

# Trade deficit narrows to a five-month low

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India's trade deficit narrowed to a five-month low of \$12 billion in February after widening to a 56-month high a month ago. Merchandise exports rose 4.5% in February while such imports rose 10.4%, data released by the commerce ministry showed.

In the 11 months to February, trade deficit expanded to \$143 billion against \$120 billion in the same period a year ago as imports grew faster than exports.

Exporters had complained that the imposition of integrated goods and services tax (IGST) and delays in refund of input tax credits were hurting overseas shipments, prompting the GST Council to continue two pre-GST schemes that allow duty-free sourcing of materials for export production until March 2018. Exporters insist duty refunds under GST have been tardy.

Aditi Nayar, principal economist at Iera Ltd, said the substantial cooling of the merchandise trade deficit in February comes as a relief after the spike in the previous month. "Nevertheless, the trade deficit in February printed considerably higher than the year-ago level, signalling that a sharp year-on-year deterioration in the current account deficit in the fourth quarter of 2017-18 is imminent," she added.

Export growth was dampened by contraction in textiles (-10.3%), engineering goods

## Exports up 4.5% in February

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(-2%) and gems and jewellery (-5.1%).

The pace of export of gems and jewellery would take a cue from demand, as well as the availability of funding for the sector in the aftermath of the \$2 billion fraud reported by Punjab National Bank, Nayar said. However, a jewellery exporter said on condition of anonymity that the contraction in jewellery exports in February is due to imposition of a 5% value-added tax by Dubai in January.

Ganesh Kumar Gupta, president of the Federation of Indian Export Organisations, said that banks should not tighten liquidity to the sector as it is coming back on track due to good order booking from US, Europe, China and Japan as well as demand within the country.

"The sector is extremely important as it provides exports of about \$43 billion but more importantly, gives employment to over 5 million artisans and workers," he added.