

Indian Economic Survey 2013-14 – Key Highlights

9 July 2014



The finance minister presented the Economic Survey 2013–14 before the Parliament on 9 July, 2014. This flagship annual document of the Ministry of Finance, Government of India, reviews the developments in the Indian economy in financial year 2013-14, summarises the performance on major development programmes, and highlights the policy initiatives of the government and the prospects of the economy in the short to medium term. Following are key highlights of the survey:

Chapter 1 – The state of the economy

Performance during 2012–13 and 2013–14

- The Indian economy has been going through challenging times that culminated in lower than 5 per cent growth of Gross Domestic Product (GDP) at factor cost, at constant prices, for two consecutive years, i.e. 2012–13 and 2013–14.
- Persistent uncertainty in the global outlook, caused by the crisis in the Euro-area and general slowdown in the global economy impacting the demand for exports, compounded by domestic structural constraints such as low manufacturing base, delays in project approvals among others, and inflationary pressures, has resulted in a protracted slowdown.

GDP performance in 2013–14 from the production side (comprising agriculture, industry and services)

- India's GDP, during 2013–14, grew and marginally improved to 4.7 per cent as compared to 4.5 per cent in 2012–13.
- This was due to high growth in agriculture and allied sectors, which grew at 4.7 per cent compared to their long-run average of 3 per cent (during 1999–2000 and 2012–13), owing to favourable monsoons.

- Concerns around industrial growth persist as slowdown in the industry continued due to deceleration in mining and quarrying, and a disappointing performance of the manufacturing sector, with growth averaging 0.2 per cent per annum in the past two years. Thus, industrial revival is central to sustained revival of overall growth.
- The services sector also recorded slow growth due to dismal performance of trade, transport, and storage.

GDP performance in 2013–14 from the demand side (comprising consumption, investment and net exports)

- On the demand side, growth of private final consumption declined to 4.8 per cent, in 2013–14, from 5 per cent in 2012–13.
- Fixed investment rate declined steeply in 2013–14 due to reduction in gross fixed capital formation by 2.1 per cent, which is mainly due to decline in private corporate investment. This decline is because of high interest rates and tight liquidity resulting from contractionary monetary policy followed to control inflation and prevent rupee from depreciating.
- Moderate revival of exports, coupled with decline in imports, helped improve net exports. The share of exports in GDP increased from 24 per cent in 2012–13 to 24.8 per cent in 2013–14, while the share of imports declined from 30.7 per cent to 28.4 per cent, resulting in improvement in net exports by 3.1 per cent points of the GDP.

Inflation, fiscal deficit and Current Account Deficit (CAD)

- Although the average Wholesale Price Index (WPI) inflation declined in 2013–14 to 6 per cent, vis-à-vis 8.9 per cent in 2011–12 and 7.4 per cent in 2012–13, it is still above comfort level and continues to pose significant challenges.
- Fiscal deficit of 4.5 per cent of the GDP in 2013–14, as compared to the budgeted target of 4.8 per cent of GDP, is indicative of continued focus on fiscal consolidation. With a shortfall in tax revenues and disinvestment receipts, along with higher-than budgeted subsidies and interest and pension payments, fiscal consolidation was mainly achieved through reduction in expenditure from the budgeted levels.
- Raising the tax-GDP ratio and furtherance of subsidy reforms are essential for fiscal consolidation.
- CAD reduced to 1.7 per cent in 2013–14 from 4.7 per cent in 2012–13. This was due to improvement in net exports brought about by restrictions on non-essential imports and demand slowdown. Improved CAD also brought about improvement in balance of payments.

Outlook for 2014–15

- With expectation of better performance in manufacturing, improved balance of payments situation and modest global growth revival, the economy is expected to grow in the range of 5.4–5.9 per cent in 2014–15. This is because investment revival will happen gradually; still an elevated level of inflation limits the RBI's scope to reduce policy rates; along with the expectation of a below-normal monsoon.
- Growth in 2014-15 is expected to remain more on the lower side of the range given the above, for the following reasons: (i) steps undertaken to restart the investment cycle (including project clearances and incentives given to industry) are perceived to be playing out only gradually; (ii) the benign growth outlook in some Asian economies, particularly China; (iii) still elevated levels of inflation that limit the scope of the RBI to reduce policy rates; and (iv) the expectation of a below-normal monsoon. Downside risk also emerges from prolonging of geo-political tensions. On the upside, such factors as institutional reform to quicken implementation of large projects and a stronger-than-expected recovery in major advanced economies would help the Indian economy clock a higher rate of growth.
- Despite some measures undertaken to address structural constraints, reversion to a growth rate of around 7–8 per cent can occur only beyond the ongoing and the next fiscal year.
- Priorities for boosting growth include reviving investments, strengthening macro-economic stability, creating non-agricultural jobs, developing infrastructure and fostering agricultural development.

Chapter 2: Issues and priorities

A. Issues

- Post 2008, the economy has witnessed a worsening of the economic outlook and a downswing in the investment cycle. Adverse global conditions were undoubtedly one reason for the slowdown in business cycle conditions in India. However, it would be untrue to say that domestic factors such as inflation uncertainty, tight liquidity conditions and difficulties in contracting and financing infrastructure projects did not contribute to the macro-economic outcomes witnessed from 2006-07 to 2012-13.

- Investment activity started facing difficulties due to global crisis. As demand slowed down, some existing projects became unviable. Many large projects, related to environment, forest, and land acquisition or raw materials required for completion were unable to get timely clearances. This resulted in a number of projects getting stalled.
- The investment downturn has been exacerbated by difficulties in the availability and cost of finance. The cost of borrowing in domestic markets suffered a sudden increase after 15 July 2013. After the onset of the 'great recession' in the period after the global financial crisis, advanced economies introduced unconventional monetary policy tools.
- The Doing Business Report 2014, prepared by the World Bank, shows that India ranks 134 out of 189 countries in 2014 in the 'ease of doing business' category, and ranks 158 out of 189 countries under the head 'paying taxes'. India's complex tax system suffers from problems in both structures and administration.

B. Reforms

- The defining challenge in India today is that of generating employment and growth. Jobs are created by industry when the industry invests and grows. Hence, it is important to create an environment that is conducive for the industry to invest. The recent business cycle downturn has seen a sharp decline in investment. Reviving investment, is therefore, on top of the government's priorities.
- Investments are made on the basis of long-term growth prospects. The key to reviving investment in India lies in reviving the trend growth rate of the economy. Reforms are needed on three fronts: creating a framework for sustained low and stable inflation, setting public finances on a sustainable path by tax and expenditure reform, and creating the legal and regulatory framework for a well-functioning market economy.

I) Creating a framework for low and stable inflation:

First, the government has to work towards a low and stable inflation rate through fiscal consolidation, moving towards establishing a monetary policy framework, and creating a conducive environment for a competitive national market for food. Since 2010, there has been an upsurge in food inflation which has spilled over to non-food and general inflation. There is need for a formal monetary policy framework through which the Reserve Bank of India is given clarity of objective (a CPI inflation target), and operational autonomy in pursuit of that target. A low and stable inflation rate helps maintain the value of the currency, both domestically and externally.

II) Sustainable public finance:

Putting public finances on a sustainable path has three elements:

- **Accounting practices and budgetary management:** a new Fiscal Responsibility and Budget Management (FRBM) act which has consequences if it is not met.
- **Tax reform:** The tax regime must be simple, predictable, and stable. This requires a single-rate Goods and Services Tax (GST), a simple Direct Tax Code (DTC), and a transformation of the tax administration. Tax reform in India can by itself improve the ease of doing business and promote efficiency and productivity growth.
- **Expenditure reform:** is required for the government to achieve desired outcomes with minimum cost. This requires a change in the budgeting process and accounting practices, subsidy reform, a focus on public goods, and mechanisms for feedback and accountability. Some key areas in this regard include:
 - **Subsidy:** Not all the money put into subsidy schemes reaches the poor. It is increasingly feasible to identify households below the poverty line and give them direct benefit.
 - **Education:** There has been remarkable expansion of expenditure on elementary education in recent years; however, the outcomes indicate that the design of government programmes in elementary education needs revisiting.
 - **Health:** There is a need to focus on the limited budgetary resources on public goods. The most powerful interventions for improved health may lie in the area of water and sanitation. Epidemiological interventions such as vaccination programmes, and control of diseases, have the characteristics of public goods.
 - **Infrastructure:** The role of the government in infrastructure can be usefully divided into planning, contracting, and regulating. Many of the difficulties of the last decade in the field of infrastructure may be attributed to inadequate state capacity for procuring and contracting complex PPP projects. Separation of this function would require establishing an independent organisation with specialised expertise in contracting.

III) Creating the legal and regulatory framework for a well-functioning market economy

India can increase its long-term trend growth by unleashing the entrepreneurial spirit of millions across the country, by strengthening the economic freedom of the people. The biggest challenge today is improving state capacity suitable for a market-based economy. A long-term, careful and systematic effort is required for undertaking institutional change. Some key areas in this regard include:

- **Addressing market failures:** The key insight on the role of the government in a market economy is the idea of a market failure. The concept of a market failure gives a framework for guiding state intervention. Before a state intervention is initiated, it is important to demonstrate that there is a market failure. It should be shown that an intervention will solve the market failure. Further, the costs to society as a result of government intervention should be outweighed by its benefits.
- **Reforming markets of factors of production** such as those for labour, land, and capital, however, remained largely unreformed and is an immediate priority.
- **Capital controls:** There is a need to drastically simplify cross border activities as an element of reducing the cost of doing business in India. Numerous emerging markets are doing better than India on this. For example, a single window for FDI can be effectively created if all rule making under FEMA rests within a department of the Government of India, and all transactions are permitted other than those in the explicit negative list.
- **Liberalising agriculture:** State Agricultural Products Market Committee (APMC) laws are a major hurdle to modernisation of the food economy. Alongside the removal of conventional interventions in the food economy, there is a need to place a priority upon the three national-level public goods:
 - Knowledge of production
 - Regulations on futures trading
 - Interventions to address the market failures in production or warehousing.

Chapter 3 - Public finance

- The fiscal outcome of the central government in 2013-14 was in line with the fiscal consolidation targets, despite macroeconomic challenges of growth slowdown, high global crude prices and slow growth of investment.

- The gross Tax-GDP ratio is expected to be at 10 per cent in 2013-14 (direct tax being 5.6 per cent and indirect tax being 4.4 per cent) as compared to 10.2 per cent in 2012-13 (direct tax being 5.5 per cent and indirect tax being 4.7 per cent).
- For 2013-14, fiscal, effective revenue and primary deficits are placed at 4.5 per cent, 2 per cent and 1.2 per cent of GDP respectively. The plan expenditure has been estimated at INR4,531 billion, equivalent to 4 per cent of the GDP.
- External debt outstanding as a per cent of GDP has declined and is placed at 1.6 per cent in 2013-14, as compared to 1.8 per cent in 2012-13. The total outstanding liabilities as a per cent of GDP stand at 49.4 per cent of GDP in 2013-14, as against 50.1 per cent in 2012-13.
- Corporation taxes constituted 3.5 per cent of GDP in 2013-14, similar to 2012-13, whereas personal income tax stood at 2.1 per cent of GDP in 2013-14, as against 1.9 per cent in 2012-13.
- Collections from customs duties reduced to 1.5 per cent of GDP in 2013-14, as against 1.6 per cent in 2012-13. Collections from union excise duties also witnessed a decline and stood at 1.5 per cent of GDP in 2013-14, as against 1.7 per cent in 2012-13. On the contrary, collections from service tax increased at 1.4 per cent of GDP in 2013-14, as against 1.3 per cent in 2012-13.
- Fiscal consolidation remains imperative for the economy. While, it would be a challenge to stick to the fiscal consolidation road map, especially in light of the global and domestic economic scenario, the introduction of goods and services tax, rationalising expenditure, improvement in tax buoyancy and other tax reforms should contribute to higher growth.

Chapter 4 - Prices and monetary management

- Headline Wholesale Price Index (WPI) inflation, which averaged 8.94 per cent in 2011-12 and 7.35 per cent in 2012-13, moderated to 5.98 per cent in 2013-14. Across commodity groups, the average quarterly inflation rate was 9.43 per cent for food items, 10.14 per cent for fuel and power, and 2.94 per cent for non-food manufactured products during 2013-14. Consumer Price Index (CPI) inflation also moderated to 9.49 per cent in 2013-14 from 10.21 per cent in 2012-13. The RBI has targeted bringing down the CPI inflation to around 8 per cent by January 2015 and 6 per cent by January 2016.

- The Monetary Policy of the Reserve Bank of India's (RBI) remained tight as the focus remained on controlling inflation. During 2013-14, the RBI changed the repo rate 4 four times with rate standing at 8 per cent as at end March 2014, which is 50 bps higher than the repo rate standing as at end March 2013. The cash reserve ratio and statutory liquidity ratio remained unchanged during 2013-14.
- Considering the softening of global price pressures on tradeable commodities, and reduction in exchange rate volatility, inflation is expected to be moderate in the coming fiscal year. Further, fiscal consolidation and the addressing of supply side constraints that exacerbate food inflation should also create room for monetary easing in 2014-15.

Chapter 5 - Financial intermediation

- The year-on-year growth of aggregate deposits of banks, bank credits and investments in approved securities in 2013-14, vis-à-vis 2012-13, has changed as follows:
 - Aggregate deposits marginally reduced to 14.1 per cent in 2013-14, from 14.2 per cent in 2012-13.
 - Bank credits have increased by 13.9 per cent in 2013-14, as against the increase of 14.1 per cent in 2012-13.
 - The rate of growth of investments in approved securities has decreased from 15.4 per cent to 10.3 per cent.
- Scheduled Commercial Banks (SCBs) reflected a decline in the growth of profits. The growth in the consolidated balance sheet in 2012-13 was 15.1 per cent, as against the growth of 15.8 per cent in 2011-12.
- The capital adequacy (under Basel II) of the banks at the system-wide level declined to 13.88 per cent as at end March 2013, as compared to 14.24 per cent as at end March 2012.
- The gross Non Performing Assets (NPAs) to gross advances ratio shot up to 3.6 per cent in 2012-13 from 3.1 per cent in 2011-12. To address the rising NPAs, the RBI has taken various steps including the issue of guidelines on early warning system dated 30 January 2014.
- Towards the financial inclusion front, public sector banks opened 7,840 branches in 2013-14 as compared to 4,432 in 2012-13, and they had 96,853 automated teller machines by January 2014 as against 69,652 at the end of 2012-13.
- The total number of Non Banking Finance Companies (NBFCs) registered with the RBI declined from 12,385, as at June 2012, to 12,225 as on 30 June 2013. Whilst, the deposit taking NBFCs declined from 271 to 254, the systemically important non-deposit taking NBFCs increased to 417 from 370 during the same period.
- The cumulative amount mobilised through equity public issues declined by 14.2 per cent. The mean size of the initial public offerings (IPO) listed at the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), with a mean IPO size of INR33 crores, sharply went down by 83.33 per cent compared to 2012-13.
- During the last financial year, various regulatory changes have been made to develop/stimulate the growth of the corporate bond market.
- Capital markets continued with the upside momentum and the benchmark indices i.e., the Sensex and the Nifty rose 18.8 per cent and 18.0 per cent respectively in the fiscal year 2013-14. The turnover in cash segment of the equity market and equity derivative segment increased by 2.59 per cent and 22.92 per cent respectively, compared to the turnover in 2012-13.
- The major policy initiatives undertaken during this fiscal include notification of Foreign Portfolio Investors (FPI) regulations on 7 January 2014, and the enhancement of the limits for foreign institutional investors investment in the domestic debt market from USD66 billion to USD81 billion (USD51 billion for corporate bonds and USD30 billion for government securities).
- During 2013-14, the first year premium underwriting by life insurers registered a growth of 11.44 per cent. Premium underwritten by the private sector declined by 4.01 per cent, whereas, the Life Insurance Corporation (LIC) registered a growth of 17.64 per cent in first premium underwriting.
- During 2013-14, premium underwriting by non-life insurers registered a growth of 12.23 per cent, with private and public insurers registering the growth of 15.37 per cent and 9.86 per cent respectively.
- Life and non-life insurance penetration cumulatively has grown from 2.3 per cent in 2000 to 3.96 per cent in 2012.
- Key challenges amongst others include illiquidity in the financial markets, development of the bond-currency derivative nexus to equity market quality levels, financial inclusion and infrastructure financing.

Chapter 6 - Balance of payments

- India's Balance of Payment (BoP) position has improved significantly in 2013-14, particularly in the last three quarters. This was mainly due to decrease in import of gold and silver. Further, measures to augment capital flows through quasi-sovereign bonds and liberalisation of external commercial borrowings also helped. The RBI also put in place a special swap window for foreign currency non-resident deposit (banks) and banks overseas borrowings through which USD34 billion was mobilised.
- There was pick-up in exports and moderation of imports in the period 2013-14. This led to contraction in the trade deficit. Overall the exports for the period 2013-14 amounted to USD318.6 billion, as against USD306.6 billion in 2012-13. The imports for the period 2013-14 reduced to USD466.2 billion from USD502.2 billion in 2012-13. The trade deficit was USD147.6 billion which was lower by USD48 billion from the 2012-13 level. As a proportion of GDP, trade deficit on BoP basis was 7.9 per cent of GDP in 2013-14, as against 10.5 per cent in 2012-13.
- The Current Account Deficit (CAD) moderated sharply to USD32.4 billion in 2013-14, as against USD88.2 billion in 2012-13. The CAD at 1.7 per cent of GDP in 2013-14 compares favourably with the levels in the pre-2008 crisis years.
- The net capital inflow for the period 2013-14 amounted to USD47.9 billion, as against USD92.0 billion in the previous year. While net FDI was placed at USD21.6 billion, portfolio investment (mainly FII) at USD4.8 billion, ECBs at USD11.8 billion, and NRI deposits at USD38.9 billion, there were significant outflows on account of short-term credit at USD5.0 billion, banking capital assets at USD6.6 billion, and other capital at USD10.8 billion. The net capital inflows in tandem with the level of CAD led to a reserve accretion of USD15.5 billion on BoP basis in 2013-14.
- Although the foreign exchange reserve increased by USD15.5 billion on BoP basis, in nominal terms it increased only by USD12.2 billion. This was on account of valuation loss in the non-US dollar assets held owing to cross-currency movements and the decline in gold prices. Foreign exchange reserves were placed at USD304.2 billion at end March 2014, as against a level of USD292.0 billion at end March 2013.
- The vulnerability of rupee and currencies of other emerging market and developing economies came to the fore in May 2013 as a result of the announcement by the U.S. Fed about tapering of its asset purchases. The rupee was also affected on account of the elevated CAD and large withdrawal from the FII debt segment.
- In 2013-14, the rupee started to depreciate on a month-on-month basis starting May 2013. This process was more pronounced in June 2013 and August 2013 when it depreciated in excess of 5 per cent on a month-on-month basis. The average exchange rate of the rupee reached a peak in September 2013 at INR63.75 per USD. Thereafter, on the strength of the measures taken by the government to reduce the CAD, and the RBI and the government to boost capital flows, the rupee rebounded to reach an average level of INR61.62 per USD in the month of October 2013. The rupee has subsequently been range bound and stable in 2013-14.
- India's external debt continues to be predominantly consisting of long-term borrowings. Long-term external debt at USD333.3 billion, at the end of December 2013, accounted for 78.2 per cent of the total external debt, the remaining 21.8 per cent being constituted of short-term debt.
- BoP improved during the period 2013-14 mainly on account of the restriction on non-essential imports and other incentives for capital flow during the period 2013-14. However, sustaining the same in the medium-term is a challenge as some of the restrictions and incentives may have to be rolled back. With close monitoring and policies, it is likely that the CAD may be limited to around USD45 billion (2.1 per cent of GDP) in 2014-15, which is likely to be financed by stable sources of capital/financial flows, leading to a stable exchange rate environment without the need for any major intervention in this regard.

Chapter 7 - International trade

- Global economic uncertainty coupled with subsequent slowdown, though of a passing nature, continue to cast their shadows on the trade growth of emerging and developing economies (EDEs) including India. This is reflected in the growth trend of exports which fell from an astounding growth rate of 30.1 per cent in 2003-2007 to 16 per cent during 2009-2013. While the outlook seems to be improving, the situation still remains fragile for both the world and Indian trade.
- Merchandise exports have registered a growth in absolute terms of 4.1 in 2013-14 per cent as against to contraction in 2012-13. This has resulted in an increase in the share of world exports from 0.7 per cent in 2000 to 1.7 per cent in 2013. In 2013, India was positioned on the 19th rank as against 31st, in 2000, in the top merchandise exporters list in the world.

- Exports grew in 2013-14 primarily due to commendable performance by the labour intensive export sectors. While textile exports grew by 14.6 per cent in 2013-14, exports in leather and leather manufacturers sector soared by 16.7 per cent, and of handicrafts including carpets were also in double digits at 10.9 per cent.
- India's merchandise imports at decelerated from 0.3 per cent in 2012-13 to a negative of 8.3 per cent in 2013-14. This was primarily due to the decline in the import of gold and capital goods. Gold imports fell sharply in 2013-14 on the back of several measures taken by the government. In terms of value, gold and silver imports fell by 40.1 per cent to USD33.4 billion in 2013-14.
- Trade deficit for April 2013 to January 2014 at USD137.5 billion was 27.8 per cent lower than USD190.3 billion in April 2012 to January 2013.
- Moderate export growth, coupled with decline in imports, helped improve the net exports. Measures taken by the government and the RBI have resulted in a decline in India's trade deficit, contributing to a lower CAD of 1.7 per cent of GDP.
- In India, growth in services exports became erratic in the post global crisis period. Reflecting the impact of uncertainty in the global economy and weak growth in advanced economies, services exports witnessed a growth of 4 per cent, as against a lower growth of 2.4 per cent in the corresponding period of 2012-13.
- Import of services which grew by 3.2 per cent in 2012-13 declined to a negative of 2.8 per cent in 2013-14, with all major categories registering negative growth.
- Surplus on account of India's services exports has been a cushioning factor for financing a large part of the merchandise trade deficit in recent years. With moderate growth in services exports and fall in service imports, the surplus at USD28-29 billion per quarter resulting in overall net surplus of USD115.2 billion in 2013-14 financed 49.4 per cent of trade deficit. With higher exports and lower imports the trade deficit reduced to 7.9 per cent in 2013-14, as against 10.5 per cent in 2012-13.
- The challenges for India on the trade front are many. While India has successfully diversified its export basket, more needs to be done on the product diversification front. It also has to reposition itself in its areas like gems and jewellery and electronic goods where it has lost considerable ground.
- There are many micro and sector-specific issues that need urgent attention. These primarily are related to infrastructure, trade facilitation, tax and tariffs, and credit. Addressing these issues can exponentially promote India's export growth by 30 per cent to achieve a respectable ballpark figure of at least 4 per cent share in the world exports in the next five years.

Chapter 8 - Agriculture and food management

- As a concomitant of growth, the share of agriculture and allied sector in gross domestic product (GDP) declined to 15.2 per cent during the Eleventh Plan, and further to 13.9 per cent in 2013-14 (provisional estimates (PE)). While the sector still accounts for about 54.6 per cent of the total employment (Census 2011), there has been a decline in the absolute number of cultivators, which is unprecedented, from 127.3 million (Census 2001) to 118.7 million (Census 2011). This is indicative of a shift from farm to non-farm employment, causing real farm wages to rise by over 7 per cent annually in recent years.
- As per the PE for 2013-14, growth rate of the agriculture and allied sectors' GDP was 1.4 per cent and 4.7 per cent respectively during the first two years of the Twelfth Plan period. Having said this, a structural change in the composition of agriculture, showing diversification into horticulture, livestock, and fisheries, is noticeable.
- Overall Gross Capital Formation (GCF), both public and private, in agricultural and allied sector has increased from 16.1 per cent of its GDP, in 2007-08, to 21.2 per cent in 2012-13 (2004-05 prices). As a percentage of this sector's GDP, private investment has been rising and was 18.1 per cent in 2012-13, indicating that more than 85 per cent of investment in this sector is by the private sector.
- Although India is one of the top countries in agricultural production, the current level of farm mechanisation, which varies across states, averages around 25 per cent as against more than 90 per cent in developed countries.
- Agri exports (including marine) grew by 5.1 per cent in 2013-14 over 2012-13, to USD37,292 million, of which exports of marine products alone increased by 44.8 per cent over the same period. Further, export of rice has increased from USD2575 million in 2010-11 to USD7742 million in 2013-14, and exports of total dairy, poultry, meat, and marine products have doubled their share in agri exports between 2008-09 and 2013-14.
- The Nation Food Security Act ('NFSA') was notified on 10 September 2013, with the objective of providing food and nutritional security by ensuring access to adequate quantity of quality food at affordable prices. It provides for coverage of up to 75 per cent of the rural population and up to 50 per cent of the urban population. The estimated annual food subsidy for implementation of the Act at 2014-15 costs is about INR 1,31,066 crore.

- In order to address the issue of supply chain management in agricultural marketing, it is necessary to remove market distortions in creating a common market to promote efficiency and growth, and facilitate the creation of a national agricultural market.
- On a positive note, there appears to be no cause for alarm on the El Niño front as India is well placed on food grains availability, with record domestic production and huge stocks in the central pool. The Food and Agriculture Organisation (FAO), in its 'Cereal Supply and Demand Brief' of June 2014, has also forecast a comfortable global scenario for 2014-15 with high stocks-to-use ratios of cereals and stable prices.

Chapter 9 - Industrial performance

- The latest GDP estimates indicate that industry grew by a meagre 1.0 per cent in 2012-13 and slowed down further in 2013-14, posting a modest increase of 0.4 per cent. Industrial performance in 2013-14 remained lacklustre for the second successive year.
- The manufacturing and mining sector GDP declined by 0.7 per cent and 1.4 per cent respectively in 2013-14. Key reasons for the poor performance have been contraction in mining activities and deceleration in manufacturing output. Further, decline in investment, particularly by the private corporate sector during 2011-2012 and 2012-2013 have added to the woes of this sector.
- The consumer durables segment index contracted by 12.2 per cent in 2013-14, as against a growth of 2.0 per cent during the previous year. This is primarily due to several domestic and external factors such as higher interest, infrastructure bottlenecks, inflationary pressure leading to rising input costs, drop in domestic and external demand for some sectors, which have together contributed to low growth in the manufacturing sector.
- Gross Capital Formation (GCF) in the industrial sector comprising of mining, manufacturing, electricity and construction has declined from 31.8 in 2011-12 to 28.3 in 2013-14. Even though detailed estimates of GFCF are not available for 2013-14, the overall decline in growth rates of fixed investment hints at further deceleration in investment in key segments of industry during the year.
- Overall rate of growth of credit flow to industry increased by 14.9 per cent in 2013-14, lower in comparison with the 20.9 per cent growth achieved in 2011-12 and 17.8 per cent in 2012-13.
- Post global financial crisis, while the IIP-based growth rate of the capital goods sector was robust at 14.8 per cent in 2010-11, it fell by 6 per cent in 2012-13 and further by 3.6 per cent in 2013-14 primarily due to steady deceleration in fixed investment in the past three years. The slow pace of mega projects implementation and a decline in the number of new projects has adversely impacted the capital goods segment.

- During 2013-14, total FDI inflows were USD36.4 billion. FDI equity inflows were USD24.30 billion, showing an increase of 8 per cent as compared to the previous year. Cumulative FDI inflows from April 2000 to March 2014 stood at USD323.9 billion. Net FDI inflows were USD21.6 billion during 2013-14. Further, in the past, sectors like services, construction, telecommunications, computer software and hardware, drugs and pharmaceuticals, automobile industry, power, metallurgical industries, and hotels and tourism have attracted maximum FDI inflows.
- In view of the ongoing industrial slowdown, the policy focus needs to target key growth drivers in the short term. One of the crucial drivers can be the revival of private corporate sector investment, building a conducive investment climate and uplifting the overall business sentiment, FDI in various sectors, conducive exchange rates policies, allowing FDI in defence, removal of restrictions in SEZs and National Investment and Manufacturing Zones (NIMZs). Further, promotion of industrial clusters for different sectors in different regions would also attract investment because clusters have the advantage of lower logistics costs, better supply-chain linkages, and easy access to labour and technology.

Chapter 10 - Services sector

- Services constitute a major portion of India's GDP with a 57 per cent share in GDP at factor cost (at current prices) in 2013-14. Besides being the dominant sector in India's GDP, it has also contributed substantially to foreign investment flows, exports, and employment.
- India's services sector that remained resilient even during and immediately after the global financial crisis buckled under the pressure of continued global and domestic slowdown, resulting in sub-normal growth in the last two years. However, early shoots of revival are visible in 2014-15, with signs of improvement in world GDP growth and trade also reflected in the pick-up in some key services like IT, aviation, transport logistics, and retail trading. In 2013-14 the growth rate of the services sector at 6.8 per cent is marginally lower than in 2012-13. This is due to deceleration in the growth rate of the combined category of trade, hotels, and restaurants, and transport, storage, and communications to 3.0 per cent from 5.1 per cent in 2012-13, despite robust growth of financing, insurance, real estate, and business services at 12.9 per cent. Construction, a borderline services inclusion, which has not been performing well since 2012-13, grew by only 1.6 per cent in 2013-14.

- The combined FDI share of financial and non-financial services, construction development, telecommunications, computer hardware and software, and hotels and tourism, can be taken as a rough estimate of the FDI share of services, though it could include some non-service elements. In 2013-14, FDI inflows to the services sector (top five sectors including construction) declined sharply by 37.6 per cent to USD6.4 billion, compared to an overall growth in FDI inflows at 6.1 per cent. As a result the share of the top five services in total FDI fell to nearly one-sixth.
- While exports of software services, accounting for 46 per cent of India's total services exports, decelerated to 5.4 per cent in 2013-14 from 5.9 per cent in 2012-13, travel, accounting for a nearly 12 per cent share, witnessed negative growth of 0.4 per cent. However, moving in tandem with global exports of financial services, India's exports of financial services registered a high growth of 34.4 per cent in 2013-14.
- Some services like software and telecom were big ticket items that gave India a brand image in services. While further focus on these services is needed to retain and further our lead, the time has come to focus on some other high potential big ticket items (identified as tourism and hospitality sector; port services; shipping, shipbuilding and ship repair; and railways) that have high manufacturing-sector and employment linkages.
- The total Foreign Direct Investment (FDI) inflows into major infrastructure registered a growth of 22.8 per cent in 2013-14 as compared to a contraction of 60.9 per cent during 2012-13, with positive growth recorded in railway-related components, telecommunications, air transport, and power. Bank credit for the infrastructure sector moderated from an average of 44.8 per cent in 2011-12 to 17.7 per cent in 2013-14.
- The growth in power generation was 6 per cent during April-March 2014, as compared to 4 per cent in the corresponding previous period. The capacity addition target for 2013-14 was set at 18,432.3 MW and capacity addition target for Twelfth Five Year plan is set at 88,537 Megawatt (MW). The power generation from additional capacity to be generated during the Twelfth Plan critically depends on ensuring fuel supply (coal as well as gas), improving the financial health of the state electricity boards, making power purchase agreements of independent power producers economically viable.
- The gap between coal demand and supply has consistently been increasing, which was about 100 MT at the end of the Eleventh Five Year Plan and now increased to 145 to 150 MT. To fill the gap between domestic demand and supply, the country imported about 146 MT of coal at a cost of INR92,538 crore during 2012-13, and about 169 MT at a cost of INR95,175 crore during 2013-14 (provisional). The initiatives identified for accelerating coal production in the short term includes (i) building critical feeder routes for coal, (ii) clearing pending environment and forest clearances and rehabilitation issues, (iii) permitting commercial coal mining by the private sector, (iv), restructuring of Coal India Limited ('CIL').
- A total length of 21,787 km of national highways has been completed till March 2014 under various phases of the National Highways Development Project ('NHDP'). In spite of several constraints due to the economic downturn, the NHAI constructed 2844 km of road length in 2012-13, its highest ever annual achievement. During 2013-14, a total of 1901 km of road construction was completed. The government has formulated various initiatives to expedite projects under NHDP which include project preparation, streamlining of land acquisition/environmental clearances, dispute resolution, exit for equity investors, co-ordination with other ministries, etc.

Chapter 11 - Energy, infrastructure and communications

- The total investment in infrastructure sector during the Twelfth Five Year Plan (2012-17) is estimated at USD1 trillion, half of which is expected to come from the private sector. The Twelfth Five Year Plan has laid special emphasis on infrastructure development as quality infrastructure is important not only for sustaining high growth, but also for ensuring that the growth is inclusive.
- Sector wise performance of core industries and infrastructure services showed a mixed trend. Areas like power and fertilisers, railways, civil aviation and cargo traffic (except import cargo) showed positive growth, whereas sectors like coal, steel, cement, refinery, crude oil and natural gas production witnessed lower/negative growth.
- Delay in the execution of projects on account of issues like regulatory approvals, problems in land acquisition and rehabilitation, time overruns, etc. continues to be one of the main reasons for underachievement in many infrastructure sectors. As per the report for February 2014, total original cost of implementation of delayed projects was about INR7,39,882 crore, and their anticipated completion cost is likely to be INR8,97,684 crore, implying an overall cost overrun of INR1,57,802 crore (i.e. 21.3 per cent of the original cost).

- During 2013-14, production of crude oil remained stagnant at 37.8 million metric tonnes (MMT), as against 37.9 MMT in 2012-13, which is a marginal decrease of 0.20 per cent. The average natural gas production for 2013-14 was about 35.4 billion cubic meters (BCM), as against 40.7 BCM for 2012-13 showing decline of 13 per cent. A total of 254 Production Sharing Contracts (PSCs) have so far been signed under nine rounds of the New Exploration Licensing Policy (NELP) bidding, of which 148 blocks are currently operational and the remaining 106 have been relinquished by the contractors. Under Coal Bed Methane (CBM) policy, 33 exploration blocks have been awarded. Shale gas is considered to be an important new source of energy, with a multi-organisational team (MOT) of the various public sector oil and gas companies having been formed to examine the existing data set and suggest a methodology for shale gas development in India.
- The freight loading (excluding loading by Konkan Railways) by Indian Railway (IR) during 2012-13 was placed at 1008.09 million tonnes, as against 969.05 million tonnes in 2011-12, registering an increase of 4.03 per cent. The broad objective of IR is to develop a strategy to be a part of an effective multi-modal transport system and to ensure an environment-friendly and economically efficient transport movement.
- Domestic passenger traffic handled at Indian airports reached 122.43 million during April to March 2013-14. This is an increase of 5.2 per cent over the domestic passenger traffic throughput of 116.37 million for the same period during 2012-13. International passenger traffic handled at Indian airports was placed at 46.62 million during 2013-14, as against 43.03 million during the corresponding period of the previous year, thereby recording a growth rate of 8.34 per cent. International cargo throughput at Indian airports during 2013-14 was 1.44 MMT, as compared to 1.41 MMT during the previous year. During the reference period, domestic cargo throughput stood at 0.84 MMT as against 0.78 MMT, thereby recording an increase of 7.7 per cent.
- During 2013-14, major and non-major ports in India accomplished a total cargo throughput of 980.49 million tonnes reflecting an increase of only 5 per cent over the same period of 2012-13. The major ports contributed to an increase of 1.8 per cent, whereas the non-major ports' traffic grew at 9.6 per cent, as compared to the corresponding period of 2012-13.
- The telecom sector has been one of the fastest growing sectors in recent years being the second largest telephone network in the world, after only China. The total amount of INR61,162 crore obtained through auction of spectrum under National Telecom Policy, 2012, which was more than the value of the spectrum on offer at reserve price. The Department of Telecom has finalised guidelines on unified license, pursuant to which

the allocation of spectrum is delinked from the licence and has to be obtained separately as per prescribed procedure, i.e. bidding process.

- From a macroeconomic perspective, the need for infrastructure development for economic prosperity and global integration cannot be overemphasised. The challenge is to ensure strong, sustainable, and balanced development through integration of economies with environmentally sustainable development of infrastructure. Concerns for stalled infrastructure projects like stepping up infrastructure investment, improving productivity and quality of infrastructure spending, and removing procedural bottlenecks need to be addressed to ensure accelerated and better infrastructure development.

Chapter 12 - Sustainable development and climate change

- There has been a substantial improvement on the development front with many countries achieving various targets set as per the Millennium Development Goals (MDG); energy intensity has declined, global poverty has been halved, sanitation targets and availability of drinking water has been achieved in a few countries. India has made significant progress in meeting the targets set out by MDG.
- The global community, following the Rio+20 mandate, is developing a set of sustainable development goals (SDGs). These goals may be integrated with the unfinished MDGs when they end in 2015. The major focus areas identified for the SDGs are poverty eradication, food security and nutrition, health and population dynamics, education, gender equality and women empowerment, water and sanitation, energy, sustainable cities and human settlement, sustainable production and consumption, and the means of implementation.
- The government expenditure on social services as proportion of GDP increased from 5.49 per cent in 2005-06 to 7.09 per cent in 2012-13. The President and the Prime Minister have announced the launch of 'Swachh Bharat Mission' for ensuring hygiene, waste management and sanitation across India.
- India is making progress in implementing national plans for climate change. It has improved the efficiency of its economy and reduced the CO2 emissions per unit of GDP by 20 per cent between 1990 to 2011. The renewable power capacity has increased and accounts for 12 per cent of the total power capacity in the country.

- As on 31 May 2014, 44 projects worth INR160.35 million have been recommended to be funded through the National Clean Energy Fund (NCEF). The Government of India has initiated a consultation process to discuss the institutional infrastructure needed to access Global Climate Finance resources. Further various domestic plans and schemes are being implemented as part of the national action plan on climate change. Innovative schemes like the Jawahar Lal Nehru National Solar Mission's installation of solar photovoltaic lights, power plants, etc. are eligible for funding through NCEF. In 2013, India has registered 115 Clean Development Mission (CDM) projects, the highest by any country.
- As opposed to the Kyoto protocol and the MDGs, two new agreements on climate change and sustainable development applicable to all will be the global frameworks for actions to be finalised next year. The issue of how developed and developing countries will be treated in these new global agreements will be crucial. The agreements need to ensure that the developing countries are given their fair share of carbon and development space.
- The National Vocational Education Qualification Framework (NVEQF) has been aligned to the National Skill Qualification Framework (NSQF) to standardise skill learning outcomes and provide mobility. During 2013-14, National Skill Development Council (NSDC) partners trained 10,05,074 people across a wide array of sectors ranging from healthcare, manufacturing, electronics and hardware, tourism, hospitality and travel to banking, financial services, retail, information technology, and textiles in 366 districts. Skill development is vital not only for taking advantage of the demographic dividend, but also for more inclusive growth.
- Expenditure on health is just 1.4 per cent of India's GDP. In 2013-14, there was an increase in outlay for the health sector by 7.44 per cent over the previous year, to INR327.45 billion. The combined revenue and capital expenditure of the centre and states on medical and public health, family welfare, and water supply and sanitation has increased from INR535.57 billion in 2006-07 to INR1,362.96 billion in 2012-13 (BE). A lot more needs to be done to further improve the health indicators to provide quality and affordable healthcare for the large Indian population.
- Women and children constituting about 70 per cent of the total population of the country are vulnerable and lagging in terms of many economic and social parameters. The share of the gender budget has increased from 2.79 per cent in 2005-06 to 5.83 per cent (INR97,133.70 billion) of the gross budgetary support in 2013-14. Greater inclusion of women involves not just a greater share for the gender budget but also greater share of women in the decision making process.
- Timely action for equipping the young population with high expectations with health, education, adequate skills and security is of paramount importance. For this, massive efforts are needed in the form of investment in social infrastructure, skill development, and empowerment of women.
- Leveraging modern technology for efficient delivery of programmes, removing the multiple layers of governance, simplifying procedures, and greater participatory role by the beneficiaries can help in creating a better delivery mechanism.

Chapter 13-Human development

- According to the Human Development Report (HDR) 2013, India with a Human Development Index (HDI) of 0.554 in 2012 has slipped down a few notches with its overall global ranking at 136 (out of the 186 countries), as against 134 (out of 187 countries) as per HDR 2012. Demographic dividend (the average age of the 125 billion-strong Indian population will be 29 years in 2020) will benefit India if its population is educated, healthy, and adequately skilled.
- During 2004-05 to 2011-12, employment growth (compound annual growth rate [CAGR]) was only 0.5 per cent, compared to 2.8 per cent during 1999-2000 to 2004-05, as per usual status. There is steep reduction in unemployment rate under Current Daily Status (CDS), from 8.2 per cent in 2004-05 to 5.6 per cent in 2011-12. The fall in unemployment, despite marginal growth in employment in 2009-10 and 2011-12, could also be on account of the demographic dividend, as an increasing proportion of the young population opts for education rather than participating in the labour market.
- As a percentage of GDP, expenditure on education has gone up from 2.9 per cent in 2008-09 to 3.3 per cent in 2013-14(BE). There is need not only to increase it further, but also to address quality issues.
- While India has some of the best institutions the world, in terms of quality of education, a lot more needs to be done. In this direction recent initiatives are undertaken in the area of higher and vocational education which will focus on access, equity, quality, and innovation through creation; expansion and consolidation of institutions, research, and innovation having norm-based funding, have been launched for strengthening and reforming higher education.



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