

ECONOMIC SURVEY OF INDIA 2021-22

KEY HIGHLIGHTS FOR UPSC CSE

PRELIMS AND MAINS 2022

PART-2

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Levelup IAS
admin@levelupias.com

1. CHAPTER-3: EXTERNAL SECTOR

1) MAJOR COMPONENTS OF INDIA'S BALANCE OF PAYMENT (BOP)

Year / Item (Net)	(US\$ Billion)									
	2019-20				2020-21				2021-22 (P)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
A. Current Account	-15.0	-7.6	-2.6	0.6	19.1	15.3	-2.2	-8.2	6.5	-9.6
A 1 Merchandise Trade Balance	-46.8	-39.6	-36.0	-35.0	-11.0	-14.8	-34.6	-41.7	-30.7	-44.4
A 1 a Merchandise Exports	82.7	80.0	81.2	76.5	52.2	75.6	77.2	91.3	97.4	104.8
A 1 b Merchandise Imports	129.5	119.6	117.3	111.6	63.2	90.4	111.8	133.0	128.2	149.3
A 2. Invisibles	31.8	32.1	33.4	35.6	30.0	30.1	32.4	33.6	37.2	34.8
A 2.a) Services	20.1	20.9	21.9	22.0	20.8	21.1	23.2	23.5	25.8	25.6
A 2.b) Transfers	18.0	20.0	18.9	18.4	17.0	18.4	19.3	18.8	18.9	18.9
A 2.c) Income	-6.3	-8.8	-7.4	-4.8	-7.7	-9.4	-10.1	-8.7	-7.5	-9.7
B) Capital Account	28.6	13.6	23.6	17.4	1.4	15.9	34.1	12.3	25.5	40.1
B.1) Foreign Investment	18.8	9.8	17.6	-1.8	0.1	31.4	38.6	10.0	12.1	13.3
B.1.a) Foreign Direct Investment	14.0	7.3	9.7	12.0	-0.5	24.4	17.4	2.7	11.7	9.5
B.1.b) Foreign Portfolio Investment	4.8	2.5	7.8	-13.7	0.6	7.0	21.2	7.3	0.4	3.9
B.2) Loans	9.6	3.1	3.1	9.9	2.8	-3.9	0.3	7.7	2.8	7.6
B.2.a) External Assistance	1.5	0.4	1.3	0.6	4.1	1.9	1.2	4.0	0.3	1.1
B.2.b) Commercial Borrowings (MT & LT)	6.1	3.3	3.2	10.3	-1.2	-4.0	-1.1	6.1	0.6	4.1
B.2.c) Short Term Credit to India	2.0	-0.6	-1.4	-1.0	-0.2	-1.8	0.2	-2.3	1.9	2.4
B.3) Banking Capital	3.4	-1.8	-2.3	-4.6	2.2	-11.3	-7.6	-4.4	4.1	0.4
B.4) Rupee Debt Service	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0
B.5) Other Capital	-3.1	2.5	5.2	13.8	-3.7	-0.3	2.8	-1.0	6.6	18.8
C) Errors and Omissions	0.4	-0.9	0.6	0.9	-0.6	0.4	0.6	-0.7	-0.2	0.7
D) Overall Balance	14.0	5.1	21.6	18.8	19.8	31.6	32.5	3.4	31.9	31.2
E) Foreign Exchange Reserves (Increase - / Decrease +)	-14.0	-5.1	-21.6	-18.8	-19.8	-31.6	-32.5	-3.4	-31.9	-31.2

2) GLOBAL ECONOMIC ENVIRONMENT

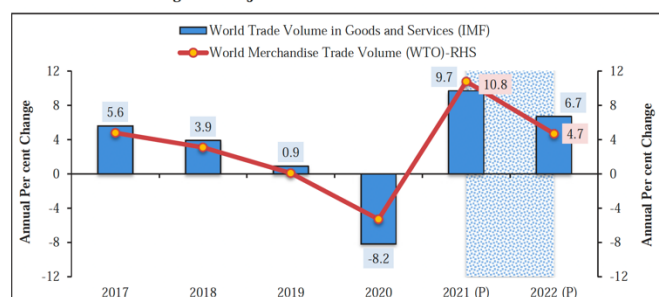
- The first half of the calendar year 2021 (H1) has witnessed an acceleration in global economic activity. It has lifted merchandise trade to its pre-pandemic peak. It is also reflected in IMF's World Economic Outlook report, WTO's World Merchandize Trade Volume Data and WTO's Good Trade Barometer.

- Reasons:

- o Revival in economic activities
- o Slump in international trade in 2020

- Some Risks to International Trade

Figure 1: Projection for World Trade Volume Growth



Source: IMF and WTO
Note: Projections. The shaded area represents projected growth.

- **Inflation:** With rising inflation, many countries are winding up the pandemic stimulus. This may result in tightening of money supply, hamper capital flow (especially in developing countries). This may also lead to tighter global liquidity conditions and exchange rate volatility in global currency.
- **New Variants of COVID-19:** For e.g., the omicron had caused some short term issues.
- **Other concerns** include higher freight rates, shortage of shipping containers, shortage of inputs such as semiconductors etc.

3) DEVELOPMENT IN INDIA'S MERCHANDISE TRADE

A) MERCHANDISE EXPORTS

- India's merchandise export has recovered strongly from the pandemic induced slump. During April-Dec of 2021-22, Merchandise export grew by 49.7% to **US\$301.4 billion** when compared to 2020-21 and it grew 26.5% over 2019-20.
- India has set a target of \$400 billions of annual export by 2021-22, which seems to be achievable in this financial year.
- **Factors behind increasing exports:**
 - Economic recovery in key markets -> increasing demand
 - Pent up savings and disposable income due to announcement of fiscal stimulus by major economies
 - Global commodity price rise and an aggressive export push by government.
- **Products which have seen export growth:**
 - 85% of the major export commodity groups have recorded positive growth in April-Dec 2021-22. Both Petroleum, Oil and Lubricants (POL) and non-POL exports have improved.
 - **Most exported commodities** from India include Petroleum Products (14.9% of total exports), Pearl, precious and semiprecious stones (6.8%), Iron and steel (6.0%), Drug formulations, biologicals (4.7%), Gold and other precious metal jewellery (2.8%), Organic Chemicals (2.8%), Electricity Machinery and Equipment (2.4%), Aluminium Products of Aluminium (2.3%), Products of Iron and Steel (2.0%), Marine Products (2.0%) etc.
 - **Exports of Agriculture and Allied Products** have continued to do well
 - It grew by 23.2% to US\$ 31.0 billion during April-Nov 2021
 - **Top 10 Agri Export Commodities during 2021-22 (April-Nov)**
 - **Agri exports have continued to do well.**

Table 1: Top 10 Agricultural Export Products

Rank	Commodity	(US\$ Billion)			
		2019-20	2020-21	2020-21 (Apr-Nov)	2021-22 (Apr-Nov) (P)
1	Marine Products	6.7	6.0	4.0	5.4
2	Rice (Other Than Basmati)	2.0	4.8	2.7	3.9
3	Spices	3.6	4.0	2.6	2.7
4	Sugar	2.0	2.8	1.6	2.3
5	Buffalo Meat	3.2	3.2	2.1	2.2
6	Rice - Basmati	4.4	4.0	2.7	2.1
7	Cotton Raw Incl. Waste	1.1	1.9	0.8	1.5
8	Wheat	0.1	0.6	0.2	1.2
9	Castor Oil	0.9	0.9	0.6	0.8
10	Misc Processed Items	0.6	0.9	0.5	0.7
Total Agricultural Exports		35.6	41.9	25.2	31.0

Source: Department of Commerce.

Note: P: Provisional.

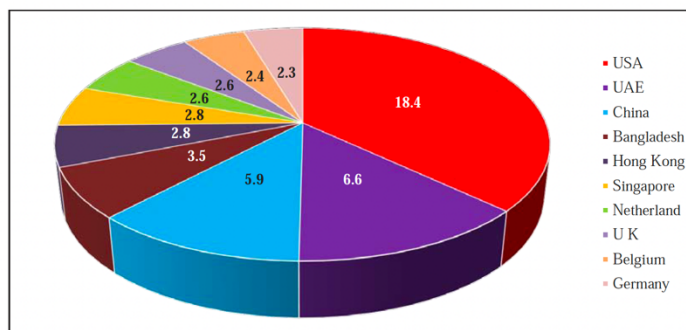
- **Key Support provided to promote Agri-Exports**

- a) Export promotion agencies – **Export Inspection Council (EIC)** and **Agriculture & Processed Food Products Export Development Authority (APEDA)** are taking proactive steps
- b) **Digitization of various processes:** For e.g., online issuance of certificates required for exports.
- c) **Initiatives like Transport and Marketing Assistance (TMA) for specified agri products** have been made more lucrative by increasing the rates of assistance wef from 1st April 2021
- d) **KRISHI UDAN** initiative by MoCA to assist farmers in transporting agri products on international and national routes to improve their value realization.

○ **Top Export Destination for India**

- a) USA, followed by UAE and China are the top export destination of India. Belgium has replaced Malaysia and has entered the top 10 countries with more than a billion-dollar worth of pearls, precious and semi-precious stones and iron and steel shipped to the country.

Figure 6: Top ten Export Destinations in 2021-22 (April- November) [By Share in Per cent]



Source: Department of Commerce

○ **Need of Export Diversification:**

Though India has diversified its exports in last 25 years, but even now, around 40% of our exports go to only 7 countries. To promote diversification of exports, India has been negotiating FTAs with individual countries and groupings.

○ **Progress on Trade Agreements:** During last few years, India has initiated its trade agreement negotiations and reviewed existing agreements with many countries. This *inter alia* includes negotiations for:

- a) Comprehensive Economic Cooperation Agreement (CECA) between India and Australia
 - b) FTA with European Union (EU)
 - c) Comprehensive Economic Partnership Agreement (CEPA) with Canada
 - d) CEPA with UAE.
- In addition, India is reviewing its existing trade agreements such as the CECA with Singapore and ASEAN-India Trade in Goods Agreement (AITIGA) with ASEAN, among others. Negotiations are complete for agreement with UAE and at advance stage with Australia.
 - Further, India launched the FTA negotiations with the UK on 13th January, 2022, which is expected to facilitate the target of doubling bilateral trade by 2030, set by the Prime Ministers of both the nations in May 2021.
 - Under India-US Trade Policy Forum (Ministerial), discussions were held with the US delegation on 6th October 2021 regarding Social Security Agreement, Mutual Recognition Agreements (MRAs) in nursing services and accountancy services, and mobility issues concerning Indian professionals

4) MAJOR SCHEMES AND INITIATIVES TO BOOST EXPORTS

A) REMISSION OF DUTIES AND TAXES ON EXPORTED PRODUCTS (RODTEP):

- It is a WTO compliant scheme which came into effect on 1st Jan 2021. Under this reimbursement is made of unrefunded taxes and duties (central, state, or local) incurred in the process of manufacture and distribution of exported products.

- This is based on the globally accepted principle that taxes and duties should not be exported. It is an improvement over the Merchandise Exports from India Scheme (MEIS). It thus provides a level playing field to Indian industries abroad.

B) DEVELOPING DISTRICT AS EXPORT HUB:

- Under this initiative, the focus is to make districts active stakeholders in the promotion of exports of goods/services produced/ manufactured in the district.
- District Export Promotion Committees (DEPCs) have been set up in each district.
- Products with export potential (including agricultural, geographical indication (GI) & toy clusters) have been identified in all 739 districts across the country.
- This scheme would help in diversifying the portfolio of export commodities.

C) PRODUCTION-LINKED INCENTIVE (PLI) SCHEME:

- An outlay of `1.97 lakh crore (US\$ 26 billion) was announced in Union Budget 2021-22 for Production-Linked Incentive (PLI) scheme for 14 key sectors starting from 2021-22.
- The scheme provides incentives to companies on incremental sales for products manufactured in domestic units, which is expected to create minimum production of over US\$ 500 billion in 5 years.
- Automobiles and auto components, pharmaceutical drugs, telecom & networking products, electronic/ technology products, etc., are some of the sectors covered under PLI scheme.
- The scheme is expected to give a push to both domestic manufacturing capabilities and exports.

D) ELECTRONIC PLATFORM FOR PREFERENTIAL CERTIFICATE OF ORIGIN (COO):

- In view of the COVID-19 crisis, on-boarding of FTAs/ preferential trade agreements (PTAs) was quickly done to allow electronic issuance to avoid physical movement. Around 4.6 lakh CoOs have been issued from the e-platform till date.

E) INFUSION OF CAPITAL IN EXIM BANK:

- Government of India infused capital of `750 crore in Export-Import Bank of India (EXIM Bank) during the current financial year 2021-22 through subscription to its share capital.

F) EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LTD. (ECGC)

- It provides insurance cover to banks against risks in export credit lending to the exporter borrowers. Government approved capital infusion of `4,400 crore to ECGC Ltd. over a period of five years, i.e. from 2021-2022 to 2025-2026.

G) EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME

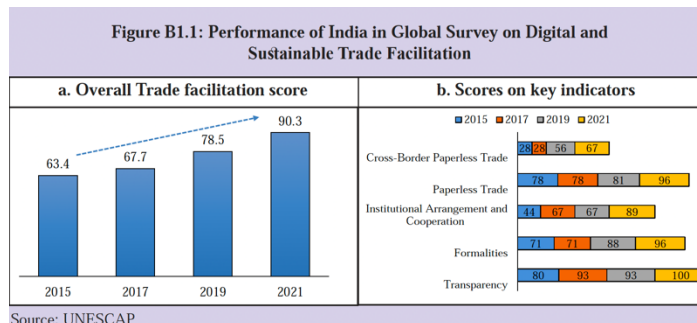
- It is an ongoing scheme under the foreign trade policy.
- In order to increase procurement of capital goods from indigenous manufacturers under the EPCG scheme, the government has reduced specific export obligations from 90 per cent to 75 per cent of the normal export obligation.

H) OTHER EXPORT PROMOTION SCHEMES

- The export promotion schemes such as Trade Infrastructure for Export Scheme (TIES), Market Access Initiatives (MAI), Special Economic Zone (SEZ) scheme, Emergency Credit Line Guarantee Scheme (ECLGS) and Advance Authorization Scheme continue to provide support to trade infrastructure and marketing.

5) ENABLING AN EFFICIENT LOGISTIC ECOSYSTEM TO BOOST EXPORTS

- An efficient, competitive, and resilient logistics ecosystem is pivotal to boost exports.
- Over the years, India has made substantial progress in trade related logistics. It is reflected in leading global indices:
 - o India has scored 90.3% in 2021 in UNESCAP's latest survey on Digital and Sustainable Trade Facilitation. This is a remarkable jump from 78.5% in 2019. The survey also notes that India is the best performing country in South and South West Asia (63.1%) and Asia Pacific Region (65.9%).
 - o India has witnessed continuous improvement in its scores since 2015. It is supported by continuous improvement in all five indicators. Transparency index got 100 per cent score in 2021, while paperless trade and formalities got 96 per cent.



A) PRADHAN MANTRI GATISHAKTI NATIONAL MASTER PLAN (NMP)

- The PM Gati Shakti NMP was approved in Oct 2021. It is aimed at providing multimodal connectivity to various economic zones and integrate the infrastructure linkages holistically for seamless movement of people, goods & services. These will all contribute in improving Logistics efficiency.
- The NMP brings together 16 ministries for integrated planning and coordinated implementation of infrastructure connectivity projects like Bharat Mala, Sagarmala, inland waterways, UDAN etc.
- It also focuses on use of technology including spatial technology as planning tools. For e.g., ISRO imagery developed by BiSAG-N (Bhaskaracharya National Institute for Space Applications and Geoinformatics) will be used.
- Various economic zones like textile clusters, pharma clusters, electronics park etc. will be covered to ake Indian businesses more competitive globally by cutting logistics cost and ensuring proper linkages for local industry and consumers.
- All this will contribute in boosting economic growth, attracting foreign investment and creating employment opportunities.

B) OTHER INITIATIVES

- **Various steps in last few years to improve logistics efficiency:**
 - » FASTag, Turant Customs, mandatory RFID (Radio Frequency Identification) tagging at all EXIM bound containers, E-San chit, Indian Customs Enquiry for Trade Assistance and Knowledge (ICETRAK), ICEDASH (Indian Customs EDI Dashboard), Secured Logistics Document Exchange (SLDE), Import Clearance System, GHG Calculator etc.
 - » To ease maritime trade, efforts are being undertaken on development of port-specific master plans and a coordination mechanism for implementation of the same, upgradation of select Land Customs Stations (LCS) to Integrated Check Posts (ICPs), promoting Free Trade Warehousing Zones, etc

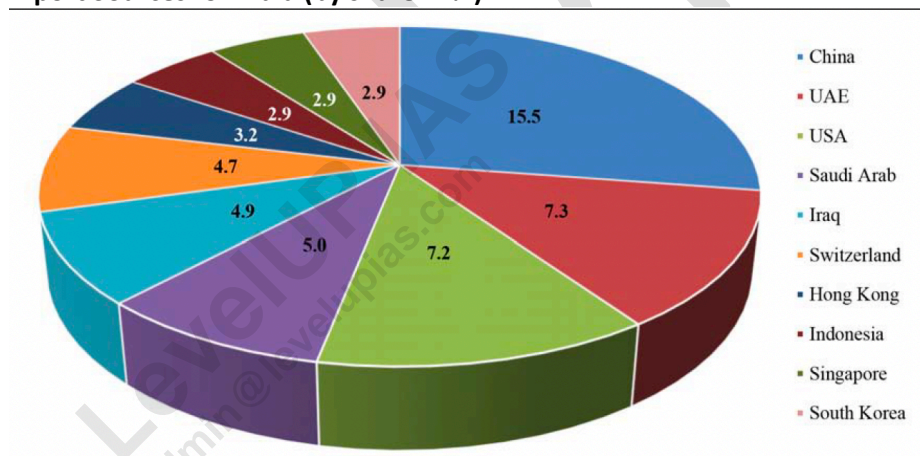
6) MERCHANDIZE IMPORTS

- With improvement in economic activities, merchandise imports have also revived. Imports grew at the rate of **68.8% to US\$ 443.8 billion** in April-Dec 2021 over the corresponding period last year.
- There has been substantial rise in all three categories of merchandise imports i.e., **POL Imports** (share of 26.6%), gold and silver imports (9.1%) and non-POL, non-Gold & Silver imports (64.3%).
 - **POL** imports have grown by **119.2%**. This has been because of revival of demand as well as increase in global crude oil prices. We have imported POL worth 118.3 billion between April-Dec 2021.
 - **Gold and Silver Imports** have also increased by more than 100% and have even surpassed the pre-pandemic levels.
 - **Non-POL, Non-Gold & Silver** imports have also increased by 49.3%. This growth was helped by import growth in electronic goods, pearls, precious & semi-precious stones; coal, coke & briquettes etc.

Table 2: Top 10 Import Commodities

Rank	Commodity	(US\$ Billion)				Share (in Per cent)			
		2019-20	2020-21	2020-21	2021-22	2019-20	2020-21	2020-21	2021-22 (P)
				(P)	(P)			(Apr-Nov)	(Apr-Nov)
1	Petroleum: Crude	102.7	59.5	31.3	73.3	21.6	15.1	14.2	19.2
2	Gold	28.2	34.6	12.3	33.2	5.9	8.8	5.6	8.7
3	Petroleum Products	27.8	23.2	13.1	24.1	5.9	5.9	5.9	6.3
4	Pearl, Precious, Semiprecious Stones	22.5	18.9	9.3	19.2	4.7	4.8	4.2	5.0
5	Coal, Coke and Briquettes, etc.	22.5	16.3	9.7	18.9	4.7	4.1	4.4	4.9
6	Electronics Components	16.3	15.3	8.7	14.5	3.4	3.9	4.0	3.8
7	Vegetable Oils	9.7	11.1	6.8	12.2	2.0	2.8	3.1	3.2
8	Organic Chemicals	12.2	11.1	6.3	11.2	2.6	2.8	2.9	2.9
9	Computer Hardware, Peripherals	9.0	10.4	6.6	9.7	1.9	2.6	3.0	2.6
10	Plastic Raw Materials	10.4	9.7	5.2	9.5	2.2	2.5	2.4	2.5
Total of above 10 commodities		261.3	210.1	109.3	225.9	55.0	53.3	49.7	59.2
India's Total Imports		474.7	394.4	219.8	381.4	100	100	100	100

- **Top 10 Import Sources for India (by share in %)**



Source: Department of Commerce

7) MERCHANDIZE TRADE BALANCE

- Merchandise trade deficit stood at **US\$ 142.4 billion** in April-Dec 2021 compared to deficit of US\$61.4 billion in corresponding period of the last year and US\$ 125.9 billion in April-Dec 2019.
- India's Merchandise Trade balance with Major countries:

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

(US\$ Billion)							
S. No	Country	Exports		Imports		Trade Balance	
		Apr-Nov 20	Apr-Nov 21 (P)	Apr-Nov 20	Apr-Nov 21 (P)	Apr-Nov 20	Apr-Nov 21 (P)
1	USA	31.3	49.0	16.3	27.4	15.0	21.6
2	Bangladesh	5.1	9.2	0.6	1.3	4.4	7.9
3	Nepal	3.5	6.0	0.4	1.0	3.1	5.0
4	Turkey	2.3	5.1	0.9	1.3	1.4	3.8
5	Netherland	3.8	6.9	1.9	2.8	1.9	4.1
6	U K	4.6	6.8	2.6	4.3	2.0	2.5
7	Italy	2.6	5.4	2.2	3.2	0.4	2.1
8	Korea	2.9	4.8	7.1	11.1	-4.2	-6.3
9	Qatar	0.8	1.2	4.6	7.7	-3.8	-6.5
10	U A E	9.7	17.5	13.1	27.9	-3.4	-10.4
11	Saudi Arab	3.6	5.8	9.2	19.2	-5.6	-13.4
12	Iraq	1.0	1.3	7.6	18.5	-6.6	-17.2
13	Switzerland	0.9	0.9	5.8	17.8	-4.9	-16.9
14	China	13.6	15.6	38.8	59.0	-25.2	-43.4

8) TRADE IN SERVICES

- India's **services exports** recorded growth of **18.4% to US\$ 177.7 billion** during 2021-22 (April-Dec), over corresponding period a year earlier and **11.0%** growth over 2019-20, surpassing the pre-pandemic levels.
- This is **mainly** due to growth in **top three services** – Computer, business and transportation services which constitute more than 80% of total service exports.
 - o **Computer Service Exports** continue to be the largest export service with about 49% of total services exports.
 - o **Export in Business services** – second major segment – also showed recovery underpinned by improvement in professional, management and consultancy services.
 - o **Transportation services** export grew by 40.7% to US\$ 14.3 billion due to increase in cross-border trade activity and the shortage of shipping containers impacting transport costs.
- **Other Factors which have led to Service Exports:**
 - o **Liberalizing the Other Service Providers (OSPs)** in Nov 2020
 - o **Reform package for telecom sector** to infuse liquidity, encourage investment and reduce regulatory burden on the telecom service providers.
- **Service Imports** rose by 21.5% to US\$ 103.3 billion in 2021-22 (April-Dec) and have crossed pre-pandemic levels.

Table 4: Services Trade Performance

(US\$ Billion)				
	2019-20	2020-21	2020-21 (Apr-Dec)	2021-22 (Apr-Dec)* (P)
Services Exports	213.2	206.1	150.1	177.7
Services Imports	128.3	117.5	85.0	103.3

Source: Reserve Bank of India and Department of Commerce

Note: *: The data for December 2021 is an estimation; P: Provisional

9) PRIVATE TRANSFERS

- In H1 of FY 22, private transfers – mainly representing remittances by Indians employed overseas – grew by **7.2% to US\$38.4 billion** over corresponding period a year earlier and a modest 0.1% over H1:FY20, thus **exceeding the pre-pandemic levels**.
- As per the **Migration and Development Brief 35**, Work Bank (released in Nov 2021), India continues to be the largest remittance recipient country in the world in 2021 and has been so since 2008.

10) INVISIBLES (SERVICE, PRIVATE TRANSFERS, AND INCOME)

- **Net invisibles in H1: FY 22**, were US\$72.1 billion (higher than the pre-CoVID levels)

Table 5: Net Invisibles and its components

Year / Item (Net)	(US\$ Billion)			
	2019-20	2020-21	2020-21 H1	2021-22 H1 (P)
Invisibles	132.8	126.1	60.1	72.1
Services	84.9	88.6	41.8	51.4
Transfers	75.2	73.5	35.4	37.9
Income	-27.3	-36.0	-17.1	-17.2

11) CURRENT ACCOUNT BALANCE (TRADE BALANCE + NET INVISIBLES)

- India's Current Account Balance has flipped into deficit of US\$ 3.1 billion (0.2% of GDP) in H1:FY22, on the back of sharp increase in merchandize trade deficit.

Table 6: Current Account Balance

Year/ Item (Net)	2019-20	2020-21	2020-21 H1	2021-22 H1 (P)
Current Account Balance (US\$ Billion)	-24.7	23.9	34.3	-3.1
Current Account Balance as per cent of GDP	-0.9	0.9	3.0	-0.2

12) CAPITAL ACCOUNT

- In H1: FY 22, capital flow more than tripled to US\$ 65.6 billion (4.5% of GDP) over those in H1:FY21. This has been because of continued inflow of foreign investment, rise in loans mainly external commercial borrowings (ECBs), banking capital and other capital (including SDR allocation of US\$ 17.9 billion by IMF). This was also higher than the corresponding period of pre-pandemic level (H1: FY 20).

Table 7: Capital Account Balance

		(US\$ Billion, unless otherwise indicated)			
S.No.	Year / Item (Net)	2019-20	2020-21	2020-21 H1	2021-22 H1 (P)
A.	Capital Account (A1 to A5)	83.2	63.7	17.3	65.6
A1.	Foreign Investment	44.4	80.1	31.5	25.4
A1.1	Foreign Direct Investment (FDI)	43.0	44.0	23.9	21.2
A1.2	Foreign Portfolio Investment (FPI)	1.4	36.1	7.6	4.3
A2.	Loans	25.7	6.9	-1.1	10.4
A3.	Banking Capital	-5.3	-21.1	-9.0	4.4
A4.	Rupee Debt Service	-0.1	-0.1	-0.1	-0.1
A5.	Other Capital	18.5	-2.1	-4.0	25.4
B.	Capital Account Balance to GDP ratio (Percent)	2.9	2.4	1.5	4.5

Source: Reserve Bank of India

Note: P: Provisional

- **Foreign Investment (FDI and FPI)** is the largest component of the capital account. Falling short of the pre-pandemic levels, the net foreign investment

inflows (FIIs) – primarily driven by FDI – moderated to US\$ 25.4 billion in H1:FY22 compared to corresponding period of FY21.

Sector getting highest FDI – Computer Software and hardware

Table 4: Sectors attracting highest FDI Equity Inflows

Rank	Sector	US\$ Billion				Share (in Per cent)			
		2019-20	2020-21	2020-21 H1	2021-22 H1	2019-20	2020-21	2020-21 H1	2021-22 H1
1	Computer Software & Hardware	7.7	26.1	17.6	7.1	15.4	43.8	58.5	22.9
2	Automobile Industry	2.8	1.6	0.4	4.9	5.7	2.7	1.4	15.8
3	Services Sector**	7.9	5.1	2.3	3.2	15.7	8.5	7.5	10.1
4	Trading	4.6	2.6	0.9	2.1	9.2	4.4	3.2	6.6
5	Telecommunications	4.4	0.4	0.0	0.4	8.9	0.7	0.0	1.2
	Total Of Above	27.4	35.8	21.2	17.6	54.8	60.1	70.6	56.6
	Total FDI	50.0	59.6	30.0	31.2	100	100	100	100

Highest FDI Source Countries

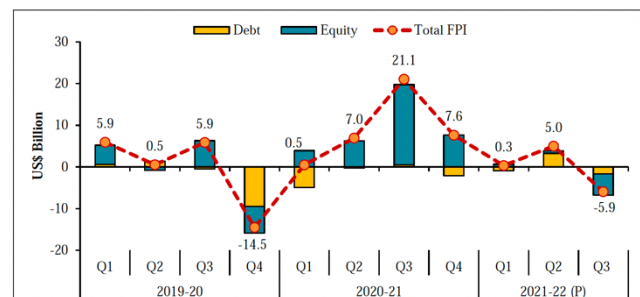
Table 5: Top Investing Countries FDI Equity Inflows

Rank	Country	US\$ Billion				Share (in Per cent)			
		2019-20	2020-21	2020-21 H1	2021-22 H1	2019-20	2020-21	2020-21 H1	2021-22 H1
1	Singapore	14.7	17.4	8.3	8.1	29.4	29.2	27.7	25.9
2	U.S.A.	4.2	13.8	7.1	4.6	8.4	23.2	23.7	14.9
3	Mauritius	8.2	5.6	2.0	4.3	16.5	9.5	6.7	13.9
4	Netherlands	6.5	2.8	1.5	2.1	13.0	4.7	5.0	6.9
5	Japan	3.2	2.0	0.7	0.8	6.5	3.3	2.2	2.6
	Sum of Above	36.9	41.6	19.6	20.0	73.8	69.8	65.3	64.1
	All Countries *	50.0	59.6	30.0	31.2	100.0	100.0	100.0	100.0

- Foreign Portfolio Investment (FPI) flows have remained volatile due to:

- Global uncertainties relating to US Monetary Policy Normalization
- Rising Global Energy Prices
- Fear of new COVID-19 variants
- Strong Inflationary pressures

Figure 16: Foreign Portfolio Investment remained volatile



- Among other forms of Capital Inflow:

- **Banking Capital** recorded net inflow of US\$ 4.4 billion in H1: FY 22 as compared with a net outflow of US\$9.0 billion in corresponding period a year earlier.

13) BOP BALANCE AND FOREIGN EXCHANGE RESERVES

- Current Account Deficit was adequately cushioned by robust capital inflows, resulting into a **Balance of Payment Surplus of US\$ 63.1 billion in H1:FY 22**. This has led to augmentation of foreign exchange reserves crossing the milestone of US\$ 600 billion and touching US\$ 634.5 billion as at end-Sep 2021.
- **Note1: One major Concern:** Though Foreign Exchange Reserves have increased in 2021-22, the import cover of India's foreign exchange reserves declined to 13.2 months at end-Dec 2021 from 17.4 months at end-March 2021 as mechanize imports increased with pick up in domestic economy.
- **Note2:** At the end of Nov 2021, India has the fourth largest foreign exchange reserves in the world after China, Japan and Switzerland.
- **Note3:** The current account deficit in the BoP determines how much of net capital inflows into the country can be absorbed or used for growth. It is expected to be within the manageable limits during 2021-22. From a historical perspective, India can sustain a current account deficit of 2.5-3.0 per cent of GDP without getting into an external sector crisis

14) MOVEMENT IN EXCHANGE RATE

- **India rupee is depreciating against US\$** (4.5% in 2020-21 and 3.4% by Dec 2021 (over March 2021)).

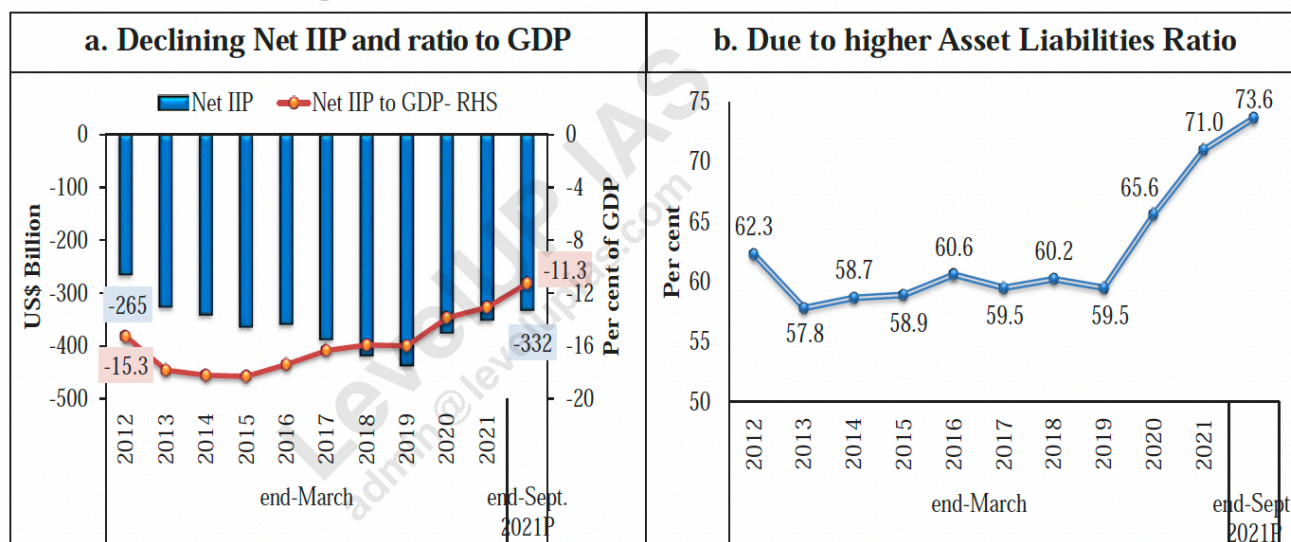
However, this depreciation is modest as compared with its emerging market peers such as Turkish Lira, Argentine Peso, Thai Baht, and Philippine Peso.

- Further, the Rupee has appreciated against Euro, Japanese Yen and Pound sterling in Dec 2021 (over March 2021).
- In terms of **6-currency nominal effective exchange rate (NEER)** (trade-weighted), the rupee depreciated by 2.1 per cent in December 2021 over March 2021, while it appreciated by 0.9 per cent in terms of real effective exchange rate (i.e., REER) terms.
- Similarly, the rupee depreciated by 1.6 per cent in terms of 40-currency NEER (trade-weighted) in December 2021 over March 2021, while it appreciated by 0.4 per cent in terms of 40-currency REER, reflecting widening inflation differential with trading partners

15) NET INTERNATIONAL INVESTMENT POSITION (IIP)

- One way to **gauge country's resilience** is to look at its net international investment position. Net International Investment Position (IIP) is the difference between the value of financial assets of residents of an economy that are claims on non-residents and the liabilities of residents of an economy to non-residents at a point in time. It represents either a net claim on or a net liability to the rest of the world.
- India's net IIP stood at (-) 11.3% of the GDP (US\$ -332 billion) as at end-Sep 2021 – a sustained improvement since end-March 2019 – led by a higher asset-liability ratio, which improved to 73.6% at end Sep 2021. This improvement is mostly due to significant buildup of reserves assets, which more than compensated for build-up in liabilities on account of FDI, FPI and other investments.

Figure 20: Net International Investment Position (IIP)



Source: RBI

Note: P: Provisional

16) EXTERNAL DEBT

- India's external debt is US\$ 593.1 billion (Sep 2021).
 - o **Commercial borrowing** (US\$ 218.8 billion) forms the largest component of external debt.

- **NRI Deposits** (US\$ 141.6 billion) is the second largest component. **Short term trade credit** (US\$ 97.4 billion) forms the third largest component.
- Together, these three (Commercial Borrowings, NRI deposits and Short term trade credit) constitute 77.2% of total external debt.
- **Currency Composition of External Debt**
 - Dominated by **US\$ (51%)**, followed by **Indian Rupee**.
 - External debt dominated in Indian rupee witnessed an impressive increase over the years, owing to FPI investment into Indian debt market, apart from continued large accretion to Non-Resident External Rupee Account.

17) TAPER WITH TANTRUM AND INDIA'S EXTERNAL SECTOR RESILIENCE

- **Background:**
 - The US **Federal Reserve embarked on a programme of asset purchases under the Quantitative Easing (QE)**, as part of a broader policy response to the Global Financial Crisis in 2007-08. As the US economy gained traction, to unwind the QE, on May 22, 2013, **the Fed announced the intent to start tapering asset purchases at a future date**, which triggered a tantrum in the form of spike in bond yields and resulted in disruptions on the external front for India as well.
 - Similarly, to fight economic crisis due to COVID-19, the Fed had been buying US\$ 80 billion of Treasury securities and US\$ 40 billion of agency mortgage-backed securities (MBS) each month.
 - In **late July 2021**, the Fed signalled that it would start reducing the volume of its bond purchases later in the year.
 - On **November 3, 2021**, the Federal Open Market Committee unanimously voted to scale back its asset purchases.
 - In line with this **Bank of Canada** has gradually tapered its asset purchases in recent months. Thus, the **long-awaited taper process has commenced by the systemically important central banks, renewing thereby an element of interest - within the academia and policy circles - in the potentially destabilising spill-over impact on the emerging market and developing economies as also for India**.
 - There is evidence that, inter alia, these emerging markets, including India, have succeeded in strengthening their external economic and financial position since 2013 and the ramifications of the taper on the Indian external sector would be limited (Barry Eichengreen et al (2021)).

India's improved resilience

- When compared to 2013, India's import cover has more than doubled.
- Accretion of large foreign exchange -> vulnerability indicators relating to reserves such as reserves to total external debt, reserves to short-term debt (residual maturity), reserve cover of imports, etc., have shown marked improvement in H1: FY 2022, vis-à-vis FY 2014, the taper-tantrum year.
- Another key vulnerability indicator i.e. net IIP to GDP ratio has declined to (-) 11.3 percent, as against (-) 18.2 percent in the said period.
- The **external debt to GDP ratio has also declined since the said episode**.
- Besides, India witnessed a **current account surplus of 0.9 per cent Q1 of 2021-22 on top of similar surplus in 2020-21 after a gap of 17 years**. On the other hand, India experienced the highest ever current account deficit of 4.8

Table B2.1: External Vulnerability Indicators for India

Indicator	(Per cent, unless otherwise indicated)		
	Global Financial Crisis (FY 2009)	Taper-Tantrum (FY 2014)	H1: FY 2022
External Debt (US\$ Billion)	224.5	446.2	593.1
Foreign Exchange Reserves (US\$ Billion)	252	304.2	633.6*
External Debt to GDP ratio	20.7	23.9	20.1
Short-term debt (RM) to Total Debt	38.8	39.7	43.2
Concessional Debt to Total Debt	18.7	10.4	8.6
Reserves to Total Debt	112.2	68.2	107.1
Reserves to Short-term Debt (RM)	270.2	171.9	248.2
Reserves Cover of Imports (in months)	9.8	7.8	14.6
Debt Service Ratio	4.4	5.9	4.7
Net IIP/ GDP ratio	-5.8	-18.2	-11.3

per cent of GDP in 2012-13 on the back of an equally large deficit of 4.3 per cent during the previous year (2011-12).

Evidently, the Indian economy has exhibited greater resilience so far to the current episode of taper.

While acknowledging **India's transformation from being among the Fragile Five countries in the wake of the earlier episode to the 4th largest forex reserve holder during the current episode**, Indian economy stands guard with an added advantage of plenty of policy room for manoeuvring as the process of normalisation of monetary policy by systematically important central banks takes hold.