Press Release

NCAER's Quarterly Seminar on 'State of the Economy' and forecast for 2013–14

- GDP Growth rate projected at 5.9 per cent.
- WPI based average inflation rate projected at 5.9 per cent.
- Fiscal deficit for the centre estimated at 5.1 per cent of GDP.

New Delhi, Thursday, 8 August 2013: At a Seminar held today at the National Council of Applied Economic Research (NCAER) on the *State of the Economy*, the following observations, reviews and projections for 2013-14 were made by the Council through a presentation and release of their quarterly report titled "Quarterly Review of the Economy".

Agriculture

- Timely and bountiful rainfall has raised the prospect of a good agricultural output.
- The incidence of pests and disease has also remained below the Economic Threshold Level for most crops and storage of water in major reservoirs of the country is significantly higher than last year as well as the average for the last ten years.
- Consequently food inflation, which has stayed at relatively higher levels compared to general inflation, will be kept in c heck.

Industry and Services

- Manufacturing, which accounts for about 75% of the IIP, continues to be the biggest drag on industrial growth. The growth in IIP during April–May 2013 was a minuscule 0.1%.
- Growth in manufacturing was constrained by high inflation and rising cost of labour and raw materials, shortage of power, inadequacy of credit as well as policy uncertainty.
- The performance of the mining sector is discouraging (–4.5% growth in April-May 2013–14).
- Electricity is the only bright spot (5.2%) during April–May 2013–14, though here too growth is lower than in the same period of the previous fiscal.
- The improvement in growth in 'financing, insurance, real estate and business services' countered the marginal dip in growth in 'trade, hotels & restaurants'.
- Railway freight traffic grew faster at 4.9% during Q1 2013–14. However, growth in most other sectors such ports, communications, banking, air traffic etc was distinctly slower.

Public Finance

- The revenue deficit at the end of May 2013 was higher at 38.1% of the Budget Estimate (BE) and worsened to 48% of the BE for the current fiscal. The primary deficit, which is the fiscal deficit less interest payments is not only well above the 50% number for the comparable period last year but has already touched 84.5% of the estimate for the year by end May 2013.

- The outgo on account of the food security programme that seeks to provide subsidized grain to 67% of the population is bound to put severe pressure on the centre's finances in an environment of slowing tax revenues and inability to phase out subsidies on oil and fertilizers.

Money, Credit and Finance

- Liquidity conditions improved in the first quarter of 2013. However, the rapid weakening on the rupee compelled the RBI to come out with some strong measures to restore stability to the foreign exchange market in mid-July.

- The Marginal standing Facility (MSF) rate was re-calibrated at 300 basis points above the policy repo rate under the Liquidity Adjustment Facility (LAF). Further, the overall allocation of funds under LAF was capped at 1.0 per cent of the Net Demand and Time Liabilities (NDTL) of the banking system, with the cap reckoned at Rs 750 billion. These were followed by further tightening measures.

- The deterioration in asset quality continues during Q1, 2013–14, with public sector banks showing a sharper deterioration compared to private sector banks. Tight liquidity and slower growth in deposits also saw a reduction in bank lending to industry.

External sector

- Trends in exports and imports in Q1, 2013–14 suggest a widening of the merchandise trade deficit.

- Exports contracted in May and June 2013 after recording growth for five consecutive months since December 2012. Exports of engineering goods, gems & jewellery, electronics and iron ore fell significantly in Q1, 2013–14 even as imports of gold, pearls, precious & semi-precious stones, non-ferrous metals and electronic goods rose.

- Despite a 5.7 per cent decline in international crude oil prices (Indian basket) in Q1, 2013–14 (y-o-y), POL imports grew by 6.4%.

Table F.3: GDP Forecasts for 2012–13 and 2013–14

Item	2011–12(RE)	2012–13(AE)	NCAER forecast for 2013–14 April 2013	NCAER forecast for 2013–14 July 2013
% Change y-o-y				
Real GDP				
- Agriculture	2.8	1.8	3.2	3.2
- Industry	3.4	3.1	4.4	4.3
- Services	8.9	6.6	7.7	7.1
Total	6.5	5.0	6.2	5.9
Exports ($ value)	21.8	–1.8	23.9	9.4
Imports ($ value)	32.3	0.4	15.8	12.4
Inflation (WPI)	8.8	7.2	5.9	5.9
% of GDP at market prices				
Current account balance*	–4.2	–5.1#	–3.5	–4.6
Fiscal Deficit (Centre)	5.7	5.2	5.0	5.1

Notes: Forecast Based on Annual Model.
*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 Nilekani, Chairman of the Unique Identification Authority of India.

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