

An Overview

As the financial year 2008-09 has come to a close, there has been greater clarity on the extent to which the national economy has been impacted by the global recession, by its knock-down effect and by the slackness in certain policy initiatives. At a broad level, the real GDP growth during 2008-09 is sure to be not more than 6.5%. Only a few months ago, the Planning Commission released the Eleventh Five Year Plan (2007-2012) document and projected, with considerable confidence, a real growth of 9% per annum for the five-year period 2007-08 to 2011-12. Thus unexpectedly, there has occurred a severe drop in the growth perspective, and the expectations are that the growth scenario may be only slightly better during the next year 2009-10. Thus, two out of the first three years of the eleventh plan will have only 6.5% to 7% growth against the target of 9% for each year.

It is significant that even the 6.5% to 7% growth in 2008-09 and 2009-10 has been achieved because the services sector growth has been, or expected to be, over 9%. The two real sectors, namely, agriculture and industry, have fared badly. Agriculture is expected to register only 0.5% during 2008-09 and industry 4.7%. An econometric exercise made of agricultural growth does suggest that the sector has the potential to grow at an annual rate of 4% but it is not being realised because of the vastly fluctuating rainfall. The industry is facing severe demand shortage – both consumer demand and investment demand. There are enough of evidences regarding a number of industrial projects being deferred or even given up because of the high interest cost.

In the process of generating additional demand for industry, the burden of adjustment has fallen on monetary policy and the banking sector. But, it appears that despite repeated measures of reductions in policy rates and despite the injection of vast amounts of liquidity, banks continue to exhibit risk aversion. The RBI has targeted a non-food credit expansion of 22% during 2008-09 but the actual expansion during April 2008 to February 2009 has been only 13% (or Rs 302,145 crore) in contrast to an increase of 17.3% (or Rs 325,780 crore) in the comparable period of the previous year. In addition, it is found that the banks' reluctance to lend is reflected in their reduced commercial investments.

The adverse consequences of the economic downturn have already begun to be felt in a series of sectoral job losses and other social phenomena. First, a Labour Bureau survey has

revealed how about half a million workers were rendered jobless in various industries in the quarter ending December 2008. The survey also revealed that job losses were primarily amongst contract labourers, thereby affecting low-paid unorganised labour more than regular employees. A massive 93% of the country's workforce is in the unorganised sector without any social security cover. It is reported that the average earnings of workers in labour-intensive sectors declined by 3.45% per month; in real terms the loss would have been much more. Secondly, the export-oriented textile industry has reported further job losses, probably a million, by the end of March 2009. Finally, the labour ministry has made a special assessment of the ground realities in the Surat diamond industry; the picture seems truly depressing. It is said that nearly half of the four lakh workers employed with 2500-3000 large diamond units, have been reduced jobless. Besides, 75% of the workers are migrants under 35 years of age. Most of them have reportedly left the city and the consequential reverse migration into rural areas of Bihar, Andhra Pradesh and Orissa has created serious problems of rural joblessness and lack of livelihoods.

On the external front, the declining trend in exports is persisting. The latest March figures show a steep fall of 30% after a 16% fall each in January and February. For the past six months exports have been experiencing absolute reductions; during this period, exports have been in the range of US \$11 to US \$12 billion – a month as against US \$13 to US \$17 billion in the months between April and September 2008. A worrying aspect of the external sector situation relates to the losses of foreign currency reserves to the extent of near US \$58 billion during 2008-09.

No doubt, the declining inflation rate has been providing some sliverlining particularly in the context of expansionary fiscal and monetary stimuluses. But, even in it, there is a worrying element which is that the increases in the prices of food articles have remained as high as 8.3% year-on-year. Amongst them, the prices indices of foodgrains, cereals and pulses have risen y-o-y by as much as 11.2%, 10.9% and 13.1%, respectively.