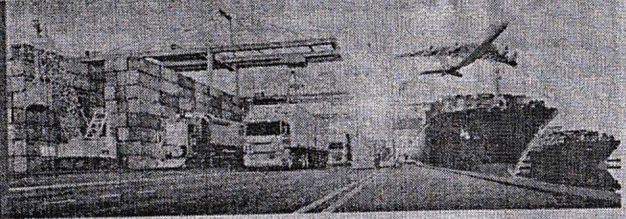
SURGE IN COAL IMPORTS MAY LOSE STEAM

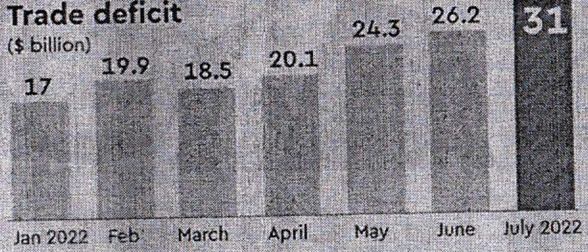
# Trade deficit may come off peak in Aug but will still remain high

**Any reduction in elevated export duties on select steel products and iron ore will also help boost exports**

**3-3.3%**
Projected CAD (as % of GDP) in FY23, against 1.2% in FY22



**Trade deficit**
($ billion)




Source: DGCIS; ministry of commerce

**How curbs hit exports in July** (% change, y-o-y)

| | |
|---|---|
| Petroleum products | ↓7 |
| Iron ore | ↓94 |
| Iron & steel | ↓2.5 |
| All goods | ↓0.8 |

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New Delhi, August 3

**HAVING HIT A** record $31 billion in July, India's trade deficit may narrow a tad in August, as the windfall tax on exports of certain petroleum products has been cut and the government directive on mandatory coal imports by power generators (gencos) has been relaxed, official sources and analysts told FE.

So, while petroleum exports may reverse a drop witnessed in July and record growth in August, the persistent surge in coal imports may lose some steam. On top of that, any reduction in the elevated export duties on select steel products and iron ore will also help boost exports. One of the sources said a review of these duties is being planned.

Nevertheless, thanks to a "blow-up" in July, trade deficit in the second quarter could still exceed the June quarter level of $69 billion, some of them said. This will keep up pressure on the current account deficit (CAD), which is expected to climb to 3-3.3% of GDP in FY23, compared with 1.2% in the last fiscal. A lot, however, hinges on the movement of global commodity prices, especially of oil, as key central banks have started raising interest rates aggressively, they added.

The windfall tax on exports of petroleum products, introduced from July 1, on top of elevated export duties on steel products and iron ore, weighed down exports in July. It was the first monthly fall in merchandise exports since February 2021, albeit on an unfavourable base.

According to the commerce ministry data, exports of petroleum products declined 7% on year in July to $5.8 billion; such exports had grown by 119% in June. Sequentially, these exports crashed almost 33% in July from the June level. Similarly, exports of iron ore crashed by 94% on year in July and those of iron and steel products dropped 2.5%. Meanwhile, coal imports spiked 164% in July to $5.2 billion.

The government had on May 22 raised the export duty on iron ore to 50% from 30%. An export duty of 45% was imposed on iron ore pellet, while that of 15% was slapped on select steel products.

However, some relief to petroleum product exporters came on Wednesday when the government halved the windfall tax on the export of diesel and scrapped the impost on ATF shipments. Separately, it also revoked an earlier order to gencos to "mandatorily" blend imported coal with the domestic variety, which had caused a spurt in imports of the commodity.

Goods trade deficit in July widened to a record high of $31 billion, up from $10.6 billion a year earlier and higher than $25.6 billion in June.

Trade deficit will likely remain above $20 billion for an extended period and pose the risk of a wider CAD, Barclays said.

"While we still expect the trade deficit to hit $265 billion, the risks are skewed towards an even larger deficit, which poses risks to our forecast for the current account deficit to widen from the present $115 billion for FY23," said Rahul Bajoria, chief India economist at Barclays.

Icra chief economist Aditi Nayar said the trade deficit may have peaked in July and added that lower commodity prices should temper the deficit in August. However, the Q2 trade deficit would be higher than that in Q1, she added. The momentum in merchandise and services exports in the face of the global slowdown fears remains crucial to the trade deficit movement, she added.

India Ratings chief economist DK Pant said while trade deficit may ease a tad in August from the previous month, oil price movement will determine the course of the deficit in the coming months.