

**Press Information Bureau
Government of India**

**MID-YEAR ECONOMIC ANALYSIS PRESENTED IN PARLIAMENT; HOLDS OUTLOOK
OF GROWTH STABILITY AND RECOVERY OF THE ECONOMY**

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The Government today tabled the Mid-Year Economic Analysis 2012-13 in both the Houses of Parliament. This is as per the provisions of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 which requires the review of quarterly trends in receipts and expenditure in relation to the budget. The mid-year economic analysis is the second quarterly review.

The following are the main highlights of the mid-year economic analysis of key developments in the economy:

- The economy is growing at a slower rate than the average of last 10 years: Real gross domestic product (GDP) grew by 5.4 per cent, year-on-year, in the first half of the current fiscal year. This is much slower than the average growth rate of around 8 per cent achieved in the last decade. The slowdown hit all the major sectors of the economy, including agriculture, industry and services. The deficient rainfall in the current year has resulted in the slowdown of the agriculture sector while a combination of global factors such as continuing recessionary conditions in the Euro zone, elevated levels of global prices, particularly crude petroleum and domestic factors such as tight monetary policy, impediments to project completion and lower investment in new projects resulted in a slowdown in the industrial growth. Some segments of the services sector are tied to activity in agriculture and industry, and these also slowed.
- WPI Inflation has declined somewhat but CPI inflation has remained sticky: WPI inflation averaged around 9.3 per cent in last two years viz. 2010-11 and 2011-12. It declined to 7.7 per cent in April-September 2012. The CPI (new series) averaged around 10 per cent during April-September 2012. Many factors have contributed to persistent inflation including higher international prices of crude oil, substantial increases in real wages, especially in rural areas, higher prices of protein rich items as more affluent households change dietary habits with limited supply response and substantial increases in the minimum support prices of some essential commodities.
- Need to be watchful regarding the current account deficit (CAD): The rate of growth of merchandise exports and imports started slowing down from the third quarter of 2011-12 and entered the negative territory in the current year. This was the result of the slowdown, both in the global as well as the domestic economy. While the former affected the exports, latter resulted in the slowdown of imports. The trade deficit in April-October 2012 was US \$ 110 billion as against US \$ 106.8 for April-October 2011. The large trade deficit could be attributed primarily to slow growth in export markets, the inelastic nature of imports, and rising prices of crude oil and gold. The higher trade deficit was the primary factor responsible for large current account deficit that stood at 4.2 per cent of GDP in 2011-12

notwithstanding an increase in the surplus on net invisibles account. The current account deficit is expected to be around 3.7 per cent in the current financial year. Capital inflows in 2011-12 vis-à-vis those in 2010-11 were higher but not adequate and there was a small drawdown of foreign exchange reserves in 2011-12. Foreign exchange reserves were valued at US \$ 295.3 billion at the end of October 2012, as against US \$ 294.4 billion at the end of March 2012. External debt increased by nearly US \$ 40 billion between end of March 2010-11 and end of March 2011-12. Although some of the important debt related ratios deteriorated during 2011-2, most of them remained within manageable limits. External debt was US \$ 349.5 billion at the end of June 2012.

- Fiscal deficit to be contained at 5.3 per cent of GDP: The slow growth in the current year also had an impact on the fiscal parameters. Revenue receipts as a percentage of Budget Estimates (BE) in the first half of current year have been lower than the 5 year average. On the expenditure side, while non-Plan expenditure as ratio of BE has been higher than five year average, the ratio with respect to Plan expenditure has been lower. The performance in the first half of last five years does not comply with the Mid Year FRBM benchmarks set for non-debt receipts, fiscal deficit and revenue deficit. However, the Government is continuously monitoring the fiscal situation. It has announced the roadmap for fiscal consolidation that aims at containing the fiscal deficit at 5.3 per cent of GDP in the current year and reducing it to 4.8 per cent in the year 2013-14. It aims to reduce it further by 0.6 percentage points each year in the next three years i.e. from 4.2 per cent in 2014-15 to 3 per cent in 2016-17. Government has raised diesel prices and capped subsidised LPG cylinders to consumers in order to contain the rising subsidy burden. Greater emphasis is being placed on expenditure cuts, and realising budgeted revenues.
- Outlook: Growth seems to be stabilizing and economy should be heading towards a gradual recovery: Certain signs suggest economic growth is stabilizing and even picking up. There is an upturn in the Business Expectations Index for the October-December quarter, the PMI index has moved up in November, there is buoyancy in capital markets, there are improved internal accruals in the corporate sector, and there is some pick up in manufacturing, as reflected by 8.2 per cent growth in IIP in October 2012 vis-à-vis October 2011 (though base effects play a significant role in boosting this number). Inflation seems to be moderating and indications are that current account deficit as ratio of GDP would be lower than what it was last year. These factors point towards GDP growth recovering, albeit slowly, in the second half of the current year. It is expected that growth rate for the year 2012-13 would be in the range of 5.7 to 5.9 per cent. This implies that growth rate in the second half of the year would be close to 6 per cent as against 5.4 per cent in the first half.
