Press Release

Monthly Trade deficit jumps to an all time high

Record high imports in Sep-21, solid export growth in H1FY22

16 October 2021

With economy emerging out of the catastrophic second Covid wave, India's external trade metrics have begun to normalize with the merchandise trade deficit widening gradually since Jun-21. For Sep-21, the monthly trade deficit has moved up sharply and touched an all-time high level of USD 22.6 bn from USD 13.8 bn in Aug-21 led by record high imports (USD 56.4 bn) with total exports remaining broadly unchanged (USD 33.8 bn).

The significant rise in imports was led by a surge in both oil imports and non-oil and non-gold imports (NONG) imports. The jump in oil imports reflects both higher crude oil prices and rise in volumes with industrial activity gathering momentum. Meanwhile, NONG imports- a key indicator for domestic demand, also climbed abruptly by USD 5.1 bn to USD 33.8 bn led by higher vegetable oils and electronics imports. Such a strong sequential increase in NONG imports was last recorded in Jul-20 led by pent-up demand after the unlocking from the first Covid wave but the scale of the import spike was clearly larger this time around.

At the end of the first six months of FY22, cumulative trade deficit stands lower at USD 77.5 bn which is still lower as against USD 88.9 bn in the corresponding pre-pandemic period of FY20 and this is primarily due to strong outbound shipments, translating to a strong export growth of 24.4% vs. H1 FY20. Robust external demand particularly in sectors such as chemicals, pharmaceuticals, engineering goods and two wheelers along with support from accommodative policies and elevated commodity prices has clearly led to a structural improvement on the export front. Going forward, we believe that the V-shaped recovery in global growth along with the implementation of the PLI scheme will continue to support export growth momentum. Further, the new Foreign Trade Policy 2021-26 (likely to be announced in the second half of FY22) is expected to correct few imbalances on the export front and provide suitable incentives to the exporters for a further ramp up in their volumes. Nevertheless, the current energy crisis and raw material shortages in some sectors could have a mild impact on India's export performance in the near term.

On the other hand, total imports have risen by 11.1% in H1 FY22 as compared to the pre-pandemic H1 FY20 reflecting a pickup in industrial demand and increase in commodity prices. Overall, imports of agricultural commodities particularly vegetable oil and oilseeds followed by base metals, chemicals, and electronics have risen significantly in H1 FY22 as compared to the pre-pandemic period. In a recent development, the government has slashed its base import duty on edible oils to tame domestic prices which may lead to even higher imports in that category. Moderation in gold prices and expectation of pent up demand ahead of festive season has led to a significant build-up in inventories due to which the cumulative gold imports in H1 FY22 stood at a record high level of USD 24 bn, 51.6% higher than that in the pre-pandemic period (H1 FY20). Looking ahead, the onset of festivities along with progress in vaccinations is likely to propel domestic consumption demand further, translating to a continuing normalization of the trade deficit in the second half of FY22. Given the quicker than expected trade normalization trajectory in Q2FY22, we have revised our forecast of current account balance from a deficit of USD 30 bn to USD 38 bn in FY22 as against a surplus of USD 24 bn recorded in FY21.

Chart 1: Merchandise trade deficit surges to a record high of USD 22.6 bn in Sep-21

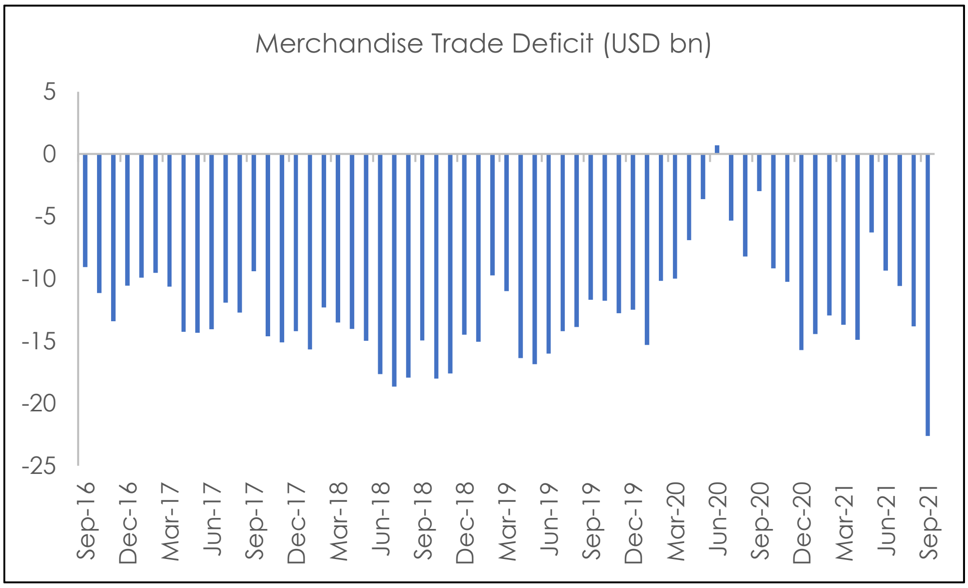
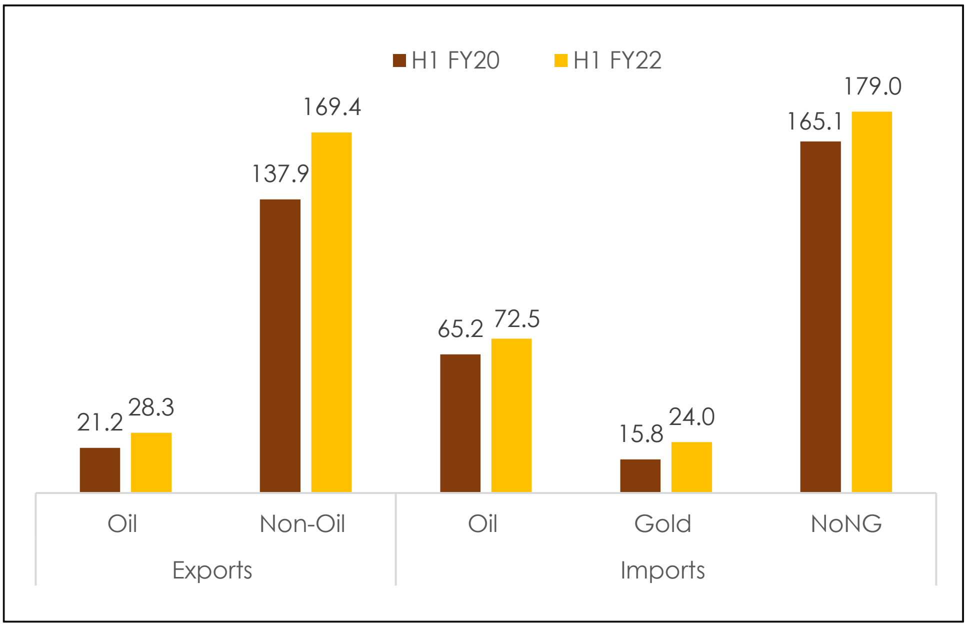


Chart 2: Non-oil exports rose by 22.8% in H1 FY22 vs H1 FY20, gold and oil imports at record high



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