Economic fluctuations in 2013-14: Review on Indian Economic Conditions

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I. INTRODUCTION

At a time when macroeconomic policies are under acute pressure in many countries, the role of structural policies has come more into focus. Structural reforms are important both on the conventional grounds that they boost long-term growth and welfare but also because they can take some pressure off macroeconomic policies. Better structural policies will help achieve fiscal sustainability and provide greater leeway for monetary policy. Importantly, structural reforms can bolster confidence. For these reasons they are more than ever a priority for the OECD and feature prominently in G20 action plans and work agendas. Many countries have been actively reforming in recent years. The pick-up in the overall pace of reforms reported in last year’s issue has since been confirmed and action on policy priorities stands at its highest level since the onset of Going for Growth surveillance in 2005. This year’s issue shows that action in areas covered by OECD policy recommendations has been particularly intense among euro area countries that have been under financial assistance programmes or direct market pressures. Furthermore, reform efforts have reached politically-sensitive areas such as labour market regulation and social welfare systems. This has helped to shore up confidence and bring market relief in these countries and beyond. Recent declines in sovereign bond spreads owe much to measures taken by the European Central Bank in a context of stronger euro area governance. However, further reducing and keeping spreads at manageable levels will require continuing reform efforts, which are starting to pay-off as witnessed by improved competitiveness and export performance in some of the countries under market stress.

In contrast, a far more moderate pace of reforms has been observed in other euro area countries, especially those with a current account surplus, as well as in countries enjoying particularly high living standards and the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa). Yet, to achieve stronger and more balanced growth, both in the euro area and globally, action on structural policy priorities needs to be pursued in both external deficit and surplus countries. One special feature of this report is to explore the effect of growth-oriented policy recommendations on current account imbalances. It shows that for some countries with large imbalances, acting on priorities can help to narrow them.

II. IN INDIAN CONTEXT

After a promising start to the decade in 2010-11 with achievement like GDP growth of 8.4 per cent, bringing down fiscal deficit to 4.7 per cent from 6.4 of GDP in 2009-10, as well as containing current account deficit to 2.6 per cent from 2.8 per cent in 2009-10.GDP growth decelerated sharply to a nine year low of 6.5 per cent during 2011-12. The slow down was reflected in all sectors of the economy but the industrial sector suffered the sharpest deceleration which decelerated to 2.9 per cent during 2011-12 from 8.2 per cent in 2010-11. The centre’s finances for 2011-12 experienced considerable slippage as key deficit indicators turned out to be much higher than budgeted due to shortfall in tax revenues and overshooting of expenditure. The gross fiscal deficit (GFD)-GDP ratio moved up to 5.8 per cent in 2011-12 compared to the budgeted ratio of 4.6 per cent. The substantial increase in subsidies during 2011-12 on account of high crude oil prices further impacted the deficit of the Government.

The year 2011-12, especially the second half, was characterised by a burgeoning current account deficit (CAD), subdued equity inflows, depletion of foreign exchange reserves, rising external debt and deteriorating international investment position. Inflation remained elevated at over 9 per cent in the first eight months of 2011-12, before softening moderately in December and remained sticky in the range of 6.9-7.7 percent.

III. ECONOMY IN 2012-13

GDP Growth Profile: According to the first advance estimates of national income for the year 2012-13 of the Central Statistics Office (CSO), the Indian economy is expected to grow at its slowest pace in a decade at a mere 5 per cent in 2012-13, on the back of dismal performance by the farm, manufacturing and services
sectors. The estimate is lower than the 6.2 per cent growth clocked in 2011-12 and is the lowest since 2002-03, when the economy grew by 4 per cent only.

**Per Capita Income**

The per capita income at current price during 2012-13 is estimated to be Rs. 68,747 as compared to Rs. 61,564 during 2011-12. India’s per capita income, a gauge for measuring living standard, is estimated to have gone up by 11.7 per cent to Rs. 5729 per month in 2012-13.

**Agriculture:** In the advance estimate of GDP for 2012-13, the CSO had pegged farm growth at a three-year low of 1.8 per cent against last year's 3.6 per cent. Production of foodgrain is expected to decline by 2.8 per cent as compared to the growth of 5.2 per cent in the previous year.

According to the 2nd Advance Estimates of Production of food grains for 2012-13, estimated food grain production in the 2012-13 crop marketing year (beginning June) is 250.14 million tonnes (mt), a little over nine mt less than last year owing to erratic monsoon in many parts of the country.

The output of all crops, barring pulses and mustard, is expected to be less than last year. Production of wheat in the ongoing rabi sowing season is expected to be 92.3 mt from 94.88 mt in last year. Production of rice, mainly grown during the kharif sowing season, is estimated to be 101.8 mt from 105.31 mt in last year. Coarse cereals' production in 2012-13 at 38.5 mt, as against 42 mt last year. Production of protein-rich food crops such as pulses is estimated to be better this year, especially that of gram. Production of all pulses this year is estimated to be 17.6 mt, about 0.5 mt more than last year. Oilseed production is expected at 29.5 mt, marginally less than last year's 29.8 mt.

**Industry:** Industrial growth has remained subdued since July 2011 due to weak global demand, weak supply linkages, high import costs, and sluggish investment activities. During 2012-13 (April to November), industrial growth slowed to 1.0 per cent. The Industrial sector was mainly affected by the contraction in the output of capital goods and the mining sector. Excluding capital goods, the growth rate of overall IIP during April to November 2012 was 3.0 per cent. The slowdown in consumption demand has affected the growth of motor vehicles, food products and apparel industries.

**External Sector:** India’s balance of payments which have deteriorated sharply in 2011-12, showed some improvement in the first half of 2012-13, the merchandise trade deficit in the first half of 2012-13 has remained at the same level compared to the first half of 2011-12 as fall in exports due to sluggish global demands almost equally matched by import ontraction mainly reflecting slow down in domestic economic activity.

**Exports (including re-exports):** India’s export performance continued to show the adverse impact of low growth and uncertainty in the advanced as well as major emerging markets and developing economies. Cumulative value of exports for the period April-December 2012 -13 was US $ 214099.77 million (Rs 1166438.69) as against US $ 226551.09 million (Rs 1066668.31 crore) registering a negative growth of 5.50 per cent in Dollar terms and growth of 9.35 per cent in Rupee terms over the same period last year.

**IV. IMPORTS**

Import growth has surged since September 2012, mainly due to a pick-up in the quantum of petroleum oil lubricant (POL). With the uprend in the international price of gold in recent months, gold imports stayed at an elevated level in recent months. On the other hand, non-oil non-gold imports registered a decline, reflecting a slowdown in domestic economic activity. Cumulative value of imports for the period April-December, 2012-13 was US $ 361271.88 million (Rs. 1967521.83 crore) as against US $ 363867.81 million (Rs. 1714432.42 crore) registering a negative growth of 0.71 per cent in Dollar terms and growth of 14.76 per cent in Rupee terms over the same period last year.

**Crude Oil**

Oil imports during April-December, 2012-13 were valued at US $ 124520.8 million which was 12.18 per cent higher than the oil imports of US $ 111002.9 million in the corresponding period last year.

**Trade Balance**

With imports growth turning positive from September 2012 and export growth remaining subdued, concerns regarding a deteriorating trade deficit have been reinforced. The trade deficit for April - December,
2012-13 was estimated at US $ 147.2 billion which was 7.2% higher than the deficit of US $ 137.3 billion during April -December, 2011-12.

Inflation

The inflation decelerated to 7.7 per cent in first half of (April-September) of 2012-13. WPI inflation was 8.07 per cent in September 2012, which was 8.01 per cent in August 2012. It has fallen to 7.32 per cent in October 2012; 7.24 per cent in November, 7.18 per cent December 2012 to 6.62 (provisional) for the month of January 2013.

Exchange Rate

Slowdown in net capital inflows coupled with pressure in trade account balance strained the exchange rate leading to depreciation of Rupee from Rs. 52.7 (per USD) at end-September 2012 to Rs. 54.5 at end-November 2012. Pressure on Rupee continued in December and it closed at Rs. 54.8 at end-December 2012. As on January 23, 2013, the rupee showed lower depreciation over end-March 2012 compared to other major emerging market developing economies (EMDEs) like Brazil, South Africa and Argentina.

V. FOREIGN INVESTMENT INFLOW

Foreign Direct Investment (FDI): FDI have declined during 2012-13 for the period April to December of the current fiscal, the inflows have been $16,946 million during 2012-13 for the period April to December of the Foreign Direct Investment (FDI):

Foreign Institutional Investors (FII): During 2012-13 (upto January 23, 2013), FII's made net investments of Rs. 1,190 billion in the capital market compared with that of Rs. 520 billion during the corresponding period in the previous year.

VI. CENTRAL GOVERNMENT FINANCES

According to the data released by the Controller General of Accounts, during April to December 2012, fiscal deficit was 78.8% of the budget estimates substantially better than 92.3% in the same period last fiscal. Fiscal deficit stood at Rs. 4.04 lakh crore during April-December, 2012-13. Revenue collections remained sluggish at 61 per cent of budget estimates during April-December 2012 compared to 63.1 per cent in the previous year. The growth in collection of corporation tax and excise duties remained modest due to continued growth moderation, while customs duty collections were adversely impacted, reflecting the deceleration in imports. Collections under personal income tax, however, remained buoyant partly due to lower refunds compared to previous year. Non-tax revenue receipts, at 52.5 per cent of budget estimates, were also significantly lower than the receipts of 62.2 per cent during the corresponding period of the previous year due to the poor response to spectrum auctions and the reported staggering of auction receipts.

Various measures undertaken by the government since mid-September, including liberalisation of FDI in retail, aviation, broadcasting and insurance, deferral of general anti-avoidance rules (GAAR), reduction in withholding tax on overseas borrowings by domestic companies and setting up of the Cabinet Committee on Investment have significantly lifted market sentiment which, in due course, should spur investment. Alongside, measures such as progressive deregulation of administered fuel prices, with concerted efforts to adhere to fiscal discipline and carry forward consolidation can potentially correct the twin deficits. These policy actions could help engender stable macroeconomic conditions and return the economy to its high growth trajectory.

Economies in developing Asia have weakened considerably during 2012, as the fastr- growth engines, China and India, have shifted into lower gear. While a significant deceleration in exports has been a key factor behind the slowdown, both economies also face a number of structural challenges that hamper growth. Given persistent inflationary pressures and large fiscal deficits, the scope for policy stimulus in India and other South Asian countries is limited. China and many East Asian economies, in contrast, possess much greater space for countercyclical policy.

VII. IMPLICATIONS FOR INDIA OF GLOBAL RISK SCENARIOS

According to the IMF Staff Report “India 2013 Article IV Consultation”, a continued or broadened stagnation in global growth would weigh heavily on Indian growth. India’s diversified trade patterns would not insulate it from global stagnation. India’s growth, though not as export-dependent as that of Emerging Markets (EMs) in other regions, would remain sluggish. IMF’s staff estimates indicate that for every percentage point of lower global growth, India’s growth would be 0.5 percentage point lower.

VIII. PROSPECTS FOR INDIAN ECONOMY IN 2013-2014

A slow recovery is likely to shape up in 2013-14 with progressive implementation of some of the reforms announced since mid-September 2012. Financing is also expected to improve with the government accepting the major recommendations of the Expert Committee on General Anti-Avoidance Rules (GAAR) that will bring about greater clarity on taxation aspects. Global risks may have temporarily reduced in terms of part resolution of the US “fiscal cliff” issues and financial fragility issues in the euro area.

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