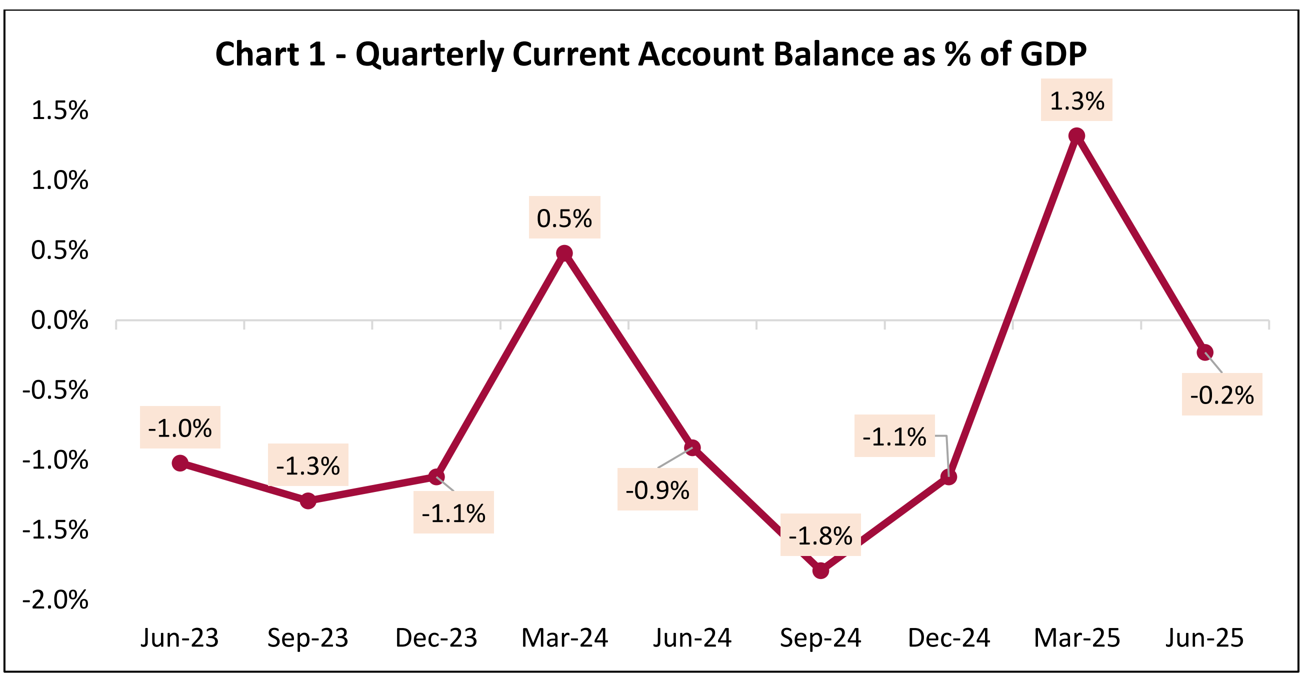
Economic Intelligence Cell

- Smriti Behl, Economist

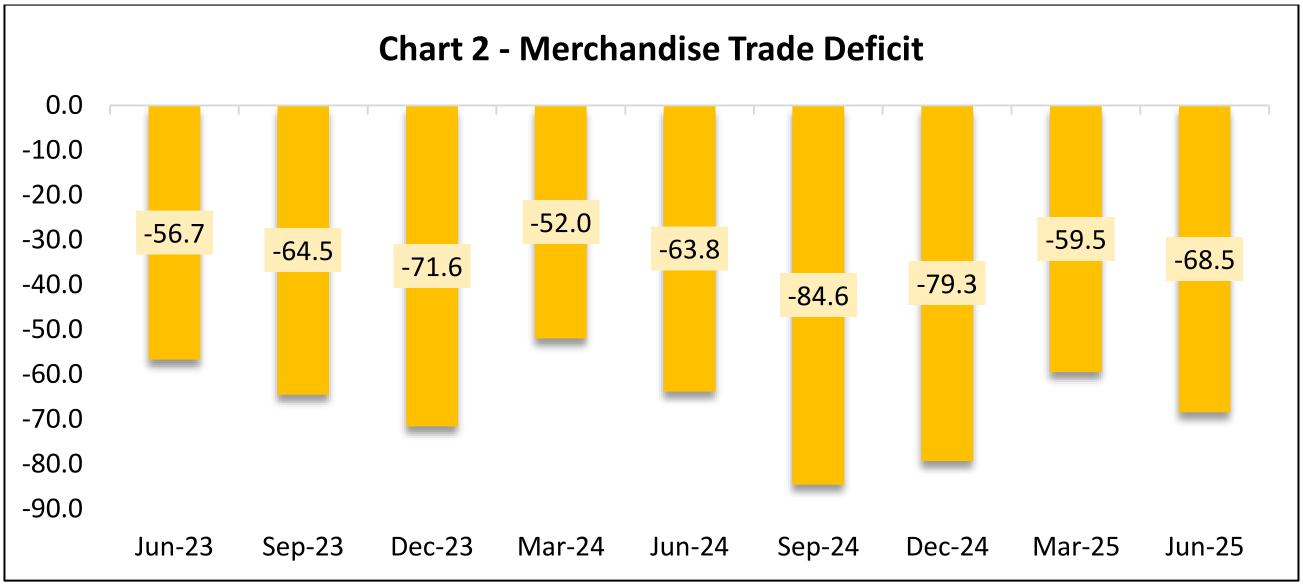
Macro Insights

Key Takeaways: India's Balance of Payments (BoP) Q1'FY26

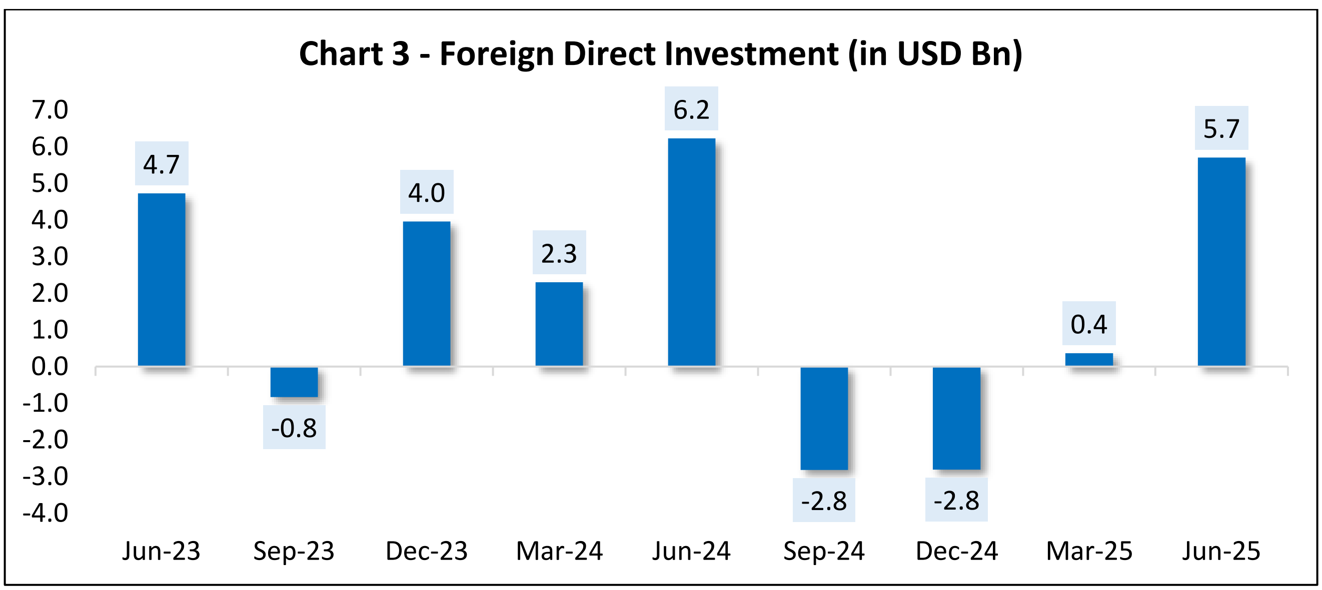
- In Q1FY26, India's current account balance recorded a deficit of US$ 2.4 billion, which is 0.2% of GDP. This is a significant improvement compared to the deficit of US$ 8.6 billion (0.9% of GDP) in Q1FY25. However, it contrasts with the surplus of US$ 13.5 billion (1.3% of GDP) recorded in Q4FY25.
- The current account deficit represents the gap between the value of a country's exports and imports of goods and services. It serves as a crucial indicator of the country's external sector.
- The deficit was driven by a higher merchandise trade deficit (Refer Chart 2), which stood at US$ 68.5 billion in Q1FY26, higher than US$ 63.8 billion in the corresponding quarter of the last fiscal year.



- Net services receipts increased to US$ 47.9 billion in Q1FY26 from US$ 39.7 billion a year ago. Services exports have risen on a year-on-year basis in major areas such as business services and computer services.
- Net outgo on the primary income account, primarily reflecting payments of investment income, increased to US$ 12.8 billion in Q1FY26 from US$ 10.9 billion in Q1FY25.
- Personal transfer receipts, mainly representing remittances by Indians employed overseas, rose to US$ 33.2 billion in Q1FY26 from US$ 28.6 billion in Q1FY25.

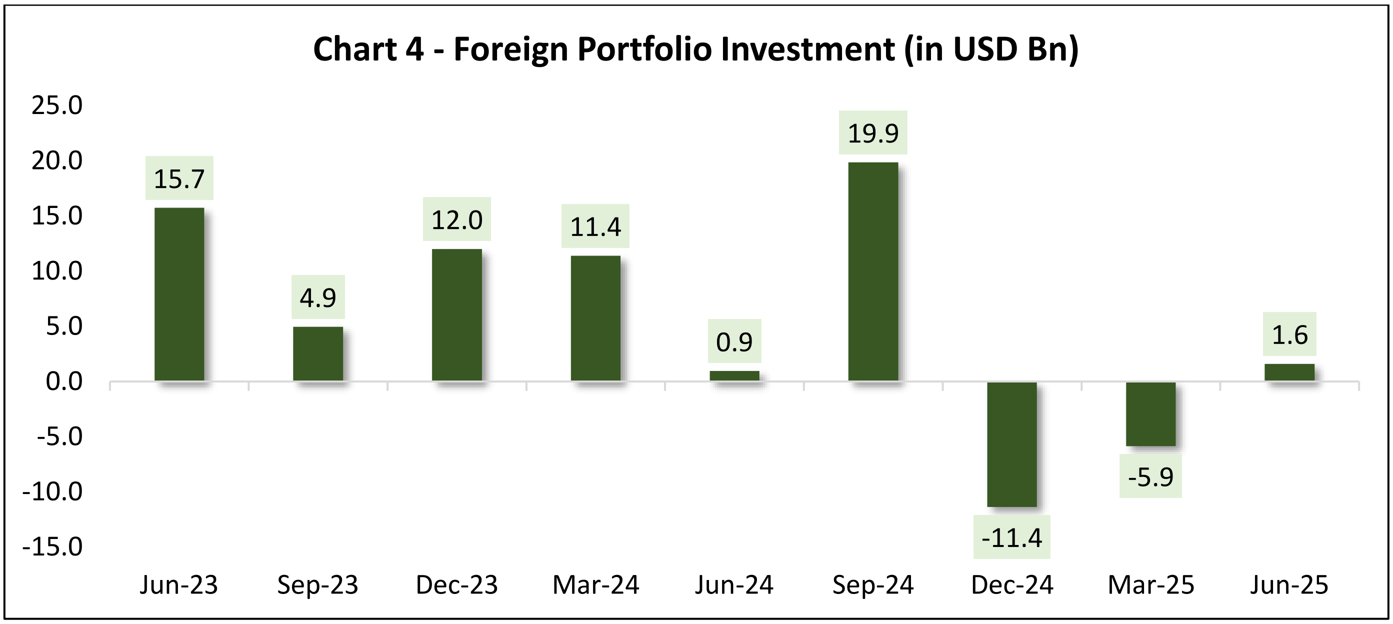


- In the financial account, foreign direct investment (FDI) recorded a net inflow of US$ 5.7 billion in Q1FY26 as compared to a net inflow of US$ 6.2 billion a year ago (Refer Chart 3).



- Foreign portfolio investment (FPI) recorded a net inflow of US$ 1.6 billion in Q1FY26 as compared to a net inflow of US$ 0.9 billion in Q1FY25 (Refer Chart 4).

- Net inflows under external commercial borrowings (ECBs) to India amounted to US$ 3.7 billion in Q1FY26, as compared to US$ 1.6 billion in the corresponding period a year ago.
- Non-resident deposits (NRI deposits) recorded a lower net inflow of US$ 3.6 billion in Q1FY26 than US$ 4.0 billion in Q1FY25.
- There was an accretion of US$ 4.5 billion to the foreign exchange reserves (on a BoP basis) in Q1FY26 as compared to an accretion of US$ 5.2 billion in Q1FY25.



❖ Views:

1. India's external sector showed resilience in Q1 FY26, with the current account deficit narrowing to 0.2% of GDP, supported by robust services exports and record-high remittance inflows. Going forward, the strength in services exports, which are relatively insulated from tariff measures, will continue to act as a buffer against a large merchandise trade deficit, which remains elevated on account of firm non-oil, non-gold imports.

2. Remittances remain a strong anchor for the current account, with the World Bank projecting India's inward remittances to exceed USD 125 billion in 2025, retaining its position as the largest recipient globally. This steady flow will help offset income outflows on account of investment earnings.

3. On the capital account, FPI inflows turned positive in Q1 FY26, reflecting renewed investor interest amid expectations of policy easing by major central banks. RBI's Monetary Policy Report also highlighted that India's CAD is expected to stay below 2% of GDP in FY26, a level considered sustainable given adequate forex reserve cover (USD 650+ billion).

4. However, global uncertainties remain key risks—sluggish world trade growth (WTO projects only 2.6% growth in 2025) and persistent geopolitical tensions could weigh on export performance. Moreover, any sharp rise in crude oil prices above the current baseline of USD 70–75 per barrel may widen the trade deficit and exert pressure on the CAD.

5. Going forward, the recent US tariff hikes are expected to dampen global trade flows, which may soften India's export momentum and add pressure to current account deficit further.

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