

Trade deficit narrows in Feb'26

- India's goods exports contracted 0.8% in Feb'26, (at USD36.6b, though largely stable sequentially) vs. a growth of 0.6% in Jan'26. The contraction in exports in Feb'26 was mainly led by a sharp contraction in oil exports (-40.1% YoY vs. 8.5% in Jan'26), while non-oil exports grew at a three-month high of 6.4% (vs. -0.2% in Jan'26).
- Within merchandise exports, sectoral performance was mixed. Within non-oil exports, several sectors recorded acceleration in Feb'26, led by other cereals, coffee, meat/dairy/poultry products, marine products, and engineering goods. Other segments showing steady growth included electronic goods, chemicals, gems & jewellery, drugs & pharmaceuticals, fruits & vegetables, and ceramic products.
- Imports increased 24.1% YoY to USD63.7b in Feb'26, marking the fastest growth in 42 months, though lower than USD71.2b recorded in Jan'26. On a sequential basis, imports declined by 10.6% MoM. The sharp annual increase was largely driven by gold imports (218.6% YoY) and oil imports (9.1% YoY). Meanwhile, non-oil, non-gold imports remained strong, rising 16.7% YoY in Feb'26 compared with 5.7% in Jan'26, indicating continued resilience in domestic demand and industrial activity.
- Consequently, India's goods trade deficit narrowed to USD27.1b in Feb'26 (vs. USD34.7b in Jan'26). Despite the sequential improvement, the trade deficit remains elevated compared to the same month last year, reflecting stronger import demand relative to exports.
- Services exports continued to remain strong, growing by an estimated 10.2% during Apr–Feb'26, compared to the same period last year. The sustained expansion in services trade, driven largely by segments such as IT services, business services, and professional services, continues to provide a stable cushion to India's external balance, helping offset pressures arising from the merchandise trade deficit.

Outlook: CAD and Rupee

- The ongoing geopolitical tensions in West Asia, involving Iran, Israel, and the US, have increased the risk of disruptions to global oil supply and shipping routes, particularly around the Strait of Hormuz. Any prolonged disruption could push global crude oil prices higher, posing risks to India's external balance. As crude oil accounts for around 23% of India's import bill, higher oil prices would directly increase the import bill and widen the trade deficit. Our estimates suggest that every USD10 per barrel rise in crude oil prices could widen the oil deficit by USD10-12b (around 0.4-0.5% of GDP).
- Under our base case, if crude prices average around USD90 per barrel in FY27, the current account deficit (CAD) could remain near 2% of GDP. However, if the conflict persists and oil prices sustain above USD100 per barrel, the CAD could widen further to around 2.4% of GDP, despite support from services exports and remittances.
- On the currency front, the USDINR has remained relatively stable so far, supported by strong reserves and active intervention by the Reserve Bank of India. We expect USDINR to average around 91 in FY27, although sustained high oil prices could lead to gradual depreciation toward 93-95 over the next year, especially if global risk aversion leads to capital outflows.

Exhibit 1: India's exports contracted 0.8% in Feb'26

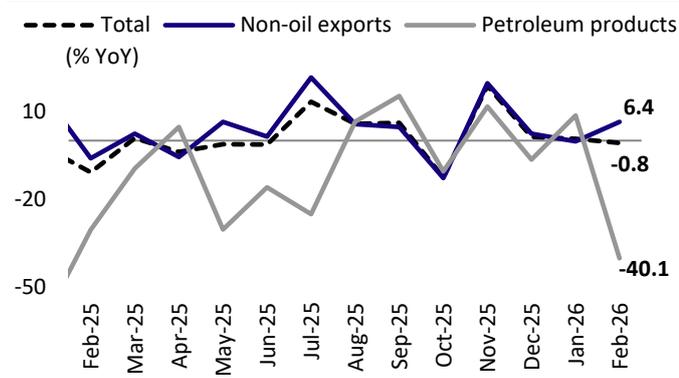
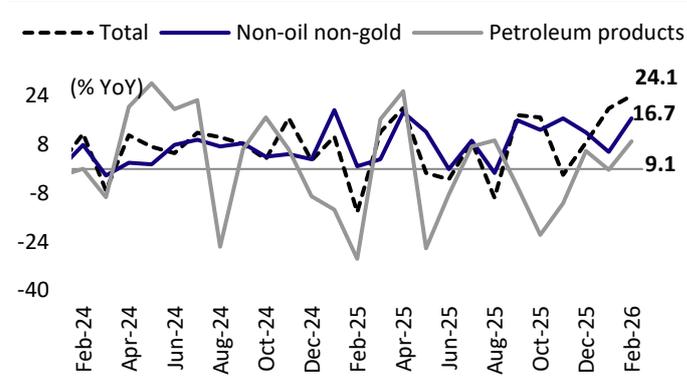


Exhibit 2: Imports increased sharply by 24% in Feb'26



Source: CEIC, MOFSL

Radhika Piplani – Research Analyst (Radhika.Piplani@motilaloswal.com)

Tanisha Ladha – Research Analyst (Tanisha.Ladha@MotilalOswal.com)

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Exhibit 3: Exports increased 1.8% in Apr-Feb'26

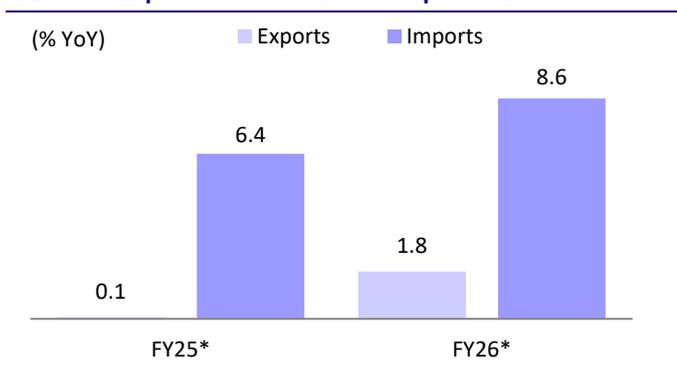
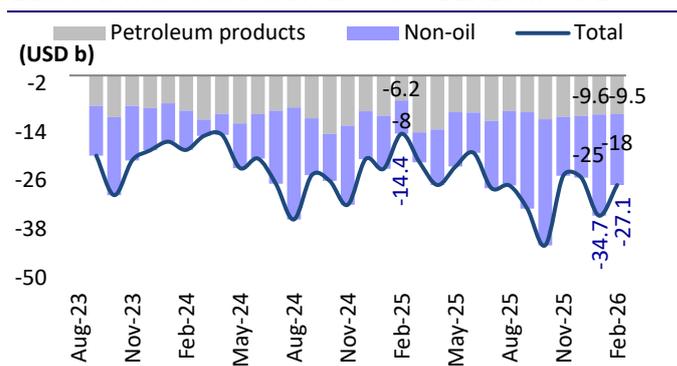


Exhibit 4: Trade deficit narrowed to USD27.1b in Feb'26



Source: CEIC, MOFSL

Highlights of trade data in Feb'26

Goods exports remained largely stable

- India's goods exports contracted 0.8% YoY to USD36.6b in Feb'26, though they remained broadly stable sequentially. The decline was primarily driven by a sharp fall in oil exports (-40.1% YoY vs. 8.5% growth in Jan'26), while non-oil exports rebounded strongly, rising 6.4% YoY, the fastest pace in three months.
- Within merchandise exports, sectoral performance was mixed. Several sectors recorded stronger growth in Feb'26, led by other cereals, coffee, meat/dairy/poultry products, marine products, and engineering goods.
- Other segments showing steady growth included electronic goods, chemicals, gems & jewellery, drugs & pharmaceuticals, fruits & vegetables, and ceramic products.
- Service exports remained strong, growing by an estimated 10.2% during Apr–Feb'26 compared to the same period last year, providing continued support to India's external balance.

Imports

- Imports increased 24.1% YoY to USD 63.7bn in Feb'26, marking the fastest growth in 42 months, though lower than USD71.2bn in Jan'26. Sequentially, imports declined 10.6% MoM.
- The sharp annual increase was largely driven by gold imports (218.6% YoY) and oil imports (9.1% YoY).
- Meanwhile, non-oil, non-gold imports remained robust, rising 16.7% YoY in Feb'26 compared with 5.7% in Jan'26, indicating continued resilience in domestic demand and industrial activity.
- India's goods trade deficit narrowed to USD27.1b in Feb'26, compared with USD34.7b in Jan'26.
- Despite the sequential improvement, the trade deficit remains elevated compared to the same period last year, reflecting stronger import demand relative to exports.

Outlook: CAD and Rupee

- The ongoing geopolitical tensions in West Asia, involving Iran, Israel, and the United States, have increased the risk of disruptions to global oil supply and shipping routes, particularly around the Strait of Hormuz. Any prolonged disruption could push global crude oil prices higher, posing risks to India's external balance. As crude oil accounts for around 23% of India's import bill, higher oil prices would directly increase the import bill and widen the trade deficit. Our estimates suggest that every USD10 per barrel rise in crude oil prices could widen the oil deficit by USD10–12b (around 0.4–0.5% of GDP).
- Under our base case, if crude prices average around USD90 per barrel in FY27, the CAD could remain near 2% of GDP. However, if the conflict persists and oil prices sustain above USD100 per barrel, the CAD could widen further to around 2.4% of GDP, despite support from services exports and remittances.
- On the currency front, the USDINR has remained relatively stable so far, supported by strong reserves and active intervention by the Reserve Bank of India. We expect USDINR to average around 91 in FY27, although sustained high oil prices could lead to gradual depreciation toward 93–95 over the next year, especially if global risk aversion leads to capital outflows.

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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