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INDIA’S BALANCE OF PAYMENTS POSITION IMPROVES, AS CURRENT ACCOUNT DEFICIT DECLINES FURTHER: ECONOMIC SURVEY

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Ministry of Finance

India’s Balance of Payments Position Improves, as Current Account Deficit Declines Further: Economic Survey

Foreign Exchange Reserves Continue to Be Comfortable

FDI Inflows and Overseas Remittances on an Upward Graph

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The Economic Survey 2019-20 expressed satisfaction that India’s external sector has gained further stability in the first half of 2019-20, with an improvement in Balance of Payments (BoP) position, anchored by capital flows through FDI, FPI and ECBs; receipt of robust remittances and contraction of CAD.The Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman tabled the Economic Survey 2019-20 in Parliament today.

The Balance of Payments position improved to USD 433.7 billion by September, 2019 from USD 412.9 billion of forex reserves in March, 2019. This is on the back of Current Account Deficit (CAD) narrowing further to 1.5 per cent of GDP in the first half of 2019-20 from 2.1 per cent in 2018-19. Net FDI inflows remained buoyant attracting USD 24.4 billion in the first eight months of 2019-20, much higher than the corresponding period of 2018-19. Net overseas remittances in the first half of 2019-20 were more than 50 per cent of total receivables in 2018-19, standing at USD 38.4 billion. As per World Bank report of 2019, India’s 17.5 million diaspora made it the top remittance-recipient country in 2018.

India’s foreign reserves are comfortably placed at USD 461.2 billion as on 10th January, 2020. Further, External Debt levels remained low at 20.1 per cent of GDP by the end of September 2019. India’s external debt liabilities to GDP, including debt and equity components, has increased at the end of June 2019, primarily driven by increase in FDI, portfolio flows and External Commercial Borrowings (ECBs).

Composition of Trade

The Survey noted that India’s merchandise trade balance improved from 2009-14 to 2014-19 on the back of decline in crude prices. **The merchandise Exports-to-GDP ratio declined to 11.3 per cent**, due to weakened global demand and heightened trade tensions over 2018-19 to H1 of 2019-20.Petroleum, Oil and Lubricants (POL), precious stones, drug formulations & biologicals, gold and other precious metals continue to be the top exported commodities; the largest export destinations being United States of America (USA), followed by United Arab Emirates (UAE), China and Hong Kong.

The merchandise Imports-to-GDP ratio also declined, entailing a net positive impact on the BoP position. This is because of the large presence of crude oil in the import basket. Share of gold imports, another important component of import basket, has remained stable in spite of rise in gold prices. Crude petroleum, gold, petroleum products, coal, coke &briquittes constitute top import items. India's imports continue to be largest from China, followed by USA, UAE and Saudi Arabia in that order.

The Economic Survey 2019-20 further observes that non-POL-non-gold imports are understood to be positively correlated with GDP growth. However, non-POL-non-oil imports fell as a proportion to GDP from 2009-14 to 2014-19 when GDP growth accelerated. This may have happened because of consumption driven growth while the investment rate declined. Continuous decline in investment rate decelerated GDP growth, weakened consumption, dampened the investment outlook; which further reduced GDP growth and along with it, non-POL-non-gold imports as a proportion of GDP from 2018-19 to H1 of 2019-20.

Global Economic Environment

In sync with an estimated 2.9 percent growth in global output in 2019, global trade is estimated to grow at 1.0 percent after having peaked in 2017 at 5.7 percent. The slowdown in world trade reflects a confluence of factors, including a slowdown in investment, reduced spending on capital goods and decline in trade of cars and car parts. The Survey adds that global trade is projected to recover to 2.9 percent in 2020, with recovery in global economic activity, although the future is ridden with uncertainties over trade tensions and change in global value chain structures.

Trade Facilitation

Under trade facilitation, India has improved its ranking from 143 in 2016 to 68 in 2019 under the indicator, "Trading across Borders", monitored by World Bank in determining the overall ranking of around 190 countries in its Ease of Doing Business Report.In a recently released UN Global Survey on Digital and Sustainable Trade Facilitation 2019, India not only improved its overall trade facilitation score from 69 per cent to 80 per cent but also outperformed other countries in the Asia-Pacific and South and South-West Asia region. The Survey highlighted schemes like Direct Port Delivery (DPD) for imports and Direct Port Entry(DPE) for exports to encourage faster clearances, 'e-Sanchit' for lodging supporting documents online, apart from the next-generation software for Indian Customs - "Turant".

Trade Logistics

The logistics industry of India is a sunshine sector, currently estimated to be around US$ 160 billion and shortly expected to touch US$ 215 billion. According to World Bank's Logistics Performance Index, India ranks 44th in 2018 globally, up from 54th rank in 2014.The Economic Survey observed that driving down logistics cost from estimated current levels of 13-14 per cent of GDP to 10 per cent in line with global standards is the next step forward, for which interventions like Fast-tag, Bharatmala, Sagarmala and Dedicated Freight Corridors will be a huge boost.

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