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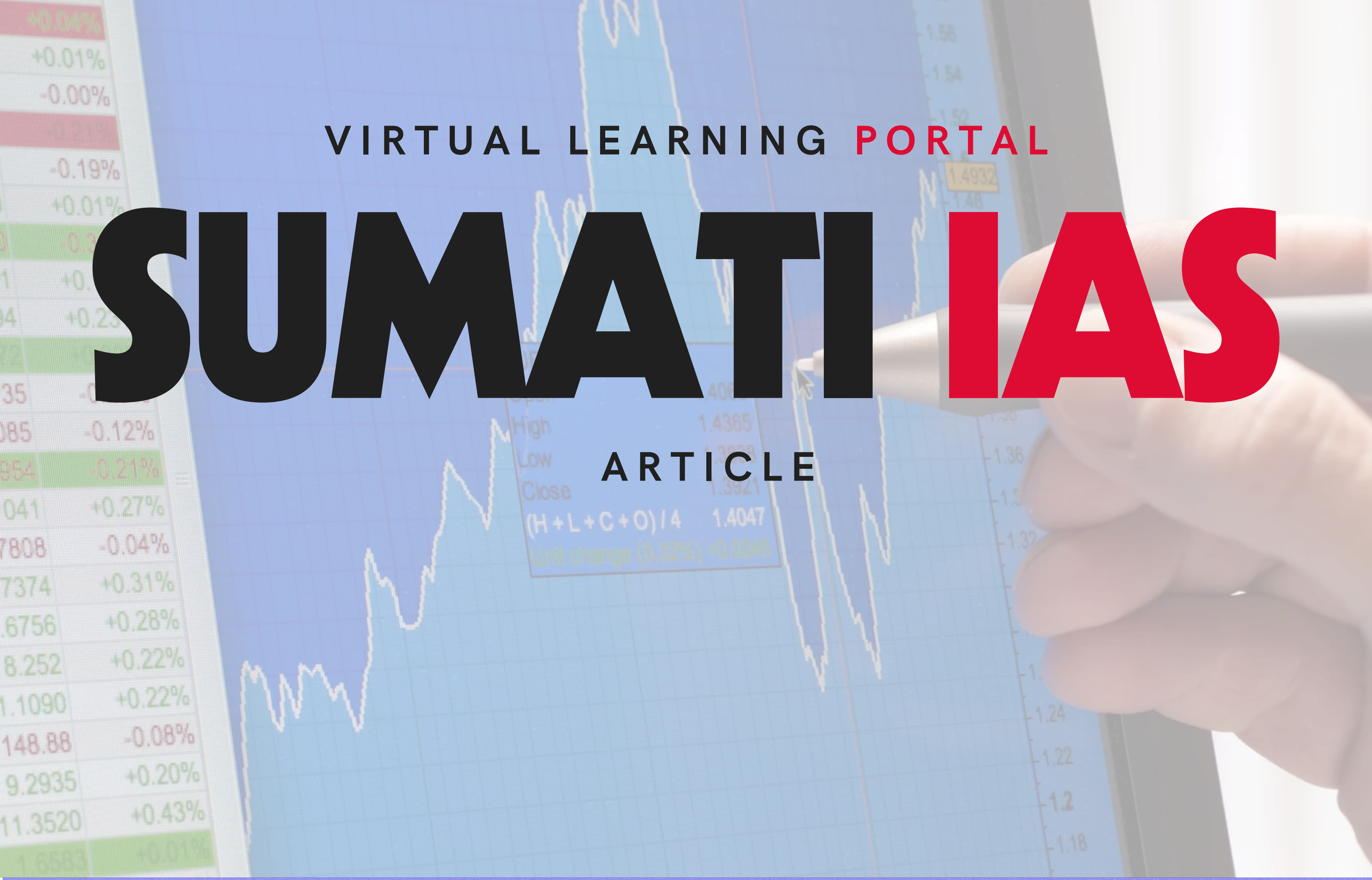

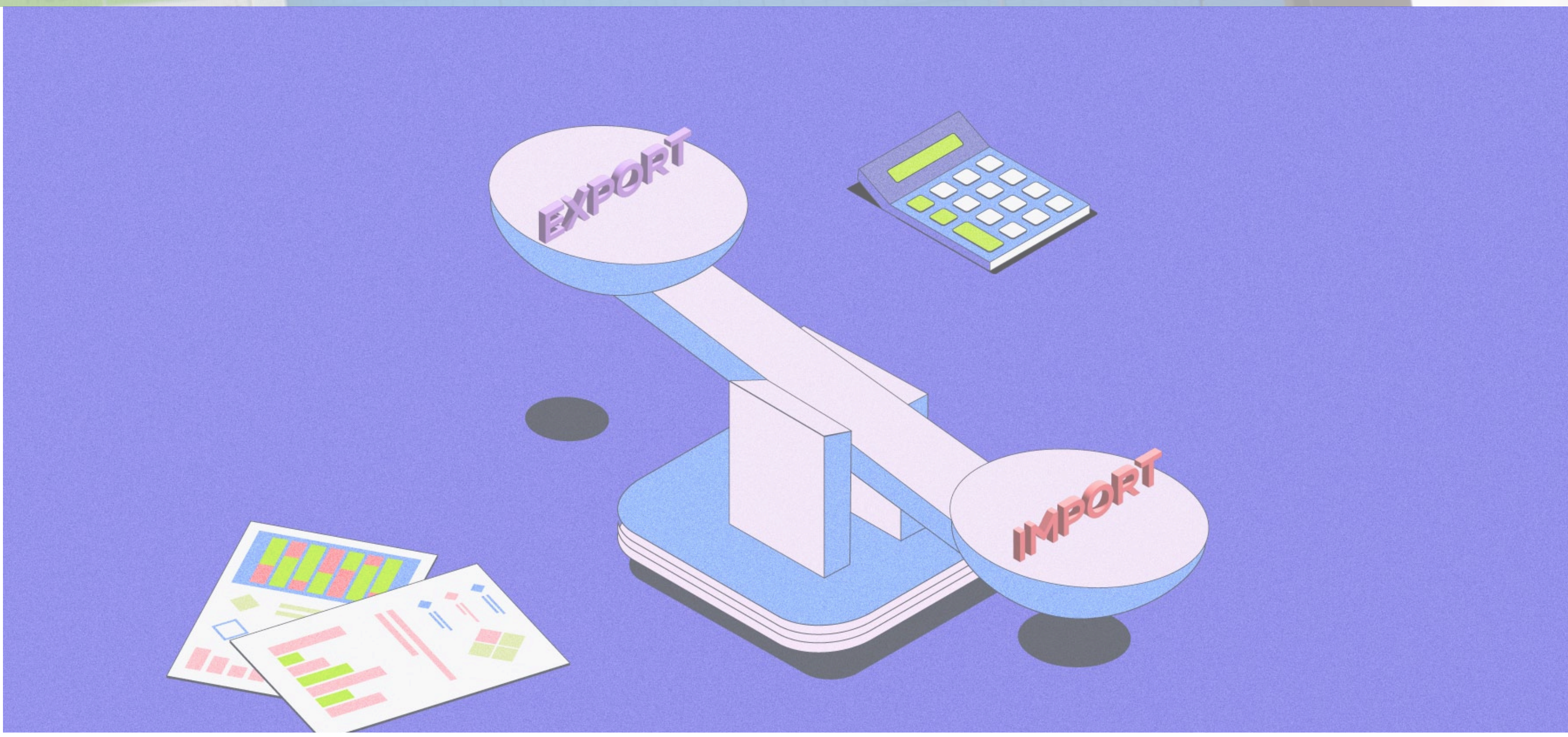


## TRADE DEFICIT

**INDIA'S TRADE DEFICIT IN OCTOBER SURGED BY 141% IN OCTOBER 2025 TO $21.8 BILLION.**

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# TRADE DEFICIT

## Context

India’s trade deficit in October surged by 141% in October 2025 to $21.8 billion. While this is a seemingly alarming jump, underlying data show that things aren’t all that bad, with India’s exports displaying some resilience in the face of significant headwinds, and its imports being disproportionately affected by the import of a few items.

## What is the Trade balance?

The trade balance is the difference between a country's total value of exports and its total value of imports over a specific period. It is the largest component of a country's balance of payments .

**The trade balance can result in one of two main scenarios:**

- **Trade Surplus**: A surplus occurs when a country's exports exceed its imports. This means the country is selling more goods and services to the rest of the world than it is buying from them .
- **Trade Deficit**: A deficit occurs when a country's imports exceed its exports. This indicates the country is buying more goods and services from foreign nations than it is selling to them .

The formula for the trade balance is:

| Trade Balance=Total Exports−Total Imports |
|---|

- Economists and policymakers use the trade balance as a key indicator of a nation's economic health and its position in international trade.

### Key Figures for October 2025

The widening deficit was primarily driven by a surge in imports, particularly gold, ahead of the festive season, and a decline in merchandise exports.

- **Merchandise Exports**: Valued at $34.38 billion, a decline of nearly 11.8% year-on-year.
- **Merchandise Imports**: Increased to $76.06 billion, an increase of almost 16.7% year-on-year.

- **Services Exports (Estimated)**: Grew by 11.9% to $38.52 billion, providing a partial offset to the goods deficit.
- **Services Imports (Estimated)**: Increased to $18.64 billion.

### Drivers of the Deficit

- **Surge in Gold Imports**: Gold imports nearly tripled in October, reaching $14.7 billion, driven by the festive demand and rising gold prices.
- **Decline in Exports to the US**: Exports to the United States fell, partly attributed to the impact of new U.S. tariffs imposed in August 2025.
- **Services Surplus:** The strong performance of the services sector, which has a consistent surplus, helped contain the overall trade balance figure, but was insufficient to cover the massive merchandise gap.

## India's Exports latest update

India 's total exports (merchandise and services combined) in October 2025 were estimated at $72.89 billion, a slight decline of 0.68% compared to October 2024. This figure was impacted by a sharp decline in merchandise exports, which was partially offset by strong growth in services exports.

### Key Export Figures for October 2025

| Category | Value (USD Billion) | Year-on-Year Growth |
|---|---|---|
| Total Exports (Merchandise + Services) | 72.89 | -0.68% |
| Merchandise Exports | 34.38 | -11.8% |
| Services Exports (Estimated) | 38.52 | +11.9% |

## Key Trends and Drivers

- **Merchandise Decline:** The decline in merchandise exports was primarily attributed to softer global demand and new U.S. tariffs, which significantly affected sectors like engineering goods, textiles, and gems and jewellery. Exports to the United States fell to $6.3 billion in October 2025 from $6.9 billion a year earlier.

- **Services Sector Resilience**: The services sector continued to be a major pillar of strength, with its estimated exports of $38.52 billion in October 2025 representing the highest level recorded in a single month. This robust performance helped cushion the overall trade balance.
- **Cumulative Growth (April-October 2025):** For the first seven months of the fiscal year (April-October 2025), India's total exports reached an estimated $491.80 billion, a positive growth of 4.84% over the same period in the previous year.

## Sectors that are affected by this trend

The recent widening of India's trade deficit in October 2025 has significantly affected several key sectors, driven by a sharp decline in merchandise exports and a massive surge in imports of specific goods.

### Export Sectors Affected (Negative Trend)

The decline in merchandise exports has broadly impacted labor-intensive sectors, which are facing headwinds from subdued global demand and steep U.S. tariffs (up to 50%) imposed in August 2025.

- **Engineering Goods**: As India's top export category, this sector experienced a significant decline of 16.7% in October 2025. Shipments to key markets like the U.S., EU, and ASEAN all dropped, partly due to heightened competition from China and Vietnam.
- **Gems and Jewellery**: This sector saw a sharp contraction of nearly 29.5% in exports for October 2025. The U.S. tariffs have heavily impacted this industry, putting many jobs in key hubs like Mumbai and Surat at risk.
- **Textiles and Apparel**: This labor-intensive industry has been severely hit, with exports of cotton yarn, fabrics, and ready-made garments declining by around 12-16%. Indian products are now less price-competitive compared to those from Bangladesh and Vietnam in the U.S. market.
- **Chemicals and Pharmaceuticals**: Both organic/inorganic chemicals and pharmaceutical exports registered declines in October, affected by reduced global demand and, in some cases, U.S. tariffs.
- **Petroleum Products**: Exports of refined petroleum products also fell due to lower global oil prices and reduced order volumes from European countries.

### Import Sectors Affected (Positive Trend - High Imports)

The surge in the overall trade deficit was primarily driven by massive imports in a few specific sectors.

- **Gold and Silver**: This was the single largest contributor to the widening deficit, with gold imports nearly tripling (a 200% surge) in October to a record $14.7 billion. This was largely due to strong domestic demand for the festive season (Dhanteras and Diwali) and a hedge against a weakening rupee. Silver imports also jumped by over 500%.
- **Electronic Goods and Machinery**: Imports of electronics and machinery remained strong, indicating robust domestic investment demand and ongoing reliance on foreign components.

### Resilient Sector

**Services Exports**: In contrast to the merchandise trade slump, India's services sector (IT, business process management, consulting, etc.) remained highly resilient, growing by 11.9% in October 2025 and providing a key offset to the goods deficit.

## What are the Disadvantages of Trade Deficits?

### Key Disadvantages

- **Currency Depreciation**: Deficits increase demand for foreign currencies like the USD, weakening the rupee (e.g., sharp depreciation in 2013 due to oil imports), making future imports costlier and fueling inflation.
- **Inflationary Pressure**: Higher import costs for essentials like crude oil, gold ($14.72B in Oct 2025), and electronics drive cost-push inflation, reducing consumer purchasing power.
- **Job Losses and Deindustrialization**: Domestic industries, especially SMEs and manufacturing, struggle against cheaper imports (e.g., from China), leading to factory closures, unemployment, and reduced industrial capacity.
- **Foreign Exchange Strain**: Drains reserves needed for imports and stability; persistent deficits risk Balance of Payments crises, as in 1991, forcing higher foreign borrowing and debt buildup.
- **Loss of Economic Sovereignty**: Encourages foreign acquisition of domestic assets, heightens vulnerability to external shocks like US tariffs (up to 50% in 2025), and limits policy autonomy.

### Broader Impacts

**Twin Deficits Risk**: Links to fiscal deficits, compelling more borrowing and potentially widening the current account deficit beyond 3% of GDP.

**Over-Reliance on Imports**: Undermines self-sufficiency in key sectors like electronics and energy, slowing long-term growth despite short-term consumer benefits.

## What Measures are Needed for a Balanced Trade?

India requires targeted measures to achieve a balanced trade, focusing on boosting exports, curbing non-essential imports, and enhancing competitiveness amid its $196.82 billion merchandise deficit (April-October 2025).

### Export Promotion Strategies

- Expand Production-Linked Incentive (PLI) schemes and Districts as Export Hubs to strengthen manufacturing in electronics, defense, pharma, and renewables, reducing import reliance.
- Provide affordable export credit to MSMEs via Niryat Bandhu Scheme and invest in logistics under PM GatiShakti and National Logistics Policy to cut costs and improve efficiency.
- Diversify export basket into high-value sectors like aerospace, IT services, and agri-products while addressing sanitary/phytosanitary barriers for access to US/EU markets.

### Import Management and Self-Reliance

- Promote import substitution through Make in India and Atmanirbhar Bharat, targeting oil alternatives, gold recycling, semiconductors, and capital goods to lower dependency.
- Impose selective tariffs on non-essentials and rationalize duties on luxury goods, while pursuing managed rupee depreciation to make exports cheaper.
- Accelerate renewable energy investments to cut crude oil imports, a major deficit driver.

## Trade Agreements and Global Integration

- Negotiate FTAs with UK, EU, Australia, and others for better market access, alongside joining Global Value Chains (GVCs) for supply chain integration.
- Diversify markets to Africa, Southeast Asia, and Latin America to counter US tariffs (up to 50%).

Summary Table: Key Measures

| **Category** | **Measures** | **Expected Impact** |
|---|---|---|
| Domestic Production | PLI, Make in India, skill development | Reduced imports, job creation |
| Infrastructure | Ports, roads, digital logistics | Lower export costs |
| Policy Reforms | FTAs, targeted tariffs, export incentives | Balanced bilateral trade |

# Way Forward Strategies

- **Export Diversification:** Redirect to Europe (Spain), Asia (UAE, China, Bangladesh, Japan) to offset US tariffs up to 50%; target $1 trillion exports in FY26 via FTAs with UK, UAE, Mercosur.
- **Domestic Reforms:** Boost PLI schemes in electronics/EVs, reduce logistics costs, improve EoDB, and provide MSME support like $5 billion exporter package, credit guarantees.
- **Tariff & Policy Actions:** Rationalize tariffs, negotiate US exemptions, enhance trade infrastructure (warehousing, cold chains), and shift to premium products/services for competitiveness.