

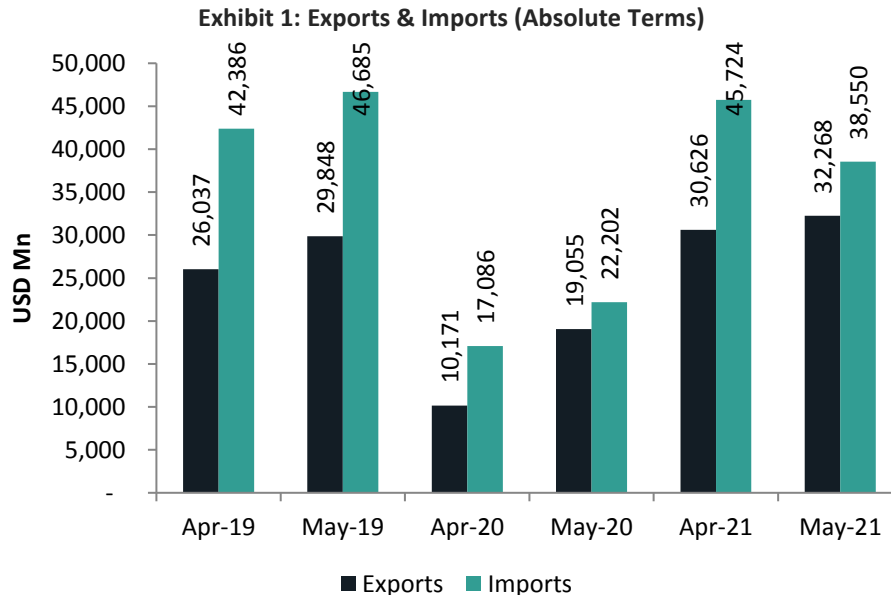
Trade deficit in May'21 narrows as imports contract and exports shoot up

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Overview:

India's overall trade scenario continues to show a mix picture on a sequential and year-on-year comparison with the overall trade deficit in May'2021 falling sharply by around 58.4% to \$6.3 bn while on a year-on-year level, it has almost doubled. **The sequential fall in the trade deficit in May'21 has been on account of sharp decline in imports (15.7% m-o-m) and higher exports (5.4% m-o-m). This is the third consecutive month in which exports have exceeded \$30 bn mark** reflective of a faster than expected revival in the global demand following subsequent COVID-19 waves and concomitant lockdowns imposed across various countries. The sequential decline in imports has been primarily on account of 13% (m-o-m) decline in imports of crude oil and petroleum products, reflective of the lower consumption of petroleum products following the outbreak of the 2nd COVID-19 wave in India and the localised restrictions announced in most states. The decline in gold imports has also been significant in May'21 (m-o-m) while the non-oil, non-gold imports have been relatively stable in May'21. **The notable improvement across the key trade indicators compared with the corresponding month of the previous year is on account of the low base effect.** Exports in May'21 have been higher than May'19, which is a positive sign for the economic recovery prospects for India.

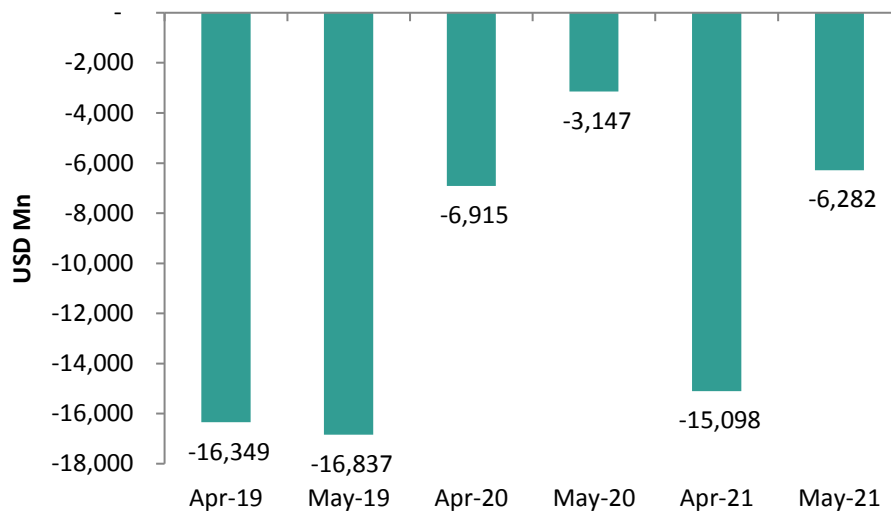
Cumulatively for the first 2 months of the fiscal, trade deficit has widened significantly in FY22 compared with the corresponding period of the previous year, while it is lower by 35% compared with April-May'2019 (pre-pandemic year). The good sign is that total exports are almost 13% higher during April-May'21 compared with April-May'19. Imports for the first 2 months of FY22 have been 114% higher than the previous year but 5.3% lower than April-May'19.



Source: CMIE

- **Exports** were \$32.3 bn in May'21, 5.4% higher than the previous month and 69% higher than the corresponding month of the previous year. The growth in the petroleum exports in May'21 (both m-o-m and y-o-y) has been robust. Non-petroleum oil exports grew by 55% year-on-year while they were relatively unchanged in May'21 v/s April'21.
- **Imports** dropped to \$38.5 bn in May'21, 15.7% below the April'21 number but 74% higher than May'2020. Imports are also 17% lower than May'2019. Lower oil and gold imports have been the key reason driving the decline in the total imports for May'2021.

Exhibit 2: Trade Balance (Absolute Terms)



Source: CMIE

- A sharper decline in imports and a pick-up in exports during the month led to the trade deficit narrowing to \$6.3 bn in May'21 compared with \$15.1 bn in April'21.

Trade Composition – May 2021

Table 1: Major Exports

	% share	May-20	Mar-21	Apr-21	May-21
Engineering goods	26.8	5,652	8,827	7,965	8,646
Petroleum products	16.5	1,629	3,412	3,622	5,331
Gems & jewellery	9.2	1,063	3,613	3,379	2,968
Inorganic/organic/agro chemicals	6.8	1,815	1,420	2,020	2,179
Drugs, pharmaceuticals & fine chemicals	5.8	1,977	2,295	1,890	1,871
Readymade garments	3.4	517	1,426	1,297	1,107
Electronic goods	2.9	498	1,511	979	950

Source: CMIE & PIB

The top seven export commodities listed in Table 1 accounts for almost 71% of the total exports in May'21.

- Exports of engineering goods have consistently remained the largest constituent of India's exports. Engineering goods registered a growth of 8.6% in May'21 (m-o-m) and 53% (Y-o-Y). The uptick in these exports can be ascribed to the recent rally in metal prices. However, soaring prices of metals is a big challenge for the engineering goods manufacturers.
- Exports of Petroleum products registered a sharp growth of 47% in May'21 (m-o-m) and 227% (Y-o-Y). Petroleum exports have risen with declining global coronavirus cases fueling recovery in consumption of refined petroleum products.
- The exports of gems and jewellery declined by 12.2% in May'21 (m-o-m) due to severe disruption in manufacturing activity caused by the outbreak of the second COVID-19 wave and partial and complete lockdowns imposed by different states. These lockdowns also led to limitation of workforce capacities and related manufacturing activities.
- Drugs and pharmaceutical exports remained at the same level as the previous month and 5.4% lower than the corresponding month last year. The decline in COVID-19 cases especially in key trading partners like US and EU have led to the fall in the exports in May'21.
- The exports of ready-made garments fell sequentially by 14.7% in May'21 led by restrictive measures imposed across several states and its impact on the manufacturing activities.

Table 2: Major Imports

	% share	May-20	Mar-21	Apr-21	May-21
Petroleum crude & products (POL)	24.52	3,487	10,272	10,873	9,452
Electronic goods	11.01	2,882	6,204	5,060	4,245
Pearls precious & semiprecious stones	5.82	383	2,542	2,471	2,245
Coal, coke & briquettes	5.14	1,312	1,736	1,990	1,982
Artificial resins, plastic materials etc.	4.28	974	1,599	1,780	1,651
Vegetable oils (edible)	3.70	574	1,073	1,288	1,427
Iron & steel	3.06	1,218	890	1,182	1,181
Transport equipment	3.05	815	1,341	1,459	1,177
Medicinal & pharmaceutical products	2.09	591	630	673	805
Gold & silver	1.80	410	8,504	6,251	695

Source: CMIE & PIB

- India's **petroleum** imports moderated to \$9.5 bn in May'21, 13% lower than the previous month as consumption of petroleum products was dented on account of the localized partial and complete lockdowns and restrictions on mobility amidst surge in COVID-19 cases in the country during May'21.
- After imports peaked at \$6.2 bn in March'21, there has been a sustained decline in the imports of **electronic goods** in April and May'21. Imports dropped by 16.1% in May'21 and this reflect that consumers are deferring their purchases of electronic goods amidst the surge in the COVID-19 cases and are re-orienting spending towards essential or emergency spending.
- There has been a sharp drop in the imports of **gold and silver** in May'21 by close to 90%. This sharp drop has been on account of the re-imposition of lockdown-like restrictions and curbs on social gatherings which may have hurt the demand for this precious metal.
- Imports of **iron & steel** and **coal** remained unchanged in May'21 compared with the previous month. **Medicinal and pharmaceutical imports** registered a significant uptick of 20% (m-o-m) primarily on account of additional requirements needed by the country following the surge in the COVID-19 cases in the country. **Vegetable oil** imports grew by 10.8% (m-o-m) in May'21 led by rally in international prices of edible oil.

The trade numbers for May'2021 are positive from the exports angle while the dip in the imports have been chiefly on account of lower oil and gold imports, reflective of the lower consumption demand amidst the surge in COVID-19 cases and the restrictions re-imposed by most states in the country. There will be a gradual improvement in the imports as COVID-19 scenario is likely to improve and the states commence with their unlocking activities at a broader level. As lockdowns are still in place in few states in June'21, only limited pick-up in imports can be expected. Non-oil imports in particular will increase as industrial activity picks up. India's trade deficit will inch-up further owing to higher imports and rally elevated commodity prices. As global demand is recovering at a swift pace, exports are likely to continue increasing during the fiscal. The trade deficit on balance will start increasing. We are looking at a current account deficit this year due to higher trade deficit relative to last year.

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