

Outlook on Current Account

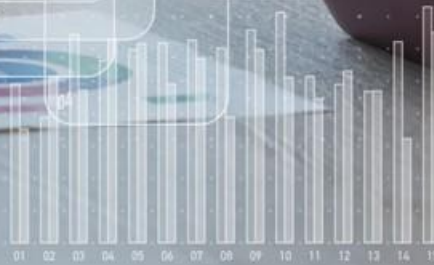
India's current account saw surplus of \$7.1 billion in Q4, amid surge in remittances; CAD may widen to ~1.7% of GDP in FY2027, with upside risks

JUNE 2026



| | | | | | | |
|---------|-------|-------|---------|---------|--------|---------|
| 1,825 | 1,342 | 2,807 | 7,454 | 4,322 | 1,433 | 3,652 |
| (1,428) | (125) | (436) | (1,947) | (1,121) | (736) | (1,769) |
| 791 | 2,224 | 5,211 | 7,150 | 792 | 1,901 | 3,260 |
| (1,25) | (134) | (485) | (715) | (1,81) | (2,02) | (1,22) |
| 1,488 | 499 | 1,34 | 1,9 | 1,5 | 1,5 | 1,5 |
| (1,18) | (112) | (1,9) | (1,9) | (1,9) | (1,9) | (1,9) |

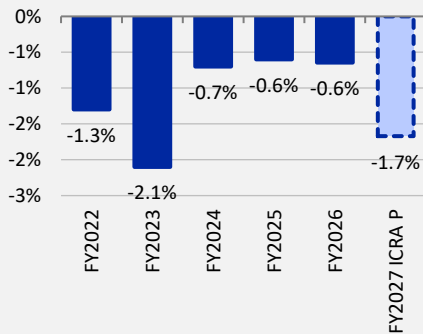
| | |
|-------|-------------|
| 01 | 12,349,000 |
| 3,640 | 230,801,000 |
| 1,062 | 85,898,000 |
| 485 | 8,369,000 |
| 8,549 | 189,301,000 |
| 4,602 | 102,698,000 |
| 890 | 24,897,000 |
| 6,280 | 76,002,000 |
| 2,624 | 57,610,000 |





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EXHIBIT: Annual trends in India's Current Account Balance (% of GDP)



P: Projected; Source: RBI, ICRA Research

India's current account recorded a surplus of \$7.1 billion in Q4 FY2026 (0.7% of GDP) in contrast with ICRA's forecast of a marginal deficit, largely owing to a surge in remittance inflows as well as narrower-than-projected primary income outflows. As a result, the current account deficit (CAD) was contained at just 0.6% of GDP in FY2026, similar to the FY2025 levels. Nevertheless, financing even these levels posed a challenge, amid negligible net capital inflows, leading to a \$23.6 billion drawdown in reserve assets in FY2026. Looking ahead, ICRA expects the CAD to more-than-double to 1.7% of GDP in FY2027, owing to the surge in global energy prices following the West Asia conflict. While the recent measures to attract capital flows by the Government of India (GoI) and the Reserve Bank of India (RBI) are expected to provide some respite, these may remain insufficient unless net FDI inflows improve materially from the current levels.

- India's current account reverted to surplus of \$7.1 billion (0.7% of GDP) in Q4 FY2026:** This was in contrast to ICRA's expectation of a marginal deficit, largely led by a surge in remittances (YoY: +31%; QoQ: +17%) and lower-than-expected primary income outflows. The turnaround to a surplus in Q4 FY2026 from a CAD (\$15.5 billion; -1.5% of GDP) in Q3 was led by a narrower merchandise trade deficit (to \$83.4 billion in Q4 from \$95.9 billion in Q3) and higher earnings from invisibles (to \$90.5 billion from \$80.4 billion). Overall, the CAD amounted to \$25.2 billion in FY2026, higher than \$22.9 billion seen in FY2025, while remaining stable at 0.6% of GDP.
- Current account surplus, lower capital outflows led to reserve asset accretion in Q4 FY2026:** The moderation in net financial outflows to \$1.2 billion in Q4 FY2026 from \$7.7 billion in Q3 FY2026 (-\$5.6 billion in Q4 FY2025), along with the turnaround in the current account to a surplus in Q4 from a deficit in Q3 led to an accretion to reserve assets of \$7.2 billion in that quarter as against the sizeable drawdown of \$24.4 billion seen in the preceding quarter. Overall, capital inflows shrank to just \$2.3 billion in FY2026 (\$16.7 billion in FY2025), leading to a sizeable depletion of reserve assets amounting to \$23.6 billion relative to \$5.0 billion seen in the year ago period.
- CAD to widen to 1.7% of GDP in FY2027:** This is likely to be led by a rise in the merchandise trade deficit owing to the surge in global energy prices following the West Asia conflict (with an assumption of an average crude oil price of \$95/barrel in FY2027). While the recent measures to attract capital flows by the GoI and RBI are likely to provide some respite, these may remain insufficient unless net FDI inflows improve materially from the current levels.

1 Developments in India's Balance of Payments during Q4 FY2026



2 Preliminary April 2026 trends and outlook for Q1 FY2027



3 FY2027 Outlook on CAD and INR



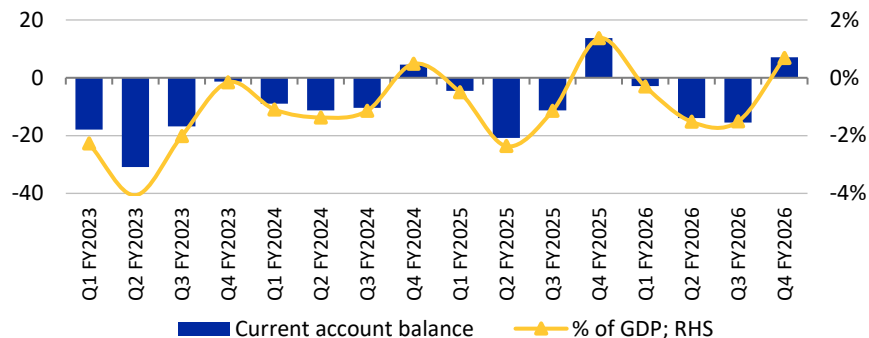


Developments in India's BOP in Q4 FY2026

India's current account recorded surplus of \$7.1 billion or 0.7% of GDP in Q4 FY2026, amid surge in remittances

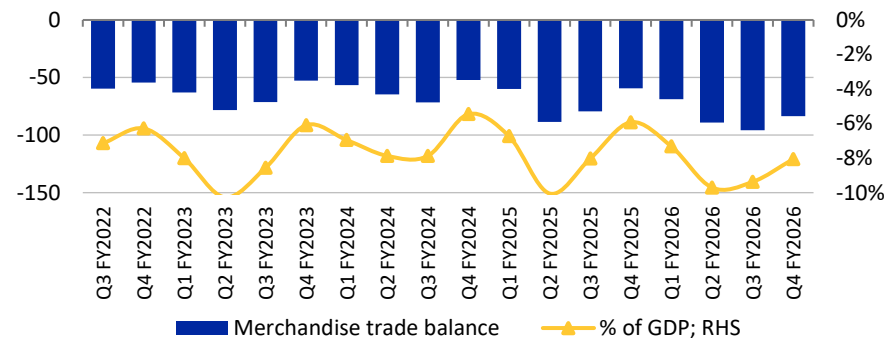
India's current account recorded a seasonal surplus in Q4 FY2026, albeit narrower than year-ago levels

EXHIBIT: Current Account Balance – \$ billion and % of GDP



“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

EXHIBIT: Merchandise Trade Balance - \$ billion and % of GDP

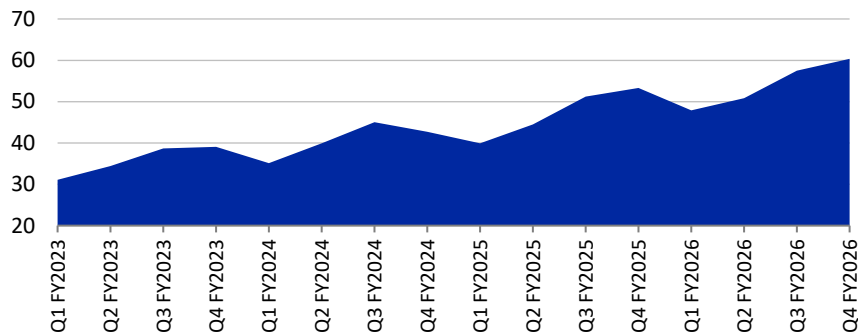


“-” denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

- India's current account unexpectedly posted a surplus of \$7.1 billion in Q4 FY2026 (0.7% of GDP), as against ICRA's forecast of a small deficit. The surprise was largely led by sharp ~31% YoY surge in the remittance inflows to a record high of \$41.3 billion in the quarter, which also exceeded the Q3 FY2026 levels by a healthy ~17%. Besides, outflows on account of primary income were also narrower vis-à-vis our expectations.
- Nevertheless, the surplus was lower than \$13.7 billion (1.4% of GDP) seen in the corresponding year-ago period, primarily on account of a widening in the merchandise trade deficit (to \$83.4 billion in Q4 FY2026 from \$59.3 billion in Q4 FY2025), even as the services trade surplus (to an all-time high \$60.4 billion from \$53.3 billion) and secondary income inflows (to \$41.3 billion from \$31.5 billion) rose between these quarters, and primary income outflows (to -\$11.1 billion from -\$11.9 billion) narrowed.
 - Merchandise import growth was quite strong at 11.8% in Q4 FY2026, boosted by the surge in gold imports (+137.6% YoY; to \$22.6 billion in Q4 FY2026 from \$9.5 billion in Q4 FY2025), followed by the double-digit growth in non-oil non-gold segment (+11.0%).
 - In contrast, exports contracted by 2.8% YoY led by the decline in both oil (-12.8% YoY to \$12.3 billion from \$14.1 in Q4 FY2025) as well as non-oil (-1.5%; to \$100.8 billion from \$102.3 billion; on a BoP basis) exports in Q4 FY2026.

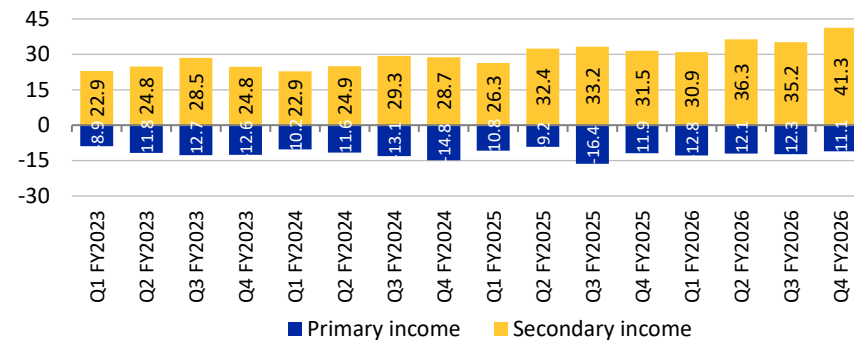
Surge in remittances in Q4 FY2026 led to current account surplus in the quarter

EXHIBIT: Services Trade Account - Net Flows (\$ billion)



“-“ denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

EXHIBIT: Secondary and Primary Income Account - Net Flows (\$ billion)

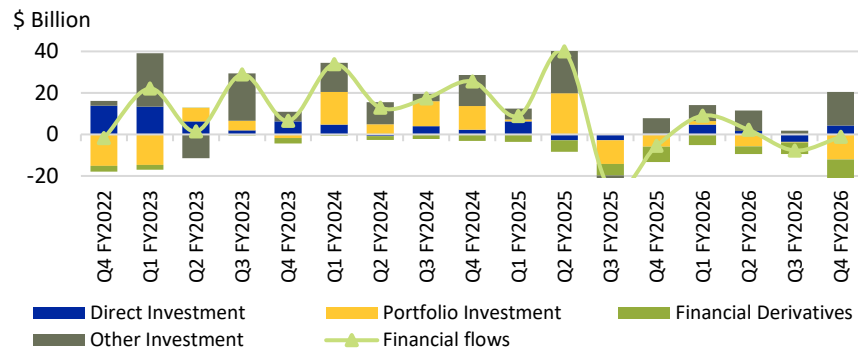


“-“ denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

- India's net services trade surplus touched an all-time high \$60.4 billion in Q4 FY2026, up from \$57.5 billion in Q3 FY2026 and \$53.3 billion in Q4 FY2025. The 13.2% YoY growth largely stemmed from higher net earnings related to telecom, communication and information (+13.1% YoY; to \$46.8 billion in Q4 FY2026), and other business (+11.6% YoY; to \$14.7 billion) services.
- Net inflows of secondary income unexpectedly surged to a record \$41.3 billion in Q4 FY2026 (vs. \$35.2 billion in Q3 FY2026) from \$31.5 billion in Q4 FY2025, led by a sharp uptick in workers remittances (+37.8% YoY; to \$29.1 billion from \$21.1 billion). This was surprising in the wake of the crisis in West Asia, and may have been spurred by a weaker INR.
- Moreover, the net outflows of primary income narrowed to \$11.1 billion in Q4 FY2026 (vs. -\$12.3 billion in Q3 FY2026) from \$11.9 billion in Q4 FY2025.
- Consequently, earnings from invisibles increased by a healthy 24.0% YoY to \$90.5 billion in Q4 FY2026 from \$73.0 billion in Q4 FY2025 (vs. \$80.4 billion in Q3 FY2026). However, this was more-than-offset by the sharp YoY widening in the MTD in Q4 FY2026, leading to a smaller current account surplus in that quarter vis-à-vis that seen in the year-ago period.

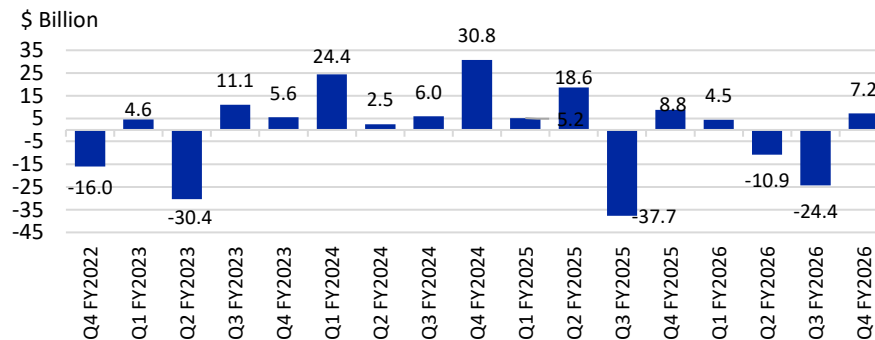
Current account surplus, narrower capital outflows led to accretion to reserve assets in Q4 FY2026, vis-à-vis drawdown seen in Q3

EXHIBIT: Trends in Financial flows to India (\$ billion)



“-“ denotes outflows and vice versa; Source: RBI; CEIC; ICRA Research

EXHIBIT: Trends in changes in India’s reserve assets (\$ billion)

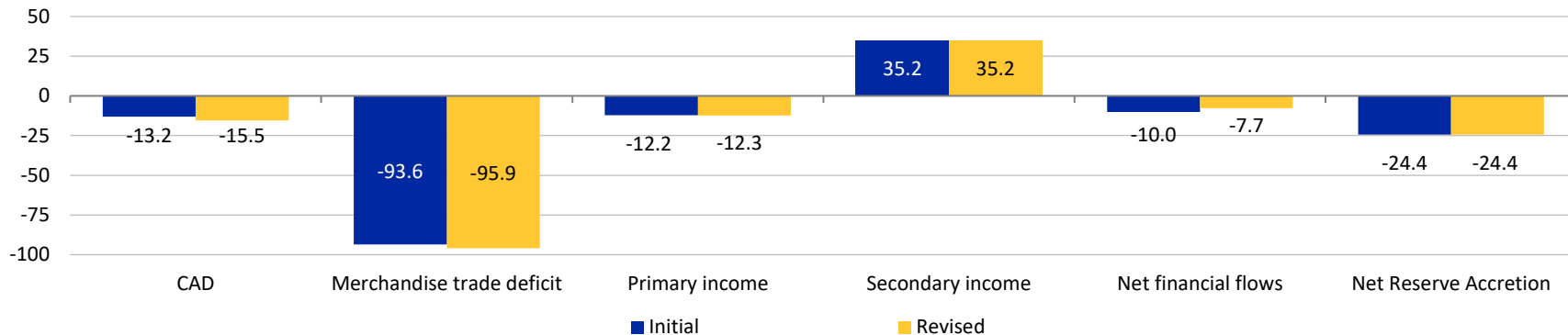


Change in Reserve Asset [Increase (+)/Decrease (-)]; Source: RBI; CEIC; ICRA Research

- India recorded net capital outflows to the tune of \$1.2 billion in Q4 FY2026 narrower than the outflows of \$7.7 billion outflows seen in Q3 FY2026 as well as \$5.6 billion seen in Q4 FY2025.
 - On a QoQ basis, the improvement was driven by a reversal in FDI to net inflows in Q4 FY2026 as opposed to outflows in Q3 (to +\$4.2 billion in Q4 FY2026 from -\$3.7 billion in Q3 FY2026) as well as other accounts receivable/payable (to +\$10.2 billion from -\$14.7 billion). In contrast, the net outflows on account of financial derivatives (to -\$9.6 billion from -\$5.6 billion) and net FPI outflows (to -\$12.0 billion from -\$0.2 billion) widened sharply between these quarters.
 - On a YoY basis, the lower net capital outflows were almost entirely driven by the trend in net FDI inflows (to +\$4.2 billion in Q4 FY2026 from +\$0.4 billion in Q4 FY2025), and a reversal in banking capital flows (to +\$1.5 billion from -\$11.6 billion).
- Overall, the turnaround in the current account to a surplus in Q4 FY2026 from a deficit in Q3, along with a narrowing of capital outflows between these quarters, led to an accretion to reserve assets amounting to \$7.2 billion in that quarter as against the sizeable drawdown of \$24.4 billion seen in the preceding quarter (on a BoP basis). Nevertheless, this was slightly lower than the accretion of \$8.8 billion seen in India’s reserve assets during Q4 FY2025, which had been driven by a larger current account surplus.

CAD for Q3 FY2026 revised upwards, owing to wider-than-estimated merchandise trade deficit

EXHIBIT: Revisions in Q3 FY2026 Balance of Payments data (\$ billion)

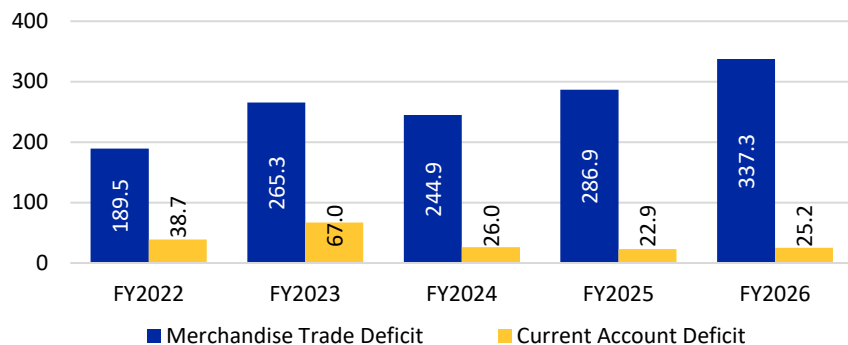


Source: RBI; CEIC; ICRA Research

- The size of the CAD for Q3 FY2026 underwent a considerable revision to \$15.5 billion from the initial estimate of \$13.2 billion, largely on account of a rise in the size of the merchandise trade deficit (to \$95.9 billion from \$93.6 billion), and a marginal upward revision in the primary income outflows (to -\$12.3 billion from -\$12.2 billion), even as secondary income inflows were unchanged at its initially reported level (+\$35.2 billion).
- The quantum of net financial outflows in Q3 FY2026 (to -\$7.7 billion from -\$10.0 billion) also underwent a similar downward revision, which resulted in the net reserve drawdown for the quarter remaining unchanged at \$24.4 billion.

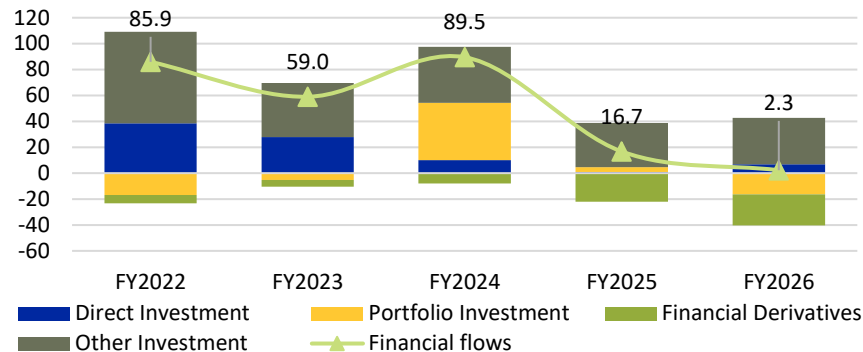
India's CAD remained stable at 0.6% of GDP in FY2026, even as sharp dip in net financial inflows led to sizeable reserve drawdown of \$23.6 billion

EXHIBIT: Trends in current account deficit and merchandise trade deficit in FY2022-26 (\$ billion)



Source: RBI; CEIC; ICRA Research

EXHIBIT: Trends in financial flows in FY2022-26 (\$ billion)



Source: RBI; CEIC; ICRA Research

- India's CAD widened to \$25.2 billion in FY2026 (0.6% of GDP) from \$22.9 billion in FY2025 (0.6% of GDP), as the increase in the merchandise trade deficit (to \$337.3 billion from \$286.9 billion) offset the higher net invisible receipts (to \$312.0 billion from \$264.0 billion).
- However, net financial flows slumped to a meagre \$2.3 billion in FY2026 from \$16.7 billion in FY2025, primarily led by net foreign portfolio investment outflows amounting to \$16.4 billion, as against net inflows of \$3.6 billion in FY2025. Additionally, the net outflows on account of financial derivatives (to -\$24.0 billion from -\$22.1 billion) widened during this period. However, net other investment inflows (to \$35.7 billion from \$34.3 billion) and net FDI inflows (to \$6.9 billion from \$1.0 billion) rose in FY2026 compared to the year ago levels.
- Overall, the negligible net financial inflows remained insufficient to finance the CAD, resulting in a sizeable reserve depletion (on a BoP basis) of \$23.6 billion in FY2026, as against the modest drawdown of just \$5.0 billion seen in FY2025.

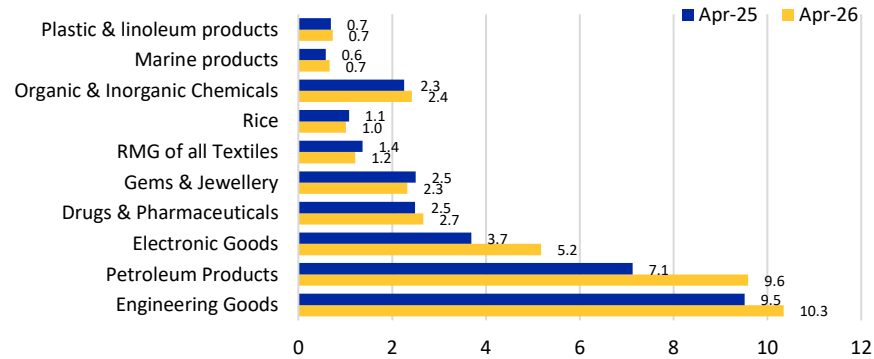


Preliminary trends for April 2026 and outlook for Q1 FY2027

Current account deficit projected at ~1.7% of GDP in Q1 FY2027

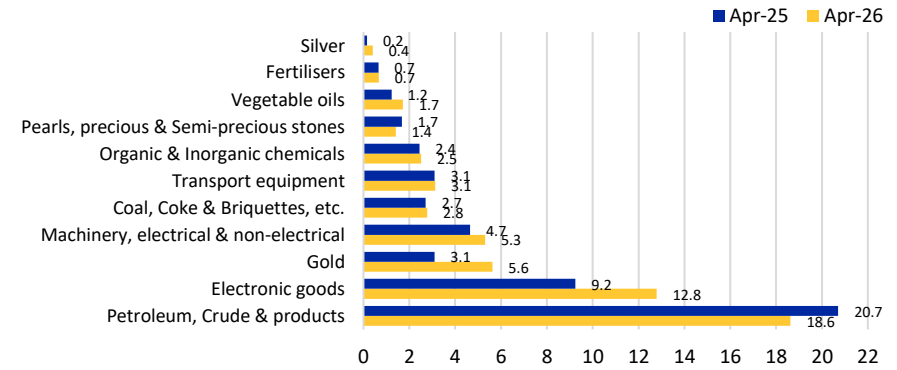
India's merchandise exports surged by ~14% YoY in April 2026, aided by spike in commodity prices; such imports were up by ~10% in the month

EXHIBIT: Trends in Merchandise Exports (\$ billion)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Trends in Merchandise Imports (\$ billion)

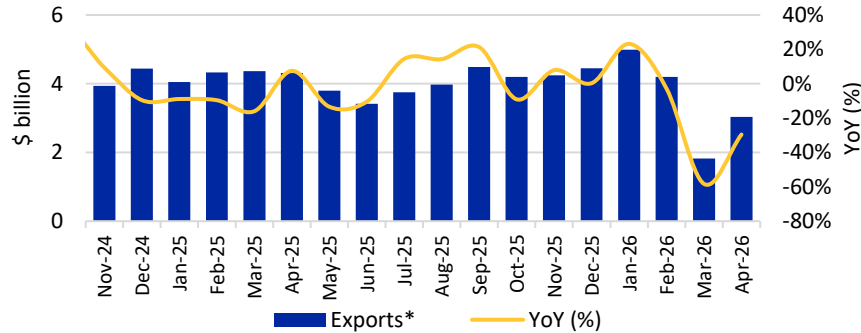


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- India's merchandise exports rose by 13.8% YoY to a 49-month high of \$43.6 billion in April 2026, partly reflecting the jump in commodity prices amid the West Asia conflict. On a sequential basis, such exports rose by a sharp 11.9% from \$38.9 billion in March 2026. While shipments of oil surged by 34.7% YoY to a 24-month high \$9.6 billion in April 2026, reflecting the spike in global petroleum product prices, that for non-oil exports rose by a relatively lower 9.0% YoY to a four-month high of \$34.0 billion in April 2026. In terms of a commodity wise analysis, exports of electronic (+40.3%) and engineering (+8.8%) goods, marine products (+14.7%), drugs & pharmaceuticals (+7.1%), and chemicals (+7.3%) drove the YoY increase in exports in April 2026.
- In addition, merchandise imports rose by 10.0% YoY to a six-month high of \$71.9 billion in April 2026, while also surging by 20.7% on a sequential basis in the month. This was largely driven by gold imports, which spiked by ~81.7% YoY and ~84% MoM to \$5.6 billion in April 2026, partly owing to a surge in prices; such imports contributed nearly ~39% to the overall YoY increase in imports in April 2026. This was followed by a healthy 14.7% uptick in non-oil non-gold imports (to \$47.7 billion in April 2026 from \$41.6 billion in April 2025), led by electronic goods, electrical and non-electrical machinery, etc. However, oil imports fell by 10.0% YoY to \$18.6 billion in April 2026, amid a high base (+25.5% in April 2025); such imports rose by a sharp ~53% MoM, partly owing to higher prices.

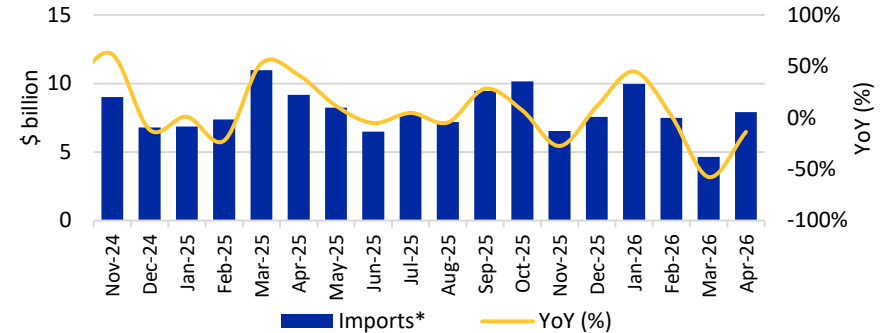
Trade flows with West Asian countries recovered slightly in April 2026, while remaining subdued

EXHIBIT: Total merchandise exports to the UAE and Saudi Arabia



*UAE + Saudi Arabia; Source: Ministry of Commerce and Industry, Gol; CMIE; ICRA Research

EXHIBIT: Total merchandise imports from the UAE and Saudi Arabia

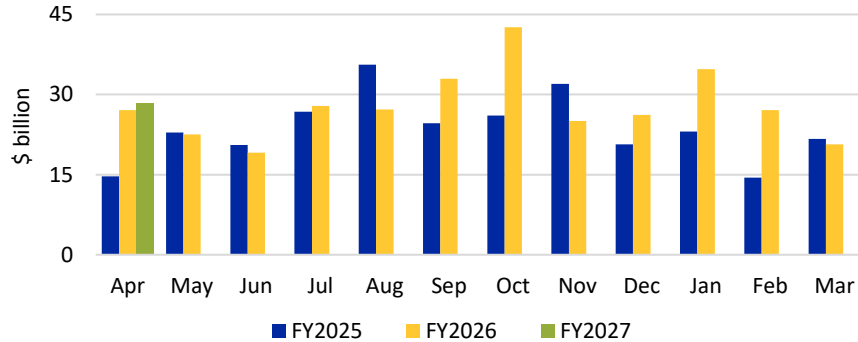


*UAE + Saudi Arabia; Source: Ministry of Commerce and Industry, Gol; CMIE; ICRA Research

- The total exports to the UAE and Saudi Arabia declined sharply by 29.6% YoY to \$3.0 billion in April 2026; while this marks an improvement over the multi-year low of \$1.8 billion seen in March 2026 (-58.3% YoY), it is still lower than the average of \$4.2 billion/month seen during April-February FY2026.
- Additionally, the total imports from the UAE and Saudi Arabia contracted by relatively narrower ~13.8% YoY to \$7.9 billion in April 2026 as against the 57.6% dip seen in March 2026. This largely reflects the upswing in oil prices, and is only marginally lower than the average of \$8.2 billion/month seen during April-February FY2026.
- West Asia accounts for a significant share of India's trade, with ~14% of exports and ~20% of imports linked to the region. The ongoing conflict poses material risks to India's trade flows, in the form of higher freight costs, supply delays, and uncertainty over energy supplies. Besides, ~40% of India's inward remittances stem from West Asian countries such as the UAE (19%), Saudi Arabia (7%), Kuwait (4%), Qatar (4%), Oman (3%), and Bahrain (2%).

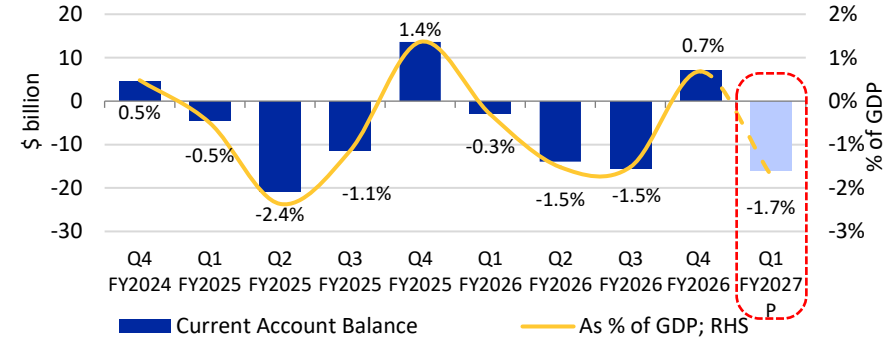
India's current account deficit to print at ~1.7% of GDP in Q1 FY2027

EXHIBIT: Trends in India's Merchandise Trade Deficit (MTD)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: India's Current Account Balance (\$ billion; % of GDP)



P: Projected; Data labels correspond to CAD as % of nominal GDP; ICRA's nominal GDP Proj. has been used for Q1 FY2027; Source: RBI; CEIC; ICRA Research

- With the sharp ~14% YoY growth in merchandise exports outpacing that in such imports (+10%), India's merchandise trade deficit expanded mildly to \$28.4 billion in April 2026 from \$27.1 billion in April 2025. This was driven by the expansion in the non-oil deficit (to \$19.4 billion in April 2026 from \$13.5 billion in April 2025), while that in the oil segment (to \$9.0 billion from \$13.6 billion) narrowed, limiting the YoY uptick in the MTD in April 2026. However, the MTD rose quite sharply on a sequential basis in April 2026 from \$20.7 billion seen in March 2026, led by higher gold and net crude oil imports, which accounted for ~60% of the uptick in the overall deficit between these months.
- As per the data released by the RBI, India's services exports grew by a robust 12.7% YoY to \$37.0 billion in April 2026, outpacing the growth in such imports (+8.9% to \$18.4 billion). As a result, the services trade surplus improved to \$18.6 billion from \$15.9 billion in April 2025, while trailing the monthly average of \$20.1 billion seen in Q4 FY2026.
- While the hike in customs duty on gold and silver (to 15% from 6%) may provide some respite, the merchandise trade deficit prints are expected to remain elevated in the near term, which is set to weigh on India's CAD. Overall, ICRA projects the CAD to print at ~1.7% of GDP in Q1 FY2027, following the surplus of \$7.1 billion seen in Q4 FY2026.**

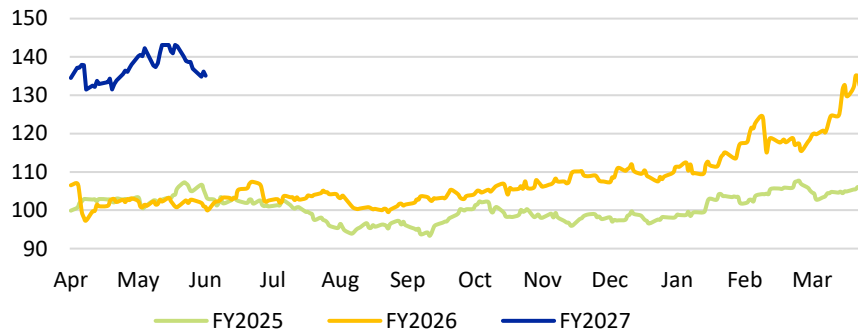


Outlook on CAD and INR

India's CAD/GDP to widen to ~1.7% in FY2027, with risks tilted to upside

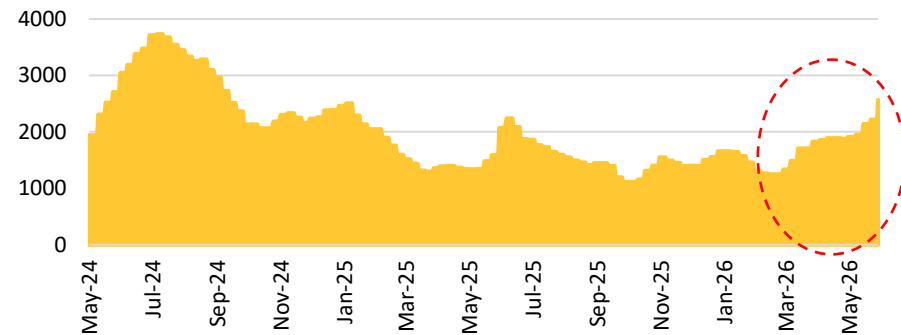
Commodity prices and shipping container freight rates have spiked amid ongoing West Asia conflict

EXHIBIT: Trends in the Bloomberg Commodity Price Index



*Data for FY2027 is up to May 29, 2026; Source: Refinitiv, ICRA Research

EXHIBIT: Trends in Shanghai (Export) Containerized Freight Index

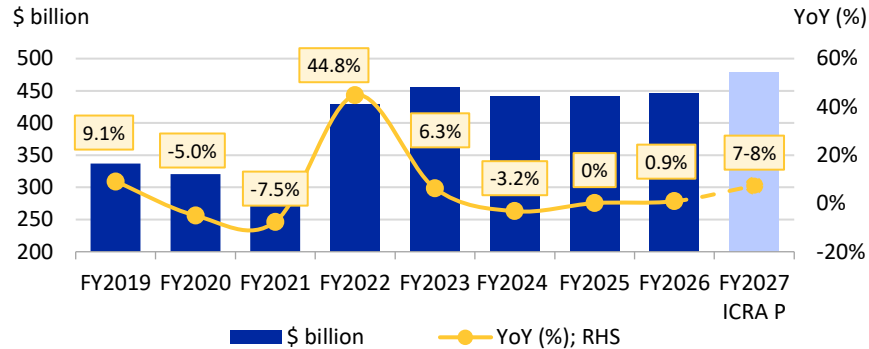


Source: Refinitiv, ICRA Research

- Owing to the onset of the West Asia conflict at end-February 2026 and the consequent supply chain bottlenecks amid the disruption in Strait of Hormuz, the Bloomberg commodity price index averaged ~18% higher in May 2026 compared to its February 2026 average. This is led by a surge in prices of energy, industrial metals, and grains, that offset the easing seen in precious metals. The index is up 3.2% MoM (+3.0% in April 2026) and 37.2% YoY (vs. +32.7% YoY in April 2026) in May 2026.
- Additionally, shipping container freight rates (as per the Shanghai Containerized Freight Index) have spiked by ~64% in May 2026, relative to the average levels seen in February 2026. Moreover, the Index averaged 11.0% higher on a sequential basis in May 2026, while exceeding the year ago level by a sharp 42.3%. **Looking ahead, any escalation in the ongoing West Asia conflict and its impact on shipping timelines, freight rates, and commodity prices continues to pose key downside risks for India's merchandise trade.**

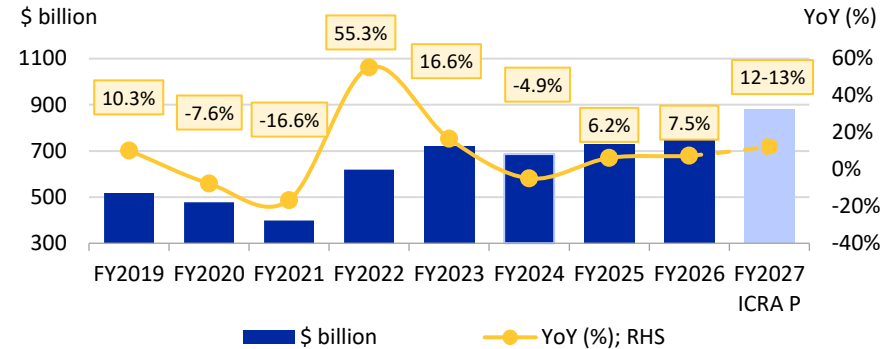
Pace of YoY expansion in merchandise imports to outpace that in such exports in FY2027; persistence of West Asia crisis to pose downside risks

EXHIBIT: Trends in merchandise exports



P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Trends in merchandise imports

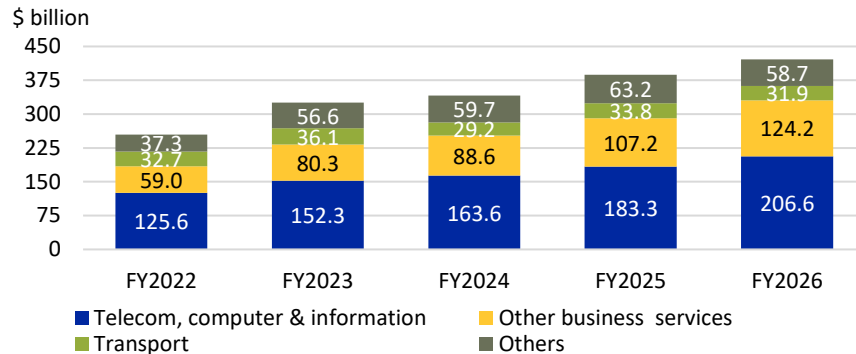


P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research

- ICRA expects the value of merchandise exports to rise by 7-8% YoY to \$478-480 billion in FY2027 (\$446.1 billion in FY2026; on a BoP basis), aided by a low base as well as the jump in commodity prices owing to the West Asia crisis. While the spike in crude oil prices are likely to boost the value of petroleum shipments in FY2027 (ICRA P: +34% to +36%), weak external demand would limit the growth in value of the non-oil segment (ICRA P: +3% to +4%).
- The rise in oil prices is likely to push up the value of petroleum crude and product imports significantly by ~40% in FY2027 (ICRA P oil prices: \$95/bbl in FY2027 vs. \$71.7/bbl in FY2026); the persistence of the West Asia crisis and the consequent spike in crude oil prices is likely to pose upside risks for India's oil import bill. While the increase in customs duty on gold imports (from 6% to 15%) is expected to lead to a fall in such imports, the non-oil non-gold segment is projected to grow by 6-7% YoY in FY2027, led by higher commodity prices. **Overall, ICRA estimates a 12-13% growth in merchandise imports (in \$ terms) to \$788-800 billion in FY2027 (\$783.4 billion in FY2026).**

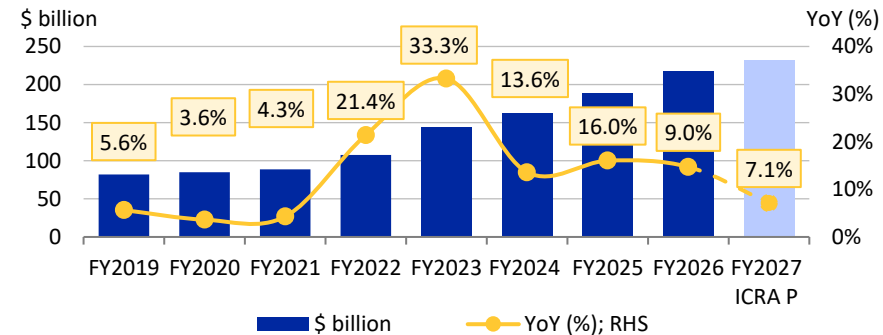
Services trade surplus to grow by ~7% YoY to \$231-233 billion in FY2027

EXHIBIT: Trends in composition of services exports



Source: RBI; CEIC; ICRA Research

EXHIBIT: Annual trends in services trade surplus

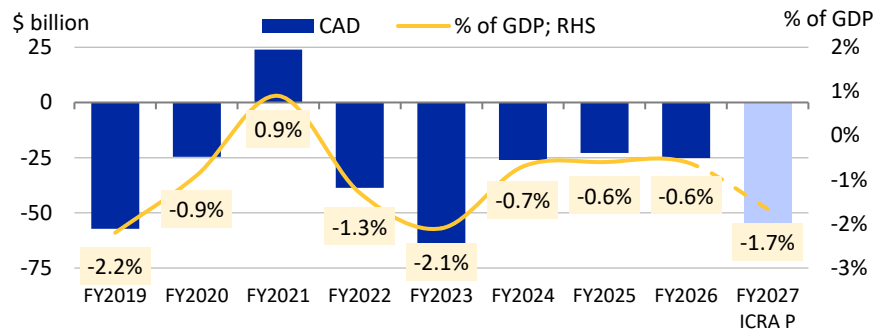


P: Projected; Source: RBI; CEIC; ICRA Research

- After rising by 8.7% in FY2026, India's services exports rose by a robust 12.7% YoY to \$37.0 billion in April 2026, while services imports rose by a relatively lower 8.9% to \$18.4 billion in April 2026. Consequently, the services trade surplus expanded to \$18.6 billion in April 2026 from the year ago level of \$15.9 billion. However, in line with seasonal trends, it trailed the average level of \$20.1 billion seen during Q4 FY2026.
- ICRA expects the services trade surplus to rise by ~7% to \$231-233 billion in FY2027 from \$216.6 billion in FY2026. The expansion in the same would only help marginally offset the estimated uptick in the merchandise trade deficit during the fiscal.

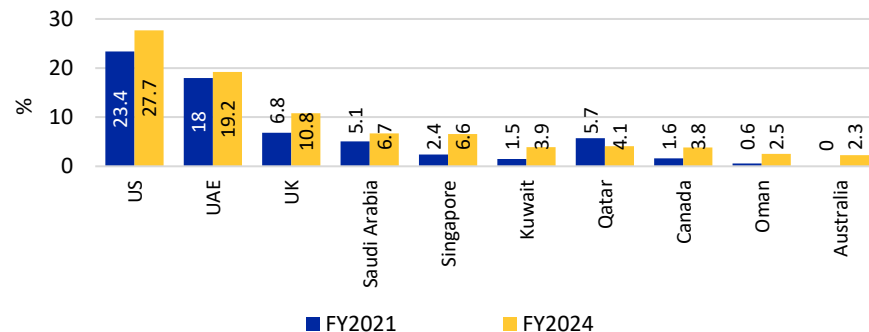
ICRA expects CAD to enlarge to ~1.7% of GDP in FY2027 from 0.6% in FY2026

EXHIBIT: Trends in India's Current Account Balance



P: Projection; Source: RBI, NSO, Gol; ICRA Research

EXHIBIT: Share in India's total inward remittances for top 10 countries

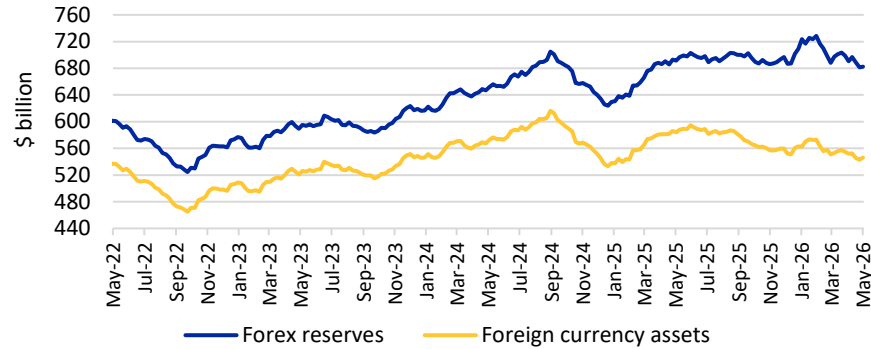


Source: RBI; ICRA Research

- We estimate the merchandise trade deficit to widen to ~\$400 billion in FY2027 from \$337.3 billion in FY2026 (on a BoP basis). This is likely to be partly offset by a healthy growth in the service trade surplus (to \$231-233 billion in FY2027 from \$216.6 billion in FY2026). **Consequently, India's CAD is forecasted to widen to ~1.7% of GDP in FY2027 from 0.6% of GDP in FY2026.**
- Our baseline estimates have pencilled in average crude oil prices at \$95/bbl for FY2027, with softening bias in H2 (to around \$80/bbl). Nevertheless, the near-term prints for merchandise trade deficit may remain elevated owing to high commodity prices, and rising shipping freight and insurance costs.
- The possibility of the conflict lasting for an extended period poses sizeable upside risks to ICRA's projections for crude oil prices, and for India's import bill and CAD. **Our analysis suggests that every \$10/bbl rise in the average price of crude oil for the year (vs. the baseline estimate) would widen the CAD by 30-40 bps in the fiscal.**
- While the [recent measures to attract capital flows](#) by the Gol and the RBI are expected to provide some respite, these may remain insufficient unless net FDI inflows improve materially from the current levels.

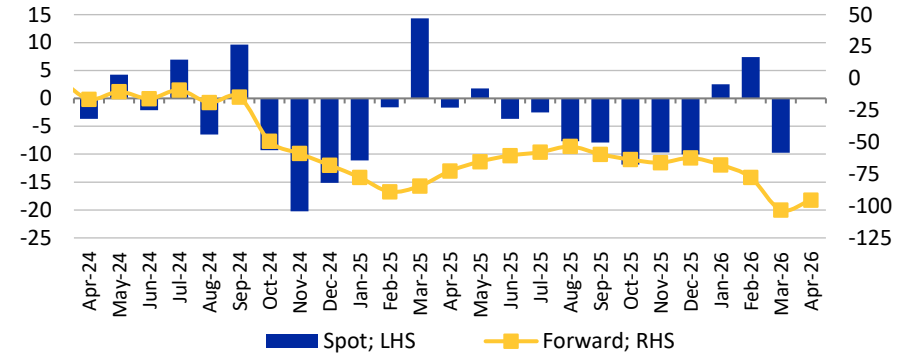
India's forex reserves down by ~46 billion since onset of conflict; forward book eased slightly to \$95 billion at end-April 2026 from record levels at end-FY2026

EXHIBIT: India's Foreign Exchange Reserves



Source: RBI; CEIC; ICRA Research

EXHIBIT: Net sales/purchases of \$ in the spot market and outstanding net sales/purchases in forward market by the RBI (\$ billion)

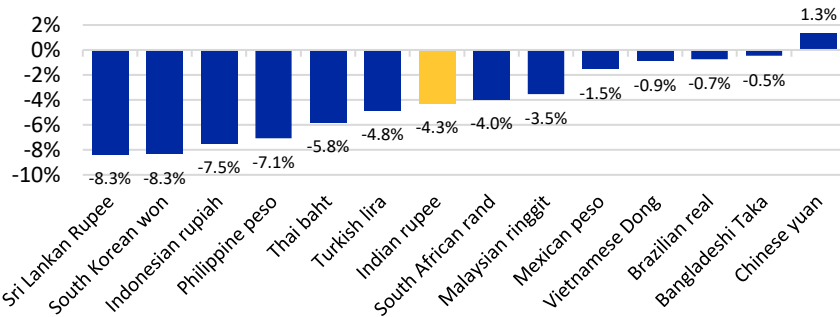


*Net Purchase (+)/ Sale (-); Source: RBI; CEIC; ICRA Research

- Since the onset of West Asia crisis, India's forex reserves dipped by nearly \$46 billion to \$682.3 billion as on May 29, 2026 from a record \$728.5 billion as on February 27, 2026, of which moderation of ~\$27 billion stemmed from foreign currency assets (FCA) and ~\$19 billion from gold reserves. The former may also reflect the market intervention by the Central Bank to contain the sharp depreciation in the USD/INR pair in the spot market (net dollar sales: \$9.8 billion in March 2026). The forex cover of FY2026 merchandise imports also eased to ~10.6 months in May 2026 (vs. 10.7 months a year ago) from 11.3 months at end-February 2026.
- Amid depreciation pressure in the USD/INR pair, the extent of net dollar sales by the RBI in the spot market widened sharply to \$9.8 billion in March 2026 from \$0.1 billion during December-February FY2026. The quantum of the RBI's intervention in the spot market also increased significantly, with the average monthly gross dollar sales surging to \$25.2 billion in H2 FY2026 from \$6.8 billion in Q2 FY2026, and such gross purchases at \$20.0 billion vs. \$0.7 billion, respectively.
- In the forward market, the RBI's outstanding net sales scaled up to a record high of \$103.1 billion at end-March 2026 from \$62.4 billion at end-December 2025. Thereafter, the net forward book moderated to \$95.3 billion at end-April 2026, albeit remaining quite elevated. Notably, the outstanding net short positions with a maturity of less than 3M (by -\$6.2 billion; share: 26%), and more than 1Y (-\$2.1 billion; 53%) periods declined sequentially in April 2026, while that with maturity of 3M-1Y period increased slightly.

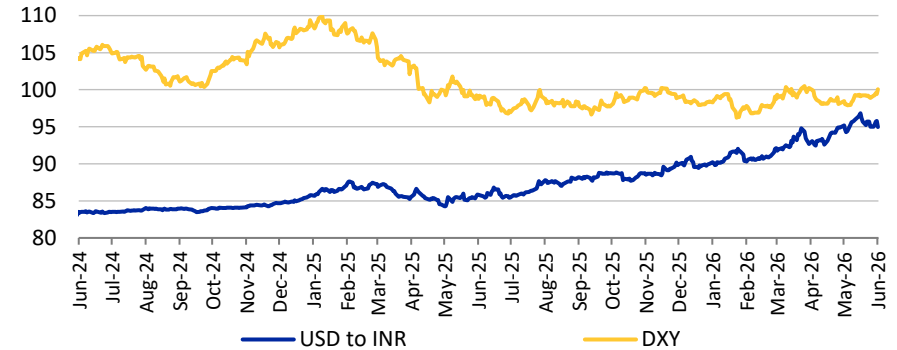
USD/INR pair to trade in the range of 94.0-96.0 in the near term

EXHIBIT: Exchange Rate Movements of Various Currencies Relative to the \$ as on June 5, 2026 over February 27, 2026 (prior to onset of West Asia war)



*Negative values indicate depreciation against the \$; Source: Refinitiv, ICRA Research

EXHIBIT: Trends in USD/INR and DXY



*Data until June 5, 2026; Source: Refinitiv; CEIC; ICRA Research

- The USD/INR pair depreciated by 4.3% as on June 6, 2026 vs. end-February 2026, faring better than only 6 of the 14 EM currencies in ICRA’s sample set, including Thai Baht, South Korean won, Indonesian rupiah, Philippine peso, Turkish lira, and Sri Lankan rupee.
- In May 2026, the pair traded in a wide range of 94.25-96.82 (variation: 2.45/\$ vs. 2.57/\$ in April 2026), touching an all-time low of 96.82 on May 20, 2026, albeit recovering towards the end of the month, closing at 95.0 on the last trading day, thereafter, it has traded ~95 in June 2026 so far (until 5th). The turnaround was likely driven by the RBI’s intervention in the forex market, as well as favourable news flows around the West Asia conflict. Meanwhile, the DXY has strengthened from 97.6 at end-February 2026 to 100.1 as on June 5, 2026, amid heightened global macroeconomic uncertainties and increasing likelihood of a Fed rate hike.
- **We expect the USD/INR pair to trade in the 94-96 range in the near term, with the GoI’s and RBI’s measures to attract capital flows providing some respite against the sustained depreciation pressures seen on account of heightened geopolitical tensions. Any favourable developments like the resolution of the conflict and cooling in crude oil prices would ease pressure on India’s import bill and CAD, and consequently, the USD/INR pair.**

EXHIBIT: Trends in India's Current account

| Figures in \$ billion | Q4 FY2025 | Q1 FY2026 | Q2 FY2026 | Q3 FY2026 | Q4 FY2026 | FY2024 | FY2025 | FY2026 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Merchandise Exports | 116.4 | 112.7 | 109.0 | 111.3 | 113.1 | 441.4 | 442.1 | 446.1 |
| Merchandise Imports | 175.8 | 181.6 | 198.1 | 207.2 | 196.6 | 686.3 | 729.0 | 783.4 |
| Merchandise Trade Balance | -59.3 | -68.9 | -89.1 | -95.9 | -83.4 | -244.9 | -286.9 | -337.3 |
| Net Services | 53.3 | 47.9 | 50.9 | 57.5 | 60.4 | 162.8 | 188.8 | 216.6 |
| Primary Income | -11.9 | -12.8 | -12.1 | -12.3 | -11.1 | -49.8 | -48.3 | -48.2 |
| Secondary Income | 31.5 | 30.9 | 36.3 | 35.2 | 41.3 | 105.9 | 123.5 | 143.6 |
| Current Account Balance | 13.7 | -2.9 | -14.0 | -15.5 | 7.1 | -26.0 | -22.9 | -25.2 |
| Percentage of GDP | +1.4% | -0.3% | -1.5% | -1.5% | 0.7 | -0.7% | -0.6% | -0.6% |

EXHIBIT: Trends in India's Financial flows

| Figures in \$ billion | Q4 FY2025 | Q1 FY2026 | Q2 FY2026 | Q3 FY2026 | Q4 FY2026 | FY2024 | FY2025 | FY2026 |
|------------------------|-------------|------------|------------|--------------|-------------|-------------|-------------|-------------|
| Financial flows | -5.5 | 8.1 | 0.7 | -10.0 | -1.2 | 86.2 | 12.7 | -2.5 |
| Direct investment | 0.4 | 4.8 | 1.6 | -3.7 | 4.2 | 10.1 | 1.0 | 6.9 |
| Portfolio investment | -5.9 | 1.6 | -5.7 | -0.2 | -12.0 | 44.1 | 3.6 | -16.4 |
| Financial derivatives | -7.5 | -5.1 | -3.6 | -5.6 | -9.6 | -7.9 | -22.1 | -24.0 |
| Other investment* | 7.4 | 7.7 | 10.0 | 1.7 | 16.2 | 43.2 | 34.3 | 35.7 |

*other investments include ECBs, banking capital, trade credit and advances, other accounts receivable/payable, etc.; Source: RBI; CEIC; ICRA Research



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ICRA Analytical Contact Details

| Name | Designation | Email | Contact Number |
|--------------------|---|--|-----------------|
| Aditi Nayar | Chief Economist, Head- Research and Outreach | aditin@icraindia.com | 0124- 4545 385 |
| Rahul Agrawal | Principal Economist | rahul.agrawal@icraindia.com | 022 – 6114 3425 |
| Aarzo Pahwa | Deputy Senior Economist | aarzo.pahwa@icraindia.com | 0124 – 4545 835 |
| Tiasha Chakraborty | Economist | tiasha.chakraborty@icraindia.com | 0124- 4545 848 |
| Isha Sinha | Senior Associate Economist | isha.sinha@icraindia.com | 0124- 4545 377 |





ICRA

Business Development/Media Contact Details

| Name | Designation | Email | Contact Number |
|-----------------|--|--|----------------|
| L Shivakumar | Chief Business Officer | shivakumar@icraindia.com | 022-61693304 |
| Sai Krishna | Head - Research Sales and Investor Connect | sai.krishna1@icraindia.com | 9840774883 |
| Rohit Gupta | Head Business Development – Infrastructure Sector | rohitg@icraindia.com | 0124-4545340 |
| Vivek Bhalla | Head Business Development – Financial Sector | vivek.bhalla@icraindia.com | 022-61693372 |
| Vinita Baid | Head Business Development – East | vinita.baid@icraindia.com | 033-65216801 |
| Shivam Bhatia | Head Business Development – Corporate Sector – North & South | shivam.bhatia@icraindia.com | 0124-4545803 |
| Sanket Kulkarni | Head Business Development – Corporate Sector – West | sanket.kulkarni@icraindia.com | 022-6169 3365 |
| Naznin Prodhani | Head - Group Corporate Communications & Media Relations | communications@icraindia.com | 0124-4545860 |





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