TRADE

02 March 2021

Imports accelerate, exports dip

India's trade deficit narrowed to US$ 12.9bn in Feb'21 from US$ 14.5bn in Jan'21. Exports contracted by 0.3% (6.2% in Jan'21). Gems and jewellery and engineering exports decelerated the most. Imports picked up to 7% from 2% in Jan'21. Rising oil prices and normalization of domestic economic activity implies oil and non-oil imports should remain buoyant thus pushing trade deficit to US$ 172bn in FY22 from less than US$ 100bn in FY21. Higher remittances and foreign inflows should give support to INR.

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Exports dip: Preliminary data shows that India's exports fell by 0.3% in Feb'21 after a 6.2% increase seen in Jan'21. This was led by sharp decline in exports of gems and jewellery (11.2% versus 1.3% drop in Jan'21) and engineering goods (2.6% versus increase of 18.8% in Jan'21). Oil exports fell by 27.1% versus decline of 32.1% in Jan'21. Non-oil exports eased significantly to 3.6% from 11.6% in Jan'21. Exports of drugs and pharma products and chemicals too slowed a tad bit in Feb'21. During FYTD21, exports have fallen by 12% (1.8% decline in FYTD20). Exports to Middle East & Africa and Europe have fallen the most. Only exports to China have registered positive growth.

Gold imports remain buoyant: India's imports accelerated to 7% in Feb'21 compared with an increase of 2% in Jan'21. Oil imports contracted at a slower pace of 16.6% in Feb'21 versus decline of 27.7% in Jan'21. Gold imports rose by 123.9% in Feb'21 to US$ 5.3bn versus an increase of 154.7% in Jan'21 to US$ 4bn. Non-oil-non-gold imports moderated to 6.1% versus 7.5% in Jan'21. Imports of coal (28.1%) and transport equipment (23%), declined the most. On the other hand, electronic imports (37.8% versus 17.4%) and chemicals (37.6% versus 16%) saw the maximum increase.

Trade deficit narrows: India's trade deficit narrowed to US$ 12.9bn in Feb'21 from US$ 14.5bn in Jan'21 even as imports picked up. Exports were weak. However, a synchronized global recovery and government's PLI scheme should bode well for exports going forward. However, rising oil prices imply (up by 21.3% in CYTD21) oil imports are likely to remain on the higher side. Non-oil-non-gold imports may also continue to grow as domestic economic activity stabilizes. As a result, trade deficit is likely to expand to US$ 172bn in FY22 compared with US$ 96bn in FY21. Foreign inflows and services receipts are likely to make up for the higher deficit. This should support INR. Rising global yields and higher oil prices remain a key risk to our view.

KEY HIGHLIGHTS

- Exports decline by 0.3% in Feb'21 compared with a 6.2% increase in Jan'21.
- Imports rise by 7% in Feb'21 versus an increase of 2% in Jan'21
- Trade deficit narrows to US$ 12.9bn in Feb'21 versus US$ 14.5bn in Jan'21.

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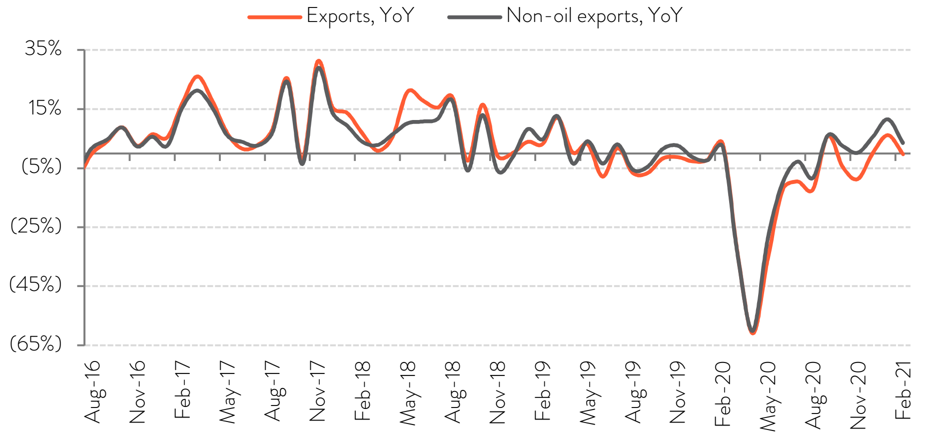
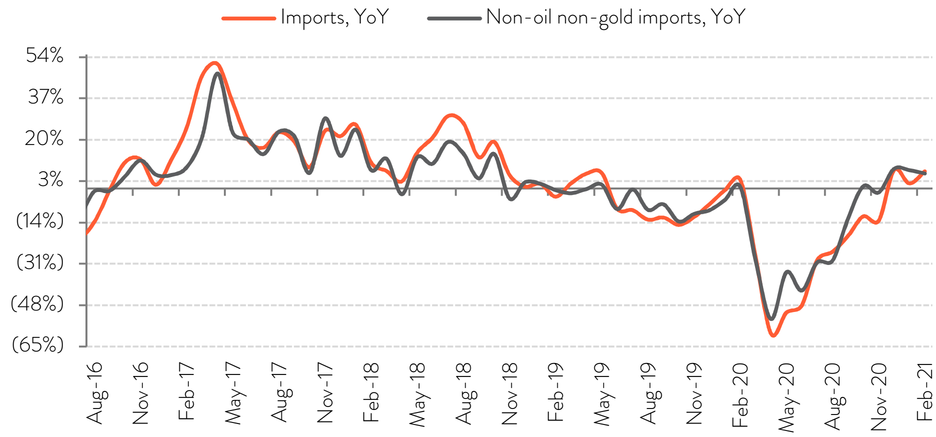
FIG 1 – EXPORTS GROWTH DETERIORATES



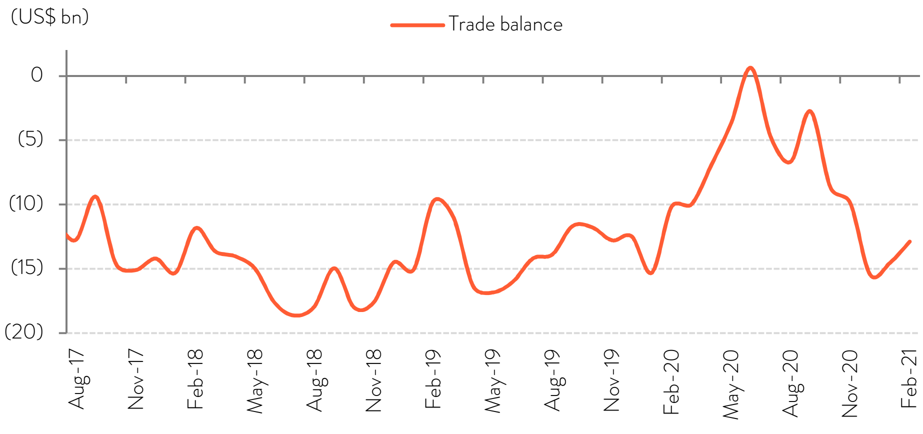
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORT GROWTH IMPROVES



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS



Source: CEIC, Bank of Baroda Research

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