

External Sector

India's macroeconomic situation on the external side continues to be stable. Though the current account deficit is projected at 2.4 per cent of GDP in 2018-19, up from 1.8 per cent in 2017-18, this is within reasonable levels. The widening of the current account deficit has been driven by a deterioration of trade deficit from 6.0 per cent of GDP to 6.7 per cent across the two years. Rise in crude prices in Q4 of 2018-19 and a decline in the growth of merchandise exports have led to the deterioration of trade deficit. The acceleration in the growth of remittances has offset the deterioration of the current account deficit. In funding the current account deficit, the total liabilities-to-GDP ratio, inclusive of both debt and non-debt components, has declined from 43 per cent in 2015 to about 38 per cent at end of 2018. The share of foreign direct investment has risen and that of net portfolio investment has fallen in total liabilities, thereby reflecting a transition to more stable sources of funding the current account deficit. In sum, although the current account deficit to GDP ratio has started to increase lately, the external indebtedness continues to be on a declining path. India's foreign exchange reserves continue to be comfortably placed in excess of US\$400 billion. The Indian Rupee traded in the range of 65-68 per US\$ in 2017-18 but depreciated to a range of 70-74 in 2018-19. The Real Effective Exchange Rate also depreciated in 2018-19, making India's exports potentially more competitive. The income terms of trade, a metric that measures the purchasing power to import, has been on a rising trend, possibly because the growth of crude prices has still not exceeded the growth of India's export prices. The exchange rate in 2018-19 has been more volatile than in the previous year, mainly due to volatility in crude prices, but not much due to net portfolio flows. The composition of India's exports and import basket has almost remained unchanged in 2018-19 over 2017-18. Petroleum products, precious stones, drug formulations, gold and other precious metals continue to be top export items. Crude petroleum, pearl, precious, semi-precious stones and gold remain as top import items. India's main trading partners continue to be the US, China, Hong Kong, the UAE and Saudi Arabia.

GLOBAL ECONOMIC ENVIRONMENT

Increasing Trade Protectionism and Slowing down of Global Output

6.1 2018-19 has closed with growth in world output on a downward trajectory. The World Economic Outlook (WEO) in its April 2019 issue has projected growth in world output at 3.3 per cent in 2019, down from 3.6 per cent obtained in 2018. Heightened US-China trade tensions has been stated as one of

the reasons behind the global slowdown that has spilled into other economies including India through the channel of exports. Beginning 2019 global slowdown has made advanced countries persist with their accommodative monetary policy stance. This has escalated portfolio investment into emerging market economies making their currencies stronger and imports cheaper.

6.2 The WEO further states that growing trade protectionism in the world, of which US-China trade tensions is the most recent

manifestation, places at risk the low relative price of machinery and equipment that over the years has declined, partly due to increasing trade integration, and supported the rise in real investment rate in developing countries. The WEO also clarifies that trade-protectionism will only divert bi-lateral trade imbalances from one country to another as the root cause of trade deficits is the macroeconomic imbalance.

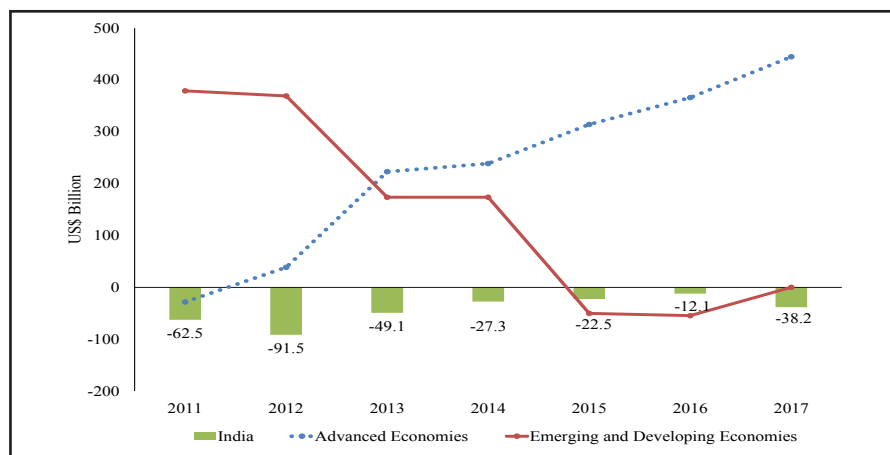
6.3 The WEO accordingly advises that at the multi-lateral level, the main priority is for countries to resolve trade disagreements cooperatively, without raising distortionary barriers that would further destabilize a slowing global economy. It seems countries are well advised to do so as beginning 2019, crude oil prices have begun to harden following production cuts by oil exporting countries with the US also cutting out oil supplies from Iran, while prices of other commodities have also risen due to supply distortions. These developments increase the vulnerability of external sector of emerging market economies like India, which are dependent on crude imports for fueling their economic growth.

6.4 In its April 2019 Press Release, WTO has also stated that world trade growth in 2018 at 3 per cent has been much below the growth

rate of 4.6 per cent in 2017 following the introduction of new and retaliatory measures around the world that by affecting widely-traded goods has caused weaker global economic growth and volatility in financial markets. The release has further stated that apart from trade tensions, trade and output were also influenced by temporary shocks, including the federal government shutdown in the United States and production problems in the automotive sector in Germany toward the end of the year. World commercial services on the other hand recorded a strong growth of 7.7 per cent in 2018 but was still lower than 8.4 per cent in 2017. However, goods related services growth shot up to 10.6 per cent in 2018, up from 8.3 per cent in the previous year.

6.5 Along with the slowing down of world trade seen in 2018 there has been a spatial shift in the nature of BoP balances as well in the last few years. Figure 1 shows that advanced economies had a current account deficit of US\$28.1 billion in 2011, which has been reducing consistently since then and turned into current account surplus of US\$444.7 billion in 2017. Emerging and developing economies on the other hand slipped from their current account surplus position of US\$379.0 billion in 2011 to US\$0.1

Figure 1: International Comparison of Current Account Balance



Source: International Monetary Fund (IMF)- Information is available till 2017 only.

billion in 2017. This reflects the shifting of the consumption hub of the world from the advanced to the less advanced countries.

6.6 It is in this context of global slowdown of output and trade, increase in trade protectionism across the world and shifting of the consumption hub to the emerging and developing economies that the developments on India's trade and BoP fronts have been discussed.

INDIA'S BALANCE OF PAYMENTS DEVELOPMENTS

Overview of Balance of Payments

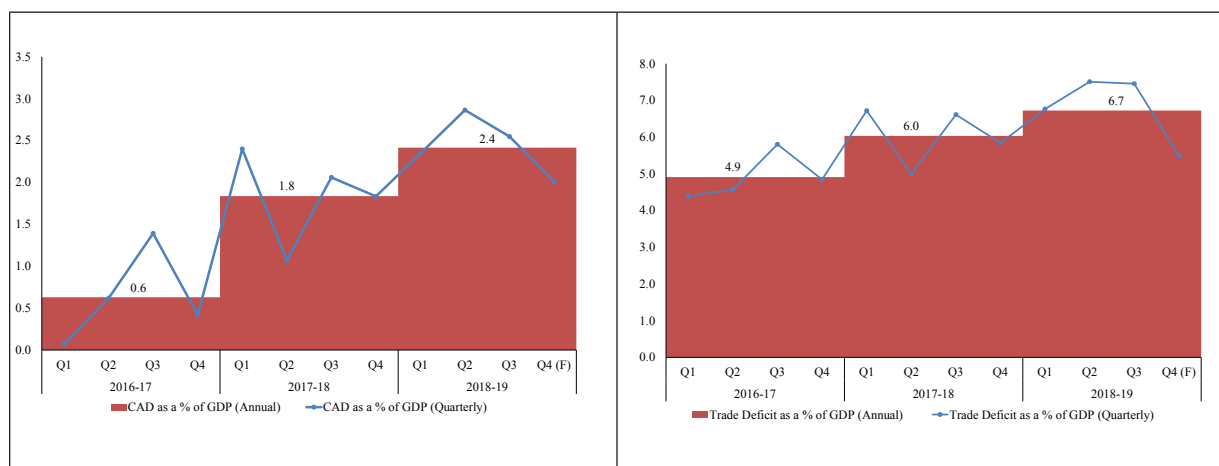
Current Account Developments

6.7 India's balance of payment situation showed some signs of stress during H1 of 2018-19 as sharp rise in crude oil prices caused current account deficit (CAD) to deteriorate. However, CAD moderated somewhat in Q3-2018-19 as international crude oil prices eased. Until end of Q3 for which data is

available (April-December 2018-19), India's CAD stood at US\$51.9 billion (2.6 per cent of GDP) as compared to US\$35.7 billion (1.8 per cent of GDP) a year ago for the same period. The widening of the CAD was largely on account of a higher trade deficit driven by rise in international crude oil prices (Indian basket) making merchandise imports grow relatively faster than exports. The trade deficit increased to US\$145.3 billion during the same period from US\$118.4 billion in the corresponding period of previous year.

6.8 India's CAD has been increasing for some years now after attaining a high of 0.6 per cent of GDP in 2016-17. It increased to 1.8 per cent of GDP in 2017-18 and has been projected at 2.4 per cent for the full year of 2018-19. Expectedly the increase in CAD is driven by increasing merchandise trade deficit, which as proportion of GDP, increased from 4.9 per cent in 2016-17 to 6.0 per cent in 2017-18 and further enhanced to 6.7 per cent in 2018-19 (Figure 2).

Figure 2: Current Account Deficit and Trade Deficit as per cent of GDP



Source: Based on data of Reserve Bank of India.

Note: F: Forecasted figures have been used for Q4 of 2018-19.

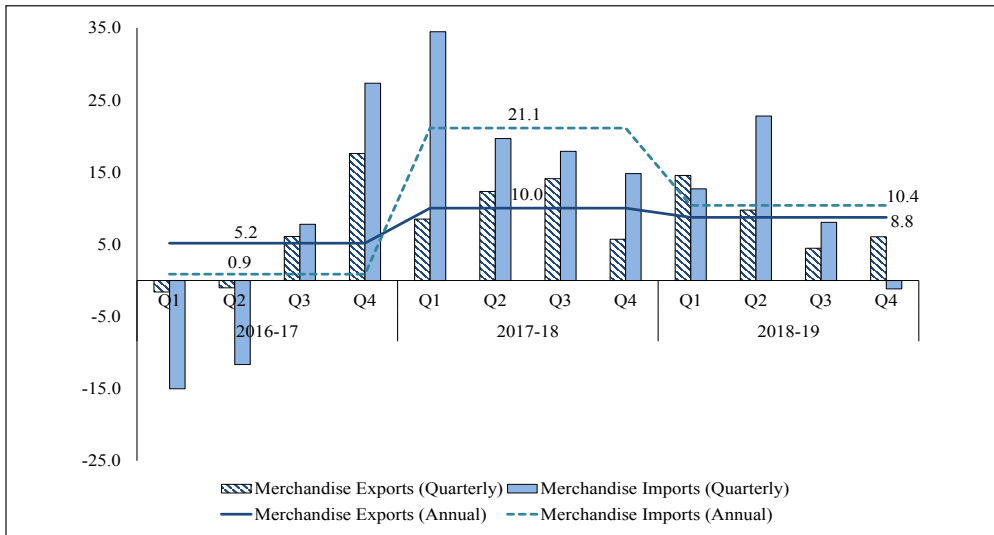
6.9 The trend in merchandise trade deficit reflect the movement of merchandise exports net of merchandize imports. The broad trends in merchandise exports, merchandize

imports and trade balance in the last ten years are indicated in Annexure I. For the recent period, as shown in Figure 3, growth of both merchandize exports and merchandize

imports accelerated from 2016-17 to 2017-18. However, thereafter the annual growth rate of merchandise exports fell from 10 per cent in 2017-18, to 8.8 per cent in 2018-19. Annual growth rate of merchandise imports

also fell from 21.1 per cent in 2017-18 to 10.4 per cent in 2018-19. In Q4 of 2018-19, merchandise imports registered negative growth that has led to slight improvement in the trade and current account deficit.

Figure 3: Growth rate of Merchandise Exports and Imports (Per cent)

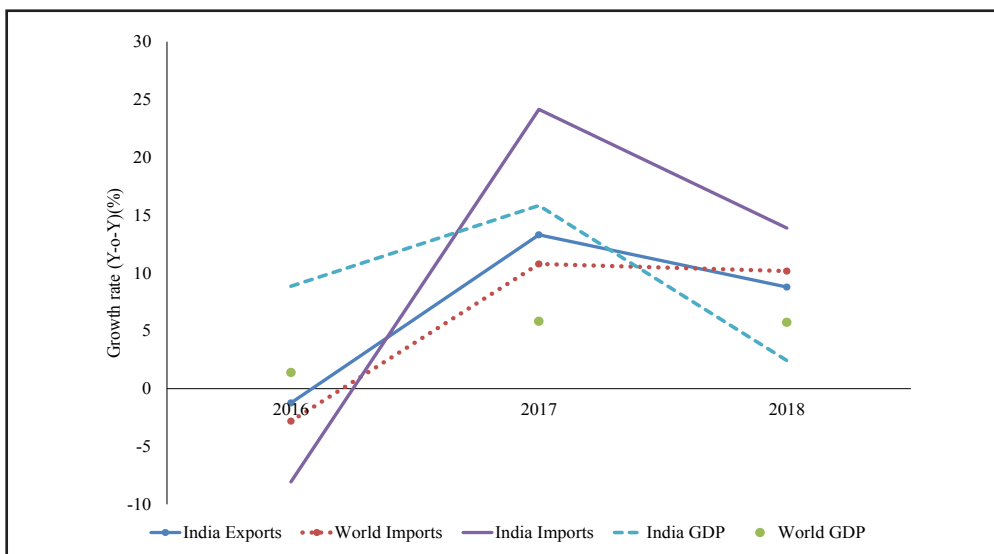


Source: Based on data of Department of Commerce.

6.10 Placing the trends of merchandize exports and imports in the global context (Figure 4), it appears that growth of India’s merchandize imports fell on the back of lower

GDP growth in 2018-19 among other factors while slower growth of merchandize exports may have resulted from slower growth of world output and trade.

Figure 4: Impact of global and domestic economy on India’s Exports and Imports

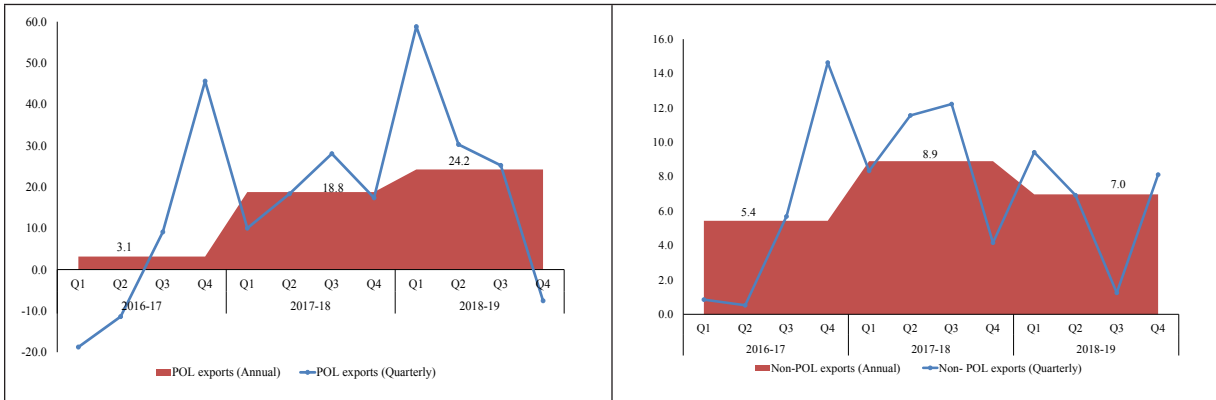


Source: Latest harmonised figures for India’s Exports/ Imports and World Imports from World Trade Organization (WTO). India and World GDP from International Monetary Fund (IMF), 2019.

6.11 The growth in merchandise exports from 5.2 per cent in 2016-17 to 8.8 per cent in 2018-19 mainly resulted from high growth in Petroleum, Oil & Lubricants (POL) exports, which increased from 3.1 per cent in 2016-17 to 24.2 per cent in 2018-19, while non-POL exports grew modestly from 5.4 per cent

to 7.0 per cent during the same period (Figure 5). However, from Q1 of 2018-19, the growth rate of POL exports has been declining continuously and turned negative in Q4. Be that as it may, petroleum products continue to have the largest share in India's export basket at 14.1 per cent in 2018-19.

Figure 5: Growth in POL and Non-POL Exports (Per cent)

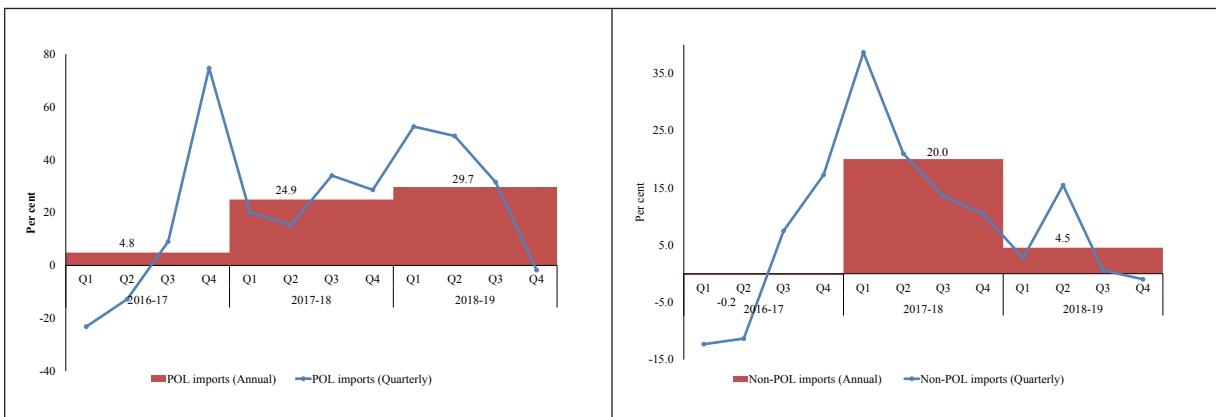


Source: Based on data of Department of Commerce.

6.12 The growth in merchandise imports from 0.9 per cent in 2016-17 to 10.4 per cent in 2018-19 can also be attributed to a sharp rise in growth rate of POL imports from 4.8 per cent in 2016-17 to 29.7 per cent in 2018-19. The non-POL imports also increased from -0.2 per cent in 2016-17 to 4.5 per cent in 2018-19 (Figure 6), possibly depicting a downturn in the economy. This appears to be all the more so as in

Q4 of 2018-19 both POL and Non-POL imports registered negative growth rate. Even then, Crude petroleum continues to be the largest imported commodity in 2018-19 with a share of 22.2 per cent, followed by Gold/Silver; Pearl, Precious, Semi-Precious Stones; and Petroleum Products; having share of 6.4 per cent, 5.3 per cent and 5.2 per cent respectively, in the import basket.

Figure 6: Growth in POL and Non-POL Imports (Per cent)

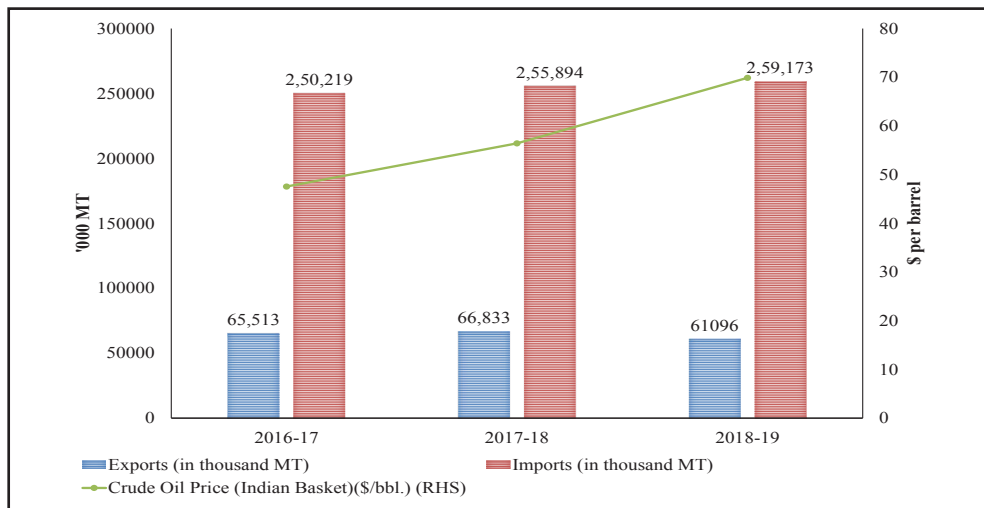


Source: Based on data of Department of Commerce.

6.13 Figure 7 reveals an interesting narrative of India's POL trade during 2016-17 to 2018-19. The acceleration in growth of POL imports from 2016-17 to 2018-19 was on account of both price increase in the international market and volume consumed

by India. However, growth of POL exports was only driven by price rise as volume exported by India actually contracted from 2016-17 to 2018-19. This reflects that India is more dependent on POL imports than the world is on India's POL exports.

Figure 7: Volume of POL Exports and Imports and Crude Oil Price (Indian basket)

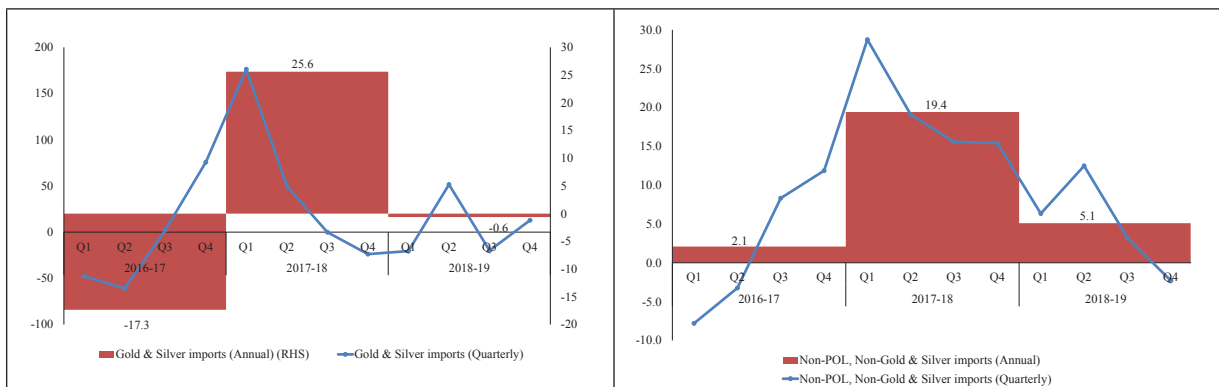


Source: Petroleum Planning and Analysis Cell.

6.14 Within Non-POL imports, sharp movements can be seen with respect to annual growth rates of gold and silver imports, which increased from -17.3 per cent in 2016-17 to 25.6 per cent in 2017-18, and then reduced to -0.6 per cent in 2018-19. Non-POL, Non-Gold and Silver Imports witnessed the same trend with increase in growth rate from 2.1 per cent in 2016-17 to 19.4 per cent in 2017-18, and then a deceleration to 5.1 per cent

in 2018-19, unlike Gold and Silver Imports (Figure 8), whose growth again turned negative in 2018-19, although not to the same extent as in 2016-17. A positive Q4 growth of gold and silver imports did not allow its growth to fall as much for the full year whereas the negative growth rate of Non-POL, Non-Gold & Silver Imports in Q4 significantly pulled down its full year growth rate.

Figure 8: Growth rate in Gold & Silver Imports and Non-POL Non-Gold & Silver Imports (Per cent)

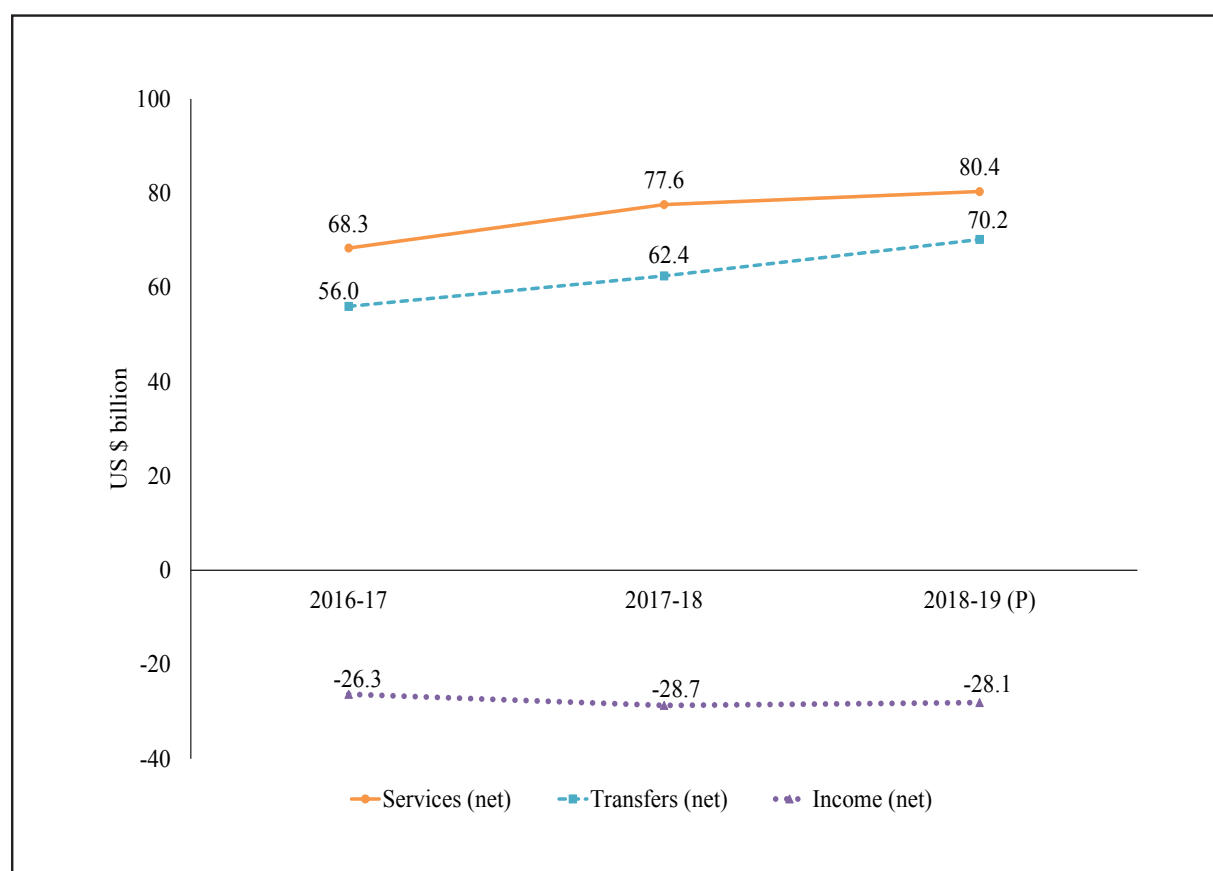


Source: Based on data of Department of Commerce.

6.15 Of three main components of net invisibles, net services followed the same trend as merchandise receipts did from 2016-17 to 2018-19, accelerating initially in 2017-18 before decelerating in 2018-19 (Figure 9). The growth of net transfers however kept on accelerating while there was no growth in net factor income during this period. The contribution of net services to financing merchandise trade

deficit has fallen from 62.2 per cent in 2016-17 to 43.7 per cent in 2018-19, reflecting a muted performance of service exports in recent times. Software services, accounting for about 40 per cent of total services receipts, along with financial services, have been the main drivers in the service exports. The broad trend in India's Services trade in the last ten years is indicated in Annexure I.

Figure 9: Net Services, Net Transfers and Net Income (in US\$ billion)



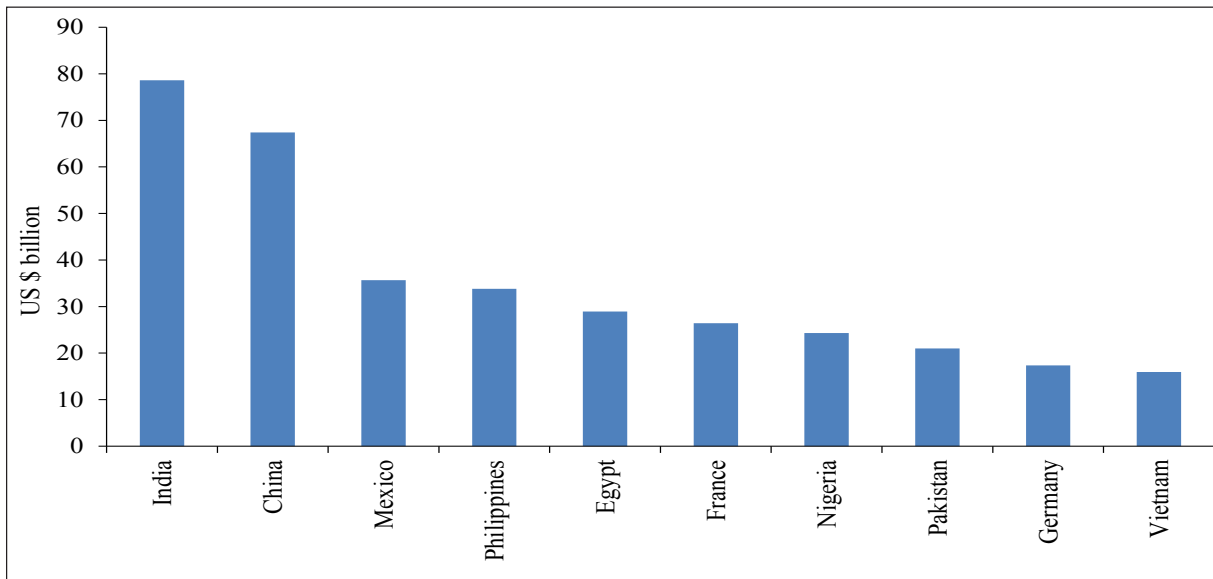
Source: Based on data of Reserve Bank of India and Ministry's projections.

Note: P: Provisional.

6.16 Net Private transfer receipts, mainly representing remittances by Indians employed overseas, increased by 12.4 per cent in 2018-19 (P) as compared to 11.5 per cent in 2017-18 and 10.6 per cent in 2016-17 (Figure 9). Improved income conditions in the Gulf countries with rise in oil prices, might have led to this rise in remittances

as a significant portion of remittances are sourced from these countries. According to the World Bank (April 2019), India remained a top remittance recipient country in 2018, followed by China, Mexico, Philippines, and Egypt, with remittance inflows peaking at all-time high at US\$78.6 billion (Figure 10).

Figure 10: Top Remittance Receivers in 2018



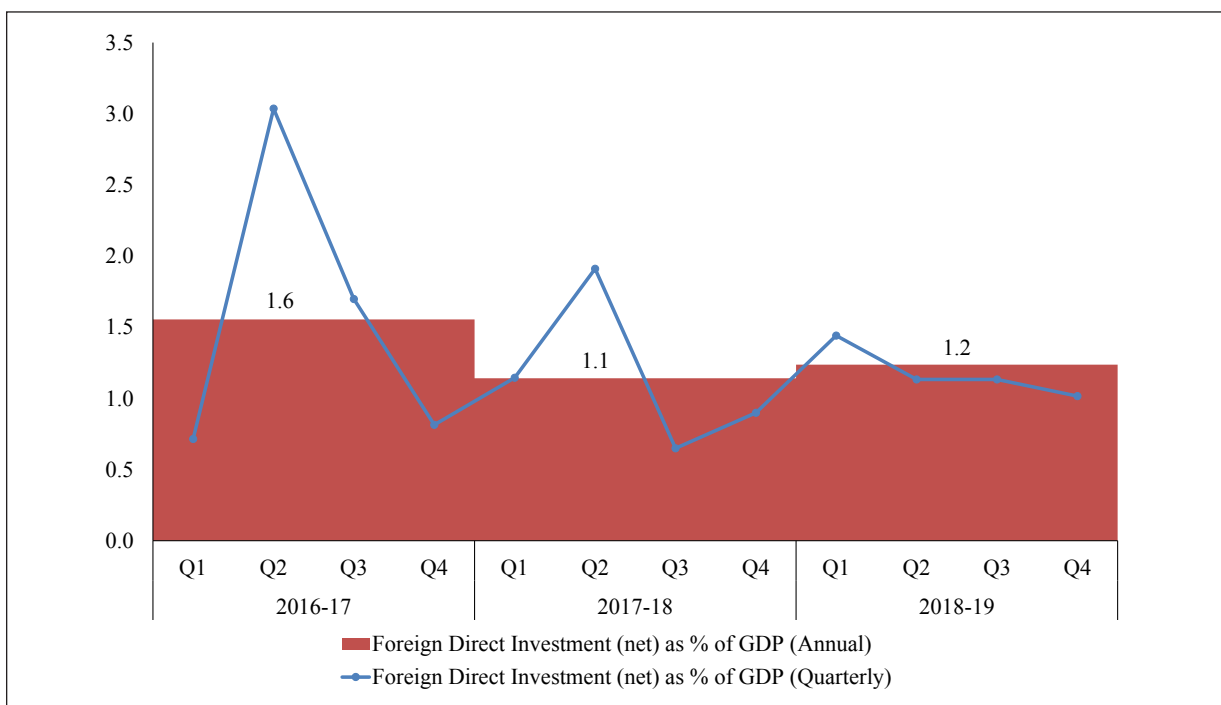
Source: Latest available figures from World Bank.

Developments in Capital Account of BOP

6.17 During 2018-19, net foreign investment declined to US\$31.3 billion as compared to US\$52.4 billion in the corresponding period of 2017-18. Robust foreign direct investment (FDI) inflows, were more than outweighed

by withdrawals under portfolio investment reflecting an escalation of global risk aversion. As a proportion of GDP, net FDI fell from 1.6 per cent in 2016-17 to 1.1 per cent in 2017-18, before rising to 1.2 per cent in 2018-19 (Figure 11).

Figure 11: Foreign Direct Investment as a per cent of GDP



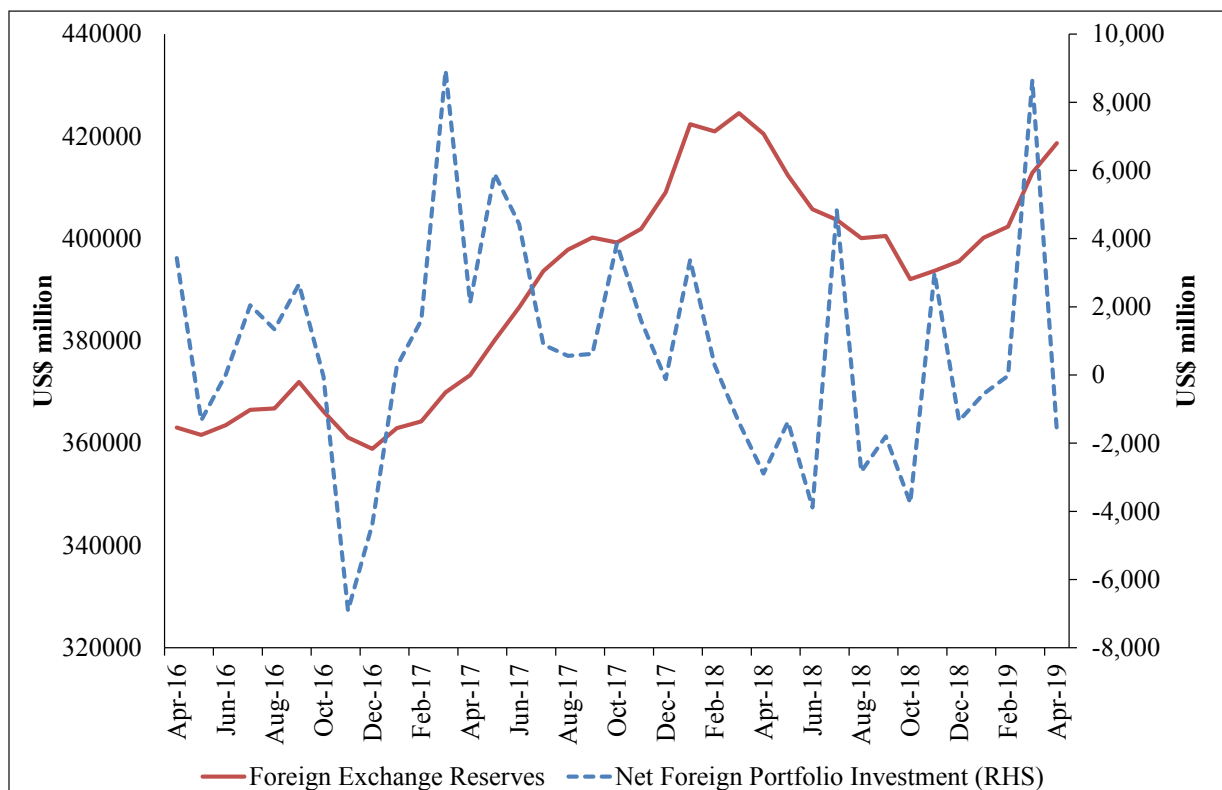
Source: Based on data of Reserve Bank of India.

6.18 Among other forms of capital flows, banking capital recorded a net inflow of US\$15.5 billion in 2018-19 (April-December), a 34 per cent increase over US\$11.6 billion in the corresponding period of the previous year. Among debt creating capital flows, net external assistance increased by 42.7 per cent to US\$2.2 billion in 2018-19 (April-December) as against US\$1.5 billion in the corresponding period of the previous year. Net External Commercial Borrowings (ECBs) also experienced a net inflow of US\$2.8 billion during 2018-19 (April-December) as against a net outflow of US\$1.2 billion in the corresponding period of the previous year, reflecting in part a possible credit crunch in the country. Net NRI deposit increased to US\$7.0 billion in 2018-19 (April-December) as against US\$5.0 billion in 2017-18 (April-December), while net short-term trade credit recorded a sharp decline during

April-December 2018 as import contraction started to set in. Overall, net capital flows fell short of financing CAD resulting in depletion of foreign exchange reserves by US\$17.5 billion during April-December 2018. The balance of payments table from 2013-14 to 2018-19 (April-December) is at Annexure II.

6.19 Over a longer period a change in the sources of funding the CAD is discernible. In 2009-14 net portfolio investment funded 45.6 per cent of current account deficit but declined to 17.1 per cent in 2014-19. The financing of the current account deficit in 2014-19 thus became less vulnerable to capital flight as compared to the previous period. The reduced dependency on FPIs to fund CAD in recent times is also reflected in the fact that growth of forex reserves in the country bears no correlation with movements in net FPI (Figure 12).

Figure 12: Monthly Movement in Net Foreign Portfolio Investment and Foreign Exchange Reserves



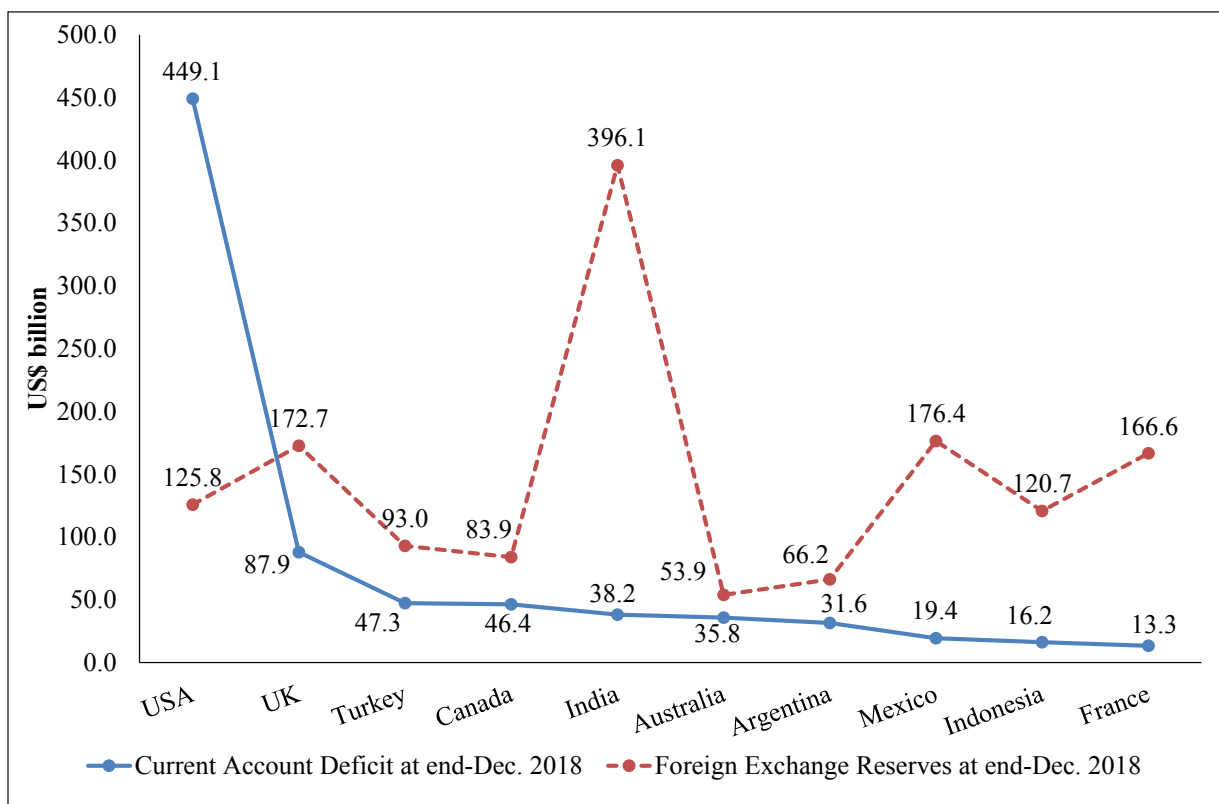
Source: Based on data of Reserve Bank of India.

6.20 India's foreign exchange reserves stood at US\$422.2 billion as on June 14, 2019. The level of foreign exchange reserves can change due to change in reserves on BoP basis as well as valuation changes in the assets held by the Reserve Bank of India. The foreign exchange reserves in nominal terms (including the valuation effects) decreased by US\$29.0 billion during April-December 2018 as against an increase of US\$39.1 billion during the same period of the preceding year. However, on a balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves decreased by US\$17.5 billion during April-December 2018 as against an increase of US\$30.3 billion during the corresponding period of the same year. The valuation loss, mainly reflecting the appreciation of the US dollar against major currencies, of US\$11.5 billion during April-

December 2018 followed a valuation gain of US\$8.8 billion during the same period of the preceding year. The table depicting summary of changes in Foreign Exchange Reserves (US\$ billion) is given in Annexure-III. The decline in forex reserves reduced the import cover of India's foreign exchange reserves to 9.1 months at end-December 2018, from 10.9 months at end-March 2018. Subsequently however in Q4 of 2018-19, there was a net accretion to the foreign exchange in nominal terms to the tune of US\$17.3 billion partly reflecting the robust foreign portfolio investments.

6.21 Among the major economies running current account deficit, India is the largest foreign exchange reserve holder and eighth largest among all countries of the world (Figure 13).

Figure 13: Countries with highest Current Account Deficit and their Forex Reserves, 2018



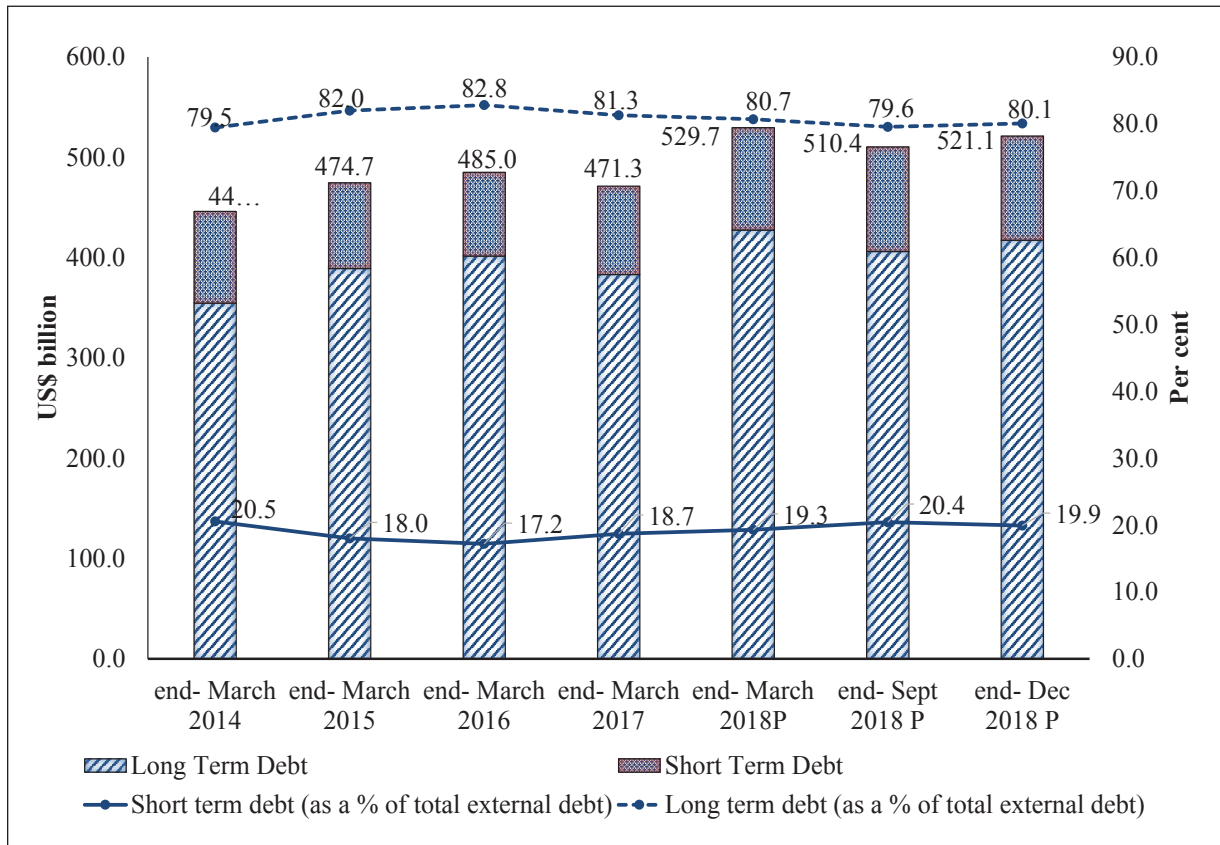
Source: Based on International Financial Statistics (IFS), IMF.

External Debt

6.22 India's External Debt was US\$521.1 billion at end-December 2018, 1.6 per cent lower than its level at end-March 2018 (Figure 14). The long-term debt declined by 2.4 per cent to US\$417.3 billion at end-December 2018 over end-March 2018, though its share

was mostly same at 80.1 per cent compared to 80.7 per cent during the same period. This constancy of share has been in evidence since 2014. Short term debt grew by 1.7 per cent in end-December 2018 compared to end-March 2018, primarily due to increase in trade related credits.

Figure 14: India's Outstanding External Debt



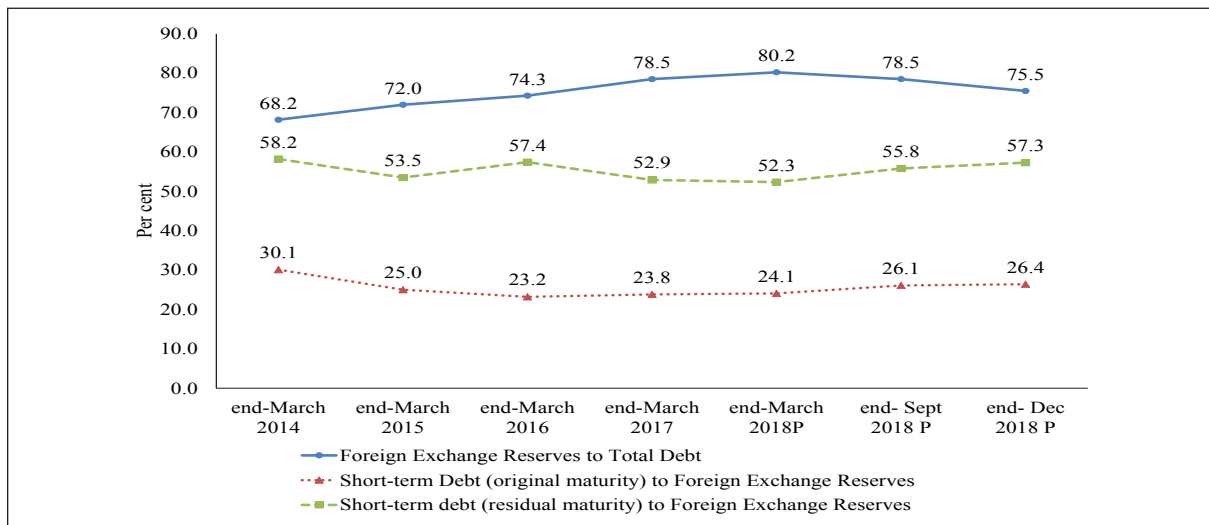
Source: Reserve Bank of India and Quarterly Report of India's External Debt ending December 2018 (latest available), Department of Economic Affairs.

Note: P: Provisional.

6.23 Foreign Exchange cover to total external debt deteriorated to 75.5 per cent at end-December 2018 from 80.2 per cent at end-March 2018, with the ratio of short term debt by original maturity to foreign exchange reserves rising to 26.4 per cent in end-December 2018 from 24.1 per cent at end-March 2018 (Figure 15). The ratio of short-term debt by residual maturity to foreign exchange reserves also increased

to 57.3 per cent from 52.3 per cent during the same period (Figure 15). The share of short term debt by residual maturity in total external debt, which is useful in assessing liquidity requirements to service contractual obligations within a year, was 43.5 per cent at end-December 2018 as against 42.0 per cent at end-March 2018 reflecting increase in liquid conditions.

Figure 15: Foreign Exchange Reserves and Debt

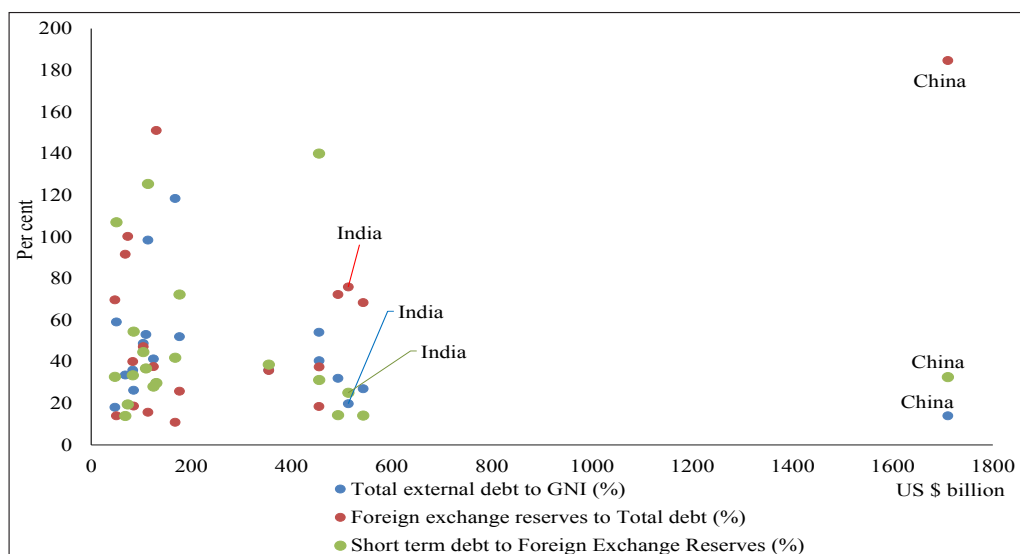


Source: Reserve Bank of India and Quarterly Report of India’s External Debt ending December 2018 (latest available), DEA
 Note: P: Provisional. The foreign exchange reserves as on 14 June, 2019 is US\$422.2 billion.

6.24 International comparison of external debt based on World Bank data shows that among the top twenty developing debtor countries in 2017, India’s external debt to Gross National Income (GNI) ratio at 19.8 per cent was fourth lowest, while China continues to have the lowest ratio of 14 per cent (Figure 16). In terms of the foreign exchange reserves cover to external debt, India’s position is fifth highest at 75.9 per cent, whereas India has fifth lowest short-term

debt to foreign exchange reserves at 25.1 per cent among the top twenty developing debtor countries (Figure 16). Again as per the World Bank data, though India is the third largest debtor country (in absolute amounts) among developing countries (after China and Brazil), its average-age of debt is much higher given that its ratio of short-term debt to total debt is only about 19.0 while that of China is 69 per cent. Higher age of debt reduces the roll-over risk.

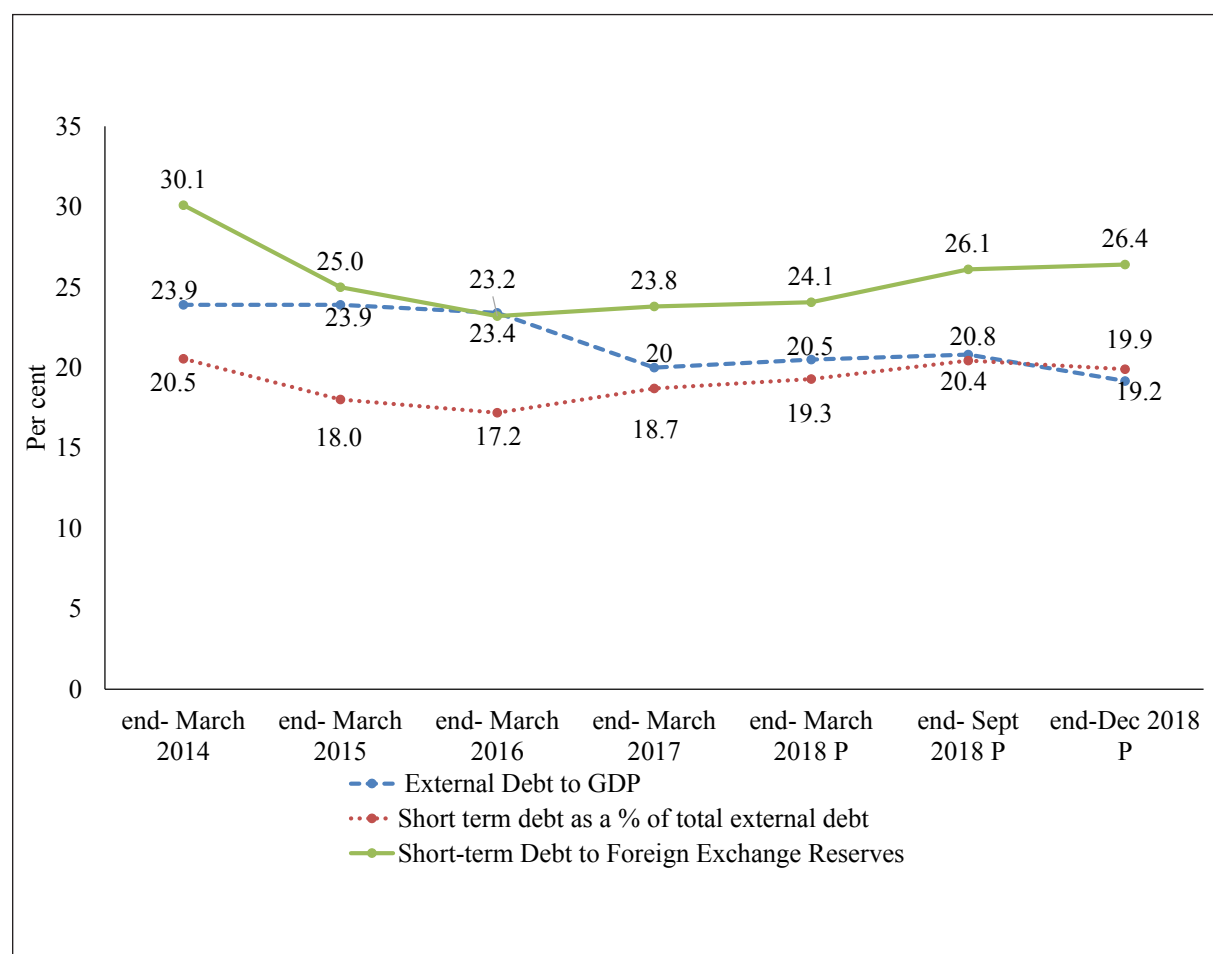
Figure 16: Cross- Country Comparison of External Debt Indicators in 2017



Source: International Debt Statistics, 2019, World Bank.

6.25 Figure 17 summarizes the key external debt indicators of India reflecting that India's external debt is not unsustainable.

Figure 17: External debt Key Indicators

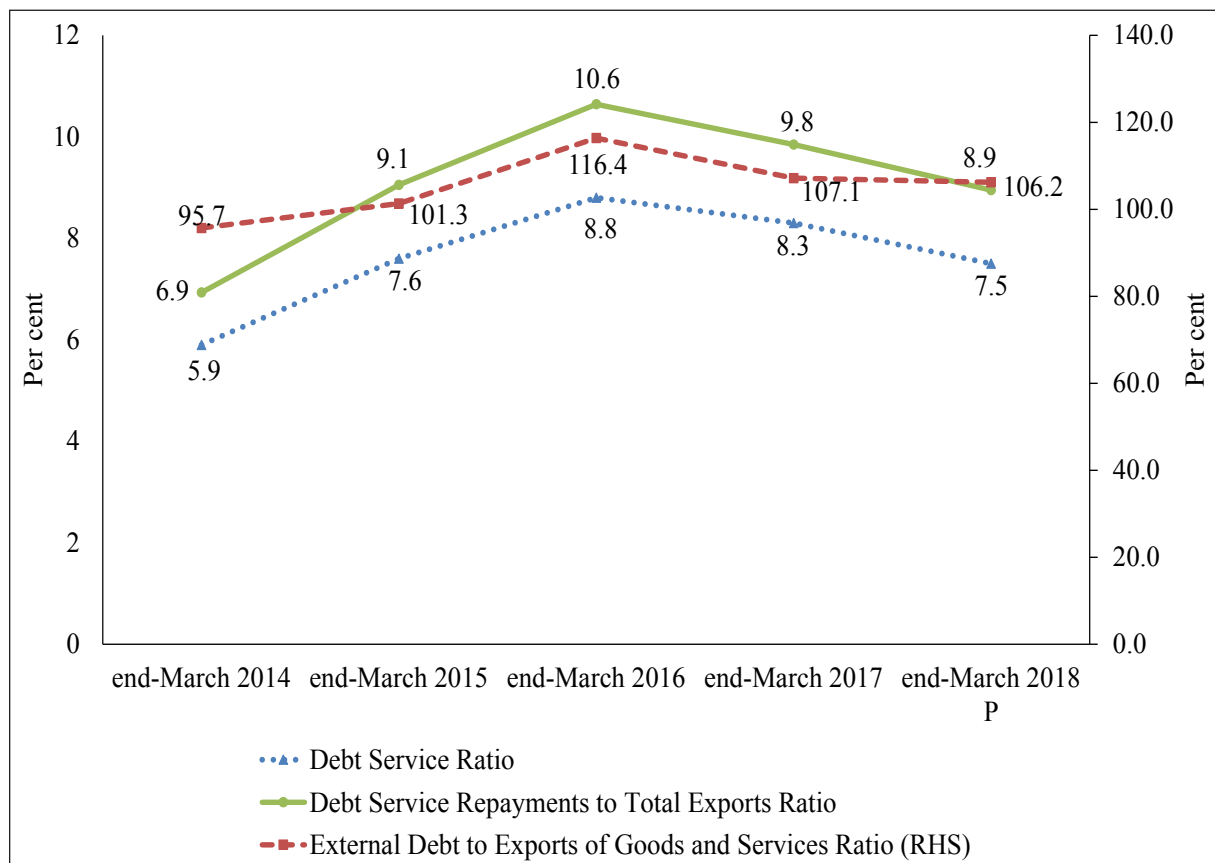


Source: Reserve Bank of India and Quarterly Report of India's External Debt ending December 2018 (latest available), DEA.

Note: P: Provisional.

6.26 Debt Service ratio indicates the claim that servicing of external debt makes on current receipts and is, therefore, a measure of strain on BoP due to servicing of debt service obligations. Debt Service ratio increased till 2016 and then declined continuously since 2016 from 8.8 per cent to 8.3 per cent in 2017 to 7.5 per cent in 2018 (end-March) (Figure 18). The total external debt to exports ratio, another measure of debt sustainability, increased since 2014 till 2016 and then reduced to 107.1 per cent

in end-March 2017 and 106.2 per cent in end-March 2018 (Figure 18). Further, the ratio of debt service repayments (including principal and interest) to total exports of goods and services also depict the same trend of increase till 2016 and then a decline in 2017 (9.8 per cent) and 2018 (8.9 per cent) (Figure 18). The declining ratios of debt service, total external debt to exports and debt service to exports in 2016-17 and 2017-18 may be seen as favorable for India.

Figure 18: Indicators of Debt Sustainability

Source: Based on data of Reserve Bank of India.

Note: P: Provisional.

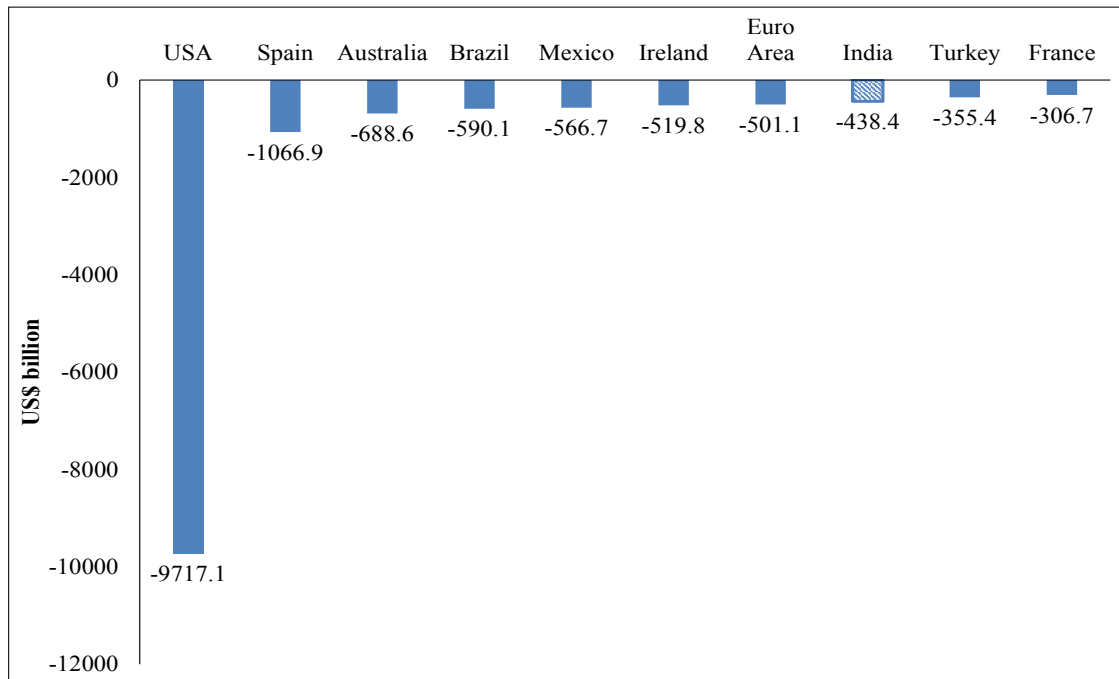
Net International Investment Position

6.27 The International Investment Position (IIP) is a statistical statement that shows at a point in time the value of financial assets of residents of an economy that are claims on non-residents or are gold bullion held as reserve assets; and the liabilities of residents of an economy to non-residents (International Monetary Fund (IMF)). The difference between the assets and liabilities is the net position in the IIP and represents either a net claim on or a net liability to the rest of the world. A positive NIIP value indicates a nation is a creditor nation, while a negative value

indicates it is a debtor nation.

6.28 Among the top ten economies having Net IIP deficit in 2018, United States is ranked first with net IIP deficit of US\$9.7 trillion, followed by Spain (US\$1.1 trillion) and Australia (US\$0.7 trillion) (Figure 19). India's net international investment deficit is the eighth highest in 2018, that however has been increasing consistently from US\$323.2 billion in 2013 to US\$438.4 billion in 2018, an increase of 35.6 per cent. In comparison to previous year 2017, India's net IIP deficit increased by 2.8 per cent from US\$426.6 billion in 2017 to US\$438.4 billion in 2018.

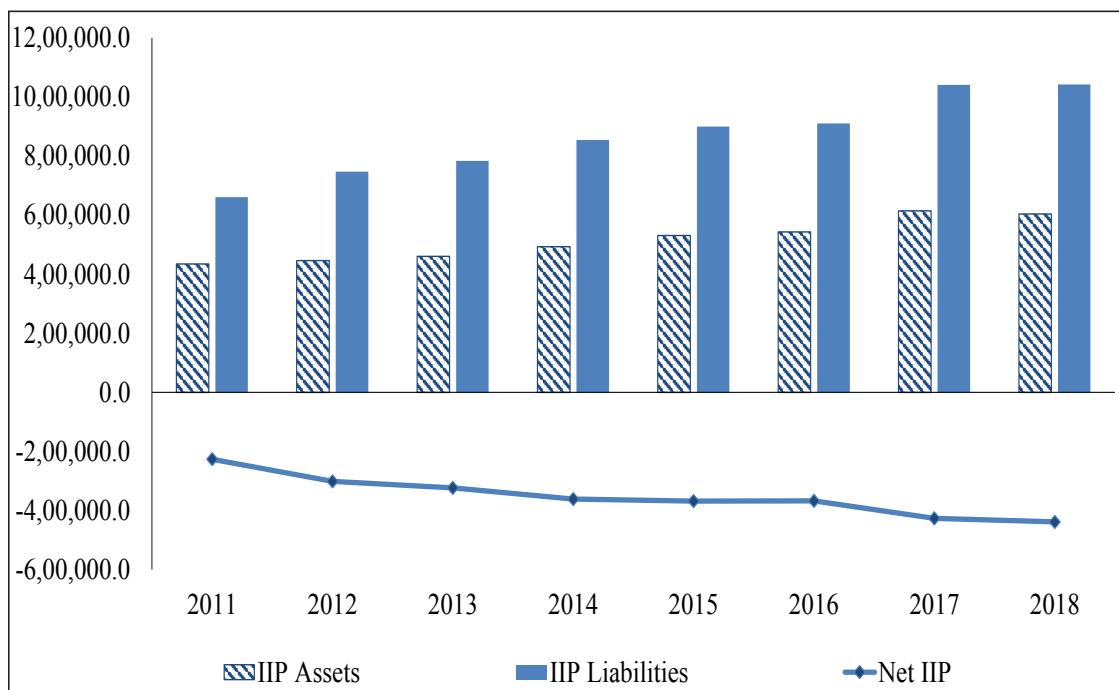
Figure 19: Net IIP Deficit of Top 10 Economies in 2018



Source: IMF.

6.29 Figure 20 shows that there is of consistent increase in IIP liabilities continuous deterioration in net IIP of over the corresponding period of India from 2011 till 2018, on account time.

Figure 20: India's International Investment Position (US\$ million)

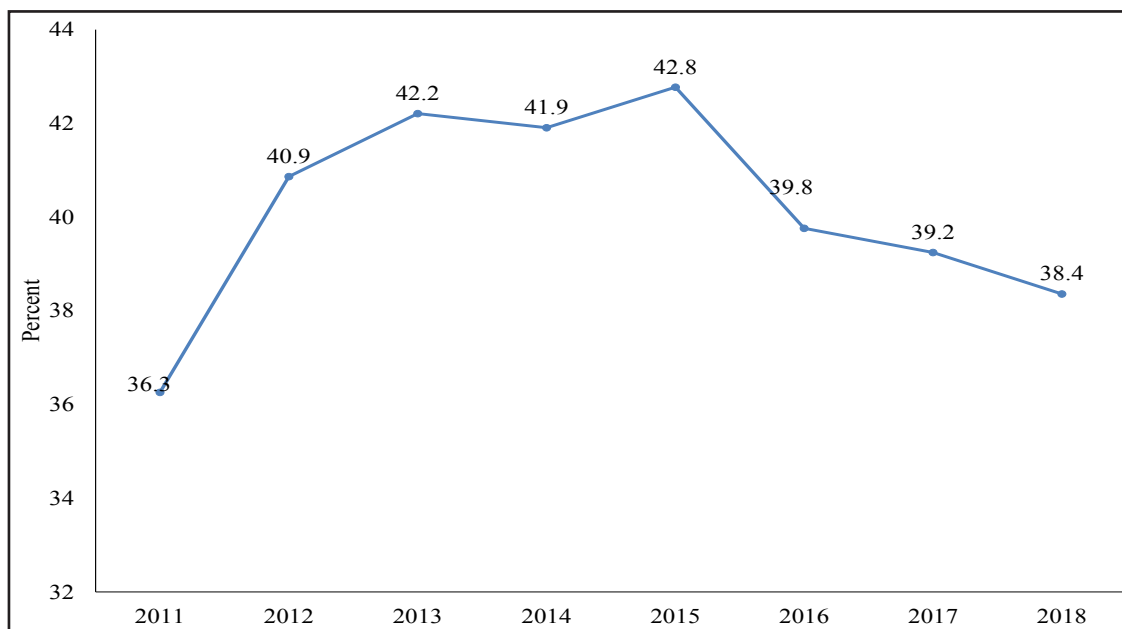


Source: IMF.

6.30 However as per centage of GDP, IIP liabilities, which had earlier increased from

2011 to 2015, have been declining since then (Figure 21).

Figure 21: Total liabilities as per cent of GDP



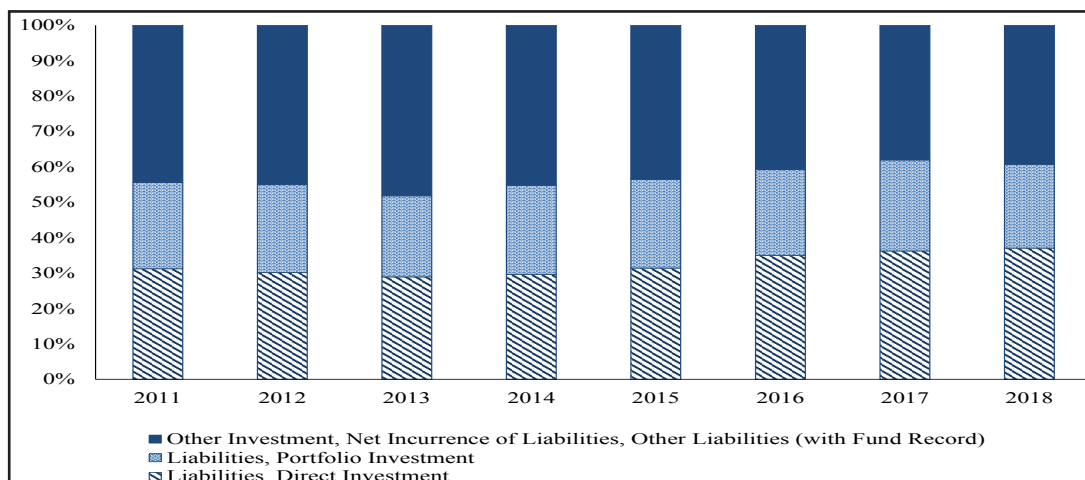
Source: Based on data of IMF.

6.31 The total liabilities in the IIP statement is a more comprehensive measure of external indebtedness than merely external debt as the former also includes net equity inflows, which is used for financing the CAD. The declining external indebtedness as evident from Figure 21 emerged in 2015 and can stabilize at its most recent level provided CAD

as a percentage of GDP stays in the range of 2.2 to 2.5 per cent of GDP.

6.32 The share of net FDI inflows in total liabilities has seen a secular increase since 2013 reflecting an increase in dependence on more stable sources of financing the CAD (Figure 22).

Figure 22: India's IIP Liabilities



Source: Based on data of IMF.

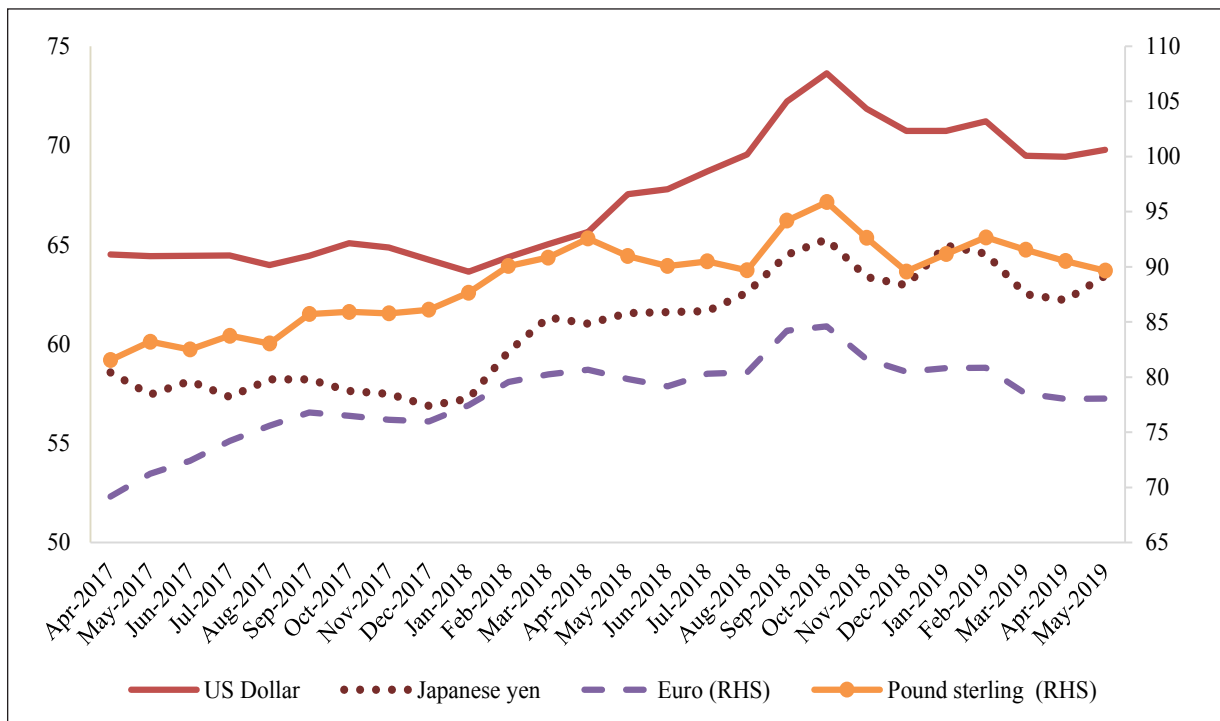
NOMINAL AND REAL EXCHANGE RATE AND TERMS OF TRADE

Exchange rate

6.33 The Indian rupee was one of the least volatile Emerging Market (EM) currencies during 2017-18 and traded in the range of 63.63 to 65.08 per US\$. During 2018-19, Indian rupee traded with a depreciating trend against US dollar and touched a historical low of 74.4 per US\$ (reference rate) on October 11, 2018 before recovering by 4.1 per cent to 69.2 per US\$ on March 29, 2019. During H1 of 2018-19, rupee remained weak due to concerns related to widening of CAD owing to rising crude oil prices coupled with the tightening of financial conditions caused by increase in Federal Funds rate by the US Federal Reserve. Thereafter, softer monetary

policy stance across major central banks and easing of crude oil prices coupled with return of risk-on sentiment triggered FPIs inflows and helped rupee to recover in Q4 of 2018-19. Notwithstanding the overall depreciation of rupee against US dollar in 2018-19, as against 2017-18, it performed better than some of other major EME currencies, such as, Argentine peso, Turkish lira, Brazilian real, and Russian ruble, which depreciated by more than 10 per cent *vis-à-vis* US dollar. Apart from rupee depreciating by 7.8 per cent *vis-à-vis* US dollar in 2018-19, it also depreciated against other major currencies. It depreciated by 7.7 per cent against Yen, and 6.8 per cent against Euro and Pound Sterling each (Figure 23). The exchange rate of rupee per unit of foreign currency and RBI's sale/purchase of US dollar in exchange market during 2018-19 is at Annexure IV.

Figure 23: Movement of Rupee against US Dollar, Euro, Pound Sterling and Japanese Yen



Source: RBI (Exchange Rate of the Indian Rupee vis-a-vis US Dollar, Pound Sterling, Euro and Japanese Yen - Monthly average)

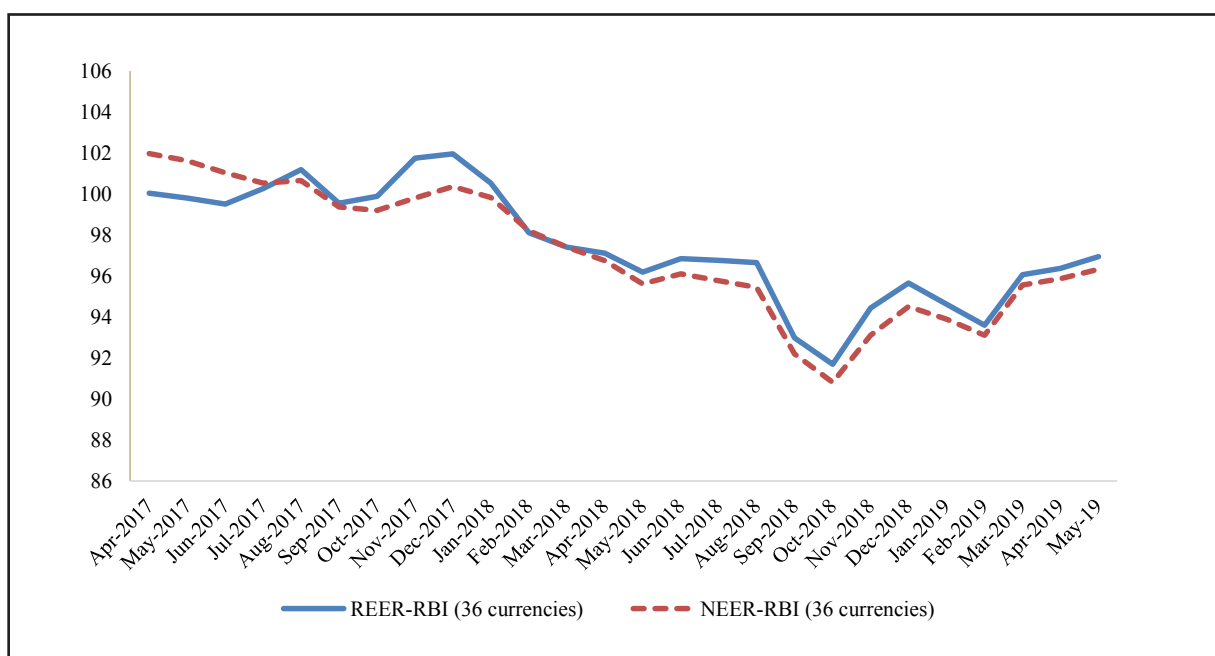
Note: The exchange rate for Japanese yen is in rupees per 100 yen.

NEER and REER

6.34 In terms of the 6 and 36 currency Nominal Effective Exchange Rate (NEER) (trade based weights), rupee depreciated by 7.1 and 5.6 per cent respectively in the fiscal year 2018-19 over 2017-18. In terms of 6 and 36 currency Real Effective Exchange Rate (REER), rupee depreciated by 5.8 per cent and 4.8 per cent respectively in 2018-19 over 2017-18. The sharpest depreciation was seen in October 2018 as

shown in Figure 24 after which the rupee witnessed signs of trend reversal. This can be attributed to strong economic fundamentals, softening of crude oil prices, sustained selling of the dollar by exporters and banks, and improving investor confidence on account of recovery in the Indian equity markets. The indices of NEER and REER (CPI Based) of the Indian rupee (with base year 2004-05) may be seen at Annexure V.

Figure 24: Movement of Indices in REER, NEER (Trade based) (2017-18 =100)



Source: Reserve Bank of India.

Exchange Rate Volatility

6.35 Table 1 below uses the highest and lowest monthly exchange rate within a year to calculate variation between month

highs and lows. The standard deviation is calculated using monthly data as an indicator of exchange rate volatility. It indicates that the rupee witnessed a spike in volatility in 2018-19 after two years of relative stability.

Table 1: Exchange rate (₹/\$) volatility

Year	Month-high	Month-low	High-low % change	Standard deviation
2011-12	43.9	54.2	23.4	3.1
2012-13	50.58	57.22	13.1	1.1

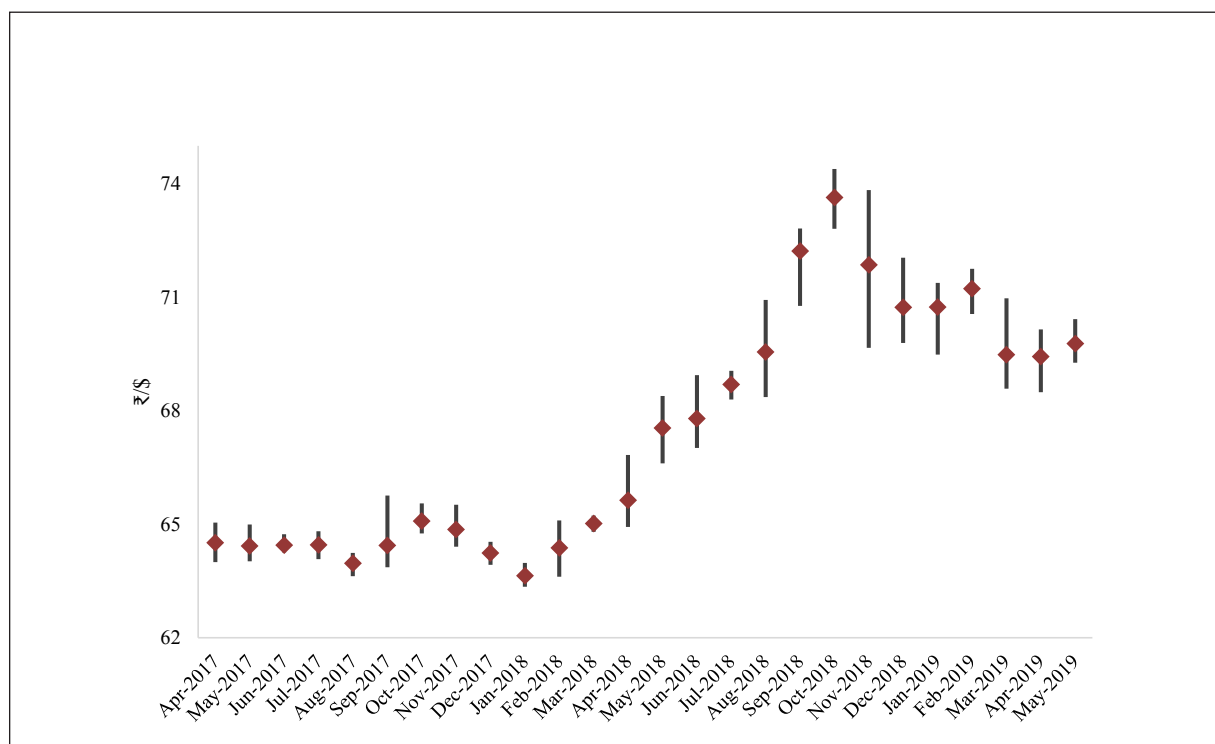
2013-14	53.74	68.36	27.2	3.1
2014-15	58.43	63.75	9.1	1.1
2015-16	62.16	68.78	10.6	1.7
2016-17	64.84	68.72	6.0	0.6
2017-18	63.35	65.76	3.8	0.4
2018-19	64.93	74.39	14.6	2.3

Source: Based on data of Reserve Bank of India.

6.36 Figure 25 demonstrates the monthly highs, lows and average of the Indian rupee vis-à-vis the dollar from April 2017 to April

2019 from where also it is evident that the rupee has been relatively more volatile in 2018-19 as compared to the previous year.

Figure 25: Exchange rate highs and lows



Source: Based on data of Reserve Bank of India.

6.37 The degree of exchange rate volatility will depend on the extent to which exchange rate movements can be anticipated. In particular, crude oil prices and net portfolio flows have been major drivers of exchange rate movements in recent years. Movements in these variables can help foresee likely variance in exchange

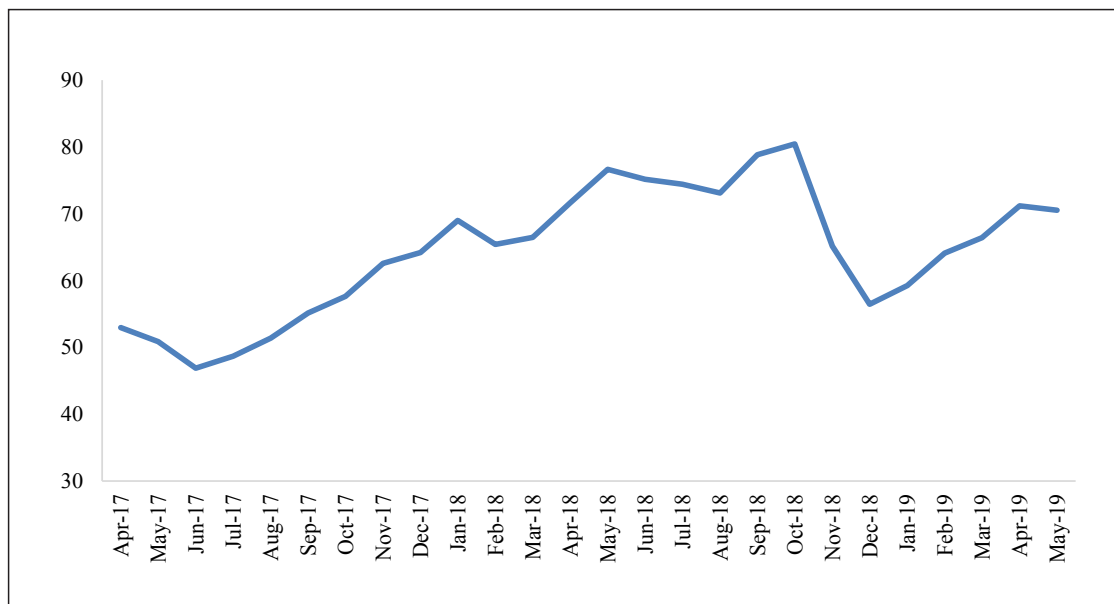
rates which will enable hedging of the volatility and impact on trade to some extent.

6.38 Figure 26 indicates the movement in price of crude oil from April 2017 to May 2019. 2018-19 seems to be a year of mixed fortunes for the oil and gas industry with prices firming up before dipping down in November

against the backdrop of anticipation of global oversupply, amid slowdown in world economic growth. However, since December

2018, crude prices have shown an uptick following US announcement of cutting out Iran totally from the oil market.

Figure 26: Crude Oil Price (\$/bbl)



Source: Based on World Bank Pink Sheet data for Brent Crude oil price

6.39 As in Table 1, Table 2 also uses the highest and lowest monthly price to calculate variation between month highs and lows. The standard deviation is calculated using monthly data as an indicator of variance in

the price. Highest variance was recorded in 2014-15. Standard deviation figures indicate that crude oil price remained relatively volatile in 2017-18 and 2018-19 compared to 2016-17.

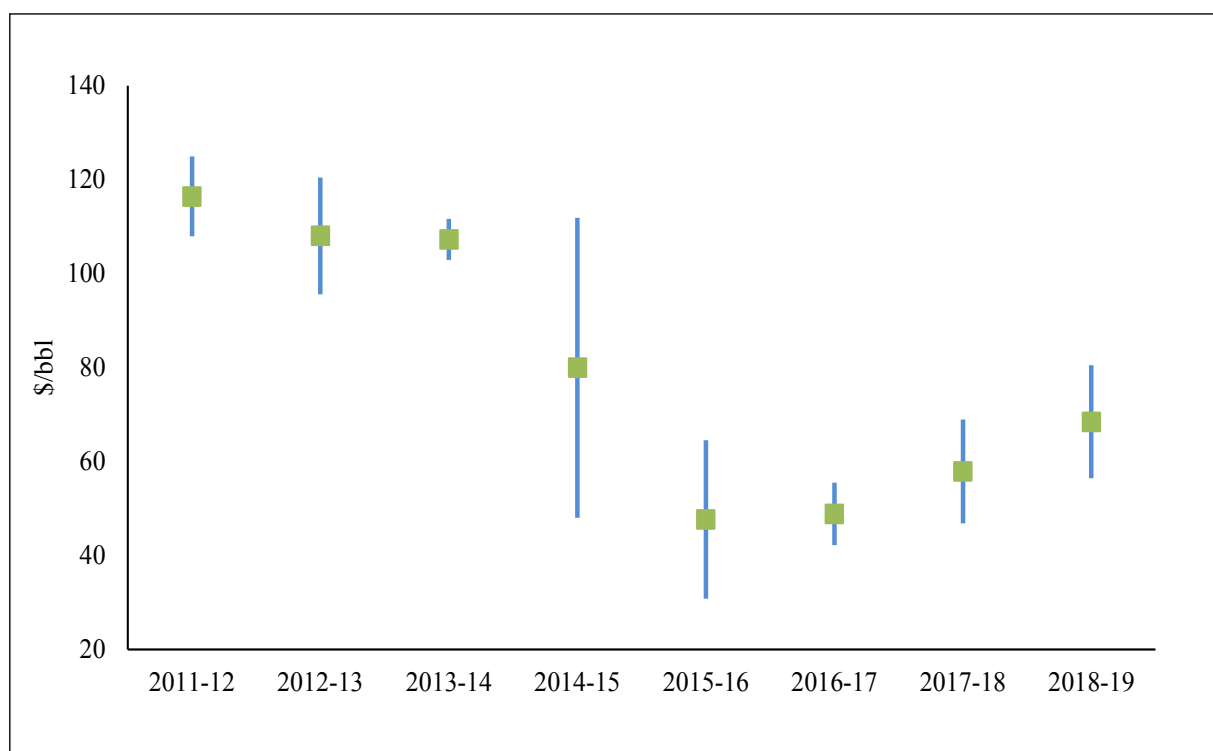
Table 2: Crude Oil Price (\$/bbl) volatility

Year	Month-high	Month-low	High-low % change	Standard deviation
2011-12	124.9	107.9	15.8	5.6
2012-13	120.5	95.6	26.0	6.3
2013-14	111.6	102.9	8.5	3.1
2014-15	111.9	48.1	132.7	23.9
2015-16	64.6	30.8	109.6	11.2
2016-17	55.5	42.3	31.3	4.3
2017-18	69.0	46.9	47.1	7.6
2018-19	80.5	56.5	42.5	7.7

Source: Based on World Bank Pink Sheet data for Brent Crude oil price

6.40 Figure 27 demonstrates the highs, lows and average of the crude oil price from 2011-12 to 2018-19, where the lows possibly

correspond with high real GDP growth in India and the highs with low real GDP growth rates.

Figure 27: Crude Oil price highs and lows

Source: Based on World Bank Pink Sheet data for Brent Crude oil price

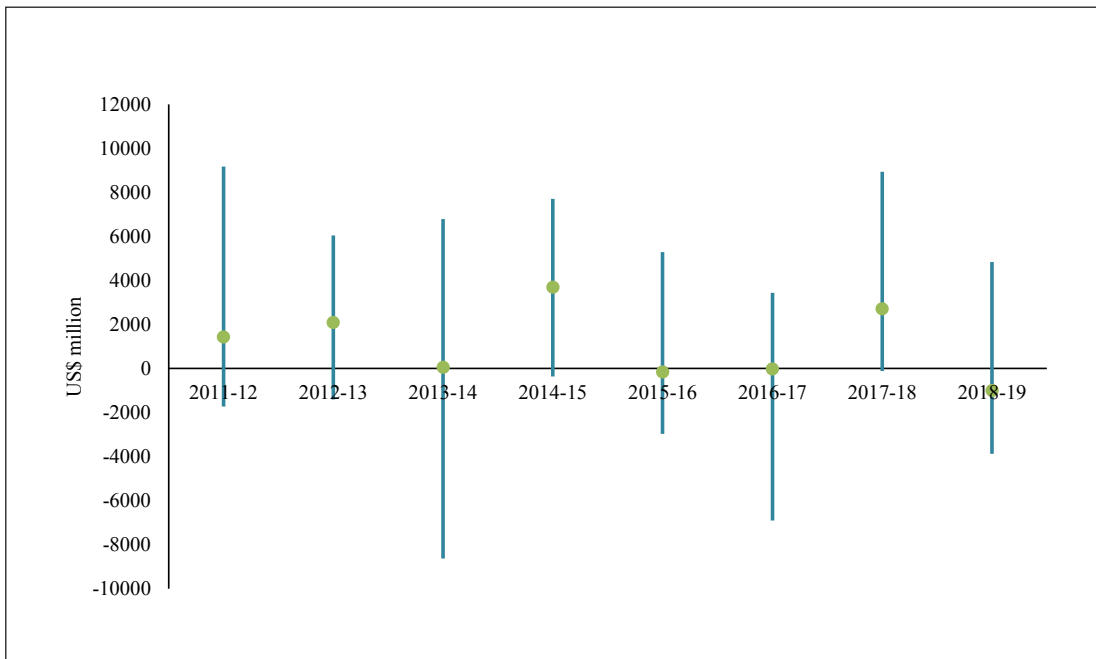
6.41 Table 3 uses monthly net Foreign Portfolio Investment (FPI) data for the period 2011-12 to 2018-19 to calculate variation between highs and lows. The standard

deviation is calculated using monthly figures. It indicates that net FPI witnessed highest volatility in 2013-14 after which it has been relatively stable in 2018-19.

Table 3: Net Foreign Portfolio Investment (FPI) volatility

Year	Month-high	Month-low	High-low % change	Standard deviation
2011-12	9170	-1734	-628.84	3250.93
2012-13	6042	-1409	-528.81	2395.78
2013-14	6782	-8628	-178.60	3904.63
2014-15	7701	-361	-2233.24	2554.61
2015-16	5288	-2973	-277.87	2847.21
2016-17	3429	-6911	-149.62	2976.37
2017-18	8935	-120	-7545.83	2720.91
2018-19	4831	-3882	-224.45	2610.56

Source: Based on data of Reserve Bank of India.

Figure 28: Net Foreign Portfolio Investment highs and lows

Source: Based on data of Reserve Bank of India.

6.42 Figure 28 demonstrates the highs, lows and average of the net FPI flows from 2011-12 to 2018-19.

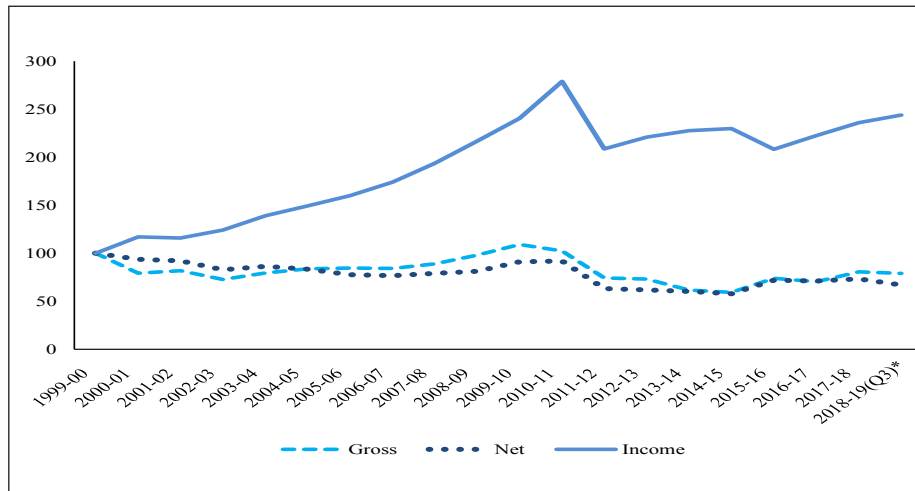
6.43 It is evident that movements in exchange rate are closely associated with movements in crude oil price and net FPI flows. The rupee remained volatile in 2018-19 on account of both global and domestic factors including rising crude oil prices, erratic trade balance, strengthening of dollar and continuous FPI outflows. Additional factors impacting the rupee include trade war between US and China and US sanctions on Iran and interest rate hikes by the US Federal Reserve.

Terms of Trade

6.44 While depreciation of REER indicates that India's exports must have become more competitive, appreciation of REER indicates less competitive exports. Price competitiveness of exports can however be better assessed by looking at how Terms of Trade (ToT) have fared across a time period. Commodity or net terms of trade (NTT) of a

country is the ratio of the unit value (price) of export to the corresponding unit value (price) of import measured relative to a base year. If this ratio increases, it implies that the country, for every unit of exports it exchanges for imports, is receiving relatively more; if the ratio decreases then the country is receiving relatively less. Two other commonly used terms of trade indices are gross terms of trade (GTT) and income terms of trade (ITT). The GTT is a ratio of total quantity of imports to that of exports of a given country. The ITT is the value of exports divided by the unit value (price) of imports to reflect how better or worse a country's purchasing power to imports has become. Figure 29 plots the movement in these three indices from 1999-2000 to 2018-19. Compared to 2017-18, India's NTT and GTT have declined by 8.9 per cent and 2.1 per cent during 2018-19 respectively while income terms of trade have increased by 3.4 per cent. However, all indices of terms of trade have been on an upward trend since 2015-16.

Figure 29: Terms of Trade (Base Year 1999-2000)



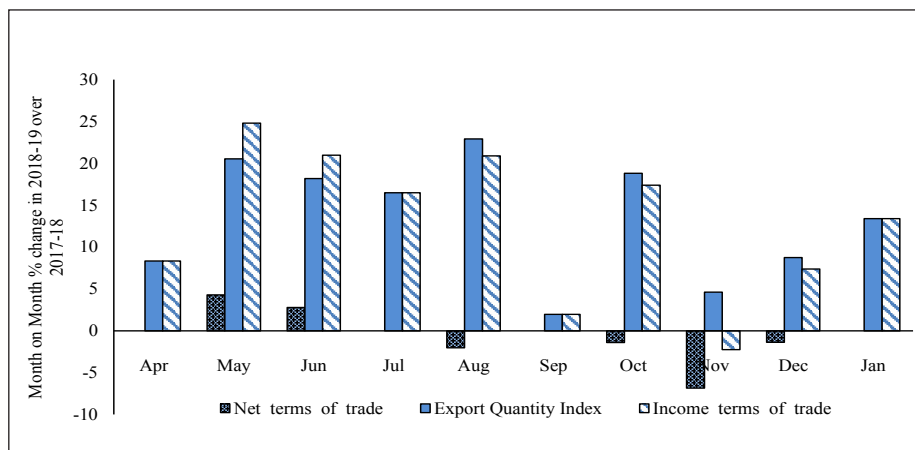
Source: DGCI&S, Kolkata

* Data available till Q3 of 2018-19

6.45 ITT comes out to be the most relevant ToT indicator for developing countries as they are more worried about changes in their capacity to import particularly when they are heavily dependent on commodity imports, such as India being dependent on crude imports. With a rising trend of ITT since the year 2000, India has been steadily increasing its purchasing power to import. In order to understand what drives the changes in ITT, Figure 30 decomposes change in ITT in terms of changes in NTT and export quantity index for April-January, 2018-19. The figure reflects that changes in ITT are more closely

tracked by changes in export volume than by changes in relative unit prices of export and imports. Since increase in export volumes is directly correlated with increase in growth of world output, a slow-down in world output has eroded the capacity to import during April-January of 2018-19 even when import prices of India have declined faster than the country’s export prices. Perhaps it would take a much larger drop in import prices to counter-balance the slow-down of world output to generate a positive ITT effect for the country.

Figure 30: Decomposition of change in Income Terms of Trade, 2018-19



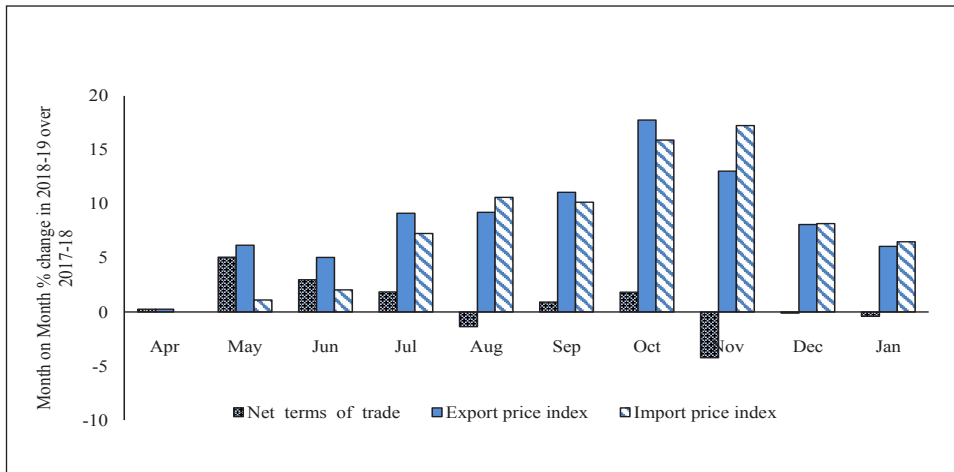
Source: Based on data of DGCI&S, Kolkata.

Note : Data available till January 2019.

6.46 Figure 31 shows that the drop in import price index towards January 2019 is yet to reach the level of April 2018, which may

have allowed the fall in export volumes to decrease the capacity to import.

Figure 31: Decomposition of change in Net Terms of Trade, 2018-19



Source: Based on data of DGCI&S, Kolkata.

Note : Data available till January 2019.

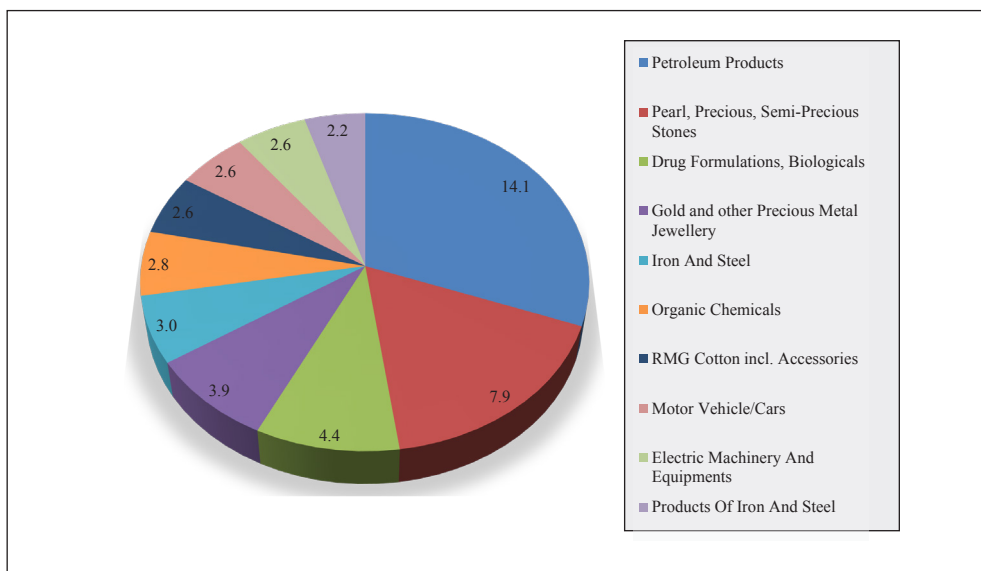
COMPOSITION OF TRADE

Major Products Exchanged in 2018-19

6.47 In 2018-19, petroleum products continued to be the largest exported commodity, in value terms, with a share of 14.1 per cent in the country's export

basket. Other major exports included pearls, precious, semi-precious stones as also gold and other precious metal jewelry besides drug formulations, biologicals (Figure 32). However, it was exports of organic chemicals which grew the highest at 30.6 per cent in 2018-19.

Figure 32: Commodity-wise Composition of Exports in 2018-19 (Per cent)

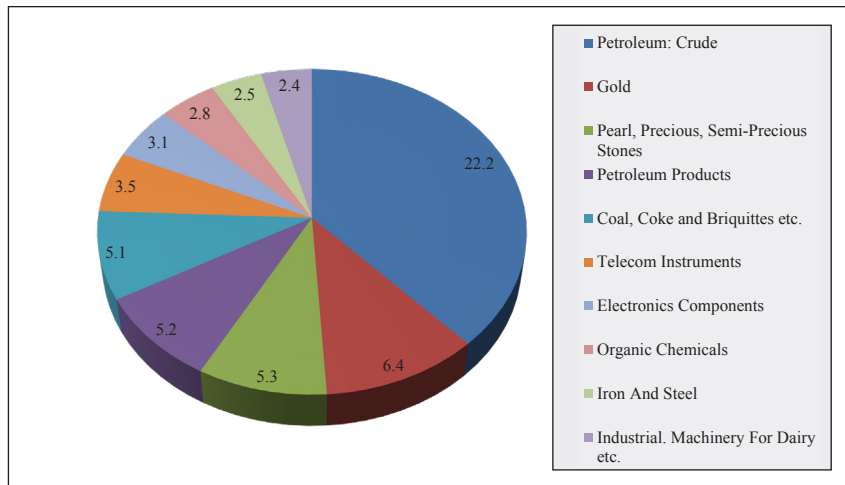


Source: DGCI&S, Kolkata.

6.48 In the import basket of 2018-19, petroleum: crude, at 22.2 per cent had the largest share followed by gold and other precious metal Jewelry at 6.4 per cent and pearls precious/semi-precious stones at 5.3 per cent (Figure 33). Growth rates of gold and pearls (including precious and

semi-precious stones) however declined in 2018-19. Electronics components grew the fastest at 54.6 per cent in 2018-19, followed by petroleum: crude and iron and steel. The exports/imports of top ten commodities, their growth rates and per centage shares in 2017-18 and 2018-19 are indicated at Annexure VI.

Figure 33: Commodity-wise Composition of Imports in 2018-19 (Per cent)



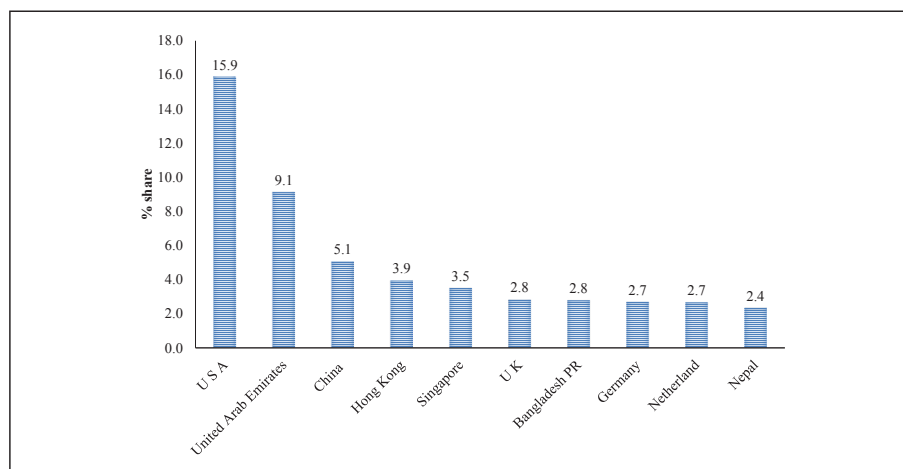
Source: DGCI&S, Kolkata.

Major trading partners in 2018-19

6.49 India's largest export destination country continues to be the United States of America (USA), which accounted for 16 per cent of India's exports (in value terms) in 2018-19, followed by United

Arab Emirates (UAE), China and Hong Kong (Figure 34). However, in 2018-19, growth of India's exports to the Netherlands was the highest (40.7 per cent), followed by China (25.6 per cent) and Nepal (17.4 per cent).

Figure 34: Top 10 Export Destinations of India in 2018-19

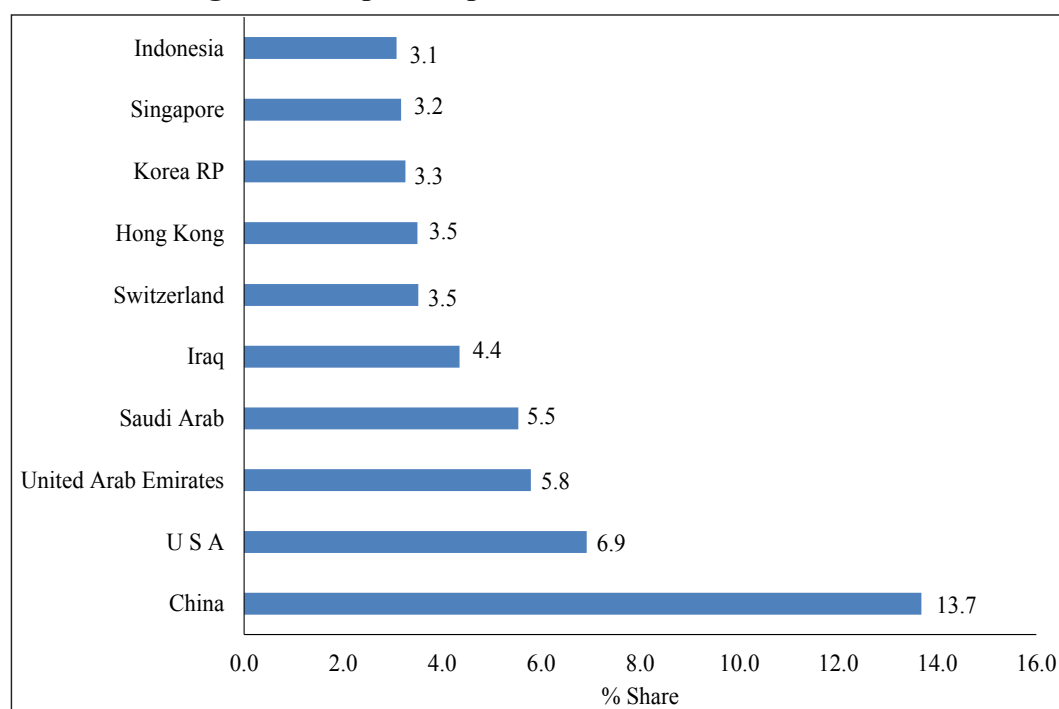


Source: DGCI&S, Kolkata.

6.50 China continues to be the largest source of imports of India accounting for 13.7 per cent of the total imported value in 2018-19. The other important sources from which India imports are the USA, UAE and Saudi Arabia. (Figure 35). In terms of growth rates, imports from Singapore grew the highest at 118.1 per cent in 2018-19, followed by Hong-

Kong (68.5 per cent) and UAE (37.0 per cent). Further, though China continues to be the largest exporter to India, India's imports from China fell from US\$76.4 billion in 2017-18 to US\$70.3 billion in 2018-19, registering a negative growth. The top ten export destinations and import sources of India in 2017-18 and 2018-19 are indicated at Annexure VII.

Figure 35: Top 10 Import Sources of India in 2018-19



Source: DGCI&S, Kolkata.

TRADE POLICY

6.51 India has bilateral trade arrangements with all major regional groupings. In Europe, it is a part of European Free Trade Association (EFTA), consisting of Switzerland, Norway, Iceland and Liechtenstein. In 2018-19, India exports to and imports from EFTA stood at US\$1,534.00 million and US\$18,076.88 million respectively.

6.52 Among SAARC countries, India and Bangladesh have a bilateral trade agreement and both countries are exploring the possibility

of entering into a bilateral Comprehensive Economic Partnership Agreement (CEPA). In 2018-19, India's exports to and imports from Bangladesh stood at US\$8,933.47 million and US\$1,043.03 million respectively. Negotiations for India and Iran entering into a Preferential Trading Agreement (PTA) is under way. Review meetings for India-Nepal Treaty of Trade is going on. With Sri Lanka, India has India-Sri Lanka Free Trade Agreement (ISLFTA), under which duty-free access for almost all the products except a few is provided. India is also negotiating a

new Economic and Technology Cooperation Agreement (ETCA) with Sri Lanka. In 2018-19, India's exports to and imports from Sri Lanka stood at US\$4,707.14 million and US\$1,473.10 million respectively.

6.53 India and ASEAN have agreed to start examining the preliminary proposals related to the scope of the review of ASEAN India Trade in Goods Agreement (AITIGA). Within ASEAN, India has Comprehensive Economic Cooperation Agreement (CECA) with Singapore, Thailand and Malaysia. In 2018-19, India exports to and imports from the ASEAN block stood at US\$37,460.34 million and US\$59,293.36 million respectively.

6.54 Among Latin American countries, India has Preferential Trade Agreements (PTA) with MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) and Chile. Possibilities are being explored for PTA with Colombia also. India is negotiating a Trade Agreement with Peru and Ecuador. Among Commonwealth of Independent States, negotiations are going on for Free Trade Agreement (FTA) with Georgia and PTA with Eurasian Economic Union (EaEU). In 2018-19, India exports to and imports from MERCOSUR block stood at US\$4,705.08 million and US\$6,425.35 million respectively.

6.55 Under North America Free Trade Agreement (NAFTA), negotiations are underway for India Canada Comprehensive Economic Policy Agreement (CEPA). India is also negotiating bilateral Comprehensive Economic Cooperation Agreement (CECA) with Australia and New Zealand. Negotiations are underway for Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with Mauritius and FTA with Israel. The table depicting progress on Bilateral Trade Agreements may be seen at Annexure VIII.

6.56 India has signed 28 bilateral/multilateral trade agreements with various country/group of countries. In 2018-19, India's exports to countries with which it has a trade agreement stood at US\$121.7 billion accounting for 36.9 per cent of India's export to all the countries. Similarly, in the same year, India's imports from countries with which it has a trade agreement stood at US\$266.9 billion accounting for 52.0 per cent of India's imports from all the countries.

TRADE FACILITATION

6.57 India ratified the WTO Agreement on Trade Facilitation (TFA) in April 2016 and subsequently constituted a National Committee on Trade Facilitation (NCTF) with the Cabinet Secretary of India as the Chair. Further, to coordinate overall implementation of India's notified facilitation commitments, a Steering Committee co-chaired by the Commerce Secretary and the Revenue Secretary has been formed.

6.58 Since then, the NCTF has played an important role in reducing the high cost of imports and exports so as to integrate our cross-border trade with the global value chain. Some of the landmarks being -

- i. establishment of a National Single Window system to route all import related formalities viz., examination, sampling, clearance, etc., which involves plethora of agencies, through a single online national portal;
- ii. simplification of fees and charges for various clearance related activities at the borders;
- iii. paperless filing of import/ export documents through 'E-sanchit' project; and
- iv. publishing of resource information viz., procedures for import/ export, laws and regulations, etc., online for ease of access.

6.59 Consistent trade facilitation efforts have resulted in substantive improvement of India's performance in *Trading Across Borders* indicator from 146 in 2017 to 80 in the year 2018. Further, these initiatives have also contributed to overall improvement in 'Ease of Doing Business' environment in the country, as also recognized by the World Bank.

TRADE RELATED LOGISTICS

6.60 The Indian logistics sector is on a big growth tide. According to the domestic rating agency ICRA, Indian logistics sector is expected to grow at a rate of 8-10 per cent over the medium term. This is an improvement over the compound annual growth rate (CAGR) of 7.8 per cent at which the industry grew during the last five years. The logistics industry of India is currently estimated to be around US\$215 billion.

6.61 The last few years have seen significant development for this industry which is reflected in the global rankings. According to the Global Ranking of the World Bank's 2016 Logistics Performance Index, India jumped to 35th rank in 2016 from 54th rank in 2014 in terms of overall logistics performance. In 2018, India stood at 44th rank. Experts predict that the logistics sector can be the largest job creator by 2022. The sector currently provides employment to more than 72 crore people in the country.

6.62 Government of India has announced a draft National Logistics policy for which a national logistics action plan is being developed. The key objective is to drive economic growth and trade competitiveness of the country through a truly integrated, seamless, efficient, reliable and cost effective logistics network, leveraging best in class technology, processes and skilled manpower. Various logistics schemes have

been introduced, which are as under:

- i. The Government has launched many flagship programmes like the Bharatmala Yojana, the Sagarmala Yojana and the Dedicated Freight Corridors. The objective of these programmes is to develop infrastructure to meet the growing demand of logistics in the country and to make a modal shift on more cost effective modes of transport.
- ii. 111 waterways have been identified for development.
- iii. Infrastructure status has been given to select logistics activities like warehousing, cold chains, Multi modal logistics parks and slurry pipelines.
- iv. Subsidy is provided to develop cold chains and pack houses.

6.63 Indian logistics industry is a sunshine sector and there are multiple factors on both demand and supply side that are driving this sector. On the demand side, the reduction in truck turnaround time following GST is a major stimulus to logistics growth as also pick up in industrial production. On the supply side, the outsourcing of non-core activities like warehousing is allowing main players to focus on improving efficiency of transportation. Automation of large warehouses is also adding to the efficiency of the logistics sector.

6.64 According to Bowersox, Calantone and Rodrigues, India's logistics cost as a percentage of GDP was 15.4 in 1997 and 17 per cent in the year 2000. As per an international market research conducted by Armstrong & Associates (October 2017), India's logistics cost as a percentage of GDP is estimated to be 13 per cent. A comparison of India with the rest of the world, taking 2016 as reference year, is in Table 4.

Table 4: Logistics Cost of India and rest of the world (Reference Year= 2016)

2016 Comparative Analysis	Logistics Cost** (US\$Billions)	Logistics % GDP
India	293.1	12.80
Brazil	208.6	11.62
China	1626.7	14.50
USA	1522.7	8.14
World	8226.3	10.86

Source: **Armstrong & Associates, October 2017

6.65 Driving logistics cost down from estimated current levels of 13-14 per cent of GDP to 10 per cent in line with best-in-class global standards is essential for India to become globally competitive.

ANTI-DUMPING AND SAFEGUARD MEASURES

6.66 India 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 the domestic industry and causal link between dumping and injury to the domestic industry. The countries involved in these investigations are China PR, Hong Kong, Korea, Germany, EU, USA, Malaysia, South Africa, Thailand, Brazil among others.

6.67 During the period from 01.04.2018 to 31.03.2019, DGTR initiated 24 anti-dumping (both fresh and review) investigations, and issued final findings in 50 anti-dumping investigations. During 2018-19, DGTR initiated 5 countervailing duty investigations and issued final findings in two CVD cases. One safeguard measure investigation was also finalized during 2018-19. DGTR is also in the process of developing a web application for online submission of petitions, information,

submissions, rejoinders etc. related to anti-dumping/ countervailing/ anti-circumvention investigations, for convenience of the industry and for enabling DGAD to provide trade remedies available under the WTO framework to the various stakeholders.

OUTLOOK

6.68 The WEO, April 2019 has forecast acceleration of world output in second half of 2019. The key assumptions in this regard are continued accommodative monetary policy stance in advanced countries and fiscal stimulus in China and de-escalation of trade tensions between the US and China. There could be pressure on crude prices to increase as world output grows yet that may not impact India since growth in world output will also favorably impact India's exports, which is not decoupled from growth of world trade. Government policies are expected to further lift restrictions on FDI inflows, which will continue to increase the stability of sources funding the current account deficit. From a macro-economic perspective the deterioration of CAD may be contained if consumption slows down in the economy while increase in investment and exports become the new drivers of the Indian economy.

CHAPTER AT A GLANCE

- As per WTO, World trade growth has slowed down to 3 per cent in 2018, much below the growth rate of 4.6 per cent in 2017, following the introduction of new and retaliatory tariff measures, heightened US-China trade tensions, weaker global economic growth and volatility in financial markets.
- India's balance of payment situation witnessed some signs of deterioration during H1 of 2018-19 due to the sharp rise in crude oil prices causing higher current account deficit (CAD). However, CAD moderated somewhat in Q3-2018-19 as international crude oil prices eased sequentially in November and December 2018. The widening of the CAD was largely on account of a higher trade deficit driven by rise in international crude oil prices (Indian basket).
- The growth rate of merchandise exports and imports fell in 2018-19 compared to previous year, attributable to the slower growth of world output and trade, accompanied with lower domestic GDP growth in 2018-19, among other factors.
- The contribution of net services to financing merchandise trade deficit has fallen from 62.2 per cent in 2016-17 to 43.7 per cent in 2018-19 reflecting a muted performance of service exports in recent times.
- Net capital flows moderated in April-December of 2018-19 despite robust foreign direct investment (FDI) inflows, outweighed by withdrawals under portfolio investment.
- The net remittances by Indians employed overseas increased in 2018-19 (P) compared to last year, possibly due to improved income conditions in the Gulf countries along with rise in oil prices. India remained a top remittance recipient country in 2018.
- Among the major economies running current account deficit, India is the largest foreign exchange reserve holder and eighth largest among all countries of the world.
- India's External Debt was US\$521.1 billion at end-December 2018, 1.6 per cent lower than its level at end-March 2018. The key external debt indicators reflect that India's external debt is not unsustainable.
- The total liabilities-to-GDP ratio, inclusive of both debt and non-debt components, has declined from 43 per cent in 2015 to about 38 per cent at end of 2018. The share of foreign direct investment has risen and that of net portfolio investment has fallen in total liabilities, thereby reflecting a transition to more stable sources of funding the current account deficit.
- The Indian Rupee traded in the range of 65-68 per US\$ in 2017-18 but depreciated to a range of 70-74 in 2018-19. During H1 of 2018-19, rupee remained weak due to concerns related to widening of CAD owing to rising crude oil prices coupled with the tightening of financial conditions caused by increase in Federal Funds rate by the US Federal Reserve.
- The income terms of trade, a metric that measures the purchasing power to import, has been on a rising trend, possibly because the growth of crude prices has still not exceeded the growth of India's export prices. The exchange rate in 2018-19 has been more volatile than in the previous year, mainly due to volatility in crude prices, but not much due to net portfolio flows.
- The composition of India's exports and import basket has almost remained unchanged in 2018-19 over 2017-18. Petroleum products, precious stones, drug formulations, gold and other precious metals continue to be top export items. Crude petroleum, pearl, precious, semi-precious stones and gold remain as top import items. India's main trading partners continue to be the US, China, Hong Kong, the UAE and Saudi Arabia.
- India has signed 28 bilateral/multilateral trade agreements with various country/group of countries. In 2018-19, India's exports to countries with which it has a trade agreement stood at US\$121.7 billion accounting for 36.9 per cent of India's export to all the countries. Similarly, in the same year, India's imports from countries with which it has a trade agreement stood at US\$266.9 billion accounting for 52.0 per cent of India's imports from all the countries.
- The logistics industry of India is currently estimated to be around US\$215 billion. The significant developments in this industry led to an increase in the ranking of India in overall logistics performance, according to the Global Ranking of the World Bank's 2016 Logistics Performance Index. In 2018, India stood at 44th rank.

Annexure I

I. Merchandise Trade

- The broad trends in Merchandise Exports, Imports and Trade Balance in the last ten years are indicated in the table below:

S. No.	Year	Exports	Growth (%)	Import	Growth (%)	Trade Balance
1	2009-10	178.75	-3.53	288.37	-5.05	-109.62
2	2010-11	249.82	39.76	369.77	28.23	-119.95
3	2011-12	305.96	22.48	489.32	32.33	-183.36
4	2012-13	300.40	-1.82	490.74	0.29	-190.34
5	2013-14	314.41	4.66	450.20	-8.26	-135.80
6	2014-15	310.34	-1.29	448.03	-0.48	-137.70
7	2015-16	262.29	-15.48	381.01	-14.96	-118.72
8	2016-17	275.85	5.17	384.36	0.88	-108.51
9	2017-18	303.53	10.03	465.58	21.13	-162.06
10	2018-19	330.07	8.75	514.03	10.41	-183.96

Source: DGCI&S, Kolkata.

II. India's Services Trade

S. No	Year	Exports	Growth (%)	Imports	Growth (%)	Net of Services
1	2009-10	96.04	-9.36	60.03	15.34	36.02
2	2010-11	124.64	29.77	80.55	34.19	44.08
3	2011-12	142.32	14.19	78.23	-2.89	64.10
4	2012-13	145.68	2.36	80.76	3.24	64.91
5	2013-14	151.81	4.21	78.75	-2.50	73.07
6	2014-15	158.11	4.15	81.58	3.59	76.53
7	2015-16	154.31	-2.40	84.63	3.75	69.68
8	2016-17	164.20	6.41	95.85	13.25	68.34
9	2017-18	195.09	18.81	117.53	22.61	77.56
10	2018-19 (P)*	205.79	5.49	125.46	6.75	80.33

Source: RBI database and Press Releases, Note: P stands for provisional

*Note 2: Services data pertains to March 2019 as it is the latest data available as per RBI's Press Release dated 15th May 2019. 2018-19 is arrived at by adding quarterly data of RBI for Q1, Q2 & Q3 of 2018-19 with Month-wise QE data of RBI's press release for January, February & March 2018-19. This data is provisional and subject to revision by RBI

It may be mentioned here that Net of Services is financing 43.67 per cent of the merchandise trade deficit in 2018-19.

Table 3: Balance of Payments (US\$ million)

Sl No	Item	2013-14	2014-15	2015-16	2016-17	2017-18	2017-18 Apr-Dec	2018-19 Apr-Dec P
1	2	3	4	5	6	7	9	8
I	Current Account							
1	Exports	3,18,607	3,16,545	2,66,365	2,80,138	3,08,970	2,26,753	2,49,869
2	Imports	4,66,216	4,61,484	3,96,444	3,92,580	4,69,006	3,45,166	3,95,142
3	Trade Balance (1-2)	-1,47,609	-1,44,940	-1,30,079	-1,12,442	-1,60,036	-1,18,413	-1,45,272
4	Invisibles (net)	1,15,313	1,18,081	1,07,928	98,026	1,11,319	82,762	93,407
	A. Services	73,066	76,529	69,676	68,345	77,562	57,398	60,254
	B. Income	-23,028	-24,140	-24,375	-26,302	-28,681	-20,861	-20,452
	C. Transfers	65,276	65,692	62,627	55,983	62,438	46,225	53,605
5	Goods and Services Balance	-74,544	-68,411	-60,402	-44,098	-82,474	-61,015	-85,019
6	Current Account Balance (3+4)	-32,296	-26,859	-22,151	-14,417	-48,717	-35,651	-51,865
II	Capital Account							
	Capital Account Balance	48,787	89,286	41,128	36,447	91,390	66,366	35,275
	i. External Assistance (net)	1,032	1,725	1,505	2,013	2,944	1,514	2,160
	ii. External Commercial Borrowings (net)	11,777	1,570	-4,529	-6,102	-183	-1,175	2,785
	iii. Short-term credit	-5,044	-111	-1,610	6,467	13,900	9,357	553
	iv. Banking Capital(net) of which:	25,449	11,618	10,630	-16,616	16,190	11,561	15,496
	Non-Resident Deposits (net)	38,892	14,057	16,052	-12,367	9,676	5,040	6,977
	v. Foreign Investment(net) of which	26,386	73,456	31,891	43,224	52,401	43,718	14,766
	A. FDI (net)	21,564	31,251	36,021	35,612	30,286	23,879	24,820
	B. Portfolio (net)	4,822	42,205	-4,130	7,612	22,115	19,839	-10,054
	vi. Other Flows (net)	-10,813	1,028	3,242	7,460	6,138	1,393	-485
III	Errors and Omission	-983	-1,021	-1,073	-480	902	-378	-912
IV	Overall Balance	15,508	61,406	17,905	21,550	43,574	30,338	17,502
V	Reserves change	-15,508	-61,406	-17,905	-21,550	-43,574	-30,338	17,502
	[increase (-) / decrease (+)]							

Source: Reserve Bank of India

Annexure III

Table 4: 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 a BoP basis	Gain (+)/Loss (-) in reserves due to valuation effect
1	2007-08	309.7	110.5	92.2	18.3
1	2008-09	252.0	-57.7	-20.1	-37.6
2	2009-10	279.1	27.1	13.4	13.7
3	2010-11	304.8	25.8	13.1	12.7
4	2011-12	294.4	-10.4	-12.8	2.4
5	2012-13	292.0	-2.4	3.8	-6.2
6	2013-14	304.2	12.2	15.5	-3.3
7	2014-15	341.6	37.4	61.4	-24.0
8	2015-16	360.2	18.5	17.9	0.6
9	2016-17	370.0	9.8	21.6	-11.8
10	2017-18	424.5	54.6	43.6	11.0
1	Apr.-Dec. 2017-18	409.1	39.1	30.3	8.8
2	Apr.-Dec. 2018-19	395.6	-29.0	-17.5	-11.5

Source: Reserve Bank of India (RBI)

Annexure IV

Table 5: Exchange Rates of Rupee per Foreign Currency and RBI's Sale/Purchase of US Dollar in the Exchange Market during 2018-19

Average Exchange Rates (₹ per foreign currency)

Month	US Dollar	Pound Sterling	Euro	Japanese Yen#	RBI Net sale (-)/ purchase (+) (US\$ million)
1	2	3	4	5	6
2016-17	67.07	87.69	73.61	62.04	12351
	(-2.4)	(12.6)	(-1.8)	(-12.0)	
2017-18	64.45	85.51	75.44	58.18	33689
	(4.1)	(2.5)	(-2.4)	(6.6)	
2018-19	69.92	91.79	80.96	63.05	-15377
	(-7.8)	(-6.8)	(-6.8)	(-7.7)	
Monthly average					
Apr-18	65.64	92.57	80.66	61.02	-2483
	(-0.9)	(-1.9)	(-0.5)	(0.5)	
May-18	67.54	90.97	79.82	61.55	-5767
	(-2.8)	(1.8)	(1.0)	(-0.9)	
Jun-18	67.79	90.07	79.16	61.61	-6184
	(-0.4)	(1.0)	(0.8)	(-0.1)	
Jul-18	68.69	90.50	80.30	61.66	-1874
	(-1.3)	(-0.5)	(-1.4)	(-0.1)	
Aug-18	69.55	89.69	80.44	62.59	-2323
	(-1.2)	(0.9)	(-0.2)	(-1.5)	
Sep-18	72.22	94.19	84.22	64.50	-31
	(-3.7)	(-4.8)	(-4.5)	(-3.0)	
Oct-18	73.63	95.87	84.61	65.27	-7204
	(-1.9)	(-1.8)	(-0.5)	(-1.2)	
Nov-18	71.85	92.62	81.62	63.37	-644
	(2.5)	(3.5)	(3.7)	(3.0)	
Dec-18	70.73	89.58	80.48	62.96	607
	(1.6)	(3.4)	(1.4)	(0.7)	
Jan-19	70.73	91.16	80.83	64.96	293
	(0.0)	(-1.7)	(-0.4)	(-3.1)	
Feb-19	71.22	92.67	80.85	64.55	825
	(-0.7)	(-1.6)	(0.0)	(0.6)	
Mar-19	69.48	91.55	78.51	62.51	9048
	(2.5)	(1.2)	(3.0)	(3.3)	

Source: Reserve Bank of India

Note: # 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.

Data of Net sale and purchase of dollar is available till September, 2017.

Annexure V

Table 6: Indices of NEER and REER (CPI Based) of the Indian Rupee

(Six-Currency Trade based Weights)

Base year: 2004-2005 (April-March) = 100

Monthly Average	NEER	Appreciation (+)/ depreciation (-) NEER over previous period/ month	REER	Appreciation (+)/ depreciation (-) REER over previous period/ month
1	2	3	4	5
2016-17	66.86	-1.0	125.17	2.0
2017-18	67.91	1.6	121.19	3.2
2018-19	63.07	-7.1	121.70	-5.8
2018-19 (P)				
Apr. 2018	64.53	-0.9	123.47	-0.8
May. 2018	63.84	-1.1	123.06	-0.3
June. 2018	64.1	0.4	123.18	0.1
Jul. 2018	64.03	-0.1	123.37	0.2
Aug. 2018	63.84	-0.3	123.63	0.2
Sep. 2018	61.35	-3.9	118.69	-4.0
Oct. 2018	60.64	-1.2	117.29	-1.2
Nov. 2018	62.4	2.9	121.25	3.4
Dec. 2018	63.23	1.3	122.74	1.2
Jan. 2019	62.76	-0.7	120.67	-1.7
Feb. 2019	62.29	-0.7	119.72	-0.8
Mar. 2019	63.88	2.5	123.3	3.0

Source: Reserve Bank of India

Annexure VI

I. Exports of Top Ten Commodities in 2017-18

Values in US\$ billion

Rank	Commodity	2016-17	2017-18	%Growth	% Share
1	Petroleum Products	31.55	37.47	18.77	12.34
2	Pearl, Precious, Semi-Precious Stones	24.92	25.87	3.8	8.52
3	Drug Formulations, Biologicals	12.67	12.91	1.92	4.25
4	Gold and other Precious Metal Jewellery	11.93	12.81	7.31	4.22
5	Iron And Steel	8.68	11.24	29.5	3.7
6	RMG Cotton incl. Accessories	8.51	8.51	-0.03	2.8
7	Motor Vehicle/Cars	7.55	8.47	12.26	2.79
8	Marine Products	5.90	7.39	25.18	2.43
9	Organic Chemicals	4.84	7.14	47.44	2.35
10	Products Of Iron And Steel	5.90	6.77	14.84	2.23

Source: DGCI&S, Kolkata

II. Exports of Top Ten Commodities in 2018-19

Values in US\$ billion

Rank	Commodity	2017-18	2018-19	%Growth	%Share
1	Petroleum Products	37.47	46.54	24.23	14.10
2	Pearl, Precious, Semi-Precious Stones	25.87	25.98	0.43	7.87
3	Drug Formulations, Biologicals	12.91	14.39	11.46	4.36
4	Gold and other Precious Metal Jewellery	12.81	12.94	1.02	3.92
5	Iron And Steel	11.24	9.74	-13.36	2.95
6	Organic Chemicals	7.14	9.33	30.58	2.83
7	RMG Cotton incl. Accessories	8.51	8.69	2.16	2.63
8	Motor Vehicle/Cars	8.47	8.50	0.32	2.58
9	Electric Machinery And Equipments	6.71	8.42	25.58	2.55
10	Products Of Iron And Steel	6.77	7.26	7.22	2.2

Source: DGCI&S, Kolkata

Annexure VI (contd.)

III. Imports of Top Ten Commodities in 2017-18

Values in US\$ billion

Rank	Commodity	2016-17	2017-18	%Growth	%Share
1	Petroleum: Crude	70.71	87.37	23.57	18.77
2	Pearl, Precious, Semi-Precious Stones	23.81	34.28	43.98	7.36
3	Gold	27.52	33.66	22.31	7.23
4	Coal, Coke and Briquettes etc.	15.76	22.90	45.31	4.92
5	Telecom Instruments	16.57	21.85	31.84	4.69
6	Petroleum Products	16.26	21.29	30.93	4.57
7	Organic Chemicals	9.88	12.43	25.81	2.67
8	Vegetable Oils	10.89	11.64	6.84	2.5
9	Plastic Raw Materials	8.81	10.69	21.34	2.3
10	Industrial. Machinery For Dairy etc.	9.38	10.48	11.8	2.25

Source: DGCI&S, Kolkata

IV. Imports of Top Ten Commodities in 2018-19

Values in US\$ billion

Rank	Commodity	2017-18	2018-19	%Growth	%Share
1	Petroleum: Crude	87.37	114.04	30.52	22.19
2	Gold	33.66	32.90	-2.26	6.40
3	Pearl, Precious, Semi-Precious Stones	34.28	27.08	-21.01	5.27
4	Petroleum Products	21.29	26.88	21.26	5.23
5	Coal, Coke and Briquettes etc.	22.90	26.17	14.28	5.09
6	Telecom Instruments	21.85	17.92	-17.99	3.49
7	Electronics Components	10.18	15.75	54.63	3.06
8	Organic Chemicals	12.43	14.25	14.66	2.77
9	Iron And Steel	10.43	12.58	20.60	2.45
10	Industrial. Machinery For Dairy etc.	10.48	12.47	18.97	2.43

Source: DGCI&S, Kolkata

Annexure VII

I. Top Ten Export Destinations of India in 2017-18

Values in US\$ billion

Rank	Country	2016-17	2017-18	%Growth	%Share
1	U S A	42.22	47.88	13.42	15.78
2	United Arab Emirates	31.18	28.15	-9.72	9.27
3	Hong Kong	14.05	14.69	4.58	4.84
4	China P RP	10.17	13.33	31.08	4.39
5	Singapore	9.56	10.20	6.67	3.36
6	U K	8.55	9.71	13.58	3.2
7	Germany	7.18	8.69	20.96	2.86
8	Bangladesh PR	6.82	8.61	26.31	2.84
9	Vietnam Soc. Rep	6.79	7.81	15.13	2.57
10	Nepal	5.45	6.61	21.26	2.18

Source: DGCI&S, Kolkata

II. Top Ten Export Destinations of India in 2018-19

Values in US\$ billion

Rank	Country	2017-18	2018-19	%Growth	%Share
1	U S A	47.88	52.43	9.49	15.88
2	United Arab Emirates	28.15	30.13	7.04	9.13
3	China P RP	13.33	16.75	25.62	5.07
4	Hong Kong	14.69	13.00	-11.49	3.94
5	Singapore	10.20	11.57	13.41	3.51
6	U K	9.71	9.33	-3.94	2.83
7	Bangladesh PR	8.61	9.21	6.96	2.79
8	Germany	8.69	8.90	2.48	2.70
9	Netherland	6.26	8.81	40.73	2.67
10	Nepal	6.61	7.76	17.40	2.3

Source: DGCI&S, Kolkata

Annexure VII (contd.)**III. Top Ten Import Sources of India in 2017-18**

Values in US\$ billion

Rank	Country	2016-17	2017-18	%Growth	%Share
1	China P RP	61.28	76.38	24.64	16.41
2	U S A	22.31	26.61	19.29	5.72
3	Saudi Arab	19.97	22.07	10.5	4.74
4	United Arab Emirates	21.51	21.74	1.07	4.67
5	Switzerland	17.25	18.92	9.71	4.06
6	Iraq	11.71	17.62	50.46	3.78
7	Indonesia	13.43	16.44	22.42	3.53
8	Korea RP	12.59	16.36	30.01	3.51
9	Australia	11.15	13.99	25.45	3.01
10	Germany	11.58	13.30	14.78	2.86

Source: DGCI&S, Kolkata

IV. Top Ten Import Sources of India in 2018-19

Values in US\$ billion

Rank	Country	2017-18	2018-19	%Growth	%Share
1	China P RP	76.38	70.32	-7.94	13.68
2	U S A	26.61	35.55	33.59	6.92
3	United Arab Emirates	21.74	29.78	37.01	5.79
4	Saudi Arab	22.07	28.48	29.04	5.54
5	Iraq	17.62	22.37	27.00	4.35
6	Switzerland	18.92	18.08	-4.47	3.52
7	Hong Kong	10.68	17.99	68.48	3.50
8	Korea RP	16.36	16.76	2.43	3.26
9	Singapore	7.47	16.28	118.05	3.17
10	Indonesia	16.44	15.85	-3.59	3.08

Source: DGCI&S, Kolkata

PROGRESS ON BILATERAL TRADE ARRANGEMENTS

S. No.	Regional Grouping	Country/ies	Agreement Name	Salient Features
1.	Europe	EU countries	INDIA-EU BTIA (Negotiation Stage)	Commenced in the year 2007. Sixteen rounds of negotiations till 2013
		Consists of Switzerland, Norway, Iceland and Liechtenstein.	European Free Trade Association (EFTA)	Total bilateral trade US\$19.9 billion during 2018-19.
		Consists of Switzerland, Norway, Iceland and Liechtenstein	INDIA – EFTA TEPA (Negotiation Stage)	Trade and Economic Partnership Agreement (TEPA) initiated in October, 2008. Seventeen rounds of negotiations have been held. Last round of negotiation was held from 18-21 September, 2017.
2.	South Asia & Middle East	Bangladesh	Bilateral trade agreement	Last renewed w.e.f. 1 st April 2015 for five years, with automatic renewal clause. No preferential tariffs for imports of products, only facilitative mechanism. Exploring possibility to enter into Comprehensive Economic Partnership Agreement (CEPA).
		Iran	Preferential Trading Agreement (PTA) (Negotiation Stage)	Commenced in 2013. Four rounds of negotiations have taken place. Next Round is tentatively scheduled in June 2019 in India.
		Nepal	India-Nepal Treaty of Trade	Last renewed on 27 th October 2016. Duty free access provided. Comprehensive Review of the Treaty has commenced and two meetings held in August 2018 and February 2019.
		Sri Lanka	India-Sri Lanka Free Trade Agreement (ISLFTA)	Came into force in 2000. Tariff-concessions provided. India provided duty-free access to almost all the lines, except few.
		Sri Lanka	Comprehensive Economic Partnership Agreement (CEPA)	Negotiations completed in 2008. But agreement could not be made effective.

S. No.	Regional Grouping	Country/ies	Agreement Name	Salient Features
		Sri Lanka	Economic and Technology Cooperation Agreement (ETCA) (Negotiation Stage)	Bilateral meetings commenced in 2015. Eleven Rounds completed till October 2018.
3.	ASEAN	India, Malaysia, Singapore and Thailand.	ASEAN India Trade in Goods Agreement (AITIGA)	Came into force on 1 st January, 2010. All ASEAN members signatory to FTA. Review of AITIGA on hold until conclusion of RCEP negotiations.
		Singapore	India-Singapore Comprehensive Economic Cooperation Agreement (CECA)	Signed on 29 th June, 2005, covering goods, services and investment. First review in 2006. Second review in 2010.
		Singapore	Mutual Recognition Agreement (MRA) in Nursing with Singapore	Singapore agreed to expand coverage of Indian nursing institutions by recognizing seven nursing institutions.
		Thailand	India Thailand CECA	Came into force in 2004. Agreed to implement an Early Harvest Scheme covering 84 products for Tariff Reduction and Elimination in a phased manner. Thirty rounds of negotiations held for comprehensive FTA with Thailand.
		Malaysia	India-Malaysia CECA	Came into force w.e.f. 1 st July, 2011. First meeting of the Joint Committee for implementing IMCECA held in 2014.
4.	Latin American	Argentina, Brazil, Paraguay and Uruguay	India- MERCOSUR Preferential Trade Agreement (PTA)	Came into operation in 2009. Margin of Preference (MoP) is offered on tariff lines.
		Chile	India-Chile Preferential Trade Agreement (PTA)	Came into effect in 2007. Margin of Preference (MoP) is offered on tariff lines.

S. No.	Regional Grouping	Country/ ies	Agreement Name	Salient Features
		Peru	India Peru Trade Agreement (Negotiation stage)	Four rounds of negotiations held. Last negotiation held in March 2019. Next is proposed in August 2019.
		Ecuador	India-Ecuador Trade Agreement (Negotiation stage)	Exploring feasibility of Trade Agreement.
		Colombia	India-Colombia Trade Agreement (Negotiation stage)	Exploring feasibility of Trade Agreement.
5.	Common-wealth Independent States (CIS)		PTA with Eurasian Economic Union (EaEU) (Negotiation Stage)	Initiation of negotiations for PTA with Eurasian Economic Union (EaEU)
		Georgia	FTA with Georgia (Negotiation Stage)	Initiation of FTA with Georgia.
		Uzbekistan	JFSG with Uzbekistan (Negotiation Stage)	Signing of Joint Statement for initiation of JFSG with Uzbekistan
6.	Africa-WANA (West Asia North Africa)	Mauritius	India-Mauritius Comprehensive Economic Cooperation & Partnership Agreement (CECPA) (Negotiation stage)	Seven Rounds have been held
		Israel	India-Israel FTA (Negotiation stage)	
		Botswana, Lesotho, Namibia, South Africa and Eswatini	India-SACU PTA (Negotiation stage)	Southern African Custom Union (SACU). Sixth Round in 2010

S. No.	Regional Grouping	Country/ ies	Agreement Name	Salient Features
		Group of fifteen countries namely Benin, Burkina Faso, Cabo Verde, Cote D'Ivoire, Gambia, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo	India-ECOWAS PTA (Negotiation stage)	
7.	North America		North America Free Trade Agreement (NAFTA)	India-US Commercial Dialogue signed in 2000
		USA		India-US Trade Policy Forum announced in 2005, instrumental in creating an institutional mechanism to resolve host of trade issues
		Canada		India-Canada Comprehensive Economic Policy Agreement (CEPA): Launched in 2010, ten rounds of negotiations held till date.
8.	Oceania	Australia and New Zealand	FTAs with Australia and New Zealand	Nine rounds of negotiations with Australia and ten rounds of negotiations with New Zealand taken place