India Trade: Exports remained solid while imports normalised to pre-pandemic level

- **Exports performance remained robust driven by an improving global demand. Imports normalised to the pre-pandemic level, as the economy has reopened and restrictions have eased**
- **Trade deficit widened to USD 9.4 billion, owning to a sequential uptick in the oil and gold imports, respectively**
- **Going forward, we expect export growth to remain sizeable but also see a pick-up in the imports bill. The net result will likely be a further widening in the trade deficit.**

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Exports remained strong in June moving to USD 32.5 billion, aided by a robust demand across major trading partners and registered a positive growth of 48.3% YoY amid a lower base from last year. Sequentially, exports improved slightly, supported by a strong growth in the exports of organic & inorganic chemicals (23% MoM), electronic goods (10% MoM), drugs and pharmaceutical (8% MoM), and engineering goods (7% MoM). However, improvement was not broad-based as exports of petroleum products, gems and jewellery, iron ore and RMG of all textiles contracted sequentially in June. Exports during the April-June period were at a record high for the period increasing to USD 95.39 billion. In addition to a robust global demand, the simplification of procedures, extension of timelines and licenses resulted in the record performance of exports during the quarter.

Imports rebounded sharply in June on the back of higher oil import bill. Imports grew by 8.6% MoM to USD 41.87 billion in June that in absolute terms is largely at par with the pre-covid level (USD 41.03 billion in June 2019), as economy activity is improving post the lockdowns that were imposed to combat the second-wave. Among the drivers of imports are:

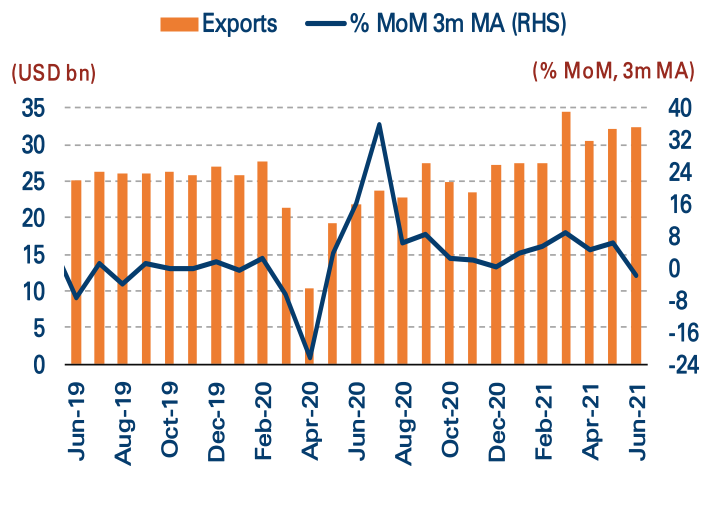
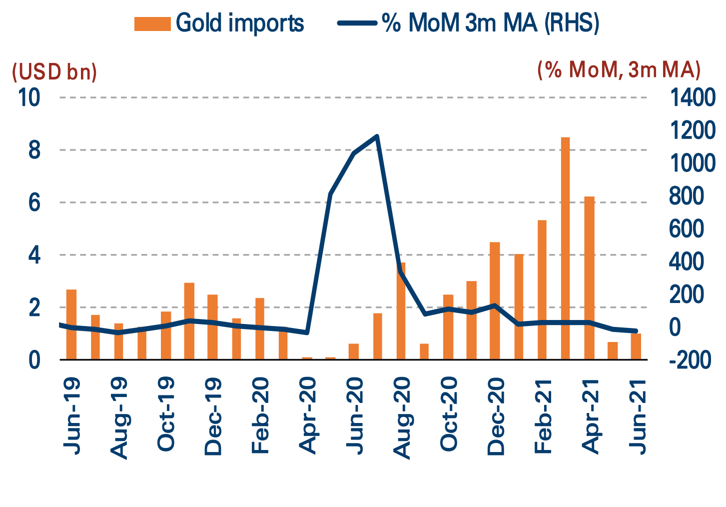
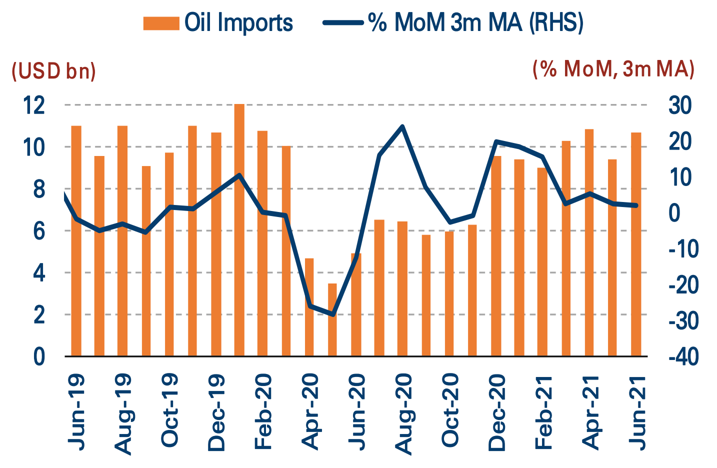
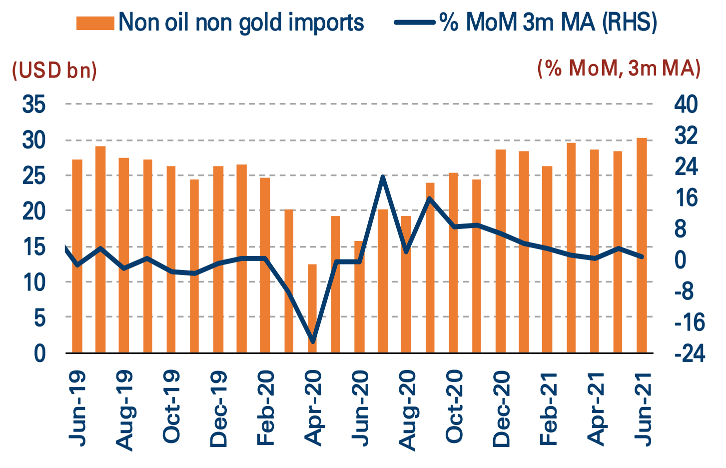
- Gold imports increased in June to USD 0.97 billion on easing COVID-19 restrictions. Going ahead, the upcoming wedding season and lower domestic gold prices will imply a further pick-up in gold imports
- Oil import increased substantially to USD 10.68 billion in June, both volume and price effect kept oil import bills higher. Lesser mobility restrictions and opening up of the economic activities fuelled oil demand. However, rising crude oil prices will add pressure on the current account. Q1 oil imports more than doubled to USD 31 billion this year, as compared to a mere ~USD 13 billion in the previous year, owing to a recovery in the demand and higher crude oil prices
- Non-oil non-gold imports rose slightly, on a sequential basis to USD 30.23 billion, staying well above the pre-pandemic average that augurs well for the revival of domestic activity. Demand for capital goods improved in June, along with a healthy growth performance, including fertilizers (57% MoM), pharma products (54% MoM) and leather products (25% MoM), respectively.

The trade deficit for the month of June widened to USD 9.37 billion vs USD 6.28 billion in May, reflecting a sharper sequential rebound in imports relative to exports.

Exports momentum to continue, imports normalisation will add pressure on the current account.

While the outlook for export demand remains favourable, given a robust demand in the Developed Market (DM) economies and our expectations of depreciation in the currency, we expect imports to rise as well, when economic activity normalises.

Rising crude oil prices and demand for gold could work as incremental drivers for a rising trade deficit. Going ahead, ongoing discussions on the remission of duties and taxes on export products (RoDTEP) and foreign trade policy would be the key catalysts to watch out from a trade perspective. The continued upsurge in freight rates might be a cause of concern and could act as headwinds to the exports momentum. In short, we see the trade deficit widening, reflecting a pick-up in the imports bill.

Exports remained steady reflecting robust global demand	Gold imports improved as covid restrictions eases
	
Oil imports impacted by higher prices and volumes	**Non-oil non gold imports continued resilience**
	

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