Exports fall 12.2%, trade deficit up

Higher imports led to a rise in trade deficit to almost $23.8 billion in December from $22.6 billion in the previous month, although it's still way below July's record level of $30 billion.

India's current account deficit (CAD) widened to $36.4 billion, an all-time-high in absolute terms, and 4.4% of GDP, in the September quarter owing mainly to a record deficit of $83.5 billion. There was a massive depletion — $30.4 billion — of foreign exchange reserves on a balance of payments (BoP) basis in the quarter, as against accretions of $4.6 billion in Q1FY23 and $31.2 billion in Q2FY22. Analysts reckon CAD may have peaked in Q2FY23, but it might still remain at elevated levels, although the possibility of capital outflows is seen to impact the exchange value of the rupee more.

As many as 19 of the 30 key segments — including petroleum products, engineering goods, gems and jewellery, textiles and garments, drugs and pharmaceuticals — witnessed a decline from a year before. However, on a month-on-month basis (without adjusting for seasonal factors), goods exports inched up by 7.7% in December.

With global economic growth expected to drop further in 2023, Indian exporters, who had gained profusely from global, post-Covid industrial resurgence in FY22, foresee greater risks in coming months.

Commerce secretary Sunil Barthwal asserted that India's exports have held up despite growing external headwinds. "There are recessionary trends globally. So, we are facing a lot of headwinds," he said. The commerce ministry, Barthwal said, is undertaking a comprehensive "country-wise as well as commodity-wise" analysis to push up exports.

In a statement, the ministry said, "The resilient growth of the Indian economy during the first half of the current financial year, the fastest among major economies, bespeaks strengthening macroeconomic stability... However, global growth forecasts indicate downturn in global economic activity and trade."

The World Trade Organisation in October warned of a "darkened 2023" and projected that global trade growth will drop to only 1% this year from 3.5% in 2022. Between April and December of this fiscal, goods exports rose 9% to $332.8 billion, while imports jumped almost 25% to $551.7 billion, primarily due to impressive growth in the first half.

Merchandise trade deficit until December this fiscal was at $218.9 billion, against $136.5 billion a year before. Federation of Indian Export Organisations president A Sakthivel said the export decline "is a reflection of the toughening global trade conditions on account of high inventories, economies entering recession, high volatility in currencies and geopolitical tensions". The drop in commodity prices and restriction on some exports (wheat, broken rice, etc), with a view to reining in domestic inflation, have also affected export growth this fiscal.

EEPC India chairman Arun Kumar Garodia said, "Considering the gloomy world economic outlook for 2023, the global trade prospects are dim and its signs have been visible in the high-frequency numbers. In view of this, we see challenging times ahead for the engineering goods sector." Icra chief economist Aditi Nayar said the current account deficit has likely peaked in the second quarter ($36.4 billion). She predicted a moderation to $25-29 billion each in the subsequent two quarters, as trade deficit moderates from the record level of almost $84 billion in the September quarter.

Core exports (excluding petroleum and gems & jewellery segments) dropped to $27 billion in December from $29.5 billion a year before. Such imports, however, rose marginally to $36.9 billion from almost $36 billion. The export segments that witnessed contraction in December included petroleum products (26.9%), gems and jewellery (15.2%), engineering goods (11.9%), drugs and pharmaceuticals (1.9%). The segments that recorded growth included electronics (37%) and rice (13.3%). Oil imports, meanwhile, rose by 5.9% to $17.5 billion, while gold imports crashed by 75% to $1.2 billion in December. Meanwhile, imports from Covid-hit China jumped 12% to $75.9 billion until December this fiscal but exports to the neighbour crashed 35.6% to $11 billion.

In April-December this fiscal, the US remained the largest export destination with a growth of 6.8% to $59.6 billion.