GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 3453
TO BE ANSWERED ON 10.08.2026

ASSESSMENT OF EXTERNAL DEBT AND MERCHANDISE TRADE DEFICIT

3453. Adv. Chandra Shekhar:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has analysed the financial risks arising from India's external debt reaching US$ 762.8 billion during the first quarter of 2026 and the short-term debt increasing to 4.0 per cent of nominal Gross Domestic Product (GDP), if so, the details thereof;
(b) whether the Government has assessed the impact of the year-on-year increase in the merchandise trade deficit to US$ 30.43 billion in June 2026 on the stability of Indian Rupee, particularly in view of imports amounting to US$ 70.84 billion, if so, the details thereof; and
(c) the details of the coordinated measures being taken by the Government, in consultation with the Reserve Bank of India, to address the risks arising from the widening trade deficit?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) At end-March 2026, India's external debt stood at USD 762.8 billion and the ratio of short-term external debt to GDP stood at 4.1 per cent.
The key external debt vulnerability indicators remain stable indicating that India's external debt levels are sustainable and prudently managed. At end-March 2026, India's external debt to GDP ratio stood at 20.8 per cent. The ratio of foreign exchange reserves to total external debt remained at 90.6 per cent, while short-term debt (original maturity) constituted 19.6 per cent of total external debt. The debt service ratio declined from 6.6 per cent at end-March 2025 to 5.8 per cent at end-March 2026.

(b) & (c) The Government continuously monitors developments in the global economy and their implications for India's external sector. The exchange rate of the Indian Rupee (INR) is influenced by various domestic and global factors, such as the movement of the Dollar Index, trend in capital flows, level of interest rates, movement in crude prices, current account deficit, etc. Therefore, the merchandise trade deficit is only one of the factors that may influence the exchange rate of the INR.

The Government has also adopted a comprehensive strategy to achieve the twin objectives of reducing critical import dependence by strengthening domestic manufacturing capabilities, while simultaneously expanding exports through improved competitiveness, market access, and deeper integration with global value chains.

To promote exports, the Government is implementing the Foreign Trade Policy (FTP), 2023, which focuses on export diversification, market access, ease of doing business, digitalisation and integration into global value chains. India has also significantly expanded its trade engagement and multiple Free Trade Agreements across regions. Simultaneously, the Government is strengthening domestic manufacturing capabilities through higher investment in infrastructure, logistics and the business ecosystem. Initiatives such as PM Gati Shakti National Master Plan, the National Logistics Policy, National Industrial Corridor Development Programme (NICDP), digitalisation of customs processes through SWIFT, and improvements in trade facilitation are reducing logistics costs and enhancing industrial competitiveness. In addition, supply chain resilience is being enhanced through initiatives such as Production Linked Incentive (PLI) and Make in Indi a Schemes.

To reduce strategic import dependence, the Government is also promoting domestic capacity creation in critical sectors, encouraging technology adoption and innovation, strengthening supply chain resilience, diversifying import sources for essential commodities such as crude oil, fertilisers and critical minerals, and accelerating investments in renewable energy and other emerging sectors.

India also continues to maintain adequate foreign exchange reserves, which support external sector stability.

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