

ECONOMIC GROWTH DURING 2008-09

Overall GDP growth

1.5 The overall growth of GDP at factor cost at constant prices in 2008-09, as per revised estimates released by the Central Statistical Organisation (CSO) (May 29, 2009) was 6.7 per cent. This is lower than the 7 per cent projection in the Mid-Year Review 2008-09 (Economic Division, Department of Economic Affairs (DEA), December 2008) and the advance estimate of 7.1 per cent, released subsequently by CSO in February 2009. With the CSO drastically reducing their estimate of GDP from agriculture (based on third advance estimates), and given that the DEA's 7 per cent estimate assumed normal agricultural growth, it would have had to be adjusted for any shortfall. The growth of GDP at factor cost (at constant 1999-2000 prices) at 6.7 per cent in 2008-09 nevertheless represents a deceleration from high growth of 9.0 per cent and 9.7 per cent in 2007-08 and 2006-07 respectively (Table 1.1).

1.6 The deceleration of growth in 2008-09 was spread across all sectors except mining & quarrying and community, social and personal services. The growth in agriculture and allied activities decelerated from 4.9 per cent in 2007-08 to 1.6 per cent in 2008-09, mainly on account of the high base effect of 2007-08 and due to a fall in the production of non-food crops including oilseeds, cotton, sugarcane and jute. The production of wheat was also marginally lower than in 2007-08.

1.7 The manufacturing, electricity and construction sectors decelerated to 2.4, 3.4 and 7.2 per cent respectively during 2008-09 from 8.2, 5.3 and 10.1 per cent respectively in 2007-08. The

slowdown in manufacturing could be attributed to the combined impact of a fall in exports followed by a decline in domestic demand, especially in the second half of the year. The rise in the cost of inputs during the beginning of the year and the cost of credit (through most of the year) reduced manufacturing margins and profitability. The growth in production sectors, especially manufacturing, was adversely affected by the impact of the global recession and associated factors. The electricity sector continued to be hampered by capacity constraints and the availability of coal, particularly during the first half of the year. As long as the coal sector remains a public sector monopoly (the only remaining nationalized sector), it could remain a bottleneck for accelerated development of the power sector.

1.8 The construction industry consists of different segments like housing, infrastructure, industrial construction, commercial real estate, etc. While the industry went through a boom phase with growth as high as 16.2 per cent in 2005-06 and continued to grow thereafter (albeit with moderation), the increase in the costs of construction due to a rise in the prices of inputs like steel and cement and interest costs had started impacting the industry. In certain segments of the industry, there was an excessive price build up in the form of a speculative bubble, related to limited supply of urban land for those segments. The rise in interest rates and the slowdown in housing loans also moderated demand. The double squeeze on the costs, as well as the demand side, and the fall in the liquidity in mid-September 2008 precipitated a sharp downturn in this sector. There followed a period (in the second half of the year) when demand had already moderated, but costs remained high.

Table 1.1 : Rate of growth at factor cost at 1999-2000 prices (per cent)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Agriculture, forestry & fishing	10.0	0.0	5.8	4.0	4.9	1.6
Mining & quarrying	3.1	8.2	4.9	8.8	3.3	3.6
Manufacturing	6.6	8.7	9.1	11.8	8.2	2.4
Electricity, gas & water supply	4.8	7.9	5.1	5.3	5.3	3.4
Construction	12.0	16.1	16.2	11.8	10.1	7.2
Trade, hotels & restaurants	10.1	7.7	10.3	10.4	10.1	*
Transport, storage & communication	15.3	15.6	14.9	16.3	15.5	*
Financing, insurance, real estate & business services	5.6	8.7	11.4	13.8	11.7	7.8
Community, social & personal services	5.4	6.8	7.1	5.7	6.8	13.1
Total GDP at factor cost	8.5	7.5	9.5	9.7	9.0	6.7

Source : Central Statistical Organisation.

* Trade, hotels & restaurants, transport & communication (together) grew at 9 per cent, 2008-09.

1.9 The higher growth in community, social and personal services during 2008-09 was mainly due to an expansionary fiscal policy that was reflected in the demand side of GDP as higher growth of Government consumption expenditure.

Quarterly growth

1.10 The slowdown in growth of GDP is more clearly visible from the growth rates over successive quarters of 2008-09. In the first two quarters of 2008-09, the growth in GDP was 7.8 and 7.7 per cent respectively. The growth fell to 5.8 per cent in the third and in the fourth quarters of 2008-09 (compared to 9.3 and 8.6 per cent in Q3 and Q4 of 2007-08). The third quarter witnessed a sharp fall in the growth of manufacturing, construction, trade, hotels and restaurants. Agriculture growth also turned negative adding a further dampener. On the other hand, community, social and personal services showed a large increase from the second quarter, mainly due to a step up in government expenditure. The last quarter saw an added deterioration in manufacturing due to the deepening impact of the global crisis and a slowdown in domestic demand (Table 1.2).

Industry and infrastructure

1.11 Though growth of the industrial sector started to slow down in the first half of 2007-08, the overall growth during that year remained as high as 8.5 per cent. The index of industrial production for the year 2008-09 points towards a sharp slowdown with

growth being placed at 2.4 per cent. Manufacturing growth was placed at 2.3 per cent in 2008-09 as compared to 9.0 per cent in 2007-08. Mining grew at 2.3 per cent in 2008-09 as against 5.1 per cent in 2007-08 while electricity showed a deceleration in growth from 6.4 per cent in 2007-08 to 2.8 per cent during 2008-09. Slower growth in all use-based categories, except consumer durables, contributed to the deceleration in the industrial sector.

1.12 The performance of six core industries comprising crude oil, petroleum refinery products, coal, electricity, cement and finished steel (carbon) grew at 2.7 per cent as compared to 5.9 per cent in 2007-08. The growth in index for crude oil turned negative 1.8 per cent as compared to positive 0.4 per cent in 2007-08. There was a deceleration in the growth of cement and finished steel reflecting the negative sentiments in the construction and manufacturing sectors.

Agriculture production

1.13 For three consecutive years (2005-06 to 2007-08), foodgrain production recorded an average annual increase of over 10 million tonnes. The total foodgrain production in 2007-08 was estimated at 230.78 million tonnes as against 217.3 million tonnes in 2006-07.

1.14 As per the third advance estimates, the production of foodgrains in 2008-09 is estimated to be 229.85 million tonnes. In the third advance estimates, there is an improvement of 1.97 million tonnes over the second advance estimates for 2008-

Table 1.2 : Quarterly estimates of GDP 2007-08 and 2008-09 (percentage change – y-o-y)

Sector(s)	2007-08				2008-09			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture, forestry & fishing	4.3	3.9	8.1	2.2	3.0	2.7	-0.8	2.7
Mining & quarrying	0.1	3.8	4.2	4.7	4.6	3.7	4.9	1.6
Manufacturing	10.0	8.2	8.6	6.3	5.5	5.1	0.9	-1.4
Electricity, gas & water supply	6.9	5.9	3.8	4.6	2.7	3.8	3.5	3.6
Construction	11.0	13.4	9.7	6.9	8.4	9.6	4.2	6.8
Trade, hotels, transport & communication	13.1	10.9	11.7	13.8	13.0	12.1	5.9	6.3
Financing, insurance, real estate & bus. services	12.6	12.4	11.9	10.3	6.9	6.4	8.3	9.5
Community, social & personal services	4.5	7.1	5.5	9.5	8.2	9.0	22.5	12.5
GDP at factor cost (total 1 to 8)	9.2	9.0	9.3	8.6	7.8	7.7	5.8	5.8

Source : Central Statistical Organisation.

09 but the estimates are still lower than the target of 233 million tonnes set out for the year and also the final estimates of 230.78 million tonnes for 2007-08.

1.15 The production of rice during 2008-09 is expected to be 99.37 million tonnes and that of wheat 77.63 million tonnes. The estimates for rice production are 2.68 million tonnes higher than the final estimates for 2007-08. However, the estimates for wheat production are marginally lower than the final production figures for 2007-08. The production of coarse cereals is expected to be 38.67 million tonnes which is lower than the final estimates for 2007-08 by 2.1 million tonnes. The production of pulses is expected to be 14.18 million tonnes, which is 0.58 million tonnes lower than the final estimates for 2007-08. The production of oilseeds (9 oilseeds) during 2008-09 is placed at 28.1 million tonnes, which is lower than the final estimates of 29.7 million

tonnes for 2007-08 and short of target of 31.7 million tonnes set out for the year. The production of cotton estimated at 232.68 lakh bales is short of the final estimates of 258.84 lakh bales in 2007-08 but an improvement over the second advance estimates. The production of sugarcane during 2008-09 is estimated at 289.2 million tonnes, which is lower than the production of 348.2 million tonnes during 2007-08. The production of jute and mesta is also expected to be lower than the production in 2007-08. The stocks of wheat and rice in the Central pool by end-March 2009 were 35 million tonnes, which were more than double the buffer stock norms.

1.16 Overall, the third advance estimates for agricultural crops point to a situation where the production of foodgrains may be close to the level achieved in 2007-08. However, there is a shortfall in the case of non-food cash crops like sugarcane.