Trade deficit narrows in June; exports fall to 7-month low

Growth in merchandise exports fell to 2.6% amid muted demand overseas

SHREYA NANDI
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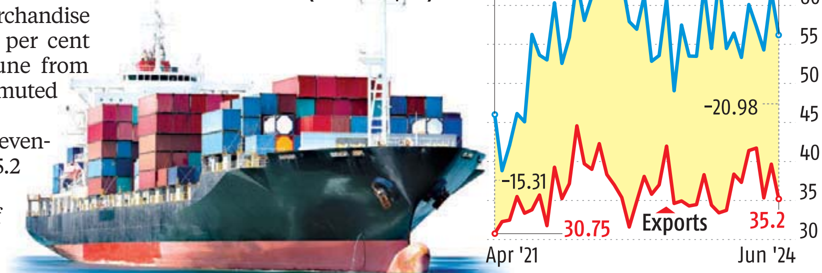
GROWING CONCERN
Merchandise trade (value in $bn)



Source: Department of Commerce

Growth in India's merchandise exports fell to 2.6 per cent year-on-year in June from 13.5 per cent in May amid muted demand overseas.

They plummeted to a seven-month low in June to $35.2 billion, the data released by the Department of Commerce showed.

Merchandise imports expanded by 4.9 per cent to $56.18 billion due to a jump in inbound shipments of items such as petroleum products, electronic goods, and metals.

The trade deficit narrowed to $20.98 billion in June as compared to a seven-month high of $22 billion in May, but widened from the $19.2 billion in June last year.

Commerce Secretary Sunil Barthwal said if inflation fell globally and growth sustained, then trade would sustain. However, India will have to remain cautious of the existing geopolitical conflict or a new one if it arises.

"Going by the ongoing situation, we will be crossing exports of $800 billion (goods and services) this financial year. The quarterly figures are optimistic. Services exports are growing in a sustained manner," Barthwal told reporters in a briefing.

Non-petroleum and non-gems and jewellery exports, a clearer parameter of the health of trade, grew 8.5 per cent at $27.43 billion.

The main drivers of growth were engineering goods (10.27 per cent), electronic goods (16.91 per cent), drugs and pharmaceuticals (9.93 per cent), organic and inorganic chemicals (3.32 per cent) and textiles (3.68 per cent). "We are focusing on 20 countries of significance and are looking at six major sectors of the economy so that we can take advantage of growth factors in these sectors and these economies," Barthwal said.

However, exports of petroleum products, which comprise 15 per cent of India's export basket, contracted 18 per cent year-on-year to $5.52 billion despite a rise in international petroleum prices.

International petroleum prices rose from $74.93 a barrel in June 2023 to $82.55 per barrel in June 2024.

Aditi Nayar, chief economist at ICRA, said: "Owing to the slightly faster growth in imports vis-à-vis exports, the merchandise trade deficit expanded to $62.3 billion in Q1FY25 from $56.2 billion in the year-ago quarter. This is expected to push up India's current account deficit to ₹1.4 per cent of gross domestic product (GDP) from 1 per cent in Q1FY2024 and a turnaround of the transient surplus of 0.6 per cent of GDP that was seen in Q4 FY2024."

Services exports grew 8.9 per cent at $30.27 billion in June while imports increased 10.7 per cent to $17.29 billion, resulting in a surplus of $12.98 billion.

The services trade data for April, however, is an "estimate", which will be revised based on the Reserve Bank of India's subsequent release.

Federation of Indian Export Organisations President Ashwani Kumar said the need now was to take steps on liquidity with deeper interest subvention and extending the interest equalisation scheme for five years, "besides addressing the West Asian geopolitical situation and Red Sea challenges by ensuring containers, marine insurance, and rationale increase in freight charges".