

**RESEARCH**
**BOB ECONOMICS RESEARCH | EXTERNAL SECTOR REVIEW**

Trade, CAD and capital flows

**SUMMARY**
**INDIA ECONOMICS: EXTERNAL SECTOR REVIEW**

India's external sector is ending FY23 on a much more strong footing than what was expected at the start of the year. While surging commodity prices led to burgeoning external deficits during the first half of the year increasing risks to global growth, the consequent correction in commodity prices has helped the external sector in H2FY23. After surging to a 37-quarter high of 4.4% of GDP, CAD is expected to moderate going forward. A stronger than expected moderation in merchandise deficit and resilient services exports have lent considerable support to India's CAD. We expect CAD in a comfortable range of 2.4%-2.5% in FY23, and even lower in FY24 (1.9%-2.2%). This should support INR. However, concerns remain on the capital account side with FDI, FPI and ECB inflows expected to be lower.

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**Daily macro indicators**

Ticker	27-Mar	28-Mar	Chg (%)
US 10Y yield (%)	3.53	3.57	4bps
India 10Y yield (%)	7.30	7.31	2bps
USD/INR	82.37	82.19	0.2
Brent Crude (US\$/bbl)	78.1	78.7	0.7
Dow	32,432	32,394	(0.1)
Hang Seng	19,568	19,785	1.1
Sensex	57,654	57,614	(0.1)
India FII (US\$ mn)	24-Mar	27-Mar	Chg (\$ mn)
FII-D	107.7	28.6	(79.1)
FII-E	(177.1)	(75.6)	101.5

Source: Bank of Baroda Economics Research

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## EXTERNAL SECTOR REVIEW

29 March 2023

## Trade, CAD and capital flows

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**Aditi Gupta**  
Economist

## Merchandise trade performance

India's export and growth contracted at a faster pace of 8.8% in Feb'23 compared with a decline of 6.6% in Jan'23. Even imports dipped by 8.2% in Feb'23, after falling 3.6% in Jan'23. The sharper pace of decline in imports vis-à-vis exports led to a further narrowing of trade deficit to US\$ 17.4bn in Feb'23 from US\$ 17.7bn in Jan'23, and US\$ 18.7bn in Feb'22.

In FYTD23 (Apr'22-Feb'23), exports have increased by 6.8%, compared with a growth of 47.1% in the same period last year. It must be noted that the impressive growth in FYTD23 came on a low base in FY21, due to the disruptions caused by the pandemic. Even so, India's export growth has lost momentum in the last few months amidst a decline in external demand. Table 1, gives the commodity wise breakup of exports for the top 10 commodities. These account for about 78% of total exports this years.

Table 1: India's top 10 export items

Item	Share in total (%)	FYTD22, US\$ bn	FYTD23, US\$ bn	FYTD22, % YoY	FYTD23, % YoY
Engineering goods	24.0	101.1	96.6	50.1	(4.5)
Petroleum products	17.3	57.7	69.9	162.1	21.3
Gems & jewellery	8.7	35.3	35.2	57.6	(0.3)
Organic & inorganic chemicals	6.8	26.5	27.3	33.8	3.0
Drugs & pharma	5.7	22.2	22.9	0.4	3.1
Electronic goods	5.1	13.8	20.7	42.8	49.8
RMG of all textiles	3.7	14.3	14.7	31.6	3.3
Cotton Yarn/Fabrics./ Handloom etc.	2.5	8.6	10.0	12.3	16.1
Rice	2.5	14.0	9.9	60.0	(28.9)
Plastic & linoleum	1.9	9.0	7.6	33.3	(14.8)
<b>Total exports</b>		<b>377.4</b>	<b>403.1</b>	<b>47.1</b>	<b>6.8</b>

Source: CEIC, Bank of Baroda Research



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**Note:** Recommendation structure changed with effect from 21 June 2021

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