

Q2 CAD moderates to 1.3% of GDP

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India's current account deficit (CAD) moderated to \$12.3 billion, or 1.3 per cent of gross domestic product (GDP), during the quarter ended September 2025 (Q2FY26) from \$20.8 billion (2.2 per cent of GDP) a year ago.

The decline was aided by narrowing of merchandise trade deficit and robust remittances from Indians working overseas, Reserve Bank of India (RBI) data showed.

Sequentially, the CAD rose from \$2.4 billion (0.2 per cent of GDP) in the quarter ended June 2025 (Q1).

Aditi Nayar, chief economist, ICRA, said the CAD undershot the agency's forecast of \$17 billion. It was primarily on account of a slightly

Mind the gap

India's current account deficit profile (\$ bn)

	Q2FY25	Q2FY26
Current account balance	20.8	12.3
Current account balance (% of GDP)	2.2%	1.3%
Merchandise trade	88.5	87.4
Services trade	44.5	50.9

Source - RBI

lower goods deficit and stronger-than-expected remittance flows.

The merchandise trade deficit narrowed to \$87.4 billion in Q2FY26 from \$88.5 billion in Q2FY25.

Net outgo from the primary income account, mainly reflecting payments of investment income, increased to \$12.2 billion in the September 2025 quarter, from \$9.2 billion a year ago.

Personal transfer receipts, mainly representing remit-

tances from Indians employed abroad, rose to \$38.2 billion from \$34.4 billion.

Regarding the balance of payments (BoP) position in Q2FY26, there was a depletion of \$10.9 billion to the foreign exchange reserves. This is opposed to accretion of \$18.6 billion in the year-ago period.

On the outlook for the quarter ending December 2025 (Q3FY26), ICRA said the spike in gold imports in October 2025 is likely to bloat the ongoing

quarter's CAD considerably to above 2.5 per cent of GDP.

"With gold imports unlikely to sustain this surge in the coming months, we expect the monthly merchandise trade deficit figures to ease relative to the levels seen in October 2025. Overall, we foresee India's CAD at a relatively manageable ₹1.1-1.2 per cent of GDP in FY26," Nayar added.

As for the current account balance in April-September 2025 (H1FY26), the deficit declined to \$15 billion (0.8 per cent of GDP) from \$25.3 billion (1.3 per cent of GDP) in H1FY25.

On the BoP front, there was a depletion of \$6.4 billion to the foreign exchange reserves in H1, compared to an accretion of \$23.8 billion in the year-ago period, the RBI added.