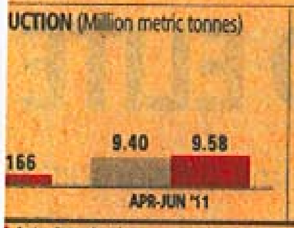
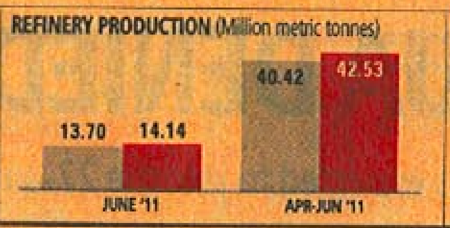
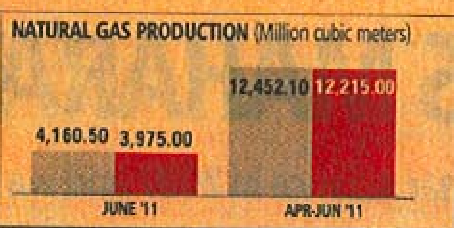






Actual production

Source: Ministry of Petroleum & Natural Gas/PTI

Export growth is going to continue for another three months till September

RAMU DEORA
FIEO President

PMEAC CUTS GDP ESTIMATE TO 8.2%

BS REPORTER
New Delhi, 1 August

The prime minister's economic advisory council (PMEAC) today lowered its economic growth projection for this financial year to 8.2 per cent, from 9 per cent pegged earlier.

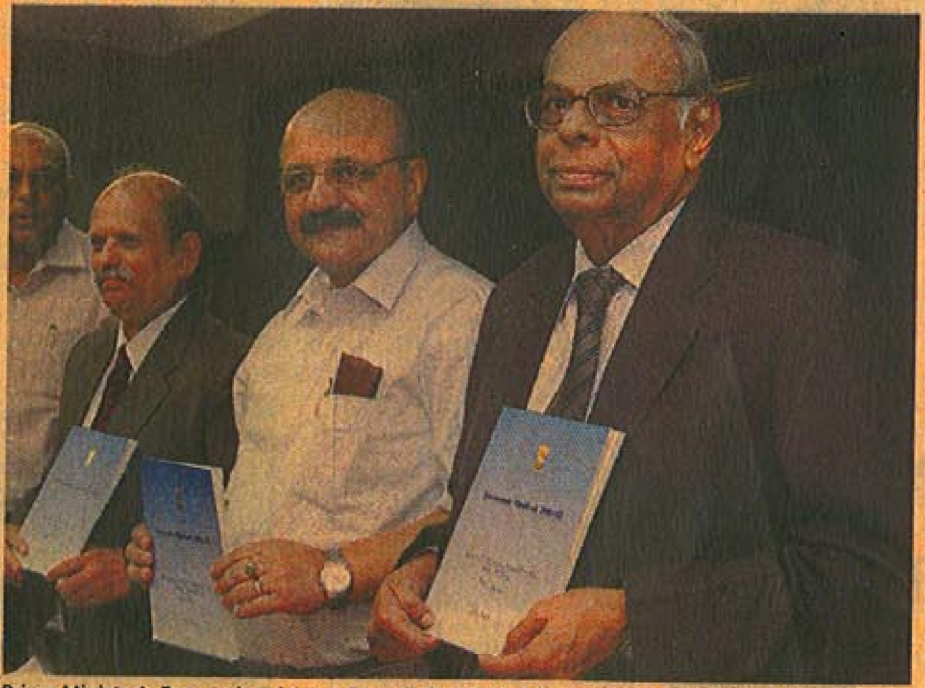
"The projected growth rate of 8.2 per cent, though lower than the previous year (8.5 per cent), must be treated as high and respectable, given the current world situation," PMEAC chairman C Rangarajan said. According to the council, the global economic and financial condition is unlikely to improve, which will not allow India to sustain the high growth in exports witnessed in the first quarter.

The PMEAC, in its economic outlook for 2011-12, said wholesale price-based inflation would remain high at 9 per cent till October and thereafter, it would ease to 6.5 per cent by the end of March. In June, it was at 9.44 per cent.

Manufacturing will not do well, as was expected earlier. In its February review, the council had pegged manufacturing to grow by 9 per cent, but today's outlook projected it to grow only by 7 per cent. As if to buttress the council's assessment, the HSBC Purchasing Managers' Index, released today, slipped to a 20-month low in July.

The industry sector, an overwhelming proportion of which comprises manufacturing, is estimated to grow 7.1 per cent this financial year, against 7.9 per cent in 2010-11. "Domestic industries are uncertain about their investments, because they feel, right or wrong, something is not moving... Surely, foreign investors will be doubly conscious," PMEAC member Saumitra Chaudhuri said.

Despite almost normal monsoon predicted for this financial year, the agriculture and allied sector growth is pegged at 3 per cent, down from 6.6 per cent recorded in the previous year. The high base effect was expected to pull down growth rates this financial year. Services are projected to grow at 10 per cent, compared to 9.4 per cent projected earlier.



Prime Minister's Economic Advisory Council chairman C Rangarajan (right) along with Saumitra Chaudhuri and M Govinda Rao, both members, at the press conference on 'Economic Outlook — 2011-12', in New Delhi on Monday. PHOTO: SANJAY K SHARMA

GROWTH GAZETTE

Year-on-year rates in % for 2011-12

	Review of the Economy (February 2011)	Economic Outlook (August 2011)
Agriculture	3.0	3.0
Industry	9.2	7.1
Services	10.3	10.0
GDP	9.0	8.2

GDP projection by other agencies (in%)

RBI	8.0	IMF	8.2
Finance Ministry	8.6	ADB	8.2
World Bank	8.0	NCAER	8.3

'Govt should restrict fiscal deficit at 4.6%'

Q&A

C RANGARAJAN
Chairman, PMEAC

Though the finance ministry expects the economy to grow at 8.6 per cent this year, the Prime Minister's Economic Advisory Council (PMEAC) has lowered the growth forecast to 8.2 per cent from nine per cent earlier. Chairman C RANGARAJAN told Vrishti Beniwal the revenue target might remain at the budgeted level and the focus should be on expenditure.
Edited excerpts:

What factors led you to revise the growth target?
Subsequent events have led us to revise our target growth rate downwards to 8.2 per cent from 9 per cent in February. The global situation has deteriorated since then and the environment is not conducive for rapid growth. The industrial production has also showed a decline.

What are the risks to the GDP growth this year?
It is dependent upon a reasonable monsoon. We think it will be a good monsoon this year. The other is the international economic situation. If it deteriorates further, we may have a problem. Otherwise, we think the target will be met.

What are the immediate areas of concern for the government?
Bringing inflation down to a comfortable level and maintaining the fiscal deficit are the major short-term challenges. These should be addressed well.so that the growth rate in industrial production and investment sentiments pick up.

Would it be possible for the government to meet its fiscal deficit target?
They should restrict the fiscal deficit at 4.6 per cent of gross domestic product. It is a difficult task, but appropriate policy decisions have to be taken.

When do you see inflation coming down?
By November, we should start seeing a decline in inflation. It also depends upon whether the trend has started or not. I mean the inflation may remain at a high level till November and then start declining.

What prescription would you offer to keep the current account deficit low?
We have projected a current account deficit of 2.7 per cent. I think that is a reasonable level of current account deficit, which can be financed by promoting foreign investment flows. Given our growth needs, a moderate trade deficit and current account deficit are inevitable.

Do you think the budgeted limit for expenditure might be breached due to a rise in subsidies?
They have certain expenditure pattern and we have to see whether that pattern can be maintained or not. There is some element of subsidy. (But) the rest of the expenditure should be maintained at the budgeted level. Also, some expenditure will come in future or the last quarter of the year. It may not necessarily be meant for the full financial year such as food security.

Should the government look at augmenting its revenues from different sources to compensate for any increase in expenditure?
I think they will meet the revenue target. Some expenditure may shoot up and to that extent, revenue augmentation will become important. We adjusted downwards excise duties in the wake of the slowdown. But a decision will be taken only when the fiscal deficit cannot be maintained at the budgeted level. In the medium term, introduction of the Goods & Services Tax and the Direct Taxes Code will help. GST can add to revenue growth if rates are properly chosen.

What should be the government stand on diesel decontrol and increase in petroleum prices?
We should go for diesel decontrol as a matter of policy, but whether it should be raised or not would depend on international prices. So long as crude prices do not show a rise, further adjustment in petroleum prices may not be necessary.

Have interest rates peaked or the Reserve Bank of India (RBI) may continue with a tight monetary policy?
RBI action will depend upon behaviour of inflation. We believe until such time when inflation shows definite signs of decline, the present tightening policy should continue.

By November, we should start seeing a decline in inflation. It also depends upon whether the trend has started or not

C RANGARAJAN
PMEAC Chairman

Manufacturing growth at 20-mth low...

BS REPORTER
New Delhi, 1 August

INDIA'S manufacturing growth fell to a 20-month low in July, due to more expensive inputs, according to the widely tracked HSBC's Purchasing Managers' Index (PMI).

The index was down to 53.6 points in July from 55.3 in June. In June, the index was at a nine-month low. If the PMI is above 50 points, it denotes growth; if it is below 50 points, it means negative growth and at 50 points, it implies flat growth.

According to a statement by financial information firm Markit Economics, which compiles the index, input prices rose substantially in July due to high raw material costs. The rate of input price inflation was also high, compared to June.

Manufacturers seemed to be absorbing this rise in cost, since the growth in pricing was much lower. The increase in both input and output prices remained elevated, compared to their respective long-run series averages.

New export orders contracted for the first time since May 2009, due to easing of demand from its major export destinations. The output expanded but the rate of increase slowed for the third successive month, the statement added.

The growth in purchasing activity also slowed on the back of weaker expansion in output.

Leif Eskesen, chief economist for India & Asean at HSBC, said the result confirmed that inflation pressure remained firmly in place, despite the ongoing moderation in growth. "The RBI will, therefore, have to maintain its tightening bias for a while still, to anchor inflation expectations," he said.

However, analysts said RBI's move to steeply raise policy rates may also stifle the growth rate further.

Already, core sector data for July showed that output for three of eight sectors — natural gas, fertiliser and coal — contracted.

...but June exports bring in some cheer

PRESS TRUST OF INDIA
New Delhi, 1 August

INDIA'S exports went up by 46.45 per cent to $29.21 billion in June, but the impressive growth rate may not be sustained into the second half of the year in view of uncertainty in the US and Europe. Merchandise exports aggregated to $19.94 billion in June, 2010.

Helped by an impressive rise in June, exports grew by a hefty 45.7 per cent to $79 billion in the first quarter of the current fiscal, according to commerce ministry data released today.

Though most of the sectors posted robust expansion — be it petroleum products, readymade garments, engineering or pharmaceuticals — Commerce Secretary Rahul Khullar has cautioned that news from the largest two markets — the US and Europe — "is far from cheerful... Summer is not over. It is still not going to be easy".

The US and Europe together account for about 35 per cent of the country's exports, which stood at $246 billion in 2010-11. "Export growth is going to continue for another three months till September. The growth trend will not be as good in the third and fourth quarters and will get restricted to around 35-40 per cent," Federation of Indian Export Organisations President Ramu Deora said.

Deora also expressed concern over high inflation and interest rates. The government is looking 25 per cent growth annually, so that exports touch $500 billion in 2013-14.

Though imports grew 42.4 per cent to $36.8 billion in June, the trade deficit of $7.6 billion was almost half the level of $14.9 billion seen in May, lessening concerns over the country's balance of payments situation.

In April-June, 2011-12, inbound shipments rose by 36.2 per cent to $110.6 billion, led by the import of $30.5 billion worth of petroleum products. The trade gap during the period stood at $31.6 billion. Oil and non-oil imports increased by 30 per cent and 47.8 per cent, respectively, during the month under review to $10.18 billion and 26.6 billion.

THE TRADE DEFICIT OF $7.6 BILLION was almost half the level of $14.9 billion seen in May