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ECONOMY

CRISIL Insights

Through the monthly CRISIL Insights Economy series, we offer incisive analysis of macroeconomic parameters of the country. In the January issue, we predict India to grow at 6.7 per cent next fiscal and how this will be largely shaped by domestic factors.

View of the month: India to grow at 6.7 per cent in 2013-14

The year 2012 was challenging for the Indian economy. Growth fell to 5.4 per cent during the first half of 2012-13 because of adverse external factors (recession in the Euro zone and a weak recovery of the US economy) and an unfavourable domestic environment (delayed monsoons and lack of policy reforms). However, global economic prospects for 2013 have improved slightly. A temporary deal has been reached on the 'fiscal cliff' in the US and the probability of the Euro Zone slipping into a recession in 2013 seem less likely now. However, with the global economy expected to recover only marginally in 2013-14, India's growth will largely be shaped by domestic factors.

CRISIL Research expects India's GDP growth to pick up to 6.7 per cent in 2013-14 up from the 5.5 per cent forecast in 2012-13. The recovery will be driven by higher consumption growth rather than a strong upturn in investments. An improvement in agricultural growth (assuming a normal monsoon) to 3.5 per cent, up from the projected 0.6 per cent, for the current fiscal year, and its positive spill over to industry and services, could account for 60 per cent of the projected pick-up in GDP growth for 2013-14. The balance increase in growth may arise from lower interest rates and pre-election welfare spending by the government. With the easing of inflation, the RBI is likely to cut the repo rate by 75-100 basis points by March 2014, thereby lowering retail lending rates and boosting demand in interest-sensitive segments. We believe higher consumption growth and a mild recovery in exports will lift growth in industry and services to 5.4 per cent and 8.0 per cent, respectively, in 2013-14.

Our outlook on the Indian economy for 2013-14 is based on assumptions of normal monsoons in 2013 and marginally improved global outlook. If these assumptions fail to hold, they will pose significant downside risks to growth next year.

Gross Domestic Product	Industrial Production	Inflation
CAD reaches 5.4 per cent of GDP in 2Q13	Industrial output falls by 0.1 per cent in November	WPI-based inflation declines to 7.2 per cent in December

GROSS DOMESTIC PRODUCT

- Current Account Deficit (CAD) swelled to US$22.4 billion (5.4 per cent of GDP) in 2Q13. Merchandise exports contracted sharply by 12.2 per cent y-o-y in 2Q13, while imports contracted by 4.8 per cent.
- Capital and Financial Account (excluding change in foreign exchange reserves), on a net basis, recorded substantially higher inflows of US$ 23.9 billion in 2Q13, compared with US$ 16.1 billion in 1Q13.
- As a result of higher capital inflows, the rupee did not depreciate significantly in 2Q13 despite a record CAD of over 5 per cent of GDP.

INDUSTRIAL PRODUCTION

- Industrial output declined by 0.1 per cent in November on a relatively high base of 6.0 per cent growth a year earlier.
- Manufacturing output grew marginally by 0.3 per cent, while mining and quarrying output fell by 5.5 per cent in November. The capital goods output fell by 7.7 per cent, reflecting subdued corporate investment.
- Output of eight core infra industries grew by 1.8 per cent in November, compared with 6.5 per cent a month earlier. However, growth continued to decline due to a fall in production of coal, natural gas and cement, and deceleration in the growth rate of electricity, steel and refinery products.

INFLATION

WPI-based inflation declined to 7.2 per cent in December. Core inflation – as measured by non-food manufacturing inflation – declined for the fourth consecutive month and stood at 4.2 per cent in December.

- Double-digit inflation in primary food articles was spurred by 18.7 per cent inflation in food grains and a sharp increase in inflation of fruits and vegetables to 13.2 per cent in December.
- Inflation in manufactured products fell to 5.0 per cent in December from 5.4 per cent in November. CRISIL Core Inflation Indicator (CCII) also declined to 5.5 per cent in December from 5.7 per cent in November.

Interest Rate	Rupee	Trade
10-year G-sec yield falls below 8 per cent in early January	Rupee averages 54.7 per US$ in December	India's trade deficit declines in December

INTEREST RATE

- The 10-year G-sec yield averaged 7.93 per cent between 1 and 10 January 2013, down from 8.15 per cent in December 2012 due to the postponement of government borrowings, government's decision of borrowing through T-bills instead of long-dated papers and expectations of further buyback of OMOs.
- In December 2012, the yields on the 10-year government paper fell to 8.15 per cent from 8.20 per cent in November.
- Net daily deficit under LAF averaged around Rs. 1217.3 billion in December as against Rs. 919 billion in November, thereby tightening the liquidity crunch in the system.

RUPEE

- The rupee averaged 54.7 per US$ in December 2012, compared with 52.7 per US$ a year earlier. It ended the year 2012 on 54.8 per US$.
- On a monthly basis, the rupee appreciated by 0.2 per cent against the US$ in December over November. Volatility in the currency eased slightly in December as the rupee moved within a band of 54.2 per US$ and 55.1 per US$.
- Net FII inflows increased sharply in December to US$ 4.7 billion from US$ 1.8 billion in November. Net FII inflows in 2012 were US$ 30.1 billion, compared with US$ 8.3 billion in 2011.

TRADE

- India's merchandise exports for December 2012 were valued at US$ 24.9 billion, around 2.0 per cent lower than the year-ago period. On a cumulative basis, exports contracted by 5.5 per cent for April-December 2012.
- Imports increased 6.3 per cent in December 2012 over 2011. While, oil imports for December were lower than the previous month, non-oil imports were higher than the previous month.
- India's trade deficit declined to US$ 17.7 billion in December, mainly due to lower oil imports and improved exports. However, cumulatively exports for April-December 2012 were 5.5 per cent lower than same period last year.

Source: CRISIL Research

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CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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