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Bank of Baroda

17 Oct 2024

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India’s Foreign Trade: H1FY25

India’s merchandise trade deficit narrowed down in Sep’24 on a sequential basis, led by a downward correction in gold imports. Non-oil non gold imports also exhibited some bit of moderation amidst patchy domestic demand conditions and higher inflation. H1 picture however reflect a widening trade deficit (US$ bn) compared to same period of last year (US$ bn). Going ahead, some upside risk to trade deficit will continue to reign in from faster pace of growth in imports. Higher commodity prices especially prices of industrial inputs, metals are witnessing some momentum (IMF primary commodity prices data), which will feed into imported inflation in turn inflating the import bill. Export cycle will continue to witness staggered recovery amidst geopolitical risks, elections driven uncertainty in the US and modest monetary policy response of major global central banks.

Trade performance in Sep’24: India’s trade deficit narrowed down to US$ 20.8bn in Sep’24 compared to US$ 29.7bn deficit seen in Aug’24. This is attributable to faster pace of decline in imports. It fell to US$ 55.4bn in Sep’24 from US$ 64.4bn in Aug’24. Correction in gold imports post a sharp spike in Aug’24 has led to the same. Gold imports fell to US$ 4.4bn from US$ 10.1bn. Even non-oil non-gold imports moderated to US$ 36.5bn from US$ 43.3bn. Exports on the other hand, was broadly stable at US$ 34.6bn from US$ 34.7bn, attributable to seasonal fluctuations. On a seasonally adjusted MoM basis, exports growth rose at a higher pace of 4% while imports growth declined at a less sharp pace by 8%, thus supporting the trade deficit.

Trade performance in H1FY25: Exports growth improved marginally by 1% to US$ 213.2bn in H1FY25 compared with a decline of 8.9% in same period of previous year. In terms of commodity wise exports, Drugs and Pharma, engineering goods and chemicals gained pace. Higher inflationary pressure in cereals, pulses, edible oils has kept a lid on exports of agriculture and allied products. Textile exports also picked pace amid global shifts.

Table 1: Exports by major commodities

Items	Share in exports	H1FY24, US$ bn	H1FY25, US$ bn	H1FY25, % YoY
Engineering goods	26.4	53.4	56.2	5.3
Oil	**17.1**	**41.7**	**36.5**	**-12.5**
Agriculture and allied products	8.3	17.8	17.8	0.0
Textiles	7.9	16.0	16.8	4.8
Gems and jewellery	6.5	15.6	13.9	-10.9
Drugs and pharmaceuticals	6.8	13.4	14.4	8.0
Chemicals	6.6	13.5	14.1	4.6

Source: CEIC, Bank of Baroda Research

Imports in H1FY25 have picked up at a faster pace than exports by 6.2% compared to a decline of 11.3%, seen during the same period of last year. The increase is attributable to increase in non-oil non-gold imports to US$ 222.7bn compared to US$ 211.3bn, signalling some headway in domestic consumption demand notwithstanding inflationary impact. Oil imports have also risen to US$ 88.9bn from US$ 84bn, due to lower discounts from Russia. During Apr-Aug period, unit value of India's oil import from Russia is at US$ 606.5/tonnes which is higher than US$ 509.7/tonnes, seen in the same period of previous year. In fact, with ongoing tensions in the Middle East, the unit value of oil imports from Iraq which was far lower than Russia is coming at par at US$ 600.2/tonnes. This poses further upside risk to India's oil import bill.

Gold imports firmed up led by higher international prices which rose by 22.1% during the same period. This is led by frontloading ahead of festival spending and safe-haven demand as an effective hedge. Among major non-oil non-gold imports, non-ferrous metals and capital goods have registered pace reflecting demand for growing capital accumulation. Electronic goods have also maintained persistent momentum signalling buoyancy in discretionary spending of consumers. Imports of pulses have also magnified to support domestic production and keep a check on inflation.

Table 2: Imports by major commodities

Items	Share in imports	H1FY24, US$ bn	H1FY25, US$ bn	H1FY25, % YoY
Oil	25.4	**83.96**	**88.93**	5.9
Electronic Goods	13.7	43.5	47.9	10.2
Capital Goods	12.7	40.8	44.6	9.3
--Machinery	7.4	24.5	26.0	6.2
Chemicals and Related Products	9.8	36.3	34.4	-5.3
Gold	**7.7**	**22.2**	**27.1**	**22.1**
Coal	5.0	19.2	17.4	-9.2
Organic and inorganic chemicals	4.2	14.0	14.8	5.8
Non-Ferrous Metals	3.7	11.0	12.9	17.4
Plastics	3.3	11.6	11.6	-0.2
Pearls and Precious Metals	2.7	12.3	9.6	-21.6
Iron and Steel	3.2	11.1	11.3	1.7

Source: CEIC, Bank of Baroda Research

Outlook: Merchandise trade deficit in H1FY25 is higher at US$ 137.4bn compared to US$ 119.2bn in the same period of last year. H2 generally has the seasonal trend of improvement in export cycle. However, a lot hinges on revival in global growth which is still patchy. Policy support in China is still insufficient and pickup in growth of the region is expected to happen at a lag. Some derangement to exports to US might also be witnessed ahead of election related uncertainty. However, compared to last year underlying macro dynamics do favour softer liquidity conditions which will support exports. Some bit of delay in embarking on the easing cycle might delay but not withhold the revival of the export cycle. Imports on the other hand, will continue to see upward correction as globally industrial inputs and metal prices are witnessing momentum. The question is will it sustain as global demand is still softer especially in the Eurozone and China. Volatility in oil prices also cannot be ruled out in

conjunction with stickiness in gold prices as an effective hedge. Non-oil non gold imports have also maintained its momentum since May'24 onwards. H2 generally has the trend of pick up in domestic demand owing to festival push and post sowing, which may have a bearing on non-oil non-gold import numbers. Risks also emanate from higher imported inflation in the wake of a weaker currency. Thus, the above backdrop calls for some upside pressure on trade deficit in the remaining fiscal as imports growth might outweigh the staggered response to export revival.

On the financial account side, stable FDI flows amidst enhanced policy initiatives to integrate India with global supply chains and policies aimed at improving business conditions and buoyant FPI flows from favourable interest rate differential will continue to lend support to India's overall external position.

Overall, we expect India's CAD to be within a range of 1% to 1.2% of GDP in FY25.

Services trade balance: On FYTD basis, services exports have risen at a fair pace of 9.8% to US$ 180bn in FYTD25. Services imports have increased by 9.6% to US$ 62.9bn, thus balance is reigning at US$ 82.6bn, higher than same period of last year. On a sequential basis, there have not been much momentum both in services exports and imports.

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