14 Nov 2024

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India's Foreign Trade: FYTD25

India's merchandise trade deficit widened to a 13-month high of US$ 27.1bn in Oct'24, led by a pickup in oil and gold imports. Exports picked up sharply by 17.3% in Oct'24, led by non-oil exports. In FYTD25, trade deficit tracks higher than last year as there has been some correction in global commodity prices. Going ahead, export growth will be contingent on the direction of global trade amidst expectation of increased US protectionism. While higher commodity prices are likely to weigh on imports, the extent of the increase is likely to be muted. Oil prices at current levels are a huge positive. Overall, while we expect CAD to be within a manageable range in both FY25 and FY26, INR is likely to remain under pressure in the near-term. This is because the recent bout of weakness in INR is stemming purely from exogenous factors including a stronger dollar and capital flight from EM markets.

Trade performance in Oct'24: India's exports rebounded sharply in Oct'24 increasing by 17.2%, marking the sharpest pace of expansion in 28-months. Imports also recovered to rise by 3.9% in Oct'24 versus 1.6% in Sep'24. Trade deficit widened significantly to a 16-month high at US$ 27.1bn in Oct'24 from US$ 20.8bn in Sep'24. This can be attributed to an increase in oil and gold imports. While oil imports increased by US$ 5.8bn on a MoM basis, gold imports were higher by US$ 2.7bn in the same period. Gold imports are expected to be higher in Q3FY25 due to seasonal demand which is likely to keep trade deficit elevated in the next two months.

Trade performance in FYTD25: At US$ 252.3bn in FYTD25 (Apr-Oct'2024), exports have registered a positive growth of 3.2%, compared with a decline of 7.1% in the same period last year. In terms of commodity wise exports, broad based improvement has been witnessed in exports of key commodities barring oil and gems and jewellery. On the positive side, come of India's key exports such as engineering goods and textiles have witnessed a smart recovery this year. Export restrictions on certain agricultural commodities have weighed on exports but should ease as these restrictions are gradually lifted.

Table 1: Exports by major commodities

Items	Share in exports	FYTD24, US$ bn	FYTD25, US$ bn	FYTD25, % YoY
Engineering goods	26.8	61.5	67.5	9.7
Oil	16.2	47.6	40.9	-14.0
Electronic goods	7.6	15.4	19.1	23.7
Gems and jewellery	6.8	18.6	17.2	-7.7
Drugs and pharmaceuticals	6.8	15.8	17.0	8.0
Chemicals	6.7	15.6	16.8	7.7

Source: CEIC, Bank of Baroda Research

In comparison, imports have increased by 5.8% in FYTD25 after contracting by 8.4% in the same period last year. This can be attributed to an increase in non-oil-non-gold imports which rose by 4.1% in FYTD25, versus a decline of 6.7% in FYTD24. Within this, imports of pulses and edible oils have shown a sharp pickup due to domestic availability issues as well as higher global prices. Electronic imports have been marginally weaker likely reflecting higher domestic production. Capital goods imports are higher signalling a pickup in domestic capex cycle. Higher prices have also contributed to an increase in imports of cotton and wood pulp. Despite lower oil prices, oil imports have increased at a faster pace of 7.1% this year compared with a decline of 18.6% last year. Gold imports are also higher this year due to higher prices. Gold prices have increased by over 25% in FYTD25 on a YoY basis.

Table 2: Imports by major commodities

Items	Share in imports	FYTD24, US$ bn	FYTD25, US$ bn	FYTD25, % YoY
Oil	25.7	100.1	107.2	7.1
Electronic Goods	13.5	51.3	56.3	9.7
Transport equipment	4.2	16.0	17.5	9.8
Machinery	7.3	28.7	30.6	6.6
Gold	8.2	29.5	34.2	16.1
Coal	4.7	22.5	19.8	-12.0
Organic and inorganic chemicals	4.1	16.4	17.2	4.7
Pearls and Precious Metals	2.6	14.2	11.0	-22.6
Iron and Steel	3.2	13.2	13.4	1.5

Source: CEIC, Bank of Baroda Research

Outlook: In FYTD25, merchandise trade deficit is tracking higher at US$ 164.6bn compared with US$ 149.7bn in the same period last year. This can be attributed to a pickup in imports due to correction in commodity prices. The recent uptick in global prices of a few commodities will remain a key monitorable going ahead. Even so, continued economic weakness in China is likely to keep a lid on prices. It will also be crucial to monitor the impact of proposed tariff policies by the US on the global trade landscape which is only slowly showing signs of a nascent recovery and will be a key headwind for a meaningful recovery in exports. Oil prices have remained muted and are likely to support India's external position. We expect CAD at 1.2%-1.5% of GDP in FY25. While this is within a manageable range, the recent bout of capital flight from the domestic market is likely to weigh on the rupee. We expect INR to trade with a depreciating bias in the near-term.

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