MACRO-ECONOMIC FRAMEWORK STATEMENT 2015-16

Overview of the Economy

Indian economy has weathered many challenges successfully in recent times and is currently placed on a cyclical upturn, on the back of strong policies and a whiff of new optimism. In the recent past, the economy faced testing times with issues like lower growth, high levels of inflation and widening current account deficit; escalated by an unsupportive external environment. Growth is back, with its desirable concomitants of mild inflation and manageable current account balance with stable rupee and rising foreign exchange reserves, signaling improvements in macro-economic stability. The growth rate of the economy, measured by the growth in GDP at constant (2011-12) market prices, improved from 5.1 per cent in 2012-13 to 6.9 per cent in 2013-14 and is projected to clock 7.4 per cent in 2014-15, according to the Advance Estimates released by the Central Statistics Office. India is one of the very few countries for which IMF and World Bank have raised their growth assessment. The ongoing revival is remarkable against the fact that it happened despite a highly tentative global economic conditions and a below-par domestic agricultural season.

The year 2014-15 has witnessed key policy reforms, aimed at aiding growth revival and surmounting the structural constraints in the economy. The policy action has combined the needs of short term economic management with focus on taming inflation and external sector imbalances with a medium to long-term vision for transformation and development, manifested in significant reforms aimed at rationalizing administered pricing policies in petroleum and natural gas, stirring infrastructure development and de-bottlenecking the economy with initiatives to unshackle land acquisition for development (along with rehabilitation requirements therein) and to ensure adequate availability of key inputs like coal and power. The growth agenda of the Government has been tethered to the revival of manufacturing, unleashed in the "Make in India", initiative, accompanied by liberalization of foreign direct investment, a large array of investment facilitation measures and steps to improve saving.

While Budget 2014-15 expounded the economic policy of the Government in a large measure, subsequent policy and legislative initiatives have been wedded to its development agenda. The Pradhan Mantri Jan Dhan Yojana, a landmark initiative combining opening of bank accounts with facilities of credit and insurance to those who stood excluded from the ambit of financial services so far. The Direct Benefit Transfer, linked to Aadhar, has progressed well with greater efficiency in the delivery of subsidies. The much-awaited Goods and Services Tax Constitutional Amendment Bill was introduced in the Parliament, and, in order to build trust between Union and States, the first tranche of Central Sales Tax (CST) compensation to be given during current financial year has been announced.

The Expenditure Management Commission is looking into the requirements of expenditure reforms and will suggest ways to improve allocative efficiency. The Government has also launched an effective programme for divestment of Public Sector Undertakings. The government appears to be on track to achieve the targeted fiscal deficit to GDP ratio in 2014-15.

There has been a durable decline in inflation- both wholesale and consumer prices- in the recent months. The steep decline of international crude oil prices, combined with the tight monetary policy of the Reserve Bank of India (RBI) and the Government's commitment towards fiscal prudence may have helped the decline in inflation. The current scenario of price stability and related expectations seems to have convinced the RBI, focused on a glide disinflationary path, on gradual monetary easing to support growth. The RBI has, in two successive announcements, reduced the repo rate by 25 basis points (to 7.75 per cent) and SLR by 50 basis points (to 21.5per cent).

The year also witnessed lower volatility in the foreign exchange market with the rupee remaining relatively stable during 2014-15, as compared to 2013-14. Rupee which breached the level of ₹68 a dollar in August 2013 stabilized around an average of ₹60.97 per dollar in 2014 (January – December). The current account deficit remained at 1.9 per cent of GDP in the first half of 2014-15. The net capital inflows increased to US$ 36.0 billion in April-September 2014-15 from US$ 16.3 billion in the corresponding period of 2013-14.

GDP Growth

As per the Advance Estimates released by the Central Statistics Office, the Indian economy is estimated to register a growth rate of 7.4 per cent in 2014-15, as compared to a growth of 5.1 per cent and 6.9 per cent respectively in 2012-13 and 2013-14. While the growth in industrial and services sectors improved significantly, growth in the agricultural sector, affected by a sub-optimal monsoon, declined in 2014-15. The sectors that are estimated to record higher growth in 2014-15 include; manufacturing, construction, electricity, gas, water supply and other utility services, financial, real estate and professional services, public administration, defense and other services.

Growth rate of GDP in the first three quarters (April-December 2014) of 2014-15 works out to 7.4 per cent, as against 7.1 per cent in the first three quarters of 2013-14. Quarter-wise, the estimates for Q1, Q2 and Q3 of 2014-15 are 7.0 per cent, 7.8 per cent and 7.5 per cent respectively.

From the demand side, the growth in final consumption expenditure at constant prices increased from 4.9 per cent in 2012-13 to 6.5 per cent in 2013-14 and is estimated to increase further to 7.6 per cent in 2014-15, as per the advance estimates. The growth in gross fixed capital formation also improved from – (0.3) per cent in 2012-13 to 3.0 per cent in 2013-14 and is expected to improve further to 4.1 per cent in 2014-15. While imports in real terms are estimated to decline by 0.5 per cent, real exports are projected to increase by 0.9 per cent in 2014-15.

Agriculture

During the southwest monsoon season of 2014, the country received 12 per cent lower rainfall than the long period average (LPA). As per the 4th Advance Estimates, the production of food grains during 2013-14 is placed at 264.77 million tonnes (rice at 106.54 million tonnes and wheat at 95.91 million tonnes) vis-a-vis 257.13 million tonnes in 2012-13 (final estimates). The production of pulses is estimated at 19.27 million tonnes, sugarcane at 350.02 million tonnes, oilseeds at 32.87 million tonnes and cotton at 36.59 million bales of 170 Kg each. As per the first advance estimates released by the Ministry of Agriculture on 19.09.2014, production of total kharif foodgrains during 2014-15 is estimated at 120.27 million tonnes compared to 129.32 million tonnes in 2013-14 and 117.18 million tonnes in 2012-13.

The flow of agriculture credit increased to ₹ 7,11,621 crore in 2013-14 in comparison to ₹ 6,07,375 crore in 2012-13 and ₹ 86,981 crore in 2003-04. The agriculture credit flow target for 2014-15 was fixed at ₹8,00,000 crore.

Prices

Headline WPI inflation moderated to 3.4 per cent in 2014-15 (April-December) from 6 per cent in 2013-14 due to lower food and fuel inflation. WPI food inflation (comprising primary food articles and manufactured food products), which remained high at 9.4 per cent during 2013-14 moderated to 4.8 per cent in 2014-15 (April-December) following sharp correction in vegetables prices since December 2013 (except March 2014), moderation in prices of cereals and 'egg, meat & fish'. However, core (non-food manufactured products) inflation increased to 3.2 per cent in 2014-15 (April-December) as compared to 2.9 per cent during 2013-14.

Headline CPI Inflation as per the Consumer Price Index- New Series (with base year 2010) averaged 6.8 per cent in 2014-15 (April-December) as against 9.5 per cent in 2013-14. The CSO has revised the base year from 2010 to 2012 and released the revised series on 12 February 2015. CPI headline inflation in terms of the revised series stood at 5.1 per cent in January 2015.

Industry and Services

The performance of key industrial sectors based on the Index of Industrial Production (IIP) reveals the reversal in trends of industrial production in 2014-15, which had slowed down since 2011-12. The factors constraining further growth acceleration in manufacturing sector include; high rate of interest, infrastructure bottlenecks and low domestic and external demand. In terms of use-based classification, basic goods and capital goods witnessed marked improvement in growth during April-December 2014-15. While the growth in intermediate goods remained sluggish, the consumer goods contracted in April-December 2014-15, particularly due to contraction in consumer durables sector.

The growth in services sector accelerated from 8.0 per cent in 2012-13 to 9.1 per cent in 2013-14. As per the advance estimates of CSO, the growth in services is increased further to 10.6 per cent in 2014-15. Sector-wise, trade, hotels, transport and communication services are estimated to grow by 8.4 per cent; financial, real estate and professional services by 13.7 per cent; and, public administration, defence and other services by 9.0 per cent in 2014-15

External Sector

After the initial phase of turbulence, the overall outcome for the external sector for 2013-14 was robust with lower trade and current account deficits and abundant financial flows resulting in accretion to foreign exchange reserves. This process continues through the current financial year as well.

India's merchandise exports (on customs basis) grew by 4.7 per cent year-on-year to reach a level of US $ 314.4 billion in 2013-14. During April-January 2014-15, India's exports grew 2.4 per cent and were valued at US $ 265.0 billion. India's imports had declined by 8.3 per cent, year-on-year, to reach US$ 450.2 billion in 2013-14. In 2014-15 (April-January), India's import was US$ 383.4 billion, which implies an increase of 2.2 per cent over 2013-14 (April-January). This was composed of a decline of 7.9 per cent in imports of petroleum, oil and lubricants (POL) arising from the moderation in global crude oil prices since July 2014 and a growth of 7.8 percent in non-POL imports (US$ 258.7 billion). Within non-POL imports of gold and silver were higher by 8.0 per cent (year on year) in April-January, 2014-15. As a result of the above development, trade deficit in April-January, 2014-15 was US$ 118.4 billion.

The data on Balance of Payments (BoP) for the current financial year 2014-15 is available only for the first six months. Trade deficit on BoP basis was US$ 73.2 billion in April-September 2014 as against US $ 83.8 billion in April-September 2013. With net invisibles surplus of US$ 55.3 billion in the first half of 2014-15 (US$ 56.8 billion in the first half of 2013-14), current account deficit (CAD) was US$ 17.9 billion in April-September, 2014 as against US$ 26.9 billion in April-September, 2013.

In 2013-14 (April-September) financial (capital) flows were lower than the level of CAD leading to a reserve drawdown. However, in the first half of 2014-15 (April-September), financial flows at US$ 36.0 billion exceeded CAD and there was an accretion to India's foreign exchange reserves of US$ 18.1 billion. This resulted in a rise in the stock of foreign exchange reserves, which were placed at US$313.8 billion at end September, 2014. Data available on the stock of foreign exchange reserves as on February 6, 2015 places it at US$ 330.2 billion. As some of the financial flows were debt creating, the total stock of external debt was US$ 455.9 billion at end September, 2014 as against a level of US$ 442.3 billion at end March 2014.

The abundance of financial flows over the levels of CAD and the levels of reserve accretion had a bearing on the exchange rate movement of the rupee. The monthly average exchange rate of the rupee was in the range of ₹59.31 to ₹62.75 per US$ in the current financial year indicating relative stability. On a month-on-month basis, the rupee depreciated by 2.8 per cent from ₹61.01 per US dollar in March 2014 to ₹62.75 per US dollar in December, 2014. It appreciated somewhat to ₹62.23 per US dollar in January 2015.

Money, Banking and Capital Markets

Liquidity conditions have remained broadly balanced during 2014-15. Taking into account the high volatility in call market during July-August 2014, and in order to ensure flexibility and transparency in liquidity management operations, the RBI revised its liquidity management framework which came into effect from September 5, 2014. The implementation of revised liquidity management framework helped in reducing volatility in the overnight interbank segment and anchoring the call rate near the policy repo rate better. The revised liquidity management framework helped the weighted average cut-off rates in the 14-day term repo auctions as well as in the overnight variable rate repo auctions to remain close to the repo rate. The volatility of the weighted average call rate declined.

The RBI has adopted the new Consumer Price Index (combined) as the measure of the nominal anchor (headline CPI) for policy communication. RBI kept the policy rates unchanged during this financial year till January 2015. In view of the continuing easing of inflationary pressures, on 15th January 2015, the RBI reduced the policy repo rate under the liquidity adjustment facility from 8.0 per cent to 7.75 per cent. In the latest bi-monthly policy statement announced by RBI on February 3, 2015, policy repo rate under the liquidity adjustment facility (LAF) has been kept unchanged at 7.75 per cent; the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL).However, RBI reduced the statutory liquidity ratio (SLR) of scheduled commercial banks by 50 basis points from 22.0 per cent to 21.5 per cent of their NDTL with effect from the fortnight beginning February 7, 2015, and replaced the export credit refinance facility with the provision of system level liquidity with immediate effect as well.

Financial Inclusion

Pradhan Mantri Jan-Dhan Yojana (PMJDY) was launched on 28th August, 2014to achieve the objective of financial inclusion by extending financial services to the large hitherto unserved population of the country and to unlock its growth potential. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit and insurance. The beneficiaries would receive a RuPay Debit Card having inbuilt accident insurance cover of ₹1 lakh. In addition, there is a life insurance cover of ₹30,000/- to those who open their bank accounts for the first time between 15th August 2014 and 26th January 2015 and meet other eligibility conditions of the Yojana. As on 28th January 2015, 12.31 crore bank accounts have been opened, out of which 7.36 crore are in rural areas and 4.95 crore in urban areas.

Capital Market

During April-December 2014, resource mobilization through primary market exhibited mixed patterns with equity and debt issues declining and private placements increasing, on year-on-year basis. As private placements account for the lion's share, the total mobilization increased during the period. The number and value of private placements increased both in NSE and BSE during the period.

The benchmark indices, BSE, Sensex and Nifty showed a general upward trend in the current year so far, closing at 27499.4 and 8282.7 respectively as on December 31, 2014 with corresponding growth rates of 29.9 and 31.4 percent, year on year. The Indian indices are among the better performing indices in the World.

With the commencement of FPI Regime from June 1, 2014, the erstwhile foreign institutional investors (FIIs), Sub Accounts and qualified foreign investors (QFIs) have been merged into a new investor class termed as "Foreign Portfolio Investors" (FPIs). The total net FPI inflows during April-December 2014 stood at US$ 32,943 million compared to an outflow of US$ 539 million in the corresponding period of 2013-14.

Prospects

The first nine months of 2014-15 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. 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.

In view of the positive indications emanating from the Government's commitment to reforms, favourable situation on account of the reduced international prices of oil and benign inflationary outlook which could provide room to RBI for easing the monetary policy, the prospects for growth in 2015-16 appear bright. While the industrial sector is gradually capturing momentum, all major segments of services sector are growing at a robust pace. The growth in domestic consumption has picked up; investment is expected to strengthen on the back of the reforms and facilitation measures undertaken by the Government, buoyant foreign capital inflows and improving business optimism in the economy. The major downside risk emanates from the global economy which is yet to attain sustained growth recovery. In the light of the above, assuming lower inflation, stable external sector and a normal monsoon, the rate of growth of the economy can be expected to be around 8.5 per cent during the year 2015-16.

Annex - I

MACROECONOMIC FRAMEWORK STATEMENT
(ECONOMIC PERFORMANCE AT A GLANCE)

		Absolute value April-December		Percentage change April-December	
Sl.	**Item**	**2013-14**	**2014-15**	**2013-14**	**2014-15**
Real Sector					
1	GDP at market prices (₹ thousand crore) @				
	a) at current prices	11345	12654	13.6	11.5
	b) at 2011-12 prices	9921	10657	6.9	7.4
2	Index of Industrial Production (2004-05=100)	168.3	171.8	0.1	2.1
3	Wholesale Price Index (2004-05=100)	177.0	182.9	6.2	3.4
4	Consumer Price Index: New Series (2010=100)	134.2	143.3	9.9	6.8
5	Money Supply (M3) (₹ thousand crore)	9223	10250	14.8	11.1
6	Imports at current prices **				
	a) In ₹ Crore	2028361	2134283	2.2	5.2
	b) In US $ million	338907	351206	-7.0	3.6
7	Exports at current prices **				
	a) In ₹ Crore	1395187	1465171	17.8	5.0
	b) In US $ million	231830	241154	6.6	4.0
8	Trade Deficit (US$ million) **	-107077	-110052	-27.1	2.8
9	Foreign Exchange Reserves (upto end January)				
	a) In ₹ Crore	1818514	2031369	15.5	11.7
	b) In US $ million	291070	328689	-1.5	12.9
10	Current Account Balance (US$ million)##	-26959	-17942		
	Government Finances #				
1.	Revenue receipts	633933	693773	11.1	9.4
2.	Tax revenue (Net)	517661	545714	6.9	5.4
3.	Non-tax revenue	116272	148059	34.6	27.3
4.	**Capital receipts (5+6+7)**	**529858**	**542615**	26.0	2.4
5.	Recovery of loans	8038	8282	4.3	3.0
6.	Other receipts	5430	1952	-33.6	-64.1
7.	**Borrowings and other liabilities**	**516390**	**532381**	**27.6**	**3.1**
8.	**Total receipts (1+4)**	**1163791**	**1236388**	**17.4**	**6.2**
9.	**Non-Plan expenditure**	**812528**	**883757**	**16.9**	**8.8**
10.	Revenue Account	731159	813270	16.9	11.2
of which:					
11.	Interest payments	248464	275220	23.0	10.8
12.	Capital Account	81369	70487	16.9	-13.4
13.	**Plan expenditure**	**351263**	**352631**	**18.7**	**0.4**
of which:					
14.	Revenue Account	274016	282278	12.8	3.0
15.	Capital Account	77247	70353	46.0	-8.9
16.	**Total expenditure (9+13)**	**1163791**	**1236388**	**17.4**	**6.2**
17.	Revenue expenditure (10+14)	1005175	1095548	15.7	9.0
18.	Capital expenditure (12+15)	158616	140840	29.4	-11.2
19.	Revenue deficit (17-1)	371242	401775	24.6	8.2
20.	Fiscal deficit {16-(1+5+6)}	516390	532381	27.6	3.1
21.	Primary deficit (20-11)	267926	257161	32.2	-4.0

** *On Customs basis.*

Figures as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.

@ *GDP is from April to March. The estimates for 2014-15 are the advanced estimates. ## April – September*