

Covid pandemic primary factor behind lowest deficit in 5 yrs

The trade data release for the last month of FY21 confirms what was already visible earlier – a sharp reduction in the merchandise trade deficit. India had a trade deficit of only USD 98.6 billion in FY21, the lowest in the last 5 years and almost 50% lower compared to the levels seen in FY19. Clearly, the economic disruption along with sharply lower crude oil prices and also a buoyancy in commodity exports have contributed to such a curtailment in deficit in FY21. With the net trade in services being largely steady at USD 86 billion vs USD 83 billion in FY20, the consolidated trade deficit for goods and services have dropped down from USD 70.2 billion to USD 12.7 billion.

Favourable trade balance an aberration, witnessing normalization

However, FY21 has been an aberration and the increasing normalization and recovery of the economy from H2FY21 have led to the monthly merchandise trade deficit gradually converging to the median levels of USD 13-15 billion seen in FY19-FY20. What has particularly contributed to the normalization is the steady pickup in gold imports since Dec 2020, touching USD 8.49 billion in Mar 2021.

Broad based growth in exports and normalised levels of imports

Notwithstanding the large base effect due to the lockdown in March 2020, the growth of 60.3% in overall exports in March 2021 has been far more broad based than in the earlier months with a healthy revival in petroleum products and gems and jewellery sector apart from steady shipments in engineering goods, pharmaceuticals, chemicals and primary commodities like rice and iron ore.

On the other hand, imports have gradually normalised with non crude and non gold imports (adjusting for the sharp spurt in gold imports) also largely broad based and climbing by 47.3% in March 2021 on a YoY basis. What is encouraging to note is the strong 60.1% growth in capital goods imports which reflects a potential pickup in capital expenditure although its sustainability at a sequential level needs to be seen