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Trade

India's merchandise trade deficit narrowed to US$ 57.6bn in Q1FY24 from US$ 62.6bn in the same period last year. While imports declined by US$ 23.3bn, exports were lower by US$ 18.3bn. Lower commodity prices contributed to the decline in the trade deficit. With global commodity prices now normalizing imports may see further reduction in value terms. Even domestic demand may see some correction which will also keep the import bill muted. Exports, both services and merchandise have been impacted due to the weakness in global economic activity, which is likely to continue. Overall we expect CAD to moderate in FY24. This along with a recovery in FDI and FPI inflows will support the rupee.

Trade performance in Jun'23: India's export growth weakened further and declined by 22.1% in Jun'23 compared with a 10.2% decline in May'23. Even imports declined at an accelerated pace of 17.5% in Jun'23 versus 6.7% in May'23. On a MoM basis, while exports declined by US$ 2bn, imports were lower by US$ 3.9bn, thus leading to a narrowing of trade deficit. Trade deficit moderated to US$ 20.1bn from US$ 22bn in May'23.

Trade performance in Q1FY24: On a quarterly basis, exports are lower by 15.3% in Q1FY24 compared with an increase of 26.6% in Q1FY23. In terms of commodity wise exports, maximum decline was seen in the exports of petroleum products which have declined by 33.2%, as oil prices declined by 30.6% in Q1. Other major items which showed a substantial drop include: gems and jewellery (-26.4%), organic and inorganic chemicals (-19.4%) and textiles (-15.4%). On the other hand, though weaker than last year, exports of drugs and pharmaceuticals (5.4%) and agricultural products (1.3%) remained in the positive territory.

Table 1: Exports by major commodities

Item	Share in FYTD24	Q1FY23, US$ bn	Q1FY24, US$ bn	Q1FY23, % YoY	Q1FY24, % YoY
Engineering goods	26.1	29.0	26.8	11.9	(7.4)
Oil	17.5	26.9	18.0	108.9	(33.2)
Agriculture and allied products	9.9	10.0	10.2	12.2	1.3
Textiles	7.8	9.5	8.0	10.7	(15.4)
Gems and jewellery	7.3	10.2	7.5	11.6	(26.4)
Drugs and pharmaceuticals	6.4	6.3	6.6	8.1	5.4
Chemicals	6.4	8.2	6.6	18.6	(19.4)

Source: CEIC, Bank of Baroda Research

On the imports side, India's imports declined by 12.7% in Q1FY24 versus an increase of 44.5% in Q1FY23. The decline can be attributed to lower commodity prices, as global commodity prices were elevated in Q1FY23 after the the Russia-Ukraine war broke out. Oil imports declined by 18.5% in Q1FY24, after increasing by a whopping 72% in Q1FY23. Gold imports too were lower by 7.5% (+33% in Q1FY23). Non-oil-non-gold imports were also 10.5% lower this year, after surging 35.9% in Q1FY23.

Within this, imports of coal (-32.4%), vegetable oils (-32.9%), organic and inorganic chemicals (-27.6%), and pearls and precious stones (-25%) exhibited the maximum decline. Capital goods imports rose by 4% in Q1FY24, after increasing by 14.2% in the same period last year. This was led by machinery imports. Electronic imports also increased by 6.3% in Q1FY24, building up on an increase of 33.8% last year.

Table 2: Imports by major commodities

	Share in FYTD24	Q1FY23, US$ bn	Q1FY24, US$ bn	Q1FY23, % YoY	Q1FY24, % YoY
Electronic Goods	12.3	18.6	19.8	33.8	6.3
Capital Goods	11.3	17.5	18.2	14.2	4.0
--Machinery	7.3	10.5	11.8	13.9	12.1
Chemicals and Related Products	9.1	17.9	14.6	38.7	(18.4)
Coal	7.2	17.1	11.5	190.7	(32.4)
Organic and inorganic chemicals	4.6	10.2	7.4	45.1	(27.6)
Pearls and Precious Metals	3.9	8.3	6.2	13.9	(25.0)
Plastics	3.4	6.4	5.5	29.8	(14.2)
Non Ferrous Metals	3.4	5.1	5.4	27.1	5.2
Iron and Steel	3.2	4.7	5.1	25.6	9.7

Source: CEIC, Bank of Baroda Research

Outlook: Trade deficit in Q1FY24 was lower at US$ 57.6bn versus US$ 62.6bn in Q1FY23, as imports have declined by much more than exports. This trend is likely to continue in FY24. While exports face increasing headwinds from a weak global economy, lower commodity prices may provide some relief.

Flashpoint: Services exports have also shown signs of slowing down. In fact, services exports have moderated to just 5.2% in Q1FY24, after increasing by 35.4% in Q1FY23. However, as services imports have moderated even more, the net services balance remains higher at US$ 35bn, compared with US$ 31.1bn in the same period last year.

Overall, we expect India’s CAD to be within a range of 1.2% to 1.5% of GDP in FY24. This combined with a recovery in foreign inflows (FPI and FDI), should keep India comfortably placed in terms of external stability. Hence, we expect INR to remain stable and trade in the range of 81-83/$ this year.

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