India’s BoP to Record a Surplus in FY27

July 15, 2026 l Economics

The global economic landscape continues to be characterised by uncertainty stemming from the evolving geopolitical dynamics. The US-Iran Memorandum of Understanding (MOU) signed in mid-June brought relief to global markets but was short-lived as recent flare-ups have reignited geopolitical concerns. Brent crude oil prices have declined markedly but remain volatile. Against this backdrop, we evaluate India’s external sector performance and the outlook for FY27.

In FY27 so far, India’s merchandise exports have shown an improving performance. Furthermore, the resilience in services exports and remittances has continued. We are lowering our current account deficit projection for FY27 to 0.8-1.2% of GDP from our previous projection of 2.1%. The lowering of the CAD projection is mainly because of moderation in crude oil prices and resilience in services exports and remittances, coupled with an improvement in merchandise exports. Our revised CAD projection is based on the assumption that crude oil price will average around USD 80-85/bbl in FY27. If global crude oil prices remain lower, the CAD could slip below 1% of GDP. It is worth noting that CAD in FY26 was at 0.6% of GDP, supported by strong growth in services exports and low crude oil prices.

Within the capital account, we expect net FDI to improve from USD 6.9 billion in FY26 to USD 15 billion in FY27, driven by healthy growth in gross FDI inflows and some tapering of growth in repatriation. The recent measures introduced by the government and the RBI to attract foreign capital are expected to aid in FPI and other capital inflows. The concessional swap windows for FCNR(B) deposits, External Commercial Borrowings (ECBs) and Overseas Foreign Currency Borrowings (OFCBs) are collectively likely to generate USD 45-60 billion inflows in FY27. As a result, we expect the capital account surplus to increase from a feeble USD 2 billion in FY26 to approximately USD 73 billion in FY27. Hence, we expect BoP to move to a surplus in FY27 after two consecutive years of deficit.

Merchandise Exports Off to a Strong Start in FY27

India’s merchandise exports grew by 15.9% during Q1 FY27 (Refer to Exhibit 1). Petroleum exports rose by 35.1%, supported by high global crude oil prices amid the West Asia conflict. However, in volume terms, India’s petroleum exports contracted sharply 20% during 2M FY27. This can be attributed to the curbs on petroleum exports to ensure adequate domestic availability amid disruptions in the global energy supply. A favourable development on the trade front has been the encouraging start to FY27 for non-petroleum exports, which logged an encouraging growth of 12.5% during Q1 FY27. This marks an improvement over the 3.6% growth recorded in full-year FY26. We expect this encouraging momentum in merchandise exports to continue going forward. However, the possibility of a higher 12.5% tariff by the US on Indian exports (compared to 10% for many other economies) remains a monitorable. India’s overall imports increased by 19.9% during Q1 FY27, driven not only by a sharp increase in oil imports (23.2%) but also higher gold and core imports. Core imports (non-oil and non-gold/silver imports) grew by 17.5% (y-o-y) while gold imports increased by a strong 46.7% during the same period. However, gold imports have moderated since May following the hike in import duty on gold and silver. Additionally, import of electronic goods (17.8% share in total imports) have shown a notable growth of 43.8% in Q1 FY27.

Exhibit 1: Performance in Merchandise Trade

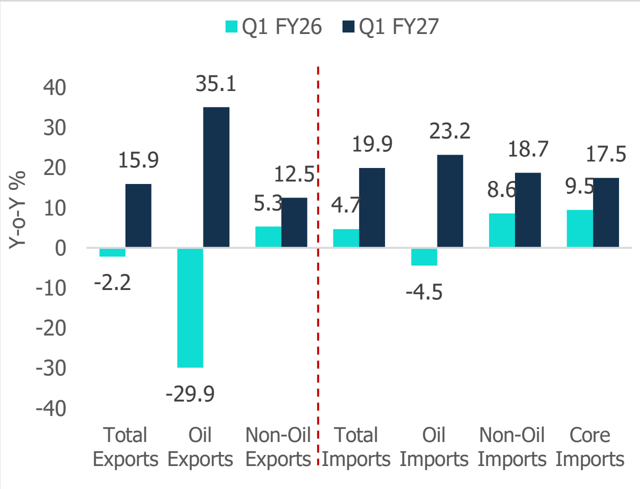
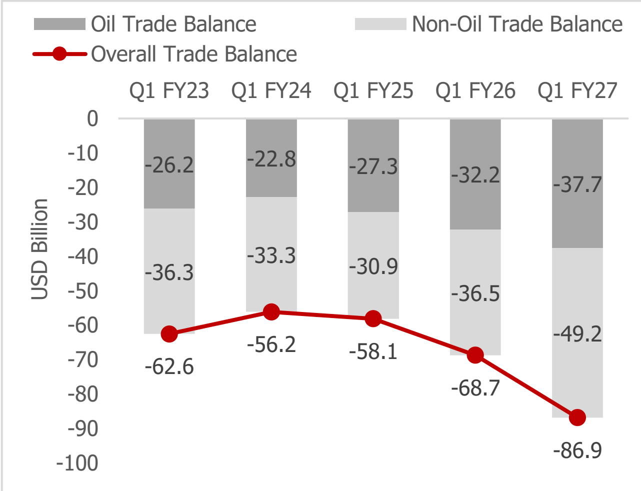


Exhibit 2: Trends in Merchandise Trade Balance



Source: CMIE, CareEdge; Note: Core imports refer to non-oil and non-gold/silver imports

Engineering and Electronic Goods Continue to Gain Share in Non-Petroleum Exports in Last Decade

Electronic and engineering goods have emerged as the key drivers of India's merchandise exports in the last decade. Exports of electronic goods increased by 22.6% (y-o-y) during Q1 FY27 after recording 23.3% growth in full-year FY26. Additionally, exports of engineering goods have continued to show an encouraging trend, rising by 18.2% (y-o-y) during Q1 FY27, following 4.9% growth in FY26. On the downside, labour-intensive segments such ready-made garments (RMG) remained under pressure, contracting by 12.4% in Q1 FY27. RMG exports performed weakly in full-year FY26 amid persistent global economic challenges. Overall, engineering and electronic goods have been the positive contributors to the export growth (Refer to Exhibit 3).

A decadal analysis shows that India's export basket has undergone a notable shift over the past decade, with engineering and electronic sectors gaining prominence. The share of engineering goods in India's total exports has climbed to 26% in FY26 from close to 22% in FY16. An even more noteworthy trend has been the rapid rise in electronics exports, whose share more than quadrupled to 11.4% from just 2.6% a decade back. On the contrary, the share of labour-intensive exports such as textiles & ready-made garments and gems & jewellery has declined over the last decade (Refer to Exhibit 4).

Exhibit 3: Contribution to Export Growth

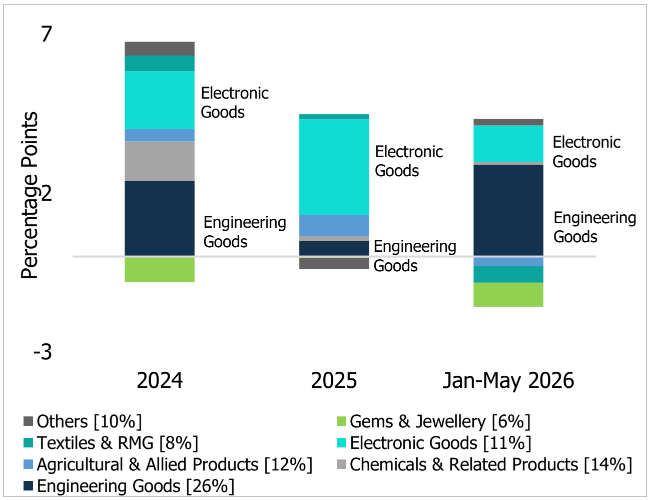
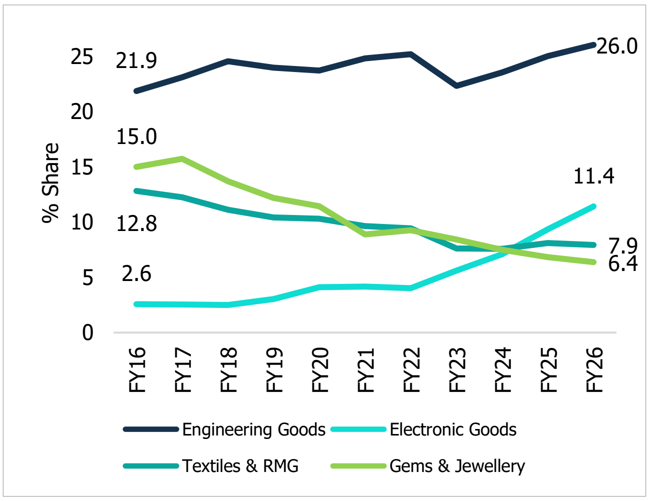


Exhibit 4: Changing Composition of Exports



Source: CMIE, CareEdge; Note: Figures in brackets represent percentage share in total merchandise exports (FY26)

Share of India's Merchandise Exports to Asia and Africa Edges Up in the Recent Quarters

India's merchandise exports have faced persistent headwinds since the beginning of last year, initially due to heightened tariff-related uncertainties and, more recently, owing to the conflict in West Asia. Against this backdrop, we evaluated trends in export shares of key regions and export partners over the recent quarters. Amid elevated tariff uncertainty last year, trade front-loading supported India's exports to the US, with its share in total exports climbing to around 23% in the initial quarters of 2025. Since then, the share of the US in India's exports has normalised to around 18-19% in the recent quarters. The share of exports to Europe has moderated over the last few quarters, declining to 20.1% in 2M FY27, down from 22.3% in Q1 FY26 (Refer to Exhibit 5). This moderation can be attributed to the Netherlands' declining share in our exports (Refer to Exhibit 6).

On the contrary, Africa's share has risen consistently to 12.3% during 2M FY27, up from 9.7% in Q1 FY26. This was aided by the rising share of exports to South Africa and Tanzania. The share of Asia (around 39%) in India's exports, which had been on an upward trajectory until Q3 FY26, moderated slightly thereafter, likely reflecting disruptions arising from the conflict in West Asia (Refer to Exhibit 5). While there has been a notable rise in the share of exports to Singapore, the gains have been somewhat offset by a decline in the share of exports to the UAE.

Exhibit 5: Direction of Merchandise Exports

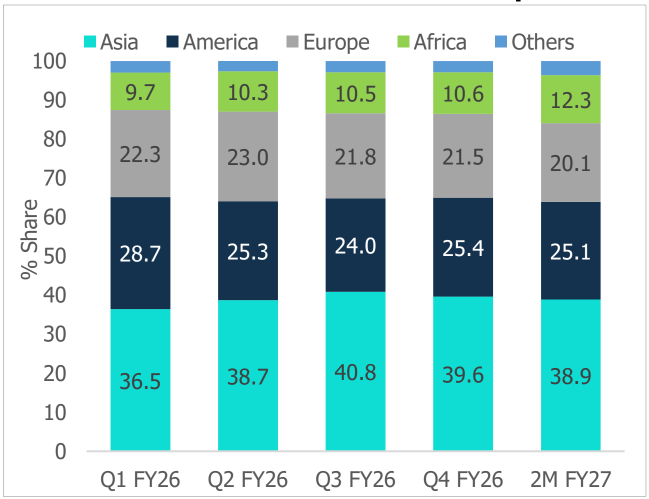
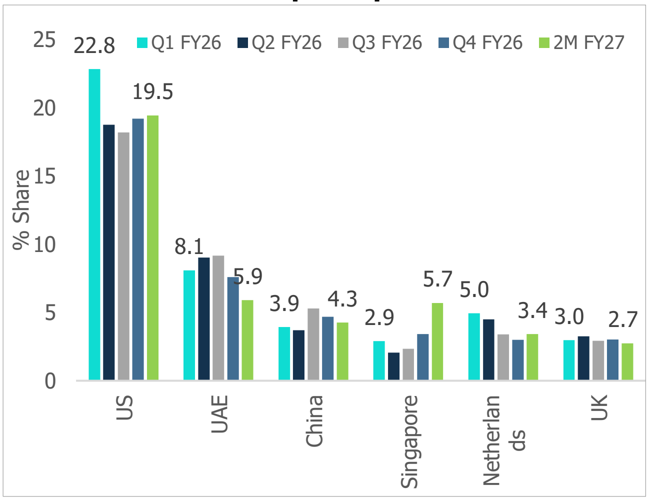


Exhibit 6: Share of Top 6 Export Partners

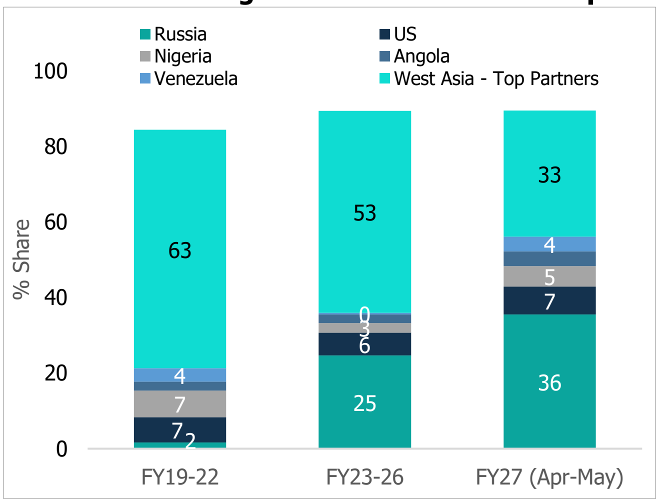


Source: CMIE, CareEdge

India Diversifies Its Crude Oil Imports

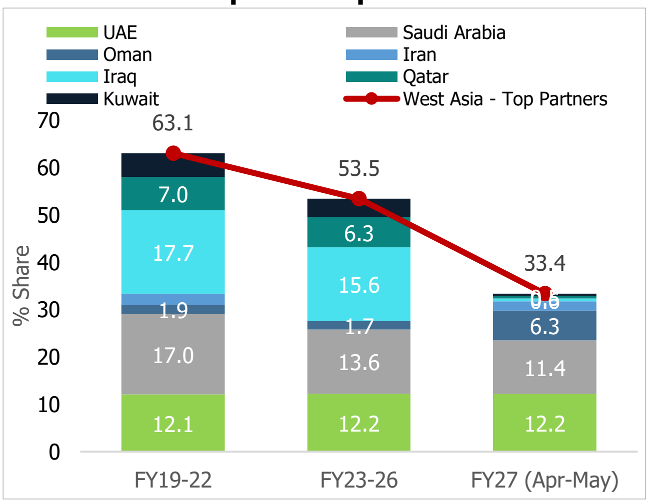
Russia's share in India's total crude and petroleum (POL) imports averaged 25% during FY23-26, notably higher compared to just 2% during FY19-22. However, India had started scaling down oil imports from Russia, with its share dropping to an average of 17.7% of the total POL imports during Jan-Feb 2026. The plans to scale back oil purchases from Russia came amidst the trade talks between India and the US. However, Russia's share of India's total oil imports has again climbed back to 33% in Apr-May FY27, as the US announced a waiver of sanctions on the purchase of Russian oil amid the West Asia conflict. (Refer to Exhibit 7). The share of oil imports from other countries, such as Oman and Venezuela, also increased. As expected, the West Asia conflict impacted oil imports from Iraq, Saudi Arabia, Qatar and Kuwait. The combined share of POL imports from the top West Asian partners dropped to 33.4% in April-May FY27, down from 53.5% in FY23-26.

Exhibit 7: Evolving Trends in India's POL Imports



Source: CMIE, CareEdge

Exhibit 8: POL Imports - Top West Asian Partners



Source: CMIE, CareEdge

Services Exports & Remittances Remain the Bright Spot for India

In the post-pandemic period, India's services exports have performed notably better than merchandise exports. Additionally, inflows from transfers (mainly representing remittances) have also shown a healthy trend (Refer to Exhibit 9). More importantly, the resilience of these components has persisted even in recent periods despite an increasingly challenging global economic environment. Services exports increased by 6.1% during Q1 FY27. This is on the back of a healthy services growth of 8.7% to USD 421 billion in FY26. We expect services exports to rise healthily in FY27. Inflows from transfers grew strongly by 14.5% to USD 155 billion in FY26. Data for April points to a continuation of this encouraging trend into FY27 as well, which will be supportive of India's current account position.

Exhibit 9: Performance in Exports & Transfers

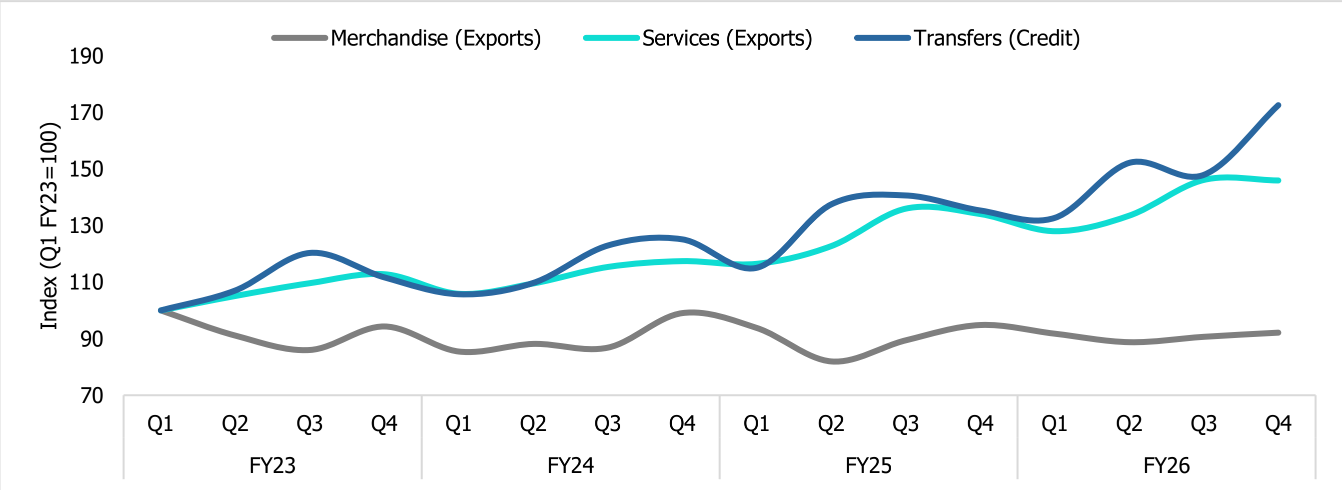
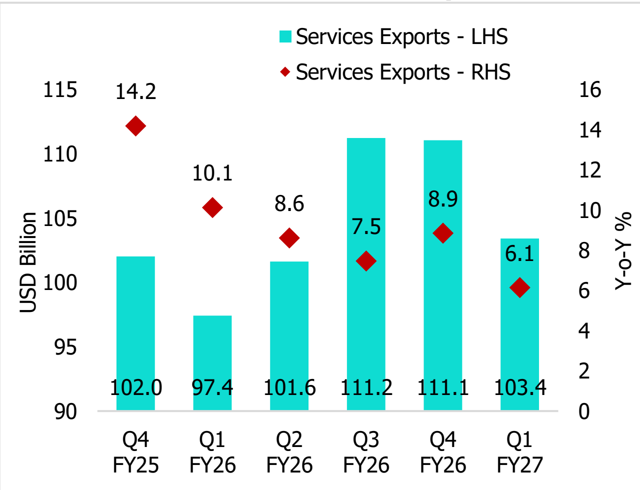
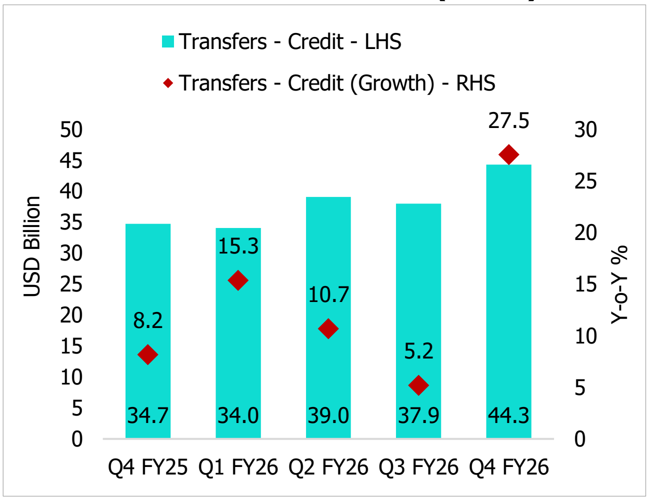


Exhibit 10: Growth in Services Exports



Source: CMIE, CareEdge

Exhibit 11: Growth in Transfers (Credit)



Source: CMIE, CareEdge

CAD Outlook – FY27

The global economic landscape continues to be marked by lingering uncertainties. Although oil prices have moderated from their recent highs, persistent uncertainty surrounding the US-Iran peace negotiations and recurring geopolitical flare-ups continues to add volatility to global oil markets. Reflecting the recent moderation in oil prices, we have revised our expectation of global crude oil prices to average between USD 80–85/bbl in FY27. Another positive development has been the stronger-than-anticipated performance of exports and remittances. India's merchandise exports have gathered momentum in the initial months of FY27, while services exports and remittances have remained resilient, providing continued support to the current account balance. As a result of these dynamics, we have lowered our CAD-to-GDP projection to range between 0.8-1.2% of GDP in FY27 from the

2.1% projected earlier. If global crude oil prices remain lower during the year, the CAD could slip below 1% of GDP.

Net FDI Inflows to Rebound in FY27

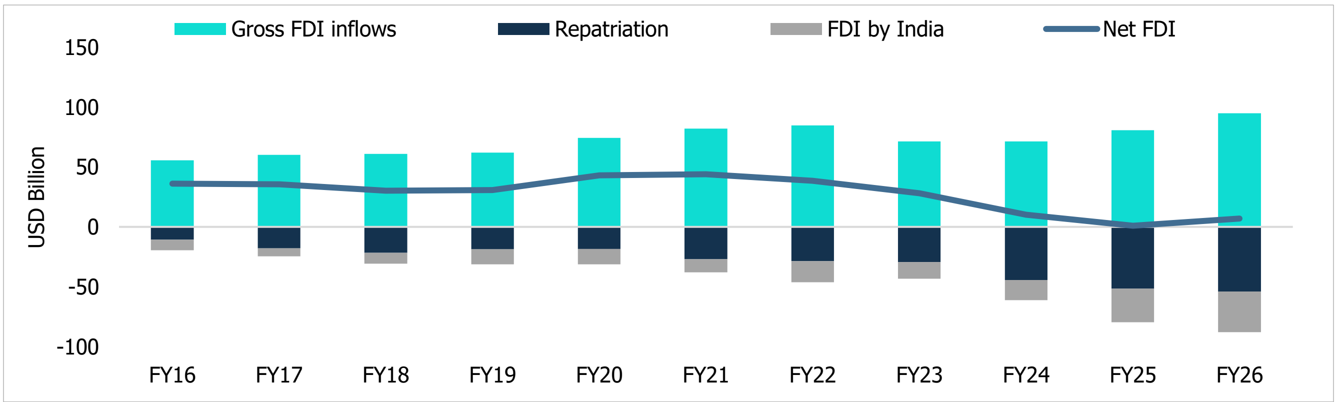
India's capital account ended FY26 on a sombre note with a markedly lower surplus of USD 1.9 billion compared to surpluses of USD 16.6 billion in FY25 and USD 89.5 billion in FY24. As our earlier report, "Global Turbulence Challenges India's BoP Position", noted, net foreign direct investment (FDI) inflows, a bulwark for India's capital account during previous periods of stress, moderated in FY25 and further in FY26 due to a sharp rise in outward FDI and elevated repatriation. Net FDI was muted at USD 1 billion and USD 6.9 billion in FY25 and FY26, respectively, compared to the five-year (FY16 – FY20) average of USD 35.1 billion. Additionally, significant FPI outflows of USD 16.6 billion in FY26, triggered by geopolitical uncertainty, placed further pressure on the capital account.

However, early signs suggest these trends may be shifting, with a gradual moderation in the momentum of repatriation outflows. The growth in repatriation outflows has steadily moderated over the past two years, from 51.6% in FY24 to 15.8% in FY25 and 5% in FY26. Repatriation has fallen by 8.7% in April FY27. While monthly data may fluctuate, we believe growth in repatriation outflows has likely peaked, as the strong post-pandemic phase of profit booking and PE/VC exits appears to be fading. In Q1 FY27, 9 IPOs raised Rs 37.9 billion, compared with 15 IPOs raising Rs 297 billion in the same quarter last year.

Apart from the tapering of repatriation outflows, the gradual strengthening of gross FDI inflows further reinforces our view that net inflows will improve in FY27 compared with the previous fiscal year. In FY26, gross inflows rose 18% YoY, well above the five-year average growth of 2% and the strongest pace since FY21. This momentum continued in April FY27, with gross FDI inflows rising 65% YoY to USD 15.3 billion.

In a major shift from its earlier stance, the government, through Press Note No. 2 (2026), replaced the blanket restrictions on FDI from land-bordering countries introduced in 2020 with a more nuanced, threshold-based framework. This enables targeted foreign acquisitions and joint ventures, particularly to support manufacturing. The move could help India attract a larger share of FDI from China, whose outbound investment has grown sharply over the past decade and now accounts for around 11% of global FDI flows. The shift is also reflected in the recent decision to allow four Chinese power equipment manufacturers with factories in India to participate in government tenders. Together, these measures could support stronger FDI flows into the country.

Exhibit 12: Breakdown of FDI flows



Source: CMIE, RBI, CareEdge

FDI by India remains elevated as companies continue to leverage lower regulatory friction under the new overseas investment framework instituted in 2022 and diversify operations. FY26 saw outbound FDI inflows from India rising by 20.1% YoY. FDI by India has risen from an annual average of USD 9.4 billion in FY17-19 to USD 26.2 billion in FY24-26. Even in April FY27, FDI by India abroad grew by 42% YoY to Rs 4.8 billion. Outbound FDI is likely to continue to remain healthy in FY27 as well. Overall, supported by healthy growth in gross inflows and an expected moderation in growth of repatriation outflows, we project net FDI to rise from USD 7 billion in FY26 to USD 15 billion in FY27.

Government and RBI Measures to FPI and Debt Flows

In June, the government and the RBI announced the following measures –

(a) The universe of G-secs under the Fully Accessible Route (FAR) has been expanded by including all new issuances of 15, 30 and 40-year tenor G-secs. Additionally, the short-term investment limit, concentration limit, and security-wise investment limit under the General Route have been removed.
(b) Exemption of FIIs/FPIs from taxes on Interest income earned from G-Secs, and taxes on capital gains arising from the sale, transfer, exchange or redemption of G-Secs (both long-term and short-term).
(c) An increase of the limits for investment by NRIs and OCIs in equity instruments traded on the stock market without SEBI registration. Further, the same facility is being extended to all individual Persons Resident Outside India (PROIs) at par with NRIs and OCIs.
(d) The introduction of a facility for Authorised Dealer (AD) banks to raise fresh 3-5-year FCNR (B) deposits whereby the full hedging cost is borne by the RBI until September 30, 2026.
(e) Concessional forex swap to incentivise External Commercial Borrowings (ECBs) by PSUs with a minimum maturity of three years.
(f) Concessional forex swap facilities for Overseas Foreign Currency Borrowings (OFCBs) by the authorised dealer category-I banks having a minimum maturity of three years.

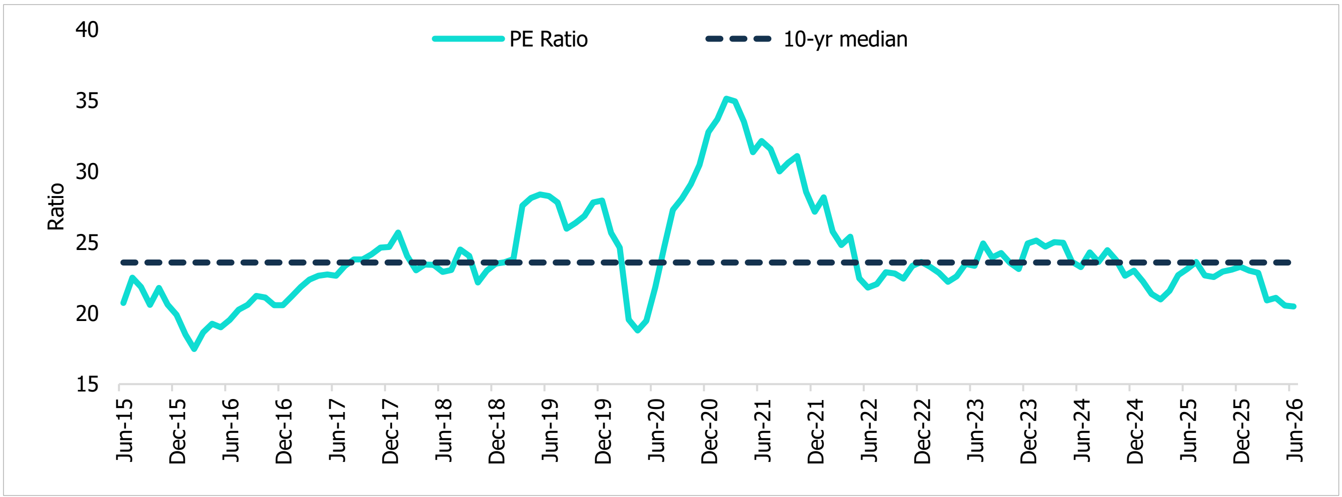
FPI Flows to Recover supported by Policy Measures

We believe FPI flows could improve in the months ahead, provided no major tail-risk event materialises. The key drivers are outlined below:

i. **Policy measures to support inflows:** The expansion of the FAR bond universe, tax exemptions for FIIs/FPIs investing in G-secs, and higher investment limits for NRIs and OCIs are expected to support FPI inflows, particularly into debt.
ii. **Potential Bloomberg index inclusion:** Some of the debt-market measures also address key hurdles to India's inclusion in the flagship Bloomberg Global Aggregate Index. After the January 2026 deferral, Bloomberg Index Services could review Indian government bonds again during its mid-2026 review. Inclusion could give India a potential weight of about 1% in the index, generating passive inflows of around USD 20–30 billion over 10-12 months. While actual inclusion and related passive flows may begin toward the end of FY27 and spill over into the next fiscal year, active investors could move earlier in anticipation of these flows.
iii. **Moderation in equity FPI outflows:** Indian equity valuations have become more reasonable and are near their lowest levels since the 2020 Covid shock (Refer Exhibit 13). At the same time, global equity indices with high exposure to the AI sector have seen greater volatility in recent months. This could benefit India by redirecting some global equity flows, as India offers diversification for investors looking beyond AI-heavy markets.
iv. **Lower global inflation and Fed-rate concerns:** Notwithstanding the recent flare-ups in the West Asia region, energy prices have trended lower, and consequently, fears of a sustained rise in inflation have reduced.

As a result, over the past few days, markets have scaled back expectations of the quantum of tightening by the Federal Reserve. This could further support capital flows into emerging markets such as India.

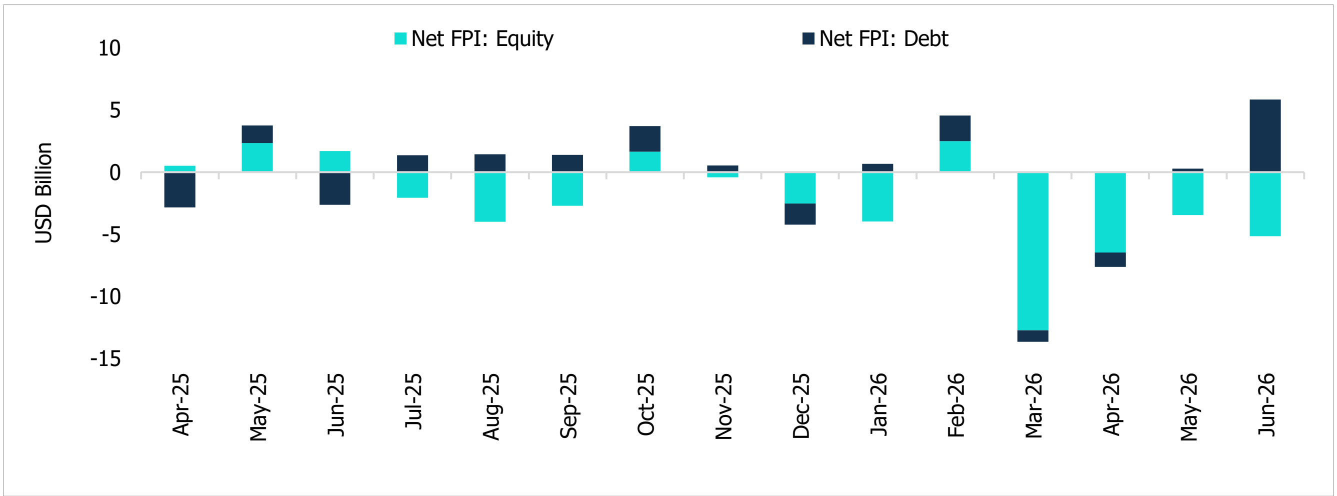
Exhibit 13: BSE Sensex P-E Ratio



Source: CEIC, CareEdge

Following the recently announced measures, FII inflows into the debt market surged to USD 5.8 billion in June, the highest monthly inflow on record. Equity FPI flows remain negative, although the pace of outflows has moderated over the past few weeks. Overall, there have been FPI outflows of USD 7.7 billion so far this fiscal year. We expect overall FPI flows to recover through the rest of FY27, marking an improvement from the USD 16 billion outflow recorded in FY26.

Exhibit 14: Trends in FPI flows



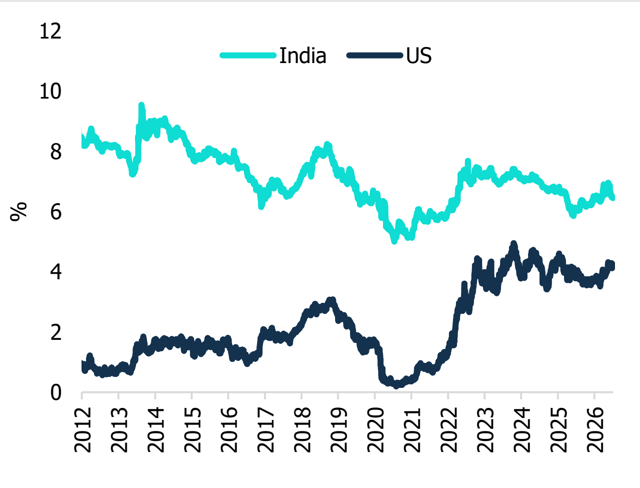
Source: CMIE, RBI, CareEdge

FCNR Deposits to Support Banking Capital Inflows

Among other capital account components, banking capital is expected to benefit from the RBI's FCNR(B) incentives. Under these incentives, authorised dealer banks can mobilise fresh FCNR(B) deposits until September 30, 2026, and sell the dollars to the RBI in exchange for rupees at a predetermined concessional rate, with a reverse transaction at maturity. By effectively absorbing the hedging cost, estimated at around 3.5%, the RBI gives banks room to offer more attractive interest rates to depositors. These deposits are exempt from CRR and SLR requirements, enabling banks to mobilise foreign currency deposits at competitive rates. As per the latest rates available on bank websites, major banks are offering FCNR rates of around 6–6.5%, while some newer, smaller banks are offering about 7–7.1%. These rates remain comfortably above the 5-Yr US Treasury yield of around 4.2%, providing sufficient incentive for deposit mobilisation.

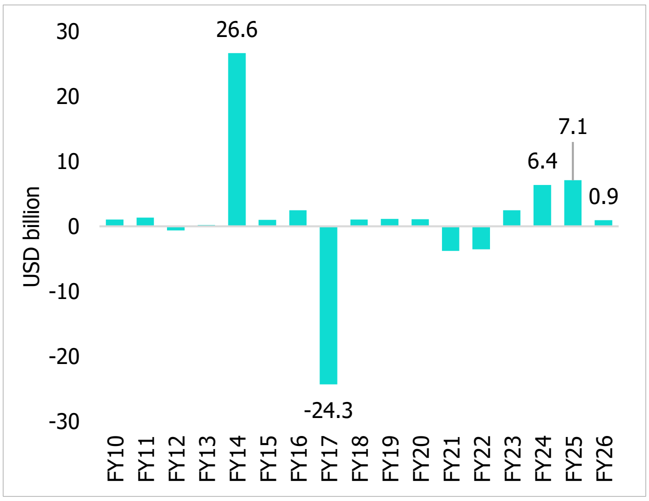
A similar measure was introduced in FY14, when the RBI used FCNR(B) deposits and a concessional swap window to attract foreign currency inflows. These measures generated sizeable inflows of USD 26.6 billion in FY14. However, it is important to note that interest rate conditions are significantly different this time. In 2013, the average India–US 5-Yr interest rate differential, proxied by the India-US 5-Yr G-sec yield spread, was over 700 bps, compared to 260 bps so far in 2026 (Exhibit 15). This is primarily due to a higher interest rate environment in the US, compared to 2013. While the interest spread is narrower, FCNR(B) deposit rates offered by banks remain attractive compared with prevailing US yields. Additionally, unlike FY14—when most deposits were concentrated in the three-year tenor—the current framework allows a three-to five-year tenor, which should help reduce redemption pressure and rollover risk. Overall, we expect the scheme to mobilise approximately USD 30–40 billion in FY27.

Exhibit 15: 5-Yr G-sec Rates of India and the US



Source: CEIC, CareEdge

Exhibit 16: FCNR (B) flows



Source: RBI, CareEdge

The concessional forex swap arrangements targeted at ECBs and Overseas Foreign Currency Borrowings (OFCBs) are expected to reduce the cost of raising funds overseas and lead to an increase in ECB issuances by PSUs and OFCB issuances by banks. Consequently, the loans component of the capital account could see an upside of around USD 15–20 billion. Higher ECB issuances with subsidised hedging costs would not only result in additional dollar inflows but also support the government's infrastructure and investment agenda by enabling PSUs to undertake higher capital expenditure.

Along with FCNR deposit inflows, incremental flows from ECBs and OFCBs could collectively generate inflows of USD 45-60 billion, providing significant support to the capital account. As a result, we expect the capital account surplus to increase from an estimated USD 2 billion in FY26 to approximately USD 73 billion in FY27. Combined with our current account projections, this would result in India recording a Balance of Payments (BoP) surplus of around USD 25-30 billion in FY27, compared with a deficit of USD 23.6 billion in FY26 and a deficit of 5 billion in FY25 (See the Detailed BoP table below).

Rupee Outlook

The significant improvements projected in India's BoP are expected to support the rupee. During the conflict, depreciation pressure on the rupee and the RBI's consequent intervention led to a sharp rise in the RBI's forward FX book, which increased to around USD 107 billion by May-end from USD 68 billion at January-end. With the rupee now somewhat stable, the RBI may look to unwind part of its forward book. This could limit any sharp appreciation in the rupee even as the broader BoP position improves. Moreover, uncertainty stemming from West Asia flare-ups may add volatility to the rupee. Overall, we maintain our stance on the rupee strengthening but marginally revise the projection, now expecting USD/INR to average between 93 and 94 in FY27.

Table 1: Summary of Balance of Payment Position

	Unit	FY23	FY24	FY25	FY26	FY27 (P)
Merchandise Trade Balance	USD bn	**-265**	**-245**	**-287**	**-337**	**-390**
Merchandise Export	USD bn	456	441	442	446	474
Merchandise Imports	USD bn	721	686	729	783	864
Services Trade Balance	USD bn	**143**	**163**	**189**	**217**	**245**
Services Exports	USD bn	325	341	388	421	455
Services Imports	USD bn	182	178	199	205	210
Transfer	**USD bn**	**101**	**106**	**123**	**144**	**151**
Income	**USD bn**	**-46**	**-50**	**-48**	**-48**	**-50**
Current Account Balance	USD bn	**-67**	**-26**	**-23**	**-25**	**-44**
	% of GDP	**-2.0%**	**-0.7%**	**-0.6%**	**-0.6%**	**-1.0%**
GDP	USD tn	3.3	3.6	3.9	4.0	4.3
Foreign Investments	USD bn	23	54	5	-9	21
FPI	USD bn	-5	44	4	-16	6
FDI	USD bn	28	10	1	7	15
Loans, Banking Capital & Other Capital	USD bn	36	35	12	11	52
Capital Account	**USD bn**	**59**	**90**	**17**	**2**	**73**
Capital Account	% of GDP	1.8	2.5	0.4	0.0	1.7
BoP Balance	USD bn	**-9**	**64**	**-5**	**-24**	**29**
BoP Balance	% of GDP	-0.3	1.8	-0.1	-0.6	0.7

Source: CEIC, CareEdge; Note: (P): CareEdge Projections

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 - 22 - 6754 3424
Akanksha Bhende	Senior Economist	akanksha.bhende@careedge.in	+91 - 22 - 6754 3456
Bharadwaja Adiraju	Senior Economist	Bharadwaja.Adiraju@careedge.in	+91 - 22 - 6754 3456
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

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