

2Q CAD up QoQ but down YoY; financial flows still a risk

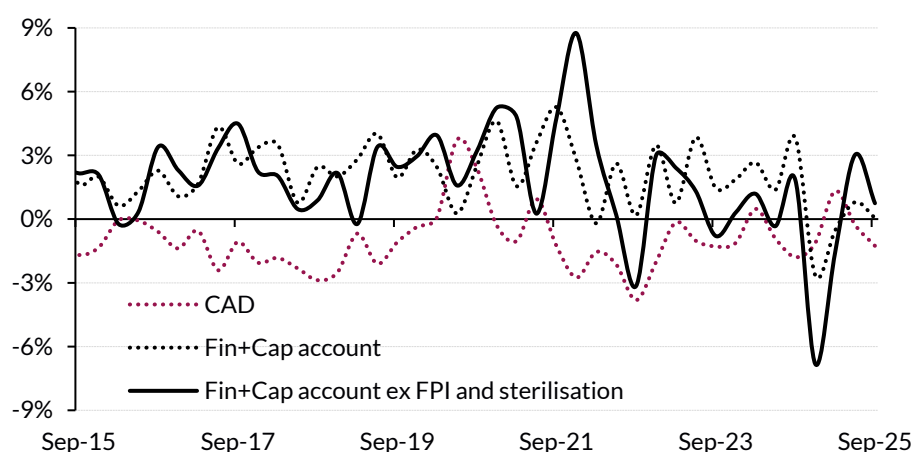
India's 2Q current account deficit widened seasonally to 1.3% of GDP – with increased imports of valuables, electronics, and fertilisers – but was lower than 1.8% in 2QFY25. Invisibles saw rapid growth (+11% YoY) which was also broad-based (remittances, software, and others grew, offsetting primary income outflows). The concern remains financial outflows, spurred by lower global savings: a USD 26bn YoY swing in portfolio flows (outflows of 6bn vs. 20bn inflows in 2QFY25) meant FX reserves fell USD 11 bn. A rebound in nominal growth should help portfolio flows and a weak REER level is likely to damp depreciation ahead. The only risk remains speculative investments in gold.

December 01, 2025

Balance of payments

Quarterly Update

Exhibit 1 - 2Q current A/c weakened QoQ but improved YoY; fin account low



Source: RBI, Axis Bank Research

2Q CAD rises seasonally to 1.3% of GDP, below 1.8% of 2QFY25 (Fig 2)

India 2Q CAD was higher QoQ at 1.3% of GDP, rising from the 0.3% of 1Q (Fig 3) – driven by widening of the merchandise deficit (seasonal, with higher gold, silver and fertiliser imports, and consumption-driven electronics imports), partly offset by increased software services exports and worker remittances (also seasonal). The current account deficit of USD 12.3 bn included interest paid to RBI of USD 7.9 bn. That reserves still fell 10.9 bn, with forward shorts lower only by around 1 bn, was because of continued financial outflows. FDI was net positive but weak, and FPI outflows continued.

Growth in services exports remains robust, offsetting primary income outflows

Net Invisibles grew 11% YoY despite a 27% YoY increase in outflows of primary income (e.g., interest on foreign debt, dividends on equity). Software services exports were up 11% YoY, and remittances 12% YoY, belying the concerns on visa issues. Net services exports ex-software grew a remarkable 32% YoY. We note that services like tourism and trade-related services were weak, implying that 'modern services' continued to grow rapidly. Rolling 4Q net invisibles now total US\$282bn, and are still growing, providing some comfort on CAD.

Mild, not wild depreciation ahead for the INR

Going by the IMF's ARA model and crawl-like arrangement classification, India reserves are low (Fig 7). However, recovery in nominal growth (Fig 8) and rapid REER depreciation (Fig 9) will likely attract flows – used to close shorts, but limiting the pace of weakening near-term.

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Exhibit 2 - Services drives lower CAD over 1QFY25

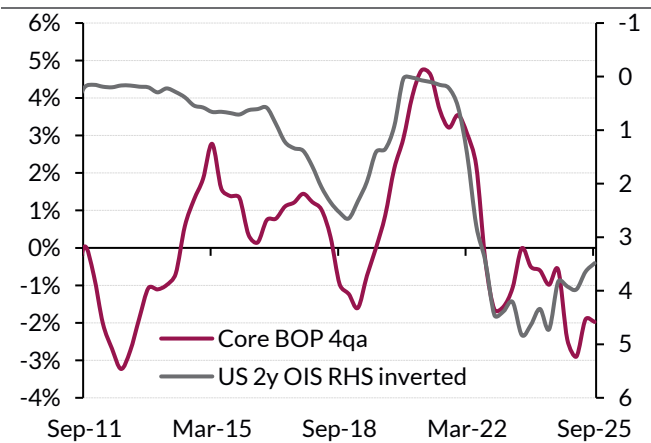
(USD bn)	FY25				FY26		Δ 2QFY26 - 2QFY25
	Q1	Q2	Q3	Q4	Q1	Q2	
Current Account	-8.6	-16.8	-11.3	13.5	-2.7	-12.3	4.5
% of GDP	-0.9%	-1.8%	-1.1%	1.3%	-0.3%	-1.3%	0.5%
Merchandise Exports	111.2	104.5	109.8	116.3	112.7	0.0	-104.5
Merchandise Imports	175.0	189.2	189.1	175.8	181.6	0.0	-189.2
Net Invisibles	55.2	67.9	68.0	73.0	66.2	75.2	7.3
o/w, software	37.4	39.6	41.1	41.5	41.5	43.9	4.3
remittances	26.7	32.6	33.2	31.8	31.1	36.4	3.8
Income	-13.3	-11.2	-18.8	-14.5	-14.8	-14.2	-3.0
Cap & Fin account	13.1	35.8	-26.6	-5.5	8.0	0.6	-35.3
FDI	6.2	-2.8	-2.8	0.4	4.9	2.9	5.7
Portfolio Capital	0.9	19.9	-11.4	-5.9	1.6	-5.7	-25.6
Commercial Borrowings	1.6	5.0	4.4	7.5	3.7	1.6	-3.3
Trade Credit	2.2	5.3	4.0	-4.4	-0.1	2.9	-2.4
Currency & deposits	4.1	6.5	3.1	2.6	3.6	2.4	-4.1
Others	-2.1	2.0	-24.0	-5.7	-5.7	-3.5	-5.6
Reserve Assets	5.2	18.6	-37.7	8.8	4.5	-10.9	-29.5

Source: RBI, Axis Bank Research

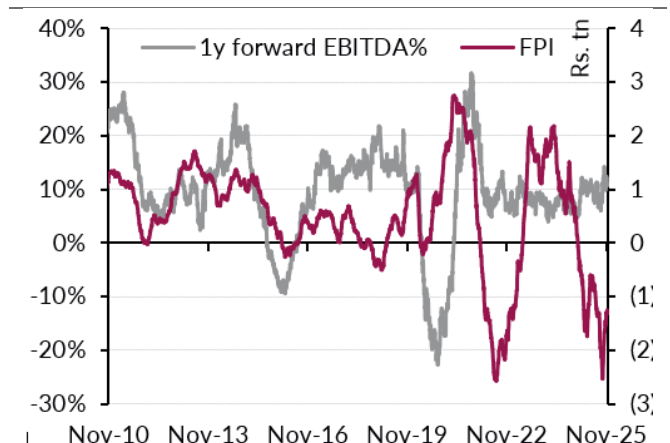
Exhibit 3 - QoQ shift on merchandise, services

(USD bn)	Q1FY26			Q2FY26			Q1 FY26-Q4 FY25		
	Inflow	Outflow	Net	Inflow	Outflow	Net	Inflow	Outflow	Net
Merchandise Trade Balance	112.7	181.6	-68.9	109.4	196.8	-87.4	-3.3	15.3	-18.6
Net Invisibles	143.7	77.5	66.2	157.3	82.2	75.2	13.7	4.7	9.0
Software	47.3	5.9	41.5	49.5	5.6	43.9	2.2	-0.2	2.4
Remittances	33.2	2.1	31.1	38.2	1.7	36.4	5.0	-0.3	5.3
Investment Income	8.5	23.3	-14.8	12.3	26.4	-14.2	3.7	3.1	0.6
Current Account Balance	256.3	259.1	-2.7	266.7	279.0	-12.3	10.4	20.0	-9.6
As % of GDP									
FDI	27.2	22.4	4.9	25.9	23.1	2.9	-1.3	0.7	-2.0
Portfolio capital	146.3	144.7	1.6	135.6	141.3	-5.7	-10.8	-3.4	-7.4
Commercial Borrowings	10.8	7.1	3.7	6.9	5.3	1.6	-3.9	-1.8	-2.1
Trade Credit short term	15.5	15.5	-0.1	17.6	14.7	2.9	2.2	-0.8	3.0
Currency & deposits	23.8	20.2	3.6	23.3	20.9	2.4	-0.5	0.8	-1.2
Others	65.7	71.4	-5.7	163.9	167.4	-3.5	98.2	95.9	2.2
Cap & Fin Account Balance	289.3	281.4	8.0	373.3	372.7	0.6	83.9	91.3	-7.4
Reserve Assets	0.0	-4.5	4.5	-10.9	0.0	-10.9	-10.9	4.5	-15.4

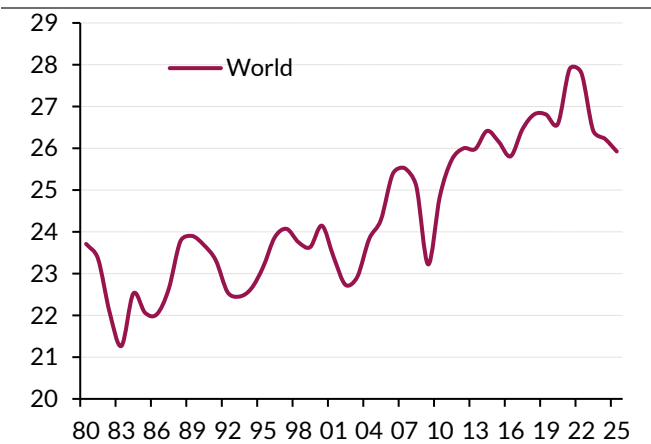
Source: RBI, Axis Bank Research

Exhibit 4 - Core BOP in deficit since FY23, relationship with US rates might have broken


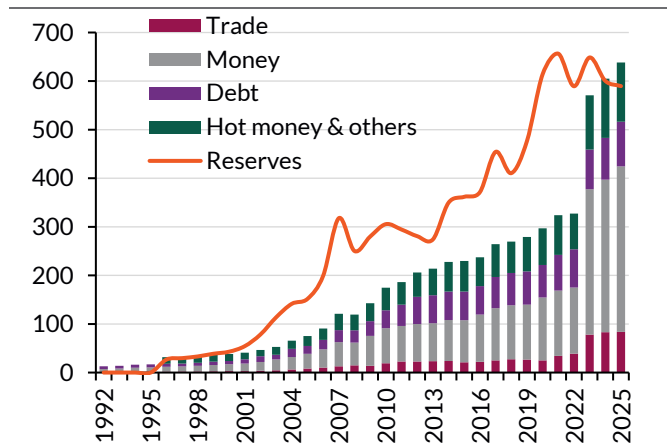
Source: RBI, Bloomberg, Axis Bank Research

Exhibit 5 - Relationship between FPI flows and EBITDA might also have broken


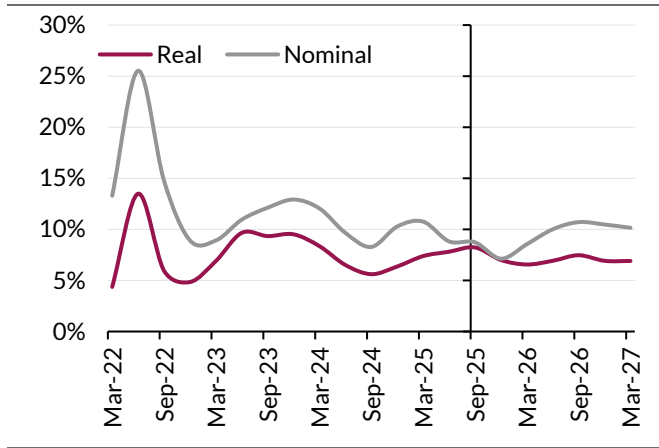
Source: Bloomberg, Axis Bank Research

Exhibit 6 - Gross savings as %GDP on a global basis - sharp drawdown since 2023 might also be at play


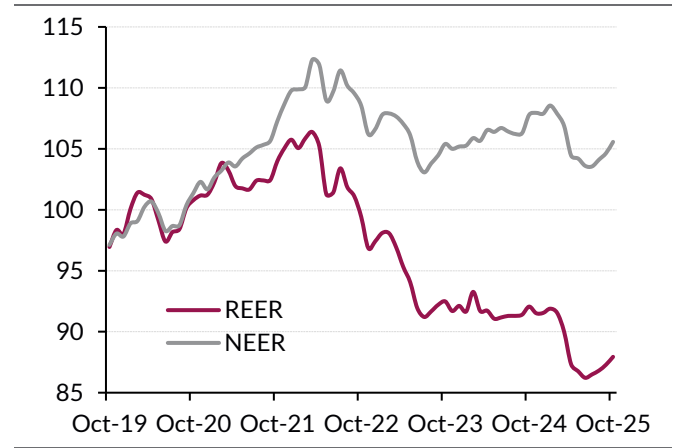
Source: IMF, Axis Bank Research

Exhibit 7 - Going by the ARA metric and INR classification, effective reserves now low


Source: IMF, RBI, Axis Bank Research

Exhibit 8 - Nominal growth likely to recover ahead


Source: CSO, Axis Bank Research

Exhibit 9 - REER plunged from record high to a 2018 low in 12 months


Source: BIS, Axis Bank Research

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