Macroeconomics | First cut

Trade deficit at a 5-month high

May 2025

Merchandise imports outpace exports

Amid the ongoing tariff-related disruptions, India's merchandise exports seem to be doing well so far, partly reflecting the frontloading of some demand from the US. US reciprocal tariffs that came into the picture in April this year (albeit to be paused for a 90-day period later in the month) failed to cast a shadow on India's merchandise exports, which rose 9% on-year to $38.5 billion in April 2025, significantly better than the 0.7% growth in March 2025 and the contractionary spell in the past four consecutive months.

Exports rose across the board with oil exports up 4.8% on-year, gems and jewellery 10.6% and core exports 10.0%.

Oil exports returned to the growth territory after 10 months despite the sharp fall in crude oil prices in April (Brent was at $67.8/bbl, down from $72.6/bbl in March and $90.1/bbl in April last year) and the 21-day shutdown of parts of Reliance's Jamnagar refinery (India's largest oil refinery) for maintenance.

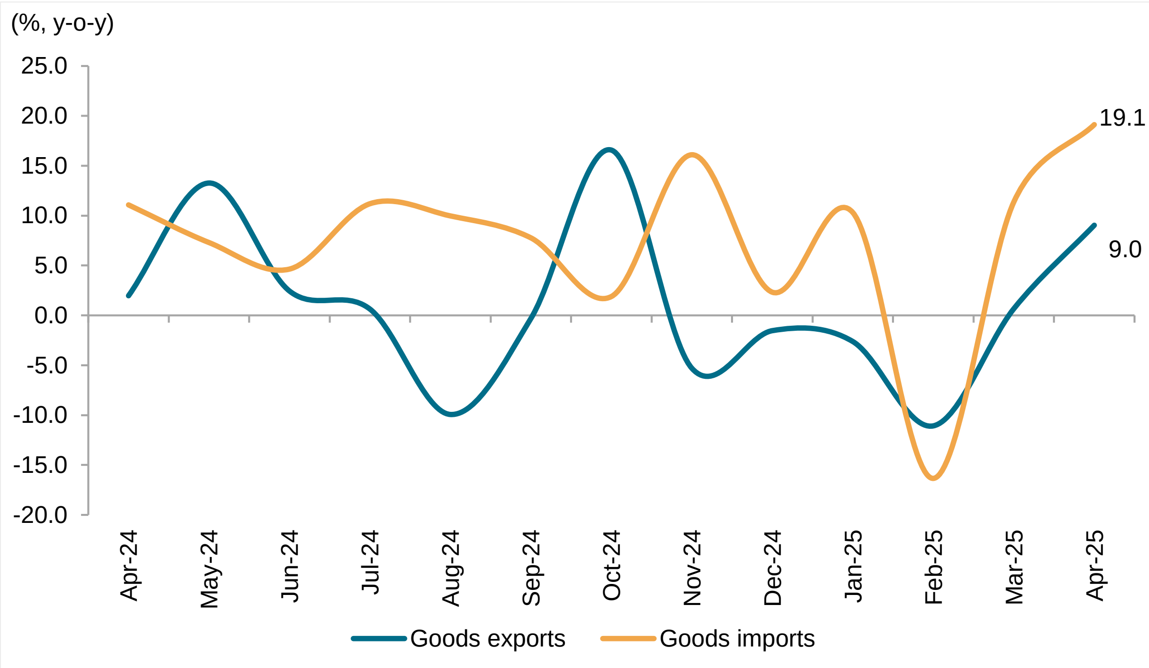
According to the Commerce Ministry, India's exports to the US (the country's key export destination) reached $8.4 billion in April, a rise of 27.3% on-year, while that of UAE (the second-largest export destination) reached $3.5 billion, representing a rise of 33.7% on-year (albeit on a low base).

Imports, too, surged, outpacing the rise in exports — at $64.9, India's merchandise imports recorded a 19.1% rise on-year, a 32-month high. However, this could be a worrisome situation, especially with regards to the enhanced dumping fears, following the heighted US-China tariff dispute. India's imports from China stood at $9.9 billion in April, up 27.1% on-year.

The surge in imports was led by oil imports, which rose 25.5% on-year in April, followed by a 18.1% rise in core imports and a nominal 4.2% rise in gems and jewellery imports. The rise in oil import bill seems to reflect the increased crude oil purchase as the prices softened substantially during the month.

India's services exports continue to grow at a healthy clip. At $35.6 billion, they were up 18.6% on-year in March, and according to the preliminary estimate, they were up at $35.3 billion in April, a rise of 17% on-year. That said, this space will remain watchful, given the forecast of slowdown in the US, one of India's biggest services exports markets.

Imports continue to grow faster than exports in April



Source: Ministry of Commerce and Industry, CEIC, Crisil

Data highlights

- India's merchandise export growth continues to be driven by electronic goods, especially smartphones. April recorded electronic goods exports worth $3.7 billion, up a whopping 39.5%, following a 29.6% rise in March. The US exempted smartphones, along with some other key electronic items from the reciprocal tariffs announced last month. Despite the recent US-China truce, India still has a tariff advantage compared with China, a key competitor in this space
- Engineering goods, India's other major exporting sector, witnessed 11.3% on-year growth, following a contraction in the past two months
- Exports of labour-intensive categories, such as leather products and readymade garments, also demonstrated healthy growth at 3.9% and 14.4%, respectively, on-year in April
- Other sectors, such as marine products (17.8% growth on-year), meat, dairy and poultry products (up 15.9%), tea (up 15.9%) and coffee (up 47.8%), also performed well
- Other than crude oil, chemical material and products (up 115.8% on-year) and metalliferous ores and other minerals (up 77.6%) saw a surge in imports during the month. In addition, machine tools (up 33.1%), electrical and non-electrical machinery (up 23.2%) and non-ferrous metals (up 30%) witnessed healthy imports

Outlook

The trade situation is expected to remain volatile this fiscal. While the exports have stood ground so far, geopolitical uncertainties, amid the US reciprocal tariffs, the ongoing trade deals among the major nations of the world and the resultant supply chain reorientation will bear watching. The World Trade Organisation has projected a 0.2% decline in the volume of world merchandise trade in 2025.

The greater risk is on the import side, which continue to outpace the growth in exports and will remain monitorable amid the dumping fear as the US and China engage in the tariff war (despite the current truce, which could prove to be transitory) and the slowdown in the latter economy.

Consequently, the merchandise trade deficit could come under some pressure.

That said, the surplus in services trade and a robust flow of remittances provide a cushion and should keep the current account in the safe zone. We project the current account deficit at 1% of the gross domestic product in fiscal 2025 and 1.3% in fiscal 2026.

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