Highlights

➢ Economy to grow at 5.3% in 2013-14

- **Agriculture projected to grow at 4.8%** in 2013-14 as against 1.9% in 2012-13. The early and good monsoon had a huge positive impact on sowing activity. The reservoir position in the week ending August 29, 2013, was 29 per cent better than the average of the last 10 years. Thus both *kharif* and *rabi* crops are expected to be good.
- **Industry** (including manufacturing, mining and quarrying, electricity, gas, water supply and construction) **projected to grow at 2.7%** in 2013-14 as against 2.1% in 2012-13. Manufacturing sector projected to grow at 1.5% in 2013-14 as against 1 % in 2012-13.
- **Services projected to grow at 6.6%** in 2013-14 as against 7.1% in 2012-13.
- **The Council expects the growth rate in 2013-14 to be higher than it was in 2012-13.** Apart from the substantially improved performance of agriculture, the other sectors of the economy will also perform better in the second half of 2013-14 for three reasons
  - The full impact of various measures taken over the last six months will be reflected later in this year
  - Strong emphasis is being laid on improving the performance of key infrastructure sectors that lie in the public domain such as coal, power, roads and railways
  - Continuous efforts are being made to remove the bottlenecks in the implementation of projects

➢ Structural Factors

- **Domestic savings rate decline of 6% between 2007-08 and 2011-12** almost entirely on account of a decline of 3.7% in public sector savings and 2.2% in private corporate savings.
- **Decline in net financial savings of households to 8 per cent in 2011-12 from 11-12 per cent in years prior to 2010-11.**
- **Investment rate projected at 34.7% of GDP** in 2013-14 as against the estimated 35% in 2012-13.
- **Domestic savings rate projected at 31% of GDP** as against the estimated 30.2 % of GDP 2012-13.

➢ Domestic Inflation

- During 2013-14 the good performance in agriculture will have a moderating effect on food inflation, depreciation of the rupee may put some upward pressure. On balance, **WPI inflation by end March 2014 will be around 5.5 percent** as against the average of 7.4% in 2012-13 and 5.7% at end March 2013.
- **Difference between WPI and CPI widening in recent months primarily on account of higher weightage of food items in CPI.**

➢ External Sector: Controlling CAD remains main concern at present.

- **Current Account Deficit projected at $70 billion (3.8% of GDP)** in 2013-14 against an estimated $88.2 billion (4.8% of GDP) in 2012-13.
  - Merchandise trade deficit projected at $185 billion (10.1% of GDP) in 2013-14 against an estimated $195.7 billion (10.6% of the GDP) in 2012-13

  - Net invisibles earnings projected at $115 billion (6.3 % of GDP) in 2013-14 against an estimated $107.5 billion (5.8 % of GDP) in 2012-13.
  - Between 2010-11 and 2012-13, the combined impact of higher net oil and net gold imports on the CAD was almost $57 billion or 3.0 percentage points of GDP. This was equivalent to 87 per cent of the aggregate deterioration in the merchandise trade balance of $65 billion during the period.
  - The CAD may go even below $ 70 billion in 2013-14 if the recent trends in exports and imports are maintained through the year.
- **Net Capital flows projected at $ 61.4 billion (3.4% of GDP)** in 2013-14 against an estimated $ 89.4 billion in 2012-13, the second highest level to date.
  - Net FDI inflows in 2013-14 projected at $21.7 billion against an estimated $19.8 billion in 2012-13.
  - Net FII inflows projected at $ 2.7 billion in 2013-14, even though data up to end of August shows a negative outflow. The commensurate figure is estimated at $ 17 billion in 2011-12 and $27 billion in 2012-13.
  - Total inflows under the head of loans (ECBs and short-term loans) projected at $22 billion in 2013-14 as against an estimated $31.1 billion in 2012-13.
  - Total banking capital inflows projected at $ 18 billion in 2013-14 against an estimated $ 16.6 billion in 2012-13.

- **External Value of the Currency**:
  - **EM currencies have sharply depreciated in 2013**, especially since May (after the US Fed Chairman's statement). Those with large current account deficits, high inflation and weakening growth have depreciated the most.
  - **For India, the short-term problem is of financing the large CAD, while the medium term issue is to compress CAD** to a more sustainable level of around 2.5% of GDP and ensure price stability.
  - **The Rupee at the current level is well corrected. Stability is returning to the foreign exchange market. As capital flows return and as CAD begins to fall, this tendency will strengthen.**

➢ **Fiscal Situation: Containing fiscal deficit within the budgeted estimate could be a challenge**

- The Centre's budgeted fiscal deficit is estimated at 4.8% of GDP in 2013-14, as against an estimated 4.9% in 2012-13.
- **The fiscal deficit during the first four months of the current financial year has already reached 62.8 per cent, and expenditure on major subsidies 51.3 per cent**, of the budgetary provision for the full financial year.
- **Discretionary expenditure budgeted may need to be compressed, and subsidies restructured**, in the remaining months of the financial year in a growth friendly manner to limit fiscal slippages.
- The fiscal deficit of all states put together was 2.8 per cent of GDP in 2009-10, and moderated further to 2.1 per cent in 2012-13 (BE). A slow but steady growth of tax and non-tax receipts, as well as central transfers have helped in the process of fiscal consolidation in the states.

- **Monetary Policy**

- The current stance of monetary policy has to continue until stability in the rupee is achieved. Thereafter, if the current trend in the moderation of wholesale price inflation continues, which is in fact expected, the monetary authorities can switch to a policy of easing. The time frame for this is very difficult to specify.

Measures Suggested to Improve Economic Conditions

I Growth friendly measures taken over the last year

- liberalizing FDI investment norms
- resolution of some tax issues of concern to industry
- fast tracking of public sector investment: focussed attention on coal, power, road, railways
- initiating construction on the dedicated freight corridor
- Cabinet Committee on Investments (CCI) set up to fast-track/debottleneck key projects: 209 projects (with an aggregate investment of Rs. 384,203 crore) cleared
- mid-course corrective measures to contain fiscal deficit
- improved investment policy regime across a number of sectors like sugar, urea, gas, roads, banking, etc.
- Accelerated parliamentary approval of pending bills

II Medium to Long-term Measures

(I) Improving manufacturing capabilities
- Improving domestic supply chains
- addressing specific tax issues in sectors like electronics
- Facilitating productivity shift through assured supply of skilled labour
- Encourage ease of doing business by streamlining procedures

(II) Foreign Investment
- Stable, non-reversible policy regime
- Early resolution of transfer pricing issues

(III) Lower Current Account Deficit
- Focussed strategy to improve export competitiveness to take advantage of rupee depreciation
- Simplifying export related procedures
- Boost domestic coal production and reduce oil subsidies to make them more price elastic
- Pro-active implementation of modified gold deposit scheme.

(IV) Sector specific measures
- Agriculture Sector
    - Promote High Value Agriculture (HVA)
    - Reform of agricultural marketing policies including APMC Acts
- Developing Bond Markets
- Public-Private Partnerships in Defence Procurement
- Promoting MSMEs
- Strategic interventions in Energy Sector.

Table 1
GDP Growth - Actual & Projected
At constant 2004-05 prices

ANNUAL RATES		2005-06	Average of 2005-06 to 2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
					P	*QE*	*Rev AE*	*Projected*
1	Agriculture & allied activities	5.1	3.8	0.8	7.9	3.6	1.9	4.8
2	Mining & Quarrying	1.3	3.7	5.9	4.9	–0.6	–0.6	0.1
3	Manufacturing	10.1	9.8	11,3	9.7	2.7	1.0	1.5
4	Electricity, Gas & Water Supply	7.1	7.3	6.2	5.2	6.5	4.2	5.2
5	Construction	12.8	9.8	6.7	10.2	5.6	4.3	5.0
6	Trade, Hotels, Transport, Storage & Communication	12.0	10.5	10.4	12.3	7.0	6.4	5.1
7	Finance, insurance, real estate & business services	12.6	12.6	9.7	10.1	11.7	8.6	8.4
8	Community & personal services	7.1	7.3	11.7	4.3	6.0	6.8	7.3
9	Gross Domestic Product (factor cost)	9.5	8.8	8.6	9.3	6.2	5.0	5.3
10	Industry (2+3+4+5)	9.7	3.8	9.2	9.2	3.5	2.1	2.7
11	Services (6+7+8)	10.9	9.0	10.5	9.8	8.2	7.1	6.6
12	Non-agriculture (9–1)	10.5	10.3	10.1	9.6	6.6	5.5	5.4
14	GDP (factor cost) per capita	7.8	9.9	7.1	7.8	4.8	3.7	4.0
15	GDP at factor cost - 2004/05 prices in Rs lakh crore (or Trillion)	32.5	37.2	45.2	49.4	52.4	55.1	58.0
16	GDP market & current prices in Rs lakh crore (or Trillion)	36.9	46.5	64.8	78.0	89.7	100.2	112.2
17	GDP at market & current prices in US$ Billion	834	1,064	1,370	1,715	1,865	1,841	1,826
18	Population in Million	1,106	1,130	1,170	1,186	1,202	1,217	1,232
19	GDP at market prices per capita at current prices	33,394	41,070	55,366	65,728	74,667	82,339	91,083
20	GDP at market prices per capita in US$	754	940	1,171	1,446	1,551	1,513	1,482

Table 5.1

Balance of Payments

Unit: US$ billion

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Merchandise Exports	85.2	105.2	128.9	166.2	189	182.4	256.2	309.8	306.6	309.7
Merchandise Imports	118.9	157.1	190.7	257.6	308.5	300.6	383.5	499.5	502.2	494.7
Merchandise Trade Balance	–33.7	–51.9	–61.8	–91.5	–119.5	–118.2	–127.3	–189.8	–195.7	–185.0
	–4.7%	*–6.2%*	*–6.5%*	*–7.4%*	*–9.8%*	*–8.6%*	*–7.4%*	*–10.2%*	*–10.6%*	*–10.1%*
Net Invisibles	31.2	42	52.2	75.7	91.6	80.0	79.3	111.6	107.5	115.0
	4.3%	*5.0%*	*5.5%*	*6.1%*	*7.5%*	*5.8%*	*4.6%*	*6.0%*	*5.8%*	*6.3%*
o/w Software & BPO	14.7	23.8	27.7	37.2	47.0	41.5	49.6	60.1	61.6	70.0
Private Remittances	20.5	24.5	29.8	41.7	44.6	53.6	53.1	63.5	64.3	66.0
Investment Income	–4.1	–4.1	–6.8	–4.4	–6.6	–7.2	–16.4	–16.5	–22.4	–24.0
Current Account Balance	**–2.5**	**–9.9**	**–9.6**	**–15.7**	**–27.9**	**–38.2**	**–48.1**	**–78.2**	**–88.2**	**–70.0**
	–0.3%	*–1.2%*	*–1.0%*	*–1.3%*	*–2.3%*	*–2.8%*	*–2.8%*	*–4.2%*	*–4.8%*	*–3.8%*
Foreign Investment	13.0	15.5	14.8	43.3	8.3	50.4	38.0	39.2	46.7	24.4
o/w FDI (net)	3.7	3.0	7.7	15.9	22.3	18.0	11.8	22.1	19.8	21.7
Inbound FDI	6.0	8.9	22.7	34.7	41.7	33.1	29.0	33.0	27.0	27.6
Outbound FDI	2.3	5.9	15.0	18.8	19.4	15.1	17.2	10.9	7.1	5.9
Portfolio capital	9.3	12.5	7.1	27.4	–14.0	32.4	30.3	17.2	26.9	2.7
Loans	10.9	7.9	24.5	40.7	8.3	12.4	29.1	19.3	31.1	22.0
Banking capital	3.9	1.4	1.9	11.8	–3.2	2.1	5.0	16.2	16.6	18.0
Other capital	0.7	1.2	4.2	11.0	–5.9	–13.2	–12.4	–6.9	–5.0	–3.0
Capital Account Balance	**28.0**	**25.5**	**45.2**	**106.6**	**7.4**	**51.6**	**63.7**	**67.8**	**89.4**	**61.4**
	3.9%	*3.1%*	*4.8%*	*8.6%*	*0.6%*	*3.8%*	*3.7%*	*3.6%*	*4.9%*	*3.4%*
Errors & Omissions	0.6	–0.5	1.0	1.3	0.4	0.0	–2.6	–2.4	–2.7	–
Accretion to Reserves	**26.2**	**15.1**	**36.6**	**92.2**	**–20.1**	**13.4**	**13.1**	**–12.8**	**3.8**	**–8.6**

Note : Percentages are with respect to GDP