State of the Economy-An Overview

01
CHAPTER

One of the redeeming features, while comparing economic performance across different countries for the year 2014-15, has been the emergence of India among the few large economies with propitious economic outlook, amidst the mood of pessimism and uncertainties that engulf a number of advanced and emerging economies. Brighter prospects in India owe mainly to the fact that the economy stands largely relieved of the vulnerabilities associated with an economic slowdown, persistent inflation, elevated fiscal deficit, slackening domestic demand, external account imbalances, and oscillating value of the rupee in 2011-12 and 2012-13. From the macroeconomic perspective, the worst is clearly behind us. The latest indicators, emerging from the recently revised estimates of national income brought out by the Central Statistics Office, point to the fact that the revival of growth had started in 2013-14 and attained further vigour in 2014-15. Factors like the steep decline in oil prices, plentiful flow of funds from the rest of the world, and potential impact of the reform initiatives of the new government at the centre along with its commitment to calibrated fiscal management and consolidation bode well for the growth prospects and the overall macroeconomic situation. Encouraged by the greater macro-economic stability and the reformist intent and actions of the government, coupled with improved business sentiments in the country, institutions like the IMF and the World Bank have presented an optimistic growth outlook for India for the year 2015 and beyond. The possible headwinds to such promising prospects, however, emanate from factors like inadequate support from the global economy saddled with subdued demand conditions, particularly in Europe and Japan, recent slowdown in China, and, on the domestic front, from possible spill-overs of below normal agricultural growth and challenges relating to the massive requirements of skill creation and infrastructural upgradation. The encouraging results from the Advance Estimates for 2014-15 suggest that though the global sluggishness has partly fed into the lacklustre growth in foreign trade; yet this downward pressure has been compensated by strong domestic demand, keeping the growth momentum going.

Recent Growth Record

1.2 Before analysing the recent macroeconomic trends, it may be mentioned that the Central Statistics Office (CSO) has recently revised the national accounts aggregates by shifting to the new base of 2011-12 from the earlier base of 2004-05 (see Box 1.1 for details). Given the provisional

Table 0.1 : Key Indicators

Data categories	Unit	2011-12	2012-13	2013-14	2014-15
1. GDP and Related Indicators					
GDP (constant market prices)	₹ Crore	8832012[NS]	9280803[NS]	9921106[NS]	10656925[AE]
Growth Rate	%	—	5.1	6.9	7.4
GVA at Basic prices (2011-12 prices)	₹ Crore	8195546[NS]	8599224[NS]	9169787[NS]	9857672[AE]
Growth Rate	%	—	4.9	6.6	7.5
Saving Rate	% of GDP	33.9	31.8	30.6	na
Capital Formation (rate)	% of GDP	38.2	36.6	32.3	na
Per Capita Net National Income (At current market prices)	₹	64316[NS]	71593[NS]	80388[NS]	88533[AE]
2. Production					
Food grains	Million tonnes	259.3	257.1	265.6	257.1[a]
Index of Industrial Production[b] (growth)	%	2.9	1.1	-0.1	2.1[f]
Electricity Generation (growth)	%	8.1	4.0	6.0	9.9[f]
3. Prices					
Inflation (WPI) (average)	%	8.9	7.4	6.0	3.4[f]
Inflation CPI (IW) (average)	%	8.4	10.4	9.7	6.2[f]
4. External Sector					
Export growth (US$)	%	21.8	-1.8	4.7	4.0[f]
Import growth (US$)	%	32.3	0.3	-8.3	3.6[f]
Current Account Balance (CAB)/GDP	%	-4.2	-4.7	-1.7	-1.9 (H1)
Foreign Exchange Reserves[g]	US$ billion	294.4	292.0	304.2	328.7
Average Exchange Rate[c]	₹ /US$	47.92	54.41	60.50	60.78[f]
5. Money and Credit					
Broad Money (M3) (annual)	% change	13.5	13.6	13.2	11.5[h]
Scheduled Commercial Bank Credit	% change	17.0	14.1	13.9	10.7[h]
6. Fiscal Indicators (Centre)					
Gross Fiscal Deficit	% of GDP	5.7	4.8	4.5[d]	4.1[e]
Revenue Deficit	% of GDP	4.4	3.6	3.2[d]	2.9[e]
Primary Deficit	% of GDP	2.7	1.8	1.2[d]	0.8[e]

Note: na : Not Available, NS : New Series Estimates. AE : Advance Estimate.
H1: April-September 2014.

[a] 2nd Advance Estimates.

[b] Base (2004-05=100).

[c] Indicative rates announced by Foreign Exchange Dealers Association of India (FEDAI) and from May 2012 onwards are RBI's reference rates.

[d] Fiscal indicates for 2013-14 are based on the provisional actual.

[e] Budget Estimates

[f] April-December 2014.

[g] Figures for 2011-12 to 2013-14 relate to end of financial year and the figure for 2014-15 is at end January 2015.

[h] As on January 9, 2015.

Box 1.1 : Revision of the Base Year of National Accounts from 2004-05 to 2011-12

The current base year revision follows the revision undertaken in January 2010. The following are the major changes incorporated in the just-concluded base-year revision:

(i) Headline growth rate will now be measured by GDP at constant market prices, which will henceforth be referred to as 'GDP', as is the practice internationally. Earlier, growth was measured in terms of growth rate in GDP at factor cost at constant prices.

(ii) Sector-wise estimates of gross value added (GVA) will now be given at basic prices instead of factor cost. The relationship between GVA at factor cost, GVA, at basic prices, and GDP (at market prices) is given below:

GVA at basic prices = CE + OS/MI + CFC + production taxes less production subsidies

GVA at factor cost = GVA at basic prices - production taxes less production subsidies

GDP = $\sum$ GVA at basic prices + product taxes - product subsidies

(where, CE : compensation of employees; OS: operating surplus; MI: mixed income; and, CFC: consumption of fixed capital. Production taxes or production subsidies are paid or received with relation to production and are independent of the volume of actual production. Some examples of production taxes are land revenues, stamps and registration fees and tax on profession. Some production subsidies are subsidies to Railways, input subsidies to farmers, subsidies to village and small industries, administrative subsidies to corporations or cooperatives, etc. Product taxes or subsidies are paid or received on per unit of product. Some examples of product taxes are excise tax, sales tax, service tax and import and export duties. Product subsidies include food, petroleum and fertilizer subsidies, interest subsidies given to farmers, households, etc. through banks, and subsidies for providing insurance to households at lower rates).

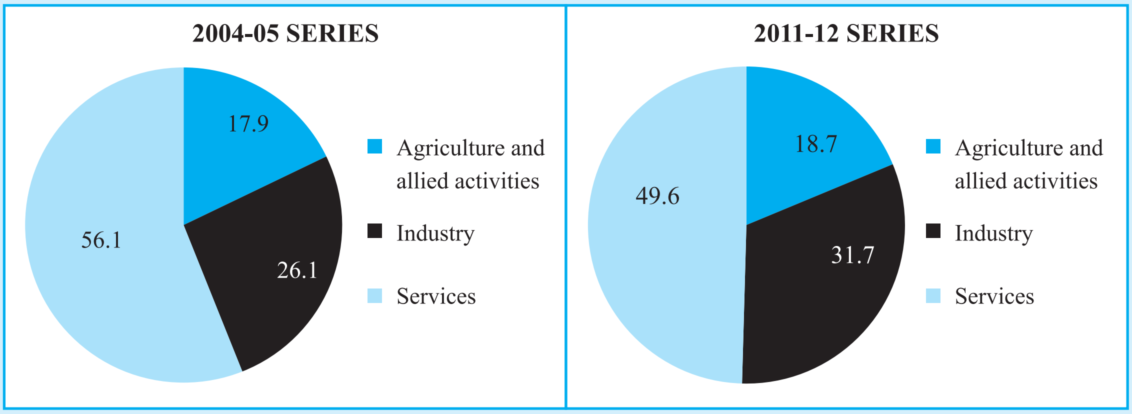
(iii) Comprehensive coverage of the corporate sector both in manufacturing and services by incorporation of annual accounts of companies as filed with the Ministry of Corporate Affairs (MCA) under their e-governance initiative, MCA21. Use of MCA21 database for manufacturing companies has helped account for activities other than manufacturing undertaken by these companies.

(iv) Comprehensive coverage of the financial sector by inclusion of information from the accounts of stock brokers, stock exchanges, asset management companies, mutual funds and pension funds, and the regulatory bodies including the Securities and Exchange Board of India (SEBI), Pension Fund Regulatory and Development Authority (PFRDA) and Insurance Regulatory and Development Authority (IRDA).

(v) Improved coverage of activities of local bodies and autonomous institutions, covering around 60 per cent of the grants/transfers provided to these institutions.

Owing to these changes, estimates of GVA both at aggregate and sectoral levels have undergone changes. The sector-wise shares in aggregate GVA have undergone significant revision especially in the case of manufacturing and services (Figure 1). Changes have also been observed in the growth rates in GVAs of individual sectors and contribution of each sector to overall GVA due to use of sales tax and service tax data for estimation in the years 2012-13 and 2013-14. Caution needs to be exercised while comparing estimates and growth rates from the earlier series to the new series.

Figure 1: Percentage Share of Sectors in GVA at factor cost at current prices-Average of 2011-12 to 2013-14



and preliminary nature of the available information that may take time to stabilize and the fact that information for growth-related parameters is available only for three years on the revised base, it becomes difficult to objectively analyse the broad macroeconomic trends on a longer term horizon. The new set of information also cannot be compared with the information and analysis based on the 2004-05 series.

1.3 The economic scenario presented by the new series (with 2011-12 as base year) reveals that there was perceptible improvement in some of the macro-aggregates of the economy in 2013-14, which got strengthened in 2014-15. Economic growth, measured by growth in gross domestic product (GDP) at constant market prices, estimated at 5.1 per cent and 6.9 per cent respectively during 2012-13 and 2013-14, was higher than the corresponding figures of 4.7 per cent and 5.0 per cent released under the 2004-05 series in May 2014. That this high growth occurred in a year when the both the savings and investment to GDP ratios were lower than the average of a number of years and when the level of imports (that are generally positively associated with GDP) actually declined by 8.4 per cent in real terms, is somewhat puzzling. One of the reasons why the real GDP growth rate for 2013-14 appears to be strong is the lower GDP level in 2011-12 and 2012-13 along with lower GDP deflators than were thought hitherto.

Table 1.1 : Comparison of Old Series and New Series

Item	Year	Difference between new series and old series in percentage points
Growth in GVA at factor cost	2012-13	0.4
	2013-14	1.9
Growth in deflator	2012-13	0.5
	2013-14	-0.3
Level of GVA at factor cost at current prices	2011-12	-2.2
	2012-13	-1.3
	2013-14	0.2

Source: **CSO.**

1.4 The table 1.1 captures these effects separately based on the new and old series of the GVA at factor cost. The level of GVA was lower in 2011-12 and 2012-13 in the new series vis-à-vis the old series, with the degree of change tapering off in successive years. [This cannot be verified for the Advance Estimates (AE) for 2014-15, for which only the data from new series is available]. A greater decline in the level of GDP in 2011-12 and 2012-13, has given an upward push to the growth rate in the 2013-14. On the other hand, the upward revision of inflation in 2012-13, measured by the GDP deflator, gave a downward push to growth, but not to the extent of nullifying the positive effect of relative revisions in absolute levels. In 2013-14, the downward revision in the deflator pushed up real growth in the new series.

Table 1.2 : Growth in GVA at Constant (2011-12) Basic Prices (per cent)

	2012-13	2013-14	2014-15
Agriculture, forestry & fishing	**1.2**	**3.7**	**1.1**
Industry	**2.3**	**4.5**	**5.9**
Mining & quarrying	-0.2	5.4	2.3
Manufacturing	6.2	5.3	6.8
Electricity, gas, water supply,& other utility services	4.0	4.8	9.6
Construction	-4.3	2.5	4.5
Services	**8.0**	**9.1**	**10.6**
Trade, hotels & restaurants, transport &communication	9.6	11.1	8.4
Financing, insurance, real estate & business services	8.8	7.9	13.7
Community, social,& personal services	4.7	7.9	9.0
GVA at basic prices	**4.9**	**6.6**	**7.5**
GDP (at market prices)	**5.1**	**6.9**	**7.4**

Source: **Based on the CSO's Press Notes dated 30 January 2015 and 9 February 2015.**

1.5 The estimates at disaggregated level (Table 1.2) indicate that agriculture and allied sectors—including crops, livestock, forestry and logging, and fishing—picked up growth in 2013-14. This was not unexpected as 2013-14 happened to be an exceptionally good year from the point of view of rainfall.

1.6 The manufacturing sector registered a growth of 6.2 per cent and 5.3 per cent respectively in 2012-13 and 2013-14 (6.1 per cent and 5.3 per cent in terms of GVA at factor cost). As per the pre-revised series, this growth was 1.1 per cent and - 0.7 per cent. This surprising change in growth rate can be ascribed to normal data revisions that take place as per revision schedules, the effect of base change as well as more comprehensive coverage of the corporate sector with the incorporation of MCA21 database of the Ministry of Corporate Affairs. For instance, on the basis of earlier methodology and the 2004-05 series, growth rate of the manufacturing sector for 2011-12 was 3.9 per cent as per estimates released in February 2012, which was later revised to 2.7 per cent in January 2013 and 7.4 per cent in January 2014. This implies that some revision in manufacturing growth could have taken place in 2012-13 and 2013-14, even without the base revision. The upward revision in manufacturing growth in the new series also owes to inclusion of trade carried out by manufacturing companies in the manufacturing sector itself, which was earlier part of the services sector.

1.7 At the disaggregated level of the new series, the growth in manufacturing sector was chiefly on account of robust growth in textiles, apparels, and leather products, averaging 17.7 per cent during 2012-13 and 2013-14, and the machinery and equipment sector averaging 9.3 per cent. Food products are yet to pick up momentum.

1.8 The services sector triggered the growth momentum in 2013-14. Services like trade and repair services, rail transport, communication and broadcasting services and miscellaneous services achieved double-digits/close to double-digits growth during the year. However, sectors like water transport and storage services lagged behind.

1.9 The AE of national income for the current year indicate that the positive growth trends that unravelled in 2013-14 appear to have strengthened in 2014-15 in the industrial and services sectors, with the result that the growth in GVA at basic prices improved by 0.9 percentage points and the GDP by 0.5 percentage points in 2014-15. While electricity, gas, and water supply and other utility services are projected to achieve robust growth, manufacturing has gained momentum. Construction has done better while mining and quarrying activities still exhibit a tentative pattern. With appropriate policy changes, coal sector has broken shackles and grew by 9.1 per cent during April-December 2014. However, crude oil, natural gas and refinery products continued the slump, damaging the overall mining story. It is difficult to reconcile the results for the industrial sector, particularly manufacturing, from the new series of the national accounts with the indications from the Index of Industrial Production (IIP). The IIP is based on a limited sample of producing units, while the new series of national accounts employs varied data sources including Annual Survey of Industries, MCA21 and IIP.

1.10 All major service-sector activities are estimated to have done well in the current year too. Financing, insurance, real estate, and business services, one of the most dynamic sector in the economy in recent years, is reckoned to have driven growth in the current year.

1.11 The base revision has also shown that the contribution of the agriculture sector to overall GVA at factor cost is somewhat higher than was hitherto being shown on the basis of the earlier (2004-05) series. In addition, despite higher growth in services, there has been a realignment of sectoral shares in favour of the industrial sector mainly on account of the correction for underestimation of manufacturing GVA in the old series and overestimation of the trade sector GVA in services (Table 1.3).

Table 1.3 : Share in GVA at Factor Cost at Current Prices

Sector	2004-05 series			2011-12 series			
	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14	2014-15
Agriculture and allied activities	17.9	17.5	18.2	18.9	18.7	18.6	17.6
Industry	27.2	26.2	24.8	32.9	31.7	30.5	29.7
Services	54.9	56.3	57.0	48.2	49.6	50.9	52.7

Source **: CSO's Press Releases of 30 January 2015 and 9 February 2015 on New Series Estimates of National Income.**

1.12 Overall, the average share of the industrial sector was revised upwards by 5.6 percentage points from 26.1 per cent in the old series to 31.7 per cent under the new series, for the three- year block, 2011-12 to 2013-14. Corresponding to this, there was a downward revision in the average share of services by 6.5 percentage points from 56.1 per cent to 49.6 per cent. Agriculture and allied sectors also had a share gain of 0.9 percentage point during the period. Despite reasonable growth in the industrial sector, its GVA share declined in 2014-15 because of the robust growth in the services sector. It is observed that the contribution of the services sector to total GVA growth (at basic prices) increased from 68.2 per cent in 2013-14 to 72.4 per cent in 2014-15, while the corresponding figures for agriculture and allied sectors and the industrial sector changed from 9.8 per cent to 2.6 per cent and from 22.1 per cent to 25.1 per cent respectively.

Quarter-wise Trends

1.13 Quarter-wise numbers of growth are useful in tracing the under lying momentum. Comparing the AE of growth for the full year 2014-15 and the estimates for the first three quarters, it is observed that an implied growth rate of 7.8 per cent is estimated in GVA at constant basic prices for Q4 2014-15 (Table 1.4).

1.14 The quarter-wise figures of growth suggest that the momentum has been kept up in all quarters of 2014-15.The mild decline in growth in Q3 could be on account of the dampening impact of agriculture and allied sectors and the moderation in the industrial sector.

1.15 Some variations in the quarterly contribution to the country's GDP have been observed in the 2004-05 series as well as in the revised (2011-12) series of national accounts. In the revised series is noticed that the first half of the financial year accounts for about 47 per cent of the total GDP at current prices, whereas the second half accounts for 53 per cent. A similar pattern of variations was noticed in the GDP at current market prices for 2004-05 series, in which the first half accounted for around 46 per cent of total GDP, while the balance 54 per cent was accounted for by the second half.

Value of Output and Value Added

1.16 The difference between gross value of output (GVO) and gross value added (GVA) is intermediate consumption. Contrasts in the sectoral shares in GVA and GVO presented in Table 1.5

Table 1.4 : Quarter-wise Growth in GVA at (2011-12) Basic Prices (year-on-year)

	2013-14				2014-15		
Sector	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry, and fishing	2.7	3.6	3.8	4.4	3.5	2.0	-0.4
Industry	4.8	4.0	5.0	4.3	6.1	6.0	3.9
Services	10.2	10.6	9.1	6.4	8.6	10.1	13.5
GVA at basic prices	7.2	7.5	6.6	5.3	7.0	7.8	7.5

Source **: CSO's Press Release dated 9 February 2015.**

Table 1.5 : Relationship between GVA and GVO (at constant prices)

Item	Ratio of Sectoral GVA to Sectoral GVO 2011-12	2012-13	2013-14	Ratio of sectoral GVO to total GVO*	Ratio of sectoral GVA to total GVA*	Growth in GVO (per cent) 2012-13	2013-14
1	2	3	4	5	6	7	8
Agriculture & allied	77.1	77.2	77.3	10.4	17.8	1.0	3.6
Industry	25.4	26.4	26.5	55.9	32.4	-1.6	3.9
Manufacturing	20.5	22.2	22.4	37.7	18.2	-1.8	4.3
Services	65.7	66.6	67.6	33.7	49.9	6.5	7.4
Total	43.8	45.4	46.0	100.0	100.0	1.3	5.1

***Notes* : Calculations based on CSO data; * average for 2011-12 to 2013-14.**

(columns 5 and 6) echo the differences in the value addition ratios presented in Columns 2 to 4 of the table.

1.17 The ratio of GVA to GVO shows that value addition is the highest in agriculture and lowest in manufacturing. The differences between the GVO shares and GVA shares are stark among all the sectors, particularly manufacturing. The low ratio of GVA to GVO in manufacturing signifies, on the one hand, that the sector creates substantial demand for the output of other sectors and, on the other, that Indian manufacturing needs to move up the value chain to improve its contribution to overall GVA.

1.18 From the data presented in Tables 1.2 and 1.5, it turns out that in the case of manufacturing, the GVO (at constant prices) declined by 1.8 per cent in 2012-13, while the real GVA grew by 6.2 per cent. Simultaneously, the ratio of GVA to GVO increased significantly (Table 1.5). Furthermore, the ratio of consumption of fixed capital to GVA at constant prices in manufacturing declined from 17.5 per cent in 2011-12 to 17.1 per cent in 2012-13. Hence, despite an output contraction, the factor incomes increased significantly in manufacturing leading to a 6.2 per cent growth in the sector's GVA in 2013-14. Similarly, in the services sector, the growth in GVA in 2012-13 was 1.5 percentage points higher than the growth in GVO.

1.19 From Tables 1.1 and 1.5, it can further be observed that the outcome of the growth in GVA outstripping the growth in GVO in manufacturing and services continued in 2013-14. In manufacturing, GVO growth turned positive (4.3 per cent) in 2013-14, but it was outpaced by the growth in GVA. These emerging trends in manufacturing and services, indicating improving value addition and hence, in a way, greater efficiency in production, are encouraging.

Aggregate Demand

1.20 The Indian economy underwent serious demand and supply constraints in recent years. With the firming up of growth in 2013-14, the final consumption expenditure in the economy (expressed at constant prices) also got strengthened (Table 1.6).

1.21 There was a downward pressure on aggregate demand due to the steep decline in the rate of capital formation (Table 1.6), constraining domestic absorption (consumption plus investment) to grow by only 2.8 per cent in 2013-14. Despite this, a growth close to 7 per cent was achieved in 2013-14 on the back of the robust 7.3 per cent growth in exports of goods and services and 8.4 per cent downslide in imports.

1.22 The decline in the rate of gross fixed capital formation (GFCF) during 2013-14 was much less pronounced than in the overall investment rate

Table1.6 : Growth in GDP at Constant (2011-12) Market Prices (per cent)

	2012-13	2013-14	2014-15(A)
Total final consumption expenditure	4.9	6.5	7.6
Private final consumption expenditure	5.5	6.2	7.1
Government final consumption expenditure	1.7	8.2	10.0
Gross capital formation*	2.6	-4.0	NA
Gross fixed capital formation	-0.3	3.0	4.1
Changes in stock	-6.2	-21.4	3.9
Valuables	3.3	-48.7	28.2
Exports	6.7	7.3	0.9
Imports	6.0	-8.4	-0.5
Growth in GDP at constant market prices	5.1	6.9	7.4

***Source* : CSO.**
***Notes* : A : Advance Estimates; * Gross Capital Formation adjusted for errors and omissions.**
NA : Not available

(gross capital formation-GCF), because the other two components of GCF, viz. changes in stock and valuables, declined significantly (Tables 1.6 and 1.7). The correction in the stock of inventories is an ongoing process that is determined by the demand and supply conditions and is not, in a big way, related to the capital base of the economy. Likewise, valuables, i.e. the accumulation of gold, silver, and other precious metals, do not add much to the productive base either. Hence the decline in these items in 2013-14, though in accounting sense leads to a moderation in investment, need not be read much into. However, the almost five percentage point reduction in the rate of fixed investment (Table 1.7) from 2011-12 to 2014-15 would need to be reversed for growth to be sustained and augmented. Contrary to the long-term trends in consumption, the average propensity to consume increased visibly (Table 1.7) during the last three years, mainly on account of higher growth in government consumption expenditure. This is expected to partially provide the required demand impetus to growth.

1.23 The demand side of the GDP presented mixed signals in 2014-15. First, the increasing trends in consumption have gradually firmed up, with both private and government consumption growing in strength (Tables 1. 6 and 1.7). Second, the fixed capital formation in the economy has picked up growth but lost share in aggregate demand. Third, there is hardly any support to growth from exports. The deceleration in imports owes substantially to the sharp decline in international oil prices in the current year that compressed the oil import bill. Hence one cautious conclusion could be that the ongoing growth revival is predominantly domestic consumption-driven.

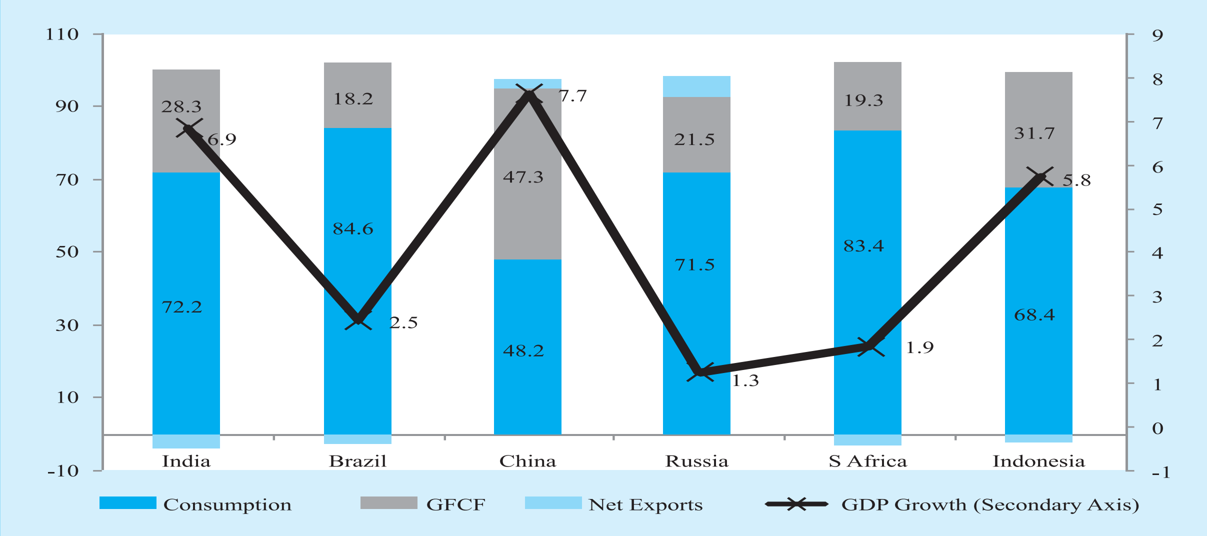
Table 1.7 : Rates of Expenditure Components to GDP at Current Prices

	2011-12	2012-13	2013-14	2014-15
1. Final consumption expenditure	68.8	69.7	71.0	72.1
2. Gross capital formation	38.2	36.6	32.3	NA
Gross fixed capital formation	33.6	31.4	29.7	28.6
Changes in stock	2.4	2.1	1.6	1.5
Valuables	2.9	2.8	1.3	1.3
3. Net export of goods and services	-6.4	-6.7	-2.9	-2.4

***Source* : CSO.**

***Note:* Shares will not add up due to statistical discrepancies, NA=Not available.**

Figure 1.1: Demand side Components as percent of GDP in BRICS countries and Indonesia in 2013



Source **: World Bank data base, except for India's growth rate which is fromthe CSO.**

Note **: For India, figures are for the financial year 2013-14.**

1.24 Comparison of the growth rates and ratios of GFCF to GDP among countries from Figure 1.1 conveys that India operates at the lowest incremental capital output ratios (ICOR-based on GFCF) among the BRICS countries (and Indonesia). Given an average fixed investment rate of 30.5 per cent for 2012-13 and 2013-14, and given the average GDP growth of 6 per cent for these years, the ICOR works out to 5.1. With growth improving to 7.4 per cent in 2014-15 and with the ratio of GFCF declining slightly (despite acceleration in the rate of growth of GFCF), the ICOR for India may have declined further.

1.25 From the past trends in the saving rate (gross domestic savings as percentage of GDP) available from the pre-revised series, it is observed that it reached its historical peak in 2007-08 (36.8 per cent) and then remained volatile, with a general downward movement. While private corporate savings steadily declined, household savings witnessed realignment in favour of accumulation of physical assets at the cost of financial savings. Indications of compositional changes in savings can be seen from the data for three years based on the new series.

1.26 While the old series of savings is not strictly comparable with the new series (2011-12 base) for many reasons, including on account of the inclusion of 'valuables' as part of savings, the three years' data from the new series suggests that households' acquisition of physical assets is on the decline (Table 1.8). Disaggregated data further shows that despite the annual addition to financial assets of households growing from 31.2 per cent of gross savings in 2011-12 to 36.8 per cent in 2013-14, the rate of financial savings of households did not pick up (Table 1.8) because their financial liabilities increased simultaneously from 9.7 per cent of gross savings to 13.2 per cent. Data from the Reserve Bank of India (RBI) shows that, on one side, additional bank deposits of households increased by 27.8 per cent during 2011-12 to 2013-14, while, on the other side, bank advances to households increased by 25.9 per cent.

Table 1.8 : Gross Savings as Percentage of GDP at Market Prices

	2011-12	2012-13	2013-14
Gross savings	33.9	31.8	30.6
Public	1.4	1.7	1.6
Private corporate	9.7	10.0	10.9
Household	22.8	20.2	18.2
Physical*	15.5	13.2	11.0
Financial	7.3	7.0	7.2

Source **: CSO.**
Note**: *Household physical savings include valuables.**

1.27 The retained profits of the private corporate sector adjusted for non-operating surplus/ deficit, defined as their savings under the national accounts, increased during 2011-12 to 2013-14 (Table 1.8).This is in contrast to the trends revealed by the old series which had shown that private corporate saving was only 7.3 per cent of the GDP in 2011-12 and it declined to 7.1 per cent in 2012-13.The reliance on the MCA21 database with a much larger coverage of companies than the RBI's sample studies on finances of non-financial corporations (which was the data source for the old series) may have led to the afore-shown revision in the ratios and their trends. As per the new series, the ratio of the savings of private non-financial corporations to GDP increased from 8.5 per cent in 2011-12 to 9.5 per cent in 2013-14, while the change in the saving rate of private financial corporations was only marginal.

1.28 There was no significant change in the inter se composition of public-sector savings from 2011-12 to 2013-14, except that the dissaving of the general government got reduced, which is consistent with the reduction in the combined revenue deficit of the central and state governments during the period. The combined revenue deficits of the centre and states declined from 4.1 per cent in 2011-12 to 3.7 per cent (RE) in 2012-13 and further to 2.9 per cent (BE) in 2013-14 (Source : Reserve Bank of India).

Table 1.9 : Ratio of Investment to GDP (at current market prices-per cent)

	2011-12	2012-13	2013-14
Gross capital formation	38.2	36.6	32.3
Public sector	7.6	7.2	8.0
Private sector	28.4	26.3	23.3
Corporate sector	13.3	13.5	12.6
Household sector	15.1	12.9	10.7
Gross savings	33.9	31.8	30.6
Saving investment gap	-4.3	-4.8	-1.6
Net capital inflow	4.3	4.8	1.6

Source **: CSO.**
Note**: Totals may not tally due to adjustment for errors and omissions.**

1.29 Juxtaposing savings with investment (Tables 1.8 and 1.9), it becomes clear that it was the large saving-investment gap of the consolidated public sector, complemented by a less pronounced gap in the private corporate sector, which could not be fully defrayed by the savings of households, that constituted the aggregate saving-investment gap. The gap between domestic savings and domestic investment is definitionally equal to the current account balance (net capital inflows in Table 1.9). In view of the above, it is clear that household financial savings need to be raised to keep the saving-investment gap at acceptable levels.

1.30 The composition of capital formation is important in determining its productivity. This will be determined largely by the complementarities required between machinery and built-in structures. Table 1.10 conveys that the addition to intellectual property products, which is separately shown as part of capital formation in the new series, is gradually picking up. It further shows that construction forms the major part of addition to fixed capital. The erection of dwelling units adds to income and employment significantly during the period of construction and generates large forward and backward linkages through creation of demand in the input sectors and real estate services. (The input output tables 2007-the latest available-indicate that among various sectors, construction has the highest linkages in the economy.)

1.31 However, construction of dwelling units cannot be perceived to make a direct permanent addition to the productive capacity of the economy. Data does not permit examination of such

Table 1.10 : Components as Percentage of Total GFCF

	2011-12	2012-13	2013-14
Dwellings, other buildings & structures	59.3	58.2	58.6
Machinery & equipment	35.6	36.7	35.6
Cultivated biological resources	0.2	0.2	0.2
Intellectual property products	4.8	4.9	5.6

Source **: CSO.**

Table 1.11 : Household GFCF as Percentage of GDP

	2011-12	2012-13	2013-14
Household GFCF	15.0	12.6	10.6
Of which, dwellings, other building and structures	12.7	10.6	8.9

Source **: CSO.**

construction separately from other construction like roads, rail network, irrigation structures, etc.

1.32 The erection of dwelling units, other buildings and structures by households accounted for about 34 per cent of the total GFCF in the economy and 84 per cent of households' own GFCF during 2011-12 to 2013-14. Table 1.11 shows that the share of household construction as a ratio of GDP declined by 3.8 percentage points between 2011-12 and 2013-14. Simultaneously, the ratio of total GFCF to GDP came down by 3.9 percentage points (Table1.6), implying that the reduction in the rate of fixed capital formation during the period was almost fully accounted for by the deceleration in household construction. This may be one of the reasons why a higher growth could be reaped, despite a reduction in fixed capital formation in 2012-13 and 2013-14. Table 1.12 shows that all major sectors have been affected by the reduction in rate of capital formation.

Table 1.12 : Sector-wise Distribution of Investment

Sector	GCF to GDP ratio (%)		
	2011-12	2012-13	2013-14
Agriculture & allied	3.1	2.6	2.5
Industry	13.5	12.9	11.7
Manufacturing	7.1	6.9	6.0
Other industrial sectors	6.4	6.0	5.8
Services	19.5	18.0	17.1

Source **: CSO.**

Note **: This does not include valuables and the adjustment factor from flow of funds and hence will not match with GCF.**

Factor shares in GVA

1.33 In line with the income approach to GDP, the GVA at basic prices in a year can be expressed as the sum of the compensation of employees (CE), operating surplus (OS) / mixed income of the self-employed (MI), consumption of fixed capital (CFC) and taxes net of subsidies on production (Table 1.13). CE is the composite value of wages and salaries paid in the sector, including the social

Table 1.13 : The Income Components of GVA and Income and Employment Shares

Sector	CE to GVA	OS & MI to GVA	CFC to GVA	GVA share of the sector	Employment share
	Average 2011-13				2011
Agriculture & allied	**15.3**	**81.6**	**6.6**	**18.1**	**48.9**
Industry	**35.7**	**49.1**	**14.6**	**31.9**	**24.3**
Mining & quarrying	23.9	62.5	12.8	3.0	0.5
Manufacturing	23.6	58.4	17.0	17.8	12.6
Electricity, gas, & water supply	31.7	36.5	34.1	2.3	0.5
Construction	65.2	29.1	5.1	8.8	10.6
Service sector	**38.9**	**50.0**	**10.4**	**50.0**	**26.9**
Trade, hotels, & restaurants	23.5	69.9	5.2	11.4	11.0
Transport, storage, & communication	37.9	49.8	15.0	6.6	4.8
Financial, real estate, & business services	26.1	61.4	10.8	19.4	2.3
Community, social, & personal services	72.7	14.9	12.3	12.7	8.7
Total	**33.6**	**55.5**	**11.1**	**100.0**	**100**

Source **: CSO.**

contributions made by the employer, representing the income share of employees in the GVA. In the organized sector, OS is the difference between net value added and compensation of employees. As a result of the existence of unincorporated enterprises and household industries in the unorganized sector, which either do not maintain accounts or are wholly managed by self-employed workers, net value added (NVA) cannot be separated as income of labour and entrepreneurship. This necessitated the introduction of an item called mixed income of self-employed to complete the account.

1.34 In the agricultural sector, CE represents only the share of wages to hired labour and hence the total returns to farmers working on their own fields/fields hired by them, becomes part of MI. Hence it is difficult to relate the employment share in agriculture to CE in agriculture. The presence of a large unorganized segment in manufacturing and certain services also makes it difficult to establish correspondence between their employment shares and the CE to GVA ratios. It may be noted that the employment share of the construction sector is higher than its GVA share, and the same gets reflected in the sector's CE to GVA ratio. Apart from agriculture, construction is the only sector whose employment share is higher than GVA share. As per the AE for 2014-15, the growth in construction is gradually picking up, which should auger well for employment generation.

1.35 Among service-sector activities, two sectors with comparatively lower presence of the unorganized segment include financial, real estate, and business services and community, social, and personal services. Consistent with the contrast in their GVA and employment shares, the ratio of CE to GVA is also vastly different in these sectors. Community, social, and personal services have a majority government presence.

Per capita income

1.36 During 2012-13 to 2013-14, the average growth in per capita income, i.e. 4.3 per cent as per the new series (Table 1.14), is much higher than the corresponding growth of 2.4 per cent presented by the old series.

1.37 Having analysed the trends in growth, savings, and investment, certain other key macro-parameters relating to the fiscal situation, balance of payments (BoP), prices, and monetary management, are discussed in the following paragraphs.

Public Finance

1.38 In 2013-14, proactive policy decisions of the government with firm commitment to the policy of fiscal rectitude improved the year-end performance of the fiscal deficit target set for year. The first nine months of 2014-15 have witnessed some major policy reforms in the subsidy regime; the modified direct benefit transfer scheme has been launched; the new domestic gas pricing policy has been approved; and diesel prices have been deregulated. An Expenditure Management Commission has been constituted to look into various aspects of expenditure reforms to achieve the goal of fiscal consolidation. It will review the allocative and operational efficiencies of government expenditure to achieve maximum output.

1.39 As per provisional accounts, the fiscal deficit for 2013-14 worked out at 4.5 per cent of GDP as opposed to the Budget Estimate (BE) of

Table 1.14 : Per Capita Net National Income

	(₹)				Growth (in per cent)		
	2011-12	2012-13	2013-14	2014-15	2012-13	2013-14	2014-15
At current prices	64316	71593	80388	88533	11.3	12.3	10.1
At constant (2011-12) prices	64316	66344	69959	74193	3.2	5.4	6.1

Source **: CSO.**

4.8 per cent. Fiscal deficit and revenue deficit were budgeted at ₹ 5, 31,177 crore (4.1 per cent of GDP) and ₹ 3, 78,348 crore (2.9 percent of GDP) respectively in 2014-15.

1.40 The BE for 2014-15 aimed at achieving tax to GDP and non-debt receipt to GDP ratios of 10.6 per cent and 9.8 per cent respectively as against a 13.9 per cent total expenditure to GDP ratio. The envisaged growth for gross tax revenue was 17.7 per cent over the Revised Estimates (RE) for 2013-14 and 19.8 per cent over the Provisional Actuals (PA) 2013-14. Total expenditure was estimated to increase by 12.9 per cent and 14.8 per cent in BE 2014-15 over RE 2013-14 and PA 2013-14 respectively.

1.41 As per the data on union government finances for April-December 2014 released by the Controller General of Accounts (CGA), the gross tax revenue increased by 7 per cent in comparison to the corresponding period of the previous year and is at 58.3 per cent of BE in April-December 2014. The non-tax revenue during April-December 2014 registered an increase of 27.3 per cent over the corresponding period of the previous year due to increase in interest receipts and dividends and profits. In non-debt capital receipts, there is significant shortfall as of December 2014, mainly on account of shortfall in disinvestment receipts, as only ₹ 1952 crore of the budgeted amount of ₹ 58,425 crore has been realized. A number of disinvestment proposals are on the anvil and are expected to bring in revenue in the remaining period of fiscal year 2014-15.

1.42 On the expenditure side of Union Government accounts, the notable trends during April-December 2014 include a shortfall in growth in Plan and non-Plan expenditure vis-à-vis the corresponding period of the previous year**.** Major subsidies during April-December 2014 have increased by 12.5 per cent compared to April-December 2013 due to increase in food subsidy (₹ 21,807 crore) and fertilizer subsidy (₹ 6620 crore). A significant positive outcome in 2014-15 so far is a decline in petroleum subsidy by ₹ 4908 crore compared to the corresponding period in 2013-14 due to fuel pricing reforms and fall in the global prices of petroleum products.

1.43 Fiscal deficit at 100.2 per cent of BE in 2014-15 (April-December) is much higher than the five-year -average of 77.7 per cent. The revenue deficit for April-December 2014 is estimated at 106.2 per cent of BE and is significantly higher than the five-year -average of 81.4 per cent.

PRICES AND MONETARY MANAGEMENT

1.44 Headline inflation measured in terms of the Wholesale Price Index (WPI) (base year 2004-05=100) which remained persistently high at around 6-9 per cent during 2011-13 moderated to an average of 3.4 per cent in 2014-15(April-December) on the back of lower food and fuel prices. During the first quarter of 2014-15, WPI headline inflation was at 5.8 per cent mainly because food and fuel prices continued to be high. In the second and third quarters of 2014-15, WPI inflation declined to 3.9 per cent and 0.5 per cent respectively. WPI headline inflation declined by 0.4 per cent in January 2015 as compared to January 2014. WPI food inflation (weight: 24.3 per cent), which remained high at 9.4 per cent during 2013-14, moderated to 4.8 per cent during April-December 2014 following sharp correction in vegetables prices since December 2013 (except March 2014) and moderation in prices of cereals, eggs, meat and fish. As fuel has larger weight in the WPI, the decline in fuel prices led to a sharper reduction in the WPI as compared to the Consumer Price Index (CPI). Inflation in manufactured products has remained within a narrow range since 2013-14.

1.45 Retail inflation as measured by the CPI (combined) (base year 2010=100) had remained stubbornly sticky around 9-10 per cent during 2012-13 and 2013-14. Like the WPI inflation, CPI inflation has also moderated significantly since the second quarter of 2014-15, with moderation in inflation observed in all the three major sub-groups, viz. food and beverages, and tobacco; fuel and light; and others. The CPI (combined) inflation

Table 1.15 : Quarter-wise Inflation in CPI (base 2010=100) Broad Groups (in per cent)

	Weights	2013-14				2014-15		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3 (P)
General	**100.0**	**9.5**	**9.7**	**10.4**	**8.4**	**8.1**	**7.4**	**5.0**
I. Food and beverages & tobacco	49.7	11.0	11.1	12.9	9.2	8.9	8.6	4.8
II. Fuel and Light	9.5	8.4	7.9	7.0	6.3	5.2	4.0	3.4
III. Others	40.8	7.9	8.2	8.0	7.9	7.6	6.7	5.5
Food (CFPI)	42.7	11.1	11.4	13.6	9.3	9.1	8.8	4.5
Core inflation (Non-food non-fuel)	42.9	8.0	8.2	8.1	8.0	7.7	6.8	5.7

***Source*: CSO. P : Provisional.**

declined to a low of 5 per cent in Q3 of 2014-15 (Table 1.15). As per the revised CPI (new series) with the base year 2012, headline CPI inflation stood at 5.1 per cent in January 2015.

1.46 The decline in inflation during the year turned out to be much faster than was anticipated in the initial months of the year. Global factors, namely persistent decline in crude prices, soft global prices of tradables, particularly edible oils and even coal, helped moderate headline inflation. The tight monetary policy was helpful in keeping the demand pressures contained, creating a buffer against any external shock, and keeping volatility in the value of the rupee under check. During the last one year, the rupee remained relatively stable vis-à-vis the major currencies, which too had sobering influence on inflation. Moderation in wage rate growth reduced demand pressures on protein-based items. Base effect also contributed to the decline in headline inflation.

Monetary Developments

1.47 The RBI kept policy rates unchanged during the year till January 2015. With the easing of inflationary conditions, the RBI has signalled softening of the monetary policy stance by cutting policy repo rates by 25 basis points to 7.75 percent in January 2015. Subsequently, the RBI also reduced the statutory liquidity ratio (SLR) by 50 basis points from 22.0 per cent of net demand and time liabilities (NDTL) to 21.5 per cent. The RBI adopted the new CPI (combined) as the measure of the nominal anchor - for policy communication from April 2014.

1.48 With a view to ensuring flexibility, transparency, and predictability in liquidity management operations, the Reserve Bank revised its liquidity management framework in September 2014. Liquidity conditions have remained broadly balanced during 2014-15 so far, except transient tight conditions. The revised liquidity management framework helped the weighted average cut-off rates in the fourteen-day term repo auctions as well as in the overnight variable rate repo auctions to remain close to the repo rate.

External Sector

1.49 After a turbulent initial phase in 2013-14, the outcome for the year as a whole was robust owing to the policies that were put in place to correct the extraordinary situation. A continuance of the robust external sector outcome through the current financial year facilitated the lifting of restrictions on gold and, in tandem with lower international prices of crude petroleum, helped usher in reform in diesel pricing. The lack of full pass-through of global crude petroleum prices to domestic diesel prices was a major factor in the elevated levels of twin deficits. Going forward, the robustness of the external outcome is on a sustainable reform anchor.

International Trade

1.50 Over the last ten years, India's merchandise trade (on customs basis) increased manifold from US$ 195.1 billion in 2004-05 to US$ 764.6 billion in 2013-14 helping India's share in global exports and imports improve from 0.8 per cent and 1.0 per cent respectively in 2004 to 1.7 per cent and 2.5 per cent in 2013. Its ranking amongst the leading exporters and importers improved from 30 and 23 in 2004 to 19 and 12 respectively in 2013.

1.51 After growing by 4.7 per cent in 2013-14, India's merchandise exports growth moderated to 2.4 per cent to reach US$ 265 billion in 2014-15 (April-January). During 2013-14, India's merchandise imports contracted by 8.3 per cent to US$ 450.2 billion. In 2014-15 (April-January), imports grew by 2.2 per cent to US$ 383.4 billion as compared to US$ 375.3 billion in 2013-14 (April-January). The value of petroleum, oil, and lubricants (POL) imports, which accounted for 36.6 per cent of India's total imports in 2013-14, declined by 7.9 per cent in 2014-15 (April-January) as a result of decline in the price of international crude petroleum products. The growth in imports of POL was 5.9 per cent and 0.4 per cent respectively in 2012-13 and 2013-14. Given the less than adequate pass-through, the level of POL imports continued to be elevated till the first quarter of the current financial year. There was moderation in international crude oil prices (Brent) from US$109.8 per barrel in the first quarter of 2014-15 to US$ 76.0 per barrel in the third quarter which resulted in the value of POL imports declining by 7.9 per cent in 2014-15 (April-January).

1.52 The share of gold and silver imports in India's total imports was 11.4 per cent in 2012-13 and 7.4 per cent in 2013-14. Gold and silver imports that declined by 9.6 per cent and 40.4 per cent respectively in 2012-13 and 2013-14 grew by 8.0 per cent in 2014-15 (April-January). Capital goods imports declined continuously from 2011. Non-POL and non-gold and silver imports, which largely reflect the imports needed for industrial activity, grew by 7.8 per cent in 2014-15 (April-January), after registering a decline of 0.7 per cent and 6.9 per cent respectively in 2012-13 and 2013-14.

1.53 Manufactured goods constituted the bulk of exports—over 63 per cent in recent years—followed by crude and petroleum products (including coal) with 20 per cent share and agriculture and allied products with 13.7 per cent share. After crossing US $ 300 billion in 2011-12, there has been significant deceleration in growth rates of exports which is somewhat a global phenomenon as global trade volumes have not picked up significantly since the 2011 Eurozone crisis. Growth in exports of petroleum and agriculture and allied products which were in positive territory for the last four years turned negative in 2014-15 (April-January). Gems and jewellery exports which exhibited a declining trend in 2012-13 and 2013-14, continued to decline in 2014-15 (April-January). Similarly, the decline in electronic goods exports since 2012-13 continued in 2014-15. During 2014-15 (April-January), some sectors like transport equipment; machinery and instruments; manufactures of metals; and ready-made garments registered positive growth in exports. Marine products and leather and leather manufactures recorded relatively higher growth in 2012-13, 2013-14, and 2014-15 (April-January).

1.54 There has been significant market diversification in India's trade in recent years—a process that has helped cope with the sluggish global demand, which owes to a great extent to the weakness in the Eurozone. Region-wise, India's export shares to Europe and America have declined over the years from 23.6 per cent and 20.1 per cent respectively in 2004-05 to 18.6 per cent and 17.2 per cent respectively in 2013-14. Conversely, shares of India's exports to Asia and Africa have increased from 47.9 per cent and 6.7 per cent respectively in 2004-05 to 49.4 per cent and 9.9 per cent respectively in 2013-14.

1.55 In 2014-15 (April-January), trade deficit increased marginally by 1.6 per cent to US$ 118.4 billion as against US$ 116.5 billion in 2013-14

(April-January). Lower growth of exports (2.4 per cent) and imports (2.2 per cent) in 2014-15 (April-January) has resulted in a marginal increase of US $ 1.9 billion in the trade deficit.

BoP

1.56 The widening of the current account deficit (CAD) in 2011-12 and 2012-13 owed to elevated levels of imports and its financing had implications in terms of larger outgo as investment income in the invisibles account. As a proportion of the level of CAD, such outgo rose from 28.2 per cent in 2007-08 to 72.6 per cent in 2013-14. One of the important considerations for reduction in CAD was that even with its full financing, the levels of CAD have a cascading impact through investment income outgo.

1.57 In the first half of 2014-15, India's external-sector position was benign and comfortable. Two important developments were: (i) lower trade deficit along with moderate growth in invisibles that resulted in lower CAD and (ii) surge in capital inflows, enabled by higher portfolio investment, foreign direct investment (FDI), and external commercial borrowings (ECB).

1.58 Capital inflows were in excess of the financing requirement of the CAD and resulted in accretion in foreign exchange reserves. The CAD was placed at US $ 17.9 billion in 2014-15 (April-September) as against US $ 26.9 billion in the same period of 2013-14. As a proportion of GDP, the CAD declined from 3.1 per cent in the first half of 2013-14 to 1.9 per cent in the first half of 2014-15. Net financial flow was at US$ 36.0 billion in the first half of 2014-15 compared to US$ 16.3 billion in the first half of 2013-14. Net foreign investment surged from US$ 7.8 billion in 2013-14 (April-September) to US$ 38.4 billion in 2014-15 (April-September). Net ECB also improved from US$ 2.5billion in 2013-14 (April-September) to US$ 3.4 billion in 2014-15 (April-September). Net banking capital witnessed a decline from US$ 11.5 billion to US $(-) 0.5 billion during the same period. With net capital flows remaining higher than the CAD, there was net accretion of US$ 18.1 billion to India's foreign exchange reserves (on BoP basis) in H1 of 2014-15 as against a drawdown of US$ 10.7 billion in H1 of 2013-14.

1.59 Among the major economies with a CAD, India is the second largest foreign exchange reserve holder after Brazil**.** India's foreign exchange reserves at US$ 330.2 billion as on 6 February 2015 mainly comprised foreign currency assets amounting to US$ 305.0 billion, accounting for about 92.5 per cent of the total. With increase in reserves in the first half of 2014-15, all reserve-based traditional external sector vulnerability indicators have improved. For instance, the ratio of short-term external debt to reserves declined from 29.3 per cent at end-March 2014 to 27.5 per cent as at end-September 2014 and the reserve cover for imports also increased from 7.8 months at end-March 2014 to 8.1 months as at end-September 2014.

1.60 The rupee-US dollar exchange rate has remained broadly stable during the year thanks to the huge inflow of FDI and foreign institutional investment (FII) in the equity and bond markets. Due to the weak economic outlook in Europe and Japan, the rupee has appreciated against the euro and yen since September 2014 in tandem with cross-currency movements of the euro and yen vis-à-vis the US dollar. On point-to-point basis the rupee has depreciated by 3.3 per cent from the level of ₹ 60.10 per US dollar on 28 March 2014 to ₹ 61.76 per US dollar on 13 February 2015. The rupee touched a low of ₹ 63.75 per US dollar on 30 December 2014 and a peak of ₹ 58.43 per US dollar on 19 May 2014.

External Debt

1.61 India's external debt stock increased by US$ 13.7 billion (3.1 per cent) to US$ 455.9 billion at end-September 2014 over the end-March 2014level. The rise in external debt was on account of higher long-term debt particularly commercial borrowings and non-resident Indian (NRI) deposits. The maturity profile of India's external debt indicates the dominance of long-term borrowings. At end-September 2014, long-term debt accounted for 81.1 per cent of the total external debt as against 79.8 per cent at end-March 2014. India's external debt has remained within manageable limits as indicated by the external debt to GDP ratio of 23.5 per cent and debt service ratio of 5.9 per cent in 2013-14. The prudent external debt management policy of the Government of India has helped maintain a comfortable external debt position.

Outlook for 2015-16

1.62 The macroeconomic situation in India has improved significantly during the current year. The release of the new series of national accounts revealed that the economy has been performing much better than what was being depicted earlier. The steady acceleration in services and manufacturing growth in the face of subdued global demand conditions point to the strengthening of domestic demand. Most of the buoyancy in domestic demand can be traced to consumption. Investment activity, which is slowly picking up, needs to be grounded on a stronger footing. The savings-investment dynamics will be crucial for the growth to strengthen further in the coming years, in addition to reversal of the subdued export performance being currently witnessed. The key will be the response of savings to improved price and financial market stability, and of investment, particularly in the crucial infrastructure sector, to reform efforts of the Government that are underway.

1.63 On the supply side, there are concerns about tentative growth patterns in construction and mining activities that need to be addressed to. This is particularly important in view of the strong inter-sectoral linkages that these sectors have. The farm sector suffered from a relatively poor monsoon, but there are no indications of its spillover to be next year. The improving rate of value addition in the economy, represented by the ratio of value added to output, and the falling incremental capital output ratio indicate better resource use in production.

1.64 On the global front, the United States radiates confidence and strength, while some other structurally important economies like China, Russia, Euro area and Japan face uncertain prospects, thereby affecting global growth and investment outlook. The sharp decline in oil prices has provided an incentive for overall global growth and stability. At the same time, it has diminished fortunes of oil exporting countries that can influence economic activity adversely.

1.65 In the light of the Government's commitment to reforms, along with the improvements in the price and external sector scenarios including the possibility of international oil prices remaining generally benign, the outlook for domestic macroeconomic parameters is generally optimistic, notwithstanding the uncertainties that could also arise from an increase in the interest rates in the United States and situation prevailing in Greece within Euro-zone. Given the above, and assuming normal monsoons better prospects in the world economy that could provide impetus to higher exports for Indian products and services, a growth of around 8.5 per cent is in the realm of possibility in 2015-16.

Sectoral Developments

Agriculture

1.66 During the Tenth Plan, the contribution of agriculture and allied sectors to the GDP (at 2004-05 prices) of the country was 19 per cent and it declined to 15.2 per cent during the Eleventh Plan. This is in accordance with the typical past pattern of structural transformation of the economies in transition. Agriculture and allied sectors registered a growth of 2.5 per cent in the Ninth Plan, 2.4 per cent in Tenth Plan, and 4.1 per cent in the Eleventh Plan.

1.67 For the year 2013-14, total foodgrain production has been estimated at 265.6 million tonnes, which is higher by 8.5 million tonnes than the previous year's production and 22.1 million tonnes than the average production of foodgrains during the last five years. As per the second AE released by the Ministry of Agriculture on 18 February 2015, total production of foodgrains during 2014-15 is estimated at 257.1 million tonnes.

Table 1.16 : Agriculture Sector: Key Indicators (per cent at current prices)

Item	2011-12	2012-13	2013-14
Share of agriculture & allied sectors in total GVA	18.4	18.0	18.0
Crops	12.0	11.7	11.8
Livestock	4.0	4.0	3.9
Forestry and logging	1.6	1.5	1.4
Fishing	0.8	0.8	0.9
Share of agriculture & allied Sectors in total GCF	8.6	7.7	7.9
Crops	7.4	6.5	6.6
Livestock	0.8	0.7	0.7
Forestry and logging	0.1	0.1	0.1
Fishing	0.4	0.4	0.5
GCF in agriculture & allied sectors as per cent to GVA of the sector (at current prices)	18.3	15.5	14.8

Source **: CSO.**

1.68 The following are some of the challenges and policy recommendations for Indian agriculture:

- Agriculture and food sectors need huge investment in research, education, extension, irrigation, fertilizers, and laboratories to test soil, water, and commodities, and warehousing and cold storage. Rationalization of subsidies and better targeting of subsidies would generate part of the resources for public investment.
- There are wide differences in yields between states. Even the best of states have much lower yield in different crops when compared to the best in the world. This provides ample opportunity to increase production by bridging the yield gap to the extent feasible within the climatic zone.
- Providing irrigation can improve yield substantially, as vast cropped area is still unirrigated. For a shift in production function, investment in basic research would be necessary.
- Recommendations of the Shanta Kumar Committee provide useful suggestions for the future road-map of food policy. Every effort should be made to bring states on board for creating a national common market for agricultural commodities.
- Distortions emerging from various policies, including exempting user charges for electricity and water should be removed.
- For providing efficient advance price discovery to farmers and enabling them to hedge price risk, the Forward Markets Commission should be strengthened and empowered to regulate the market more effectively.

Industrial, Corporate, and Infrastructure Performance

1.69 As per recently released national accounts data, with 2011-12 as the base year, industrial growth was much better in 2012-13 and 2013-14 at 2.4 per cent and 4.5 per cent respectively than earlier estimated, with 2004-05 as the base year. The declining trend was attributed to moderation in domestic demand, inflationary pressures, increase in input costs, and slowdown in the world economy. Further, the 1.4 per cent growth in GCF in industry in 2013-14 implies that recovery in industrial growth had commenced last year.

1.70 The industrial growth picture as per the IIP suggests that industrial production which had slowed down since 2011-12, reversed the trend in 2014-15. In terms of use-based classification of the IIP, basic goods and capital goods witnessed marked improvement in growth during April-December 2014-15. While the growth in intermediate goods remained sluggish, consumer goods contracted in April-December 2014-15, particularly due to contraction in the consumer durables sector.

1.71 Growth in infrastructure, based on an index of eight core industries, has improved slightly to 4.4 per cent during April-December 2014-15 as compared to 4.1 per cent in the same period in 2013-14. The performance of coal, electricity, and cement has shown marked improvement, steel and refinery products have grown marginally by 1.6 per cent and 0.2 per cent, while crude oil, gas, and fertilizers have seen negative growth. In the transport sector, growth in the first nine months of 2014-15 has improved in railway freight (5.1 per cent), domestic air passenger traffic (7.1 per cent), international passenger traffic (10.3 per cent), international cargo (8.3 per cent), domestic cargo (19.3 per cent), and cargo throughput at major and non-major ports (6.8 per cent)as compared to the same period in the 2013-14.

1.72 The performance of listed manufacturing companies in the private sector in terms of growth of sales and net profit appeared to turn around in Q1 2014-15. However, the performance in Q2 2014-15 dampened expectations of sustained improvement. There is no discernible improvement in capacity utilization in the first two quarters of 2014-15, as per the RBI's twenty-seventh round of the Order Books, Inventories, and Capacity Utilization Survey.

1.73 Of the total 246 central infrastructure projects costing Rs 1000 crore and above, 124 are delayed with respect to the latest schedule and 24 have reported additional delays vis-à-vis the date of completion reported in the previous month (Flash Report for October 2014, Ministry of Statistics and Programme Implementation).

1.74 All the other major industrial sectors except mining have witnessed slowdown in the growth of credit in 2014-15 as compared to 2013-14. The growth of credit flow to the manufacturing sector at 13.3 per cent in 2014-15 is lower than the growth of 25.4 per cent in 2013-14. Chemicals, food processing, and textiles have seen a sharp decline in growth of credit in 2014-15.

1.75 During April-November 2014-15, total FDI inflows (including equity inflows, reinvested earnings, and other capital) were US$ 27.4 billion, while FDI equity inflows were US$ 18.9 billion. Cumulative FDI inflows from April 2000 to November 2014 were US$ 350.9 billion. Services, construction, telecommunications, computer software and hardware, drugs and pharmaceuticals, automobile industry, chemicals, and power have attracted a disproportionately high share of total inflows.

Services Sector

1.76 India's services sector remains the major driver of economic growth contributing 72.4 per cent of GDP growth in 2014-15. Services-sector growth has increased from 8.0 per cent in 2012-13 to 9.1 per cent in 2013-14 and further to 10.6 per cent in 2014-15. This is mainly due to growth acceleration in financial, real estate, and professional services to 13.7 per cent from 7.9 per cent and public administration, defence, and other services to 9.0 per cent from 7.9 per cent in the previous year. Growth in trade, hotels, transport, communication, and related services was 8.4 per cent in 2014-15 compared to 11.1 per cent in 2013-14. Data available for the beginning months of 2015 indicates pick-up in the services sector with expansion in business activity as indicated by services PMI data. This growth momentum is expected to continue in 2015-16.

1.77 The services sector is also the dominant sector in most of the states of India with a more than 40 per cent share in the gross state domestic product (GSDP) in 2013-14 for almost all states. This sector has made substantial contribution to FDI inflows, exports, and employment. During the last twelve years, with a compound annual growth average (CAGR) of 8.7 per cent, India had the second fastest growing services sector, just below China's 10.7 per cent. In commercial services exports, India had the highest CAGR of 20 per cent during this period. India's share in global exports of commercial services increased to 3.2 per cent in 2013 from 1.2 per cent in 2000. Its ranking among the leading exporters in 2013 was sixth. In the first half of 2014-15, services exports grew by 3.7 per cent to US$ 75.9 billion and import of services grew by 5.0 per cent to US$ 39.9 billion, resulting in net services growth of only 2.4 per cent. The services value-added content in exports has also been rising. India is very active in the services negotiations in the World Trade Organization (WTO) and has recently provided more liberal offers to least developed countries.

1.78 Among the sub-sectors, computer and related services with a share of 3.3 per cent in India's GDP grew by 14.4 per cent in 2013-14. The contribution of tourism to total income and employment of the country during 2012-13 was 6.9 per cent and 12.5 per cent respectively. In 2014, foreign tourist arrivals and foreign exchange earnings increased by 7.1 per cent and 6.6 per cent respectively.

Banking and Insurance

1.79 Asset quality of banks showed some signs of stress during the year. The gross non-performing advances (NPAs) of scheduled commercial banks (SCB) as a percentage of the total gross advances increased to 4.5 per cent in September 2014 from 4.1 per cent in March 2014. Stressed advances increased to 10.7 per cent of the total advances from 10.0 per cent between March and September 2014. RBI has taken a number of steps to resolve the NPA issue.

1.80 The growth of aggregate deposits of SCBs decelerated during 2014-15 till December mainly due to base effect, i.e. high accretion to NRI deposits last year during September-November and lower deposit mobilization during this year. The growth in non-food credit also decelerated.

1.81 To achieve the objective of financial inclusion, the Pradhan Mantri Jan-Dhan Yojana (PMJDY) was launched on 28 August 2014. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household. The scheme is expected to provide a big push to the Direct Transfer Benefit scheme.

1.82 The year 2014-15 saw other reform initiatives in the banking and insurance sector, which include allowing banks to raise capital from the market to meet capital adequacy norms by diluting the government's stake up to 52 per cent and notifying of an ordinance to enhance the foreign equity cap in the insurance sector.

1.83 Equity markets continued to do well during the year. The benchmark indices BSE Sensex and Nifty showed a general upward trend in the current year. A number of steps such as improvement in corporate governance norms and establishment of foreign portfolio investor (FPI) regulation framework were taken by the Securities and Exchange Board of India (SEBI) to improve functioning of both primary and secondary markets.

Social Infrastructure, Employment, and Human Development

1.84 India is projected to be the youngest nation in the world by 2020. While this provides great opportunities, it also poses challenges before the nation. India's total fertility rate (TFR) has been steadily declining and is currently at 2.3 although state-wise disparities exist. As per Sample Registration System (SRS) data for 2013, there has been a gradual decline in the share of population in the age group 0-14 from 41.2 to 38.1 per cent during 1971 to 1981 and from 36.3 to 28.4 percent during 1991 to 2013, whereas the economically active population (15-59 years) has increased from 53.4 to 56.3 per cent during 1971 to 1981 and from 57.7 to 63.3 per cent during 1991 to 2013. Of concern is the secular decline in the child sex ratio (CSR). A new scheme, Beti Bachao Beti Padhao, for promoting survival, protection, and education of the girl child was launched in January 2015. It aims to address the declining CSR through a mass campaign targeted at changing social mindset and creating greater awareness.

1.85 In 2020 the average age of India's population at around 29 years is expected to be among the lowest in the world. Consequently, while the global economy is expected to witness a shortage of young population of around 56 million by 2020, India will be the only country with a youth surplus of 47 million. These young people need to be healthy, suitably educated, and appropriately skilled to contribute optimally to the economy

1.86 **Educational Challenges:** While only 73 per cent literacy has been achieved (Census 2011), there is marked improvement in female literacy. Male literacy at 80.9 per cent is still higher than female literacy at 64.6 per cent but the latter increased by 10.9 percentage points compared to the 5.6 percentage points for the former. Total enrolment in primary schools has declined in 2013-14 while upper primary enrolment has grown. This is in line with the demographic changes in the age structure. However, the overall standard of the education system is well below global standards. The single most significant finding of the Annual Status of Education Report (ASER) is that learning levels across the country, whether in public or private schools, have not improved. Clearly, the policy prescription lies in shifting attention away from inputs to outcomes and focus on building quality education and skill development infrastructure. The Padhe Bharat Badhe Bharat initiative to create a base for reading, writing, and math fluency is a good step in this direction.

1.87 **Skilling the Youth:** As per the Labour Bureau Report 2014, the current size of India's formally skilled workforce is small, approximately 2 per cent; this number compares poorly with smaller countries like South Korea and Japan which report figures of 96 and 80 per cent respectively. At all-India level, around 6.8 per cent of persons aged 15 years and above are reported to have received/are receiving vocational training. As per the National Skill Development Corporation (NSDC), for the period between 2013 and 2022 there is an incremental requirement of 120 million skilled persons in the non-farm sector. A dedicated Department of Skill Development and Entrepreneurship has been createdfor focused attention to skill development. Besides, skilling of rural youth has now been refocused and reprioritized towards building the capacity of poor rural youth. New programmes have also been started for bringing minorities into mainstream development.

1.88 **Sluggish employment growth:** A cause for concern is deceleration in the CAGR of employment during 2004-05 to 2011-12 to 0.5 per cent from 2.8 per cent during 1999-2000 to 2004-05 as against CAGRs of 2.9 per cent and 0.4 per cent in the labour force respectively for the same two periods. During 1999-2000 to 2004-05, employment on usual status (US) basis increased by 59.9 million persons from 398.0 million to 457.9 million as against the increase in labour force by 62.0 million persons from 407.0 million to 469.0 million. After a period of slow progress during 2004-05 to 2009-10, employment generation picked up during 2009-10 to 2011-12, adding 13.9 million persons to the workforce, but not keeping pace with the increase in labour force (14.9 million persons). A major impediment to the pace of quality employment generation in India is the small share of manufacturing in total employment. However data from the sixty-eighth National Sample Survey (NSS) round indicates a revival in employment growth in manufacturing from 11 per cent in 2009-10 to 12.6 per cent in 2011-12. Promoting growth of micro, small, and medium enterprises (MSME) is critical from this perspective.

1.89 **Labour Reforms:** Multiplicity of labour laws and difficulty in their compliance has been an impediment to industrial development. In a major initiative for bringing compliance in the system and ensuring ease of doing business, a set of labour reform measures has been put forth by the government.

1.90 **Towards a Healthy India:** The Swachh Bharat Mission (Gramin) launched in October 2014, aims at attaining an Open Defecation Free India by 2 October 2019. Besides, Mission Indradhanush launched in December 2014 will cover all children by 2020 who are either unvaccinated or are partially vaccinated against seven vaccine-preventable diseases. The erstwhile Department of AYUSH (Ayurveda,Yoga and Naturopathy, Unani, Siddhi, and Homoeopathy) has now been elevated to a full-fledged Ministry.

1.91 **Poverty:** The latest estimates of poverty are available for the year 2011-12. These estimates have been made following the Tendulkar Committee methodology using household consumption expenditure survey data. For 2011-12, the percentage of persons living below the poverty line is estimated as 25.7 percent in rural areas, 13.7 percent in urban areas, and 21.9 percent for the country as a whole

1.92 **Human Development: International Comparison:** The 2014 Human Development Report (HDR) presents the Human Development Index (HDI)—values and ranks—for 187 countries. India's HDI value for 2013 is 0.586, ranking it 135 out of 187 countries and territories, the lowest among the BRICS countries with Russia at 57, Brazil at 79, China at 91, and South Africa at118, and slightly ahead of Bangladesh and Pakistan. India also ranks low with respect to the Gender Development Index (GDI). The GDI value for India is 0.828 and it is ranked 132 among 148 nations. In comparison, Bangladesh and China are ranked higher.

1.93 **Fostering Inclusive Growth:** The PMJDY launched in August 2014 and the RuPay Card, which is a payment solution, are important new measures for financial inclusion. Besides, the government has restructured a number of ongoing programmes based on field experience to make them need based. To facilitate coordinated functioning of various social infrastructure and human development programmes, the Sansad Adarsh Gram Yojna (SAGY) has been launched which will be implemented through convergence of existing programmes. Another scheme launched is the Vanbandhu Kalyan Yojna that will be implemented in one block of each of the ten states having schedule V areas. Given the multiple schemes implemented to foster inclusive growth, the role of Panchayati Raj institutions is critical and there is need to strengthen the panchayats and urban local governments. RBI data on social services shows that there was a consistent rise in absolute social-sector expenditure by the general government (centre+state) even in the time of the 2008-09 global crisis and 2011-12 Euro area crisis**.**

1.94 A unique feature of India is the lag in demographic transition between different states. Due to the substantial fertility decline in the south during the last two decades, the south is ahead in the demographic transition compared to the north. For instance, the projected average age of population in 2020 of 29 years has already been surpassed in some states like Kerala (33 years), Goa (32.3), Tamil Nadu (31.3), Himachal Pradesh (30.4), Punjab (29.9), Andhra Pradesh (29.3) and West Bengal (29.1).

Climate Change and Sustainable Development

1.95 The year 2015 is likely to be a momentous year with the world set to witness new agreements on climate change and sustainable development. This will determine the course for international development and environmental policy agenda for the global community for the next fifteen years. The negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) are expected to result in a global agreement by December 2015, applicable to all countries to take action on climate change from 2020. Simultaneously, the governments are due to agree to a new post-2015 development agenda including a set of sustainable development goals (SDGs), replacing the Millennium Development Goals, which are coming to an end in 2015.

1.96 The latest scientific findings (IPCC AR5) have estimated that to remain below 2°C, the world can emit only about 2900 giga-tonne (Gt) of CO_2 from all sources from the industrial revolution till 2100. Till 2011, the world has already emitted 1900 Gt of CO_2 and consumed around two-third of this budget. This means that out of the budget of 2900 Gt, only 1000 Gt remains to be used between now and 2100. The key issue therefore for designing emission reduction commitment is how we should allocate this remaining sparse carbon budget between countries in a manner which is both fair and achievable.

1.97 There are substantial variations in total and per capita emissions of different countries. In terms of absolute CO_2 emissions in 2013, China, the USA, and EU hold the first three positions respectively with India a distant fourth. However, in terms of per capita CO_2 emissions in 2013, countries like India, Brazil, and South Africa fall in the bottom 100 among 196 countries.

1.98 As a responsible country India has on its own chalked out policies on sustainable development and climate change. India was one of the early adopters of a National Action Plan on Climate Change (NAPCC). It is now revisiting National Missions under the NAPCC in the light of new scientific information and technological advances with a view to undertaking additional interventions in areas like greenhouse gas (GHG) mitigation in power generation, other renewable energy technology programmes, and disaster management and exploring possibilities of new missions on wind energy, health, and waste to energy. Efforts are also under way by the government to build India's institutional capacity for mobilizing climate change finance. A National Adaptation Fund with an initial corpus of ₹ 100 crore has been set up to support adaptation actions to combat the challenges of climate change in sectors like agriculture, water, and forestry. Other recent key initiatives include scaling up of the Solar Mission fivefold from 20,000 megawatts to 100,000 megawatts requiring an additional investment of US$ 100 billion, development of 100 Smart Cities with integrated policies for sustainable development, and preparations for developing a National Air Quality Index and a National Air Quality Scheme.

1.99 The challenge for India is manifold. India is at the threshold of an urban flare-up. As population increases, demand for every key service will increase five-to sevenfold. These trends combined with the current challenges of poverty eradication, food and energy security, urban waste management, and water scarcity will put further pressure on our limited resources which will add to greater energy needs and cause a parallel increase in emission if decoupling does not take place. At the same time, hidden in this challenge are great opportunities. Unlike many countries, India has a young population and therefore can reap the fruits of demographic dividend. With more than half of the India of 2030 yet to be built, we have an opportunity to avoid excessive dependence on fossil fuel-based energy systems and carbon lock-ins that many industrialized countries face today. A conscious policy framework which takes into account both developmental needs and environmental considerations could help turn the challenges into opportunities.

1.100 The sum up, as we put our acts together towards a post-2015 global agreement on climate change, it is absolutely critical to ensure that the new agreement is comprehensive, balanced, equitable, and pragmatic. It should address the genuine requirements of developing countries like India by providing them equitable carbon and development space to achieve sustainable development and eradicate poverty. To achieve this, adherence to the principles and provisions of the UNFCCC is the key. Importantly, global climate action rests heavily on the means of implementation, especially on finance and technology, which needs to be addressed adequately in the agreement. As India's Prime Minister Shri Narendra Modi said in the UN General Assembly in September 2014, "We should be honest in shouldering our responsibilities in meeting the challenges. The world community has agreed on a beautiful balance of collective action—common but differentiated responsibilities. That should form the basis of continued action."