Trade deficit widens in Dec'25

- **India's goods export growth moderated sharply in Dec'25. Goods exports rose 1.9% YoY to USD38.5b, fueled by non-oil exports, while oil exports continued to contract amid softer global prices. Export momentum is clearly cooling, particularly to the US, where growth has turned negative after earlier front-loading.**
- **Within non-oil exports, electronics remained a bright spot, while growth in chemicals, engineering goods, and textiles softened, and several labor-intensive segments such as agri products, leather, and gems & jewelry contracted.**
- **In contrast, imports rebounded sharply. Goods imports rose 8.7% YoY to USD63.6b, driven by:**
- **non-oil, non-gold imports, which grew 12% YoY, signaling sustained domestic demand**
- **strength across capital goods, electronics, and industrial inputs, while a few segments, such as leather, paper, and plastics, dipped**
- **oil imports, which rose despite lower prices, reflecting volume-led domestic demand strength.**
- **Consequently, India's goods trade deficit widened marginally to USD25b, fueled by a higher non-oil, non-gold deficit and slightly higher gold imports, partly offset by a softening in the oil deficit.**
- **The critical stabilizer remains the services account. While net services exports declined 5.5% YoY in Dec'25, the absolute surplus remains large, and the run rate has improved compared with last year.**
- **India's external stability is increasingly services-led rather than trade-led. While export momentum and contained imports could keep the trade deficit manageable in the near term, a wider goods deficit is likely to push the current account deficit to around 1.2% of GDP in FY26, up from 0.6% in FY25. This should keep it broadly steady at 1.2% in FY27, assuming oil prices average at USD60/bbl.**
- **This CAD trajectory implies continued, but orderly, depreciation pressure on the rupee. With the USD/INR already weaker FYTD, sustained FII outflows, and the absence of a near-term trade deal, suggest limited scope for appreciation. Any upside is likely to be capped by the RBI intervention to rebuild FX reserves, while exporter selling on rallies and importer demand on dips should keep the USD/INR range-bound around 90–91 in the near term. On average, USD/INR is expected to settle around 91 in FY27, reflecting managed weakness rather than external stress.**

Exhibit 1: India's exports increased 1.9% YoY in Dec'25

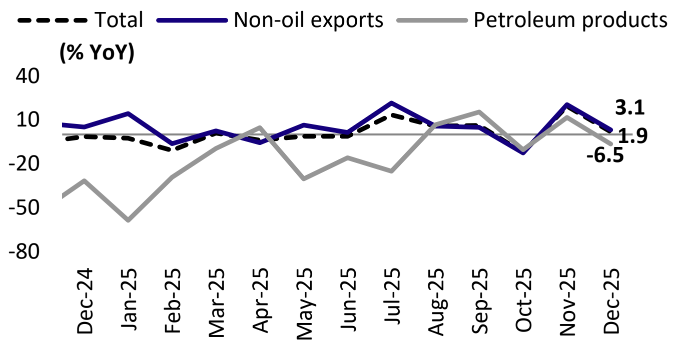
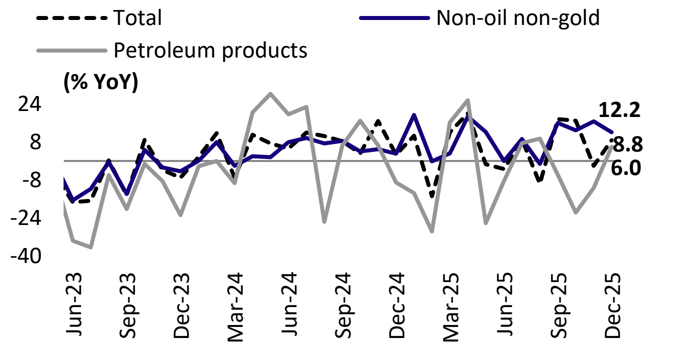


Exhibit 2: Imports rebounded sharply by 8.7% in Dec'25



Source: CEIC, MOFSL

Exhibit 3: Trade deficit widens in Dec'25

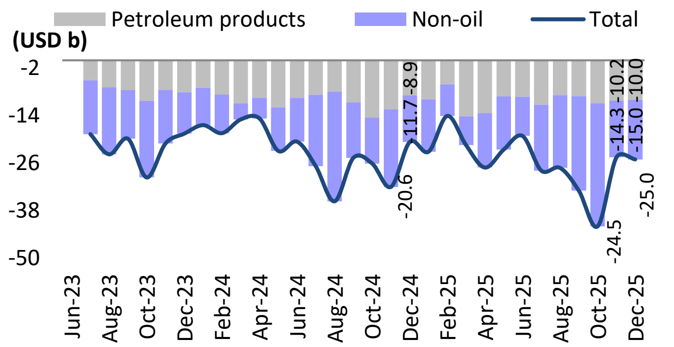
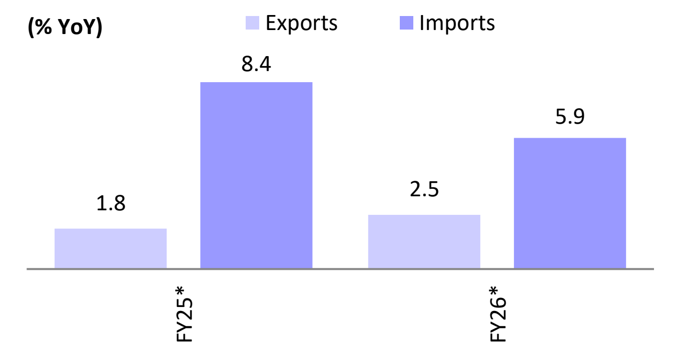


Exhibit 4: Imports grew faster than exports in FY26*



Source: CEIC, MOFSL

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Highlights of the trade data in Dec’25

Goods exports remain steady

- India’s exports showed modest momentum in Dec’25. Goods exports rose 1.9% YoY to USD38.5b, led by non-oil exports (+2.7% YoY), supported by stronger shipments to China, Hong Kong, and the UAE, even as exports to the US declined (-1.8% YoY).
- Oil exports remained weak (-6.6% YoY) due to subdued global prices.
- Within non-oil exports, electronics remained a bright spot (+17% YoY), while growth in chemicals, engineering goods, and textiles softened, and several labor-intensive segments such as agri products, leather, and gems & jewelry contracted.
- Services exports weakened, with gross services exports down 4.0% YoY and net services exports at USD 18.1bn (-5.5% YoY), though slightly higher sequentially.
- As a result, overall exports (goods and services) declined 1% YoY in Dec’25, but remained firm on a cumulative basis, growing 4.3% YoY to USD634b in FYTD26.

Imports decline modestly

- Imports rebounded sharply in Dec’25, with goods imports rising 8.7% YoY to USD63.6b, driven by oil imports (+5.9% YoY) and non-oil non-gold imports (+12% YoY), while gold imports declined 12% YoY.
- Oil imports increased to USD14.4b, despite softer global prices, reflecting strong domestic demand. Although oil prices have edged up recently, they remain well below last year’s average, keeping the oil deficit broadly stable at USD93b in FY26 so far and suggesting oil imports should stay contained.
- Gold imports fell to USD4.1b, largely due to waning festive demand and elevated global prices, even though they rose marginally on a sequential basis. For the fiscal year to date, gold imports are only modestly higher, and high prices should continue to dampen non-essential demand.
- The standout driver was robust non-oil, non-gold imports, which rose 12% YoY to USD45b, underscoring the resilience of domestic demand. Strength was broad-based, led by capital goods, electronics, and industrial inputs, while a few segments, such as leather, paper, and plastics, dipped. Overall, non-oil, non-gold imports are up 10% YoY in FYTD, and strong domestic growth should continue to support elevated import levels.

Outlook

- India's external stability is increasingly services-led rather than trade-led. While export momentum and contained imports could keep the trade deficit manageable in the near term, a wider goods deficit is likely to push the current account deficit to around 1.2% of GDP in FY26, up from 0.6% in FY25, and keep it broadly steady at 1.2% in FY27, assuming oil prices average USD 60/bbl.
- This CAD trajectory implies continued, but orderly, depreciation pressure on the rupee. With USD/INR already weaker FYTD, sustained FII outflows and the absence of a near-term trade deal suggest limited scope for appreciation. Any upside is likely to be capped by RBI intervention to rebuild FX reserves, while exporter selling on rallies and importer demand on dips should keep the USD/INR range-bound around 90-91 in the near term. On average, the USD/INR is expected to settle around 91 in FY27, reflecting managed weakness rather than external stress.

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