TRADE

13 March 2020

# Trade deficit narrows

**India's trade deficit narrowed to US$ 9.9bn in Feb'20 from US$ 15.2bn in Jan'20 as oil, electronic and capital goods imports came-off on MoM basis. Exports of engineering goods, chemicals and oil accelerated. Notably, non-oil-non-gold imports are showing a trend reversal in Q4 indicating economic growth has bottomed out. The recent decline in oil prices will ensure that CAD as % of GDP moderates further in FY21. This will support INR which has come under pressure. We expect it to revert to 70-72/$ in FY21.**

Sameer Narang
Aditi Gupta | Sonal Badhan
chief.economist@bankofbaroda.com

**Exports see an uptick:** Exports rose by 2.9% in Feb'20 versus (-) 1.7% decline in Jan'20 led by higher engineering goods at 8.7% versus (-) 4% in Jan'20 and chemicals at 16.3% versus 2.5% in Jan'20. Oil exports also rose sharply by 10.1% compared with 2.9% in Jan'20. On the other hand, decline in exports of gems and jewellery further accelerated. Agriculture exports also declined, albeit less sharply than Jan'20. On FYTD basis, exports are down by (-) 1.6% compared with 9.9% increase seen in FYTD19. With outbreak of COVID-19, we expect global demand and thus exports to remain subdued in the near-term.

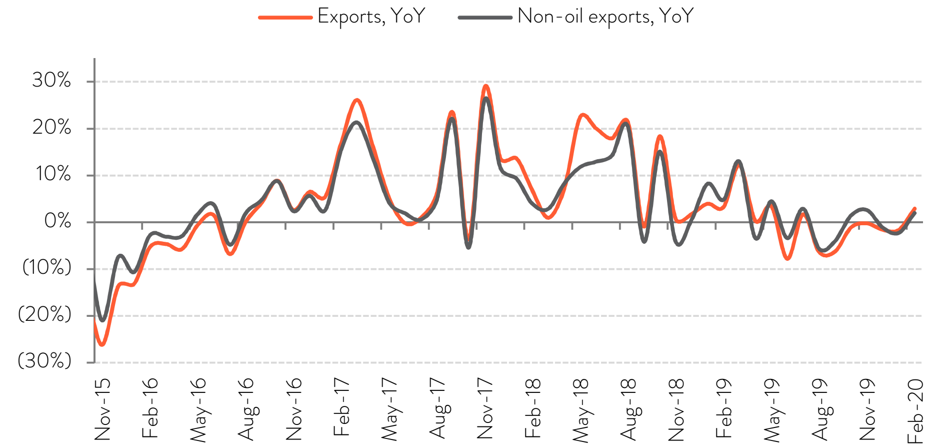
**Import growth picks up:** After falling for 8-straight months, imports increased by 2.5% in Feb'20 compared with (-) 0.7% in Jan'20. Oil imports rose by 14.3% in Feb'20 (15.3% in Jan'20). Gold imports continued to decline, albeit at a slower pace of (-) 8.3% compared with (-) 31.5% in Jan'20. Non-oil-non-gold imports fell by (-) 0.9% in Feb'20 compared with (-) 5.8% in FYTD20 showing a trend reversal indicating economic growth has bottomed out. Capital goods imports inched up to 7.6%, pearls and precious stones to 13.2% and agricultural products to 28.8%. However, demand is likely to come-off temporarily on the back of dent in consumer sentiment due to COVID-19.

**Trade deficit narrows, outlook positive:** India's trade deficit narrowed to US$ 9.9bn from US$ 15.2bn in Dec'19 led by US$ 1.7bn MoM increase in exports and (-) US$ 3.6bn MoM decline in imports. On MoM basis oil, electronic and capital goods imports decelerated the most. Oil imports are likely to further decelerate as oil prices have fallen by (-) 36% in Mar'20. Non-oil imports are also likely to show a moderate increase as domestic demand remains muted. Hence, we expect CAD at 0.6% of GDP in FY21 compared with 0.9% in FY20. This should support INR which is expected to recover to 70-72/$.

## KEY HIGHLIGHTS

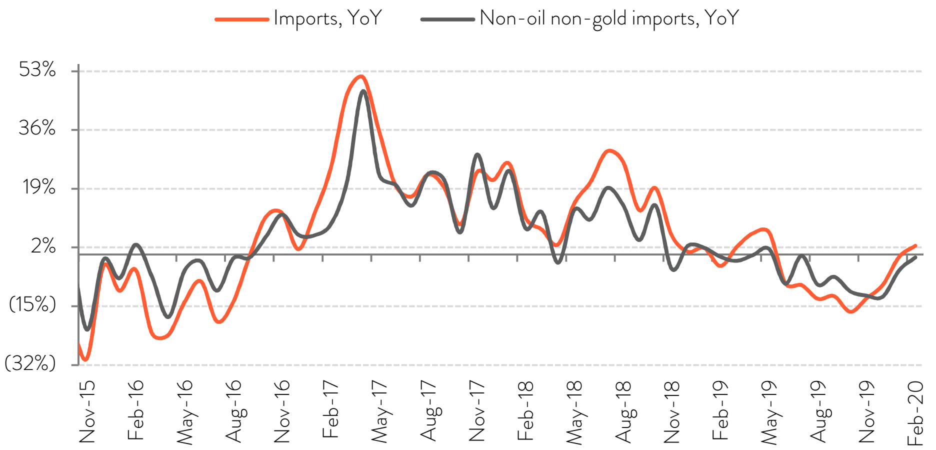
- Exports increase by 2.9% in Feb'20 versus by (-) 1.7% in Jan'20.
- Import growth also picks up to 2.5% versus at a slower pace at (-) 0.7% in Jan'20.
- Trade deficit narrows to US$ 9.9bn compared with US$ 15.2bn in Jan'20.

### FIG 1 – EXPORT GROWTH IMPROVES MARGINALLY



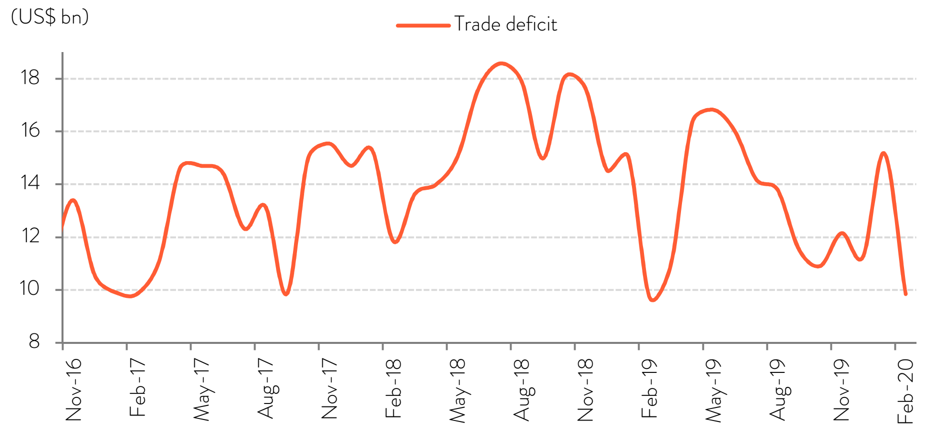

Source: CEIC, Bank of Baroda Research

### FIG 2 – IMPORT GROWTH PICKS UP PACE




Source: CEIC, Bank of Baroda Research

### FIG 3 – TRADE DEFICIT NARROWS SHARPLY IN FEB'20




Source: CEIC, Bank of Baroda Research

## Disclaimer



Visit us at **www.bankofbaroda.in**

For further details about this publication, please contact:

**Economics Research Department**

Bank of Baroda

chief.economist@bankofbaroda.com