Part-II

Macro Economic Frame Work: An overview

II MACRO ECONOMIC FRAMEWORK: AN OVERVIEW

Performance of the Economy

After the dip in 2008-09 in the wake of the global financial crisis and the recovery in 2009-10 Growth rebounded strongly in 2010-11. Real GDP growth at factor cost increased to 8.5 per cent in 2010-11 from 8.0 per cent in 2009-10 as per Revised Estimates of Annual National Income and Quarterly Estimates of Gross Domestic Product (GDP), 2010-11. At this pace, the real GDP growth rate increased for the second successive year after the global crisis-induced sharp slowdown in 2008-09. Table-1 gives the GDP growth rates at factor cost (at constant 2004-05 prices) and at market prices during the first three years of the Eleventh Plan and revised estimates for the year 2010-11.

Table 1: Growth Rates of GDP at Factor Cost and GDP at Market Prices (%)

Year	GDP at Factor Cost	GDP at Market Prices
2007-08	9.3	9.8
2008-09	6.8	4.9
2009-10 (QE)	8.0	9.1
2010-11(RE)	8.5	8.8

Source: Central Statistical Organisation (CSO)
QE: Quick Estimates, RE: Revised Estimates;

Sectoral Growth

The contribution of the agriculture sector to overall GDP growth increased sharply in 2010-11.The main impetus to growth during 2010-11 emanated from agriculture which rebounded to above-trend growth rate on the back of a normal monsoon. Due to this upward revision in the production, ‘agriculture, forestry and fishing’ sector in 2010-11 has shown a growth rate of 6.6 per cent, as against the growth rate of 0.4 per cent in the previous year.

The growth rate of the industrial sector of the country declined slightly to 7.9% in 2010-11 as compared to 8.0 % in 2009-10. This decrease is mainly due to decrease in the growth rate of mining, manufacturing and electricity & gas and water supply sectors.

However, the construction sector registered an increase from 7.0% in 2009-10 to 8.1% in 2010-11.

The importance of services sector as a key driver of growth for the Indian economy is well recognized. However, the growth of services sector depends on the demand generated in the other sectors and also on global economic environment. The service sector which recorded a double digit growth during the first three years of the Eleventh Plan started showing signs of moderation in 2010-11 due to decline in the growth rate of community, social & personal services from 11.8% during 2009-10 to 7.0% in 2010-11.

The Sectoral growth performance of the economy during the first four years of the Eleventh Plan is given below:

Table 2: Sectoral Growth Rates (in %)

Sectors	2007-08	2008-09	2009-10 (QE)	2010-11 (RE)
	(At Factor Cost, 2004-05 prices)			
Agriculture	5.8	-.01	0.4	6.6
Industry	9.7	4.4	8.0	7.9
Services	10.3	10.1	10.1	9.4
GDP	9.3	6.8	8.0	8.5

Source: Central Statistical Organization (CSO).
QE: Quick Estimates, RE: Revised Estimates

Savings and Investment Rate

High levels of savings and investment are of utmost importance for rapid growth of an economy. While both the savings and investment rates realized during the first year (2007-08) of the Eleventh Plan were more than the envisaged targets, for the year 2008-09 decline was witnessed. The savings and investment rates as percentage of GDP at market prices declined from 36.9% and 38% during 2007-08 to 32.2% and 35.4% respectively in 2008-09 (see table.3). However as the economy started recovering, the Savings and Investment rates for 2009-10 showed improvement.

Table.3. Investment and Saving Rate (at current prices) as percent of GDP

Item	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)
Gross Capital Formation (GCF)	35.9	**38.0**	**35.4**	35.8	
1. Public Sector	8.3	8.9	9.5	9.2	
2. Private Corporate Sector	14.5	**17.3**	**11.5**	13.2	
3. Household Sector	11.9	10.8	13.1	11.7	
Gross Fixed Capital Formation (GFCF)	31.3	**33.9**	**32.0**	**30.8**	**29.5**
1. Public Sector	7.9	8.0	**8.6**	**8.4**	
2. Private Corporate Sector	12.5	14.3	10.4	10.8	
3. Household Sector	10.9	10.6	**13.1**	**11.5**	
Gross Domestic Saving	34.6	**36.9**	**32.2**	33.7	
1. Public Sector	3.6	**5.0**	**0.5**	2.1	
2. Private Corporate Sector	7.9	9.4	7.9	8.1	
3. Household Sector	23.2	22.5	23.8	23.5	

Note: RE: Revised Estimate.
Source: Source: National Accounts Statistics (2011), Central Statistical Organization (CSO)

The decline in the investment rate was almost entirely due to the decline in private corporate sector from 17.3% in 2007-08 to 11.5% in 2008-09. The decline in the overall savings rate is attributable to decline in the savings of Public Sector from 5% in 2007-08 to 0.5% in 2008-09. This was mainly due to the increase in government's revenue deficit arising from the fiscal stimulus used to counter the effects of the global crisis. A slight decline was also recorded in the savings of the private corporate sector between 2007-08 and 2008-09.

The fixed investment rate declined from 33.9% in 2007-08 to 32% in 2008-09. The rate of fixed investment witnessed a further drop to 30.8 percent in 2009-10. Among fixed investment components, the rate of public sector declined from 8.6 percent to 8.4 percent and that of household sector declined significantly from 13.1 percent to 11.5 percent from 2008-09 to 2009-10. However there has been a slight improvement of fixed investment in private corporate sector. As per the latest data available on RE of National Account Statistics 2011, the rate of Gross Fixed Capital is estimated at 29.5 percent of GDP during 2010-11.

Fiscal Scenario

The expansionary fiscal measures taken by the Government in order to counter the effects of the global slowdown were continued in 2009-10 and this led to further increase in the key deficit indicators.

Fiscal and Revenue deficit (2007-11) (As a percentage of GDP)

	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
Fiscal Deficit	2.5	6	6.4	5.1	4.6
Revenue Deficit	1.1	4.5	5.2	3.4	3.4

RE: Revised Estimate, BE: Budget Estimate
Source: Budget at a glance.

The fiscal deficit of the Centre which was 2.5% in 2007-08 increased substantially to 6.0% in 2008-09 and further to 6.4% in 2009-10 but it declined to 5.1% in 2010-11 (RE) and the Budget Estimates for 2011-12 put the fiscal deficit at 4.6% of the GDP. Similarly, the revenue deficit of the Centre increased from 1.1% in 2007-08 to 4.5% in 2008-09 and further to 5.2% in 2009-10 and declined to 3.4% for 2010-11 (RE). As per 2011-12 (BE), the revenue deficit is projected at the same level of 3.4% of GDP. The increase in the deficit levels of the Centre owes to revenue foregone on account of reduction in indirect tax rates and enhanced public expenditure in order to boost demand in the economy amidst global meltdown.

External Sector Performance

The early signs of recovery in the global economy in the later part of 2009-10, reflected the turnaround in India's external sector position, showing improved performance in exports, capital inflows and in foreign exchange reserves. The recovery in the exports (as per Customs' data) started picking up from the second quarter of 2010-11. India's imports (as per Customs' data) after declining drastically in the fourth quarter of 2008-09 started picking up in the later part of 2009-10 and thereafter continued to increase throughout 2010-11.

The net capital flows (inflows minus outflows) declined drastically in 2008-09 to Rs 26018 crores from Rs 427926 crores in 2007-08. However, the revival in the capital flows started from 2009-10 and continued to remain buoyant even in 2010-11 despite a decline in Foreign Direct Investments (FDI) and Foreign Institutional Investments (FIIs). The improvement in net Capital Inflows is primarily due to an increase in commercial borrowings, External Assistance and banking capital.

India's current account deficit (CAD) was Rs.63,479 crores (US $ 15.7 billion) in 2007-08 i.e. 1.3% of GDP. This widened to Rs. 127631 Crores (US $ 27.9 billion) in 2008-09 i.e. 2.3% of GDP and further to Rs. 180626 crores (US $ 38.4 billion) in 2009-10 i.e. 2.8% of GDP. In 2010-11 it further increased to Rs. 202532 crores (US $ 44.3 billion) although in relative terms, i.e. **CAD as a percentage of GDP showed a decline and was recorded at 2.6%.**

The Foreign Exchange Reserves (including gold, SDRs and Reserve Tranche Position with IMF) declined from US $ 309.7 billion in 2007-2008 to US $ 252.0 billion in 2008-2009. However, the reserves increased by $ US 27.1 billion to stand at US $ 279.1 billion in 2009-2010, and further increased to $ US 304.8 in 2010-2011 comprising of foreign currency assets of US $ 274.3 billion, gold reserves amounting to US $ 23.0 billion, SDRs of US $ 4.6 billion and reserve tranche position in IMF of $ 2.9 billion. By mid 2011, the total Foreign Exchange Reserves were recorded at US $ 316.6 billion.

Price Stability

The Wholesale Price Index (WPI) based inflation (Base: 2004-05) increased from 4.7 % in 2007-08 to 8.1 % in the year 2008-09. The increase in WPI inflation during 2008-09 was largely driven by food articles covered under both primary and manufactured products group. The rate of inflation in 2009-10 was at 3.8 % but again the rate of Inflation drastically increased to 9.6 per cent during 2010-11.

Mid-Term Appraisal of the Eleventh Plan

The Planning Commission had attempted the mid-term appraisal of the Plan which was considered and approved by the National Development Council in July 2010. The appraisal document has reviewed the developments and has provided a comprehensive assessment of the performance of the economy during the Eleventh Plan period so far in different sectors, together with suggested mid course corrections. It has drawn attention to the problems in some selected areas and identified constraints that would be of relevance for the balance period of the Eleventh Plan and also for the Twelfth Plan. These include inter-alia: Restoring dynamism in agriculture, managing India's water resources, problems in achieving power generation targets, issues pertaining to urbanization, and special problems of Tribal Development.

In respect of agriculture, the Mid-Term Appraisal notes that though agriculture performance and the rate of growth in the Eleventh Plan is likely to be better than in the Tenth Plan, it may however not reach the target of 4% per year. The need for attention to agriculture and other critical issues mentioned above would require concerted action by the Centre and the States.

Poverty Estimates

The Planning Commission is the nodal agency for estimating poverty in the country both at national level and across the States. The Planning Commission estimates the poverty on the basis of poverty line defined in terms of monthly per capita consumption expenditure.. The Commission has been estimating poverty line and poverty ratio since 1997 on the basis of the methodology contained in the report of the Expert Group on 'Estimation of Number and Proportion of Poor' (known as Lakdawala Committee Report). The Head-count poverty ratio has been estimated by using the above mentioned poverty lines from a large size sample survey of household consumption expenditure carried out by the National Sample Survey Office with an interval of 5 years approximately. Accordingly, the estimates of poverty were worked out for the years 1973-74, 1977-78, 1983, 1987-88, 1993-94, 2004-05. The table below presents the poverty estimates for different years.

Percentage and Number of Poor

	Poverty Ratio (%)			**Number of Poor (million)**		
Year	Rural	Urban	Total	Rural	Urban	Total
1973-74	56.4	49.0	54.9	261.3	60.0	321.3
1977-78	53.1	45.2	51.3	264.3	64.6	328.9
1983	45.7	40.8	44.5	252.0	70.9	322.9
1987-88	39.1	38.2	38.9	231.9	75.2	307.1
1993-94	37.3	32.4	36.0	244.0	76.3	320.3
2004-05 (URP)*	28.3	25.7	27.5	220.9	80.8	301.7

**Note: ***URP consumption = Uniform Recall Period consumption in which the consumer expenditure data for all the items are collected from 30-day recall period.

The Planning Commission constituted an Expert Group in December, 2005 under the chairmanship of Prof. Suresh D Tendulkar to review the methodology for estimation of poverty. The Expert Group submitted its report in December 2009. While acknowledging the multi dimensional nature of poverty, the Expert Group recommended moving away from anchoring the poverty lines to the calorie intake norm, adopting the Mixed Reference Period (MRP) based estimates of consumption expenditure as the basis for future poverty lines, adopting MRP equivalent of urban Poverty Line Basket (PLB) corresponding to 25.7% urban headcount ratio as the new reference PLB for rural areas. On the basis of above methodology, the all-India rural poverty headcount ratio for 2004-05 was estimated at 41.8 %, urban poverty headcount ratio at 25.7% and all India level at 37.2%. It may however be mentioned that the Tendulkar Committee's estimates are not strictly comparable to the present official poverty estimates because of different methodologies. The relevant estimates for 1993-94 and 2004-05 are given below.

Poverty Ratios

	1993-94			**2004-05**		
Year	Rural	Urban	Total	Rural	Urban	Total
Planning Commission (URP)	37.3	32.4	36.0	28.3	25.7	27.5
Tendulkar Estimates (2004-05) (MRP)	50.1	31.8	45.3	41.8	25.7	37.2

N.B.: 1. URP = URP consumption = Uniform Recall Period consumption in which the consumer expenditure data for all the items are collected from 30-day recall period.

2. MRP = MRP consumption = Mixed Recall Period consumption in which the consumer expenditure data for five non-food items, namely, clothing, footwear, durable goods, education and institutional medical expenses are collected from 365-day recall period and the consumption data for the remaining items are collected from 30-day recall period.

As has been indicated in the Mid Term Appraisal of the Eleventh Five Year Plan, the revised poverty lines and poverty ratios for 2004-05 as recommended by the Tendulkar Committee have been accepted by the Planning Commission. The Tendulkar Committee has specifically pointed out that the upward revision in the percentage of rural poverty in 2004-05, resulting from the application of a new rural poverty line should not be interpreted as implying that the extent of poverty has increased over time. These estimates, as reported by the Committee, clearly show that whether we use the old method or the new, the percentage of the population below poverty line has declined by about the same magnitude.

Economic Outlook for 2011-12

Last quarter of 2010-11 registered a GDP growth rate of less than 8%. This trend has continued during the first quarter of 2011-12 also. A comparison of the growth rates of the first quarters for the years 2010-11 and 2011-12 reveals that the growth rate of industry has declined from 9.1% to 5.1%. The sharp decline in the growth rate of industry is also corroborated by the Index of Industrial Production (IIP) which stood at 166.6 in July 2011 as compared to 161.3 in July 2010.

The overall growth rate for the year 2011-12 would depend on a number of factors like international economic environment which at present is very volatile and the continued inflationary pressure prevailing in the country.