

Macroeconomics | **FIRST CUT**

Trade deficit falls

December 2023

India's merchandise exports reversed course in November with a 2.8% on-year contraction to \$33.9 billion after a 6.1% growth in the previous month. The sudden broad-based decline was in part due to a high base of 10.4% growth in the year-ago period and was led by a decline in oil exports, which slipped 7.4%, in sync with the fall in oil prices (Brent spot averaged \$83.2/bbl in November 2023 compared with \$91.1/bbl in November 2022).

Core exports fell 2.8% on-year due to a dip in pharmaceuticals, engineering goods, electronic goods, ceramic products and glassware, among others. Gems and jewellery exports grew 12.0% on-year in November, albeit on a low base. Sequentially, gems and jewellery exports declined for the second consecutive month in November.

Cumulatively, India's merchandise exports have declined 6.5% on-year to \$278.8 billion in April-November 2023 from \$298.21 billion in the year-ago period.

Merchandise imports, too, recorded a decline of 4.3% on-year in November, falling to \$54.48 billion from \$63.45 billion last month.

Oil and core imports fell 8.5% and 0.9% on-year, respectively, in November, but the magnitude of this fall had a very small effect on the overall merchandise import of India.

Import growth of gold softened to a meagre 6.2%, after increasing 95.4% on-year in October, indicating the impact of festive and wedding season spending is slowly wearing off. However, silver imports widened by 254.8% compared with the previous growth of 124.6% on-year. Imports of pearls, precious and semi-precious stones, meanwhile, declined 56.7% on-year compared with a 9.8% decline in October.

Imports of iron and steel, leather and leather products, metalliferous ores and other minerals saw an uptick. Poor demand in Europe and better acceptability in the domestic market saw imports from China zoom, making it the largest seller of steel to India. Huge amounts of steel imports from China on account of lower price offerings to trade, fast-moving consumer goods and auto sectors remain a cause for concern for domestic steel players.

A sharper decline in imports compared with exports, however, narrowed the merchandise trade deficit to \$20.58 billion in November from \$29.9 billion in October and \$22.06 billion in November last year. This could be a reflection of declining imports of gold, pearls and precious and semi-precious stones, and oil.

Cumulatively, merchandise imports have contracted more than exports at 8.67% on-year in April-November this fiscal. The merchandise trade deficit so far this fiscal, stands at \$166.35 billion, as against \$189.21 billion in the year-ago period.

India's services trade surplus increased in October¹ compared with the previous month. Services exports grew amid weakening services imports.

¹ Latest services trade data released by RBI for October 2023

Sharper decline in merchandise import growth than exports in November



Source: Ministry of Commerce and Industry, CRISIL MI&A Research

Data highlights

- Oil imports contracted for the ninth consecutive month by 8.5% and export growth fell for the third consecutive month by 7.4% on-year respectively. Oil imports fell to \$14.9 billion in November, from \$16.2 billion in October, largely due to a decline in oil prices. Oil exports on the other hand increased to \$7.5 billion from \$6 billion last month.
- Core exports fell 2.8% on-year in November compared with a growth of 11.7% in October. Growth in drug and pharmaceuticals (7.3% vs 29.3%), electronics (1.1% vs 28.2%) and engineering goods (-3.1% vs 7.2%) was narrower despite lower-base effect
- Among other categories, exports of carpets (4.2%), ceramic products and glassware (2.2%), cotton, yarn, fabrics, made-ups, handloom products and others (6.3%) and handmade carpets (1.2%) saw slower growth, compared with the October levels
- However, agricultural products such as coffee, fruits and vegetables and spices have seen a positive growth of 11%, 31.1% and 11.3% on-year, respectively.
- Gold imports grew at a slower pace (6.2% vs 95.4%) on-year, marking a decline in imports post the festive demand. On the other hand, imports of pulses and fruits and vegetables were the highest in November, growing 53.6% and 50.2% on-year, respectively
- Iron and steel imports increased 13.7% on-year from a mere 7.4% rise in October, while leather imports saw a 29.6% push, compared with -5.4% last month
- Imports in core sectors (non-oil, non-gold) recorded a decrease with coal, coke and briquettes imports falling 10.4% on-year versus 4.5% growth previously. Other categories such as transport equipment (-18.6%) and vegetable oils (-37.2%) remained low
- Services exports in October stood at \$28.03 billion, compared with \$28.43 billion in September, while services imports dipped to \$13.46 billion from \$14.59 billion. As a result, services trade surplus rose to \$14.57 billion in October from \$13.84 the previous month

Outlook

While the slackening in merchandise exports has moderated in recent months, it remains to be seen if this trend can sustain. Exports are facing global headwinds in the form of an expected slowdown in the near term and uncertainties on account of the geopolitical situation.

That said, the expected deceleration in domestic growth in the second half of this fiscal should keep a check on imports. The services trade surplus remains robust and remittances are expected to 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.

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