Economic Intelligence Cell
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Macro Insights

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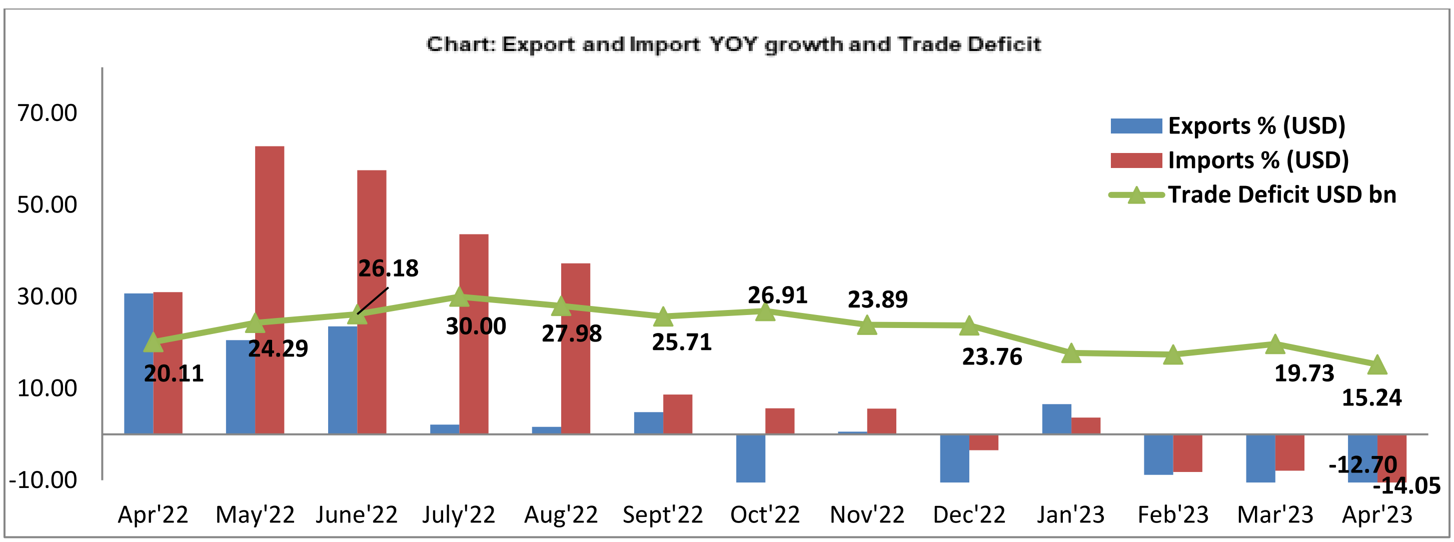
Trade Deficit

India's merchandise trade deficit hits 20-month low at $15.2 billion in the first month of FY'24 owing to sluggish demand and recession in the Global Economy.

Highlights:

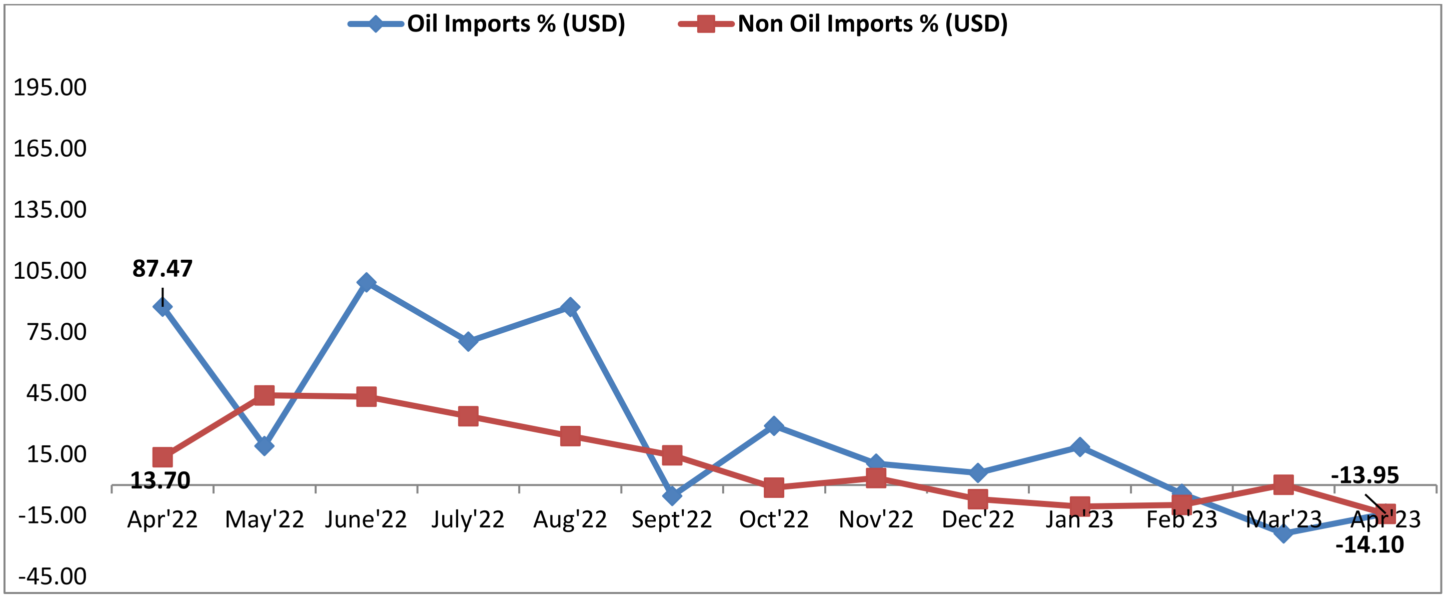
- *Merchandise exports declined to $34.66 billion, down 12.70% year-on-year in April 2023. Meanwhile Merchandise imports also declined to $49.90 billion, down by 14.05 % year-on-year in April 2023.*
- *This is the third consecutive month of a contraction in exports and imports, respectively.*
- *Exports of non-petroleum products and non-gems and jewellery products contracted 9.2 per cent in April to $25.76 billion. Their imports also declined to $31.49 billion, contracting 12.5 per cent.*
- *India's merchandise exports witnessed a contraction in 19 out of 30 sectors in April. Key export items that dipped in April include petroleum products (-17.62 per cent), plastics and linoleum (-18.95 per cent), gems and jewellery (-30 per cent), engineering goods (-7.15 per cent), and cotton yarn (-23.42 per cent). Among sectors that experienced positive growth include electronic goods (26.49 per cent) and drug and pharmaceuticals (10.45 per cent).*



($ bn)

Month	Exports	Imports	Trade Deficit
Apr'22	39.70	58.06	-18.36
Apr'23	34.66	49.90	-15.24
YoY Growth (%)	-12.70%	-14.05%	-16.99%

Chart: Import Growth % - Oil & Non-Oil



Views:

- ✓ The sluggish demand for Indian goods is due to an economic downturn in key destinations and easing commodity prices that are weighing on India's trade basket.
- ✓ We expect trade deficit to be in the range of $17 - $22 billion for the next 4 -5 months.
- ✓ The weakening of global growth and trade is expected to both weaken and strengthen the stability of India's external sector. On the one hand, it may lower India's exports and widen the Current Account Deficit (CAD). On the other hand, it may reduce the value of imports by easing commodity prices and narrowing the CAD. So far, the net impact of the two opposing effects has been positive in narrowing the CAD.
- ✓ This has strengthened the stability of India's external sector. The CAD is expected to be in the range of 2.0-2.5% in FY'24. The rupee could strengthen against the dollar and can reach to the levels of Rs.80/dollar in FY24 due to improvement in CAD.
- ✓ With forex reserves now providing an import cover of 9.7 months and the CAD narrowing to a manageable level, FY 23 has closed with stronger stability in India's external sector. Larger reserves and narrower CAD will further stabilize the rupee as well. We expect rupee to trade in the range of Rs.80-82/dollar.

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