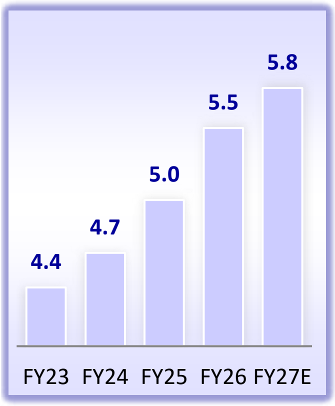
Economy | Macro-Cap

K-goods imports, engineering exports robust; CAD/GDP manageable

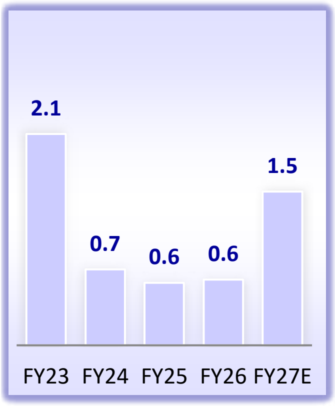
External outlook FY27

	Before ceasefire	After ceasefire
Brent crude	USD95/bbl	USD85/bbl
CAD	USD87b (2.1% of GDP)	USD60b (1.5% of GDP)
Capital account surplus	USD80b (2.0% of GDP)	USD105b (2.6% of GDP)
BoP balance	-USD7b (-0.2% of GDP)	USD45b (+1.1% of GDP)

Services balance (% of GDP)



Current account deficit (% of GDP)



Trade deficit reflects temporary commodity shocks rather than structural weakness

- The sharp widening in the merchandise trade deficit during Jun'26 (USD30.4b from USD28.2b in May'26) should be viewed in the context of the temporary spike in global commodity prices following the escalation of tensions in West Asia, rather than as a deterioration in India's external competitiveness (details on page 7). Export perform continues to remain broad-based, with engineering goods, electronics, chemicals, pharmaceuticals, and agricultural products sustaining healthy double-digit growth *(Exhibit 1).*
- At the same time, the increase in imports has been driven not only by higher crude oil prices but also by stronger imports of machinery, electronics, and transport equipment, suggesting that domestic investment and manufacturing activity remain resilient *(Exhibit 2).* Consequently, the recent deterioration in the merchandise balance appears to be driven more by cyclical commodity price movements than by any structural weakening in India's external sector.

Export basket continues to move up the value chain

- A notable structural improvement in India's external sector is the continued diversification of exports towards higher value-added manufacturing and technology-intensive sectors. Engineering goods, electronics, chemicals, and pharmaceuticals have emerged as the key drivers of export growth, reducing India's dependence on petroleum products and traditional low-value exports.
- The continued expansion in non-oil exports (+12.4% YoY in 1QFY27) and non-oil-non-gems & jewelry exports (+12.9% YoY) reflects improving manufacturing competitiveness, supported by the Production Linked Incentive (PLI) scheme, supply-chain diversification under the China+1 strategy, expanding free trade agreements, and rising participation in global value chains. This structural shift should make India's export growth more resilient to commodity price cycles over the medium term.
- India's external sector is set to receive one of its strongest structural tailwinds in decades as the country rapidly expands its network of free trade agreements (FTAs) with major developed and emerging economies. A major milestone is the India–UK Comprehensive Economic and Trade Agreement (CETA), which comes into force on 15th July 2026. The agreement provides zero-duty access for nearly 99% of India's exports to the UK, covering almost the entire bilateral trade value, and opens 137 services sub-sectors—including IT/ITeS, professional, education, and business services—to Indian firms. The accompanying Double Contribution Convention (DCC) also extends the exemption from UK social security contributions for Indian professionals from three to five years, further enhancing the competitiveness of India's services exports.

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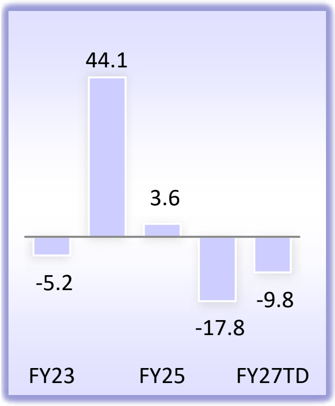
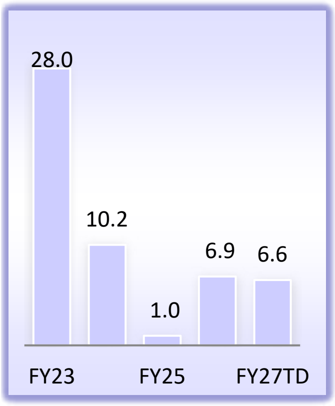
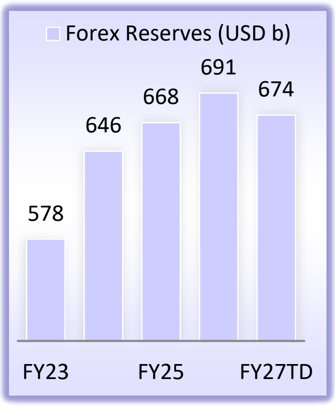
Net FPI flows (USD b)



Net FDI flows (USD b)



Forex Reserves (USD b)



Services exports and remittances continue to anchor external balances

- Unlike during previous oil price shocks, India's external position is now significantly more resilient, supported by the structural expansion of services exports and robust remittance inflows. India continues to generate a monthly services trade surplus of around USD16-17b, providing a strong cushion against the merchandise trade deficit.
- During 1QFY27, service exports increased 6.2% YoY to USD103.4b, while imports stood at USD54.0b, resulting in a healthy services trade surplus of USD49.4b. Consequently, total exports of goods and services rose 11.4% YoY to USD232.7b during the quarter.
- While the merchandise trade deficit is expected to widen to USD406b (9.9% of GDP) in FY27 (assuming an oil price of USD85/bbl) from USD337b in FY26 (8.6% of GDP), this will be substantially offset by a record services surplus (FY27E: ~USD238b) and net transfer inflows (FY27E: ~USD158b). Consequently, we expect the current account deficit to widen only modestly to USD60b (1.5% of GDP) from USD25b (0.6% of GDP) in FY26, remaining well below the levels seen during previous oil shock episodes (USD67b or 2.1% of GDP in FY23 Russia-Ukraine war).

Expect CAD at 1.5% of GDP in FY27, down from our forecast of 2.1% earlier

- The outlook for India's external sector has improved materially following the sharp correction in crude oil prices, although geopolitical risks in West Asia remain elevated and could continue to create bouts of volatility in global energy markets. While the recent ceasefire has eased immediate supply concerns, uncertainty surrounding the conflict and potential disruptions to key shipping routes remain important monitorables.
- Against this backdrop, our revised assumptions now incorporate an average Brent crude price of USD85/bbl in FY27, compared with USD95/bbl under our earlier scenario. This lowers the projected oil import bill by nearly USD30b and prompts us to revise our FY27 current account deficit (CAD) forecast to USD60b (1.5% of GDP) from our earlier estimate of USD87b (2.1% of GDP).

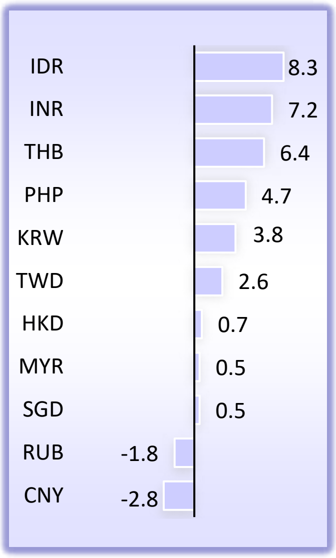
Foreign capital flows have begun to recover

- Foreign portfolio investor (FPI) sentiment improved during the second half of Jun'26, supported by easing geopolitical tensions, lower crude oil prices and improving global risk appetite. Net FPI inflows stood at USD491.6m in Jun'26, marking a reversal from the sharp outflows of USD7.3b in Apr'26 and USD3.1b in May'26.
- Meanwhile, gross FDI inflows remained healthy at USD6.6b in Apr'26, reflecting sustained long-term investor confidence in India's manufacturing and services sectors, supported by PLI-led investments, infrastructure spending and an expanding network of free trade agreements.

Capital inflows and BoP outlook strengthen materially

- We now expect a strong recovery in capital inflows, resulting in a capital account surplus of around USD105bn (2.6% of GDP) in FY27, compared with our earlier expectation of around USD80bn (2.0% of GDP) under the higher oil price scenario. The improvement is expected to be driven by stronger debt inflows,

CYTD currency change (% YoY)



higher ECB borrowings, fresh FCNR(B) deposits, a recovery in portfolio flows, and continued resilience in FDI.

- Recent initiatives by the RBI and the Government of India are expected to attract USD75-80bn of incremental foreign capital inflows, while the inclusion of additional Indian government securities in global bond indices could generate another USD15-20bn of passive inflows. Consequently, we now expect these inflows to comfortably finance the projected current account deficit of USD60bn (1.5% of GDP), resulting in an overall BoP surplus of around USD45bn (1.1% of GDP) in FY27, a significant improvement from our earlier expectation of a BoP deficit of around USD7bn (-0.2% of GDP) under the USD95/bbl oil price scenario.

Improved external buffers strengthen the rupee outlook

- India's foreign exchange reserves of USD674.2bn (as of 3 July 2026) provide a substantial buffer against external shocks and reinforce confidence in the rupee. Coupled with our expectation of a BoP surplus of USD45n in FY27, the RBI has sufficient firepower to manage episodes of exchange rate volatility without significant reserve depletion.
- Strong reserve adequacy, together with lower crude oil prices and improving capital inflows, should help contain depreciation pressures and support a more stable currency. Accordingly, we now expect the rupee to average around 95/USD in FY27, compared with our earlier forecast of 96/USD under the higher oil price scenario.

Exhibit 1: Engineering goods and electronics exports continue to post strong double-digit growth

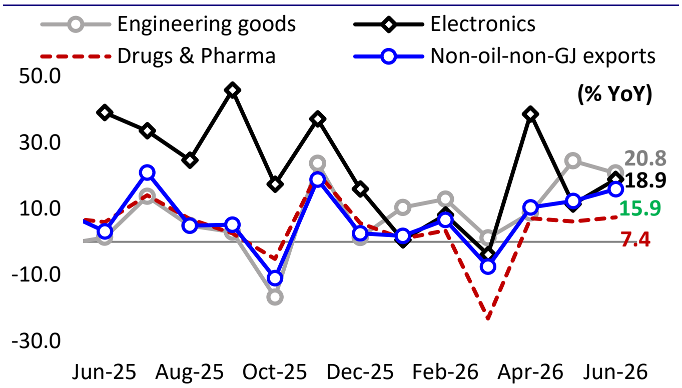
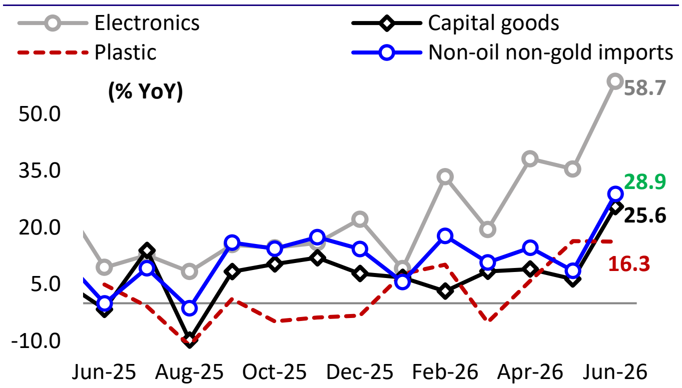


Exhibit 2: Electronics and capital goods imports remain robust, indicating strong domestic demand



Source: CEIC, MOFSL

Exhibit 3: Surplus in services trade at an all-time high of 5.5% of GDP in FY26…

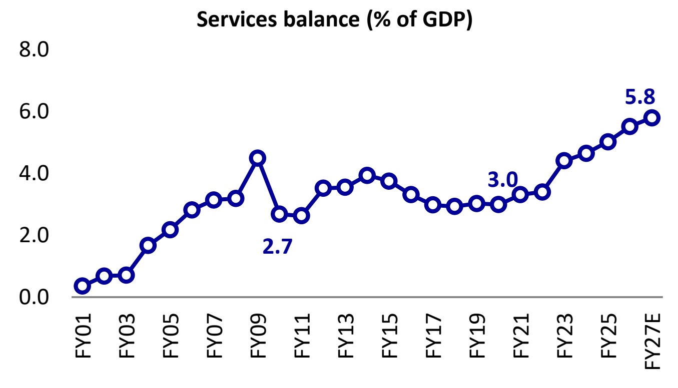
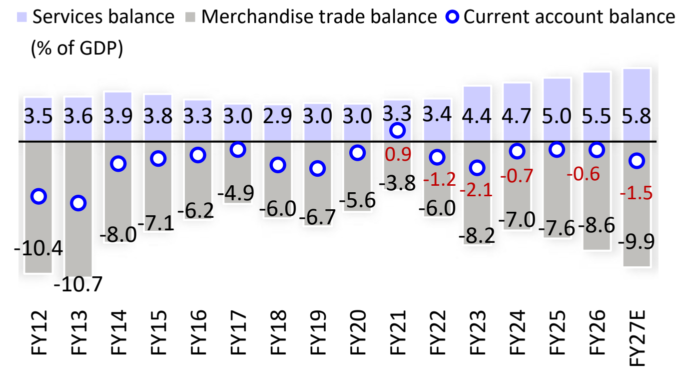


Exhibit 4: …offsetting the widening merchandise deficit and containing the CAD



Source: RBI, CEIC, MOFSL

Exhibit 5: List of recently signed FTAs

Partner / FTA	Recent Trade (India)	Key Sectors Likely to Benefit	FTA Highlights
United Kingdom (India–UK Comprehensive Economic and Trade Agreement, CETA)	Bilateral trade ~USD56b (FY24–25)	❖ Textiles, gems & jewelry, chemicals, auto components, leather, marine products, services	❖ Tariffs eliminated on ~99% of Indian exports; UK access to India's public procurement; enhanced services access; projected boost in jobs & exports (e.g., gems to ~USD2.5b)
European Union(India–EU FTA, "Mother of All Deals")	Trade ~USD190b (2024–25)	❖ Textiles, engineering goods, marine products, pharmaceuticals, chemicals, gems & jewelry	❖ Historic agreement reducing tariffs on most goods; phased tariff cuts; expected expansion of bilateral trade; deepening strategic partnership
Oman(India–Oman CEPA)	Bilateral trade >USD10b	❖ Gems & jewelry, textiles, pharmaceuticals, automobiles	❖ Zero-duty access on >98% of export lines; India cuts tariffs on ~78% of imports; strategic Gulf gateway; boost to exports and investment
New Zealand(India–New Zealand FTA)	~USD2.4b (2024)	❖ Textiles, engineering goods, seafood, and leather products	❖ 100% duty-free access for Indian exports; NZ pledges ~USD20b investment; services and regulatory cooperation; one of India's fastest concluded FTAs
EFTA (Iceland, Liechtenstein, Norway, Switzerland)(India–EFTA Trade & Economic Partnership Agreement)	Growing but smaller trade	❖ Pharmaceuticals, engineering goods, and services	❖ Tariff elimination on ~92.2% of products; major investment commitment (~USD100b) and job creation goals; improved customs procedures

Exhibit 6: Net FPI flows turned positive in Jun'26

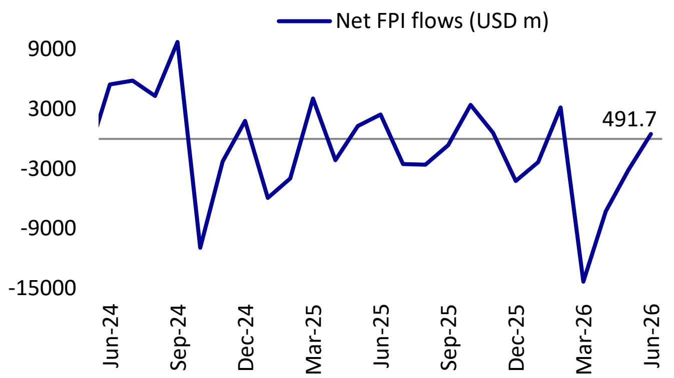
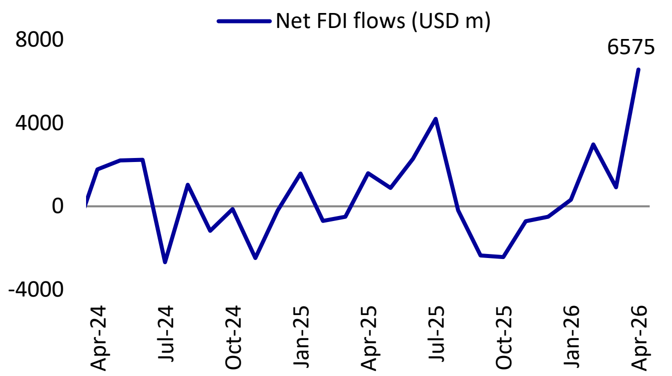


Exhibit 7: Net FDI flows stood at USD6.6b in Apr'26



Source: CEIC, MOFSL

Exhibit 8: Net FPI outflows stood at USD9.8b in FY27TD

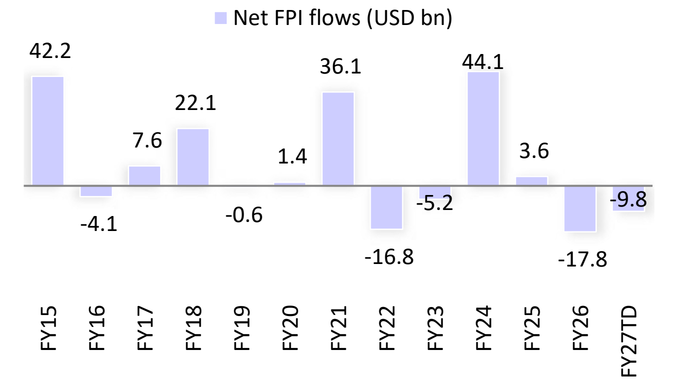
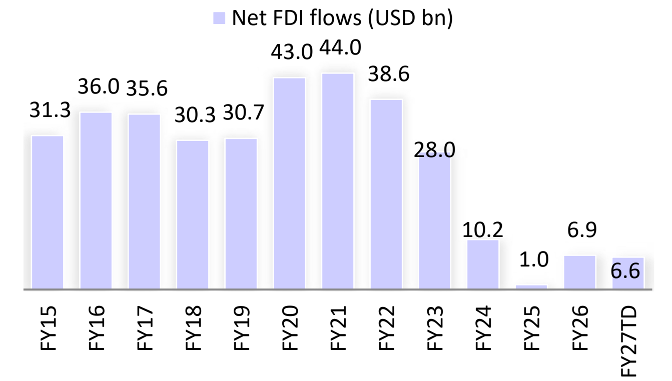
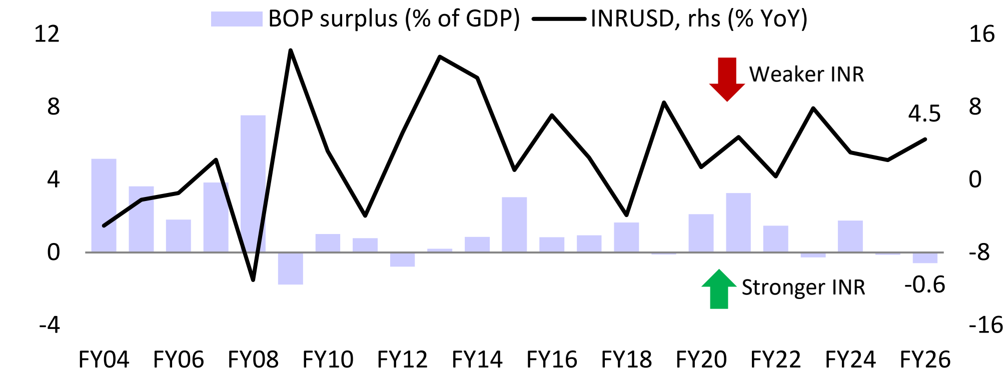


Exhibit 9: Net FDI inflows stood at USD6.6b in FY27TD



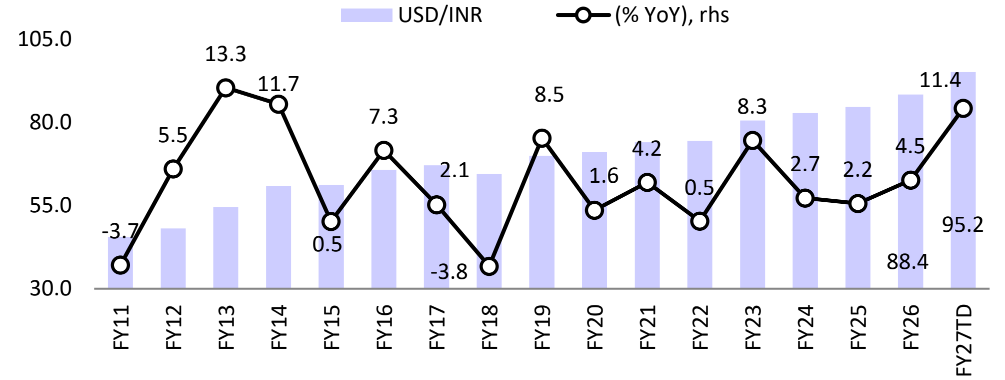
Source: CEIC, MOFSL

Exhibit 10: BoP surplus supports a stronger INR



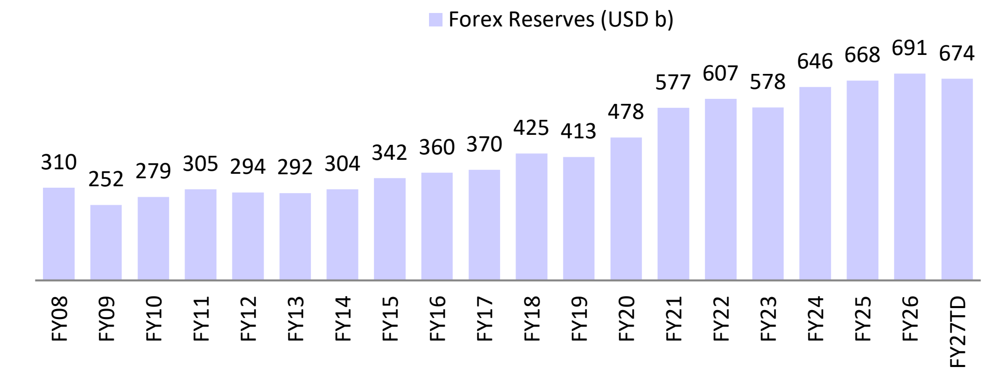
Source: RBI, CEIC, MOFSL

Exhibit 11: USD/INR depreciated 11.4% in FY27TD



Source: RBI, CEIC, MOFSL

Exhibit 12: India's forex reserves stood at USD674.2b as of 14th July 2026



Source: CEIC, MOFSL

Exhibit 13: Annual CAD projections

Annual CAD Balance	FY23	FY24	FY25	FY26 Oil@69	FY27 Oil@85
Trade Balance	**-265**	**-245**	**-287**	**-337**	**-406**
(as % of GDP)	**-8.2**	**-7.0**	**-7.6**	**-8.6**	**-9.9**
Merchandise Exports	456	441	442	446	468
Oil Exports	85	84	62	56	66
Non-oil Exports	366	353	376	386	402
Merchandise Imports	721	686	729	783	874
Oil Imports	203	179	188	174	205
Gold Imports	35	46	63	72	79
Non-oil-non-gold imports	478	450	401	526	589
Invisibles	198	219	264	312	346
Services	143	163	189	217	238
Transfers	101	106	123	144	158
Income	-46	-50	-48	-48	-51
Current Account	**-67**	**-26**	**-23**	**-25.4**	**-60**
(as % of GDP)	**-2.1**	**-0.7**	**-0.6**	**-0.6**	**-1.5**

Exhibit 14: Annual BoP projections

	Annual BoP (USD b)				
	FY23	**FY24**	**FY25**	**FY26 Oil@69**	**FY27 Oil@85**
FDI	**28.0**	**10.1**	**1.0**	**6.7**	**10.0**
Portfolio	**-5.2**	**44.1**	**3.6**	**-16.4**	**10.0**
Loans	**8.3**	**6.6**	**29.3**	**27.4**	**35.0**
External Assistance	5.5	7.5	6.3	3	0.0
Commercial Borrowings	-3.8	0.0	15.9	11	30.0
Short Term Credit to India	6.5	-0.8	7.2	14	5.0
Banking Capital	**21.0**	**40.5**	**-9.8**	**6**	**50.0**
Others	**6.9**	**-11.9**	**-7.4**	**-23**	**-5.0**
Capital Account	**58.9**	**89.5**	**16.6**	**1.9**	**105**
(as % of GDP)	1.8	**2.6**	**0.4**	**0.0**	**2.6**
Overall BoP	**-9.1**	**63.7**	**-5.0**	**-23.6**	**45**
(as % of GDP)	**-0.3**	**1.8**	**-0.1**	**-0.6**	**1.1**

Exhibit 15: India's exports increased 15.5% in Jun'26

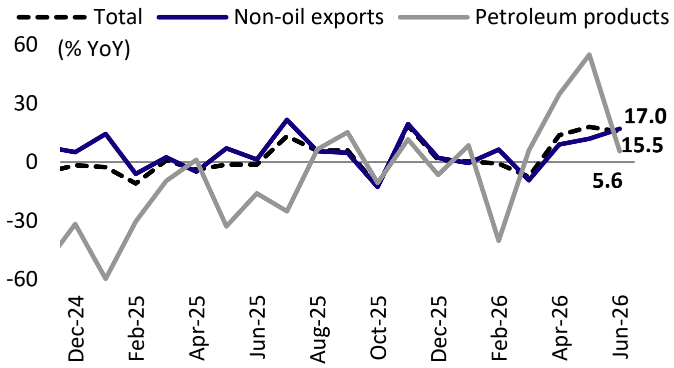
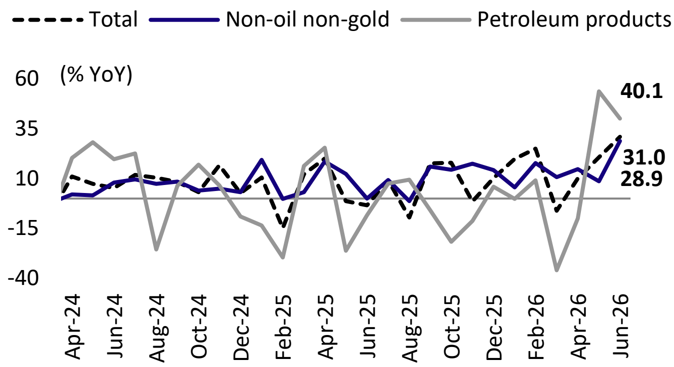


Exhibit 16: Imports increased 31% in Jun'26



Source: CEIC, MOFSL

Exhibit 17: Gold imports stood at USD2b in Jun'26

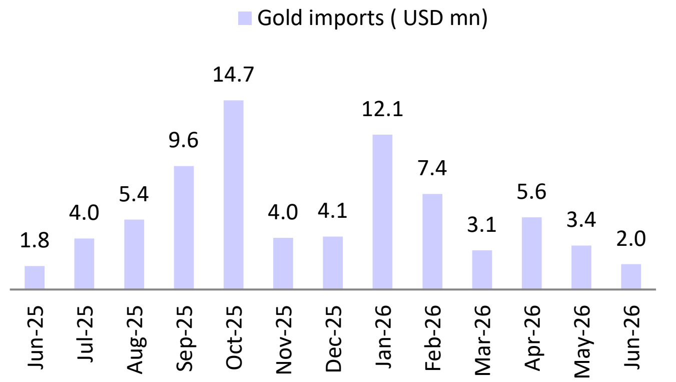
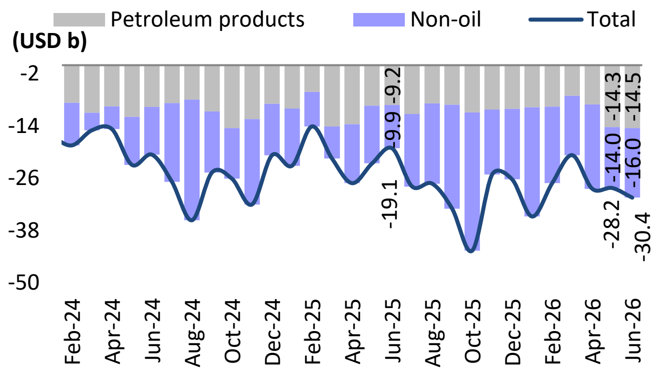


Exhibit 18: Trade deficit widened to a five-month high of USD30.4b in Jun'26



Source: CEIC, MOFSL

Appendix: Highlights of trade data in Jun'26

Trade deficit widened to a five-month high

- India's merchandise trade deficit widened to a five-month high of USD30.4b in Jun'26 from USD28.2b in May'26, as imports grew significantly faster than exports.
- Merchandise exports increased 15.5% YoY to USD40.4b, while imports surged 31.0% YoY to USD70.8b, reflecting higher crude oil, precious metals, and capital goods imports.
- Merchandise exports during 1QFY27 rose 15.9% YoY to USD129.3b, highlighting continued resilience in India's export sector despite global uncertainties.

Exports remain broad-based despite geopolitical disruptions

- Merchandise exports remained healthy in Jun'26 despite moderating from the record levels seen in May. Export growth continued to be broad-based, led by engineering goods (+20.7% YoY), gems & jewellery (+34.6%), organic & inorganic chemicals (+19.4%), electronic goods (+18.9%), and rice (+16.5%), reflecting sustained strength across manufacturing and agricultural exports.
- India's export basket continues to diversify beyond petroleum products. During 1QFY27, non-petroleum exports increased 12.4% YoY to USD106.3b, while non-petroleum, non-gems & jewellery exports rose to USD99.0b, indicating that export growth remained broad-based and was not solely driven by higher commodity prices. The continued strength in engineering goods, electronics, and chemicals suggests improving competitiveness in higher value-added exports.
- Service exports continued to provide a strong cushion to India's external sector. During 1QFY27, service exports increased 6.2% YoY to USD103.4b, while imports stood at USD54.0b, resulting in a healthy services trade surplus of USD49.4b. Consequently, total exports of goods and services rose 11.4% YoY to USD232.7b during the quarter.

Import growth remains elevated

- Merchandise imports increased sharply to USD70.8b in Jun'26 (+31.0% YoY), driven by higher crude oil, gold and silver, electronic goods, machinery, and transport equipment imports. Elevated crude oil prices during the month temporarily increased the energy import bill following the West Asia conflict, while continued strength in electronics and capital goods imports reflected resilient domestic investment activity.

- During 1QFY27, merchandise imports increased 18.9% YoY to USD216.2b, widening the merchandise trade deficit to USD86.9b from USD68.8b a year earlier. Although higher commodity prices contributed to import growth, continued strength in non-oil imports suggests that domestic demand and investment activity remain healthy.

Outlook:

- The outlook for India's external sector has improved materially following the de-escalation of geopolitical tensions in West Asia and the sharp correction in crude oil prices. Lower oil prices are expected to reduce the energy import bill, moderate import growth, and improve the current account outlook. We now expect FY27 CAD at around USD60b (1.5% of GDP), significantly lower than our earlier estimate of USD87b (2.1% of GDP) under a higher oil price scenario.
- Export momentum is likely to remain healthy, supported by diversified manufacturing exports and resilient services trade. Continued strength in engineering goods, electronics, chemicals, and pharmaceuticals, coupled with a services surplus, should continue to support India's external accounts.
- The rupee outlook has also improved materially. Although the CAD is expected to widen to 1.5% of GDP in FY27 from 0.6% in FY26, recent RBI and government initiatives are expected to attract USD75-80b of incremental capital inflows, with an additional USD15-20b likely from global bond index inclusion. These inflows should comfortably finance the wider external deficit, resulting in a balance of payments surplus and limiting depreciation pressures. Accordingly, we now expect the rupee to average around 95/USD in FY27, stronger than our earlier forecast of 96/USD.

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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