6

CHAPTER

External Sector

The year 2008-09 was marked by adverse developments in the external sector of the economy, particularly during the second half of the year, reflecting the impact of global financial crisis on emerging market economies including India. Emerging economies were affected in varying degrees depending upon the extent of openness and the dependence on capital flows as the external environment deteriorated on account of slowdown in global demand, reversal of capital flows and reduced access to external sources of finance in the face of adverse global credit market conditions.

6.2 The external sector of the Indian economy exhibited resilience despite sharp deceleration in net capital flows during 2008-09 (April-December), which turned negative during October-December 2008. The impact of slowdown in export demand was partly offset by lower oil imports bill during October-December 2008 due to decline in the prices of crude in the international markets. The non-oil imports also moderated, following decline in commodity prices. The invisible receipts, particularly remittances and software services remained higher during April-December 2008 than the corresponding period last year. India remained an attractive investment destination as FDI flows on net basis (inward FDI-outward FDI) more than doubled to US$ 15.4 billion during April-December 2008 (US$ 6.9 billion during April-December 2007). The comfortable foreign exchange reserves position also alleviated the impact of global crisis on the external sector of the economy.

6.3 With gradual deepening of the global financial crisis, its impact was transmitted from the financial sector to real economic activity in advanced countries and then to emerging economies through the trade and financial channels. Growth in the volume of global trade in goods and services, which had shown signs of weakness in 2007, decelerated further in 2008 and is projected to record a decline of 11.0 per cent in 2009 (Table 6.1). Both import and export volume growth rates decelerated in 2008, with the decline being sharper in advanced countries. The International Monetary Fund (IMF) projections indicate that fuel (energy) prices are expected to decline by 94.4 per cent in 2009, while non-fuel prices are estimated to show a decline of 27.9 per cent.

6.4 Capital flows to emerging and developing economies declined from a peak of US$ 617.5 billion in 2007 to US$ 109.3 billion in 2008. The situation is expected to deteriorate significantly in 2009, as it is estimated that there would be a capital outflow of US$ 190.3 billion from emerging and developing economies.

Table 6.1 : External environment (annual per cent change unless otherwise noted)

Sl. No.	Items	2006	2007	2008	2009 Projection
1.	World Trade Volume (Goods & Services)	9.2	7.2	3.3	-11.0
2.	Imports				
	Advanced Economies	7.6	4.7	0.4	-12.1
	Emerging and Developing Economies	13.2	14.0	10.9	-8.8
3.	Exports				
	Advanced Economies	8.5	6.1	1.8	-13.5
	Emerging Markets and Developing Economies	10.9	9.5	6.0	-6.4
4.	World Trade Prices				
	Fuel (energy)	19.2	10.5	40.1	-94.4
	Non Fuel	23.2	14.1	7.5	-27.9
5.	Capital Flows Emerging Market and Developing Countries - Private Capital Flows (Net) in US $ billion	202.8	617.5	109.3	-190.3

Source : World Economic Outlook - April 2009, IMF