SERVICES EXPORTS TO THE RESCUE

CAD may shrink to manageable levels soon

SHREYA NANDI
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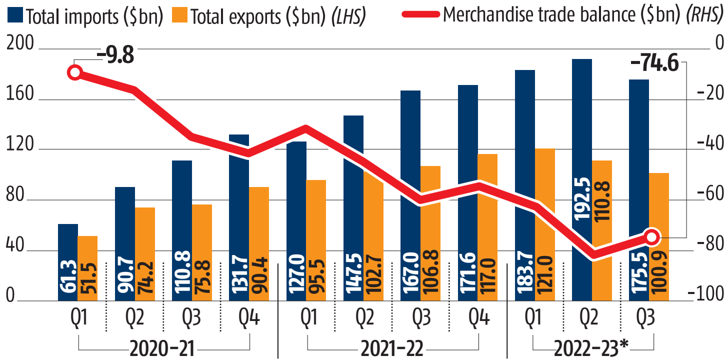
CAUTIOUS OUTLOOK



*Provisional figures

Source: Department of Commerce

Even though India's current account deficit (CAD) widened to 3.3 per cent of gross domestic product (GDP) during the first half of the fiscal year, cheaper crude oil, resilient net services exports and buoyant inward remittances may bring the CAD within 'sustainable limits' during the remaining period of FY23, the Economic Survey said.

The elevated CAD during April-September was the result of a higher merchandise trade deficit of $83.5 billion, triggered by a sharp rise in oil prices. The Survey said that the position of the current account balance (CAB) for select countries shows that India's CAD is modest and within 'manageable limits'.

"India's external sector has been buffeted by shocks and uncertainty manifested in terms of elevated, though now easing global commodity prices; tightening international financial conditions; heightening financial market volatility; reversal of capital flows; currency depreciation, and looming global growth and trade slowdown. However, it has been able to face these headwinds from a position of strength on the back of strong macroeconomic fundamentals and buffers," the Survey said.

Exports outlook

According to the Survey, the outlook for merchandise exports will remain flat if global growth does not pick up in 2023.

On the brighter side, robust services exports are expected to cushion the widening trade deficit. After hitting a record $422 billion in FY22, merchandise export growth started faltering in the second half of the fiscal year. This came as slowing external demand, amid recession fears in developed economies, weighed on outbound shipments.

During December 2022, exports contracted 12.2 per cent to $34.48 billion, but showed 9 per cent growth during the first three quarters of FY23.

"Since India offers low-cost knowledge-based services, the demand for them has not fallen even amid a global economic slowdown and a negative outlook for the near future. The estimated value of services export for April-December 2022 is $235.8 billion against $184.7 billion in April-December 2021," the Survey said. India's overall exports — merchandise and services — are estimated to be $568.6 billion, up 16.1 per cent year-on-year (YoY) during April-December. Overall imports are estimated to see over 25 per cent jump to $686.7 billion. India's export of services is mainly driven by software, business, and travel services.

The country is also cementing its position as the top remittance receiver in the world, with inward remittances projected to be at record levels during 2022. Accordingly, a large surplus under services and remittances would cushion the widening trade deficit, the Survey said.

Free-trade agreements

At a time when slowing global demand is weighing on India's merchandise exports, diversification of products and destinations through free-trade agreements (FTAs) will be crucial. India has already signed two FTAs — with the United Arab Emirates (UAE) and Australia — in February and May, respectively.

Negotiations for FTAs are on with other developed countries such as the United Kingdom (UK), the European Union (EU) and Canada.

The Survey pointed out that while governments can try to open markets through FTAs, the industry will have to take advantage of such trade deals by focusing on the utilisation.

India has diversified its export destinations over time.

For instance, the share of South Africa in total exports has risen from 1.2 per cent in FY19 to 2 per cent in FY23 (April to November).

Over the same period, the share of Brazil has increased from 1.2 per cent to 2.5 per cent, and Saudi Arabia's share from 1.7 per cent to 2.3 per cent.

In the case of imports, China, UAE, the US, Russia, and Saudi Arabia have a joint share of 40 per cent of the total imports for India.