Press Release

NCAER MID-YEAR REVIEW OF THE ECONOMY 2014-15

New Delhi, Monday November 3, 2014: At a seminar held over the weekend at the India International Centre, New Delhi, the National Council of Applied Economic Research (NCAER) presented the **Malcolm S Adiseshiah *Mid-Year Review of the Economy, 2014-15*** in partnership with IIC. The Review covered the performance of the economy during first half of the current year (April – September 2014-15), and presented the most recent GDP forecasts made by NCAER using its quarterly and annual macro models. Dr. Bimal Jalan, former RBI Governor and former president of NCAER and currently Chairman of the Government's Expenditure Management Commission chaired the meeting. Dr Jalan also released the NCAER Report from the 2013-14 Mid-year Review.

Dr Ajit Ranade, Chief Economist, AV Birla Group equated MYR to an actual economic survey, the way the chapters are organized with lots of data and time trends apart from the analysis. Dr Ranade emphasized that NCAER has always been looked as a 'neutral outsider' with an unbiased view of the Indian economy.

Overall, the economy looks weak with uncertain growth prospects. The economy is giving mixed signals. On one hand, we had the Sensex reaching record levels partly driven by record foreign institutional investment and FDI. Even the NCAER Business Confidence Index showed rise in sentiments in July 2014. This change in sentiments has been drive by the change in the political climate in the form of a "stable government". Another positive sentiment has been the weakening of prices driven by downward movement of food and fuel inflation. On the other hand, agricultural growth is predicted to be lower than last year as there was deficit rainfall with uneven spatial and temporal patterns. After the first quarter, industrial growth has slowed down in the months of July and August with the manufacturing sector leading the downfall. Electricity sector was the only redeeming feature in the economy with double digit growth. The pace of growth shows signs of slowing down in the services sector. Not surprisingly Bank Credit to the Commercial sector has not picked pace and continues to languish. Further, the slowdown in the external economy except the United States shows little growth prospects for the external sector even though exports grew in the first quarter. Therefore, while inflation has weakened significantly and sentiments have arisen, the fundamentals of the economy continue to be weak.

Agriculture

- The deficient monsoon is bound to affect agricultural output, especially in rain-fed areas, which account for about 55-60% of the area sown.
- NCAER's estimates based on its economic models (incorporating the impact of rainfall as well as a trend factor) anticipate a 2% to 4% deficit in overall Kharif food

grain output as compared to a higher estimate of around 7% by the Agriculture ministry.

- Lower agricultural output has implications for GDP growth and inflation. In addition, it has huge implications on the well-being of many of India's poor, particularly the rural poor, since close to 60% of the population is still dependent on agriculture.

Industry and Services

- After welcome growth of 4.2% in 2014–15:Q1, industrial growth disappointed in July and August 2014 registering a growth of just 0.4% year-on-year in each of the two months.
- Manufacturing proved the biggest disappointment, with the growth rate contracting by 1% and 1.4% in July and August respectively, even though a 3.5% growth was witnessed in the first quarter.
- Gross fixed capital formation, GFCF, brought in some consolation with a 7% YoY growth in Q1 of FY15, the highest since Q1 FY12.
- The strong hope is that the improvement in the performance of core industries will soon get translated into better performance in the industry overall. The combined efforts of RBI and prompt actions by the Central Government, and its committed agenda for industry, may turn the industrial sector around and give an impetus to overall economic growth.
- The services sector grew 6.8% in Q1 FY15, well below the close-to-double digit growth recorded during 2005-06 and 2007-08. Within the services sectors there is wide variation, with trade, hotel and restaurants and construction showing a slower growth compared to community and personal services.

Monetary Conditions

- Money and credit markets have been largely stable during the first half year. Stock markets, equity as well as bonds remained steady while credit markets remained subdued.
- Growth in bank credit fell to a five-year low at 10.9% at the end of August 2014, the asset-quality continues to decline though at a slower pace.
- Bank deposits grew 13.6% up to the third week of August 2014, compared to 12.6% during the comparable period last fiscal, suggesting that financial assets might once again become attractive.
- Equity markets touched new highs, riding on a surge in overseas inflow. After touching a record high in September 2014, the slower FII inflows in response to jitters about the US Fed taper led to some correction in the BSE Sensex.

External sector

- After recording a strong performance of double-digit growth in May and June 2014, export growth slowed down in subsequent months with a growth rate of just 2.73% in September 2014.

- The trade balance improved in the Q1 from $33 bln, down from $48 bln in the comparable period in FY14. However with the slowed down exports and with the imports climbing 26% in September 2014, the trade deficit rose to an 18 month high in September 2014.
- The slow appreciation of the rupee, combined with the uncertain recovery in the rest of the world, is likely to impact export performance in the coming months.
- Overall, not all is bleak on the export front. India has diversified its export basket and markets. The new Foreign Trade Policy for 2014-19 may bring in a number of new initiatives to promote exports.

Prices

- There has been some good news on the inflation front, with retail inflation falling to 6.46% in September 2014, down from 8.59% in April l 2014, as CPI inflation ran below 8% for the fourth successive month.
- The decline in food inflation from 8.6% in April 2014 to 3.52% in September 2014 has helped the softening in inflation at large.
- Inflation based on the wholesale price index, WPI, also fell to a 59-month low of 2.38% in September 2014 , down from 5.25% in April 2014

Public Finance

- The first quarter GDP numbers suggest economic growth might be bottoming out with some ups and downs. At 5.7%, GDP growth during April- June 2014 is 1 percentage higher than in the comparable period last fiscal and the highest in the previous nine quarters.
- The Budget presented in June 2014 saw the fiscal deficit to GDP ratio being retained at 4.1% for FY15, while the fiscal deficit during the period April-August 2014 has touched almost 75% of the budget estimate for the entire year.
- Non-plan expenditure has grown by little over 4% in the first five months as against 9.4% growth projected in the Budget. Food subsidies are also lower at Rs 62,000 crore during the first five months of FY15.

GDP Forecasts

NCAER is predicting a slower growth for the economy unlike other forecasts. The fundamentals of the economy remain weak with uncertainties prevailing. The only redeeming feature is the weakening of inflation and FDI inflows. Whether that will help us revive our growth prospects will depend on a number of factors including revival of the external economy and the extent of damage on agriculture due to deficit rainfall.

GDP Forecasts for 2014–15

Item	2012–13(RE)	2013–14(PE)	NCAER forecast for 2014–15 January 2014	NCAER forecast for 2014–15 April 2014	NCAER forecast for 2014–15 July 2014	NCAER forecast for 2014–15 October 2014
			% change y-o-y			
			Real GDP			
- Agriculture	1.4	4.7	2.1	3.0	2.7	2.0
- Industry	1.0	0.4	3.8	1.9	4.2	2.3
- Services	7.0	6.8	7.1	6.9	7.0	6.9
Total	**4.5**	**4.7**	**5.6**	**5.1**	**5.7**	**5.0**
Exports ($ value)	-1.8	4.0	14	16.6	18.8	5.8
Imports ($ value)	0.3	-8.1	14.4	19.6	25.6	12.8
Inflation (WPI)	7.4	6.0	6.0	6.1	6.4	4.5
			% of GDP at market prices			
Current account balance*	4.8	2*	−3.0	−3.5	-2.8	−2.6
Fiscal Deficit (Centre)	4.9	4.6	4.9	4.5	4.5	4.3

Notes: Forecast Based on Annual Model. *RBI
AE: Advance Estimates; ***PE:*** Provision Estimates * Surplus (+)/deficit (–).
s: Central Statistical Organisation and NCAER.

The ***NCAER 2014-15 Mid-year Review***, as in previous years, included two special papers on *'Financial Inclusion in India: Why Distinguishing between Access and Use has Become Even More Important'* by Indira Iyer, and *'India's Bilateral Trade in Services: Patterns, Determinants and the Role of Trade in Goods'* by Seema Sangita, both issues of critical importance to the economy. Iyer's paper traces the development of policies that promoted financial inclusion and suggests the way forward. Sangita's paper on bilateral trade analyses the patterns and determinants of bilateral trade in services in the case of India.

Financial Inclusion in India: Why Distinguishing between Access and Use has Become Even More Important

The Jan Dhan Yojana (JDY) was launched on August 28, 2014 and, gauging by the 1.5 crore bank accounts that were opened on a single day, signalled accelerated efforts by the government to make financial inclusion a key goal to change lives, reduce risks, and make a broader section of the population a part of the growth process. Starting from 1969 with the nationalization of banks, there have been steady improvements in making financial services more accessible and affordable for the poor. This paper traces the development of policies that promoted financial inclusion and suggests that while universal access is a desirable public good, with a large percentage of accounts lying dormant and the significant use of informal sources of credit, good indicators of success in making financial services more inclusive are setting both supply-side numeric targets as well as demand side indicators to track the ongoing use of such services on a longer term basis.

India's Bilateral Trade in Services: Patterns, Determinants and the Role of Trade in Goods

This paper analyses the patterns and determinants of bilateral trade in services in the case of India using a nascent bilateral trade in services dataset in a Gravity Model Framework over the time frame between 1994 and 2009. The Gravity model is enhanced to analyse the inter-linkages between trade in services and trade in goods and the paper demonstrates evidence of complementary relationship between these variables. The study suggests the need for an integrated policy making process for manufacturing and service sectors, particularly in trade sector, instead of treating them as two disparate sectors.

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.

Media Contact:

Dr Bornali Bhandari & Ms Shilpi Tripathi
NCAER| National Council of Applied Economic Research
11, Parisila Bhawan
IP Estate, New Delhi
(T) : 011-2345-2605 (D), 011-2337-9861
Email: stripathi@ncaer.org