Press Release

Not much relief yet on the trade deficit front

Sharp increase in FY23 CAD amid increasing risks to exports to maintain pressure on INR

07-Sep-2022

As per the preliminary estimates released by the Ministry of Commerce and Industry, India's merchandise trade deficit narrowed marginally to USD 28.7 bn in Aug-22 from a record high print of USD 30.0 bn in Jul-22. While both exports and imports declined sequentially, the slight moderation in trade deficit stemmed from a relatively larger contraction of imports vis-à-vis exports. Sequentially, in value terms, exports further moderated for the fifth consecutive month to USD 33.0 bn in Aug-22 from USD 36.3 bn in the previous month, clearly reflecting the adverse impact of the slowdown in large export markets such as the US and EU, prolonged lockdowns in China and domestic export restrictions levied on certain commodities to cool down inflationary pressures. On the other hand, imports eased to USD 61.7 bn in Aug-22 from USD 66.3 bn led by moderation in commodity prices which led the oil imports to decline to a 5-month low in Aug-22. Cumulative trade deficit for Apr-Aug'22 stands significantly sharply higher at USD 125.2 bn as compared to USD 53.8 bn recorded in the corresponding period of the previous financial year, in line with expectations.

India's total merchandise exports moderated to USD 33.0 bn in Aug-22 from USD 36.3 bn in Jul-22 driven by easing of oil as well as non-oil exports. Some moderation was seen in the decline in oil exports (USD -0.5bn MoM in Aug-22 v/s USD -2.3bn in Jul-22), after the tax on petroleum products was reduced and units in SEZs were exempted. Importantly, on an annualized basis, the exports have contracted for the first time in nearly 18-months by 1.2% YoY led primarily by a decline in sectors such as engineering goods, gems and jewellery and yarns and textiles. Clearly, the drop in momentum in exports is driven by the intense global headwinds – continuing geo-political conflicts, the sharp rise in interest rates across the world and the sharp depreciation in most of the currencies vs the USD. The geopolitical crisis continues unfettered for the seventh consecutive month. The ongoing conflict has started to dampen world trade volume (the IMF in its Jul-22 update of the World Economic Outlook report slashed its projection for growth in 2022 and 2023 world trade volume (goods and services) by 90 bps and 120 bps to 4.1% and 3.2% respectively. This trade slowdown has started to manifest via moderation in India's exports. A marginal adverse impact on exports is also on account of the recently imposed export duties or restrictions by the government in case of select commodities; however, this could get reversed in the coming months. On a cumulative basis, exports for the first five months of FY23 stand at USD 192.6 bn, an expansion of 17.1% compared to the corresponding period in FY22.

The decline in overall imports in Aug'22 was primarily led by easing of oil as well as non-oil and non-gold (NONG) imports. While gold imports on sequential basis ticked up marginally to USD 3.5 bn in Aug-22, it has halved on a YoY basis. We expect the gold imports to remain range bound amidst government raising the import duty on gold by a net 4.25% to 15%. The moderation in crude oil prices along with increased supplies of Russian crude has led the oil imports to moderate to a 5-month low of USD 17.6 bn in Aug-22 from USD 21.1 bn in Jul-22. NONG imports, a key indicator of domestic demand, also eased to USD 40.5 bn in Aug-22 from USD 42.7 bn in Jul-22. Notwithstanding the marginal easing, the print remained above

USD 40 bn for the third consecutive month with coal, machinery, electronic goods, vegetable oil remaining the top import commodities. We expect the overall volume demand for inbound shipments to remain elevated amid improving demand scenario in India, however, significant moderation in overall commodity prices is expected to act as a balancing factor which could cause the total imports to moderate marginally.

Overall, while the monthly trade deficit prints could further moderate in the coming months as impact of somewhat lower commodity prices trickle down and global supply chain pressures ease, increasing risks to exports and relatively robust demand for imports poses upside risks to our FY23 current account deficit projection of USD 105 bn.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research Ltd "The dollar index is at a two-decade high, reflecting the ongoing interest rate hikes by Fed and the continuing geo-political risks. Along with the expanded trade and current account deficit, such an environment has kept the pressure on the rupee which continues to hover around 80.0. While the FII outflows have been arrested, the uncertainty on capital flows and the volatility in rupee are likely to persist in the short term."

Annexure

Chart 1: India's merchandise trade deficit moderates slightly in Aug-22

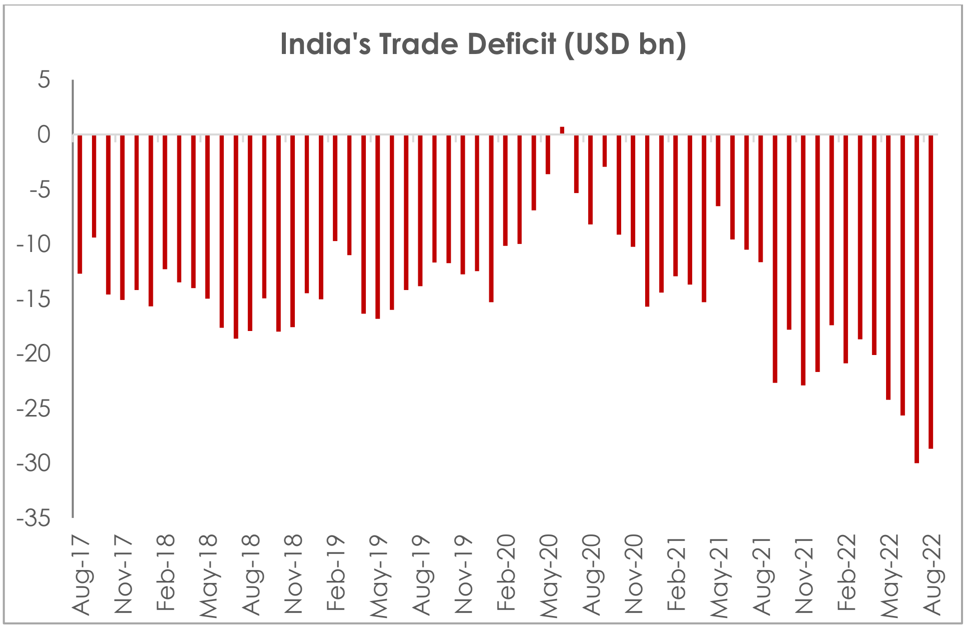

Chart 2: with imports climbing down at a faster pace sequentially than exports

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,200 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contact:

Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Chief Operating Officer – Subsidiaries Ph: +91-9920656299 prosenjit.ghosh@acuite.in

Disclaimer: This release is sent to you for the sole purpose of dissemination through your newspaper / magazine / media / website / agency. The release may be used by you in full or in part without changing the meaning or context thereof but with due credit to Acuité. However, only Acuité has the sole right of distribution of its releases through any media. Acuité has taken due care and caution for writing this release. Information has been obtained by Acuité from sources which it considers reliable. However, Acuité does not guarantee the accuracy, adequacy or completeness of information on which this release is based. Acuité is not responsible for any errors or omissions or for the results obtained from the use of this release. Acuité has no liability whatsoever to the users / distributors of this release.