**Forecast**

*Overall, the projections for 2013-14 based on quarterly and annual models point to a GDP growth of 4.7-4.9 per cent. While agricultural growth is projected to return to more normal level, improvement in the growth of non-agricultural sectors is projected to lead to overall GDP growth of 5.6 per cent in 2014-15.*

**F1. Sustaining Slow Growth and Managing Inflationary Pressures**

As per the latest projections of world output growth provided by the International Monetary Fund, the year 2014 is expected to register a growth rate of 3.7 per cent as compared to the growth rate of 3.0 per cent in the previous year (IMF: WEO Update, January 2014). Given the near stagnant growth rate of about 3 per cent in 2011 and 2012, the acceleration in growth in 2014 is an important indicator of improved prospects for economic growth, particularly through increased exports of goods and services. Imports of goods and services by the Advanced Economies are projected to increase by 3.4 per cent in 2014 as compared to 1.4 per cent in 2013. Oil and non-fuel commodity prices are projected to remain subdued in 2014 providing room for accelerating economic activity without cost push pressures from key raw materials, especially for industry.

Improving external conditions were reflected in India’s export growth performance. Exports increased by 5.9 per cent in the period April-December 2013 over the same period in the previous year as compared to decline by 4 per cent in April-December 2012. Improving global demand was not enough to sustain India’s own economic growth. The overall GDP growth in the first half of 2013-14 is estimated to be 4.6 per cent, well below the growth rate of 7 per cent, once considered the average growth rate of the economy. Of greater concern is the near stagnant output of the secondary sector of the economy. The Index of Industrial Production comprising all the secondary sectors of the economy, excluding construction, registered a negative growth of -0.64 per cent during April-November 2013 following an equally disappointing annual growth rate of 1.14 per cent in 2012-13. The overall GDP growth in 2012-13 as per the revised official estimates is now placed at 4.5 per cent as compared to the earlier estimate of 5.0 per cent provided in May 2013. The downward correction is seen in all the three sectors: primary, secondary and tertiary although sharp reduction in growth was seen in the primary and secondary sectors.

Besides exports, another important positive factor for the economy is healthy agricultural growth. Better-than-normal rainfall during the south-west monsoon period of June-September 2013 is expected to lead to significantly higher agricultural output growth in 2013-14. GDP growth of agricultural and allied sectors is now placed at 3.6 per cent for H1: 2013-14, year-on-year, as compared to 2.3 per cent for H1: 2012-13. The revised estimates for 2012-13 may improve the growth rate for 2013-14 further. The second half’s performance in 2013-14 is expected to improve further if the favourable weather conditions continue.

While slow growth has resulted in a loss of momentum towards faster economic development, inflation has been an equally significant challenge. The Consumer Price Index has increased at close to double digit level on annual basis for the period April-December 2013. Although the Wholesale Price Index has shown a decline in inflation rate from 7.6 per cent during April-December 2012 to 6.2 per cent during the same period in 2013, the consumer price index continued to increase at the same high rate in 2013 as compared to 2012 mainly because of the higher weight of food commodities in CPI as compared to the WPI. The Primary articles (which include food articles) and
Fuel, power and lubricants registered double digit rates of annual increase in WPI for the period April-December 2013.

The first half of the year also saw sharp depreciation of the rupee. Between April 2013 and September 2013, the exchange rate of the rupee vis-à-vis the dollar rose from Rs 54.3 to Rs 63.9, a depreciation of 16 per cent. However, the rupee has stabilised, thereafter, with a number of policy measures being effected to reduce the import pressures, even as the stock markets remained vulnerable to sharp movements of foreign capital. The prospects of withdrawal of easy monetary policy on the back of improving growth conditions in the US introduced volatile conditions in financial markets in the emerging markets. For India, the vulnerability was greater as the current account imbalances were significant. Orderly adjustment in international financial markets would be necessary to maintain stability of currency and investment flows to developing economies.

While the economies of the developing and developed world have continued to emerge from the disruptions of caused by the great crisis in 2008, there have also been some signs of success in resolving international conflicts through negotiations.

Although the investment scenario in the domestic markets is subdued, there have been some policy efforts to catalyse the process of administrative clearances for large investment projects. Containing fiscal and external imbalances to prudent levels will be a key aspect of favourable investment condition.

**F2. Assessment of Macroeconomic Conditions for 2013-14 and 2014-15**

**The quarterly estimates**

There has been some increase in the growth rate of the economy through 2013-14 when we compare the GDP growth through the first two quarters. Based on a quarterly model of the output of different sectors of the economy, we have projected growth rates of GDP for the remaining two quarters of 2013-14. The projections show that output growth is expected to improve to 5.2 per cent in the second half of the year as compared to less than 5 per cent in the first half (Figure F.1).

Based on these projections, the GDP growth rate for the year as a whole is projected at **4.9 per cent in 2013-14**.

This is further downward revision from the estimated growth of 5.3 per cent projected in October 2013. The projected sectoral growth rates based on the present analysis are: Agriculture and allied sectors at 4.8%, Industry at 2.3 per cent and Services at 6.2 per cent.

The main exogenous variables in the quarterly model are monsoon period rainfall, capital market conditions (BSE Sensex), Bank Credit to Commercial Sector, the pace of Central government expenditure and WPI inflation. As compared to the projection of GDP growth presented in October 2013, in the present analysis, we have set the rainfall at 6% above normal as compared to 3% above normal in October 2013. However, we use a slower growth of Bank credit to commercial sector in Q2 (14.1%) and Q3 (14.7%) and slower Central government expenditure in Q2 (11.6%) and Q4 (12.4%) as compared to the October projections. The WPI inflation is projected at 6.4 per cent as compared to 6.5 per cent in October. The lower rate of inflation is on account of using more recent data in estimating the inflation rate up to
December. The overall GDP growth rate based on quarterly model is lower in the present analysis as compared to the October 2013 forecast also because the annual estimate includes actual GDP growth rates for Q2 which came out lower than or projections.

**Projections from the annual model**

The positive aspects of the growth conditions that have emerged in the first half of the current year are improved global demand and agricultural output. Investment conditions, however, have remained weak throughout the first half of 2013-14. In its review of macroeconomic conditions for the 3rd quarter of 2013-14, the RBI notes that some improvement in corporate performance may be expected from increased rural demand and exports, especially in the next year. The likely slowdown in government spending to rein in deficit may affect the pace of growth in the aggregate demand in Q3: 2013-14. The constraints in terms of bottlenecks relating to investments in terms of availability of infrastructure and energy will continue to affect growth.

The monetary policy remains focused on limiting inflation pressures. The policy rates were increased again in January 2014 by 25 basis points taking the repo rate to 8 per cent. Although WPI based inflation rate has moderated, the annual energy and primary articles price rise remained at double digit level even in December 2013. The year on year increase in consumer price index has also remained well above the ‘comfort’ level although vegetable prices showed deceleration as fresh supplies began to arrive in the markets.

**Projections for 2013-14 and 2014-15**

**Revised Projections for 2013-14**

The revised forecast for 2013-14 places overall GDP growth at 4.7 per cent, 0.5 percentage points lower than the October 2013 forecast. While agricultural output is projected to increase at 4.8 per cent, higher than the projections in October (3.9%), industrial GDP is forecast to increase below 2 per cent, a decline of more than 2 percentage points from October 2013 forecast. The year-on-year industrial growth during April-November 2013, based on IIP, is actually negative indicating the weak momentum for this segment of the economy. The services sector is projected to grow at nearly the same rate as projected in October.

The WPI based inflation rate is projected lower at 6.2 per cent as compared to the October forecast of 6.8 per cent. The increased agricultural output growth has softened price scenario in the current projections.

The export growth is projected slightly higher than the October forecast and import growth rate lower consistent with the higher world output growth expectations and lower growth in domestic demand.

The current account deficit is projected at a significantly lower level and centre’s fiscal deficit at nearly the same level as in the October forecast. The decline in projected CAD is on account of improved exports and trends seen in actual data which in turn reflect the decline in gold imports.

**Overall, the projections for 2013-14 based on quarterly and annual models point to a GDP growth of 4.7-4.9 per cent.**

The fiscal deficit may be slightly higher than the budgeted 4.8 per cent on account of slower economic growth. The current account deficit is expected to return to more sustainable levels, although at lower pace of growth of economy. Industrial growth remains the weakest link in growth momentum.

**Projections for 2014-15**

Based on the assumptions of normal rainfall, pick up in world output growth and other global demand conditions as per the recent projections of IMF and
government expenditure patterns as in the current year, we have provided an assessment of the macroeconomic scenario for 2014-15.

While agricultural growth is projected to return to more normal level, improvement in the growth of non-agricultural sectors is projected to lead to overall GDP growth of 5.6 per cent.

The higher growth is expected to increase import demand and improved merchandise exports and net invisibles and maintain the CAD at 3 per cent of GDP. Fiscal deficit will remain close to 5 per cent of GDP indicating the need for fresh initiatives to improve revenues and budgetary expenditures.

Table F.1: Forecasts for 2013–14 and 2014-15

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% Change yoy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Real GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Agriculture</td>
<td>5.0</td>
<td>1.4</td>
<td>3.2</td>
<td>3.9</td>
<td>4.8</td>
<td>2.1</td>
</tr>
<tr>
<td>- Industry</td>
<td>7.8</td>
<td>1.0</td>
<td>4.3</td>
<td>3.9</td>
<td>1.6</td>
<td>3.8</td>
</tr>
<tr>
<td>- Services</td>
<td>6.6</td>
<td>7.0</td>
<td>7.1</td>
<td>6.1</td>
<td>6.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>6.7</td>
<td>4.5</td>
<td>5.9</td>
<td>5.2</td>
<td>4.7</td>
<td>5.6</td>
</tr>
<tr>
<td>II. Trade (Goods)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports ($ value)</td>
<td>21.8</td>
<td>-1.8</td>
<td>9.4</td>
<td>11.0</td>
<td>11.7</td>
<td>14.0</td>
</tr>
<tr>
<td>Imports ($ value)</td>
<td>32.3</td>
<td>0.4</td>
<td>12.4</td>
<td>13.1</td>
<td>9.8</td>
<td>14.4</td>
</tr>
<tr>
<td>III. Inflation (WPI, annual)</td>
<td>8.8</td>
<td>7.2</td>
<td>5.9</td>
<td>6.8</td>
<td>6.2</td>
<td>6.0</td>
</tr>
<tr>
<td>% of GDP at market prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV. Current account balance*</td>
<td>-4.2</td>
<td>-4.8</td>
<td>-4.6</td>
<td>-4.5</td>
<td>-2.9</td>
<td>-3.0</td>
</tr>
<tr>
<td>V. Fiscal Deficit (Centre)</td>
<td>5.7</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Notes: Forecast Based on Annual Model.
RE: Revised Estimates * Surplus (+)/deficit (−)