NCAER'S Quarterly Review of the Indian Economy 2013-14 and Forecast for 2014-15

- GDP Growth rate for 2014-15 is projected at 5.1 - 5.5 per cent. The higher growth of 5.5 per cent is conditional on pick upon investment spending.
- WPI based average inflation rate projected at 6.1 per cent for 2014-15.
- Fiscal deficit for the center estimated at 4.5 per cent of GDP for 2014-15.

New Delhi, Wednesday, 30 April 2014: At a seminar held at National Council of Applied Economic Research (NCAER) on the *State of Economy*, the following observations, reviews and projection were made by the Council through a presentation and release of the report titled, "***Quarterly Review of the Economy***".

Agriculture

- Agriculture sector is likely to show a higher growth of 4.6 per cent in 2013-14, a major recovery from 1.4 percent in 2012-13.
- Food grains output is expected to touch a record 263 million tones, a new record output. The trends in output of both food grains and commercial crops reveal improved performance.
- Agricultural growth in 2014-15 will depend on the actual pattern of monsoon. At present rainfall is expected to be below normal this year which may result in a poor agricultural growth in 2014-15 and may have adverse impact on food inflation.

Industry and Services

- The index of industrial production (IIP), the principal indicator for industrial activity recorded contraction by 1.9 per cent in February 2014, the sixth monthly contraction since the beginning of the financial year 2013-14. Slowdown in corporate investment and infrastructure development are indicated as main reasons for the decline in growth.
- Manufacturing, which accounts for 75 per cent of the index, registered a decline of 3.7 per cent, against stagnant production in January, largely driven by fall in domestic demand.
- Infrastructure industries registered a growth of 2.6 per cent in April- February 2013-14, down from 6.4 per cent in the comparable period, 2012-13.

- The advance estimates of services sector growth at 6.3 per cent in 2013-14 are more or less comparable to previous year. Services sector growth, excluding construction is much higher at 7.6 per cent.

Public Finance

- The revised estimates for the fiscal deficit at 4.6 per cent show some progress in fiscal management in 2013-14, though the quality of improvements remains a concern.

- Contrary to the projection in the vote on account, the fiscal deficit to GDP ratio for the next fiscal is unlikely to be contained at 4.1 per cent. Bond yields have already hardened in response to market perception that borrowing will be revised upwards. The budget by the new government, later this year will give a more complete picture of centre's fiscal position.

Monetary Conditions

- The RBI managed to ease liquidity during Q4 through a mix of term repos, overnight repos and other measures.

- Reserve money increased by Rs 313 bn in the last quarter of 2013-14, driven mainly by net credit to the Centre. Deposit growth slowed down and the Credit growth for the year as a whole was 12%, slightly below RBIs estimates for the fiscal year.

- BSE Sensex and NSE recorded an increase of about six per cent during the last quarter of 2013-14 riding on expectations of a stable electoral outcome, lower CAD numbers, and lower inflation amongst other reasons.

- Credit quality continued to deteriorate on account of slower economic growth and rising interest rates that have made tougher for borrowers to repay debt.

External sector

- Exports grew by 4 per cent in 2013-14 as compared to a decline of 1.8 per cent in the previous year.

- Commodity imports recorded a decline of 8.1 per cent during 2013-14 in comparison to growth moderation during 2012-13.

- The first three quarters of 2013-14 saw the merchandise exports expanding 5.9 per cent while imports declined by 5.3 per cent and consequently trade deficit shrank 22.1 per cent. The lower trade deficit augmented by higher net earnings resulted in sharp decline in the current account deficit (CAD) in the first three quarters of 2013-14.

- Net capital inflows declined by (-) 42.4 per cent and a decline in net outflows was also observed resulting in overall surplus of US$ 8.4 billion.

Prices

- The overall price situation showed significant improvement in the last quarter of 2013-14. WPI inflation and retail inflation rates dropped nearly 2 percent during the last quarter. WPI inflation using year on year inflation rates based on monthly data stood at 5.2 per cent and retail inflation between 7 per cent – 8.9 per cent.

- Seasonal correction of food prices, policy tightening by RBI and favorable global factors are some of the attributing factors that may prove transient.

- Food inflation will depend on the spatial and temporal distribution of monsoon in the coming season and the extent to which both are affected by El Nino The timing and magnitude of revisions in administered prices (particularly electricity and coal) will also affect the trajectory of inflation in 2014-15.

GDP Forecasts for 2014–15

Item	**2012–13(RE)**	**2013–14(AE)**	**NCAER forecast for 2014–15 January 2014**	**NCAER forecast for 2014–15 April 2014**
		% change y-o-y		
Real GDP				
- Agriculture	1.4	4.6	2.1	3.0-3.03
- Industry	0.9	0.7	3.8	1.9-3.6
- Services	7.0	6.9	7.1	6.9
Total	**4.5**	**4.9**	**5.6**	**5.1-5.5**
Exports ($ value)	-1.8	4	14	16.6
Imports ($ value)	0.3	-8.1	14.4	19.6-20.5
Inflation (WPI)	7.4	6.0	6.0	6.1
		% of GDP at market prices		
Current account balance*	4.8	2*	–3.0	(–)3.5-(–) 3.85
Fiscal Deficit (Centre)	4.9	4.6	4.9	4.41-4.5

Notes: Forecast Based on Annual Model.
*RBI; AE: Advance Estimates RE: Revised Estimates * Surplus (+)/deficit (–)

Overview

India's gross domestic product (GDP) at factor cost in constant prices 2004-05 grew by 4.7 per cent in Q3FY14, marginally down from 4.8 per cent in Q2FY14, but effectively demolishing any hope that the CSO's advance estimate of 4.9 per cent GDP growth for 2013-14 will be achieved. The CSO's advance estimate now looks well nigh impossible as it would necessitate growth of about 5.5 per cent in the last quarter which is highly unlikely.

However, while commenting on the Q3 growth numbers, TCA Anant, Secretary and Chief Statistician of India, stuck to the CSO's advance estimates numbers on the grounds that it is quite possible Q1 and Q2 numbers would be revised upwards. In that case, even with a lower growth in Q4, it might be possible to achieve 4.9 per cent GDP growth in FY14.

Regardless of the final number, what is indisputable is that we will end the year with sub-five per cent GDP growth for the second year running. The last time we had two consecutive years of sub-five percent growth was in pre-reform period; during 1988-89 in the run up to the 1991 crisis. Thus, it is almost as if the clock has been turned back on all the progress made, post-reform.

And while that might seem an unduly pessimistic view, the macroeconomic outlook at the time of this Review is rather bleak. Domestic growth impulses remain weak, with a muted performance of consumption expenditure and contraction of gross fixed capital formation. In Q3FY14, GDP growth received a boost from exports thanks to a weaker rupee and improved global demand conditions. But by February 2014, export growth began to slacken, declining 3.67 per cent YoY in February 2014 and falling again in March even as the trade gap declined to $ 8.1 billion in February. However, the deficit again rose to $ 10 billion in March 2014, suggesting export growth may have run out of steam now that the depreciation advantage has been lost with the rupee reversing its losses.

Third quarter GDP growth was led by services and agriculture & allied activities even as industrial sector contracted. Service sector growth improved to a five-quarter high of 7.6 per cent in Q3FY14, up from 6.9 per cent in Q3FY13. The improvement was led by financing, insurance, real estate & business services sub-segment (12.5 per cent from 10.2 per cent) and community, social & personal services (7.0 per cent from 4.0 per cent), although growth of trade, hotels, transport and communication eased (4.3 per cent from 5.9 per cent). Agriculture growth, though robust, was a percentage point lower than the 4.6 per cent number estimated in CSO's advance estimates.

As earlier, slow growth in industrial output was the main drag on GDP growth. For the third consecutive quarter, industry's performance was lack lustre, contracting 0.7 per cent in Q3FY14 mainly on account of a decline in manufacturing output (1.9 per cent) and mining & quarrying (1.6 per cent). Construction growth eased further to 0.6 per cent in Q3FY14 from 1.0 per cent in Q3FY13, although there was some improvement in the performance of electricity, gas and water supply.

Gross fixed capital formation contracted 1.1 per cent in Q3FY14 as compared to 4.4 per cent growth in Q3FY13, with a continuing slowdown in infrastructure creation and delay in capacity expansion by the private sector. Notably, gross fixed capital formation as a proportion of GDP (at current prices) stood at 27.0 per cent in Q3FY14, the lowest quarterly performance on the current base year of 2004-05, highlighting the extent of slowdown in capital spending.

Overall, GDP growth in the first nine months of FY14 now stands at 4.6 per cent. The slowdown is across the board with all three sectors recording lower-than-projected growth. Unfortunately, data available to date for Q4 suggests there is little reason for optimism. While the Second Advance Estimates of crop production indicated a record high rabi harvest of most major crops in 2013-14, heavy rainfall in March has damaged crops over parts of the country, suggesting muted improvement in agricultural growth and consumption in Q4FY14 compared to Q3FY14.

As far as industry is concerned, Index of Industrial Production (IIP) data point to deep structural bottlenecks in industry, in particular in manufacturing. Latest IIP data for February 2014 show manufacturing output contract 3.7 per cent, while industrial output as a whole contracted 1.9 per cent. Capital goods output, usually considered a bellwether for the rest of industry declined an incredible 17 per cent.

March 2014 numbers are unlikely to be much better given that investment continues to be downbeat.

The services sector continues to grow, albeit at a much slower pace. The high growth of financing, insurance, real estate & business services (12.5 per cent) in Q3FY14 is a direct fallout of the boost to growth in bank deposits ($34 bn) on account of the swap windows offered by the RBI for FCNR (B) deposits from NRIs and banks' overseas borrowings. But with this window closing on 30 November, 2013, the pace of growth in this sub-sector is expected to moderate in Q4FY 14, dampening service sector growth. Fiscal restraint to achieve the fiscal deficit target is also likely to curtail growth in Government spending and dampen service sector growth.

Lead indicators do not suggest an appreciable improvement in investment sentiment in the current quarter. Overall, we expect Indian GDP growth of around 5.0 per cent in Q4FY14 resulting in full year growth of 4.7 per cent in FY14, somewhat lower than CSO's advance estimate of 4.9 per cent.

FY15 is expected to see growth pick up though much would depend on the outcome of the elections and the kind of political dispensation we see in place at the Centre. Any improvement, though, is likely to be feeble resulting in, at best, a modest recovery in 2014-15. A sub-normal monsoon on account of El Nino could affect agriculture and overall growth adversely. During the 2009 drought, farm activity fell to 0.9 per cent but overall GDP growth was held up by strong growth in services and manufacturing. This time round with services slowing down and manufacturing stagnant, any decline in agriculture GDP will impact GDP much more adversely.

Admittedly, the much lower contribution of 'agriculture, forestry and fishing' to the GDP - from 21.4 per cent in 2002-03 to around 14 per cent now limits the impact of poor agriculture performance on GDP. But its consequences for food inflation and socio-economic distress could be far-reaching even if higher reservoir levels and abundant stocks of foodgrains could limit the downside.

The bigger challenge would be to reverse the decline in corporate investment. The assumption that a clear political mandate will act as a proverbial magic wand and result in a dramatic increase in investment is naïve, to say the least. It will at best make sentiment more positive. But a turnaround that is reflected in macroeconomic fundamentals is unlikely till well into the second half of the current fiscal.

Global scenario

The global growth outlook is largely unchanged since the last QRE in January 2014 with conflicting data making prediction difficult. Growth is likely to be in the region of 3.5 per cent in 2014, about half a percentage point higher than in 2013. The expansion is expected to be led by advanced economies (AEs), especially the US. However, according to the RBI there are 'downside risks to growth trajectory from ongoing tapering of quantitative easing (QE) in the US, continuing deflation concerns and weak balance sheets in the euro area and, inflationary pressures in the emerging market and developing economies (EMDEs).'

Growth picked up in the EMDEs during H2 of 2013, but the momentum looks weaker than in the AEs. EMDEs also face new risks on account of tighter monetary policies in AEs. The recent sovereign rating downgrade for Brazil and downward revision in rating outlook for Russia are a reflection of the growing growth risks for EMDEs.

For now global inflation is benign with activity levels staying below potential in the AEs as well as in some large EMDEs and a softer bias for global commodity prices continuing into 2014. However, inflation in many EMDEs remains high, though actions in tightening monetary policy and slack in output are expected to generate some disinflationary momentum. Divergent trends in inflation between AEs and EMDEs make pose a further risk to global growth.

After the initial shock in May 2013 when the US Fed gave the first hint about tapering, global financial markets have weathered the early doses of actual tapering of the quantitative easing (QE) quite well. However, chances are the global interest rate cycle will turn sooner than anticipated earlier. And with a substantial amount of monetary accommodation by AEs remaining to be played out, capital flows to EMDEs could remain volatile, and, possibly, reverse.

IMF's World Economic Outlook (WEO) released early April pegs growth in India's GDP growth for 2013-14 at 4.6 per cent, close to the decade-low growth of 4.5 per cent clocked in 2012-13. The Fund had projected 4.25 per cent growth in October 2013 as against the CSO's advanced estimate of 4.9 per cent. However, GDP growth for 2014-15 has been projected at 5.4 per cent, against the RBI's estimate of five-six per cent. The Asian Development Bank has predicted GDP growth at 5.5 per cent in 2014-15. Consumer price inflation, which the IMF sees as an important challenge, is expected to trend down though the Fund suggests further tightening of the monetary stance might be needed for a 'durable reduction in inflation and inflation expectations.'

Prices

After a sharp increase in prices during two consecutive two quarters (2nd and 3rd quarter), the overall price situation showed significant improvement in the last quarter of FY 2013-14, though inflation numbers for March 2014 suggest the reprieve might be short-lived. WPI inflation and Retail inflation rates have dropped nearly 2 per cent during the last quarter. WPI inflation using year on year (y-o-y) inflation rates based on monthly data stood at 5.2 per cent and retail inflation between 7 per cent-8.9 per cent. The improvement during the quarter may be attributed to factors like seasonal correction of food prices, policy tightening by the RBI and favourable global factors, some of which may prove transient.

WPI inflation has fallen to 5.2 per cent from 7.1 per cent of the previous quarter. However, variation within the quarter shows an upward move from 4.68 per cent to 5.7 per cent between the months of February to March, 2014 (Chart P.1). This is primarily driven by the food prices. During this period, though non-food inflation has moderated a bit from 5.1 per cent to 4.6 per cent, food inflation has risen from 8.1 per cent to 9.9 per cent and led WPI inflation. In the case of retail inflation, combined CPI moved up to 8.3 per cent. CPI Rural rose to nearly 9 per cent while CPI Urban remained sticky at the level of 7.6 per cent. In sum, there are the signs of a resurgence of inflation. The shift in the monetary policy framework – from WPI to CPI - is promising in the longer term, though the fear of short-run inflationary flux cannot be excluded.

The all-important question at the moment is whether in the event of an El Nino kind of phenomenon, inflation will again raise its head. In 2009, which was the last year when we experienced drought conditions, food inflation crossed 14 per cent. Now with food inflation already hovering at close to double digit and persistently, any development that impacts foodgrain production adversely is bound to aggravate food inflation and through second order effects on wages, result in a rise in headline inflation.

Public Finance

The Vote-on –Account presented by the finance minister, in lieu of the regular budget in view of the impending elections was a fairly tame affair. In keeping with the established precedent of eschewing any new taxation measures or major policy announcements, the Budget speech was more a re-counting of the achievements of UPA II. As was widely expected, the FM delivered on his promise not to cross the red line he had drawn for himself on the fiscal deficit. Indeed he did one better. The final number for the fiscal deficit, as per the Revised Estimates, stands at 4.6 per cent as against 4.8 per cent in the Budget Estimates. Of course, many question remain both on the quality of expenditure compression that has been done to adhere to the target as well as the somewhat dubious assumptions and adjustments underlying the Budget arithmetic.

So while on paper the FM has bettered his fiscal deficit to GDP target, when one looks a little closer at the numbers the picture changes quite dramatically and almost looks suspect. The quality of the adjustment also leaves a great deal to be desired with expenditure compression being borne almost entirely by plan rather than non-plan expenditure. Latest numbers released by the Controller General of Accounts suggest FY14 will end with a substantially higher fiscal deficit; how much higher we will know only when the new government presents its Budget in June/July 2014.

Likewise the fiscal deficit to GDP ratio for the next fiscal is unlikely to be contained at 4.1 per cent as projected in the Vote on account. Ambitious revenue targets and conservative (unrealistic?) expenditure targets make the 4.1 per cent target seem plausible on paper but for now we would venture to say it looks improbable. Bond yields have already hardened in response to market perception that borrowing numbers will be revised upwards.

External Sector

Total merchandise exports have recovered from the negative growth zone observed during 2012-13. During 2013-14, exports touched US$ 312.4 billion thus registering a growth of four per cent as compared to a decline of 1.8 cent during 2012-13. Nevertheless, this remained short of the export target of US$ 325 billion for the 2013-14.The increase in overall export earnings is attributed partly to improved conditions in the partner countries and regions. In addition, double digit depreciation in the value of Indian currency further improved the competiveness of exports. However, export growth remains slow compared with the 21.8 per cent growth recorded during 2011-12.

Commodity imports dropped to US$ 450.9 billion during 2013-14. This translated into a decline of 8.1 per cent during 2013-14 compared to growth moderation during 2012-13. The weakening of import demand can be ascribed to cautions consumer spending that has been set back due to rising fuel and food inflation along with rising interest rates. However the slowdown in imports is not necessarily an unmitigated good; in fact to the extent that some of our exports also have a high import component, a slowdown in imports might affect export growth in due course. Indian exports also suffer to the extent that India is not part of the global value chain for many items.

During the first three quarters of 2013-14, merchandise exports expanded 5.9 per cent while imports declined 5.3 per cent. Consequently, trade deficit shrank 22.1 per cent from US$ 150 billion during April-December 2012-13 to US$ 116.9

billion during April-December 2013-14. Lower trade deficit has been augmented by higher net earnings from invisibles that increased 7.3 per cent. As a result the current account deficit (CAD) narrowed sharply to US$ 31.1 billion against US$ 70 billion in the previous comparable period.

Industry

Hopes of the economy bottoming out, let alone sighting green shoots, have been dashed with the latest IIP estimates for February 2014 suggesting revival may turn out to be a protracted process. The index of industrial production (IIP), with 2004-05 as the base year, is the principal indicator for industrial activity in the country. This index is based on 399 products/product groups which are further aggregated into three broad groups mining, manufacturing and electricity. Despite a pick-up in core infrastructure industries such as mining and electricity, the overall index for the month of February contracted. While the trend over the past few months did provide a flicker of hope, it was blown away by the February 2014 figures showing industrial production had contracted 1.9 percent, the sixth monthly contraction since the beginning of the financial year 2013-14.

Manufacturing, which accounts for 75 per cent of the index, continues to be in doldrums, with the sector, registering a decline of 3.7 per cent, against stagnant production in January. The sector's dismal performance has been driven largely by the fall in domestic demand. Private final consumption expenditure grew by 2.5 per cent in 2013-14, as opposed to 9.6 per cent 2011-12 implying that many industries domestic-demand-driven industries are seeing sustained weakness. On a year-on-year basis, the sector has registered a negative growth rate of -0.7 per cent in 2013-14, down from 3.7 per cent in 2011-12 and 1 per cent in 2012-13. Data on both gross fixed capital formation and the capital goods sector shows a downturn, the former contracting by -1.1 percent and the latter by -0.01 per cent in the financial year 2013-14.

Services

Advance estimates of services sector growth at 6.3 per cent in 2013-14 are more or less in line with growth in the previous year. However, after two quarters of decline, there are signs of recovery in Q3 FY14, with growth touching 6.7 per cent, higher than both the previous quarter's growth (5.8 per cent) as well as Q3 FY13 growth (6.1 per cent). If the construction sector is excluded from services, growth appears more robust with the advanced estimate for 2013-14 being higher at 6.9 per cent. Services sector growth, excluding construction, is much higher at 7.6 per cent in Q4 FY 14, compared to the previous quarter (6.0 per cent) as well Q3, FY13 (6.3 per cent).

Services export has traditionally been an area of strength for India -our share in world services exports is much higher than our share in merchandise exports. Here there is some good news. A comparison of the value of service exports shows there is an improvement, albeit marginal, in 2013-14 compared to 2012-13. The hope is that as advanced economies recover, the demand for services exports, particularly IT and BPO services will look up. Early results of software majors like TCS suggest there will be an uptick. Meanwhile, the renewed interest in the telecom sector, as evidenced by the aggressive bidding in the last round of spectrum auctions, is a hopeful sign of faster growth in the sector.

Monetary Conditions

In its Third Quarter Review of Monetary Policy on January 28, 2014, the Reserve Bank of India (RBI) hiked the repo rate by 25 basis points to eight per cent on the grounds of upside risks to inflation, desire to anchor inflation expectations, contain second round effects and as part of the move to get the inflation rate in sync with glide path laid down by the Urjit Patel committee ie eight percent by January 2015, six per cent by January 2016 and four per cent plus/minus two per cent thereafter.

Liquidity conditions tightened in February 2014 following a rise in currency in circulation (a standard occurrence in election time) but eased after the Vote-on-Account when there was large drawdown of government cash balances and injection of additional liquidity through term repos. As a result pressure on the liquidity adjustment facility (LAF) and Marginal Standing facility (MSF) fell. Daily recourse to both fell from Rs 1.3 trillion in February to Rs 0.9 trillion in March 2014. At the same time a narrowing of the gap between deposit and credit growth, thanks to a pick-up in deposit growth and slowdown in credit growth, also helped ease liquidity pressure.

Credit quality continued to deteriorate on account of slower economic growth and rising interest rates that have made it tougher for borrowers to repay debt. India's non-performing loan ratio increased from a low of 2.3 per cent in 2011 to around 4 per cent in 2013 and is slated to go up even further. Central bank data show publicly owned Indian banks, which account for about 75 per cent of total lending, account for the bulk of the increase in nonperforming loans

Expectations of a stable electoral outcome, lower trade deficit numbers, lower inflation, enthusiastic response to the telecom auction, incentives to certain sectors in the interim budget and a lower current account deficit, equity markets witnessed a modest rally with the BSE Sensex and NSE recording increases of about six per cent each during Q4 of 2013-14. The dis-connect with the real economy has got more pronounced in the current fiscal with the Sensex touching an all-time record of 22,939 points on 23 April 2014. One could argue that markets are forward looking so presumably growth has bottomed out. But we would be cautious in urging that interpretation because markets are also notoriously irrational and driven by herd-mentality.

Agriculture

Agriculture, traditionally the slowest growing sector in the economy, is likely to become the savior in 2013-14 shoring up GDP growth in a scenario where industry has been stagnant and services have been growing. Nonetheless it will not suffice to bring growth anywhere near what it was in the dream years when India's growth story was powered by a vibrant services sector.

Food grain output is expected to touch a record 263 million tones on the back of a good monsoon in 2013-14. Ironically this abundant supply of foodgrains goes hand-in-hand with high and persistent food inflation for the fourth year running. Aggressive procurement by government agencies, possibly on account of the compulsions of the Food Security Act, has left very little for private trade. So even as government sits on buffer stocks, much in excess of buffer stock norms, prices in the open market have been rising. The rise was more pronounced in the case of items like fruits and vegetables and protein-rich products, reflecting in part the shift away from cereals in line with higher income levels.

In the current year, there is a cloud of uncertainty over agriculture growth due to the possibility of El Nino (a weather phenomenon triggered by rising sea surface temperatures in the Pacific Ocean that could result in poor monsoon rains in summer). Since 1980, all drought years in India have been El Niño years, but all El Niño years have not been drought years. If the year 2014 does turn out to be an El Niño and a drought year for India eventually, the prognosis for agriculture is bound to be gloomy.

A drought in India is defined as the June-September rainfall falling by 10 per cent or more from its long period average (LPA) (89 cm). According to noted agriculture economist, Ashok Gulati, there have been 23 El Niño years since 1950, but India experienced drought in only 13 of these years. Hence, it is still quite early in the day to panic especially since much would also depend on the timing and geographical coverage of the rains. North-west India, for instance, has relatively better irrigation and can stand the pressure of a drought better than western

India which is much more rain-fed. North-west is also cereal belt, and we have ample stocks of wheat and rice in FCI godowns. Western India, however, is an oilseeds, pulses, and cotton belt sooutput could be impacted by poor rains.

Forecast

The El-Nino, elections and world economy are the three major uncertainties in the follow up to what awaits us in 2014-15. Based on continuing trends and IMF World Economic Outlook assumptions about world economy and oil prices, GDP growth rate at factor cost shows marginal improvement to 5.1%. However, if one assumes that there is overall improvement in investment due to the formation of a "stable" government in India, weak El Nino or at least temporally and spatially even rainfall, improved world demand and overall improved business sentiments, GDP growth at factor cost improves to 5.5%. In the quarterly model, the growth is on the lower side at 5%. Therefore, the GDP growth rate at factor cost for 2014-15 is forecasted to be in the range of 5-5.5%. The key story lies in the revival of industrial growth.

Conclusions

Overall the economic scenario looks bleak with manufacturing growth in recession, inflation persisting and tight monetary policy. For two consecutive years now, we have seen GDP growth below five per cent. Adding to this dismal feeling are the probability of a weak monsoon, uncertain election results and uneven external economy. Based on existing trends, the economy would just reach growth of five per cent in 2014-15. However, one is hoping that with revival of business sentiments, formation of "stable government" and normal monsoon, India just might be beat the dismal outlook to reach a healthy 5.5 per cent growth rate and WPI inflation of 6.1%. At this point, therefore one treads with cautious optimism.