. Both exports and imports posted double-digit growth, with exports growth exceeding that of imports at 13.6%YY and 11.4%, respectively. In FY24, imports fell, while exports growth was slow. In the pre-pandemic period (FY16-20), services surplus averaged 3.0% of GDP, in line with historical trend (FY01-25). But post-pandemic data shows improvement with FY23-24 average at 4.4%, and the latest print being a record high.

- Details show that the surplus continued to be driven by software services, followed by business services. Royalties continued to remain in deficit, widening further in FY25. Both travel and transport services posted deficit. In FY24, travel services had posted mild surplus, while transport deficit was lower than in FY25.

- Both software and business services together continued to account for around three-fourth of exports, with their contribution to exports growth increasing compared to FY24. Both exports and imports of transport services are closely related to goods trade, and rebounded after contracting in FY24. But with imports growth exceeding that of exports, transport services posted higher deficit than in FY24. In case of travel services, the double-digit growth in both exports and imports moderated in FY25, but imports growth was higher than that of exports, so that the category posted deficit, compared to mild surplus in FY24.

Services surplus improved in FY25 amid higher exports growth, and was led by software and business services

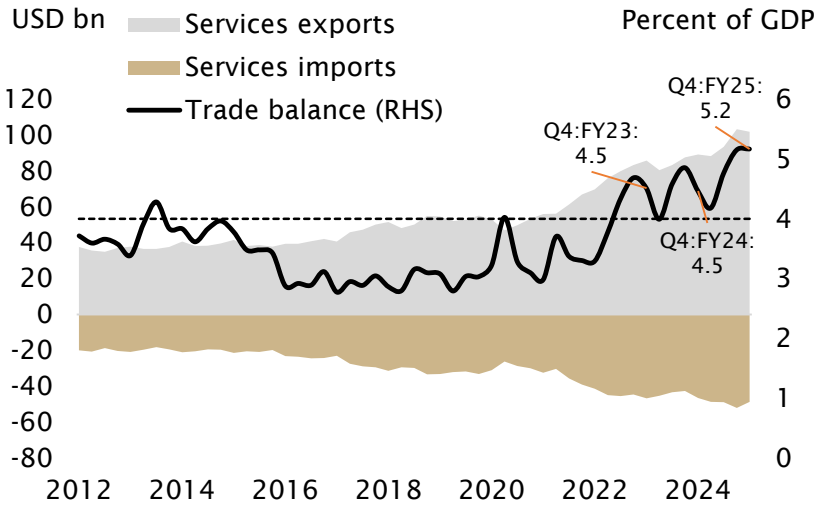




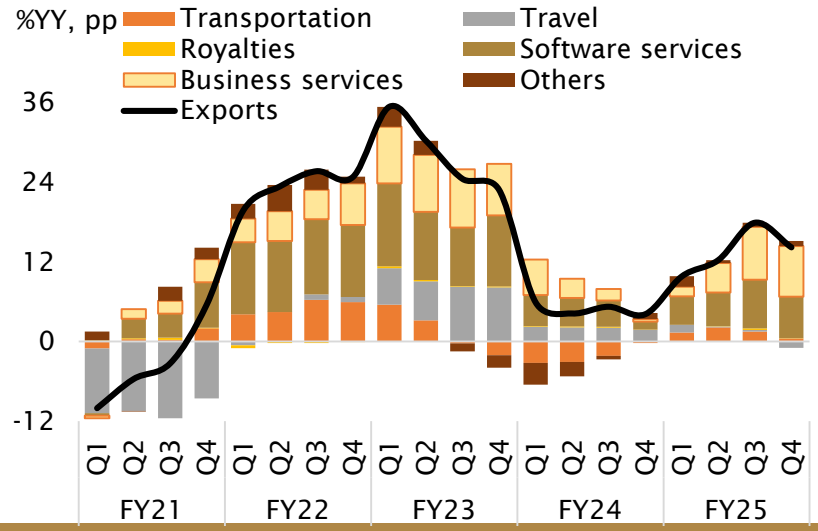
Services trade surplus remained above 5% of GDP for the second straight quarter in Q4-FY25

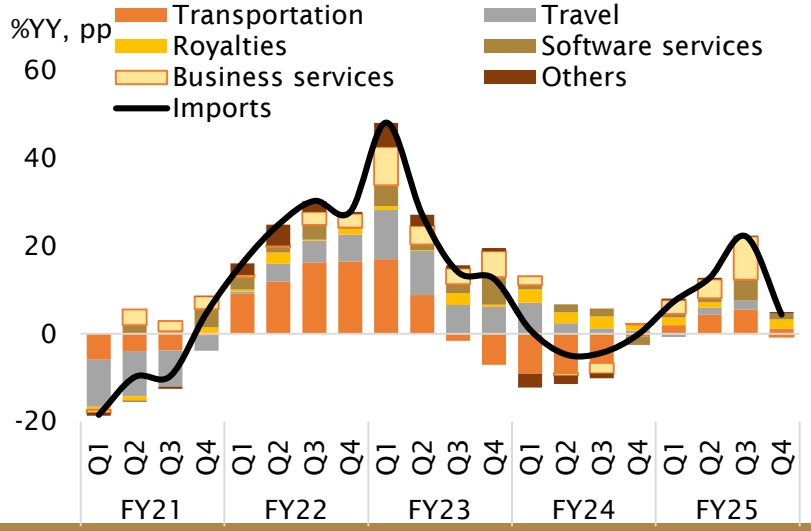
- In Q4-FY25, services surplus improved to USD53bn (5.2% of GDP) from USD43bn (4.5% of GDP) in the same quarter of FY24. This also marked the second straight quarter of services surplus above 5% of GDP. The year-on-year improvement was led by software and business services. The deficits in royalties and transport services widened, while surplus in travel services moderated.
- Compared to the corresponding quarter a year ago, there was improvement in both exports and imports growth to 14.2%YY and 4.4%YY, respectively from 4.1% and (-)0.2%, respectively. In case of exports, the improvement was across groups, except for travel services that fell year-on-year in Q4-FY25. In case of imports, there were year-on-year declines in travel and business services. Imports of software services rose after declining in Q4-FY24.

Services surplus remained above 5% of GDP in Q4-FY24



Services exports grew by double digits for third straight quarter; imports growth eased to the slowest in four quarters





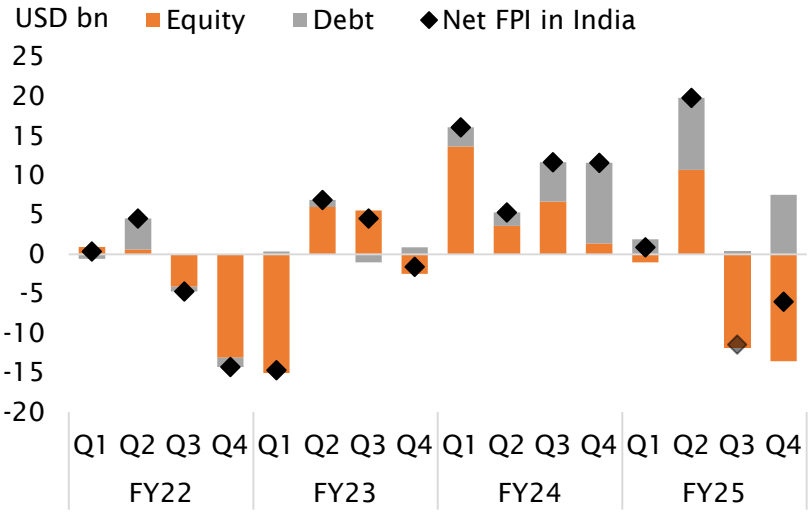
Foreign portfolio investment moderated in FY25; IGB inclusion in global indices aided inflows into debt

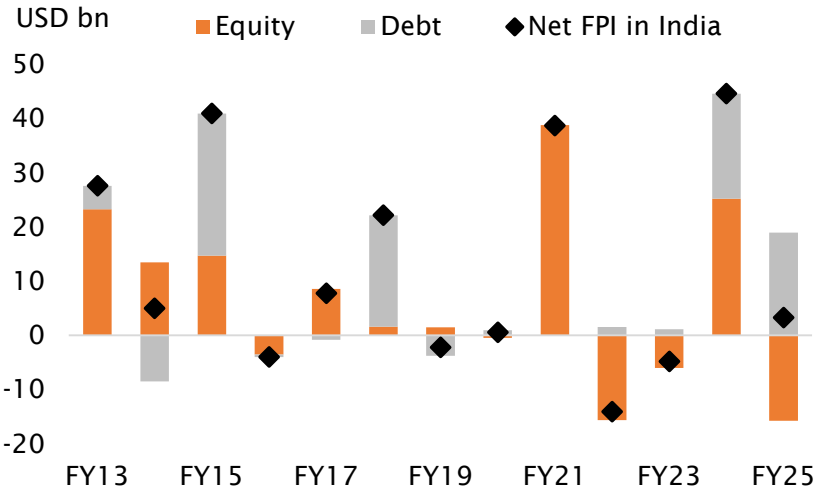
- Net portfolio inflows eased to USD4bn (0.1% of GDP) in FY25 from USD44bn (1.2% of GDP) in FY24. Though net portfolio investment by India was positive in FY25, reversing the trend in FY24, the extent was modest, so that the overall account recorded positive inflows. The inflows were in debt instruments, which offset the selloff in equities. The investment in Indian debt for the second straight year could be largely attributable to the inclusion of Indian government bonds into global indices. The inflows into debt amounted to USD19bn (0.5% of GDP), similar to the levels in FY24. On the other hand, the selloff in equities amounted to around USD16bn (0.4% of GDP), compared to inflows of USD25bn in FY24 (0.7% of GDP).

  - There were portfolio outflows for the second straight quarter of around USD5.9bn. Despite being less than the outflows of USD11.4bn in Q3, the selloff in Q4 marked a reversal from the inflow of USD11.4 in Q4-FY24. The overall trend was in line with the outflows from equities for second straight quarter, even as inflows in debt improved sequentially but were lower than in Q4-FY24.

  - Despite being volatile, both equity and debt inflows have improved in the post-pandemic period (FY23-24) to 0.3% of GDP each from 0.1% and 0.2% of GDP respectively, in the pre-pandemic years (FY16-20).

Inclusion of IGBs in global indices aided debt inflows across quarters in FY25, partly offsetting the selloff in equities

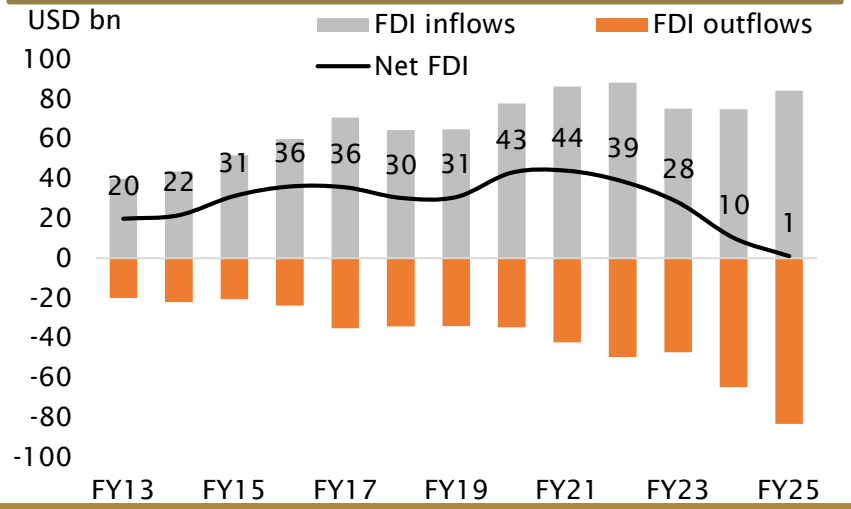




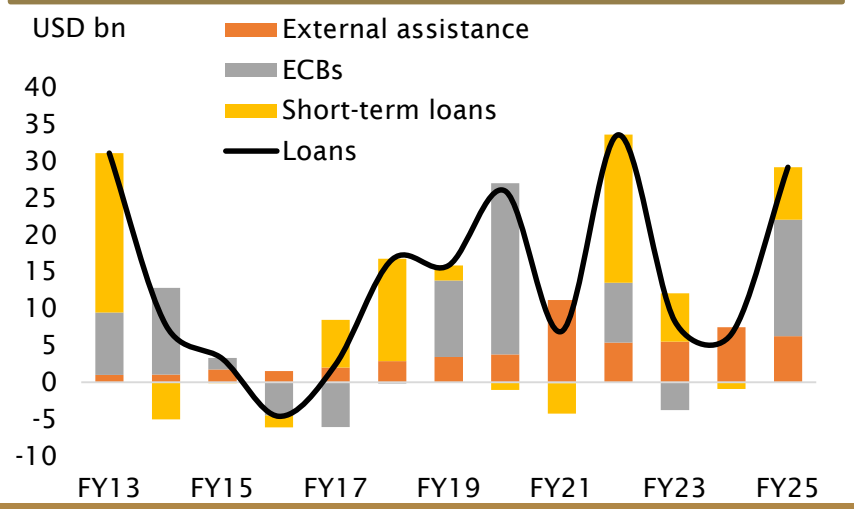
FDI flows eased sharply in FY25, in line with global trends; external loans surged

- Net FDI slowed to around USD1bn (0.02% of GDP) in FY25 from USD10bn (0.3% of GDP) in FY24. The increase in flows to India was offset by outward FDI and repatriation/disinvestment.
  - In Q4-FY25, FDI net inflow stood at USD0.4bn after recording outflows for two straight quarters. But it was lower than the net inflow of USD2.3bn in the same quarter of FY24. Latest monthly data from the RBI shows positive net inflows in April, indicating a continuation of the trend in Q4-FY25.
  - In the pre-pandemic period (FY16-20), net FDI was 1.4% of GDP, more than double the post-pandemic average of 0.6% in FY23-24. The latest print indicates further slowdown, even in the context of long term average (FY01-25) of 1% of GDP. The weakness was in line with the trend in global FDI that fell 11%YY in 2025 (excluding through conduit economies), marking the second straight year of decline.
- External loans rose to USD29bn (0.7% of GDP) in FY25 from USD7bn (0.2% of GDP) in FY24. These compare with the pre- and post-pandemic averages of 0.4% and 0.2%, respectively. In FY25, gains were led by ECBs that surged to the highest in the post-pandemic period (USD16bn), followed by short-term credit (USD7bn). Both had posted slightly negative balance in FY24. In FY25, narrow interest rate differentials vis-à-vis other economies and tighter domestic regulations mostly prompted higher external loans.
  - In Q4-FY25, there was sequential moderation in loans amid negative balance on short-term loans that offset the increases in ECBs and external assistance. Compared to Q4-FY24, the increase in loans was led by ECBs and external assistance. But for entire FY25, there was moderation in external assistance.

Net FDI moderated sharply in FY25



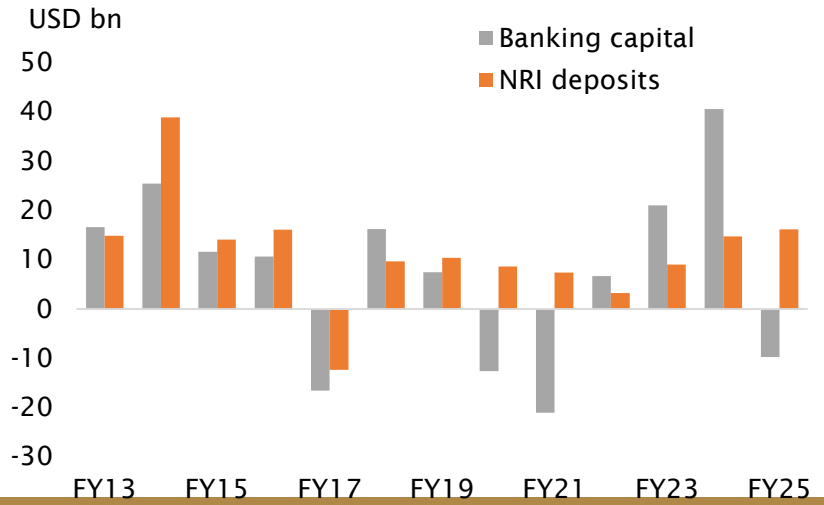
External loans surged in FY25, led by ECBs

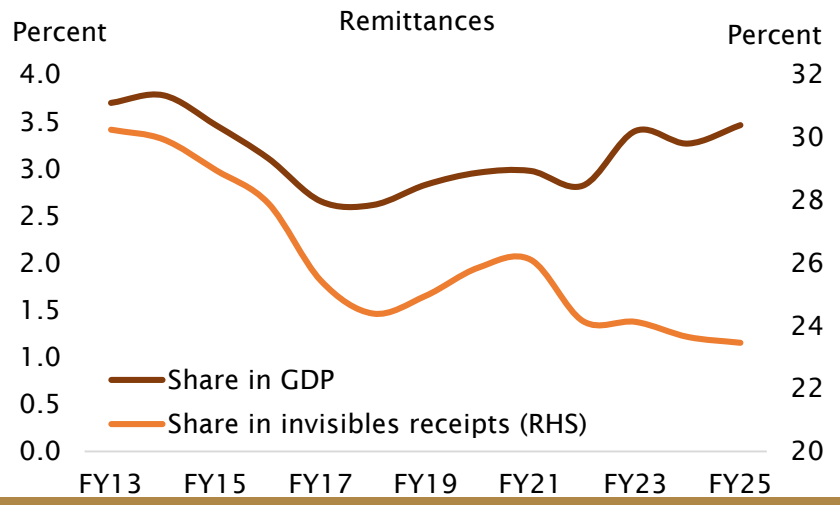


Banking capital flows turned negative on likely FX intervention; remittances rose but share in invisibles receipts eased in FY25

- Banking capital mainly consists of foreign assets (includes foreign currency holdings and rupee overdrafts to non-resident banks) and foreign liabilities of commercial banks (includes non-resident deposits). After remaining in surplus for three years, the balance on banking capital turned negative in FY25 at (-)USD10bn. The outturn was negative in the last two quarters of FY25, though the extent eased sequentially in Q4 to (-)USD9.0bn from (-)USD9.8bn in Q3, but was reversal from the surplus of USD6.9bn recorded in Q4-FY24.
  - The reason for switch from surplus in Q1 and Q2-FY25 could be attributable to the negative balance on assets of commercial banks, indicative of central bank intervention in the foreign exchange market, particularly during periods of pressure and volatility in the INR in Q3 and Q4-FY25.
  - NRI deposits increased in FY25, but the last two quarters were marked by sequential easing, despite higher interest rate ceilings on FCNR(B) deposits by the RBI, effective 6-Dec-2024 to 31-Mar-2025. These deposits have averaged around 0.3% - 0.4% of GDP, both in the pre- and post-pandemic years.
- Under current account, primary income shows payments of investment income, while secondary income includes private and official transfers. The private transfers show remittances by Indians employed abroad.
  - In FY25, remittances rose 14%YY to USD135bn, amounting to 3.5% of GDP from 3.3% in FY24. This marks an improvement from the pre-pandemic average (FY16-20) of 2.8%. However, in terms of share in invisibles receipts, remittances have been on a downtrend, averaging around 24% in FY23-25 from 26% in FY16-20. In Q4-FY25, the year-on-year growth in remittances eased amid sequential decline.

Banking capital balance turned negative in FY25; share of remittances in invisibles easing amid higher services exports





External sector outlook uncertain amid shifts in global trade order, impact of geopolitical risks on commodity prices

- There are many push and pull factors that are likely to keep the prospects for the external sector uncertain in FY26, particularly in the backdrop of 1) changes in global trade order and 2) geopolitical flare-ups that continue to impart volatility to commodity prices.
  - **Global trade:** The imposition of reciprocal tariffs by the US administration in April triggered the onset of tariff wars, which eventually seems to be culminating in economies negotiating bilateral trade deals with the US and among themselves, a telltale shift away from multilateralism. The pause on reciprocal tariffs by the US is set to expire on July 9, and even as economies (including India) scramble to sign some sort of interim deals, eventual finalization could take months or years, as is the norm in such situations. The ensuing uncertainty is likely to weigh on investor and consumer sentiments, and also policy makers, as they weigh the impact of these developments on their domestic economies. In its latest update, the WTO has projected goods trade to fall in 2025 before rebounding in 2026, and a slowdown in services trade.
  - **Commodity prices:** In its latest update in April, the World Bank has estimated 12% broad-based fall in commodity prices in 2025, followed by another 5% drop in 2026, as weak global economic prospects weigh on demand. The recent escalation of tensions between Iran-Israel lifted crude oil prices, but the extent was muted. Even as geopolitical tensions receded, fundamental factors of supply continuing to outweigh demand in 2025 are likely to keep crude oil prices range-bound in 2025. In its latest monthly update, the US EIA expects Brent to average USD66/b in 2025 and USD59/b in 2026, below USD81/b in 2024. The tailwind from range-bound commodity prices could keep India's current account deficit at below 1% of GDP in FY26, though it could mildly exceed FY25 levels amid risks to global trade.
  - **Investment flows:** The UN has projected negative outlook for global FDI in 2025, as economic and policy uncertainties hit investor sentiment. Equity flows could also be unpredictable under a risk-off sentiment. Results from RBI's recent survey shows an increase in inward remittances from advanced economies, suggesting that a slowdown in these could lower inflows to India. However, there could be some cushioning from inclusion of Indian government bonds in global indices, which started with JPMorgan in 2024, followed by Bloomberg and FTSE Russell this year.
  - **FX impact:** The expectation of further weakness in the USD could bode well for the import bill but further hurt exports amid the ongoing tariff wars. The increased foreign exchange volatility under the new RBI Governor regime could keep both exporters and importers on edge and induce hedging.
- Historical annual data since FY98 shows only five instances when the BoP was negative. Despite an expected mild uptick in current account deficit in FY26, it is plausible that capital flows to emerging markets (including India) improve, as the world adjusts to a new normal of an uncertain policy environment that corrodes some of the risk-off sentiment. This could swing the BoP back to slight surplus in FY26.

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