

Trade deficit at record high on gold imports

Hits \$38 bn in Nov; exports contract 4.8% to 25-month low

SHREYA NANDI

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India's trade deficit reached a record high of \$37.8 billion in November, amid a surge in merchandise imports, mainly driven by a 4.3-time jump in inbound shipments of gold, data released by the commerce department showed. Imports increased by 27 per cent to a record of almost \$70 billion during the month.

On the other hand, exports contracted 4.8 per cent to a 25-month low of \$32.1 billion in November. The contraction came in a month after witnessing robust 17 per cent year-on-year (Y-o-Y) growth in October, which, according to government officials, was due to inventory-building by the West ahead of the Christmas season.

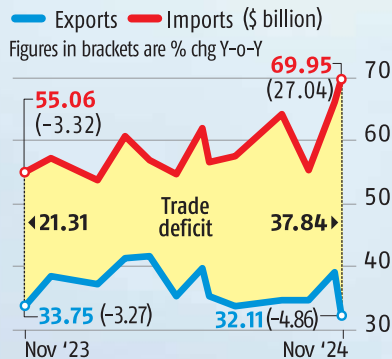
Commerce secretary Sunil Barthwal said that in November, decline in petroleum prices had largely affected exports, although on the brighter side, non-petroleum products grew nearly 8 per cent, an indication that demand is intact.

"This Christmas demand for exports is growing, which means that demand for (non-petroleum) Indian products is consistently rising," Barthwal told reporters in a briefing on Monday.

During November, petroleum exports contracted 49.6 per cent at \$3.7 billion. That apart, gems and jewellery is another crucial export item that saw a massive decline of 26 per cent to \$2.06 billion. Key products that witnessed export growth include engineering goods (13.7 per cent), drugs and pharmaceuticals (1.1 per cent), electronic goods (54.7 per cent), and readymade garments (9.8 per cent).

According to the data, India imported gold worth \$14.9 billion, comprising a fifth of merchandise imports in November. Commerce department officials said that a surge in import of the precious metal has been influenced by

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Source: Department of Commerce



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nearly a 30 per cent increase in price.

"Gold has been reflected as one of the best performing assets in 2024, till November. Higher import is also due to the investor confidence in gold as a safe asset," additional secretary L Satya Srinivas told reporters.

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Surge in gold imports driven by festivals, wedding season

Aditi Nayar, chief economist and head of research and outreach at ICRA, said that such high levels of gold imports were likely driven by festival and marriage-related demand, and are unlikely to sustain in the ensuing months, which would help to cool the upcoming merchandise trade deficit prints.

Other items that saw a sharp increase in imports include electronic products (17.4 per cent), petroleum products (7.9 per cent), electrical machinery (12.8 per cent), organic and inorganic chemicals (6.5 per cent), and vegetable oil (87.8 per cent).

On a cumulative basis, exports saw 2.2 per cent growth at \$284.31 billion during April-November. Imports saw 8.3 per cent growth at \$486.73 billion during the first eight months of the current financial year (FY25).

“The adverse trade deficit print for November 2024 will result in a sharper-than-expected widening in India’s current account deficit (CAD) in Q3FY25 to 2.8 per cent of GDP as against earlier expectations of 2 per cent, which will be the highest level in over two years. We have also revised our FY25 forecast for CAD

to 1.4 per cent of GDP from 1 per cent earlier,” Nayar said.

Federation of Indian Export Organisations (FIEO) President Ashwani Kumar said that ongoing international trade disruptions, along with the volatility in crude and metal prices, have also played a key role in the declining value of exports to some extent.

“The rising tensions between Israel and Iran has continuously led to logistical challenges with regard to international trade getting impacted, as most of our trade to Europe, Africa, CIS, and the Gulf region is happening through the Red Sea route or the gulf region, prompting buyers to have a little large inventories,” Kumar said.

In November, the value of services exports was higher than merchandise exports.

Services exports saw 26.8 per cent growth at \$35.67 billion in November, while services imports witnessed 29.2 per cent rise to \$17.7 billion, resulting in a surplus of \$17.9 billion. Services trade data for November, however, is an “estimate”, which will be revised based on the Reserve Bank of India (RBI)’s subsequent release.

