Press Release

Cumulative trade deficit inches closer to its pre-Covid levels

Improvement in demand pushes non oil, non-gold imports to a record high

16 November 2021

India's merchandise trade deficit narrowed marginally to USD 19.7 bn in Oct-21 from a record high deficit of USD 22.6 bn in Sep-21 led by sequential increase in total exports (USD 35.6 bn) accompanied by slight moderation in imports (USD 55.3 bn).

The marginal dip in total imports was led by moderation in crude oil imports (USD 14.4 bn) with uptick recorded in non-oil and non-gold imports (NONG) (USD 34.9 bn). Gold imports continued to remain high at USD 5.1 bn in Oct-21. The decline in oil imports is a bit perplexing given surge in global crude oil prices by 12.3% MoM to USD 82 pb in Oct-21, indicating that the moderation in oil imports could have been driven by a decline in oil import volume. Meanwhile, NONG imports- a key indicator for domestic demand, touched an all-time high level rising by USD 1.6 bn from the previous month to USD 34.9 bn led by machinery & electrical goods, chemicals, and metals. This highlights the impact of pent-up demand that is gradually getting unlocked with the receding daily Covid infections and phasing out of lockdown restrictions.

The normalization in economic activity is underscored by continued improvement in India's external metrics with total exports and imports trailing well above their pre-pandemic levels. With conclusion of the first seven months of FY22, cumulative merchandise trade deficit stands only marginally lower at USD 98 bn vs. USD 100 bn in the corresponding pre-pandemic period of FY20. What is encouraging is the robust growth in outbound shipments at 26% vs. Apr-Oct'19. Robust external demand particularly in sectors such as chemicals, pharmaceuticals, iron and steel, textiles and engineering goods along with support from accommodative policies and elevated commodity prices has led to a structural improvement on the export front. Going forward, we believe that recovery in global growth along with the progress on the PLI scheme on the domestic front will continue to support export growth momentum. However, factors such as the recent global energy crisis along with supply chain bottlenecks could have some impact on India's export performance amidst potential decline in domestic industrial production.

On the other hand, total imports have risen by 16% in Apr-Oct'21 as compared to Apr-Oct'19 reflecting a pickup in industrial demand and increase in commodity prices. Overall, imports of agricultural commodities mainly vegetable oil and oilseeds followed by base metals, chemicals, and electronics have risen significantly in Apr-Oct'21 as compared to the pre-pandemic period. In the recent development, the government has slashed its base import tax on edible oils to moderate domestic prices which may spur demand leading the imports to rise further. Moderation in gold prices led to a significant build-up in inventories amidst the festive season due to which the cumulative gold imports in Apr-Oct'21 stood at a record high level of USD 29.1 bn, 66% higher than that in the corresponding pre-pandemic period of FY19. Looking ahead, improvement in domestic demand scenario along with rise in commodity prices is likely to further widen trade deficit in the remainder of FY22. However, we will remain watchful of a recovery in imports beyond the festive season in order to gauge the sustenance in demand beyond the festive led improvement. With a gradual expansion of trade deficit we expect current account balance to move to a deficit of USD 38 bn in FY22 from a surplus of USD 24 bn recorded in FY21.

Chart 1: Cumulative exports and imports well past their pre-Covid levels (USD bn)

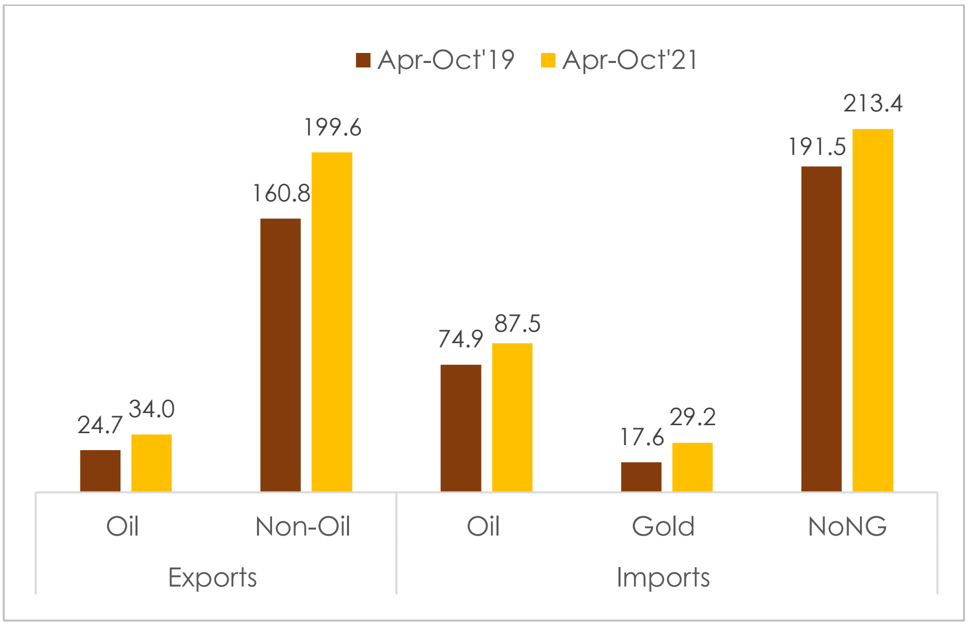

Chart 2: Monthly trend in exports and imports in USD bn

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