

Exports to take severe beating if recession hits US, Europe: Experts

Domestic demand may have to cushion the external impact

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Fears of a recession in advanced countries, amplified by the two consecutive quarters of GDP decline in the US, would affect exports from India but domestic demand would help its economy withstand the pressure.

Former chief statistician Pronab Sen said: "If the developed world goes into a recession, it would certainly affect our exports. So, that would apply downward pressure on our economy."

Bank of Baroda Chief Economist Madan Sabnavis concurred, saying the recession particularly in US shall affect exports from India and put pressure on the trade deficit, and hence the current account deficit (CAD). This is because the US is a major export destination for India, besides the EU.

According to ICRA Chief Economist Aditi Nayar, US slowdown may affect both services

and merchandise exports. "However, lower commodity prices will cushion the impact on the CAD," she said.

The US is the largest export destination for India. Exports to the US have constituted 16-18 per cent of total exports from India in recent years. Even when the US showed a decline in GDP in the second quarter of 2022, exports from

India to that country in the first two months of that quarter constituted a bit over 18 per cent of total outbound shipments. The US as an export destination for India is slightly bigger than the EU, another region that may be hit by a recession or near-recession.

Sakshi Gupta, principal economist at HDFC Bank Treasury, said a slowdown in the US and some other major trading partners, such as the EU, is likely to weigh on India's export growth. "(We) expect GDP growth of 7 per cent (in the current financial year), down from 7.3 per cent earlier," she said.

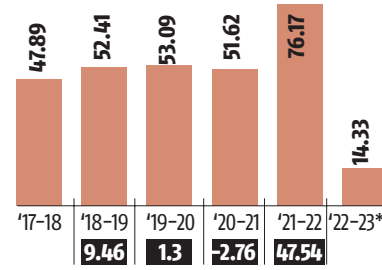
Sen said exports from India

KEY EXPORT DESTINATIONS



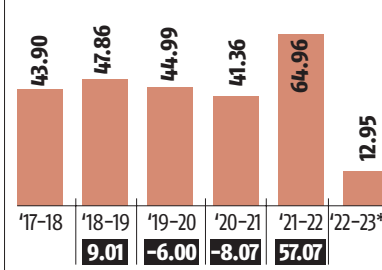
■ Export (\$ bn) ■ YoY growth (in %)

UNITED STATES



Note: * April-May

EUROPEAN UNION



Source: Department of Commerce

have been the main driver of the country's economy until now. Its domestic consumption growth has been "very ordinary at best", he said. "Investments also I believe will slow down, especially after the RBI's steps to control inflation. We should be looking at a slowdown."

However, others have different take on the issue.

"India will not face any threat of recession even if the world economy slows down as our growth is based primarily on domestic demand. The latter can be affected by inflation and hence, we need to be guarded in linking a possible slowdown in growth to

the factors leading to it," Sabnavis said. As central banks are tightening interest rates across the world, inflation shall recede, he noted.

Nayar, too, said domestic demand, while patchy, may be able to withstand a global slowdown. "We do not foresee a recession in India. A global recession should soften commodity prices and transmit to lower inflation reading," she said.

Gupta said domestic fundamentals remain strong and are likely to support economic growth.

A good monsoon, government capex spending, and an increase in consumer demand (in part led by the re-opening effect) are

likely to be positive for growth, she said.

Private final consumption expenditure, which denotes demand in the economy, rose 7.9 per cent in 2021-22 year-on-year. However, it was largely because of the low base of the previous year. It grew just 1.4 per cent in 2021-22 over the pre-Covid period of 2019-20

But N R Bhanumurthy, vice-chancellor of Dr B R Ambedkar School of Economics University, said he did not believe that recessionary conditions in the US would last long. "The unemployment data and minutes of the FOMC (Federal Open Market Committee) meeting suggest that

a recession in the US, if there is any, will be short-lived," he said.

To that extent, the impact on India's exports and hence, economic growth is also going to be limited. He said one can still bet on India's GDP growth between 6.5 per cent and 7 per cent in the current financial year.

Sen said whether the developed world enter a recession or not depends on the behaviour of inflation. "Inflation there is way, way higher than the tolerance level. There have to have a fairly extended monetary tightening," he said.

When contacted, Chief Economic Advisor V Anantha Nageswaran referred to his interview, given two days back. In the interview with Business Today, he said the impact on India from a recession or near-recessionary conditions in the developed world would be a net effect of two factors -- impact on exports from

India and capital inflows after central banks in the advanced world ease, halt or reverse their monetary tightening. "... on balance I would argue it would be beneficial for India rather than hurt it," he had said.

In its recent update on its flagship publication World Economic

Outlook (WEO), the International Monetary Fund (IMF) slashed its earlier projections of global economic growth by 0.4 percentage points to 3.2 per cent for 2022 and by 0.7 percentage points to 2.9 per cent in 2023. This is a marked deceleration when compared to growth of 6.1 per cent in 2021, but not a recession, which was seen in 2020 when the global economy declined by 3.1 per cent.

However, it cautioned that there was a significant risk that some or all assumptions on the basis of which these projections were made would fail to hold true. "As such, measures of economic uncertainty and concerns regarding an oncoming recession have increased in recent months," it warned.

The US economy declined for the second-straight quarter from April to June. The country's GDP fell by 0.9 per cent in Q2 of 2022, against a fall of 1.6 per cent in Q1, leading to a contraction of 1.3 per cent in the first half of the year.

Though this means that the US is now in a recession technically, the official view of the country is that it is not because unemployment is low and consumer spending is relatively healthy.