CAD slips into deficit in Q1 FY26 from surplus in Q4 FY25

Our Bureau
Mumbai

India's current account deficit (CAD) slipped in the first quarter (Q1 FY26) from a surplus recorded in the preceding quarter (Q4 FY25). However, it narrowed in the reporting quarter as against the year-ago quarter.

CAD is a measure of a country's trade where the value of goods and services it imports exceeds the value of the products it exports.

FPI INFLOWS DRAG CAD

The current account balance in Q1 recorded a deficit of 0.2 per cent of GDP (surplus of 1.3 per cent of the GDP in Q4 of FY25.

CAD narrowed in the reporting quarter, against 0.9 per cent in the year ago period, primarily due to a rise in net services receipts, remittances, and inflows on account of foreign portfolio investment (FPI) and external commercial borrowings (ECBs).

In absolute terms, the CAD was at $2.4 billion ($8.6 billion). The country had recorded a current account surplus of $13.5 billion in Q4 FY25. Aditi Nayar, Chief Economist, ICRA, said, "While India's current account expectedly reverted to a deficit in Q1, the extent of the same was considerably lower than our projection ($7 billion) — at just $2.4 billion or 0.2 per cent of GDP."

Nayar noted that the surprise was largely driven by

larger-than-anticipated remittances, which surged by 18 per cent on a y-o-y basis in the quarter.

"This augurs well, given the uncertainty that lies ahead given the recent tariff-related developments. Considering that 50-60 per cent of India's exports to the US (total merchandise exports to the US in FY25: $87 billion) are at risk, the downside is likely to be material in case the 50 per cent tariff rate is continued until the end of FY26," Nayar said.

Given this, India's exports to the US are likely to contract during the remainder of the fiscal. ICRA expects India's overall merchandise exports to decline somewhat in FY26 from the levels seen in FY25, and for the current account deficit to exceed 1 per cent of GDP, while remaining at moderate levels.

Merchandise trade deficit rose to $68.5 billion ($56.7 billion). Net services receipts increased to $47.9 billion in Q1 from $39.7 billion a year ago. Services exports have risen on a y-o-y basis across major categories such as business services and computer services, RBI said in a statement.

Personal transfer receipts, mainly representing remittances by Indians employed overseas, rose to $33.2 billion in Q1 FY26 from ($28.6 billion) in Q1FY25.

Net outgo on the primary income account increased to $12.8 billion in Q1 FY26 ($10.9 billion.

Net foreign direct investment (FDI) inflows recorded $5.7 billion in Q1 ($6.2 billion). Net inflows under FPI were higher at $1.6 billion against $0.9 billion.

NRI DEPOSITS

Net inflows under ECBs to India amounted to $3.7 billion in Q1 FY26 ($1.6 billion). NRI deposits recorded lower inflows of $3.6 billion against $4.0 billion a year ago.