

Merchandise trade deficit eased to the lowest level in 3.5 years, enabling surplus in goods and services trade

26 March, 2025

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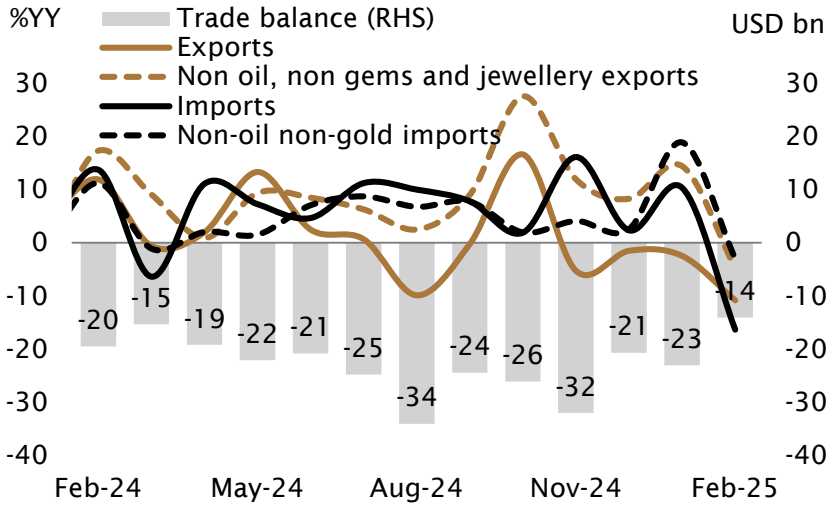
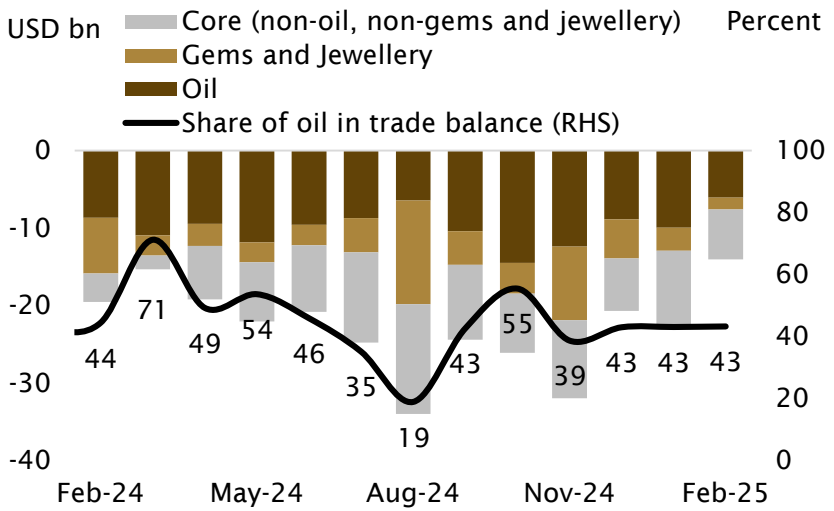
Key takeaways

- In February, merchandise trade deficit narrowed to the lowest level in 3.5 years (42 months) or since Sep-2021 to USD14.1bn from USD23.0bn in January. Base effects were negative in case of both exports and imports, dragging year-on-year growth to 20-month low of 10.9%YY and 16.3%, respectively. Exports were slightly up month-on-month, while imports declined by double-digits from the previous month.
- Both core (non-oil, non-gems and jewellery) and non-core deficit moderated in February. Core deficit eased to 11-month low of USD6.5bn from USD10.1bn in January. The deficit in gems and jewellery trade narrowed for the third successive month to USD1.5bn, marking a 22-month low, from USD3.0bn in January. Petroleum trade deficit moderated to 19-month low at USD6.1bn from USD9.9bn in January.
- In February, services surplus rose to USD18.5bn from USD18.0bn in January. Amid higher services surplus and lower goods deficit, total trade balance posted surplus (USD4.4bn) for first time since Jun-2021.
- In FYTD terms, goods trade deficit widened (USD261bn) vis-à-vis FY24 (USD226bn), offsetting improvement in services trade surplus, so that the total trade deficit increased (USD89bn vs USD76bn in FYTD-FY24).
- The actual impact of the ongoing global tariff wars is likely to be felt in FY26. In a recent note, the WTO cautioned that the ongoing strength in trade could be attributable to frontloading of demand ahead of the anticipated rise in tariffs. Commodity prices are likely to remain a wildcard, though the continuing softness in crude oil prices bodes well for India's import bill.

Merchandise trade deficit narrowed in February to the lowest level in 3.5 years amid lower deficit across major groups

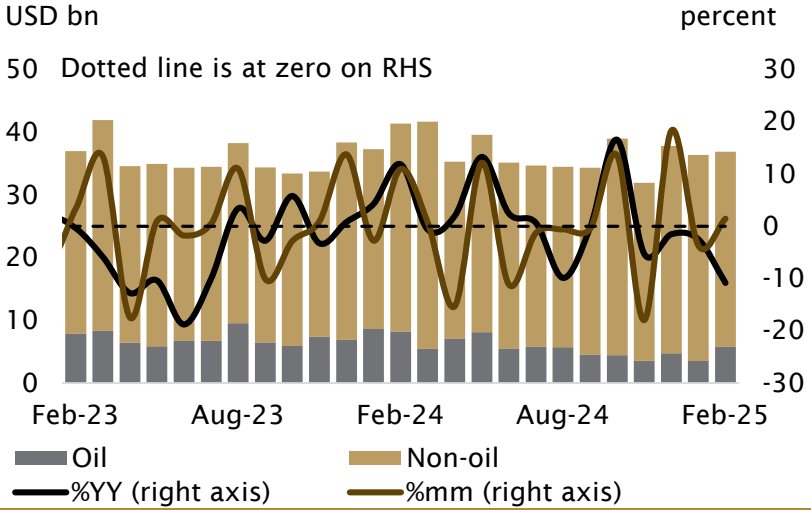




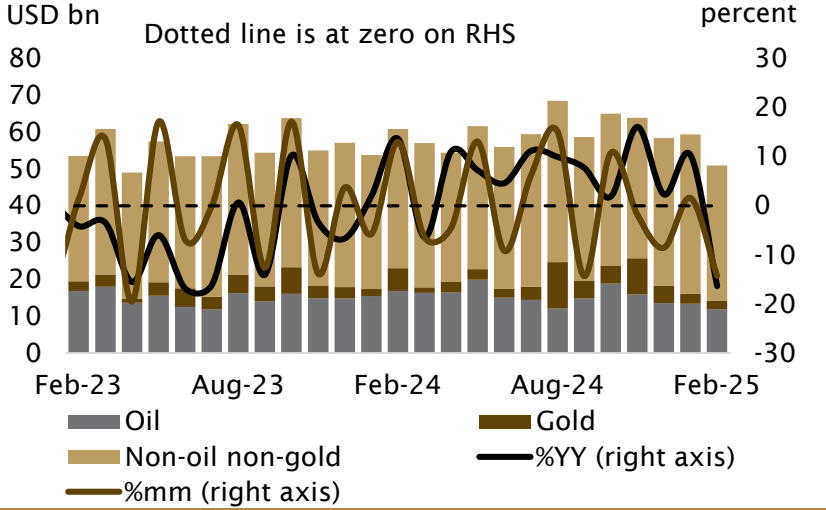
Merchandise trade deficit narrowed to the lowest level since Sep-2021

- In February, goods trade deficit narrowed to the lowest level in 3.5 years or since Sep-2021 to USD14.1bn from USD23.0bn in January. Base effects were negative in case of both exports and imports, dragging year-on-year growth to 20-month low of 10.9%YY and 16.3%, respectively. Exports were slightly up month-on-month, while imports declined by double-digits from the previous month.
- Core trade deficit (non-oil, non-gems and jewellery) moderated to 11-month low of USD6.5bn from USD10.1bn in the previous month. The year-on-year growth in core imports eased amid mildly negative base effect and sharp month-on-month decline. Core exports fell year-on-year after growing for 14 successive months, as both base effect and month-on-month momentum were unfavorable.
- The deficit in gems and jewellery trade continued to narrow for the third consecutive month to USD1.5bn, marking a 22-month low, from USD3.0bn in January. Both exports and imports of gems and jewellery posted double-digit year-on-year declines amid unfavorable base effects and negative monthly momentum.
- Petroleum trade deficit moderated to 19-month low at USD6.1bn from USD9.9bn in January. Both exports and imports of oil remained in double-digit year-on-year contraction but at shallower pace in case of exports and a sharper rate in case of imports. Both base effects and monthly change were unfavorable in case of imports and weighed on growth, while these were positive in case of exports, enabling a slower rate of decline. The share of oil in trade deficit rose mildly but was largely stable at about 43% for the third straight month.

Exports growth



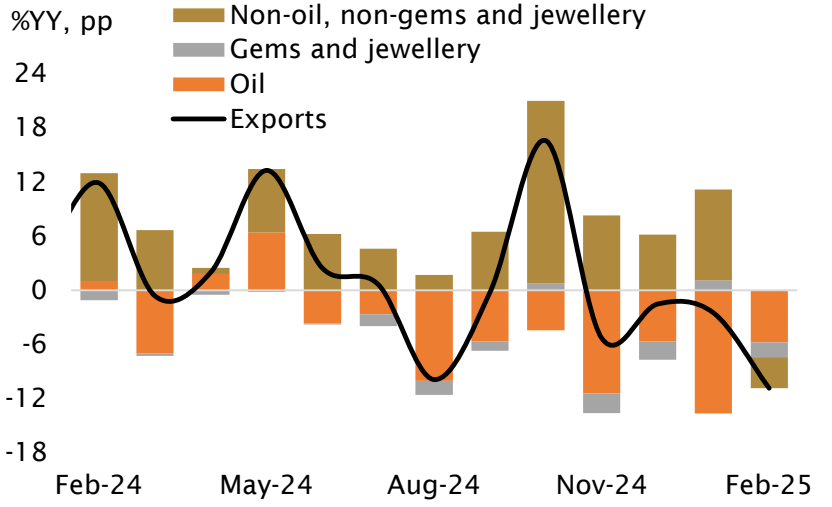
Imports growth



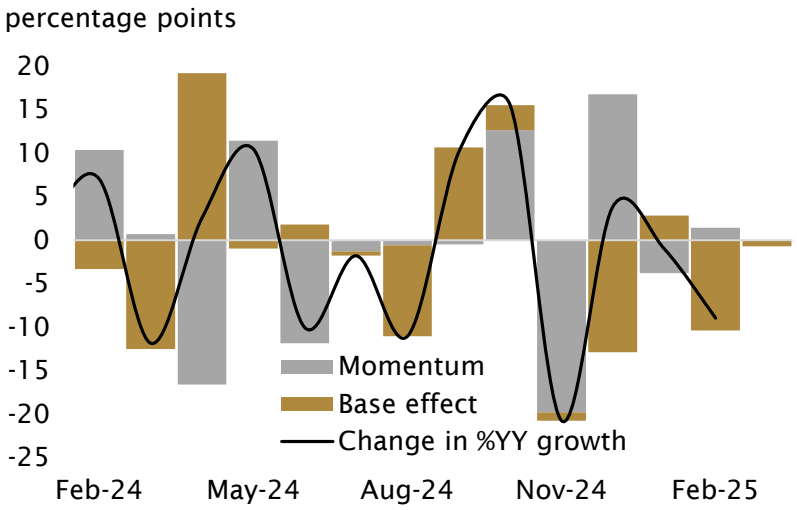
Core exports fell year-on-year after growing for 14 straight months

- Goods exports remained in contraction for the fourth straight month in February but at a pace that was the steepest in 20 months at 10.9%YY. Base effects were negative that offset the mild month-on-month uptick.
- In terms of year-on-year change, oil exports fell for the ninth straight month but at a shallower pace than in January. Gems and jewellery exports posted double-digit drop after rebounding in January, while core exports fell after growing for 14 consecutive months.
- Of the 30 main categories, exports fell year-on-year in 17 groups, up from five in January. Within core exports, engineering goods, chemicals, and iron ore were laggards, while electronic goods; rice; mica, coal, and minerals; and RMG textiles contributed to growth.
- Exports of gems and jewellery and core goods fell month-on-month, while those of petroleum surged.

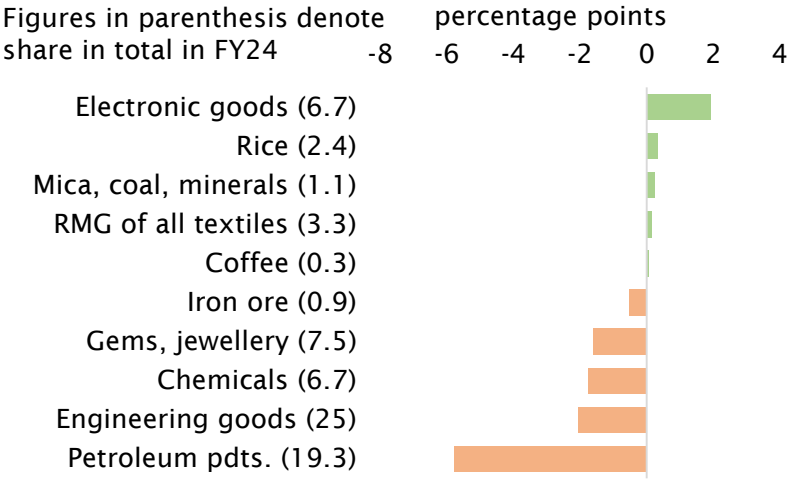
Contribution to exports growth – February 2025



Negative base effect offset mildly positive m-o-m change



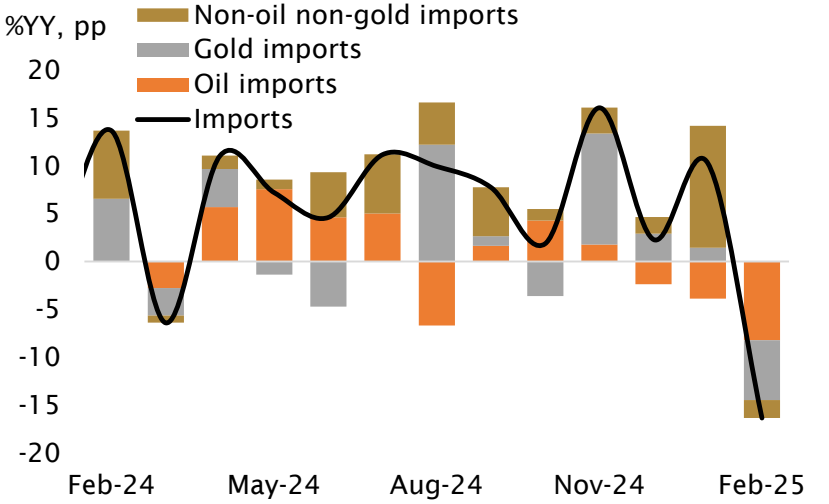
Contribution to exports growth – February 2025



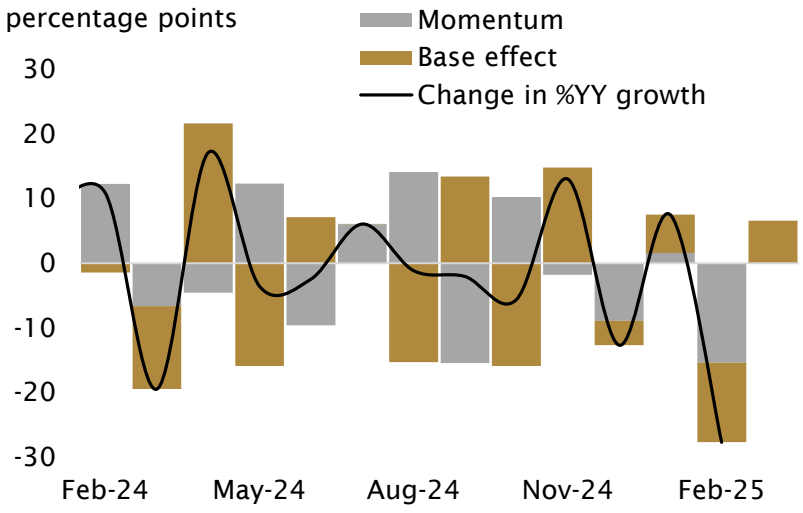
Imports fell year-on-year, dragged by decline in oil, gold, and core goods

- After growing by around 10%YY in January, imports declined at the sharpest rate in 20 months in February, dragged by negative base effect and monthly change.
- In terms of year-on-year change, the contraction in oil imports turned steeper for the third successive month, while gold imports fell after rising for three months. Core imports (non-oil, non-gold) decreased for the first time in FY25 amid negative base effect and month-on-month momentum.
- Of the 30 major categories, imports declined year-on-year in 12 groups, up from four in January. Within core imports, coal, briquettes, etc; and pearls, precious stones were laggards, while electronics, chemicals, vegetable oil, and machinery added to growth.
- Imports of all key categories – core goods, petroleum, and gold – fell month-on-month.

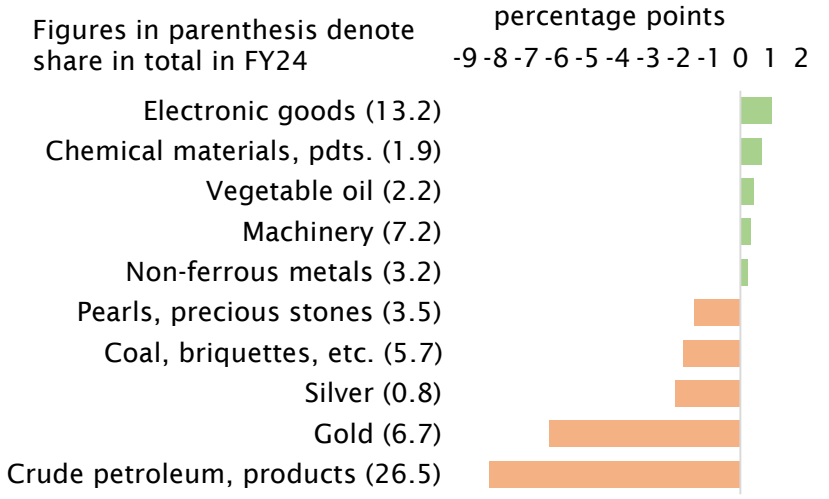
Contribution to imports growth – February 2025



Base effect, monthly drop dragged y-o-y import growth



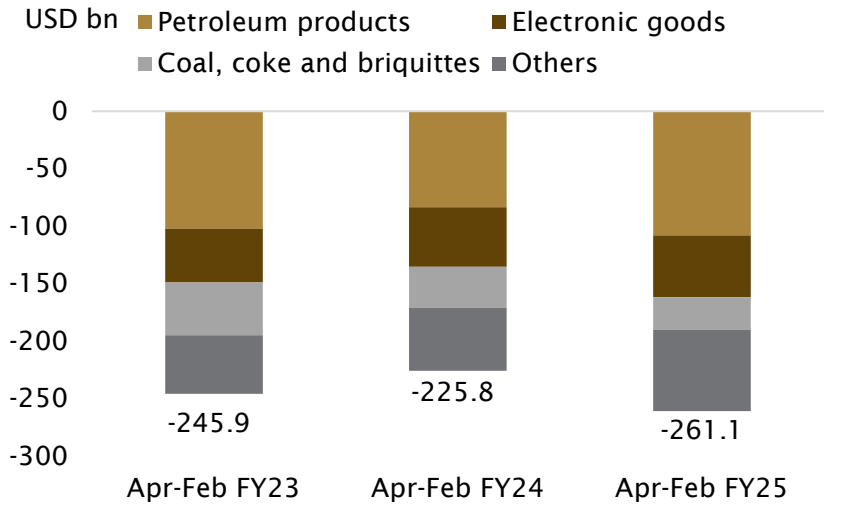
Contribution to imports growth – February 2025



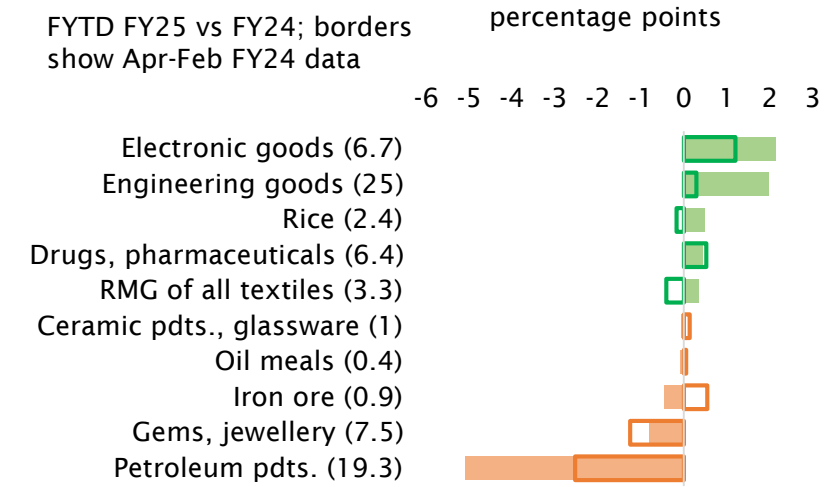
Goods trade deficit widened in Apr-Feb FY25 vs same period in FY23, FY24

- On a fiscal year-to-date basis, year-on-year growth in exports and imports stayed positive after decreasing in the same period of FY24. Exports grew 0.1%YY versus 3.4% decline in FYTD FY24. Imports rose 5.7%YY, compared to 5.2% fall. In FYTD terms, the trade deficit was steeper in FY25 vis-à-vis FY24 and FY23.
- Engineering and electronic goods added the most to exports growth. The contribution of rice and RMG of textiles was positive, a reversal from the trend in FY24. Pharmaceuticals added to growth. Petroleum products and gold jewellery remained a drag.
- Gold, electronics added the most to imports in FYTD FY25. Imports of petroleum, transport equipment rose, reversing trend in FYTD FY24. The contribution of machinery was similar to FYTD FY24. Imports of coal, briquettes, etc.; precious stones stayed in contraction.

Trade deficit widened in Apr-Feb FY25 vs Apr-Feb FY24

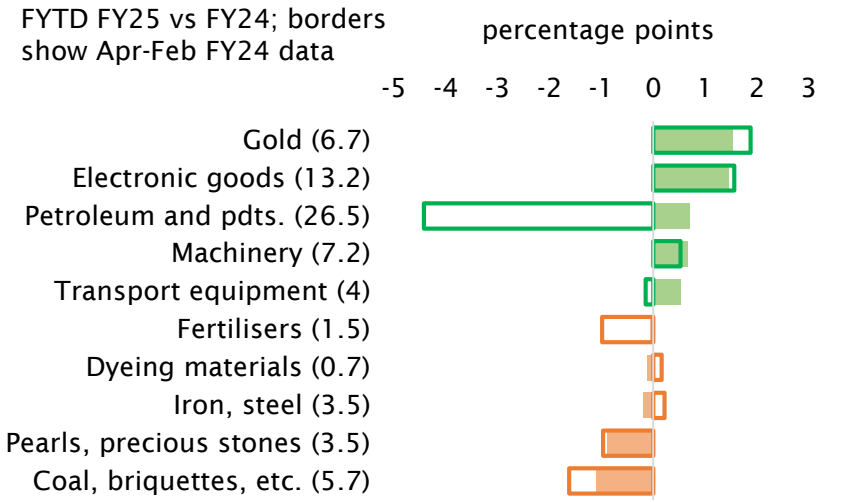


Contribution to %YY exports growth – FYTD (Apr-Feb)



Note: Numbers in parenthesis show share in FY24

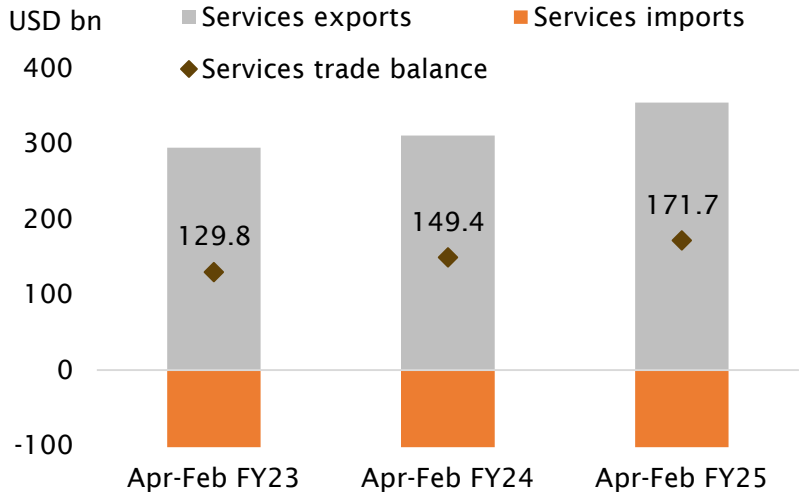
Contribution to %YY imports growth – FYTD (Apr-Feb)



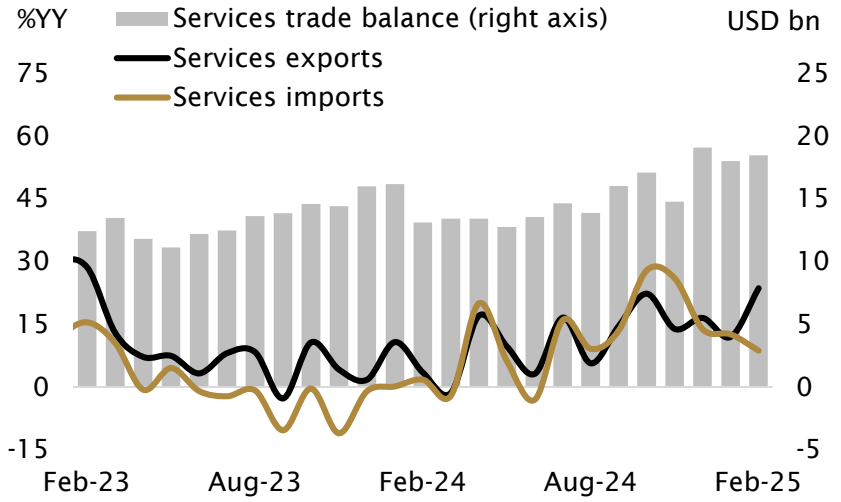
Total trade balance turned to surplus for the first time since Jun-2021

- In fiscal year-to-date terms (FYTD Apr-Feb), services trade surplus improved to USD171.7bn from USD149.4bn in the same period of FY24. Both exports and imports continued to post double-digit growth. In FYTD FY24, exports were up 5.5%YY, while imports had declined 2%.
- In February, services surplus rose to USD18.5bn from USD18.0bn in January. Exports were up 0.9% month-on-month, while imports decreased at the same rate.
- In terms of year-on-year change, services exports grew at a faster pace than in January, aided by month-on-month rise and strong base effect. Imports growth eased amid monthly drop and unfavorable base effect.
- Amid higher services surplus and lowest goods deficit in 3.5 years, total trade balance posted surplus (USD4.4bn) for first time since Jun-2021. But total deficit continued to widen FYTD (USD89bn vs USD76bn in FYTD-FY24).

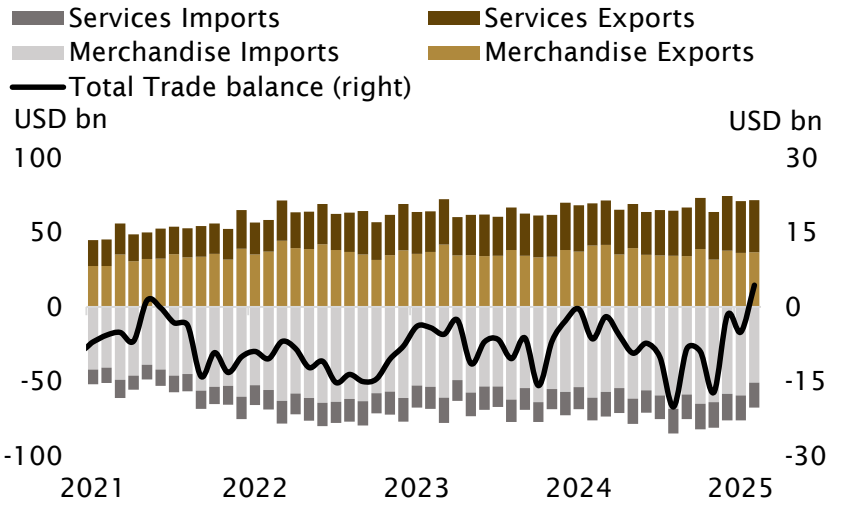
Services surplus continued to improve FYTD FY25



Services trade surplus improved further in February



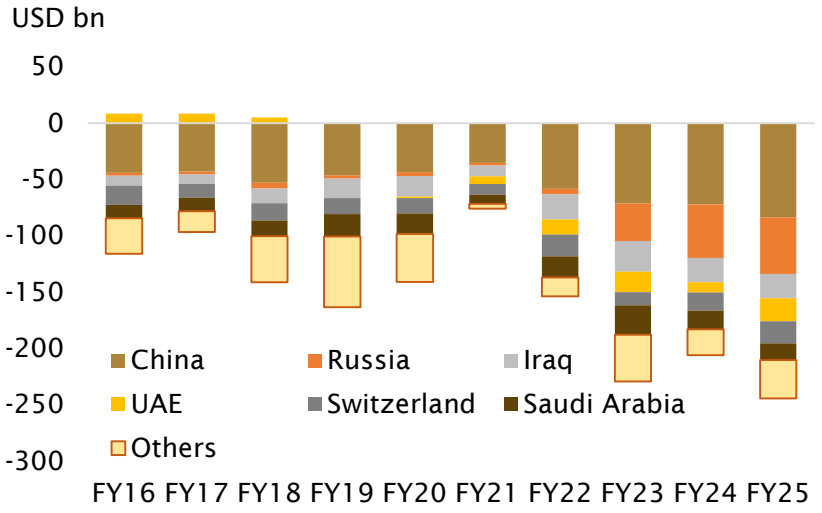
Trade balance in surplus for the first time since Jun-2021



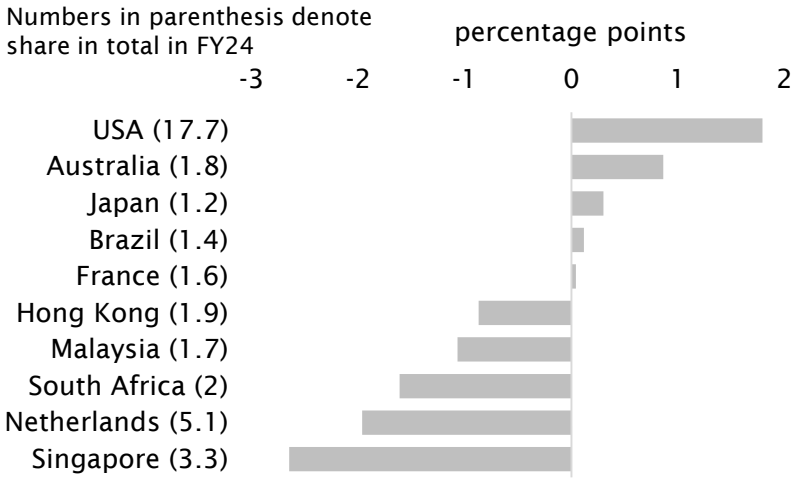
Merchandise trade deficit remained the widest vis-à-vis China in Apr-Jan

- Detailed data till January shows that on fiscal year-to-date basis, India's trade deficit remained the steepest vis-à-vis China, followed by Russia. The increase in deficit versus the same period in FY24 was the largest vis-à-vis the UAE amid higher imports of gold and petroleum products. Electronic components and computer hardware were among key imports from China, while petroleum and coal and briquettes, were main imports from Russia.
- Initial data for February shows that imports from Thailand and China added the most to growth, with China and the UAE topping the list in terms of share. In case of exports, the US and Australia added the most to growth, though the share remained the largest to the US.
- Data till January shows that organic chemicals and plastic raw materials were the main imports from Thailand. Pharmaceuticals and telecom instruments were key exports to the US.

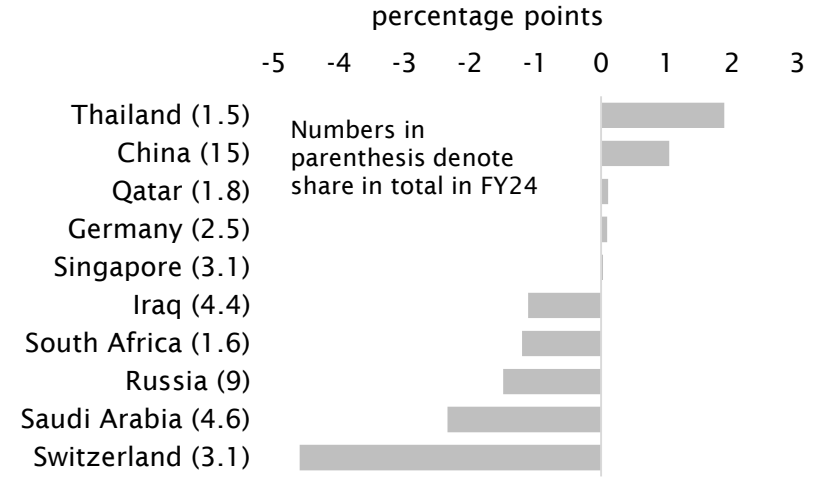
Trade deficit by economy – fiscal year-to-date (Apr-Jan)



Contribution to year-on-year export growth – Feb 2025



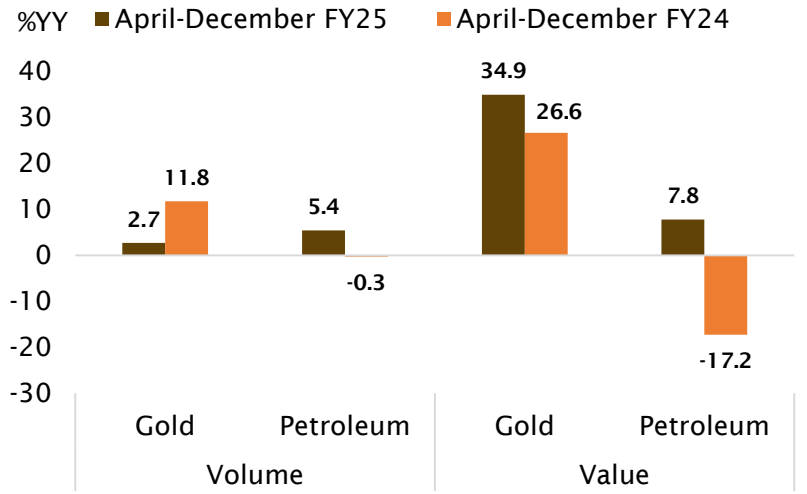
Contribution to year-on-year import growth – Feb 2025



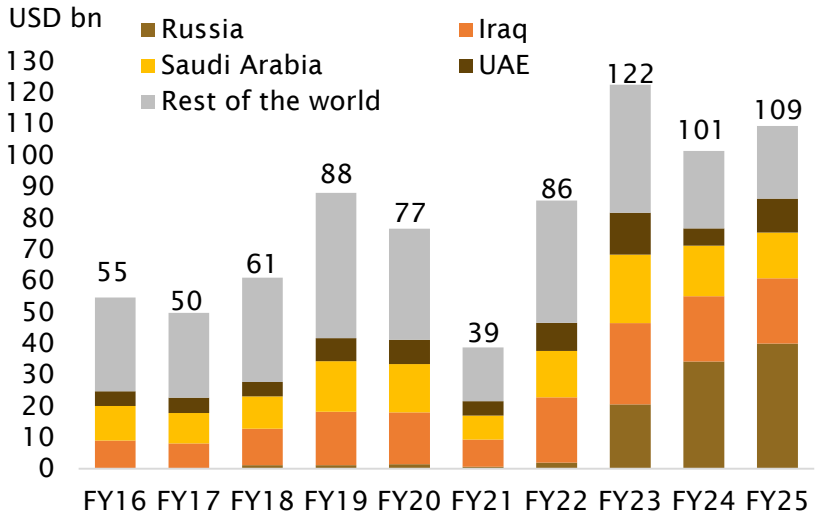
In Apr-Dec FY25, most oil imports were from Russia, gold from Switzerland

- On fiscal year-to-date basis (FYTD), crude oil imports in Apr-Dec amounted to around USD109bn, up 7.8%YY. Russia continues to constitute one-third of India's oil imports for the second straight year, displacing Iraq and Saudi Arabia as the largest exporters of oil to India.
- In Apr-Dec, India's gold imports rose to USD49bn from USD36bn in Apr-Dec FY24. More than one-third of gold imports continued to be from Switzerland, though the share has eased compared to the same period in FY24, while that of imports from the UAE has increased.
- The values of gold and crude oil imports are higher year-on-year FYTD. There is increase in crude oil import volume, while gold import volume growth has eased, reflecting higher gold prices that have resulted in higher growth in terms of value amid lower volume growth vis-à-vis Apr-Dec FY24.

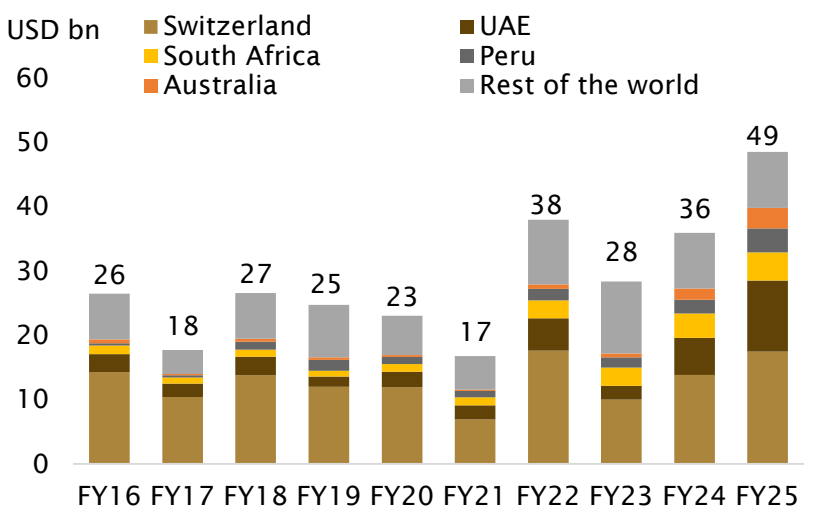
Volume growth continues to lag increase in y-o-y value



Crude petroleum imports by economy – April-December



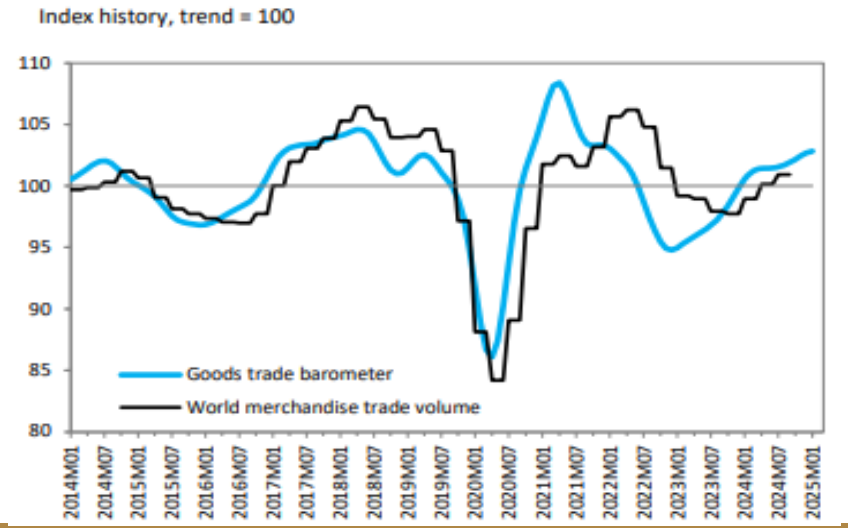
Gold imports by economy – April-December



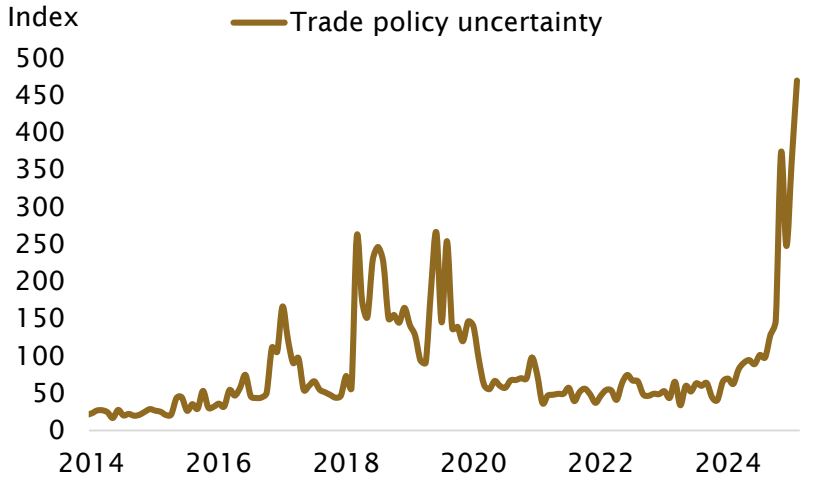
US policy uncertainty continues to cloud global trade outlook

- In its latest update to the global trade barometer, the WTO noted that this leading indicator for world trade remained largely unchanged from its previous note. But the organization noted caution in interpreting the strength in the index, citing rising trade policy uncertainty that could have prompted businesses and consumers to frontload imports ahead of potential tariffs, which could lower demand in later part of the year.
- Various measures of trade policy uncertainty continue to rise and have exceeded the extent seen during Trump's first term. In comprehensive notes, the Peterson Institute for International Economics (PIIE) lists the US trade actions during Trump's first and second term in office. Policymakers across the globe remain on edge, as they evaluate the impact of these actions on their domestic economies and respond in a manner that minimizes the likely spill overs from an uncertain external backdrop.
- For instance, in a latest update, the US extended sanctions on Venezuelan oil, including imposing tariffs on countries importing oil from Venezuela. Though this is expected to have repercussions on economies such as India, the impact is likely to be minimal, as the share of India's oil imports from the economy has dwindled in recent years, amounting to less than 1% of India's oil imports in Apr-Dec FY25.
- Global commodity prices are likely to remain a wildcard amid the ongoing rally in precious metals, exacerbated by uncertainties around trade policies that continue to impart volatility to global financial markets. However, crude oil prices remain soft, which could act as a tailwind for India's import bill.

Despite improvement in its quarterly barometer …



…the WTO sounds caution on trade policy uncertainty



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