

Macroeconomics | Trade first cut

Skidding on oil

March 2026

Trade deficit widens in February as exports decline, imports surge

After remaining subdued in the previous two months, India's merchandise shipments slipped into negative territory, declining 0.8% on-year to \$36.6 billion in February (vs 0.6% growth in January).

- This was a result of a steep on-year decline in exports of petroleum products (-40.0% vs 8.7% growth in January).
- In contrast, export performance improved for both gems and jewellery (4.1% vs -23.0%) and the core segment¹ (6.6% vs 2.0%). The former saw an on-year growth in exports after two successive months of decline.

While exports declined, imports surged 24.1% on-year to \$63.7 billion compared with 19.9% in January. Oil imports accelerated (9.1% on-year growth vs -0.2%). Notably, oil prices picked up in February (Brent crude prices surged to \$71.1/barrel in February from \$66.8/barrel in January). Meanwhile core imports²(14.0% vs 2.5%) also grew faster possibly reflecting strengthening domestic demand. Growth in gem and jewellery imports moderated (157.0% vs 242.4%), though staying at elevated levels.

With growth in merchandise imports far outpacing that of exports, the merchandise trade deficit widened significantly to \$27.1 billion in February from \$14.4 billion a year ago. However, it was narrower than \$34.7 billion in January.

During April-February, merchandise exports grew 1.8% on-year and imports rose 8.6%. Core exports and imports picked up 5.9% and 8.6%, respectively.

In terms of country wise performance, merchandise exports to the US declined 12.9% on-year in February while exports to the rest of the world rose by 2.5%. Within the latter, however, exports to China increased by 32.4% on-year.

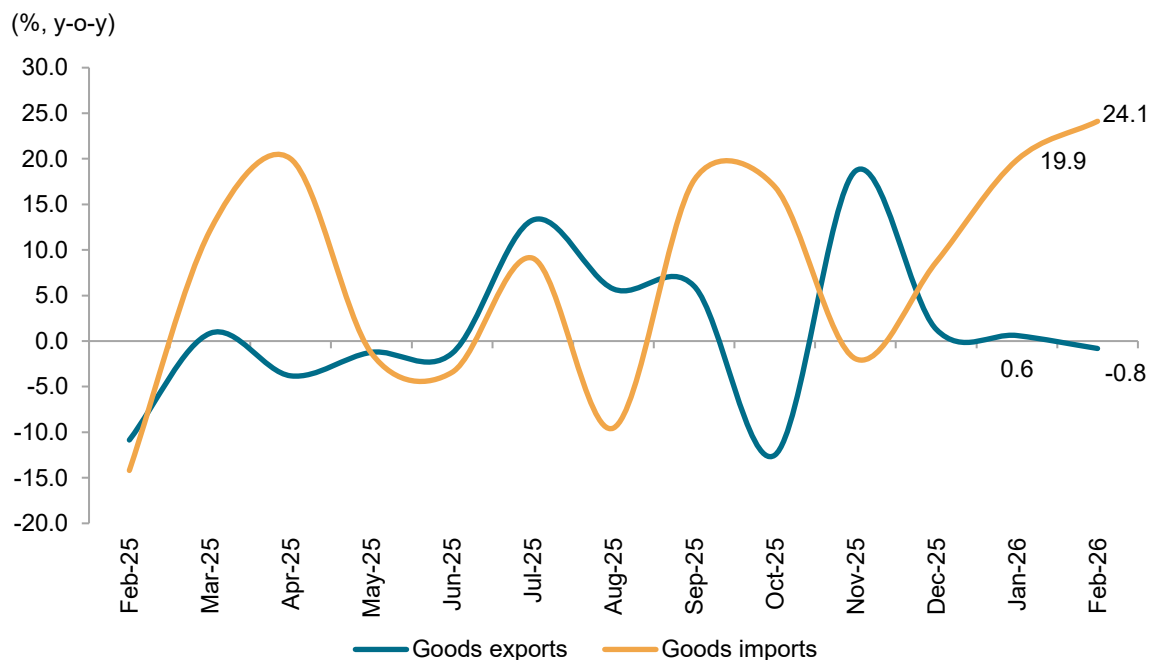
Meanwhile, growth in services exports moderated to 9.8% on-year to \$38.2 billion in January vs 13.0% in December, However, with services imports declining, the services trade surplus remained a healthy \$21.5 billion in January (vs \$18.0 billion in the year-ago period and \$22.7 billion in December).

Cumulatively, trade deficit (goods plus services) in the April to January period stood at \$105.7 billion in fiscal 2026 compared with \$93.5 billion in the corresponding period a year ago.

¹ Goods exports excluding the gems and jewellery and petroleum segments

² Goods imports excluding the gems and jewellery and petroleum segments

Exports decline on-year while import growth picks up further in February



Source: Ministry of Commerce and Industry, CEIC, Crisil

In the base case, under the assumption that exports benefit from US tariff relaxations, and crude prices rise to \$75-80/bb, we expect the CAD to widen to 1.5% of GDP in fiscal 2027 as against a projected 0.8% of GDP in fiscal 2026. A healthy services trade surplus also keeps the CAD manageable. However, this forecast is tilted to the downside. The ongoing conflict in the Middle East, its duration and scale will be critical to monitor. Elevated uncertainty levels and subdued global growth – in case of supply shocks - could weigh on exports despite the reduced US tariffs.

Meanwhile, imports face a significant upside risk from sustained higher crude oil prices in case the conflict is prolonged. Together, these may weigh on goods trade deficit.

Highlights

- February saw broad-based improvement in export performance across core exports. Engineering goods recorded the strongest growth (12.9% on-year vs 10.4% in January), followed by electronic items (10.4% vs 0.3%), organic and inorganic chemicals (6.9% vs -0.2%), drugs and pharmaceuticals (3.4% vs 1.0%)

- However, labour-intensive sectors remained under pressure, with most categories continuing to record declining exports. Weak performance continued in key textile items, such as ready-made garments (-8.6% vs -3.8% in January), cotton yarn and fabrics (-1.3% vs -4.2%) and manmade yarn and fabrics (0.0% vs 1.0%). Leather exports declined for the third consecutive month (-4.8% vs -7.7%), while exports of plastic articles fell for the seventh consecutive month (-8.8% vs -11.8%). However, gems and jewellery exports grew (4.1% vs -23.0%) after two months of decline. Marine exports remained steady at 13.3%, benefitting from diversification in destination markets
- Agricultural commodities recorded mixed performance. Exports of rice picked up (0.7% vs -24.8%) after four consecutive months of decline. Further, higher growth was seen in meat, dairy and poultry (22.7% vs 17.9%; the category has seen double-digit growth for twelve consecutive months), fruit and vegetables (4.0% vs 1.8%), cereal preparations and miscellaneous processed items (3.3% vs 1.1%) and 'other cereals' (170.1% vs 88.5%). The commodities that saw successive declines included spices (-19.3% vs -10.2%), tea (-6.0% vs -0.8%), oil meals (-33.1% vs -45.4%), oil seeds (-30.3% vs -7.4%) and tobacco (-4.4% vs -0.2%).
- Core imports saw a broad-based increase in growth. Imports accelerated in coal and coke (10.6% vs -16.6%), electronic goods (33.4% vs 9.1%), electrical and non-electrical machinery (23.5% vs 14.9%), and organic and inorganic chemicals (6.6% vs -7.6%) and fertilisers (45.0% vs 13.2%, this category has seen double-digit or higher growth for eight consecutive months)
- Among precious metals, imports moderated in gold (218.6% vs 349.2%) while growth in silver imports accelerated (285.2% vs 127.0%). Elsewhere, non-ferrous metals continued to see healthy growth (30.6% vs 32.5%), and iron and steel (2.6% vs -18.8%) saw a pick up

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