India: Feb’24 re-clocks C/A surplus

15th March 2024

Merchandise Trade deficit widened on spike in gold demand

Merchandise trade deficit widened to $18.71bn in Feb’24 from $17.49bn in Jan’24. This was a negative surprise as we expected a narrower deficit of $ 16.9bn. More importantly, services trade surplus jumped to fresh record highs of $16.76bn in Feb’24.

Total trade deficit marginally widened to $1.95bn in Feb’24 from $0.7bn in Jan’24, yet stayed way below the FYTD24 average of $6.3bn. We estimate that current account (C/A) balance adjusted for remittances and investment outflows remained in surplus for the second consecutive month.

Limited impact of Red sea crisis on trade dynamics

Interestingly, both exports and imports rose in Feb’24 despite the ongoing shipping concerns along the Red Sea route. According to the Feb’24 RBI Bulletin, about 48.7% of India’s merchandise exports and 30.4% of imports are estimated to be exposed to the Red sea route.

Gold was the key culprit for negative trade data surprise

On a sectoral basis, oil deficit remained largely steady, non-oil non-gold deficit narrowed as expected on positive seasonality while the entire effect was offset by sharp widening in gold deficit.

Gold imports rose from an estimated 29 tonnes in Jan’24 to an estimated c.95 tonnes in Feb’24. Gold demand rose despite global prices remaining above the key $2000/oz threshold. Despite the rise in gold prices, higher imports is attributed to marriage related demand with historical trends indicating possibility of this trend persisting in the month of March as well.

Oil deficit marginally widened by $0.3bn MoM to $8.6bn as average oil prices remained steady MoM. With Brent crude prices facing upward pressure in March, we may witness widening in oil deficit in the next reading.

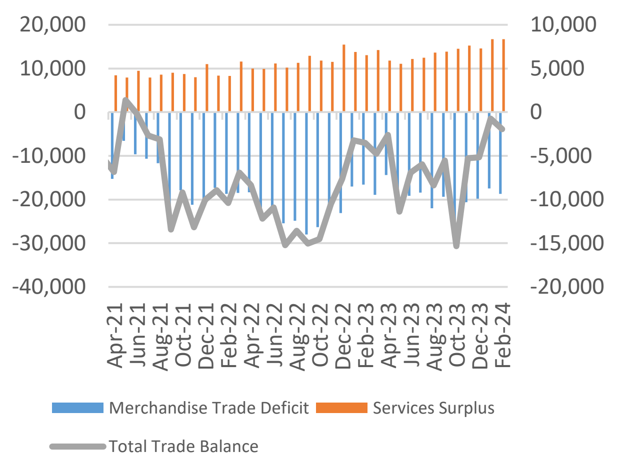
Non-Oil Non-Gold deficit dropped by c.$4.0bn MoM due to positive seasonality witnessed in the last quarter of the fiscal year. Most of the fall in NONG deficit was contributed by Electronics(44%), Machinery(17%), Chemicals(22%) and Agri(17%).

C/A deficit for FY24 tracking 0.7% of GDP; sub-1% forecast for FY25

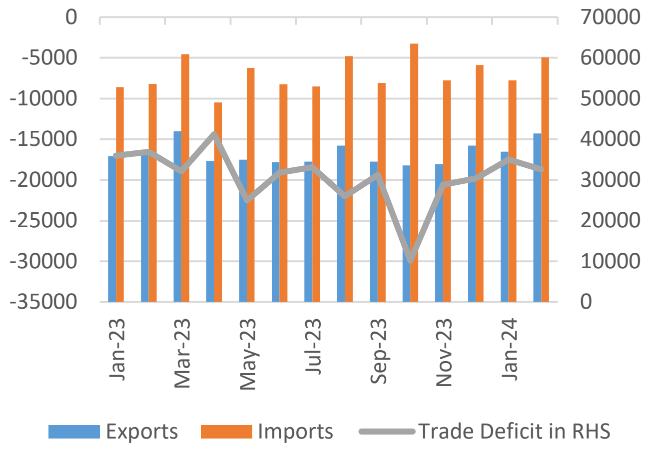
In the current year, taking into account the latest reading, C/A deficit is tracking broadly in line with our forecast of 0.7% of GDP. Going forward, given the assumption of services exports maintaining their strong momentum in FY25 and commodity prices especially oil averaging c.$85/bbl, we expect C/A deficit to persist at sub-1% of GDP.

Key charts

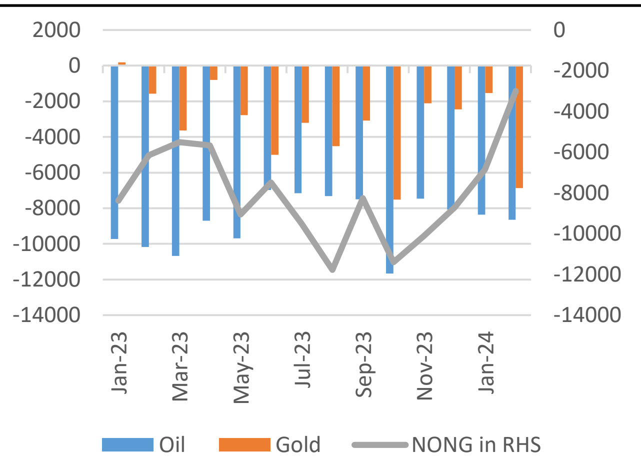
Current A/C surplus due strong trend in services exports *(in $ mn)*



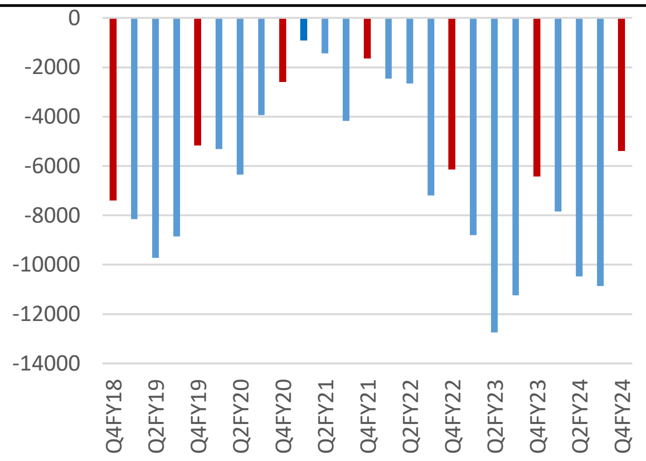
Despite Red Sea crisis, exports and imports rose in Feb'24 *(in $ mn)*



Trade deficit widening due to Gold demand- *(in $ mn)*



NONG Trade deficit showing improvement in Jan-Mar Quarter due to seasonality *(monthly avg NONG Trade Balance in $ mn, Q4FY24 is for Jan and Feb)*



Data table

USD bn	Exports	Imports	*Oil Imports*	*Gold Imports*	Trade deficit	Oil deficit	Gold/ jewellery deficit	Non oil non gold deficit
FY20	*313.3*	*474.7*	*130.6*	*53.4*	*-161.4*	*-89.3*	*-17.6*	*-54.6*
FY21	*25.8*	*82.7*	*82.7*	*47.4*	*-102.6*	*-56.9*	*-26.6*	*-27.3*
FY22	*422.0*	*613.1*	*161.8*	*80.5*	*-191.0*	*-94.3*	*-41.4*	*-54.9*
FY23	*451.1*	*716.0*	*209.4*	*74.5*	*-264.9*	*-111.9*	*-35.3*	*-117.7*
YTDFY24	*395.6*	*617.9*	*162.0*	*71.4*	*-222.3*	*-83.4*	*-40.6*	*-98.3*
Oct-23	33.5	63.5	16.2	10.4	-29.9	-10.1	-7.5	-12.3
Nov-23	33.9	54.5	14.9	4.9	-20.6	-7.4	-2.1	-11.0
Dec-23	38.5	58.3	14.9	5.3	-19.8	-8.1	-2.4	-9.3
Jan-24	36.9	54.4	16.6	4.1	-17.5	-8.4	-1.5	-7.6
Feb-24	41.4	60.1	16.9	10.1	-18.7	-8.7	-6.9	-3.2

Source: CEIC, UBI research

Thank you!

Research Team

1.Kanika Pasricha
2.Sujit Kumar
3.Suneesh K
4.R Gunaseelan
5.Nidhi Arora
6. Rajesh Ranjan
7. Jovana Luke George
8. Ashish D Dhok
9. Ajinkya Tawde
10. Kanhaiya Jha
11. Maneesh Gupta
12. Rohit Yarmal
13. S. Jayalaxmi