

ECONOMIC OUTLOOK 2010-11-Highlights

Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister released the document 'Economic Outlook 2010-11' at a Press Conference in New Delhi today. Following are the highlights of the document-

Economy to grow at 8.5 per cent in 2010-11 and 9.0 % in 2011-12

- Agriculture grew at 0.2% in 2009-10. Projected to grow at 4.5% in 2010-11 and 4.0% in 2011-12.
- Industry grew at 9.3% in 2009-10. Projected to grow at 9.7% in 2010-11 and 10.3 % in 2011-12.
- Services grew at 8.5% in 2009-10. Projected to grow at 8.9% in 2010-11 and 9.8% in 2011-12.

Slow recovery in global economic and financial situation

Rising domestic Savings and Investment chief engines of growth

- Investment rate is expected to be 37% in 2010-11 and 38.4% in 2011-12.
- Domestic savings rate is expected to be over 34% in 2010-11 and close to 36% in 2011-12.

Current Account deficit estimated at 2.7% of GDP in 2010-11 and 2.9% of GDP in 2011-12

- Merchandise trade deficit projected to be \$ 137.8 billion or 9% of the GDP in 2010-11 and \$160 billion or 9.3% of GDP in 2011-12.
- Invisibles trade surplus projected to be \$ 96 billion or 6.3% of the GDP in 2010-11 and \$109.7 billion or 6.4% in 2011-12.

Capital Flows can be readily absorbed by financing needs of the high growth of the Indian Economy.

- Against the level of \$53.6 billion in 2009-10, the capital inflows projected to be \$ 73 billion for 2010-11 and \$91 billion for 2011-12.
- Accretion to reserves was \$13.4 billion in 2009-10. Projected to be \$30.9 billion in 2010-11 and \$39.8 billion in 2011-12.

Inflation rate projected at 6.5 % by March 2011 due to expected normal monsoon combined with the base effect.

- The provisional headline inflation was above 10% in June 2010.
- Controlling high inflation rate essential for sustainable growth in medium term.
- Available food stocks must be released to have a dampening effect on prices.

Monetary Policy to complete the process of exit and operate with bias toward tightening.

- Credit off take picked up. Strong growth rate in the 1st quarter of 2010-11.
- Fund flow from capital market to commercial sector quite strong. Bond issuance growth relatively higher than issuance of equity.
- Liquidity conditions are taut enough for monetary policy signals to be appropriately transmitted to the financial sector. A bias toward tightening is necessary.
- Exchange rate variations will remain within acceptable range.

Exit from the expansionary fiscal policy not only feasible but also necessary

- High buoyancy in direct and indirect tax collections. Telecom auctions and decontrol of the petroleum products prices to provide additional cushion.
- Fiscal deficit outturn may be lower than the budgeted consolidated fiscal deficit of 8.4% of GDP for 2010-11.
- Revenue Deficit as a ratio of GDP expected to decline from 6.3% in 2009-10 to 4.6% in 2010-11.
- Operationalization of Goods and Services Tax (GST) should be a priority.
- Budgeted level of Fiscal Deficit and Revenue Deficit still beyond comfort zone.
- Need to rationalize the food and fertilizer subsidies.

To sustain a growth rate of 9.0 per cent, focus is required on:

- Containing inflation
- Improving farm productivity

- Closing the large physical infrastructure deficit, especially in the power sector.

GDP Growth – Actual & Projected

Unit: per cent

		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
					QE	Rev	f	f
Year-on-year Growth Rates								
1	Agriculture & allied activities	5.2	3.7	4.7	1.6	0.2	4.5	4.0
2	Mining & Quarrying	1.3	8.7	3.9	1.6	10.6	8.0	8.0
3	Manufacturing	9.6	14.9	10.3	3.2	10.8	10.0	10.5
4	Electricity, Gas & Water Supply	6.6	10.0	8.5	3.9	6.5	7.5	9.0
5	Construction	12.4	10.6	10.0	5.9	6.5	10.0	11.0
6	Trade, Hotels, Transport, Storage & Communication	12.1	11.7	10.7	7.6	9.3	10.0	10.0
7	Finance, insurance, real estate & business services	12.8	14.5	13.2	10.1	9.7	9.5	10.5
8	Community & personal services	7.6	2.6	6.7	13.9	5.6	6.0	7.5
9	Gross Domestic Product at factor cost	9.5	9.7	9.2	6.7	7.4	8.5	9.0
10	Industry (2 + 3 + 4 + 5)	9.3	12.7	9.5	3.9	9.3	9.7	10.3
11	Services (6 + 7 + 8)	11.1	10.2	10.5	9.8	8.5	8.9	9.6
12	Non-agriculture (9 - 1)	10.5	11.0	10.2	7.7	8.8	9.2	9.8
14	GDP (factor cost) per capita	7.8	8.1	7.7	5.2	6.2	7.0	7.5
Some Magnitudes								
15	GDP at factor cost - 2004/05	32.5	35.6	38.9	41.5	44.6	48.4	52.8

	prices in Rs lakh crore (or Trillion)							
16	GDP market & current prices in Rs lakh crore (or Trillion)	37.1	42.8	49.5	55.7	62.3	70.3	79.2
17	GDP market & current prices in US\$ Billion	837	947	1,231	1,222	1,317	1,529	1,722
18	Population in Million	1,106	1,122	1,138	1,154	1,170	1,186	1,203
19	GDP market prices per capita current prices	33,512	38,182	43,479	48,305	53,258	59,305	65,867
20	GDP market prices per capita in current US\$	757	844	1,082	1,059	1,126	1,289	1,432

Note: QE refers to the Quick Estimates for National Income released on 29 Jan 2010.
Rev refers to the Revised Estimate for National Income released on 31 May 2010.

Stands for forecasts made by the Council.

Balance of Payments

Unit: US\$ billion

	2004/05	2005/06	2006/07	2007/08	2008/09	2009 / 10	2010/11	2011/12
Merch. Exports	85.2	105.2	128.9	166.2	189.0	182.2	216.1	254.0
Merch. Imports	118.9	157.1	190.7	257.6	307.7	299.5	353.9	414.3
Merchandise Trade Balance	-33.7	-51.9	-61.8	-91.5	-118.7	-117.3	-137.8	-160.3
	-4.7%	-6.2%	-6.5%	-7.4%	-9.7%	-8.9%	-9.0%	-9.3%
Net Invisible Earnings	31.2	42.0	52.2	75.7	89.9	78.9	96.0	109.7
	4.3%	5.0%	5.5%	6.2%	7.4%	6.0%	6.3%	6.4%
o/w ITES	14.7	23.8	27.7	37.2	44.5	41.3	46.2	53.1
Private Remittances	20.5	24.5	29.8	41.7	44.6	52.1	58.3	67.0
Investment Income	-4.1	-4.1	-6.8	-4.4	-4.0	-6.4	-6.5	-6.5

Current Account Balance	-2.5	-9.9	-9.6	-15.74	-28.7	-38.4	-41.8	-50.7
	-0.3%	-1.2%	-1.0%	-1.3%	-2.4%	-2.9%	-2.7%	-2.9%
Foreign Investment	13.0	15.5	14.8	45.0	3.5	52.1	55.0	65.0
o/w FDI (net)	3.7	3.0	7.7	15.4	17.5	19.7	30.0	30.0
Inbound FDI	6.0	8.9	22.7	34.2	35.0	31.7	50.0	55.0
Outbound FDI	2.3	5.9	15.0	18.8	17.5	12.0	20.0	25.0
Portfolio capital	9.3	12.5	7.1	29.6	-14.0	32.4	25.0	35.0
Loans	10.9	7.9	24.5	41.9	4.1	11.9	16.8	24.5
Banking capital	3.9	1.4	1.9	11.8	-3.2	2.1	0	0
Other capital	0.7	1.2	4.2	9.5	4.5	-12.7	0	0
Capital Account Balance	28.0	25.5	45.2	108.0	8.7	53.6	72.8	90.5
	3.9%	3.0%	4.8%	8.8%	0.7%	4.1%	4.8%	5.3%
Errors & Omissions	0.6	-0.5	1.0	1.2	1.1	-1.7		
Accretion to Reserves	26.2	15.1	36.6	92.2	-18.9	13.4	30.9	39.8
	3.6%	1.8%	3.9%	7.5%	-1.5%	1.0%	2.0%	2.3%

Note: Percentage figures proportion to GDP

AKT/AD/HS/LV/RK