

Macroeconomics | **First cut**

Trade deficit at an 8-month high

August 2025

Exports, imports rise after contracting for two-months

India's merchandise trade deficit rose to an eight-month high of \$27.4 billion in July 2025, compared with \$24.8 billion in July 2024 and \$18.8 billion in June 2025, as growth in imports outpaced that in exports.

Merchandise exports turned positive after two months, growing 7.3% on-year to \$37.2 billion in July (vs -0.1% in June), ahead of the tariffs being imposed by the United States (US) from August.

This was driven by a sharp rise in the exports of core goods¹ (12.7% in July vs 4.8% on-year in June) and gems and jewellery (28.9% vs -20.4%). However, oil exports slid 25% on-year for the third straight month in July (vs 16% fall in June), reflecting softening prices of crude oil. The price of Brent crude oil declined 16.8% on-year in July to \$71 per barrel compared with \$85.3.

Exports to the US remained strong at 19.9%, higher than the fiscal 2025 average of 11.4%, indicating frontloading of goods continued ahead of the expected tariff imposition in August. In comparison, non-US exports grew by just 4.3% on-year in July.

Overall, merchandise imports rose a sharper 8.6% on-year to \$64.6 billion (vs -3.7% in June), following two months of contraction. Gems and jewellery (25.9% vs -19.1%) and oil imports (7.4% vs -8.4%) grew on-year after declining in May and June.

Core import growth also surged to 6.9% in July from 0.1% in June.

Services exports grew a healthy 12% on-year in June (vs 9.6% in May), while services imports rebounded 5.1% (vs -1%). As a result, the services trade surplus widened to \$16.2 billion from \$13.5 billion in June 2024 and \$15.8 billion in May.

¹ Exports, excluding oil and gems and jewellery

Import growth outpaces export



Source: Ministry of Commerce and Industry, CEIC, Crisil

Data highlights

- Growth in core exports rose to a six-month high of 12.7% on-year
- Drugs and pharmaceuticals (14.1% in July vs 5.9% on-year in June) and organic and inorganic chemicals (7.2% vs 1.6%) led the acceleration in core exports
- The textile sector also saw a pick-up in growth. Key sub-categories, including readymade garments (4.7% vs 1.2%), cotton yarn (5.2% vs -3.1%) and manmade yarn (4% vs -2.6%) saw an improvement in export growth
- Electronics remained upbeat, but slowed to 33.9% from 46.9% in June
- Agricultural exports rose, led by higher growth in rice (11% vs 0.9%), cashew (11% vs -9.1%), fruits and vegetables (6.6% vs 2.8%) and spices (4% vs -2.3%). Exports of meat, dairy and poultry products grew for the fourth straight month to a six-month high of 31.2% (vs 19.7%)
- Among imports, gems and jewellery surged, driven by gold (13.8% vs -25.7%) and pearls, precious and semi-precious stones (28.6% vs -18.1%). This was in sync with the rise in gems and jewellery exports
- Growth in key core import categories was led by fertilisers (133.1% vs 1.3%), machinery² (20% vs 8.5%) and electronic goods (12.8% vs 9.4%)

² Refers to machinery, electrical and non-electrical

Outlook

India's merchandise trade deficit has come under pressure this fiscal due to tariff hikes and slowing global growth.

As on August 18, the US has announced an additional 25% tariff on Indian exports effective August 27 as a penalty for purchases of Russian oil, in addition to the 25% reciprocal tariff imposed earlier. Where the tariffs will eventually settle is not clear yet given negotiations are ongoing. The reciprocal tariffs are expected to affect India's exports. Alongside, India is also expediting negotiations of trade deals with other trade partners.

The tariffs and lingering geopolitical uncertainties are expected to weigh on growth across the world this year. S&P Global expects global growth at 2.9% in 2025, lower than the 3.3% in 2024. Growth in the US, currently our largest export destination, is projected to slow to 1.7% from 2.8%.

The World Trade Organization expects the volume of global merchandise trade to fall 0.2% in 2025 (vs growth of 2.9% in 2024).

However, India's current account deficit (CAD) is expected to remain manageable, supported by the surplus in services trade, healthy remittances and soft crude oil prices. We forecast CAD to be at 1.3% of GDP this fiscal, compared with 0.6% last fiscal.

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