Demonetisation cloud on export growth

EXIM MATTERS

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India's merchandise export grew 9.59 per cent in October 2016, the highest growth rate for a month since November 2014. This comes on the back of 4.6 per cent export growth in the previous month and so might be taken as a sign of revival in exports growth, which has been languishing in the negative territory since two years, barring a month.

The worry now is whether the short-term disruption caused by demonetisation of ₹500 and ₹1,000 currency notes will break this new-found momentum. The export growth in October is driven strongly by a dramatic increase in iron ore exports, but it would not be correct to attribute it to that alone. The recovery in exports seems broad-based with positive growth across sectors in 18 out of 30 major product groups. The sectors that have done well include carpets, marine products, gems & jewellery, coffee, engineering goods, tobacco, meat, diary & poultry products, readymade garments of all textiles, petroleum products, iron ore, ceramic products and glassware. It appears global demand is picking up slowly. The October Global Purchasing Managers Index was the highest in a year, picking up for the second month in succession. After reducing its 2016 forecast to 1.7 per cent, the World Trade Organization has projected that global trade could begin to pick up from the October-December quarter on account of gains in exports orders. Exports to the US, European Union and Japan have shown an increase, whereas exports to China have declined.

The trade deficit, however, widened in October as imports rose faster than exports. Gold imports rose mainly on the back of festive demand. Non-oil non-gold imports rose due to higher imports of transport equipment and pulses. Oil imports continued to rise on a trend basis, led by higher international oil prices. Without entering into any discussion on the merits of the government's decision to demonetise the so-called high value notes, it can be said that with 86 per cent of the currency notes withdrawn and not enough new notes to take their place in the economy, demonetisation has disrupted business activities significantly, especially in rural areas, where most transactions are in cash. In many agriculture-based industries, the transactions have come to a halt for want of cash. Service industries, like transportation, have also been hit hard. Consumer demand, mainly for luxury items, also has got depressed. Almost every entrepreneur, small businessman, professional or employee is distracted. The disruption is expected to ease gradually over the next few weeks.

Short-term disruption due to demonetisation can hurt productivity and export growth in the next few months. During the first seven months of April-October this year, the cumulative exports was a little short of $155 billion. It is unlikely that the export figures for the entire financial year will reach the scaled down target of $280 billion. At the same time, it is possible that even imports will go down due to lower economic activity and lower consumption levels resulting in lesser demand, although some expect the demand for gold to go up. Further reforms may also be put on hold. Much depends on how quickly normalcy is restored by the government and how well the businesses and people cope with the disruption and overcome it.

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