



## TRADE DEFICIT - ECONOMY

Following a strong start in the first quarter of 2024-25, India's goods exports have experienced a slowdown, with a 1.5% decline in July reaching an eight-month low, and a further 9.3% contraction in August. This decline coincided with a record import bill of \$64.4 billion in August, resulting in a merchandise trade deficit of \$29.7 billion, the second highest after October 2023's record gap of \$29.9 billion.

### Factors Behind the Widening Trade Deficit

#### Overview of Trade Deficit Growth

##### Recent Trends:

- Exports have decreased over the past two months.
- Imports rose by 7.5% in July and 3.3% in August.
- Resulted in a trade deficit reaching a nine-month high of \$23.5 billion in July.
- The deficit further widened by approximately \$6.2 billion in August.

#### Export Performance

##### Sector Growth:

- 18 out of 30 major segments saw growth in exports in July.
- 19 segments showed growth in August.

##### Notable Declines:

- Key sectors like petroleum and gems and jewellery faced significant downturns.
  - Oil exports fell by 22.2% in July and 37.6% in August.
  - Jewellery exports dropped over 20% in both months.

##### Slowing Growth in Other Sectors:

- Notable slowdowns in drugs, pharmaceuticals, and electronics.
- Declines in certain segments like stone, plaster, cement, and iron ore due to a slowing Chinese economy.

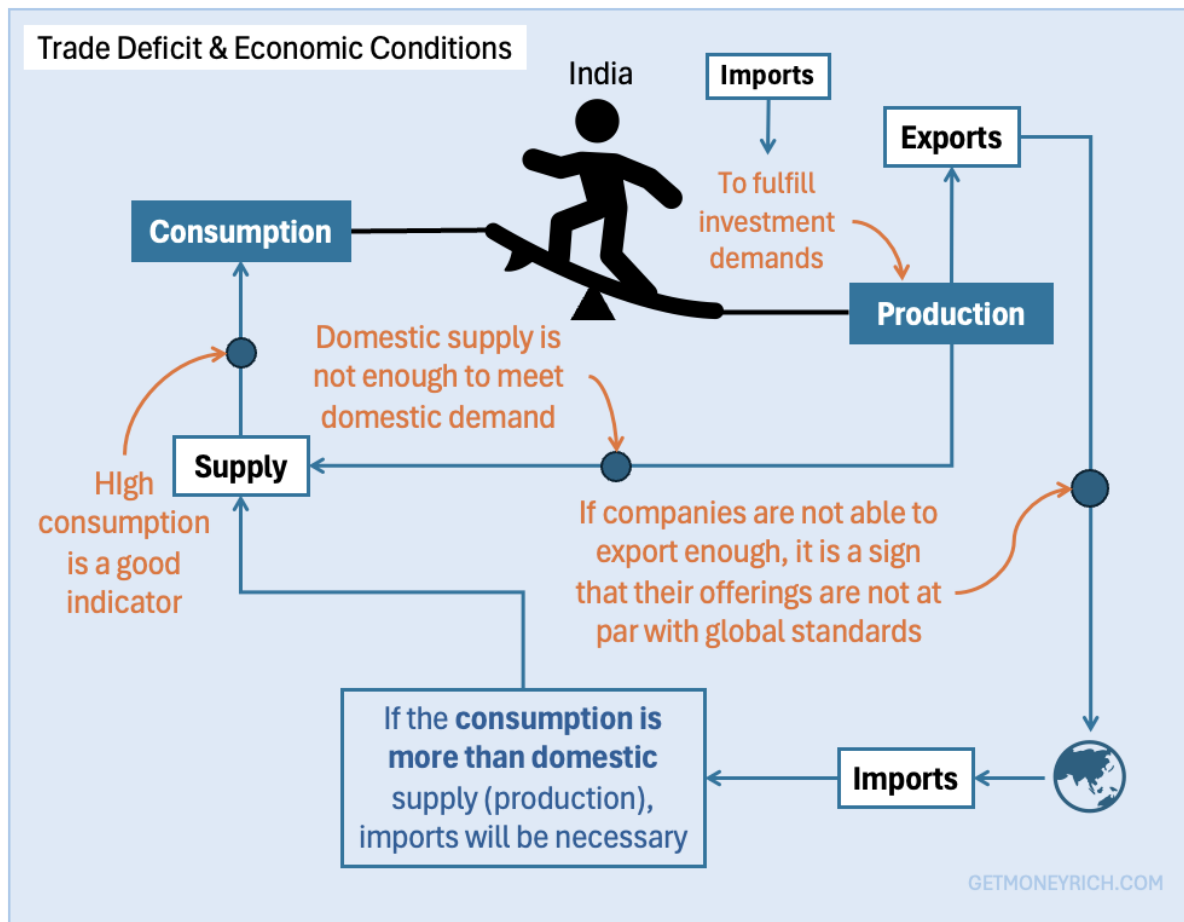
#### Oil Import Trends

##### Impact of Oil Prices:

- Despite a \$6 decrease in oil prices per barrel in August, India's oil import bill decreased nearly one-third to \$11 billion.



- This brought the petroleum deficit to its lowest in three years.



## Contributions to Trade Deficit

- **Key Contributors:**
  - The rise in the merchandise trade deficit was primarily due to declines in gems and jewellery exports, with minor contributions from miscellaneous and electronic items.
- **Gems and Jewellery Exports:**
  - Exports fell below \$2 billion.
  - Gold imports surged to a record \$10.1 billion in August, more than doubling from previous months.
  - This surge contrasts with a 10.7% decrease in gold imports in July.

## Reasons for Increased Gold Imports

### Factors Influencing Gold Imports:

- Reduction of gold import duty from 15% to 6%, as per the Budget announcement.
- Recent rise in gold prices.



- Domestic jewellery manufacturers stocking up for the festive season.

## Future Outlook

### Expectations:

- Economists anticipate that the full effects of the duty cuts on gold and other items will continue to impact the import bill in the coming months.

## Risks Associated with Widening Trade Deficits

### Current Economic Outlook

#### No Immediate Risk:

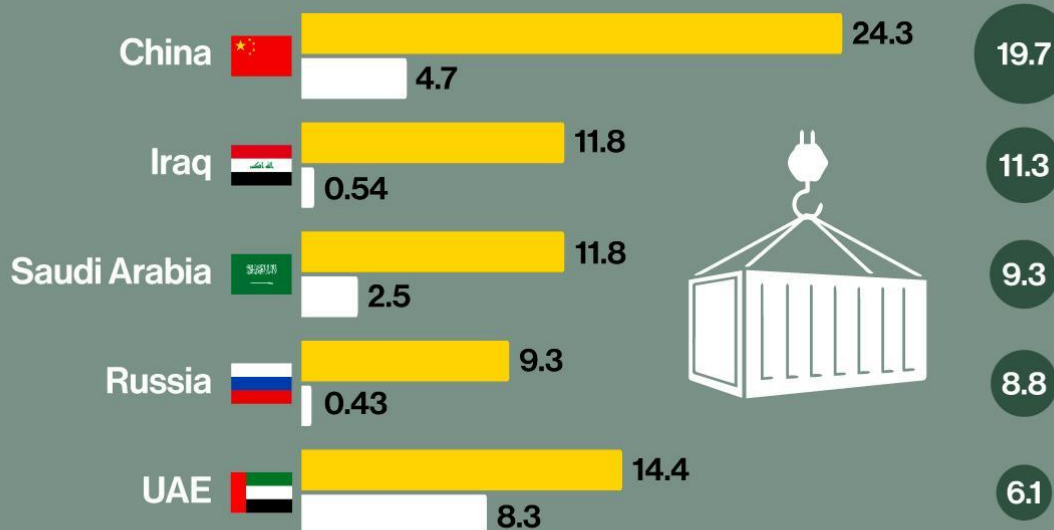
- Commerce Secretary Sunil Barthwal reassures that the trade deficit poses no significant risk to the economy.
- India's growth rate exceeds that of the global economy, leading to higher demand for imports than the world's demand for Indian exports.
- Barthwal asserts that for a developing economy with high growth, the trade deficit should not be a concern, provided there are no foreign exchange issues.

## BusinessToday.In

# INDIA'S LARGEST TRADE GAPS

■ Import ■ Export ● Trade Gap

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Source: CMIE Economic Outlook

## Foreign Capital and Reserves

- Positive Capital Inflows:



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- Foreign capital inflows have remained positive in recent months.
- **Foreign Exchange Reserves:**
  - As of August 2, India's foreign exchange reserves reached a record \$675 billion.
  - The Finance Ministry notes this is sufficient to cover 11.6 months of imports.
  - Coverage may decrease if imports exceed \$60 billion in the near future.
- **Growth in Services Exports:**
  - Services exports are estimated to have increased by over 10% from April to August, providing some reassurance.

## Global Trade Environment

- **Expected Growth:**
  - Global trade is projected to grow faster in 2024 compared to 2023, though current demand is weak in developed markets.
- **Geopolitical Risks:**
  - Ongoing geopolitical tensions and conflicts, along with the upcoming U.S. elections and tariff hikes on Chinese goods, complicate the trade landscape.
  - China's declining demand for imports may lead to increased dumping of goods in non-U.S. markets at lower prices.
- **Oil Prices and Exports:**
  - Low oil prices, driven by global demand pressures, may negatively impact India's oil export prospects.

## Challenges Ahead

### Long-Term Export Goals:

- The Indian government aims to increase services and goods exports to \$1 trillion each by 2030.

### Hurdles to Growth:

- Chief Economic Adviser V. Anantha Nageswaran highlights challenges such as:
  - Slowing global economy.
  - Increased tariffs and non-tariff barriers.
  - Adoption of "active industrial policies" by various countries post-pandemic.
  - New trade regulations, including the EU's Carbon Border Adjustment Mechanism and Deforestation Rules.



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## Outlook:

- While there may be opportunities to boost exports in the next year or two, the overall forecast for trade growth remains challenging.

**Source:** <https://indianexpress.com/article/business/india-goods-exports-declines-trade-deficit-widens-9572535/>



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