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Trade gap widens to record even as exports touch $40bn

The gap between exports and imports is 172% higher than $9.6 billion in June 2021

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India's trade deficit grew to a record in June, attributed to expensive imports of coal and petroleum, even as exports recorded robust growth amid global headwinds, according to official data.

While widening trade deficit may add further pressure on the rupee, which hit a lifetime low on Thursday, the easing of global commodity and fuel prices will likely help in the coming months, said economists.

Exports touched the $40 billion-mark for the third time in 2022 and the second time in the current fiscal year despite high inflation and fears of a recession in key markets including the US and the EU.

India's merchandise exports grew 23.5% year-on-year in June to touch $40.13 billion, while imports grew 57.5% to a record $66.31 billion, leaving the highest ever monthly trade deficit of $26.18 billion.

The deficit, which is the gap between exports and imports, is 172% higher than $9.6 billion in June last year. The previous highest trade deficit of $24.29 billion was in May, and the June figure marks a 65% increase. Imports of two commodities were largely responsible for this jump: the value of petroleum, crude and petroleum products was up 11.5% sequentially while coal was up by as much as 25.1%.

Economists expect the trade deficit to remain elevated through 2022-23 even as global commodity prices have begun easing, and estimate a slowdown in exports going forward due to slowing demand in key economies.

"While the upwardly revised merchandise trade deficit for June 2022 poses some upside risks to the current account deficit for Q1 FY23, the correction in commodity prices has softened the outlook for the ongoing quarter, even though export growth may undergo a slowdown amid a weaker outlook for the global economy," said Aditi Nayar, chief economist, ICRA.

The data comes weeks after the Union government hiked the import duty on gold in an attempt to rein in the widening current account deficit and arrest the rupee's record decline against the dollar. It also imposed export tariffs on petrol, diesel, and air turbine fuel besides announcing windfall taxes on crude production to improve domestic supplies and cut the need for imports.

The Centre has imposed a cess or windfall tax of ₹23,250 per tonne on crude oil production and a special additional excise duty of ₹6, ₹13, and ₹6 per litre on the export of petrol, diesel and ATF, respectively, from 1 July.

"These measures should help ease some pressure on the trade deficit," said Madan Sabanvis, chief economist, Bank of Baroda, who expects the trade deficit to rise to a record high of $250 billion or 7.3% of GDP in FY23, which implies a CAD of $100bn or 3% of GDP—double the 1.9% level last year.

"A widening CAD along with persistent foreign portfolio investment outflows will weigh on the rupee going forward," said Sabnavis.

The rupee touched a lifetime low 79.9 against the dollar on Thursday.

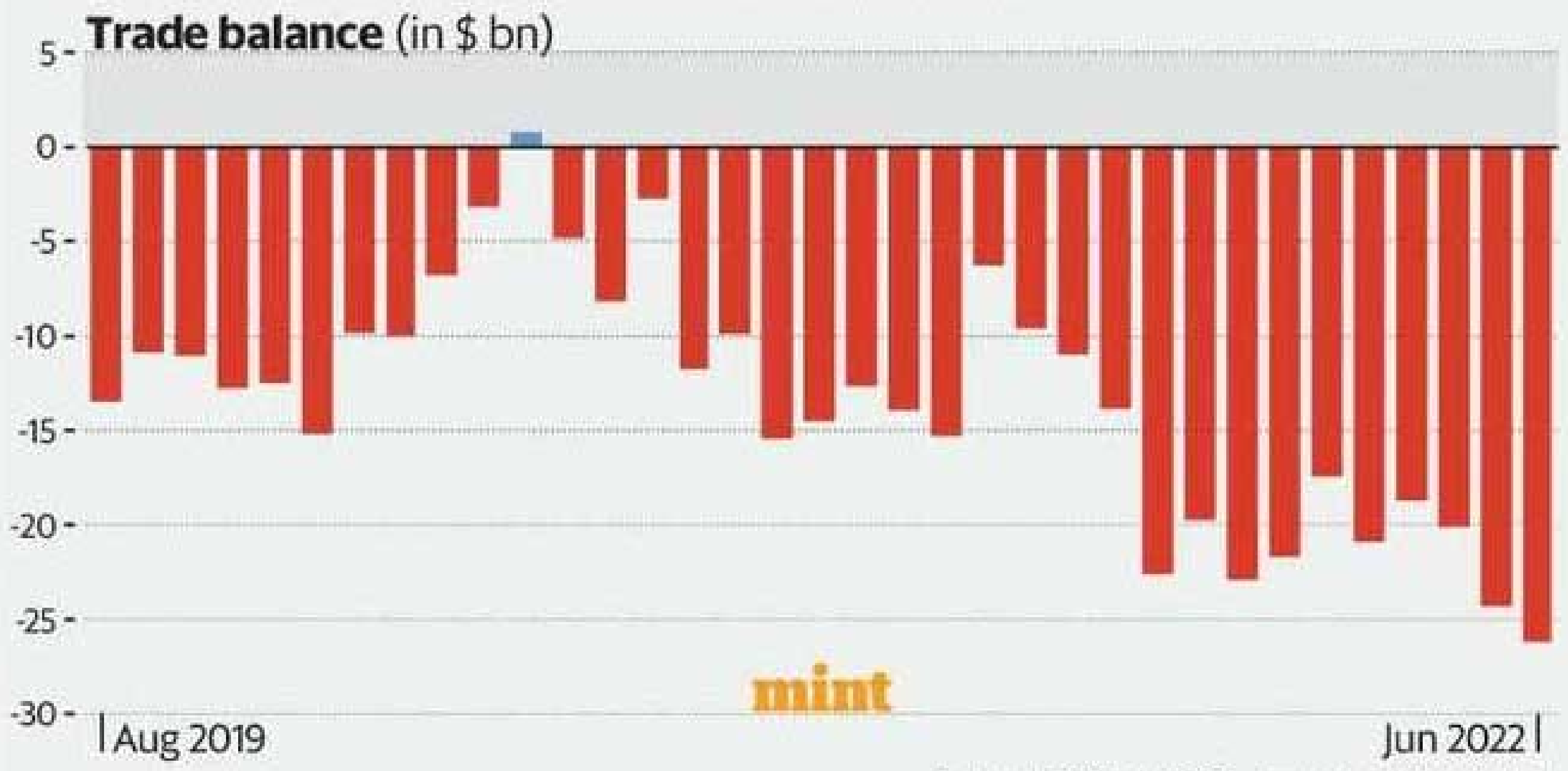
In another measure to strengthen the rupee and promote exports, the RBI on Monday introduced a rupee settlement system for international trade, under which invoicing, payment and settlement of exports and imports to all countries, if approved, can be in rupees.

Brent crude oil price, which has been quite volatile for months has started easing and touched below $100 on Thursday, down from $111 per barrel at the beginning of the month.

Petroleum imports were 99.48% higher in value terms in June over the same month last year at $21.3 billion. As for exports, electronic goods and ready-made garments recorded double-digit growth during the month at 60.7%, and 49.8%, respectively. Petroleum products exports grew 119% due to high international prices.

Gap grows

India's trade deficit widened to a record high in June.



Soure: Ministry of Commerce and Industry

MIND THE GAP

WIDENING trade deficit may add further pressure on the rupee, which hit a lifetime low

EXPORTS of electronic goods & ready-made garments recorded double-digit growth

IMPORT value of two commodities were largely responsible for deficit: petrol & coal