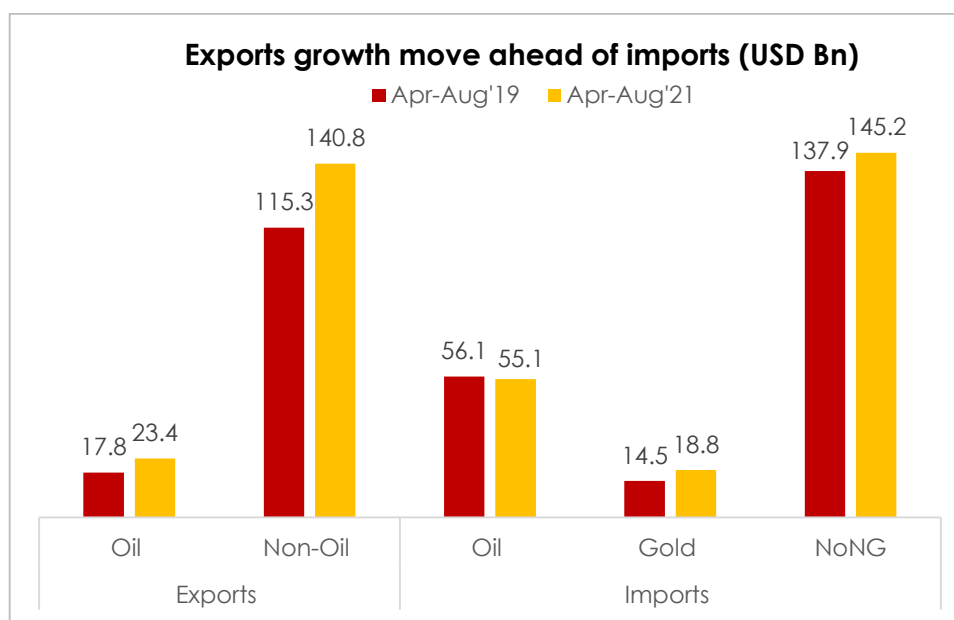


Exports driving economic recovery in India

Non-oil exports rise by 22.1% in Apr-Aug'21 vs Apr-Aug'19, gold imports at record high

16 September, 2021



“With economy emerging out of the catastrophic second Covid wave, India's external trade metrics has begun to normalize with the merchandise trade deficit widening to a 4-month high of USD 13.8 bn in Aug-21. A steady recovery in the global economy which is set to grow by over 6.0% in CY21, has led to a sustainable growth in exports in the current fiscal despite the disruption triggered by the state level lockdowns in Apr-May'21. It is important to note that non-oil exports have climbed by 22.1% in the first 5 months of FY22 compared to the pre-pandemic period (Apr-Aug'19), not to mention the sharp 57.4%YoY growth if one compares it to the corresponding period of the previous year. Robust external demand particularly in sectors such as chemicals, pharmaceuticals, engineering goods and two wheelers along with support from accommodative policies and elevated commodity prices has led to a structural improvement on the export front. Going ahead, we believe that the V-shaped recovery in global growth along with the implementation of the PLI scheme will continue to support export growth momentum. Further, the new Foreign Trade Policy 2021-26 (likely to be announced in the second half of FY22) is expected to correct few imbalances on the export front and provide suitable incentives to the exporters for a further ramp up in their volumes.

While the overall trade deficit continues to normalise in line with expectation and has moved up to USD 54.9 billion in the Apr-Aug'21 period as compared to USD 23.4 billion in the previous year, it still stands lower vis-à-vis USD 77.2 billion in Apr-Aug'19, reflecting the solidity of export growth. However, we note that non-oil and non-gold imports have recorded a healthy growth of 5.3% in Apr-Aug'21 vs. Apr-Aug'19, which reflects a pickup in industrial demand that augur well for the domestic economic recovery. Interestingly, gold imports in Aug-21 surged to a 5-month high at USD 6.7 billion amidst demand recovery and a recent moderation in gold prices, leading to significant build-up in inventories ahead of the festive season. The cumulative gold imports in Apr-Aug'21 stands at a record high level of USD 18.8 bn, 30% higher than that in the pre-pandemic period (Apr-Aug'19). Looking ahead, the upcoming festivities along with progress in vaccinations is likely to propel domestic consumption demand, translating to a further normalization of the trade deficit. Accordingly, we expect current account balance to move to a deficit of USD 30 bn in FY22 from a surplus of USD 24 bn recorded in FY21."

- Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research Ltd.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,800 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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