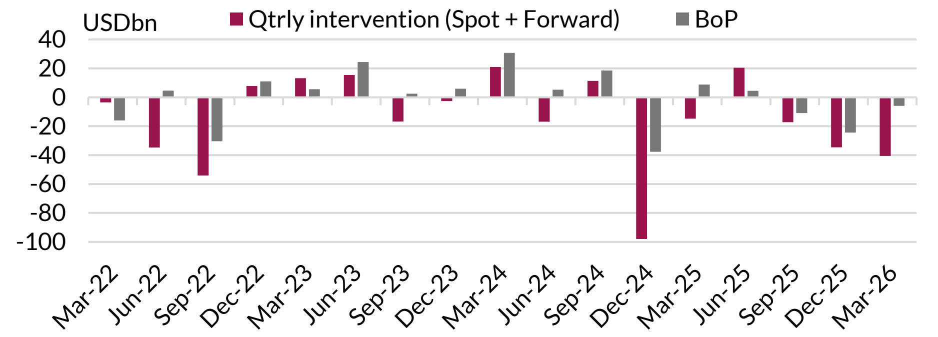
AXIS BANK

4Q BoP confirms that it is anxiety in the markets pressuring the INR

08 Jun 2026
External Sector
Balance of Payment

The 4Q balance-of-payment (BoP) release showed a bigger gap between the actual BoP deficit and RBI's dollar sales in 2HFY26. A 4Q current-account surplus brought the FY26 CAD to just US$25bn (0.6% of GDP), and despite weak capital inflows, the 2HFY26 BoP deficit was only US$19bn. However, in 2H the RBI had to intervene by US$70bn across spot and forwards currency markets. This large US$51bn divergence in just six months in our view is due to a rise in hedging (importers and investors) and its retention offshore by exporters. With external debt to GDP still low, RBI and/or government have rightly announced measures to bring in dollars, and stem the palpable of anxiety on the INR.

Exhibit 1: The gap between RBI's FX intervention and BoP deficit large in Mar-26



Source: RBI, Axis Bank Research

FY26 CAD at 0.6% of GDP, 4Q current account in surplus as expected

In 4Q, India's current account was $7bn in surplus, cutting FY26 to a to deficit $25bn (CAD, Fig 1; +$2bn vs. FY25). The YoY rise in goods deficit (Fig 2: $50bn) was offset by higher services surplus ($28bn) and invisibles ($20bn). CAD has been steady at 0.6% of GDP during FY24-26. Despite higher oil prices, Apr-26 data shows a CAD run-rate at 2% of GDP (link).

Capital flows: weak FDI inflows, higher FPI outflows and high speculative bets

The rise in FDI repatriation and outbound FDI over FY24-26 have negated the strong inbound FDI, raising dependence on volatile portfolio flows (Fig 5) to finance the CAD. Net FDI collapsed to $1bn in FY25 vs. average US$33bn during FY20–FY24 (Fig 4). Further, outflows due to derivatives averaged $23bn in the last 2 FY vs. $4bn FY20-24 (Fig 7).

Quantum of RBI intervention much worse than the balance of payments deficit

However, even after weak capital flows the balance-of-payments (BoP) deficit in 2HFY26 was only US$19bn, much lower than RBI's FX intervention of US$70bn (Fig 13), despite which the INR fell 9% against the USD. This $51bn gap has been the main pressure point for the INR, and in our view reflects a rise in retention of dollars abroad (Fig 14, 15) and in excessive hedging by importers and foreign investors (both FPI and PE/VC; Fig 7).

This anxiety has intensified now due to uncertainty on how long the Strait of Hormuz stays closed, with the 12-month forward average oil price rising to US$84/bbl. The measures announced on Friday have not calmed the markets given the overhang: renewed fighting between Iran and Israel meant the USDINR reversed the entire gain: USDINR was 95.7 before the Governor's statement, closed below 95 on Friday and but closed today at 95.7. A self-reinforcing cycle of INR weakness causing more real-economy participants to position for a weaker INR out of fear (Corporate behaviour can be gleaned from Fig 18, 19).

With India's net international investment position relatively stable, and external debt to GDP well below peak, the country has the balance sheet to borrow dollars, like attempted by recent measures, and cushion against this panic.

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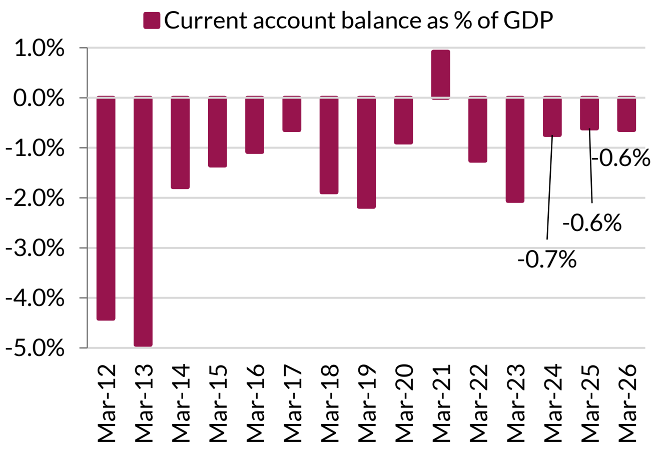
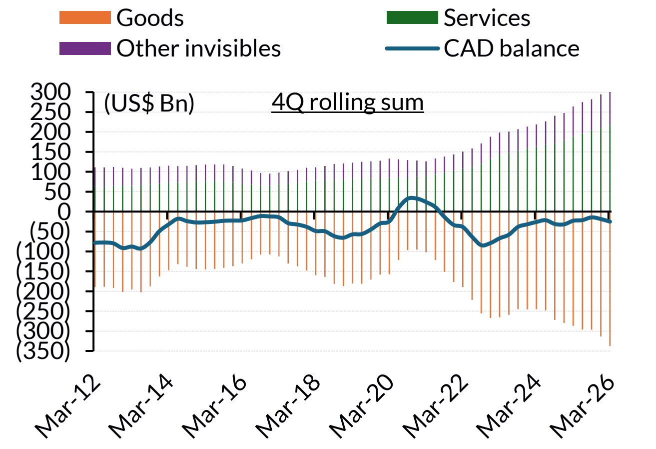
Story in Charts

Exhibit 2 –FY26 CAD at 0.6% of GDP; FY27 CAD under pressure, will depend on how quickly the Strait is reopened



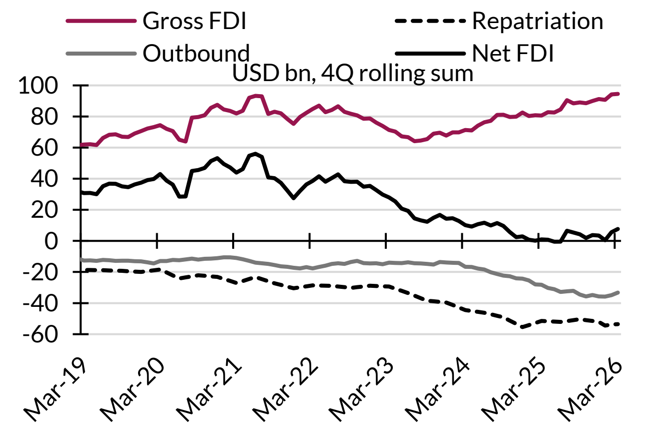
Source: RBI, Axis Bank Research

Exhibit 3 –FY26 CAD deficit at $25; Goods deficit of $337bn offset by $217bn of services surplus and $94bn of invisibles



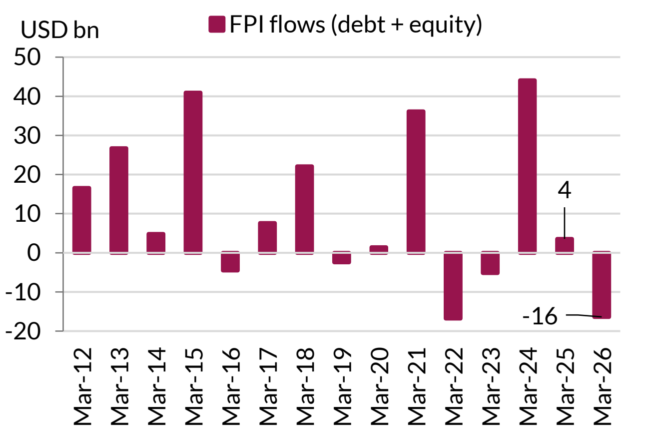
Source: RBI, Axis Bank Research

Exhibit 4 – FY26: $7bn net FDI flows (FY25: $1bn; FY24: $10bn; FY23: $28bn; FY22: $39bn)



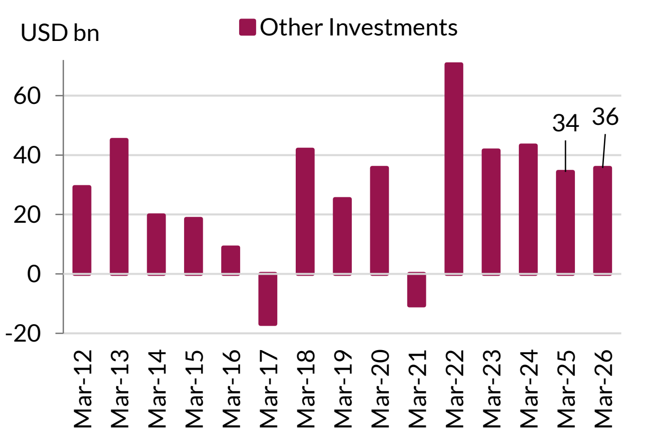
Source: RBI, Axis Bank Research

Exhibit 5- FPI outflows in FY26 added to the pressure



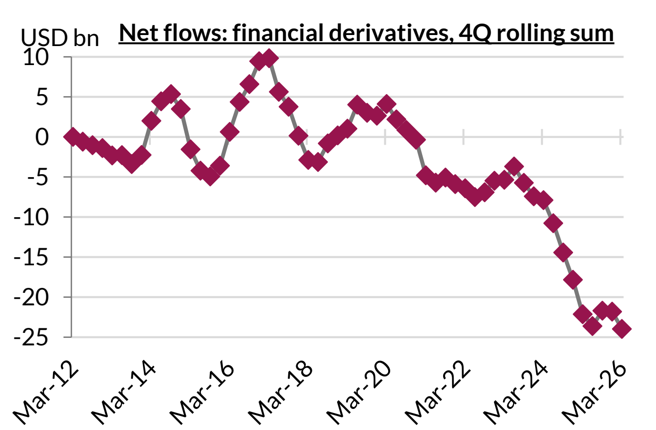
Source: RBI, Axis Bank Research

Exhibit 6 – Other net investments (this incl. ECBs) steady



Source: RBI, Axis Bank Research

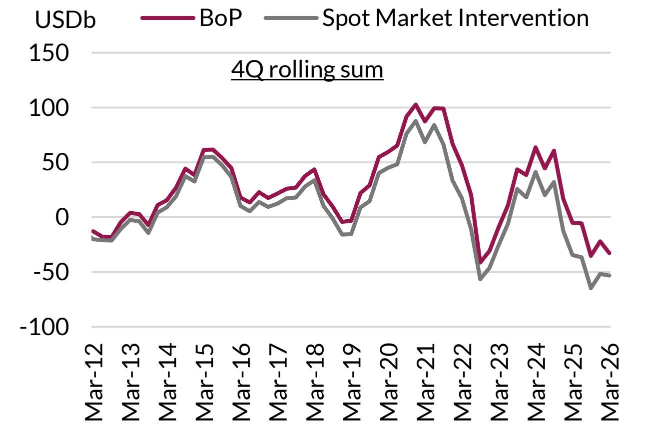
Exhibit 7 – Net outflows via derivatives high in the last 2FY



Source: RBI, Axis Bank Research

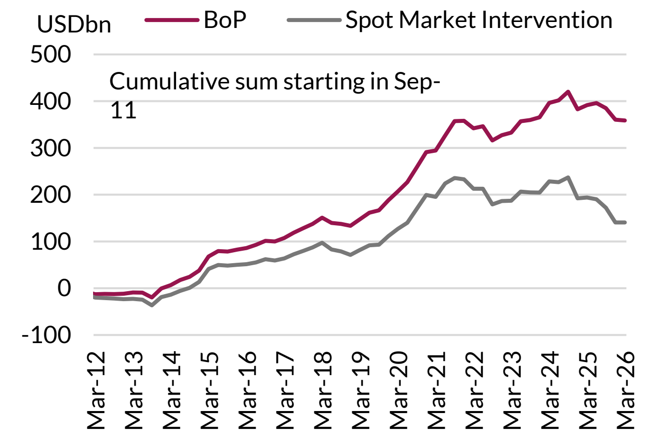
RBI intervention vs. balance of payments deficits

Exhibit 8: RBI's spot FX intervention (net) data closely maps with 'balance of payments' changes on a 4Q rolling sum



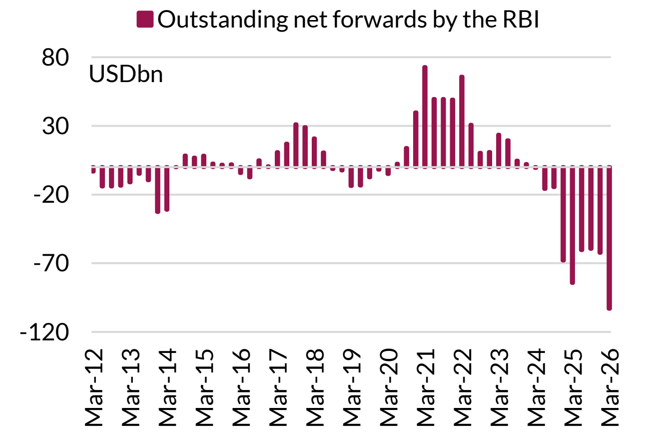
Source: RBI, Axis Bank Research

Exhibit 9: The gap on a cumulative basis is large and has been growing



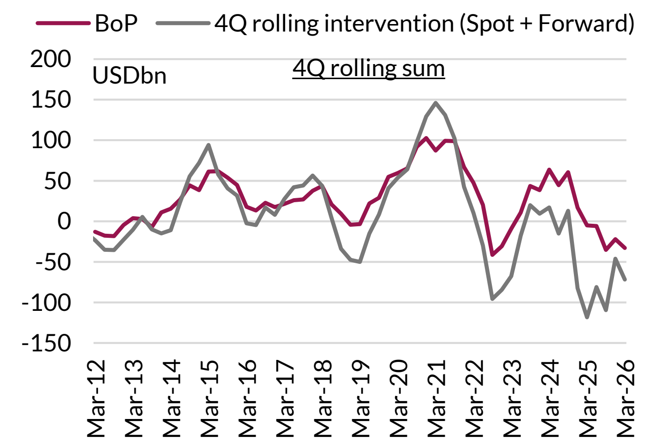
Source: CEIC, Axis Bank Research

Exhibit 10: RBI's FX intervention also includes the use of off-balance sheet liabilities



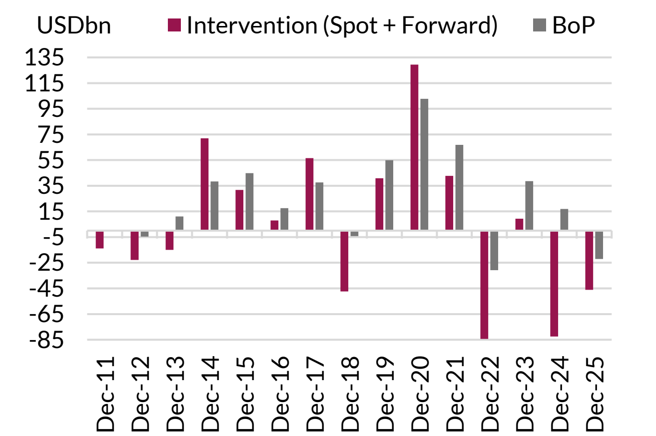
Source: Bloomberg, Axis Bank Research

Exhibit 11: RBI's net FX intervention has been more than the balance of payment deficit for over last 3Y



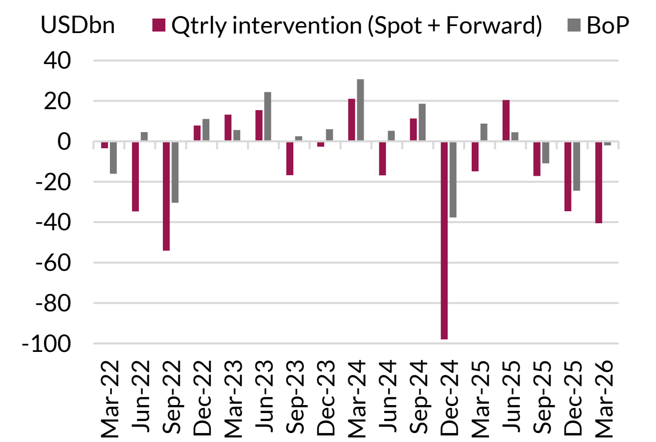
Source: Bloomberg, Axis Bank Research

Exhibit 12: RBI's annual FX intervention has been worse than BoP in CY22, CY24 and CY25



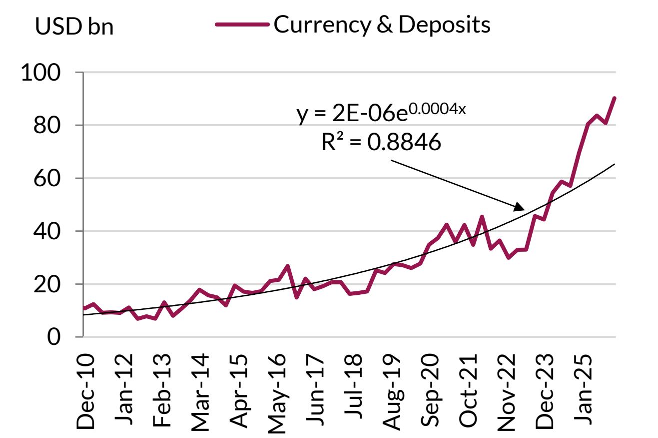
Source: Bloomberg, Axis Bank Research

Exhibit 13: RBI's quarterly intervention worst in Dec-24; the gap between intervention and BoP deficit large in Mar-26 too



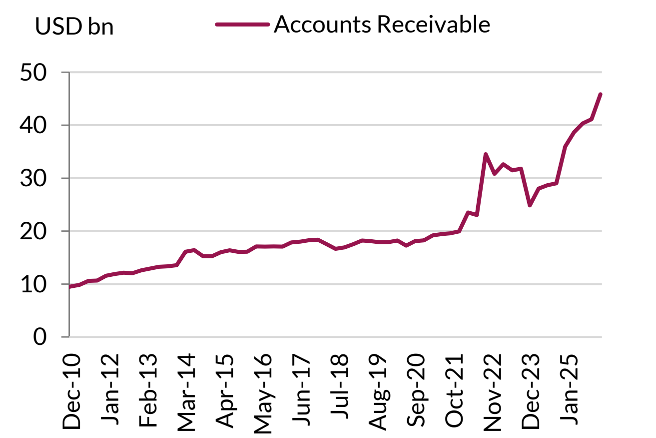
Source: Bloomberg, Axis Bank Research

Exhibit 14: Indian corporates holding more deposits overseas ($33bn more in Dec-25 vs. Sep-24)



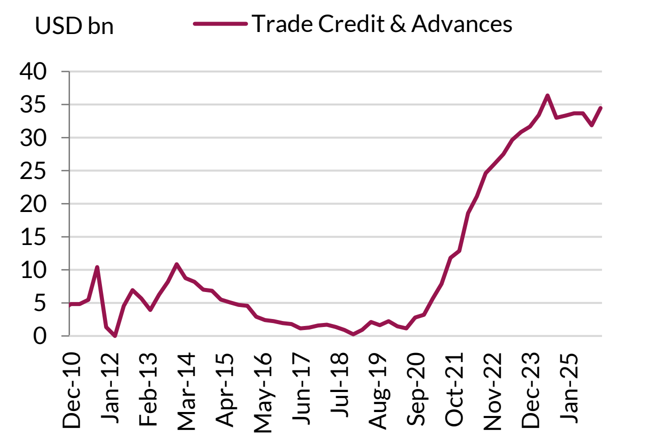
Source: Capitaline, Axis Capital Strategy team

Exhibit 15: The accounts receivable has gone up $17bn during Sep-24 to Dec-25



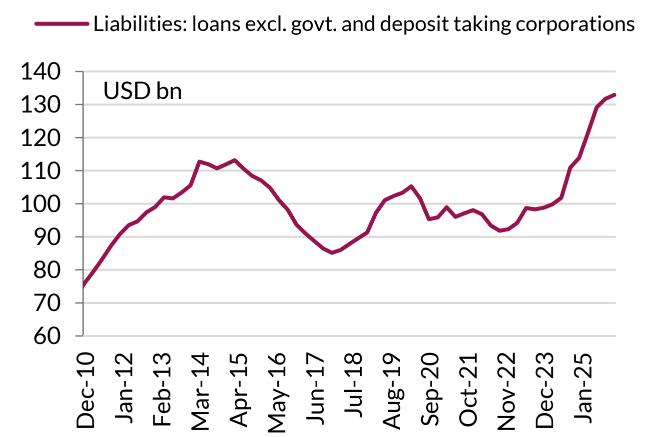
Source: Capitaline, Axis Capital Strategy team

Exhibit 16 –Trade credit outstanding (Indian assets) had shot by Jun-24 but post COVID



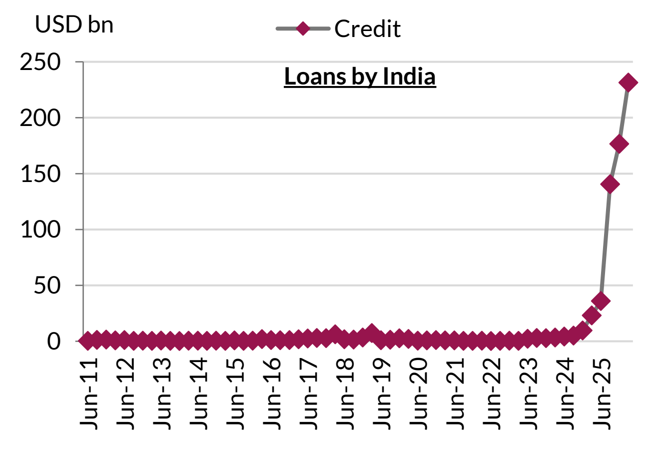
Source: Axis Capital report (link)

Exhibit 17 – Foreign currency liabilities (loans) of domestic corporates incl. NBFCs shot up post Jun-24



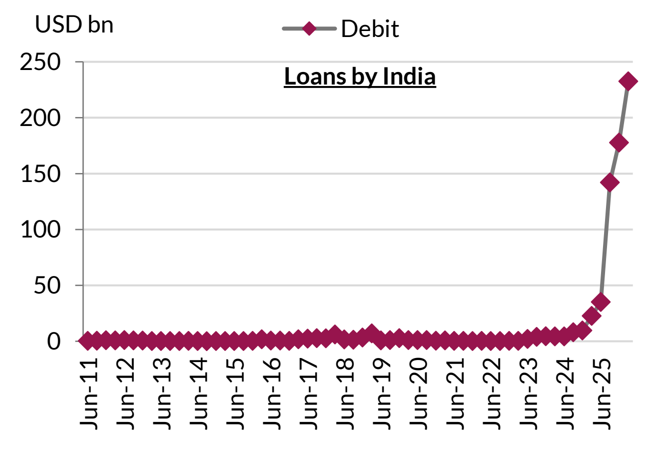
Source: Axis Capital report (link)

Exhibit 18 –Corporates loaning a lot of capital to RoW…



Source: Bloomberg, Axis Bank Research

Exhibit 19 – …but getting it back by quarter-end



Source: Bloomberg, Axis Bank Research

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