

## **India's Foreign Trade in FY24**

*India's external position remained strong with trade deficit narrowing sharply in FY24. Both merchandise and services trade deficit narrowed as imports contracted at a much faster pace than exports. On goods side, green shoots were visible in exports of electronics, pharmaceuticals and engineering goods. Merchandise imports rose at a slower rate, amidst a correction in global commodity prices, especially. On the other hand, gold imports increased at a brisk pace. Overall, we expect CAD at 0.8% of GDP in FY24, with a surplus expected in Q4.*

*In FY25, with a recovery in external demand both services and goods exports are expected to pick up. Imports too are likely to increase as domestic demand becomes broader based and private investment also improves. Even so, CAD is expected to rise only marginally to 1% of GDP in FY25 which will be funded by a robust capital account surplus.*

**India's trade in Mar'24:** India's exports declined by 0.7% in Mar'24, after exhibiting positive growth in the last two months. Imports declined at a much faster pace of 6% compared with a growth of 12.2% in Feb'24. This was led by lower non-oil-non-gold imports. As a result, trade deficit in Mar'24 narrowed to US\$ 15.6bn from US\$ 18.7bn in Feb'24.

**Export growth in FY24:** In FY24, exports declined by 3.1% compared with an increase of 6.9% in FY23. Amongst major commodities, exports of oil which accounted for ~17% of total exports declined the most by 14.1% compared with an increase of 44.5% last year. This can be attributable to lower oil prices which declined by 13.7% in the same period. Exports of gems and jewellery were also lower by 13.8%, following up on a decline of 2.9% last year. Lower discretionary spending amidst weakness in growth in major markets could explain the decline. Exports of chemicals was also lower by 3.3%. On the positive side, exports of engineering goods, which have the highest share in India's export basket, rebounded and rose by 2.3%, after declining by 4.6% in FY23. Even pharmaceuticals exports showed improvement and rose by 9.7%. Electronic exports continued to post impressive double-digit growth.

**Table 1: Exports by major commodities**

Items	Share in FY24 (%)	FY23, US\$ bn	FY24, US\$ bn	FY23, % YoY	FY24, % YoY
Engineering goods	24.3	107.0	109.5	-4.6	2.3
Petroleum Products	17.1	97.5	83.8	44.5	-14.1
Agriculture and allied products	9.0	40.5	40.7	9.4	0.4
Gems and jewellery	7.3	38.0	32.7	-2.9	-13.8
Textiles	7.2	33.9	32.6	-13.6	-3.7
Organic and inorganic chemicals	6.5	30.3	29.3	3.3	-3.3
Electronics	6.5	23.6	29.2	50.4	24.0
Pharmaceuticals	6.2	25.4	27.8	3.2	9.7
<b>Total Exports</b>		<b>451.1</b>	<b>437.1</b>	<b>6.9</b>	<b>-3.1</b>

Source: CEIC, Bank of Baroda Research

**Goods import:** India's imports declined by 5.4% following an increase of 16.8% in FY23. The decline can be attributed to lower oil imports which declined by 14.1% in FY24, supported by lower oil prices. On the other hand, gold imports surged by 30.1% in FY24, compared with a decline of 24.2% in FY23 as it became an attractive investment option. Interestingly, gold prices were up by 10.1% in FY24. Non-oil-non-gold imports fell by 4.1% in FY24 compared with an increase of 16.4% in FY23, which can be attributed to lower domestic demand. Within this, imports of vegetable oils and coal dropped significantly. Imports of chemicals was also lower as higher prices weighed on demand. Imports of capital goods declined by 4.8% in FY24, suggesting that investment demand continues to remain weak. On the other hand, imports of pulses picked up sharply amidst a shortfall in domestic production.

**Table 2: Imports by major commodities**

Items	Share in FY24 (%)	FY23, US\$ bn	FY24, US\$ bn	FY23, % YoY	FY24, % YoY
Oil	26.5	209.4	179.8	29.4	-14.1
Electronic Goods	13.2	77.3	89.7	4.9	16.1
Capital Goods	11.6	82.8	78.8	24.7	-4.8
Chemicals and Related Products	8.1	66.7	54.9	12.0	-17.7
Gold	6.7	35.0	45.5	-24.2	30.1
Coal	5.7	49.7	38.9	56.8	-21.8
Organic and inorganic chemicals	4.0	33.4	26.8	10.4	-19.9
Pearls and Precious Metals	3.5	30.7	23.8	-1.0	-22.4
Iron and Steel	3.5	22.5	23.7	29.9	5.6
Plastics	3.3	23.5	22.2	16.3	-5.5
<b>Total imports</b>		<b>716.0</b>	<b>677.2</b>	<b>16.8</b>	<b>-5.4</b>

Source: CEIC, Bank of Baroda Research

**Services trade:** India's service exports decelerated to 4.5% due to an elevated base. In FY23, services exports had increased by 43%. Services imports declined by 3% in FY24, compared with an increase of 38.3% in FY23. As a result, net services balance increased to US\$ 163.3bn in FY24 versus US\$ 143.3bn in FY23.

As a result, India's overall trade deficit (goods+services) has narrowed to US\$ 78.1bn in FY24 compared with US\$ 121.6bn in FY23. This implies that the current account is likely to be in a small surplus in Q4FY24. Overall, we expect a CAD of ~ 0.8% of GDP in FY24.

**Outlook:** For FY25, we expect a further recovery in both goods as well as services exports as global economy recovers. Import growth is also expected to be steady as domestic demand picks up. Global commodity prices have remained largely stable so far, however risks remain from escalation in geopolitical conflicts as well as a recovery in China's growth outlook. Even so, the drag on CAD is likely to be curtailed by buoyant remittances. We expect CAD of ~1% of GDP in FY25, which is likely to be met by strong FPI inflows. Reversal in global interest rate cycle also bodes well for the outlook on FDI and ECB inflows. Hence, we may see an accretion of US\$ 40-50bn in India's foreign exchange reserves in FY25 as well. This is positive for INR.

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