

Review of the Economy - 2009-10 Highlights

Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister released the document 'Review of the Economy-2009-10' at a Press Conference in New Delhi today. Following are the highlights of the document:

- ✚ **Strong rebound in the second half of 2009-10 drives growth rate upwards**
 - Strong rebound in the third and fourth quarter especially industry
 - Outcome in the farm sector much better than feared earlier in part due to proactive measures by government

- ✚ **Projected growth 7.2% in 2009/10, 8.2% in 2010/11 and 9.0% in 2011/12**

In 2009/10:

 - Agriculture : -0.2 % (1.6% in 2008/09)
 - Industry (including construction) : 8.6% (3.9% in 2008/09)
 - Services: 8.7 % (9.8% in 2008/09)

Growth may be even higher than 7.2%, driven by strong revival in manufacturing and construction

- ✚ **Developed countries have come out of recession but it is a weak recovery with downside risks to growth**
 - Financial markets nervous about fiscal sustainability – massive increase in risk aversion
 - Worsening of budgetary positions in advanced economies
 - Speculative pressure on commodity prices, especially the sharp rise in crude oil prices

- ✚ **Sharp fall in investment rate in 2008/09 reversed in 2009/10**
 - Estimated investment rate in 2009/10: 36.2% (34.9% in 2008/09). Will pick up with improvement in domestic conditions.
 - Estimated savings rate 34.0% in 2009/10 (32.5% in 2008/09) – will improve in the subsequent years due to fiscal consolidation by government

- ✚ **Damage to Kharif output restricted, Rabi output to be higher than last year**
 - Wheat output will be almost equal and pulses slightly higher than last year
 - Output of Kharif rice lower by 12 million tonnes but Rabi rice higher than last year. Output of oilseeds, coarse cereals and sugarcane will be lower
 - Government wheat and rice stocks to be comfortable

- ✚ **Strong recovery in manufacturing output will drive growth**
 - Recovery in manufacturing output from June 2009
 - Q3 growth 14.3% (0.5% in 2008/09) , Q4 will be higher at 14.6% (0.3% in 2008/09)

- ✚ **Current Account Deficit : - 2.2 % of GDP in 2009/10 (- 2.4 % in 2008/09)**
 - Export recovery slower than expected, projected at \$168.7 billion in 2009/10
 - Imports to show significant improvement in Q4. Projected at \$296.8 billion in 2009/10
 - Projected merchandise trade deficit for 2009/10:\$ 128.1 billion or 9.8 % of GDP.
 - Projected net invisibles: \$98.6 billion. Strong growth in remittances and recovery in service exports.

✚ **Capital inflows of \$48.5 billion in 2009/10 (\$8.7 billion in 2008/09)**

- Net accretion to reserves : \$17.6 billion (- \$18.9 billion in 2008/09)

✚ **Surge in food inflation**

- Primary food inflation 17.9% in January 2010, manufactured food products 26.4% in December 2009. CPI-IW 15% in December 2009.
- In the short run, government must ease supply by increased distribution from stocks and in the medium term by improving productivity.
- Energy index and manufacturing goods index (except food) did not rise much for most of 2009-10 but are now moving up.
- Danger of significant transfer of food price inflation to the general price level in 2010/11.
- Risk of rise in international commodity prices

✚ **Credit expansion pick up in second half and strong revival in mobilization from capital markets**

- Recovery in economy necessitates a more neutral monetary policy.
- RBI action will depend on pick up in credit, liquidity conditions and further pressure on prices.
- Investment climate to see rapid recovery.

✚ **Need for fiscal correction**

- Projected consolidated fiscal deficit: 10.3% in 2009/10 (10.4% in 2008/09).
- Debt-GDP ratio 76.6% in 2009/10 (70.6% in 2000-01)
- Large revenue and fiscal deficits of past two years unsustainable.
- Possible reduction of fiscal deficit of centre by 1.0-1.5% in 2010/11
- Feasible to reduce expenditure-GDP ratio by 1%
- Expand service tax coverage. Unify the rate structure of CENVAT and service tax and peg it between the current and the previous higher level.

✚ **Some Policy Options – management of prices, focus on agriculture and power**

- ***To cool down food inflation***
 - Timely release of foodgrain in sufficient quantity below prevailing market prices
 - Advance planning for timely imports at early signals of shortfall in production
 - Develop a distribution channel to supplement the PDS
- ***Two major constraints to growth in the medium and long term – agriculture and power***
 - Technology and organizational factors major constraints to sustainable agricultural growth. Improve agricultural research by stepping up fund allocation, revamping content and extension systems.
 - Two constraints to capacity augmentation in power – shortage of domestic manufacturing capacity of power plant equipment and administrative issues like land acquisition and environmental clearances
 - Important to scale up nuclear power generation

Table A
GDP Growth – Actual & Projected

Unit: per cent

		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
					QE	AE	f	f
Year-on-year Growth Rates								
1	Agriculture & allied activities	5.2	3.7	4.7	1.6	-0.2	5.0	4.0
2	Mining & Quarrying	1.3	8.7	3.9	1.6	8.7	7.5	8.0
3	Manufacturing	9.6	14.9	10.3	3.2	8.9	8.9	9.2
4	Electricity, Gas & Water Supply	6.6	10.0	8.5	3.9	8.2	8.0	9.0
5	Construction	12.4	10.6	10.0	5.9	6.5	9.0	10.0
6	Trade, Hotels, Transport, Storage & Communication	12.1	11.7	10.7	7.6	8.3	9.0	11.0
7	Finance, insurance, real estate & business services	12.8	14.5	13.2	10.1	9.9	10.0	11.0
8	Community & personal services	7.6	2.6	6.7	13.9	8.2	7.0	7.0
9	Gross Domestic Product at factor cost	9.5	9.7	9.2	6.7	7.2	8.2	9.0
10	Industry (2 + 3 + 4 + 5)	9.3	12.7	9.5	3.9	8.6	8.7	9.2
11	Services (6 + 7 + 8)	11.1	10.2	10.5	9.8	8.7	8.8	10.1
12	Non-agriculture (9 - 1)	10.5	11.0	10.2	7.7	8.5	8.8	9.8
14	GDP (factor cost) per capita	7.8	8.1	7.7	5.2	5.7	6.7	7.5
Some Magnitudes								
15	GDP at factor cost - 2004/05 prices in Rs lakh crore (or Trillion)	32.5	35.6	38.9	41.5	44.5	48.2	52.5
16	GDP market & current prices in Rs lakh crore (or Trillion)	37.1	42.8	49.5	55.7	61.6	70.1	80.2
17	GDP market & current prices in US\$ Billion	837	947	1,231	1,222	1,312	1,557	1,886
18	Population in Million	1,106	1,122	1,138	1,154	1,170	1,187	1,203
19	GDP market prices per capita current prices	33,512	38,182	43,479	48,305	52,675	59,041	66,621
20	GDP market prices per capita in current US\$	757	844	1,082	1,059	1,121	1,312	1,567

Note: QE refers to the Quick Estimates for National Income released on 29 Jan 2010. AE

refers to the Advance Estimate for National Income released on 8 Feb 2010.

f stands for forecasts made by the Council.

Table B
Balance of Payments

Unit: US\$ billion

	2004/0	2005/06	2006/0	2007/08	2008/09	2009 / 10		
	5		7			Apr-Sep	Oct-Mar	Total
Merchandise Exports	85.2	105.2	128.9	166.2	189.0	81.1	87.5	168.7
Merchandise Imports	118.9	157.1	190.7	257.6	307.7	139.4	157.4	296.8
Merchandise Trade Balance	-33.7 -4.7%	-51.9 -6.2%	-61.8 -6.5%	-91.5 -7.4%	-118.7 -9.7%	-58.2	-69.9	-128.1 -9.8%
Net Invisibles	31.2	42.0	52.2	75.7	89.9	39.6	59.0	98.6
o/w Software & BPO	14.7	23.8	27.7	37.2	44.5	17.2	30.0	47.2
Private Remittances	20.5	24.5	29.8	41.7	44.6	26.7	30.0	55.7
Investment Income	-4.1	-4.1	-6.8	-4.4	-4.0	-2.1	-2.0	-4.1
Current Account Balance	-2.5 -0.3%	-9.9 -1.2%	-9.6 -1.0%	-15.74 -1.3%	-28.7 -2.4%	-18.6	-10.9	-29.5 -2.2%
Foreign Investment o/w FDI (net)	13.0	15.5	14.8	45.0	3.5	32.1	15.2	47.3
Inbound FDI	3.7	3.0	7.7	15.4	17.5	14.1	6.0	20.1
Outbound FDI	6.0	8.9	22.7	34.2	35.0	21.0	15.0	36.0
Portfolio capital	2.3	5.9	15.0	18.8	17.5	6.8	9.0	15.8
Loans	9.3	12.5	7.1	29.6	-14.0	17.9	9.2	27.2
Banking capital	10.9	7.9	24.5	41.9	4.1	0.7	6.5	7.2
Other capital	3.9	1.4	1.9	11.8	-3.2	1.2	3.8	4.9
	0.7	1.2	4.2	9.5	4.5	-4.3	-6.5	-10.8
Capital Account Balance	28.0 3.9%	25.5 3.0%	45.2 4.8%	108.0 8.8%	8.7 0.7%	29.6	19.0	48.5 3.7%
Errors & Omissions	0.6	-0.5	1.0	1.2	1.1	-1.4		-1.4
Accretion to Reserves	26.2 3.6%	15.1 1.8%	36.6 3.9%	92.2 7.5%	-18.9 -1.5%	9.5	8.1	17.6 1.3%

Note: Percentage figures refer to the value of the item as a ratio to GDP

AKT/SH/LV/VK/RK