

Macroeconomics | **FIRST CUT**

Imports widen trade deficit

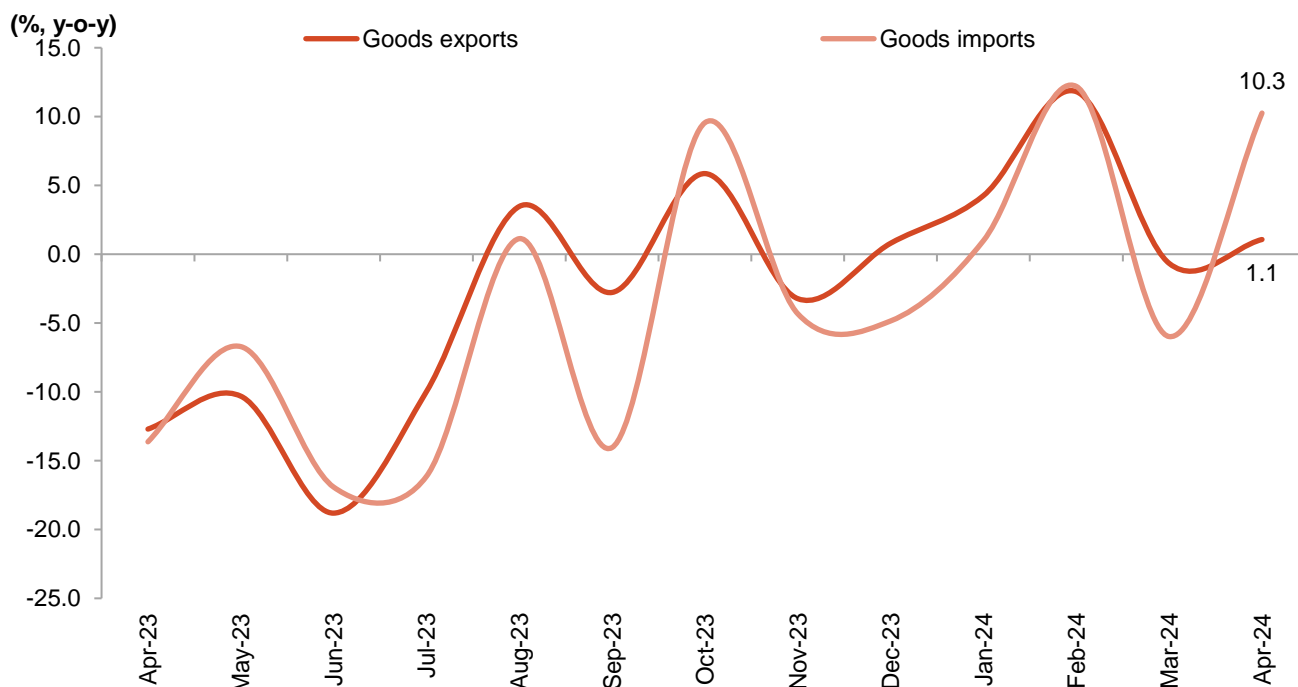
May 2024

Exports stable, imports surge

India's exports in April recorded positive growth in the face of the ongoing disruptions in global trade routes and uneven global growth. Imports, meanwhile, saw steeper growth, leading to a wider trade deficit.

Merchandise exports grew 1.1% on-year (\$34.99 bn v \$34.62 bn in April last year), after registering a mild contraction (-0.7%) previous month. Merchandise imports grew 10.3% on-year to \$54.09 bn from \$49.06 bn in April last year.

Merchandise imports surge in April



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Lower gems and jewellery shipments were a drag on the exports growth. Meanwhile, core exports stayed positive but slowed to 1.3% on-year compared with 9.1% in March.

High growth in merchandise imports was a result of surge in both oil and gems & jewellery imports while core import growth remained softer. Notably, during the month prices of crude oil and gold rose sharply — both, on-year and on-month.

Oil prices rose to \$90.1/bbl from \$85.4/bbl in March, contributing to the imports growth. Meanwhile, gold prices rose to \$2,331/troy oz from \$2,158/troy oz. Gold imports doubled to \$3.1 bn from \$1.5 bn last month.

Merchandise trade deficit, therefore, widened to \$19.1 billion from \$15.6 billion in March and \$14.4 billion in April last year.

In March, India's services exports declined 1.4% on-year¹, while imports softened to 2.1%. As a result, the services trade surplus was largely stable at \$13.42 billion as against \$13.48 billion a year ago. Overall, services exports have been growing well and the country is now the fourth largest exporter of digitally delivered services, after the US, UK and Ireland. The country now accounts for more than a fifth of international trade in services. In 2023, its digitally delivered services exports stood at \$257 billion, up 17% on-year (Global Trade Outlook, WTO).

Data highlights

- Among sectors that saw positive exports growth were drugs and pharmaceuticals (7.4% on-year in April vs 12.7% on-year in March), organic and inorganic chemicals (16.7% vs 39.7%) and petroleum products (3.1% v -35.4%). Meanwhile, the sectors that saw a decline included engineering goods (-3.2% v 10.7%), gems and jewellery (-6.9% v -4.6%), readymade garments (-1% v 1.7%) and ceramic products and glassware (-6.5% v 0.2%)
- Electronic goods exports jumped 25.8% compared with 23.1% last month fuelled by the Production Linked Incentive scheme (PLI) and Make in India campaign
- The sectors that saw slower exports growth were cotton, yarn, fabrics, made-ups, handloom products and others (6.6% vs 6.8%), handicrafts (2.4% vs 128.4%), carpets (5.6% vs 16.2%) and plastic and linoleum (3% vs 11.2%) — all of them labour-intensive sectors
- In March, agricultural exports saw slower sequential growth. To perk them up, the government plans to increase exports of 20 items, including bananas, mangoes, potatoes and baby corn, that have significant growth potential in the global markets
- Items that saw negative growth were fruits and vegetables (-6.8% vs 2.9%), cashew (-17.6% vs -11.7%), oil meals (-32.9% vs -45.2%), oil seeds (-17.2% vs -23.3%) and rice (-4.8% vs -2.9%)
- Oil imports were strong, growing 20.1% on-year to \$16.46 billion in April from \$13.7 billion in April last year
- Imports of gold spiked 209% on-year in April. Silver imports were positive, but slower than previous month (18.8% vs 1058.8%), while those of pearls, precious and semi-precious stones continued to decline (-21.1% vs -17.7%)
- Core imports (non-oil and non-gold) picked up — 1.8% on-year compared with -3.6% on-year growth in March
- Imports of industrial² products such as machine tools grew 21.5% (vs 13.4%). Coal, coke and briquettes (-11.7% v -6.6%) and iron and steel (-8.3% v -10.1%) were in the red.

¹ The latest services trade data released by the Reserve Bank of India is for March 2024

² Capital goods and intermediate goods required for further production.

Outlook

The near-term challenge to India's exports owing to the **geopolitical uncertainties** seems to have been limited so far but remains a key monitorable. Barring this hiccup, forecasts of better trade growth this year by key multilateral organisations is encouraging news for the exports.

The current account remains in a safe zone with robust services trade surplus and healthy remittances.

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