Economy Watch

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Issue 3

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

State of the Economy

The economic health of the country was in a difficult situation last fiscal year. As a result, GDP growth did not witness much recovery and was reported at 4.7 percent in 2013-14 - which was two consecutive years of below 5 percent growth, observed for the first time in last 26 years. The performance of the industrial sector remained lackadaisical, recording lowest growth in about three decades. And this had a consequent impact on services sector growth as well.

However, two major events in the last few months have brought about a perceptible shift in the growth outlook of the country. First, the new government assuming office in May 2014, followed by a slew of announcements in June 2014, which have given a strong positive signal to the industry and investors. The second important event has been the announcement of much awaited Union Budget 2014-15 on July 10, 2014. The Budget is a balanced one and further reaffirms resolve of the government to move ahead on the reforms path. The emphasis laid on the manufacturing sector and towards job creation is certainly encouraging.

In addition, a set of recent macro data releases point towards emerging green shoots. Though, it is still too soon to make a conclusive judgment about the course being taken by the economy; time bound action and implementation of the policy decisions taken by the government can definitely strengthen these early signs of recovery.

Table 1: GDP Growth Annual (in %)

	2009-10	2010-11	2011-12	2012-13	2013-14
GDP	***8.6***	***8.9***	***6.7***	***4.5***	***4.7***
Agriculture, forestry & fishing	***0.8***	***8.6***	***5.0***	***1.4***	***4.7***
Industry	***9.2***	***7.6***	***7.8***	***1.0***	***0.4***
Mining & quarrying	5.9	6.5	0.1	-2.2	-1.4
Manufacturing	11.3	8.9	7.4	1.1	-0.7
Electricity, gas & water supply	6.2	5.3	8.4	2.3	5.9
Construction	6.7	5.7	10.8	1.1	1.6
Services	***10.5***	***9.7***	***6.6***	***7.0***	***6.8***
Trade, hotels, transport, storage, communication	10.4	12.2	4.3	5.1	3.0
Financing, insurance, real estate & business services	9.7	10.0	11.4	10.9	12.9
Community, social & personal services	11.7	4.2	4.9	5.3	5.6

Source: CMIE

Index of Industrial Production (IIP): growth sees an uptick

The latest IIP released for the month of May 2014 reported a further improvement from April 2014 numbers. The IIP increased by 4.7 percent in May 2014, a 19-month high. The corresponding growth in April 2014 was 3.4 percent and (-) 2.5 percent in May 2013. This increase was led by a discernible improvement in performance of manufacturing and mining segments, while the growth in electricity segment remained flat.

In case of manufacturing, 6 segments out of a total 22 reported contraction in May 2014, this was lower than 10 sub segments that reported contraction in April 2014.

Table 2: Index of industrial Production

% growth rate	May-14	Apr-14	Mar-14	Feb-14	May-13
Index of Industrial Production	4.7	3.4	-0.5	-1.8	-2.5
Sectoral					
Mining	2.7	1.2	-0.4	2.0	-5.9
Manufacturing	4.8	2.6	-1.2	-3.6	-3.2
Electricity	6.3	11.9	5.4	11.5	6.2
Use-base industry classification					
Basic goods	6.3	6.8	4.4	4.1	-0.3
Intermediate goods	2.7	4.4	1.6	3.7	1.1
Capital goods	4.5	15.7	-11.6	-17.5	-3.7
Consumer durable goods	3.2	-7.6	-11.8	-9.3	-18.3
Consumer non-durable goods	3.9	-3.3	5.0	-0.5	3.8

Source: Central Statistical Organization (CSO)

Announcements made in the Budget are largely pro industry and can play an enabling role in firming up the turn around in the manufacturing sector. The lowering of eligibility limit for availing investment allowance, added focus on tourism and textile sectors and the steps taken to promote entrepreneurship are reassuring. Union Budget 2014-15 gave due cognizance to the fact that revitalizing the investment cycle is need of the hour.

Revision of FDI caps in defence and insurance segments, the focus given on meeting the financing requirements of the infrastructure sector are all very positive moves and are likely to have a multiplier effect on industrial growth as well. Latest numbers indicate some weakness in capital goods segment and this point towards the fact that there still may be an undercurrent of uncertainty in the investment sentiment. As per use based classification of IIP, the capital goods sector reported a growth of 4.5 percent in May 2014; this was much lower than the growth of 15.7 percent recorded in April 2014. Prior to April 2014 , growth in this sector was in the negative terrain for four consecutive months.

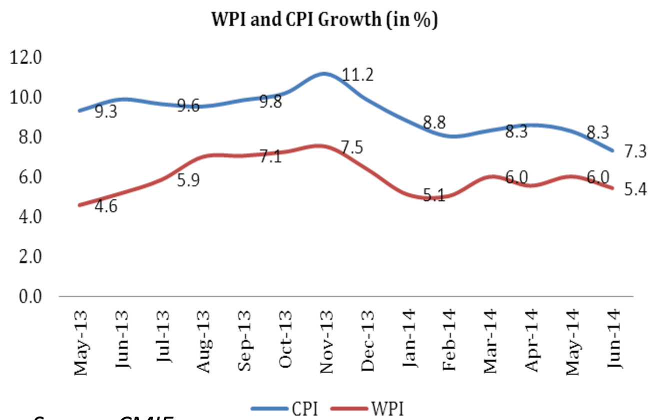
Nonetheless, it might be noted that a CEOs Poll conducted by FICCI in July 2014 indicated that members of India Inc are more confident about the investment prospects post the budget announcement. About 50 percent of participants in the survey indicated that they are likely to undertake new investments going by the direction cited in the budget. Significant increase in the proportion of respondents (around 37 percent) pointing towards better investment prospects is also noted in FICCI's latest Business Confidence Survey. Besides, a recovery was noted in the consumer goods segment in May 2014. The sector posted a growth of 3.7 percent during the month after witnessing negative growth for six consecutive months.

Prices indicate softening

The Wholesale Price Index (WPI) and the Consumer Price Index (CPI) both indicated a softening in prices in the month of June 2014. WPI inflation touched a 4-month low of 5.4 percent in June, after witnessing a growth of 6.0 percent in the month of May 2014. The CPI inflation rate, on the other hand, clocked a growth of 7.3 percent vis-à-vis 8.3 percent in May 2014.

This moderation in prices comes at the back of softening in both food and fuel prices. The problem of food prices/inflation is a structural one and the new government has shown a proactive and focused approach in handling the issue. In June, some measures were undertaken by the government to handle the challenge of food prices. These included keeping a check on hoarding, releasing additional rice through the public distribution system and tracking prices of some essential commodities

Chart 1: WPI and CPI Growth rate



Source: CMIE

In addition to these, the Budget further carried forward the government's resolve to bring prices under check. The announcements made in the budget to set up a Price Stabilization Fund and a commitment by Centre to work closely with States to re-orient their respective APMCs will surely address some of the core problems causing food prices to remain high. However, an upward pressure on prices might arise as potential risks on account of below average monsoon this year and expected volatility in oil prices due to growing uncertainty in Iraq/Israel/Ukraine remains. That said the latest FICCI-Economic Outlook Survey projects moderate inflation rate of 5.6 percent by end of March 2014.

External Sector situation remains steady

On the external front, key risks factors until last year – volatile Rupee and widened current account deficit - have been averted to a significant extent and the situation at present appears fairly stable. The current account deficit amounted to US$ 32.4 billion or 1.7 percent of GDP in 2013-14. This was significantly lower than USD 87.4 billion deficit recorded in 2012-13. Furthermore, the latest trade data is positive and indicates return in buoyancy. On the back of a gradual recovery in advanced economies, exports have shown a double digit growth of 10.2 percent in June 2014.

This was the second consecutive month of double digit growth. The imports, on the other hand, increased for the first time in the past twelve month, recording a growth of 8.3 percent in June 2014. Non oil imports were seen recuperating as well.

Besides, foreign investment inflows both - foreign direct investments and portfolio investments – have registered a discernible increase in May 2014. The total foreign investment inflows amounted to US$ 12.5 billion in May 2014, which is the highest monthly inflows received since October 2010. This clearly reflects a return in optimism among investors and reaffirms the fact that they are ready to repose their faith in India.

However, while Rupee is expected to remain range bound, the current account deficit may see an increase from the last year's level. The potential rise would primarily be on account of an expected increase in oil prices and withdrawal of restrictions on import of non essential goods. The recently released Economic Survey 2013-14, indicated that deficit is likely to touch a higher figure of US$ 45 billion or 2.1 percent of GDP in 2014-15.

Going ahead, it will be important to adopt strategies to diversify our export destinations and commodities to sustain these growth levels. To this end, some of the recent initiations made by the new government to consolidate India's bilateral relations with its neighbors and within the South Asian region will indeed be beneficial. Also imports, especially oil imports will have to be economised.

Outlook

The overall outlook for this fiscal year is much better. There is a broad consensus that GDP growth will cross 5 percent mark this year. In fact, the recently released Economic Outlook Survey of FICCI puts across an estimate of 5.3 percent for GDP growth in 2014-15. This is on the lower end of the range of 5.4 percent - 5.9 percent indicated in the Economic Survey. Some risks to growth remain and we will have to wait and watch how these play out over the next few quarters. The risks to agriculture growth due to a sub-optimal monsoon are imminent. Nonetheless, a gradual recovery in manufacturing cannot be ruled out. Much would really depend on how the government strategizes the implementation of its policy announcements.

A focus on issues that matter

The Budget advocates fiscal prudence and bold reforms — it's not populist, it's balanced

The Budget was presented against the backdrop of a slowing economy facing several macro-economic challenges including high inflation, slowing private investments and high fiscal deficit. Given these challenges, Arun Jaitley's Budget provides an impeccable balance of expectations and realities. The Finance Minister has set a delightfully positive tone by advocating fiscal prudence, shunning populism and pitching for bold reforms.

By promising not to change any of the tax provisions retrospectively, which would create a fresh liability and commitment to providing a stable and predictable taxation regime, the Finance Minister has put forward a credible roadmap for sustained investment. Measures related to advance ruling for resident taxpayers, the setting up of a high level committee for clarity on tax issues, a review of the Direct Taxes Code, and addressing the issue of transfer pricing are welcome. They will lay the ground for a conducive investment climate.

On the jobs front

India requires nearly one million jobs each month for the next 10 years. There has been a strong thrust on job creation in the Budget. Significant spending on infrastructure will kick-start jobs. The infrastructure sector can potentially help create 45-50 per cent of the one million job requirement in the non-farm sector every month for next 10 years.

The proposed setting up of new airports, ports, and industrial corridors will also facilitate large-scale job creation. Housing and construction is another area that can boost growth and employment in the country. The Budget has given a major boost to this sector through a relaxation in foreign direct investment (FDI) provisions for the development of 'smart cities', greater allocation of funds for low cost affordable housing, and a Rs 50,000 hike in tax deduction limits for interest on housing loans.

In addition, the Finance Minister has offered Rs 8,000 crore for the National Housing Bank (NHB) to extend support to rural housing in the country.

Tourism is another area that has found a strong focus in this Budget. It is a sector with huge employment potential. The e-visa facility proposed to be introduced at nine airports in the next six months will facilitate visas-on-arrival and provide a strong boost to the tourism sector.

In addition, services provided by Indian tour operators to foreign tourists have been taken out of the tax net. These should provide a strong boost to the tourism sector. The creation of tourist circuits in five cities, preservation of archaeological sites, development of world class convention facilities and launching international sports events would not only help in creating jobs on a large scale, but also ensure balanced regional development across the country.

Right medicine

A strong thrust has also been given to the MSME sector which is a key contributor to employment generation. With the view to giving a boost to capital formation, the Government has lowered the eligibility limit for investments from Rs 100 crore to Rs 25 crore to get the benefit of investment allowance. Combined with measures to give a boost to employment generating sectors, the introduction of a national multi-skill programme called Skill India for skilling youth aims at creating an employable workforce.

The economic stimulus presented in the Budget is the right medicine for reviving the growth of the economy and meeting the challenging requirement of creating millions of jobs for youth entering the workforce each year.

The article is written by Mr Sidharth Birla, President, FICCI. It was published on July 11, 2014 in The Hindu Business Line.

A forward to next year

The latest budget attempts to revive development by creating a climate of investor trust

As someone intimately involved with industry and business in India for the last four and a half decades, I believe what drives the pace of development and growth of a country is entrepreneurship, mutual trust and confidence between government, industry, business and people at large. This is what I have noticed in the course of my numerous interactions with Japanese businesses and industry, and my visits to Japan.

Investors must have confidence in the business environment and government must have trust in businessmen as citizens of the country. Above all, people must have faith in their government as well as industry, as all of us are working for the country.

I will assess India's current situation in this light and also examine to what extent Arun Jaitley's maiden budget meets these requirements.

The biggest achievement of Jaitley's budget is that it has, to a large extent, restored investor trust in the system. I will give three examples.

First, by stating that no retrospective amendment to the law would be made to create fresh demands, Jaitley has gone a great length in restoring faith in India's tax framework. The way retrospective taxation was hammered in, left the investor in the lurch - with uncertainty. Government should now try to settle the pending cases, especially where reversals of court orders were attempted by the authorities.

Secondly, the minister has made certain observations and given indications of the future dispensation regarding transfer pricing. This issue will become increasingly important as more companies with trans-national operations start working out of India. Jaitley is seeking to align the Indian laws with the best international practices. In the same vein, he has allowed advance ruling for Indian companies -- till now allowed only to foreign companies --- which is a major improvement.

Thirdly, the finance minister has also clarified that in times of slow-down and lack of demand, when companies are trying to push their production through discounted prices, the taxes, irrespective of costs, will be on invoice value.

These are some small but significant changes which underline an approach towards taxation which, in turn, inspires trust. This is more an issue of governance. A clear government stand on such sensitive matters should help in encouraging investment. Jaitley's budget has emphasised that what we need is increased investment. And this takes me to the next most important thing for the country: creation of fresh employment.

We talk constantly about India's demographic dividend, but that imposes certain obligations. We need to create some 15 million fresh jobs every year to take care of fresh entrants to the employment market. This is a massive call. Who will offer employment, if everyone is seeking jobs? To my mind, this can be achieved only if we promote self-employment and small businesses. At least, 1 million new entrepreneurs must be created annually. The finance minister's proposals for the creation of risk capital fund with a Rs 10,000 crore corpus for equity, quasi-equity and other risk capital for small companies should be useful for nurturing new ventures. Another Rs 200 crore for technology incubation and promotion of entrepreneurship in agro-industries should come in handy, except that in the latter case the funds earmarked are rather small. I am hopeful that these moves will mark a beginning towards a culture of entrepreneurship development. There are other positive features in this budget. And I am convinced the finance minister would have toyed with ideas which could not be fully developed in the limited time he had in formulating this budget. So I should view the present one as a foreword to the full budget next year.

This is important because the Modi government has come to power after a bitter struggle which had raised high expectations. I am, therefore, more concerned about Jaitley's next budget. It is in this context that I would like to leave a few thoughts.

First, I feel the finance minister should comprehensively review where the government should be and where not. It might still be useful for government to set up facilities in critical areas and run them like professional companies. Government money should go into creation of hard infrastructure. The rest the government should vacate.

Secondly, government reform is critical for improving governance. This involves procedural reforms as well as policy decisions, such as, on how the subsidy schemes are to be framed and administered.

Recommendations of the Expenditure Management Commission should be taken in this light. It is good that the finance minister has not immediately taken steps for tackling the subsidies questions. But they have to be addressed in the next budget, if nothing else, for the sake of ensuring they reach the deserving target groups.

Thirdly, and going beyond the budget, we need changes in the mode of governance to inspire mutual confidence between government and the people. The vast body of our laws and rules were framed in colonial times. These created a relationship of the ruler with the subject. Instead, the basis of law should be that it is meant to help people and people would abide by the laws. Thus, it should introduce norms for compliance and self-certification. Then punish those who are found to be in breach.

Such an approach will be less time-consuming, simpler and all the more useful in emerging areas like environmental management. People should be asked to comply with environmental norms prescribed by the government. It should not then be necessary to get clearance for every little detail. But to have enough deterrence in the system, the government can provide for stringent punishment. A similar approach in taxation can help in avoiding a lot of litigation and delays.

Today, the Indian economy is resilient and has a growth momentum of its own. The country is mature enough for such changes. The government should govern and not rule so that it can help our people to achieve their full potential.

The article is written by Mr Y K Modi, Past President, FICCI and Chairman, FICCI Economic and Public Policy Council. It was published on July 11, 2014 in Daily News and Analysis.

Key Announcements of the Union Budget 2014-15

- Legislative and administrative changes to sort out pending tax demands of more than 4 lakh crore under dispute and litigation
- Resident taxpayers enabled to obtain on advanced ruling in respect of their income tax liability above a de-fined threshold
- High level committee to interact with trade and industry on regular basis to ascertain areas requiring clarity in tax laws is required to be set up
- The composite cap of foreign investment to be raised to 49 percent in Defence with full Indian management and control through the FIPB route
- The composite site in the insurance sector to be increased upto 49 percent from 26 percent with full Indian management and control through FIPB route
- Capital of banks to be raised by increasing the shareholding of the people in a phased manner
- Wage employment under MNREGA to be linked to more productive, asset creating and substantially related to agriculture and allied activities
- AIIMS , IITs and IIMs like institutes to be in set up in all states
- Central government to work closely with the State governments to re-orient their respective APMC Acts
- Restructuring FCI, reducing transportation and distribution losses and efficacy of PDS to be taken up on priority
- Central government departments and ministries to integrate their services with the e-biz a single window IT platform for services on priority by 31 December this year
- Definition of MSME to be revived to provide for a higher capital ceiling
- Inverted duty structure addressed in many cases as per FICCI suggestions
- Government to review the DTC in its present shape and take a view in the whole matter
- Increase in the personal income tax exemption limit, increase in investment limit under Sec 80C as well as hike in the deduction limit on interest on housing loans

Draft a new Land Acquisition Act

The Centre should formulate rules in consultation with states and make them acceptable to all stakeholders

Our country desperately needs to get back to accelerating growth and employment. It is ironical that a well-intended legislation meant to correct age-old draconian provisions does exactly the opposite. The recently enacted Land Acquisition Act, 2014, formulated with an objective of balancing the aspirations of land owners and land buyers, has introduced unnecessary complexity, which is not only likely to hurt the development goals but also completely fail in mitigating the problems of farmers and land owners.

It appears that what started out as a well-intentioned exercise lost its way in the process. Ever since the commencement of this Act, no fresh land acquisition has taken place. The dream of building modern cities, world-class infrastructure and a vibrant industry will have to be put in abeyance unless there is a comprehensive review of the Land Acquisition Act.

It is encouraging that the new government is inclined to address concerns pertaining to the Act. The fundamental objective should be towards ensuring greater certainty, both to the seller and the buyer, in terms of cost, time, possession and land use. The Act obfuscates this objective and the buyer and the seller are likely to be left hanging on all these counts.

First, private transactions should be kept out of the purview of the Land Acquisition Act. FICCI is of the firm view that no provisions of the Act should be applicable to land transactions involving private purchase between willing buyer and willing seller. A willing buyer and a willing seller transaction implies fair compensation. The existing conditions stipulating mandatory Rehabilitation and Resettlement (R&R) provisions for private land purchase need to be removed in entirety.

Second, the procedures under the Act are complex, making the land acquisition process untenably lengthy and uncertain. As per the Act, it will take at least 50 months to acquire any land.

Needless to say, this will completely jeopardise investments and development as estimates and viability will be subjected to uncertainty.

A comprehensive review of the procedures, elimination of those that are unnecessary, clear time-frames and sufficient checks and balances to ensure adherence to those time-lines is imperative if justice is to be done, both to the person selling the land as well as to the buyer of the land.

Third, a Social Impact Assessment (SIA) study should be confined only to substantially large public/PPP projects. FICCI has suggested that the minimum threshold for non-applicability of SIA should be set at either of the following:

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 numbers. Projects which meet any of the above condition(s) need not conduct SIA study.

FICCI also suggests absolute clarity in definition of 'affected family' for the purpose of consent.

Fourth, the government should initiate zoning across the country and undertake prior SIA study in such zones. Thereafter, the need for seeking change in land use should be eliminated.

Fifth, some of the provisions for compensation under the Act seem absurd. By including 'consented amount' as one of the criteria for determining market value of land, the Act fails to recognise that 'consented amount' is not a discounted price and already takes into account the expectation of the land seller.

Offering a multiplier over and above this price is a contradiction, and 'consented amount' has to be excluded from the said criteria.

Sixth, some definitions in the Act are ambiguous. For instance, the definition of urban and rural areas. This is a key parameter for determining compensation. In the absence of clear demarcation of urban and rural areas and uncertainty with respect to factor value to be assigned for determining compensation, the Act leaves open potential for litigation. FICCI has suggested use of a pro rata formula to ascertain the factor value for determining compensation.

Seventh, clarity is required as to what constitutes 'unutilised land'. The definition of 'unutilised land' should be based on 'intended use'. As long as the schedule of utilisation as submitted at the time of application is being met, physical utilisation of land should not be necessary.

Also, it is not specified under the Act in which case the return of land shall be to the original land owners and under what situation will it be returned to the land bank of the government.

FICCI strongly suggests that the return of unutilised land should be made only to the land bank of the appropriate government and not to the individual original land owners as the latter is not practically possible.

Eighth, 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 adequate flexibility to businesses operating in a dynamic environment.

Other basic reform measures which the government needs to take in order to ease the process of land acquisition includes setting up of land bank corporations, undertaking digitisation of land records, and mapping of urban and rural areas through satellite technology. These can bring transparency, reduce uncertainties, and avoid litigation and delays in land acquisition.

FICCI's Recommendations for the new Land Acquisition Act:

- Private transactions should be kept out of Land Acquisition Act's purview
- Conditions stipulating mandatory Rehabilitation and Resettlement provisions for private land purchase must be removed
- Comprehensive review of procedures should be undertaken to minimise the complexity of procedures
- The Social Impact Assessment (SIA) study should be confined only to substantially large public/PPP projects
- Zoning must be initiated across the country and prior SIA study should be undertaken in such zones
- Criteria of 'consented amount' for determining market value of land should be excluded
- Ambiguity in definitions must be removed

FICCI believes that a reconsidered Land Acquisition Act should primarily confine itself to broad intentions. Details should be provided in rules, which should be made through mutual consultations between the central and state governments. We urge the policymakers to critically review the present Act with urgency and make it practical and equitable, upholding the principles of fairness and certainty for all stakeholders.

The article is written by Mr R V Kanoria, Past President, FICCI and Chairman, FICCI Task Force on Land Reforms and Policy. It was published on July 28, 2014 in The Financial Express

Union Budget 2014-15: List of Unresolved Issues

FICCI has done a detailed analysis of the fine-print of the Union Budget and identified certain areas that need further clarification or require a fresh look by the government. FICCI hopes the government will look into these issues and suggestions in the near term.

1. Dividend Distribution Tax (DDT)

The Budget proposes changes in the manner of computation of DDT by grossing up dividend received for purposes of tax. This rejig increases the effective tax rate from 17 percent (including surcharge) to about 20 percent. While this may create avoidable complications, we also see that the budget continues a concessional rate of 15 percent on dividends from abroad, without a sunset date. We believe there should be equity and perhaps a 15 percent rate can be adopted for both, so as not to penalize Indian shareholders and ultimately affect retail participation and deepening of markets.

2. MAT

The MAT issue is likely to be addressed in the revised Direct Tax Code (DTC). However given the magnitude of its current impact, FICCI would like the government to consider this much before the introduction of any revised DTC.

3. Transfer Pricing

FICCI welcomes the provisions on transfer pricing. However, greater clarity is sought in avoiding applicability of transfer pricing to capital raising, as well as taxing capital raising based on valuations. Provisions effectively deeming portions of capital to be income are serious deterrents to genuine transactions while leaving the door open for aberrant behaviour.

In well-known cases, transfer pricing principles are sought to be applied even when effective ownership is unchanged and no transfer takes place. Domestic companies attract the mischief under changes made in 2012 relating to share valuations in unlisted companies. The methods prescribed to justify values are (in present contexts - irrationally) based on asset values instead of relying on potential or a fair issuer-subscriber contract. This needs to be corrected.

4. CSR expenditure

As per budget fine print, CSR expenditure is disallowed as a business deduction. Besides governance issues, where directors cannot spend money outside business purposes, it amounts to appropriation of profits. The State or anyone other than shareholders cannot direct appropriation outside a Balance-sheet. This may lead to judicial challenges unless this expenditure is considered business expense, as in the past.

Further, given the lopsidedness between tax benefits - say, for contributions to PM relief fund - these circumstances run counter to the intent of promoting corporate participation in CSR which can now risk becoming cheque-book philanthropy.

5. GAAR

There has been enough debate on GAAR and CFC. Now that the government moves towards simplified taxation, it is suggested these issues must be buried as we proceed further.

6. REITs pass through

The grant of pass-through status to REITs and Infrastructure Investment Funds has the potential to be game-changers for the construction and infrastructure sectors and for job creation in these sectors. However, there may be a possible need to address pass-through of statutory levies to ensure effectiveness.

7. Subsidy reforms

Existing schemes of subsidies and social programs need to be made more efficient and less onerous on the fiscal position. FICCI believes that Direct Cash Transfers could ensure better targeting.

8. Capital for Public Sector Banks

FICCI welcomes budget's announcement to raise capital for Public Sector Banks through sale of shares to retail investors and citizens of India. FICCI has been suggesting that the government should raise equity for Public Sector Banks by diluting its stake to a minimum of 26 percent while retaining a golden share for control. Given the huge capital requirements of our Banking sector, the government should consider exploring this in future.

9. National Asset Management Company (NAMCO)

Debt Recovery Tribunals (DRTs) have been a partially successful mechanism for dealing with NPAs. New DRTs is a welcome step. However, for effective resolution of stressed assets, there is a need to look beyond the existing system via a specialized ARC framework.

FICCI suggested a specialized entity called National Asset Management Company (NAMCO) to tackle the issue of large NPAs. The proposed framework is unique because it requires Government/RBI sponsorship but no capital injection or guarantees. The government can encourage Public Sector Banks to take an aggregate non-majority equity position, and transfer large-scale stressed assets, especially in infrastructure sectors, and apply specialized resolution and management skills.

10. Food Inflation Response & Strategy Team (FIRST)

Government has been pro-actively taking several measures to tackle food inflation. The announcements of Price Stabilization Fund and working with states in re-orienting APMC Act will further help this exercise. Alongside these, a resolute and coordinated action (backed with hard data) is required to effectively deal with the issue of food inflation.

FICCI has suggested creation of a Food Inflation Response & Strategy Team (FIRST) at the Prime Minister' Office (PMO) level. FIRST will be an e-enabled, empowered coordination framework which can work with and across multiple key governmental agencies, to proactively address food inflation through integrated data management and logistical strategies in the short term.

11. START (STArt-up Rebated Tax)

The budget has offered several incentives for encouraging start-ups, including the Venture Capital Fund of Rs 10,000 crore for MSME. FICCI suggests introducing a rebated income-tax for small start-up businesses called **START** (STArtup Rebated Tax), on lines of similar schemes in Singapore and China, to encourage small Start-ups and boost job-creation.

BRICS must score a goal in Fortaleza

Brazil may quite appropriately be the place for BRICS to score a much-needed winning goal. That could be in the form of an announcement of the launch of the BRICS Development Bank or the Contingency Reserve Arrangement of $100 billion as a safety net during a crisis. The business community will also be looking forward to concrete steps towards executing some of the recommendations put out by the BRICS Business Council.

The point is that there needs to be forward movement to propel BRICS into a higher orbit. This is the expectation with which members of the business fraternity will be travelling to Fortaleza, Brazil, to join for the BRICS business engagements in a few days from now.

Last year in Durban, South Africa, the BRICS Business Council was launched. Focused working groups have been formed to provide specific inputs in areas that hold maximum potential in the spirit of 'together we can'. The ideas flowing from here hold a lot of promise. Here are a few of the suggestions and actions that need to be taken.

First, entrepreneurs can conduct business only when it is easier to interact with each other and there is a well-lubricated financial system to provide support. It is important that governments work out an arrangement that would facilitate long-term visas for business travelers.

Second, getting the right information into the evolving policies and projects is critical. Here, the Center for BRICS Studies at FUDAN University, China, is identified as the platform for the BRICS Business Portal. We hope that with time, this will evolve into a rich repository of information that businesses seek when they scout for both trade and investment leads.

Third, while more information and insights will create more business opportunities, we can give further impetus to this by encouraging intra-BRICS trade using local currencies.

Fourth, our financial institutions should work together, carry out pragmatic cooperation on syndicated loans, co-financing, trade financing and sub-loans and provide a stronger impetus to overseas market expansion.

In the infrastructure space, there is a lot to learn from each other. Urban infrastructure, transportation, high-speed railways, locomotive manufacturing, port construction and operations are the key areas that have come into focus in the discussions.

In the financial services sector, adequate emphasis must be laid on promoting the funding requirements of the SME sector and how development finance institutions can support industrial and infrastructure investments.

In the area of energy and green economy, our colleagues have highlighted the need to have a robust information base for a clear understanding of the energy sector in BRICS countries and for this they have suggested the possibility of setting up a BRICS Energy Data Centre.

We must look at sharing experience in 'Training the Trainers programs', establishing centres of excellence; and supporting capacity building in institutions. Also, steps must be taken to establish equivalence levels between standards for skill training and development in BRICS countries by working with standards-setting agencies.

To achieve the goals the BRICS Business Council has set for itself, a strong partnership between industry and government is a must. We may have set an ambitious agenda, but have the spirit, commitment and trust among our countries and its leaders that can ensure that we move ahead unhindered and write a fresh script for the BRICS story.

This article is written by Mr Onkar S Kanwar, Past President, FICCI and Chairman, BRICS Business Council from India. It was published on July 9, 2014 in The Hindustan Times

6th BRICS Summit : Highlights from the Fortaleza Declaration

The leaders of the five emerging nations – Brazil, Russia, India, China and South Africa recently met at Fortaleza, Brazil for the 6th BRICS Summit which was held during 14th - 16th July 2014. The Summit marked the initiation of the second round of BRICS discussion, as each member country has hosted the meeting once in the past.

The declarations made in the Summit revolved around the broader theme of "Inclusive Growth: Sustainable Solutions“, chosen by the leaders keeping in view the inclusive macroeconomic and social policies that the governments are pursuing presently. In the new cycle, BRICS would not only extend significant contribution towards strong, sustainable and balanced growth but would promote social development as well.

Besides these goals, the leaders would also work towards strengthening the intra-BRICS partnership. This will be based on openness, inclusiveness and mutually beneficial cooperation. New areas for comprehensive cooperation and economic partnership have been identified to foster market inter-linkages, financial integration, and infrastructure connectivity.

The much awaited announcement of establishing a New Development Bank (NDB) was declared during the Summit. The decision has been taken keeping in mind the difficulty faced by BRICS and other emerging economies and developing countries in bridging the infrastructure gaps and sustainable development needs. The Bank will be used for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies. This is expected to reduce dependency on international organisations such as World Bank and International Monetary Fund, going ahead.

The Bank will have an initial authorized capital of US$ 100 billion and an initial subscribed capital of US$ 50 billion equally shared among founding members. The headquarters of the Bank will be located in Shanghai, China and the first President of the Bank will be from India.

The BRICS leaders further declared to have signed the important Treaty for the establishment of the BRICS Contingent Reserve Arrangement (CRA) with an initial capital of US$ 100 billion. As per the Arrangement, liquidity will be provided through currency swaps at the time of actual or potential short-term balance of payments pressures. This arrangement has been formed with a view to promote further BRICS cooperation, strengthen the global financial safety net and complement existing international arrangements.

The leaders of the five nations also welcomed the signing of the Memorandum of Understanding on Cooperation among BRICS Export Credit and Guarantees Agencies that will provide the necessary support environment for enhancing trade among these economies. This can prove to be instrumental towards enhancing trade among these nations.

Other than these announcements, the leaders also shared their desire to increase cooperation between BRICS and South America. To further this goal, BRICS have decided to hold joint session with the leaders of the South American nations. This will play an active role in enhancing multilateralism and international cooperation, a crucial aspect for promoting peace, security, as well as economic and social progress and sustainable development.

The Sixth Summit has taken place at a time when the countries worldwide are evaluating options to enhance growth and achieve sustainable development amidst various challenges including political unrest in important countries of the world on one side, while on the other are trying to formulate a Development Agenda for the future. At the same time, international governance structures are showing signs of losing legitimacy and effectiveness.

At this backdrop, BRICS hopes to emerge as an important group for bringing in incremental change and reform of current institutions towards more representative and equitable governance, capable of generating more inclusive global growth and fostering a stable, peaceful and prosperous world.

Manufacturing Sector: Urgent Need to Boost Competitiveness

Over the years, India's manufacturing sector has witnessed different phases of development - from industrial foundation in 1950's, license permit raj in mid-sixties and the period of liberalization since 1990's. Although the sector has high potential to accelerate economic activities and propel job creation, it has been unable to achieve either of these. Its contribution to India's GDP has remained more or less constant at around 15 percent for the last two decades. In terms of employment generation, the sector at present employs only 12 percent of the total workforce of the country. In-fact, out of the 14.7 million new jobs created between FY05 and FY12, manufacturing accounted for only 5 million jobs. On the trade front too, India's manufacturing sector has not achieved much; our share in global manufacturing exports stands low at about 1.8 percent. Moreover, share of manufacturing in India's total merchandise exports has come down to 61 percent in 2013-14 from 81 percent in 1999-00.

Chart 1: Manufacturing GDP and its Share – (2004-05 to 2013-14)

Source: Economic Outlook CMIE

The sector's growth had witnessed considerable slowdown in the last two years. Combination of external and internal factors has resulted in a near stagnation of the industrial performance from July 2011 onwards. Global demand has largely remained subdued since the global crisis of 2008, which has affected India's manufacturing output and exports. On the domestic front, restrained investment climate persisted due to moderation in domestic demand, regulatory and policy hurdles, and high costs of borrowing. Additionally, inherent internal factors like poor infrastructure (mainly road, energy supply shortage) have been major roadblocks in manufacturing sector's competitiveness.

Given manufacturing sector's potential for propelling growth and job creation, various impediments to sector's competitiveness need to be addressed on an urgent basis. The National Manufacturing Policy of 2011 aims to increase the sector's share in GDP to 25 percent and create 100 million jobs by 2022. To achieve this, targeted measures have to be undertaken to enable domestic enterprises to flourish and grow. Let us ponder upon the key issues affecting manufacturing competitiveness and identify specific measures to address those issues.

Reform Factors of Production

Availability of critical inputs like land, skilled labour, capital and energy remains a challenge for the manufacturing sector. There is a need to initiate reforms in the factor markets to ensure a well-functioning market economy. The rigidity in existing labour laws restricts small and medium scale companies to grow and hire more workers. FICCI is of the view that existing labour laws need to be reviewed at the earliest. The agendas for growth and job creation have to be integrated and thus our laws should provide equity for workforce and employer, enabling greater absorption of labour by the companies. On the issue of land, the recently enacted Land Acquisition Law has inherent flaws and complexities, which has made land acquisition nearly impossible. FICCI has thus asked the government to undertake a comprehensive review of the new Land Acquisition Act, making it more practical and equitable, adhering to the principles of fairness and certainty.

One of the major concerns of Indian industry, especially MSMEs is the high cost of capital that hinders expansion of business activity. India's financial sector is currently capital constrained, which restricts the capability of banks to provide low-cost finance. It is estimated that Banks in India need capital worth Rs 5 lakh crore in next 4-5 years to meet the capital requirement of the economy, while complying with BASEL-III requirements. FICCI has suggested that the government should dilute its stake in Public sector banks to 26 percent while retaining golden share capital and raise equity from the capital markets.

Additionally, we need to have at least one long-term lending financial institution for business (like IDBI in past). In essence, all possible steps are required to ensure diversified and affordable long term capital resources for domestic industry.

Likewise, the existing obstacles to availability of regular power supply to Indian manufacturing need to be addressed through reforms in the energy sector. Coal sector needs to be opened up to private sector participation; Oil and gas exploration and production need to be encouraged through appropriate incentives, energy infrastructure needs to be beefed up and a major thrust has to be laid on renewable energy resources.

In-fact, the latest Union Budget has given New and Renewable energy a very high priority. Implementation of the Green Energy Corridor Project will be accelerated to facilitate evacuation of renewable energy across the country. Also, Ultra Mega Solar Power Projects will be taken up in Rajasthan, Gujarat, Tamil Nadu, and Ladakh in Jammu & Kashmir.

Improve logistics infrastructure

As compared to developed countries, logistics cost in India is estimated to be 4 to 5 times higher. Unless the transport infrastructure bottlenecks are removed, it would be difficult to bring down cost any time soon. As per the global competitiveness report 2013-14, India's infrastructure ranks 85th out of 148 countries with quality of roads at 84th, quality of ports at 70th and supply of electricity at 111th position. Therefore, primary task of the government is to create globally competitive infrastructure (especially with respect to rail, road and power). Several measures have been announced in the latest budget to boost the infrastructure sector. Prominent amongst these is the setting up of new airports, ports, industrial corridors and an institution to support mainstreaming of PPPs. Support measures have also been announced to make available long term capital for financing such projects including setting up of Infrastructure Investment Trust (INVITS). The proposed projects need to be implemented in right earnest as these will be the key pillars for facilitating industrial growth in the long run.

Remove trade distortions

Indian manufacturing industry has been facing the issue of Inverted duty structure, which has made Indian manufactured goods less competitive against the imported finished products. Additionally, it has been observed that several Free Trade Agreement (FTAs) signed by India in the past have led to a surge in imports of several value-added products at the cost of domestic manufacturing. To encourage higher value addition and strengthen domestic manufacturing sector, trade distortions have to be addressed immediately.

It is good to note that the latest budget has partially addressed the issue of inverted duty structure for various products. The government should now also consider review the FTA framework, and ensure that new FTAs result in greater effective market access for Indian companies.

Make doing business easy

Businesses find it difficult to operate in India due to restrictive legal and regulatory environment. A manufacturing unit in India has to comply with nearly 70 different types of laws. Additionally, the number of procedures for various permissions and clearances are too many and take too long. There is a need for rationalization of regulations and simplification of procedures to facilitate business operations in India. The new government has put into practice the concept of 'minimum government maximum governance' through several measures like convergence of key ministries and establishing online environmental clearance system. The Finance Minister has also announced measures for faster clearance of foreign trade cargo such as Single Custom Window, extending 24X7 clearance facilities to more sea-ports and airports.

The government needs to initiate serious reforms measures to create conducive environment for Indian enterprises and foster an investment led growth. This is critical if India has to tread back to high growth level of 8-10 percent and meet the challenging requirement of creating 100 million new jobs in next eight-ten years.

FICCI Survey highlights

Business Confidence Survey, July 2014

Prospects for the next six months

	Investment	Sales	Selling Price	Profit	Exports	Employment
Much Higher	8	7	2	6	6	2
Higher	29	61	16	38	40	27
Same/ No Change	57	26	74	45	43	63
Lower	6	6	8	11	11	8
Net Responses (performance compared to previous survey)	Better	Better	Worst	Better	Better	Better

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 , July 2014

FICCI's latest Business Confidence Survey reflects signs of rebound in the economy. A clear mandate in elections, followed by a slew of announcements undertaken by the government has uplifted the spirits of industry members.

The Overall Business Confidence Index (OBCI) inched up 8 notches in the current survey vis-a-vis the previous round. The OBCI value climbed to 68.9 in the current survey, up from 60.8 in the last survey round. An improvement was noted in both Current Conditions Index and Expectations Index.

Results pertaining to key operational parameters including sales, profits, investments, employment and exports indicated an improvement. The participating companies indicated that most of these parameters are steering towards an upturn.

A discernible improvement was noted in the outlook of respondents with regard to profits. The net response pertaining to profits jumped to 33 in the present survey, up from the corresponding figure of 4 in the previous survey round.

The investor sentiment which had taken a sharp hit in the past few quarters also seems to be recuperating. According to current survey results, a plunge was noted in the percentage of participating companies anticipating investments to decline in near term.

Outlook of the participating companies with regard to employment and exports also noted an improvement. Net responses pertaining to employment increased to 21 in the current survey from 6 in the last survey round. For exports the corresponding figure was 35 in the present survey and 31 in the previous round.

Among the key factors affecting business prospects, weak demand was reported to be a constraining factor by a majority of respondents. Nearly 74% of the participating companies in the present survey round pointed out that demand situation persists to be frail.

The situation with regard to availability and cost of credit seems to be easing. The proportion of respondents stating high cost of credit as a concern area declined for the third consecutive quarter.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 180 companies with a turnover ranging from Rs 1 crore to Rs 2.4 lakh crore. *The participating companies belonged to an 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.*

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FICCI Survey highlights

Economic Outlook Survey, July 2014

ANNUAL FORECASTS FY15	
Gross Domestic Product	5.3%
Wholesale Price Index (Avg. 2014-15)	5.6%
Consumer Price Index (Avg. 2014-15)	8.2%
Index of Industrial Production	4.5%
Export Growth	3.0%
Import Growth	5.0%
Trade deficit as % of GDP	8.1%
Current Account deficit as% of GDP	2.5%
Fiscal deficit as % of GDP	4.5%
USD/INR Exchange rate (End March 2015)	Rs 60.0/ USD

QUARTERLY FORECASTS Q2 FY15	
Gross Domestic Product	5.1%
Wholesale Price Index (Avg. 2014-15)	5.7%
Consumer Price Index (Avg. 2014-15)	8.4%
Index of Industrial Production	3.0%
Export Growth	5.4%
Import Growth	2.8%
Trade deficit as % of GDP	7.2%
Current Account deficit as% of GDP	1.7%
Fiscal deficit as % of GDP	-
USD/INR Exchange rate (End of Q2 FY15)	Rs 60.1/ USD

Source: FICCI Economic Outlook Survey Q4 FY14

Latest Economic Outlook Survey puts GDP growth estimate for 2014-15 at 5.3%. This is a tad lower than 5.5% growth estimate put out in the previous survey and is mainly on account of bleak agriculture prospects due to sub par monsoon forecasts.

Respondents seemed more optimistic regarding the performance of the industrial sector this year. The median industrial growth forecast for 2014-15 is pegged at 3.1% and for agricultural sector at 2.1%. Further, services sector growth is expected at 7.0% this fiscal year.

On the inflation front, participating economists expect prices to remain beyond the comfort zone. The El Nino effect is expected to fuel inflationary pressure going ahead. Sharing their views on dealing with the price situation, the economists pointed out that the announcements made in the recent past by the government to tackle inflation are much focused.

It was unanimously felt that the government has little choice but to strengthen supply side infrastructure. There is an immediate need to ease the distortions in supply of food articles – from farm to market.

Participating economists expect the fiscal deficit to GDP ratio for 2014-15 to breach the target of 4.1% set in the interim budget. The median forecast for fiscal deficit stands at 4.5%, with minimum and maximum range of 4.2% and 5.5%.

India has the lowest tax to GDP ratio among its peers. The economists were asked for some suggestions to widen India's tax net. They mentioned that steps should be taken to bring more people in the ambit of formal employment and widening the tax base should be given a priority.

The respondents felt that all sectors currently outside the scope of tax net despite being at much higher incomes should be brought under the purview of taxation.

Majority of respondents were of the view that setting up a specialized asset management company will be a good move as it will help improve the financial health of the banks. Also, it will free the balance sheets of banks providing them the room to lend for other projects.

The present round of FICCI's Economic Outlook Survey was conducted in the month of June 2014 and drew responses from leading economists primarily from industry, banking and financial services sector. Opinion of the economists was sought on likely course of action that the new government should take in dealing with existing issues like below average monsoon, non performing assets in the banking sector, and measures to widen the tax net.

For detailed report you may contact:
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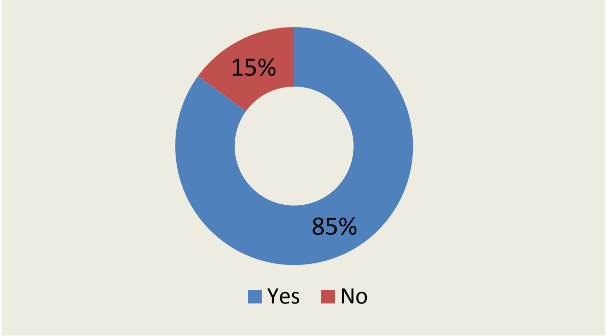
FICCI Survey highlights

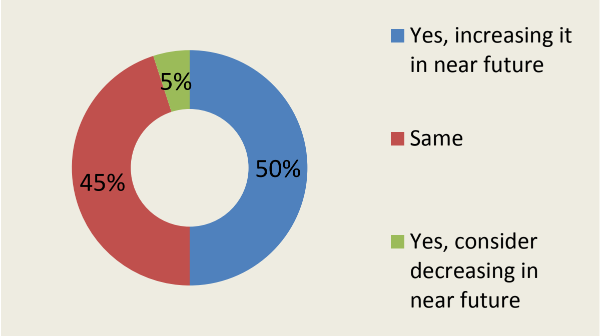
CEOs' Poll Survey, July 2014

Does the Union Budget FY15 meet expectations that it will drive growth and push reforms?



Source: CEOs Poll 2014

Would you consider reviewing your investment plans post Budget?



A majority 85% of respondents said the recently announced Union Budget FY15 stands up to their expectations. They felt that the budget for this fiscal year is pro growth and going ahead the government is expected to push reforms.

CEOs belonging to sectors like real estate and building, infrastructure, IT and ITeS, renewable energy and power were particularly optimistic about the near term prospects.

About half of the CEOs who took part in the survey indicated that they propose to increase their investments in near future. Another 45% cited no change in investment levels, while only 5% expected it to fall.

In fact this is a significant improvement over the sentiment noted in the recently released FICCI's Business Confidence Survey. About 37% of the respondents in FICCI's Business Confidence Survey had cited higher investments in near term.

Key takeaways from the Union Budget 2014-15

- Pro Growth. Focus on employment generation and entrepreneurship development is encouraging.
- The promise of no retrospective application of tax provisions and permitting advance ruling for Indian assesses are very positive.
- Announcement to revise definition of MSMEs being looked forward to.
- Lowering of the threshold limit of investment allowance.
- Emphasis on infrastructure and housing.
- Benefits to the Power sector.
- Resolve to address coal and iron ore issues.
- Support for skill development.
- Promoting use of Information and Communication Technology.

- No concrete announcement on Goods and Services Tax (GST).
- Proposed changes in computation of Dividend Distribution Tax (DDT).
- Capital gains on Mutual Fund.
- Disallowing CSR as a business deduction.
- Service tax exemptions and negative list pruned.
- Minimum Alternate Tax issue remains. An amendment had been proposed in section 115JC of the Act.
- The issue of land is outside the ambit of the Budget, but needs to be addressed on a priority basis.

The present round of FICCI's CEOs poll survey was conducted among FICCI members in the month of July 2014 and drew responses from 60 CEOs . The survey was conducted to gauge the sentiment post budget.

For detailed report you may contact:
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Fact Sheet: GDP

GDP growth remains sluggish at 4.7% in FY14

- *GDP growth stayed at 4.6% on a year-on-year basis in Q4 FY14, unchanged from the previous quarter. Annually, economic growth in FY14 remained subdued at 4.7%, lower than 4.9% advance estimates by CSO. The deceleration was mainly due to sluggish performance in manufacturing and mining sector.*

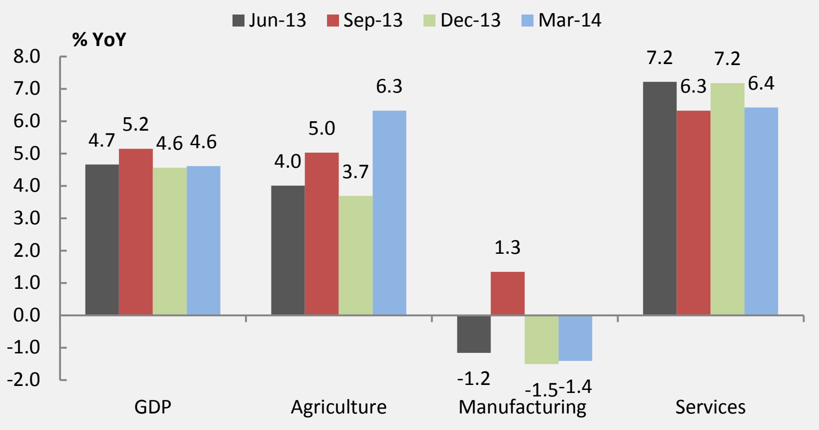
- *In FY14, industry grew by a meager 0.3% as in three out of four quarters it recorded a negative growth. Growth rate in mining and manufacturing in Q4 FY14 were at (-)1.2% and (-)0.4% respectively.*

- *Service sector grew by 6.8% in FY14, primarily supported by growth in finance, insurance, real estate and business services (12.9% in FY14 vs 10.9% in FY13).*

GDP growth and its components (Annual)

Indicators	FY12	FY13	FY14
Agriculture growth	5.0%	1.4%	4.7%
Industry growth	7.8%	1.0%	0.3%
Services growth	6.6%	7.0%	6.8%
GDP growth	6.7%	4.5%	4.7%

GDP growth and its components (Quarterly)



- GDP growth in FY14 has largely been supported by agriculture, which recorded 6.3% growth in Q4 and 4.7% for the full fiscal. However, concerns of below average monsoons this year present a downside risk to the agricultural growth for FY15.

- Growth rate in manufacturing continues to drag down overall performance of the economy. The trend needs to be reversed. Focused policy initiatives are required to boost manufacturing and create jobs.

- Revival of capex cycle requires restoring business confidence and creating an environment conducive to the growth of enterprises. Industry expects the government to provide a non-adversarial, conducive and fair tax regulatory environment. Enterprises need to be assured that decisions taken in good faith shall be respected and protected.

What do FICCI surveys say about growth prospects?

- The deceleration in growth is expected to have bottomed out and FICCI's latest Economic Outlook Survey puts across the GDP growth estimate for the year 2014-15 at 5.3%.

- In the recently conducted CEO poll survey by FICCI in July 2014, 85% of respondents said the recently announced Union Budget FY15 stands up to their expectations. They felt that the budget for this fiscal year is pro growth and going ahead the government is expected to push reforms.

GDP growth by expenditure (%)	Q4 FY13	Q3 FY14	Q4 FY14	FY13	FY14
Private Final Consumption Expenditure (PFCE)	5.1	2.8	8.2	5.0	4.8
Government Final Consumption Expenditure (GFCE)	1.8	3.6	-0.4	6.2	3.8
Gross Capital Formation (GCF)	4.3	-3.2	-2.2	2.3	-2.5
Gross Fixed Capital Formation (GFCF)	3.3	0.2	-0.9	0.8	-0.1

Source: MOSPI, Economic Outlook, CMIE and FICCI Research

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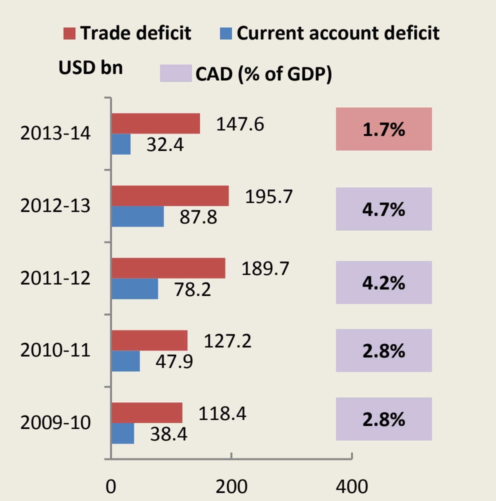
Fact Sheet: Balance of Payments

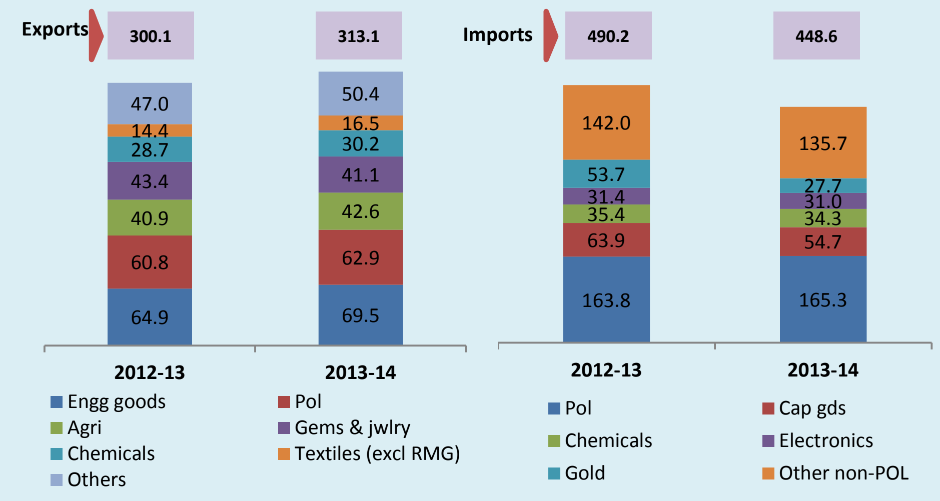
CAD at 1.7% for FY14: lowest in six years

- *Current Account Deficit (CAD) narrowed to USD 1.2 bn in Q4 FY14 as against USD 18.1 bn during the same period of the previous year. As a percentage of GDP, it stood at 0.2% in Q4 FY14 vis-à-vis 3.5% in Q4 FY13.*
- *Trade deficit declined to USD 30.7 bn in Q4 FY14 as against USD 45.6 Bn during the same quarter of the previous year. Imports have declined sharper than rise in exports, resulting in narrowing of trade deficit. Imports' decline was primarily led by a 66.5% (y-o-y) dip in the imports of gold in Q4 FY14.*
- *Current account deficit as a percentage of GDP in FY14 stood at 1.7%, which is lowest in the last six years. In FY08, it was at 1.3% of GDP post which CAD has remained above 2% (chart below). Over the last decade, India experienced a current account surplus only in three years i.e. from FY02 to FY04.*
- *On annual basis, trade deficit declined by 24.5% to USD 147.6 billion in FY14.*

Current Account Balance (Yearly)



Breakup of Exports and Imports (USD billion): 2012-13 and 2013-14



Balance of Payments– Key Components

Indicators (USD billion)	Q4 FY13	Q4 FY14	FY13	FY14
Trade balance	-45.6	-30.7	-195.6	-147.6
Services	16.9	19.6	64.9	73.0
Current account balance	*-18.1*	*-1.2*	-87.8	-32.5
Direct investment	5.7	0.9	19.8	21.6
Portfolio investments	11.3	9.2	26.7	4.8

***Source:* RBI, Economic Outlook CMIE and FICCI Research**

The contraction in trade deficit in FY14 was mainly due to a decline in imports of gold and capital goods. Decline in gold imports is primarily on account of import curbs introduced by the government, while the decline in imports of capital goods reflects the prevalence of weak industrial activity.

FICCI's suggestions to achieve sustainable BOP

1. Create immediate action plans, with a long-term orientation, to moderate import dependence for key natural resources and commodities
2. Extremely High Priority (EHP) Plans to economize imports of coal, capital goods, electronics and fertilizers
3. Set up multi-stakeholder resolution process to resolve Iron Ore impasse
4. Promote indigenization of defense imports

FICCI

Fact Sheet: Monetary Policy

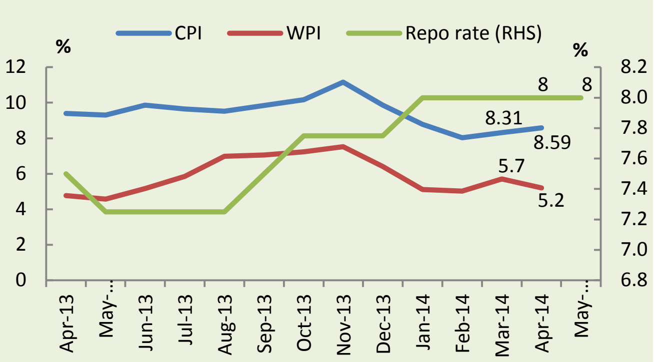
RBI keeps policy rate unchanged at 8%

- *RBI in its bi-monthly monetary policy meeting on June 3, 2014 has kept the policy rate unchanged under the liquidity adjustment facility (LAF) at 8.0 per cent. Consequently, the reverse repo-rate remains unchanged at 7.0 percent.*
- *Cash reserve ratio (CRR) of scheduled commercial banks also remains same at 4.0 percent of Net Demand and Time Liabilities (NDTL).*
- *Statutory liquidity ratio (SLR) of scheduled commercial banks has been reduced by 50 bps from 23.0 percent to 22.5 percent with effect from the fortnight beginning June 14, 2014.*
- *The Marginal Standing facility (MSF) rate and the Bank Rate stand at 9.0 per cent .*

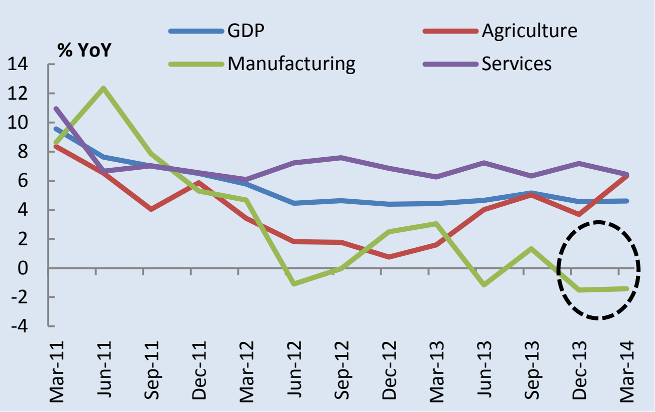
Major Policy Rates

Key rates	Jun-14	Apr-14
Repo rate	8.0%	8.0%
Reverse repo rate	7.0%	7.0%
MSF	9.0%	9.0%
CRR	4.0%	4.0%
SLR	22.5%	23.0%
Bank rate	9.0%	9.0%

WPI , CPI and Repo rate (Monthly)



GDP and its Components (Quarterly)



Additional Announcements

- RBI has reduced the liquidity provided under the export credit refinance (ECR) facility from 50 per cent of eligible export credit outstanding to 32 per cent. A special term repo facility of 0.25 per cent of NDTL has been introduced to compensate fully for the reduction in access to liquidity under the ECR. The Urjit Patel Committee had recommended a shift from sector-specific refinance towards a more generalised provision of system liquidity without preferential access to any particular sector or entity.
- The eligibility limit for foreign exchange remittances under the Liberalised Remittance Scheme (LRS) which was reduced to US$ 75,000 last year, has been enhanced to US$ 125,000 without end use restrictions except for prohibited foreign exchange transactions such as margin trading, lottery and the like.
- It has been decided to allow all residents and non-residents except citizens of Pakistan and Bangladesh to take out Indian currency notes up to Rs 25,000 while leaving the country. Earlier, only Indian residents were allowed to take Indian currency notes up to Rs 10,000 out of the country.

FICCI's suggestions

FICCI believes that monetary policy must take due cognizance of all factors and not anchor itself to just inflation. The government and RBI must work in tandem for controlling inflation and balance it with growth. While the government must take appropriate steps to attack food inflation through administrative and policy fixes from the supply side, the Central bank can play an important role in facilitating revival of capex cycle by exhibiting softer stance on policy rates.

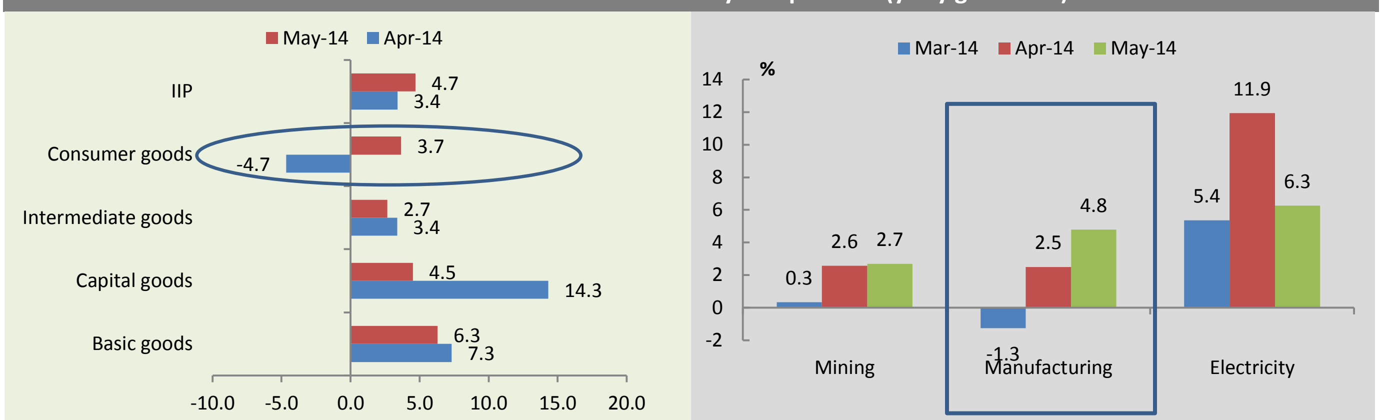
Source: RBI , Economicoutlook CMIE and FICCI Research

Fact Sheet: Index of Industrial Production

IIP growth accelerates to nineteen month high in May 2014

- *IIP grew by 4.7 percent in May 2014 , a further rise from 3.4 percent growth recorded in April 2014.*
- *Manufacturing sector growth, after remaining volatile throughout the year, registered positive growth for second consecutive month in May 2014 at 4.8 percent.*
- *Index for mining rose by 2.7 percent and index for electricity grew by 6.3 percent in May 2014 .*
- *As per the Use-based classification, there has been a notable improvement in the consumer goods segment. Consumer goods grew by 3.7 percent in May 2014 after remaining in the negative territory for the last seven months. Both durable and non-durable segment rose by 3.2 percent and 3.9 percent in May 2014 as against (-) 7.8 percent and (-) 2.5 percent respectively in the previous month.*
- *Index for basic, capital and intermediate goods for May 2014 rose by 6.3 percent, 4.5 percent and 2.7 percent, respectively.*

Index of Industrial Production and key components (y-o-y growth %)



- The positive trend in industrial production provides some hope of economic revival. 16 out of 22 industry groups in the manufacturing sector have shown positive growth in the month of May 2014.
- The continuity in growth needs to be observed for some more time as the pick up in the growth of manufacturing in May has come on a negative base. Additionally, growth has been subdued in intermediate and capital goods sector.

Major items with positive growth	Apr 14	May 14
Food products	*10.5%*	*5.0%*
Textiles	*6.8%*	*7.0%*
Chemical and chemical products	*-4.1%*	*4.1%*
Rubber and plastic products	*-2.3%*	*1.1%*
Basic metals	*9.1%*	*8.3%*
Machinery and equipment	*7.3%*	*10.0%*

Major items with negative growth	Apr 14	May 14
Printing and publishing	*-4.9%*	*-6.4%*
Refined petroleum products	*1.3%*	*-3.6%*
Accounting and computing machinery	*-19.5%*	*-28.6%*
TV and communication equipment	*-31.8%*	*-40.3%*
Motor vehicles, trailers and semi trailers	*-14.6%*	*-7.4%*
Paper and paper products	*2.3%*	*-1.4%*

Source: MOSPI, Economic outlook CMIE and FICCI Research

FICCI

Fact Sheet: Core Sector

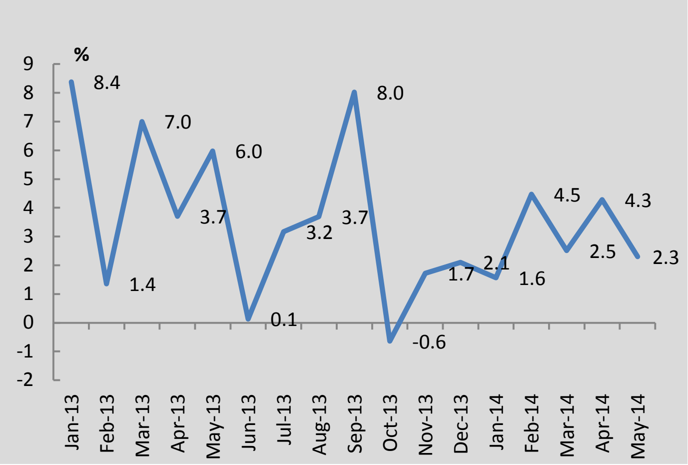
Core Sector output rises 2.3 percent in May 2014

- *The combined index for eight core industries (37.9 percent weight in overall IIP) rose 2.3 percent in May 2014. This is however a decline from 4.3 percent growth recorded in April 2014.*

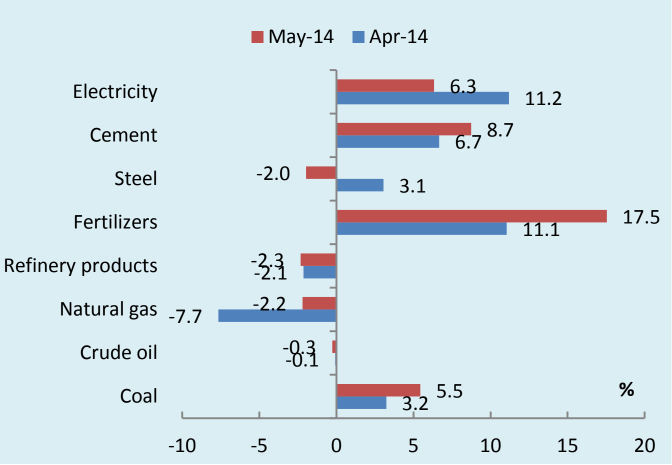
- *Index for coal grew at a faster pace of 5.4 percent in May 2014 up from 3.2 percent growth in April 2014. Cement and Fertilizers also registered a robust growth of 8.7 percent and 17.5 percent in May 2014 respectively as against 6.7 percent and 11.0 percent in April 2014.*

- *Crude oil, natural gas and refinery products indices continued their declining trend over the last two months, registering decline of 0.3 percent, 2.2 percent and 2.3 percent respectively in May 2014. Index for steel after growing 3.0 percent in April 2014, recorded a decline of 2.0 percent in the month of May 2014.*

Core Sector Growth - Monthly



Core Sector Growth (Sub Sectors) - Monthly



- Number of sectors recording negative growth rates increased to five in May 2014 from three in the previous month.

- In its recent budget, the government had initiated various steps to provide a fillip to infrastructure. It had announced new port projects (to be awarded this year) and mulled to invest to develop rail, national and state highways. This will help in attracting foreign capital and improve investors sentiment.

- The government should immediately resolve the coal and mining sector issues which are having a cascading effect on other sectors of the economy.

Output of Core Industries	May 2013	Apr 2014	May 2014
Coal (Mn tonnes)	43.2	44.1	45.6
Crude oil (000' tonnes)	3169.3	3104.3	3160.1
Natural gas (mn cubic meters)	3009.7	2770.5	2942.8
Refinery products (000' tonnes)	17309.8	16332.3	16909.0
Fertilizers (000' tonnes)	2567.7	2580.9	3004.2
Steel (000' tonnes)	7926.0	6991.0	7770.0
Cement (000' tonnes)	21822.0	23840.0	23721.0
Electricity (Mn KW)	84349.9	86591.6	89661.6

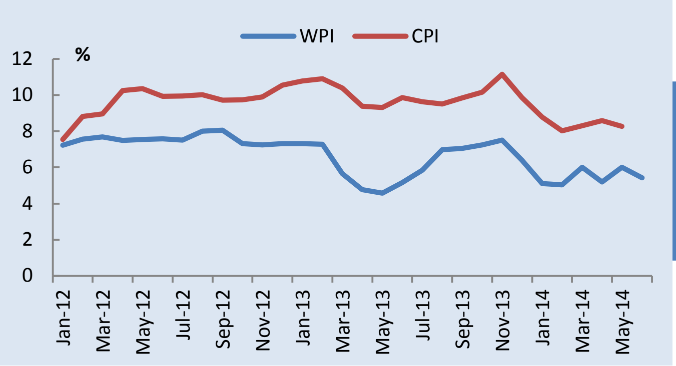
Source: Ministry of Commerce and Industry, Economic Outlook CMIE and FICCI Research

Fact Sheet: Inflation

WPI and CPI inflation ease to 5.4% and 7.3% in June 2014

- *Headline WPI inflation stood at 5.4 percent in June 2014 down from 6.01 percent in May 2014 aided by easing food and fuel inflation.*
- *WPI based food inflation stood at 8.1 percent in June 2014 as against 9.5 percent in May 2014. WPI for fuel and power rose by 9.0 percent in June 2014 as compared to a rise of 10.5 percent in the previous month. Manufactured products led inflation increased slightly to 3.6 percent in June 2014 from 3.5 percent in the previous month.*
- *Retail inflation (CPI) eased to 7.3 percent in June 2014 from 8.3 percent in the previous month.*

Trend in WPI and CPI



Food, Fuel and Manufactured goods Inflation - WPI

Key WPI Components (% change YoY)

Food items	May-14	Jun-14
Food grains	6.4	4.7
Fruits and vegetables	9.2	6.1
Milk	9.6	10.8
Egg, meat and fish	12.5	10.3
Condiments & spices	18.5	21.6

Energy	May-14	Jun-14
Fuel and power	10.5	9.0
Coal	0.05	-0.9
Mineral oil	12.3	10.2
Electricity	12.0	12.0

Manufactured goods	May-14	Jun-14
Food products	2.1	2.3
Textiles	5.2	5.7
Chemical & chemical products	4.8	4.9
Basic metals	2.4	2.8

Source: MOSPI, Economic Outlook – CMIE and FICCI Research

- Upside risks to inflation run high with likelihood of weak monsoons and uncertainties over global oil supplies.
- Measures taken by the government to mitigate inflation include contingency plans for 500 districts, crack down on hoarders, imposition of minimum export price on onions and potatoes, line of credit for import of pulses & edible oil and advisory to states to delist fruits and vegetables from APMC Act.
- In the Union Budget, the Finance Minister announced creation of a Price Stabilisation Fund to mitigate farmers woes due to price volatility and has committed to work closely with States to re-orient their respective APMC Acts to provide for establishment of private market yards.

Moderated food inflation will provide relief to all sections of society and also provide space for an accommodative monetary policy. To mitigate food inflation, FICCI has suggested several specific measures:

- *Set-up Food Inflation Response & Strategy Team (FIRST) at the Prime Minister's Office (PMO) level for real time monitoring of data on food production, stocks, consumption & prices and coordinating with stakeholders for balancing supplies to moderate prices.*
- *Improve post harvest handling and distribution infrastructure*
- *Improve PDS efficiency*
- *Enhance production of key food items; replicate **white revolution** for milk and launch **rainbow revolution** for fruits and vegetables across states.*

FICCI's latest Economic Outlook Survey projects a moderate inflation outlook of 5.6 percent (average) for 2014-15

Fact Sheet: Foreign Trade

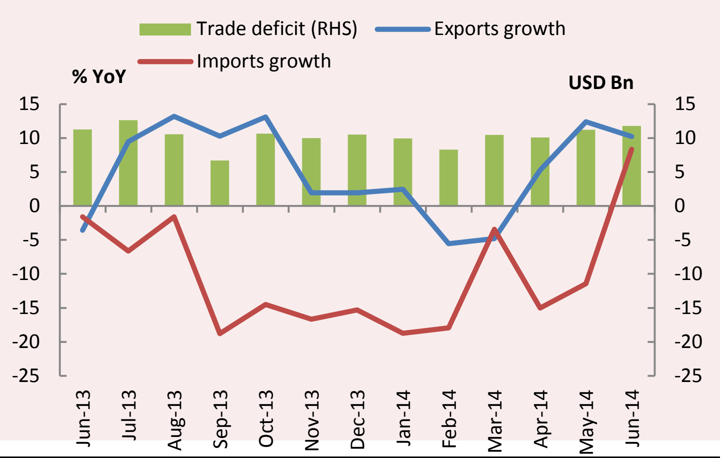
Exports continue double digit growth in June 2014

- *Exports grew by 10.2 percent in June 2014 to USD 26.5 billion. Cumulative exports growth during first quarter of 2014-15 stood at 9.4 percent as against a decline of 0.2 percent in corresponding quarter last year.*

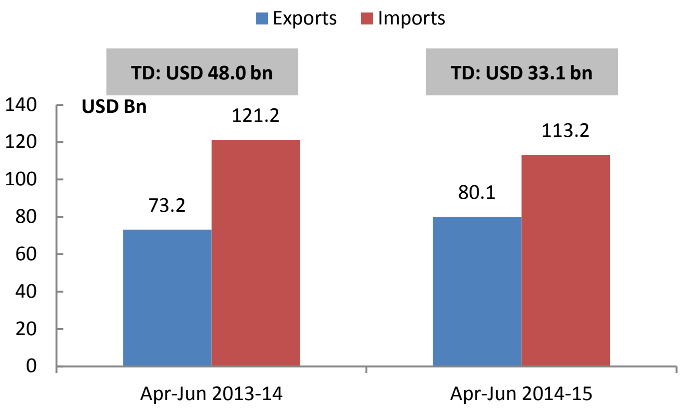
- *Imports recorded a positive growth of 8.3 percent in June 2014, after remaining in negative territory for the previous twelve months. However, in cumulative terms, imports during Apr-Jun 2013-14 registered a decline of 6.6 percent.*

- *Trade deficit shot to an eleven month high at USD 11.8 billion in June 2014.*

Foreign Trade (Monthly)



Foreign Trade (Cumulative)

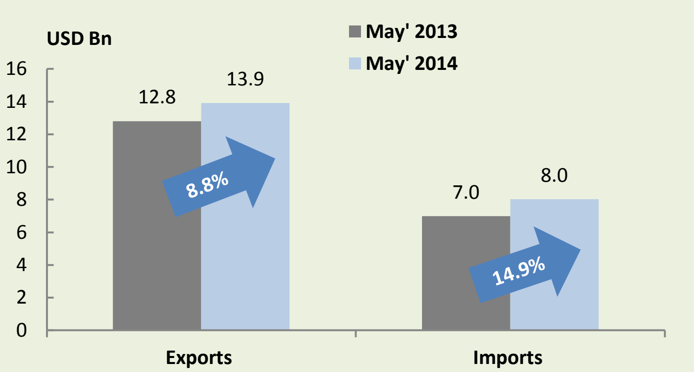


Note: TD refers to trade deficit

Imports break-up (oil and non-oil)

Time period	Imports (USD Billion)		Growth rate (YoY %)	
	Oil	Non-oil	Oil	Non-oil
June 2013	12.0	23.3	13.7	(-) 6.7
June 2014	13.3	24.9	10.9	7.0
Apr-Jun 2013-14	39.2	82.4	6.4	5.8
Apr-Jun 2014-15	40.8	72.4	4.0	(-)12.1

India's Trade in Services



Note: % denotes y-o-y growth

Union Budget announcements related to Foreign Trade

- *Measures to extend the existing 24x7 customs clearance facility to 13 more airports in respect of all export goods and to 14 more sea ports in respect of specified import and export goods. Faster clearance of import and export cargo would facilitate reduction in transaction costs and improve business competitiveness.*

- *Proposal to implement an 'Indian Customs Single Window Project' to facilitate trade. Under this, importers and exporters would lodge their clearance documents at a single point only. Required permissions, if any, from other regulatory agencies would be obtained online without the trader having to approach these agencies.*

- *Basic Customs Duty (BCD) on a number of products used as inputs in different industries reduced / removed. This will help in addressing the issue of inverted duty structure for these products.*

✓ *Rise in overall imports in June 2014 can be attributed to a rise in gold imports by about 65 percent (y-o-y). Other non-oil imports like project goods and machinery are also reported to have seen strong growth in this month.*

✓ *Rise in trade deficit requires greater vigilance to ensure sustainable balance of payments situation. This could be challenging because some restrictions on non-essential imports are likely to be phased out and imports are expected to rise further with a pick-up in GDP growth.*

✓ *Sustaining exports buoyancy would thus be critical in keeping a check on trade and current account deficit.*

Source: Economic Outlook-CMIE , FICCI Research and Budget Documents

FICCI

Fact Sheet: Foreign Direct Investment

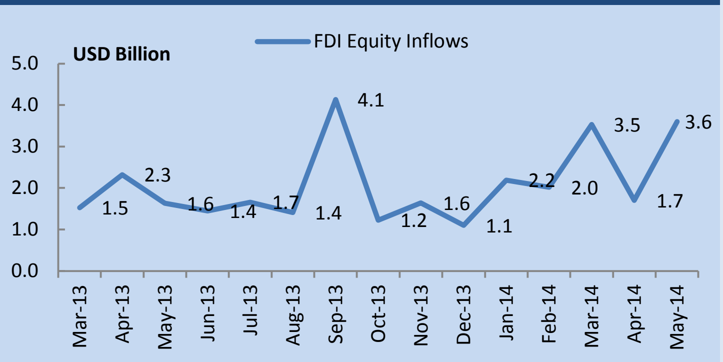
FDI rises to eight month high in May 2014

- *In May 2014, India received FDI worth USD 3.6 billion vis-à-vis USD 1.6 billion in May 2013, an increase of 120.7 percent on a year-on-year basis. For cumulative period Apr-May 2014, FDI inflows stood at USD 5.3 billion, up by 34.0 percent over the year.*

- *Service sector received USD 574 million FDI equity inflows during Apr-May 2014, an increase of 4.9 percent. Inflows in the telecommunication industry rose drastically from USD 9 million in Apr-May 2013 to USD 1512 million in Apr-May 2014. Automobile industry received the lowest FDI in the first two months of this fiscal of USD 73 billion as against USD 478 billion during the same period of the previous year. Other sectors that have witnessed an increase in FDI inflows during Apr-May 2014 include construction, power, metallurgical, and hotel and tourism.*

- *During Apr-May 2014, the highest FDI inflows were from Mauritius (USD 2.3 billion), followed by Singapore (USD 982 million) and Japan (USD 319 million).*

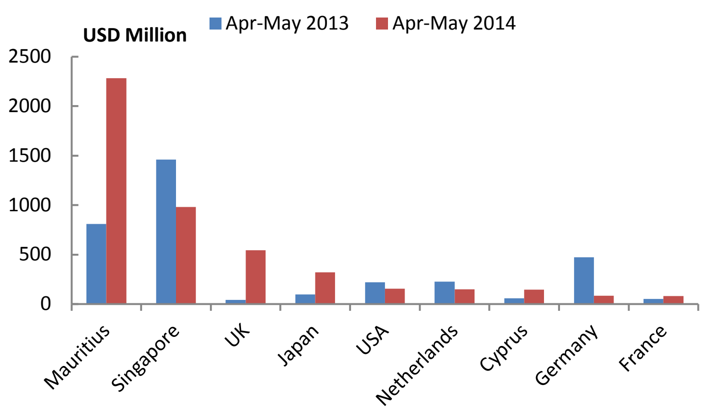
FDI Equity Inflows (Monthly)



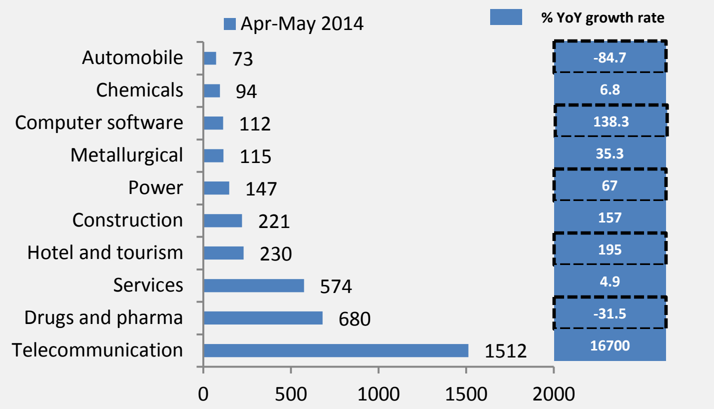
The first Union Budget of the new government has further liberalized FDI policy to boost foreign investments in the country. Key FDI related proposals in the budget include:

- *The composite cap of foreign exchange in **defence manufacturing** as well as **insurance sector** raised to 49 per cent with full Indian management and control through the FIPB route.*
- *Relaxation of FDI norms for the construction sector, to encourage development of Smart Cities.*
- *Manufacturing units (with FDI) allowed to sell products through retail including e-commerce platforms.*

Country-wise FDI Inflows April 2014-15



Top Sector - FDI inflows April 2014-15



Top 10 Regions for FDI Inflows

	Mumbai	New Delhi	Chennai	Bangalore	Ahmedabad	Hyderabad	Kolkata	Chandigarh	Bhopal	Kochi
Apr-May 2013-14 (USD Million)	607	371	662	303	43	231	56	2	4	18
Apr-May 2014-15 (USD Million)	1038	936	429	142	88	166	24	3	0	7
Region's share in total FDI inflows (%)	19.6	17.6	8.1	2.7	1.7	3.1	0.5	0.1	0.0	0.1

Source: DIPP and FICCI Research

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