Review of the Economy 2008 / 09 H i g h l i g h t s

New Delhi

Friday, January 23, 2009

The Chairman, Economic Advisory Council to Prime Minister, Dr. Suresh D. Tendulkar released the Review of the Economy 2008-09 in New Delhi today. Following are the highlights of the Report:

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· An estimated growth of GDP at 7.1% during the year, lower than the projection of 7.7% made in our July 2008 Outlook and actual 9.0% in 2007-08. Slowdown caused by painful adjustment to abrupt changes in the international economy – steeply rising inflationary pressures emanating from spiralling commodity prices in the first half of the fiscal followed by financial meltdown and deeper than anticipated recession in the advanced industrial countries in the second half.

· Investment rate estimated to be 35.0%, lower by 2.5 percentage points than that registered for previous year due to financing constraints facing Indian enterprises and downturn in investor confidence in the second half of the fiscal 2008-09.

· Saving rate likely to be lower on account of larger negative savings of government.

- Headline WPI inflation rate expected to be close to 4.0% by end-February-early March 2009. Expected decline in CPI inflation unlikely to match that in WPI.

- Current account deficit projected for the year 2008-09 at 1.9% of GDP. External payments situation is expected to be reasonably comfortable.

- Combined fiscal deficit to be about or in excess of 10.0% of GDP in 2008/09 – well above a comfortable level but a compelling need in the exceptional circumstances of the current year.

Forecast for the Economy 2009 / 10

Economic conditions in the advanced economies may continue to be recessionary in the first half of 2009, but growth might re-surface in the third quarter of the calendar year.

- Indian economy likely to remain relatively weak in the first quarter of the fiscal 2009-10 and slowly pickup thereafter; and is expected to show fairly strong recovery in growth in the second half of the fiscal. Growth rate projected between 7.0 and 7.5 % or somewhere above that in 2009-10.

- The forecast factors in the impact of monetary easing, fiscal stimulus and other administrative measures including reprioritization of public expenditure and accelerated implementation of the infrastructural projects in the pipeline. Other favourable factors include an agrarian economy which is not in crisis, comfortable external payments situation, resilience of the Indian enterprises developed in the post-1991 competitive environment, healthy bank balance sheets, strong and non-leveraged domestic consumption growth and dominant dependence on domestic savings for financing investment.

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