

India's Import Bill: Warning Signs for Trade Deficit, Rupee and Forex Stability

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India's Import Bill Latest News

- PM Modi recently urged citizens to reduce spending on petroleum products, edible oils, gold imports, foreign travel, and other non-essential foreign currency expenditures, while promoting public transport, electric vehicles, work-from-home, and locally made products.
- The central objective is to reduce India's foreign exchange outflow amid growing external economic pressures.
- The significance of this appeal lies in the fact that such a **public warning is unprecedented**, even compared to the 1991 balance of payments crisis, when India's forex reserves had fallen below \$1 billion, forcing the country to pledge gold reserves to avert an international debt default.

Rising Trade Deficit Raises Concern

- India's merchandise trade deficit reached a record \$333 billion in 2025-26, rising over 17% from the previous year.
- This was driven by imports surging 7% to an all-time high of \$775 billion, while exports remained almost stagnant at \$442 billion.
- The situation could worsen further as the impact of the U.S.-Israel conflict with Iran on crude oil prices has not yet been fully reflected in import figures.
- According to the IMF crude oil price index, oil prices have risen by 53% since the conflict began, which could significantly inflate India's future import bill.

Key Drivers of Import Growth

- Four major product groups drove India's import surge:
 - **Precious Metals** – Gold and silver imports exceeded \$90 billion
 - Accounted for about 12% of total imports
 - Became the third-largest import category after crude oil and electronics
 - **Other major contributors** to the rising import bill were: Edible oils; Fertilizers; Electronic components.
- While imports of precious metals increased sharply, gems and jewellery exports declined by over 5%, indicating that most imported gold and silver were absorbed by domestic consumption rather than export production.

Rising Import Dependence: Key Areas of Concern

- India's gold import dependence remains a major concern, with gold imports rising 82% in April 2026 compared to the previous year, despite the government increasing customs duty on gold and silver to 15% and urging citizens to defer non-essential purchases.
- Continued stock market volatility has pushed retail investors toward gold as a safe asset, both in physical form and through Gold ETFs.
- Higher duties on physical gold may further encourage investment through ETFs rather than significantly reducing overall demand.

Edible Oil Import Dependence

- India's heavy reliance on imported edible oils remains one of the weakest aspects of its agricultural performance.
 - Edible oil imports rose over 12% in 2025-26
 - Increased by 40% in April 2026 over the previous year
 - Imports accounted for over 56% of domestic edible oil demand in 2023-24
- With domestic oilseed production failing to keep pace, the government is seeking reduced household consumption to contain foreign exchange outflows.

Fertilizer Import Vulnerability

- India's dependence on imported fertilizers has worsened amid rising global prices and geopolitical disruptions.
 - Global fertilizer prices increased 46% between December 2025 and April 2026.
 - Urea prices doubled during this period.
- Over the past five years, fertilizer imports met 31–37% of India's requirements, but this share is expected to cross 50% in 2025-26 due to a 60% surge in urea imports.
- Supply disruptions linked to the West Asia conflict have pushed India's fertilizer import bill up by nearly 80%, increasing both foreign exchange pressure and the government's subsidy burden.

Structural Concern

- The continued dependence on imports for critical commodities like gold, edible oils, and fertilizers raises questions about why domestic production capacity has not been strengthened sufficiently to reduce external vulnerability.

Rising Trade Deficit and Pressure on the Rupee

- **Limited Progress in Import Substitution** – Despite the Atmanirbhar Bharat Abhiyan, launched in 2020 to reduce import dependence, especially on China, progress has been limited in several strategic sectors.
- **Electronics Dependence Persists** – Even after substantial incentives under the Production-Linked Incentive (PLI) scheme, India remains heavily dependent on imported electronic components, whose imports grew by over 20% in the previous fiscal year.
- **Battery and EV Import Dependence** – Efforts to boost domestic production of accumulators and batteries to support electric vehicle manufacturing have also fallen short, with imports of these products rising by 50% in 2025-26.
- **Cost of Technological Upgradation** – India's move towards greater technological advancement and clean mobility is increasing dependence on imported components, leading to significant foreign exchange outflows.
- **Pressure on the Rupee** – A widening trade deficit poses additional risks to the already weakened rupee.
- **RBI's Intervention** – The Reserve Bank of India (RBI) has been selectively intervening in currency markets to prevent a sharp depreciation of the rupee.
- **Declining Forex Reserves** – However, RBI's ability to continue such interventions is constrained, as foreign exchange reserves have fallen by over \$21 billion since the end of February 2026, making further reserve depletion a matter of concern.

Source: **IT** | **TH**

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