

## India's exports continue to surge; but questions of its sustenance loom large

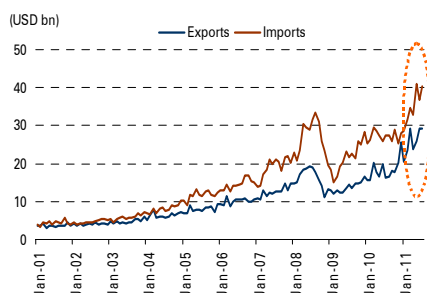
- India's exports surged by 81.8% YoY in July to a record high of USD 29.3 bn
- Imports rose by 51.5% YoY to USD 40.4 bn, higher than USD 36.9 bn in June
- Trade deficit widened to USD 11.1 bn in July, as compared to USD 7.7 bn in June

### Trade deficit widens as imports surge

	FY2011	Jun-11	Jul-11
Exports (USD bn)	245.9	29.2	29.3
Exports (% YoY)	37.5	46.4	81.8
Imports (USD bn)	350.7	36.9	40.4
Imports (%YoY)	21.6	42.5	51.5
Trade Balance (USD bn)	-104.8	-7.7	-11.1

Source: Ministry of Commerce & Industry, ICICI Bank Research

### Both exports and imports near record highs



Source: Ministry of Commerce & Industry, ICICI Bank Research

### Both exports and imports remain buoyed, with the base effect helping exports to register a colossal growth rate of above 80% YoY in July

India's exports clocked a whopping growth rate of 81.8% YoY to an all time high of USD 29.3 bn in July. Exports have crossed the USD 29 bn level for the second consecutive month, significantly higher than the average monthly exports of USD 20 bn during the last fiscal. Imports surged by 51.5% YoY to USD 40.4 bn. Imports have crossed the USD 40 bn level for the second time this fiscal year, which is way above the average monthly imports of USD 28 bn during the last fiscal. On a MoM basis too, imports registered a solid growth of around 10% in July. On account of this surge in imports in July as compared to the last month, trade deficit climbed back to double-digit level of USD 11.1 bn in July, after slipping to USD 7.7 bn in June.

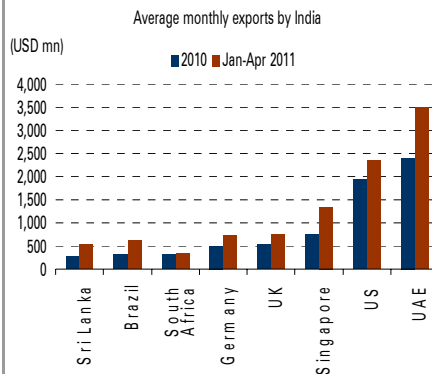
Looking at the first four months of the current financial year in totality, it is seen that exports have recorded a growth of 54% YoY to USD 108.3 bn. Imports have risen by 40% YoY to USD 151.0 bn. Thus, trade deficit has widened to USD 42.7 bn in April-July FY2012 as compared to USD 37.5 bn during April-July FY2011.

### Rising demand for Indian goods in Latin American and African economies boosted our exports while increasing domestic appetite for precious items inflated our imports bill

During April-July 2011, the exporting sectors that performed well include engineering goods, (USD 31.6 bn), gems & jewellery (USD 12.8 bn); petroleum & oil products (+60% YoY to USD 18.6 bn), manmade yarn & made-up (+38% YoY to USD 1.73 bn), electronics (+84% YoY to USD 3.72 bn) and readymade garments (+40% YoY to USD 5 bn). Improving trade with African countries (Algeria, Guinea, Rwanda and South Africa) and Latin America nations like Brazil along with increasing demand for Indian products in Asian countries like Iran, Malaysia, Singapore, South Korea, Sri Lanka and Taiwan have been the key reason for the good performance of our exporters.

As regards to imports, oil imports rose to USD 11.4 bn in July taking the total value to USD 42 bn in this fiscal so far. Elevated levels of crude oil prices continue to keep oil imports bill high. Meanwhile, imports of other items that rose during April-July 2011 include pearls & precious stones (USD 11.16 bn), gold & silver (+180% YoY to USD 21.5 bn), machinery (+45% YoY to USD 12 bn) and electronics (+75% YoY to USD 10.3 bn). Imports of fertilizers have also started picking up.

### Diversification of India's exports destinations



Source: CEIC, ICICI Bank Research

### The good show by exporters is likely to witness a pull back amidst rising global uncertainty

Despite the ongoing global turmoil amid talks of a double-dip recession in US doing the rounds, India's continued good performance with respect to its exports has been quite startling. According to the Commerce Ministry the growth is due to lag effect as first quarter of 2011 was good for both the US and EU. Moreover, there was no tsunami in Japan and inflation was not high in China, as a result of which orders were in full swing, which is getting reflected in export numbers of April-July 2011.

However, concerns that the strong exports momentum will not be sustained in the coming months have risen following Standard and Poor's rating downgrade of the United States, which has jolted global markets and renewed fears of another global economic slowdown. Persistent sovereign debt worries in the European Union, India's largest trade partner, also pose a significant risk to the surging exports figure. Trade Secretary Rahul Khullar said that achieving the target of USD 300 bn exports in the current fiscal year would be tough. Even Finance Minister Pranab Mukherjee has warned that exports could get hit in the coming months due to bleak global economic outlook.

Costlier export credit due to high interest rates in the domestic economy, have increased the cost pressures which further adds to the woes of the Indian exporters. Meanwhile, the scheduled expiry of the Duty Entitlement Pass Book (DEPB) Scheme at the end of this month is also a problem.

However, weakness in the Indian Rupee in the near term amid global risk aversion is likely to provide some relief to India's mounting trade deficit. Expressing concerns over the increasing trade deficit, Rahul Khullar said that going by the current trend, India's trade deficit may touch USD 130 bn this fiscal, which would put a lot of pressure on India's current account deficit.

### Meanwhile, the Commerce Ministry raises efforts to improve India's trade scenario

In a first of its kind initiative, the Commerce Ministry will undertake nationwide roadshows across the country to help small and medium enterprises as well as big companies explore tremendous business opportunities in countries with which bilateral trade agreements have been concluded in the recent past. According to Rahul Khullar, the programme is being structured to re-look at trade agreements with Korea, Japan, Malaysia and ASEAN. He added, "the trade agreements are not just in interest of India but countries are queuing up to crack trade deals with us because of India's steady growth and the huge business opportunity that the country offers to the outer world".

Meanwhile, according to latest reports, the Government is likely to offer a lucrative one-year stop-gap duty reimbursement scheme, replacing the popular DEPB scheme, as the Ministry is also cautious of exports taking a hit in an uncertain global environment.

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