

## TRADE

15 April 2020

**Trade contraction shows impact of lockdown**

**India's trade deficit remained steady at US\$ 9.8bn in Mar'20 on a MoM basis. Both exports and imports came off sharply showing the impact of lockdowns. Notably, non-oil-non-gold imports fell steeply by 30.5%, posting the worst decline on record. Exports too fell across categories. Oil exports were lower due to sharp decline in prices. However, lower oil prices also imply that CAD as % of GDP will moderate further in FY21. This bodes well for INR.**

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**Exports nosedive:** Exports fell steeply in Mar'20 by 34.6% versus an increase of 2.9% in Feb'20. During FY20 exports have contracted by 4.8% from an increase of 8.7% in FY20. In Mar'20, apart from domestic lockdown, sharp reduction in global demand also contributed to the decline. The sharpest decline was seen in engineering goods at 42.3% followed by gems & jewellery at 41% and chemicals falling by 32.9%. Oil exports too fell by 31.1% versus an increase of 10.1% in Feb'20. With countries across the world, including India, imposing lockdowns, we expect exports to remain muted in the near term due to both demand and supply conditions.

**Imports fall steeply as well:** Imports too plunged by 28.7% in Mar'20 versus an increase of 2.5% in Feb'20. Oil imports led the fall at 15% compared with an increase of 14.3% in Feb'20 as oil prices crashed by 49.7% in Mar'20 on a YoY basis. After showing a pickup in Jan-Feb'20, non-oil-non-gold imports fell by 30.5% registering the biggest decline on record as the COVID-19 restrictions kicked-in. Within this, imports of pearls and precious stones fell the most at 53.5%, followed by iron and steel at 45.8% and electronics at 29.1%. Capital goods imports too fell by 20% versus an increase of 7.6% in Feb'20.

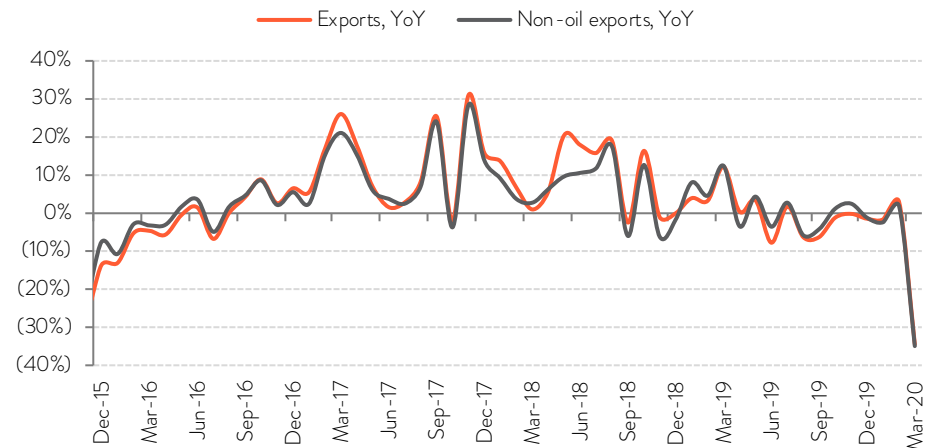
**Trade deficit to remain contained:** India's trade deficit remained stable at US\$ 9.8bn in Mar'20 (US\$ 9.9bn in Feb'20) as both exports and imports fell by US\$ 6bn MoM. For FY20, trade deficit narrowed to US\$ 160bn from US\$ 184bn in FY19 led by a drop in both oil deficit (US\$ 4bn) and non-oil deficit (US\$ 20bn). Exports are expected to remain tepid as global growth is likely to fall by 3% (IMF). Lockdowns in India's major export partners such as EU and US will also impinge on exports. However, range-bound oil prices and weak demand will keep imports in check. Hence, we expect trade deficit to be even lower in FY21. This should ease some pressure on INR.

**KEY HIGHLIGHTS**

- Exports contract by (-) 34.6% in Mar'20 compared with an increase of 2.9% in Feb'20.
- Import growth also slips to (-) 28.7% in Mar'20 versus an increase of 2.5% in Feb'20.
- Trade deficit remained stable at US\$ 9.8bn versus US\$ 9.9bn in Feb'20.

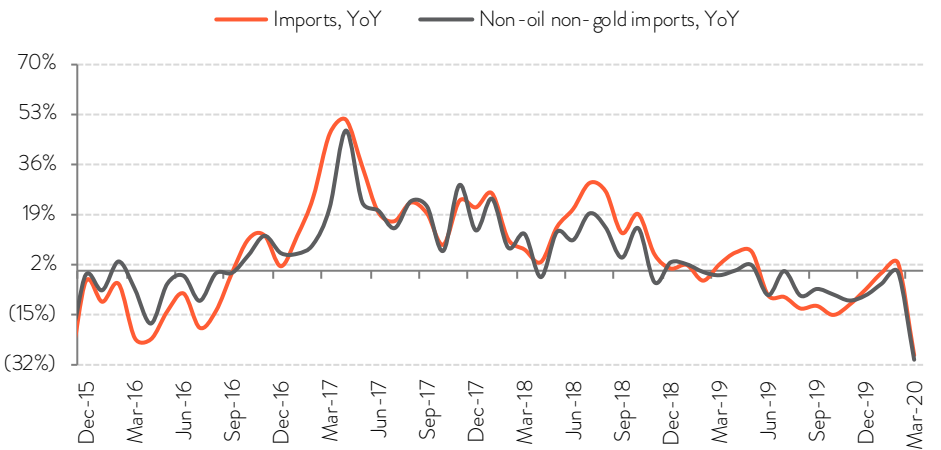


**FIG 1 – EXPORT GROWTH NOSEDIVES**



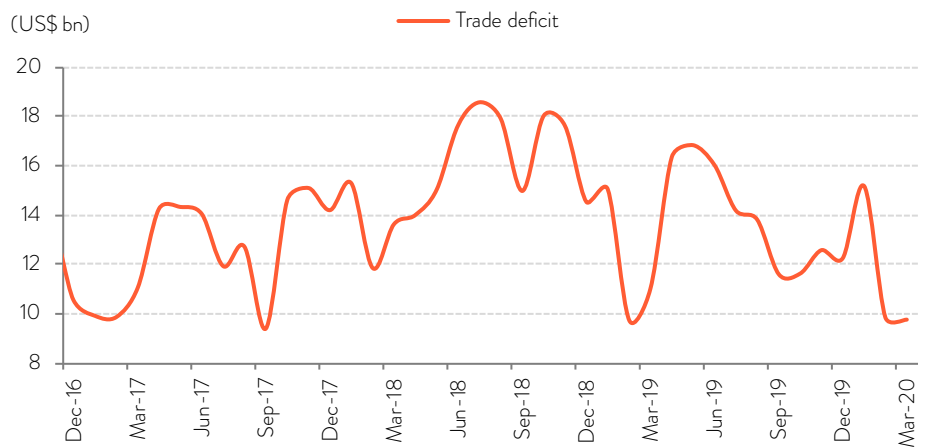
Source: CEIC, Bank of Baroda Research

**FIG 2 – SIMILAR TREN VISIBLE IN IMPORTS**



Source: CEIC, Bank of Baroda Research

**FIG 3 – TRADE DEFICIT REMAINS STABLE IN MAR'20**



Source: CEIC, Bank of Baroda Research

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