INDIA

The economy has slowed, with the weakness focussed in manufacturing and investment spending. Softening external demand, together with continued strength in imports, led to a widening current account deficit. Although inflation has moderated from double-digit rates it remains relatively high and expected increases in regulated prices of some oil-related products will add to price pressures which will continue to weigh on household consumption. This in turn will make the climate for investment less favourable. As a result, growth is expected to remain subdued through much of the year.

Monetary policy easing has begun but further action will be constrained by inflationary pressures and limited spare capacity. Fiscal slippage caused the central government budget deficit to rise in the 2011-12 fiscal year. The government plans modest fiscal consolidation this year, which would help reduce inflation, narrow the current account deficit and promote more balanced growth. However, spending pressures, notably on subsidies, are again likely to result in overruns.

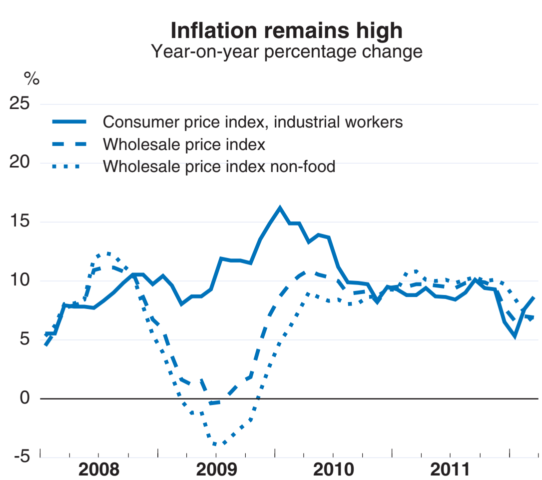
Growth has slowed but may have bottomed out

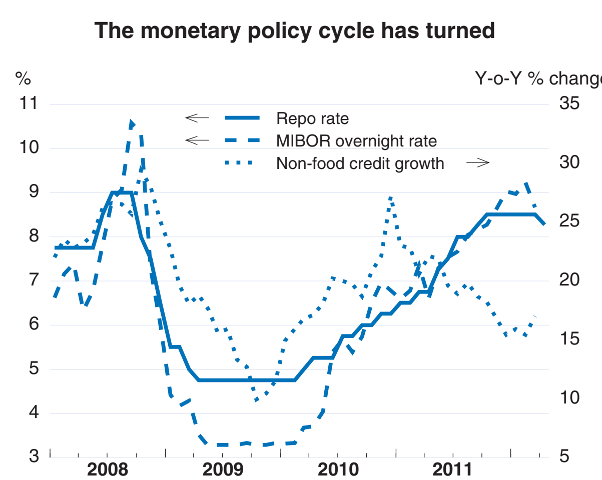
Growth slowed markedly through the 2011-12 fiscal year to 7%. Household consumption has remained firm, but tighter financial conditions, weak business sentiment and policy uncertainty held back investment spending. The industrial sector was weak, especially manufacturing. Elsewhere production was firmer, with services and agriculture expanding at a close-to-trend pace. Growth may have bottomed out, as investment rebounded and industrial production accelerated.

Inflation has trended down

There has been a quite significant moderation in inflation over the past year. The wholesale price index for non-food manufactured goods (a measure of core inflation) has decelerated, rising by only 4.7% in the year to April, a decline of slightly more than three percentage points from the peak inflation rate seen at the end of 2011. For the past two years, the trend in food prices has been the same as that of core prices, after a very

India





Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932609190

India: **Macroeconomic indicators**

	2009	2010	2011	2012	2013
Real GDP growth[1]	8.2	9.6	7.0	7.3	7.8
Inflation[2]	5.9	8.5	7.7	7.1	6.6
Consumer price index[3]	12.4	10.4	8.4	7.9	6.8
Wholesale price index (WPI)[4]	3.8	9.6	8.8	6.7	6.5
Short-term interest rate[5]	4.8	6.0	8.1	8.0	7.6
Long-term interest rate[6]	7.3	7.9	8.4	8.3	8.0
Fiscal balance (per cent of GDP)[7]	-9.4	-7.9	-8.1	-7.9	-7.3
Current account balance (per cent of GDP)	-2.8	-2.7	-3.1	-2.7	-2.9
Memorandum: calendar year basis					
Real GDP growth	5.8	10.6	7.3	7.1	7.7
Fiscal balance (per cent of GDP)[7]	-9.5	-8.2	-8.0	-7.9	-7.8

Note: Data refer to fiscal years starting in April.
1. GDP measured at market prices.
2. Percentage change in GDP deflator.
3. Percentage change in the industrial workers index.
4. Percentage change in the all commodities index.
5. RBI repo rate.
6. 10-year government bond.
7. Gross fiscal balance for central and state governments.

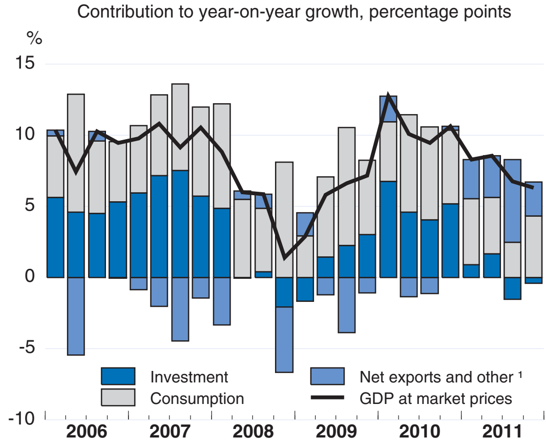
Source: OECD Economic Outlook 91 database.

StatLink http://dx.doi.org/10.1787/888932610767

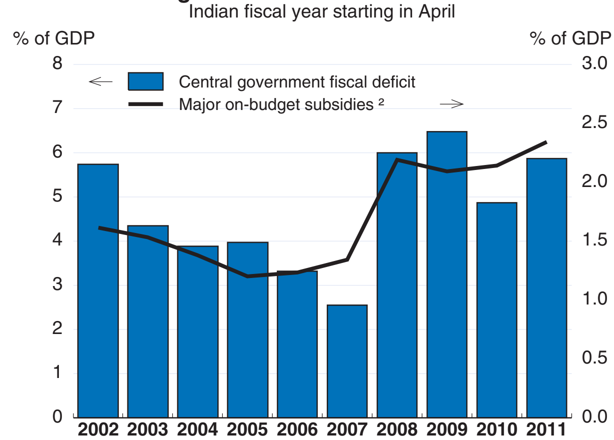
strong increase in the previous two years. Over the past year, though, there has been a large (and probably temporary) swing in food prices. As a result, recently the increase in the overall wholesale price index (the authorities' preferred inflation indicator) has been higher than that of the core inflation measure, rising by just over 7% in year to April, but nonetheless registering a similar decline to that of core inflation.

India

Growth has slowed
Contribution to year-on-year growth, percentage points



The central government fiscal deficit has widened
Indian fiscal year starting in April



1. Other includes statistical discrepancy, stocks and valuables.
2. Includes central government spending on food, fertiliser and petroleum subsidies.

Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932609209

India: **External indicators**

	2009	2010	2011	2012	2013
			$ billion		
Goods and services exports	275.0	384.6	461.0	484	562
Goods and services imports	348.8	454.6	536.7	588	684
Foreign balance	- 73.8	- 70.0	- 75.6	- 103	- 122
Net investment income and transfers	35.7	24.0	17.8	51	60
Current account balance	- 38.2	- 46.1	- 57.9	- 52	- 64
			Percentage changes		
Goods and services export volumes	- 4.1	22.7	16.5	8.4	10.4
Goods and services import volumes	- 2.0	15.6	15.1	10.8	10.8
Export performance[1]	- 0.9	10.1	11.9	2.1	1.8

Note: Data refer to fiscal years starting in April.

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 91 database.

StatLink http://dx.doi.org/10.1787/888932610786

Monetary policy easing has commenced

After raising official rates in 2011, the Reserve Bank of India (RBI) has cut reserve requirements twice, primarily to ease liquidity pressure in money markets which saw overnight bank borrowing costs rise above official rates by around 50 basis points. In April these changes were followed by a 50 basis point cut in the repo rate.

The central government deficit has widened

The central government deficit for the 2011-12 fiscal year was revised from 4.6% to 5.9% of GDP. This slippage reflected weaker-than-expected tax receipts and divestment proceeds, and higher-than-anticipated outlays, including for subsidies. The government has planned for a deficit of 5.1% of GDP in the 2012-13 fiscal year. Tax receipts will benefit from a broadening of the services tax base, an increase in the applicable rate and hikes in general excise rates. However, these will be partially offset by an increase in the thresholds at which income tax rates apply. In addition, if international oil prices trend up as assumed in the projection, it is expected that spending on petroleum subsidies will again overshoot the budget target.

A slow fall in inflation is likely

Inflation is projected to edge down only gradually, remaining uncomfortably high for some time. The decision by the government not to raise regulated petroleum prices in line with increases in international oil prices has resulted in oil marketing companies incurring large financial losses. It is expected that regulated prices will need to rise significantly this year, contributing to higher, if transitory, inflation. In addition, despite the slowdown, the economy may not be operating with significant spare capacity, as weak investment and inertia in implementing important structural reforms have likely dragged down potential growth.

Growth will rise only gradually

A moderate cyclical pick-up in investment is projected in the near term. Later this year and into the next, growth is set to pick up to around trend rates, supported by the delayed effects of the recent monetary policy easing. However, still high inflation will limit the room for significant further relaxation. The recent widening of the current account deficit will unwind as domestic demand remains relatively subdued and external demand strengthens.

Domestic policy is a major source of uncertainty

Continued policy uncertainty, including as regards further fiscal slippage, would weaken investment sentiment and result in softer near-term growth and an erosion of longer-run prospects. Conversely, fiscal discipline and the implementation of important structural reforms would boost confidence and create space for more accommodative monetary policy.

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