India's external position in May'26: Current a/c switches from surplus to deficit in May,

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In USD Bn	FY 2026-27	
	Apr	May
Exports	44.6	46.1
Imports	72.5	74.0
Trade balance	**-27.9**	**-27.9**
Services	18.6	15.8
Exports	37	33.4
Imports	18.4	17.6
Transfer	16	13.6
Income	-1.9	-3.4
Current account	**4.7**	**-2.0**
FDI	7.4	-0.1
FII	-8.7	-4.7
ECB	0.6	0.1
Short-term credit	0.7	3.2
Banking capital	**-3.7**	**-1.1**
w/w NRI deposits	0.8	0.6
Other capital	-7.7	0.2
Capital account	**-11.3**	**-2.4**
Overall balance	**-6.6**	**-4.4**

**Source: RBI publication*

Financing	May 2026	Assessment
FDI, net	−0.1	Weak/neutral
FPI, net	−4.7	Persistent outflow
ECB, net	0.1	Limited support
Short-term credit	3.2	Main offset
Banking capital	−1.1	Still negative
Other capital	0.2	Normalised

**Source: RBI publication, media reports,*

India's Balance of payment (BoP) extended its second consecutive month of deficit in May'26, nevertheless, gap narrows from (-) 6.6 USD in Apr'26 to (-) 4.4 USD Bn in May'26. While current a/c ended up in deficit, narrowed capital a/c deficit from previous month had contributed to overall narrowing of BOP. The improvement in BOP was however not broad-based: the current account moved into a US$2.0 Bn deficit, while stable financing remained weak, with net FDI close to zero and portfolio outflows of US$4.7 Bn. Nevertheless, strong remittances and short-term trade credit provided the main offsets in May'26.

Current account moves into deficit, good deficit outweigh services surplus

Current account moves into to a **US$2.0 Bn deficit** from a US$4.7 Bn surplus in April and a US$0.7 Bn surplus a year earlier, since it does not receive adequate positive push from services surplus; remittances too remain low from previous month. The current account remained in a **cumulative surplus** of approximately **US$2.8 Bn during April-May**. Nevertheless, the underlying momentum weakened sharply in May.

- **Merchandise exports increased** to **US$46.1 Bn**, but imports rose faster to **US$74.0 Bn**, leaving the goods deficit unchanged from April at **US$27.9 Bn** and US$5.3 Bn wider than in May 2025.
- **Average incomes-flows (remittances) have increased in first two months of FY 2026-27** at avg. US$14.8 Bn which was US$ 10.0 Bn in same period previous year despite headwinds of West Asia conflict adversely affecting the regions which happens to be the highest supplier of remittance to India.
- **Services surplus also continues** to show average US$ 17.2 Bn in first two months of FY 2026-27, up from US $15.9 Bn in same period previous year, supporting current account dynamics.
- **However, downward pressure on capital flows remains.**

Capital account deficit narrowed in May'26 from previous month, still in deficit, reversed its surplus of last year

- The capital account flows recorded a **US$2.4 Bn net outflow**, substantially smaller than April's US$11.4 Bn outflow but a reversal from the US$3.7 Bn surplus recorded in May'25.
  - **Net FDI flows averaged** at US$ 3.65 Bn in first two months of the FY 2026-27, improving from avg .US$ 1.3 Bn in same period previous year. However, Avg. Net **Foreign portfolio investment position worsened to US$ (-)6.7 Bn** in first two months of the FY 2026-27, from US$ (-) 0.4 Bn in same period previous year.
  - **Banking capital outflow** was at avg. **US$0.9 Bn in first two months of FY 2025-26** and the same has been worsened US$ (-) 2.4 Bn in **first two months of FY 2026-27**. Broad based downward pressure on capital a/c was observed due to widespread risk aversion.

Our view:

India's external sector is positioned in a way that large merchandise deficit is substantially offset by services exports and remittances. We expect India's CAD% to GDP at 1-1.5% in FY 27, if oil prices sustain in the range of $80-85/bbl. Monthly numbers stated that short-term credit helped bridge the external gap, but this is less stable than sustained FDI, longer-term debt or portfolio inflows. We have seen widened trade deficit at (-) 30.0 USD Bn in Jun'26, with only 15 USD Bn services surplus, net FDI and FPI inflows, could be the potential hope for the positive capital account movement in Jun'26. Going forward, RBI-supported measures aimed at mobilising FCNR(B), ECB and other foreign-currency inflows could strengthen the capital account later in the year. However, geo-political tensions and external shocks continue to weigh on India's external balances.

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