The air that blows off a small lamp becomes the friend of a jungle fire!
Power garners support!
– Subhashita

COVID-19 pandemic has triggered the worst global recession in 2020 since the Great Depression; the adverse economic impact is, however, expected to be lesser than initially feared. The resulting economic crisis has led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with varying implications for current account balances and currencies of different countries. Global merchandise trade is expected to contract by 9.2 per cent in 2020. Trade balance with China and the US improved as imports contracted. The changing nature of India’s global trade manifested in terms of sliding exports of gems and jewellery, engineering goods, textile and allied products and improving exports of drugs and pharma, software and agriculture and allied products. Pharma exports, in particular, used this opportunity to enhance their share in total India’s exports and indicate India’s potential to be the pharmacy of the world. Supported by resilient software service exports, India is expected to witness a current account surplus during the current financial year after a gap of 17 years. Balance on the capital account, on the other hand, is buttressed by robust FDI and FPI inflows. These developments have led to accretion of foreign exchange reserves that rose to an all-time high of US$ 586.1 billion as on January 8, 2021. RBI’s interventions in forex market have been largely successful in controlling the volatility and one-sided appreciation of the rupee. High levels of headline inflation, however, posits the classical trilemma before RBI to maintain a fine balance between tightening of monetary policy to control inflation on the one hand and stimulate growth on the other hand. Against the aforesaid backdrop, various initiatives undertaken to promote exports, including Production Linked Incentive (PLI) Scheme, Remission of Duties and Taxes on Exported Products (RoDTEP), emphasis on improvement of trade logistics infrastructure and use of digital initiatives would go a long way in enabling ‘ease of doing exports’.
COVID-19 has affected nearly all spheres of the global economy with the spread catalyzed by the increasing interconnectedness of global value chains. The resulting crisis has constituted an intense shock, with a sharp decline in global trade, lower commodity prices, tighter external financing conditions and with varying implications for current account balances and currencies. The global volume of goods trade in the first five months of 2020 was about 20 per cent lower than in 2019—a more abrupt contraction than in the first five months of the global financial crisis.

GLOBAL ECONOMIC ENVIRONMENT

The spread of the pandemic led to associated suspension of economic activities, supply-chain disruptions, travel restrictions and volatility in international commodity prices. As a result, there was a wave of downward revisions to global output growth and trade volume. The contraction in GDP has been much stronger in the current recession when compared to the fall in trade which has been more moderate. World Trade Organization (WTO), in April 2020, predicted a fall in world merchandise trade by 13-32 per cent in 2020. However, with easing of lockdowns and acceleration in economic activity, a surge in trade was recorded in the months of June and July. WTO, accordingly, revised its forecast in October 2020 to a decline of 9.2 per cent in the volume of world merchandise trade in 2020, followed by a 7.2 per cent rise in 2021 (Figure 1). In the October 2020 edition of the World Economic Outlook, the IMF expected a sharper fall in world output of 4.4 per cent in 2020, but lower contraction in world trade volume of 10.4 per cent in 2020 as against 3.0 per cent and 11.0 per cent respectively predicted in April 2020 (Figure 1). In advanced economies (AEs), the contraction for GDP as well as trade volume is projected to be more severe than for the emerging markets and developing economies (EMDEs).

Figure 1: Trends in Growth of World Output and Trade Volume

![Graph showing trends in growth of world output and trade volume.](source: International Monetary Fund and World Trade Organization (WTO))

Note: Figures for 2020 and 2021 are projections indicated as shaded portion.

Global merchandise trade, as per data available from WTO, recorded its sharpest ever one-period decline in Q2-2020. The WTO’s goods trade barometer index for the said quarter was at 84.5 – the lowest on record since 2007 – i.e., 15.5 points below the baseline value of 100 for
the index and 18.6 points down from the same period last year.\(^1\) However, it improved to 100.7 in September, 2020, indicating a strong rebound in trade in the third quarter as lockdowns were eased, broadly consistent with the WTO’s October trade forecast.

3.4 The impact on trade differed significantly across regions. In 2020 (upto Q3), AEs suffered the steepest decline in exports by 12.9 per cent and imports by 10.8 per cent, while EMDEs witnessed lower contraction in exports by 7.6 per cent and in imports by 10.1 per cent. Among the EMDEs, South East Asian export-oriented countries witnessed still lower shrinkage of exports by 2.4 per cent and imports by 9.6 per cent. This can be attributed to the impressive export performance of few countries such as Vietnam, Taiwan, and Malaysia, and their continuous narrowing contraction in imports in subsequent quarters (Figure 2).

3.5 The impact on trade also varied significantly across different types of goods. While trade in agricultural products fell less than the world average in the second quarter of 2020 (-5 per cent versus -21 per cent), it fell precipitously for fuels and mining products (-38 per cent) as prices collapsed. Further, the trade in automotive products recorded the biggest decline, though, it rose for telecommunication equipment (which includes smartphones), electronics (to facilitate working from home), and pharmaceuticals.

3.6 As per IMF’s October Global Financial Stability Report 2020, near-term global financial stability risks have been contained for now due to the unprecedented and timely policy responses to maintain the flow of credit to the economy and avoided adverse macro-financial feedback loops, thereby creating a bridge to recovery. However, vulnerabilities have increased in the non-financial corporate sector, as firms have taken on more debt to cope with cash shortages and in the sovereign sector, as fiscal deficits have widened to support the economy. EMDEs rely primarily on commodity exports, remittances and tourism for forex earnings, all of which plummeted as the pandemic unfolded. However, its impact on EMDEs so far has been milder than expected as just six countries – Argentina, Ecuador, Belize, Lebanon, Suriname and Zambia – have defaulted on their sovereign debt and only the first two restructured their debts. Potential debt defaults could ensue in 2021 as a large amount of foreign debt is estimated to be due for repayment in that year. The future path of defaults will ultimately be shaped by the extent of continued policy support and

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\(^1\)WTO’s goods trade barometer index is a leading indicator that signals changes in world trade growth two to three months ahead of merchandise trade volume statistics. Its baseline value is 100, a value greater than 100 suggests above-trend growth while a value below 100 indicates below-trend growth.
the pace of the recovery, which is expected to be uneven across sectors and countries.

3.7 In sum, the global economy is still reeling under the impact of the unprecedented COVID-19 shock. Amidst this uncertain and shaky global economic environment, India’s external sector has emerged as a key cushion for resilience. The comfortable external balance position of India has been supported by surplus current account balances over three consecutive quarters, resumption of portfolio capital inflows, robust FDI inflows and sustained build-up of foreign exchange reserves.

DEVELOPMENTS IN INDIA’S BALANCE OF PAYMENTS (BOP)

Merchandise Trade

3.8 During Q1: FY 2020-21, India’s exports and imports saw a sharp contraction in line with the contraction in global trade. The decline in imports outweighed that in exports – leading to smaller trade deficit of US$ 9.8 billion as compared to US$ 49.2 billion in Q1 last year. India registered a trade surplus in the month of June, 2020 after a gap of 18 years. With the unlocking of the economy from June onwards, a gradual revival in India’s merchandise trade got underway (Figure 3). The trade deficit during the April-December, 2020-21 was US$ 57.5 billion as compared to US$ 125.9 billion in the corresponding period last year.

![Figure 3: Merchandise Trade Balance, Exports and Imports](image)

Source: Department of Commerce (DoC)

3.9 The details of the major commodities in which India had favourable and unfavourable trade balance during 2020-21 (April-November) as compared to 2019-20 (April-November) are at Table 1 and Table 2 respectively.
### Table 1: Commodities in which India’s Merchandise Trade Balance is Favourable

(Value in US$ billion)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Drug formulations, biologicals</td>
<td>10.6</td>
<td>12.4</td>
<td>1.5</td>
<td>1.7</td>
<td>9.0</td>
<td>10.7</td>
</tr>
<tr>
<td>2</td>
<td>Marine products</td>
<td>4.8</td>
<td>4.0</td>
<td>0.1</td>
<td>0.1</td>
<td>4.7</td>
<td>3.8</td>
</tr>
<tr>
<td>3</td>
<td>Gold and other precious metal jewellery</td>
<td>9.6</td>
<td>4.0</td>
<td>0.5</td>
<td>0.2</td>
<td>9.1</td>
<td>3.8</td>
</tr>
<tr>
<td>4</td>
<td>RMG cotton incl. accessories</td>
<td>5.6</td>
<td>3.9</td>
<td>0.4</td>
<td>0.2</td>
<td>5.2</td>
<td>3.7</td>
</tr>
<tr>
<td>5</td>
<td>Cotton fabrics, made ups etc.</td>
<td>4.0</td>
<td>3.5</td>
<td>0.4</td>
<td>0.2</td>
<td>3.6</td>
<td>3.3</td>
</tr>
<tr>
<td>6</td>
<td>Iron and steel</td>
<td>6.4</td>
<td>7.7</td>
<td>8.0</td>
<td>4.7</td>
<td>-1.6</td>
<td>3.0</td>
</tr>
<tr>
<td>7</td>
<td>Iron ore</td>
<td>1.7</td>
<td>2.8</td>
<td>0.1</td>
<td>0.1</td>
<td>1.6</td>
<td>2.7</td>
</tr>
<tr>
<td>8</td>
<td>Rice -Basmati</td>
<td>2.5</td>
<td>2.7</td>
<td>0.0</td>
<td>0.0</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>9</td>
<td>Rice (other than Basmati)</td>
<td>1.3</td>
<td>2.6</td>
<td>0.0</td>
<td>0.0</td>
<td>1.3</td>
<td>2.6</td>
</tr>
<tr>
<td>10</td>
<td>Petroleum products</td>
<td>28.5</td>
<td>15.4</td>
<td>18.0</td>
<td>13.1</td>
<td>10.6</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: DoC  
Note: R: Revised; P: Provisional.

### Table 2: Commodities in which India’s Merchandise Trade Balance is Unfavourable

(Value in US$ billion)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petroleum: Crude</td>
<td>0.0</td>
<td>0.0</td>
<td>68.0</td>
<td>31.2</td>
<td>-68.0</td>
<td>-31.2</td>
</tr>
<tr>
<td>2</td>
<td>Gold</td>
<td>1.2</td>
<td>0.6</td>
<td>20.6</td>
<td>12.3</td>
<td>-19.4</td>
<td>-11.7</td>
</tr>
<tr>
<td>3</td>
<td>Coal, Coke and Briquettes Etc.</td>
<td>0.1</td>
<td>0.0</td>
<td>15.6</td>
<td>9.7</td>
<td>-15.5</td>
<td>-9.7</td>
</tr>
<tr>
<td>4</td>
<td>Telecom Instruments</td>
<td>3.1</td>
<td>2.2</td>
<td>10.3</td>
<td>9.8</td>
<td>-7.2</td>
<td>-7.6</td>
</tr>
<tr>
<td>5</td>
<td>Electronics Components</td>
<td>1.7</td>
<td>1.5</td>
<td>11.7</td>
<td>8.7</td>
<td>-10.0</td>
<td>-7.2</td>
</tr>
<tr>
<td>6</td>
<td>Vegetable Oils</td>
<td>0.1</td>
<td>0.3</td>
<td>6.4</td>
<td>6.8</td>
<td>-6.3</td>
<td>-6.5</td>
</tr>
<tr>
<td>7</td>
<td>Computer Hardware, Peripherals</td>
<td>0.2</td>
<td>0.2</td>
<td>6.5</td>
<td>6.6</td>
<td>-6.3</td>
<td>-6.4</td>
</tr>
<tr>
<td>8</td>
<td>Fertilizers Manufactured</td>
<td>0.1</td>
<td>0.1</td>
<td>5.0</td>
<td>5.5</td>
<td>-5.0</td>
<td>-5.4</td>
</tr>
<tr>
<td>9</td>
<td>Plastic Raw Materials</td>
<td>2.4</td>
<td>2.3</td>
<td>7.2</td>
<td>5.2</td>
<td>-4.8</td>
<td>-2.9</td>
</tr>
<tr>
<td>10</td>
<td>Aircraft, Spacecraft and Parts</td>
<td>0.9</td>
<td>0.8</td>
<td>7.0</td>
<td>3.6</td>
<td>-6.0</td>
<td>-2.8</td>
</tr>
</tbody>
</table>

Source: DoC  
Note: R: Revised; P: Provisional.
3.10 India’s merchandise trade balance for major countries for the period of 2020-21 (April-November) as compared to 2019-20 (April-November) at Table 3 shows that India had the most favourable trade balance with USA followed by Bangladesh and Nepal. The highest trade deficit is with China followed by Iraq and Saudi Arabia during April-November, 2020-21 and April-November, 2019-20.

Table 3: India’s Merchandise Trade Balance with Major Countries

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>35.6</td>
<td>31.3</td>
<td>25.1</td>
<td>16.3</td>
<td>10.5</td>
<td>15.0</td>
</tr>
<tr>
<td>2</td>
<td>Bangladesh</td>
<td>5.3</td>
<td>5.0</td>
<td>0.8</td>
<td>0.6</td>
<td>4.5</td>
<td>4.4</td>
</tr>
<tr>
<td>3</td>
<td>Nepal</td>
<td>4.8</td>
<td>3.4</td>
<td>0.5</td>
<td>0.4</td>
<td>4.3</td>
<td>3.0</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>5.7</td>
<td>4.6</td>
<td>4.5</td>
<td>2.6</td>
<td>1.2</td>
<td>2.0</td>
</tr>
<tr>
<td>5</td>
<td>Netherland</td>
<td>5.7</td>
<td>3.8</td>
<td>2.4</td>
<td>1.9</td>
<td>3.4</td>
<td>1.9</td>
</tr>
<tr>
<td>6</td>
<td>Sri Lanka</td>
<td>2.6</td>
<td>2.1</td>
<td>0.6</td>
<td>0.4</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>7</td>
<td>Turkey</td>
<td>3.4</td>
<td>2.3</td>
<td>1.5</td>
<td>0.9</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>8</td>
<td>Qatar</td>
<td>0.8</td>
<td>0.8</td>
<td>6.0</td>
<td>4.6</td>
<td>-5.3</td>
<td>-3.8</td>
</tr>
<tr>
<td>9</td>
<td>South Korea</td>
<td>3.1</td>
<td>2.9</td>
<td>10.9</td>
<td>7.1</td>
<td>-7.8</td>
<td>-4.2</td>
</tr>
<tr>
<td>10</td>
<td>Indonesia</td>
<td>2.5</td>
<td>2.7</td>
<td>9.6</td>
<td>7.3</td>
<td>-7.0</td>
<td>-4.6</td>
</tr>
<tr>
<td>11</td>
<td>Switzerland</td>
<td>0.8</td>
<td>0.9</td>
<td>12.8</td>
<td>5.8</td>
<td>-12.0</td>
<td>-4.9</td>
</tr>
<tr>
<td>12</td>
<td>Saudi Arabia</td>
<td>3.8</td>
<td>3.6</td>
<td>18.2</td>
<td>9.2</td>
<td>-14.4</td>
<td>-5.6</td>
</tr>
<tr>
<td>13</td>
<td>Iraq</td>
<td>1.3</td>
<td>1.0</td>
<td>15.4</td>
<td>7.6</td>
<td>-14.1</td>
<td>-6.6</td>
</tr>
<tr>
<td>14</td>
<td>China</td>
<td>11.5</td>
<td>13.6</td>
<td>46.9</td>
<td>38.8</td>
<td>-35.4</td>
<td>-25.2</td>
</tr>
</tbody>
</table>

Source: DoC
Note: R: Revised; P: Provisional.

Merchandise Exports

3.11 Total exports during April-December, 2020-21 amounted to US$ 200.8 billion contracted by (-) 15.7 per cent as compared with (-) 2.4 per cent during the same period of the previous year. Petroleum, Oil and Lubricants (POL) exports, which constitute about 10-15 per cent of the total exports, have contributed negatively to export performance during the period under review. The fall in POL exports was largely driven by the softening of international crude oil prices, which plunged in Q1: FY 2020-21 by (-) 54.0 per cent and remain muted by (-) 28.7 per cent by Q3: FY 2020-21 as compared to last year. On the other hand, Non-POL exports, which contributed significantly to the shrinkage of exports in Q1 of 2020-21, turned positive and helped in improving export performance in Q3 (Figure 4). Within Non-POL exports, agriculture & allied products, drugs & pharmaceutical and ores & minerals proved resilient and recorded expansion. However, key commodities such as organic and inorganic chemicals, electronic goods, textiles & allied products, engineering products, gems and jewellery pulled export growth down (Figure 5).
3.12 Drug formulations, biologicals have consistently registered positive growth and highest increase in absolute terms in recent months. This led to rise in its share to 7.1 per cent in April-November, 2020 from 5.0 per cent in April-November, 2019, making it the second largest exported commodity among the top 10 export commodities (Figure 6). This shows that India has the potential to be the ‘pharmacy of the world’ (Box 1). Iron and Steel is another commodity whose share has increased from 3.0 per cent to 4.4 per cent in the said period. However, the pandemic-related disruptions led to sharp fall in exports of Motor Vehicles/ Cars as it no longer figures among the top 10 exported commodities in April-November, 2020.
Figure 6: Top 10 Export Commodities in April-November 2020 and April-November 2019
[By Share in Per cent]

Box 1: India: Potential to be the “pharmacy of the world”

Indian pharmaceutical industry is third largest in the world, in terms of volume, behind China and Italy and 14th largest in terms of value. India almost doubled its share in world pharma exports in a span of ten years from 1.4 per cent in 2010 to 2.6 per cent in 2019. India was at 11th position in terms of share in world pharma exports in 2019 with Germany, Switzerland and USA occupying the top three positions.

India enjoys a consistent and long run Revealed Comparative Advantage (RCA) in its pharmaceutical exports since 2009. However, in a cross-country perspective, India’s revealed comparative advantage (RCA) stands at 12th spot (Figure B1.1). In addition, Indian pharmaceutical sector has high value of trade specialization coefficient (TSC), closer to one, consistently from 2014-15. The value of TSC lies between -1 and 1, wherein a higher TSC value denotes stronger export competitiveness of the country.

Figure B1.1: RCA for Top 15 Pharma Exporters (Sorted on 2019)
The global pharmaceutical market is set to exceed US$ 1.5 trillion by 2023. Against this backdrop, the Indian pharmaceutical industry is currently valued at US$ 41 billion and is expected to grow to US$ 65 billion by 2024 and about US$ 120-130 billion by 2030. A significant raw material base and availability of a skilled workforce have enabled India to emerge as an international manufacturing hub for generic medicines. Further, India is the only country with largest number of US-FDA compliant pharma plants (more than 262 including APIs) outside of USA.

COVID-19 has presented both an opportunity and a challenge for India to emerge as the ‘pharmacy of the world’. During April-October, 2020, India’s pharmaceutical exports totaling US$ 11.1 billion witnessed an impressive growth of 18.0 per cent, as against US$ 9.4 billion during the corresponding period a year ago. This has led to an increase in the share of pharmaceuticals exports in India’s total exports from 5.1 per cent in April-October, 2019 to 7.3 per cent in April-October, 2020, making it the third largest exported commodity. The commitment of provision of COVID-19 vaccine to other countries has made India the epicentre for its manufacturing. According to data available from US-FDA, Indian pharma companies have garnered nearly 45 per cent of all new abbreviated new drug application (ANDAs) approvals over the past nine months, which would aid exports growth in the coming years.

The pandemic, however, exposed the excessive dependence of Indian pharmaceutical industry on China for sourcing Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs). Further, there is a disproportionate dependence of Indian pharma exports on USA and generics. To get over this challenge, pharmaceuticals drugs have been identified as one of the ten key sectors for introducing Production Linked Incentive (PLI) Scheme for enhancing India’s manufacturing capabilities and exports. This is in addition to the already notified PLI schemes for bulk drugs and medical devices, which aim to provide a boost to domestic manufacturing for critical KSMs/ Drug Intermediates (DIs), APIs and medical devices. Both these schemes have received a very encouraging response from the pharmaceutical as well as the medical device industry. Further, a scheme for promotion of bulk drug parks and medical devices parks have also been announced.

Indian Pharma needs to rise to the golden opportunity presented by the pandemic and emerge as the ‘pharmacy of the world’. A well-defined strategy for broad based development of the industry needs to include the following components:

i. **Broaden base in terms of markets, as well as product categories:** Pursuing opportunities in newer product classes such as biosimilars, gene therapy and specialty drugs and increasing exports to large and traditionally underpenetrated markets such as Japan, China, Africa, Indonesia, Russia/CIS countries, Brazil and Latin America, can usher-in the next leg of growth for Indian pharma industry.

ii. **Restructure the current regulatory mechanism** and upgrade and build capacities at various National Institute of Pharmaceutical Education and Research (NIPERs).

iii. **Greater R&D Expenditure** to move up the value chain from generics to Novel Chemical Entities (NCEs).
3.13 In so far as the top export destinations are concerned, USA continues to be the largest export market for India in April-November, 2020, while China has occupied the 2nd position, moving up from 3rd spot in April-November, 2019. Exports to China in April-November, 2020 constitute around 7.8 per cent vis-à-vis 5.4 per cent in April-November, 2019 (Figure 7). Malaysia is a new entrant among the top 10 export destinations, as compared to last year, while Nepal no longer occupies position among the top 10 destinations.

**Figure 7: Top 10 Export Destinations in April-November 2020 and April-November 2019**

<table>
<thead>
<tr>
<th>Country</th>
<th>% Share in Apr-Nov 2020</th>
<th>% Share in Apr-Nov 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>18.0</td>
<td>16.9</td>
</tr>
<tr>
<td>China PR</td>
<td>7.8</td>
<td>5.4</td>
</tr>
<tr>
<td>UAE</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>9.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Bangladesh PR</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Germany</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>UK</td>
<td>2.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: DoC

**Merchandise Imports**

3.14 The total imports during April-December, 2020 amounted to US$ 258.3 billion contracted by (-) 29.1 per cent, as compared with (-) 7.2 per cent during the same period last year. The sharp decline in POL imports that constitute about a quarter of total merchandise imports pulled down the overall import growth (Figure 8). During this period, the value of POL imports plummeted...
by (-) 44.5 per cent to US$ 53.7 billion, contributed by shrinkage in the volume of POL imports by (-) 16.7 per cent, and drop in the price of crude oil (Indian basket) by (-) 30.2 per cent. While the total merchandise imports contracted sharply in Q1 of 2020-21 by (-) 52.9 per cent, the pace of contraction eased in Q2 and Q3 to (-) 23.2 per cent and (-) 8.3 per cent, respectively. This recovery in imports was contributed by accelerating positive growth in gold and silver imports and narrowing contraction in non-POL, non-gold & silver imports. Gold & silver imports, constituting about 7-9 per cent of India’s imports, witnessed a sharp growth of 33.0 per cent in Q3 of 2020-21 to US$ 10.0 billion – primarily due to the simultaneous rise in international gold and silver prices on account of demand for bullion as safe haven. Fertilizers, vegetable oil, drugs & pharmaceuticals and computer hardware & peripherals have contributed positively to the growth of non-POL, non-Gold & Silver imports, while capital goods contributed most to its weakness (Figure 9).

**Figure 8: Relative Contribution in Imports Growth**

**Figure 9: Relative Contribution in Non-POL and Non-Gold & Silver Imports in 2020-21 (April-November)**

Source: Survey calculations based on data of DoC and WTO

Source: Survey calculations based on data of DoC
3.15 Crude Petroleum continues to be the highest imported commodity in April-November, 2020, accounting for 14.3 per cent share vis-à-vis 21.0 per cent in April-November, 2019 (Figure 10). The share of gold imports reduced to 5.6 per cent in April-November, 2020 from 6.3 per cent in corresponding period a year ago, slipping to third position from second earlier. Computer hardware and peripherals is one of the new additions in the list of top 10 import commodities in April-November, 2020, accounting for 3.0 per cent of total imports driven by increased demand due to more people working from home.

Figure 10: Top 10 Import Commodities in April-November 2020 and April-November 2019

[By Share in Per cent]

Source: DoC

3.16 Among the top 10 countries for import origin, China continues to be the largest import source for India in April-November, 2020, with share of imports rising to 17.7 per cent, up from 14.5 per cent in April-November, 2019 (Figure 11). While Switzerland does not appear to be the among the top 10 import sources, Germany is the new addition in the list accounting for 3.7 per cent share of total imports.

Figure 11: Top 10 Import Sources in April-November 2020 and April-November 2019

[By Share in Per cent]

Source: DoC
Box 2: Comparison of Export Performance of India vs. Bangladesh

Bangladesh seems poised to emerge as a dominant exporter as its exports posted an impressive compound annual growth rate (CAGR) of 8.6 per cent during 2011-2019, higher than 0.9 per cent for India, and 0.4 per cent for the world. As a result, Bangladesh witnessed its share in world exports increase from 0.1 per cent in 2011 to 0.3 per cent in 2019.

The top five export commodities, account for more than 90 per cent of total exports of Bangladesh since 2015. These five commodities mainly pertain to textiles & apparels and footwear industry, which are highly labour-intensive and employs unskilled and semi-skilled labour (Figure B2.1). In case of India, on the other hand, export performance is more broad-based as the top five export commodities jointly contribute around 40 per cent of total exports (Figure B2.2) and these commodities are capital and technology-intensive.

Figure B2.1: Top five Export commodities (in terms of share) in Bangladesh

![Bar chart showing the top five export commodities in Bangladesh from 2015 to 2019.]

Source: Survey calculation based on Trade Map data.
Note: Due to unavailability of Bangladesh Exports time series, mirror time series is used.

Figure B2.2: Top five Export commodities (in terms of share) in India

![Bar chart showing the top five export commodities in India from 2015 to 2019.]

Source: Survey calculation based on Trade Map data.
After taking an average for last three years from 2017 to 2019, the top export commodities in which Bangladesh had largest RCA are shown in Figure B2.3. Four of these commodities are also among the top five export commodities (in terms of share and value) of Bangladesh. This underscores that Bangladesh exports those commodities in which it has competitive advantage.

**Figure B2.3: Top Export Commodities having largest RCA and Export Share in Bangladesh (Average of 2017-2019)**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Average RCA (Ratio)</th>
<th>Average Export Share (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other vegetable textile fibres</td>
<td>1.7</td>
<td>70.2</td>
</tr>
<tr>
<td>Knitted or crocheted apparels</td>
<td>39.7</td>
<td>44.3</td>
</tr>
<tr>
<td>Not knitted or crocheted apparels</td>
<td>37.7</td>
<td>41.6</td>
</tr>
<tr>
<td>Headgear and parts thereof</td>
<td>7.9</td>
<td>13.5</td>
</tr>
<tr>
<td>Other made-up textile articles</td>
<td>2.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Footwear, gaiters, etc.</td>
<td>3.2</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Survey calculation based on Trade Map data.

However, none of the export commodities in which India has highest RCA is among the top export commodities (in terms of share and value) (Figure B2.4). India’s top RCA export commodities are mainly labour-intensive such as cotton, carpets and other textiles, etc. (second quadrant), while India exports more of capital-intensive products such as transport equipment, machinery and mechanical appliances (fourth quadrant), etc.

**Figure B2.4: Top Export Commodities having largest RCA and Export Share in India (Average of 2017-2019)**

Source: Survey calculation based on Trade Map data.
Note: Export share more than 5 per cent has been taken as the benchmark share as the third largest export commodity has a share of 6 per cent.
The above evidence holds lessons for India to build specialization in products in which it is competitive. This pattern was also examined in Chapter 5, Economic Survey, 2019-20 wherein it was shown that high diversification combined with low specialization implied that India is spreading its exports thinly over many products and partners.

### Invisibles

3.17 Net services receipts amounting to US$ 41.7 billion remained stable in April-September, 2020 as compared with US$ 40.5 billion in corresponding period a year ago, notwithstanding a sharp contraction in travel receipts owing to the international mobility restrictions imposed at the onset of the pandemic and falling remittances (Figure 12a). Resilience of the services sector was primarily driven by software services, which accounted for 49 per cent of total services exports (Figure 12b).

![Figure 12a: Net Services Trade](chart)

![Figure 12b: Composition of Net Services Exports](chart)

3.18 Net private transfer receipts, mainly representing remittances by Indians employed overseas, totaling US$ 35.8 billion in H1: FY 2020-21 declined by 6.7 per cent over the corresponding period of previous year. It is pertinent to note that as per the World Migration Report 2020,
India has the largest number of migrants living abroad (17.5 million) and was the top recipient of remittances of US$ 83.3 billion in 2019. However, as per World Bank, remittance flows to low and middle-income countries (LMICs) are estimated to decline in 2020, by around 7.2 per cent. For India, remittances are projected to fall by about 8.9 per cent to US$ 76 billion in 2020. Net outgo due to cross border income payments associated with the production and ownership of financial and other non-produced assets, which had been moving upward since 2011-12, declined in 2019-20. In H1: FY 2020-21, there was a net outflow of primary income of US$ 16.8 billion as against outflow of US$14.7 billion in corresponding period a year ago.

**Current Account of BOP**

3.19 India’s current account deficit averaged 2.2 per cent of GDP in the last 10 years. Reversing this trend, current account balance turned into surplus (0.1 per cent of GDP) in Q4: FY 2019-20 on the back of, among others, a lower trade deficit and a sharp rise in net invisible receipts. This quarterly surplus was registered after a gap of 13 years after Q4: FY 2006-07. This has been followed by successive current account surpluses in Q1 and Q2 of FY 2020-21. In H1: FY 2020-21, steep contraction in merchandise imports and lower outgo for travel services led to a sharper fall in current payments (by 30.8 per cent) than current receipts (15.1 per cent) – leading to a current account surplus of US$ 34.7 billion (3.1 per cent of GDP) (Figure 13). Given the trend in imports of both goods and services, it is expected that India will end with an annual current account surplus of atleast 2 per cent of GDP – after a period of 17 years.

**Capital/ Financial account of BOP**

3.20 Net capital flows was modest in H1: FY 2020-21 at US$ 16.5 billion, as against US$ 40.0 billion in H1: FY 2019-20, mainly accounted for by net repayments of external commercial borrowings (ECBs) and decline in banking capital. However, there is an increase in net foreign investment to US$ 31.4 billion in H1: FY 2020-21, vis-à-vis US$ 28.7 billion in corresponding period a year ago.

3.21 During April-October, 2020, net FDI flows recorded an inflow of US$ 27.5 billion, 14.8 per cent higher as compared to first seven months of 2019-20, an endorsement of India’s status as a preferred investment destination amongst the global investors (Figure 14). As far as sector-wise FDI is concerned, computer software and hardware attracted the highest FDI equity inflows of
US$ 17.6 billion in April-September, 2020 vis-à-vis US$ 4.0 billion in April-September, 2019. Singapore continues to be the top investing country, in terms of FDI equity inflows, while US has taken second position, as against being at 4th spot during corresponding period a year ago.

**Figure 14: Foreign Direct Investment (FDI)**

![Graph showing FDI inflows and ratio to GDP](image)

Source: RBI
Note: The net FDI inflows in Oct 2020 were to the tune of US$ 4.6 billion.

3.22 After unprecedented sell-offs in March 2020 reflecting recessionary fears among global investors at the onset of the pandemic, foreign portfolio investment (FPI) witnessed strong rebound especially in equity inflows, recording net FPI flows of US$ 28.5 billion during April-December, 2020 as against US$ 12.3 billion in corresponding period of last year (Figure 15). Indian equities have been supported by abundant global liquidity, better corporate earnings in subsequent quarters and better management of COVID-19 re-igniting economic recovery prospects. The addition of Indian stocks to Morgan Stanley Capital International (MSCI) Global Standard indices has also helped in attracting foreign capital inflows.

**Figure 15: Foreign Portfolio Investment (FPI)**

![Graph showing FPI inflows](image)

Source: National Securities Depository Limited (NSDL).
Note: Total net FPI is summation of debt, equity, hybrid and VRR, however, only debt and equity are depicted in above chart as they together account for more than 90 per cents of the total net FPI.
3.23 Among other forms of capital flows, banking capital recorded a net outflow of US$ 8.9 billion in H1: FY 2020-21, higher than the net outflow of US$ 5.7 billion, in first half of 2019-20. With repayments exceeding fresh disbursements, net outflows on ECBs increased to US$ 5.7 billion in April-September, 2020. Net inflow on account of non-resident deposits was US$ 4.9 billion, as against US$ 5.0 billion in April-September, 2019.

**External Debt**

3.24 At end-September 2020, India’s external debt was placed at US$ 556.2 billion recording a decrease of US$ 2.0 billion (0.4 per cent) over the level, as at end-March 2020. Excluding the valuation loss, due to the depreciation of the US$ vis-à-vis major currencies, the decrease in external debt would have been US$ 8.3 billion. ECBs, the largest component of external debt, at US$ 207 billion as at end-September 2020, contracted by 5.8 per cent over the level as at end-March 2020 (Box 3). While the stock of NRI deposits, the second largest component, rose 5.1 per cent to US$ 137.3 billion over the level as at end-March 2020, the (import-financing) trade credit, the third largest component at US$ 99.4 billion shrank by 2.0 per cent. Government debt increased to US$ 103.6 billion from US$ 100.9 billion as at end-March 2020.

**Box 3: ECBs- Gradual Easing of Policy**

The outstanding ECBs as at end-September 2020 at US$ 163.8 billion was lower than US$ 164.7 billion, as at end-March 2020. Bulk of the ECBs was in the form of commercial loans and securitized borrowings (91.2 per cent) (Figure B3.1) predominantly denominated in US$ (77.2 per cent) and accessed mainly by non-financial corporations (74.5 per cent). While the average maturity of the ECBs was 6 years, cost of ECBs, as measured by the average of monthly weighted average margin over the reference rate for the loans registered during April-September 2020, at 1.9 per cent was higher than observed in the recent years (Figure B3.2).

**Figure B3.1: Stock of ECBs: Instrument-wise**

![Figure B3.1: Stock of ECBs: Instrument-wise](image-url)
Literature (Acharya V, et al., 2015; Verma & Prakash, 2011 and Ray et al, 2017) identifies both country-specific idiosyncratic (push) factors as well as generic and global (pull) factors as drivers of ECBs in the Indian context. The country-specific factors include domestic real economic activity, exchange rate, interest rate and inflation, status of domestic corporate bond market, degree of openness in terms of capital account and the regulatory framework. Global financial conditions including rates of interest, global growth and inflation are among the pull factors. Accordingly, the slowdown in the economic activity during H1 of 2020-21, among others, may have caused ebbing of India Inc's appetite for ECBs. The on-going COVID-19 pandemic is expected to adversely impact export earnings of external commercial borrowers. To the extent such earnings are dented, their repayment capacity would potentially get adversely impacted, thereby creating a source of potential vulnerability going forward.

As a capital scarce growing economy with large investment needs, it has been India’s long-standing policy to encourage capital inflows to augment domestic savings with a bias towards flows that are stable, long term and least prone to sudden stoppages and reversals. Accordingly, the motivation has, inter alia, been to minimize currency risk by mandatory hedging and roll-over risk by stipulating average minimum maturity while enabling firms to access foreign borrowing by fixing a dynamic limit as a ratio to GDP coupled with regulating end-use.

This broad paradigm has evolved over the years with a view to promote ease of doing business. As an integral part of this broader endeavour, a new and simplified ECB policy was put in place in March 2019 by removing the scope of arbitrage, creating a level playing field for all eligible borrowers, and widening the base of borrowers and lenders. Further, development of financial markets in India has been accorded due importance to enable the external commercial borrowers to hedge their interest and currency risk. More importantly, in order to address potential system stability risk to other stakeholders arising out of individual corporate-borrower vulnerability, the regulatory prescription for incremental provisioning
and capital requirements has been in place for banks’ exposures to firms with unhedged foreign currency liability.

There has been a progressive rationalization and liberalization of the regulations governing the end-use of ECBs with a view to improve ease of doing business, as documented in the Status Report on India’s External Debt 2019-20. As per the extant policy effective January 16, 2019, end-use restrictions relating to ECBs have been relaxed for specific eligible borrowers for their working capital requirements, general corporate purposes and repayment of rupee loans. Refinancing is permitted only if the outstanding maturity of the original borrowing (weighted outstanding maturity in case of multiple borrowings) is not reduced and all-in-cost of fresh ECB is lower than the all-in-cost (weighted average cost in case of multiple borrowings) of existing ECB. Further, only highly rated corporates (AAA) and Maharatna/Navratna public sector undertakings are permitted to participate in refinancing of existing ECBs.

ICE Benchmark Administration (IBA), which compiles and oversees the LIBOR, intends that one week and two-month US$ LIBOR settings will cease at end-2021, and that the remaining US$ LIBOR panel will cease at end-June 2023 – 18 months later than was planned. Preliminary estimates suggest that LIBOR-linked ECB/ FCCB exposure in the currencies (USD, GBP, JPY, CHF and EUR) as at end-September 2020 in equivalent US dollar is estimated at US$ 81.8 billion of which, about US$ 57.5 billion of debt contracts in the form of ECB/ FCCB will expire beyond end-December 2021. As is the case globally, financial contracts referencing LIBOR – both loan and derivative contract – which will outlive the cessation will need to be renegotiated to ensure insertion of appropriate fallback language.

Reference


3.25 External debt as a ratio to GDP rose marginally to 21.6 per cent as at end-September 2020 from 20.6 per cent at end-March 2020 (Table 4). However, the ratio of foreign exchange reserves to total and short-term debt (original and residual) improved because of the sizable accretion in reserves.² Share of short-term debt (original maturity) in the total stock of external debt, which is an important metric to analyze potential debt vulnerability, has also improved. Reflecting lower current receipts, debt service ratio (principal repayment plus interest payment), however, increased to 9.7 per cent as at end-September 2020 as compared to 6.5 per cent at end-March 2020.

²Short term debt by residual maturity includes short term debt by original maturity as well as long term debt repayment falling due within next twelve months.
Table 4: External Debt Vulnerability Indicators (Per cent, unless indicated otherwise)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total External Debt (US$ billion)</td>
<td>409.4</td>
<td>529.3</td>
<td>543.1</td>
<td>558.2</td>
<td>556.2</td>
</tr>
<tr>
<td>External Debt to GDP</td>
<td>22.4</td>
<td>20.1</td>
<td>19.8</td>
<td>20.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Short term debt (original maturity) to total debt</td>
<td>23.6</td>
<td>19.3</td>
<td>20</td>
<td>19.1</td>
<td>18.5</td>
</tr>
<tr>
<td>Short term debt (residual maturity) to total debt</td>
<td>42.1</td>
<td>42.0</td>
<td>43.4</td>
<td>42.4</td>
<td>44.6</td>
</tr>
<tr>
<td>Concessional debt to total debt</td>
<td>11.1</td>
<td>9.1</td>
<td>8.7</td>
<td>8.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Reserves to total debt</td>
<td>71.3</td>
<td>80.2</td>
<td>76</td>
<td>85.2</td>
<td>97.4</td>
</tr>
<tr>
<td>Ratio of Short-term debt to reserves</td>
<td>33.1</td>
<td>24.1</td>
<td>26.3</td>
<td>22.5</td>
<td>19.0</td>
</tr>
<tr>
<td>Short term debt (residual maturity) to reserves</td>
<td>59</td>
<td>52.3</td>
<td>57</td>
<td>49.5</td>
<td>45.5</td>
</tr>
<tr>
<td>Debt Service Ratio</td>
<td>5.9</td>
<td>7.5</td>
<td>6.4</td>
<td>6.5</td>
<td>9.7</td>
</tr>
</tbody>
</table>

Source: RBI and Ministry of Finance
Note: R: Revised; P: Provisional.

Box 4: India’s External Debt: Stock-Taking and the Way Forward

The total external debt of the world, at US$ 89 trillion as at end-June 2020, grew at lower rate of 1.0 per cent over the level as at-end March 2020 than that (2.2 per cent) registered a quarter ago.\(^3\) The US is the most heavily indebted country in the world with 23.9 per cent of the total external debt stock. India is placed at 23rd position globally with an estimated stock at US$ 554.4 billion as at end-June 2020. Analysis of maturity profile of India’s external debt as at end-June 2020 among the Special Data Dissemination Standards (SDDS) reporting countries underscores that India’s share of short-term debt, at 18.9 per cent, is not only lower than the median share of 24.2 per cent, but also smaller than that of any top 20 debtor countries. Further, among the SDDS and General Data Dissemination Standards (GDDS) countries, India’s share of government sector in gross external debt as at end-June 2020 at 18 per cent is modest and lower than the median share of at 29.7 per cent.

The theoretical literature suggests a kind of “Laffer Curve” relationship between foreign debt and growth: foreign debt has a positive impact on investment and growth up to a certain threshold level; beyond this level, however, its impact turns adverse. Reflecting an element of uncertainty in this non-linear relationship, a range of values for the optimal or growth maximizing level of debt is identified. Cohen (1997) finds that for African and Latin American countries, external debt to GDP of 50 per cent and debt to exports of 200 per cent could be the inflexion point for the non-linearity to kick in. Pattillo, et al (2002, 2011) based on developing and middle-income countries, argue that the average impact of foreign debt becomes negative at about 160-170 per cent of exports or 35-40 per cent of GDP. Benedict et al (2003), on the other hand, find that for low-income countries a threshold level of around 30-37 per cent of GDP, or around 115-120 per cent of exports is optimal. Another stream of literature highlights that countries with good policies and strong institutions tend to have higher thresholds and countries with bad and poor policies and weak institutions have lower thresholds (Cordella et al, 2010). The most well-known

\(^3\)Including countries reporting under Special Data Dissemination Standards (SDDS) and General Data Dissemination Standards (GDDS).
channel flagged in the literature through which the external debt impacts growth adversely is
the so-called Debt Overhang: in the likelihood of future debt being larger than the countries
repayment ability, then, expected debt service will be increasingly pre-empting the country’s
output levels, leading to returns on investments becoming poor and thereby discouraging the
new domestic and foreign investments and also eroding the quality of investments.

The India’s external debt to GDP ratio has been well below the optimal zone over the years
as it came down from 38.7 per cent as at end-March 1992 to as low as 17.1 per cent as at
end-March 2006 (Figure B4.1). It remained range-bound around 23 per cent during early
2010s. It is estimated at 20.6 per cent as at end-March 2020. Barring China, leading emerging
market economies have higher ratio than India’s.

India’s external debt to exports ratio dropped secularly downwards since the crisis year 1992,
though it has climbed up in the recent years and is now hovering in the close vicinity of
the optimal zone (Figure B4.2). It needs to be remembered that the optimal zone indicates
growth maximising compatible with the long-run framework of steady state.

**Figure B4.1: Ratio of External Debt to GDP in India and Select Developing Countries*: Optimal Range@ vs. Actual**

*For countries, other than India, it is external debt to Gross National Income (GNI) ratio
@ From Pattillo, et al, 2002 and 2011
Source: Annual Status Report on India’s External Debt and International Debt Statistics: Various Issues

**Figure B4.2: Ratio of External Debt to Exports in India and Select Developing Countries: Optimal Range* vs. Actual**

@ From Pattillo, et al, 2002 and 2011
Source: Annual Status Report on India’s External Debt and International Debt Statistics: Various Issues

*The optimal zone considered in this context is from Pattillo, et al, 2002 and 2011 as it relates to developing countries
Reference


Overall BOP
3.26 India, being a developing and emerging market economy, typically runs a deficit on the current account to supplement domestic savings with foreign savings to fund higher investment. The current account deficit is usually financed by a capital account surplus. However, since Q4: FY 2019-20, India has been experiencing a current account surplus along with robust capital inflows leading to a BoP surplus (Figure 16).

![Figure 16: Trends in India's BoP](chart)

**Source:** RBI

Details available at Annexure.

Indian Rupee (₹) Exchange Rate
3.27 Indian ₹ depreciated by 1.4 per cent (y-o-y basis) *vis-à-vis* US$ in 2019-20. The ₹ appreciated by 1.9 per cent against US$ between end-October 2019 and end-March 2020.
The appreciation of the ₹, however, was modest as compared with its emerging market peers, such as Malaysian ringgit, Thai baht, Philippine peso, Chinese yuan, South African rand, Mexican peso, Indonesian rupiah. Although ₹ appreciated against US$, it depreciated against other major currencies between end-October, 2019 and end-March, 2020. It depreciated by 4.5 per cent, 3.4 per cent and 1.7 per cent against euro, pound sterling, and yen, respectively.

3.28 After depreciating to its lowest level of ₹76.86 on April 16, 2020, the ₹ subsequently appreciated owing to FPI flows to the domestic equity market and the weakening of the US$. In terms of 6-currency nominal effective exchange rate (NEER) (trade-based weights), ₹ depreciated by 4.1 per cent in December 2020 over March 2020, and it appreciated by 2.9 per cent in terms of real effective exchange rate (REER). In terms of 36-currency NEER (trade-based weights), ₹ depreciated by 2.9 per cent in December 2020 over March 2020; however, it appreciated by 2.2 per cent in terms of REER (Figure 17).

Figure 17: Index of 6-Currency and 36-Currency NEER and REER (Trade Based Weight) (Base Year: 2004-05= 100)

<table>
<thead>
<tr>
<th>6- Currency (Trade Based Weight)</th>
<th>36- Currency (Trade Based Weight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Graph showing index changes]</td>
<td>[Graph showing index changes]</td>
</tr>
</tbody>
</table>

Source: RBI

3.29 RBI’s policy on the exchange rate of the rupee has been to allow it to be determined by market forces, with interventions only to maintain orderly market conditions by containing excessive volatility in the exchange rate, without reference to any pre-determined target level or band. In the months following the outbreak of the pandemic, India experienced unprecedented FPI outflows of US$ 15.92 billion in March 2020, after recording cumulative inflows of US$ 1.42 billion in January 2020 and February 2020, with high volatility in the INR. RBI deployed several conventional and unconventional tools in order to ensure financial stability and orderly conditions in financial markets and has been largely successful in controlling the volatility in the ₹ (Figure 18). Large stimulus by central banks in advanced economies has resulted in heightened capital flows into emerging markets such as India, causing asset price inflation as well as stronger local currencies. Judicious interventions in forex markets were, therefore, required to prevent a large one-sided appreciation in the rupee – as has been done by RBI (Figure 18).
**Foreign Exchange Reserves**

3.30 While improved current account balance has been a key factor for reserve accretion in H1 of 2020-21, robust capital flows, particularly FDI and FPI, in subsequent months largely drove foreign exchange reserves to an all-time high of US$ 586.1 billion as on January 8, 2021, covering about 18 months of imports (Figure 19). As at end-September 2020, India is the fifth largest foreign exchange reserves holder among all countries of the world after China, Japan, Switzerland and Russia. India’s international financial liabilities are 210.7 per cent of foreign exchange reserves as at end-September 2020 as compared with 229.7 per cent as at end-March 2020.

**Figure 19: Sources of Foreign Exchange Reserves and Import Cover**

Source: Reserve Bank of India (RBI).

Note: (i) The forex reserves indicated above are as at end date of the quarter.

(ii) The reserve cover of imports for Q3 2020-21 is provisional and based on annualised imports of Q2 of 2020-21. It will change once quarterly BoP is released.

3.31 This forex reserve accretion entailed a concomitant release of domestic liquidity and aided the large-scale government borrowing without entailing any implications for monetary policy as
long as inflation was benign. However, with the headline inflation ruling above the policy band of 4+/−2 per cent, RBI has to confront the classic conundrum of Mundell-Fleming trilemma or impossible trinity – maintain an open capital account, stable exchange rate, and still conduct independent monetary policy. Faced with a large BoP surplus, the RBI is faced with two options: absorb the surplus and accumulate more forex reserves or let the ₹ appreciate. With inflation largely attributed to supply-side disruptions and expected to stabilize, RBI chose to intervene in the forex market, accumulate reserves, prevented one-sided appreciation of ₹ and supplemented expansionary monetary policy. However, the sustenance of high level of headline inflation has led to the requirement of RBI to maintain a fine balance between tightening of monetary policy to control inflation on the one hand and stimulate growth on the other hand.

3.32 The rise in the foreign exchange reserves of the RBI has largely been due to the current account surplus which, in turn, is largely due to contraction in imports rather than increase in competitiveness of exports. The current account balance, in economic terms, is synonymous with the Savings-Investment balance. A current account surplus implies a higher level of national savings relative to investment. A rise in foreign exchange reserves also represents investments in bonds/securities of other countries – in effect investing abroad. A developing country like India, needs to spend on domestic investments to spur its growth. The surplus, therefore, gives adequate space for increased expenditure on investments in FY 2021-22.

3.33 The sustainable way for a healthy external sector balance is by enhancing the earnings through exports – which also give a boost to economic growth. Trade facilitation is, therefore, a priority of the Government for cutting down the transaction costs and time, thereby rendering Indian exports more competitive.

**INITIATIVES TAKEN BY GOVERNMENT TO BOOST EXPORTS**

3.34 India acknowledges that in today’s interconnected global economy, efforts to streamline, speed up and coordinate trade procedures will drive expansion of trade and help integrate itself with an increasingly globalized production system. Foreign Trade Policy, 2015-2020 was extended for one year i.e., up to 31st March, 2021 to lend continuity to the existing schemes.

**Trade Facilitation**

3.35 With an aim to reduce trade barriers caused by inefficient and overly burdensome regulatory administrative procedures, the Trade Facilitation Agreement (TFA), negotiated at WTO, came into force on 22nd February 2017. A National Committee on Trade Facilitation (NCTF) was, accordingly, constituted in India in August 2016 with the Cabinet Secretary as the Chair. A National Trade Facilitation Action Plan (NTFAP) for 2017-2020 containing specific activities to further ease out the bottlenecks to trade was prepared. For the period 2020 to 2023, a new NTFAP is under preparation, to take additional reforms to bolster trade facilitation efforts and transform the cross-border clearance eco-system through efficient, transparent, risk based, coordinated, digital, seamless and technology driven procedures.

3.36 India has been making proactive strides in TFA implementation under the guidance of NCTF. Many of the commitments, which are otherwise due by 2022, have already been notified to WTO as implemented viz. Establishment of a Single Window (Article 10.4), Risk
Management for clearance of goods (Article 7.4), etc. Further, the transparency notifications covering information on import and export procedures, enquiry points, single windows etc., have also been notified in April, 2019, reflecting India’s commitment towards facilitation of trade with an emphasis to transparency and openness. Further various regulatory relaxation measures were extended for facilitating trade during COVID-19, which include 24X7 clearance, dedicated single window, condonation of delay in filing import declarations, waiver of late filing fees, undertakings instead of bond, etc. India has been at the forefront in undertaking initiatives aimed at maximizing predictability and automation in trade, reflecting in the consistent improvement on the United Nation’s Global Survey on Digital and Sustainable Trade.

Remission of Duties and Taxes on Exported Products (RoDTEP)

3.37 India's various export promotion schemes including Merchandise Exports from India Scheme (MEIS), were challenged by the United States in WTO in early 2018. The final report of the WTO panel observed that MEIS is a "prohibited subsidy" and needs to be withdrawn, against which an appeal has been filed by India. In order to continue supporting the industry and to eliminate any uncertainty amongst the exporting community, Government has rolled out a new WTO compliant scheme, namely Remission of Duties and Taxes on Exported Products (RoDTEP), for all export goods with effect from 1st January, 2021.

3.38 Under this Scheme, duties and taxes levied at the Central, State and local levels, such as electricity duties and VAT on fuel used for transportation, which are not getting exempted or refunded under any other existing mechanism will be refunded to exporters in their ledger account with Customs. The credits can be used to pay basic customs duty on imported goods or transferred to other importers – facilitating ease of transactions for exports. The RoDTEP rates would be notified by the Department of Commerce.

Production-Linked Incentive (PLI) Scheme

3.39 In order to boost domestic manufacturing and exports, the Production-Linked Incentive (PLI) scheme with an outlay of ₹1.46 lakh crore has been introduced. This Scheme aims to give incentive to companies on incremental sales from products manufactured in domestic units. The ten-identified champion sectors under PLI scheme are advanced chemistry cell (ACC) battery (approved financial outlay over a five year period of ₹18,100 crore), electronic/technology products (₹5,000 crore), automobile and auto component (₹57,042 crore), pharmaceuticals drugs (₹15,000 crore), telecom and networking products (₹12,195 crore), textile products (₹10,683 crore), food products (₹10,900 crore), high efficiency solar photovoltaic modules (₹4,500 crore), white goods (ACs and LEDs) (₹6,238 crore) and specialty steel (₹6,322 crore). These are in addition to the already notified PLI schemes for mobile manufacturing and specified electronic components (₹40,951 crore), critical Key Starting materials/ Drug Intermediaries and Active Pharmaceutical Ingredients (₹6,940 crore) and manufacturing of medical devices (₹7,420 crore).

3.40 The scheme is expected to make Indian manufacturers in these ten sectors globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies; create economies of scale; establish backward linkages with MSMEs; enhance exports and make India an integral part of the global supply chain. It also incentivizes global, capital-rich companies to set up capacities in India. Growth in production and exports of industrial goods will greatly expose the Indian industry to foreign competition.
and ideas, which will help in improving its capabilities to innovate further. Promotion of the manufacturing sector and creation of a conducive manufacturing ecosystem will not only enable integration with the global supply chains but also establish backward linkages with the MSME sector in the country. This will lead to overall growth in the economy and create huge employment opportunities.

**Trade Related Logistics**

3.41 The COVID-19 pandemic has underscored the need for a resilient logistics sector that can respond to emergencies and supply chain disruptions. Despite the sector being plagued by some structural issues such as highly fragmented ownership; few large players; lack of consolidation in operations; sub-optimal modal share with freight movement highly skewed towards road sector; lack of an integrated approach by user sectors (multiple line ministries and agencies); absence of consistent policies and regulations; etc., India has made remarkable progress in logistics sector.

3.42 India’s rank has improved significantly in trading across borders parameter of ‘Ease of Doing Business’ index from 146 in 2018 to 68 in 2020. The parameter assesses the time and cost associated with the logistical process of exporting and importing goods. The Logistics Performance Index (LPI), released by the World Bank, assesses relative logistics efficiency of countries. On this index, India was ranked 44 out of 160 countries in 2018 vis-à-vis rank of 54 in 2014. India is among nine countries having area above ten-lakh square kilometer out of 24 countries analyzed by LPI in 2018, with a score above three. India performs above average after controlling for the level of development and better than some of its BRICS peers (Figure 20).

![Figure 20: LPI scores controlling for level of development](image)

Source: Based on World Bank dataset

3.43 The National Logistics Policy is in an advanced stage of roll-out with a vision to develop a modern, efficient and resilient logistics services sector that builds on dynamic processes, technology and professional manpower to seamlessly integrate multiple modes of transportation and inventory management to provide more reliable, cost effective, greener, safer and equitable logistics solutions.
3.44 Some process related reforms which have contributed towards improving logistics efficiency are reduction in waiting time for inter-state border crossing due to GST, revision in axle load norms for heavy vehicles leading to better carrying capacity, introduction of paperless EXIM trade process through E-Sanchit, faceless assessment by ‘Turant Customs’ by Central Board of Indirect Taxes and Customs (CBIC), installation of scanners at major ports, implementation of Port Community System 1X at all important ports, Radio Frequency Identification (RFID) tagging of all EXIM containers for track and trace, mandatory electronic toll collection system (FASTag) for reducing time loss at time toll plaza, etc.

3.45 Some Infrastructure Initiatives which are at various stages of implementation are:

a. Bharatmala Pariyojana is a new umbrella program for the highways sector that envisages building more than 80,000 Km of roads, highways, greenfield expressways, bridges with an investment of around US$ 107 billion.

b. Sagarmala aims at Port Modernization & New Port Development, Port Connectivity Enhancement, Port-linked Industrialization, Coastal Community Development and giving impetus to Coastal Shipping. 508 projects have been identified and 111 waterways have been declared National waterways, for which the work is ongoing in phases.

c. Multi-Modal Logistics Parks shall act as hubs for freight movement enabling freight aggregation, distribution and multi-modal transportation. They would provide modern mechanized warehousing space and value-added services such as customs clearance with bonded storage yards, warehousing management services, etc.

d. Dedicated Freight Corridors (DFCs) aims at reduction in unit cost of transportation with higher speed of freight trains and better turnaround of wagons. Around 70 per cent of freight is expected to shift to DFC, freeing up capacity on Indian Railways.

e. Trade Infrastructure for Export Scheme (TIES) aims to assist creation of appropriate infrastructure for growth of exports from the States.

3.46 Some Digital/Technological Initiatives that are under development are:

a. Logistics Planning and Performance Monitoring Tool (LPPT) shall allow real-time monitoring of operational performance and asset utilization of various logistics infrastructure such as ports, airports, various corridors comprising national and state highways, Inland Container Depots (ICDs), etc.

b. India Logistics Platform (iLOG) - Several IT-based solutions have been deployed by government over the years such as Indian Customs EDI Gateway (ICEGATE) and Single Window Interface for Trade (SWIFT) developed for trade facilitation; Port Community System (PCS) for cargo handling at seaports; Freight Operations Information System (FOIS) by Indian Railways and VAHAN (National Vehicle Registration System) by Ministry of Road Transport and Highways. However, each system owner has adopted a different approach, leaving critical gaps that require manual or offline processing at various stages. Therefore, a comprehensive platform iLOG is being developed for integrating all logistics related digital portals.
c. The component systems that would be developed simultaneously and later latched on to iLOG through open APIs are secured logistics document exchange (Aadhaar and Blockchain-based security protocols); truck visibility & positioning platform (integrated with e-way bill and Vahan); National e-registry of warehousing; digital trucking; logistics account number (LAN); digital Green corridor; digital port decongestion and container tracking & management system.

3.47 It is estimated that logistics sector employs 12 million workforce, involved mainly in land transportation, warehousing (storage and packaging), supply chain and courier and express services. In order to impart right set of skills to them, a curriculum on logistics and supply chain is being developed for classes 9 and 10 at the school level. Courses will be introduced in Industrial Training Institutes (ITIs) and polytechnics under Pradhan Mantri Kaushal Vikas Yojana (PMKVY), Deen Dayal Upadhyay Grameen Kaushalya Yojana (DDU-GKY) and state skill missions.

INDIA’S ENGAGEMENT WITH WTO

3.48 India is one of the founding members of WTO, which has played an important part in the effective formulation of major trade policies. Increasing protectionism, inadequate members in the Appellate Tribunal for dispute resolution, increasing number of Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) etc. have resulted in member countries questioning the efficacy of WTO as an institution meant to ensure free trade and promote multilateralism. In the ongoing discussions on WTO reforms, India's proposal seeks to re-affirm the importance of development and promote inclusive growth. The broad elements of India's proposal include: (i) Preserving the core values of the Multilateral Trading System; (ii) Resolving the impasse in the Dispute Settlement System; (iii) Safeguarding development concerns; and (iv) Transparency and Notifications.

3.49 During the WTO TRIPS Council meeting, held on 15-16 October, 2020, India and South Africa jointly proposed “Waiver from Certain Provisions of the TRIPS Agreement for the Prevention, Containment and Treatment of COVID-19” for a limited time period, with a view to ensure that the intellectual property rights do not become a barrier in the timely and affordable access to medical products, including vaccines and therapeutics, and enable nations to deal effectively with the public health emergency arising out of COVID-19 pandemic. The proposal has received broad-based support from many WTO members, civil society and international organizations.

3.50 The WTO’s Appellate Body (AB) is a permanent body intended by the Dispute Settlement Understanding (DSU) to resolve appeals on issues of law. It is ordinarily composed of seven members having a four-year term, with the possibility of one reappointment. Since July 2017, the United States has been stalling AB appointments on the pretext that it has not been functioning in accordance with the DSU norms – precipitating the ‘Appellate Body crisis’. With fewer than three members to hear any appeal since 10th December, 2019, the AB is not able to function as mandated under the DSU. In the wake of this crisis, around 23 WTO members have created a Multiparty Interim Arbitration (MPIA) mechanism that closely replicates the substantive and procedural
aspects of appellate review under the AB. EU, China, Brazil, Australia, New Zealand are
some of the key members of MPIA. India has not joined MPIA yet. India supports the
restoration and preservation of the normal functioning of the two-stage binding WTO
dispute settlement mechanism.

3.51 In agriculture, India along with many other developing countries, have been demanding
a permanent solution on the issue of public stockholding for food security purposes. This has
become even more relevant in the wake of the ongoing pandemic, as the government had to step
up disbursement of food grains under the public distribution programmes for ensuring food security
of the masses. India has also been raising the issue of imbalances and asymmetries in the existing
Agreement on Agriculture (AoA) and their implications for developing countries. As per the Buenos
Aires Ministerial Decision (MC11) of December, 2017, WTO Members agreed to continue to engage
constructively to frame disciplines on fisheries subsidies by the next Ministerial Conference (MC-
12) in 2020. The negotiations are ongoing and are being conducted in the form of monthly cluster
meetings under Negotiating Group on Rules (NGR) in the WTO.

3.52 WTO members agreed not to impose customs duties on electronic transmissions in 1998
and since then, the moratorium has been extended periodically at the ministerial meetings. India
and South Africa made a joint submission under the Work Program on E-Commerce titled,
‘The E-Commerce Moratorium: Scope and its Impact’ in March, 2020, which, inter alia, argues
that reconsideration of the moratorium is important for developing countries to preserve policy
space for their digital advancement. In response to the failure to obtain a multilateral mandate
for rule-making in e-commerce, in January, 2019, a Joint Statement on e-commerce was issued
on behalf of seventy-six WTO members supporting rule-making on e-commerce. India has not
joined the said plurilateral initiative. India believes that developing countries need to focus on
improving domestic physical and digital infrastructure, creating supportive policy and regulatory
frameworks and developing digital capabilities to bridge the digital divide and enable shared
benefits of digitalization.

3.53 India conducts anti-dumping, anti-subsidy and safeguard investigations on the basis of
applications filed by the domestic industry with prima facie evidence of dumping/subsidization
of goods, injury to the domestic industry and causal link between dumping/subsidization and
injury to the domestic industry. Directorate General of Trade Remedies (DGTR) has introduced
an online portal – ARTIS (Application for Remedies in Trade for Indian industry and other
Stakeholders) – to submit online petitions for different trade remedies like anti-dumping duty,
safeguard duty and countervailing duty. During the period from 01.04.2020 to 30.10.2020,
DGTR initiated 43 anti-dumping investigations, 4 countervailing duty investigations and 1
safeguard investigation.

WAY FORWARD

3.54 The COVID-19 pandemic impacted external sector differently for different countries.
While countries witnessed contraction in exports and imports, AEs suffered larger contraction
and EMDEs, less, especially the East-Asian economies. In India, calibrated easing of lockdown
restrictions narrowed contraction in both exports and imports with imports posting faster
recovery leading to progressive expansion of merchandise trade deficit over the quarters of the
current year. Improving trends in India’s merchandise trade have been supplemented by equity capital inflows, robust FDI inflows and sustained build-up of foreign exchange reserves. The comfortable foreign exchange reserves give the much-needed space for enhanced domestic investments. The disruption of global manufacturing value chains due to the COVID-19 pandemic presents a tremendous opportunity for India to become one of the key nodes in the chain. Various export initiatives, as documented above – including those aimed at promoting ease of exporting – have been undertaken by the government and RBI and implementation of these initiatives would pave the way for the sustainable export performance in India going forward.

### CHAPTER AT A GLANCE

- COVID-19 pandemic has led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with varying implications for current account balances and currencies of different countries.
- Trade balance with China and the US improved as imports slowed.
  - While exports of gems and jewellery, engineering goods, textile and allied products slide, exports of drugs and pharma, software and agriculture and allied products improved. Pharma exports, in particular, hold the potential to be the pharmacy of the world.
- Overall, India is expected to witness current account surplus during the current financial year after a gap of 17 years.
- The foreign exchange reserves rose to an all-time high of US$ 586.1 billion as on January 8, 2021.
- Balance on the capital account, was buttressed by robust FDI and FPI inflows,
  - RBI’s interventions in the forex markets ensured financial stability and orderly conditions and have been largely successful in controlling the volatility and one-sided appreciation of the rupee.
- Various initiatives undertaken to promote exports, including Production Linked Incentive (PLI) Scheme, Remission of Duties and Taxes on Exported Products (RoDTEP), improvement in logistics infrastructure and digital initiatives would go a long way in strengthening external sector in general and exports in particular.
## Annexure

### Annex I: Balance of Payments

<table>
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<td>2b Non-POL imports (2b(i)+2b(ii))</td>
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<td>97.7</td>
<td>92.3</td>
<td>89.3</td>
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<td>84.6</td>
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<td>2b(i) Gold &amp; Silver imports</td>
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<td>2b(ii) Non-POL, Non-Gold &amp; Silver imports</td>
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<td><strong>FPI (net)</strong></td>
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<td><strong>Commercial Borrowings (MT &amp; LT)</strong> (net)</td>
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<td><strong>Overall Balance (net)(9+19+20)</strong></td>
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<td><strong>Foreign Exchange Reserves (Increase - / Decrease +) (net)</strong></td>
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Source: RBI and DGCI&S

Note: P: Provisional.