



Economic data: India

Reserve Bank of India Governor D. Subbarao has released the review and update on the monetary policy for the current fiscal.

Key Rates:

- 1 Bank Rate = 6% (No Change)
- 2 Repo Rate = 4.75% (No change)
- 3 Reverse Repo Rate = 3.25% (No change)
- 4 Cash Reserve Ratio : 5% (No Change)
- 5 Statutory Liquidity Ratio = 24% (No change)

Forecasts:

- 1 Inflation : 5 % (earlier forecast was 4 %)
- 2 About Negative Inflation : It is just a statistical phenomena
- 3 Growth Projects : 6 % plus
- 4 Money Supply : may grow 18 % this fiscal

Some Noteworthy Points:

- ❖ RBI announces its Monetary Policy every year and announces its reviews quarterly.
- ❖ According to the current available assessment of the IMF, the global economy is projected to contract by 1.4 per cent in 2009 and to expand by 2.5 per cent in 2010. However, the growth outlook of India and China for 2009, however, has been revised upwards by the IMF. The fourth Advance Estimates place the total food grain production during 2008-09 at a record 233.9 million tonnes.
- ❖ The core infrastructure sector grew by 4.8 per cent during the first quarter of 2009-10 as compared with 3.5 per cent growth during first quarter of 2008-09.

- ❖ This growth was basically due to acceleration in electricity, cement and coal.
- ❖ Index of Industrial Production (IIP) registered a growth at 1.9 per cent during April-May 2009 (it registered a negative growth in 2008-09 in corresponding Quarter).
- ❖ The Union Budget for 2009-10, presented against the backdrop of persistent global economic slowdown and the associated dampened domestic demand, has placed the fiscal deficit at 6.8 per cent of GDP in 2009-10 with a view to providing the necessary boost to demand and thereby support a faster recovery.
- ❖ For last 8 months since October 2008, exports as well as imports are contracting due to global recession. There was more decline in imports than exports and this has declined the merchandise trade deficit (April May)
- ❖ For the year as a whole, net capital flows fell from US\$ 108.0 billion in 2007-08 to US\$ 9.1 billion in 2008-09, while the current account deficit widened from 1.5 per cent of GDP to 2.6 per cent of GDP during the same period.
- ❖ The impact of a severe external shock on India's BoP was managed with a loss of reserves of only US\$ 20.1 billion (net of valuation) without resorting to any extraordinary measures.
- ❖ The WPI inflation, which was on a path of sharp decline from the high peak level of August 2008, turned negative in June 2009, and since then the negative inflation continues (-1.2 per cent as on July 11, 2009).
- ❖ Notwithstanding the negative WPI inflation, food articles inflation (i.e. primary as well as manufactured) remains high at 8.9 per cent (as on July 11, 2009). Inflation as per Consumer Price Indices (CPIs) also continues at elevated levels (in the range of 8.6 per cent to 11.5 per cent for different consumer price indices in May/June 2009).
- ❖ The scale of the Indian National Congress party's victory in the recent general election means that the Economist Intelligence Unit expects the new government to be cohesive and to have little trouble serving a full five-year term.
- ❖ Relations with Pakistan are set to remain under stress in the wake of the November 2008 terrorist attack on India's main

financial centre, Mumbai. Tensions could escalate further in the early part of the forecast period. However, we do not expect the two countries to resume armed conflict.

- ❖ Congress's increased independence in terms of policy implementation means that, in theory, economic reform should accelerate. However, elements within the party remain adamant that liberalisation should be a gradual process, and rapid, sweeping changes to the regulatory regime are therefore not expected.
- ❖ Another fiscal stimulus package is likely to be announced in the next few months. The budget deficit is expected to balloon to 7.8% of GDP in fiscal year 2009/10 (April-March), from 6.1% in 2008/09, but the deficit will then narrow gradually, to stand at 4.8% of GDP by the end of the forecast period.
- ❖ Monetary policy will be loosened further in 2009. Real interest rates will remain negative this year, but should become positive in 2010-13 as monetary policy is adjusted to a neutral setting.
- ❖ Global deleveraging and moves to reduce risk exposure will continue to hit India hard, and real GDP growth (on an expenditure basis) is forecast to slow to 5.5% in 2009/10. The economy should regain momentum gradually, with real GDP growth averaging 7.7% a year between 2010/11 and 2013/14.
- ❖ The deficit on the merchandise trade account will widen in the forecast period, reflecting an increase in local demand for consumer goods. But it will be largely offset by the rising services surplus—driven by foreign earnings from information technology (IT) and IT-enabled services—and inflows of remittances. The current-account deficit is forecast to average 2.4% of GDP in 2009-13.
- ❖ Notwithstanding the current global recession, India's huge population of more than 1bn people will become an increasingly important market for consumer goods in the forecast period. The large number of middle-class households in the country offers considerable potential for manufacturers and retailers.

Key indicators	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	6.1	5.5	6.4	8.0	8.0	8.2
Consumer price inflation (av; %)	8.3	5.2	4.3	5.3	5.2	5.2
Budget balance (% of GDP)	-6.1	-7.8	-6.7	-6.1	-5.7	-4.8
Current account balance (% of GDP)	-3.1	-1.9	-2.4	-2.6	-2.7	-2.4
Lending rate (av; %)	13.3	11.4	11.5	11.5	11.5	12.0
Exchange rate Rs:US\$ (av)	43.5	48.5	47.4	46.8	46.0	45.5