

## **Highlight Economic Survey for the year 2011-12**

The Indian economy is expected to grow at 8.75-9.25% in financial year 2012 according to the Economic Survey for the year 2011-12 announced on Friday.

Robust growth and steady fiscal consolidation have been the hallmark of the Indian economy in the year 2010-11 so far. The growth rate has been 8.6% in 2010-11 and is expected to be around 9% in the next fiscal year.

The growth has been broad-based with a rebound in the agriculture sector which is expected to grow around 5.4%. Manufacturing and services sector have registered impressive gains. Savings and investment are looking up while exports are rising. However, food inflation, higher commodity prices and volatility in global commodity markets have been a cause of concern underscoring the need of fiscal consolidation and stronger reserves.

***Below are the highlights:***

### **On Growth**

- Indian economy to grow 8.75-9.25% in FY12
- Expect Indian econ to top 9% growth rate FY12
- Maintaining growth with price stability key challenge
- Seeing fast, strong turnaround in Indian economy
- India growth likely to revert to pre-crisis level FY12
- Expect India's economic growth to pick up medium-term
- Probability of second-dip recession very low
- FY11 GDP growth relatively broad-based
- Monsoon, crude prices pose risk to econ growth

### **On Inflation**

- Inflation is clearly a dominant concern
- Inflation may stay elevated on West Asia crisis
- Food price, demand pressure to drive inflation outlook
- Inflation largely driven by food items
- High food inflation "dark cloud" on Indian economy
- High food prices driven by demand factors
- Inflation pressure seen exacerbated by global prices
- Rising purchasing power aiding spurt in food prices
- Economic recovery triggered demand-side pressure in economy
- Inflation pressures from both domestic, global factors
- Core inflation suggests inflation now generalised
- Need to prevent inflation slipping into core sector
- Food inflation stubbornly in double-digits
- Inflation likely to moderate on fiscal, monetary steps

- Committed to provide cooking fuel at affordable price
- Plan to increase diesel prices in staggered manner
- Government to cap auto fuel prices if crude oil spurts
- April-December average inflation of 9.4% highest in 10 years
- High food inflation not unique to India
- Inflation significantly above RBI's comfort level
- Need to be vigilant against demand-side pressures
- Grain release in batches, not bulk, to tame inflation

### **On Fiscal Front**

- Centre's fiscal broadly on consolidation track April-December
- India FY11 fiscal gap seen 4.8% on higher GDP base
- India FY11 revenue gap seen 3.8% of GDP
- Current account gap likely to moderate on export spurt
- Need to lower fiscal deficit
- Liquidity crunch mainly due to large government cash balance
- Need more proactive fiscal steps to eradicate poverty
- Favours smart cards also for kerosene, fertiliser subsidy
- Buoyant tax revenue key driver of fiscal consolidation
- Rise in corporate, service tax mop-up noteworthy
- Prospects of revenue-led fiscal consolidation bright
- Better subsidy targeting improving fiscal management
- Direct Taxes Code proposed to be launched April 2012
- Tax buoyancy, 3G auction brightened FY11 fiscal health
- States likely to be back on fiscal consolidation FY12
- States' consensus on GST yet to be achieved
- Deepening reforms key to sustain fiscal consolidation

### **On Monetary Front**

- Need persistent anti-inflation monetary stance
- Government implementing gradual exit from stimulus
- Liquidity management major challenge for RBI
- Excessive cash crunch makes credit delivery difficult
- Need G20 co-operation to manage forex flow volatility
- RBI forex market intervention unlikely to be inflationary
- Don't want total reliance on import to beat shortages

### **On Banking, Financial Institutions**

- Minimum capital requirement for banks should be graded
- Two types of banking licences could be considered
- May mull separate licence for basic, full banking services

### **On Industry**

- Deceleration in industrial output cause for concern
- Slowdown in industrial growth seen temporary
- Medium-term industrial growth prospect seen positive
- Plan to increase diesel prices in staggered manner
- Government to cap auto fuel prices if crude oil spurts
- Committed to provide cooking fuel at affordable price
- Need to keep all options open if forex flows hurt economy

### **On Food Prices**

- Food price, demand pressure to drive inflation outlook
- Maintaining growth with price stability key challenge
- High food prices driven by demand factors
- Higher FY11 farm growth to help ease food prices
- Rising purchasing power aiding spurt in food prices

### **On Agriculture**

- Need to review grain release, procurement policies
- Don't want total reliance on import to beat shortages
- Ample scope for improvement in grain release policy
- Grain release in batches, not bulk, to tame inflation
- Urgent need to expand storage space, facilities
- Need to plug PDS slippages to expand, improve coverage
- Smart card, coupons to help target food subsidy better
- Favours smart cards also for kerosene, fertiliser subsidy

### **On Capital, Investment**

- Need to deepen capital markets
- "Sluggish" bureaucracy impeding FDI inflows

### **On External Affairs**

- Economic uncertainty prevails in Europe, US
- Probability of second-dip recession very low
- Need to keep all options open if forex flows hurt econ
- Slowdown in FDI partly offset spurt in FII investment
- Need G20 co-operation to manage FX flow volatility
- RBI forex market intervention unlikely to be inflationary
- "Sluggish" bureaucracy impeding FDI inflows

### **Miscellaneous**

- Direct Taxes Code proposed to be launched April 2012
- Tax buoyancy, 3G auction brightened FY11 fiscal health

- States likely to be back on fiscal consolidation FY12
- States' consensus on GST yet to be achieved

Speaking about it, Siddhartha Sanyal, Chief India Economist, Barclays Capital said the survey was on expected lines. He expects fiscal deficit at 5.3% of GDP in FY12.

"Nominal GDP is expected to come in at 14.5-15% for next fiscal," he said.