Review of the Economy 2012/13

Economic Advisory Council to the Prime Minister

New Delhi

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BLANKS

ECONOMIC ADVISORY COUNCIL TO THE PRIME MINISTER

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BLANKS

REVIEW OF THE ECONOMY

I. OVERVIEW

1. In August 2012, the EAC had projected a likely growth rate for the economy of 6.7 per cent, a year-end inflation rate of between 6.5 and 7.0 per cent and a current account deficit (CAD) of 3.6 per cent of GDP. At the end of the fiscal year, while the inflation forecast has turned out to be accurate, the actual growth rate at around 5.0 per cent is much lower than what was projected, while the CAD is likely to be considerably higher at about 5 per cent of GDP.

2. With respect to GDP growth, the extent of divergence between the projected growth rate of the economy and the actual outcome is disconcertingly large. It does not seem to have flowed from weakness in the conventional structural parameters. In August 2012, the Council had projected that at current prices, gross domestic capital formation (GDCF) would be 35.5 per cent and gross domestic fixed capital formation (GFCF) would be 30.0 per cent of GDP. The *Advance Estimates* released by the CSO for 2012-13 in Feb 2013, suggest that GDCF was 35.4 and GFCF 30.0 per cent of GDP. The ratio of total consumption to GDP as per the *Advance Estimates* was a little higher (68.7 per cent) than that projected by the Council (67.5 per cent) in August 2012, which partly comes from the wider than expected trade deficit, even after adjusting for gold. It should however not be overlooked that the denominator, namely GDP at market prices as per the *Advance Estimates*, is lower than what was projected, which to an extent puts a slightly misleading gloss on both investment and consumption ratios when computed with respect to GDP.

3. The divergence between expected growth rates and actual growth rates in both 2011-12 and 2012-13 is large. Yet, overall investment and fixed investment rates have remained reasonably high (even adjusting for the smaller-than-expected GDP). At an aggregate level, the drop in domestic savings relative to investment has opened up a large current account deficit, which is considered equivalent to the "savings-gap" in conventional national accounting. It would, however, for the most part be erroneous to draw such an inference, as this would not lead to a decline in the rate of growth over the short term.

4. The other notable factor is the persistence of high rates of inflation – especially of food items – and the direct impact this may have had on profitability and through that on investment behaviour. The obverse side of this is the monetary policy

response, which simultaneously curbs demand and increases the cost of capital. The curb on demand can create, and in this instance seems to have indeed created, a wedge between food and non-food (manufactured) goods prices, and profitability.

5. All these factors – as also the generally poor condition of the global economy – were however incorporated into projections of growth made by the Council earlier. Notwithstanding this, the very magnitude of the divergence clearly points to other factors also in play.

6. It now appears that we missed two elements in the development of the economy. First, the vigour of the economic recovery, both in terms of output (income) and investment, following on the global crisis was much stronger than previously assessed. As per the latest revisions made by the CSO in January 2013, the economy grew by 8.6 and 9.3 per cent in 2009-10 and 2010-11 respectively. In August 2012, these numbers were believed to be 8.4 per cent in both years. The investment rate in 2010-11 has now turned out to be 36.8 per cent, almost 2 percentage points higher than the estimate of 34.7 per cent in August 2012. The extent to which investment improved in 2010-11 was clearly not appreciated, nor was the magnitude of the potential impact on personal disposable incomes.

7. Second, the extent to which delays in projects – mostly on account of delays in the issuance of clearances and lack of fuel for power plants – were impacting the generation of incremental income in the current period was not fully appreciated. The ground situation was that projects with large sums of capital invested in them were not getting completed and therefore not yielding expected current output.

8. The *Incremental Capital Output Ratio* (ICOR) has shot up from its historical level of around 4.0 in 2007-08 and earlier years, to much higher levels. There was an understandable spike in ICOR in 2008-09 – because of a collapse of demand – but it recovered to normal levels in 2009-10 and 2010-11. We have gone into this issue in some greater detail in a subsequent section.

9. That the magnitude of the economic recovery was much higher than initially expected acted as a drag on adjustments in monetary and fiscal policies. It may be recounted that in the summer of 2009, with the worst drought in 28 years, expectations of even 6 per cent growth seemed excessively bold. The IMF anticipated growth of 5.4 per cent, and most private forecasters also clustered around 5.5 per cent. In October 2009, the EAC projected growth of 6.5 per cent. Later, in February 2010, the *Advance Estimates* placed growth at 7.2 per cent.

However, we now find that in that year growth was actually much higher at 8.6 per cent. In July 2010, the EAC had projected growth in 2010-11 at 8.5 per cent. The *Advance Estimates* of the CSO in February 2011 put growth at 8.6 per cent, subsequently revised downwards to 8.4 per cent a year later. This has however now been revised upwards to 9.3 per cent.

10. The fact that the recovery in growth was grossly underestimated or projected had an adverse impact on adjustments in the monetary and fiscal stance in 2009-10 and 2010-11. In retrospect, we could have tightened monetary conditions much earlier, and rolled back the tax incentives at least one full year earlier. Our diagnosis of the spike in inflation in late 2009 and early 2010 was also off to the extent that we did not fully appreciate the strength of domestic demand recovery.

11. In both 2011-12 and 2012-13, our error flowed from an underestimation of the extent to which investment capital accumulated in projects was not yielding commensurate current output. This stretched corporate profitability and balance sheets, and badly eroded business and investment sentiment. It was not as if the fact of delays was not known, but we underestimated the extent to which these delays would persist. Today there are several thousand megawatts of coal and gas based power plants that are not able to use a large part of their capacity because of lack of fuel, in a situation where there is shortage of power. Likewise, delays in commissioning of projects are exacting their price in the form of lower productivity of capital reflected in a rising ICOR and consequently lower current output.

12. On the positive side, if we are able to bring these projects to early fruition and succeed in providing fuel to completed power plants, there could be significant gains in current output and incomes over the course of the coming two or three years.

13. With regard to the current account deficit (CAD), data up to the third quarter (Oct–Dec 2012) has now been made available by the RBI. The magnitude of the CAD in the third quarter was extremely high at $33 billion or 6.7 per cent of GDP. The deficit for the period Apr–Dec 2012 works out to $72 billion or 5.4 per cent of GDP. Our expectation is that the fourth quarter (Jan–Mar 2013) would see a lower CAD and that the deficit for the full year 2012/13 would be $94 billion or 5.1 per cent of expected GDP.

14. The wide departure from our projections of CAD made in August 2012 has arisen, first, on account of the fact that there was little decline in the level of gold imports relative to last year, whereas we had anticipated a substantial decline. The difference

between what was expected and what materialized is of the order of $12 billion.

15. Second, merchandise export growth has disappointed. The non-gold component of the merchandise trade deficit has in consequence turned out to be $8 billion larger than expected. Third, growth in service exports was slightly weaker and the net investment negative balance larger than anticipated. As a result, the net invisibles balance was lower than our August 2012 estimate by $8 billion, of which $4 billon was accounted for by the larger negative balance in net investment income.

16. The CAD anticipated even in August 2012 (3.6 per cent of GDP) was undesirably high and needed to be moderated. The level now expected – of 5.1 per cent – is not just undesirable but also unsustainable and needs to be quickly corrected. The critical questions are: How can this correction be done? What would be a reasonable timeframe? And how can this level of CAD be financed?

PROJECTION FOR 2013-14

GDP Growth

17. In light of the experience of the past two years, any forecast of growth of GDP in 2013-14 must be seen as being greatly dependent on the extent of success of policy and administrative measures in converting capital invested into current output and, hastening investments already made towards completion. Further, the slow pace of growth has depressed profitability, stretched balance sheets, and weakened sentiment and expectations. While the reform measures begun in the second half of last year and the Union Budget have improved the situation and strengthened expectations, much ground still remains to be covered. A judicious mix of policy and administrative measures can have a positive impact on these important parameters.

18. Assuming that we are able to have a measure of success on this front in the first quarter of 2013-14, we should see some pick-up in the first half of the year and more momentum in the second half. With elections to Parliament due in April-May 2014, some measure of political uncertainty is inescapable and so too its impact on investment behaviour. However, significant improvement from the current very low levels of economic growth is certainly feasible.

19. This expected pick-up in the pace of economic activity in the course of 2013-14 should be able to take growth from the present level of around 5 per cent in 2012-13 to about 6.4 per cent in 2013-14. If the conversion of investment to yielding assets and the improvement in investment and confidence conditions is greater, it is

even possible that growth could be slightly higher. At the same time, it would not be prudent to rule out that outcomes may disappoint to an extent. Considering this, we see achievable growth in 2013-14 to be around 6.4 per cent.

20. **Table-1** presents the broad contours of sectoral and total growth in the economy.

Agriculture & Allied Activities

21. With regard to agriculture & allied activities, inadequate rainfall in parts of the country, especially in Maharashtra and Gujarat, has reduced the output of coarse cereals and some other crops. It is reported that horticulture output growth in the current year is also a bit weaker than in the last year. Overall farm sector GDP growth in 2012-13 has been pegged by the CSO in the *Advance Estimates* at 1.8 per cent.

22. This estimate is certain to be revised as more data flows in, but it is not clear what the net effect of the upward and downward revisions would be. It is likely that the final growth number for the sector may not exceed 2 per cent. Under the circumstances, and in expectation of normal or mostly normal rainfall, we have projected the farm sector to grow by 3.5 per cent. This is slightly lower than the average of the Eleventh Plan period and the comparatively slightly lower base of 2012-13 should be achievable. However, if the 2013 monsoon turns out to be significantly below normal, even that may be harder to achieve.

Inflation

23. On the inflation front, though it would be desirable to see the Wholesale Price Index (WPI) headline number continue to weaken into 2013-14, this may not quite happen. Price corrections are due to be made in administered products – refined petroleum products, fertilizer and electricity. The minimum support prices (MSP) of important foodgrains, particularly rice (paddy) and wheat may also see upward revision, with attendant impact on the market price of wheat and rice. The supply chain for perishable food products still remains incomplete, as also the reform of their market structures. The combination of these factors will tend to keep inflation on the higher side. On the other hand, the momentum and direction of inflation appears to have clearly moved down for manufactured prices in the absence of significant cost pressures. If the currency stabilizes and trade balances improve somewhat, weaker manufactured goods inflation will have a dampening impact on domestic headline, and especially on core inflation.

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

External Payments, Trade & CAD

24. Merchandise exports in 2012-13 fell by 3 per cent, while imports grew marginally. The merchandise trade deficit increased by 6.3 per cent to $195 billion (DGCIS basis). However, in Balance of Payments (BoP) terms the merchandise trade deficit is estimated at $200 billion, or 10.9 per cent of GDP. The export outcome was worst in the second quarter, which saw exports fall in dollar terms by nearly 12 per cent. The worst trade deficit outcome was in the third quarter, which saw exports fall off by 3 per cent, even as imports increased by 7 per cent, and the trade deficit surged by 21 per cent.

25. However, it is important to underscore the fact that the bulk of the worsening of the merchandise trade deficit happened in 2011-12, when it expanded by 54 per cent from $119 billion in 2010-11 to $183 billion in 2011-12. In terms of GDP, the merchandise trade deficit soared from 7.6 per cent in 2010-11 to 10.2 per cent in 2011-12, which was partially offset by the strong performance on net invisibles, whose share went up from 4.9 per cent of GDP in 2010-11 to 6.0 per cent in 2011-12. The weakening of the recovery in service sector exports and the increase in the negative balance of net investment income in 2012-13 have highlighted the extent of weakening in the trade front which took place in 2011-12 and did not improve in 2012-13.

26. The deterioration of the merchandise trade deficit between 2010-11 and 2011-12 amounted to $65 billion, to which the contribution from higher net oil import bill was $33 billion and from higher gold imports was $19 billion. These two items thus contributed $52 billion or 80 per cent of the increase in the deficit. In 2012-13 the trade deficit is estimated to have increased by $11.5 billion. The net oil import bill was higher by $11 billion, while gold imports were lower by $5 billion. In part, the increase in the net oil import bill was on account of larger imports of liquefied natural gas (LNG), partly to offset the fall in domestic production. However, the impact of oil and gold imports in exacerbating the external payment situation can hardly be over-emphasized.

27. In the fourth quarter of 2012-13 (Jan-Mar 2013), exports increased by a little over 4 per cent in dollar terms and 12 per cent in rupee terms. This shows some recovery, even if not a particularly strong one.

28. Going forward, the Council expects exports to grow at a modest pace in the first quarter of 2013-14, and gradually pick up momentum in the second and third quarters of the fiscal year. Overall, for the year 2013-14, merchandise exports are

expected to approach $328 billion, a rate of growth of 10.8 per cent. Merchandise imports are expected to grow by 9 per cent, close to $536 billion (DGCIS basis), leaving a merchandise trade deficit of $208 billion, about 7 per cent more than in 2012-13. On BoP basis, this would correspond to $213 billion or 9.9 per cent of expected GDP, an improvement from the estimated 10.9 per cent in 2012-13.

29. The net oil import bill (total oil imports less the value of export of refined petroleum products) for 2012-13 was placed by the Council in August 2012 at $115 billion. This has now turned out to be lower at around $110 billion. Oil is a big factor in our strained external payments, but by no means the surprising one. For the year 2013-14 the Council expects that oil prices will rise by over 4 per cent and that the net oil (including LNG) import bill will be higher at $125 billion. Once again, the increase in the net oil import bill will be driving the overall increase in the merchandise trade deficit.

30. There is greater uncertainty with regard to gold imports. In August 2012, the Council had expected that the value of gold & silver imports in 2012-13 would drop to $44 billion from $62 billion in the previous year. There was a decline of 48 per cent in the first (Apr-June) quarter of the year, which seemed to suggest that a respite was forthcoming. Even though the decline was smaller in the second quarter, there nevertheless was a decline. Gold imports in the first half of 2012-13 up to September thus showed a reduction by 33 per cent. However, this declining trend was sharply reversed in the second half of 2012-13. Imports increased by 24 per cent in the third quarter, and by 11 per cent in the fourth. In consequence, import of gold & silver in 2012-13 is estimated at $56 billion, 8 per cent less than the $62 billion imported in 2011-12.

31. The surge in imports of gold has come about on account of a number of factors. First, there was a sharp increase in gold prices in the wake of the global financial Crisis. Second, the rate of domestic inflation, relative to bank deposits, was high. However, world gold prices came off their post-Crisis peak in September 2011, and actually declined in the second half of 2012-13. Why then did imports into India continue to rise? This issue is discussed at greater length in a later section. Managing the country's demand for gold has to an extent become key to reining in the outsized current account deficit. We expect some moderation in the level of import of gold and silver imports during 2013-14 that would come down to $45 billion from $56 billion in 2012-13.

32. On the services side, corporate results for the quarter ending December 2012 for major IT companies suggest that prospects for volume expansion have improved.

Under the circumstances, keeping in mind the guidance provided by major IT companies, an expansion of 10 to 12 per cent in software exports and private remittances may be a reasonable assumption. However, seeing the weaker than expected earnings for the third quarter, we factor in a smaller expansion such that ITES and remittances bring in $141 billion in 2013-14 compared to the estimated $128 billion of 2012-13, a growth of 10 per cent. The negative balance on net investment income is expected to increase further to $28 billion in 2013-14.

33. That would yield a CAD of $100 billion (4.7 per cent of GDP), comparable to the estimated $94 billion (5.1 per cent of GDP) in 2012-13. However, the projection for 2013-14 has some downsides: the most obvious one being a situation where the demand for gold imports does not abate and expectations do not materialise, as was the case in 2012-13. The second downside is where merchandise exports fail to show growth, in a repetition of 2012-13, if the external environment does not improve. Third, the service sector exports may grow at a pace slower than expected, in conjunction with higher than anticipated negative balance on net investment income. The fourth and final downside is that a spike that may occur in oil prices in the event of military conflict or heightened expectations of such conflict in the Middle East.

34. There is also significant upside potential through success in encouraging both merchandise and service sector exports and also, by reducing avoidable imports.

35. Unless there is a near-miraculous fall in our appetite for gold, it would be challenging to contain the CAD. It is therefore critical that the magnitude of the CAD be reduced by working both on the export and import sides, especially since the size of the CAD has important implications for the management of the capital account side of the balance of payments.

36. The outsized CAD means that we will need to secure capital flows that will adequately and comfortably finance this CAD. Reforms in the policy framework – especially fiscal management, liberalization of foreign investment rules and decisive movement towards market orientation and efficient solutions – are necessary to support the inflows necessary, and in any case needed in their own right, for getting the economy back on a sustainable high growth trajectory – of 8 per cent and higher. We were able to get adequate capital inflows in 2012-13 to support the estimated CAD of $94 billion. Obtaining capital inflows on a similar scale of $100 billion will require sustained effort. If by pulling on all available levers the CAD projected can be brought down by $10 to $15 billion, the task of managing the external payments account will be easier. This is why it is all the more important

that we do not leave any stone unturned to obtain such a result. There is more discussion on this subject in a subsequent section.

Agenda and Course of Action

37. In the concluding section, the Council's recommendations on different aspects are spelt out in detail and therefore do not bear repetition here. It may however be noted that in many areas initiatives have already started over the course of 2012-13. It is the pace and synchronous success of these moves that will matter in impacting the situation on the ground.

II. THE ECONOMY

INVESTMENT

38. As recounted in the previous section, the current level of investment in the economy, at 35.0 per cent (2011-12) and 36.8 per cent (2010-11) of GDP, is still quite high. Even if we strip away the "valuables" component, it still leaves us with a fairly high level of investment at 32.3 and 34.7 per cent respectively. The preliminary data and estimation for 2012-13 puts these two measures at 35.8 and 33.3 per cent respectively. To get a sense of magnitude, in 2005-06, 2006-07 and 2007-08, these ratios had values of 34.7, 35.7, 38.1 and 33.5, 34.5, 37.0 per cent of GDP respectively. These were the years when the economy was on a sharp upward trajectory. Investment rates, with and without the 'valuables' component, in 2011-12 and 2012-13 are quite comparable. However, growth faltered and slipped to 6.2 and 5.0 per cent in the latter period.

39. The *Incremental Capital Output Ratio* (ICOR) is a measure that allows us to see how incremental income has arisen from increments to capital stock in past periods. It also allows us to prospectively assess the resources required for defined or planned growth trajectories.

40. Needless to say, capital stock is not the sole source of economic growth. However, in supply constrained developing economies it has been, and continues to be, a major determinant of growth on account of the paucity of infrastructure and manufacturing capacities. The data for India over the past fifty years suggests that, on average, the value of ICOR has shown considerable stability, except in the seventies when it remained high (see **Table 2**).

41. In this table, the ICOR has been computed in two ways. First, the average rates of growth and investment have been computed, and the ICOR obtained as a ratio of the averages for the period. In the second part of the table, the ICOR is the average of annual values for ICOR (with one year lag). Years with negative or very low GDP growth rates have been excluded[1]. What stands out is that over the past

[1] These are the years 1957-58, 1965-66, 1966-67, 1971-72, 1972-73, 1979-80 and 1991-92. Although the crisis year of 2008-09 had fairly high rates of growth at factor cost, that at market prices was low (3.9 per cent) on account of the fiscal expansion and this year too has been excluded for computing the period-wise ratios in **Table 2**.

three decades, since 1980-81, the values for ICOR have remained very close to the value of 4.0 in both sets of computation. The extent of year-on-year variability in both investment ratios and growth rates has also steadily declined. However, the extent of variability in the inter-relationship between investment in the previous year and the rate of growth in the subsequent year remains high, although here too a downtrend is clearly discernible. Further, the ICOR values have shown some decline in the more recent period, which suggests improvement in capital productivity. It is however important to note that during years of low (but positive) real GDP growth — years that have been dropped in the reported time periods, namely, 1971-72, 1972-73 and 1991-92, as also 2008-09 — the computed ICOR is significantly higher than the long-term trend.

Table 2

Some Inter-Relationships between Investment & Growth

Period	Investment Ratio		Fixed Investment		GDP Growth Rate†		ICOR	ICOR
	Mean	CV	Mean	CV	Mean	CV		FX
1952/53 – 1964/65	16.9%	*16.2%*	17.8%	*7.3%*	4.5%	*49.5%*	3.8	4.0
1967/68 – 1978/79	20.6%	*7.7%*	19.5%	*5.1%*	4.4%	*69.6%*	4.7	4.5
1980/81 – 1990/91	22.1%	*7.3%*	21.0%	*2.8%*	5.9%	*29.5%*	3.7	3.6
1992/93 – 2003/04	25.8%	*7.2%*	23.4%	*4.8%*	6.0%	*26.4%*	4.3	3.9
2004/05 – 2010/11	36.9%	*7.4%*	32.1%	*6.7%*	9.1%	*13.1%*	4.1	3.5

Period	ICOR		ICOR Fixed		ICOR with GDP (fc)	
	Mean	CV	Mean	CV	Mean	CV
1952/53 – 1964/65	3.8	*40.7%*	3.7	*38.2%*	4.3	*49.0%*
1967/68 – 1978/79	6.1	*86.5%*	5.7	*78.0%*	6.5	*91.4%*
1980/81 – 1990/91	4.0	*25.2%*	3.8	*27.4%*	4.2	*32.4%*
1992/93 – 2003/04	4.5	*27.6%*	4.1	*27.6%*	4.3	*24.5%*
2004/05 – 2010/11	3.8	*6.7%*	3.4	*9.4%*	3.9	*7.5%*

Note: † GDP growth rate is at constant and market prices.
GDP (fc) represents GDP at factor cost – where the growth rate has been so computed.
CV denotes coefficient of variation.

42. The computed ICOR for 2011-12 and 2012-13 ranges from 5.4 to 11.4, depending on how the ratio is calculated. It is higher for 2012-13 than for 2011-12. Second, it is higher in 2012-13 if the measure of growth used is at market prices (11.4) and lower (7.6) if factor cost is used. These values are also lower than those in 1971-72 (11.6 and 17.6) and 1991-92 (28.0 and 19.5), but higher than the crisis year of 2008-09 (10.0 and 5.8).

43. In each of the problem years, the principal factors driving growth down were different. In 1957-58, 1965-66 and 1966-67, there was weather induced collapse of agriculture, then half of GDP. In 1971-72 and 1972-73, the reason was similar, but accentuated by widespread industrial unrest. In 1979-80, again farm output collapsed by 13 per cent and the share of this sector in GDP was still very high (38 per cent). In addition, conflict in the Gulf region drove oil prices sharply upward (second oil shock) and political conditions at home were unsettled. In 1991-92, the causes mostly flowed from an external payments crisis and an internal fiscal problem, accentuated by conflict in the Gulf region that drove up oil prices. The crisis of 2008-09 was essentially an external event which we were able to negotiate rather well as the very strong recovery in 2009-10 and 2010-11 testified.

44. That brings us to the present. Why did we perform so weakly in 2011-12 and 2012-13? That external conditions were weak and unsupportive of growth was a given, and that limited to an extent the pace at which the Indian economy could grow. There was also a withdrawal of both fiscal and monetary stimuli starting 2010, which did curb growth somewhat, relative to the outcome of 9.3 per cent in 2010-11. A drop of one or one-and-a-half or at most two percentage points could be ascribed to this necessary and overdue tightening, but that could not take us down by over 300 basis points to 6.2 per cent in 2011-12 and certainly not to 5.0 per cent in 2012-13.

45. It is not that the Council did not have a sense of the slowing momentum. It is worth recounting this through a few excerpts from our 2011 Outlook:

"32. …. While quite clearly we were able to negotiate the global economic Crisis quite well, we have been unable to find our way back to the path of rapid asset creation and growth. As a result, some of the momentum has gone out of the economy. Why that happened over the past two years is something that we need to reflect upon and understand, so that the situation can be rectified. It is true that many economies, including the world's leading ones, are still embroiled in hard economic conditions and other developing countries like China are also facing difficulties. That, however, is not good enough reason to explain why we have not

been able so far to do better than we have. The combined momentum of the electoral victory of the UPA government in the May 2009 general elections and the successful navigation through the Crisis was a good opportunity to take those necessary steps to energetically get back to the imperatives: Namely, of rolling out physical infrastructure, pushing through reforms and improving efficiency in public expenditure in the social sector…..

"33. Asset creation in the private sector is always a matter of taking risk, since it expands the liabilities in the balance sheets and imports both greater market and financial risks into the enterprise. Therefore, for businesses to take these risks, the first pre-condition is the promise of stability – both financial and political. High rates of inflation are the antithesis of price stability. Wild fluctuations in the price of assets – the exchange rate and, equity prices – are a symbol of lack of stability. Fear of crisis unleashed by the excessive debts of governments destabilizes the business environment. The last two years have seen all of this and also fears on account of political stability at home. The global canvas has been constantly jolted by the unhappy developments in the Euro-zone deriving from the sovereign debt crisis, as well as concerns about how the US is going to come out of its severe fiscal stress and halting pace of economic recovery.

"34…..Certain key points that emerge that are relevant for the attention of policy:

- Bottlenecks in infrastructure, particularly power, as also roads and the port sector……emerging as a major constraint in the manufacturing sector.
- In…..power, inadequacy of fuel supply linkages, especially domestic coal, as well as restrictions on mining in previously allocated coal blocks, is posing a major constraint.
- Capital investment that is dependent on Government decisions, as also that on government funding, are experiencing difficulties on account of a slowing down in the approval process for projects.
- Within the manufacturing sector, some sectors are facing limited excess capacity and new investments are not coming up faster enough.
- Business sectors that are dependent on consumer expenditure are still doing reasonably well, but that which is dependent on capital expenditure is under pressure.
- Cost increases are eroding profitability and to that extent are adversely impacting new investment prospects.

- ♦ In the funding of infrastructure projects, commercial banks are reaching sectoral exposure caps and the limits for asset-liability mismatch, and a corporate debt market for financing infrastructure has become vitally important.
- ♦ Delay in clearing projects especially that of forest and environment, is causing delay, time and cost overruns….."

46. In the intervening two years, attempts have been made to resolve some of the above problems, but economic conditions have nevertheless weakened considerably. If one were to pick the most important element in play, the principal source of the problem would be the issue of clearances that have stalled projects and undermined conditions for investment, and therefore for economic growth going forward.

47. The only way to get the economy to move ahead to a higher growth trajectory by overcoming investment and implementation bottlenecks over the short term is to pursue reforms with energy and expedite clearances through the newly constituted Cabinet Committee on Investment.

48. That there is unmet demand for electricity, for roads, for ports, for homes etc. is uncontested. The process of creating the supply for this demand has always been our challenge, and this challenge has been aggravated in the past few years. As stalled and delayed projects begin to move ahead, conditions will be created for new projects to come off the shelves for investment decision, order placement and financial closure. 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.

SAVINGS

49. The domestic savings rate had peaked at 36.8 per cent of GDP in 2007-08, dropped during the crisis, but recovered to about 34 per cent in 2009-10 and 2010-11. However, it fell again to 30.8 per cent in 2011-12 and may be at the same level in 2012-13. The reason for the decline lay in part in the fiscal expansion that was used to combat the crisis. Between 2007-08 and 2009-10, the negative savings of Government increased by 3.6 percentage points of GDP, although this fell off by 1.1 percentage points by 2011-12. There may have been a further decline of 0.5 percentage points in 2012-13. That makes for an accumulated erosion of 2 percentage points of GDP on account of negative government savings up to 2012-13.

50. However, the slippage in overall savings of 6 percentage points cannot be explained by the increase in the negative savings of government alone. The greater part of the erosion (4 percentage points of GDP) has occurred in the private sector. The decline in profitability of private corporates (2.2 percentage points) was one big factor. The fall in net financial savings of households (3.6 percentage points) was an even bigger factor – compensated, however, by a big increase in savings in physical assets (homes, farms, unincorporated businesses). The decline in retained earnings of corporates is part of the larger story of decline in corporate profitability (discussed subsequently). However, the sharp drop in net financial savings of households is linked to another unfortunate development, which is the enormous increase in the import of gold.

51. When a household buys gold, it reduces its financial assets (bank deposit, cash in hand etc.) and since the product is imported, the payment eventually leaves the country, leading to an export of a potential financial saving. In the case of sales of other kinds of assets, the action involves transfer of assets between Indian residents, so that it does not make a difference in the aggregate. If instead of buying gold, the household exchanges its cash for financial assets like a bank deposit, insurance policy, mutual fund, bond, share or real estate, (a) financial resources remain in circulation within the economy, and (b) the asset is included as part of domestic savings and to that extent enhances domestic capital formation.

52. The fall in the net financial savings of households from 11–12 per cent in years prior to 2010-11 to a mere 8 per cent in 2011-12 and 2012-13 is an outcome of the deployment of financial savings into investment in gold. This reduces the domestic financial resources available for supporting capital formation at home, while at the same time increasing the merchandise trade and current account deficits.

TRENDS IN CORPORATE FINANCIAL RESULTS

53. In the past few years it has emerged that there are significant variations between the growth trends in manufacturing output as reported in the Index of Industrial Production (IIP) and that reported by the more exhaustive Annual Survey of Industries (ASI). The IIP data is available with a lag of six weeks, while the ASI report comes in with a lag of eighteen months. Hence, it is the IIP data that is used for estimation of both quarterly and annual national income data and is subject to revision once the ASI data is available. The ASI data is in current rupees and is converted to constant price rupees by applying a deflator derived from the Wholesale Price Index (WPI). The real growth rates derived from these constant

price rupees for ASI presented in **Table 3** use the manufactured WPI index as the deflator, without adjusting for intra-index weights and other refinements normally done by the CSO. The underestimation resulting from using the IIP is large and very significant in 2009-10, but less so in 2010-11. It is of course the gross value added (GVA), and not the gross value of output (GVO), that really counts, as the situation in 2010-11 brings out, where the real growth rate for GVA (13.1 per cent) is much less than that of GVO (18.7 per cent), unlike the situation in 2009-10 when both measures had about the same value.

Table 3

Real Growth Measures for Manufacturing Sector

	IIP (Manufacturing)	ASI-Output (GVO)	ASI-Value Added (GVA)	GDP (Manufacturing)	Net Sales of Manufacturing Companies		
					(a)	(b)	(c)
2009-10	4.8	11.6	11.6	11.3	11.2	8.5	9.6
2010-11	9.0	18.7	13.1	9.7	16.5	14.0	15.2
2011-12	3.0			2.7	11.4	7.8	12.8
2012-13	1.5*			1.9	4.0†	3.3†	4.3†

Note: † Average for first three quarters of the fiscal year. * Estimated

In the last three columns, (a), (b) and (c) are estimated from data from three different sources, such as RBI, CMIE and others.

54. The net sales data from manufacturing corporates taken from established corporate data bases (CMIE, RBI and others) has been deflated using the WPI (Manufactured). The output of petroleum refineries is large, its value changes rapidly, and the WPI (Manufactured) is not necessarily the appropriate deflator. A range of numbers is hence indicated in the last three columns of **Table 3**. It may be observed that in 2009-10 and 2010-11, the real net sales growth range derived from the corporate data were closer to the ASI numbers than the IIP.

55. This suggests that in 2011-12 and 2012-13 too, the net sales data from corporate results may be a better guide than IIP. The impact of this on overall GDP estimate is larger than that flowing from the weight of the sector in total GDP. The estimation of service sector GDP is partly influenced (moderated) by the estimation of manufacturing sector GDP. If the corporate numbers are a better guide and likely to be validated by the ASI data as and when released, the GDP estimates for both 2011-12 and 2012-13 could be understated.

56. However, it must be underscored that it is the growth rate of GVA that is the better guide in the event that the growth of GVA is significantly lower than that of output – on account of declining margins. Thus, it is possible that the position may not change that much when the ASI data is finally available.

57. The inference that one may draw from the discussion above is that it is possible that economic growth in 2011-12 and 2012-13 may eventually turn out to be stronger, but it is probable that the magnitude of the upward revision will not be comparable to what happened in 2009-10 and 2010-11.

58. The overall trend, using quarterly data for net sales of manufacturing and non-manufacturing companies, shows that the declining trend in output (net sales) and in profitability continues, although the slippage seems to have bottomed out. Petroleum refineries and wholesale trading have been excluded on account of excessive volatility. The point to note is that it is not manufacturing companies alone, but the entire non-financial service sector, that has seen erosion in sales and margins in the last two years.

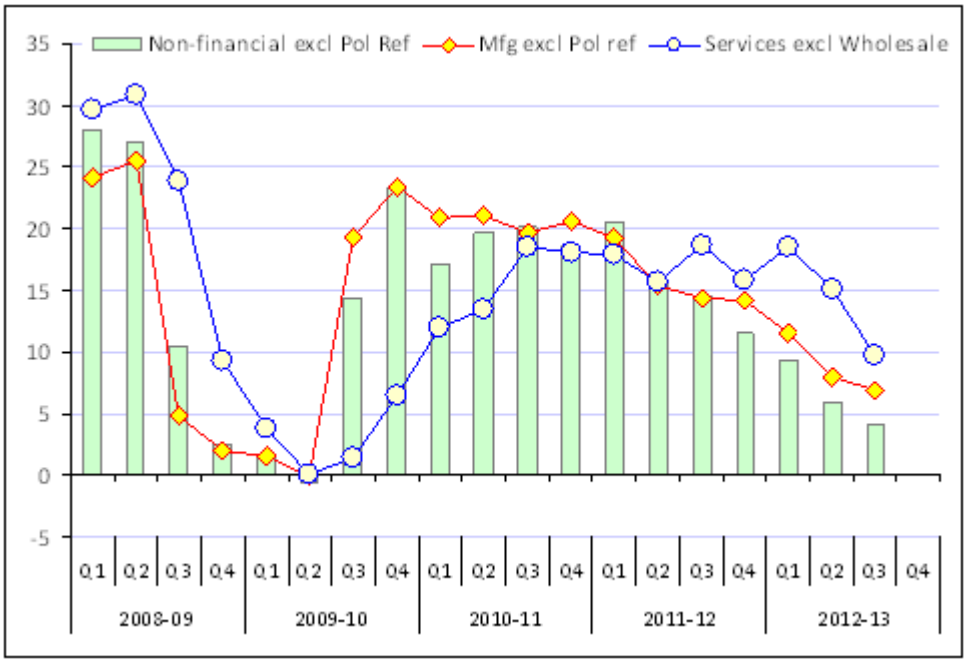
59. While net sales growth seem to be still weak and may take more than a quarter or two to reverse direction, operating margins seem to have stabilized, especially for the non-financial services sector. This has positive forward looking implications. If, as is expected, profitability conditions have begun to improve, then over the next few quarters one can reasonably expect an improvement in business sentiment that is more conducive to fresh investment and expansion. The trend is presented in **Chart-1**, first for net sales growth (in current rupees) and then for operating margins.

60. While there is still no clear evidence – such as a sharp pick-up in IIP or exports – of improvement in the growth trajectory, it is possible that conditions are improving but this may show up in the data with a lag.[2]

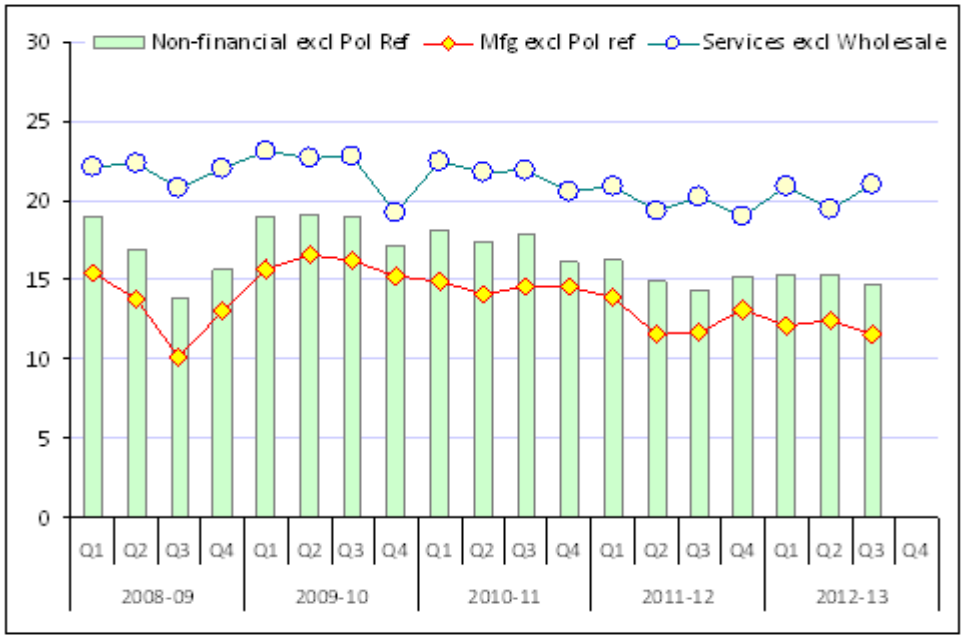
61. The first quarter of 2013-14 is therefore still likely to show weaker growth running well below the average projected for the year. The second and subsequent quarters should show sequential improvement. The first half of 2013-14 may register an average growth of about 6 per cent, with the second half approaching 6.7 per cent.

[2] In 2009-10, the IIP and export data started to show a pick-up from November 2009 onwards.

Chart 1
Net Sales (nominal) growth for Companies



Operating Margin for Companies



III. EXTERNAL SECTOR

MERCHANDISE TRADE

62. A summary discussion of the external sector, particularly merchandise trade, invisibles and the current account deficit has been done in the first section. Growth of merchandise exports, valued in US dollars, is disappointing, from the period starting in the second half of 2011-12 and continuing through 2012-13.

63. In 2011-12, while the first half saw scorching growth of 43 per cent, the trend rapidly slowed down to 11 per cent in the third quarter, and then to 3 per cent in the fourth quarter. The performance in 2012-13 is weaker with negative growth in the first three quarters of (–) 2, (–) 12 and (–) 3 per cent growth in dollar terms respectively. In the fourth quarter there was a modest recovery of about 3 per cent growth. In the first half of 2012-13, exports of merchandise declined by 7 per cent, and remained flat in the second half of the year. Overall for the year, the dollar value of merchandise exports has fallen by 3 per cent.

64. Merchandise imports did not trace the same trajectory as exports. While in the first half of 2011-12 imports increased by 38 per cent, in the second half, unlike exports these remained at a high, if slightly lower level of 27 per cent. The decline in the rate of expansion of imports was mostly on account of a softening of demand for gold where growth in the first half was 74 per cent and that in the second 23 per cent. Growth in oil imports slowed marginally (from 52 to 41 per cent) in the second half. The increase in the value of non-oil, non-gold & non-gems import was stable at 26 and 23 per cent respectively in the first and second halves of 2011-12.

65. In 2012-13, like exports, imports also declined sharply in the first half by (–) 4 per cent, but unlike exports, they rose in the second half by 5 per cent. Overall for the year, the value of merchandise imports increased marginally by less than 0.5 per cent. The value of non-oil, non-gold, non-gems imports remained flat in the first half and actually fell by (–) 3 per cent in the second half, reflecting the slow pace of demand expansion in the economy. Oil imports expanded by 7 per cent in the first half, and by 12 per cent in the second half of the year. However, it was the import of gold that showed a sharp reversal, going from (–) 33 per cent in the first half of the year, to (+) 17 per cent in the second half of the year. It is mostly this factor that pushed the trade deficit, which was running flat in the first half of the year, to grow by over 12 per cent in the second half. Thus the entirety of the increase in the merchandise trade deficit –

from $183 to $195 billion (DGCIS) happened in the course of the second half of 2012-13, with more (over 85 per cent) of this in the third quarter of the year.

66. The merchandise trade deficit (balance of payments basis) as a percentage of GDP rose from 7.6 in 2010-11 to 10.2 per cent in 2011-12 and to 11.3 for the April-Dec period of 2012-13 (previous year 10.1). The estimated merchandise trade deficit for the full year 2012-13 is 10.9 per cent of GDP.

Commodity Composition

67. It is imperative to turn around the merchandise trade deficit, specifically exports. To do this one needs to look at export performance by individual groups (or the "principal commodity" classification of DGCIS). The rates of expansion from 2009-10 to 2012-13 are presented at **Table-4**. The numbers for 2012-13 have been extrapolated on the basis of the data available up to February 2013.

Exports

68. It is clear that the biggest export casualties in 2012-13 are engineering goods, manmade textiles and ready-made garments (RMG). While the DGCI&S data show a small decline in export value of cotton yarn, fabric and made-ups, the data maintained by the export promotion council shows a modest increase. The two important import-intensive export categories – gems & jewellery and refined petroleum products — also fared poorly. However, in the case of gems & jewellery, changes were made in the rules regarding the re-export of rough diamonds in recent years. The value of finished jewellery and polished gems exports has grown in the course of 2012-13, suggesting that overall exports of gems & jewellery may not have fared as poorly as an initial look at the aggregate data may suggest. This also holds positive implications for the growth outlook for 2013-14.

69. On the other hand, export of pharmaceuticals, and fine & other chemicals have continued to do reasonably well in 2012-13, underscoring the inherent competitiveness of this sector that can do even better. The export of refined petroleum products grew by nearly 6 per cent and is likely to expand further in 2013-14 as increase in domestic consumption of sensitive products eases a bit and new refining capacities come on line.

70. In 2012-13 exports of rice and wheat have picked up strongly, but further increase in 2013-14 may not occur. Wheat exports have risen to 50.6 lakh tonnes in the ten month period April to Jan 2012-13, compared to 7.4 lakh tonnes in 2011-12. Indian wheat is fetching good prices and the value of exports in April 2012 to January 2013 was over Rs 8,000 crore or about $1.5 billion. The stock position of wheat is

comfortable and policy is encouraging export as the new harvest is coming in. There has been a sharp drop in the value of iron ore exports on account of restrictions on mining and this situation may not change in 2013-14.

Table 4

Performance of Exports – Commodity Group-wise

Principal Commodities	Value in 2011-12	Rate of Growth - Year on Year			
		2009-10	2010-11	2011-12	2012-13*
	US$ Billion	per cent			
1 Tea	0.8	6.5	18.1	14.9	**–23.9**
2 Coffee	1.0	**–13.4**	54.0	44.0	**–11.5**
3 Rice	4.9	**–3.6**	7.6	93.0	26.8
4 Tobacco	0.8	22.0	**–4.4**	**–5.6**	9.1
5 Spices	2.7	**–6.5**	35.8	55.2	3.1
6 Cashew	0.9	**–7.5**	4.7	47.8	**–19.7**
7 Oil Meal	2.4	**–26.3**	46.9	**–1.3**	24.9
8 Fruits & Vegetables	1.6	13.9	**–4.2**	31.7	**–24.7**
9 Marine Products	3.4	36.6	25.2	31.3	2.4
10 Iron Ore	4.5	26.4	**–21.8**	**–3.5**	**–62.5**
11 Mica, Coal & Other Ores Incl. Processed Minerals	3.8	**–13.9**	46.6	**–3.7**	0.2
12 Leather & Leather Manufactures	4.7	**–6.0**	16.3	23.0	**–1.6**
13 Gems and Jewellery	45.6	2.4	35.0	16.2	**–11.0**
14 Drug, Pharmaceuticals & Fine Chemicals	13.2	2.1	19.2	23.2	8.0
15 Other Basic Chemicals	11.0	**–1.1**	25.8	27.9	7.5
16 Engineering goods	58.5	**–19.6**	53.3	17.3	**–3.0**
17 Electronic goods	8.9	**–20.2**	50.9	8.1	**–9.3**
18 Cotton Yarn, Fabrics, Made-ups, Handlooms	7.3	**–4.7**	47.9	23.7	**–0.9**
19 Manmade Yarn / Fabrics / Made-ups, etc.	5.1	18.1	18.7	18.7	**–12.4**
20 R M G of All Textiles	13.7	**–2.0**	8.4	18.1	**–6.5**
21 Jute Mfg. incl. Floor Covering	0.5	**–28.4**	111.1	1.0	**–17.9**
22 Carpets	0.8	**–6.1**	40.8	–18.3	11.2
23 Handicrafts excl Handmade Carpets	0.3	**–25.6**	3.1	10.8	**–66.0**
24 Petroleum Products	56.0	2.3	47.0	35.0	5.9
25 Plastic & Linoleum	6.3	10.4	38.8	35.0	**–4.5**
26 Others / Unclassified	47.0				
GRAND TOTAL	**306.2**	**–3.5**	**40.2**	**22.1**	**–3.4**

Note: * Extrapolated from quick estimates for April to February 2012-13

Source: Director General Commercial Intelligence & Statistics (DGCI&S)

Imports

71. Big declines in the rates of growth occurred in 2012-13 in rough gems, machinery, electronic goods and fertilizer (see **Table 5**). Smaller declines were in evidence in gold, as well as in several intermediate products. There was also a small drop in imports of coal, where there had been a sharp increase in the previous years. Petroleum imports – crude, LNG, refined products and other gases (such as LPG) increased by 9 per cent, while chemical and drug intermediates showed modest increases – much as the export of these items also did.

Table 5

Performance of Imports – Commodity Group-wise

Principal Commodities	Value in 2011-12	Rate of Growth - Year on Year			
		2009-10	2010-11	2011-12	2012-13*
	US$ Billion	per cent			
1 Cotton Raw: Comb/Uncombed/Waste	0.2	**–28.6**	**–47.9**	65.1	100.7
2 Vegetable Oil (Fixed)	9.7	64.8	17.0	47.6	16.1
3 Pulses	1.8	0.0	**–24.7**	16.8	**–9.1**
4 Pulp And Waste Paper	1.4	9.4	29.6	20.2	**–4.9**
5 Textile Yarn, Fabric & Made Up Articles	3.6	0.2	22.9	19.6	**–2.3**
6 Fertilizers – Crude & Manufactured	10.9	**–48.7**	3.0	58.9	**–19.2**
7 Sulphur & Unroasted Iron Pyrites	0.5	**–77.7**	66.4	96.2	**–19.0**
8 Metaliferrous Ores & Metal Scrap	13.5	**–4.3**	26.0	38.4	4.9
9 Coal, Coke & Briquettes, Etc.	17.7	**–11.0**	9.1	81.2	**–9.8**
10 Petroleum Crude & Products	154.8	**–7.0**	21.6	46.1	9.3
11 Wood & Wood Products	2.5	18.4	2.7	52.8	3.6
12 Organic & Inorganic Chemicals	19.1	**–3.7**	27.7	25.2	2.0
13 Dyeing/Tanning/Colouring Materials.	1.5	8.4	30.4	24.4	**–2.6**
14 Artificial Resins, Plastic Mat, Etc.	7.5	25.5	37.5	9.7	12.3
15 Chemical Material & Products	3.5	8.7	26.9	19.9	2.7
16 Newsprint	1.0	**–41.6**	73.1	26.1	**–24.8**
17 Pearls, Precious & Semi -precious Stones	29.2	**–3.0**	112.4	**–15.6**	**–22.9**
18 Iron & Steel	12.0	**–13.3**	25.6	15.4	**–9.4**
19 Non-ferrous Metals	4.9	**–50.0**	35.6	20.9	2.7
20 Machine Tools	3.0	**–27.6**	36.1	32.8	**–7.0**
21 Machinery, Electrical & Non-electrical	35.2	**–10.3**	21.4	26.9	**–8.1**
22 Transport Equipment	13.3	**–11.5**	**–2.1**	16.3	1.8
23 Project Goods	9.0	47.9	30.8	45.7	**–29.1**
24 Professional Instrument, Optical Goods etc.	5.3	**–18.0**	16.4	24.9	2.7
25 Electronic Goods	32.8	**–10.7**	26.8	23.5	**–7.0**
26 Medicinal & Pharmaceutical Products	3.0	11.3	15.8	22.5	1.8
27 Gold & Silver	61.6	32.8	43.0	44.7	**–8.4**
28 Others / Unclassified	31.0				
GRAND TOTAL	**489.5**	**–5.1**	**28.3**	**32.4**	**0.3**

Note: * Extrapolated from quick estimates for April to February 2012-13

Source: Director General Commercial Intelligence & Statistics (DGCI&S)

Direction of Trade

72. The pattern of India's merchandise trade is undergoing a structural shift. The rest of Asia, Africa and Latin America are becoming an increasingly important part of

India's trade portfolio. **Table 6** gives the area-wise composition of total trade, i.e., both our exports and imports, and growth therein. A more detailed break-up separately for exports and imports with major countries listed is presented at **Appendix Tables 1 and 2**.

Table 6

Direction of Trade and Changes Therein

Region/Countries	Rate of Growth Imports				Rate of Growth Exports				Trade Share	
	Average 2007-08 to 2009 10	2010-2011	2011-2012	Apr-Jan 2013	Average 2007 to 2009 10	2010-2011	2011 2012	Apr Jan 2013	2006 07	Apr-Jan 2013
1) Europe	**12.2**	**27.8**	**30.4**	**–8.1**	**11.1**	**29.5**	**15.8**	**–6.0**	**22.1**	**17.9**
1.1 EU Countries	10.0	15.9	31.3	**–8.3**	11.4	27.8	14.2	**–7.2**	18.2	13.2
2) Africa	**21.2**	**24.8**	**35.4**	**2.6**	**11.1**	**46.8**	**25.2**	**18.2**	**14.3**	**16.5**
2.1 South African Customs Union	33.4	27.1	37.9	**–19.1**	**–0.1**	88.5	19.1	6.2	1.5	1.7
2.2 Other south African countries	136.6	18.6	31.1	33.3	30.3	33.8	**–12.2**	46.9	0.3	1.3
2.3 West Africa	7.4	30.4	41.8	8.2	10.6	37.0	50.4	1.7	3.4	3.2
2.4 Central Africa	119.0	**–83.1**	11.5	121.4	22.3	33.0	52.2	26.8	0.1	0.1
2.5 East Africa	19.0	49.2	**–7.4**	75.7	9.4	52.2	23.3	31.9	1.0	1.2
2.6 North Africa	18.2	20.3	26.5	**–12.3**	20.9	27.5	17.8	25.1	8.0	8.9
3) America	**16.8**	**23.1**	**26.7**	**25.0**	**3.8**	**37.3**	**36.8**	**9.3**	**14.1**	**14.3**
3.1 North America	17.2	15.5	28.8	2.0	1.5	29.6	38.5	9.1	11.2	9.2
3.2 Latin America	22.5	39.4	23.0	69.8	15.5	66.1	31.7	10.1	2.9	5.1
4) Asia	**18.5**	**29.2**	**35.2**	**–1.3**	**15.9**	**36.4**	**20.2**	**–1.1**	**53.7**	**56.4**
4.1 Oceania	20.6	**–10.6**	37.2	**–19.3**	5.3	48.2	12.4	3.9	2.9	2.8
4.2 ASEAN	13.1	18.6	38.9	1.8	13.8	41.5	43.2	**–11.5**	9.8	9.3
4.3 West Asia – GCC	22.5	40.0	34.0	8.4	25.1	39.4	6.8	13.2	15.2	18.7
4.4 Other West Asia	12.1	7.8	52.0	**–6.0**	6.8	35.0	22.9	13.4	6.9	6.3
4.5 N E Asia	21.4	42.3	29.5	**–7.6**	15.4	29.0	21.5	**–12.7**	16.3	17.2
4.6 South Asia	5.8	31.1	20.0	0.6	11.9	39.0	14.0	7.5	2.6	2.1
5) CIS & Baltic	**21.7**	**–7.2**	**47.2**	**17.4**	**5.3**	**58.9**	**14.1**	**18.4**	**1.7**	**1.7**
Total	**17.0**	**28.2**	**32.3**	**0.5**	**13.0**	**40.5**	**21.8**	**–4.4**	**100.0**	**100.0**

Source: Director General Commercial Intelligence & Statistics (DGCI&S)

73. The most notable developments in India's external trade over this six year (2006-07 to 2012-13) period are:

(a) Decline in the share of Europe by 4.2 percentage points to less than 18 per cent

(b) Decline in the share of North America by 2 percentage points to just over 9 per cent

(c) Increase in the share of Africa by 2.2 percentage points to 16.5 per cent

(d) Increase in the share of Latin America by 2.2 percentage points to 5.1 per cent

(e) Increase in the share of the rest of Asia by 2.7 percentage points to 56.4 per cent.

74. The share of merchandise exports to the European Union region has declined from 21.2 to 17.0 per cent, broadly in line with the economic difficulties the region is experiencing. However, within the EU, exports have plummeted in the most affected countries like Greece, Italy, Spain and the UK (see **Appendix Table 1**), though it has increased for Netherlands and remained more or less unchanged for France. Surprisingly, exports to Germany have fallen sharply from 3.2 to 2.4 per cent of total exports. Exports to Turkey saw a sharp increase.

75. The share of North America in India's exports has declined from 16.2 to 14.1 per cent in this period. There was a drop of 2 percentage points to the USA, and of 0.2 percentage points to Canada. The export share of Mexico has picked up a bit. Exports to Latin America have risen from a share of 3.0 to 4.6 per cent, most of it on account of a sharp pick-up in exports to Brazil.

76. Exports to Africa, including all constituent regions of the continent, have risen steadily as can be seen from **Table 6**. Major export markets in the sub-Saharan region are South Africa, Kenya, Nigeria, Tanzania, Mozambique, Ghana and Mauritius. In North Africa, Egypt, Algeria and Sudan are the most important destinations for exports. All of them have seen strong expansion.

77. Exports to the GCC area in West Asia have increased strongly. The share of the region has gone up from 13.0 to 17.0 per cent, with the bulk of the increment on account of the UAE (2.7 percentage points), Saudi Arabia (1.2 percentage points) and Oman (0.3 percentage points).

78. On the other hand, exports to North East Asian markets have fallen by as much as 2.1 percentage points – mostly in China & Hong Kong[(–) 1.7 percentage points] and South Korea [(–) 0.5 percentage points]. While there has been some improvement in exports to Taiwan, exports to Japan and South Korea have also fallen. We have FTA arrangements with Japan and South Korea and it seems that there is considerable potential which remains to be developed. This must be seen as a near term challenge – from the facilitation side by Government, and as a

business proposition for industry. The drop in exports to China is partly on account of near cessation of our iron ore exports which was mostly going to China. However, there is considerable potential to export a range of consumer products in the mid-price range to China, and that too is an area which must be energetically pursued.

79. India's exports to ASEAN countries fell by nearly 12 per cent in 2012-13, which is a matter of concern. This was a rapidly growing market in the previous two years and is a region where we have entered into FTA and have a range of common interests and logistic advantages.

80. The broadest change between 2006-07 and 2012-13 in the source-wise composition of our imports has been that (a) the share in India's imports from the European Union has fallen from 16.1 to 10.9 per cent, (b) the share of West Asia–GCC has gone up from 16.7 to 21.8 per cent, and (c) the share of China (including Hong Kong) has risen from 10.7 to 12.8 per cent. The sharp increase from 2.9 to 5.4 per cent of the share of imports originating from Latin America is almost entirely due to the increase in crude oil imports from Venezuela, although imports from other Latin American countries have also increased. The share of imports from Africa rose by 1 percentage point and is certain to increase further in coming years. It is surprising to see the weakening of our imports from ASEAN, Oceania and South Asia. Import sourcing plays an important part in strengthening our export markets. There is therefore a special reason to focus on the ASEAN region, South Asia, and the African and Latin American regions.

INVISIBLE EARNINGS

81. There are three key components of invisible earnings, namely, (a) information technology enabled services (ITES) related net exports of services, (b) private remittances and (c) net investment income. There are other service trade items such as travel, transport, insurance, financial and communication services, but the net balances on these items are small. The first two of the three highlighted items are closely related since the earnings of Indian residents working on ITES projects overseas are captured as private remittances.

82. The average annual growth of ITES related net exports between 2001-02 and 2007-08 was 32 per cent. During the same period these, along with private remittances, together grew by 24 per cent. Up to 2004-05, the positive balance of ITES related net exports and private remittances, was large enough to more than fully finance the merchandise trade deficit. From 2005-06 onwards this ratio fell

below unity, but even then right up to 2010-11, the net balance on ITES exports and remittances was large enough to finance upwards of 77 per cent of the merchandise trade deficit.

83. The rate of annual expansion in ITES exports and remittances however fell off sharply from 2008-09 onwards. The rate of growth of the total of these two items fell to 4 and 8 per cent in 2009-10 and 2010-11 respectively. There was some improvement in 2011-12 (20 per cent growth), but then it fell off once again in 2012-13. In the first three quarters of the year their total growth was only 4 per cent, and is likely to remain at this level for the year as a whole. Hence the capacity of this positive net balance to finance the merchandise trade deficit has fallen sharply. These two invisible items on a net basis financed 85 per cent of the merchandise trade deficit during the period 2005-06 to 2010-11. It however fell sharply in 2011-12 to 65 per cent, and is likely to be 64 per cent in 2012-13.

84. As the stock of foreign loans and equity investment has increased over the years, the negative balance on net investment income has also increased. The profits of foreign direct investment re-invested in India are debited under this head, so not all of the negative balance represents a cash outgo. In the years up to 2007-08 there was a sharp increase in the foreign currency assets of the RBI which was a source of earning of investment income. However after 2007-08 there was no accretion of reserves, and with global yields on reserve assets trending to zero, the credit side of investment income fell. It declined even more sharply when measured as a proportion of GDP. Between 2000-01 and 2005-06, the value of net investment income was more-or-less unchanged at the absolute level of $(–) 4 billion. Even up to 2009-10, the average was less than $(–) 6 billion. Since then, the value has climbed sharply to $(–) 16.5 billion in 2010-11 and 2011-12 and further to $(–) 17.5 billion in the first three quarters of 2012-13 alone and an estimated $(–) 24 billion for the year as a whole.

85. The combination of slowing positive balances of service sector exports and rising negative balances of net investment income has resulted in net invisible earnings falling as a proportion of GDP from 5 to 7 per cent in the period 2005-06 to 2009-10, to 4.9 per cent in 2010-11. It recovered to 6.0 per cent in 2011-12, but fell again to less than 5.9 per cent in the first three quarters of 2012-13 and is estimated to be 5.7 per cent for the year as a whole. This outcome, in conjunction with the burgeoning merchandise trade deficit, has resulted in a large magnitude expansion of the Current Account Deficit (CAD).

CAD – ESTIMATE FOR 2012-13 AND PROJECTION FOR 2013-14

86. The current account deficit in the first three quarters of 2012-13 was 5.4 per cent of GDP (previous year same period: 4.1 per cent). The deficit in the third quarter (Oct-Dec 2012) was a record $33 billion or 6.7 per cent of GDP. For the full year 2012-13 it is estimated that the CAD will be $94 billion or 5.1 per cent of GDP.

87. The CAD is in serious need of rectification. However, it may take more than a year to return to a level that is acceptable. In making our estimate of the current account balance for 2013-14, we have first sought to develop a base line for the likely level of merchandise exports and imports and items on the invisible account. Obviously, there are downside risks, as well as favourable upside possibilities.

88. The base line estimate for the CAD in 2013-14 is $100 billion or 4.7 per cent of GDP. This is only marginally lower (in proportionate terms) than the estimated CAD for 2012-13 of 5.1 per cent. The estimation envisages a projected gradual improvement in each quarter of 2013-14 on the previous one and adopts a conservative stance on each component. The principal components of trade and net invisibles are discussed below.

Petroleum Products

89. The average crude oil price for 2013-14 is taken at 4.4 per cent higher than the average for 2012-13. In terms of Brent benchmark this translates into an average price of a little under $115 per barrel, as against an average of $110 per barrel in 2012-13. The value of the oil import bill includes crude oil, LNG and refined products. In 2011-12, of the total value of oil imports of $155 billion, crude oil & refined (liquid) products accounted for $141.3 billion, petroleum coke, paraffin, bitumen & other products for $1.1 billion and LNG, LPG & other gases $12.5 billion. The value of both imported LNG and LPG has risen much faster in the past few years than the quantity on account of increase in prices.

90. The total oil import bill in 2013-14 has been worked out to be $194 billion, as against $169 billion in 2012-13. The value of exports of refined petroleum products is taken at $69 billion in 2013-14, as against $59 billion in 2012-13 – reflecting the expected increase in refining capacity and a small moderation in domestic demand. Thus, the net oil import bill is assessed at $125 billion in 2013-14 as against the estimate of $110 billion in 2012-13. Of the nominal increase of 14 per cent, the price component is 4.4 per cent and the balance is the quantity component, which factors in larger imports of LNG in 2013-14.

Gold

91. There is greater uncertainty in regard to gold. In August 2012, the Council had expected that the value of bullion (gold and silver) imports in 2012-13 would drop to $44 billion from the $62 billion of the previous year. There was a decline of 48 per cent in the first (Apr-June) quarter of the year, which seemed to suggest that a respite was forthcoming. Even though the decline was smaller in the second quarter, there nevertheless was a decline and the value of imports in the first half of 2012-13 up to September showed a reduction by 33 per cent. However, in the second half of 2012-13 the trend was sharply reversed. Imports went up by 24 per cent in the third quarter, and by 11 per cent in the fourth. In consequence, the total value of imports of gold in 2012-13 at $56 billion was only 8 per cent less than the $62 billion imported in 2011-12.

92. The surge in imports of gold has come about on account of a number of factors. First was the sharp increase in gold prices after the global financial Crisis of 2008. Second was the high rate of domestic inflation. However, in early September 2011 the price of gold came off its peak of nearly $1,900 per ounce (/oz) and has since been in gradual decline, with brief periods of intermittent recovery. From October 2012, gold prices have fallen continuously from $1,787/oz at the beginning of October 2012 to between $1,550–1,600/oz at the end of February 2013.

93. Why then did imports into India continue to rise and that too in the second half of 2012-13? Inflation, at least WPI headline inflation, has been coming down and conditions determining access to financial products remain more-or-less unchanged. However, the uncertainty with regard to the exchange rate of the Indian rupee remains and may have come to the forefront. Gold is providing a hedge against the currency and that in today's otherwise bearish market for gold may be able to better explain the demand for gold by both sophisticated investors in ETF and the unsophisticated ones who buy physical gold.

94. Managing the country's demand for gold has become a key factor in reining in the outsized current account deficit. The Council expects that there will be some moderation in the level of import of gold such that total imports during the year would come down to $45 billion, that is, about 900 tonnes at the current price, from the estimated level of $62 billion of 2011-12.

Gems & Jewellery

95. This is the third largest item of export, after engineering goods and refined petroleum products. After strong growth in 2010-11 and 2011-12, their exports fell by 11

per cent in 2012-13. The decline appears to have been more acute in the case of cut and polished diamonds, while gold jewellery continued to expand by as much as 46 per cent in the period Apr-Feb 2012-13. This appears to be partly because cut and polished diamonds are increasingly being exported in studded or jewellery form. There has also been some change in the regulations regarding re-export of rough diamonds which apparently tend to overstate the decline at the gross level. Import of precious stones fell by 16 and 23 per cent in 2011-12 and 2012-13 suggesting that in terms of finished products the situation is better than it looks at first glance.

96. It is expected that in 2013-14 exports of gems & jewellery would increase by 12 per cent, and exports would cross $45 billion, the same level as in 2011-12. This is supported by expectations of some improvement in the US market, trends in recent months and expectations of the industry itself.

Other Items

97. Recovery is expected in non-oil, non-gold items on both the import and export side – much of it starting in the second quarter of 2013-14. For the year as a whole, we expect that non-oil, non-gold, non-gems imports would increase by about 12 per cent, while exports of similar products would increase by 10 per cent. Imports of machinery and intermediates are expected to increase by 10 to 12 per cent in 2013-14, with coal imports going up by 15 per cent. On the export side, engineering goods are expected to show a small recovery of 5–6 per cent, with most other items expanding by around 10 per cent. No further increase is projected for rice and wheat exports, though that may prove to be too rigid an assumption.

98. On balance of payments basis, this gives total merchandise exports of $330 billion and imports of $543 billion, leaving a merchandise trade deficit of $213 billion which is 9.9 per cent of expected GDP.

Invisibles and CAD

99. Net invisibles are projected at $112 billion, composed of ITES net exports plus private remittances of $141 billion, which is 10 per cent more than in 2012-13, and a negative net balance on investment income of $28 billion. The projected net invisibles amounts to 5.3 per cent of expected GDP, which is lower than the estimated value of 5.7 per cent in 2012-13, and 6.0 per cent in 2011-12.

100. The CAD thus comes to $100 billion which is 4.7 per cent of expected GDP. This is the base line estimate in **Table 7**. However, as mentioned earlier, there can be a

range of outcomes, depending on shocks or the absence thereof, as well as the materialization of more or less favourable and unfavourable factors.

Table 7

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%**

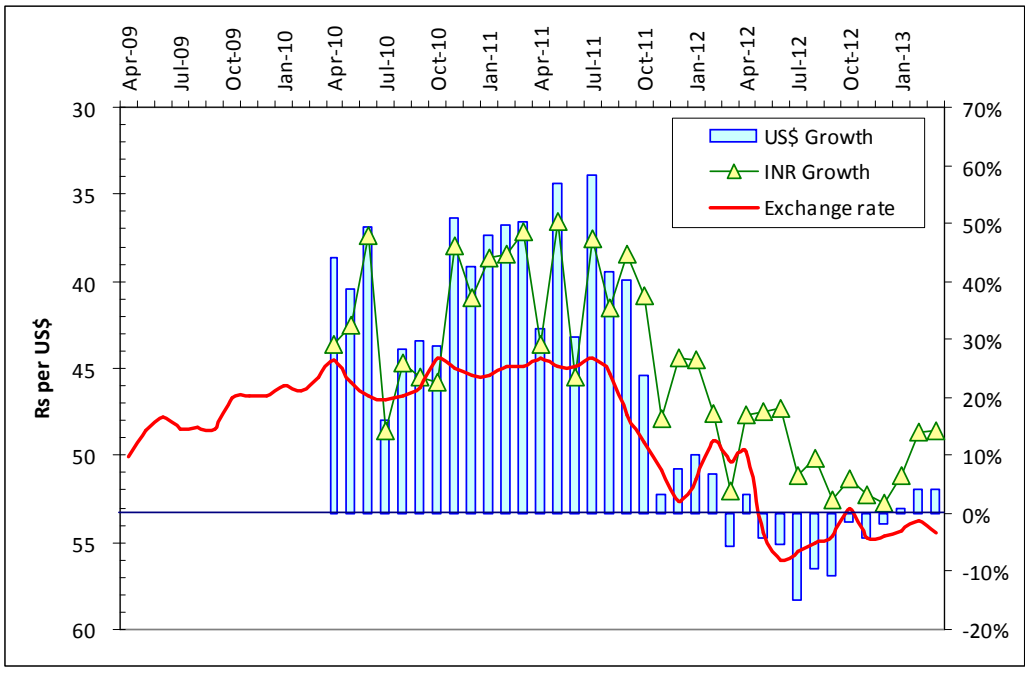
Note: * The column for 2012-13 is estimated and that for 2013-14 is projected

101. The conventional response to an enlarged CAD would be to allow the currency to adjust downwards. Lower external value of the currency should compress import demand and increase the demand for exports. The most problematic elements on the import side however are gold and petroleum. Between 2010-11 and 2012-13, gold imports increased by $14 billion and net oil imports by $49 billion – aggregating $63 billion. In comparison the total increase in our merchandise trade deficit over the same period was $76 billion.

102. Gold is an asset and a fall in the external value of the currency will not compress the demand for the item, but instead increase it. In the case of oil, price increases are presently not passed through for more than 50 per cent of total consumption (retail diesel, domestic LPG and PDS kerosene). The price effect of compression is thus limited. On the export side, much of our exports – textiles, engineering goods and pharmaceuticals – are exported as part of supply chains. In such situations, large depreciation does not escape notice and is very often neutralized by price re-negotiation, that is, discounts. In the case of petroleum products and jewellery the import component is high and exchange rate changes do not change the dynamic very much. It is therefore not surprising that the substantial depreciation of 20 per cent in the external value of the rupee (against the US dollar) did not boost exports – even in rupee terms, leave aside dollar terms – as **Chart 2** shows. However, we need to keep a watch on the behaviour of the currency, particularly in real terms.

Chart 2

Changes in Exports valued in US dollars and Indian Rupees and the INR:US$ exchange rate



103. In 2013-14, it is vitally important to ensure that our merchandise exports grow in dollar terms. The trade liberalization achieved in Asia must be used as a platform to expand our exports. The ongoing FTA negotiations with the EU must be closed

and those with Canada fast tracked. It should be noted that despite a huge export base, China was able to register 14 per cent growth in the dollar value of exports in December 2012 and as much as 25 and 22 per cent growth in January and February 2013. The Chinese yuan appreciated against the dollar over the past year by about 3 per cent. The world export market is without doubt under pressure, but that does not necessarily mean that we should be stuck with negative dollar value growth as well as a depreciating currency.

104. In our merchandise imports, aside from gold, there are other items of avoidable imports. Our imports of coal have increased by 40 per cent in quantity terms from 75 million tonnes in 2009-10 to 105 million tonnes in 2011-12 and doubled in terms of value from $9 billion to $18 billion. The increase is mostly on account of thermal coal. The import of thermal coal is a direct consequence of our inability to meet domestic needs from our own reserves, which are one of the largest in the world. Clearly, by producing more coal at home we can directly prune the import bill on account of thermal coal. Steel plants in India are also planning to import iron ore due to court orders restraining mining and the difficulty of getting permission for new mines. It is ironic that this should happen to a country which has one of the largest and best quality iron ore reserves. The value of export of iron ore has also fallen sharply due to reduced raisings. While it is true that India is not exactly a resource rich economy, it is not such a resource deficient one that she has to import thermal coal and iron ore. This is an area that warrants action on several fronts, including regulatory and judicial.

105. At this point, it is appropriate to list some clear targeting that could be adopted to contain the CAD. This would enable us to contain the CAD at a level of around $90 to $95 billion (4.2 to 4.4 per cent of GDP) and enable us to bring it down further in the next year (2014-15) to around 3.0 to 3.5 per cent of GDP.

- Lift merchandise exports in 2013-14 by $15 to 20 billion to $343 to $348 billion
- Contain gold imports by another $5 billion, so that it does not exceed $40 billion
- Produce more domestic coal so that thermal coal imports are lower by $2 to $3 billion in 2013-14 and through price reform cause net oil imports to be lower by $2 to $3 billion. In terms of quantity this roughly corresponds to 25 million tonnes of coal and 3 million tonnes of refined petroleum products.

- Push ITES exports and remittances up by an additional $4 billion to touch $145 billion in 2013-14 compared to $128 billion in 2012-13, that is, 13 per cent growth over 2013-14.

MANAGING THE CAPITAL ACCOUNT

106. With a large CAD of the order of $100 billion and above, managing the capital account becomes critically important. In 2012-13, we were able to finance the estimated CAD of $94 billion and there is absolutely no reason why we should not be able to do secure the financing of the $100 billion that may be the CAD in 2013-14. Stabilization of other macro-parameters, namely fiscal balance, inflation and the external value of the currency are critical to easing the inflow of capital. Supportive policy action that facilitates foreign investment and makes India more investment friendly will be helpful.

107. **Foreign Direct Investment (FDI)**: In the period from 2007-08 to 2009-10, annual inbound FDI ranged between $33–35 billion, while outbound FDI was $14–19 billion, with net FDI inflow of $15–19 billion. There was a sharp decline in inbound FDI flows in 2010-11 to $24 billion, while outbound investments continued at a high level of $16 billion. The net FDI inflow in 2010-11 was less than $8 billion. In 2011-12, inbound FDI picked up to touch $33 billion, while outbound FDI fell to $11 billion, and the net inflow was $22 billion. In 2012-13, the first nine months had inflows of $21 billion which was smaller than the $29 billion in the corresponding period of 2011-12. The outbound FDI was marginally smaller, and the net inflow of $15 billion in the first nine months of 2012-13 was significantly smaller than the $21 billion in the same period of the previous year. It is estimated that for the full year of 2012-13 the net inflow of FDI was $18 billion – $26 billion inbound and $8 billion outbound.

108. For 2013-14, we are projecting that with supportive policies it is possible to generate higher levels of inbound FDI flows of the order of $36 billion, comparable to four of the previous six years. Outbound FDI is also expected to increase, resulting in net FDI inflow of $24 billion.

109. **Portfolio Capital**: Inflows of portfolio capital – mostly through FII purchase of equity – was strong in the calendar year 2012. In the last quarter of 2011-12, portfolio inflows of $14 billion accounted for more than 80 per cent of the inflows during the financial year. In 2012-13, inflows were weak in the first quarter, but picked up in the second and third quarters, totalling more than $16 billion in the first nine months. For the year as whole portfolio inflows are estimated to be close to $24 billion.

110. In 2013-14, we have projected a level of inflow somewhat lower than that of the previous year. Maintaining this level will be mostly dependant on domestic policy stance and growth conditions. Abrupt weakening of international risk appetite can pose a problem, but at the moment crisis conditions are not expected.

111. **Loans**: This comprises mostly external commercial borrowings (ECB) and short-term loans that include trade credit and FII purchase of government securities and corporate debt on-shore. Overseas development assistance (ODA) is a small and the third component. A sizeable amount of ECB issued in the past is maturing. Hence, although gross issuance of ECB is large, at the aggregate level after factoring in maturity the net inflow is relatively modest, at $10 billion in 2011-12 and $4.5 billion in the first nine months of 2012-13. For the full year, expected net ECB inflow is estimated at around $7 billion. Short-term credit (including FII investment in debt securities) increased from $7 billion in 2011-12 to over $15 billion in the first nine months of 2012-13. For the full year the estimated inflow under this head is $20 billion. The total inflow under the head of loans was $28 billion in 2010-11 and is expected to be about $30 billion in 2012-13.

112. In 2013-14, aggregate inflow from loans is projected to rise further to $36 billion, on account of higher levels of both ECB and investment in debt securities.

113. **Banking Capital**: In 2011-12, of total banking capital inflows of $16 billion, NRI deposits accounted for $12 billion. In the first nine months of 2012-13, banking capital inflows were $20 billion, of which NRI inflows were $12 billion. The estimate for the full year is $24 billion, of which NRI deposits will account for $14 billion.

114. In 2013-14, total banking capital inflow is projected at $22 billion, of which NRI deposits are placed at $12 billion – the same level as that in 2012-13.

115. Total capital inflow in the first nine months of 2012-13 was $72 billion. For the full year it is assessed at $94 billion. The highest capital inflow into India was $108 billion in 2007-08.

116. The projection for 2013-14 is $100 billion, matching the base line case of the CAD. In order to ensure a measure of balance within individual quarters, and also to keep a cushion, it is necessary to target a level of capital inflows in 2013-14 of the order of $110–115 billion. This has to be in addition to the mutual swap lines of credit that the central bank has in place.

IV. EXTERNAL CONDITIONS, INFLATION & FISCAL SITUATION

INTERNATIONAL ECONOMIC CONDITIONS

117. Global economic and financial conditions remain troubled. The IMF, in its January 2013 Update to the World Economic Outlook (WEO), wrote:

> "Global growth is projected to increase during 2013, as the factors underlying soft global activity are expected to subside. However, this upturn is projected to be more gradual than in the October 2012 World Economic Outlook (WEO) projections. Policy actions have lowered acute crisis risks in the euro area and the United States. But in the euro area, the return to recovery after a protracted contraction is delayed….. At the same time, policies have supported a modest growth pickup in some emerging market economies, although others continue to struggle with weak external demand and domestic bottlenecks".

118. With respect to the projections made in the October 2012 WEO[3] , the IMF further scaled down its projections for global growth in the calendar year 2013 by 0.1 percentage point to 3.5 per cent. The downward adjustment was almost entirely on account of weaker expectations in advanced economies (reduced by 0.2 percentage points to 1.4 per cent), particularly in the Eurozone (reduced by 0.3 percentage points to -0.2 per cent). The projection for growth in the emerging & developing economies was scaled down by 0.1 percentage points to 5.5 per cent.

119. With the data for the completed calendar year 2012 now available, the actual outcome is worse than what the IMF estimated as recently as in December 2012 for its January 2013 Update. Growth in the Eurozone was (-) 0.6 per cent and in the USA 2.2 per cent, as against the Fund's estimate of (-) 0.4 per cent and 2.3 per cent respectively.

120. The deterioration in the fourth quarter in the Eurozone by (-) 0.9 per cent was much stronger and across-the-board - encompassing private final consumption expenditure, capital formation and inventories, with exports the only item showing

[3] In the October 2012 WEO, the IMF had marked down its April 2012 projections for global growth by 0.3 percentage points. That for advanced economies was scaled down by 0.3 percentage points, of which the Eurozone was reduced by 0.5 percentage points and emerging economies by 0.2 percentage points.

growth. This suggests that the Eurozone will continue to be troubled in 2013. In contrast, although growth in the last quarter of 2012 in the USA turned out to be weaker than expected, much of it derived from a large liquidation of inventories, while other components showed positive growth, and is suggestive of sustained recovery, even if at a pace slower than expected.

121. It would thus appear that in 2013, the Eurozone will continue to under-perform. However, overall economic conditions in 2013 may be better than they were in 2012 on account of the upturn in the USA and continued growth in the emerging & developing world, especially in Asia and Africa.

122. In international merchandise trade, the preliminary (and partial) data available from the World Trade Organization (WTO) suggests that export and import for the world as a whole was virtually flat in 2012. However, some regions and countries were able to generate growth in exports - such as North America (4 per cent), China (8 per cent), Turkey (13 per cent), Vietnam (18 per cent), Thailand (3 per cent) and Philippines (7.5 per cent). Countries which beat the trend of negative export growth were able to generate strong positive growth in the closing months of 2012 and have sustained it into the first one or two months of 2013 for which data are available.

DOMESTIC INFLATION

123. In its August 2012 Outlook, the Council had noted that primary food inflation remained elevated and "there continued to be some vulnerability in the area of primary food prices" and that a part of this was on account of price increases in rice and wheat that was in part the consequence of increases in the minimum support price (MSP) for paddy and wheat. It had projected average inflation for primary food articles in 2012-13 at 9.3 per cent, as against which the average for the first eleven months was slightly higher at 10.0 per cent.

Projections & Outcome

124. The August 2012 Outlook had noted that "inflation in energy prices have been around 10 to 14 per cent in the first three months of 2012/13, kept significantly suppressed because of the subsidies paid out on account of diesel and some other petroleum products. It is not likely that all of this subsidy will go, but it may be reasonably expected that some containment on this front would reflect itself in the price of energy - an outcome that has been built into the inflation projections made here. The projected average inflation in energy products is expected to be about 12 per cent for 2012/13 as a whole." As against this, the average rate of inflation for fuel in the period April-February 2012-13 was lower at 10.4 per cent.

125. In the August 2012 Outlook we had stated that "manufactured goods inflation is expected to average just below 5.0 per cent inflation over the year, while that of manufactured products other than manufactured food is likely to be lower". In the event, for the period up to February 2013, the average for the year was slightly higher at 5.5 and 5.0 per cent respectively.

126. The Council had expected WPI inflation headline rate "to average a little over 7 per cent, while that at the end of the year (March 2013) is expected to be less than 7 per cent in the range of 6.5 to 7.0 per cent". In the event, the average up to March 2013 (provisional) was 7.3 per cent and that for March 2013 (provisional) was 5.96 per cent.

127. The consumer price indices (CPI-IW and CPI-U & CPI-R) continue to report double digit inflation, including that for February 2013. The main factor in the divergence between the trends indicated by WPI and CPI is on account of the much larger weight of cereals and (mostly) primary food in the consumer price indices. The CPI-IW (base 1984-85) has a weight of 60 per cent for food, beverages & tobacco and the newer CPI-R and CPI-U have 59 and 37 per cent weights respectively. In addition, all of them include housing (23 per cent in CPI-U) and a range of other services. There is thus a lack of comparability in the numbers for any given time slice. However, the experience of previous years shows that whenever food price inflation subsides significantly, the CPI inflation rate tends to slip below that of the WPI.

Primary Food Inflation

128. In the case of primary food inflation, the principal driving force was the increase in the price index for wheat and rice which showed year-on-year increase of 21.6 and 18.8 per cent respectively in February 2013. However, even if wheat and rice are to be excluded, the inflation in the balance of primary food items was still high at 8.7 per cent in December 2012 (revised), and 9.5 per cent in February 2012 (provisional). An analysis of the price movement over the past two years suggests that a combination of increase in MSP over the period and a small decline in price in 2011-12 for wheat combined to deliver such high year on year price increase in late 2012-13. Open market sales of wheat from government stocks in 2012-13 are of the order of 7 million tonnes, more than six times higher than in the previous two years. The wheat price data from mandis show that there has been a small decline in average prices from Rs. 1,692 per tonne in November 2012 to Rs. 1,617 per tonne in March 2013. The price increase in vegetables was apparently high at 14.4 (Dec 2012) and 28.5 per cent (Jan 2013) respectively, but that was

largely a consequence of base effects as the price changes in these months of the previous year were (-) 34.6 and (-) 43.7 per cent respectively.

129. Prospectively, inflationary pressures from primary food - both grains (wheat, rice & coarse cereals) and perishables (vegetables, fruit, eggs, meat & fish) remain potent. Policies aimed at improving productivity, logistics and market access and reducing waste are going to play an important role in how price pressures build up in the coming year, as well as in the medium term.

Manufactured Goods Inflation

130. The inflationary momentum for manufactured goods has clearly abated. In the first half of 2012-13, the average[4] of 3-month annualized rate of inflation (without any deseasonalization)[5] was 7.2 per cent, as against the average of year-on-year rates of inflation of 5.7 per cent. In other words, the inflation in manufactured goods was trending upwards. This was the expected outcome of increasing wage & fuel cost pressures and a weakening currency. However, in the first five months of the second half of 2012-13 (Oct-Feb), the average of the 3-month annualized rate of inflation was only 2.0 per cent, much lower than the average of year-on-year rates of inflation of 5.6 per cent. In other words, inflation was trending down.

131. The same pattern is evident in manufactured goods, excluding manufactured food items. In the first half, the average 3-month annualized rate was 6.0 per cent, higher than the average of year-on-year rates (5.4 per cent), and in the second half, the 3-month annualized rate was 1.6 per cent, much lower than the average of year-on-year rates (4.4 per cent). Inflation was trending down and more energetically than for manufactured goods as a whole. That this happened in a period where the domestic currency weakened significantly underscores the relative lack of pricing power with companies and suggests stabilization in the inflation trajectory.

132. The sequential (3-month annualized rates) trend of decline in manufactured goods inflation is marked and consistent with the decline in net sales referred to in an earlier section, as also the slowing in the overall GDP growth rate.

[4] The quarterly or 3-month lagged rates for each month are annualized, thus yielding a set of six numbers of the six month period in question. The average reported is the average of these six numbers.

[5] The assumption being that seasonal effects are small in manufactured goods and even less when manufactured food items are removed from the basket.

Outlook for 2013-14

133. It would be desirable to see the Wholesale Price Index (WPI) headline number continue to weaken into 2013-14, but that may not happen. Corrections have to be progressively made to administered products - refined petroleum products, fertilizers and electricity. The minimum support prices (MSP) of important foodgrains, particularly rice (paddy) and wheat may also see upward revision on account of input cost increases, with attendant impact on the market price of wheat and rice. The supply chain for perishable food products still remains incomplete, as also the reform of their market structures. The combination of these factors will tend to keep primary food and energy inflation on the higher side and, therefore, also of manufactured goods in general, but at lower levels.

134. On the other hand, as we have seen, the sequential momentum and direction of inflation has clearly moved down for manufactured prices. If the currency stabilizes, and trade balances improve somewhat, weaker manufactured goods inflation can be reasonably expected, and that will have a dampening impact on the overall domestic headline rate. We see the headline inflation moving around 6.0 per cent, with primary food inflation around 8 per cent, fuel at about 11 per cent and manufactured goods at around 4 per cent.

MONETARY POLICY

135. Over the past few years, the RBI has tightened monetary policy to curb inflation. The policy rate (repo) was raised thirteen times between March 2010 and October 2011, involving an increase of 375 basis points from 4.75 to 8.50 per cent. The RBI took a pause after October 2011, in line with the decline in headline WPI inflation from 10 to below 8 per cent and the sharp decline in output growth. It cut rates by 50 bps in April 2012 and lowered rates twice by 25 bps on each occasion in January and March 2013, bringing the repo rate down to 7.50 per cent.

136. Consistent with monetary tightening, the RBI has maintained tight liquidity. Though it has reduced the cash reserve ratio (CRR) by 200 bps between January 2012 and February 2013 to 4.0 per cent, and the statutory liquidity ratio (SLR) from 25 to 23 per cent, liquidity conditions have been extremely tight. The primary mode of liquidity operation has been the overnight repo (lending) window. In 2011-12, the median daily borrowing by banks was Rs 87,083 crore, and in one quarter of days it was in excess of Rs 121,400 crore. In 2012-13, the median overnight repo

was Rs 76,173 crore, and in one quarter of days it was in excess of Rs 109,500 crore. Such consistently tight liquidity and volume of overnight borrowings suggest that there is a need to look at alternative instruments.

137. As we have previously noted, headline inflation has eased, and the process of fiscal consolidation is ongoing. The central bank has some elbow room in its choice of the pace at which it may seek to adjust the monetary stance, bearing in mind how inflation behaves in subsequent months. In regard to other conditions that have a material bearing, domestic growth conditions suggest more easing, but on the other hand the external payments situation also needs to be borne in mind. However, it is the pace at which the adjustments are made that is critical and it is difficult to anticipate this.

138. Aggregate deposit growth in 2012-13 improved moving up to 14.3 per cent in the last fortnight of March 2013, as compared to 13.5 per cent in the same period of the previous year. However, bank credit growth in 2012-13 at 14.1 per cent is lower than in the previous year (17.0 per cent) - possibly due to a combination of weaker credit demand, tight liquidity and a slight weakening of credit quality perceptions. The expansion of net bank credit to government in 2012-13 dropped to 13.8 per cent, compared to 18.6 per cent in the previous year, reflecting improvement in fiscal conditions.

FISCAL SITUATION

139. The consolidation process of the finances of the Centre and States saw the combined fiscal deficit of the Centre and the State governments decline from 9.9 per cent of GDP in 2001-02 to 4.0 per cent in 2007-08. The fiscal stimulus used to counteract the effects of the global crisis saw this rise to 8.3 per cent in 2008-09 and then to 9.4 per cent in 2009-10. The course was reversed in 2010-11, but the level remained high at 8.0 per cent (on the basis of RE). The estimate for 2011-12 is 6.9 per cent on the basis of budget estimates, and from what we know of the revised estimates of the Centre and some States, the actual figure should be closer to 7 per cent of GDP.

140. The fiscal deficit, of the Centre in particular, has gone up primarily due to the fact that the fiscal stimulus given in 2008 impacted the Centre more than the States. Therefore, while the combined deficit at 7 per cent is not far off the desired trajectory of 6 per cent, the fiscal deficit of the Centre at 5.2 (RE) per cent of GDP is well above the desired level of 3.0 per cent required for a sustainable debt stabilization path.

141. The slowing down of the economy in 2011-12 and 2012-13 adversely impacted the generation of tax revenue, and also constrained the collection of non-tax revenue, particularly what was expected from spectrum sale, though there were other factors also at work. However, a major factor hampering fiscal consolidation was burgeoning subsidies, in particular petroleum subsidies.

142. The open-ended nature of petroleum subsidies resulted in an explosive increase in subsidy burden. Total Central subsidies increased from Rs. 173,420 crore (2.2 per cent of GDP) in 2010-11 to Rs 257,654 crore (2.6 per cent of GDP) in 2012-13. However, non-petroleum subsidies actually dropped marginally from 1.7 per cent of GDP in 2010-11 to 1.6 per cent in 2012-13 (RE). The increase in non-oil subsidies between 2010-11 and 2012-13 (RE) was 19 per cent. The increase in petroleum subsidies over the same period was 152 per cent. As a proportion of GDP this subsidy item went up from less than 0.5 per cent in 2010-11 to 1 per cent in 2012-13 (RE).

143. The reform of the petroleum subsidy regime is therefore central to fiscal consolidation. The various steps taken towards this objective since September 2012, including price reform and the move towards direct benefit transfer, are of singular importance.

144. Table 8, where a comparison is made of the BE & RE for 2012-13 and BE for 2013-14, clearly highlights the tough measures taken in 2012-13 to achieve consolidation in the face of large shortfalls in revenue as compared to BE through control of expenditure. In the second part of the table, the break-up of total, principal and various components of subsidies are given for each of the years since 2010-11.

145. In 2013-14, as growth gradually recovers, tax collections may also be expected to improve. Indeed, the period from November to February 2012-13 saw growth in

gross tax collections improve to 18.4 per cent, suggesting that the 2013-14 BE target of 19 per cent gross tax revenue growth is realizable, especially in the context of improved growth conditions.

146. 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.

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

Table 8

Some Highlights of Revenue & Expenditure - Central Government

Unit: Rs crore

	2012-13		2013-14	
	BE	RE	Change (RE-BE)	BE
Gross Tax collections	1,077,611	1,038,037	**–39,574**	1,235,870
Net Tax to Centre	771,070	742,115	**–28,955**	884,078
Non Tax Revenues	164,614	129,713	**–34,901**	172,252
Total Revenue Receipts	935,684	871,828	**–63,856**	1,056,330
Plan Expenditure	521,025	429,187	**–91,838**	555,322
Non Plan Exp excl Principal Subsidies	790,346	753,784	**–36,562**	889,003
Principal Subsidies	179,554	247,854	68,300	220,972
Total Expenditure	1,490,925	1,430,825	**–60,100**	1,665,297
Gross Financing Gap	543,591	544,924	1,333	598,313
Fiscal Deficit	513,591	520,924	7,333	542,499

Composition of Subsidies				
	2010-11	2011-12	2012-13 RE	2013-14 BE
Total Subsidies	173,420	217,941	257,654	231,084
Principal Subsidies	164,516	70,013	65,974	65,972
Petroleum Subsidies	38,371	68,484	96,880	65,000
Total excluding Petroleum subsidies	135,049	149,457	160,774	166,084

V. CONCLUSIONS

148. 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.

149. The fact that even today savings and investment rates are at high levels reassures us that if we are able to smoothen the way to project completion and fruition, we will be able to usher in rapid growth in income. 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.

150. 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.

151. 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.

152. Clearly, a variety of initiatives are needed to address the various weaknesses that presently threaten the country's growth story, and with it the promise of improved livelihoods and prosperity for the people. These initiatives supplement what has

already been said in the previous chapter. Some of these were mentioned in the August 2012 Outlook, but they remain relevant, even if the priorities and prospects have changed a little in the interim.

153. **Project Clearance:** The constitution of the Cabinet Committee on Investment has come about after other modes of gaining traction on this front were found inadequate. The Union Budget underscored the vitally important role that this initiative can play in addressing the foremost obstacles in the path of improving growth and investment conditions. Some progress has been made, but more will need to be done in the coming months so that projects can be completed speedily, and new investment facilitated.

154. **Reducing the CAD:** Lowering the magnitude of the CAD is extremely important. Net oil imports and gold are the two most problematic elements on the import side, accounting in a sense for the bulk of the increase in the merchandise trade deficit. These are not normal commodities - demand for gold is an asset and behaves like one, while the net oil import bill is one where we are price takers on the one side, and where large subsidies have elevated demand on the other. The changes made over the past seven months have already resulted in lower growth of domestic consumption, underscoring the importance of completing of price and subsidy reforms in petroleum products. It is also vitally necessary to encourage exports, of both merchandise and services. Where administrative and other streamlining of policies can be of assistance, this must be completed.

155. **Managing the Capital Account:** The rectification of the CAD will take more than a single year. In the interim it is important to ensure that the CAD is comfortably financed. To that extent, capital inflows will need to be encouraged and, if necessary, procedures streamlined. This is of course over and above the many tangible and intangible benefits that the economy draws from foreign investment, especially of the FDI kind.

156. **Improving Net Energy Availability:** The close link between our dependence on imports of oil and natural gas and our external payments situation must once again be underscored. It is therefore important that steps are taken to improve the country's energy economy in all aspects, be it production, transformation or final use. In this connection, aside from price reform, facilitating the increase in domestic coal production can make a big difference both in the short and medium term. We must improve the conditions for exploration & production of hydrocarbons (including shale and other unconventional oil & gas), in the medium term to improve domestic supply.

157. **Containing Inflation:** While the momentum of inflation has reduced over the past year, the level of inflation in primary food articles remains at uncomfortably high levels, which is reflected in continuously high levels of CPI. The rate of inflation in manufactured goods has fallen off sharply as discussed previously, although the danger of a fresh spike from wage and other cost pressures remain, as long as primary food inflation remains elevated. 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 level lower than that which obtains presently.

158. **Reforms in Agricultural Marketing & Supply Chains:** 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. This has often denied farmers a decent price, and increased it excessively for the urban consumer, besides sustaining wasteful practices. In order to meet the increased demand for perishable farm produce - vegetables, fruit, eggs, meat and fish - at a stable price that is rewarding to both the farmer and the consumer, the supply chain needs to be modernized and regulatory obstacles in the way cleared. The linkage to managing primary food inflation in this regard is self-evident.

159. **Moving Savings Products:** This is an area that needs urgent redress. We have traditionally looked at government intervention in the financial space as "market development" where regulation and the expansion of the market are supposed to go hand in hand. However, over the past few years there have been serious setbacks in the distribution of savings products, especially mutual funds and life insurance. One of the many positive results of this was that domestic financial institutions (DFI) came to be important players in our capital markets, as were Foreign Institutional Investors (FII). 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 per cent in 2010-11 and 2011-12, after strong growth in previous years. The spurt in the demand for gold as an investment vehicle is not unrelated to the declining return on these assets.

APPENDICES

Appendix Table 1

Performance of Exports – Destination-wise

Region/Countries	Year on Year rate of change						Export Share	
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Apr-Jan 2013	2006-2007	Apr-Jan 2013
1) Europe	**29.0**	**12.8**	**-8.4**	**29.5**	**15.8**	**-6.0**	**22.9**	**18.9**
1.1 EU Countries	**28.7**	**13.9**	**-8.4**	**27.8**	**14.2**	**-7.2**	**21.2**	**17.0**
Belgium	21.0	6.5	**-16.1**	53.9	23.8	**-27.2**	2.8	1.8
Denmark	8.4	17.5	**-0.6**	19.0	9.7	**-7.6**	0.4	0.2
France	23.6	16.2	26.4	36.4	**-12.5**	10.2	1.7	1.7
Germany	28.5	24.7	**-15.3**	24.7	17.7	**-12.1**	3.2	2.4
Greece	**-20.9**	65.6	**-48.5**	**-19.4**	116.5	**-67.4**	0.5	0.1
Italy	9.2	**-2.3**	**-11.1**	33.9	7.3	**-13.5**	2.8	1.5
Netherlands	96.3	20.9	0.8	20.0	19.2	12.6	2.1	3.6
Spain	22.1	10.7	**-20.0**	26.4	16.9	**-5.7**	1.5	1.0
United Kingdom	19.3	**-0.8**	**-6.4**	17.1	17.9	**-3.2**	4.4	2.9
1.2 EFTA	**34.6**	**32.1**	**-29.2**	**14.2**	**53.5**	**-1.5**	**0.5**	**0.5**
Switzerland	31.4	25.2	**-23.4**	17.0	58.8	10.0	0.4	0.4
1.3 Other European Countries	**32.0**	**-16.9**	**7.5**	**74.3**	**28.9**	**9.5**	**1.1**	**1.4**
Turkey	32.0	**-19.2**	8.6	78.6	29.0	8.9	1.0	1.3
2) Africa	**38.2**	**4.4**	**-9.3**	**46.8**	**25.2**	**18.2**	**8.1**	**9.9**
2.1 S. African Customs Union	**20.0**	**-20.6**	**0.2**	**88.5**	**19.1**	**6.2**	**1.8**	**1.8**
South Africa	18.7	**-25.6**	3.9	90.1	20.9	6.1	1.8	1.7
2.2 Other South Afr. Countries	**62.5**	**11.1**	**17.2**	**33.8**	**-12.2**	**46.9**	**0.4**	**0.7**
2.3 West Africa	**41.5**	**-3.0**	**-6.6**	**37.0**	**50.4**	**1.7**	**1.9**	**2.2**
Ghana	70.9	**-32.4**	**-27.4**	48.5	38.0	**-8.3**	0.4	0.3
2.4 Central Africa	**26.6**	**49.4**	**-9.2**	**33.0**	**52.2**	**26.8**	**0.2**	**0.3**
2.5 East Africa	**43.2**	**7.0**	**-22.1**	**52.2**	**23.3**	**31.9**	**2.3**	**2.9**
Kenya	21.0	**-14.0**	6.6	50.3	4.4	85.5	1.0	1.4
Mauritius	47.5	**-7.5**	**-55.0**	88.3	64.0	**-15.7**	0.6	0.4
Tanzania	103.9	78.8	**-12.4**	60.2	9.5	13.5	0.2	0.6
2.6 North Africa	**42.4**	**29.0**	**-8.7**	**27.5**	**17.8**	**25.1**	**1.5**	**2.0**
Algeria	**12.6**	**73.2**	**-12.1**	**36.2**	**6.9**	**30.2**	0.3	0.4
Egypt	83.3	21.5	**-17.4**	41.2	22.2	28.2	0.6	1.0
3) America	**14.2**	**3.7**	**-6.3**	**37.3**	**36.8**	**9.3**	**19.2**	**18.8**
3.1 North America	**10.1**	**2.6**	**-8.3**	**29.6**	**38.5**	**9.1**	**16.2**	**14.1**
Canada	14.1	7.7	**-17.7**	20.1	52.2	2.8	0.9	0.7
Mexico	10.5	11.3	**-9.6**	53.1	49.8	19.7	0.4	0.6
U S A	9.9	2.0	**-7.6**	29.5	37.4	9.0	14.9	12.9
3.2 Latin America	**36.2**	**8.5**	**1.8**	**66.1**	**31.7**	**10.1**	**3.0**	**4.6**
Bahamas	**-71.3**	**-87.3**	nm	145.9	3.2	12.6	0.0	0.9
Brazil	74.3	5.0	**-8.9**	66.7	43.4	8.9	1.1	2.1
Colombia	32.0	**-51.3**	5.1	44.3	59.0	5.3	0.5	0.3

Appendix Table 1 (cont'd)

Performance of Exports – Destination-wise

Region/Countries	Year on Year rate of change						Export Share	
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Apr-Jan 2013	2006-2007	Apr-Jan 2013
4) Asia	**33.5**	**14.1**	**0.2**	**36.4**	**20.2**	**-1.1**	**48.4**	**50.8**
4.1 East Asia (Oceania)	**-4.7**	**24.2**	**-3.6**	**48.2**	**12.4**	**3.9**	**1.2**	**1.0**
Australia	24.6	24.9	**-3.8**	23.7	44.6	2.2	0.7	0.8
New Zealand	**-67.9**	18.8	35.3	**-25.3**	32.0	25.1	0.4	0.1
4.2 ASEAN	**30.2**	**16.6**	**-5.4**	**41.5**	**43.2**	**-11.5**	**10.0**	**11.0**
Indonesia	6.5	18.3	19.7	86.1	17.1	**-14.3**	1.6	1.8
Malaysia	97.3	32.8	**-17.1**	36.5	2.8	1.3	1.0	1.3
Philippines	6.8	19.9	0.7	17.7	12.7	16.1	0.5	0.4
Singapore	21.9	14.4	**-10.1**	29.4	71.2	-18.1	4.8	4.8
Thailand	25.3	7.0	**-10.2**	30.7	30.2	23.3	1.1	1.2
Vietnam	63.3	8.0	5.8	44.2	40.3	**-0.1**	0.8	1.3
4.3 West Asia- GCC	**32.9**	**47.6**	**-5.1**	**39.4**	**6.8**	**13.2**	**13.0**	**17.0**
Kuwait	10.9	17.0	**-1.9**	137.2	**-36.3**	**-16.5**	0.5	0.4
Oman	48.9	**-17.1**	32.6	5.2	21.7	118.8	0.5	0.8
Saudi Arabia	43.2	37.7	**-23.5**	19.9	21.3	74.3	2.0	3.2
United Arab Emirates	30.1	56.5	**-2.1**	41.1	6.2	1.7	9.5	12.2
4.4 Other West Asia	**23.8**	**3.1**	**-6.5**	**35.0**	**22.9**	**13.4**	**3.8**	**3.7**
Iran	34.4	30.4	**-26.9**	34.5	**-3.3**	13.4	1.1	1.0
Iraq	33.4	60.8	9.1	42.1	12.7	86.4	0.2	0.4
Israel	21.3	**-9.1**	35.0	48.3	38.4	**-8.3**	1.0	1.3
Yemen Republic	**-14.6**	**-22.1**	**-7.6**	**-29.3**	42.1	117.5	0.9	0.5
4.5 NE Asia	**36.5**	**-4.0**	**13.6**	**29.0**	**21.5**	**-12.7**	**15.4**	**13.3**
Taiwan	89.6	**-13.3**	24.8	22.6	45.5	**-11.1**	0.7	1.1
China	30.6	**-14.0**	24.2	33.3	16.8	**-26.0**	6.6	4.6
Hong Kong	34.7	5.4	18.5	30.8	25.3	**-6.8**	3.7	4.0
Japan	34.5	**-21.6**	20.0	40.3	24.3	4.8	2.3	2.1
Korea, South	13.6	38.2	**-13.4**	9.0	16.8	**-0.2**	2.0	1.5
4.6 South Asia	**48.9**	**-11.1**	**-2.1**	**39.0**	**14.0**	**7.5**	**5.1**	**4.8**
Bangladesh	79.4	**-14.6**	**-2.6**	33.2	16.8	39.0	1.3	1.7
Nepal	62.5	4.2	**-2.3**	41.4	25.5	7.8	0.7	1.0
Pakistan	44.5	**-26.2**	9.3	29.6	**-24.4**	17.1	1.1	0.6
Sri Lanka	25.3	**-14.3**	**-9.8**	60.4	24.8	**-18.1**	1.8	1.2
5) CIS & Baltic	**17.6**	**10.6**	**-12.3**	**58.9**	**14.1**	**18.4**	**1.2**	**1.2**
Russia	4.1	16.6	**-10.5**	72.3	5.3	27.1	0.7	0.8
6) Unspecified Region	**56.3**						**0.3**	**0.4**
Total	**29.0**	**13.6**	**-3.5**	**40.5**	**21.8**	**-4.4**	**100**	**100**

Note : Countries with share of 0.4 per cent and above listed separately above 'nm': denotes number too large.

Source : DGCI&S

Appendix Table 2

Imports Market Wise Growth – Source-wise

Region/Countries	Year on Year rate of change						Import Share	
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Apr-Jan 2013	2006-2007	Apr-Jan 2013
1) Europe	**28.4**	**11.0**	**-2.7**	**27.8**	**30.4**	**-8.1**	21.6	17.4
1.1 EU Countries	**28.8**	**11.1**	**-10.1**	**15.9**	**31.3**	**-8.3**	16.1	10.9
France	48.7	**-26.1**	**-9.5**	**-11.6**	17.1	2.2	2.3	0.8
Germany	30.9	21.5	**-14.1**	15.2	36.9	**-10.6**	4.1	3.0
Italy	46.0	**13.3**	**-12.8**	10.2	27.5	**-6.6**	1.4	1.1
Netherlands	66.3	**-0.6**	11.2	**-13.0**	44.2	12.6	0.6	0.6
Sweden	10.1	**-8.3**	**-18.6**	1.8	23.0	**-10.1**	1.0	0.4
United Kingdom	18.6	18.5	**-24.0**	21.0	42.1	**-14.5**	2.2	1.9
1.2 EFTA	**15.0**	**13.9**	**20.2**	**65.0**	**29.0**	**-8.2**	**5.3**	**6.2**
Switzerland	6.7	21.6	23.8	68.7	30.7	-8.9	4.9	6.0
1.3 Other European Countries	**335.6**	**-10.9**	**8.4**	**-47.6**	**24.9**	**8.6**	0.2	0.2
2) Africa	**39.1**	**20.8**	**3.6**	**24.8**	**35.4**	**2.6**	**7.9**	**8.8**
2.1 S. African Customs Union	**44.8**	**52.3**	**3.2**	**27.1**	**37.9**	**-19.1**	1.4	1.7
South Africa	46.0	52.9	2.9	25.8	39.7	**-19.6**	1.3	1.7
2.2 Other South African countries	**198.9**	**40.5**	**170.4**	**18.6**	**31.1**	**33.3**	**0.2**	**1.7**
Angola	318.8	35.3	206.1	20.5	29.6	27.8	0.1	1.6
2.3 West Africa	**18.9**	**14.9**	**-11.8**	**30.4**	**41.8**	**8.2**	**4.4**	**3.8**
Nigeria	8.6	16.9	**-18.1**	48.0	36.2	**-1.1**	3.8	2.8
2.4 Central Africa	**69.4**	**210.8**	**76.7**	**-83.1**	**11.5**	**121.4**	0.0	0.0
2.5 East Africa	**37.0**	**10.0**	**9.9**	**49.2**	**-7.4**	**75.7**	0.1	0.2
2.6 North Africa	**65.3**	**5.1**	**-15.9**	**20.3**	**26.5**	**-12.3**	1.8	1.4
Egypt	14.1	6.8	**-20.2**	**-20.0**	122.1	**-16.4**	0.9	0.5
3) America	**50.7**	**4.7**	**-4.9**	**23.1**	**26.7**	**25.0**	**10.6**	**11.6**
3.1 North America	**69.4**	**-6.2**	**-11.5**	**15.5**	**28.8**	**2.0**	7.7	6.3
Canada	11.6	24.1	**-14.7**	**-3.2**	42.8	**-14.0**	1.0	0.5
Mexico	49.5	45.1	**-39.2**	10.9	121.6	65.1	0.4	0.7
U S A	79.5	**-11.9**	**-8.6**	18.1	22.0	**-1.7**	6.3	5.0
3.2 Latin America	**0.5**	**53.5**	**13.5**	**39.4**	**23.0**	**69.8**	**2.9**	**5.4**
Argentina	3.5	**-45.0**	34.7	52.1	2.9	13.3	0.5	0.3
Brazil	**-4.3**	24.8	189.9	3.2	21.8	29.3	0.5	1.0
Chile	**-4.5**	**-18.1**	**-25.6**	38.5	32.8	25.8	1.0	0.5
Colombia	9.1	-79.2	nm	101.9	**-34.7**	197.8	0.0	0.4
Venezuela	**-47.9**	981.5	**-31.6**	80.5	28.0	113.8	0.4	2.7

Appendix Table 2 cont'd

Imports Market Wise Growth – Source-wise

Region/Countries	Year on Year rate of change						Import Share	
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Apr-Jan 2013	2006-2007	Apr-Jan 2013
4) Asia	**35.6**	**26.5**	**-6.7**	**29.2**	**35.2**	**-1.3**	**57.3**	**60.1**
4.1 East Asia (Oceania)	**10.3**	**41.1**	**10.5**	**-10.6**	**37.2**	**-19.3**	4.1	2.7
Australia	11.7	42.0	11.8	**-13.0**	38.0	**-18.9**	3.8	2.5
4.2 ASEAN	**25.2**	**15.6**	**-1.5**	**18.6**	**38.9**	**1.8**	**9.8**	**8.8**
Indonesia	15.3	38.3	29.9	14.6	47.4	**-0.8**	2.3	3.0
Malaysia	13.7	19.5	**-27.9**	26.0	46.5	10.7	2.8	2.2
Singapore	48.1	**-5.8**	**-15.7**	10.6	20.5	**-11.1**	3.0	1.5
Thailand	31.7	17.5	8.4	45.7	26.0	2.7	0.9	1.1
Vietnam	3.8	135.3	27.7	104.1	62.8	12.6	0.1	0.4
4.3 West Asia - GCC	**45.5**	**32.0**	**-10.1**	**40.0**	**34.0**	**8.4**	**16.7**	**21.8**
Kuwait	28.5	24.5	**-14.0**	25.0	58.8	8.9	3.2	3.5
Qatar	19.2	42.5	32.9	46.7	89.5	31.7	1.1	3.3
Saudi Arabia	45.8	2.6	**-14.4**	19.2	52.4	7.9	7.2	6.8
United Arab Emirates	55.8	76.5	**-18.0**	68.0	9.3	6.5	4.7	7.7
4.4 Other West Asia	**27.4**	**16.4**	**-7.5**	**7.8**	**52.0**	**-6.0**	**9.0**	**7.3**
Iran	43.6	13.1	**-6.8**	**-5.3**	24.1	**-1.8**	4.1	2.4
Iraq	24.0	12.8	**-8.9**	28.2	110.2	**-4.0**	3.0	4.0
Israel	32.0	46.6	**-9.8**	19.5	14.4	**-14.1**	0.6	0.5
Yemen Republic	**-27.3**	**-48.2**	108.8	10.7	**-44.2**	**-26.6**	1.1	0.2
4.5 NE Asia	**42.0**	**30.5**	**-8.5**	**42.3**	**29.5**	**-7.6**	**17.0**	**19.0**
Taiwan	42.9	19.6	**-8.9**	51.6	31.0	**-18.2**	0.9	0.9
China	55.3	19.7	**-5.1**	41.1	32.3	**-7.1**	9.4	11.2
Hong Kong	8.6	139.2	**-26.6**	98.9	13.1	**-32.9**	1.3	1.6
Japan	37.5	24.7	**-14.6**	28.2	40.2	4.5	2.5	2.5
Korea South	25.9	43.5	**-1.2**	22.1	25.0	6.4	2.6	2.8
4.6 South Asia	**40.5**	**-14.1**	**-8.8**	**31.1**	**20.0**	**0.6**	**0.8**	**0.5**
5) CIS & Baltics	**-1.9**	**75.0**	**-7.9**	**-7.2**	**47.2**	**17.4**	**2.1**	**1.9**
Russia	2.9	74.7	**-17.6**	0.9	28.5	**-4.3**	1.3	0.9
Ukraine	**-11.3**	74.1	3.6	**-11.0**	67.4	8.9	0.5	0.5
6) Unspecified Region	**117.9**						0.4	0.2
Total	**35.5**	**20.7**	**-5.0**	**28.2**	**32.3**	**0.5**	100.0	100.0

Note : Countries with share of 0.4 per cent and above listed separately above 'nm': denotes number too large.

Source : DGCI&S