TRADE

15 March 2019

Trade deficit narrows to a 17-month low

India's trade deficit narrowed sharply to US$ 9.6bn in Feb'19 from US$ 14.7bn in Jan'19 led by decline in imports. Both oil and non-oil-non-gold imports decelerated. The dip in non-oil-non-gold imports is symptomatic of a slowing domestic economy. Exports have also seen a moderation, but have maintained a positive growth trajectory. With CAD at US$ 64.5bn and rising FII inflows, we believe INR is likely to benefit from the above backdrop. The slowing economy should also give RBI room to ease further in Apr'19.

Sameer Narang
+91 22 6698 5713
chief.economist@bankofbaroda.com

Aditi Gupta
aditi.gupta3@bankofbaroda.com

Sonal Badhan
sonal.badhan@bankofbaroda.com

Exports continue to decelerate: Export growth eased marginally to 2.4% in Feb'19 vs 3.7% in Jan'19 led by (-) 7.7% decline in oil exports. Non-oil exports rose by 3.9% in Feb'19 vs 8% in Jan'19. This was led by gems & jewellery at (-) 2.1% vs +6.7% in Jan'19, chemicals at 4.1% vs 15.6% and textiles at 3.8% vs 7.1%. A similar deceleration is visible in FYTD19 with exports increasing at 9% vs 11% in FYTD18. The easing is more visible in H2FY19 with exports increasing at only 4.7% vs 12.1% in H2FY18. The decline in export growth is more pronounced in exports to Asia (ex-China), followed by Europe & Americas.

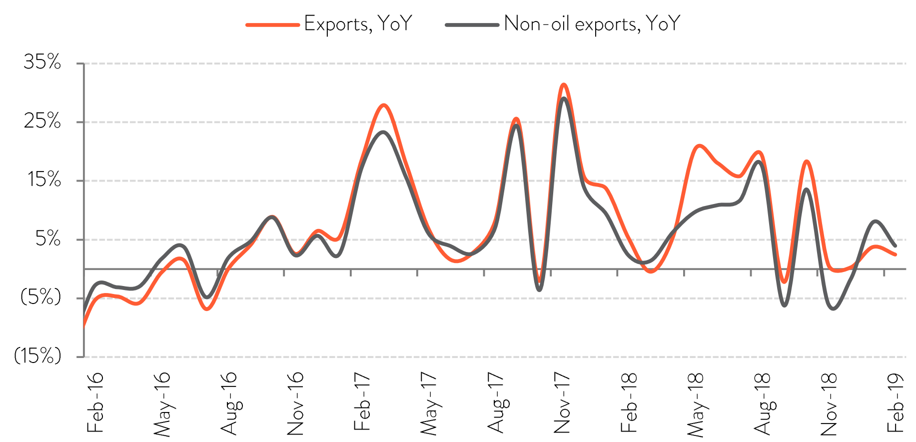
Imports decline sharply: India's imports fell by (-) 5.4%, a 30-month low, in Feb'19 led by lower imports of pearls and precious metals (-17.5% in Feb'19), gold (-10.8%), and oil (-8%). Even, non-oil-non-gold imports fell by (-) 3.7% in Feb'19 vs +0.9% in Jan'19. The decline was led by electronic goods at (-) 6.5%, capital goods at (-) 4.5% and agri products at (-) 15% in Feb'19. As is the case with exports, the decline in non-oil-non-gold imports is more visible in H2FY19 at 0.1% vs 9.7% in H1FY19 suggesting a slowdown in domestic economy.

CAD at 2.4% of GDP in FY19: India's trade deficit narrowed to a 17-month low at US$ 9.6bn in Feb'19 vs US$ 14.7bn in Jan'19 and US$ 12.3bn in Feb'18. For FYTD19, trade deficit is at US$ 169.1bn vs US$ 148.2bn in FYTD18. Oil imports have declined by (-) 5.8% in Jan-Feb'19 vs an average growth of 44.7% between Apr-Dec'18. With oil prices remaining at current levels, we estimate CAD at (-) US$ 64.5bn in FY19 (2.4% of GDP). With a healthy pickup in FII inflows recently (US$ 3.2bn in CYTD19), INR is likely to sustain its current rally. Uncertainty around general elections and global outlook remain key risks.

KEY HIGHLIGHTS

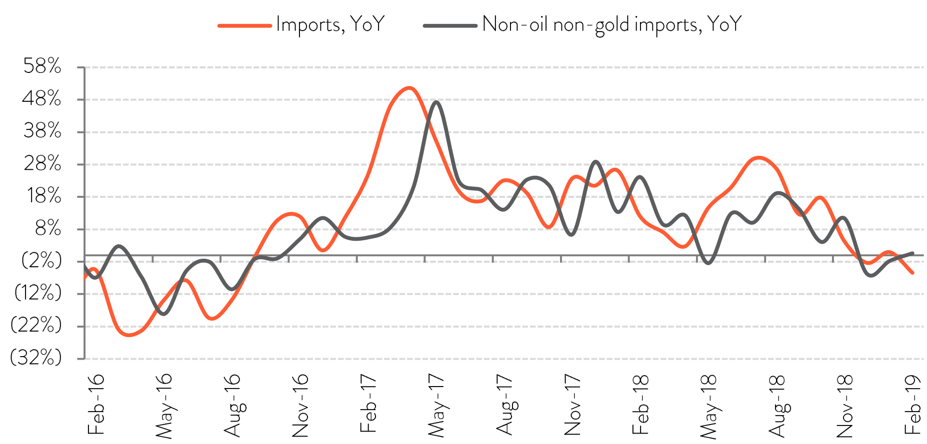
- Exports growth decelerates to 2.4% in Feb'19 from 3.7% in Jan'19.
- Import growth declined sharply to (-) 5.4% in Feb'19 from 0.9% in Jan'19.
- Trade deficit narrows to US$ 9.6bn from US$ 14.7bn in Jan'19.

FIG 1 – EXPORT GROWTH SLIPS IN FEB'19



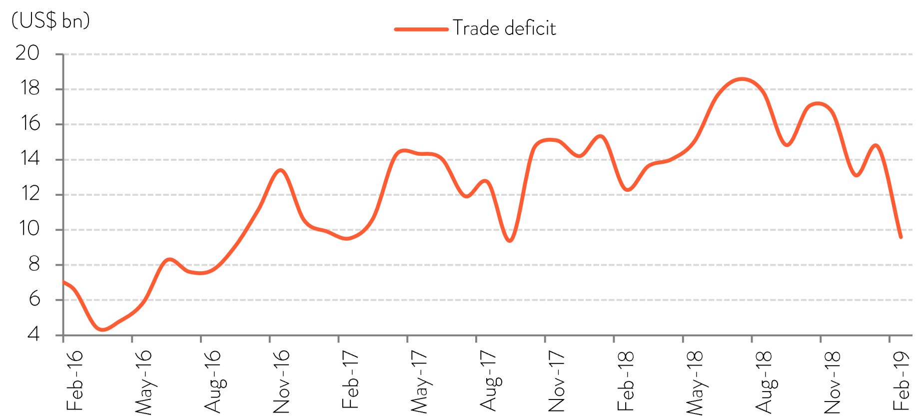
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS DECELERATING SHARPLY



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT LOWEST SINCE SEP'17



Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com