Economy Watch

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Issue 2

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This newsletter is prepared by the Economic Affairs & Research Division, FICCI

State of the Economy

The macro data released so far this year indicates persistence of weakness in the economy. The recent set of announcements – one) the downward revision of GDP growth estimate for 2012-13 from 5.0% to 4.5% and two) the advance estimate for 2013-14 at 4.9% - clearly point towards the fact that the slowdown is more deeply entrenched than what was thought earlier.

Furthermore, with Q3 FY14 numbers reporting a GDP growth of 4.7% (growth being 4.4% and 4.8% in Q1 and Q2 respectively), we will have to clock in a growth of about 5.7% in the fourth quarter to achieve the projected 4.9% growth in 2013-14. This looks difficult to realize. The much anticipated improvement in the second half of this fiscal year has not really shaped up and there is enough reason to dispel the earlier expectation of a possible turn around.

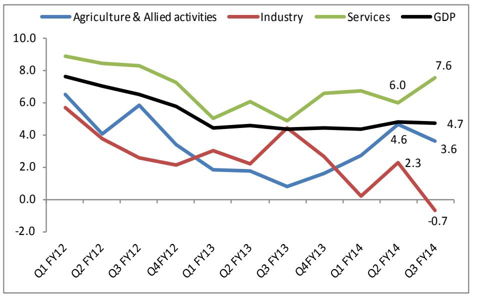
The agriculture sector has of course been the saving grace. With the second advance estimate exceeding the target level for most of the crops, the food grain production is projected at 263.20 million tonnes in 2013-14. This is a record high.

However, the current scenario remains plagued with uncertainty and one of the major factors bogging down the outlook is the performance of industrial sector and its consequent impact on services.

Though the services sector witnessed an uptick in Q3 FY14, this was primarily on account of double digit growth reported in the financing, insurance, real estate and business services segment; the segment clocked a growth of 12.5% in Q3 at the back of swap windows provided by RBI last year.

The slowdown in the manufacturing is distressing especially when we are looking at the sector to create new jobs for millions being added to the workforce every year.

Chart 1: GDP growth rate



Source: Central Statistical Organization, CSO

IIP growth remains sluggish

The Index of Industrial Production (IIP), which is among the key indicators to gauge industrial performance, continues to witness sluggish growth. After recording negative growth for three consecutive months between October and December 2013, the IIP index witnessed marginal recovery in January 2014 (with 0.8% growth).

However the latest data for February 2014 reported (-) 1.9% growth. The sectors witnessing sharpest dip included radio, television and communication equipment and apparatus [(-) 34.1%], electricity machinery and apparatus [(-) 24.6%] and Wearing apparel , dressing and dyeing of fur [(-)21.3%].

Table 1: Index of industrial Production

	Nov-13	Dec-13	Jan-14	Feb-14
Index of industrial production	-1.3	-0.2	0.8	-1.9
Sectoral				
Mining	1.6	0.7	1.9	1.4
Manufacturing	-2.6	-1.2	0.0	-3.7
Electricity	6.3	7.5	6.5	11.5
Use-base industry classification				
Basic goods	2.7	2.5	2.5	3.9
Intermediate goods	3.7	4.9	3.6	4.2
Capital goods	0.1	-2.5	-4.1	-17.4
Consumer durable goods	-21.7	-16.1	-8.3	-9.3
Consumer non-durable goods	2.2	2.5	4.6	-1.2

Source: Central Statistical Organization (CSO)

Further, according to CMIE estimates, IIP is projected to grow by 0.6% in 2013-14, which is the slowest in over 30 years! In addition, going by the data released by CMIE, the value of dropped investment projects in the December quarter was the highest in almost 13 years. The revenue earning freight traffic in volume terms also indicated moderation. For the quarter ending December 2013, the freight traffic in volume terms increased by 1.9%, which is the lowest quarterly growth in almost 20 quarters.

Weak investment sentiment continues

The investment sentiment is still under the shadow of grey clouds and a sense of anxiety among investors' remains. In a CEOs' Poll conducted among FICCI members in March 2014, only about half of the respondents said that they intend to undertake fresh investments over the next six months. In addition, a majority 71% participating CEOs said that high interest rates continue to be one of the key factors adversely affecting their investment outlook. In fact, the same has also been brought out repeatedly in other FICCI Surveys including the quarterly FICCI Business Confidence Survey conducted over the past few quarters.

Some of the interest sensitive sectors like automotives, real estate and construction, infrastructure are already facing the brunt. Just to take a cue, the sales of passenger vehicles plummeted by 5.9% during the period April- February 2014, while the sales of commercial vehicles declined by 19.7% over the same period. Both sales and net profits in the consumer durable segment have taken a hit. The use based classification of IIP reports 14 consecutive months of decline in consumer durables. The recently announced vote on account laid emphasis on the need to get manufacturing back on track and provided tax relief for certain sectors like capital goods, automobiles and consumer goods. This was certainly a positive move; however the window until June 2014 is too small to see a return in buoyancy.

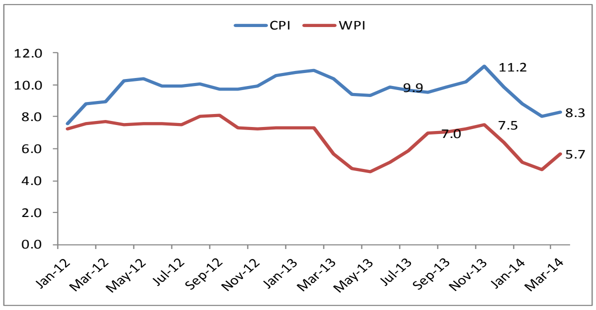
Inflation remains a concern

With price levels consistently remaining sticky, high inflation has grabbed much attention and has been the centre piece of monetary policy.

Between December 2013 and February 2014 prices did ease off led by a discernible fall in vegetable prices. However, the latest data for WPI and CPI indicates prices inching up once again. The WPI and CPI inflation rate for March 2014 stood at 5.7% (vis-à-vis 4.7% in February 2014) and 8.3% (vis-à-vis 8.1% in February 2014) respectively. The increase in prices came at the back of pressure arising on food and fuel segments. Targeting inflation through monetary policy action may not yield the desired result of a lower inflation. It remains extremely imperative to embark on a long term plan of undoing the supply side glitches.

The Urijit Committee Report released in January this year cited low and stable inflation as a precondition for growth. With CPI as the new monetary policy anchor, the committee suggested a target CPI level of 8.0% over the next one year and 6.0% over the next two years.

Chart 2: CPI- growth rate Vs. WPI- growth rate



Source: CMIE

FICCI

The recent data releases indicate CPI moving in sync with the trajectory put forth in the report.

At this juncture, it is important that Reserve Bank of India takes a pro growth stance and gives a positive signal to the industry. The Central Bank has already hiked the repo rate by 50 basis points between September 2013 and January 2014.

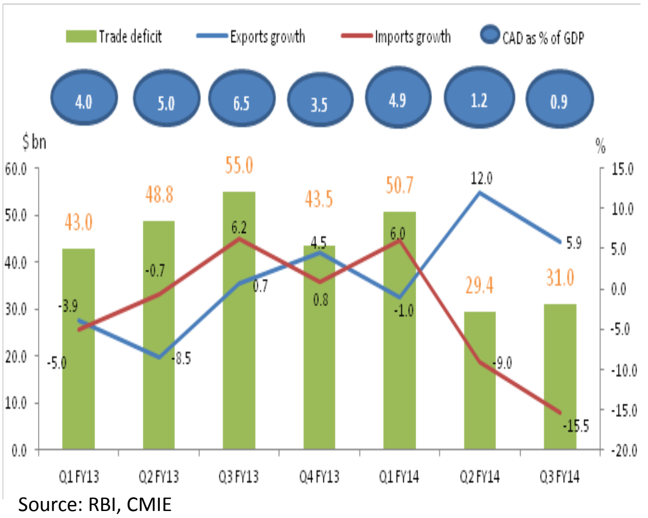
Risks averted in the external sector

On the external front, significant risks were averted with the policy measures announced last year. The latest data for current account deficit (CAD) to GDP reported a further decline in the ratio to 0.9% in Q3 FY14, from 4.9% and 1.2% in Q1 and Q2 respectively. The CAD has been successfully tamed and is expected to be around USD 35 billion in 2013-14, almost half of USD 88 billion in 2012-13.

The exports after witnessing double digit growth between July and October 2013, have reported a sluggish growth in recent months. February data indicated deceleration after seven consecutive months of positive growth. This trend continued in March 2014 as well, with exports declining by 3.1%. An element of uncertainty remains about near term export prospects.

Imports on the other hand, continued to be on a downward trajectory witnessing a decline by (-) 2.1% in March 2014. It is important that we strategize our exports and reduce our import dependence for assuring CAD at sustainable levels in the long run.

Chart 3: External sector



Source: RBI, CMIE

Outlook

With challenges on the fore, it is critical to give correct policy signals and strengthen the potential upsides. On a positive note, the industry growth is expected to see a rebound in 2014-15. The extent of recovery however would depend on the implementation of projects cleared by Cabinet Committee on Investments (CCI). Also, inflation is likely to remain range bound. According to FICCI's latest Economic Outlook Survey, headline inflation rate (WPI) is expected to be around 5.5% in 2014-15 with a lower and upper limit of 5.0% and 6.3% respectively. CPI is projected to be around 7.9% in 2014-15. Then, advanced economies are likely to catch some speed going ahead and this will bode well for India's exports.

Nonetheless, some stress points remain and might mar the recovery process. First, agricultural production might come under strain as monsoon is expected to be sub par in the year 2014. Preliminary monsoon reports by various forecasting agencies expect 2014 to be an El Nino year.

Second, the services sector growth will of course be influenced by the recovery in the industrial sector. However, the community social and personal services segment might witness limited growth as the government is expected to be stringent on the expenditure side. Also, the improvement in the financing insurance real estate and business might wane off.

Third, the fiscal deficit as a proportion of GDP has been contained at 4.6% in 2013-14 and is targeted at 4.1% in 2014-15. The rising cost on account of oil and food subsidies continues to be a concern and can lead to a probable slippage.

Fourth, non performing assets of banks have risen to sizable levels and do pose a threat to the overall stability of the banking sector and its ability to meet credit demand as growth picks up.

Amidst these impending downside risks, we at best can expect a growth of 5.5% in 2014-15 as reflected in FICCI's latest Economic Outlook Survey.

Going ahead, it will be vital to ensure stability in policy and a capital friendly environment. This is an absolute imperative for fulfilling the objective of generating more jobs and ensuring inclusiveness.

Business not ipso facto criminal: Tendency of presuming it guilty without proof is damaging India's economy

In recent media and political discourse, one notes with disappointment the unwarranted criticism Indian business in general has been receiving. Insinuations and allegations range from nexus and conspiracy theories to abetting greed and graft.

To preclude being painted with a broad brush, it becomes the duty of business to articulate and act to correct deficiencies as well as wrong impressions. Aberrations exist in all walks of life - in business, society, administration or in the political class. But presumption of endemic greed, irregularity, corruption or collusion is as flawed as to assume that society comprises exclusively of extortionists and wrongdoers on the one hand and their victims on the other.

Above anything else, trust is critical for taking any business risk. For many years, from Independence until about 1991, the Indian state viewed business with suspicion.

Ironically it was the trust of our society that allowed enterprise to flourish. There is an underlying ethos across all sections of our society, which essentially continues, that encourages one with capital to act in trust both for himself, his family and for society, and with his wisdom, experience and ability to administer, to do good for the nation.

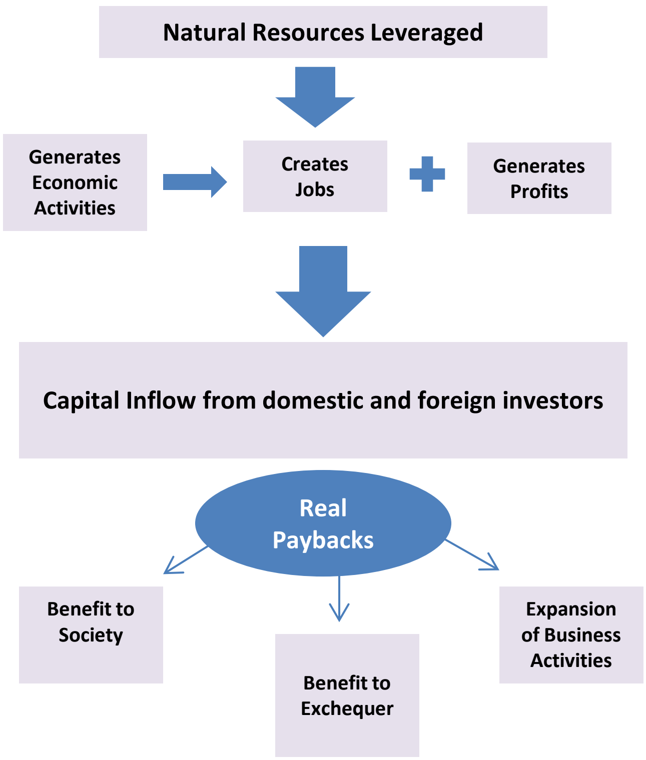
Current discussions run inconsistent with this social ethos, insinuating that a large part of corporate well-being is a result of various nexuses, usually favourable contracts or government largesse. Casting an undiscerning shadow over business leads to false conclusions.

Can almost anything just be alleged to be an outcome of rent offering or rent seeking, leaving those concerned to establish innocence even though the law presumes innocence until proven guilty? How this tendency creates a serious reputational risk to the enterprise or the country seems to be of no concern.

Indian enterprise generates value through the entrepreneurial drive, intellect and hard work of promoters, and white- and blue-collared constituents. Responsible business here and everywhere else in the world essentially seeks from government legislative clarity, contractual certainty and fair treatment.

However, discretionary freedom and a maze of opaque laws make the system frequently extortionist and occasionally collusive. Our economy requires resources of a high magnitude and over an extended period. The very act of placing capital at risk, to generate economic progress and value, deserves encouragement rather than discouragement.

Every government in the world leverages natural resources at its command to generate economic activity, provide jobs and achieve profits in an equitable reward-risk ratio. This in turn creates the atmosphere to sustain an inflow of capital from domestic and foreign investors. Resultant benefits to society, exchequer and expansion of business activity, are the real paybacks. In a negative state of mind one overlooks this holistic picture.



All governments also apply tax policies towards propelling economic activity. Examples of "tax foregone" being equated to doles are as flawed as notional losses being equated with real losses. Tax policies are used to direct investments to areas of priority, to create a level playing field vis-a-vis foreign competition, and sometimes to mitigate certain costs and other inefficiencies inherent in a developing economy.

In an analysis in the public domain McKinsey & Co has suggested job creation and productivity gains have historically been the most powerful forces for improving living standards. India is in need of deep reforms that encourage businesses to invest, scale up and hire. If weak economic performance continues it is possible that in a decade a large part of our population will remain trapped in poverty. Surely this is an outcome that India cannot ignore.
The principal tasks relevant to us are

(a) creating opportunities for businesses and jobs, with manufacturing and labour-rich services forming the backbone;

(b) raising farm productivity and efficiency of distribution thus raising farm incomes; and

(c) increased public spending on basic services and making them effective. Promising strategies include forming public-private-social partnerships and mobilising community participation.

Key Highlights

- *Indian business facing unwarranted criticism in recent times*
- *This creates a serious reputational risk to the enterprise*
- *It is the duty of business to articulate and act to correct deficiencies and wrong impressions*
- *Trust is critical for taking any business risk*
- *The trust of our society allowed enterprise to flourish*
- *Indian enterprise generates value through the entrepreneurial drive, intellect and hard work*
- *The act of placing capital at risk, to generate economic progress and value deserves encouragement*

These forces will set off a cycle generating more revenue, enabling meeting of funding needs for social infrastructure besides water, health, food and energy security. But with a disruption in trust, which holds up decisions and hinders capital flows, such partnerships will not come by easily. It is no one's case that corruption, or improper conduct or violation of law, should go unpunished.

Rather the opposite: punishment of aberrant behavior is the best way to build trust. But doing this swiftly requires upgrading our judicial infrastructure and processes. I am convinced we have more than sufficient laws for attending to misdeeds. Actions and sincere implementation down the line are more relevant than further legislation.

Mere allegations, political expediency or an extension of outmoded economic ideologies, particularly when devoid of irrefutable evidence, are weak foundations on which to threaten a relationship of mutual trust that society, business and government have painstakingly evolved. Arguments or defences on each side can be taken to any level of intensity; but there must be a real purpose at the end of it all.

Suffice it to say, responsible business does not look to doles or undue enrichment. To advocate that it always does so is irresponsible, self-flagellating and against the true interest of India and its people.

The article is an updated version written by Mr Sidharth Birla, President, FICCI. It was first published in The Times of India on March 26, 2014.

Industries' views on new Land Acquisition Act

India has recently enacted a new Land Acquisition Act titled "The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act", which has come into force from January 1, 2014. The earlier land acquisition law that was operational in the country was the "Land Acquisition Act, 1894", enacted during British rule and based on the principle of Government Eminent Domain, i.e. the power of the sovereign to take private property for public use. Over the years, there had been rising public concerns related to acquisition of land for various projects. Thus, it was imperative to enact a new legislation, which ensures availability of land for development purpose through a non-discretionary and transparent land acquisition process, and provides just and fair compensation to land owners while also taking into account proper rehabilitation and resettlement of affected families.

Major challenges

The new Land Acquisition Act, though brought in with noble objectives, still imposes some challenges for the industry. The key challenges relate to time delays, increased cost burden and some implementation related concerns.

With respect to time, the procedural steps laid out in the Act would take at least 50 months from the date of initiating the process until the time of receiving the possession of land. Industry feels that this time is bound to be much higher when the actual process starts, as there are likely to be delays at each stage/ procedure due to absence of timelines for some set of activities and due to difficulty in implementation of certain procedures within the set timelines. A period of 4-5 years for mere land acquisition itself puts a question mark on the viability of several industrial projects.

Once the project is delayed, it is bound to increase the associated cost burden for the industry. Moreover, for the projects that are about to start or are currently in progress, there has already been a drastic jump in cost estimates before and after the enactment of the new legislation.

For instance, the cost of land required for the Delhi-Jaipur Expressway has gone up three times (Rs 180 billion) as the new law has sharply increased the amount of money that needs to be paid as compensation to landowners. The cost of entire project is now estimated at Rs 320 billion due to shifting utilities and financing. Consequently, the entire financial planning has to be now re-done.

There are certain areas under the new Act, which are likely to pose serious challenges with respect to implementation of the land acquisition process. One of these relates to public hearings, which are being held at least 3 times (after completing SIA, for hearing of Objections and after conducting survey and census of affected families). Acquiring land for linear projects involving several states, districts and villages would thus become extremely difficult as multiple public hearings would be required. The possibility of consolidating these steps has to be explored to reduce the time and ease the cost burden.

Key recommendations

FICCI is of the view that some critical issues under the Act and associated Draft Rules need to be addressed immediately to ensure effective implementation of the Act for land acquisition process. Then there are some practical suggestions which if incorporated would ease the Land Acquisition process and/ or reduce the additional cost burden for the industry. Some key recommendations are as below.

Set clear timeframes: The period of 50 months required for land acquisition will risk viability of several projects. There is a need for timelines specifying beginning and ending period for all the activities such as drawing up list of affected land owners, consent procedures, public hearing, appraisal of SIA by expert group, etc.

Include 'not-for-profit' companies for public purpose: The definition of 'Company' under the new Land Acquisition Act does not include 'not-for-profit institutes, trusts, etc'. FICCI has strongly suggested for inclusion of 'not-for-profit' entities under the purview of the Act as many of such entities are involved in projects for public purpose such as schools, hospitals, etc.

Clarifying the meaning of Urban and Rural areas: Clarity in definition of Urban and Rural areas is extremely important as it is a key parameter for determining the compensation to land owners. In absence of a clear definition, there are chances of disputes which may derail the land acquisition process.

Clarification on consent requirement: The Act provides that in case of acquisition for private companies, the consent of 70%/80% of affected families as defined under Sec 3 (c) (i) and (v) of the Act would be considered. While it is understood that affected families as provided under Sec 3 (c) (i) and (v) are the same as affected land owners, there is still an ambiguity in the definition of these affected land owners, which may be interpreted as 70%/ 80% of land owners whose land is to be acquired or land owners owning 70%/ 80% of land that is to be acquired. Thus, for the sake of further clarity, FICCI suggests that for the purpose of consent, the definition of affected family, as provided under Sec 3 (c) (i) and (v) of the Act should refer to 70%/80% of the land owners, ***regardless of the percentage of land they own***.

Include manufacturing projects: The new Act provides for land acquisition under public purpose, for industrial corridors but not for individual manufacturing units. Large projects (like steel, cement, etc) often face the 'last mile' acquisition problem.

In such cases if Government does not facilitate acquisition then in all possibility the projects may not take off. Hence, Manufacturing Projects should be included in the definition of public purpose.

Compensation: One of the criteria for assessing and determining the market value of the land as prescribed under the Act includes "consented amount of compensation as agreed upon…"

Such additional criteria is not required as the consented price already takes into account the expectation of the land seller and is not the discounted price. Thus it would not be appropriate to offer a multiplier over and above such consented price.

Set Minimum Threshold Guideline for applicability of R&R: As per the Act, the state governments would prescribe the limits beyond which R&R will be applicable for private negotiations. The Centre should prescribe guidelines to states for a minimum threshold for applicability of R&R for private acquisitions, which could be: (a) Number of affected families is less than or equal to 400 affected families;(or) (b) land to be acquired is less than or equal to 500 acres (or) (c) employment generated is more than or equal to 1,000.

Prior Zoning: Zoning should be done by the government and prior SIA be conducted in these zones. As such industries set up in these zones should not be required to further conduct SIA. This would considerably shorten the time period involved for acquiring land by industry.

EIA exemption: Once SIA has been done, the requirement of Environmental Impact Assessment (EIA) should be either removed or the two processes are carried out simultaneously to avoid duplication.

Standardization: The revised rules provide that State SIA Unit shall prepare project specific ToR for each proposal of land acquisition. There is a need for Model TORs as a new set of TORs may not be required every time. This will also help in shortening the overall process time.

Change in Land use: The Act provides that "No land use change shall be permitted if rehabilitation and resettlement is not complied with in full." FICCI is of the view that 'Change of Land Use' (CLU) should be notified in advance. This would remove any room for ambiguity and would offer both the buyer and the seller the opportunity to deal in a transparent environment and arrive at a fair price for the land transaction under consideration.

Change of purpose: The Act provides that "No change from the purpose or related purposes for which the land is originally sought to be acquired shall be allowed." This provision needs to be reviewed to provide flexibility to the businesses as these operate in a dynamic environment. So long as the 'public purpose' criterion is being met, industry should be free to use land for any other stated public purpose.

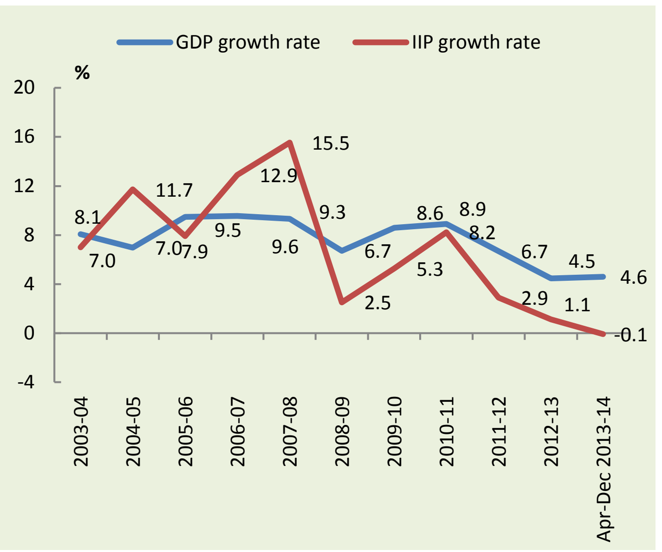
This article draws upon the work done by FICCI's task force on Land Reforms and Policy under the Chairmanship of Mr R V Kanoria, Past President, FICCI.

What India Inc expects from the new government

It is not enough to invite capital. The government must also be capital-friendly by curbing regulatory excess

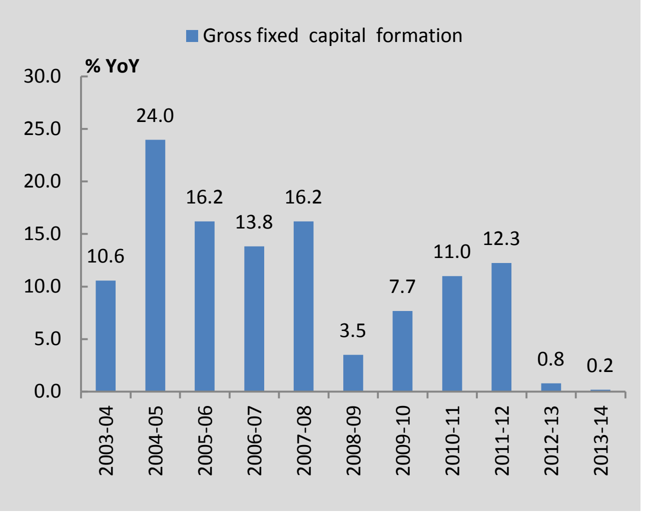
Macro numbers continue to reflect distress; the pace of recovery is slow. India needs an urgent return to high growth. Such advocacy must not be viewed as mere promotion of business interests, but a call for job creation, without which we risk a fragmented and dysfunctional social order.

Chart 1: GDP and IIP growth rate (Yearly)



Source: CMIE and CSO

Chart 2: Growth rate of Gross Fixed Capital Formation



Source: CMIE, Economic Outlook

The freshly elected government will face unique challenges and opportunities. We need both short-term hits and long-term fixes. We need to work to enable enterprise across all sectors of the economy and focus on employment creation in ample measure. It has to be a truly enabling environment; only that will make growth possible. The right to employment will be reduced to doles if there are no meaningful, productive jobs.

Success mantra

Without a strong manufacturing and services sector, supported by the security blankets of energy, water and food, India cannot aspire to be a global power. Success in key areas must be our mantra. FICCI advocates a comprehensive, responsible agenda, addressing the lowest common denominators rather than national aggregates. For instance — as in the first master 'Bombay Plan' for India's development — our principal objective can be a specific multiple increase in per capita income over a period of 5-10 years.

Our first attack should be on inflation which chips away at net incomes. Persistent food inflation is a key factor which needs to be dealt with through a large increase in agricultural production and productivity, perhaps unleashing a process like the green revolution supported by a prudent use of higher yield seeds and other inputs.

Infrastructure for storage and distribution is a pressing need to reduce post-production wastage. Resolving procurement practices and administered price mechanisms are clear short-term hits. In the long term, addressing the product mix in sync with changed diets will relieve price imbalances.

India must attract all forms of legitimate capital from domestic and global sources. Being friendly to capital is distinct from just inviting capital; India has been aggressive on the latter front, but not in enabling the former. Capital friendliness does not compromise on national priorities; it implies stable and equitable policies and practices that allow an acceptable risk-return balance.

Our financial sector smoothens fund flow to "real sectors". We must improve the health of, and expand the banking sector. There is an urgent need to put into productive use assets financially impaired due to either slowdown or administrative actions and failures. Power and mining assets are examples of this; a six-month action plan must be charted.

Road blocks

A major employment inhibitor has been our senseless labour laws which encourage capital intensity over a prudent capital-labour balance. Since dismantling archaic laws will take time and effort, contemporary legislation encouraging incremental stable job creation, and grand-fathering older provisions for existing workers could be a quick hit.

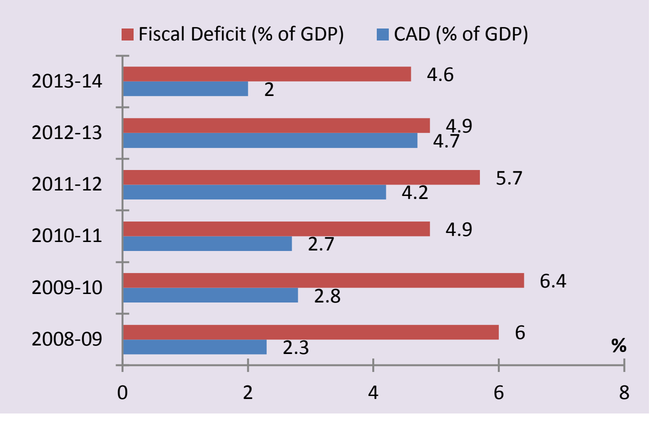
Ensuring timely and transparent decisions is critical. Just as a corporate board is required to be in firm control of key decisions, the Union Cabinet must be the single accountable point for decision making and monitoring implementation. Further, the group of ministers culture must be abolished to demonstrate such bold intent. A systemic propensity to re-visit decisions based on allegations but without conducting rigorous due diligence, is detrimental; it vitiates the decision-making process and deters serious investors.

The much spoken of "ease of doing business" must be addressed well beyond improving rankings on select indicators. Aggressive dismantling of business regulations is needed, keeping in view both relevance and multiplicity. Various regulators must be mandated to regulate their sectors with a "development" mindset and not "control"; regulatory effectiveness must be measured by the growth and health of the sector.

We need to work on key factors with missionary zeal over 6-12 months. The Goods and Services Tax is needed in an appropriate, equitable form for all states. To address potential difficulties in land acquisition in light of recent legislations, government can perhaps demonstrate the best way to acquire contiguous land for (say) extended railway, road or PSU projects without invoking special rights and on terms as applicable to industry.

Contain deficits

Chart 3: Fiscal and Current account deficit (% of GDP)



Source: CMIE Economic Outlook and Budget Document

We need mission-mode-plans for containing both fiscal and current account deficits. We must identify sectors of forex accrual for development, and devise "emergency plans" to boost coal and fuel output and mitigate imports over 24 months. Credibility issues in government finances must be addressed by evaluating the "real" picture, including off-balance-sheet items, and articulate a mission to become revenue-neutral or surplus over 3-5 years.

Widening the tax base and capping aggregate subsidies to ensure merit-based coverage can both be addressed. While no one makes a case against the economically weak being supported via subsidies, it is also true that our social plans misdirect subsidies. A plan to address this over two years has become imperative.

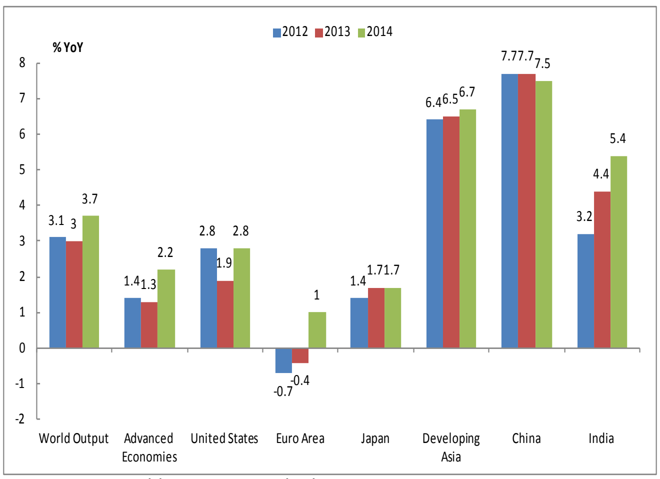
There appears to be an anti-business atmosphere in the country, a phenomenon seen in other countries too, from time to time. We could be forgiven for beginning to think that India has a population divided into extortionists and victims. While there are aberrations in all walks of life, the cure lies in dispensation of justice and not tarring everybody with one brush. Industry, commerce and media must correct wrong impressions and negativity. Our society can move ahead only on the basis of positive sentiments and in taking pride in generating national economic wealth.

The article is an updated version written by Mr Sidharth Birla, President, FICCI. It was first published on March 16, 2014 in The Hindu Business Line.

Global Economy: Emerging Dynamics

The global economic crisis of 2008, the impact of which is still being felt can be described as a defining moment in the economic history of the world. The series of changes that this crisis set in motion are having a great bearing on the political and economic landscape of the world. While most advanced economies continue to face the challenge of taking appropriate fiscal and monetary policy measures to step up growth, several emerging economies have experienced a slowdown over the past two years on the back of challenging external conditions and domestic impediments. Nonetheless, the global economy is in the recovery mode, with the pace of revival varying from country to country.

Chart 1: GDP Growth rate



Source: IMF world economic outlook

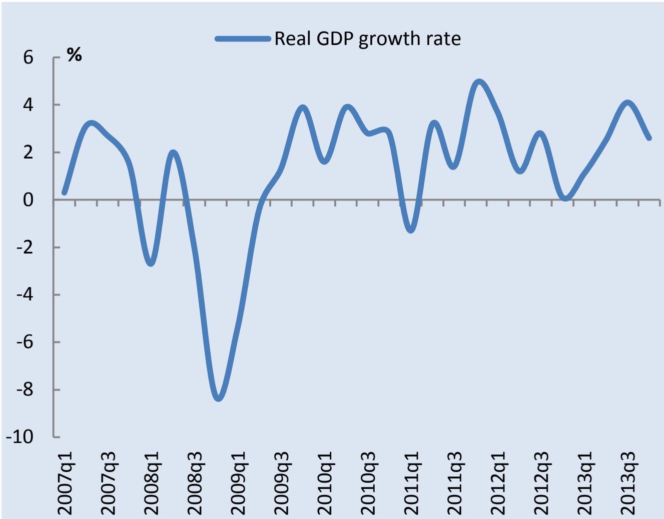
Growth outlook of major economies

The IMF World Economic Outlook, January 2014, puts the global growth forecast for 2014 at 3.7% an increase from the projected 3.0% growth in 2013. The growth of advanced economies estimated at 1.3% for 2013 is expected to recover in 2014 to 2.2%. Growth in the United States which was at 1.9% in 2013 is likely to rise to 2.8% in 2014. Euro area is expected to come out of recession in 2014 after its growth remained in the negative zone in the last two years. For the developing Asian nations, the growth rate is anticipated to rise to 6.7% in 2014 from 6.5% in 2013. However, China is likely to slow down to 7.5% in 2014 from 7.7% in 2013. Brief analysis of some of the key economies of the world is detailed below.

United States on the recovery course

In United States, higher household wealth, strong private demand, recovering real estate sector, easier bank lending conditions, higher borrowings and improved business sentiment have helped in speeding up the economic activities. Unemployment rate came down to its lowest in five years at 6.6% in January 2014 and inflation rate also decelerated in 2013 to 1.5%.

Chart 2: Real GDP growth rate (USA)



Source: Bureau of Economic Analysis

On the policy front, USA has maintained extremely accommodative monetary policy combined with fiscal tightening. The key instruments of its monetary policy have been keeping the federal funds interest rate at zero and increasing the purchases of long-term government bonds and mortgage-backed securities. Early this year, the Fed decided to begin tapering off its Quantitative Easing programme, spread over the year.

The US government tightened its fiscal policy in 2013. The expiration of relief on payroll taxes, increase in income taxes for the top one per cent of high-income households and across-the-board government spending cut worth $85 billion in 2013, have affected overall consumption spending. Nevertheless, the modest increase in disposable incomes generated by the growth in employment (albeit slow) is expected to revive private consumption.

Euro area ends contraction period

The prolonged period of contraction in the Europe finally ended with some recovery being visible both in **the Euro Area and EU.** The Western Europe came out of recession in the second quarter of 2013, led by an increase in net exports and private and public consumption.

Many of the European Union members remained in recession in the first six months of 2013, but business confidence and economic sentiment reinforced in response to a better performance in the Western Europe and the situation improved in the second half. The economic sentiment indicator index which stayed below 100 throughout 2012 and 2013 recovered and stood at 101.2 for Euro Area and 105.0 for EU in February 2014 with pronounced improvement in constructions and retail sectors.

There has also been an improvement in consumers and managers confidence in the industry, services and retail sector. United Kingdom, Northern Ireland and Germany showed strong growth while countries like Cyprus, Greece and Portugal remained in a relatively weak position and are likely to stay in recession in 2014.

Table 1: Key Economic Indicators for Select European Countries (% change)

Indicator	Year	Germany	Greece	Spain	France	United Kingdom
Final Consumption Expenditure	2011	3.9	-5.9	0.7	2.4	1.5
	2012	2.5	-8.1	-2.0	1.8	10.6
	2013	2.8	-7.4	-	1.4	-
Real GDP Growth	2011	3.3	-7.1	0.1	2	1.1
	2012	0.7	-7	-1.6	0	0.3
	2013	0.4	-3.9		0.2	1.9
Employment	2011	1.4	-5.6	-1.9	0.6	0.5
	2012	1.1	-8.3	-4.2	0	1.2
	2013	0.6	-4.1	-	-	-

Source: IMF database

The ECB has pursued unconventional policies to combat the sovereign debt crisis and the slow growth across the region. QE measures have been adopted through different long-term refinancing operations (LTROs).

The situation remains precarious as any ignition of the sovereign debt crisis could further depress consumer and business confidence besides raising vulnerability of the banking system. However, on the upside, recovery of global demand would bode well for exports from the region and investments could see a pick-up.

As per the IMF's World Economic Outlook, growth rate of the Euro Area which is expected at (-) 0.4% in 2013 is projected to rise to 1% in 2014. Among the large countries, United Kingdom is expected to grow by 1.4 per cent in 2013 and strengthen to 2.2 per cent in 2014, while France and Germany are expected to grow by 0.1 per cent and 0.4 per cent, respectively, in 2013, but pick up to 0.8 per cent and 1.9 per cent in 2014.

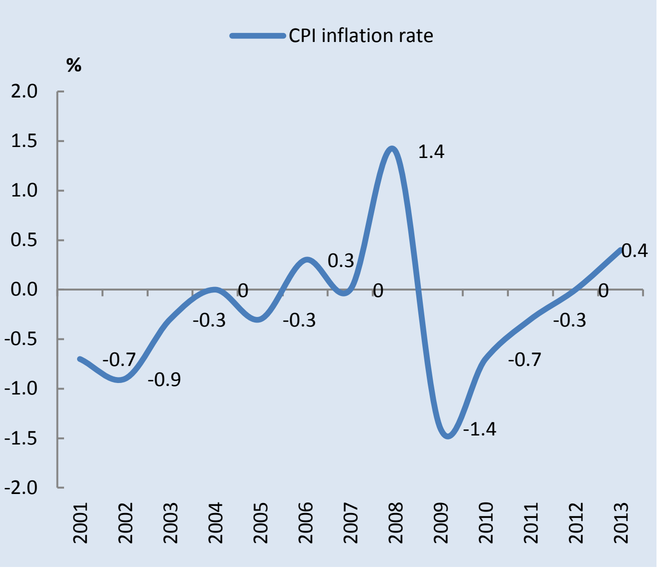
The crisis countries have shown signs of improvement but the growth still remains on the edge. Italy is expected to contract by 1.8 per cent in 2013 before finally exiting recession and growing by 0.8 per cent in 2014; similarly, Spain is expected to contract by 1.2 per cent in 2013, before returning to positive growth of 0.9 per cent in 2014. Among the smaller crisis countries, Cyprus and Greece are expected to continue to contract in 2014.

Japan too seeing recovery

After witnessing years of deflation, Japanese economy is finally seeing some recovery. The consumer prices witnessed an increase, industrial output is growing and unemployment rate is pretty stable. CPI inflation rate in January 2014 was at 1.4% as against (-) 0.3% in January 2013 and 0.1% in January 2012. Unemployment rate in 2013 and in early 2014 stayed within the range of 3.7%-4.1%. The sweeping policy initiative to revive the Japanese economy by focusing on monetary easing, fiscal stimulus and structural reforms is already displaying its positive impact on the country.

However, the government budget deficit remains significant and the public debt, which is the highest among all developed countries in terms of GDP, continues to rise. The Government is expected to introduce another set of policies targeting structural reforms, along with implementing the planned increase in the consumption tax rates over the next two years.

Chart 3: CPI Inflation rate (Japan)



Source: Statistics Bureau of Japan

Asian economies witnessing slower growth

The relatively weak external environment and slower growth in **China adversely affected the Asian economies.** However, improvement in economic activities of developed economies and recovery in export growth is likely to support the growth outlook in near terms. IMF projects the growth rate of China to slow down to 7.5% in 2014 from 7.7% in 2013. The country has stepped up on the reform front. A set of comprehensive reform measures has been announced lately that encompass not only economic but political, social and environmental issues.

Growth in South Asia remains lackluster owing to internal and external factors that have impeded growth in countries like India and Pakistan. Growth in South Asia is estimated to be 3.9 per cent in 2013, nearly the slowest pace in two decades. Growth is forecast to pick up moderately to 4.6 per cent in 2014 supported by a gradual recovery in domestic demand and an upturn in external demand.

In the GCC region, continued political instability, social unrest, security incidents have hampered a number of countries in the Western Asia region. Trade, investment and tourism activities between GCC and other Western economies failed to bring positive spillover effect.

The inflation rate in the GCC economies has been gradually rising due to higher food and housing prices but the IMF's world economic outlook expects it to moderate in the 2013-14 and stay at 3.75%. In near terms, geopolitical and supply disruption in the region may push up oil prices which may benefit the oil supplier's growth.

Risks to the global economy and way forward

Great uncertainties and risks for global economic growth are largely associated with the unconventional monetary policies, such as quantitative easing (QE), adopted in major developed countries. An uncertain and uneven exit from QE could lead to a series of disruptive events including a surge in long-term interest rates, not only in developed economies but also in developing countries; a sell-off in global equity markets; and a sharp decline of capital inflows to emerging economies; and spillover effects on the domestic economy.

The US Fed's announcement to taper off its bond buying programme in June 2013 had major impacts in the form of capital outflows from the emerging economy. However, it stabilized after Fed reassessed its decision and announced to postpone scaling back its bond buying programme. Early in January 2014, Fed started gradually reducing its monthly purchases of government and mortgage bonds from USD 85 billion to USD 75 billion.

In addition to economic risks, geopolitical and other risk factors could derail the world economy. Targeted and concerted efforts from policymakers across economies are required to ensure smoother recovery of global growth. Central banks of the developed economies have the primary responsibility of providing adequate global liquidity and ensuring smooth tapering of the quantitative easing.

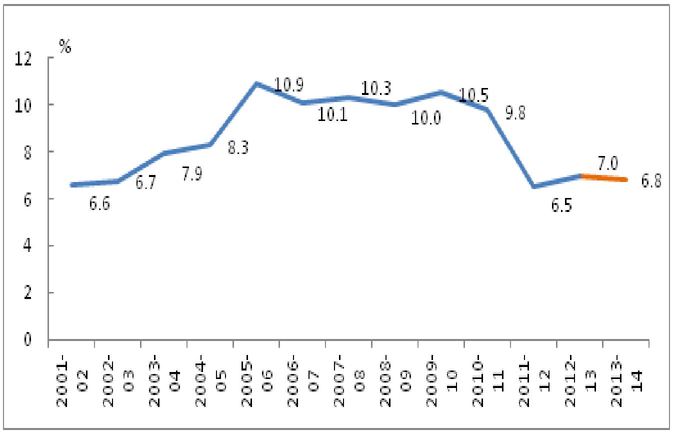
For developing countries and emerging economies, the challenge is to protect themselves against the spillover effects of the QE unwinding. Further, the developing economies need to adequately address the structural bottlenecks and accelerate reform process to achieve higher growth for themselves and the world at large.

Service Sector in India – Continues to grow but at a slow pace

The services sector in India showed remarkable growth in the post reform period, particularly during the 2000s, which continued undaunted till a couple of years back. During this period, the sector played an instrumental role in driving the growth of the economy.

With a share of around 58 percent, the services sector is the highest contributor of GDP today. Exports of services also grew exponentially over the years on the back of growing overseas demand for Indian services. The sector has also managed to attract significant foreign investment. It assumed great importance also because of its employment generating capacity as it emerged as the second largest employer in India after agriculture.

Chart 1: Service Sector Growth Rate (2001-02 to 2013-14)



Source: CSO, MOSPI
Note: growth rate of service sector for 2013-14 is estimated

However, in the last few years, the growth of the sector has slowed down mainly on account of the global crisis that hit in 2008 which adversely affected most of the world economies. Now there is a need to bring the growth momentum back in the sector which will also enable the Indian economy to grow at a higher rate. The recently released third quarter GDP data for various sub-services segment has provided some indication of a growth revival in the sector following a slow but steady recovery of the global economy; however, the sector has the potential to grow at a much higher pace.

In order to tap this vast potential and enhance the Indian services sector's global competitiveness there is a need to address the concern areas that the sector is facing at present. There are various policy issues that have restricted the growth which asks for immediate attention.

Slowdown since 2010-11

The service sector grew at an average rate of around 10 percent between 2005-06 and 2009-10 and remained largely resilient to the global crisis, and posted 10 per cent and 10.5 per cent growth during 2008-09 and 2009-10 respectively. However, the pace of growth slowed down since 2010-11; it grew at a rate of 6.5 percent in 2011-12 and 7.0 percent in 2012-13. This trend is further reflected in the first two quarter results of 2013-14 registering growth of 6.7 per cent and 6.0 per cent in Q1 and Q2 respectively, albeit the Q3 growth of 7.6 per cent is somewhat encouraging.

Table 1: Services sub-sectors (amount in Rs billion)

Service Sub-Sectors	FY11	Gwth (%)	FY12	Gwth (%)	FY13	Gwth (%)
Trade, hotels & restaurant	8325.8	11.5	8843.9	6.2	9652.9	9.1
Transport, storage & communication	5130.8	13.8	5559.2	8.4	5667.4	1.9
Financing, insurance, real estate & business services	8496.3	10.1	9488.1	11.7	10306.8	8.6
Community, social & personal services	6343.6	4.3	6724.7	6.0	7166.5	6.6
Total Services	28296.5	9.8	30130.4	6.5	32226.8	7.0

Source: CSO, MOSPI

Among the major sub-sectors of services, growth of 'transport, storage and communication' and 'financing, insurance, real estate & business services' has slowed down significantly in the last couple of years. Similarly, growth of 'trade, hotels & restaurants' decelerated in 2011-12 to 6.2%, which revived to 9.1% in 2012-13.

The only sector that defied this trend has been the 'community, social & personal' sector which continued to record growth of 4.3 percent, 6 percent and 6.6 percent in 2010-11, 2011-12 and 2012-13 respectively.

The recent data for the third quarter of 2013-14 shows that although the GDP growth disappoints, the services sector growth mainly finance, insurance, real estate and business services and personal, community and social services rose in the third quarter due to a sharp rise in government spending.

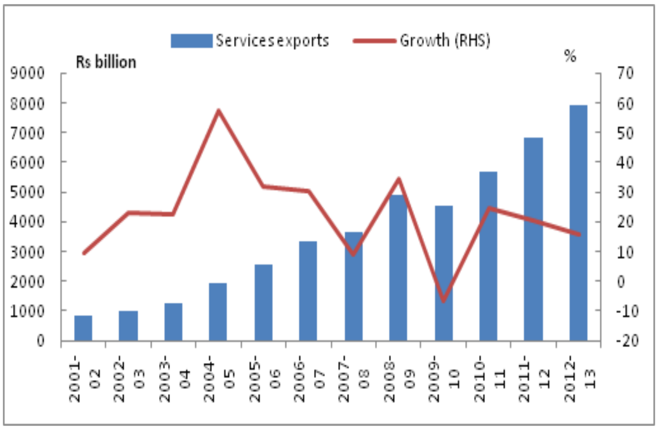
Growth rate in financial, insurance, real estate, business services rose by 12.5 percent in the third quarter of FY14 up from 10.0 percent in the previous quarter, whereas growth in community, social and personal services rose by 7 percent in Q3 FY14 as against 4.2 percent in Q2 FY14.

Slowing exports

Decline in exports along with subdued domestic economic activities have been the primary reasons for the slowdown that the sector witnessed in recent years. India's major trading partners for services have been the developed countries like the US, the UK and other European countries. With most of these nations facing economic downturn, demand for services from these economies showed a declining trend.

Exports growth was around 25 percent in 2010-11, which decreased to 20.6 percent and further to 15.8 percent n 2011-12 and 2012-13 respectively. During April-December 2013-14, service sector exports recorded a growth rate of 13.3 per cent.

Chart 2: Services Exports and growth rate



Source: RBI Database

Sharp contraction in FDI inflows

The gloomy world economic environment had an impact on the foreign investment inflows as well. FDI in the sector (including financial, banking, insurance, non-financial / business, outsourcing, R&D, courier, tech. testing and analysis) increased only by Rs 16.5 million to Rs 263.1 million in 2012-13 from Rs 246.6 million recorded in the previous year. For other sectors like construction, telecommunication and computer services, FDI inflows declined sharply by 52 percent, 82 percent and 30 percent respectively. Beating this trend, however, the hotel and tourism sector has continued to attract heavy foreign investment in both 2011-12 and 2012-13.

During April to January 2013-14, the sector received FDI worth Rs 106.8 billion with Rs 59.14 billion in construction, Rs 10.63 billion in telecommunication, Rs 62.30 billion in computer and hardware services and Rs 23.06 billion in hotel and tourism.

Table 2: FDI inflows to the service sector (Amt in Rs bn)

	FY11	FY12	Gwth (%)	FY13	Gwth (%)
SERVICES SECTOR **	150.5	246.6	63.8	263.1	6.7
CONSTRUCTION	75.9	152.4	100.7	72.5	-52.4
TELECOMMUNICATIONS	75.4	90.1	19.5	16.5	-81.6
COMPUTER SOFTWARE & HARDWARE	35.5	38.0	7.1	26.6	-30.2
HOTEL & TOURISM	14.1	47.5	238.4	177.8	273.9

Source: Economic Outlook, CMIE

Employment generation

An area which needs urgent attention is the employment generating capacity of the sector. The sector's share of employment in the total organized sector (mainly finance, insurance, real estate and business services and community, social and personal services) has become the largest accounting for about 62 percent. However, when compared to its share in India's GDP which showed impressive growth from 30 per cent in 1990-91 to about 57 per cent in 2009-10, the share of services in total employment has increased only from around 22 per cent in 1993-94 to 25 per cent in 2009-10.

Concern areas

There are a number of other issues which have remained areas of concern as it has restricted the growth of the sector. Unlike the agriculture and the manufacturing sectors which received due attention from the government in terms of policy formation, services sector has missed the spotlight and has been largely left to grow on its own particularly in the post reform period. This is evident from the fact that in spite of the growing importance of the services sector as a crucial contributor to India's GDP, no single institution has so far been formed to govern and guide the sector as a whole.

Domestic policy making in the sector has therefore suffered mainly on account of absence of a single nodal department to oversee all aspects/issues related to services. As there are multiple sub-sectors offering different types of services in India, a common policy framework is required to consolidate the sector at the macro level. It is imperative to have a National Policy dedicated to the service sector which will provide the much needed direction to the growth of the sector.

Over the years, though India has liberalized its FDI policies significantly, still there are a number of services sub-sectors which are yet to see further liberalization for direct foreign investment. These include banking, insurance, railways, air transport services, real estate etc. India must attempt to further open up these sectors for foreign investment in a calibrated manner which is necessary not only to increase FDI inflows but also to introduce global best practices in the sector making it more efficient and productive.

It is also important to note that except for a few service categories such as software services, India has not been able to create brand image of a leading service provider in any of the other service categories, globally. One of the prime reasons behind this is lack of concerted effort towards enhancement of the sector's visibility outside India. It is important to create awareness about the capabilities that Indian service providers have in terms of a wide range of services that they offer.

Relevant data availability on Indian services is also an issue. For some services sectors like retail which is largely unorganized in nature, there is no official data available. For other services like communication, the data is available only at the aggregate level.

Future growth prospects

With rebound in external sector performance and improvement in domestic economic sentiment, the sector is projected to record a growth of 6.8 percent in 2013-14. This is as per the advance estimate released by the government in February this year. Among the sub-segments, 'trade, hotel, transport and communication' sector is anticipated to grow by 3.5 percent as against 5.1 percent in the previous year.

Cargo handled by major sea ports rose by 1.9 percent during Apr-Dec 2013-14 and passenger and cargo handled by civil aviation sector by 8.2 percent and 0.9 percent during Apr-Nov 2013-14. Also, on account of a 15.9 percent growth in aggregate deposits and 14.5 percent growth in bank credit as on December 2013, the 'finance, real estate and business services' is expected to grow by 11.2 percent in 2013-14, a rise from 10.9 percent in the previous year. The growth rate of community, social and personal services is pegged at 7.4 percent in 2013-14.

It is evident that the recovery of the services sector is still a little away, and it is expected to continue to grow at the same rate in the next fiscal year (2014-15) as well. The recently conducted FICCI's Economic Outlook Survey pegs the overall services sector growth in the next fiscal to be 7 percent.

FICCI Survey highlights

Business Confidence Survey

Prospects for the next six months*

	Investment	Sales	Selling Price	Profit	Exports	Employment
Much Higher	4	8	0	0	3	2
Higher	20	48	25	29	39	18
Same/ No Change	56	37	61	45	47	67
Lower	20	8	14	25	11	14
Net Responses (performance as compared to previous quarter survey)	Worse	Better	Better	Better	Worse	Worse

Note: Net responses are measured as the differential between the companies reporting positive and negative responses. These exclude companies reporting same or no change.

Source: FICCI Business Confidence Survey March 2014
*Reference period is January - June 2014

FICCI's Business Confidence Survey for Q3 of FY14 indicates slight improvement in the Overall Business Confidence Index (OBCI). This came at the back of improvement in both Current Conditions Index and Expectations Index.

Results pertaining to operational parameters like investments, exports and employment lacked buoyancy in the current round. Only a marginal improvement was noted in the prospects for sales and profits.

The survey results indicate only 24% of the respondents citing investments to be higher in the next two quarters. Further, 67% respondents expected no change in employment levels over the coming six months.

Results pertaining to profits indicated some improvement , yet around 45% of the respondents cited profit levels to remain same over the next two quarters.

Among key constraining factors, weak demand continued to top the list. In Q3 FY 14 about 70% of the respondents indicated weak demand to be a problem area, remaining at the same level as in the last two surveys.

Given the slowdown in economy, we also asked the participants to indicate the extent of loss in demand witnessed for their products. About 56% of respondents indicated that decline in demand has been more than 10%.

There was a rise in the proportion of respondents indicating availability of credit to be a problem area. The number increased to 40% in the present survey (Q3 FY14) from 31% in the previous survey.

High interest rates continue to remain a stumbling block for new investments. 53% of the respondents in the latest round (Q3 FY14) felt that high cots of credit is creating a problem for India Inc.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 173 companies with a turnover ranging from 1 crore to 3.7 lakh crore.*The participating companies belonged to a varied array of sectors such as textiles, cement, financial services, manufacturing, chemicals, constructions, metal and metal products, automobiles, FMCG, electrical equipment and machinery, paper and paper products.*

FICCI

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FICCI Survey highlights

Economic Outlook Survey

ANNUAL FORECASTS FY15	
Gross Domestic Product	5.5%
Wholesale Price Index (Avg)	5.5%
Consumer Price Index (Avg)	7.9%
Index of Industrial Production	3.0%
Export Growth	7.6%
Import Growth	5.9%
Trade deficit as % of GDP	8.0%
Current Account deficit as% of GDP	2.2%
Fiscal deficit as % of GDP	4.4%
USD/INR Exchange rate (End Mar FY15)	Rs 61.0/ USD

QUARTERLY FORECASTS Q1 FY15	
Gross Domestic Product	5.2%
Wholesale Price Index (Avg)	5.3%
Consumer Price Index (Avg)	8.2%
Index of Industrial Production	1.8%
Export Growth	5.5%
Import Growth	-4.5%
Trade Deficit as % of GDP	8.5%
Current Account Deficit as% of GDP	1.9%
Fiscal deficit as % of GDP	-
USD/INR Exchange rate (End of Q1 FY15)	Rs 61.0/ USD

Source: FICCI Economic Outlook Survey Q4 FY14

Results of FICCI's latest Economic Outlook Survey point towards a recovery in the year 2014-15. The median GDP growth forecast is estimated at 5.5% for 2014-15, with a minimum and maximum range of 5.0% and 6.0% respectively.

GDP growth in Q4 2013-14 is estimated at 5.0%, with a range of 4.6% and 5.6%. Anything below 5.2% growth in Q4 FY14 will pull down the estimated growth of 4.9% (as announced by CSO) for the full year. The quarterly growth is expected to improve to 5.2% in Q1 FY15.

The industrial sector is projected to witness an uptick, with a median growth forecast of 3.3% in 2014-15. Though both agriculture and services sector growth are likely to be in line with broad expectations, pressure might arise on agriculture sector with chances of El Nino effect marring growth prospects next year.

The respondents felt that higher industrial growth can be achieved by getting investments back on track. The government should seriously work towards debottlenecking sectors like mining that is impacted by slow pace of environment / forest clearances.

Headline inflation rate (WPI) is expected to be around 5.5% in 2014-15 with a lower and upper limit of 5.0% and 6.3% respectively. CPI is projected to be around 7.9% in 2014-15.

The median forecast for fiscal deficit as a % of GDP for 2014-15 was put at 4.4%, with an indicative range of 4.1% to 5.5%. This is slightly higher than the 4.1% estimate announced recently in the interim budget.

The participating economists were of the view that there is a pressing need to get the fiscal house in order. This should be done by laying focus on the revenue side and the target should be eliminate revenue deficit.

On the external front, though the situation is by and large under control, the export growth has become sluggish. Export growth is estimated at 0.8% for Q4 FY14 and this is likely to clock an improvement next fiscal year. The CAD to GDP ratio will remain in the comfort zone and is expected at 2.2% in 2014-15.

The latest round of FICCI's Economic Outlook Survey was conducted in the month of March 2014 and drew responses from leading economists primarily from industry, banking and financial services sector. FICCI sought views of the economists on some topical subjects like roadmap for fiscal consolidation, efficacy of CPI as a new monetary policy tool and the steps that should be taken up by the new government to revive industrial growth.

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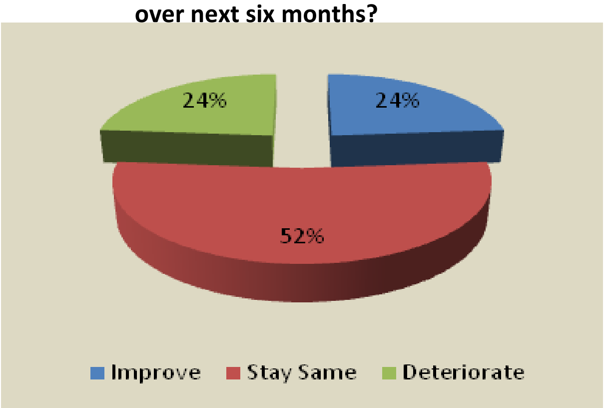
FICCI Survey highlights

CEOs' Poll Survey

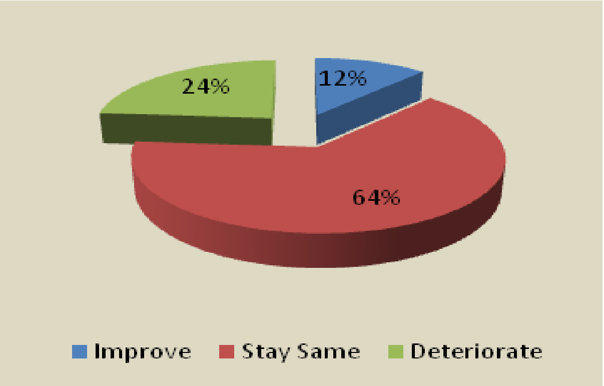
Expectation about country's economic performance over next six months?



Source: CEOs Poll 2014

About 52% of respondents felt that the overall economic situation of the country would remain same in the coming six months. While another 24% pointed towards a possible improvement, a similar proportion of CEOs expected the situation to deteriorate.

Expectation about profit levels in FY 15



A discernible moderation was noted in profit levels in fiscal year 2013-14 and the participants expected this trend to continue. 64% of respondents indicated no change in the profit levels in the year 2014-15. While just about 12% expected profits to improve, remaining 24% cited further deterioration

Top Five priorities for the new government......

Infrastructure Development	• A majority of respondents cited the need for improvement in infrastructure especially power.
Corruption	• CEOs were of the view that there is an urgent need to remove red tapism and bureaucratic hurdles. Greater use of e governance should be encouraged.
Cost and Availability of Finance	• High interest rate was pointed out to be one of the major concerns and was said to be impacting the competitiveness of the companies.
Goods and Services Tax	• It was unanimously felt by the participating CEOs that introduction of Goods and Services Tax can be a game changer.
Simplify rules and regulations	• CEOs felt that there is a need to simplify rules and regulation to enhance ease of doing business and instill greater confidence.

The present round of FICCI's CEOs poll was conducted among FICCI members in the month of March 2014 and drew responses from 73 CEOs .

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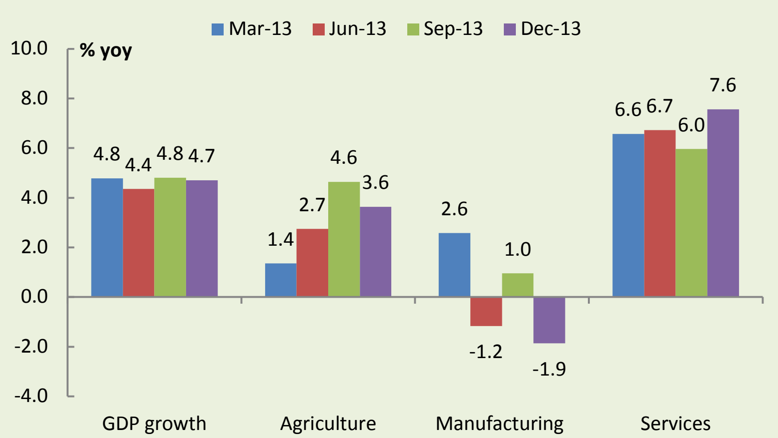
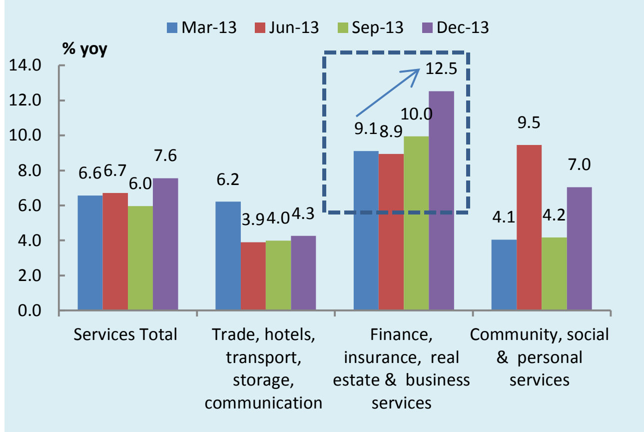
GDP growth continues to be bleak at 4.7% in Q3 FY14

- GDP growth for Q3 FY14 eased to 4.7% from 4.8% in Q2 FY14.
- The performance of the agriculture has not picked up as expected. Growth of the agricultural and allied activities which stood at 4.6% in Q2 FY14 eased to 3.6 % in Q3 FY14.
- Performance of industry continues to remain subdued as it dipped by 0.7% in Q3 FY14 owing to a decline in the growth of both mining and manufacturing by (-)1.6% and (-)1.9% respectively. Growth rate in the electricity, gas and water supply sector stood at 5% in Q3 FY14.
- The service sector grew by 7.6% in Q3 FY14 as against 6.0% in the previous quarter.

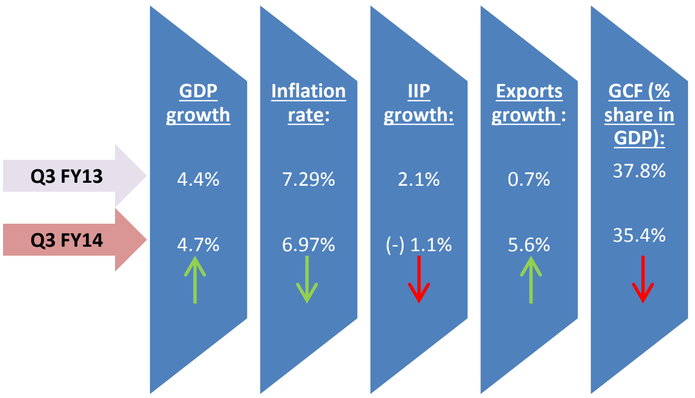
GDP growth by Economic Activities (Quarterly)





- ***In the midst of these dismal numbers, the only support came from the finance, insurance, real estate and business services which grew by 12.5% in Q3 FY14.***
- ***These numbers indicate that the slowdown is entrenched in the economy and we may have to wait to see if growth has really bottomed out. This prolonged slowdown in growth will have serious implications for employment generation and needs to be addressed urgently.***

Key Economic Indicators for Q3 FY14 & Q3FY13



GDP growth by expenditure (%)	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14
Private Final Consumption Expenditure	3.8	1.9	3.0	2.5
Government Final Consumption Expenditure	0.6	9.6	1.5	4.0
Gross Capital Formation	6.3	4.0	5.6	-1.9
Gross Fixed Capital Formation	3.4	-3.7	1.8	-1.1

Source: MOSPI, Economic Outlook, CMIE and FICCI Research

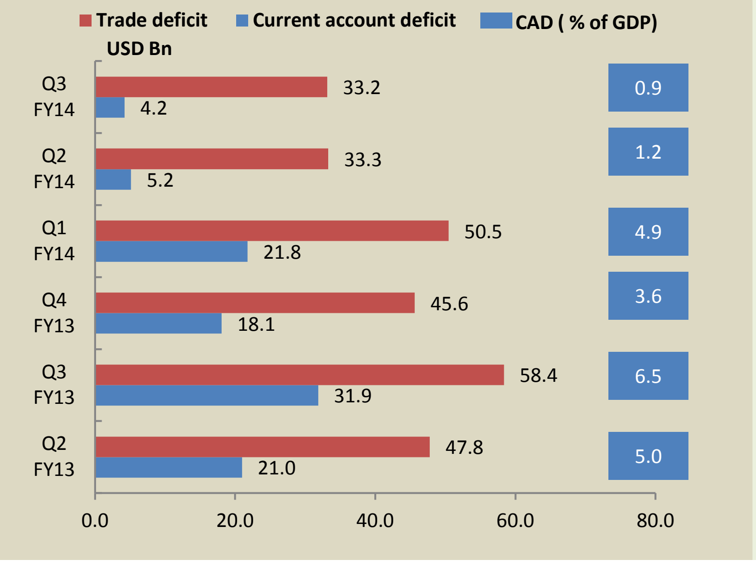
CAD narrows to 0.9 percent of GDP in Q3 FY14

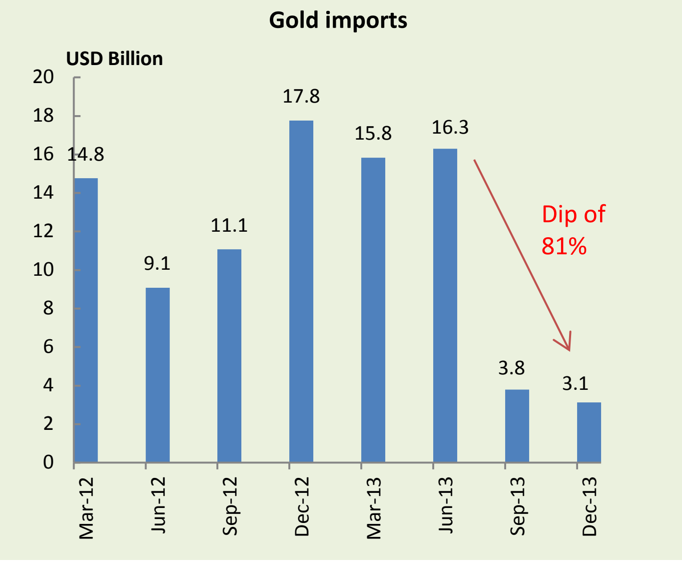
- Current Account Deficit (CAD) narrowed to USD 4.2 billion in Q3 FY14 as against USD 31.9 bn during the same period of the previous year due to contraction in trade deficit and a rise in net invisible receipts. As a percentage of GDP, it stood at 0.9% in Q3 FY14 as compared to 6.5% in Q3 FY13.

- Trade deficit declined to USD 33.1 bn in Q3 FY14 from USD 58.4 bn in Q3 FY13 as the imports in this quarter declined sharply by (-) 14.8%, primarily led by a dip in the imports of gold to USD 3.1 bn in Q3 FY14 as against USD 17.8 bn in Q3 FY13.

- On the capital account side, net portfolio investments and net direct investments stood at USD 2.4 bn and USD 6.1 billion respectively in Q3 FY14.

Snapshot of India's Current Account Balance





- Net inflows of NRI deposits amounted to USD 21.4 bn in Q3 FY14 as against USD 2.7 bn in Q3 FY13. This has come mainly on account of mobilization of FCNR deposits under the swap scheme offered by RBI during September–November 2013.

- Merchandise exports increased to USD 79.8 billion in Q3 FY14, an increase of 7.5% due to significant growth in the exports of engineering goods, ready made garments, iron ore, marine products and chemicals.

- Total foreign exchange reserves for the week ending February 21, 2014, stood at USD 293.4 billion as against USD 291.9 billion in the week ending February 27, 2013.

- CAD figures over the last two quarters indicate that CAD for the current fiscal will be well within the sustainable limits. With relatively stable capital flows and sufficient forex reserves, India is now in a much better position to manage its balance of payments.

Balance of Payments– Key Components

Indicators (US$ billion)	Q3 FY13	Q3 FY14	Apr-Dec FY13	Apr-Dec FY14
Trade balance	-58.4	-33.1	-150.0	-116.9
Services	16.6	18.1	47.9	53.4
Current account balance	*-31.9*	*-4.2*	*-69.8*	*-31.1*
Direct investment	2.1	6.1	140.9	20.6
Portfolio investments	9.8	2.4	153.9	-4.4

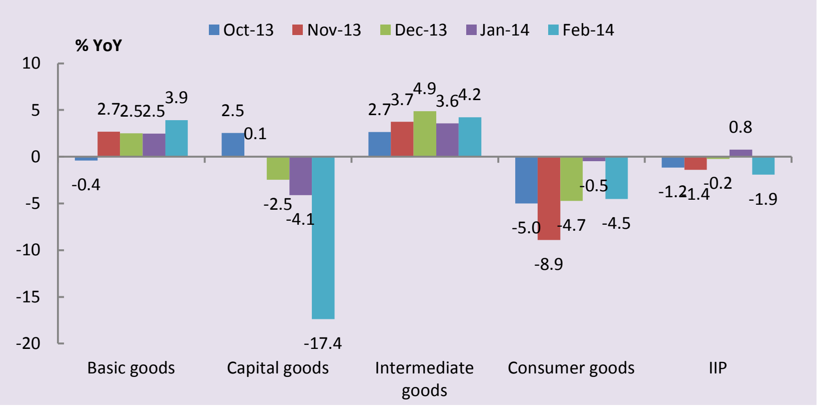
Source: RBI, Economic Outlook CMIE

Economy Fact Sheet – Index of Industrial Production
April 2014

IIP declines in February 2014

- IIP registered a negative y-o-y growth of (-) 1.9 percent in February 2014, as against a positive growth of 0.8 percent recorded in January 2014.
- The contraction in February IIP was mainly on account of the dismal performance of the manufacturing sector which witnessed a decline of 3.7 percent in February 2014 over the same month of 2013.
- On the contrary, the electricity sector continued an upward trend and posted a 11.5 percent y-o-y growth in February 2014, while mining expanded by 1.4 percent in the same month.
- As per the Use-based classification, capital goods registered a sharp decline of 17.4 percent, followed by consumer goods which fell by 4.5 percent.

Index of Industrial Production (y-o-y growth %)

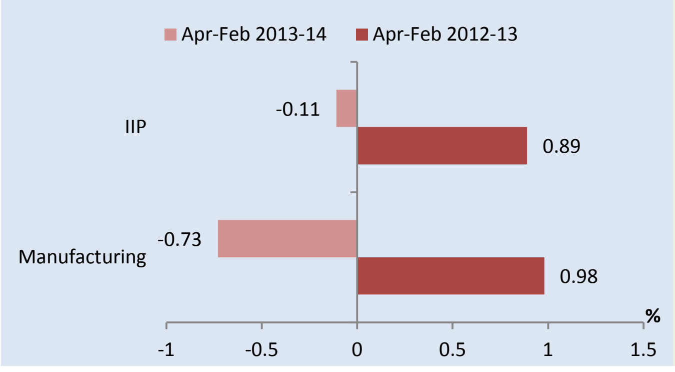


A sharp fall in manufacturing sector output indicates that the growth is yet to bottom out.

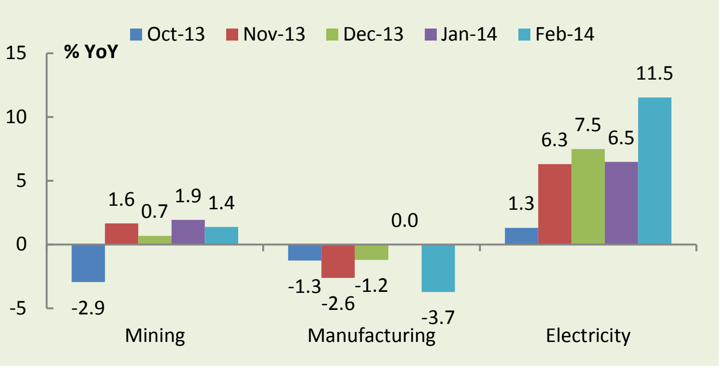
Persistent weak consumer demand and investment scenario is further dampening the outlook for manufacturing sector.

Bold reforms in the area of business regulatory environment are imperative to revive the manufacturing sector growth.

IIP and Manufacturing (y-o-y growth in %)



Mining, Manufacturing and Electricity (y-o-y growth in %)



Major items with positive growth	Jan 14	Feb 14
Food products	*1.5%*	*2.2%*
Textiles	*5.2%*	*9.1%*
Coke, refined petroleum products	*-0.1%*	*6.1%*
Chemical and chemical products	*8.7%*	*3.3%*
Basic metals	*0.9%*	*2.2%*

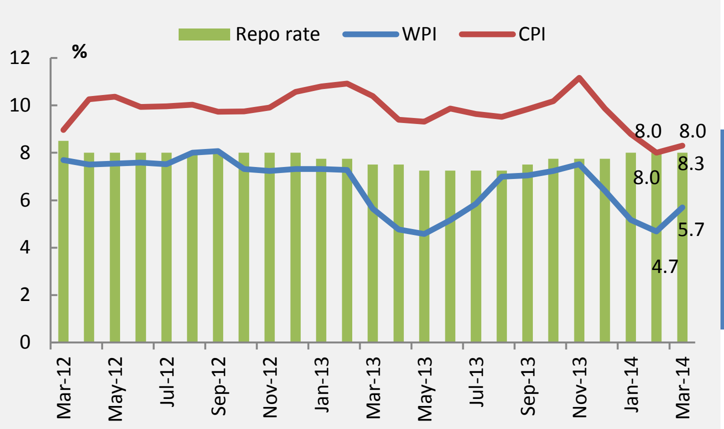
Major items with negative growth	Jan 14	Feb 14
Tobacco products	*-8.6%*	*-2.6%*
Rubber and plastic products	*-5.6%*	*- 2.0%*
Machinery & equipments	*4.7%*	*-4.6%*
Electrical machinery	*15%*	*- 24.6%*
Electronics	*- 28.1%*	*-34.1%*

Source: MOSPI and FICCI Research

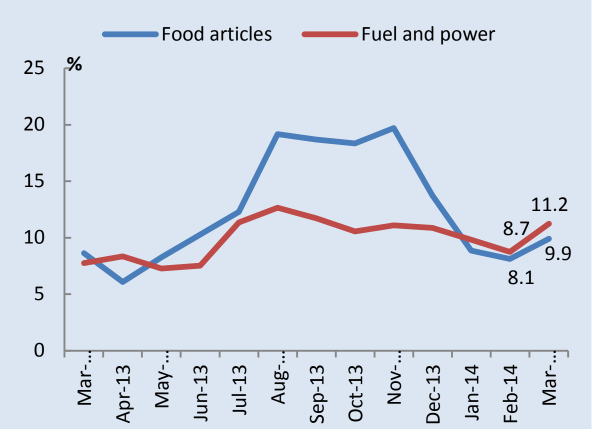
Headline WPI inflation accelerates in March 2014

- WPI inflation increased to 5.7 percent in March 2014 from 4.7 percent in February 2014 mainly due to a sharp increase in food and fuel & power prices.
- WPI based food article inflation accelerated to 9.9 percent in March 2014 after it declined to a 10 month low of 8.1 percent in February 2014. WPI based non-food articles inflation stood at 4.6 percent in March 2014 as against 5.1 percent in February 2014.
- Fuel and power inflation which was at 8.7 percent in February 2014 rose to 11.2 percent in March 2014.
- Manufactured products inflation was at 3.2 percent in March 2014 up from 2.8 percent in February 2014.
- Due to a rise in fruits and vegetables prices, CPI inflation inched up to 8.3 percent in March 2014 from 8.0 percent in the previous month.

WPI and Interest rates



Food and Fuel Inflation - WPI



Major WPI items	*Sept 13*	*Oct 13*	*Nov 13*	*Dec 13*	*Jan 14*	*Feb 14*	*Mar14*
Primary Articles	*14.0%*	*14.6%*	*15.3%*	*10.8%*	*6.8%*	*6.3%*	*7.7%*
Food articles	*18.7%*	*18.3%*	*19.7%*	*13.7%*	*8.8%*	*8.1%*	*9.9%*
Non-food articles	*4.9%*	*7.1%*	*7.4%*	*6.0%*	*4.6%*	*5.1%*	*4.6%*
Fuel and power	*11.7%*	*10.5%*	*11.1%*	*10.9%*	*9.8%*	*8.7%*	*11.2%*
Manufactured products	*2.4%*	*2.8%*	*2.9%*	*3.0%*	*3.0%*	*2.8%*	*3.2%*

Source: MOSPI, Economic Outlook – CMIE and FICCI Research

A sizable jump in the inflation rate of fruits and vegetables is seen again. This coupled with the fact that we could witness some disruption in the progress and spread of monsoon going ahead, tackling the supply side issues must top the priority list of the new government. Straightening the kinks on the supply side and improving overall agri-productivity are the real solutions to food inflation.

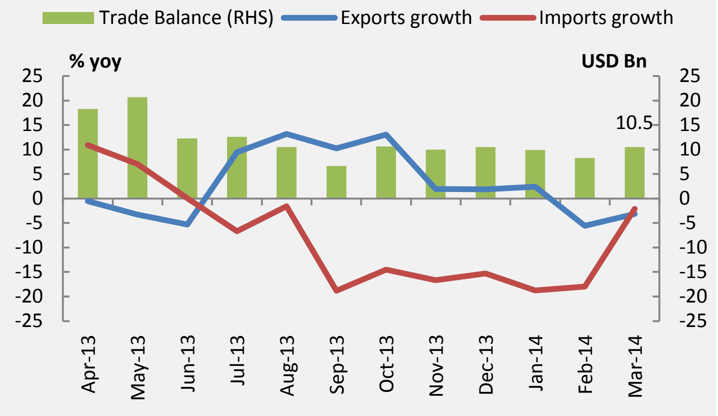
We are fast losing ground with regard to the performance of the industrial sector too. It is therefore crucial that the central bank takes a more nuanced stance on its reading on the growth inflation dynamics.

Economy Fact Sheet – Foreign Trade
April 2014

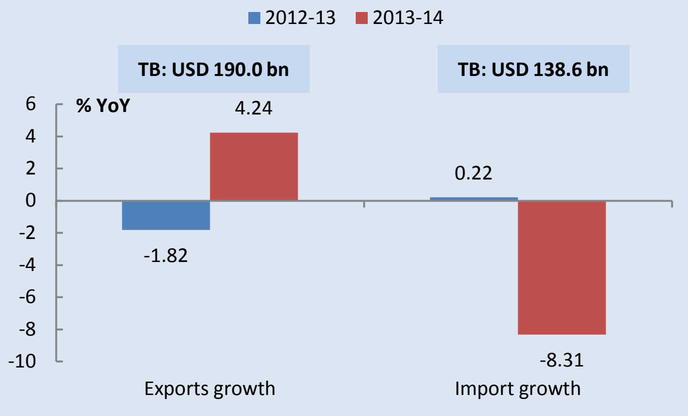
Exports growth continues its declining trend in March, 2014

- Exports further declined by (-) 3.1 percent in March 2014 after it declined by (-) 5.5 percent in February 2014 from 2.4 percent growth in January 2014.
- Imports also fell by (-)2.1 percent in March as compared to (-) 17.9 percent decline in the previous month.
- Owing to a decline in exports, trade deficit widens to a five month high of USD 10.5 billion in March 2014 from USD 8.3 billion in February 2014.

Exports and Imports growth rate in USD



Exports and Imports growth rate in USD (Arp-Mar 13--14)



- In FY14, declined in imports growth (on account of curbs on gold imports and slower domestic growth) along with a moderate growth in exports helped in reducing the trade deficit this year as compared to the previous year.
- 27 percent contraction in our trade deficit to USD 138.6 billion in FY14 from over USD 190 billion in 2012-13 is a positive development; it will further ease the pressure on our current account deficit and considerably reduce the country's external sector vulnerabilities.
- Looking ahead, global growth is expected to improve and the expansion in global output is likely to be led by developed economies, particularly USA. It is expected that growth in export will pick up this year on the back of such recovery though weakness in China and strengthening of Rupee pose some risk.
- Recent appreciation in rupee has led to erosion in the competitiveness of the Indian exporters. RBI should build forex reserves or else we will be in serious trouble facing a huge competition from China, Turkey, Indonesia, Brazil and other emerging markets.

Imports break up (oil and non-oil)

Period	Oil (USD Bn)	Non-oil (USD Bn)	Oil - growth rate (%)	Non oil growth rate (%)
Mar-13	13.4	27.5	-	-
Mar-14	15.8	24.3	17.9	-11.6
Apr-Mar 2012-13	164.0	326.7	-	-
Apr-Mar 2013-14	167.6	283.3	2.2	-13.3

- *The country had targeted the export amount at USD 325 billion for FY14. The outbound shipment however fell short and touched USD 316 billion by end March 2014 as per the press release by the Commerce Ministry.*
- *Nevertheless, overall exports registered a growth of 3.9 percent over the last financial year.*

Source: Department of commerce, Economic Outlook-CMIE and FICCI Research

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