

# Outlook on Current Account Deficit

**CAD printed at 1.3% of GDP in Q2 FY2026; to exceed 2.5% of GDP in Q3 FY2026 amid surge in gold imports**

**DECEMBER 2025**



1,805	1,342	2,807	7,454	4,522	1,433	3,652
(1,128)	(725)	(436)	(1,947)	(1,121)	(736)	(1,969)
781	2,224	5,211	7,150	792	1,901	3,260
(1,25)	(1,134)	(485)	(1,150)	(1,811)	(1,022)	(2,022)
1,488	4,952	10,422	14,600	1,684	4,803	10,282
(1,128)	(725)	(436)	(1,947)	(1,121)	(736)	(1,969)

01	12,349,000
3,640	230,401,000
1,062	65,498,000
485	8,369,000
8,549	189,301,000
4,602	102,698,000
890	24,897,000
6,280	76,002,000
2,624	57,610,000



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*India's current account deficit widened to 1.3% of GDP in Q2 FY2026 from 0.3% of GDP in Q1, albeit lower than our forecast.*

*The spike in gold imports and consequently MTD (to a record \$41.7 billion) in October 2025 is likely to bloat the CAD to above 2.5% of GDP in Q3 FY2026.*

*Overall, CAD/GDP is projected at a manageable 1.1-1.2% of GDP in FY2026.*



- India's current account deficit (CAD) widened on a quarter-on-quarter (QoQ) basis to \$12.3 billion in Q2 FY2026 from \$2.7 billion in Q1, although it undershot ICRA's forecast of \$17 billion, owing to stronger-than-expected remittance flows and slightly lower merchandise trade deficit (MTD).



- However, the Q2 FY2026 CAD was lower than the \$20.8 billion seen in Q2 FY2025, mainly stemming from higher invisible earnings (to \$75.2 billion from \$67.7 billion) and a slight dip in MTD (to \$87.4 billion from \$88.5 billion).



- Net financial flows slumped to just \$0.7 billion in Q2 FY2026 from \$8.4 billion in Q1 FY2026, owing to turnaround in FPI to net outflows in the quarter and lower FDI inflows. Consequently, forex reserves depleted by \$10.9 billion in Q2 FY2026, as against an accretion of \$4.5 billion in Q1.



- In H1 FY2026, the YoY plunge in net financial flows (to \$9.1 billion from \$48.8 billion in H1 FY2025) outweighed the reduction in CAD levels (to \$15 billion from \$25.3 billion), resulting in a reserve depletion (on a BoP basis) of \$6.4 billion in H1 FY2026 vs. an accretion of \$23.8 billion in H1 FY2025.



- Looking ahead, the spike in gold imports and consequently MTD (to a record \$41.7 billion) in October 2025 is likely to bloat the CAD considerably to above 2.5% of GDP in Q3 FY2026. With gold imports unlikely to sustain this surge in the coming months, ICRA expects the monthly merchandise trade deficit figures to ease relative to the levels seen in October 2025.



- Overall, we foresee India's CAD at a manageable ~1.1-1.2% of GDP in FY2026. Nevertheless, any negative developments on tariff deal front and/or policy changes around H-1B visas and the Halting International Relocation of Employment (HIRE) Act pose key downside risks to the outlook. The USD/INR pair would remain volatile in near term, guided by global developments and trade talks.

## 1 Developments in India's Balance of Payments during Q2 FY2026



## 2 Preliminary October 2025 trends and outlook for Q3 FY2026



## 3 FY2026 Outlook on CAD and INR





## Developments in India's BOP in Q2 FY2026

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*Current account deficit widened to lower-than-expected \$12.3 billion in Q2 FY2026*

# India's current account deficit expectedly widened to \$12.3 billion or 1.3% of GDP in Q2 FY2026, albeit lower than our forecast

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

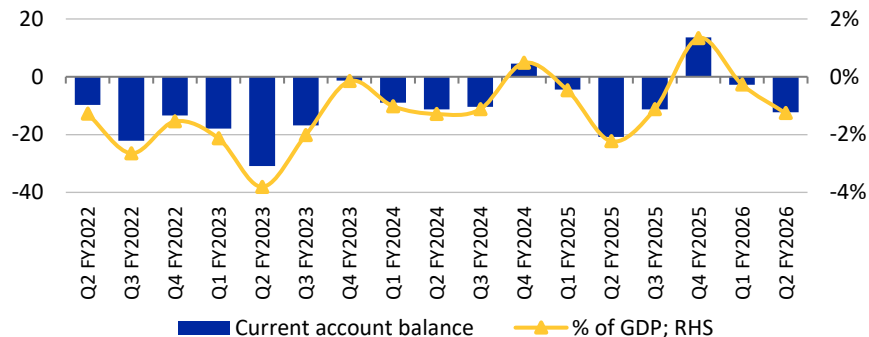
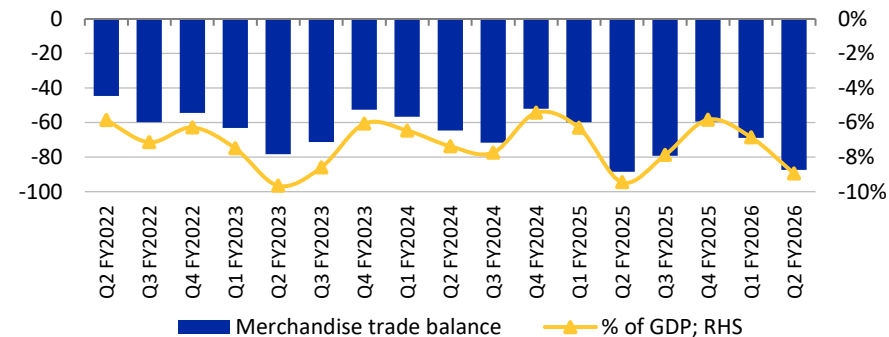


EXHIBIT: Merchandise Trade Balance - \$ billion and % of GDP



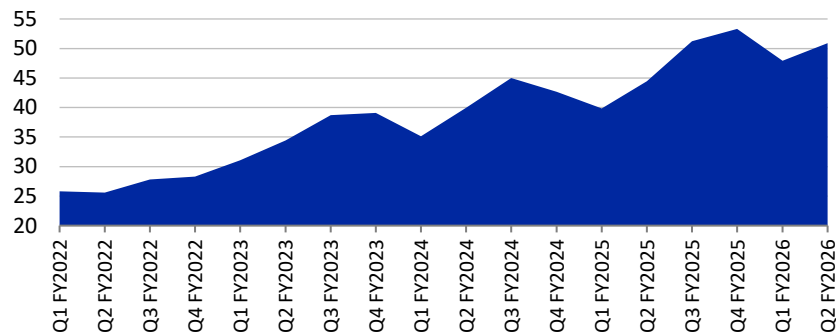
“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

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

- India's current account deficit expectedly widened to \$12.3 billion (-1.3% of GDP) in Q2 FY2026 from \$2.7 billion (-0.3% of GDP) in Q1 FY2026, while trailing the deficit of \$20.8 billion (-2.2% of GDP) in the year-ago quarter, and the average deficit of \$21.0 billion seen during Q2 FY2023-2025. It also undershot ICRA's forecast of ~\$17.0 billion for the quarter.
- The lower-than expected CAD print in Q2 FY2026 vis-à-vis Q2 FY2025 was primarily on account of slightly lower merchandise trade deficit (to \$87.4 billion in Q2 FY2026 from \$88.5 billion in Q2 FY2025), higher services trade surplus (to \$50.9 billion from \$44.5 billion) and secondary income inflows (to \$36.5 billion from \$32.4 billion; amid higher remittances) which offset the widening primary income outflows (to -\$12.2 billion from -\$9.2 billion) between these quarters.
  - The non-oil non-gold imports expanded by 6.2% YoY in Q2 FY2026, on a BoP basis. Despite this, the overall import growth remained constrained at 4.1%, amid contraction in gold imports (-8.0% YoY; to \$19.0 billion in Q2 FY2026 from \$20.7 billion in Q2 FY2025; ~26% YoY fall in quantity more than offset higher prices).
  - On the other hand, exports of both oil (+8.1% YoY to \$13.4 billion from \$12.4 in Q2 FY2025) and non-oil segments (+8.8% YoY; to \$96.0 billion from \$88.2 billion) reported healthy growth (on a BoP basis) in Q2 FY2026.

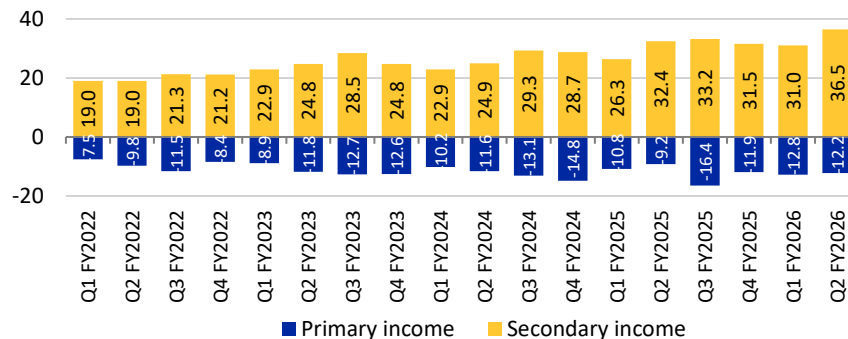
# YoY uptick in earnings from invisibles coupled with lower merchandise trade deficit, contained the expansion in CAD in Q2 FY2026

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)

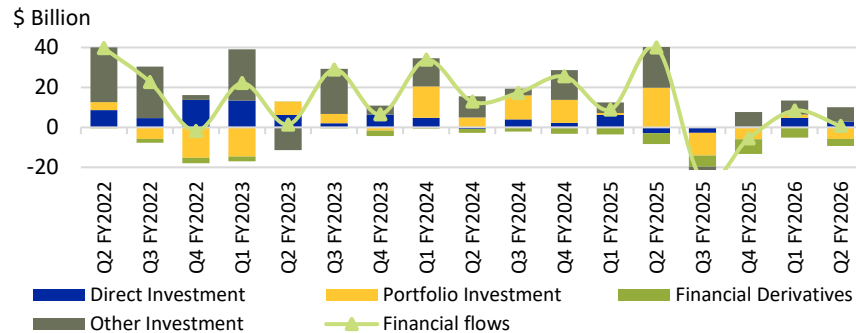


“-“ denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

- The services trade surplus widened to \$50.9 billion in Q2 FY2026 from \$47.9 billion in Q1 FY2026, while also exceeding the corresponding year-ago level of \$44.5 billion. The 14.5% YoY uptick was largely led by higher net earnings related to telecom, communication and information (+11.5% YoY; to \$44.0 billion in Q2 FY2026 from \$39.4 billion in Q2 FY2025), and other business (+38.6% YoY; to \$13.3 billion from \$9.6 billion). On the other hand, net outflows on account of travel services (to -\$2.6 billion from -\$1.7 billion), transport (to -\$1.0 billion from -\$0.5 billion), and intellectual property charges (to -\$4.1 billion from -\$3.4 billion) widened between these quarters.
- Net inflows of secondary income increased by a higher-than-expected 12.4% YoY to \$36.5 billion in Q2 FY2026 from \$32.4 billion in Q2 FY2025, led by a sharp uptick in personal transfers (+11.6% YoY; to \$36.4 billion from \$32.6 billion). In contrast, the net outflows of primary income widened to \$12.2 billion in Q2 FY2026 from \$9.2 billion in Q2 FY2025, reflecting the trend for higher outflows of net overseas investment income (to -\$14.2 billion from -\$11.2 billion).
- Overall, earnings from invisibles rose by a sharp 11.0% YoY to \$75.2 billion in Q2 FY2026 from \$67.7 billion in Q2 FY2025 (vs. \$66.2 billion in Q1 FY2026). This coupled with slightly lower merchandise trade deficit, contained the expansion in current account deficit in that quarter, compared to Q2 FY2025.

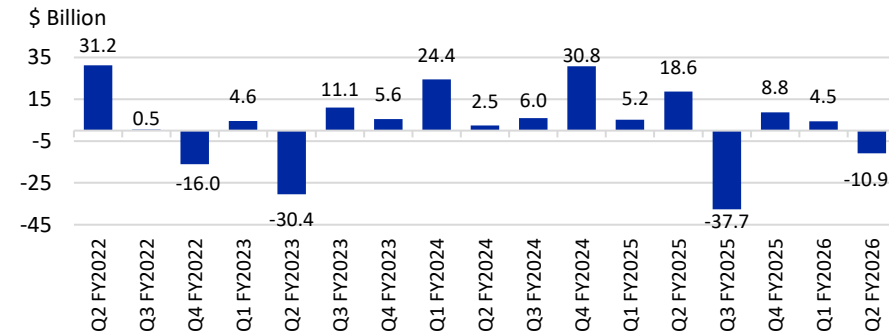
# India saw a drawdown of reserve assets of \$10.9 billion in Q2 FY2026, after a gap of two quarters

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)

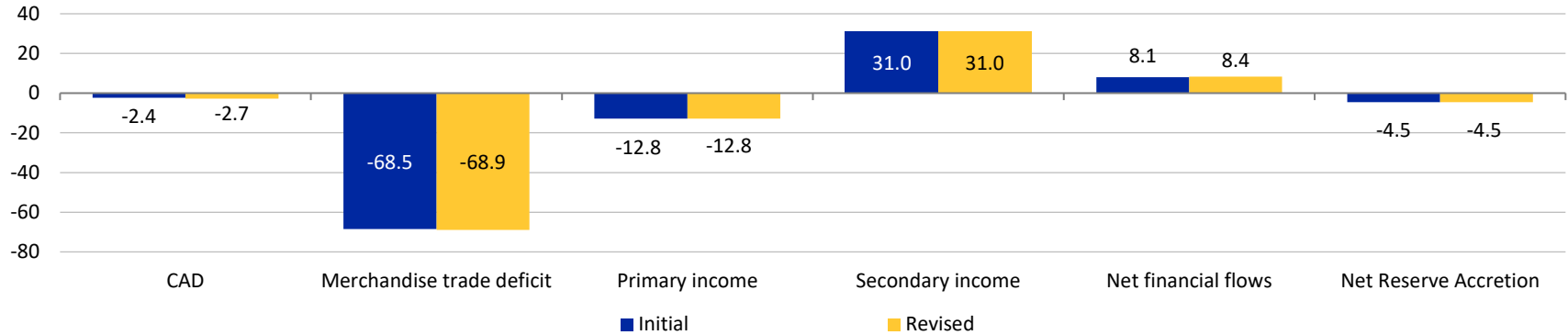


Change in Reserve Asset [Increase (+)/Decrease (-)]; Source: RBI; CEIC; ICRA Research

- India's net financial inflows declined to \$0.7 billion in Q2 FY2026 from \$8.4 billion in Q1 FY2026, while also printing substantially lower than \$39.9 billion in Q2 FY2025.
  - On a QoQ basis, the moderation was driven by a reversal in FPI to net outflows in Q2 FY2026 as opposed to inflows in Q1 (to -\$5.7 billion in Q2 FY2026 from +\$1.6 billion in Q1 FY2026) as well as lower inflows on account of net FDI (to +\$2.9 billion from +\$4.9 billion), net ECB (to +\$1.6 billion from +\$3.7 billion), and NRI deposits (to +\$2.5 billion from +\$3.6 billion) between these quarters.
  - On a YoY basis, the sharp fall in net financial inflows from \$39.9 billion in Q2 FY2025 was largely driven by a turnaround in net FPI (to -\$5.7 billion in Q2 FY2026 from +\$19.9 billion in Q2 FY2025), and lower inflows on account of NRI deposit (to +\$2.5 billion from +\$6.2 billion), trade credit (to +\$2.9 billion from +\$5.3 billion), and net ECBs (to +\$1.6 billion from +\$5.0 billion) during this period.
- Overall, the widening in the current account deficit in Q2 FY2026 vis-à-vis Q1 along with the moderation seen in net financial flows led to a drawdown of reserve assets amounting to \$10.9 billion in that quarter (+\$4.5 billion in Q1 FY2026; on a BoP basis). Moreover, this contrasted with the accretion of \$18.6 billion seen in India's reserve assets during Q2 FY2025, which was driven by sizeable capital flows.

# Current account deficit for Q1 FY2026 revised slightly, owing to higher-than-estimated merchandise trade deficit

EXHIBIT: Revisions in Q1 FY2026 Balance of Payments data (\$ billion)

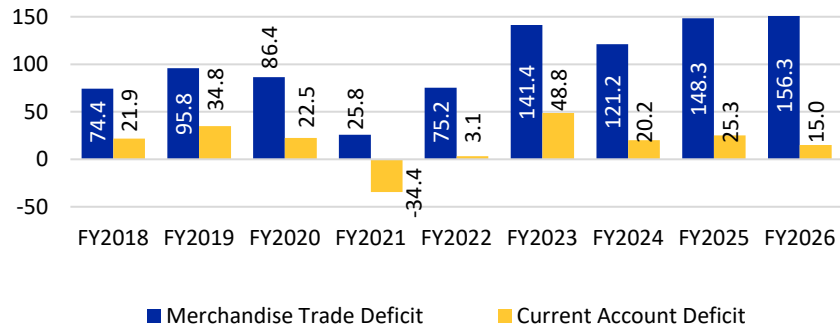


Source: RBI; CEIC; ICRA Research

- The size of current account deficit for Q1 FY2026 underwent a slight revision to \$2.7 billion from the initial estimate of \$2.4 billion, largely on account of a slight upward revision in merchandise trade deficit (to -\$68.9 billion from -\$68.5 billion), even as the secondary income inflows and primary income outflows remained unchanged at their initially reported levels.
- The quantum of net financial inflows in Q1 FY2026 (to +\$8.4 billion from +\$8.1 billion) also underwent a similar upward revision, which resulted in the net reserve accretion for the quarter remaining unchanged at \$4.5 billion.
- Notably, in addition to revisions in the data for Q1 FY2026, the quarterly figures for H1 FY2025 have seen sizeable changes. For instance, the CAD for Q1 FY2025 (to -\$4.5 billion from -\$8.6 billion) and Q2 FY2025 (to -\$20.8 billion from -\$16.8 billion) have been revised, driven by changes in the MTD as well as marginal revisions in the services trade surplus. Overall, the CAD now aggregates to \$22.9 billion in FY2025, compared to the earlier estimate of \$23.3 billion.

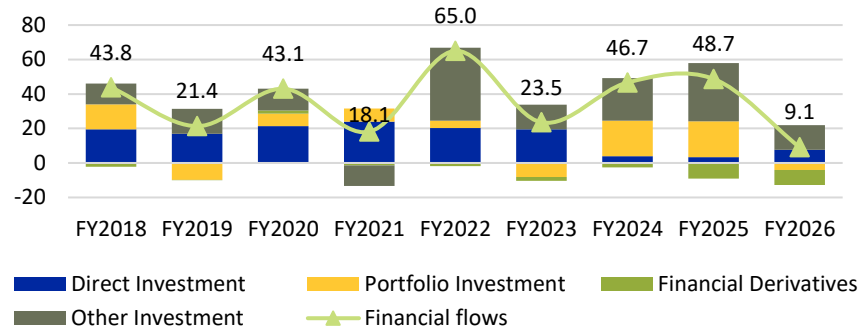
# India's CAD narrowed in H1 FY2026 on a YoY basis, whereas net financial flows plunged, leading to forex reserve depletion of \$6.4 billion

**EXHIBIT: Trends in current account deficit and merchandise trade deficit in H1 FY2018-26 (\$ billion)**



Source: RBI; CEIC; ICRA Research

**EXHIBIT: Trends in financial flows in H1 FY2018-26 (\$ billion)**



Source: RBI; CEIC; ICRA Research

- India's CAD moderated to \$15.0 billion in H1 FY2026 (-0.8% of GDP) from \$25.3 billion in H1 FY2025 (-1.3% of GDP). This was on account of higher net invisible receipts (to \$141.3 billion from \$123 billion) in H1 FY2026 compared to year-ago period, led by net services receipts (to \$98.8 billion from \$84.3 billion) and net personal transfers (to \$67.5 billion from \$59.3 billion), even as merchandise trade deficit widened (to \$156.3 billion from \$148.3 billion) between these periods.
- Additionally, net financial flows slumped to \$9.1 billion in H1 FY2026 from \$48.8 billion in H1 FY2025, primarily dragged by the outflows under net foreign portfolio investment amounting to \$4.1 billion, as against sizeable net inflows of \$20.8 billion in the year ago period, which were associated with India's inclusion in the J.P. Morgan Emerging Market Bond Index. Besides, net other investment flows also reduced to \$14.2 billion from \$33.7 billion between these periods, even as net FDI inflows (to \$7.7 billion from \$3.4 billion) doubled on a YoY basis.
- Overall, the YoY plunge in net financial flows to the tune of \$39.7 billion in this period outweighed the reduction in CAD levels (by \$10.3 billion), resulting in a forex reserve depletion (on a BoP basis) of \$6.4 billion in H1 FY2026, as against an accretion of \$23.8 billion in the corresponding period of FY2025.



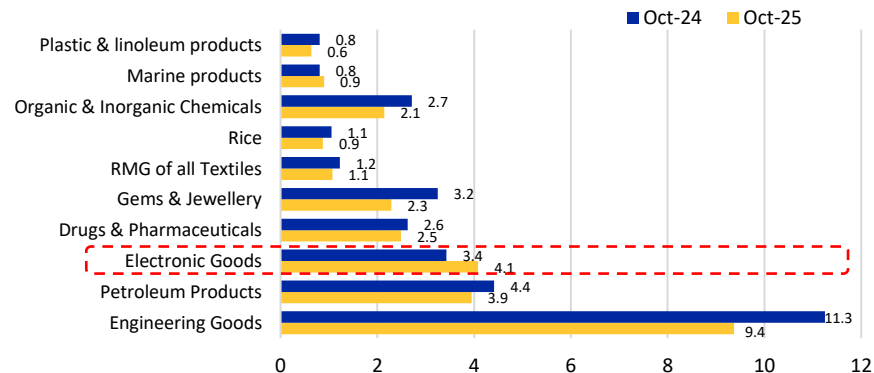
## Preliminary trends for October 2025 and outlook for Q3 FY2026

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*Current account deficit to widen sharply to ~2.7% of GDP in Q3 FY2026*

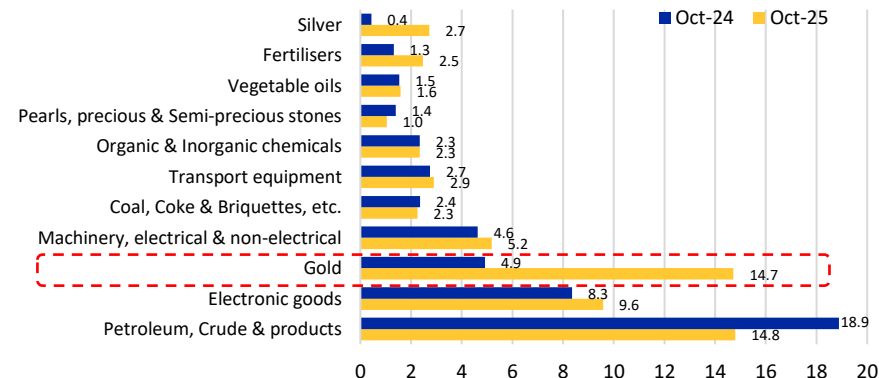
# Merchandise exports slumped by ~12% YoY in October 2025, while such imports reported a ~17% spike

## EXHIBIT: Trends in Merchandise Exports



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

## EXHIBIT: Trends in Merchandise Imports

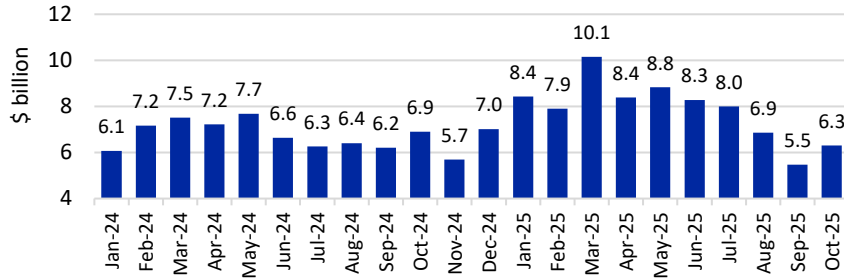


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- India's merchandise exports contracted by a sharp 11.8% YoY to an 11-month low of \$34.4 billion in October 2025, weighed down by steep tariffs as well as an adverse base (+16.6% in October 2024). The trend was broad-based across both oil (-10.5%; to a nine-month low \$3.9 billion from \$4.4 billion; amid 11.1% decline in crude oil prices) and non-oil (-12.0%; to an 11-month low \$30.4 billion from \$34.6 billion) exports. Barring electronic goods (+19%), exports of all major items saw a YoY contraction in October 2025 including engineering goods (-16.7%), gems and jewellery (-29.5%), organic and inorganic chemicals (-21.0%), ready-made garments (RMG; -12.9%), etc.; these together accounted for ~90% of the absolute YoY decline in non-oil exports.
- In contrast, merchandise imports rose by a sharp 16.6% YoY to a record-high of \$76.1 billion in October 2025 from \$65.2 billion in October 2024. This was largely driven by gold imports, which tripled to an all-time high of \$14.7 billion in October 2025 from \$4.9 billion in October 2024, owing to the festive season demand as well as speculative purchases owing to the consistent rise in prices. This was followed by a 12.4% uptick in non-oil non-gold imports (to \$46.5 billion in October 2025 from \$41.4 billion in October 2024, led by silver, electronic goods, fertilisers and electrical and non-electrical machinery), while oil imports declined by a sharp 21.7% (to \$14.8 billion from \$18.9 billion) during this period.

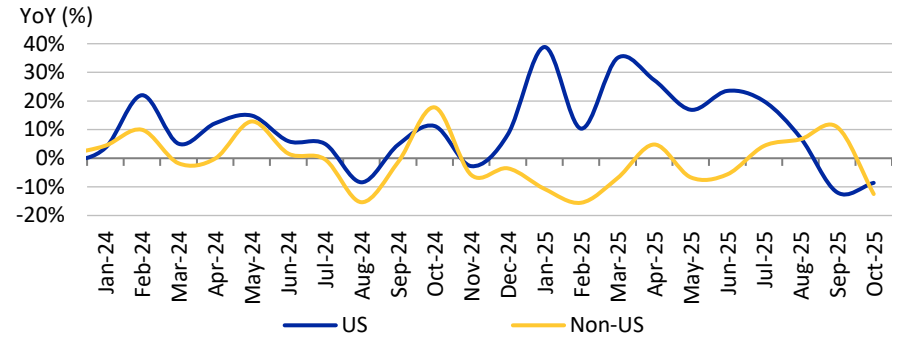
# India's shipments to the US fell by ~9% YoY in October 2025

**EXHIBIT: India's exports to the US**



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

**EXHIBIT: YoY growth of India's merchandise exports to the US and non-US region**

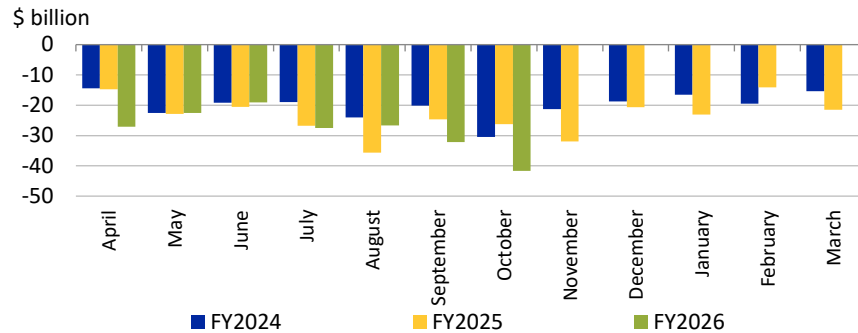


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- With the implementation of the US tariffs and penalty at end-August 2025, growth in India's exports to the US slowed to 7.7% YoY in Q2 FY2026 (\$20.3 billion) from 18.3% in Q1 FY2026 (\$25.5 billion) and 27.6% in Q4 FY2025 (\$26.5 billion), which had benefitted from the frontloading of shipments ahead of the tariff hike. Overall, such exports increased by 18.2% YoY during 9M CY2025, which resulted in the US's share in India's exports rising materially to 21.2% from 18.3% in 9M CY2024.
- Interestingly, India's exports to the US fell by 8.6% YoY to \$6.3 billion in October 2025, even as they were 15.4% higher in MoM terms, suggesting that a part of the YoY fall was attributed to the early onset of the festive season. Additionally, India's imports from the US rose by 13.9% YoY to \$4.5 billion in October 2025 (+11.8% in September 2025). India's exports to the non-US regions fell by a sharper 12.5% YoY in October, reflecting the unfavourable base (+17.8% in October 2024).
- On a sequential basis, India's exports to the US have declined to an average monthly level of \$5.9 billion in September-October 2025 from \$8.4 billion in January-August 2025.
- While sectors like auto components are managing well amid steep US tariffs through limited alternate supplier substitution possibilities in the near-term, others such as textiles, cut and polished diamonds (CPD), seafood and footwear, are likely to witness demand pressures. Sectors like chemicals and metals are likely to pass on the cost increases; however, if companies are compelled to absorb the tariff burden, it could significantly erode profitability.

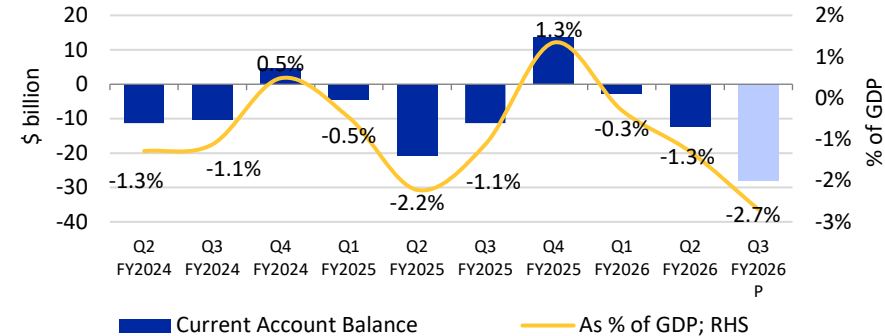
# India's current account deficit to enlarge to ~2.7% of GDP in Q3 FY2026, owing to widening merchandise trade deficit led by gold imports

EXHIBIT: Trends in Merchandise Trade Deficit (MTD)



Source: Ministry of Commerce and Industry, GoI; 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 Q3 FY2026; Source: RBI; CEIC; ICRA Research

- With the sharp ~12% decline in exports and a ~17% surge in imports, India's MTD enlarged to an all-time high of \$41.7 billion in October 2025 as against \$26.2 billion in October 2024, while also printing much higher than the average of \$25.9 billion seen in H1 FY2026. This was driven by the non-oil segment (-\$30.8 billion in October 2025 vs. -\$11.8 billion in October 2024; amid surge in gold imports), while the oil deficit compressed (-\$10.8 billion vs. -\$14.5 billion) in October 2025, vis-à-vis October 2024.
- India's MTD is likely to cool in November-December 2025 from the level seen in October 2025, owing to an anticipated sequential dip in gold imports, as well as some pickup in exports after the festive period ends. However, the CAD is set to more-than-double to a 13-quarter high of ~2.7% of GDP in Q3 FY2026 from 1.3% of GDP seen in Q2.

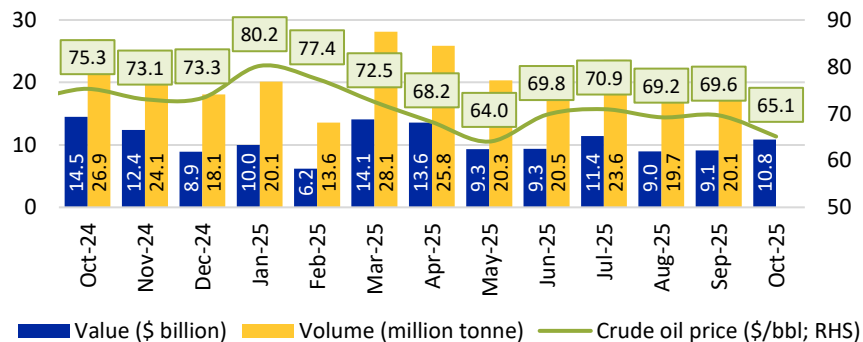


## Outlook on CAD and INR for FY2026

*CAD/GDP to widen to ~1.1-1.2% in FY2026; USD/INR pair to remain volatile in near term*

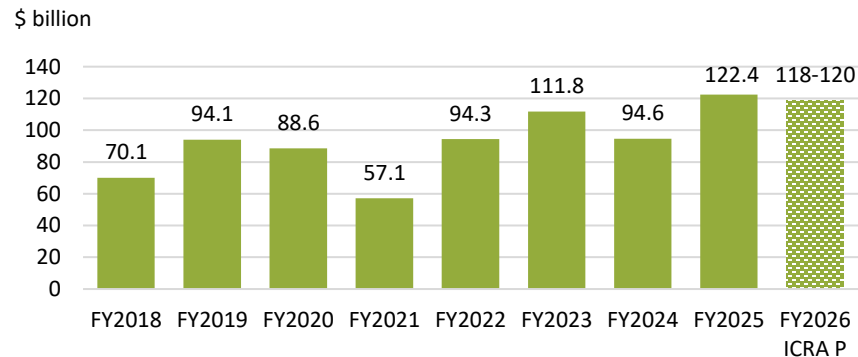
# India's net oil import bill to narrow in FY2026; volatility in crude oil prices remains a key monitorable

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



Volume data for October 2025 is not available yet; 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

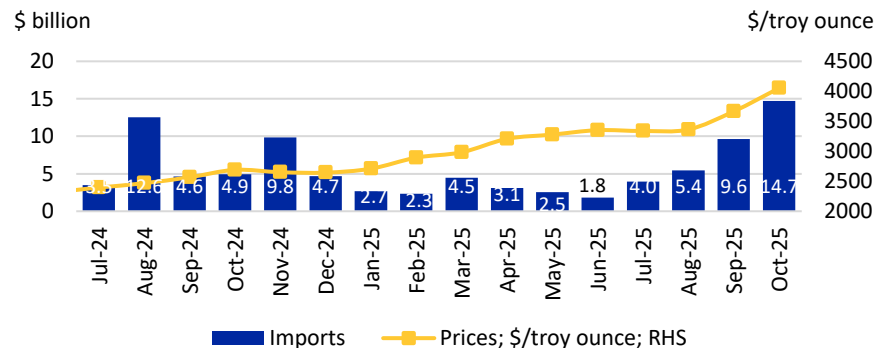


P: Projected; Source: Ministry of Commerce and Industry; CEIC; ICRA Research

- India's net POL imports had risen sharply by ~28% YoY to \$121.2 billion in FY2025, amid the surge in net import volumes (at 239.4 million tonne; YoY: +20.3%), while crude oil prices fell to \$78.6/bbl from \$82.5/bbl seen in FY2024. Subsequently, the net oil import bill stood at \$72.6 billion during April-October 2025, 2.4% higher than the year-ago level of \$70.9 billion, notwithstanding the correction in crude oil prices (-15.9% YoY in April-October 2025), led by a rise in volumes (+20.0% YoY during April-October 2025). Notably, the operationalisation of the Dangote refinery in Nigeria is also likely to have adversely impacted Indian exports of diesel to the EU, as it is much closer to the region.
- ICRA expects the value of net oil imports to ease to \$118-120 billion in FY2026 from \$122.4 billion in FY2025, owing to a likely dip in crude oil prices (ICRA P: ~\$68-70/bbl in FY2026 vs. \$78.6/bbl in FY2025) as well as a relatively muted volume growth in the remaining period, after the frontloading seen in 7M FY2026.

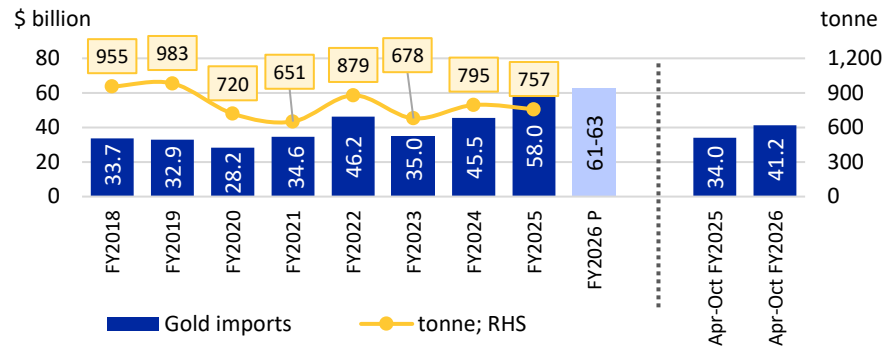
# Gold imports projected at record \$61-63 billion in FY2026 amid elevated prices

**EXHIBIT: Trends in monthly gold imports and prices**



Source: Ministry of Commerce and Industry; World Gold Council; ICRA Research

**EXHIBIT: Annual trends in Gold imports**

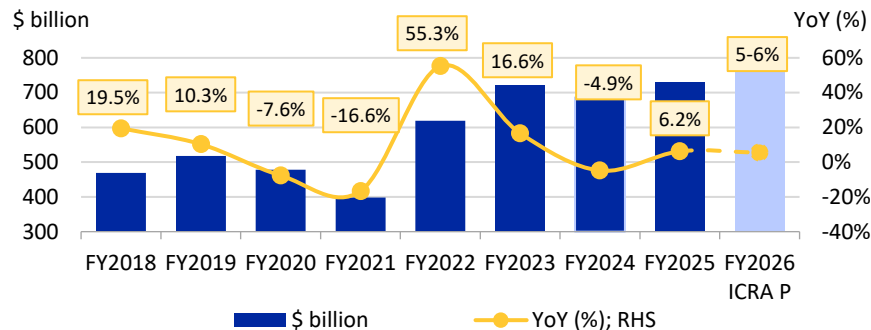


P: Projected; Source: Ministry of Commerce and Industry, Gol; ICRA Research

- After declining by 8.0% YoY in Q2 FY2026, gold imports nearly tripled to \$14.7 billion in October 2025 from \$4.9 billion in October 2024, owing to the festive season demand as well as surge in prices (+50.7%). Overall, such imports have spiked by 21.4% YoY during April-October FY2025, amid the consistent rise in prices (+41.6% YoY) that may have also spurred some speculative purchases during this period.
- In the coming months, gold imports are anticipated to ease from the peaks seen during September-October 2025 with likely normalisation of demand after the festive season, even as elevated prices of the metal are likely to weigh on the imported value.
- In 7M FY2026, gold imports (in \$ terms) have witnessed a strong YoY expansion of 21% to \$41.2 billion from \$34.0 billion in the year ago period. ICRA pegs gold imports at \$61-63 billion in FY2026 (+8% YoY), surpassing the previous record of \$58.0 billion in FY2025 (+27% YoY).

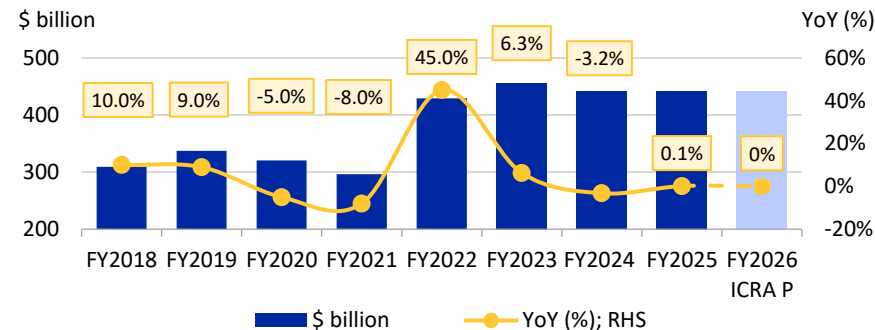
# Merchandise exports in FY2026 may stabilise around FY2025 level, while imports are set to rise by 5-6% growth in the fiscal

EXHIBIT: Trends in merchandise imports



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

EXHIBIT: Trends in merchandise exports

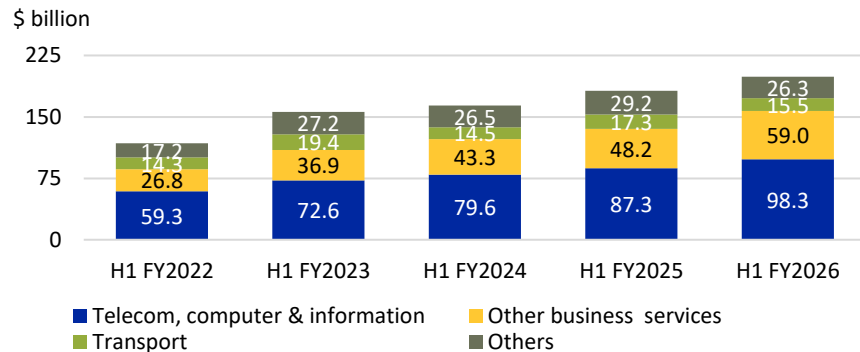


P: Projected; Source: Ministry of Commerce and Industry, Gol; ICRA Research

- The slowdown in exports is likely to intensify in the remaining months of FY2026 and beyond, unless a trade deal with the US materialises soon. **ICRA pencils in merchandise exports at \$440-442 billion in FY2026 (\$441.8 billion in FY2025; on a BoP basis), with risks tilted to the downside. While softer crude oil prices are likely to impact the value of petroleum shipments in FY2026 (ICRA's exp.: 12% contraction), the non-oil segment (ICRA's exp: +2% to +3%; particularly electronic goods) is expected to drive the growth in the fiscal.**
- The benign oil prices are likely to pull down the value of petroleum crude and product imports by 5-6% in FY2026 (ICRA P: \$68-70/bbl vs. \$79/bbl in FY2025). However, the non-oil non-gold segment is projected to grow by 8-10% in FY2026 (+5% in FY2025), given the strong expansion in 7M FY2026 (+8.9%), supported by an increase in domestic consumption and public investment. **Based on these trends and the surge in gold imports, ICRA estimates a 5-6% growth in merchandise imports (in \$ terms) to \$768-770 billion in FY2026 (\$729 billion in FY2025).**

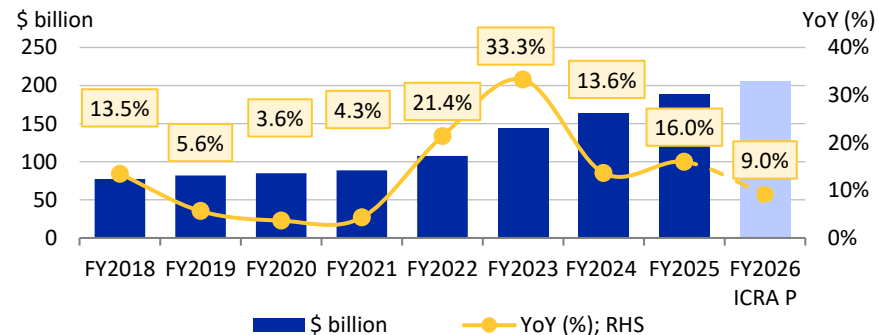
# Services trade surplus to grow by 9% YoY and touch \$205-207 billion in FY2026

**EXHIBIT: Trends in composition of services exports**



Source: RBI; CEIC; ICRA Research

**EXHIBIT: Annual trends in services trade surplus**



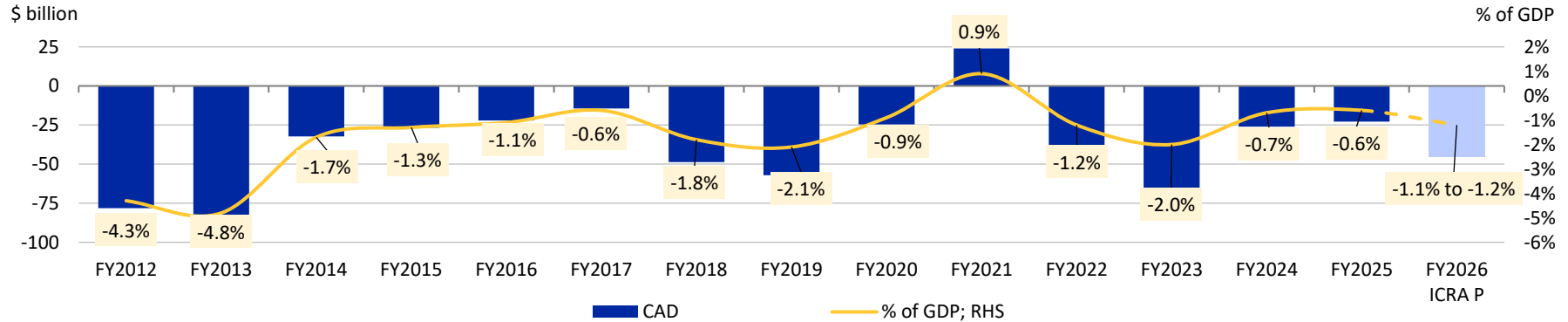
P: Projected; Source: RBI; CEIC; ICRA Research

- India's services exports had risen by a healthy 13.6% to \$387.4 billion in FY2025 from \$341.1 billion in FY2024. In the ongoing fiscal, the resilience in service exports continued, with a YoY expansion of 8.2% in 7M FY2026 (\$234.2 billion). Based on the available data, the aggregate service imports of the US and the UK have increased by 9.4% YoY in April-July 2025.
- The revenue growth in USD terms for ICRA's sample set of Indian IT services companies is expected to be a modest 2-3% in FY2026 (against 3.6% in FY2025) owing to persistent macroeconomic headwinds in key markets, impacting discretionary IT spends by companies. Besides, evolving policy changes around H-1B visas and Halting International Relocation of Employment (HIRE) Act further pose a key downside risk to service exports (particularly IT)5. However, the exports of other business segment (including GCCs) are likely to continue to outperform the IT segment in the fiscal and drive the growth in overall exports.
- ICRA currently expects the services trade surplus to rise by ~9% to \$205-207 billion in FY2026 from \$189 billion in FY2025, with risks tilted to the downside owing to potential constraints imposed by the US.**

\*Refer to ICRA's [publication](#), *Evolving policy changes could impact the industry's American dream*, published in December 2025.

# CAD/GDP appears set to widen to 1.1-1.2% of GDP in FY2026 from 0.6% in FY2025, while trailing the elevated FY2023 levels

EXHIBIT: Trends in India's Current Account Balance

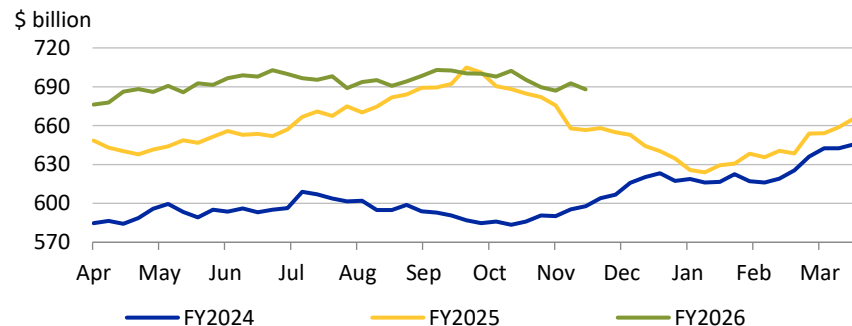


Data labels correspond to CAD as % of nominal GDP; ICRA's nominal GDP forecast has been used for FY2026; Source: RBI; CEIC; ICRA Research

- We estimate the merchandise trade deficit at ~\$328 billion in FY2026, higher than \$287 billion in FY2025 (on a BoP basis). This is likely to be partly offset by a healthy growth in the service trade surplus (ICRA exp.: to \$205-207 billion in FY2026 from \$189 billion in FY2025).
- **Consequently, India's CAD is projected to double in absolute terms to \$45-47 billion in FY2026 from \$22.9 billion in FY2025. Moreover, as a % of GDP, it is equivalent to ~1.1-1.2% in FY2026, nearly double the 0.6% of GDP recorded in FY2025, but significantly lower than the elevated levels seen in FY2012-2013 (4.3%-4.8%). Nevertheless, any negative developments on tariff deal front and/or policy changes around H-1B visas and the HIRE Act further pose a key downside risk to the outlook.**

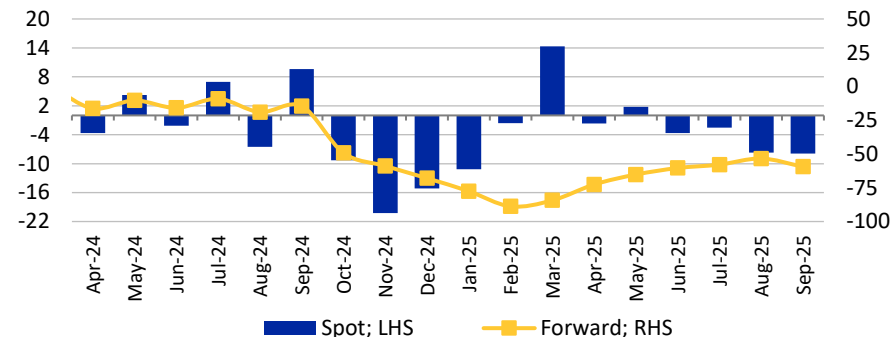
# India's forex reserves remained elevated in November 2025 so far; RBI's spot dollar sales widened to \$18 billion in Q2 FY2026

**EXHIBIT: India's Foreign Exchange Reserves**



Source: RBI; CEIC; ICRA Research

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

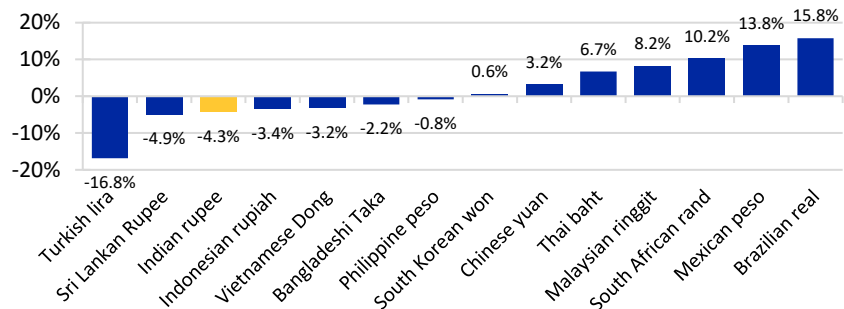


\*Net Purchase (+)/ Sale (-); Source: RBI; CEIC; ICRA Research

- India's forex reserves have fallen by \$12.1 billion to \$688.1 billion as on November 21, 2025 relative to end-September 2025, amid continued slide in foreign currency assets (-\$21.2 billion) even as gold reserves (+\$9.2 billion) have risen during this period.
- With some depreciation in the USD/INR pair owing to imposition of the US tariff policies effective August 1, 2025, the RBI's net dollar sales in the spot market widened sharply to \$18.1 billion in Q2 FY2026 from \$3.6 billion in Q1. Interestingly, the quantum of the RBI's intervention in the spot market reduced somewhat, with the average monthly gross dollar sales declining to \$6.8 billion in Q2 FY2026 from \$8.0 billion in Q1 FY2026, and such gross purchases at just \$0.7 billion vs. \$6.8 billion, respectively.
- In the forward market, the RBI's outstanding net sales eased marginally to \$59.4 billion at-end September 2025 from \$60.4 billion at end-June 2025 (\$84.3 billion at end-March 2025). Furthermore, the maturity profile of the net short positions has seen some changes at end-September 2025, with an increase in share for less than 3M tenure (52.7% at end-Sep 2025 vs. 23.8% at end-Jun 2025), as the quantum of the same rose sharply. While the share of the 3M-1Y bracket (13.5% vs. 42.9%) fell during this period, that of positions maturing in the greater than 1Y bracket rose (33.8% vs. 33.3%).

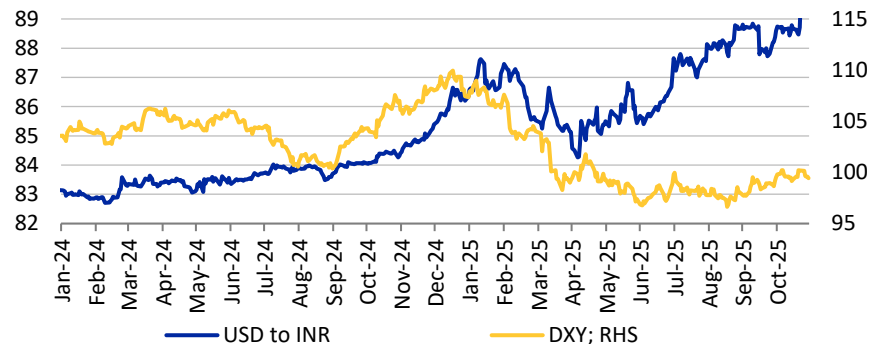
# USD/INR pair to remain volatile in near term, guided by global developments and trade talks

**EXHIBIT: Exchange Rate Movements of Various Currencies Relative to the \$ in CY2025 so far (up to November 28, 2025)**



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

**EXHIBIT: Trends in USD/INR and DXY**



\*Data for November 2025 is up to November 28; Source: Refinitiv, ICRA Research

- The USD/INR pair has been quite volatile in CY2025 so far (until November 28, 2025), trading in an INR 5.34 range between 84.27 and 89.61, much wider than the INR 2.12 band that was seen during H2 CY2024. After averaging above the 88-mark continuously since September 2025, the pair breached the 89/\$-mark as on November 21 and has remained above that since then, thereby averaging at an all-time low of 88.82 in the month, weighed down by the steep US tariffs and penalties as well as a stronger DXY.
- On a CYTD basis (till November 28, 2025), the INR has depreciated by 4.3% against the \$, as compared to the steep 8.3% fall in DXY levels. With this, India stood out as one of the weaker currencies to have reported a depreciation vs. the \$, along with Sri Lanka and Turkey. On the contrary, the currency of as many as 11 countries in our dataset above fared better against the \$ on a CYTD basis, with tariff differential imposed by the US being much steeper for India, compared to that for other EMs and advanced countries.
- **The USD/INR pair is likely to remain volatile in the near term, contingent on the developments around India-US trade talks, potential barriers on India's IT services exports, capital flows and the likely impact of steep tariffs on India's CAD in FY2026 and beyond.**

## EXHIBIT: Trends in India's Current account

Figures in \$ billion	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026	Q3 FY2026 ICRA P	FY2023	FY2024	FY2025	FY2026 ICRA P
Merchandise Exports	100.6	109.8	116.4	112.7	109.4	104 to 106	456.1	441.4	442.1	440 to 442
Merchandise Imports	189.2	189.1	175.8	181.6	196.8	202 to 205	721.4	686.3	729.0	768 to 770
<b>Merchandise Trade Balance</b>	<b>-88.5</b>	<b>-79.3</b>	<b>-59.3</b>	<b>-68.9</b>	<b>-87.4</b>	<b>-98 to -99</b>	-265.3	-244.9	-286.9	<b>-328</b>
<b>Net Services</b>	<b>44.5</b>	<b>51.2</b>	<b>53.3</b>	<b>47.9</b>	<b>50.9</b>	<b>52 to 54</b>	143.3	162.8	188.8	<b>205 to 207</b>
<b>Primary Income</b>	<b>-9.2</b>	<b>-16.4</b>	<b>-11.9</b>	<b>-12.8</b>	<b>-12.2</b>	<b>-15 to -18</b>	-45.9	-49.8	-48.3	<b>-56 to -59</b>
<b>Secondary Income</b>	<b>32.4</b>	<b>33.2</b>	<b>31.5</b>	<b>31.0</b>	<b>36.5</b>	<b>33 to 35</b>	100.9	105.9	123.5	<b>132 to 135</b>
<b>Current Account Balance</b>	<b>-20.8</b>	<b>-11.3</b>	<b>13.7</b>	<b>-2.7</b>	<b>-12.3</b>	<b>-27 to -29</b>	-67.0	-26.0	-22.9	<b>-45 to -47</b>
<b>Percentage of GDP</b>	<b>-2.2%</b>	<b>-1.1%</b>	<b>+1.3%</b>	<b>-0.3%</b>	<b>-1.3%</b>	<b>-2.7%</b>	-2.0%	-0.7%	-0.6%	<b>-1.1% to -1.2%</b>

## EXHIBIT: Trends in India's Financial flows

Figures in \$ billion	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026	FY2022	FY2023	FY2024	FY2025
<b>Financial flows</b>	<b>39.9</b>	<b>-26.5</b>	<b>-5.6</b>	<b>8.4</b>	<b>0.7</b>	<b>85.9</b>	<b>59.0</b>	<b>89.4</b>	<b>16.7</b>
Direct investment	-2.8	-2.8	0.4	4.9	2.9	38.6	28.0	10.2	1.0
Portfolio investment	19.9	-11.4	-5.9	1.6	-5.7	-16.8	-5.2	44.1	3.6
Financial derivatives	-5.5	-5.5	-7.5	-5.1	-3.6	-6.4	-5.4	-7.9	-22.1
Other investment*	28.4	-6.8	7.4	7.0	7.2	70.5	41.5	43.1	34.3

\*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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