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CAD WILL BE CONTAINED AT US \$ 70 BILLION; GOVERNMENT COMMITTED TO THE PATH OF FISCAL CONSOLIDATION AND TO CONTAIN FISCAL DEFICIT WITHIN 4.8% OF GDP: SAYS DR ARVIND MAYARAM, SECRETARY, DEPARTMENT OF ECONOMIC AFFAIRS (DEA)

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Following is the Press Statement made by Dr Arvind Mayaram, Secretary, Department of Economic Affairs (DEA), Ministry of Finance here today:

Current Account Deficit (CAD)

The RBI has released the Balance of Payment (BoP) data for the First Quarter of 2013-14 yesterday. Current Account Deficit (CAD) is at US \$ 21.8 billion (4.9 per cent of GDP), which has been largely financed by capital flows.

- The elevated level of CAD in Q1 was mainly due to gold imports which stood at US \$16.5 billion. CAD would have been lower at US \$ 14.5 billion excluding the higher level of gold imports. With the measures announced by the Finance Minister on August 12, 2013 to compress gold, it is estimated that gold imports could be restricted to about 800 tonnes and substantial gains could accrue in the next nine months. According to the Central Board of Excise and Customs (CBEC) data, gold imports in April were 142.47 MT, in May 161.38 MT and in June 31.46 MT. Therefore, in Q1, the gold imports were of 335.31 MT. However, in July, 2013 it was 47.75 MT, in August, 2013 3.38 MT and in September, 2013 (up to 25th) it has been 7.24 MT. This indicates a very sharp compression in the gold imports in Q2 onwards and we expect this trend to continue. In August, exports registered a double digit growth for second successive month with

almost a 13 per cent growth over the corresponding period last year. Import growth in August, 2013 was slightly negative at -0.68 per cent as compared to the corresponding period last year. Trade deficit narrowed in August to a five month low of USD 10.9 billion. Thus, CAD will be contained at US \$ 70 billion .Already, many institutional analysts have revised their BoP outlook on CAD and capital flows.

- In so far as capital flows are concerned, the Union Finance Minister Shri P. Chidabaram had stated that the base line estimate was US \$ 64 billion and unveiled steps to raise this by US \$ 11 billion through quasi-sovereign bonds, ECBs by PSUs and measures to boost NRI deposits. As per the RBI BoP data, FDI inflows were US \$ 10.5 billion in 2013-14 (Q1) as against US \$ 8.2 billion in Q1 of last year.
- The base line projection of net FDI of US \$ 24 billion could be exceeded. Besides, Banking Capital (net) was estimated at US \$ 15 billion, which could go up significantly on account of the swap window announced by Governor, Reserve Bank of India (RBI) for FCNR (B).
- As such, we are confident that we shall be able to contain CAD at US \$ 70 billion as well as get additional capital flows to finance it fully without any recourse to draw down of reserves in this year.

Fiscal position up to August, 2013

- Gross Tax collection up to the month of August, 2013 has shown a growth of 8.7% on Year on Year basis. However, for the month of August, 2013 there has been marked improvement and the tax collection has grown by 18.3% over the collections for August, 2012. Preliminary figures for September show further improvement. It may be relevant to indicate here that bulk of revenue collections are towards the 2nd half of the FY. Cash planning of the Government also takes this fact into account, wherein the borrowing (nearly 2/3rd) is loaded in first half of FY.
- On the expenditure side, total expenditure of Rs 662936 crore up to August, 2013 is 39.8% of BE against 37.9% seen for corresponding period in previous FY (COPPY). Higher expenditure up to August, 2013 is mainly on account of higher Plan spending

(33%) in comparison to 28.4% COPPY. Higher spending was deliberately planned in first half for speedier implementation of various welfare programmes of Government.

- Total expenditure up to August showed a growth of 17.3% on Year on Year (YoY) basis, however in August it has stabilized to 10.9% growth over August, 2012. It may not be out of place to mention that austerity measures have already been announced by Government.
- Government is committed to the path of fiscal consolidation and as announced by FM will contain the FD within 4.8% of GDP, as budgeted.

Growth Numbers

- The Union Finance Minister Shri P. Chidambaram in his statement on August 12, 2013 had stated that growth is likely to pick up from Q2 onwards mainly on account of three factors (i) increase in the sown area by about 9.1 per cent (ii) acceleration in the pace of spent expenditure (iii) impact of the projects cleared by Cabinet Committee on Investment.
- When we look at the real activity data it only reinforces what the Finance Minister had said. The index of Industrial Production (IIP) entered the positive territory and grew by 2.6 per cent in July, 2013 as compared to the level in the month of July last year. The gain was mainly on the strength of manufacturing and electricity sectors which saw a growth of 3 per cent and 5.2 per cent respectively. The capital goods data stood at 15.6 per cent and there was also a 6.8 per cent growth in the consumer non durables segment. Though the consumer durables did witness a negative growth rate but we believe that it is likely to pick up in the remaining quarters on account of the festival demands in the coming months.
- The eight core industries which have a combined weight of 37.90 per cent in the IIP registered a growth of 3.7 per cent in August. The pickup in growth in 2QFY14 is encouraging and compares with an average of 1.6 per cent seen in 1QFY14. The most encouraging data point was the uptick in electricity up 6.7 per cent where the good rains have helped hydel power generation. Other encouraging data points are (i) the uptick in

the construction indicators - both cement and steel- up 5.5 per cent YoY and 4.3 per cent YoY respectively and (2) the pick-up in coal production up 5.5 per cent - the highest reading since November,2012. This in turn has a derivative impact on the external account as coal imports, along with gold and oil had risen sharply last year.
