

Aiming For Double-Digit Growth



The Economic Survey for 2007-08 focusses on the need to accelerate GDP growth, while at the same time curbing inflationary trends in the economy, writes N.B. Rao.

THE primary economic challenge before the government is to ensure sustained growth of around nine per cent per annum, while at the same time ensuring inflation is under control.

The Economic Survey for 2007-08, which was presented by Union Finance Minister P. Chidambaram in Parliament on February 28, points out that “the new

challenge is to maintain growth at these (current) levels, not to speak of raising it further to double-digit levels.”

For financial year 2007-08, the gross domestic product (GDP) growth is expected to slow down to 8.7 per cent, as compared with 9.6 per cent in fiscal 2007-08. The survey points out that if the upward trend in the GDP growth rate persists in the medium-term, the

economy would average over 8.9 per cent annual growth over the Eleventh Five Year Plan period (2007-2012).

If the GDP growth target for the current Plan period is met, and accelerated to 9.5 per cent in 2013, the Indian economy would have averaged a 9 per cent growth rate over a decade, notes the survey. This would put India among a select group of about a dozen medium-to-large economies

growing at such a brisk pace. Expressing confidence that the country would be able to step up the growth level, Chidambaram, however, underlined the need for caution, especially in view of distinct signs of a global slowdown. The gradual process of financial sector reforms has helped insulate the Indian economy from the sub-prime mortgage crisis that has shaken up the US economy, it points out.

The survey admits that fears of a recession in the US could further slowdown exports to that country, but the deceleration would be 'relatively modest.'

It projected moderate inflation (of around 4.4 per cent) over the coming

months, thanks to policy measures taken of late. But rising incomes, commodity prices and large capital inflows could challenge these anti-inflationary efforts. "Any reduction in excess capital flows from the high levels in 2007 may affect the equity markets in the short term, but will make the task of monetary management easier," it added.

India's per capita income could double over the next decade if per capita income levels continued to expand at the annual average of 7.2 per cent recorded over the past five years, said the survey. There has been a steady growth in per capita private consumption over the decades: from an

ECONOMIC SURVEY HIGHLIGHTS

- GDP growth estimated at 8.7 per cent in 2007-08
- GDP projected at \$1.16 trillion (market price) in 2007-08
- Inflation projected at 4.4 per cent
- Inflation under control despite higher commodity prices and surge in capital inflows
- Inflation and infrastructure are the biggest challenges
- Macroeconomic fundamentals inspire confidence
- Forex reserves up by \$91.6 billion to \$290.8 billion (February 8)
- Capital inflows up to 7.7 per cent of GDP in first half of 2007-08 from 5.1 per cent in previous fiscal
- FDI inflows touch \$11.2 billion
- Outward investments at \$7.3 billion in first-half of fiscal
- Exports add up to \$111 billion in first nine months of 2007-08
- Imports expand by 25.9 per cent
- Accelerate sale of five to 10 per cent equity in profit-making non-Navratna public sector units that have already been identified
- Sell old oilfields to private sector
- Raise foreign equity in insurance to 49 per cent
- Allow 100 per cent foreign direct investment in greenfield private agri banks



average of 2.2 per cent per year during a 12-year period before reforms (1980-81 to 1991-92) to 2.6 per cent in the following 11 years; this almost doubled to 5.1 per cent in the subsequent five-year period. This year, it is expected to grow at 5.3 per cent. The survey felt it was incumbent on the part of the Union Government to provide a conducive investment climate and manage the macro-economy to facilitate non-inflationary growth. Both the government and the Planning Commission can, in some areas and sectors, play a leadership role in setting an agenda of policy and institutional reforms that could ensure sustained high growth for


several decades, the survey emphasised. But state governments should also concentrate on providing public goods and also improve the quality of service provided by these goods. Considering the huge constraints they face in delivering these goods and services in sufficient quantity and adequate quality, state governments must shed such activities that are best done by private profit and non-profit organisations and focus on excellence in these areas. This would ensure they can satisfy the majority of their citizens and meet their legitimate aspirations.

The survey underlined the need to get the skill development act right to ensure that the country could benefit from the 'demographic dividend.' It noted that India's working-age population – those between the age of 15 and 64 – will expand from 62.9 per cent of the population (in 2006) to 68.4 per cent (in 2026).

But to ensure that the country avails of this demographic dividend, it is important to ensure proper healthcare and also lay great emphasis on skill development and encouragement of labour-intensive industries. It identified the need to create a pool of skilled persons to meet the growing requirements of the industrial and service sectors.

The Economic Survey also called for a second green revolution, especially in rain-fed areas, to ensure sustainable income for distressed farmers. "There has been a loss of dynamism in the agricultural and allied sectors in recent years," notes the survey. "A gradual degradation of natural resources through overuse and inappropriate use of chemical fertilisers have affected the soil quality, resulting in stagnation in yield levels."

The solution would be to increase productivity and returns to the people dependent on fringe areas for their livelihood, through a second green revolution.

The survey said there was heightened urgency to augment and upgrade infrastructure, especially power, roads and ports. The most critical challenge facing India is the availability of adequate physical and financial infrastructure. And it is instructive to look at infrastructure in terms of public and private goods and a grey area in between, quasi-public good, noted the survey. 

THE BUDGET: MORE INCLUSIVE GROWTH STORY

THE Union Budget for 2008-09, presented by Finance Minister P. Chidambaram in the Indian Parliament on February 29, focussed on 'The Growth Story: faster and more inclusive.'

"We have demonstrated what inclusive growth is, that instead of being fixated only on growth, we can use the growth process to promote inclusive growth," remarked Chidambaram. The Minister admits that there are still large areas of the economy, which are under government control. "And if these controls had been removed, the economy would have grown faster," he adds. Gross domestic product (GDP) growth for fiscal 2007-08 is estimated at 8.7 per cent, slightly less than the previous year's 9.6 per cent.

The services and manufacturing sectors continue to be the drivers of growth in financial year 2007-08. The former grew at 10.7 per cent and the latter at 9.4 per cent. The agriculture sector saw a growth rate of just 2.6 per cent. The budget was widely welcomed by industry.

According to Sunil Mittal, president, Confederation of Indian Industry (CII), the Finance Minister presented a comprehensive, balanced and growth-oriented budget. "He has managed to address the triple challenge of growth, inclusiveness and sustainability very astutely," remarked Mittal. "The budget proposals would go a long way in building people and building India."

While industry has every reason to be happy owing to the various favourable measures announced by the Finance Minister, "the CII is particularly happy that necessary attention has been given to the social sector including Health and Education. The fact that this has been supplemented by a lot of focus on the rural economy would indirectly fuel a growth cycle," according to the apex industry body.

One of the major highlights of the budget, which was welcomed widely across the political and social



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spectrum in India, was the scheme of debt waiver and debt relief for farmers. The debt waiver of all overdue loans as on December 31, 2007, (and which remained unpaid till February 29, 2008) for marginal and small farmers would cost the government about \$12.35 billion. The one-time settlement scheme for other farmers would cost about \$2.5 billion. Chidambaram pointed out that growth in the capital goods sector was high at 20.2 per cent and the government aimed to take manufacturing growth rate to double-digit levels through more reforms.

The government also plans to initiate several measures in the capital markets, including moves to expand the market for corporate bonds. Exchange-traded currency and interest rate futures are to be launched, while a transparent credit derivatives market will be developed with appropriate safeguards.

The revenue deficit for 2007-08 will be 1.4 per cent against a budgeted estimate of 1.5 per cent, and the fiscal deficit will be 3.1 per cent, against a budgeted estimate of 3.3 per cent. The revenue deficit for 2008-09 is estimated at 1.0 per cent of GDP, while fiscal deficit would be at 2.5 per cent of GDP.

Chidambaram estimates that because of a conscious shift in expenditure in favour of health, education and the social sector, it might take a year more to eliminate the revenue deficit. Given the current grim world economic scenario, with a sharp slowdown in the US and other western economies, the Finance Minister has indeed come out with a growth-oriented and pragmatic budget.