TRADE

15 September 2020

Trade deficit expands on higher gold imports

India's trade deficit widened to US$ 6.8bn in Aug'20 from US$ 4.8bn in Jul'20 led by higher gold imports. Non-oil-non-gold imports fell on the back of lower electronic and capital goods imports. Exports, in particular, non-oil exports also contracted at a higher rate led by engineering and chemical goods. With global demand picking up, we expect exports to improve. Even imports should pick-up with a lag once India's recovery gains pace. Hence, external outlook remains favourable for INR.

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KEY HIGHLIGHTS

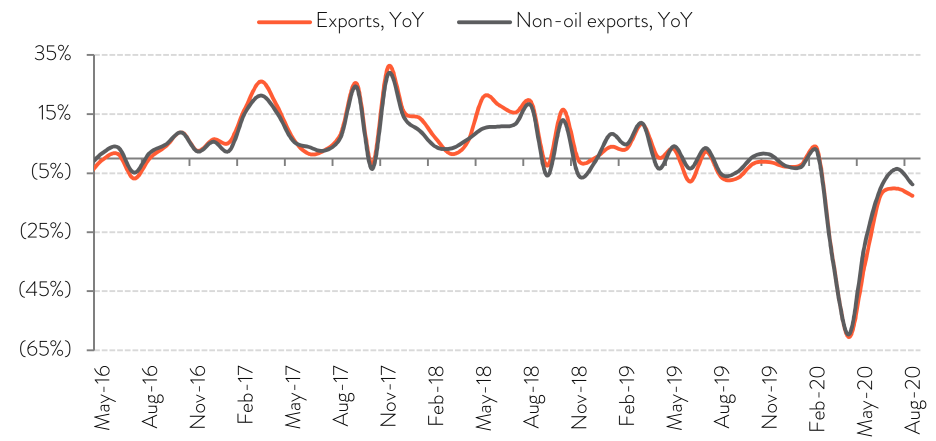
- Exports decline by 12.7% versus a decline of 10.2% in Jul'20.
- Imports contract by 26% versus a decline of 28.4% in Jul'20.
- Trade deficit widens to US$ 6.8bn from US$ 4.8bn in Jul'20.

Export recovery moderates: India's exports contracted by 12.7% in Aug'20 compared with 10.2% drop in Jul'20. The decline in momentum is on account of engineering and chemical goods which contracted by 7.7% and 4.7% in Aug'20 compared with an increase of 8.5% and decline of 0.1% in Jul'20 respectively. Pharma and agri exports maintained growth momentum at 17.3% and 8.8% respectively (19.5% and 10.0% respectively in Jul'20). In Q2 so far, exports are down by 11.4% compared with 36.6% decline seen in Q1FY21. With further recovery in global demand, export growth is likely to recover.

Gold driving imports higher: Imports contracted by 26% in Aug'20 compared with a decline of 28.4% in Jul'20. This was driven by a sharp increase in gold imports at 171.1% in Aug'20 compared with 4.2% in Jul'20. The decline in oil imports accelerated to 41.6% in Aug'20 compared with 32% in Jul'20. Domestic demand as measured by non-oil-non-gold imports was stable with a decline of 29.6% in Aug'20 (29.2% in Jul'20). Notably, recovery visible in iron and steel, electronic and capital goods imports in Jul'20 seems to have stalled with these categories showing higher contraction than last month. Coal imports have shown an improvement in-line with electricity demand.

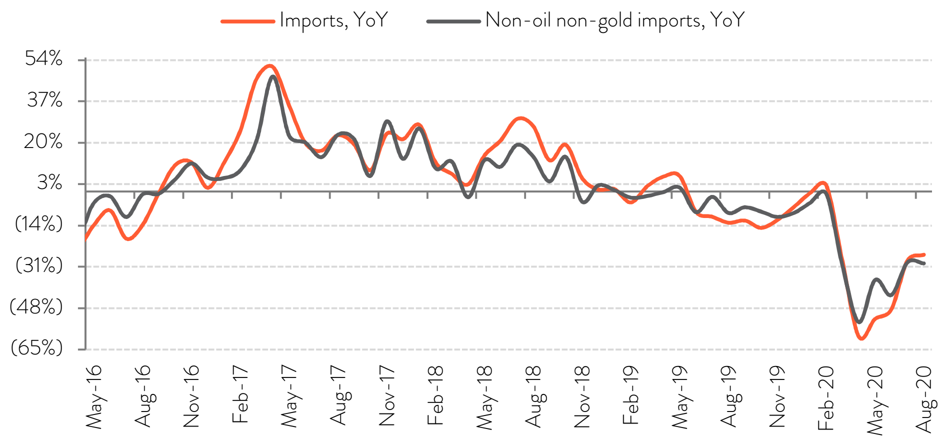
Favorable external outlook: India's trade deficit increased to US$ 6.8bn in Aug'20 compared with US$ 4.8bn in Jul'20 as imports, in particular gold, picked up while exports decelerated. Gold imports are likely to accelerate further in the coming months to meet domestic festive and marriage demand. Same is the case with electronic imports. On the other hand, exports too will recover as global activity picks up. We expect India's trade deficit to narrow to US$ 90bn in FY21 from US$ 157.5bn in FY20 leading to a current account surplus this year. This along with robust FII/FDI inflows should support INR.

FIG 1 – MODERATION IN EXPORTS



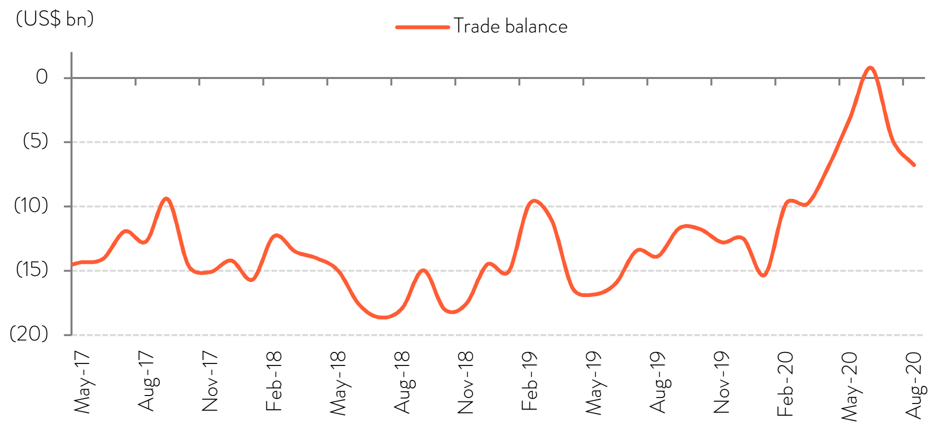
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS CONTINUE TO IMPROVE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT WIDENS IN AUG'20



Source: CEIC, Bank of Baroda Research

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