

Germany recession alone may not hit India exports

But these may contract in FY24 due to worsening external situation

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India's goods exports may see a marginal impact from a recession in Germany but the merchandise outbound shipment was anyway expected to slow down in 2023-24.

The impact will be large if recession in Germany spreads to other countries in the Eurozone, but experts believe there won't be a significant drop in EU's GDP.

Germany — the largest economy in Europe and the fourth largest in the world — slipped into recession after it witnessed a dip in the first quarter of 2023. Germany's gross domestic product (GDP) was down 0.3 per cent in the first quarter of 2023 against a drop of 0.5 per cent during the last quarter of 2022.

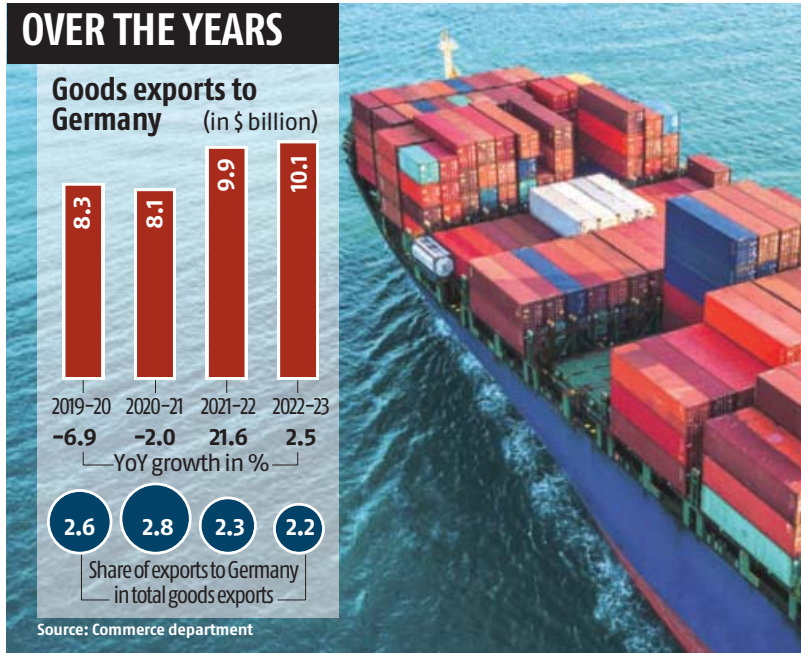
The International Monetary Fund (IMF) had predicted Germany's economy to contract 0.1 per cent in 2023 against 1.8 per cent growth in 2022. "It (recession in Germany) is not a surprise. I don't think it will spread to other countries in the Euro area so much that it will dip economic growth in the region significantly," Bank of Baroda chief economist Madan Sabnavis said.

The economic growth in the Euro area was projected to slow down to 0.8 per cent in 2023 from 3.5 per cent in the previous year by the World Economic Outlook of the IMF. Goods exports from India to Germany have been in the range of 2.2-2.8 per cent of the former's total outbound shipment. Exports to Germany stood at \$10.1 billion, constituting 2.2 per cent of total exports at \$450.9 billion during 2023-24.

India exports goods such as boilers, machinery and mechanical appliances, electrical machinery and equipment, nuclear reactors, sound recorders and organic chemicals to Germany.

That is why the recession alone in Germany may not drag down India's merchandise growth much. "The impact will be marginal," Sabnavis said.

However, exports to the Euro area have been accounting for 14-17 per cent of India's total outbound shipments in recent years. Those stood at \$74.8 billion,



constituting 16.6 per cent of total goods exports during 2022-23.

This figure is likely to be lower because of expectations of a slowdown in the overall Euro growth.

Economic growth in the Euro area is likely to be low and uneven for a couple of years, ICRA Chief Economist Aditi Nayar said. "It will constrain India's exports, especially of high value-added items," she said.

If one takes Europe, the UK economy narrowly avoided recession when it grew by 0.1 per cent in the fourth quarter of 2022 against a contraction of 0.1 per cent in the third quarter of the year. The economy again expanded 0.1 per cent in the first quarter of 2023. Exports to the UK stood at \$11.4 billion in 2022-23, constituting just 2.5 per cent of its total outbound shipments.

The World Trade Organisation (WTO) projected world merchandise trade volume growth to slow down to 1.7 per cent in 2023 against 2.7 per cent in 2022. This, along with falling commodity prices, is expected to anyway slow down India's goods exports in 2023-24.

The US — the biggest export destination for India — saw its economy growing by 1.3 per cent in the first quarter of 2023 against 2.6 per cent in the fourth quarter of 2022. The US economy is projected to grow by 1.6 per cent in 2023 against 2.1 per cent in the previous year by the IMF.

The country's merchandise exports grew six per cent in 2022-23. However, exports fell in February and March. It also declined in April, 2023-24, by 12.7 per cent at \$34.66 billion. Sabnavis said goods exports from India would witness de-growth if oil is excluded. Non-oil exports declined 0.45 per cent at \$352.94 during 2022-23. Those fell 11.5 per cent at \$28.19 billion in April, 2023-24. Nayar projected overall merchandise exports to witness a decline of eight per cent in 2023-24. Exports, including services, constitute more than 20 per cent of India's GDP. If goods exports fall or show a slow growth it would impact India's GDP growth too in 2023-24, depending on fall in imports. It is net exports — exports minus imports — that go into the country's GDP.