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Chart A: Imports, exports and trade balance (\$mn)



Chart B: Drivers of y/y change in trade balance (\$mn)



Chart C: Share of oil & non-oil deficits in trade deficit (\$mn)

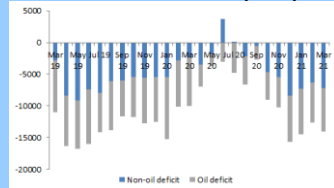
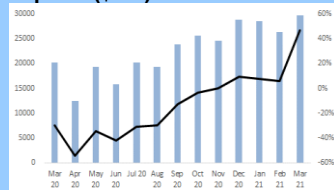


Chart D: Core exports (\$mn)



Chart E: Non-oil non-gold imports (\$mn)



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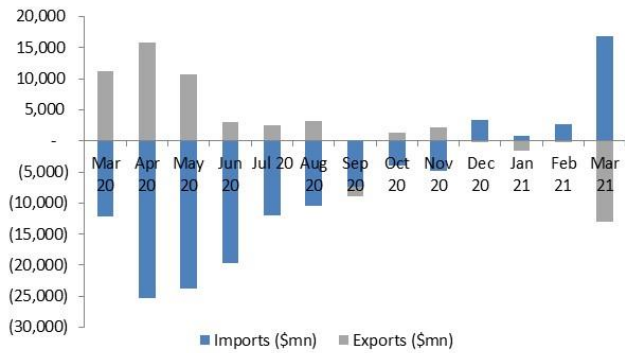


Trade Monitor

Surging gold imports take trade deficit to \$14bn in Mar '21

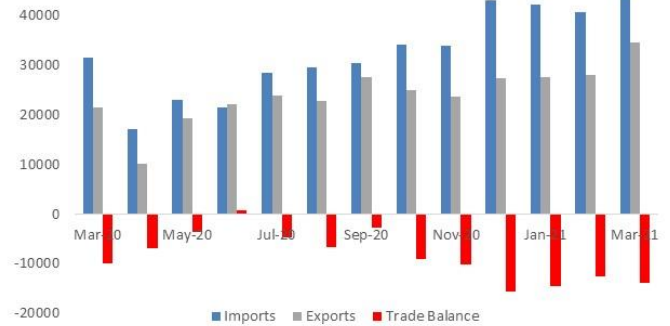
- ▶ **Surging gold imports take trade deficit to \$14bn in Mar '21:** India's imports and exports increased sharply during Mar 2021: imports surged 54% y/y to \$48.4bn while exports rose 60% y/y to \$34.4bn respectively. As a result, trade deficit widened to \$13.9bn from \$12.6bn in Feb and \$9.98bn in Mar 2020. While prima facie, the increase in imports and exports looks sharp, it is a combination of two factors. Firstly, Mar 2021 numbers are on a low base – imports and exports contracted 28% and 34% respectively in Mar 2020. Secondly, while almost all items recorded positive growth, majority of the growth in imports and exports was driven by abnormal growth in a handful of items.
- ▶ **Gold accounts for half of the y/y increase in imports:** In Mar 2021, total imports surged to \$48.4bn from \$31.5bn in Mar 2020. Out of this ~\$17bn increase, gold imports alone accounted for \$8.3bn. According to media reports, gold imports touched 98.6 tons in Mar 2021 from 13 tons a year ago although official data on volume of gold imports is not available yet. Other components which contributed to higher imports were electronic items (\$2.5bn), machinery (\$1.4bn) and chemicals (\$1.3bn). The sharp surge in gold imports in Mar 2021 could partly be due to higher demand ahead of Akshay Tritiya, the wedding season and restocking by jewellers. However, as the second wave of Covid-19 spreads rapidly through Maharashtra and the rest of the country, the demand for gold (and hence imports) may not sustain at high levels.
- ▶ **NONG imports grow slower than total imports; underline disproportionate role played by gold imports:** Non-oil non-gold (NONG) imports, which reflect underlying import demand, grew 47% in Mar 2021 against 54% growth in total imports. Slower growth in NONG imports indicates weaker health of domestic economy than headline numbers suggest and also underlines the disproportionate role played by gold imports in keeping headline numbers inflated.
- ▶ **Capital goods imports grow 28% on low base; base metals and machinery record robust growth:** Capital goods imports (base metals, machinery, transport goods and project goods) grew 28% in Mar 2021 albeit on a low base of -21% growth in Mar 2020. In absolute terms, capital goods imports stood at \$8.4bn in Mar 2021 from \$6.5bn in Mar 2020. While transport items recorded lower imports, base metals and machinery together added \$2.5bn to total imports. This is the first positive reading in capital goods imports in FY21, and given the backdrop of rising Covid-19 infections in the country we will refrain from reading too much into it.
- ▶ **Exports grow 58% as stimulus, global recovery increase demand for engineering goods:** Exports grew 58% y/y to \$34bn in Mar 2021 from \$21.5bn in Mar 2020. Out of this \$12.5bn increase, engineering exports alone contributed ~\$3.9bn. Large stimulus in major economies and faster-than-expected global recovery could partly be boosting India's engineering exports. While the second wave of Covid-19 in India may keep a lid on imports, exports are expected to perform better as rapid vaccination rollout in several developed countries support global growth. In the Apr 2021 'World Economic Output', the IMF revised its global growth forecast to 6% in 2021 and 4.4% in 2022, up 50bps and 20bps respectively from its Jan 2021 update. Also, advanced economies (AEs) expected to perform better – IMF upped 2021 forecast for AEs by 80bps. This bodes well for several of India's export items for which AEs are the biggest markets.
- ▶ **Core exports grow 62%; labour-intensive exports grow 56%:** Core exports (excluding petroleum, gems & jewellery) grew 62% in Mar 2021 to \$27.4bn, tad faster than total exports. Labour-intensive exports (leather, gems & jewellery, textiles) grew 56% to \$7bn, broadly in line with total exports. Pharma exports continued recording rapid growth due to the pandemic-induced demand for medicines. India's pharma exports for Mar 2021 grew 49% to \$2.3bn, an all-time high.

Chart 1: Drivers of y/y change in trade balance (\$mn)



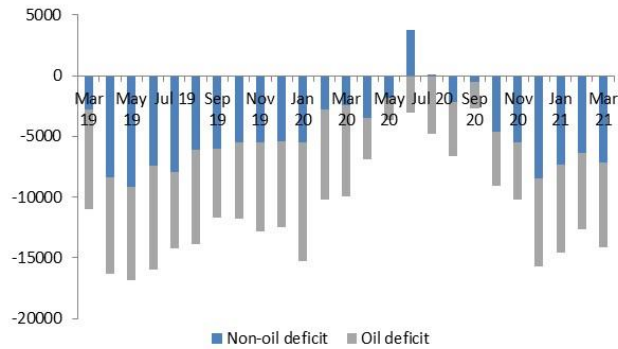
Source: CEIC, I-Sec Research

Chart 2: Imports, exports and trade balance (\$mn)



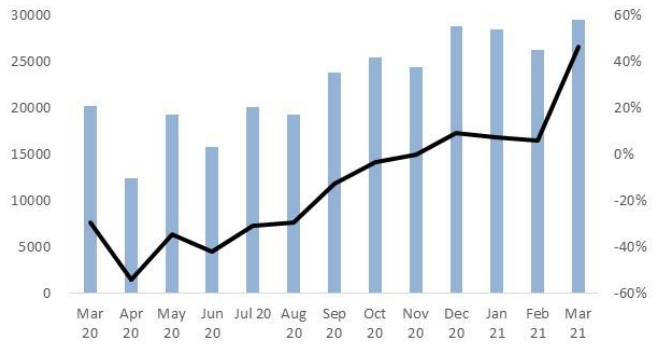
Source: CEIC, I-Sec Research

Chart 3: Oil & non-oil deficits (\$mn)



Source: CEIC, I-Sec Research

Chart 4: Non-oil non-gold imports (\$mn)



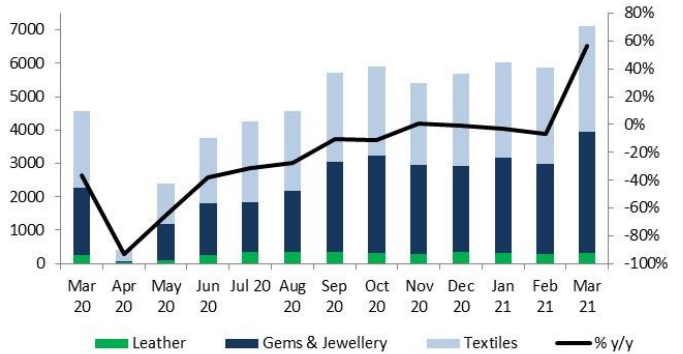
Source: CEIC, I-Sec Research

Chart 5: Capital Goods imports (\$mn)



Source: CEIC, I-Sec Research

Chart 6: Labour intensive exports (\$mn)



Source: CEIC, I-Sec Research

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