

## Trade deficit widens in August on weaker exports and higher gold imports

India's merchandise trade balance widened to US\$6.8bn in August from US\$4.8bn in July 2020—in line with market expectations—led by a meaningful jump in gold imports and an unexpectedly steeper contraction in exports. The import bill rose on a sequential basis, falling 26% YoY, buoyed by gold imports, excluding which imports actually dropped 33% YoY. While a part of this drop was led by a huge decline in oil imports, non-oil non-gold imports barely recovered, recording a contraction of 29.6% YoY, reflecting persistence of a weak demand environment. India's export bill also declined by a sequentially higher 12.7% YoY led by a steep contraction in exports of petroleum products, gems & jewellery, ready-made textiles and electronic goods, partly offset by robust growth in pharmaceutical and agricultural exports.

Tight liquidity conditions, coupled with supply disruptions, continue to weigh on trade despite a gradual improvement in global demand. Nevertheless, exports should do better than imports as continued steepening of COVID-19 curve back home is expected to weigh on domestic consumption demand, with lockdown-induced job losses and decline in disposable incomes adding to the woes. This is likely to result in a significant contraction in trade deficit in FY21 (-72% YoY in 5MFY21), thereby translating into a current account surplus of ~0.5% of GDP—the first surplus in 17 years. Along with a surge in foreign exchange reserves to all-time high levels (US\$542bn as on September 4th, +US\$85bn YTD), the comfort on CAD bodes well for the INR (+2.7% YTD).

- Pace of recovery in exports moderates:** After improving over the previous three months, exports declined by a steep 12.7% YoY in August (-4% MoM). This was primarily led by a huge contraction in exports of petroleum products, gems & jewellery, ready-made textiles and electronic goods, partly offset by strong growth in exports of essential goods for yet another month, viz. agricultural commodities (rice), ores and pharmaceuticals. Tight liquidity conditions owing to delayed GST refunds, coupled with supply disruptions in the wake of sporadic lockdowns implemented by states, are weighing on exports. Excluding, petroleum products and gems & jewellery, pace of contraction in exports was much lower at 3.2% YoY. On a cumulative basis, exports fell by 26.6% YoY in FY21TD.
- Gold imports surge but rest of the basket records a significant drop:** India's import bill declined by 26% YoY in August, following an upwardly revised 29.6% YoY fall in July, translating into FYTD drop of 43.4%. The sequential improvement was primarily led by a huge surge in gold shipments—the highest in last 15 months, implying a jump of 171% YoY. Excluding gold, India's import bill shrank by 33% YoY in August, higher than 31.1% drop in the previous month. While a part of this was led by a huge decline in oil imports (-41.6% YoY), non-oil non-gold imports also barely recovered, recording a contraction of 29.6% YoY, reflecting persistence of weak consumption (electronic goods: -11.7% YoY) and investment demand (iron & steel, transport equipment and project goods and machine tools: down from 36 to 62% YoY). A steeper fall in exports and a sharp surge in gold imports led to trade deficit widening to US\$6.8bn in August from US\$4.8bn in the previous month.
- Expect current account surplus in FY21:** Despite a sequentially steeper drop in August, exports should do better than imports as continued steepening of COVID-19 curve back home is expected to weigh on domestic consumption as well as investment demand, with lockdown-induced job losses and decline in disposable incomes adding to the woes. This is likely to result in a significant contraction in trade deficit in FY21 (-72% YoY in 5MFY21), thereby translating into a current account surplus of ~0.5% of GDP—the first surplus in 17 years. This, along with a surge in foreign exchange reserves to all-time high levels (US\$542bn as on September 4th, +US\$85bn YTD), bodes well for the INR (+2.7% YTD).

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*Exports faltered in August, declining by a sequentially steeper 12.7% YoY in August.*

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*Gold imports surged by 171% YoY excluding which imports fell by 33% YoY. A huge 29.6% YoY drop in non-oil non-gold imports shows persistence of weak demand conditions.*

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*Trade balance expanded to US\$6.8bn in August.*

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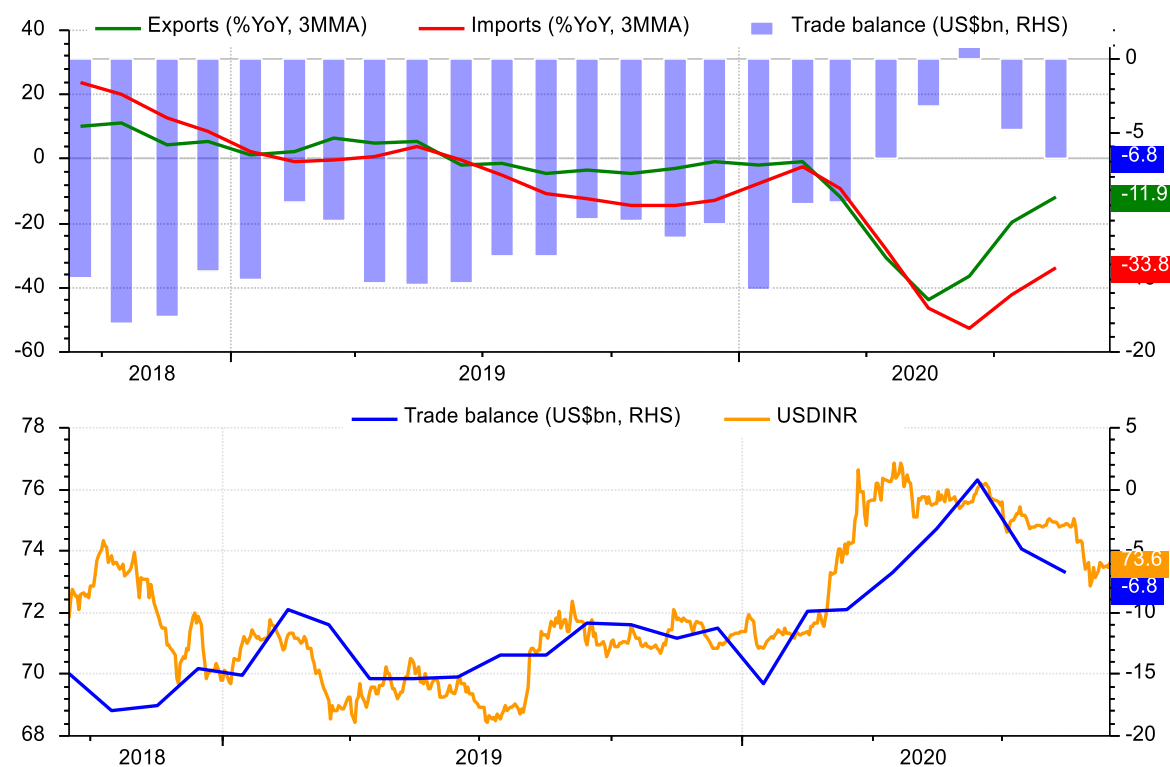
*A significant deterioration in trade deficit is likely to translate into a current account surplus of 0.5% of GDP in FY21 vs. a deficit of 0.9% of GDP in FY20.*

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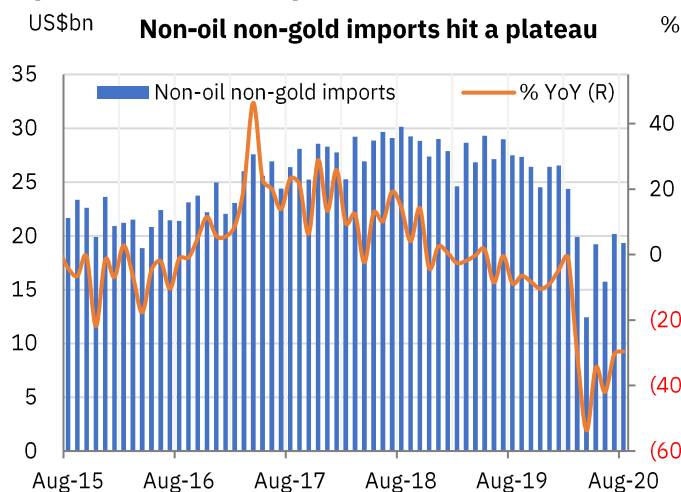
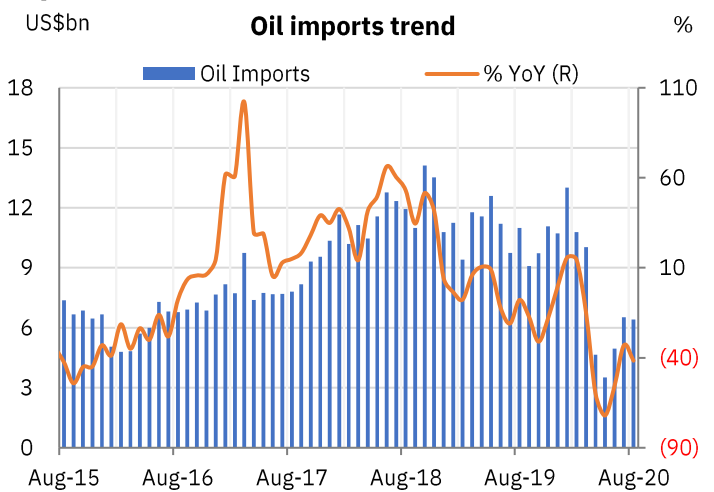
**Figure 1: India monthly trade balance for August 2020**

	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
Aug-20	22.7	-12.7	29.5	-26.0	6.4	-41.6	23.1	-20.1	3.7	171.3	-6.8
Jul-20	23.6	-9.9	28.5	-29.6	6.5	-33.0	21.9	-28.5	1.8	4.2	-4.8
Aug-19	26.0	-6.5	39.8	-12.9	11.0	-7.9	28.9	-14.6	1.4	-62.5	-13.9
FY21TD	97.7	-26.6	119.1	-43.4	26.1	-53.5	93.1	-39.7	6.2	-57.5	-21.4

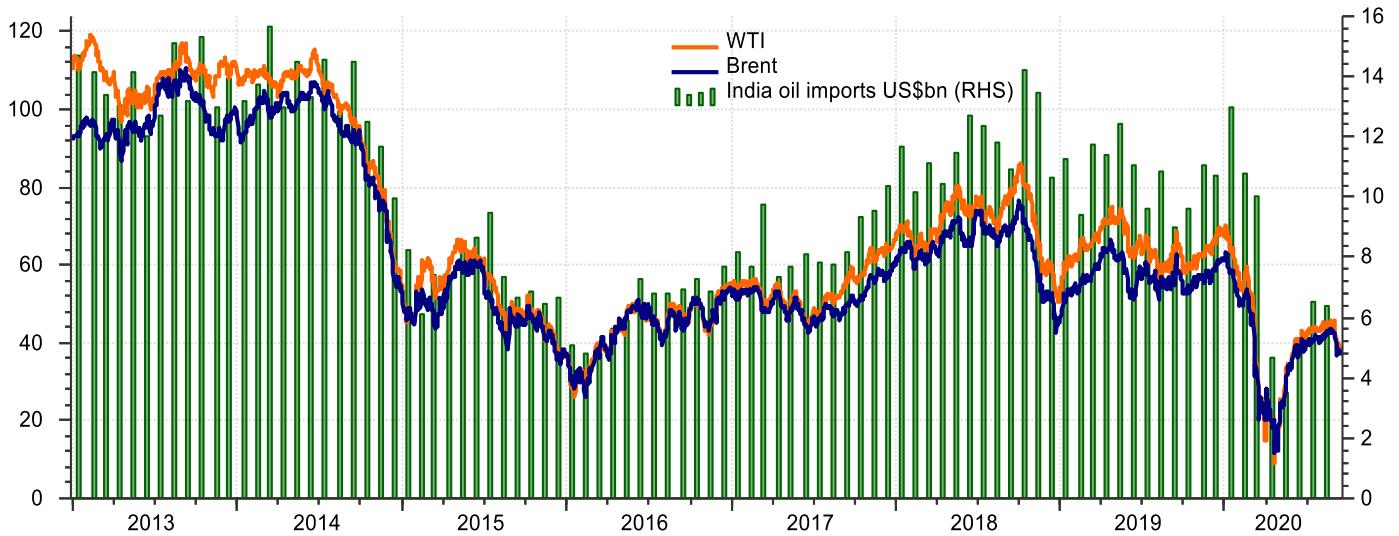
Source: Ministry of Commerce, CMIE Economic Outlook, NSE

**Figure 2: India monthly trade balance trend**


Source: Refinitiv Datastream, NSE

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

**Figure 4: Oil imports trend**


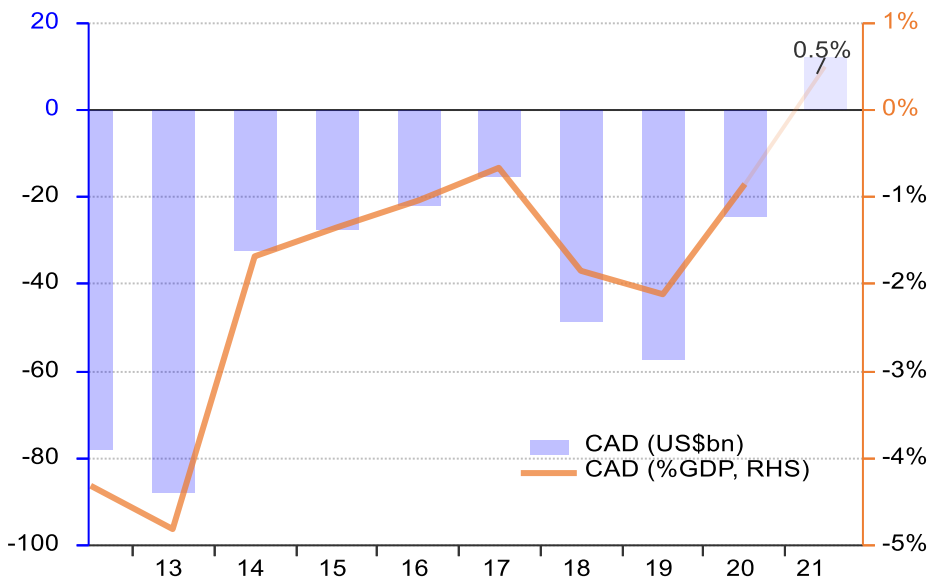
Source: Ministry of Commerce, CMIE Economic Outlook, NSE

**Figure 5: Oil imports vs. Brent crude oil prices trend**
**Oil imports vs. prices (US\$)**


Source: Refinitiv Datastream, NSE

**Figure 6: Current account balance expected to turn surplus in FY21**

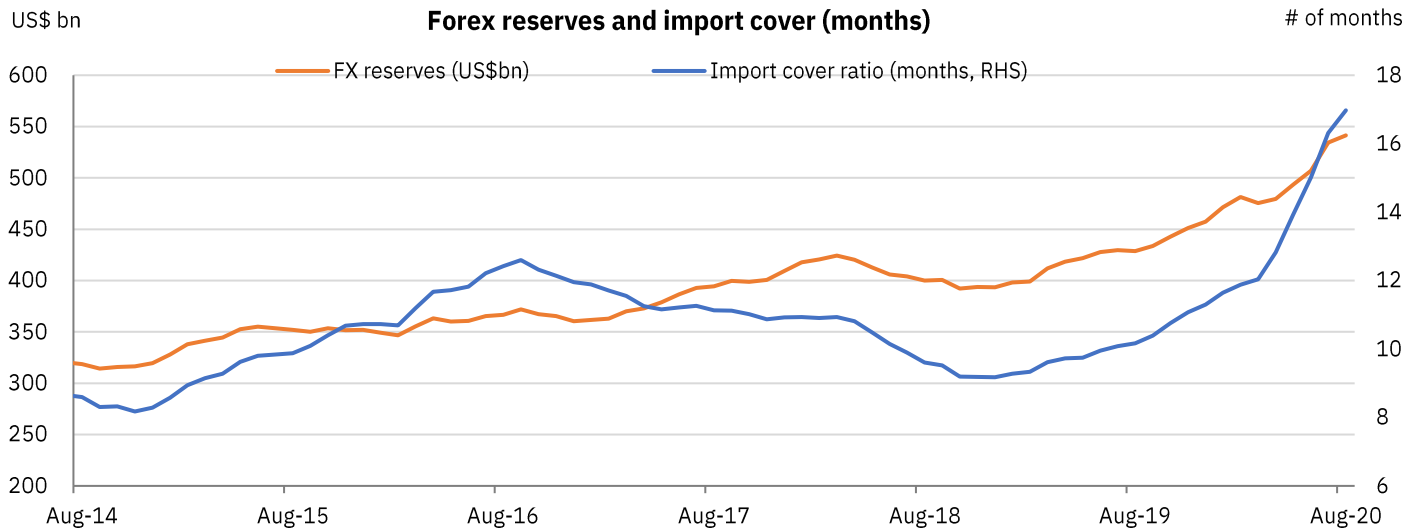
A significant contraction in trade deficit in FY21 is expected to translate into a current account surplus of 0.5% of GDP in FY21—the first surplus in 17 years, vs. a deficit of 0.9% of GDP in FY20.

**India CAD as % of GDP**


Source: Refinitiv Datastream, NSE

### Figure 7: India's foreign exchange reserves and import cover

A significant accretion to forex reserves over the years, and particularly this year (+US\$ 85bn in 2020 till date), 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 nearly 17 months now, thereby significantly 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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