

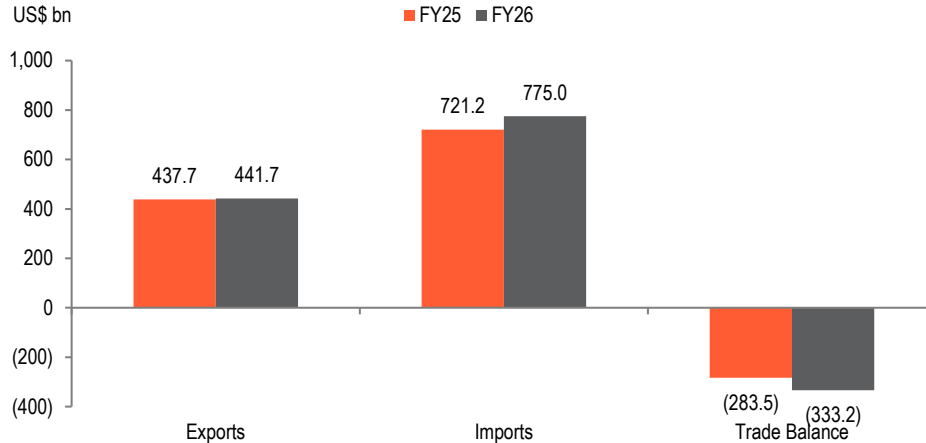
India's Foreign Trade in FY26

India's merchandise trade deficit widened further to US\$ 333.2bn in FY26 from US\$ 283.5bn, led by consistent surge in gold imports, driven by rising demand. The year witnessed deep challenges amidst the evolving geopolitical conflict and the risk of global tariffs. Despite this, India macro fundamentals remains on a stable foothold and exhibited confidence. External sector is expected to do much better as the geopolitical disruption irons out with better trade prospects on the back of the new trade agreements. However, there is downside risk to this outlook, due to the uncertainty and in case the disruptions continue, pushing commodity prices higher, which could add pressure to CAD.

Trade Performance in FY26

India's merchandise exports rose by 0.9% in FY26 to US\$ 441.7bn, against an increase of 0.2% in FY25. Merchandise imports registered a growth of 7.5% compared with a growth of 6.3% in FY25. Imports stood at \$ 775 bn (\$ 721 bn) in FY26. Goods trade deficit expanded to US\$ 333.2bn in FY26 from US\$ 283.5bn in the same period of previous year. Services surplus were US\$ 213.9bn in FY26, up from US\$ 188.8bn in FY25. The overall trade deficit (merchandise and services) widened to US\$ 119.3bn from US\$ 94.7bn in FY25.

Fig 1: India's merchandise trade in FY26



Source: CMIE, Bank of Baroda Research

Exports of major commodities

- Exports of electronic goods continued to expand at similar pace as last year with growth of 24.2% (From 24.9% in FY25).
- Exports of engineering goods have recorded slower growth of 5% in FY26 compared with a growth of 13.5% noted last year.
- For gems and jewellery exports contracted slowly in FY26 at (-) 5.5% from (-) 8.8% in FY25.
- Exports of drugs and pharma rose from 2.1% against 9.1% growth in FY25.
- Export for chemicals remained steady at US\$ 28.7bn in FY26.
- Oil exports declined at a much slower pace in FY26, registering a growth of (-) 15% against a growth of (-) 24.5% in FY25.

Table 1: Exports by major commodities

Items	Share in exports	FY25 (US\$ bn)	FY26 (US\$ bn)	YoY%
Engineering goods	28.0	116.8	122.6	5.0
Oil	12.3	63.3	53.8	-15.0
Electronic goods	11.0	38.7	48.0	24.2
Drugs and pharmaceuticals	7.1	30.5	31.1	2.1
Gems and jewellery	6.4	29.8	28.2	-5.5
Chemicals	6.6	28.7	28.7	0

Source: CMIE, Bank of Baroda Research

Imports of major commodities

- Within imports, oil imports have fallen by (-) 6.5% in FY26 after increasing by 3.9% in the previous year. It should be noted that even though crude price in FY26 had surged by 58% after declining by (-) 15% in the previous year, a major chunk of this increase happened only at the onset of the West Asia conflict, with the closure of the Strait of Hormuz, a global chokepoint. Between, Apr-Feb'26 and last year for the same period, crude prices had actually declined by (-) 1%.
- Gold imports continue to grow at a healthy pace and registered a growth of 25% in FY26 from 27% in the previous year. Even silver imports shone brightly as it registered growth this year at 151% after declining by 11.3% in FY25. This was on the back of the higher prices and strong demand noted during this period.
- For other major commodities, import of electronic goods expanded at a much stronger pace, with double digit growth of 17.9% against 8.5% growth in FY25. Interestingly, the electronic imports has surpassed the US\$ 100bn milestone in FY26. Furthermore, the share of exports to imports for electronic goods has also remained steady in FY26 from last year.
- Imports of machinery too registered strong growth of 15.8% in FY26 compared with a growth of 9.1% in FY25.
- Non-oil-non-gold imports edged up by 10.9% for FY26, signaling solid demand.
- Pulses imports have declined by 34.45 in FY26 after increasing by 46.3% in FY25.
- Import of edible oil expanded at a much slower pace for the same period (12.4% from 16.7%).
- In case of imports of transport and equipment, chemical and iron and steel, much slower growth was witnessed.

Table 2: Imports of major commodities

Items	Share in imports	FY25 (US\$ bn)	FY26 (US\$ bn)	YoY%
Oil	24.1	185.7	173.6	-6.5
Electronic Goods	16.1	98.7	116.4	17.9
Gold	10.0	58.0	72.4	25.0
Machinery	8.6	53.5	61.8	15.8
Transport equipment	4.8	34.3	34.8	1.5
Coal	3.9	31.1	27.9	-10.0
Organic and inorganic chemicals	3.9	28.4	27.9	-1.8
Iron and Steel	3.0	22.6	21.5	-5.2
Pearls and Precious Metals	2.6	18.0	18.4	2.5

Source: CMIE, Bank of Baroda Research

Region wise movement

Given the evolving geopolitical dynamics, the exports and import growth across countries has changed a lot in FY26 from last year. Imports from China (16% from 11.5%) and US (15.9% from 8.1%) has grown a lot more, while import growth has fallen significantly from UAE (0.7% from 31.9%) and Russia (-13.2% from 4.3%). The restriction of oil imports from Russia can be one of the plausible reason for lower imports from the country.

Table 3: Top countries for imports

Countries	Share in total imports (%)	YoY%
China	17.0	16.0
UAE	8.2	0.8
Russia	7.1	-13.2
USA	6.8	16.0
Saudi Arabia	4.0	2.2

Source: CMIE, Bank of Baroda Research

On the other hand, exports to UAE and US has been lower, while export growth to China (36% from -14.5%) has risen significantly in FY26, it has also emerged as the largest trading partner. Given the interim trade agreement with the US, export growth is expected to improve further in the near term.

Table 4: Top countries for exports

Countries	Share in total exports (%)	YoY%
USA	19.8	0.9
UAE	8.5	2.0
China	4.4	36.7
Netherlands	4.0	-23.1
UK	3.0	-7.6

Source: CMIE, Bank of Baroda Research

Outlook

The year FY26 was laced with volatility and uncertainty for the global financial market. India's trade deficit widened further signaling much higher imports than exports, with gold imports increasing by over US\$ 14.4bn. Through the year, the imminent threat of tariff loomed large, which did have an impact on trade figures. However, multiple trade agreement have been finalized in FY26 with different countries which is expected to be a big positive in the coming years. The recent surge in oil prices is hopefully expected to be corrected gradually. Overall, we expect CAD at 1.5-2% of GDP in FY27, with some downside risks if the geopolitical challenge continues any further.

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