Net exports likely a growth push in Q2 despite drop in goods shipment

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NET CONTRIBUTION OF India's foreign trade to its gross domestic product (GDP) may have been positive in the July-September quarter of this fiscal, despite merchandise exports shrinking in the period on a year-on-year basis, economists said.

While in Q4FY23 net exports helped boost the GDP, they dragged it down in the first quarter of the current financial year, because while exports contracted, imports expanded in double digits.

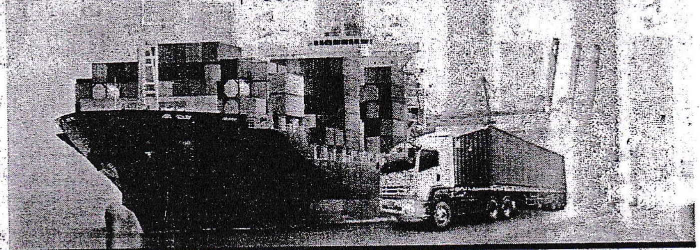
"In Q2FY24, imports of both goods and services declined sharply by 55.2% year-on-year, in nominal terms, reflecting lower goods trade deficit and higher services surplus. This is expected to translate into a positive contribution to overall real GDP growth in July-September," said Gaura Sen Gupta, economist, IDFC FIRST Bank.

Typically, India maintains a merchandise trade deficit, while services exports are in surplus. On a net basis, net foreign trade in both goods and services turns out to be surplus in some quarters and deficit in others. Inflation and the value of the rupee are key determinants too.

In Q2FY24, India's overall goods trade deficit plunged 58.5% year-on-year to $19.63 billion. During several recent quarters, net exports of goods and services showed negative value.

TRADE DATA

- In Q2, overall goods trade deficit **plunged 58.5% to $19.63 bn**
- Record-high **$31.46 billion trade deficit print in October** has raised concerns
- Experts say 55.2% fall in goods and services imports in Q2 hint at positive real GDP contribution



GDP growth was boosted by 1.4 percentage points in January-March FY23 by net exports, as merchandise trade deficit shrank 64% year-on-year to $9.64 billion.

Although economists feel that net exports likely contributed positively to GDP growth in July-September, they haven't yet put out any estimate of the extent of the push.

"Extrapolating monthly trade data to assess impact on real GDP growth is complicated by the role of deflators that are difficult to get a handle on," said Abhishek Upadhyay, senior economist, ICICI Securities Primary Dealership.

India Ratings and Research chief economist DK Pant, who expects Q2 GDP growth at 6.9%, said, "India's trade deficit plunged in Q2FY24 as compared to Q2FY23, and at the same time net exports of services rose considerably... this will provide some cushion to net exports after factoring in rupee weakness over the last one year."

"Net exports in Q2 FY24 are likely to be around 0.45x-0.50x of Q2FY23, which will provide some support to GDP growth on a y-o-y basis," he said. In Q2 FY23, GDP growth was 6.2%.

A 6.9% growth expectation in July-September is much higher than 6.5% projected by the Reserve Bank of India, but this is largely due to buoyancy observed in government final consumption expenditure.

Moreover, buoyancy being recorded in the high-frequency indicators is also likely to boost GDP growth in Q2 FY24.

Last month, RBI governor Shaktikanta Das had said, "Growth momentum in India continues to be strong. Looking at the momentum of economic activity and looking at a few early data points which have come, I can say that the second quarter GDP number...will surprise everyone on the upside."

That said, the record-high $31.46 billion trade deficit print in October has raised concerns regarding its impact on growth in the current quarter.

"October's trade deficit number definitely is a 'shocker', and it will drag down GDP growth in the current quarter if sustained at this level," said Anubhuti Sahay, economic research head — South Asia, Standard Chartered Bank.

"However, given trade data is revised subsequently, it seems that the $31-billion figure will be revised lower, and thus, the drag on growth would not be as much as it seems for now," she said.