# Press Release

## High commodity prices weigh on India's external sector

**Higher sequential trade deficit in Apr-22 indicate further widening in FY23**

**05 May 2022**

As per the preliminary estimates released by the Ministry of Commerce and Industry, India's merchandise trade deficit widened to USD 20.1 bn in Apr-22 from a deficit of USD 18.7 bn in Mar-22. In value terms, exports moderated to USD 38.2 bn in Apr-22 from USD 40.4 bn in the previous month which is however, typical in the beginning of the fiscal year. On the other hand, imports declined only marginally to USD 58.3 bn in Apr-22 from USD 59.1 bn in Mar-22.

On the exports front, the moderation was driven by non-oil exports while oil exports surged to a fresh record high primarily led by spike in crude oil prices. On sectoral basis, commodities such as petroleum products, electronic goods, chemicals, and engineering goods remained strong in Apr-22. Despite comfortably crossing the USD 400 bn export target in FY22 by USD 20 bn, the government has not projected any fresh target for FY23. Nevertheless, the government is expected to set a conservative target for FY23 merchandise exports in the wake of the expected moderation in global trade amidst raging conflicts between Russia and Ukraine and resurgence in Covid cases in China and some Asian economies. With weaker prospects of global growth, the Word Trade Organization has also lowered its FY23 global trade forecast to 3.0% in FY23 from an earlier forecast of 4.7%. However, one of the factors which may help India to keep its export momentum buoyed is the opportunity emerging from the supply gaps created by Russia-Ukraine crisis, prolonged Covid-induced lockdown in China and the economic crisis in Sri Lanka. Additionally, strategic trade partnerships (such as India-Australia trade agreement, and India-UAE trade pact), government initiatives in the form of extension of ECLGS scheme for MSMEs, introduction of new legislation for special economic zones (SEZs) and the rollout of PLI schemes is also expected to facilitate export growth in FY23.

Imports marginally moderated in Apr-22 led by gold imports which declined significantly by 73% YoY to USD 1.7 bn due to the surge in prices. However, the demand in the remaining months of the first quarter of FY23 is expected to receive some support from festive purchases (Akshaya Tritiya – a key gold-buying festival) and the ongoing wedding season. On the other hand, the impact of the sharp rise in crude oil prices has led crude imports to a surge to yet another record high of USD 19.5 bn in Apr-22. As compared to the corresponding period of last year, the oil imports have nearly doubled from USD 10.7 bn in Apr-21 o USD 19.1 bn in Apr-22. NONG imports also rose by 27.7% YoY to USD 37.1 bn in Apr-22 which is both a reflection of steady domestic demand and higher commodity prices. Notably, looking at the top ten import commodities for Apr-22, the import of coal and vegetable oils have increased significantly; this is mainly because of a significant surge in their prices amidst creation of global supply shock with Russia and Ukraine being one of the major producers of these commodities.

Overall, for FY23, we continue to project current account deficit to widen to USD 85 bn from an expected USD 47 bn in FY22. The expectation of widening of current account deficit is not just driven by elevated global commodity prices (in the base case scenario we expect crude oil to average in the range of USD 97-100 pb in FY23) but is also linked to the unlocking of the economy post the Omicron wave reviving pent-up demand and improving vaccination cover aiding organic recovery. Nevertheless, there is considerable uncertainty in projecting trade and current account deficit due to high volatility in commodity prices, which in the current environment is taking cues from unpredictable geopolitical events.

**Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research** "While global growth prospects have weakened considerably due to the continuing conflict in Ukraine, the supply chain disruptions also present opportunities for some of the export oriented sectors. Exports therefore, may surprise on the upside in FY23 but elevated crude oil and other commodity prices will clearly ensure a higher trade and current account deficit. With capital flows also highly uncertain in an environment of sharp monetary tightening in developed economies, we expect to witness continuing weakness and volatility on the rupee front".

## Annexure

**Chart 1: Higher commodity prices to further weigh on India's trade deficit in FY23**

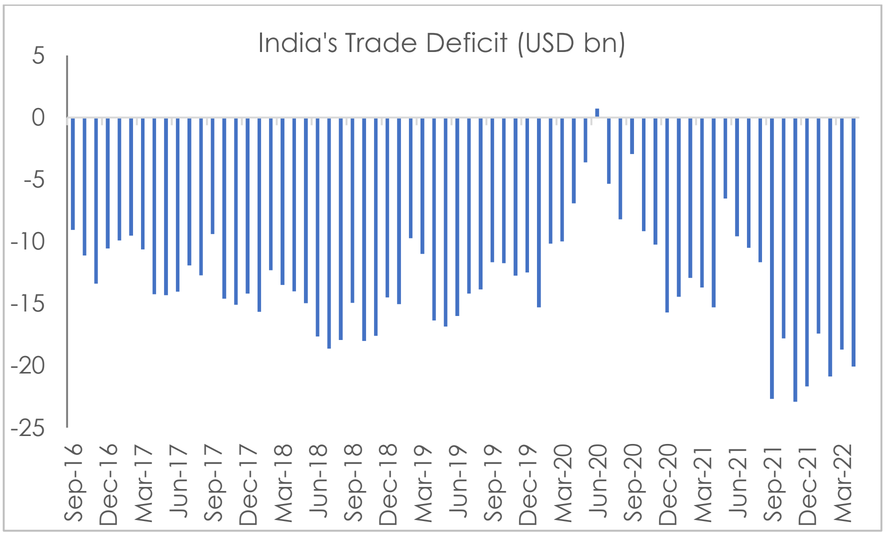
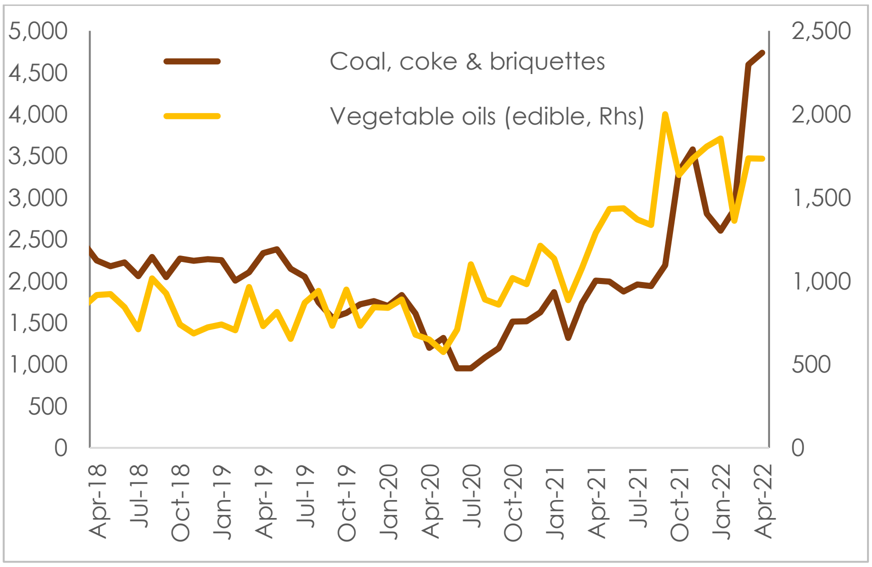



**Chart 2: Surge in prices have led imports of coal and edible oil to rise significantly (USD mn)**



**About Acuité Ratings & Research Limited:**

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