Merchandise trade deficit narrowed in FY24 but risks are starting to reflect in latest monthly data

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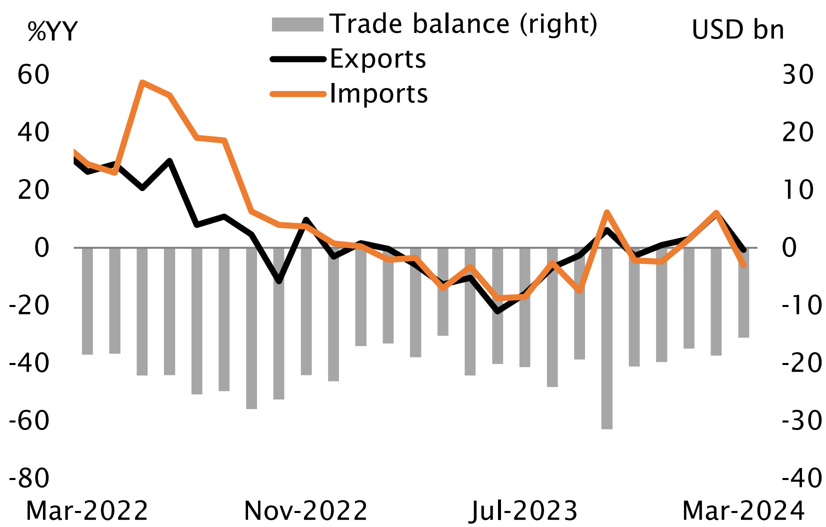
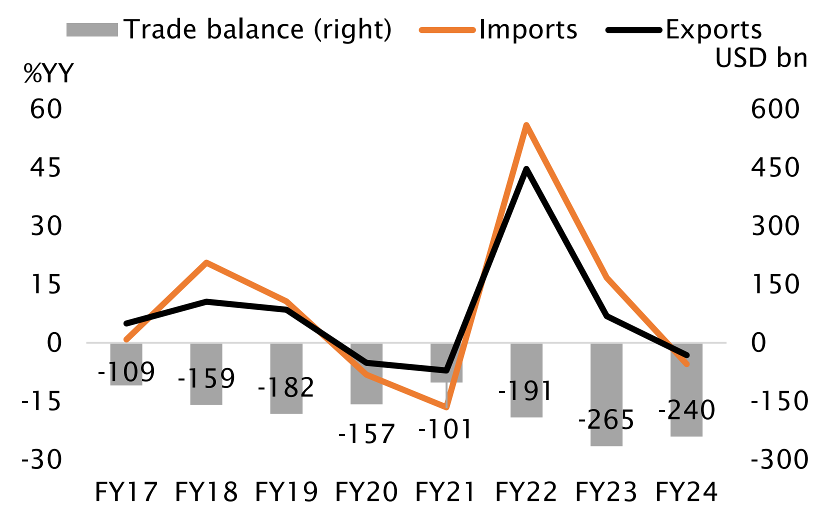
Key takeaways

India's merchandise trade deficit narrowed in FY24 amid decline in both exports and imports, but the year ended with impact of higher commodity prices probably starting to reflect in data. Petroleum deficit deteriorated to a new high in March, and gold and jewellery imports contracted after surging for three consecutive months. However, for the entire year FY24, oil imports fell, while gold imports rebounded after declining in FY23. The surplus on services account improved further in FY24 amid a slowdown in trade flows, so that overall trade deficit moderated. Global trade volume is expected to rise in 2024 and 2025, which should act as a tailwind for India's growth prospects. However, risks continue to linger from geopolitical tensions and their impact on supply chains and commodity prices. The improved prospects of a soft landing for the global economy could keep demand high for commodities and add to price pressures at some point. Lastly, domestic policies to boost local manufacturing and exports (such as the PLI scheme) and policies aimed at attaining specific outcomes within the economy (such as restrictions on agriculture exports to curb food inflation) could continue to influence trade patterns.

India merchandise trade

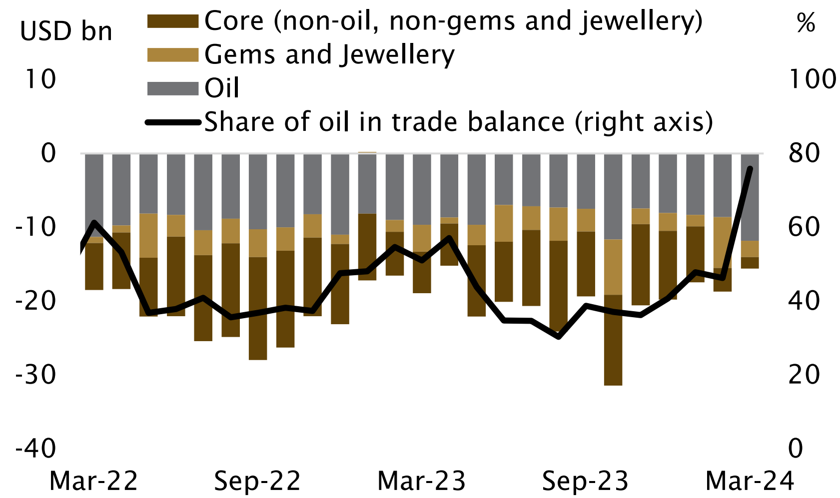




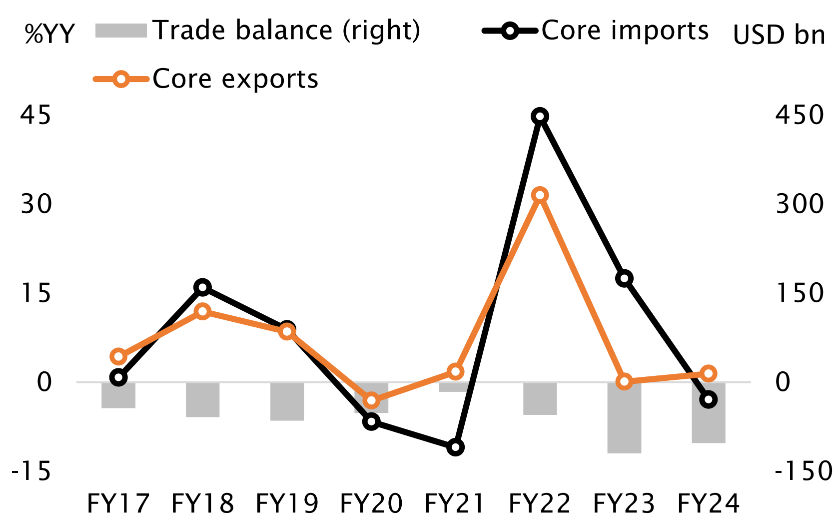
Merchandise trade deficit narrowed in March, oil balance deteriorated

- **Merchandise trade deficit moderated to an 11-month low of USD15.6bn in March from USD18.7bn in February.** The moderation was driven by non-oil component that eased to the lowest level since July 2021, even as oil deficit scaled a fresh peak at USD11.8bn. **The share of oil in trade deficit rose to 75.9% from 46.2% a month ago, as oil imports continued to grow, while oil exports slumped month-on-month at the steepest rate since November 2020.** The moderation in non-oil deficit compared to February was due to higher surplus in machinery and chemicals.
- Exports fell 0.7%YY in March after increasing 11.9% in February, dragged down by oil and gold exports, and moderation in non-oil, non-gold (core) exports. In month-on-month terms, exports were up 0.7%. Imports also fell, down 6.0%YY versus 12.2% growth in February, with decline across the board – oil, gold and non-oil, non-gold (core). Imports were also down 4.7% month-on-month.
- **In FY24, trade deficit narrowed to USD240bn from USD265bn in FY23.** The moderation was driven by both oil and non-oil components, with the share of oil in trade balance easing to 39.8% from 42.3% in FY23.
- The moderation in core deficit was driven by improved surplus in case of chemicals, ores and minerals, agriculture and allied products that helped to offset higher deficit on account of electronics and machinery.
- Exports fell 3.1% in FY24 after growing 6.9% in FY23, as both oil and gold exports declined, though non-oil, non-gold (core) exports rose slightly. Imports also decreased 5.4% versus an increase of 16.8% in FY23 amid decline in both oil and non-oil imports, even as gold imports rose.

Merchandise trade deficit: share of oil surged in March



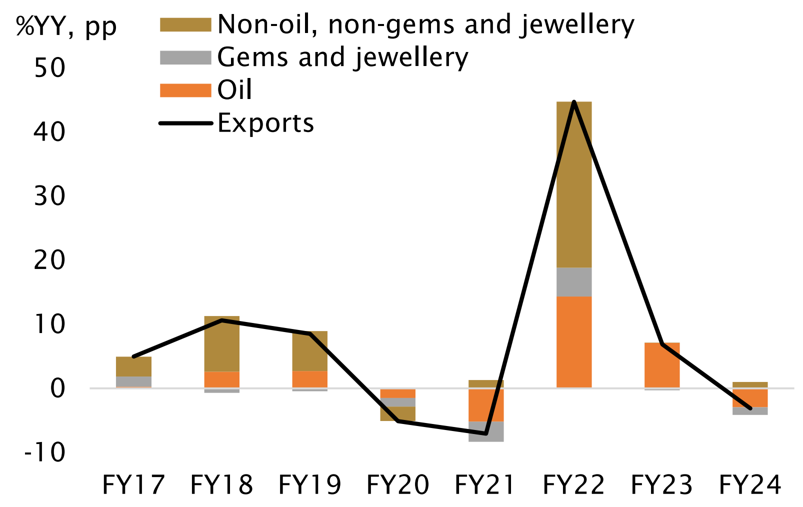
Core merchandise trade deficit narrowed in FY24



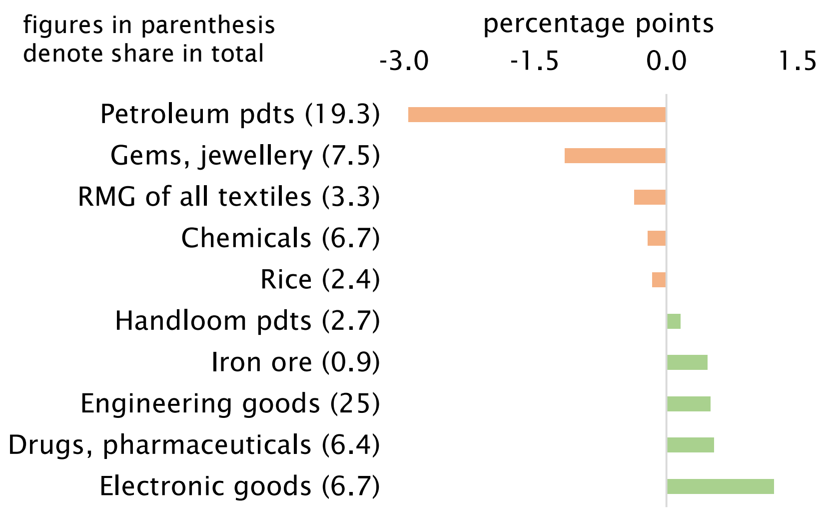
Merchandise exports fell in FY24, even as core exports (ex-oil, gold) grew

- Exports grew year-on-year in H2-FY24, after contracting in H1. The increase was driven by non-oil, non-gems and jewellery (core) exports, while the contraction in oil and god exports moderated. The categories that supported core exports growth in FY24 as a whole included electronic goods, drugs and pharmaceuticals and engineering goods. However, **the decline in overall exports growth in FY24 was due to petroleum, and gems and jewellery, that together accounted for more than one-fourth of exports during the year.**
- Exports of engineering goods, that account for another fourth of share in total exports, increased after declining in FY23. Though readymade garments of textiles were a drag, exports rose in February and March after contracting for 13 consecutive months. Similarly, exports of cotton yarn/handloom products have been recovering since July 2023, snapping a 14-month declining streak.
- Though electronic goods and pharmaceuticals constitute a modest share in total exports, year-on-year growth was strong at 23.6% and 9.7%, respectively.
- In FY23, petroleum products and rice were among key contributors to exports growth. In FY24, however, rice exports fell due to restrictions imposed to keep a lid on domestic prices. Similarly, while organic and inorganic chemicals were among the top five contributors, exports growth declined in FY24.
- As per economy-wise data available **till February 2024, the US remained the top destination for India's exports**, with share at 17.7%, followed by the UAE (8%), the Netherlands (5.1%), China (3.8%) and Singapore (3.2%).

Contribution to exports growth



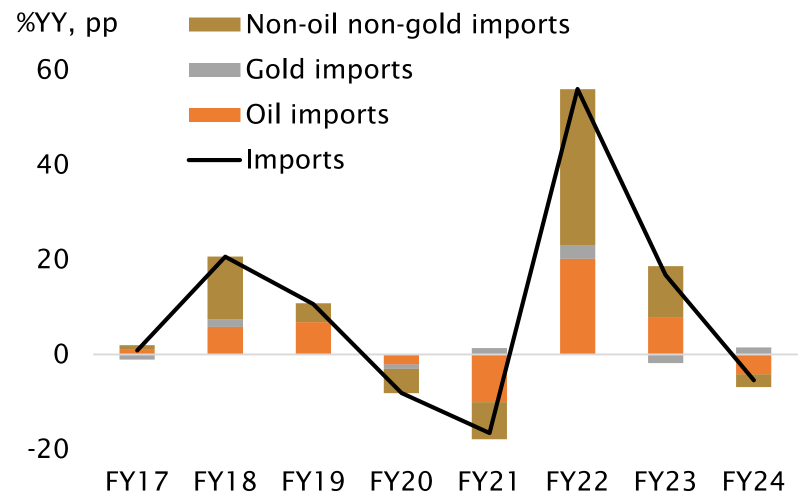
Contribution to exports growth – FY24



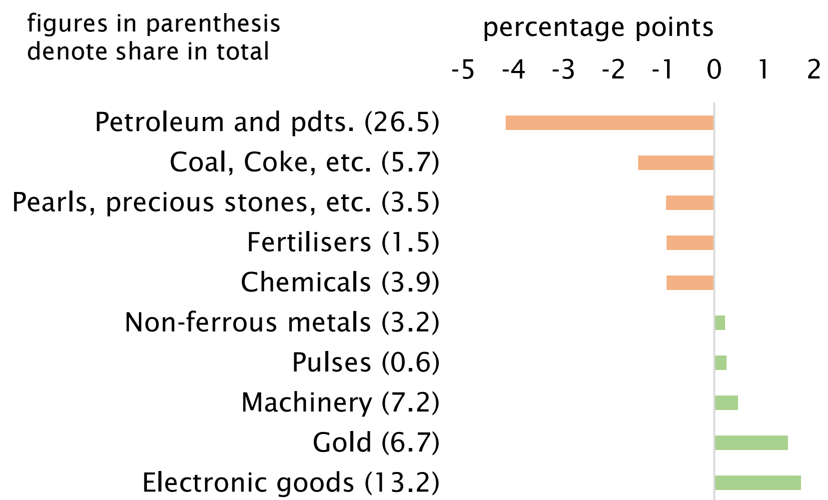
Merchandise imports fell in FY24 amid an increase in gold imports

- Similar to the trend in exports, imports growth improved in H2-FY24 due to an increase in imports of gems and jewellery. Petroleum imports remained in contraction but at lower rates compared to H1, while core imports (non-oil, non-gems and jewellery) were almost flat, following a decline in H1. **For the entire FY24, imports fell, dragged down by oil and core components, while imports of gems and jewellery rose.**
- Crude petroleum and products, with more than a fourth of share in total imports, were a drag on growth, after contributing the most to imports in both FY22 and FY23. Despite, new flash points of geopolitical tensions, relatively lower commodity prices compared to the previous year, kept the oil import bill contained. However, recent increases in commodity prices are starting to reverse this trend, as seen in monthly data.
- Electronic goods continue to constitute the second-largest share in total imports, and contributed the most to import growth in FY24.
- While **gold imports rebounded after declining in FY23**, imports of pearls and precious stones, also a part of the gems and jewellery component, declined at a sharper rate compared to the previous year.
- Chemicals (organic and inorganic) and fertilizers were among the top ten contributors to import growth in FY22 and FY23, as prices rose post the Russia-Ukraine war outbreak. However, imports of these items fell in FY24.
- As per economy-wise data available **till February 2024, India imported the most from China (15.2% of total imports – mainly machinery, electronics, chemicals),** followed by Russia (9% - crude oil and products).

Contribution to imports growth



Contribution to imports growth – FY24



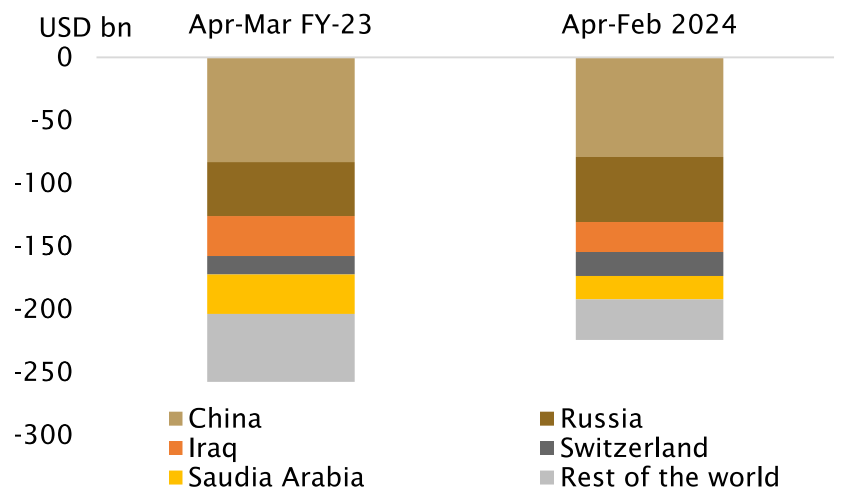
Value of oil imports from Russia during Apr-Jan FY24 higher than in FY23

- During April-February FY24, India's trade deficit remained the steepest against China, followed by Russia and Iraq. While deficit against China and Russia was higher compared to the corresponding period in FY23, it moderated in case of Iraq.

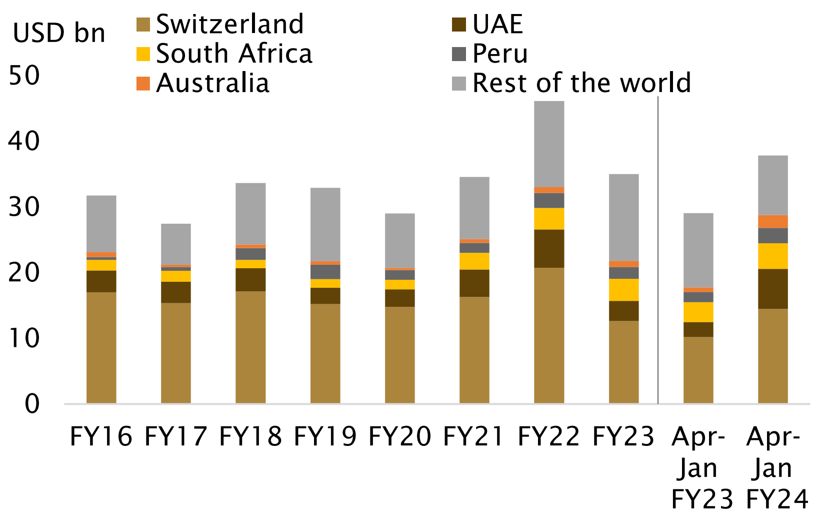
- **Compared to FY23, trade deficit widened against Switzerland due to higher gold imports.** Based on data till January, gold imports also increased from the UAE, South Africa, Peru and Australia that together accounted for over 75% of gold imports during April-January FY24.

- Based on data till January, deficit against China continued to be dominated by electronic goods, machinery and chemicals, while **oil imports from Russia already surpassed the value for entire FY23.**

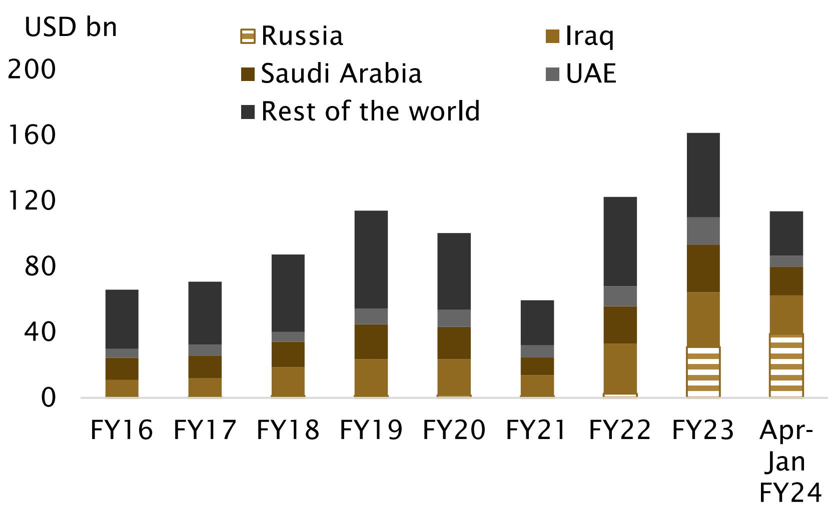
Merchandise trade deficit by economy till Feb-2024



Gold imports by economy



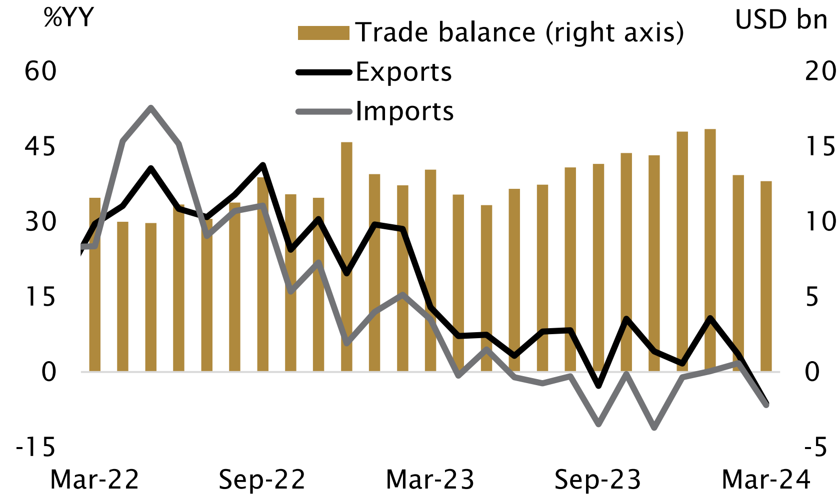
Imports of crude petroleum and products by economy



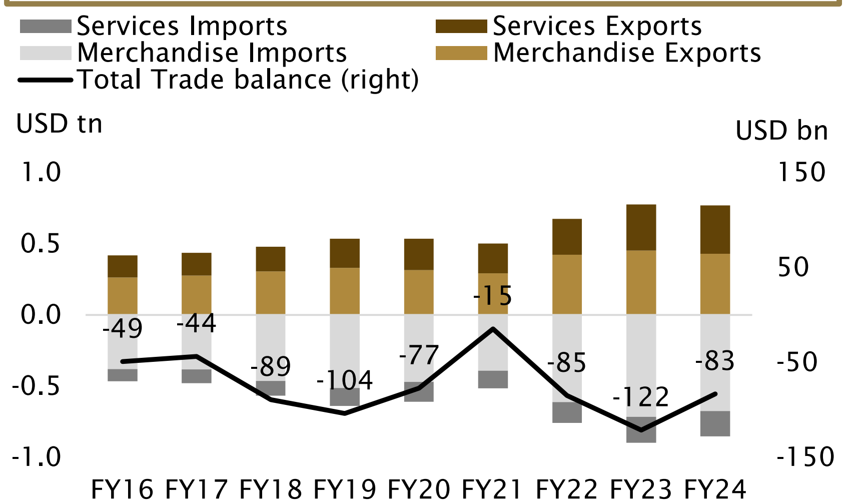
Services trade surplus improved in FY24 despite weak trade flows

- Exports and imports of services are estimated to have declined year-on-year in March by 6.2% and 6.6%, respectively, though both increased month-on-month. The surplus on services account moderated for the second straight month to USD12.7bn from the recent peak of USD16.2bn in January. In FY24, imports fell, while exports grew at a tepid pace after posting double-digit growth in FY22 and FY23. The surplus on services account rose to USD162.1bn from USD143.3bn in FY23.
- The narrowing of deficit on merchandise account and higher surplus on the services account enabled moderation of deficit on overall trade account for the entire year. However, both merchandise and services trade flows weakened in FY24 after growing robustly in FY22 and FY23. While merchandise trade fell 5.3%, services trade growth was muted at 1.9%.

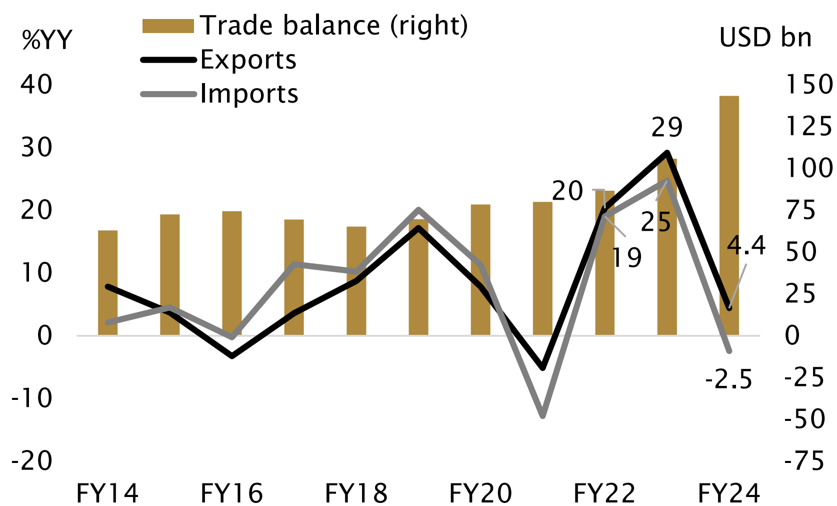
Both exports and imports of services fell in March



Overall trade deficit narrowed in FY24



Higher services surplus in FY24 amid weak trade flows



Risks to 2024 outlook remain despite expected recovery in global trade

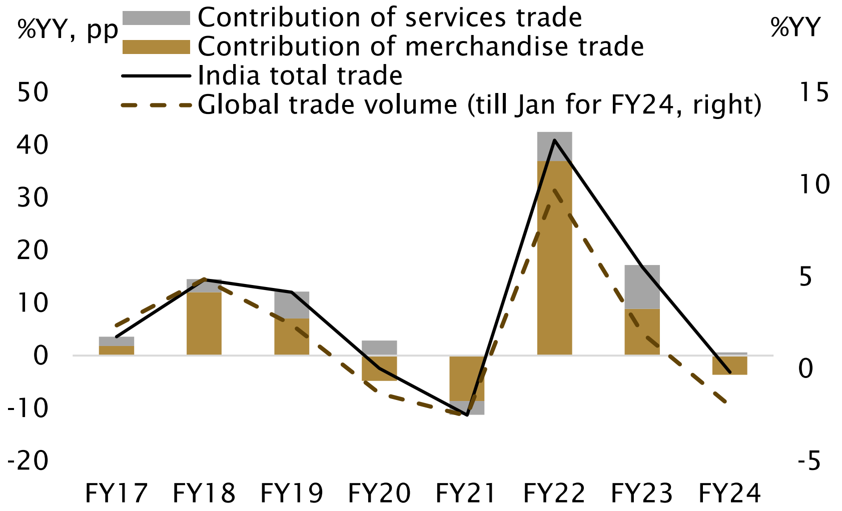
- India's overall trade flows slowed in FY24, tracking the weakness in global trade. **As per WTO's latest outlook, global merchandise trade is expected to grow 2.6% in 2024 and 3.3% in 2025, following a contraction of 1.2% in 2023. This bodes well for India's external sector outlook.** But there are risks to watch out for.

- The attacks on commercial ships in the Red Sea that started in October 2023 have resulted in rerouting of vessels resulting in longer transit times, higher shipping and insurance costs. **The emergence of new such flashpoints of geopolitical tensions have led to resurgence of global supply chain pressures, which could have implications for trade flows.**

- Global commodity prices were lower in 2023 compared to 2022, when then the Russia-Ukraine war had started. **While geopolitical uncertainties continue to pose upside risks to commodity prices, global economic resilience could lead to higher demand and thereby drive up prices.** While the IMF recently upgraded its 2024 growth outlook for the global economy, global manufacturing PMI is also recovering. Global food prices also remain vulnerable to climate change risks.

- **Commodity-specific trade patterns are also influenced by domestic policies pertaining to boosting exports** – such as the production-linked incentive scheme (PLI) – **and policies aimed at attaining specific outcomes within the domestic economy such as restrictions on agriculture exports to curb food inflation.**

Trade vulnerable to global trends



Mobile phone handset exports: PLI scheme in FY21

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