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Contents

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Overview

On the economic front, Q3, 2013-14 has been a mixed bag. There's been both good news as well as bad. The good news is that trade numbers for December 2013 released early January suggest the current account deficit (one of the twin deficits that has caused much concern) should decline quite dramatically. Latest numbers suggest the CAD/GDP ratio should fall to below 2.5% this fiscal, down from 4.8% the previous fiscal. While exports continue to grow, the rate of growth moderated to 3.5% in December 2013 even as imports declined 15.2%, leading to a widening of the overall trade deficit to $10.1 billion. Nonetheless, most experts now place FY14 CAD at below $50 billion, down from $ 88 billion (4.8% of GDP) in the last fiscal.

Reflecting the improvement on the external front, the exchange rate of the rupee vis-à-vis the dollar stabilized during the quarter. Despite the US Federal Reserve announcing its phased programme of tapering, commencing January 2014, the rupee remained remarkably stable in the Rs 61- Rs 63 range through most of the third quarter. Some weakening was seen mid-January following distress in key emerging markets like Argentina and Turkey. But by and large the rupee has weathered the storm fairly well.

That is not all. On the inflation front, there are signs that after months of relentless price rise, both wholesale as well as consumer price inflation (CPI) might finally be on the decline. While CPI declined from 11.24 % in November (revised down to 11.16%) to 9.87% in December 2013, wholesale price inflation (WPI) fell even more sharply from 7.52 % to 6.12% over the same period. In both cases the improvement was account of lower vegetable prices. (Vegetable prices rose 39% year on year in December in the CPI basket as compared to 57% in the WPI basket).

The bad news is that there is no sign as yet of recovery on the industrial front. On the contrary, industrial production continues to trend down. While the Index of Industrial Production (IIP) registered a negative growth of 2.1% in November 2013, the consumer goods sector, especially consumer durables, performed particularly badly, recording a decline of 21.5%, a new low post May 2013, when it touched a new post-crisis low at 18.3%. Manufacturing, with a 75% weight in the IIP, remains lacklustre, declining 3.5% compared to two percent in the previous month despite numerous efforts by the government to spur growth by speeding up clearances etc.

Revised estimates of GDP for 2011-12 and 2012-13 released by the Central Statistical Organisation (CSO) on 31 January suggest the slowdown in the last fiscal may have been more severe than indicated by earlier estimates. GDP in 2012-13 at constant prices (2004-05) is now believed to have grown at only 4.5%, a ten year low, with manufacturing growth at just 1.1% down from 7.4% in the previous year and 11.3% in 2009-10.

Advance estimates due on 7 February 2014 are unlikely to be much better, as manufacturing has continued to decline and services growth, too, has begun to slacken. Agriculture, alone is expected to do better though given the low share of agriculture in GDP, is unlikely to be sufficient to lift overall GDP growth to over 5% . Thus, after many years of robust growth, the Indian economy is likely to witness two consecutive years of sub-five percent growth.

Slow growth, combined with high inflation provides a potent mix for social and political unrest. According to analysis done by the State Bank of India, growth in consumer durables sector tracks CPI inflation closely. Except for FY2010, when consumer durables peaked even when CPI inflation was also at its peak (primarily due to the fiscal impetus provided by the 6th Pay Commission disbursements), high inflation has invariably been accompanied by contraction in IIP consumer durables, suggesting subsistence needs override all other needs for households).

India has moved from being part of the famous BRICs to becoming a member of the infamous Fragile Five – Brazil, India Indonesia, Turkey and S Africa. The world's biggest asset manager, Blackrock, in the latest (October 2013) update of its Sovereign Risk Index, (which ranks 50 countries in terms of governments' creditworthiness, external finance needs, fiscal policies and banking stability, and also captures the essence of pure political risk), classified India as 'risky' along with all the Fragile Five, all of whom face elections this year.

Political risk, as perceived by market players, is bound to become a bigger factor as we get closer to the elections in May 2014. A recent study published by the U.S.-based National Bureau of Economic Research shows early-warning political risk gauges can be constructed from bond market prices and provide a valuable guide for business overseas. However, the authors - Geert Bekaert, Campbell Harvey, Christian Lundblad and Stephen Siegel – caution that sovereign spreads in emerging markets overstate pure political risks by 3.1 percentage points. That might be comforting for us in India. But their conclusion that a one percentage point rise in the political risk spread leads to a drop in foreign direct investment (FDI) of almost 12% or about $305 million on average, for the 30 emerging countries in major debt indices has serious implications for India, given our concerted efforts to move away from dependence on portfolio flows to longer-term FDI.

The World Bank in its latest update on global growth has revised its estimate upward to 3.2%, up from 2.4% in early 2013 and three per cent in July 2013. It has also revised its estimate for India to 'over 6% in 2014-15' and 7.1% the following year.

However, the disappointing news as far as emerging markets are concerned is that the Bank expects most of the growth to come from high income countries. Though the Bank does add that the withdrawal of quantitative easing and corresponding increase in global interest rates is expected to weigh only modestly on investment and growth in developing countries as capital costs rise and flows moderate in line with global portfolio rebalancing.

Agriculture

Agriculture is expected to do well this fiscal. Most forecasts suggest record production of foodgrains. Thanks to the rain gods, rainfall has been six per cent above normal. In addition, the spatial distribution of seasonal rainfall at the level of sub-divisions and districts was also fairly good as reflected in the shares of sub-divisions and districts that received normal to excess rainfall. Thus, in comparison to 2012-13 the spread of monsoon rainfall during 2013-14 was fairly satisfactory. A comparison of the performance of monsoon rainfall during the period from the beginning of June to the end of September over the last four years reveals that this year's rainfall has been the best in three of the four major regions of the country. The only exception is the eastern region, which received below normal rainfall overall.

Our estimates suggest overall foodgrain output is likely to set a new record of around 270 million tones.

However, management of foodgrains continues to pose a challenge. Poor infrastructure, archaic laws like the Agriculture Product Market Committee Act and ECMA (Essential Commodities Maintenance Act) and most of all, buffer-stocking much above buffer norms, all contributed to keeping food inflation high.

Forecast

Overall, the projections for 2013-14 based on quarterly and annual models point to a GDP growth of 4.7-4.9 per cent. The fiscal deficit may be slightly higher than the budgeted 4.8 per cent on account of slower economic growth. The current account deficit is expected to return to more sustainable levels, although at lower pace of growth of economy. Industrial growth remains the weakest link in growth momentum.

Based on the assumptions of normal rainfall, pick up in world output growth and other global demand conditions as per the recent projections of IMF and government expenditure patterns as in the current year, we have provided an assessment of the macroeconomic scenario for 2014-15.

While agricultural growth is projected to return to more normal level, improvement in the growth of non-agricultural sectors is projected to lead to overall GDP growth of 5.6 per cent.

The higher growth is expected to increase import demand and improved merchandise exports and net invisibles maintain the CAD at 3 per cent of GDP. Fiscal deficit will remain close to 5 per cent of GDP indicating the need for fresh initiatives to improve revenues and budgetary expenditures.

Industry

Lower investment and consumption demand resulted in industrial output contracting during the first two months of the third quarter with both capital goods and consumer durables output falling. The mining sector too failed to look up, thanks to a complex set of problems relating to environment, regulation and governance issues. Manufacturing output in the April-November period 2013 declined 0.6% compared to a growth of 0.9% in the comparable period last year. Poor performance was not confined to any one sector but was across-the-board with 11 out of 22 industries showing a decline in output.

On a use-based industry classification, growth in both intermediate goods and consumer non-durables improved as compared to the previous year. However, high inflation took its toll as falling discretionary spends impacted demand for consumer durables resulting in a 21.5% contraction in consumer durable output.

The index of eight core industries that together account for 38% weight in the Index of Industrial Production (IIP) also registered a lower growth of 2.5% during April- November 2013 compared with 6.7% in the comparable period last year. Here again the decline was across the board with natural gas, crude oil, coal, petroleum refinery products and cement all contracting in unison.

Services

The services sector, long regarded as the main prop of robust economic growth in the country, has not been immune from the overall slowdown. Lead indicators from the second quarter suggest the momentum is unlikely to pick up in the remaining part of the year.

Services exports may prove an exception to the generally subdued trend given that these are a function of global growth. The results of IT majors like TCS and Infosys suggest demand for IT services is likely to increase as the recovery in the West gathers steam. As per latest data, annualised GDP growth in the US is expected to be in the range of 3.5-4%. Economic recovery in the UK economy also seems on course and while Europe is not yet out of the woods the global economy is in decidedly better shape and that augurs well for software exports in Q4.

Public Finance

Public finances continue to be in disarray. Though the finance minister has reiterated his determination to keep the fiscal deficit to GDP ratio at 4.8% as projected in his budget estimates, runaway expenditure coupled with lagging tax revenues and poor collections from disinvestment have resulted in the fiscal deficit touching 94% of the target of Rs 5.42 lakh crore for the year by November 2013. Faced with the prospect of falling short on his promise, the FM is likely to cut back drastically on plan expenditure, further aggravating the slowdown.

The finance ministry is also seeking to make good the revenue loss through all possible means. Thus, public sector undertakings, like Coal India Ltd, have been nudged into declaring a special dividend way above that declared last year (Rs 29 per share as against Rs 14 per share last year), netting the exchequer a handsome sum of Rs 16, 489 crore as dividend. Other PSUs are not expected to escape – they will all be 'commanded' to pitch in to bridge the fiscal deficit, despite the obvious opportunity cost, in terms of deferment of sorely-needed investment in expanding their own operations.

Plans are also afoot to offload the government's stake in various profitable companies such as Axis bank, ITC, L&T presently held through SUUTI (Specified undertaking of Unit Trust of India) which was carved out of UTI, post the US-64 fiasco. SUUTI's holding, in these three companies (23.58 % in Axis Bank, 11.54 % in ITC and 8.27 % in L&T) is presently (January 2014) valued at approximately Rs 48,000 crore and should more than compensate for the shortfall in government's disinvestment target for the year (Rs 40,000). Spectrum auction is another channel that is expected to fetch the government some money.

The possibility of financial jugglery (deferring payment for expenses incurred this fiscal to the next) in order to meet the FD/GDP target cannot be entirely ruled out. Some amount of jugglery has, perhaps, become a feature of our Budget exercises (recall the infamous off-budget items like oil receivables of the past), but the danger of window-dressing government fiscal numbers cannot be over-stated, as the Greeks will readily testify!

However, the quality of the fiscal adjustment, moreover, is just as important as the numerical number and here the unfortunate reality is that, as in the previous fiscal, the containment of the FD has been done through the wrong kind of expenditure compression. Thus the Revenue Deficit (RD), or the extent of the deficit that has gone to meet current rather than capital expenditure, has already crossed the target for the entire year during the first nine months of the current fiscal, while the primary deficit has crossed 171% by November 2013.

Money, Credit and Financial Markets

Both money and capital markets exhibited lower volatility during the third quarter compared to the second quarter, primarily because the global environment was less turbulent and hence the overhang from external forces was also markedly less pronounced. Surprisingly, the much-awaited announcement of tapering by the US Federal Reserve on 18 December 2013 did not have the tumultuous impact witnessed earlier in the year when mere talk of the possibility of such tapering in May 2013 led to mayhem in both markets.

Healthy capital inflows under the RBI's swap facilities for overseas borrowings by banks and non-resident deposit accounts eased liquidity conditions and helped bridge the gap between credit and deposit growth during the quarter under review. There were brief periods of tight liquidity as when advance tax payments were made late December, but overall liquidity conditions were comfortable, thanks in part to the RBI conducting a number of open market operations (OMOs).

Credit disbursement slowed down in the third quarter with credit to both agriculture and industry recording a slowdown.

Overall credit growth to industry decelerated from 15.2% last year to 14.1%, led by sectors such as petroleum, mining and gems and jewelry. Nonfood credit growth declined from a peak of 18.1% early September to 15% by early January, in line with the RBI's indicative trajectory of 15%.

The decline in credit growth was partly a reflection of subdued investment sentiment among corporates, in line with slower GDP growth as well as growing risk aversion among banks faced with a growing burden of non-performing assets. Asset-quality indicators have been slipping since 2011-12, with public sector banks, which account of the bulk of bank lending, showing much greater deterioration in asset quality compared to foreign/private sector banks.

Following the strong growth in FCNR(B) balances consequent on the RBI's concerted efforts to attract dollar deposits, deposit growth, year-on-year, finally out-stripped credit growth. However, adjusted for the FCNR (B) effect, deposit growth in the third quarter continued to lag credit growth as in the earlier quarters, reflecting the declining interest of retail depositors in bank deposits, given negative real rates of interest.

In its mid-quarter monetary policy review on 18 December 2013, the RBI maintained *status quo* on rates despite the fact that inflation numbers available at the time of the review showed a sharp increase at both the wholesale and retail level. In the January policy review, however, the RBI chose to hike rates another 25 basis points (the third increase since September2013) to eight per cent on the grounds that inflation rates were still elevated. The hike, which went against consensus opinion of a pause in the rate hiking cycle, was sought to be justified on the grounds that the RBI cannot pause in its efforts to ensure financial and monetary stability, even as the slowdown in the economy was getting 'increasingly worrisome' and growth is 'likely to lose momentum in Q3'.

As with money markets, financial markets were less turbulent during the period under review. Postponement of tapering by the US Fed helped restore order in markets. Volatility, however, remained high and though the Sensex recovered strongly and indeed went on to touch an all time record of 21,374 on 22 January 2014, the underlying sentiment remained nervous. During 22 May to 30 August both the Sensex and the Nifty declined as FIIs withdrew US$ 13 billion from domestic debt and equity markets. However, both indices increased by nine per cent during the third quarter compared to a decline in the previous quarter. From a 52-week low of 17,448.71 on 28 August 2013, the Sensex has risen 3,888.96 points or 22.28% by 22 January 2014.

External sector

Export performance was robust during the third quarter, partly on account of the sharp depreciation in the exchange rate of the rupee and partly on account of a modest recovery in major advanced economies.

The improvement in exports together with a moderation in imports, especially gold imports, contributed to a narrowing of the trade deficit to $ 110 billion during the period April – December 2013, ie 25% lower than the corresponding period last year.

One noteworthy development has been the broad-basing of our exports to various destinations. Commodity-wise too our export base has grown with exports of engineering goods, readymade garments cotton yarn, basic chemicals, plastic & linoleum, leather and leather products, manmade fibre and marine products showing significant growth. The reduction in trade deficit in Q2 resulted in a fall in the current account deficit for the quarter to $ 5.2 billion (1.2%) of GDP, down from $ 21 billion in the same quarter of 2012-13.

Despite the lower CAD, Q2 saw a net outflow of capital resulting in a drawdown of forex reserves of $ 10.4 bn. The swap window offered by the RBI to shore up reserves raised $ 34.3 bn during the period September – 30 November 2013, pushing overall forex reserves to $ 292.1 bn as on 17 January 2014. Latest numbers suggest capital flows turned positive in Q3 though the outlook for Q4 remains uncertain following the US Fed announcing the next phase of its tapering programme commencing February 2014.

Trade data numbers from the DGCI & S for Q3 suggest the improvement seen in Q2 is likely to continue; so much so that both government and the RBI now expect the full year CAD to fall to less than 2.5% of GDP.

The exchange rate has been fairly stable since mid-September 2013, despite the US Fed announcement on 18 December that it would commence its taper from January 2014. In terms of the real and effective exchange rate (REER), both six and 36-currency, the rupee depreciated by 10.4 and 7.8 % respectively compared to March 2013.

Forecast

Overall, the projections for 2013-14 based on quarterly and annual models point to a GDP growth of 4.7-4.9 per cent. While agricultural growth is projected to return to more normal level, improvement in the growth of non-agricultural sectors is projected to lead to overall GDP growth of 5.6 per cent in 2014-15.

F1. Sustaining Slow Growth and Managing Inflationary Pressures

As per the latest projections of world output growth provided by the International Monetary Fund, the year 2014 is expected to register a growth rate of 3.7 per cent as compared to the growth rate of 3.0 per cent in the previous year (IMF: WEO Update, January 2014). Given the near stagnant growth rate of about 3 per cent in 2011 and 2012, the acceleration in growth in 2014 is an important indicator of improved prospects for economic growth, particularly through increased exports of goods and services. Imports of goods and services by the Advanced Economies are projected to increase by 3.4 per cent in 2014 as compared to 1.4 per cent in 2013. Oil and non-fuel commodity prices are projected to remain subdued in 2014 providing room for accelerating economic activity without cost push pressures from key raw materials, especially for industry.

Improving external conditions were reflected in India's export growth performance. Exports increased by 5.9 per cent in the period April-December 2013 over the same period in the previous year as compared to decline by 4 per cent in April-December 2012. Improving global demand was not enough to sustain India's own economic growth. The overall GDP growth in the first half of 2013-14 is estimated to be 4.6 per cent, well below the growth rate of 7 per cent, once considered the average growth rate of the economy. Of greater concern is the near stagnant output of the secondary sector of the economy. The Index of Industrial Production comprising all the secondary sectors of the economy, excluding construction, registered a negative growth of -0.64 per cent during April-November 2013 following an equally disappointing annual growth rate of 1.14 per cent in 2012-13. The overall GDP growth in 2012-13 as per the revised official estimates is now placed at 4.5 per cent as compared to the earlier estimate of 5.0 per cent provided in May 2013. The downward correction is seen in all the three sectors: primary, secondary and tertiary although sharp reduction in growth was seen in the primary and secondary sectors.

Besides exports, another important positive factor for the economy is healthy agricultural growth. Better-than-normal rainfall during the south-west monsoon period of June-September 2013 is expected to lead to significantly higher agricultural output growth in 2013-14. GDP growth of agricultural and allied sectors is now placed at 3.6 per cent for H1: 2013-14, year-on-year, as compared to 2.3 per cent for H1: 2012-13. The revised estimates for 2012-13 may improve the growth rate for 2013-14 further. The second half's performance in 2013-14 is expected to improve further if the favourable weather conditions continue.

While slow growth has resulted in a loss of momentum towards faster economic development, inflation has been an equally significant challenge. The Consumer Price Index has increased at close to double digit level on annual basis for the period April-December 2013. Although the Wholesale Price Index has shown a decline in inflation rate from 7.6 per cent during April-December 2012 to 6.2 per cent during the same period in 2013, the consumer price index continued to increase at the same high rate in 2013 as compared to 2012 mainly because of the higher weight of food commodities in CPI as compared to the WPI. The Primary articles (which include food articles) and

Fuel, power and lubricants registered double digit rates of annual increase in WPI for the period April-December 2013.

The first half of the year also saw sharp depreciation of the rupee. Between April 2013 and September 2013, the exchange rate of the rupee vis-à-vis the dollar rose from Rs 54.3 to Rs 63.9, a depreciation of 16 per cent. However, the rupee has stabilised, thereafter, with a number of policy measures being effected to reduce the import pressures, even as the stock markets remained vulnerable to sharp movements of foreign capital. The prospects of withdrawal of easy monetary policy on the back of improving growth conditions in the US introduced volatile conditions in financial markets in the emerging markets. For India, the vulnerability was greater as the current account imbalances were significant. Orderly adjustment in international financial markets would be necessary to maintain stability of currency and investment flows to developing economies.

While the economies of the developing and developed world have continued to emerge from the disruptions of caused by the great crisis in 2008, there have also been some signs of success in resolving international conflicts through negotiations.

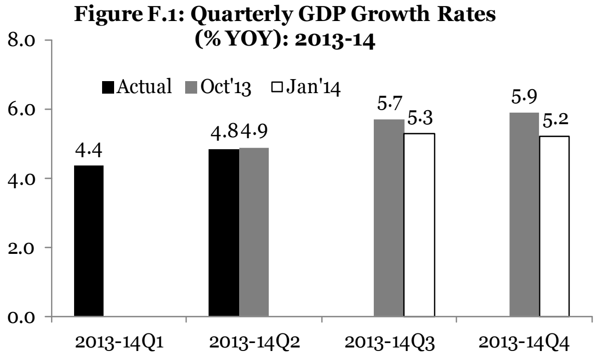
Although the investment scenario in the domestic markets is subdued, there have been some policy efforts to catalyse the process of administrative clearances for large investment projects. Containing fiscal and external imbalances to prudent levels will be a key aspect of favourable investment condition.

F2. Assessment of Macroeconomic Conditions for 2013-14 and 2014-15

The quarterly estimates

There has been some increase in the growth rate of the economy through 2013-14 when we compare the GDP growth through the first two quarters. Based on a quarterly model of the output of different sectors of the economy, we have projected growth rates of GDP for the remaining two quarters of 2013-14. The projections show that output growth is expected to improve to 5.2 per cent in the second half of the year as compared to less than 5 per cent in the first half (Figure F.1).

Figure F.1: Quarterly GDP Growth Rates (% YOY): 2013-14



Note: Q3: '13-14 and Q4: '13-14 are projections based on quarterly model of the economy

Based on these projections, the GDP growth rate for the year as a whole is projected at 4.9 per cent in 2013-14.

This is further downward revision from the estimated growth of 5.3 per cent projected in October 2013. The projected sectoral growth rates based on the present analysis are: Agriculture and allied sectors at 4.8%, Industry at 2.3 per cent and Services at 6.2 per cent.

The main exogenous variables in the quarterly model are monsoon period rainfall, capital market conditions (BSE Sensex), Bank Credit to Commercial Sector, the pace of Central government expenditure and WPI inflation. As compared to the projection of GDP growth presented in October 2013, in the present analysis, we have set the rainfall at 6% above normal as compared to 3% above normal in October 2013, However, we use a slower growth of Bank credit to commercial sector in Q2 (14.1%) and Q3 (14.7%) and slower Central government expenditure in Q2 (11.6%) and Q4 (12.4%) as compared to the October projections. The WPI inflation is projected at 6.4 per cent as compared to 6.5 per cent in October. The lower rate of inflation is on account of using more recent data in estimating the inflation rate up to

December. The overall GDP growth rate based on quarterly model is lower in the present analysis as compared to the October 2013 forecast also because the annual estimate includes actual GDP growth rates for Q2 which came out lower than or projections.

Projections from the annual model

The positive aspects of the growth conditions that have emerged in the first half of the current year are improved global demand and agricultural output. Investment conditions, however, have remained weak throughout the first half of 2013-14. In its review of macroeconomic conditions for the 3rd quarter of 2013-14, the RBI notes that some improvement in corporate performance may be expected from increased rural demand and exports, especially in the next year. The likely slowdown in government spending to rein in deficit may affect the pace of growth in the aggregate demand in Q3: 2013-14. The constraints in terms of bottlenecks relating to investments in terms of availability of infrastructure and energy will continue to affect growth.

The monetary policy remains focused on limiting inflation pressures. The policy rates were increased again in January 2014 by 25 basis points taking the repo rate to 8 per cent. Although WPI based inflation rate has moderated, the annual energy and primary articles price rise remained at double digit level even in December 2013. The year on year increase in consumer price index has also remained well above the 'comfort' level although vegetable prices showed deceleration as fresh supplies began to arrive in the markets.

Projections for 2013-14 and 2014-15

Revised Projections for 2013-14

The revised forecast for 2013-14 places overall GDP growth at 4.7 per cent, 0.5 percentage points lower than the October 2013 forecast. While agricultural output is projected to increase at 4.8 per cent, higher than the projections in October (3.9%), industrial GDP is forecast to increase below 2 per cent, a decline of more than 2 percentage points from October 2013 forecast. The year-on- year industrial growth during April-November 2013, based on IIP, is actually negative indicating the weak momentum for this segment of the economy. The services sector is projected to grow at nearly the same rate as projected in October.

The WPI based inflation rate is projected lower at 6.2 per cent as compared to the October forecast of 6.8 per cent. The increased agricultural output growth has softened price scenario in the current projections.

The export growth is projected slightly higher than the October forecast and import growth rate lower consistent with the higher world output growth expectations and lower growth in domestic demand.

The current account deficit is projected at a significantly lower level and centre's fiscal deficit at nearly the same level as in the October forecast. The decline in projected CAD is on account of improved exports and trends seen in actual data which in turn reflect the decline in gold imports.

Overall, the projections for 2013-14 based on quarterly and annual models point to a GDP growth of 4.7-4.9 per cent.

The fiscal deficit may be slightly higher than the budgeted 4.8 per cent on account of slower economic growth. The current account deficit is expected to return to more sustainable levels, although at lower pace of growth of economy. Industrial growth remains the weakest link in growth momentum.

Projections for 2014-15

Based on the assumptions of normal rainfall, pick up in world output growth and other global demand conditions as per the recent projections of IMF and government expenditure patterns as in the current year, we have provided an assessment of the macroeconomic scenario for 2014-15.

While agricultural growth is projected to return to more normal level, improvement in the growth of non-agricultural sectors is projected to lead to overall GDP growth of 5.6 per cent.

The higher growth is expected to increase import demand and improved merchandise exports and net invisibles and maintain the CAD at 3 per cent of GDP. Fiscal deficit will remain close to 5 per cent of GDP indicating the need for fresh initiatives to improve revenues and budgetary expenditures.

Table F.1: Forecasts for 2013–14 and 2014-15

Item	**2011–12**	**2012–13(RE for GDP)**	**NCAER Jul 2013 forecast for 2013-14**	**NCAER Oct 2013 Forecast for 2013-14**	**NCAER Jan 2014 Forecast for 2013-14**	**NCAER Jan 2014 Forecast for 2014-15**
% Change yoy						
I. Real GDP						
- Agriculture	5.0	1.4	3.2	*3.9*	4.8	2.1
- Industry	7.8	1.0	4.3	*3.9*	1.6	3.8
- Services	6.6	7.0	7.1	*6.1*	6.0	7.1
Total	**6.7**	**4.5**	**5.9**	*5.2*	4.7	5.6
II. Trade (Goods)						
Exports ($ value)	21.8	-1.8	9.4	*11.0*	11.7	14.0
Imports ($ value)	32.3	0.4	12.4	*13.1*	9.8	14.4
III. Inflation (WPI, annual)	8.8	7.2	5.9	*6.8*	6.2	6.0
% of GDP at market prices						
IV. Current account balance*	−4.2	−4.8	−4.6	−4.5	−2.9	−3.0
V. Fiscal Deficit (Centre)	5.7	5.2	5.1	5.1	5.1	4.9

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

Agriculture

Agricultural forecasts suggest record production of foodgrains in a year with rainfall, six per cent above normal. However, management of foodgrains continues to challenge policymakers due to lack of infrastructure. Food inflation in other food categories continues to haunt Indian citizens.

I. Backdrop

The outlook for agricultural sector for 2013-14 has been fairly positive as agricultural GDP for the first half of the current financial year has witnessed a growth of 3.6 per cent. The first quarter of 2013-14 experienced 2.7 per cent growth and the second quarter recorded a growth of 4.6 per cent over their respective quarters of the previous year. These estimates are based on the first advance estimates of crop output, which were released during the last week of September 2013.

As per these estimates, kharif foodgrain output was estimated to be 0.9 per cent higher than last year's level of output. The output of rice, coarse cereals, and pulses exhibited a marginal increase over their preceding year's levels of output. And, same is the case with output of oilseeds. However, the second advance estimates, which are likely to be released soon are expected to revise these estimates upwards due to better and more accurate information, therefore actual increase in output for the kharif season may work out to be higher than what is reflected in the first advance estimates.

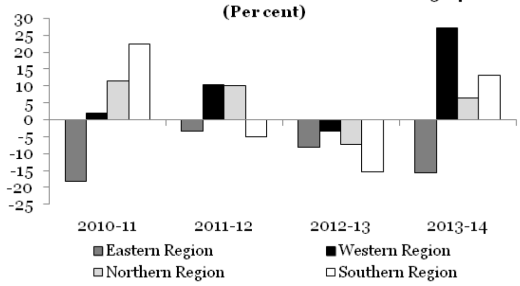
This was also suggested in the estimates for kharif season reported by us in the last quarterly review because monsoon rainfall during June-September period of 2013-14 has been excess to normal in large parts of the country.

The actual rainfall received during the monsoon season was 6 per cent above its long-term average and of the total 36 agro-meteorological sub-divisions, 31 sub-divisions covering about 78 per cent of all districts in the country received normal to excess rainfall.

The spatial distribution of seasonal rainfall at the level of sub-divisions and districts was also fairly good as reflected in the shares of sub-divisions and districts that received normal to excess rainfall.

Thus, in comparison to 2012-13 the spread of monsoon rainfall during 2013-14 was fairly satisfactory. And, a comparison of the performance of monsoon rainfall during the period from the beginning of June to the end of September over the last four years reveals that this year's rainfall has been the best in three of the four major regions of the country (Figure A.1). The only exception was the eastern region, which on the whole received below normal rainfall.

Figure A.1: Deviations in Regional Monsoon Rainfall Indices from the Normal from 2010-11 to 2013-14 (Per cent)



As a consequence, improved soil moisture due to good monsoon rainfall and significantly higher level of water storage in major reservoirs of the country also suggest better crop outlook for the rabi season as a whole. The actual storage of water in 85 reservoirs of the country during the beginning of January 2014 was 123 per cent of last 10 years average level of storage. And, reports from the Ministry of Agriculture also suggest that the incidence of pests and diseases has remained below Economic Threshold level for most of the crops and there is no shortage of other inputs such as fertilisers.

Though very little information is available on the actual crop output for the rabi season at this stage, nevertheless, signals are that wheat output is likely to exceed the target set for the year because area sown under wheat is 6.3 per cent higher than last year's acreage at this time of the year. And, acreage devoted under rabi rice, rabi pulses, and oilseeds is also higher than the previous year's acreage under these crops.

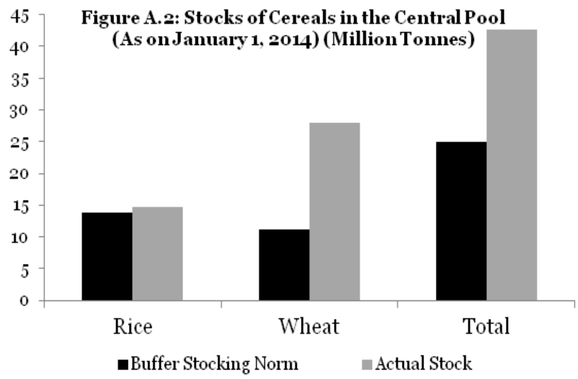
Hence, subject to normal weather conditions and assuming expected growth in crop output it is quite likely that output of foodgrains in 2013-14 may turn out to be significantly higher than what was achieved in 2012-13. Our estimates suggest that overall foodgrain output is likely to set a new record, around 270 million tonnes (Table A.1).

And, same is the case with a few non-foodgrains such as oilseeds and cotton.

Notwithstanding better performance of the main agricultural commodities, food inflation still continues to remain very high as the prices of a few commodities such as vegetables; cereals; eggs, meat, and fish; and, condiments and spices have risen at a faster rate in 20013-14 compared to last year. Though wholesale price indices of pulses have fallen this year and milk prices have also been lower in 2013-14 compared to last year.

But, the increase in wholesale prices of vegetables due to their seasonal nature has been very high and has been the main reason for increase in prices of food articles in 2013-14.

Though as mentioned earlier because the outlook for supplies of main food articles for the remaining period of the year is much better the prices of food articles are likely to witnesses a slower growth going forward. For cereals in particular, the actual stock of both rice and wheat with government agencies in the central pool stood at 42.7 million tonnes as on January 1 2014, which is 17.7 million tonnes more than the buffer stocking norm of 25 million tonnes (Figure A.2). Therefore, significantly higher stock of rice and wheat at the beginning of the year (January) should be a sign of great comfort as far as supplies are concerned, yet more than adequate level of stocks is also putting extra pressure on carrying costs and losses that occur because of inadequacy of storage facilities.



There are huge implications for the overall food subsidy bill, which is also expected to be higher. The increase in both procurement as well as storage has led to a significant increase in costs. This has widened the difference between economic cost and issue prices, which have remained at the same level for the past several years. The subsidy bill will again come under considerable pressure as the burden of additional supplies of wheat and rice during the next marketing year starts building up in April.

Whereas there may be some merit in keeping extra stocks for meeting the requirements of new food bill, however, questions about proper mechanisms for addressing food security for different types of households and efficient utilisation of resources remain highly relevant in the light of several inefficiencies that plague the existing systems.

Table A.1: Actual and Estimated Output of Selected Crops

Crops	Output in 2012-13 (Million tonnes)	Provisional Output for 2013-14 (Million tonnes)	Estimated Output for 2013-14 (Million tonnes)
Rice	104.4		107.6 – 112.4
Kharif	92.8	92.3	95.1 – 99.7
Rabi	11.6		12.4 – 12.7
Wheat	92.5		99.9 – 100.1
Coarse cereals	40.1		43.5 – 46.1
Kharif	29.5	31.0	33.9 – 36.4
Rabi	10.5		9.6 – 9.7
Pulses	18.5		20.3 – 21.2
Kharif	5.9	6.0	6.7 – 6.9
Rabi	12.5		13.6 – 14.2
Total Food grains	255.4		271.1 – 279.0
Kharif	128.2	129.3	135.6 – 142.9
Rabi	127.2		136.0 – 136.1
Oilseeds	31.0		39.6 – 40.6
Kharif	20.9	24.0	27.7 – 28.4
Rabi	10.1		11.8 – 12.2
Cotton (bales)	34.0	35.3	37.1 – 41.7
Sugarcane	339.0	341.2	331.1 – 341.9

Sources: Ministry of Agriculture and Computed.

Notes:

1. Provisional output data for 2013-14 are based on first advance estimates.
2. Estimated output for 2013-14 is based on area, production, and yield equations.

Table A.2: Changes in Wholesale Price Indices of Food Articles in 2012-13 and 2013-14 (April – December)

S. No.	Product	Increase in 2012-13 over 2011-12	Increase in 2013-14 over 2012-13
1	Food Articles	9.5	14.5
2	Cereals	11.5	14.4
3	Pulses	21.7	-5.8
4	Vegetables	18.0	49.5
5	Fruits	-0.9	6.3
6	Milk	8.2	5.1
7	Eggs, meat and fish	15.0	13.8
8	Condiments and spices	-15.6	16.0
9	Other food articles	-12.5	-4.3

Source: Computed.

Industry

Industry remains in the doldrums with neither output nor gross capital formation showing any sign of revival. Various attempts have been made by the government to try and improve sentiment and revive animal spirits but have not borne fruit as yet. The political uncertainty caused by the impending general elections is expected to weigh hugely on sentiment and cast a dampener on the sector for the remaining part of this fiscal and possibly, the first quarter of the next fiscal as well. The only hope is that the pick-up in global growth might provide an export-led stimulus to the sector.

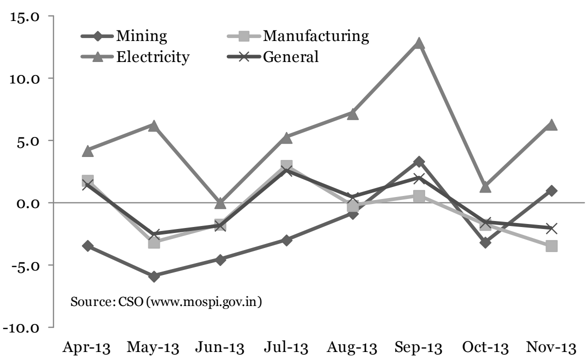
The general belief (hope?) that growth in industry had been bottomed out and things would start looking a lot better in the second half of the current fiscal have, unfortunately, been belied. The latest index of industrial production (IIP) for November, 2013 (-2.1%) shows we are nowhere near recovery.

A word on the IIP. The index of industrial production (IIP) with 2004-5 as base (compiled monthly) is the principal indicator for industrial activity in the country. The existing IIP series is based on 399 products/ product groups which are further aggregated into three broad groups: mining, manufacturing, and electricity. The IIP as an index reflects both the level of production and growth. An examination of the trend in the IIP numbers suggest the weakness may continue in the coming months as well, as industrial production has been declining on a month-on-month basis for four out of the last six months, reflecting sustained weakness.

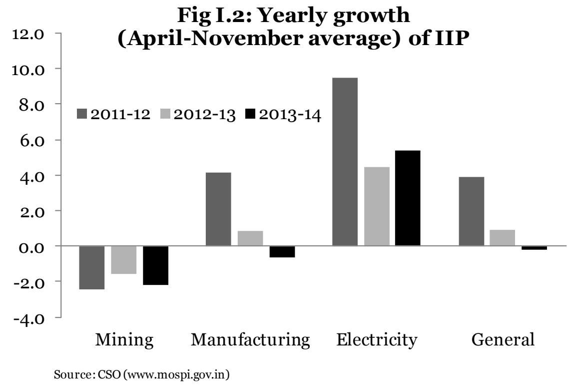
In November, while electricity generation grew 6.3 per cent month-on-month, growth in the manufacturing sector declined to -3.5 per cent on a month-on-month basis, the steepest decline after March, 2012 (Figure I.1). Due to a low base effect, the mining sector exhibited one percent growth in November 2013 despite policy bottlenecks. Any hope that the manufacturing sector will witness a turnaround soon is likely to be misplaced as credit flow to the sector will also slow down as banks start deleveraging to reduce their credit-deposit ratio.

Sustained slowdown in industrial production in the second quarter of FY14 has implications for gross domestic product (GDP) growth. Quarterly GDP growth numbers in India are estimated using the monthly index of industrial production and industrial value-added contributes 19 per cent of Indian GDP. Sluggish growth in developed markets coupled with weakness in the services sector, could manifest itself in “deeper macro stress” and lead to significant deceleration in GDP growth.

Fig I.1: Monthly growth of IIP



Average sectoral performance for the April-November period shows a precipitous decline in the yearly growth of manufacturing and the general index (Figure I.2). Mining has been a laggard, throughout this period, reflecting deep rooted policy uncertainties. The manufacturing sector, after recording a high growth of as 4.1 per cent growth in 2011-12, has also slumped, falling to a low of 0.8 per cent in 2012-13 and further to -0.6 per cent for the April-November 2013 period (Y-o-Y). The general index too declined, reflecting overall sectoral deceleration.



What explains the steady decline in industrial growth since 2010-11? A number of factors played spoilsport. The boost to demand given by monetary and fiscal stimulus following the international financial crisis saw consumption grow at an average of over 8 per cent annually between 2009-10 and 2011-12. However, it also resulted in strong inflation and an equally powerful monetary response that eventually contributed to slow down in consumption as well as investment demand. Moreover, corporate and infrastructure investment started slackening since 2011-12 as a result of structural bottlenecks. The global slowdown and uncertainties about fiscal policy in the United States also impacted sentiment.

Manufacturing bears the brunt of any decline in investment. Unfortunately, both the data on Gross Fixed Capital Formation (GFCF) and Capital Goods sector (use-based classification of IIP) shows a downturn. The series of hikes in the RBI's repo rates contributed to raising capital costs for industry. Small and medium enterprises have been particularly hard hit.

GFCF growth, an indicator of investment activity by industry, has fallen over the period (April-September, y-o-y) from as high as 16.2 per cent in the first quarter of 2011-12 to as low as -0.6 per cent in the same period, 2012-13 (Table I.1).

The slight uptick to 0.7 per cent in the current fiscal is not big enough to counter the sharp slowing down of corporate investment.

Capital goods output has also shown a downward drift to negative territory,

IIP: Use-based classification

On a use-based classification, basic goods registered a growth of 0.7 per cent during April-November, 2013-14, down from 2.8 per cent during the comparable period, 2012-13 (Table I.2). On a year-on-year basis, the April-November 2013-14 period saw a big drop in consumer durables output to -12.6 per cent, signaling tighter demand conditions and steep moderation in production. However, the growth of capital goods production, which was -11.3 per cent during 2012-13, improved to -0.1 per cent in 2013-14, reflecting revival in the pattern of investment demand during the period. Intermediate goods too show some sign of revival, with growth up to 2.7 per cent in the April-November 2013 period. The consumer non-durable segment saw a surge in demand to 6.3 per cent in April-November, 2013-14, up from 2.2 per cent in the comparable period, 2012-13.

IIP Growth across sub-sectors (2-digit classification)

The IIP data for 22 sub-groups, disaggregated at the 2-digit level of National Industrial Classification (NIC), 2004 shows diverse performance across industries in April-November period 2013-14 (Table I.3). Overall, 11 out of the 22 industry groups in the manufacturing sector show positive growth. Prominent among these are wearing apparel (32.3%), electrical machinery (26%), chemical & products (9.9%), refined petroleum products (6.6%), leather products (6.4%), other transport equipment (6.4%), textiles (3.8%), tobacco products (3.4%) publishing, printing (2%) and other non-metallic mineral products (1.5%). All these segments, specially the wearing apparel segment, have recorded impressive growth, reflecting the positive impact from the demand-side as well. However there are some worrisome signs - negative growth in food products and beverages, machinery and equipment, metal and metal products, all of which have relatively higher potential for labour absorption. In the consumer durable sector, there are several products that have registered steep negative growth. Noticeable among them are: Fabricated metal products (-7.5%), Office machinery (-17.3%), Radio, TV and communication equipment & apparatus (-25.1%) and Medical, precision & optical instruments, watches and clocks (-7.0%). Wearing apparel has shown a positive growth of 32.3 per cent during April-November 2013-14. The automobile sector is passing through a challenging phase and recorded a negative growth (-7.6%) in 2013-14.

Infrastructure: Performance of the eight core industries

Infrastructure industries are an important constituent of overall industrial activity.

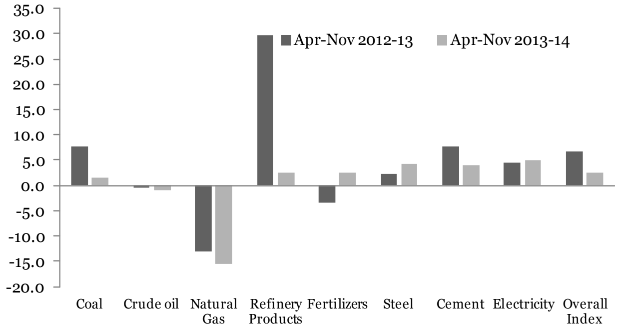
The eight infrastructure industries (crude oil, petroleum refinery, coal, electricity, cement, steel, natural gas, and fertilisers), with a combined weight of 37.9 per cent in the IIP, registered a growth of 1.7 per cent during April-November, 2013-14, way behind the growth rate achieved during the same period of the previous year (6.7%).

Among the components of the core sector, coal, refinery products, fertiliser, steel, cement and electricity registered a positive growth but (except electricity) less than that achieved in the same period of the previous fiscal.

Coal, with a weight of 4.38 per cent, registered a growth of 1.5 per cent during April– November, 2013–14 compared with 7.8 per cent during the same period of the previous fiscal (Figure I.3). Prevailing uncertainty and controversies relating to allocation of coal blocks could be the reason for the decline in coal production in the country.

Crude oil production continued to suffer registering –0.9 per cent growth in April–November, 2013–14 compared with -0.5 per cent growth recorded during the same period of the previous fiscal. The growth rate of natural gas production recorded a steep decline of –15.6 per cent in April–November 2013-14 compared with –13.1 per cent growth in the same period of 2012–13. Petroleum refinery production (weight 5.94%) recorded a growth of 2.5 per cent during April–November, 2013-14. However, this is much below the growth rate recorded in the same period (29.7%) of 2012-13.

Figure I.3: A glance on the cumulative growth of the eight core industries



Source: Office of the Economic Adviser, GoI

Fertilizer production registered a negative growth of 2.5 per cent during April–November 2013–14 as against a growth of -3.4 per cent during the same period of the previous fiscal.

Steel production grew 4.3 per cent, higher than the growth rate of the previous year (2.2%). However, cement production dipped, recording a growth of just 4 per cent during April–November, 2013–14, down from almost 8 per cent growth in the same period a year back.

Electricity with the highest weight of 10.32 per cent, recorded cumulative growth of 5 per cent in April-November 2013-14, compared to 4.6 per cent growth in the same period of 2012–13. Question marks remain over the production of coal but with the government's special drive to improve the performance of the power sector, the electricity sector may improve in the coming quarters.

Concluding observations: Internal and external demand components

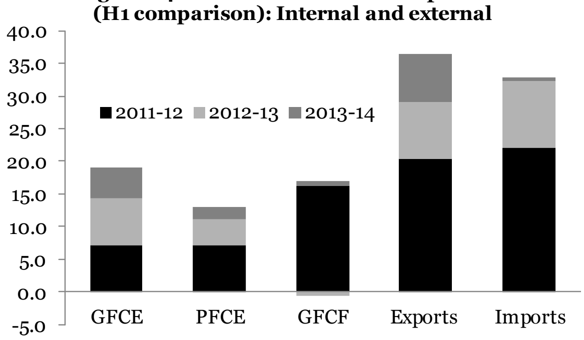
Analysis of the demand components (internal as well as external) shows a sustained fall in demand over the period.

The first-half (i.e. H1) comparison of growth rates for government consumption expenditure (GFCE), private final consumption expenditure (PFCE) and gross fixed capital formation (i.e., GFCF reflecting investment demand) reveals a distinct fall in growth rates from 2010-11 to 2013-14 (Figure I.4).

External demand components (i.e., export and import) show downward movement. This could well affect industry adversely.

To counter the adverse investment environment, FDI policy has been liberalised to allow FDI in more industries under the automatic route. Allowing FDI in multi-brand retail up to 51 per cent subject to specified conditions; increasing FDI limit to 100 per cent in single-brand retail, FDI up to 49 percent in civil aviation and power exchanges; FDI up to 49 percent in broadcasting sector are all initiatives worth mentioning. However, unless there is transparency and expediency with regard to application of policy, the impact will be limited.

Figure I.4: Growth of demand components (H1 comparison): Internal and external



Source: CSO (www.mospi.gov.in)

Table I.1: Decline in investment pulls down manufacturing activity and GDP growth (H1 Y-o-Y comparison)

	GFCF	IIP Capital Goods	IIP_MFG	CSO_MFG	GDP
2010-11	7.8	16.4	8.9	11.4	9.3
2011-12	16.2	4.6	5.5	5.2	7.0
2012-13	-0.6	-14.2	-0.3	-0.5	5.3
2013-14	0.7	-0.6	0.0	-0.1	4.6

Source: CSO (www.mospi.gov.in)

Table I.2: Use-based classification of IIP (April-November comparison)

	Basic goods	Capital goods	Intermediate goods	Consumer durables	Consumer non-durables
Weights	**(456.82)**	**(88.25)**	**(156.86)**	**(84.60)**	**(213.47)**
2011-12	6.3	-1.0	-0.5	5.2	4.9
2012-13	2.8	-11.3	1.8	5.2	2.2
2013-14	0.7	-0.1	2.7	-12.6	6.3

Source: CSO (www.mospi.gov.in)

Table I.3: Growth rate of IIP: 2-Digit Classification (April-November)

Industry descriptions*	Weight	2011-12	2012-13	2013-14
Food products and beverages	72.8	17.3	2.4	-3.0
Tobacco products	15.7	2.5	-8.4	3.4
Textiles	61.6	-2.8	7.3	3.8
Wearing apparel; dressing and dyeing of fur	27.8	-6.3	0.5	32.3
Luggage, handbags, saddlery, harness & footwear; tanning and dressing of leather products	5.8	4.5	6.7	6.4
Wood and products of wood & cork except furniture; articles of straw & plating materials	10.5	-1.1	-5.4	-0.2
Paper and paper products	10	5.8	0.9	0.9
Publishing, printing & reproduction of recorded media	10.8	15.4	8.1	2.0
Coke, refined petroleum products & nuclear fuel	67.2	4.8	7.3	6.6
Chemicals and chemical products	100.6	-0.2	3.2	9.9
Rubber and plastics products	20.2	-1.4	2.2	-2.8
Other non-metallic mineral products	43.1	4.1	1.6	1.5
Basic metals	113.4	11.6	1.8	-2.8
Fabricated metal products, except machinery & equipment	30.8	13.4	-0.6	-7.5
Machinery and equipment n.e.c.	37.6	-2.2	-2.8	-8.4
Office, accounting & computing machinery	3.1	5.7	-11.0	-17.2
Electrical machinery & apparatus n.e.c.	19.8	-17.3	-20.1	26.0
Radio, TV and communication equipment & apparatus	9.9	6.7	12.1	-25.1
Medical, precision & optical instruments, watches and clocks	5.7	6.5	4.4	-7.0
Motor vehicles, trailers & semi-trailers	40.6	12.5	-1.9	-7.6
Other transport equipment	18.2	16.1	-2.0	6.4
Furniture; manufacturing n.e.c.	30	-1.3	-6.1	-16.8

Source: CSO (www.mospi.gov.in)

Services

The services sector, long regarded as the main prop of robust economic growth in the country, has not been immune from the overall slowdown. Lead indicators from the second quarter suggest the momentum is unlikely to pick up in the remaining part of the year. Services exports may prove an exception to the generally subdued trend given that these are a function of global growth.

S.1 Growth rate turns lower in second quarter of 2013-14

The services sector, excluding construction accounts for nearly 62 per cent of India's GDP as on date. Unfortunately, the growth rate of this sector has fallen steadily from 7.9% in 2011-12 to 6.8% in 2013-14 and dipped further to 5.8% in 2013-14:Q2. Construction forms 7.8% of the Indian GDP and here too, growth has fluctuated throughout 2012-13. In the second quarter of 2013-14, the growth rate of the construction sector improved to 4.3% from the first quarter of 2013-14 (2.8%). Therefore, if construction is included in the services sector, the growth rate of the services sector remains nearly the same at 5.8% in 2013-14:Q2. Services sector including construction accounts for about 70% of India's GDP.

The growth rate of the components of the services sector is mixed (Table S.1). The subsector 'Trade, Hotels, Transport and Communication' that accounts for 28% of India's GDP, witnessed nearly the same growth rate of 4% in 2013-14:Q2 as compared to 3.9% in 2013-14:Q1. The subsector 'Finance, Insurance and Real Estate', which accounts for little over 20% of GDP, showed an improvement in growth to 10% in 2013-14:Q2 over 8.9% growth in the earlier quarter, suggesting an upturn in growth since 2012-13:Q4 in this sector.

The growth in subsector 'Community, Social and Personal Services' dipped to 4.2% in 2013-14:Q2 compared to a more robust growth of 9.4 % in 2013-14:Q1. The improvement in growth during 2013-14:Q1, which earlier anticipated due to improved government spending remained subdued in 2013-14:Q2.

S.2 Lead Indicators from the Second Quarter of 2013-14

Lead indicators suggest mixed picture for services sector growth in Q3. On the one hand the services sector recorded the lowest growth in 12 years at 5.8 per cent during Q2 of 2013-14. This was largely due to the moderation in the growth of 'Trade, hotels, restaurant, transport & communication' and 'Community, social & personal services' sectors. However, various lead indicators of the services sector portrayed a mixed picture during Q3 of 2013-14 (Table S.2).

The Reserve Bank's services sector composite indicator, which is based on growth in indicators of construction, trade & transport and finance witnessed an upward trend in Q2 of 2013-14, but showed a downturn in October-November 2013. However, partially available data for December suggest some pick up.

Cargo handled at major ports grew by just 1.1% during the third quarter, 2013-14. Though this was improvement over the decline of 2.6% in the comparable quarter of the previous fiscal, it reflects the subdued level of activity in the economy. The silver lining is that domestic cargo traffic is up 21.9% in the Oct-Nov 2013 period as against a decline of 3.8 % in the comparable period of the last fiscal. (Table S.2)

Both, international and domestic passenger traffic show improved growth rates during April-October 2013.

International passenger traffic shows the improvement to nearly 12% this year compared to 1.8% increase last year. Domestic passenger traffic registered an increase of nearly seven percent compared to a decline of 5.2% last year

S.3 External Sector

Services exports as a percentage of GDP showed an improvement in the second quarter of the current fiscal (9.1%) as compared to the first quarter (8.4%). IT is the largest component in total invisibles exports, accounting for a share of 64% in total exports. De-composing services exports one finds that software (46%) and non-software miscellaneous services (31%) are the largest components of service exports.

The growth rate of software exports improved to 5.7% in the second quarter, an improvement over the first quarter of the current fiscal (5.5%).

Compared to the 2011-12 numbers of double digit growth, the improvement in the first two quarters seems paltry. Non-software miscellaneous services show an upturn in growth in the second quarter of the current fiscal compared to negative growth since the second quarter of 2011-12. (Table S.3). Exports of travel services which showed a remarkable turnaround in the first quarter (9.1%) were subdued during the second quarter (0.9%). The remaining components of services, namely, ‘transportation’, ‘insurance’, and ‘G.n.i.e’ show negative growth rates.

FDI inflows were subdued during April-October period of current fiscal. The services sector (Financial and Non-Financial) received nearly 11 % of total FDI inflows between April – October, 2013. This is lower than the historical cumulative share of nearly 19% between April’ 2000 to October 2013. All the major components of the services sector (except computer software and hardware), viz ‘construction development, ‘Telecommunication’ received lower FDI during this period. Computer software and hardware bagged 3.9% of total FDI. Lower FDI inflows to the sector reflect the generally less optimistic outlook in the services sector.

S.4 Outlook

Services sector will continue to grow, though at a slower pace during the latter half of the current fiscal. However, a recovery in the external sector or an improvement in domestic industry could help boost services sector growth.

Box S.1: IT-BPM Sector in India – A run up to the Next Fiscal

The enhanced global spending on IT technology and newer opportunities enabled through adoption of disruptive technologies is projected to be a major growth driver. As per NASSCOM estimates a year ago, the sector's export revenue is estimate to touch ÜS$ 84-87 billion, with a growth of 12-14 % this fiscal. Domestic revenues are expected to reach INR 1180-1200 billion and are likely to grow at 13-15 per cent. Huge investments by IT services companies are already in place. These have helped build up appropriate skill-sets and could be viewed as part of the endeavour on the part of the IT-BPM sector to ride the next wave of IT growth.

SMAC (social, Media, Analytics, and Clouds) technologies are expected to fuel the growth in IT-BPM sector. An earlier estimate by NAASCOM- IDC suggests that Indian IT vendors could be expected to generate US $225 billion SMAC-related revenue by 2020. The future of the industry lies in a blend of services, products, solutions and platforms.

Some of near-term challenges in the sector are increasing competition on billing rates and increasing commoditisation of lower-end ADM services. There is a pressing need for IT firms to re-invent their business models.

Another major challenge is the hardening of the regulatory environment in major world economies like the US, Canada and Australia. IT-BPM firms might see tough times as these firms have to meet mounting operational expenses which could further pinch their profit margins. On the domestic front too, the coming Lok-Sabha election this year could delay government's IT spending which is expected to touch $6.4 billion this fiscal.

***Sources*:** NASSCOM

Table S.1: Slow growth persists with slack in industrial output and under-performance of services sector
Sector-wise GDP growth rates (2004-05 prices)

										(Per cent)	
	2011-12*	2012-13#		2012-13				2013-14		2012-13	2013-14
		Growth	Share	Q1	Q2	Q3	Q4	Q1	Q2	H1	H1
Services	**7.9**	**6.8**	**67.4**	**7.6**	**7.1**	**6.2**	**6.3**	**6.2**	**5.8**	**7.3**	**6.0**
Trade, hotels, transport & communication	7.0	6.4	27.8	6.1	6.8	6.4	6.2	3.9	4.0	6.4	4.0
Financing, insurance, real estate and business services	11.7	8.6	18.7	9.3	8.3	7.8	9.1	8.9	10.0	8.8	9.5
Community, social & personal services	6.0	6.6	13.0	8.9	8.4	5.6	4.0	9.4	4.2	8.6	6.6
Construction	5.6	4.3	7.8	7.0	3.1	2.9	4.4	2.8	4.3	5.1	3.5
GDP at factor cost	**6.2**	**5.0**	**100.0**	**5.4**	**5.2**	**4.7**	**4.8**	**4.4**	**4.8**	**5.3**	**4.6**

* First Revised Estimates. # Provisional Estimates.
Source: Central Statistics Office

Table S.2: Services sector witnessed a mixed picture in Q3
Lead indicators of services sector activity

						(Growth in per cent)
Services Sector Indicators	2011-12	2012-13	H1		Q3	
			2012-13	2013-14	2012-13	2013-14
Tourist arrivals	9.7	2.0	1.7	4.3	2.1	4.9
Cement	6.7	7.7	9.1	4.5	3.3#	2.6#
Steel	10.3	2.5	2.6	4.5	1.6#	3.7#
Automobile Sales	11.1	2.6	3.5	1.2	6.3	4.1
Railway revenue earning freight traffic	5.2	4.1	4.8	6.2	5.9	1.9
Cargo handled at major ports	-1.6	-2.5	-3.3	2.3	-2.6	1.1
Civil aviation						
Domestic cargo traffic	-4.8	-3.4	-0.8	0.6	-3.8*	21.9*
International cargo traffic	-1.9	-4.2	-4.9	-0.9	-2.5*	7.1*
International Passenger traffic	7.6	5.5	2.7	12.0	-2.4*	12.1*
Domestic Passenger traffic	15.1	-4.3	-3.7	6.6	-15.6*	11.3*

* Data refer to Oct.; # Data refers to Oct.-Nov.
Source: Ministry of Statistics and Programme Implementation, Ministry of Tourism, IPA, SIAM and CMIE

Money and Capital Markets

Both money and capital markets exhibited lower volatility during the third quarter compared to the second quarter, primarily because the global environment was less turbulent and hence the overhang from external forces was also markedly less pronounced. Surprisingly, the much-awaited announcement of tapering by the US Federal Reserve on 18 December 2013 did not have the tumultuous impact witnessed earlier in the year when mere talk of the possibility of such tapering in May 2013 led to mayhem in both markets.

Monetary conditions

Monetary conditions in the third quarter were far more comfortable than in the second quarter. Unlike in the second quarter when talk of Fed tapering had resulted in a sharp fall in the exchange rate of the rupee *vis-a-vis* the dollar, compelling the RBI to go on for exceptional monetary measures, the third quarter was relatively quiet. Following the return of stability on the forex front, early to mid-September, the RBI began a process of normalisation. Thus the Marginal standing Facility (MSF) rate at which banks are allowed to borrow over and above the amount borrowed under the Liquidity Adjustment Facility (LAF) was reduced in three steps to 8.75% between 20 September 2013 and 29 October 2013, even as the repo rate was increased in two steps of 25 basis points each to 7.75% to contain inflation and inflation expectations.

Meanwhile healthy capital inflows under the RBI's swap facilities for overseas borrowings by banks and non-resident deposit accounts eased liquidity conditions and helped bridge the gap between credit and deposit growth. There were brief periods of tight liquidity as when advance tax payments were made late December, but overall liquidity conditions were comfortable, thanks in part to the RBI conducting a number of open market operations (OMOs). Apart from two OMOs that together injected Rs 161 billion into the system during the quarter under review, the RBI also conducted variable seven day and 14 day repos to the extent of 0.5% of the banking system's net demand and time liabilities (NDTL). Subsequently it also conducted two 28 day repos in January 2014 to further ease liquidity pressures.

These liquidity enabling measures resulted in a large build up in two major sources of reserve money, net foreign assets and net credit to the centre. The increase in net credit to the government, the fallout of LAF, MSF, OMO and term repo operations, moderated towards the end of the quarter following the build-up in government cash balances with the RBI on account of advance tax payments and a slower pace of government spending. Overall, reserve money increased by Rs 542 billion. Money supply grew 14.5% by mid January 2014 as against 12.9% during Q2 of 2013-14.

Credit growth

Credit disbursement slowed down in the third quarter with credit to both agriculture and industry recording a slowdown in credit offtake. Overall credit growth to industry decelerated from 15.2% last year to 14.1%, led by sectors such as petroleum, mining and gems and jewelry. Nonfood credit growth declined from a peak of 18.1% early September to 15% by early January, in line with the RBI's indicative trajectory of 15%.

The decline in credit growth was partly a reflection of subdued investment sentiment among corporate, in line with slower GDP growth as well as growing risk aversion among banks faced with a growing burden of non-performing assets. Asset-quality indicators have been slipping since 2011-12, with public sector banks which account of the bulk of bank lending, showing much greater deterioration in asset quality compared to foreign and private sector banks.

Meanwhile, the banking system's provision coverage ratio (PCR) has dropped below 50 % compared with 70 % just two years ago. As on March 2013, the impaired asset ratio of public sector banks had risen to 12.1 % from 6.8 % in 2009 according to the RBI deputy governor, KC Chakrabarty. The comparable ratio for old private banks was 6.8%, for new private ones 5.3% and for foreign banks, 6.4%.

RBI data suggest the situation of provision coverage for stressed assets (NPAs and restructured assets) is even worse. The PCR for NPAs plus restructured loans for the banking sector as a whole fell to 30.25 % in March 2013 from 34.47 % as at the end of March 2009. For public-sector banks, the combined PCR fell even more sharply, from 38.4 % in 2009 to 27.71% over the same period.

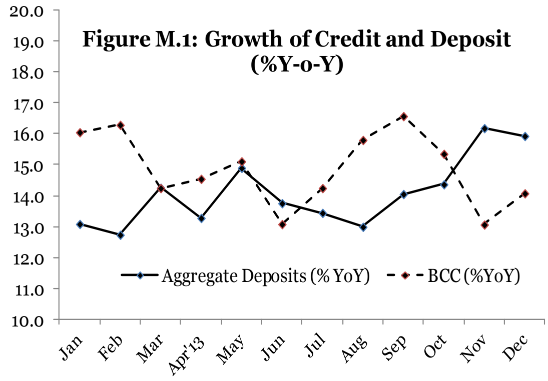
However, the slight improvement in the slippage ratio (ratio of bad loans to total loans) seen towards the latter half of the quarter under review, is a happy augury and holds the promise of a reversal in the trend.

Ironically, the weighted average lending rate of banks has declined during the third quarter, despite two consecutive hikes in the RBI's repo rate in September and October 2013. This could result in a pick-up in credit offtake from banks. However, much will depend on factors such as political uncertainty, lack of policy clarity, speed and certainty in decision-making. These are seen as far more critical to determining business sentiment as compared to interest rates, despite the clamour over higher interest rates raised by chambers of commerce.

Deposit growth

Following the strong growth in FCNR(B) balances consequent on the RBI's concerted efforts to attract dollar deposits, deposit growth, year-on-year, finally out-stripped credit growth. However, adjusted for the FCNR (B) effect, deposit growth in the third quarter continued to lag credit growth as in the earlier quarters, reflecting the declining interest of retail depositors in bank deposits, given negative real rates of interest across the spectrum of maturities. The spate of tax-free bond issues, offering attractive rates of interest during the quarter under review has, doubtless, also eaten into banks' deposit base.

As with lending rates, deposit interest rates moderated somewhat towards the end of by the quarter reflecting more comfortable liquidity conditions. Nonetheless, they are still higher than at the beginning of the current fiscal.



Monetary action

In its mid-quarter monetary policy review on 18 December 2013, the RBI maintained *status quo* on rates despite the fact that inflation numbers available at the time of the review showed a sharp increase at both the wholesale and retail level. Indeed the RBI opted to keep rates unchanged though the CPI had peaked at 11.24 % (subsequently revised down to 11.16%) and WPI too had touched a high of 7.52% even though in its previous review, late October, the RBI had hiked the repo rates on the grounds that inflation was higher than the bank's comfort level. In the January policy review, however, the RBI chose to hike rates another 25 basis points (the third increase since September2013) to eight per cent on the grounds that inflation rates were still elevated. The hike, which went against consensus opinion of a pause in the rate hiking cycle, was sought to be justified on the grounds that the RBI cannot pause in its efforts to ensure financial and monetary stability, even as the slowdown in the economy was getting 'increasingly worrisome' and growth is 'likely to lose momentum in Q3'.

Though the RBI governor, Raghuram Rajan, justified his action, which was prima facie at odds with what he had stated in his previous mid-quarter review in December when he opted for status quo on rates, not many have bought his argument. The decision was, in all probability, guided more by the desire to set inflation on a 'glide path' to a level of 4% +/- 2% over a two year time frame in line with the Urjit Patel Committee recommendations.

Though financial markets were relatively calm during the third quarter compared to the second, the US Fed announcement of a further tapering by $ 10 billion a month beginning February is likely to create some short-term volatility even though it is good news, long-term, since it signals faith in the strength of US recovery.

Financial markets

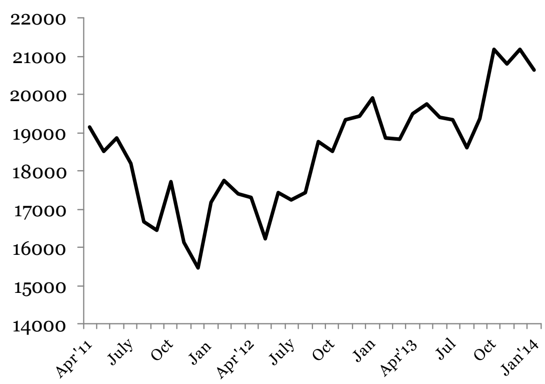
As with money markets, financial markets were less turbulent during the period under review. Postponement of tapering by the US Fed helped restore order in markets. Volatility, however, remained high and though the Sensex recovered strongly and indeed went on to touch an all time record of 21,374 on 22 January 2014, the underlying sentiment remained nervous. During 22 May to 30 August both the Sensex and the Nifty declined as FIIs withdrew US$ 13 billion from domestic debt and equity markets. However, both indices increased by nine per cent during the third quarter compared to a decline in the previous quarter. From a 52-week low of 17,448.71 on 28 August 2013, the Sensex has risen 3,888.96 points or 22.28% by 22 January 2014.

FII behavior continued to be unpredictable. Initially FIIs were net sellers in the debt segment. However in December 2013 they turned net investors. MFs, however, continued to remain net sellers in the equity market but net buyers in the debt segment.

The primary market remained lacklustre during the quarter. The total amount raised through public and rights issues during the period April –December 2013 was Rs102.9 billion from 35 issues as against Rs 115 billion from 30 issues during the comparable period in the previous fiscal. The only silver lining was that 24 of the 25 IPOs during the period were from SMEs who mobilized Rs 2.5 billion.

Several investment houses turned overweight on India in November-December 2013. Nonetheless, the uncertainty on account of the forthcoming general elections continues to cast its cloud over sentiment in general.

Figure M.2: BSE Sensex



By late January, when this Review was going to print, fear was once again on the ascendant. The sharpest devaluation in 12 years of the Argentine peso, the dramatic fall in the Turkish lira and decline in other emerging market currencies has once again raised the spectre of another emerging markets' crisis, akin to what we saw in the late 1990s. The fear, triggered by talk that the US Fed might completely phase out its tapering by the end of the year, has set global investors on edge. The flight to safety might see portfolio investors flee EME shores. In a much-awaited decision on 29 January 2014, the US Federal Reserve decided to continue its taper as originally announced – by $ 10 billion a month – to $ 65 billion beginning February. While the move signals greater confidence in US recovery and is long-term good news, in the short term it may spell further turmoil for emerging markets.

Box M.1.: Urjit Patel Committee recommendations

The committee set up by the RBI Governor to review the monetary policy framework submitted its recommendations mid-January. The main recommendations of the committee relate to the choice of the consumer price index as the nominal anchor for the conduct of monetary policy. The nominal anchor or target for inflation is to be set at 4% with a band of +/- 2% in view of the vulnerability of the economy to supply/external shocks and the relatively large weight of food in the CPI and the need to devoid a deflationary bias in the conduct of monetary policy. The target is to be set in a two year time horizon.

For now the committee has suggested a transition to eight percent inflation over the next 12 months and six percent over the next 24 months before the formal adoption of the four percent target. In order to achieve this the Committee has called upon the government to work towards reducing its fiscal deficit target to three percent by 2016-17.This appears to be a tall order given that the government has repeatedly shifted the goal posts laid down in terms of the FRBM Act 2003.

The committee has also called for the introduction of new policy instruments to manage liquidity –variable rate repos of different maturities replacing the existing overnight repo as the main tool for managing liquidity – and the marginal standing facility being set as a truly penal rate. It has also called for the introduction of a new remunerated standing facility (similar to the MSF on the lending side) to absorb excess liquidity though it is unclear how this differs from the existing cash reserve ratio (CRR).

Among the other key recommendations are setting up a Monetary Policy Committee for monetary policy formulation, comprising the governor, deputy governor and executive director in charge of monetary policy in the RBI and two other members to be chosen by the governor, RBI; drastically reducing SLR; introducing 14 day variable rate repos that will over time replace fixed rate overnight repos; detaching OMOs from fiscal considerations and linking them solely to liquidity management and securing a binding commitment from the government regarding adherence to the target FD/GDP ratio of three per cent by 2016-17.

External Sector

Export performance was robust during the third quarter, partly on account of the sharp depreciation in the exchange rate of the rupee and partly on account of a modest recovery in major advanced economies. The improvement in exports together with a moderation in imports, especially gold imports, contributed to a narrowing of the trade deficit to $110 billion during the period April – December 2013, i.e. 25% lower than the corresponding period last year. The reduction in trade deficit in Q2 saw the current account deficit fall to $5.2 billion (1.2%) of GDP, down from $ 21 billion in the same quarter of 2012-13. Trade data numbers from the DGCI&S for Q3 suggest the improvement seen in Q2 is likely to continue. We expect the full year CAD to fall to less than 2.5% of GDP. **The exchange rate has been fairly stable since mid-September 2013, despite the US Fed taper, effective January 2014.**

E.1 Global trends

The world economy is expected to turn the corner with an expected growth of 3.7 per cent during 2014. (Table E.1).[1] The uptrend is predicted to continue with an estimated acceleration to 3.9 per cent during 2015 as compared to a relatively moderate growth of three per cent during 2013. Much of the growth impetus is due to output recovery in the high-income economies due to increase in final demand. The advanced economies are estimated to grow at 2.2 per cent during 2014 as compared with 1.3 per cent in 2013. A recovery in the advanced economies will lead to a stronger demand from the developing countries (projected to grow at a moderate rate of 5.1 per cent in 2014 as compared with 4.7 per cent during 2013). The US economy is predicted to accelerate to a growth rate of 2.8 per cent during 2014 as compared to 1.9 per cent growth during 2013. Growth prospects have improved due to lower government deficit as a result of the austerity measures. In addition, increasing industrial activity as well as employment gains during the second half of 2013 have augmented revenue collections of the government.

The Euro area is finally expected to grow at one per cent, thus showing signs of recovery from its recent recessionary phase. This growth is led by Germany while countries such as Italy and Spain are projected to post a moderate growth of 0.6 per cent each compared to the recessionary phase of 2013. While domestic demand may not be as high, exports contribute to growth prospects.

The Japanese economy responded to the fiscal stimulus with an accelerated growth of 1.7 per cent during 2013 compared with 1.4 per cent during 2012. Consumer spending increased both due to the stimulus while also benefitting from lower commodity prices during 2013). However, growth in 2014 is estimated at 1.7 per cent, mainly in view of the forthcoming rise in consumption tax due this April.

Emerging markets and developing economies are expected to grow at a slightly accelerated rate of 5.1 per cent in 2014 compared to 4.7 during 2013. However, the pattern is not uniform across countries in the region. While China is expected to slow down to 7.5 per cent, though continuing to be the regional leader, India is expected to accelerate to 5.4 per cent. The recent acceleration in investment has prompted China to restructure its growth towards consumer demand and the services sector. A decline in investment may slow down the economy. However, few other countries such as India are expected to benefit from export growth due to rising demand, including that from China, as well as from currency depreciation.

[1] The discussion is based on IMF, World Economic Outlook and World Banks, Global Economic Prospects, January 2014 release.

Commodity prices face a downward risk, particularly in the emerging markets and developing economies. In view of China's slowdown, metal prices are expected to fall. Price of agricultural commodities would be related to weather conditions. Oil prices are expected to decline in 2014 due to weaker demand from China, rising shale gas supply from the US that has turned as a net exporter as well as due to substitution with natural gas as an energy source.

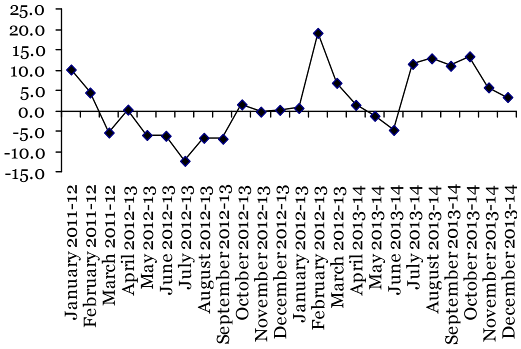
Notwithstanding the recent uptick in growth, challenges remain both in the advanced as well emerging market and developing economies. The activity level in advanced economies is still below the pre-crisis level. Developing countries face the risk of outflows of portfolio investment after the US increase in long-term interest rates on US Treasury bills, and falling terms of trade due to lower commodity prices. Attention will be required on supply-side reform as a source of growth.

E.2 India's merchandise trade

Commodity exports posted a smart acceleration during the first three quarters of 2013-14. Exports registered a growth of 5.9 per cent and have recovered from the negative growth zone observed during April-December 2012-13. Cumulative exports touched US$ 230.3 billion during April-December 2013-14 compared to US$ 217.4 billion during similar period in the past fiscal.

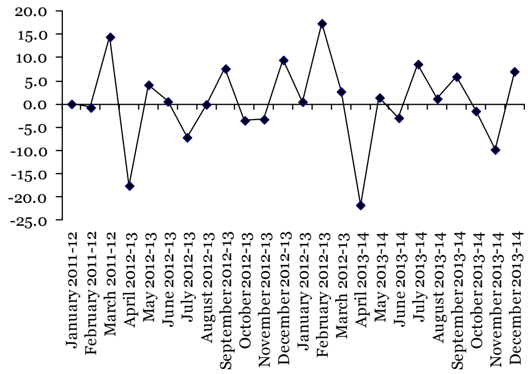
The year-on-year (y-o-y) growth in monthly exports slowed down during Q1: 2013-14, but picked up noticeably at a double-digit growth in July, the beginning of Q2: 2013-14 (Figure E.1). A double digit-growth continued over the following months till October.2013-14. Export growth over this period was mainly driven by government measures and recovery in global demand. Exports continued to expand, albeit at a lower rate, during Q3; 2013-14. This has been a period of currency depreciation that provided a boost to economic growth.

Figure E.1: Growth in India's Total Exports (Y-o-Y)



During the current fiscal, month-on-month (m-o-m) growth of exports has varied across a wide range that includes negative as well as positive growth (Figure E2).

Figure E.2: Growth in India's Total Exports (M-o-M)



Cumulative imports of goods declined by (-) 6.6 per cent during first three quarters of 2013-14. The value of imports fell to US$ 340.4 billion during April-December 2013-14 compared to US$ 364.2 billion during the comparable period, 2012-13. Growth in oil imports slowed down to 2.6 per cent compared to the earlier growth of 9.8 per cent. The slowdown in non-oil imports has been primarily due to restrictions on import of gold.

E.3 Composition of exports

Merchandise exports are concentrated in the manufactured goods category (61.4 per cent), followed by petroleum & crude products (8.3 cent), agriculture & allied products (12.9 per cent), other commodities (3 per cent) and ores &

minerals (1.8 percent).[2] Cumulative data for the period April-November 2013-14 shows growth in each of the commodity categories with exports of ores & minerals the only exception. Ore and mineral exports declined 4.3 per cent mainly due to continued restrictions on mining activity. While total exports grew 4.8 per cent, exports of manufactured products, petroleum products, agricultural commodities, and other commodities grew 4.2, 8.3, 3.8 and 1.6 per cent, respectively. Interestingly, the manufactured goods sector has expanded due to improved export performance of many labour-intensive sectors such as textiles and readymade garments, each of which registered 15.9 per cent growth over the period. Exports of leather and manufactured items also recorded a smart growth of 15.3 per cent. Within engineering goods, export of significant items such as machinery & instruments and transport equipment grew 5.5 and 11.7 per cent, respectively. However, exports of gems & jewellery products declined in the current period. Agricultural exports have grown on the strength of stronger exports of items such as basmati rice, marine products, meat & preparations - all three of which recorded more than 40 per cent growth. Mining exports are most hit due to a fall in iron ore as well as coal exports.

E.4 Destination of exports

Regional exports are primarily destined to Asia (49.5 per cent), followed by Europe (19.5 per cent) and Africa a (10 per cent). Exports have expanded to all these regions due to growth in these regions. Country-wise exports are led by destinations such as USA, UAE, Singapore, China and Hong Kong with 13, 9.9, 4.7, 4.5 and 4.2 per cent shares, respectively. Exports to 17 of the top 20 exporting destinations increased during April-November 2013-14. The remaining three countries include UAE, Netherlands and Brazil.

[2] Figures in parenthesis refer to shares in corresponding total merchandise trade flows (exports or imports).

E.5 Compositions of imports

Commodity imports recorded a decline of 5.4 per cent during April-November 2013-14 primarily due to 9.6 per cent decline in non-pol items.

However, oil imports registered a moderate growth of 2.9 per cent. Imports of most non-oil commodities declined through the period. Particularly, imports of significant items such as gold, chemical & related products, capital goods and edible vegetable oils declined. An increase in imports has been observed for commodities such as electronic goods, non-ferrous metals and precious pearls & semi-precious stones.

E.6 Sources of imports

A significant proportion of India's imports is sourced from the Asian region (59.1 per cent), followed by Europe (16.7 per cent) and Africa (8.6 per cent). Imports from all these regions have slowed down during April-November 2013-14. Most significant sourcing countries for India's imports include China, Saudi Arab, UAE, USA and Iraq with shares of 11.4, 8.1, 6.7, 5 and 4.5 per cent, respectively. Imports from nearly half of the top 20 countries have slowed down. Most important among such countries is China. Notwithstanding declining imports, China continues to be the most important sourcing country for India's commodity imports.

E.7 Balance of payments

The BoP statement for H1: April-September 2013-14 shows that merchandise exports expanded by 5.1 per cent as against merchandise imports that remained stable (Table E.2). Consequently, the deficit on merchandise trade narrowed 8.6 per cent to US$ 83.8 billion compared to US$ 91.6 billion during H1: 2012-13. Net receipts of invisibles increased 6.4 per cent. A lower merchandise trade deficit together with a rise in net invisible receipts resulted in a current account deficit (CAD) of US$ 27 billion during H1: 2013-14 as against US$

38.2 billion, i.e. lower by 29.5 per cent. Consequently the CAD-to-GDP ratio declined from 4.5 per cent to 3.1 per cent over the period.

Net inflows on the capital account declined 59.4 per cent primarily due to decline of 63.1 per cent in the net inflows of foreign investment.

While net FDI inflows increased 11.7 per cent, net portfolio investments reduced noticeably by 217.8 per cent.

Net inflows of both, FIIs as well as FDI fell during H1: 2013-14. Considering errors & omissions of US$ 1.1 billion, the overall balance of payments shows a deficit of US$ 10.7 billion as against a marginal surplus of US$ 0.4 billion during H1: 2012-13.

E.8 Prognosis

The world economy is showing signs of bouncing back with accelerated growth during 2014. Advanced economies are estimated to do better The US, in particular, is in a safe zone as indicated by the withdrawal of e quantitative easing. Rising industrial output as well as household spending will encourage exports from developing countries. On the other hand, strong portfolio adjustments due to reversal of capital flows to the US have led to currency depreciation in some developing countries.

India's exports have posted acceleration both due to increasing global activity and a depreciated currency. Imports of advanced economies are poised to pick up during 2014 largely led by private consumption. This provides an opportunity for many emerging markets like India to raise incomes and break the "middle income trap". Moderation in global commodity prices as well as checks on gold imports will lower the import bill. The ability to restructure the domestic economy to address supply-side constraints and the risk of overturn in policy reforms in view of the forthcoming national elections will be crucial factors in realizing our potential.

Box E.1: Trade facilitation measures are important for export growth

Trade facilitation measures play a significant role in boosting a country's trade. The World Bank has acknowledged the, benefits of reduction in time and the simplification of documentation procedures for the developing countries in its Doing Business Report, 2014. India ranked 134 among 189 economies in terms of ease of doing business. This was a few ranks below its earlier rank - 131 in 2013. India's performance fell off on a number of frontiers including: starting a business, getting electricity, getting credit, protecting investors, trading across borders, and resolving insolvency; though the rank improved for tax payments. On average 12 procedures are required over 27 days for a business process. These figures are significantly high than in South Asia and OECD. Improved trade facilitation measures can help exports without additional cost to the government exchequer. The Indian government has increasingly used e-governance tools such as e-BRC (electronic bank realization certificate) system as an attempt to increase efficiency and transparency. A commitment to improve business environment will prove supportive in achieving the export target of US$ 325 billion during 2013-14.

Table E.1: Growth of World Output and Trade (% change, y-o-y)

			Projections	
	2012	**2013**	**2014**	**2015**
World Output	**3.1**	**3.0**	**3.7**	**3.9**
Advanced Economies	**1.4**	**1.3**	**2.2**	**2.3**
United States	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.4	1.0	1.4
Germany	0.9	0.5	1.6	1.4
France	0.0	0.2	0.9	1.5
Italy	-2.5	-1.8	0.6	1.1
Spain	-1.6	-1.2	0.6	0.8
Japan	1.4	1.7	1.7	1.0
Emerging Market and Developing Economies 1/	**4.9**	**4.7**	**5.1**	**5.4**
Central and Eastern Europe	1.4	2.5	2.8	3.1
Commonwealth of Independent States	3.4	2.1	2.6	3.1
Russia	3.4	1.5	2.0	2.5
Developing Asia	6.4	6.5	6.7	6.8
China	7.7	7.7	7.5	7.3
India[1]	3.2	4.4	5.4	6.4
ASEAN-5[2]	6.2	5.0	5.1	5.6
Latin America and the Caribbean	3.0	2.6	3.0	3.3
Brazil	1.0	2.3	2.3	2.8
Mexico	3.7	1.2	3.0	3.5
World Growth Based on Market Exchange Rates	2.5	2.4	3.1	3.4
World Trade Volume (goods and services)	**2.7**	**2.7**	**4.5**	**5.2**
Imports (goods and services)				
Advanced Economies	1.0	1.4	3.4	4.1
Emerging Market and Developing Economies	5.7	5.3	5.9	6.5
Commodity Prices (U.S. dollars)				
Oil[3]	1.0	-0.9	-0.3	-5.2
Nonfuel (average based on world commodity export weights)	-10.0	-1.5	-6.1	-2.4

Source: WEO Update, 21 January 2014
[1] For India, data and forecasts are presented on a fiscal year basis.
[2] Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

Table E.2: Overall Balance of Payment in India ($ billion)

	April-September 2012 PR			April-September 2013 P		
	Credit	Debit	Net	Credit	Debit	Net
A. CURRENT ACCOUNT						
I. MERCHANDISE	**147.6**	**239.2**	**-91.6**	**155.2**	**238.9**	**-83.8**
II. INVISIBLES (a+b+c)	**110.2**	**56.8**	**53.4**	**114.2**	**57.3**	**56.8**
a) Services	70.8	39.5	31.3	**73.2**	**37.9**	**35.2**
i) Travel	7.5	6.1	1.4	7.8	6.1	1.7
ii) Transportation	8.5	7.8	0.7	8.3	7.2	1.1
iii) Insurance	1.1	0.6	0.5	1.1	0.5	0.5
iv) G.n.i.e.	0.3	0.3	0.0	0.2	0.6	-0.3
v) Miscellaneous of which :	53.5	24.7	28.8	55.8	23.6	32.2
Software Services	31.7	1.2	30.5	33.5	1.0	32.4
Business Services	14.7	15.0	-0.2	14.7	13.7	1.0
Financial Services	2.7	2.5	0.1	3.6	3.4	0.2
Communication Services	0.9	0.2	0.6	1.2	0.6	0.6
b) Transfers	34.4	1.8	32.6	35.3	2.6	32.7
i) Official	0.1	0.4	-0.3	0.2	0.5	-0.3
ii) Private	34.3	1.5	32.9	35.2	2.1	33.1
c) Income	5.0	15.4	-10.5	5.6	16.8	-11.2
i) Investment Income	3.5	14.4	-11.0	4.1	15.5	-11.4
ii) Compensation of Employees	1.5	1.0	0.5	1.6	1.3	0.2
Total Current Account (I+II)	**257.8**	**296.0**	**-38.2**	**269.3**	**296.3**	**-27.0**
B. CAPITAL ACCOUNT	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
1. Foreign Investment (a+b)	**95.5**	**77.7**	**17.8**	**124.5**	**117.9**	**6.6**
a) Foreign Direct Investment (i+ii)	20.5	8.5	12.0	20.3	6.9	13.4
i. In India	18.2	2.7	15.4	16.7	2.7	14.0
Equity	12.8	2.4	10.4	11.8	2.4	9.4
Reinvested Earnings	4.6	0.0	4.6	4.1	0.0	4.1
Other Capital	0.9	0.4	0.5	0.7	0.3	0.4
ii. Abroad	2.3	5.8	-3.5	3.6	4.2	-0.6
Equity	2.3	2.9	-0.6	3.6	1.8	1.8
Reinvested Earnings	0.0	0.6	-0.6	0.0	0.6	-0.6
Other Capital	0.0	2.2	-2.2	0.0	1.8	-1.8
b) Portfolio Investment	75.0	69.2	5.8	104.2	111.0	-6.8
In India	74.1	67.7	6.4	103.6	110.6	-7.0
FIIs	73.9	67.7	6.2	103.5	110.6	-7.0
Equity	56.4	50.9	5.5	81.6	77.5	4.0
Debt	17.6	16.9	0.7	22.0	33.0	-11.1
ADRs/GDRs	0.2	0.0	0.2	0.0	0.0	0.0

Abroad	0.9	1.4	-0.6	0.6	0.4	0.2
2.Loans	**71.1**	**60.0**	**11.1**	**70.9**	**67.7**	**3.2**
a) External Assistance	2.0	1.9	0.1	1.8	1.7	0.1
i) By India	0.0	0.2	-0.1	0.0	0.1	-0.1
ii) To India	2.0	1.7	0.3	1.8	1.6	0.2
b) Commercial Borrowings (ST, MT&LT)	69.1	58.1	11.0	69.1	66.0	3.0
3. Banking Capital	**45.6**	**30.7**	**14.9**	**50.1**	**38.1**	**12.0**
4. Rupee Debt Service	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
5. Other Capital	**6.6**	**13.1**	**-6.5**	**9.5**	**16.1**	**-6.5**
Total Capital Account (1 to 5)	**218.7**	**181.4**	**37.3**	**255.0**	**239.9**	**15.1**
C. Errors & Omissions	**1.3**	**0.0**	**1.3**	**1.1**	**0.0**	**1.1**
D. Overall Balance (A+B+C)	**477.7**	**477.4**	**0.4**	**525.4**	**536.1**	**-10.7**
E. Monetary Movements (i+ii)	**0.0**	**0.4**	**-0.4**	**10.7**	**0.0**	**10.7**
i) I.M.F.	0.0	0.0	0.0	0.0	0.0	0.0
ii) Foreign Exchange Reserves (Increase - / Decrease +)	0.0	0.4	-0.4	10.7	0.0	10.7

PR: Partially Revised. P: Preliminary.
Source: RBI, Monthly Bulletin January, 2014 and Press Release, 2 December 2013

Prices

The bigger question is what to track – WPI or CPI? WPI is moderating and getting closer to the comfortable zone. However, CPI continues to be close to double digits. The month of December is bringing signs of moderating retail inflation but the upside risks remain. The challenge before the policymakers is how to bring down inflationary expectations which may be caught in a self-fulfilling cycle

P.1 What to track?

The "Expert Committee to Revise and Strengthen the Monetary Policy Framework" of the Reserve Bank of India (RBI) released its report on 21st January 2014. Its key recommendations include (i) monetary policy should target inflation such that it varies around 4% with a band of +/–2%. Further, the Committee recommended adopting the Combined Consumer Price Index (CPI, Base Year 2010)) published by the Central Statistical Organisation as the nominal anchor for headline inflation. Currently, the headline inflation in India is Wholesale Price Index (WPI, Base Year=2004–05). While not formally accepting the report, the RBI did increase interest rates in face of moderating year-on-year (y-o-y) WPI inflation and sticky CPI inflation, implicitly acknowledging the recommendations of the report.

The decision to move from WPI to CPI was two-fold. First reason was the increased vulnerability of the economy to supply/external shocks and second was the relatively large weight of food in the CPI. Further the Committee argued that the CPI does a better job of reflecting costs of living than WPI. And the Committee provided evidence that CPI influences inflation expectations relative to other measures of inflation.

In the short-run, the target is to bring down in the inflation from 10 to eight per cent over the next one year and then to six per cent over the next two years.

To acknowledge this change, we examine the main components of both WPI and CPI and continue reporting all four indices of inflation in India. Other than the WPI and CPI, we have Consumer Price Index of Industrial Worker (CPIIW, Base Year, 2001) and Consumer Price Index of Agricultural Labour (CPIAL, Base Year 1986-87). Further, the combined CPI is further divided in rural and urban inflation with the same base year as CPI (Table P.1). All inflation rates are calculated from the indices on a y-o-y basis.

P.2 Trends of Inflation Rate

The main trends are that WPI inflation rate has gone up while retail inflation remains sticky in double digits or close to it. The quarter-on-quarter inflation of WPI inflation rate shows significant fall from 14.9 per cent in 2013-14:Q2 to 6.4 per cent in 2013-14:Q3. Core inflation continues with its weakening trend, falling further to 4.4% in 2013-14:Q3.

There is weakening of inflation in December in all the indices. Using monthly data to calculate y-o-y inflation rates, WPI inflation was 6.2%, CPI inflation was 9.5%, primarily driven by the fall in CPI urban inflation to 8.6%. CPIIW inflation too fell to 9.1%. Rural CPI inflation in December fell but continued to be in double digits (10.3%). Similarly, CPIAL inflation continues to be in double digits but exhibited weakening trends in December (11.2%).

In sum, inflation shows signs of weakening. Retail inflation, however, remains perilously close to double digits.

P.3 Food Inflation

World-wide food prices fell by 11% on a y-o-y basis in October-December 2013 (World Bank Pink Sheet). Domestically, we see continued high food inflation. WPI food articles inflation (includes only the food articles component of primary articles) has gone up further from last quarter mainly driven by the rise in 'fruits and vegetables' and 'condiments and spices' (Table P.2). The good news is that cereals and pulses show a significant slide downwards. 'Eggs, Meat and Fish' continues to be in double digits but shows signs of moderation. However, price of milk has gone up slightly though it is in single digits. In sum, protein inflation and 'fruits and vegetables' inflation continue to cause angst in the budgets of common citizens.

The CPI combined food, beverages and tobacco inflation in 2013–14:Q3 was 8.2%. This includes cereals and products, pulses and products, oils and fats, eggs, meat and fish, milk and produce, condiments and spices, vegetables, fruits, sugar etc, non-alcoholic beverages, prepared meals and 'pan, tobacco and intoxicants'.

In December, WPI food articles inflation weakened to 13.7%. In contrast, CPI inflation went up to 14.7% in December.

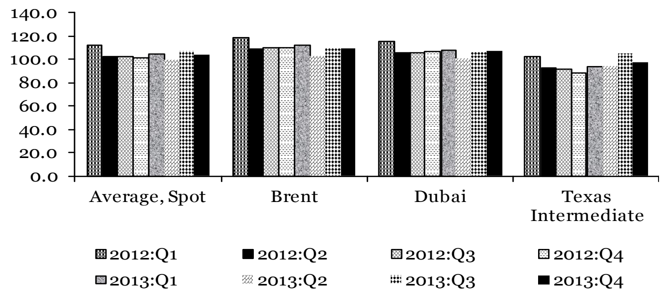
Although WPI and CPI inflation are strictly not comparable because the WPI food articles inflation does not include the price of manufactured food, one thing is for certain that food inflation continues to be high and in double digits. The RBI in its "Macroeconomic and Monetary Developments Third Quarter Review 2013-14" (henceforth referred to as the RBI Review) states that vegetable prices fell sharply in December 2013 and there was further correction in prices in the fortnight of January 2014.

As rain gods play havoc with six per cent above rainfall in 2013, persistent slow build of agricultural infrastructure and little reforms in agriculture marketing, food driven inflation keeps on rearing its ugly head. In the long run, food inflation can only be kept in check by improvement in infrastructure, structural reforms and government policy initiatives. While the government has historically concentrated its attention to cereal and grain inflation, it is time to re-orient the infrastructure in India to other categories of food as the nation gets richer. An agricultural strategy with a vision plan for the next twenty years is a need of the hour.

P.4 Fuel Inflation

Crude Petroleum Inflation, included in the WPI Primary articles continues to show double digit inflation and has gone up from 11.8% in 2013-14:Q2 to 17.1% in 2013-14:Q3. In contrast, the world prices have come down (Figure P.1). This is probably due the depreciation of the rupee (Rs per dollar) by 14% on a y-o-y basis in 2013-14:Q3.

Figure P.1: Crude Oil, $ per barrel, 2012:Q1 to 2013:Q4



Notes: Crude oil, average spot price of Brent, Dubai and West Texas Intermediate, equally weighed
Crude oil, U.K. Brent 38` API, f.o.b. U.K ports, spot price
Crude oil, Dubai Fateh 32` API, f.o.b. Dubai, spot price
Crude oil, West Texas Intermediate (WTI) 40` API, f.o.b. Midland Texas, spot price
Source: World Bank Pink Sheets

WPI Fuel and Power inflation has gone down from 12% in 2013-14:Q2 to 10% in quarter three. This is mainly because mineral oil inflation has gone down from 15.3% in 2013-14:Q2 to 12.4% in quarter three. This is consistent with worldwide trends. However, electricity inflation jumped up from 18.6% in 2013-14:Q2 to 23.4% in quarter three.

The CPI Combined Fuel and light inflation shows inflation of only 4.1% in 2012-13:Q3. Worldwide energy prices have gone up by 2.4% in the last quarter of 2013 (World Bank Pink Sheets). This is lower than the Indian measures of inflation.

The likelihood of moderation of fuel and power inflation is relatively low as the RBI Review argues that inflation in this category was mainly driven by increase in administered prices. Any relief would be short-term in nature as it would be driven more by political concerns and may reverse itself after economic concerns take over in the latter part of the year. The RBI Review shows that the under-recoveries of oil-marketing companies continue to remain high at Rs 600 billion during the first half of 2013-14, half of which is on account of diesel.

WPI Manufacturing inflation continues to be low at 2.7% in 2013-14:Q3, up from 2.5% in quarter two.

P.5 Inflation Expectations

The influence of inflation expectations on CPI have been cited as one of the reasons for moving the headline inflation from WPI to CPI. The RBI started a survey on inflationary expectations in 2005. There are three measures –current, three-months ahead and one-year ahead. All three measures increased to double digits inflation expectation in December 2009 and has stayed up there for three years (December 2013).

Since a longer time series is available for CPI Industrial Workers, it is used to understand the relationship between retail inflation and expectations rather than CPI combined. The WPI has a higher correlation with expectations than CPI. However, in the last seven quarters i.e. since June, 2012, the gap between inflationary expectations and CPI Industrial Workers is relatively narrower than WPI and expectations. Unfortunately, there are not enough observations for us to check this "structural change" in a robust manner.

Our analysis suggests that for CPI Industrial Workers, expectations is backward looking i.e. current expectations are formed by past values of CPI Industrial Workers.

The persistence is very high – the effect lasts for 12 lags or almost three years. In contrast, statistical analysis between the inflationary expectations and WPI variable suggest that WPI inflationary expectations are forward-looking. However, the persistence is much lower i.e. about three lags.

If expectations are increasing influenced by retail inflation and they are backward looking, it makes sense for the RBI to reduce CPI retail inflation such that expectations are permanently reduced downwards. Otherwise, there is a risk of getting into a self-fulfilling cycle of inflation. This can only happen with credible action from the RBI such that what it did on 28th January, 2014.

P.6 Asset Inflation

Assets in India mainly includes two items-housing and gold. The CPI Housing inflation in the third quarter of 2013-14 is a lowly three per cent. Using monthly numbers one finds that it is 9% in December, slightly lower November 2013 (9.7%). The RBI Housing Price Index (HPI) shows 13.8% inflation in 2013-14:Q2 versus 15% in Q1. The HPI inflation has steadily come down from the peak of 26% in 2012-13:Q3. The CPI inflation rate in that 20113-14:Q2 was 9.5%, which means the real return on housing still remained positive in the second quarter of 2013-14.

Gold prices have been falling with negative inflation rate since the beginning of 2013.

The third asset is buying of financial assets. We track that by using the BSE. In 2013-14:Q2, the y-o-y increase in BSE was 7.3%, which means the real return on BSE was negative.

Therefore, there is moderation in asset inflation. However, housing inflation continues to remain strong. If there is failure to increase real interest rates, asset inflation will continue to be positive as investors hunt for positive real returns. However, this has grave concerns for growth and equity.

P.7 Global Inflation

The RBI Review shows that India has the highest inflation rate amongst all the major emerging and developing economies (EDEs).

Inflation rate of developed economies are far lower. High inflation rate affects the competitiveness of the Indian economy. The currencies of all EDEs are depreciating in the face of United States tapering off. Therefore, India is worse-off.

P.8 Inflation Outlook

The RBI Review predicts that "retail inflation measured by the CPI is expected to moderate from current levels, driven down by further seasonal softening in vegetables and fruits prices in Q4 of 2013-14. However, CPI excluding food and fuel inflation is expected to remain elevated, imparting persistence to the headline. Accordingly, headline CPI inflation could still remain above 9 per cent in the rest of 2013-14. In 2014-15, a slow paced inflation moderation amidst sticky prices could continue. Based on the assumptions of the normal rainfall, some cost pressures from administered fuel price increases, elevated rural wages, supply chain bottlenecks and still heightened inflation expectations, CPI inflation is expected to range between 7.5 and 8.5 per cent in Q4 of 2014-15, albeit, with the balance of risk tilted to the upside".

P.9 Conclusion

High inflation is hurting India in more ways than one – competitiveness, growth and equity. It is also clear that there is a change in the economy as citizens form expectations which are more aligned with CPI than WPI. Food inflation hurts the poorest sections of society. With asset inflation, the rich only get richer. Further there is little increase in the productive capacity of the economy.

The goal for the policymaker is clear-control inflation and inflation expectations such that India can grow again. The long-run goal is of course to improve the productivity and thereby the productive capacity of the Indian economy.

Table P.1: Major Indicators of Inflation, 2011-12:Q1 to 2013-14:Q3 (% y-o-y)

Year: Month	WPIINFL	CPI Industrial Worker	CPI Agricultural Labour	CPI Rural	CPI Urban	CPI Combined	WPI Core Inflation
2011-12:Q1	9.6	8.9	9.4	N.A.	N.A.	N.A.	9.3
2011-12:Q2	9.7	9.2	9.3	N.A.	N.A.	N.A.	9.7
2011-12:Q3	9.0	8.4	8.2	N.A.	N.A.	N.A.	9.9
2011-12:Q4	7.5	7.2	6.0	7.9	9.3	8.5	8.1
2012-13:Q1	7.5	10.1	7.9	9.6	11.0	10.2	6.4
2012-13:Q2	7.9	9.8	9.1	9.8	10.0	9.9	6.4
2012-13:Q3	7.3	10.1	10.5	10.2	9.9	10.1	6.0
2012-13:Q4	6.7	11.7	12.6	10.7	10.6	10.7	5.5
2013-14:Q1	4.8	10.7	12.6	9.3	9.8	9.5	3.7
2013-14:Q2	6.6	10.8	12.9	9.3	10.1	9.7	4.5
2013-14:Q3	7.0	10.6	12.4	10.8	9.9	10.4	4.4

***Notes*:** 1. Base Year: 2004-05 for WPI, 2001 for CPI Industrial Worker, 1986-87 for CPI Agricultural Labour and 2010 for CPI Rural, Urban and Combined.
***Sources*:** Office of the Economic Advisor, Labour Bureau and Central Statistical Organisation

Table P.2: Year-on-Year Inflation Rate of Major Categories in Food Articles in WPI, 2010–11:Q1 to 2013–14:Q3

Period	Food Articles	Food Grains (Cereals and Pulses)	Fruits and Vegetables	Milk	Eggs, Meat and Fish	Condiments and Spices	Other Food Articles
2011–12:Q1	8.8	2.3	16.2	6.9	9.1	14.5	22.6
2011–12:Q2	9.1	3.3	14.9	10.1	10.6	0.5	20.9
2011–12:Q3	6.4	4.7	1.7	11.0	12.3	-3.8	18.5
2011–12:Q4	5.1	4.2	-5.3	13.1	18.6	-18.1	14.2
2012–13:Q1	10.8	8.2	14.4	11.5	17.1	-18.2	10.0
2012–13:Q2	9.2	14.8	5.3	7.1	14.6	-12.5	15.2
2012–13:Q3	8.7	17.9	2.7	6.2	13.3	-15.9	10.6
2012-13:Q4	11.0	17.4	11.3	4.5	11.7	0.8	11.6
2013–14:Q1	8.2	14.3	2.7	4.2	11.5	14.8	2.8
2013-14:Q2	16.7	9.5	37.7	4.9	15.2	11.9	-5.7
2013–14:Q3	17.3	6.7	43.6	6.3	14.7	21.3	-8.4

***Note*:** Base Year: 2004-05.
***Source*:** Office of the Economic Advisor, Government of India

Public Finance

Given the Finance Minister's assurance, on more than one occasion, that he would not cross the fiscal deficit to GDP target of 4.8% for the current fiscal, chances are he will prove his skeptics wrong and deliver on his promise. However, the quality of the fiscal adjustment is just as important as the numerical number. And here the unfortunate reality is that, as in the previous fiscal, the containment of the FD is likely to be done through the wrong kind of expenditure compression. Plan expenditure is likely to be squeezed, once again.

Meanwhile the Revenue Deficit (RD), which is the extent of the deficit that has gone to meet current rather than capital expenditure, has already crossed the target for the entire year during the first nine months of the current fiscal, with the RD/GDP ratio touching 103.5% by November 2013

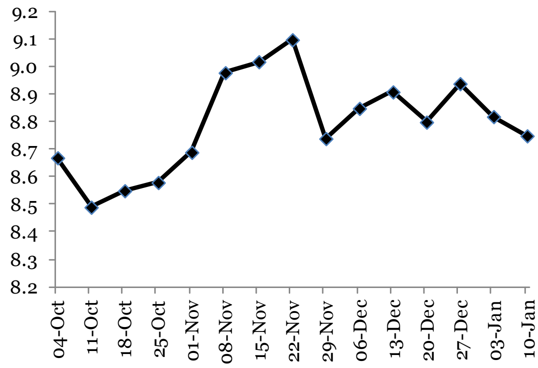
Trends in Revenue and Expenditure

Gross direct tax collections during April-December of the current fiscal are up 12.33 % at Rs.4,81,914 crore as against Rs.4,29,023 crore in the same period last year. While gross collections of corporate taxes have shown an increase of 9.35% and stood at Rs.3,10,126 crore as against Rs. 2,83,605 crore during the same period in last year, collection of personal income tax is up 18.53 % and stood at Rs.1,67,589 crore as against Rs. 1,41,385 crore during the same period in last year. Net direct tax collections are up 12.53% at Rs. 4,15,328 crore, compared to Rs. 3,69,067 crore in the same period in the last fiscal.

Reflecting subdued activity in the stock market, Securities Transaction Tax (STT) collections for the period stand at Rs. 3427 crore, a growth of 4.04 %. However, wealth tax collection posted a growth of 11.92% and stood at Rs. 742 crore as against Rs. 663 crore during the same period in last year.

Overall, tax collections are way below the budget estimates, thanks to the slowdown in economic growth and in the case of taxes like the STT, the decline in interest in stock market investment, especially from retail investors. Meanwhile as expenses mount, the government's fiscal deficit/ GDP ratio for the period to November 2013 has already touched 94% of the target of Rs 5.42 lakh crore for the year.

Figure PF.1: 10 Year G-Sec Yield



Fiscal Deficit

Faced with the very real prospect of breaching the fiscal deficit target of 4.8% of GDP for 2013-14, a target the finance minister has pledged to abide by, the finance ministry is seeking to make good the revenue loss from all possible avenues. Thus, public sector undertakings like Coal India Ltd have been nudged into declaring a special dividend way above that declared last year (Rs 29 per share as against Rs 14 per share last year). In the process the exchequer will garner as much as Rs 16, 489 crore by way of dividend; which along with the dividend distribution tax will fetch the government a handsome some of about Rs 19,600 crore. Other PSUs are not expected to escape – they will all be 'commanded' to pitch in to bridge the fiscal deficit, despite the obvious opportunity cost, in terms of deferment of sorely-needed investment in expanding their own operations.

Plans are also afoot to offload the government's stake in various profitable companies such as Axis bank, ITC, L &T that are presently held through SUUTI (Specified undertaking of Unit Trust of India) that was carved out of UTI, post the US-64 fiasco. SUUTI's holding, in these three companies (23.58 % in Axis Bank, 11.54 % in ITC and 8.27 % in L&T) is presently (January 2014) valued at approximately Rs 48,000 crore and will more than compensate for the shortfall in government's disinvestment target for the year (Rs 40,000).

Spectrum auction is another channel that is expected to fetch the government some money. As of now eight telecom companies are in the fray. The auction is not expected to fetch as much money as in the earlier rounds, thanks to the reduction in reserve price and the fact that a number of licences are set to expire this year. However, it is expected that the auction will succeed in garnering the Rs 11, 343 crore estimated in the Budget from spectrum sale.

There are also unconfirmed news reports of how government might resort to financial jugglery (deferring payment for expenses incurred this fiscal to the next) in order to meet the FD/GDP target. Some amount of jugglery has, perhaps, become a feature of our Budget exercises (recall the infamous off-budget items like oil receivables of the past). But the danger of window-dressing government fiscal numbers cannot be over-stated, as the Greeks will readily testify.

The importance of abiding by the 'Red line' on fiscal deficit is not in doubt, particularly since rating agencies have made no bones about the importance they attach to India being able to stick to the Budget number. However, the manner and the means are just as important as the end. It is unlikely rating agencies or informed observers will be taken in by adherence to the deficit number that is only on paper but masks underlying fiscal distress.

The quality of the fiscal adjustment, moreover, is just as important as the numerical number and here the unfortunate reality is that, as in the previous fiscal, the containment of the FD has been done through the wrong kind of expenditure compression. Thus the Revenue Deficit (RD), which is the extent of the deficit that has gone to meet current rather than capital expenditure, has already crossed the target for the entire year during the first nine months of the current fiscal, with the RD/GDP ratio touching 103% by November 2013.

Admittedly, government expenses tend to front-ended while revenues tend to be back-ended. So there is the hope that tax collections will pick up and the revenue deficit will be reined in. But for now the outlook is bleak, especially if one looks at the primary deficit (deficit excluding interest payments). This reached an incredible 172% of the target for the year by November 2013.

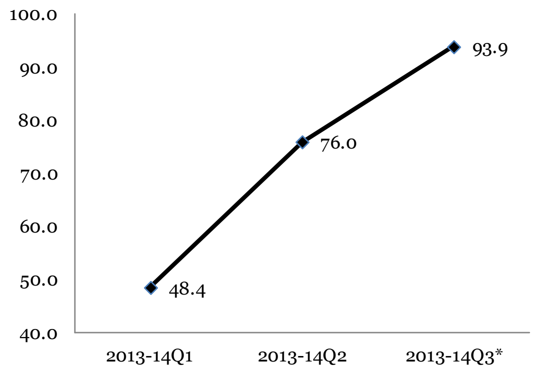
While the government might be able to adhere to the fiscal deficit to GDP target for the year by cutting back on plan expenditure and possibly, some financial jugglery, the quality of the adjustment leaves much to be desired.

Bond yields

Bond yields have corrected from the highs witnessed in the opening days of the third quarter of fiscal 2013-14. Government's decision to postpone its Rs15,000 crore bond issue mid-January also kept yield in checks. On 15 January, yields on 10 year bonds were down to 8.61 % in intra-day trade, the lowest since October 2013. The RBI's decision to go in for an OMO (open market operation) purchase of Rs 10,000 crore on 22 January 2014 also helped contain yields.

Better inflation data, both CPI and WPI, have led to the expectation that the RBI will continue with its 'pause mode' as far as policy rates are concerned. This, expectation was however, belied on 28th January 2014 when the RBI opted to hike the repo rate by 25 basis points to 8 % nonetheless the expectation of lower supply on account of government trying to keep within its fiscal deficit target, is expected to keep bond yields soft.

Figure PF.2: Fiscal deficit



The RBI had earlier announced a debt switch programme to the tune of Rs 50,000 crore under which the central bank would try to buy short-dated securities and issue long-dated ones in a bid to increase the maturity of government's debt. However there are reports that this too, might be deferred to the next fiscal

The government's decision to go in for a Vote-on-account on 17 February in view of the impending general elections in May 2014 means activity in the bond market is likely to be confined to the short end, pending clarity both on the composition of the new government and the borrowing progamme for the full fiscal 2014-15. Meanwhile the shift in the maturity profile of government debt, with government opting for issue of more short-term paper in the immediate aftermath of the financial crisis has meant a sharp increase in repayments with debt redemptions in the range of Rs 150,000 – 250,000 crore due every year from 2014-15. The Reserve Bank of India's Financial Stability Report released in December 2013, warns that redemption pressure could increase significantly from 2014-15 – 2019-20

Table PF.1: Union Government Accounts at a Glance

Item	Budget Estimates 2012-13	Revised Estimates 2012-13	Budget Estimates 2013-14	Actuals upto Nov 2013	% of Actual to Budget estimates
Rev Receipts	935,685	871,828	1,056,331	502,691	47.6
Total receipts	977,335	909,901	1,122,799	511,638	45.6
Total expenditure	1,490,925	1,430,825	1,665,297	1,021,195	61.3
Fiscal deficit	513,590	520,925	542,499	509,557	93.9
Revenue deficit	350,424	391,245	379,838	393,109	103.5
Primary deficit	193,831	204,251	171,814	295,123	171.8

Source: Based on data from Controller General of Accounts, Ministry of Finance

Data File

Gross Domestic Product (2004-05 Prices) at Factor Cost **(Rs Crore)**

	Agriulture, Forestry & Fishing	Mining & Quarrying	Manufacturing	Electricity, Gas & Water	Construction	Trade, Hotels, Transport & Communication	Finance, Insurance, Real Estate	Community, Social & Personal Services	Overall GDP
2010-11									
Q1	163231	26318	189313	22993	94838	318593	205748	139577	1160611
Q2	134678	25291	193941	22685	93093	323781	208712	163084	1165264
Q3	224698	28083	201334	22930	97625	333815	214128	152527	1275140
Q4	190868	29246	216889	24165	105137	369471	221044	179170	1335989
2011-12									
Q1	171966	26205	203349	24508	98410	348903	229638	144517	1247496
Q2	138987	23942	199873	24599	99167	346452	234460	173628	1241106
Q3	233894	27345	202665	24686	104350	356768	238586	162959	1351252
Q4	194649	30758	217136	25020	110485	388189	246124	191365	1403727
2012-13									
Q1	176888	26302	201230	26018	105340	370197	250955	157324	1314256
Q2	141334	24345	200001	25386	102267	369996	253996	188204	1305531
Q3	238106	27157	207689	25798	107347	379550	257216	172006	1414869
Q4	197282	29815	222728	25716	115322	412291	268516	199111	1470782
2013-14									
Q1	181705	25568	198827	26978	108266	384567	273388	172149	1371446
Q2	147874	24245	202027	27348	106651	384950	279310	196189	1368594
Percentage change over the same period previous year									
2010-11									
Q1	4.1	6.9	13.0	5.0	10.2	14.1	10.0	3.8	9.7
Q2	6.4	6.8	9.9	2.3	7.8	12.0	10.3	4.0	8.9
Q3	11.3	5.6	11.6	5.9	10.5	10.9	11.2	-1.0	9.3
Q4	7.6	-0.4	11.1	7.2	10.7	12.7	9.9	8.7	10.1
2011-12									
Q1	5.4	-0.4	7.4	6.6	3.8	9.5	11.6	3.5	7.5
Q2	3.2	-5.3	3.1	8.4	6.5	7.0	12.3	6.5	6.5
Q3	4.1	-2.6	0.7	7.7	6.9	6.9	11.4	6.8	6.0
Q4	2.0	5.2	0.1	3.5	5.1	5.1	11.3	6.8	5.1
2012-13									
Q1	2.9	0.4	-1.0	6.2	7.0	6.1	9.3	8.9	5.4
Q2	1.7	1.7	0.1	3.2	3.1	6.8	8.3	8.4	5.2
Q3	1.8	-0.7	2.5	4.5	2.9	6.4	7.8	5.6	4.7
Q4	1.4	-3.1	2.6	2.8	4.4	6.2	9.1	4.0	4.8
2013-14									
Q1	2.7	-2.8	-1.2	3.7	2.8	3.9	8.9	9.4	4.4
Q2	4.6	-0.4	1.0	7.7	4.3	4.0	10.0	4.2	4.8
Annual Average % (April-March)									
2008-09	2.2	0.04	4.2	5.8	5.8	7.8	9.7	11.7	8.6
2009-10	0.8	5.9	11.3	6.2	6.7	10.1	9.2	11.6	8.6
2010-11^	8.6	6.5	8.9	5.3	5.7	12.2	10.0	4.2	8.9
2011-12@	5.0	0.1	7.4	8.4	10.8	4.3	11.3	4.9	6.7
2012-13*	1.4	-2.2	1.1	2.3	1.1	5.1	10.9	5.3	4.5

Source: Central Statistical Organisation *First Revised Estimates @ Second Revised Estimates ^ Third Revised estimates released by CSO

Index of Industrial Production **(2004-05=100)**

	General	Manufacturing	Mining	Electricity	Basic Goods	Capital Goods	Intermediate Goods	Consumer Goods	Consumer Durables	Consumer Non-durables	Infrastructure Industries
2010-11											
Q1	157.0	165.4	126.8	136.6	136.6	238.9	141.5	172.1	277.4	130.3	134.3
Q2	159.2	169.8	120.9	134.4	135.2	282.1	144.0	167.7	275.3	125.0	132.8
Q3	166.7	176.9	135.1	136.1	144.3	296.7	145.9	173.7	280.8	131.2	139.0
Q4	179.0	190.7	141.4	145.0	152.5	297.7	149.8	199.9	317.1	153.5	147.4
2011-12											
Q1	167.9	178.2	127.6	147.9	146.8	279.5	144.1	179.7	284.9	138.0	141.9
Q2	164.3	175.5	116.0	148.5	144.7	265.6	142.8	175.7	297.0	127.6	139.7
Q3	168.7	178.8	129.4	149.2	150.6	248.7	141.6	187.0	294.6	144.4	146.1
Q4	180.1	191.4	140.9	151.6	157.7	277.3	149.0	202.0	304.0	161.6	153.6
2012-13											
Q1	167.5	176.7	125.6	157.3	151.7	223.4	145.3	186.8	307.8	138.8	151.8
Q2	165.0	175.9	115.2	152.7	147.9	244.2	144.9	178.1	297.2	130.9	145.5
Q3	172.2	183.3	125.5	155.7	154.5	245.7	145.2	192.2	303.7	147.9	150.8
Q4	184.1	197.2	135.5	155.1	160.5	293.1	151.4	205.4	295.4	169.7	156.0
2013-14											
Q1	165.8	174.8	119.8	162.8	151.3	215.2	147.6	182.8	268.8	148.7	154.2
Q2	167.7	177.9	114.9	165.5	151.4	249.5	150.4	177.6	268.7	141.5	155.7
Percentage change over the same period previous year											
2010-11											
Q1	9.6	10.4	8.0	5.4	5.5	17.2	10.7	11.5	19.7	5.4	7.8
Q2	6.8	7.4	6.3	2.1	3.9	15.8	6.3	6.6	12.4	2.1	5.3
Q3	8.6	9.2	6.3	6.5	7.8	22.1	7.4	4.4	9.7	0.3	6.2
Q4	7.9	8.9	1.1	8.1	6.6	5.8	5.5	11.6	15.2	8.8	6.9
2011-12											
Q1	7.0	7.7	0.7	8.3	7.5	17.0	1.8	4.5	2.7	5.9	5.7
Q2	3.2	3.4	-4.1	10.5	7.0	-5.8	-0.8	4.8	7.9	2.1	5.2
Q3	1.2	1.1	-4.2	9.6	4.4	-16.2	-2.9	7.7	4.9	10.1	5.1
Q4	0.6	0.3	-0.4	4.5	3.4	-6.9	-0.5	1.1	-4.1	5.3	4.2
2012-13											
Q1	-0.3	-0.8	-1.5	6.4	3.3	-20.1	0.8	3.9	8.0	0.6	6.9
Q2	0.4	0.2	-0.7	2.8	2.2	-8.1	1.5	1.4	0.1	2.6	4.2
Q3	2.1	2.5	-3.0	4.4	2.5	-1.2	2.5	2.7	3.1	2.4	3.2
Q4	2.2	3.1	-3.8	2.3	1.8	5.7	1.6	1.7	-2.8	5.0	1.5
2013-14											
Q1	-1.0	-1.1	-4.7	3.5	-0.2	-3.7	1.6	-2.1	-12.7	7.1	1.6
Q2	1.7	1.1	-0.3	8.4	2.4	2.1	3.7	-0.3	-9.6	8.1	7.0
Annual Average % (April-March)											
2008-09	2.5	2.5	2.6	2.7	1.7	11.3	0.0	0.9	11.1	-5.0	2.8
2009-10	5.3	4.8	7.9	6.1	4.7	1.0	6.0	7.7	17.0	1.4	6.6
2010-11	8.2	9.0	5.2	5.5	6.0	14.8	7.4	8.6	14.2	4.3	6.6
2011-12	2.9	3.0	-2.0	8.2	5.5	-4.0	-0.6	4.4	2.6	5.9	5.0
2012-13	1.1	1.3	-2.3	4.0	2.5	-6.0	1.6	2.4	2.0	2.8	3.9

Source: CSO

Monetary Variables **(Rs Crore)**

	Reserve Money (M0)	Money Supply With the Public (M1)	Money supply (M3)	Net Bank Credit to Govt	Bank Credit to Commercial Sector	Net Foreign Exchange Assets of Banking Sector	Foreign Currency Assets	Non-Food Credit	Food Credit	Credit-Deposit Ratio (%)	Investment Deposit Ratio (%)
2010-11											
Q1	1170785	1486650	5710580	1720210	3573276	1288438	1163266	3262322	52970	73.3	31.3
Q2	1174452	1519831	5899266	1764773	3696238	1363398	1191418	3374996	50232	72.7	31.3
Q3	1241804	1591773	6225181	1797093	4048929	1349079	1200077	3699425	65948	75.8	30.1
Q4	1376821	1638345	6504116	1983896	4236676	1393343	1222062	3877800	64283	75.7	28.8
2011-12											
Q1	1357211	1592367	6696607	2071899	4309392	1404165	1245256	3923596	77329	74.8	29.7
Q2	1354671	1582812	6878779	2152294	4416705	1553838	1348996	4026580	68245	73.9	29.5
Q3	1393431	1697815	7221342	2240946	4704756	1595929	1400600	4282331	84547	74.9	29.1
Q4	1426344	1736449	7364837	2371694	4958445	1543780	1330510	4530548	81304	77.0	28.6
2012-13											
Q1	1463008	1807961	7756228	2536531	5136320	1646690	1446930	4655517	107522	76.4	29.9
Q2	1448155	1746871	7816592	2590069	5145299	1603072	1369910	4671161	92579	75.1	29.9
Q3	1458004	1812262	8029967	2596505	5415116	1634066	1437080	4916215	107558	77.6	29.9
Q4	1514886	1894938	8382024	2707207	5664664	1636659	1590060	5166410	96420	78.0	29.7
2013-14											
Q1	1562401	1966763	8726043	2925465	5808135	1679467	1524000	5302650	112360	76.4	30.1
Q2	1219012	1954444	8794920	2903966	5997918	1722547	1532440	5518030	99150	78.3	29.5
Q3	1612950	1993480	9228150	2960410	6177280	1892560	1667130	5644080	111840	76.7	29.5
Percentage change over the same period previous year											
2010-11											
Q1	23.4	19.1	15.2	23.0	18.8	-2.0	-4.4	20.5	-12.7	4.9	-4.0
Q2	21.7	15.9	15.2	20.1	18.7	0.1	-6.2	19.2	18.4	4.2	-6.2
Q3	22.1	19.6	18.7	19.4	27.2	0.6	-0.6	27.7	46.4	7.5	-6.9
Q4	19.1	10.0	16.1	18.9	21.3	8.7	6.3	21.3	32.6	4.8	-6.5
2011-12											
Q1	15.9	7.1	17.3	20.4	20.6	9.0	7.0	20.3	46.0	2.0	-5.0
Q2	15.3	4.1	16.6	22.0	19.5	14.0	13.2	19.3	35.9	1.6	-5.9
Q3	12.2	6.7	16.0	24.7	16.2	18.3	16.7	15.8	28.2	-1.2	-3.4
Q4	3.6	6.0	13.2	19.5	17.0	10.8	8.9	16.8	26.5	1.7	-0.9
2012-13											
Q1	7.8	13.5	15.8	22.4	19.2	17.3	16.2	18.7	39.0	2.2	0.6
Q2	6.9	10.4	13.6	20.3	16.5	3.2	1.6	16.0	35.7	1.7	1.7
Q3	4.6	6.7	11.2	15.9	15.1	2.4	2.6	14.8	27.2	3.6	3.0
Q4	6.2	9.1	13.8	14.1	14.2	6.0	19.5	14.0	18.6	1.3	4.1
2013-14											
Q1	6.8	8.8	12.5	15.3	13.1	2.0	5.3	13.9	4.5	-0.1	0.8
Q2	-15.8	11.9	12.5	12.1	16.6	7.5	11.9	18.1	7.1	4.2	-1.4
Q3	10.6	10.0	14.9	14.0	14.1	15.8	16.0	14.8	4.0	-1.1	-1.4
Annual Average % (April-March)											
2008-09	6.4	9.0	19.3	42.0	16.9	4.4	1.8	17.8	4.1	-1.7	-0.1
2009-10	17.0	18.2	16.9	30.7	15.8	-5.2	-5.8	17.1	4.9	-0.1	1.3
2010-11	19.1	10.0	16.1	18.9	21.3	8.7	6.3	21.3	32.6	4.8	-6.5
2011-12	3.6	6.0	13.2	19.5	17.0	10.8	8.9	16.8	26.5	1.7	-0.9
2012-13	6.2	9.1	13.8	14.1	14.2	6.0	19.5	14.0	18.6	1.3	4.1

Source: RBI

External Sector (Rs Crore)

	DGCI&S			RBI						
	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance	Net Invisibles	Current Account Balance	Capital Account Balance	Overall Balance
2010-11										
Q1	256130	410636	-154506	261000	401700	-140700	79700	-61000	78400	17100
Q2	249514	401137	-151622	254600	417600	-163000	83000	-80000	101800	15300
Q3	291806	416302	-124496	297500	440400	-142900	92600	-50400	73200	17900
Q4	345471	455393	-109921	352600	486400	-133800	105600	-28200	37800	9200
2011-12										
Q1	342254	548812	-206559	351600	552800	-201200	122800	-78400	107000	24300
Q2	356048	553000	-196951	364200	568000	-203800	117300	-86500	89600	1200
Q3	368366	612621	-244254	363600	611700	-248100	146400	-101600	39100	-65300
Q4	399291	631031	-231740	403100	662100	-259000	149600	-109400	83400	-28800
2012-13										
Q1	398133	630172	-232039	405793	643041	-237248	144764	-92484	89466	2823
Q2	392706	662319	-269614	400748	664662	-263913	147239	-116674	114555	-872
Q3	394250	693156	-298906	401980	718090	-316110	144079	-172031	170409	4231
Q4	444172	692666	-248494	459169	706353	-247184	148764	-98420	111305	14520
2013-14										
Q1	406035	683807	-277772	413359	695704	-282345	160484	-121861	114730	-1935
Q2	493410	677808	-184399	505701	713011	-207311	175131	-32180	-33455	-64454
Percentage change over the same period previous year										
2010-11										
Q1	36.8	35.0	32.1	36.6	25.8	9.8	-26.2	200.5	321.5	2750.0
Q2	21.1	26.1	35.3	21.2	18.2	13.7	-15.9	79.8	9.2	-66.4
Q3	35.3	12.7	-19.0	35.2	20.9	-0.9	5.8	-11.3	9.3	118.3
Q4	46.0	22.4	-18.9	45.6	25.9	-7.2	22.6	-51.5	-42.0	-6.1
2011-12										
Q1	33.6	33.6	33.7	34.7	37.6	43.0	54.1	28.5	36.5	42.1
Q2	42.7	37.9	29.9	43.0	36.0	25.0	41.3	8.1	-12.0	-92.2
Q3	26.2	47.2	96.2	22.2	38.9	73.6	58.1	101.6	-46.6	-464.8
Q4	15.6	38.6	110.8	14.3	36.1	93.6	41.7	287.9	120.6	-413.0
2012-13										
Q1	16.3	14.8	12.3	15.4	16.3	17.9	17.9	18.0	-16.4	-88.4
Q2	10.3	19.8	36.9	10.0	17.0	29.5	25.5	34.9	27.9	-172.7
Q3	7.0	13.1	22.4	10.6	17.4	27.4	-1.6	69.3	335.8	106.5
Q4	11.2	9.8	7.2	13.9	6.7	-4.6	-0.6	-10.0	33.5	150.4
2013-14										
Q1	2.0	8.5	19.7	1.9	8.2	19.0	10.9	31.8	28.2	-168.5
Q2	25.6	2.3	-31.6	26.2	7.3	-21.4	18.9	-72.4	-129.2	-7292.3
Annual Average % (April-March)										
2008-09	28.2	35.8	49.7	28.4	35.7	48.9	38.0	101.0	-93.2	-126.3
2009-10	0.6	-0.8	-2.9	0.6	1.3	2.3	-9.4	40.8	741.4	166.1
2010-11	35.2	23.4	4.3	35.0	22.7	3.7	-5.1	22.3	19.3	-7.3
2011-12	28.3	39.3	62.7	27.2	37.1	57.2	48.6	71.1	9.5	-215.1
2012-13	11.5	13.8	17.7	12.5	14.1	16.7	9.1	27.6	52.3	130.2

Source: DGCI&S & RBI Note: Quarterly series may not matchto yearly totals becasue of data revisions

Price Index **(2004-05=100)**

	WPI										CPI		
	Commodity Groups				Use-based								
	All Commodities	Primary Articles	Fuel, Power, Light & Lubricants	Mfg. Products	Basic Goods	Capital Goods	Interm Goods	Con. Goods	Cons. Durables	Cons. Non Durables	Industrial Workers (2001=100)	Agricultural Labourers (1986-87=100)	Combimed (2010=100
2010-11													
Q1	139.2	173.2	142.4	127.9	138.0	126.6	133.5	128.6	122.3	130.6	172.0	541.7	
Q2	141.4	178.6	147.8	128.4	137.7	126.6	137.0	130.1	124.6	131.9	178.3	557.7	
Q3	144.2	186.9	149.0	130.0	139.2	126.9	139.0	132.3	128.0	133.7	182.7	572.3	
Q4	148.5	191.0	154.1	134.1	143.3	128.9	145.7	135.3	130.1	136.9	186.0	586.0	105.7
2011-12													
Q1	152.5	195.9	160.5	137.3	149.9	129.7	150.4	138.7	133.4	140.3	187.3	592.3	107.4
Q2	155.1	200.2	167.0	138.5	151.5	130.4	152.7	141.7	138.1	142.8	194.7	609.7	111.7
Q3	157.2	201.4	171.4	140.3	155.5	131.3	155.4	143.3	141.9	143.8	198.0	619.3	113.8
Q4	159.7	203.8	177.2	142.0	161.8	132.1	157.3	144.5	142.5	145.1	199.3	621.3	114.7
2012-13													
Q1	164.0	215.2	179.6	144.6	164.6	132.9	159.6	146.9	144.6	147.7	206.3	639.0	118.3
Q2	167.3	220.8	183.2	147.1	167.5	134.2	161.4	151.2	147.4	152.4	213.7	665.0	122.8
Q3	168.7	220.1	189.6	148.0	167.0	134.9	165.8	153.0	149.1	154.3	218.0	684.3	125.3
Q4	170.4	223.7	193.5	148.6	167.4	135.9	170.0	152.8	148.8	154.1	222.7	699.3	127.0
2013-14													
Q1	172.0	229.2	193.4	149.3	166.8	137.3	169.6	153.5	146.7	155.6	228.3	719.7	129.6
Q2	178.4	248.3	205.1	150.7	169.4	137.9	177.4	155.1	148.2	157.3	236.7	751.0	134.6
Q3	180.5	250.4	210.2	152.0	170.9	138.8	180.6	157.0	150.9	158.9	242.0	771.5	138.3
Percentage change over the same period previous year													
2010-11													
Q1	10.6	20.7	14.0	6.0	9.2	3.2	10.9	5.8	4.0	6.3	13.7	13.9	
Q2	9.3	17.7	12.3	5.3	8.1	3.4	9.8	5.1	6.1	4.8	10.3	9.9	
Q3	8.9	17.0	10.9	5.2	7.8	3.6	10.4	3.9	7.5	2.9	9.2	7.9	
Q4	9.5	15.9	12.1	6.3	8.1	3.8	12.5	4.0	7.7	3.0	9.0	8.8	
2011-12													
Q1	9.6	13.1	12.7	7.3	8.7	2.5	12.7	7.8	9.0	7.4	8.9	9.4	
Q2	9.7	12.1	13.0	7.9	10.0	3.0	11.5	8.9	10.9	8.3	9.2	9.3	
Q3	9.0	7.8	15.0	7.9	11.7	3.4	11.7	8.3	10.8	7.5	8.4	8.2	
Q4	7.5	6.7	15.0	5.9	12.9	2.5	8.0	6.8	9.6	6.0	7.2	6.0	8.5
2012-13													
Q1	7.5	9.9	11.9	5.3	9.8	2.5	6.1	6.0	8.4	5.2	10.1	7.9	10.2
Q2	7.9	10.3	9.7	6.2	10.6	2.9	5.7	6.7	6.7	6.7	9.8	9.1	9.9
Q3	7.3	9.3	10.6	5.5	7.4	2.8	6.7	6.8	5.1	7.3	10.1	10.5	10.1
Q4	6.7	9.8	9.2	4.6	3.5	2.9	8.0	5.8	4.4	6.2	11.7	12.6	10.7
2013-14													
Q1	4.9	6.5	7.7	3.3	1.3	3.3	6.3	4.5	1.5	5.4	10.7	12.6	9.5
Q2	6.6	12.5	12.0	2.4	1.1	2.8	9.9	2.6	0.6	3.3	10.8	12.9	9.7
Q3	7.0	13.8	10.9	2.7	2.3	2.9	8.9	2.6	1.2	3.0	11.0	12.7	10.4
Annual Average % (April-March)													
2008-09	8.1	11.0	11.6	6.2	9.6	4.0	7.7	6.6	5.3	6.9	9.1	10.2	
2009-10	3.8	12.7	-2.1	2.2	-1.6	0.9	-0.9	7.8	4.8	8.8	12.4	13.9	
2010-11	9.6	17.7	12.3	5.7	8.3	3.5	10.9	4.7	6.3	4.2	10.4	10.0	
2011-12	8.9	9.8	14.0	7.3	10.8	2.9	10.9	8.0	10.1	7.3	8.4	8.2	
2012-13	7.4	9.8	10.3	5.4	7.7	2.8	6.7	6.3	6.1	6.4	10.4	10.0	10.2

Source: Ministry of Industry, Use-based calculated by NCAER staff using WPI data from Ministry of Industry

Central Government Accounts **(Rs Crore)**

	Revenue Receipts	Non-debt Capital Receipts	Total Receipts	Non-Plan Expenditure	Interest Payments	Total Expenditure	Fiscal Deficit	Revenue Deficit	Primary Deficit
2010-11									
Q1	199810	2202	202012	154148	40223	242208	40196	10577	-27
Q2	198424	4289	202713	214122	62556	295769	93056	64344	30500
Q3	186034	24844	210878	168628	43525	248875	37997	41388	-5528
Q4	210009	4264	214273	284671	88435	412067	197794	128544	109359
2011-12									
Q1	90920	7644	98564	177093	50187	261217	162653	134621	112466
Q2	214608	5111	219719	244177	72312	337876	118157	87159	45845
Q3	192963	4103	197066	198187	56930	297268	100202	64324	43272
Q4	257702	15662	273364	265474	93026	402083	128719	98618	35693
2012-13									
Q1	118720	2402	121122	225361	60630	311582	190460	152712	129830
Q2	232168	3825	235993	265918	70535	382437	146444	110572	75909
Q3	219648	9661	229309	203954	70794	297104	67795	34753	-2999
Q4	308268	24840	333108	299906	110037	418299	85191	65422	-24846
2013-14									
Q1	117234	2172	119406	267397	61481	382229	262823	210475	201342
Q2	272670	4886	277556	305537	98546	426821	149265	111802	50719
Percentage change over the same period previous year									
2010-11									
Q1	177.5	226.7	178.0	8.4	13.5	23.0	-67.7	-90.2	-100.0
Q2	15.0	-27.6	13.6	19.0	22.1	17.4	26.7	12.1	37.1
Q3	28.5	1372.7	44.0	-3.8	0.4	-3.8	-66.1	-52.0	-108.0
Q4	12.8	-81.0	2.7	30.0	8.3	32.5	93.3	58.1	428.6
2011-12									
Q1	-54.5	247.1	-51.2	14.9	24.8	7.8	304.6	1172.8	416640.7
Q2	8.2	19.2	8.4	14.0	15.6	14.2	27.0	35.5	50.3
Q3	3.7	-83.5	-6.5	17.5	30.8	19.4	163.7	55.4	882.8
Q4	22.7	267.3	27.6	-6.7	5.2	-2.4	-34.9	-23.3	-67.4
2012-13									
Q1	30.6	-68.6	22.9	27.3	20.8	19.3	17.1	13.4	15.4
Q2	8.2	-25.2	7.4	8.9	-2.5	13.2	23.9	26.9	65.6
Q3	13.8	135.5	16.4	2.9	24.4	-0.1	-32.3	-46.0	-106.9
Q4	19.6	58.6	21.9	13.0	18.3	4.0	-33.8	-33.7	-169.6
2013-14									
Q1	-1.3	-9.6	-1.4	18.7	1.4	22.7	38.0	37.8	55.1
Q2	17.4	27.7	17.6	14.9	39.7	11.6	1.9	1.1	-33.2
Annual Average % (April-March)									
2008-09	0.9	-84.7	-5.6	19.3	8.2	23.5	154.3	344.8	401.8
2009-10	5.7	358.8	10.0	18.2	11.1	15.5	24.9	34.6	43.7
2010-11	38.0	15.7	36.9	14.7	10.9	17.7	-10.5	-26.4	-33.1
2011-12	-4.8	-8.6	-5.0	7.7	16.1	8.3	38.1	57.1	76.7
2012-13	16.2	25.2	16.6	12.5	14.5	8.5	-3.9	-5.5	-25.0

Source: Controller General of Accounts