

INDIA'S GROWTH : PAST PERFORMANCE AND FUTURE PROSPECTS

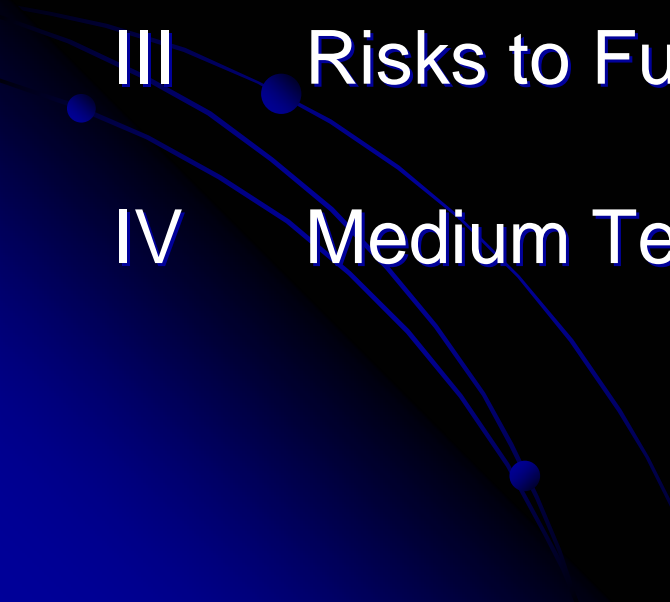
by

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OUTLINE

- I Review of Growth Performance(1950 – 2006)
 - II Main Drivers of Recent Growth
 - III Risks to Future Strong Growth
 - IV Medium Term Growth Prospects
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**Table 1: Growth of GDP and Major Sectors
(% per year)**

Year	1951/52- 1980/81	1981/82- 1990/91	1992/93- 1996/97	1997/98- 2001/02	2002/03- 2005/06	1992/93- 2005/06	1981/82- 2005/06
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture and Allied	2.5	3.5	4.7	2.0	1.9	3.0	3.0
Industry	5.3	7.1	7.6	4.4	8.0	6.6	6.5
Services	4.5	6.7	7.6	8.2	8.9	8.2	7.4
GDP	3.6	5.6	6.7	5.5	7.0	6.4	5.9
<i>GDP per capita</i>	<i>1.4</i>	<i>3.4</i>	<i>4.6</i>	<i>3.6</i>	<i>5.3</i>	<i>4.4</i>	<i>3.8</i>

Source: CSO . Note: Industry includes Construction.

Table 2: Economic Growth: Pre-independence
(% per year)

Year	1900-46	1900-29	1930-46
GDP	0.9	0.9	0.8
Population	0.8	0.5	1.3
Per Capita GDP	0.1	0.4	-0.5

Source: Sivasubramonian (2000)

**Table 3: Percentage of People Below Poverty Line,
1951-52 to 1999-00: Official Estimates**

Year	Rural	Urban	All India
1951-52	47.4	35.5	45.3
1977-78	53.1	45.2	51.3
1983	45.7	40.8	44.5
1993-94	37.3	32.4	36.0
1999-2000	26.8	24.1	26.1

Source: Planning Commission, Government of India

Table 4: Growth of GDP, Total Factor Input and Total Factor Productivity(% per year)

	1950/51- 1966/67	1967/68- 1980/81	1981/82- 1990/91	1991/92- 1999/2000
GDP	3.8	3.4	5.3	6.5
Total Factor Input (TFI)	2.4	2.7	3.3	3.9
Total Factor Productivity (TFP)	1.4	0.7	2.0	2.6
<i>Proportion of Growth Explained by TFP (%)</i>	37.6	20.8	37.7	39.7

Source: Acharya, Ahluwalia, Krishna and Patnaik (2003).

Note: For each sub-period, GDP, TFI and TFP are trend growth rates.

Table 5: Main Economic Reforms of 1991-93

Fiscal

- Reduction of the fiscal deficit.
- Launching of major tax reforms.

External Sector

- Devaluation and transition to a Market-determined Exchange Rate.
- Phased reduction of import licensing (quantitative restrictions).
- Phased reduction of peak custom duties.
- Policies to encourage direct and portfolio foreign investment.
- Monitoring and controls over external borrowing, especially short term.
- Build-up of foreign exchange reserves.
- Amendment of FERA to reduce restrictions on firms.

Industry

- Virtual abolition of industrial licensing.
- Abolition of separate permission needed by “MRTP houses”.
- Sharp reduction of industries “reserved” for the public sector.
- Freer access to foreign technology.

Agriculture

- More remunerative procurement prices for cereals.
- Reduction in protection to the manufacturing sector.

Financial Sector

- Phasing in of Basle prudential norms.
- Reduction of reserve requirements for banks (CRR and SLR).
- Gradual freeing up of interest rates.
- Legislative empowerment of SEBI.
- Establishment of the National Stock Exchange.
- Abolition of government control over capital issues.

Public Sector

- Disinvestment programme begun.
- Greater autonomy / accountability for public enterprises.

MAIN DRIVERS OF RECENT GROWTH

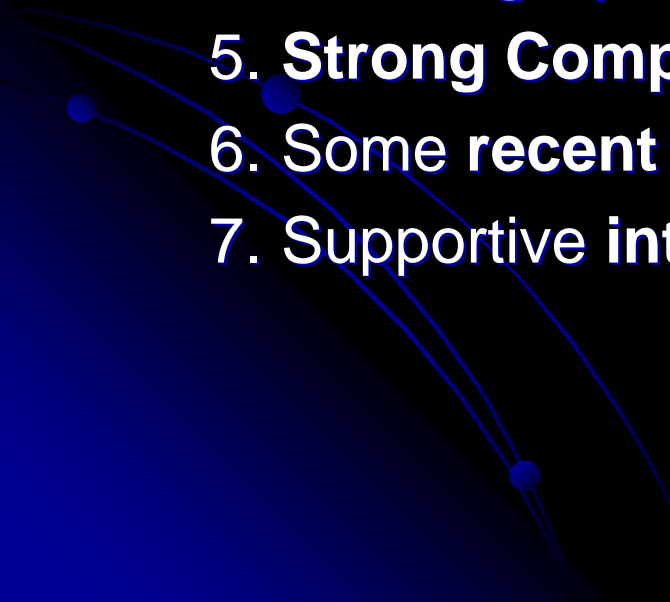
1. **Momentum** of 25 years of Good Growth
 2. A much more **Open Economy**
 3. Growing “**middle class**”
 4. “**Demographic dividend**” of young population
 5. **Strong Companies** in a modernized Capital Market
 6. Some **recent economic policies**
 7. Supportive **international economic environment.**
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Table 6: Good Growth Performers of Recent Decades
Average Annual Per Capita Growth (%)

S.no	Country	1980-2002	1990s	1980s	Population in 2000 (Millions)
1.	China	8.2	8.6	7.7	1262
2.	Vietnam	4.6	5.7	1.9	78
3.	South Korea	6.1	5.0	7.4	47
4.	Chile	3.3	4.3	2.1	15
5.	Mauritius	4.4	4.1	4.9	1
6.	Malaysia	3.4	3.7	3.1	23
7.	India	3.6	3.6	3.6	1016
8.	Thailand	4.6	3.4	6.0	61
9.	Bhutan	4.3	3.4	5.4	1
10	Sri Lanka	3.1	3.1	3.1	18
11	Botswana	4.7	2.7	7.2	2
12	Indonesia	3.5	2.6	4.4	206

Source: World Bank (2005)

Table 7: Towards A More Open Economy

	1990/91	2005/06
Peak Import Duties (manufacturers)	200% plus	12.5%
Import Controls	Tight, detailed	Almost gone
Trade (goods) / GDP Ratio (%)	14.6	32.7
Current Receipts / GDP (%)	8.0	24.5
Software Exports (\$ billion)	Nil	23.6
Worker Remittances (\$ billion)	2.1	24.6
Foreign Investment (\$ billion)	Negligible	20.2
Foreign Currency Reserves (<i>\$ billion, March 31</i>)	2.2	145.1
Debt Service Ratio (%)	35.3	10.2

Source: RBI, Annual Report, 2005 /06, except for first two rows.

Table 8: Rising Middle Class

	1990/91	2005/06
People in households with income (Rs.2,00,000 – 10,00,000 OR PPP \$20,000- \$1,00,000 approximately) ^a	15 million	100 million
Bombay Stock Exchange Market Capitalisation*	\$50 billion	\$680 billion
Cars + UVs sold #	205 thousand	1319 thousand
Two Wheelers sold #	1800 thousand	7570 thousand
Telephone Connections@ (million)	5	125\$

a Based on data from NCAER (2005)

* RBI, Handbook of Statistics on the Indian Economy, 2005-06

Business Beacon, CMIE and Monthly Review of the Indian Economy, CMIE, October 2006

@ Business Beacon CMIE and Economic Survey, 2005-06

\$ December 2005

Table 9: Share of Working Population (15-59 yrs)

	1950	1975	2000	2025	2050
<i>India</i>	55.5	54.0	58.9	64.3	59.7
China	59.0	53.6	65.0	62.1	53.8
Japan	56.9	64.0	62.1	52.8	45.2
US	60.5	60.0	62.1	56.6	54.6
Western Europe	61.7	58.1	61.3	54.8	50.4

Table 10: Deficits, Savings and Investment (as % of GDP)

Year	1995-96	2001-02	2004-05
Gross Fiscal Deficit <i>(Centre and States)</i>	6.5	9.9	7.5
Revenue Deficit <i>(Centre and States)</i>	3.2	7.0	3.7
Gross Domestic Savings <i>(of which Government)</i>	25.1 (-2.0)	23.6 (-6.0)	29.1 (-2.7)
Gross Domestic Investment	26.9	23.0	30.1

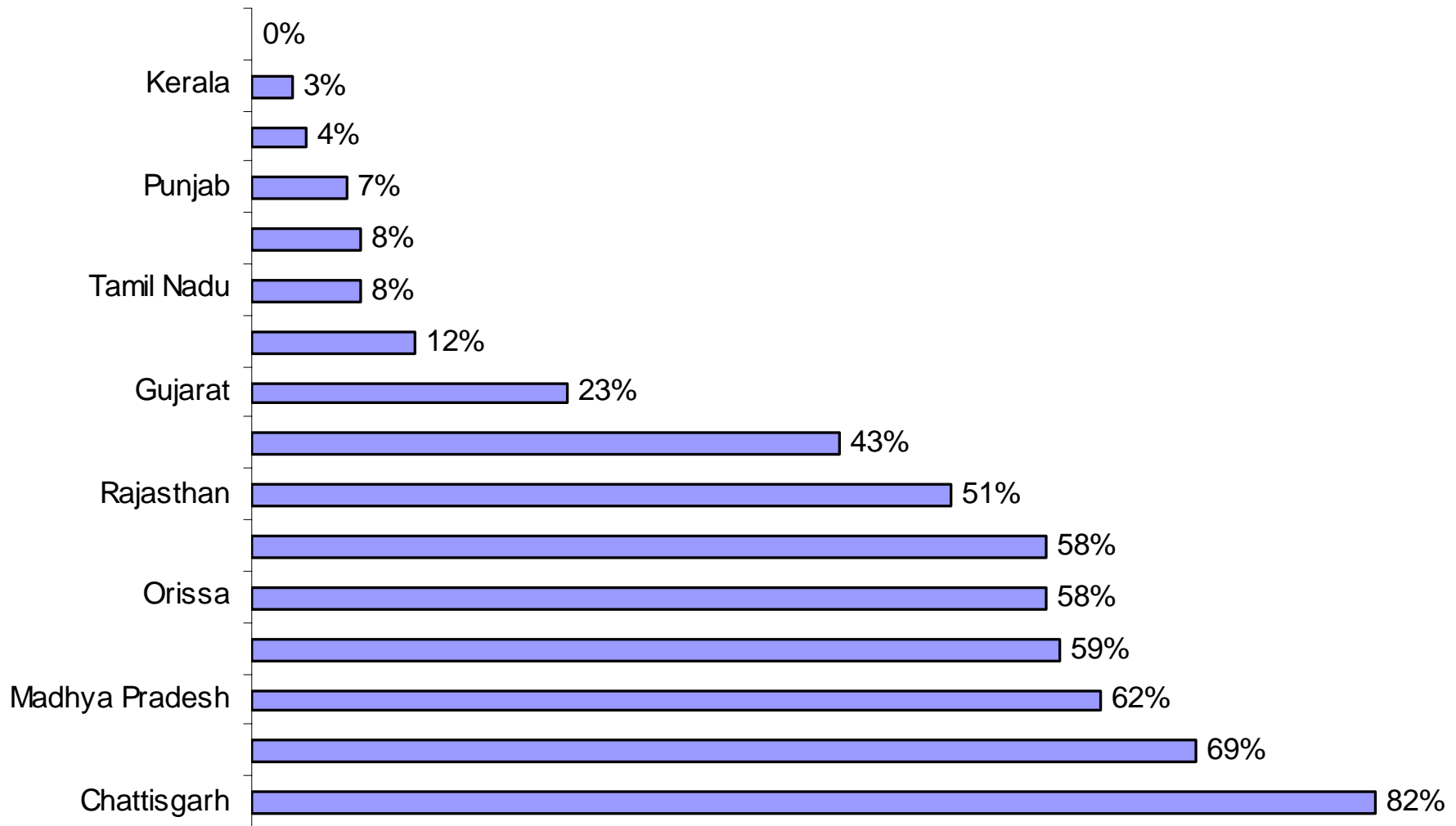
Source: RBI, Handbook of Statistics on the Indian Economy, 2005-06 and CSO website

- (http://mospi.nic.in/mospi_cso_rept_pubn.htm)
- (http://mospi.nic.in/mospi_press_releases.htm)

RISKS TO FUTURE GROWTH

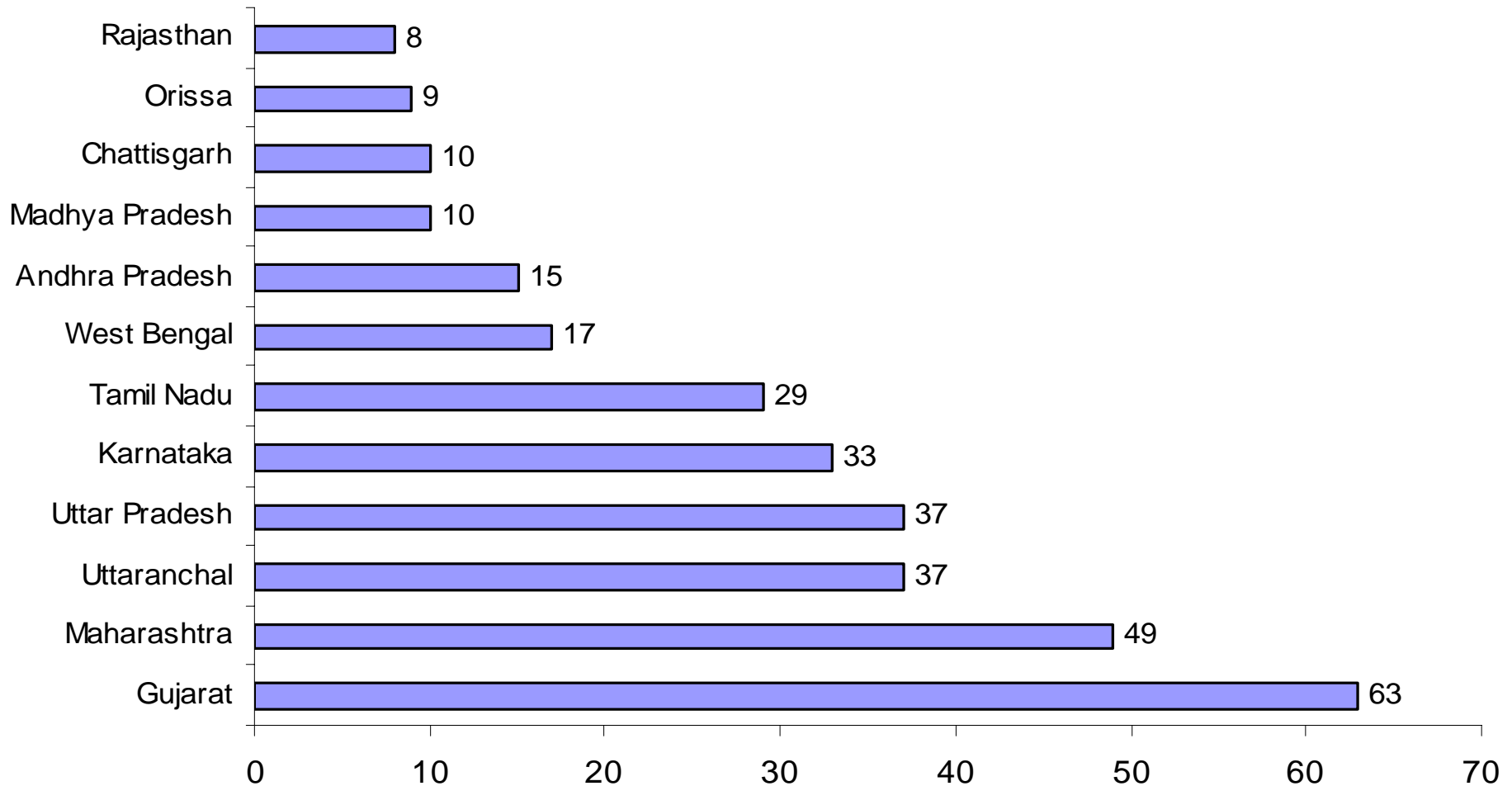
1. Renewed **fiscal stress** from populism
 2. **Infrastructure** bottlenecks
 3. **Labour Market** rigidities
 4. Weak performance of **agriculture**
 5. Pace of **economic reforms**
 6. Weak **human resource development**
 7. International economic environment
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Fig 1: Percentage of habitations not connected by roads, by Indian state



Source : Ministry of Rural Development, Government of India, as cited in World Bank (2006)

Fig 2: Percentage of the population with access to sewerage facilities, by Indian state



Source: Central Public Health and Environmental Engineering Organization, 2000, as cited in World Bank (2006).

Figure 3: India's GDP Growth

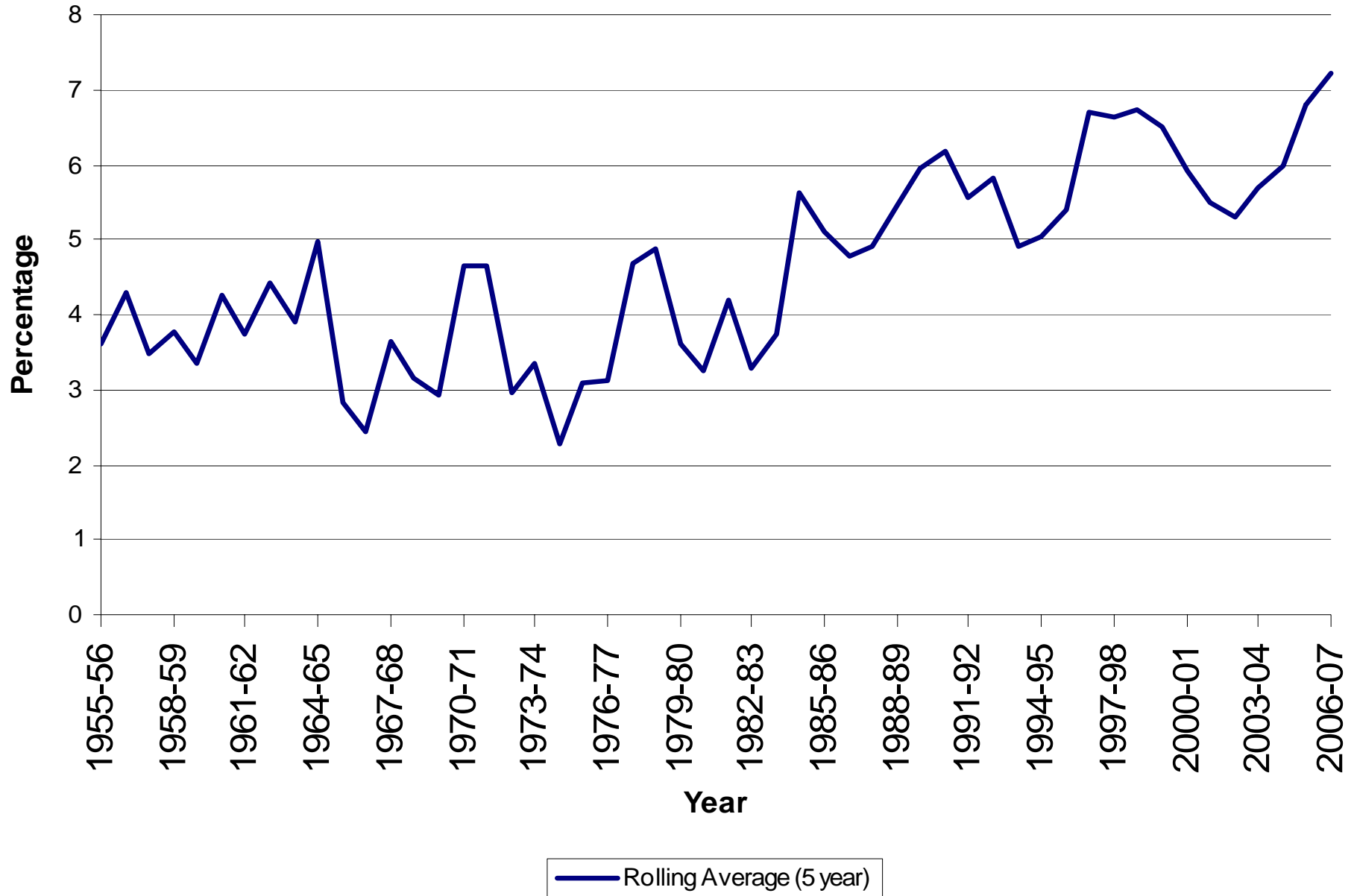


Table 11: Medium Term Growth Expectations

	1992/3 –2005/6	2002/3 -2006/7	2007/8 - 2011 /12	
			“Optimist”	“Pessimist”
GDP %	6.4	7.2 *	8 – 10	6.5 – 7.0
GDP per capita (%)	4.4	5.5	6.5 – 8.5	5 – 5.5

* Assuming Reserve Bank projection of 8.0 percent GDP growth for 2006/7

Thank you

