India’s trade deficit soars as imports rise

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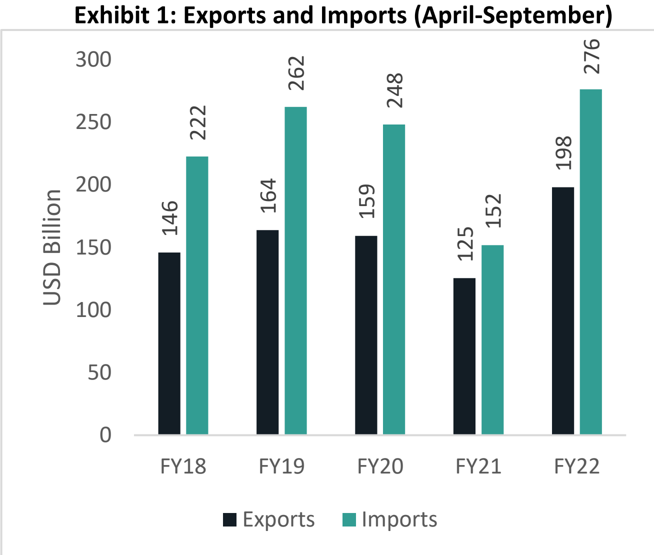
Overview

India’s trade deficit jumped to a record high of USD 22.6 billion, doubling from USD 11.7 billion in the previous month on account of higher imports of oil and gold. However, on a positive note, the merchandise exports have continuously exceeded the USD 30 billion mark since March’21 restricting the cumulative trade deficit for the first half of the current fiscal at USD 78 billion which is the lowest since FY18 (Barring FY21). Remarkable progress has been observed in exports of major items in the first six months of the current fiscal when compared over the corresponding period of FY20, pointing towards a recovery from the disruptions of last year. Import demand for items like machinery and electronics is encouraging as it points towards improved industrial activity and revival of discretionary spending.

India’s merchandise exports increased to USD 33.8 billion in September’21, 22.6% higher compared with September’20. **Merchandise imports** at USD 56.4 billion were up by 84.8% over the same month last year. On a sequential basis, exports were largely stable while imports rose by 25.2% pushing the **trade deficit** to a record high of USD 22.6 billion. The deficit during the month almost doubled from that in the previous month (USD 11.7 billion).

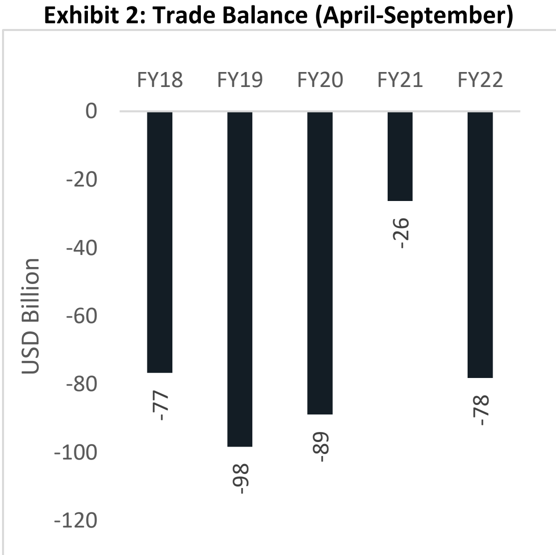
Cumulatively for the first half of the current fiscal, **exports** stood at USD 197.9 billion and **imports** were at USD 276.1 billion. **Trade deficit** at USD 78.2 billion was higher than USD 26.3 billion in the corresponding period of the previous year. However, it was lower by 12.1% and 20.5% over H1-FY20 and H1-FY19 respectively. The lower trade deficit is encouraging as it is driven by healthy growth in exports, unlike the moderation in trade deficit during H1-FY20 and H1-FY21 which was due to falling exports as well as imports.

Exhibit 1: Exports and Imports (April-September)



Source: CMIE

Exhibit 2: Trade Balance (April-September)



Source: CMIE

Trade Composition

- **Oil exports** at USD 5.2 billion were higher by 47.9% compared with September’20 and by 11.1% over August’21. **Oil imports** jumped to USD 17.4 billion, notably higher than the same month last year and 80.2% higher over the previous month. The escalating global crude oil prices and India’s high dependency on imports to meet its domestic oil requirements is a cause of concern for the import bill over the coming months. During H1-FY22, oil exports and imports were at USD 28.7 billion and USD 73 billion respectively.
- **Non-oil exports** were stable at USD 28.6 billion compared with the previous month. However, they were 18.9% higher over September last year. **Non-oil imports** increased by 10% m-o-m and 57.8% y-o-y to USD 39 billion. During H1-FY22, non-oil exports and imports stood at USD 169.2 billion and USD 203 billion respectively. The increase in non-oil imports is reflective of revival in domestic demand and industrial activity.

Table 1: Major Exports

	USD Billion		
	Apr-Sept'19	Apr-Sept'20	Apr-Sept'21
Engineering Goods	37.8	33.7	54.5
Petroleum Products	21.3	12.1	28.7
Gems & Jewellery	19.3	8.7	19.3
Organic & Inorganic Chemicals	6.9	10.3	13.9
Drugs & Pharmaceuticals	10.3	11.8	12.0
RMG of all Textiles	7.9	4.8	7.3
Electronic Goods	6.1	4.1	6.5
Plastic & Linoleum	3.2	3.8	4.9

Source: CMIE & PIB

During H1-FY22, the top eight export items were **engineering goods** (27.5% share in total exports), **petroleum products** (14.5%), **gems & jewellery** (9.8%), **organic & inorganic chemicals** (7%), **drugs & pharmaceuticals** (6.1%), **RMG of all textiles** (3.7%), **electronic goods** (3.3%) and **plastic & linoleum** (2.5%). These constituted to 74.4% of the total exports during H1-FY22.

- **Engineering goods** exports increased to USD 54.5 billion recording a 61.5% growth over the same period of the previous year. Exports of **electronic goods** improved by 60.7% during H1-FY22. Exports of both engineering and electronic goods have risen in September'21 when compared with September'20. Rising input costs amid surge in metal prices and shortage of key components could weigh upon the competitiveness of electronic exports.
- **Petroleum exports** rose to USD 28.7 billion in the first six months of FY22, this growth figure comes against a low base of last year (USD 12.1 billion in H1-FY21). Petroleum exports were up by 47.9% y-o-y and by 11.1% m-o-m in September'21.
- **Gems & Jewellery** exports have more than doubled from USD 8.7 billion in H1-FY21 to USD 19.3 billion in H1-FY22, same as the pre-pandemic level of H1-FY20. This is indicative of an improvement in manufacturing activities from the disruptions of last year.
- Exports of **ready-made garments** stood at USD 7.3 billion during H1-FY22, up by 53.2% compared with USD 4.8 billion in the corresponding period of the previous year. The good sign is that the textile exports in the first half of the current fiscal are close to USD 7.9 billion during H1-FY20. This sector is likely to benefit from the several schemes implemented by the government to enhance the competitiveness of Indian textile exports.

Table 2: Major Imports

	USD Billion		
	Apr-Sept'19	Apr-Sept'20	Apr-Sept'21
Petroleum, Crude & products	65.2	32.0	73.0
Electronic goods	31.3	23.1	32.0
Gold	15.8	6.8	24.0
Machinery, electrical & nonelectrical	19.3	11.8	18.1
Pearls, precious & Semi-precious stones	11.4	5.2	14.7
Coal, Coke & Briquettes, etc	12.2	6.7	11.9
Artificial resins, plastic materials, etc.	7.2	5.1	9.2
Vegetable Oil	4.7	4.8	8.8

Source: CMIE & PIB

During H1-FY22, the top eight import items were **petroleum, crude & products** (26.4% share in total imports), **electronic goods** (11.6%), **gold** (8.7%), **machinery electrical & non-electrical** (6.5%), **pearls, precious & semi-precious stones** (5.3%), **coal, coke & briquettes, etc.** (4.3%), **artificial resins, plastic materials, etc.** (3.3%) and **vegetable oil** (3.2%). These constituted to 69.5% of the total imports during H1-FY22.

- **Petroleum imports** doubled to USD 73 billion during April-September'21 over USD 32 billion in the corresponding period of the previous year. Petroleum imports have escalated to a record high of USD 17.4 billion in September'21, notably higher than that in September'20 and 91.9% higher compared with September'19. Tight supply conditions on account of cautious increase in supply by OPEC+ and output disruptions in the storm hit US Gulf of Mexico coupled with heightened demand due to the ongoing energy crisis have left global crude oil prices soaring to record highs.

- Imports of **electronic goods** rose by 39% to USD 32 billion in H1-FY22. On a sequential basis electronic imports have shown health growth since June'21 reflective of strong discretionary spending by consumers. Festive demand could aid in higher imports of electronic goods over the coming months. Imports of **machinery (electrical & non-electrical)** increased by 53.1% in H1-FY22 indicative of steady economic recovery and improved industrial capacity utilisation levels.
- **Gold** imports were higher at USD 24 billion in April-September'21 compared with USD 6.8 billion in the corresponding period of the previous year. Likewise, imports of **pearls, precious and semi-precious stones** were higher at USD 14.7 billion in H1-FY22 V/s USD 5.2 billion in H1-FY21. Demand for these items was dampened by the restrictions on social gatherings imposed during the last fiscal. Gold imports have witnessed a sequential contraction by 23.7% in September'21. Festive demand is expected to support higher imports of these items over the coming months.
- **Vegetable oil** imports rose to USD 8.8 billion in H1-FY22 compared with USD 4.8 billion in the same period last year. It increased to USD 2 billion in September'21, higher by 49.6% over the previous month. Imports of edible oil surged to 16.98 lakh tons during the month on the back of strong palm oil imports at 12.62 lakh tons aided by lower duties. Import of palm oil during September'21 escalated to a record high since 1996, when India began the import of palm oil. However, higher prices of sunflower and soybean oils in the international market have resulted in lower imports during the last 11 months in comparison with the corresponding period of the previous year.

The industrial production measured by the IIP crossed the pre-pandemic level in August'21 and the manufacturing PMI has been in expansion for all months in H1-FY22 barring June'21. Moreover, the capacity utilization (CU) in the manufacturing sector is assessed to have recovered in Q2-FY22 after having declined sharply in Q1-FY22 according to the RBI Governor's credit policy address. Hence, the economy seems to be recovering from the Covid-19 induced disruptions and this would help sustain healthy export growth over the coming months. However, the elevated global crude oil prices and rising non-oil imports pose a risk to the overall trade deficit.

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