CHAPTER –2

ECONOMY AND THE PLAN : AN OVERVIEW

The Ninth Five Year Plan, as approved by National Development Council (NDC) on 19th February, 1999 targeted annual average growth rate of 6.5 per cent for the economy as whole, and a growth rate of 3.9 per cent for agriculture sector. The key strategies envisaged to realise this target rest on attaining a high investment rate of 28.2 per cent of GDP at market prices and a domestic saving rate of 26.1 per cent of the GDP, resulting in a current account deficit of 2.1 per cent for Ninth Five Year Plan. The targets and parameters specified in the Ninth Plan document are based on the pre-revised National Accounts (base 1980-81 = 100) and are not directly comparable to the figures currently available from the revised National Accounts Statistics (Base 1993-94 = 100). Therefore, any meaningful appraisal of the plan performance necessitates recasting of plan parameters, and a reassessment of the feasibility of the plan targets in order to make them consistent with the revised National Accounts Statistics (NAS).

2. Revision of the plan targets and recasting of the economic parameters in conformity with the new series of NAS, while maintaining the inter sectoral consistency, have been carried out in the Mid-term Term Appraisal of the Ninth Plan which was considered by the full Planning Commission in its meeting held on 30th September, 2000. The reformulation of the Plan targets and macro-economic parameters retains the target growth rate of 6.5 per cent and agricultural growth rate of 3.9 per cent per annum for the full five year period as mandated by the NDC. The revised sectoral growth rates are 5.1 per cent for mining and quarrying, 7.1 per cent for manufacturing, 8.4 per cent for electricity, gas and water supply, 6.8 per cent for construction and 11.9 per cent for communication, among others. The revised behavioral parameters are an investment rate of 25.7 per cent and a domestic savings rate of 24.27 per cent of GDP at market prices pulling down the Current Account Deficit to 1.43%.

3. The performance of the economy during the first three years of Ninth Five Year Plan, are described in the following sections.

Growth and Sectoral Output

4. The overall performance of the economy has marginally declined during 1999-2000 compared to the previous year. As per the Quick estimates of National Income, the Gross Domestic Product (GDP) in 1999-2000 records a growth of 6.4 per cent as against the growth rate of 6.8 per cent during 1998-99.

5. The sectors indicating slowdown during the year 1999-2000 are ‘agriculture, forestry and fishing (1.3%), trade , hotels, transport & communication (6.7%). There has been marginal decline in electricity, gas and water supply and community, social and personal services. The sectors indicating higher growth are manufacturing (8.5%), financing, insurance, real estates and business services (10.6%).

Savings and Investments

6. Gross Domestic Savings (GDS) constituted 22.3 per cent of GDP at market prices in 1998-99. This is less than the savings rate of 24.7 per cent realised in 1997-98. Similarly, Gross Domestic Investment as a proportion of GDP has declined from 26.2% in 1997-98 to 23.4% in 1998-99. These rates are also lower than the revised parameters of investment rate and savings rate for Ninth Plan.

Fiscal Development

7. A high level of fiscal deficit continues to be an area of concern for the policy planners. Ever since economic reforms were initiated, achievement of a sustainable fiscal position has been a constant endeavor. But progress in this area is still limited.

8. The method of calculation of the fiscal deficit of the central government in the 1999-2000 Budget has undergone a change. Under the new method, fiscal deficit excludes the transfer of the share of net small savings collection, which is now paid from the public accounts. On this basis, the fiscal deficit of the central government is estimated to increase gradually from 4.8 per cent of GDP in 1997-98 to 5.1 per cent in 1998-99 and further to 5.6 per cent in 1999-2000.

9. The fiscal position of the States is under severe stress and much adjustment would be required before a sustainable fiscal position can be achieved. The combined fiscal position of Center and States in 1999-2000 is indicated by a gross fiscal deficit of 8.8 per cent and revenue deficit of 6.2 per cent, resulting in a primary deficit of 2.9 per cent of GDP.

10. The main area of concern is the slow growth of tax revenues. The Ninth Plan has envisaged an increase in the tax-GDP ratio of about 1 percentage point during the five years period. However, since 1996-97, the combined tax revenue of the Center and the States has remained stable around 14.5 per cent of GDP, except for the year 1998-99 which realized a very low Tax-GDP ratio of 13.46 per cent.

11. On the expenditure side of the Central Government, the components, which have grown rapidly, are interest payments, defence services and pension and other retirement benefits. Total revenue expenditure is growing at an annual compound rate of more than 14 per cent since 1993-94. The expenditure of the state governments is growing at a rate of 16 per cent annually, whereas, the non-developmental expenditure is growing at a high rate of more than 20 per cent.

12. The Ninth Plan envisages a reasonable degree of price stability. The average inflation rate measured by changes in Wholesale Price Index (WPI) (new series with base year 1993-94) was 4.4 per cent in 1997-98. The inflation rate increased to 5.95 per cent in 1998-99 but declined to around 3.27 per cent in 1999-2000. This moderation in the rate of inflation was achieved against a relatively high rate of Monetary Expansion (ME) of about 18 per cent in both 1997-98 and 1998-99 and also increases in the administered prices of certain petroleum products in 1999-2000.

Balance of Payments

13. The export to GDP ratio increased marginally from 8.2 per cent in 1998-99 to 8.5 per cent in 1999-2000. Import to GDP ratio increased from 11.3 per cent in 1998-99 to 12.3 per cent in 1999-2000. In US $ terms, exports declined by 5.1 per cent in 1998-99 as compared to a growth of 4.6 per cent in 1997-98 and imports increased by 2.2 per cent in 1998-99 as compared to an increase of 6.0 per cent in 1997-98. During the year 1999-2000, the imports increased by 11.4% over the previous year.

14. There has been an improvement in the current account deficit, which as percentage of GDP declined from 1.0 per cent in 1998-99 to 0.9 per cent in 1999-2000. In tandem, India's foreign exchange reserves, at the end of March 2000, increased to US$ 38036 million from US$ 32490 million at the end of March, 1999.