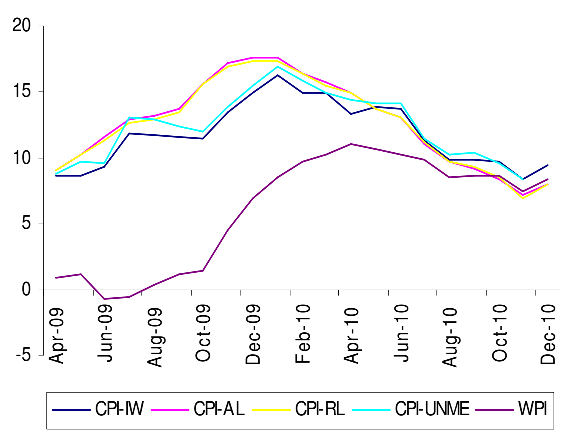
1 February 2011

Indian Economy - Fortnightly Update

Table 1: Key Indicators of Government Debt (% of BE)		
	Apr-Dec 09	Apr-Dec 10
Total Receipts	63.3	85.6
Tax Receipts	64.9	73.2
Non Tax Receipts	58.2	130.4
Non Debt Capital Receipts	155.1	69.4
Total Expenditure	69.3	71.0
Fiscal Deficit	77.3	44.9
Revenue Deficit	88.9	42.1
Source: CGA		

Table 2: CPI Inflation (YoY, in %)		
	Nov-10	Dec-10
CPI-Industrial Workers	8.33	9.47
CPI-Agricultural Labour	7.14	7.99
CPI-Rural Labour	6.95	8.01
CPI- Urban Non Manual Employees *	9.6	8.4
** CPI –UNME data for Oct-10 and Nov-10 respectively*		
Source: Labour Burea and, CSO		

Figure 1: CPI vs. WPI Inflation (in %)



Source: Labour Bureau, CSO and Commerce Ministry

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I. Fiscal deficit at 44.9% of BE

Fiscal Deficit of Central Government was noted at 44.9% of Budgeted Estimates (BE) in Apr-Dec 10, much lower than Apr-Dec 09 figures. Lower fiscal deficit is on account of increase in overall receipts. Surge in advanced tax flows coupled with rise in disinvestment and 3G auction proceeds have led to an overall rise in total receipts. Total receipts collected in the period Apr-Dec is the highest in FY 2010-11 in the last ten years.

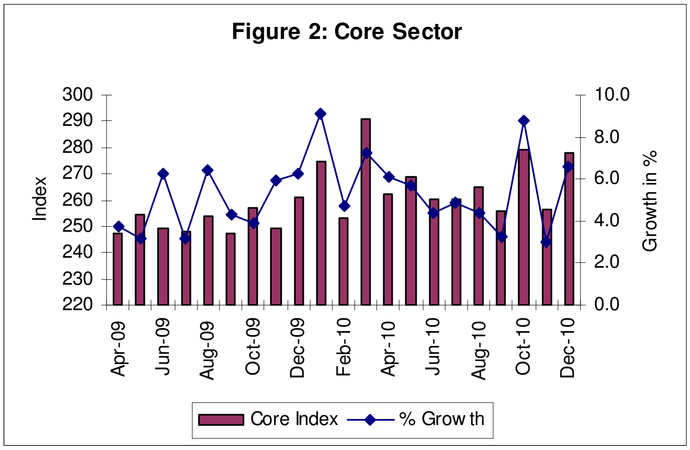
The expenditure level is higher in Apr-Dec 10 period compared to Apr-Dec 09. Within expenditure both revenue and capital expenditure are higher in Apr-Dec 10 compared to Apr-Dec 09. Despite high expenditure, market liquidity remains tight as overall receipts have been much better. The higher receipts have led to higher government deposits with RBI and tight liquidity conditions.

The spending usually picks up in last quarter of a fiscal year as government tries to meet the year-end targets. The liquidity situation should improve going ahead as around 30% of the spending (around Rs 3,20,000 Cr) comes into the system in the last quarter.

II. CPI widens in December

CPI inflation again rose in Dec-10 compared to Nov-10 levels. Rate of CPI inflation has been declining since Jul-10 levels. The inflation was higher tracking rise in prices of food articles. Food articles form a higher percentage of CPI inflation indices, leading to higher CPI inflation.

CPI indices surged significantly in the case of CPI-AL and CPI-RL which rose by 11 points from Nov-10 levels. CPI-IW index rose by 3 points from Nov-10 levels. The trend is similar to the one we saw in the case of WPI-inflation which widened as well in Dec-10 compared to Nov-10 levels.



Source: Commerce Ministry

III. Core industry trends remain volatile

Core industry index for Dec-10 was at 278 increasing from 256.7 in Nov-10. This implied growth of 6.6%, in Dec-10 compared to 3.0% in Nov-10 (Figure for Nov-10 was revised upwards from 2.7% to 3.0%). The index remains volatile with sudden declines in a month followed by gains in the next.

In Dec-10, electricity, coal and cement grew at a slower pace compared to Dec-09 growth rates. Steel, crude petroleum, petroleum refinery grew at a faster pace compared to Dec-09 growth rates.

Comparing Dec-10 from Nov-10 levels, we see rise in production of all the six sub-sectors. Electricity, petroleum refinery and cement declined in Nov-10 but the production levels have risen in Dec-10.

Overall, we again see sudden changes in core industry production levels compared to previous month. In Nov-10 we saw weak numbers and in Dec-10 the numbers have again recovered. There is a strong co-movement in core industry and IIP growth trends. IIP could surprise the markets by being higher than expected.

Table 3: GDP Growth (in %)

	Earlier	Revised
2005-06	9.5	9.5
2006-07	9.7	9.6
2007-08	9.2	9.3
2008-09	6.7	6.8
2009-10	7.4	8.0
Source: CSO		

IV. GDP growth revised upwards

CSO released the revised GDP estimates based on the new base year 2004-05. The data has been revised taking into account the new base year for WPI Inflation and subsequent revision of IIP growth. Agriculture production and government expenditure data has also been revised.

Based on the revised data, GDP growth for 2009-10 stands at 8%, revised upwards from 7.4% estimated earlier. For 2007-08 and 2008-09, growth rates have been revised marginally upwards as well.

In sector-wise classification, we get a mixed picture. Agriculture growth has been revised upwards in 2009-10 but shows (-) 0.1% in 2008-09 compared to 1.6% estimated earlier. In industry, we see lower revision in 2009-10 and upwards revision in 2008-09. In services we see higher revision in 2009-10 vs. lower revision in 2005-06.

In expenditure-wise classification, we see upwards revision in growth rates of all three major components in 2008-09 and 2009-10- private expenditure, government expenditure and investments.

The upwards revision of GDP data in 2009-10 points that Indian economy recovered more strongly from the crisis year growth of 6.8% (revised upwards from 6.7%). But much of this is because of the shift of WPI inflation base to 2004-05. This led to lower inflation from the 1993-94 series and led first to higher IIP and now to higher GDP data.

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