Exports grow fastest in 20 months; trade gap widens

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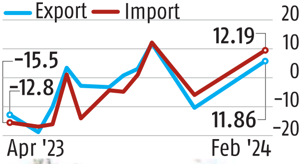
India's merchandise exports grew at the fastest pace in 20 months at 11.9 per cent in February, overcoming the Red Sea crisis and falling commodity prices. Data released by the commerce department showed merchandise imports grew 12.2 per cent — a 17-month high — to $60.1 billion in February, leading to a trade deficit of $18.7 billion during the month.

"This is the highest exports in 11 months (in value terms). We have surpassed all predictions. March figures should also be very good. It shows resilience in the export sector. The 2024-25 financial year will also be very good," Commerce Secretary Sunil Barthwal told reporters.

MIXED BAG

Change Y-o-Y (%)



Trade deficit ($ bn)

Apr '23	14.4
May '23	22.5
Jun '23	18.81
Jul '23	18.45
Aug '23	24.3
Sep '23	20.1
Oct '23	29.9
Nov '23	20.68
Dec '23	19.8
Jan '24	16.4
Feb '24	18.71

Source: Commerce department

FOREX RESERVES SURGE $10 BN TO 2-YEAR HIGH 7

During April-February 2023-24, merchandise exports contracted 3.45 per cent to $395 billion, while imports shrunk 5.3 per cent to $620.2 billion, leading to a trade deficit of $225.2 billion.

Ashwani Kumar, president, the Federation of Indian Export Organisations, emphasised the need to address the Red Sea challenges by ensuring the availability of marine insurance to exporters and rational increases in freight charges.

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A notification by the MHI stated that to qualify for the scheme, an applicant company or its affiliated enterprise must have a minimum revenue threshold of ₹10,000 crore from automotive manufacturing, along with a global investment commitment of ₹3,000 crore in fixed assets.

"Under this scheme, EV passenger cars (e-4W) can initially be imported with a minimum CIF value of $35,000 (₹29 lakh), at a duty rate of 15 per cent for a period of five years from the date of issuance of approval letter by the MHI," said the policy draft notification. This means that if a company imports a car costing $35,000 and commits to the minimum investment of $500m, it can import 25,974 cars over five years. However, if the investment amount is increased to $781 million or higher, the company can import 40,582 cars, according to an official. The maximum number of EVs allowed to be imported is capped at 8,000 units per year.

The investment commitment will have to be backed up by a bank guarantee in lieu of the custom duty forgone, the ministry said in a statement.

The bank guarantee will only be refunded upon achieving a 50 per cent domestic value addition and making an investment of at least ₹4,150 crore, or up to the amount of duty foregone over the course of five years, whichever is greater. Applications will be solicited within 120 days or more from the notification of this scheme. The period for accepting applications through the Notice Inviting Applications will extend for 120 days or more. The MHI retains the authority to open the application window, as needed, within the initial two years of the scheme.

Exports...

"The recent tensions in West Asia, especially the threat for consignments routing through the Red Sea has further added to the woes of the exporting community, as freight rates have gone up unimaginably high with the burden of various surcharges. Much will depend on the new contracts to be signed with buyers during the new financial year as the exporters have been absorbing the burden of increased freight cost as per the old agreement," he said.

In February, non-petroleum, non-gems & jewellery exports -- also known as core exports -- grew 17.2 per cent, while non-petroleum, non-gems & jewellery imports grew 5.2 per cent during the month.

Export growth in February was led by electronics (54.8 per cent), meat, dairy and poultry (37.8 per cent), chemicals (33 per cent), drugs and pharmaceuticals (22.2 per cent), and engineering goods (15.9 per cent). The double-digit growth in imports was mainly led by a spike in gold (133.8 per cent) and silver (13234 per cent) imports to $6.15 billion and $1.7 billion, respectively.

Aditi Nayar, chief economist at ICRA, said a spike in gold imports to a four-month high contributed to the widening in the merchandise trade deficit in February. "Higher prices of some commodities appear to have boosted both non-oil exports, as well as non-oil, non-gold imports in February. Notwithstanding a seasonal spike in the current account deficit in Q3FY24 (ICRA expectation: 1.7 per cent of GDP), the surge in services exports in the recent months suggests that the CAD will compress appreciably in the ongoing quarter, containing the full year figure to 1 per cent of GDP," she added. Services exports saw 17.3 per cent growth at $32.15 billion in February, while services imports grew 2.8 per cent to $15.4 billion, resulting in a surplus of $16.76 billion. The services trade data for February, however, is an "estimate", which will be revised based on the Reserve Bank of India's subsequent release.

Madan Sabnavis, chief economist at Bank of Baroda, said the overall trade position is mixed. "From the point of view of the trade deficit and current account deficit, it is positive as there has been an improvement. However, the fact that imports of gold and electronics have gone up and exports of garments come down should raise a red flag. Going forward, FY25 should witness an improvement as global conditions improve to support our exports," he added.