AXIS BANK

Economic Research | India

Services exports resilient despite tourism drag; AI risks not imminent

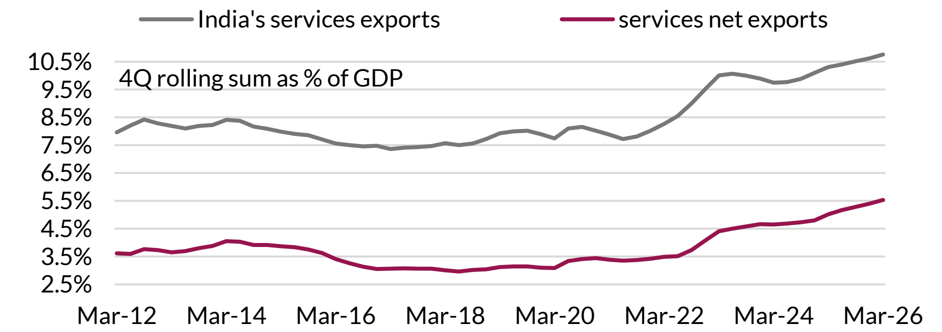
India's net services surplus grew 15% in FY26 to US$217bn: a new high of 5.5% of GDP. Growth was 17% YoY in Apr-2026. Despite weakness in 'traditional' services (especially trade, travel and transport, with the post-pandemic recovery in inbound tourism lagging that seen globally), growth in 'modern services', particularly IT and business services, has remained strong. We estimate they together accounted for 0.8pp of FY26 GDP growth. While headwinds from US policy (visas), and the structural overhang of AI may persist, we expect these to continue contributing to growth, together with providing comfort on the balance-of-payments. We also find GCCs growing faster than IT Services firms.

30 Jun 2026

External Sector

Services trade

Exhibit 1: Faster rise in services exports largely offsets the rise in goods deficit



Source: RBI, Axis Bank Research

Net services exports continued their strong growth in FY26, rising 15% YoY

In FY26 India's services exports continued the uptrend that started in Jun-2020 after nearly a decade of stagnation (Fig 1). Services surplus rose 15% in FY26, consistent with growth seen over the past three years. Growth was 17% YoY in Apr-2026. Digging deeper, we find that 16% YoY growth in 'modern services' offset the 9% YoY decline in traditional services: trade-related services fell 20% YoY, and travel and transport by 6.7% and 5.5%, respectively. Software and business services account for 71% of India's services exports (Fig 6) and 119% of incremental gains in the last 10-years in services trade (Fig 9). They are now 117% of the FY26 surplus (Fig 8) and have kept the current account deficit in check (Fig 2, 3).

Travel slump in FY26, India's gap in tourism vs. global peers widened

Of the US$22bn fall in net exports of traditional services over FY20-FY26, US$12bn came from tourism, as a US$8bn net surplus in FY20 slipped to a $4bn deficit in FY26 (Fig 13). This is as much due to Indians traveling abroad, as due to a 9% YoY fall in foreign tourist arrivals in India in CY25. This is well below the 2012-20 trend (Fig 14), as the recovery in India post-pandemic is worse than global trends (Fig 15). Several structural factors dominate, in our view, like the cost/experience disadvantage vs. competing locations (link: discretionary tourism demand is usually price elastic) and complex visa processes (link).

The modern services' support to BoP is likely to persist, AI fears overblown

On the other hand, we estimate growth in software and business service exports accounted for 0.8pp of GDP growth in FY26. While headwinds and overhang from changing US policies and growing AI capabilities (link) may persist, there is no evidence of a slowdown yet. Axis Capital's tech team makes a much stronger assertion: that AI may boost demand for Indian IT services (link). Further, consistent with our broader view that AI could shift the organization boundary (i.e., how much is outsourced), we find that growth in heads that represent the output of Global Capability Centre (GCC) has been stronger than for what counts exports from IT Services firms.

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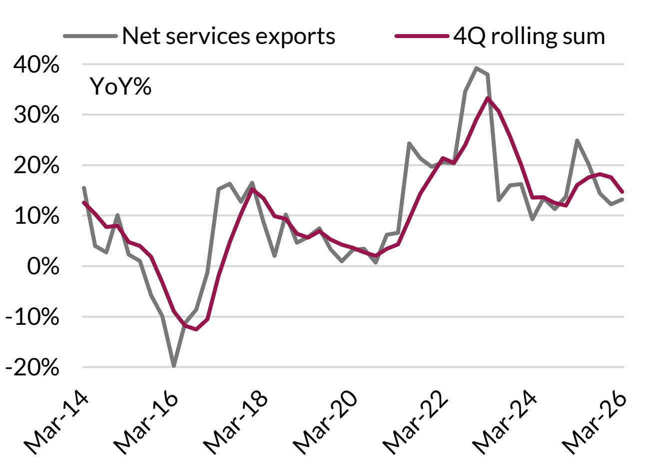
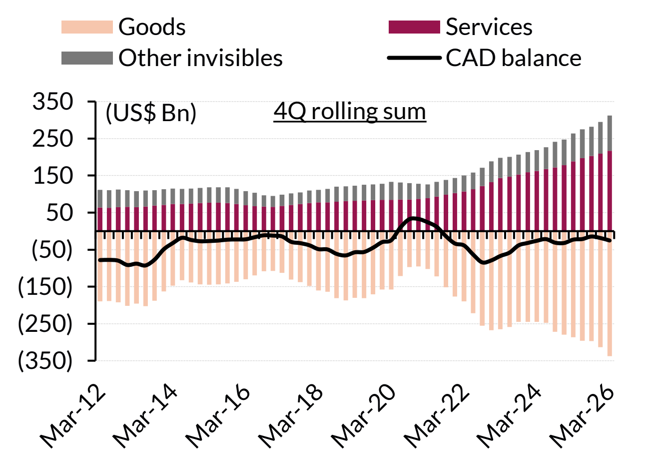
Exhibit 2 – Net services exports up 13% YoY in Mar-26 (+1pp vs. Dec-25); FY26 growth at 14.7% YoY (FY25: 16% YoY)



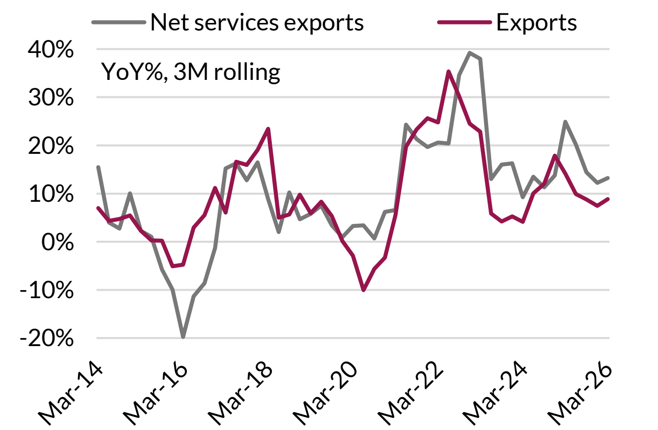
Source: RBI, Axis Bank Research

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



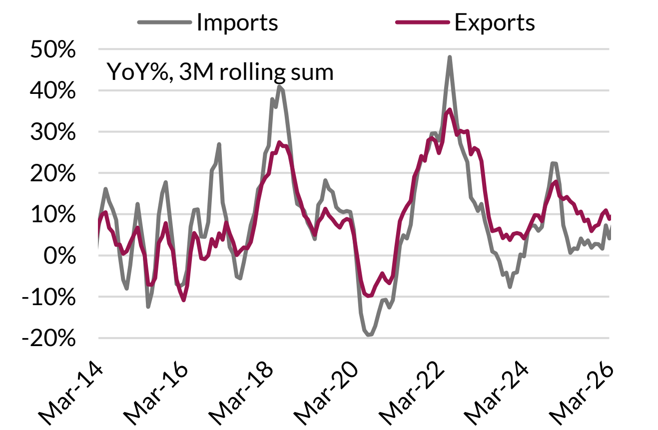
Source: RBI, Axis Bank Research

Exhibit 4 –Qtrly. services surplus growing faster vs. exports…



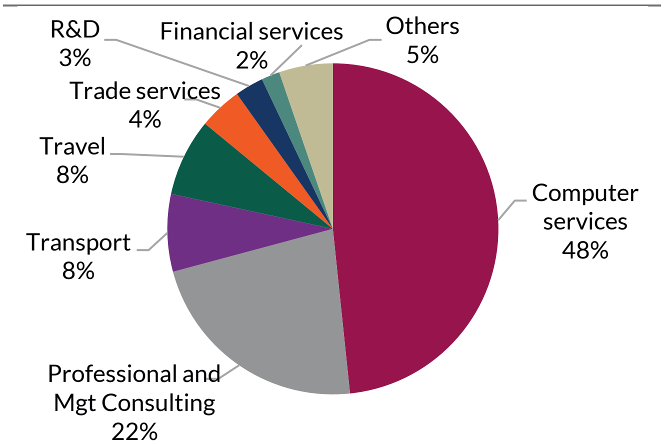
Source: RBI, Axis Bank Research

Exhibit 5- …helped by weak import growth



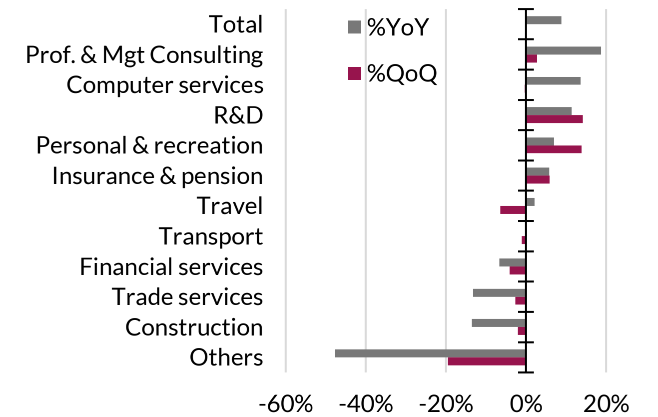
Source: RBI, Axis Bank Research

Exhibit 6 – Computer and professional services made 70% of services exports in FY26 (further travel & transport 8% each)



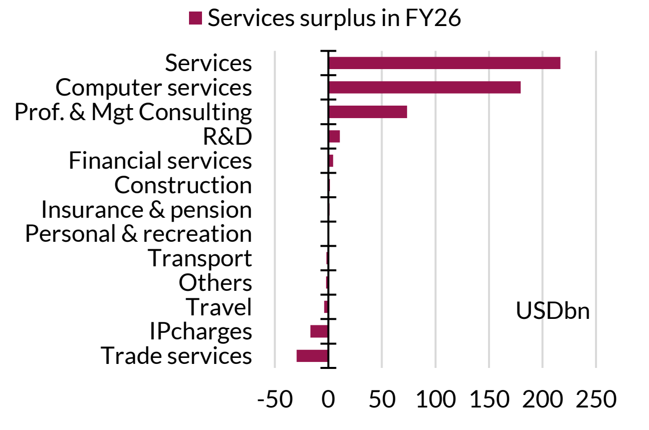
Source: RBI, Axis Bank Research

Exhibit 7 – 4QFY26 services exports' growth driven by professional services, software and R&D services



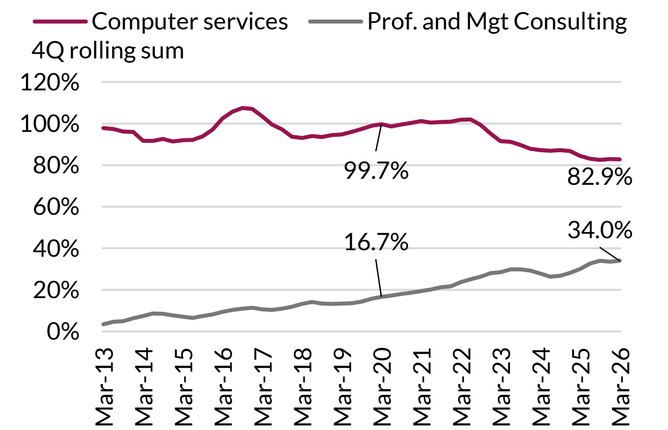
Source: RBI, Axis Bank Research

Exhibit 8 – Computer services (48% of services exports) contributed 83% of services surplus



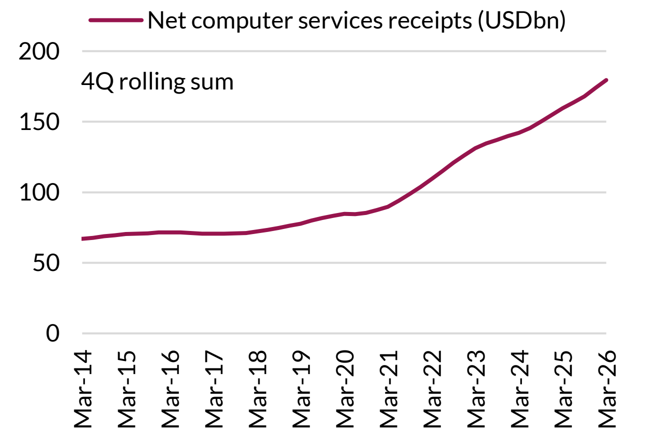
Source: RBI, Axis Bank Research

Exhibit 9 – Professional & management consulting services contribute more to services surplus (34% vs. 17% 5Y ago)



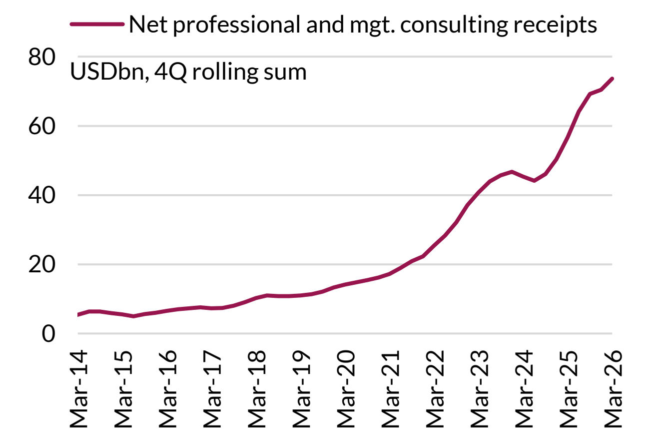
Source: RBI, Axis Bank Research

Exhibit 10 – Net computer services growth sustained at 12% YoY in FY26



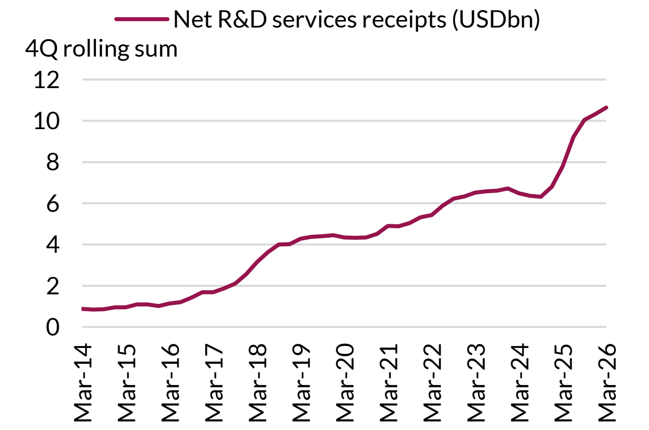
Source: RBI, Axis Bank Research

Exhibit 11 – Professional services surplus remains strong (+30% YoY in FY26 vs. 25% in FY25)



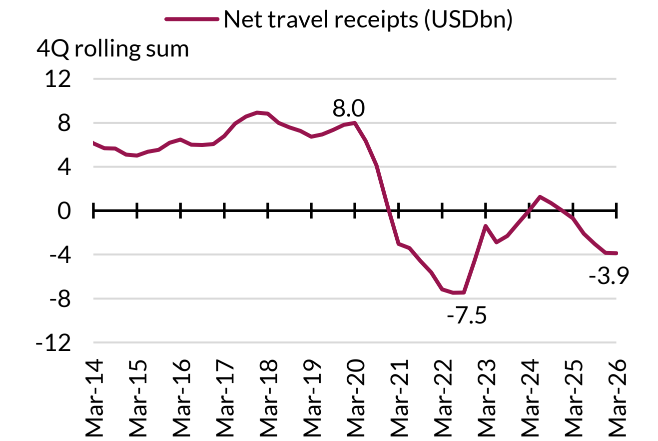
Source: RBI, Axis Bank Research

Exhibit 12 – R&D services' surplus has risen sharply for last 6 quarters ($6bn annualized in Sep-24 to $10.6bn in Mar-26)



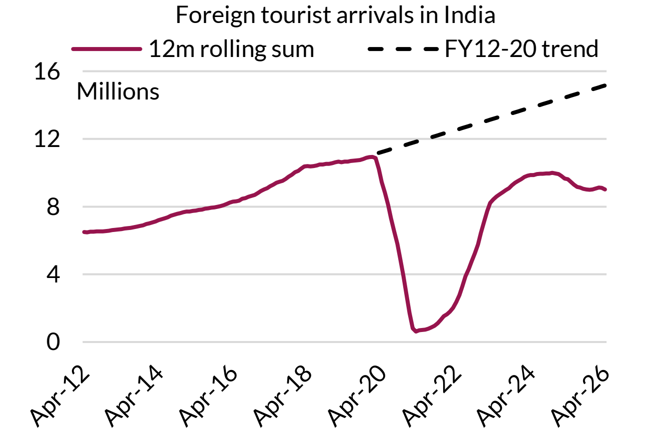
Source: RBI, Axis Bank Research

Exhibit 13 – Net travel receipts continue to worsen (swing from +$8bn in FY20to -$4bn in FY26…



Source: RBI, Axis Bank Research

Exhibit 14 - ...as the foreign tourist arrivals (FTA) remain weak (60% of pre-pandemic trend)

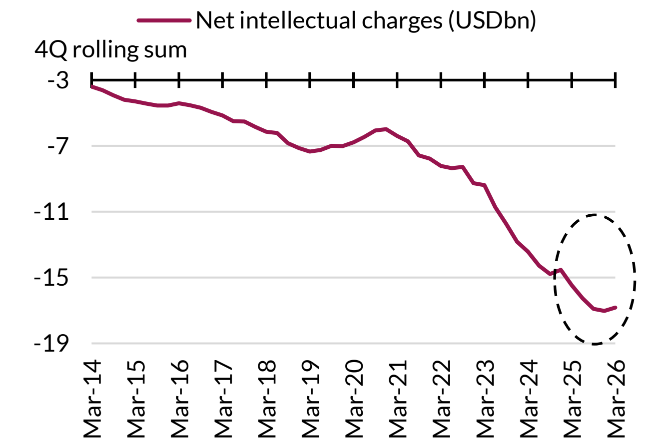


Source: Ministry of Tourism, Axis Bank Research

Exhibit 15 – India's FTAs weak vs. RoW (-18% from 2019 levels); global arrivals now above the 2019 levels

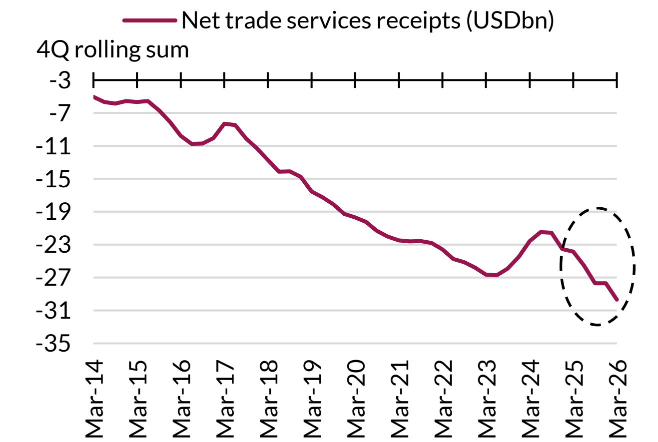
Source: UN Tourism, Ministry of Tourism, Axis Bank Research

Exhibit 16 – India pays more for IP charges



Source: RBI, Axis Bank Research

Exhibit 17 – Net trade and technical services also weak



Source: RBI, Axis Bank Research

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