

# ASSOCHAM BUSINESS BAROMETER

“ASSOCHAM sees FY '09 GDP growth at 7.1 per cent”

December 2008

Prepared by:

GAURAV SHARMA

ASSOCHAM RESEARCH BUREAU

**TABLE OF CONTENTS**

S.No.	Heading	Page No.
1	GDP growth rate	3
2	Growth rate revision	3
3	Outlook FY 2009-10	3
4	Fiscal Stimulus	3
5	H1 FY 2008-09	4
6	Consumer Demand	4
7	RBI Measures	4
8	Table-GDP forecast	5
9	Agriculture	5
10	Industry:	6
11	Industrial Production	6
12	Infrastructure	7
13	Services:	7
14	Exports-Imports	7
15	Investments	8
16	Tax collections	8
	Annexure	

## **Amid rising economic gloom, ASSOCHAM sees GDP growth at 7.1 per cent for fiscal 2008-09**

As the world economy slips into recession hitting the demand hard and the banking sector takes conservative approach towards lending to corporate sector, the CEOs survey based GDP growth forecast done by Assocham Business Barometer has downgraded it to 7.1 per cent for 2008-09 and predicted it to be 6.5 per cent for FY 2009-10.

83 per cent of the 250 CEOs surveyed by the Assocham Business Barometer (ABB) projected the GDP growth for FY 2008-09 at 7.1 per cent with strong waves of negative economic sentiments flowing in the economy.

### **GROWTH RATE REVISION**

According to the ABB survey, from the earlier forecast of 7.6 per cent (July 2008), a downward revision of half a per cent has been witnessed on account of strong signals of global economic crisis seeping into the Indian economy, evident from exports, industrial production, FDI, excise duty collections all registering negative growth according to the latest announced data.

### **OUTLOOK FY 2009-10**

Seventy two per cent of the surveyed CEOs foresee a growth rate of 6.5 per cent in FY 2009-10. According to those surveyed, a two percent decline in the growth rate for FY 2008-09 over the previous year, capable of triggering a further slump in the economic activity, could pose serious threats of a slowdown in the forthcoming fiscal.

### **FISCAL STIMULUS**

Ninety one per cent of the surveyed CEOs believed India needs a strong fiscal stimulus even if it has to come at the cost of FRBM targets. The global financial crisis has intensively shaken the economic fundamentals across the world. To deal with a crisis

of such intensity, it would be rational for the policy-makers to dispense with the FRBM targets for this; as well as the next year and inject a much needed dose of strong fiscal stimulus to reinstate a rapid slowing economy.

### **H1 FY 2008-09**

The growth rate achieved in the first two quarters of the current fiscal at 7.9 per cent and 7.6 per cent respectively is unlikely to be matched for the remaining quarters of FY 2008-09 feels 94 per cent of the survey respondents. According to them, the steep downturn in quarterly growth rates for Q3 and Q4 would significantly pull down the GDP growth for the fiscal.

### **CONSUMER DEMAND**

As evident from a decline in the private final consumption expenditure from an average of 8 per cent in the last three years to 6.5 per cent during H1 FY 2008-09, a further slowdown in the consumer demand in the remaining two quarters of the fiscal would exert significant pressure in pulling down GDP growth this fiscal.

### **RBI MEASURES**

Sixty four per cent of the ABB respondents feel the round of interest rate cuts by the RBI to the tune of 250 basis points along with a 350 basis points reduction in the CRR will help in uplifting the GDP growth.

87 per cent of the survey respondents feel that the reverse repo rate should be reduced further to discourage banks from parking their funds with the RBI which could kick start lending in deal with the liquidity crunch faced by the Indian corporate sector.

The monetary easing measures by the RBI along with a major correction in commodity prices due to sluggish economic demand have seen inflation coming down to below 7 per cent before the end of calendar year against the central bank's target of fiscal year ending 31<sup>st</sup> March 2009. With RBI shifting focus from price control to address growth concerns along with further anticipated rate cuts would enable Indian economy to register a decent growth of seven plus per cent this fiscal.

### **GDP FORECAST FOR 2008-09**

S.No.	Sectors	December 2008 Growth (forecast) in per cent	July 2008 Growth (forecast) in per cent
1	Agriculture	3.9	4
2	Industry	6.0	7.2
3	Services	8.7	9
4	Overall	7.1	7.6

Source: Assocham Business Barometer

#### **AGRICULTURE:**

83 per cent of the ABB respondents foresee agricultural growth at **3.9 per cent** for FY 2008-09 further expecting the sectoral contribution of the agriculture sector to go up.

After witnessing a continuous decline towards the share in GDP from 20.2 per cent in 2004-05 to 17.8 per cent in 2007-08, the agriculture sector contribution to the GDP is likely to grow up this fiscal mainly on account of slowdown in industrial activity and a moderation in service sector.

Normal monsoon and stabilized agriculture credit have led to favourable conditions for a decent agriculture growth rate this fiscal. However, on account of a slowdown in agricultural growth in H1 2008-09 at 2.9 per cent as compared to the growth rate of

4.5 per cent in the corresponding period of the previous year, the agricultural growth has been revised at 3.9 per cent.

## **INDUSTRY:**

With 76 per cent of the survey respondents foreseeing the industrial growth rate between **4-6 per cent range**, Industrial growth is seen as one of the major factor causing a slippage in economic growth rate.

According to 89 per cent of the respondent CEOs, manufacturing activity is unlikely to pick up strongly from a negative growth of 1.2 per cent witnessed in October 2008 and expect it to take double hit from a rapid slackening domestic demand and a heavy shrinkage in new export orders due to the global recessionary forces.

## **Industrial Production**

The manufacturing activity, which makes up for 79.4 per cent of the IIP and contributes 15.4 per cent to the GDP, has taken a major hit on account of a slowdown in demand. The witnessed contraction of 1.2 per cent in October 2008 accompanied by a decline of 6.4 percentage points in the production growth rate for April-October 2008 over the corresponding period last fiscal is seen as a major threat to the economy.

As per the User based classification, for the first seven months of FY 08-09, Capital goods production has registered a decline of 11.1 percentage points. Since Capital goods production essentially depends on the investment decisions of firms. Considering the tendency of economic slowdown to suppress the investment growth rate, there could be a further deceleration in the industrial production activity for the remaining part of the fiscal.

Intermediate goods have slipped into a negative growth rate of 0.3 per cent against a healthy rate of 10.5 per cent during April-October 2007. Also, Consumer durables and Consumer Non-durables registered negative growth in October 2008. All these signals are indicating a slowdown in demand which is further expected to take toll on the industrial production.

### **Infrastructure**

The six core infrastructure industries growth rate has fallen to 3.9 per cent for the first seven months of the fiscal, down 2.7 per cent from the corresponding period last year. Among the worst hit, crude oil production registered a negative growth of 0.7 per cent while Electricity, Steel and Cement declining by 4.3 per cent, 3.1 per cent and 2.5 per cent respectively.

### **SERVICES:**

Global financial crisis has started to take its toll on the service sector. According to 81 per cent of the surveyed CEOs, the sector which recorded an average growth rate of 10.7 per cent in last three years is expected to deteriorate down to **below 9 per cent** growth rate mark.

Paring under the current crisis; real estate, aviation, financial services, hotels and tourism are expected to slowdown further while telecommunication and railway transportation are expected to grow at decent pace. A moderate deceleration in IT exports is also likely to be witnessed.

On the export front, 68 per cent of those surveyed stated a dip on the export front is likely to be accentuated further following a 12.1 per cent in October 2008.

## **Exports –Imports**

India's exports, despite registering a healthy growth rate of 23.7 per cent in dollar terms and 32 per cent in rupee terms are not likely to meet its target of USD 200 billion for the current fiscal. Due to shrinkage in new export orders from the recession ridden US, EU and Japan, exports (in USD terms) fell a massive 12.1 per cent for the month of October.

Imports growing at 36.2 per cent in the first seven months of the fiscal have widened the trade deficit to USD 73 billion, higher by 59.9 per cent over the corresponding period last year. Because of the heavy FII sell offs along with shrinking forex reserves and the absence of compensatory dollar inflows, the burgeoning trade deficit is putting pressure on the rupee to weaken further.

## **INVESTMENTS**

Prior to Mid-October 2008, Interest rates shot up to extremely high levels because of the RBI's stance to stem then soaring inflation. High interest rates played its part in slowing down India Inc's investment plans. Now with the central bank shifting focus to address concerns over the economic growth, interest rates have been eased considerably which are further expected to come down as a measure to pick up the slackening consumer demand and thereby corporate investments.

Because of the global recessionary pressures, portfolio investments (FII) along with FDI are likely to deteriorate which could be a vital blow to the economy. FIIs have offloaded more than USD 13 billion from the Indian equity markets.

After registering a whopping growth rate of 137 per cent during April-September (H1) 2008 over the corresponding period last year, FDI fell 26 per cent in October 2008 taking cues from the global financial crisis.

## **TAX COLLECTIONS**

The economic slowdown, especially in the manufacturing sector, seems to have taken a toll on tax collections as well. Net Indirect tax collections declined 8.3 per cent in November 2008. Owing to a steep decline in the manufacturing activity, excise collections were down 15 per cent in November 2008 while declining 1.5 per cent during April-November 2008.

Direct tax collections for November 2008 dropped 36.09 per cent to Rs 10,346 crore from Rs 16,189 crore in November 2007. However, the cumulative growth in April-November, 2008 stood at a decent 22.2 per cent on back of robust collections in earlier months.

## Annexure

### Questionnaire

The Reserve bank of India has slashed its interest rates by reducing the cash reserve ratio by 350 basis points and repo rate by 250 basis points. Do you think these measures will help in uplifting the GDP growth?

- Yes
- No

Do you think the reverse repo rate should also be reduced to discourage the banks from parking their funds with the RBI?

- Yes
- No

The growth rate in Q1 and Q2 of the current financial year were 7.9 per cent and 7.6 per cent. Do you expect the growth rate to further dip in the next two quarters?

- Yes
- No

In what range, do you expect the GDP to grow for the fiscal 2008-09?

- Below 7 per cent
- 7 per cent to 7.2 per cent
- 7.2 per cent to 7.5 per cent
- above 7.5 per cent

Industrial production growth has declined to 4.9 per cent during the period April-September 2008 as against the 9.5 per cent growth. In your opinion, in which direction would the industrial production growth move in the coming months?

- Rise
- Fall
- Stay constant

In what range, do you think would the annual growth rate of industry fall for FY2008-09?

- Below 4 per cent
- 4 per cent – 5 per cent
- 5 per cent – 6 per cent
- above 6 per cent

To what extent do you think the Indian business is impacted by the global economic crisis?

- To a large extent
- No impact
- To small extent

The services sector has seen huge impact on its growth rate with the recession in the developed countries like US, Europe and Japan. The growth in services is down from the double digit figures to the level of 9 per cent. What are the growth prospects for the service sector in the coming months?

- The growth will pick up
- Further deteriorate
- Will remain at 9 per cent level

Exports have registered a dip of 12.1 per cent in the month of October as compared to the last year. Do you see this trend to continue in coming months as well?

- Yes
- No

Do you believe that Indian economy requires strong fiscal stimulus?

- Yes
- No

Do you think government should give fiscal stimulus to industry at the cost of FRBM targets?

- Yes
- No

What steps you think the policy makers need to take to ward off the global recessionary impact from the Indian economy and ensure rapid growth momentum?

---

---

---

---

---

---

---

---

---

---