04

CHAPTER

External Sector

The robust external-sector outcome in the current year of moderate trade and current account deficits, abundant financial flows, a build-up of foreign exchange reserves and broadly stable exchange rate movement points to a return to the path of strength and resilience that was in evidence before the global financial crisis of 2008. This follows the improvement last year that was achieved in the face of an initial phase of severe stress and on the strength of policy responses. The correction in the international prices of crude petroleum in the second half of the current fiscal has helped in the decontrol of diesel prices. The overall trade performance signaled an opportune time for withdrawal of restrictions on gold imports. The resilience also owed in part to the trade diversification process. While trade and current account deficits are on even keel, the copious financial inflows in excess of the financing requirement has helped shore up foreign exchange reserves (US$ 328.7 billion at end-January 2015). These have helped allay the vulnerability concerns that led to severe stress last year. These concerns, however, remain a potent downside risk, should the global environment deteriorate for some reason. The global economic outlook remains somewhat uncertain but stable and likely to gain strength if lower global crude petroleum prices drive the demand recovery process in key emerging market economies.

Global Economic Environment

4.2 The global economic environment appears poised for a change for the better with the recent sharp fall in the international prices of crude petroleum, which is expected to boost global aggregate demand, and the sharp recovery in the US economy in the face of gradual withdrawal from monetary accommodation. Following the global crisis of 2008, the global economy came under a cloud of uncertainty and the prolonged weakness in the euro area, particularly since 2011, led to the International Monetary Fund (IMF) often revising global growth downwards in its World Economic Outlook (WEO). In its Update, published on 20 January 2015, the IMF projected the global economy to grow from 3.3 per cent in 2014 to 3.5 per cent in 2015 and further to 3.7 per cent in 2016. This downward revision from its October 2014 projections owed to the weaker economic prospects in China, Russia, the euro area, Japan, and some major oil exporters because of the sharp drop in oil prices. The United States is the only major economy for which growth projections have been raised by 0.5 percentage point to 3.6 per cent for 2015.

4.3 In the case of emerging market and developing economies (EMDEs), which continue to struggle with tepid domestic demand and headwinds from structural impediments, the IMF Update projects growth to moderate to

4.3 per cent in 2015 and 4.7 per cent in 2016. The IMF's projections only partially reflect the net impact of the fall in global crude oil prices and for the near term outlook. Going forward, the lower oil price is likely to be more positive for the EMDEs that account for more than half of the global output (purchasing power parity terms) given their higher contribution to global growth with inflation remaining anchored. This might lead to a better outcome than projected. A sudden correction in financial markets and downside risks to growth with a possible further slowdown in the euro area along with the likely duration of the oil price supply shock effect, are some of the concerns that linger on.

4.4 The WEO Update projects India's GDP growth at market prices to be 6.3 per cent (downward revision of 0.1 percentage point compared to the WEO of October 2014) in 2015 and for the year 2016, projected growth is 6.5 per cent surpassing the projection of 6.3 per cent for China. The recent upward revisions to India's GDP growth made by the Central Statistics Office (CSO) on 30 January 2015 may get reflected in the subsequent projections of the WEO. The level of global economic activity has a significant direct bearing on the growth prospects of the emerging economies through trade channels. As per the IMF WEO Update, January 2015, world trade volume growth projections have been placed at 3.8 per cent and 5.3 per cent, respectively for 2015 and 2016—lower by 1.1 percentage points and 0.2 percentage point respectively.

India's Merchandise Trade

4.5 Over the last ten years, India's merchandise trade (on customs basis) increased manifold from US$ 195.1 billion in 2004-05 to US$ 764.6 billion in 2013-14. As per the World Trade Organization (WTO), India's share in global exports and imports increased from 0.8 per cent and 1.0 per cent respectively in 2004 to 1.7 per cent and 2.5 per cent in 2013. Its ranking in terms of leading exporters and importers improved from 30 and 23 in 2004, to 19 and 12 respectively in 2013. While India's total merchandise trade as a proportion of gross domestic product (GDP) increased from 29.0 per cent in 2004-05 to 41.8 per cent in 2013-14, India's merchandise exports as a proportion of GDP increased from 12.1 per cent to 17.0 per cent during the same two time periods. There were considerable differences in the growth rates within the two time periods which owed largely to the global uncertainty, prolonged weakness in some areas, and volatility in global commodity prices since 2008. In particular, global crude oil prices were a major factor in the process of elevated levels of merchandise trade deficit (Box 4.1).

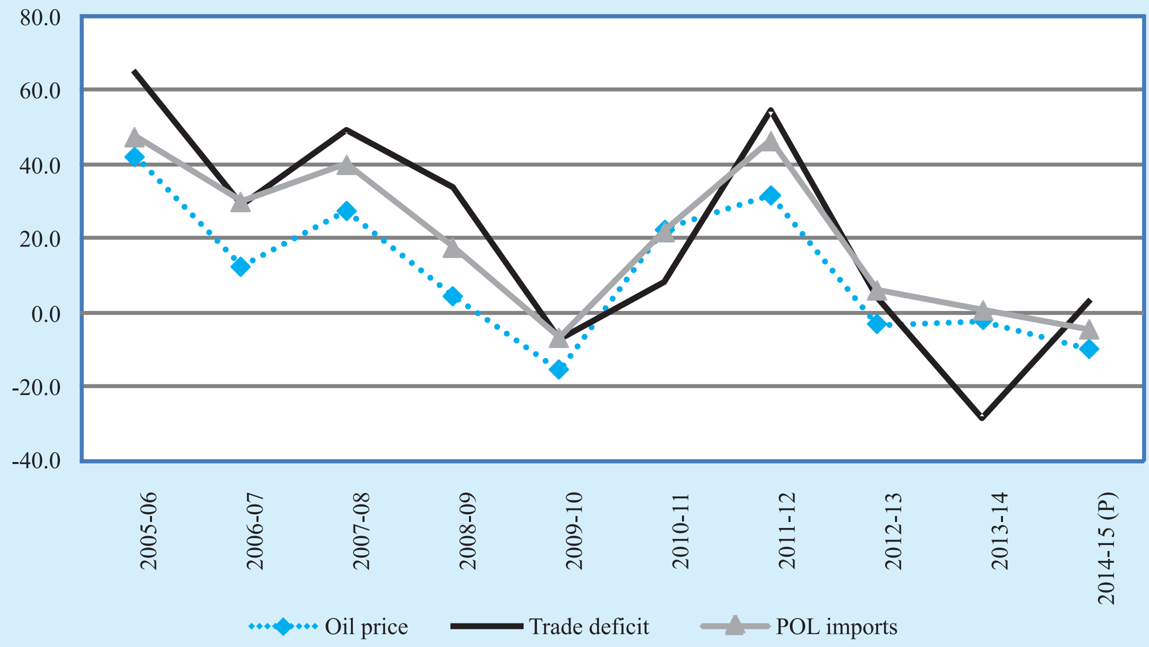
4.6 After registering very high growth of 40.5 per cent in 2010-11, growth of merchandise exports moderated to 21.8 per cent in 2011-12. The high growth in two years led to overall exports crossing the US$ 300 billion mark. In 2012-13, though exports were still above the US$ 300 billion mark, growth in exports could not be sustained and marginally declined by 1.8 per cent [Appendix Table 7.1(B)]. During 2013-14, however, exports recovered to post a growth of 4.7 per cent (US$ 314.4 billion). In 2014-15 (April-January), growth of exports moderated to 2.4 per cent (US$ 265.0 billion vis-à-vis US$ 258.7 billion in the corresponding period of the previous year).

4.7 India's merchandise imports grew by 28.2 per cent in 2010-11and the high growth continued through 2011-12 driven by broad-based expansion in imports of gold and silver, POL group and non-POL and non-gold and silver group. In 2012-13, there was only modest decline in the growth rates of gold and silver as well as non-POL imports, leading to continuance of elevated level of total imports of around US $ 490 billion. In 2013-14, in view of the sharp depreciation of the rupee owing to domestic and external factors, the government placed restrictions on gold imports which led to a sharp decline therein of 46.4 per cent. With domestic activity remaining weak, non-POL and non-gold and silver imports also declined by around 7 per cent, which along with the fall in gold imports led to overall decline in imports to US$ 450 billion. In 2014-15 (April-January), imports grew by 2.2 per cent to US$ 383.4 billion

Box 4.1 : Implications of Global Crude Oil Price Movements

Any major change in global commodity prices, particularly crude oil prices, has implication for the external sector as India is increasingly integrated with the rest of the world. It is evident that India's rising two-way external-sector transactions have more than doubled as a proportion of GDP over the last ten years. Trade openness provides opportunities for higher growth through higher exports and makes available better quality products domestically at globally competitive prices. Typically in the literature, current account deficit (CAD) is viewed as foreign savings that promote growth through higher investment given the level of domestic savings in EMDEs; but in the context of India's large oil import dependence and the sharp rise in global crude oil prices, the widening of the CAD in 2011-12 and 2012-13 may be an atypical outcome. Changes in crude oil prices have direct bearing on India's CAD. Historically, crude oil imports accounted for a substantial portion of the country's total imports. Petroleum, oil, and lubricants (POL) imports accounted for more than one-third of India's total imports in recent years. In 2013-14, POL imports accounted for 36.6 per cent of total imports. The share of POL imports in total imports is estimated at over 33 per cent in the current fiscal year so far (up to December 2014). The changes in trade deficit and by implication CAD in recent years are largely explained by the changes in crude oil prices (Figure 1).

Figure 1: Changes in Oil price (Indian Basket), POL imports and Trade deficit (per cent)



Note **: For the year 2014-15 data relates to April-December.**

Global crude oil prices (Indian basket) which were as high as US$ 107.2 per barrel in the first quarter of 2014-15 declined to US$ 101.7 per barrel in the second and further to US$ 75.2 per barrel in the third quarter of 2014-15. Subsequently, they remained below US$ 50 per barrel. As on 30 January 2015, the crude oil prices of the Indian basket stood at US$ 46.7 per barrel. Under some simplifying assumptions, a fall in international crude oil prices by US$ 1 per barrel is likely to reduce the net import bill by US$ 0.9 billion per annum. Average prices of oil in the period from April 2014 to January 2015 were around US$ 90 per barrel, which is likely to result in lower overall net oil imports by US$ 9.5 billion for 2014-15, assuming 6 per cent growth in import quantity. India's current account balance should strengthen in view of substantial fall of about 56 per cent in crude oil prices of the Indian basket in January 2015 over the level of March 2014. Besides, a reduction in international gold prices by US $ 10 per troy oz is estimated to lead to a US$ 130 million fall in net gems and jewellery imports for 2014-15 assuming no change in quantum of imports.

as compared to US$ 375.3 billion in 2013-14 (April-January). While the value of POL imports declined by 7.9 per cent in 2014-15 (April-January), gold and silver imports grew by 8.0 per cent in 2014-15 (April-January). Non-POL and non-gold and silver imports which largely reflect the imports needed for industrial activity grew by 7.8 per cent in 2014-15 (April-January), after registering a decline of 0.7 per cent and 6.9 per cent respectively in 2012-13 and 2013-14.

4.8 While the above developments in nominal terms broadly reflect the trends, it is useful to decompose the growth rates in terms of changes in quantity and price, which are best indicated by the quantum and unit value indices that reflect terms of trade (Table 4.1). The change in quantum index for exports broadly corresponds directionally with nominal growth in US dollar and rupee terms, albeit at much lower rates, 2012-13 being an exception when in US dollar terms there was negative growth as against a high positive growth rate in the quantum index. In the case of the quantum index of imports, there was greater directional divergence with the nominal growth rates expressed in US dollar and rupee terms.

4.9 The changes in unit value indices of exports and imports were broadly in positive territory with the exception of 2009-10. The outcome in terms of trade was reflected in the deterioration evidenced in 2011-12. This deterioration owes to the oil price shock which could be reversing in the second half of 2014-15.

4.10 The oil price shock was amplified given the large import dependence that had kept imports at elevated levels since 2011-12 and the relative sluggish global demand constraining overall export growth. India's subsequent resilience owed to the diversification processes that encompass both commodity composition and direction of trade.

Composition of Trade

4.11 The commodity composition of India's trade has undergone many changes since liberalization and has been driven by trade policy, movements in international prices, and the changing pattern of domestic demand. Manufactured goods constitute the bulk of exports — over 63 per cent in recent years, followed by crude and petroleum products

Table 4.1 : Trade Performance: Quantum and Unit Value Indices

(per cent change)

	Exports				Imports				Terms of trade	
	US$ terms	Rupee terms	Quantum index	Unit value index	US$ terms	Rupee terms	Quantum index	Unit value index	Net	Income
2001-02	-0.6	2.7	0.8	1.0	2.9	6.2	4.0	2.8	-1.7	-0.9
2002-03	20.3	22.1	19.0	2.9	19.4	21.2	5.8	14.3	-10.0	7.2
2003-04	21.1	15.0	7.3	7.5	27.3	20.8	17.4	3.1	4.3	11.9
2004-05	30.8	27.9	11.2	14.9	42.7	39.5	17.2	18.9	-3.4	7.4
2005-06	23.4	21.6	15.1	6.1	33.8	31.8	16.0	14.0	-6.9	7.1
2006-07	22.6	25.3	10.2	13.7	24.5	27.3	9.8	15.1	-1.2	8.8
2007-08	29.0	14.7	7.9	5.1	35.5	20.4	14.1	1.9	3.1	11.2
2008-09	13.6	28.2	9.0	16.9	20.7	35.8	20.2	13.8	2.7	11.9
2009-10	-3.5	0.6	-1.1	1.0	-5.0	-0.8	9.9	-10.0	12.3	11.0
2010-11	40.5	35.2	15.2	13.8	28.2	23.4	8.0	13.0	0.7	15.9
2011-12	21.8	28.3	8.9	20.2	32.3	39.3	-20.9	74.9	-31.3	-25.2
2012-13	-1.8	11.5	7.9	6.0	0.3	13.8	6.1	8.0	-1.9	5.8
2013-14	4.7	16.6	5.9	9.9	-8.3	1.7	-10.7	12.9	-2.7	3.1
2014-15(P)	3.4	5.0	4.8	3.6	1.5	3.9	0.8	3.3	0.2	5.0

Source : Computed based on data of the Directorate General of Commercial Intelligence and Statistics (DGCI&S).
Note : For the year 2014-15 growth rate relates to April to September. P : Provisional.

(including coal) with a 20 per cent share, and agriculture and allied products with a share of 13.7 per cent share [Appendix Table 7.3(B)]. The top seven product groups accounting for nearly 80.9 per cent of India's total exports in 2014-15 (April-December) were: petroleum products (19.4 per cent share); gems and jewellery (13.0 per cent share); agriculture and allied products (12.0 per cent share); textiles and allied products (11.6 per cent share); chemicals and related products (10.1 per cent share); transport equipment (8.5 per cent share) and machinery (6.3 per cent share).

4.12 Growth in exports of petroleum and agriculture and allied products which had been in positive territory for the last four years, turned negative in 2014-15 (April-January). Gems and jewellery exports which exhibited a declining trend in 2012-13 and 2013-14, continued to register a declining trend in 2014-15 (April-January). In the case of electronic goods, there has been continuous decline in exports since 2012-13. During 2014-15 (April-January), some sectors like transport equipment; machinery, chemicals and related products, textile and allied products and base metals registered positive growth in exports.

4.13 Marine products and leather and leather manufactures recorded relatively high growth in 2012-13, 2013-14, and 2014-15 (April-January). While the shares in terms of nominal value of exports (conversely imports) may be high in some sectors, the import (export) component may also be high and therefore it would be instructive to look at value added (Box 4.2).

4.14 One of the major items in India's import basket is the POL group, which accounted for 36.6 per cent of India's total imports in 2013-14. POL imports surged with a growth of 46.2 per cent in 2011-12, mainly on account of significant increase in global crude oil prices vis-à-vis 2010-11. The growth in imports of POL moderated to 5.9 per cent and 0.4 per cent respectively in 2012-13 and 2013-14. There was moderation in international crude oil prices (Brent) from US$109.8 per barrel in the first quarter of 2014-15 to US$ 76.0 per barrel in the third quarter which resulted in the value of POL imports declining by 7.9 per cent in 2014-15 (April-January). Capital goods imports are another major group which declined continuously from 2011-12 onwards. Within capital goods, imports of machinery registered positive growth in 2014-15 (April-January). Gold and silver imports accounted for 11.4 per cent of India's total imports in 2012-13 and 7.4 per cent in 2013-14. These imports declined by 9.0 per cent and 40.4 per cent respectively in 2012-13 and 2013-14 but registered a positive growth of 8.0 per cent in 2014-15 (April-January). Imports of pearls and precious and semi-precious stones grew by 5.4 per cent in 2013-14 and declined by 3.9 per cent in 2014-15 (April-January).

Direction of Trade

4.15 There has been significant market diversification in India's trade in recent years –a process that has helped in coping with the sluggish global demand, which owes to a great extent to the weakness in the euro zone. Region-wise, India's export shares to Europe and America have declined over the years—from 23.6 per cent and 20.1 per cent respectively in 2004-05 to 18.6 per cent and 17.2 per cent respectively in 2013-14. Conversely, the shares of India's exports to Asia and Africa have increased from 47.9 per cent and 6.7 per cent respectively in 2004-05 to 49.4 per cent and 9.9 per cent respectively in 2013-14. The change in direction immediately prior to the global financial crisis and since 2010-11 indicates the process of diversification underway. A comparison of India's trade in the pre-crisis (2004-05 to 2007-08) and post-crisis period (2010-11 to 2013-14) shows that India's exports and imports from Europe, the USA, and Singapore have declined, while its trade with Asia and Africa has increased (Table 4.2).

4.16 In 2014-15 (April-December), India's exports to the European region grew by only 0.2 per cent. India's exports to Africa and America grew by 12.9 and 14.5 per cent respectively and

Box 4.2 : Estimates of Labour and Non-labour Components of Domestic Value Added in India's Exports

The changing contours of trade and the emergence of global production chains have important implications for developing countries. Increasing use of imported inputs has generally caused a decline in the domestic value added share of total exports. The decomposition of value added by capital and different types of labour is an important aspect of global fragmentation of the production process. It is often argued that increasing trade and thereby integration with the world market will lead to new opportunities for developing nations to employ their abundant medium and low skilled workers. The aforementioned decomposition of domestic value added allows examination of how the benefits of globalization are being distributed between capital and different types of labour.

In the Indian context, the share of domestic value added exports in total exports has witnessed a decline from 86.9 per cent in 1998-99 to 84.1 per cent in 2003-04 and further to 78.5 per cent in 2007-08. The foreign value added share in exports, however increased, indicating deepening of the process of international production fragmentation. The domestic labour component is relatively higher in India's service exports than in merchandise exports. Further, the domestic value of exports based on four components (unskilled, semi-skilled, skilled labour, and non-labour) shows that the combined share of the skilled labour and non-labour components is significantly high, which shows a pervasive process of technological change that is biased towards the use of skilled labour and capital. An analysis of the domestic value of India's exports by factor inputs reveals that the labour component in domestic value added for merchandise exports was 28 per cent in 2007 whereas it was 39 per cent for total exports (including services) for the same year. For services exports, the corresponding figure is about 51 percent, which indicates that the domestic labour component is relatively higher in services exports than in merchandise exports. The contribution of labour to domestic value addition (Table 1) has decreased for merchandise exports (by more than 6 percentage points) and increased for service exports (by 2 percentage points) over the period 1998-99 to 2007-08. At a disaggregated level, the labour component in domestic value added of India has increased mainly for agriculture, food processing, and services sectors; whereas capital contribution has increased for machinery, metal products, and many of the other manufacturing sectors.

Table 1: Decomposition of Domestic Value Added of Exports into Factor Components 1998-99 to 2007-08

(per cent per annum)

Sectors	Labour component			Non-labour component			Domestic value added		
	1998-99	2003-04	2007-08	1998-99	2003-04	2007-08	1998-99	2003-04	2007-08
Merchandise exports	34.2	32.1	27.9	50.7	47.3	42.9	85.0	79.4	70.8
Services exports	48.8	51.4	50.9	42.0	41.4	35.8	90.8	92.8	86.7
Total exports	39.2	38.9	39.1	47.8	45.2	39.5	86.9	84.1	78.5

Source **: Computation based on input output tables published by the CSO, Annual Survey of Industries (ASI), National Sample Survey (NSS) rounds, and Social Accounting Matrices.**

Note **: The labour and non-labour components of DVA do not add up to 100 because the remaining part is the foreign value added component.**

Distribution of factor content according to skill levels of workers is shown in Table 2. Estimates at the aggregate level, show that for manufactured exports, the share of unskilled labour and capital is high whereas for services exports and total exports the share of capital and high skilled labour is significantly higher than those of medium skilled and unskilled labour.

Table 2 : Distribution of Domestic Value of India's Exports according to Factor Input and Skill Level of Labour 2007

(in per cent)

Sectors	Unskilled labour component	Semi-skilled labour component	Skilled labour component	Non-labour component	Foreign value added share
Merchandise Exports	**10.9**	**8.8**	**8.0**	**43.1**	**29.2**
Top export items					
1) Petroleum products	2.0	2.2	2.4	27.6	65.8
2) Readymade garments	17.3	13.7	9.8	42.7	16.4
3) Gems & jewellery	10.0	10.3	7.8	35.2	36.6
4) Drugs and medicines	8.7	8.0	9.6	47.6	26.1
Services exports	**10.3**	**14.5**	**26.1**	**35.9**	**13.3**
Total Exports	**10.6**	**11.6**	**16.8**	**39.6**	**21.5**

Source **: Computation based on input output tables published by the CSO, ASI, NSS survey rounds, and Social Accounting Matrix tables.**

A similar pattern in factor shares has been observed for several other emerging nations where the shares of capital and high skilled labour have increased implying that the global value chains are becoming increasingly capital and skill intensive over time.

Source: **Based on a study by Deb Kusum Das, Sreerupa Sengupta, and Pilu Chandra Das, ICRIER, 'Estimating Domestic Value Added and Foreign Content of India's Exports', sponsored by the Department of Economic Affairs, Ministry of Finance, Government of India (GoI).**

Table 4.2 : Export and Import Shares of Regions/Countries in India's Trade

Region/ countries	Exports			Imports			Exports to imports Ratio		
	2004-05 to 2007-08	2010-11 to 2013-14	Change in share	2004-05 to 2007-08	2010-11 to 2013-14	Change in share	2004-05 to 2007-08	2010-11 to 2013-14	Change
Europe	**23.3**	**19.0**	**-4.3**	**21.6**	**18.0**	**-3.6**	**73.6**	**68.6**	**-5.0**
Germany	3.3	2.5	-0.7	3.9	3.0	-0.9	56.5	53.9	-2.5
Belgium	2.7	2.1	-0.6	2.6	2.2	-0.3	73.4	62.4	-10.9
Switzerland	0.4	0.4	0.0	4.5	6.2	1.7	6.7	4.2	-2.5
Africa	**7.8**	**8.9**	**1.2**	**6.3**	**8.5**	**2.2**	**84.0**	**68.1**	**-15.9**
Nigeria	0.7	0.9	0.1	2.1	2.9	0.8	23.8	19.7	-4.1
America	**18.9**	**16.6**	**-2.3**	**10.3**	**11.0**	**0.7**	**124.9**	**98.3**	**-26.6**
U S A	14.9	11.6	-3.3	7.1	5.1	-2.0	**143.5**	**148.5**	5.0
Asia	**48.5**	**50.2**	**1.7**	**48.9**	**60.2**	**11.3**	**67.7**	**54.4**	**-13.4**
Singapore	4.8	4.5	-0.3	2.8	1.7	-1.2	116.6	177.7	61.1
Indonesia	1.5	1.9	0.5	2.1	3.0	0.9	47.2	41.5	-5.8
United Arab Emirates	9.2	11.7	2.5	4.5	7.6	3.2	140.0	99.2	-40.8
Saudi Arabia	2.0	2.8	0.8	5.1	6.8	1.7	26.6	26.3	-0.3
Kuwait	0.5	0.4	0.0	2.1	3.4	1.3	15.4	8.5	-6.9
Qatar	0.3	0.2	0.0	0.9	2.8	2.0	22.0	5.6	-16.4
Iraq	0.2	0.3	0.2	1.8	3.6	1.9	6.2	5.5	-0.6
China	6.6	5.3	-1.3	9.0	11.2	2.2	50.4	30.8	-19.6
Hong Kong	4.0	4.1	0.1	1.3	1.9	0.6	210.1	137.7	-72.5
Korea	1.7	1.4	-0.3	2.7	2.7	0.0	43.6	33.8	-9.8
Total	**100.0**	**100.0**	—	**100.0**	**100.0**	—	**68.2**	**65.1**	**-3.1**

Source **: Computed based on data of the DGCI&S.**

to Asia, a major destination accounting for nearly 50 per cent of India's exports, by 2.2 per cent in 2014-15 (April-December). Within Asia, India's exports to South Asia grew by 23.8 per cent (mainly due to high export growth to Sri Lanka, Nepal, and Bangladesh) and 8.8 per cent in the case of West Asia-Gulf Cooperation Council (GCC) (UAE, Saudi Arabia, and others). India's exports to other regions of Asia witnessed a contraction—declining by 4.4 per cent to North East Asia (consisting of China, Hong Kong, Japan), 7.2 per cent to the Association of South East Asian Nations (ASEAN) (consisting of Singapore, Indonesia, Thailand, Malaysia), and 8.5 per cent to Other West Asia (Iran, Israel, and others)—in 2014-15 (April-December). Country-wise, India's exports to the USA and UAE—major destinations with a share in India's total exports of 12.5 per cent and 9.7 per cent respectively in 2013-14—grew by 11.2 per cent and 11.9 per cent in 2014-15 (April-December). However, India's exports to China (4.7 per cent share) and Belgium (2.0 per cent share) declined by 14.7 per cent and 10.7 per cent during the same period. Since 2012-13, there has been a contraction in India's exports to Singapore and Indonesia.

4.17 The share of Europe in India's imports also declined from 23.0 per cent in 2004-05 to 15.8 per cent in 2013-14 while the shares of Asia and Africa increased substantially from 35.6 per cent and 3.6 per cent in 2004-05 to 60.7 per cent and 8.1 per cent respectively in 2013-14. The share of America in India's imports has also increased from 8.8 per cent to 12.8 per cent during the same period. China is the major source of India's imports, accounting for 11.3 per cent of India's total imports, followed by Saudi Arabia (8.1 per cent share), the UAE (6.5 per cent share), and the USA (5.0 per cent share) in 2013-14. In 2014-15 (April-December), India's imports from China grew by 18.7 per cent. However, there was contraction in India's imports from Saudi Arabia, the UAE, and USA by 14.2 per cent, 7.9 per cent, and 7.9 per cent, respectively during the same period. Imports from Switzerland and Singapore also declined in 2012-13 and 2013-14 but picked up with a positive growth in 2014-15 (April-December).

Trade Deficit

4.18 In 2013-14, India's trade deficit (on customs basis) declined to US$ 135.8 billion from a high level of US$ 190.3 billion in 2012-13, mainly on account of a decline in the growth of imports (8.3 per cent), even though growth in exports was sluggish at 4.7 per cent. The decline in imports owed to lower growth in oil imports (0.4 per cent) and negative growth in gold and silver imports. However, in 2014-15 (April-January) trade deficit increased marginally by 1.6 per cent to US$ 118.4 billion as against US$ 116.5 billion in 2013-14 (April-January). Low export growth (2.4 per cent) and import growth (2.2 per cent), resulted in a modest increase in trade deficit by US$ 1.8 billion. Nevertheless in terms of levels, trade deficit being close to last year reflects on external-sector polices including trade policies.

Trade Policy

Trade policy measures

4.19 The elevated levels of trade deficit arising from the global and domestic factors since 2011-12 that continued through the first quarter of 2013-14 led to severe stress in the external sector outcome with larger macroeconomic implications. The government took various measures including those aimed at boosting the performance of the export sectors which supplemented the announcements made in the Budgets and in the Foreign Trade Policy (FTP) 2009 and its Annual Supplements. Various schemes were strengthened, viz. Focus Product Schemes (FPS), Focus Market Scheme (FMS), Market Linked Focus Product Scheme (MLFPS), and Vishesh Krishi and Gram Udyog Yojana (VKGUY). In addition, industry and trade bodies are given support for participation in buyer seller meets (BSM), trade fairs, and exhibitions in various countries under the Market Access Initiative (MAI) scheme and Market Development Assistance (MDA) scheme.

4.20 Some of the recent measures taken by the government are given in Box 4.3

Anti-dumping Measures

4.21 With a view to providing a level playing field to the country's domestic industry so that it is able to compete effectively in the domestic market with foreign exporters some of whom could be resorting to dumping, recourse to anti-dumping action is being taken by major markets.The Directorate General of Anti-dumping and Allied Duties (DGAD) conducts anti-dumping investigations on the basis of applications filed by the domestic industry with prima facie evidence of dumping of goods in the country, injury to domestic industry, and causal link between the dumping and injury to domestic industry. Such petitions submitted by the domestic industry are processed as per the procedure and within the time limits specified under the Customs Tariff Act 1975 and the rules made thereunder. The DGAD conducts investigations and recommends imposition of duty, wherever appropriate, to the Department of Revenue by issuing its preliminary/final findings. Acting upon such recommendations of the DGAD, the Department of Revenue may impose provisional or definitive duties.

4.22 Anti-dumping investigations are initiated by other countries as well and in 2013 about 287 were initiated in all (Table 4.3). In 2012, Brazil overtook India with more than double the investigations initiated by India. In 2013 also Brazil's investigations were high at 54, followed by the USA and India. In 2014, till June end both India and the USA have initiated equal number of investigations. Of the 690 cases initiated by India (as on 30 June 2014), duty has been imposed in 535; imports from China faced the maximum number of initiations and out of 166 cases, duty was imposed in 134.

Box 4.3 : Some of the Trade Policy Measures Taken

- To promote domestic manufacturing capabilities, scrips issued under different schemes, namely FPS, FMS, VKGUY, MLFPS, Served From India Scheme (SFIS), Agri Infrastructure Incentive Scheme (AIIS), for import of goods can be utilized for payment of excise duty for domestic procurement. This is an important measure for import substitution and will help save foreign exchange as well as create additional employment.
- Similarly, scrips issued under the FPS, FMS, Vishesh Krishi and Gram UdyogYojana (VKGUY) schemes can be utilized for payment of service tax.
- To support export of products from the North Eastern Region (NER), exporters are entitled to additional incentives of 1 per cent of FOB value of exports in addition to other benefits under the FTP if exports are made from land customs station located in the NER.
- To diversify India's exports, 7 new markets (Algeria, Aruba, Austria, Cambodia, Myanmar, Netherlands Antilles, and Ukraine) have been added to the FMS, 7 new markets (Belize, Chile, EI Salvador, Guatemala, Honduras, Morocco, and Uruguay) to the Special FMS, 46 new items to the MLFPS, and 12 new markets for the first time and 100 new items to the FPS list.
- To boost export of services, the government has organized two editions of a Services Conclave in identified service sectors which are crucial to India. In the Conclave, barriers, if any, in the specific service sectors are identified and issues relating to the reforms needed, India's potential for enhancing exports in those sectors, and new markets for exporting services are discussed. A Global Services Exhibition will be organized in April 2015 in New Delhi, which is a platform for enhancing strategic cooperation and developing synergies between competitive players of the services sector and their global counterparts.
- Indian trade portal (www.indiantradeportal.in) was launched on 8 December 2014. This portal provides vital information to Indian industry on forty-two export markets and also a mechanism to take advantage of the increased market access provided through various regional and bilateral free trade agreements (FTA) and comprehensive economic cooperation/partnership agreements (CECA/CEPA). The information is provided in a user-friendly manner in four easy steps for exporters and importers to access the portal, which will contribute to ease of doing business for trade and industry. This portal makes available important data like (i) most favoured nation (MFN) tariff, (ii) preferential tariff, (iii) Rules of Origin (RoO), and (iv) non-tariff measures (SPS/TBT) for use of exporters and importers at one place, in respect of countries with which we have FTAs. Consequently it facilitates India's exports and will also help exporters to utilize the FTAs and access the preferential tariffs available to them in various countries to capture export opportunities.
- In order to mainstream the states so that they focus expressly on boosting exports, the key elements/ steps required to be initiated by them have been distilled and listed. A fifteen-point matrix has been developed and sent to all states / union territories (UTs) to incorporate the following: (a) development of export strategy by the state government, (b) appointment of an Export Commissioner for coordination of all export-related activities by the state government, and (c) instituting export awards to motivate the leading exporters from the state and encourage them to bring in greater export revenues.

WTO Negotiations And India

4.23 While the above measures were broadly domestic policy adjustment to the emerging external-sector environment, India continued to be engaged in WTO negotiations that have an impact on the external sector as well as overall economy. The Ninth Ministerial Conference of the WTO took place in Bali during 3-7 December 2013. Ministers issued a Declaration and ten Decisions were adopted on various issues including trade facilitation and issues relating to agricultural trade rules, development, and least developed countries (LDCs). Amongst these Decisions, two are of particular significance for India, viz. the Ministerial Decision for an Agreement on Trade Facilitation and the Ministerial Decision on Public Stockholding for Food Security Purposes.

4.24 The Trade Facilitation Agreement (TFA), which was also endorsed by India at the Ninth Ministerial Conference, is basically aimed at greater transparency and simplification of customs procedures, use of electronic payments and risk

Table 4.3 : Investigations initiated by Top Ten Users of Anti-Dumping Measures

Country	2001	2011	2012	2013	Jan.-June 2013	Jan.-June 2014
India	79	19	21	29	17	13
United States	77	15	11	39	7	13
European Union	28	17	13	4	3	3
Brazil	17	16	47	54	17	29
Argentina	28	7	12	19	12	4
Australia	24	18	12	20	5	11
South Africa	6	4	1	10	5	1
China	14	5	9	11	8	4
Canada	25	2	11	17	10	3
Turkey	15	2	14	6	4	2
All countries	372	165	208	287	122	106

Source **: WTO.**

management techniques, and faster clearances at ports. Trade facilitation was put on the agenda mainly by the developed countries while the issue of rules relating to public stockholding for food security purposes was put on the agenda by G-33 group of 46 developing countries including India.

4.25 The agricultural trade rules in the WTO's Agreement on Agriculture do not bar public procurement and stockholding for food security. However, if food for such programmes is acquired at administered prices and not market prices, then this is deemed a support to farmers. As per WTO rules negotiated in the Uruguay Round, all such support has to be kept within a limit of 10 per cent of the value of production of the product in question. This cap can constrain procurement and food aid programmes in developing countries. The WTO rules, made keeping the interests of the developed countries uppermost, have overlooked the interests of the developing countries. The draft agriculture negotiating text of December 2008 seeks to change this. It contains a proposal to revise the rules, however, as the negotiations have not concluded, this remains an unfinished agenda. India, as part of a coalition of developing countries known as the G-33, proposed an amendment to the WTO's Agreement on Agriculture to change these rules.

4.26 The G-33 proposals, as well as various alternatives suggested by the Group, met with resistance. Negotiations continued during the Bali Ministerial Conference. The finally agreed text of the Ministerial Decision provides for Members to put in place an interim mechanism and to negotiate on an agreement for a permanent solution for adoption by the Eleventh Ministerial Conference of the WTO. In the interim, until a permanent solution is found and subject to certain conditions, Members were to be protected against challenge in the WTO under the Agreement on Agriculture in respect of public stockholding programmes for food security purposes. Post Bali, the focus of the developed countries was only on the implementation of the TFA. Concerned at this uneven progress India took the stand in July 2014 that without a firm commitment to implement the other Bali Decisions, it would be difficult to join the consensus on the Protocol of Amendment to incorporate the TFA into the umbrella WTO Agreement.

4.27 Despite the general campaign of misinformation that followed about missing the deadline for the TFA and the effect of the impasse on the future of the WTO, India stood firm. Concerted efforts were made to explain the concerns underlying the stand taken and India worked with other WTO members to find a way forward. On 27 November 2014, the General Council of the WTO adopted a Decision on Public Stockholding for Food Security Purposes, a Decision on the TFA and a Decision on Post Bali Work. The General Council Decision on Public Stockholding for Food Security Purposes makes it clear that a mechanism under which WTO members will not challenge the public stockholding programmes of developing country members for food security purposes, in relation to certain obligations under the WTO Agreement on Agriculture, will remain in place in perpetuity until a permanent solution regarding this issue has been agreed upon and adopted. The decision also includes a commitment to find a permanent solution on public stockholding for food security purposes by 31 December 2015 on a best endeavour basis and has a firm commitment to engage in negotiations for a permanent solution through an intensified programme of work. The decision addresses India's concerns on the issue of public stockholding for food security purposes. The Tenth Ministerial Conference of the WTO (MC10) will be held in Nairobi, Kenya, from 15 to 18 December 2015. WTO members are engaged in discussion to finalise the work programme to conclude the remaining issues of the Doha Development Agenda.

Balance of Payments Developments

Overview of Balance of Payments

4.28 Post the 2008 global financial crisis, EMDEs had to face periodic shocks or stresses emanating from policies in advanced economies as well as through financial channels notwithstanding the efforts of the G-20 at coordination of policy responses to the crisis. The Indian economy had to weather the shocks which got amplified on account of confluence of weak external demand and relatively strong domestic demand with large dependence on crude oil imports whose price levels remained elevated until the second half of the current fiscal. These shocks led to widening of the CAD in 2011-12 which continued through the first quarter of 2013-14. With external financing sources remaining volatile, the less than adequate quantity and deteriorating quality of financing resulted in a sharp depreciation of the rupee. The policy responses that were put in place in 2013-14 helped overcome the stress through reduction in the levels of CAD and this, along with ample financing, led to reserve accretion that helped build resilience—a process that continues through the current fiscal.

4.29 In the first half of 2014-15, India's external-sector position was benign and comfortable (Table 4.4). Two important developments were that: (i) lower trade deficit along with moderate growth in invisibles resulted in lower CAD and (ii) there was a surge in capital inflows, enabled by higher portfolio investment, foreign direct investment (FDI), and external commercial borrowings (ECB). Higher capital inflows were in excess of the financing requirement or CAD and resulted in accretion in foreign exchange reserves. Data on merchandise trade available beyond the first half discussed in an earlier section indicates that trade deficit continues to remain broadly at comparably moderate levels and the monthly data on financial inflows and foreign exchange reserves available unmistakably points to reserve accretion and the copious nature of external financing. A part of the moderate trade outcome owe to the recent fall in international prices of crude petroleum. Given the above developments and considering the current conjuncture opportune, the Government decontrolled the prices of high speed diesel on 19 October 2014 and lifted the restrictions placed on gold imports on 29 November 2014.

Current account developments in 2014-15 (April-September)

4.30 Data on balance of payments (BoP), which is available with a lag of approximately one quarter, indicates that in the first half of 2014-15, there was a year-on-year improvement in trade account (on BoP basis) as a result of low growth in imports overcoming the moderation in merchandise export growth. Merchandise exports grew by 7.6 per cent in 2014-15 (April-September) to US$ 167.0 billion. However, in the second quarter there was

Table 4.4 : Balance of Payments : Summary (US$ million)

			2009-10	2010-11	2011-12	2012-13 (PR)	2013-14 (P)	2013-14 H1 (Apr.-Sept. 2013) (P)	2014-15 H1 (Apr.-Sept. 2014) (P)
I	Current account								
	i.	Exports	182442	256159	309774	306581	318607	155152	166974
	ii.	Imports	300644	383481	499533	502237	466216	238941	240188
	iii.	Trade balance	-118202	-127322	-189759	-195656	-147609	-83789	-73214
	iv.	Invisibles (Net)	80022	79269	111604	107493	115212	56830	55272
		A. Services	36016	44081	64098	64915	72965	35239	36069
		B. Transfer	52045	53140	63494	64034	65276	32744	32757
		C. Income	-8038	-17952	-15988	-21455	-23028	-11153	-13554
	Current account balance		-38181	-48053	-78155	-88163	-32397	-26959	-17942
II	Capital account								
	i.	External assistance	2890	4941	2296	982	1032	130	606
	ii.	ECBs	2000	12160	10344	8485	11777	2455	3429
	iii.	Short-term debt	7558	12034	6668	21657	-5044	589	69
	iv.	Banking capital	2083	4962	16226	16570	25449	11487	-542
		of which							
		Non-resident deposits	2922	3238	11918	14842	38892	13700	6473
	v.	Foreign investment	50362	42127	39231	46710	26386	7762	38385
		A. FDI	17966	11834	22061	19819	21564	14589	16183
		B. Portfolio investment	32396	30293	17170	26891	4822	-6827	22202
	vi.	Other flows	-13259	-12484	-7008	-5105	-10813	-6619	-3407
		Capital account balance	51634	63740	67755	89300	48787	15806	38539
III		Errors & omissions	-12	-2636	-2432	2689	-882	453	-2522
		Capital account balance (including errors & omissions)	51622	61104	65323	91989	47905	16259	36017
IV		Overall balance	13441	13050	-12831	3826	15508	-10701	18076
V		Reserve change	-13441	-13050	12831	-3826	-15508	10701	-18076
		(-)indicates increase, + indicates decrease							

Source **: RBI**
Notes **: PR: Partially Revised; P: Provisional**

some deceleration in export growth owing to moderation in oil prices from an average of US$ 105.1 per barrel in 2013-14 (second quarter) to US$ 98.9 per barrel in 2014-15 (second quarter).The outcome in terms of imports was again somewhat mixed in the two quarters of the first half of the current fiscal relative to last year. This was largely due to the base effect of high gold imports in the first quarter of 2013-14 and a sharp correction in such imports in the second quarter of 2013-14 as against a steady pick-up in the first quarter of 2014-15 followed by a surge in imports in the second quarter reflecting seasonal demand spike and the easing of restrictions on gold imports. The mixed outcome also owed to the pick-up in non-gold non-POL imports in 2014-15 relative to the compression in 2013-14. Invisible account covers (a) services, (b) transfers, and

(c) income. The surplus therein has been a major factor that moderated the large trade deficits from spilling over to the CAD. Services (net) continued to be dominated by software exports and witnessed a growth of 2.4 per cent to US$ 36.1 billion in 2014-15 (April-September) as against US$ 35.2 billion in the corresponding period of the previous year (For services trade please refer to Chapter 7). Transfers (net)—mostly remittances—were around US$ 32.7 billion in the first half of both 2013-14 and 2014-15. While software services and remittances provide surpluses, net income is an outgo that reflects interest/dividends payable and has a large bearing on the level of net international investment position. Income (net) is dominated by investment income and was US$ 13.8 billion in 2014-15 (April-September) as against US$ 13.4 billion in 2013-14 (April-September). As a result of the above developments, CAD was placed at US $ 17.9 billion in 2014-15 (April-September) as against US$ 26.9 billion in the same period of 2013-14. As a proportion of GDP, the CAD declined from 3.1 per cent in the first half of 2013-14 to 1.9 per cent in the first half of 2014-15.

Capital / finance account developments in 2014-15 (April-September)

4.31 There was marked improvement in the net capital/financial flows both in terms of quantum and quality in the first half of 2014-15. Net financial flows were at US$ 36.0 billion in the first half of 2014-15 compared to US$ 16.3 billion in the first half of 2013-14. Net foreign investment, an important financial flow, surged from US$ 7.8 billion in 2013-14 (April-September) to US$ 38.4 billion in 2014-15 (April-September). Net ECB was the other important item of the capital / finance account of the BoP which also improved from US$ 2.5 billion in 2013-14 (April-September) to US$ 3.4 billion in 2014-15 (April-September). Net banking capital witnessed a decline from US$ 11.5 billion to (-) US$ 0.5 billion during the same period.

4.32 The financial account was dominated by direct and portfolio investments which are non-debt creating in nature. The net flows in the form of FDI and portfolio investment were more than sufficient to finance the CAD during this period. While higher net FDI flows reflect a positive outlook about the growth potential of the domestic economy, robust portfolio inflows in 2014-15 were underpinned by reduced external-sector vulnerabilities of the domestic economy and benign global financial conditions aided by the prospect of additional European Central Bank easing. Given the net capital flows and the CAD levels, accretion in foreign exchange reserves was US$ 18.1 billion (BoP basis) in the first half of 2014-15 as against drawdown of US$ 10.7 billion in 2013-14 (April-September). In 2014-15 (up to December 2014), there has been a net inflow of US$ 28.5 billion in foreign institutional investors (FII) investment as compared to an outflow of US$ 4.5 billion in the corresponding period of 2013-14. The latest data on FDI inflows (net) available is for the period April-December 2014 and places these inflows at US $ 24.2 billion as against a level of US $ 20.7 billion in the same period in 2013-14. In so far as non-resident Indian (NRI) deposits are concerned, the lower levels of US $ 10.0 billion in April-December 2014 relative to April-December 2013 (US$ 35.1billion) become broadly similar when adjusted for the one-off swap scheme. The above developments in the current and capital accounts indicate further accretion to reserves on BoP basis beyond the first half of the current fiscal.

Foreign Exchange Reserves

4.33 Even though 2013-14 witnessed a sharp depreciation of the rupee in the initial part of the year with significant reserve drawdown, steps taken by the government and the Reserve Bank of India (RBI) resulted in a rise in the stock of foreign exchange reserves which was placed at US$ 304.2 billion at end-March 2014 as against US$ 292.0 billion at end-March 2013. In the first half of 2014-15, India's foreign exchange reserves increased by US$ 18.1 billion on BoP basis (i.e. excluding valuation effect). However, in nominal terms (i.e. including valuation effect) the increase

Table 4.5 : Summary of Changes in Foreign Exchange Reserves (US$ billion)

Sl. No.	Year	Foreign exchange reserves at the end of financial year (end-March)	Total increase (+) / decrease (-) in reserves	Increase /decrease in reserves on BoP basis	Increase/decrease in reserves due to valuation effect
1	2007-08	309.7	110.5	92.2	18.3
2	2008-09	252.0	-57.7	-20.1	-37.6
3	2009-10	279.1	27.1	13.4	13.7
4	2010-11	304.8	25.7	13.1	12.6
5	2011-12	294.4	-10.4	-12.8	2.4
6	2012-13	292.0	-2.4	3.8	-6.2
7	2013-14	304.2	12.2	15.5	-3.3
8	End-Sep. 2014	313.8	9.6	18.1	-8.5

***Source*: RBI.**

Table 4.6 : Foreign Exchange Reserves of Some Major Countries

Sl. No.	Country	Foreign exchange reserves at end-Dec. 2014 (US$ billion)
1	China	3840.0#
2	Japan	1312.1
3	Switzerland*	526.6
4	Russian Federation	388.5
5	Brazil	363.6
6	Korea, Republic of*	363.2
7	China, P.R. Hong Kong*	344.6
8	India	320.6
9	Germany	192.7
10	Thailand*	163.7
11	France*	161.6
12	Italy*	143.3

***Source*: IMF except India and China.**
***Note*: * Latest data available for the month of November 2014 only. # www.pbc.gov.cn**

was only by US$ 9.6 billion with end-September, 2014 levels at US$ 313.8 billion (Table 4.5).

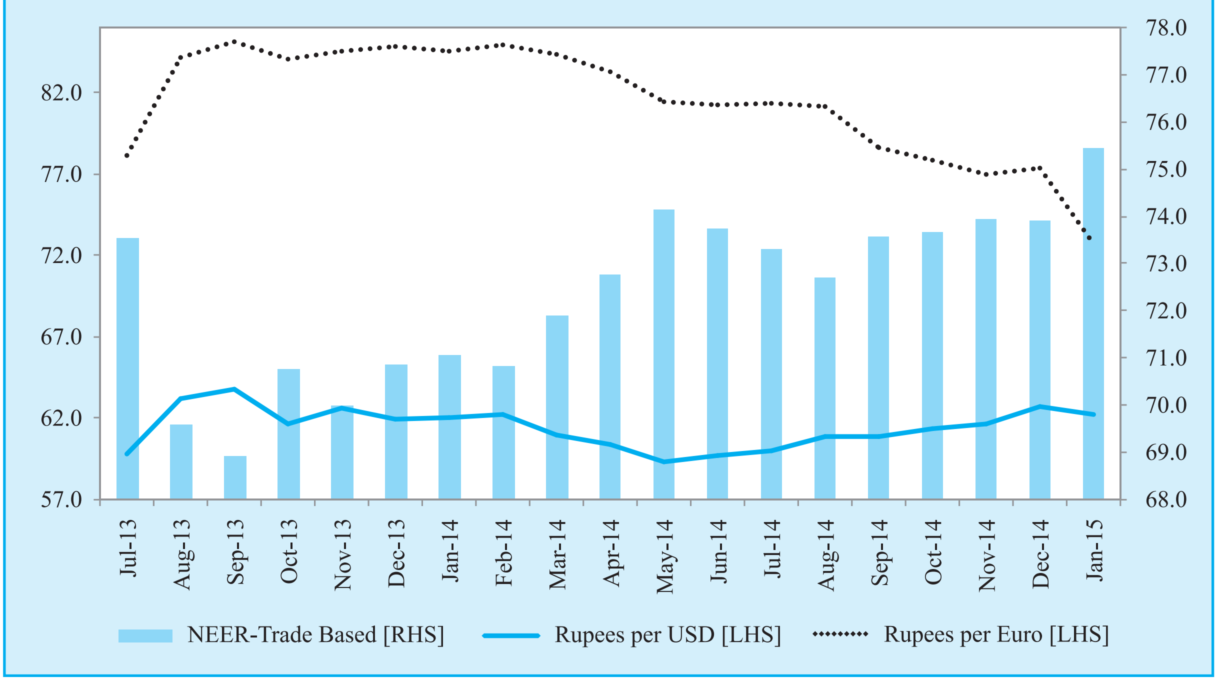
4.34 Among the major economies with current account deficit, India is the second largest foreign exchange reserve holder after Brazil (Table 4.6). India's foreign exchange reserves at US$ 328.7 billion at end-January mainly comprised foreign currency assets amounting to US$ 303.3 billion, accounting for 92.3 per cent of the total. With increase in reserves in the first half of 2014-15, all reserve-based traditional external-sector vulnerability indicators have improved. For instance, the ratio of short-term external debt to reserves has declined from 29.3 per cent at end-March 2014 to 27.5 per cent as at-end September 2014, the reserves cover for imports has also increased from 7.8 months at end-March 2014 to 8.1 months as at-end September 2014.

Exchange Rate

4.35 In 2013-14, global uncertainty following the May 2013 announcement by the US Fed about its intent to withdraw the quantitative easing led to a bout of depreciation in the currencies of emerging markets with varying intensities depending upon the external financing requirement as indicated by the levels of CAD. As India had elevated levels of CAD in 2011-13, which continued through the first quarter of 2013-14, the monthly exchange rate of the rupee against the US dollar depreciated by 14.7 per cent from ₹ 54.38 per US dollar in April 2013 to ₹ 63.75 per US dollar in September 2013. After stabilizing subsequently to reach ₹ 60.10 at end-March 2014, it was ₹ 60.36 per US dollar in April 2014.

4.36 The rupee-US dollar exchange rate has broadly remained stable during the year due to the huge inflow of FDI and FII in the equity and bond markets. Due to the weak economic outlook

Figure 4.1: Movements of Rupee against USD, Euro and NEER



Source: **RBI.**

in Europe and Japan, the rupee has appreciated against the euro and yen since September 2014 in tandem with cross-currency movements of the euro and yen vis-à-vis the US dollar. On point-to-point basis the rupee has depreciated by 3.3 per cent from ₹ 60.10 per US dollar on 28 March 2014 to ₹ 62.14 per US dollar on 13 February 2015. The rupee reached a low of ₹ 63.75 per US dollar on 30 December 2014 and a peak of ₹ 58.43 per US dollar on 19 May 2014. On month-to-month basis, the rupee depreciated by 2.0 per cent from ₹ 61.01 per US dollar in March 2014 to ₹ 62.23 per US dollar in January 2015 (Figure 4.1). However, the rupee has appreciated by 7.3 per cent, 16.1 per cent, and 13.6 per cent against the pound sterling, euro, and Japanese yen respectively between March 2014 and January 2015.The month-wise exchange rate of the rupee against major international currencies and the RBI's sale/ purchase of foreign currency in the foreign exchange market since April 2014 are given in Table 4.7.

4.37 On the whole, the rupee has exhibited resilience to global events in view of the aforesaid strong external-sector outcome. While in May 2013, it depreciated sharply on the concerns of impact of US FED taper talk, it stabilized when the taper actually happened. As on 8 January 2015, the Indian rupee against the US dollar has depreciated modestly by 4.6 per cent over end-March 2014 as compared with the Russian rouble (40.4 per cent), Brazilian real (14.2 per cent), Mexican peso (10.7 per cent), Indonesian rupiah (10.4 per cent), and South African rand (8.5 per cent) **(**Appendix Table 6.4**)**.

4.38 Effective exchange rates are summary indicators of movement in the exchange rate of home currency against a basket of currencies of trade partner countries and are considered to be an indicator of international competitiveness. The real effective exchange rate (REER) indices are used as indicator of external competitiveness of the country over a period of time. The nominal effective exchange rate (NEER) is the weighted geometric average of the bilateral nominal exchange rates of the home currency in terms of foreign currencies. REER is defined as a weighted geometric average of nominal exchange rates of the home currency in terms of the foreign currencies adjusted for relative price differential. Although the rupee has depreciated against the US dollar, in

Table 4.7 : Exchange Rates of Rupee per Foreign Currency and RBI's Sale/Purchase of US Dollar during 2014-15

Month	Average exchange rates (₹ per foreign currency)[a]				RBI net sale (-)/ purchase (+) (US$ million)
	US dollar	Pound sterling	Euro	Japanese yen[b]	
1	2	3	4	5	6
2013-14 (annual average)	60.50 (-10.1)	96.31 (-10.7)	81.17 (-13.7)	60.40 (9.0)	8992
2014-15 (monthly average)					
April 2014	60.36 (1.1)	101.08 (0.3)	83.35 (1.2)	58.86 (1.3)	5870
May 2014	59.31 (1.8)	99.94 (1.1)	81.49 (2.3)	58.28 (1.0)	1786
June 2014	59.73 (-0.7)	100.98 (-1.0)	81.24 (0.3)	58.53 (-0.4)	2642
July 2014	60.06 (-0.5)	102.62 (-1.6)	81.39 (-0.2)	59.07 (-0.9)	5453
August 2014	60.90 (-1.4)	101.81 (0.8)	81.14 (0.3)	59.17 (-0.2)	-511
September 2014	60.86 (0.05)	99.31 (2.5)	78.60 (3.2)	56.77 (4.2)	1437
October 2014	61.34 (-0.8)	98.72 (0.6)	77.91 (0.9)	56.87 (-0.2)	2703
November 2014	61.70 (-0.6)	97.28 (1.5)	76.99 (1.2)	53.05 (7.2)	3081
December 2014	62.75 (-1.7)	98.11 (-0.8)	77.36 (-0.5)	52.60 (0.9)	6739
January 2015	62.23 (0.8)	94.54 (3.8)	72.77 (6.3)	52.54 (0.1)	—

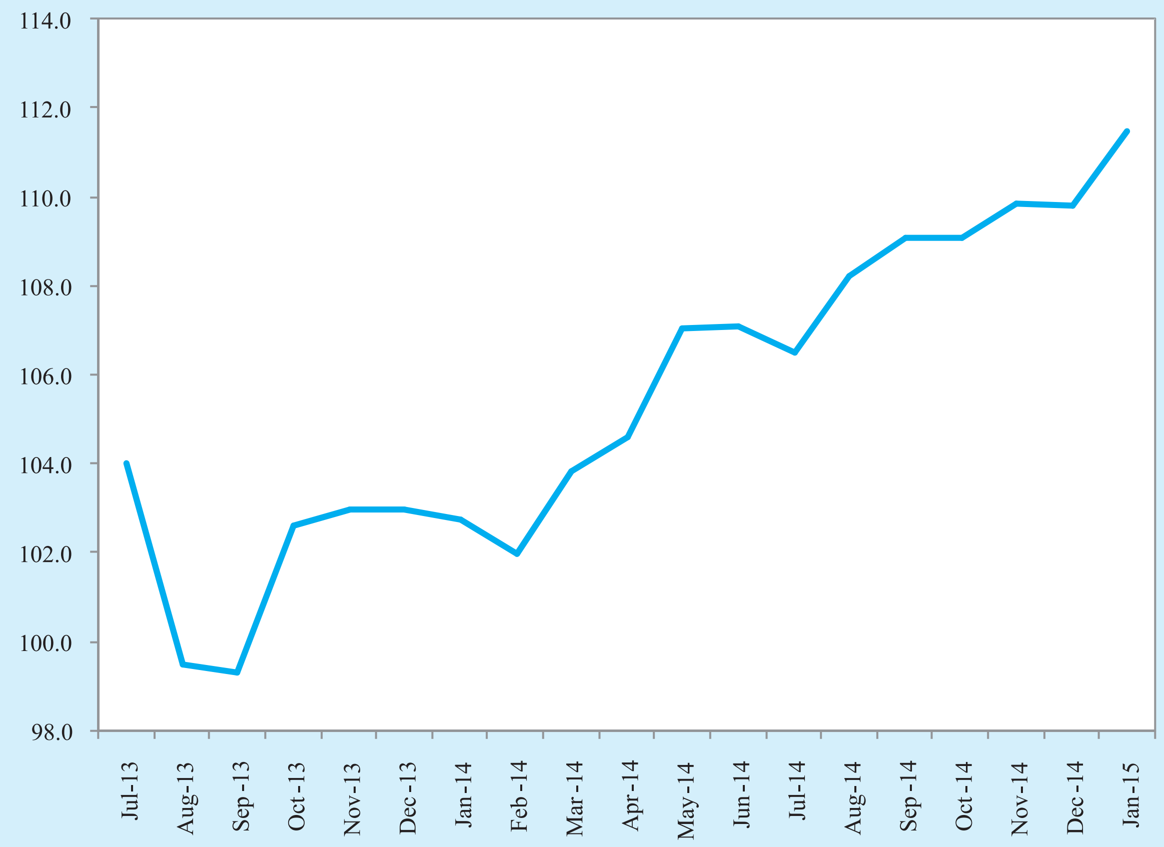
Source **: RBI.**
Notes **: - : Not Available**
[a] **RBI reference rates.**
[b] **Per 100 Yen.**
Figures in parentheses indicate appreciation (+) and depreciation (-) over the previous month/year in per cent. Figures may not tally due to rounding off.

terms of NEER (36 currencies) it appreciated by 2.8 per cent in December 2014 over March 2014. Similarly, REER also appreciated by 5.8 per cent during the same period (Figure 4.2).

External Debt

4.39 Post 1991 BoP crisis, India's prudent external debt policies and management with a focus on sustainability, solvency, and liquidity have helped contain the increase in size of external debt to a moderate level and it is compositionally better with a longer term maturity profile. India's total external debt stock at end-March 2014 stood at US$ 442.3 billion, recording an increase of US$ 32.8 billion (8.0 per cent) over the end-March 2013 level. The rise in total external debt during the period was due to long-term debt, particularly NRI deposits. A sharp increase in NRI deposits

Figure 4.2: REER-Trade Based (36 currencies) Base 2004-05 =100



Note: An Increase in REER indicates loss of competiveness and vice versa.

***Source*: RBI.**

owed to fresh foreign currency non-resident account (banks) [FCNR(B)] deposits mobilized under the swap scheme during September to November 2013 to tide over the external financing needs. Long-term external debt at US$ 353.0 billion at end-March 2014 recorded an increase of 12.9 per cent over the end-March 2013 level, while short-term debt showed a decline of 7.7 per cent. Appendices 8.4(A) and 8.4(B) present the disaggregated data on India's external debt outstanding in Indian rupee and US dollar terms respectively.

4.40 As per the latest data, India's external debt stock increased by US$ 13.7 billion (3.1 per cent) to US$ 455.9 billion at end-September 2014 over the end-March 2014 level. The rise in external debt was on account of higher long-term debt, particularly commercial borrowings and NRI deposits. The maturity profile of India's external debt indicates the dominance of long-term borrowings. At end-September 2014, long-term debt accounted for 81.1 per cent of the total external debt vis-à-vis 79.8 per cent at end-March 2014. The share of short-term debt in total external debt declined from 20.2 per cent at end-March 2014 to 18.9 per cent at end-September 2014. Details of the composition of India's external debt are presented in Table 4.8.

4.41 The currency composition of India's total external debt shows that the share of US dollar-denominated debt in external debt stock continued to be the highest at 60.1 per cent at end-September 2014, followed by Indian rupee (24.2 per cent), special drawing rights (SDR) (6.5 per cent), Japanese yen (4.5 per cent), and euro (3.0 per cent) denominated. The currency composition of government (sovereign) debt indicates predominance of SDR-denominated debt

Table 4.8: Composition of External Debt (Per cent to total external debt)

Sl. No.	Component	March 2012	March 2013 PR	March 2014 PR	September 2014 QE
1	2	3	4	5	6
1	Multilateral	14.0	12.6	12.1	11.7
2	Bilateral	7.4	6.1	5.6	5.1
3	IMF	1.7	1.5	1.4	1.3
4	Export credit	5.3	4.3	3.5	3.4
5	Commercial borrowings	33.3	34.2	33.5	35.4
6	NRI deposits	16.2	17.3	23.5	23.8
7	Rupee debt	0.4	0.3	0.3	0.3
8	**Long-term debt (1 to 7)**	78.3	76.4	79.8	81.1
9	**Short-term debt**	21.7	23.6	20.2	18.9
10	**Total external debt (8+9)**	100.0	100.0	100.0	100.0

Source **: Ministry of Finance and RBI.**

Notes **: PR : Partially Revised; QE : Quick Estimates.**

(33.5 per cent), which is attributable to borrowing from the International Development Association (IDA), i.e. the soft loan window of the World Bank under the multilateral agencies, and SDR allocations by the International Monetary Fund (IMF). At end-September 2014, government (sovereign) external debt was US$ 88.4 billion. It accounted for 19.4 per cent of India's total external debt. Non-government external debt amounted to US$ 367.5 billion which was 80.6 per cent of total external debt at end-September 2014.

4.42 Over the years, India's external debt stock has witnessed structural change in terms of composition. The proportion of concessional in total debt declined from 42.9 per cent (average) during the period 1991-2000 to 28.1 per cent in 2001-10 and further to 9.8 per cent at end-September 2014. The dominance of non-government debt in total external debt is evident from the fact that such debt accounted for 65.6 per cent of total debt during the 2000s decade, vis-à-vis 45.3 per cent in the 1990s. Non-government debt accounted for over 70 per cent of total debt in the last five years and stood at 80.6 per cent at end-September 2014.The key external debt indicators are presented in Table 4.9. India's foreign exchange reserves provided a cover of 68.9 per cent to the total external debt stock at end-September 2014 vis-à-vis 68.8 per cent at end-March 2014. The ratio of short-term external debt to foreign exchange reserves was 27.5 per cent at end-September 2014 as against 29.3 per cent at end-March 2014. The ratio of concessional debt to total external debt declined steadily and stood at 9.8 per cent at end-September 2014 vis-à-vis 10.5 per cent at end-March 2014.

4.43 India's external debt has remained within manageable limits as indicated by the external debt to GDP ratio of 23.5 per cent and debt service ratio of 5.9 per cent in 2013-14. The prudent external debt management policy of the Government of India has helped in containing rise in external debt and maintaining a comfortable external debt position. The policy continues to focus on monitoring long- and short-term debt, raising sovereign loans on concessional terms with longer maturities, regulating ECBs through end-use, all-in-cost, and maturity restrictions; and rationalizing interest rates on NRI deposits.

International Comparison

4.44 Cross-country comparison of external debt based on the World Bank's International Debt Statistics 2015, which contains the external debt data for the year 2013, indicates that India continues to be among the less vulnerable

Table 4.9 : India's Key External Debt Indicators

(Per cent)

Year	External debt (US$ billion)	Total external debt to GDP	Debt service ratio	Foreign exchange reserves to total external debt	Concessional debt to total external debt	Short-term external debt* to foreign exchange reserves	Short-term external term Debt* to total debt
1	2	3	4	5	6	7	8
2010-11	317.9	18.2	4.4	95.9	14.9	21.3	20.4
2011-12	360.8	20.9	6.0	81.6	13.3	26.6	21.7
2012-13 PR	409.5	22.3	5.9	71.3	11.1	33.1	23.6
2013-14 PR	442.3	23.5	5.9	68.8	10.5	29.3	20.2
End-Sept.2014 QE	455.9	-	-	68.9	9.8	27.5	18.9

***Source*: Ministry of Finance and RBI.**

***Notes*: PR: Partially Revised; QE: Quick Estimates - : Not worked out for part of the year**

***: Short-term debt is based on original maturity.**

Debt-service ratio is the proportion of gross debt service payments to external current receipts (net of official transfers).

countries. India's key debt indicators compare well with other indebted developing countries. The ratio of India's external debt stock to gross national income at 23.0 per cent was the sixth lowest. In terms of the cover provided by foreign exchange reserves to external debt, India's position was sixth highest at 64.7 per cent **(For further details please see http://www.finmin.nic.in/reports/ind_Ext_debt.asp)**