Current account deficit narrowed to 0.2% of GDP in Q1

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India's current account deficit declined to $2.4 billion, or 0.2 per cent of gross domestic product (GDP), in the April-June quarter (Q1) of 2025-26 (FY26) from $8.6 billion or 0.9 per cent of GDP in Q1FY25, according to data released by the Reserve Bank of India (RBI) on Monday.

The current account had clocked a surplus of $13.5 billion (1.3 per cent of GDP) in the January-March quarter (Q4) of FY25.

According to RBI data, the year-on-year (Y-o-Y) decline in CAD was driven by a higher services trade surplus, which rose to $47.9 billion in Q1FY26 from $39.7 billion a year ago. Services exports grew across major categories, including computer and business services. However, the merchandise trade deficit widened to $68.5 billion from $63.8 billion in the same period.

THE EXTERNAL BALANCE

Current account balance trajectory (in $ billion)

	Q1FY25	Q1FY26
Merchandise trade balance	63.8*	68.5*
Services trade balance	39.7	47.9
Current account balance	8.6*	2.4*
Accretion to foreign exchange reserves	5.2	4.5

*Deficit

Source: RBI

Aditi Nayar, chief economist at rating agency ICRA, said: "While India's current account expectedly reverted to a deficit in Q1FY26, the extent was considerably lower than our projection ($7 billion), at just $2.4 billion, or 0.2 per cent of GDP."

The upside came from stronger-than-anticipated remittances, which jumped by about 18 per cent Y-o-Y in the quarter. "This augurs well, given the uncertainty ahead amid recent tariff-related developments," Nayar added.

Private transfer receipts, mainly representing remittances by Indians working overseas, rose to $33.2 billion in Q1FY26 from $28.6 billion in Q1FY25, RBI data showed. The net outgo on the income account, largely reflecting investment payments, increased to $12.8 billion in Q1FY26 from $10.9 billion in Q1FY25.

CURRENT ACCOUNT BALANCE SLIPPED INTO DEFICIT OF $2.4 BN FROM $8.6 BN IN Q1FY25; STRONG INFLOWS FROM OVERSEAS INDIANS CUSHIONED WIDER TRADE GAP

On the financial account, foreign direct investment recorded a net inflow of $5.7 billion in Q1FY26, compared to $6.2 billion a year earlier. Net foreign portfolio investment inflows were higher at $1.6 billion, up from $900 million in Q1FY25.

Net external commercial borrowings into India rose to $3.7 billion in Q1FY26, against $1.6 billion a year ago.

In terms of the balance of payments, reserves grew by $4.5 billion in Q1FY26, compared to an accretion of $5.2 billion in the same period last year, the central bank said.

Looking ahead, high tariff levels may weigh on India's exports to the US. "In this scenario, we expect overall merchandise exports to decline somewhat in FY26 from FY25 levels, and for CAD to exceed 1 per cent of GDP, while remaining moderate," ICRA said.