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बृहद आर्थिक रूपरेखा विवरण  
मध्यावधि राजकोषीय नीति विवरण  
राजकोषीय नीति कार्य योजना विवरण  
राजकोषीय उत्तरदायित्व एवं बजट प्रबंधन अधिनियम की धारा 7 के अंतर्गत  
वित्त मंत्री का वक्तव्य

**Macro-Economic Framework Statement**  
**Medium Term Fiscal Policy Statement**  
**Fiscal Policy Strategy Statement**  
**Finance Minister's Statement under Section 7 of the FRBM Act**

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## MACRO-ECONOMIC FRAMEWORK STATEMENT

### OVERVIEW OF THE ECONOMY

Sustained, high, and broad-based growth is essential for economic development and poverty alleviation. What is needed for such growth is an increase in investment in the economy. There are encouraging signs on both the growth and investment fronts in recent years. The record in the recent past points to a pick up in investment and likely upward shift in the trajectory of growth. The buoyancy of merchandise export growth (25.6 per cent), in US dollar terms, in the first ten months of the current year, after a continuous rise of more than 20 per cent in each of the previous two years, reflects a sustained rise in exports with the revival of growth in the manufacturing sector and increased export competitiveness. Despite the robust growth in exports, with even faster growth in merchandise imports, the current account balance, after being in surplus for the three previous years in succession, turned into a deficit in the first half of the current year (April–September 2004-05).

2. There was a sudden bout of inflation in the first half of 2004-05, caused mainly by the sharp rise in global petroleum and other commodity prices. The deficient rainfall and monetary overhang from accretion of foreign exchange reserves could have also led to a potential build up of inflationary expectations. The year 2004-05, after starting with a point-to-point annual inflation rate of 4.5 per cent on April 3, 2004 witnessed a peak level of inflation at 8.7 per cent on August 28, 2004, the highest in the last four years. However, as a result of the quick monetary and fiscal measures taken by the Reserve Bank of India (RBI) and the Government, coupled with a slight easing of global petroleum prices, inflation has been on a declining trend and stood at 5 per cent on February 5, 2005 compared to 6.1 per cent a year ago.

3. According to the second advance estimate of total foodgrains production, foodgrains output is expected to decline to 206.4 million tonnes in 2004-05 from 212 million tonnes in the previous year, with shortfalls in the output of coarse cereals and pulses. Output of rice and wheat is projected to be higher than last year. Industrial sector, as per the Index of Industrial Production (IIP), registered an impressive growth of 8.4 per cent in the first three quarters of 2004-05, the highest after 1995-96.

4. Broad money ( $M_3$ ), relative to its stock at the beginning of the year, grew by 9.5 per cent (net of conversion) in the current year up to January 21, 2005, compared with the high of 16.6 per cent in the whole of the previous year, and 12.1 per cent in the same period last year. The equity market, which boomed in 2003-04, continued to be upbeat through January 2005. The top 50 stocks (Nifty) generated returns of 11 per cent in 2004, following returns of 72 per cent in 2003. The second rung of smaller stocks (Nifty Junior) generated returns of 31 per cent in 2004, following returns of 141 per cent in 2003.

### GDP GROWTH

5. The performance of the Indian economy in 2004-05 so far has exceeded expectations formed at the beginning of the year. Buoyed by a rebound in the agriculture and allied sector, and strongly helped by improved performance in industry and services, the economy had registered a growth rate of 8.5 per cent in 2003-04, the highest ever except in 1975-76 and 1988-89. Normally, strong growth is expected after anaemic growth, and vice versa. Following the high growth in 2003-04, initial growth projections for 2004-05

were placed in the range of 6.2 per cent to 7.4 per cent. Modest expectations were further pared down to around 6.1 per cent when rainfall, after remaining normal in June, 2004, became deficient in the crucial sowing month of July and the shortfall in the south-west monsoon turned out to be 13 per cent. Deterioration in the benign world inflation environment, particularly of petroleum, coal and steel, led to further apprehensions about growth and inflation. In the event, according to the advance estimate of the Central Statistical Organisation (CSO) released on February 7, 2005, the economy is likely to grow by 6.9 per cent in 2004-05.

6. GDP grew by 7.4 per cent in the first quarter and 6.6 per cent in the second quarter of the current year, compared with 5.3 per cent and 8.6 per cent in the corresponding quarters of the previous year. The deceleration of growth in the second quarter is on account of a negative growth of 0.8 per cent in agriculture and allied sector and a lower growth of 8.2 per cent in the services sector compared with 9.5 per cent in the first quarter. The growth in industry accelerated from 6.9 per cent in the first quarter to 8.1 per cent in the second quarter. Within industry, growth in manufacturing accelerated from 8.0 per cent in the first quarter to 9.3 per cent in the second quarter, the highest in any quarter since 1997-98, when CSO started compiling quarterly estimates. Despite a lower growth in the second quarter, the overall growth in the first half of the current year at 7.0 per cent is marginally higher than the growth of 6.9 per cent achieved in the same period last year.

#### **EXTERNAL SECTOR**

7. Foreign exchange reserves continue to maintain a rising trend with such reserves (including gold, SDRs and reserve position in IMF) reaching an estimated level of US \$128.91 billion on February 4, 2005. There was a large merchandise trade deficit with a rise not only in the POL import bill because of high prices, but also in non-bullion, non-POL imports, which overwhelmed the growth of exports in US dollar terms, in the first ten months of the current year. Commodity-wise export growth continued to be broad-based with the manufacturing sector in the lead. The estimated strong growth in non-POL, non-bullion merchandise imports was driven by buoyant domestic demand including for investment, a mildly strengthening rupee in real terms, and greater import liberalization.

8. The capital account surplus in April-September 2004 was lower than that in April-September 2003 by around US\$1.5 billion. Buoyant foreign investment inflows along with robust inflows of commercial borrowings sustained the capital account. The balance of payments surplus was around US\$7 billion in the first half of 2004-05, roughly half of what it was in April-September 2003.

#### **MONEY, BANKING AND CAPITAL MARKETS**

9. Compared to its stock at the beginning of the year, the growth in reserve money, which had accelerated from 9.2 per cent during 2002-03 to a high of 18.3 per cent during 2003-04, declined to 6.4 per cent in the current year up to January 28, 2005. Nevertheless, liquidity management remained a concern. This was because, after a sharp increase in reserve money in the previous year, there was a liquidity overhang of over Rs.81,000 crore in the form of outstanding reverse repos under the Liquidity Adjustment Facility (LAF), Government surplus balances and excess reserves of banks from the previous year.

10. Despite lower growth of money supply in the current year, gross bank credit by scheduled commercial banks, net of conversion, increased by 19.9 per cent up to January 21, 2005 compared to 9.3 per cent in the corresponding previous period. Growth was observed in both food and non-food credit, more so in the case of the latter. Food credit

grew by 15.2 per cent in the current year up to January 21, 2005 compared to a decline of 25.9 per cent last year, while non-food credit grew at an impressive 20.1 per cent compared to 11.9 per cent in the same period last year, the highest growth registered since 1996-97. Priority sector advances by public sector banks reached 44.0 per cent of net bank credit in 2003-04, exceeding the target of 40 per cent. There were, however, shortfalls in meeting the sub-target under agriculture. Following the Government's announcement of a comprehensive policy envisaging a 30 per cent increase in agriculture credit in the current year and doubling of the credit flow to the sector in three years, institutional credit to the sector is projected to go up from Rs.86,981 crore in 2003-04 to Rs. 1,08,500 crore in 2004-05.

11. In the current year, there was a marginal northward movement in deposit rates of five major banks by 25 basis points. Interest rates on housing loans witnessed a marginal firming up as well. Call money rates moved up in the second half of the year, reflecting higher growth of bank credit. Nevertheless, interest rates continue to be moderate. The benchmark prime lending rates of five major banks were lower by 25 to 50 basis points in December, 2004 compared to the rates prevailing a year ago.

12. Strong equity index returns in calendar 2003 led to a revival of the primary market in 2004. Overall public issues grew by roughly five times to Rs. 35,859 crore in 2004. The growth was concentrated in equity issues and particularly in equity initial public offerings (IPOs).

#### **CENTRAL GOVERNMENT FINANCES**

13. The third quarterly review of trends in receipts and expenditure of the Government (during April-December 2004) is shortly being placed before both the Houses of Parliament. The Revised Estimates for 2004-05 indicate that Revenue Deficit and Fiscal Deficit during the year are estimated to be Rs.85,165 crore (2.7 per cent of GDP) and Rs.139,231 crore (4.5 per cent of GDP) compared to Rs.76,171 crore (2.5 per cent of GDP) and Rs.137,407 crore (4.4 per cent of GDP) contemplated in the Budget 2004-05. In 2003-04, these deficits were 3.6 per cent of GDP and 4.5 per cent of GDP, respectively. Therefore, the minimum deficit reduction mandated under the Fiscal Responsibility and Budget Management Act, 2003 is being achieved in 2004-05.

#### **PROSPECTS**

14. Good post-monsoon rains, especially during October 2004, which helped build up of soil moisture, and the prevalence of cool weather conditions through the rabi season, improved the prospects of rabi foodgrains, and is expected to help offset, partly, the loss in kharif foodgrains production. Present trends indicate a positive outlook for industrial growth because of increased capacity utilization, improved industrial climate, expanding external and domestic demand and ease in availability of credit. The strong performance of the capital goods sector coupled with increased imports of capital goods also augur well for domestic capacity expansion in a large number of industries. These observed trends in the major sectors of the economy, together with the continued deceleration in WPI-inflation since August 28, 2004, indicate that a robust expansion may be underway and they corroborate the advance CSO estimate of growth of 6.9 per cent in 2004-05.

**MACROECONOMIC FRAMEWORK STATEMENT  
(ECONOMIC PERFORMANCE AT A GLANCE)**

Sl. No	Item	Absolute value		Percentage change	
		April - December		April-December	
		2003-04	2004-05	2003-04	2004-05
<b>Real Sector</b>					
1.	GDP at factor cost (Rs.thousand crore)*				
	(a) at current prices	2519.8 Q	2838.1 A	11.7 Q	12.6 A
	(b) at 1993-94 prices	1430.5 Q	1529.4 A	8.5 Q	6.9 A
2.	Index of industrial production (1)	184	199.4	6.6	8.4
3.	Wholesale price index (Base 1993-94=100)(2)	176.9	188.2	5.9	6.4
4.	Consumer price index (1982=100)(3)	502	521	3.7	3.8
5.	Money Supply (M3) (Rs. thousand crore)	1901.8	2151.5 (2148.0)	13.1	13.1 \$ (12.9)
6.	Imports at current prices **				
	(a) In Rs. crore	254297	333907	18.7	31.3
	(b) In US \$ million	55111	73652	25	33.6
7.	Exports at current prices**				
	(a) In Rs. crore	199940	242435	7.0	21.3
	(b) In US \$ million	43347	53499	12.7	23.4
8.	Trade Balance(in US\$ million)**	-11765	-20153	108.6	71.3
9.	Foreign currency assets				
	(a) In Rs. crore	445232	545466	38.4	22.5
	(b) In US \$ million	97617	125164	45.7	28.2
10.	Current Account Balance (In US\$ million)	2191 @	-3259 @	...	...
<b>Government Finances ##</b>		<b>(Rs. crore)</b>			
1.	Revenue receipts	170543	188493	13.3	10.5
2.	Tax revenue (Net)	118795	141246	14.4	18.9
3.	Non-tax revenue	51748	47247	10.9	-8.7
4.	Capital receipts (5+6+7)	145760	138298	38.8	-5.1
5.	Recovery of loans	51785	45153	231.6	-12.8
6.	Other receipts	1540	2906	-50.7	88.7
7.	Borrowings and other liabilities	92435	90239	7.1	-2.4
8.	Total receipts (1+4)	316303	326791	23.8	3.3
9.	Non-Plan expenditure	239614	245567	25.4	2.5
10.	Revenue Account	194505	198208	7.8	1.9
	Of which :				
11.	Interest payments	78587	79885	6.9	1.7
12.	Capital Account	45109	47359	327.5	5.0
13.	Plan expenditure	76689	81224	18.9	5.9
14.	Revenue Account	49037	53254	28.9	8.6
15.	Capital Account	27652	27970	4.6	1.2
16.	Total expenditure (9+13)	316303	326791	23.8	3.3
17.	Revenue expenditure (10+14)	243542	251462	11.5	3.3
18.	Capital expenditure (12+15)	72761	75329	96.7	3.5
19.	Revenue deficit (17-1)	72999	62969	7.3	-13.7
20.	Fiscal deficit {16-(1+5+6)}	92435	90239	7.1	-2.4
21.	Primary deficit (20-11)	13848	10354	8.5	-25.2

A-Advance estimates

Q-Quick estimates

\* Relates to full year.

(1) Base:1993-94=100

(2) End of December (Point to point)

(3) End of December(Point to point)

## Figures for 2003-04 are provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance

\$ Data relates to December 24, 2004. Figures in parenthesis exclude the impact of conversion of a non-banking entity into a banking entity from Oct.11, 2004.

\*\* On Customs basis

@ Period relates to April-September.