

Quarterly Review State of the Economy Seminar

August 8, 2013

QRE Team

Forecast:	Purna Chandra Parida
Agriculture:	Anil K. Sharma
Industry:	Saurabh Bandopadhyay
Services:	Devender Pratap
Money and Credit:	Mythili Bhusnurmath
Prices:	Bornali Bhandari
External Sector:	Rajesh Chadha and Anjali Tandon
Public Finance:	Mythili Bhusnurmath
Research/ Data Support:	Devender Pratap, Charu Jain, Himani Gupta, Farha Anis and Praveen Sachdeva
Organisational Support:	Sudesh Bala and Shikha S. Vasudeva

When it rains, it pours...

- Monsoon covered all of India a month early
- Narendra Modi nominated as Chairman of BJP election committee
 - Bhagwati-Sen debate
- 15 June, 2013 Uttarakhand floods – 6,000 people estimated dead
- 19 June, 2013: Federal Reserve Governor sets road map for end of stimulus
 - 17 July: Accommodative Monetary Policy
- FDI liberalisation an on-going process
- Unemployment Rate in the US – 7.4% in July 2013
- China de-leveraging
- TMC sweeps West Bengal Panchayat elections
- Separate state, Telengana approved
- Governance issues have again come to the fore
 - Sand mining banned
- Raghuram Rajan takes over as RBI Governor in September, 2013

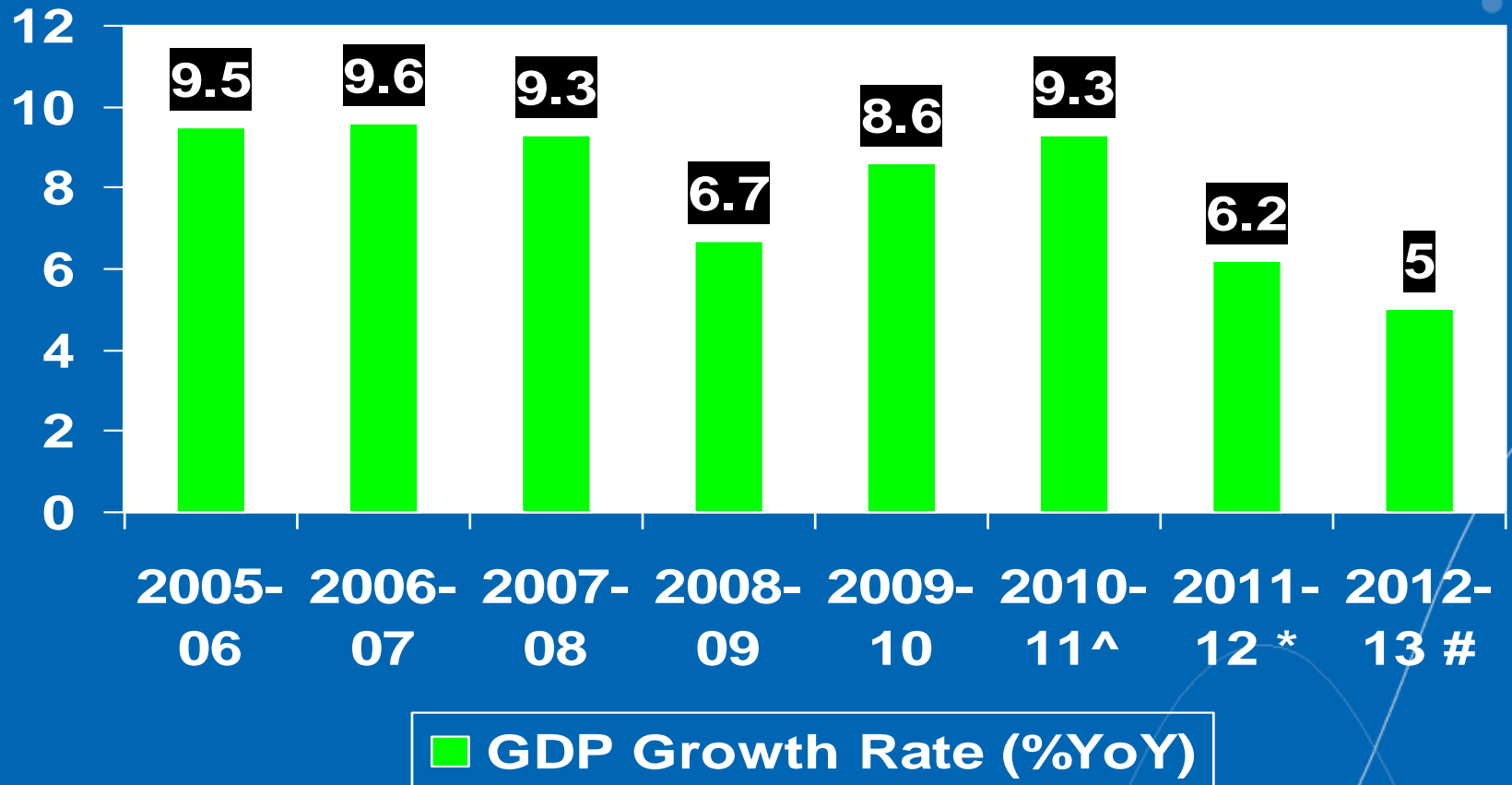
Key Messages

- Indian Growth Rate bottomed out in the third quarter of 2012-13
 - On an annual basis growth rate hits rock bottom
- Double Dip?
 - Good Monsoon and worldwide weak commodity prices
 - Rupee depreciation
 - Overall, difficult to predict
- Grim news continues
- Revive Investment
 - FDI policy is a step in the right direction but not enough!

Provisional Estimates



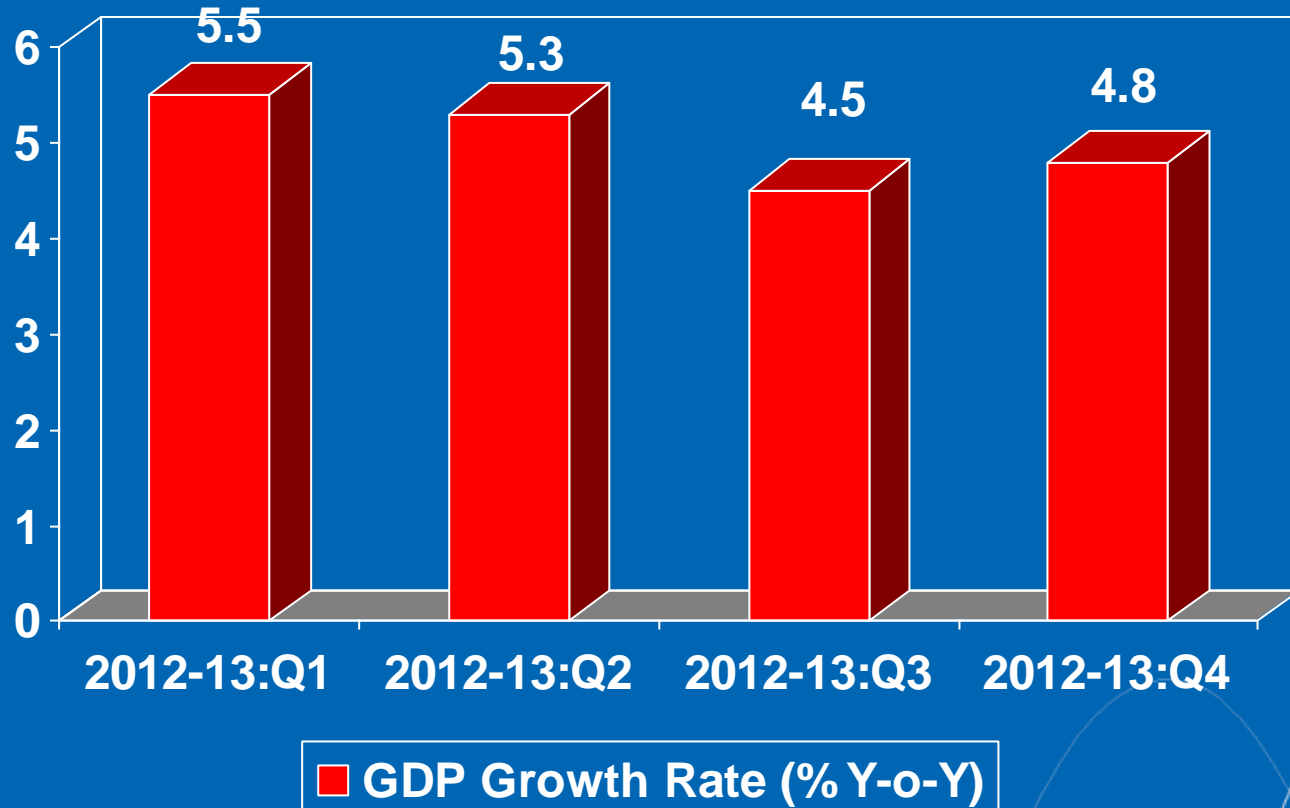
Indian GDP Growth Rate Slides – Was growth above 9% the norm or flash in the pan?



Note: # Provisional Estimates

Source: CSO

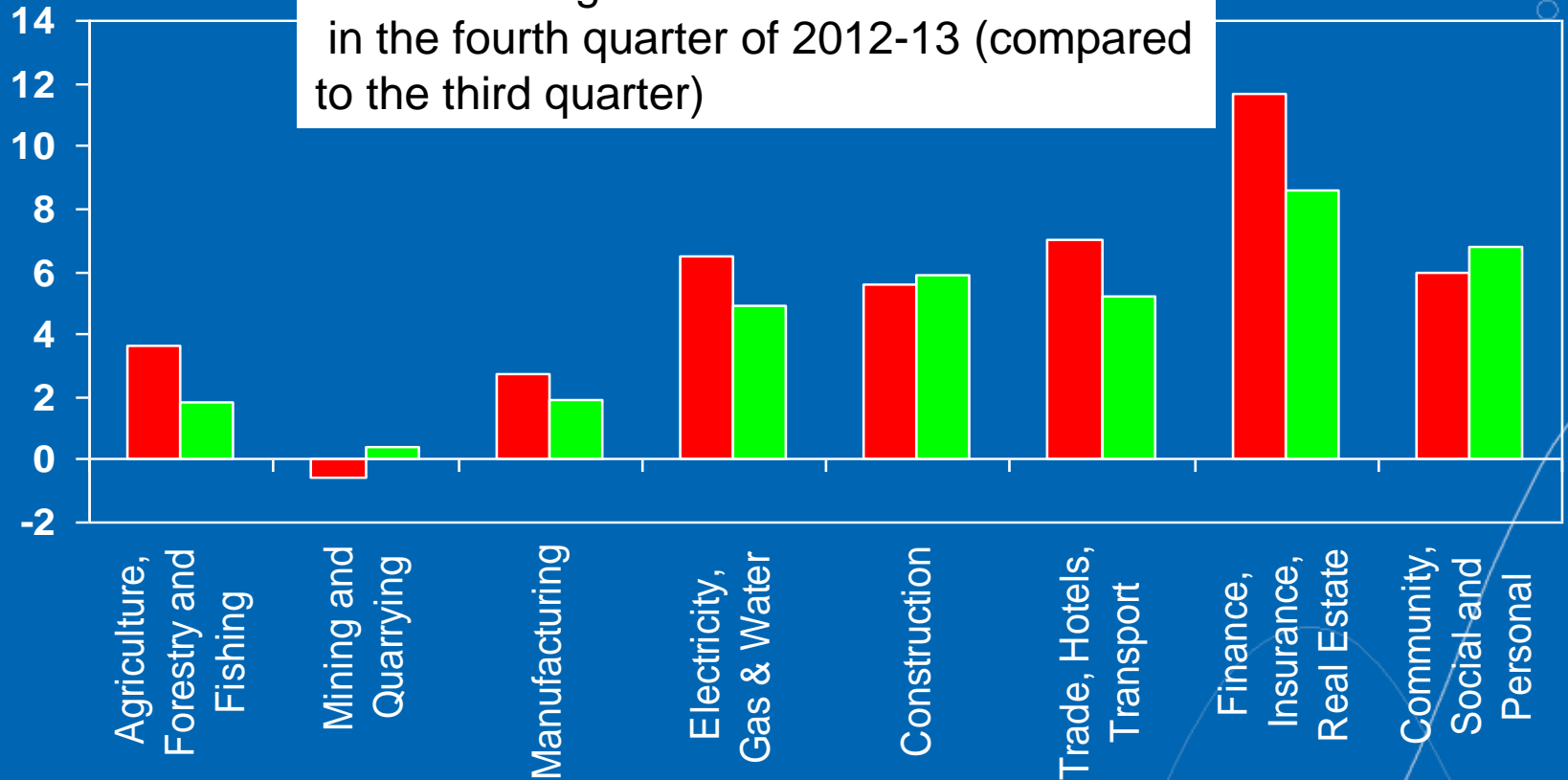
The economy did bottom out in the third quarter – is this sustainable?



Source: CSO

Except Mining, Community, Social and Personal Services and Construction – all sectors show a slow down

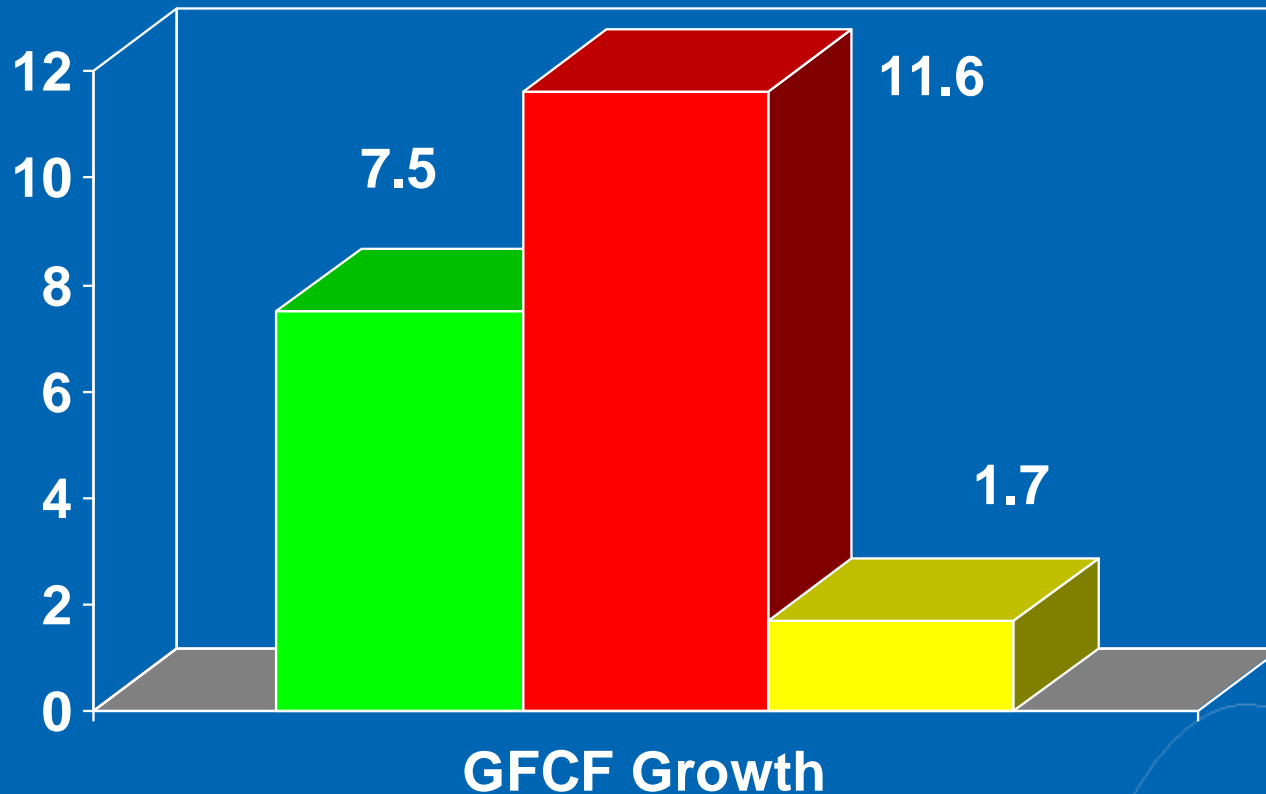
Mining slid deeper into recession and construction growth decreased in the fourth quarter of 2012-13 (compared to the third quarter)



Note: * First Revised Estimates, # Provisional Estimates
 Source: CSO

■ 2011-12 * ■ 2012-13 #

Gross Fixed capital Formation also continues to move downwards (%Y-o-Y)



■ 2010-11 ■ 2011-12 ■ 2012-13

Projections for the World % (Y-o-Y)

Country/ Region	2011	2012	2013	2014
US	1.8	2.2	1.7 ↓	2.7 ↓
China	9.3	7.8	7.8 ↓	7.7 ↓
Euro area	1.5	-0.6	-0.6 ↓	0.9 ↓
Japan	-0.6	1.9	2.0 ↑	1.2 ↓
India	6.3	3.2	5.6 ↓	6.3 ↓
Emerging Market and Developing Economies	6.2	4.9	5.0 ↓	5.4 ↓
Advanced Economies	1.7	1.2	1.2 ↓	2.1 ↓
World	3.9	3.1	3.1 ↓	3.8 ↓

Note: The arrow indicates whether the estimates have been revised from April 2013

Source: World Economic Outlook (WEO) Update, July 2013

Forecasts for Select Economic Indicators for India (%)

	Ministry of Finance	PMEAC	RBI	ADB		WEO	
	2013-14	2013-14	2013-14	2013	2014	2013	2014
Real GDP growth	6.1 to 6.7 (February)	6.4 (April)	5.7 (March)	5.8 (July)	6.5 (July)	5.6 (July)	6.3 (July)

Sources: Asian Development Outlook July Updates 2013, World Economic Outlook July 2013 Update, RBI, Ministry of Finance, PMEAC

2013-14 – Tomorrow is
another day

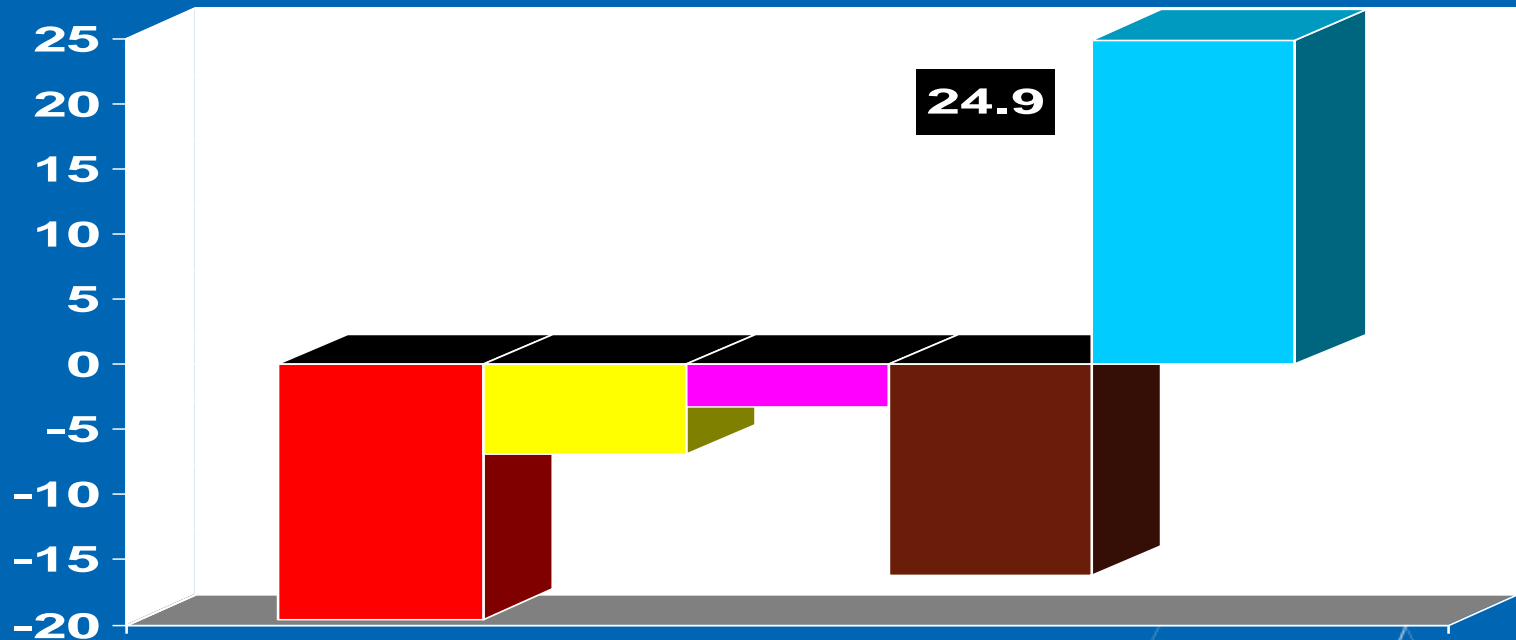


Agriculture



Except East (-12.6% Deviation in June-July) Excess Rain

Deviations in Monsoon Rainfall from the Normal (June-July) (per cent)



■ 2009-10
 ■ 2010-11
 ■ 2011-12
 ■ 2012-13
 ■ 2013-14

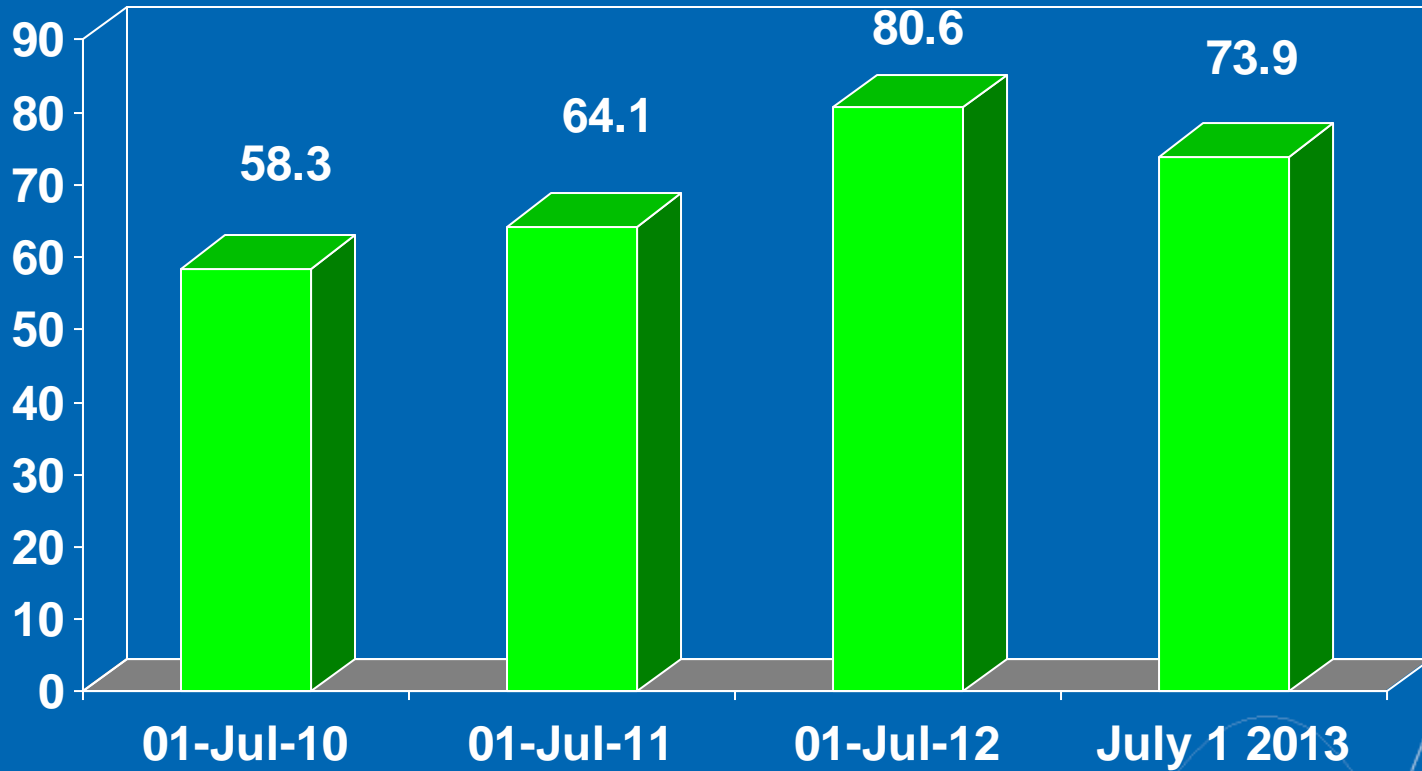
Actual and Estimated Levels of Output of Selected Crops (Million tonnes)

Crops	Actual 2010-11	Actual 2011-12	Fourth Advance Estimates 2012-13
Rice	96	105.3	104.4
Wheat	86.9	94.9	92.5
Co: Paradox- Record output but agricultural GDP growth still slows down			
Pulses	18.2	17.1	18.5
Total Foodgrains	244.5	259.3	255.4
Oilseeds	32.5	29.8	31
Cotton	33	35.2	34
Sugarcane	342.4	361	339

Source: Ministry of Agriculture, Government of India

Note: * The estimates for cotton are in million bales.

Stock of cereals held by government agencies, million tonnes

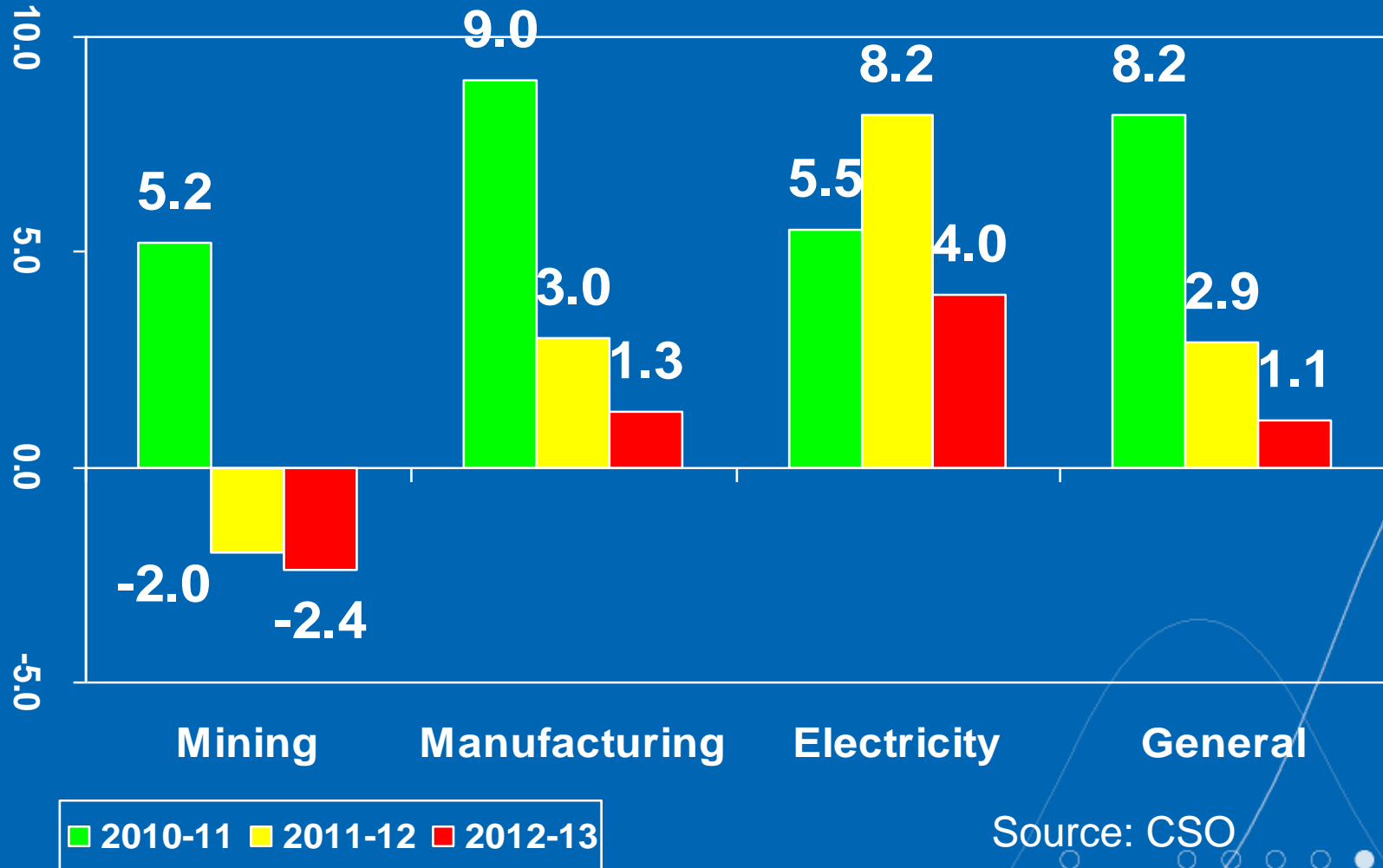


Cereal inflation 16.2% (April-June, 2013)

Industry



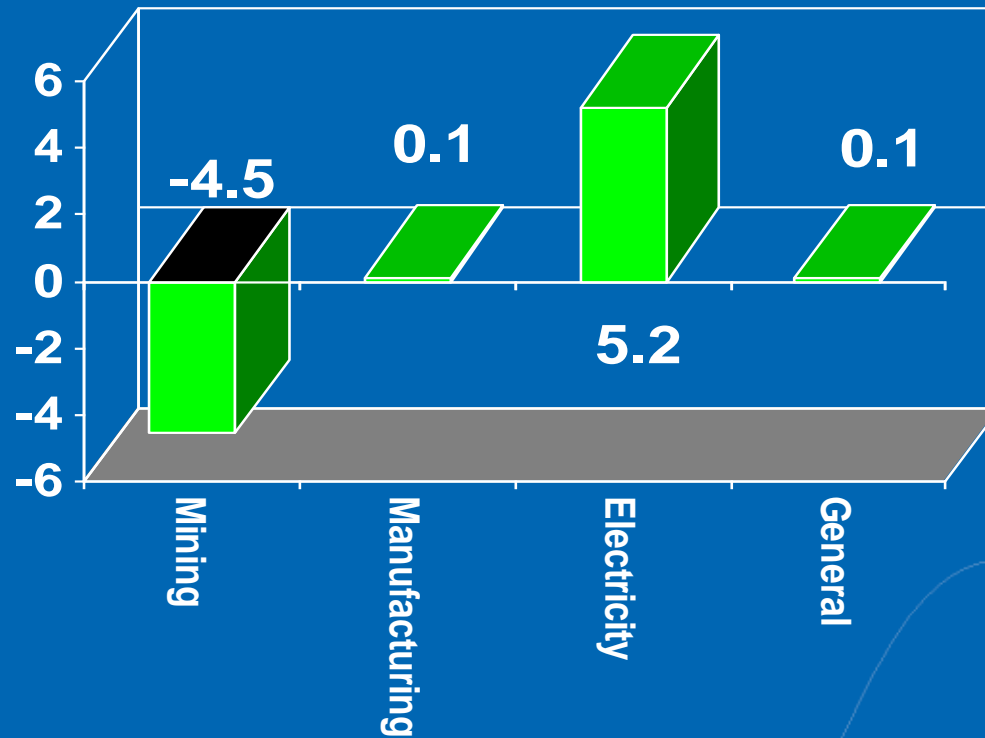
Slide of the Industry (% Y-o-Y using IIP)



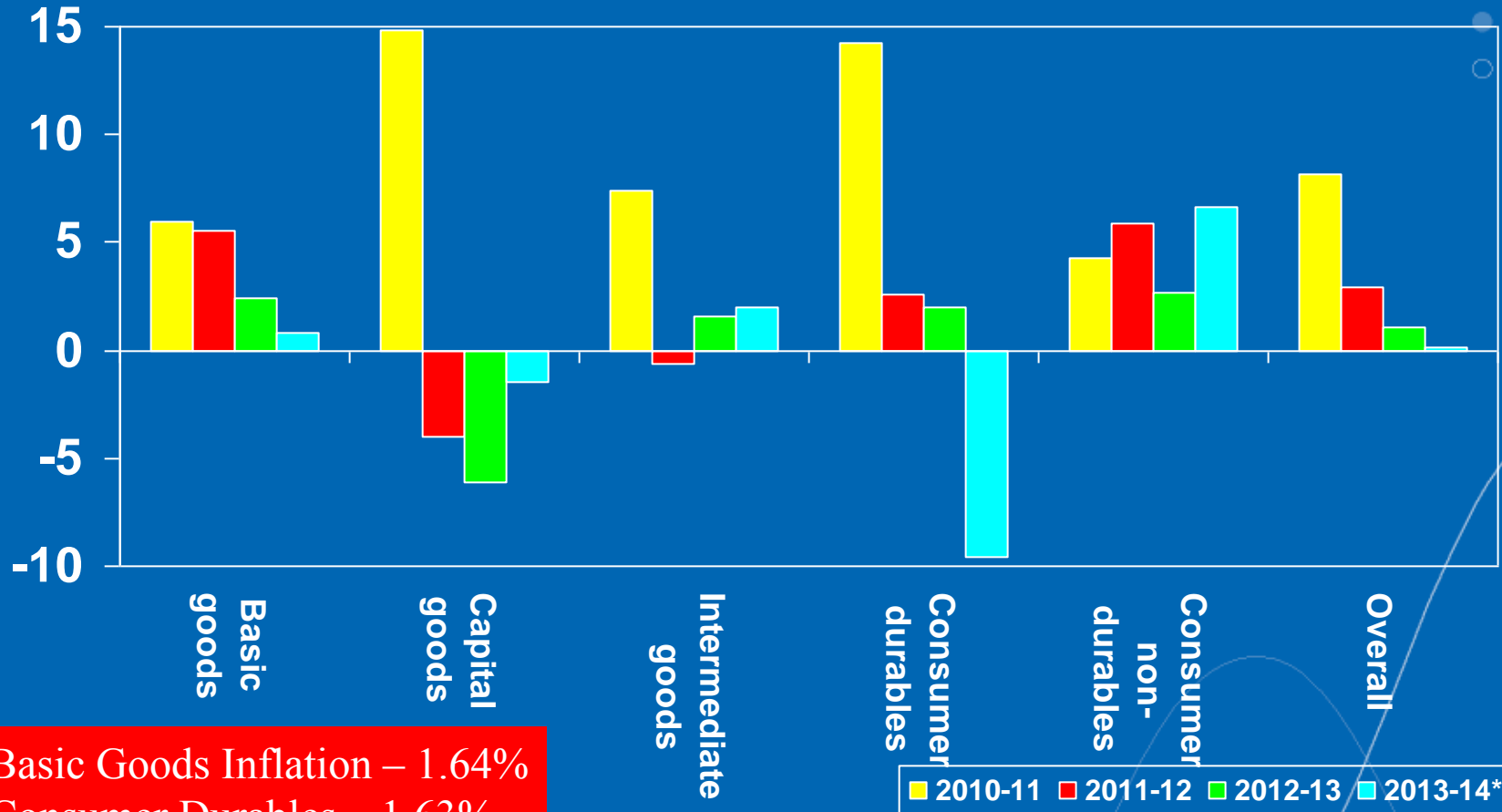
Source: CSO

Slide of Industry continues in the first two months

April-May, 2013-14 (% YoY)



Consumer durables lead the downfall



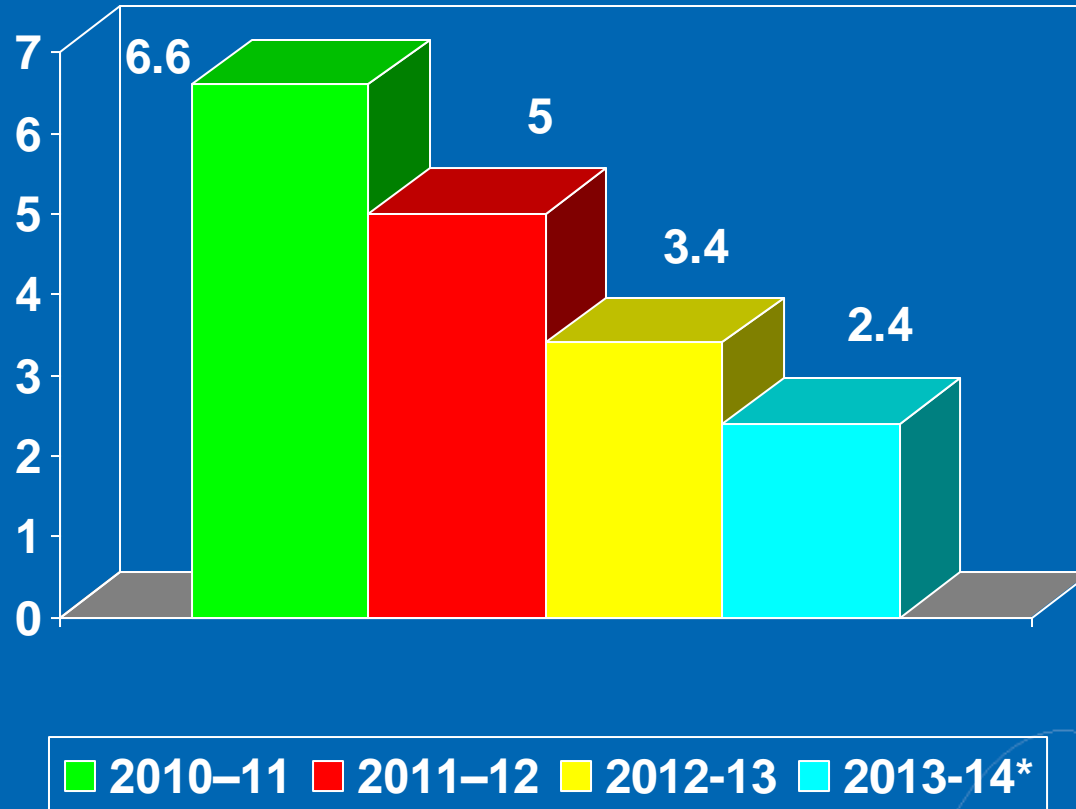
Basic Goods Inflation – 1.64%
 Consumer Durables – 1.63%
 Manufacturing – 3.18%

Note: * April-May, Source: CSO

2-Digit Classification – only four show growth above 5 per cent (April-February, %YoY)

- 12 out of the 22 industry groups in the manufacturing sector showed positive growth in April-May, 2013-14.
- In April–May 2013–14, there are only five industries that have recorded growth above 5 per cent.
 - Wearing apparels (55%)
 - Leather products (15.5%)
 - Chemicals and Products (6.2%)
 - Furniture (12.9%)
 - Refined Petroleum Products (5.2%)

8 Core Industries Index (%YoY) shows consistent decline



Refinery Products, steel, cement and electricity are the only ones that positive growth. All have shown decline in the period April-May 2013-14 versus corresponding period in 2012-13

Services



Indicators of Service Sector Output (% Change y-o-y)

Quarterly/Fiscal Year	Tourists Arrival (Numbers)	Revenue Earning Goods Traffic by Railways (MT))	Cargo Handled at Major Ports ('000 tonnes)	Production of Commercial Vehicles ('000 Numbers)	New Telephone Connections (Fixed+ Wireless in Millions)	Growth in Aggregate Deposits (Rs cr)	Bank Credit to Commercial Sector (Rs cr)
2012-13:Q1	4.8	4.7	-5.5	-3.7	9.0	16.5	19.2
2012-13:Q2	7.3	9.3	-0.8	-5.2	3.4	13.7	16.5
2012-13:Q3	5.3	-3.0	-2.7	-13.6	-3.3	10.9	15.0
2012-13:Q4	4.8	-0.8	-0.9	-17.3	-5.6	14.3	9.8
2013-14:Q1	1.9	4.9	-1.0	0.1	-5.9*	13.8	13.3

Source: i) Foreign Tourist Arrivals- Press Information bureau, Ministry of Tourism; Railway traffic-Press Information bureau, Ministry of Railways; Port Cargos- Indian Port Association; <http://ipa.nic.in/pcs/default.asp>; and Aggregate Deposits and Bank Credit- RBI

Domestic and international air passenger and cargo traffic

Month /Year	Domestic Traffic				International Traffic				Total Traffic			
	Pa ss en ge r La kh	%ch g	Car go '000 tonn es	%ch g	Pas sen ger Lak h	%ch g	Car go '000 tonn es	%ch g	Pas sen ger Lak h	%ch g	Car go '000 tonn es	%ch g
2012-13	210.0	4.0	137.4	5.1	68.9	4.6	243.5	-6.4	278.9	4.1	381.0	-2.5
2013-14	213.2	1.5	124.7	-9.3	76.5	11.0	240.0	-1.5	289.7	3.9	364.7	-4.3

Source: Airport Authority of India

Growth of Service Sector Exports (%YoY)

Year	Travel	Transportation	Insurance	G.n.i.e	Software Services	Non-Software Miscellaneous Services*	Total Services
2012-13:Q1	-5.2	-2.4	-6.5	14.5	4.6	3.5	2.1
2012-13:Q2	-6.6	-7.2	-11.8	1.8	15.3	4.9	5.9
2012-13:Q3	-0.4	-10.4	-34.4	-3.7	2.1	-5.7	-2.8
2012-13:Q4	0.5	-3.6	-4.9	166.0	2.9	-6.5	-0.7

Source: RBI



Break-up of Non-Software Miscellaneous Services Receipts (% Change y-o-y)

Year	Business	Financial	Communication	Total Non-Software Miscellaneous Services
2012-13:Q1	31.7	1.9	16.4	3.5
2012-13:Q2	16.5	-14.1	16.7	4.9
2012-13:Q3	4.8	-14.3	-21.5	-5.6
2012-13:Q4	-8.8	-26.9	14.9	-6.5

Source: RBI

External Sector



Current Account Deficit has moderated

As a ratio to GDP	2012-13			
	(US \$ billion)			
	Q1(PR)	Q2(PR)	Q3(PR)	Q4(PR)
Trade Balance	-10.2	-11.4	-12.0	-9.0
Net Services	3.5	3.9	3.4	3.3
Net Income	2.8	2.5	2.0	2.1
Current Account Balance	-4.0	-5.0	-6.5	-3.6
Capital & Financial Account (Net)	3.8	4.9	6.5	4.0

Revival of Capital Flow but....

(US \$ billion)					
	2012-13 (Monthly Average)				2013-14 Apr-May
	Q1	Q2	Q3	Q4	
FDI in India	2.0	3.2	1.4	2.4	2.7
FDI by India	0.7	0.5	0.7	0.5	0.3
FIIIs	-0.6	2.6	3.3	3.8	-0.2#
ADRs/GDRs	0.03	0.03	0.0	0.0	0.0
ECBs	0.1	0.4	1.0	1.4	0.8
NRI Deposits	2.2	0.9	0.9	0.9	1.5

#: Apr-Jun 2013

Source: Reserve Bank of India

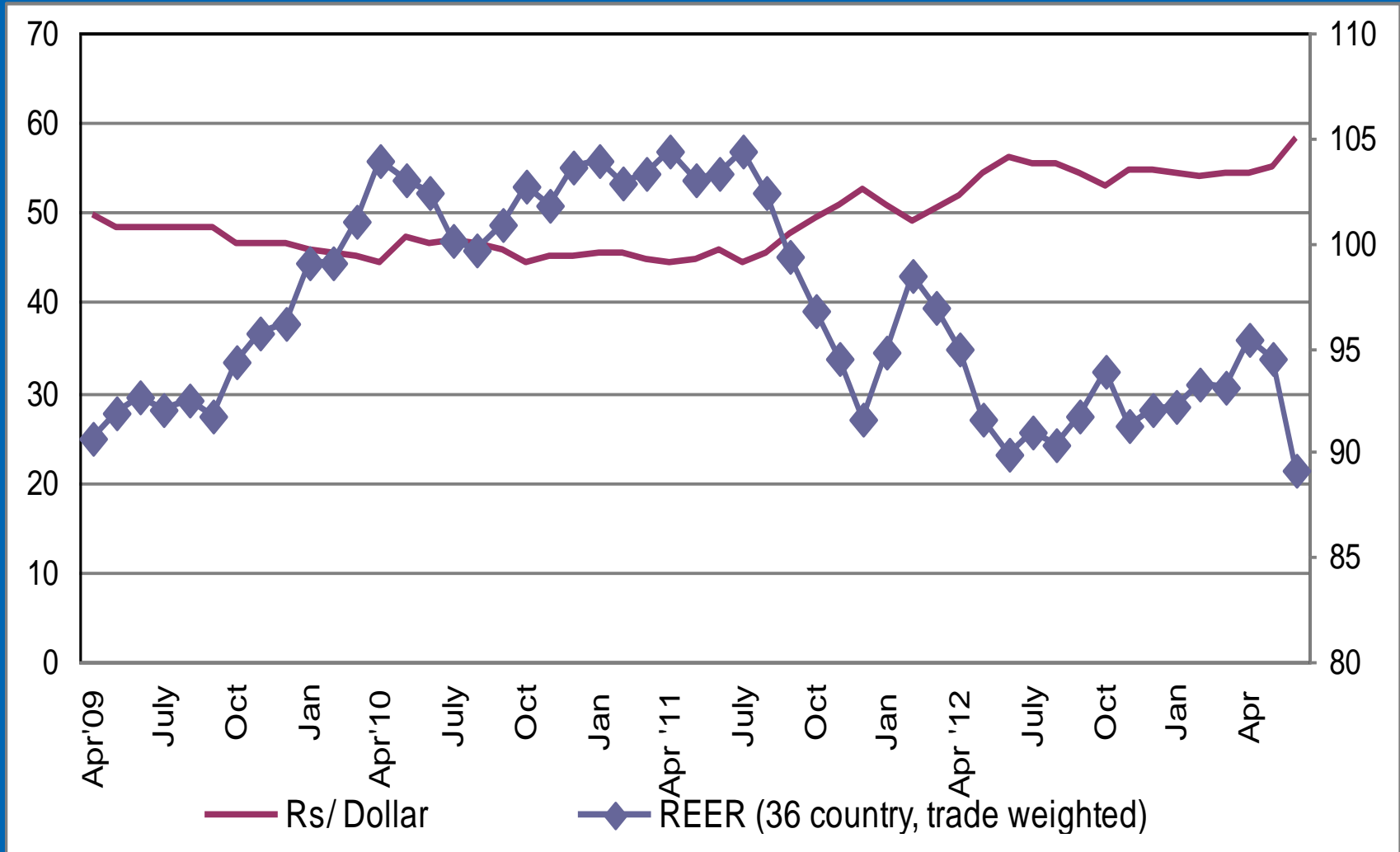
Vulnerability indicators show further worsening

Indicator	(per cent)		
	End Mar 2011	End Mar 2012	End Mar 2013
Ratio of Total Debt to GDP	17.5	19.7	21.2
Ratio of Short-term to Total Debt(Original Maturity)	21.2	22.6	24.8
Ratio of Short-term to Total Debt(Residual Maturity)#	42.2	42.6	44.2
Ratio of Concessional Debt to Total Debt	15.5	13.9	11.7
Ratio of Reserves to Total Debt	99.7	85.2	74.9
Ratio of Short-term Debt to Reserves	21.3	26.6	33.1
Ratio of Short-term Debt(Residual Maturity) to Reserves#	42.3	50.1	59.0
Reserves cover of Imports (in months)	9.5	7.1	7.0
Debt-Service Ratio(Debt Service Payments to Current Receipts)	4.4	6.0	5.9
External Debt(US \$ billion)	305.9	345.5	390.0
International Investment Position(IIP)(US \$ billion)	-207.0	-249.5	-307.3
IIP/GDP Ratio	-11.9	-14.0	-16.7

RBI Estimate

Source: Reserve Bank of India

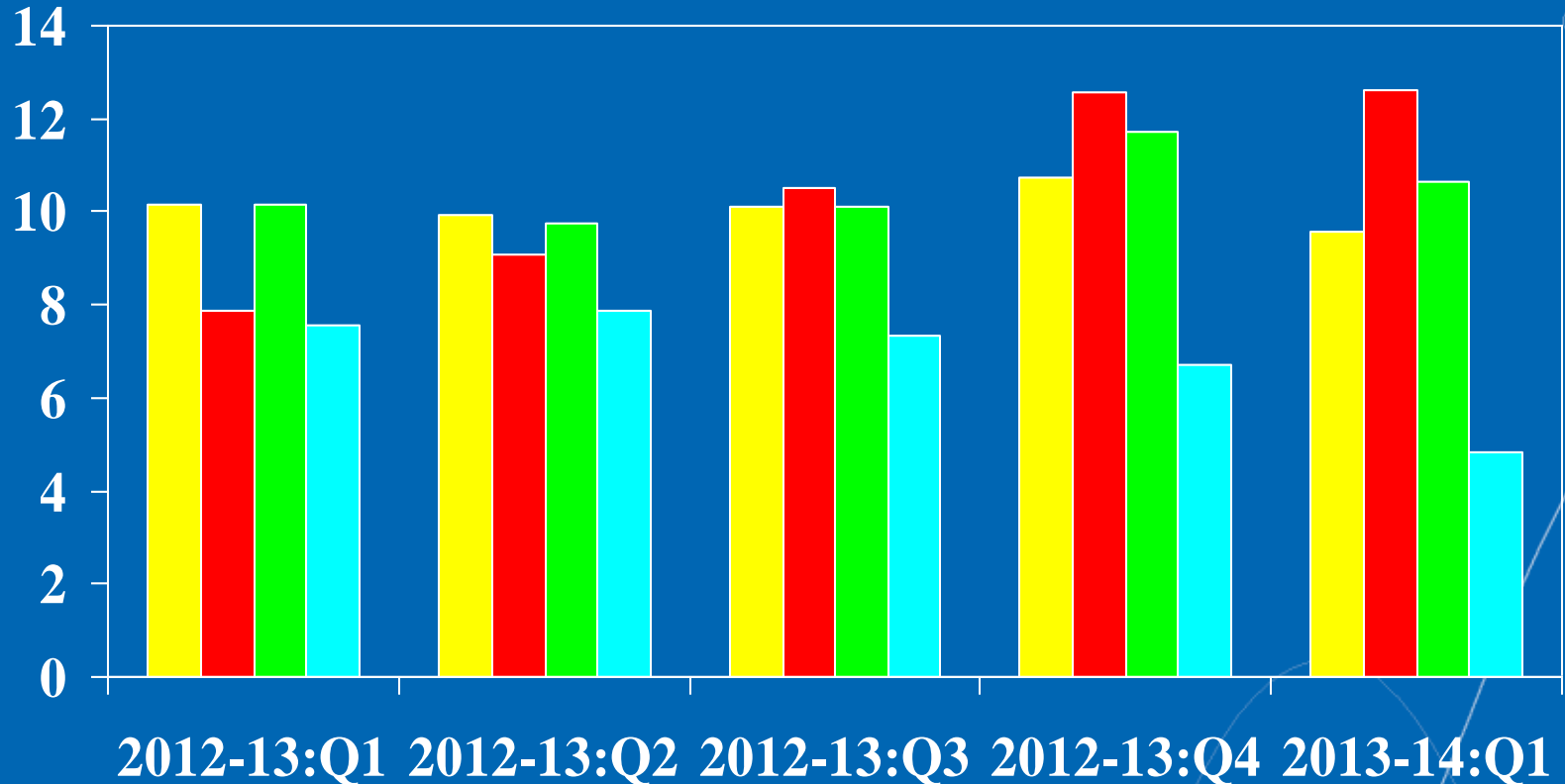
Steep Fall in the Rupee



Prices



Moderation in Inflation (almost)

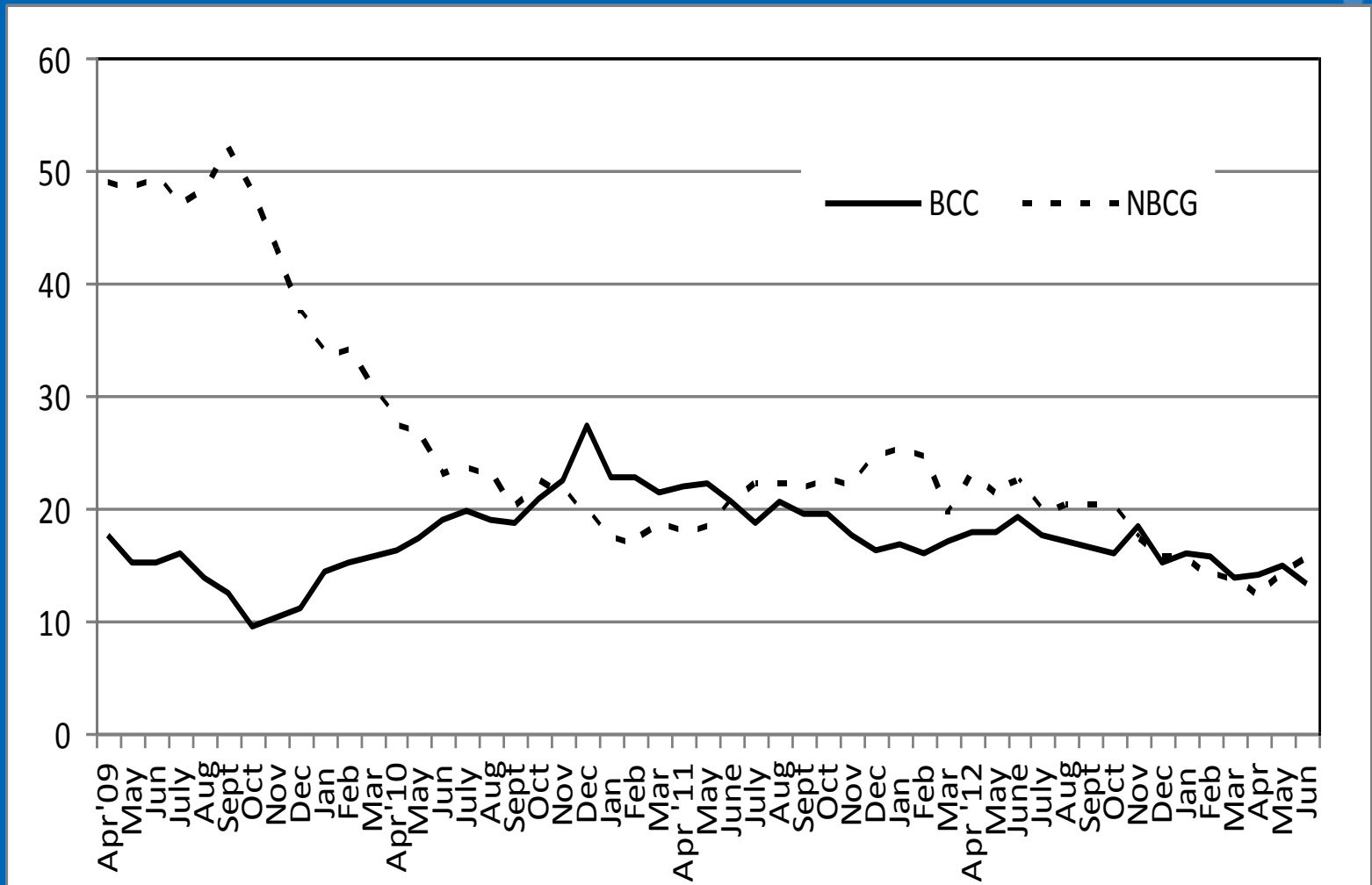


■ CPI combined
 ■ INFLCPIAL
 ■ INFLCPIIW
 ■ INFWPI

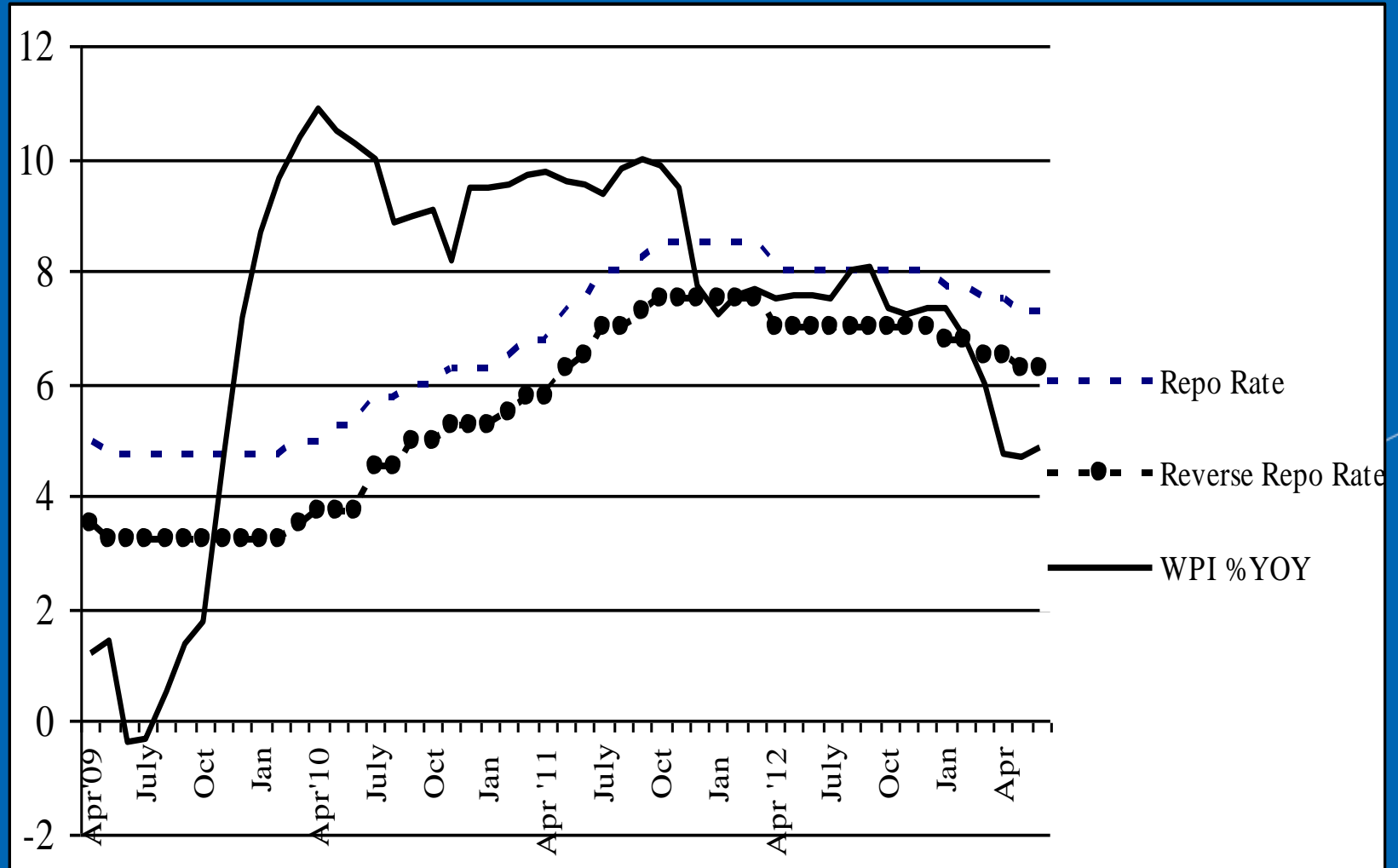
Money Sector



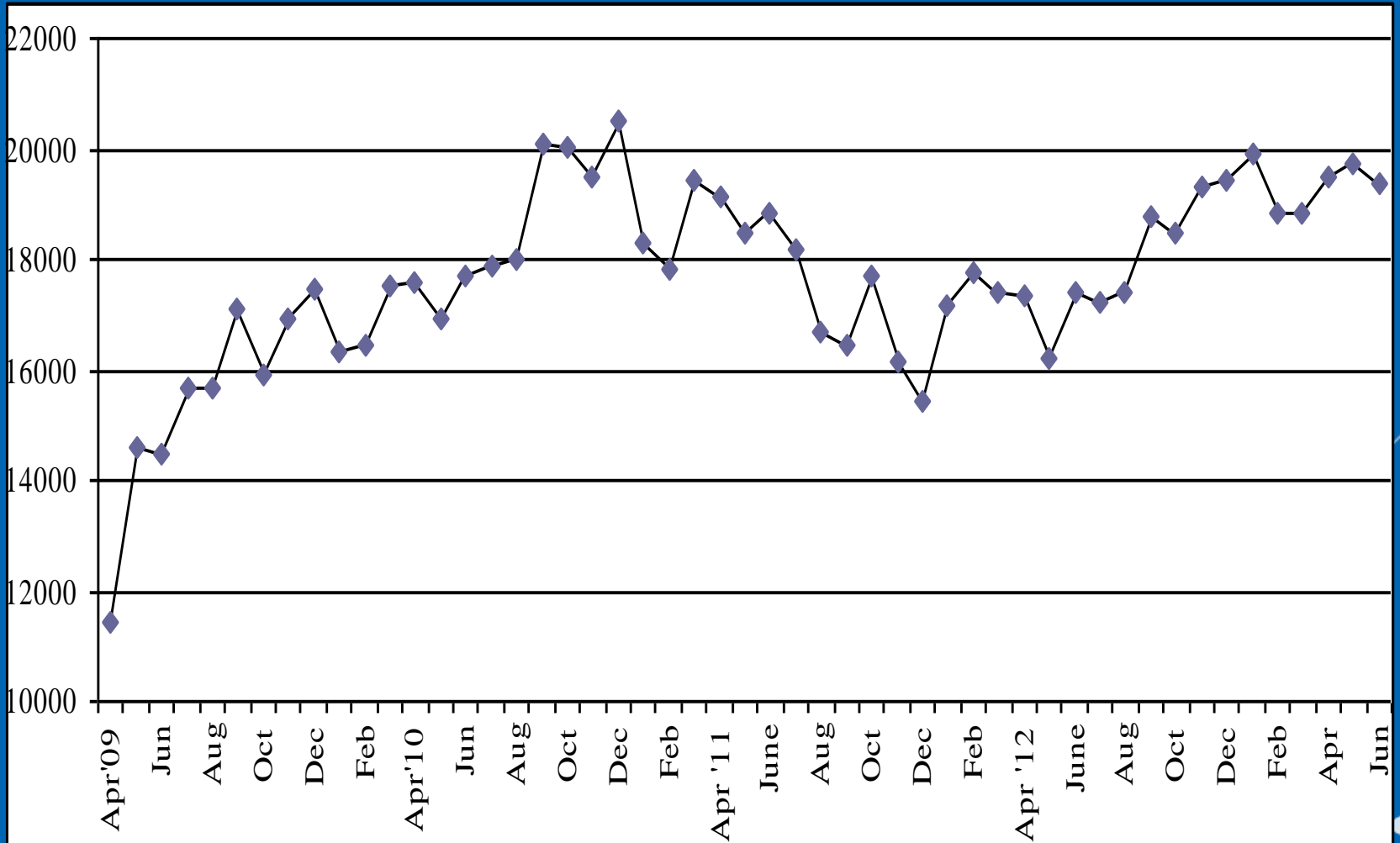
BCC and NBCG have fallen (% Y-o-Y)



Interest Rates and Inflation Rates (%)



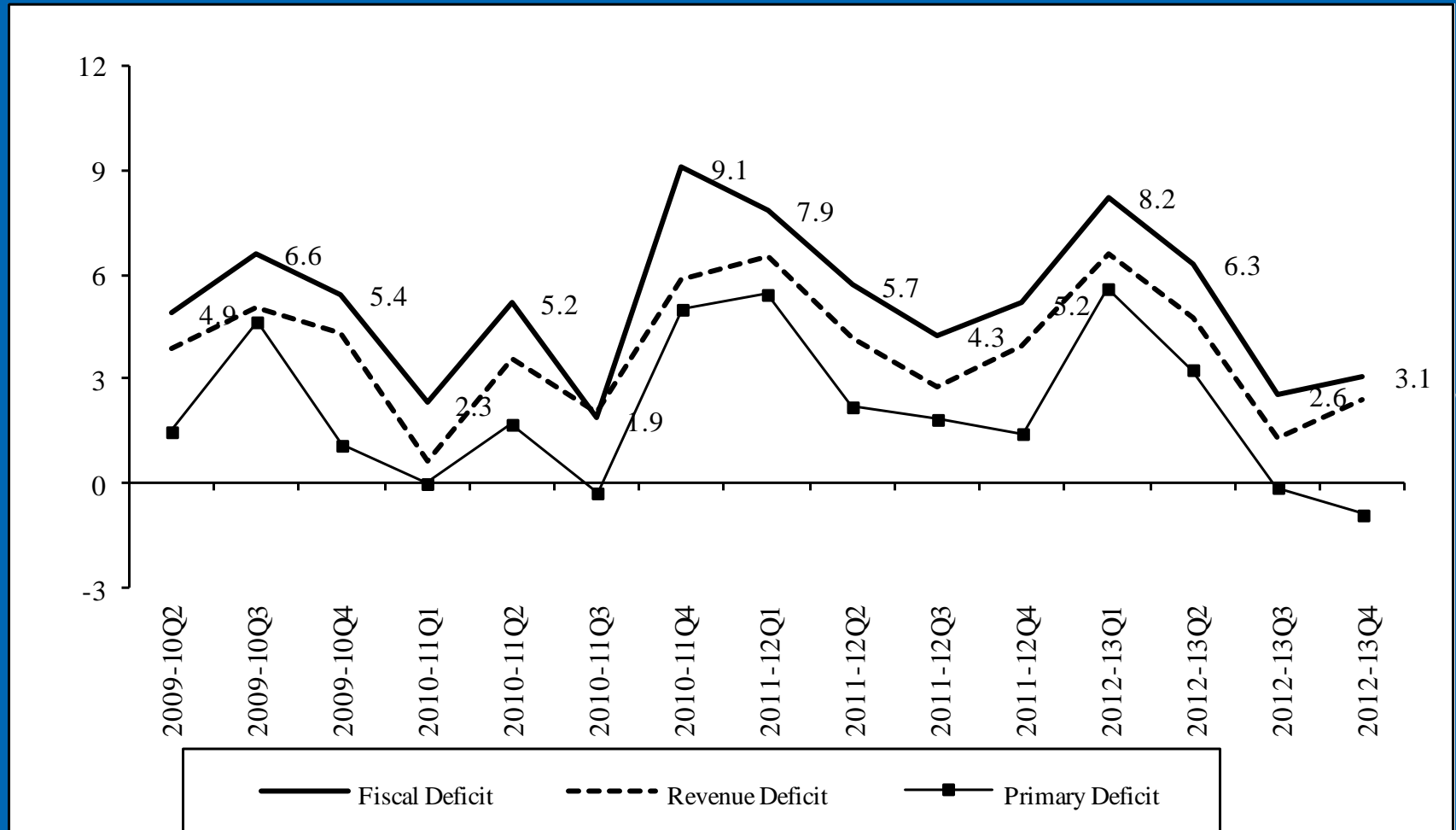
BSE Sensex falls



Public Finance



Trends in Deficits as % of GDP



But...

- Too early to talk about it.
- Food Subsidy Bill – the elephant in the room

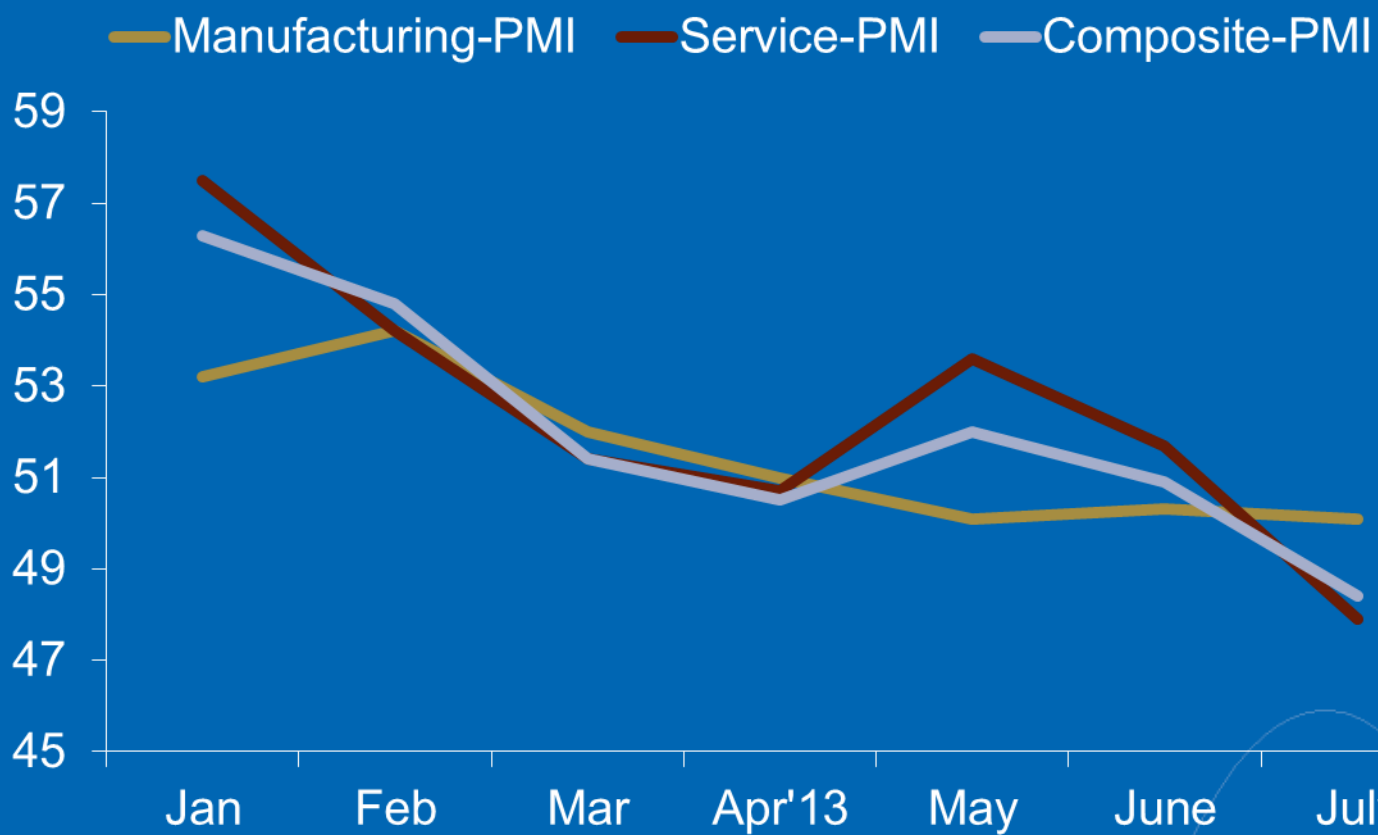
Thank You



An Assessment of Macroeconomic Scene for 2013-14

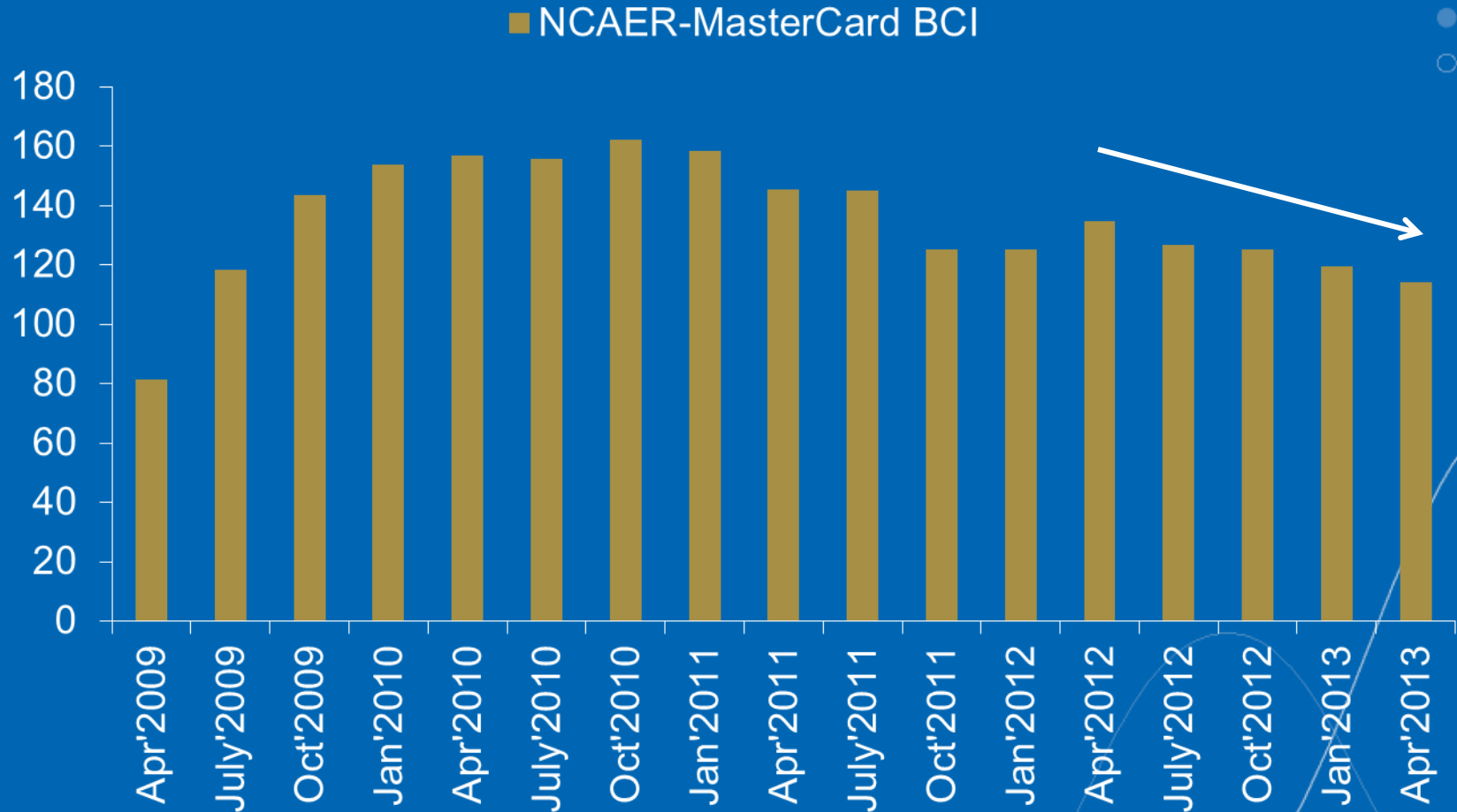
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Sector-wise business activities remain low



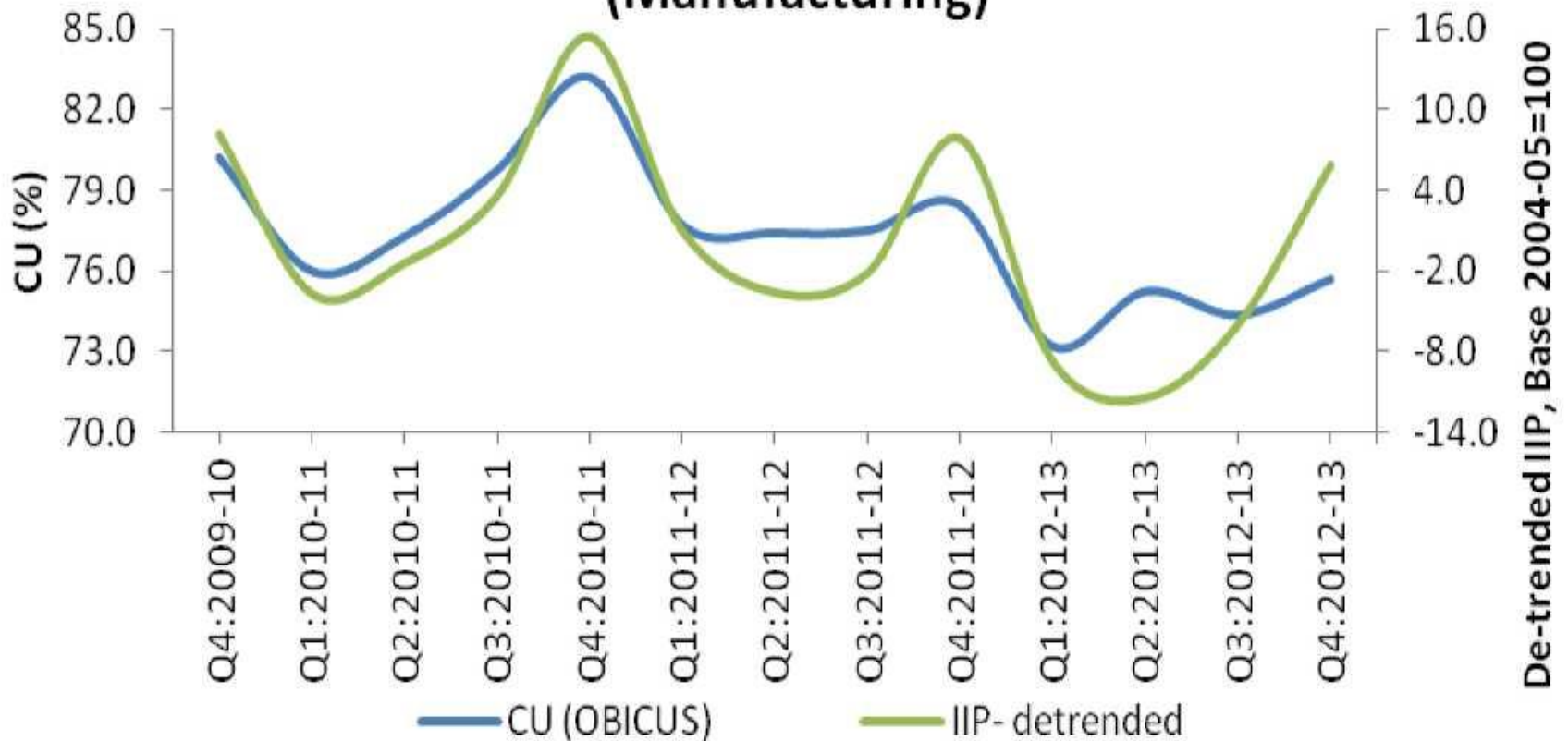
Source: HSBC

Business confidence continued to remain low

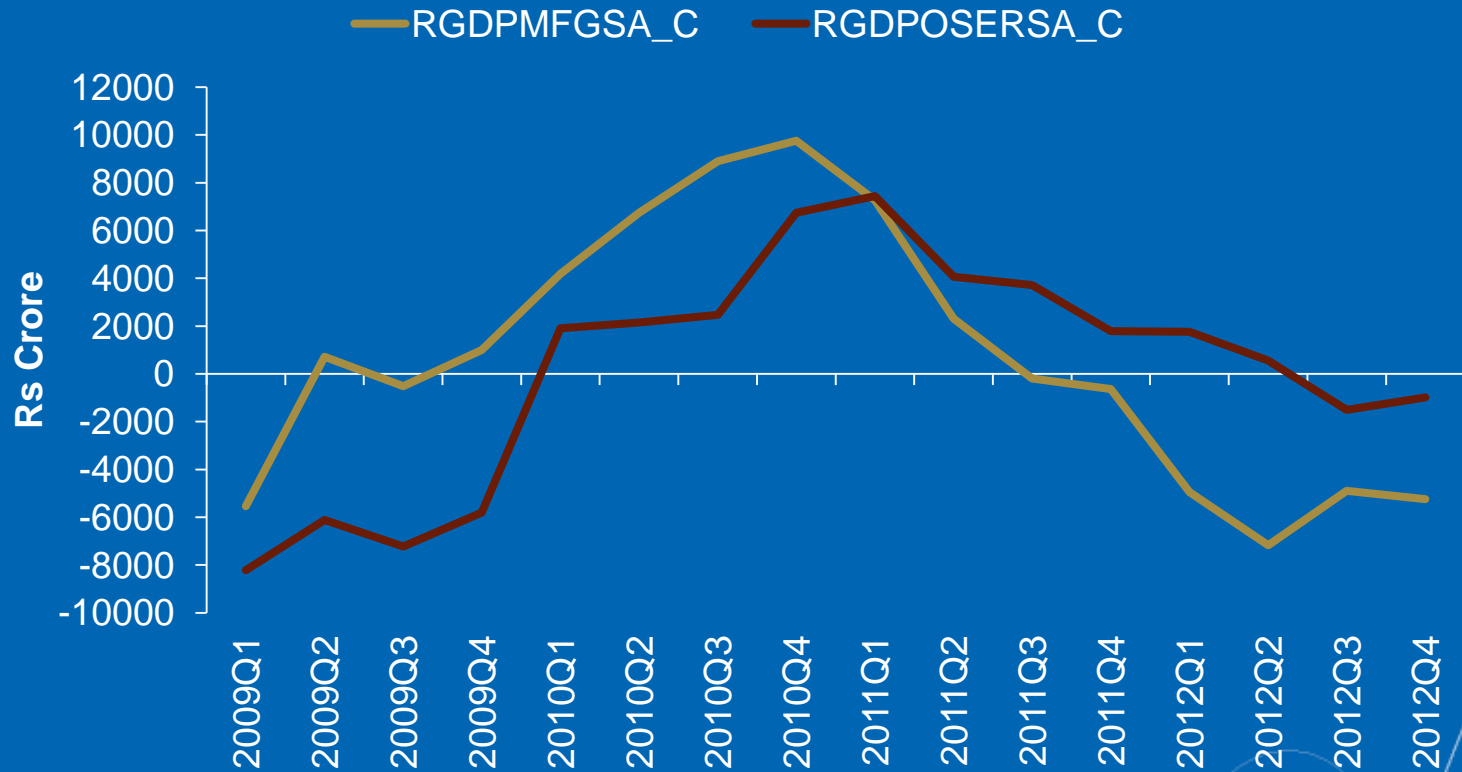


Low capacity utilisation of manufacturing companies reflect the below potential growth rate of the sector

Chart 1: Capacity Utilisation and De-trended IIP (Manufacturing)



High growth in manufacturing sector is necessary for the recovery of service sector



Note:

RGDPMFGSA_C = De-trended component of seasonally adjusted real GDP of Manufacturing sector

RGDPOSERSA_C = De-trended component of seasonally adjusted real GDP of Services other than community, social & personal services

Forecast



Quarterly Model: Assumptions for 2013-14

Exogenous Variables	2013-14 April	2013-14 July
Rainfall	Normal	Same
BSE Sensex (% yoy)	7.0%	5.0%
Bank Credit to the Commercial Sector (% yoy)	16.6%	15.8%
Central Government Expenditure (% yoy)	16.4% (BE)	Same

Quarterly Model: GDP growth forecast for 2013-14

Forecast for	2013-14 April	2013-14 July
Q1	5.8	5.0
Q2	6.1	5.4
Q3	6.5	6.1
Q4	6.4	6.0
Overall	6.2	5.7

Source: NCAER

Annual Model: Assumptions for 2013-14

Exogenous Variables	Unit	2004-05 to 2008-09 Average	2013-14	2013-14
			April 2013	July 2013
Agriculture related				
Rainfall		-	Normal	Same
Public investment in agriculture sector (current prices)	% YOY	23.9	20.0	20.0
External Conditions				
World real GDP	% YOY	3.5	3.3	3.1
International oil prices	% YOY	28.5	3.0	0.0
Non-fuel international prices	% YOY	10.8	5.0	0.0
FDI (US\$)	% YOY	73.9	15.0	10.0
Net foreign institutional investment (US\$)	% YOY	-41.0	15.0	10.0
Net invisibles (US\$)	% YOY	27.3	10.0	8.0
Exchange rate (Re/US\$)	% YOY	0.0	1.5	2.0

Annual Model: Assumptions for 2013-14

	Unit	2004-05 to 2008-09 Average	2013-14 April	2013-14 July
Fiscal Account				
Disinvestment revenue (Centre)	Rs. Crore	9,178	40,000	Same
Subsidies	(% of GDPmp)	1.6	2.03	Same
Direct tax collection rate	% YOY	9.5	2.0	Same
Indirect tax collection rate	% YOY	-3	1.0	Same
Others				
Public investment in non-agriculture sector (current prices)	% YOY	21.2	15.0	Same
WPI energy (Fuel, power, light etc.)	% YOY	6.7	4.0	Same

Annual Model: Forecast for 2012-13 and 2013-14

Item	2012-13 ^(AE)	NCAER forecast for 2013-14 April 2013	NCAER forecast for 2013-14 July 2013
% Change y-o-y			
Real GDP			
- Agriculture	1.8	3.2	3.2
- Industry	3.1	4.4	4.3
- Services	6.6	7.7	7.1
Total	5.0	6.2	5.9
Exports (\$ value)	-1.8	23.9	9.4
Imports (\$ value)	0.4	15.8	12.4
Inflation (WPI)	7.2	5.9	5.9
% of GDP at market prices			
Current account balance*	-4.8	-3.5	-4.6
Fiscal Deficit (Centre)	5.2	5.0	5.1

Note: # surplus (+)/deficit (-)

Thank You

