Economy Watch

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Issue 1

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This newsletter is prepared by the Economic Affairs & Research Division, FICCI

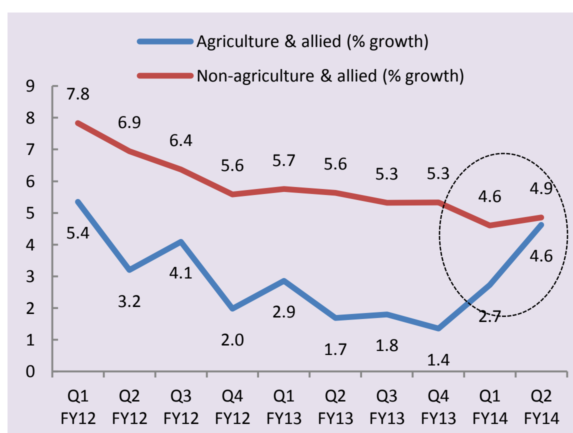
State of the Economy

India's economy: Moving towards a better half

The rough start our economy had this year is now beginning to even out as we move closer to the end of the fiscal year. The statistical data bytes in recent period have brought in a sense of optimism and we are now hopeful of achieving around 5.0% growth for this fiscal. This is also corroborated by FICCI's most recent Economic Outlook Survey.

The latest GDP numbers show a moderate rise in growth to 4.8 % in Q2 FY14 from the 4.4 % growth recorded in Q1 FY14. This improvement has come primarily from the agricultural sector which witnessed a growth of 4.6 % – the highest recorded in the last eight quarters. Major crops like food grains, pulses, coarse cereals and oil seeds have witnessed an increase in production due to good monsoons. The kharif season has been good, and the rabi season is expected to see a similar trend.

Chart 1: Agricultural and Non-agricultural Growth



Source: RBI, FICCI Research

In fact, statistical analysis shows that the growth of agriculture GDP is generally high in the third quarter in the periods of good monsoons.

So we can indeed expect a much higher agricultural growth in Q3 FY14. For the overall fiscal year , we expect agriculture growth to be around 4.0 %. The Ministry of Agriculture expects total food grain production to reach 259 million tonnes this fiscal with kharif output at 130.5 million tonnes and rabi output at 128.5 million tonnes.

Another major contributor to GDP growth has been exports that grew by 16.3 % in Q2 FY14, supported by improved demand in the global markets and increased competitiveness due to Rupee depreciation.

Sectors like textiles, leather, petroleum products, chemicals, metals and agricultural commodities have seen robust growth in exports. Textile exporters have been one of the biggest gainers, having recorded y-o-y exports growth of 22.4 % in the first six months of FY14. Readymade Garment (RMG) exports too have seen strong growth, with cotton RMG growing by 14.8 % y-o-y and man-made fibre RMG growing by 31.2 % y-o-y during April-September 2013.

Leather goods exports in the first half of fiscal have grown by 24.4 % y-o-y and leather footwear exports have risen by 23 % y-o-y.

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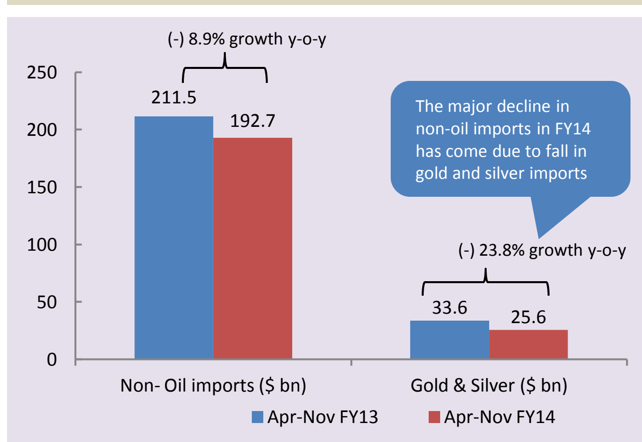
Good agricultural produce this year has led to high exports growth for a wide variety of agricultural products such as Basmati rice (56.8%), Non-basmati rice (39.9%), Fresh vegetables (44.6%), Marine products (53.7%), Meat & preparations (56.5%), Pulses (126.9%), Other cereals (23.3 %), Dairy products (191.0%), and Wheat (58.2%).

Double-digit growth in exports in Q2 FY14 combined with a sharp fall in imports, especially gold imports has led to significant contraction in trade deficit for Q2 FY14. Additionally, net services exports have recorded a growth of 12.5% in Q2 FY14 led by exports of software and ITeS. This has helped the CAD to narrow down to just 1.2% of GDP for Q2 FY14. Though capital inflows in the form of FIIs and FDI have been slow, RBI's action of opening a special concession window for deposits by non-resident Indians and overseas foreign currency borrowings by banks has mobilized inflows worth USD 34 billion from September to November. This may ease the worries related to financing of the CAD but slowing FDI and FII inflows are a matter of concern that can be addressed only if the government actively pursues reform oriented policies aimed at higher economic growth.

Chart 2: Non-oil Imports Growth



Source: Economic Outlook CMIE, FICCI Research

The depreciation of the rupee has not only helped our exports but also spurred growth of some domestic industries as there has been a rising trend of localization in the wake of costlier imports. The industries that have gained are largely intermediate products that are serving as effective substitutes for imported inputs, such as polymers, auto-components, metal, and power equipment.

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Another turnaround story has been of the Electricity sector, which recorded 7.7% growth in Q2 FY14, as against 3.7% in Q1 FY14 and 3.2% in Q2 FY13. While good monsoons have contributed towards the growth of the power sector, the real impact has come from the project clearances by the Cabinet Committee on Investments, as almost 90% of the projects cleared by CCI are in the power sector. Till date, CCI is reported to have cleared 287 projects worth Rs 5.5 lakh crores and 250 more such projects is expected to be cleared shortly.

Clearances of mega projects has also moderately improved the overall investment scenario, as reflected in the growth in gross fixed capital formation by 2.6% for Q2 FY14 as against a deceleration of 1.2% in the previous quarter. However, we need to see greater investments in the manufacturing sector, which has shown no real signs of recovery. The fast track procedures adopted by CCI should now be extended to projects across all other sectors as well and CCI should target completing clearances for all project applications.

Furthermore, acceleration of industrial investments requires availability of capital at affordable rates. High lending rates have been cited as one of the major concerns of Indian firms in successive rounds of FICCI's Business Confidence Survey. The tighter monetary stance adopted by RBI thus needs a relook, as this position has not been able to rein in inflation. FICCI has repeatedly said that supply side bottlenecks need to be addressed.

While the above mentioned green shoots signal towards a higher than expected growth, we should target getting back to the 8-9% growth trajectory. GST alone has the potential to raise our GDP growth by more than 2 percentage points. The pace of infrastructure development should be speeded up and more projects like DMIC and NIMZ need to be developed across the country to bring in efficiency in supply chains across industries and sectors.

We need to make our country investor friendly, not just to attract foreign investment but also to encourage entrepreneurship. Bringing greater clarity in policies, transparency in rules and procedures and better implementation and enforcement of legislation would remove barricades in the path of the country's progress. We cannot forget that constructive efforts towards higher growth would ensure greater jobs, improved standards of living and greater empowerment for the citizens of our country.

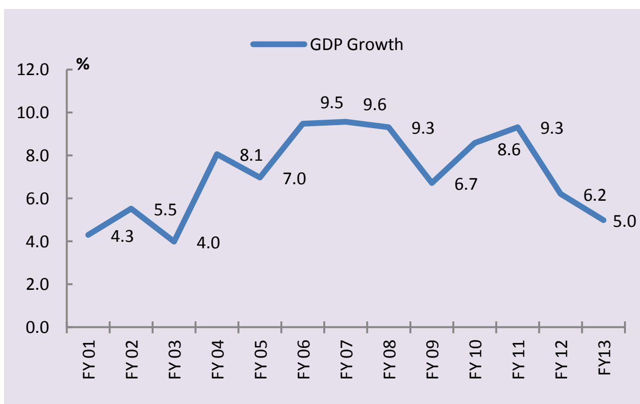
- The article is an updated version written by Ms Naina Lal Kidwai, Immediate Past President FICCI. It was first published in the Hindu Business Line (December 6, 2013)

Bringing confidence back – Moving beyond 5% growth

For an economy that registered average annual growth of close to 9% during 2003 to 2008 and largely withstood the 2008 global crisis, a sharp dip in growth to 5 % levels has been a matter of concern. While even with such growth we may still rank in the outside world, but for ourselves this is a time for serious reflection. Because it is growth alone that will have meaningful bearing on employment opportunities for our people.

India is a young nation. We annually add 10-12 million people to the work force. If as a nation we fail to provide gainful employment opportunities, we risk damaging a fragile social cohesion. Growth becomes a brutal necessity, not just sheer desirability. So what holds us back? We have spent much time and effort in the last two years debating the prolonged pause in making and implementing effective policy. Issues of credibility, trust and accountability bubble over and somehow impact the spirit of enterprise. As a result investments have suffered.

Chart 3: Real GDP Growth (FY01 to FY13)



Source: Economic Outlook CMIE, FICCI Research

Our government tried to improve the business climate with a flurry of decisions in the recent past. These have had some impact, but we need a consensus across our polity on the larger economic agenda if growth has to head back to the 8-9% mark. Let me highlight a few areas that merit attention.

First, on balance our reforms are seen to be reactive rather than proactive. Reforms are being conveniently flogged as being anti-poor when our and global experience has been really the opposite.

Therefore it is important that the positive impact of reforms is appreciated widely across the nation. A larger, inclusive constituency for reforms is needed to return to growth.

Second, to address social gaps the system has encouraged entitlements and a tendency to incur liabilities beyond rational means or indeed convert medium term measures into long term burdens. This puts pressure on the fiscal front and leads to non-natural inflation and resource redistribution starts affecting investment. One suggestion worth pondering over is to announce a sunset clause for every new scheme if at all introduced by government, and a sunset point for existing welfare schemes at which the scheme will be evaluated for its effectiveness and any need for extension.

Third, we have had greater success in liberalising product markets than factors of production. Be it land, labour or the capital market, we have a long way to go to ensure optimal management of these resources. Procedural reforms move ahead at a snail's pace and this must change.

According to the World Bank's latest report, India is ranked 134 out of 189 countries in Ease of Doing Business. This clearly shows that investors both domestic or foreign have to spend undue time and energy in India on fundamentals and processes; these need to be rapidly benchmarked to global standards. Time and clarity need to be accorded due premium. For a country that is basically capital starved the existing scenario is untenable in the long run.

Lastly, we need to create sufficiently large capacities keeping in mind future requirements of both domestic and global markets. Be it infrastructure, agriculture production, supply of skilled manpower, availability of natural resources including land, or production in core industries, we have to plan on scaling up aggressively.

For the time being India has dropped from the higher rungs of the growth ladder, but whether this is a temporary or lasting phenomenon is contingent upon how effectively we respond to the challenges. We can certainly emerge stronger, return to the 8-9% growth that the country needs and deserves, if we take the right steps and government, business and civil society work in sync.

- The article is written by Mr Sidharth Birla, President FICCI, and was first published in Hindustan Times (December 5, 2013)

FICCI's Economic Agenda: Key highlights

FICCI has recently released its Economic Agenda for long-term growth. The agenda has been formulated by deliberating upon the domestic and global economic environment, their dynamic interplay and challenges ahead. The document attempts to summarize the key goals and drivers in priority areas that are grouped under seven broad themes namely - the Real Economy, Education, Skill Development and Jobs, Healthcare, Infrastructure, Energy Security, Water Security and Governance.

The Economic Agenda which is primarily based upon the agenda of Enterprise and Employment lists the key policy enablers to improve the overall Business, Investment and Consumer sentiment in the country, through easing the conduct of business, addressing competitiveness across key sectors and dealing with public finance issues which have direct bearing on the above mentioned sentiments.

The agenda also delves upon the importance of monitoring the effective implementation of policies and laws, especially social programs. FICCI believes that social spending is a short term measure for job creation and should ideally be linked to asset creation and skill building over consumption. The document further highlights the need to improve governance and address empowerment issues which are essential to sustain positive sentiment.

The following sections provide highlights of the key goals and drivers suggested in all the key sectors covered under the Economic Agenda.

Agriculture and Agro Processing

In line with the course of developing economies, the share of agriculture in India's GDP has come down to 13.7% in 2012-13 (from 18.9% in 2004-05). But there has not been a commensurate decline in the share of population dependent on this sector.

Key goals and drivers

- Enhance crop yields through greater dissemination of information to farmers to leverage breakthroughs in agri-biotechnology. At present crop yields in India are just about half or a third of the global average.
- For better procurement / distribution and risk mitigation , ad-hocism in stock limits for storage of food products must be removed.

Manufacturing

Our economy needs to generate 10-12 million jobs annually to cater to additions to the workforce. A growing manufacturing sector with increased share of GDP is thus essential.

Key goals and drivers

- Promote the policy of cluster development and to facilitate greater coordination across and within clusters a Central Cluster Cell should be created.
- Leverage the availability of labour through NREGA for industrial jobs. This will to some extent help address the problem of decline in availability of workers for industrial activities in certain parts of the country.

External Trade

During the post reforms period, India's external sector has seen a lot of changes. This has been the result of far reaching policy changes introduced over time.

Key goals and drivers

- Focus on enhancing the competitiveness of our manufacturing sector as this would help give a push to our exports as well.
- Encourage FDI with an export orientation from major countries across the world.
- Develop a long-term programme to reduce our import dependence for commodities and resources.

Public Finance

Beginning last year, the government has shown resolve to bring fiscal deficit in control and after successfully reining in FD to under 5% in FY13, government is looking at a similar performance in current year with BE for FY14 for fiscal deficit pegged at 4.8%.

Key goals and drivers

- Take steps to improve the tax to GDP ratio that continues to hover close to the 10% mark.
- Tax all sectors which are presently outside the scope of the tax net albeit at much higher levels of income/wealth.

Capital Availability for Investments

The financial sector is relatively underdeveloped. Overall bank credit (to the commercial sector including agriculture) to gross domestic product (GDP) ratio is barely above 50%.

Key goals and drivers

- Promote consolidation amongst banks both through the organic and inorganic channels. We need larger banks to support growth of our industry and economy.
- Encourage domestic investors to participate in the equity market and provide risk capital for businesses to grow.

Development of Natural Resources

Natural resources are held by the State on behalf of its people. It is imperative that transparency and constitutionality be appropriately reflected, as the guiding principles, at every stage of distribution, regardless of the precise methods to such distribution, of any natural resource to the public.

Key goals and drivers

- Access to natural resources including land must be at equitable prices; allocation must be rapid, enforceable and through transparent process.

Higher Education

We have a few centres of excellence (IITs/IIMs/NITs/IISc), we need to work and ensure that the other majority of institutions overcome impediments such as acute shortage of faculty, poor infrastructure, out-dated curricula, limited research and use of technology aids for imparting knowledge.

Key goals and drivers

- Set up a Council for Industry and Higher Education Collaboration (CIHEC) to promote industry-academia collaboration in various areas including development of curriculum of contemporary relevance, promoting industry relevant R&D etc.

Jobs & Skill Development

India's labour market consists of 460 million workers, which is about 40% of total population. By 2026, India is projected to have about 830 million people in the age-group of 18-59 years.

Key goals and drivers

- Provide an enabling framework with suitable amendments in the labour laws if 50 million new non-farm employment opportunities as proposed in the 12th Plan Period are to be created.
- Consolidate and rationalize various labor laws keeping in view industry's requirements while balancing the interests of workers.

Healthcare

The healthcare system in the country has improved over time. However, given the size of our population and the geographic spread of our country, we are still far away from the point of providing easily accessible and affordable quality healthcare to all.

Key goals and drivers

- Facilitate private sector to set up medical and para-medical training institutions with improved quality of training in partnership with District Hospitals and Community Health Centres (CHCs) to address human resource crunch.
- Implement standardization measures such as Standard Treatment Guidelines (STG) and Electronic Health Records (EHR) comprehensively across the country.

Logistics Infrastructure

Competitiveness of the economy hinges on the quality of its infrastructure facilities. In our country the pace of infrastructure development has to be quickened and for planned development schedules to be adhered to, it is important that all clearances are granted without delay.

Key goals and drivers

- Institutionalize a body for inter-ministerial and centre-state coordination in the PMO for reviewing and clearing large projects.
- Encourage states to sign 'State Support Agreements' for large projects as this will commit states to ensure timely implementation of projects.

Civic Infrastructure

India will witness a massive wave of urbanization over the next few decades. Our population is expected to grow to 1.7 billion by 2050 and rapid urbanization will add close to 900 million people to Indian cities.

Key goals and drivers

- Urban Local Bodies (ULBs) should change the focus of their contracts for new facilities from construction work contracts to performance based maintenance contracts.
- ULBs should be encouraged to appoint transaction advisors for projects for undertaking all project development work and providing requisite oversight for project implementation.

Housing

It has been estimated that by 2025, half a billion Indians will need new urban homes. India needs to build more than 700 million square feet of residential and commercial real estate each year if it aims to match the rapid speed of urbanization.

Key goals and drivers

- Real Estate Regulation Bill should be brought about to bring in transparency in the sector.
- Focus on creating affordable housing stock for masses. Affordable housing projects require large land parcels at a low price, which are not available in urban centers.

Energy Security

There is a lot of scope for further exploitation of our domestic energy resources. Proper fiscal and policy reforms can help us move in this direction fast. There is also a need for further revision and rationalization of energy charges.

Key goals and drivers

- Encourage competitive bidding for allocation of coal blocks. Private operators should also be provided with mine developer cum operator licenses
- Grant greater autonomy to PSUs to enable them to compete with global majors.
- Develop a proper roadmap for optimum exploration of unconventional energy resources.

Water Security

Trends indicate that India could move into the category of a 'water stressed' state by 2050. In fact, a study by Water Resources Group indicates that by 2030, the gap between demand for and availability of water in India will be as much as 50%.

Key goals and drivers

- Speed up the development of village water security plans in coordination with the Panchayati Raj Institutions and line departments.
- Revise the Model Ground Water Act to address the fundamental problem of limiting groundwater extraction.
- Evolve proper pricing mechanism for water to reduce over withdrawal.
- Encourage inter-basin transfers of water from surplus basins to deficit basins.
- Evolve a dual policy of allocation of water by states.
- Set up Bureau of Water Efficiency (BWUE) for promoting water use efficiency.
- Incentivize water conservation and recharge and penalize wastages in use of water.

Governance

India's attractiveness as a destination for global investments remains high in principle; however, this is a necessary but not a sufficient condition to get investments. The key challenge before us is to convert such goodwill and desire into real investment flows and the creation of enterprises and jobs.

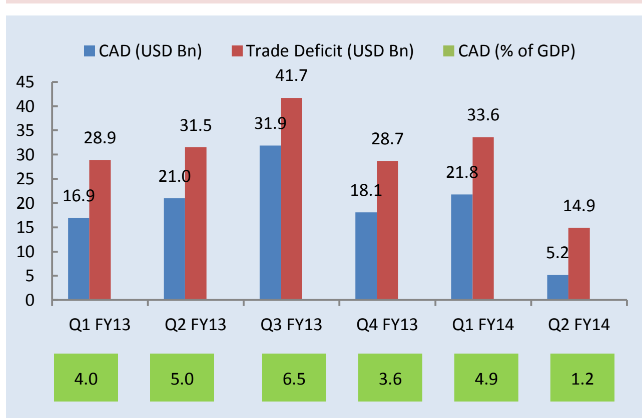
Key goals and drivers

- FICCI believes that by addressing basic implementation of established law as well as reduction of discretionary permissions or approvals India should build a vision of rapidly ascending to a position within the Top 50 in the Doing Business rankings.
- Country’s judicial system must become more efficient to make the implementation of contracts and dispute resolution less onerous.
- Regulatory framework in India needs to be further improved.
- Establish multi-sector regulators.
- Ensure harmonization of laws for consistency and easier compliance.

Bringing down CAD: Examining possibilities

One of the major worries on India's macro economic front has been the widening of the Current Account Deficit (CAD) to 4.8% of GDP in 2012-13, a level much higher than the estimated sustainable level of 2.5% - 3%. A related worry has been our ability in financing the CAD over the long run. Bringing down the CAD to sustainable levels does not seem difficult now given the marked improvements in trade data available for the first three quarters of the fiscal. Let us however examine (a) whether the math around the current account balance can add up to the set target, and (b) can our capital flows finance this deficit?

Chart 4: Trade Deficit and CAD



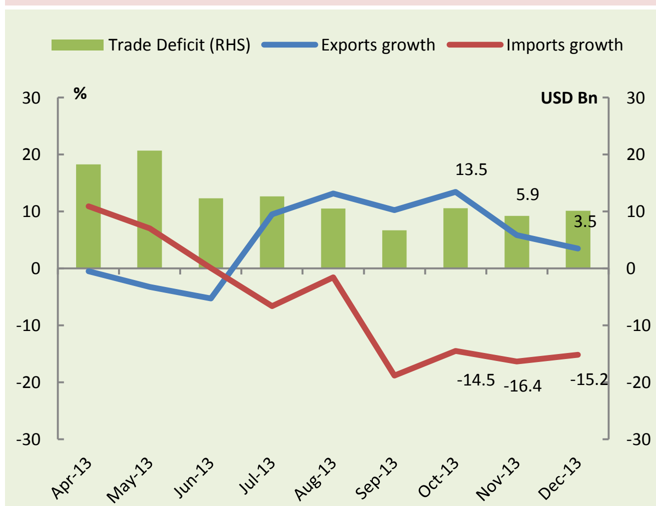
Source: Economic Outlook CMIE, FICCI Research

The story of exports contraction in the last fiscal year has been replaced by revival in exports in the current fiscal, especially for the second quarter when exports recorded double-digit growth aided by improvement in global demand and Rupee depreciation. The exports growth in the last two months (Nov-Dec 2013) has however slowed down as petroleum products exports have taken a hit following a temporary shutdown of a private refinery for maintenance purpose.

For the first three quarters of FY14, exports have gown at about 6.3% to USD 230.8 billion. The last quarter of the fiscal year is expected to see strong exports as sectors like textiles & garments, agriculture products, and leather goods are likely to display healthy growth and even petroleum products exports should see revival as the shut refinery begins operations in January 2014. If the current trend continues, our exports for 2013-14 can be anywhere between USD 310 billion and USD 325 billion, the former number being the projected exports by the Prime Minister's Economic Advisory Council (PMEAC) while the latter number is the export target set by the government.

Our exports in the last quarter of previous fiscal (Jan- Mar 2013) were about USD 83 billion, thus reaching the target set by the government, our exports need to grow at about 13.2% for the next three months.

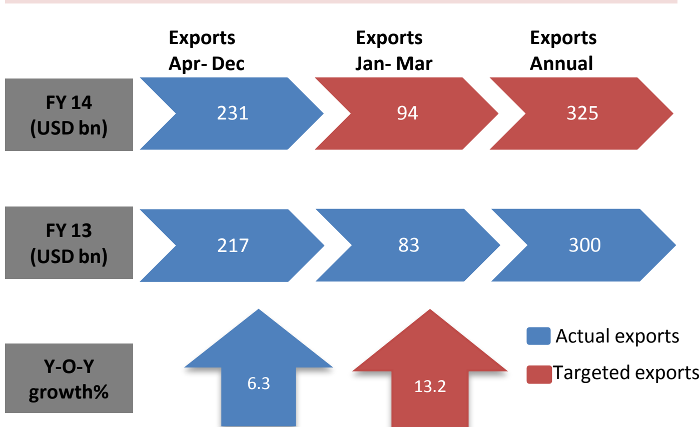
Chart 5: Monthly Trend in India's External Trade



Source: Economic Outlook CMIE, FICCI Research

There has been a decline in imports by 6.6% y-o-y to USD 339.4 billion in the first three quarters of FY14, which has been possible due to concerted action by the government and RBI on curtailing gold imports. The Gold imports from Apr-Oct 2013 are indeed 24.4% lower over the same period last year. Further, to cut the massive oil import bill, the government is also devising strategies for fuel conservation and import substitution. Oil imports growth has slowed down to 2.6% for Apr-Dec 2013 as against 10.1% during Apr-Dec 2012.

Chart 6: Can we meet Export Target for FY14?



Source: FICCI Research

Our Invisibles account too is expected to provide a healthy cushion; Nasscom estimates suggest that export revenues of software companies would grow by 12-14% in FY14. Remittances too are expected to be high this fiscal due to the weakening Rupee. World Bank, in its recent report, has indicated that India will be the largest recipient of remittances in 2013, estimated at USD 71 billion.

Adding up the expected exports, imports and invisibles, the CAD should fall in the range of USD 35-55 billion for 2013-14. Our trade deficit and CAD are significantly improved and improving. Now the question is can this be easily financed through capital flows? The concerns related to a mass exodus of FIIs from the Indian market as seen during Jun-Aug 2013 seems to have eased as the net FII investments have been positive since then. In fact, the net FII investments for Dec 2013 stood at USD 3.5 billion. On the FDI front as well, the statistics are encouraging. Net FDI for the period Apr-Nov 2013 stood at USD 16.85 billion, 23.6% higher on y-o-y basis. Further, NRI deposits for the period Apr-Nov 2013 (USD 33.1 billion) are almost three times higher than same period last fiscal (USD 11.3 billion for Apr-Nov 2012).

Thus, financing of the CAD should not be a difficult task if CAD is contained below USD 55 billion. In fact, the Planning commission has recently estimated CAD to be around USD 40-45 billion for 2013-14 i.e. about 2.5% of GDP.

However to ensure that our current account balance is brought to sustainable levels in coming years, there is a need to raise export competitiveness of our sectors and further diversify our exports basket. Economising on oil imports is absolutely essential, which can be achieved by giving a push to domestic oil & gas exploration, particularly encouraging new avenues of energy such as shale gas etc and giving a push to renewable energy. Further, augmenting domestic capacities through channelled policy reforms can also lead to import substitution with respect to large imports like capital goods, electronics, etc. Essentially without a manufacturing focus, we will not get our CAD into balance as this is needed for both enhancing exports and substituting imports.

Further, we cannot disregard the possibility of turbulence in the FIIs market as seen earlier this year. The need for strengthening our domestic financial institutions has to be re-emphasised. The capital markets have to be made more deep and efficient to attract long-term investments and reduce the risk of volatility in capital flows. Finally, we cannot ignore the importance of growth as being central to our public policy and projecting the same to investor community at large. We also need to communicate the good news. This is critical for bringing investments back which will ultimately help bring the CAD to acceptable levels.

Table 1: Current Account balance

Indicators (USD billion)	FY12	FY13	FY14 (FICCI estimates)
Merchandise Exports	309.8	306.6	~310-325
Merchandise Imports	499.5	502.2	~ 470-485
Trade balance	–189.8	–195.7	b/w (-)145 and (-)175
Net Invisibles	111.6	107.5	~ 110 – 120
o/w software and BPO	60.1	61.6	65 -70
Private Remittances	63.5	64.3	67 – 72
Investment income	–16.5	–22.4	-24
Current Account Balance	-78.2	-88.2	~ 35-55

Source: Economic Outlook CMIE

QE tapering by the US: Impact and implications

With the onset of global financial crisis in 2008 and a significant slowdown in the US economy, the Federal Reserve reduced the interest rate for federal funds to nearly zero with an aim to provide support to economic recovery by stimulating household and business spending. This prompted investors to park their funds in the emerging markets, which offered better yields. Further, in late 2008, the Fed embarked on a 'quantitative easing' (QE) programme to promote a stronger economic recovery. Under this programme, the Fed has been purchasing long-term securities issued by the US government and other government- sponsored agencies. By the end of 2012, the Fed has purchased assets worth USD 2.9 trillion. The current monthly purchases of mortgage backed securities (MBS) and treasury securities by the Fed amounts to USD 40 billion and USD 45 billion respectively.

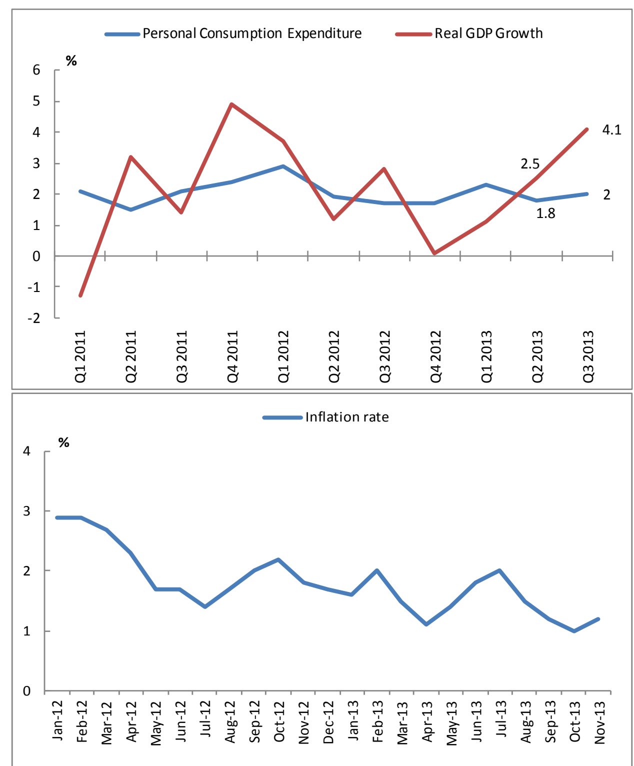
With some signs of improvement in the US economic activity in recent times, the Fed made an announcement in June last year to taper its bond buying programme by the end of 2013. This caused much turbulence in the emerging markets as foreign investors began withdrawing funds in anticipation of better investment prospects in the US market. A few months later, the Fed reassessed its decision in September and delayed the withdrawal of its stimulus programme. The speculation surrounding the QE tapering was finally put to rest in December, when Fed announced withdrawal of USD 10 billion per month from January 2014 onwards. The Federal Open Market Committee has decided to reduce its pace of asset purchases and is likely to purchase long term Treasury securities of USD 40 billion per month instead of USD 45 billion per month and reduce its holdings of mortgage backed securities to USD 35 billion per month from USD 40 billion per month.

Why is the US ending the stimulus measures?

In the second and third quarter of 2013, the US market recorded a steady rise in consumer spending and a rebound in business spending. The real GDP accelerated to 2.5% in Q2 2013 and further to 4.1% in Q3 2013, a rise from 1.1% in Q1 2013 on a year-on-year basis. The growth in personal disposable income at constant prices rose from (-) 0.6% in Q2 2013 to 9.0% in Q3 2013 owing to a rise in compensations given to employees. The personal consumption expenditure (seasonally adjusted at annual rates) increased from USD 11427.1 billion in the second quarter of 2013 to USD 11537.7 billion in the third quarter of 2013.

Against the backdrop of improvement in economic activities, the Federal Reserve announced its plans to trim down the pace of its bond buying program.

Chart 7: US Macroeconomic Indicators



Source: Bureau of Economic Analysis, US

Impact of announcements on emerging economies

The stimulus program which started nearly four years ago boosted equity markets of emerging economies and their respective local currencies gained against the US dollar. This also improved credit ratings and helped these economies create large foreign reserves. The immediate impact of Fed's announcement in June 2013 was an unprecedented turbulence in these emerging markets, including sharp fall in stock prices, local currencies, and slump in the commodity prices. However, Fed's reassessment in September to delay its tapering off programme on the back of unsatisfactory job data calmed the market sentiments of the emerging economies to some extent. The threats of diminishing liquidity which was triggered by Fed's announcement in June poses significant challenges to the developing nations of Asia, Europe and Africa in maintaining financial stability and sustaining growth. The current account deficit in emerging economies like Brazil, Indonesia, Turkey and India widened in the past few quarters with increase in risks of potential portfolio outflows.

Impact on Currency movements

As can be reflected from the chart below, major emerging economies currency like Indian rupee, Indonesian rupiah, Turkish Lira, Brazilian real etc showed a downward trend till August. This was mainly due to huge capital outflows during the period. Except the Chinese Yuan and Bangladeshi Taka, most of the currencies experienced a sharp depreciation.

Chart 8: Currency Depreciation – India (INR), Brazil (BRL), Indonesia (IDR) and Turkey (TRY)

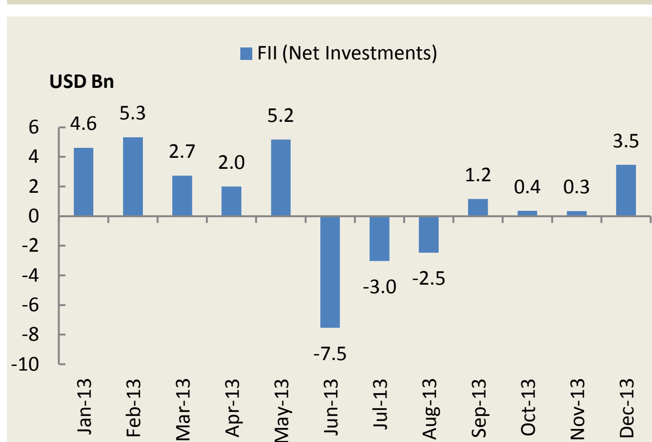
Source: Oanda, FICCI Research

Impact on the Indian economy

Indian currency proved to be one of the worst performing currencies as it reached its life time low in August mainly because of its twin deficits in the form of fiscal and current account. The Fed's announcement in June had put an extra pressure on the already elevated current account numbers. Exports considerably slowed down in first half of 2013, while a surge in imports (mainly gold and silver) widened the current account deficit to a record high of 4.9% of GDP in the quarter ending June 2013-14 up from 3.6% in the previous quarter. During the period from 1st June to 31st August 2013, the Indian currency against USD depreciated by 18%. Also, FII (net investments) turned negative indicating a net outflow of capital from the country. The FII stood at (-) USD 7.5 bn, (-) USD 3.02 bn and (-) USD 2.4 bn in June, July and August 2013 respectively. However, the Indian government along with the RBI took prompt measures to arrest rupee slide. The central bank stopped trading of banks in the currency future and option markets and LAF of banks was reduced to 0.5% from 1% limiting the access to borrowed funds from the central bank.

Interest rates for certain deposits were deregulated for NRI's to increase the foreign fund flows. Also, as a measure to curb capital outflows, Overseas Direct Investment (ODI) by Indian companies were cut from 400 % to 100 % of their net worth, making it difficult to buy overseas assets. In September 2013, various other measures were initiated such as the launch of rupee bond programme and allowing banks to raise dollar based foreign currency deposits from NRIs and swap the same with RBI for a limited period. Further, overseas borrowing limits of Banks were doubled to 100% of tier-1 capital and allowed an option to swap dollars mobilized through this at 100bps discount.

Chart 9: FII (Net Investments): Jan - Dec 2013



Source: SEBI, FICCI Research

These measures helped in mitigating the risks of capital outflows and controlling rupee slide to a large extent. FII (net investments) which were in negative region rose from September onwards. In December 2013, there has been a substantial rise in FII Inflows and foreign institutional investors turned net buyers. Rupee value against dollar which reached a lifetime low of 68.84 in August 28 started appreciating and hovered around 61-62 in December 2013. The sharp decline in imports and rise in exports in the last few months reduced the CAD in Q2 2013 sharply to 1.2% of GDP. Further, RBI has been able to raise nearly USD 34 billion during Sep-Nov 2013 through special window opened for deposits from NRIs and overseas foreign currency borrowing by banks.

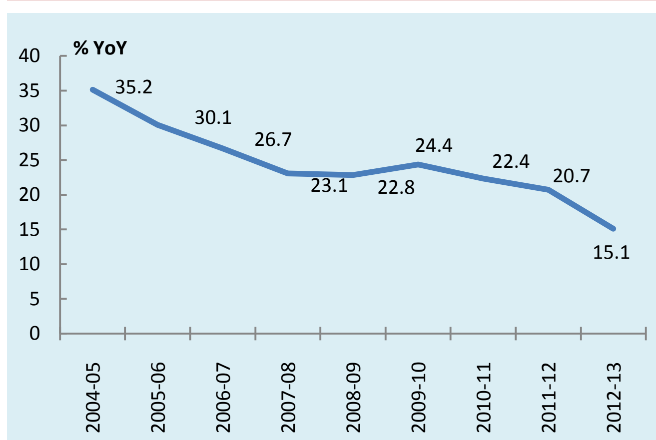
Macro prudential measures by the RBI and the government have been directed towards making the economy more resilient and less reliant on the external capital. The delay in tapering helped the country to successfully adjust the current account numbers and rebuilt its replenishing foreign exchange reserves. However, the possibility of disregarding the turbulence in the FII market cannot be ruled out and hence we need to strengthen our domestic capital market and financial institutions at the earliest.

Financial Sector: Round-up of policy initiatives in 2013

The year 2013 started with a highly uncertain environment with depreciating rupee, widening current account deficit, high fiscal deficit, elevated inflation, sluggish factory output and slowing economic growth. Amidst these challenges, achieving 8% growth as envisaged under the twelfth five year plan becomes a huge challenge.

To meet the needs of a growing economy, huge investments are required across sectors. Infrastructure alone requires investments to the tune of one trillion dollars over the current plan period. Only a sound financial sector can meet these requirements and ensure smooth flow of funds to the real sector. However, tight liquidity conditions and deteriorating asset quality with Banks have led to investments way below potential.

Chart 10: Growth in Bank Credit for Industry



Year	2009-10	2010-11	2011-12	2012-13
Deployment of Banks Credit (Rs Billion)	13114.5	16046.0	19374.0	22302.0

Source: CMIE Economic Outlook, FICCI Research

The global events too had their repercussions on the Indian financial and external sector. The speculations surrounding the US Fed's tapering of bond buying programme considerably vexed the emerging markets, including India. The massive outflow of foreign capital and subsequent volatility in exchange rate put immense pressure on our external sector. Thus, bringing stability to our external sector had been the top priority of the government and central bank last year. In fact, delay in tapering by the Fed since the initial announcement in May 2013, gave India considerable time to initiate a series of measures directed at buffering forex reserves and making India resilient to withdrawal of external capital.

Measures taken for stabilizing external sector

The extreme volatility in capital flows and the rupee following the Fed's announcement in May 2013 of possible tapering in bond buying programme necessitated measures to control widening of current account deficit and render stability to the external sector. As an immediate measure, the government raised the import duty on gold and platinum. Measures were also taken to make exports competitive including increasing the interest rate subvention for exports. FDI norms were also liberalized by way of enhancing limits in some sectors and shifting of some sectors to the automatic route.

RBI, on its part, immediately reduced limit of remittances by individuals under the Liberalized Remittances Scheme (LRS) from USD 200,000 to USD 75,000 per financial year with an aim to arrest speculative outflows. In mid-2013, the country also launched its first offshore rupee bond programme by selling USD 1 billion of bonds to the international investors.

Table 2: External Sector Measures

Period	Measures for the external sector
Jan-13, Jun-13, Aug-13	Import duties on gold, silver and platinum were raised
Aug-13	Raising the rate of interest subvention scheme for exports from 2% to 3%
Jul-13	Revising of FDI norms /raising the FDI cap of 12 sectors
Jul-13	Banning proprietary trading in currency future and option segment
Aug-13	Liberalised Remittance Scheme for Resident Individuals- Reduction of limit from USD 200,000 to USD 75,000
Sep-13	Foreign exchange swap for public sector OMCs
Oct-13	Launch of offshore rupee bond programme

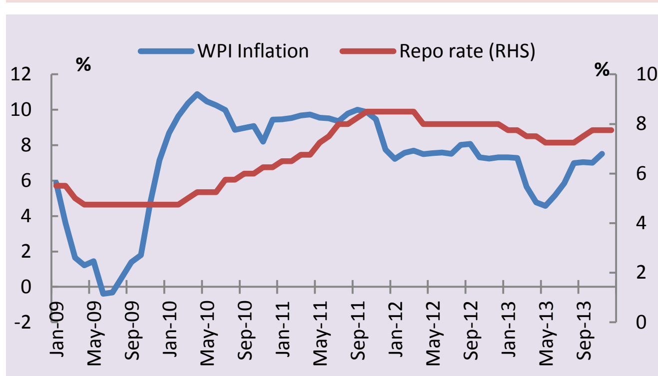
Source: RBI, various secondary sources

Measures taken for reining inflation

The inflation, both wholesale and retail level remained at elevated levels throughout 2013. To address the inflationary concerns, monetary policy was tightened in September 2013 and October 2013 by 50 bps (cumulative) hike in repo rate. This was a major disappointment for the industry, which has often cited high cost of borrowings as a major concern for undertaking fresh investments for expansion. As such, investments scenario in 2013 was rather subdued.

Fallout of persistently high inflation has been a decline in net financial assets of households. Household sector savings (as a percentage of GDP) which reached its peak of 26.7% in 2009-10, declined to 23.99% in 2011-12. Also, financial savings as a percentage of GDP came down to 8.6% in 2011-12 from its peak of 12.7% in 2007-08. Thus, household savings have been increasingly getting diverted to non-financial assets like real estate and gold that offer investors inflation adjusted returns. The widened saving-investment gap has also led to increased dependence of the economy on external capital. With a view to encourage investors to invest in financial assets, RBI recently introduced Inflation Indexed Bonds and CPI linked certificates for retail customers.

Chart 11: WPI Inflation and Repo Rate



Source: Economic Outlook CMIE, FICCI Research

Measures taken for strengthening the banking sector

Increasing competitiveness in the banking sector becomes a necessity with the rising NPA's of the public sector banks. Recently the central bank of the country unveiled a set of far reaching regulations which aims for a greater accessibility of foreign banks at the national level where they can nearly compete with domestic banks on an equal footing. Now, wholly owned subsidiaries of foreign banks can acquire and enter into mergers and acquisition (M&A) transaction with domestic private sector banks and can set up branches anywhere in the country.

The central bank has now permitted banks to open branches without its permission provided they fulfill certain conditions. Under the criterion, at least 25% of the total number of branches has to be opened in unbanked rural areas during any financial year and the number of branches opened in Tier 1 cities should not exceed number of branches opened in Tier 2 to Tier 6 centres and all centers in North Eastern States and Sikkim.

With an aim to raise the accessibility of credit to the masses and increase competition in the sector, RBI has invited applications for granting new bank licenses, likely to be issued by early 2014.

A total of 25 applications have been received from top corporate houses like Tata sons, L&T, Reliance Group, Adiya Birla Nuvo, Bajaj, Shriram and Religare. New banks are likely to bring along new processes and technology that will play a significant role in driving competition and encourage existing players to improve efficiency.

Measures taken for financial inclusion

The government has laid a fresh 3 year financial inclusion plan for the period 2013-16. This aims to target the unbanked masses to unleash the untapped potential of the society that constitute the bottom of the pyramid. Some of its targets include ensuring coverage to all unbanked villages, opening bank accounts for eligible individuals and emphasizing on increasing rural branches. It further intend to spread financial literacy through implementation of National Strategy for Financial Education, organizing financial literacy camps and create dedicated websites so as to include in school curriculum.

Likewise, the pending Insurance Bill should also be passed at the earliest to provide another source of funds for long-term investments. Increasing the FDI cap will help bring in the requisite funds into the capital intensive insurance sector and also foster greater competition in the sector.

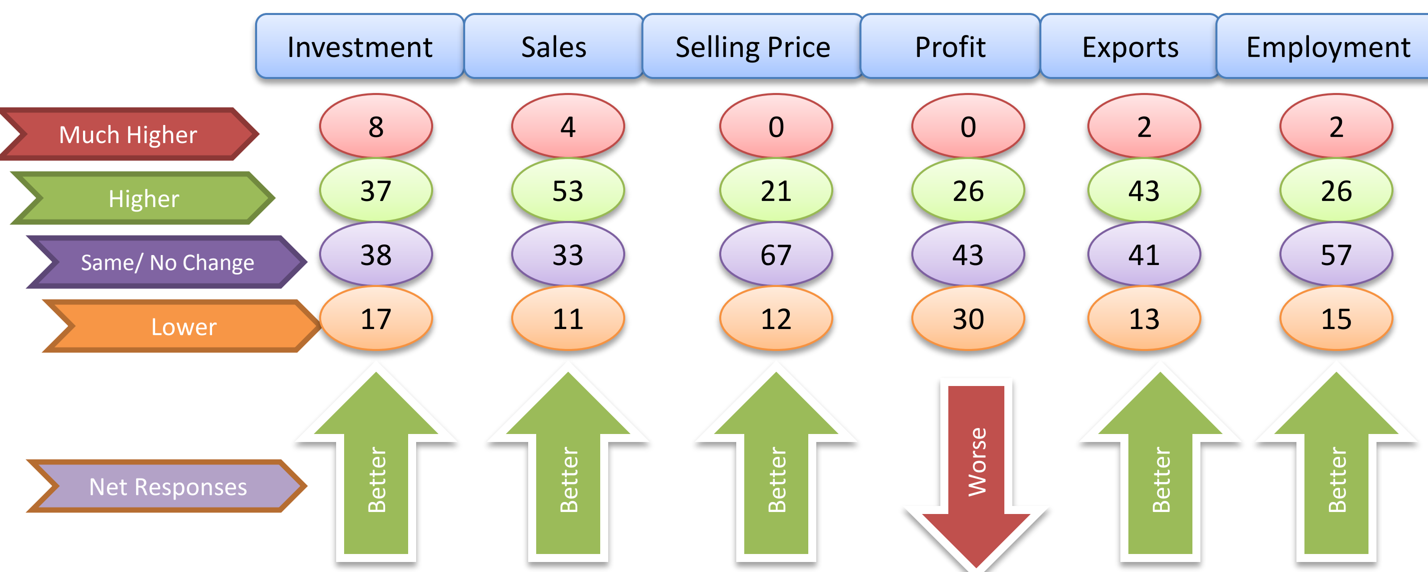
Other measures : The year 2013 also witnessed passage of the Pension Fund Regulatory and Development Authority (PFRDA) Bill. The bill seeks to vest PFRDA with statutory status in order to help PFRDA perform its regulatory and developmental roles effectively. Vibrant pension funds are also critical for channelizing long term funds for growth of the industry and economy. This would also help establish a credible and financially sustainable social security system in the country.

Table 3: Reform Measures for the Banking Sector

Period	Reform measures for the banking sector and financial inclusion plans
Apr-13	Laid a three year financial inclusion plan (2013-16)
Sep-13	Passage of Pension Fund Regulatory and Development Authority Bill (PFRDA)
Sep-13	RBI permitted banks to open branches without permission
Sep-13	Overseas borrowing limit by banks doubled to 100% of Tier 1 capital
Sep-13	RBI invited applications for new bank for new bank licenses
Nov-13	Greater accesibility of foreign banks at the national level
Nov-13	Establishment of Bharatiya Mahila Bank
Dec-13	Simplification and integration of FII debt limit framework

Source: RBI, various secondary sources

Business Confidence Survey



Note: Net responses are measured as the differential between the companies reporting positive and negative responses. These exclude companies reporting same or no change.

Source: FICCI Business Confidence Survey Q2 FY14

FICCI's Business Confidence Survey for Q2 FY14 has shown signs of improvement as the overall Business Confidence Index (BCI) increased to 59.3, after dipping to an 18-month low of 49.0 in the last survey.

There has been a substantial increase in the proportion of respondents expecting an improvement at the economy, industry and firm level over the next two quarters. About 46% of the participating companies indicated that the overall economic conditions are likely to improve over the next six months.

On a specific note, when asked about the likely growth rate that the economy is to achieve in the fiscal 2013-14, nearly 49% of the companies indicated the expected growth to be in the range of 4.0% -4.9%.

The results also indicate a distinct improvement in the expectations of the respondents with regard to key operational parameters like sales, investments, profits, selling price, exports and employment.

Nearly 57% of the companies which participated in the survey expect their sales to be 'higher and much higher' over the next six months. The corresponding figure in the last survey round was 39%.

Around 52% of the participants expect their order book position to be better in the coming six months, vis-à-vis 36% stating likewise in the last round. And, nearly 45% of the companies expect their anticipated investment level to increase in the next two quarters.

Among the factors affecting business growth, weak demand was reported to be a key constraining factor by a majority of the respondents.

There was a decline in proportion of respondents citing availability and cost of credit as problem areas, yet about 64% of the participants felt that high cost of credit is still a bothering factor.

Note: The current survey round drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 200 companies with a turnover ranging from 1 crore to 1.5 lakh crore. The participating companies belonged to a varied array of sectors such as textiles, cement, financial services, manufacturing, chemicals, constructions, metal and metal products, automobiles, FMCG, electrical equipment and machinery, paper and paper products.

FICCI

For detailed report you may contact:
Economic Affairs and Research division
Email: researchdivision@ficci.com

Economic Outlook Survey

ANNUAL FORECASTS FY14	
Gross Domestic Product	4.8%
Wholesale Price Index (End March, 14)	6.5%
Index of Industrial Production	1.4%
Export Growth	7.3%
Import Growth	-4.4%
Trade deficit as % of GDP	9.0%
Current Account deficit as% of GDP	3.0%
Fiscal deficit as % of GDP (End march, 14)	5.0%
USD/INR Exchange rate (End march, 14)	Rs 61.3/ USD

QUARTERLY FORECASTS Q3 FY14 (Average)	
Gross Domestic Product	5.0%
Wholesale Price Index	7.0%
Index of Industrial Production	2.0%
Export Growth	8.0%
Import Growth	-7.0%
Trade deficit as % of GDP	6.8%
Current Account deficit as% of GDP	1.9%
Fiscal deficit as % of GDP	4.2%
USD/INR Exchange rate	Rs 62/ USD

Source: FICCI Economic Outlook Survey Q3 FY14

Results of FICCI's latest Economic Outlook Survey point towards continued signs of moderation. The participating economists' expect Q3 FY14 GDP growth to be slightly better at 5.0% vis-à-vis 4.8% growth clocked in Q2 FY14.

Economists' outlook for industrial sector remained weak for the current fiscal owing to persistent weak demand and lackadaisical investments. The Index of Industrial Production (IIP) is estimated to grow by 1.5% in FY14; below 1.7% projection in the previous survey round.

On the inflation front, economists have revised their projection upward to 6.5% for FY14 from 6.0% projected in the last survey owing to rising food and fuel prices.

On the external front, situation has improved discernibly and the estimated CAD to GDP ratio has been revised downwards. The ratio is estimated at 1.9% for Q3 FY14, much lower than the 4.5% estimate in the previous round.

The participating economists felt, to keep CAD under manageable limits and to carry forward this impetus, exports will have to continue growing at double digit in the coming months.

On the policy announcement, participating economists' have foreseen the key policy rate to adjust at 8.0%, hinting towards a rise by 25 bps in January 2014.

With regard to outlook on rupee value, participating economists felt that corrective measures taken by RBI and government ensured that free fall in rupee was curbed.

The participating economists' highlighted the implementation of Goods and Services Tax (GST), reforms in fuel and gas pricing, banking reforms, etc as the key reform measures to carry forward the momentum.

Note: The present round of FICCI's Economic Outlook Survey was conducted in the months of November / December 2013 and drew responses from leading economists primarily from the banking and financial services sector. FICCI sought views of the economists on some topical issues like RBI's policy stance, sustainability of exports growth, volatility in Rupee value and the key reform priorities going ahead.

For detailed report you may contact:
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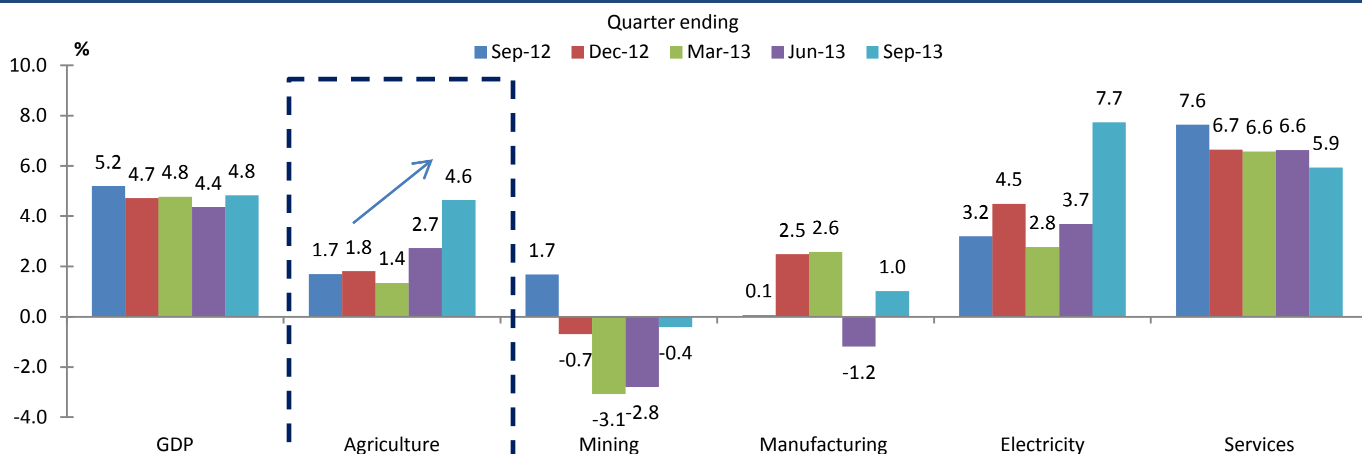
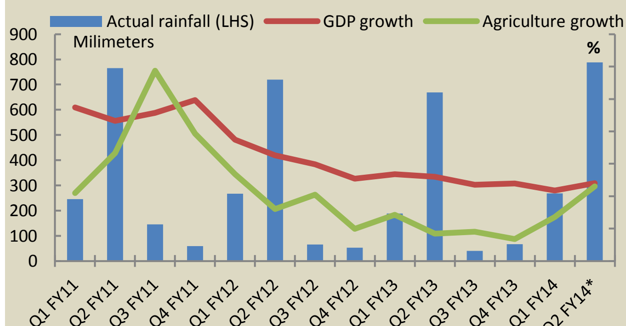
GDP growth rises moderately to 4.8% in Q2 FY14

- GDP growth for Q2 FY14 is reported at 4.8%, slightly higher than 4.4% growth registered in the previous quarter, primarily driven by higher growth in the agricultural sector.
- Growth of the agricultural and allied activities rose to 4.6% in Q2 FY14 vis-à-vis 2.7% in Q1 FY14 and 1.7% in Q2 FY13.
- Performance of industry and service sectors however continues to be discouraging. Manufacturing sector recorded growth of just 1% for Q2 FY14 and service sector growth slowed to 5.9% in Q2 FY14 (from 7.6% in Q2 FY13).

GDP growth by Economic Activities



Relationship between Rainfall, Agriculture and GDP growth



Note: Actual rainfall for Q2 FY14 includes estimates for September

GDP growth by expenditure (%)	Q4 FY13	Q1 FY14	Q2 FY14
Private Final Consumption Expenditure	3.81	1.62	2.16
Government Final Consumption Expenditure	0.64	10.49	-1.13
Gross Capital Formation	6.26	3.88	3.72
Gross Fixed Capital Formation	3.43	-1.18	2.62
Exports	*-0.62*	*-1.19*	*16.3*

Source: MOSPI, Economic Outlook, CMIE

- Monsoon rains in the country this year exceeded the 50 year average of 89 centimeters. This has immensely supported the agricultural sector growth, reflected in Q2 FY14 growth of agricultural sector.
- It has been observed that the growth of agriculture GDP is generally high in the third quarter in the periods of good monsoon. Thus, we can expect an even higher agri growth in the third quarter of this fiscal. The Ministry of Agriculture expects total food grain production to reach 259 million tons this fiscal with Kharif output at 130.5 million tons and Rabi output at 128.5 million tons.
- Performance of the industrial sector has remained subdued. In fact, high lending rate continue to be an area of concern for the industry as indicated in several studies and surveys of FICCI.
- Analysis of GDP growth by expenditure reveals that overall demand remains weak with Private Final Consumption Expenditure witnessing only moderate growth. However, exports have witnessed robust growth in Q2 FY14, which has helped manufacturing sector to record at least positive growth in this quarter.

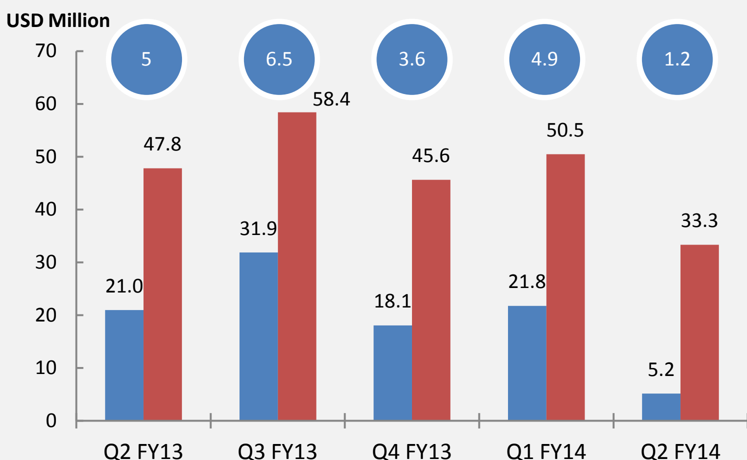
CAD narrows to 1.2 percent of GDP in Q2 FY14

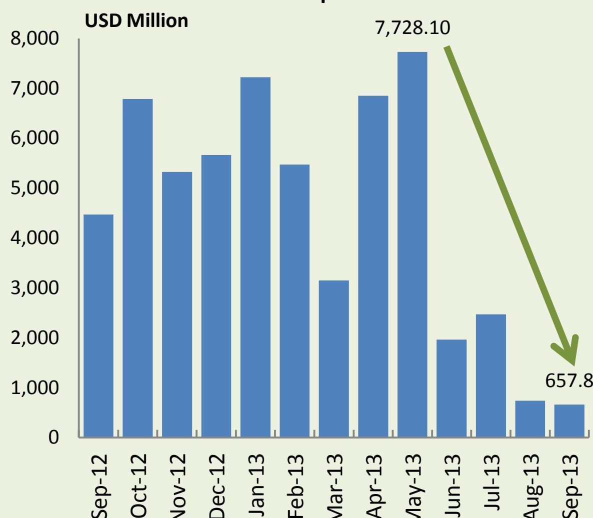
- Current Account Deficit (CAD) narrows to USD 5.2 billion in Q2 FY14 from USD 21.0 billion in Q1 FY14. As a percentage of GDP, it stands at 1.2% in Q2 FY14 as against 4.9% in Q1 FY14.

- Steep fall in current account numbers is the result of narrowing trade deficit. Trade deficit in Q2 FY14 contracted to USD 33.3 billion from USD 50.5 billion in Q1 FY14.

- Imports have come down in the past four months mainly driven by a sharp decline in imports of gold. Imports of gold have registered negative growth of (-) 40.3%, (-) 70.3% and (-) 85.4% in July, August and September 2013.

Snapshot of India's Current Account Balance





- Government action on containment of Gold imports has shown results with Gold imports witnessing drastic reduction over the last four months. This has contributed in bringing down the overall imports.

- Merchandise exports increased to USD 81.2 billion in Q2 FY14, an increase of 11.9% due to significant growth in the exports of textile and textile products, leather and leather products and chemicals. Double-digit growth in exports in Q2 FY14 combined with sharp fall in imports has led to significant contraction in trade deficit for Q2 FY14.

- Invisibles in Q2 FY14 improved aided by rise in the net services exports, which recorded a growth of 12.5% in Q2 FY14, mainly on account of computer services.

- Contraction in trade deficit coupled with rise in net invisible receipts has helped in reduction of CAD significantly.

Balance of Payments– Key Components

Indicators (US$ billion)	Q4 FY13	Q1 FY14	Q2 FY14
Trade balance	*-45.6*	*-50.5*	*-33.3*
Services	17.0	16.9	18.4
Current account balance	-18.1	-21.8	-5.2
Direct investment	5.7	6.5	6.9
Portfolio investments	11.3	-0.2	-6.6
Capital Account Balance	*17.6*	*20.1*	*5.0*

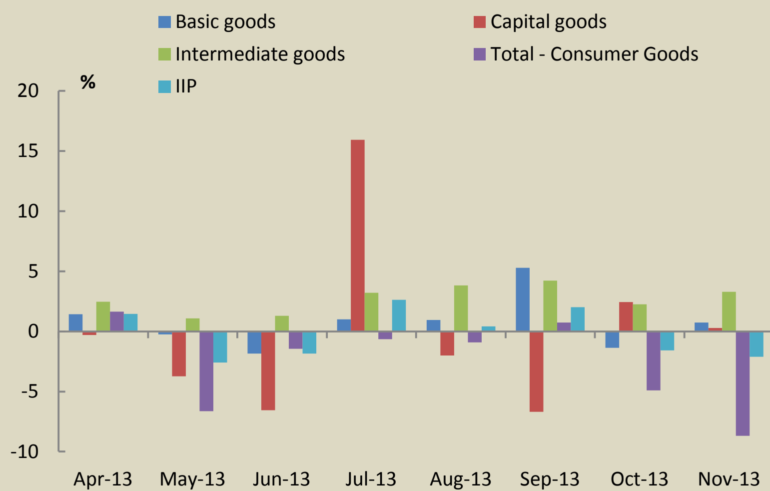
Source: RBI, Economic Outlook CMIE

FICCI

Factsheet : Index of Industrial Production

IIP growth rate plunges further in November, 2013

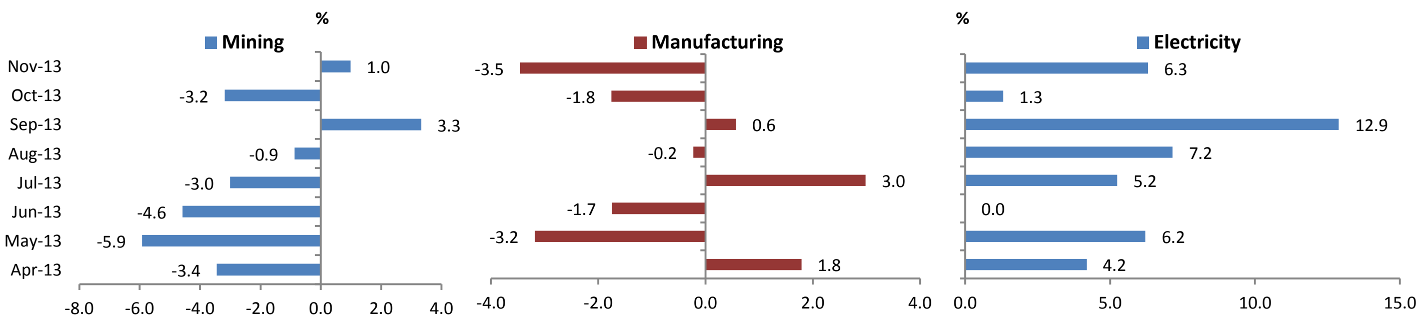
- IIP growth rate in November 2013 declined further by (-) 2.1 percent after it fell by (-) 1.6 percent in the previous month, mainly due to a dip in the growth rate of manufacturing IIP.
- IIP for manufacturing declined consecutively for the last two months. The growth rate stood at (-) 1.8 percent and (-) 3.5 percent respectively in October and November 2013.
- IIP for mining and quarrying recorded a positive growth in November 2013, though relatively low at 1 percent . For October 2013, IIP for manufacturing and quarrying stood at (-)3.2%.
- Growth rate in the IIP for electricity sector stood at 6.3 percent in November 2013, as against 1.3 percent in the previous month.



The growth in manufacturing sector has not yet bottomed out and urgent measures are required to boost manufacturing, without which the job potential will be depressed.

Despite the festive season, total consumer goods segment (mainly durables) has seen its sharpest fall since March 2009 as it declined by 8.7 percent in November 2013. This reflects the persistence of weak demand in the economy.

10 out of 22 industry groups in the manufacturing sector recorded a negative growth in November 2013. Major items like electronic goods, motor vehicles, furniture etc all recorded a sharp decline during this period.



Major items with positive growth(November 2013)	
Wearing Apparel	*14.5%*
Chemical and chemical products	*18.6%*
Electrical machinery	*16.1%*
Wood and wood products	*5.1%*
Other transport equipment	*13.0%*

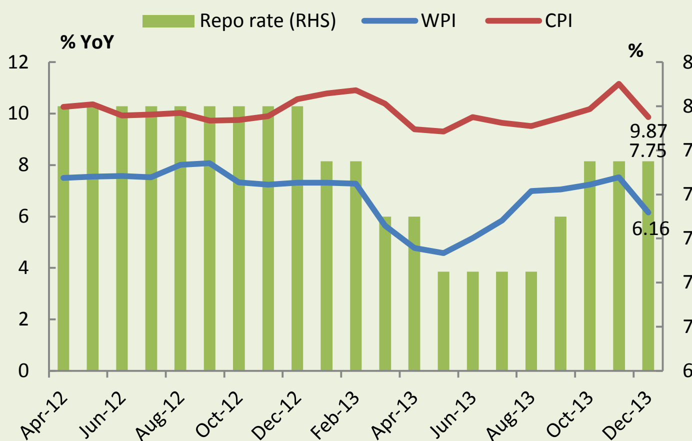
Major items with negative growth(November 2013)	
Food products & beverages	*-17.0%*
Machinery and Equipment	*- 9.0%*
Electronics Equipment	*-42.2%*
Furniture manufacturing	*- 19.5%*
Motor Vehicles	*- 10.7%*

Source: Economicoutlook CMIE and FICCI Research

Headline inflation eases to a five month low in December 2013

- WPI inflation which stood at 7.5 percent in November 2013 eased to 6.2 percent in December 2013 mainly due to a decline in the prices of fruits and vegetables.
- Food articles inflation eased to 13.7 percent in December 2013 down from 19.9 percent in November 2013 as the inflation in case of of fruits and vegetables moderated to 30.8 percent in December 2013 from 52.6 percent in the previous month.
- Inflation of non-food articles eased to 6.0 percent in December 2013 from 7.6 per cent in previous month. Inflation of fuel & power however remained near flat at 11.0 percent in December 2013 (11.1% in November 2013).

CPI, WPI and Interest rates



WPI inflation for Food articles	*Nov 13*	*Dec 13*
Food articles	*19.9%*	*13.7%*
Fruits and vegetables	*52.6%*	*30.8%*
Fruits	*13.7%*	*9.1%*
Vegetables	*95.2%*	*57.3%*
Egg, Meat & Fish	*2.5%*	*2.6%*

The moderation in WPI Inflation for December 2013 is mainly due to easing of food inflation that has come on the back of an improved supply of winter crops in the market.

The moderation in inflation is also reflected in the CPI numbers, which too eased in December 2013 due to decline in the prices of fruits and vegetables.

FICCI has repeatedly said that food inflation is largely determined by supply side factors and measures are required to address the shortages so that food inflation further softens in the months ahead.

Since industrial production is rather subdued and manufactured goods inflation is on the lower side, FICCI expects the RBI to consider a downward revision of the policy rates in the next review, scheduled for January 28, 2014.

WPI Inflation for Major items	*Jun 13*	*July 13*	*Aug 13*	*Sept 13*	*Oct 13*	*Nov 13*	*Dec 13*
Primary Articles	*8.8%*	*9.7%*	*13.6%*	*14.0%*	*14.6%*	*15.9%*	*10.8%*
Food articles	*10.3%*	*12.3%*	*19.2%*	*18.7%*	*18.3%*	*19.9%*	*13.7%*
Non-food articles	*7.7%*	*5.7%*	*1.2%*	*4.9%*	*7.1%*	*7.6%*	*6.0%*
Fuel and power	*7.5%*	*11.4%*	*12.7%*	*11.7%*	*10.5%*	*11.1%*	*11.0%*
Manufactured products	*2.9%*	*2.6%*	*2.3%*	*2.4%*	*2.8%*	*2.6%*	*2.6%*

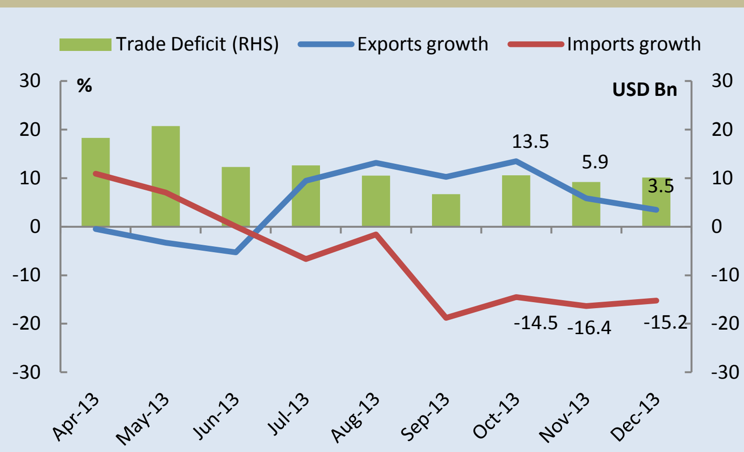
Source: MOSPI and FICCI Research, Economic Outlook - CMIE

FICCI

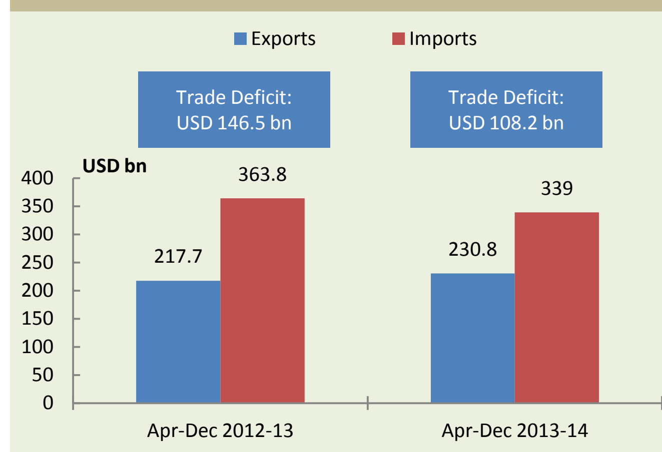
Trade deficit narrows in December 2013

- Exports growth slows to 3.5 percent in December 2013, down from 5.9 percent in the previous month. Exports in December 2013 stood at USD 26.35 Bn
- Imports continue to decline, registering a decline of 15.2 percent in December 2013. Imports in December 2013 stood at USD 36.5 Bn.
- For the cumulative period Apr-Dec 2013, exports grew by 6.24% up from (-) 3.98% in Apr-Dec 2012. Imports declined by (-) 6.8 percent in Apr-Dec 2013.
- Trade deficit narrowed significantly in December 2013 to USD 10.1 billion as compared to USD 17.6 billion during the same period of the previous year. A glance at the cumulative numbers shows that trade deficit has narrowed to USD 108.2 Bn in first three quarters of FY14 from USD 146.5 Bn during the same period last fiscal.

Exports and Imports growth and Trade Deficit



Cumulative Exports and Imports (Apr-Dec 2013)



- Imports have moderated lately due to softening of prices of crude oil, metals and commodities.
- There has been a slowdown in the exports of petroleum products due to shutdown of a private refinery due to maintenance. Exports of gems and jewellery was also affected due to a decline in gold prices by around 28% in the world market in 2013, reducing the value wise realization in the sector.
- Region-wise, Latin American countries (Brazil, Chile, Venezuela and Panama), East Oceania (Australia, New Zealand) and few other CIS countries have reported to a see a decline in exports.

Exports growth of major items (Apr-Oct 2013)

Major Commodities	
Manufactured goods	4.2%
Chemical and related products	5.6%
Gems and jewellery	-4.4%
Drugs and pharmaceuticals	3.1%
Textiles (excluding readymade garments)	15.7%
Engineering goods	4.2%

Imports growth of major items (Apr-Oct 2013)

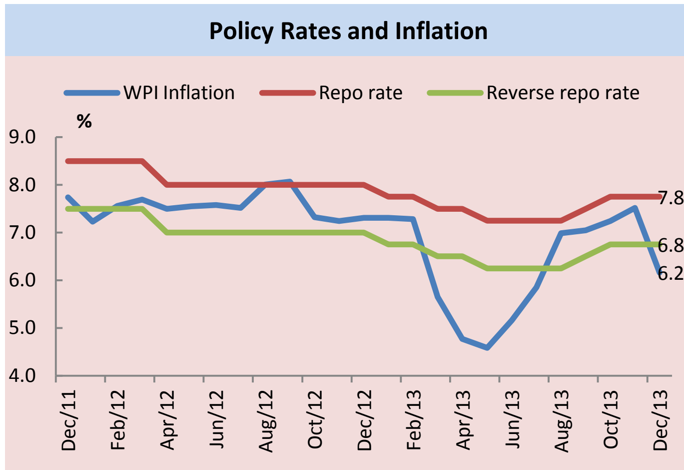
Major Commodities	
Food and related items	-20.9%
Chemical and related products	-2.0%
Capital goods	-12.5%
Gold	-20.5%
Electronics goods	3.2%

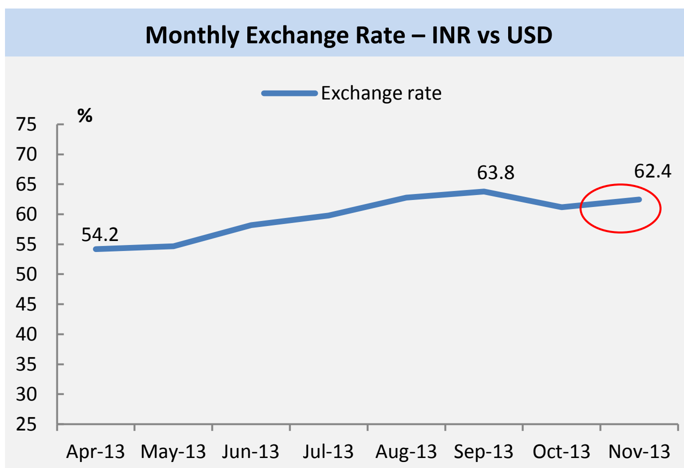
Note: Commodity compositions export and import data available till October 2013

Source: Economicoutlook CMIE and FICCI Research

RBI keeps policy rates unchanged

- The repo rate under the liquidity adjustment facility (LAF) remains unchanged at 7.75% in the mid-quarter Monetary Policy Review in Dec 2013.
- Cash reserve ratio (CRR) of scheduled commercial banks too remains unchanged at 4.0% of Net Demand and Time Liabilities (NDTL).
- Bank rate stays unchanged at 8.75%.





CPI (Dec 2013)	*9.9%*
WPI (Dec 2013)	*6.2%*
WPI Food Inflation (Dec 2013)	*13.7%*
CPI Food Inflation (Dec 2013)	*12.0%*
IIP growth (Nov 2013)	*(-) 2.1%*

- *CPI and WPI inflation numbers remained high until November 2013 and have eased moderately in December on the back of easing of food inflation.*
- *Tighter monetary policy measures in the past have not been successful in reining inflation, as supply side factors have been largely responsible for high food prices. RBI maintained status-quo in the monetary policy review in December 2013 since there were indications of vegetable prices coming down as the new crop starts reaching the markets .*
- *During the period from August to November 2013, the swap window opened by the RBI significantly contributed to rebuilding foreign exchange reserves. This has provided stability to the foreign exchange market.*
- *FICCI has been urging RBI as well as the Government to bring the focus back on growth which has taken a serious beating. This is clearly reflected in the weak industrial as well as services growth witnessed in the recent past. We thus need to take measures towards re-igniting growth and reviving investor sentiment.*
- *RBI is likely to take into account easing of food inflation and tapering of the US Fed stimulus in the forthcoming monetary policy review scheduled for Jan 28, 2014.*

Source: RBI, Economic Outlook –CMIE,OANDA