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Dipanwita Mazumdar
Economist

India's Foreign Trade: Q1-FY25

India's merchandise trade deficit was higher in Q1FY25 at US$ 62.3bn versus US$ 56.2bn in Q1FY24, as imports have risen at a sharper pace than exports. Merchandise Imports have risen to US$ 172.2bn in Q1FY25 from US$ 160.1bn in Q1FY24. Exports on the other hand rose to US$ 110bn from US$ 103.9bn. However, going forward, we expect some correction in the trade deficit as exports are expected to pick up. An easier monetary policy will lend support to global growth thereby providing momentum for exports. However, headwinds for imports emanate from a pickup in non-oil non gold imports with domestic consumption gaining ground. Overall, we expect CAD to be in the range of 1-1.5% in FY25. This along with a recovery in FDI and FPI inflows will support the rupee.

Trade performance in Jun'24: India's export growth weakened further and moderated to 2.6% in Jun'24 from 9.1% in May'24, despite a favourable base. Imports grew by 5% in Jun'24, lower than 7.7% seen in May'24. On a MoM basis, while exports declined by US$ 2.9bn and imports were lower by US$ 5.7bn (led by oil imports), thus leading to a narrowing of trade deficit. Trade deficit moderated to US$ 21bn from US$ 23.8bn in May'24. However, on a seasonally adjusted sequential basis, fall in exports is at a sharper pace of 7.3% while imports have declined by 4.4%.

Trade performance in Q1FY25: On a quarterly basis, exports improved by 5.8% in Q1FY25 compared with a decline of 14.1% in Q1FY24. In terms of commodity wise exports, considerable improvement was seen in the exports of engineering goods which have risen by 3.4% compared to -7.6% decline in Q1FY24. Drugs, pharma and chemicals also noted improvement in Q1FY25. Some volatility in oil prices has led to pick up in exports of petroleum products.

Table 1: Exports by major commodities

Item	Share in Q1FY25	Q1FY24, US$ bn	Q1FY25, US$ bn	Q1FY24, % YoY	Q1FY25, % YoY
Engineering goods	25.8	26.8	28.0	(7.6)	3.4
Oil	17.4	19.0	18.9	(29.3)	9.3
Agriculture and allied products	9.3	10.2	10.1	1.3	(1.0)
Textiles	7.7	8.0	8.4	(15.4)	4.3
Gems and jewellery	6.7	7.5	7.3	(26.4)	(3.5)
Drugs and pharmaceuticals	6.6	6.6	7.2	5.3	9.3
Chemicals	6.5	6.6	7.1	(19.2)	7.6

Source: CEIC, Bank of Baroda Research

On the imports side, India's imports picked up by 7.6% in Q1FY25 versus a decline of 12.8% in Q1FY24. The increase may be attributed to upside pressure on commodity prices resurfaced from tensions in the Middle East as well as pickup in demand for metals in particular. Oil imports inched up by 23.1% in Q1FY25, after falling by 21.3% in Q1FY24. During the same period, international oil prices went up by 9.3%. Gold imports fell at a slower pace by 1.9% in Q1FY25 compared to -7.5% seen in Q1FY24. A stronger dollar pushed up gold prices during the same period (18.3%), which weighed on this component. Non-oil-non-gold imports, a broad proxy of domestic consumption demand, went up by 2.7% in Q1FY25 from 9.5% decline seen in Q1FY24. Within this, electronic goods and non-ferrous metals have risen at a sharper pace.

Table 2: Imports by major commodities

	Share in Q1FY25	Q1FY24, US$ bn	Q1FY25, US$ bn	Q1FY24, % YoY	Q1FY25, % YoY
Oil	29.9	41.8	51.5	(21.3)	23.0
Electronic Goods	12.7	19.8	21.9	6.2	10.9
Capital Goods	12.1	19.6	20.8	12.5	5.8
--Machinery	7.0	11.8	12.0	12.1	2.2
Chemicals and Related Products	7.8	14.6	13.4	(18.5)	(8.3)
Gold	5.5	9.7	9.5	(7.5)	(1.9)
Coal	5.4	11.5	9.3	(32.5)	(19.0)
Organic and inorganic chemicals	4.2	7.3	7.2	(27.7)	(1.5)
Non Ferrous Metals	3.6	5.4	6.2	4.9	14.5
Plastics	3.2	5.5	5.5	(14.2)	0.9
Pearls and Precious Metals	3.1	6.2	5.4	(25.0)	(13.4)
Iron and Steel	2.9	5.1	5.1	9.8	(1.2)

Source: CEIC, Bank of Baroda Research

Outlook: Merchandise Trade deficit in Q1FY25 was higher at US$ 62.3bn versus US$ 56.2bn in Q1FY24, as imports have risen at a faster pace than exports. This should witness some correction as exports are likely to pick up from a stable global growth environment. US high frequency indicators show a soft landing, further buoyant services receipts and stable remittance inflows will lend support to CAD going forward. However, a major headwind emerges from recovery in domestic demand which might pose upside risk to non-oil non gold import going forward.

Flashpoint: Services exports have increased at a double-digit pace of 12.2% in Q1FY25 to US$ 90.4bn from 5.9% in Q1FY24. Services imports also increased at a sharper pace of 11.5% to US$ 50.7bn from 0.9% in Q1FY24, the services balance remains higher at US$ 39.7bn, compared with US$ 35.1bn in the same period last year.

Overall, we expect India's CAD to be within a range of 1% to 1.5% of GDP in FY25. This along with some recovery in FDI and FII in the wake of future easing of monetary conditions will help in cementing India's external position. Thus, the above backdrop suggests an appreciating bias for INR, going forward.

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com