

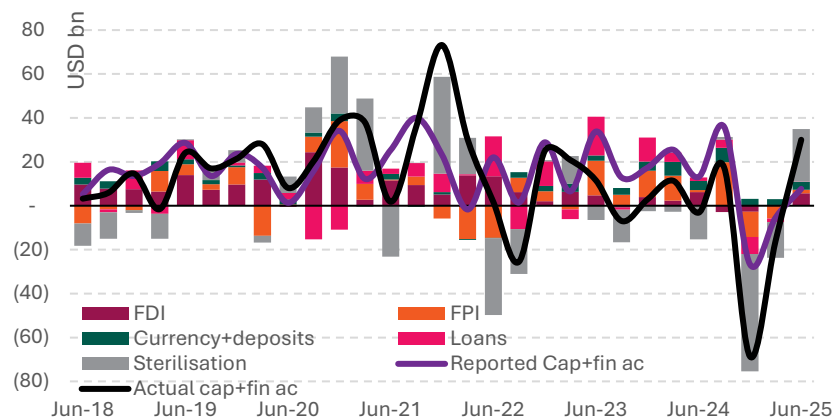
Economic Research | External Sector

1Q BoP: Low CAD, better capital flows

Balance of Payments | Quarterly Update | September 03, 2025

India's 1Q CAD at 0.2% of GDP (the lowest 1Q deficit since 2017), reflected strong GCC services exports offsetting seasonal worsening of merchandise trade and lower tourist arrivals. Over the past few quarters, the challenge has been weak capital inflows. In 1Q, while the reserve increase (USD4.5bn) mostly matched the RBI's interest income, strong underlying inflows allowed the RBI to extinguish nearly USD24bn of forward sales. The trends thus far in 2Q point to a weaker core balance of payments, the reason USDINR is above 88: higher goods deficit and FPI equity outflows. Going forward, though, a low CAD (services exports still strong) and attempts to weaken the USD should provide support.

Exhibit 1: Cap + fin account reprieve, allowing forwards to mature



Source: RBI, Axis Bank Research

1Q current account deficit at 0.2% of GDP the lowest 1Q since FY17 (ex-Covid)

India 1Q current account deficit (CAD) came in at USD 2.4 bn, or 0.2% of GDP – with a wide merchandise deficit offset by a near-doubling of the surplus in business services (reflecting GCC exports, Fig 2). The CAD is the lowest for the June quarter since 1QFY17. QoQ the current account deteriorated due to seasonality: the merchandise deficit rises, and tourist arrivals and remittances drop: Mar-25 had seen a surplus (Fig 3-4). On a 4Q rolling basis, the CAD at 0.4% of GDP is comparable to FY17, a period of decent reserve accumulation.

Net capital inflow positive for the first time since Sep-24, helped settle forwards

Net capital and financial account (ex FX reserves) at USD 7.7 bn saw its first surplus since 2QFY25, driven by a recovery in net FDI in Apr, better equity FPI flows, higher NRI deposits and trade finance. This offset the impact of heavy maturity of RBI forward sales from last year. Adjusting for the maturity of RBI forwards and the volatile FPI flows, the true inflow was closer to USD 30 bn for 1Q (Fig 4). These were used to manage maturity of forwards of USD 24bn; the USD 4.5bn rise in FX reserves was mostly RBI's interest receipts of 4.1 bn.

Core BOP has weakened again in 2Q so far, but potential for improvement

In 2Q so far core BOP trends have worsened again, with the merchandise trade deficit rising, and large outflows of FPI equity (USD 8bn of outflows thus far). Combined with a likely further drag on net FDI from VC/PE sales in IPOs being repatriated, this explains why the USDINR has crossed 88. Nevertheless, with a low current account deficit helped by still-growing services exports, and the US government trying to weaken the dollar, sustained weakness as seen in the USDINR is unlikely.

Neelkanth Mishra
Neelkanth.Mishra@axisbank.com

Tanay Dalal
Tanay.Dalal@axisbank.com

Prateek Ancha
Ancha.Prateek@axisbank.com

Pulkit Kapoor
Pulkit1.Kapoor@axisbank.com

Exhibit 2: Services drives lower CAD over 1QFY25

(USD bn)	FY25				FY26	FY25	Δ 1QFY26 - 1QFY25
	Q1	Q2	Q3	Q4	Q1		
Current Account	-8.6	-16.8	-11.3	13.5	-2.4	-23.3	6.3
% of GDP	-0.9%	-1.8%	-1.1%	1.3%	-0.2%	-0.6%	0.7%
Merchandise Exports	111.2	104.5	109.8	116.3	113.1	441.8	1.9
Merchandise Imports	175.0	189.2	189.1	175.8	181.6	729.0	6.6
Net Invisibles	55.2	67.9	68.0	73.0	66.1	264.0	11.0
o/w, software	37.4	39.6	41.1	41.5	41.5	159.6	4.0
remittances	26.7	32.6	33.2	31.8	31.1	124.3	4.4
Income	-13.3	-11.2	-18.8	-14.5	-14.8	-57.8	-1.6
Cap & Fin account	13.1	35.8	-26.6	-5.5	7.7	16.8	-5.4
FDI	6.2	-2.8	-2.8	0.4	5.7	1.0	-0.5
Portfolio Capital	0.9	19.9	-11.4	-5.9	1.6	3.6	0.7
Commercial Borrowings	1.6	5.0	4.4	7.5	3.7	18.5	2.0
Trade Credit	2.2	5.3	4.0	-4.4	0.7	7.2	-1.5
Currency & deposits	4.1	6.5	3.1	2.6	3.6	16.4	-0.5
Others	-2.1	2.0	-24.0	-5.7	-7.7	-29.7	-5.5
Reserve Assets	5.2	18.6	-37.7	8.8	4.5	-5.0	-0.7

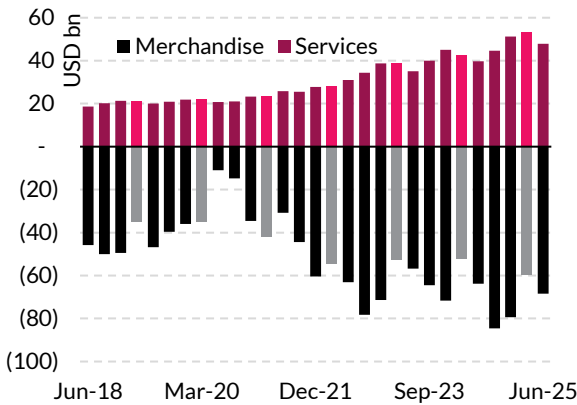
Source: RBI, Axis Bank Research

Exhibit 3: QoQ shift on merchandise, services

(USD bn)	Q4FY25			Q1FY26			Q1 FY26-Q4 FY25		
	Inflow	Outflow	Net	Inflow	Outflow	Net	Inflow	Outflow	Net
Merchandise Trade Balance	116.3	175.8	-59.5	113.1	181.6	-68.5	-3.2	5.8	-9.0
Net Invisibles	148.6	75.7	73.0	143.6	77.5	66.1	-5.0	1.9	-6.8
Software	46.9	5.4	41.5	47.3	5.9	41.5	0.4	0.4	0.0
Remittances	33.9	2.1	31.8	33.2	2.1	31.1	-0.8	0.0	-0.7
Investment Income	7.8	22.3	-14.5	8.5	23.3	-14.8	0.7	1.1	-0.4
Current Account Balance	264.9	251.4	13.5	256.7	259.1	-2.4	-8.2	7.6	-15.8
As % of GDP									
FDI	18.5	18.1	0.4	27.2	21.5	5.7	8.7	3.4	5.3
Portfolio capital	126.0	131.8	-5.9	146.3	144.7	1.6	20.4	12.9	7.5
Commercial Borrowings	15.8	8.3	7.5	10.7	7.1	3.7	-5.1	-1.2	-3.9
Trade Credit short term	13.6	18.0	-4.4	15.5	14.7	0.7	1.9	-3.2	5.1
Currency & deposits	26.3	23.7	2.6	23.8	20.2	3.6	-2.5	-3.5	1.0
Others	55.8	61.6	-5.7	65.6	73.2	-7.7	9.7	11.7	-1.9
Cap & Fin Account Balance	256.0	261.4	-5.5	289.1	281.4	7.7	33.1	20.0	13.1
Reserve Assets	0.0	-8.8	8.8	0.0	-4.5	4.5	0.0	4.3	-4.3

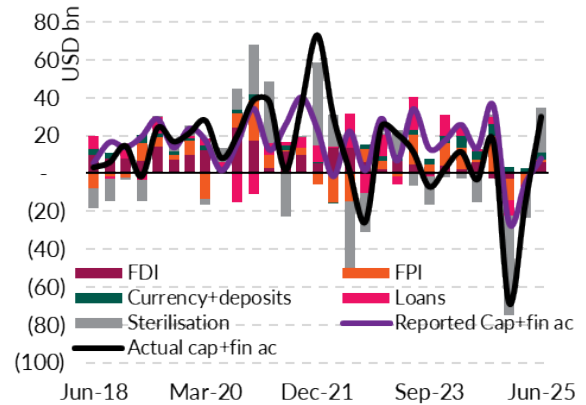
Source: RBI, Axis Bank Research

Exhibit 4: Seasonal patterns of merchandise & services



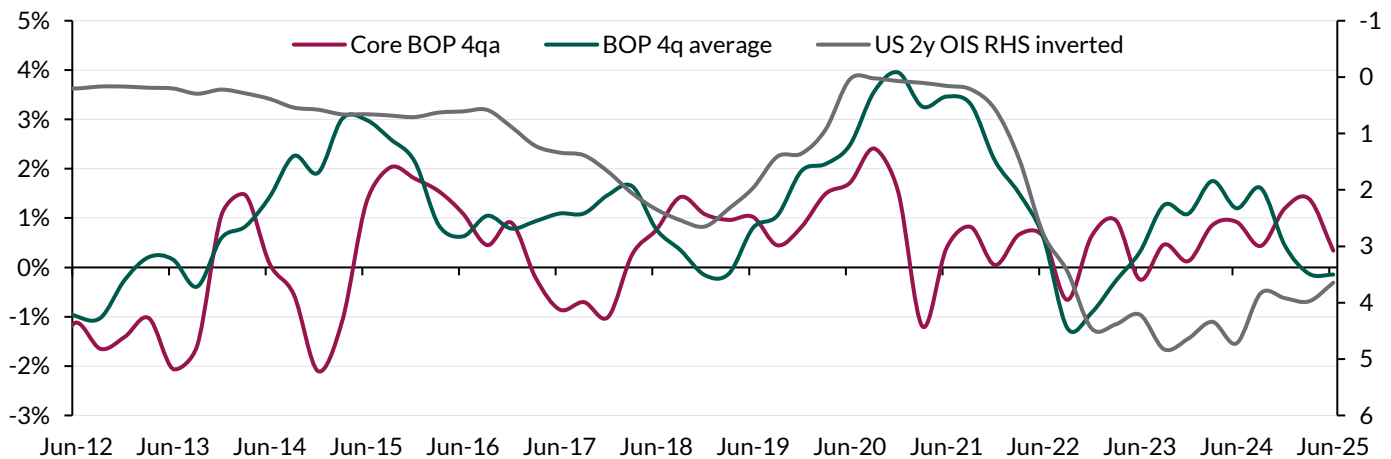
Source: RBI, Axis Bank Research

Exhibit 5: Cap + fin account used to manage forwards



Source: RBI, Axis Bank Research

Exhibit 6: Is 4q rolling core BOP improving with US rate cut pricing?



Source: RBI, Bloomberg, Axis Bank Research

Disclaimer: The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied, or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

Disclaimer for Singapore clients: This document is published by Axis Bank Limited, India ("Axis Bank") and is distributed in Singapore by Axis Bank. This document is not a research analysis or report concerning any investment product. This document does not provide or purports to provide individually tailored investment advice, commentary or opinion. The contents in this document have been prepared and are intended for general distribution strictly to accredited investor, expert investor or institutional investor. A recipient of this document shall not provide or circulate this document to any other person. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The instruments and product types mentioned in this document may not be suitable for all investors. You should independently evaluate particular investments or product types and seek independent advice from a financial adviser regarding the suitability of such instruments or product types, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment on any instruments or product types. This is because the appropriateness of a particular instrument or product type will depend on your individual circumstances and investment objectives, financial situation and particular needs. The instruments and product types mentioned in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Disclaimer for DIFC clients: Axis Bank Limited (DIFC branch) is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients (as defined in the Rule 2.3 of the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA Rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipients