

Current State of the Indian Economy: Issues, Challenges and Outlook

*Presentation for
Securities Exchange Board of India*

Bombay, 17.9.2013

Alok Sheel*

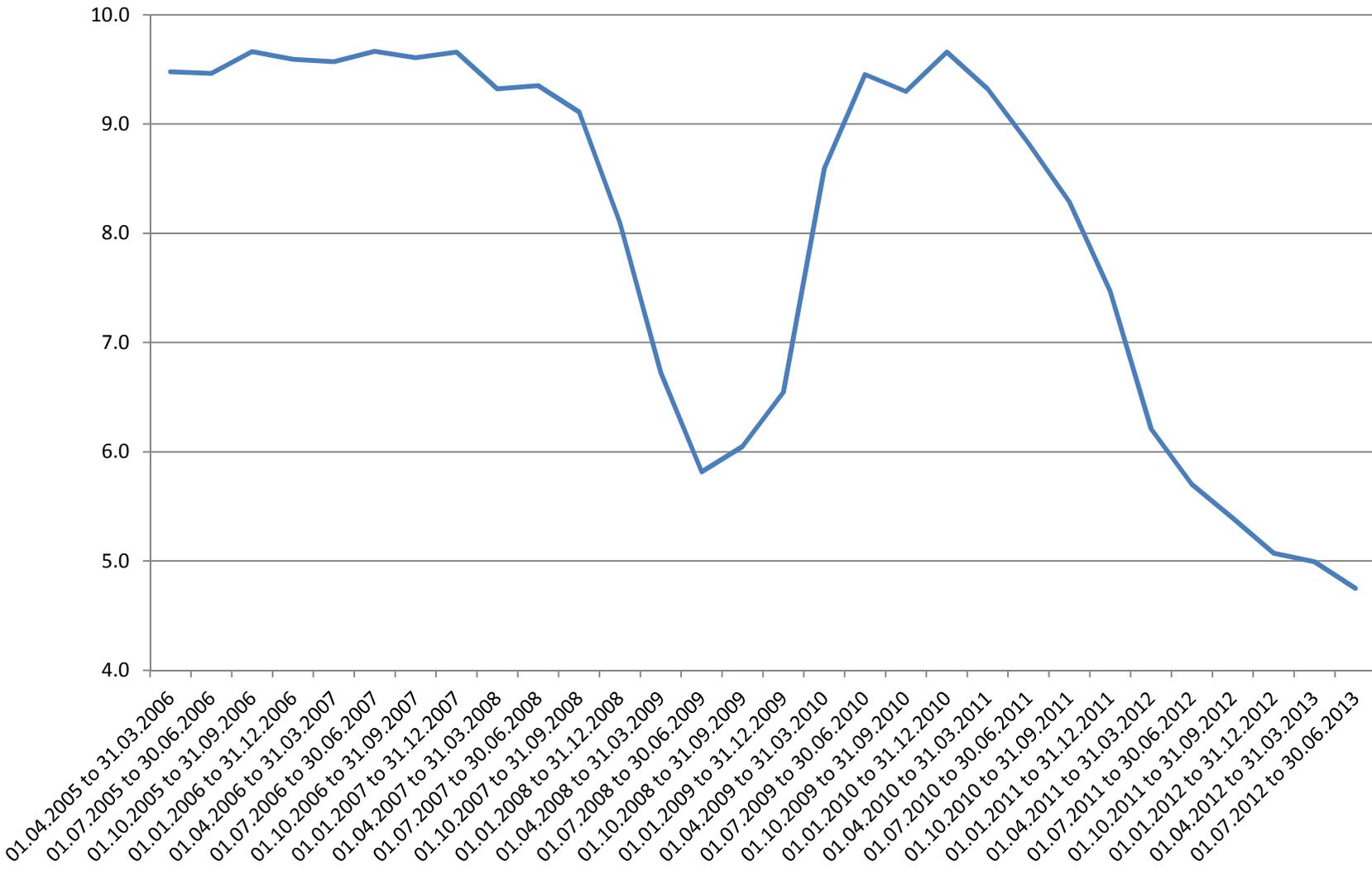
Secretary, Economic Advisory Council to the Prime Minister of India

** The views in this presentation do not necessarily reflect those of the Indian government*

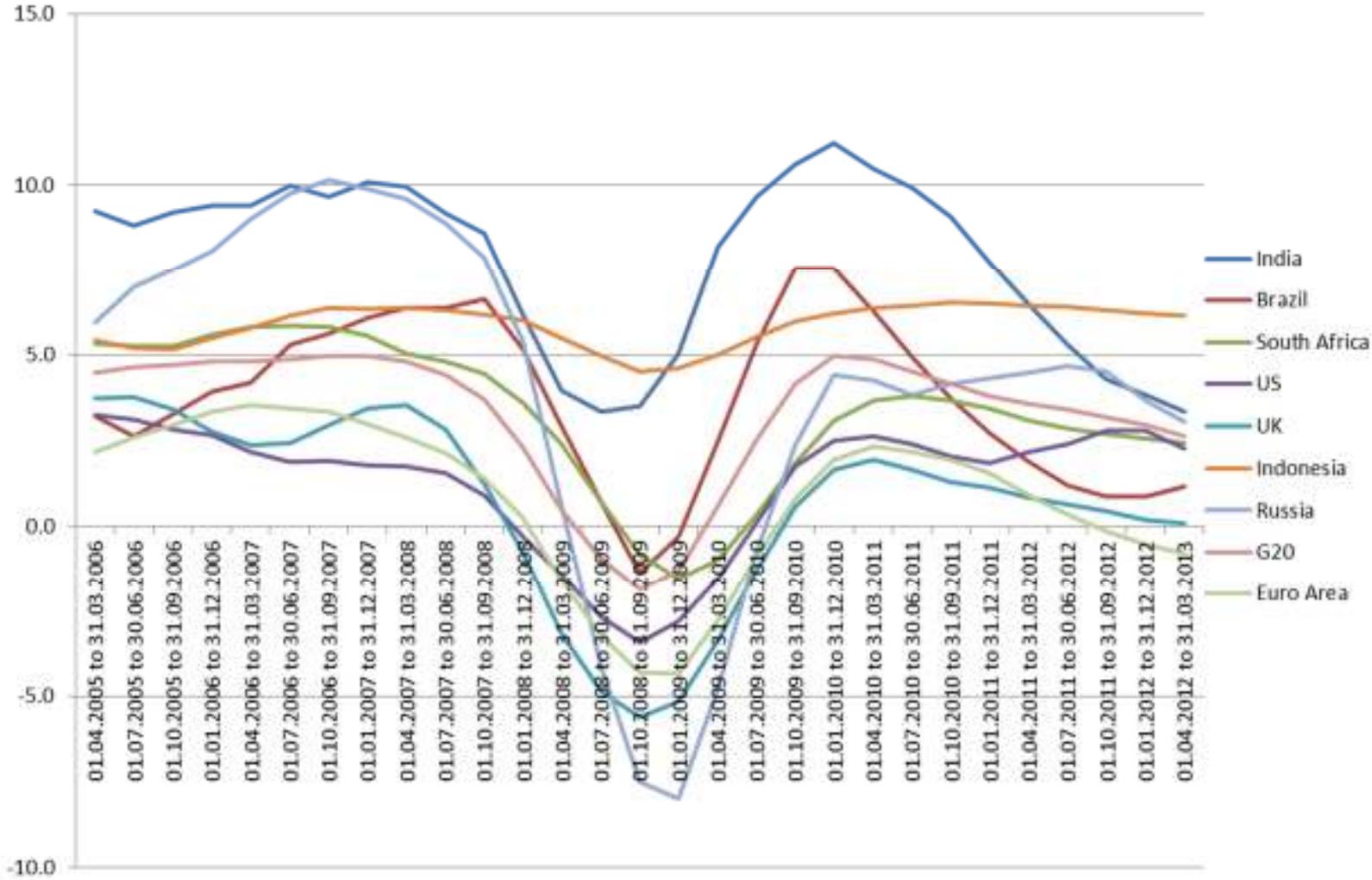
Overview

- Recent Economic Growth in Comparative Perspective
- Current Macro-economic Trends:
 - Internal Balance: Growth, Public Finance, Inflation
 - External Balance: CAD, Capital flows, Rupee
- The Impossible Trinity: Monetary Policy Dilemma
- SWOT Analysis of the Indian Economy : Structural and Cyclical Issues:
- Looking Ahead: EAC 2013-14 Projections - Key Measures to boost growth

Trailing Quarterly Annual Growth (3MAA)



Global Business Cycles (3MAA)



Recent Economic Growth in Comparative Perspective (AA)

Period/Year	World	Adv Econs	EMDEs	India	China	China-India
1994-2003	3.4	2.8	4.4	6.0	9.5	3.5
2004	4.9	3.1	7.5	7.6	10.1	2.5
2005	4.6	2.6	7.3	9.0	11.3	2.3
2006	5.3	3	8.2	9.5	12.7	3.2
2007	5.4	2.8	8.7	10.0	14.2	4.2
2008	2.8	0.1	6.1	6.9	9.6	2.7
2009	-0.6	-3.5	2.7	5.9	9.2	3.3
2010	5.1	3	7.4	10.1	10.4	0.4
2011	3.9	1.7	6.2	6.3	9.2	2.9
2012	3.1	1.2	4.9	5.0	7.8	2.8
2013	3.1	1.2	5	5.6	8.2	2.6
Av. 2004-07	5.1	2.9	7.9	9.0	12.1	3.0
Av. 2008-12	2.9	0.5	5.5	6.8	9.3	2.4

The Big Picture Since the Onset of the Global Financial Crisis

- The global economy in 2008-12 grew far below the pre-crisis boom level, and also below the average of 1994-2003.
- Advanced economies grew at less than 20% of the 1994-2003 and pre-crisis boom level.
- EMDEs grew at 70% of pre-crisis boom average, but 125% of 1994-2003 average.
- China and India at the upper end of the EMDE trend. Growth differential between China and India narrowed slightly.
- Recent quarterly data shows EMDEs slowing down and AEs revving up.

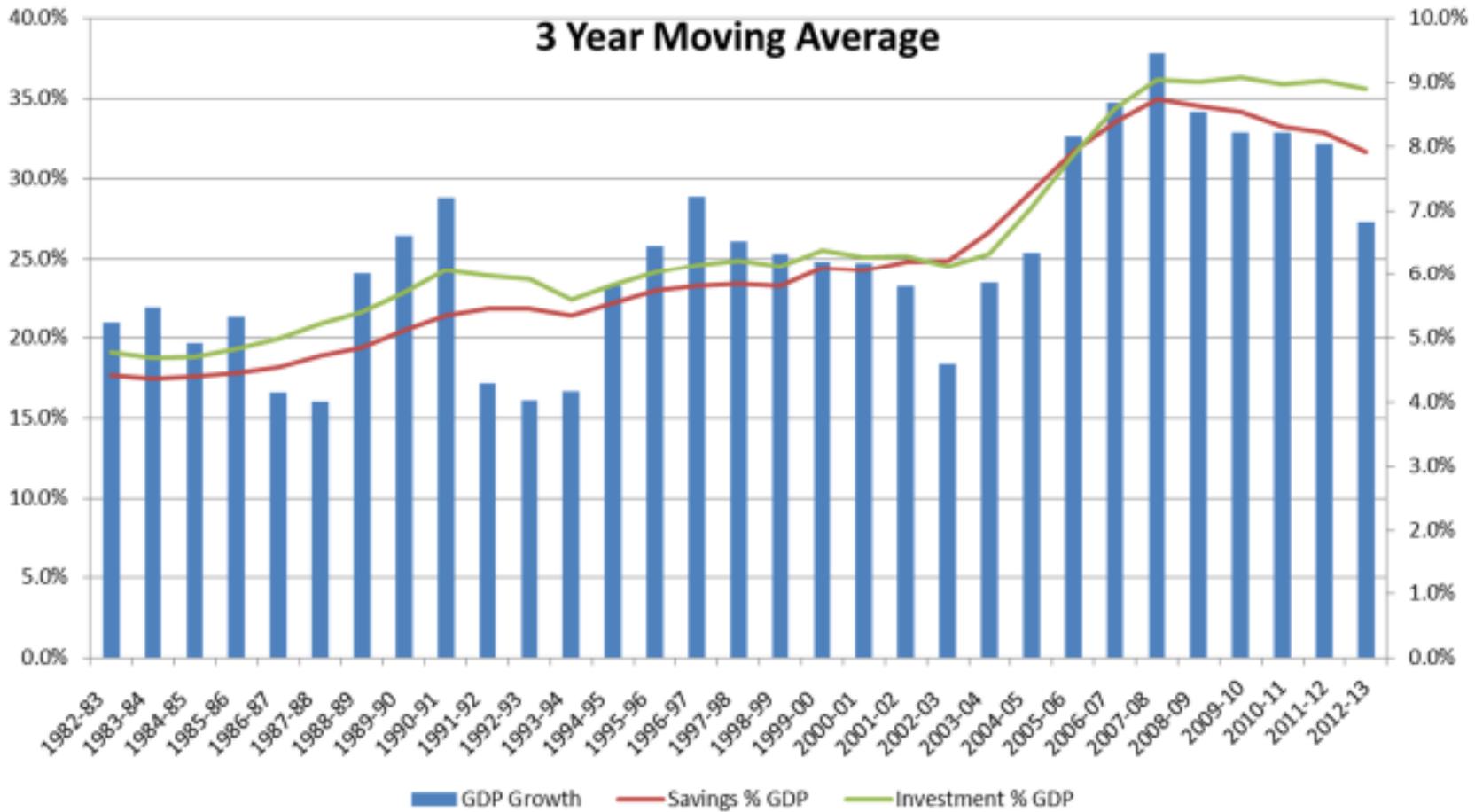
Why Has Indian Growth Fallen So Sharply?

- More dependent on domestic than external demand relative to EMEs peers
- India was therefore expected to be less affected by the collapse in foreign demand.
- This is indeed what happened in the early stages of the GFC.
- China's growth declined relatively more despite the much bigger stimulus.
- Despite the decline in growth, India is currently supply rather than demand constrained – unlike most EME peers: This underlies the persistent high inflation and CAD in India, despite low and falling growth.
- **Bottom-line:** Apart from global factors, mounting internal and external macro-economic imbalances and supply side problems underlie the sharp fall in growth

Why Has Indian Growth Fallen So Sharply?

- Spurt in trend growth following far reaching policy reforms of early nineties – efficiency gains.
- Another spurt after 2003 with spectacular increase in savings and investment– coincided with a global credit and growth bubble.
- Decline in growth also co-incided with a global decline.
- Aligning of global business cycles making it difficult to segregate domestic and global factors underlying growth process.
- Booms mask structural weaknesses as a rising tide lifts all boats.
- Second generation structural reforms to sustain growth not done.
- QE in AEs was supportive of financing CAD, but breathing space not utilized for adjustment.
- Weak spots in precisely those areas bypassed in the first phase of reforms: agriculture (inflation), manufacturing exports (land and labour policies) and infrastructure (land and governance)

Growth Drivers



Economic Policy Changes in the 1990s

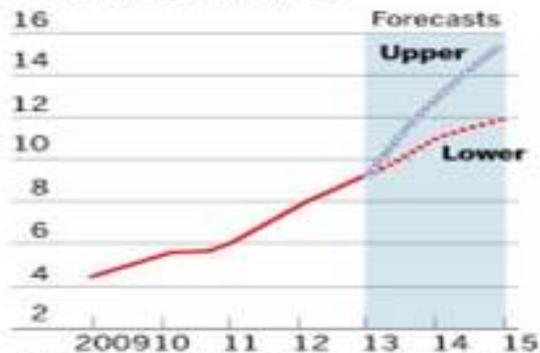
- **Industrial:** delicensing and openness to private and foreign investment.
- **Trade:** Sharp reduction and rationalization in custom tariffs and QRs.
- **External Sector:** rupee floated on current account, and greater liberalized capital account, with most restrictions confined to residents.
- **Public Sector:** tax-reform, privatization and fiscal deficit reduction.
- **Financial Sector:** Opening up of the Insurance Sector, de-regulation of capital market and interest rate.
- **Monetary Policy:** Moving away from monetization of government deficit.
- **Major weaknesses:**
 - Land and labour markets not touched (necessary for private investment in labour intensive manufacturing and infrastructure)
 - No reforms in the agricultural sector, especially marketing.
 - Lags in public investment in Agriculture and Infrastructure.
 - Governance

Indian indebtedness mounts

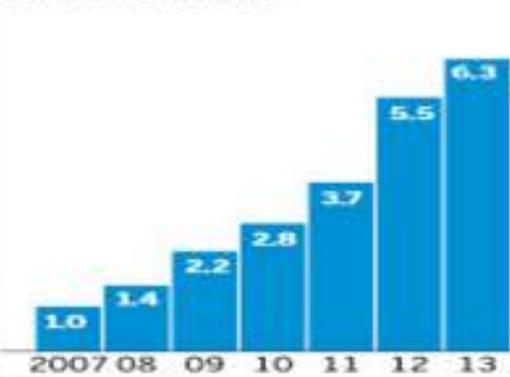
Net debt of selected conglomerates* 2013 (Rs bn)



Bank stressed loans
Non-performing assets and restructured loans (%)



Corporate debt***
Gross debt (Rs tn)



Sources: Credit Suisse; Morgan Stanley Photo: Reuters
* Aggregate group ** Includes net debts from finance arm Reliance Capital
*** Includes: Adani, Essar, GMR, GVK, Jaypee, JSW, Lanco, Reliance, Vedanta and Videocon

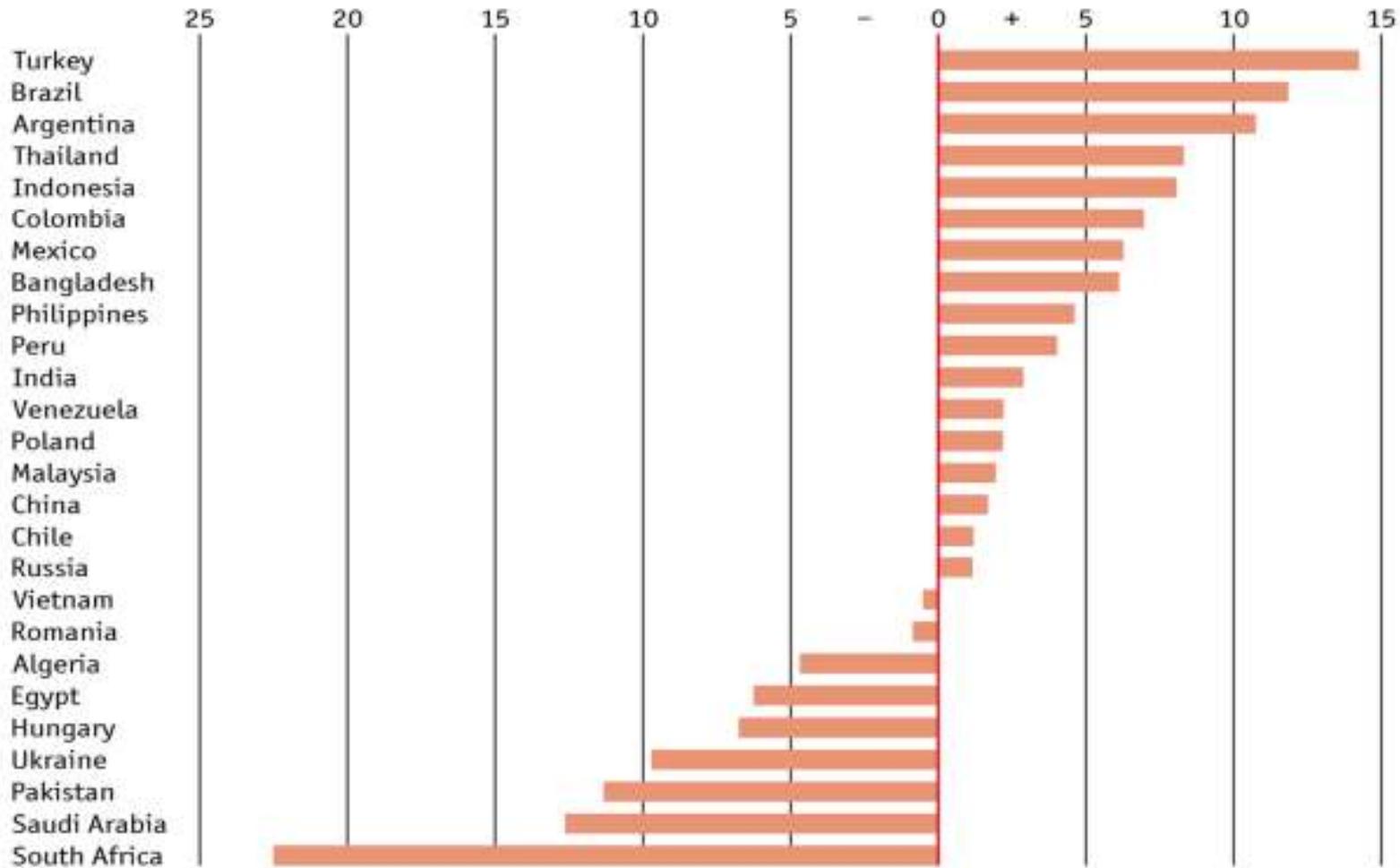
*Debt
Fuelled
Growth?*

FT Aug.
24, 2013

The Economist: Sept 5, 2013

Private-sector credit

2009-12, annual average % change

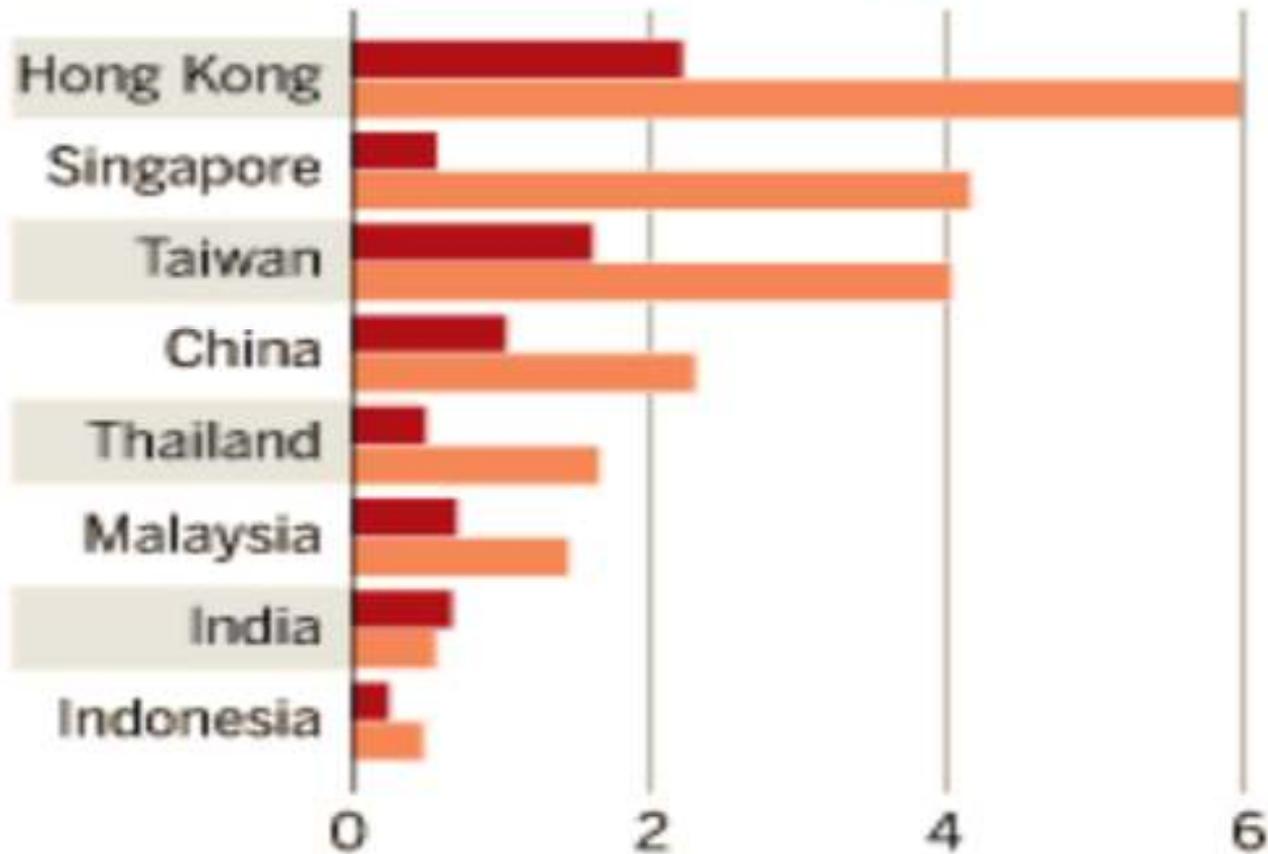


FT August 20, 2013

Credit intensity

New credit needed to generate unit of GDP

2005-2007
2010-2012



Debt Fuelled Boom?

- How does one reconcile these graphs?
- NPAs always rise in a downturn – BASEL III counter-cyclical norms expected to accommodate rising NPAs
- Because of high domestic interest rates, and record low global rates, Indian Corporates borrowed more abroad.
- Rupee relatively stable because of large capital inflows.

Decomposing Growth

Contribution to growth

Year	PFCE	GFCE	GFCF	Net Exp	Others	GDP Growth
2004-05	3.14	0.45	5.99	0.26	-1.99	7.85
2005-06	5.11	0.97	4.65	-1.72	0.26	9.28
2006-07	4.98	0.41	4.22	-0.91	0.56	9.26
2007-08	5.46	0.99	5.15	-1.33	-0.47	9.80
2008-09	4.19	1.07	1.18	-2.80	0.24	3.89
2009-10	4.43	1.52	2.57	-0.45	0.41	8.48
2010-11	5.08	0.68	4.66	-0.30	0.42	10.55
2011-12	4.65	0.95	1.51	-2.81	2.04	6.33
2012-13	2.34	0.44	0.58	-1.53	1.40	3.24

% Contribution to growth

Year	PFCE	GFCE	GFCF	Net Export	Others
2004-05	40%	6%	76%	3%	-25%
2005-06	55%	10%	50%	-18%	3%
2006-07	54%	4%	46%	-10%	6%
2007-08	56%	10%	53%	-14%	-5%
2008-09	108%	28%	30%	-72%	6%
2009-10	52%	18%	30%	-5%	5%
2010-11	48%	6%	44%	-3%	4%
2011-12	73%	15%	24%	-44%	32%
2012-13	72%	14%	18%	-47%	43%
Average	62%	12%	41%	-23%	8%

Productivity of Capital

F/Y	GDCF	GDP	ICOR
2000/01	24.2	4.4	5.5
2001/02	24.2	5.8	4.2
2002/03	25.2	3.8	6.6
2003/04	26.8	8.5	3.2
2004/05	32.5	7.5	4.3
2005/06	34.3	9.5	3.6
2006/07	35.9	9.6	3.7
2007/08	38	9.3	4.1
2008/09	35.5	6.7	5.3
2009/10	36.3	8.6	4.2
2010/11	37.0	9.3	4.0
2011/12 QE	35.4	6.2	5.7
2012/13 PE / Est	35.6	5.0	7.1
2013/14 Projected	34.1	5.3	6.4

Fiscal Targets

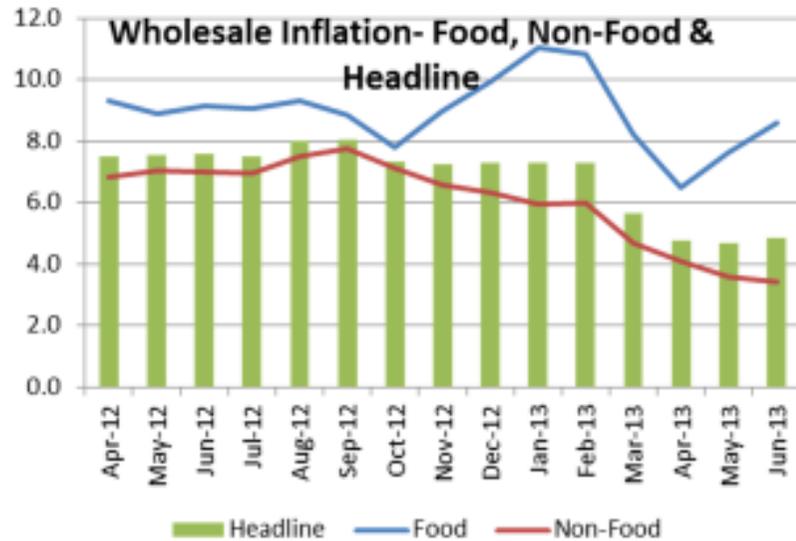
Fiscal Deficit(% to GDP)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
12th FC	3%						
FRBM Act 2003	3%						
13th FC (Path for FD)	6.8%	5.7%	4.8%	4.2%	3.0%	3.0%	
Actually Observed*	6.50%	4.80%	5.70%	5.20%	4.80%		
MTFPS (Budget 2013-14)						4.20%	3.60%

Fiscal Performance

	Centre			States			Consolidated		
Year	Rev.	Fiscal	Primary	Rev.	Fiscal Deficit	Primary	Rev.	Fiscal	Primary
	Deficit	Deficit	Deficit	Deficit		Deficit	Deficit	Deficit	Deficit
2002-03	4.40	5.73	1.11	2.33	3.88	1.25	6.64	9.71	3.02
2003-04	3.57	4.34	-0.03	2.19	4.27	1.46	5.79	8.65	1.95
2004-05	2.42	3.88	-0.04	1.21	3.11	0.66	3.54	7.26	1.12
2005-06	2.50	3.96	0.37	0.19	2.33	0.16	2.69	7.26	0.79
2006-07	1.87	3.32	-0.18	-0.58	1.82	-0.37	1.29	6.32	-0.33
2007-08	1.05	2.54	-0.88	-0.86	1.49	-0.49	0.19	4.65	-1.02
2008-09	4.50	5.99	2.57	-0.21	2.40	0.57	4.33	10.62	3.45
2009-10	5.23	6.46	3.17	0.37	2.80	1.03	5.54	9.41	3.99
2010-11	3.24	4.79	1.79	-0.03	2.07	0.45	3.26	6.94	2.13
2011-12	4.39	5.75	2.71	-0.06	2.28	0.74	4.40	8.18	3.41
2012-13 RE	3.90	5.19	2.04	-0.40	2.12	0.59	3.05	7.17	2.41
2013-14 BE	3.34	4.77	1.51						

Recent Inflation Trends

WPI Inflation



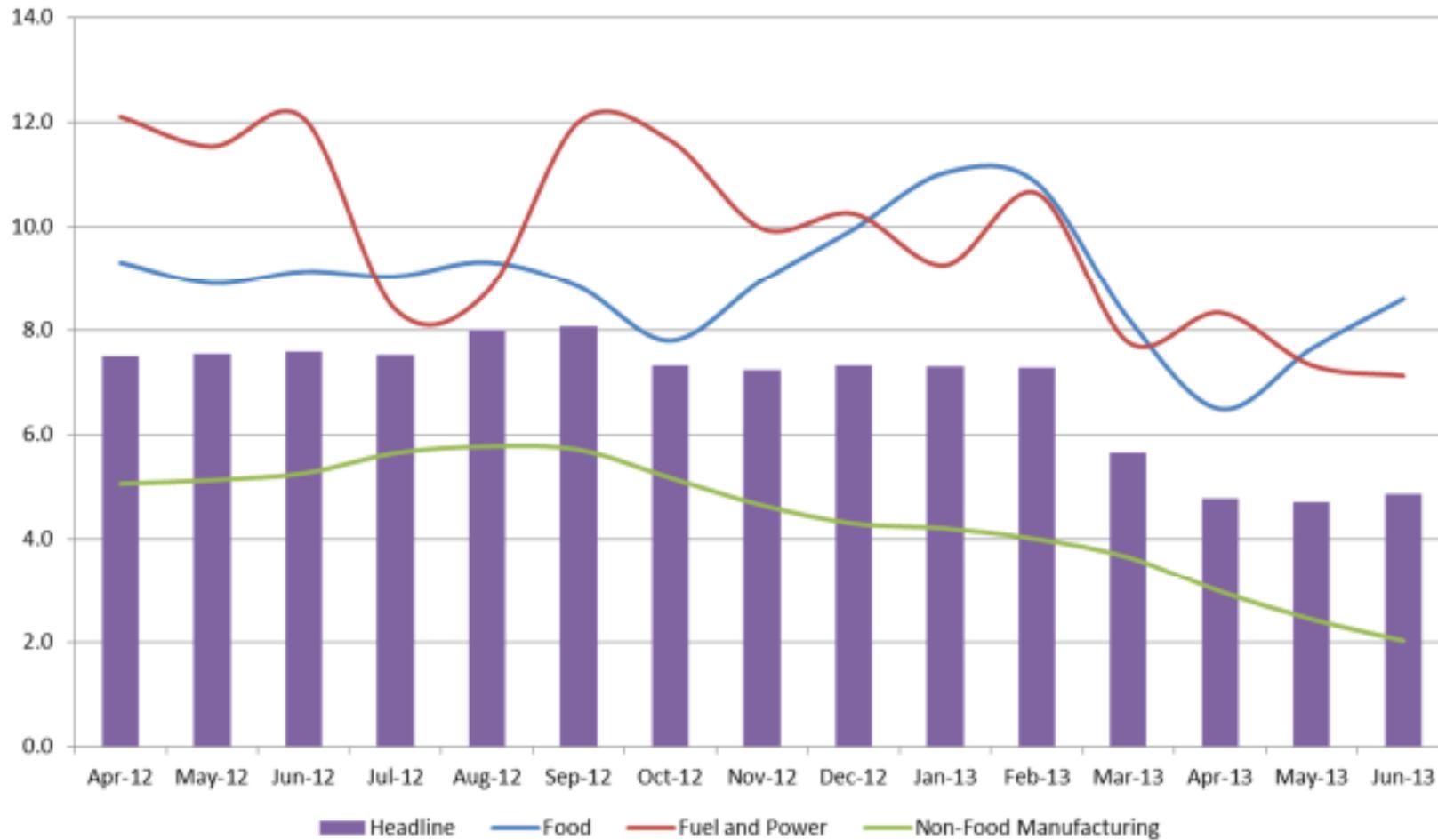
CPI Inflation



Food Weights in WPI and CPI

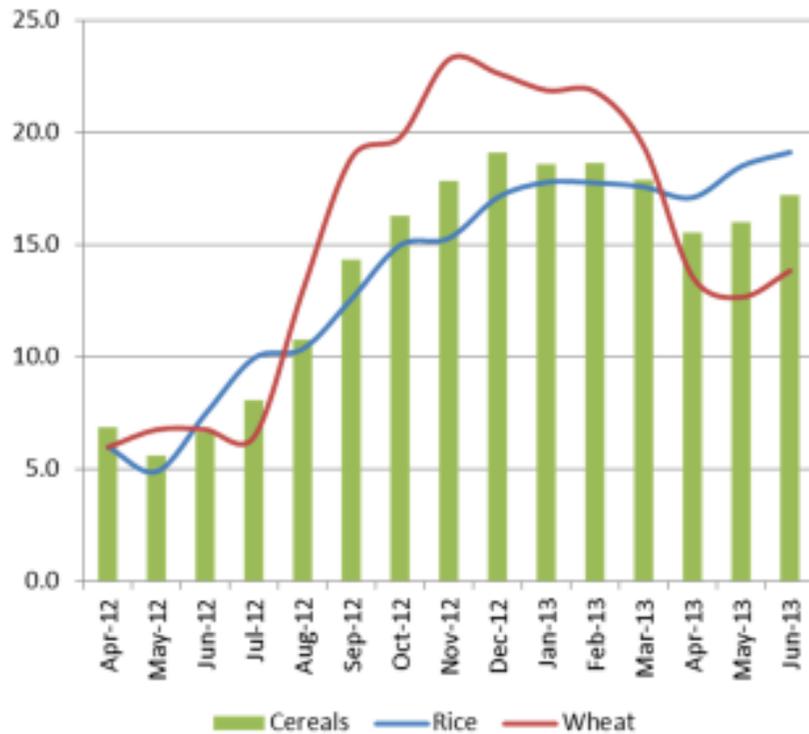
Food Items (Weight)	CPI	WPI
Cereals	14.6	3.4
Pulses	2.7	0.7
Vegetables	5.4	1.7
Fruits	1.9	2.1
Milk	7.7	3.2
Eggs, Meat & Fish	2.9	2.4
Condiments & Spices	1.7	0.6

Decomposing WPI Inflation

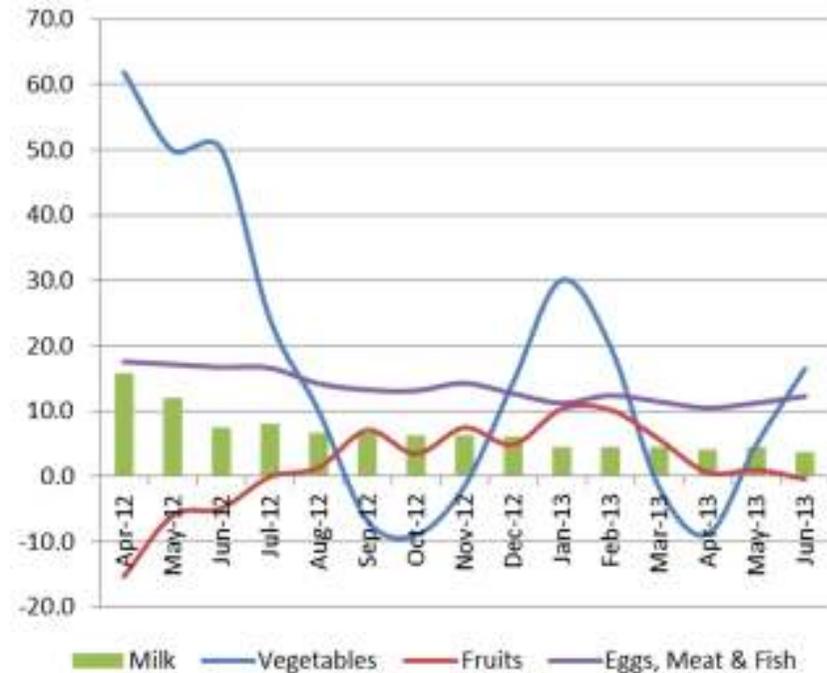


Food Inflation: Major concern

Cereal Inflation: MSP?



Other Food Inflation: supply constraint?



Minimum Support Prices for Agricultural Crops

Unit: Rs per quintal

Commodity	Variety	2010-11	2011-12	2012-13	2013-14
Paddy	Common	1,000	1,080	1,250	1,310
	Grade A	1,030	1,110	1,280	1,345
Jowar	Hybrid	880	980	1,500	1,500
Bajra		880	980	1,175	1,250
Maize		880	980	1,175	1,310
Ragi		965	1,050	1,500	1,500
Tur / Arhar		3,000	3,200	3,850	4,300
Moong		3,170	3,500	4,400	4,500
Urad		2,900	3,300	4,300	4,300
Groundnut (in shell)		2,300	2,700	3,700	4,000
Sunflower seed		2,350	2,800	3,700	3,700
Soybean	Black	1,400	1,650	2,200	2,500
Rabi Crops					
Wheat		1,120	1,285	1,350	
Barley		780	980	980	
Gram		2,100	2,800	3,000	
Masur		2,250	2,800	2,900	
Rapeseed/Mustard		1,850	2,500	3,000	
Other Crops					
Cotton*	Med. Staple	2,600	2,800	3,600	3,700
	Long Staple	3,150	3,300	3,900	4,000
Sugarcane		139	145	170	

World Food Prices

Commodity	Units	2011	2012	2013 Jan to Mar	May-13	Jun-13
Food Items						
Wheat	\$ per tonne	316	313	321	319	314
Maize	-do-	292	298	305	295	297
Rice	-do-	552	580	571	552	546
Barley	-do-	207	238	239	231	231
Soybeans	-do-	484	538	533	542	560
Palm oil	-do-	1,077	940	780	763	763
Sunflower oil	-do-	1,622	1,490	1,494	1,467	1,472
Rapeseed oil	-do-	1,367	1,239	1,196	1,118	1,116
Groundnuts	-do-	1,724	1,885	2,274	2,158	2,326
Poultry	US cents / pound	87	94	100	104	106
Sugar	-do-	26	21	19	17	17
Coffee	-do-	273	188	155	151	139
Tea	-do-	346	349	319	272	254

Source: IMF, Commodity Market Monthly, 12 July 2013

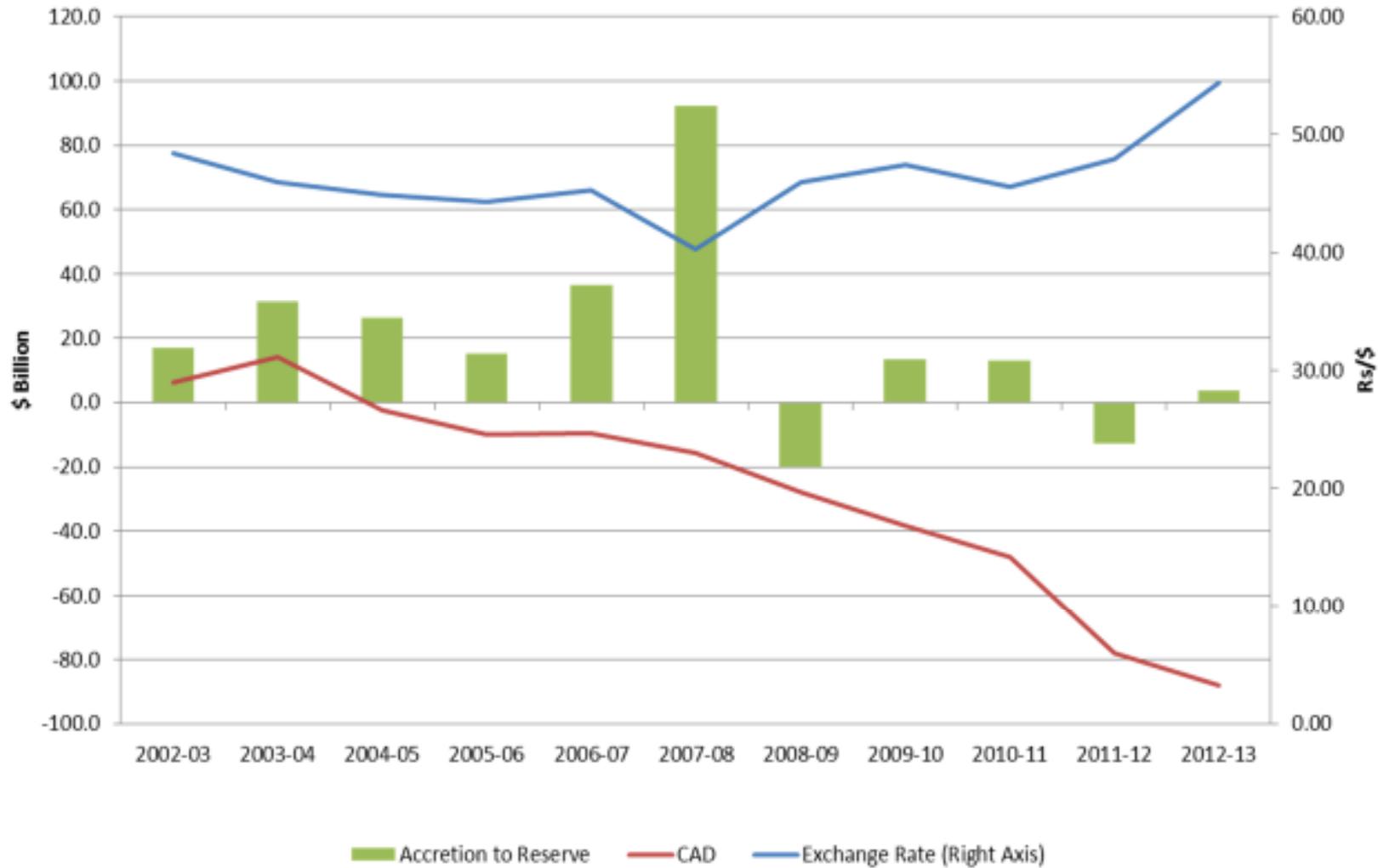
Why has the CAD Ballooned despite decline in growth?

Trade Balance/GDP				%
	1990-91	1991-92	2011-12	2012-13
Export of Crude Oil Products	0.2%	0.2%	3.0%	3.3%
Export of Gems and jewellery	0.9%	1.0%	2.4%	2.4%
Gold Import	0.0%	0.0%	3.0%	2.9%
Oil Import	1.8%	1.9%	8.3%	9.2%
net Oil Import	1.7%	1.8%	5.3%	5.9%
net Gold Import*	-0.1%	-0.1%	2.7%	2.6%
Trade Balance (TB)	-2.9%	-1.0%	-10.1%	-10.6%
Non-Oil TB	-1.2%	0.8%	-4.9%	-4.7%
Non-Gold TB	-3.0%	-1.2%	-7.5%	-8.1%
Non Oil Non-Gold TB	-1.3%	0.6%	-2.2%	-2.1%

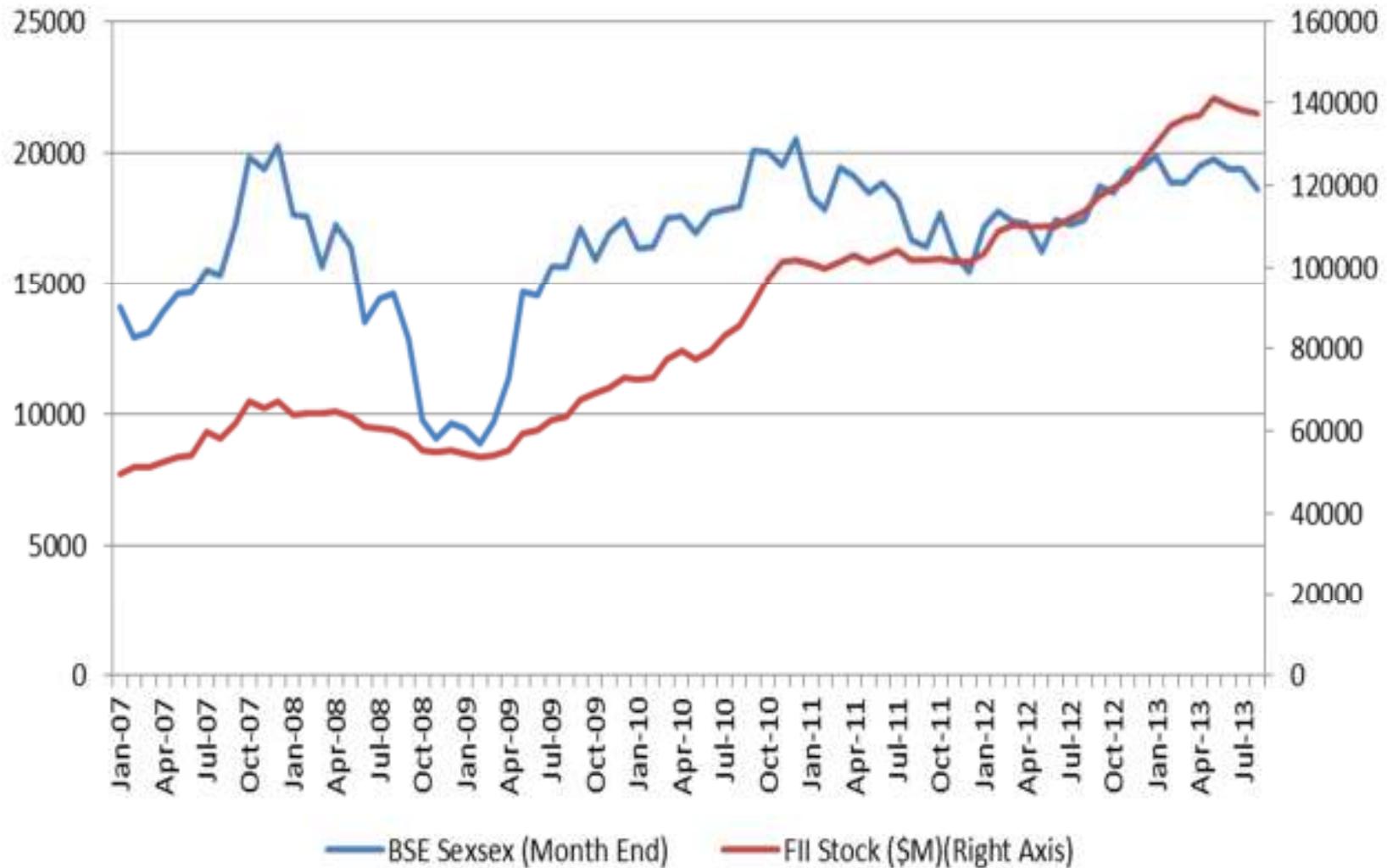
Household Savings

Period	CAGR in		Inflation Adjusted Return from				CAGR in MPCE (MRP) (At 1987-88 Prices)	
	Financial Savings	Physical Savings	Deposit rate (3-5 years) (% per Annum)	BSE Sensex Index	Gold	Rural	Urban	
1993-94 to 1999-00	13.9	26.5	2.9	0.4	-11.0	1.7	2.2	
1999-00 to 2004-05	9.7	13.4	4.0	8.7	2.4	0.2	1.3	
2004-05 to 2009-10	18.8	14.5	0.8	18.8	11.1	1.2	2.5	
2009-10 to 2011-12	-3.6	22.5	-1.9	2.7	13.5	7.3	5.9	

Capital Flows and External Adjustment



FII stocks and Sensex



Recent Trend in FII Flows

Period	FII-Equity		FII-Debt		FII- Total		Conversion (RS/\$)
	Rs Crores	\$million	Rs Crores	\$million	Rs Crores	\$million	
1st April to 22nd May	21981.9	4040.4	17728.1	3273.1	39710.0	7313.5	54.0
23rd May to 30th July	-11739.4	-1902.7	-51711.3	-8861.0	-63450.7	-10763.7	58.5
31st July to 28nd Aug2013	-4710.5	-720.6	-8197.5	-1320	-12908	-2040.9	62.1
Total for 2013-14	5532.0	1417.2	-42180.7	-6908.3	-36648.7	-5491.1	58.2

Rupee Slides

- 2007-08 and 2013-14 decline in growth and depreciation on account of sudden stops associated with global developments.
- 2007-08 Indian currency depreciated less than most other EME currencies because (a) relative growth still high (b) high level of reserves (c) no external macro-economic imbalance – CAD -1.3%
- 2012-13: (a) and (b) mostly unchanged (c) external imbalance high : CAD – 4.8 (increased by 3-4 times).

Currency Crises: 2008 and 2013

2008 Crisis

Country	Depreciation	CAB/GDP
7.8.2008 to 27.10.2008		2008
Argentina	18.8	1.8
Australia	45.5	-4.5
Brazil	50.0	-1.7
Canada	30.0	0.1
China	3.0	9.3
European Union	23.1	-0.91
India	19.0	-2.4
Indonesia	28.7	0.1
Mexico	35.0	-1.7
South Africa	58.1	-7.2
U.K	27.5	-1

2013 Crisis

Country	Depreciation	CAB/GDP
22.7.2013 to 30.8.2013		2008
Argentina	7.8	0.1
Australia	9.2	-3.7
Brazil	15.6	-2.3
Canada	2.1	-3.7
China	-0.3	2.6
European Union	-2.4	1.0
India	19.8	-5.1
Indonesia	11.9	-2.8
Mexico	8.4	-0.8
South Africa	3.7	-6.3
U.K	-2.6	-3.5

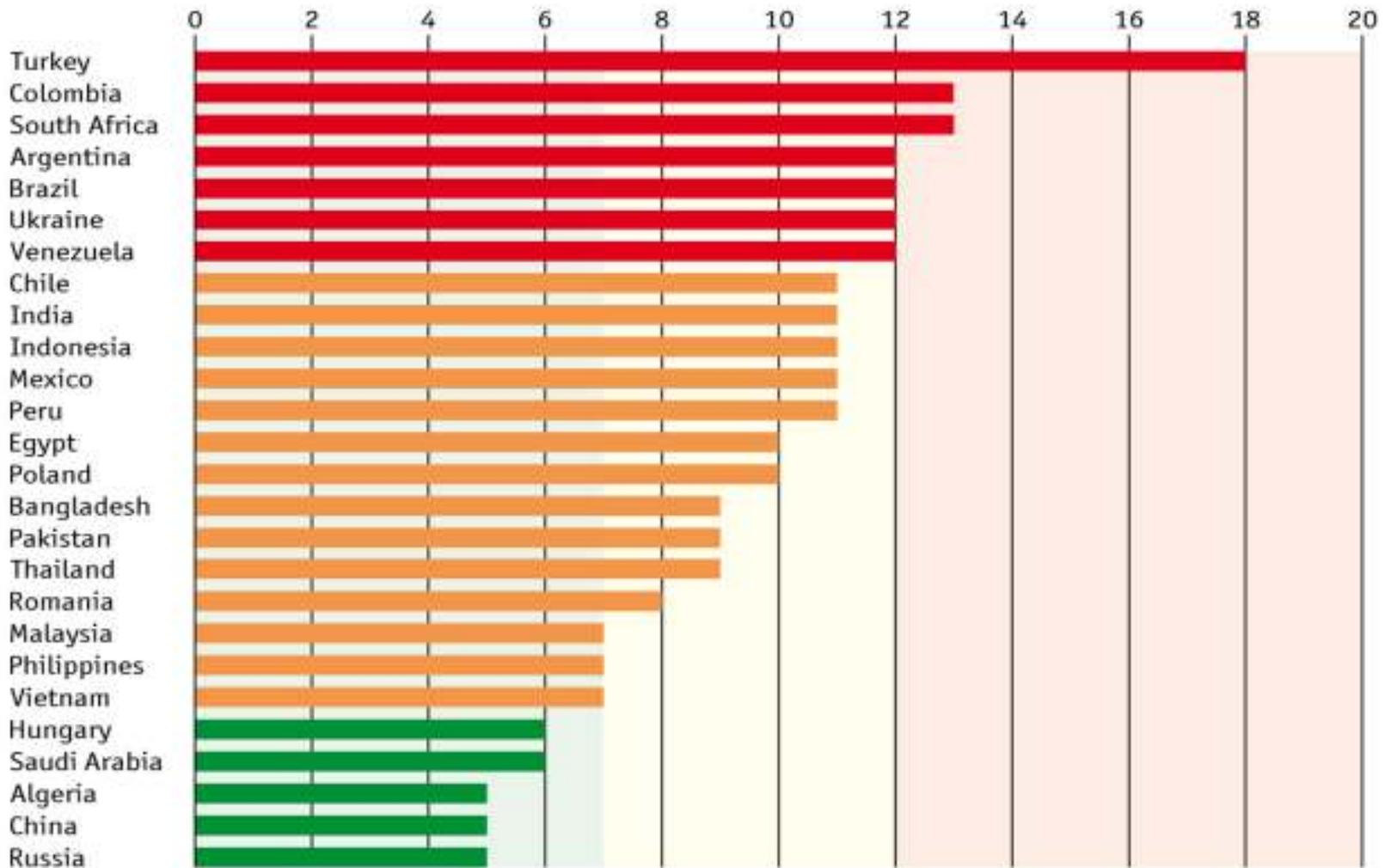
External Sector: 1991 and 2013

Parameters	1990-91	2012-13
Trade Deficit/GDP	-2.9%	-10.6%
Current Account Deficit(CAD)/GDP	-3.0%	-4.8%
Trade deficit excluding Gold and Oil	-1.3%	-2.1%
Fiscal Deficit (Center)/GDP	7.6%	5.2%
Fiscal Deficit (Combined)/GDP	9.1%	(-6.9%) _z
Wholesale Inflation	10.3%	7.4%
CPI Inflation (CPI-IW)	11.6%	10.4%
GDP Growth	5.3%	5.0%
Debt GDP Ratio	68.9%	(-64.7%) _z
External Debt/GDP	25.7%	21.2%
Overseas Development Assistance (ODA) debt/GDP	12.9%	5.5%
External Commercial Debt/GDP	10.2%	10.5%
Short Term Ext Debt/GDP	2.6%	5.3%
ODA/Total Ext Debt	50.1%	25.7%
Commercial/Total Ext Debt	39.7%	49.5%
Short term Ext Debt/Total Ext Debt	10.2%	24.8%
Debt Service Ratio	35.3%	5.9%
Foreign Currency Reserves (FCR) (Billion\$)	2.2	259.7
Months of Forex cover for CAD	2.8	35.4
Savings/GDP	22.9%	31.7%
Investments/GDP	24.9%	35.5%
Net Capital Account(NCA)/GDP	3.1%	5.0%
Net FII- Inflows/NCA	0.1%	30.0%
Net commercial debt inflows/NCA	(-23.4%) _z	30.7%
Net ODA inflows/NCA	(89.4%) _z	-2.4%
FII Stock/FCR	0.3%	70.6%
FII Stock +Short Term Debt/FCR	382.4%	107.9%

The Economist Capital-Freeze Index

The capital-freeze index

Vulnerability to a sudden stop in capital inflows in emerging markets*, 2012 or latest, maximum risk=20



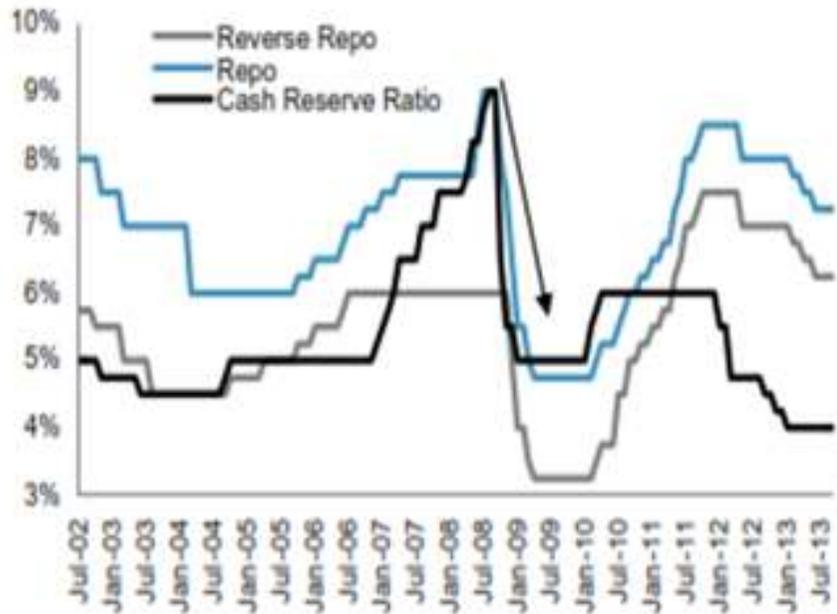
Bottomline: Net EFAR

- External funding at risk (EFAR) is \$ 70 billion (expected CAD) + about \$ 40 billion of maturing ECB to be rolled over (assuming that ST NRI debt and trade credit are easily re-financeable) = \$ 110 billion.
- From this one needs to subtract net FDI of, say, \$ 20 billion, which tends to remain stable over the medium term.
- So the net EFAR is about \$ 90 billion, and the FX cover is presently 3x this amount.

Monetary Policy

Monetary Policy Stance

The RBI Maintained Accommodative Monetary Policy



Source: RBI, Morgan Stanley Research

CPI Inflation

Endemic Inflation Problem Needed Aggressive Monetary Policy Response

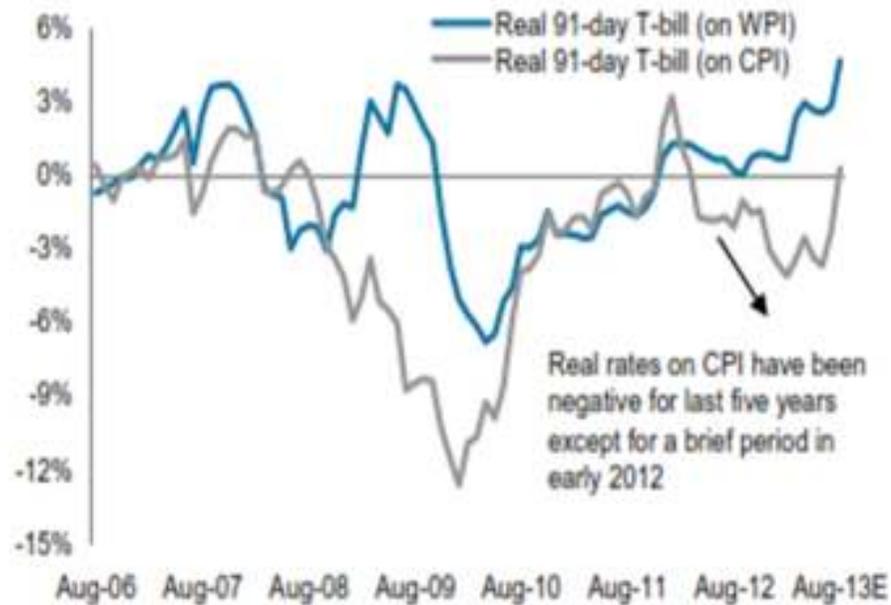


Source: CEIC, Morgan Stanley Research

Monetary Policy Outcome

Negative Real Interest Rates

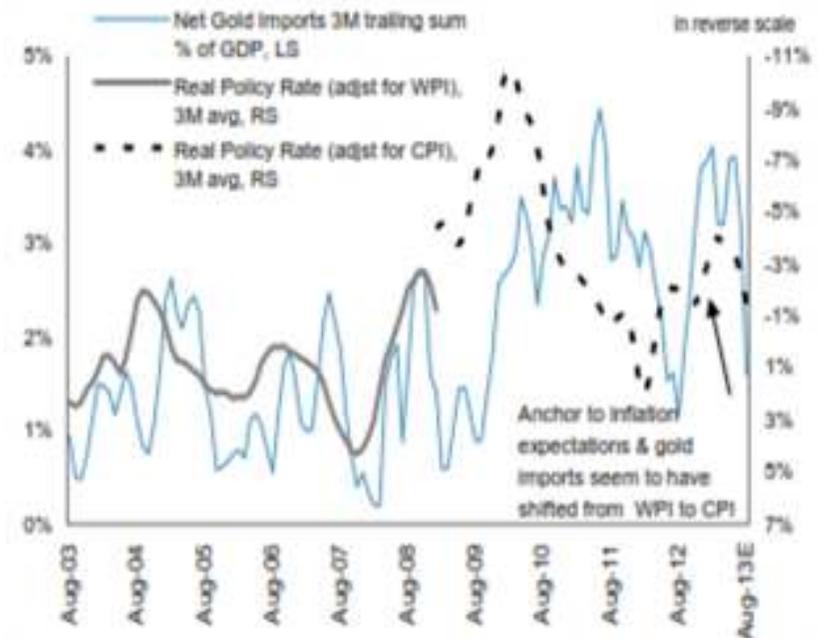
Low Real Rates Adjusted for CPI Inflation



Source: CEIC, Bloomberg, Morgan Stanley Research

Surge in Gold Imports

Real Rates Are Key Determinant of Gold Imports

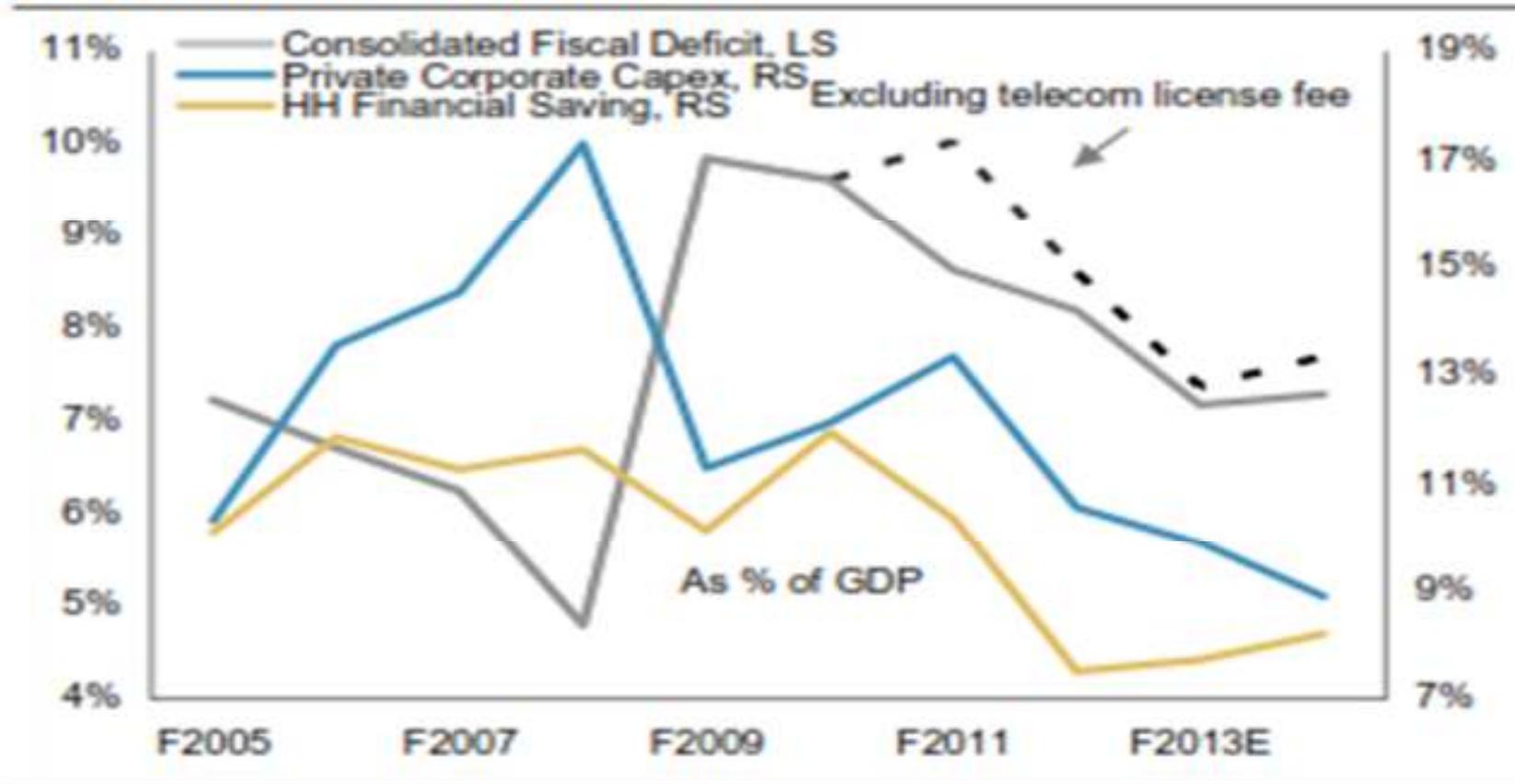


Indian Monetary Policy

- Growth-inflation trade-off or RBI behind the Curve?
- Stagflation:
 - and Paul Volcker & C. Rangarjan
- Monetary policy and food inflation
 - Policy driven: cereals and fuel
 - Supply driven: Non-cereal food
- Impossible Trinity and the Taylor Rule
 - 2 tools for two targets?
 - Interest rate and market intervention

Monetary Accomodation

Who Got the Benefit of Lower Real Rates - Government or Business?

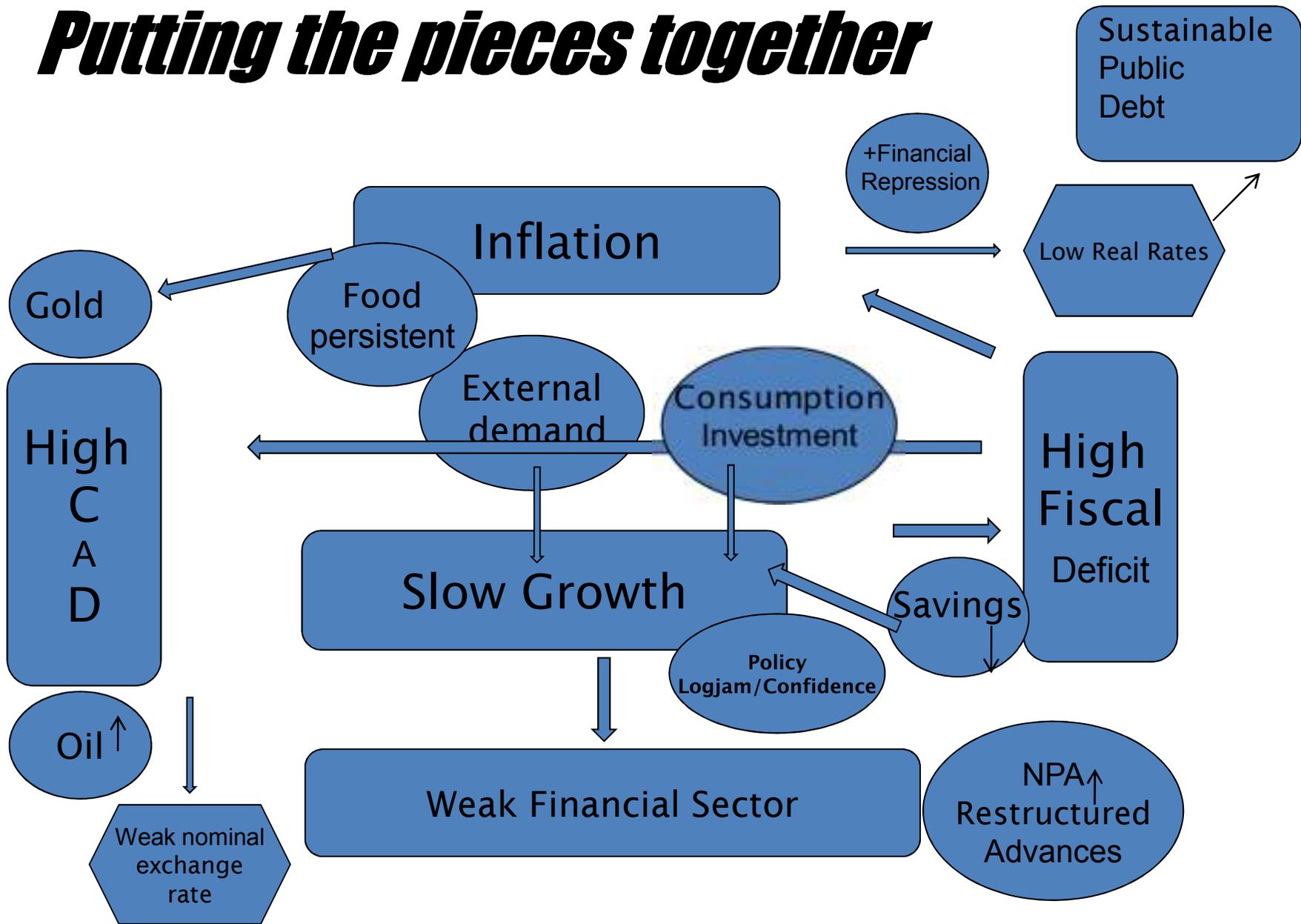


Source: CSO, Budget Documents, Morgan Stanley Research

Monetary Policy Independence

- Monetary Policy expected to stabilize domestic imbalances (Fiscal policy too political)
- Three preconditions for monetary policy to be free to target the domestic business cycle:
 - Administrative and Policy Independence: Treasuries have a growth/inflationary bias.
 - Freedom from Fiscal Dominance:
 - Inter-temporal fiscal balance necessary since persistent and large deficits distort interest rates and prices.
 - if fiscal policy is lax, monetary policy needs to be accommodative irrespective of business cycle.
 - Impossible Trinity choice: Choose between free capital flows and fixed exchange rate : India has chosen free capital flows.

Putting the pieces together



Key Concerns

- ***Short-term: macro-economic and supply mgt.***
 - Structural reforms to revive animal spirits
 - Anchoring inflationary expectations
 - Containing the fiscal deficit
 - Stabilizing the external sector
- ***Long-term***
 - Policy initiatives for creating productive service and industrial jobs to move people out of low productivity agricultural jobs without destroying overcrowded cities.

SWOT Analysis of the Indian Economy

- Need to distinguish between *Structural* factors and *Cyclical* issues.
- Structural Factors:
 - Strengths
 - Weaknesses
- Cyclical Issues
 - Opportunities
 - Threats

Structural Factors : Strengths

- **Strong Entrepreneurial class** with global outlook – rapidly taking over ‘commanding heights’ of the economy from the historically dominant public sector.
- **Demographic dividend**: falling dependency ratios associated with higher growth.
- **Rising savings-investment rates** (current decline cyclical?) underlying recent increases in trend growth: importing rather than exporting capital (contrast with China and Russia – high savings but CAS; and Brazil and South Africa – low savings) : adequate capital flows to cover a prudent CAD.
- **Big market with strong domestic demand**: 1.2bn population with Gini index lowest amongst BRICS – domestic demand driven economy (contrast with China): advantage in a global downturn.
- **Good financial intermediation relative to EMDE peers**: unaffected by GFC
- **Services, esp. IT** : sunrise sector not overly dependent on heavy infrastructure
- **Floating Xchange rate** and self-limiting external imbalances? : Adequate reserves to cushion against external shocks
- **Market economy with a stable democracy**: No extra-legal expropriations or rollback of decisions once taken – based of broad civil society consensus across the political spectrum and strong judicial oversight.

Structural Factors : Weaknesses

- The **Twin Deficits**:
 - ***High fiscal deficits*** (internal imbalance) – need to rein in subsidies and change fiscal mix; crowding in/out effects
 - ***Large CAD*** (external imbalance): Commodity and POL dependence: high prices, impairing competitiveness?
- Despite similar factor advantages, labour laws and overall investment climate too inflexible relative to China for **labour intensive manufacturing**.
- **Backlog and policy environment in infrastructure investment** (physical and social) a drag on productivity; policy environment (land use policy; user charges; long-term finance) more critical in India because of greater reliance on private & PPP investment.
- **Agriculture**: Low productivity: Share in national income shrinking much faster than share in total labour force. Untouched by opening up and liberalization of the Indian economy since the early 1990s: Market rigidities constraining supply response to prices.
- Poor **Education and Labour skills** can negate the demographic dividend.
- Weak **project implementation and governance**
- **Democracy tax**: Paid upfront: Lack of political consensus on rapid growth as the primary focus. Strong consensus on weak reforms because of multiple objectives? Relative to other EMDEs India needs more growth than inclusiveness?

Cyclical Issues : Opportunities

- **High growth can create fiscal space** for infrastructural investment (debt/GDP ratio stable despite large fiscal deficits)
- **Chinese rebalancing** should make Indian manufacturing more competitive provided structural reforms are undertaken
- **FDI in retail should improve agricultural productivity** through improved infrastructure and capital investment.
- **Cabinet Committee on Investment** to speed up project implementation
- **Structural reforms can boost productivity and unlock inherent structural strengths,** especially in industry (labour costs) and agriculture (labour cost plus natural fertility and photo period advantage)
- **Federal-States equation** and competitive policy environments: major reforms ahead – land and labour markets; agriculture; governance – lie in their domain.

Cyclical Issues : Threats

- **Weak and protracted recovery in advanced economies** – severe downside risks (fiscal cliff: US; financial meltdown in the Euro Zone) abating?
- **QE taper** pressuring external payments and rupee: constraining monetary policy
- **Persistent inflationary pressures:**
 - Constraining space for monetary policy
 - Negative real interest rates leading to ↓ in financial savings and ↑ in gold
- **Fiscal consolidation being derailed** by the electoral cycle?
- **Rising banking sector NPAs** deriving from declining growth and profitability
- **Basel III** and potential increase in cost and availability of capital
- **Elevated oil prices**
- Impact of elevated CAD on **External Debt, Rupee and confidence**
- **Decline in growth out of proportion to decline in investment:** lower productivity?
 - MNREGA: social safety net – rising wages with no productivity shift
 - Fiscal mix tilted towards consumption rather than investment
 - Market rigidities in agriculture feeding into inflation
 - Policy logjam locking up capital investment

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
					<i>P</i>	<i>QE</i>	<i>Rev AE</i>	<i>Projected</i>
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

Why growth in 2013-14 (5.3%) projected higher than in 2012-13 (5%)

- Substantially improved performance of agriculture
- Other sectors expected to perform better in the second half of 2013-14 for four reasons:
 - full impact of various measures taken over the last six months will be reflected later in this year.
 - Strong emphasis 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 (CCI)
 - Rupee depreciation to boost exports

Agriculture

- **The driver of growth 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.
 - Reservoir position in the week ending August 29, 2013, 29% better than average of last 10 years. Thus both *kharif and rabi crops to be good.*

Non Farm GDP

- **Non-farm GDP projected to grow at same rate as last year:**
 - **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.

Balance of Payments

Unit: US\$ billion or % GDP where % indicated

	2009-10	2010-11 PR	2011-12 PR	2012-13 P	2013-14 Proj.
Merchandise Exports	182.4	256.2	309.8	306.6	309.7
Merchandise Imports	300.6	383.5	499.5	502.2	494.7
<i>of which: Oil</i>	87.1	106.0	155.0	169.3	180.0
Gold & Silver	29.8	42.6	61.6	55.8	40.0
<i>of which: Gold only</i>	28.8	40.7	56.5	53.8	38.0
Merchandise Trade Balance	-118.2 <i>-8.6%</i>	-127.3 <i>-7.6%</i>	-189.8 <i>-10.2%</i>	-195.7 <i>-10.6%</i>	-185.0 <i>-10.1%</i>
Net Invisibles	80.0 <i>5.8%</i>	79.3 <i>4.9%</i>	111.6 <i>6.0%</i>	107.5 <i>5.8%</i>	115.0 <i>6.3%</i>
<i>o/w Software & BPO</i>	41.5	49.6	60.1	61.6	70.0
Private Remittances	53.6	53.1	63.5	64.3	66.0
Investment Income	-7.2	-16.4	-16.5	-22.4	-24.0
Current Account Balance	-38.2 <i>-2.8%</i>	-48.1 <i>-2.8%</i>	-78.2 <i>-4.2%</i>	-88.2 <i>-4.8%</i>	-70.0 <i>-3.8%</i>
Foreign Investment	50.4	38.0	39.2	46.7	24.4
<i>o/w FDI (net)</i>	18.0	11.8	22.1	19.8	21.7
Inbound FDI	33.1	29.0	33.0	27.0	27.6
Outbound FDI	15.1	17.2	10.9	7.1	5.9
Portfolio capital	32.4	30.3	17.2	26.9	2.7
Loans	12.4	29.1	19.3	31.1	22.0
<i>of which: ECB</i>	2.0	11.9	10.3	8.5	7.5
Banking capital	2.1	5.0	16.2	16.6	18.0
Other capital	-13.2	-12.4	-6.9	-5.0	-3.0
Capital Account Balance	51.6 <i>3.9%</i>	63.7 <i>3.7%</i>	67.8 <i>3.6%</i>	89.4 <i>4.9%</i>	61.4 <i>3.4%</i>
Errors & Omissions	-0.0	-2.6	-2.4	2.7	0.0
Accretion to Reserves	13.4	13.1	-12.8	3.8	-8.6

Balance of Payments: Current Account

- **Controlling CAD and attracting capital in concerns at present.**
- **Current Account Deficit projected at \$70 billion (3.8% of GDP) in 2013-14** against \$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 \$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 \$107.5 billion (5.8 % of GDP) in 2012-13.
- The CAD may go even below \$ 70 billion in 2013-14 if the recent trends in exports and imports are maintained through the year.

Balance of Payments: Capital Account

- **Net Capital flows projected at \$ 61.4 billion (3.4% of GDP) in 2013-14 against \$ 89.4 billion in 2012-13 (second highest level to date)**
 - Net FDI inflows in 2013-14 projected at \$21.7 billion against \$19.8 billion in 2012-13.
 - Net FII inflows projected at \$ 2.7 billion in 2013-14, (\$17 billion in 2011-12 and \$27 billion in 2012-13) even though data up to end of August shows negative outflow.
 - Total inflows under the head of loans (ECBs and short-term loans) projected at \$22 billion in 2013-14 against \$31.1 billion in 2012-13.
 - Total banking capital inflows projected at \$ 18 billion in 2013-14 against \$ 16.6 billion in 2012-13.

Inflation and Rupee

- **Inflation by end March 2014 projected to be around 5.5 percent as against the average of 7.4% in 2012-13 and 5.7% at end March 2013.**
 - Good performance in agriculture will have a moderating effect on food inflation
 - Depreciation of the rupee may put some upward pressure.
 - Achieving the budget deficit target will be challenging.
- **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.

Measures to improve economic conditions

Growth friendly measures taken during past year to improve ICOR

Liberalizing FDI investment norms

Resolution of some tax issues concerning Industry

Fast-tracking public sector investment: focused attention on coal, power, road, railways.

Initiating construction of dedicated freight corridor

CCI set up to fast-track/debottleneck key projects: 209 projects (Rs. 384203) cleared.

Fuel subsidy reforms and mid-course corrective measures to contain fiscal deficit.

Improving investment policy regimes in sectors like sugar, urea, gas, roads , banking etc.

Streamlining restructuring of non performing loans through the Companies Act 2013.

Accelerated parliamentary approval of pending bills.

Medium to Long-term Suggestions to boost growth I

- **Growth friendly fiscal consolidation:**
 - Subsidies to be calibrated downwards to adjust to decline in revenue receipts
 - Subsidies needs to be transparent, well targeted for effective implementation and within prudent limits
 - New initiatives that could add to subsidy burden should be put to hold till public finances brought back to sustainable levels.
 - Using government consumption and investment as tools for crowding in domestic manufacturing.
 - Expedite passage of GST

Medium to Long-term Suggestions to boost growth II

- **Improve manufacturing capabilities**
 - Improving domestic supply chains.
 - addressing specific tax issues in sectors like electronics where value addition remains low.
 - Facilitating productivity shift through assured supply of skilled labour, including through appropriate tax policies
 - Streamlining procedures and setting up of transparent Making tax policies predictable, including Dispute Resolution Mechanism for direct and indirect taxes.
 - Streamlining procedures so investors are not surprised by fine print
 - Special attention to environment and land clearances, with greater inter-ministerial consultation: greater role for CCI role along with CMs
- **Foreign Investment**
 - Stable, non-reversible policy regime
 - Addressing tax related concerns, especially transfer pricing

Medium to Long-term Suggestions to boost growth III

- **Lower Current Account Deficit**
 - Focussed strategy for boosting exports to take advantage of rupee depreciation
 - Simplifying export related procedures, especially those relating to service tax exemption, e-commerce , and movement of people between SEZs and STPs, easier inward and outward visa regimes.
 - Boost domestic coal production and reduce oil subsidies to make them more price elastic
 - Pro-active implementation of modified gold deposit schemes to direct private gold stocks to meet the demand of users, thereby reducing gold imports.

Medium to Long-term Suggestions to boost growth IV

- **Reversing declining trend in household financial savings.**
 - Income tax exemption for investment in long term financial assets, which is capped at Rs. 1 lakh per annum should be increased meaningfully to attract more funds.
 - Issuance of inflation indexed small saving instruments to be distributed through post offices.
 - Policy rates can be reduced once inflationary pressures and pressure on rupee eases.

Medium to Long-term Suggestions to boost growth V

- Sector Specific Measures:
 - Interventions in agricultural sector
 - Promote High Value Agriculture (HVA)
 - Reform of agricultural marketing policies including APMC Acts
 - Developing domestic bond markets
 - PPP in Defense Procurement
 - Promoting MSMEs
 - Strategic Interventions in the Energy Sector.

Summing Up

- Continuous decline of growth since first quarter of calendar year 2011 a matter of great concern
- Underlying causes a mix of global environment and accumulation of macroeconomic (internal and external) and structural imbalances.
- Policy response: tight monetary policy, growth friendly fiscal consolidation and addressing deeper structural problems.
- India's model of growth, and drivers that make for high potential GDP largely intact.

Thank You