External Sector

03
CHAPTER

External trade recovered strongly in 2021-22 after the pandemic-induced slump of the previous year, with strong capital flows into India, leading to a rapid accumulation of foreign exchange reserves. The resilience of India's external sector during the current year augurs well for growth revival in the economy. However, the downside risks of global liquidity tightening and continued volatility of global commodity prices, high freight costs, coupled with the fresh resurgence of COVID-19 with new variants may pose a challenge for India during 2022-23.

Owing to the recovery of global demand coupled with revival in domestic activity, India's merchandise exports and imports rebounded strongly and surpassed pre-COVID levels during the current financial year. The revival in exports was also helped by timely initiatives taken by Government. USA followed by UAE and China remained the top export destinations in April-November, 2021, while China, UAE and USA were the largest import sources for India. Despite weak tourism revenues, there was significant pickup in net services receipts during April-December, 2021 on account of robust software and business earnings, with both receipts and payments crossing the pre-pandemic levels.

India's current account balance turned into deficit of 0.2 percent of GDP in the first half (H1) of 2021-22, largely led by deficit in trade account. Net capital flows were higher at US$ 65.6 billion in H1: 2021-22, on account of continued inflow of foreign investment, revival in net external commercial borrowings (ECBs), higher banking capital and additional special drawing rights (SDR) allocation. India's external debt rose to US$ 593.1 billion as at end-September 2021, from US$ 556.8 billion a year earlier, reflecting additional SDR allocation by IMF, coupled with higher commercial borrowings.

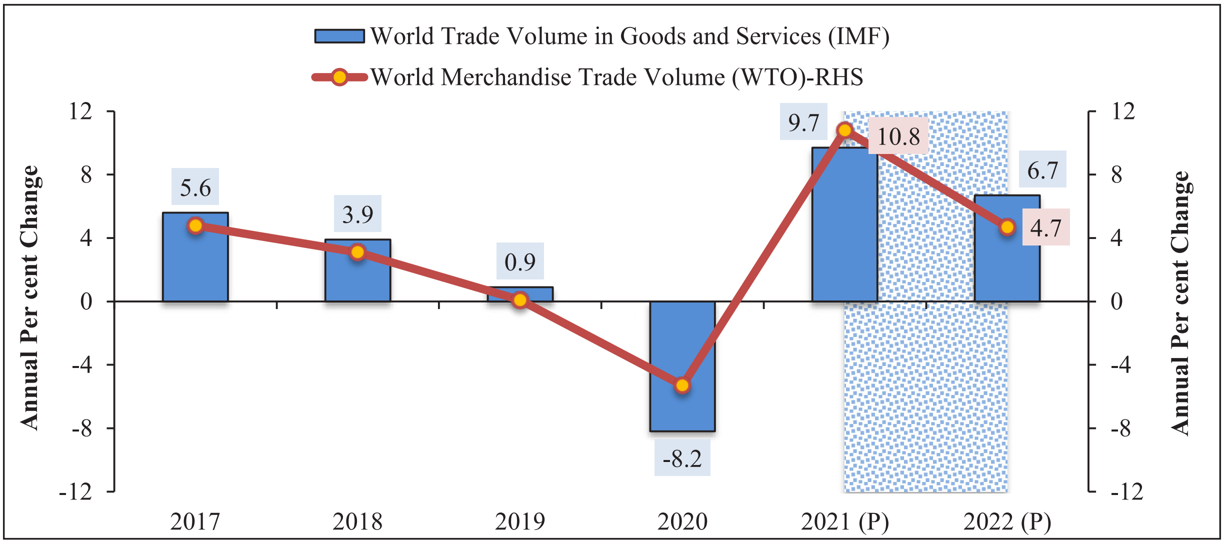
The robust capital flows were sufficient to finance the modest current account deficit, resulting in an overall balance of payments (BoP) surplus of US$ 63.1 billion in H1 of 2021-22, that led to an augmented foreign exchange reserves crossing the milestone of US$ 600 billion and touched US$ 633.6 billion as of December 31, 2021. As of end-November 2021, India was the fourth largest forex reserves holder in the world after China, Japan, and Switzerland.

A sizeable accretion in reserves led to an improvement in external vulnerability indicators such as foreign exchange reserves to total external debt, short-term debt to foreign exchange reserves, etc. India's external sector is resilient to face any unwinding of the global liquidity arising out of the likelihood of faster normalisation of monetary policy by systemically important central banks, including the Fed, in response to elevated inflationary pressures.

GLOBAL ECONOMIC ENVIRONMENT

3.1 The COVID-19 pandemic continued to impact the global economic environment during 2021. The first half (H1) of the calendar 2021 witnessed an acceleration in the global economic activity, that lifted the merchandise trade above its pre-pandemic peak. Reflecting this, International Monetary Fund (IMF) in its World Economic Outlook (WEO) October 2021 edition projected higher growth of global trade volume in goods and services of 9.7 percent in 2021, moderating to 6.7 percent in 2022, in line with the projected global recovery. World Trade Organization (WTO) in its October 2021 release, also upgraded its forecast for global merchandise trade volume growth to 10.8 percent in 2021, followed by a 4.7 percent rise in 2022 (Figure 1).

Figure 1: Projection for World Trade Volume Growth



Source: IMF and WTO

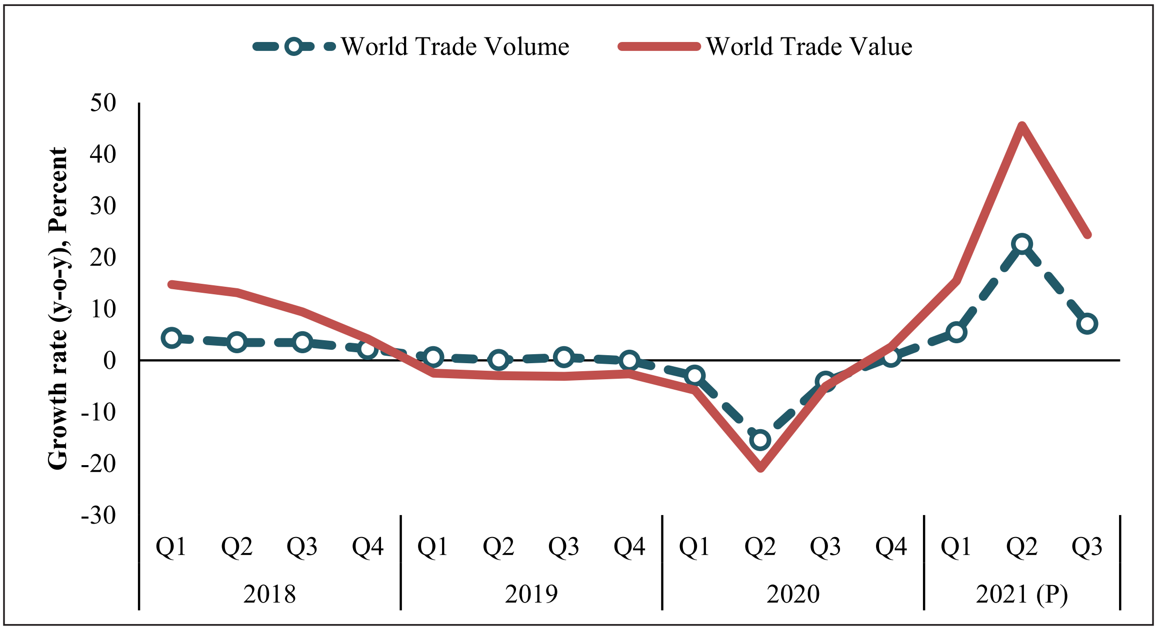
Note: Projections. The shaded area represents projected growth.

3.2 Apart from revival in global economic activity, the high growth rate for global merchandise trade volume in H1 of 2021 is also aided by the previous year's slump, which bottomed out in the second quarter of 2020. The pick-up in momentum witnessed during the first two quarters of 2021 weakened again by the third quarter (Q3) due to rapid spread of Delta variant and the threat of new variants. It led to breakage in critical links of global supply chains resulting in longer than expected supply disruptions, taking its toll on the global recovery. The world trade in nominal value terms (US dollar) during 2021 tracked that in terms of volume: deceleration in Q3, following an acceleration in first quarter (Q1) and second quarter (Q2) (Figure 2).

3.3 Nonetheless, WTO's prediction of merchandise trade volume growth of 10.8 per cent for whole of 2021 could still be realized if fourth quarter data could show a pick-up. This is possible even though the WTO's Goods Trade Barometer has signalled a cooling of trade growth in the closing months of 2021 (index dropped to 99.5 in September 2021– close to the baseline value of 100), but it still remains on trend.[1]

[1]WTO's goods trade barometer index is a leading indicator that signals changes in world trade growth two to three months ahead of merchandise trade volume statistics. Its baseline value is 100, a value greater than 100 suggests above -trend growth while a value below 100 indicates below-trend growth.

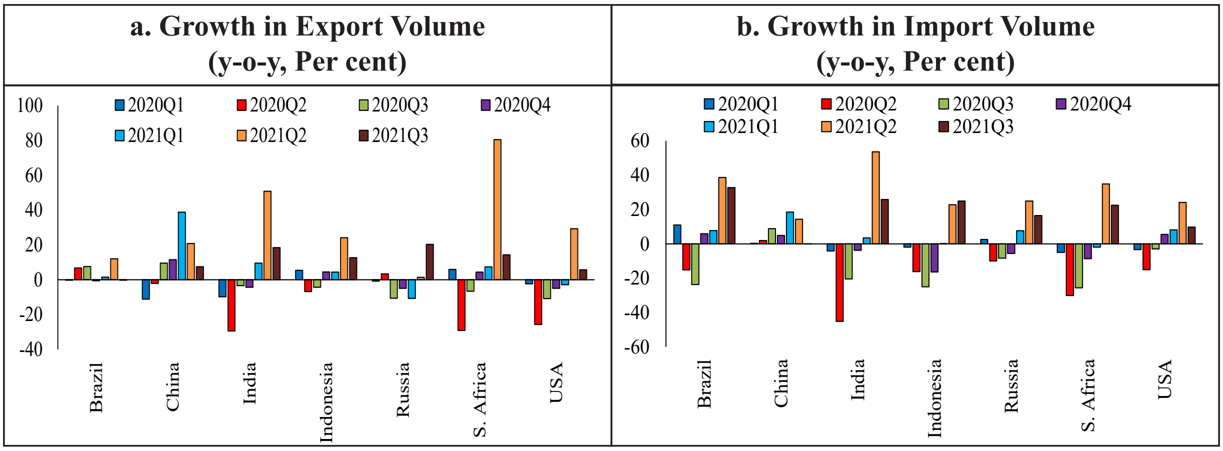
Figure 2: Moderation in World Trade Volume and Value in Q3 of 2021



Source: UNCTAD and WTO
Note: The growth rate is calculated on the basis of index with 2019Q1= 100.

3.4 The trade performance of major economies in volume and value terms during 2021 broadly reflects the generic trajectory of world trade outlined above. These major economies witnessed deceleration in Q3 on the back of a pick-up in Q1 and Q2, barring Russia in the case of exports and Indonesia for imports (Figure 3).

Figure 3: Merchandise trade performance of major economies



Source: WTO
Note: The growth rate is calculated on the basis of index with 2019Q1= 100.

3.5 The impact on trade in value terms varied significantly across different types of goods. Trade of manufacture goods, agricultural products and fuels & mining products witnessed positive and higher year-over-year (y-o-y) growth during Q2 of 2021 than in Q1, before moderating in Q3. The trade value of fuels and mining products was boosted by a four-fold rise in natural gas prices. Among manufactured goods, some sectors showed strong y-o-y increase, including iron and steel, electronic components and pharmaceuticals while others such as automotive products and telecommunications equipment showed stagnation or decline, reflecting the recent shortage of semiconductors.

3.6 As regards global financial conditions, in 2021, inflation picked up globally as economic activity revived with opening up of economies. Inflation in US touched 6.8 per cent in November 2021, the highest since 1982, driven largely by energy and food prices. As inflation worries are mounting, a distinct shift towards the unwinding of pandemic-led stimulus is taking hold. This may result in tightening of financial conditions, adversely affecting capital flows, putting pressure on exchange rate and slowing down growth in emerging economies. Therefore, the revival in inflation across the world now poses risks from both a tighter global liquidity condition and exchange rate volatility in global currency.

3.7 Overall, the balance of risks for global trade is tilted to the downside. The biggest downside risk emanates from the pandemic itself, particularly with resurgence of new variants such as Omicron. Further, in addition to the surge in global inflation, as outlined above, longer port delays, higher freight rates, shortage of shipping containers, shortage of inputs such as semiconductors, with supply-side disruptions being exacerbated by recovery in demand, pose significant risks, *inter alia*, for global trade.

3.8 Against this backdrop, India's external sector has shown immense resilience during the year, which augurs well for growth revival in the economy.

DEVELOPMENTS IN INDIA'S MERCHANDISE TRADE

Merchandise Exports

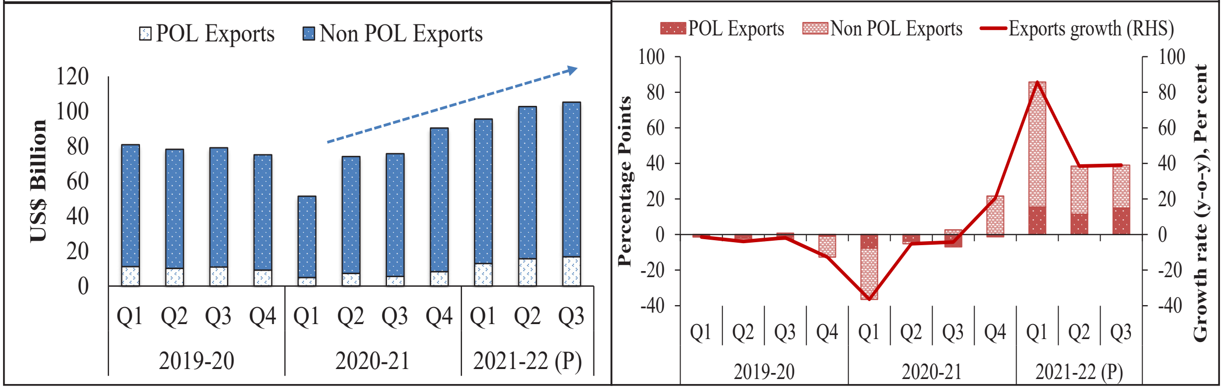
3.9 Following the global trend, India's merchandise exports recovered strongly from the pandemic-induced collapse and registered positive growth in the current financial year. During 2021-22 (April-December), the merchandise exports recorded growth of 49.7 per cent to US$ 301.4 billion, compared to corresponding period of last year and 26.5 per cent over 2019-20 (April-December), exceeding the pre-pandemic levels.

3.10 Out of an ambitious export target of US$ 400 billion set for 2021-22, India has already attained more than 75 per cent of it by exporting goods worth US$ 301.4 billion, which is actually higher than the export target of US$ 300 billion set for the April-December period of 2021-22. This shows that India is well on track as far as attaining the export target is concerned. Sharp recovery in key markets; increased consumer spending; pent up savings and disposable income due to announcement of fiscal stimulus by major economies; global commodity price rise and an aggressive export push by the government have bolstered exports in 2021-22.

3.11 After bottoming out in Q1: FY 21, there was an impressive rebound in merchandise exports, with strong y-o-y and sequential growth, crossing a milestone of US$ 100 billion in Q2 and Q3 of 2021-22 (Figure 4a). This is remarkable in view of moderation in global trade growth, elevated shipping rates and persistent problem of container shortages.

Figure 4: India's Merchandise Exports

a. Accelerating exports in 2021-22 | **b. Relative Contribution in Exports growth (Driven by both POL & non-POL exports)**



Source: Department of Commerce
Note: P: Provisional

3.12 The rise in exports is contributed by high growth in petroleum, oil and lubricants (POL) exports (constituting about 15 per cent of total exports) as well as non-POL exports, indicating the broad-based nature of expansion (Figure 4b). This is reflected in the fact that more than 85 per cent of major export commodity groups recorded positive growth during April-December, 2021 over April-December, 2020. Driven by robust demand for engineering goods, gems & jewellery, and chemicals, the non-POL exports stood at US$ 257.5 billion during 2021-22 (April-December), registering a growth of 40.1 per cent over corresponding period of last year and 24.9 percent over 2019-20 (April-December).

3.13 Owing to rise in global crude oil prices, petroleum products continued to be the most exported commodity in April-November 2021, whose exports have more than doubled and their share rose to 14.9 percent from 8.8 per cent in corresponding period a year earlier (Table 1). Exports of pearls, precious, semi-precious stones and gold & other precious metal jewellery have shown substantial growth of 88 per cent in April-November, 2021 compared to last year owing to various measures undertaken by Government such as reduction in import duty of precious metals, resolution of procedural issues to enhance ease of doing business along with revival in demand in major export markets. The exports of aluminium and its products is a newly added commodity in the list of top ten exported commodities during April-November, 2021.

Table 1: Top 10 Export Commodities

Rank	Commodity	(US$ Billion)				Share (in Per cent)			
		2019-20	2020-21	2020-21 (Apr-Nov)	2021-22 (P) (Apr-Nov)	2019-20	2020-21	2020-21 (Apr-Nov)	2021-22 (P) (Apr-Nov)
1	Petroleum Products	41.3	25.8	15.3	39.5	13.2	8.8	8.8	14.9
2	Pearl, Precious, Semiprecious Stones	20.7	18.1	9.8	18.1	6.6	6.2	5.6	6.8
3	Iron and Steel	9.3	12.1	7.7	15.9	3.0	4.2	4.4	6.0

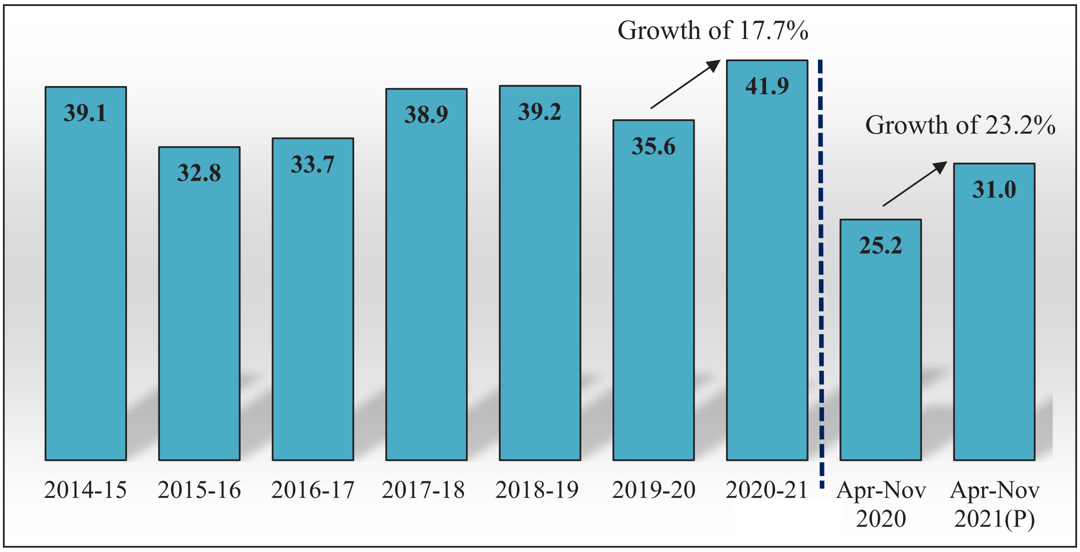
4	Drug Formulations, Biologicals	15.9	19.0	12.4	12.4	5.1	6.5	7.1	4.7
5	Gold and other precious metal jewellery	13.7	6.6	3.8	7.6	4.4	2.3	2.2	2.8
6	Organic Chemicals	8.3	7.6	4.8	7.4	2.7	2.6	2.8	2.8
7	Electric Machinery and equipment	9.0	8.1	5.1	6.4	2.9	2.8	2.9	2.4
8	Aluminium, Products of Aluminium	5.1	5.8	3.6	6.1	1.6	2.0	2.1	2.3
9	Products of Iron and Steel	7.0	6.6	3.9	5.4	2.2	2.2	2.2	2.0
10	Marine Products	6.7	6.0	4.0	5.4	2.1	2.0	2.3	2.0
Total of above 10 commodities		137.1	115.8	70.3	124.1	43.8	39.7	40.4	46.7
India's Total Exports		**313.4**	**291.8**	**174.2**	**265.7**	**100**	**100**	**100**	**100**

Source: Department of Commerce
Note: P: Provisional

3.14 Taking advantage of the increased demand for staples during the COVID-19 pandemic, India's agricultural exports continue to do well in 2021-22, backed by an effective agriculture export policy. The export of agriculture and allied products (including marine and plantation products) grew by 23.2 per cent to US$ 31.0 billion during April-November, 2021 over the corresponding period of 2020-21 and by 35.0 per cent over April-November, 2019, surpassing the pre-pandemic levels (Figure 5). The list of top 10 agricultural export commodities during 2021-22 (April-November) is indicated at Annexure I.

3.15 Pro-active support of export promotion agencies including Export Inspection Council (EIC), Agricultural & Processed Food Products Export Development Authority (APEDA) and export facilitating measures like online issuance of certificates required for exports, aided growth of agricultural exports during the pandemic. Under Transport and Marketing Assistance (TMA) for specified agriculture products scheme, the rates of assistance were increased for the exports effected on or after 01.04.2021. Ministry of Civil Aviation launched the Krishi UDAN (Ude Desh ka Aam Nagarik) scheme in August 2020 to assist farmers in transporting agricultural products on international and national routes to improve their value realisation.

Figure 5: Agricultural Exports (US$ Billion)

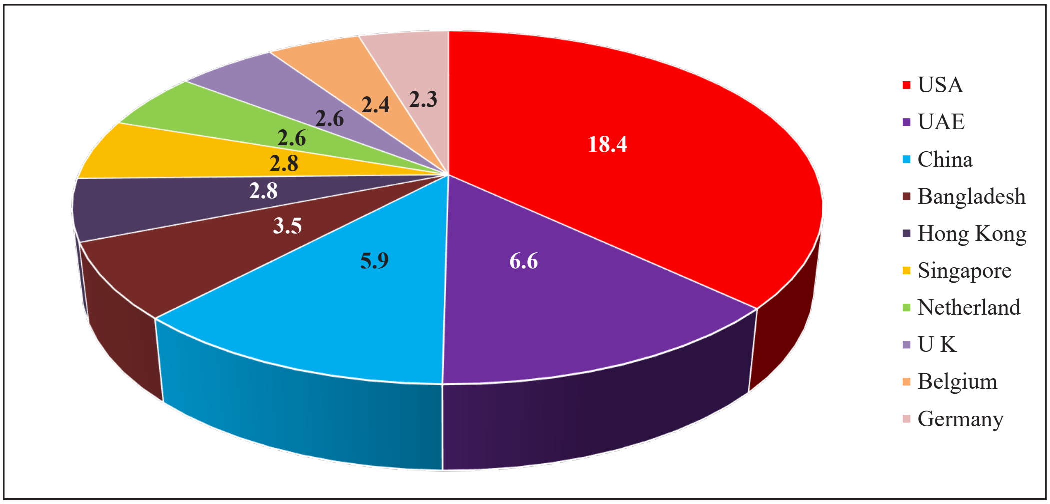


Source: Department of Commerce
Note: P: Provisional

3.16 It is observed that even the segments like marine products, buffalo meat, tea, coffee and dairy products, which had not performed well during 2020-21, have registered substantial growth during the current year. This augurs well for further diversification and strengthening of agricultural exports in the coming years.

3.17 United States of America (USA) remained the top export destination in April-November, 2021 followed by United Arab Emirates (UAE) and China (Figure 6). Belgium has replaced Malaysia and entered into the top ten leading export destinations during April-November 2021, with more than a billion dollars' worth of pearls, precious and semi-precious stones, and iron and steel shipped to the country.

Figure 6: Top ten Export Destinations in 2021-22 (April- November) [By Share in Per cent]



Source: Department of Commerce

3.18 India has diversified its export destinations in last 25 years, yet more than 40 per cent of India's exports is still accounted for by only seven countries. India has been negotiating free trade agreements (FTAs) with several partners – both bilateral and regional – over the past many years with a view to promote India's exports. A further push in this direction would help provide the institutional arrangements to, *inter alia*, diversify both products and destinations.

Progress on Trade Agreements

3.19 During last few years, India has initiated its trade agreement negotiations and reviewed existing agreements with many countries. This *inter alia* includes negotiations for (i) Comprehensive Economic Cooperation Agreement (CECA) between India and Australia (ii) FTA with European Union (EU) (iii) Comprehensive Economic Partnership Agreement (CEPA) with Canada and (iv) CEPA with UAE. In addition, India is reviewing its existing trade agreements such as the CECA with Singapore and ASEAN-India Trade in Goods Agreement (AITIGA) with ASEAN, among others. Negotiations are complete for agreement with UAE and at advance stage with Australia.

3.20 Further, India launched the FTA negotiations with the UK on 13th January, 2022, which is expected to facilitate the target of doubling bilateral trade by 2030, set by the Prime Ministers of both the nations in May 2021. Under India-US Trade Policy Forum (Ministerial), discussions were held with the US delegation on 6th October 2021 regarding Social Security Agreement, Mutual Recognition Agreements (MRAs) in nursing services and accountancy services, and mobility issues concerning Indian professionals.

Major Schemes & Initiatives to boost exports

3.21 The impressive performance of India's exports may be attributed to various schemes and initiatives taken by the Government to boost exports and to reduce the adverse impact of COVID-19. Some of these schemes are as under:

i. **Remission of Duties and Taxes on Exported Products (RoDTEP):** In order to boost Indian exports, a WTO compliant RoDTEP scheme is brought into effect from 01.01.2021. Based on the globally accepted principle that taxes and duties should not be exported, this scheme is an improvement over Merchandise Exports from India Scheme (MEIS). This new scheme reimburses currently un-refunded Central, State, and Local taxes and duties incurred in the process of manufacture and distribution of exported products and thereby provides a level playing field to domestic industry abroad. Major components of taxes covered are electricity duty, value-added tax (VAT) on fuels used in transportation/distribution, mandi tax, stamp duty, etc.

ii. **Developing District as Export Hub:** Under this initiative, the focus is to make districts active stakeholders in the promotion of exports of goods/services produced/manufactured in the district. District Export Promotion Committees (DEPCs) have been set up in each district. Products with export potential (including agricultural, geographical indication (GI) & toy clusters) have been identified in all 739 districts across the country. This scheme would help in diversifying the portfolio of export commodities.

iii. **Production-Linked Incentive (PLI) scheme:** An outlay of ₹1.97 lakh crore (US$ 26 billion) was announced in Union Budget 2021-22 for Production-Linked Incentive (PLI) scheme for 14 key sectors starting from 2021-22. The scheme provides incentives to companies on incremental sales for products manufactured in domestic units, which is expected to create minimum production of over US$ 500 billion in 5 years. Automobiles and auto components, pharmaceutical drugs, telecom & networking products, electronic/ technology products, etc., are some of the sectors covered under PLI scheme. The scheme is expected to give a push to both domestic manufacturing capabilities and exports. *(Refer to Industry and Infrastructure Chapter for details)*

iv. **Electronic Platform for Preferential Certificate of Origin (CoO):** In view of the COVID-19 crisis, on-boarding of FTAs/ preferential trade agreements (PTAs) was quickly done to allow electronic issuance to avoid physical movement. Around 4.6 lakh CoOs have been issued from the e-platform till date.[2] Issuance of Non-Preferential CoOs was also started from 15.04.2021.

v. **Infusion of capital in EXIM Bank:** Government of India infused capital of ₹750 crore in Export-Import Bank of India (EXIM Bank) during the current financial year 2021-22 through subscription to its share capital.

vi. **Export Credit Guarantee Corporation of India Ltd. (ECGC)** provides insurance cover to banks against risks in export credit lending to the exporter borrowers. Government approved capital infusion of ₹4,400 crore to ECGC Ltd. over a period of five years, i.e. from 2021-2022 to 2025-2026. This will increase the capacity of ECGC to underwrite risks up to ₹88,000 crore, that will support additional exports of ₹5.28 lakh crore over the five-year period.

vii. **Export Promotion Capital Goods (EPCG) Scheme** is an ongoing scheme under the foreign trade policy. In order to increase procurement of capital goods from indigenous manufacturers under the EPCG scheme, the government has reduced specific export obligations from 90 per cent to 75 per cent of the normal export obligation.

viii. The export promotion schemes such as Trade Infrastructure for Export Scheme (TIES), Market Access Initiatives (MAI), Special Economic Zone (SEZ) scheme, Emergency Credit Line Guarantee Scheme (ECLGS) and Advance Authorization Scheme continue to provide support to trade infrastructure and marketing.

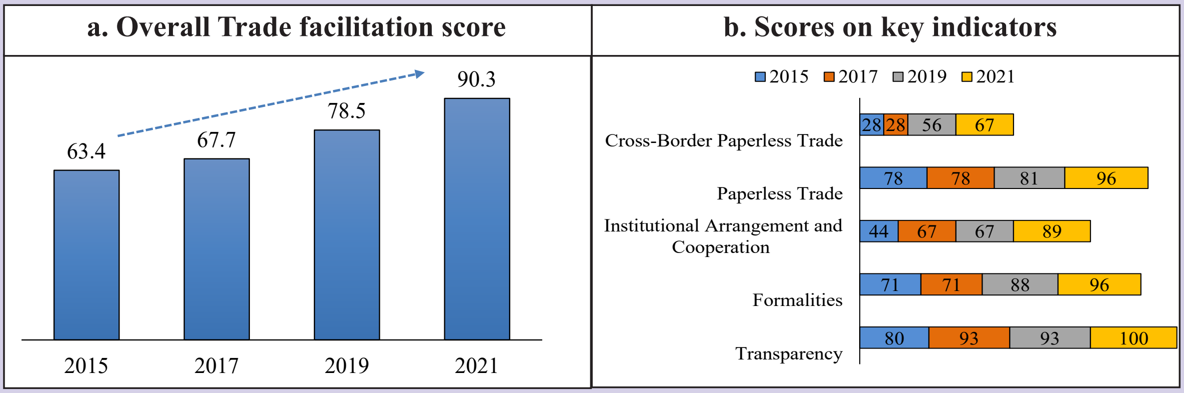
Box 1: Enabling an efficient Logistics eco-system to boost exports

An efficient, competitive and resilient logistics ecosystem is pivotal to boost exports. Despite multiple challenges, India has made substantial progress in trade-related logistics, reflected in leading global indices. India scored 90.3 per cent in 2021 in United Nations Economic and Social Commission for Asia Pacific's (UNESCAP) latest Global Survey on Digital and Sustainable Trade Facilitation, a remarkable jump from its score of 78.5 per cent in 2019, on account of improvement in scores of five key indicators. The Survey notes that India is the best performing country when compared to South and South West Asia region (63.1 per cent) and Asia Pacific region (65.9 per cent).

India witnessed consistent and significant increase in its overall trade facilitation score since 2015, supported by continuous improvement in each of the five indicators (Figure B1.1). Transparency index got 100 per cent score in 2021, while paperless trade and formalities got 96 per cent.

[2] A non-preferential COO certifies the origin of the goods but does not grant any preferential tariff rights to the exporter.

Figure B1.1: Performance of India in Global Survey on Digital and Sustainable Trade Facilitation



Source: UNESCAP

Pradhan Mantri Gati Shakti National Master Plan (NMP)

Approved in October 2021, PM Gati Shakti NMP aims to provide multimodal connectivity to various economic zones and integrate the infrastructure linkages holistically for seamless movement of people, goods & services to improve logistics efficiency. Gati Shakti will bring 16 Ministries together for integrated planning and coordinated implementation of infrastructure connectivity projects like Bharatmala, Sagarmala, inland waterways, UDAN etc. It will also leverage technology extensively including spatial planning tools with ISRO imagery developed by BiSAG-N (Bhaskaracharya National Institute for Space Applications and Geoinformatics). Economic zones like textile clusters, pharmaceutical clusters, electronic parks, etc. will be covered to make Indian businesses more competitive globally by cutting down the logistics costs and ensure proper linkages for local industry & consumers. This will boost economic growth, attract foreign investment and create multiple employment opportunities. *(Refer Box 7 in Industry and Infrastructure chapter)*

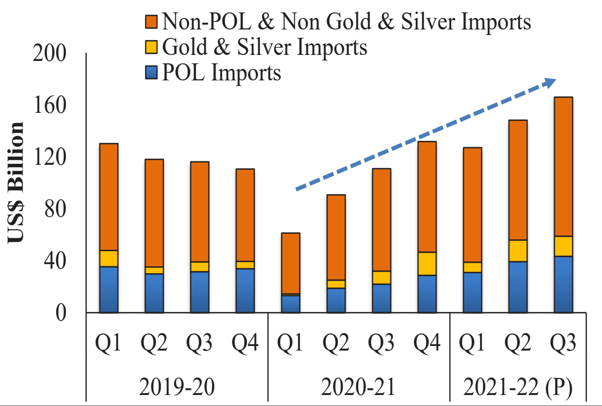
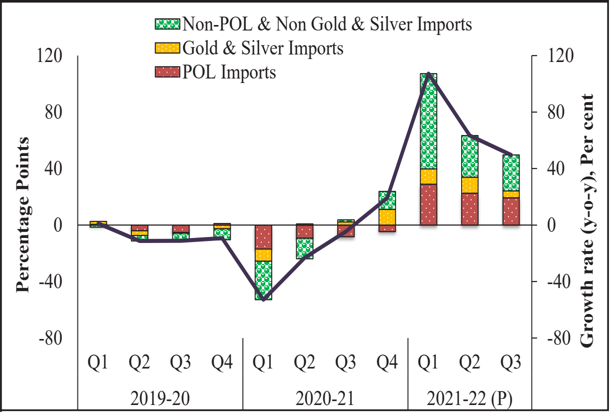
Other Initiatives to improve logistics ecosystem

Government has taken various steps in last few years to improve logistics efficiency through infrastructure enhancement and process reforms. Some of them include introduction of FASTag, Turant Customs, mandatory RFID (Radio Frequency Identification) tagging at all EXIM bound containers, E-San chit, Indian Customs Enquiry for Trade Assistance and Knowledge (ICETRAK), ICEDASH (Indian Customs EDI Dashboard), Secured Logistics Document Exchange (SLDE), Import Clearance System, GHG Calculator etc. In order to ease maritime trade, efforts are being undertaken on development of port-specific master plans and a coordination mechanism for implementation of the same, upgradation of select Land Customs Stations (LCS) to Integrated Check Posts (ICPs), promoting Free Trade Warehousing Zones, etc.

Merchandise Imports

3.22 As the pandemic ebbed, India witnessed revival in domestic demand resulting in strong import growth. The merchandise imports grew at the rate of 68.9 per cent to US$ 443.8 billion in April-December, 2021 over the corresponding period of last year and 21.9 per cent over April-December, 2019, crossing the pre-pandemic levels. Like in the case of merchandise exports, imports also showed secular rise since Q1: FY 21 and reached about US$ 166 billion in Q3: FY 22, crossing the pre-COVID levels (Figure 7a).

Figure 7: India's Merchandise Imports

a. Rising imports in 2021-22	b. Relative Contribution in Imports Growth (Non-POL, non-Gold & silver imports contributing maximum)
	

Source: Department of Commerce
Note: P: Provisional

3.23 The expansion recorded in merchandise imports in April-December, 2021 is accounted by the positive growth in all the three components i.e. gold & silver imports (accounting for 9.1 per cent share in total imports), POL imports (26.6 per cent share) and non-POL, non-Gold & silver imports (64.3 per cent share), with latter contributing the maximum indicating acceleration in domestic activity (Figure 7b). It is observed that more than 93 per cent of major import commodities have registered positive growth in April-December, 2021 compared to last year, indicating a broad-based recovery in the economy.

3.24 Owing to significant rise in crude oil prices, POL imports rose by 119.2 percent to US$ 118.3 billion in April-December, 2021 over corresponding a year earlier and by 22.3 per cent compared to April-December, 2019. The crude oil price (Indian basket) surpassed the pre-COVID level and was as high as US$ 82.1 per barrel in October 2021. On the other hand, the volume of POL imports rose higher than last year, but remained below the pre-pandemic levels. Gold and silver imports more than doubled to US$ 40.0 billion, as against US$ 17.5 billion in corresponding period a year earlier and surpassed the pre-pandemic level of US$ 25.4 billion recorded in April-December, 2019.

3.25 Non-POL, non-gold & silver imports were US$ 285.5 billion in April-December, 2021, witnessing a positive growth of 49.3 percent compared to corresponding period of last year and 17.9 percent over April-December, 2019. Electronic goods; pearls, precious & semi-precious stones; and coal, coke & briquettes, etc., contributed maximum in the non-POL, non-gold & silver import growth in the said period.

3.26 Among major import commodities, crude petroleum imports more than doubled to US$ 73.3 billion in April-November, 2021 compared to last year and continues to be the highest imported commodity. Gold imports registered sharp rise to US$ 33.2 billion (8.7 per cent share), from US$ 12.3

billion (5.6 per cent share) in corresponding period a year earlier, returning to second position (Table 2). This is due to significant increase in volume of gold imports that have more than tripled compared to last year and surpassed the pre-pandemic levels, on account of strong festive and export demand, favoured by drop in international gold prices. Industrial machinery for dairy and Iron & Steel do not figure in the list of top ten import commodities in current year, unlike in April-November, 2019.

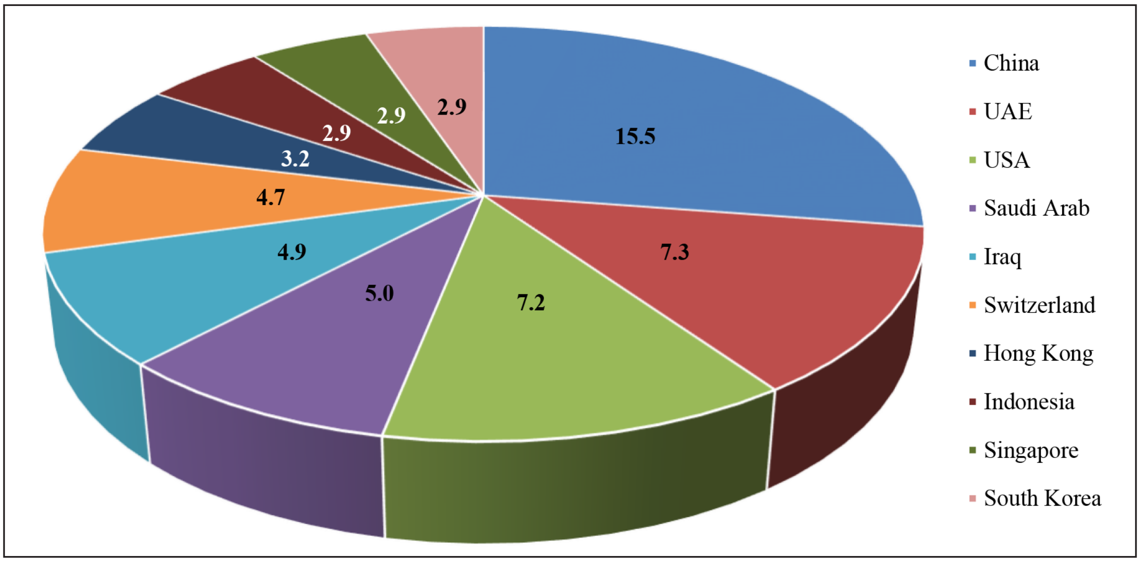
Table 2: Top 10 Import Commodities

Rank	Commodity	(US$ Billion)				Share (in Per cent)			
		2019-20	2020-21	2020-21 (Apr-Nov)	2021-22 (P) (Apr-Nov)	2019-20	2020-21	2020-21 (Apr-Nov)	2021-22 (P) (Apr-Nov)
1	Petroleum: Crude	102.7	59.5	31.3	73.3	21.6	15.1	14.2	19.2
2	Gold	28.2	34.6	12.3	33.2	5.9	8.8	5.6	8.7
3	Petroleum Products	27.8	23.2	13.1	24.1	5.9	5.9	5.9	6.3
4	Pearl, Precious, Semiprecious Stones	22.5	18.9	9.3	19.2	4.7	4.8	4.2	5.0
5	Coal, Coke and Briquittes, etc.	22.5	16.3	9.7	18.9	4.7	4.1	4.4	4.9
6	Electronics Components	16.3	15.3	8.7	14.5	3.4	3.9	4.0	3.8
7	Vegetable Oils	9.7	11.1	6.8	12.2	2.0	2.8	3.1	3.2
8	Organic Chemicals	12.2	11.1	6.3	11.2	2.6	2.8	2.9	2.9
9	Computer Hardware, Peripherals	9.0	10.4	6.6	9.7	1.9	2.6	3.0	2.6
10	Plastic Raw Materials	10.4	9.7	5.2	9.5	2.2	2.5	2.4	2.5
Total of above 10 commodities		261.3	210.1	109.3	225.9	55.0	53.3	49.7	59.2
India's Total Imports		**474.7**	**394.4**	**219.8**	**381.4**	**100**	**100**	**100**	**100**

Source: Department of Commerce
Note: P: Provisional

3.27 Among the top ten countries for import origin, China, UAE and USA were the top import sources for India in April-November, 2021, with China's share reducing to 15.5 per cent from 17.7 per cent in corresponding period a year earlier – reflecting increased diversification of India's import sources. Switzerland, which was ousted last year from top ten sources of India's import, bounced back at sixth position with a share of 4.7 percent in April-November, 2021. Indonesia – second biggest source of crude palm oil – remains to be one of top ten suppliers of India, with a share of 2.9 percent in total imports during same period (Figure 8).

Figure 8: Top ten Import Sources in 2021-22 (April-November) [By Share in Per cent]

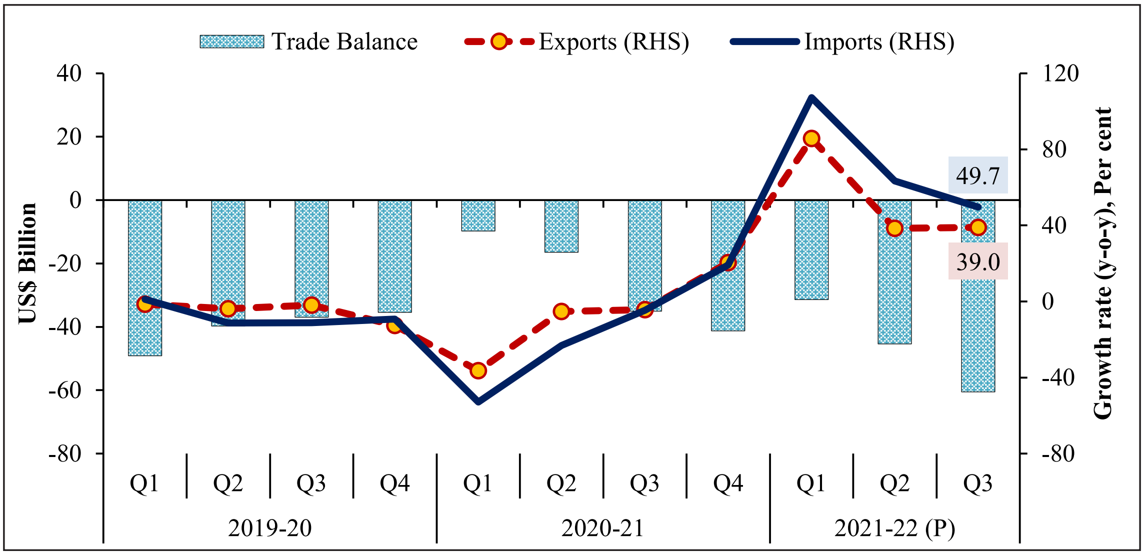


Source: Department of Commerce

Merchandise Trade Balance

3.28 As enumerated above, owing to the recovery of global demand with a revival in domestic activity as well as in many trading partners, both the merchandise exports as well as imports rebounded strongly and surpassed pre-pandemic levels leading to an increase in merchandise trade deficit. It stood at US$ 142.4 billion in April-December, 2021 compared to deficit of US$ 61.4 billion in corresponding period of last year and US$ 125.9 billion in April-December, 2019. The merchandise trade deficit widened after bottoming out in Q1: FY 21 (Figure 9).

Figure 9: Increasing Merchandise Trade Balance due to high growth in exports and imports



Source: Department of Commerce
Note: P: Provisional.

3.29 Table 3 shows India's merchandise trade balance with major countries during 2021-22 (April-November) compared to 2020-21 (April-November). India had the most favourable trade balance with USA followed by Bangladesh and Nepal.

Table 3: India's Merchandise Trade Balance with Major Countries

(US$ Billion)

S. No	Country	Exports Apr-Nov 20	Exports Apr-Nov 21 (P)	Imports Apr-Nov 20	Imports Apr-Nov 21 (P)	Trade Balance Apr-Nov 20	Trade Balance Apr-Nov 21 (P)
1	U S A	31.3	49.0	16.3	27.4	15.0	21.6
2	Bangladesh	5.1	9.2	0.6	1.3	4.4	7.9
3	Nepal	3.5	6.0	0.4	1.0	3.1	5.0
4	Turkey	2.3	5.1	0.9	1.3	1.4	3.8
5	Netherland	3.8	6.9	1.9	2.8	1.9	4.1
6	U K	4.6	6.8	2.6	4.3	2.0	2.5
7	Italy	2.6	5.4	2.2	3.2	0.4	2.1
8	Korea	2.9	4.8	7.1	11.1	-4.2	-6.3
9	Qatar	0.8	1.2	4.6	7.7	-3.8	-6.5
10	U A E	9.7	17.5	13.1	27.9	-3.4	-10.4
11	Saudi Arab	3.6	5.8	9.2	19.2	-5.6	-13.4
12	Iraq	1.0	1.3	7.6	18.5	-6.6	-17.2
13	Switzerland	0.9	0.9	5.8	17.8	-4.9	-16.9
14	China	13.6	15.6	38.8	59.0	-25.2	-43.4

Source: Department of Commerce
Note: P: Provisional

TRADE IN SERVICES

Services Exports

3.30 India has maintained its impressive performance in world services trade in the post COVID-19 period. Despite pandemic induced global restrictions and weak tourism revenues, India's services exports recorded growth of 18.4 per cent to US$ 177.7 billion during 2021-22 (April-December), over corresponding period a year earlier (Table 4) and 11.0 per cent growth over 2019-20 (April-December), surpassing the pre-pandemic levels.[3] This is mainly on account of top three computer, business and transportation services that constitute more than 80 per cent of total services exports. After registering a slump in Q1: FY 21, services exports remained resilient since Q2: FY 21 onwards and rose consistently to reach to US$ 60 billion in Q3: FY 22 (Figure 10).

Table 4: Services Trade Performance

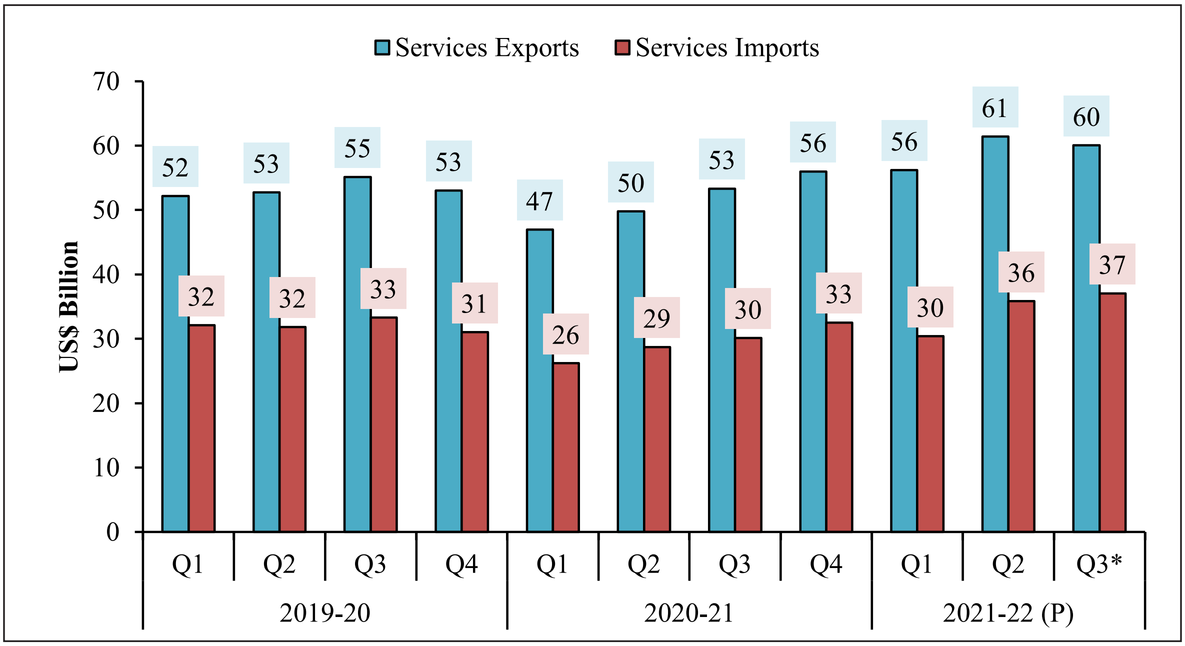
(US$ Billion)

	2019-20	2020-21	2020-21 (Apr-Dec)	2021-22 (Apr-Dec)* (P)
Services Exports	213.2	206.1	150.1	177.7
Services Imports	128.3	117.5	85.0	103.3

Source: Reserve Bank of India and Department of Commerce
Note: *: The data for December 2021 is an estimation; P: Provisional

[3] The data for December 2021 is an estimation, which will be revised based on RBI's subsequent release. The latest data for services sector released by RBI is till November 2021.

Figure 10: Rising Services Exports and Imports



Source: Reserve Bank of India and Department of Commerce
Note: *: Based on estimates; P: Provisional

3.31 Computer services exports continue to be the largest exported service in H1: FY 22, constituting about 49 per cent of total services exports. They exhibited positive sequential growth since Q2: FY 21 on account of increasing demand for digital support, cloud services and infrastructure modernisation owing to new pandemic challenges. Exports of business services – the second major segment – also showed recovery underpinned by improvement in professional, management and consultancy services. The transportation services exports grew by 40.7 per cent in H1: FY 22 to US$ 14.3 billion due to increase in cross-border trade activity and the shortage in shipping containers impacting transport costs. The quarterly component-wise services exports data is presented in Annexure II.

3.32 The strong growth witnessed in services exports may also be attributed to key reforms undertaken by Government, which *inter alia* include liberalizing the Other Service Providers (OSPs) in November 2020 and further in June 2021 announcing reform package for Telecom sector to infuse liquidity, encourage investment and reduce regulatory burden on the telecom service providers. *(Refer Box in Chapter on Services)*

Services Imports

3.33 Services imports rose by 21.5 per cent to US$ 103.3 billion in 2021-22 (April-December) from the corresponding period a year earlier (Table 4) and 6.2 per cent over 2019-20 (April-December), crossing the pre-pandemic levels.[4] The surge in services imports is mainly on account of payments for business, transport, travel and computer services, which together constitute more than 75 per cent of services imports. Like in the case of services exports, India's imports of services also reported slowdown in Q1: FY 21 due to pandemic induced lockdown. However, they improved subsequently and touched US$ 37 billion in Q3: FY 22 (Figure 10).

[4]The data for December 2021 is an estimation, which will be revised based on RBI's subsequent release. The latest data for services sector released by RBI is till November 2021.

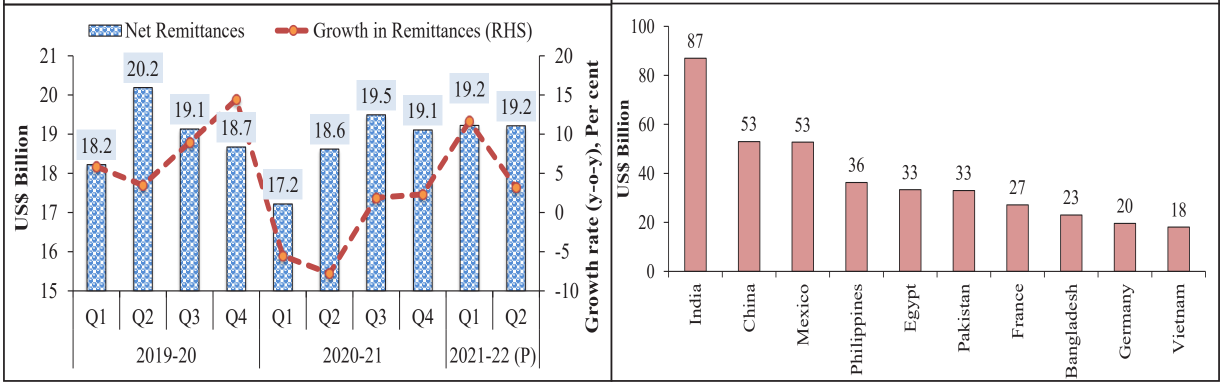
3.34 Business services with the largest share in services imports grew by 0.9 per cent on y-o-y basis in H1: FY 22. Amid resumption in global activity coupled with international shortage in shipping vessels, transportation costs escalated, resulting in large increase in transport payments that grew by 64.9 per cent on y-o-y basis to US$ 14.8 billion in H1: FY 22. Outward travel also resumed in H1: FY 22 with travel payments reporting growth of 23.1 per cent compared to H1: FY 21. The quarterly component-wise services imports data is presented in Annexure III.

PRIVATE TRANSFERS

3.35 In H1: FY 22, the net private transfers – mainly representing remittances by Indians employed overseas – grew by 7.2 per cent to US$ 38.4 billion, over corresponding period a year earlier and by modest 0.1 per cent over H1: FY 20, exceeding the pre-pandemic levels. As per the Migration and Development Brief 35, World Bank (November 2021), India continues to be the largest remittance recipient country in the world in 2021 (in current US dollar terms) and has been so since 2008. After bottoming out in Q1: FY 21, net private transfers registered positive growth and amounted to US$ 19.2 billion in Q2: FY 22 (Figure 11).

Figure 11: Remittances

a. Net Remittances in India | **b. Remittance Inflows in 2021***



Source: Reserve Bank of India and World Bank
Note: *: Estimates

INVISIBLES

3.36 On account of higher net services receipts and private transfers, net invisibles were higher at US$ 72.1 billion in H1: FY 22, compared to US$ 60.1 billion last year (Table 5) and US$ 63.7 billion in H1: FY 20, surpassing the pre-COVID levels. Following the trend of services and transfers, net invisibles also experienced increase beyond Q1: FY 21. However, there is sequential decline in Q2: FY 22 due to higher net outgo from the primary income account, mainly reflecting net overseas investment income payments (Figure 12).

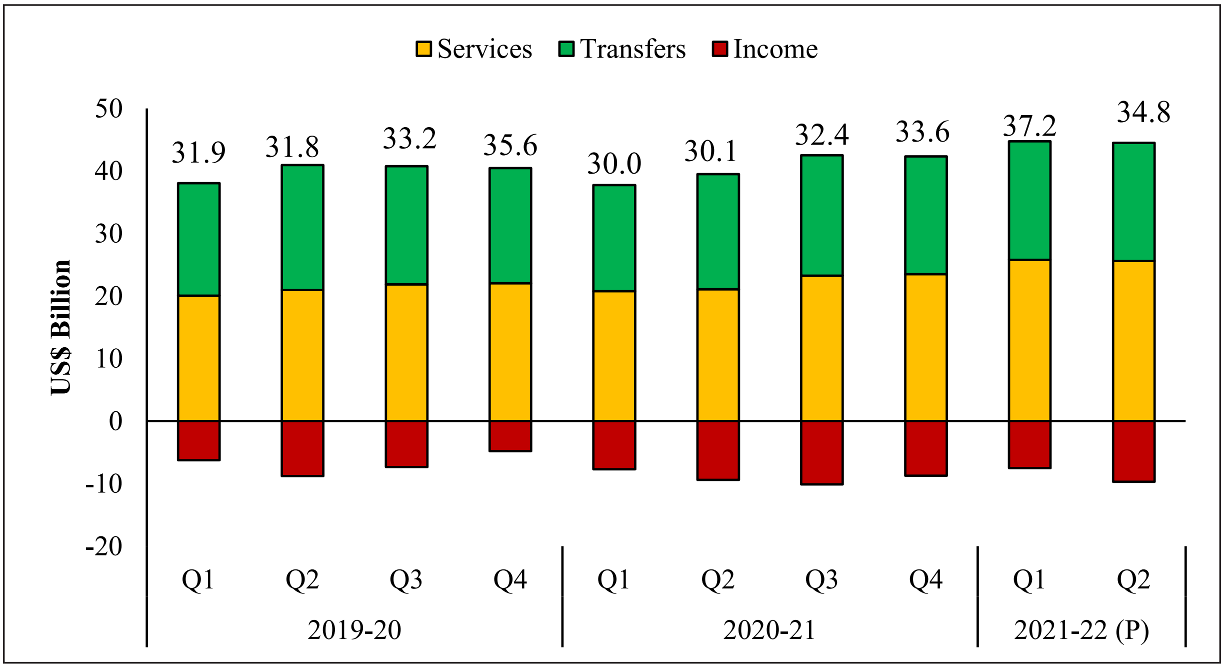
Table 5: Net Invisibles and its components

				(US$ Billion)
Year / Item (Net)	**2019-20**	**2020-21**	**2020-21 H1**	**2021-22 H1 (P)**
Invisibles	132.8	126.1	60.1	72.1
Services	84.9	88.6	41.8	51.4

Transfers	75.2	73.5	35.4	37.9
Income	-27.3	-36.0	-17.1	-17.2

Source: RBI
Note: P: Provisional

Figure 12: Composition of Net Invisibles



Source: RBI
Note: P: Provisional

CURRENT ACCOUNT BALANCE

3.37 After witnessing a surplus in H1: FY 21, India's current account balance flipped into deficit of US$ 3.1 billion (0.2 per cent of GDP) in H1: FY 22, on the back of sharp increase in merchandise trade deficit (Table 6). However, this current account deficit remained lower than the deficit of US$ 22.6 billion recorded in H1: FY 20 (pre-pandemic level).

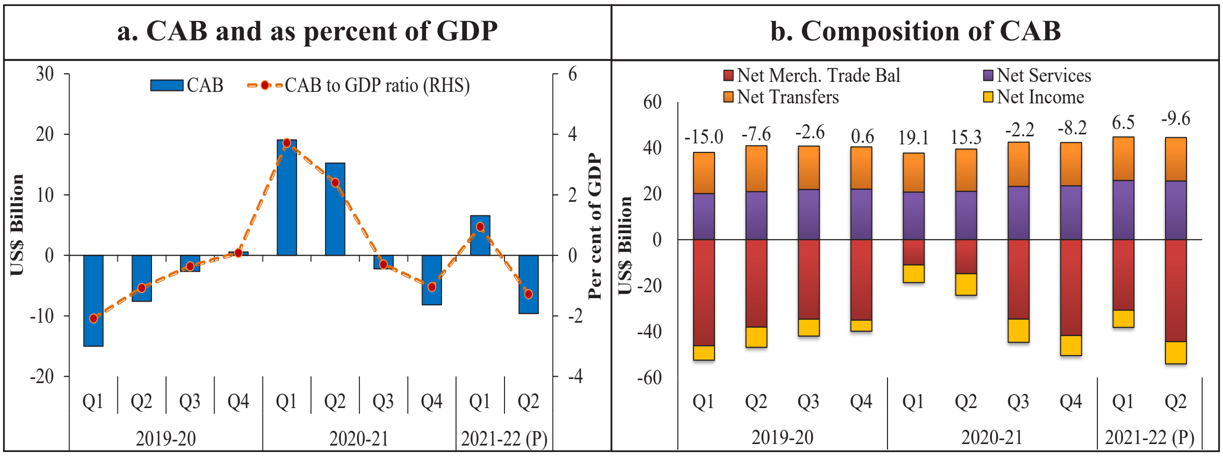
3.38 As far as quarterly movement is concerned, the current account balance switched into a deficit in Q2: FY 22 from surplus in the previous quarter, due to widening of trade deficit and an increase in net outgo of investment income (Figure 13).

Table 6: Current Account Balance

Year/ Item (Net)	2019-20	2020-21	2020-21 H1	2021-22 H1 (P)
Current Account Balance (US$ Billion)	-24.7	23.9	34.3	-3.1
Current Account Balance as per cent of GDP	-0.9	0.9	3.0	-0.2

Source: Reserve Bank of India
Note: P: Provisional

Figure 13: Current Account Balance (CAB)



Source: RBI
Note: P: Provisional

CAPITAL ACCOUNT/ FINANCIAL ACCOUNT

3.39 In H1: FY 22, net capital flows more than tripled to US$ 65.6 billion (4.5 per cent of GDP) over those in H1: FY 21, on the back of continued inflow of foreign investment, rise in loans mainly external commercial borrowings (ECBs), banking capital and other capital (inclusive of SDR allocation of US$ 17.9 billion by the IMF) (Table 7). These were also higher than the corresponding period of pre-pandemic level (H1: FY 20).

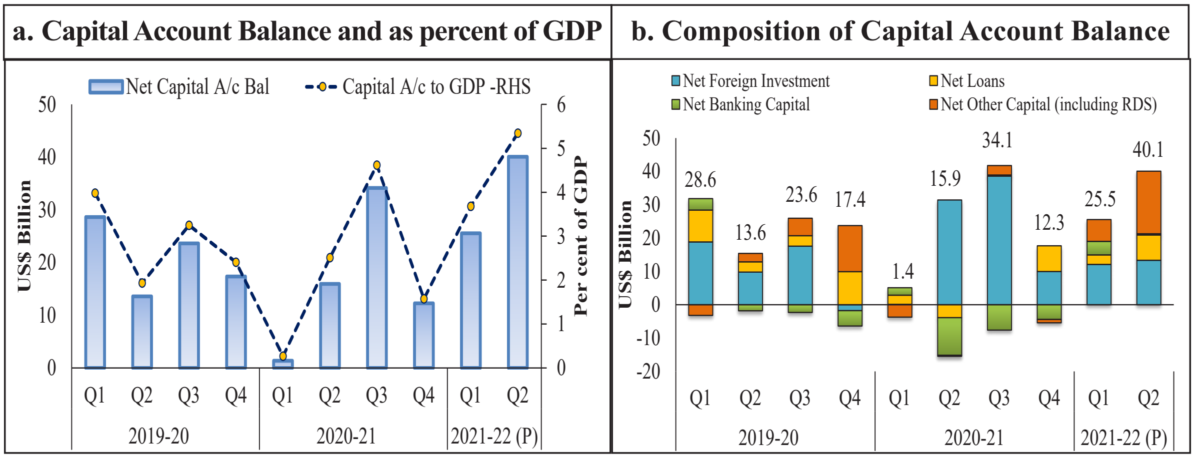
3.40 Net capital flows remained volatile yet witnessed y-o-y and sequential growth in both quarters of 2021-22. While the capital flows rose in Q1: FY 22 mainly on account of robust foreign direct investment on y-o-y basis, it increased further in Q2: FY 22 mainly due to the increase in FPI, ECBs and allocation of special drawing rights (SDR) by IMF, reflected in notable rise in net other capital (Figure 14).

Table 7: Capital Account Balance

(US$ Billion, unless otherwise indicated)					
S.No.	**Year / Item (Net)**	**2019-20**	**2020-21**	**2020-21 H1**	**2021-22 H1 (P)**
A.	Capital Account (A1 to A5)	83.2	63.7	17.3	65.6
A1.	Foreign Investment	44.4	80.1	31.5	25.4
A1.1	Foreign Direct Investment (FDI)	43.0	44.0	23.9	21.2
A1.2	Foreign Portfolio Investment (FPI)	1.4	36.1	7.6	4.3
A2.	Loans	25.7	6.9	-1.1	10.4
A3.	Banking Capital	-5.3	-21.1	-9.0	4.4
A4.	Rupee Debt Service	-0.1	-0.1	-0.1	-0.1
A5.	Other Capital	18.5	-2.1	-4.0	25.4
B.	Capital Account Balance to GDP ratio (Percent)	2.9	2.4	1.5	4.5

Source: Reserve Bank of India
Note: P: Provisional

Figure 14: Capital Account Balance and its ratio to GDP

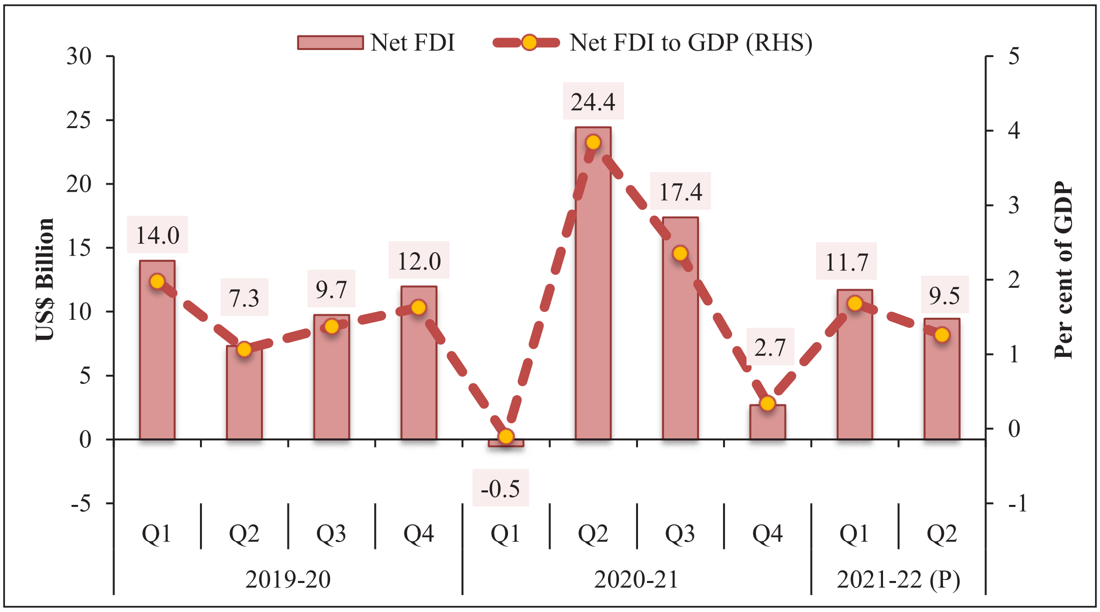


Source: RBI
Note: RDS: Rupee Debt Service; P: Provisional

3.41 Foreign Investment, consisting of foreign direct investment (FDI) and foreign portfolio investment (FPI), is the largest component of the capital account. Falling short of the pre-pandemic level, the net foreign investment inflows (FIIs) – primarily driven by FDI – moderated to US$ 25.4 billion in H1: FY 22 compared to corresponding period of FY 21.

3.42 The latest aggregate data on FDI is available till November 2021. While net FDI recorded a lower inflow of US$ 24.7 billion, the gross FDI inflows moderated at US$ 54.1 billion during April-November, 2021 compared to corresponding period last year, largely due to lower equity investment. The quarterly movement may be seen at Figure 15.

Figure 15: Foreign Direct Investment

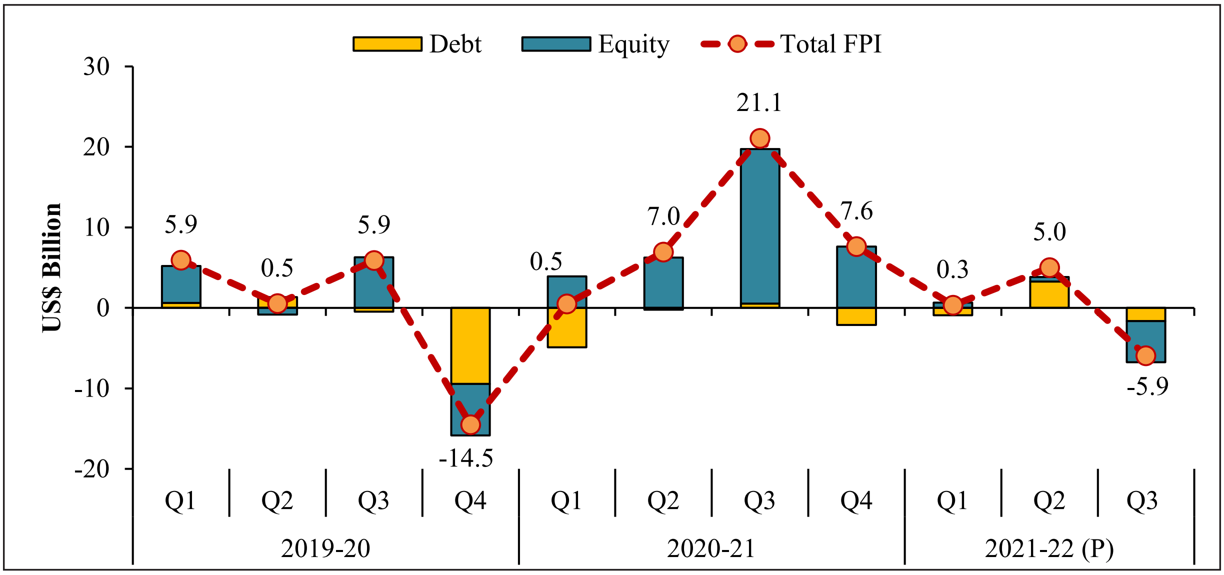


Source: RBI
Note: P: Provisional

3.43 As far as sector-wise FDI inflows are concerned, computer software and hardware attracted the highest FDI equity inflows of US$ 7.1 billion in April-September, 2021. Singapore continues to be the top investing country in terms of FDI equity inflow while USA occupies the second position. The list of top five FDI sectors and investing countries is given in Annexure IV.

3.44 The latest aggregate data on FPI is available till December 2021. As depicted in Figure 16, FPI flows remained volatile due to global uncertainties relating to US monetary policy normalisation, rising global energy prices, fear of new variants of COVID-19 and strong inflationary pressures. While the debt market witnessed net purchases during April-December, 2021, valuation concerns and profit booking by portfolio investors led to outflows from the Indian equity market, leading to net FPI outflow of 0.6 billion, vis-à-vis net FPI inflow of US$ 28.5 billion in corresponding period a year earlier.

Figure 16: Foreign Portfolio Investment remained volatile



Source: National Securities Depository Limited (NSDL).
Note: (i) Total net FPI is summation of debt, equity, hybrid and voluntary retention route (VRR), however, only debt and equity are depicted in above chart as they together account for more than 90 per cents of the total net FPI. Balance is hybrid and VRR.
(ii) P: Provisional

3.45 Among other forms of capital flows, banking capital recorded net inflow of US$ 4.4 billion in H1: FY 22 as compared with a net outflow of US$ 9.0 billion in corresponding period a year earlier, notwithstanding lower net inflows under Non-Resident Indian (NRI) deposit accounts. With fresh disbursals exceeding repayments, net disbursement of ECBs (i.e., adjusted for inter-corporate borrowing) was at US$ 4.7 billion in H1: FY 22.

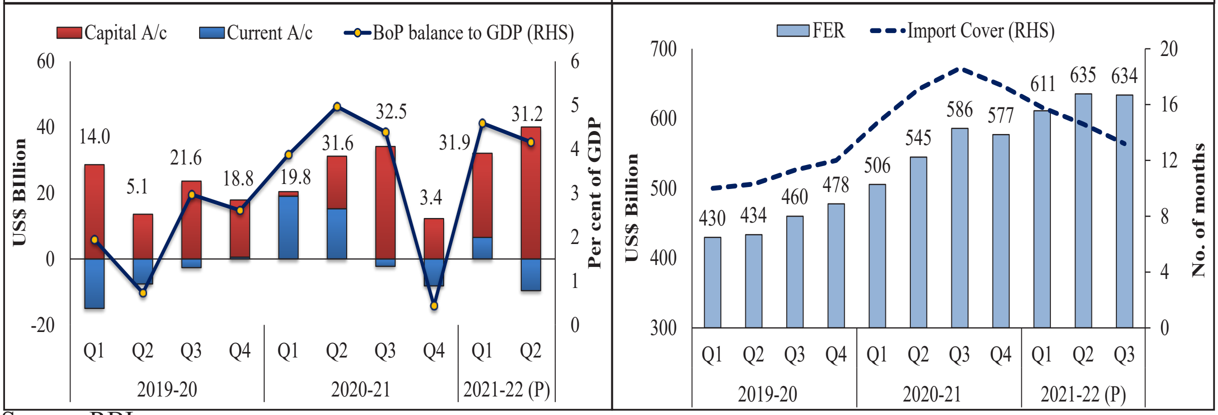
BOP BALANCE AND FOREIGN EXCHANGE RESERVES

3.46 As elaborated earlier, India's current account balance switched into a deficit in H1: FY 22 on the back of widening of trade deficit, reflecting amongst other reasons, a broad-based revival of aggregate demand. However, this current account deficit (CAD) was adequately cushioned by robust capital flows, resulting into an overall balance of payments (BoP) surplus of US$ 63.1 billion in H1: FY 22. This led to an augmented foreign exchange reserves crossing the milestone of US$ 600 billion and touching US$ 635.4 billion as at end-September 2021.

The quarterly trends in major components of India's balance of payments is depicted in Annexure V. While the BoP surplus in Q1: FY 22 was on account of surplus in current as well as capital account, BoP surplus in Q2: FY 22 was on the back of larger surplus on capital account more than compensating the deficit on the current account (Figure 17a).

Figure 17: Overall BoP Balance and Forex Reserves

a. Surplus in BoP balance | **b. Augmented forex reserves and Import Cover**



Source: RBI

Note: (i) The forex reserves indicated above are as at end date of the quarter.

(ii) The reserve cover of imports for Q3 2021-22 is provisional and will change once quarterly BoP is released.

(iii) P: Provisional

3.47 There was a massive increase in India's foreign exchange reserves during 2021-22. The forex reserves stood higher at US$ 633.6 billion as at end-December 2021, than US$ 577.0 billion as at end-March 2021. However, the import cover of India's foreign exchange reserves declined to 13.2 months at end-December 2021 from 17.4 months at end-March 2021 as merchandise imports increased with pick-up in domestic economic activity (Figure 17b).[5] As at end-November 2021, India was the fourth largest foreign exchange reserves holder in the world after China, Japan and Switzerland.

3.48 The current account deficit in the BoP determines how much of net capital inflows into the country can be absorbed or used for growth. It is expected to be within the manageable limits during 2021-22. From a historical perspective, India can sustain a current account deficit of 2.5-3.0 per cent of GDP without getting into an external sector crisis.[6]

MOVEMENT IN EXCHANGE RATE

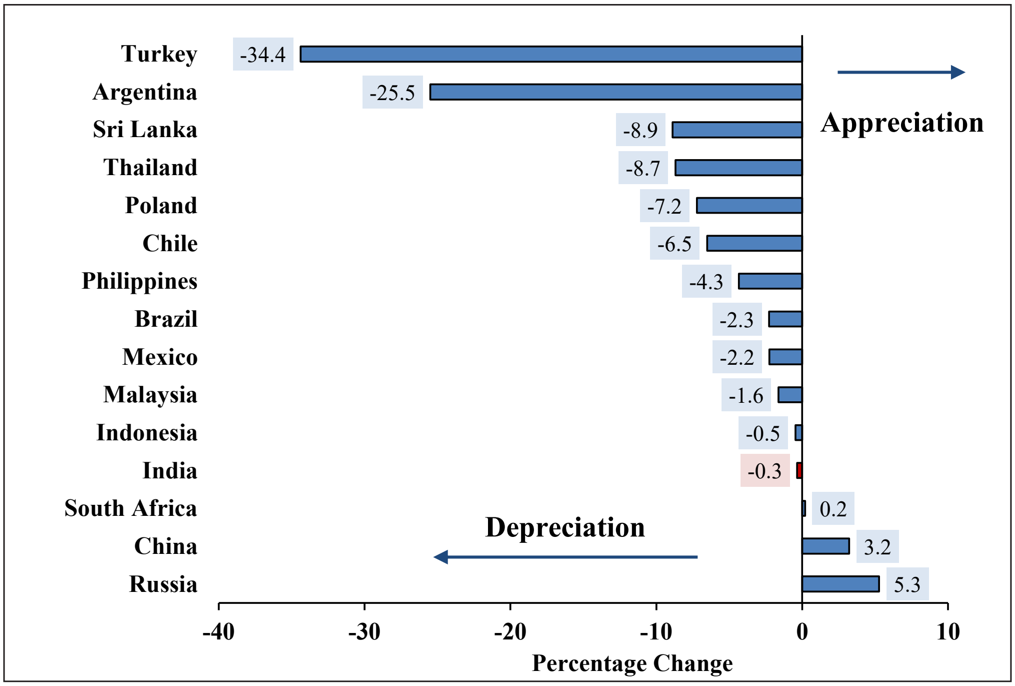
3.49 Indian rupee depreciated by 4.5 per cent (y-o-y basis) against US dollar in 2020-21. Although the rupee exhibited movements in both directions against US dollar during April-December, 2021, it depreciated by 3.4 per cent in December 2021 over March 2021. The depreciation of the rupee, however, was modest as compared with its emerging market peers, such as Turkish lira, Argentine Peso, Thai baht, and Philippine peso (Figure 18). The rupee appreciated against euro, Japanese yen and pound sterling by 1.8 per cent, 1.3 per cent and 0.6 per cent, respectively, in December 2021 over March 2021.

[5]Import cover is calculated based on import data (BoP basis) for latest four quarters. For Oct-Dec 2021, provisional import data as provided by DGCIS is used.

[6]Patra, M D (2021): Growth and Development in the BRICS Economies, RBI, Bulletin, December

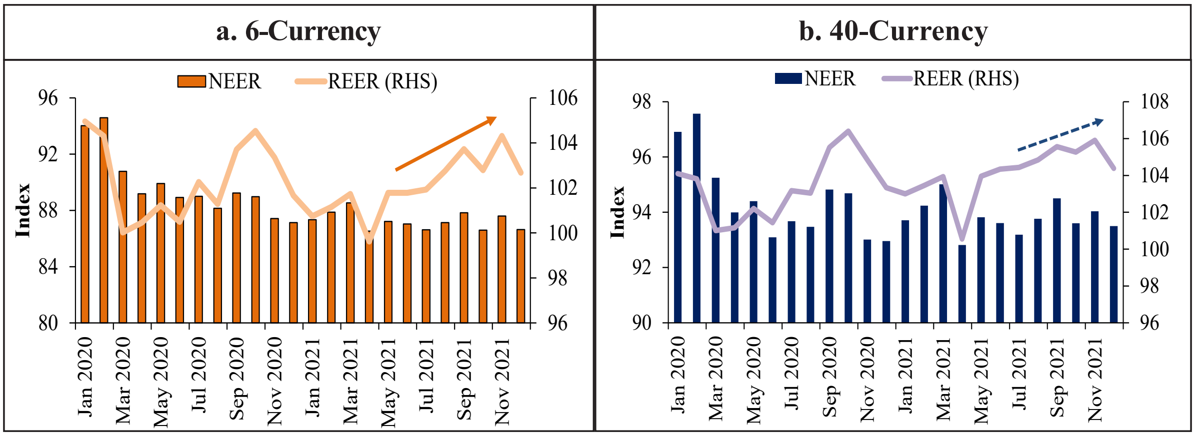
3.50 In terms of 6-currency nominal effective exchange rate (NEER) (trade-weighted), the rupee depreciated by 2.1 per cent in December 2021 over March 2021, while it appreciated by 0.9 per cent in terms of real effective exchange rate (i.e. REER) terms (Figure 19a). Similarly, the rupee depreciated by 1.6 per cent in terms of 40-currency NEER (trade-weighted) in December 2021 over March 2021, while it appreciated by 0.4 per cent in terms of 40-currency REER, reflecting widening inflation differential with trading partners (Figure 19b).

Figure 18: Movement of exchange rate against US dollar of major EME* currencies (Nov 2021 over Nov 2020)



Source: Bank for International Settlements (BIS)
Note: *: EME: Emerging market economies

Figure 19: Index of 6-Currency and 40-Currency NEER and REER (Trade Based Weight) (Base Year: 2015-16 =100)



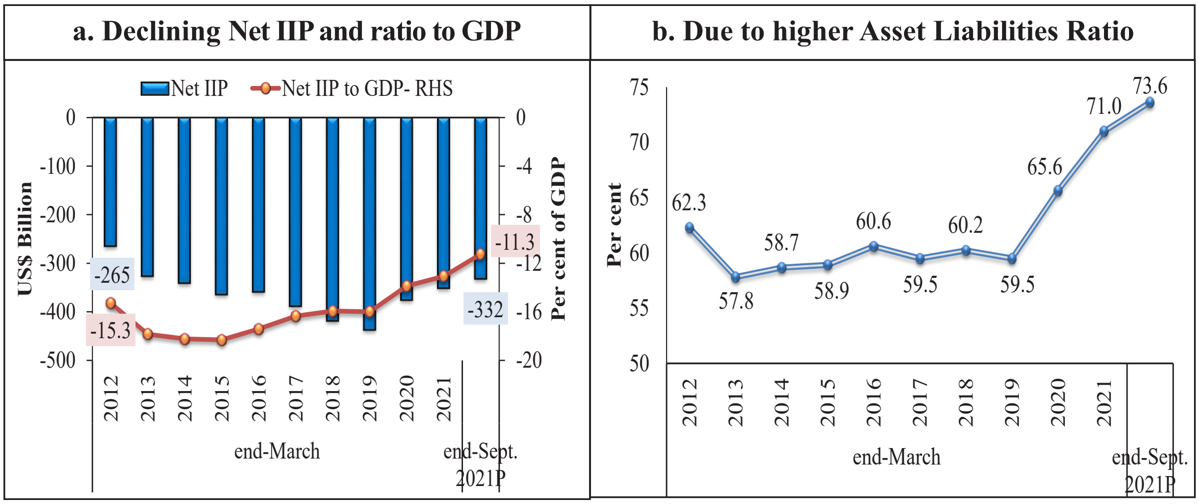
Source: RBI

NET INTERNATIONAL INVESTMENT POSITION

3.51 One way to gauge country's resilience is to look at its net international investment position. Net International Investment Position (IIP) is the difference between the value of financial assets of residents of an economy that are claims on non-residents and the liabilities of residents of an economy to non-residents at a point in time. It represents either a net claim on or a net liability to the rest of the world.

3.52 India's net IIP stood at (-) 11.3 per cent of GDP (US$ -332 billion) as at end-September 2021 – a sustained improvement since end-March 2019 – led by a higher asset-liability ratio, which improved to 73.6 per cent as at end-September 2021 from end-March 2021 (Figure 20). The improvement in asset- liability ratio is due to significant build-up of reserve assets (US$ 58.4 billion between Q4: FY21 and Q2: FY22), which more than compensated for build-up in liabilities on account of FDI, FPI and other investments.

Figure 20: Net International Investment Position (IIP)



Source: RBI

Note: P: Provisional

EXTERNAL DEBT

3.53 India's external debt as at end-September 2021, estimated at US$ 593.1 billion, grew by US$ 22.3 billion (3.9 per cent) over the level as at end-June 2021. Excluding the valuation gains due to the appreciation of the US dollar, the increase in external debt would have been US$ 23.7 billion, instead of US$ 22.3 billion. Commercial borrowings, the largest component of external debt, at US$ 218.8 billion, recorded a quarter-over-quarter (q-o-q) positive growth of 2.5 percent over the level a quarter ago. The NRI deposits, the second largest component, at US$ 141.6 billion were at the same level as at end of the previous quarter. The short-term trade credit, the third largest component, at US$ 97.4 billion continued to contract. Together, these three components constitute 77.2 percent of total external debt as at end-September, 2021. IMF (SDRs) at US$ 23.3 billion rose by as much as US$ 17.6 billion (310.8 per cent) over the level as at end-June 2021, primarily reflecting additional SDR allocation on August 23, 2021.

3.54 India's external debt, which crossed the pre-crisis level as at end-March 2021, consolidated further as at end-September 2021, aided by revival in NRI deposits and the afore-mentioned one-off additional SDR allocation by the IMF. Commercial borrowings and the short-term trade credit, on the other hand, which are growth-sensitive, still continued to be below the pre-pandemic levels (Table 8).

Table 8: External Debt Outstanding

(US$ billion)

		Dec-19	Mar-20	Jun-20	Sep-20 PR	Dec-20 PR	Mar-21 PR	Jun-21 PR	Sep-21 P
1.	Multilateral	60.2	59.9 (-0.4)	64.7 (8.0)	67.0 (3.6)	68.1 (1.6)	69.7 (2.5)	70.2 (0.6)	71.4 (1.7)
2.	Bilateral	27.3	28.1 (2.9)	28.5 (1.6)	29.3 (2.7)	30.5 (4.3)	30.9 (1.3)	30.8 (-0.5)	30.9 (0.5)
3.	International Monetary Fund	5.5	5.4 (-1.3)	5.5 (0.8)	5.6 (2.3)	5.7 (2.3)	5.6 (-1.6)	5.7 (0.6)	23.3 (310.8)
4.	Trade Credit	6.9	7.0 (1.9)	6.8 (-2.6)	7.0 (2.8)	6.5 (-7.5)	6.3 (-3.1)	5.7 (-8.8)	5.6 (-1.7)
5.	Commercial Borrowings	223.1	219.5 (-1.6)	211.0 (-3.9)	206.8 (-2.0)	207.9 (0.5)	213.1 (2.5)	213.4 (0.2)	218.8 (2.5)
6.	NRI Deposits (above one-year)	133.1	130.6 (-1.9)	132.7 (1.6)	137.3 (3.4)	140.5 (2.3)	141.9 (1.0)	141.5 (-0.3)	141.6 (0.0)
7.	Rupee Debt	1.1	1.0 (-5.2)	1.0 (-5.2)	1.0 (2.0)	1.0 (0.9)	1.0 (-2.2)	1.0 (-0.8)	1.0 (-1.6)
8.	Total Long-Term Debt (1 to 7)	457.2	451.6 (-1.2)	450.2 (-0.3)	454.0 (0.8)	460.2 (1.4)	468.5 (1.8)	468.3 (-0.1)	492.5 (5.2)
9.	Short-term Debt	106.8	106.9 (0.1)	105.0 (-1.7)	102.8 (-2.1)	103.5 (0.7)	101.1 (-2.4)	102.5 (1.4)	100.6 (-1.9)
9a.	Trade Related Credits	102.4	101.4 (-1.0)	101.2 (-0.2)	99.4 (-1.8)	99.6 (0.2)	97.3 (-2.4)	99.2 (2.0)	97.4 (-1.8)
	Total (8+9)	**564.0**	**558.4 (-1.0)**	**555.2 (-0.6)**	**556.8 (0.3)**	**563.8 (1.3)**	**569.6 (1.0)**	**570.8 (0.2)**	**593.1 (3.9)**

Source: RBI, Ministry of Finance, Staff calculations
Note: (i) Data for end of the quarter
(ii) Figures in brackets are quarter-over-quarter (q-o-q) growth rates
(iii) End-December 2019 is the pre-pandemic quarter
(iv) PR: Partially Revised; P: Provisional

3.55 As far as currency composition of external debt is concerned, US dollar denominated debt remained the largest component of India's external debt, with a share of 51 per cent at end-September 2021, followed by the Indian rupee. External debt denominated in Indian rupee witnessed impressive increase over the years owing, *inter alia*, to a calibrated encouragement of FPI investment into the Indian debt market, apart from continued large accretion to Non-Resident External Rupee Account (See Appendix 8.4 in Volume 2). Accordingly, being the second largest component, Indian rupee denominated debt provides significant insulation from exchange rate fluctuations.

3.56 Leveraging on the robust trends outlined above, the set of salient external sector vulnerability indicators improved. Debt service (i.e., principal repayments and interest payments) declined to 4.7 per cent of current receipts at end-September 2021, as compared with 8.2 per cent at end-March 2021, reflecting lower repayments and higher current receipts. The share of short-term debt in total external debt fell marginally to 17.0 per cent at end-September 2021 from 17.7 per cent at end-March 2021. Further, a sizeable accretion in reserves, however, led to an improvement in other external vulnerability indicators such as forex reserves to total external debt, short term debt to foreign exchange reserves, etc. The foreign exchange reserves as a ratio to external debt crossed 100 percent after 11 years since 2010, and stood at 107.1 per cent as at end-September 2021. The ratio of short-term debt (original maturity) to foreign exchange reserves declined to 15.8 per cent at end-September 2021 from 17.5 per cent at end-March 2021.

3.57 As documented in the previous edition of the Economic Survey, from a medium-term perspective, India's external debt continues to be below what is estimated to be optimal for an emerging market economy, while various external sector vulnerability indicators improved over the recent years, pointing towards the resilience of India's external sector.

3.58 In recent months, scaling back of pandemic-related stimulus programme amidst persistent inflationary pressures in advanced economies, particularly the US, have reignited some fears of taper tantrum. However, India's external sector – well supported by strong exports, capital inflows, low CAD and external financing requirements and high foreign exchange reserves, with various external vulnerability indicators well within manageable limits – is far better prepared this time to face any external shocks arising out of tightening of the monetary policy stance by the advanced economies in coming months (Box 2).

Box 2: Taper without Tantrums: India's external sector resilience

The Federal Reserve embarked on a programme of asset purchases under the Quantitative Easing (QE), as part of a broader policy response to the Global Financial Crisis in 2007-08. As the US economy gained traction, in an attempt to unwind the QE, on May 22, 2013, the Fed announced the intent to start tapering asset purchases at a future date, which triggered a tantrum in the form of spike in bond yields and resulted in disruptions on the external front for India as well.

In response to the pandemic, since June 2020, the Fed had been buying US$ 80 billion of Treasury securities and US$ 40 billion of agency mortgage-backed securities (MBS) each month. In late July 2021, the Fed signalled that it would start reducing the volume of its bond purchases later in the year. On November 3, 2021, the Federal Open Market Committee unanimously voted to scale back its asset purchases. In line with this, the Reserve Bank of Australia (RBA) has also abandoned its yield curve target. As yields on government debt climbed, the RBA chose not to intervene to defend its target of 10 basis points for debt maturing in April 2024. Bank of Canada has gradually tapered its asset purchases in recent months. Thus, the long-awaited taper process has commenced by the systemically important central banks, renewing thereby an element of interest - within the academia and policy circles - in the potentially destabilising spill-over impact on the emerging market and developing economies as also for India. There is evidence that, inter alia, these emerging markets, including India, have succeeded in strengthening their external economic and financial position since 2013 and the ramifications of the taper on the Indian external sector would be limited (Barry Eichengreen et al (2021)).

India's Improved Resilience

Since the taper episode of 2013, India's salient external sector sustainability indicators improved (Table B2.1). Illustratively, the conventional metric of import cover in terms of number of months of imports is more than double since the episode of taper tantrum.

Table B2.1: External Vulnerability Indicators for India

			(Per cent, unless otherwise indicated)
Indicator	**Global Financial Crisis (FY 2009)**	**Taper-Tantrum (FY 2014)**	**H1: FY 2022**
External Debt (US$ Billion)	224.5	446.2	593.1
Foreign Exchange Reserves (US$ Billion)	252	304.2	633.6*
External Debt to GDP ratio	20.7	23.9	20.1
Short-term debt (RM) to Total Debt	38.8	39.7	43.2
Concessional Debt to Total Debt	18.7	10.4	8.6
Reserves to Total Debt	112.2	68.2	107.1
Reserves to Short-term Debt (RM)	270.2	171.9	248.2
Reserves Cover of Imports (in months)	9.8	7.8	14.6
Debt Service Ratio	4.4	5.9	4.7
Net IIP/ GDP ratio	-5.8	-18.2	-11.3

Source: Based on data of RBI
Note: (i) *: Forex reserves as on 31st Dec, 2021
(ii) RM: Residual Maturity

Due to accretion of large foreign exchange reserves in recent months, vulnerability indicators relating to reserves such as reserves to total external debt, reserves to short-term debt (residual maturity), reserve cover of imports, etc., have shown marked improvement in H1: FY 2022, vis-à-vis FY 2014, the taper-tantrum year. Another key vulnerability indicator i.e. net IIP to GDP ratio has declined to (-) 11.3 percent, as against (-) 18.2 percent in the said period. The external debt to GDP ratio has also declined since the said episode. Besides, India witnessed a current account surplus of 0.9 per cent Q1 of 2021-22 on top of similar surplus in 2020-21 after a gap of 17 years. On the other hand, India experienced the highest ever current account deficit of 4.8 per cent of GDP in 2012-13 on the back of an equally large deficit of 4.3 per cent during the previous year (2011-12).

Evidently, the Indian economy has exhibited greater resilience so far to the current episode of taper. In the immediate aftermath of the taper tantrum in 2013, India experienced portfolio outflows aggregating to ₹79,375 crore from capital markets, including ₹19,165 crore from equity markets and ₹60,210 crore from debt markets during May 23-August 30, 2013. The latest announcement of reduction in asset purchases on November 3, 2021 by the Fed had relatively muted impact on portfolio flows. The total portfolio outflows amounted to ₹34,178 crore, comprising ₹29,168 crore from equity markets and ₹5,010 crore from debt markets during the period November-January 20, 2022.

While acknowledging India's transformation from being among the Fragile Five countries in the wake of the earlier episode to the 4th largest forex reserve holder during the current episode, Indian economy stands guard with an added advantage of plenty of policy room for manoeuvring as the process of normalisation of monetary policy by systematically important central banks takes hold.[7]

Reference

Barry Eichengreen, Poonam Gupta and Rishabh Choudhary (2021): The Taper This Time; NCAER Working Paper, November.

[7]Fragile Five countries (Indonesia, South Africa, Brazil, Turkey and India) were identified to be most at risk when tapering began in 2013.

Annexure I

Table 1: Top 10 Agricultural Export Products

					(US$ Billion)
Rank	**Commodity**	**2019-20**	**2020-21**	**2020-21 (Apr-Nov)**	**2021-22 (Apr-Nov) (P)**
1	Marine Products	6.7	6.0	4.0	5.4
2	Rice(Other Than Basmoti)	2.0	4.8	2.7	3.9
3	Spices	3.6	4.0	2.6	2.7
4	Sugar	2.0	2.8	1.6	2.3
5	Buffalo Meat	3.2	3.2	2.1	2.2
6	Rice -Basmoti	4.4	4.0	2.7	2.1
7	Cotton Raw Incld. Waste	1.1	1.9	0.8	1.5
8	Wheat	0.1	0.6	0.2	1.2
9	Castor Oil	0.9	0.9	0.6	0.8
10	Misc Processed Items	0.6	0.9	0.5	0.7
	Total Agricultural Exports	35.6	41.9	25.2	31.0

Source: Department of Commerce.
Note: P: Provisional.

Annexure II

Table 2: India's Exports of Services

											(US$ Million)
S. No.	Sector	2019-20				2020-21				2021-22 (P)	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	Manufacturing services on physical inputs owned by others	33	58	76	66	77	68	49	102	83	75
2	Maintenance and repair services n.i.e.	45	44	64	41	32	35	38	54	58	74
3	Transport	5343	5181	5448	5016	4805	5368	5602	6080	6733	7584
4	Travel	6950	7643	8545	6860	1868	2138	2170	2308	1597	2147
5	Construction	754	677	734	931	659	589	619	752	583	716
6	Insurance and pension services	588	602	617	623	564	590	575	647	772	796
7	Financial services	1287	1239	1183	1024	1009	1003	1068	1258	1201	1303
8	Charges for the use of intellectual property n.i.e.	319	248	184	182	399	313	359	238	191	202
9	Telecommunications, computer, and information services	23604	23947	24592	23967	23396	25515	26593	27574	28489	30823
	Of which: computer services	22811	23247	23760	23285	22623	24791	25782	26802	27602	29965
10	Other business services	11475	10878	11889	11474	11282	11624	12930	13324	12962	13858
11	Personal, cultural, and recreational services	532	551	535	588	500	530	579	727	647	713
12	Government goods and services n.i.e.	151	169	157	182	148	144	179	159	203	217
13	Others n.i.e.	1114	1539	1134	2105	2212	1875	2579	2781	2698	2915
	Total	52196	52777	55158	53060	46953	49793	53339	56004	56217	61421

Source: Reserve Bank of India

Note: (i) As per the latest IMF Manual on BoP (BPM6), "other business services" are classified under three broad heads: Research and development services, Professional and management consultancy services and Technical, trade-related and other business services.

(ii) P: Provisional

Annexure III

Table 3: India's Imports of Services

											(US$ Million)
S. No.	Sector	2019-20				2020-21				2021-22	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	Manufacturing services on physical inputs owned by others	18	33	9	8	6	11	5	6	9	16
2	Maintenance and repair services n.i.e.	413	253	207	309	128	204	291	211	127	418
3	Transport	6104	6009	6411	5761	4216	4759	5147	5633	6616	8181
4	Travel	6203	6031	5569	4208	2766	2764	2836	3141	2885	3919
5	Construction	754	714	570	708	625	563	705	713	892	715
6	Insurance and pension services	409	354	549	426	378	537	577	566	428	575
7	Financial services	519	594	550	1256	1062	1107	1192	1402	1118	1463
8	Charges for the use of intellectual property n.i.e.	2091	1776	2197	1641	1847	1456	2297	2107	1972	2189
9	Telecommunications, computer, and information services	2207	2654	2712	2638	2269	3290	2810	3909	3017	3651
	Of which: Computer services	1812	2182	2305	2159	1849	2769	2312	3327	2466	3184
10	Other business services	11715	11211	12027	11928	11514	12354	12807	12847	11635	12457
11	Personal, cultural, and recreational services	631	923	757	819	347	817	768	878	804	1243
12	Government goods and services n.i.e.	307	298	218	284	330	190	260	241	236	198
13	Others n.i.e.	750	984	1503	1046	705	655	408	865	667	811
	Total	32120	31836	33280	31033	26195	28707	30103	32520	30406	35836

Source: Reserve Bank of India

Note: (i) As per the latest IMF Manual on BoP (BPM6), "other business services" are classified under three broad heads: Research and development services, Professional and management consultancy services and Technical, trade-related and other business services.

(ii) P: Provisional

Annexure IV

Table 4: Sectors attracting highest FDI Equity Inflows

Rank	Sector	(US$ Billion)				Share (in Per cent)			
		2019-20	2020-21	2020-21 H1	2021-22 H1	2019-20	2020-21	2020-21 H1	2021-22 H1
1	Computer Software & Hardware	7.7	26.1	17.6	7.1	15.4	43.8	58.5	22.9
2	Automobile Industry	2.8	1.6	0.4	4.9	5.7	2.7	1.4	15.8
3	Services Sector**	7.9	5.1	2.3	3.2	15.7	8.5	7.5	10.1
4	Trading	4.6	2.6	0.9	2.1	9.2	4.4	3.2	6.6
5	Telecommunications	4.4	0.4	0.0	0.4	8.9	0.7	0.0	1.2
	Total Of Above	27.4	35.8	21.2	17.6	54.8	60.1	70.6	56.6
	Total FDI	50.0	59.6	30.0	31.2	100	100	100	100

Source: Department for Promotion of Industry and Internal Trade (DPIIT)
Note: (i)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech.
(ii) Figures are provisional.

Table 5: Top Investing Countries FDI Equity Inflows

Rank	Country	US$ Billion				Share (in Per cent)			
		2019-20	2020-21	2020-21 H1	2021-22 H1	2019-20	2020-21	2020-21 H1	2021-22 H1
1	Singapore	14.7	17.4	8.3	8.1	29.4	29.2	27.7	25.9
2	U.S.A.	4.2	13.8	7.1	4.6	8.4	23.2	23.7	14.9
3	Mauritius	8.2	5.6	2.0	4.3	16.5	9.5	6.7	13.9
4	Netherlands	6.5	2.8	1.5	2.1	13.0	4.7	5.0	6.9
5	Japan	3.2	2.0	0.7	0.8	6.5	3.3	2.2	2.6
	Sum of Above	36.9	41.6	19.6	20.0	73.8	69.8	65.3	64.1
	All Countries *	50.0	59.6	30.0	31.2	100.0	100.0	100.0	100.0

Source: Department for Promotion of Industry and Internal Trade (DPIIT)
Note: (i) *Includes inflows under NRI Schemes of RBI.
(ii) Figures are provisional.

Annexure V

Table 6: Major Components of India's Balance of Payments

(US$ Billion)

Year / Item (Net)	2019-20				2020-21				2021-22 (P)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
A. Current Account	**-15.0**	**-7.6**	**-2.6**	**0.6**	**19.1**	**15.3**	**-2.2**	**-8.2**	**6.5**	**-9.6**
A 1 Merchandise Trade Balance	**-46.8**	**-39.6**	**-36.0**	**-35.0**	**-11.0**	**-14.8**	**-34.6**	**-41.7**	**-30.7**	**-44.4**
A 1 a Merchandise Exports	82.7	80.0	81.2	76.5	52.2	75.6	77.2	91.3	97.4	104.8
A 1b Merchandise Imports	129.5	119.6	117.3	111.6	63.2	90.4	111.8	133.0	128.2	149.3
A 2. Invisibles	**31.8**	**32.1**	**33.4**	**35.6**	**30.0**	**30.1**	**32.4**	**33.6**	**37.2**	**34.8**
A 2.a) Services	20.1	20.9	21.9	22.0	20.8	21.1	23.2	23.5	25.8	25.6
A 2.b) Transfers	18.0	20.0	18.9	18.4	17.0	18.4	19.3	18.8	18.9	18.9
A 2.c) Income	-6.3	-8.8	-7.4	-4.8	-7.7	-9.4	-10.1	-8.7	-7.5	-9.7
B) Capital Account	**28.6**	**13.6**	**23.6**	**17.4**	**1.4**	**15.9**	**34.1**	**12.3**	**25.5**	**40.1**
B.1) Foreign Investment	18.8	9.8	17.6	-1.8	0.1	31.4	38.6	10.0	12.1	13.3
B.1.a) Foreign Direct Investment	14.0	7.3	9.7	12.0	-0.5	24.4	17.4	2.7	11.7	9.5
B.1.b Foreign Portfolio Investment	4.8	2.5	7.8	-13.7	0.6	7.0	21.2	7.3	0.4	3.9
B.2) Loans	**9.6**	**3.1**	**3.1**	**9.9**	**2.8**	**-3.9**	**0.3**	**7.7**	**2.8**	**7.6**
B.2.a) External Assistance	1.5	0.4	1.3	0.6	4.1	1.9	1.2	4.0	0.3	1.1
B.2.b) Commercial Borrowings (MT & LT)	6.1	3.3	3.2	10.3	-1.2	-4.0	-1.1	6.1	0.6	4.1
B.2.c) Short Term Credit to India	2.0	-0.6	-1.4	-1.0	-0.2	-1.8	0.2	-2.3	1.9	2.4
B.3) Banking Capital	**3.4**	**-1.8**	**-2.3**	**-4.6**	**2.2**	**-11.3**	**-7.6**	**-4.4**	**4.1**	**0.4**
B.4) Rupee Debt Service	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**
B.5) Other Capital	**-3.1**	**2.5**	**5.2**	**13.8**	**-3.7**	**-0.3**	**2.8**	**-1.0**	**6.6**	**18.8**
C) Errors and Omissions	**0.4**	**-0.9**	**0.6**	**0.9**	**-0.6**	**0.4**	**0.6**	**-0.7**	**-0.2**	**0.7**
D) Overall Balance	**14.0**	**5.1**	**21.6**	**18.8**	**19.8**	**31.6**	**32.5**	**3.4**	**31.9**	**31.2**
E) Foreign Exchange Reserves (Increase - / Decrease +)	**-14.0**	**-5.1**	**-21.6**	**-18.8**	**-19.8**	**-31.6**	**-32.5**	**-3.4**	**-31.9**	**-31.2**

Source: RBI
Note: P: Provisional