Review of the Economy 2012-13 Highlights

Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister released the document 'Review of the Economy 2012-13' at a Press Conference in New Delhi today. Following are the highlights of the document:

- **Economy to grow at 6.4% in 2013-14**

The Advance Estimates of CSO have pegged the growth of Agriculture at 1.8% in 2012-13. In expectation of normal or mostly normal monsoon, the farm sector growth is likely to improve and is projected to grow at 3.5% in 2013-14.

The Advance Estimates of CSO have pegged the growth of Industry (including manufacturing, mining and quarrying, electricity, gas, water supply and construction) at 3.1% in 2012-13. It is projected to grow at 4.9% in 2013-14. Manufacturing sector is projected to grow at 4% in 2013-14.

The Advance Estimates of CSO have pegged the growth of Services at 6.6% in 2012-13. It is projected to grow at 7.7% in 2013-14.

- **Global Situation:** Global growth although projected to pick up in 2013 would continue to remain at modest levels. In such a scenario India's projected growth rate of 6.4% is relatively high and respectable.

- **Structural Factors:**

- Investment rate is estimated to be 35.8% of GDP in 2012-13. There has been a sharp decline in the productivity of capital as the Incremental Capital Output Ratio (ICOR) has shot up from its historical level of around 4.0 to much higher levels. The computed ICOR for 2011-12 and 2012-13 ranges from 5.4 to 11.4, depending on how the ratio is calculated. It appears that investment capital accumulated in projects is not yielding commensurate output.
- Domestic savings rate is estimated to be around 30.8 % of GDP 2012-13. The decline in the domestic savings rate over the past few years is owing to the increase in the negative savings by the Government, the decline in profitability of private corporates, and decline in net financial savings of households.

- **Trends in Corporate Financial Results**

- In 2009-10 and 2010-11 the real net sales growth figures derived from the corporate data were closer to the ASI numbers than the IIP. If the corporate numbers are a better guide of manufacturing, the GDP estimates by CSO for both

2011-12 and 2012-13 could be revised upwards.

- **External Sector: Controlling CAD remains our main concern at present.**

Current Account Deficit is estimated to be $94 billion (5.1% of GDP) in 2012-13 and is projected to be $100 billion (4.7% of GDP) in 2013-14.

- Merchandise trade deficit is estimated to be $200 billion (10.9% of the GDP) in 2012-13 and is projected to be $213 billion (9.9% of GDP) in 2013-14.
- Net invisibles earnings are estimated to be $105.8 billion (5.7 % of GDP) in 2012-13 and are projected to be $113 billion (5.3 % of GDP) in 2013-14.

Capital flows

- It is estimated that for 2012-13 the net inflow of FDI was $18 billion ($26 billion inbound and $ 8 billion outbound). For 2013-14 EAC has projected higher inbound flows of the order of $36 billion. Outbound FDI is also expected to increase, resulting in net FDI inflow of $24 billion.
- FII inflows were weak in the first quarter of 2012-13, but picked up in the second and third quarters. For the year as a whole, portfolio inflows are estimated to be close to $24 billion. Portfolio capital flows are projected to be $18 billion in 2013-14.
- The total inflows under the head of loans are estimated to be about $30 billion in 2012-13. This comprises mostly of external commercial borrowings (ECBs) and short-term loans. The projected figure for 2013-14 is $36 billion.
- The total banking capital inflows for 2012-13 are estimated to be $24 billion and are projected to be at $ 22 billion for 2013-14.

- **Inflation**

In 2013-14, the headline WPI inflation is expected to be around 6.0 %, with primary food inflation around 8%, fuel at about 11% and manufactured goods at around 4%.

The provisional figure for inflation at the end of 2012-13 is 5.96%.

- **Fiscal Situation**

The fiscal deficit of the Centre for 2012-13 is estimated to be 5.2% of GDP. It was Rs 520,924 crores in 2012-13 as per revised estimates, and is expected to be Rs 542,499 crores in 2013-14 as per budget estimates.

The total Central subsidies stood at Rs. 257,654 crores (2.6% of GDP) in 2012-13 but, are expected to go down to Rs 231,084 crores in 2013-14 largely owing to the pruning down of petroleum subsidies which have been the major cause of missing our fiscal deficit targets in the past.

As growth recovers tax collections are expected to improve. The 2013-14 BE target of 19% gross tax revenue growth is realizable.

On the expenditure side, control over the magnitude of petroleum subsidies is clearly the most important element in keeping expenditures within the overall budgeted limits.

The budget has laid firm foundations for the process of fiscal consolidation which should help in achieving high growth in a sustained way.

Conclusions:

- Growth and, more particularly, industrial growth has slowed. But the decline appears to have bottomed out. Overall economic growth is expected to rise to 6.4 per cent in 2013-14 from 5 per cent in the previous year. Investment and savings rates have come down. But economic growth has declined more steeply than what is warranted by the decline in investment. The main reason for this is that while capital assets have been formed, counterpart output has not flowed into the economy. Capital accumulated in projects is not yielding commensurate output, as the implementation of projects has slowed. Policy and administrative actions such as the recently constituted Cabinet Committee on Investment can help to overcome obstacles in the speedy execution of projects. While even existing rates of investment should enable us to grow at 7.5 to 8.0 per cent over the short term, a return to higher levels of savings and investment can take us back to the very high levels of growth which we had seen earlier.
- Inflation continues to remain high, but there are definite signs that headline WPI inflation is coming down. Non-food manufacturing inflation remains around the comfort zone. As inflation comes down, it will create more space for monetary policy to support growth.
- The road map for fiscal consolidation has been well laid out. Government has shown its determination to contain the fiscal deficit. The current account deficit, however, remains a source of concern, despite the fact that the financing of the deficit has not been a problem so far. While in the short run, we should take such actions that are necessary to encourage capital flows, over the medium term, we need to bring down the current account deficit to moderate levels.
- The next decade will be a crucial decade for India. If we grow at 8 to 9 per cent per

annum, we will graduate to the level of a middle income country by 2025. It is once again a faster rate of growth which will enable us to meet many of our important socio-economic objectives.

- **<u>Issues to be addressed:</u>**

<u>Speedy project clearances</u>: While the Constitution of the Cabinet Committee on Investment has helped in speeding up project clearances, more needs to be done in the coming months so that new investment can be facilitated. In the current context, achieving the production and capacity creation targets in the key infrastructure sectors such as coal, power, roads, railways and ports, which are largely in the public sector or public-private partnership (PPP) domain, will act as a great stimulus to private investment and faster growth.

<u>Reducing CAD:</u> Net oil imports and gold, account for bulk of the increase in merchandise trade deficit. Price and subsidy reforms in petroleum products need to be completed to control our oil import bill. It is also vitally necessary to encourage exports of both merchandise and services. As inflation is brought under control, peoples' appetite for gold will also diminish. Maintaining an attractive return in financial assets will also help in bringing down the demand of gold.

<u>Managing the capital account</u>: To ensure that the CAD is comfortably financed, capital inflows will need to be encouraged and, where necessary, procedures streamlined.

<u>Improving Net Energy Availability</u>: There is a close link between our dependence on imports of oil and natural gas and our external payments situation. Hence, steps should be taken to improve the energy economy in all aspects-production, transformation and final use. Facilitating an increase in domestic coal production will make a substantial difference. The conditions for exploration and production of hydrocarbons must be improved to increase domestic supply.

<u>Containing inflation</u>: Both supply side management and the approach to administered pricing have to be informed about the urgency in regard to stabilizing primary food inflation at a lower level.

<u>Reforms in Agricultural Marketing and Supply Chains</u>: The Agricultural Produce Marketing Committee Act (APMC Act) prevailing in a number of states limits the freedom of farmers to sell, and this has prevented the modernization of the supply chain and also contributes to primary food inflation. Regulatory obstacles in the way need to be cleared.

<u>Moving Savings Products</u>: Over the past few years there have been serious setbacks in the distribution of savings products, especially mutual funds and life insurance. However, sales of mutual fund products, especially to smaller investors, have been

continuously negative for some time and the premium growth in insurance was (-) 10 % in 2010-11 and 2011-12, after strong growth in previous years. There is a need to reverse this decline in investment in financial assets through more attractive savings products and environment.

Table 1

Year-on-year rates of growth at constant (2004-05) prices

Unit: per cent, unless otherwise specified

	ANNUAL RATES	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
								QE	*AE*	*Proj*
1	Agriculture & allied activities	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.8	3.5
2	Mining & Quarrying	1.3	7.5	3.7	2.1	5.9	4.9	–0.6	0.4	2.3
3	Manufacturing	10.1	14.3	10.3	4.3	11.3	9.7	2.7	1.9	4.0
4	Electricity, Gas, Water Supply	7.1	9.3	8.3	4.6	6.2	5.2	6.5	4.9	6.4
5	Construction	12.8	10.3	10.8	5.3	6.7	10.2	5.6	5.9	7.0
6	Trade, Hotels, Transport, Storage & Communication	12.0	11.6	10.9	7.5	10.4	12.3	7.0	5.2	7.6
7	Finance, insurance, real estate & business services	12.6	14.0	12.0	12.0	9.7	10.1	11.7	8.6	9.0
8	Community & personal services	7.1	2.8	6.9	12.5	11.7	4.3	6.0	6.8	6.0
9	**GDP (factor cost)**	**9.5**	**9.6**	**9.3**	**6.7**	**8.6**	**9.3**	**6.2**	**5.0**	**6.4**
10	Farm Sector	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.8	3.5
11	Industry (2 + 3 + 4 + 5)	9.7	12.2	9.7	4.4	9.2	9.2	3.5	3.1	4.9
12	Services (6 + 7 + 8)	10.9	10.1	10.3	10.0	10.5	9.8	8.2	6.6	7.7
13	Non-Farm GDP (9 - 1)	10.5	10.8	10.1	8.1	10.1	9.6	6.6	5.5	6.8
14	**GDP (factor cost) per capita**	**7.8**	**8.0**	**7.8**	**5.2**	**7.1**	**7.8**	**4.8**	**3.7**	**5.1**

	Some Magnitudes									
15	GDP factor cost-2004/05 prices in Rs lakh crore (Trillion)	32.5	35.6	39.0	41.6	45.2	49.4	52.4	55.0	58.5
16	GDP market & current prices in Rs lakh crore (Trillion)	36.9	42.9	49.9	56.3	64.8	78.0	89.7	100.3	113.7
17	GDP market & current prices in US$ Billion	834	949	1,241	1,234	1,370	1,715	1,865	1,847	2,126
18	Population in Million	1,106	1,122	1,138	1,154	1,170	1,186	1,202	1,217	1,232
19	GDP market prices per capita current prices in Rs	33,394	38,277	43,823	48,787	55,366	65,728	74,667	82,400	92,290
20	GDP market prices per capita in current US$	754	846	1,090	1,069	1,171	1,446	1,551	1,518	1,725

Table 2

Actual and Projected Balance of Payments

US$ billion	**2004/ 05**	**2005/ 06**	**2006/ 07**	**2007/ 08**	**2008/ 09**	**2009/ 10**	**2010/ 11**	**2011/ 12**	**2012/ 13 ***	**2013/ 14 ***
Merchandise Exports	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	301.1	329.7
Merchandise Imports	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	501.1	542.7
Merch Trade Balance	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-200.0	-213.0
	-4.7%	*-6.2%*	*-6.5%*	*-7.4%*	*-9.7%*	*-8.6%*	*-7.6%*	*-10.2%*	*-10.9%*	-9.9%
Net Invisibles	31.2	42.0	52.2	75.7	91.6	79.7	84.6	111.6	105.8	113.0
	4.3%	*5.0%*	*5.5%*	*6.1%*	*7.4%*	*5.8%*	*4.9%*	*6.0%*	*5.7%*	*5.3%*
o/w Software & BPO	14.7	23.8	27.7	37.2	47.0	41.5	49.6	60.1	62.4	72.0

Private Remittances	20.5	24.5	29.8	41.7	44.6	53.5	53.1	63.5	65.6	69.0
Investment Income	-4.1	-4.1	-6.8	-4.4	-6.6	-5.5	-16.4	-16.5	-24.0	-28.0
Current Account	**-2.5**	**-9.9**	**-9.6**	**-15.7**	**-27.9**	**-38.5**	**-45.9**	**-78.2**	**-94.2**	**-100.0**
	-0.3%	*-1.2%*	*-1.0%*	*-1.3%*	*-2.3%*	*-2.8%*	*-2.7%*	*-4.2%*	*-5.1%*	*-4.7%*
Foreign Investment	13.0	15.5	14.8	45.0	3.5	51.2	38.0	39.2	41.5	42.0
o/w FDI (net)	3.7	3.0	7.7	15.4	17.5	18.8	7.7	22.1	17.8	24.0
Inbound FDI	6.0	8.9	22.7	34.2	35.0	33.1	24.0	33.0	26.1	36.0
Outbound FDI	2.3	5.9	15.0	18.8	17.5	14.4	16.3	10.9	8.3	12.0
Portfolio capital	9.3	12.5	7.1	29.6	-14.0	32.4	30.3	17.2	23.7	18.0
Loans	10.9	7.9	24.5	41.9	4.1	14.3	27.9	19.3	30.5	36.0
Banking capital	3.9	1.4	1.9	11.8	-3.2	1.5	5.0	16.0	24.2	22.0
Other capital	0.7	1.2	4.2	9.5	4.5	-13.0	-10.4	-6.9	-2.0	0.0
Capital Account	**28.0**	**25.5**	**45.2**	**108.0**	**8.7**	**53.4**	**60.0**	**67.8**	**94.2**	**100.0**
	3.9%	*3.1%*	4.8%	8.7%	0.7%	3.9%	3.5%	3.6%	5.1%	4.7%
Errors & Omissions	0.6	-0.5	1.0	1.2	1.1	-1.6	-2.6	-2.4	2.5	0.0
Accretion to Reserves	26.2	15.1	36.6	92.2	-18.1	13.3	11.5	-12.8	2.5	0.0
	3.6%	*1.8%*	*3.9%*	*7.4%*	*-1.5%*	*1.0%*	*0.7%*	*-0.7%*	0.1%	0.0%

Note: * The column for 2012-13 is estimated and that for 2013-14 is projected.