GOVERNMENT OF INDIA
MINISTRY OF COMMERCE AND INDUSTRY
DEPARTMENT OF COMMERCE
LOK SABHA
UNSTARRED QUESTION NO. 3862
ANSWERED ON 11/08/2026

RISE IN MERCHANDISE TRADE DEFICIT

3862. DR. RAJ KUMAR CHABBEWAL:

Will the Minister of **COMMERCE AND INDUSTRY** (वाणिज्य और उधोग मंत्री) be pleased to state:

(a) whether the Government is aware of the latest reports indicating that India's merchandise trade deficit has widened to a five-month high and if so, the details thereof;
(b) the principal reasons for the sharp increase in the trade deficit, including the contribution of higher imports of crude oil, electronics, gold, fertilizers and other commodities;
(c) whether it is a fact that the policies of the Government on import-substitution and export promotion have not delivered the desired results and if so, the details thereof;
(d) whether the Government has conducted any assessment of the likely impact of the widening trade deficit on the current account balance, the value of the rupee, inflation, foreign exchange reserves and overall macroeconomic stability and if so, the details thereof; and
(e) the corrective measures being taken by the Government to reduce the trade deficit including reducing import dependence in strategic sectors?

ANSWER
वाणिज्य और उद्योग मंत्रालय में राज्य मंत्री (श्री जितिन प्रसाद)
THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE AND INDUSTRY
(SHRI JITIN PRASADA)

(a) The Government closely monitors trade performance, including the merchandise trade deficit. A single month’s deficit does not, by itself, reflect overall trade performance due to the seasonal nature of merchandise trade. The merchandise trade deficit of US$ 30.4 billion in June 2026, which was reported as a five-month high, was only marginally higher than the 12-month average deficit of US$ 29.3 billion, indicating that the June 2026 deficit remained broadly in line with the average level. Further, merchandise exports during Q1 of FY 2026-27 (April-June 2026) recorded an all-time quarterly high of US$ 129.6 billion, compared to US$ 111.6 billion in the corresponding period of the previous year, registering a robust growth of 16.1%, reflecting the underlying strength of India's export performance despite monthly fluctuations in the trade deficit.

(b) The merchandise trade deficit primarily reflects the import requirements of a rapidly growing economy. A significant share of India's imports comprises crude oil, electronic goods, machinery and capital goods, gold and precious stones, fertilisers and other intermediate inputs, which are essential for meeting domestic consumption requirements, ensuring energy security, supporting manufacturing, infrastructure development and industrial expansion. The largest contributor to imports continues to be petroleum products (HS 27), accounting for about 26% of India's total imports in FY 2025-26, and therefore fluctuations in international crude oil prices have a significant impact on the merchandise trade balance. Imports of machinery and capital goods (HS 84) and electronic goods (HS 85) together accounted for nearly one-fourth of India's imports and have increased in line with growing industrial activity, digitalisation and integration with global value chains. Imports of gold, precious stones and gems (HS 71), which accounted for about 14% of total imports, also contributed to the higher import bill, while imports of fertilisers and other industrial inputs remained necessary to support agriculture and domestic production. Accordingly, the increase in the merchandise trade deficit largely reflects higher imports of essential and productive goods required for economic growth, industrialisation and export competitiveness, rather than any structural weakness in India's external sector.

(c) The Government has adopted a comprehensive strategy aimed at achieving the twin objectives of reducing critical import dependence through domestic capacity creation while simultaneously promoting exports through improved competitiveness, market access and deeper integration with global value chains. These measures have significantly reinforced India’s external sector. Despite global uncertainties, India achieved record exports of US$ 863.1 billion in FY 2025-26, comprising US$ 441.8 billion in merchandise and US$ 421.3 billion in services. The strong momentum continued in April–June FY 2026-27, with merchandise exports reaching US$ 129.54 billion, the highest-ever quarterly performance in India’s history. This achievement highlights the resilience of external sector and growing competitiveness of Indian exports in a challenging global trade environment. Government policies have strengthened export competitiveness, boosted domestic production, and reduced external vulnerabilities, while ongoing efforts continue to build a resilient and globally competitive economy.

(d) The Government continuously assesses developments in the external sector, including the implications of movements in the merchandise trade deficit on the current account balance, exchange rate, inflation, foreign exchange reserves and overall macroeconomic stability. While a higher merchandise trade deficit can increase import payments and exert pressures on the current account and the exchange rate, its impact needs to be viewed in the context of India's overall external-sector strength. India recorded highest-ever exports in FY 2025-26 and all-time quarter high in Q1 FY 2026-27. The strong services trade surplus, robust remittance inflows and stable capital flows continue to provide important support to the balance of payments. The Current Account Deficit (CAD) moderated from 2.0% of GDP in 2022-23 to 0.7% in 2023-24, to 0.6% in 2024-25 and to 0.6% 2025-26, while foreign exchange reserves remained comfortable at US$ 671.6 billion in June 2026. Accordingly, India's external sector continues to remain resilient and macroeconomic stability remains well supported.

(e) To reduce the trade deficit and strengthen external-sector resilience, the Government has adopted a comprehensive strategy aimed at both promoting exports and reducing critical import dependence. These measures are aimed at improving domestic production capabilities, enhancing export competitiveness, reducing external vulnerabilities and ensuring sustainable long-term growth of the external sector.

On the export side, the Government is implementing the Foreign Trade Policy (FTP), 2023, the Export Promotion Mission, Districts as Export Hubs, Trade e- Connect, the Trade Intelligence and Analytics (TIA) Portal, electronic Certificates of Origin and customs modernisation initiatives to improve competitiveness, market access and trade facilitation. India has also expanded preferential market access through Free Trade Agreements (FTAs), including several major agreements concluded recently.

Simultaneously, the Government is strengthening domestic manufacturing capabilities and reducing strategic import dependence through initiatives such as Production Linked Incentive (PLI) Schemes, PM Gati Shakti National Master Plan, the National Logistics Policy, National Industrial Corridor Development Programme (NICDC), supply-chain resilience initiatives and promotion of technology adoption and innovation. Particular emphasis is being placed on enhancing domestic capacity in sectors such as electronics, semiconductors, renewable energy, critical minerals and advanced manufacturing, while diversifying sources of imports including crude oil, fertilisers and other strategic commodities. Further, regular monitoring of export performance with Commercial Missions abroad, Export Promotion Councils, Commodity Boards/ Authorities and Industry Associations is being done and corrective measures are being taken from time to time.

The Department also regularly monitors import trends and sensitises line Ministries, Departments and other stakeholders to reduce import dependence through measures such as addressing domestic supply constraints and enhancing manufacturing capacity, timely use of trade remedies, implementation of Quality Control Orders (QCOs), enforcement of Rules of Origin, tariff rationalisation including correction of inverted duty structures, and continuous monitoring of critical import items.

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