

TRADE

15 April 2019

Trade deficit widens as oil and gold imports increase

India's trade deficit widened to US\$ 10.9bn in Mar'19 from US\$ 9.6bn in Feb'19 as gold and oil imports increased. Trade deficit for FY19 too increased to US\$ 176bn from US\$ 162bn in FY18 led by higher oil prices. However, non-oil-non-gold imports were lukewarm in FY19 as domestic economy slowed down. While IMD is forecasting a near normal monsoon, the first forecast is typically optimistic. Hence, trade deficit for FY20 is likely to increase only by 7% thus implying a stable CAD/ GDP ratio for FY20.

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Exports pick up, FY20 outlook uncertain: India's export growth accelerated to a 5-month high of 11% in Mar'19 from 2.4% in Feb'19 on the back of favourable base effect (0.1% in Mar'18). The increase in exports was led by organic chemicals (17%), followed by engineering goods (16.2%) and textiles (15.3%). Oil exports too rose by 6.6% to US\$3.5bn. Exports rose by 9% in FY19 compared with 10% increase seen in FY18. However, the slowdown in exports seen in H2 FY19 (5.6%) is likely to persist in FY20 as global economy slows.

Imports inch up: India's imports rose by 1.4% in Mar'19 compared to a decline of (-) 4.2% in Feb'19 led by higher oil and gold imports which rose by 5.6% and 31.2% respectively. Non-oil-non-gold imports remained lukewarm at (-) 1.4% in Mar'19. Vegetable oil imports jumped to a 20-month high of 14.5% in Mar'19 (-16.4% in Feb'19). Imports clocked a much lower growth at 9% in FY19 compared with 21% in the previous year. The decline is attributable to sharp slowdown in non-oil-non-gold imports at 5.5% in FY19 versus 18.8% in FY18.

IMD forecasts near normal monsoon: The Indian Meteorological department's first monsoon forecast is near normal with rainfall at 96% of long-period average. Since 2012, IMD's first forecast has been optimistic with actual rainfall being lower. The average deviation for the last 7 years is (-) 4.5%. Hence, non-oil imports are likely to remain stable.

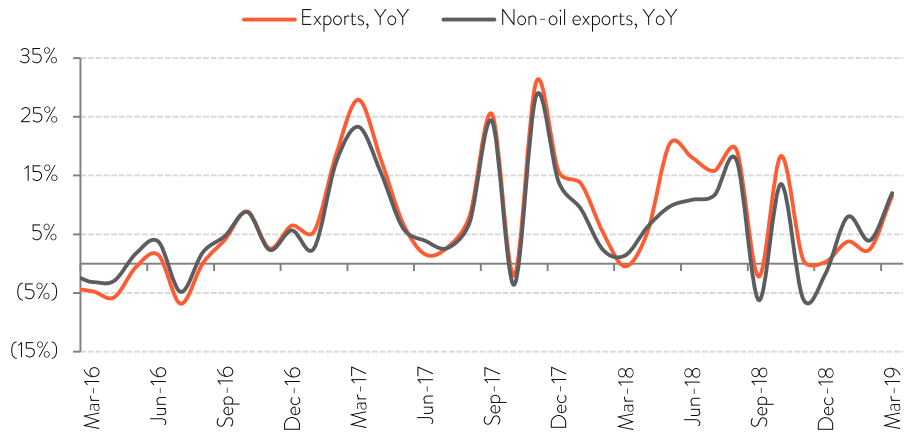
CAD/ GDP to remain stable: India's FY19 trade deficit widened to US\$ 176.4bn from US\$ 162bn in FY18 led by higher oil imports as average oil price during the year increased by 23%. On the other hand, non-oil-non-gold imports softened. While monsoon forecast is near-normal for now, actual rains are typically lower. Hence, India's trade deficit is likely to increase by 7% in FY20 resulting in a CAD/ GDP ratio which is similar to FY19.

KEY HIGHLIGHTS

- Exports increased by 11% in Mar'19 from 2.4% in Feb'19. For FY19 exports increased by 9%.
- Imports increased by 1.4% in Mar'19 from (-) 4.2% in Feb'19. For FY19 imports increased by 9%.
- Trade deficit increased to US\$ 10.9bn in Mar'19 from US\$ 9.6bn in Feb'19.

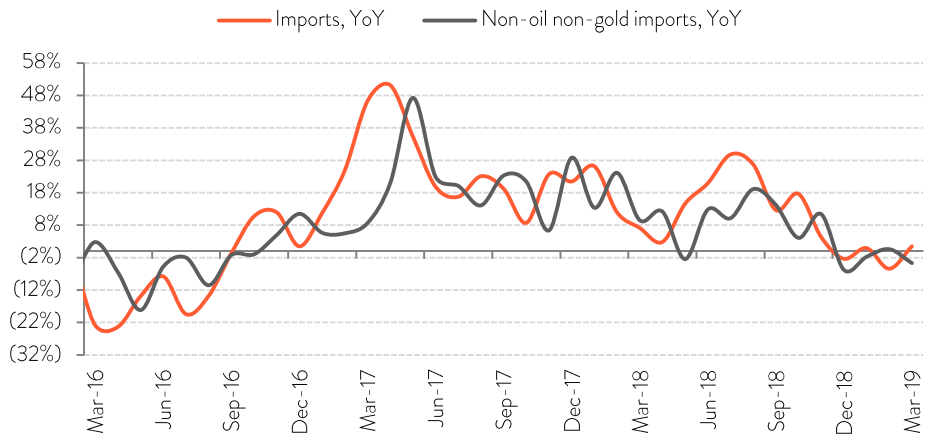


FIG 1 – EXPORT GROWTH PICKS UP



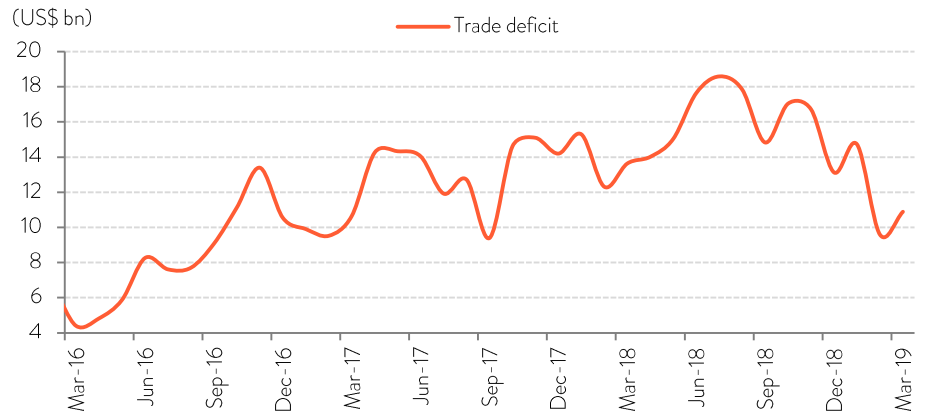
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS MOVE UP MARGINALLY



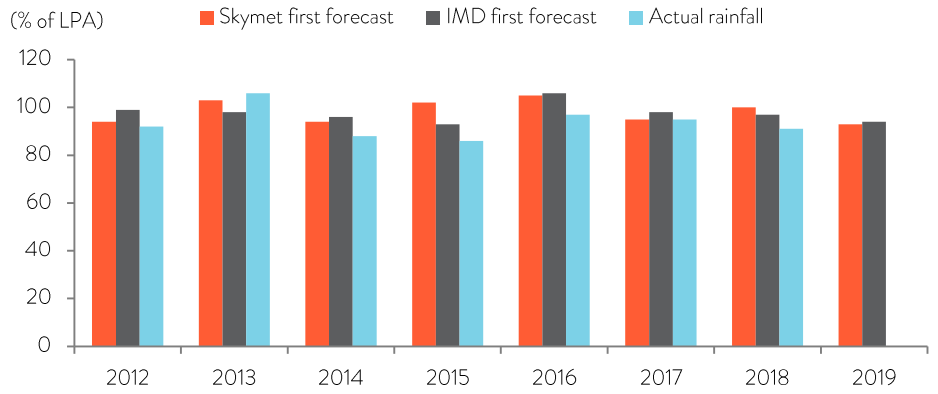
Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT WIDENS



Source: CEIC, Bank of Baroda Research

FIG 4 – ACTUAL LOWER THAN FORECAST



Source: IMD, Bank of Baroda Research

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