SUMMARY OF ECONOMIC SURVEY 2012-13

Indian economy is likely to grow between 6.1% to 6.7% in 2013-14 as the downturn is more or less over and the economy is looking up. Following the slowdown induced by the global financial crisis in 2008-09, the Indian economy responded strongly to fiscal and monetary stimulus and achieved a growth rate of 8.6 per cent and 9.3 per cent respectively in 2009-10 and 2010-11, but due to a combination of both external and domestic factors, the economy decelerated growing at 6.2% and an estimated 5% in 2011-12 and 2012-13 respectively. The Economic Survey 2012-13, presented by the Finance Minister Shri P. Chidambaram in the Lok Sabha predicts that the global economy is also likely to recover in 2013 and various government measures will help in improving the Indian economy's outlook for 2013-14. While India's recent slowdown is partly rooted in external causes, domestic causes are also important. The slowdown in the rate of growth of services in 2011-12 at 8.2%, and particularly in 2012-13 to 6.6 percent from the double-digit growth of the previous six years, contributed significantly to slowdown in the overall growth of the economy, while some slowdown could also be attributed to the lower growth in agriculture and industrial activities. But despite the slowdown, the services sector has shown more resilience to worsening external conditions than agriculture and industry. For improved agricultural growth, the survey underlines the need for stable and consistent policies where markets play an appropriate role, private investment in infrastructure is stepped up, food price, food stock management and food distribution improves, and a predictable trade policy is adopted for agriculture. FDI in retail allowed by the government can pave the way for investment in new technology and marketing of agricultural produce in India. Fast agricultural growth remains vital for jobs, incomes and food security.

The survey points out that the priority for the Government will be to fight high inflation by reducing the fiscal impetus to demand as well as by focusing on incentivizing food production through measures other than price supports. But unlike the previous year, when food inflation was mainly driven by higher protein food prices, this year the pressure has been coming mainly from cereals. On the Balance of Payments and External Position, the survey highlights that with net exports declining, India's balance of payments has come under pressure. Moreover, in the current fiscal, foreign exchange reserves have fluctuated between US$ 286 billion and US$ 295.6 billion, while the rupee remained volatile in the range of Rs 53.02 to Rs 54.78 per US dollar during October 2012 to January 2013.

The survey had a special chapter focusing on jobs. The future holds promise for India provided we can seize the "demographic dividend" as nearly half the additions to the Indian labour force over the period 2011-30 will be in the age group 30-49. India is creating jobs in industry but mainly in low productivity construction and not enough formal jobs in manufacturing, which typically are higher productivity. The high productivity service sector is also not creating enough jobs. As the number of people looking for jobs rises, both because of the population dividend and because share of agriculture shrinks, these vulnerabilities will become

important. Because good jobs are both the pathway to growth as well as the best form of inclusion, India has to think of ways of enabling their creation.

The survey calls for a widening of the tax base, and prioritization of expenditure as key ingredients of a credible medium term fiscal consolidation plan. This along with demand compression and augmented agricultural production should lead to lower inflation, giving the RBI the requisite flexibility to reduce policy rates. Lower interest rates could provide an additional fillip to investment activity for the industry and services sectors, especially if some of the regulatory, bureaucratic, and financial impediments to investment are eased. On financial sector reform, it takes note of the high level of gross NPAs (non-performing assets) of the banking sector which increased from 2.36 percent of the total credit advanced in March 2011 to 3.57 percent of total credit advanced in September 2012. The survey suggests that revival of growth will help contain NPAs, but more attention will have to be paid to whether projects are adequately capitalized up front given the risks. Expenditure on social services also increased considerably in the 12th Plan, with the education sector accounting for the largest share, followed by health. In the 11th Plan period nearly 7 lakh crorerupees has been spent on the 15 major flagship programmes. A number of legislative steps have also been taken to secure the rights of people, like the RTI, MGNREGA, the Forest Rights Act, AND THE Right to Education. However, the survey notes that there are pressing governance issues likeprogramme leakages and funds not reaching the targeted beneficiaries that need to be addressed. Direct Benefit Transfer (DBT) with the help of the Unique Identification Number (Aadhaar) can help plug some of these leakages. With the 12th Plan's focus on 'environmental sustainability', India is on the right track. However, the challenge for India is to make the key drivers and enablers of growth-be it infrastructure, the transportation sector, housing, or sustainable agriculture-grow sustainably.

Dr. Raghuram G. Rajan, Chief Economic Adviser, Ministry of Finance writes in an introduction to the Survey that these are difficult times, but India has navigated such times before, and with good policies it will come through stronger. Slowdown is a wake-up call for increasing the pace of actions and reforms. The way out lies in shifting national spending from consumption to investment, removing the bottlenecks to investment, growth, and job creation, in part through structural reforms, combating inflation both through monetary and supply side measures, reducing the costs for borrowers of raising finances and increasing the opportunities for savers to get strong real investment returns.