



## Sliding global economy to moderate India's export growth

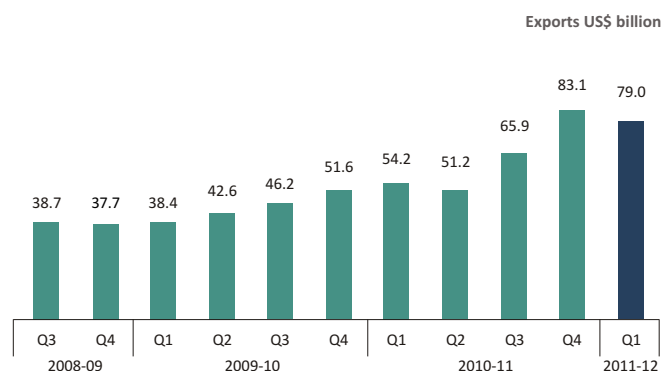
India is more integrated with the global economy than it ever was. Share of total exports (goods and services) in Gross Domestic Product (GDP) jumped to 20.5% during 2005 to 2010 from 14.3% during 2000 to 2005. More recently, year-on-year growth of goods-exports rose to 53% during April to August 2011. In fact, the fastest ever export growth in the past 10 years was recorded in July at 82%. Goods-exports comprise almost 56% of India's total exports.

Three main reasons support the high growth story; (1) Diversification of export markets – away from US and Eurozone and towards faster growing countries in Asia, Africa and Latin America. (2) Extension of supportive policies in 2010, to arrest the decline in exports. (3) Rising petroleum and commodity prices leading to higher export prices for India's major exports.

However, adverse global factors threaten to negatively impact export growth. (1) Economic growth in 3 out of India's top 5 export destinations is expected to slow down sharply. (2) Government has indicated withdrawal of export promotion policies (3) Mounting input costs (refer Issue 1) will put pressure on profits. Overall, slowdown in goods-exports growth is bound to impact GDP growth adversely.

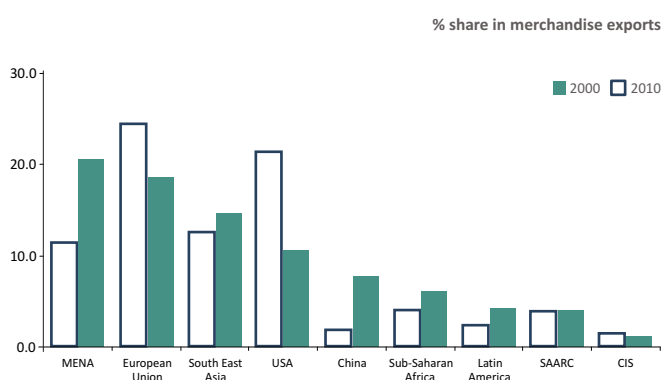
## Indian exports are surging.....

Export performance has been exemplary in recent months



- Goods-exports stood at US\$245.6 billion in 2010-11, crossing the US\$200 billion target set by government.
- For the 10th consecutive month (November 2010 to August 2011), goods-exports stood above US\$ 20 billion, posting an average growth of 55.3% during this period.
- Encouraged by this surge in exports, the government has set an export target of US\$ 450 billion for 2014, requiring a growth of 25% per annum.

Newer markets and product diversification have provided a buffer against global shocks...



- India's exports have gained from diversification away from US and Eurozone and toward faster growing markets in such as UAE, Iran, Saudi Arabia, Indonesia, Vietnam, Brazil and South Africa. The newer markets also have better growth prospects for 2011 and 2012 relative to traditional export destinations.
- Policy support given to exports of engineering products, pharmaceuticals, plastic, jute, technical textiles, green technology, project goods, iron, steel and aluminium goods, auto components and electronic goods have enabled product diversification in the current export basket.

... with policy impetus as a strong pillar

- A shift to newer export markets and products is a result of introduction and extension of a number of export promotion schemes such as the Focus Market Scheme (FMS), Focus Product Scheme (FPS) and DEPB (duty entitlement passbook scheme) under Foreign Trade Policy 2009-2014.
- The government also extended tax cuts to exporters and interest subvention scheme on export credit in specified sectors –which included employment intensive sectors such as textiles, leather, gems & jewellery, marine products, handicrafts, carpets, handloom and small and medium enterprises (SMEs).

Sector-wise export growth % yoy	Primary	Petroleum	Chemical Products	Engineering Goods (excl electronic products)	Electronic products	Textiles	Gems & Jewellery
2008-09	13.9	14.9	9.1	19.4	3.7	10.9	15.3
2009-10	14.3	15.5	11.3	15.9	3.0	10.7	16.0
Aug-10	10.5	17.6	7.7	19.9	3.7	10.3	15.0
Sep-10	12.3	17.8	7.9	19.4	4.3	9.1	14.2
Oct-10	13.6	19.0	8.8	19.7	4.6	9.6	9.8
Nov-10	14.8	14.6	7.5	18.3	3.2	8.2	4.7
Dec-10	14.6	14.7	7.5	16.3	2.8	9.1	11.7
Jan-11	12.9	18.9	7.3	16.0	2.0	8.7	4.8
Feb-11	11.7	14.5	6.7	20.1	5.2	7.2	5.2
Mar-11	13.4	15.9	6.8	16.8	2.1	7.9	23.2

## .....but, the environment is fast turning trickier

### Extension of policy impetus is unlikely while costs continue to mount

- As pressure on government's finances rises, export support previously extended by the government could see gradual withdrawal.
- The interest subsidy of 2% was withdrawn in March 2011, which has led to an increase in interest rates charged by banks for export credit. In a rising interest rate scenario, this further mounts costs.
- Expiry of the DEPB (tax-refund of levies paid on imported inputs) scheme in October 2011, and reversal of several other tax incentives offered during the crisis, will impact competitiveness and put further pressures on margins.
- Issue 1 of SMEconomics highlighted the concerns around mounting input cost and margin pressures on SMEs. About 40% of these SMEs are exporters. Continued increase in input costs on credit (rising interest rates), raw materials (higher international commodity price pass-through), and wages (higher wage demand due to rising inflation) will make exports expensive and less attractive.
- A recent FICCI survey of exporters (released in July 2011) quoted that nearly 68% of its respondents said they will increase prices of exports in the next 6 months, which could, impact competitiveness.

### 6 out of 10 top export destinations are projected to witness slower growth

	2010	2011F	2012F
UAE	3.2	3.3	3.8
United States	3.0	1.7	2.0
China	10.3	9.6	9.2
Hong Kong	7.0	5.0	4.7
Singapore	14.5	5.5	4.8
Netherlands	1.7	1.5	1.5
United Kingdom	1.3	1.3	1.8
Germany	3.6	3.3	2.0
Belgium	2.0	1.7	1.9
France	1.5	1.7	1.7

Note: F = forecast

- Export growth is expected to see a slowdown over the next few quarters. While exports growth to the advanced countries will slow sharply, newer markets in Asia and Africa would provide some transient buffer.
- Several newer markets, for instance, developing Asia continue to have strong consumption growth which will drive demand. If and when private consumption growth in these countries begins to slow, India's export growth will also low at a faster pace.



### Knowledge Centre:

**Exchange Rate:** What causes a currency to appreciate or depreciate? It is demand and supply of currency, just like the prices of goods and services. The demand for rupee on international exchange market depends upon the demand for India's goods and services abroad. Foreign investors' demand for Rupee also rises when they increase their investment in India. The supply of rupee depends upon our demand for foreign goods and services as well as Indian companies' investment abroad. When the demand for rupee exceeds its supply, value of rupee rises. In other words, the currency appreciates. The currency can now buy more units of the other currency than it did previously. The converse of this is depreciation.

# Economic Outlook

India		2010-11	2011-12
Growth (%)	Agriculture	6.6	2.7
	Industry	7.9	7.3
	Services	9.4	9.4
	Total GDP	8.5	7.7-8.0
Inflation	WPI (average)	9.6	8.0-8.5
Interest rate	10-year G-sec (March-end)	7.8	8.1-8.3
Exchange rate	Re/US\$ (March-end)	44.7	43.0-44.0
Fiscal deficit	% of GDP	5.1	5.0
Global GDP growth %		2010	2011
World#		5.1	4.3
United States*		3.0	1.7
Euro Area*		1.7	1.7
United Kingdom*		1.3	1.3
China#		10.3	9.6
United Arab Emirates#		3.2	3.3
Germany*		3.6	3.3
Singapore#		14.5	5.5
Australia#		2.7	3.0
Hong Kong#		7.0	5.0
Belgium#		2.0	1.7
Netherlands#		1.7	1.5

Source: \*S&P, #International Monetary Fund, Central Statistical Organisation, CRISIL estimates

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