Macroeconomics | First cut

CAD widens a tad

October 2024

Led by rising trade deficit

India's current account deficit (CAD) widened to $9.7 billion (1.1% of gross domestic product (GDP)) in the first quarter (April-June) of fiscal 2025, data from the Reserve Bank of India (RBI) showed. This compares with a deficit of $8.9 billion (1% of GDP) in the first quarter of fiscal 2024. It also signifies a U-turn from a surplus of $4.6 billion (0.5% of GDP) in the fourth quarter of the previous fiscal.

The on-year widening in CAD was largely driven by a rise in merchandise trade deficit to $65.1 billion from $56.7 billion a year ago. While muted global demand weighed on export growth (up 6.0% on-year) in Q1 fiscal 2025, higher crude oil prices and logistics costs amidst geopolitical tensions pushed up imports significantly faster (8.4% on-year). That said, services trade surplus and secondary income (largely remittances) grew, providing a cushion to the current account balance.

As a result of the reversal in CAD to deficit from surplus and lower financial inflows, the rupee depreciated mildly in Q1 fiscal 2025 to average 83.42/$, compared with 83.02/$ in Q4 fiscal 2024. In Q1 FY24, the rupee had averaged 82.2/$.

Meanwhile, although financial flows fell on-year, they were sufficient to cover the CAD. Therefore, accretion to foreign exchange (forex) reserves slowed to $5.2 billion in Q1 fiscal 2025 from $24.4 billion in Q1 fiscal 2024. At the end of the first quarter, India had forex reserves of $653.7 billion, which rose to $692.3 billion as of September 20, 2024.

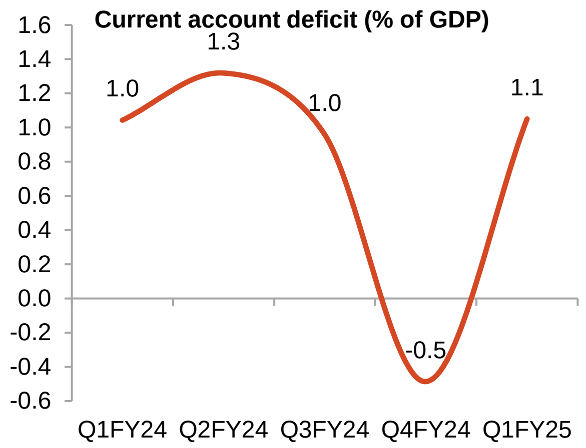
It is noteworthy that although the overall financial flows declined in Q1 fiscal 2025, foreign direct investment (FDI) inflows increased compared with Q1 FY2024, along with a rise in NRI deposits.

Even as merchandise trade deficit has come under some pressure, robust services exports and healthy remittances flow should help keep the CAD in the safe zone this fiscal. We expect CAD at ~1.0% of GDP in fiscal 2025, compared with 0.7% last fiscal.That said, Q2 is expected to see some uptick in CAD (owing to subdued goods exports and an increase in imports, and a rise in gems and jewellery and core imports). In addition, the impact of geopolitical issues will continue to remain a monitorable.

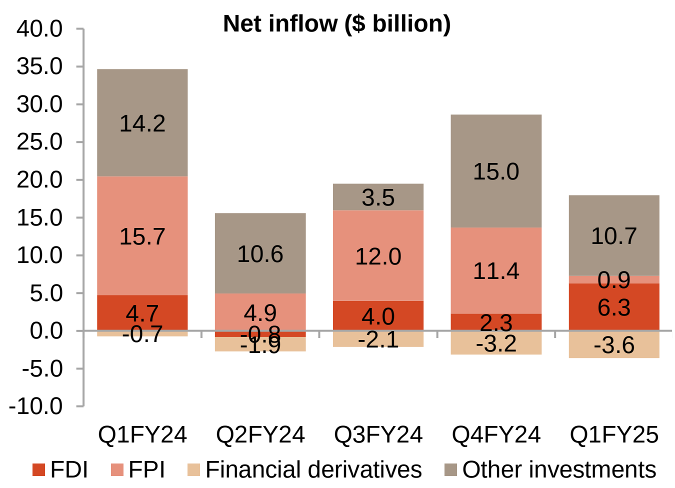
Key data points for the first quarter

- Current account deficit was 1.1% of GDP, compared with a deficit of 1% in the first quarter of fiscal 2024
- Trade deficit rose to 2.7% of GDP from 2.5% in Q1 fiscal 2024 due to an increase in merchandise trade deficit to 7% of GDP from 6.6% previously, even as services trade surplus increased to 4.3% from 4.1%
- Primary income account deficit (1.2% of GDP) was in line with Q1 fiscal 2024. Meanwhile, secondary income account surplus rose marginally to 2.8% from 2.7%
- Net financial inflows were at 1% of GDP, compared with 1.1% in the first quarter of fiscal 2024
- Accretion to forex reserves fell to $5.2 billion from $24.4 billion in Q1 fiscal 2024 and $30.8 billion in Q4 fiscal 2024

Current account back in deficit…



…and financial flows decrease



Source: Reserve Bank of India, CRISIL

Foreign direct investments lead the pack

- Net inflows from foreign portfolio investors were $0.9 billion, much lower than the $15.7 billion print in Q1 fiscal 2024 and $11.4 billion in Q4 fiscal 2024. Equity outflows were $1 billion, compared with $13.6 billion in Q1 fiscal 2024. Inflows in debt were $1.9 billion in Q1 FY2025 vs. $2.4 billion in Q1 FY2024.

- Other investments[1] tanked to $10.7 billion from $14.1 billion in the first quarter of 2024. Net inflows under NRI deposits rose to $4 billion from $2.2 billion and net ECBs fell to $1.8 billion from $5.6 billion, while trade credit and advances reversed to a surplus of $3 billion from a deficit of $5 billion in Q1 fiscal 2024.

- Net FDI inflows rose to $6.3 billion from $4.7 billion in the first quarter of fiscal 2024. FDI inflows of $23.4 billion (vs. $19.3 billion in Q1 fiscal 2024) outweighed FDI outflows of $17.1 billion (vs. 14.6 billion in Q1 fiscal 2024). Services, computer, trading and telecommunications sectors benefitted the most from these inflows, according to the data released by the Department for Promotion of Industry and Internal Trade (DPIIT)[2].

- Although portfolio investor inflows and other investments fell from the same quarter of fiscal 2024, direct investment inflows provided some buffer.

---

[1] Comprises non-resident Indian (NRI) deposits, external commercial borrowings (ECBs), other loans and trade credit
[2] Fact sheet on FDI inflow from April 2000 to June 2024. Available at: https://dpiit.gov.in/sites/default/files/fdi%20factsheet%20june%202024.pdf

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

Aveek Datta
Media Relations
CRISIL Limited
M: +91 99204 93912
aveek.datta@crisil.com

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

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

About CRISIL Market Intelligence & Analytics

CRISIL Market Intelligence & Analytics, a division of CRISIL, provides independent research, consulting, risk solutions, and data & analytics. Our informed insights and opinions on the economy, industry, capital markets and companies drive impactful decisions for clients across diverse sectors and geographies.

Our strong benchmarking capabilities, granular grasp of sectors, proprietary analytical frameworks and risk management solutions backed by deep understanding of technology integration, make us the partner of choice for public & private organisations, multi-lateral agencies, investors and governments for over three decades.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong, UAE and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK | INSTAGRAM

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.