

# Economic Outlook for 2009-10

## Highlights

- **The Indian economy weathered the financial turbulence well**
  - 6.7 % growth in 2008/09 – amongst the highest growth rates in the world.
  - well calibrated adjustments in the monetary and fiscal policies
- **Projected growth 6.5 % in 2009/10 against 6.7 % in 2008/09**
  - Agriculture : -2.0 % (1.6% in 2008/09)
  - Industry (including construction) : 8.2% (3.9% in 2008/09)
  - Services: 8.2 % each. (9.7% in 2008/09)

Unlikely that growth will be lower than 6.25 % but may reach 6.75 %.
- **Impact of international conditions**
  - Recession, higher household savings and demand contraction in developed economies- adverse for exports growth.
  - Encouraging signs of revival of capital flows.
  - A further negative shock to the global financial system and global inflation could threaten growth in Indian economy.
- **Investment rate unchanged from 2008/09**
  - Projected investment rate in 2009/10: 36.5%. Will pick up with improvement in domestic conditions.
  - Projected savings rate 34.5% in 2009/10 (33.9% in 2008/09)
- **22.7 % deficiency in the SW monsoon will lower agricultural output**
  - Large acreage losses under *kharif* foodgrain, mainly rice. *Rabi* prospects good
  - Projected food grain production:223 million tonnes in 2009/10 (234 mt in 2008/09)
- **Current Account Deficit : - 2.0 % of GDP in 2009/10 ( - 2.6 % in 2008/09)**
  - Exports projected at \$188.9 billion in 2009/10
  - Imports projected at \$306 billion in 2009/10
  - Projected merchandise trade deficit for 2009/10:\$ 117 billion or 9.4 % of GDP.
  - Projected net invisibles: \$92.2 billion. Service exports & remittances have revived.
- **Capital inflows of \$57.3 billion in 2009/10 (\$9.1 billion in 2008/09)**
  - Net accretion to reserves : \$31.6 billion ( - \$20.1 billion in 2008/09)
- **Surge in food inflation**
  - 13% annualized increase in overall WPI index and 33% for primary food index in first half of 2009/10. Sharper rise in CPI indices.
  - Global inflationary pressures will be high – oil and commodity prices rising
  - Inflation in March 2010 expected around 6%

- **Improvement in financial conditions – global and domestic**
  - Recovery in international loan and equity markets – lower LIBOR/CDS spreads
  - Bank credit sluggish till September 2009 but corporate sector raised large amounts from the domestic capital market through debt and equity issuance.
  - Calibration of monetary measures will depend on growth and inflationary pressures.
  
- **Serious fiscal strain**
  - Projected consolidated fiscal deficit: 10.09% in 2009/10 (8.6% in 2008/09). Higher revenue and primary deficit to persist.
  - Debt of centre and states as a ratio of GDP is projected to increase to over 77% in 2009/10
  - Need to return to fiscal consolidation
  
- **Some Policy Options – focus on agriculture and power**
  - ***Short Term - managing inflation, specially food price inflation***
    - Protect and enhance *rabi* crop.
    - Focus on strengthening PDS distribution system
  
  - ***Medium Term – Farm economy and power***
    - Improve farm productivity – use technology optimally
    - Imperative need to achieve targets and have an active plan over a time horizon of 15 years for capacity creation in electricity
    - Actively explore fuel sources like natural gas and nuclear energy

Table A: Growth – Past Performance and Projections for 2009/10

Annual Rates	2004/05	2005/06	2006/07	2007/08 QE	2008/09 Rev	2009/10 Projected
Percentage change over previous year						
1. Agriculture & allied activities	0.0	5.8	4.0	4.9	1.6	-2.0
2. Mining & Quarrying	8.2	4.9	8.8	3.3	3.6	10.0
3. Manufacturing	8.7	9.1	11.8	8.2	2.4	7.7
4. Elect., Gas & Water Supply	7.9	5.1	5.3	5.3	3.4	7.4
5. Construction	16.1	16.2	11.8	10.1	7.2	8.8
6. Trade, Hotels, Transport, Storage & Communication	10.7	12.1	12.8	12.4	9.0	8.4
7. Finance, insurance, real estate & business services	8.7	11.4	13.8	11.7	7.8	8.0
8. Community & personal services	6.8	7.1	5.7	6.8	13.1	8.0
9. Gross Domestic Product (factor cost & constant prices)	7.5	9.5	9.7	9.0	6.7	6.5
Industry (2 + 3 + 4 + 5)	10.3	10.2	11.0	8.1	3.9	8.2
Services (6 + 7 + 8)	9.1	10.6	11.2	10.9	9.7	8.2
Non-agriculture (9 – 1)	9.5	10.4	11.2	9.9	7.8	8.2
GDP (factor cost, const. prices) per capita	5.8	7.8	8.2	7.5	5.2	5.0
Some Magnitudes						
GDP factor cost – 1999/00 prices (Rs trillion) (Rs lakh crore i.e. Rs trillion)	26.0	28.4	31.2	34.0	36.1	38.8
GDP market & current prices (Rs trillion)	31.5	35.9	41.3	47.2	53.2	58.6
GDP market & current prices ( US\$ Billion)	701	810	913	1,175	1,166	1246
Population (million)	1,089	1,106	1,122	1,138	1,154	1,170
GDP current & market prices per capita (Rs)	28,894	32,430	36,802	41,506	46,107	50,056
GDP current & market prices per capita (US\$)	643	732	813	1,033	1,010	1065

**Table B. Balance of Payments**

US\$ billion	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Merchandise Exports	85.2	105.2	128.9	166.2	175.2	188.9
Merchandise Imports	118.9	157.1	190.7	257.8	294.6	306
Merchandise Trade Balance	-33.7	-51.9	-61.8	-91.6	-119.4	-117.1
	-4.80%	-6.40%	-6.80%	-7.80%	-10.20%	-9.40%
Net Invisibles	31.2	42	52.2	74.6	89.6	92.2
o/w Software & BPO	14.7	23.8	27.7	37.3	45.2	47.3
Private Remittances	20.5	24.5	29.8	41.7	44	50.4
Investment Income	-4.1	-4.1	-6.8	-4.3	-4	-6.1
Current Account Balance	-2.5	-9.9	-9.6	-17.03	-29.8	-25
	-0.40%	-1.20%	-1.00%	-1.40%	-2.60%	-2.00%
Foreign Investment	13	15.5	14.8	45	3.5	46.9
o/w FDI (net)	3.7	3	7.7	15.4	17.5	22.8
Inbound FDI	6	8.9	22.7	34.2	35	36.9
Outbound FDI	2.3	5.9	15	18.8	17.5	14.1
Portfolio Capital	9.3	12.5	7.1	29.6	-14	24.1
Loans	10.9	7.9	24.5	41.9	5	8.7
Banking Capital	3.9	1.4	1.9	11.8	-3.4	2.9
Other capital	0	1.2	4.2	9.5	4.2	-1.1
Capital Account Balance	28	25.5	45.2	108	9.1	57.3
	4.00%	3.10%	5.00%	9.20%	0.80%	4.60%
Error & Omissions	0.6	-0.5	1	1.2	0.6	-0.8
Accretion & Reserves	26.2	15.1	36.6	92.2	-20.1	31.6
	3.70%	1.90%	4.00%	7.80%	-1.70%	2.50%
Memo						
GDP mp Rs crores	3149407	3586743	4129174	5321753	5321753	5856569
US\$ billion	701	810	913	1166	1166	1246
Forex rate (Rs per US\$)	44.93	44.27	45.25	45.63	4563	47