TRADE

04 October 2021

Trade deficit at record high

India's trade deficit rose to a record high of US$ 22.9bn in Sep'21 from US$ 13.8bn led by higher oil imports. Non-oil-non-gold imports also rose to a record high at US$ 33.8bn. Exports were steady. Imports are likely to expand further as economic activity recovers. Elevated oil prices also imply a higher import bill. However, resilient exports and buoyant software and remittances receipts imply that CAD is likely to remain contained at ~1% of GDP in FY22. This should support INR.

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Exports steady: As per preliminary data, India's exports remained steady at US$ 33.4bn in Sep'21 from US$ 33.3bn in Aug'21. On a YoY basis, exports moderated to 21.3% in Sep'21 from 45.8% in Aug'21. This was led by moderation in oil exports which rose by 39.3% in Sep'21 compared with 140% in Aug'21. Non-oil exports too eased to 18.6% in Sep'21 (36.6% in Aug'21). Within non-oil exports, growth of engineering goods (36.7% from 59% in Aug'21), gems and jewellery (19.7% from 88.3% in Aug'21) and chemicals (29.6% from 35.9% in Aug'21) decelerated the most. Exports of drugs and pharma contracted by 8.5% from an increase of 1.4% in Aug'21. Over a 2-year horizon, exports have remained resilient and risen by 24.2% in FYTD22. While oil exports have risen by 33.1%, non-oil exports have also posted an increase of 22.7% in the same period.

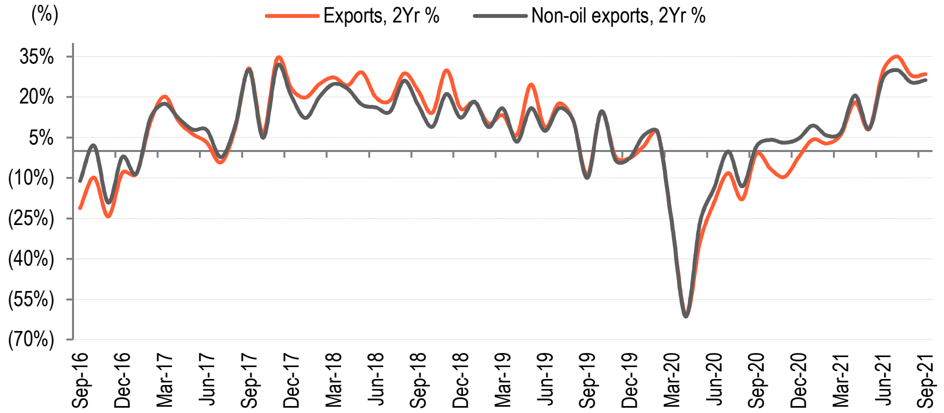
Imports rise steeply: India's imports rose to a record high of US$ 56.4bn in Sep'21 (84.7% YoY) from US$ 47.1bn in Aug'21 (51.8%). This was led by oil imports which rose to a lifetime high of US$ 17.4bn in Sep'21 (199.3% YoY) from US$ 11.7bn in Aug'21. Non-oil-non-gold imports also rose to a historic high at US$ 33.8bn (40.4% YoY) after tracking at ~U$ 29bn between Apr-Aug'21. Within this, imports of vegetable oils (131.7%), coal (82.9%) and electronics (17.3%) rose. However, gold imports decelerated to US$ 5.1bn in Sep'21 from US$ 6.8bn in Aug'21. In FYTD22, over a 2-year horizon, imports have increased by 11.3%, led by a surge in gold imports (51.6% higher) and oil imports (11.9%). Non-oil-non-gold imports are also higher by 7.2%.

Trade deficit at record high: India's trade deficit widened sharply to a record high at US$ 22.9bn in Sep'21 from US$ 13.8bn in Aug'21 led by higher oil and non-oil-non-gold imports. Exports were steady. Imports are likely to remain elevated as domestic recovery solidifies and Covid-19 cases remain in check. Pickup in vaccination rates also bodes well for demand. Higher oil prices also imply a wider trade deficit. Exports have held up, which is positive for India's external position. Overall we expect, India's trade deficit to expand to US$ 170bn in FY22 from US$ 102.2bn in FY21. Strong software receipts and remittances imply that CAD is likely to be contained at ~1% of GDP in FY22 from a surplus of 0.9% of GDP in FY21.

Key highlights

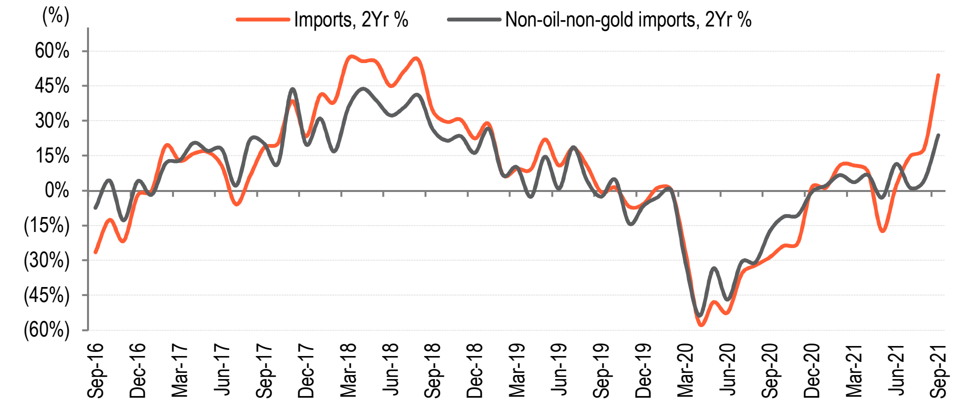
- Exports rise moderately to US$ 33.4bn in Sep'21 versus US$ 33.3bn in Aug'21.
- Imports rise steeply to US$ 56.4bn in Sep'21 from US$ 47.1bn in Aug'21.
- Led by rise in oil and non-oil-non-gold imports.
- Trade deficit expanded to a record high of US$ 22.9bn in Sep'21 from US$ 13.8bn in Aug'21.

Fig 1 – Exports remain steady in Sep'21



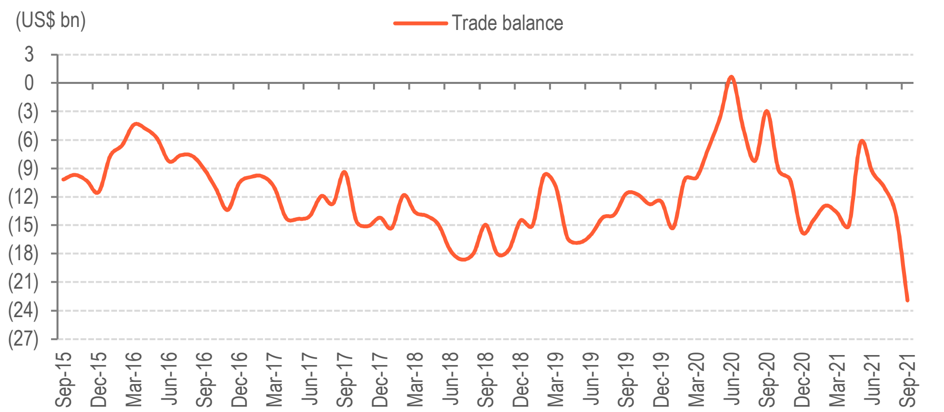
Source: CEIC, Bank of Baroda Research

Fig 2 – Import growth picks up robustly



Source: CEIC, Bank of Baroda Research

Fig 3 – Trade deficit rises steeply in Sep'21



Source: CEIC, Bank of Baroda Research

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