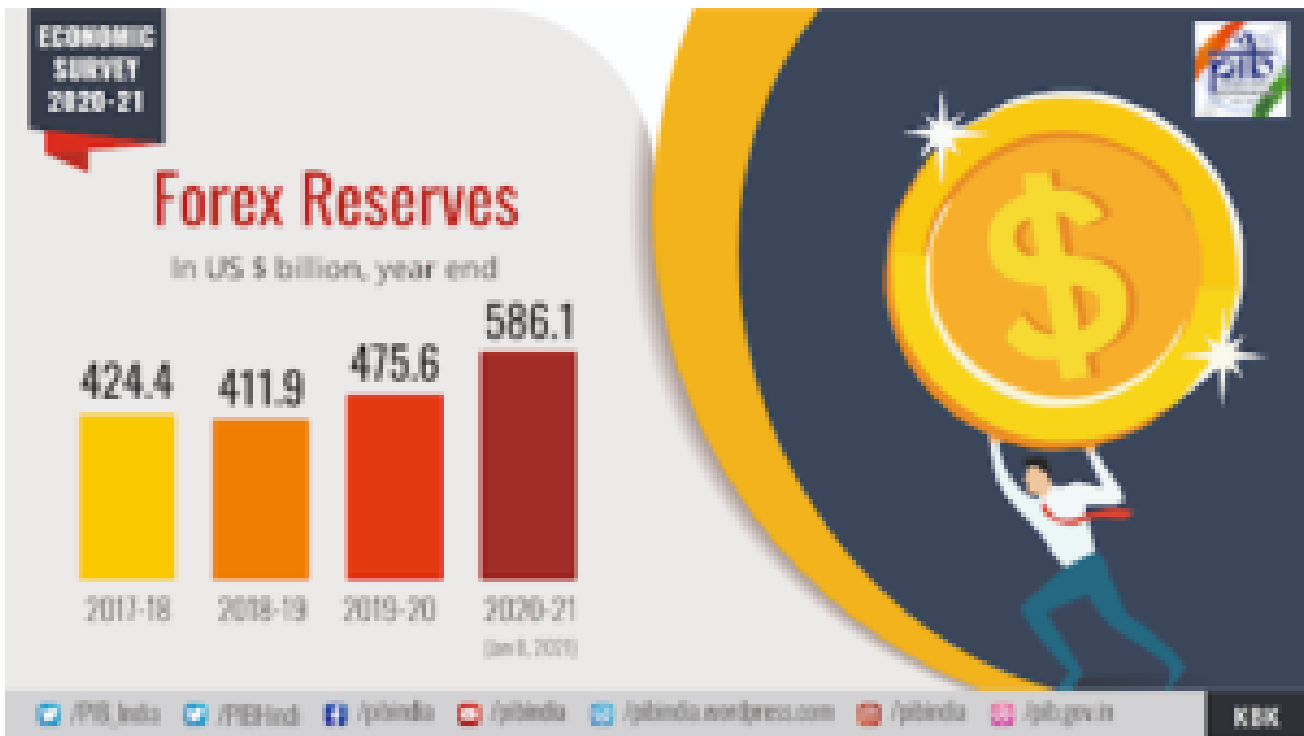


Economic Survey-2021: External Sector

January 30, 2021

- COVID-19 pandemic led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with implications for current account balances and currencies of different countries
- India's **forex reserves at an all-time high of US\$ 586.1 billion as on January 08, 2021**, covering about 18 months worth of imports



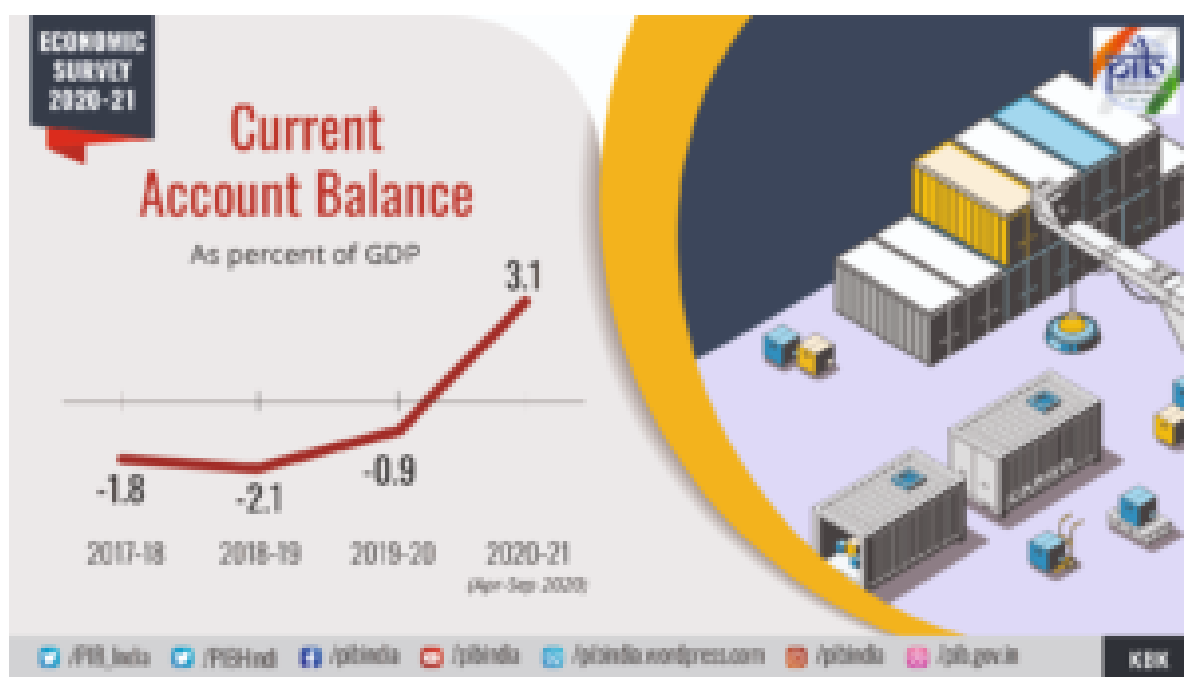
- India experiencing a Current Account Surplus along with robust capital inflows leading to a **BoP surplus since Q4 of FY 2019-20**
 - Balance on the capital account is buttressed by **robust FDI and FPI inflows**:
 - Net FDI inflows of US\$ 27.5 billion during April-October, 2020: 14.8% higher as compared to first seven months of FY 2019-20
 - Net FPI inflows of US\$ 28.5 billion during

April-December, 2020 as against US\$ 12.3 billion in corresponding period of last year

- In H1: FY21, steep contraction in merchandise imports and lower outgo for travel services led to:
 - Sharper fall in current payments (by 30.8%) than current receipts (15.1%)
 - Current Account Surplus of US\$ 34.7 billion (3.1% of GDP)
- **India to end with an Annual Current Account Surplus after a period of 17 years**
- India's **merchandise trade deficit was lower** at US\$ 57.5 billion in April-December, 2020 as compared to US\$ 125.9 billion in the corresponding period last year
- In April-December, 2020, **merchandise exports** contracted by 15.7% to US\$ 200.8 billion from US\$ 238.3 billion in April-December, 2019:
 - Petroleum, Oil and Lubricants (POL) exports have contributed negatively to export performance during the period under review
 - Non-POL exports turned positive and helped in improving export performance in Q3 of 2020-21
 - Within Non-POL exports, agriculture & allied products, drugs & pharmaceutical and ores & minerals recorded expansion
- Total **merchandise imports** declined by (-) 29.1% to US\$ 258.3 billion during April-December, 2020 from US\$ 364.2 billion during the same period last year:
 - Sharp decline in POL imports pulled down the overall import growth
 - Imports contracted sharply in Q1 of 2020-21; the pace of contraction eased in subsequent quarters, due to the accelerated positive growth in Gold and Silver imports and narrowing contraction in non-POL, non-Gold &

non-Silver imports

- Fertilizers, vegetable oil, drugs & pharmaceuticals and computer hardware & peripherals have contributed positively to the growth of non-POL, non-Gold & non-Silver imports
- **Trade balance with China and the US improved as imports slowed**
- **Net services receipts** amounting to US\$ 41.7 billion remained stable in April-September 2020 as compared with US\$ 40.5 billion in corresponding period a year ago.
- **Resilience of the services sector** was primarily driven by software services, which accounted for 49% of total services exports
- **Net private transfer receipts**, mainly representing remittances by Indians employed overseas, totaling US\$ 35.8 billion in H1: FY21 declined by 6.7% over the corresponding period of previous year
- At end-September 2020, India's **external debt was placed** at US\$ 556.2 billion – a decrease of US\$ 2.0 billion (0.4%) as compared to end-March 2020.



- Improvement in **debt vulnerability indicators**:
 - Ratio of forex reserves to total and short-term

debt (original and residual)

- Ratio of short-term debt (original maturity) to the total stock of external debt.
- Debt service ratio (principal repayment plus interest payment) increased to 9.7% as at end-September 2020, compared to 6.5% as at end-March 2020

▪ **Rupee appreciation/depreciation:**

- In terms of 6-currency nominal effective exchange rate (NEER) (trade-based weights), Rupee depreciated by 4.1% in December 2020 over March 2020; appreciated by 2.9% in terms of real effective exchange rate (REER)
- In terms of 36-currency NEER (trade-based weights), Rupee depreciated by 2.9% in December 2020 over March 2020; appreciated by 2.2% in terms of REER
- **RBI's interventions in forex markets** ensured financial stability and orderly conditions, controlling the volatility and one-sided appreciation of the Rupee

Initiatives undertaken to promote exports:

- Production Linked Incentive **(PLI) Scheme**
- Remission of Duties and Taxes on Exported Products **(RoDTEP)**
- Improvement in logistics infrastructure and digital initiatives