

STUDENTS' ECONOMIC FORUM

*To kindle interest in economic affairs...
To empower the student community...*



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Theme 273

ECONOMIC SURVEY: HIGHLIGHTS

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A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The “SIB Students’ Economic Forum” is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the “Forum”. The Economic Survey 2013-14 was released on July 9, 2014, a day ahead of the budget. The survey calls for a new FRBM(Fiscal Responsibility & Budget Management) Act, a national food market, a shift from ration cards to cash transfers and overall revamping of the social sector schemes. This month we discuss on the major highlights of the Economic Survey.

How does the survey view the economy?

The survey finds that the 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 GDP growth of past two years, even as poor monsoon and disturbed external environment remain a cause for concern. The survey says that the slowdown in growth was broad based mainly affecting the industrial sector. Last year Agriculture and allied sectors registered a growth of 4.7% but there was a slowdown in both Industry and Service sectors.

What are the issues and priorities envisaged in the survey?

The survey underlines the need for reforms to ensure long term growth in the economy. The prospects of growth mainly rely on

1. Low and stable inflation regime
2. Major reforms in tax and expenditure front.
3. Strong regulatory framework.

The survey draws the concept of a global market removing restrictions on the farmers to procure, store and sell their farm produce across the country and the world. The fertilizer and food subsidies have to be rationalized. The Government has to work out a plan to provide income support for farmers and poor households.

What is the disclosure on public finance?

The Survey expects that moderation in inflation will ease the monetary policy stance and the economy can look forward to better growth prospects in 2014-15 and beyond. The

survey points out a possible downward risk due to factors like poor monsoon, the external environment and the poor investment climate. The survey sees the measures taken by the government, to improve investment climate and to improve governance, could push up growth to 7-8 per cent in the coming years. With signs of revival in major economies, priority should be given to revive business sentiments to revamp the investment cycle.

The fiscal policy for 2013-14 was calibrated with two-fold objectives 1. To aid growth revival 2. To reach the fiscal deficit level targeted for 2013-14. The last budget mainly followed the policy of revenue augmentation and expenditure rationalization to contain government spending within sustainable limits. The FD(fiscal deficit) target was achieved despite the macroeconomic challenges of growth slowdown, elevated levels of global crude oil prices, and slow growth of investment. According to Finance Minister, fiscal deficit needs to be maintained at an acceptable level through expansion of economy and tax buoyancy rather than contracting expenditure.

What are the findings on prices and monetary management?

The survey views that the high inflation, particularly food inflation, was the result of structural as well as seasonal factors. During 2014-15 the commodity prices are expected to remain flat. Inflation in Non Food Manufactured Product (WPI core) has remained benign throughout the year, with average inflation moderated to four year low of 2.9 per cent in 2013-14, which indicates that underlying pressures of broad-based inflation have somewhat eased. The WPI inflation is expected to moderate by the end of 2014 but, there are risks like sub-normal monsoon, rise in international crude oil prices, and exchange rate volatility.

What does the survey mention on Financial Intermediation?

RBI has identified 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 the 'stressed' sectors in particular. The survey has thrown caution over the banking system as bad debts have gone up and the quality of assets of the banks have also deteriorated..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. On infrastructure lending, the survey emphasizes the need of a capable bond market to overcome mismatches.

How does the survey assess the balance of payments position?

Our Country'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-improved dramatically from 4.7% of GDP in 2012-13 to 1.7 % in 2013-14. India's foreign exchange reserves increased from US\$ 292.0 billion at end March 2013 to US\$ 304.2 billion at the 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. India's external debt has remained within manageable limits with restrictions on foreign borrowings continuing. India's external debt stock at the end of March 2013 stood at US \$ 404.9 billion recording an increase of US\$ 44.1 billion (12.2 per cent) over the previous year's level of US \$ 360.8 billion.

What is the outlook on visible 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.

How does the survey assess the initiatives on agriculture and food management ?

1. Record food grains and oilseeds production of 264.4 million tonnes (mt) and 32.4 mt is estimated in 2013-14.
2. Horticulture production estimated at 265 mt in 2012-13 has exceeded the production of food grains and oilseeds for the first time.
3. Due to higher procurement, stocks of food grains in the Central Pool have increased to 69.84 million tones as on June 1, 2014.
4. The net availability of food grains increased to 229.1 million tonnes and that of edible oils to 12.7 kg per year in 2013.

How was the performance in other sectors?

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

Services: The service industry consisted of 57% of GDP in 2013-14, up by 6 percentage points in 2001. 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. India was ranked 12th in terms of services GDP in 2012 among the world's top 15 countries in terms of GDP (at current prices). 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 & 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 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(National Highway Development Project). In spite of several constraints due to the economic downturn, the NHAI(National Highways Authority of India) 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. While important issues like delays in regulatory approvals, problems in land acquisition & rehabilitation, environmental clearances, etc. need immediate attention; the time overruns in the implementation of projects continue to be one of the main reasons for underachievement in many of the infrastructure sectors.

What is the reference on sustainable development and climate change?

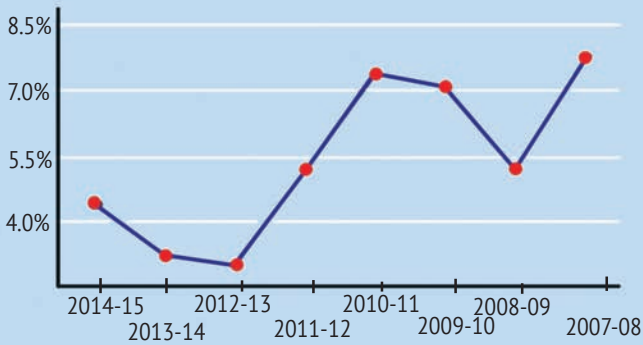
Human- induced Greenhouse gas (GHG) emissions are growing and are chiefly responsible for climate change. - The world is not on track for limiting increase in global average temperature to below 2°C above pre-industrial levels. GHG emissions grew on average 2.2 per cent per year between 2000 and 2010, 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 are estimated at around \$834 billion at 2011 prices, between 2010 & 2030.

How is our country rated in Human Development Report?

According to the Human Development Report 2013, India has slipped down in Human Development Index (HDI) with its overall global ranking at 136 (out of 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 monthly per capita expenditure(MPCE) of 816 for rural areas and 1000 for urban areas in 2011-12) has declined from 37.2 percent 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- 12with 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.

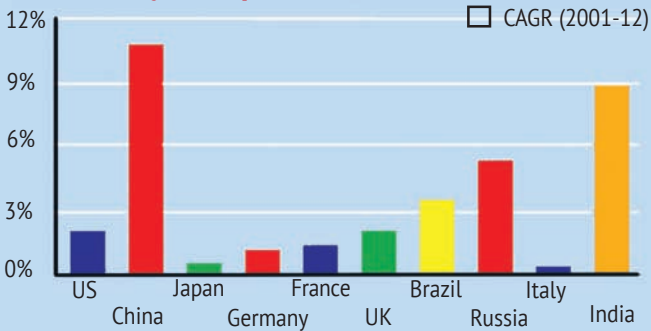


GDP Growth

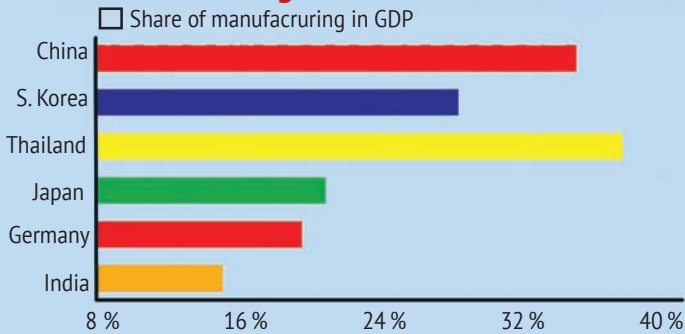


* Economic survey projection subject to assumptions

Country wise performance in service sector



Manufacturing and GDP



Source: The Hindu

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