

Outlook on Current Account Deficit

Current account saw higher-than-expected surplus of \$13.5 billion in Q4 FY2025; expected to reverse to a deficit of ~1.3% of GDP in Q1 FY2026

JUNE 2025





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India's current account reverted to a higher-than-expected surplus of \$13.5 billion in Q4 FY2025.

ICRA expects the current account to reverse to a deficit of ~\$13 billion in Q1 FY2026, amid larger merchandise trade deficit and lower services trade surplus.

India's current account deficit is estimated to remain manageable at ~1.0% of GDP in FY2026, based on average crude oil price of \$70/bbl.



- India's current account reverted to a surplus of \$13.5 billion in Q4 FY2025 (+1.3% of GDP), sharply higher than the surplus of \$4.6 billion (+0.5% of GDP) recorded in the year-ago quarter. Moreover, this surpassed ICRA's forecast of 0.2% of GDP, amid a surprise dip in primary income outflows in Q4.



- Additionally, the Q4 FY2025 current account surplus contrasted with the deficit of \$11.3 billion in Q3 FY2025, owing to the narrower merchandise trade deficit and primary income outflows, as well as higher services trade surplus, which more-than-offset the lower secondary income inflows.



- Earnings from invisibles rose by a sharp 28.9% to \$73.0 billion in Q4 FY2025 from \$56.6 billion in Q4 FY2024. This outweighed the YoY widening in the merchandise trade deficit (to \$59.5 billion from \$52.0 billion), leading to a higher current account surplus in that quarter relative to Q4 FY2024.



- Net financial outflows from India narrowed sharply to \$5.5 billion in Q4 FY2025 from \$26.5 billion in Q3 FY2025 (+\$25.5 billion in Q4 FY2024). This along with the current account surplus, led to an accretion of reserve assets amounting to \$8.8 billion in Q4 FY2025 (-\$37.7 billion in Q3 FY2025).



- Amid expectations of a widening in the merchandise trade deficit and a moderation in the services trade surplus in Q1 FY2026 vis-à-vis Q4 FY2025, ICRA expects India's current account to record a deficit of ~\$13 billion (-1.3% of GDP) in the quarter. Overall, we foresee India's current account deficit to print at ~1.0% of GDP in FY2026, assuming an average crude oil price of ~\$70/barrel for the fiscal, which is eminently manageable despite the prevailing global uncertainties.



- Looking ahead, intermittent risk-off sentiment owing to geopolitical tensions and their likely impact on FII inflows, as well as the rise in global commodity prices would inject volatility into the USD/INR pair in the near term. We currently expect the USD/INR pair to trade between 85.0 and 87.0 in the rest of CY2025.

1 Developments in India's Balance of Payments during Q4 FY2025



2 Preliminary April-May 2025 trends and outlook for Q1 FY2026



3 Outlook on CAD and INR



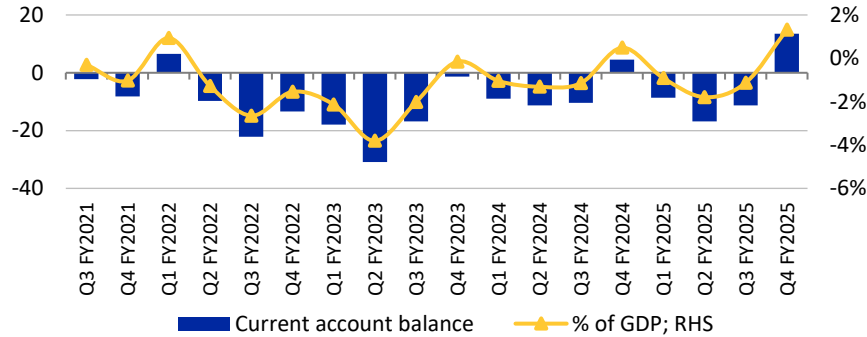


Developments in India's BOP in Q4 FY2025

Current account surplus, along with moderation in net financial outflows led to accretion of reserve assets in Q4 FY2025

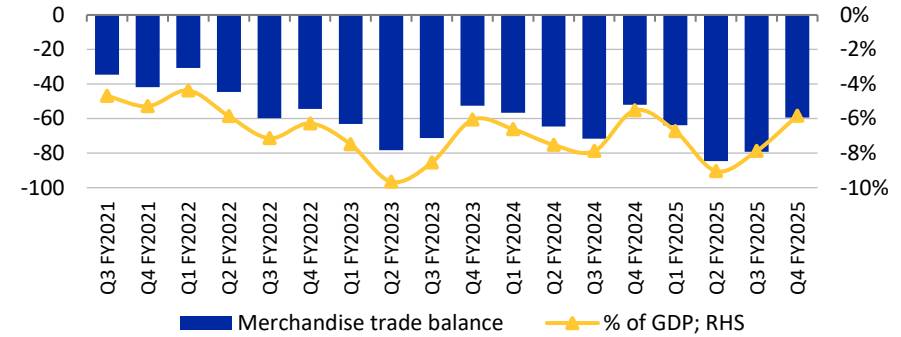
India's current account reverted to a surplus of \$13.5 billion or 1.3% of GDP in Q4 FY2025, significantly higher than expectations

EXHIBIT: Current Account Balance – \$ billion and % of GDP



“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

EXHIBIT: Merchandise Trade Balance - \$ billion and % of GDP

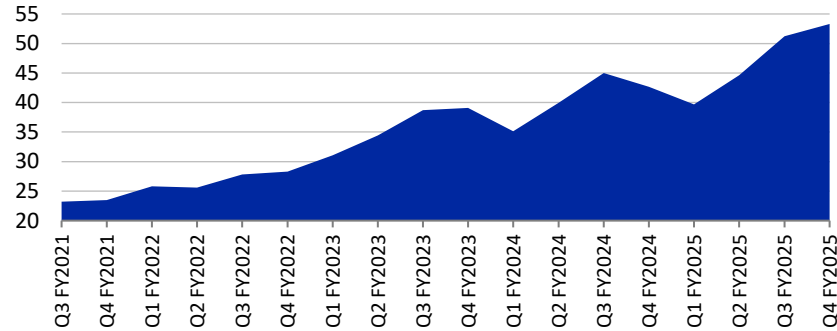


“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

- India's current account recorded a surplus of \$13.5 billion (+1.3% of GDP) in Q4 FY2025, sharply exceeding the surplus of \$4.6 billion (+0.5% of GDP) in the year-ago quarter, with the higher services trade surplus (to a record-high \$53.3 billion from \$42.7 billion) and lower primary income outflows (to -\$11.9 billion from -\$14.8 billion), offsetting the widening in the merchandise trade deficit (to \$59.5 billion from \$52.0 billion, amid a 4.4% decline in exports, while imports rose by 1.2% YoY). Notably, the size of the current account surplus (CAS) in Q4 FY2025 sharply exceeded ICRA's forecast of 0.2% of GDP for that quarter, driven by lower-than-anticipated primary income outflows.
 - The imports of petroleum, crude and products contracted by 9.2% YoY in Q4 FY2025 (to \$44.3 billion in Q4 FY2025 from \$48.8 billion in Q4 FY2024), driven by lower volumes and a 6.2% YoY decline in the price of the Indian basket of crude oil in the quarter. Gold imports fell by a relatively narrower 0.9% to \$9.5 billion from \$9.6 billion, respectively. Nevertheless, non-oil non-gold imports reported an expansion of 5.8% YoY in Q4 FY2025, on a BoP basis.
 - Oil exports contracted by a sharper 36.5% YoY in Q4 FY2025, even as exports of non-oil items rose by 2.8% (on a BoP basis) during the quarter.
- On a QoQ basis, the Q4 FY2025 CAS stood in contrast to the deficit of \$11.3 billion in Q3 FY2025 (initial: \$11.5 billion), owing to the seasonal moderation in the merchandise trade deficit (to \$59.5 billion or 5.8% of GDP from \$79.3 billion or 7.9% of GDP), as well as the slightly higher services trade surplus (to \$53.3 billion from \$51.2 billion) and the sharp dip in primary income outflows (to -\$11.9 billion from -\$16.4 billion), which offset the lower secondary income inflows (to \$31.5 billion from \$33.2 billion).

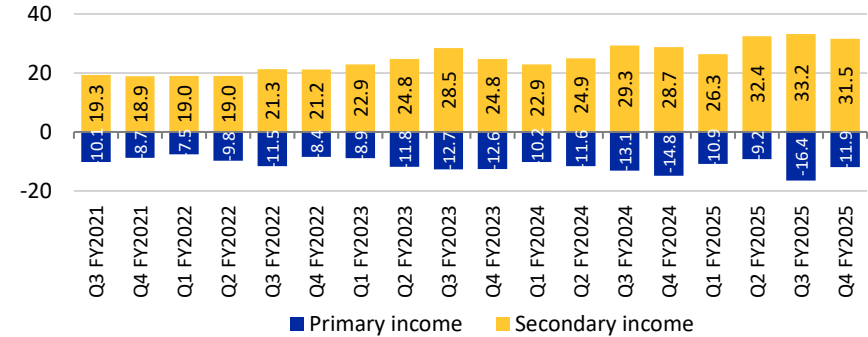
YoY uptick in earnings from invisibles more-than-offset the larger merchandise trade deficit, leading to higher current account surplus in Q4 FY2025

EXHIBIT: Services Trade Account - Net Flows (\$ billion)



“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

EXHIBIT: Secondary and Primary Income Account- Net Flows (\$ billion)

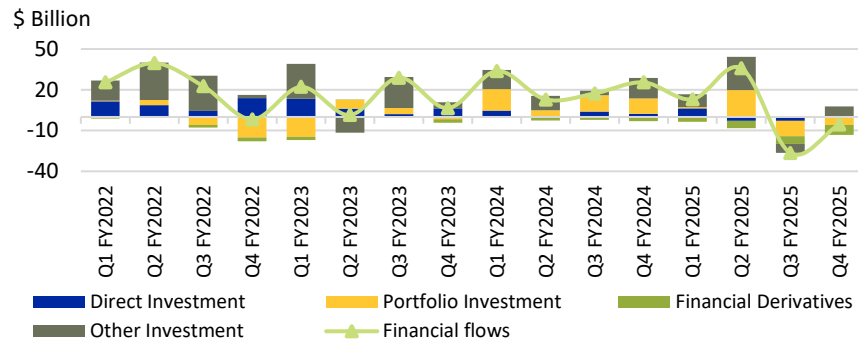


“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

- The services trade surplus surged to a record-high of \$53.3 billion in Q4 FY2025 from \$51.2 billion in Q3 FY2025, while also exceeding the year-ago level of \$42.7 billion in Q4 FY2024. The 24.9% YoY uptick was led by higher net earnings related to telecom, communication and information (to \$41.4 billion in Q4 FY2025 from \$36.4 billion in Q4 FY2024), other business (to \$13.2 billion from \$6.2 billion), and financial (to \$1.2 billion from \$0.3 billion) services, even as net inflows on account of travel services (to \$1.2 billion from \$1.9 billion) declined between these quarters.
- Net inflows of secondary income rose by 9.7% YoY to \$31.5 billion in Q4 FY2025 from \$28.7 billion in Q4 FY2024, while trailing the Q3 FY2025 level (\$33.2 billion). The YoY growth in secondary income was led by the uptick in personal transfers (to \$31.8 billion from \$29.0 billion). In addition, the net outflows of primary income narrowed to \$11.9 billion in Q4 FY2025 (-\$16.4 billion in Q3 FY2025) from \$14.8 billion in Q4 FY2024, reflecting the trend for lower outflows of net overseas investment income (to -\$14.5 billion from -\$16.8 billion).
- Overall, earnings from invisibles rose by a sharp 28.9% YoY to \$73.0 billion in Q4 FY2025 from \$56.6 billion in Q4 FY2024 (\$68.0 billion in Q3 FY2025). This more-than-offset the YoY widening in the merchandise trade deficit, leading to a higher current account surplus in that quarter relative to Q4 FY2024.

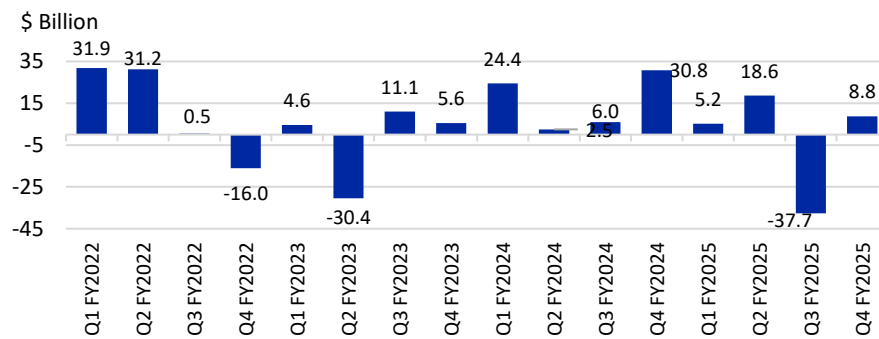
Current account surplus, lower net financial outflows led to accretion to reserve assets of \$8.8 billion in Q4 FY2025 as against sharp drawdown in Q3

EXHIBIT: Trends in Financial flows to India (\$ billion)



“-“ denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

EXHIBIT: Trends in changes in India's reserve assets (\$ billion)

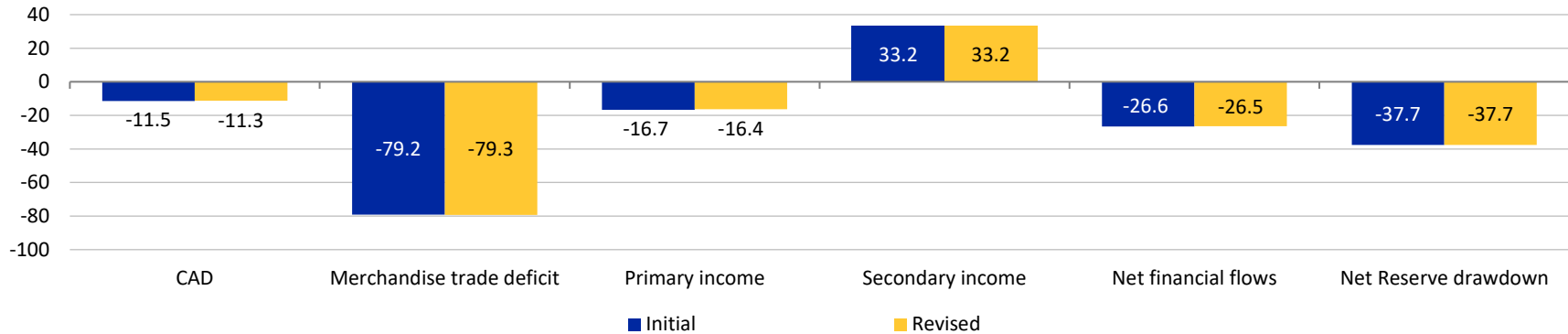


Change in Reserve Asset [Increase (+)/Decrease (-)]; Source: RBI; CEIC; ICRA Research

- India's net financial outflows narrowed sharply to \$5.5 billion in Q4 FY2025 from \$26.5 billion seen in Q3 FY2025 (+\$25.5 billion in Q4 FY2024).
 - On a QoQ basis, the moderation in net outflows was largely driven by the turnaround to inflows on account of FDI (to +\$0.4 billion in Q4 FY2025 from -\$2.8 billion in Q3 FY2025), other accounts receivable/payable (to +\$11.4 billion from -\$6.1 billion) and net ECBs (to +\$7.9 billion from +\$4.4 billion), as well as lower net FPI outflows (to -\$5.9 billion from -\$11.4 billion). However, NRI deposits (to +\$2.8 billion from +\$3.1 billion) moderated during this period.
 - On a YoY basis, the net financial outflows stood in contrast to the inflows of \$25.5 billion seen in Q4 FY2024, largely driven by a reversal to FPI outflows (to -\$5.9 billion in Q4 FY2025 from +\$11.4 billion in Q4 FY2024), as well as lower FDI inflows (to +\$0.4 billion from +\$2.3 billion), NRI deposits (to +\$2.8 billion from +\$5.4 billion), and loans (external assistance, ECBs and banking capital; to -\$1.6 billion from +\$4.3 billion).
- Overall, the turnaround in the current account to a surplus in Q4 FY2025 coupled with lower net financial outflows, led to an accretion of reserve assets amounting to \$8.8 billion in that quarter (+\$30.8 billion in Q4 FY2024) in contrast to the sharp drawdown of \$37.7 billion seen in Q3 FY2025 (on a BoP basis). However, this was much lower than the \$32.6 billion uptick seen in India's reserve assets during that quarter, with the latter being largely boosted by valuation gains.

Current account deficit for Q3 FY2025 revised marginally downwards, led by lower primary income outflows

EXHIBIT: Revisions in Q3 FY2025 Balance of Payments data (\$ billion)

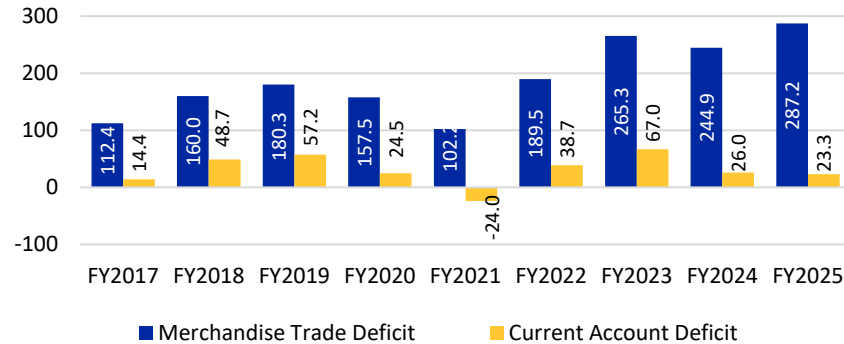


Source: RBI; CEIC; ICRA Research

- The size of CAD for Q3 FY2025 underwent a marginal revision to \$11.3 billion from the initial estimate of \$11.5 billion, with the upward revision in the merchandise deficit (to -\$79.3 billion from -\$79.2 billion) being offset by lower primary income outflows (to -\$16.4 billion from -\$16.7 billion). Moreover, secondary income inflows were kept unchanged at the initially reported level of \$33.2 billion.
- The downward revision in the CAD was offset by an equivalent revision in financial flows in Q4 FY2025 (to -\$26.5 billion from -\$26.6 billion), resulting in the net reserve drawdown for the quarter remaining unchanged at \$37.7 billion.

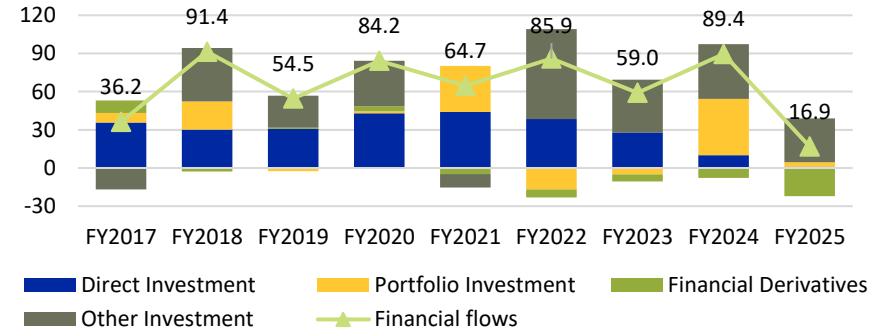
CAD narrowed to \$23.3 billion in FY2025, remaining benign at 0.6% of GDP; financial flows slumped to the lowest in over a decade

EXHIBIT: Trends in current account deficit and merchandise trade deficit (\$ billion)



Source: RBI; CEIC; ICRA Research

EXHIBIT: Annual trends in financial flows (\$ billion)



Source: RBI; CEIC; ICRA Research

- India's CAD narrowed slightly to \$23.3 billion in FY2025 from \$26.0 billion in FY2024, with the increase in the invisible earnings (to a record-high +\$264.0 billion from +\$218.9 billion) outweighing the widening in the merchandise trade deficit (to -\$287.2 billion from -\$244.9 billion). As a proportion of GDP, the CAD remained at a benign level of 0.6% in FY2025 relative to 0.7% in FY2024.
- Notably, the YoY surge in the services trade surplus (to \$188.8 billion from \$162.8 billion) was largely driven by higher earnings from telecom, communication and information (to \$159.1 billion from \$142.7 billion) and other business (to \$40.6 billion from \$29.2 billion) services. This was followed by a rise in secondary income inflows (to a record-high of \$123.5 billion from \$105.9 billion), and lower primary income outflows (to \$48.4 billion from \$49.7 billion) in FY2025 vis-a-vis FY2024.
- Additionally, net financial flows moderated sharply to \$16.9 billion in FY2025 from \$89.4 billion in FY2024, led by net FPI (to \$3.6 billion from \$44.1 billion) and FDI (to \$1.0 billion from \$10.2 billion) inflows, and loans (to -\$4.1 billion from +\$32.0 billion), while NRI deposits (to \$16.2 billion from \$14.7 billion) rose during this period.
- Overall, the slight moderation in the CAD in FY2025 vis-à-vis FY2024 was entirely offset by the sharp decline in net financial flows, resulting in a reserve drawdown (on a BoP basis) of \$5.0 billion in FY2025, in contrast to the accretion of \$63.7 billion seen in FY2024.

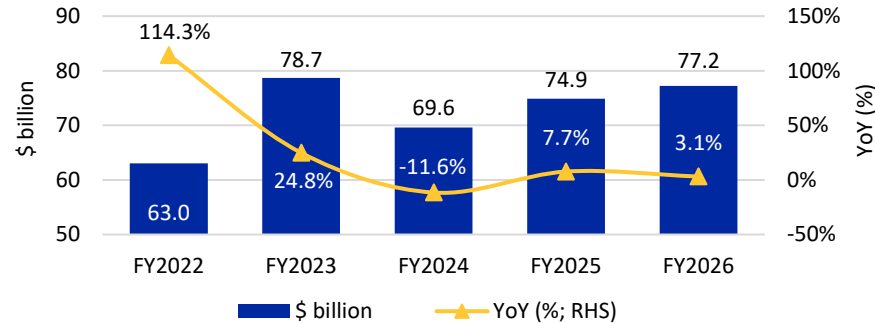


Preliminary trends for April-May 2025 and outlook for Q1 FY2026

Current account expected to revert to a deficit of ~1.3% of GDP in Q1 FY2026

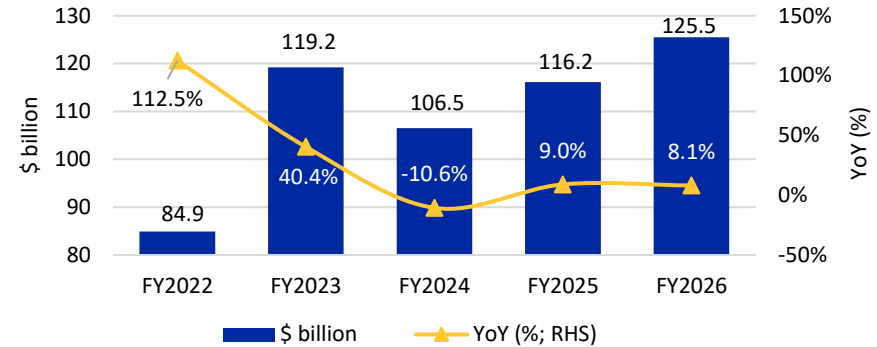
YoY uptick in merchandise imports during April-May FY2026 sharper than that seen in such exports

EXHIBIT: Trends in Merchandise Exports in April-May FY2022-26



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Trends in Merchandise Imports in April-May FY2022-26

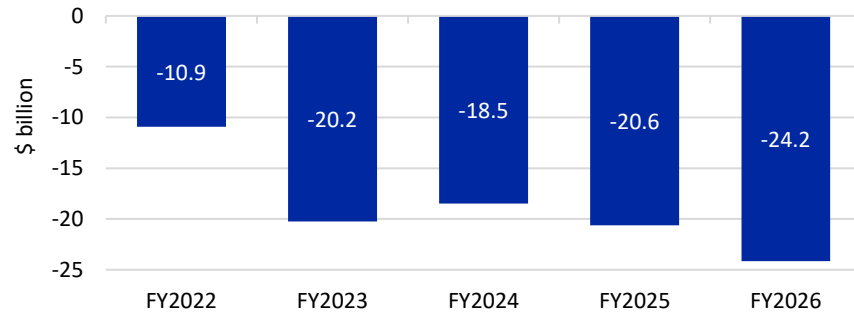


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- As per the provisional data released by Ministry of Commerce and Industry, India's merchandise exports rose by 3.1% YoY to \$77.2 billion during April-May FY2026 from \$74.9 billion during April-May FY2025 (April 2025: +8.9%; May 2025: -2.2%; Q4 FY2025: -4.2%). This was entirely driven by the YoY uptick in non-oil exports (+7.5%), which was partly offset by the contraction in exports of petroleum products (-14.5%). The YoY increase of \$4.5 billion in non-oil exports during April-May FY2026 was driven by electronic goods (YoY: +\$2.7 billion), engineering goods (+\$0.9 billion), agri products (+\$0.8 billion), drugs and pharmaceuticals (+\$0.2 billion), etc. Notably, the monthly average merchandise exports during April-May FY2026 (\$38.6 billion) were only 0.4% higher than that seen in Q4 FY2025 (\$38.4 billion).
- Merchandise imports rose by a sharper 8.1% YoY to \$125.5 billion during April-May FY2026 from \$116.2 billion during April-May FY2025 (April: +19.1%; May: -1.7%; Q4: +1.2%). This was largely driven by the uptick in non-oil non-gold imports (+14.3%), even as imports of crude petroleum and products (-2.7%) and gold (-3.8%) saw a contraction during this period. The YoY increase of \$10.6 billion in non-oil non-gold imports during April-May FY2026 was largely driven by electronic goods (YoY: +\$4.1 billion), chemical material and products (+\$3.5 billion), electrical and non-electrical machinery (+\$1.7 billion), etc. The monthly average merchandise imports during April-May FY2026 (\$62.8 billion) exceeded the levels seen during Q4 FY2025 (\$58.0 billion) by 8.3%.

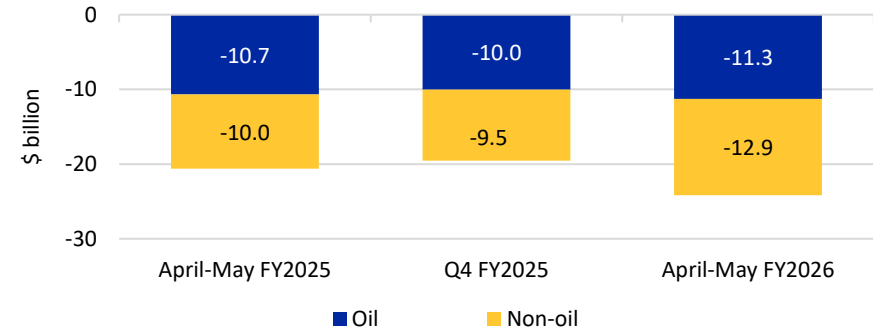
Amid sharp YoY widening in April-May FY2026, India's merchandise trade deficit likely to enlarge in Q1 FY2026 compared to year ago levels

EXHIBIT: Monthly Average Trends in Merchandise Trade Balance in April-May FY2022-26



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Monthly Average Trends in Trade Balance of Oil and Non-oil items

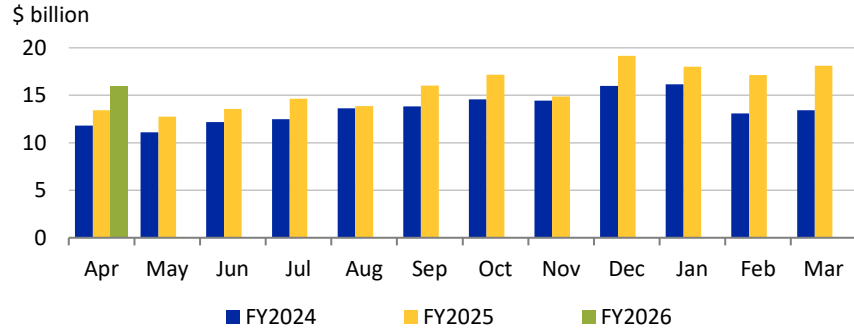


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- With the YoY expansion in merchandise exports (+3.1%) trailing that in such imports (+8.1%) during April-May FY2026, the average monthly trade deficit widened sharply to \$24.2 billion during this period from \$20.6 billion during April-May FY2025. This was driven by higher average deficits for both oil and non-oil items.
- Moreover, in sequential terms the average monthly trade deficit during April-May FY2026 was much wider than the levels seen during Q4 FY2025 (\$19.5 billion), led by both non-oil (to -\$12.9 billion from -\$9.5 billion) and oil (to -\$11.3 billion from -\$10.0 billion) items. Notably, the average monthly trade deficit during April-May FY2026 was also higher than the levels seen in FY2025 as a whole (-\$23.5 billion).
- Given the sharp YoY widening seen in the merchandise trade deficit during April-May 2025, based on the initial data, ICRA expects the same to increase sharply to \$75-78 billion in Q1 FY2026 from \$63.8 billion in Q1 FY2025 and \$59.5 billion seen in Q4 FY2025 (on a BoP basis).**

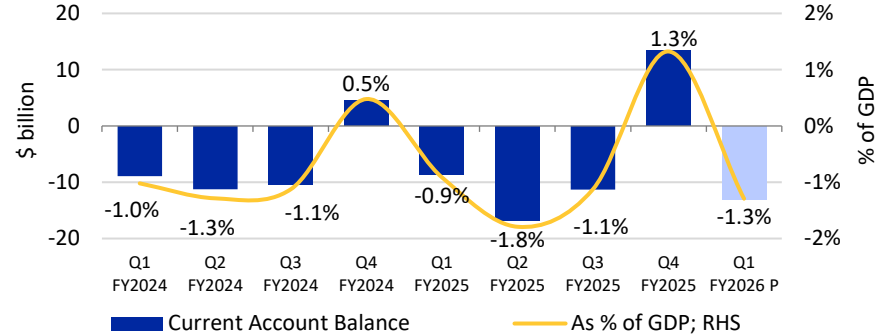
India's current account to record a deficit of ~1.3% of GDP in Q1 FY2026, sharply exceeding the year ago levels

EXHIBIT: Trends in Services Trade balance



Source: RBI; ICRA Research

EXHIBIT: India's Current Account Balance (\$ billion; % of GDP)



P: Projected; Data labels correspond to CAD as % of nominal GDP; ICRA's nominal GDP Proj. has been used for Q1 FY2026; Source: RBI; CEIC; ICRA Research

- After rising by a robust 13.6% YoY in FY2025 (to \$387.4 billion), India's services exports stood at \$32.8 billion in April 2025, 8.8% higher than \$30.2 billion seen in April 2024. Additionally, the pace of expansion in such imports stood at a muted 1.0% in April 2025 (\$16.9 billion), relative to the uptick of 11.4% seen in FY2025. Consequently, the trade surplus printed at \$15.9 billion in April 2025, 18.6% higher than the year-ago level of \$13.4 billion.
- Overall, amid expectations of a widening in the merchandise trade deficit as well as a moderation in the services trade surplus in Q1 FY2026 vis-à-vis Q4 FY2025, ICRA expects India's current account to reverse to a deficit of ~\$13 billion (-1.3% of GDP) in the quarter from the surplus of \$13.5 billion seen in Q4 FY2025 (+1.3% of GDP), while also exceeding the deficit of \$8.6 billion (-0.9% of GDP) in Q1 FY2025.

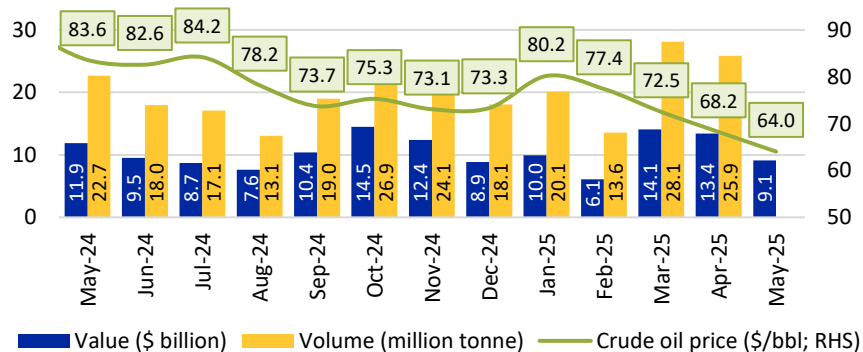


Outlook on CAD and INR

CAD projected at ~1.0% of GDP in FY2026; USD/INR pair to trade between 85.0-87.0/\$ in remainder of CY2025

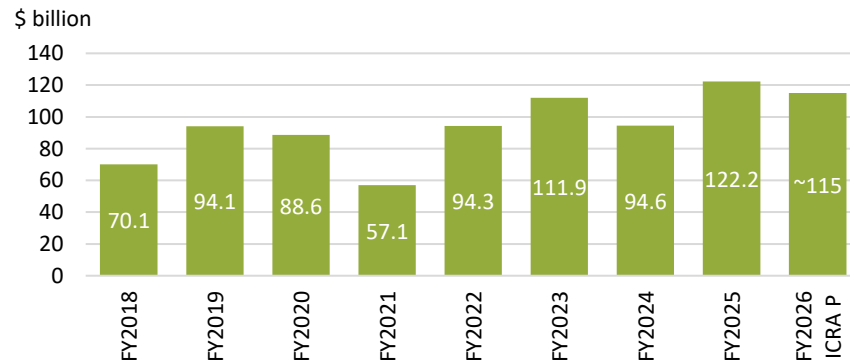
India's net oil import bill to narrow in FY2026; volatility in crude oil prices remains a key monitorable

EXHIBIT: Trends in net POL imports - value and volume, and crude oil prices



Volume data for May 2025 is not yet available; Net oil imports includes crude petroleum and petroleum products; Source: Ministry of Commerce and Industry; PPAC; CEIC; ICRA Research

EXHIBIT: Annual trends in net POL imports



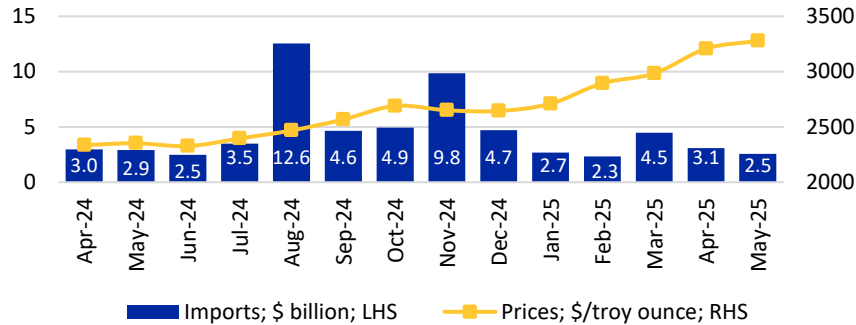
P: Projected; Source: Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY growth in India's net POL imports rose sharply by ~29% YoY to \$122.2 billion in FY2025, amid the surge in net import volumes (at 327.6 mn tonne; YoY: +6.8%), while crude oil prices fell to \$78.6/bbl from \$82.5/bbl seen in FY2024. Subsequently, the net oil import bill stood at \$22.5 billion during April-May 2025, printing 5.6% higher than the year-ago level of \$21.3 billion, notwithstanding the correction in crude oil prices (-23.6% YoY in April-May 2025). The volumes in May 2025 likely moderated from 25.9 million tonne seen in April 2025, although the data is not yet available.
- Following the de-escalation of tensions in West Asia, crude oil prices have corrected. If the crude oil price (Indian Basket) averages at ~\$70/bbl in FY2026, as against the average of \$79/bbl seen in FY2025, **we expect the net oil imports to ease to ~\$115 billion in the ongoing fiscal from \$122.2 billion in FY2025. Notably, a \$10/bbl increase in the average price of crude oil for the fiscal typically pushes up net oil imports by ~\$13-14 billion during the year.***
- Moreover, the operationalisation of the new Dangote refinery in Nigeria is also likely to adversely impact Indian exports of diesel to the EU, as it is much closer to the region.

*Refer to ICRA's [publication](#), West Asian region turmoil keeps oil and gas markets on edge, published in June 2025.

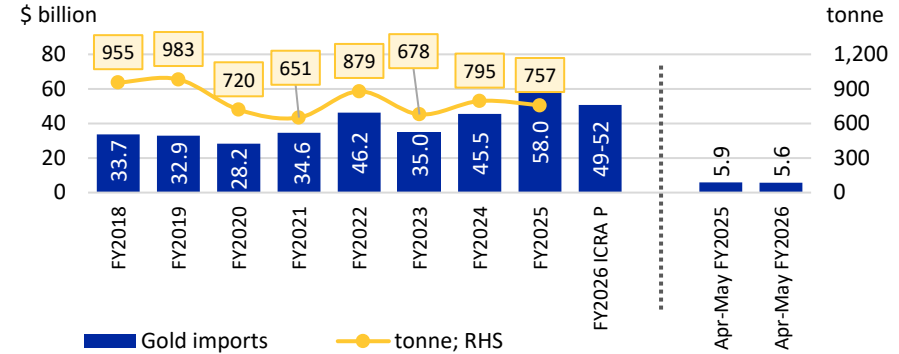
Gold imports projected to decline to \$49-52 billion in FY2026, with elevated prices likely to weigh on volumes

EXHIBIT: Trends in monthly gold imports and prices



Source: Ministry of Commerce and Industry; WGC; ICRA Research

EXHIBIT: Annual trends in Gold imports

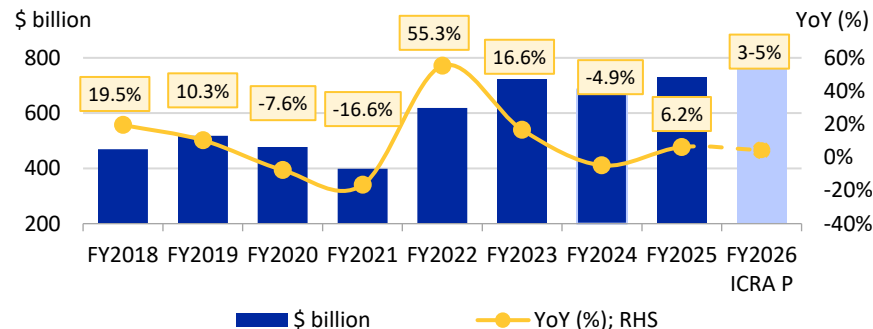


P: Projected; Source: Ministry of Commerce and Industry, Gol; ICRA Research

- The value of gold imports contracted by 3.8% YoY to \$5.6 billion during April-May FY2026 from \$5.9 billion in April-May FY2025, despite a sharp rise in prices. On a monthly basis, the imports of gold rose by 4.9% YoY in April 2025 (\$3.1 billion), before declining by 12.6% in May 2025 (\$2.6 billion).
- The imported volume of gold eased by 13.5% YoY to 34.9 tonne in April 2025 from 40.3 tonne in April 2024, while also trailing the levels seen in March 2025 (50.5 tonne) by a sharp ~31%. While the data for May 2025 is not yet available, such volumes are likely to have declined in that month, given the contraction seen in the value of such imports.
- Gold prices surged to a monthly record-high of \$3,278/troy ounce in May 2025 from \$3,207/troy ounce in April 2025, amid uncertainty surrounding US tariff policies, geopolitical conflicts, as well as possibility of additional rate cuts by the US Fed in CY2025. Overall, prices have averaged a sharp 38.4% higher on a YoY basis during April-May FY2026.
- **While elevated prices are likely to dampen [gold jewellery](#) consumption volume in FY2026 (ICRA P: -10%), investment demand for bars and coins is expected to rise (+25% YoY in FY2025). A higher number of auspicious days in FY2026 are likely to support wedding and festive demand. Besides, normal monsoon guidance and favourable crop sowing are likely to support the rural economy, in turn, keeping gold jewellery demand from rural India relatively resilient amid elevated gold prices. Overall, ICRA estimates gold imports to decline to \$49-52 billion in FY2026 from \$58.0 billion in FY2025, with the volatility in prices remaining a key monitorable.**

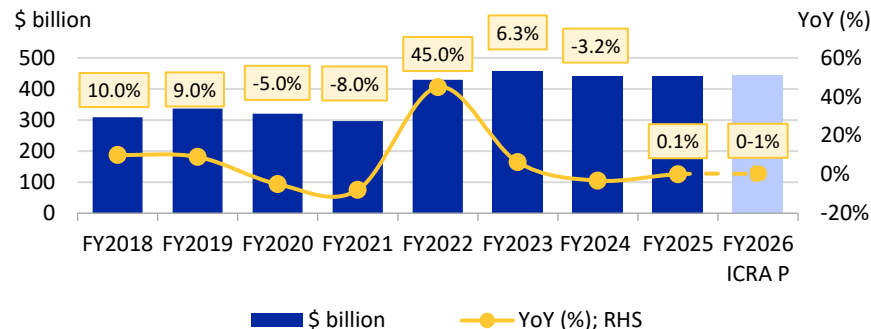
Merchandise exports and imports to grow by 0-1% and 3-5%, respectively, in FY2026

EXHIBIT: Trends in merchandise imports



P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Trends in merchandise exports

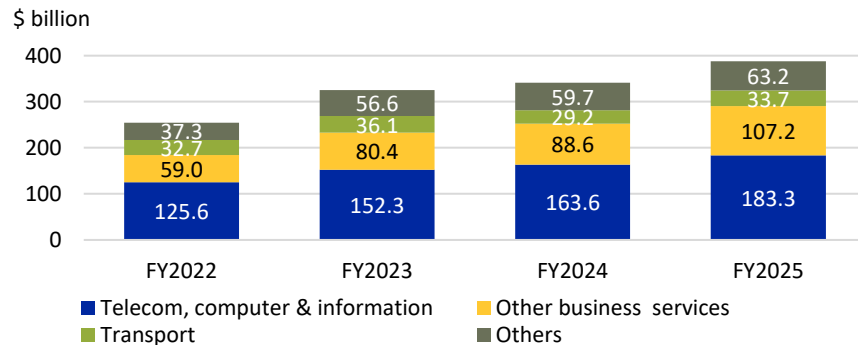


P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research

- India's merchandise import growth is likely to be restricted to 3-5% in FY2026 (\$759-762 billion vs. \$729 billion in FY2025), owing to a moderation in oil and gold imports compared to FY2025, even as the non-oil non-gold segment may witness a relatively higher growth in the fiscal, amid improvement in outlook for domestic consumption, a high import dependency for items such as electronic goods, electrical machinery, etc., and a potential round-tripping of goods via India in early-FY2026 as well as owing to dumping/increased competitiveness of imports in some sectors.
- Additionally, ICRA projects India's merchandise exports to remain flattish at \$442-445 billion in FY2026 from \$441.8 billion in FY2025, given the weak global demand, amid the tariff-related uncertainty. Moreover, any further escalation in ongoing geopolitical conflicts and its impact on shipping timelines and freight prices continues to pose a key downside risk for India's merchandise trade.

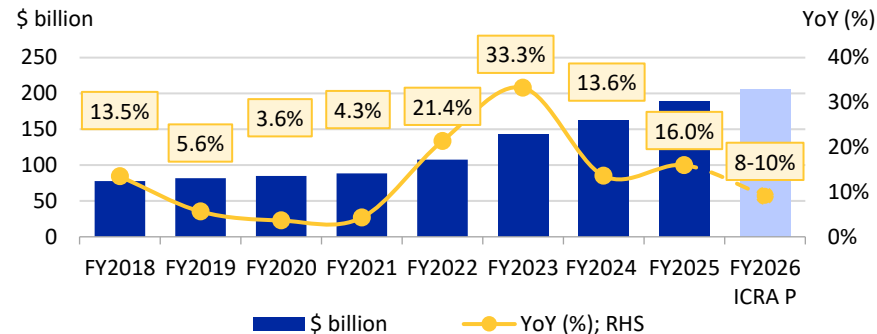
Services trade surplus to rise to a record-high of \$205-207 billion in FY2026

EXHIBIT: Trends in composition of services exports



Source: RBI; CEIC; ICRA Research

EXHIBIT: Annual trends in services trade surplus

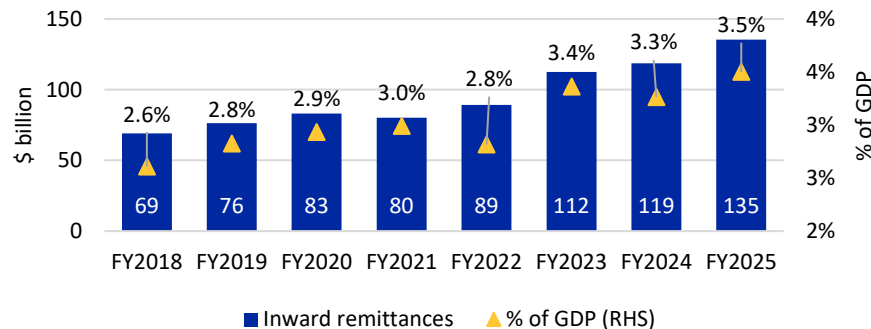


P: Projected; Source: RBI; CEIC; ICRA Research

- India's services exports rose by 8.8% YoY to \$32.8 billion in April 2025 from \$30.2 billion in April 2024, while such imports increased by a muted 1.0% to \$16.9 billion from \$16.7 billion, respectively. Consequently, the services trade surplus stood at \$15.9 billion, exceeding the year ago level of \$13.4 billion.
- Among services, the exports of **IT services** may remain moderate in FY2026, amid expectations of a tepid 4-6% growth in revenues in ICRA's sample set of companies, similar to that seen in FY2025, owing to policy uncertainty in key markets resulting in delay in decision making by customers, as visible in the slowdown in conversion of deals to revenues to some extent and lower discretionary tech spending in most sectors. However, the export performance of non-IT services (including GCCs) may remain relatively healthy in FY2026, as was the case in the prior two fiscals.
- Overall, ICRA estimates the services trade surplus to rise to an all-time high of \$205-207 billion in FY2026 from \$188.8 billion in FY2025.

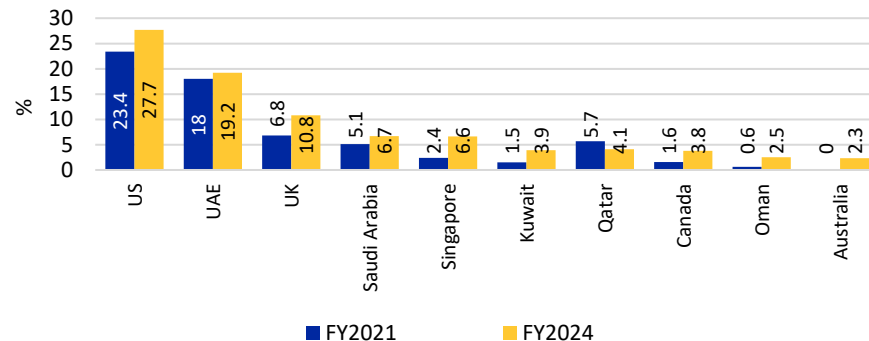
US excise tax on remittances may lead to upfronting of such flows over next few quarters before adverse impact of the same is witnessed in CY2026

EXHIBIT: Trends in inward remittances* to India (\$ billion; % of GDP)



*Includes secondary income inflows by Financial, Non-financial Corporations, Households, and NPISHs; Source: RBI; ICRA Research

EXHIBIT: Share in India's total inward remittances for top 10 countries

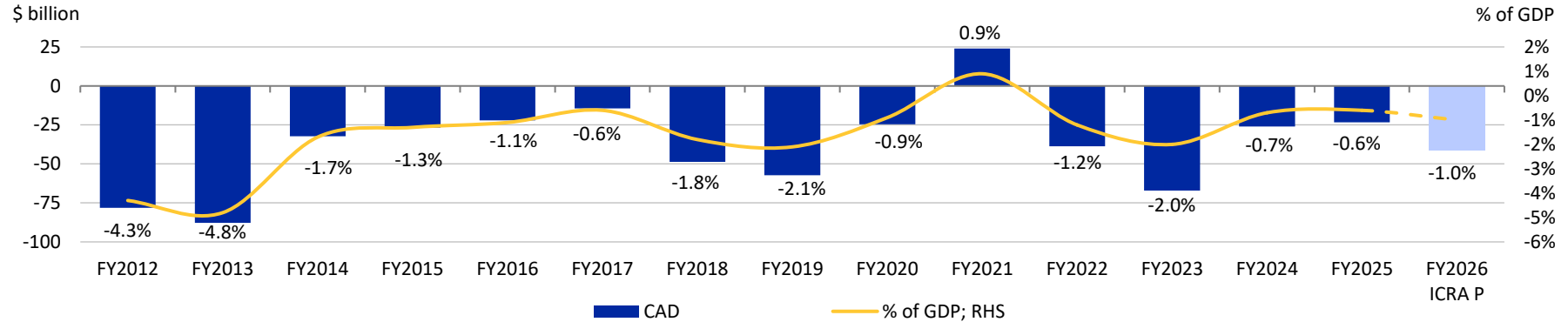


Source: RBI; ICRA Research

- Inward remittances to India rose by a robust 14.1% to \$135.4 billion in FY2025 (3.5% of GDP) from \$118.7 billion in FY2024 (3.3% of GDP). In terms of a country-wise analysis, as per the RBI's Sixth Round of India's Remittances Survey (2023-24), after the competitive edge and the penetration of Indian IT services overseas, the number of skilled emigrants to advance economies (AEs), especially to the US, has risen significantly. Thus, besides the GCC countries, AEs have also emerged as a major source of inward remittances to India over the years.
- For instance, the US accounted for the largest share in India's total inward remittances in FY2024 (to 27.7% in FY2024 from 23.4% in FY2021), followed by the UAE (to 19.2% from 18.0%), the UK (to 10.8% from 6.8%), Saudia Arabia (to 6.7% from 5.1%) and Singapore (to 6.6% from 2.4%). The US, UK, Singapore, Canada and Australia accounted for ~51% of the total inward remittances to India in FY2024 (~34% in FY2021).
- The US government recently proposed a [Bill](#), to levy a 3.5% excise tax on all outbound remittances made by non-citizens. **Given the large share of the US in remittances, this could impact such flows to India. However, if passed, the bill would only come into effect on January 1, 2026, which could lead to an upfronting of remittance flows from the US in the interim period, auguring well for the CAD over the next few quarters, before the adverse impact of the same is witnessed in CY2026.**

India's CAD/GDP projected at 1.0% in FY2026, assuming average crude oil price of \$70/bbl; uncertain global trade policies poses upside risks

EXHIBIT: Trends in India's Current Account Balance

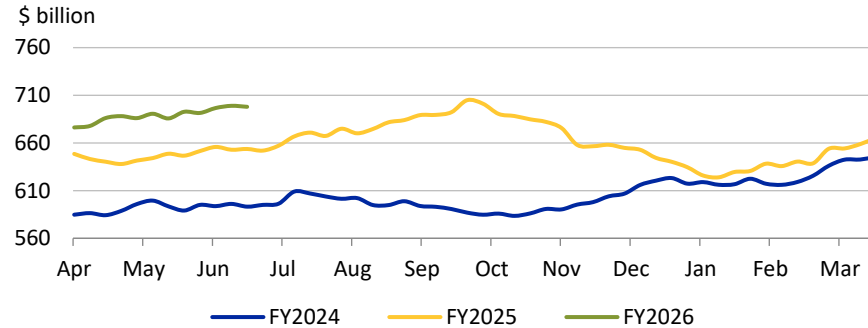


*P: Projected; Data labels correspond to CAD as % of nominal GDP; ICRA's nominal GDP forecast has been used for FY2026; Source: RBI; CEIC; ICRA Research

- Overall, ICRA expects the merchandise trade deficit to expand to \$316-318 billion (-7.6% of GDP) in FY2026 from \$287.2 billion (-7.3% of GDP) in FY2025. Consequently, in the base case, **ICRA projects the CAD to widen to \$40-42 billion (-1.0% of GDP) from \$23.3 billion (-0.6% of GDP) in FY2025.**
- A \$10/bbl increase in the average price of crude oil for the fiscal typically pushes up the CAD by 0.3% of GDP. Accordingly, if the crude oil price averages at \$65/bbl in FY2026, then the CAD is likely to print at 0.8% of GDP. However, if the crude oil price averages at ~\$75/bbl then the CAD is likely to widen to ~1.2% of GDP, relative to our baseline estimate of 1.0% of GDP. This could also exert some pressure on the USD/INR pair during the fiscal. Moreover, the FY2026 outlook remains clouded with risks owing to the uncertainty surrounding global trade policies.

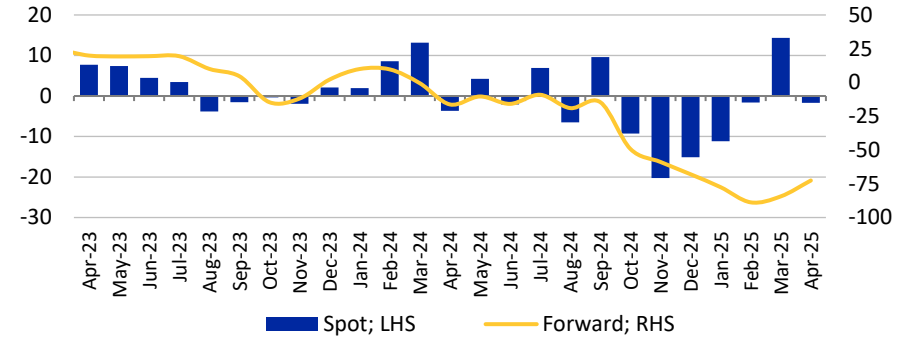
Valuation gains, RBI dollar purchases have led to uptick in forex reserves since January 2025

EXHIBIT: India's Foreign Exchange Reserves



Source: RBI; ICRA Research

EXHIBIT: Net sales/purchases of \$ in the spot market and outstanding net sales/purchases in forward market by the RBI (\$ billion)

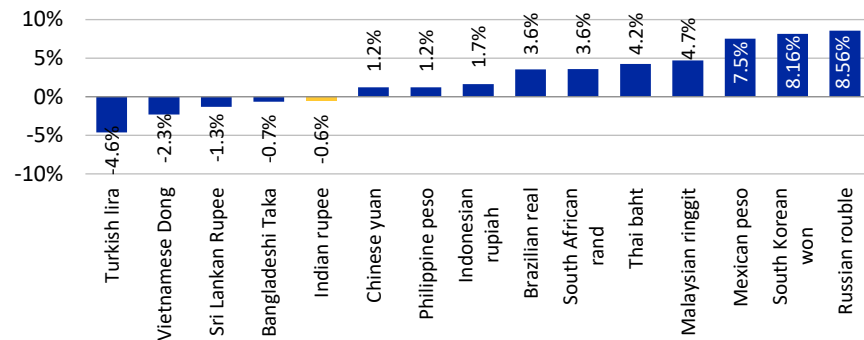


*Net Purchase (+)/ Sale (-); Source: RBI; ICRA Research

- India's foreign exchange reserves rose to \$665.4 billion at end-March 2025, from \$640.3 billion at end-December 2024. The RBI sold dollars amounting to \$12.8 billion during January-February 2025 in the spot market on a net basis. Subsequently, with some recovery in the USD/INR pair, the central bank purchased dollars amounting to \$14.4 billion in March 2025, turning the RBI into a net buyer of dollars in the spot market in Q4 FY2025 (\$1.6 billion), after recording sales of \$44.7 billion in Q3 FY2025. Thereafter, the RBI reverted to a net seller of dollars in the spot market in April 2025 (\$1.7 billion).
- Moreover, the RBI's outstanding net forward sales rose to \$84.3 billion at end-March 2025 from \$67.9 billion at end-December 2024. Thereafter, it fell to \$72.6 billion at end-April 2025. Moreover, the RBI has elongated the maturity profile of the net short positions significantly, with 20.3% (\$14.7 billion) maturing in the less than three-month bracket at end-April 2025, as against 85.5% (\$58.1 billion) at end-December 2024. The unwinding of these forward positions would put some pressure on India's forex reserves during the fiscal.
- Thereafter, foreign exchange reserves have risen sharply to \$697.9 billion as on June 20, 2025 (nearing the peaks seen at end-September 2024), partly aided by valuation gains amid a fall in the DXY (to 98.7 on June 20, 2025 from 104.2 on March 31, 2025) during this period.

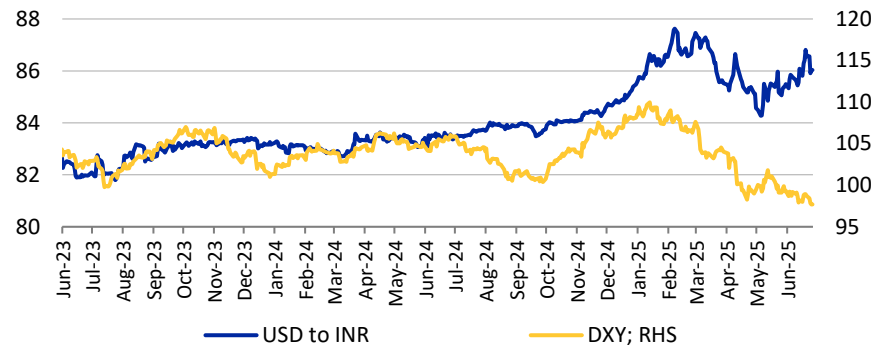
USD/INR pair to trade between 85.0 and 87.0 in remainder of CY2025

EXHIBIT: Exchange Rate Movements of Various Currencies Relative to the \$ as on June 26, 2025 relative to end-March 2025



*Negative values indicate depreciation against the \$; Source: Refinitiv, ICRA Research

EXHIBIT: Trends in USD/INR and DXY



*Data for FY2026 is up to June 26, 2025; Source: Refinitiv, ICRA Research

- The USD/INR pair remained stable during June 1-12, 2025, ranging between 85.3 and 85.8, supported by a weakening dollar, comfortable domestic CPI inflation readings, and the rising prospects of the finalisation of the US-India trade deal before the July 9, 2025 deadline. However, the pair breached the 86-mark on June 13, 2025, following the escalation of geopolitical tensions in West Asia and concerns over a potential spike in crude oil prices. Nevertheless, it reverted to 85.97/\$ on June 24, after the ceasefire announcement between Iran-Israel. Overall, the pair averaged at 85.96/\$ during June 1-24, 2025, down 0.9% compared to 85.21/\$ seen in May 2025, despite a 1.6% dip in DXY during this period.
- **Looking ahead, intermittent risk-off sentiment owing to geopolitical tensions and their likely impact on FII inflows, as well as the rise in global commodity prices would inject volatility into the USD/INR pair in the near term. We currently expect the USD/INR pair to trade between 85.0 and 87.0 in the rest of CY2025.**
- Additionally, the USA's share in India's merchandise exports stood at ~20% in FY2025; such exports are significant for many sectors like agricultural products, textiles, chemicals, metals, jewellery, pharma, etc. Consequently, these segments remain particularly vulnerable to the external headwinds arising from protectionist trade policies imposed by the US as well as exchange rate volatility. Nevertheless, India's REER (export-based weights-40 countries) has corrected by 3.4% in May 2025 over January 2025, which augurs well for export competitiveness, if this trend continues.

EXHIBIT: Trends in India's Current account

Figures in \$ billion	Q4 FY2024	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026 ICRA P	FY2022	FY2023	FY2024	FY2025	FY2026 ICRA P
Merchandise Exports	121.6	111.2	104.5	109.8	116.3	109 to 112	429.2	456.1	441.4	441.8	442 to 445
Merchandise Imports	173.6	175.0	189.2	189.1	175.8	185 to 188	618.6	721.4	686.3	729.0	759 to 762
Merchandise Trade Balance	-52.0	-63.8	-84.6	-79.3	-59.5	-75 to -78	-189.5	-265.3	-244.9	-287.2	-316 to -318
Net Services	42.7	39.7	44.6	51.2	53.3	47 to 49	107.5	143.3	162.8	188.8	205 to 207
Primary Income	-14.8	-10.9	-9.2	-16.4	-11.9	-10 to -13	-37.3	-45.9	-49.8	-48.4	-55 to -57
Secondary Income	28.7	26.3	32.4	33.2	31.5	25 to 28	80.5	100.9	105.9	123.5	125 to 127
Current Account Balance	4.6	-8.6	-16.8	-11.3	13.5	-13.1	-38.7	-67.0	-26.0	-23.3	-40 to -42
Percentage of GDP	+0.5%	-0.9%	-1.8%	-1.1%	+1.3%	-1.3%	-1.2%	-2.0%	-0.7%	-0.6%	-1.0%

EXHIBIT: Trends in India's Financial flows

Figures in \$ billion	Q4 FY2024	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	FY2022	FY2023	FY2024	FY2025
Financial flows	25.5	13.0	35.8	(26.5)	(5.5)	85.9	59.0	89.4	16.9
Direct investment	2.3	6.2	(2.8)	(2.8)	0.4	38.6	28.0	10.2	1.0
Portfolio investment	11.4	0.9	19.9	(11.4)	(5.9)	-16.8	-5.2	44.1	3.6
Financial derivatives	-3.2	(3.6)	(5.5)	(5.5)	(7.5)	-6.4	-5.4	(7.9)	(22.1)
Other investment*	14.9	9.5	24.3	(6.8)	7.4	70.5	41.5	43.1	34.5

*other investments include ECBs, banking capital, trade credit and advances, other accounts receivable/payable, etc.; P: Projected; ICRA's nominal GDP forecast has been used for FY2026; Source: RBI; CEIC; ICRA Research



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Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head- Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzoo Pahwa	Economist	aarzoo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Isha Sinha	Associate Economist	isha.sinha@icraindia.com	022 – 6114 3445





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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