Imperatives for Double Digit Growth

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PHD RESEARCH BUREAU
PHD CHAMBER OF COMMERCE AND INDUSTRY
PHD House, 4/2 Siri Institutional Area, August Kranti Marg New Delhi 110016
Phone: 91-11-49545454, Fax: 91-11-26855450, 26863135
Email: research@phdcci.in Website: www.phdcci.in

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From President's Desk

Suman Jyoti Khaitan

India clocked average annual growth of 9% in the five year period FY04-FY08. For a nation that once believed that the Hindu rate of growth was its destiny, this remarkable growth performance was cause for celebration. It was also a trigger for setting off an aspiration for double digit growth. However, the global financial crisis engulfed virtually every country in the world and India was no exception to it. India recovered from the crisis sooner than other countries, but the growth rate is yet to reach the pre-crisis level.

India's growth story is still credible. However, for India to regain its growth momentum and indeed accelerate it further towards the double digits trajectory, the first and foremost imperative is stepping up agriculture production and productivity. India has come a long way from the chronic food shortages of the early years of independence; however, in recent years, there has been a growing concern about erosion at the margin of food self-sufficiency. Further infrastructure bottleneck has been a serious concern in achieving robust and sustained economic growth.

As India stand at the threshold of the new decade which promises not only brighter outlook but output and outcomes also and begin this journey, the road ahead will not be easy and we will have to manage several uncertainties. However, India is a young nation which is dynamic, vibrant and energetic. The sheer momentum of this enthusiasm coupled with our toiling hands and integrity, will help us overcome all odds and remove all obstacles to achieve the double digit growth.

I wish a grand success of 108th Annual Session of PHD Chamber which focuses on imperatives for double digit growth.

Sharad Jaipuria

From Senior Vice President's Desk

Economic policies have played a major role in scripting India's growth story and have helped to explore a greater range of growth prospects which were earlier unexplored. India's performance improved significantly in the 2000s, spurred by favourable global conditions and the cumulative effect of the systemic reforms initiated in 1991.

In order to keep the growth momentum, a stable and predictable macroeconomic environment is a necessary condition for growth. It is only in such an environment that both savers and investors can make informed decisions so that savings translate efficiently into productive investments.

Further rapid economic reforms and effective implementation of reforms in the country, which prioritizes on stabilizing the volatile macro-economic environment to retain the confidence not only of the investors but also various other socio-economic segments whose sentiments are impacted by volatility in economic system.

The stability in the macro economic system would spur us on to articulating clear priorities in the coming times and for building a consensus towards speedy socio-economic development of the country.

My best wishes to all the distinguished leaders and eminent guests present at 108th Annual Session of PHD Chamber.

Alok B Shriram

From Vice President's Desk

Demographics are in India's favour because the working age population is growing faster than the overall population. This expanding working age population will earn, and will save, thereby contributing to higher savings and higher investment, which will lead to higher growth trajectories, going forward.

However, the growing workforce could prove advantageous only if sufficient investment is undertaken to generate their labour productively. In order to revisit growth in the economy, it has become vital to bring more and more of our workforce in the production chain by improving the skill sets in the economy. Effective education and skill development hold the key to reaping the emerging demographic dividend. The education system should be aligned with needs of the industry to enhance employability of the youth.

The recently unveiled National Manufacturing Policy aims at raising the share of manufacturing in GDP from 16% to 25% and generating additional employment of 100 million by 2022. To exploit the full job potential of this emphasis on manufacturing, we need to enhance the skill development activity at a much faster pace.

Improving social sector outcomes is also an important imperative to achieve higher and sustainable economic growth. There is a need for efficient spending on health and primary education as the quality of expenditure also determines as to how good the health and education facilities will be.

I am sure this programme will be a useful platform for exchanging views and success stories.

Saurabh Sanyal

From Executive Director's Desk

Imperatives for Double Digit Growth, has been prepared with the objective to put forth the PHD Chamber's vision on unveiling the measures in India so as to bring it back in the high growth track. The study is unique in its kind, which captures the potency and limitations of the trillion-dollar economy. It is a report on the present state of the Indian economy and highlights the vital suggestions and the areas which require immediate policy intervention.

The PHD Chamber has always aimed to be an important stakeholder in the development of the nation. I hope that this study helps in policy formulation, so as to serve as a vehicle for inclusive growth and socio-economic development.

I commend and appreciate efforts of the PHD Research Bureau team led by Dr. S. P. Sharma, Chief Economist and assisted by team members Ms. Surbhi Sharma, Ms. Megha Kaul, Ms. Bhawana Sharma and Mr. Syed Zaki Mehdi in producing this study of analytical value.

I sincerely hope that this report serves as an informative guide to the policy makers, researchers and industry stakeholders.

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Executive summary

The economy has done very well on the growth front, when viewed in a long term perspective. India's GDP decadal averaged growth rate was only around 3% in the 1960s and 1970s, at a time when other developing countries were growing much faster. The 1980s saw the beginning of a reorientation of policies to achieve higher growth and indeed growth accelerated to 5.6% in that decade. Further, the era of reforms in the 1990s opened up avenues of delicense, decontrol, trade and financial liberalization, tax reforms and facilitation to foreign investments. It marked a major break-through in India's rapid progress. The 2000s achieved an average real GDP growth rate of 7.3%.

The economic history of India dates back to the inception of the Indus Valley Civilization. The integration with the world and self sufficiency of villages is a phenomenon of the Vedic period. However, the arrival of the East India Company and the subsequent colonization of the economy by the British ruined its prospects. In 1700, with a population of 165mn, India was the world's largest economy, followed by China with 138mn people. Even a century later, in 1820, as industrial revolution was gathering pace, India and China accounted for half of world's GDP. However, thereafter, China and India got relegated to the bottom of the League of Nations. During the post-Independence period and the period of the "Five-year plans" efforts were focused on identifying the needs of the economy to take off again. Further, the economic reforms in early 90s opened a new chapter in India's economic history. It gave India an opportunity to shake off the shackles of its past and emerge on the world stage as a progressive nation.

Today, India is better placed in global ecosystem as compared with many advanced, emerging and developing economies. India's position in the global ecosystem, in terms of GDP at current prices (size of economy) stands at US$ 1842 billion which is higher than Australia (US$1521 bn), South Korea (US$1130bn), Indonesia (US$878bn), South Africa (US$384bn) and Thailand (US$366bn). However, the countries witnessing a higher GDP than India are United States (US$15685bn), Euro Area (US$12195bn), China (US$8230bn), Germany (US$3400bn) and Brazil (US$2435bn). In terms of real GDP, India registered a growth rate of 4.8% which is higher than Thailand at 2.7%, Brazil at 2.2%, United States at 1.8% and United Kingdom at 1.5%. However, countries witnessing growth rate higher than India are China at 7.8%, Indonesia at 5.6%, Singapore at 5.8% and Malaysia at 5%.

India has every potential to emerge as fastest moving world economy and a leading investment destination in the next very few years, however, it requires urgent policy actions to remove bottlenecks to growth. The most important and the immediate challenge to resume the high growth momentum are to address the structural supply side bottlenecks. Inflation has been posing a major challenge to India's growth story. High levels of prices, especially vegetables, fruits, milk; eggs and fuels etc have been reflected in double digit rates of inflation. Structural supply side reforms are a must if growth is going to pick up and if double-digit growth is ever to materialize. In the absence of accelerated pace of structural reforms, it will be very difficult to sustain high growth trajectory without seeing a build up of inflationary pressures. Moreover, the growth strategy should not focus to achieve higher growth for just one or two years but it should be talking about being able to grow at a faster pace on a sustained basis.

The PHD Chamber welcomes the recent reforms undertaken by the government. The recent reforms of fiscal consolidation could go a long way in improving the fiscal health of the economy. The launching of the New Manufacturing Policy and setting up of Cabinet Committee on Investment are very positive moves. The Cabinet Committee on Investment, set up to fast-track large projects, has already cleared projects mounting to more than US$ 64 billion in the past few months. Once these projects get implemented in the months to come, they should have an all-round salutary effect. A healthy trend had been noticed in FDI particularly in sectors, such as construction development, telecom, computer software & hardware, and pharmaceuticals. The rupee has also stabilized though it is still weak as compared to the previous year. The panic in the forex markets has come down. Despite being an election year, the government is confident of meeting its fiscal deficit targets on the back of robust foreign direct investment flows and rising exports. However, important reforms like implementation of tax reforms like GST rollout, improving agriculture growth and productivity, encouraging industrial growth, revitalizing services sector growth, energy sector reforms, environmental reforms and simplification of labor laws etc, are still awaited. PHD Chamber believes that the Government should play an active role in pushing the reforms agenda in the country through rapid implementation of policies, which prioritizes on stabilizing the macro-economic environment to retain the confidence in not only the investors but also various other segments whose sentiments are impacted by volatility in economic system.

India is home to 1.21bn people, which is about 17.5% of the global population. However, it accounts for only 2.5% of world GDP. Hence, there exists a huge potential for achieving the higher growth trajectory, going forward. The real GDP growth has potential to enter higher and higher trajectory and could achieve double-digit growth rates during the 13th Five Year Plan. Infrastructure sector has a huge untapped potential and it will be the main driving force for higher economic growth, going forward. India will be spending around 9-10% of GDP on infrastructure during the 12th plan period as compared with 7-8% of GDP in the 11th plan period. Higher growth in infrastructure sector will provide huge employment opportunities, which in turn will boost consumption growth in the higher trajectory and enhance the production possibility frontier.

Demographics are in India's favour because the working age population is growing faster than the overall population. This expanding working age population will earn, and will save, thereby contributing to higher savings and higher investment, which will lead to higher growth trajectories, going forward. However, the growing workforce could prove advantageous only if sufficient investment is undertaken to generate their labour productively. Effective education and skill development hold the key to reaping the emerging demographic dividend. The education system should be aligned with needs of the industry to enhance employability of the youth. In case these conditions are not met, the huge number of people with the potential of joining the workforce in the years to come would prove to be a bane rather than a boon. These measures would have a multidimensional effect on the economy, first, by educating and up-skilling work force, second, by creating employment opportunities, third, by reducing the level of poverty and finally by achieving potential growth trajectories.

1. India- a long term growth story

The economy has done very well on the growth front, when viewed in a long term perspective. India's GDP decadal averaged growth rate was only around 3% in the 1960s and 1970s, at a time when other developing countries were growing much faster. The 1980s saw the beginning of a reorientation of policies to achieve higher growth and indeed growth accelerated to 5.6% in that decade. Further, the era of reforms in the 1990s opened up avenues of delicense, decontrol, trade and financial liberalization, tax reforms and facilitation to foreign investments. It marked a major break-through in India's rapid progress. The 2000s achieved an average real GDP growth rate of 7.3%.

Economic policies have played a major role in scripting India's growth story and have helped to explore a greater range of growth prospects which were earlier unexplored. An abiding objective in respect of industrial policy measures since 1991 has been to create a competitive environment to improve productivity and efficiency of the industry. New industrial policy fostered competition by abolishing monopoly restrictions, terminating the phased manufacturing programmes, freeing foreign direct investment and import of foreign technology and de-reservation of sectors hitherto reserved for the public sector. These measures created a favorable environment for industry to upgrade its technology and build-up its capacity through imports in order to cater to growing domestic and external demand.

India's performance improved significantly in the 2000s, spurred by favourable global conditions and the cumulative effect of the systemic reforms initiated in 1991. The 2000s achieved an average real GDP growth rate of 7.3% (at factor costs constant 2004-05 prices). The decade of 2000s also saw a high annual average GDP growth of about 9% for the five year period 2004-08. Growth in all the sub-sectors of the economy, including agriculture, accelerated during this period.

The growth performance so far…

Sl. No.	Components	FY94-98	FY99-03	FY04-08	FY09-13
1.	Real GDP growth rate (% average)	6.3	5.6	8.7	7.2
2.	Per capita income growth rate (% average)	13.5	8.1	12.8	13.9
3.	WPI inflation rate (% average)	7.6	4.7	5.5	7.5
4.	FII inflows (US$ bn) cumulative	8	6	53	102
5.	FDI Inflows (US$ bn) cumulative	10.0	20.7	77	197.9
6.	CAD as % of GDP (average)	-1.0	-0.2	-0.3	-3.3
7.	Fiscal deficit as % of GDP (average)	4.9	5.7	3.6	5.6
8.	Savings rate as % of GDP (average)	23.1	24.7	33.2	32.6
9.	GCF at current prices as % of GDP (average)	23.9	25.1	33.4	36
10.	Increase in Forex Reserves (US$bn)	20 (29)*	47 (76)*	234 (310)*	(-) 17 (293)*
11.	Exports Growth Y-o-Y (%) (average)	15.3	9.0	25.4	14.1

*Source: PHD Research Bureau, compiled from various sources, Note: *Figures in brackets connotes the Forex reserves at the end of respective period*

2. India in the global ecosystem

The economic history of India dates back to the inception of the Indus Valley Civilization. The integration with the world and self sufficiency of villages is a phenomenon of the Vedic period. However, the arrival of the East India Company and the subsequent colonization of the economy by the British ruined its prospects. In 1700, with a population of 165mn, India was the world's largest economy, followed by China with 138mn people. Even a century later, in 1820, as industrial revolution was gathering pace, India and China accounted for half of world's GDP. However, thereafter, China and India got relegated to the bottom of the League of Nations. During the post-Independence period and the period of the "Five-year plans" efforts were focused on identifying the needs of the economy to take off again. Further, the economic reforms in early 90s opened a new chapter in India's economic history. It gave India an opportunity to shake off the shackles of its past and emerge on the world stage as a progressive nation.

The fact is that ever since India launched wide ranging structural economic reforms in 1991, there has been no looking back. India has made significant economic progress over the past two decades. India's industrial environment has become more competitive and open, infrastructural gaps have been sought to be bridged through public-private initiatives with both domestic and foreign sources of funding, current account has become fully convertible while capital account is virtually free for non-residents.

As a result, India's per capita income, which had taken four decades to double by 1991, doubled thereafter in 15 years and is likely to double again in 10 years. The average saving rate also showed a substantial increase from 23% of GDP in the 1990s to about 31% in the 2000s with a peak saving rate of over 33% achieved during the high growth phase of 2004-08. The efficiency of capital utilization also improved as the incremental capital output ratio (ICOR) declined to 3.7 during the high growth phase of 2004-08 from 5 in the 1990s.

In terms of size of economy in the global ecosystem, India's GDP at current prices stands at US$ 1842 billion which is higher than Australia (US$ 1521 billion), South Korea (US$ 1130 billion), Indonesia (US$ 878 billion), South Africa (US$ 384 billion) and Thailand (US$ 366 billion). However, the countries witnessing a comparatively higher GDP than India are United States (US$ 15685 billion), Euro Area (US$ 12195 billion), China (US$ 8230 billion), Germany (US$ 3400 billion) and Brazil (US$ 2435 billion). In terms of real GDP, India registered a growth rate of 4.8% which is higher than Thailand at 2.7%, Brazil at 2.2%, United States at 1.8% and United Kingdom at 1.5%. However, countries witnessing growth rate higher than India are China at 7.8%, Indonesia at 5.6%, Singapore at 5.8% and Malaysia at 5%.

The interest rates prevailing in India stands at about 8% which is higher than many economies ie such as US, Euro area, China, Japan, Germany, UK, Australia, Indonesia etc. However it is lower than Brazil. India's inflation rate is hovering around 7% which is significantly higher than US (1%), Euro Area (0.9%), China (3%), Japan (1.1%), Germany (1.3%), France (0.7%), etc. India's unemployment rate stands at 3.8% which is lower than South Africa (24.7%), France (10.9%), UK (7.6%), Brazil (5.2%), Russia (5.5%), Australia (5.8%), Indonesia (6.3%), Euro Area (12.1%) and France (10.9%). The debt to GDP ratio of India stands at about 67% which is lower than many economies such as USA(101%), Euro area(90%), Japan (211%), Germany (81%), France (90%), United Kingdom (89%) and Singapore(98%). India's current account deficit as % of GDP stands at 4.6% which is higher than France (1.9%), UK(3.7%), Brazil(2.4%) and Indonesia (2.7%). South Africa's CAD stands at 6.3% of GDP.

India's export growth stands at 3.7% which is higher than Germany (2.8%), United States (2.4%), United Kingdom (2.2%), Russia (1.9%) and France (1.2%). However, China (6.5%), Hong Kong (6.2%) and Australia (6.1%) have clocked much higher growth in exports of goods and services than India.

Going ahead, India has every potential to emerge as fastest moving world economy and a leading investment destination in the next very few years, however, it requires urgent policy actions to remove bottlenecks to growth. The most important and the immediate challenge to resume the high growth momentum is to address the structural supply side bottlenecks. Inflation has been posing a major challenge to India's growth story. High levels of prices, especially vegetables, fruits, milk; eggs and fuels etc have been reflected in double digit rates of inflation. Structural supply side reforms are a must if growth is going to pick up and if double-digit growth is ever to materialize. In the absence of accelerated pace of structural reforms, it will be very difficult to sustain high growth trajectory without seeing a build up of inflationary pressures.

Economic indicators across select economies (2013*)

Countries	Population (mn)	GDP^ USD	Real GDP growth	Interest Rate	Inflation Rate	Jobless Rate
United States	315.1	15685	1.8%	0.3%	1.0%	7.0%
Euro area	332.9	12195	-0.4%	0.3%	0.9%	12.1%
China	1354.0	8230	7.8%	6.0%	3.0%	4.0%
Japan	127.5	5960	2.4%	0.0%	1.1%	4.0%
Germany	81.8	3400	1.1%	0.3%	1.3%	5.2%
France	65.3	2613	0.2%	0.3%	0.7%	10.9%
United Kingdom	63.3	2440	1.5%	0.5%	2.2%	7.6%
Brazil	193.9	2435	2.2%	10.0%	5.8%	5.2%
Russia	143.4	2015	1.2%	5.5%	6.5%	5.5%
India	1217.0	1842	4.8%	7.8%	7.5%	3.8%
Australia	22.8	1521	2.3%	2.5%	2.2%	5.8%
South Korea	50.0	1130	3.3%	2.5%	0.9%	2.9%
Indonesia	245.9	878	5.6%	7.5%	8.4%	6.3%
South Africa	52.2	384	1.8%	5.0%	5.3%	24.7%
Thailand	66.8	366	2.7%	2.3%	1.9%	0.7%
Malaysia	29.2	304	5.0%	3.0%	2.8%	3.1%
Singapore	5.3	275	5.8%	0.05%	2.0%	1.8%
Hong Kong	7.2	263	2.9%	0.5%	4.3%	3.3%

*Source: PHD Research Bureau, compiled from various sources, *Data is latest available as on 17 December 2013, ^GDP at current prices, Real GDP growth is Y-O-Y*

Countries	Fiscal Deficit	Debt/GDP	CAD	Exports Growth	Exchange Rate
United States	-4.1%	101.6%	-3	2.4%	119.9^
Euro area	-3.7%	90.6%	1.5	1.9%	1.4
China	-1.5%	26.0%	2.3	6.5%	6.1
Japan	-9.2%	211.7%	1.1	4.1%	102.9
Germany	0.1%	81.0%	6.3	2.8%	1.4
France	-4.8%	90.2%	-1.9	1.2%	1.4
United Kingdom	-6.1%	88.7%	-3.7	2.2%	1.6
Brazil	2.4%	65.1%	-2.4	1.4%	2.3
Russia	-0.02%	8.4%	4.8	1.9%	32.9
India	-5.3%	67.6%	-4.6	3.7%	61.9
Australia	-3.0%	20.7%	-4.6	6.1%	0.9
South Korea	-1.1%	34.8%	3.8	4%	1051.8
Indonesia	-1.8%	23.1%	-2.7	1.1%	12131.0
South Africa	-5.1%	39.9%	-6.3	5.3%	10.3
Thailand	-4.1%	44.3%	-0.4	5.4%	32.1
Malaysia	-4.5%	53.1%	7.9	1.3%	3.2
Singapore	1.3%	97.9%	18.6	2.9%	1.3
Hong Kong	3.5%	33.1%	1.1	6.2%	7.8

Source: PHD Research Bureau, compiled from various sources, CAD: Current Account Deficit represents in negative, Exports of goods and services, Exchange rate is against US$, ^The United States Dollar Index or DXY measures the performance of the dollar against a basket of other currencies including EUR, JPY, GBP, CAD, CHF and SEK.

3. Current state of the Indian economy

The onset of global financial crisis in 2008 interrupted India's growth trajectory. Despite being located far away from the epicenter of the crisis, India could not remain insulated from the adverse impact of the crisis. The knock-on impact of the global financial crisis was felt through all the channels - finance, real and more importantly, the confidence channel. Initially the impact was visible on India's financial markets – equity prices fell reflecting withdrawal of global investments, currency depreciated reflecting global risk aversion, and money and credit markets came under pressures with substitution of external sources of funding with domestic sources.

Reflecting greater global integration, the Indian trade and business cycles had also become increasingly synchronized with global cycles. Consequently, the adverse impact of external demand shocks was manifested in terms of a moderation in Indian economic growth from 9.3% in 2007-08 to 6.7% in 2008-09. Following expansionary monetary and fiscal policy response, growth recovered quickly during 2009-10 and 2010-11, before slumping again to 6.2% in 2011-12 and 5% in 2012-13 and 4.6% in the first half of 2013-14.

However, the prospects of the Indian economy look better this year with the expectation of more consolidated growth and macro economic stability. A bountiful monsoon coupled with softening global commodity prices would stabilize inflationary pressures and would further pave the way for a turnaround in economic growth. A boost to agriculture growth should enhance the rural demand further and propel manufacturing growth. Improvement in the agriculture sector will not only help in meeting the supply side pressures, but will also aid in stabilizing the overall macro-economic environment, going forward. Softening inflationary scenario will help attract foreign investors once again and the capital flows are also expected to increase further in the ensuing months. With pick up in economic growth and revenue collection, fiscal deficit will also consolidate at around desired level of 4.8% of GDP for the current year. With the drastic improvement in external sector scenario vis-à-vis improvement in exports growth and decline in import demand of key commodities, current account deficit will also stabilise below 4% of GDP for the current year. The growth potential remains high and is expected to accelerate gradually over the next two-three years with improvement in manufacturing growth vis-à-vis effectiveness of the new manufacturing policy and implementation of new investment projects.

Going ahead, structural reforms are a must if growth is going to pick up and if double-digit growth is ever to materialize, going forward. In the absence of accelerated pace of structural reforms, it will be very difficult to sustain high growth trajectory without seeing a build up of inflationary pressures. Moreover, the growth strategy should not focus to achieve higher growth for just one or two years but it should be talking about being able to grow at a faster pace on a sustained basis.

The PHD Chamber welcomes the recent reforms undertaken by the government. The recent reforms of fiscal consolidation could go a long way in improving the fiscal health of the economy. The launching of the New Manufacturing Policy and setting up of Cabinet Committee on Investment are very positive moves. The Cabinet Committee on Investment, set up to fast-track large projects, has already cleared projects mounting to more than US$ 64 billion in the past few months**.** Once these projects get implemented in the months to come, they should have an all-round salutary effect. A healthy trend had been noticed in FDI particularly in sectors, such as construction development, telecom, computer software & hardware, and pharmaceuticals. The rupee has also stabilized though it is still weak as compared to the previous year. The panic in the forex markets has come down. Despite being an election year, the government is confident of meeting its fiscal deficit targets on the back of robust foreign direct investment flows and rising exports.

However, important reforms like implementation of tax reforms like GST and DTC, improving agriculture growth and productivity, encouraging industrial growth, revitalizing services sector growth, energy sector reforms, environmental issues and simplification of labor laws etc, are still awaited.

4. Imperatives for achieving double digit growth

PHD Chamber believes that the Government should play an active role in pushing the reforms agenda in the country through rapid implementation of policies, which prioritizes on stabilizing the macro-economic environment to retain the confidence in not only the investors but also various other segments whose sentiments are impacted by volatility in economic system. To revisit growth trajectory, PHD Chamber suggests the following measures:

4.1 Improve agriculture growth and productivity

The agriculture sector in India is at crossroads with rising demand for food items and relatively slower supply response in many commodities resulting in frequent spikes in food inflation. Notwithstanding, the growth of agriculture and allied sectors is still a critical factor in the overall performance of the Indian economy as it still accounts for about 53% of employment in the country. Raising agricultural growth and productivity is, therefore, important for containing price pressures, raising rural incomes and making growth more inclusive, going forward. At this juncture, concerted and focused efforts are required for addressing the challenge of stagnating productivity.

Suggestions to improve agriculture growth and productivity:

a) Minimize the wastages by augmenting storage capacities, modernizing/ upgrading the godowns
b) Increase public investments in agriculture sector to improve agriculture infrastructure from farm gate to agricultural markets
c) Strengthen the role of agricultural universities and to monitor the usage of the sanctioned amount.
d) Technology to improve the yield/productivity along with expanded irrigation facilities and fertilizer availability
e) Ensure credit availability to small & marginal farmers to adopt modern farm techniques.
f) Remove hurdles in the marketing of produce such as octroi and mandi taxes

4.2 Encourage industrial growth

Although the industry growth process has been to some extent influenced by global business cycles, the persisting deceleration in industrial growth is, in part, attributed to the slowdown in reforms momentum. In an increasingly global environment, the sector continues to face structural constraints, such as inadequate, relatively inefficient and high cost infrastructure, high costs of borrowed funds, inflexibilities in labor markets and other institutional rigidities that inhibit the pace of industrial restructuring. The removal of the rigidities in the industrial sector would not only regenerate the required production growth but also promote much greater industrial employment.

4.3 Effective and time bound implementation of land bill

New Land Acquisition Bill 2011 is a welcome step and PHD Chamber hopes that the new bill will fasten the process of project implementation and push various PPP projects on the high road and attract investments from domestic and global stakeholders, going forward. We believe that time bound implementation of land bill, facilitated by a single window clearance system, should be enacted to tackle all clearances to boost industrial investments. However, the payment of compensations that is up to 4 times the market value in rural areas and 2 times the market value in urban areas introduced in bill can have impact on the costs of various infrastructural and manufacturing projects.

Suggestions to improve the industrial growth:

a) Single window clearances for prompt online services to implement industrial projects at faster pace and speedy execution of pre-cleared projects and freezing the loan repayment for delayed projects
b) Easy availability of land and financial resources are critical for industrial purposes
c) To establish sector specific economic zones for providing conducive milieu to industrial units.
d) Cluster based approach is required as it is a sustainable, cost effective and inclusive strategy to ensure manufacturing competitiveness.
e) Pace up the Amritsar-Delhi-Kolkatta industrial link to promote industrialization in this region.
f) Efficiency and competitiveness of the MSMEs enterprises through continuous technology innovation, quality improvement, easy access to finance, diversification into new markets, better infrastructural facilities and skill up gradation
g) Convert existing IT manufacturing clusters such as Sriperumbudur and Noida into Centers of excellence
h) Creating a joint Government-Industry committee to market India and attract investment in India
i) Incentivizing investments in India by creating a model where the subsidy or rebate given to a manufacturer is determined on the basis of the value addition
j) Focusing on R&D of the manufacturing units

k) Creating a fund to promote manufacturing, business and growth for the IT industry

4.4 Amend labor laws

Our Labour Policy, evolved so far has been rigid and has proved to be counter productive. Labour laws need comprehensive amendments because these were enacted about 50-60 years back amidst mistrust when the employer was considered as the exploiter of labour. But now the mindset has changed and the labour is considered as partner with the employer in the process of production. The intention to protect the jobs at all costs and to keep alive sick and unviable units has cost the nation dearly. The rigid and restricted features of labour policy and unhealthy trade union influence impede efficiency and competitiveness. As far as labour market efficiency is concerned, the World Economic Forum gives India a rank of 99 which is significantly below China's 34 out of total 148 economies.

Suggestions to improve labour laws:

a) Regulation and liberalization of labour laws is the need of the hour to attract investors in the employment generating sectors and to facilitate dispute resolution processes hindering the industrial production
b) In order to provide impetus to the industry, there is a need to consolidate and rationalise the multiple labour laws at the national and sub-national levels to bring about a more comprehensive legislation.
c) A transparent legal framework that is easy to regulate, provides sufficient flexibility to producers and reasonable protection and compensation to workers.
d) At present as per Chapter V-B, Industrial Disputes Act, an employer employing 100 or more workmen are required to seek permission of the appropriate Government in case he intends to close down his establishment, or retrench the

workmen or lay off. This provision was added in Emergency in 1976 and industry desires the removal of this Chapter

e) Industry cannot do rationalization, standardization or improvement of plant or technique which is likely to lead to retrenchment of workmen without giving notice under Section 9-A, Industrial Disputes Act which is causing problem in the present competitive scenario

f) Contract Labour(Regulation & Abolition) Act should be made more simple to enable the employer to employ labour in all the activities

g) Greater flexibility must be provided to firms to expand their business. This allows efficient firms to prosper and non-so-efficient ones to die out, which is a win-win situation for everyone including workers. Emphasis should be only on payment of wages and other social security benefits.

h) It is difficulty under the present law for an employer to terminate services of an employee even for misconduct hence employer may be given free hand to at least terminate services of 1% of employees on account of misconduct but on payment of retrenchment compensation.

i) The fact that labour is on concurrent list of our Constitution of India and it can enact a law in the field. Thus State Governments can amend the provisions of the Central Labour Legislation which are creating hindrance in the industrial growth and send it for the assent of the President of India as per Article 254 of the Constitution of India.

4.5 Revitalize services sector growth

Services account for around 60% of India's GDP. The growth of India’s economy is presently driven by services sector and with in services sector by IT and ITES sector. Strong demand over the past few years has placed India amongst the fastest growing IT markets in Asia –Pacific region. However, recession in some countries of euro zone and stuttering growth in the United States has dampened demand for Indian services exports.

Suggestions to revitalize services sector growth:

a) There is a need to diversify the services export basket which is currently dominated by IT and ITES exports
b) Need to broadened horizons for new exporting destinations to hedge against slowing demand in advanced economies
c) The potential of domestic market need to be tapped in the rural markets
d) A large chunk of investments is required to outshine the services sector supported with high quality infrastructure

4.6 Bridge the infrastructure deficit

It is widely acknowledged that infrastructure deficit is by far one of the most binding constraints to accelerating growth. Even so, our efforts to bridge the deficit have fallen way short of the task. The Twelfth Plan projects investment over the five year period 2012-17 to US$1 trillion and anticipates for 50% of the projected investment to come from the private sector and much of the project implementation to happen in the PPP mode.

Suggestions to improve infrastructure:

a) To step up larger infrastructure investments and to mobilize the necessary resources, reforming regulations, contractual arrangements and efficient project planning and execution
b) Speedy implementation of rural infrastructure projects to make infrastructure available in all the villages across the country
c) To boost to the Bharat Nirman and National Urban Renewal Mission, meant to tackle the problem of grossly inadequate infrastructure through an accelerated programme involving greater outlay and well defined and measurable outcomes

4.7 Focus on energy sector reforms

India currently faces a massive shortage of coal which is jeopardizing the functioning of the power sector and other end-use sectors. Coal plays significant role in India's industrial output growth, as our industries are largely dependent on indigenous coal production and around 66% of India's power generation is coal based. Disparities in the pricing mechanism, slow policy reforms, unattractive fiscal regime and inadequate infrastructure pose a threat to energy security. The demand for coal has continuously grown which is impacting the rising current account deficit (CAD), amounting around 18% of the current account deficit. It has been estimated that coal imports may expand significantly in coming years and this would further trigger India's burgeoning CAD.

Suggestions to improve energy scenario:

a) There is a need to introduce competition in the coal sector, along with the involvement of mine development operators; it will infuse both capital and technology in the mining sector and help in boosting our domestic production.
b) There is enormous potential for coal exploration in India, but it is imperative to remove procedural hassles and to tap the unexplored potential for offering tremendous avenues for investors for sustainable and environment friendly economic growth

4.8 Stabilize macro environment

The world economic environment is extremely volatile at this stage which has the potential of disruptive consequences for all the economies around the globe. India, one of the emerging markets, is not insulated from such developments. The increased interdependencies and integration among different economies have reduced the possibilities of India remaining untouched by the international happenings, which have the likelihood of seeping in through various financial linkages.

Suggestions to stabilize macro environment:

a) It is imperative to reduce CAD by diversifying goods and services exports towards the high growth developing and emerging economies
b) To raise duties on consumers and luxury goods and to adopt innovative ways of reducing gold imports through bonds, etc
c) There is a need to ensure policy stabilization to hedge the exporters from rampant currency fluctuations taking place in the international markets
d) To maintain adequate level of foreign exchange reserves
e) To attract larger foreign direct investments and speed up the activities of FIPB, which would also aid in infusing technological advancement
f) To enhance production possibilities in the country
g) To accelerate software exports by way of easing domestic movement of people, resolve the tax issues, make inward visas easier and taking up the Visa Bill with USA.
h) To bring off shore Rupee market on shore
i) To perk up Coal India operations through PPP mode
j) To boost exports of agro products, textile exports, gems and jewellerry, engineering goods, leather products, among others.

4.9 Focus skill development

In order to revisit growth in the economy, it has become crucial to bring more and more of our workforce in the production chain by improving the skill sets in the economy**.** In fact, our industry is facing an acute shortage of skilled manpower in various sectors including ITES, biotechnology, healthcare, food processing and construction, among others. According to NSSO, around 13 million workers enter the market every year and only 3 million are skilled.

Suggestions to enhance skill development:

a) Adequate resources for skill development and up-gradation so that the existing projects are completed on time without hindrances and new programmes are planned to bridge the skill gap.
b) There is need to create at least ten accredited vocational training institutes at different geographical locations for skills which are in short supply. A substantial part of this will have to come from the Government.
c) Allocation for National Skill Development Corporation should be enhanced to help training and skill development among the youth.
d) It is recommended that universities and colleges should be provided greater fiscal and managerial autonomy.
e) There is need for a radical re-look at education policy with accent on quality, accountability and rise in investment.
f) A more liberal attitude is required to entry of private and foreign players in education which would impart quality education.

4.10 Rationalize and simplify tax system

Rationalization and simplification of the tax structure is critical to resume rapid growth momentum. It offers a stable path for all the sectors of the economy and helps government in bringing a large chunk of population under the tax net.

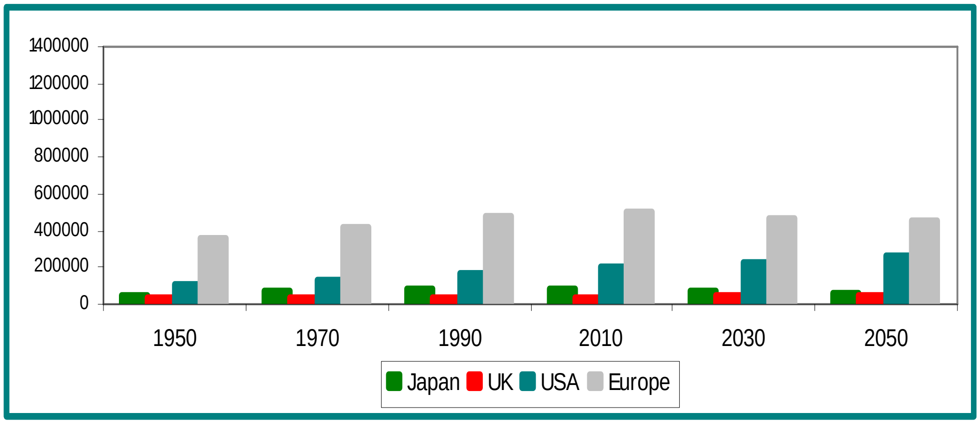
Suggestions to rationalize and simplify tax system:

a) There is need to inject stability in tax rates-direct and indirect-in order to boost the confidence of both domestic and international investors.
b) Both DTC and GST aim to bring about simplification in tax structure by removing current inefficiencies/distortions so as to provide a more enabling environment for the Indian corporate sector.
c) The government must not let the impasse on GST to stay for long and should complete the legislative process and resolve all pending issues. This will enable existing players to plan their projects and factor in their cost of operation.
d) The implementation of GST will provide a more enabling environment for India's trade and industry and lead to a single common market across the Indian states.
e) Similarly, the introduction of the Direct Tax Code Bill will facilitate reforms in direct taxes regime.

5. Reaping the demographic dividend

Over the 20 years from 1990-2010, the fastest growth in working-age population occurred in Asia, Africa and the Middle East. Globally, the working-age population (15-64 years) increased by 40% (1.3bn) with Asia accounting for two-thirds of worldwide growth. Due to declining fertility rates, many economies will see their work forces peaking and level off or even begin to shrink within the next 40 years. Among the advanced economies, only the US and the UK will see growth in working-age population. Work forces in Japan are already shrinking and Europe is currently witnessing very slow growth rate, which will turn negative by 2020.

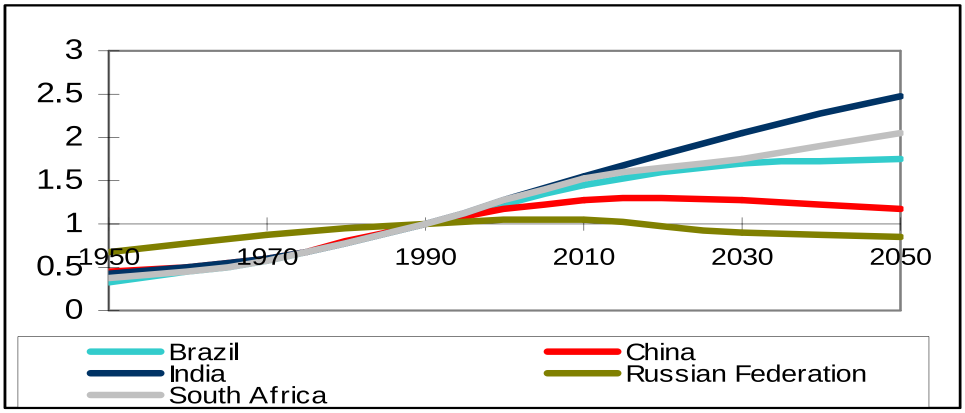
Trend in working population for select advanced economies **(in 1000's)**



Source: PHD Research Bureau, compiled from United Nations

As for the BRICS, they exhibit a divergent pattern of work-force growth. Russia's working age population would decline 2010 onwards. China's work-force will peak till 2015, before it starts declining. South Africa would also benefit from growth in work-force to the tune of around 4% per annum, on an average, from 1950-2050.

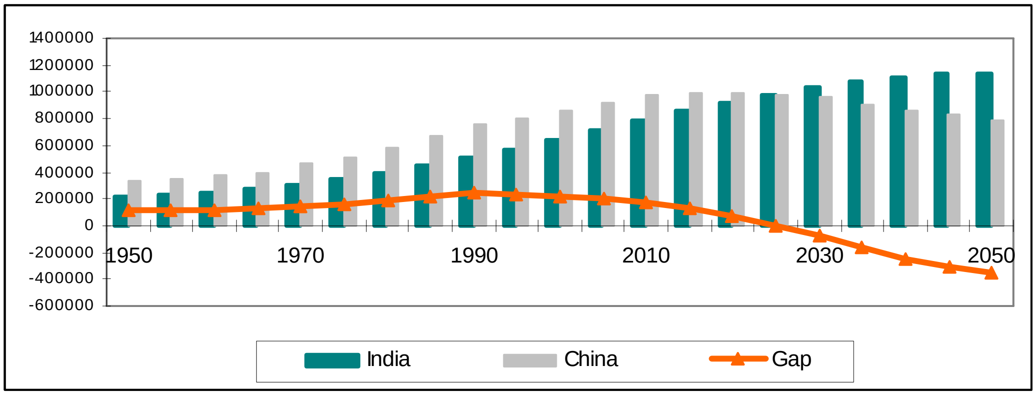
Trend in work-force population in BRICS **(1990=1)**



Values indexed to 1990; Source: PHD Research Bureau, compiled from United Nations

China's shrinking workforce 2015 onwards may affect its economic growth prospects. A combination of a shrinking workforce and ageing will put pressure on social services, potentially increasing the tax burden on the working population. On the other hand, India will continue enjoying a growing and young workforce, enabling its economy to benefit from a demographic dividend in the coming years. However, this huge consumer base for India has the potential to pose a challenge on the country's infrastructure and also to create enough jobs for its growing working-age population.

Gap between work-forces of India and China **(in 1000's)**



Source: PHD Research Bureau, compiled from United Nations

In a nut shell, demographics are in India's favour because the working age population is growing faster than the overall population. This expanding working age population will earn, and will save, thereby contributing to higher savings and higher investment, which will lead to higher growth trajectories, going forward. However, the growing workforce could prove advantageous only if sufficient investment is undertaken to generate their labour productively. Effective education and skill development hold the key to reaping the emerging demographic dividend. The education system should be aligned with needs of the industry to enhance employability of the youth. In case these conditions are not met, the huge number of people with the potential of joining the workforce in the years to come would prove to be a bane rather than a boon. These measures would have a multidimensional effect on the economy, first, by educating and up- skilling work force, second, by creating employment opportunities, third, by reducing the level of poverty and finally by enhancing the growth prospects.

6. Growth prospects

India is home to 1.21bn people, which is about 17.5% of the global population. However, it accounts for only 2.5% of world GDP. Hence, there exists a huge potential for achieving the higher growth trajectory, going forward. The real GDP growth is projected to enter higher and higher trajectory and is estimated at to achieve double-digit growth rate by the 13th Five Year Plan.

Infrastructure sector has a huge untapped potential and it will be the main driving force for higher economic growth, going forward. India will be spending around 9-10% of GDP on infrastructure during the 12th plan period as compared with 7-8% of GDP in the 11th plan period. Higher growth in infrastructure sector will provide huge employment opportunities, which in turn will boost consumption growth in the higher trajectory and enhance the production possibility frontier.

6.1 Risks to growth

The inflation risk on account of both global developments and weak supply responses to increasing demand in the domestic front could be severe on India. To tackle the stiff challenge, the RBI has taken various calibrated measures over the past many months to control the price rise. However, despite the various measures undertaken by RBI vis-à-vis tight monetary stance, inflation still remains in high growth trajectory at 7.5%, significantly higher than the comfortable level of 4-5%.

Also the allocation of global financial capital in the future will be very different from the past, since the demands of the public debt of the advanced economies will be larger. So the financial instability issues may not be entirely behind us, but they could very well reappear anytime vis-à-vis our increased openness with world economy.

7. Conclusions

The Indian industry has seen a rough patch, decelerating considerably over the last many months. The major impediment has been the spiral in its input costs including high borrowing costs, shooting energy costs and flaring up of manpower costs. These have culminated into high cost push inflation scenario in the sector, retarding its output. In such a situation, it is important that the government intervenes to arrest the slowdown. There is a need to ensure that credit is made available to industry at reasonable rates and the input costs meet with some moderation. Financing of infrastructure expenditure, lowering the costs of doing business, simplification of the tax structure and making land available easily to industry would be critical to the resume rapid growth momentum.

Inflation is posing a major challenge to India's growth story. Inflation has been a matter of concern due to its resurgence and its rate being higher than in most other countries. High levels of prices, especially vegetables, fruits, milk; eggs etc have been reflected in double digit rates of inflation. Inflationary pressure in the current scenario is attributed mainly to domestic supply constraints in the food economy. Despite various measures undertaken by RBI vis-à-vis tight monetary stance, inflation still remains in high growth trajectory at 7.5%, significantly higher than the comfortable level of 4-5%.

India is primarily a supply constrained domestic consumption led economy with exponentially growing consumer demand. The country needs to import a substantial proportion of its total demand which comprises various food and non-food items. This is the sole reason why India has remained a net importer with widening current account deficits, despite its robust growth in the exports front. Of late, with the increased volatility in the global capital flows over last many months, virtually all emerging market currencies faced pressure to depreciate. This uncertainty has impacted India through various financial channels like volatile FDI inflows, dip in forex reserves, depreciation of the rupee against the dollar, etc.

However, the recent reforms of fiscal consolidation by government could go a long way in improving the fiscal health of the economy. The launching of the New Manufacturing Policy and setting up of Cabinet Committee on Investment are very positive moves. The Cabinet Committee on Investment, set up to fast-track large projects, has already cleared projects mounting to more than US$ 64 billion in the past few months**.** Once these projects get implemented in the months to come, they should have an all-round salutary effect. A healthy trend had been noticed in FDI particularly in sectors, such as construction development, telecom, computer software & hardware, and pharmaceuticals. The rupee has also stabilized though it is still weak as compared to the previous year. The panic in the forex markets has come down. Despite being an election year, the government is confident of meeting its fiscal deficit targets on the back of robust foreign direct investment flows and rising exports.

The prospects of the Indian economy look better this year with the expectation of more consolidated growth and macro economic stability. The growth potential remains high and is expected to accelerate gradually over the next two-three years with improvement in manufacturing growth vis-à-vis effectiveness of the new manufacturing policy and implementation of new investment projects. A bountiful monsoon coupled with softening global commodity prices would stabilize inflationary pressures and would further pave the way for a turnaround in economic growth. A boost to agriculture growth should enhance the rural demand further and propel manufacturing growth. Improvement in the agriculture sector will not only help in meeting the supply side pressures, but will also aid in stabilizing the overall macro-economic environment, going forward. Softening inflationary scenario will help attract foreign investors once again and the capital flows are expected to increase further in the ensuing months.

Going ahead in the long-term, India's real GDP growth is projected to enter higher and higher trajectory and is estimated at to achieve double-digit growth rate by the 13th Five Year Plan. Infrastructure sector has a huge untapped potential and it will be the main driving force for higher economic growth, going forward. India will be spending around 9-10% of GDP on infrastructure during the 12th plan period as compared with 7-8% of GDP in the 11th plan period. Higher growth in infrastructure sector will provide huge employment opportunities, which in turn will boost consumption growth in the higher trajectory and enhance the production possibility frontier.

PHD Chamber looks forward to rapid economic reforms and effective implementation of reforms in the country, which prioritizes on stabilizing the volatile macro-economic environment to retain the confidence not only of the investors but also various other socio-economic segments whose sentiments are impacted by volatility in economic system. The Chamber hopes that the stability in the macro economic system would spur us on to articulating clear priorities in the coming times and for building a consensus towards speedy socio-economic development of the country.

Summary of economic indicators of select Northern, Eastern & Central states of India

Macro-Economic components	Bihar	Chattisgarh	Delhi	Haryana	HP	J&K
Real GSDP (Rs. bn)[1]	1650.2	919.3	2209.7	1908.8	445.5	430.9
Geographical Area (Sq Km)	94163	136034	1483	44212	55673	222236
Population Size(mn) [2]	103.8	25.5	16.8	25.4	6.9	12.5
Economic Growth [1]	14.5	8.6	9.0	7.1	6.2	6.1
State GSDP as % of India's real GSDP [3]	2.9	1.7	4.0	3.5	0.8	0.8
Per-capita Income (Rs) [1]	14994	28666	120414	65500	51586	30421
Growth of Agriculture Sector [1]	6.3	5.5	-0.4	2.1	9.0	3.1
Growth of Industry Sector [1]	17.1	6.7	7.3	5.5	5.0	0.8
Growth of Services Sector [1]	16.9	12.1	9.4	9.5	6.3	9.9
Value Added by Agriculture Sector [1]	21.3	18.7	0.6	15.9	17.2	22.2
Value Added by Industry Sector [1]	21.5	40.9	13.6	27.9	40.7	22.6
Value Added by Services Sector [1]	57.2	40.3	85.8	56.1	42.0	55.2
Literacy Rates (%) [2]	63.8	71	86.3	76.6	83.7	68.7
RR/ GSDP [4]	25.8	19.1	7.7	10.1	24.3	42.7
GFD/ GSDP [4]	2.9	2.8	0.7	2.1	2.9	2.9
Debt/ GSDP [4]	28.4	13.4	7.6	16.8	44.4	53.7

Macro-Economic components	Jharkhand	MP	Punjab	Rajasthan	UP	Uttarakhand
Real GSDP (Rs. bn)[1]	1034.3	2214.6	1645.2	2278.2	4451.7	631.6
Geographical Area (Sq Km)	79714	308000	50362	342239	240928	53484
Population Size(mn) [2]	31.2	72.6	27.7	68.6	199.5	10.1
Economic Growth [1]	7.8	10.0	5.2	6.1	5.5	7.9
State GSDP as % of India's real GSDP [3]	1.9	4.0	3.1	4.5	8.4	1.2
Per-capita Income (Rs) [1]	27397	26514	48409	28851	18891	53548
Growth of Agriculture Sector [1]	5.4	13.4	-0.3	0.5	3.5	3.4
Growth of Industry Sector [1]	4.8	4.5	3.5	6.5	2.4	9.2
Growth of Services Sector [1]	11.6	11.8	8.9	8.5	7.8	7.9
Value Added by Agriculture Sector [1]	13.3	24.2	21.8	21.4	22.1	10.6
Value Added by Industry Sector [1]	41.7	27.9	29.5	31.1	23.2	37.2
Value Added by Services Sector [1]	45.0	47.9	48.7	47.5	54.6	52.1
Literacy Rates (%) [2]	67.6	70.6	76.7	67.1	69.7	79.6
RR/ GSDP [4]	23.2	20.8	13.1	15.6	21.8	16.4
GFD/ GSDP [4]	2.1	3.0	3.1	2.1	3.0	3.4
Debt/ GSDP [4]	27.5	26.9	32	28.7	37.2	29

Source: PHD Research Bureau, compiled from various sources

RR: Revenue Receipts, GFD: Gross Fiscal Deficit

Note: 1: Data Pertains to 2012-13 (For Rajasthan, data pertains to 2011-12)
2: Data Pertains to Census 2011 3: Data Pertains to 2011-12 4: Data Pertains to 2012-13

India: Statistical snapshot

Indicators	FY09	FY10	FY11	FY12	FY13	FY14
GDP at FC - Constant prices Rs Bn	41,586	45,160	49,370	52,435	55,054	27400.4*
GDP at FC - Constant prices growth YoY	6.7	8.6	9.3	6.2	5	4.6*
GDP at MP-current prices Rs. Bn	56,300	64,778	77,953	89,749	1,00,281	51221.7*
Agriculture growth	0.1	0.8	7.9	3.6	1.9	3.6*
Industry growth	4.1	10.2	8.7	2.7	1.1	0.4*
Services growth	9.6	10.1	9.8	8.2	7.1	6.6*
Consumption	7.6	8.1	8.1	5.4	5.0	-
Private consumption	7.1	7	8.1	5.5	5.0	-
Gross domestic savings as % of GDP	32	33.7	34.0	30.8	30.2	31**
Gross Fixed Capital Formation as % of GDP	32.3	31.7	31.7	30.6	29.6	33.6*
Gross fiscal deficit of the Centre as a % GDP	5.9	6.5	4.8	5.7	5.2	4.7
Gross fiscal deficit of the states as a % GDP	2.4	2.9	2.1	2.3	2.1	-
Gross fiscal deficit of Centre & states as a % GDP	8.3	9.3	6.9	8.1	7.2	-
Merchandise exports (US$Bn)	183.1	178.3	250.8	305.7	300.2	179.4^
Growth in exports	12.3	-2.6	40.6	21.9	(-)1.8	6.3^
Imports (US$Bn)	299.3	287.6	369.4	489.1	490.3	303.9^
Growth in imports (YoY)	19.8	-3.9	28.5	32.4	0.2	-5.4^
Trade deficit (US$Bn)	116.2	109.3	118.6	183.4	190.1	99.9^
Net invisibles US$Bn	91.6	80.0	79.3	111.6	107.5	115.0**
Current account deficit US$Bn	28.7	38.4	48.1	78.2	88.2	26.9^^
Current account deficit as % of GDP	2.6	3.2	2.6	4.2	4.8	3.1^^
Net capital account US$Bn	8.7	53.4	60	67.8	94.2	25.8^^
Overall balance of payments US$Bn	20.1	-13.4	-13.1	12.8	-3.8	8.6**
Foreign exchange reserves US$Bn	252	279.1	304.8	294.9	292.04	295.7 ~
External debt - Short term US$Bn	43.4	52.3	65	78.2	96.7	96.8^^
External debt - Long term US$Bn	181.2	208.7	240.9	267.5	293.4	291.8^^
External debt - US$Bn	224.5	260.9	305.9	345.8	392.1	388.5^^
Money supply growth	19.3	16.9	16.1	13.2	13.8	13.4#
Bank credit growth	17.5	17.1	21.2	16.8	13.4	17.9~~
WPI inflation	8.1	3.8	9.6	8.9	7.4	7.5~~
CPI inflation	7	12.4	10.4	8.4	10.4	10.1~~
Exchange rate Rs/US$ annual average	46	47.4	45.6	47.9	54.4	62.10@

*Source: PHD Research Bureau compiled from various sources, *Data pertains to estimates of GDP for Q2 (Jul-Sep) of 2013-14 from MOSPI, ** Projection for 2013-14 from PMEAC Economic Outlook 2013-14, ^Data pertains to Apr-Nov 2013 from Ministry of Commerce and Industry, ^^Data pertains to India's Balance of payment Apr-Sep 2013 from RBI and India's external debt end June 2013 from RBI, ~ Data as on 6th Dec, 2013 from RBI, # Data pertains to Q1FY14 from RBI Nov 2013 Bulletin, ~~ Data pertains to Nov 2013, @ Data as on 16th Dec, 2013 from RBI.*

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