



Indian Economic Survey 2008-09 – Key Highlights

On 2 July 2009, the Finance Minister presented the Economic Survey 2008-09 before the Parliament is a report card of India's economic performance which gives the current and expected direction of the Government Policies. The key highlights of the same are given below:

State of the Economy

- Economic Growth in 2008-09 decelerated to 6.7 percent as compared to average growth rate of 8.8 percent in the previous five years (2003-04 to 2007-08).
- Per Capita GDP Growth in 2008-09 grew by 4.6 percent.
- Despite the slowdown in growth, investment remained relatively buoyant, growing at a rate higher than the GDP.
- Overall inflation estimated at 6.2 percent of GDP in 2008-09 and recorded the highest average in the current decade.

Challenges, Policy Response and Medium-term Prospects

- Three major challenges in Indian Economy were surge in capital inflows, inflationary explosion in global commodity prices, sharp dip in the growth rate of private consumption and global financial meltdown / collapse of international trade.
- The Government provided substantial fiscal expansion in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets.

- The Reserve Bank of India announced monetary easing and liquidity enhancing measures to meet the needs of productive sectors.
- Potential Policy choice envisaged
 - To maintain macro economic stability:
 - Fiscal Responsibility and Budget Management¹ (FRBM) 2
 - New Income Tax Code
 - Rationalisation of Dividend Distribution tax to ensure full single taxation of return to capital in the hands of the receiver (i.e. neither double taxation nor zero effective taxation).
 - Review and phasing out of surcharges, cess and transaction taxes (such as commodities transaction tax, securities transaction tax and FBT).
 - Goods and Service Taxes (GST) from April 2010.
 - National ID Card based on Unique Identification Number.
 - Introduce or allow repos and derivatives in corporate debt.
 - To develop long term debt markets:
 - Bring all financial market regulations under SEBI and encourage integrated development.
 - Tax incentives for long term debt market.
 - Introduce and allow repos and derivatives in corporate debt.
 - Introduce exchange traded interest rate derivatives, such as interest rate swap.

Fiscal Developments and Public Finance

- The gross tax GDP ratio is expected to increase to 12.9 percent in 2008-09 (direct tax being 6.9 percent and indirect tax being 6 percent) from 12.2 percent in 2007-08 (direct tax being 6.3 percent and indirect tax being 5.9 percent).
- In 2008-09, Fiscal, Revenue and Primary deficit placed at 6.2 percent, 4.6 percent and 2.6 percent of GDP.

¹ FRBM Act: (no 39 of 2003) to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macro economic stability.

- The Corporate Income tax achieved a growth rate of 10.8 percent, Service tax grew at 18.6 percent and Personal Income tax grew at 20.8 percent.
- Revenue from Excise Duties declined by 12 percent and Customs by 4.1 percent in 2008-09.
- External debt is as a percent of GDP on the rise and is placed at 4.9 percent in 2008-09 as compared to 4.4 percent in 2007-08.

Prices and Monetary Management

- The fiscal year 2008-09 has been an unusual year marked by extremes in price movements in the backdrop of global economic slowdown.
- Anti-inflationary measures undertaken include rationalisation of import duties of essential commodities, effective supply-demand management through tariff and trade polices and strengthening of the public distribution system.
- Fiscal and Monetary discipline measure were also adopted to benefit economically weaker sections of the Society.
- Key challenges include improving monetary policy, roll back of excess liquidity in orderly manner, preserve financial stability, etc.

Financial Intermediation and Markets

- All categories of banks have increased their asset base and there has been increase in competition between different categories of banks.
- First six months of the fiscal year 2008-09 witnessed revisions in policy rates and second half witnessed steps to ease liquidity crunch in money market by the RBI.
- All types of bank credits such as commercial, personal and others witnessed steady increase.
- Agriculture credit disbursements were slightly lower than the budgeted target.
- RBI / NABARD provided adequate liquidity support to Regional Rural Banks / other Banks under the Agricultural Debt Waiver and Debt Relief Scheme 2008.
- NBFC sector is witnessing a consolidation process.

- The Indian capital markets began the year 2008 on a bullish note with the BSE and NSE indices touching new peaks of 20,873 and 6,288 respectively on 8 January 2008 but were affected adversely thereafter reflecting the impact of global financial crisis.
- The primary capital market received a set back in 2008 triggered by international financial crisis:
 - The number of new issues declined sharply in 2008. Total amount of capital raised through equity issues during 2008 was INR 494.85 billion recording a decline of 15.7 percent as compared to the level in 2007.
 - The total numbers of IPOs in 2008 were only 37 as against 100 in 2007.
 - The amount mobilized by IPO at INR 183.93 billion was also lower by 45.8 percent during 2008. However the mean IPO size increased from 3.39 billion in 2007 to INR 4.97 billion in 2008.
 - There was no debt issue in 2008.
 - Private placement amounted to INR 1,750.61 billion i.e. lower by 5.3 percent over 2007.
 - The number of registered Foreign Institutional Investors rose to 1,591 at the end of 2008 from 1,219 at the end of 2007. The number of sub-accounts also increased to 4,864 from 3,644 over the same period.
- Key challenges include transparency and sound corporate governance in mutual fund and insurance with increase in participation, development of developed bond market, etc.

External Sector

- India remained an attractive investment destination as Foreign Direct Investment (FDI) flows on net basis more than doubled to USD 15.4 billion during April 2008 to December 2008.
- Despite global financial crisis and setbacks, the Balance of Payment situation continues to be resilient.
- Current Account Deficit rose to 2.8 percent of GDP during April 2008 to December 2008.
- In 2008-09, Trade Deficit rose to 12 percent of GDP from 8.2 percent of GDP.
- In 2008-09, Capital Account Balance stood at USD 16.1 billion and represented 1.8 percent of GDP.

- In 2008-09, Exports grow at a modest 3.6 percent despite global recessions and Import growth was subdued at 14.4 percent.
- Foreign Exchange Reserve stood at USD 252 billion at the end of March 2009.
- Rupee depreciated against major international currencies, except pound sterling, due to deceleration in capital flows and widening trade deficit.
- Three stimulus packages were given in the second half of 2008-09 to help export and other Sectors affected by global recession.

Agriculture

- In 2007-08, Agriculture (including allied activities) accounted for 17.8 percent of the GDP and contributed 12.2 percent of national exports.
- Agricultural growth declined to 1.6 percent due to sharp fluctuations and vagaries of nature.

Industry

- In 2008-09, Overall growth of the Industrial Sector remained high at 8.5 percent though the sector witnessed a sharp slowdown in second half due to global financial crisis.
- Manufacturing, electricity and construction sectors decelerated to 2.4%, 3.4% and 7.2% respectively during 2008-09 compared to 8.2%, 5.3% and 10.1% respectively during 2007-08.
- Software services recovered a growth of 28.2% in receipts from software services. The non software services also recorded a growth of 26.7%
- Contribution by Micro, Small and Medium Enterprises acknowledged along with impact on them due to slowdown. A database for this sector being put in place to facilitate tracking of future growth and development of the Sector.
- The Economic slowdown started with consumer durables whereas other categories such as intermediaries and capital goods continued medium to robust growth phase.
- During 2008-09 total FDI inflows stood at INR 1,229.19 billion against INR 986.64 billion during 2007-08 signifying a growth rate of 25 percent.

- Key challenges included measures against dumping into the Indian market, unmet demand due to size of Indian market, etc.

Energy, Infrastructure and Communications

- The capacity creation in the infrastructure sectors presented a mixed picture in 2008-09.
- The Telecom and Petroleum Sectors did well whereas Power Sector exhibited considerable shortfall.
- Thermal and Hydro Power sector reforms proposed for capacity addition and faster development. Additional reforms envisaged for open access and distribution of power across the country.
- About a third of planning commission estimate required for infrastructure development during the Eleventh Five Year plan is expected to be met through Private Investment and Public Private Partnership.

Human Development, Poverty and Public Programmes

- Under the United Nations Development Programme (UNDP) Statistical update 2008, the human development index for India at 0.609 placing it at 132 out of 179 countries. The low rank is mainly due to education which requires special emphasis on policy and institutional reforms.
- The Central Government outlay on social services has increased consistently over the years especially in areas such as Rural Development, Employment and Education.
- Government policies have been focusing greatly on providing quality education and upgrading skills.

Summing up

The Indian Government remains confident towards growth with increasing priority towards enhanced infrastructure and rural development, followed by promoting a conducive investment scenario and macro economic management that can help the economy tide through the current situation.

On 3 July 2009, the Government will unveil the Railway Budget. Further on 6 July 2009, the Fiscal Budget will be introduced in the Parliament.

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For further information about KPMG in India and our services, please contact:

Bangalore

Maruthi Infotech Centre, 11-12/1
Inner Ring Road
Koramangala, Bangalore 560071
Phone: + 91 80 3980 6000 Fax: +91 80 3980 6999

Chennai

KPMG House
No.10, Mahatma Gandhi Road,
Nungambakkam High Road,
Chennai 600034
Phone: +91 44 39145000 Fax: +91 44 39145999

Delhi

DLF Cyber City, Building no. 10, Block B, Phase II
Gurgaon, Haryana 122 002
Phone: +91 124 307 4000 Fax: +91 124 254 9195

Hyderabad

KPMG, 8-2-618/2
Reliance Humsafar, 4th Floor
Road No.11, Banjara Hills
Hyderabad - 500 034
Phone: +91 40 66305000/23350060 Fax: + 91 40 6630 5299

Kolkata

KPMG Infinity Benchmark
Plot No. G-1, 10th floor Block - EP & GP,
Sector – V, Salt Lake City
Kolkata - 700091
Phone: +91 33 4403 4000 Fax: +91 33 4403 4199

Mumbai

KPMG House, Kamala Mills Compound, 448 Senapati Bapat Marg
Lower Parel, Mumbai 400 013
Phone: +91 22 39896000 Fax: + 91 22 39836000

Pune

703, 7th Floor Godrej Castlemaine, Next to Ruby Hall Clinic,
Bund Garden Road, Pune 411001
Phone: +91 20 30585764/65 Fax: +91 20 3058 5775