Exports grew 9%, but trade gap widened to 7-month high in May

Rising trade deficit due to the Indian economy growing faster than the world, leading to higher domestic demand, says Commerce Secretary; sluggish textiles sector records healthy growth of almost 10%

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The textile sector grew 9.8% in May, after months of sluggishness. File | Photo Credit: M. Periasamy

India's goods exports grew 9.1% to $38.13 billion in May, while imports rose 7.7% to $61.91 billion, Commerce Secretary Sunil Barthwal said on Friday, stressing that things are looking "more optimistic for foreign trade this year". Even the textiles sector recorded a healthy growth of nearly 10% in May "after several months of sluggishness", he noted.

However, despite exports growing faster than imports, the merchandise trade deficit surged to a seven-month high of $23.78 billion in May. This was 5.5% higher than the deficit recorded in May 2023, and 24.5% over April's trade gap of $19.1 billion, which in turn was the highest in four months. Compared with April, May's import bill was 14.4% higher, while the value of exports rose 8.9%.

Asked if the rising trade deficit could pose a problem, Mr. Barthwal told *The Hindu* that the trend must be seen in the context of India growing faster than the world, insisting that goods trade deficits should not be viewed in isolation.

High growth, high demand

"Our economy is growing over 7%, while the global economy is growing at about 2.6% so there will always be higher demand from our country for imports of certain kinds of items. When your economy is growing faster than the world, then obviously there will be these twin effects — higher domestic demand will mean less exportable surplus, and your requirements for imports from the rest of the world will be higher than the world's requirements from you," he noted.

"The deficit trends will depend on two factors — import substitution and the rate of economic growth. But I don't consider trade deficit per se as a bad thing, as long as you have foreign investment coming in through FDI, foreign exchange coming in, and you are balancing it through other means. Moreover, if our services exports are growing, we should not be unnecessarily worried about merchandise trade deficit alone," the Commerce Secretary asserted.

The top Commerce official also highlighted the healthier 7.4% growth in exports of engineering goods in May, with double-digit increases in several segments, including electronics (23%), drugs and pharma products (10.45%), and plastics and linoleum (16.6%).

"We hope this trend should continue this year and also hope that there should be no more geopolitical conflicts and no more disruptions in major global shipping routes," Mr. Barthwal said.

'Deficit driven by oil'

Imports of gold hit a three-month high of $3.33 billion in May, although this was 9.7% lower than the gold import bill a year ago. Gold imports had tripled year-on-year in April to $3.11 billion. The value of silver imports shot up by over 400%, while the growth in imports of pulses (181.3%), transport equipment (31.9%), and petroleum (28.1%) also contributed to widening the chasm between exports and imports.

ICRA chief economist Aditi Nayar reckoned that 71% of the month-on-month surge in the trade deficit was driven by the net oil balance. While petroleum imports were $19.95 billion in May, the export figure stood at $6.77 billion.

“With the deficit enlarging by $6 billion in April-May 2024 relative to last year, we expect the current account deficit to rise to around 1.5% of GDP in this quarter from about 1.1% of GDP in the same quarter of 2023-24,” Ms. Nayar said.