

RBI to have more space for pro-growth policies, says PM

Singh denies rift with Sonia, says there are no permanent enemies or friends in politics

SHYAMAL MAJUMDAR
On Board PM's Special Aircraft, 31 May

In what could be a clear signal to the Reserve Bank of India (RBI) ahead of its mid-quarter monetary policy on June 17, Prime Minister Manmohan Singh said today he believed the central bank would have more space available to pursue pro-growth policies, as inflation was coming under greater control.

Asked whether RBI was behind the curve in the growth versus inflation dynamics, Singh said he "respects the judgment of the central bank, which decides the monetary policy. But this is an evolving process. In the coming months, you will see inflation come under greater control and the space for growth-promotion activities will also increase". This is the first time that the Prime Minister has publicly expressed his views on the issue.

The Prime Minister, who was speaking to reporters on his way back from his five-day tour of Japan and Thailand, did not directly comment when asked about his opinion on the finance minister's observation a few months earlier that he would walk alone on the growth path if others didn't want to see the obvious. The central bank has been moving cautiously on rate cut due to perceived inflationary risks. In its last review, RBI had cut the key policy rate by 0.25 per cent.

Singh, who was in a visibly good mood after a reasonably successful tour, answered a host of questions ranging from the Indian Premier League cricket scandal to the perception of a rift between him and Congress President Sonia Gandhi.

Asked whether the Congress would be open to an alliance with the Left parties or even Mamata Banerjee after the Lok Sabha elections in April 2014, the Prime Minister said it was his firm belief that "there are no permanent enemies or permanent friends in politics. Some people come in, some go out. I think they have to be accepted as they are". He ducked a question on whether he would be interested in continuing in his present job if UPA-III comes to power.

On the Indian Premier League scandal that has involved several politicians across party lines, the Prime Minister said "politics and sports should never get mixed up". Asked if the government was contemplating intervention in the spot-fixing issue, Singh refused to comment, saying the matter was still under investigation.

He rejected suggestions of a difference of opinion with Congress President Sonia Gandhi on several issues, including the resignation of former Law Minister Ashwani Kumar whom he had initially defended. "I can only tell you in all truthfulness that there is no difference of opinion between me and the Congress President. Where consultation is needed, I consult her. We work together on almost every issue. There is therefore no truth in the perception (of a rift)," he said firmly.

On the logjam in Parliament which has blocked several pending Bills, Singh said all possible efforts were being considered, including a special session of the Lok Sabha, though no final decision had been taken. "All political parties must help in this process," he said.

Singh took a dig at the Opposition, saying "they never expected UPA to win the elections for the second time and hence have taken an obstructionist role". Pointing out that there is "perfect continuity between UPA-I and UPA-II, he said he wished the Opposition had been more responsible. "I immensely regret that fact that essential



Prime Minister Manmohan Singh on board his special aircraft while returning to New Delhi on Friday PHOTO: PTI

business could not be transacted because of this approach (on the part of the Opposition parties)."

Singh said he conveyed his congratulations to Nawaz Sharif on the very first day the election results were coming out and reciprocated his sentiments that India-Pakistan relations should move forward. "I invited him to visit India. He also invited me to visit Pakistan but there is still no firm decision on the date of the visit on either side. Both of us are determined to deal with all outstanding issues in a peaceful manner," he added.

On his re-election from Assam as a Rajya Sabha member, Singh said he had the great privilege to represent the state since 1991 and had tried his best to serve the people in Assam. "Since I have been given another opportunity, I will serve the state with renewed dedication," he added.

On whether the Centre would consider more subsidies for the industries in north-eastern states, the Prime Minister said while he agreed there was perhaps a need for some more items to be subsidised, industry in these states must also learn fast to stand on its own feet. The proposed trilateral highway between India, Myanmar and Thailand would help north-eastern states in a big way, Singh said.

On a possible Cabinet reshuffle in view of nine vacancies that includes the latest resignations of Railway Minister P K Bansal and the law minister, the Prime Minister said filling up of some vacant seats were being considered but no final decision had been taken as yet.

He refused to give any specific time-frame on when the six-month-old President's Rule in Jharkhand would be lifted, as the matter was still under consideration. Singh said he was more than happy with his trip to Japan and Thailand that saw concrete progress being made on a host of bilateral and strategic issues. He expressed the hope that a civil nuclear cooperation agreement with Japan, hanging fire for some time, would be formalised "before long".

He said the government's Look East Policy, a brainchild of his predecessor Narasimha Rao, had been paying rich dividends. There were enormous opportunities waiting to be tapped and the relationship with several South East Asian nations, particularly Asean, has reached a stage where large-scale trade flow will emerge. For example, he mentioned the Delhi-Mumbai Industrial Corridor and the Dedicated Freight Corridor which have got generous assistance from Japan. The Mumbai-Bangalore corridor had also drawn huge interest from investors in countries such as Japan, Thailand and Malaysia.

MACROECONOMIC INDICATORS

₹ fall shrinks FY13 GDP size in \$ terms

Growth slows to 4.8% in Q4

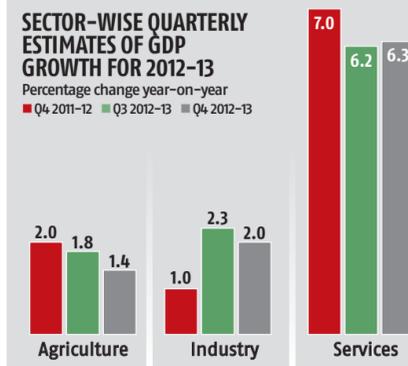
BS REPORTER
New Delhi, 31 May

The size of the country's gross domestic product (GDP) grew to ₹100 lakh crore in 2012-13, about 11.7 per cent higher than the ₹89 lakh crore a year before. However, it contracted in dollar terms due to the rupee's depreciation.

GDP at market prices (including indirect taxes) had grown 15.1 per cent in 2011-12. The GDP size, at ₹1,00,20,620 crore in 2012-13, is only just short of the advance estimate of ₹10,028,118 crore issued in February this year by the Central Statistics Office.

In dollar terms, the economy's size fell to \$1.84 trillion in 2012-13 against \$1.87 trillion the previous financial year. It was so because the rupee depreciated to 54.3 against the dollar on an average in 2012-13, against 47.8 in 2011-12.

India's per capita income grew to ₹68,757 in 2012-13, growing 11.7 per cent over ₹61,564 the previous year. In dollar terms, per capi-



- Change in numbers**
- 1 Demand in the economy remained low, as private final consumption expenditure growth fell to 3.8% in Q4 of 2012-13 against 3.81% in Q3
 - 2 Government compressed expenditure as its final consumption outlay growth declined to 0.64% from 2.15% over the period
 - 3 This led to a decline in the Centre's fiscal deficit to 4.89% of GDP in 2012-13 against revised estimate of 5.2%
 - 4 Hopes of investment picking up dashed as gross fixed capital formation growth contracted 3.43% in Q4 against 4.54% in previous quarter
- Sore points**
- 1 HSBC Purchasing Managers' Index (PMI) for services fell to an 18-month low, at 50.7 points, in April
 - 2 PMI manufacturing contracted to a 17-month low of 51 points in April
 - 3 Exports grew just 1.68% at \$24.2 billion in April
- Source: Central Statistics Office, Controller General of Accounts, Market Economics, Commerce and Industry Ministry

ta income fell to 1,266.2 in 2012-13 against 1,287.9 in 2011-12.

According to recent estimates of the Organisation for Economic Co-operation and Development, India's economy has probably surpassed Japan for the third highest slot in world GDP, in terms of purchasing

power parity (PPP) at 2005 prices. Both economies had seven per cent share in world output in 2011. However, OECD projected that in 2012 or a year after, India would replace Japan as the third largest economy. Also, India's economy might grow larger than the euro area in about 20 years.

However, in current prices, India's economic size might have shrunk a bit due to fall in the rupee value against the greenback. The OECD estimated that on PPP at current prices, India's share in world GDP was six per cent in 2010 and Japan's was seven per cent.

Fiscal deficit down at 4.9% of GDP Farm growth at 2-year low of 1.4%

BS REPORTER
New Delhi, 31 May

The Centre was able to rein in the Centre's fiscal deficit at 4.9 per cent of gross domestic product (GDP) in 2012-13, against 5.2 per cent pegged in the revised estimate (RE) and 5.1 per cent projected in the Budget estimate.

However, the fiscal deficit numbers released for April 2013 showed the gap between the Centre's expenditure and revenues stood at a whopping 17.3 per cent of the Budget target.

The fiscal deficit numbers for both March and April were released today by the Controller General of Accounts.

While the government was accused of cutting expenditure too much to control fiscal deficit, it did not meet even the RE targets for outlays. However, it was able to raise rev-

enues higher than the RE.

Finance Minister P Chidambaram said the government would focus more on revenue-raising, rather than expenditure compressing for the current financial year. The Centre's fiscal deficit stood at ₹4.90 lakh crore in 2012-13, six per cent lower than the RE of ₹5.21 lakh crore. It's revenues stood at ₹9.19 lakh crore during 2012-13, 1.1 per cent higher than ₹9.09 lakh crore estimated in the RE.

On the other hand, the Centre's expenditure was 1.5 per cent lower at ₹14.31 lakh crore, against ₹14.1 lakh crore pegged in the RE.

The government was able to mop up higher revenues, despite taxes missing the RE by a whisker — by 0.1 per cent. Tax collections stood at ₹741 lakh crore against ₹742 lakh crore.

The government reduced its disinvestment target from ₹30,000 crore in the Budget estimate to ₹24,000 crore in RE. However, it was able to collect ₹25,890 crore from the sale of government equity in public sector units.

The government was blamed for drastically cutting the Plan expenditure to various ministries and departments in the RE. Plan expenditure stood at ₹4.14 lakh crore in 2012-13, 3.5 per cent lower than the RE of ₹4.29 lakh crore.

However, the government was able to cut its non-Plan expenditure, albeit moderately. Its outlay under this head stood at ₹995 lakh crore, short by 0.7 per cent of the RE of ₹10.02 lakh crore.

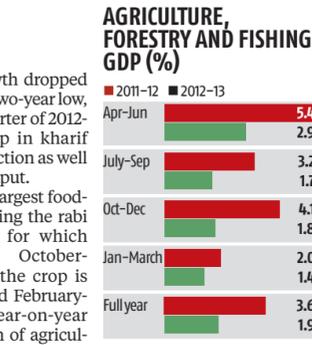
Finance Minister P Chidambaram said the government would focus on raising revenues to bring down deficit to below 4.8 per cent of the GDP in the current financial year.

Farm growth at 2-year low of 1.4%

BS REPORTER
New Delhi, 31 May

Agriculture growth dropped to 1.4 per cent, a two-year low, in the fourth quarter of 2012-13 due to a drop in kharif foodgrain production as well as rabi wheat output.

Wheat is the largest foodgrain grown during the rabi season, sowing for which starts around October-November and the crop is harvested around February-March. On a year-on-year basis, the growth of agriculture and allied activities, which included forestry and fishing, declined to 1.9 per cent, against 3.6 per cent in 2011-12. This is much below the targeted 12th five-year Plan (2012-13 to 2016-17) average annual growth rate of 4 per cent. Experts ascribed the fall in kharif production to the uneven southwest monsoon in 2012-13. While there was a chance of a strong recovery during the rabi season, it did not happen due to the estimated fall in wheat production. "Less than even rains during 2012 not only impacted the kharif production, but it seems its effect lingered on to the rabi season as well, which is the reason why wheat output now seems less than the official estimate," Ramesh Chand, director, National Centre for Agricultural Economics and



Policy Research, told *Business Standard*.

According to the third advanced estimate of foodgrains production, wheat output in 2012-13 season (June to July) is expected to be 93.6 million tonnes, just 1.34 per cent less than last year's record production. However, experts say it should be much lower than that as arrivals in mandis have thinned faster than expected and procurement by state agencies is expected to be 75 per cent less than the initial target of 44 million tonnes.

According to the official estimate, production of kharif foodgrains fell to 128.23 million tonnes, almost 2.31 per cent less than the previous year because of uneven rains.

Core sector growth plunges to 2.3% in April

BS REPORTER
New Delhi, 31 May

The growth of eight core sectors — coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel, cement, and electricity — plunged to 2.3 per cent in April 2013 from 5.7 per cent in the corresponding month of the previous year, signalling economic recovery would be a gradual process.

In the previous month, core sector growth stood at 3.2 per cent, which slightly pushed up industrial growth to 2.5 per cent against a decline of 2.8 per cent a year ago.

Core sector has a weight of 38 per cent in the Index of Industrial Production (IIP).

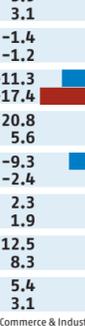
In April, output of three sectors — crude oil, natural gas and fertilisers — contracted against just one, natural gas, in the previous month, official data released today showed. Natural gas did not display any sign of growing, as its output fell a whopping 174 per cent in April. Natural gas production hasn't grown since April 2012. Crude oil output saw a decline of 1.2 per cent and fertilisers fell 24 per cent in April this year. On the other hand, cement production grew the highest 8.3 per cent in April.

GRADUAL PROGRESS

Sector-wise growth rate (%)

Apr, 2012 Apr, 2013

Growth rate



Rising inventory a bad news for growth story

KUNAL KUMAR KUNDU

India released its Q4 FY13 GDP numbers on May 31 and data have disappointed on the

downside. The income-side GDP (GDP at factor cost) clocked an annual growth rate 4.78 per cent, little changed from the upwardly revised 4.71 per cent (from 4.47 per cent) growth recorded in the previous quarter. Given this, it's difficult to say that the economy has indeed bottomed out. In fact, the full year growth rate of 4.99 per cent is the first sub-five per cent growth in a decade.

While the advance estimate of FY13 GDP released in February (and trashed by the government) turned out to be fairly accurate, the data does not give any com-

fort that the demand destruction that we have been seeing has bottomed out.

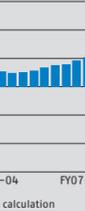
Domestic demand or Private Final Consumption Expenditure (PFCE) grew at an annual rate of 4.1 per cent, a decadal low. In fact, although manufacturing showed some semblance of recovery during the last quarter of FY13, faltering domestic demand resulted in accumulation of inventory.

When one looks at India's expenditure side GDP (GDP at market price) there is a component known as change in stocks/inventory. To understand the effect of inventory on GDP growth, one needs to look at the change in the component 'change in inventory'. When there is inventory accu-

NOT IN A COMFORT ZONE

Change in stocks/inventory

₹ '00 cr, y-o-y



ity might suffer as producers would prefer to draw down on inventories to partially meet demand requirement, rather than manufacture at the same pace.

There is also a possibility of the data being revised downward. There are two reasons for that. First, India's expenditure-side GDP grew at 3.2 per cent annual, the lowest since 1991-92. And, the difference between the two different methods of calculation of GDP was as high as 1.8 per cent, the second highest difference in annual growth rates. Second, the figure for statistical discrepancy for FY13 Q4 is inordinately high at ₹669.23 billion, which is more than four per cent of the Q4 GDP.

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No Air Surcharge

Retail inflation eases to 10.2%

Retail inflation eased to 10.24 per cent in April compared to 11.44 per cent in March this year, mainly on account of decline in prices of petrol and mustard oil. However, the retail inflation, measured in terms of Consumer Price Index-Industrial Workers, in April was slightly higher than 10.22 per cent in the corresponding month of last year, a labour ministry statement stated. "Food inflation stood at 12.39 per cent against 13.21 per cent of the previous month and 10.66 per cent during the corresponding month of the previous year," it added.

'I have been able to fulfil the oath that I took'



VINOD RAI, who has just demitted the office of the comptroller and auditor-general (CAG), is questioned by Karan Thapar on CNN-IBN's *Devil's Advocate* programme on two of the reports from his office which annoyed the government to no end and created a huge political and media controversy, on the telecom spectrum and coal mine allocations. Edited excerpts from the grilling and his defence:

Looking back, are you satisfied with the way you handled your responsibilities or do you regret the controversy you attracted?
I have had a very fulfilling tenure. I enjoyed the mandate entrusted to me. I feel reasonably confident that I have been able to fulfil the oath that I took.

and perhaps the Congress in particular? Was that inevitable or could the relationship have been better handled?
By definition, the auditor has a very adversarial relationship with any executive — private sector, public sector, government. I have sat on various boards of private companies and you will find the auditor is always quibbling with the other members. If they come to an agreement, well and good; if they don't, then he qualifies the accounts.

So, it was inevitable you would clash in some sense with the government of the day?
It has happened. History speaks of so many Auditor Generals (AGs)

who have had difference of opinions, right from 1962.

Except, in the public eye, the relationship you had was not just difficult, it became frequently controversial. Would you accept any measure of personal responsibility for the way the relationship with the government was conducted?
Certainly not. It's very difficult to accept anything personal when you sit on the chair. I have been in the civil services for 35 years. We all grow up with the chair we have occupied. And, when we switch jobs, we have to be loyal to the jobs

entrusted to us.

Two reports created the greatest public interest. One was on the 2G (the telecom scam). Were you right to calculate loss on the grounds that spectrum hadn't been auctioned and, therefore, there had to be a loss, although one could debate the quantity? Or do you now accept that the government had a point when they said that revenue maximisation was not their intention and their aim was to extend services to hundreds of millions, who otherwise would never had phones for generations to come?
First, the second part of your question. Revenue maximisation was not the intention at all. We talked about revenue generation. In government schemes, they always

tend to balance between the public benefit and revenue generation because the government can't be seen doing everything pro bono (free, for public good) all the time. So, it's a good mix, of public good and on the other side, revenue generation, not revenue maximisation. If you look at the Planning Commission document, it says the same.

You suggest the government got the mix wrong?
Not at all. I have very clearly mentioned in our report that policy formulation is the sole prerogative of the government. We don't get into that realm at all. But, we audit the implementation of that policy.

Except that you audited on a basis that the government said was not ever part of their consideration when they came up with the policy to start with.

They deliberately chose not to auction. You, in fact, audited on the basis that they hadn't auctioned and came up with various figures of loss. In doing so, they say you were in fact doing an audit not of implementation but of the policy itself, on the grounds that auction hadn't happened.
I wouldn't like to go into the merits of each of these things now that I have demitted office but I would like to explain one thing to you, which is the first part of the earlier question. AGs worldwide always calculate gains and losses. That's part of the process.

So, this was a worldwide practice you were following?
100 per cent. The same 3G was auctioned in the UK and the UK auditor did the audit.

This is the first of a two-part series