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Indian Economic Survey 2014-15 – Key Highlights

27 February 2015

The Finance Minister presented the Economic Survey 2014–15 before the Parliament on 27 February 2015. This flagship annual document of the Ministry of Finance, Government of India, reviews the developments in the Indian economy in the financial year 2014–15, summarises the performance of major development programmes, and highlights the policy initiatives of the government and the prospects of the economy in the short to medium term. Following are key highlights of the survey:

The state of the economy

Performance during 2013–14 and 2014–15

- In January 2015, the government revised base year from 2004-05 to 2011–12. Also, changes were made in Gross Domestic Product (GDP) reporting, GDP at factor cost will henceforth be presented as Gross Value Added (GVA) at basic prices for industry-wise estimates, while ‘GDP at market prices’ will henceforth be referred to as ‘GDP’.

- The Indian economy in 2014–15 has emerged as one of the largest economies with a promising economic outlook on the back of controlled inflation, rise in domestic demand, increase in investments, decline in oil prices and reforms among others.

GDP indicators	2013–14	2014–15
GDP (constant prices) (INR crore)	9,921,106	10,656,925
Growth (in %)	6.9	7.4
GVA at basic prices (2011-12 prices) (INR crore)	9,169,787	9,857,672
Growth (in %)	6.6	7.5

GDP performance in 2014–15 from the demand side (comprising consumption, investment and net exports)

- On the demand side, growth of private final consumption increased to 7.6 per cent in 2014–15, from 6.5 per cent in 2013–14 as per advanced estimates.

- The fixed capital formation in the economy has picked up growth but lost share in aggregate demand. Gross fixed capital formation increased from 3.0 per cent in 2013–14 to 4.1 per cent in 2014–15.

- Exports in 2014–15 recorded a growth of just 0.9 per cent as compared to 7.3 per cent in 2013–14. Imports, on the other hand, increased from -8.4 percent in 2013–14 to -0.5 per cent in 2014–15, primarily due to the sharp decline in international oil prices in the current year that compressed the oil import bill.

Inflation and monetary policy

- The average Wholesale Price Index (WPI) inflation declined in 2014–15 to 3.4 per cent (April-December), vis-à-vis 8.9 per cent in 2013–14, as fuel has witnessed a sharp decline in prices. Food price inflation also moderated to 4.8 per cent during April-December 2014 as compared to 9.4 per cent in 2013–14.

- Average retail inflation, measured by Consumer Price Index (CPI), moderated to 6.3 per cent in 2014–15 (April-December) from 9.5 per cent in 2013–14.

- The Reserve Bank of India (RBI) had tightened the monetary policy last year which helped contain demand pressures, creating a buffer against any external shock and keeping volatility in the value of the rupee under check. During the last one year, the rupee remained relatively stable vis-à-vis the currency of peer emerging countries, which too had a sobering influence on inflation.

- With the easing of inflationary conditions, the RBI signalled softening of the monetary policy stance by cutting policy repo rates by 25 basis points (bps) to 7.75 percent in January 2015. Subsequently, the RBI also reduced the statutory liquidity ratio (SLR) by 50 bps from 22.0 per cent of net demand and time liabilities (NDTL) to 21.5 per cent.

GDP outlook for 2015–16

- The macroeconomic situation in India has improved significantly during the current year. Also, acceleration in services and manufacturing growth in the face of subdued global demand conditions point to the strengthening of domestic demand.

- However, concerns surrounding the construction and mining activities in the country still exist. Agriculture also suffered due to poor monsoon, but there are no indications of its spill over to the next year.

- In the light of the government’s commitment to reforms, the outlook for domestic macroeconomic parameters is generally optimistic and a growth of around 8.5 per cent is in the realm of possibility in 2015-16.

Public finance

- The Budget for 2014–15 indicated that while containing the fiscal deficit at 4.1 per cent of GDP was a challenge given the then macroeconomic conjecture, it bounded to the importance of adherence to fiscal consolidation.

Trends in revenue forgone/tax expenditure (INR crore)

Tax Head	2012–13	2013–14 (Projected)
Corporate tax	68,720	76,116
Personal income-tax	33,536	40,414
Excise duty	2,09,940	1,95,679
Customs duty	2,54,039	2,60,714

Provisional outcome for 2014–15 (Till December 2014)

Particulars	Absolute number (INR crore)		Per cent change over previous year	
	2013–14	2014–15	2013–14	2014–15
Revenue receipts	6,33,933	6,93,773	11.1	9.4
Gross tax revenue	7,43,709	7,95,686	9.2	7.0
Capital receipts	5,29,858	5,42,615	26.0	2.4
Total receipts	11,63,791	12,36,388	17.4	6.2
Revenue deficit	3,71,242	4,01,775	24.6	8.2
Fiscal deficit	5,16,390	5,32,381	27.6	3.1
Primary deficit	2,67,926	2,57,161	32.2	-4.0

- Some of the measures to boost revenue included increases in excise duty on petrol and diesel, during a dip in global oil prices. The government also announced stake sales in four public sector companies.

- The total outstanding liabilities of the central government were INR55.9 lakh crore, accounting for 49.2 per cent of GDP, comprising 39.0 per cent public debt and 10.2 per cent other liabilities at the end of March 2014.

- The gross receipts of the Department of Posts in 2013–14 were placed at INR10,730 crore. The gross traffic receipts of the Railways for 2013–14 stood at INR1.4 lakh crore as against INR1.2 lakh crore in 2012–13.

- Fiscal consolidation has become a necessity but the quality of consolidation is imperative to make it sustainable. To meet the 2014–15 fiscal deficit target, the government is expected to consider some expenditure cut. The declining global oil prices, along with the diesel-price deregulation and direct transfer of domestic LPG subsidies to bank accounts are expected to help lower the fuel subsidy bill.

Financial intermediation

- Several reform initiatives were taken in the banking and insurance sector in 2014–15 which includes allowing banks to raise capital from the market to meet capital adequacy norms by diluting the government's stake up to 52.0 per cent.

- Though the equity markets continued to do well due to various steps of improvement, the current fiscal year observed a decline in the growth of bank credit.

Particulars	% change		% change	
	2012–13	2013–14	2013–14 (as on 13 December 2013)	2014–15 (as on 12 December 2014)
Bank credit	14.1	13.9	14.6	10.9
Aggregate deposits	14.2	14.1	16.6	10.6
Investment	15.4	10.3	14.0	10.4

- The Indian banking system is suffering from 'double financial repression' which reduces returns to savers and banks, and misallocates capital to investors. Financial repression on the liability side has arisen from high inflation since 2007, leading to negative real interest rates, and a sharp reduction in household savings.

- A lack of competition is observed in the private sector banks' inability to increase their presence along with wide variation in the performance of the public sector banks measured in terms of prudence and profitability. These factors leads to a four-fold policy reform articulated in 4 Ds: deregulate, differentiate, diversify, and disinter.

- The capital to risk weighted assets ratio (CRAR) at system level for scheduled commercial banks (SCB) declined from 13.0 per cent as at the end of March 2014 to 12.8 per cent in September 2014.

- The RBI took several steps to resolve the NPA issue including guidelines on 'Early Recognition of Financial Distress, Prompt steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy'.

- The RBI issued guidelines to bring flexibility in project loans to infrastructure and core industry projects, both existing and new. The minimum investment in security receipts was raised to 15.0 per cent, as against the earlier norm of 5.0 per cent.

- Towards the financial inclusion front, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched on 28 August 2014 to provide universal access to banking facilities with at least one basic banking account for every household, and notifying of an ordinance to enhance the foreign equity cap in the insurance sector.

- The total number of NBFCs registered with the RBI declined from 12,158 (as on 30 September 2013) to 11,932 (as on 30 September 2014).

- Capital markets continued with the upside momentum and the benchmark indices, i.e., BSE Sensex and Nifty, closing at 27,499 and 8283 respectively as on 31 December 2014 with corresponding growth rates of 29.9 and 31.4 per cent, year on year.

- The insurance penetration increased from 2.3 per cent (life 1.8 per cent and non-life 0.7 per cent) in 2000 to 3.9 per cent (life 3.1 per cent and non-life 0.8 per cent) in 2013.

- Assets under management under the National Pension System (NPS) have witnessed an increase from INR48,136 crore as on 31 March 2014 to INR72,000 crore as on 31 December 2014, registering an increase of 49.6 per cent.

- The Pension Fund Regulatory and Development Authority (PFRDA) Act 2013 has been made effective from 1 February 2014, after it was passed by Parliament in September 2013.

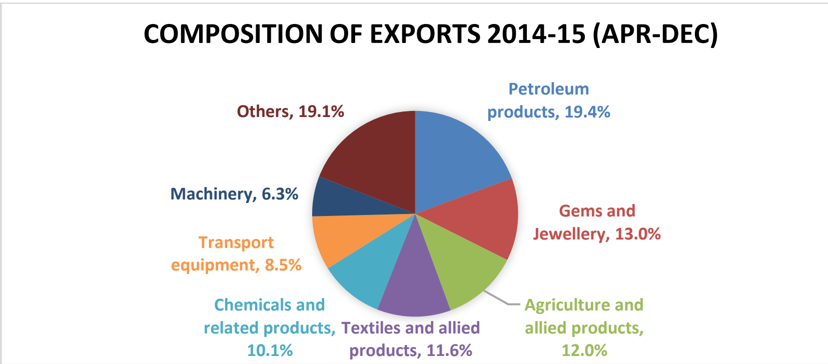
External sector

- The robust external-sector outcome is witnessed due to correction in the international prices of crude petroleum in the second half of the current fiscal, build-up of foreign exchange reserves (USD328.7 billion at end-January 2015) and stable exchange rate movement.

- Over the last ten years, India's merchandise trade (on customs basis) increased from USD195.1 billion in 2004-05 to USD764.6 billion in 2013–14. India's ranking among leading exporters and importers improved from 30 and 23 in 2004, to 19 and 12 respectively in 2013.

- While India's total merchandise trade as a proportion of GDP increased from 29.0 per cent in 2004-05 to 41.8 per cent in 2013–14, India's merchandise exports as a proportion of GDP increased from 12.1 per cent to 17.0 per cent during the same two time periods. In 2014–15 (April-January), imports grew by 2.2 per cent to USD383.4 billion as compared to USD375.3 billion in 2013–14 (April-January).

- Manufactured goods constitute the bulk of exports: over 63.0 per cent, followed by crude and petroleum products (including coal) with a 20.0 per cent share, and agriculture and allied products with a share of 13.7 per cent.



- In 2014–15 (April-January) trade deficit increased by 1.6 per cent to USD118.4 billion as against USD116.5 billion in 2013–14 (April-January).

- To counter elevated levels of trade deficit, the government took numerous measures aimed at boosting the performance of the export including the anti-dumping measures. Also, various sectors schemes were strengthened, viz. Focus Product Schemes (FPS), Focus Market Scheme (FMS), Market Linked Focus Product Scheme (MLFPS) and Vishesh Krishi and Gram Udyog Yojana (VKGUY).

- India's total external debt at end-March 2014 stood at USD442.3 billion, reporting an increase of USD32.8 billion (8.0 per cent) over the end of March 2013. This indicates external debt to GDP ratio of 23.5 per cent and debt service ratio of 5.9 per cent in 2013–14. As per the latest data, India's external debt stock increased by USD13.7 billion (3.1 per cent) to USD455.9 billion at the end of September 2014 over the end of March 2014.

- On point-to-point basis the rupee has depreciated by 3.3 per cent from INR60.1 per USD on 28 March 2014 to INR62.1 per USD on 13 February 2015.

Balance of Payments: summary (USD million)

Particulars	2013–14 H1 (Apr-Sept 2013) Provisional	2014–15 H1 (Apr-Sept 2014) Provisional
Current account balance	-26,959	-17,942
Capital account balance	15,806	38,539
Capital account balance (including errors and omissions)	16,259	36,017
Overall balance	-10,701	18,076
Reserve change	10,701	-18,076

- Manufacturing and services exports, both have slowed down in the last five years. The trading environment has become more challenging as the position of Indian exports has declined with respect to world growth and also because the negotiation of mega regional trading arrangements threatens to exclude India.

Sector-wise performance of GDP

Agriculture and food management

- India has emerged as a significant agricultural exporter in a few commodities such as cotton, rice, meat, oil meals, pepper and, sugar. As per the World Trade Organization's Trade Statistics, the shares of India's agricultural exports and imports in world trade in 2013–14 were 2.7 per cent and 1.3 per cent, respectively.

- In 2013–14, the share of agriculture in total GDP was 18.0 per cent. As against the target of 4.0 per cent growth for the agriculture and allied sectors, the growth registered was 3.7 in 2013–14 per cent and 1.1 per cent in 2014–15.

- As per the second Advance Estimates for 2014–15, total food grains production in India is estimated at 257.1 million tonnes. Despite deficiency of 12.0 per cent in monsoon rainfall during 2014–15, the loss in production was contained at ~3.0 per cent over the previous year (2013–14) and has exceeded the average production during the last five years by 8.2 million tonnes.

- Agricultural credit flow target for 2013–14 was fixed at INR7,00,000 crore and achievement was INR7,30,765 crore (Provisional), as against INR6,07,375 crore in 2012–13. Agricultural credit flow target for 2014–15 has been fixed at INR8,00,000 crore against which achievement has been INR3,70,828.6 crore (Provisional) up to 30 September 2014.

- The government has approved continuation of the RKVY (Rahtriya Krishi Vikas Yojana) whereby, funding will be routed into three components: production growth, infrastructure and assets, and sub-schemes and flexi-fund. The proposed allocation for the same during 2015-16 is INR18,000 crore.

- In order to promote development of a common national market for agricultural commodities through e-platforms, the department has approved INR200 crore for a central-sector scheme for Promotion of National Agricultural Market through Agri-Tech Infrastructure Fund (ATIF), which is to be implemented during 2014–15 to 2016-17.

- Agricultural exports as a percentage of agricultural GDP have increased from 9.1 per cent in 2008-09 to 14.1 per cent in 2013–14. During the same period, agricultural imports as a percentage of agricultural GDP also increased from 4.0 per cent to 5.5 per cent.

- With effect from 2014–15, the Mission for Integrated Development of Horticulture (MIDH) has been operationalised by bringing all ongoing schemes on horticulture under a single umbrella.

Outlook and challenges

Outlook:

- Oil prices are expected to remain low in short-term on account of weak global demand and increased supplies.

- Global commodity prices have been declining and are expected to remain weak in 2015 owing to low international demand and comfortable supply.

- Food inflation is well within limits due to slowdown in the growth of driving factors such as high rural wages, higher level of minimum support prices and, rise in input costs.

Challenges:

- There is a need for increased investment in agriculture and food sector in various areas such as research, education, extension, irrigation, fertilisers, and laboratories to test soil, water and commodities, are housing and cold storage.

- There are wide gaps persisting in the yields within states. Various top producer states have comparatively much lower yield in different crops when compared to the rest of the world. There is a need to bridge the yield-gap to the extent feasible within the climatic zone.

- There is a need to bring states on board for creating national common market for agricultural commodities.

Industrial, corporate and infrastructure performance

- The industrial growth in 2012–13 and 2013–14 stood at 2.4 per cent and 4.5 per cent, respectively. Also, there was a growth of 1.4 per cent in gross capital formation in the industry during 2013–14.

- The Index of Industrial Production (IIP) suggests that the industrial sector is recovering slowly with a 2.1 per cent growth in 2014–15 (April-December) over the 0.1 per cent increase in the same period last year. The recovery is led by infrastructure sectors: electricity, coal and cement.

Sectors	2013–14 (Apr-Dec) (%)	2014–15 (Apr-Dec) (%)
Mining	-1.5	1.7
Manufacturing	-0.4	1.2
Electricity	5.6	10.0

- Manufacturing output increased by 3.9 per cent in the first quarter and 0.4 per cent in the second quarter. The low growth in manufacturing sector can be attributed to high interest rate, infrastructure bottlenecks, and low domestic and external demand.

- The overall growth in eight core industries (coal, fertiliser, electricity, crude oil, natural gas, refinery product, steel and cement) during 2014–15 (April-December) has improved marginally to 4.4 per cent compared to 4.1 per cent in the same period last year (2013–14).

- The total investment in infrastructure sector during the Twelfth Five Year Plan (2012-17) is estimated at USD1 trillion, half of which is expected to come from the private sector. The Twelfth Five Year Plan has laid special emphasis on infrastructure development as quality infrastructure is important not only for sustaining high growth, but also for ensuring that the growth is inclusive.

Sectors	**Production 2013–14** **(Apr-Dec)**	**Production 2014–15** **(Apr-Dec)**
Power (billion units)	722.1	793.7
Petroleum (million metric tonnes)	28.4	28.2
Natural Gas (billion cubic meters)	26.7	25.3
Coal (million tonnes)	565.8	630.25

- The government took a number of policy initiatives to enhance crude oil and natural gas production such as new gas pricing formula, reassessment of hydrocarbon potential, project for survey of un-appraised sedimentary basins of India, data acquisition through non-executive multi-client model, gas grid infrastructure, etc.

- During April-December 2014–15, 101.3 million domestic passengers and 36.7 million international passengers were handled at Indian airports. During 2014–15, the Airport Authority of India (AAI) completed developments of airports at Bikaner, Jaisalmer, Bhatinda and Cuddapah.

- The telecom sector continues to grow rapidly. During April-November 2014–15, 31.2 million new telephone connections were added as compared to 12.1 million new connections in the corresponding period of 2013–14.

Services sector

- The services sector is the dominant sector in most states of India with a share of more than 40 per cent in the gross state domestic product (GSDP) in 2013–14, except for Arunachal Pradesh and Sikkim. Chandigarh is at the top with a share of 88.4 per cent followed by Delhi with 87.7 per cent. The major services in most of the states with high share are trade, hotels and restaurants followed by real estate, ownership of dwellings and business services.

- The services sector accounting for 51.3 per cent of India's GVA at basic prices in 2013–14, grew by 9.1 per cent compared to 6.6 per cent total GVA growth and 6.9 per cent GDP growth at market prices. In 2013–14, services exports grew by 4.0 per cent to USD151.5 billion and services imports declined by 2.8 per cent to USD78.5 billion resulting in net services of USD73.0 billion with 12.4 per cent growth. In the first half of 2014–15, services exports grew by 3.7 per cent to USD75.9 billion and import of services grew by 5.0 per cent to USD39.9 billion, resulting in net services growth of only 2.4 per cent.

- Computer and related services, with a share of 3.3 per cent in India's GDP, grew by 14.4 per cent in 2013–14. As per NASSCOM's estimate, the revenue of the IT-BPM industry at USD119 billion grew by 12 per cent in 2014–15, while the export market at USD98 billion grew by 12.3 per cent over 2013–14.

- The R&D sector has been growing consistently in double digits registering growth of 20.8 per cent in 2012–13. Also, consultancy services are emerging as one of the fastest growing services in India cutting across different sectors.

- Real estate and ownership of dwelling constitute 7.8 per cent of India's GDP in 2013–14. The widening gap between demand and supply of housing units and affordable housing finance solutions is a major policy concern for India.

Make in India campaign

- The Prime Minister has made the revival of Indian manufacturing a top priority, reflected in his 'Make in India' campaign and slogan that aims to transform India into a manufacturing hub.

- The Make in India programme is aimed to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure.

- Information on twenty-five priority sectors has been provided on a web portal along with details of FDI policy, National Manufacturing Policy, and intellectual property rights among others.

- The initiative also brings to light the challenges faced by the Indian manufacturing sector especially since it has been stagnant as compared to other East Asian countries.

- An important question that arises from the campaign is what to make in India, i.e., what to focus on for growth; the manufacturing or the services sector as the transformational sectors highlighted by the Government could belong to either categories.

- For the initiative to be successful in India, the sectors need to possess these five attributes: high level of productivity, unconditional convergence, expansion, alignment with comparative advantage and tradability.

Recent initiatives to boost industrial growth

- **Ease of doing business**: The important measures that have been undertaken are liberalisation of licensing and deregulation of a large number of defence products, extending the validity of licenses to provide enough time to licensees to procure land and obtain the necessary clearances/approvals from authorities, adoption of a checklist with specific time-lines for processing all applications filed by foreign investors in cases relating to retail/non-resident Indian (NRI)/export-oriented unit foreign investments, automation of processes for registration with the Employees Provident Fund Organisation and Employees State Insurance Corporation, processing of environment and forest clearances online, reducing the number of documents for exports, adoption of best practices by states in granting clearances and ensuring compliance through peer evaluation, self-certification, etc.

- **E-biz project:** Under the project a Government to Business (G2B) portal is being set up to serve as a one-stop shop for delivery of services to the investors and address the needs of the business and industry from inception through the entire life cycle of the business. The process of applying for industrial licence and industrial entrepreneur memorandum has been made online.

- **Skill development:** After the setting up of a new Ministry of Skill Development and Entrepreneurship to promote skill and entrepreneurial activities, work is being undertaken on setting up common norms for skill training across central ministries/departments. Thirty-one industry/employer-led Sector Skill Councils (SSCs) have been made operational and these have been aligned with the twenty-five sectors of 'Make in India'. To create a common standard for skills training and certification in the country, efforts are on to align the National Council for Vocational Training (NCVT), school boards, and the University Grants Commission (UGC).

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Ahmedabad
Commerce House V,
9th Floor, 902 & 903,
Near Vodafone House,
Corporate Road, Prahlad Nagar,
Ahmedabad – 380 051
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru
Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bangalore 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh
SCO 22-23 (Ist Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai
No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Delhi
Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad
8-2-618/2
Reliance Humsafar,
4th Floor, Road No.11,
Banjara Hills,
Hyderabad 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi
Syama Business Center
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682019
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata
Unit No. 603 – 604, 6th Floor,
Tower – 1, Godrej Waterside, Sector – V,
Salt Lake, Kolkata 700 091
Tel: +91 33 44034000
Fax: +91 33 44034199

Mumbai
Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Pune
703, Godrej Castlemaine
Bund Garden
Pune 411 001
Tel: +91 20 3050 4000
Fax: +91 20 3050 4010