

Press Release

Surge in crude oil prices widens trade deficit in Feb-22 Nevertheless, India on track to reach USD 400 bn export target for FY22

03 March 2022

As per the preliminary estimates released by the Ministry of Commerce and Industry, India's merchandise trade deficit widened to USD 21.2 bn in Feb-22 from a deficit of USD 17.4 bn in Jan-22. The deficit pressures increased in Feb-22 led by sequential increase in imports along with marginal decline in exports. In value terms, imports rose to USD 55.0 bn in Feb-22 from USD 51.9 bn in the previous month. On the other hand, exports eased marginally to USD 33.8 bn from 34.5 bn in Jan-22.

The imports have risen predominantly on the back of rebound in oil and gold imports amid a significant surge in crude oil prices along with the moderating impact of the third Covid wave. However, non-oil and non-gold imports (NONG) eased marginally indicating an incomplete demand revival post the impact of the third wave. Cumulatively, the total NONG imports for Apr-Feb FY22 stands at USD 357 bn with electronic goods and machinery remaining the top import commodities for the month. Going forward, a near complete phase out of lock down restrictions is likely to stoke pent-up demand in the economy which would also find support from year-end seasonality. Combined with the impact from elevated global commodity prices (esp. crude oil, which has crossed USD 110 pb), we anticipate the pressure on imports to resurface over the next few months.

A similar rationale would also benefit India's exports, which seems poised to exceed government's USD 400 bn target for FY22 quite comfortably. So far, the cumulative exports for Apr-Feb FY22 stands at USD 374 bn. A spurt in demand for goods in the wake of a demand resurgence in advanced economies and the global commodity price rise have boosted exports in the current fiscal. While the exports for Feb-22 eased marginally from USD 34.5 bn in Jan-22 to USD 33.8 bn, we expect the year-end seasonality to push the print in Mar-22. For FY23, government initiatives in the form of extension of ECLGS scheme for MSMEs, introduction of new legislation for special economic zones (SEZs) and its focus on PLI scheme to support the manufacturing sector is expected to facilitate export growth.

That said, the ongoing conflict between Russia and Ukraine is likely to have some bearing on India's trade in the near term. The trade linkages and the share of exports and imports from Russia and Ukraine is not very significant and thus its direct impact on India's overall trade is expected to be limited. India's share of exports to Russia as proportion of total exports currently stands at only 0.9% of India's total exports, whereas imports from Russia constitutes 1.4% of total imports. However, smaller businesses especially the MSME exporters might face the brunt in the form of cancellation of consignments and delayed payments as majority of the exports to these regions are largely done by MSMEs as per FIEO. On the imports front, India's significant dependence on Russia and Ukraine for edible oils and fertilizers is likely to cause temporary supply disruption in these commodities and may inflate their prices.

While we believe that the growth outlook for India may not have a direct linkage with the geo-political risks emerging from the Russia-Ukraine conflict, the increasing sanctions on Russia by many developed nations can disrupt the global commodity markets and global supply chain of some products, thereby having an indirect impact on the supply side. With a sharp rise in crude oil prices in particular, we expect the trade deficit to also remain elevated thereby having an adverse impact on the terms of trade. Taking this into consideration, we have revised upwards our forecast for India's current account deficit (CAD) to USD 50 bn in FY22 from our earlier expectation of USD 46 bn.

Annexure

Chart 1: Russia accounts for 1.4% of India's imports

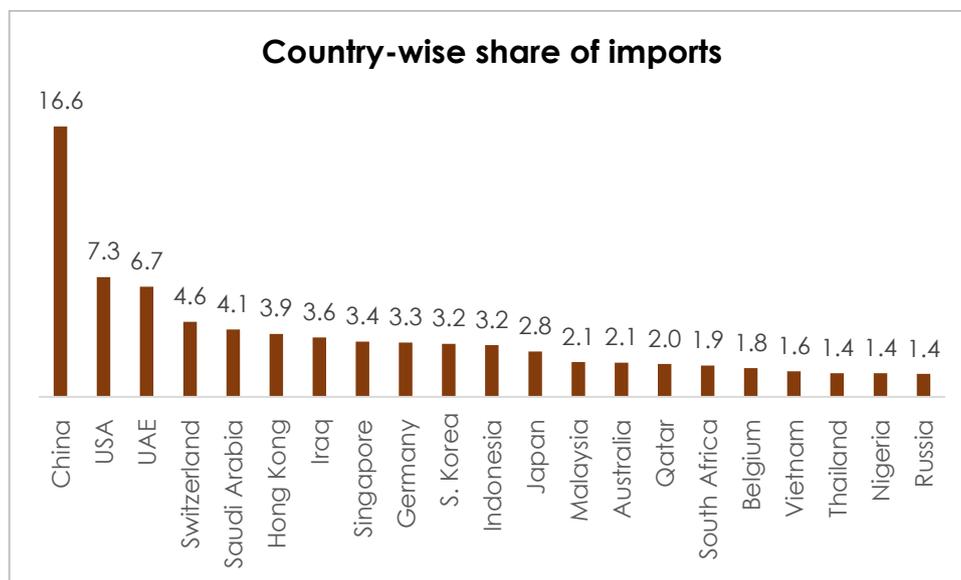
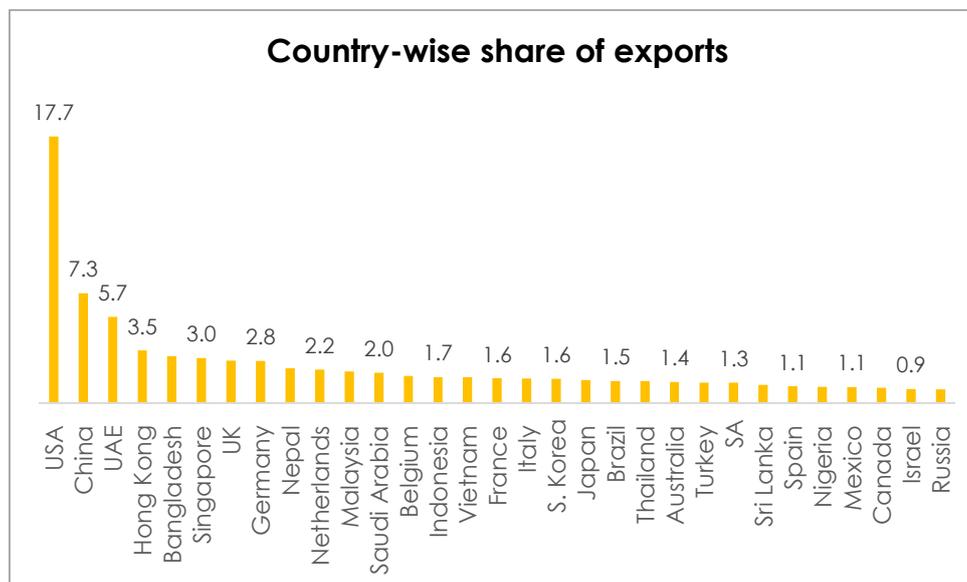


Chart 2: Russia accounts for 0.9% of India's exports



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