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INDIA'S EXTERNAL DEBT

External debt to GDP ratio stood at 19.1% at end-March 2025; sizeable forex reserves provide comfort against rising external obligations

JUNE 2025

Highlights

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India's external debt rose by $67.5 billion YoY to $736.3 billion at end-March 2025 (19.1% of GDP).

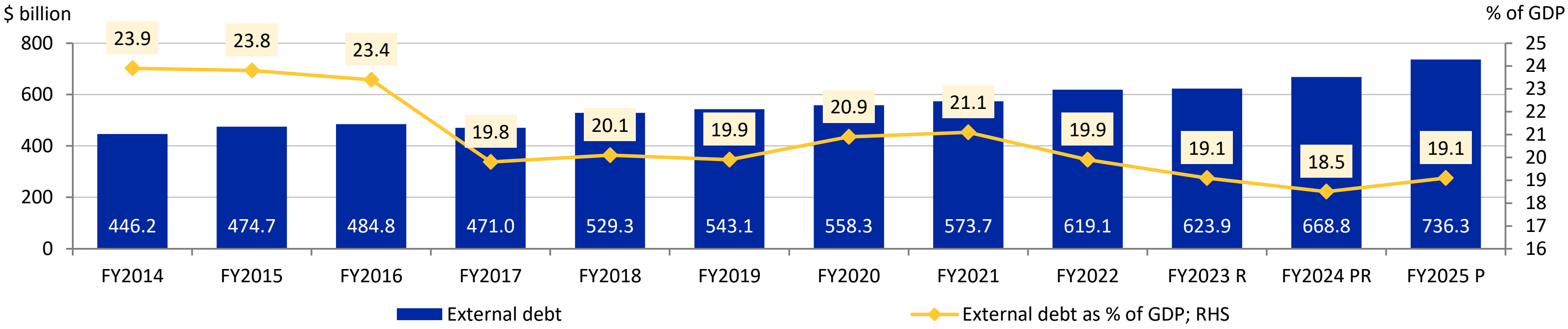
Coverage of external debt provided by forex reserves rose to 90.8% at end-March 2025. It is expected to improve further at end-June 2025.

While India's external position remains comfortable, aided by the buffer provided by reserve assets, the unwinding of RBI's forward book could put downward pressure on forex reserves, impacting coverage metrics.

- India's external debt rose by $67.5 billion to $736.3 billion at end-March 2025 from $668.8 billion at end-March 2024. This was primarily driven by the sharp $41.2 billion year-on-year (YoY) expansion in commercial borrowings in FY2025.
- Moreover, external debt as a % of GDP rose slightly to 19.1% at end-March 2025 from 18.5% at end-March 2024, amidst the lower growth in nominal GDP (+9.8%) vis-à-vis external debt (+13.0%). However, the debt service ratio fell marginally to 6.6% from 6.7% during this period.
- The share of short-term debt by original and residual maturity in total external debt eased for the second consecutive year, to a four- and 10-year low of 18.3% and 41.2%, respectively, in FY2025. Nevertheless, both these categories witnessed a yearly increase in absolute terms in the fiscal.
- With a sequential uptick of $32.6 billion in reserve assets, the coverage of external debt by forex reserves rose to 90.8% at end-March 2025 from 88.5% at end-December 2024. It is likely to increase further at end-Q1 FY2026, amid a sharp $29.6 billion rise in reserve assets in that quarter.
- External commercial borrowings (ECB) inflows are estimated to moderate in FY2026, amid liquidity infusion measures by the RBI, policy rate cuts to the tune of 100 bps, and higher hedging costs for overseas borrowing. ICRA estimates gross ECB approvals at $40-45 billion in FY2026.
- While India's short term external obligations are set to rise in FY2026, the sizeable forex reserves provide adequate buffers. However, the maturity of the RBI's forward book could put some downward pressure on forex reserves, leading to a worsening in the coverage metrics. Consequently, garnering healthy capital inflows would be crucial in FY2026, even as FPI-debt inflows may remain sluggish with the dissipation of benefits from the bond index inclusion.
- Looking ahead, intermittent risk-off sentiment owing to geopolitical tensions and their likely impact on FII inflows and global commodity prices would inject volatility into the USD/INR pair in the near term. ICRA expects the USD/INR pair to trade between 85.0 and 87.0 in the rest of CY2025.

India’s external debt/GDP ratio rose to 19.1% in FY2025 from 18.5% in FY2024

EXHIBIT: Trends in external debt and as % of GDP



R: Revised; PR: Partially Revised; P: Provisional; Source: GoI; RBI; ICRA Research

- India’s external debt rose by $67.5 billion to $736.3 billion at end-March 2025 from $668.8 billion at end-March 2024. Additionally, the pace of the YoY expansion in FY2025 picked up to 10.1% from 7.2% seen in FY2024.
- The valuation effect, to the extent of $5.3 billion, owing to the appreciation of the US dollar vis-à-vis Indian rupee and major currencies such as Yen, the SDR and Euro suppressed the increase in external debt in FY2025. Had it not been for this, the external debt would have increased by a larger $72.9 billion YoY in FY2025.
- External debt as a % of GDP rose to 19.1% at end-March 2025 from 18.5% at end-March 2024, owing to the lower growth in nominal GDP (+9.8%; to Rs. 330.7 trillion in FY2025 from Rs. 301.2 trillion in FY2024) vis-à-vis the external debt (+13.0%, in INR terms) in the fiscal.
- Notably, the debt service ratio (i.e. principal repayments and interest payments) fell marginally to 6.6% of current receipts at end-March 2025 from 6.7% at end-March 2024.

Commercial borrowings saw the largest YoY increase in FY2025

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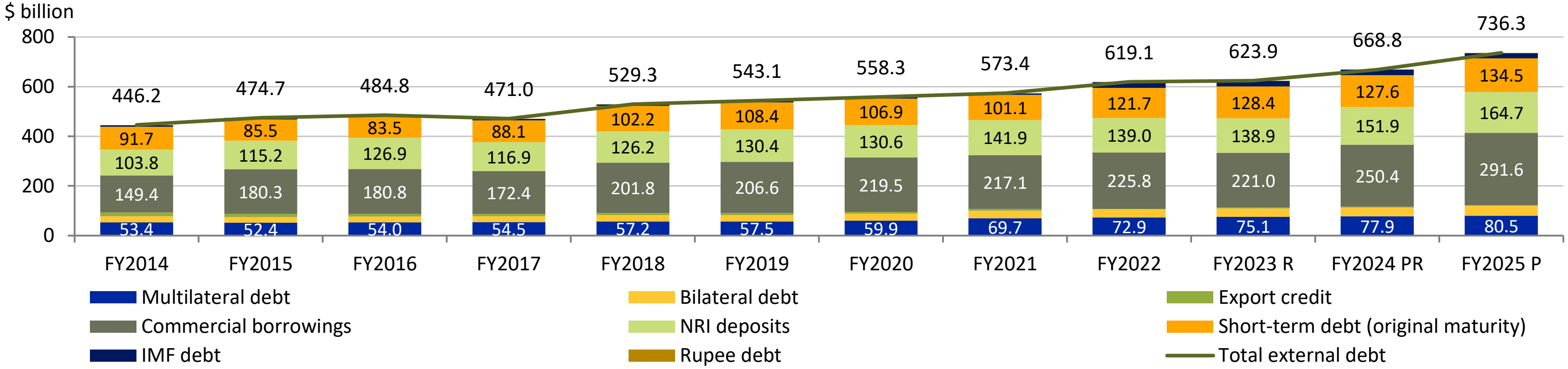
EXHIBIT: Trends in components of external debt

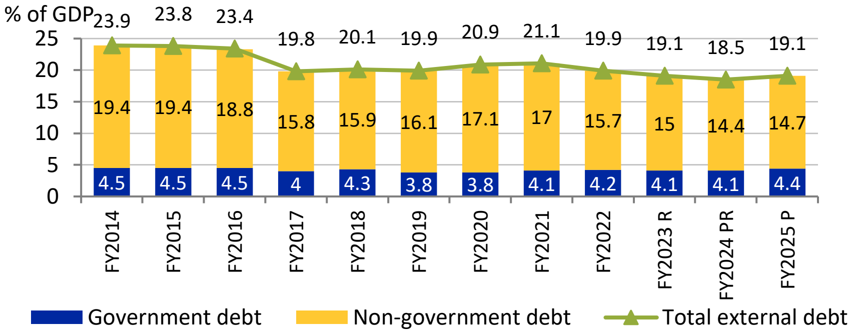


Short-term debt is shown by original maturity basis; R: Revised; PR: Partially Revised; P: Provisional; Source: GoI; RBI; ICRA Research

- The $67.5 billion YoY increase in external debt during FY2025 was primarily driven by commercial borrowings (+$41.2 billion; record-high YoY rise). This was followed by an uptick in NRI deposits (+$12.8 billion), short-term (+$6.9 billion), bilateral (+$3.9 billion), and multilateral (+$2.5 billion) debt in FY2025 over FY2024 levels. While IMF debt (+$0.1 billion) and export credit (+$0.1 billion) reported a marginal YoY rise during the fiscal, rupee debt (at $0.8 billion) remained unchanged at the levels seen at end-March 2024.
- Moreover, the shares of commercial borrowings (to 39.6% from 37.4%) and bilateral debt (to 5.32% from 5.26%) in total external debt increased at end-March 2025 relative to end-March 2024. In contrast, the shares of the remaining components of external debt declined during this period, including NRI deposits (to 22.4% from 22.7%, amid a lower growth in NRI deposits vis-à-vis external debt), short-term (to 18.3% from 19.1%), multilateral (to 10.9% from 11.7%), IMF (to 3.0% from 3.3%) debt, and export credit (to 0.42% from 0.44%).

Increase in external debt of non-government sharply exceeded that of Government in FY2025; loans continued to form the largest part of external debt

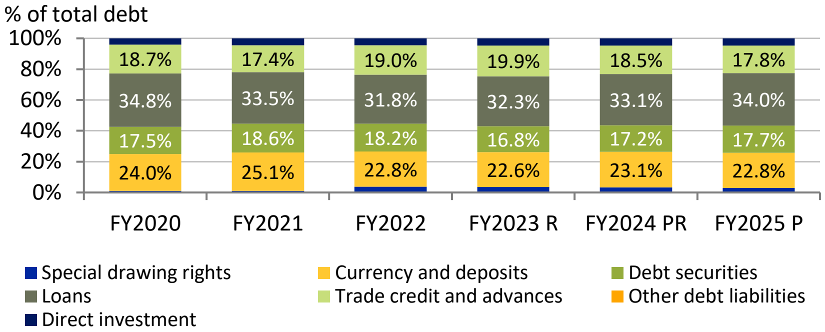
EXHIBIT: Government and Non-government External Debt as % of GDP



R: Revised; PR: Partially Revised; P: Provisional; Source: GoI; RBI; ICRA Research

- Outstanding external debt of both, Government (by $19.7 billion to $168.4 billion in FY2025) and non-government (by $47.8 billion to $567.9 billion) sectors increased in FY2025 over FY2024, although the extent of rise was much sharper in the latter.
- As a % of GDP, both government (to 4.4% in FY2025 from 4.1% in FY2024) and non-government (to 14.7% from 14.4%) debt inched up in FY2025, relative to FY2024.

EXHIBIT: Instrument-wise classification as % of total external debt



R: Revised; PR: Partially Revised; P: Provisional; Source: GoI; RBI; ICRA Research

- As per the instrument-wise classification, in line with previous-year trends, loans (34.0%) constituted the largest share of total external debt in FY2025.
- This was followed by currency and deposits (22.8%), trade credit and advances (17.8%), debt securities (17.7%), direct investment (4.7%), and special drawing rights (3.0%). When compared to FY2024, the share of trade credit and advances, SDR, currency and deposits, and direct investment has moderated in FY2025, which was partly offset by the rise in share of loans and debt securities.

Short-term debt by both original and residual maturity rose in FY2025, even as their share in total external debt declined

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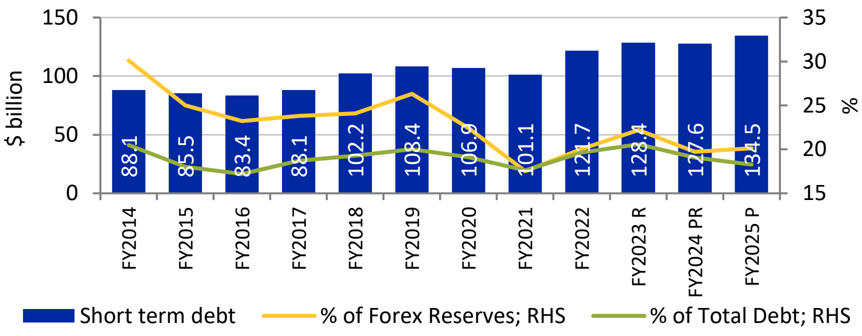
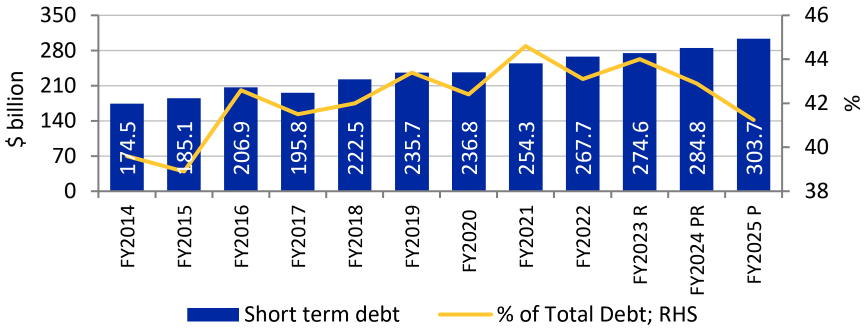
EXHIBIT: Short-term debt (by original maturity)



R: Revised. PR: Partially Revised. P: Provisional; Source: RBI; ICRA Research

EXHIBIT: Short-term debt (by residual maturity)



P: Provisional; Source: RBI; ICRA Research

- India’s short-term debt (with original maturity of up to one year) remained elevated at $134.5 billion in FY2025, higher than the year ago level of $127.6 billion in FY2024. However, the share of short-term debt (with original maturity of up to one year) in total external debt dipped to a four-year low of 18.3% from 19.1%, amid a sharper uptick in total external debt (YoY: +10.1%) vis-à-vis short-term debt (+5.4%). Additionally, the ratio of short-term debt (with original maturity of up to one year) to foreign exchange reserves rose to 20.1% in FY2025 from 19.7% in FY2024.
- Moreover, the short-term debt by residual maturity basis (i.e., debt obligations that include long-term debt by original maturity falling due over the next 12 months and short-term debt by original maturity) rose to an all-time high of $303.7 billion at end-March 2025 from $284.8 billion at end-March 2024. Nevertheless, the share of short-term debt by residual maturity in total external debt eased to a 10-year low of 41.2% from 42.9%, respectively.

External debt inched up by ~2% QoQ at end-March 2025; coverage by forex reserves remained sub-100%

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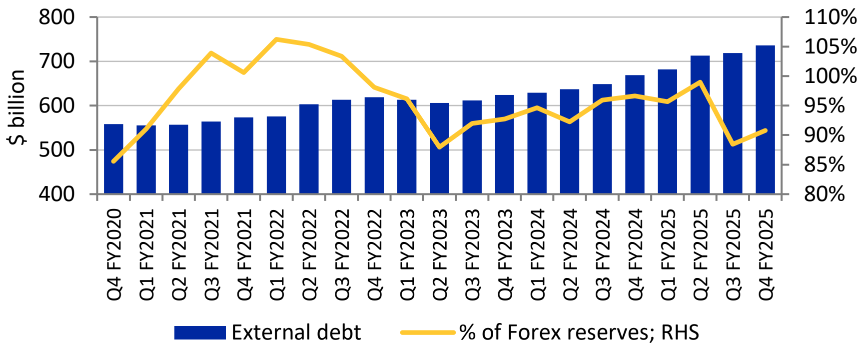
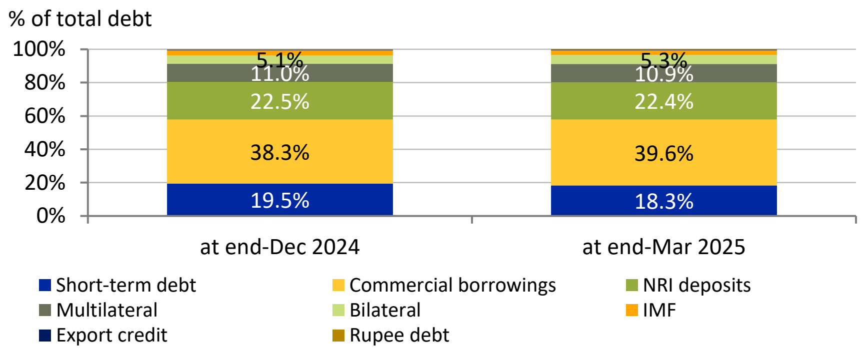
EXHIBIT: Quarterly trends in External Debt



Source: RBI; ICRA Research

EXHIBIT: Composition of External debt



Source: RBI; ICRA Research

- In sequential terms, India's external debt rose modestly by 2.5% to $736.3 billion at end-March 2025 from $718.5 billion at end-December 2024. However, with a sharper quarter-on-quarter (QoQ) uptick of 5.1% or $32.6 billion in reserve assets, the coverage of external debt by forex reserves improved to 90.8% at end-March 2025 from 88.5% at end-December 2024, even as it remained below the 100%-mark for the 13th consecutive quarter.
- While the share of short-term debt (by original maturity) in total external debt has declined mildly to 18.3% at end-March 2025 from 19.5% at end-December 2024, that of long-term debt rose to 81.7% from 80.5%, respectively.
- Within the long-term segment, the share of commercial borrowings (to 39.6% from 38.3%) and bilateral debt (to 5.3% from 5.1%) reported a sequential uptick at end-March 2025, relative to the previous quarter. In contrast, there was a marginal decline in the share of other constituents in the total external debt between these two quarters, such as multilateral debt (to 10.9% from 11.0%) and NRI deposits (to 22.4% from 22.5%), while that for IMF (at 3.0%) and rupee (at 0.1%) debt, and export credit (at 0.4%) remained unchanged during this period.

Outstanding commercial borrowings surged by ~16% in FY2025, amid lower global interest rates

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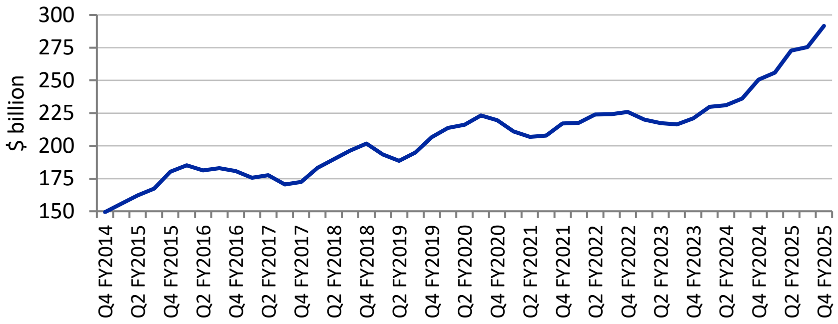
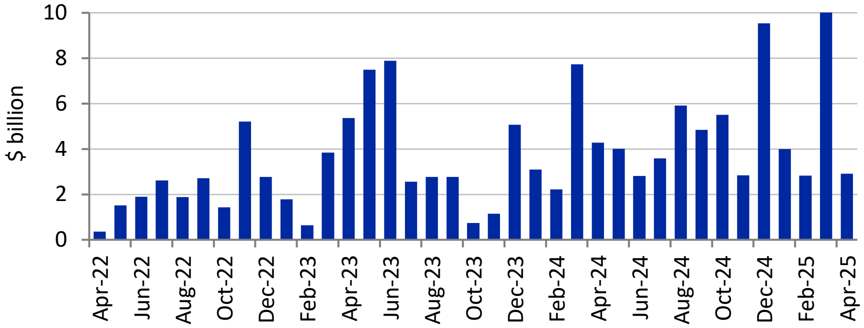
EXHIBIT: Trends in Commercial Borrowings



Commercial borrowings includes bank loans, bonds and loans/securitised borrowings with multilateral/bilateral guarantee and IFC(W); Source: RBI; ICRA Research

EXHIBIT: Trends in monthly ECB approvals

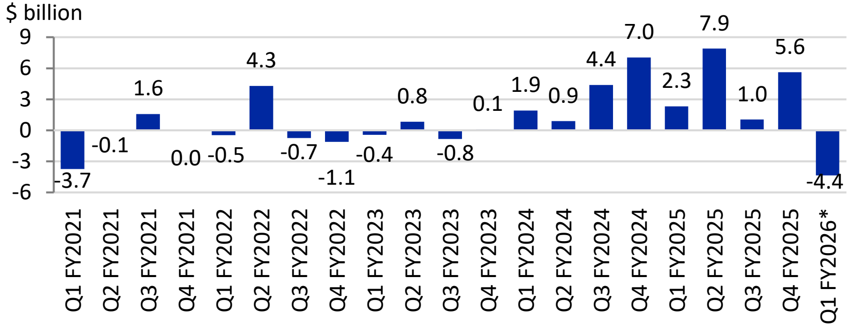


Source: RBI; ICRA Research

- Outstanding commercial borrowings stood at a record-high of $291.6 billion at end-March 2025, 16.4% higher than the year-ago levels ($250.4 billion at end-March 2024), amid tighter liquidity conditions and relatively higher domestic borrowing costs. As a proportion of GDP, it rose to a 14 quarter-high of 7.5% by end-March 2025 from 6.9% by end-March 2024.
- Gross ECB approvals had surged to $61.2 billion in FY2025 from $48.8 billion in FY2024. Thereafter, they fell by a sharp 31.9% YoY to $2.9 billion in April 2025 from $4.3 billion in April 2024.
- **The tighter liquidity conditions in the domestic financial system had resulted in a surge in the pace of ECB approvals in FY2025. Subsequently, the liquidity infusion measures by the RBI and policy rate cuts to the tune of 100 bps have softened yields, which along with the higher hedging costs for overseas borrowing would likely dampen the pace of ECB approvals from financial sector entities in FY2026. ICRA estimates gross ECB approvals to range between $40-45 billion in FY2026.**

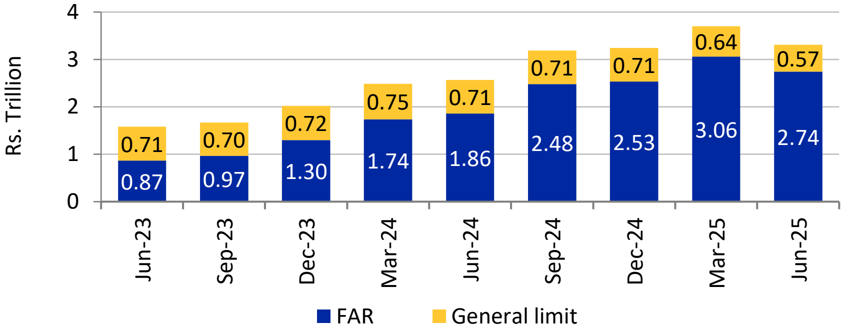
FPI debt flows likely to be sluggish in FY2026, following large inflows during FY2024-25 owing to bond index inclusion

EXHIBIT: Trends in net FPI debt flows



*Up to June 25, 2025; Including Debt VRR segment; Source: NSDL; CDSL; ICRA Research

EXHIBIT: Central government securities held by FPIs under Fully Accessible Route (FAR) and General Investment Route (GIR)



*As on June 26, 2025; Source: NSDL; ICRA Research

- FPIs turned net sellers in Q1 FY2026 after a gap of nine quarters, with net outflows in the debt segment amounting to $4.4 billion in the quarter (up to June 25), as the favourable impact of the bond index inclusion dissipated and the MPC frontloaded rate cuts while also signaling that the monetary easing cycle was coming to an end, and geopolitical tensions escalated in the quarter. On a monthly basis, FPIs withdrew $2.9 billion from the debt segment in April 2025, before turning net buyers again to the tune of $1.3 billion in May 2025. Thereafter, their net outflows have amounted to $2.9 billion in June 2025 so far (up to June 25).
- Following the sizeable inflows of $31.1 billion during FY2024-25, ICRA expects FPI debt flows to remain lacklustre in FY2026, with the materialisation of the bond index inclusion-related inflows and the end of the rate cut cycle limiting bond gains. **Notably, any escalation in geopolitical tensions, expectations of rate cuts in the US and their implications for the DXY and INR would be key monitorables in the near term.**
- The FPI holdings in G-secs through the fully accessible route (FAR) dipped to Rs. 2.7 trillion in June 2025 so far (as on June 26) from Rs. 3.1 trillion in March 2025**. With the inclusion of India's G-secs in the J.P. Morgan Government Bond Index now behind us, the FAR holdings are unlikely to rise significantly during the fiscal.**

Coverage of external debt provided by forex reserves to improve slightly in Q1 FY2026

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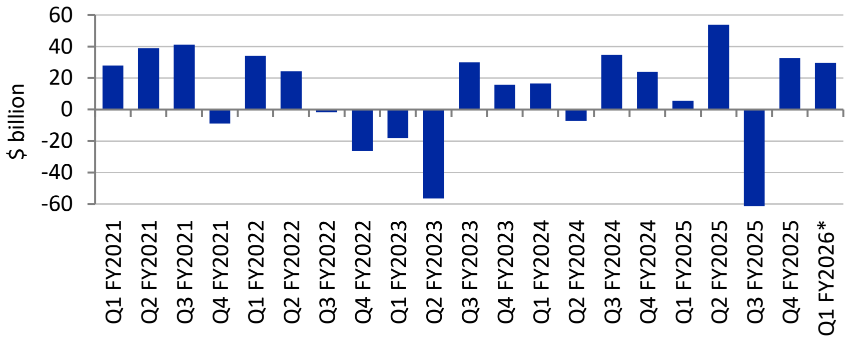
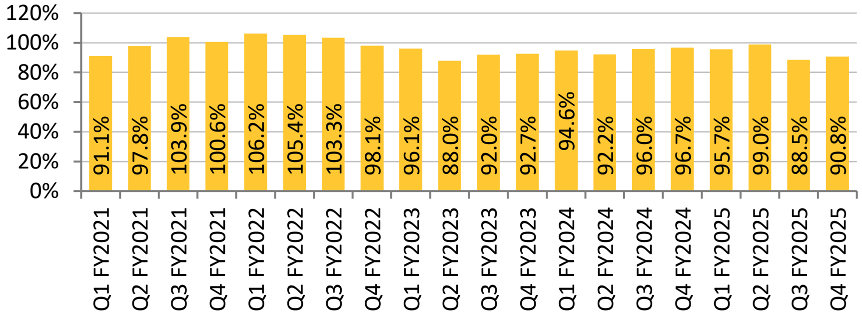
EXHIBIT: Quarterly changes in India's reserve assets ($ billion)



Source: RBI; ICRA Research

EXHIBIT: Forex reserves as % of External Debt (%)



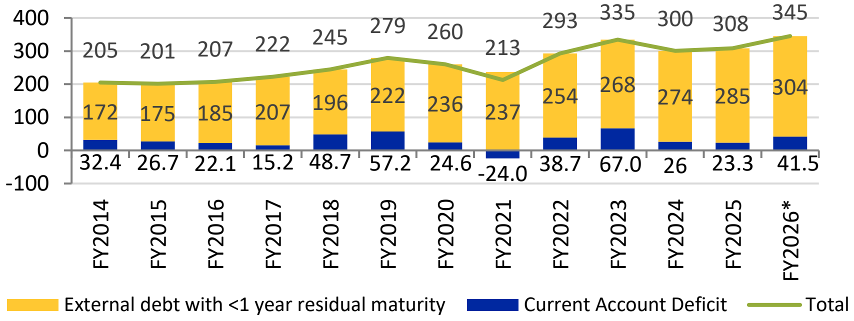
Source: RBI; ICRA Research

- India's reserve assets rose to $668.3 billion at end-Q4 FY2025 from $635.7 billion at end-Q3 FY2025, while remaining below the peak of $705.8 billion seen at end-Q2 FY2025. The uptick was largely led by valuation gains, as the accretion to reserves during the quarter was much lower than the increase in foreign exchange reserves. Subsequently, foreign exchange reserves have risen further by $29.6 billion to $697.9 billion as on June 20, 2025*, amid an increase in foreign currency assets.
- India has recorded sizeable net outflows to the tune of $4.4 billion under the FII-debt segment (including VRR flows) in Q1 FY2026 (till June 25), while inflows from ECB, net of refinancing and the NRI deposits stood at $2.9 billion and $0.8 billion, respectively, in April 2025.
- **Given the robust $29.6 billion in reserve assets in Q1 FY2026*, the coverage of external debt provided by forex reserves is likely to improve somewhat at end-Q1 FY2026. Looking ahead, lacklustre FPI-debt flows could limit the uptick in external debt through FY2026, although the coverage of external debt provided by forex reserves may come under pressure with the maturity of the RBI's forward book.**

**Data for Q1 FY2026 has been computed by subtracting the forex reserves data published in the RBI's weekly statistical supplement as on June 27, 2025 from the reserve assets as per the International Investment Position data as at end-March 2025.*

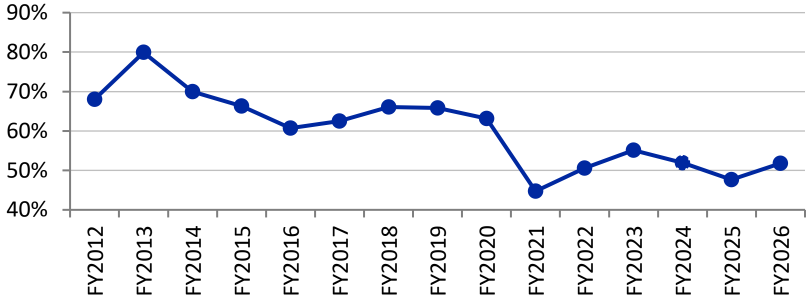
India's external obligations set to expand in FY2026, although adequate reserve cover provides some comfort

EXHIBIT: Trends in India's Current Account Deficit and External debt with <1 year residual maturity ($ billion)



**Denotes residual maturity of o/s external debt for up to one year as at end-March 2025 and we have included our CAD projections for FY2026; Source: RBI, ICRA Research*

EXHIBIT: Trends in India's external obligations (current account deficit + short term debt with residual maturity <1 year) as a % of foreign exchange reserves



Source: RBI, ICRA Research

- India's short-term debt with residual maturity of less than 1 year rose to $303.7 billion by end-March 2025 from $285.0 billion at end-March 2024. Besides, ICRA projects the current account deficit to widen to ~$40-42 billion in FY2026 from $23.3 billion in FY2025, amid a rise in the merchandise trade deficit, while remaining manageable at ~1.0% of GDP despite the prevailing global uncertainties.
- This implies that India's external obligations (short term debt with residual maturity < 1-year + current account deficit) for FY2026 are expected to expand by ~12% to a record $345 billion from $308 billion in FY2025. Besides, as a proportion of forex reserves, these obligations are set to inch up to ~52% (using reserve assets at end-March 2025) from ~48% in FY2025, albeit below the pre-pandemic levels of over 60%.
- **Notwithstanding the expectations of an uptick in short-term obligations, India's external position remains quite comfortable aided by the buffer provided by reserve assets. However, the maturity of the RBI's forward book could put some downward pressure on forex reserves, possibly leading to a worsening in the coverage metrics. Consequently, garnering healthy capital inflows, unlike in FY2025, would be important in FY2026.**

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

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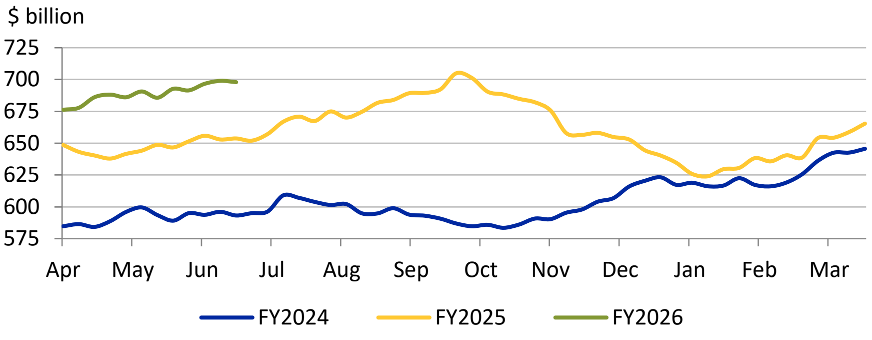
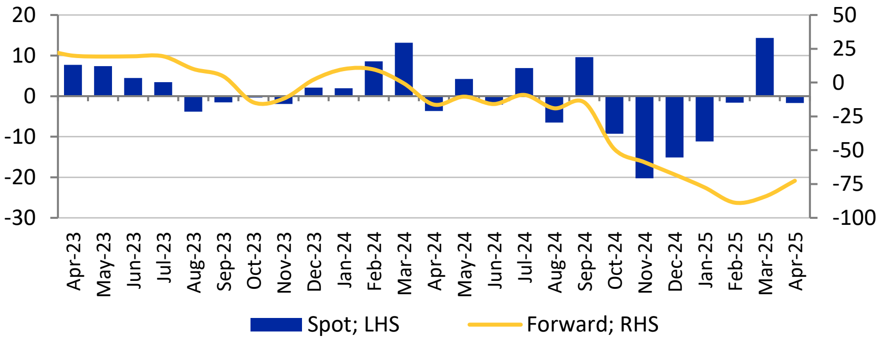
EXHIBIT: India’s Foreign Exchange Reserves



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).
- The RBI’s outstanding net forward sales rose to $84.3 billion at end-March 2025 from $67.9 billion at end-December 2024, before easing to $72.6 billion at end-April 2025. The central bank has elongated the maturity profile of 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. Nevertheless, 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

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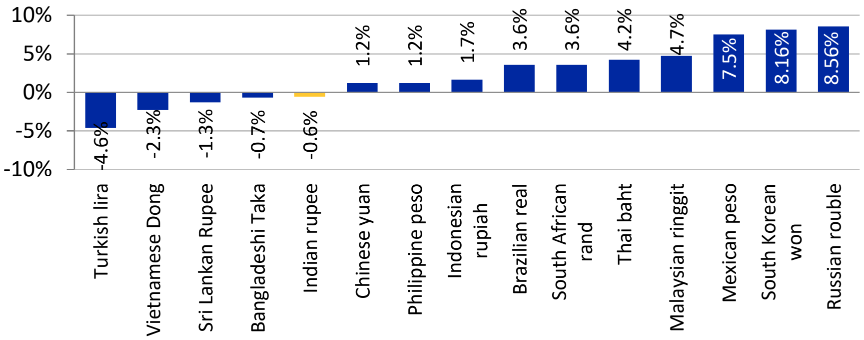
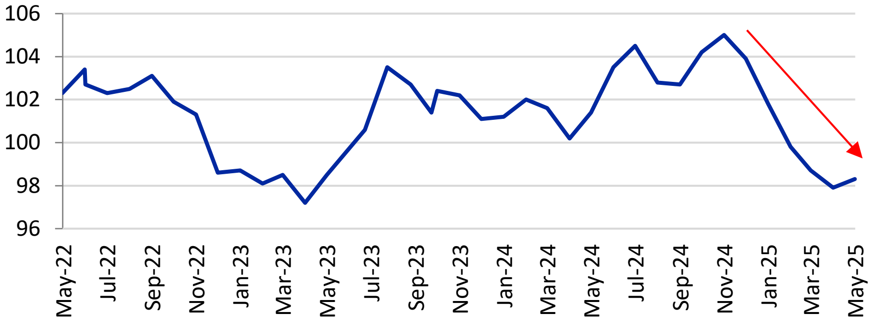
EXHIBIT: Exchange Rate Movements of Various Currencies Relative to the $ as on June 26, 2025 relative to end-March 2025



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

EXHIBIT: Index of REER for INR (40 Country, Export Based Weights)



Source: RBI; ICRA Research

- The INR has depreciated by 0.6% against the $ in FY2026, faring worse than most EM currencies in our sample set, including the Chinese yuan (+1.2%), which have appreciated 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.**
- Notably, India's 40-country, export-weighted Real Effective Exchange Rate (REER) has corrected by 5.4% in May 2025 over December 2024 after rising by 2.8% in CY2024, which augurs well for export competitiveness, if this trend continues.

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Thank You!