

## *Macroeconomic and Monetary Developments Mid-Term Review 2008-09 \**

### *I. The Real Economy*

The Indian economy continued to record robust growth during the first quarter of 2008-09 (April-June), although the pace of expansion moderated in comparison with the average growth rate of real GDP during last five years. According to the first quarter estimates of 2008-09 released by the Central Statistical Organisation (CSO) in August 2008, real GDP growth was placed at 7.9 per cent during the first quarter of 2008-09 as compared with 9.2 per cent during the corresponding quarter of previous year and 9.0 per cent during 2007-08. The deceleration was spread across all the three sectors, *viz.*, agriculture and allied activities, industry and services (Table 1 and Chart 1). The growth rate of real GDP during the last five years (2003-04 to 2007-08) averaged 8.8 per cent. The moderation during the first quarter of 2008-09 reflected a cyclical downturn, while the structural drivers of the growth process continued to be favourable. Notwithstanding the moderation, the growth rate of the Indian economy continuous to be one of the highest in the world.

#### **Agricultural Situation**

Monsoon set in over Kerala on May 31, 2008 coinciding almost with its normal date of arrival (June 1). It advanced rapidly and covered parts of south peninsula and entire North-Eastern States by June 2, 2008. Northward advance of monsoon over East and Central India also was near normal. Monsoon covered the entire country by July 10, 2008, five days

\* Issued with the Mid-Term Review of the Annual Policy Statement for 2008-09.

# ANNUAL POLICY REVIEW

Macroeconomic  
and Monetary  
Developments  
Mid-Term Review  
2008-09

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

Sector	2000-01 to 2007-08 (Average)	2005-06	2006-07*	2007-08#	2007-08				2008-09 Q1
					Q1	Q2	Q3	Q4	
					6	7	8	9	
1	2	3	4	5	6	7	8	9	10
<b>1. Agriculture and Allied Activities</b>	<b>2.9</b>	<b>5.9</b>	<b>3.8</b>	<b>4.5</b>	<b>4.4</b>	<b>4.7</b>	<b>6.0</b>	<b>2.9</b>	<b>3.0</b>
	(20.9)	(19.6)	(18.5)	(17.8)					
<b>2. Industry</b>	<b>7.1</b>	<b>8.0</b>	<b>10.6</b>	<b>8.1</b>	<b>9.6</b>	<b>8.6</b>	<b>8.6</b>	<b>5.8</b>	<b>5.2</b>
	(19.6)	(19.4)	(19.5)	(19.4)					
2.1 Mining and Quarrying	4.9	4.9	5.7	4.7	1.7	5.5	5.7	5.9	4.8
2.2 Manufacturing	7.8	9.0	12.0	8.8	10.9	9.2	9.6	5.8	5.6
2.3 Electricity, Gas and Water Supply	4.8	4.7	6.0	6.3	7.9	6.9	4.8	5.6	2.6
<b>3. Services</b>	<b>9.0</b>	<b>11.0</b>	<b>11.2</b>	<b>10.7</b>	<b>10.6</b>	<b>10.7</b>	<b>10.0</b>	<b>11.4</b>	<b>10.2</b>
	(59.6)	(61.1)	(61.9)	(62.9)					
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	10.3	11.5	11.8	12.0	13.1	11.0	11.5	12.4	11.2
3.2 Financing, Insurance, Real Estate and Business Services	8.8	11.4	13.9	11.8	12.6	12.4	11.9	10.5	9.3
3.3 Community, Social and Personal services	5.8	7.2	6.9	7.3	5.2	7.7	6.2	9.5	8.4
3.4 Construction	10.6	16.5	12.0	9.8	7.7	11.8	7.1	12.6	11.4
<b>4. Real GDP at Factor Cost</b>	<b>7.3</b>	<b>9.4</b>	<b>9.6</b>	<b>9.0</b>	<b>9.2</b>	<b>9.3</b>	<b>8.8</b>	<b>8.8</b>	<b>7.9</b>
	(100)	(100)	(100)	(100)					

Memo:

(Amount in Rupees crore)

a) Real GDP at Factor Cost (1999-2000 prices)	26,12,847	28,64,310	31,22,862
b) GDP at Current Market Prices	35,80,344	41,45,810	47,13,148

@ : At 1999-2000 prices.

\* : Quick Estimates.

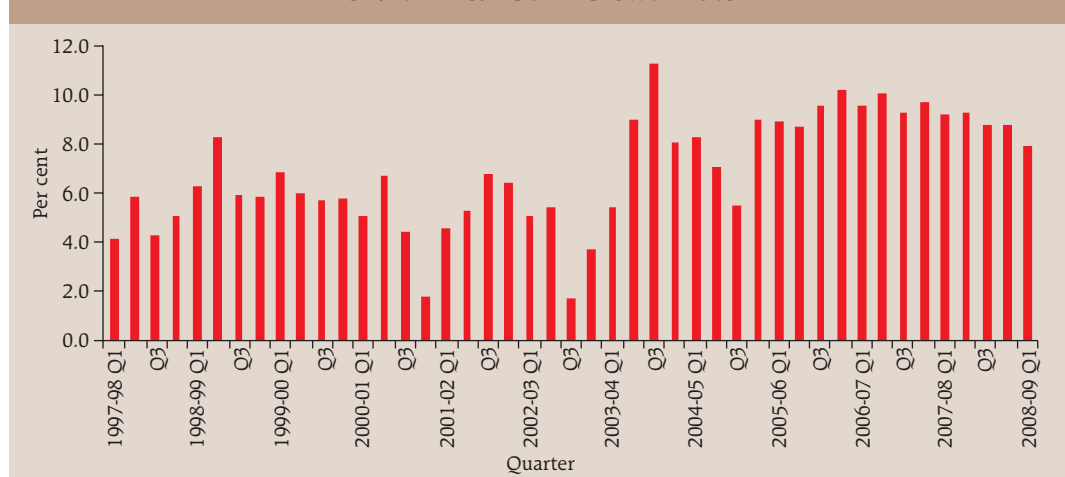
# : Revised Estimates.

Note : Figures in parentheses indicate shares in real GDP.

Source : Central Statistical Organisation.

ahead of the normal schedule of July 15. (June 1 to September 30) has been near normal, with rainfall over the entire

**Chart 1: Real GDP - Growth Rate**



**Table 2: Rainfall - South-West Monsoon (June-September 2008)**

Year	Cumulative Rainfall# (per cent)	Spatial Distribution (Number of Meteorological Sub-Divisions)			
		Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain
1	2	3	4	5	6
1998	6	12	21	3	0
1999	-4	3	26	7	0
2000	-8	5	23	8	0
2001	-8	1	30	5	0
2002	-19	1	14	19	2
2003	2	7	26	3	0
2004	-13	0	23	13	0
2005	-1	9	23	4	0
2006	-1	6	20	10	0
2007	5	13	17	6	0
2008	-2	2	30	4	0

# : Percentage deviation from long period average rainfall with (-) indicating below normal rainfall.

Excess : +20% or more

Normal : +19% to -19%

Deficient : -20% to -59%

Scanty : -60% to -99%

No Rain : -100%

Source : India Meteorological Department.

country amounting to two per cent below normal as against five per cent above normal during the corresponding period of the previous year (Table 2). Out of the 36 meteorological sub-divisions, 32 received excess/normal rainfall this year as compared with 30 last year. As on October 1, 2008, the total live water storage of 81 important reservoirs, accounting for around 72 per cent of the total reservoir capacity of the country, was 74 per cent of the full reservoir level (FRL) as compared with 79 per cent recorded during the corresponding period of the previous year. The average live water storage as per cent of FRL for the last ten years was at 66 per cent.

As on October 10, 2008, area sown under all *kharif* crops at all-India level was placed at 100.9 million hectares as compared with 103.6 million hectares during the corresponding period of the previous year. While area sown under rice and oilseeds increased, that sown under

coarse cereals, pulses, sugarcane and cotton declined due to floods in some parts of the country and weak spell of rainfall during June/July, particularly in Maharashtra and Karnataka (Table 3).

**Table 3: Progress of Area Sown under  
Kharif Crops - 2008-09**

Crop	Normal Area	Area Coverage (as on October 10)		
		2007	2008	Variation
		3	4	5
1	2	3	4	5
Rice	39.1	37.1	38.2	1.1
Coarse Cereals of which:	22.7	21.1	19.8	-1.4
Bajra	9.2	8.3	7.8	-0.5
Jowar	4.2	3.4	2.9	-0.5
Maize	6.4	7.4	7.1	-0.2
Total Pulses	10.9	12.3	10.4	-1.9
Total Oilseeds of which:	15.9	17.7	18.3	0.6
Groundnut	5.4	5.4	5.3	-0.1
Soyabean	7.3	8.8	9.6	0.9
Sugarcane	4.1	5.3	4.4	-0.9
Cotton	8.4	9.2	9.1	-0.1
<b>All Crops</b>	<b>101.9</b>	<b>103.6</b>	<b>100.9</b>	<b>-2.7</b>

Source : Ministry of Agriculture, Government of India.

The Ministry of Agriculture has set target for foodgrains production for 2008-09 at 233.0 million tonnes. According to the First Advance Estimates, the *kharif* foodgrains production during 2008-09 at 115.3 million tonnes is likely to be lower than that of the previous year by 4.7 per cent (Table 4). The decline in foodgrains production could be attributed to a fall in the production of both pulses (27.7 per cent) and the coarse cereals (13.6 per cent). However, rice production is expected to exhibit a marginal improvement over the previous year. Among the commercial crops, while the output of sugarcane (13.5 per cent), oilseeds (9.6 per cent), cotton (8.0 per

cent) are expected to witness a significant decline, the production of jute and mesta is expected to witness a marginal loss as compared to the previous year.

### Food Management

The procurement of foodgrains (rice and wheat) during 2008-09 (up to October 20, 2008) aggregated 34.1 million tonnes, 65.7 per cent higher than that in the corresponding period of the previous year (Table 5). This was mainly on account of a more than two-fold increase in wheat procurement during the current year as compared with the previous year. The offtake of foodgrains (rice and wheat) during 2008-09 so far (up to July 31, 2008)

**Table 4: Agricultural Production**

(Million tonnes)						
Crop	2004-05	2005-06	2006-07	2007-08@	2008-09	
					Target	Achievement @@
1	2	3	4	5	6	7
Rice	83.1	91.8	93.4	96.4	97.0	
<i>Kharif</i>	72.2	78.3	80.2	82.8	83.0	83.3
<i>Rabi</i>	10.9	13.5	13.2	13.6	14.0	
Wheat	68.6	69.4	75.8	78.4	78.5	
Coarse Cereals	33.5	34.1	33.9	40.7	42.0	
<i>Kharif</i>	26.4	26.7	25.6	31.7	32.6	27.4
<i>Rabi</i>	7.1	7.3	8.3	9.0	9.4	
Pulses	13.1	13.4	14.2	15.1	15.5	
<i>Kharif</i>	4.7	4.9	4.8	6.5	5.9	4.7
<i>Rabi</i>	8.4	8.5	9.4	8.7	9.6	
Total Foodgrains	198.4	208.6	217.3	230.7	233.0	
<i>Kharif</i>	103.3	109.9	110.6	121.0	121.5	115.3
<i>Rabi</i>	95.1	98.7	106.7	109.7	111.5	
Total Oilseeds	24.4	28.0	24.3	28.8	31.8	
<i>Kharif</i>	14.1	16.8	14.0	19.8	20.0	17.9
<i>Rabi</i>	10.2	11.2	10.3	9.0	11.8	
Sugarcane	237.1	281.2	355.5	340.6	340.0	294.7
Cotton #	16.4	18.5	22.6	25.8	26.0	23.9
Jute and Mesta ##	10.3	10.8	11.3	11.2	11.0	11.1

@ : Fourth Advance Estimates as on July 9, 2008.

# : Million bales of 170 kgs. each.

@@ : First Advance Estimates for 2008-09.

## : Million bales of 180 kgs. each.

Source : Ministry of Agriculture, Government of India.

Table 5: Management of Food Stocks

(Million tonnes)													
Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains Offtake					Closing Stock	Norms
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS-Domestic	Exports	Total		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05	13.1	6.9	20.7	24.0	16.8	40.8	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	26.7	14.8	41.5	31.4	9.8	1.1	0.0	42.3	16.6	
2006-07	13.7	2.0	16.6	26.7	9.2	35.9	31.6	5.1	0.0	0.0	36.8	17.9	
2007-08	13.2	4.7	17.9	26.4	11.1	37.5	33.5	3.9	0.0	0.0	37.4	19.8	
2008-09@	13.8	5.8	19.8	11.5 (9.5)	22.6 (11.1)	34.1 (20.6)	11.2 (11.1)	0.9 (1.2)	0.0 (0.0)	0.0 (0.0)	12.1 (12.3)	..	
<b>2007</b>													
January	12.0	5.4	17.5	4.3	0.0	4.3	2.7	0.4	0.0	0.0	3.1	18.1	20.0
February	12.6	5.4	18.1	2.4	0.0	2.4	2.7	0.5	0.0	0.0	3.1	19.1	
March	14.0	5.1	19.1	1.2	0.0	1.2	2.7	0.5	0.0	0.0	3.2	17.9	
April	13.2	4.7	17.9	0.9	7.9	8.7	2.6	0.2	0.0	0.0	2.8	25.1	16.2
May	13.5	11.6	25.1	1.5	2.6	4.0	2.8	0.2	0.0	0.0	3.0	25.9	
June	12.6	13.3	25.9	1.3	0.7	2.0	2.7	0.2	0.0	0.0	3.0	23.9	
July	11.0	12.9	23.9	0.8	0.0	0.8	2.9	0.4	0.0	0.0	3.2	21.2	26.9
August	9.2	12.0	21.2	0.1	0.0	0.1	2.8	0.3	0.0	0.0	3.0	17.9	
September	6.9	11.0	17.9	0.1	0.0	0.1	2.7	0.3	0.0	0.0	2.9	15.6	
October	5.5	10.1	15.6	7.4	0.0	7.4	2.7	0.3	0.0	0.0	2.9	19.7	16.2
November	10.7	9.0	19.7	1.8	0.0	1.8	2.7	0.3	0.0	0.0	2.9	18.5	
December	10.1	8.4	18.5	3.5	0.0	3.5	2.7	0.3	0.0	0.0	3.0	19.2	
<b>2008</b>													
January	11.5	7.7	19.2	4.5	0.0	4.5	2.9	0.3	0.0	0.0	3.2	21.4	20.0
February	14.0	7.2	21.4	3.0	0.0	3.0	2.9	0.4	0.0	0.0	3.4	21.4	
March	14.7	6.5	21.4	1.6	0.0	1.6	3.1	0.5	0.0	0.0	3.5	19.8	
April	13.8	5.8	19.8	1.1	12.6	13.7	2.7	0.0	0.0	0.0	2.8	30.7	16.2
May	12.9	17.7	30.7	2.1	8.8	10.9	3.0	0.2	0.0	0.0	3.1	36.4	
June	12.1	24.1	36.4	1.2	0.9	2.2	3.0	0.2	0.0	0.0	3.1	36.3	
July	11.3	24.9	36.3	0.1	0.2	0.3	2.8	0.3	0.0	0.0	3.1	34.3	26.9
August	9.8	24.4	34.3	0.8	0.0	0.8	..	..	..	..	..	..	
September	..	..	..	1.4	0.0	1.4	..	..	..	..	..	..	
October*	..	..	..	4.9	0.0	4.9	..	..	..	..	..	..	16.2

PDS: Public Distribution System. OWS: Other Welfare Schemes. OMS: Open Market Sales. .. : Not Available.

@ : Procurement up to October 20, 2008 and offtake up to July 31, 2008.

\* : Procurement up to October 20, 2008.

**Note:** 1. Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting offtake, as stocks include coarse grains also.

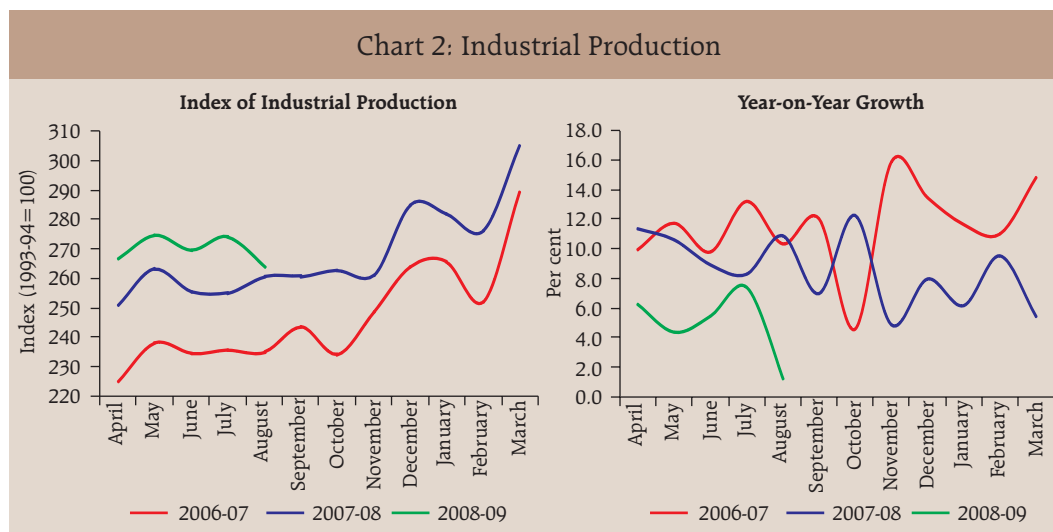
2. Figures in parentheses indicate procurement/offtake of foodgrains during the corresponding period of 2007-08.

3. Total minimum stocks are to be maintained, as on April 1, July 1, October 1, and January 1, by public agencies under the 'new buffer stocking policy' with effect from March 29, 2005.

**Source:** Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

at 12.1 million tonnes was marginally lower than that during the corresponding period of the previous year. The total stocks of foodgrains with the Food Corporation of India (FCI) and other Government agencies were at around 34.3

million tonnes as on August 1, 2008, which were higher by 61.8 per cent than that a year ago. The stocks of both rice (9.8 million tonnes) and wheat (24.4 million tonnes) were higher than their norms (9.8 million tonnes and 17.1



million tonnes, respectively) for July 1, 2008.

### Industrial Performance

The industrial production decelerated during April-August 2008-09, with the year-on-year expansion being 4.9 per cent as against 10.0 per cent

during April-August 2007-08 (Chart 2 and Table 6). The deceleration was on account of a lower growth in both the manufacturing and electricity sectors. According to the data on Index of Industrial Production (IIP), manufacturing recorded growth of 5.2 per cent during April-August 2008-09 as compared with

**Table 6: Index of Industrial Production: Sectoral and Use-Based Classification of Industries**

Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution#		
		2007-08	2007-08	2008-09 P	2007-08	2007-08	2008-09 P
			April-August			April-August	
		3	4	5	6	7	8
<b>Sectoral</b>							
Mining	105	5.1	4.9	4.1	4.2	3.4	5.4
Manufacturing	79.4	9.0	10.6	5.2	89.5	89.3	90.7
Electricity	102	6.3	8.3	2.3	6.3	7.3	3.9
<b>Use-Based</b>							
Basic Goods	35.6	7.0	9.9	3.8	24.7	29.8	23.0
Capital Goods	93	18.0	20.1	9.2	25.0	22.0	22.3
Intermediate Goods	26.5	8.9	9.9	0.7	27.4	26.8	3.8
Consumer Goods (a+b)	28.7	6.1	6.7	7.8	22.9	21.5	49.4
a) Consumer Durables	5.4	-1.0	-2.3	5.6	-1.0	-1.9	8.6
b) Consumer Non-durables	23.3	8.5	10.0	8.6	24.0	23.5	40.8
<b>General</b>	<b>100.0</b>	<b>8.5</b>	<b>10.0</b>	<b>4.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

P : Provisional. # : Figures may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

10.6 per cent during the corresponding period of the previous year. The electricity sector slowed down sharply to 2.3 per cent - the lowest growth in 1993-94 series for April-August period - on account of deceleration in power generation in thermal and decline in power generation in nuclear and hydro-power plants. The mining sector also decelerated to 4.1 per cent during the period from 4.9 per cent during April-August 2007-08.

The slowdown in the growth of manufacturing was on account of 13 industry groups, with a combined weight of 67.8 per cent in the IIP, recording decelerated/negative growth during April-August 2008-09 (Table 7). While some industry groups such as 'wool, silk and man-made fibre textiles', 'metal products and parts', 'rubber, plastic, petroleum and coal products', 'other manufacturing industries', 'jute and other vegetable fibre textiles', 'food products' and 'wood and

**Table 7: Growth of Manufacturing Groups**

(Per cent)							
Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution #		
		2007-08	2007-08	2008-09 P	2007-08	2007-08	2008-09 P
			April-August			April-August	
1	2	3	4	5	6	7	8
1 Food products	9.08	7.0	16.0	-2.1	6.3	9.3	-2.4
2 Beverages, tobacco and related products	2.38	12.0	9.2	25.1	6.8	4.6	23.3
3 Cotton textiles	5.52	4.3	7.4	0.2	2.0	3.0	0.1
4 Wool, silk and man-made fibre textiles	2.26	4.8	5.6	-1.2	1.5	1.6	-0.6
5 Jute and other vegetable fibre textiles (except cotton)	0.59	33.0	28.0	-7.4	0.9	0.7	-0.4
6 Textile products (including wearing apparel)	2.54	3.7	5.2	5.8	1.4	1.8	3.5
7 Wood and wood products, furniture & fixtures	2.70	40.5	86.5	-10.5	5.3	7.8	-3.0
8 Paper and paper products and printing, publishing and allied Industries	2.65	2.7	0.5	1.8	0.9	0.2	0.9
9 Leather and leather & fur products	1.14	11.7	9.7	1.0	1.1	0.8	0.1
10 Chemicals and chemical products (except products of petroleum & coal)	14.00	10.6	9.5	7.5	22.4	18.3	26.8
11 Rubber, plastic, petroleum and coal products	5.73	8.9	12.4	-4.1	6.1	7.5	-4.8
12 Non-metallic mineral products	4.40	5.7	7.4	1.2	4.1	4.7	1.4
13 Basic metal and alloy industries	7.45	12.1	20.3	6.4	13.4	18.1	11.6
14 Metal products and parts (except machinery and equipment)	2.81	-5.6	1.4	-1.2	-1.5	0.3	-0.4
15 Machinery and equipment other than transport equipment	9.57	10.5	14.8	8.4	19.0	21.8	24.1
16 Transport equipment and parts	3.98	2.9	2.0	13.0	2.3	1.3	14.8
17 Other manufacturing industries	2.56	19.8	8.2	-4.1	8.0	2.9	-2.7
<b>Manufacturing - Total</b>	<b>79.36</b>	<b>9.0</b>	<b>10.6</b>	<b>5.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

P: Provisional. # : Figures may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

wood products' recorded decline in production, others such as 'leather and leather and fur products', 'machinery and equipment', 'chemicals and chemical products', 'basic metal and alloy industries', 'non-metallic mineral products', and 'cotton textiles' recorded decelerated growth.

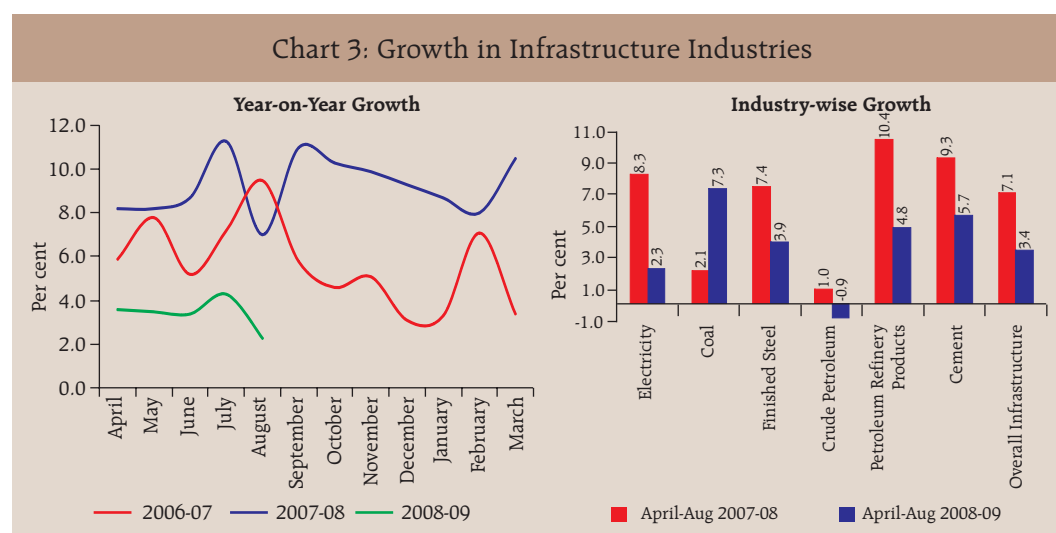
In terms of use-based classification of the IIP, all the sectors, except consumer durables, recorded decelerated growth. The basic goods sector decelerated sharply to 3.8 per cent during April-August 2008-09 from 9.9 per cent during April-August 2007-08, mainly due to decline in production of phosphatic fertilisers, and certain steel and aluminium products. Decline in production of some yarns, particle board, corrugated boxes, *etc.*, contributed to the subdued growth of the intermediate goods sector.

The capital goods sector growth was impacted by the lacklustre performance of machinery and equipments, and computer systems and peripherals during

the period. The growth of the consumer goods sector recorded a marginal acceleration due to a turnaround in the consumer durables sector. The turnaround in the growth of consumer durables sector occurred primarily on account of strong growth in motor cycle, passenger cars, two wheeler tyres and metal utensils. The consumer non-durables segment moderated during April-August 2008-09 on account of base-effect and decline in production of sugar, wheat flour/maida, and certain edible oils.

## Infrastructure

The core sector recorded a lower growth of 3.4 per cent during April-August 2008-09 as compared with 7.1 per cent during April-August 2007-08 (Chart 3). Sharp deceleration in the electricity sector and subdued performance of petroleum refinery products adversely affected the growth of infrastructure during April-August 2008-09. The coal sector, on the other hand, posted higher growth. The





cement and steel sectors recorded decelerated growth due to capacity constraints. The production of the crude oil sector declined during April-August 2008-09 due to decline in production in the oil fields of ONGC Ltd. on account of monsoon rains, shortage of input equipments and power shutdowns. The production of the petroleum refinery sector decelerated sharply on account of base-effect and dismal performance of some of public sector refineries.

### Services Sector

The services sector recorded double-digit growth during the first quarter of 2008-09, although the growth rate moderated. With this, the services sector recorded double-digit growth for the fourteen consecutive quarters. The deceleration in growth was mainly on account of lower growth witnessed by 'trade, hotels, restaurants, transport, storage and communication' and 'financing, insurance, real estate and business services' sub-sectors during the

quarter. The 'construction' and 'community, social and personal services' sub-sectors, however, recorded higher year-on-year growth (Table 8).

The lead indicators of services sector activity for 2008-09, so far suggest acceleration in growth in respect of railway revenue earning freight traffic, commercial vehicles production and export cargo handled by civil aviation during April-July 2008-09 as compared with April-July 2007-08. On the other hand, growth decelerated in respect of cargo handled at major ports and other indicators of civil aviation excluding export cargo. Some deceleration was also observed in production of cement and steel during April-August 2008-09, which are among the important leading indicators of the construction industry (Table 9).

### Aggregate Demand

The share of total final consumption expenditure at 70.1 per cent during the

**Table 8 : Services Sectors – Contribution to Real GDP Growth**

(percentage points)					
Year/Quarter	Construction	Trade, Hotels, Transport and Communication	Financing, Insurance, Real Estate and Business Services	Community, Social and Personal Services	Total Services
1	2	3	4	5	6
2000-01	0.4	1.6	0.5	0.7	3.2
2001-02	0.2	2.0	0.9	0.6	3.8
2002-03	0.5	2.2	1.1	0.6	4.3
2003-04	0.7	2.9	0.8	0.8	5.2
2004-05	1.0	2.7	1.2	1.0	5.8
2005-06	1.1	3.0	1.5	1.0	6.6
2006-07	0.8	3.1	1.9	1.0	6.8
2007-08	0.7	3.2	1.7	1.0	6.6
2007-08: Q1	0.6	3.4	1.8	0.7	6.5
: Q2	0.9	3.0	1.9	1.1	6.9
: Q3	0.5	3.0	1.6	0.8	5.9
: Q4	0.9	3.4	1.5	1.3	7.1
2008-09: Q1	0.8	3.0	1.4	1.1	6.4

Source : Central Statistical Organisation.

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**Table 9: Indicators of Service Sector Activity**

(Growth rates in per cent)				
Sub-sector	2006-07	2007-08	2007-08	2008-09
			April-July	
1	2	3	4	5
Tourist arrivals	130	122	12.1@	8.9@
Commercial vehicles production#	33.0	48	3.4*	8.9*
Railway revenue earning freight traffic	92	90	6.1	9.4
New cell phone connections	85.4	383	57.6	31.0
Cargo handled at major ports	95	11.9	149	83
Civil aviation				
a) Export cargo handled	36	75	36	8.1
b) Import cargo handled	19.4	19.7	23.4	66
c) Passengers handled at international terminals	12.1	11.9	11.8	7.9
d) Passengers handled at domestic terminals	34.0	20.6	27.3	-2.2
Cement**	9.1	8.1	9.3*	5.7*
Steel**	13.1	5.1	7.4*	3.9*
Aggregate deposits of SCBs	23.8	22.4	10.0@@	7.7@@
Non-food credit of SCBs	28.5	23.0	6.1@@	7.8@@

@ : April-September. # : Leading Indicator for transportation. \* : April-August.  
\*\* : Leading indicators for construction. @@ : Up to September 26.  
SCBs : Scheduled Commercial Banks.  
**Source:** Ministry of Tourism; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation; The Reserve Bank of India; and Centre for Monitoring Indian Economy.

first quarter of 2008-09 was the same as that during the first quarter of 2007-08. The share of real gross fixed capital formation (GFCF) increased marginally

to 32.3 per cent in the first quarter of 2008-09 as compared with 32.0 per cent in the corresponding period of 2007-08 (Table 10).

**Table 10: Expenditure Side of GDP (Base: 1999-2000)**

(Rates as per cent of GDP at Market Prices)							
Item	2006-07*	2007-08#	2007-08				2008-09
			Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
1. Total Final Consumption Expenditure	68.4	67.8	70.1	68.2	69.0	64.6	70.1
(i) Private Final Consumption Expenditure	58.6	58.2	59.8	59.5	60.7	53.4	59.8
(ii) Government Final Consumption Expenditure	9.8	9.6	10.3	8.7	8.3	11.2	10.3
2. Gross Fixed Capital Formation	30.6	31.9	32.0	33.4	31.0	31.6	32.3
3. Change in Stocks	2.1	2.0	2.1	2.1	1.9	1.9	2.1
4. Valuables	1.2	1.3	1.2	1.3	1.4	1.1	1.3
5. Exports	20.6	20.3	23.8	16.8	19.0	21.6	26.3
6. Less: Imports	24.7	24.4	24.9	24.8	25.4	22.8	28.0
7. Discrepancies	1.8	1.1	-4.3	3.1	3.0	1.9	-4.1

*Memo:* (Rupees crore)

Real GDP at market prices	31,17,372	33,98,767	7,69,871	7,88,514	8,99,098	9,41,283	8,30,681
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\* : Provisional Estimates. # : Quick Estimates.  
**Source:** Central Statistical Organisation.

### Corporate Performance

Sales by the corporate sector grew at a higher rate during the first quarter of 2008-09 in comparison with that of the first quarter of 2007-08. However, growth in net profits in the first quarter of 2008-09 was significantly lower as compared with that of first quarter of 2007-08 and double digit growth rates recorded in the previous quarters (Table 11). The net profits grew by 8.2 per cent as against 33.9 per cent in first quarter of 2007-08. Increase in expenditure on account of

rising input and staff costs in the past few quarters exerted pressure on profits. Interest payments also rose sharply by 59.7 per cent reflecting the general hardening of interest rates.

### Business Expectation Surveys

According to the quarterly business expectations survey of the National Council of Applied Economic Research (NCAER) released in July 2008, the overall business confidence index (BCI) for the next six months has declined

**Table 11: Corporate Sector - Financial Performance**

Item	(Growth rates in per cent)							
	2005-06	2006-07	2007-08	2007-08			2008-09	
				Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9
Sales	17.9	26.5	18.3	19.2	16.0	18.0	20.6	30.0
Other Income	19.7	31.3	46.2	106.7	45.2	70.2	28.5	2.6
Expenditure	18.9	24.7	18.4	18.0	15.3	18.9	23.3	34.5
Depreciation	11.6	17.2	14.8	18.1	15.8	17.9	15.4	15.2
Gross profits	20.5	44.7	22.8	31.9	22.5	20.4	16.8	13.1
Interest payments	1.7	24.9	28.8	4.4	18.4	45.7	35.8	59.7
Profits after tax	28.2	44.0	26.2	33.9	22.7	29.4	14.1	8.2
<b>Select Ratios</b> (Per cent)								
Gross Profits to Sales	12.4	14.2	16.3	16.7	16.3	16.2	15.0	14.6
Profits After Tax to Sales	8.4	9.6	11.8	11.6	11.5	12.2	10.3	9.9
Interest to Sales	2.3	2.3	2.2	2.0	2.1	2.5	2.2	2.4
Interest to Gross Profits	18.6	16.1	13.8	11.8	12.8	15.3	14.6	16.7
Interest Coverage (Times)	5.4	6.2	7.3	8.5	7.8	6.5	6.8	6.0
<b>Memo:</b> (Amount in Rupees crore)								
No of Companies	3,016	3,016	2,359	2,342	2,228	2,329	2,357	2,315
Sales	932524	1180089	1141711	280814	297110	306238	350917	356498
Other Income *	40,901	53,722	30,958	9,151	8,057	9,221	10,082	8,108
Expenditure #	834,079	1040,205	956,930	237,698	249,194	257,472	302,105	310,320
Depreciation Provision	38,886	45,558	40,664	10,173	10,576	10,961	11,805	11,413
Gross Profits	1,16,362	1,68,351	1,86,665	46,780	48,296	49,717	52,583	51,985
Interest Payments	21,652	27,050	25,677	5,504	6,194	7,609	7,703	8,698
Profits After Tax	78,520	1,13,081	1,34,291	32,699	34,266	37,470	36,109	35,270

\* : Other income excludes extra extraordinary income/expenditure if reported explicitly.

# : The increase or decrease in stock in trade is accounted under total income instead of total expenditure as was hitherto done.

**Notes :** 1. Data for 2005-06 and 2006-07 are based on audited balance sheets, while those for 2007-08 and 2008-09 are based on abridged financial results of the select non-Government non-financial public limited companies.

2. Growth rates are percentage changes in the level for the period under reference over the corresponding period of the previous year for common set of companies.

3. The quarterly data may not add up to annual data due to differences in the number and composition of companies covered in each period.

(Table 12). Despite the lower overall business confidence, sales and growth in output were expected to show a positive growth. A component-wise analysis shows that all the four components of BCI, *viz.*, overall economic conditions, investment climate, financial position of firms and capacity utilisation declined over the previous round. All five constituting sectors of the BCI, *viz.*, consumer goods (durables and non-durables), intermediates, capital goods and services declined sharply over the previous period.

According to the latest (October 2008) business confidence survey conducted by Federation of Indian Chambers of Commerce and Industry (FICCI), the overall business confidence index during April-June 2008 declined by 5.1 per cent over the previous quarter on account of rise in interest rates and stricter credit availability. The FICCI's expectation index for July-December 2008 also declined by 5.1 per cent over the previous quarter and 20.3 per cent over the previous year.

The composite business optimism index for October-December 2008

compiled by Dun and Bradstreet (D&B) increased by 1.8 per cent as compared with the previous quarter, while it declined by 28.1 per cent as compared with the previous year. All the six optimism indices – volumes of sales, net profits, selling prices, new orders, inventory levels and employee levels – declined as compared with the corresponding quarter of the previous year. Optimism was particularly low among respondents in the consumer durables and basic goods sectors.

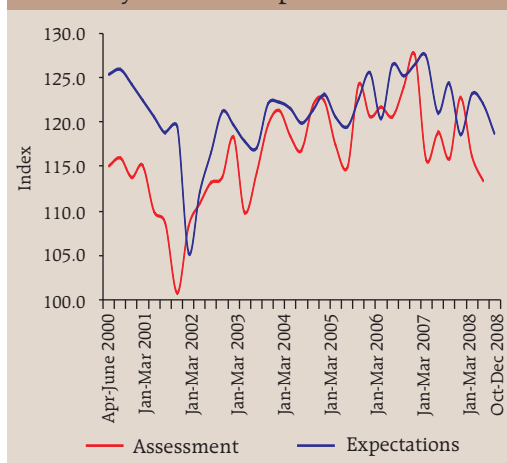
According to the Reserve Bank's Industrial Outlook Survey of manufacturing companies in the private sector, the business expectations indices based on assessment for July-September 2008 and on expectations for October-December 2008 declined by 2.4 per cent and 2.6 per cent, respectively, over the corresponding previous quarters. Similar trend was observed in these indices when compared over the corresponding quarters of the previous year (Chart 4).

During the period under review, the confidence of manufacturing corporates has declined for major indicators, such as, overall business situation, financial situation,

**Table 12: Business Expectations Surveys**

(Per cent)				
Organisation	Business Expectations		Growth over a year ago	Growth over previous round
	Period	Index		
1	2	3	4	5
NCAER	July-December 2008	Business Confidence Index	-8.8	-15.4
FICCI	July-December 2008	Expectation Index	-20.3	-5.1
RBI	October-December 2008	Business Expectation Index	-4.4	-2.6
Dun & Bradstreet	July-September 2008	Business Optimism Index	-28.1	1.8

Chart 4: Reserve Bank's Industrial Outlook Survey -Business Expectations Index



availability of finance, production, order books and profit margins (Table 13). Increasing raw material prices have added to negative sentiments of the respondents significantly. Higher input costs are expected to affect profit margins significantly during July-December 2008 and, therefore, to protect their profit margins, more corporates may increasingly pass on the price increase to the consumers.

The Centre for monitoring Indian Economy (CMIE) revised their estimate for overall industrial growth downwards to 8.3 per cent from 9.1 per cent for 2008-09. According to the CMIE, the downward revision reflected specific problems faced by certain industries rather than any general industrial slowdown. On the other hand, the growth projections were revised upwards for those industries which performed better than expected during the current financial year so far. Sectors such as electricity, crude oil and

petroleum products, according to the CMIE, are likely to show acceleration in growth in the second half of the 2008-09 and push up the overall industrial growth. Furthermore, the CMIE has again raised the issue of inadequacy of the estimates of industrial production (as per the IIP) in capturing the actual production trends.

The ABN-AMRO Purchasing Managers' Index (PMI)<sup>1</sup> for manufacturing for September 2008 was at 57.3, which, though slightly lower than 57.8 in August 2008, suggests improvement in the health of the industry. Business conditions within the Indian manufacturing sector improved in September 2008, driven by growth in both production and new order levels. New orders from both domestic and foreign markets increased in September 2008 on account of strong market demand and successful promotional activities. Overall, the PMI for September shows some improvement in output along with a pick-up in input and output price inflation.

### Survey of Professional Forecasters<sup>2</sup>

The results of professional forecasters' survey conducted by the

<sup>1</sup> The PMI is a composite indicator designed to provide an overall view of activity in the manufacturing sector. A PMI of 50.0 indicates no change while values above or below this level indicate an expansion or a contraction of the manufacturing activity.

<sup>2</sup> Introduced by the Reserve Bank from the quarter ended September 2007. The forecasts made in the section are that of professional forecasters and not that of the Reserve Bank.

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**Table 13: Reserve Bank's Industrial Outlook Survey - Net Response on  
'A Quarter Ahead' Expectations About the Industrial Performance**

(Per cent)							
Parameter	Response	July-Sept 2007	Oct-Dec 2007	Jan-Mar 2008	April-June 2008	July-Sept 2008	Oct-Dec 2008
1	2	3	4	5	6	7	8
1. Overall business situation	Better	49.5 (41.2)	50.2 (42.1)	47.7 (42.9)	46.0 (42.7)	41.8 (42.6)	33.7 (44.1)
2. Financial situation	Better	41.3 (49.8)	40.1 (51.3)	40.3 (50.3)	36.6 (51.6)	32.7 (53.0)	27.7 (52.5)
3. Working capital finance requirement	Increase	34.5 (59.2)	32.2 (62.6)	34.7 (60.3)	36.6 (56.5)	33.6 (57.3)	33.8 (57.7)
4. Availability of finance	Improve	32.1 (58.6)	33.8 (58.8)	31.1 (59.5)	32.3 (58.3)	30.2 (57.9)	23.3 (59.0)
5. Production	Increase	46.6 (41.1)	49.0 (40.9)	43.9 (42.3)	45.2 (41.0)	43.5 (36.6)	39.8 (42.1)
6. Order books	Increase	43.6 (46.1)	44.1 (46.0)	37.1 (48.6)	41.5 (44.3)	38.5 (43.5)	35.7 (46.1)
7. Pending orders, if applicable	Below normal	-2.2 (82.6)	-3.5 (82.4)	0.4 (80.2)	-4.3 (81.3)	2.2 (80.9)	4.6 (82.0)
8. Cost of raw material	Decrease	-46.0 (49.7)	-42.4 (51.0)	-44.1 (49.2)	-48.2 (46.0)	-54.7 (39.1)	-61.1 (32.3)
9. Inventory of raw material	Below average	-5.4 (85.0)	-6.3 (85.0)	-7.3 (84.8)	-7.0 (83.2)	-3.8 (81.8)	-7.6 (77.6)
10. Inventory of finished goods	Below average	-2.7 (87.1)	-3.5 (86.4)	-4.5 (86.1)	-5.8 (84.5)	-1.5 (84.5)	-4.3 (82.6)
11. Capacity utilisation (Main product)	Increase	27.0 (61.4)	28.4 (61.5)	24.2 (62.3)	25.6 (59.9)	22.2 (58.8)	26.4 (56.0)
12. Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	9.4 (76.5)	10.7 (77.2)	6.4 (78.3)	9.4 (77.0)	3.6 (74.9)	-0.5 (78.7)
13. Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	3.0 (82.2)	4.2 (83.0)	4.7 (83.8)	8.0 (81.2)	4.6 (81.3)	5.7 (81.7)
14. Employment in the company	Increase	17.4 (73.5)	16.7 (74.1)	14.6 (75.6)	20.8 (68.2)	15.8 (71.5)	16.6 (70.4)
15. Exports, if applicable	Increase	32.6 (55.6)	31.4 (55.9)	24.3 (58.3)	27.7 (53.3)	27.7 (54.9)	27.3 (54.3)
16. Imports, if any	Increase	23.7 (68.2)	20.8 (68.6)	20.1 (70.5)	25.3 (65.6)	21.3 (66.5)	21.4 (67.9)
17. Selling prices are expected to	Increase	19.0 (67.1)	13.0 (68.5)	14.9 (67.1)	19.1 (66.0)	21.0 (61.5)	26.2 (57.6)
18. If increase expected in selling prices	Increase at lower rate	10.4 (65.0)	3.7 (58.9)	13.3 (66.7)	9.0 (64.0)	3.0 (61.3)	0.6 (54.7)
19. Profit margin	Increase	7.5 (62.6)	9.6 (59.6)	5.4 (60.0)	7.2 (61.0)	3.8 (59.8)	-3.6 (54.7)

**Note:** 1. 'Net response' is measured as the percentage 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*.

2. Figures in parentheses are the percentages of respondents with 'no change over the preceding quarter' as responses.

Reserve Bank in September 2008 suggest further moderation in economic activity for 2008-09 on the whole (Table 14). The median forecast of real GDP growth for 2008-09 was 7.7 per cent in the fifth round of the survey (September 2008) as compared with 7.9 per cent in the previous round (June 2008). The sectoral growth rate

forecasts for the agriculture and services were, however, kept unchanged. The sectoral growth rate forecast for industry was placed at 7.0 per cent as compared with 7.5 per cent in the previous round. The annual growth rate of imports was expected to be 27.2 per cent as compared with 29.5 per cent.

**Table 14: Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters**

Indicators	Actual 2007-08	2008-09								2009-10	
		Annual		Q2		Q3		Q4		Q1	
		E	L	E	L	E	L	E	L	E	L
1	2	3	4	5	6	7	8	9	10	11	12
1 Real GDP growth rate at factor cost (in per cent)	9.0	7.9	7.7	8.0	7.7	7.7	7.6	7.6	7.6	7.5	7.5
a. Agriculture & Allied Activities	4.5	3.0	3.0	3.1	3.0	3.4	2.5	3.1	3.0	3.8	3.0
b. Industry	8.1	7.5	7.0	7.1	6.9	7.0	6.9	7.4	7.5	7.3	7.3
c. Services	10.7	9.5	9.5	9.9	9.5	9.6	9.5	9.6	9.3	9.5	9.4
2 Gross Domestic Saving (per cent of GDP at current market price)	34.8*	35.0	34.8	-	-	-	-	-	-	-	-
3 Gross Domestic Capital Formation (per cent of GDP at current market price)	35.9*	36.3	36.3	36.6	36.3	36.0	36.2	35.8	36.0	36.1	36.0
4 Corporate profit after tax (growth rate in per cent)	26.2	16.0	18.0	20.3	17.4	17.4	17.5	16.0	17.8	19.5	18.0
5 T-Bill 91 days Yield (per cent-end period)	7.1	8.2	8.4	-	-	-	-	-	-	-	-
6 10-year Govt. Securities Yield (per cent-end period)	7.9	8.8	8.5	-	-	-	-	-	-	-	-
7 Export (growth rate in per cent)	23.7	20.0	20.0	-	-	-	-	-	-	-	-
8 Import (Growth rate in per cent)	29.9	29.5	27.2	-	-	-	-	-	-	-	-
9 Trade Balance (US \$ billion)	-9.1	-	-	-31.1	-31.0	-32.1	-31.0	-31.1	-29.0	-29.0	-32.0

E : Earlier Projection. L : Latest Projection. \* : Pertains to 2006-07. -: Not Available.

**Note** : Latest round refers to fifth round for the quarter ended September 2008, while earlier round refers to fourth round for the quarter ended June 2008.

**Source** : Survey of Professional Forecasters, Second Quarter 2008-09.

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Forecasts by various agencies for real GDP growth in 2008-09 are set out in Table 15.

**Table 15: Projections of Real GDP for India by Various Agencies - 2008-09**

(per cent)					
Agency	Overall Growth	Agriculture	Industry	Services	Month of Projection
1	2	3	4	5	6
ASSOCHAM #	76	40	72	90	Jul-08
	79	26	76	97	Apr-08
Confederation of Indian Industries (CII)	above 8	-	-	-	Sep-08
	8.0-8.5	-	-	-	Mar-08
Citigroup	7.2	2.0	6.1	9.4	Oct-08
	7.5	2.0	6.8	9.6	Aug-08
	7.7	3.0	7.5	9.2	Mar-08
	8.3	3.0	8.0	10.1	Feb-08
Merrill Lynch	7.5	3.0	5.6	9.3	Oct-08
	7.6	3.0	6.3	9.3	Aug-08
	7.9	2.5	7.4	9.6	June-08
	8.2	3.0	7.6	9.9	Mar-08
Centre for Monitoring Indian Economy (CMIE)	8.7	3.2	8.7	10.4	Oct-08
	9.4	3.2	11.1	10.6	Aug-08
	9.5	3.2	11.4	10.6	July-08
	9.1	-	-	-	Feb-08
NCAER @	7.6	2.3	8.2	8.9	Oct-08
	7.8	2.5	8.4	9.1	July-08
	8.1	3.0	8.1	9.7	May-08
	9.1	-	-	-	Feb-08
Standard & Poor's, CRISIL	7.8	3.0	7.5	9.5	June-08
	8.1	3.0	8.3	10.3	Apr-08
	8.5	-	-	-	Feb-08
Asian Development Bank	7.4	-	-	-	Sep-08
	8.0	-	-	-	Apr-08
	8.5	-	-	-	Feb-08
International Monetary Fund *	7.9	-	-	-	Oct-08
	8.0	-	-	-	July-08
	7.9	-	-	-	Apr-08
	8.4	-	-	-	Oct-07
UNCTAD**	7.6	-	-	-	Sep-08
United Nations Organisation	8.2	-	-	-	Jan-08
Economic Advisory Council to Prime Minister	7.7	2.0	7.5	9.6	Aug-08
	8.5	-	-	-	Jan-08
Reserve Bank of India	around 8.0	-	-	-	July-08
	8.0-8.5	-	-	-	Apr-08

- : Not Available. \* : Calendar year.  
# : The Associated Chambers of Commerce and Industry of India.  
@ : National Council of Applied Economic Research.  
\*\* : United Nations Conference on Trade and Development.