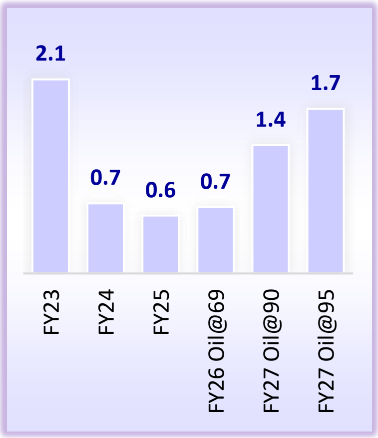
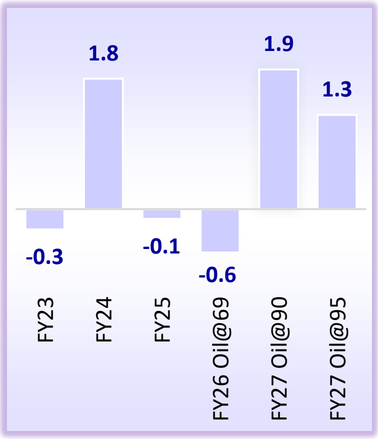
Economy | Macro-Cap

FY27 BoP outlook improves further

Current account deficit (% of GDP)



Overall BoP (% of GDP)



- **BoP overview:** The sharp pickup in capital inflows due to the RBI's FCNR(B) scheme has sharply improved the Balance of Payments (BoP) outlook, despite the oil prices continuing to trade above USD90pb over the last two weeks. The BoP balance has improved to USD79b (1.9% of GDP) vs. prior expectations of USD45b (1.1% of GDP).
- **Capital account:** The FCNR(B) scheme, which opened on 8th Jun'26, garnered USD127b, while ECBs and OFCBs garnered USD3.89b and USD5.26b, respectively, as of 31st Aug'26. This has substantially improved India's external sector outlook. Net FDI inflows in 1QFY27 stood at USD6.1b vs. the FY26 print of USD6.7b. With an assumption of a modest dip in net foreign portfolio inflows for FY27, overall capital account is likely to post a surplus of USD135b (3.3% of GDP) in FY27 vs. our earlier expectation of USD45b (1.1% of GDP) and (-)USD24b (-0.6% of GDP) in FY26.
- **Current account:** The surprise is also evident in the current account, with merchandise goods exports, both oil and non-oil, holding up strongly despite geopolitical uncertainties. Diversification of export markets and broadening of product groups are supportive of this improvement. The net services surplus and remittances also continue to remain strong despite the Middle East concerns. The only key monitorable remains oil prices. Global Brent prices in 1HFY27 have averaged USD96pb. We assume USD85pb for H2FY27. Our CAD/GDP estimate improves to 1.4% (-USD56b) with oil prices at USD90pb as against our earlier forecast of 1.5% (-USD60b) with oil prices at USD85pb.
- **If oil prices continue to trade above USD90pb for a major part of 2HFY27**, our CAD/GDP estimate would moderate to 1.7% (-USD71b), primarily on account of a higher oil import bill. Capital inflows would also moderate due to much lower net foreign portfolio inflows. This would result in a capital account balance of USD125b (3.1% of GDP) and consequently, a BoP balance of USD54b or 1.3% of GDP. The estimates, nevertheless, suggest that even with the shock from higher oil prices, capital and BoP balances remain better than in FY26. Capital account balance was a meagre USD6b, while the BoP balance was (-) USD24b in FY26. The key shock absorber this year has been the policy-led FCNR (B) inflows. The current account balance has worsened from the FY26 print of 0.7% of GDP due to higher oil prices, but it remains well within manageable limits.
- **Rupee outlook**: The external environment has turned less favorable in recent sessions, with Brent crude rising ~7% this week to USD95.5/bbl, while the 10-year US Treasury yield has risen to its highest level in nearly three years and the dollar index is approaching 100. Despite these headwinds, the rupee has remained resilient, with the currency trading around INR94.9–95/USD, supported by higher-than-expected FCNR (B) inflows. That said, with oil prices still elevated and a sharp rise in global yields driving risk aversion, the extent of further appreciation is likely to remain capped, and any gains could prove short-lived. We retain our FY27 USDINR forecast at 95.

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1QFY27 CAD remain within comfortable limits

- **India's current account remained comfortable in 1QFY27,** despite the widening merchandise trade deficit. The current account deficit stood at USD4.2b (0.5% of GDP) in 1QFY27, compared with a USD7.1b surplus (+0.6% of GDP) in 4QFY26 and a USD3.4b deficit (0.4% of GDP) in 1QFY26. The sequential deterioration was largely driven by the wider merchandise deficit, while resilient services exports and remittance inflows provided some cushion. The core current account balance (4% of GDP), ex. oil and gold, continued to remain in surplus in 1QFY27.
- **Merchandise trade deficit widened sharply:** The merchandise trade deficit increased to USD86.1b in 1QFY27 (9.9% of GDP) from USD83.4b (9.9% of GDP) in 4QFY26 and USD68.9b (8.2% of GDP) in 1QFY26, making goods trade the biggest source of pressure on the current account. Merchandise exports stood at USD132.0b in 1QFY27, while imports rose to USD218.0b. The deterioration was partly driven by petroleum trade, with the POL deficit increasing to USD37.6b in 1QFY27 from USD32.2b in 1QFY26.
- **Services surplus remains a key structural cushion:** The services account continued to provide a substantial offset to the merchandise deficit in 1QFY27. Net services receipts stood at USD51.6b in 1QFY27 (5.5% of GDP), compared with USD60.4b in 4QFY26 (5.8% of GDP) and USD47.9b (5.1% of GDP) in 1QFY26. While receipts moderated sequentially from the March quarter, they remained significantly higher than a year ago. Services exports were supported by computer services, other business services, and transportation services.
- **Remittances remain a strong external-sector buffer:** Personal transfer receipts remained robust at USD42.9b in 1QFY27, compared with USD43.5b in 4QFY26 and USD33.2b in 1QFY26. Although remittances moderated marginally on a sequential basis, they remained substantially higher than a year ago levels and continued to provide a strong cushion to the current account.
- **FDI improved, but FPI remained a drag:** The financial account remained mixed in 1QFY27, with stronger FDI partly offset by continued portfolio outflows. Net FDI inflows increased to USD6.1b in 1QFY27 from USD4.2b in 4QFY26 and USD5.2b in 1QFY26. However, FPI recorded a net outflow of USD9.6b in 1QFY27, albeit lower than the USD12.0b outflow in 4QFY26, compared with an inflow of USD1.6b in 1QFY26.
- **Overall BoP moved into deficit:** India's overall BoP recorded a USD8.1b (0.9% of GDP) deficit in 1QFY27, compared with a USD7.2b surplus in 4QFY26 and a USD4.5b surplus in 1QFY26 (+0.5% of GDP). The move into deficit reflected the combination of the current account deficit and weaker net capital flows, particularly FPI outflows.

Exhibit 1: India's CAD stood at 0.5% of GDP in 1QFY27

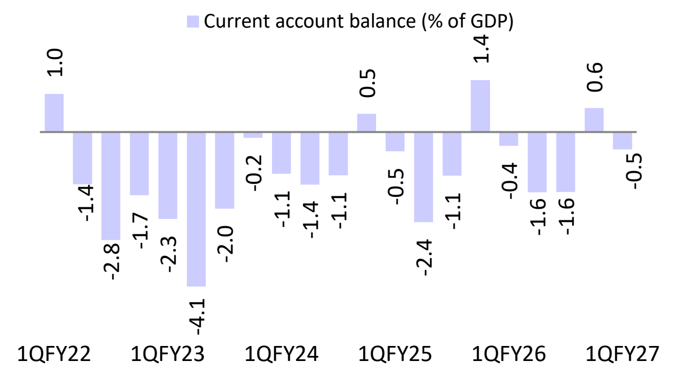
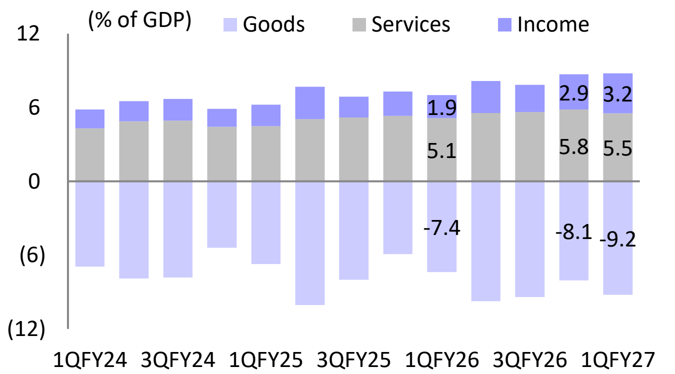


Exhibit 2: Net invisible receipts remained strong



Source: RBI, CEIC, MOFSL

Exhibit 3: Goods import growth outpaced exports growth in 1QFY27

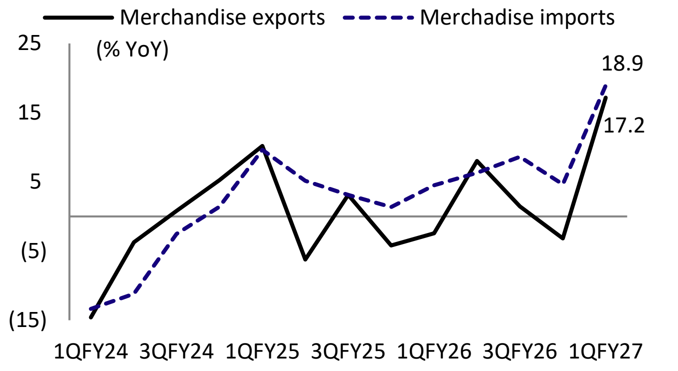
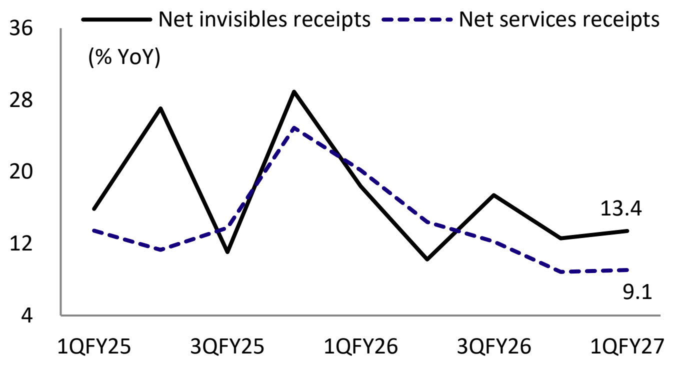


Exhibit 4: Net invisible receipts grew 13.4% in 1QFY27



Source: RBI, CEIC, MOFSL

Exhibit 5: CAS, excluding gold and petroleum products, remained strong at 4% of GDP

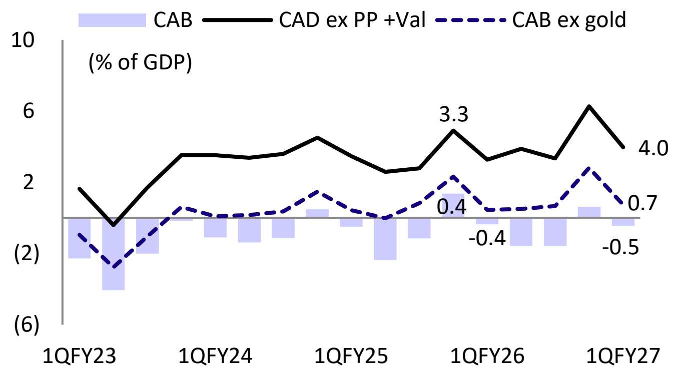
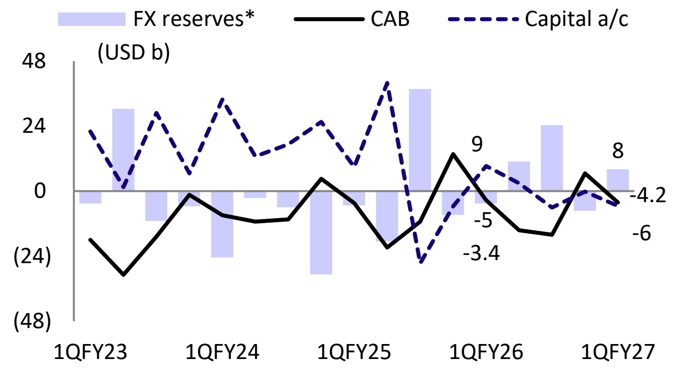


Exhibit 6: Capital account flows weakened



*(-) implies accretion to reserves, (+) implies withdrawal (reduction)

Note: PP implies petroleum products, Val implies valuables; Source: RBI, CEIC, MOFSL

Exhibit 7: Net FDI stood at USD6.1b in 1QFY27

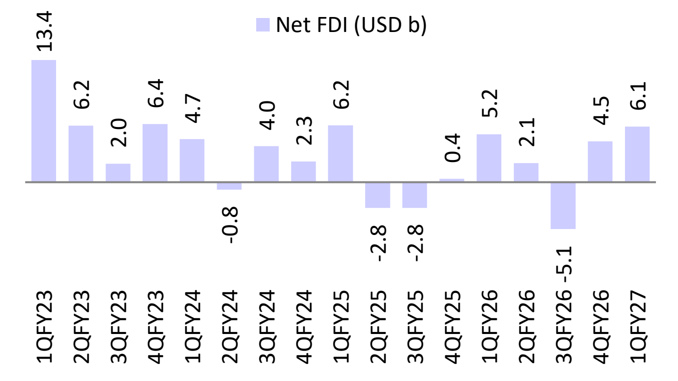
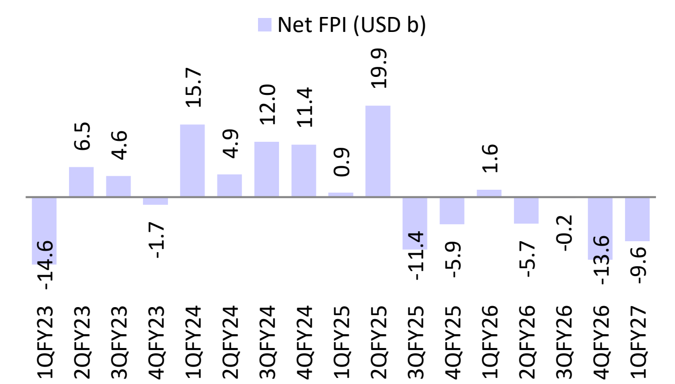


Exhibit 8: FPI outflows stood at USD9.6b in 1QFY27



Source: RBI, CEIC, MOFSL

Detailed highlights

CAD shifts from surplus to deficit as trade pressures intensify

India's external position weakened sequentially in 1QFY27, with the current account moving into a USD4.2b deficit (0.5% of GDP) in 1QFY27, compared with a USD7.1b surplus (0.7% of GDP) in 4QFY26. The deterioration was primarily driven by the higher merchandise trade deficit, although stronger service receipts and remittances continued to provide a substantial cushion.

Merchandise deficit remains the biggest source of pressure

The merchandise trade deficit widened to USD86.1b in 1QFY27 from USD83.4b in 4QFY26, and was substantially higher than the USD68.9b recorded in 1QFY26. Merchandise exports stood at USD132.0b in 1QFY27, while imports increased sharply to USD218.0b. The deterioration was partly driven by petroleum trade, with the POL deficit rising to USD37.6b in 1QFY27 from USD32.2b in 1QFY26. The sequential increase in the merchandise deficit suggests that goods trade remains the key vulnerability in India's external account, particularly given the elevated and volatile crude prices.

Services surplus remains a strong structural buffer

The services account continued to provide a significant offset to the merchandise deficit. Net services receipts stood at USD51.6b in 1QFY27, compared with USD60.4b in 4QFY26 and USD47.9b in 1QFY26. The sequential moderation from 4QFY26 reflects the normal quarter-to-quarter movement in services receipts, but the surplus remained substantially higher than a year earlier. Services exports continued to benefit from computer services, other business services, and transportation services. The resilience of the services surplus remains critical in preventing the much larger merchandise deficit from translating into a significantly wider CAD.

Remittances continue to provide substantial external support

Remittance inflows remained strong in 1QFY27, with personal transfer receipts at USD42.9b, compared with USD43.5b in 4QFY26 and USD33.2b in 1QFY26. Although remittances moderated marginally on a sequential basis from the March quarter, they remained significantly higher than year-ago levels. The continued strength of remittances provides an important structural cushion against the merchandise trade deficit and, together with the services surplus, remains one of the key reasons why India's CAD remains relatively contained despite elevated import demand.

Primary income outgo remains contained

The primary income deficit stood at USD10.5b in 1QFY27, compared with USD11.1b in 4QFY26 and USD13.3b in 1QFY26. The moderation in primary income outflows provides another offset to the merchandise deficit. Importantly, the lower primary income outgo in 1QFY27, compared with both the preceding quarter and year-ago quarter, helped limit deterioration in the overall current account. The combination of stronger remittances, resilient services receipts, and lower primary income outgo continues to provide a meaningful buffer against goods trade pressures.

FDI remains supportive, but FPI outflows remain a concern

The financial account remained mixed. Net FDI inflows stood at USD6.1b in 1QFY27, higher than USD4.2b in 4QFY26 and USD5.2b in 1QFY26, indicating continued support from longer-term foreign investment. However, portfolio flows remained a significant drag, with FPI recording a net outflow of USD9.6b in 1QFY27, compared with a much larger USD12.0b outflow in 4QFY26 and an inflow of USD1.6b in 1QFY26. The sequential improvement in FPI flows is encouraging, but the continued net outflow highlights the sensitivity of India's external financing conditions to global risk appetite and financial market volatility.

Other capital flows remain positive

Other financing channels continued to provide support to the balance of payments. NRI deposit inflows stood at USD2.8b in 1QFY27, compared with USD3.3b in 4QFY26 and USD3.6b in 1QFY26. Similarly, net ECB inflows were USD3.3b in 1QFY27, compared with USD3.6b in 4QFY26 and USD4.4b in 1QFY26. While these flows remained positive, their moderation alongside continued FPI outflows meant that the financing side of the BoP remained less supportive than the current account buffers.

Forex reserves decline as BoP financing weakens

Foreign-exchange reserves declined by USD8.1b on a BoP basis in 1QFY27, compared with an accretion of USD4.5b in 1QFY26. The reserve movement reflects the combined impact of the current account deficit and the composition of financial flows during the quarter. While the depletion does not suggest external-sector stress given the relatively modest CAD, it highlights the importance of monitoring portfolio flows and the merchandise deficit. The RBI has also noted that India's reserves remain adequate, with import cover of more than 10 months.

External position remains manageable, but crude is the key risk

Overall, India's external position remains manageable but increasingly sensitive to the merchandise trade balance and crude prices. The move from a USD7.1b current account surplus in 4QFY26 to a USD4.2b deficit in 1QFY27 reflects the widening goods deficit, although strong services exports and remittances continue to provide substantial structural support. The key risk is a sustained rise in crude prices, which would increase the import bill and widen the merchandise deficit, while also adding to domestic inflation and potentially putting pressure on the rupee. At the same time, persistent FPI outflows could tighten external financing conditions. Thus, while the CAD remained comfortable at 0.5% of GDP in 1QFY27, the trajectory of crude prices, services exports, and portfolio flows will be critical for the external-sector outlook.

CAD outlook: Improved to 1.4% of GDP, but crude poses upside risk

The external-sector outlook has become more volatile as Brent crude has rebounded sharply over the past month, rising from below USD80/bbl earlier in August to around USD95–97/bbl currently, with a sharp increase over the past two days (7% up in last one week) amid renewed Middle East tensions and concerns around supply disruptions. We increase our FY27 Brent assumption to USD85pb from USD85pb. Despite which we improve our CAD forecast to USD56b (1.4% of GDP) from USD60b (1.5% of GDP). Strong goods, services exports and remittance inflows should continue to cushion the merchandise trade deficit. If the recent crude price spike continues for longer, CAD/GDP could widen to USD71b or 1.7% of GDP, as noted in our oil price scenario of USD95pb.

Capital flows and BoP outlook

We continue to expect a recovery in capital inflows in FY27, supported by resilient FDI, higher debt and ECB inflows, fresh FCNR(B) deposits, and a gradual recovery in portfolio flows. However, given the recent rise in crude prices, higher US Treasury yields, and a stronger dollar, the pace of portfolio inflows could be more volatile than assumed earlier. We expect the capital account surplus to remain sizeable at USD135b (3.3% of GDP) in FY27 compared, compared with USD105b (2.6% of GDP) before the actual FCNR (B) flows.

Against the USD56b (1.4% of GDP) FY27 CAD forecast, capital inflows should provide a comfortable financing cushion, supported by India's improving debt-market access and continued FDI resilience. Accordingly, we increase our expectation of an overall BoP surplus of to USD79b (1.9% of GDP) as against the earlier expectation of USD45b (1.1% of GDP) in FY27.

Rupee outlook: RBI intervention cushions the impact of higher crude and US yields

The external environment has turned less favorable in recent sessions, with Brent crude rising ~7% this week to USD95.5/bbl, while the 10-year US Treasury yield has risen to its highest level in nearly three years and the dollar index is approaching 100. Despite these headwinds, the rupee has remained resilient, with the currency trading around INR94.9-95/USD supported by the higher-than-expected FCNR (B) inflows. That said, with oil prices still elevated and a sharp rise in global yields driving risk aversion, the extent of appreciation is likely to be capped, and any gains could prove short-lived. The RBI has reportedly stepped-up intervention over the past three days, leveraging its sizeable FX buffer to insulate the rupee from the oil shock. The FX reserves at a record USD740b.

Exhibit 9: Annual CAD projections

Annual CAD Balance	FY23	FY24	FY25	FY26 Oil@69	FY27 Oil@90	FY27 Oil@95
Trade Balance	**-265**	**-245**	**-287**	**-337**	**-393**	**-409**
(as % of GDP)	**-8.2**	**-7.0**	**-7.6**	**-8.6**	**-9.6**	**-10.0**
Merchandise Exports	456	441	442	446	486	488
Oil Exports	85	84	62	56	69	71
Non-oil Exports	366	353	376	386	417	417
Merchandise Imports	721	686	729	783	879	897
Oil Imports	203	179	188	174	212	235
Gold Imports	35	46	63	72	78	78
Non-oil-non-gold imports	478	450	401	526	589	584
Invisibles	198	219	264	310	337	337
Services	143	163	189	217	230	230
Transfers	101	106	123	144	161	161
Income	-46	-50	-48	-50	-53	-53
Current Account	**-67**	**-26**	**-23**	**-28**	**-56**	**-71**
(as % of GDP)	**-2.1**	**-0.7**	**-0.6**	**-0.7**	**-1.4**	**-1.7**

Source: CEIC, RBI, MOFSL

Exhibit 10: Annual BoP projections

	Annual BoP (USD b)					
	FY23	**FY24**	**FY25**	**FY26 Oil@69**	**FY27 Oil@90**	**FY27 Oil@95**
FDI	**28.0**	**10.1**	**1.0**	**6.7**	**10.0**	**10.0**
Portfolio	**-5.2**	**44.1**	**-11.4**	**-17.9**	**-5.0**	**-15.0**
Loans	**8.3**	**6.6**	**29.3**	**30.1**	**20.0**	**20.0**
External Assistance	5.5	7.5	6.3	2.6	0.0	0.0
Commercial Borrowings	-3.8	0.0	15.9	13.8	15.0	15.0
Short Term Credit to India	6.5	-0.8	7.2	13.7	5.0	5.0
Banking Capital	**21.0**	**40.5**	**-9.8**	**6.4**	**110.0**	**110.0**
Others	**6.9**	**-11.9**	**-7.4**	**-19.3**	**-20.0**	**-20.0**
Capital Account	**58.9**	**89.5**	**16.6**	**6.0**	**135.0**	**125.0**
(as % of GDP)	**1.8**	**2.5**	**0.4**	**0.2**	**3.3**	**3.1**
Overall BoP	**-9.1**	**63.7**	**-5.0**	**-23.6**	**79.4**	**53.6**
(as % of GDP)	**-0.3**	**1.8**	**-0.1**	**-0.6**	**1.9**	**1.3**

Source: CEIC, RBI, MOFSL

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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