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Macroeconomics | First cut

CAD stable, but financial account sees net outflow

April 2025

At $11.5 billion, or 1.1% of gross domestic product (GDP), India's current account deficit (CAD) was largely stable in the third quarter of fiscal 2025, compared with $10.4 billion, or 1.1% of GDP, in the corresponding year-ago quarter.

Sequentially, the deficit narrowed from $16.7 billion, or 1.8% of GDP, in the second quarter of fiscal 2025.

While the merchandise trade defict worsened during the third quarter, there was counter-balancing from an improvement in services surplus and remitances.

But foreign capital saw a net outflow during the third quarter, as opposed to a net inflow in the year-ago period. This was reflected in the 1.6% depreciation of the rupee to 84.5 per dollar in the third quarter from 83.2 in the corresponding quarter last fiscal.

Within the financial accounts, all subcomponents saw outflows, with the maximum from the net foreign portfolio investor (FPI) segment amounting to $11.4 billion. Other investments[1] saw outflows for the first time since the second quarter of fiscal 2023.

The net outflow from the financial account even as the current account was in deficit meant a hit to India's forex reserves, which decreased by $37.7 billion during the third quarter.

Looked another way, this indicates the Reserve Bank of India's intervention in the forex market by way of US dollar sales to contain the sharp rupee volatility during the quarter.The situation has since somewhat stabilised. As a result, India's forex reserves rebounded to $658.8 billion as on March 21, 2025, from $644.4 billion at the end of the third quarter.

Even as merchandise trade deficit has come under some pressure, robust services exports and healthy remittances flow should help keep CAD in the safe zone this fiscal. We project CAD to be only marginally higher at 1.3% of GDP in fiscal 2026, as against an estimated 1.0% of GDP in fiscal 2025. That said, the impact of geopolitical issues will remain a monitorable.

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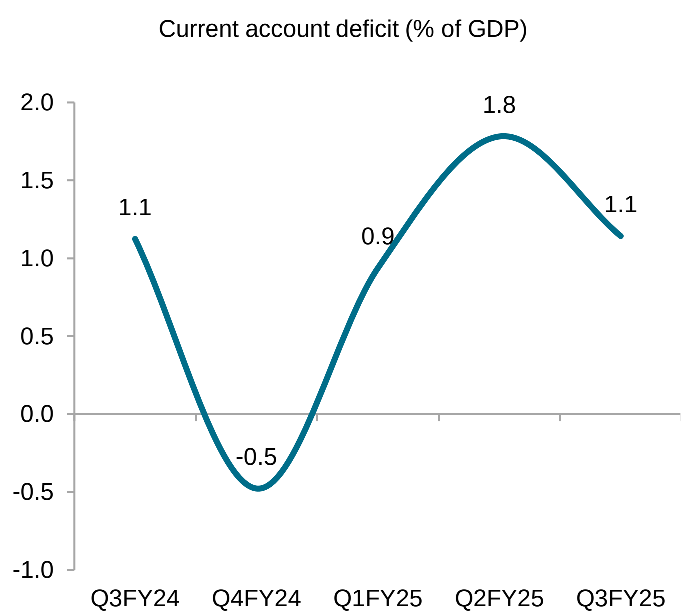
[1]*Comprises non-resident Indian (NRI) deposits, external commercial borrowings (ECBs), other loans and trade credit*

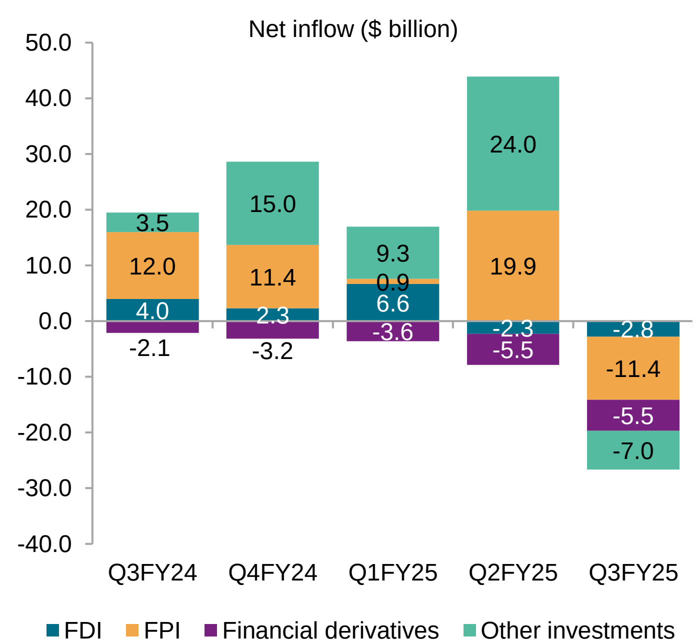
Key data points for the third quarter

- CAD was stable at 1.1% of GDP in the third quarter, versus 1.1% in the same quarter of 2024
- While merchandise trade deficit rose to 7.9% of GDP from 7.7%, services trade surplus increased to 5.1% from 4.9%. As a result, overall trade deficit was largely stable at 2.8% of GDP, compared with 2.9% in the third quarter of fiscal 2024
- The rise in merchandise trade deficit was mostly on account of worsening in oil trade balance, as exports fell and imports rose
- Primary income account deficit was at 1.7% of GDP, up from 1.4% in the previous year
- Secondary income account surplus saw a mild increase to 3.3% from 3.2%
- Net financial outflows were at 2.7% of GDP, as against 1.9% inflows in the third quarter of fiscal 2024
- Forex reserves fell $37.7 billion during the third quarter, compared with an accretion of $6 billion in the same quarter of fiscal 2024
- Cumulatively, during the first three quarters of this fiscal i.e., April to December 2024, CAD stood at $37 billion (1.3% of GDP), compared with $30.6 billion (1.1% of GDP) in the same period last fiscal

Current account in deficit…



…and net financial flows decrease



Source: Reserve Bank of India, CRISIL

Highest outflows in the foreign portfolio investments category

- While the current account was in deficit at $11.5 billion in the third quarter, the financial account saw a broad-based increase in outflows. Net outflows from FPIs was $11.4 billion, compared with inflows of $12 billion in the same quarter of fiscal 2024. Within FPI, net equity outflows were $11.9 billion, versus inflows of $6.7 billion. Net inflows in debt were $0.4 billion as against $5 billion in the third quarter of fiscal 2024
- Net foreign direct investment (FDI) outflows were at $2.8 billion, compared with net inflows of $4 billion in the third quarter of fiscal 2024. Outflows of $23.6 billion (vs $14.9 billion in the third quarter of fiscal 2024) more than offset the rise in inflows of $20.8 billion (vs 18.9 billion in Q3 of 2024)
- Other investments saw net outflows of $7 billion from $3.5 billion inflows in the third quarter of 2024. Net NRI deposits saw a mild decline to $3.1 billion from $3.9 billion inflows, while net external commercial borrowings (ECBs) saw inflows of $4.3 billion from $2.7 billion outflows last year

Analytical contacts

Dharmakirti Joshi
Chief Economist, Crisil Ltd
dharmakirti.joshi@crisil.com

Adhish Verma
Senior Economist, Crisil Ltd
adhish.verma@crisil.com

Meera Mohan
Economic Analyst, Crisil Ltd
meera.mohan@crisil.com

Media contacts

Ramkumar Uppara
Media Relations
Crisil Limited
M: +91 98201 77907
ramkumar.uppara@crisil.com

Roma Gurnani
Media Relations
Crisil Limited
M: +91 70662 92142
roma.gurnani1@ext-crisil.com

Sanjay Lawrence
Media Relations
Crisil Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

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