GDP Growth rate for 2014-15 is projected at 5.1 - 5.5 per cent. The higher growth of 5.5 per cent is conditional on pick up in investment spending.

WPI based average inflation rate projected at 6.1 per cent for 2014-15.

Fiscal deficit for the center estimated at 4.5 per cent of GDP for 2014-15.

New Delhi, Wednesday, 30 April 2014: At a seminar held at National Council of Applied Economic Research (NCAER) on the State of Economy, the following observations, reviews and projection were made by the Council through a presentation and release of the report titled, “Quarterly Review of the Economy”.

Agriculture

- Agriculture sector is likely to show a higher growth of 4.6 per cent in 2013-14, a major recovery from 1.4 percent in 2012-13.

- Food grains output is expected to touch a record 263 million tones, a new record output. The trends in output of both food grains and commercial crops reveal improved performance.

- Agricultural growth in 2014-15 will depend on the actual pattern of monsoon. At present rainfall is expected to be below normal this year which may result in a poor agricultural growth in 2014-15 and may have adverse impact on food inflation.

Industry and Services

- The index of industrial production (IIP), the principal indicator for industrial activity recorded contraction by 1.9 per cent in February 2014, the sixth monthly contraction since the beginning of the financial year 2013-14. Slowdown in corporate investment and infrastructure development are indicated as main reasons for the decline in growth.

- Manufacturing, which accounts for 75 per cent of the index, registered a decline of 3.7 per cent, against stagnant production in January, largely driven by fall in domestic demand.

- Infrastructure industries registered a growth of 2.6 per cent in April- February 2013-14, down from 6.4 per cent in the comparable period, 2012-13.
- The advance estimates of services sector growth at 6.3 per cent in 2013-14 are more or less comparable to previous year. Services sector growth, excluding construction is much higher at 7.6 per cent.

**Public Finance**

- The revised estimates for the fiscal deficit at 4.6 per cent show some progress in fiscal management in 2013-14, though the quality of improvements remains a concern.

- Contrary to the projection in the vote on account, the fiscal deficit to GDP ratio for the next fiscal is unlikely to be contained at 4.1 per cent. Bond yields have already hardened in response to market perception that borrowing will be revised upwards. The budget by the new government, later this year will give a more complete picture of centre’s fiscal position.

**Monetary Conditions**

- The RBI managed to ease liquidity during Q4 through a mix of term repos, overnight repos and other measures.

- Reserve money increased by Rs 313 bn in the last quarter of 2013-14, driven mainly by net credit to the Centre. Deposit growth slowed down and the Credit growth for the year as a whole was 12%, slightly below RBIs estimates for the fiscal year.

- BSE Sensex and NSE recorded an increase of about six per cent during the last quarter of 2013-14 riding on expectations of a stable electoral outcome, lower CAD numbers, and lower inflation amongst other reasons.

- Credit quality continued to deteriorate on account of slower economic growth and rising interest rates that have made tougher for borrowers to repay debt.

**External sector**

- Exports grew by 4 per cent in 2013-14 as compared to a decline of 1.8 per cent in the previous year.

- Commodity imports recorded a decline of 8.1 per cent during 2013-14 in comparison to growth moderation during 2012-13.

- The first three quarters of 2013-14 saw the merchandise exports expanding 5.9 per cent while imports declined by 5.3 per cent and consequently trade deficit shrank 22.1 per cent. The lower trade deficit augmented by higher net earnings resulted in sharp decline in the current account deficit (CAD) in the first three quarters of 2013-14.

- Net capital inflows declined by (-) 42.4 per cent and a decline in net outflows was also observed resulting in overall surplus of US$ 8.4 billion.
Prices

- The overall price situation showed significant improvement in the last quarter of 2013-14. WPI inflation and retail inflation rates dropped nearly 2 percent during the last quarter. WPI inflation using year on year inflation rates based on monthly data stood at 5.2 per cent and retail inflation between 7 per cent – 8.9 per cent.

- Seasonal correction of food prices, policy tightening by RBI and favorable global factors are some of the attributing factors that may prove transient.

- Food inflation will depend on the spatial and temporal distribution of monsoon in the coming season and the extent to which both are affected by El Nino. The timing and magnitude of revisions in administered prices (particularly electricity and coal) will also affect the trajectory of inflation in 2014-15.

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GDP Forecasts for 2014–15

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<tbody>
<tr>
<td>% change y-o-y</td>
<td></td>
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<tr>
<td>Real GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Agriculture</td>
<td>1.4</td>
<td>4.6</td>
<td>2.1</td>
<td>3.0–3.03</td>
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<tr>
<td>- Industry</td>
<td>0.9</td>
<td>0.7</td>
<td>3.8</td>
<td>1.9–3.6</td>
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<tr>
<td>- Services</td>
<td>7.0</td>
<td>6.9</td>
<td>7.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Total</td>
<td>4.5</td>
<td>4.9</td>
<td>5.6</td>
<td>5.1–5.5</td>
</tr>
<tr>
<td>Exports ($ value)</td>
<td>-1.8</td>
<td>4</td>
<td>14</td>
<td>16.6</td>
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<tr>
<td>Imports ($ value)</td>
<td>0.3</td>
<td>-8.1</td>
<td>14.4</td>
<td>19.6–20.5</td>
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<tr>
<td>Inflation (WPI)</td>
<td>7.4</td>
<td>6.0</td>
<td>6.0</td>
<td>6.1</td>
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<tr>
<td>% of GDP at market prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Current account balance*</td>
<td>4.8</td>
<td>2*</td>
<td>-3.0</td>
<td>(-)3.5–(-) 3.85</td>
</tr>
<tr>
<td>Fiscal Deficit (Centre)</td>
<td>4.9</td>
<td>4.6</td>
<td>4.9</td>
<td>4.41–4.5</td>
</tr>
</tbody>
</table>

Notes: Forecast Based on Annual Model.
*RBI; AE: Advance Estimates RE: Revised Estimates * Surplus (+)/deficit (–)

About NCAER: NCAER, the National Council of Applied Economic Research, is India’s oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru to inform policy choices for both the public and private sectors. Over nearly six decades, NCAER has served the nation well with its rich offering of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of a few independent think-tanks world-wide that combines rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its Director-General, Dr Shekhar Shah, and governed by an independent Governing Body chaired by Mr Nandan M. Nilekani.

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