

Press Information Bureau
Government of India

Thursday, July 02, 2009

Ministry of Finance

SUMMARY OF ECONOMIC SURVEY 2008-09

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ECONOMIC SURVEY

2008-09

The Economic Survey 2008-09 presented to Parliament today by the Finance Minister Shri Pranab Mukherjee says, the speed at which the Indian economy returns to the high growth path in the short term depends on the revival of the economy, particularly the US economy and the Government's capacity to push some critical policy reforms in the coming months. It says, if the US economy bottoms out by September 2009 there would be good possibility for the Indian economy repeating its 2008-09 performance i.e. around 7.0 +/- 0.75 per cent in the fiscal 2009-10 (assuming a normal monsoon). However, in the event of a more prolonged external economic downturn, the revival of the global economy/US economy being delayed until 2010, the growth may moderate to the lower end of the range.

It says the recovery is likely to be assisted by the likely developments in the external sectors. The declining trend in trade deficit suggests that with reasonable invisible account surplus, which has been an attribute of Indian economy for the last several years economy may end up with a current account surplus of 0.3 to 2.8 per cent of GDP in 2009-10.

The Survey says, the prospects of Indian economy are somewhat different from most other countries. A large domestic market, resilient banking system and a policy of gradual liberalisation of capital account have been key factors. The Survey says a major concern at this stage though not entirely unexpected is a sharp dip in the growth of private consumption. Four factors seem to have contributed to this slowdown. First, it could be due to the wealth effect, resulting from decline in the equity/property prices. Secondly, the uncertainty in the labour market and some decline in employment. Thirdly, cutbacks in consumer credit by private banks, NBFCs and other lenders. Fourthly, during slowdown a dominance of precautionary motive may induce consumer to either defer their spending decisions or shift to unbranded alternatives.

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The Survey goes on to note that there are early signs of recovery in the global economy manifested in rising stock prices and increasing price of commodities. It is however, debatable whether rising prices are an indication of green shoots of recovery or a result of position taken by financial investors seeking to benefit from global recovery expectations. It says, though the financial crisis and the transmission of its impact on the real economy is now better understood and global financial conditions have shown improvement over the recent months, uncertainty related to the revival of the global economy remain. That makes it difficult to forecast the short-to-medium term growth prospects of the Indian economy.

The Survey says to counter the negative fall out of the global slowdown on the Indian economy, the Government responded by providing substantial fiscal expansion in the form of tax relief to boost demand and increased expenditure on public assets. The net result was an increase in fiscal deficit from 2.7 per cent in 2007-08 to 6.2 per cent of GDP in 2008-09. The difference between the actuals of 2007-08 and 2008-09 constituted the total fiscal stimulus notwithstanding that some expenditure was on account of implementation of the Sixth Pay Commission Award and the Agriculture Debt Relief Scheme announced in 2008-09 Budget.

It says despite the slowdown in growth, investment remained relatively buoyant growing at a rate higher than at the rate of the GDP. The ratio of the fixed investment to GDP consequently increased to 32.2 per cent in 2008-09 from 31.6 per cent in 2007-08. This reflects the resilience of Indian enterprise, in the face of massive increase in global uncertainty and risk aversion and freezing of highly developed financial markets. Domestic food price inflation as measured by the Wholesale Price Index (WPI) food sub index, though declining remains much higher than overall inflation.

The Survey expresses concern over the existence of hunger and widespread malnutrition despite the country achieving self-sufficiency in food production and with mounting public food stocks at its command. It says it is time that various interventions at the State and Central level addressing these issues are reviewed and redesigned.

The Survey says that India continues to retain its position as a preferred destination for investments. A recent study by UNCTAD found that India achieved a growth of 85.1 per cent in foreign direct investment flows in 2008, the highest increase across all countries. According to the study FDI investments into India went up from US Dollar 25.1 billion in 2007 to US Dollar 46.5 billion in 2008, even as global flows decline from US Dollar 1.9 trillion to US Dollar 1.7 trillion during the period.

While fiscal policy plays a dual role as a short-term counter-cyclical tool and an instrument to maintain microeconomic stability and promote growth in the medium

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term, the Economic Survey underlines the need to restore Centre's fiscal deficit to the FRBM target of 3 per cent of GDP at the earliest. It says a number of factors will make it possible. They include reversal of much of the decline in business and corporate tax collections when growth accelerates from the second half of the year and the expected introduction of GST in 2010-11. On the monetary policy front the Survey says that high deposit rates have now come in the way of cutting lending rates at a pace which is consistent with the current outlook on inflation and the need for stimulating investment demands.

Reflecting on the high oil and other energy prices, the Survey says that as long as domestic prices remained below the cost of imports, demand would continue to grow, accentuating the negative impact of the terms of trade effect on national income. Referring to the volatility of global oil prices, it says, the fall could be a temporary respite and provides a golden opportunity to reform the pricing and control system. It says that as the low prices of oil has provided a temporary window for decontrol of petrol and diesel, this window must be utilised at the earliest. Other elements of energy policy such as open access to power, decontrol of coal also need to be addressed to have a viable long-term solution to our dependence on foreign oil and the debilitating effect of power failure.

The Survey says although the economy continues to face wide ranging challenges- the Indian economy has shock absorbers that will facilitate early revival of growth. The banks are financially sound and well capitalised, foreign exchange position remains comfortable and the external debt position has been within comfortable zone. The rate of inflation provides a degree of comfort on the cost side for the production sectors. Agriculture and rural demand continues to be strong and agricultural prospects are normal. The Survey says while there are indications that the economy may have weathered the worst of the downturn, the situation warrants close watch on various economic indicators including the impact of the economic stimulus and developments taking place in the international economy. Taking policy measures that squarely address the short and long term challenges would achieve tangible progress and ensure that the outlook for the economy remains firmly positive.

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HIGHLIGHTS

12:18 IST

ECONOMIC SURVEY

2008-09

- Economic growth decelerates to 6.7 per cent in 2008-09 compared to 9 per cent in 2007-08 and 9.7 per cent in 2006-07.
- Per capita growth at 4.6 per cent.
- Deceleration in growth spread across all sectors except mining and quarrying; agriculture growth falls from 4.9 per cent in 2007-08 to 1.6 per cent 2008-09.
- Manufacturing grows at 2.4 per cent, slowdown attributed to fall in exports and a decline in domestic demand.
- Global financial meltdown and economic recession in developed economics major factors in India's economic slowdown.
- Investment remains relatively buoyant, ratio of fixed investment to GDP increased to 32.2 per cent in 2008-09 compared to 31.6 per cent in 2007-08.
- Fiscal deficit to GDP ratio stands at 6.2 per cent.
- Credit growth declines in the later part of 2008-09 reflecting slowdown of the economy in general and the industrial sector in particular.
- Increased plan expenditure, reduction in indirect taxes, sector specific measures for textile, housing, infrastructure through stimulus packages provides support to the real economy.
- Merchandise export grows at a modest 3.6 per cent in US Dollar terms while overall import growth pegged at 14.4 per cent.
- A large domestic market, resilient banking system and a policy of gradual liberalisation of capital account to help early mitigation of the adverse effect of global financial crisis and

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recession.

- Sharp dip in the growth of private consumption a major concern at this stage.
- Medium to long-term capital flows likely to be lower as long as the de-leveraging process continues in the US economy.
- Revisiting the agenda of pending economic reforms imperative to renew the growth momentum.

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