Macroeconomics | FIRST CUT

Imports surge widens deficit

June 2024

Both exports and imports rise in May

India's merchandise exports grew at a faster pace in May to $38.1 billion, rising 9.1% on-year versus 1.1% in April. Growth was broad-based, with both oil and non-oil exports lending hand. This appears to be in sync with the World Trade Organization's latest global trade outlook, which indicated a cyclical recovery in goods trade volume this year. Country-wise data, available for April, suggests an improvement in exports to India's top export destinations, such as the US, Europe and the UAE.

However, it is also important to note that prices of global commodities, both energy as well as non-energy, are higher on-year and could be partly responsible for the rise in the value of exports in the US dollar terms.

Like exports, merchandise imports grew a healthy 7.7% on-year to $61.2 billion, the highest import value in the past seven months. While the rise in imports was largely due to oil, core imports, i.e., non-oil and non-gold[1] imports, also displayed some improvement. Interestingly, oil imports were up sequentially i.e. on-month as well in May, despite softer crude oil[2] prices ($82/bbl in May versus $90.1/bbl in April). This implies India's higher oil imports volumes.

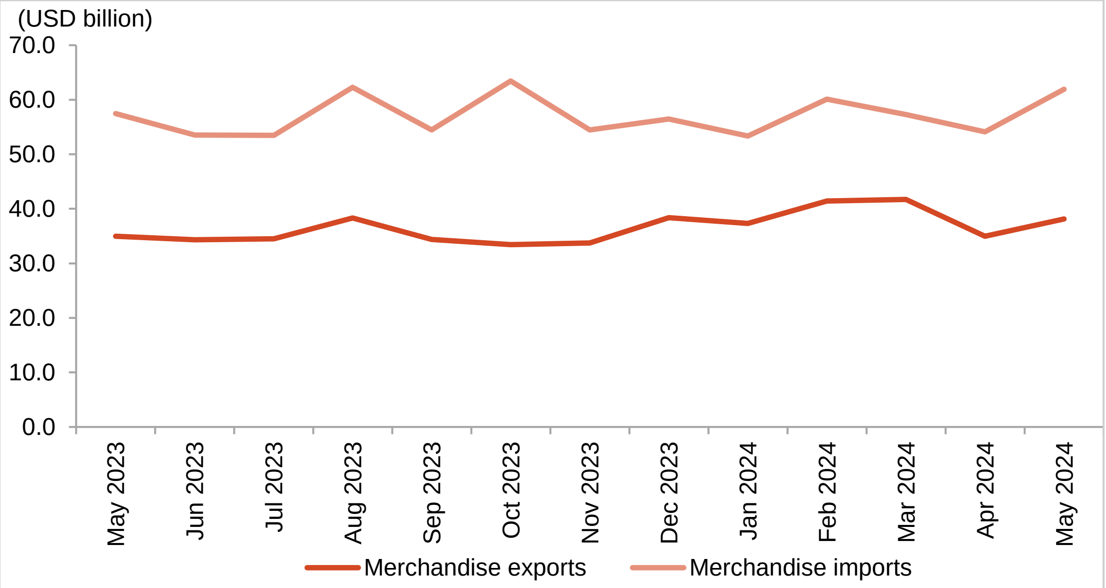
With import growth outpacing the rise in exports, merchandise trade deficit widened to $23.8 billion in May, up from $19.1 billion in the previous month and $22.5 billion in May last year.

Cumulative merchandise exports rose 5.1% to $73.1 billion for the April-May period of fiscal 2025, from $69.6 billion in the year-ago period. Cumulative imports rose at a faster pace of 8.9% to $116.0 billion from $106.5 billion. As a result, trade deficit widened to $42.9 billion from $36.9 billion. With domestic growth expected to moderate this fiscal, trade deficit should be reined in going ahead.

Services exports too improved, rising 17.7% on-year to $30.3 billion in April – the latest month for which actual data is available – although helped by a low base. Likewise, services imports grew 19.1% to $16.6 billion in April. It is, however, noteworthy that sequentially services exports may be facing some headwinds, as they are stuck at ~$30 billion over the past three months. That said, lower imports mean services trade surplus remains robust.

[1] Refers to gems and jewellery
[2] Brent spot

Momentum returns in May



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Data highlights

- Petroleum exports – India's top export item – were up 15.7% to $6.8 billion, from $5.8 billion in May last year. To be sure, high growth in oil exports was partly due to a low-base effect.
- Overall, exports were supported by healthy growth in many core-goods categories. For instance, engineering goods exports were up 7.4% on-year to $10.0 billion in May. In terms of growth, electronics goods maintained their lead, rising 23.0% to $2.9 billion. Drugs and Pharmaceuticals exports rose 10.5% to $2.3 billion.
- Some improvement was visible in labour-intensive exports too, for which developed nations of the US and Europe are major buyers. For instance, in textiles, readymade garment (RMG) exports grew a healthy 9.8% on-year in May, following a 1% contraction in the previous month. Raw textile and other textile products, such as carets and handloom products, also registered positive growth. Plastic and linoleum exports performed well (up 16.6%). It remains to be seen whether this momentum in labour intensive exports sustains.
- That said, two of the labour-intensive export categories, gems and jewellery as well as leather products remained in the red, with exports contracting on year.
- In agriculture, exports of spices, which had seen healthy growth in past many months, tanked 20.3% on-year in May, a likely reflection of the adverse impact of the reports that pesticides were found in some popular Indian spice brands.
- Growth in imports continued to be led by oil imports, which rose 28.1% on-year to $19.9 billion in May, a reflection of both higher prices and increased import volume over last year. Other key categories that led to a higher import bill were transport equipment, i.e., auto components (up 31.9% to $3 billion), and electronic items (up 6.7% to $7.1 billion).

Outlook

The fiscal year seems to have started on a good note, with merchandise exports registering positive growth in the first two months. The recent healthy export momentum and key multilateral organisations' forecasts of better on-year trade growth are encouraging. The government's increased focus on foreign-trade agreements (FTA) should also help.

That said, import growth so far has been at a faster pace than exports, pushing up the trade deficit. This will remain a key monitorable, especially since the US has announced tariff hikes on Chinese imports, which could potentially lead to some dumping by China in the larger Asian market, including India.

However, the expected moderation in domestic growth should keep a tab on the import growth and, thereby, trade deficit. At the same time, the surplus in services trade and robust remittances flow suggest, the current account is expected to remain in a safe zone.

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