# Current account back in deficit, 0.2% in Q1

## • Current quarter may see higher CAD, weaker capital account

FE BUREAU
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**INDIA'S CURRENT ACCOUNT** balance recorded a deficit of $2.4 billion or 0.2% of the gross domestic product (GDP) in Q1FY26 as compared with a deficit of $8.6 billion (0.9%) in the year-ago quarter and a surplus of $13.5 billion (1.3%) in Q4FY25, the RBI said on Monday.

Despite the rather benign CAD, on a balance of payments basis, just $4.5 billion accrued to the foreign exchange reserves in the April-June quarter of the current financial year, as capital inflows remained subdued. Q1FY25 saw accretion of $5.2 billion to reserves, while the same in Q4 FY25 was $8.8 billion.

Merchandise trade deficit at $68.5 billion in Q1 was higher than $63.8 billion in the corresponding period a year ago. In the current quarter (July-September), the trade gap could be higher – in July, it stood at $27.35 billion, much higher than $18.7 billion in June.

The reserves accretion could be weaker or even negative in the current quarter, due to a combination of higher CAD and weaker capital inflows.

Foreign portfolio investors pulled out nearly $4 billion from Indian equities in August alone, the sharpest sell-off in six months. Punitive tariff on Indian goods by the US and the falling rupee have apparently influenced the sell-off. With exports likely to be affected by the US tariff, the trade deficit could remain elevated.

According to a statement by the Reserve Bank of India, net services receipts increased to $47.9 billion in Q1 this fiscal from $39.7 billion a year ago. Services exports have risen on a y-o-y basis in major categories such as business services and computer services.

Net outgo on the primary income account, primarily reflecting payments of investment income, increased to $12.8 billion in Q1 from $10.9 billion a year ago. Personal transfer receipts, mainly representing remittances by Indians employed overseas, rose to $33.2 billion in Q1 from $28.6 billion a year ago. In the financial account, foreign direct investment (FDI) recorded a net inflow of $5.7 billion in Q1 as compared to a net inflow of $ 6.2 billion a year ago.

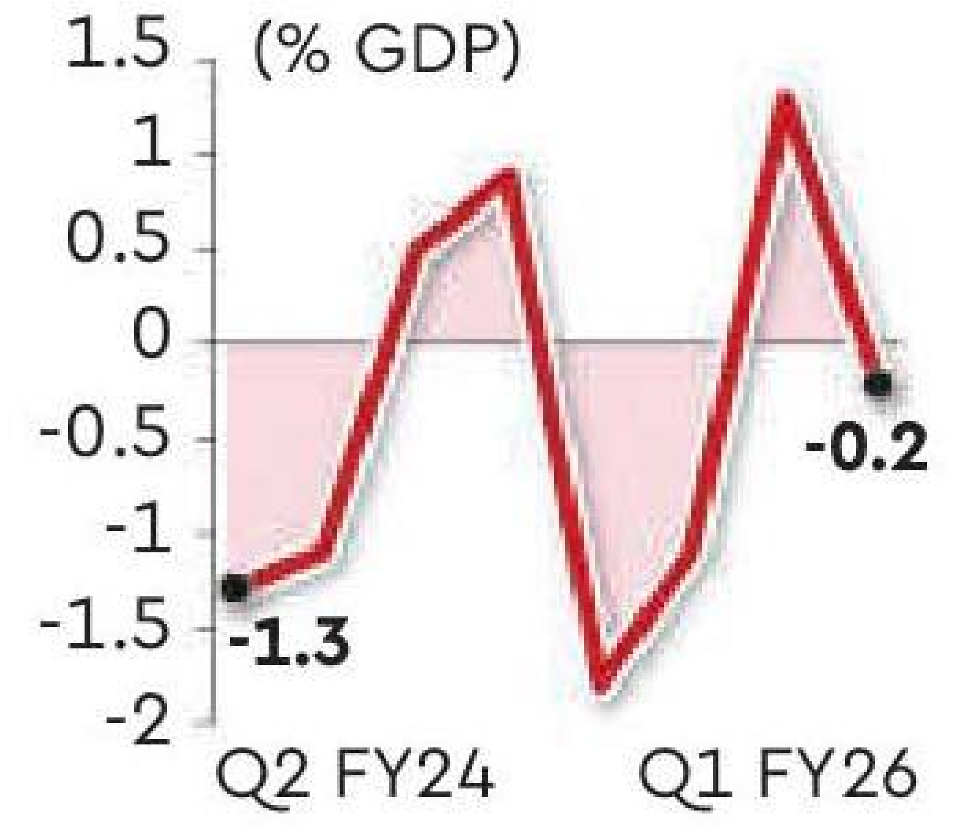
Foreign portfolio investment (FPI) recorded a net inflow of $1.6 billion in Q1 as compared to a net inflow of $0.9 billion in Q1FY25.

Net inflows under external commercial borrowings (ECBs) to India amounted to $3.7 billion in Q1 as compared to $1.6 billion in the corresponding period a year ago. Non-resident deposits recorded a lower net inflow of $ 3.6 billion in Q1 compared with $4 billion a year ago.

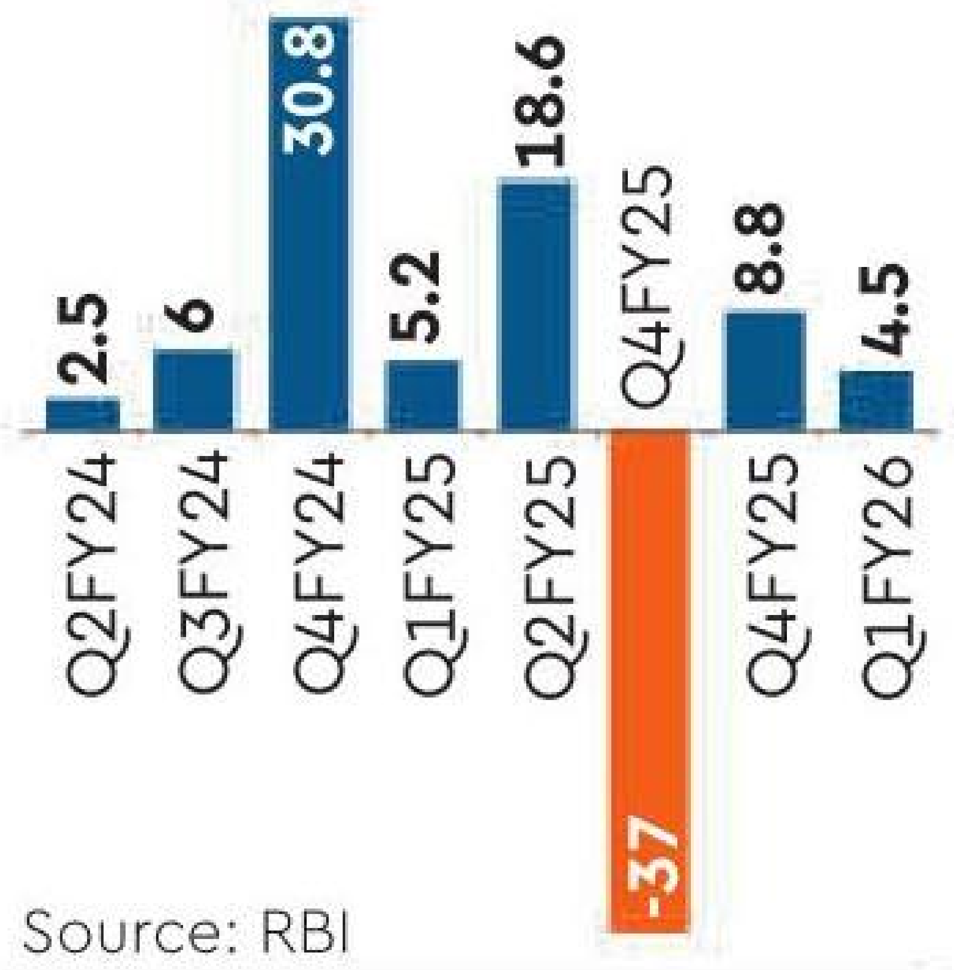
"While India's current account expectedly reverted to a deficit in Q1 FY2026, the extent of the same was considerably lower than our projection (~$7 billion). The surprise was largely driven by larger-than-anticipated remittances, which surged by ~18% on a YoY basis in the quarter. This augurs well, given the uncertainty that lies ahead, given the recent tariff-related developments," wrote Aditi Nayar, chief economist at Icra.

## CAD TRENDS

Current Account Balance




Accretion to forex reserves ($/billion)




Source: RBI