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Sectoral Perspectives

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1. THE INDIAN ECONOMY

❒ GDP GROWTH FOR Q4 2004-05 ESTIMATED AT 7%

The Central Statistical Organisation (CSO) has estimated Gross Domestic Product (GDP) growth of 7% for Q4 2004-05 (January – March 2005). It has also reaffirmed its advance estimates of real GDP growth for the full year 2004-05 at 6.9%. Some noteworthy features of the pick-up in real activity in Q4 2004-05 over Q4 2003-04(January – March 2004) were (a) turnaround in agriculture brought about by the year-on-year increase in rabi output; (b) sustained expansion of the service sector underpinned by the performance of trade, hotels, restaurants, transport and communication, and community, social and personal services.

(%)

Growth of GDP in 2004-05

	Q4 2004-05	Q4 2003-04	2004-05	2003-04
Agriculture & Allied Activities	**1.8**	**10.4**	**1.1**	**9.6**
Industry	**7.3**	**7.9**	**8.3**	**6.5**
Mining & Quarrying	2.5	10.7	4.5	6.4
Manufacturing	8.6	7.6	9.2	6.9
Electricity, Gas & Water Supply	2.6	7.6	5.5	3.7
Services	**8.8**	**7.8**	**8.6**	**8.9**
Trade, Hotels, Restaurants, transport, storage, communications	11.1	14.6	11.4	11.8
Financing, Insurance, Real Estate and Business Services	7.7	7.6	7.1	7.1
Community, Social and Personal Services	7.2	-2.9	5.9	5.8
Construction	4.1	6.6	5.2	7.0
Real GDP at factor cost	**7.0**	**8.4**	**6.9**	**8.5**

Compiled by INGRES

❒ AGRICULTURAL SITUATION

According to the forecast by the India Meteorological Department (IMD) announced on July 6, 2005, the rainfall during the South-West monsoon season (June-September) in 2005 for the country as a whole is likely to be 98% of the Long Period Average (LPA) with a model error of +/- 4%. 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% below normal. However, the monsoon picked up in the last week of June 2005, partly offsetting the earlier shortfall. The cumulative rainfall recorded during the South-West monsoon season 2005 (June 1 to August 17, 2005) was 2% below normal (7% below normal in the corresponding period of 2004), with excess/normal rainfall in 29 out of 36 meteorological sub-divisions of the country. At the district level, information on 492 out of 525 districts indicates that while 66% of the 492 districts reported excess/normal rainfall, the rest received deficient/scanty/no rain. As compared with early July 2005, the area coverage increased significantly up to August 16, 2005 for kharif crops.

(Million Hectares, Upto August 16, 2005)

Progress of Kharif Crops

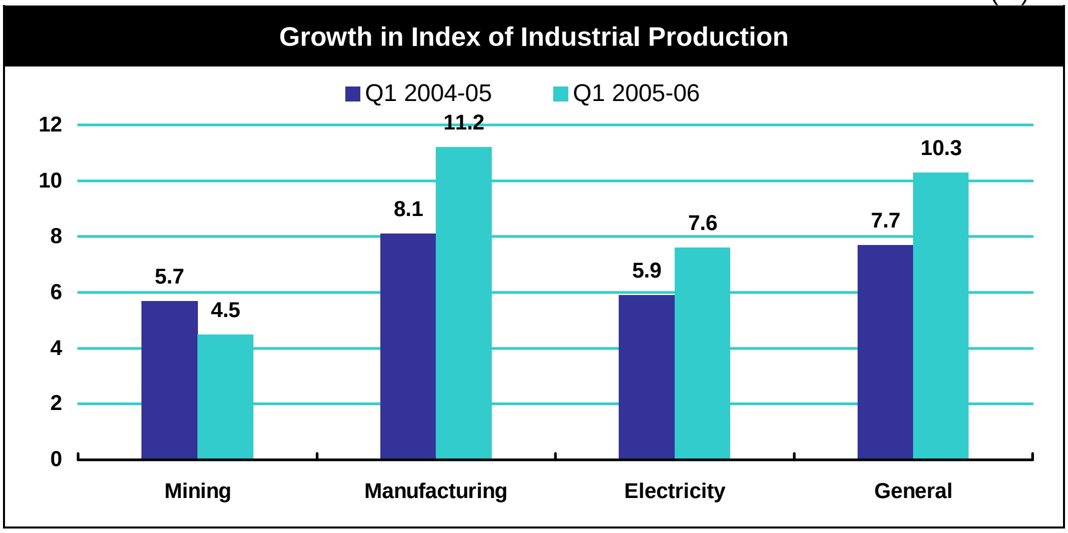
	Normal	Area Coverage 2005	Area Coverage 2004
Rice	39.9	25.04	25.50
Cotton	8.3	8.13	7.87
Coarse Cereals	22.9	21.84	22.35
Sugarcane	4.3	4.15	3.75
Jute	0.9	0.79	0.77
Kharif Oilseeds	15.1	15.81	16.10
Kharif Pulses	10.6	9.66	8.33
All Crops	102.0	85.42	84.67

Compiled by INGRES

❒ INDUSTRIAL PRODUCTION GROWTH IN Q1 2005-06 AT 10.3%

Industrial production was buoyant in Q1 2005-06 (April – June 2005) with growth of 10.3% because of acceleration in the manufacturing sector. The electricity sector recorded a strong pick-up during May 2005 (followed by decline in June 2005) and the cumulative growth during Q1 2005-06 was 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). As many as 15 of the 17 two-digit industry groups have shown positive growth during Q1 2005-06 as compared to Q1 2004-05 (April – June 2004). Textile Products (including Wearing Apparel) have shown the highest growth of 29.2%, followed by 15.4% in Basic chemicals & Chemical Products (except products of Petroleum & Coal), and 14.8% in Basic Metal and Alloy Industries. On the other hand, while Jute and other vegetable fibre textiles (except cotton) recorded negative growth of 1.3%, Wool, Silk and Man-made fibre textiles recorded negative growth of 1.2%.

(%)

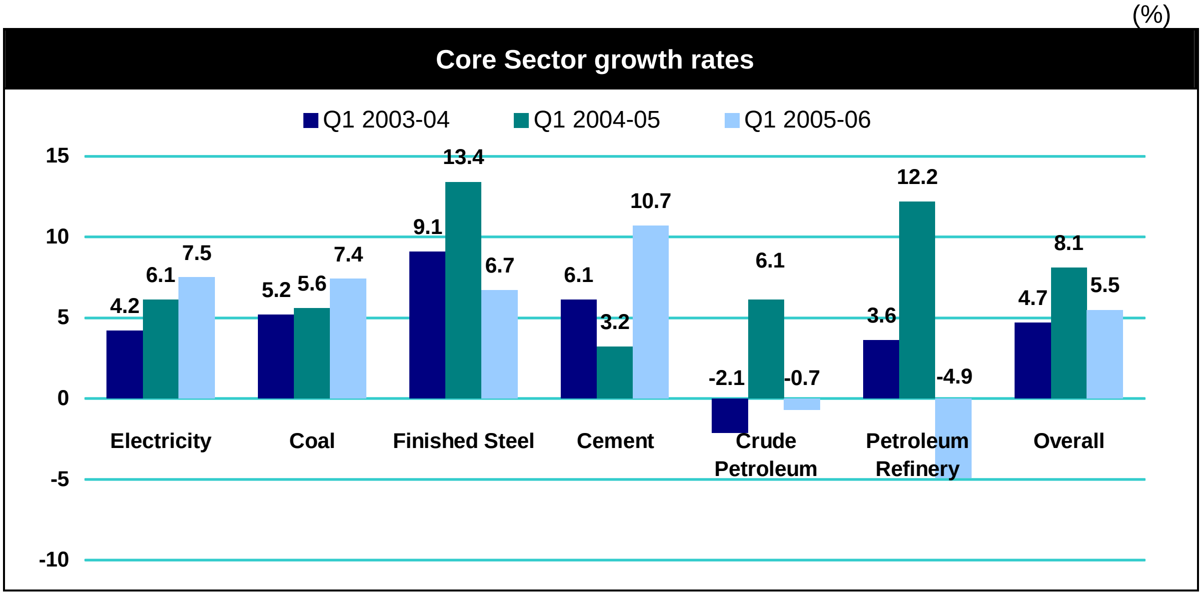


Source: Central Statistics Organisation

❒ CORE SECTOR GROWTH AT 5.5%

The overall growth of core infrastructure industries declined from 8.1% during Q1 2004-05 to 5.5% during Q1 2005-06. The slowdown was mainly a reflection of decline in crude petroleum and petroleum refinery production and deceleration in finished steel during April and May 2005.

(%)



❒ FISCAL DEFICIT

The combined Gross Fiscal Deficit (GFD) of the Centre and States is budgeted to decline from 8.3% of GDP in 2004-05 to 7.6% in 2005-06. The reduction is sought to be achieved primarily through higher revenue mobilisation, especially under direct taxes. A notable feature on the expenditure side is emphasis on developmental expenditure.

(Rs billion)

State of Government Finances: April-June, 2005-06

	Rs. billion				% of Budgeted Levels	
	2004-05 (Revised Estimate)	2005-06 (Budget)	Q1 2005-06	Q1 2004-05	Q1 2005-06	Q1 2004-05
Total Receipts	3,665.60	3,512.00	380.03	306.31	10.8	9.9
Total Expenditure	5,057.91	5,143.44	935.84	896.91	18.2	18.8
Fiscal Deficit	1,392.31	1,511.44	545.17	416.81	36.1	30.3
Revenue Deficit	851.65	953.12	473.11	463.94	49.6	60.9
Primary Deficit	133.26	171.99	280.89	169.97	163.3	215.0

Compiled by INGRES from Ministry of Finance

(Rs billion)

Tax collections (April-June, 2005)

	2003-04	2004-05 (Revised Estimate)	2004-05 (Provisional)	Budget 2005-06	Q1 2005-06	Q1 2004-05
Corporate	635.62	830.00	835.66	1,105.73	111.47	39.50
Income	413.79	509.29	483.12	662.39	82.11	104.82
Union Excise	907.74	1,007.20	991.55	1,215.33	142.64	137.11
Customs	486.29	562.50	576.55	531.82	147.88	106.72
Service Tax	78.91	141.50	142.00	175.00	32.25	24.00

Compiled by INGRES from Ministry of Finance

❒ INFLATION RATE IN Q1 2005-06

Inflation remained firm in Q1 2005-06, driven by high and volatile crude oil prices. In India, headline inflation, measured by year-on-year (yoy) changes in the Wholesale Price Index (WPI), hardened during April 2005 driven up by prices of fruits and vegetables and some upward revision in the prices of petroleum products such as naphtha, aviation turbine fuel and furnace oil as well as iron and steel. Despite a 5.1% increase in electricity prices in early June 2005 and a 7-8% increase in petrol and diesel prices effective June 21, 2005 (after a gap of 7 months), base effects of rising prices in the previous year enabled headline inflation to ease to 3.35% by August 6, 2005.

❒ GOVERNMENT SECURITIES MARKET

The Government securities market has recently been influenced by domestic liquidity conditions and inflationary expectations. Yields started to increase from the second week of April 2005, because of concerns arising from the persistent rise in international crude oil prices, higher than expected inflation and an expected hike in the reverse repo rate. Higher credit offtake also led to be reduced surplus bank liquidity and reduced the market appetite for Government securities. Yields declined during the first three weeks of May 2005 with the decline in international crude oil prices and easing of inflation. However, as crude oil prices renewed their upward climb, yields have hardened again. The yield on benchmark 10-year Government securities increased from 6.65% on March 31, 2005 to 7.40% on August 12, 2005 (7.17% on July 20, 2005). Reflecting the increase in interest rates, the weighted average yield of dated securities increased from 5.54% in Q1 2004-05 to 7.23% in Q1 2005-06.

❒ CAPITAL MARKETS

The capital market have exhibited strong pick-up in activity and sentiment during 2005-06. The stock markets recovered from the weakness observed in April 2005 and have since then gained strength, driven by healthy financial results and firm trends in international markets. The BSE Sensex reached new highs, closing at 7,817 on August 12, 2005. The number of issuances in the primary segment increased from 7 in Q1 2004-05 to 24 in Q1 2005-06. However, the amount raised increased marginally from Rs. 37.92 billion to Rs. 38.70 billion. Equity issues continue to remain the preferred choice of corporates for raising funds. The amounts mobilised from international markets by Indian corporates increased sharply from US$170 million in April-May 2004 to US$360 million in April-May 2005. Foreign direct investment also increased from US$ 434 million to US$922 million.

❒ BANK DEPOSITS AND CREDIT

During 2005-06, bank deposits have increased to Rs. 18,384 billion on August 5, 2005, reflecting a yoy increase of 16%. Demand deposits increased 30% (yoy) to Rs. 2,826 billion, attributable to the sharp pick-up in non-food credit, with funds getting temporarily parked in demand deposits. However, time deposits increased 13.7% (yoy) to Rs. 15,558 billion. Despite the increase in deposit rates, the slower growth in time deposits reflected some substitution in favour of postal deposits, which provide higher interest rates as well as tax incentives.

Bank credit increased 32.2% (yoy) to Rs. 11,855 billion on August 5, 2005, driven by strong growth in non-food credit. The commercial sector's demand for credit, which had accelerated since July 2004, increased during 2005-06. Non-food credit increased 34.1% (yoy) to Rs. 11,452 billion on August 5, 2005. However, food credit declined 5.2% (yoy) to Rs. 402 billion on August 5, 2005 because of lower procurement of food grains. The banks' increased financing of strong demand for credit by the commercial sector was accompanied by reduced growth of 4.5% (yoy) in banks' credit to Government.

❒ TRADE GROWTH

Trade data for 2004-05 indicate that a current account deficit reappeared in 2004-05, after a gap of three years, driven by a burgeoning merchandise trade deficit. Although both merchandise exports and invisible earnings were buoyant, imports growth was high caused by rising international crude prices as well as strong domestic demand. These trends have continued in Q1 2005-06. Although merchandise export growth remained high during Q1 2005-06, non-oil imports recorded a sharp increase indicative of rising investment demand in the economy. Further, high and volatile international crude oil prices have translated into a large expansion in the POL (petroleum, oil and lubricants) import bill. These developments have been reflected in near doubling of the trade deficit. India's foreign exchange reserves at US$144.38 billion on August 12, 2005 were sufficient to finance about 13 months of imports.

- ❖ **Exports**: Exports registered a growth of 19.5% during Q1 2005-06, as compared with 34% during Q1 2004-05.
- ❖ **Imports**: Imports increased 37.8% (yoy) during Q1 2005-06, primarily because of increased oil as well as non-oil imports. The average crude oil price per barrel (Indian basket) increased from US$39 in 2004-05 to US$52.3 in June 2005, and to US$54.9 in July 2005. Non-oil imports also increased 39.9% (yoy) during Q1 2005-06 due to sustained industrial demand.

(US $ million)

Export & Import Figures (April-June, 2005-06)

	US$ million				Growth (yoy) (%)	
	2004-05	Q1 2005-06	Q1 2004-05	Q1 2003-04	05-06/04-05	04-05/03-04
Exports	79,247	20,898	17,491	13,051	19.5	34.0
Imports	107,066	32,357	23,477	17,187	37.8	36.6
Oil	29,844	9,598	7,212	4,577	33.1	57.6
Non-Oil	77,222	22,760	16,265	12,610	39.9	29.0
Trade Balance	-27,819	-11,459	-5,986	-4,136	-	-

Source: Ministry of Commerce

❒ OUTLOOK

Real activity originating in agriculture and allied activities in Q2 2005-06 (July – September 2005) is expected to receive a boost from the normal monsoon conditions in 2005. Various business confidence surveys suggest that the industrial activity is likely to remain buoyant and the outlook will be positive. According to the RBI'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. Responses to the survey suggest an improvement in the overall business situation, production, order books, employment, exports, imports, selling prices and profit margins during Q2 2005-06. Indicators of services sector performance for Q1 2005-06 also suggest continuing buoyancy during Q2 2005-06. The generally positive developments in agriculture, industry and services coupled with positive business confidence and expectations are expected to result in overall GDP growth of 6-7.2% during 2005-06.