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Trends in India's trade and impact of global economy

India's trade deficit in FYTD23 has surged to US$ 175bn as of Oct'22 compared with US$ 94bn in FYTD22, driven by faster pace of import growth (due to revival in domestic activity and higher commodity prices). Imports are higher at US$ 437bn in FYTD23 versus US$ 328bn last year. At the same time, exports have risen at a slower pace and have reached US$ 262bn in FYTD23 so far compared with US$ 234bn last year. Our analysis shows that negative impact of slowing global growth will outweigh the positive impact through a depreciating currency. We thus expect CAD to inch up to 3.5% of GDP in FY23, from 1.2% in FY22.

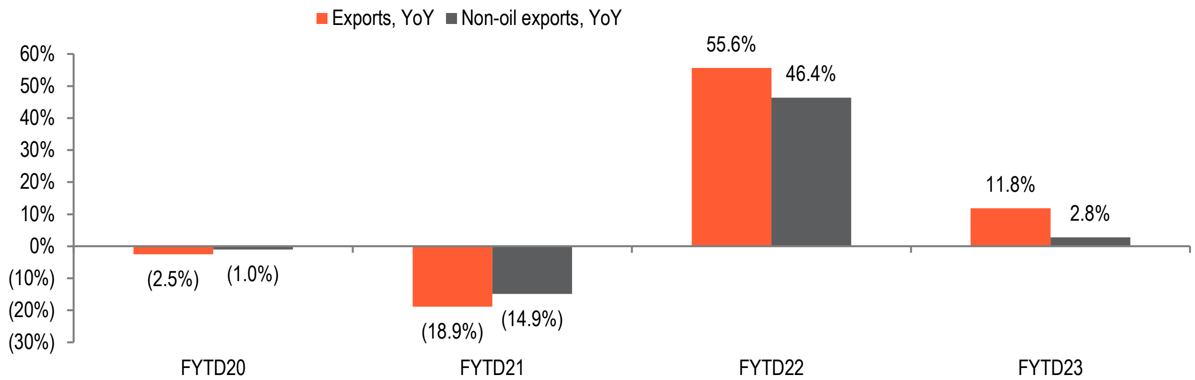
Exports performance:

Latest data shows that India's exports in 7 months of FY23 (Apr-Oct) have risen to US$ 262bn (+11.8%) from US$ 234bn (+55.6%) last year and US$ 185bn in the pre-pandemic period (FYTD20). This growth has been led by higher exports of petroleum products (US$ 49.7bn versus US$ 33.9bn last years), followed by agri (US$ 22.9bn versus US$ 20.bn) and chemical (US$ 17.9 versus US$ 16.5bn) products. Exports of pharma and gems & jewellery also rose, albeit more moderately. Together these products contribute to 51% of total exports. On the other hand, exports of textiles and engineering goods, contributing to 31% of total exports, have fallen in FYTD23 so far to US$ 19.7bn and US$ 62.5bn respectively, from US$ 21.7bn and US$ 63.9bn last year.

Jump in oil exports is mainly on account of higher prices (US$ 103.2/bbl (+42%) versus US$ 72.9/bbl (+88%) last year). Dip in textile exports (-9.2% in FYTD23 from 59.2% in FYTD22) has also dragged its production down (-5.5% during Apr-Sep'22 versus +68.4% in Apr-Sep'21). On the other hand, increase in exports of chemical products (+8.7% in FYTD23 versus 35.6% in FYTD22), has contributed to 10.3% increase in production during Apr-Sep'22 compared with 13.9% increase seen in FYTD22.

Improvement in exports has also contributed to pick up in credit growth of industries, which has risen by 12.6% in FYTD22 (Apr-Sep'22) compared with 1.7% increase in FYTD22. Within this, credit to petroleum industry has gone up by 76% (20% last year) and credit to chemical sector has gone up by 23% (2%). Credit to textiles (4.9% versus 7.3%) and gems and jewellery (5.4% versus 14%) has weakened compared with last year. On the contrary, despite decline in engineering exports (-2.3% during Apr-Oct'22 versus 60% increase during Apr-Oct'21), credit to the sector has increased (14% versus 3%).

Figure 1: Export growth normalising



Source: CEIC, Bank of Baroda Research

Table 1: Commodity wise share in total exports

Commodities	% Share (FYTD23)
Engineering goods	26.2
Petroleum	20.9
Chemicals	13.7
Gems & Jewellery	10.1
Textiles	8.3
Agri & allied products	7.1
Electronic items	5.1
Plastics & rubber	2.2
Marine products	2.0
Ores & minerals	1.5
Leather	1.2
Articles of stone/plaster etc.	0.9
Plantation	0.5
Others	0.3

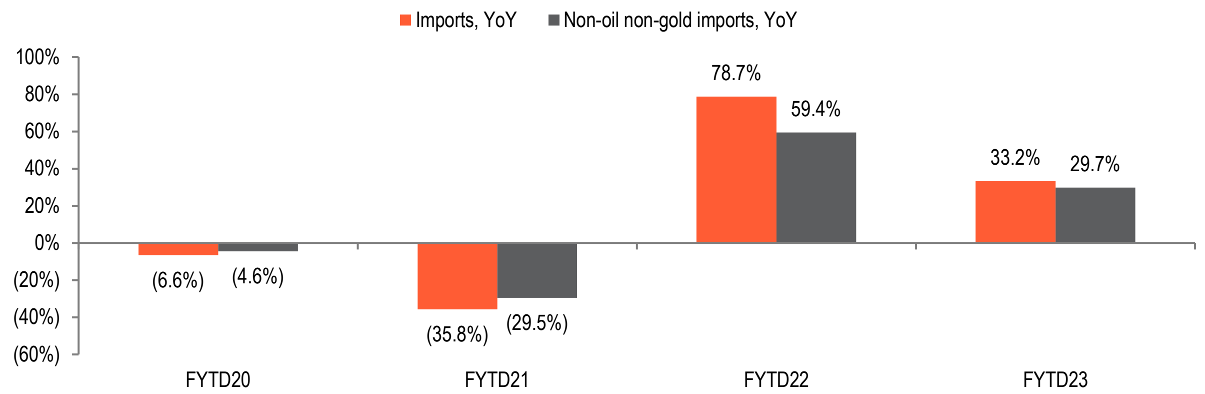
Source: CEIC, Bank of Baroda Research

Imports elevated:

Imports have also surged further and have risen to US$ 437bn in FYTD23 (Apr-Oct'22) compared with US$ 328bn in the same period last year, registering a growth of 33% on a YoY basis. Also compared with the pre-pandemic period (FYTD20), imports are about 53% higher. This has been on the back of higher oil and non-oil-non-gold imports (core imports). Gold imports on the other hand have eased this year (US$ 24bn (-17%) versus US$ 29bn (+213%) last year). Oil imports were up by 60% and rose to US$ 131bn from US$ 82bn (+115%) last year. In volume terms, crude oil imports were up only 5.3%, following 24.6% increase last year, thus showing the price impact on import bill.

Non-oil imports rose by 30% to reach US$ 282bn from US$ 217bn (+59%) during FYTD22. Within core imports, coal (US$ 33.5bn versus US$ 15.3bn), chemical products (US$ 41.3bn versus US$ 31.4bn), electronic good (US$ 46bn versus US$ 38.9bn) and capital goods (US$ 41.6bn versus US$ 35.8bn) saw the most increase in FYTD23. These sectors alone contribute to 37% of total imports. Higher coal prices and increased demand for electricity drove coal imports. Further, complete removal of Covid-19 restrictions and revival of large scale festive celebrations also boosted demand and imports of goods. Within capital goods, machinery and transport equipment imports rose the most. Imports of plastics, iron & steel, non-ferrous metals, vegetable oils too rose, but more moderately. Slowest increase was visible in imports of ores & minerals and pearls & precious metals.

Figure 2: Import bill being pushed higher



Source: CEIC, Bank of Baroda Research

Table 2: Commodity wise share in total imports

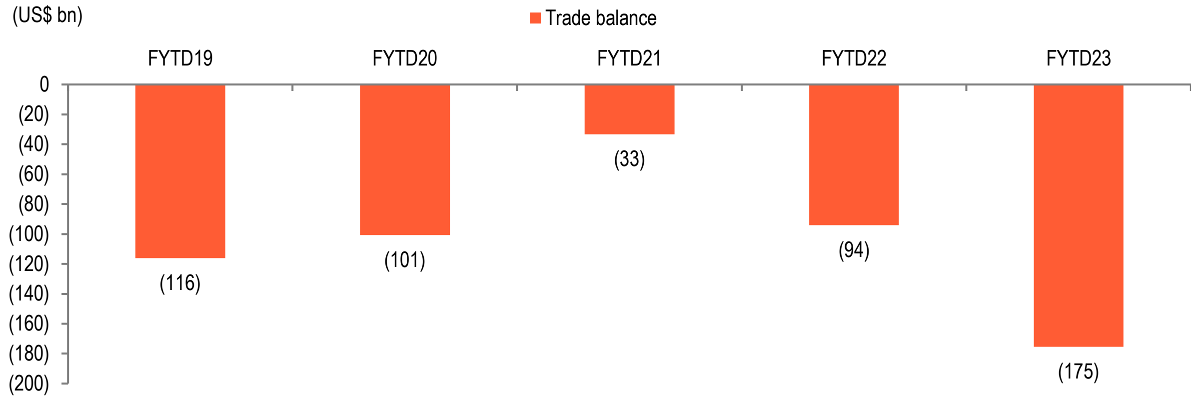
Commodities	% Share (FYTD23)
Petroleum	31.4
Gems & Jewellery	11.4
Electronic goods	11.0
Chemicals	9.9
Ores & minerals	9.4
Machinery	6.7
Base metals	5.7
Agri and allied products	3.6
Plastic & rubber articles	3.4
Transport Equipment	3.1
Optical/medical/surgical instruments	2.1
Paper & related products	1.4
Textiles	0.7
Leather	0.2
Project goods	0.2

Source: CEIC, Bank of Baroda Research

Trade deficit higher:

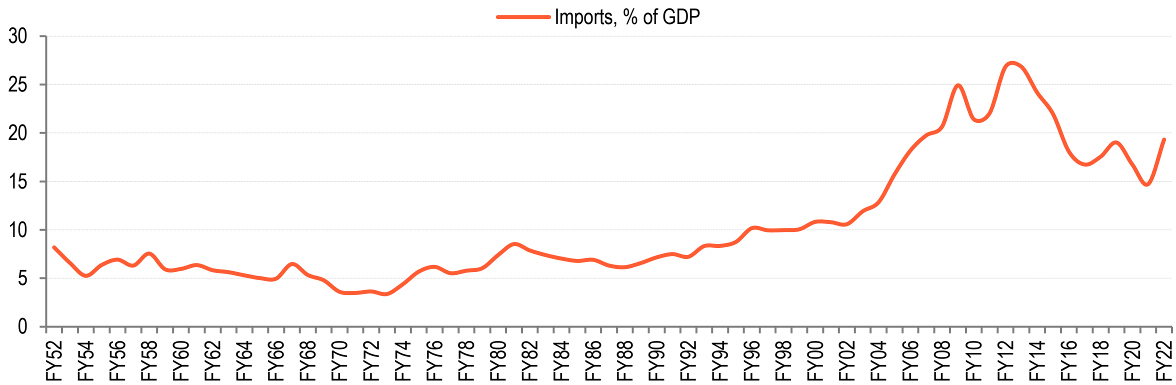
India's trade deficit is tracking higher at US$ 175.4bn in FYTD23 compared with US$ 94.2bn in FYTD22. It is even higher than US$ 100.7bn during FYTD20, as imports have rebounded more strongly than exports. Imports also increase as GDP goes up. Looking at the data from 1951, correlation between India's GDP and India's exports is 0.98. Thus, as our growth is expected to be less impacted due to external factors, and domestic demand is expected to remain steady, imports are estimated to go up further. For FY23, we estimate trade deficit at ~US$ 300bn and CAD is likely to be 3.5% of GDP compared with a deficit of 1.2% of GDP in FY22 and a deficit of only 0.9% of GDP in FY20.

Figure 3: Widening trade deficit



Source: CEIC, Bank of Baroda Research

Figure 4: Import rise as GDP goes up



Source: CEIC, Bank of Baroda Research

Impact of global economy on India's foreign trade:

There 2 key factors that impact our exports: value of rupee and global economic activity. In order to analyse which factor affects us more, we looked at export growth, movement of INR and global GDP since the early 1980s. Our regression analysis shows that 1% appreciation in INR/USD causes ~0.5% decline in our exports, while 1% growth in global GDP helps boost our exports by ~4.5%. Going ahead, as the world economy is expected to slowdown, it is estimated to have a greater negative impact on our exports, which cannot be cushioned completely by a depreciating rupee.

Our services exports will also get affected. For the same period (since 1980s), it was also observed that 1% appreciation in INR/USD implies ~0.4% decline in services exports and 1% increase in world GDP leads to ~4% increase in services exports. This too indicates that while a depreciating rupee will be positive for our services exports, a slowing global economy is not so good news for us, as it will have a greater impact. So far (Apr-Sep'22), services exports have remained resilient and have risen to US$ 153bn (+29.9%) from US$ 118bn (+16.5%) last year and US$ 110bn (+9%) during the pre-pandemic period (FYTD20). Import bill of services has also gone up, however we continue to maintain a healthy surplus account, and our services balance has risen ~1.6x in FYTD23 (US$ 63bn), since the pre-pandemic period (FYTD20: US$ 39bn).

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