Press Release

Export and Imports rise to record high levels

Intensification of the third Covid wave may taper trade deficit in Q4 FY22

14 January 2022

India's merchandise trade deficit narrowed marginally to USD 21.7 bn in Dec-21 from a record high deficit of USD 22.9 bn in Nov-21. Although both exports and imports improved sequentially in Dec-21, the modest contraction in trade deficit was on account of a relatively sharper increase in exports vis-à-vis imports. What is noteworthy is that total value of both exports and imports stand at their respective record high levels. In value terms, exports rose to a monthly high of USD 37.8 bn in Dec-21 from 30.0 bn in Nov-21. In a similar vein, imports also rose to a record high level of USD 59.5 bn in Dec-21 from USD 52.9 bn.

The increase in imports is broad-based with crude oil imports (USD 19.2 bn), gold (USD 4.7 bn) and non-oil and non-gems & jewellery imports (NONG) (USD 35.5 bn) recording a significant increase. Despite a moderation in crude oil prices in Dec-21 albeit temporary, oil imports remained elevated, indicating that the increase could have been driven by a rise in oil import volume. Meanwhile, NONG imports- a key indicator for domestic demand, touched an all-time high level rising to USD 35.5 bn. On the other hand, it is encouraging to see export momentum in both oil (USD 5.9 bn) as well as non-oil exports (USD 31.9 bn) move up again despite tightening of lockdown restrictions in India's few export markets.

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 total imports tracking above USD 50 bn for the past four consecutive months, cumulative merchandise trade deficit for the first nine months (Apr-Dec'21) now stands significantly higher at USD 142.4 bn vs. USD 125.9 bn in the corresponding pre-pandemic period of FY20.

While recovery in global growth along with various government initiatives such as PLI scheme on domestic front will continue to support India's export growth momentum, resurgence of Covid infections amid rapid spread of Omicron variant globally does pose a threat of scuttling the pace of global economic recovery in the short term, thereby providing some pressure on India's exports. Additionally, the state level restrictions imposed or likely to be imposed in India due to rising caseloads could also hamper the production activities moderately, thereby weighing on India's export performance. Nevertheless, despite the residual risks from Covid, traction in exports continues to highlight the possibility of achieving government's FY22 target of USD 400 bn. (Cumulative exports for Apr-Dec'21 currently stands at USD 301.3 bn).

Meanwhile, total imports have risen by 21.8% to USD 443.8 bn in Apr-Dec'21 as compared to Apr-Dec'19 reflecting a pickup in industrial demand, increase in commodity prices, gradual unlocking of lockdown restrictions and a pick-up in the pace of inoculation. Overall, imports of agricultural commodities mainly vegetable oil and oilseeds followed by chemicals, and electronics have risen significantly in Apr-Dec'21 as compared to the pre-pandemic period. Taking this monthly trend into account, the current account deficit in Q3 FY22 is expected to see a further expansion from the Q2 levels. However, the trend of rising trade and current account deficit may see a taper in Q4 FY22 due to the risks of reimposition of restrictions by several states, thereby impacting the nascent uptick in domestic demand. Nevertheless, with trade deficit numbers in Q3 FY22 surging to record high levels, we have revised up our FY22 current account deficit forecast higher to USD 46 bn from USD 38 bn earlier (from a surplus of USD 24 bn in FY21).

Chart 1: Exports and Imports surge to record high levels in Dec-21

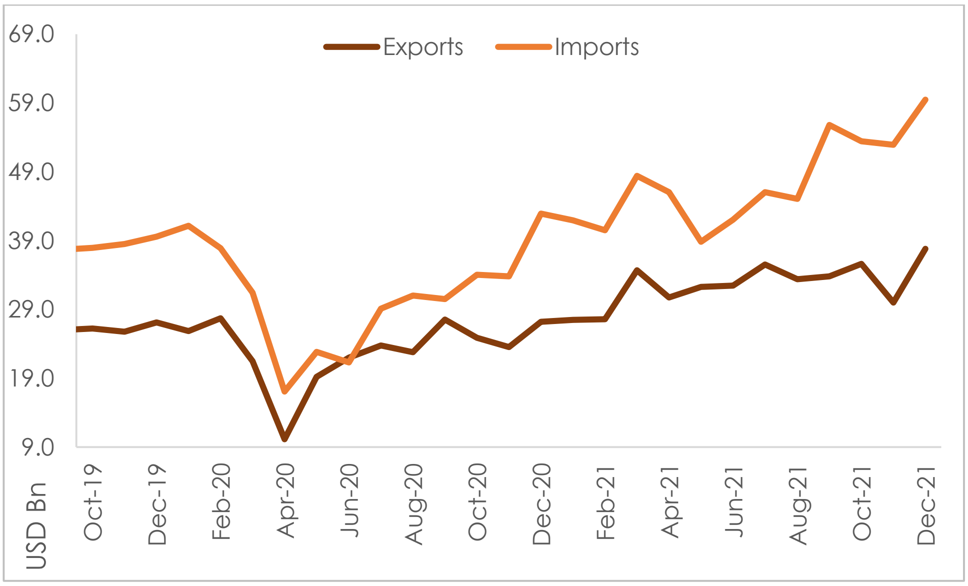
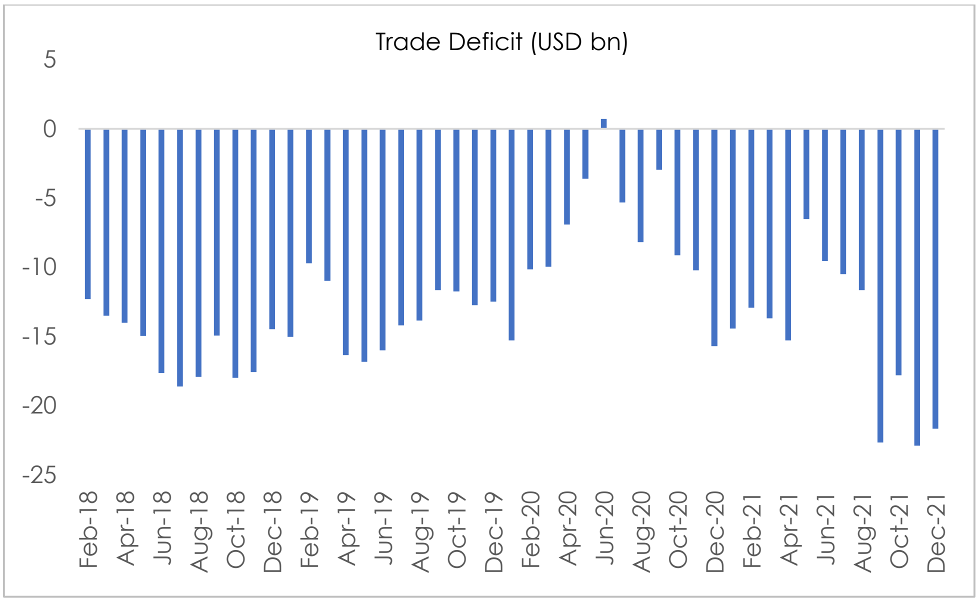


Chart 2: Trend in India's merchandise trade balance



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