

# India's BoP moderately weakened even before Trump's tariffs



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Even before United States (US) President Donald Trump took charge in his second stint, India saw its foreign exchange reserves deplete around \$38 billion in the third quarter of 2024-25 (Q3FY25). It was against an addition of \$19 billion in the second quarter. This, despite the current account deficit (CAD) moderating to \$11.5 billion from \$16.7 billion during the period.

This happened because there was capital outflow of around \$27 billion on a net basis between October-December against a net inflow of \$36 billion during July-September in FY25.

India, being a net importer of goods, has a CAD, which is generally less than its trade deficit due to surplus in services trade, remittances as well as other transfers from the rest of the world. It is a rarity when India has a current account surplus. In the fourth quarter of 2023-24 (Q4FY24), the trade deficit reduced to \$52 billion dollars compared to \$72 billion in Q3FY24 taking the current account to a surplus.

Generally, capital account, comprising net foreign direct investment, net foreign portfolio investment and other flows, has a surplus than CAD, adding to foreign exchange reserves.

However, the capital account also saw a deficit and that too more than CAD in Q3FY25.

Despite depletion, India had comfortable foreign

## TRACKING TRADE

(All figures in \$ bn)

		Q4FY24	Q1FY25	Q2FY25	Q3FY25
	<b>Current account balance</b>	<b>4.6</b>	<b>-8.9</b>	<b>-16.7</b>	<b>-11.5</b>
Of which ▶	Trade balance	-52	-64	-84.3	-79.2
	Balance in services trade	43	40	45	51
	<b>Capital account balance</b>	<b>25.6</b>	<b>13.4</b>	<b>36.1</b>	<b>-26.8</b>
Of which ▶	Balance in foreign direct investment	2	7	-2	-3
	Balance in foreign portfolio investment	11	1	20	-11

Note: Subheads of current account balance and capital account balance do not add to aggregate since all break-ups are not taken  
Sources: Kotak, RBI

## FOREX SHRINKS

(Movement in \$ bn)

Q3FY24	6.0	
Q4FY24	30.8	
Q1FY25	5.2	
Q2FY25	18.6	
Q3FY25	-37.7	

Sources: Kotak, RBI

exchange reserves at \$640 billion as on December 27, 2024. It could easily cover goods imports at \$532 billion for 9MFY25.

A few indicators on balance of payments (BoP) are now available for the Q4FY25 when Trump actually assumed office but announced tariff increases on only a few items such as auto components, steel, and aluminium.

India had a trade deficit of around \$37 billion in the first two months — January and February—of the quarter. However, at around \$39 billion, it had a bigger surplus in services trade. This meant that

India had a surplus of around \$2 billion in net merchandise and services trade in the quarter, except March.

However, there was a capital FPIs outflow of \$7.9 billion from equity and debt markets of India in Q4FY25. We may still see a depletion of forex reserves in this quarter unless remittances, FDI, and other flows improve.

Trump gave a concession to India by levying tariffs at around half the rate, which he says New Delhi imposes on Washington. While many experts say India will have advantage in sectors like textiles, auto components, pharma as competitors face more tariffs, things would unfold eventually. However, if the Trump administration aims to balance trade, India may have to look for innovative steps to improve its external account.

The US had a trade deficit of around \$35 billion with India in FY24 and \$25 billion in 9MFY25.