Press Release

Sluggish export performance widens trade deficit in Oct-22

CAD projected at USD 130 bn in FY23 amid increasing external headwinds

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India's merchandise trade deficit widened marginally to USD 26.9 bn in Oct-22 from USD 25.7 bn in Sep-22. While both exports and imports declined sequentially, the expansion of trade deficit was on the back of relatively larger contraction in exports vis-à-vis imports. Sequentially, in value terms, exports declined significantly to a 20-month low of USD 29.8 bn in Oct-22 from USD 35.5 bn in the previous month led by the adverse impact of the slowdown in large export markets such as the US and EU, prolonged lockdown in China and domestic export restrictions levied on certain commodities. On the other hand, imports eased to an 8-month low of USD 56.7 bn in Oct-22 from USD 61.2 bn in Sep-22 amid the correction in commodity prices. Cumulative trade deficit for Apr-Oct'22 stands sharply higher at USD 173.9 bn as compared to USD 94.3 bn recorded in the corresponding period of the previous financial year.

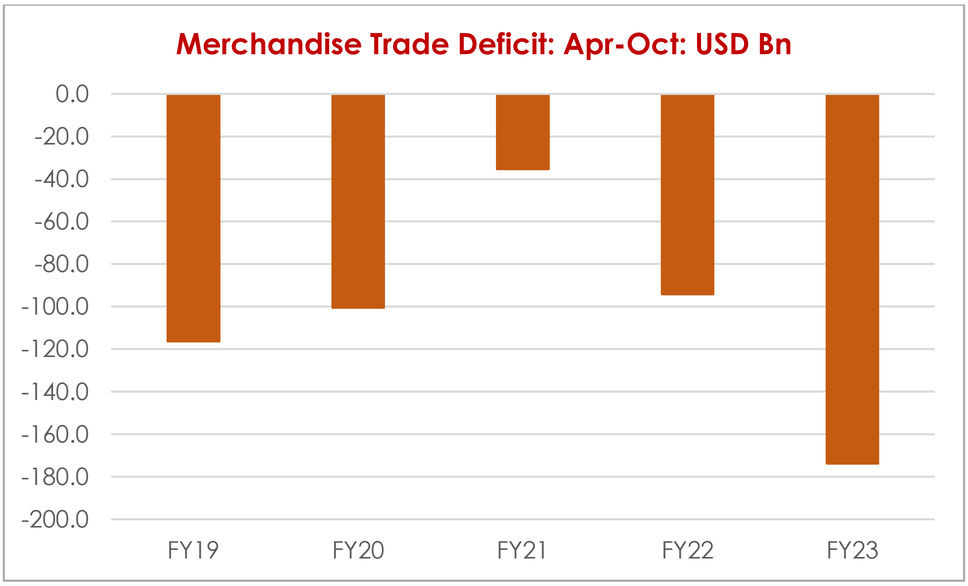
Significant moderation in exports to sub 30 bn levels was led by decline in both oil and non-oil exports. On annualized basis, the exports contracted in double-digits by 16.6% YoY led primarily by a broad based a broad based decline in exports of iron ore, cereals, gems and jewellery, engineering goods, and textiles. Clearly, the continued drop in exports is driven by the intense global headwinds in the form of persistent inflationary pressures aggravated by currency depreciation, synchronized monetary policy tightening and the resultant global growth slowdown. In its latest update to the World Economic Outlook report, the IMF slashed its growth forecast for 2023 World GDP and World Trade by 20 bps and 70 bps to 2.7% and 2.5% - this marks a sharp loss of momentum vis-à-vis IMF's 2022 earlier growth estimates of 3.2% and 4.3%. Additionally, the export duties or restrictions imposed by the government in case of select commodities to reign in domestic inflation has also been weighing on India's export performance. On a cumulative basis, exports for Apr-Oct'22 stands at USD 263.3 bn, an expansion of 12.6% compared to the corresponding period in FY22 which primarily reflects the export buoyancy in the second half of previous fiscal. Going forward, we expect the export performance to remain weak with prospects of a significant slowdown in India's key exports markets such as Eurozone and the US which account for nearly 50% of India's total exports.

The decline in overall imports was primarily led by easing non-oil and non-gold (NONG) as well as gold imports. Despite the festive heavy month, gold imports dipped on a sequential basis to USD 3.7 bn in Oct-22 registering nearly a 30% decline on a YoY basis. While the imposition of higher import duty (from 4.25% to 15%) on gold could impact demand moderately, we expect the overall gold demand to increase in Q3 FY23 with the onset of wedding season. Moderation in crude oil prices along with increased access to Russian oil has led the oil imports to moderate to an 8-month low of USD 15.8 bn in Oct-22. NONG imports, after remaining above USD 40 bn for four consecutive months eased to USD 36.5 bn in Oct-22 amidst the lagged impact of a correction in commodity prices. On sub-sector basis, pulses, pearls and precious stones, machinery, electronic goods, vegetable oil led the overall decline in NONG imports. While the festive heavy second half is expected to keep the overall volume demand for inbound shipments strong, the correction in commodity prices including that of crude oil is likely to act as a balancing factor causing the total imports in India to remain range bound.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research " The impact of the sharply increased trade and current account deficit, apart from the global monetary tightening is already visible in the weakness of the INR which has seen a net depreciation of 9.1% in fiscal YTD. Going forward, the monthly trade deficit prints, however may moderate as impact of lower commodity prices (with CRB Index down ~10% since its Jun-22 peak) trickle down further and global supply chain pressures ease. Amidst pressures on the external front, the government may also consider easing some of the administrative restrictions imposed on exports this year. This can help to bring down the current account deficit levels which we had projected at USD 130 bn (~3.9% of GDP)."

Annexure

Chart 1: Highlights of merchandise trade balance



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