TRADE

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Record-high exports

India's trade deficit narrowed to US$ 18.5bn in Mar'22 from US$ 20.9bn in Feb'22 as exports rose at a much faster pace than imports on a MoM basis. In FY22, exports have increased by 42.8%, while imports have increased by 55.4%. Oil imports have increased by 93.1%, reflecting a sharp recovery in oil prices. With global commodity prices continuing an upward momentum, import bill is likely to remain elevated even in FY23. We expect CAD at 2.5% of GDP. Higher oil prices remain a key risk.

Aditi Gupta
chief.economist@bankofbaroda.com

Exports touch record-high in Mar'22: India's exports rose to a historic-high of US$ 42.2bn in Mar'22 from US$ 34.6bn in Feb'22. In FY22, exports have risen to US$ 416.3bn, surpassing the government's target of US$ 400bn and well above US$ 291.6bn in FY21. On a YoY basis, exports increased by 42.8% in FY22 compared with a decline of 6.9% in FY21. This was led by a sharp jump in oil exports (144% in FY22 versus decline of 37.5% in FY21). Non-oil exports too rose by 32.9% in FY22 from a decline of 2.3% in FY21. Within this, exports of gems and jewellery (50.2% versus decline of 27.3% in FY21), engineering goods (45% versus decline of 2.6% in FY21) and textiles (41.2% versus decline of 13.4% in FY21) showed maximum improvement. On the other hand, exports of drugs and pharmaceuticals moderated to 0.7% from 18% in FY21. Overall, compared with pre-pandemic period (FY20), exports have posted a solid increase of 32.9% in FY22.

Imports too accelerate: Reflecting the impact of higher commodity prices, India's imports rose to a fresh record-high of US$ 60.7bn in Mar'22 from US$ 55.4bn in Feb'22. Imports have increased to US$ 609bn in FY22 (55.4% rise on a YoY basis), from US$ 392bn in FY21. Oil imports rose by 93.1% in FY22 compared with a dip of 36.7% in FY21. Notably, oil prices increased by 74.4% in FY22, on a YoY basis. Gold imports too surged to US$ 46.2bn in FY22 (33.6% increase) compared with US$ 34.6bn in FY21. Even non-oil-non-gold imports saw a steep increase of 46.7% in FY22 following a decline of 13% in FY21. Apart from higher commodity prices, a part of the increase can also be attributable to improved demand as the economy recovered. Improvement was seen across the board, with coal (94.9% in FY22 versus decline of 27.6%), ores and minerals (92.9% in FY22 versus decline of 8.9%) and vegetable oils (71.5% in FY22 versus 14.7% in FY21) showing maximum traction. Imports of capital goods too recovered to 32.5% in FY22 after declining by 20.2% in FY21. Electronic imports rose by 35.3% in FY22 compared with a decline of 0.3% in FY21. Imports are now higher by 28.3% compared with pre-pandemic levels, led by gold (63.8%) imports. Non-oil-non-gold imports are higher by 26.7%, while oil imports too are higher by 22.2% over a 2-year period.

Trade deficit narrows: India's trade deficit narrowed to US$ 18.5bn in Mar'22 from US$ 20.9bn in Feb'22 as exports (+US$ 7.7bn) increased at a faster pace than imports (+US$ 5.3bn MoM). However, at US$ 192.7bn in FY22 (6.1% of GDP), India's trade deficit is almost double the level seen in FY21 (US$ 100.4bn). It must be noted that a large part of the increase in trade deficit can be traced to higher oil imports. In fact, India's oil deficit has jumped to US$ 96.7bn in FY22 from US$ 56.9bn in FY21. With oil prices continuing to trade above ~US$ 100/bbl, import bill is likely to remain elevated. For FY23, we expect CAD at 2.3% of GDP assuming oil prices at US$ 100/bbl. However, higher oil prices remain a key risk to our view. We estimate that a US$ 10/bbl increase in oil prices, leads to a US$ 14-15bn (0.4% of GDP) rise in trade deficit. This will also put pressure on INR. However, buoyant remittances and services receipts are likely to provide some relief.

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com