

India's merchandise export growth may slow in FY23

To ensure domestic availability of certain key commodities and to ease out the inflationary pressure, India in a series of move last month imposed export restriction on several commodities. Export of wheat was completely banned on May 13, 2022 and a fortnight after that 10 million tonne limit was imposed on export of sugar. In order to discourage export of iron ore, the government imposed 15% duty on export of iron ore and steel on May 24, 2022.

Curb on rising inflation

Concerns about heat wave adversely affecting Rabi wheat harvest prompted the government to take the precautionary measure of export restriction in the interest of domestic food security. The move is also directed towards easing the upward inflationary pressure caused by the supply side disruptions and global shortages of key raw material. Wholesale Price Index has been in double digit for last 14 months and was recorded at a all time high of 15.88% in May 2022. The export duty on iron ore and steel is expected to discourage export and increase the domestic supply thus maintaining domestic price stability

Impact on Current Account Deficit

Recent months have witnessed sharper rise in imports than exports, thereby prompting concern about external sector imbalance in the economy. In the FY 2021-22, India recorded its highest ever trade deficit of USD 192 billion which is around 6% of its total GDP. In the first month of the FY 2022-23, trade deficit was at record monthly high of USD 24.29 billion. If the trend continues our trade deficit for the financial year 2022-23 would be touching USD 300 billion.

The export restricted commodities wheat, sugar, iron ore and steel together contributed around USD 31 billion to Indian export in FY 2021-22 which was around 7.5% of India's total merchandise export. In the first month of FY 2022-23, all four commodities together contributed around USD 3 billion or 7.6% of total merchandise export. In this circumstance, the government's move to impose export restriction on these commodities will reduce growth of exports and thus may widen our trade deficit, if our import continues to grow at the current pace.

Impact on farmers and MSMEs

India is the second largest producer of wheat even though its share in world wheat exports is minuscule. The Ukraine crisis and the resultant rise in global food prices provide an unprecedented opportunity for India to increase income of its wheat farmers. India is also the largest producer of sugar and the second largest exporter of sugar. The export restriction imposed on wheat and sugar may hurt farmers' potential income, which they would have realised in the absence of such restriction.

There are also concern among steel manufacturing industry that rise in import duty would force them to operate at lower margins, affecting their profitability. Also, it would push their foreign importers to look for alternative supplying countries, thereby hurting the image of India as a reliable supply partner.

Conclusion

India's merchandise exports recorded an impressive growth of 35% in 2021-22 from the pre-pandemic level of USD 313 billion in 2019-20. It may be difficult to maintain this growth in the current financial year given the export restriction on the above commodities. Also, the expected economic growth slowdown in foreign countries amidst monetary policy tightening by global central banks may reduce their import demand, thereby affecting our exports. Therefore, it is likely that India's export growth in the current financial year (2022-23) may at best be below 10%.

Notifications

Press Information Bureau

Ministry of Statistics & Programme Implementation releases CPI data for Month of May 2022

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1833536>

Ministry of Commerce & Industry release WPI data for month of May

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1833734>

Ministry of Commerce & Industry – A landmark deal for India at 12th WTO ministerial conference

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1834766>

Ministry of Commerce & Industry- India – EU restart FTA negotiations after 9 year s

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1834982>

CBIC

Tariff Notification for Edible Oils, Brass Scrap, Areca Nut, Gold and Silver.

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1834355>

RBI

Reserve Bank of India lifts the business restrictions imposed on Mastercard Asia / Pacific Pte. Ltd

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53877

RBI introduces “Payment Vision 2025” to promote safer and smoother digital transactions

<https://www.rbi.org.in/Scripts/PublicationVisionDocuments.aspx?Id=1202>