

Macroeconomics | First cut

Current account scores a surplus

June 2025

India's current account surplus improved on-year to \$13.5 billion —1.3% of gross domestic product (GDP) — in the last quarter of fiscal 2025 from \$4.6 billion (0.5% of GDP). On a quarterly basis, the current account balance switched to a surplus from a deficit of \$11.3 billion (1.1% of GDP).

The increased services trade surplus, \$53.3 billion on-year in the fourth quarter from \$42.7 billion, helped solidify the current account balance, even as the goods trade deficit widened to \$59.5 billion from \$52 billion. A rise in secondary income to \$31.5 billion from \$28.7 billion, driven largely by personal transfers including worker remittances (\$31.8 billion vs \$28.9 billion), also contributed to the improvement.

That said, net financial inflows on-year dropped significantly in the fourth quarter of fiscal 2025, leading to only a small accretion to forex reserves of RBI (\$8.8 billion vs \$30.8 billion in the fourth quarter of fiscal 2024). While net inflows under foreign direct investment (FDI) and other investment¹ remained positive, they declined on-year. On the other hand, foreign portfolio investor (FPI) investment and financial derivatives recorded net outflows during the fourth quarter of fiscal 2025.

With this, India's current account deficit for fiscal 2025 stands at \$23.3 billion (0.6% of GDP), narrowing slightly compared with \$26 billion (0.7% of GDP) in fiscal 2024. While the goods trade deficit widened (7.3% of GDP vs 6.7% of GDP), it was offset by an increasing surplus in services trade (4.8% of GDP vs 4.5% of GDP).

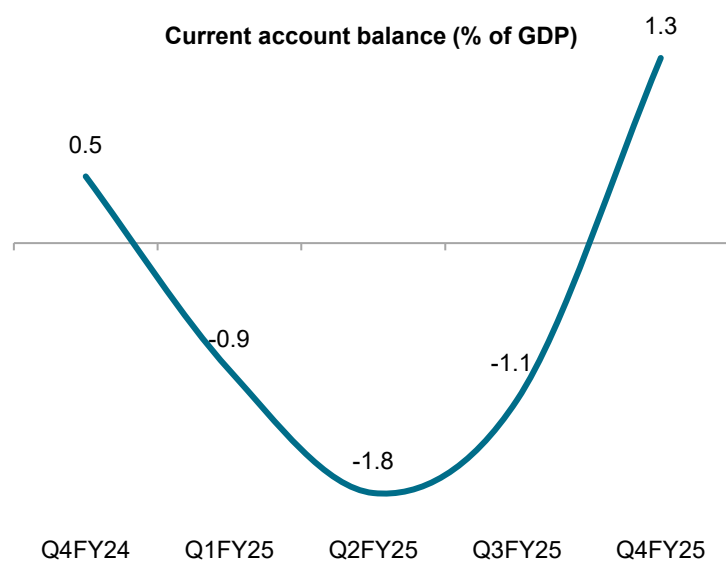
The merchandise trade deficit is expected to come under some pressure this fiscal given US tariff volatility and slowing global growth. That said, we believe the surplus in services and healthy remittances will keep the current account deficit (CAD) from widening too much. We expect the CAD at 1.3% of GDP this fiscal compared with 0.6% of GDP in fiscal 2025. Ongoing geopolitical uncertainties in the Middle East will be a key monitorable.

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

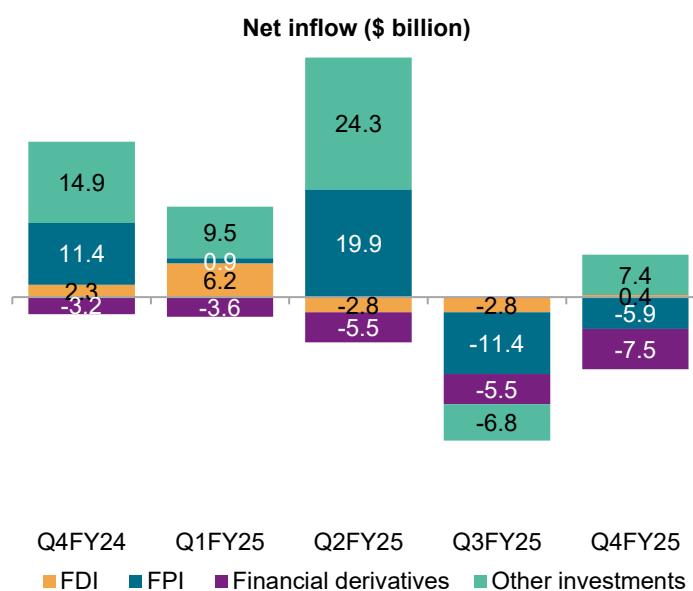
Key data points for the fourth quarter

- The current account was in a surplus of 1.3% of GDP vs 0.5% in the same quarter of fiscal 2024
- The overall trade deficit narrowed to 0.6% of GDP from 1% on the back of the services trade surplus improving to 5.3% of GDP from 4.5%. The goods trade deficit exerted some pressure, worsening to 5.9% of GDP from 5.4%
- The primary income account² deficit narrowed to 1.2% of GDP from 1.5% of GDP
- The secondary income account³ surplus rose a tad to 3.1% of GDP from 3%
- Net financial outflows were at 0.6% of GDP compared with inflows of 2.7% of GDP
- Accretion to forex reserves decreased to \$8.8 billion in the fourth quarter, compared with \$30.7 billion in the same quarter of fiscal 2024

Current account records surplus...



...and net financial flows fall



Source: Reserve Bank of India, CEIC, Crisil

² The primary income account is comprised of compensation of employees, investment income and other primary income

³ The secondary income account comprises of current transfers (in cash or in kind) between residents and non-residents, for instance remittances a country receives from abroad

Foreign portfolio investments see high outflows

- FPIs saw net outflows of \$5.9 billion on-year in the March quarter, compared with net inflows of \$11.4 billion. The outflows were driven by the equity and investment fund segment, which net-lost \$13.5 billion (vs net inflows of \$1.4 billion). Domestic factors such as growth moderation, relatively subdued corporate earnings and rupee depreciation amidst broader global concerns on account of US tariff announcements and uncertainty around its growth outlook led to net FPI outflows.
- Net inflows were at \$7.5 billion in the debt segment, albeit lower than the \$10.2 billion inflows in the same period last year
- Net FDI inflows declined to \$0.4 billion compared with \$2.3 billion in the same period last year due a reduction in inflows (\$18.5 billion vs \$20.2 billion); outflows rose slightly as well (\$18.1 billion vs \$17.8 billion)
- Net inflows almost halved for other investments, to \$7.4 billion from \$14.9 billion. Net inflows for currency and deposits fell (\$2.6 billion vs \$6.3 billion), led by deposits by non-resident Indians (\$2.8 billion vs \$5.4 billion), while there were net outflows in loans (outflows of \$1.6 billion vs inflows of \$4.3 billion). On the other hand, net external commercial borrowings rose to \$7.4 billion from \$2.6 billion

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