India’s trade deficit in January rises to 56-month high of $16.3 bn

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India’s trade deficit shot up to a 56-month high of $16.3 billion in January as imports of precious stones and crude oil surged during the month while growth in exports slowed down.

Data released by the commerce ministry showed merchandise exports rose 9.1% in January while merchandise imports rose 26.1%. Import of precious stones rose 55.7% and petroleum 42.6%.

During the first 10 months of the financial year, the trade deficit expanded to $131 billion against $88 billion during the same period a year ago as imports grew faster than exports.

Exporters had complained that the imposition of integrated goods and services tax (GST) and delays in refund of input tax credits were hurting overseas shipments, prompting the GST Council to continue two pre-GST era schemes that allow duty-free sourcing of materials for export production until March 2018. Exporters insist duty refunds under GST have been tardy.

Ganesh Kumar Gupta, president, Federation of Indian Export Organisations, urged the government to look into the refund issues seriously and undertake a clearance drive to clear all cases by 31 March, 2018. “Alternatively, banks may be asked to finance exporters against the pending GST refund claims with interest to be borne by the government,” he added.

Aditi Nayar, principal economist at Icra Ltd, said the marginal growth in exports of gems and jewellery and contraction in sectors such as textiles, yarn and iron ore dampened the expansion of merchandise exports to a three-month low in January.

“With the merchandise trade deficit for January sharply higher than expected, we have revised our forecast for the FY2018 current account deficit to $47-50 billion or nearly 2% of GDP, from the earlier expectation of $42-44 billion,” she added.

In January, exports of gems and jewellery (0.9%), drugs and pharmaceuticals (8.6%), chemicals (33.6%), engineering goods (15.8%), and petroleum products (39.5%) rose while shipments of ready-made garments declined by 8.4%.

Apart from crude and precious stones, imports of other items such as coal (31.7%), chemicals (48.4%), plastic (42.7%), iron and steel (28.8%), non-ferrous metals (42.5%), machinery (29.1%), transport equipment (4%) and electronic goods (12.2%) also saw a broad-based increase.

The WTO’s latest World Trade Outlook Indicator (WTOI) released on 12 February suggests that the trade recovery of 2017 should continue, with solid trade volume growth in the first quarter of 2018. The multilateral trade body has projected that growth in merchandise trade volumes will slow down to 3.2% in 2018 against 3.6% in 2017.