Economic Intelligence Cell
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Macro Insights

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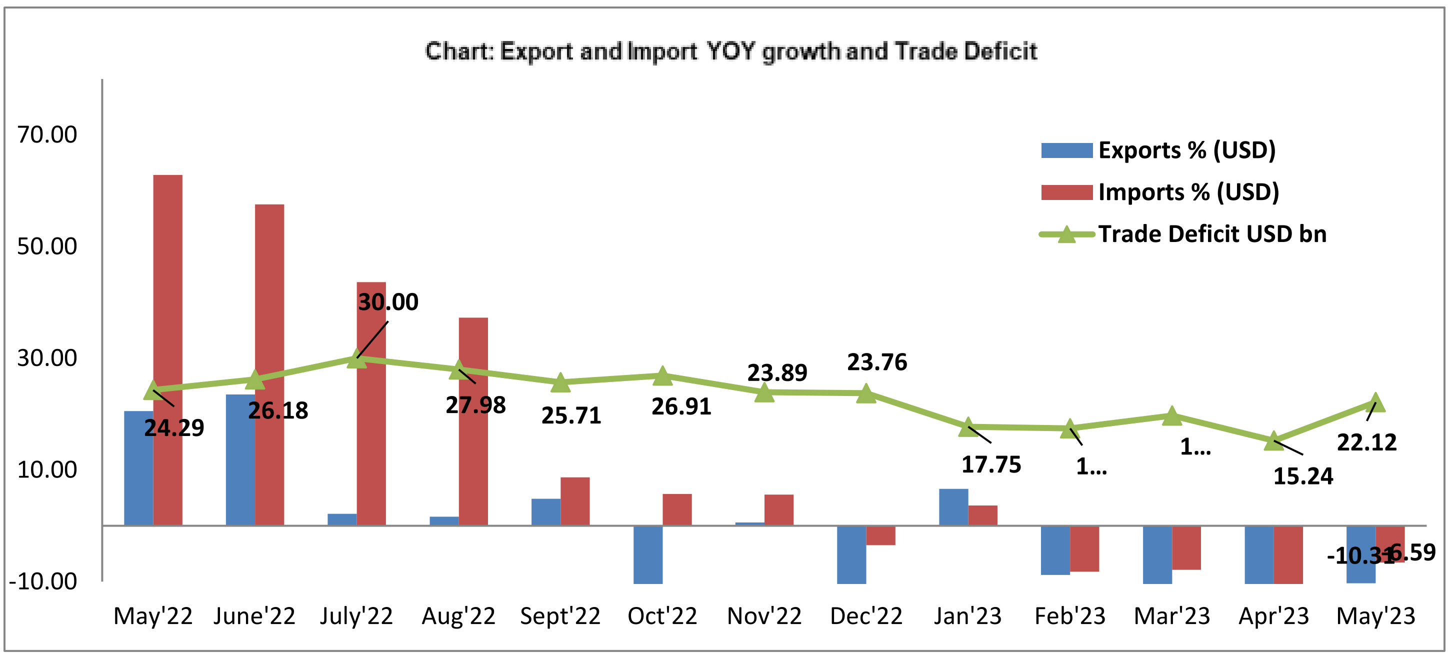
Trade Deficit

India's merchandise trade deficit rises to a five month high of $22.12 billion in May'23 owing to slowdown in many developed countries and falling global import demand.

Highlights:

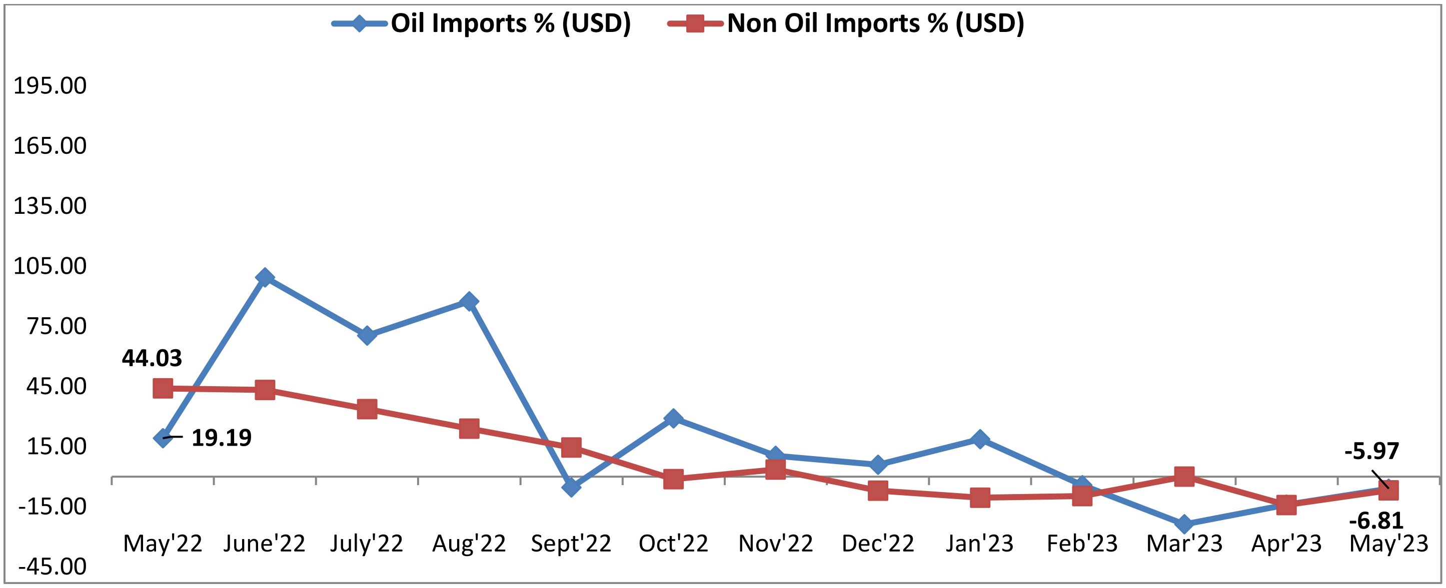
- *Merchandise exports declined to $34.98 billion, down 10.30% year-on-year in May 2023. Meanwhile Merchandise imports also declined to $57.10 billion, down by 6.59 % year-on-year in May 2023.*
- *This is the fourth consecutive month of a contraction in exports and imports, respectively.*
- *Exports of non-petroleum products and non-gems and jewellery products contracted 4 per cent in May to $26.22 billion. Their imports marginally increased to $35.88 billion, expanding 1.67 per cent.*



($ bn)

Month	Exports	Imports	Trade Deficit
May'22	39.00	61.13	-22.13
May'23	34.98	57.10	-22.12
YoY Growth (%)	-10.31%	-6.59%	-0.05%

Chart: Import Growth % - Oil & Non-Oil



Views:

- ✓ The weakening of global growth and trade is expected to both weaken and strengthen the stability of India's external sector. On the one hand, it may lower India's exports and widen the Current Account Deficit (CAD). On the other hand, it may reduce the value of imports by easing commodity prices and narrowing the CAD. So far, the net impact of the two opposing effects has been positive in narrowing the CAD. This has strengthened the stability of India's external sector. We expect the current account deficit to narrow considerably in FY'24 to 1.2 – 1.5% of the GDP.
- ✓ India's external sector is also in a comfortable position where the rupee is range bound in Rs.82-83/dollar. The Indian rupee is turning out to be the most stable currency, at least among emerging market peers. The forex reserves at RBI are at comfortable levels. We expect the rupee to trade in the same range for next few months and isn't expected to depreciate beyond 83-84Rs. Per dollar.
- ✓ FPI inflows are rising in India due to following factors – higher than expected GDP growth, Improved Q4 earnings of Indian Inc, narrowing fiscal and current account deficit, robust PMI figures, sequential growth in automobiles sales and robust expansion in bank credit. We expect FPI inflows to remain buoyant in FY 23-24.

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