Trade deficit narrows to $22 bn as shipments, imports contract

Despite overall decline in merchandise exports, shipments to US grew by 17%

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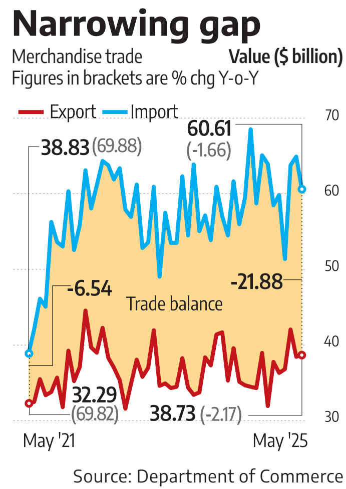

Outbound shipments from India saw 2.17 per cent contraction in May to $38.73 billion, mainly due to a fall in global crude oil prices.

Imports contracted 1.6 per cent to $60.61 billion in May due to contraction in inbound shipments of petroleum, coal and gold, data released by the commerce department showed. As a result, the trade deficit narrowed considerably to $21.88 billion in the month after widening significantly to $26.42 billion in April. The deficit stood at $22 billion in May, 2024.

Despite the overall decline in merchandise exports, shipments to the US grew by nearly 17 per cent at $8.83 billion as exporters frontloaded shipments during America's 90-day pause on country-specific reciprocal tariffs. Indian exporters currently bear a 10 per cent baseline tariff after the US administration paused the 26 per cent reciprocal tariff on India.

Non-petroleum and non-gems and jewellery exports, an indication of exports' health, saw a growth of 6.9 per cent at $30.71 billion. The main drivers of the growth were electronic goods (54.1 per cent), organic and inorganic chemicals (16 per cent), drugs and pharmaceuticals (7.4 per cent), and readymade garments (11.35 per cent).

Commerce Secretary Sunil Barthwal said that despite global policy uncertainty regarding trade, India has done extremely well.

"India's merchandise trade deficit eased considerably to $21.9 billion in May from $26.4 billion in April while also printing slightly lower than the year-ago month. This is expected to limit the widening in the current account deficit (CAD) print for the first quarter of 2025-26 (Q1FY26) to around $13 billion (1.3 per cent of gross domestic product, or GDP). If crude oil prices average around $75/barrel over the remainder of this financial year, we foresee the CAD at 1.2 per cent-1.3 per cent of GDP for FY26," said Aditi Nayar, chief economist and head of research & outreach at Icra.

"Exports to the US, in particular, rose by a healthy 16.9 per cent in May after surging by an average of 28 per cent in the first four months of the calendar year (CY25) as the upfronting of such exports continued amid the pause in the implementation of reciprocal tariffs," Nayar said.

Federation of Indian Export Organisations (FIEO) President S C Ralhan said that the latest trade data reflect the strong performance of India's services sector, which has continued to act as a buffer against the challenges of subdued global demand, geopolitical tensions, and high interest rates.

"Exporters are adapting well to the difficult global environment. The ability to sustain export growth despite logistics disruptions, especially in West Asia, is a testament to the sector's agility and policy support," he said

He added that decline in imports was an indication of subdued domestic demand and lower global commodity prices.

Services exports saw 9.3 per cent growth at $32.39 billion in May while services imports witnessed 1.7 per cent rise to $17 billion, resulting in a surplus of $15.25 billion. Services trade data for May, however, is an "estimate", which will be revised based on the Reserve Bank of India's (RBI's) subsequent release.