

Goods trade deficit narrowed in May, but geo-economic and geopolitical risks continue to cloud the outlook

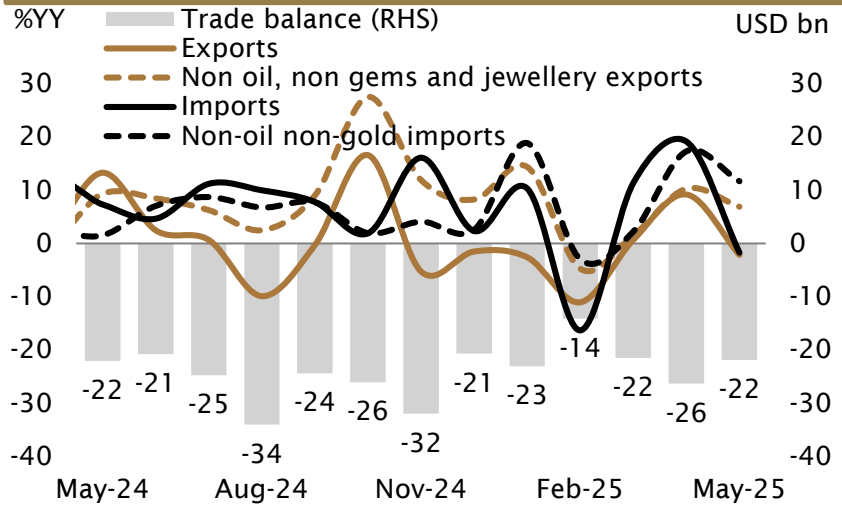
25 June, 2025

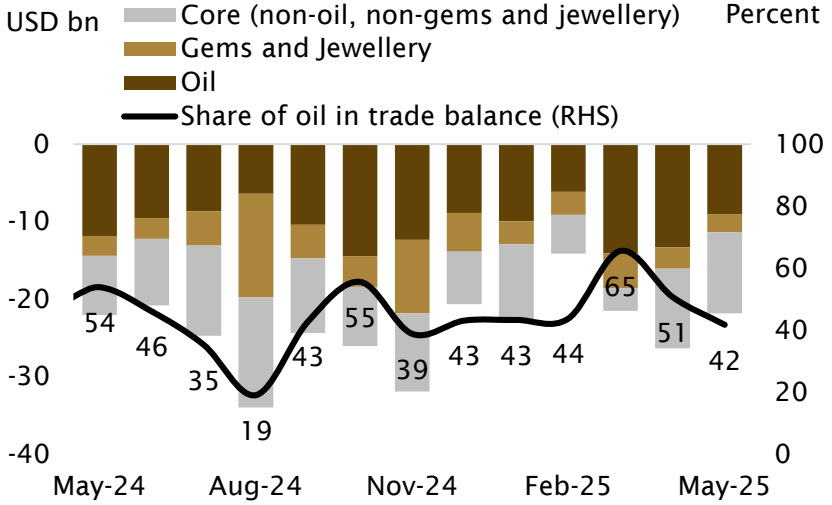
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Key takeaways

- In May, goods trade deficit narrowed to USD21.9bn from USD26.4bn in April amid month-on-month fall in imports and mild rise in exports. Base effects were negative, dragging both into year-on-year contraction.
- The deficit in petroleum, and gems and jewellery trade moderated, while core trade (non-oil, non-gems and jewellery) deficit widened marginally from the previous month. The surplus from services trade eased for the second successive month to USD15.3bn from USD18.1bn in April. Amid lower services trade surplus and moderation in goods trade deficit, total deficit narrowed to USD6.6bn from USD8.3bn in April.
- In fiscal year-to-date (FYTD) terms, goods trade deficit was steeper in Apr-May FY26 (USD48.2bn) than in FYTD FY25 (USD41.3bn). But in the same period, services surplus improved to USD33.4bn from USD26.2bn in FYTD FY25. As a result, total deficit was mildly lower at USD14.9bn versus USD15.1bn in Apr-May FY25.
- India and the US have agreed on terms of reference for a bilateral deal, but talks are in a limbo over some of the details that include access to India's farm and diary sectors. Though many economies are scrambling to sign bilateral trade deals with the US ahead of the cessation of pause on reciprocal tariffs effective July 9, only the UK and China have so far succeeded in negotiating some sort of truce or interim deals.
- Global commodity prices remain vulnerable to geopolitical risks, as evinced in the recent escalation of Iran-Israel tensions and the subsequent ceasefire. The ongoing geopolitical and geo-economic woes are expected to weigh on outlook for global trade and capital flows in the remainder of 2025.

Goods trade deficit narrowed in May due to lower deficit in petroleum, gems and jewellery; core deficit widened mildly

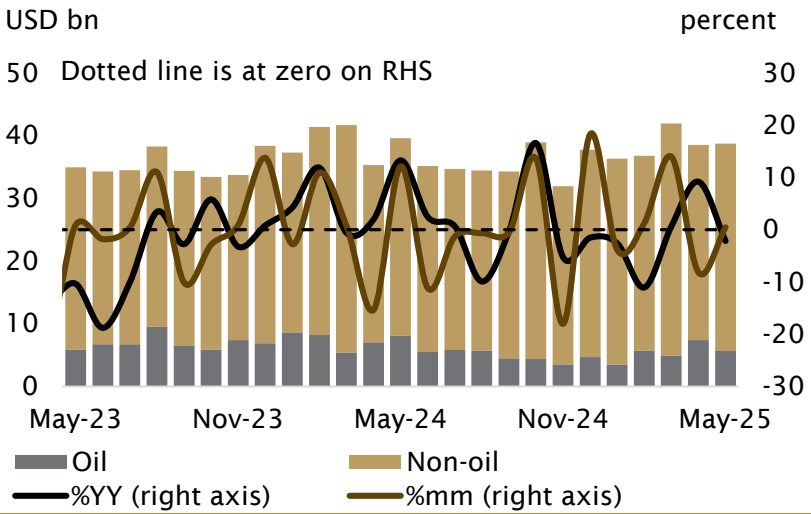




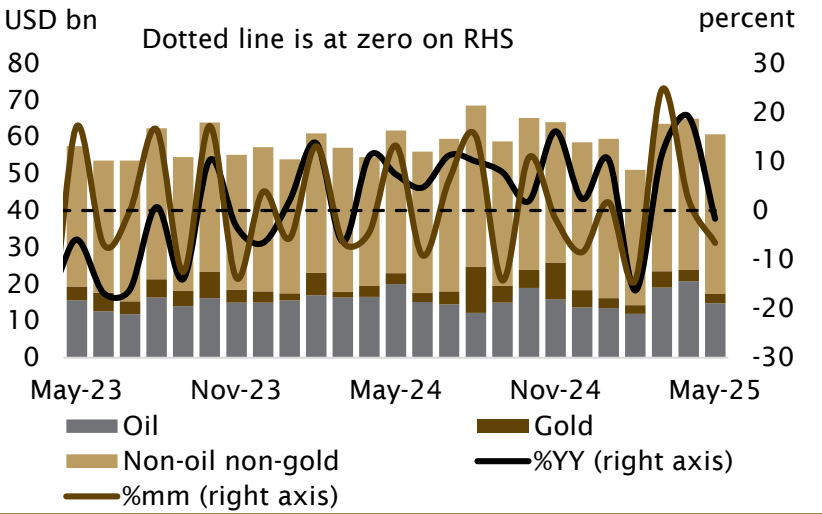
Merchandise trade deficit narrowed in May amid month-on-month fall in imports and mild growth in exports

- In May, goods trade deficit narrowed to USD21.9bn from USD26.4bn in April amid month-on-month decline in imports and mild rise in exports. Base effects were negative for both, dragging exports and imports into year-on-year contraction of 2.2% and 1.7%, respectively.
- Core trade deficit (non-oil, non-gems and jewellery) widened marginally to USD10.5bn from USD10.3bn in April. Base effects were negative for both core exports and imports, so that year-on-year growth moderated vis-à-vis April, though core imports growth continued to remain in double digits for the second straight month. In terms of sequential change, both core exports and imports were up month-on-month.
- The deficit in gems and jewellery trade narrowed to USD2.3bn from USD2.8bn in April. Both exports and imports fell sequentially for second straight month, with imports falling at sharper rates than exports in both April and May. Base effects were negative in May, more so in case of exports. Dragged by month-on-month fall and unfavorable base effects, both exports and imports posted double-digit year-on-year contraction during the month.
- Petroleum trade deficit narrowed to three-month low at USD9.1bn from USD13.3bn in April. Both exports and imports fell sharply month-on-month, with the decline in imports being steeper than in exports. Base effects were also negative, driving double digit year-on-year contraction in both exports and imports of oil. The share of petroleum in overall goods trade deficit moderated to six-month low of around 42%.

Exports growth



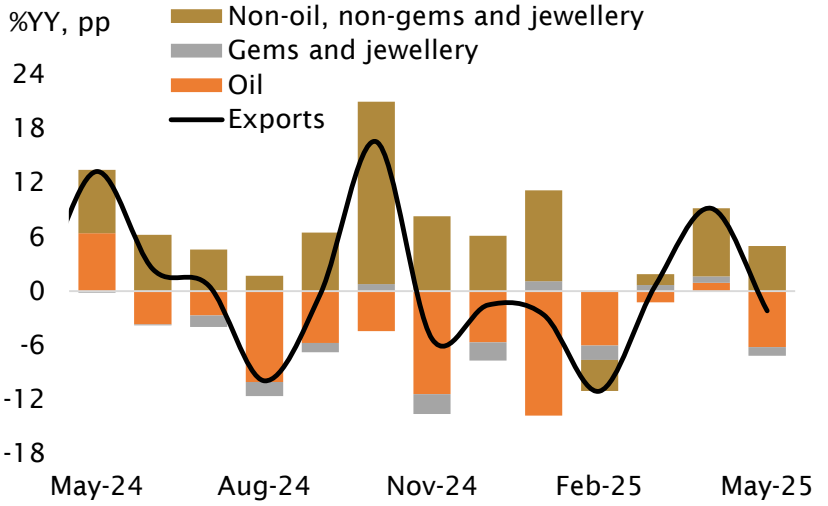
Imports growth



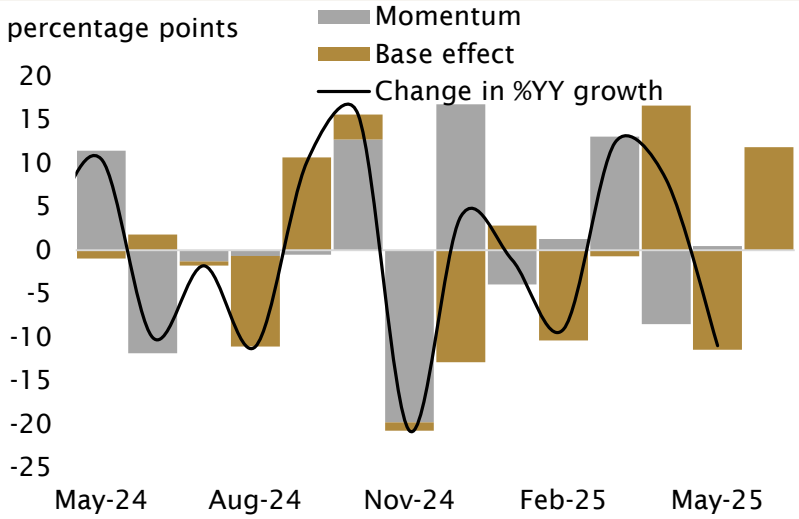
Core exports grew year-on-year, even as overall goods exports slumped due to fall in oil, and gems and jewellery exports

- Goods exports declined 2.2%YY after growing for two straight months. Base effects were unfavorable, which more than offset the mild month-on-month uptick.
- In terms of year-on-year change, exports of petroleum, and gems and jewellery posted double-digit contraction. Core exports grew for the third straight month, though at a slower pace than in April.
- Of the 30 main categories, exports fell year-on-year in 13 groups, up from seven in April. Within core exports, iron ore and engineering goods were among laggards, while electronic goods, chemicals, pharmaceuticals, and marine products added to growth. Even as cotton yarn and handloom products deducted from growth, ready made garments contributed to growth.
- Exports of petroleum, and gems and jewellery fell month-on-month, while that of core goods increased.

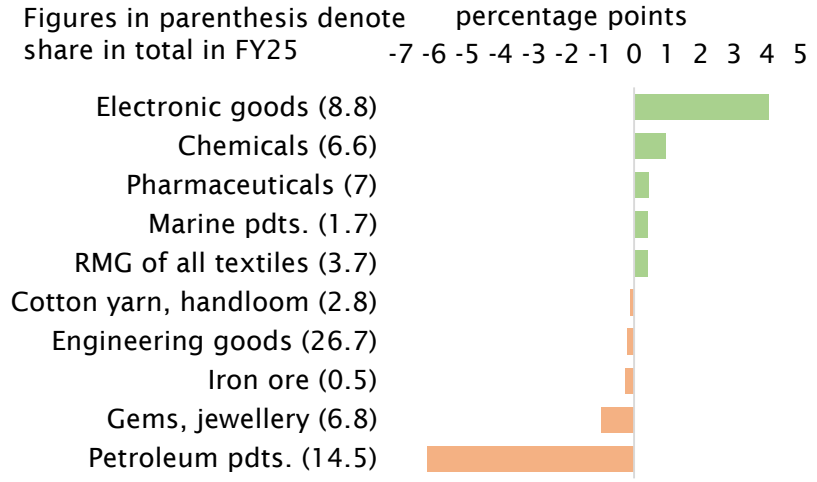
Contribution to exports growth – May 2025



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



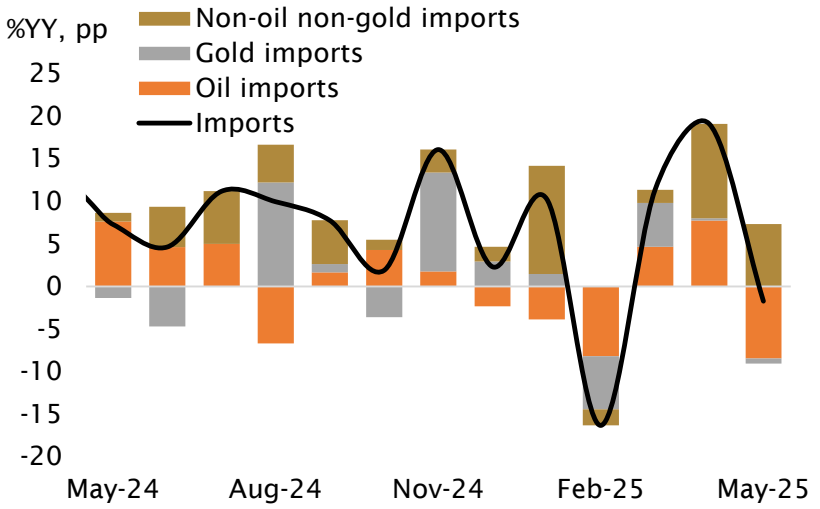
Contribution to exports growth – May 2025



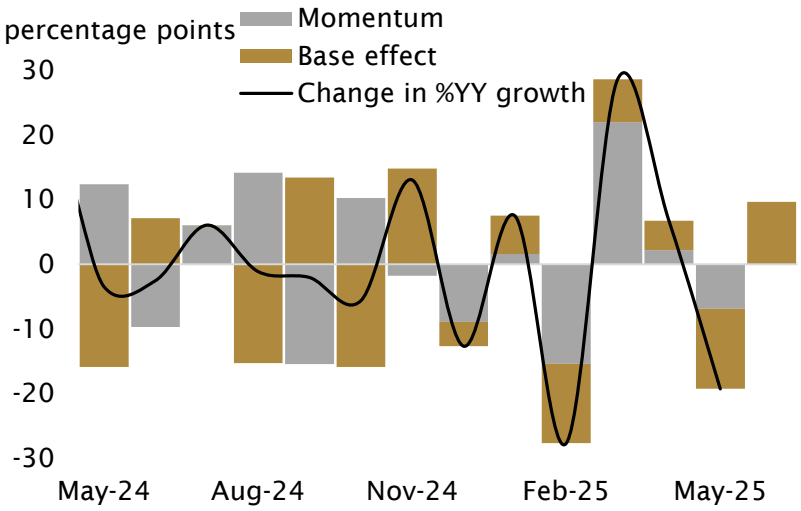
Imports fell year-on-year, as decreases in petroleum and gold imports more than offset core imports growth

- Imports fell 1.7%YY after posting double-digit growth for two straight months, as unfavorable base effects exacerbated negative month-on-month momentum.
- In terms of year-on-year change, the trends in both oil and gold imports were in line with overall imports, declining after increasing for two consecutive months. Core imports (non-oil, non-gold) grew for the third straight month, marking the second month of double digit growth amid positive monthly momentum that offset unfavorable base effects.
- Of the 30 major categories, imports fell year-on-year in 10 groups, up from seven in April. Within core imports, transport equipment; coal, and briquettes were among laggards; while chemical materials, electronic goods, and machinery contributed to imports growth.
- Imports of oil and gold fell month-on-month.

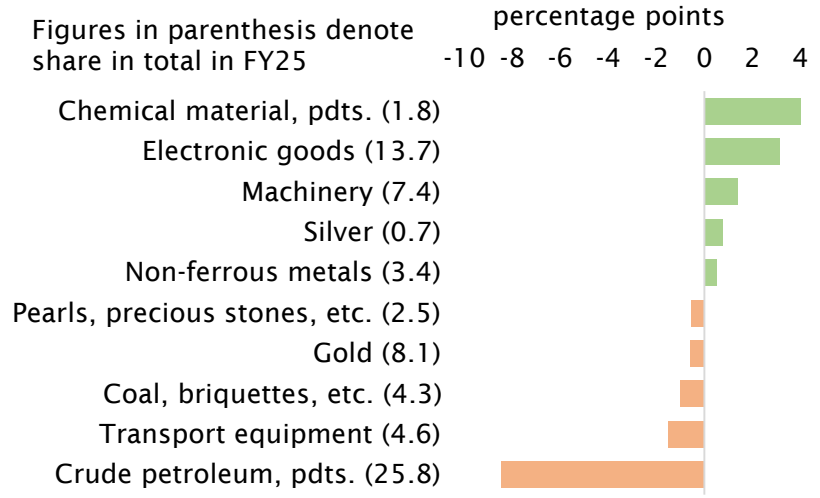
Contribution to imports growth – May 2025



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



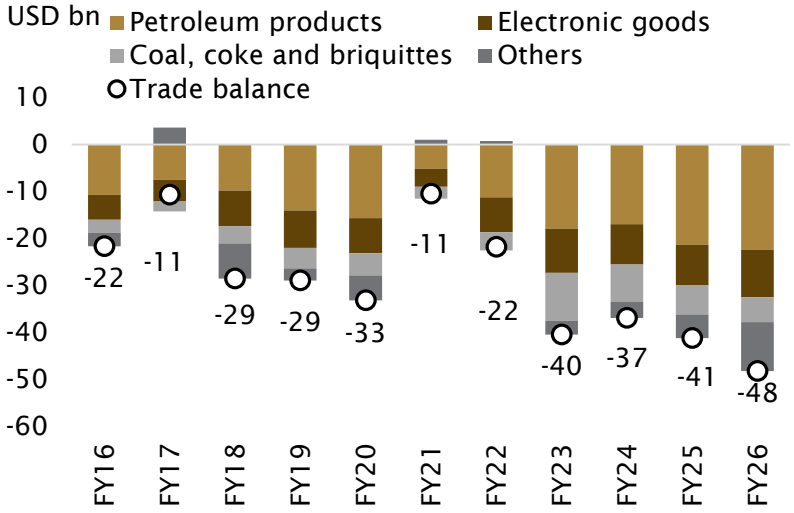
Contribution to imports growth – May 2025



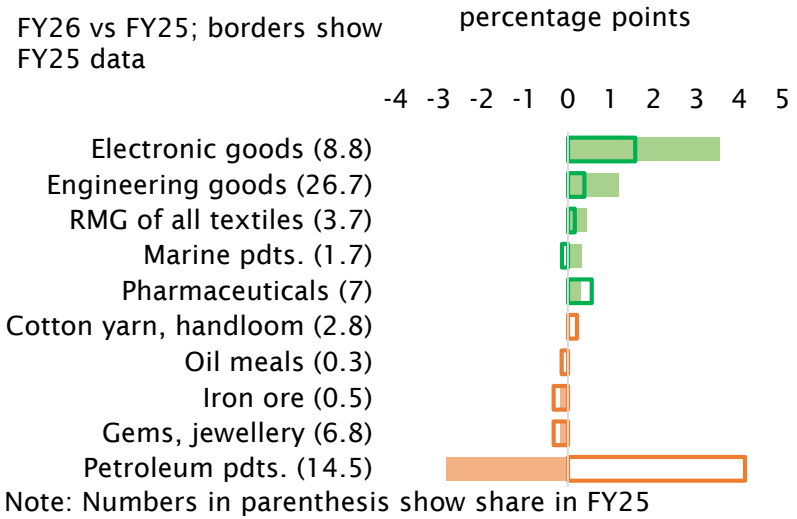
Goods trade deficit widened in Apr-May FY26 vs the same period in previous fiscal years

- On fiscal year-to-date basis (FYTD), the year-on-year growth in both exports and imports eased compared to the same period in FY25. Exports growth moderated to 3.2%YY from 7.7%. Imports rose 8.1%YY, slower than 9.0% growth in FYTD FY25. Accordingly, trade deficit was steeper in Apr-May FY26 than in FYTD FY25.
- Electronic, engineering goods, readymade garments added to exports growth, and to a greater extent than in FYTD FY25. Pharmaceutical exports added to growth but to a lesser extent. Petroleum products was major laggard, a reversal from the trend in FYTD FY25.
- In case of imports, electronic goods, chemicals, and machinery added to growth, marking either an increase or reversal in trend compared to FYTD FY25. Petroleum and transport equipment were laggards, a reversal from their contribution to growth in Apr-May FY25.

Trade deficit widened Apr-May FY26 vs previous years

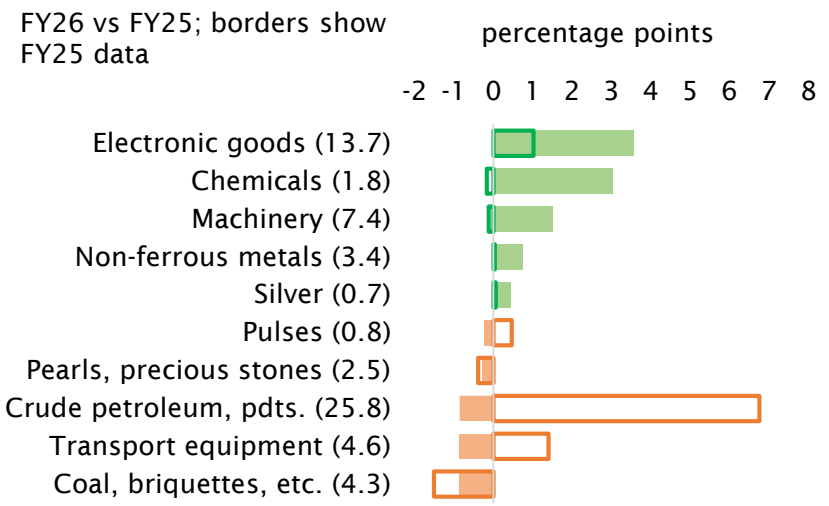


Contribution to %YY exports growth – Apr-May



Note: Numbers in parenthesis show share in FY25

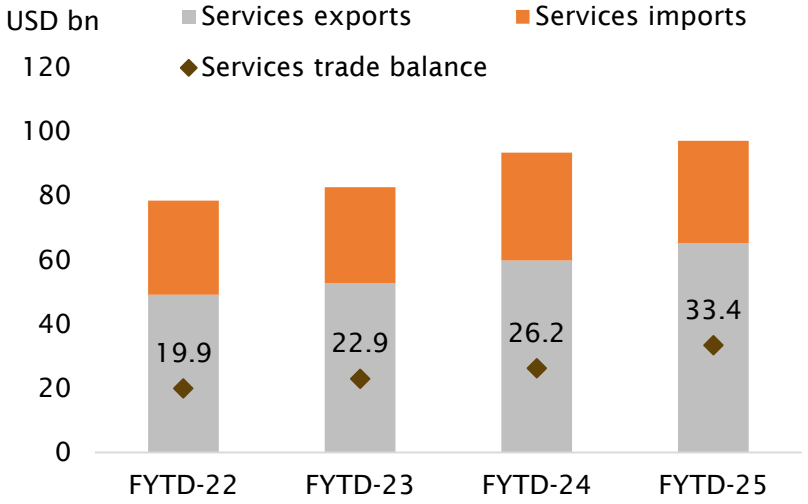
Contribution to %YY imports growth – Apr-May



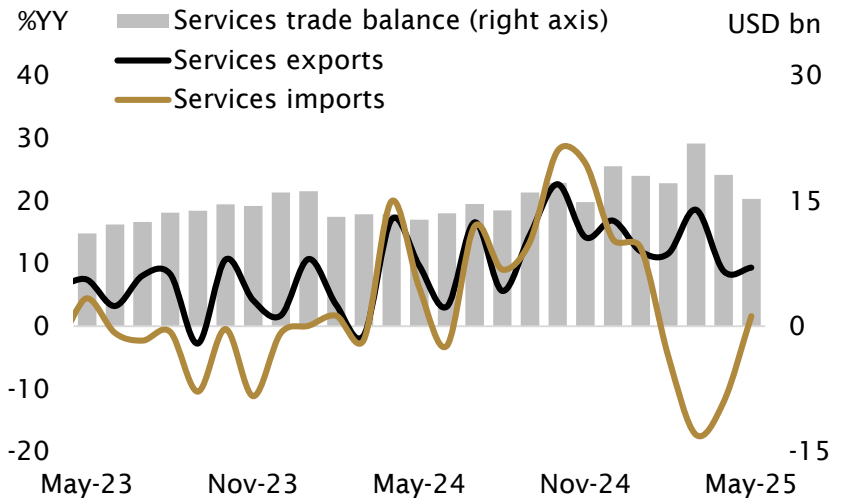
Narrowing of goods trade deficit in May drove moderation in total trade deficit amid lower services surplus

- In FYTD terms, services trade surplus improved to USD33.4bn from USD26.2bn in FYTD FY25. Both exports and imports had posted double-digit growth in FYTD FY25, and despite lower exports growth in Apr-Mar FY26, higher surplus vis-a-vis FYTD FY25 was due to fall in imports.
- In May, services surplus eased to USD15.3bn from USD18.1bn in April. Exports fell month-on-month, though at slower pace than in April. Imports grew by double digits.
- In terms of year-on-year change, services exports grew at a faster pace than in April, aided by favorable base effects that offset month-on-month decline. Imports grew after declining for three consecutive months, aided by sequential gain that offset mildly negative base effect.
- Amid lower services surplus and moderation in goods deficit, total deficit narrowed to USD6.6bn from USD8.3bn in April. In FYTD terms, total deficit was mildly lower at USD14.9bn versus USD15.1bn in Apr-May FY25.

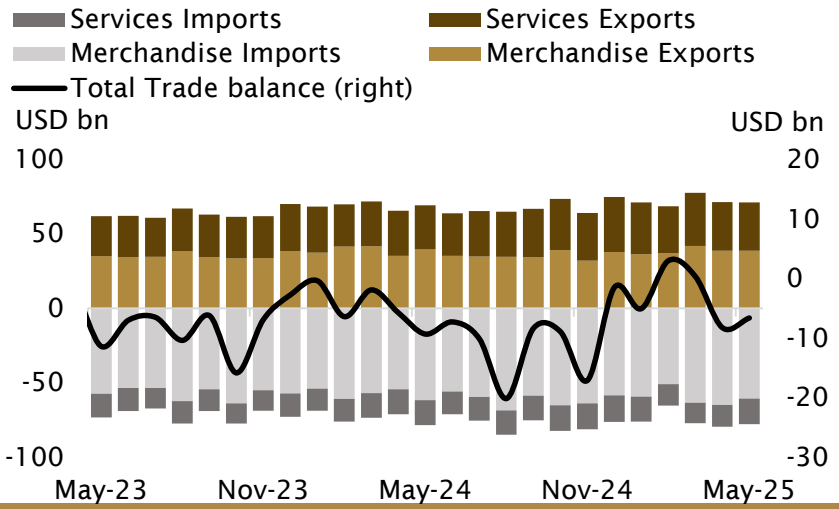
Services surplus continued to improve FYTD FY26



Services trade surplus eased further in May



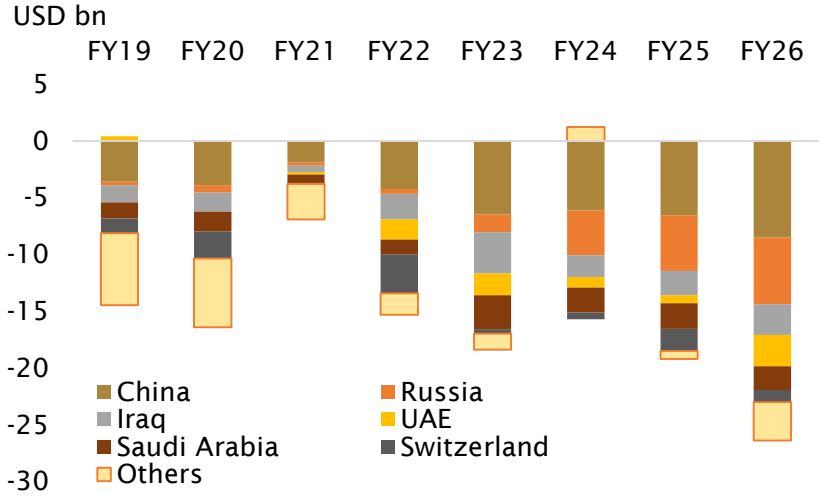
Trade deficit narrowed in May amid lower goods deficit



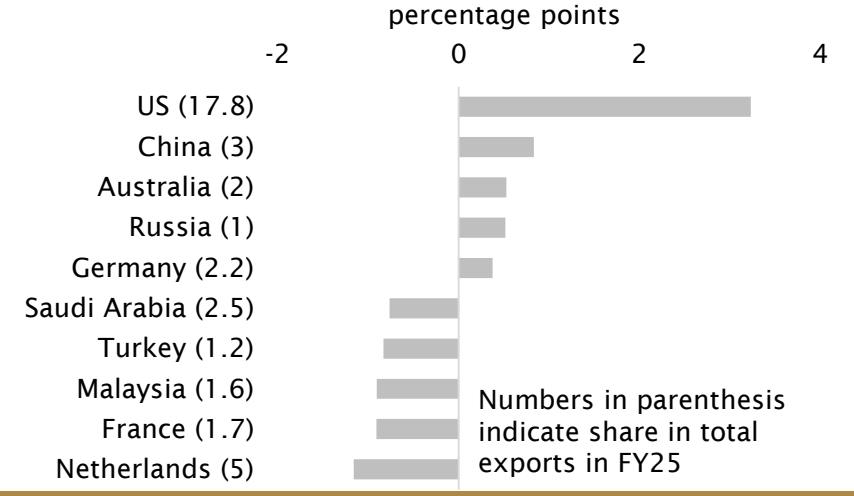
Merchandise trade deficit remained the widest vis-à-vis China in Apr-May FY26

- In April, India's trade deficit remained the steepest vis-à-vis China, followed by Russia. The increase in deficit versus Apr-2024 was the largest vis-à-vis the UAE amid higher imports of oil and gold. Electronic parts and telecom instruments were key imports from China, while petroleum and products were main imports from Russia.
- Initial data for May shows that imports from China and the UAE added the most to growth, with both economies topping the list in terms of share as well. The US and China added the most to exports growth, though the share remained the largest to the US at around 23%.
- Data till April shows that telecom instruments, petroleum products were main exports to the US, displacing pharmaceuticals as the key export in Apr-2024. Data shows increase in oil imports from the US. Headline data for Apr-May shows increase in India's trade surplus with the US to USD8.4bn from USD7.1bn in FYTD FY25.

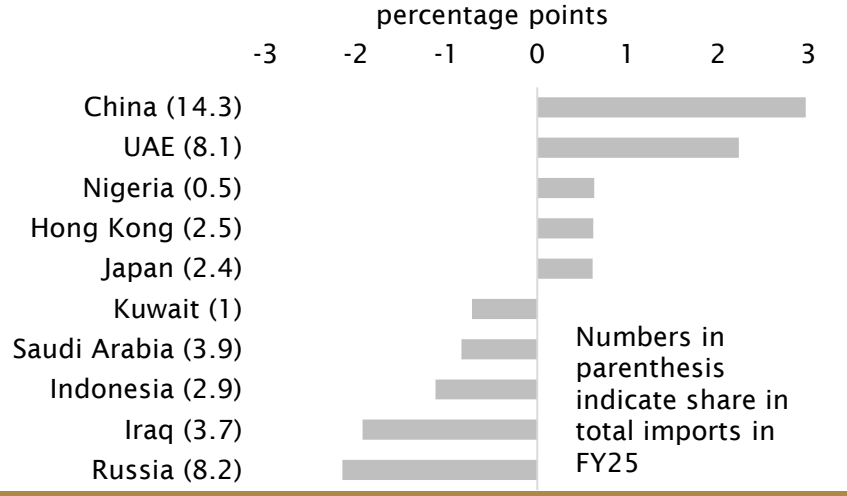
Trade deficit by economy – fiscal year-to-date (Apr)



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



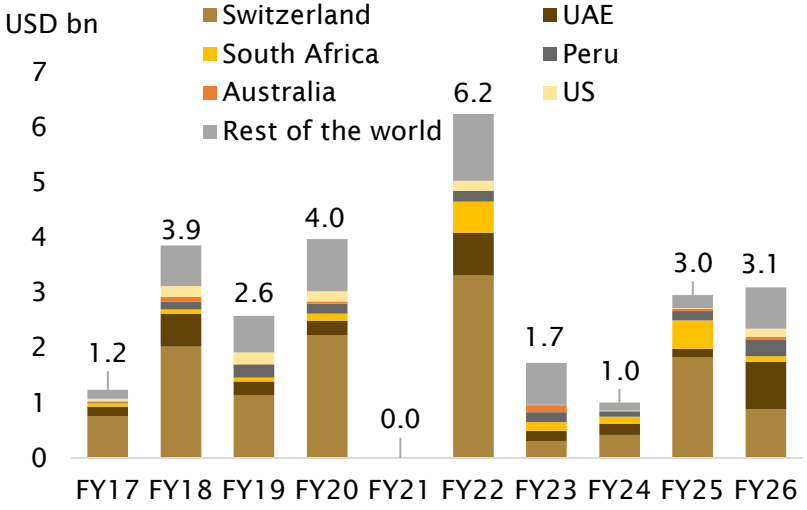
Contribution to year-on-year import growth – May 2025



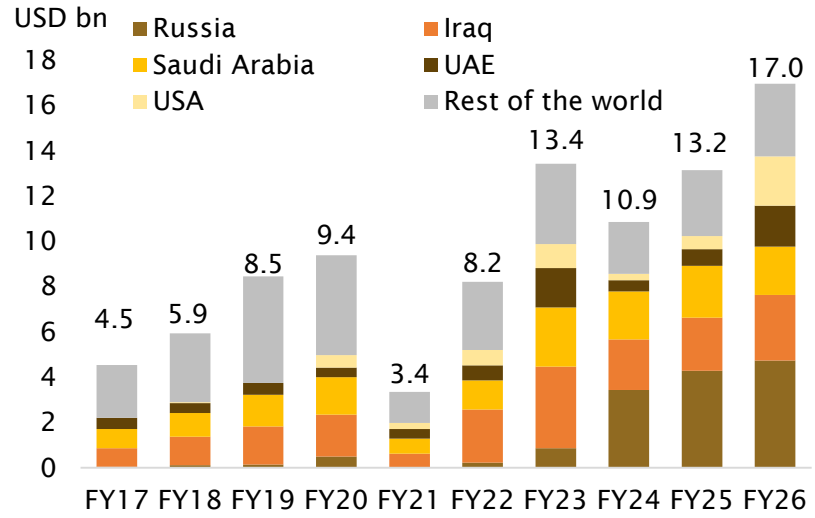
In April, India imported more oil from the US, even as Russia and Iraq topped the list; gold imports from the UAE increased

- In April, crude oil imports rose 29%YY to USD17bn. More than 40% of oil imports continued to be from Russia and Iraq, but the US also climbed the list, displacing Saudi Arabia and the UAE that are typically the economies from where India has been importing oil after Russia and Iraq. It needs to be seen whether this trend sustains.
- In April, gold imports totalled USD3.1bn, up 4.9%YY. Switzerland continued to top the list of economies from where India imported gold, but the amount and share fell year-on-year. Imports from South Africa also fell, while they rose from the UAE, Peru, the US, and Hong Kong.
- Even as gold imports were higher year-on-year in April, volumes were down, partly reflecting the impact of increase in prices on safe haven demand. On the other hand, volume growth of crude oil imports exceeded growth in value terms, reflecting the decline in prices.

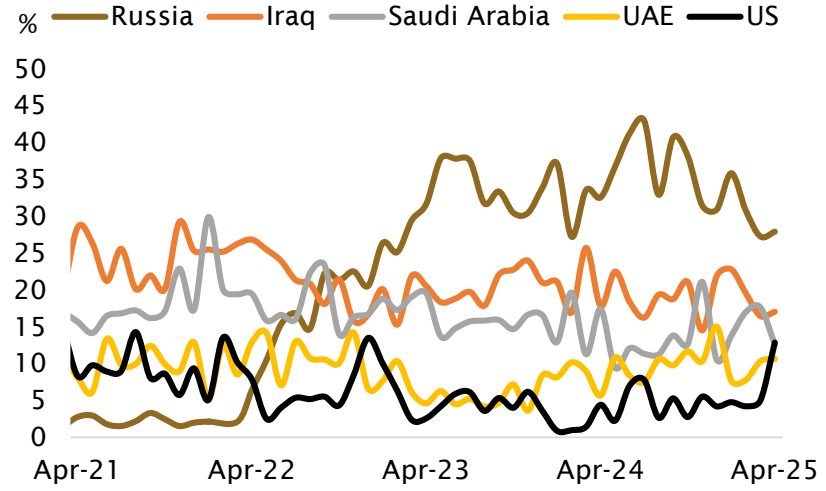
Gold imports by economy – April



Crude petroleum imports by economy – April



Share of key economies in India's crude oil imports



Bilateral trade negotiations take center-stage as pause on US tariff deadline nears

- **The US policy conundrum:** In April-May FY25, not only was there an increase in India's trade surplus vis-à-vis the US, but share of the US in India's exports and imports also rose. Latest trade data by the US is available till April and shows moderation in US trade deficit from March amid lower imports of consumer goods, industrial supplies, and automobiles. But some alternate data points indicate frontloading of imports by the US to counter trade policy-related uncertainties. Latest data for May based on the GEP Global Supply Chain Volatility Index, published by S&P Global, shows higher purchases of raw materials and commodities by US manufacturers to bolster inventories, as protection against future higher prices or supply disruptions.

  The 90-day pause on the US reciprocal tariffs is set to expire on July 9, with the pause for China ending on August 12. The current 10% baseline US tariff across economies will be reset higher to the ones announced in early April. Though many economies are scrambling to sign bilateral trade deals with the US, only the UK and China have so far succeeded in negotiating some sort of truce or interim deals.

- **India trade deals:** India and the US have agreed on terms of reference for a bilateral deal, but talks are in a limbo over some of the details that include access to India's farm and diary sectors. In another development, India and the UK concluded talks in mid-May to sign a free trade agreement (FTA), slated to be effective next year and increase trade between the two economies over time. The deal is expected to benefit India's labor intensive sectors such as footwear, clothing, jewellery, and food. It is likely to increase UK's exports to India of items such as whisky, cosmetics, medical devices, machinery, etc. The agreement will allow British firms access to India's government procurement market for contracts providing various goods and services.

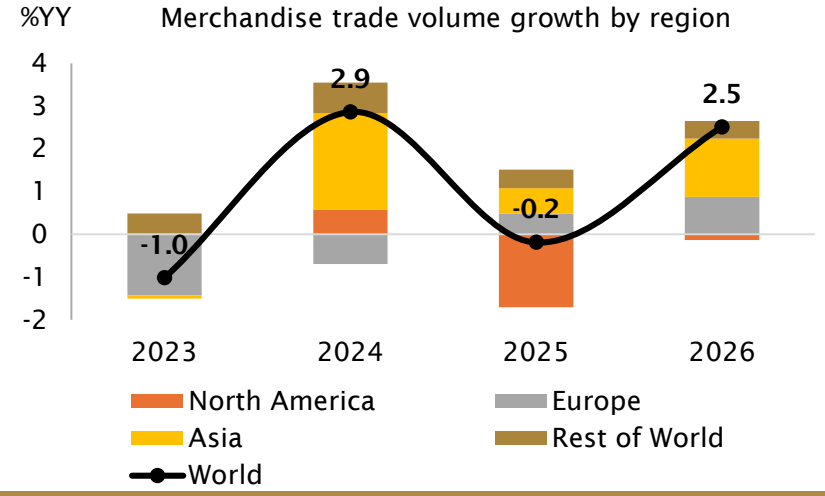
  India is currently working towards a FTA with the EU, expected to be signed by end-2025. India also recently concluded the first round of FTA negotiations with New Zealand.

- **The geopolitical flux:** The recent escalation of tensions between Iran and Israel drove commodity prices higher, with crude oil breaching USD80/b intraday, though managing to close below that threshold so far. The subsequent announcement of a US-brokered ceasefire started on a shaky note, with both sides accusing each other of violating the truce. Even as the situation continues to evolve, oil prices are likely to remain range-bound on global demand concerns, but could be vulnerable to any likely impact on the Strait of Hormuz, which is a critical chokepoint for worldwide oil and LNG trade. The situation needs to be watched out for in terms of impact on India's oil import bill.

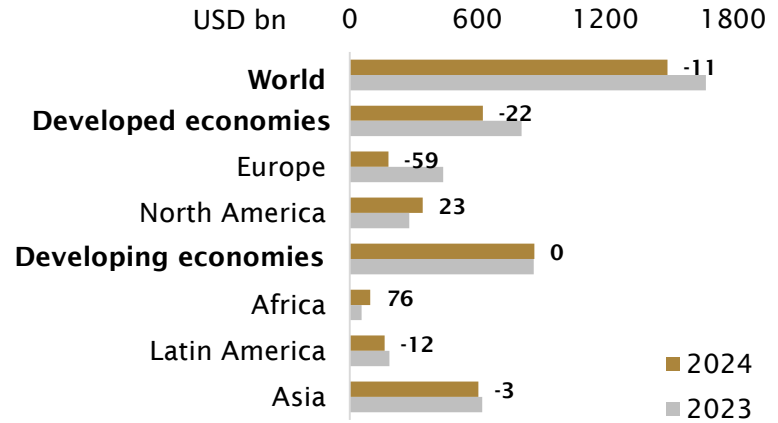
Policy uncertainties to weigh on global trade and capital flows in 2025

- In its outlook update published in April, the WTO has projected global merchandise trade volume to fall 0.2%YY in 2025. The forecast accounts for the measures in place as of 14-April, which includes the 90-day pause on reciprocal tariffs by the US. The agency expects the sharpest drag on global trade to be from the US, and the rebound in 2026 to be led by Asia. The WTO forecasts an increase in Chinese exports outside of North America, raising concerns among economies on increased competition from China. It expects US imports from China to decline, particularly in sectors such as textiles and electrical equipment, which could create opportunities for other economies to tap into the US market.
- Though the WTO does not expect services trade to be directly or adversely hit by tariffs, it has penciled in slower growth in both 2025 and 2026 due factors such as 1) weaker demand for goods-related services such as logistics and transport, 2) less discretionary spending on travel, and investment-related services amid an uncertain global backdrop.
- In its latest World Investment Report, the UNCTAD noted that excluding flows through conduit economies, global FDI flows fell 11% in 2024 to USD1.5tn, marking the second straight year of decline. The drag among developed economies came from Europe and within developing economies, diverging trends offset each other. Amid lower investment in most infrastructure sectors in 2024, perhaps a silver lining was increased investment in the digital economy. The report has projected negative outlook for global FDI in 2025 due to high economic and policy uncertainties that are weighing on investor sentiment.

Contribution to global trade volume growth by region



FDI inflows by economic groups and regions



Numbers on bars show %YY change

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