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Press Release

Malcolm Adiseshaiah Mid-Year Review of the Indian Economy 2013-14, NCAER-IIC

- GDP Growth rate projected at between 4.8-5.3 per cent.
- WPI based average inflation rate projected at 6.8 per cent.
- Fiscal deficit for the centre estimated at 5.1 per cent of GDP.

New Delhi, Saturday, 16 November 2013: At a seminar held at the India International Centre, New Delhi today, the National Council of Applied Economic Research (NCAER) presented the ***Mid Year Review of the Economy, 2013-14***. The Review covered the performance of the economy during the first half of the current year (April-September 2013-14), and made projections for the year as a whole based on two models, a quarterly model and an annual model. It also included two special papers on 'Revival of the Mining Sector' and 'Natural Gas Pricing and Energy Security', both issues of critical importance to the economy.

Agriculture

- Favourable monsoon has brightened the scope for a good agricultural output.
- Growth rate is expected to increase to 3.9%.
- Both the kharif and rabi crop are expected to do well and lift output.
- Food inflation is expected to come down in the second half of the year.

Industry and Services

- The industrial sector continues to under-perform due to sluggish growth in manufacturing and contraction of output in the mining and quarrying sectors. Industrial growth is revised downwards to 2.9%.
- Capital goods have been particularly volatile (15.6% growth in July followed by a 2 percent decline in August and another decline of 6.8 % in September)
- Output of eight core industries has improved with steel, cement and electricity industry leading the improvement. However the performance falls short when compared to corresponding period last year.
- Consumer durables and basic goods, which accounts for 54% of the IIP, pulled overall growth down.
- There has been a modest pickup in Reserve Bank’s Services Sector Composite Indicators (construction, trade and transport and finance) in July-August.

- Overall services sector indicators reveal a mixed picture. Indicators like tourism arrivals, railway freight revenue and steel production showed signs of improvement, while commercial vehicles sales and some segments of the aviation industry contracted.

- The growth of services sector is lower, compared to last year, resulting in downward revision of estimates to 6.6%.

Public Finance

- Though early to predict, indications are that with growth likely to be significantly lower than projected in the budget, it may be difficult to achieve the budgeted tax – GDP ratio of 10.9 per cent even with the budgeted tax buoyancy of 1.4 per cent during 2013-14.

- The cumulative fiscal deficit reached 3.7% of GDP during April–September 2013 versus the budget estimate of 4.8% of GDP for the full FY14.

- A shortfall in tax revenues; increasing subsidy burden; difficulty in achieving the divestment target; rise in the food subsidy burden; and pre election sops are some of the reasons likely to hamper the recovery of economy in FY14.

Money, Credit and Finance

- The monetary situation continues to be extremely challenging. RBI hiked the MSF rate sharply and tightened liquidity in July in response to market volatility, followed by a rollback of some liquidity tightening measures. The repo rate was raised in quick succession in September and October and currently stands at 7.75%.

- The stock market registered highs and lows with the Sensex slipping in August and recovering to an all-time high of 21,034 on 30th October 2013.

- The slowdown in the economy impacted both deposits and credit growth. The deposit growth slowed down while credit growth was higher when compared to the previous year.

External sector

- The first half of the year witnessed considerable turmoil driven by strong outflows of capital. The rupee fell sharply against the dollars during May–early September though it has since recovered.

- Trade balance responded to policy measures by the government and RBI with gold imports declining and exports picking up. This resulted in a reduction of the trade deficit compared to last year.

- External risks have decreased. However, the improvement in the current account deficit (CAD) cannot be taken for granted. It needs more structural adjustments and greater attention must be paid to altering the pattern of financing of CAD.

Prices

- Inflation has re-emerged as a major problem with both the wholesale and retail consumer price inflation levels at a high of 6.46 % and 9-10% respectively at the end of September 2013.

- Inflationary expectations have got entrenched.

Table: GDP Forecasts for 2013–14

Item	2011–12(RE)	2012–13(AE)	NCAER forecast for 2013–14 July 2013	NCAER forecast for 2013–14 October 2013
% Change y-o-y				
Real GDP				
- Agriculture	3.6	1.9	3.2	3.9
- Industry	3.5	2.1	4.3	3.9
- Services	8.2	7.1	7.1	6.1
Total	**6.2**	**5.0**	**5.9**	**4.8-5.3**
Exports ($ value)	21.8	–1.8	9.4	11.9
Imports ($ value)	32.3	0.4	12.4	13.0
Inflation (WPI)	8.8	7.2	5.9	6.8
% of GDP at market prices				
Current account balance*	–4.2	–4.8	–4.6	–4.5
Fiscal Deficit (Centre)	5.7	5.2	5.1	5.1

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

The Mid-Year review includes two special papers on 'Revival of the Mining Sector' and 'Natural Gas Pricing and Energy Security', both issues of critical importance to the economy. Lekha Chakraborty' s paper on the mining sector is one of the few comprehensive papers that looks at the sector, in particular, at its competitiveness. Soma Banerjee's paper on Natural gas Pricing and Energy Security stresses the need for a comprehensive pricing policy based on a rational approach and a long-term vision.

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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