Highlights of Economic Survey 2013-14

STATE OF THE ECONOMY AND PROSPECTS

- Economy to grow in the range of 5.4 – 5.9 per cent in 2014-15 overcoming sub-5 percent growth.
- Growth slowdown was broad based, affecting in particular the industry sector.
- Aided by favourable monsoons, agricultural and allied sector registered a growth of 4.7 per cent in 2013-14.
- Industry and Service sectors also witnessed slowdown.

ISSUES AND PRIORITIES

- Reforms needed for long term-growth prospects on 3 fronts- low and stable inflation regime, tax and expenditure reform and regulatory framework.
- Survey suggests removal of restriction on farmers to buy, sell and store their produce to customers across the country and the world.
- Rationalisation of subsidies on inputs such as fertilizer and food is essential.
- Government needs to eventually move towards income support for farmers and poor households.

PUBLIC FINANCE

- The fiscal policy for 2013-14 was calibrated with two-fold objectives; first, to aid growth revival; and second, to reach the FD level targeted for 2013-14.
- The Budget for 2013-14 followed the policy of revenue augmentation and expenditure rationalization to contain government spending within sustainable limits.
- The fiscal outcome of the central government in 2013-14 was achieved despite the macroeconomic challenges of growth slowdown, elevated levels of global crude oil prices, and slow growth of investment.

PRICES AND MONETARY MANAGEMENT

- High inflation, particularly food inflation, was the result of structural as well as seasonal factors.
- IMF projects most global commodity prices are expected to remain flat during 2014-15.
The RBI with a view to restoring stability to the foreign exchange market, hiked short term interest rate in July and compressed domestic money market liquidity.

FINANCIAL INTERMEDIATION

- RBI has indentified five sectors -- infrastructure, iron and steel, textiles, aviation and mining as the stressed sectors.
- Public sector banks (PSBs) have high exposures to the ‘industry’ sector in general and to such ‘stressed’ sectors in particular.
- The New Pension System (NPS), now National Pension System, introduced for the new recruits who join government service on or after January 2004, represents a major reform of Indian pension arrangements.
- The next wave of infrastructure financing will require a capable bond market.

BALANCE OF PAYMENTS

- The India’s balance-of-payments position improved dramatically in 2013-14 with current account deficit at US $ 32.4 billion as against US$ 88.2 billion in 2012-13.
- India’s foreign exchange reserves increased from US$ 292.0 billion at end March 2013 to US$ 304.2 billion at end march 2014.
- India’s external debt has remained within manageable limits due to the external debt management policy with prudential restrictions on debt varieties of capital inflows.

INTERNATIONAL TRADE

World trade
- World trade volume which decelerated to 2.8 per cent in 2012 has shown signs of recovery in 2013, albeit slow with a 3.0 per cent growth.
- The sharp fall in imports and moderate export growth in 2013-14 resulted in a sharp fall in India's trade deficit by 27.8 per cent.
- In April-May 2014, trade deficit declined by 42.4 per cent.

AGRICULTURE AND FOOD MANAGEMENT

- Record food grains and oilseeds production of 264.4 million tonnes (mt) and 32.4 mt is estimated in 2013-14.
Horticulture production estimated at 265 mt in 2012-13 has exceeded the production of foodgrains and oilseeds for the first time.

Due to higher procurement, stocks of foodgrains in the Central Pool have increased to 69.84 million tonnes as on June 1, 2014.

The net availability of foodgrains increased to 229.1 million tonnes and that of edible oils to 12.7 kg per year in 2013.

**INDUSTRIAL PERFORMANCE**

The latest gross domestic product (GDP) estimates show that industry grew by just 1.0 per cent in 2012-13 and slowed further in 2013-14, posting a modest increase of 0.4 per cent.

**SERVICES SECTOR**

India ranked 12th in terms of services GDP in 2012 among the world’s top 15 countries in terms of GDP (at current prices).

India has the second fastest growing services sector with its CAGR at 9.0 per cent, just below China’s 10.9 per cent, during 2001 to 2012.

In 2013-14, FDI inflows to the services sector (top five sectors including construction) declined sharply by 37.6 per cent to US$ 6.4 billion compared to an overall growth in FDI inflows at 6.1 per cent resulting in the share of the top five services in total FDI falling to nearly one-sixth.

**ENERGY, INFRASTRUCTURE AND COMMUNICATIONS**

Major sector-wise performance of core industries and infrastructure services during 2013-14 shows a mixed trend. While the growth in production of power and fertilizers was comparatively higher than in 2012-13, coal, steel, cement, and refinery production posted comparatively lower growth. Crude oil and natural gas production declined during 2013-14.

The performance of the coal sector in the first two years of the Twelfth Plan has been subdued with domestic production at 556 MT in 2012-13 and 566 MT in 2013-14.

A total length of 21,787 km of national highways has been completed till March 2014 under various phases of the NHDP. In spite of several constraints due to the economic downturn, the NHAI constructed 2844 km length in 2012-13, its highest ever annual achievement. During 2013-14 a total of 1901 km of road construction was completed.

From the infrastructure development perspective, while important issues like delays in regulatory approvals, problems in land acquisition & rehabilitation, environmental clearances, etc. need immediate attention, time overruns in the implementation of projects
continue to be one of the main reasons for underachievement in many of the infrastructure sectors.

**SUSTAINABLE DEVELOPMENT & CLIMATE CHANGE**

- Human-induced Greenhouse gas (GHG) emissions are growing and are chiefly responsible for climate change.
- The world is not on track for limiting increase in global average temperature to below 2°C, above pre-industrial levels. GHG emissions grew on average 2.2 per cent per year between 2000 and 2010, compared to 1.3 per cent per year between 1970 and 2000.
- There is immense pressure on governments to act through two new agreements on climate change and sustainable development, both of which will be global frameworks for action to be finalized next year.
- The cumulative costs of India’s low carbon strategies have been estimated at around USD 834 billion at 2011 prices, between 2010 and 2030.

**HUMAN DEVELOPMENT**

*India’s Human Development Rank and performance*

- According to HDR 2013, India has slipped down in HDI with its overall global ranking at 136 (out of the 186 countries) as against 134 (out of 187 countries) as per HDR 2012. It is still in the medium human development category.
- The poverty ratio (based on the MPCE of ` 816 for rural areas and `1000 for urban areas in 2011-12 at all India level), has declined from 37.2 per cent in 2004-05 to 21.9 per cent in 2011-12.
- In absolute terms, the number of poor declined from 407.1 million in 2004-05 to 269.3 million in 2011-12 with an average annual decline of 2.2 percentage points during 2004-05 to 2011-12.
- During 2004-05 to 2011-12, employment growth [CAGR] was only 0.5 per cent, compared to 2.8 per cent during 1999-2000 to 2004-05 as per usual status.
Agriculture sector: Challenges & Reforms Required

The Economic Survey 2013-14 released in New Delhi today has highlighted several challenges and reforms required in the agriculture sector. The Economic Survey states that as a concomitant of growth, the share of agriculture and allied sector in gross domestic product (GDP) declined to 15.2% during the Eleventh Plan and further to 13.9% in 2013-14 (provisional estimates—PE). While it still accounts for about 54.6% of total employment (Census 2011), there has been a decline in the absolute number of cultivators, which is unprecedented, from 127.3 million (Census 2001) to 118.7 million (Census 2011).

According to the Economic Survey, growth rates of productivity in agriculture sector are far below global standards; productivity levels of rice and wheat have declined after the green revolution of the 1980s. Another issue is soil degradation due to declining fertilizer-use efficiency.

Also, the food subsidy has increased substantially in the past few years. Food subsidy was Rs. 92,000 crore in 2013-14.

With 60 per cent of the total foodgrains and oilseeds produced being grown in the kharif season, and with just about 35 per cent of arable area being irrigated, Indian agriculture is still dependent on rainfall. The second long-range forecast for the current year by the IMD for monsoon season indicates that the monsoon rainfall is likely to be 93 per cent of the LPA (model error ± 4 per cent), with 71 per cent probability of subnormal/deficit rainfall and 70 per cent occurrence of EL Nino. The government has put in place contingency measures in about 500 districts.

Currently, India is in an anomalous situation of being largely self-sufficient with large stocks of foodgrains on the one hand and registering high food inflation.

On domestic and international marketing, the plethora of government interventions that were used to build a marketing set up have actually served as barriers to trade. Removing market distortions will create greater competition in markets, promote
efficiency and growth and facilitate the creation of a national agricultural market.

For establishing a national common market, the Economic Survey has recommended the following reforms:

I. Examine the APMC Act, EC Act, Land Tenancy Act, and any such legally created structures whose provisions are restrictive and create barriers to free trade.

II. Rigorously pursue alternate marketing initiatives, like direct marketing and contract farming.

III. Examine inclusion of agriculture related taxes under the General Goods and Services Tax (GST)

IV. Establish stable trade policy based on tariff interventions instead of non-tariff trade barriers.

V. Develop and initiate competition in the agro-processing sector. Incentivize the private sector to scale up investments.

VI. In this scenario of bumper production and stocks, a paradigm shift in the role of the government in all aspects of food grain production and distribution is necessary

Agriculture Sector: Highlights

- Record food grains production of 264.4 mt in the year 2013-14
- Record production of oilseeds of 32.4 mt in the year 2013-14
- Record production of pulses of 19.6 mt in the year 2013-14
- Groundnut shows the largest increase in productivity i.e., 73.17% in the year 2013-14.
- India ranks first in the world in productivity of grapes, banana, cassava, peas, and papaya.
- Agriculture sector growth rate 4.7% in the year 2013-14
- Area under foodgrains increased by 4.47% to 126.2 million ha in the year 2013-14
Area under oilseeds increased by 6.42% to 28.2 million ha in the year 2013-14.
Stocks of foodgrains in the Central Pool stood at 69.84 million tonnes as on June 1, 2014.
Net availability of foodgrains increased by 15% to 229.1 million tonnes in 2013.
Per capita net availability of foodgrains increased to 186.4 kg per year in 2013.
Agriculture exports grow by 5.1% in the year 2013-14.
Exports of marine products show a growth rate of 45% in the year 2013-14.
Milk production touches a record high of 132.43 mt in the year 2012-13.
Contribution of livestock sector to total GDP was 4.1% in the year 2012-13.
Year-on-year growth rate of milk production in India is 4.04% vis-a-vis world average of 2.2%.
Credit to agriculture sector exceeds target of Rs. 7,00,000 crore in the year 2013-14.
Share of agriculture and allied sectors in GDP declines to 13.9% in 2013-14.
Number of cultivators decline from 127.3 million in 2001 to 118.7 million in 2011.

**Trade deficit improves, falls sharply by 27.8 percent**
**Turnaround in exports, grows by 4.1 percent over minus 1.8 percent in 2012-13**
**Imports fell by 8.3 percent after steep slowdown during previous year**

**TRADE DEFICIT**

In the Financial year 2013-14 there were encouraging signs on the foreign trade front as India’s trade deficit recorded a sharp fall. The export-import deficit bridged in by 27.8%, from US$190.3 billion during 2012-13 to $137.5 billion. In Financial Year (FY) 2014-15 first quarter trade deficit declined by another 42.4%.

The sharp fall in trade deficit was largely due to a fall in imports of gold and capital goods as non-Oil import deficit fell sharply to $35 billion from $87.2 billion during the previous FY. However, there was not much change in the POL (Petroleum, Oil and Lubricants) deficit which was hovering at around $100 billion in the last two years and constituted 36.7% of total imports during 2013-14.
EXPORTS

In 2013-14 India’s exports stood at $312.6 billion as against the targeted $325 billion. This represented a turnaround of 4.1% growth rate from the previous year’s negative growth of 1.8%. In the first quarter of current FY, export growth was slightly better at 5.3% in April, 2014 and for the first time in six months exports growth logged double digit growth at 12.4% in May, 2014. As regards sectoral performance, many sectors which recorded negative growth rate in 2012-13, have moved to the positive zone, barring gems and jewellery and electronic goods. Many labour-intensive export sectors like textiles, leather, handicrafts and carpets have performed relatively better. While textiles exports grew by 14.6 percent, the exports in leather and leather manufacturers sector recorded a 16.7 percent jump, with the European Union and USA being the major markets. The share of India’s textile exports to China also rose from around 2 percent in 2010-11 to 5 percent in 2012-13 and further to 7 percent in 2013-14.

The Services sector including travel, transportation and insurance improved slightly in 2013-14 with a 4 percent growth rate, compared to 2.4 percent during the previous year.

IMPORTS

The sharp decline in trade deficit is largely attributable to a fall in imports. Imports dropped by 8.3%, after steep slowdown during the previous FY 2012-13. Import growth had decelerated sharply from 32.3 percent in 2011-12 to 0.3 percent in 2012-13 and clocking a negative (-) 8.3 percent in 2013-14. The trend continued during April-May, 2014 as imports fell by 13.2%. On the back of several measures taken by the government, the value of gold and silver imports fell by 40.1 percent to $33.4 billion in 2013-14, with the import of yellow metal declining from 1,037 tonnes in 2012-13 to 664 tonnes.

OUTLOOK

The pick-up in India’s exports in April-May 2014, after five months of low/negative
growth, though a positive sign, is partly due to the low base. The quarterly and monthly export and import growth performance of the world and major trading countries is also not very encouraging. Thus world trade and India’s exports are still fragile, the recent good performance notwithstanding. There is also the downside risk of external shocks like the latest increase in oil prices owing to the Iraq crisis.

**Developing countries must get judicious Carbon and Development Space in new climate deals**

**Human-induced Greenhouse gas emissions are chiefly responsible for climate change**

The Economic Survey presented in Parliament says that the global climate community faces a deadline for reaching an agreement in 2015, bringing in more than 190 countries to pledge emission cuts for the post 2020 period. It is important that future agreements should take into account developing countries concerns and requirements fully. The issue of how developed and developing countries will be treated in these global pacts is the most crucial aspect.

New climate deals must ensure that developing countries are granted the required “carbon space and development space”. Governments are currently working on two new agreements on climate change and sustainable development, both of which will be new global frameworks for action to be finalized next year. Following the Rio+20 mandate, the global community is working to develop a set of Sustainable Development Goals (SDGs), possibly to be integrated with Millennium Development Goals (MDGs), when they end in 2015.

The survey notes that Human-induced Greenhouse gas (GHG) emissions are growing and are chiefly responsible for climate change. The world is not on track for limiting increase in global average temperature to below 2°C, above pre-industrial levels. GHG emissions grew on average 2.2 per cent per year between 2000 and 2010, compared to 1.3 per cent per year between 1970 and 2000.

As far as India is concerned, India’s per capita carbon emissions increased from 0.8
metric tons to 1.7 metric tons in 2010, well below the world average of 4.9 metric tons in 2010. India has already committed that its per capita emissions will not exceeded those of the developed countries under any circumstances. India is making progress in implementing national plans on climate change. It has reduced its CO2 emissions per unit GDP by 20 per cent between 1990 and 2011. There has been considerable progress in achieving targets under National Action Plan on Climate Change. State Action Plans on Climate Change for 9 states have been endorsed. The cumulative costs of India’s low carbon strategies have been estimated at around USD 834 billion at 2011 prices, between 2010 and 2030. Even though India has accommodated the sustainability concerns in the development path, it is constrained in its effort, as the magnitude of resources required is very large. Raising new and additional resources for SDGs and the non-capitalization of the Green Climate Fund is a matter of serious concern and may threaten the credibility of the global negotiation process.

The global negotiations provide an excellent opportunity to ensure a fair burden sharing, cooperation between the rich and poor nations. At the heart of this challenge now lies a fair division of global rights and responsibilities. The survey calls for decisive action to achieve the goals of sustainable development and it underlines that the climate deals must ensure that developing countries be given their fair share of carbon and development space.

Highlights – Industrial Performance

• Industry grew by just 1.0 per cent in 2012-13 and slowed further in 2013-14, posting a modest increase of 0.4 per cent.

• During 2013-14, FDI inflow (including equity inflows, reinvested earnings and other capital) was US$ 36.4 billion. Net FDI inflows had been $ 21.6 billion during 2013-14. Overall gross bank credit flow to industry has increased by 14.9 per cent in 2013-14, lower in comparison with 20.9 per cent growth achieved in 2011-12 and 17.8 per cent growth in 2012-13.
• In order to boost manufacturing sector, the government has already announced setting up of sixteen national investment and manufacturing zones (NIMZs). Of these, eight are along the Delhi Mumbai Industrial Corridor (DMIC).

• The policy focus now needs to target key growth drivers in the short term. One of the crucial drivers can be revival of the private corporate sector investment. Push ahead with critical reforms and removal of infrastructure bottlenecks.

• The near term industrial outlook is conditional on continued improvements in the policy environment and quick return to peak investment rate. With the improvement in overall macroeconomic environment, industry is expected to revive and growth can accelerate gradually over the next two years.

Agricultural Exports Increase by 5.1% in 2013-14, Marine Exports up by 45%

Credit flow to agricultural sector exceeds target

Agricultural exports (including marine) grew by 5.1% in 2013-14 over 2012-13 to US$ 37,292 million according to the Economic Survey 2013-14 released in New Delhi today. Exports of marine products alone increased by 44.8% over the same period.

Since the opening up of exports of rice in 2011, there has been a surge in its share in total exports from US$ 2575 million, in 2010-11 to US$ 7742 million in 2013-14. Exports of total dairy, poultry, meat, and marine products have doubled their share in agricultural exports between 2008-09 and 2013-14.

A stable and long-term trade policy with respect to export of agricultural products is essential for increasing productivity. Significantly, some policy changes were made in recent years: exports of rice and wheat were permitted since 2011; and since February 2013 processed and/or value added agricultural products were exempted from export restrictions even if their base produce is subject to an export ban. These will benefit farmers, incentivize the development of the agro-processing sector, and enhance farm
productivity.

During the last five years ending 2012-13, the food processing sector has been growing faster than the agriculture sector at an average annual growth rate of around 8.4%. With the decline in farm employment, additional employment opportunities have to be created in agro based industries.

Agricultural credit flow achievement was Rs 7,30,765 crore as against the target of Rs 7,00,000 crore in 2013-14. To facilitate clearance of arrears of previous sugar seasons and timely settlement of cane price for the current sugar season to sugarcane farmers, interest free bank loans of Rs 6600 crore was envisaged as additional working capital to sugar mills. An incentive of Rs 3300 per ton for raw sugar production targeted for the export market was also given to sugar mills.

Due to higher procurement, stocks of foodgrains in Central Pool stood at 69.84 mt as on June 1, 2014. Currently, India is in an anomalous situation of having large stocks of foodgrains with high food inflation.

Public expenditure (comprising public investments and input subsidies) has been ceding its share in total Gross Capital Formation of the agricultural sector to the private sector and was 14.7% in 2012-13. As a percentage of agricultural GDP also private investment has been rising and was 18.1% in 2012-13.

**Industrial Upturn Depends on Improved Policy Environment and Higher Investment Rates**

The near-term industrial upturn is conditional on continued improvements in the policy environment and a quick return to peak investment rates. The HSBC India Manufacturing Purchasing Managers’ Index (PM) increased marginally from 51.3 in April to 51.4 in May, 2014. It indicates some improvement in manufacturing activities and domestic and exports orders. Lead indicators for the first two months of the current financial year for power generation and production of cement, steel, fertilizers, and coal show improvement. Railways freight earnings and exports have also picked up, raising hopes of increased industrial activity in the coming months. The index of
eight core infrastructural supporting industries registered a growth of 4.2 per cent in April 2014 as compared to 3.7 per cent growth recorded in April, 2013. Further IIP-based overall industrial growth was 3.4 per cent in April 2014 as compared to the 1.5 per cent growth recorded in April, 2013.

With the improvement in overall macroeconomic environment, industry is expected to revive and growth can accelerate gradually over the next two years.

**Liberalising Agriculture**

State APMC laws are a major hurdle to modernization of the food economy. They have artificially created cartels of buyers who possess market power. APMCs remain a non-level playing field. In addition, some state governments have introduced barriers to trade within the country through taxation and technical requirements. The Essential Commodities Act 1955, an enabling Act which gives powers of intervention to state governments is incompatible with an integrated competitive national market for food.

Parliament has the power to legislate a national market under the Constitution, which gives it the ability to legislate the freedom to buy and sell, for farmers and traders, across state lines. This law can override state APMC laws and restrictions that have been placed on the farmer’s right to sell food within and outside the state. Under such a law, APMCs would become one among many trading venues in a competitive market. Further, under the Constitution, Parliament can legislate the creation of a Commission that monitors the country for anti-competitive practices.

Alongside the removal of conventional interventions in the food economy, there is a need to place a priority upon the three national-level public goods in the field of food: production of knowledge, financial regulation of futures trading, and information interventions that address the market failure in warehousing.
Stepping up Business Environment

Over the next few years, the government, both at the centre and in states, has to consider ways of improving the business environment for small businesses. While the long-term solution is a wholesale revamping of the laws and regulations governing business, a number of steps can be taken in the short term, and a number of policy experiments could be initiated for the long term.

Steps in the Short Run:

1. Create a website with all the rules and regulations applicable to businesses across states and the centre.

2. Review the existing regulatory landscape for outdated regulations which can safely be done away with.

3. Strengthen grievance redressal mechanisms against inspections.

4. Minimize human interaction and shift reporting and data submission to an online-only mode wherever possible.

5. Shift important decision making from the inspector to higher-level officers.

6. Create a system for self-certification and third-party certification.

7. Allow firms a time period to remedy faults and lack of compliance rather than penalize them immediately.

8. The government could institute a ‘use it or lose it’ policy to free up locked land, which can be used for industrial estates, common facilities, incubators, etc.

9. The Apprenticeship Act should be amended.
Mid-term Steps:

1. Get states to share best practices on business regulations and see what can form the basis for tried and tested regulatory change.

2. Based on these inputs, create a state-approved model regulatory structure that is available for businesses opening up in NIMZs.

Long-term Steps:

1. Indian legislation governing business needs to be thoroughly revamped. A committee could be constituted with the mandate to propose a more streamlined and modern set of laws, especially in the areas of taxation, labour, environment, and safety. Preliminary work can be started here, but in controversial areas, the focus has to be on building consensus for the time being.

Record Production of Foodgrains & Oilseeds in 2013-14
Groundnut Records Highest Rate of Increase in Productivity

The agriculture sector will see a record production of foodgrains and oilseeds in the year 2013-14, according to the Economic Survey for 2013-14, released in New Delhi today. As per the third Advance Estimates, the production of foodgrains is likely to touch a record output of 264.4 million tones (mt) in 2013-14 showing an increase of 2.88% over the previous year. Similarly, oilseeds are likely to have a record output of 32.4 mt showing an increase of 4.85% over the previous year. The production of rice is expected to be 106.3 mt and of wheat 95.8 mt. Cotton will touch a production of 36.5 mt in 2013-14. Overall, the agricultural sector is expected to grow at the rate of 4.7% in the year 2013-14. The agriculture sector grew at a rate of 4.1% during the Eleventh Five Year Plan (2007-08 to 2011-12).

The integrated scheme of oilseeds, pulses, oil palm and maize (ISOPOM) has resulted in record production of 19.6 mt of pulses (i.e., 7.10% increase over previous year), oilseeds production at a record of 32.4 mt (4.85% increase over previous year) and
maize gave a record production of 24.2 mt (increase of 8.52% over previous year). The Technology Mission on Oilseeds and Oil Palm (TMO&OP) has been introduced in the Twelfth Plan to realize substantial increase in domestic production of edible oilseeds/oil, which is 50% short of the domestic demand. The emphasis of TMO&OP will be on ‘focused’ and ‘integrated’ interventions.

In 2013-14, the higher production in case of most of the major crops has been achieved by expanding area rather than yield/productivity. However, Groundnut with productivity of 1723 kg/ha has shown the largest jump in yield i.e., 73.17% over the previous year. Tur productivity at 857 kg/ha increased by 10.44% while yield of cotton (529 kg/ha) also showed an increase of 8.85%. Gram productivity (974 kg/ha) showed the largest productivity decline i.e., 5.98% in 2013-14.

The net availability of foodgrains increased to 229.1 million tones i.e., an increase of 15% over last year and that of edible oils increased to 12.7 kg per year in 2013. The per capita net availability of foodgrains also rose to 186.4 kg per year in 2013 from 162.1 kg per year in 2009.

Expansion in area and increases in the Minimum Support Prices of select agricultural crops, have resulted in higher foodgrains production. As per the 3rd AE, the acreage under foodgrains increased to 126.2 million ha and to 28.2 million ha under oilseeds.

16 National Investment and Manufacturing Zones (NIMZS) to Boost Manufacturing Sector

In order to boost manufacturing sector, the government has already announced setting up of sixteen national investment and manufacturing zones (NIMZs). The National Manufacturing Policy (NMP) has the objective of enhancing the share of manufacturing in GDP to 25 per cent and creating 100 million jobs over a decade. The NMP provides for promotion of clusters and aggregation, especially through the creation of national investment and manufacturing zones (NIMZ). Till 2013-14, 16 NIMZs are being set up. Of these, eight are along the Delhi Mumbai Industrial
Corridor (DMIC). Besides, eight other NIMZs have been given in-principle approval: (i) Nagpur in Maharashtra, (ii) Chittoor in Andhra Pradesh, (iii) Medak in Andhra Pradesh (now Telengana), (iv) Prakasam in Andhra Pradesh (v) Tumkur in Karnataka, (vi) Kolar in Karnataka, (vii) Bidar in Karnataka, and (viii) Gulbarga in Karnataka.

The DMIC project was launched in pursuance of a memorandum of understanding (MOU) signed between the Government of India and the Government of Japan in December, 2006. The project, spans the states of Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra along the Western Dedicated Freight Corridor (DFC) of the Railways. The DMIC Development Corporation (DMICDC), incorporated in 2008, is the implementing agency for the project. The Master plans for all the nodes except the Dadri-Noida-Ghaziabad Investment Region in Uttar Pradesh have been completed and approved by the state governments. Land acquisition for the new industrial regions/areas as well as for the early bird projects identified for development as model initiatives is in different stages of progress in different states. The DMIC Trust has taken investment decisions on nine projects and action to implement them has already been initiated by the DMICDC.

The Chennai-Bengaluru-Chitradurga industrial corridor (around 560 km) will benefit the states of Karnataka, Andhra Pradesh, and Tamil Nadu. The Japan International Cooperation Agency (JICA) Study Team undertook the Preliminary Study for Comprehensive Integrated Master Plan for Chennai-Bengaluru Industrial Corridor (CBIC) and identified a total of 25 priority projects across various sectors aimed at removing infrastructural bottlenecks. Progress on these projects is being regularly monitored.

India and the United Kingdom have signed an MOU for the development of a new Bengaluru-Mumbai Economic corridor (BMEC). A feasibility study has been undertaken and is scheduled to be completed during 2014. A joint steering group will be set up for the project after the feasibility study.

A concept note has been prepared by the Asian Development Bank (ADB) on an East Coast Economic Corridor linking Kolkata-Chennai-Tuticorin and it has been decided
to initiate a feasibility study with the help of the ADB. In view of the commitment made by the central government under the Andhra Pradesh Reorganisation Act, 2014, in the first phase of the study the ADB will focus on the Vizag-Chennai Section so that a final view on the Chennai-Vizag Industrial Corridor may be taken within the timeline prescribed in the Act and further action taken accordingly.

The government has, in January 2014, accorded ‘in principle’ approval for setting up of an Amritsar-Kolkata Industrial Corridor (AKIC) along a 150-200 km band on either side of the Easter Dedicated Freight Corridor (EDFC) in a phased manner. The proposed Corridor comprises seven states: Punjab, Haryana, Uttarakhand, Uttar Pradesh, Bihar, Jharkhand and West Bengal. The government has also approved ‘in principle’ formation of an Amritsar-Kolkata Industrial Corridor Development Corporation (AKICDC). It is proposed to set up the AKICDC during 2014-15 to kickstart work on the AKIC.

**Industrial Growth to be Revived by Corporate Sector Investment, Pushing Ahead Critical Reforms and Removal of Infrastructure Bottlenecks**

Noting that the industrial growth has slowed down considerably in the recent years, the Economic Survey highlights the need for revival of corporate sector investment, pushing ahead with critical reforms and removal of infrastructure bottlenecks. These key steps would revive industrial growth.

The main highlights of the Economic Survey relating to industrial performance are as below:

- The latest gross domestic product (GDP) estimates show that industry grew by just 1.0 per cent in 2012-13 and slowed further in 2013-14, posting a modest increase of 0.4 per cent. The key reasons for poor performance have been contraction in mining activities and deceleration in manufacturing output. Manufacturing and mining sector GDP declined by 0.7 per cent and 1.4 per cent respectively in 2013-14. The underlying cause of the poor performance of these two sectors has been considerable
deceleration in investment particularly by the private corporate sector during 2011-12 and 2012-13.

• Further, slowdown in construction activities has resulted in capacity underutilization in the steel and cement sectors. Steel and cement consumption rose by just 0.6 per cent and 3.0 per cent respectively in 2013-14. As per the use-based industrial classification of IIP, the index of capital goods declined by 6.0 per cent in 2012-13 and further by 3.6 per cent in 2013-14. Continuing slowdown has impacted the performance of the corporate sector. Sales growth of the corporate sector particularly in respect of listed manufacturing companies for the private sector, declined considerably from 25.3 per cent in Q1 of 2011-12 to 5.0 per cent in Q4 of 2013-14.

• As per the latest data available on gross capital formation by industry of use at constant (2004-05) prices, a sharp decline in the growth rates of the fixed investment of mining, manufacturing and private corporate sector has been estimated. The decline is far steeper in case of unregistered manufacturing pointing towards paucity of funds available to the informal sector businesses. During 2013-14, FDI inflow (including equity inflows, reinvested earnings and other capital) was US$ 36.4 billion. Net FDI inflows had been $ 21.6 billion during 2013-14. Overall gross bank credit flow to industry has increased by 14.9 per cent in 2013-14, lower in comparison with 20.9 per cent growth achieved in 2011-12 and 17.8 per cent growth in 2012-13. Credit flow to mining remained near stagnant as it increased by mere 0.05 per cent during 2013-14.

• In order to boost manufacturing sector, the government has already announced setting up of sixteen national investment and manufacturing zones (NIMZs). Of these, eight are along the Delhi Mumbai Industrial Corridor (DMIC). Besides, eight other NIMZs have been given in-principle approval, viz (i) Nagpur in Maharashtra, (ii) Chittoor in Andhra Pradesh, (iii) Medak in Andhra Pradesh (now Telengana), (iv) Prakasam in Andhra Pradesh; (v) Tumkur in Karnataka; (vi) Kolar in Karnataka; (vii) Bidar in Karnataka; and (viii) Gulbarga in Karnataka. The government has also been monitoring progress of Delhi-Mumbai Industrial Corridor (DMIC), Chennai Bangalore Industrial Corridor (CBIC), Bengaluru-Mumbai Economic Corridor (BMEC), East Coast Economic Corridor (ECEC) including Vizag-Chennai Industrial
Corridor (VCIC) and Amritsar-Kolkata Industrial Corridor (AKIC).

• In view of the ongoing industrial slowdown, the policy focus now needs to target key growth drivers in the short term. One of the crucial drivers can be revival of the private corporate sector investment. The current industrial sector downturn presents an opportunity to push ahead with critical reforms and removal of infrastructure bottlenecks. Industrial policy needs to focus on labour-intensive and resource-based manufacturing in informal sector to rejuvenate small businesses. In the medium term, challenge for the Indian manufacturing is to move from lower tech to higher tech sectors, from lower value-added to higher value added sectors and from lower productivity to higher productivity sectors.

• The near term industrial outlook is conditional on continued improvements in the policy environment and quick return to peak investment rate. With the improvement in overall macroeconomic environment, industry is expected to revive and growth can accelerate gradually over the next two years.

**India Has Second Fastest Growing Service Sector**

- India ranked 12th in terms of services GDP among the world’s top 15 countries.
- India has the second fastest growing services sector with its CAGR at 9.0 per cent, just below China.
- The growth rate of the combined category of trade, hotels, restaurants, transport, storage, and communications decelerated to 3.0 per cent.
- Financing, insurance, real estate, and business services grew robustly at 12.9 per cent.
- Services constitute a 57 per cent share in GDP at factor cost in 2013-14.
- India’s share in world inbound tourist arrivals increased to 0.63 per cent in 2013.
- The size of domestic tourism has also crossed an estimated 1.1 billion annual travel visits.
- The IT-Business Process Management (BPM) sector grew by an estimated 10.3 per cent, reaching US$ 105 billion in 2013-14.
Services like software and telecom were big ticket items that gave India a brand image in services.

**Human Development to be Taken into Account in Formulating and Implementing Social Sector Programmes: Economic Survey 2013-14**

The Economic Survey 2013-14 presented by the Finance Minister Shri Arun Jaitley as precursor to the General Budget in the Lok Sabha today shows some interesting results of inter-state comparisons of socio-economic development of select states based on available indicators from various sources and furnish some clear policy pointers. While some states have done very well in terms of growth indicators, they are poor performers in terms of other human development indicators. The Economic survey states the Human Development dimension needs to be taken into account in formulating and implementing social sector programmes and arriving at criteria for devolution of funds to states.

**Population**

Kerala is the best performing state in terms of the two indicators- Decadal growth of population (4.9 per cent) and sex ratio (1084) and is well ahead of other states. Andhra Pradesh is a distant second in terms of population growth and third in terms of sex ratio with Tamil Nadu in second place in terms of sex ratio. Bihar has the highest decadal growth of population (25.4) and Haryana the lowest sex ratio (879).

**Growth**

Bihar is the best performing state in terms of growth rate of both gross state domestic product (GSDP) 2012-13 (15.1 per cent and average GSDP 2005-06 to 2012-13 (9.9 per cent) and also per capita income growth 2012-13 (13.9 per cent). Madhya Pradesh, Gujarat and Kerala are other states that have performed well in all these indicators and well above the all India average. However, in terms of absolute values of GSDP and per capita income, Maharashtra and Haryana respectively are at the top. While Tamil Nadu has the lowest growth in GSDP 2012-13 and Assam the lowest average GSDP
growth Rajasthan has the lowest per capita income growth in 2012-13.

**Poverty**

Poverty estimates indicate that Bihar which had the second highest poverty headcount ratio (HCR) in 2004-05 moved to first place in 2011-12 with the HCR at 33.7 per cent relegating Odisha to second place. Kerala had the lowest poverty (7.1 per cent) followed by Himachal Pradesh (8.1 per cent) and Punjab (8.3 per cent).

**Health**

Infant Mortality rate (IMR) in 2012 was the lowest in Kerala (12) and the highest in Madhya Pradesh (56) followed by Assam (55), Odisha, and Uttar Pradesh (53 each) against a national IMR of 42. Birth rate was also lowest in Kerala (14.9) and highest in Bihar (27.7) against a national average of 21.6. Death rate was lowest in Maharashtra and West Bengal (6.3) and highest in Odisha (8.5) against a national average of 7.0.

**Social sector programmes**

Progress in terms of 24x7 primary and other health centre facilities under the National Rural Health Mission (NRHM) is highest in Karnataka (2328) followed by Tamil Nadu and Rajasthan, and lowest in Himachal Pradesh (156) and Haryana (398)

**Highlights of manufacturing policy**

Salient features of the first national manufacturing policy:

-- Creation of 100 million additional jobs in the next 10 years.

-- Increasing the share of manufacturing in GDP to 25 percent by 2022 from current around 16 percent.

-- Liberalisation in labour and environment regulations.

-- Single window clearance for all issues related to industrial units.

-- Setting up of national investment and manufacturing zones.
-- Mega industrial township equipped with world-class infrastructure proposes to be autonomous and self-regulated.

-- Special purpose vehicle created to develop infrastructure on public-private-partnership mode.

-- Incentives to states for infrastructure development.

-- Incentivisation of green technology.

-- Financial and tax incentives to small and medium enterprises.

**Performance of Core Industries and Infrastructure Services shows a Mixed Trend in 2013-14; Survey Calls for enhanced Infrastructure Investment, Improving Productivity and Removing Procedural Bottlenecks**

Major sector-wise performance of core industries and infrastructure services during 2013-14 shows a mixed trend. While the growth in production of power and fertilizers was comparatively higher than in 2012-13, coal, steel, cement, and refinery production posted comparatively lower growth. The Economic Survey 2013-14 tabled in the Parliament today by the Finance Minister Shri Arun Jaitley mentions that crude oil and natural gas production declined during 2013-14. Among infrastructure services, growth in freight traffic by railways and cargo handled by major ports and the civil aviation sector (except import cargo) has been comparatively higher during 2013-14. In the road sector the National Highways Authority of India (NHAI) posted negative growth of 33 per cent during 2013-14 as compared to the 26.5 per cent growth during 2012-13, says the Survey.

Concerning energy production, the Survey mentions that even though the domestic production of energy is projected to increase, import dependence will continue to be high, particularly for crude oil where nearly 78 per cent of the demand will have to be met from imports by the end of the twelfth Plan.

As per the Survey, the growth in power generation during 2013-14 (April-March) was 6.0 per cent, as compared to 4.0 per cent during April 2012 to March 2013. The capacity-addition target for the Twelfth Plan period is estimated at 88,537 MW. Against this target, 38,583 MW capacity has been added till April 2014, which
constitutes 43.6 per cent of the target envisaged in the Twelfth Plan. The individual targets achieved by the centre, states, and private sectors during this period are 30.5 per cent, 47.2 per cent, and 49.7 per cent respectively, says the Survey.

Regarding the performance of the coal sector in the first two years of the Twelfth Plan, the Survey states that it has been subdued with domestic production at 556 MT in 2012-13 and 566 MT in 2013-14. Overall domestic demand for coal during these two years was in the range of 715-720 MT. Demand was mainly driven by the power generation sector, whereas demand in the iron and steel and cement sectors had moderate growth rates. To fill the gap between domestic demand and supply, the country imported about 146 MT during 2012-13 and about 169 MT of coal during April-January 2013-14 (provisional), the Survey adds. The Survey notes that in India the overall long term demand for coal is closely linked to the performance of the main end-use sectors i.e., thermal power, iron and steel and cement. Sharp deceleration in the production of natural gas in the past two-three years has further increased the energy sector’s dependence on coal.

In the Road sector, the Survey states that a total length of 21,787 km of national highways has been completed till March 2014 under various phases of the NHDP. In spite of several constraints due to the economic downturn, the NHAI constructed 2844 km length in 2012-13, its highest ever annual achievement. During 2013-14 a total of 1901 km of road construction was completed, adds the Survey.

Regarding telecom sector, the Survey mentions that it has registered phenomenal growth during the past few years and has become the second largest telephone network in the world, next only to China. The Survey observes that a series of reform measures by the government, innovations in the wireless technology, and active participation by the private sector played an important role in the growth of this sector. The Survey suggests that policy for better spectrum management through trading and sharing needs to be looked into so as to bring down the cost of spectrum.

Recognising the need for streamlining environmental clearances of infrastructure projects, the Survey states “There is need for better and more effective coordination
amongst various central ministries/ institutions regarding integration of environmental concerns at the inception / planning stage of a project. The Survey further notes that rapid economic growth in recent years has put enormous pressure on existing infrastructure, particularly in transport, energy and communications. It observes unless it is significantly improved, infrastructure will continue to be a bottleneck for growth and an obstacle to poverty reduction.

Giving details of financing infrastructure, the Survey states that the latest available data on gross deployment of bank credit to major infrastructure sectors shows that the rate of growth of bank credit moderated from an average of 44.8 per cent in 2011-12 to 17.7 per cent in 2013-14. Power sector had an over 50 per cent share in total credit flow to infrastructure. Both in terms of share in total credit to infrastructure and rate of growth, the telecom sector witnessed consecutive decline in the last three years. The government has put in place a liberal FDI policy, under which FDI up to 100 per cent is permitted under the automatic route in most sectors/activities. As a result, total FDI inflows into major infrastructure sectors registered a growth of 22.8 per cent in 2013-14 as compared to the contraction of 60.9 per cent during 2012-13, the Survey adds.

From the infrastructure development perspective, the Survey states that while important issues like delays in regulatory approvals, problems in land acquisition & rehabilitation, environmental clearances, etc. need immediate attention, time overruns in the implementation of projects continue to be one of the main reasons for underachievement in many of the infrastructure sectors.

In order to accelerate coal production in the short term, the Survey suggests the need to focus on building critical feeder railways routes for coal for evacuation and movement of coal. Clearing pending environment and forest clearances and rehabilitation issues that have stalled coal production by private captive blocks and Coal India Limited (CIL) subsidiaries also need to be accorded top priority. The CIL encompasses the whole gamut of identification of coal reserves and detailed exploration followed by design and implementation and optimizing operations for coal extraction in its mines. The process of restructuring CIL needs to be pushed through swiftly to boost coal production, the Survey adds.
Long-term finance for infrastructure projects, the Survey says, one of the issues that need to be addressed in the context of the limitation of banks to finance such projects. Infrastructure projects, given their long pay-back period, require long-term financing in order to be sustainable and cost effective. A robust and transparent issuance and trading process, uniform stamp duty across states and a well-devised credit enhancement mechanism are some of the issues which need immediate attention for development of the fixed instrument market in India, the Survey adds.

**Growth forecast for Next Fiscal to remain between 5.4 to 5.9 per cent. Improvements in Current Account and Fiscal deficits to spur higher growth in 2014-15**

A record food grains production of over 264 million tonnes is estimated in 2013-14 indicating an increase of 20 million tonnes in last 5 years

Indian economy is likely to grow in the range of 5.4 to 5.9 per cent in 2014-15 overcoming the sub-5 per cent growth of Gross Domestic Product (GDP) witnessed over the last two years. The growth slowdown in the last two years was broad based, affecting in particular the industry sector. Inflation too declined during this period, but continued to be above the comfort zone, owing primarily to the elevated level of food inflation. The Economic Survey 2014-15, presented by the Finance Minister Shri Arun Jaitley in the Lok Sabha predicts that moderation in inflation would 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.

The survey also points out at the downside risks to the economy arising from a poor monsoon, the external environment and the poor investment climate. After recovering in 2009-10 and 2010-11 from the crisis and growth slowdown of 2008-09, GDP growth slowed to below 5 per cent for two consecutive years, i.e. 2012-13 and 2013-14.

The survey notes that external sector witnessed a remarkable turnaround after the first quarter of 2013-14 and the year ended with a Current Account Deficit of 1.7 per cent of GDP as against 4.7 per cent in 2012-13. Improvement is also observed on the fiscal
front, with the fiscal deficit declining from 5.7 per cent of GDP in 2011-12 to 4.9 per cent in 2012-13 and 4.5 per cent in 2013-14. Aided by a favourable monsoon, the agriculture and allied sectors achieved a growth of 4.7 per cent in 2013-14 compared to its long term average of around 3 per cent (between 1999-2000 and 2012-13). A record food grains production of 264.4 million tonnes is estimated in 2013-14, as per the third Advance Estimates, indicating an increase of more than 20 million tonnes over the average production during the previous five years. Horticulture production is estimated at 265 million tonnes in 2012-13 and for the first time has exceeded the production of food grains and oilseeds. The robustness of the agriculture and allied sector can be attributed to the steady increase in gross capital formation (GCF) in this sector. In industry, the contraction in mining and quarrying for the second year in a row in 2013-14 and the negligible growth in manufacturing over the past two years, indicate the severity of structural bottlenecks. A slowdown is also noticed in services, in particular the internal trade, transport, and storage sectors that are largely attributed to the loss of momentum in commodity-producing sectors, especially, the industry sector. Thus, the revival of the industrial sector, with its economy-wide linkages, is central to the revival of aggregate economic activity.

Referring to the demographic dividend, the survey states that India with a large and young population has a great demographic advantage. The proportion of working-age population is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent 2021. While this provides opportunities, it also poses challenges. Policy makers have to design and execute development strategies that target this large young population.

Demographic advantage is unlikely to last indefinitely. Therefore timely action to make people healthy, educated and adequately skilled is of paramount importance.

The survey points out that the priority of the Government will be the revival of business sentiments that could be at the heart of restarting the investment cycle. Aggregate demand (measured in terms of GDP at market prices) registered a growth of 5.0 per cent in 2013-14 vis-à-vis 4.7 per cent in 2012-13 primarily due to improvement in net exports. The decline in the rate of gross fixed capital formation in
2013-14 reflects subdued business sentiments.

The investment boom in India till 2007-08 was largely due to significant increase in investment by the private corporate sector. The steep reduction in the rate of private corporate investment, leading to slowdown in overall investment rate in the economy, in recent years, point towards the need for revival of business sentiments. The survey adds that developments like the dramatic improvement in the external economic situation with the current account deficit declining to manageable levels and reduction in the fiscal deficit in 2013-14, along with some moderation in inflation, augur well for macroeconomic stabilization and revival of business confidence and investment.

In the above context, apart from fiscal consolidation, maintaining a stable external balance and further control of inflation, priorities for growth revival include streamlining implementation procedures to restart the investment cycle; simplification of tax policy, repeal of archaic laws governing market access, expansion and entry/exit of firms and revamp of the dispute resolution mechanism for commercial disputes to lend greater predictability to policy; boost to physical infrastructure; and, reforms that enhance productivity in agriculture, etc. are crucial.

Targeted measures by the government and RBI have improved the external economic situation significantly, even as India remains exposed to risk on/off sentiments of investors and to policy shifts in advanced economies. Regaining growth momentum requires restoration of domestic macroeconomic balance and enhancing efficiency. To this end, the emphasis of policy would have to remain on fiscal consolidation and removal of structural constraints. Though some measures have been initiated to this end, reversion to a growth rate of around 7-8 per cent can only occur beyond the ongoing and the next fiscal.

India has the Second Fastest Growing Services Sector with Compound Annual Growth Rate at 9.0 Per Cent

India has the second fastest growing services sector with its Compound Annual Growth Rate at 9.0 per cent, just below China’s 10.9 per cent, during 2001 to 2012. Also, India ranked 12th in terms of services Gross Domestic Product (GDP) in 2012 among the world’s top 15
countries in terms of GDP. While services share in World GDP was 65.9 per cent and in employment was only 44 per cent in 2012, in India, they were 56.9 per cent and 28.1 per cent respectively.

**GDP**

Services constitute a 57 per cent share in GDP at factor cost (at current prices) in 2013-14, an increase of 6 percentage points over 2000-01. Despite deceleration, services GDP growth at 6.8 per cent was above the 4.7 per cent overall GDP in 2013-14. The growth rate of the combined category of trade, hotels, restaurants, transport, storage, and communications decelerated to 3.0 per cent while financing, insurance, real estate, and business services grew robustly at 12.9 per cent.

**Exports**

India’s increase in share in world services exports from 0.6 per cent in 1990 to 3.3 per cent in 2013 was faster than in merchandise exports. Exports of software services, accounting for 46 per cent of India’s total services exports, decelerated to 5.4 per cent in 2013-14, travel, accounting for a nearly 12 per cent share, witnessed negative growth of 0.4 per cent.