ICRA

# Outlook on Current Account Deficit

## CAD widened slightly to 1.1% of GDP in Q3 FY2025; current account likely to record surplus of ~0.6% of GDP in Q4 FY2025

MARCH 2025

# Highlights

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*India's CAD expectedly rose to $11.5 billion or 1.1% of GDP in Q3 FY2025 in YoY terms, although it trailed forecast.*

*ICRA expects a current account surplus of $4-6 billion in Q4 FY2025, owing to a seasonal increase in goods' exports, and a healthy services trade surplus.*

*CAD is estimated to print at 0.8% in FY2025, before widening to 1.0% in FY2026 (baseline), even as tariff related uncertainty could act as a spoiler.*

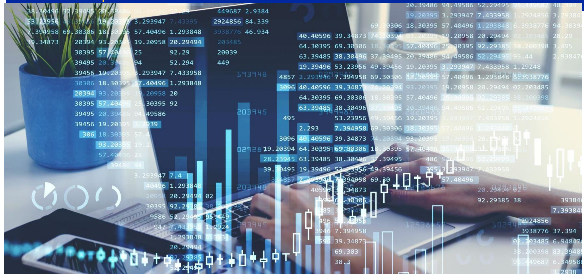
- India's current account deficit (CAD) rose slightly to $11.5 billion in Q3 FY2025 from $10.4 billion in Q3 FY2024, equivalent to 1.1% of GDP each, although this is lower than ICRA's forecast of 1.4% of GDP for the quarter.
- In sequential terms, the Q3 FY2025 CAD narrowed from $16.7 billion in Q2 FY2025, owing to dip in merchandise trade deficit (to $79.2 billion from $84.3 billion), and higher services trade surplus (to $51.2 billion from $44.6 billion), even as primary income outflows rose between these quarters.
- Earnings from invisibles rose by 10.6% to $67.7 billion in Q3 FY2025 from $61.2 billion in Q3 FY2024. This was more-than-offset by the YoY widening in the merchandise trade deficit (to $79.2 billion from $71.6 billion), leading to a higher CAD in Q3 FY2025 relative to Q3 FY2024.
- Against inflows of $17.4 billion in Q3 FY2024 and $36.0 billion in Q2 FY2025, India witnessed net financial outflows in Q3 FY2025, amounting to $26.6 billion. Despite the QoQ dip in CAD, the country saw drawdown of reserve assets worth $37.7 billion in Q3, after a gap of eight quarters.
- ICRA expects the current account to witness a surplus of ~$4-6 billion in Q4 FY2025, aided by a seasonal uptick in merchandise exports and the resulting moderation in the merchandise trade deficit, as reflected in initial data for January-February FY2025, as well as healthy services surplus. Overall, we expect the CAD to print at 0.8% of GDP in FY2025, before expanding slightly to ~1.0% of GDP in FY2026 (baseline estimate), even as the tariff related uncertainty could act as a spoiler.
- With a sharp fall in DXY levels, US-India trade talks, and capital inflows, the USD/INR pair appreciated to 85.5/$ on March 28, 2025 from 87.6/$ on February 7, 2025. Nevertheless, on FYTD basis, the INR has seen a 2.7% fall against the $. ICRA expects the pair to trade at 85.5-87.0 in the near term.

# Outline

1 Developments in India's Balance of Payments during Q3 FY2025

2 Preliminary January-February 2025 trends and outlook for Q4 FY2025

3 Outlook on CAD and INR



# Developments in India’s BOP in Q3 FY2025

*Sizeable net financial outflows led to sharp drawdown of reserve assets in Q3 FY2025*

# India's CAD rose to $11.5 billion or 1.1% of GDP in Q3 FY2025 in YoY terms, but trailed ICRA's estimate of 1.4% of GDP

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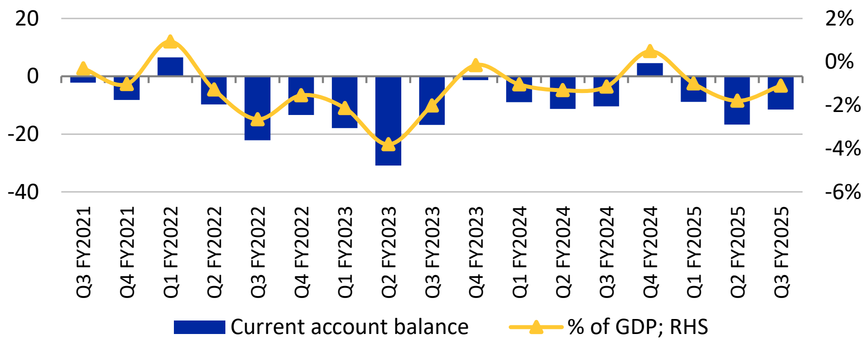
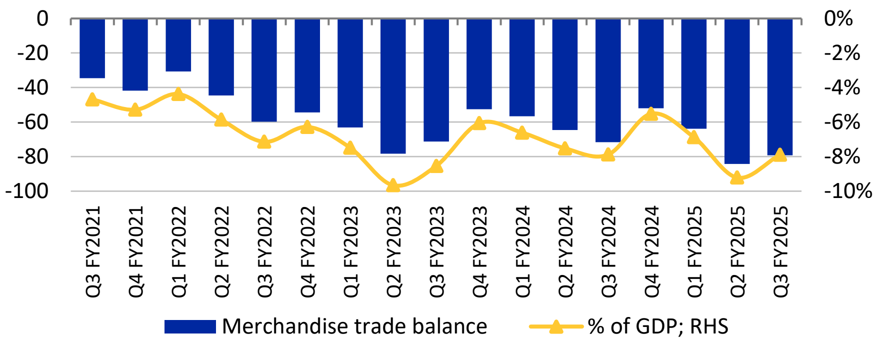
**EXHIBIT: Current Account Balance – $ billion and % of GDP**




*"-" 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 CAD widened slightly to $11.5 billion (-1.1% of GDP) in Q3 FY2025 from $10.4 billion (-1.1% of GDP) in the year-ago quarter, led by higher merchandise trade deficit (to $79.2 billion from $71.6 billion), with the YoY growth in merchandise imports (+6%) outpacing that in exports (+3%). Nevertheless, the size of the CAD in Q3 FY2025 trailed ICRA's forecast of 1.4% of GDP for that quarter.
  - The imports of petroleum, crude and products rose by 5.2% YoY in Q3 FY2025 (to $48.4 billion in Q3 FY2025 from $46.0 billion in Q3 FY2024), aided by higher volumes as the price of the Indian basket of crude oil declined by 11.6% YoY in the quarter. Gold imports surged by 42.1% to $19.5 billion from $13.7 billion, respectively. Moreover, non-oil non-gold imports reported a relatively modest increase of 2.1% YoY in Q3 FY2025, on a BoP basis.
  - Oil exports contracted by a sharp 37.6% YoY in Q3 FY2025, even as exports of non-oil items rose by 12.5% (on a BoP basis) during the quarter.
- On a QoQ basis, the Q3 FY2025 CAD narrowed from the upward revised $16.7 billion in Q2 FY2025 (initial: $11.2 billion), owing to the moderation in merchandise trade deficit (to $79.2 billion or 7.9% of GDP from $84.3 billion or 9.2% of GDP), as well as higher services trade surplus (to $51.2 billion from $44.6 billion), outweighing the increase in primary income outflows (to $16.7 billion from $9.5 billion).

# YoY uptick in earnings from invisibles more-than-offset by larger merchandise trade deficit, leading to wider CAD in Q3 FY2025

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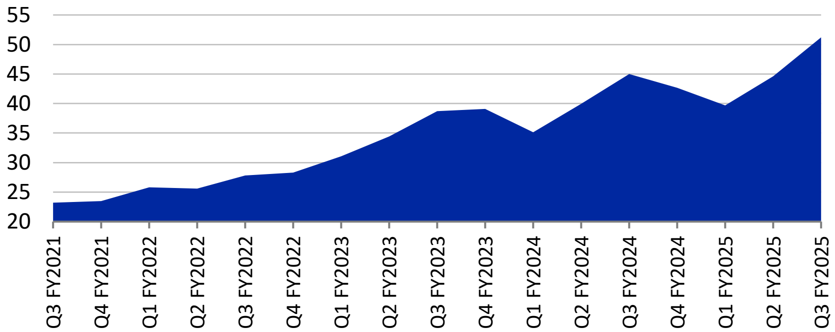
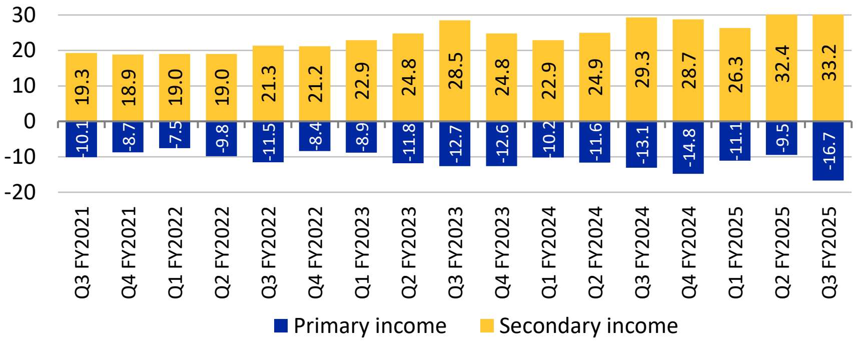
**EXHIBIT: Services Trade Account - Net Flows ($ billion)**




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

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

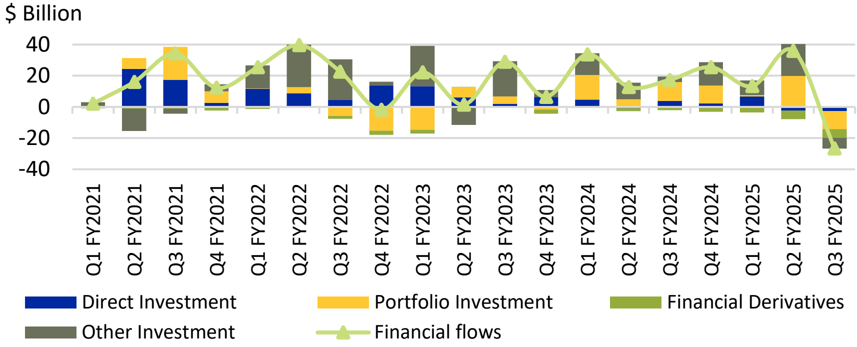



*"-" denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research*

- The services trade surplus surged to a record-high of $51.2 billion in Q3 FY2025 from $44.6 billion in Q2 FY2025, while also exceeding the year-ago level of $45.0 billion in Q3 FY2024. The 13.8% YoY uptick was led by higher net earnings related to telecom, communication and information (to $40.9 billion in Q3 FY2025 from $36.4 billion in Q3 FY2024), other business services (to $11.4 billion from $8.6 billion), while that for financial (to $1.3 billion from $1.5 billion) and travel (to $1.7 billion from $2.4 billion) services declined between these quarters.
- Net inflows of secondary income rose by a healthy 13.3% YoY to $33.2 billion in Q3 FY2025 from $29.3 billion in Q3 FY2024, while also mildly exceeding the Q2 FY2025 level ($32.4 billion). The YoY growth in secondary income was led by the uptick in personal transfers (to $33.2 billion from $29.2 billion). In contrast, net outflows of primary income widened to an all-time low of $16.7 billion in Q3 FY2025 (-$9.5 billion in Q2 FY2025) from $13.1 billion in Q3 FY2024, reflecting the trend for outflows of net overseas investment income (to a record-low -$19.1 billion from -$15.4 billion).
- Overall, earnings from invisibles rose by a healthy 10.6% to $67.7 billion in Q3 FY2025 from $61.2 billion in Q3 FY2024 ($67.6 billion in Q2 FY2025). This was more-than-offset by the YoY widening in the merchandise trade deficit, leading to a higher current account deficit in that quarter relative to Q3 FY2024.

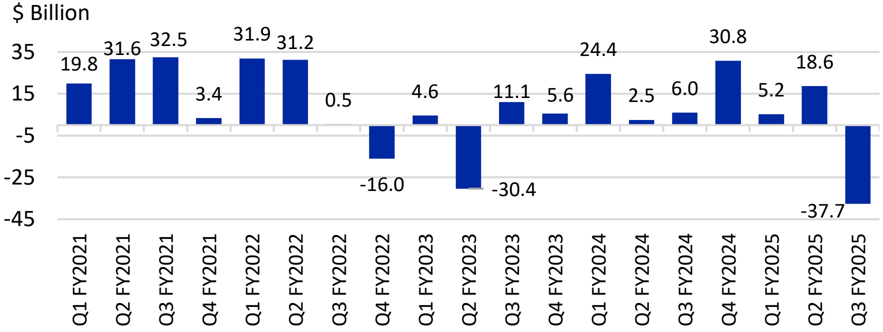
# Sharp turnaround to net financial outflows in Q3 FY2025 led to considerable drawdown of reserve assets amounting to $37.7 billion

**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)**

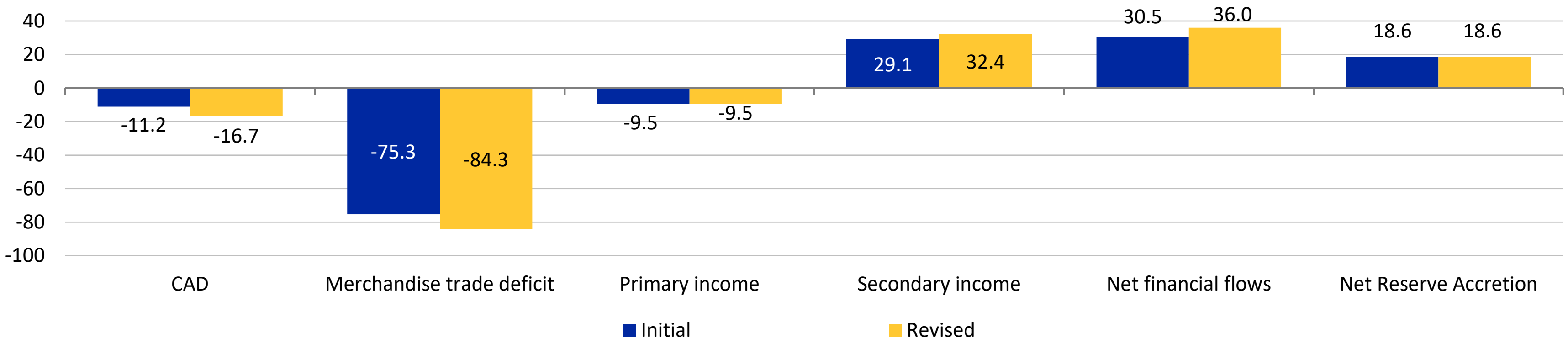



*Change in Reserve Asset [Increase (+)/Decrease (-)]; Source: RBI; CEIC; ICRA Research*

- After a gap of 10 quarters, India witnessed net financial outflows amounting to $26.6 billion in Q3 FY2025, following the inflows of $36.0 billion in Q2 FY2025 (+$17.4 billion in Q3 FY2024).
  - On a QoQ basis, the turnaround to net outflows was largely driven by the outflows on account of FPI (to a 10-quarter low -$11.4 billion in Q3 FY2025 from +$19.9 billion in Q2 FY2025), FDI (to an all-time low -$2.8 billion from -$2.3 billion), and other accounts receivable/payable (to a four-quarter low -$6.1 billion from +$8.7 billion), as well as a moderation in NRI deposits (to a six-quarter low +$3.1 billion from +$6.2 billion).
  - Compared to Q3 FY2024, the deterioration was largely driven by net FPI outflows (to -$11.4 billion in Q3 FY2025 from +$12.0 billion in Q3 FY2024), net FDI outflows (to -$2.8 billion from +$4.0 billion), NRI deposits (to +$3.1 billion from +$3.9 billion), and loans (external assistance, ECBs and banking capital; to -$7.9 billion from +$11.0 billion).
- Overall, the sharp turnaround to net financial outflows along with the mild widening in the CAD in Q3 FY2025 led to a sharp drawdown of reserve assets amounting to $37.7 billion in that quarter (+$6.0 billion in Q3 FY2024; after a gap of eight quarters), in contrast to the accretion of $18.6 billion seen in Q2 FY2025 (on a BoP basis). However, this was significantly lower than the $70.1 billion decline in India's foreign exchange reserves during that quarter, with the latter partly being dampened by valuation losses.

# Current account deficit for Q2 FY2025 revised upwards sharply, led by widening in merchandise trade deficit

**EXHIBIT: Revisions in Q2 FY2025 Balance of Payments data ($ billion)**




*Source: RBI; CEIC; ICRA Research*

- The size of CAD for Q2 FY2025 underwent a significant revision to $16.7 billion from the initial estimate of $11.2 billion, primarily on account of a higher merchandise deficit (to -$84.3 billion from -$75.3 billion). Notably, secondary income inflows were raised slightly (to +$32.4 billion from $29.1 billion), and primary outflows remained unchanged at their initially reported levels.
- The upward revision in the CAD was offset by an equivalent revision in financial flows in Q3 FY2025 (to +$36.0 billion from +$30.5 billion), resulting in the net reserve accretion for the quarter remaining unchanged at $18.6 billion.

# Preliminary trends for January-February 2025 and outlook for Q4 FY2025

*Current account expected to record a surplus of ~0.6% of GDP in Q4 FY2025*

# YoY moderation in merchandise exports during January-February FY2025 sharper than that seen in such imports

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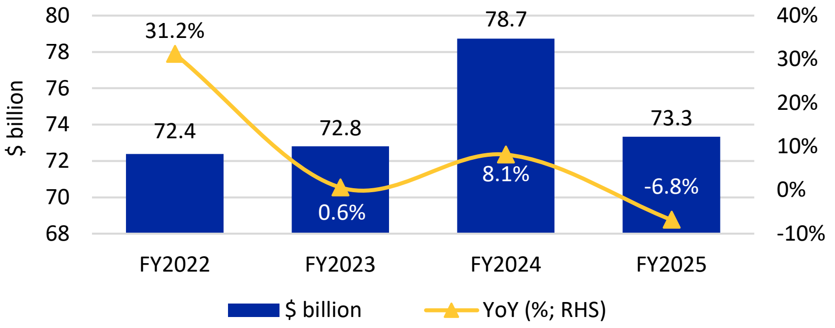
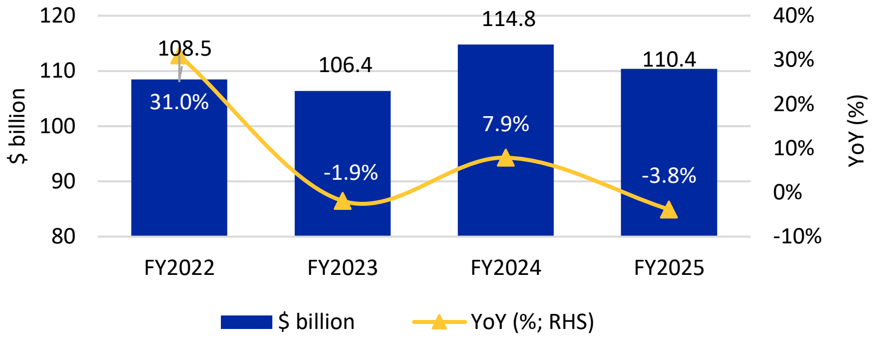
**EXHIBIT: Trends in Merchandise Exports in January-February FY2022-25**




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

**EXHIBIT: Trends in Merchandise Imports in January-February FY2022-25**

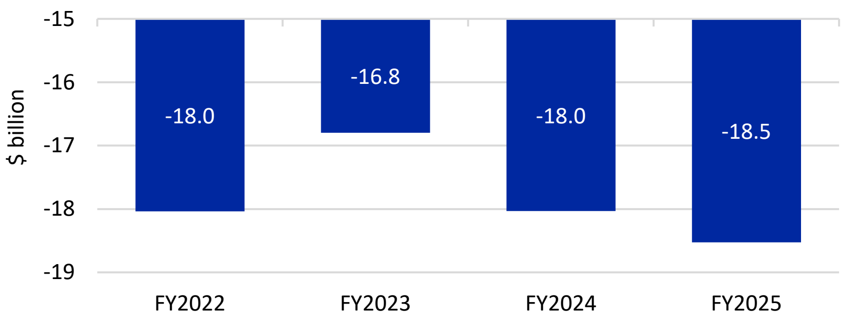



*Source: Ministry of Commerce and Industry, GoI; ICRA Research*

- As per the provisional data released by Ministry of Commerce and Industry, India's merchandise exports contracted by 6.8% YoY to $73.3 billion during January-February FY2025 from $78.7 billion during January-February FY2024 (January 2025: -2.4%; February 2025: -10.9%; Q3 FY2025: +3.0%). This was entirely driven by the sharp YoY decline in exports of petroleum products (-44.3%), which offset the mild uptick in non-oil exports (+3.3%). The YoY increase of $2.1 billion in non-oil exports during January-February FY2025 was driven by electronic goods (+$2.6 billion), agri products (+$0.8 billion), drugs and pharmaceuticals (+$0.4 billion), etc. This was partly offset by the YoY decline in engineering goods (-$0.2 billion), organic and inorganic chemicals (-$0.8 billion), etc. Moreover, the monthly average merchandise exports during January-February FY2025 ($36.7 billion) was only 1.2% higher than that seen in Q3 FY2025 ($36.2 billion).
- Merchandise imports contracted by a narrower 3.8% YoY to $110.4 billion during January-February FY2025 from $114.8 billion during January-February FY2024 (January: +10.3%; February: -16.3%; Q3: +6.5%). This was largely driven by the decline in gold imports (-37.6%), followed by a relatively narrower contraction in imports of crude petroleum and products (-21.9%), while non-oil non-gold products (+7.7%) saw a modest uptick. The YoY growth in non-oil non-gold imports during January-February FY2025 was largely driven by agri products (YoY: +$1.2 billion), electronic goods (+$2.0 billion), electrical and non-electrical machinery (+$1.2 billion), etc. Notably, the monthly average merchandise imports during January-February FY2025 ($55.2 billion) trailed the levels seen during Q3 FY2025 ($62.5 billion) by a significant 11.7%.

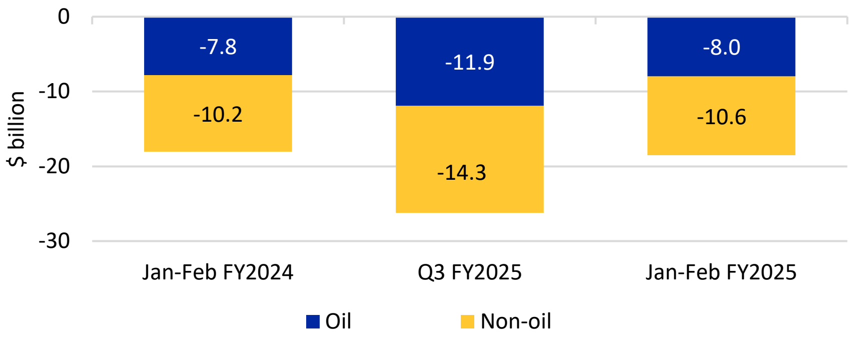
# Merchandise trade deficit likely to widen marginally in Q4 FY2025 on YoY basis

**EXHIBIT: Monthly Average Trends in Merchandise Trade Balance in January-February FY2022-25**




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

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

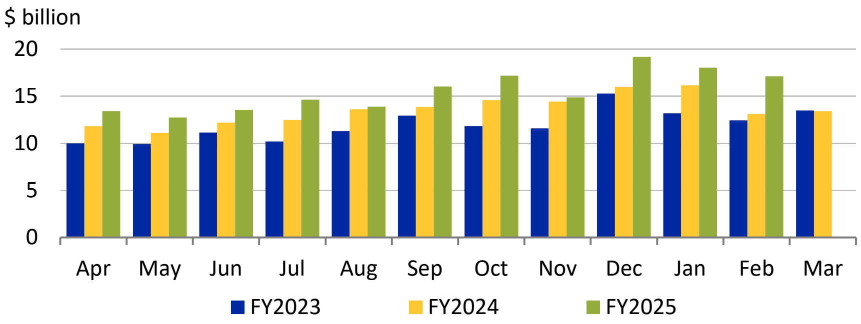



*Source: Ministry of Commerce and Industry, GoI; ICRA Research*

- With the YoY contraction in merchandise exports (-6.8%) exceeding that in such imports (-3.8%) during January-February FY2025, the average monthly trade deficit widened slightly to $18.5 billion in the period from $18.0 billion during January-February FY2024. This was driven by higher average deficits for both oil and non-oil items.
- However, in sequential terms the monthly average trade deficit during January-February FY2025 was much narrower than the levels seen in Q3 FY2025 ($26.2 billion), led by both non-oil (to -$10.6 billion from -$14.3 billion; amid sharp fall in gold imports) and oil (to -$8.0 billion from -$11.9 billion) items. Moreover, the monthly average trade deficit during January-February FY2025 was also much narrower than such levels seen during April-December FY2025 (-$24.9 billion).
- **With only a marginal $1.0 billion YoY uptick seen in the merchandise trade deficit during January-February 2025 based on the initial data, ICRA expects the same to widen slightly to $57-60 billion in this quarter from $52.0 billion in Q4 FY2024 (on a BoP basis), albeit print significantly lower than the $79.2 billion seen in Q3 FY2025.**

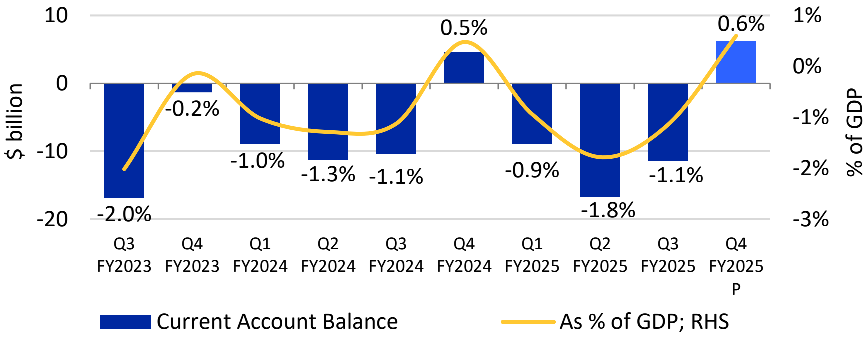
# India's current account to post a marginal surplus of ~0.6% of GDP in Q4 FY2025

**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 Q4 FY2025; Source: RBI; CEIC; ICRA Research*

- After rising by a robust 17.9% YoY in Q3 FY2025 (to $103.5 billion), the YoY growth in India's services exports slowed to 11.8% (to $66.4 billion) in January-February 2025. Additionally, the pace of expansion in such imports also moderated sharply to 3.8% in January-February 2025 ($31.2 billion, amid 4.8% YoY contraction in February 2025) from 22.2% seen in Q3 FY2025 ($52.3 billion). Consequently, the trade surplus printed at $35.1 billion in January-February 2025, 20.0% higher than the year-ago level of $29.3 billion.
- **Overall, amid expectations of the sharp narrowing in the merchandise trade deficit offsetting the mild moderation in the services trade surplus in Q4 FY2025 vis-à-vis Q3 FY2025, ICRA expects India's current account to revert to a surplus of $4-6 billion (+0.6% of GDP) in the quarter from the deficit of $11.5 billion in Q3 FY2025 (-1.1% of GDP), while also marginally exceeding the surplus of $4.6 billion (+0.5% of GDP) in Q4 FY2024.**

# Outlook on CAD and INR

*CAD projected at 0.8% of GDP in FY2025 and 1.0% of GDP in FY2026 (baseline);*
*USD/INR pair to trade between 85.5-87.0/$ in immediate term*

# India's net oil import bill to widen in FY2025; remain elevated in FY2026

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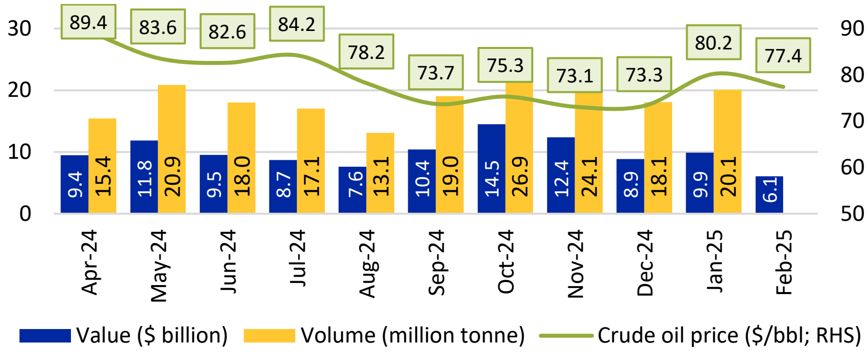
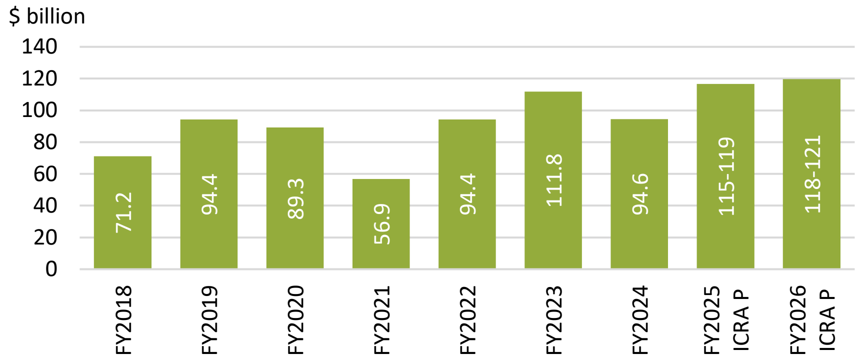
### EXHIBIT: Trends in net POL imports - value and volume, and crude oil prices




*Volume data for February 2025 is not yet available; 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 ~38% YoY to $35.7 billion in Q3 FY2025, amid the surge in import volumes during October 2024 (at 33.6 mn tonne; YoY: +28.9%), even as crude oil prices inched up mildly to $75.3/bbl in October 2024 from $73.7/bbl in September 2024. Subsequently, the net oil import bill has moderated to $15.9 billion during January-February 2025, printing 2.3% higher than the year-ago level of $15.6 billion, owing to the correction in crude oil prices (-2.0% YoY in January-February 2025). The volumes in February 2025 likely moderated from 20.1 million tonne seen in January 2025, although the data is not yet available.
- **ICRA expects the exports of petroleum products to decline sharply by 23-26% to $62-65 billion in FY2025 from $84.2 billion in FY2024, before rising mildly to $64-66 billion in FY2026, amid some recovery expected in volumes. Notably, the operationalisation of the new Dangote refinery in Nigeria is likely to continue to adversely impact Indian exports of diesel to the EU, as it is much closer to the region.**
- **Oil imports are projected to rise to $179-182 billion in FY2025 ($178.7 billion in FY2024), and further to $183-186 billion in FY2026. Consequently, ICRA projects India's net oil import bill to surge to $115-119 billion in FY2025 from $94.6 billion in FY2024. Subsequently, it is expected to remain elevated in the range of $118-121 billion in FY2026, with lower discounts on crude oil purchases from Russia (~8% in 10M FY2025 vs. ~14% in FY2024) also exerting an upward pressure, apart from the muted growth in POL exports.**

# Gold imports projected to rise to $56-59 billion in FY2025, before easing to $49-51 billion in FY2026; elevated prices may impact demand

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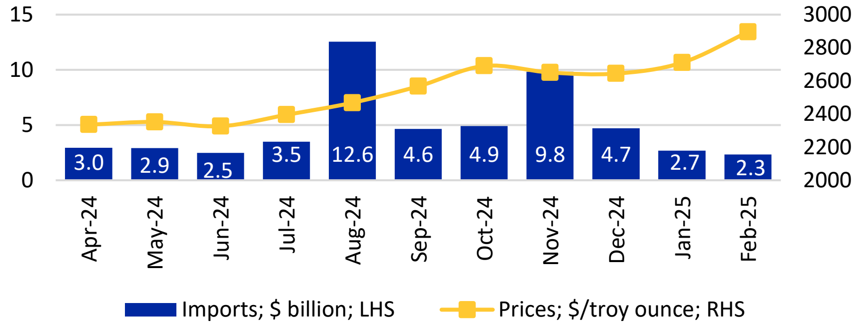
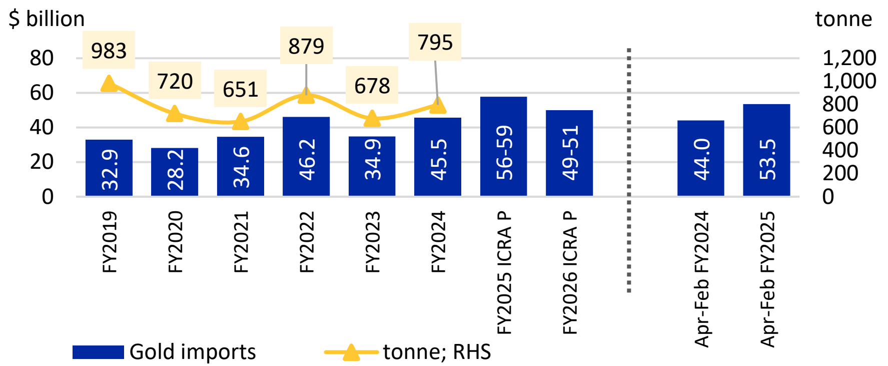
### EXHIBIT: Trends in monthly gold imports and prices




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

### EXHIBIT: Annual trends in Gold imports

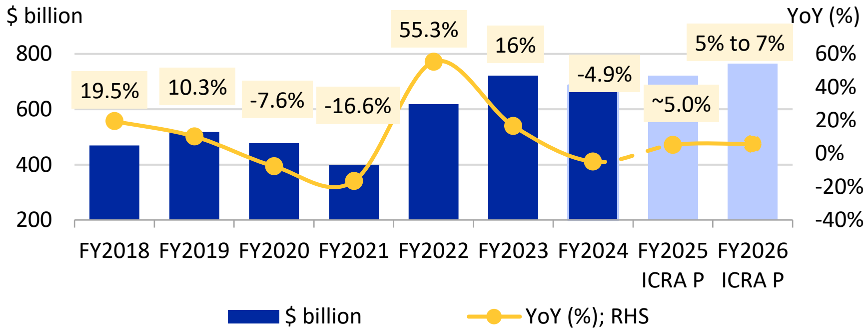



*P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research*

- The value of gold imports increased considerably by 21.6% YoY to $53.5 billion during April-February FY2025, led by a sharp rise in prices. In monthly terms, such imports moderated to $2.5 billion, on an average in January-February 2025 from $6.5 billion in Q3 FY2025, while also trailing the $4.0 billion seen in January-February 2024.
- The imported volume of gold eased sharply from 117.1 tonne in November 2024 to 60.2 tonne in December 2024, and thereafter to a seven-month low of 36.6 tonne in January 2025. Overall, it stood at 675.9 tonne during April-January FY2025, 2.7% higher than 658.1 tonne seen during April-January FY2024.
- Gold prices surged to a monthly record-high of $2,895/troy ounce in February 2025 from $2,710/troy ounce in January 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 29.2% higher YoY during 11M FY2025.
- **Going ahead, with a lower number of auspicious days in FY2025 (62 days) and FY2026 (68 days) relative to FY2023 (>80 days), there is likely to be higher seasonality in gold demand during this period. While gold consumption in India (in volume terms) is likely to be negatively impacted by the elevated gold prices, factors like weddings, festive occasions and cultural affinity are likely to support jewellery demand in FY2026. Overall, ICRA estimates gold imports at $56-59 billion in FY2025 ($45.5 billion in FY2024) and $49-51 billion in FY2026, with the volatility in prices remaining a key monitorable.**

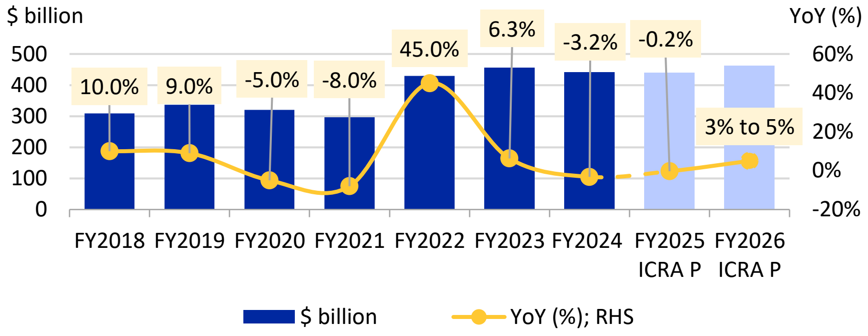
# Merchandise exports and imports to grow by 3-5% and 5-7%, respectively, in FY2026

### 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 imports rose by 5.7% YoY to $656.7 billion during April-February FY2025, largely driven by the surge in gold imports (+21.6% to $53.5 billion), followed by non-oil non-gold (+5.2% to $436.5 billion) imports, even as oil imports grew by a modest 2.6% to $166.7 billion during this period. **ICRA projects merchandise imports to grow by ~5% in FY2025 (vs. -4.9% in FY2024) and thereafter by 5-7% in FY2026.**
- Merchandise exports remained largely unchanged, expanding by a mere 0.1% YoY to $395.7 billion during 11M FY2025, amid a sharp 25.5% contraction in oil exports. Non-oil exports increased by 6.4% YoY to $337.0 billion in 11M FY2025, led by agri (+9.5% in 11M FY2025 vs. +0.4% in 11M FY2024), electronic (+32.9% vs. +23.7%), and engineering goods (+8.0% vs. +1.2%) exports. Based on these trends, **ICRA estimates merchandise exports to contract by 0.3% in FY2025.**
- **As per the IMF's expectations, protectionist trade policies as well as the intensification of geopolitical tensions could exacerbate trade tensions and disrupt supply chains, thereby posing a considerable downside risk to global growth. This could adversely impact India's merchandise exports in the upcoming fiscal. Overall, such exports are expected to rise by 3-5% in FY2026.**

# Services trade surplus to rise to $191-193 billion in FY2026 from ~$184 billion expected in FY2025

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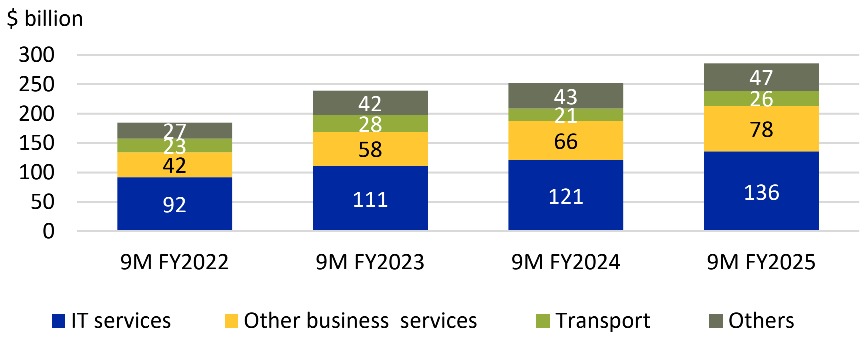
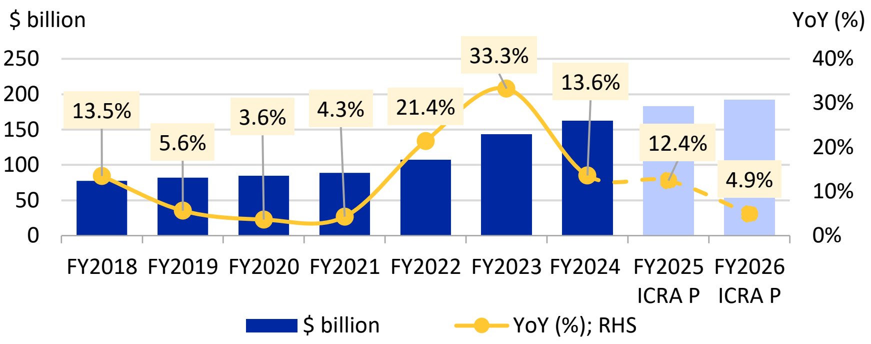
**EXHIBIT: 9M trends in composition of services exports**




*Source: RBI; CEIC; ICRA Research*

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

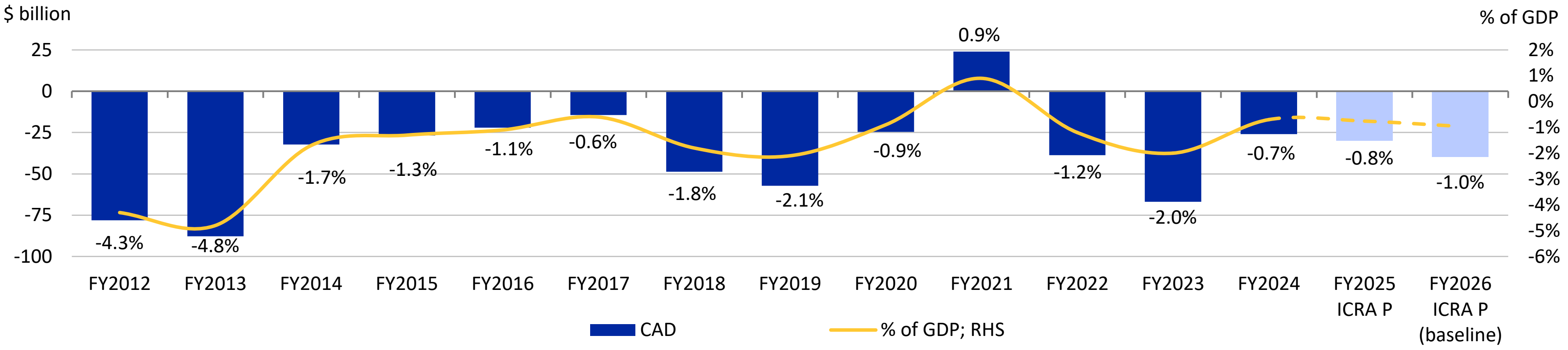



*P: Projected; Source: RBI; CEIC; ICRA Research*

- India's services exports rose by a healthy 13.1% YoY to $351.8 billion in April-February FY2025, from $311.1 billion in April-February FY2024, while such imports increased by 12.0% to $181.2 billion from $161.7 billion, respectively. Consequently, the services trade surplus surged to $170.6 billion from $149.4 billion in the corresponding period of FY2024.
- Notwithstanding some recovery in recent quarters, FY2026 is unlikely to witness any material uptick in growth momentum compared to FY2025. **ICRA's sample set of [IT services] companies is estimated to report a modest YoY revenue growth of 4-6% in USD terms in FY2025 and FY2026 (vs. +1.7% in FY2024), owing to persistent uncertainty in key markets, resulting in delay in decision making by customers, as visible in the slowdown in the conversion of deals to revenues to some extent and lower discretionary technological spending in most sectors. Overall, ICRA estimates the services trade surplus to rise to $191-193 billion in FY2026 from ~$184 billion estimated in FY2025 ($162.8 billion in FY2024).**

# India's CAD/GDP projected at 0.8% in FY2025 and 1.0% in FY2026 (baseline)

**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 FY2025 and FY2026; Source: RBI; CEIC; ICRA Research*

- ICRA expects the merchandise trade deficit to expand from $244.9 billion (-6.7% of GDP) in FY2024 to $284-287 billion (-7.3% of GDP) in FY2025 and further to $306-309 billion (-7.4% of GDP) in FY2026.
- Led by the widening merchandise trade deficit, **ICRA projects the CAD/GDP to inch up from 0.7% in FY2024 to ~0.8% in FY2025 and further to ~1.0% in FY2026 (baseline). Nevertheless, the FY2026 outlook is clouded with risks owing to the impending imposition of tariffs by the US.**

# Valuation gains, forex swaps led to uptick in forex reserves over last two months

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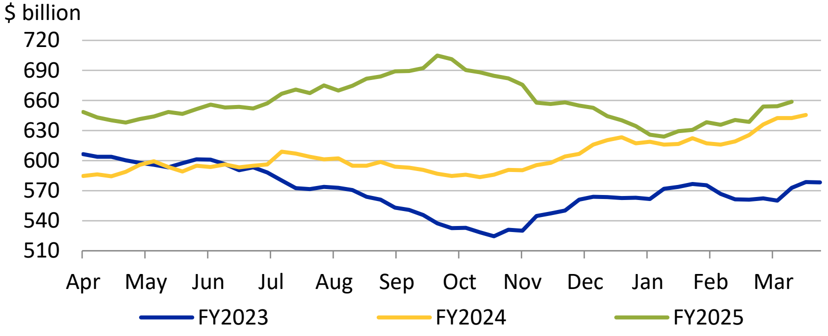
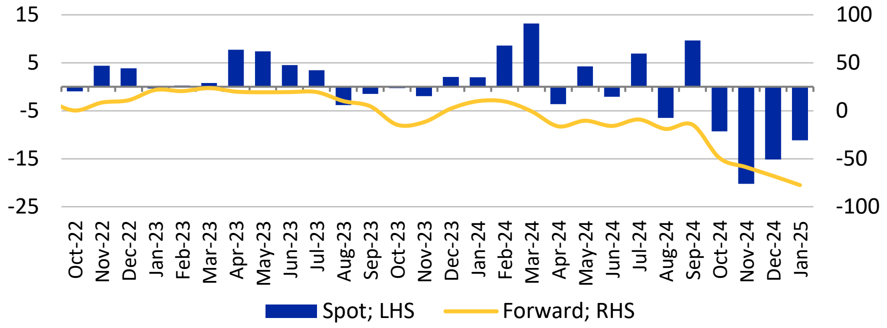
**EXHIBIT: India's Foreign Exchange Reserves**




*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*

- After surging to a record-high of $704.9 billion at end-September 2024, India's foreign exchange reserves declined to $624.0 billion as on January 17, 2025, with the RBI selling dollars to support the INR. Between October-January FY2025, the central bank sold dollars amounting to $55.8 billion in the spot market on a net basis. Additionally, its outstanding net sales in the forward market widened sharply to $77.5 billion at end-January 2025 from $14.6 billion at end-September 2024 of which $20.9 billion was due to mature within a month, $26.0 billion within 1-3 months, and $30.6 billion between 3 months and up to one year.
- Thereafter, reserves have risen $658.8 billion as on March 21, 2025, partly aided by the RBI's USD/INR buy/sell swaps ($5 billion on January 30, 2025 and $10 billion on February 28, 2025) as well as valuation gains, amid a fall in the DXY (to 104.1 on March 21, 2025 from 109.3 on January 17 2025) and decline in the UST yields (to 4.25% from 4.61%) during this period.
- On March 24, 2025, the RBI conducted another USD/INR buy/sell swap of $10 billion which is likely to augment forex reserves further in the month.

# USD/INR pair to trade between 85.5 and 87.0 in immediate term

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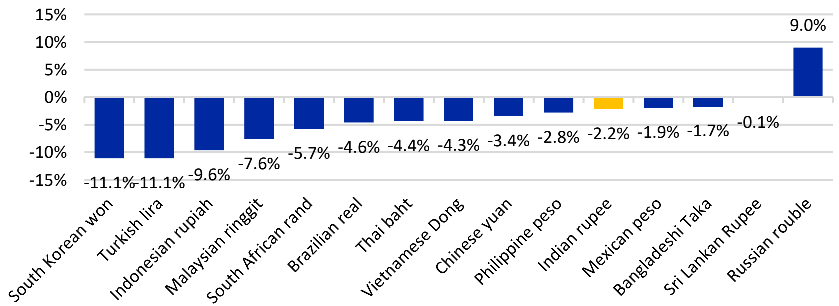
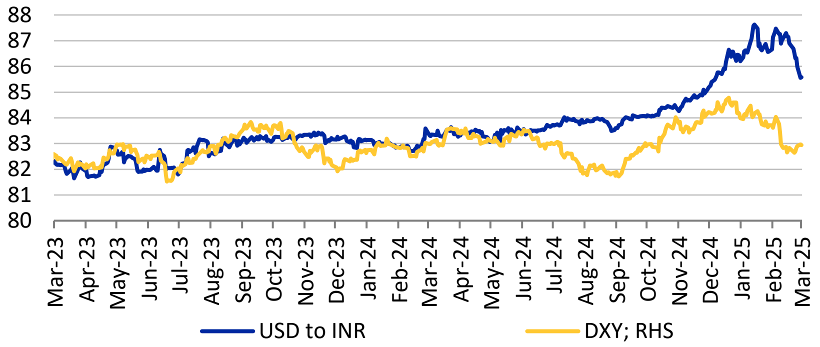
**EXHIBIT: Exchange Rate Movements of Various Currencies Relative to the $ as on March 25, 2025 relative to end-September 2024**




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

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




**Data for FY2025 is up to March 28, 2025; Source: Refinitiv; ICRA Research*

- The USD/INR pair has been quite volatile in the ongoing financial year, recording a depreciation of 2.7% in FY2025 so far (as on March 25, 2025) against 1.5% in FY2024. While it had touched a record low of 87.63/$ on February 7, 2025, it has recovered thereafter, touching 85.47/$ on March 28, 2025, aided by the sharp fall in the DXY (to 104.0; a dip of 5.4% from the peak of 109.96 seen on January 13, 2025).
- We expect the USD/INR pair to trade between 85.5 and 87.0 against the $ in the immediate term. However, the developments around tariffs could lead to a sharp depreciation in the pair. A sustained depreciation pressure may lead to higher borrowing costs and also impact profitability of India Inc. This is likely to negatively impact sectors like chemicals, aviation margins, etc., owing to the higher portion of input cost to be paid in USD terms[1].
- Additionally, USA's share in India's merchandise exports stood at ~18% in FY2024; such exports are significant for many sectors like agricultural products, textiles, chemicals, metals, jewellery, pharma, etc. These segments remain particularly vulnerable to the external headwinds arising from protectionist trade policies imposed by the US as well as exchange rate volatility[2]. Nevertheless, India's REER (export-based weights-40 countries) has corrected by 5.1% in February 2025 over November 2024, auguring well for export competitiveness, if this trend continues.

[1] *Refer to ICRA's publication, "Depreciation of INR relative to USD to have negative impact on few sectors such as refining & marketing, CGD, airlines and chemicals"*
[2] *Refer to ICRA's publication, "Policy changes by new US Government may impact some specific sectors"*

# Annexure

### EXHIBIT: Trends in India's Current account

| Figures in $ billion | Q3 FY2024 | Q4 FY2024 | Q1 FY2025 | Q2 FY2025 | Q3 FY2025 | Q4 FY2025 ICRA P | FY2022 | FY2023 | FY2024 | FY2025 ICRA P | FY2026 ICRA P |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Merchandise Exports | 106.6 | 121.6 | 111.2 | 104.6 | 109.8 | 114 to 117 | 429.2 | 456.1 | 441.4 | 440 to 443 | 458 to 461 |
| Merchandise Imports | 178.3 | 173.6 | 175.0 | 188.8 | 189.0 | 173 to 175 | 618.6 | 721.4 | 686.3 | 726 to 728 | 765 to 768 |
| ***Merchandise Trade Balance*** | ***-71.6*** | ***-52.0*** | ***-63.8*** | ***-84.3*** | ***-79.2*** | ***-57 to -60*** | *-189.5* | *-265.3* | -244.9 | **-284 to -287** | **-306 to -309** |
| **Net Services** | **45.0** | **42.7** | **39.7** | **44.6** | **51.2** | **47 to 49** | 107.5 | 143.3 | 162.8 | **~184** | **191 to 193** |
| **Primary Income** | **-13.1** | **-14.8** | **-11.1** | **-9.5** | **-16.7** | **-12 to -14** | -37.3 | -45.9 | -49.8 | **-49 to -51** | **-52 to -55** |
| **Secondary Income** | **29.3** | **28.7** | **26.3** | **32.4** | **33.2** | **28 to 31** | 80.5 | 100.9 | 105.9 | **120 to 123** | **125 to 128** |
| ***Current Account Balance*** | ***-10.4*** | ***4.6*** | ***-8.9*** | ***-16.7*** | ***-11.5*** | ***+4 to +6*** | *-38.7* | *-67.0* | -26.0 | **-30 to -32** | **-40 to -43** |
| **Percentage of GDP** | **-1.1%** | **+0.5%** | **-0.9%** | **-1.8%** | **-1.1%** | **+0.6%** | -1.2% | -2.0% | -0.7% | **-0.8%** | **-1.0%** |

### EXHIBIT: Trends in India's Financial flows

| Figures in $ billion | Q3 FY2024 | Q4 FY2024 | Q1 FY2025 | Q2 FY2025 | Q3 FY2025 | FY2021 | FY2022 | FY2023 | FY2024 |
|---|---|---|---|---|---|---|---|---|---|
| **Financial flows** | **17.4** | **25.5** | **13.3** | **36.0** | **-26.6** | **64.7** | **85.9** | **59.0** | **89.5** |
| Direct investment | 4.0 | 2.3 | 6.6 | -2.3 | -2.8 | 44.0 | 38.6 | 28.0 | 10.1 |
| Portfolio investment | 12.0 | 11.4 | 0.9 | 19.9 | -11.4 | 36.1 | -16.8 | -5.2 | 44.1 |
| Financial derivatives | -2.1 | -3.2 | -3.6 | -5.5 | -5.5 | -4.8 | -6.4 | -5.4 | -7.9 |
| Other investment* | 3.5 | 15.0 | 9.3 | 24.0 | -7.0 | -10.6 | 70.5 | 41.5 | 43.2 |

**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 FY2025 and 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 |

# 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 – Corporate Sector - West & East | vinita.baid@icraindia.com | 033-71501131 |
| **Shivam Bhatia** | Head Business Development – Corporate Sector - North & South | shivam.bhatia@icraindia.com | 0124-4545803 |
| **Naznin Prodhani** | Head – Group Corporate Communications & Media Relations | communications@icraindia.com | 0124-4545860 |

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# Thank You!