



# India's Economic Outlook: Medium to Long-Term Perspective

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*Presentation by*

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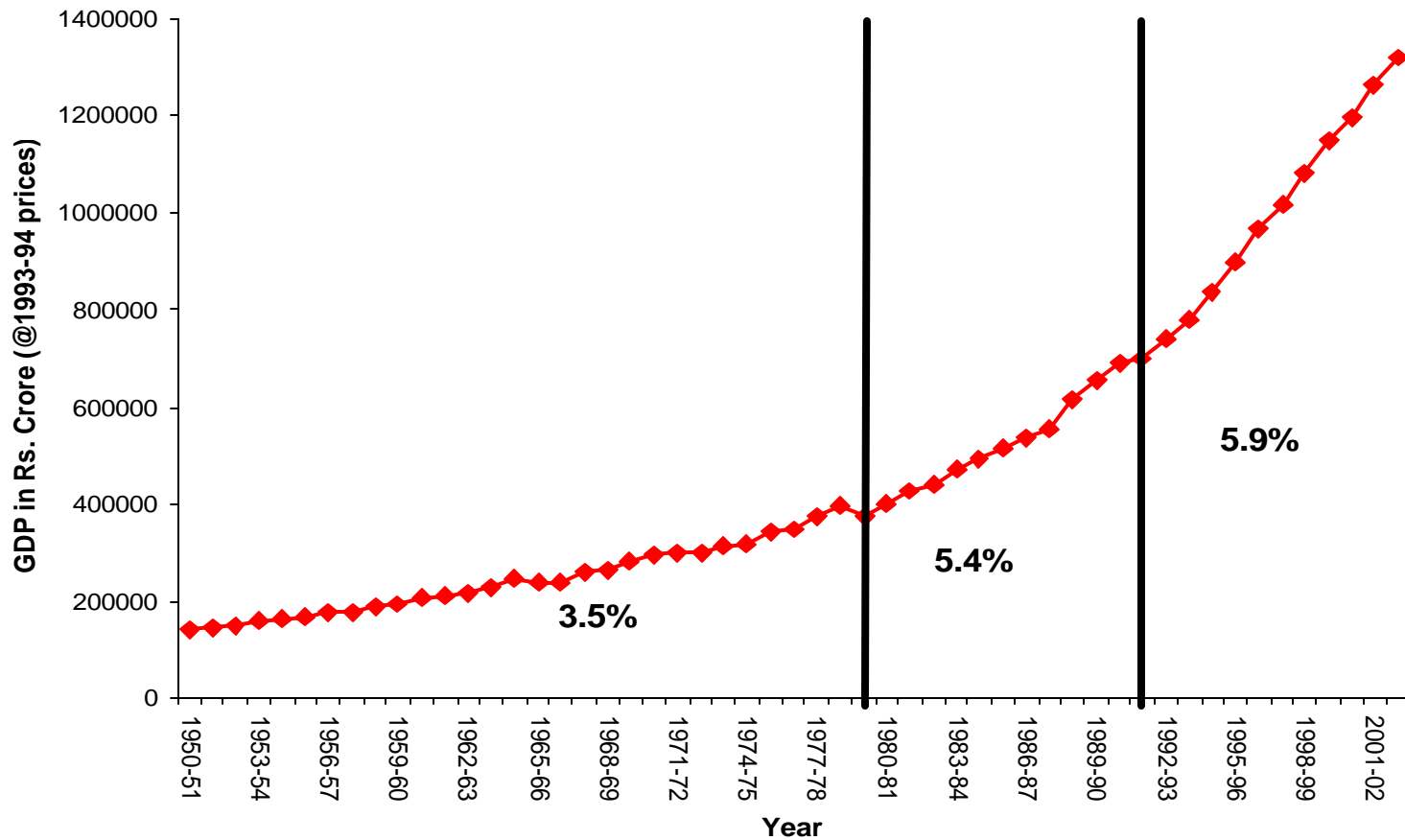
**India Resident Mission, New Delhi**



# Buoyant Growth Outlook for FY2003

Agency	Growth Rate
ADB	7.3
Ministry of Finance, Government of India	8.1
Reserve Bank of India	7.0
IMF	6.5-7.0
International Institute of Finance	6.5
Confederation of Indian Industry (CII)	7.2
Centre for Development Economics, Delhi School of Economics (CDE-DSE)	7.0
National Council of Applied Economic Research (NCAER)	8.1
Institute of Economic Growth (IEG)	6.8-7.0
Centre for Monitoring Indian Economy (CMIE)	8.2
Investment Information and Credit Rating Agency (ICRA)	6.5-6.9
Credit Rating Information Services of India Limited (CRISIL)	7.1
<b>Consensus Forecast</b>	<b>7.1-7.2</b>

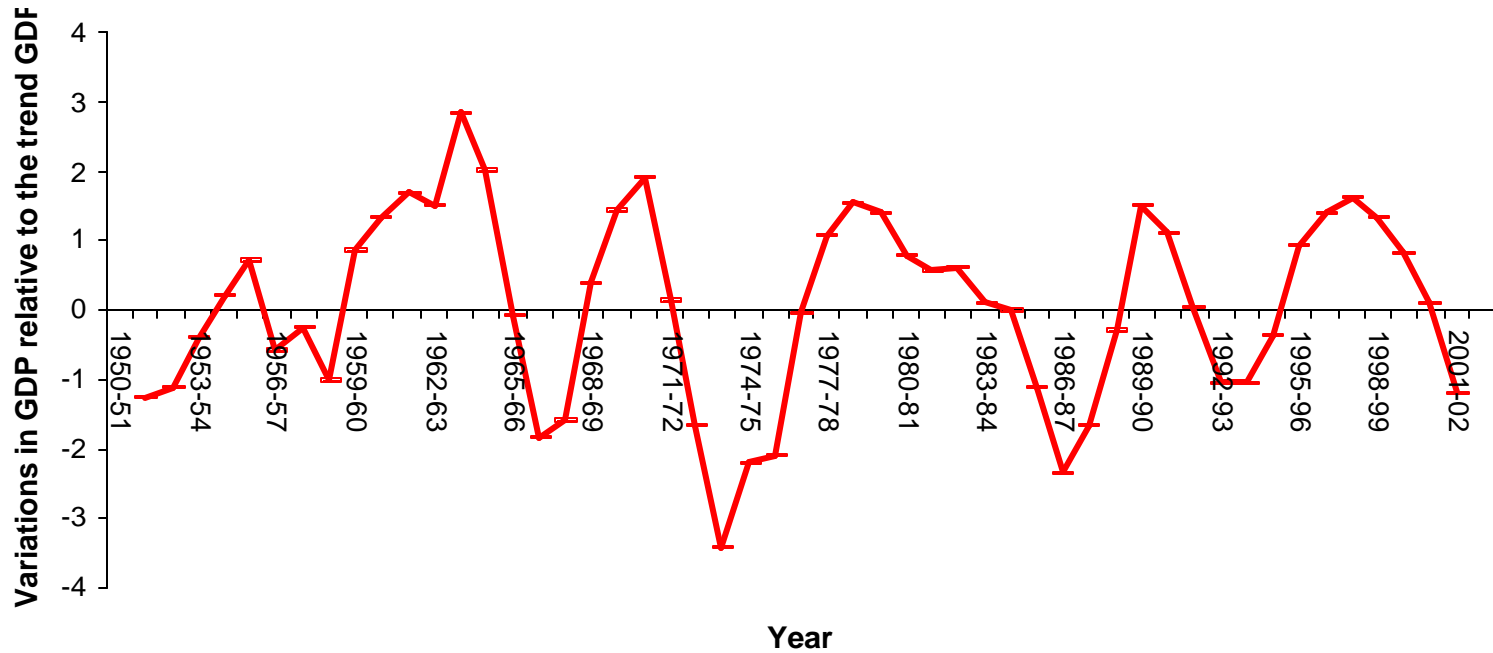
# Figure 1: Real Gross Domestic Product 1950-1 to 2002-3 and Sub-period Growth Rates



# Sectoral Growth and Share in Real GDP (%)

	Agriculture	Industry	Services	Total
<b>Growth</b>				
1950-79	2.5	3.9	2.7	3.5
1980-91	5.3	6.3	6.1	5.4
1992-2002	4.5	6.4	7.8	5.9
<b>Share</b>				
<b>1950-51</b>	<b>57.4</b>	<b>14.7</b>	<b>27.9</b>	
1979-80	37.9	24.4	37.7	
1991-92	31.3	26.7	42.0	
<b>2002-03</b>	<b>22.1</b>	<b>27.1</b>	<b>50.8</b>	

# Figure 2: Business Cycles in the Indian Economy



# Figure 3: Cyclicality Across Sectors

Figure 3: Agricultural GDP

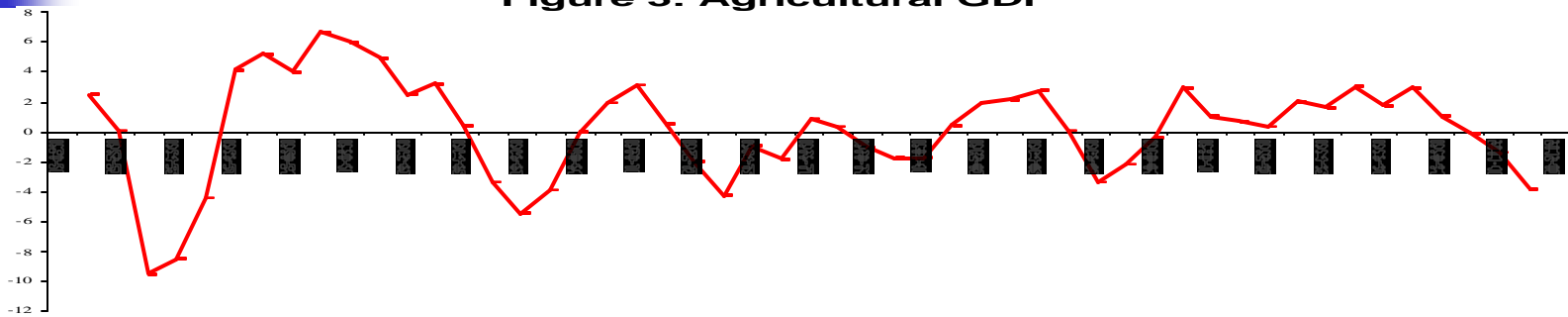


Figure 4: Industrial GDP

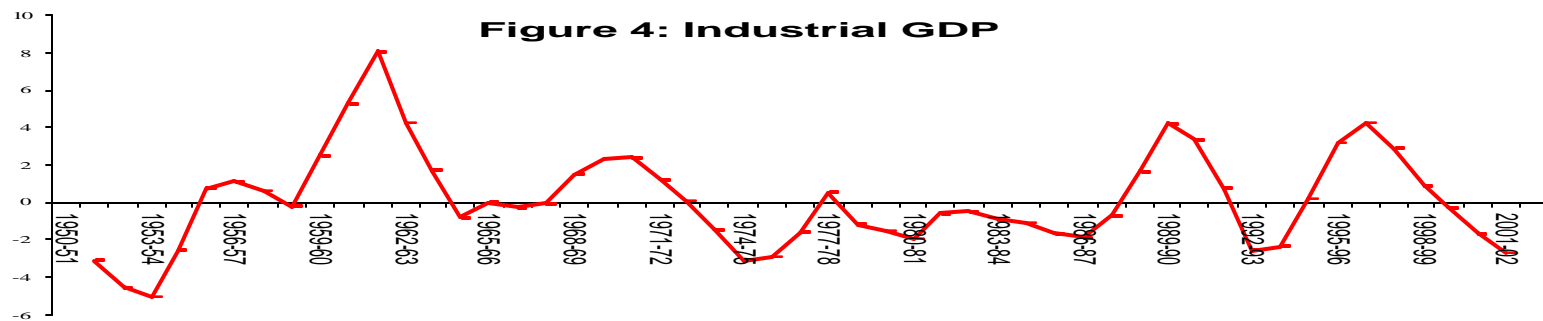
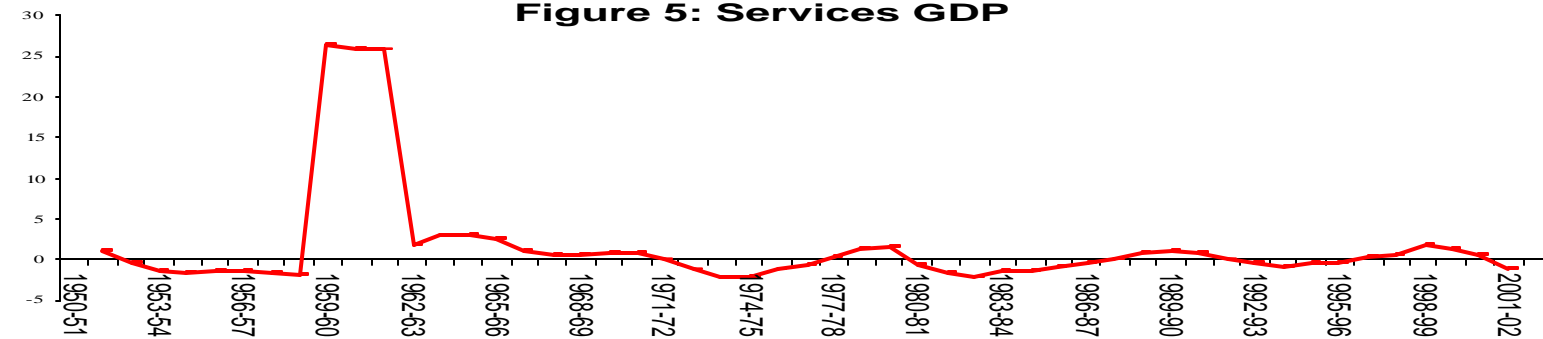
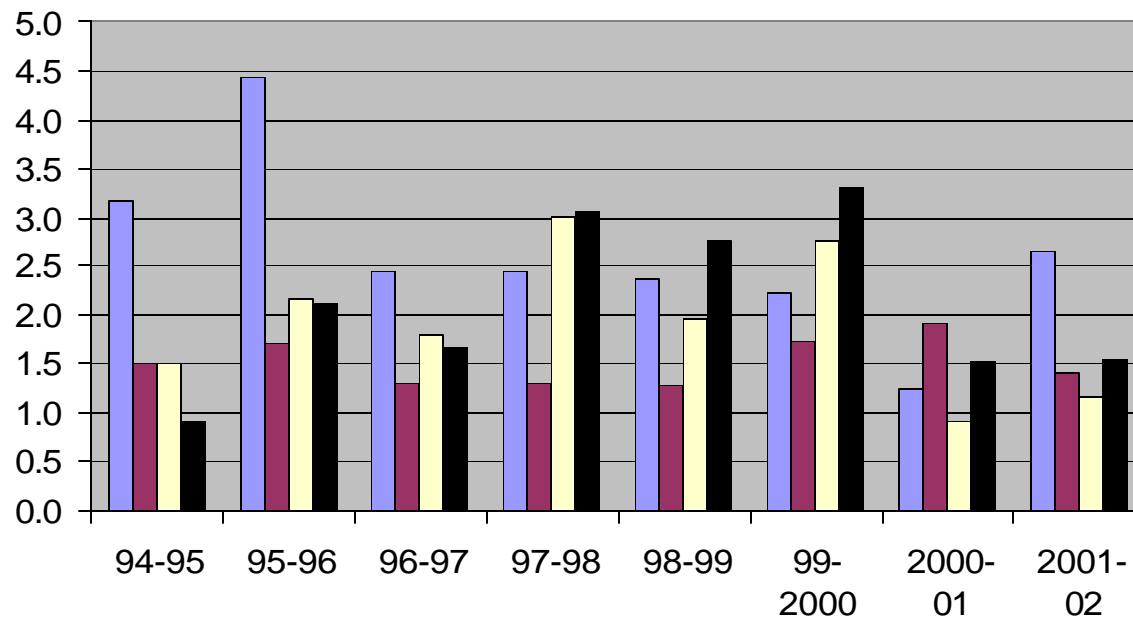


Figure 5: Services GDP



# Figure 4: Contributions to Services Growth



# Macro Fundamentals and External Orientation

Indicators	FY1998-FY2002@	FY2003
Real GDP Growth (%)	5.4	7.3
Inflation (%)	4.7	5.3
Gross Domestic Investment/GDP (%)	23.9	24.0
Gross Domestic Saving/GDP (%)	23.5	24.1
Money Supply (M3) Growth (%)	16.0	13.5
Consolidated Fiscal Deficit# / GDP (%)	-9.6	-11.0
Export Growth (%)	8.7	10.4
Import Growth (%)	5.4	30.2
Current Account Balance / GDP (%)	-0.3	0.1
External Debt / GDP (%)	21.8	18.0
Foreign Exchange Reserves (US \$ Billion)	71.9	103.4*
-of which Portfolio Inv., banking capital & short-term loans	10.3	10.5***
Foreign Exchange Flows (US \$ Billion)	20.8	31.5*
- of which Portfolio Inv., banking capital & short-term loan	10.3	18.1***

Note: # This includes the combined fiscal deficit of the central government and all state governments.  
 @ Average. \* as of 31 March 2003. \*\* as of 20 February 2004. \*\*\* Estimated.



# Sources of Growth: TFP estimates

	Capital Stock	Labour	TFP
=====			
<b>Growth (%)</b>			
1961-78	2.2	0.9	0.6
1979-90	2.5	0.8	1.6
1991-01	3.0	0.9	1.7
<b>Contribution to Growth (%)</b>			
1961-78	60.1	22.9	17.0
1979-90	51.0	16.3	32.7
1991-01	53.3	16.3	30.3

# Sectoral Employment Growth and Share (%)

		Agriculture	Industry	Services	Total
<b>Growth</b>	1983-87	1.6	5.0	3.6	2.6
	1987-93	2.2	0.6	3.1	2.1
	1993-99	0.0	2.4	2.1	0.9
<b>Share</b>	1983	<b>63.2</b>	<b>15.6</b>	<b>21.2</b>	
	1987-88	60.1	17.6	22.3	
	1993-94	60.4	15.8	23.8	
	1999-00	<b>56.7</b>	<b>17.6</b>	<b>25.7</b>	



# Economic Gains and Social Challenges

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❖ Despite the acceleration of output growth, employment growth has been tardy. The only sector where employment has picked up is the industrial sector, where employment growth increased from 0.6% during 1987-93 to 2.4% during 1993-99. Evidence also shows that labour demand elasticities in the manufacturing sector are higher in a period of trade liberalization, varying across states in negative correlation with the degree of labour regulation (Hasan et al. 2003). However, the industrial sector only accounts for 17.6% of the workforce. The services sector, which is the fastest growing and the largest sector in the economy, accounts for about 26% of total employment. Employment growth in this sector declined from 3.1% during 1987-93 to 2.1% during 1993-99. In the agricultural sector, which now accounts for only 22% of output but about 57% of total employment, there has been no growth of employment. As a consequence, while GDP growth has now risen to over 7%, overall employment is growing at less than 1%, a phenomenon sometimes described as 'jobless' growth. The consequent increase in open unemployment and underemployment is a major social challenge.

❖ There are several other social challenges which also need to be urgently addressed. In the health sphere, the maternal mortality rate remains more or less stagnant, and the proportion of assisted deliveries must at least double to reach Millennium Development Goal targets. The National Family Health Survey (NFHS)-2 revealed that more than one-third of the women in the age group 15-49 years are undernourished. It also revealed considerable disparities in the health status across states and between socio-economic groups. Under-5 and infant mortality rates continue to be high. Changes in population structure have resulted in a larger graying population as per the latest 2001 census, while changes in the global security environment have enhanced insecurity of livelihood, which impacts on human development. The spread of HIV/AIDS and other infectious diseases, stress, and pollution—all pose new challenges to human development.



# Economic Gains and Social Challenges (contd.)

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❖ There are also a variety of persisting disparities across gender, regions and different social groups which are undermining social cohesion. Gender parity in secondary education is far from being achieved. The juvenile sex ratio has recorded a sharp decline, highlighting the vulnerable status of the girl child and women. There is also an accentuation of regional disparities in human development indicators, with the southern and western regions doing much better than the northern and eastern regions. Human poverty indices based on health, literacy, income, and social exclusion factors place some states such as Gujarat, Haryana, Kerala, Maharashtra, Punjab, and Tamil Nadu in the top rung, while Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh are in the lowest rung. Rural-urban and gender disparities continue to exist between and within states. Significant inequalities also exist in the distribution of interpersonal consumption and levels of living even within the states. Studies reveal that the intensity of poverty is highest among landless wage earners, marginal farmers, scheduled castes, scheduled tribes, and indigenous populations.

Thank you