Economic Survey 2013-2014

Policy aid for growth stimulation

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Introduction

Today the Ministry of Finance releases the Economic Survey for the FY 2013-14.

Over the past few years, the Indian economy has experienced slow growth.

In 2014-15, the Indian economy is poised to overcome the less than 5 per cent growth of Gross Domestic Product (GDP) as witnessed over the last two years.

The slowdown in the growth during the last two years was broad based, particularly affecting the manufacturing/industry sector. During this period the inflation has eased but the same is above the comfort level, primarily due to high level of food inflation.

The fiscal deficit of the Centre as a proportion of GDP also declined for the second year in a row as per the announced medium term policy stance.

Reflecting the above and the expectations of a change for the better, financial markets have surged. Moderation in inflation would help ease the monetary policy stance and revive the confidence of investors, and with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond.

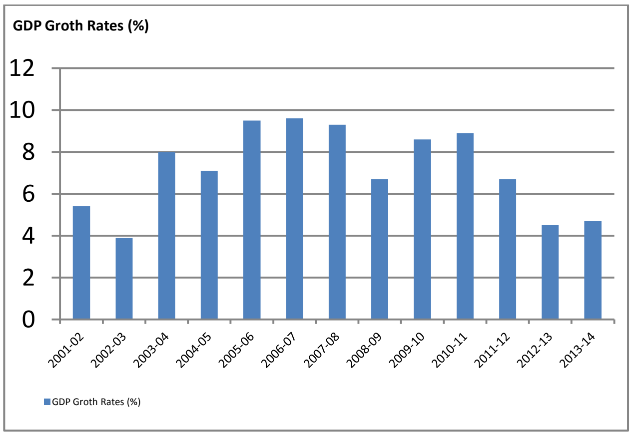
In this regards, the first budget of the of the newly formed stable government, is of paramount importance specially as it will provide the road map forward along with the long term vision of the future transition to come.

The Government has number of areas to cater, there are three key areas of importance for the economic growth i.e. Industrial Growth, Inflation and Fiscal consolidation.

The above key areas pose a tough target for the government to achieve. The Union Budget is an important means for achieving strong economic targets. As the General election has shown up the optimism for the Growth, which resulted in the stable Union government, it may be expected that the budget may bring some tough policy decision in-order to build a positive and strong foundation necessary of the economic revival and long run growth.

State of the Economy – *Economic Survey 2014*

After achieving unprecedented growth of over 9 per cent for three successive years between 2005-06 and 2007-08 and recovering swiftly from the global financial crisis of 2008-09, the Indian economy has been going through challenging times that culminated in lower than 5 per cent growth of GDP at factor cost at constant prices for two consecutive years, i.e. 2012-13 and 2013-14. Less than 5 per cent GDP growth for two years in succession was last witnessed a quarter of a century ago in 1986-87 and 1987-88.



The Indian economy has experienced a second successive year of weak performance with the GDP growing at 4.7% in the 2013-14 compared with 4.5% in 2012 13 along with high inflation rate, the average annual Consumer Price Index (CPI) in 2013-14 was 9.5%. At present the CPI is higher than the comfort level, Reserve Bank of India's (RBI) targeting the CPI at 6% by 2016.

A comparison of the key domestic macroeconomic indicators:

	FY 11	FY 12	FY 13	FY 14
GDP Growth	8.9	6.7	4.5	4.7
Inflation (WPI)	9.6	8.9	7.4	6.0
Savings	33.7	31.3	30.1	--
Investment	36.5	35.5	34.8	--

Source: Economic Survey 2013-14

A comparison of external indicators:

	FY 11	FY 12	FY 13	FY 14
Trade				
Export growth (%)	40.5	21.8	-1.8	4.1
Imports growth (%)	28.2	32.3	0.3	-8.3
CAD (%) of GDP	2.8	4.2	4.7	1.7
Foreign Investment ($ bn)				
FDI	11.8	22.1	19.8	21.6
Portfolio Investment (FII)	30.3	17.1	26.9	4.8
Forex Reserves	304.8	294.4	292.0	304.2

Source: Economic Survey 2013-14

The Foreign Exchange Reserve were placed at US$ 304.2 billion at the end of March 2014 as against a level of US$ 292.0 billion at the end of March 2013. A summary of changes in Foreign Exchange Reserves (US$) is given below:

Year (at end March)	Foreign exchange reserves	Total increase (+)/decrease (-) in reserves over previous year	increase (+)/decrease (-) in reserves on BoP basis	increase (+)/decrease(-) in reserves due to valuation effect
2008-09	252.00	(-)57.7	(-)20.1	(-)37.6
2009-10	279.10	(+)27.1	(+)13.4	(+)13.7
2010-11	304.80	(+)25.7	(+)13.1	(+)12.6
2011-12	294.40	(-)10.4	(-)12.8	(+)2.4
2012-13	292.00	(-)2.4	(+)3.8	(-)6.2
2013-14	304.20	(+)12.2	(+)15.5	(-)3.3

Source: Economic Survey 2013-14

Way Forward

The government aiming at reforms for growth on the three pillars:

- Low and stable inflation
- Tax and expenditure reforms
- Regulatory framework

The budget may reflect the provisions commensurate with the above macro targets to be announced tomorrow. Moderation in inflation would ease monetary policy and revive the confidence of investors and with the global economy expected to recover moderately, particularly performance of some advanced economies; our economy can look forward for the better growth prospects in 2014-15 and so on.

Containment of Inflation is required through Co-ordinated efforts between the Government and RBI to address twin issues of low GDP growth and High Inflation rate. Government must ensure low inflation by putting in place a framework for monetary policy, fiscal consolidation, and food market reforms,

The government must make provision for putting public finances on a sustainable path through tax and expenditure reforms. Tax reforms- industry and overseas investors are looking for implementation of GST, DTC-simplicity, predictability and stability.

Expenditure reforms in the form of shifting of subsidy programmes away from price distortions to income support, a change in the focus of government spending towards public goods and systems of accountability through focus on outcomes.

Strengthening of the fiscal balances through New Fiscal Responsibility and Budget Management (FRBM) Act, for the better accounting practices and improved budgetary management.

The Government should take necessary steps for the Development of Corporate Market through various policy reforms to improve regulatory regime and stimulate growth of the corporate bond market.

The ultimate goal of the economic policy is to create a sustained renaissance of high growth in which good quality jobs are created. Good

Quality jobs are created by high productivity firms, so the agenda should be critically how firms are created, how firms can grow and how firms can achieve high productivity.

The pursuit of long term initiative will feed back into the economy in the short term, with the rise in consumption and investment. When there is an open array of opportunities for individuals and firms, it will take time for economic agents to understand the new landscape and how they should optimally act in it. Firms will require time and commitments in order to build up organizational capital. Let us be optimistic..!

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Source : ***Economic Survey 2013-14 by Ministry of Finance, Government of India.***