CAD narrows to 0.2% of GDP as services exports boom

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Our Bureau
Mumbai

India's current account deficit (CAD) narrowed to 0.2 per cent of GDP in the fourth quarter (January-March) of FY23 from 2 per cent of GDP in the preceding quarter due to a moderation in the trade deficit coupled with robust services exports.

According to the RBI data on India's Balance of Payments, the CAD was at 1.6 per cent of GDP a year ago. So, the CAD in Q4 FY23 has tapered even year-on-year.

In absolute terms, the CAD dipped to $1.3 billion in Q4FY23 against $16.8 billion in Q3 and $13.4 billion in Q4 FY22.

SHRINKING GAP. The trade deficit moderated to $52.6 billion in Q4 FY23 from $71.3 billion in Q3

◉ EFFECT OF CAD

CAD is generated when the value of imports of goods, services, or investment income exceeds that of exports. It can weaken a country's currency, making imports costly, and have an inflationary effect on the economy

TRADE DEFICIT

The trade deficit moderated to $52.6 billion in Q4 FY23 from $71.3 billion in Q3, coupled with robust services exports ($39.1 billion vs. $38.7 billion).

Private transfer receipts, mainly representing remittances by Indians employed overseas, increased to $28.6 billion, up 20.8 per cent from the year-ago level. The moderation in the CAD in the reporting quarter was thanks to a record high services trade surplus and a narrowing of the goods trade deficit, said Rahul Bajoria, MD and Head of EM Asia (ex-China) Economics, Barclays.

The CAD for 2022-23 widened to2 per cent of GDP compared to the deficit of 1.2 per cent in 2021-22 as the trade deficit widened to $265.3 billion from $189.5 billion a year ago.

Bajoria said: "Current account dynamics are expected to improve on average in the current year. We forecast the CAD to print lower in FY24: both export and import values are expected to soften owing to weak external demand and lower international commodity prices, leading to a narrower goods trade deficit compared to the previous fiscal year.

"We think a larger boost to the current account balance will come from a robust services trade surplus. We thus expect the current account deficit to print around $40 billion (1.1 per cent of GDP) in FY24, and increase only modestly to 1.2 per cent of GDP in FY25."

Aditi Gupta, Economist, Bank of Baroda, expects the CAD to moderate in FY24. This will be underpinned by lower commodity prices, services exports, and robust remittance receipts. However, growth in merchandise exports is likely to be lower on global slowdown. Some effect on services exports too cannot be ruled out, she said.

"For FY24, we expect the CAD in the range of -1.2 per cent to -1.6 per cent of GDP. Even in the capital account, some improvement is expected as FDI and FPI flows pick up. This should keep the rupee range bound," Gupta said.

Exports of spices surged in April-May as chilli shipments jumped 33 per cent

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V Sajeev Kumar

Kochi

Overcoming various bottlenecks, India's spices and spice products exports registered a 41 per cent surge in rupee terms during the first two months of the current financial year.

Per a quick estimate, spices and spice products shipments during April- May were worth ₹6,702.52 crore ($815.39 million) compared with ₹4746.85 crore ($618.63 million) in the same period a year ago, an increase of 32 per cent in dollar terms.

"Despite facing challenges such as the increase in domestic prices of chilli and cumin and reduced/deferred demand due to the economic stress in some of the importing countries, the Indian spices sector, during FY23, has shown much resilience to put up an export performance on par with that of the previous year.

GAINING FLAVOUR. Spices exports during FY23 is valued at ₹31,761.38 crore against ₹30,324.32 crore during FY22.

During FY23, India exported close to $4 billion worth of spices (₹3,1761.38 crore), an increase of 4.74 per cent in terms of rupee terms compared with FY22," said D Sathiyan, Secretary, Spices Board.

TOP BUYERS

Spices exports during FY23 is valued at ₹31,761.38 crore against ₹30,324.32 crore during FY22.

The major contributors in the spices export basket in terms of value were chilli (33 per cent), cumin or *jeera* (13 per cent), spice oil and oleoresins (13 per cent), mint products (11 per cent), turmeric (5 per cent), curry powder (4 per cent), cardamom (small) (3 per cent), and pepper (2 per cent), which together contributed to more than 80 per cent of the total spices export earnings.

Major importers were China (20 per cent), USA (14 per cent), Bangladesh (7 per cent), UAE (6 per cent), Thailand (5 per cent), Indonesia (4 per cent), Malaysia (4 per cent), UK (3 per cent), Sri Lanka (3 per cent), Germany (2 per cent), Netherlands (2 per cent), Nepal (2 per cent), and Saudi Arabia (2 per cent), contributing more than 70 per cent of the export earnings of spices.

Export performance for April 2023 showed a significant jump on account of increased export of spices, such as chilli, cumin, turmeric, fennel and garlic. The quantity exported was 1,43,523 tonnes against ₹1,19,534 tonnes in April 2022.

Shipments in May stood at ₹3,726.16 crore ($453.73 million) against ₹2,341.31 crore ($302.81 million) in May 2022.

Import of milk products ruled out

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SANDIP DAS
New Delhi, June 27

THE GOVERNMENT ON Tuesday stated that there is no shortage of milk and other dairy products in the country, although prices have risen in recent months. "There has been an increase in milk prices and the Government is trying its best to address the problem by increasing milk production and availability," Parshottam Rupala, minister of animal husbandry, fisheries and dairying said at a briefing.

While ruling out any possibility of milk products imports in the coming months, Rupala said that the country has adequate quantity of skimmed milk powder (SMP) and the milk chain is functioning smoothly.

He said that there is no shortage of milk and milk products in the country. There were reports of shortage, but that issue was 'created', and the ground reality is different, he said. He did not provide any timeline for reduction in milk prices.

Last month, Meenesh Shah, chairman & managing director, National Dairy Development Board had said that milk prices are unlikely to witness spikes in the coming months due to cooler temperature in April and parts of May, which has delayed the onset of 'lean' season, when milk production usually drops.

Retail inflation in milk was reported at 8.85% in May 2023. The milk inflation has remained elevated at over 6% since August 2022. Despite India being the largest milk producer since 1998, the commodity has been the second biggest factor after cereals such as rice and wheat in driving up retail inflation in the last fiscal.

Milk has the second highest weight in the food and beverages basket of the consumer price index at 6.61%, a notch lower than cereals and products with a 9.67% weight. Organised players, including Mother Dairy and Amul, hiked prices multiple times in the last one year citing higher fodder cost, robust demand and some impact due to reports of lumpy skin disease.

Industry sources said feed cost, which has a share of more than 65% in the cost of production of milk, has increased to ₹20/kg from ₹8 a year ago.

The finance ministry in April had attributed the elevated milk inflation to a demand supply mismatch and said it could be one of the factors apart from volatile international crude oil prices and constrained supplies of milk would influence the country's inflation trajectory.

Customs officials scrutinising under-invoiced rice exports

BUSINESS LINE dt. 30/6/23

ILLICIT TRADE. Over 2.63 lt shipped below $300/tonne during September 2022–May 2023

Subramani Ra Mancombu
Chennai

Customs authorities in the Chennai region have begun to scrutinise white rice exports that have been shipped below $300 a tonne in view of alleged under-invoicing. These shipments were particularly made after September 9, 2022, when the government imposed a 20 per cent export duty on white rice and barred shipments of broken rice.

A major part of the exports set sail from Chennai or Tuticorin ports. Similar shipments have taken place from Jawaharlal Nehru Port Trust, Mumbai, and Mundra Port, Gujarat.

MAIN DESTINATIONS

The under-invoicing has been taking place at a time when southern States, particularly Tamil Nadu and Karnataka, are facing shortages to supply subsidised rice through the public distribution system.

MAJOR STOPS. Most of the consignments are headed to Sri Lanka, Madagascar, Singapore, and an unknown destination

Data made available to *businessline* show that 2.63 lakh tonnes of white rice have been shipped below $300 a tonne at least until May 10 this year. Of the 2.63 lakh tonnes, most of the consignments have headed to Sri Lanka, Madagascar, Singapore, and an unknown destination. Trade sources said there is "clear under-invoicing" as Indian rice prices were quoted above $350 during the period. This amounts to about 1.5 per cent of the 17 million tonnes (mt) of non-basmati rice a year.

When contacted on the under-invoicing, a Chennai customs official said he has been asked to investigate the issue. On October 11, 2020, *businessline* reported that white rice exports were being under-invoiced to overcome the duty impact.

LAUNDERING ALLEGED

Trade sources allege that the under-invoicing has been done to facilitate "hawala" transactions, particularly shipments to destinations where money laundering can be done easily. "Had customs people worked the export price backward, they would have found it under-valued," said a trade source who did not wish to be identified.

In one of such exports, a trader tried to find out the importer and found no such company existed at the given address in Singapore. "There could be issues of national security too in these under-invoicing of rice exports. Also, when some States are running from pillar to post looking to supply rice through ration shops, some exporters are shipping below $300 a tonne," said the trade source. Such exports "compromised on the quality and image of Indian origin rice," and in some cases the bags mentioned consignments as "best fine rice" without defining it as white or parboiled rice, which is allowed duty-free. Some bags were labelled in foreign languages such as Thai, and they also carried generic brand names, trade sources said.

TN moves to top spot as electronics exports triple to $5.37 b in FY23

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MAJOR IMPETUS. Good industrial climate, skilled labour contribute to success

TE Raja Simhan
Chennai

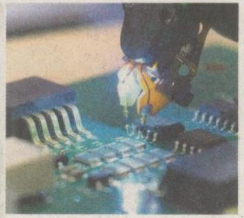
Tamil Nadu's electronics exports nearly tripled in one year to $5.37 billion in FY23 from $1.86 billion in the previous year. From the fourth spot in FY22, Tamil Nadu moved to the top spot in FY23.

Companies like Tata Electronics and Pegatron, starting their production have helped Tamil Nadu overtake three States — Uttar Pradesh, Karnataka and Maharashtra — to become India's top exporter of electronic goods in FY23. Tamil Nadu retained the top spot in the first two months of the current fiscal year.

In 2020-21, of India's total electronic goods export of $15.59 billion, Tamil Nadu's share was 11.98 per cent. However, this zoomed to 22.83 per cent, out of a total value of $23.57 billion, according to Central government data. In the current fiscal, Tamil Nadu continued to top the trend by being the top exporter, followed by Karnataka and Uttar Pradesh.

Top performers

State	FY23 (in $ billion)	% share of India's exports	FY22 (in $ billion)	% share of India's exports
Tamil Nadu	5.37	22.83	1.86	11.98
Uttar Pradesh	4.9	20.85	3.77	24.25
Karnataka	4.52	19.22	3.87	24.89
Maharashtra	2.68	11.41	2.08	13.39



Tamil Nadu is now home to over 15 leading electronics manufacturers, including Foxconn, Tata Electronics, Salcomp and Pegatron.

In FY23, Tamil Nadu exported electronic goods worth $5.37 billion, while Uttar Pradesh was second with $4.90 billion and Karnataka third with $4.52 billion. In FY22, Karnataka was the top exporter of electronic goods with $3.87 billion; Uttar Pradesh was second with $3.77 billion; Maharashtra was third with $2.08 billion.

FOSTERING INNOVATIONS

In a social media posting, Guidance Tamil Nadu said new players are entering the State, while existing manufacturers are expanding their production capacities, demonstrating their confidence in the State. Tamil Nadu continues to foster innovation, attract investments, and nurture entrepreneurship in the electronics sector.

N Ramachandran, Past President, Electronic Industries Association Of India, said the key reasons for Tamil Nadu's performance were the good industrial climate supported by the Tamil Nadu government, availability of skilled or trainable labour, especially women with high productivity and good logistics connectivity of the airport.

Stable and assured power supply and increasing supply chain to support the production are also other reasons for the State doing well in electronic goods, he said.

Russia's share in oil imports touches record 42% in May

FINANCIAL EXPRESS dt. 30/6/23

New Delhi ramps up imports after Moscow started offering discount

MANISH GUPTA
New Delhi, June 29

WHILE THE SHARE of the 13 member countries of OPEC in India's crude oil imports has been consistently declining over the last six years, it fell sharply in FY23 and FY24 till date. This is because the country suddenly scaled up oil imports from Russia following the geopolitical conflict.

Taking advantage of the ban imposed by the US and European Union on imports from Russia after it invaded Ukraine in February 2022, India ramped up its oil imports from Russia as it started selling its oil at a discount to select countries.

From less than 2% in FY22, Russian share of oil imports in India shot up to 19.1% in FY23, as per the Reserve Bank of India's annual report. In the same year, crude oil imports from Saudi Arabia and the US showed a slight decline, while that from Iraq and the UAE remained almost unchanged over the previous fiscal.

INDIA'S CRUDE OIL IMPORTS

(April-May, % share) OPEC Eurasia*

*Mainly Russia and CIS countries Source: PPAC, Ministry of Petroleum and Natural Gas

According to the Petroleum Planning and Analysis Cell (PPAC), the share of OPEC in India's crude oil import fell almost 15 percentage points from 86.5% in in April-May FY18 to 71.8% in April-May FY22, and further to 66.7% and 44.9% respectively in the corresponding periods in FY23 and FY24.

In May 2023, with 1.96 million barrels per day (mbd) from Russia, the share of Russian oil imports reached a record high of 42%; which was higher than the combined oil imports from Saudi Arabia, Iraq, the UAE and the US. Saudi Arabia saw a major decline.

India, the world's third largest crude oil importer and consumer, has been strategically diversifying its crude supply sources. It has a daily oil consumption of around 5 million barrels with a refining capacity of 250 MMTPA. Indian energy companies buy from all major oil producers in the world. From Russia, it buys in US dollars for oil below the $60 per barrel cap imposed by the West, and uses UAE dirhams for oil above the cap.

India stepped up its import of cheap Russian oil despite sanctions from the West saying it had to provide "energy justice" to its citizens. "India has the unique distinction of servicing 60 million visitors at its petrol pumps every single day. Despite challenging times, it is important for the government to ensure access to affordable energy to our citizens," the government said last year.

Gems, jewellery exports push India-UAE FTA utilisation to top

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Amiti Sen
New Delhi

Utilisation of the India-UAE Free Trade Agreement (FTA) by Indian exporters could be as high as 50 per cent in the first year of implementation, based on the Certificate of Origin (COO) issued for exports, according to official sources.

While the figure may go down a bit after cross-checking with the UAE, the utilisation rate of the India-UAE FTA is set to be way more than the utilisation of FTAs with partners such as Japan, South Korea and the ASEAN, per initial data collated by the Commerce Department.

"We are expecting 50 per cent utilisation of the India-UAE FTA based on the COO issued. It has to be corroborated with data from the UAE government on the actual Indian exports on preferential terms that have taken place.

"There is a possibility that actual utilisation may be slightly lower than the COO issued, as some exporters who got the certificates may not have exported. We will come up with the exact numbers soon," a source told *businessline*.

COOs are given by governments to their exporters, certifying that the products that are being exported have been produced in the country and meet the rules of origin under the FTA. Based on the COOs, partner countries allow the items at lower import tariffs agreed under the pact.

UTILISATION RATE

The India-UAE FTA, formally called the Comprehensive Economic Partnership Agreement, was implemented in May 2022.

Its utilisation rate is way higher than the FTAs with other partners such as the ASEAN, Japan and South Korea (which have been lower than 20-25 per cent, according to various estimates), because of greater awareness among exporters due to regular outreach programmes and the immediate benefits the gems and jewellery sector received with import tariffs coming down to zero from 5 per cent, the source explained.

"So far in the India-UAE FTA, our main utilisation is coming from the gems and jewellery sector. The 5 per cent immediate benefit in tariffs is significant value-wise," he said. Exports from the sector increased to $5.77 billion in 2022-23, which was 17 per cent higher than exports worth $4.95 billions the previous fiscal.