

TRADE

02 February 2021

Exports recover, non-oil-non-gold imports stable

India's trade deficit narrowed to US\$ 14.8bn in Jan'21 from US\$ 15.4bn in Dec'20 as exports bounced back by 5.4%, led by non-oil-exports. Import growth however slowed to 2% from 7.6% in Dec'20 as oil imports fell sharply. Non-oil-non-gold imports were stable. However, capital goods imports remain weak. We expect trade deficit to increase to US\$ 165bn in FY22 from US\$ 95bn in FY21 on the back of pick-up in domestic economy. Foreign inflows—FDI and FPI—and software exports will support INR at current levels.

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Exports bounce back: Preliminary data shows that exports rebounded in Jan'21 and rose by 5.4% after a 0.1% increase seen in Dec'20. During Apr-Jan'21, exports have fallen by 13.3% (2.3% decline in FYTD20). In Jan'21, exports of engineering goods rose the most at 18.7% (0.3% in Dec'20) followed by drugs and pharma products at 16.4% (17.5% in Dec'20) and electronic goods at 16% (17% in Dec'20). Chemical exports slowed considerably to 2.5% (10.8% in Dec'20). Overall non-oil exports showed sharp improvement at 11.4% versus 5.6% in Dec'20. Oil exports fell by 37.3% (from a drop of 35.4% in Dec'20). Gems and jewelry exports declined by 1.3% (+6.7% in Dec'20).

Imports moderate: India's imports rose at a slower pace of 2% in Jan'21 compared with an increase of 7.6% in Dec'20 due to 27.7% decline in oil imports in Jan'21 when oil prices are lower by 13% (YoY). In Dec'20, oil imports fell by 10.6% when oil prices were lower by 23% (YoY). Non-oil-non-gold imports at US\$ 28.6bn increased by 7.5% in Jan'21 (US\$ 28.5bn in Dec'20, 8% increase). Capital goods import continued to remain weak as imports of project goods (62.2%) and transport equipment (25.3%) fell sharply. However, imports of pearls and precious stones (50.2%) and electronics (17%) saw the maximum increase. Gold imports rose sharply by 154.7% in Jan'21 to US\$ 4bn compared with US\$ 4.8bn in Dec'20 (increase of 81.8%).

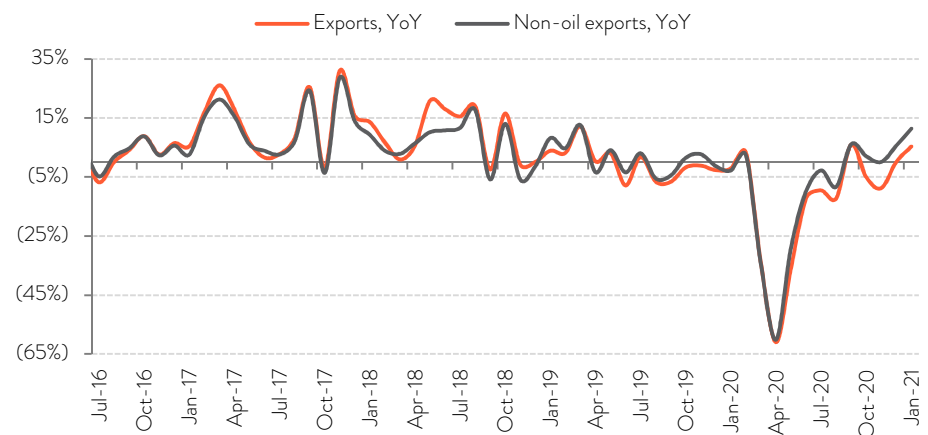
Trade deficit narrows: India's trade deficit narrowed US\$ 14.8bn in Jan'21 from an 18-month high of US\$ 15.4bn in Dec'20 as export growth outpaced imports. We expect exports to pick up further as global economy improves. Imports are also expected to inch higher as domestic activity gathers pace. As a result, trade deficit is likely to expand to US\$ 165bn compared with US\$ 95.1bn in FY21 (US\$ 157.5bn in FY20). Buoyant services and remittance receipts will make-up for the trade deficit to some extent. Apart from this, FPI and FDI inflows will also support INR at current levels.

KEY HIGHLIGHTS

- Export growth recovers to 5.4% versus 0.1% in Dec'20.
- Imports moderate to 2% in Jan'21 versus 7.6% in Dec'20.
- Trade deficit narrows to US\$ 14.8bn in Jan'21 versus US\$ 15.7bn in Dec'20.

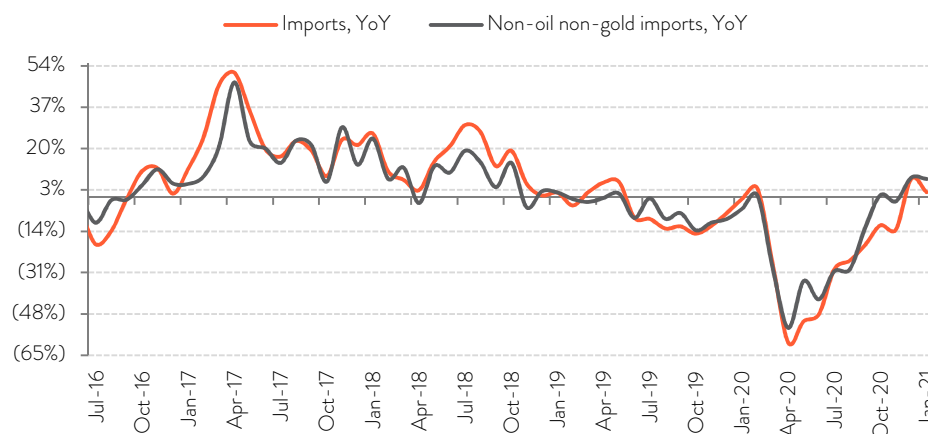


FIG 1 – EXPORTS GROWTH IMPROVES



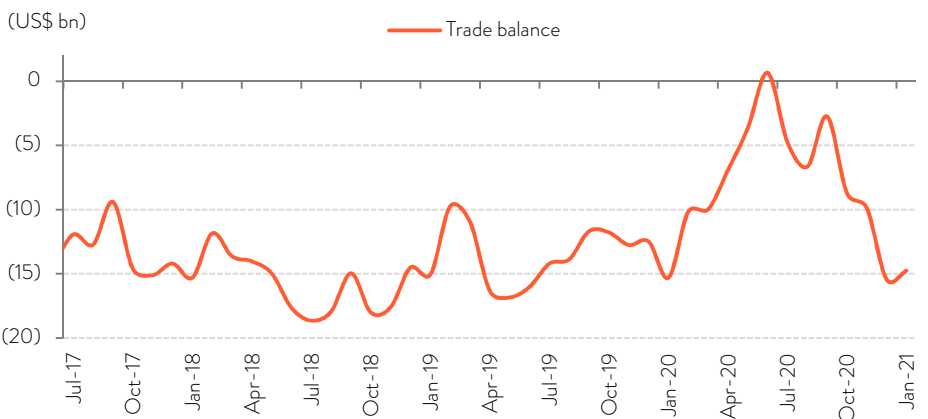
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS MODERATE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS



Source: CEIC, Bank of Baroda Research

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