THE HINDU
Business Line
Business Daily from THE HINDU group of publications
Saturday, Jan 24, 2009
ePaper | Mobile/PDA Version | Audio | Blogs

PM's economic panel lowers GDP growth forecast to 7.1%

Economy review: Dr Suresh Tendulkar (right), Chairman, Economic Advisory Council to the PMO, and Dr Govinda Rao, Member, at a press conference during the release of Review of the Economy 2008-09, in the Capital on Friday. - Ramesh Sharma

Our Bureau

New Delhi, Jan. 23 The Prime Minister's Economic Advisory Council (EAC) has revised downwards its GDP growth projection for the country during 2008-09 to 7.1 per cent, from its forecast of 7.7 per cent made in July.

The downward revision is mainly on account of the industrial sector, which is slated to grow by only 5.1 per cent as against the earlier estimate of 7.5 per cent.

Within industry, the growth rate for manufacturing has been re-assessed at four per cent (from 7.2 per cent), with these being 3.1 per cent (6.5 per cent) for electricity, 4.7 per cent (7.5 per cent) for mining, and 8 per cent (8.5 per cent) for construction.

On the other hand, the services sector is expected to expand by 9.3 per cent (only marginally below the July projection of 9.6 per cent), while agriculture is forecast to register a 3 per cent growth (better than the earlier 2 per cent figure).

"The lowered overall growth is largely because of the second half of the fiscal being worse than expected. While the first half growth of 7.8 per cent was close to our July projection for the whole of 2008-09, the second half is likely to see a slowdown to 6.5 per cent," the EAC Chairman, Prof. Suresh D. Tendulkar, told presspersons here on Friday.

The latest EAC Review of the Economy expects growth during the third quarter (October-December) to drop below 6 per cent, before recovering to 7 per cent in the current quarter. The Indian economy is likely to remain "relatively weak" in the first quarter (April-June) of 2009-10 and slowly pick up thereafter.

Recovery projection

There would be a fairly strong recovery in the second half from October 2009 on the assumption of an improvement in international economic conditions. "Overall, the growth in 2009-10 would be between 7 and 7.5 per cent, with the first half averaging close to 7 per cent and second half 7.5 per cent or higher," the EAC Review has said.

The EAC expects the Centre's fiscal deficit for 2008-09 to touch 8 per cent of GDP, compared to the budget estimate of 2.5 per cent. The reason for this is the two supplementary demands for grants placed before Parliament, involving a net cash outgo of Rs 1,48,094 crore or 2.8 per cent of GDP.

This included Rs 44,866 crore on account of additional fertiliser subsidy, Rs 28,505 crore on the Sixth Pay Commission award, Rs 25,000 crore on the national rural employment programme, Rs 15,000 crore on farmers' debt relief, Rs 12,741 crore on transfer to States, and Rs 11,471 crore on food subsidy.

Besides direct cash outgo, one would also have to factor in the issue of fertiliser and oil bonds (Rs 20,000 crore and Rs 65,942 crore), adding up to 1.6 per cent of GDP. Together with the slippage in budgeted tax collections of one per cent of GDP, the Centre's fiscal deficit would be 7.9 per cent of GDP. The deficit of State Governments, too, may be higher at 3.5 per cent.

The combined deficit of the Centre and States, after adjusting for overlapping entities, will cross 10 per cent this fiscal, according to the EAC.

More Stories on : Economy | Economy

Article E-Mail :: Comment :: Syndication :: Printer Friendly Page