

FY27 CAD may widen amid West Asia headwinds

Economists broadly agree that this financial year is shaping up to be tougher than the last for the external account

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India's current account deficit (CAD) could widen markedly in financial year 2027 (FY27) as the West Asia conflict lifts crude prices, squeezes remittances and weakens export growth, economists said. Some warned that the bigger risk may lie on the capital account side. Estimates for the CAD range from 1.5 per cent to as high as 2.4 per cent of gross domestic product (GDP).

Crisil on Monday projected the current account deficit at 2.2 per cent of GDP in FY27, up from 0.8 per cent in FY26, and revised its Brent crude forecast to \$90-95 a barrel from \$82-87 earlier, warning that higher oil, gas and fertiliser prices put further pressure on the import bill.

"With a prolonged conflict and resulting disruption to oil and gas production and other economic activities in West Asia, the economic growth of the region will get hampered. Hence, remittances coming to India from West Asia could also get impacted," said their latest India outlook report.

Earlier this month, Chief Economic Adviser V Anantha Nageswaran reckoned that the conflict poses a multi-channel macroeconomic challenge for India that could potentially widen the current account deficit (CAD) to over 2 per cent of GDP in FY27, from less than 1 per cent in FY26, describing the situation as one marked by a "low simmer or high flame" standoff.

For now, economists broadly agree that FY27 is shaping up to be a tougher year for the external account than FY26. The exact CAD number will depend on crude's trajectory and the duration of the West Asia conflict.

Madan Sabnavis, chief economist at Bank of Baroda, said that the current account deficit could be in the 1.5-2 per cent range in FY27, driven by a wider trade deficit and lower remittances from the Gulf. "But we are seeing some support coming from exporters of services in the form of IT (information technology)," he added.

Sabnavis said India could do little to offset such exogenous flows in the short term, adding that the bigger pressure point is the capital account rather than the current account alone. "I think there's very little that can be done in order to bring back FPIs in this kind of an environment," he noted.

Indranil Pan, chief economist at YES Bank, echoed this, saying the current debate is focusing too much on the current account deficit when the more meaningful risk lies on the capital account side. "The bigger concern today is that despite India continuing to receive sizeable gross foreign direct investment inflows, net inflows remain extremely weak because of significant repatriation," he said. Policy responses should be directed more towards improving capital inflows, rather than trying to suppress current

account pressures through consumption restraints, he added.

Emkay Global Financial Services has a somewhat milder but still worrying view, pegging FY27 CAD/GDP at 1.7 per cent at an average Brent price of \$80 a barrel, compared with 1.3 per cent earlier when Brent was assumed at \$70. It said every \$10-a-barrel rise in Brent could widen the deficit by 0.45 percentage points.

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"Considering the adverse shock to crude, which is likely to range between 100 to 110 even if the ceasefire ends, and a 10 per cent fall in merchandise exports with remittances assumed to remain unaffected, CAD is expected to widen to 1.8 to 1.9 per cent in FY27," said Madhavan G Kutty, chief economist at Canara Bank.

Prime Minister Narendra Modi's remarks on Sunday added another layer to the debate, as he urged households to defer non-essential gold purchases for a year in national interest, amid global uncertainty.

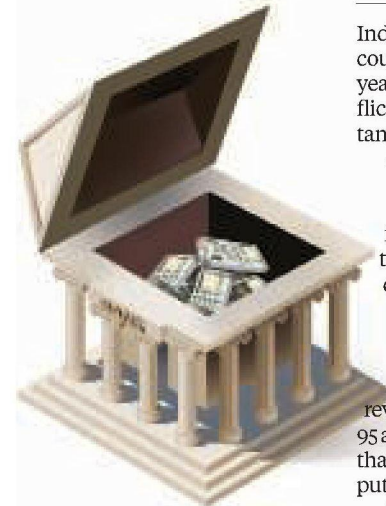
On Monday, the Global Trade Research Initiative (GTRI) backed the Prime Minister's appeal as rising bullion imports are hurting India's foreign exchange reserves and trade balance. The think tank has urged the government to simultaneously review tariff concessions on precious metals offered under the India-UAE trade deal, noting that India's gold imports surged from \$36.5 billion in 2022 to \$58.9 billion in 2025.

Consequently, the think tank has recommended tighter origin rules and the exclusion of precious metals from future trade agreements to safeguard India's trade balance.

Aditi Nayar, chief economist at Icra, said the CAD could widen to 1.7 per cent of GDP in FY27 in a baseline scenario where crude averages \$85 a barrel. "Measures to moderate demand for fuels while prices are elevated, would certainly help to contain the increase in the CAD. With a feared EL Nino, rural demand for gold may anyway be muted this year," she added.

Gaura Sen Gupta, chief economist at IDFC First Bank, noted that CAD could widen to around 2.4 per cent of GDP in FY27 if crude averages about \$90 a barrel, up from roughly 0.9 per cent in FY26. India's foreign exchange reserves "remain adequate at present", she said. Import cover is still comfortable, but "the cushion has undeniably narrowed," making the external sector more vulnerable than it was a year ago, she added.

In a press note, Nomura said PM Modi's remarks indicate that the government may increasingly look to households to share the burden of adjustment as elevated crude oil prices and geopolitical tensions strain India's fiscal balance. The brokerage added that the appeals could also signal that policymakers have limited appetite for further depreciation in the Indian rupee, with the adjustment burden now likely to be incrementally shifted towards consumers.



Estimate card

Agency	FY27 CAD estimate (% of GDP)
Bank of Baroda	1.5-2.0
Crisil	2.20
Emkay Global	1.70
Canara Bank	1.8-1.9
Icra	1.70
Yes Bank	1.80
IDFC First Bank	2.40

Source: BS Research