India’s Merchandise Trade Deficit

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Why in News

Preliminary data released by the government showed that India's trade deficit in goods widened to USD 14.11 billion in March 2021 from USD 9.98 billion during March 2020.

Key Points

- **Other Observations:**
    - **Merchandise Exports:** India’s **merchandise exports** in March 2021 were **USD 34.0 billion as compared to USD 21.49 billion in March 2020,** an increase of 58.23%.
        - For the first time ever in a month, Indian exports crossed USD 34 billion in March 2021.
    - **Merchandise Imports:** India’s merchandise imports were USD 48.12 billion as compared to USD 31.47 billion in March 2020, an increase of 52.89%.
        - India is thus a **net importer in March 2021,** with a trade deficit of USD 14.11 billion.
- **Reasons for Increased Imports:**
    - **Relaxation in lockdown policy** and **start of economic activities** are the main reasons for increase in demand for the goods and the import.
    - Also the rise in **global trade** has made the global supply chain active and the commerce is taking place.
    - **Oil import** has increased due to opening up of the **transportation sector.**
- **Trade Deficit:** A trade deficit is an amount by which the cost of a country's imports exceeds its exports.
    - The **trade deficit in goods** shows a **rise of demand in the economy.**
    - It is a part of the **Current Account Deficit.**

- **Current Account Deficit:**
    - The **current account** records **exports and imports in goods and services and transfer payments.** It represents a country's transactions with the rest of the world and, like the capital account, is a component of a country's **Balance of Payments (BOP).**
    - There is a deficit in Current Account if the **value of the goods and services imported exceeds the value of those exported.**
    - Major components are:
        - **Goods,**
        - **Services,** and
        - **Net earnings on overseas investments (such as interests and dividend)** and **net transfer of payments** over a period of time, such as **remittances.**
    - It is **measured as a percentage of Gross Domestic Product (GDP).** The formulae for calculating Current Account Balance is:
        - **Current Account Balance = Trade gap + Net current transfers + Net income abroad.**
        - Trade gap = Exports – Imports

Balance of Payments

- **Definition:**

    Balance of Payment (BoP) of a country can be defined as a **systematic statement of all economic transactions of a country** with the rest of the world during a specific period usually one year.

- **Components of BoP:**
  - For preparing BoP accounts, economic transactions between a country and rest of the world are grouped under - **Current account, Capital account and Financial Account and Errors and Omissions.**

    It also shows changes in **Foreign Exchange Reserves.**
  - **Current Account:** It shows **export and import of visibles** (also called merchandise or goods - represent trade balance) and **invisibles** (also called non-merchandise).

    Invisibles include services, transfers and income.
  - **Capital Account and Financial Account:** It shows a capital expenditure and income for a country.
  - **Errors and Omissions:** Sometimes the balance of payment does not balance. This imbalance is shown in the BoP as errors and omissions. It reflects the country's inability to record all international transactions accurately.
  - Overall the **BoP account can be a surplus or a deficit.**
    - If there is a deficit then it can be bridged by taking money from the **Foreign Exchange (Forex) Account.**
    - If the reserves in the forex account are falling short then this scenario is referred to as BoP crisis.

Source:TH