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Trade deficit narrows to lowest in five months

Asit Ranjan Mishra, Mint

New Delhi, 10 September 2013: India's trade deficit narrowed to $10.9 billion in August, the lowest in five months, as exports rose and gold imports dropped sharply.

Merchandise exports grew 13% to $26.1 billion during the month, while imports contracted 0.68% to $37 billion. Gold imports fell to $650 million from $2.2 billion a month ago, further reducing pressure on the current account deficit (CAD).

There are signs of stability in major economies in Europe, including the UK, and positive growth in the US will also lead to increase in demand for Indian goods in traditional destinations, trade minister Anand Sharma said.

The Indian economy grew 4.4% in the June quarter, the weakest pace in four years. The economy expanded 4.8% in the preceding three months.

The continued correction in trade deficit marks the onset of a improvement in the trade balance, Yes Bank Ltd said in a report.

"A 70% decline in gold imports contained the trade deficit, even though higher oil imports on account of rise in global prices partially negated the positive impact from lower gold imports," the report said. "The continued comfort on trade balance bodes well for CAD, which is likely to see a significant correction in the second quarter of 2013-14."

India's CAD stood at a record 4.8% of gross domestic product (GDP) in 2012-13. The finance ministry has targeted to narrow the deficit to less than 3.7% of GDP in the year ending 31 March.

The nation's oil imports bill grew 17.9% in August to $15.1 billion because of rising petroleum prices while non-oil imports during the month which is an indicator of domestic demand, fell 10.4% to $22 billion.

The continued political unrest in Egypt and the ongoing crisis in Syria will keep pressure on global crude oil prices and pose a risk to oil imports, Crisil Ltd said in a research note.

Hinting at further curbs on non-essential imports, Sharma said his ministry is currently undertaking an exercise to identify such imports. "What is available in the country and where imports are non-essential, those will be curbed," the minister said.

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Export outlook optimistic, says Sharma

PTI

Mumbai, 31 August 2013: Commerce and Industry Minister Anand Sharma today expressed optimism that the recent pick-up in exports will continue through the rest of the financial year despite the global slowdown.

"The export performance will be better going forward despite the global slowdown," Sharma told members of the Federation of Indian Export Organisation (Fieo) here after inaugurating its new office in Mumbai.

On the GDP numbers reported yesterday, the worst since the 2008 global recession, he said, "Regardless of GDP numbers released yesterday, I am confident that the growth will not be less than 5.5 per cent this fiscal." Admitting that the economy is facing strong headwinds, he said the fundamentals remain strong.

The minister also defended the government and RBI measures to curb gold imports to address the current account deficit. "We import oil. Since it is an energy requirement, we have little scope to reduce imports. So we need to look at other options," he said.

Commerce secretary S R Rao said that exports in July witnessed 12 per cent growth and imports too have significantly come down. The August figures also show double digit growth and he was upbeat on the remaining second half of FY 14, Rao said. Rao pointed out that the agri exports are expected to be 25 percent higher due to good monsoon this year.

Fieo members expressed confidence of touching USD 325 billion mark this fiscal against the USD 303 billion last year.

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World economy to grow at 2.1% in 2013: UNCTAD report

Remya Nair, Mint

New Delhi, 13 September 2013: Emerging market economies may need to relook their export-led growth strategies and put controls on capital inflows to ensure macroeconomic stability, a report released by the United Nations Conference on Trade and Development (UNCTAD) warned at a time when India is taking steps to attract more foreign investment to bridge the current account deficit and support a weakening rupee.

In its *Trade and Development Report 2013*, released on Thursday, the arm of the United Nations warned that contracting demand for imports from the US could affect export growth in emerging market economies and potentially impact the trade balance.

“An export-oriented growth model is no longer viable in the current context of slow growth in developing economies,” the report said.

The world economy is expected to grow at 2.1% in 2013 as against 2.2% in 2012, with countries like the US expected to grow at a slower rate of 1.7% in 2013 against 2.2% in 2012.

The report said that emerging market economies are importing much more now than before 2008. A large trade deficit may become unsustainable for developing economies and these countries should focus on domestic demand and ways to generate employment and improve wages to support growth, it suggested. The report also says that developing economies should adopt a “cautious and selective” approach towards foreign capital inflows as these tend to create macroeconomic instability, currency appreciation and fuel asset-price bubbles. It suggested “pragmatic exchange rate policies and capital account management” to reduce vulnerability to external financial shocks.

The report sounds a warning bell for India, said Jayati Ghosh, professor of economics at Jawaharlal Nehru University. “India should look at reducing its current account deficit through reducing imports of gold and other non-essential items, including luxury goods. There are a lot of items under the import list that we can produce domestically,” she said.

Ghosh also highlighted the risks of encouraging hot money flows into the country. “A small change in interest rates by the United States or even a remote hint about some action can lead to such a huge flight of capital. India should take steps to ensure that the short-term flows are not encouraged. Either they should be taxed at a higher rate or restrictions should be placed with regards to how and when it can exit,” she said.

India’s current account deficit rose to 4.8% of gross domestic product in 2012-13 from 4.2% in 2011-12. The rupee fell to a record low of 68.85 against the dollar on 28 August before recovering after steps were announced by the new Reserve Bank of India governor Raghuram Rajan. On Thursday, the rupee ended at 63.54 to a dollar, down 17 paise from Wednesday’s close of 63.37.

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Services exports grow 15%, rupee depreciation helps

Financial Express

Mumbai, 14 September 2013: India's services exports in the April-July period grew by a healthy 14.5% as the rupee's sharp depreciation boosted the competitiveness of exports.

Services exports totalled $50.93 billion during April-July, up from $44.44 billion a year ago, provisional data from the Reserve Bank of India showed. The rupee had depreciated by a massive 11.25% in this period and had eventually hit an all-time low of 68.85/$ in August.

In July alone, services exports showed a growth of 16.75% compared with the corresponding month last year. This growth is faster than the growth of 11.64% in merchandise exports.

According to RBI, the provisional data may undergo revision in the balance of payment data, which the central bank releases with a lag of two quarters. Data for April-June will be released by end of this month. Services exports have remained largely unchanged even when merchandise exports had slumped every month in the April-June peiod. This slump in mercandise exports, and a corresponding surge in imports, especially that of gold had widened the trade deficit sharply during April-June quarter. Merchandise exports have since then picked up and the trade deficit has narrowed to $10.9 billion in August.

Consequently, the current account deficit (CAD) is also expected to narrow in the coming quarters. CAD had touched an unprecedented 6.7% of GDP. Mercandise exports at that time had grown by a modest 6% to $84.8 billion while services exports had remained flat at $37.8 billion.

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World economy to grow at 2.1% in 2013: UNCTAD report

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The world economy is expected to grow at 2.1% in 2013 as against 2.2% in 2012, with countries like the US expected to grow at a slower rate of 1.7% in 2013 against 2.2% in 2012.

The report said that emerging market economies are importing much more now than before 2008. A large trade deficit may become unsustainable for developing economies and these countries should focus on domestic demand and ways to generate employment and improve wages to support growth, it suggested. The report also says that developing economies should adopt a "cautious and selective" approach towards foreign capital inflows as these tend to create macroeconomic instability, currency appreciation and fuel asset-price bubbles. It suggested "pragmatic exchange rate policies and capital account management" to reduce vulnerability to external financial shocks.

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India's current account deficit rose to 4.8% of gross domestic product in 2012-13 from 4.2% in 2011-12. The rupee fell to a record low of 68.85 against the dollar on 28 August before recovering after steps were announced by the new Reserve Bank of India governor Raghuram Rajan. On Thursday, the rupee ended at 63.54 to a dollar, down 17 paise from Wednesday's close of 63.37.

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WTO scales down global trade growth projection in 2013

Business Line (The Hindu)

New Delhi, 19 September 2013: The World Trade Organisation (WTO) has lowered growth projections for global trade in 2013 for the second time, but added that the conditions for improved trade were already falling into place.

WTO economists now predict growth in 2013 at 2.5 per cent against 3.3 per cent in April and the initial forecast of 4.5 per cent, an official release said on Thursday. The projection is still higher than the two per cent growth in world trade achieved in 2012.

The multilateral body blamed developing economies for the lower projections, stating that slower revival in imports was harming trade. It also expressed concerns about India's economy still being in the midst of a sharp contraction.

The slow revival in demand for imports in developing economies has hindered growth of exports from developed and developing countries in the first half of 2013, and was the reason for the lower forecast, the economists said.

On a positive note, the WTO believes that the conditions of improved trade are already falling into place as encouraging data coming from Europe, the US, Japan and China suggest that the economic slowdown has bottomed out and a tentative recovery is underway. This is expected to be reflected in rising quarterly growth in the months ahead, the economists said.

While China's industrial production suggests that the country may be regaining some of its dynamism, India's economy is still in the midst of a sharp contraction, according to composite leading indicators calculated by the Organisation for Economic Co-operation and Development (OECD), the release added. WTO has also lowered growth projections for 2014 to 4.5 per cent from five per cent predicted in April.

Although the trade slowdown was mostly caused by adverse macroeconomic shocks, there are strong indications that protectionism also played a part and is now taking new forms, which are harder to detect, said WTO Director-General Roberto Azevêdo in the release.

"Fortunately, there is something we can do about this. Negotiations underway in Geneva can address these problems, facilitating greater trade and opportunities to spur economic growth," he said.

The WTO's Doha Round of negotiation, in limbo for the past four years, may see some movement in the Ministerial Meeting scheduled in December in Indonesia, as members are trying to work out a limited pact on food security and trade facilitation.

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Exports up 11.1% in Sept; trade gap at 30-month low

ENS Economic Bureau

New Delhi, 10 October 2013: Amid a policy-enabled sharp fall in inward shipments of gold and silver, India's merchandise trade deficit crashed to a 30-month low of $6.76 billion in September. The trade gap is the lowest since March 2011, when it stood at $3.8 billion.

The sharp fall in trade deficit could help curb the burgeoning current account deficit in Q2, and subsequently stabilise the rupee, which depreciated to as much as over 68 against the dollar this year. While exports jumped 11.1 per cent (YoY) to $27.68 billion in September, partly aided by a weak rupee, imports dipped 18.1 per cent to $34.4 billion. "I am confident that import-containment measures put in place for non-essential imports are playing out extremely well and we need to continue this so that our rupee becomes stronger," SR Rao, commerce secretary, said.

Gold and silver imports declined sharply by 82 per cent during September at $0.8 billion as against $4.6 billion during the year-ago period, thanks to the hike in import duty on the metals to 10 per cent in August, the third revision this year, and the Reserve Bank norm that at least a fifth of gold bought from abroad must be used for re-exports. During the first half of this fiscal, gold and silver imports rose 8.7 per cent to $23.1 billion. Import of petroleum and oil products declined 5.9 per cent during the month at $13.2 billion.

During the first half of the fiscal, exports grew by 5.14 per cent to $152.11 billion while imports declined by 1.8 per cent to $232.23 billion. The trade deficit for the April-September period stood at $80.12 billion.

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'Trade and IIP data point to subdued economy'

Business Standard

New Delhi, 8 October 2013: Even as the government is celebrating a fall in imports for its positive impact on the current account deficit, Moody's Analytics, the research wing of Moody's Group, on Monday said it reflected subdued economic performance. It added industrial production numbers for July snapped two months of contraction trend, but still signalled lacklustre economic performance.

The Index of Industrial Production (IIP) data for August is slated to come later this week, while merchandise trade numbers are scheduled to be released early next week. Moody's Analytics predicted IIP to grow by one per cent in August, sharply lower than 2.6 per cent in July. "Production rebounded in July following two months in negative territory, but the underlying trend for India's manufacturing sector remains weak," the research firm said.

Demand is still soft and the supply side remains constrained by weak infrastructure and complicated taxes and regulations, it said. "Industrial output will not recover until confidence returns,"Moody's Analytics said.

On trade numbers, Moody's research arm said while exports had begun to rise in recent months, helped by the weaker rupee and the steady improvement in the European and US economies, imports remain weak, reflecting the soft domestic economy.

"This has helped narrow the trade deficit, but it still suggests that the Indian economy is under performing," Moody's Analytics said. Industrial production grew at a four-month-high rate of 2.6 per cent in July, but much of the expansion was on account of the capital goods sector, boosted to the extent of 1.6 per cent by high growth seen in electrical equipment.

The numbers come as a relief also because this expansion has been after two straight months of contraction. The country's gross domestic product growth had slipped to a four-year low of 4.4 per cent in the first quarter of 2013-14.

Merchandise exports grew 13 per cent to $26.1 billion in August compared with $23.1 billion in the same month last year. Month-on-month, this is a second straight month that exports saw double-digit growth, due to improved demand in the US, Europe, Africa and the Asia-Pacific.Imports in August contracted 0.7 per cent to $37.1 billion from $37.3 billion in August 2012. Trade deficit, which is part of the wider current account deficit (CAD), declined almost 23 per cent at $10.91 billion in August against $14.17 billion in the corresponding year-ago month. Moody's Analytics pegged trade deficit at $15 billion for September.
Commerce and industry minister Anand Sharma had said the import contraction was due to a number of steps taken to curb gold import. The government had, among other things, raised the tariff on gold to 10 per cent in August from the earlier eight per cent. Gold import in August came down to $0.65 billion compared to $2.2 billion in July this year.

However, the country's import bill remained under pressure on account of a rise in crude oil by 17.9 per cent to $15.1 billion in August against $12.8 billion in the same month in FY13. Total oil import during April-August rose to $69.7 billion, up 5.6 per cent from $66 billion in the corresponding period of 2012-

13.

Total export during April-August was $124.4 billion against $119.8 billion earlier, up 3.9 per cent. Total import rose 1.7 per cent to $197.8 billion over the $194.4 billion during the corresponding period of FY1. As such, trade deficit narrowed marginally to $73.4 billion in the first five months of the current financial year from $74.6 billion in the corresponding period of previous fiscal. Current account deficit, which includes trade deficit, rose to 4.8 per cent of GDP in the first quarter of the current financial year against four per cent in the corresponding period of the previous financial year.

However, the remaining quarters of the year are expected to narrow current account deficit which would help government meet its target of cutting it to $70 billion in FY '14 (estimated 3.7% of GDP) against $88 billion (4.8 % of GDP) in the previous financial year.

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The rupee alone can't resurrect our manufacturing exports

Arun Bruce & Anirban Mukherjee, Business Standard

29 September 2013: As a nation, we possess a refined ability to see the silver lining despite the gloom. Collectively, as we battle inflation, a falling rupee, weakening domestic demand, and a sluggish policy environment, we hope of a bright long term, including hope of an export boom. As the currency has depreciated by over 15 per cent since April (it had lost more than 25 per cent a few weeks ago before bouncing back), voices abound on the kind of export boom this could trigger.

Sadly, this prophecy is not entirely true - at least definitely not for manufactured products.

First, 70 per cent to 90 per cent of the cost base of manufactured products is "exchange rate neutral", thanks to the tightly linked world we live in. Most manufactured products (for instance, auto components, appliances) have a commodity cost base of between 70 per cent and 90 per cent - and most commodities are priced at parity to equivalent international options. Copper is available in the domestic market only at London Metal Exchange prices (which are dollar denominated). Domestic steel manufacturers price their steel on par with steel imports - and are currently in the process of raising prices - thereby nullifying any advantage a weak rupee may provide. Domestic plastics and chemicals are also constantly priced on par with equivalent international imports.

Any big benefit that is currently being perceived is transient, and largely due to inputs purchased at a lower dollar (say, when the rupee was 54), and demand fulfilled when the dollar is stronger (say, when the rupee was 58 to 60). A large part of the third-quarter surge in export order books that many companies are experiencing is precisely due to this factor.

Second, even an advantage in the remaining 20 per cent to 30 per cent of the cost base is lower than what a mere currency rate difference would suggest, because of our dependence on oil imports that tends to impact logistics cost of allied materials and cost of living (and hence domestic inflation) over a period of time. The net advantage that remains for the exporter can still be substantial, but not large enough to boost exports considerably.

The true upside in exports will only emerge when the competitiveness of an industry improves to a fundamental and sustainable level. Take the US for example. The country has been experiencing what you would call an export boom. Consider this: the very country who's currency has strengthened against the rupee, has been and is experiencing a boom. A close look will reveal that US manufacturing competitiveness has steadily increased over the last decade in comparison with key peers. The US' productivity-adjusted labour cost is now 15 per cent to 40 per cent lower than that of several advanced economies (Japan, Germany, the UK, Italy) and its labour laws are considered far more flexible than several advanced economies (No 3 in index developed by the Fraser Institute that measures labour regulations, vis-à-vis No 112 position occupied by Germany). Energy prices are also more favourable in the US. Natural gas is 40 per cent of the price prevailing in Japan/US, industrial electricity is 50 per cent to 70 per cent cheaper than Italy/Japan/France. How is that for a sustainable source of advantage? And the advantage is showing. While the share of global exports by Western Europe and Japan decreased between 2005 and 2010, US exports have held steady at 11 per cent and grown at an overall rate of 8 per ent a year (despite the slowdown in 2008/09).

How does India perform on fundamental manufacturing competitiveness? India has one of the lowest costs of labour and "on paper" a competitive price of power. In reality though, labour productivity is very low and power is unavailable for up to two shifts a day in many industrial clusters - forcing them to use inefficient diesel generator sets - that nullify any factor cost advantage. India's road and port infrastructure are still far from ideal. Our port turnaround times are upwards of 80 hours - roughly five times that of Sri Lanka. The average truck speed in India is 35 to 40 km per hour roughly half of that in China.

To drive exports, we need to fix competitiveness in manufacturing. We will need to build many more efficient clusters - either by resurrecting "dying" special economic zones or by ensuring land acquisition for National Investment and Manufacturing Zones. We will need to increase power generation capacity, at the rate of 25 Gw per year. We will need to proceed aggressively with port infrastructure enhancement, and accelerate the projects on the anvil. We will need to actively focus on workforce skilling and automation. We will also need to place our bets as a country in the right sectors and countries. For example, Africa is a growing consumer with fast growing imports - what is our strategy as a country to address this demand?

None of these measures are really new, but then our challenge has always been our ability to execute well. The day we fix that, we needn't be exuberant anymore about a weakening currency. Until then, cheers to a weak rupee.

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The slack in services export

Ritesh Kumar Singh and Anshul Pachouri, Business Line (The Hindu)

24 October 2013: On an average, world trade in commercial services has grown faster than trade in merchandise (8 per cent versus 7 per cent per annum) over the last 30 years (1980-2011) according to the World Trade Report, 2013.

In dollar terms, world exports of commercial services could grow by 2 per cent to 4.3 trillion in 2012, while exports of merchandise remained stagnant at $18.3 trillion.

Given the predominance of the tertiary sector in India's GDP, it would be pertinent to examine how India fares in the global export of commercial services.

Can services provide the much-needed support to India's policymakers in dealing with unsustainably high current account deficit at 4.9 per cent of GDP (Q1 FY2013-14)? How bright are the prospects of India's services export? Going forward, does India need a change of focus or can it continue depending upon a few developed countries for its export of commercial services?

As the table shows, exports of most commercial services, including transportation and tourism, posted moderate growth rates while exports of communication, financial services, and royalty and licence fees declined in 2012.

Computer and information services could grow by 6 per cent in 2012 to $ 265 billion. The exports of other business services that include engineering , accounting/legal, management consulting, advertising and trade-related services went up by 2 per cent while that of personal, cultural and recreational services went up by 3 per cent in 2012.

The US and West European countries still remain the largest importers of commercial services. However, the BRICS nations — China (19 per cent), Russia (16 per cent) and Brazil (7 per cent) — were the fastest growing import markets for services in 2012. Now, China and Hong Kong together account for 8.2 per cent of the global import of commercial services as compared to 9.9 per cent by the US. Other fast growing import markets are Australia, Japan, South Korea and Nigeria.

Export of Services

Unlike manufacturing, the export of services is not so dependent upon quality of basic infrastructure or regulatory regime. India scores over other countries on availability of a technically qualified workforce with knowledge of English. However, the contribution of the tertiary sector to India's total exports of goods and services is not more than 33 per cent even though it accounts for roughly 57 per cent of GDP. Despite the hype about India's comparative advantage in services, compared to China's 4.4 per cent, India's share in global exports of commercial services stood at around 3.4 per cent in 2012.

India's export of services has a narrow base (in terms of product offerings and market mix) with the share of IT and ITES alone being 40 per cent. Of that, more than 75 per cent goes to just three countries — the US, the UK and Canada.

In 2012, India's share in global export of computer and information services was 18 per cent compared to 4 per cent in other business services, the largest component of the global commercial services pie.

India’s free trade agreements (FTAs) mostly cover trade in merchandise. Even where trade in commercial services is covered under its comprehensive pacts, in the absence of mutual recognition agreements (MRAs), businesses do not benefit from preferential market access.

The best examples are the India-Korea and India-Japan trade pacts. The slow progress of trade in services agreement under India-Asean FTA has not helped the situation.

The Way Forward

The proposed change in the US visa regulations and growing sentiment against outsourcing will further constrain India’s export of IT and ITES to the US.

India will thus need to push export of business services in addition to traditional services such as travel and tourism that possess immense untapped potential. In 2012, India’s share in global export of travel and tourism stood at just 1.6 per cent ($18 billion) compared to China’s 9.2 per cent ($102 billion).

Given the growing share of emerging nations in import of commercial services, the future growth in India’s export has to come more from countries such as China, Russia, Brazil and Nigeria. China, Hong Kong, Russia, Brazil, Australia and Japan imported $700 billion worth services in 2012.

Out of this, other business services alone were worth $146 billion while computer and information services were close to $20 billion.

The rising cost of skilled employees in a bleaker external environment can adversely affect India’s export of services, as also increased competition from new players such as China or the Philippines. Sharp depreciation of the rupee will somewhat improve the (dollar) cost competitiveness of India’s services, but it will not be enough.

In the short run, India needs to expedite its MRAs for pushing services exports through the preferential route. The long-term solution lies in ensuring adequate supply of skilled workers, in addition to broadening the offerings in services and reaching out to key emerging markets.

Moving up the value chain is the way to go if India does not want to compete on labour cost alone. That calls for intensifying the R&D effort.

A serious flaw in India’s negotiating strategy is putting too much emphasis on getting market access for Mode 1 (covering BPO/KPO) and Mode 4 (covering movement of professionals) that are politically difficult to swing, especially in the current macroeconomic environment when outsourcing is increasingly being seen in the EU and US as transferring jobs abroad.

Besides, given the trans-boundary presence of Indian businesses, it is time India developed its offensive trade interests in Mode 3 (commercial presence in the country of service receivers).

India enjoys the legacy of delivering IT and ITES offshore that can be leveraged for export of non-IT business services.

(Singh is Group Economist of a corporate house. Pachouri works with a consulting firm. The views are personal.)

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Exports up 13.47 % in Oct

Puja Mehra, The Hindu

11 November 2013: Growing in double digits for the fourth straight month, exports rose 13.47 per cent in October. Though the exports performance is good news for the slowing economy, as it indicates a turnaround might be round the corner, it was not strong enough to compensate for the increased imports of gold during the month owing to the festival season.

As a result, the trade deficit, or the excess of imports over exports, widened again in October. Data released by the government here on Monday shows that the trade deficit grew to $10.56 billion in October compared to $6.7 billion in September—the lowest in two-and- half years. Gold and silver imports rose to $1.37 billion in October compared with $800 million in the previous month, according to the data released.

Commerce Secretary S. R. Rao told reporters here on Monday that the government was confident of hitting its export target of $325 billion by the end of the fiscal. The government has also said that the ballooning current account deficit, or the excess of outflow of foreign exchange from the country over the inflows, has been brought under control using curbs on imports of gold and that it will be contained within $60 billion. Despite the surge in gold imports during October, it is widely expected, the government will manage to keep the current account deficit well within the $60-billion target. Gold imports—through the official channel at least—have been declining on the back of the restrictions imposed by the government.

“We think we can peg the current account deficit at $60 billion or below,” Finance Minister P Chidambaram had said earlier this month. The current account deficit had touched an all-time high of $88.2 billion, or 4.8 per cent of GDP, in the last fiscal.

PTI reports:

Cheering the rise in exports, India Inc, on Monday, said the turnaround was on account of a rebound in the U.S. and European economies and that the Government should restore duty drawback rates to bring down the trade deficit.

“The steady rise in exports augurs well for the economy. Growing exports reflect the dynamism of Indian exporters as well as the impact of proactive support from the Government,” FICCI President Naina Lal Kidwai said.

Overall, imports declined by 14.5 per cent to $37.8 billion in October as compared to the same period last year.

“A smart 13.47 per cent increase in exports for October, the fourth consecutive monthly rise, is a reflection of an authentic turnaround in India’s external trade—thanks to signs of improvement in Europe and in the U.S.,” Assocham Secretary General D S Rawat said.

“With imports falling by a big gap of 14.50 per cent and non-imports by even bigger margin of 22.80 per cent, worries over current account deficit (CAD) should recede,” Mr. Rawat said.

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India’s current account deficit shrinks to 1.2% of GDP

Remya Nair, Mint

New Delhi: India’s current account deficit narrowed sharply in the quarter ended September as the impact of the government’s measures to curb imports of non-essential items, especially gold, kicked in, signalling that pressure on the country’s external sector is receding.

To be sure, slower economic growth and the consequent drop in imports are also responsible for the fall, which means less pressure on the rupee. The currency has depreciated 11.75% against the dollar since 1 January, and ended on Monday at 62.32 to the dollar.

The current account deficit—the sum of the balance of trade and invisibles such as remittances and software earnings—fell to 1.2% of gross domestic product in the July-September quarter of the current fiscal, the lowest level since the fourth quarter of 2010-11. It was 4.9% in the fiscal first quarter ended June and 5% a year ago for the quarter ended September.

Together with the improved gross domestic product numbers, the drop in the current account deficit is the best piece of macroeconomic news India has seen in some time, suggesting that the economy may have bottomed out. Data released last week showed that economic growth accelerated to 4.8% in the second quarter from 4.4% in the preceding quarter, aided by higher growth in industry and agriculture and a pick-up in exports.

The government is hoping that the economy will grow at 5% in the current fiscal.

Balance of payments data released by the Reserve Bank of India (RBI) almost a month earlier than expected showed that the sharp fall was mainly on account of a lower trade deficit as imports, especially of gold, fell sharply and exports rose.

India’s current account deficit rose to 4.8% of GDP in 2012-13, much above the government’s comfort level of 2.5-3% of GDP.

While merchandise exports were up 12% to $81.2 billion in the quarter on the back of growth in shipments of textiles, leather and chemical products, imports declined 4.8% to $114.5 billion. Gold imports in the quarter were at $3.9 billion, as against $16.4 billion in the first quarter and $11.1 billion in the year-ago period.

Improvement in services exports helped in increasing net invisibles, further aiding the fall in the current account deficit. Net services exports were up 12.5% at $18.4 billion.

Finance minister P. Chidambaram, while reacting to the numbers, said that the balance of payments position had improved significantly and expressed confidence that the current account deficit will remain within targets.

The government hopes to contain the current account deficit in the current fiscal at $60 billion. In the first half of the fiscal, the current account deficit stood at $26.9 billion, an indication that the government may manage to meet its target.

“External sector risks have abated. We are less vulnerable now and this is good news for the rupee as well,” said Shubhada Rao, chief economist at Yes Bank Ltd. “The trade gap will remain range-bound and we expect the current account deficit for the full year to be around $50 billion or around 2.5-3% of GDP,” she said.

“The domestic macroeconomic data is also looking better. The second quarter GDP number was better than expected. This is expected to further improve in the second half of the fiscal. So there are more positives than negatives,” she added.

The Indian rupee gained 13 paise against the dollar and ended the day at 62.32 a dollar.

The government, however, did not receive adequate capital flows to fund the current account deficit in the quarter. Though there was a net inflow of $6.9 billion on account of foreign direct investment, there was an outflow of $6.6 billion on account of portfolio flows as talks of tapering by the US Federal Reserve saw foreign institutional investors pulling out funds. NRI deposits, however, were up sharply at $8.3 billion from $2.8 billion in the year ago period.

There was a drawdown of $10.4 billion from the country’s foreign exchange reserves to fund the deficit. Rao said that steps taken by RBI to attract non-resident deposits should ensure that financing the current account deficit in the coming quarters should not be a problem.

In September, the central bank had announced that it would subsidise the hedging cost of foreign currency swaps for banks offering NRI deposits.

Abheek Barua, chief economist at HDFC Bank Ltd, said the fall in the current account deficit was more than expected. “A fall was expected given the low gold demand and a sharp pick-up in exports. But the magnitude of this fall can be attributed to considerable support from software exports and private transfers,” he said. “With these numbers, the full year current account deficit should be around $50 billion or around 2.7-2.8% of GDP,” he added.

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Exports account for 70% of GDP growth in Q2

Krishna Kant, Business Standard

Mumbai, 4 December 2013: The quarter ended September saw the first sequential improvement in GDP (gross domestic product) growth in five quarters. This has improved the prospects of an export-led economic recovery in India. According to Central Statistical Office data, financial, real estate and business services, including information technology (IT) services, were the biggest growth contributors, growing 10 per cent during the second quarter. Analysts expect the export momentum to result in rising capacity utilisation and a boost to investment and consumption demand in the coming quarters.

Back-of-the-envelope calculations show export growth (net of imports) accounted for 70 per cent of the incremental growth in GDP during the September quarter. At 2004-05 prices, exports of goods and services rose 16.3 per cent year-on-year basis, the most in eight quarters. Imports were flat, growing 0.4 per cent, the least in 14 quarters.

“The sequential growth in GDP was led by export sectors, which gained from the rupee’s depreciation and the mild economic recovery in North America and Europe. In the near term, it directly raises output and the utilisation rate in export-oriented industries and their vendors and suppliers,” says Dhananjay Sinha, co-head (institutional equity), Emkay Global Financial Services. He expects higher GDP growth in the second half of 2013-14, aided by export buoyancy and better growth in the farm sector. “GDP growth seems to have bottomed out for now, but its sustainability is still doubtful, given the macroeconomic headwinds such as high inflation, the persistently high fiscal deficit and regulatory bottlenecks in many sectors,” he adds.

Now, exports account for 27.8 per cent of India’s GDP (on an expenditure basis), the most in about a decade. The previous high was recorded in the September 2008 quarter, when exports accounted for 26.4 per of GDP. This, coupled with the sluggish import growth, led to a sharp fall in the current account deficit.

Ratings agencies, however, aren’t surprised. “The economic growth in the second quarter has been led by a recovery in the export sector and robust growth in agriculture output. This was largely expected, given the rupee’s depreciation earlier this year and the good monsoon,” says Devendra Kumar Pant, chief economist and head (public finance) at India Ratings and Research.

Farm output (including forestry and fishery) rose 4.6 per cent in the second quarter, against 2.7 per cent growth in the first quarter and 1.7 per cent in the year-ago period. A good monsoon will translate into a bumper rabi harvest (winter crop), which will aid economic growth during the second half, besides raising rural income. It will also result in higher demand for consumer goods such as garments, tractors and two-wheelers.

Economists, however, doubt whether the buoyancy in the export and farm sectors will led to secular investment and consumption demand growth in the economy. “The recent data on the index of industrial production suggests a sporadic recovery in a handful of sectors, but there is still no sign of general growth in manufacturing. Investment demand, meanwhile, remains sluggish and unless it regains previous highs, the economic recovery won’t last long,” says Pant.

Gross fixed capital formation (proxy for investment) increased 2.6 per cent in the second quarter, against -1.2 per cent in the first quarter and 1.1 per cent in the year-ago period, though much below the double-digit growth recorded during the boom period of 2004-08. Investment demand accounted for 33.6 per cent of GDP in the second quarter, 100 basis points higher than in the first quarter, but 100 basis points lower on a year-on-year basis. At its peak, investment accounted for 36 per cent of GDP.

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India’s trade deficit narrows to $9.22 billion in November

Asit Ranjan Mishra, Mint

New Delhi, 11 December 2013: India’s trade deficit narrowed to $9.2 billion in November, driven by a record contraction in imports even as exports growth slowed after growing in double digits for four consecutive months.

Slower domestic demand and curbs on gold imports brought down merchandise imports to its lowest level since March 2011, contracting 16.37% to $33.8 billion during the month, while exports grew 5.86% to $23.2 billion.

Exports of refinery petroleum products and gems and jewellery have both dropped in November, leading to the slowdown in exports growth, commerce secretary S.R. Rao said. “The cost of rough diamond has significantly gone up as a result of which traders did not purchase rough diamonds in November 2013,” he said. “Since the beginning of this month, the rates have fallen and we are back in business.”

Rao said both import and export of crude petroleum have fallen due to the softening in prices of crude petroleum due to improving ties between the US and Iran. “Number of refineries in India were on planned maintenance. So, the current month onwards, petroleum exports should be moving up again,” he added. The government has taken a number of steps, including raising import duty on gold and platinum to 10% from 8% and on silver to 10% from 6% earlier to curb rising current account deficit. It also levied a 36% import duty on flat television panels.

Gold and silver imports during November fell for the fifth successive month by 80.5% to $1.05 billion, while during the eight months of the financial year (April-November), it contracted 23.8% to $25.5 billion.

India’s current account deficit narrowed sharply in the quarter ended September to 1.2% of gross domestic product, the lowest level since the fourth quarter of 2010-11, signalling that pressure on the country’s external sector is receding. It was 4.9% in the fiscal first quarter ended June and 5% a year ago for the three months ended 30 September.

While oil imports in November contracted 1.1% to $13 billion, non-oil imports contracted 23.7% to $20.9 billion during the same month.

The government also announced a number of steps, including liberalizing external commercial borrowing norms, quasi-sovereign bond issuances by public-sector financial institutions to finance long-term infrastructure, and allowing sovereign wealth funds to invest in tax-free bond issues of a few state-run institutions to ensure it does not draw on foreign exchange reserves to fund the deficit.

The World Trade Organization has projected global trade to grow at 2.5% in 2013 (down from the 3.3% forecast in April) and at 4.5% in 2014 (down from 5%), but maintained that conditions for improved trade are gradually falling into place.

Engineering Export Promotion Council of India chairman Anupam Shah said while the significant narrowing of trade deficit is a good development for the Indian economy, it is largely a result of a steep import compression rather than a smart rise in exports. “We must reverse this trend and focus more on export growth rather than import compression. The India story should be led by export drive, and not reduced consumption at home,” he added.

Yes Bank Ltd in a research note said growth in Indian exports is outpacing regional peers. “At the same time, the much warranted contraction in imports continue to support the outlook for India’s current account deficit,” it said. “We have recently revised down our CAD estimate for the current year to $50 billion (2.7% of the estimated gross domestic product). Meanwhile, capital inflows of $34 billion through the FCNR(B) deposits and capital borrowing by banks should help ease funding concerns, with India’s BoP clocking in a record a surplus of $16 billion in FY14.”

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BoP cheer: Current account deficit may dip to 2%

Shishir Sinha, Business Line (The Hindu)

New Delhi, 26 December 2013: The country may end 2013-14 with a current account deficit as low as 2 per cent of GDP thanks mainly to the significant drop in gold imports.

One of the two primary components of the balance of payments, CAD is the sum of the balance of trade (that is, net revenue on exports minus payments for imports), factor income (earnings on foreign investments minus payments made to foreign investors) and cash transfers.

According to a senior government official, encouraging signs on various fronts suggest a significantly reduced CAD — at around $40 billion. This assessment is much lower than the initial estimate of $70 billion or 3.7 per cent of GDP. Last month, Finance Minster P. Chidambaram had placed the CAD at $60 billion and later said he would try and bring it down to $56 billion, a figure at which the RBI had earlier pegged this deficit.

One of the “encouraging signs” is the slump in gold and silver imports, especially post the August clampdown by the Government. Commerce Ministry data show that import of these two precious metals fell to $1.05 billion in November, almost 80 per cent lower than in the same month last year. This has played a key role in bringing the trade deficit down by over 16 per cent to $33.8 billion.

D. K. Joshi, Chief Economist with research agency Crisil, is not surprised at the latest assessment on CAD but feels “it’s been down artificially”. Apart from restrictions on gold imports, the poor economic situation that has affected merchandise imports is also helping lower the deficit.

Joshi feels the key issue now will be the sustainability of the lower deficit especially after the gold import restrictions are eased. His own estimate of CAD is around 3 per cent of GDP.

Aditi Nayar, Senior Economist with ICRA, is equally cautious. She expects the CAD to widen in the third quarter (October-December) and the fourth (January-March) compared to the quarter ended September 2013. Not only was the supply of gold restricted, investment demand was curbed by hiking the Customs duty, she says.

“Moreover, a portion of demand had already been met through higher imports in April-May 2013. However, a favourable kharif harvest is likely to boost rural demand for the precious metals and the import bill may rise in the event of any easing of restrictions on gold import,” she adds.

Nayar also sees the possibility of a rise in non-gold and non-oil imports. “Additionally, merchandise export growth is likely to be muted in the fourth quarter given the base effect.” Overall, she expects a CAD of $50-55 billion in 2013-14. Although experts are sceptical of the Government’s latest expectation on CAD, they believe that if this does happen, the Government may ease up on the restrictions on gold imports. Indeed, the Commerce Department has already begun relaxing some of the curbs on the import of gold dore.

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Dip in imports, exports rise narrow trade gap

Business Standard

New Delhi, 11 January 2014: Snapping the double-digit growth rate for the second time, merchandise exports rose 3.5 per cent in December 2013 to $26.3 billion from $25.4 billion in the year-ago period, mainly on account of a fall in exports of petroleum products.

Exports had been growing in double-digits since July 2013. However, in November 2013, growth in shipments came down to 5.9 per cent.

According to Director-General Foreign Trade Anup K Pujari, export growth moderated due to petroleum product exports, which came down sharply by 16 per cent. Petroleum exports constitute a little over 20 per cent of India's total export basket.

Imports dropped 15.25 per cent to $36.5 billion in December 2013, compared to $43 billion in December 2012. Thus, the trade deficit last month narrowed to $10.1 billion, compared to $17.2 billion in the year-ago period, according to data released by the commerce ministry on Friday.

The decline in imports was led by gold and silver, which dropped 68.8 per cent to $1.8billion in December 2013, on account of a series of restrictive measures taken by the government to tame gold import in an effort to control the current account deficit (CAD). In the previous month, import of gold and silver stood at $1.05 billion.

According to a note by YES Bank, the CAD for FY14 will be lower than expected, in the range of $35-40 billion.

Total exports during April-December 2013 stood at $230 billion, up six per cent over the $217 billion in the corresponding year-ago period. Total imports during the first nine months of the current financial year registered a decline of 6.6 per cent to $340.4 billion, compared to $364 billion in the corresponding period last year."We are well on the track of the exports target ($325 billion in FY14)," Commerce Secretary S R Rao told reporters here on Friday.

Import of crude oil in December 2013 reached $13.89 billion, up 1.1 per cent from $13.75 billion in the year-ago period. Total crude oil imports stood at $124.95 billion, which was 2.6 per cent higher than the oil imports of $121.83 billion in the corresponding period in the previous year.

According to M Rafeeque Ahmed, president of Federation of Indian Export Organisations, the shutdown of Reliance's refinery for maintenance has led to the decline in growth of exports for December 2013 and the modest growth in petroleum exports in April-December 2013 was owing to the decline in crude oil prices, which came down to an average of $108.64 a barrel in 2013 against $111.65 a barrel in 2012.

In December 2013, non-oil imports reached $22.58 billion, compared to $29.29 billion in the same month in the previous year, registering a fall of 23 per cent. During the April-December 2013 period also, non-oil imports dropped by 11.1 per cent at $215.42 billion, compared to $242.41 billion in the year-ago period.

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Govt confident of meeting export target of $325 bn

Business Line (The Hindu)

New Delhi, 9 January 2014: The Commerce Ministry is confident of meeting the export target of $325 billion this fiscal with most sectors, except some such as pharmaceuticals and gems & jewellery, doing well.

Commerce & Industry Minister Anand Sharma, who reviewed the Ministry's performance on Thursday, asked his officers to hold sectoral reviews to ensure that export performance stays on track.

"The Minister said the last quarter will be the most crucial and all efforts should be made to accelerate exports so that the $325 billion mark is easily reached," a Commerce Ministry official told *Business Line*. Last fiscal, exports fell by 1.82 per cent to $300.4 billion due to a slowdown in global demand. With a recovery in the US and the EU, exports in April-November 2013 stood at $204 billion posting a growth of 6.4 per cent over the same period in the previous year.

There has, however, been a marked slowdown in pharmaceuticals export, especially to the EU and the US, because of regulatory issues. Pharmaceuticals export posted a growth of just 3 per cent in the April-November 2013 period to $9.77 billion against a 11-per-cent growth in 2011-12.

"With India no more eligible for the preferential tariffs in pharmaceuticals offered by the EU under the GSP scheme, export in 2014 is likely to go down further. We will have to look at ways to sort out the regulatory problems that have cropped up in the US and the EU to revive exports to the region," the official said.

In the gems & jewellery sector, while export of diamonds and coloured stones has increased, there is a fall in gold exports due to curbs imposed on imports of the yellow metal.

Sharma said the Ministry needs to continue its market diversification schemes as Latin America and Africa were proving to be important partners not only in trade but also in global trade platforms such as the World Trade Organisation (WTO).

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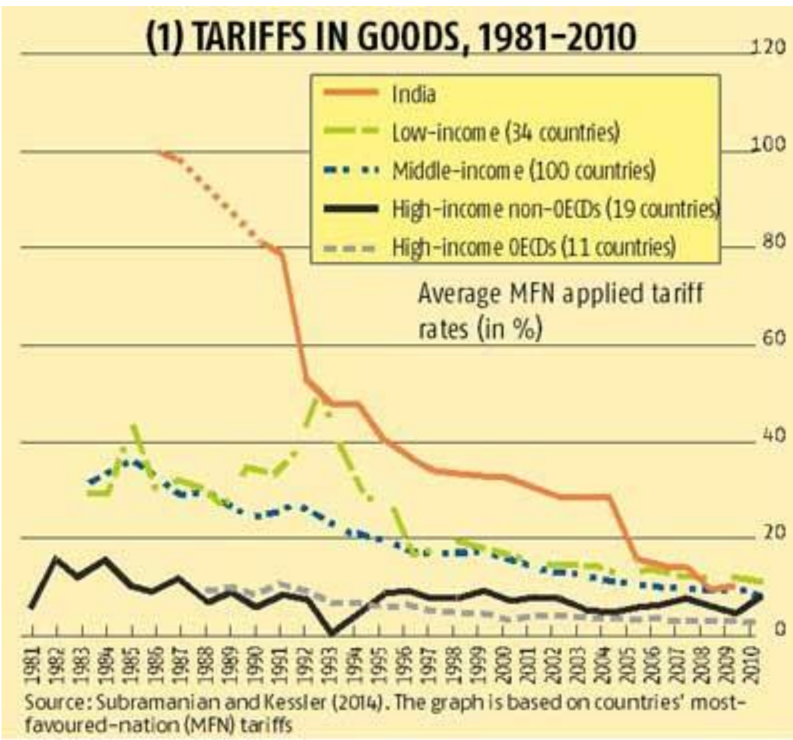
An Indian trade paradox

Arvind Subramanian, Business Standard

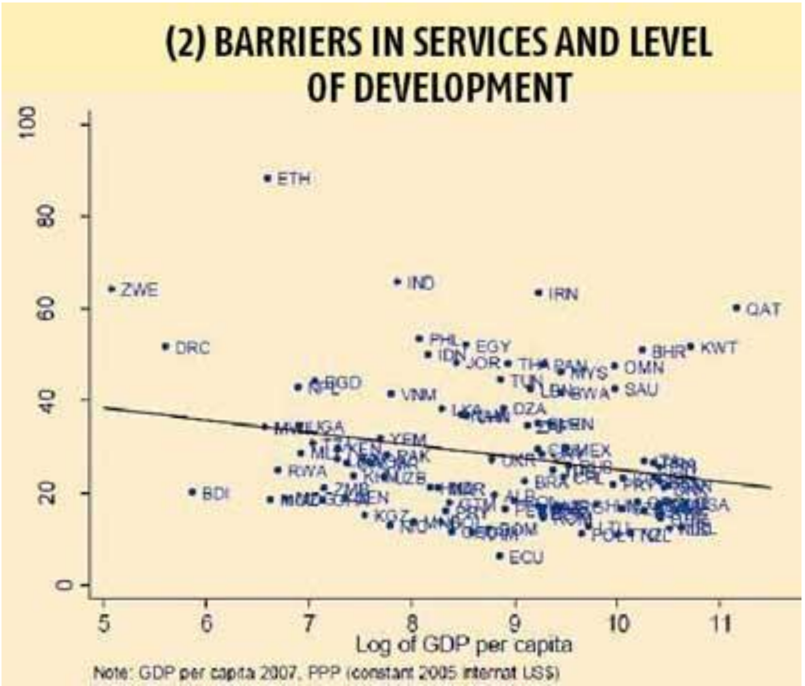
10 January 2014: Is India an open or closed economy? More than 20 years after the repudiation of the licence quota raj model by the Narasimha Rao-Manmohan Singh reforms initiated in 1991, the answer to that question should be clear. But apparently not. The answer depends upon whether "openness" is measured by trade policy or by actual trade outcomes. Consider each.



How restrictive are India's trade policy barriers? Graph 1 depicts the evolution in India's tariff barriers (which are easier to measure than non-tariff ones). Tariffs were stratospherically high - in absolute terms and relative to the rest of the world - prior to 1991 but have declined dramatically. They are close to 10 per cent today and have almost converged with tariffs in the rest of the world.

In contrast, barriers are very high (both in absolute terms and relative to other countries) in services. Graph 2, from World Bank researchers (Borchert, Gootiz, and Mattoo, 2012), provides a sense of magnitudes. It plots a country's services barriers (on a scale of 0 to 100 on the vertical axis, with a higher number depicting greater restrictiveness) against its level of development (on the horizontal axis). The downward sloping line suggests that, on average, barriers tend to be greater in poorer countries.

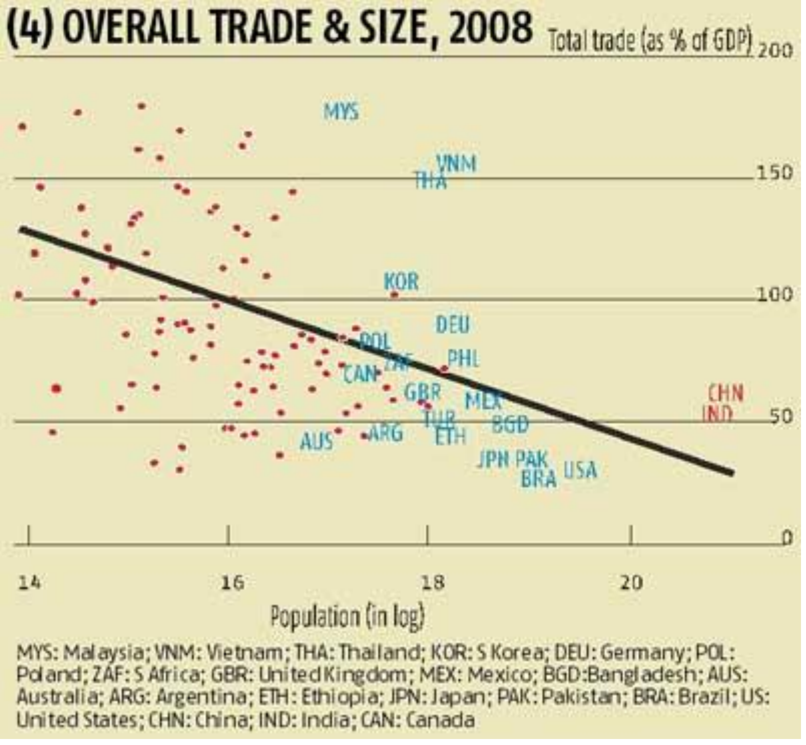
The key points are that: first, India's overall barriers in services (denoted by the "IND" symbol) are among the highest in the world (surpassed only by Zimbabwe) and nearly four-five times greater than those in Organisation for Economic Co-operation and Development (OECD) countries; and, second, they are also very high for India's level of development because India is well above the line.



The usual caveats, that all such measurements are incomplete (because they do not fully capture regulatory barriers) and imperfect, should not be overlooked. Subject to them, however, the conclusion is that compared to the rest of the world, India's manufacturing sector faces modest levels of protection, and the services sector faces extremely high levels of protection, resulting in an overall trade regime that is quite protectionist.

But the picture of India changes quite dramatically when the country's trade regime is judged in terms of trade outcomes. A standard measure of trade outcomes is a country's trade (exports plus imports) expressed as a share of its gross domestic product (the trade-to-GDP ratio). Graph 3 depicts the evolution in India's trade-to-GDP ratio over the last two decades. This ratio doubled over the course of a decade from about 25 to 53 per cent in 2012; the recovery from the global financial crisis in 2008 was also swift. It is worth noting that the surge in India's openness coincides with the period of rapid growth in the 2000s.

But is this 53 per cent a small or large number compared with other countries? A geography-based view of trade highlights an overlooked fact, namely that large countries tend to trade less than small countries. Being large makes the cost of trading with the outside world relative to trading within the country very high. The opposite is true for small countries: lacking an internal market, their costs of trading with the world are relatively small and hence they tend to have higher trade-to-GDP ratios.



Graph 4 plots, for a number of countries, their overall trade-to-GDP ratio (on the vertical axis) against their size (measured in terms of land or area on the horizontal axis). The line shows the average relationship between trade outcomes and country size. That line is downward-sloping, confirming the geography-based intuition that large countries trade less. For example, the large countries such as China, India, Brazil, the United States and Japan are all in the lower right-hand corner with low trade (below 50-55 per cent) ratios.

But in a comparative sense, what is interesting is that India is above the line, indicating that for its size, it trades more than the typical country does. Comparisons based on trade in goods indicate that India is a normal trader. But comparisons based on overall trade (goods and services), shown in Graph 4, indicate that India is an over-trader, sometimes significantly so. A more formal (but simple) regression analysis confirms that India's overall trade is about 25 per cent greater than it should be for a country of its size and economic development.

Unsurprisingly, countries such as China, and especially Malaysia, Thailand, Korea and Germany, are large traders (they are well above the line in Graph 4). It is countries such as Brazil, Japan and the US (well below the line) that are unusually low traders given their size.

So, when India's trading partners complain about the restrictiveness of the country's trade regime, they are both right and wrong. It is closed in trade policy terms but open in terms of trade outcomes. Joan Robinson probably had some lofty, metaphysical conception when she observed that everything and its opposite was true about India. That observation applies more mundanely to India's trade regime too.

The writer is senior fellow, Peterson Institute for International Economics and Centre for Global Development

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India's services exports fall to $12 bn in Nov

PTI

Mumbai, 15 January 2014: India's services exports in November stood at $12.32 billion, slightly lower than in October, according to the Reserve Bank data. Services exports were worth $12.56 billion in October.

Imports of services in November moved down slightly to $6.11 billion from $6.96 billion in the previous month.

The services sector contributes about 55% to the country's gross domestic product.

During April-November period, services exports were worth $100.41 billion. Total services imports stood at $53.19 billion during the first eight months of the current financial year.

RBI releases the provisional aggregate monthly data on India's international trade in services with a lag of 45 days. Monthly data on services are provisional and undergoes revision when the Balance of Payments (BoP) data are released on a quarterly basis.

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Trade deficit down to $9.9 bn but exports grow only 3.8%

ENS Economic Bureau

12 February 2014: Indian exports remained sluggish in January, posting single digit growth of 3.79 per cent for the third successive month. However, imports contracted by a substantial 18.07 per cent during the month, narrowing the trade deficit to $9.92 billion compared with $10.14 billion in December, 2013. Gold and silver imports fell by a steep 77 per cent to $1.72 billion in January compared to $7.49 billion during the same period last year, contributing to the decline in overall imports.

The trade deficit almost halved during the month compared to $18.97 billion same period last year, bringing in much-needed relief for the government trying to keep the current account deficit (CAD) under $50 billion for 2013-14.

Commerce secretary Rajeev Kher said achieving the exports target of $325 billion for the current fiscal was a “tough call but it is achievable.” “Mostly, March shows reasonably good numbers. One should hope things would improve,” he said while releasing the trade figures.

He also said that the commerce ministry has asked the finance ministry to relax import curbs on gold. Till January, India imported gold worth $29 billion compared to $46.7 billion during the same period a year ago. The fall has been a result of a series of restrictions imposed by the government on the import of the yellow metal.

Exporters said that though the trade deficit situation has improved, exports remain sluggish, reflecting weak recovery in global demand. Confederation of Indian Industries (CII) said that exports, which were growing in double digit till October, have lost momentum and need booster dose from the government. Exports recorded $27.75 billion during January while imports stood at $36.67 billion during the period. For the April-January period, exports stood at $257.09 billion, up 5.71 per cent year-on-year, while import stood at $377.04 billion, down 7.81 per cent year-on-year.

Sectors which have registered a positive export growth include engineering (37 per cent), rice (22.9 per cent), marine products (50 per cent) and iron ore (18 per cent).

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Higher-end shift in export basket

Krishna Kant, Business Standard

Mumbai, 3 February 2014: Bit by bit, India's export basket is tilting in favour of high value-added sectors such as automobiles, pharmaceuticals and capital goods. And, away from traditional manufacturing exports such as textiles and gems & jewellery.

The latter now account for less than a quarter of total merchandise exports (23.6 per cent), down from 39.2 per cent in 2002-03. In this period, the combined share of engineering goods, including automobiles (transport equipment), capital goods and pharmaceuticals (including basic chemicals and cosmetics) rose to 30.7 per cent from 26 per cent in FY03, according to Reserve Bank data. In 2012-13, India exported $27 billion worth of chemicals, pharmaceuticals and cosmetics, just a tad below textile and garment export revenue of $27.5 bn.

Experts say this shows maturing of Indian manufacturing and multinational corporations (MNCs) setting base here. "Exports mirror the shift in Indian manufacturing, with more and more companies moving towards higher value-added and intellectual property-driven products and services. The shift has been quickened by the entry of multinationals and the competitive pressure they've brought on Indian companies," says Kumar Kandaswami, country manufacturing industry leader for Deloitte in India.

The trend is likely to persist as competition intensifies and more sectors are exposed to global competition. "This is a positive development for the export story. We should aspire to export more value-added and IP-driven products, so that exporters could command some premium in international market," he says.

This is visible in automobiles and pharmaceuticals. Bajaj Auto, TVS Motors, Hyundai Motors India, Cipla, Dr Reddy's Laboratories, Sun Pharma and Lupin are among the companies now getting a large chunk of their revenue from export.

In 10 years, the combined export of engineering goods, including automobiles, capital goods, pharma and basic chemicals, grew at a compounded annual rate (CAGR) of 21 per cent, faster than the 19 per cent growth recorded by all merchandise exports. Transport equipment was the star of the show, with a CAGR of 30 per cent in dollar terms to reach $18.4 bn in FY13, making it the country's largest engineering export. Total engineering exports during the period expanded at the rate of 21.9 per cent annually. Transport equipment (including aircraft and ships) now account for 6.1 per cent of all exports against 2.5 per cent a decade before.

Similar buoyancy is visible in other engineering products such as machinery & equipment and electronic goods. In the last decade, export of machinery and equipment showed a CAGR of 22.4 per cent in dollar terms, to $15.2 bn in FY13 from $2 bn in FY03. Electronics exports expanded at a 20.5 per cent (annual) rate during the period to reach $8.1 bn last year.

Automotive exports would have been even higher, if not for the global economic slowdown. In 2012-13, these declined 13 per cent as consumers across the globe cut on big-size purchases. A similar thing had happened in the aftermath of the 2008 global financial crisis. Automotive exports had declined sharply in 2009-10 but recovered subsequently.

"Automobile exports are highly sensitive to economic growth in the destination country. They grow faster than the overall basket in good times and fall during a downturn. Given the current economic sluggishness in key emerging markets, including China, automotive exports may remain subdued in the near term," says Devendra Pant, head economist at India Ratings.

Pharmaceutical exports, however, have been more consistent. Last year, these grew 18 per cent, to cross $10 bn. In the past 10 years, these have shown a CAGR of 21.8 per cent and continue to outperform. Pharma's share in the total export basket increased by 15 basis points to 3.5 per cent in the first six months of the current financial year, from 3.35 per cent in FY13.

Experts believe a combination of rupee depreciation and the rising sophistication of Indian manufacturing companies, especially those at the top, will continue to support high-tech export. "In the past, Indian manufacturers were constrained by lack of technology and exposure to global markets. The gap has been filled a bit by recent acquisitions by Indian companies in Europe and North America, giving them access to technology, besides markets. Many companies are augmenting it by scaling up in-house research and development, and product development," says Kandaswami.

Others say a lot will depend on the global growth environment. "It's tough to increase exports when the world's key economies are slowing. And, being discretionary in nature, high-end manufacturing exports suffer more than staples such as textile and agri products during a downturn," says Pant.

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Exports dip 3.67 per cent to $25.6 billion in February

Economic Times

New Delhi,12 March 2014: India's merchandise exports fell for the first time in eight months in February, but a sharper decline in imports brought down the nation's trade deficit to its lowest since last March. The narrowing trade gap is contributing to a smaller current account deficit, helping the rupee to claw back its value lost to the dollar but, in turn, hurting exports - a cheaper local currency allows Indian companies to sell their products more competitively abroad.Latest data indicate that India is set to miss its export target for this fiscal year.

Goods shipments fell 3.67% from a year earlier to $25.69 billion in February, according to data released by the commerce and industry ministry on Tuesday. They had increased 3.8% in January.
In the April-February period, exports were up 4.8% at $282.8 billion. The government has an export target of $325 billion for the year ending March. "If exports follow the same trend as last March, the full fiscal year's exports should be close to $310 billion," commerce secretary Rajeev Kher said. "I won't be happy with 310 (billion dollars), and we need a better performance."
While the export numbers didn't look encouraging, the faster fall in imports ensured that the current account deficit is steadily improving.
Imports fell 17% in February and 8.65% in the April-February period. The trade deficit was $8.13 billion in February while for the first 11 months of the fiscal year it was $128 billion, compared with $180 billion a year earlier.
Current account deficit is expected to be $40 billion this fiscal year, less than half of last year's $88 billion. That is good news for the rupee, which has already strengthened to 60.94 against the dollar as of Tuesday from 63.11 at the end of January.
"We expect CAD to 2% of GDP in 2013-14, the lowest since 2007-08," Crisil said in a note. Dropping gold imports is the biggest contributor to the narrowing deficits. But lower imports also indicate the state of the economy which is generating less demand.
Exporters blame the finance ministry for part of their woes, saying that it has been holding back on refunds of duties on certain exported goods. The ministry later issued a statement saying it was not holding back any refunds.
The end of the European Union's Generalised System of Preferences benefits in terms of lower import duties from January 1 also contributed to the slowdown in shipments. The engineering sector, which was the top performer in January registering 37% growth, posted a contraction in February at 2.75%. Gems and jewellery exports fell 4.18%. Gold imports dropped 71%, choking the supply of a key raw material for jewellery makers.
According to FIEO president M Rafeeque Ahmed, a decline in global prices of commodities and metals also played a role as finished products fetched lower prices compared to a year before.

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Experts doubtful of meeting FY14 exports target

Nayanima Basu, Business Standard

New Delhi,5 March 2014 :In his 2014-15 interim Budget speech, Finance Minister P Chidambaram had pegged merchandise exports for 2013-14 at $326 billion, 6.3 per cent more compared to 2012-13. In the April 2013-January 2014 period, overall exports stood at $257 billion, against $243 billion in the year-ago period. This means to meet Chidambaram's estimate for this financial year, India will have to export about $69 billion worth of goods in February and March.

During its previous review of the Foreign Trade Policy (FTP) 2009-2014, the commerce ministry had set the exports target for 2013-14 at $325 billion.

Experts say exports might be lower than this target set by the commerce ministry, as well as the finance minister's estimate. "While we will exceed last year's exports, it will be difficult to reach $326 billion. Undoubtedly, we will achieve growth over last year but might fall short of achieving the target set during the last review of the FTP," said Ajit Ranade, chief economist, Aditya Birla Group. He said at the beginning of this financial year, the target looked achievable, owing to a fall in the rupee and the fact that agricultural exports were high. "But now, growth rates have slowed, mainly due to a problematic situation in destination markets such as Japan, China and Europe."

Recently, Commerce Secretary Rajeev Kher said achieving the target of $325 billion would be a "tough call, but we will achieve it". On February 20, Kher had convened a meeting with all leading exporters and urged them to push exports so that at the least, the FTP target of $325 billion would be met.

Now, the Federation of Indian Export Organisations (FIEO), which had earlier said India might record $350 billion worth of exports this financial year, sounds apprehensive. It said overall exports in 2013-14 might stand at $318-320 billion. Ajay Sahai, chief executive and director-general of FIEO, said the government's recent move to subsidise sugar exports might add $3-4 billion to total exports. "With the latest move on sugar exports, we might go close to the target, though reaching the target seems slightly difficult now," Sahai said. To achieve their targets, exporting firms might push exports in March, he said, adding total exports during that month might stand at $30-32 billion.

"The target is too ambitious. Though March usually sees an uptick, the matter has worsened because of the fall in petroleum exports. Also, gems and jewellery exports have not done well. So, it is going to be difficult (to achieve the export target)," said Anis Chakravarty, senior director, Deloitte.
In January, exports of petroleum products and gems and jewellery fell 9.4 per cent and 13 per cent, respectively, on an annual basis.

While overall exports had increased 1.7 per cent in April 2013, it declined 1.1 per cent and 4.6 per cent in May and June, respectively. However, in the July-October period, exports registered double-digit growth, primarily due to the rupee's fall against the dollar. During April-December 2013, the rupee's monthly average exchange rate was 54-64/dollar.

Between July 2013 and October 2013, exports registered growth of 11-13 per cent. In October 2013, exports rose 13.5 per cent to $27.3 billion, compared to the corresponding period last year. November, December and January 2014, however, saw single-digit growth.

Despite the global financial crisis hitting India’s external sector adversely, merchandise exports recorded compounded annual growth of 17.4 per cent between 2004-05 and 2012-13. In 2012-13, exports had fallen 1.8 per cent.

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Current account deficit will be under $40 b

Business Line

New Delhi, 7 March 2014:The current account deficit (CAD) will be kept under $40 billion in fiscal 2013-14, Finance Minister P Chidambaram said on Tuesday. Chidambaram also exuded confidence that the revised fiscal deficit target of 4.6 per cent (of the Gross Domestic Product) would be achieved. Buoyed by the statements, the BSE Sensex rose 406 points to close at 21,919.79, while the NSE Nifty jumped 126 points to end at 6,526.65. The rupee strengthened to 61.07 against the dollar, against Thursday's closing of 61.12. "On the current account deficit, the Budget speech said that it will be contained at below $45 billion; today, 23 days before end of the (financial) year, we can say confidently that CAD will be below $40 billion," Chidambaram announced at a press conference after the customary post-budget RBI board meeting here. CAD is the difference between inflow and outflow of foreign currency.

The latest revision comes two days after the RBI announced that the CAD had narrowed sharply to $4.2 billion or 0.9 per cent of GDP in the third quarter of current fiscal, against $31.9 billion or 6.5 per cent of GDP during the corresponding period in 2012-13.

The lower CAD was primarily on account of a decline in the trade deficit, as merchandise exports picked up and imports moderated, particularly gold.

"We will achieve the fiscal target of 4.6 per cent, as mentioned in the revised estimate," Chidambaram said. The initial estimate was that the fiscal deficit would be 4.8 per cent of the GDP, and there were apprehensions that with lower revenue realisation and higher expenditure, the final deficit ratio could go beyond 5 per cent.

Incidentally, as per the Controller of Government Accounts data, the fiscal deficit has exceeded 101 per cent of the target. Chidambaram also said the the revised estimate of revenue collection would be achieved, and "if there is any small shortfall, I think that will be made up in actual savings that I have in mind."

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Some cause for hope on CAD control

Rajesh Bhayani, Business Standard

Mumbai, 18 March 2014: There is more than one element of comfort when viewing the current account deficit (CAD) this financial year and the next. Gold import this year is expected to remain no more than half of 2012-13's $53.8 billion and, as a result, the CAD will remain around $40 bn or two per cent of gross domestic product (GDP).

Gold apart, several other elements that were pressure points in the past have been tapering, say senior economists. Coal import is rising in quantity terms but a softer price outlook might keep that under control. Metal scrap import is likely to come down with the iron mining scene improving. The possibility of resumption of mining in Goa improves the export scenario and the larger effect might be seen in 2014-15. The state government had held two auctions for ore, in which exporters participated.

In 2013-14, capital goods machinery import has come down but that has more to do with industrial growth. Fertiliser import is no more now in the top-10 import commodities in terms of value, due to lower prices.

In the import bill, coal (both thermal and coking) has the largest chunk in the category of fuel and raw materials, after crude oil. However, coal prices have fallen, compensating for the rise in coal import quantity; for FY15, too, the price outlook is soft. Thermal coal is 70 per cent of total coal import and those for the annual contract coming into force from April are being negotiated 15-20 per cent lower than last year's price.

According to Deepak Kannan, managing editor, thermal coal, at Platts, the premier global watcher on energy prices, "Coal India's production will likely miss the target this year and imports are expected to increase. The Indonesian market has eased and will likely remain under pressure next year as well." The import quantity has been rising — 107 mt in 2011-12; 138 mt in 2012-13; 155 mt in 2013-14.

"In contrast to some other emerging markets, India's external adjustment is both substantial and impressive, and policymakers deserve much credit. But it's one thing to have the CAD at two per cent of GDP when growth is below five per cent and domestic demand is so depressed. Instead, we need a CAD at around these levels when domestic demand strengthens and growth returns towards seven per cent. And, for that, improving productivity and competitiveness remains key," said Sajjid Chinoy, chief India economist, JP Morgan.

Edible oil (around $10 bn) and iron and steel scrap are among other major items in the import bill. Scrap imports have been rising due to the iron ore scarcity but is coming under control as the latter scene improves.

Agreeing that gold and coal imports are coming under control, Madan Sabnavis, chief economist, CARE Ratings, said some issues need to be watched. On the fall in capital goods imports, he said it reflected the slowing in Indian industry. "But, import of ores and scrap is one category that needs to be monitored, as it is high and rising. Edible oils import has to be monitored, especially if there are concerns on monsoons. Development of the El Niño (weather condition) and its possible effect on India can cause this component to go up, considering we import 45-55 per cent of our edible oil requirement."

Textile exports have also turned around. It was only $32 bn in FY13; this year, it is expected to exceed

$40 bn and the FY16 target is $55 bn. Iron ore export has been an issue. Three years earlier, it was $9 bn; now, it is hardly 15 per cent of that. However, hopes of exports resuming from Goa could mean some good news early next year.

Madan said a slowing in export of jewellery should be looked at closely by the government, since curbs on gold import have affected exporters. “Typically this should be rising. This calls for some element of rationalisation here,” he said.

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Indian exports will fall short of $325 bn target: Sharma

PTI

New Delhi, 25 March 2014: Indian exports will fall short of the $325 billion target envisaged in the current fiscal though it would be more than what was achieved in the last financial year, Commerce and Industry Minister Anand Sharma has said.

"We (will) fall short but we will do better. Definitely much better than last year and we will be bring down the trade account deficit substantially," Sharma told PTI.

For the April-February period, the country's merchandise exports were up 4.79 per cent to $282.7 billion. Imports during the 11-month period fell 8.65 per cent to $410.86 billion. The trade deficit during this period was $128 billion. In 2012-13, exports declined by 1.8 per cent to $300.4 due to the global demand slowdown.

Federation of Indian Exports Organisation (FIEO) President Rafeeq Ahmed has said that the exports during the current financial year will touch about $312-315 billion.

Exporters said that besides global slowdown, domestic factors like declining manufacturing growth and too has impacted the exports growth.

The apex exporters body have suggested the government to fix exports target at least for next five years and announce some major policy decisions in the forthcoming Foreign Trade Policy for 2014-19 to boost shipments.

FIEO is working on a paper for the new policy which would include recommendations to increase exports.

The manufacturing sector, which constitutes over 75 per cent of the index, declined by 1.6 per cent in December, as against a contraction of 0.8 per cent in the year-ago period.

On the currency swap agreement, Sharma said that an inter- ministerial committee is examining the matter. India is exploring possibilities of entering into currency swap agreements with trade partners to shore up exports and bring down trade deficit, which is putting pressure on the rupee. India has signed currency swap agreements with Japan ($15 billion) and Bhutan ($100 million). China has shown active interest in entering into such an agreement with India but it is yet to be signed. Currency swaps have emerged as an important derivative tool after the global financial crisis of 2008 to hedge the exchange rate risks.

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Imports contract in April-January on petro rates, industrial slump & gold curbs

Business Standard

New Delhi, 2 April 2014: Merchandise imports fell 7.85 per cent in the first 10 months of the current financial year against a 0.54 per cent rise in the corresponding period of 2012-13, reflecting depressed prices of petroleum products, government measures to curb inbound shipments of gold, and low demand in the economy as well as in the overseas markets.

Inbound shipments fell to $376.90 billion during the April-January period of FY14, compared with $409 billion in the corresponding year-ago period.

The largest chunk of the basket - crude and petroleum products - rose only 1.36 per cent to $138.36 billion, against $136.50 billion over the period. Oil imports had risen 8.44 per cent in the corresponding period of the previous year.

This reflected depressed global crude oil rates, which declined to an average of $107.46 a barrel during April-January 2013-14 from $114.77 billion a barrel in the corresponding year-ago period.

Non-oil imports, an indicator for industrial activity in the economy, fell 12.46 per cent at $238.54 billion against $272.51 billion in the previous year. However, part of it was gold import. The import plunged 45.15 per cent to $24.79 billion against $45.20 billion earlier on a deliberate move by the government to raise import duty to 10 per cent and impose the 80:20 rule to narrow the current account deficit. According to the rule, importers will have to export 20 per cent of imported gold.

Besides the curb, global rates of gold also fell 25-30 per cent in 2013 compared to 2012, which led to a fall in the inbound shipments, said Ajay Sahai, director-general of the Federation of Indian Export Organizations.

As restrictions on gold imports were deliberate, it is also important to assess non-oil-non-gold imports. These fell 5.96 per cent to $213.75 billion in the first 10 months of the current financial year from $227.31 billion in the corresponding year-ago period.

"This explains why industry is so weak. Since demand is low, import of these items also contracted," said Devendra Pant, chief economist at India Ratings.

Overall, industrial production recovered slightly by growing 0.1 per cent in January, after three months of contraction. For the first 10 months of the current financial year, industrial production was stagnant against one per cent growth during April-January of FY13.

Besides, petroleum and gold, the other items whose imports were at least $20 billion include electronic goods, pearls, precious and semi- precious stones, and machinery other than electronics.

Electronic goods imports recovered at a gradual pace, growing by 1.31 per cent at $26.23 billion in April-January 2013-14 against $25.89 billion in the same period in 2012-13, when it contracted 6.91 per cent. It was partly reflected in exports of electronic goods, even as these continued to fall. These exports declined 4.92 per cent in the first 10 months of the current financial year, against a 9.11 per cent decrease in April-

January of 2012-13.

Imports of machinery other than electricals and electronics plummeted 14.27 per cent at $19.83 billion against $23.13 billion. These imports fell 6.66 per cent in April-January of 2012-13.

However, pearls, precious and semi-precious stones rose 13.07 per cent at $19.99 billion against $17.68 billion over the period. This was a smart recovery since these imports plunged 27.53 per cent in the first 10 months of 2012-13.

As the government took measures to curb coal imports, particularly low-quality one, inbound shipment of coal, coke and briquettes fell 6.83 per cent at $13.65 billion in April-January 2013-14 against $14.65 billion in the same months a year ago when these declined just 1.64 per cent.

Reflecting poor demand for auto industry, import of transport equipment contracted 21.72 per cent at $10.75 billion against $13.74 billion over the period. It rose 23.98 per cent in the first 10 months of 2012-13.

Mirroring industrial slump, project goods nose-dived 30.73 per cent at $3.91 billion from $5.65 billion, iron and steel by 29.39 per cent at $5.87 billion from $8.31 billion, machine tools by 26.95 per cent at $1.71 billion from $2.34 billion, electrical machinery by 1.29 per cent at $3.67 billion from $3.71 billion.

Even as gold imports fell on the conscious policy of the government, inbound shipments of silver saw a spurt of 161.86 per cent $4.61 billion against $1.54 billion.

"This reflected relative returns on silver compared to gold. Besides, silver is used for a variety of industries as inputs now," said Sahai.

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Current account deficit may be contained at $33 b this fiscal

Shishir Sinha, Business Line (The Hindu)

New Delhi, 30 March 2014: The current account deficit (CAD) for 2013-14 is likely to be contained at around $33 billion, much lower than the initial projection of $70 billion and around $88 billion of 2012-13.

One of the two primary components of the balance of payments, CAD is the sum of the balance of trade (net revenue on exports minus payments for imports), factor income (earnings on foreign investments minus payments made to foreign investors) and cash transfers.

"The year could end with CAD of 1.8 per cent of GDP," Saumitra Chaudhuri, Planning Commission Member, told *Business Line*. The deficit is down mainly due to significantly lower gold import and recovery in exports. This new estimate has also come amidst the rupee strengthening and breaching the 60$ mark, and the RBI adding dollars to the forex reserves. Now, it is expected that lower CAD will further boost the rupee.

The latest estimate is better than the $40 billion Finance Minister P Chidambaram had projected in a statement on March 7. It is also close to Nomura's projection of $34.7 billion. It may be noted that CAD in first nine months (April-December) of current fiscal stood at $31.2 billion.

Gold imports

Does this give an opportunity to the Government to ease restrictions on gold import? Earlier, Chidambaram had said that the Government might re-visit some of the restrictions by the year-end, provided there is firm grip on CAD. Later, he said that any decision can be taken only after the final figure of CAD for 2013-14 is out. Full-year data is expected in June.

Chaudhuri also believes that import restrictions should be revisited only after May as any relaxation could result in a surge in imports.

Bank of America-Merrill Lynch, in its recent report, has cautioned that the deficit will widen once the restrictions are removed. Despite restrictions, gold import jumped to 40 tonnes in January against 20-25 tonnes in previous months. Gold, alone, contributes to over 50 per cent of the current account deficit. Record CAD and hammering of the rupee had forced the Government to raise duty on gold to 10 per cent. At the same time, the RBI brought in the 80:20 scheme, requiring merchants to re-export 20 per cent of each gold consignment before ordering for fresh shipments. All these brought down gold imports through the legal channel. Nomura estimates gold imports will be around $25 billion in current fiscal as against $53.8 billion in 2012-13.

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Exports miss annual target; trade deficit narrows in March

Indian Express

New Delhi, 12 April 2014: Merchandise exports for March declined 3.15 per cent, second month in a row, to $29.58 billion, as the country missed its exports target for FY14 due to sluggish demand from non-traditional markets including China and Latin America and exchange volatility.

According to the data released by the commerce ministry, exports for the whole year rose just 3.98 per cent to $312.35 billion against the export target of $325 billion.

Imports, on the other hand, fell 2.11 per cent to $40.09 billion, narrowing the March trade deficit to $10.05 billion. For the entire fiscal, the imports shrank 8.11 per cent to stand at $450.95 billion, reducing the trade deficit to $138.6 billion in the last fiscal from $190.3 billion.

Decline in gold and silver imports also helped in reducing the trade deficit. Import of gold and silver declined 40 per cent to $33.46 billion.

Exporters' body Fieo said that the factors responsible for the decline were both domestic and global. Factors like exchange rate volatility, steep hike in global oil prices along with the regulatory problems in India's drug industry in the developed economies have also contributed to the decline of exports. As the rupee strengthens, exporters are also wary that exports may see further decline in the months to come. "The economic conditions in the US and the euro zone are not very favorable for exports and we hope the Indian government will help the exporters by providing help by way of including more products and countries for Focus Product Scheme and Focus market Scheme, where we have a comparative advantage and this should be addressed on a priority basis as it will give the necessary push to the industry," Sanjay Budhia, chairman, CII, national committee on export, said.

During the month, oil imports increased 17.7 per cent to $15.78 billion.

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India's share in global exports static in 2013

Business Line (The Hindu)

New Delhi, 14 April 2014: India's share in global exports and ranking amongst top exporters remained unchanged in 2013. The country's growing current account deficit, however, was flagged as an area of concern by the World Trade Organization (WTO) in its trade forecast report released on Monday.

The forecast upgraded the expected world trade growth for 2014 to 4.7 per cent from 4.5 per cent estimated earlier. The prospect for 2015 is better with a 5.3 per cent expected growth in merchandise trade, it said.

India exported goods worth $312 billion in 2013 posting a 5 per cent rise over the previous year. Its share in world exports was 1.7 per cent — the same as the previous year.

The country was ranked 13 amongst top exporting countries as opposed to last year's ranking of 19, but the improvement was only on paper. The change was on account of the European Union being considered as a single member as opposed to the earlier practice of EU member-countries being ranked separately. India's imports contracted 5 per cent in 2013 to $466 billion, which the WTO attributed to the country's economic slowdown.

The forecast expressed concerns over India's large current account deficit and its vulnerability to financial market volatility.

"The rise in financial market volatility was most keenly felt in emerging markets with large current account deficits. This is especially true of India, where output growth see-sawed from 2.6 per cent in the second quarter to 7.2 per cent in the third, then back to 3.9 per cent in the fourth," it said.

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WTO figures bring cheer to Indian export sector

Business Line (The Hindu)

Mumbai, 16 April 2014: With the World Trade Organisation projecting world trade to grow by 4.7 per cent in 2014 and a slightly faster growth at 5.3 per cent in 2015, which is a 20-year average growth rate, the Federation of Indian Export Organisations has noted that this augurs well for India's exports.

While world trade grew by 7.35 per cent on an average between 2005 and 2013, India’s exports grew by 15.66 per cent on an average in the same period, according to the FIEO. However, since India recorded only a modest growth of about 4 per cent in 2013-14, it is necessary for the trade to look at a 15 per cent increase in exports, taking it to $360 billion in 2014-15, said the FIEO chief.

In the case of world trade, the growth per cent of 2014 is more than double of what was achieved in 2013 (2.2 per cent). In 2013, trade growth rate was slow due to a combination of flat import demand in developed economies and moderate import growth in developing economies. On the export side, both developed and developing economies only managed to record a small, positive increase.

The trade forecast for 2014 has been upgraded to 4.7 per cent from 4.5 per cent. In 2013, Asia recorded the fastest GDP growth at 4.2 per cent, which was almost equal to growth in the previous two years. Responding to the revised forecast of increase in global trade in 2014 and in 2015, M Rafeeque Ahmed, President of the Federation of Indian Export Organisations (FIEO) has said that projected growth in global trade is a major positive and has been a key factor in driving India's exports.

On a rough estimate, India’s exports growth has been more than doubled the global trade growth. ``We should expect a minimum of 10 per cent increase in exports in 2014," said Ahmed.

He added that though manufacturing had declined by 0.7 per cent in the April 2013 to February 2014 period, it needed to be promoted at all cost. ``We have to see that the share of manufacturing in GDP increases continuously to touch 25 per cent by 2020. The new Foreign Trade Policy should initiate measures for competitive manufacturing in the country, both for augmenting exports and substituting imports," Ahmed added.

Incidentally, in 2013, exports of Asia grew faster than any other region, with a 4.6 per cent rise, followed by North America and Europe. However, India suffered a sharp drop of 2.9 per cent in its imports, due to its economic slowdown. Exports of India also fell short of the target of $325 billion in 2013-14, and touched $312 billion.

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India tops global remittances list; received $70 billion in 2013: World Bank

PTI

Washington, 11April 2014: Having received $70 billion in 2013, India has topped the list of countries receiving remittances from overseas workers, the World Bank said today.

The World Bank's latest issue of the Migration and Development Brief, said international migrants from developing countries are expected to send $436 billion in remittances to their home countries this year (2014). In 2014, remittance flows to developing countries will see an increase of 7.8 per cent over the 2013 volume of $404 billion, rising to $516 billion in 2016. Global remittances, including those to high-income countries, are estimated at $581 billion this year, from $542 billion in 2013, rising to $681 billion in 2016.

"Remittances have become a major component of the balance of payments of nations. India led the chart of remittance flows, receiving $70 billion last year (2013), followed by China with $60 billion and the Philippines with $25 billion," said Kaushik Basu, Senior Vice President and Chief Economist of the World Bank. India had received $69 billion in remittances in 2012. Basu said there was no doubt that these flows act as an antidote to poverty and promote prosperity.

"Remittances and migration data are also barometers of global peace and turmoil and this is what makes the World Bank's KNOMAD (Global Knowledge Partnership on Migration and Development) initiative to organise, analyse, and make available these data so important," said Basu.

For many developing countries, remittances are an important source of foreign exchange, surpassing earnings from major exports, and covering a substantial portion of imports.

In India, remittances during 2013 were $70 billion, more than the $65 billion earned from the country's flagship software services exports, the World Bank said.

Dilip Ratha, Manager of the Migration and Remittances Team at the bank's Development Prospects Group said that in addition to the large annual flows of remittances, migrants living in high income countries are estimated to hold savings in excess of $500 billion annually.

"These savings represent a huge pool of funds that developing countries can do much more to tap into," he said.

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For a better trade balance

Biswajit Dhar, Financial Express

21 April 2014: The key feature of India's merchandise trade during 2013-14, the summary of which was unveiled last week, was the remarkable decline in the deficit. From a level of $190 billion in 2012-13, deficit in the goods trade was down to nearly $139 million, a decline of over $51 billion. This narrowing of the trade deficit was only slightly less dramatic than the stupendous increase witnessed in 2011-12, when the trade deficit had expanded by $66 billion. As a result of this decline, merchandise trade deficit, which was hovering around an all time high of nearly 11% of GDP in 2012-13, is expected to be a touch over 8% in the last fiscal. Since the widening of the trade deficit was the most significant cause of the bulge in the CAD, the improvement on the merchandise trade balance in 2013-14 could give the finance ministry a few more options to play with.

However, the feel-good factor regarding the trade performance in the previous fiscal hardly extends beyond the lowering of the deficit. The reduction in trade deficit has been caused largely by the lowering of imports by 8.1% as compared to 2012-13. Exports have expanded, but by a modest 4%. The more disconcerting aspect of the export performance is that after having expanded by double-digits in the second quarter of the year (as compared with the corresponding period in 2012-13), export growth not only fell away in the second half, the two closing months of the previous financial year witnessed negative growth rates.

This performance on the export front marks a culmination of a phase in which much was expected from the exporters, but little was delivered. Following the adoption of the Foreign Trade Policy 2009-14, the commerce ministry had developed a "Strategy for Doubling Exports in the Next Three Years (2011-12 to 2013-14)". The focus of this strategy was to push exports closer to the $500 billion mark by 2013-14, a level which would help in keeping the ratio of trade deficit to GDP to below 10%. There was little that one could fault with this strategy, for it envisaged export push to come on the back of a strong performance from the critical industrial sectors, particularly the engineering and the chemical industries. However, with the industrial sectors not taking-off as stated in the strategy paper, the commerce ministry had a fresh look at the export targets less than a year back. According to the new projections, exports were expected to increase to $325 billion in 2013-14, but even this significantly reduced target could not be realised.

The failure to meet the export target is not the only concern. Perhaps, the larger concern is the failure to make the manufacturing sectors the prime movers of India's export push. During the past several years, the composition of India's export basket has remained stubbornly rigid. The shares of engineering goods and chemicals have been hovering around 20% and 13-14% respectively, while two products groups, viz., POL and gems and jewellery have consistently accounted for nearly a third of India's exports. If available trends on exports of principal commodities for 2013-14 are any indication, the composition of exports is likely to follow the patterns seen in the past few years.

In recent years, spurt in gold imports was one of the main reasons for the rising import bill. After taking several hesitant steps to curb the ever-increasing lust for the yellow metal in the country, the government adopted two sets of measures to rein in gold imports during the last fiscal after the CAD reached alarming levels. The first was an increase in the import duty on gold from 8% to 10%. The second was a ruling that gold could be imported only by 10 designated banks and other agencies and entities. These designated institutions were required to fulfil the so-called 80:20 rule—at least one-fifth of every lot of import of gold imported to the country was to be exclusively made available for the purpose of exports and the balance for domestic use. Imports of the next lot of gold by the designated entity would be permitted by the customs authorities only after the quantity earmarked for exports (20% of the imported lot) was released to the exporters against their undertaking to fulfil the commitments within the stipulated time. Available data on imports suggest that these policies have had immediate impact on the imports of gold. Till February 2014, the value of gold imports during fiscal 2013-14 was just above $26 billion, a decline of nearly 48% from the level of imports recorded during the corresponding period in the preceding fiscal. Interestingly, the clampdown on gold imports affected countries that have relatively small market shares in India. Although the two largest sources of India’s gold imports, Switzerland and UAE, witnessed a decline in absolute terms, their shares in the total imports had in fact increased; for the former, the increase was from around 55% in 2012-13 to over 58% in 2013-14, while the latter increased its share to nearly 20%.

There are however, serious doubts about the effectiveness of the gold import restrictions imposed by the government. A recent report by the World Gold Council has observed that the underlying level of demand among Indian consumers had remained robust during 2013.This report concludes that “the sharp decline in the official import of gold into India led to an increasing amount of this demand being met by gold imported through unofficial channels” (read smuggling). The report has given credence to the generally accepted view that the gold import restrictions can hardly prevent outgo of foreign exchange from the country, since they bring the hawala traders into play. Clearly, measures for restricting gold imports that are currently in place are not helping the country to ride over its external payments problems. The government therefore needs to think in terms of a more comprehensive policy that looks at ways of reducing the demand for gold on the one hand, and provides effective mechanisms to check smuggling of gold.

Besides gold, the other major contribution to the lowering of the import bill in 2013-14 was made by the sagging imports of machinery and transport equipment. These figures point to two worrying signs: one, manufacturing sector continues to go downhill and, two, the investment climate has become rather sluggish.

The author is director general, Research and Information System for Developing Countries (RIS), New Delhi

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Exports up 5.26% in April; trade deficit falls to $10.1 billion

Economic Times

New Delhi, 10 May 2014: This is the first piece of good news for the economy in the new financial year. India's exports grew 5.26% in dollars terms in April 2014 from a year ago, reversing two months of decline. Imports declined 15% in dollar terms, clearly indicating that industrial recovery remained elusive. The combined effect of higher exports and contraction in imports helped shrink the trade deficit to $10.1 billion in April compared with $17.7 billion a year ago.

The data raises hopes that the improvement in the current account deficit in the last financial year will continue in the new year. Exports were valued at $25.6 billion in April while India's imports were worth $35.7 billion, according to data released on Friday by the commerce and industry ministry. Exports had contracted 3.2% in March.

"The new Foreign Trade Policy should initiate measures for competitive manufacturing in the country both for augmenting exports and substituting imports," M Rafeeque Ahmed, president of the Federation of Indian Export Organisations, said in a statement, urging the government to set a target of $750 billion in exports in by 2019.

India's exports in FY13 amounted to $312 billion.

Non-oil imports in April were estimated at $22.7 billion, 21.5% down from a year ago. This is an indication of the strength of the Indian economy, and the contraction indicates that the expected industrial economic recovery has not materialized. India's current account deficit is expected to improve to around 2% of GDP in FY14 from an all-time high 4.8% of GDP in FY13.

The low trade deficit in April and rise in exports raises hopes that the current account deficit will remain comfortable, though it could rise from last year if the economy recovers and import curbs on gold are lifted.

"Trade deficit will tend to deteriorate further, but it is not a big concern," said Madan Sabnavis, chief economist, CARE Ratings.

In absolute terms, exports were lowest in five months, but traditionally April is a weak month, which makes the year-on-year comparison more relevant.

The recovery in exports was led by engineering goods, overseas sales of which rose 21.25% to $5.75 billion. The drugs and pharmaceuticals sector picked up the growth pace in April with a rise of 10.41%. Man-made yarn and fabrics (11.74%) and readymade garments (14.33%) also contributed to the recovery in exports. Gems and jewellery exports contracted 8.1%.Gold imports were down 74% in April to $1.76 billion from $6.78 billion last year. Silver imports were down 26.5% to $468 million. Imports of iron and steel, machinery, electrical and non-electrical, transport equipment and project goods all contracted 6% to 38%, indicating that investments were not picking up.

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Exporters in a tizzy as rupee hits 10-month high

Amiti Sen, Business Line (The Hindu)

New Delhi, 12 May 2014: Exporters are keeping their fingers crossed as the rupee strengthened to a 10-month high of 59.50 to a dollar on Monday, before closing at 60.05, threatening to make a big dent in their earnings.

Most exporters fear that a further rise in rupee value could affect their competitiveness in the global market, leading to a fall in volumes. They want the Reserve Bank of India to intervene by buying dollars.

Competitiveness hit

“The dollar falling below Rs 60 will certainly hit competitiveness of Indian products in a tough global market, especially since the Chinese have established a competitive edge by calibrating their currency to their advantage,” said Anupam Shah of the Engineering Exports Promotion Council.

Export rise

Exports posted a growth of 5.26 per cent in April this year to $25.63 billion after two months of decline as demand in both the US and the European Union picked up. A rising rupee could neutralise the gains. It is the rupee’s high volatility, not so much its strengthening, that is hurting exporters, says Tilakraj Manaktala, President, Delhi Exporters Association.

Volatility hurts

“While exporters will suffer if the rupee becomes too strong, they also face pressure if it becomes very weak, as buyers start seeking discounts. It is in the interest of the nation if rupee fluctuation is in the range of 5-7 per cent,” Manaktala said. “Exporters can manage if the rupee is between 60 and 62/dollar. The present situation is indeed a cause of concern for us. It would be difficult to cope if it increases further,” he added.

Seafood woes

Seafood exporters also fear a drop in volumes this fiscal due to the strengthening rupee. With demand from the US, a primary buyer of shrimps from India, already low due to exceptionally harsh winters early this year, the rise in rupee value can make matters worse, officials from the Seafood Exporters Association of India said recently. Both Manaktala and Shah feel it is time for RBI to intervene. “While exports, especially of engineering goods, have done well in the first month of the fiscal, the RBI must ensure that the rupee does not become too strong by hot money pursuits in the stock market. This is the right time for RBI to buy dollars and build forex reserves," Shah said.

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