

## March trade data reflects the lockdown impact; policy response imperative

Initial signs of the severity of economic shock caused by COVID-19 are visible in the March's trade figures. While the trade deficit remained broadly steady at US\$9.8bn in March, it is the sharp drop in export and import bill that shows the impact of economic damage caused by the lockdown. Exports declined by 35% YoY in March—the steepest fall in the last two decades, while imports registered a 29% YoY drop—the highest in more than four years. Trade activity has been hit by large-scale disruptions in global supply chains and demand, thereby resulting in delays and cancellations of orders. The decline in exports has been broad-based, with all major export items witnessing a 30%+ contraction. While drop in oil imports was relatively lower at 15%, non-oil imports fell by multi-decadal high of 34% YoY, partly led by 63% YoY fall in gold imports.

Trade figures are expected to be much worse in April given complete and stringent lockdown during the entire month. Except for major farm products and medical supplies that have started picking up only gradually, exports have essentially come to a halt. Meanwhile, a significant deterioration in domestic demand, particularly in discretionary items—coupled with a sharp fall in crude oil prices and supply disruptions in imported raw materials/inputs—is expected to result in a meaningful drop in India's import bill over the next several months. The World Trade Organisation expects global trade to fall between 13 to 32% in 2020. In this backdrop, it is imperative to strengthen the policy response to reduce the economic damage caused by COVID-19, particularly for MSME exporters, besides easing logistics and regulatory bottlenecks.

- **Exports declined by 35% YoY...**: After registering a modest 2.9% growth in February, exports declined by 34.6% YoY in March—the highest YoY fall in the last two decades, albeit off a high base (+11.6% YoY in March 2019) as large-scale disruptions in global supply chains as well as demand destruction caused by COVID-19 led to either delays in shipments or cancellation of orders. This led to the export bill falling by 4.9% YoY in FY20 vs. 8.7% growth in the previous year. In absolute terms, the export bill in March was the lowest in the last 40 months. The decline was largely broad-based, with all major export items, including petroleum products, engineering goods, gems & jewellery and textiles, falling more than 30%. Electronic goods exports, broke the double-digit growth streak over the last two years and declined by 21.5% YoY in March.
- **...While imports fell by 29% YoY...**: In-line with exports, imports also fell by a huge 28.7% YoY in March—the steepest decline in 52 months. On a cumulative basis, imports fell by 7.8% YoY in FY20 vs. 10.4% growth in the previous fiscal. In absolute terms, the import bill in March was the lowest in the last 43 months. While oil imports declined by a relatively lower 15% YoY in March, despite a sharp drop in crude oil prices during February-March, leading to a modest widening of oil trade deficit on a sequential basis, gold imports fell by a huge 63% YoY—the highest ever. Non-oil non-gold imports fell by 30.5% YoY—the steepest pace of decline in over 12 years, reflecting significant deterioration in domestic demand.
- **...resulting in trade deficit remaining largely steady in March**: Sharp contraction in exports as well as imports resulted in trade deficit remaining largely steady at US\$9.8bn in March—the lowest in the last 13 months, and much lower than the average monthly run rate of US\$13.3bn in FY20. This has translated into a fiscal deficit of US\$160bn in FY20 vs. US\$184bn in the previous fiscal.
- **CAD to fall to 1% of GDP in FY20**: Despite a lower trade deficit in Q4FY20, expected drop in services trade surplus as well as remittances from the Middle East countries in March is likely to result in widening of CAD in Q4FY20 from 0.2% of GDP in the previous quarter, with Balance of Payments turning into deficit amidst

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*Exports fell by 35% YoY in March—the highest decline in the last two decades.*

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*FY20 exports growth at -4.9% vs. 8.7% in FY19.*

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*Imports also fell by 29% YoY in March—the steepest pace of decline in 52 months.*

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*FY20 import growth at -7.8% vs. 10.4% in FY19.*

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*Trade deficit contracted to 13-month low in March.*

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*A 13% YoY drop in trade deficit in FY20 is likely to translate into CAD falling to 1% of GDP in FY20 vs. 2.1% in FY19.*

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huge foreign capital outflows. Forex reserves fell by US\$6bn on a MoM basis in March—the highest monthly fall in the last 17 months, even as a sharp drop in imports has significantly improved India’s import cover, thereby reducing India’s external vulnerability. Nevertheless, CAD in FY20 is expected to fall to 1% of GDP from 2.1% in FY19.

- Trade figures to worsen in April:** Trade figures are expected to be much worse in April given complete and stringent lockdown during the entire month. Except for major farm products and medical supplies that have started picking up only gradually, exports have essentially come to a halt. Meanwhile, a significant deterioration in domestic demand, particularly in discretionary items—coupled with a sharp fall in crude oil prices (-57% YoY to US\$28/bbl) and supply disruptions in imported raw materials/inputs—is expected to result in a huge drop in India’s import bill.
- Policy response imperative:** The World Trade Organisation expects global trade to fall between 13% YoY in the optimistic scenario to 32% or more if the pandemic is not brought under control and policy response is not effective enough in 2020. India’s situation is expected to be no different. In this backdrop, policy response needs to be significantly stepped up to reduce the impact of deterioration in global demand on India’s exports. While the Government has taken some steps, including the extension of foreign trade policy incentives expiring on April 1<sup>st</sup> and reviving exports of major farm products/medical supplies, a lot needs to be done to sustain export markets amid this global economic meltdown. Fiscal measures to support MSME exporters, forbearance in regulatory/procedural requirements, easy credit access, reduction in import duties and easing logistic bottlenecks, among others are some of the measures that may help alleviate the stress to some extent.

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*Trade figures are expected to worsen in April amid a complete and stringent lockdown during the entire month.*

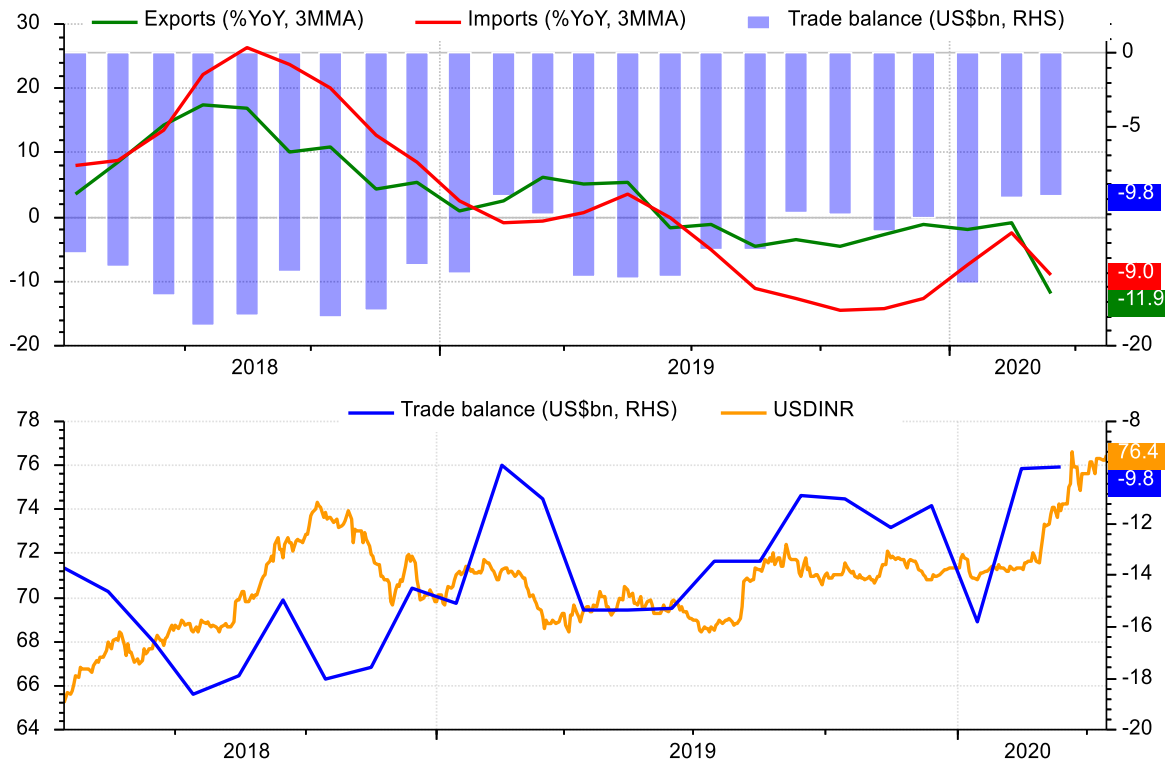
*Policy response needs to be stepped up significantly.*

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**Figure 1: India monthly trade balance for March 2020**

	Exports		Imports								Trade balance
	US\$bn	%YoY	Total (US\$ bn)	%YoY	Oil imports (US\$bn)	%YoY	Non-oil imports (US\$bn)	%YoY	Gold Import (US\$bn)	%YoY	US\$bn
Mar-20	21.4	-34.6	31.2	-28.7	10.0	-15.0	21.1	-33.8	1.2	-62.6	-9.8
Feb-20	27.6	2.9	37.5	2.5	10.8	14.3	26.7	-1.6	2.4	-8.5	-9.9
Mar-19	32.7	11.6	43.7	2.1	11.8	5.9	31.9	0.8	3.3	31.7	-11.0
FY20	314.0	-4.9	474.0	-7.8	130.4	-7.5	343.6	-7.9	28.2	-14.2	-160.0

Source: Ministry of Commerce, CMIE Economic Outlook, NSE

**Figure 2: India monthly trade balance**


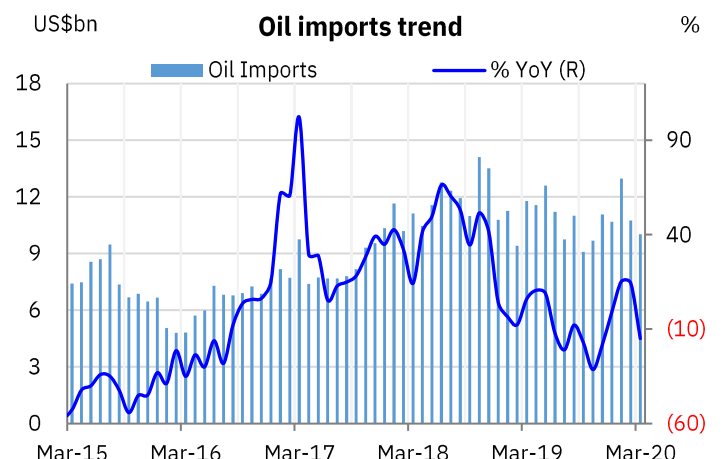
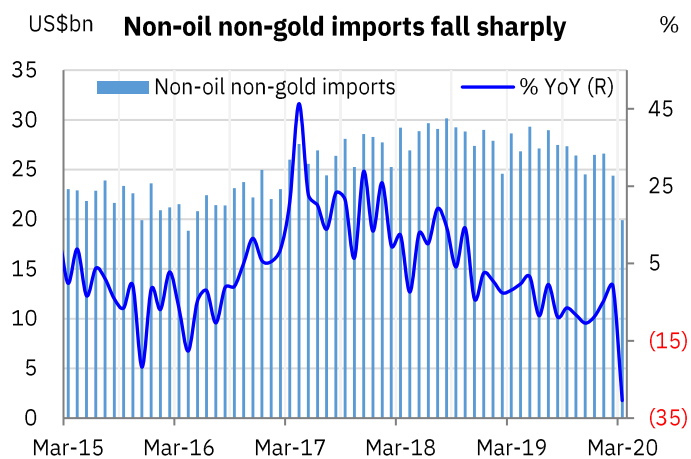
Source: Refinitiv Datastream, NSE

**Figure 3: Non-oil, non-gold imports trend**

Significant disruptions in global supply chains and deterioration in domestic demand has led to a sharp fall in non-oil non-gold imports by 30.5% in March 2020—the steepest pace of decline in over 12 years

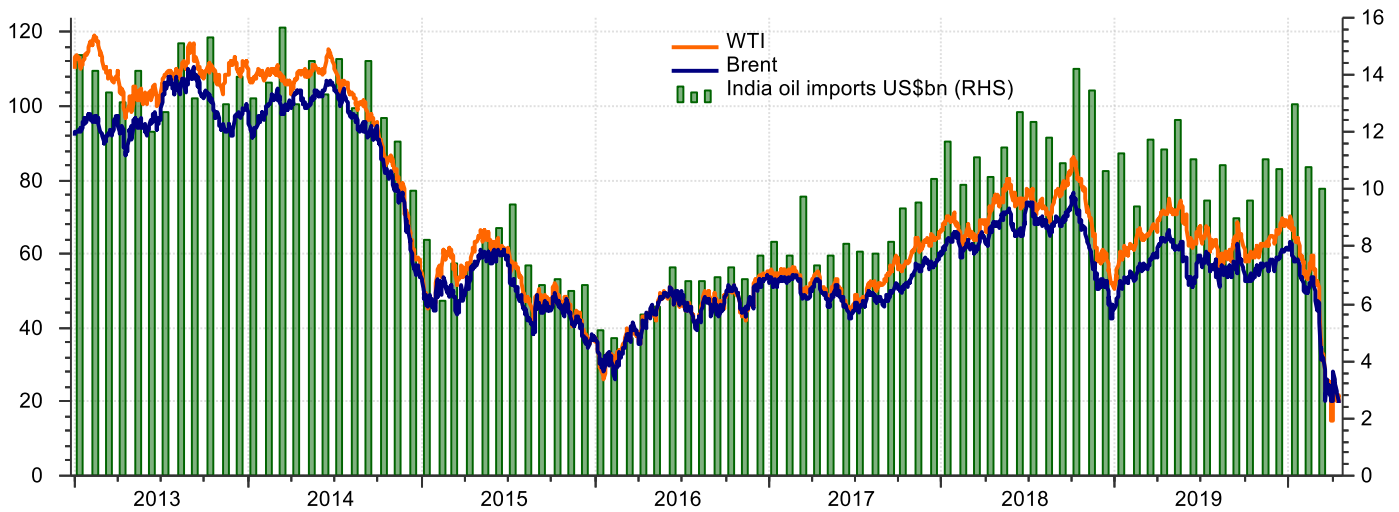
**Figure 4: Oil imports trend**

Oil imports have fallen at a relatively lower rate of 15% YoY in March despite a sharp drop in crude oil prices.



Source: Ministry of Commerce, CMIE Economic Outlook, NSE

**Figure 5: ...but should witness a severe fall in the coming months, as lower crude oil prices feed in the new orders**  
**Oil imports vs. prices (US\$)**

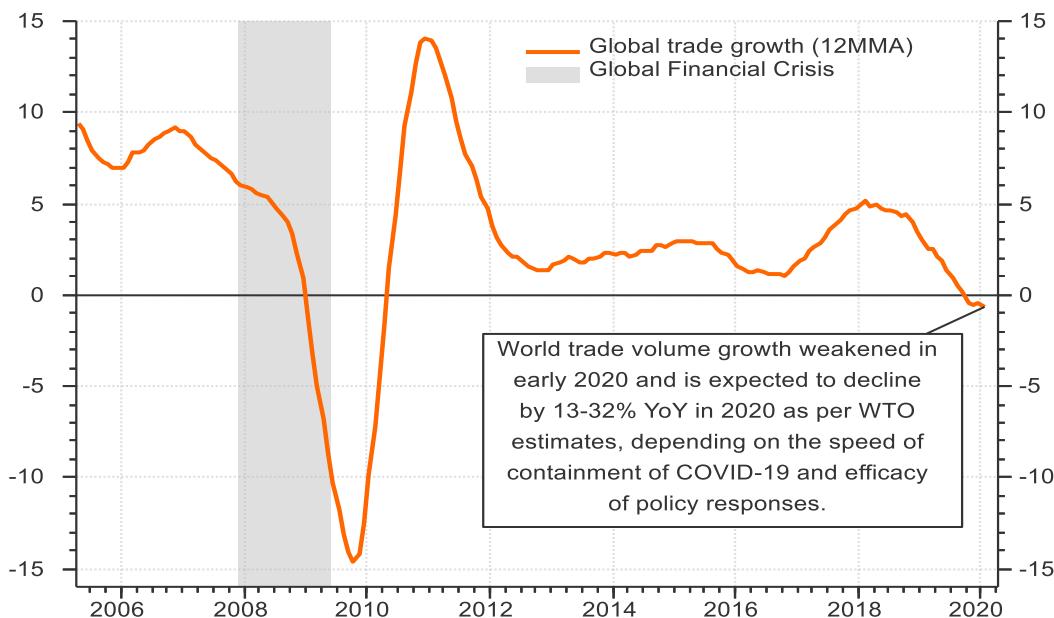


Source: Refinitiv Datastream, NSE

**Figure 6: Global trade projected to fall sharply in 2020**

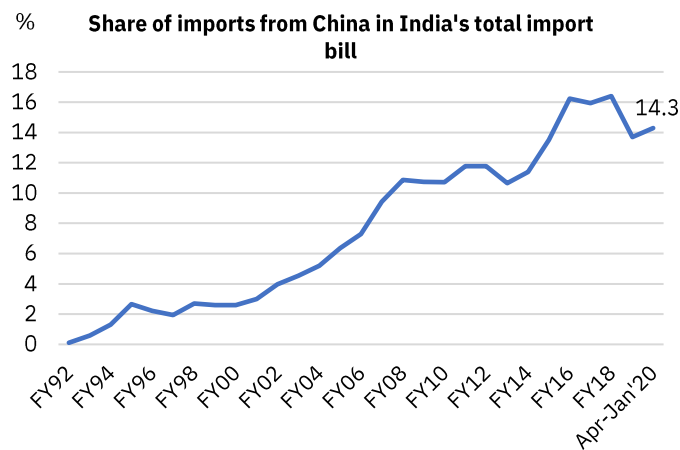
World trade volume growth weakened in early 2020, with the 12-month moving average pointing to -0.6% growth in January 2020. According to World Trade Organisation, global merchandise trade is expected to fall by 13% YoY in 2020 in the optimistic scenario and by 32% or more if the pandemic is not brought under control and policy response is not effective enough.

**Global trade growth (%YoY, 12MMA)**

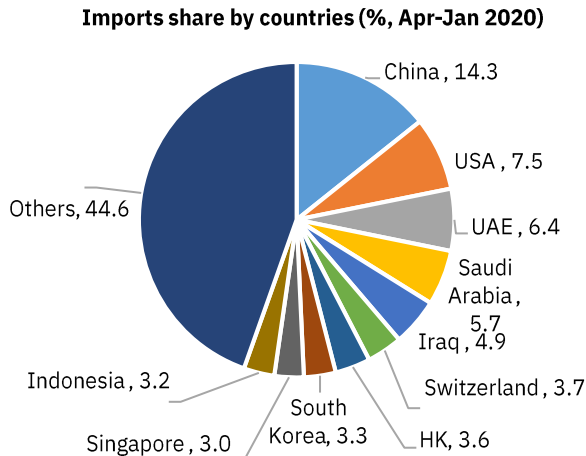
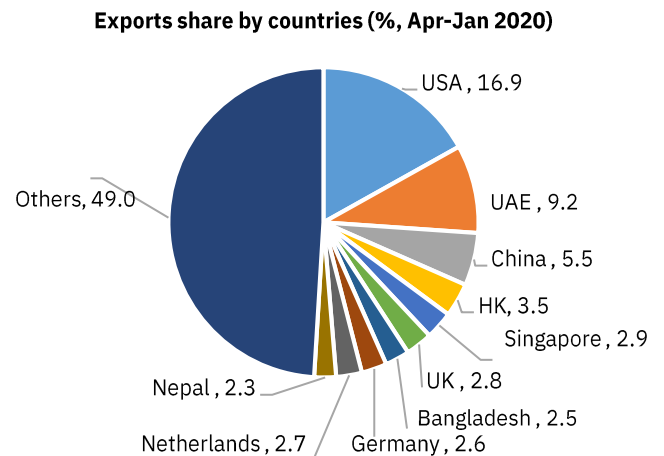


Source: Refinitiv Datasream, NSE.

India's trade is likely to get severely impacted owing to an impending global recession due to COVID-19 outbreak, and particularly more so in the near-term due to disruptions in output in China owing to shutdown of factories as well as lockdowns in major export partners including the US and Europe. While India's import dependence from China has been falling, it still remains fairly high at 14% (Apr-Jan 2020). Notably, China's share in India's overall exports has been rising over the last few years.

**Figure 7: China's share in India's total import bill**

**Figure 8: China's share in India's total export bill**

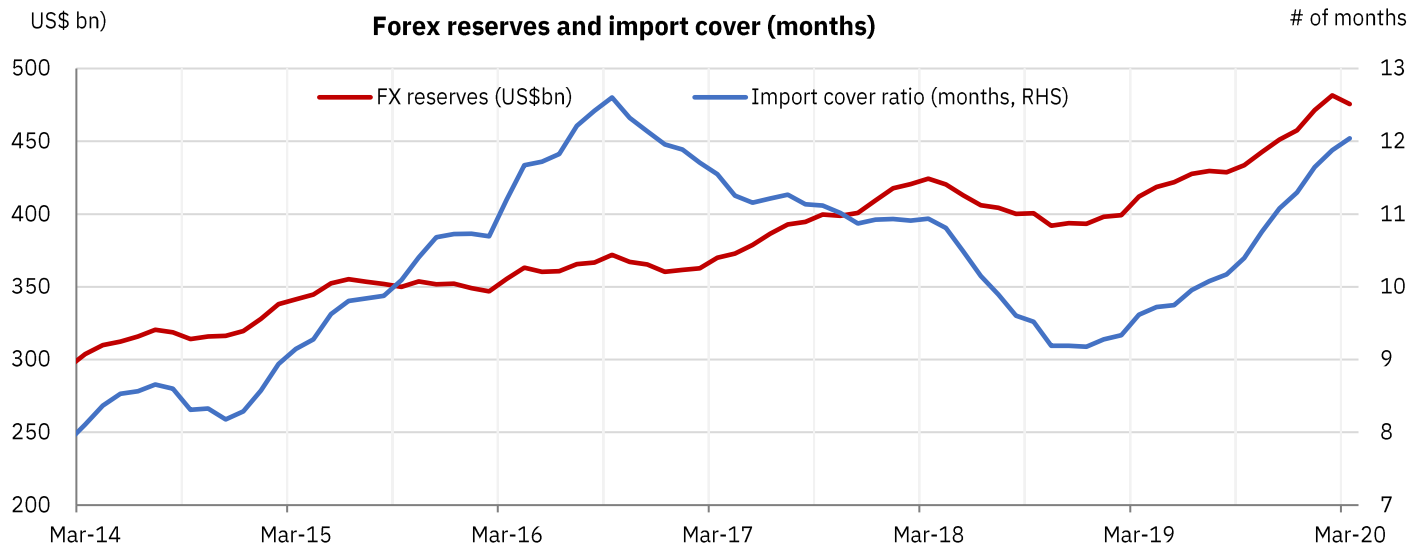

Source: CMIE Economic Outlook, NSE

**Figure 9: India imports share by countries (Apr-Jan'20)**

**Figure 10: India's exports share by countries (Apr-Jan'20)**


Source: CMIE Economic Outlook, NSE

**Figure 11: Forex reserves are near all-time high levels, leading to a comfortable import cover**

On the positive side, a sustained built up of forex reserves over the years, has resulted in a significant improvement in import cover, further supported by moderation in domestic demand. After falling to eight months in 2014, India's import cover has improved sharply to 12 months now, thereby reducing India's external vulnerability.



Source: CMIE Economic Outlook, NSE. Import cover is calculated as the ratio of forex reserves at the end of the period to average monthly imports over the last 12 months

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