

TRADE AND GOVERNMENT STIMULUS MEASURES

15 May 2020

Exports plunge by 60.3%, FM announces agri stimulus

The FM today announced third tranche of 10% stimulus focused on agri sector. Agri infra got a big boost with an allocation of Rs 1tn. Notably, FM also announced reforms for kick-starting investments in agri supply chains. At the same time, exports and imports have plunged by 60.3% and 58.6%. Both are expected to remain muted as global and domestic demand have been impacted by lockdowns. Notably, lower oil prices are a big positive for India and make us believe that INR should revert back to 73/\$ by Mar'21.

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Exports plunge sharply: Exports fell further in Apr'20 by 60.3% versus 34.6% decline in Mar'20. Apart from domestic lockdown, sharp reduction in global demand also contributed to the decline. The sharpest decline was seen in gems & jewellery (98.6%), textiles (87.5%) and engineering goods (64.8%). Pharma exports were flat. With global demand faltering and recession foreseen, exports will remain muted in the near-term.

Imports too decline: Imports fell to the lowest on record at US\$ 17.1bn in Apr'20 (decline of 58.6%) versus US\$ 31.2bn in Mar'20. Oil imports fell by 59.1% due to lower oil prices and decline in volumes. Non-oil-non-gold imports plummeted by 53.6% due to lockdown restrictions. The decline was led by pearls and precious stones (99.9%), electronics (62.7%) and capital goods (50.3%). Lower oil prices imply imports too are expected to remain subdued.

Current account surplus in FY21: India's trade deficit narrowed to a 4-year low of US\$ 6.8bn in Apr'20 versus US\$ 9.8bn in Mar'20. We expect a current account surplus in FY21 because of which we believe INR should revert to 73/\$ by the end of the financial year.

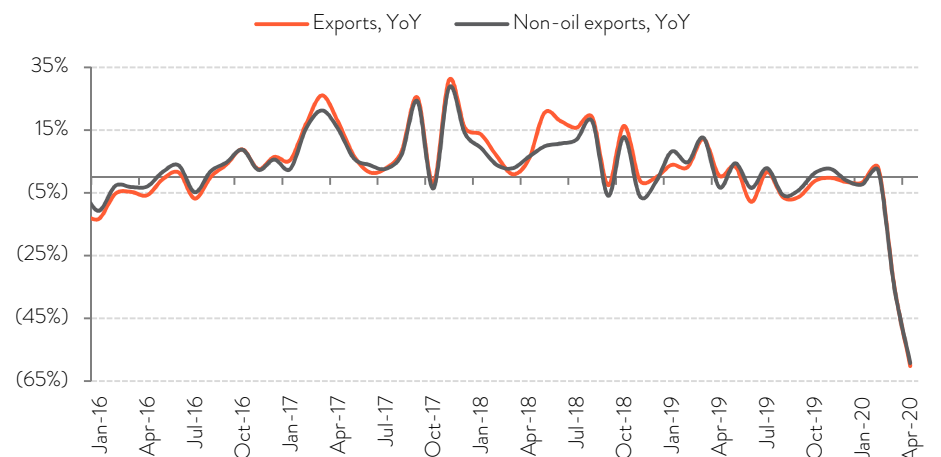
Tranche 3 dedicated to agri sector: Government today announced stimulus measures worth Rs 1.55tn focusing on agri sector. Total stimulus now stands at Rs 17.75tn (8.9% of GDP). Agri infra got a big boost today with an allocation of Rs 1tn. This will go a long way in improving agri productivity as we have seen in dairy sector. Apart from this, fisheries: Rs 200bn and animal husbandry: Rs 150bn have received additional amount to boost employment and exports. FM also announced a set of measures to remove structural rigidities such as change in Essential Commodities Act and inter-state barriers. This will allow more investment in supply chain in the farm sector.

KEY HIGHLIGHTS

- Exports and imports contract sharply in Apr'20 amidst lockdown restrictions.
- Trade deficit contracts, likely to remain subdued in FY21.
- Government announces third tranche of stimulus measures focussing on agriculture and allied activities.

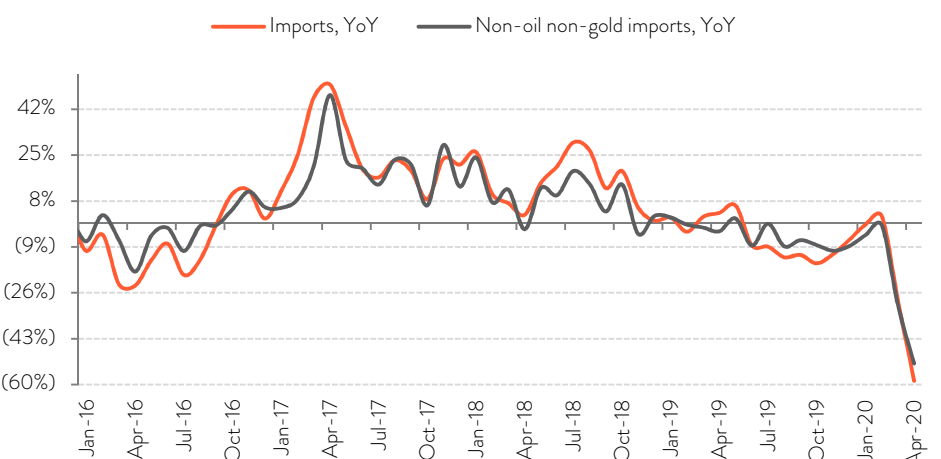


FIG 1 – EXPORT GROWTH DIVES FURTHER



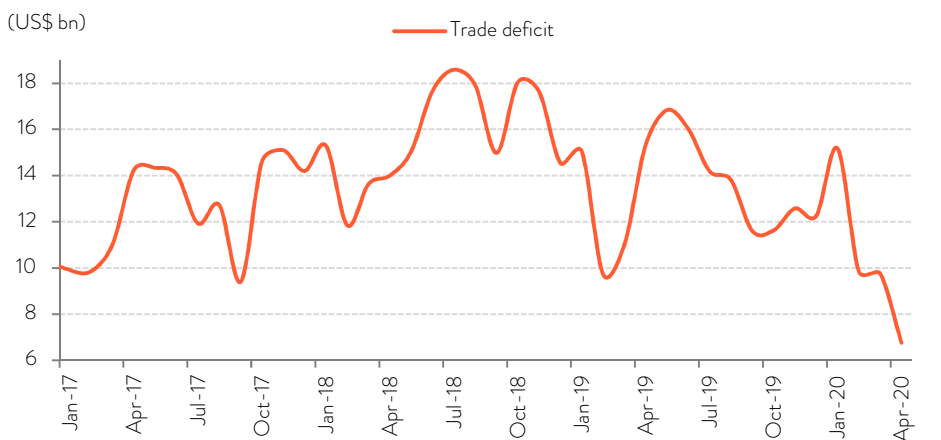
Source: CEIC, Bank of Baroda Research

FIG 2 – SIMILAR TREND VISIBLE IN IMPORTS



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS TO A 4-YEAR LOW IN APR'20



Source: CEIC, Bank of Baroda Research

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