

TRADE DEFICIT WIDENS TO RECORD \$26.1 BN

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

Cloudy horizon: Export growth may slow down amid a weaker outlook for the global economy, says Nayar. K. K. Mustafah K_ K_ Mustafah

India's merchandise trade deficit widened to a record \$26.18 billion in June, wider than the government's earlier estimate of \$25.63 billion, after the Commerce Ministry revised upwards both the exports and imports figures for the month.

While goods exports increased 23.5% year-on-year to exceed \$40.1 billion (preliminary estimate was \$38 billion), imports outpaced, surging 57.5% to \$66.3 billion on the back of higher purchases of coal, gold and petroleum products.

The previous record monthly merchandise trade deficit was \$24.3 billion in May. Last month's trade deficit was almost three times as wide as the \$9.6 billion shortfall recorded in June 2021.

Import figures for coal, gold and petroleum products saw significant upward revisions from the preliminary estimates. Coal imports jumped almost fourfold to \$6.76 billion while gold imports almost trebled to surpass \$2.7 billion. Petroleum imports climbed 99.5% to \$21.3 billion.

Excluding petroleum and gems and jewellery, imports were up 38.3% at \$38.53 billion in June. Stripping out the same items from the export data, meant exports of other products grew by a single digit of 8.65% to about \$28 billion.

In the export basket, engineering goods and drugs and pharmaceuticals, that were earlier estimated to have recorded falls, actually clocked 3% and 4.8% increases in shipments, respectively.

Petroleum exports were up 119% at \$8.6 billion, while electronic goods' exports jumped 60.7% to \$1.67 billion. Rice exports soared 43% to cross the \$1 billion mark, while the employment-intensive readymade garments sector clocked a 50% uptick in exports. Cotton yarn and handloom products, as well as plastic and linoleum, which among India's top 10 export commodities, contracted 19.5% and 20%, respectively.

The first quarter of 2022-23 thus witnessed a 24.5% rise in exports to \$118.96 billion, while imports rose 49.5% to \$189.76 billion. The trade deficit for the April-June three-month period widened to \$70.8 billion.

'Commodity prices'

"While the upwardly revised merchandise trade deficit for June 2022 poses some upside risks to the current account deficit for the first quarter... the correction in commodity prices has softened the outlook for the ongoing quarter," said ICRA chief economist Aditi Nayar.

However, she cautioned that export growth may see a slowdown amidst a weaker outlook for the global economy. "We foresee modest downsides to our current account deficit forecast for this year of \$105 billion, or 3% of GDP," she noted.

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