# Economic Advisory Council to the PM Economic Outlook 2012/13

## **Highlights**

### **Economy to grow at 6.7 per cent in 2012/13**

- Farm sector GDP projected to grow at 0.5 per cent in 2012/13 due to the impact of weak monsoon on agriculture and the current reservoir storage position in 2012/13.
- Manufacturing sector projected to grow at 4.5 per cent. Electricity, automotive, steel and cement sector have shown improvement in the period of April-June. Because of the benefits of the low base, manufacturing sector will show improved performance in the second half of this year.
- Mining sector for the year as a whole expected to grow at 4.4 per cent due to growth in the coal and lignite sector, and some recovery in iron ore.
- Electricity generation expected to continue to grow at an average pace of around 8 per cent.
- Construction expected to show some improvement compared to last year as evidenced by the recent increase in the output of steel and cement.
- In Services sector, some improvement expected particularly in the large transport, trade and communications sector.
- ➤ Global Situation: There is a dark mood in the advanced economies; especially in Europe. The slower growth in the US and in the EU will have an adverse impact on the expansion of these markets for India's exports, both of goods and services.

#### Structural Factors:

- o Gross Domestic Fixed Capital Formation as a proportion of GDP has fallen from its highest level of 32.9% in 2007/08 to 30.4 % in 2010/11 and to 29.5 per cent in 2011/12. Projected to be 30.0% in 2012/13.
- O Domestic saving rate has declined from 32.0% in 2010/11 to 30.4% in 2011/12 and projected to be at 31.7% in 2012/13.

#### **External Sector:**

- o Current Account Deficit was \$78.2 billion (4.2% of GDP) in 2011/12 and projected at 67.1 billion (3.6% of GDP) in 2012/13.
  - The merchandise trade deficit was \$189.8 billion (10.2 per cent of GDP) in 2011/12 and projected at \$181.1 billion (9.7 per cent of GDP) in 2012/13.
  - Overall the net balance on invisibles was \$111.6 billion (6.0% of GDP) in 2011/12 is expected to grow at \$114 billion (6.1% of GDP) in 2012/13.
- o Capital flows were \$67.8 billion (3.7% of GDP) in 2011/12 and projected at \$73.2 billion (3.9% of GDP) in 2012/13. This would be adequate to service the projected CAD of \$67 billion for the year as a whole.
- o Accretion to reserves projected at \$4 billion in 2012/13

#### > Inflation:

 Deficient SW monsoon likely to have an adverse impact on the prices of primary food items, especially on those where the ability of government stocks to play a moderating role is not there. Inflation rate expected to be within the range of 6.5 to 7.0 per cent at the end of 2012-13.

## **Expanding fiscal imbalance continues to be a major area of policy concern.**

- The fiscal deficit for the Centre was 5.89% of GDP in RE 2011/12 and is estimated at 5.06% in BE 2012/13.
- o In some contrast to the Centre's finances, the fiscal health of the States is better.
- The consolidated fiscal deficit of the Centre and the State governments for 2011/12 (RE) was 8.2 per cent of GDP. The consolidate deficit based on Budget Estimates for 2012/13 is estimated to be 7.2 per cent.
- The containment of the fiscal imbalance at the Centre rests on our management of the subsidy bill, especially that on refined petroleum products and by increasing the Tax-GDP ratio.

 Introduction of the General Sales Tax on Goods & Services (GST) would be a very important milestone in the path of tax reform. It requires considerable negotiations, bargaining and preparatory work in relation to both the structure and operation of the tax.

#### **Reforms in Agriculture sector:**

Reforms in Agriculture sector need focused attention on liberalizing tenancy arrangements, reforming domestic markets for agricultural produce and, reducing input subsidies.

## > Measures to accelerate the Economic growth:

## o Integrated decision-making on high-impact infrastructure projects

For Projects costing in excess of a minimum threshold, say Rs 5,000 crore, a Cabinet Committee comprising of ministers in charge of concerned departments should take an integrated view. The *Cabinet Committee on Infrastructure* could be recast as the Cabinet Committee for Sustainable Development of Infrastructure for this purpose, and its composition as well as powers under the rules of business modified accordingly.

## o Permitting FDI in multi-brand retail

For channelling transfer of capital and technology, FDI in multi-brand retail up to 49 per cent may be allowed to attract investment in this sector. Such of the states as are receptive to the idea may implement this.

#### o FDI and other reforms in the Aviation sector

FDI in civil aviation may now be allowed to the existing extent of 49 per cent for foreign airlines as well.

#### Containing petroleum products subsidies

Given the huge subsidy projection for the current financial year, priority consideration may be given to (i) a suitable increase in the price of diesel in one or more steps, and (ii) a cap on the level of consumption of subsidised domestic LPG close to what is currently being consumed by poorer households, i.e., 4 cylinders.

We need to focus further on the following issues:

 Policy predictability: There is need to specifically focus and address the apprehensions that have been occasioned by perceptions of arbitrary actions on tax and other fronts.

- <u>Clearing payments</u>: Outstanding payments for infrastructure projects need to be cleared on time.
- Promoting savings: Given the declining trend in domestic saving rate, we need to make financial products more attractive.

## o <u>Containing inflation</u>:

Taming inflation is critical for sustained growth. Need to take steps to contain high inflation in primary food which is mostly linked to the antiquated system of marketing and absence of modern handling and storage facilities for perishable products.

#### o Improving the CAD:

- Some amelioration through price reform in case of diesel could serve to contain demand.
- To contain the import of gold, an improvement in the return as well as the regulatory regime in which mutual funds and life insurance products are sold are of utmost importance.
- Significant improvement required in the approach of government to a number of issues to make IT-related export business much more competitive.

Table 1

GDP Growth - Actual & Projected
At constant 2004/05 prices

	ANNUAL RATES	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
						P	QE	Rev	Pro.j.
1	Agriculture & allied activities	5.1	4.2	5.8	0.1	1.0	7.0	2.8	0.5
2	Mining & Quarrying	1.3	7.5	3.7	2.1	6.3	5.0	-0.9	4.4
3	Manufacturing	10.1	14.3	10.3	4.3	9.7	7.6	2.5	4.5
4	Electricity, Gas & Water Supply	7.1	9.3	8.3	4.6	6.3	3.0	7.9	8.0
5	Construction	12.8	10.3	10.8	5.3	7.0	8.0	5.3	6.5
6	Trade, Hotels, Transport, Storage & Communication	12.0	11.6	10.9	7.5	10.3	11.1	9.9	9.3
7	Finance, insurance, real estate & business services	12.6	14.0	12.0	12.0	9.4	10.4	9.6	9.5
8	Community & personal services	7.1	2.8	6.9	12.5	12.0	4.5	5.8	7.0
9	Gross Domestic Product (factor cost)	9.5	9.6	9.3	6.7	8.4	8.4	6.5	6.7
10	Industry (2+3+4+5)	9.7	12.2	9.7	4.4	8.4	7.2	3.4	5.3
11	Services (6+7+8)	10.9	10.1	10.3	10.0	10.5	9.3	8.9	8.9
12	Non-agriculture (9–1)	10.5	10.8	10.1	8.1	9.8	8.6	7.1	7.7
14	GDP (factor cost) per capita	7.8	8.0	7.8	5.2	6.9	6.9	5.1	5.3
15	GDP at factor cost - 2004/05 prices in Rs lakh crore (or Trillion)	32.5	35.6	39.0	41.6	45.1	48.9	52.0	55.5
16	GDP market & current prices in Rs lakh crore (or Trillion)	36.9	42.9	49.9	56.3	64.6	76.7	88.6	100.8
17	GDP at market & current prices in US\$ Billion	834	949	1,241	1,234	1,365	1,687	1,853	1,868
18	Population in Million	1,106	1,122	1,138	1,154	1,170	1,186	1,202	1,218
19	GDP at market prices per capita at current prices	33,394	38,277	43,823	48,787	55,191	64,706	73,676	82,727
20	GDP at market prices per capita in US\$	754	846	1,090	1,069	1,167	1,422	1,541	1,534

Table 2
Balance of Payments

Unit: US\$ billion

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Merchandise Exports	85.2	105.2	128.9	166.2	189	182.4	250.5	309.8	333.8
Merchandise Imports	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	515.0
Merchandise Trade Balance	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-181.1
	-4.7%	-6.2%	-6.5%	-7.4%	-9.8%	-8.5%	-7.5%	-10.2%	<i>−</i> 9. <i>7</i> %
Net Invisibles	31.2	42	52.2	75.7	91.6	79.7	84.6	111.6	114.0
	4.3%	5.0%	5.5%	6.1%	7.5%	5.8%	4.9%	6.0%	6.1%
o/w Software & BPO	14.7	23.8	27.7	37.2	47.0	41.5	49.6	60.1	64.0
Private Remittances	20.5	24.5	29.8	41.7	44.6	53.5	53.1	63.5	66.0
Investment Income	-4.1	-4.1	-6.8	-4.4	-6.6	-5.5	-16.4	-16.5	-20.0
<b>Current Account Balance</b>	-2.5	-9.9	-9.6	-15.7	-27.9	-38.5	-45.9	-78.2	-67.1
	-0.3%	-1.2%	-1.0%	-1.3%	-2.3%	-2.8%	-2.7%	-4.2%	-3.6%
Foreign Investment	13.0	15.5	14.8	45.0	3.5	51.2	38.0	39.2	38.2
o/w FDI (net)	3.7	3.0	7.7	15.4	17.5	18.8	7.7	22.1	24.0
Inbound FDI	6.0	8.9	22.7	34.2	35.0	33.1	24.0	33.0	37.0
Outbound FDI	2.3	5.9	15.0	18.8	17.5	14.4	16.3	10.9	13.0
Portfolio capital	9.3	12.5	7.1	29.6	-14.0	32.4	30.3	17.2	14.2
Loans	10.9	7.9	24.5	41.9	4.1	14.3	27.9	19.3	21.0
Banking capital	3.9	1.4	1.9	11.8	-3.2	1.5	5.0	16.0	20.0
Other capital	0.7	1.2	4.2	9.5	4.5	-13.0	-10.4	-6.9	-6.0
Capital Account Balance	28.0	25.5	45.2	108.0	8.7	53.4	60.0	67.8	73.2
	3.9%	3.1%	4.8%	8.7%	0.7%	3.9%	3.5%	3.7%	3.9%
Errors & Omissions	0.6	-0.5	1.0	1.2	1.1	-1.6	-2.6	-2.4	-2.0
Accretion to Reserves	26.2	15.1	36.6	92.2	-18.1	13.3	11.5	-12.8	4.0

Note: Percentages are with respect to GDP