STCI
Primary Dealer Ltd

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Indian Economy Fortnightly Update

Key economic data released in previous fortnight (16-Oct-10 to 31-Oct-10)

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- Fiscal deficit between Apr-Sep 10 at 34.9% of Budgeted Estimates
- CPI inflation lower because of base effect
- Core Industry output lower at 2.5%
- Rabi Crops MSP revised upwards: Food inflation pressures unlikely to abate

I. Fiscal deficit between Apr-Sep 10 at 34.9% of Budgeted Estimates

Comptroller and Auditor General released the Government accounts for the month of September 2010. Fiscal Deficit was noted at Rs 1,33,252 cr or about 34.9% of Budgeted Estimates (BE). The fiscal deficit for Apr-Aug 10 period was at 39.7% of GDP. Hence, it has declined from August levels.

In September, the decline in fiscal deficit is on account of increase in tax receipts. The advanced tax flows have led to net tax flows worth Rs 94,915 cr in September, leading to total tax receipts in Apr-Sep10 period of Rs 233415 cr. Within taxes, corporate taxes increased by Rs 64,073 cr in Sep-10 leading to total corporate tax collection of Rs 123161 cr in Apr-Sep 10 period. This trend is expected to continue as corporate results have been in line with expectations. Income tax increased by Rs 16758 cr in Sep-10 leading to total income tax of Rs 56,480 cr in Apr-Sep 10 period.

However, higher receipt collections continue to be dampened by higher increase in expenditure. Expenditure is higher in Apr-Sep10 period compared to Apr-Sep 09 period in all sub-categories. Same trend was noted in Apr-Aug 10 period as well. The liquidity situation in markets has tightened significantly over last fortnight. One reason being discussed amidst market participants is that tight liquidity could be because government is not spending at the desired pace. However, the numbers so far show government spending is in line with trend and is actually higher than last year. The same trend is likely to continue in October as well. Hence, there is a need to evaluate other reasons for persistent tight liquidity in the system.

As revenue receipts (Tax and non-tax receipts) are expected to remain robust, the overall deficit might be lower than projected by government at 5.5% of GDP. Assuming the government follows the trend of spending in previous years, buoyant tax and non– tax revenues, the final deficit numbers could be around 5.2%-5.3% of GDP.

Table 1: Indian Public Finances (% of Budgeted Estimate)

		Apr- Sep 09	Apr-Sep 10
1	**Total Receipts (2+3+4)**	**40.5**	**55.6**
2	Tax Receipts	39.2	43.7
3	Non Tax Receipts	41.9	111.3
4	Non Debt Capital Receipts	123.5	14.4

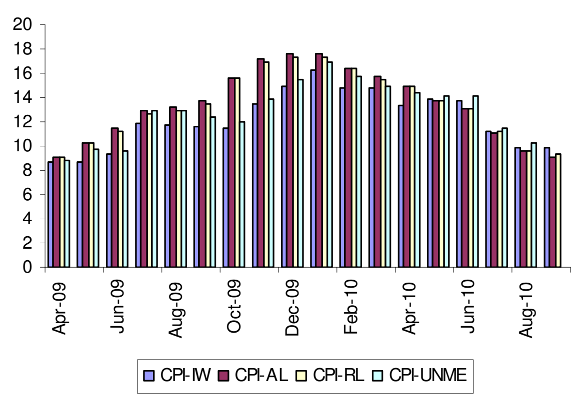
5	**Plan Expenditure (6+7)**	**39.0**	**45.5**
6	Plan Rev Exp	38.9	46.0
7	Plan Cap Exp	39.8	42.9
8	**Non Plan Expenditure (9+10)**	**46.3**	**50.1**
9	Non Plan Rev Exp	48.7	51.0
10	Non Plan Cap Exp	27.0	43.4
11	**Total Expenditure (5+8)**	**44.0**	**48.5**
12	**Fiscal Def (11 - 1)**	**49.3**	**34.9**
13	**Revenue Def {(6+9)-(2+3)}**	**58.4**	**27.1**
Source: CGA			

II. CPI inflation lower because of base effect

Labour Bureau (under labour ministry) released the data for three CPI Inflation indices- CPI-Industrial Workers (CPI-IW), CPI– Agriculture Labour (CPI-AL), CPI—Rural Labour (CPI-RL). For Sep-10, CPI-IW was at 9.82% (vs. 9.82% in Aug-10), CPI-AL at 9.13% (vs. 9.65% in Aug-10) and CPI-RL at 9.34% (vs. 9.66% in Aug-10).

Central Statistical Organisation (CSO) releases CPI for Urban Non Manual Employees (CPI-UNME). This is basically CPI for people working in services industry in urban centres. For Aug-10, CPI-UNME was noted at 10.3%, lower than 11.5% in Jul-10.

Figure 1: CPI Inflation (in %)



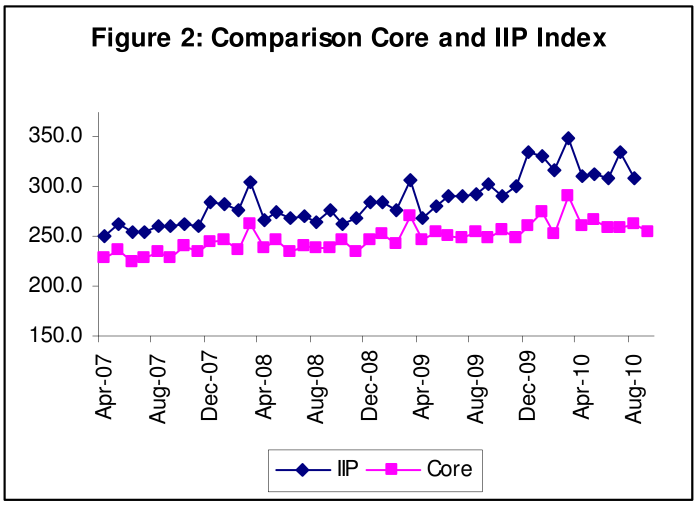
Source: Labour Bureau and Central Statistical Organisation

Barring CPI-UNME, the other three CPI Inflation numbers remain in single digits after remaining in double digits for more than a year. CPI-UNME has also trended lower after touching a high of 16.9% in Jan-10.

Despite a decline in CPI inflation trend, the CPI indices continue to increase sharply compared to previous month levels e.g. CPI-AL index increased by 5 points from 557 in Aug-10 to 562 in Sep-10, similar rise is seen in CPI-RL as well. The lower inflation trend is mainly on account of significant base-effect. Inflation surged around Jul-09 (Figure 1) as food prices increased because of poor monsoons last year. The indices increased much sharply then and as a result we don't see a similar rise in inflation trend now.

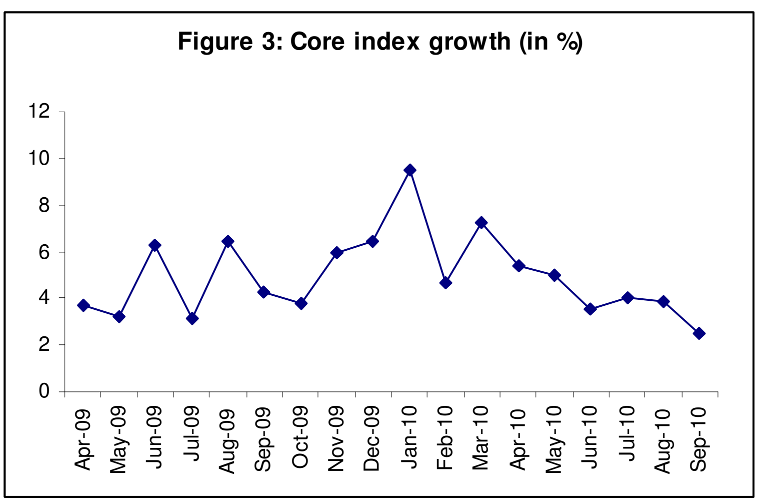
III. Core industry growth at 2.5%

Core industry index forms around 27% of the IIP index. It is released roughly 2-weeks before the IIP index and gives a precursor on the IIP trend likely to follow. Figure 2 compares the two indices and one can see that there is co-movement of both the indices.



Source: Commerce Ministry

Core industry index for Sep-10 was at 253.7 implying growth of 2.5%, lower than 4.3% in Sep-09. Figure 3 shows the growth has been trending lower since Mar-10.



Source: Commerce Ministry

Core index is further divided into six sub-sectors. In Sep-10 barring Steel, all the other five sub-sectors grew at a slower pace in Sep-10 compared to Sep-09 (Table 2). Coal and Petroleum refinery declined in Sep-10 compared to Sep-09 levels. The contraction in the refinery is due to the periodic shutdown of some refineries for maintenance.

Table 2: Growth in core index and its sub-sectors (in %)

	Sep-09	Sep-10	Apr-Sep 09	Apr-Sep 10
Core Index	4.3	2.5	4.5	4.0
Electricity	7.4	1.3	6.4	4.0
Coal	6.5	-2.0	11.7	0.3
Steel	0.8	5.8	1.7	3.9
Crude Petroleum	-0.5	12.5	-1.2	10.2
Petroleum Refinery	3.4	-10.2	-3.6	2.6
Cement	6.5	5.2	12.3	4.7

Source: Commerce Ministry

While comparing average growth rates in Apr-Sep period Steel, Crude Petroleum and Petroleum Refinery grew at a faster pace in Apr-Sep 10 compared to Apr-Sep 09. Whereas electricity, coal and cement grew at a slower pace in Apr-Sep 10 compared to Apr-Sep 09 period.

Overall, the trends are volatile as seen in the case of IIP index. With economy expected to grow at 8.5% and above levels, one should see consistent growth in these key industries. But we actually see lower growth in core index and are likely to see lower growth in IIP as well. The growth numbers might be lower in few months compared to previous month but this trend of negative growth in some sub-sectors remains a puzzle. It again leads us to the point we have been making in previous fortnightly report as well - the need to improve quality of economic data. Just like IIP, core index is also based on 1993-94 series and needs to be revised and updated to capture changes in Indian economy and industry in particular.

IV. Rabi Crops MSP revised upwards: Food inflation pressures unlikely to abate

Agricultural Ministry of India raised the Minimum Support Prices (MSP) of Rabi crop to be harvested in FY 2010-11 and marketed in FY 2011-12. Prices of key crops like wheat and key oilseed like Mustard have been revised upwards by Rs 20 per quintal.

Table 3: MSP for Rabi Season 2010-11 (Rs. per quintal)

Commodity	MSP for 2009-10	MSP for 2010-11	Change in MSP
Wheat	1100	1120	20
Barley	750	780	30
Gram	1760	2100	340
Masur	1870	2250	380
Rapeseed / Mustard	1830	1850	20
Safflower	1680	1800	120

Source; Ministry of Agriculture

Earlier, the ministry has revised the MSP for Kharif crops for 2010-11 upwards as well. MSP of food crops were raised upwards by Rs 40 to Rs 50 per quintal, Pulses by Rs 380 to Rs 700 per quintal and oilseeds by Rs 50 to Rs 200 per quintal.

The increase in MSP serves as a dilemma for Indian policymakers. One one hand, the government authorities incentivize farmers by raising MSPs and on the other hand, the higher MSPs lead to persistent rise in prices of food articles and food products.

Hence, despite expectations of a robust crop in Kharif 2010-11 season, one cannot expect prices of food to become lower as MSP of key crops is revised upwards. In some items like pulses the revision of MSP is significant and as a result we see continuous upwards pressure on prices of pulses.

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