

Goods trade deficit widened to eight-month high in July; outlook clouded by 50% US tariffs effective Aug 27

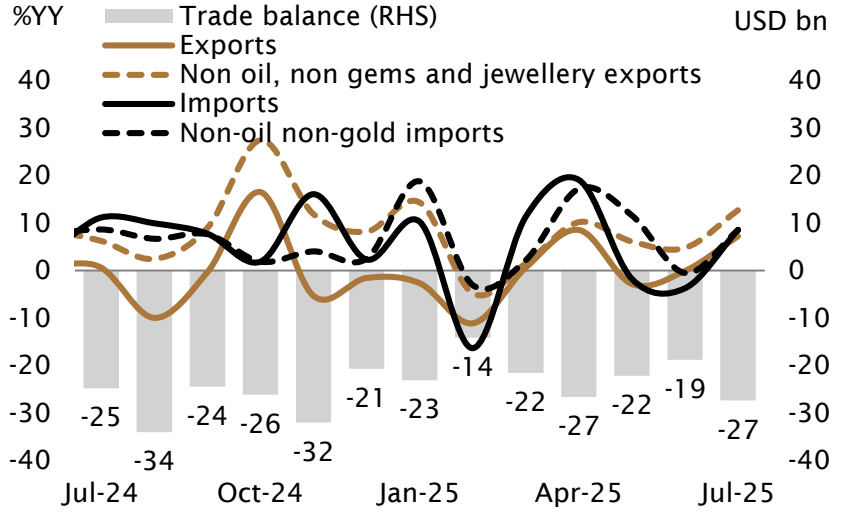
30 August, 2025

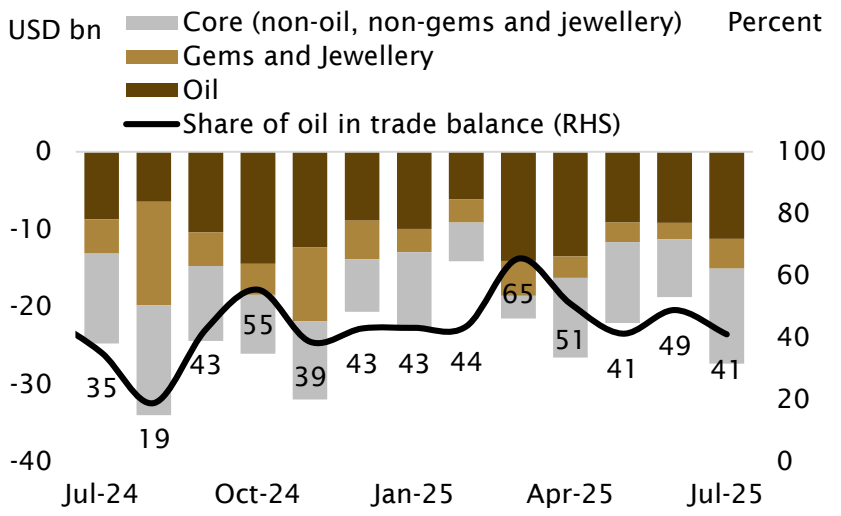
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Key takeaways

- In July, goods trade deficit widened to eight-month high of USD27.3bn from USD18.8bn in June. Both exports and imports rose sequentially, with imports growth outpacing exports. Base effects were favorable, but the strong monthly rise in imports led to higher year-on-year growth than in exports. There was deterioration in deficit across major groups of oil, gems and jewellery, and core goods. The surplus from services trade eased to USD15.6bn from USD16.2bn in June, so that the total deficit widened to USD11.7bn from USD2.6bn in June.
- In fiscal year-to-date (FYTD) terms, goods deficit widened to USD94.8bn in Apr-Jul FY26 from USD86.9bn in the same period of FY25. But services trade surplus rose to USD63.5bn from USD54.4bn in FYTD-FY25, allowing mild narrowing of total trade deficit to USD31.3bn in Apr-Jul FY26 from USD32.5bn in FYTD-FY25.
- Going ahead, the external sector outlook remains clouded by uncertainty over the US reciprocal tariffs on India at 50% that became effective on 27-Aug-2025. Formal talks that were scheduled in the last week of August were deferred, even as media reports cite continued informal efforts to strike a deal. The heightened tariffs include an additional penalty on India's imports of Russian oil and at current rate render our exports uncompetitive relative to peers. Beyond the direct hit to GDP growth, experts warn of impact on labor-intensive export sectors such as marine products, gems and jewellery, and textiles. Concerns have also emerged over fiscal slippages in the event of any fiscal package(s) to support exporters, particularly in the backdrop of income tax relief announced in the Union Budget for FY26 and the more recently proposed GST rationalization.

Goods deficit worsened to the steepest in eight months in July amid widening across core, gems and jewellery, oil deficit

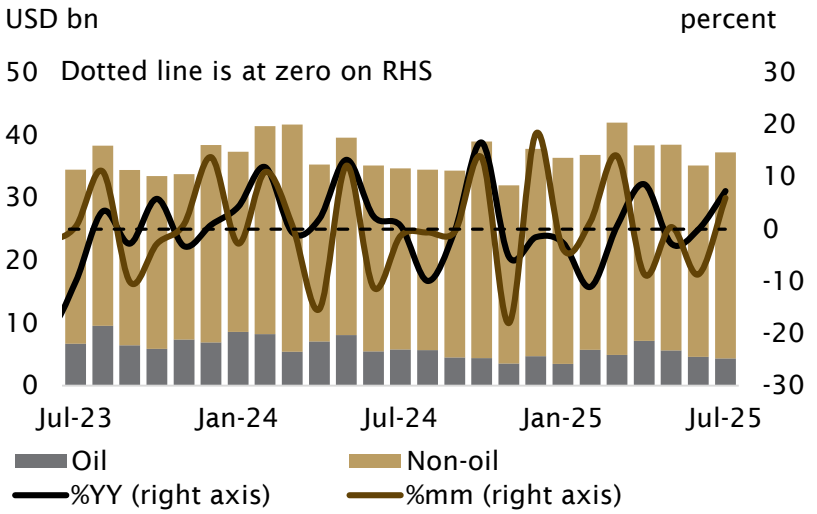




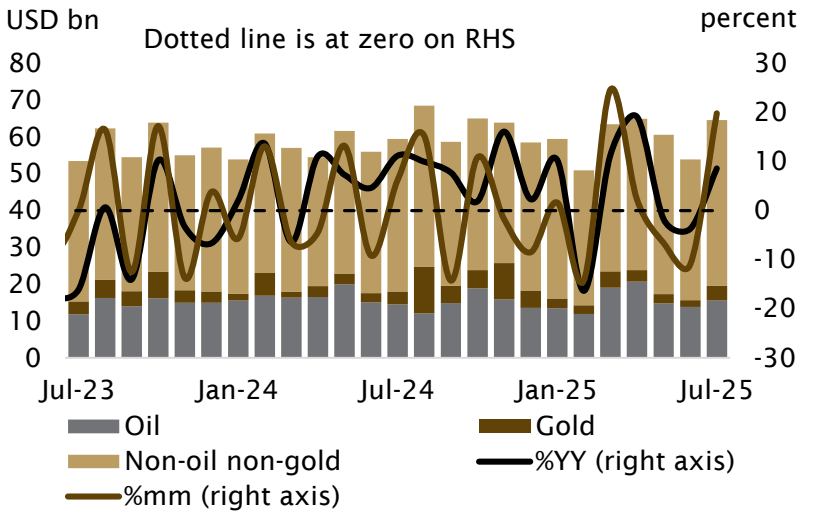
Merchandise trade deficit widened to eight-month high amid steeper deficits in core, gems and jewellery, and petroleum trade

- In July, goods trade deficit widened to eight-month high of USD27.3bn from USD18.8bn in June. Both exports and imports rose sequentially, with imports growth outpacing exports. Base effects were favorable, but the strong monthly rise in imports led to higher year-on-year growth at 8.6% than exports at 7.3%. Both exports and imports had declined in June, with imports falling at a sharper rate of (-)3.7%YY than exports at (-)0.1%.
- The trade in core goods (non-oil, non-gems and jewellery) posted steeper deficit at USD12.3bn vs. USD7.5bn in June. After contracting in June, both core exports and imports growth rebounded sequentially in July, with core imports growth accelerating to double digits. Also, both core exports and imports posted double-digit year-on-year growth, but exports growth exceeded that of imports amid slightly favorable base effect.
- The gems and jewellery trade deficit widened to USD3.8bn from USD2.1bn in June. After falling sequentially for three successive months, both exports and imports surged month-on-month. Base effects were favorable for both, keeping year-on-year imports growth in contraction for the third straight month and lifting exports growth to double digits after two straight months of decline.
- Petroleum trade deficit widened to USD11.2bn from USD9.2bn in June. Imports rose by double digits month-on-month, while exports stayed in sequential contraction for third straight month. Amid unfavorable base effects, this led to year-on-year increase in oil imports after two months of declines and third straight month of year-on-year fall in exports. However, the share of oil in goods trade deficit fell to 41% from 49% in June.

Exports growth



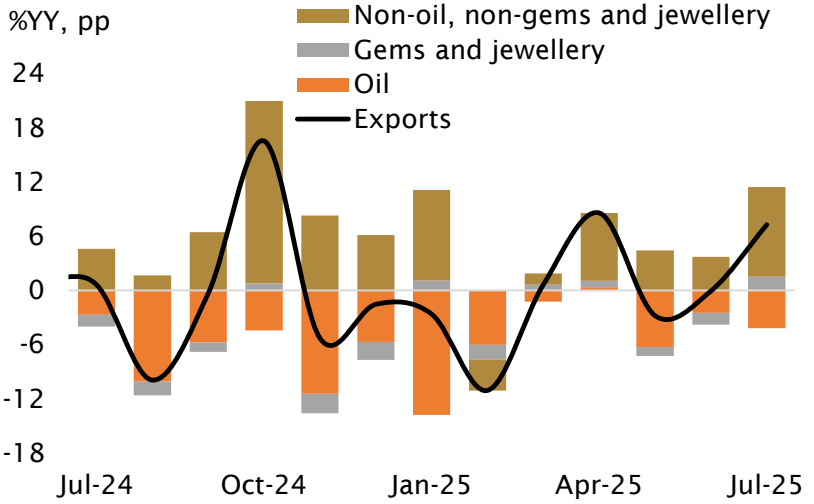
Imports growth



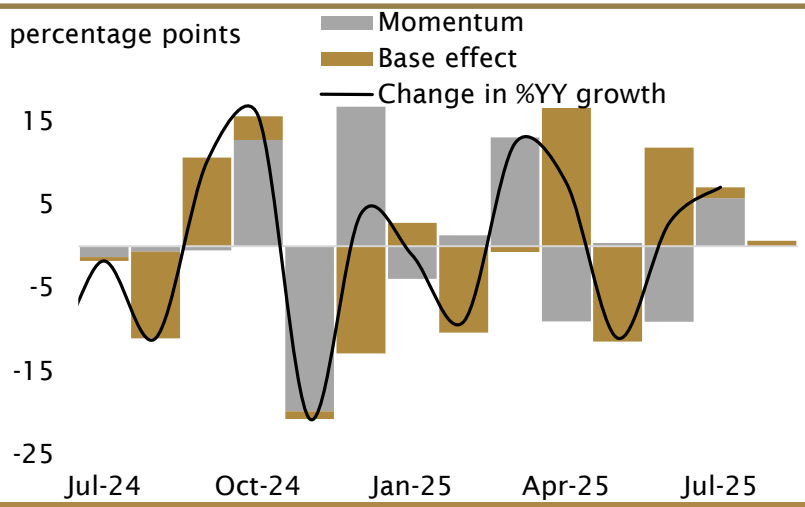
Rebound in gems and jewellery exports, double-digit year-on-year growth in core exports offset continued decline in oil exports

- Good exports rose 7.3%YY in July after declining for two straight months. Base effect was mildly favorable that supported the month-on-month growth in exports.
- In terms of year-on-year growth, petroleum exports stayed in double-digit contraction for the third straight month. Gems and jewellery exports rebounded after falling for two consecutive months, while core exports posted double-digit growth, marking the fifth successive month of expansion.
- Of the 30 categories, exports increased year-on-year in 27 groups, up from 16 in June. Within core exports, engineering and electronic goods, pharmaceuticals, and chemicals drove growth, while exports of iron ore, oil meals, and cashew, and tobacco were among laggards.
- Exports of core goods, and gems and jewellery exports increased month-on-month, while petroleum exports fell for the third consecutive month.

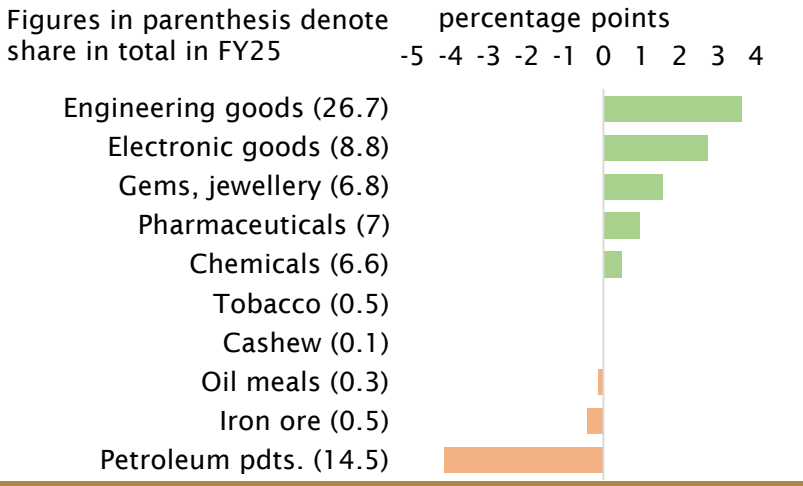
Contribution to exports growth – July 2025



Base effect, monthly gain aided y-o-y exports growth



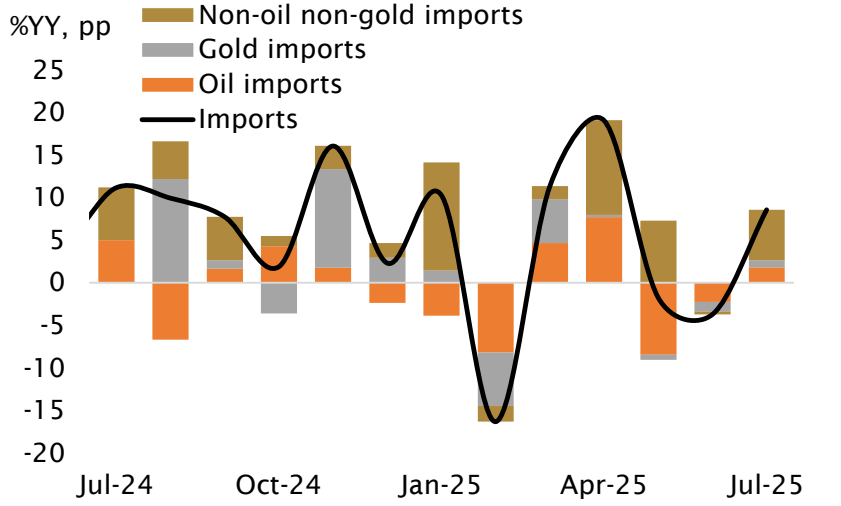
Contribution to exports growth – July 2025



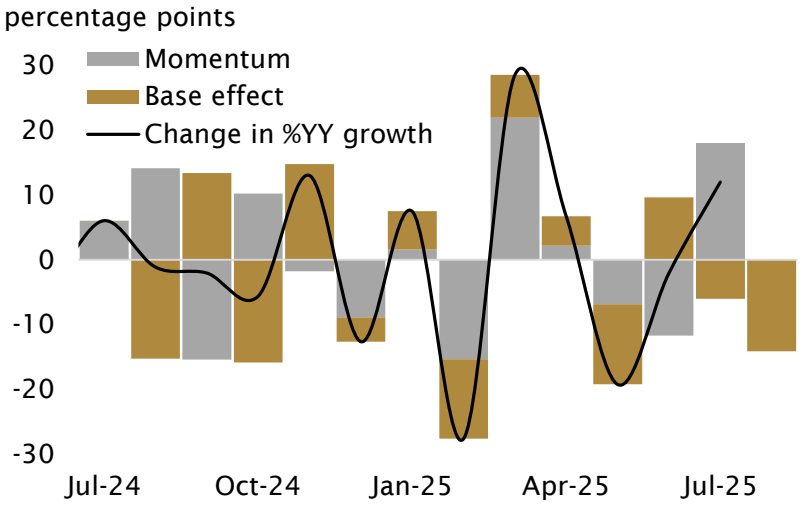
Good imports growth, both year-on-year and sequential, rebounded amid increases in major groups of petroleum, gold, and core goods

- Good imports rose 8.6%YY in July after falling for two straight months. The double-digit monthly momentum outweighed the impact of base effect, thereby lifting year-on-year growth.
- In terms of year-on-year change, both gold and oil imports rebounded after decreasing for two straight months. Core imports (non-oil, non-gold) rose after falling in June, aided by strong sequential gain.
- Of the 30 major groups, imports rose year-on-year in 26 categories, up from 12 in June. Within core imports, electronic goods, fertilizers, and machinery added to imports growth, while coal and briquettes, pulses, and leather products were among laggards.
- In terms of sequential change, imports of all the three key categories – petroleum; gold; non-oil, non-gold – increased month-on-month.

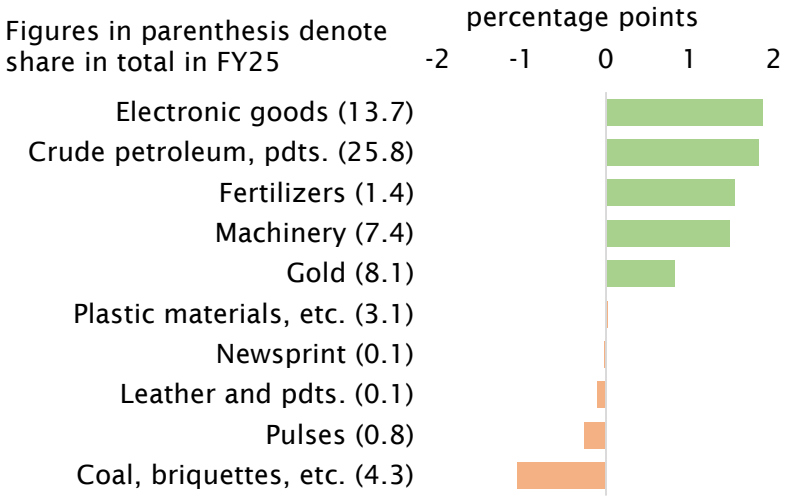
Contribution to imports growth – July 2025



Strong monthly momentum lifted y-o-y imports growth



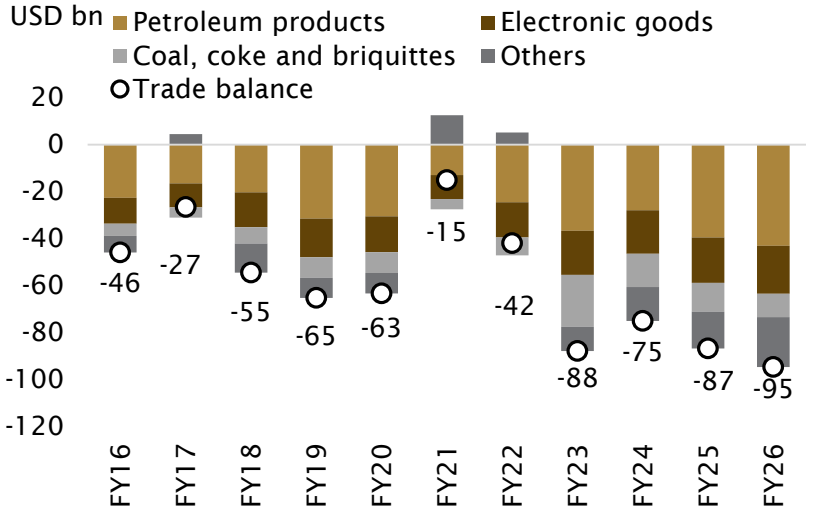
Contribution to imports growth – July 2025



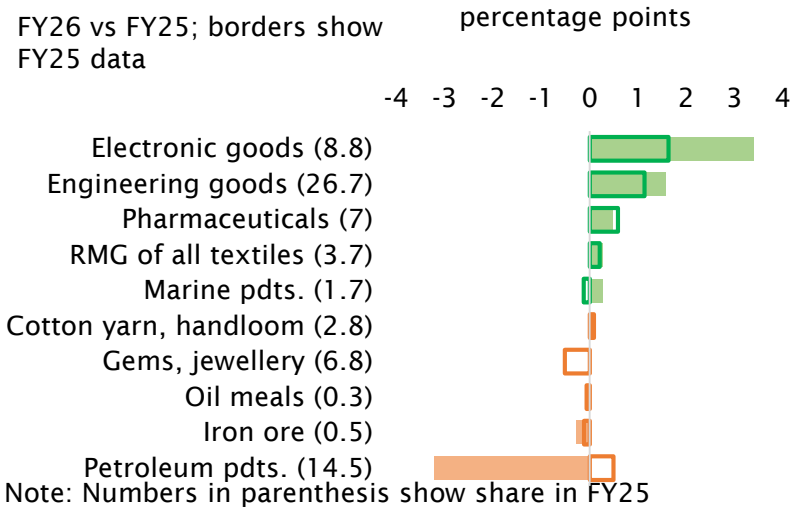
Goods trade deficit widened in Apr-Jul FY26 vs FYTD FY25; exports data indicates frontloading ahead of US tariffs imposition

- In fiscal year-to-date (FYTD) terms, goods deficit widened to USD94.8bn in Apr-Jul FY26 from USD86.9bn in the same period of FY25, propelled by higher year-on-year growth in imports than exports. But the year-on-year growth in both exports and imports remained lower than in FYTD-FY25. Exports growth moderated to 3.1%YY from 4.6%. Imports growth eased to 5.3%YY from 8.5% in Apr-Jun FY25.
- Electronic goods remained key contributors to exports and imports growth and to a greater extent than in FYTD FY25. Also, petroleum products were among laggards in exports and imports, a reversal from the trend in FYTD FY25.
- Engineering goods, marine products, textiles added more to exports than in FYTD FY25; the latter two reflecting frontloading ahead of the 50% US tariff imposition. In case of core imports, reversal in trends vis-à-vis FYTD-FY25 were seen in chemicals, pulses, and transport equipment.

Trade deficit widened Apr-Jul FY26 vs previous years

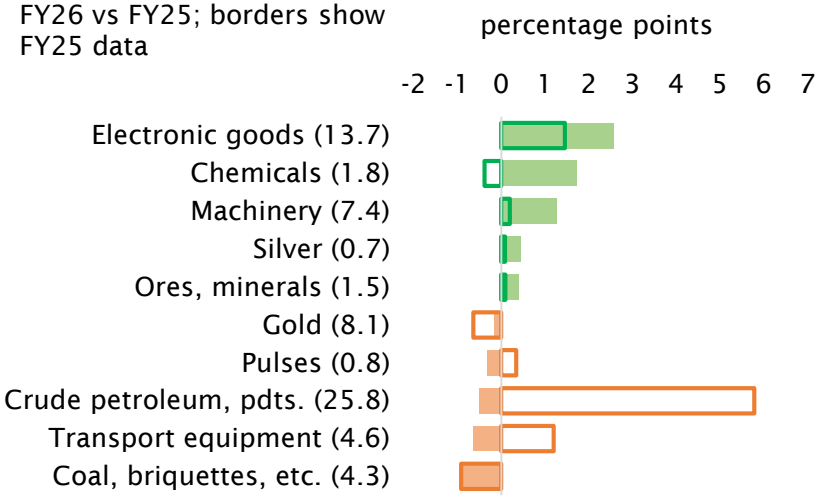


Contribution to %YY exports growth – Apr-Jul



Note: Numbers in parenthesis show share in FY25

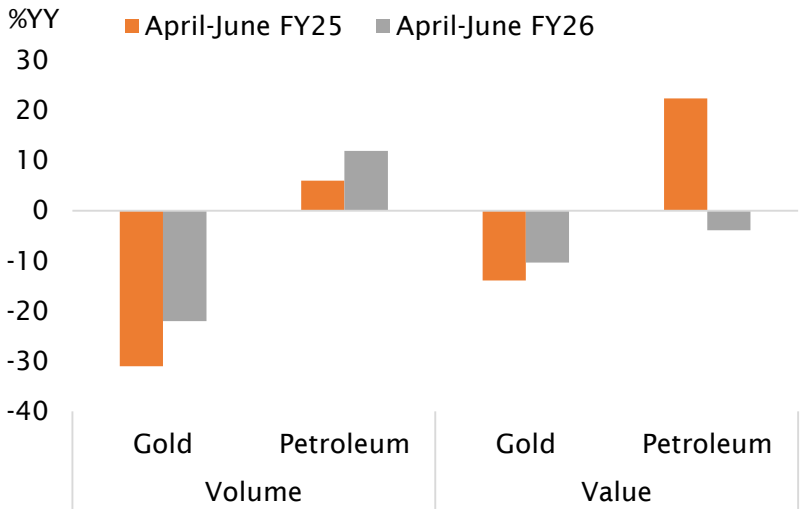
Contribution to %YY imports growth – Apr-Jul



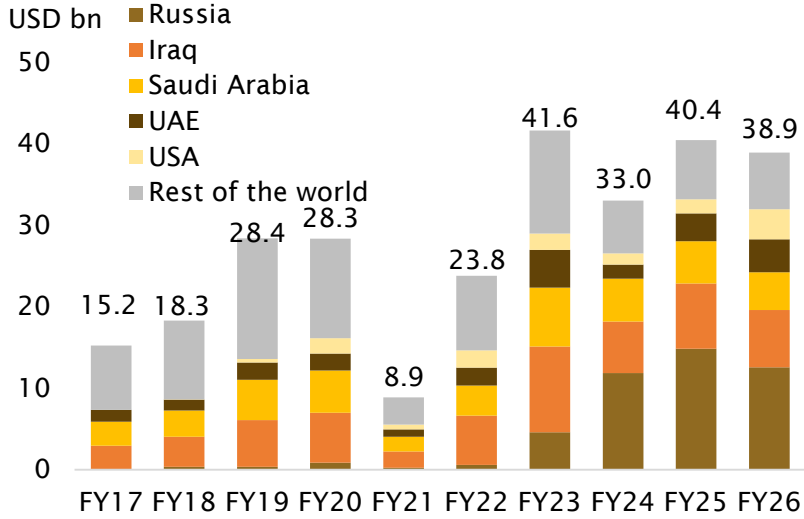
Import volumes in Q1-FY26 reflected the impact of year-on-year increase in prices of gold, decline in oil prices

- In Q1-FY26, spot gold price was up around 40%YY, while Brent crude price fell by more than 20%. The impact of higher gold prices was reflected in continued contraction in gold imports both in value and volume, albeit at lower rates than in FYTD FY25. Lower oil prices kept import volume growth positive and higher than FYTD FY25, but drove contraction in value vis-à-vis rise in FYTD FY25.
- Over 30% of India's crude oil imports continued to be from Russia, though the share eased to 32% from 37% in Apr-Jun FY25. The share of imports from Iraq and Saudi Arabia also moderated, while it rose from the US and the UAE. Switzerland continued to top the list of economies from where India imported gold, but the share eased to 30% from 42% in FYTD FY25. India also imported less gold from South Africa, and increased imports from the UAE, Peru, Dominican Republic and Ghana.

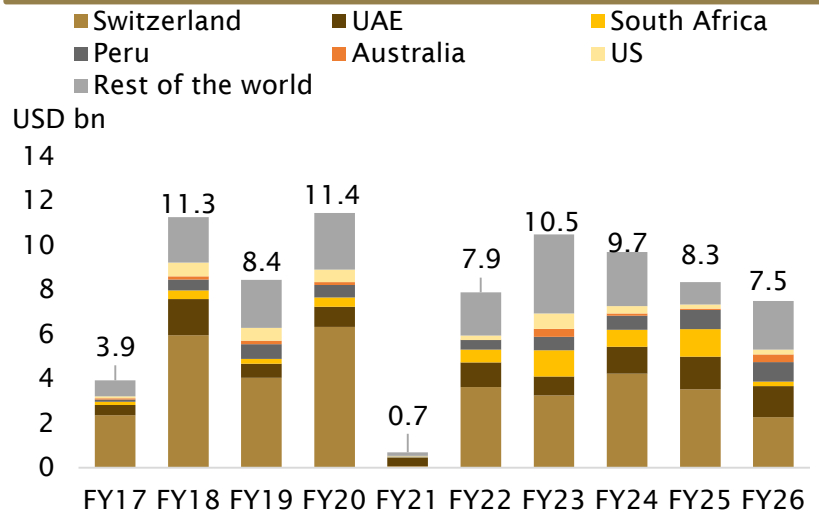
Gold and oil imports – value versus volume (Apr-Jun)



Crude petroleum imports by economy – (Apr-Jun)



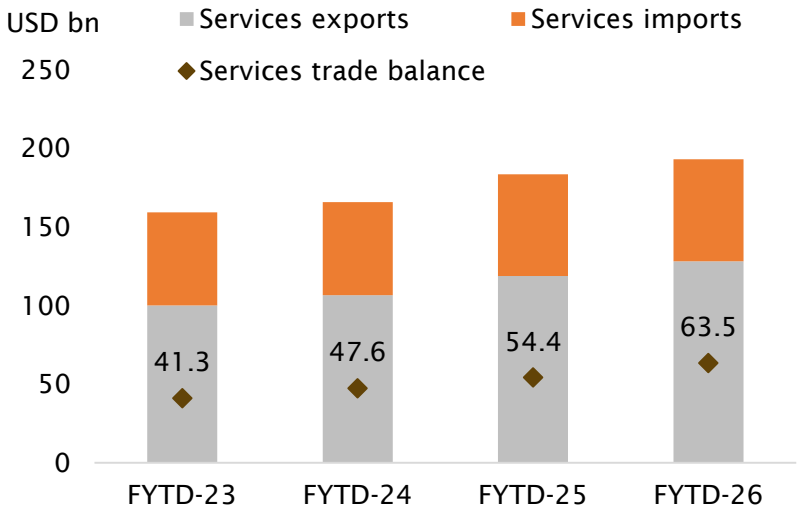
Gold imports by economy – (Apr-Jun)



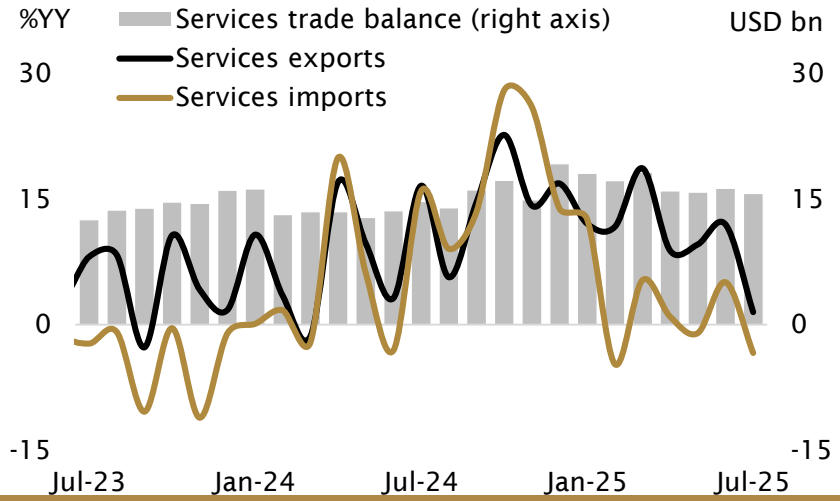
Total trade deficit worsened in July vis-à-vis June amid lower services trade surplus, steeper deficit in goods trade

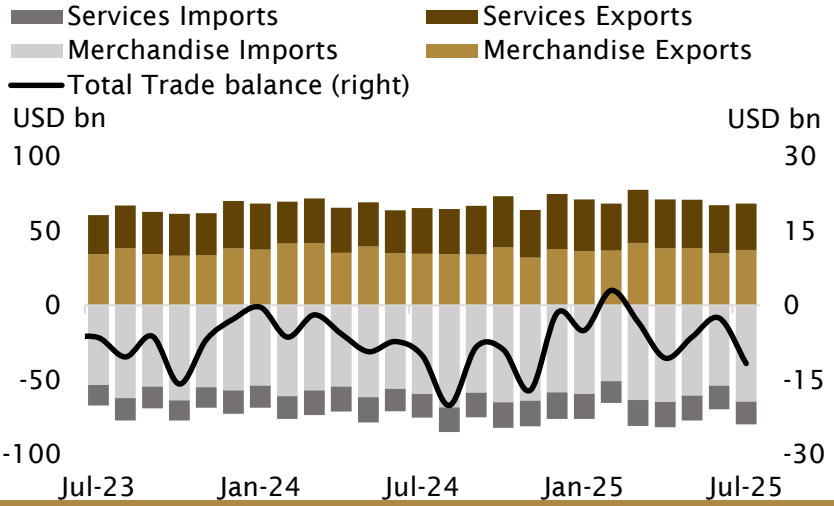
- In Apr-Jul FY26, services surplus rose to USD63.5bn from USD54.4bn in FYTD-FY25. Both exports and imports growth eased year-on-year, with exports growth remaining higher than imports. Imports growth eased to 0.3%YY from 9.3% in Apr-Jul FY25, and exports growth to 7.9%YY from 11.5%.
- In July, services trade surplus moderated to USD15.6bn from USD16.2bn in June. Both exports and imports fell month-on-month, with exports declining by slightly sharper clip than imports. Further, negative base effects led to slower year-on-year exports growth and fall in imports. Exports growth eased to 1.5%YY in July from 12.0% in June, while imports fell 3.4%YY after growing 5.1% in June.
- Amid steeper goods trade deficit and lower services trade surplus, total trade deficit widened in July to USD11.7bn from USD2.6bn in June. In FYTD terms, total trade deficit narrowed mildly year-on-year to USD31.3bn in Apr-Jul FY26 from USD32.5bn in FYTD-FY25.

Services surplus continued to improve in FYTD FY26



Services trade surplus eased in July vs. June; total deficit worsened amid lower services surplus and steeper goods deficit

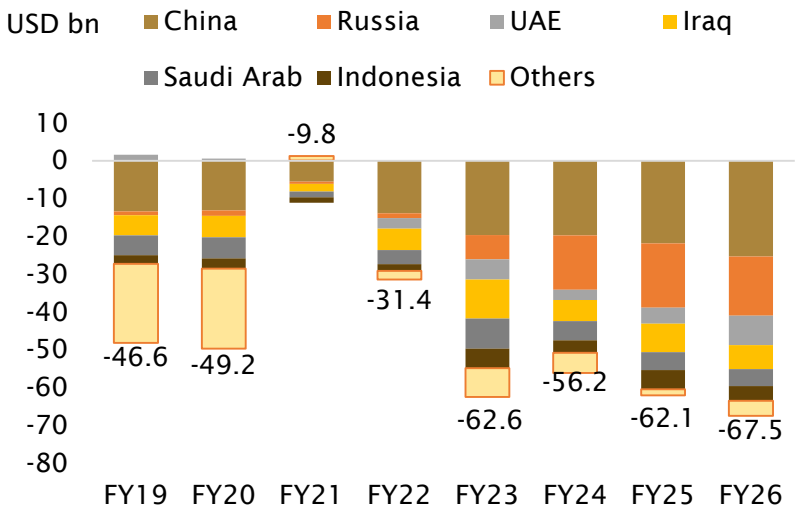




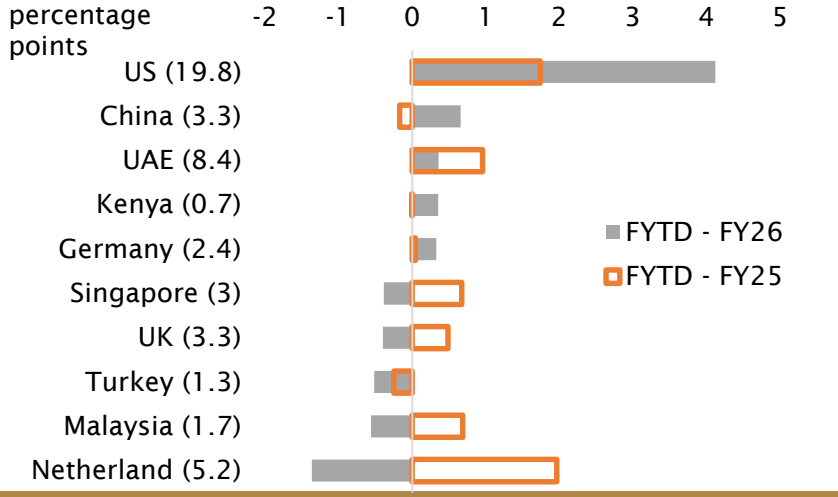
Merchandise trade deficit remained the widest vis-à-vis China in Apr-Jun FY26; steepest widening vis-à-vis the UAE

- Data across economies till June shows that India's trade deficit remained the steepest vis-à-vis China, followed by Russia. Compared to a year ago, widening of deficit was the steepest against the UAE, followed by China. The trade gap vis-à-vis Russia and Iraq narrowed year-on-year. Key imports from the UAE included mineral fuels, pearls and precious stones, and inorganic chemicals. Electrical machinery, mechanical appliances, and organic chemicals remained among major imports from China.
- Initial data for July shows that on FYTD basis, China continued to contribute the most to imports growth, followed by the UAE, while imports from Russia fell. In case of exports, frontloading ahead of the US tariff imposition led to the economy contributing the most to exports growth followed by China. Data till June shows that India's smartphone exports to the US surged, and that of pharmaceutical products also remained strong.

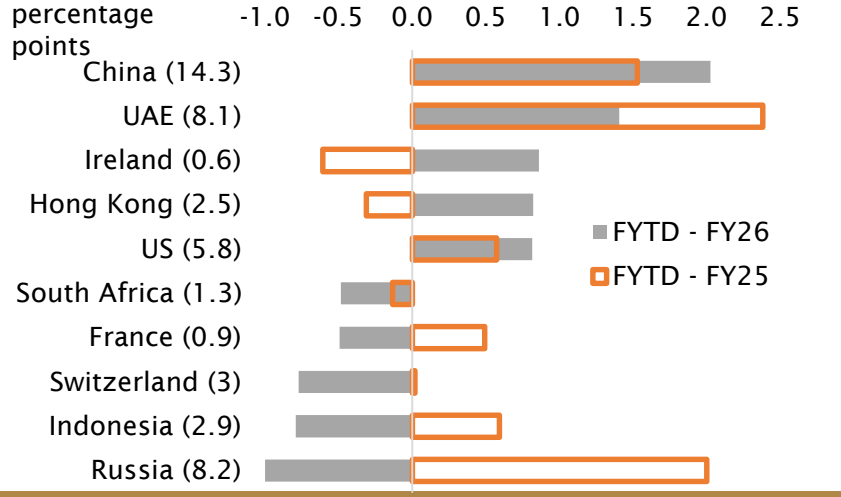
Trade deficit by economy – fiscal year-to-date (Apr-Jun)



Contribution to y-o-y export growth – Apr-Jul FY26



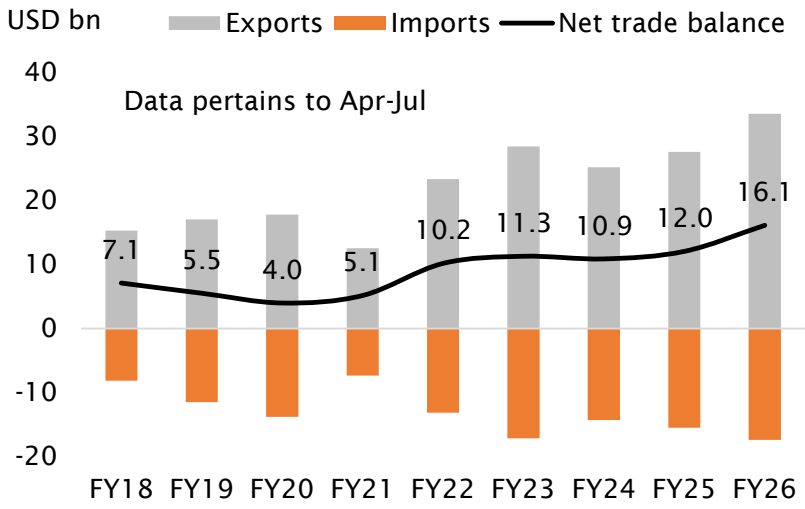
Contribution to y-o-y import growth – Apr-Jul FY26



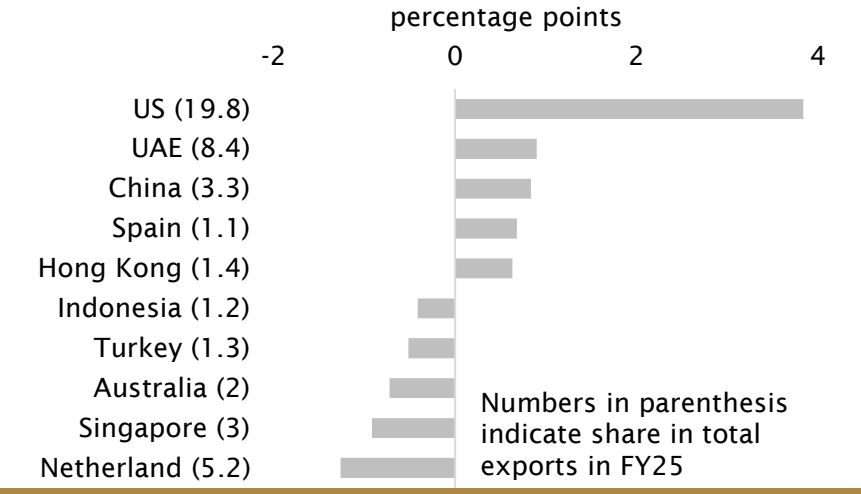
Goods trade surplus vis-à-vis the US rose year-on-year in Apr-Jul FY26 amid frontloading of exports ahead of US tariffs imposition

- India's trade surplus vis-à-vis the US increased by over USD4bn year-on-year during Apr-Jul FY26 to USD16.1bn. Both exports and imports grew at faster rates of 21.6%YY and 12.2%YY, respectively, compared to growth of 9.6% and 8.6%, respectively, during the same period of FY25. The was mainly attributable to frontloading of exports ahead of the imposition of 50% reciprocal tariff by the US, effective August 27, as was recently confirmed in a notice by the US Department of Homeland Security. Besides the 25% reciprocal tariff imposed earlier on India, an additional 25% was announced earlier this month as a penalty on India's imports of Russian oil.
- Initial trade data for July shows that the US continued to add the most to exports growth, followed by the UAE and China. Imports from Saudi Arabia added the most to growth, even as China continued to top the list in terms of share. Imports from Russia and Switzerland fell.

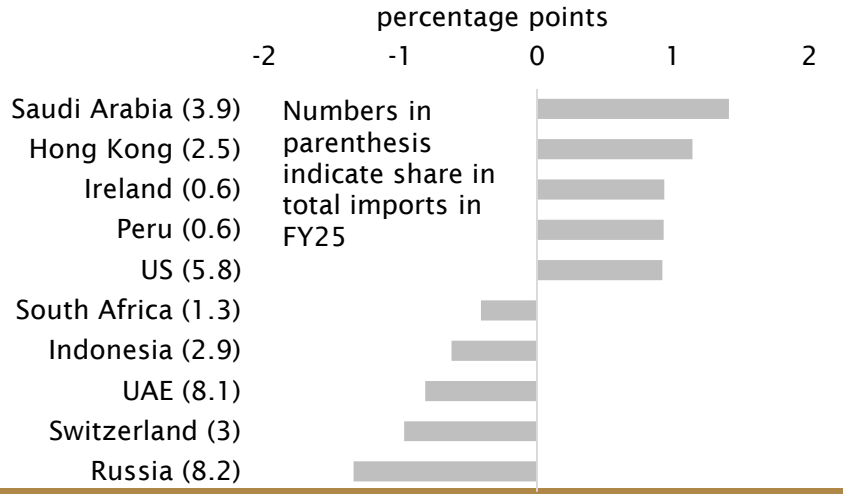
Trade surplus with the US – fiscal year-to-date (Apr-Jul)



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



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



US tariffs on India at 50% to keep uncertainty high for the external sector; hit to labor-intensive sectors could aggravate economic impact

- As noted earlier, US reciprocal tariffs on India's exports to the tune of 50% became effective from 27-Aug-2025. Trade talks between the two economies remain in a limbo over issues regarding access to India's diary and farm sectors. A team of US officials that was slated to visit India for yet another round of talks in the last week of August has been deferred, though media reports cite continued informal talks to negotiate a trade deal.
- In terms of impact on India's GDP growth in FY26, market estimates vary from 0.3-1.0pp, depending on the extent of time it takes to strike a deal between the two economies and the effective rate that is hopefully close to the US tariff rates on India's peer economies. However, experts warn of impact on employment, if it takes time to arrive at an agreement, as the sectors most impacted by the tariffs are labor intensive in nature such as marine products, textiles, gems and jewellery, etc. The second-order effects from loss of employment and the subsequent impact on consumption could be larger in the medium-term and difficult to gauge as of now, given the evolving situation.
- Even as media reports cite prospects of fiscal support for exporters, concerns have accentuated over fiscal slippages. These have emerged in the backdrop of income tax relief announced in the Union Budget for FY26 and more recently, the announcement of GST rate rationalization. Though the latter is seen more as a structural reform and both moves are expected to boost consumption in the near-term, financial markets have reacted to worries over likely impact of these measures on the fiscal math, shrugging off the much-awaited upgrade to India's sovereign rating by S&P to BBB.

New US sectoral Tariffs on Indian Goods (applicable from Aug 27)

S. No	Product Group	Exports to USA ($ bn, FY2025)	US Share in India's Exports (%)	US MFN Tariff (%)	New Trump Tariff (%)	Total Tariff Payable (%)	Impact on India
1	Smartphones	10.6	43.9	0	0	0	Low
2	Diamonds, gold and products	10.0	40	2.1	50	52.1	V High
3	Pharmaceuticals	9.8	39.8	0	0	0	Low
4	Machinery and mechanical appli	6.7	20	1.3	50	51.3	V High
5	Steel, Aluminium, Copper	4.7	16.6	1.7	50	51.7	High
6	Petroleum products	4.1	4.3	6.9	0	6.9	Low
7	Textiles, made up	3.0	48.4	9	50	59	V High
8	Organic chemicals	2.7	13.2	4	50	54	V High
9	Apparel; knitted	2.7	34.5	13.9	50	63.9	V High
10	Apparel; woven	2.7	32.2	10.3	50	60.3	V High
11	Vehicles, and parts (HS87)	2.6	11.4	1	25	26	Medium
12	Shrimps (10% CVD)	2.0	32.4	0	50	60	V High
13	Carpets	1.2	58.6	2.9	50	52.9	V High
14	Furniture; bedding, mattresses	1.1	44.8	2.3	50	52.3	V High
	Total Goods exports	86.5	19.8				

Source: GTRI report on The US Tariff Challenge

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