## Macroeconomics | FIRST CUT

# Trade deficit narrows

January 2024

India's merchandise exports crawled back into positive terrain in December, rising 0.97% on-year to $38.45 billion after a 2.9% contraction in the previous month. On a sequential basis too, exports were up 4.1%[1].

Merchandise exports were resilient in the face of slowing demand in major markets such as the United States and European Union, as well as supply chain bottlenecks[2] and geopolitical tensions.

Core exports recorded an uptick of 5.4% on-year vis-à-vis a decline of 2.8% in November and were led by exports of electronic goods (14.4% vs 1.1%), engineering goods (10.2% vs -3.1%), drugs and pharmaceuticals (9.3% vs 7.3%), among others.

Cumulatively, India's merchandise exports have declined 5.7% on-year in April-December this fiscal to $317.1 billion, compared with $336.3 billion a year ago.

While exports grew, India's merchandise imports contracted 4.85% on-year to $58.25 billion from $61.22 billion in December 2022.

Oil and core imports fell 22.8% and 0.2% on-year, respectively, with Brent spot averaging $77.9/bbl in the month compared with $80.9/bbl in December 2022. Oil exports declined 17.6%.

Gold imports rose 156.5% on-year, largely due to a low-base effect, compared with 6.2% in November. However, imports of pearl, precious and semi-precious stones declined 11.7% on-year, but slower than the 56.7% on-year fall clocked the previous month. Silver imports declined 19.1% compared with a growth of 254.8% in November.

That said, imports of cotton (67.8% on-year), electronic goods (48.5%), artificial resins, plastic materials and others (10.4%) increased.

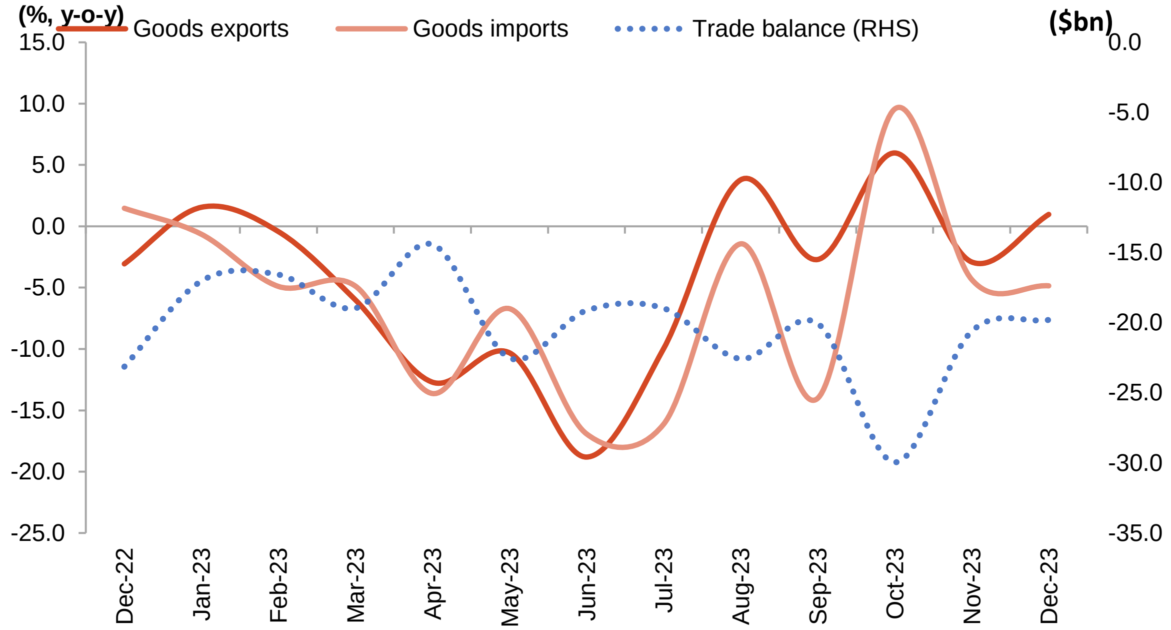
Decline in imports compared with rising exports narrowed the merchandise trade deficit to a three-month low of $19.8 billion in December from $20.6 billion in November and $23.1 billion in December 2022.

Cumulatively, in April-December this fiscal, merchandise imports have contracted 7.9% on-year to $505.14 billion, helping narrow the merchandise trade deficit to $188.02 billion from $212.35 billion.

India's services exports continued to grow positively on-year, while imports continued a declining trend. As a result, the services trade balance remains robust at $14.4 billion in November, compared with $11.5 billion in November 2022.

[1] In seasonally adjusted terms
[2] Most recently on account of the ship attacks in the Red Sea

**Merchandise exports growth overtakes imports, trade balance further declines**




*Source: Ministry of Commerce and Industry, CRISIL*

## Data highlights

- Oil imports contracted for the 10th consecutive month, by 22.8% on-year, while oil exports fell for the fourth consecutive month, by 17.6%, in December. Sequentially, oil imports fell mildly to $14.94 billion in December from $14.93 billion in November. Exports, on the other hand, fell to $6.9 billion from $7.4 billion the previous month
- Core exports grew 5.4% on-year in December compared with a 2.8% decline in November. Growth in drug and pharmaceuticals (9.3% vs 7.3%), electronics (14.1% vs 1.1%) and engineering goods (10.2% vs -3.1%) were major contributors to growth
- Export growth of carpets declined slightly (3.8% vs 4.2%), while ceramic products and glassware (3%), cotton, yarn, fabrics, made-ups, handloom products and others (8.6%) and handmade carpets (9.4%) saw improved growth, compared with the previous month
- Agricultural product exports such as coffee (-0.7% vs 11%), cashew (-0.6% vs -1.5%), fruits and vegetables (25.4% vs 31.1%), spices (27.7% vs 11.3%) and tea (-4.2% vs -14.4%) saw mixed growth
- Gold imports increased (156.5% vs 6.2%) on-year. On the other hand, imports of pearls, precious and semi-precious stones fell 11.7%, albeit slower than a 56.7% decline logged the previous month
- Core imports (non-oil and non-gold) fell 0.21% on-year compared with a 0.9% decline in November. Imports contracted for iron and steel (-2.4% vs 13.7%), transport equipment (-55.1 vs -18.6%) and silver (-19.1% vs 254.8%). Import growth was positive, but lower compared with the previous month for leather and leather products (8.1% vs 29.6%), metalliferous ores and other minerals (2.2% vs 41.8%) and non ferrous metals (4.6% vs 15%)
- Services exports in November stood at $28.09 billion, compared with $28.03 billion in October, while services imports improved to $13.68 billion from $13.46 billion. As a result, services trade surplus was marginally down to $14.41 billion in November from $14.57 the previous month. However, services trade surplus remains higher on-year.

## Outlook

While the slackening in merchandise exports has moderated in recent months, it remains to be seen if this trend can sustain, given the headwinds in the form of an expected global slowdown and uncertainties on account of the geopolitical situation. Another near-term challenge for India’s exports is the disruption due to the Red Sea crisis. The Red Sea being a major route for shipping to Europe, the US East Coast, the Middle East and African countries, India usually uses this route to export a variety of goods. These include steel, engineering goods, textiles, vehicles, agro products, petroleum products, cereals and chemicals. The impact of the crisis is expected to be seen in January trade data.

That said, the impact on the current account should be contained as the expected deceleration in domestic growth in the second half of this fiscal should keep a check on imports. At the same time, the services trade surplus and remittances remain healthy.

As a result, we project India’s current account deficit (CAD), which was 2.0% of gross domestic product in fiscal 2023, to soften to 1.8% this fiscal, with a potential upside if the the Red Sea disruption gets contained soon.

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