Press Release

Omicron tapers trade deficit in Jan-22

Demand recovery to widen trade deficit again in the coming months

15 February 2022

India's merchandise trade deficit narrowed to USD 17.4 bn in Jan-22 from a deficit of USD 21.7 bn in Dec-21. The trade pressures eased in Jan-22 led by transient disruption caused by the third Covid wave which led to a shaper moderation in imports as compared to exports. In value terms, exports and imports eased to USD 34.5 bn and USD 51.9 bn in Jan-22 from their respective record high levels of USD 37.8 bn and USD 59.5 bn in Dec-21.

Moderation in exports was broad-based with oil (USD 4.2 bn) and non-oil exports (USD 30.3 bn) easing in Jan-22. Nevertheless, overall exports have continued to maintain its strong momentum despite the spread of Omicron variant globally. In our view, accommodative monetary as well as fiscal policies globally along with government initiatives to support export and manufacturing sector in India have been instrumental for the robust export growth in FY22 so far. This traction in exports continues to highlight the possibility of achieving government's FY22 export target of USD 400 bn. Cumulative exports for Apr-Jan FY22 currently stands at USD 336 bn led by significant rise recorded in the outbound shipments of Engineering goods followed by Agriculture products, Chemicals and Textiles.

The imports also recorded an across-the-board moderation in Jan-22 with crude oil imports (USD 11.9 bn), gold (USD 2.4 bn) and non-oil and non-gems & jewellery imports (NONG) (USD 36.9 bn) easing in Jan-22 largely due to imposition of state level lockdown restrictions which impacted the domestic demand.

- Despite significant jump in crude oil prices in Jan-22, oil imports remained muted, indicating that the decline could have been driven by a moderation in oil import volume. However, unwinding of lockdown restrictions and continued rise in crude oil prices is likely to keep oil imports elevated in the next couple of months.
- Notwithstanding the dip recorded in Jan-22, we expect the demand for gold to also remain healthy in FY23 as there is a considerable unmet demand still in the market. The gold imports in the Apr'21-Jan'22 or the 10 month period stood at an all-time high of USD 40.5 bn, almost double compared to the previous year period and higher by 65% compared to the same period in the pre-pandemic year. The gold prices could see some downward revision in the near term with major central banks increasing their interest rates, thereby further supporting the pent-up demand for gold.
- Meanwhile, NONG imports - a key indicator for domestic demand, eased marginally to USD 36.9 bn from an all-time high level of USD 38.6 bn. On cumulative basis, the total NONG imports for Apr-Jan FY22 stands at USD 322 bn with electronic goods and chemical products remaining the top import commodities.

With the transitory impact of the third Covid wave now behind us we expect the trade deficit to widen going forward. The receding Covid cases has prompted most of the states to unwind the lockdown restrictions thereby improving mobility and supporting the consumption demand. Additionally, the combination of strong progress in vaccinations and rollover of pent-up demand is likely to further push overall imports over the next few months. On the exports front, receding threat of Omicron's virulence globally along with government initiatives in the form of extension of ECLGS scheme for MSMEs, introduction of new legislation for special economic zones (SEZs) and its continued focus on PLI scheme to support the manufacturing sector, announced in the Union Budget, is expected to facilitate growth in the medium to long term. Taking into consideration these factors, we expect India's FY22 current account deficit at USD 46 bn vis-à-vis a surplus of USD 24 bn seen in FY21, albeit with upside risks emanating from significant jump in crude oil prices.

Chart 1: The third Covid wave led to a moderation in exports and imports

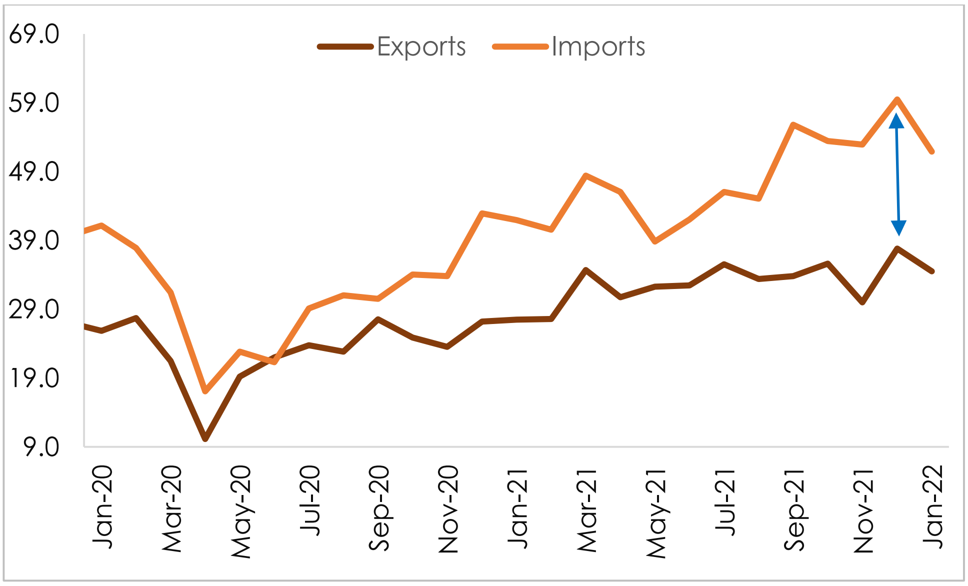
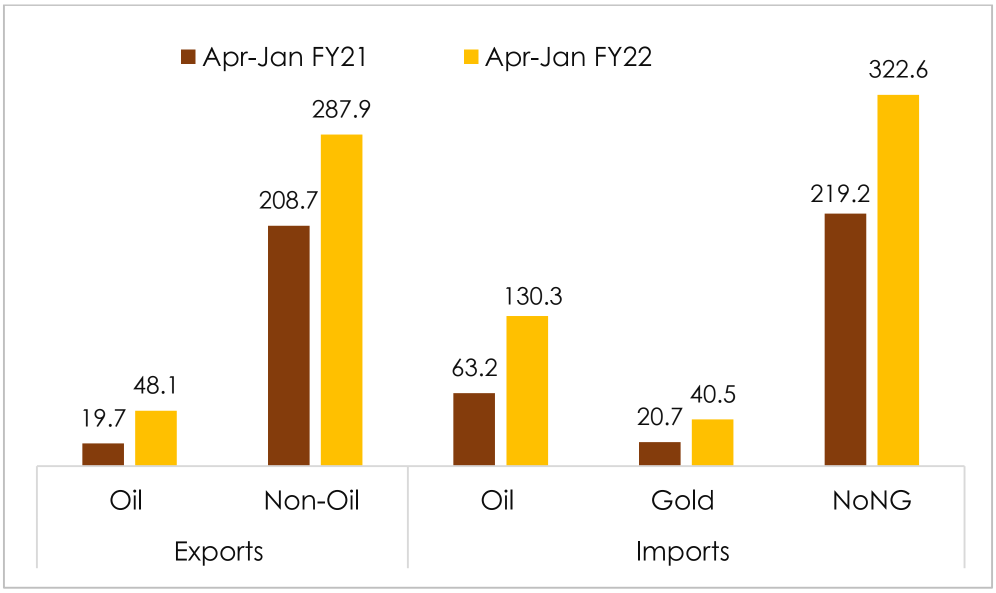


Chart 2: Highlights of merchandise trade balance on cumulative basis



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