July 08, 2025

Lower Trade Deficit – India's Macroeconomy on Firmer Ground!

What's the Point?

- According to data published by the Ministry of Commerce and Industry, the merchandise trade deficit narrowed sharply to US$21.92 billion in May 2025 compared to US$26.57 billion in April 2025. This was aided by a slowdown in imports along with seasonal improvement in exports.
- Gross Domestic Product (GDP) = Consumption + Investments + Government Expenditure + Exports – Imports. Thus, a lower trade deficit implies a higher net exports, which positively impacts GDP. While services exports continue to hold key, India has witnessed strong exports growth registered in Electronic Goods and imports growth registered segments of Capital Goods on a year-over-year (Y-o-Y) basis. This is significant because it signals to a higher capex activity to develop India's manufacturing capabilities.
- Since Trade Balance forms a component of the Balance of Payments (BoP), a narrowing trade deficit also bodes well for India's BoP as it is key for the external sector, the Rupee and overall macroeconomic stability, especially considering that the 90-day pause on tariffs imposed by the United States (US) Government is drawing to a close.

Numbers in Perspective

Particulars		May 2024 (US$ billion)	May 2025 (US$ billion)
Merchandise	Exports	39.6	38.7
	Imports	61.7	60.6
Services*	Exports	29.6	32.4
	Imports	16.9	17.1
Total Trade (Merchandise +Services) *	Exports	69.2	71.1
	Imports	78.6	77.8
Trade Balance		-9.4	-6.6

Source: RBI, Press Information Bureau. *Note: The latest data for services sector released by RBI is for April 2025. The data for May 2025 is an estimation, which will be revised based on RBI's subsequent release.

What has supported India's Lower Trade Deficit?

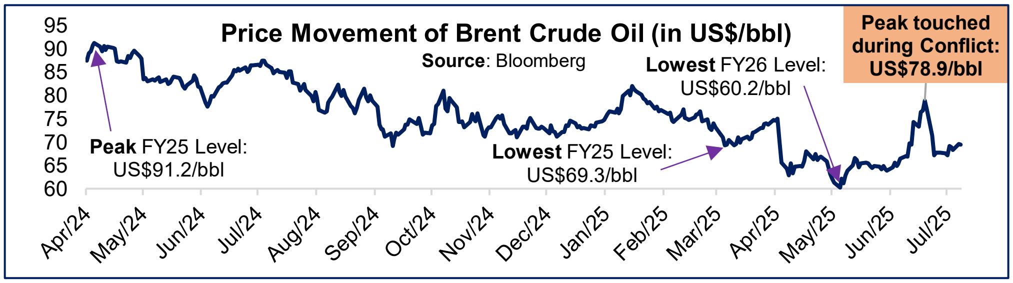
Between May 2024 and May 2025, India's total exports rose by 2.8% to US$71.1 billion and total imports dropped by 1% to US$77.8 billion. This improvement in trade deficit has taken place on account of the following factors:

1) Exports driven by a Key Component – Electronic Goods

During the aforementioned period, Electronic Goods has emerged to be a key contributor to the rise in exports. The "*Make in India*" initiative is attracting large investments and aiding the boost of local production of Electronic Goods. Thus, India's electronics exports are growing rapidly, even surpassing some traditional sectors like textiles. **An Important Example**: India has made noted progress in smartphone manufacturing, with over 300 manufacturing units currently, versus only 2 mobile manufacturing units in 2014, underscoring a significant expansion in this vital sector.

Electronic Goods	January 2025	February 2025	March 2025	April 2025	May 2025
Y-o-Y Growth in Exports	78.1%	26.5%	29.6%	39.2%	53.9%

Source: Ministry of Commerce and Industry



2) Lower Crude Oil Prices contributing to India's Lower Trade Deficit

Lower crude oil prices have helped in lowering India's merchandise imports in May 2025 – *imports were 15.2% lower than* *the average crude oil imports between May 2022 and May 2025*. While the prices of Brent Crude Oil had cooled off by 24% from its peak level of US$91.2/barrel (bbl) to its lowest level of US$69.3/bbl in FY25, it rose by 30.9% from this lowest level of US$60.2/bbl on May 07, 2025 to a peak level of US$78.9/bbl on June 19, 2025 (Refer to the table below), driven by: (a) Israel-Iran conflict, and (b) A further risk of escalation snow-balling into a broader regional conflict.

Crude prices reverted back to the pre-escalation levels – falling by 12% to US$69.4/bbl as on July 08, 2025 – because of the following reasons: (A) reduction in risk of disruption to oil supply from Iran and Strait of Hormuz, which accounts for more than 20% of global crude oil demand, and (B) Cease-fire between Israel and Iran. In addition to the above events, 8 oil-producing nations of the Organization of the Petroleum Exporting Countries (OPEC+) Alliance agreed on July 05, 2025 to increase their collective crude production by 548,000 barrels per day. This is expected to lead to a further cooling of oil prices relieving the pressure on India's import bill.

Rise in Imports of Segments within Capital Goods – Potential Multiplier Effect on India's Economic Growth?

The recent past has seen a rise in India's imports of segments within Capital Goods like Machine Tools, Machinery, Electrical & Non-Electrical and Iron & Steel, as evident from the table below. While this puts an upward pressure on trade deficit, higher imports in these segments indicate a higher demand for capital equipment, indicating improving business outlook for future demand. This higher capital expenditure activity is important for developing manufacturing capabilities, which can help boost exports and create multiplier effect on India's GDP growth.

Y-o-Y Growth in Imports	Mar-25	Apr-25	May-25
Machine Tools	19.0%	33.1%	41.4%
Machinery, Electrical & Non-Electrical	12.0%	23.2%	20.8%
Iron & Steel	9.3%	12.5%	12.1%

Source: Ministry of Commerce and Industry

Conclusion

A 30% drop in trade deficit compared to the same period last year is primarily attributed to a decrease in imports. While India continues to develop its capabilities to boost merchandise exports, services exports continue to do well, rising 9.4% to US$32.4 billion between May 2024 and May 2025. Both factors bode well for the health of India's external sector. While the end of the 90-day pause on tariffs imposed by US Government is leading to concerns pertaining to industries linked to the global trade landscape, India is engaged in multiple rounds of dialogue with the White House in an effort to secure more favourable trade terms.

Sources: RBI, PIB, Ministry of Commerce and Industry, Bloomberg, and other publicly available information

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