

Economy

External sector

December 15, 2023

Trade deficit normalizes in November

Goods trade deficit in November normalized back to around the US\$20 bn handle, as the festive season-led demand faded and oil imports fell. Services surplus in November remained high and steady. Risks to the external sector remain from any escalation in geopolitical tensions, volatile energy prices and volatility from the differing pace in DM rate cycles. We maintain our FY2024-25 CAD/GDP estimates at 1.6%.

Exports in November remain steady at around US\$34 bn

Exports in November remained steady at US\$33.9 bn (October: US\$33.5 bn; (-) 2.8% yoy)—oil exports increased to US\$7.5 bn (October: US\$6 bn), whereas non-oil exports fell to US\$26.4 bn (October: US\$27.5 bn) (Exhibits 1-5). Non-oil exports registered marginal declines from October levels across engineering goods, gems & jewelry and electronic goods, among others (Exhibit 6). In 8MFY24, engineering goods, gems & jewelry, pharma products, electronic goods and chemicals remained the top exports (Exhibit 7).

Across the board decline in November's imports

Imports in November fell back to US\$54.5 bn (October: US\$63.5 bn; (-)4.3% yoy), led by a decline in oil and non-oil imports (Exhibits 1-5). Compared with October levels, a fall in non-oil imports was led by normalization in gold and decline in electronics along with marginal decline in other goods (Exhibits 6). In 8MFY24, non-oil imports have been boosted by electronics, gold and machinery (Exhibit 7). Trade deficit narrowed to US\$20.6 bn in November (October: US\$29.9 bn).

Services surplus remained steady in November

Services surplus in November remained firm at US\$15.3 bn, with exports at US\$28.7 bn and imports at US\$13.4 bn (Exhibit 8). We expect the services surplus in FY2024 to remain robust at around US\$148 bn, though risks to net exports of software and non-software services are skewed toward the downside, given a gradual slowdown in DMs.

Maintain our FY2024-25 CAD/GDP estimate at 1.6% each

For the rest of FY2024 and most part of FY2025, we continue to expect some external sector risks to persist owing to (1) any escalation in geopolitical conflicts, (2) volatility in energy prices and (3) any volatility from the differing pace in DM rate cycles. Risks of a deep global slowdown have been pushed back, amid relatively resilient growth displayed, so far, though growth is likely to slowdown in mid-CY2024. We maintain our FY2024-25E CAD/GDP at 1.6% (both years), with overall BOP at a marginal surplus (Exhibit 9). If crude prices sustain at current levels (around US\$75/bbl compared with our assumption of US\$85/bbl), CAD/GDP could be lower by around 40 bps (around US\$15-17 bn lower).

Summary of key macro metrics for India

	2022	2023	2024E	2025E
Real economy				
Real GDP growth (%)	9.1	7.2	6.8	6.3
Nominal GDP growth (%)	18.4	16.1	9.4	11.0
CPI Inflation (avg., %)	5.5	6.7	5.4	4.7
Public finance				
Center's GFD/GDP (%)	6.8	6.4	5.9	5.4
Monetary policy				
Repo Rate (% eop)	4.00	6.50	6.50	6.00
SDF Rate (% eop)	3.35	6.25	6.25	5.75
CRR (% eop)	4.0	4.5	4.5	4.5
External sector				
Current Account Balance (% of GDP)	(1.2)	(2.0)	(1.6)	(1.6)
Brent crude oil price (avg., USD/bbl)	80.0	95.4	85.0	85.0
USD/INR (avg.)	74.5	80.3	82.9	83.4

Source: CEIC, Bloomberg, RBI, Kotak Economics Research estimates

Quick Numbers

November exports at US\$33.9 bn; non-oil exports at US\$26.4 bn

November imports at US\$54.5 bn; non-oil imports at US\$39.6 bn

November goods trade deficit at US\$20.6 bn; services trade surplus at US\$15.3 bn

Maintain our FY2024-25 CAD/GDP estimates at 1.6% (both years)

Related Research

- CY2024 outlook: Much riding on sticking the landing
- Sharp rise in imports widens trade deficit in October
- Lower non-oil imports led goods trade deficit

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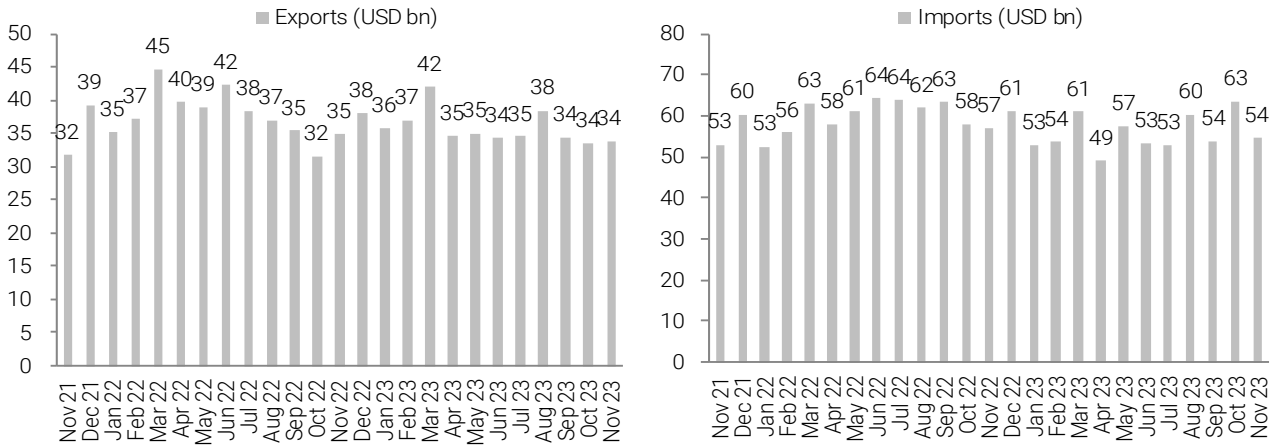
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Imports normalize after festive season surge; exports remain stagnant

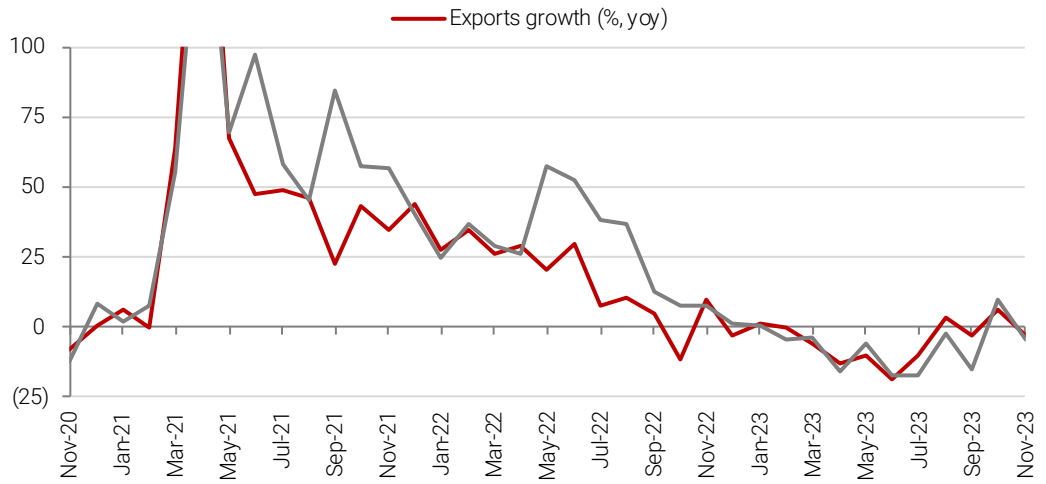
Exhibit 1: Trend in imports and exports (US\$ bn)



Source: CEIC, Kotak Economics Research

Export and import growths drop in November

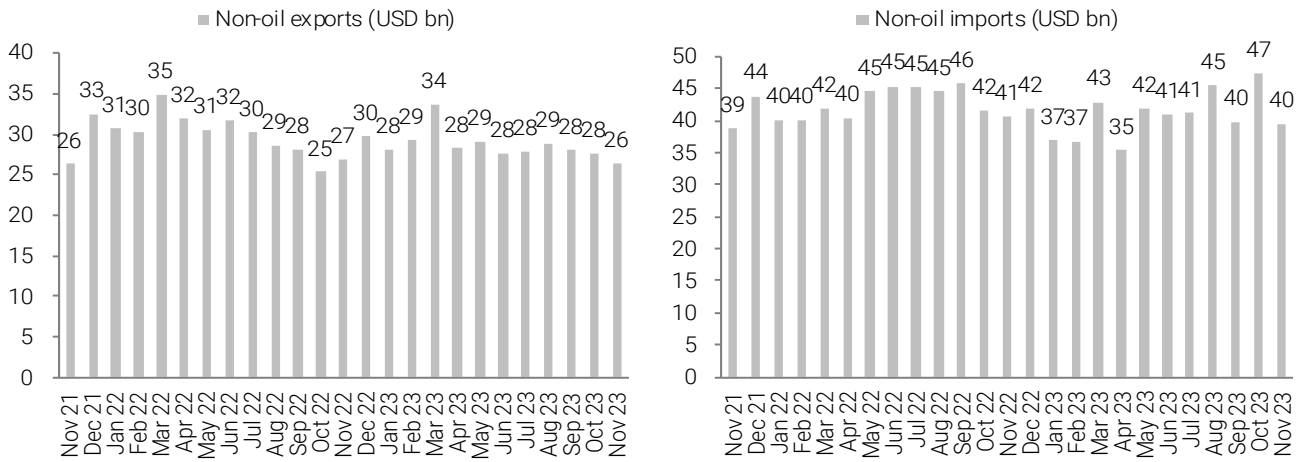
Exhibit 2: Trend in export growth and import growth (%)



Source: CEIC, Kotak Economics Research

Non-oil imports normalize after festive season surge

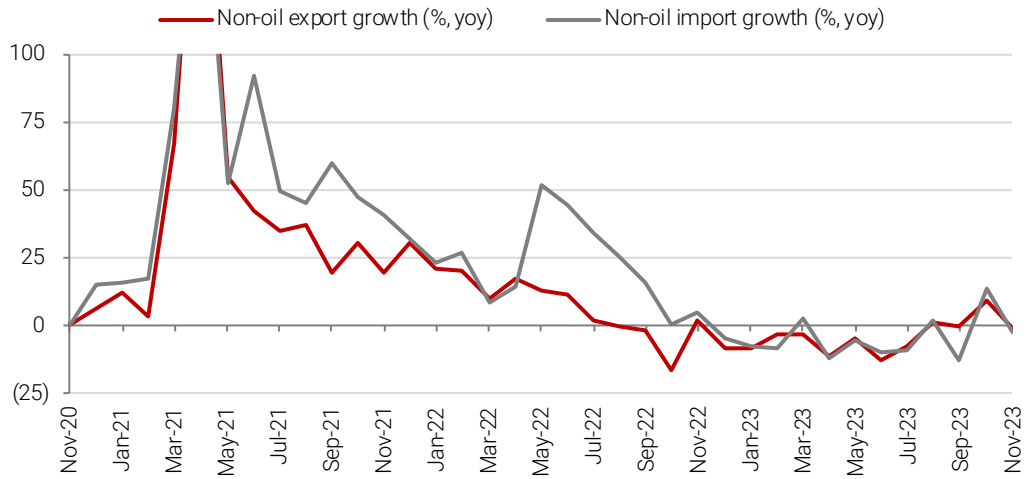
Exhibit 3: Trend in non-oil imports and non-oil exports (US\$ bn)



Source: CEIC, Kotak Economics Research

Non-oil export and import growth falls in November

Exhibit 4: Trend in non-oil export growth and non-oil import growth (%)



Source: CEIC, Kotak Economics Research

Trade deficit normalizes back to around US\$20 bn levels

Exhibit 5: Trend in exports, imports and trade balance (US\$ bn)

	Nov-23	Oct-23	Nov-22	Nov-23 / Nov-22 (%)	Nov-23 / Oct-23 (%)
Exports	33.9	33.5	34.9	(2.8)	1.1
Imports	54.5	63.5	57.0	(4.3)	(14)
Trade balance	(20.6)	(29.9)	(22.1)		
Oil exports	7.5	6.0	8.1	(7.4)	24.7
Oil imports	14.9	16.2	16.3	(8.5)	(8)
Oil trade balance	(7.4)	(10.1)	(8.2)		
Non-oil exports	26.4	27.5	26.8	(1.5)	(4.1)
Non-oil imports	39.6	47.3	40.6	(2.7)	(16.4)
Non-oil trade balance	(13.1)	(19.8)	(13.8)		
Non-oil non-electronics exports	24.2	25.2	24.6	(1.7)	(4.0)
Non-oil non-electronics imports	33.1	39.5	34.7	(4.8)	(16)
Non-oil non-electronics trade balance	(8.9)	(14.3)	(10.2)		
Non-oil non-gems & jewelry exports	23.6	24.6	24.3	(2.8)	(3.8)
Non-oil non-gems & jewelry imports	34.6	36.8	34.9	(0.9)	(5.9)
Non-oil non-gems & jewelry trade balance	(11.0)	(12.3)	(10.7)		

Source: CEIC, Kotak Economics Research

November imports led mainly by electronics, machinery and gold, though lower than in October

Exhibit 6: Comparison of exports and imports (US\$ bn)

	Nov-23	Oct-23	Nov-22	Nov-23/ Nov-22 (%)	Nov-23/ Oct-23 (%)		Nov-23	Oct-23	Nov-22	Nov-23/ Nov-22 (%)	Nov-23/ Oct-23 (%)
Exports	33.9	33.5	34.9	(2.8)	1.1	Imports	54.5	63.5	57.0	(4.3)	(14.1)
Oil exports	7.5	6.0	8.1	(7.4)	25	Oil imports	14.9	16.2	16.3	(8.5)	(7.6)
Non-oil exports	26.4	27.5	26.8	(1.5)	(4.1)	Non-oil imports	39.6	47.3	40.6	(2.7)	(16.4)
Engineering goods	7.9	8.1	8.1	(3.1)	(3.0)	Electronic goods	6.5	7.8	5.9	10.1	(17.1)
Gems and jewelry	2.8	3.0	2.5	12.0	(6.2)	Machinery	4.0	4.3	3.8	3.4	(6.8)
Electronic goods	2.3	2.4	2.2	1.1	(5.1)	Gold	3.4	7.2	3.2	6.2	(52)
Drugs and pharmaceuticals	2.1	2.4	2.0	7.3	(11.9)	Coal, coke, and briquettes	3.4	3.3	3.8	(10.4)	2.1
Organic and inorganic chemicals	2.1	2.1	2.3	(11.4)	(3.2)	Iron and steel	2.5	2.1	2.2	13.7	16.7
RMG of all textiles	1.0	0.9	1.2	(14.9)	12.4	Organic and inorganic chemicals	2.2	2.5	2.6	(16.5)	(11.9)
Cotton yarn, fabrics,etc.	0.9	1.0	0.8	6.3	(12.5)	Transport equipment	2.2	2.1	2.6	(18.6)	1.3
Marine products	0.6	0.8	0.7	(13.7)	(17.3)	Non-ferrous metals	1.8	1.9	1.6	15.0	(2.9)
Plastic and linoleum	0.6	0.7	0.7	(4.6)	(3.8)	Artificial resins, plastic materials, etc.	1.7	1.9	1.8	(5.6)	(10.0)
Rice	0.6	0.6	0.8	(27)	3.6	Pearls, precious/semi-precious stones	1.0	1.9	2.3	(57)	(49)
Others	5.6	5.6	5.4	2.5	(1.3)	Others	10.9	12.2	10.7	1.7	(10.7)

Source: CEIC, Kotak Economics Research

Non-oil exports and imports in 8MFY24 remain lower than in 8MFY23

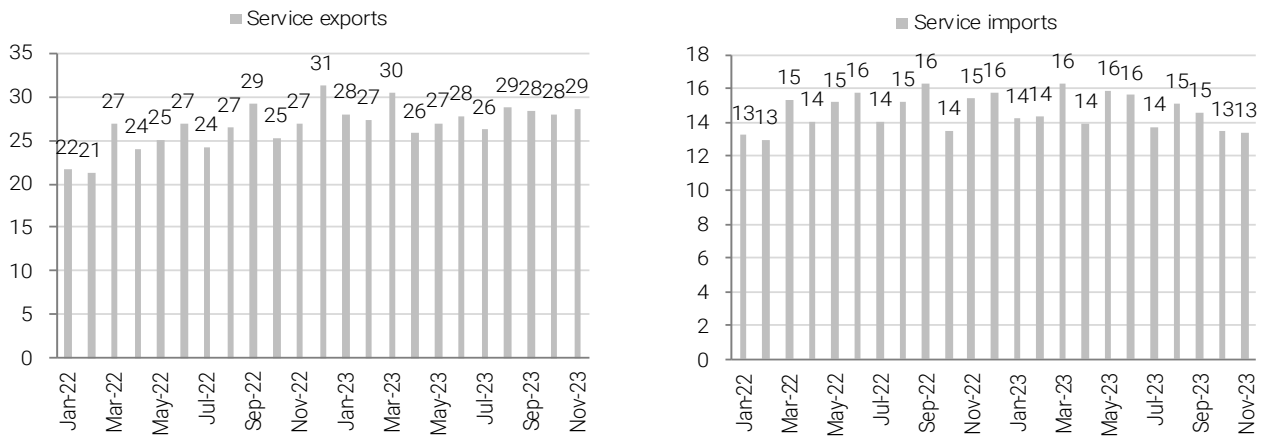
Exhibit 7: Comparison of exports and imports (US\$ bn)

	8MFY24	8MFY23	8MFY24/ 8MFY23 (%)		8MFY24	8MFY23	8MFY24/ 8MFY23 (%)
Exports	278.8	298.2	(6.5)	Imports	445.1	487.4	(8.7)
Petroleum products	55.3	65.2	(15.2)	Petroleum crude and products	113.6	139.3	(18.4)
Non-oil exports	223.5	233.0	(4.1)	Non-oil imports	331.5	348.1	(4.8)
Engineering goods	69.5	70.7	(1.8)	Electronic goods	57.8	51.9	11.5
Gems and jewelry	21.4	26.5	(19.1)	Gold	32.9	27.2	21
Drugs and pharmaceuticals	17.9	16.6	8.0	Machinery	32.7	29.4	11.4
Electronic goods	17.7	14.4	24	Coal, coke, and briquettes	25.9	37.2	(31)
Organic and inorganic chemicals	17.6	20.4	(13.7)	Organic and inorganic chemicals	18.6	23.7	(21)
RMG of all textiles	8.8	10.4	(14.6)	Iron and steel	15.7	14.2	10.4
Cotton yarn, fabrics,etc.	7.7	7.3	5.7	Artificial resins, plastic materials, etc.	15.3	16.0	(4.5)
Rice	6.5	7.0	(7.2)	Pearls, precious/semi-precious stones	15.2	21.0	(28)
Plastic and linoleum	5.2	5.8	(10.6)	Transport equipment	14.5	18.5	(22)
Others	51.0	54.0	(5.4)	Others	102.8	109.0	(5.6)

Source: CEIC, Kotak Economics Research

Services surplus remains firm in November

Exhibit 8: Trend in services exports and imports (US\$ bn)



Source: CEIC, Kotak Economics Research

We estimate CAD/GDP at 1.6% in FY2024E and FY2025E

Exhibit 9: India's balance of payments, March fiscal year-ends, 2019-25E (US\$ bn)

	2019	2020	2021	2022	2023	2024E	2025E
Current account balance	(57.3)	(24.7)	23.9	(38.8)	(67.1)	(56.9)	(61.4)
GDP	2,705	2,835	2,671	3,150	3,388	3,581	3,941
CAB/GDP (%)	(2.1)	(0.9)	0.9	(1.2)	(2.0)	(1.6)	(1.6)
Trade balance	(180)	(158)	(102)	(189)	(265)	(259)	(268)
Trade balance/GDP (%)	(6.7)	(5.6)	(3.8)	(6.0)	(7.8)	(7.2)	(6.8)
- Exports	337	320	296	429	456	431	434
- oil exports	47	41	26	67	97	82	94
- non-oil exports	291	279	270	362	359	349	340
- Imports	518	478	398	619	721	690	703
- oil imports	141	131	83	162	209	183	195
- non-oil imports	377	347	316	457	512	507	508
- gold imports	33	28	35	46	35	47	47
Invisibles (net)	123	133	126	151	198	202	207
- Services	82	85	89	108	143	148	153
- software	78	85	90	110	131	134	137
- non-software	4	0	(1)	(2)	12	14	16
- Transfers	70	75	73	80	101	100	100
- Income (net)	(29)	(27)	(36)	(37)	(46)	(46)	(46)
Capital account	54	83	64	86	59	43	65
Capital account/GDP (%)	2.0	2.9	2.4	2.7	1.7	1.2	1.6
Foreign investment	30	44	80	22	23	31	45
- FDI	31	43	44	39	28	11	15
- FPI	(1)	1	36	(17)	(5)	20	30
- Equities	3	0	36	(18)	(6)	15	5
- Debt	(4)	1	(0)	2	1	5	25
Banking capital	7	(5)	(21)	7	21	10	10
- NRI deposits	10	9	7	3	9	5	5
Short-term credit	2	(1)	(4)	20	7	2	4
ECBs	10	23	(0.1)	8	(4)	(2)	4
External assistance	3	4	11	5	6	2	2
Other capital account items	1	18	(2)	24	7	-	-
E&O	(0)	1	(0)	-	(1)	-	-
Overall balance	(3.3)	59.5	87.3	47.5	(9.1)	(13.9)	3.6
Memo items							
Average USD/INR	69.9	70.9	74.2	74.5	80.3	82.9	83.4
Average Brent (US\$/bbl)	70.0	60.9	44.8	80.0	95.4	85.0	85.0

Source: CEIC, RBI, Kotak Economic Research estimates

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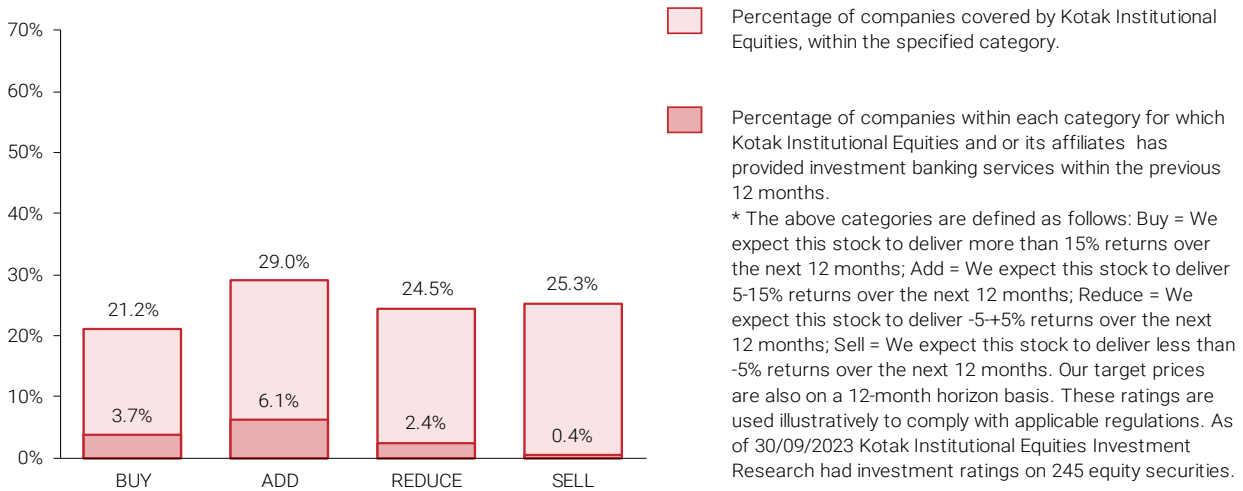
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