Press Release

High crude oil prices set to push up trade deficit further

Deficit partly offset by record exports in FY22

06 April, 2022

India's merchandise trade deficit moderated to USD 18.7 bn in Mar-22 from a deficit of USD 20.8 bn in Feb-22 as per the preliminary estimates released by the Ministry of Commerce and Industry. The deficit pressures moderated led by significant rise in exports in Mar-22 as against imports. In value terms, exports rose to a record high level of USD 40.4 bn in Mar-22 from USD 34.6 bn in the previous month. On the other hand, imports rose to USD 59.1 bn in Mar-22 from USD 55.4 bn.

The cumulative exports in FY22 at USD 418 bn have exceeded the government's target of USD 400 bn. A spurt in demand for goods in the wake of a post pandemic demand resurgence in advanced economies and the global commodity price rise boosted exports in FY22. On a sectoral basis, the robust export performance was driven by commodities such as petroleum products, engineering goods, gems & jewellery, chemicals, and pharmaceuticals. For FY23, the strategic trade partnerships (such as India-Australia trade agreement, and India -UAE trade pact), government initiatives in the form of extension of ECLGS scheme for MSMEs, introduction of new legislation for special economic zones (SEZs) and the rollout of PLI schemes to support the manufacturing sector is expected to facilitate export growth. Nevertheless, the likely slowdown in global growth due to the geopolitical unrest between Russia and Ukraine along with the fresh lockdowns in China and some Asian economies amidst resurgence in Covid cases could act as a downside risk to India's outbound shipments.

In FY22, the imports climbed up sharply to USD 610 bn by 28.7% over the pre-pandemic figure of USD 474 bn in FY20, predominantly on the back of oil imports but also driven by a healthy growth in gold as well as non-oil non-gold imports (NONG). The impact of the sharp rise in crude oil has started manifesting in the monthly trade numbers with crude imports surging to a record high of USD 18.4 bn in Mar-22. For the last financial year as a whole, imports of crude oil and petrol products almost doubled from USD 82.7 bn in FY21 to 160.7 bn. NONG imports rose to USD 36.2 bn in Mar-22 from USD 34.9 bn with electronic goods, machinery, chemicals and transport equipment remaining the top core import commodities. Notably, looking at the top ten import commodities for Mar-22, the annual imports for fertilizers, coal and vegetable oils have increased significantly; this is mainly because of a significant surge in their prices amidst creation of global supply shock with Russia and Ukraine being one of the major producers of these commodities.

Overall, cumulative trade deficit for FY22 widened to more than a decade high at USD 192 bn (FY13 trade deficit was USD 190 bn). For FY23, we expect the trade deficit to widen further given the spiralling crude oil prices thereby putting additional pressure on current account deficit (CAD). While no ceasefire has been reached so far in the Ukraine-Russia conflict, some signs of diplomatic progress in the context of the crisis have helped to marginally rein in crude oil price from the peak of USD 128 pb in early Mar-22 to USD 110 pb currently. While we expect the crude oil price to moderate with increased supplies from other OPEC+ countries, likely removal of Iran sanctions, US shale production growth along with gradual de-escalation in conflicts between Russia and Ukraine, they may remain higher than the pre-conflict levels as some sanctions and disruptions will linger. As of now, in our base case we expect crude oil price to average at USD 97 pb in FY23 (average of monthly future prices for the next 12 contracts). Taking these factors into consideration we impart upside risk to our CAD expectation of USD 85 bn in FY23 i.e. around 2.7% of GDP from an estimated USD 55 bn deficit in FY22.

Annexure

Chart 1: India's trade deficit widened to more than a decade high of USD 190 bn in FY22

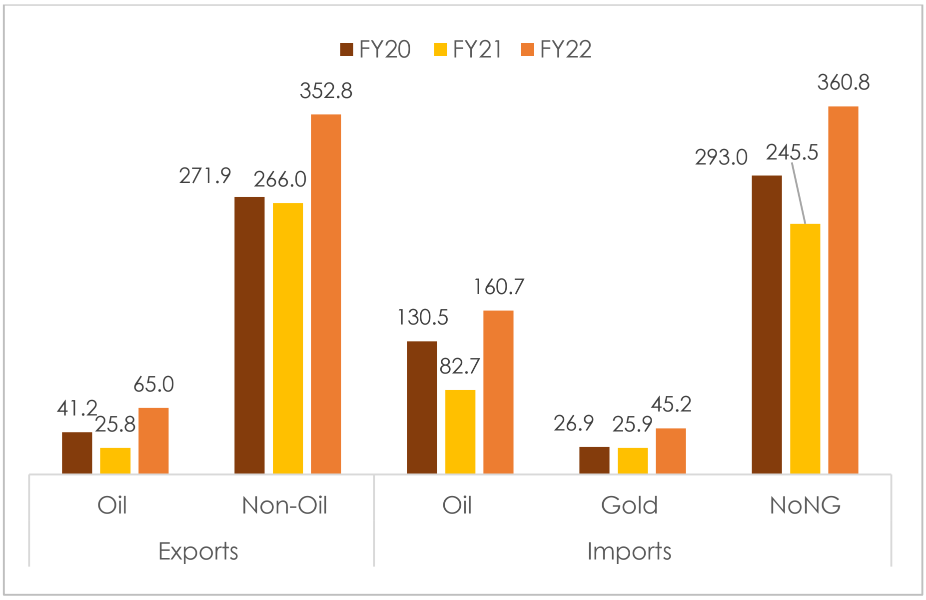
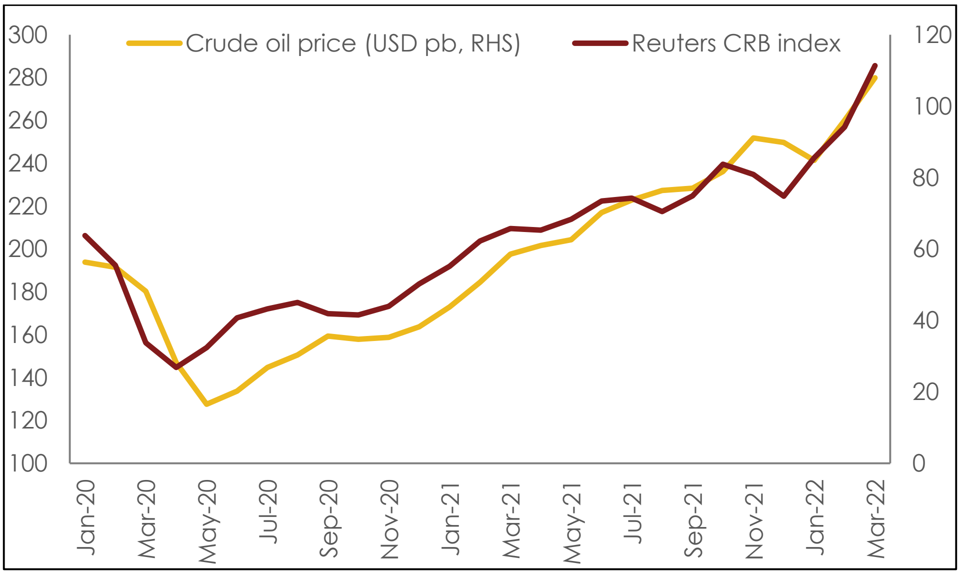


Chart 2: Surge in price of crude oil along with other commodities to widen trade deficit in FY23



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