



**INDIA**

**India Economics**

**Trade Update: FY07 export targets met but FY08 targets appear Herculean**

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**Mar Trade: Forecast and Actuals**

	Actual	Citigroup Forecast	Previous Data 1	Previous Data 2
Mar Exports (% YoY)	8.5	3.8	7.9	5.5
Mar Imports (% YoY)	14.5	11.8	25.1	23.2
Mar Trade balance (US\$bn)	-3.8	-4.0	-4.7	-5.8

Source: Directorate General of Commercial Intelligence and Statistics

Note Released: 3-May-07

- **Highlights of March trade data:** Export growth was higher than expectations but remained in the single digit range for the 4th consecutive month with exports touching US\$12.6bn up 8.5% YoY. Imports at US\$16.4bn saw a deceleration in growth to 14.5% from the 25%+ growth seen earlier this year. Import growth was led by a 16.4% increase in non-oil imports<sup>1</sup> and a 9.8% increase in oil imports. Lower imports resulted in the trade deficit narrowing to US\$3.8bn as compared with the US\$5bn-6bn range seen in the past few months.
- **FY07 export targets met:** Exports for FY07 were US\$124.6bn, up 23.9%; in line with the government's estimates of exports touching US\$125bn. Imports came in at US\$165bn, up 27.2%, led by oil at US\$52.7bn, while non-oil imports rose 26% to US\$112bn. This resulted in the trade deficit widening to US\$55.9bn as compared with US\$39.8bn in FY06.
- **FY08 targets appear formidable:** On five consecutive years of 20%+ export growth, the government has targeted exports rising US\$160bn in FY08 (+28%). We think that growth is likely to decelerate to the sub-15% yoy level on moderation in the US, a high base effect coupled with the lack of new export initiatives. However, imports too are also likely to slow to the 13.5% level. This assumes stable oil prices but also the continuation of 20%+ non-oil imports.
- **We maintain our positive stance on the external sector:** While we expect the customs trade deficit to widen to US\$66.1bn in FY08 v/s US\$56.7bn in FY07, we expect higher invisible inflows (software exports and remittances) coupled with strong capital flows to limit the rise in the CAD to 1.5% of GDP in FY07 and FY08, and should keep the currency on an appreciating trend.

**India Trade – Customs Classification: April- March 2007 (US\$bn, %YoY)**

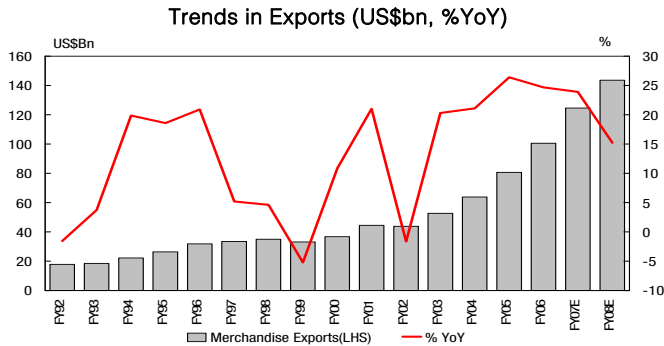
	Mar-07	YoY	Apr-Mar07	YoY	FY08E	%YoY
Exports	12.6	8.5	124.6	23.9	143.6	15.2
Imports	16.4	14.5	181.4	29.4	209.6	15.6
Oil	4.5	9.8	57.3	30.8	57.0	-0.5
Non-oil	11.9	16.4	124.1	28.7	152.6	23.0
Trade Balance	-3.8		-56.7		-66.1	

Source: DGCI&S; Citigroup estimates

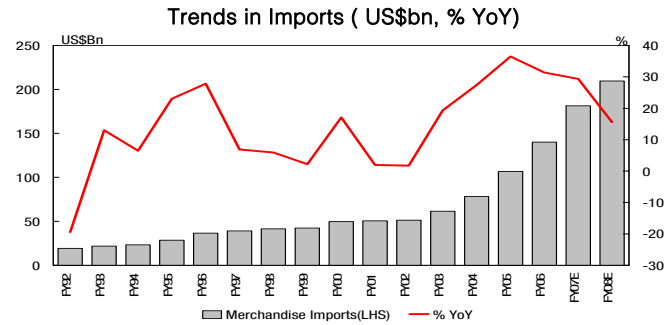
<sup>1</sup> **Commodity Composition of Trade:** Though this data comes out with a 2 month lag, the December numbers are still not out. Thus, a quick re-cap of the earlier data indicates that 70% of the rise in non-oil imports is due to capital goods, industrial raw materials – all of which support the investment story, while the key sectors driving exports are engineering goods and petroleum products

## India – External Trade in Pictures

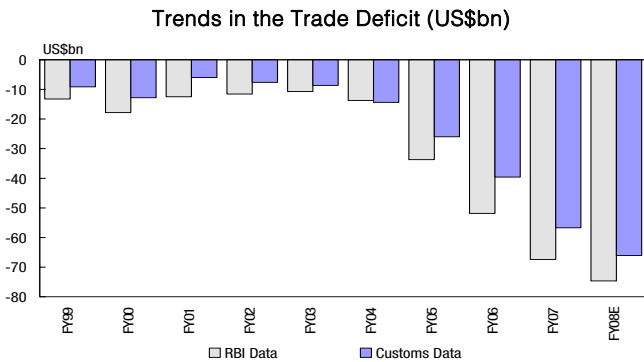
Export growth, which has crossed 20%+ for 5 consecutive years, is likely to decelerate to sub-15% levels in FY08



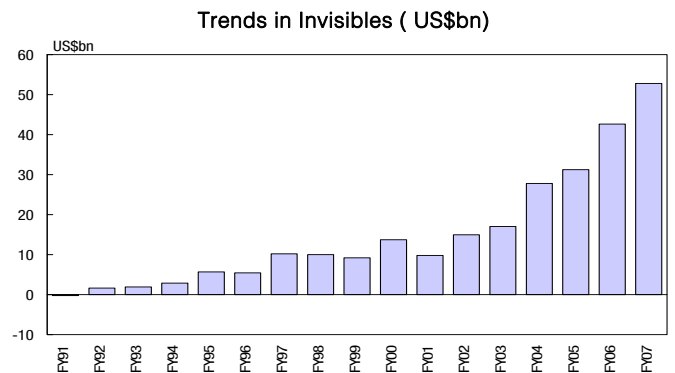
However, imports are also likely to slow to sub 20% levels largely due to stable oil prices



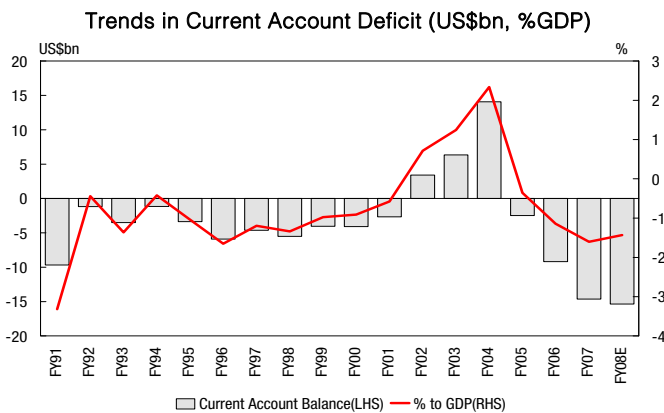
We expect the trade deficit to widen further to US\$66 bn in FY08 v/s US\$56 bn in FY07. (Difference between RBI and customs data is a proxy for Defence imports)



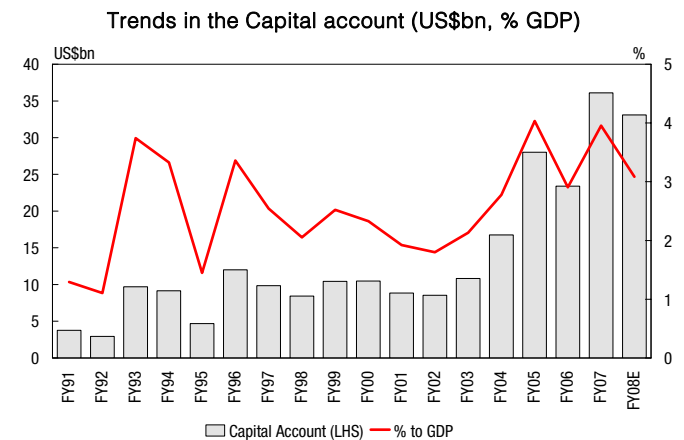
However, invisibles led by software exports and remittances should continue to remain buoyant



This would help support the current account deficit (CAD). We expect the CAD to come in around t 1.5% of GDP in FY08



Strong Capital flows support our long term rupee appreciation view



## Disclosure Appendix

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