

# GENERAL REVIEW

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## Review of Developments

### Macro-economic Overview

Overall economic growth of GDP has decelerated significantly to 5 per cent in 1997-98 from 7.5 per cent in 1996-97 (Table 1.1). There has also been a fall in the average rate of inflation during 1997-98 to less than 5 per cent from 6.3 per cent during 1996-97. The average rate of growth of the economy rose from 6 per cent per annum in the Seventh Plan (1985-90) to 6.8 per cent in Eighth Plan (1992-97). Growth averaged a high of 7.5 per cent per annum in the last three years of the Eighth Plan (1994-95 to 1996-97). The drop in GDP growth in 1997-98 is attributable mainly to a sharp fall in the growth rate in agriculture and a deceleration in the growth of industry. The service sector posted a robust growth of 8.9 per cent in 1997-98 (Table 1.2).

2. At a more fundamental level, the growth slow-down can be traced to a combination of underlying supply factors and temporary demand factors. The former are associated primarily with the quantity, quality and cost of basic infrastructure services such as power, railways and roads (and to a lesser extent ports, airports and telecom). The demand slow-down is attributable to several factors including the sharp deceleration in exports since 1996-97, substantial uncertainty in domestic and international environments, tightening of money-credit policies in 1995-96 and other cyclical factors. The reduction in the domestic investment-saving gap during 1996-97 and the extremely low inflation rate during 1997-98 support such a demand side explanation. Some signs of recovery are, however, observable in the sharp rise in sanctions and disbursements of All India Financial Institutions, and the rise in the stock market prices during the March and April, 1998.

3. Total gross domestic savings, reached an all time high of 26.1 per cent of GDP at current market prices in 1996-97 (Table 1.3). The rise in domestic savings was primarily due to a rise in private savings. As a proportion of GDP private savings increased from 23 per cent in

1995-96 to a peak of 24.2 per cent in 1996-97. High growth in GDP, low rates of inflation and the array of economic and financial measures undertaken over the past few years, were some of the causal factors. The composition of household sector savings shows a substantial shift towards financial savings, which, as a proportion of GDP, increased by 2.1 percentage points to 10.7 per cent in 1996-97 (from 8.6 per cent of GDP in 1995-96). On the other hand, household savings in physical assets as a proportion of GDP have declined from 10.3 per cent in 1995-96 to 9.6 in 1996-97.

4. Gross domestic capital formation (adjusted), as a proportion of GDP at current market prices has continued to surge ahead of gross domestic savings rate to attain a high of 27.3 per cent in 1996-97 (Table 1.3). Similarly, gross domestic capital formation in real terms as a proportion of GDP at constant prices reached a level of 27.4 per cent in 1996-97 (Table 1.4). This convergence in the rate of gross domestic capital formation at current and constant prices reflects a significant improvement in relative prices of capital goods vis-à-vis other goods and services.

5. Real gross fixed investment as a proportion of GDP at constant prices declined marginally from 24 per cent in 1995-96 to 23.8 per cent in 1996-97 (Table 1.4). This was accompanied by a sharp decline in the contribution of real stock accumulation to 1.5 per cent of GDP in 1996-97 from 3.4 per cent in 1995-96. Nevertheless, real gross fixed capital formation in the private sector rose above 17 per cent of GDP in 1996-97.

**TABLE 1.1**  
**Key Indicators**

	1994-95	1995-96P	1996-97P	1997-98P	1994-95	1995-96P	1996-97P	1997-98P
	Absolute Values				Per cent change over previous period			
Gross national product (Rs.thousand crore)								
At current prices	854.9	992.8	1135.4Q	NA	18.7	16.1	14.4Q	NA
At 1980-81 prices	252.3	271.0	291.9Q	307.0 A	7.8	7.4	7.7Q	5.2 A
Gross domestic product (Rs.thousand crore)								
At current prices	868.0	1006.3	1149.2Q	NA	18.4	15.9	14.2Q	NA
At 1980-81 prices	257.7	276.1	296.8Q	311.8 A	7.8	7.2	7.5Q	5.0 A
Agricultural production(1)	165.2	160.7	175.7	169.2	5.0	-2.7	9.3	-3.7
Foodgrains production (million tonnes)	191.5	180.4	199.3	194.1	3.9	-5.8	10.5	-2.6
Industrial production(2)	253.7	284.5	304.6	317.3	9.4	12.1	7.1	4.2
Electricity generated (Billion, KWH)	351.0	380.1	394.5	420.2	8.5	8.3	3.8	6.5
Wholesale price index(3)	285.2	299.5	320.1	336.2	10.4	5.0	6.9	5.0
Consumer price index for industrial workers(4)	293.0	319.0	351.0	380.0	9.7	8.9	10.0	8.3
Money supply (M3)(5) (Rs.thousand crore)	531.4	604.0	700.9	820.3	22.3	13.7	16.0	17.0
Imports at current prices (Rs. crore)	89971	122678	138919	151554	23.1	36.4	13.2	10.8
(US \$ million)	28654	36678	39133	40779	22.9	28.0	6.7	5.8
Exports at current prices (Rs. crore)	82674	106353	118817	126286	18.5	28.6	11.7	7.5
(US \$ million)	26330	31797	33470	33980	18.4	20.7	5.3	2.6
Foreign currency assets (5) (Rs. crore)	66006	58446	80368	102507	39.6	-11.5	37.5	27.5
(US \$ million)	20809	17044	22367	25975	38.1	-18.1	31.2	16.1
Exchange rate (Rs/US \$)+	31.40	33.45	35.50	37.16	-0.1	-6.1	-5.8	-4.5

**Note :** Gross national product and Gross domestic product figures are at factor cost.

P-Provisional; Q-Quick estimates; A-Advance estimates; NA: Not available

+ Per cent change indicates the rate of appreciation/depreciation (-) of the Rupee vis-à-vis the US dollar.

1. Index of agricultural production (principal crops) with base triennium ending 1981-82=100.
2. Index of Industrial Production 1980-81=100.
3. Index with base 1981-82=100.
4. Index with base 1982=100.
5. Outstanding at the end of fiscal year.

**TABLE 1.2**  
**Sectoral Real Growth Rates**

INDUSTRY	Average of Plans		Percentage change over the previous year					
	7th Plan	8th Plan	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	1985-90	1992-97				(P)	(Q)	(A)
<b>I. Agriculture and Allied Sectors</b>	<b>3.4</b>	<b>3.9</b>	<b>6.1</b>	<b>3.7</b>	<b>5.1</b>	<b>-3.0</b>	<b>7.9</b>	<b>-2.0</b>
<b>II. Industry</b>	<b>7.5</b>	<b>8.0</b>	<b>4.2</b>	<b>6.6</b>	<b>10.4</b>	<b>12.5</b>	<b>6.4</b>	<b>5.7</b>
1. Mining and quarrying	9.0	3.4	1.1	1.7	5.9	8.4	-0.3	6.3
2. Manufacturing	7.7	9.2	4.2	8.4	11.9	14.0	7.4	6.1
3. Electricity, gas & water supply	9.5	7.3	8.4	6.3	9.4	7.3	5.0	6.4
4. Construction	5.2	5.1	3.4	0.9	6.2	9.7	5.2	3.2
<b>III. Services</b>	<b>7.4</b>	<b>7.9</b>	<b>5.4</b>	<b>7.7</b>	<b>7.7</b>	<b>10.4</b>	<b>8.1</b>	<b>8.9</b>
5. Trade, hotels, transport and communications	7.1	9.2	6.2	7.2	10.8	13.3	8.6	5.9
6. Financial services	8.3	8.5	4.6	12.5	7.2	9.7	8.7	9.5
7. Community, social and personal services	7.3	4.9	5.0	3.9	3.3	6.0	6.4	13.8
<b>IV. Total GDP at Factor Cost</b>	<b>6.0</b>	<b>6.8</b>	<b>5.3</b>	<b>6.2</b>	<b>7.8</b>	<b>7.2</b>	<b>7.5</b>	<b>5.0</b>
<b>Note: P= Provisional; Q= Quick Estimates; A= Advance Estimates</b>								

**TABLE 1.3**  
**Savings and Investment**

	1992-93	1993-94	1994-95	1995-96 (P)	1996-97 (Q)	Average 8th Plan (1992-97)
(As per cent of GDP at current market prices)						
<b>Gross Domestic Savings</b>	<b>22.0</b>	<b>22.7</b>	<b>25.6</b>	<b>25.3</b>	<b>26.1</b>	<b>24.3</b>
Public	1.5	0.6	1.8	2.3	1.9	1.6
Private	20.5	22.1	23.8	23.0	24.2	22.7
<b>Gross Domestic Investment*</b>	<b>23.9</b>	<b>23.3</b>	<b>26.9</b>	<b>27.1</b>	<b>27.3</b>	<b>25.7</b>
Public	8.9	8.6	9.0	7.9	7.4	8.4
Private	15.1	12.7	16.0	19.3	17.8	16.2
<b>Gross Domestic Investment*</b>	<b>23.9</b>	<b>23.3</b>	<b>26.9</b>	<b>27.1</b>	<b>27.3</b>	<b>25.7</b>
GFCF	22.5	21.5	22.5	24.3	24.0	22.9
Change in stocks	1.5	-0.3	2.6	3.0	1.2	1.6
<b>Saving-Investment Gap@</b>	<b>-2.0</b>	<b>-0.6</b>	<b>-1.2</b>	<b>-1.9</b>	<b>-1.1</b>	<b>-1.4</b>
Public	-7.4	-8.0	-7.2	-5.7	-5.4	-6.7
Private	5.3	9.4	7.8	3.7	6.4	6.5
<b>Note : (i) Gross domestic investment denotes Gross Domestic Capital Formation (GDCAF)</b>						
<b>(ii) Figures may not add up due to rounding off</b>						
* : adjusted for errors and omissions;						
@ : refers to the difference between the rates of savings and investment						
GFCF : Gross Fixed Capital Formation;						
P : Provisional estimates; Q : Quick estimates						
Source : Central Statistical Organisation						

<b>TABLE 1.4</b>						
<b>Real Gross Domestic Capital Formation</b>						
	<b>1992-93</b>	<b>1993-94</b>	<b>1994-95</b>	<b>1995-96</b> <b>(P)</b>	<b>1996-97</b> <b>(Q)</b>	<b>Average</b> <b>8th Plan</b> <b>(1992-97)</b>
<b>(As per cent of GDP at market prices, 1980-81 prices)</b>						
<b>GDCF*</b>	<b>22.3</b>	<b>22.3</b>	<b>26.9</b>	<b>27.3</b>	<b>27.4</b>	<b>25.2</b>
Public	8.1	8.1	8.6	7.4	6.9	<b>7.8</b>
Private	14.3	12.3	16.5	20.0	18.5	<b>16.3</b>
<b>GFCF</b>	<b>20.6</b>	<b>20.7</b>	<b>22.1</b>	<b>24.0</b>	<b>23.8</b>	<b>22.3</b>
Public	7.7	7.8	8.7	7.5	6.7	<b>7.7</b>
Private	13.0	12.9	13.4	16.5	17.2	<b>14.6</b>
<b>Change in stocks</b>	<b>1.7</b>	<b>-0.4</b>	<b>3.0</b>	<b>3.4</b>	<b>1.5</b>	<b>1.9</b>
Public	0.4	0.2	-0.1	-0.1	0.2	<b>0.1</b>
Private	1.3	-0.6	3.1	3.5	1.3	<b>1.7</b>
<b>Growth rate in per cent</b>						
<b>GDCF*</b>	<b>8.5</b>	<b>4.8</b>	<b>30.7</b>	<b>8.9</b>	<b>8.0</b>	<b>12.2</b>
Public	2.7	4.7	15.8	-8.0	0.2	<b>3.1</b>
Private	18.7	-9.6	44.8	30.5	-0.9	<b>16.7</b>
<b>GFCF</b>	<b>7.0</b>	<b>5.5</b>	<b>15.3</b>	<b>16.7</b>	<b>6.5</b>	<b>10.2</b>
Public	-7.2	7.2	20.5	-7.4	-4.5	<b>1.7</b>
Private	17.5	4.5	12.2	32.5	11.6	<b>15.6</b>
<b>Note :</b> GDCF : Gross Domestic Capital Formation; GFCF : Gross Fixed Capital Formation; Figures may not add up due to rounding off * : adjusted for errors and omissions; P : Provisional estimates; Q : Quick estimates <b>Source :</b> Central Statistical Organisation						