

# I. THE REAL ECONOMY\*

On June 30, 2005 the Central Statistical Organisation (CSO) released estimates of real GDP growth for the fourth quarter (January-March or Q<sub>4</sub>) of 2004-05 and reaffirmed its advance estimates of real GDP growth for the full year 2004-05 at 6.9 per cent. Noteworthy features of the pick-up in real activity in Q<sub>4</sub> over Q<sub>3</sub> (October-December, 2004) which are expected to have a bearing on Q<sub>1</sub> (April-June), 2005-06 were: (i) the turnaround in agriculture brought about by the year-on-year increase in *rabi* output; (ii) the sustained expansion of the service sector underpinned by the performance of trade, hotels, restaurants, transport and communication, and community, social and personal services (Table 1).

**Table 1: Growth Rates of Real GDP**

Sector	1993-94 to 2002-03 (Average)	2003- 04*	2004- 05 #	(Per cent)							
				2003-04				2004-05			
				Q <sub>1</sub>	Q <sub>2</sub>	Q <sub>3</sub>	Q <sub>4</sub>	Q <sub>1</sub>	Q <sub>2</sub>	Q <sub>3</sub>	Q <sub>4</sub>
1	2	3	4	5	6	7	8	9	10	11	12
<b>1. Agriculture and Allied Activities</b>	<b>2.1</b> <b>(26.5)</b>	<b>9.6</b> <b>(21.7)</b>	<b>1.1</b> <b>(20.5)</b>	<b>0.1</b>	<b>7.2</b>	<b>18.2</b>	<b>10.4</b>	<b>3.8</b>	<b>0.0</b>	<b>-0.5</b>	<b>1.8</b>
1.1 Agriculture	2.0	10.3	N.A								
<b>2. Industry</b>	<b>6.6</b> <b>(22.1)</b>	<b>6.5</b> <b>(21.6)</b>	<b>8.3</b> <b>(21.9)</b>	<b>5.6</b>	<b>6.0</b>	<b>6.4</b>	<b>7.9</b>	<b>7.6</b>	<b>9.1</b>	<b>9.2</b>	<b>7.3</b>
2.1 Mining and Quarrying	4.7	6.4	4.5	4.5	4.1	5.9	10.7	6.9	4.7	4.5	2.5
2.2 Manufacturing	7.1	6.9	9.2	6.1	6.9	7.0	7.6	7.9	9.6	10.5	8.6
2.3 Electricity, Gas and Water Supply	5.2	3.7	5.5	3.0	1.1	3.0	7.6	6.1	9.1	4.4	2.6
<b>3. Services</b>	<b>7.8</b> <b>(51.4)</b>	<b>8.9</b> <b>(56.7)</b>	<b>8.6</b> <b>(57.6)</b>	<b>7.7</b>	<b>10.5</b>	<b>9.5</b>	<b>7.8</b>	<b>9.1</b>	<b>7.7</b>	<b>8.8</b>	<b>8.8</b>
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	8.8	11.8	11.4	8.0	10.4	13.5	14.6	11.5	12.3	10.8	11.1
3.2 Financing, Insurance, Real Estate and Business Services	8.0	7.1	7.1	6.4	7.2	7.3	7.6	7.0	5.5	8.2	7.7
3.3 Community, Social and Personal Services	6.9	5.8	5.9	9.0	14.9	5.2	-2.9	8.2	3.0	5.6	7.2
3.4 Construction	5.7	7.0	5.2	6.6	8.5	6.5	6.6	5.0	4.6	7.2	4.1
<b>4. Real GDP at Factor Cost</b>	<b>6.0</b> <b>(100)</b>	<b>8.5</b> <b>(100)</b>	<b>6.9</b> <b>(100)</b>	<b>5.5</b>	<b>8.8</b>	<b>11.0</b>	<b>8.4</b>	<b>7.6</b>	<b>6.7</b>	<b>6.4</b>	<b>7.0</b>

\* : Quick Estimates. # : Revised Estimates. N.A : Not Available.  
**Note** : Figures in parentheses denote shares in real GDP.  
**Source** : Central Statistical Organisation.

\* Information in this document is presented on a financial year (April-March) basis wherein the first quarter or Q<sub>1</sub> relates to April-June, second quarter or Q<sub>2</sub> relates to July-September, third quarter or Q<sub>3</sub> relates to October-December and fourth quarter or Q<sub>4</sub> relates to January-March.

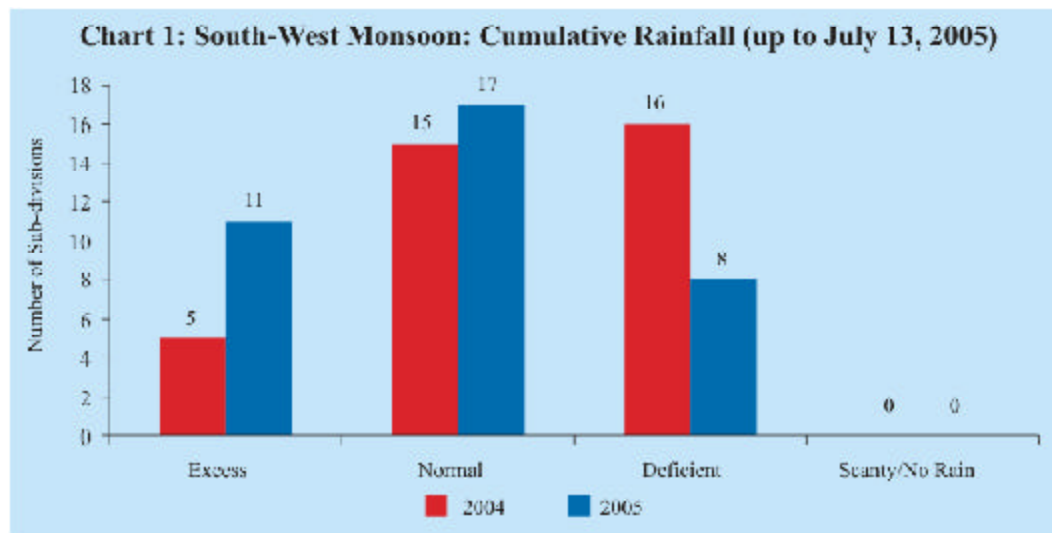
### Developments during Q<sub>1</sub>, 2005-06

Quarterly estimates of real GDP growth for Q<sub>1</sub>, 2005-06 would be released by the CSO at the end of September, 2005. The movements in key underlying factors such as the progress of the South-West monsoon, industrial production and associated indicators of business and investment expectations, and lead information on drivers of service sector activity provide a proximate view of real sector developments in the quarter.

### Agricultural Situation

According to the India Meteorological Department (IMD) forecast on July 6, 2005 the rainfall during the South-West monsoon season (June-September) 2005 for the country as a whole is likely to be 98 per cent of the Long Period Average (LPA) with a model error of +/- 4 per cent. The arrival of the monsoon was, however, delayed by almost a week. Moreover, the progress of the monsoon was weak till June 22, 2005 and the cumulative rainfall was 49 per cent below normal. The monsoon picked up in the last week of June, partly offsetting the earlier shortfall. The cumulative rainfall recorded during the South-West monsoon season 2005 so far (June 1 to July 13, 2005) was one per cent above normal as against 10 per cent below normal a year ago. Of the 36 meteorological sub-divisions, cumulative rainfall was deficient/scanty/no rain in 8 sub-divisions (16 sub-divisions during last year) (Chart 1).

At the district level, 61 per cent of the total number of districts (525) reported excess/normal rainfall, while the rest received deficient/scanty/no rain. The total live water storage in the 76 major reservoirs<sup>1</sup> as on July 15, 2005 was 28 per cent of the Full Reservoir Level (FRL) as compared with 20 per cent a year ago. The water storage position was 141 per cent of last year's level.



<sup>1</sup> These reservoirs account for 63 per cent of the total reservoir capacity of the country.

The area coverage up to July 11, 2005 was lower in the case of all the *kharif* crops (Table 2).

Table 2: Progress of Area Coverage under Kharif Crops				
(Area in Thousand Hectares)				
Crop	Normal Area	Area Coverage (As on July 11)		
		2004	2005	Variation (Per cent) (2005 over 2004)
1	2	3	4	5
Rice	39,900	6,727	5,485	-18.5
Coarse Cereals	22,500	8,849	6,996	-20.9
Of which				
Bajra	9,000	2,670	2,423	-9.3
Jowar	4,700	1,510	1,212	-19.7
Maize	5,800	4,139	2,903	-29.9
Total Pulses	10,200	2,745	1,195	-56.4
Cotton	8,700	4,591	3,153	-31.3
Total Kharif Oilseeds	15,200	7,485	4,326	-42.2
Of which				
Groundnut	5,600	2,868	1,604	-44.1
Soyabean	6,300	3,380	2,164	-35.9
Sesamum	1,600	667	296	-55.6
Sunflower	500	446	180	-59.6
Castor	800	980	750	-23.5
Niger	500	260	60	-76.9

Source : Ministry of Agriculture, Government of India.

Real activity originating in agriculture and allied activities in Q, 2005-06 is expected to receive a boost from the improvement in *rabi* production in 2004-05. According to the Fourth Advance Estimates released by the Ministry of Agriculture, the shortfall in total foodgrains production during 2004-05 on account of a setback in *kharif* output was partly compensated by *rabi* production which was 4.7 million tonnes higher than in the previous year (Table 3). Among the non-foodgrains, the

Table 3: Agricultural Production				
(Million Tonnes)				
Crop	2003-04		2004-05	
	T	A	T	A \$
1	2	3	5	6
Rice	93.0	88.3	93.5	85.3
Wheat	78.0	72.1	79.5	72.0
Coarse Cereals	34.0	38.1	36.8	33.9
Pulses	15.0	14.9	15.3	13.4
Total Foodgrains	220.0	213.5	225.1	204.6
<i>Kharif</i>	111.7	116.9	113.8	103.3
<i>Rabi</i>	108.3	96.6	111.3	101.3
Total Oilseeds	24.7	25.3	26.2	26.1
<i>Kharif</i>	14.7	16.8	16.3	14.9
<i>Rabi</i>	10.0	8.5	9.9	11.2
Sugarcane	320.0	237.3	270.0	232.3
Cotton #	15.0	13.9	15.0	17.0
Jute and Mesta ##	12.0	11.3	11.8	10.5

T : Target    A: Achievement

\$ : Fourth Advance Estimates as on July 6, 2005

# : Million bales of 170 kgs each;    ##: Million bales of 180 kgs each.

Source : Ministry of Agriculture, Government of India.

production of cotton is expected to stage a recovery, while that of oilseeds, sugarcane and jute and mesta is likely to record a decline.

### Food Management

The total stocks of foodgrains with the Food Corporation of India (FCI) and State Government agencies stood at 28.5 million tonnes as on May 1, 2005, down by 12.0 per cent from a year ago. Total procurement of rice and wheat up to June 30, 2005 was about nine per cent lower while the total offtake of foodgrains (during April 1 to April 30, 2005) was around two per cent lower than in the previous year. Foodstocks continue to remain higher than the revised buffer stock norms (Table 4).

**Table 4: Management of Foodstocks**

Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains off-take			Closing Norms Stock of Foodgrains		
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS - Exports Domestic			
	2	3	4	5	6	7	8	9	10	11	12	13
<b>2004</b>												
January	11.7	12.7	25.0	3.5	0.0	3.5	2.4	0.9	0.2	0.4	24.0	16.8
February	12.4	11.0	24.0	2.2	0.0	2.2	1.9	1.1	0.1	0.5	22.8	
March	13.6	8.6	22.8	2.1	0.0	2.1	2.5	1.2	0.1	0.4	20.6	
April	13.1	6.9	20.6	1.2	14.5	15.7	2.0	0.5	0.0	0.3	32.4	15.8
May	12.7	19.0	32.4	1.3	1.7	3.0	2.3	0.6	0.0	0.1	32.3	
June	12.3	19.4	32.3	0.9	0.5	1.4	2.3	1.0	0.0	0.1	30.6	
July	10.8	19.2	30.6	0.4	0.1	0.5	2.4	1.0	0.0	0.1	27.2	24.3
August	9.1	17.4	27.2	0.2	0.0	0.2	2.4	1.0	0.0	0.1	23.0	
September	7.1	15.8	23.0	0.2	0.0	0.2	2.5	1.0	0.0	0.1	20.3	
October	6.1	14.2	20.3	6.5	0.0	6.5	2.4	0.8	0.0	0.0	23.7	18.1
November	11.0	12.6	23.7	2.7	0.0	2.7	2.4	0.6	0.0	0.0	21.8	
December	11.1	10.7	21.8	2.6	0.0	2.6	2.6	0.7	0.0	0.0	21.7	
<b>2005</b>												
January	12.8	8.9	21.7	3.9	0.0	3.9	2.7	0.8	0.0	0.0	21.5	16.8
February	14.2	7.3	21.5	2.3	0.0	2.3	2.7	0.9	0.0	0.0	20.0	
March	13.7	5.8	20.0	1.7	0.0	1.7	2.6	1.7	0.0	0.0	18.0	
April	13.3	4.1	18.0	1.2	12.8	14.0	2.0	0.8	0.0	0.0	28.5	16.2*
May	13.0	15.1	28.5	1.2	2.0	3.1	N.A.	N.A.	N.A.	N.A.	N.A.	
June	N.A.	N.A.	N.A.	0.8	0.1	0.9	N.A.	N.A.	N.A.	N.A.	N.A.	

PDS : Public Distribution System.      OWS : Other Welfare Schemes.      OMS : Open Market Sales.  
 N.A. : Not Available.  
 \* : Total minimum stocks to be maintained as on 1<sup>st</sup> April under New Buffer Stocking Policy with effect from March 29, 2005.  
**Note** : Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting offtake, as stocks include coarse grains.  
**Source** : Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

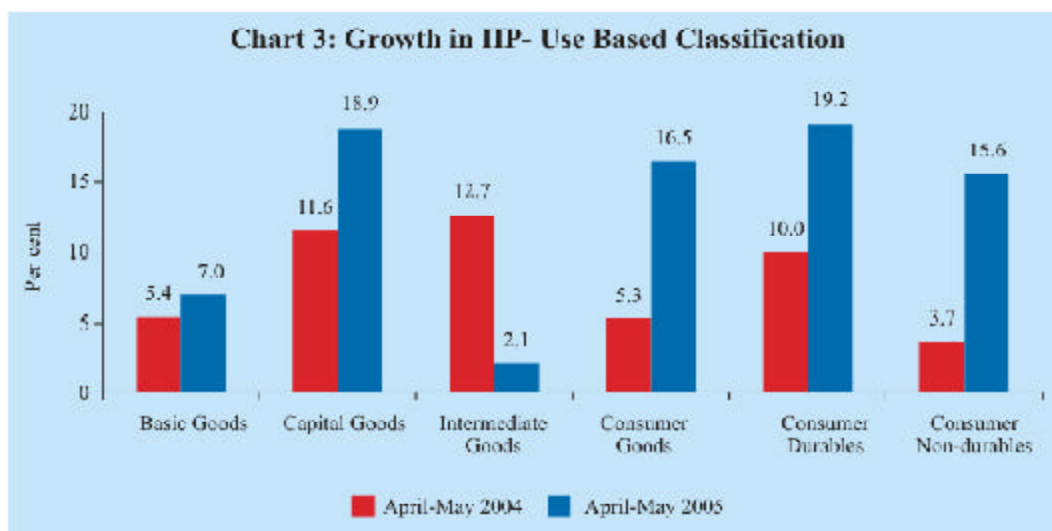
### Industrial Performance

Industrial production was buoyant in April-May, 2005 with growth accelerating in the manufacturing sector. The electricity sector recorded a strong pick-up during May, 2005 and the cumulative growth during April-May, 2005 was marginally higher than a year ago. On the other hand, the mining sector remained subdued against a high base a year ago and a decline in production in mines (other than coal mining) (Chart 2).



According to the use-based classification, the capital goods sector maintained high growth, reflecting increase in investment and export demand. The consumer durables sector picked up strongly driven by demand for white goods and passenger cars and facilitated by ease in availability of financing. Consumer non-durables also recorded a substantial growth, reflecting low base and a turnaround in growth of food products. Basic goods accelerated during May, 2005 and the cumulative growth during April-May was higher than a year ago. Intermediate goods, however, recorded deceleration, *inter alia*, due to a decline in production of petroleum refinery products (Chart 3).

At the two-digit manufacturing group level, industrial performance in April-May, 2005 recorded an improvement over a year ago in terms of number of



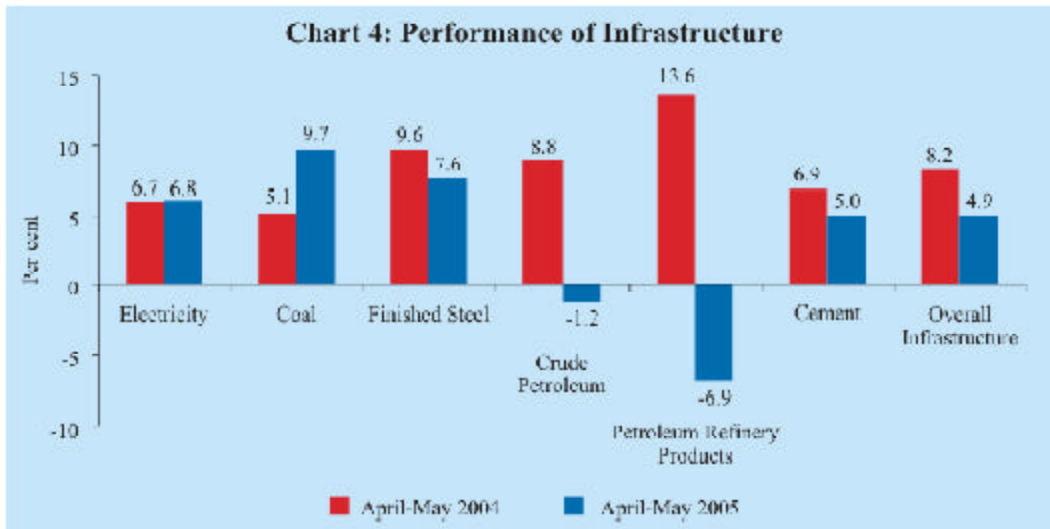
industries recording accelerated growth. Only three industry groups recorded a decline as compared with six groups during the corresponding period of the previous year (Table 5).

**Table 5: Growth Performance of 17 industry Groups : April-May, 2005**

Acceleration in Growth	Deceleration in Growth	Decline in Growth
1. Textiles products (including apparel);	1. Machinery and equipment;	1. Jute and other vegetable fibre textiles (except cotton);
2. Other manufacturing industries;	2. Chemicals and chemical products;	2. Wool, silk and man-made fibre textiles;
3. Basic metal and alloy industries;	3. Cotton textiles;	3. Wood and wood products, furnitures and fixtures;
4. Transport equipments and parts;	4. Beverages, tobacco and related products;	
5. Paper and paper products;	5. Rubber, plastic, petroleum and coal products	
6. Non-metallic mineral products;		
7. Food Products;		
8. Metal products and parts; and		
9. Leather and leather products and fur products.		

### Infrastructure

The subdued performance of the infrastructure sector since December 2004 persisted during April-May, 2005 (Chart 4). The core infrastructure industries, which have a weight of 26.7 per cent in the Index of Industrial Production (IIP), were adversely affected by a reduced availability of gas for gas-based thermal plants; fall in crude petroleum production; sharp increase in international crude oil prices; below capacity operation of some big refineries; downturn in global finished steel prices; and rising input costs of power and freight for the cement sector. On the other hand, coal production rose sharply on the back of strong Chinese demand as also from domestic user industries such as power, steel and cement.



**Table 6: Business Expectations Surveys**

Agency	Expectation for	Index	Growth over previous round (Per cent)
Dun & Bradstreet	2005 (July-September)	Business Optimism Index	5.6
NCAER	2005 (April-June)	Business Confidence Index	0.4
FICCI	2004-05 (January-March)	Business Confidence Index	-5.3
CII	2005-06 (April-September)	Business Confidence Index	1.4
RBI	2005-06 (July-September)	Business Confidence Index	-0.9

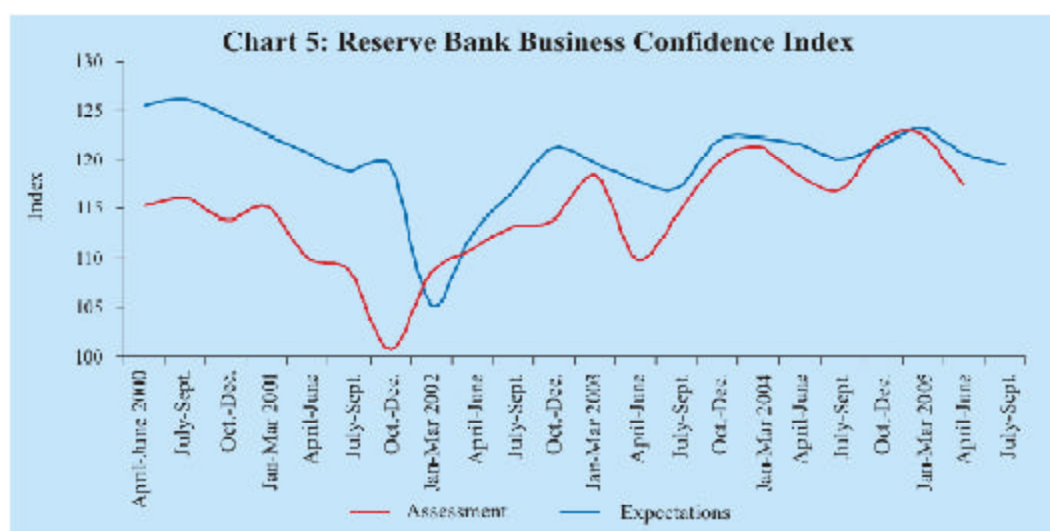
### Business Expectations Surveys

Various business confidence surveys suggest that the industrial activity will remain buoyant and the outlook will be positive (Table 6). The National Council of Applied Economic Research (NCAER) business confidence index (BCI) rose during April-June, 2005 - the third quarter in succession. Over one-half of respondents expect new investment plans for the year 2005-06 with 42.7 per cent planning new investments for capacity expansion. About 40 per cent envisage quality/efficiency improvement and the remaining 17.2 per cent propose investment in new lines of business. The Confederation of Indian Industries' (CII) BCI also shows an improvement for April-September 2005 over the preceding half-yearly index. About 58 per cent of the respondent firms expected capacity utilisation between 75-100 per cent while another 22 per cent expected capacity utilisation to exceed 100 per cent. More than one-third surveyed companies expected an increase in employment. Around four-fifth of the respondents expected increases in new orders from the domestic market and also planned to make fresh investments during 2005-06. Nearly three-fourth of exporters expected export growth to remain robust.

The quarterly Business Confidence Survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) during March-April 2005 indicates that the industrial sector is optimistic about export prospects, investments and making additions to the workforce. The BCI remains close to the July-September 2004 level and in the 'significantly optimistic' zone. 69 per cent of the respondents expected overall economic conditions to be 'moderately to substantially better' in the April-September 2005 period. For the majority (91 per cent) of the participating companies, availability of credit is not a constraining factor, while 83 per cent of respondents were 'comfortable' as far as the cost of credit is concerned.

According to the Reserve Bank's latest Industrial Outlook Survey, the Business Confidence Index for July-September 2005 quarter stood at 119.6, lower by only 1.1 percentage point from the previous quarter's level (Chart 5). The assessment about the overall business situation for April-June 2005 showed a decline in the level of confidence over the previous quarter although it remained unchanged from the level during the corresponding quarter a year ago.

Responses to the survey suggest an improvement in the overall business situation, production, order books, employment, exports, imports, selling prices and profit margins during the quarter July-September, 2005 *vis-à-vis* April-June,



2005. On the other hand, capacity utilisation is expected to be lower in July-September 2005 (Table 7). While the overall financial situation is seen as remaining unchanged during July-September 2005, working capital finance requirement is expected to increase, though availability of finance is expected to be broadly unchanged. More manufacturing corporates are expecting a rise in the cost of

**Table 7: Net Response on 'A Quarter Ahead' Expectations about the Industrial Performance**

		(Per cent)					
Parameter	Response	July-Sept. 2004 (778)	Oct.-Dec. 2004 (955)	Jan.-March 2005 (987)	Apr.-June 2005 (987)	July-Sept. 2005 (816)	
1	2	3	4	5	6	7	
1	Overall business situation	Better	44.4	47.4	47.4	44.3	45.5
2	Financial situation	Better	33.0	37.0	37.5	36.7	36.7
3	Working capital finance requirement	Increase	26.1	30.9	29.2	27.2	28.8
4	Availability of finance	Improve	29.1	28.6	31.3	30.8	30.7
5	Production	Increase	38.9	44.5	45.9	38.7	40.7
6	Order books	Increase	39.2	42.6	42.2	37.4	39.6
7	Cost of raw material	Decrease	-36.3	-39.0	-41.8	-36.7	-43.6
8	Inventory of raw material	Below average	-3.4	-4.1	-7.4	-4.3	-4.2
9	Inventory of finished goods	Below average	-2.2	-3.5	-5.2	-3.1	-4.2
10	Capacity utilisation	Decrease	28.0	27.8	31.3	27.7	25.4
11	Level of capacity utilization	Above normal	8.1	6.3	12.9	8.1	7.6
12	Assessment of the production capacity	More than adequate	6.1	5.4	6.6	5.7	5.3
13	Employment in the company	Increase	3.7	6.0	8.0	7.7	7.8
14	Exports, if applicable	Increase	26.5	31.6	31.5	30.2	32.5
15	Imports, if any	Increase	18.1	21.3	22.2	20.3	23.7
16	Selling prices are expected to	Increase	8.9	7.6	8.6	11.0	13.3
17	If increase expected in selling prices	Increase at lower rate	8.6	9.9	8.2	13.5	14.0
18	Profit margin	Increase	4.8	4.4	5.6	6.3	7.1

**Note :** 1. Figures in bracket represent number of companies covered in the report.

2. 'Net response' is measured as the per cent share differential between the companies reporting 'optimistic' (positive) and 'pessimistic' (negative) responses; responses indicating status quo (no change) are not reckoned. Higher 'net response' indicates higher level of confidence and *vice-versa*.



raw materials while a bulk of the respondents – almost 85 per cent – felt that the inventory of raw materials as well as finished goods and selling prices (74 per cent) will not change during July-September 2005.

About two-thirds of the companies surveyed are planning investment in fixed capital during 2005-06 somewhat higher than during 2004-05 (61.6 per cent). Industry-wise, fertilisers, pharmaceuticals and medicines, transport equipment and electrical machinery evinced higher interest in investment. Companies identified existing demand, availability of internal finance and net return on investment as factors that encourage higher investment while availability of man power was reported as a discouraging factor.

Lead indicators of services sector performance for Q<sub>1</sub>, 2005-06 suggest a continuing buoyancy (Table 8). Transport sector performance was led by increase in revenue earning freight of the railways. Substantial growth continued to be witnessed in cargo handled at major ports. Services sector growth has also been propelled by the Information Technology (IT) sector and IT Enabled Services (ITES)/Business Process Outsourcing (BPO).

**Table 8: Indicators of Services Sector Activity**

(Growth Rates in Per cent)		
Sub-sector	April-May 2004	April-May 2005
1	2	3
Tourist arrivals	30.7	19.8
Commercial vehicles production (April-June)	58.8	5.7
Railway revenue earning freight traffic	6.2	14.0
Cargo handled at major ports	8.0	16.6
Cell phone connections	35.8	14.8
Civil aviation		
a) Export cargo handled	2.6	13.1
b) Import cargo handled	36.3	11.0
c) Passengers handled at international terminals	23.9	12.6
d) Passengers handled at domestic terminals	28.3	19.7
Roads : Upgradation of Highways	-26.5	25.4
Aggregate deposits (April-June)	3.9	5.3
Non-food credit (April-June)	3.8	5.4
Central Government expenditure	12.6	11.6

The generally positive developments in agriculture, industry and services coupled with upbeat business confidence and expectations in the first quarter have imparted a degree of optimism regarding growth prospects for 2005-06. Forecasts place overall growth during 2005-06 in the range of 6.0 to 7.2 per cent (Table 9).

**Table 9: Projections of Real GDP Growth in 2005-06 for India by Various Agencies**

Agency	Growth Projections for 2005-06 (Per cent)	Assumptions	Month of Projections
1	2	3	4
ADB	6.9	Normal Monsoon. Agriculture 4.4 per cent Industry 6.7 per cent Services 7.7 per cent	April, 2005
BIS	7.1		June, 2005
CII	7.2	Normal monsoon during June-September Agriculture 3.0 per cent Industry 8.1 per cent Services 8.3 per cent	End-May, 2005
CMIE	a) 6.6	Normal Monsoon and modest rise in government spending Agriculture 3.1 per cent Industry 8.5 per cent Services 7.5 per cent	a) April, 2005
	b) 6.0	Agriculture (-)0.7 per cent Industry 8.5 per cent Services 7.5 per cent	b) June, 2005
CRISIL	7.0	Agriculture 3.0 per cent Industry 7.0 per cent Services 8.6 per cent	Early-May, 2005
IMF	6.7		April, 2005
Ministry of Finance	7.0	Normal monsoon Agriculture 3.0 per cent Industry and Services expected to perform well	End May, 2005
NCAER	7.2	Normal monsoon. Trade will be 'growth driver' Agriculture 3.3 per cent Industry 7.6 per cent Services 8.6 per cent	Mid-May, 2005
Reserve Bank of India	Around 7.0	Normal monsoon Agriculture 3.0 per cent Industry and Services expected to maintain current growth momentum.	April, 2005, (Annual Policy Statement for the year 2005-06)
ADB : Asian Development Bank. BIS : Bank for International Settlements. CII : Confederation of Indian Industry. CMIE : Centre for Monitoring Indian Economy CRISIL : Credit Rating Information Services of India Limited. IMF : International Monetary Fund. NCAER : National Council of Applied Economic Research.			