NCAER

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

macroTRACK

DECEMBER 2008 | MONTHLY REPORT | VOL. X | NO.12

HIGHLIGHTS

Forecast

Macroeconomic outlook

The first three quarters of the current financial year proved to be tumultuous for the global economy

Business Expectations

Business sentiments and the global economic crisis

India has not been an exception to the trend of growing global economic integration

Asian Economic Outlook

How do the Asian economies fare now?

The Asia-Pacific region accounts for over one-third of global GDP in PPP dollars

Balance of Payments

India's balance of payments in 2008-09

Rising oil prices during the first half of 2008-09 kept the current account deficit rather large

Report: Micro Finance

Sustainability of bank linkage programmes for SHG

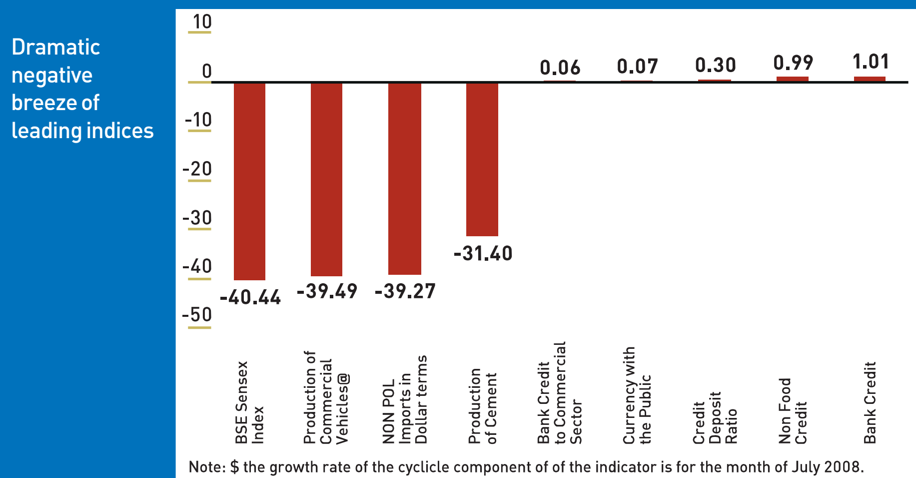
The impact of the bank linkage programme on the sustainability of self help groups (SHG) provides some interesting insights

Infrastructure

Infrastructure sector for short and long term

Good infrastructure is essential for sustaining growth momentum

LEADING ECONOMIC INDICATORS: GROWTH RATE (%) OF CYCLICAL COMPONENTS FOR OCTOBER 2008 OVER THE PREVIOUS MONTH



Note: $ the growth rate of the cyclicle component of of the indicator is for the month of July 2008.

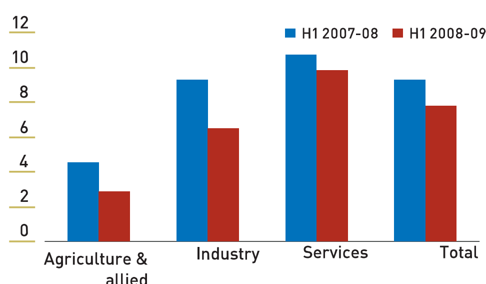
Macroeconomic outlook

At the beginning of the financial year, everybody in policy-making circles was focussing on high inflation and spiraling crude prices. Now, the chief worries are how to stabilise financial markets, minimise the growth slowdown, reduce job losses and sustain export growth

THE ECONOMIC CRISIS

THE FIRST THREE quarters of the current financial year proved to be tumultuous for the global economy. In India, it was not just the pressure coming from the global financial and economic crises that proved debilitating, but also the political uncertainty generated over the Indo-US nuclear agreement. Then there was the spate of terrorist attacks climaxing with the most infamous Mumbai carnage of November 2008. The Satyam scandal served as a reminder that good corporate governance should not be taken for granted. At the beginning of the financial year, everybody in policy-making circles was focussing on high inflation and spiraling crude prices. Now, the chief worries are how to stabilise financial markets, minimise the growth slowdown, reduce job losses and sustain export growth.

Figure 1. Deceleration in economic growth (% YoY growth in GDP at constant prices)



Source: Based on statistics released by the Central Statistical Organisation, Press Note dated November 28, 2008.

Table 1: The official estimates of real GDP growth for 2007-08 and 2008-09: % YoY

Sector	2007-08 QE	2008-09 AE
Agriculture & allied	4.9	2.6
Mining & quarrying	3.3	4.7
Manufacturing	8.2	4.1
Electricity, gas & water supply	5.3	4.3
Construction	10.1	6.5
Trade, hotels, transport and communication	12.4	10.3
Financial sector and business services	11.7	8.6
Community, social and personal services	6.8	9.3
Total GDP at Factor cost	9.0	7.1
· Agriculture	4.9	2.6
· Industry	8.1	4.8
· Services	10.9	9.6

Source: Based on the estimates released by the Central Statistical Organisation

India has begun to reflect on the severity of the impact of the global financial crisis. It is not limited to the financial markets, although individuals and firms holding financial assets have seen their portfolios erode, making them the hardest hit. Jobs have been lost in almost all sectors of the economies of developed countries owing to contraction in demand, output, jobs and incomes. The annual world GDP growth is projected by International Monetary Fund to decline from 5.2 per cent in 2007 to 3.4 per cent in 2008 and further to 0.5 per cent in 2009. The GDP of advanced economies is projected to grow by 1 per cent in 2008 and decline by a staggering 2 per cent in 2009.

THE TRENDS AND THE OFFICIAL ADVANCE ESTIMATES OF GDP FOR 2008-09

The first half of the current financial year showed that the pace of growth had slowed. The overall GDP (constant prices) growth was 7.6 per cent for the first half of the current year (H1: 2008-09) as compared to 9.3 per cent for the same period in the previous year (Figure F1). It must be noted that the slowdown reflected in the growth in agriculture is because of the exceptionally good harvest in the preceding year, which was hard to repeat. In the case of industry, the decline in the growth rate was sharper for the manufacturing sector than for the sector as a whole (Figure F1).

The Services sector's GDP growth also slowed in H1: 2008-09, but the decline was less sharp than in the case of agriculture and industry. Within the services sector, the deceleration in growth was the greatest in the case of finance, real estate and business services. The component that includes government services has shown a higher rate of growth during H1: 2008-09 as compared to the same period last year.

We now have the advance estimates of GDP from the Central Statistical Organisation, which projects fairly strong growth for the economy as a whole for the year. The overall GDP growth in 2008-09 is projected at 7.1 per cent over the previous year. The services sector is projected to lead the overall growth while indus-

try is projected to decline by 40 per cent. (Table 1)

The estimates suggest a slight decline in the growth momentum in the second half of the year, but it is quite impressive when one considers the crisis gripping the economies of so many other countries. Government spending, coupled with the growth in telecommunications, are the drivers of the 9 per cent plus growth rate in the Services sector.

As these are still only advance estimates and based on data available up to the end of December 2008, we present, for the sake of comparison, our latest estimates of overall economic activity for 2007-08 and an assessment for 2009-10.

ASSESSMENT FOR 2008-09 AND 2009-10

A key parameter for the re-assessment of the macroeconomic scenario for the current year and also the next is the deceleration in global growth. The global demand conditions are captured in the lower world GDP growth projections for 2008 and 2009. An important change in global market conditions now is the recent drop in crude prices. As the prices have fallen from over $90 per barrel in the first half of the year to about $ 40 per barrel now, the overall average price for 2008-09 is likely to be 15 per cent above the average price of last year. The main impact of the slower rise in crude oil prices is on the import bill and domestic prices.

The impact of the present economic crisis (a combination of financial market problems and declining export markets) on the domestic aggregate demand is difficult to estimate directly. Therefore, we have used an indirect assessment of the impact in terms of the reduction in private investment and consumption demand as a result of the global crisis. We consider two episodes in the recent past when capital formation and consumption expenditures were adversely affected. In 2001, the world GDP growth rate had declined from 4.7 per cent in the previous year to 2.2 per cent. Industrial growth also showed a deceleration at the time. Earlier, in 1996-97, private gross capital formation declined by about 12 per cent largely on account of decline in inventories. Industrial production growth slowed and in the subsequent year, 1997-98, private final consumption declined by almost 5 percentage points from its growth rate of the previous year. Though all these changes may not be directly related to external shocks, they show how sensitive is private sector demand to macroeconomic conditions. We estimate that the present conditions may lead to a decline in demand conditions similar to the ones seen over 2000-01 and 2001-02.

The policy response to the crisis has been in several dimensions. In India, the policy interventions in the form of tax concessions have been rather moderate in comparison to the hundreds of billions of dollars worth of interventions that are being made by governments in the West and in China.

The fiscal stimulus announced by the government in early December 2008 has taken the form of concessions on indirect taxes, higher spending and support to export operations. The revised estimates of for 2008-09 now show that central government expenditures exceeded the budget estimates by Rs 50,000 crore. Even in the October 2008 forecast, we had assumed that the government expenditures would be higher than in the budget estimates because of the higher subsidy costs forced on the economy by increased crude oil prices.

The revised forecast for 2008-09 and the assessment for 2009-10 are presented in Table 2.

The overall GDP growth is projected to decline by 0.9 percentage points in 2008-09 as compared to the projections made in October 2008. The estimate is well below the current official estimate of 7.1 per cent growth. The official estimates place industrial growth at a much lower rate (4.8 per cent) than our projection of 7.2 per cent. The growth rate in Services, however, is higher in the official estimates than our's. One source of difference in the estimated growth of Services is also the assessment of contribution of the government sector. The revised estimates of central budget place fiscal deficit at 6 per cent of GDP as expenditures exceeded the budget estimates and revenues fell short.

The drop in crude prices and lower import demand contributed to the projection of lower import growth. The projected inflation rate is slightly lower than the forecast made in October 2008. The indicative projections for 2009-10 show a modest 6. 9 per cent recovery in GDP growth.

The overall GDP growth is projected to decline by 0.9 percentage points in 2008-09 as compared to the projections made in October 2008. The estimate is well below the current official estimate of 7.1 per cent growth

Table 2. Forecast for 2008-09 and an assessment for 2009-10: key macroeconomic parameters

Variables	Units	2006 -07 QE	2007 -08 RE	2008-09 Assessment (October 2008)	Forecast 2008-09	Assessment for 2009-10
Real GDP						
Agriculture	%YOY	3.8	4.5	2.3	2.3	2.7
Industry	%YOY	11.0	8.6	8.2	7.2	6.6
Services	%YOY	11.1	10.8	8.9	7.8	8.4
Total	%YOY	9.6	9.0	7.6	6.7	6.9
Trade						
Exports (DGCI&S) (US$ value)	%YOY	22.7	23.0	15.0	14.8	10.8
Imports (DGCI&S) (US$ value)	%YOY	24.5	27.0	30.0	14.8	16.1
Inflation rate (WPI based)	%YOY	5.4	4.4	7.8	7.2	5.7

Note: GDPMP= GDP at current market prices; QE= Quick estimates;
*RE= Revised estimates ; *= for 2006-07 and 2007-08 these are based on estimates available from official sources and for 2008-09 and 2009-10 they are estimates based on model results*

Business sentiments and the global economic crisis

The barometer of capital markets in India and the US has shown a tendency to move in the same direction

UNCERTAINTY IN INVESTMENT CLIMATE

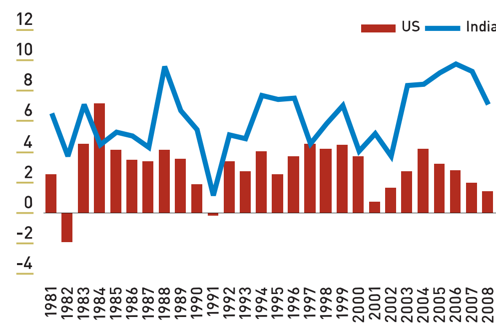
INDIA HAS not been an exception to the trend of growing integration of national economies with global markets. The current deceleration of economic growth at a global level, led by the economies of the advanced economies, has meant that the potential demand for export of goods and services has also weakened. The cyclical weakening of output growth has been aggravated by the massive failure of the financial markets, especially in the advanced economies. All this has followed the heightened economic growth performance during the period 2003-2007. The International Monetary Fund (2007) noted that "from 2004 to the present (2007), the world economy has enjoyed its strongest period of sustained growth since the late 1960s and early 1970s, while inflation has remained at low levels. Not only has recent global growth been high but the expansion has also been broadly shared across countries".

The patterns of growth in the period 2004-07 had also indicated that the Indian economy was able to sustain its growth momentum, notwithstanding the slower growth of the US economy (Figure 1). However, the beginning of the deceleration of the Indian economy coincided with the US entering a recessionary phase. The inter-linkages are more evident in the capital markets. The barometer of capital markets in India and the US has shown a tendency to move in the same direction (Figure 2). The financial market crisis in the US led to large outflows of capital from the Indian markets causing stock prices here to plummet. The sustained fall in stock prices since the beginning of January 2008 has marked the deterioration in the investment climate in the Indian economy.

Remarkably, the Business Confidence Index, constructed on the basis of a quarterly sample survey of the business sector, has shown a declining trend starting from January 2008 (Figure 3). The pattern is also reflected in the Political Confidence Index, a measure of the confidence of the business sector in the ability of the political leadership to address a broad range of economic issues. The decline in sentiments is clear when we compare the percentage change in the indices over the same quarter of the previous year. Figure 4 shows that the weakening of business sentiments had begun even before the decline in the stock price index. There was a drop in BCI in the first half of 2007 followed by a recovery in the second half of the year. In other words, there was considerable uncertainty in the markets right through 2007 and 2008 despite overall the health of the economy: GDP growth clocked 9.1 per cent in 2007-08 and 7.6 per cent in the first half of 2008-09.

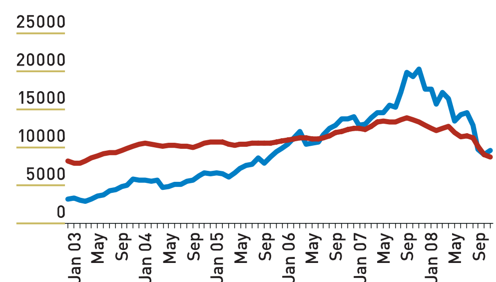
From a short-term perspective, the drop in BCI over the past two rounds (July and October 2008) may also be attributed to tightening liquidity conditions, high inflation and political uncertainties that prevailed prior to the finalisation of the Indo-US nuclear deal. While some of these political issues are resolved, the global economic climate has worsened.

Figure 1: Similarity and divergence in growth: GDP growth of US and India %YoY



Source: Based on data from IMF data base

Figure 2. Similarity in the pattern of stock price indices: Sensex and Dow Jones



Note: The Dow Jones index is the average of opening and closing values of the index for the month and in the case of Sensex the values are averages for the month

Table 1. The sectoral and regional patterns in business confidence: % YoY change in BCI

Item	Consumer Non-Durables	Consumer Durables	Intermediates	Capital Goods	Services	East	West	North	South
Overall Economic Conditions	-1.9	-4.4	-24.9	-9.1	-6.2	-2.2	-18.5	12.2	-38.1
Financial Position Of The Firms	-11	3.9	-27.1	-17.3	-7.2	-4.9	-26.7	9.5	-40.2
Investment Climate (Now)	-13.2	-9.4	-29.8	-11.6	-0.2	-11.4	-24.4	16.5	-44
Capacity Utilisation (Now)	-5.6	6.6	-19.7	-8.9	-4.9	-1.8	-20.3	6.2	-23.4
Business Confidence Index	-16.0	-1.7	-51.2	-23.7	-9.3	-9.3	-36.6	17.5	-61.4

COMPONENTS OF THE BCI

All the four components of BCI have contributed to its fall. The indicator of perception of the overall economic conditions has lost 2.8 points. With this, the cumulative loss of the indicator over the last three quarters amounted to 19 points or 26 per cent over the January 2008 level. Therefore, the drop in business confidence has been quite sustained over the past three quarters. The indicator of 'perception of the financial position of the firm in the next six months' has lost 3.9 per cent in the present round and a cumulative 19 points since January 2008. The percentage of respondents viewing the prevailing investment climate as 'More positive' decreased by 3.5 per cent over the last round and 18.8 points in the last three quarters respectively. The fourth component of the BCI, Capacity utilisation, has declined by 1.4 points in the present round over the previous one. However, its loss is the least among the four components as it has lost only 4.1 points over the past three quarters. On the whole, the BCI has lost 35 points or 22.7 per cent in the past one year. The pattern of BCI across the sectors and across regions is summarised in Table 1.

SECTORAL AND REGIONAL BUSINESS CONFIDENCE

Respondents have been cautious in their assessment of the business environment across all the sectors. The maximum loss in business confidence was seen in the capital goods and services sectors where the BCI dropped by 17.4 and 6.7 points respectively. The Consumer non-durable and durable goods sectors lost 6.3 points and 2.5 points respectively. On the other hand, the Intermediate goods sector could ward off the falling trend to register a nominal increase of 0.2 per cent in sectoral BCI.

Broadly, all the four components of BCI registered decline in confidence across sectors, despite some exceptions to the general pattern. The percentage of positive responses on the overall economic conditions and investment climate from the respondents in the Intermediates sector increased, albeit modestly. In the case of the Services sector, the improvement for this indicator is significant. The Consumer durables sector has shown improvement in respect of 'Expectations of financial position of the firms'. The Intermediates sector also shows improvement in 'Investment climate'. These exceptions are, however, unsystematic and may reflect a more cautious assessment of the business environment after the widespread pessimism of July.

There is some polarisation of business sentiments across regions. Respondents from the Southern and the Western regions expressed increased confidence. The respondents of the other two regions reflect the opposite trend. The respondents in the southern region are the most optimistic in the current round.

Remarkably, the Business Confidence Index, constructed on the basis of a quarterly sample survey of the business sector, has shown a declining trend starting from January 2008. The pattern is also reflected in the Political Confidence Index, a measure of the confidence of the business sector in the ability of the political leadership to address a broad range of economic issues

Figure 3: The decline in business sentiments: BCI and PCI

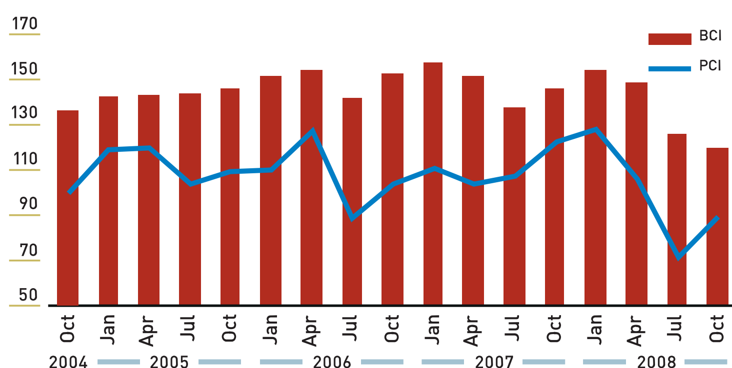
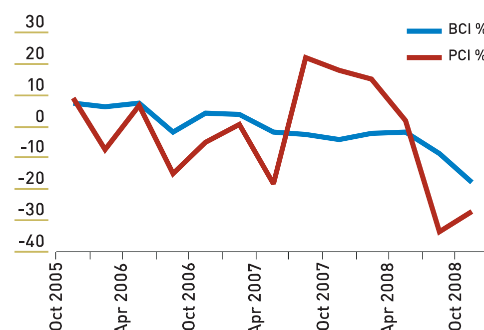


Figure 4:. The sustained decline in business sentiments: % YoY change in BCI and PCI



How do the Asian economies fare now?

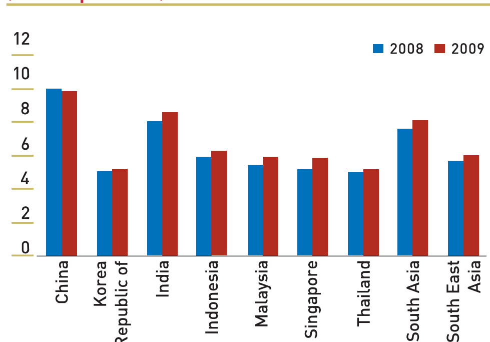
Undoubtedly, all the economies in the Asian region are going to be impacted by the global meltdown. In recent weeks, the growth projections have been extremely bad indicating tougher times ahead

THE ASIA-PACIFIC region accounts for over one-third of global GDP, measured using purchasing power parity. Six economies in the region have per capita GDP levels of more than 60 per cent of that of the United States. Some are reporting annual GDP growth rates that exceed the industrialised countries of Western Europe and the US. In fact, the sustainability of high growth rates of the Asian countries even during the ongoing recession is historically significant and the region is considered the engine of world economy.

The developing economies of Asia expanded at 9 per cent during 2007. In 2008 and 2009, their growth rates are expected to decline to about 7 and 6 per cent respectively due as an effect of the global financial crisis. East Asia enjoyed the highest growth rate in 2007 in the Asian region as it grew by 9.6 per cent in 2007. China contributed significantly to this story, with a growth rate of about 12 per cent. East Asia is also expected to accelerate by about 8 per cent during 2008-09, while China is expected to grow at 10 per cent (Asian Development Outlook, 2008). Some projections are summarised in Figure 1.

South Asia has sustained an average growth rate of 5.5 per cent per annum over the past two decades, despite many external and domestic shocks. This makes it one of the most dynamic regions of the world. With more than a decade of reforms behind them, the region's economies are more intensively integrated with that of the globe. South Asia's economy expanded by 8.4 per cent in 2007, supported by growth in consumption and investment and is expected to grow by about 7-8 per cent during 2008-09 notwithstanding the global financial crisis. The region has averaged more than 7.5 per cent growth since 2003, allowing it to reduce poverty levels in India, Pakistan and Bangladesh. Every economy in the region posted growth of more than 6 per cent in 2007, except Nepal, which suffered in the wake of political unrest. India clocked the highest growth of 8.7 per cent among the large economies and Bhutan grew at 17 per cent, fastest among the small economies for the same period. Comparatively, South-east Asia grew by around 6.5 per cent in 2007 and was projected to grow at about 6 per cent during 2008 and 2009. However, it should be noted that the forecasts by different agencies including ADB and World Bank have kept changing.

Figure 1. Projected Growth Rate of Asian Economies (GDP % per Year)



Source: ADB Outlook, 2008

The global economy is facing a major downturn with the onset of a financial crisis, whose scale has been unprecedented. The GDP growth in the ASEAN- 5 has begun to slow. Thailand's economic growth in the third quarter fell to 4 per cent, from 5.6 per cent in the first half of 2008 due to sluggish investment and weakening exports. Malaysia's GDP growth also declined in the third quarter of 2008-09 to 4.7 per cent from 7.1 per cent in the first half, due to weakening exports and the drop in commodity prices after July. The other two countries have fared somewhat better. Indonesia's GDP growth in the third quarter of 2008 eased to 6.1 per cent compared to 6.4 per cent in the first two quarters. The economy of Philippines remained resilient, growing 4.6 per cent (YoY) in the third quarter (about the same rate as in the first half) on increased government spending and solid domestic demand.

The economic growth of emerging East Asia has been affected and the World Bank (Semi Annual Report of the Asian region: December 2008) says that its growth in 2009 may be at a pace that could be its slowest in eight years. The Bank has predicted that growth in East Asia, excluding Japan, will fall to 5.3 per cent from 7 per cent in 2008 - the worst since 2001. Singapore is predicted to expand by 1.2 per cent next year, one of the slowest in the region, behind other open economies like Hong Kong and South Korea, at 1.4 and 2 per cent respectively.

Undoubtedly, all the economies in the Asian region are going to be impacted by the global meltdown. In recent weeks, the growth projections have been extremely bad indicating tougher times ahead. It appears that the worst is yet to come in the Asia-Pacific region.

India's balance of payments in 2008-09

RISING OIL PRICES during the first half of 2008-09 kept the current account deficit (CAD) rather large despite the high growth in merchandise exports and increased net invisibles surplus. The period also witnessed large net outflows of portfolio investment leading to declining capital account surplus. In consequence, the foreign exchange reserves declined.

The overall balance of payments, as a percentage of GDP (at market price) declined to 0.8 per cent in the first quarter (Q1:2008-09) and turned negative (-1.6 per cent) in Q2:2008-09, compared to 4.3 and 11.0 per cent during the same period of last year. The CAD as a percentage of GDP (at market price) were 3.6 per cent and 4.3 per cent during Q1 and Q2 of 2008-09 respectively up from 2.4 per cent and 1.6 per cent in the corresponding quarters of last year. The CAD deteriorated as global oil prices soared, leading to higher imports and a widening trade gap.

On a year-on-year (YoY) basis, India's merchandise exports in rupee value increased by 24 and 49 per cent during Q1 and Q2 of 2008-09 respectively compared to 9 and 3 per cent in Q1 and Q2, 2007-08. During Q3:2008-09, exports rose by 14 per cent, as compared to growth of 17 per cent registered during Q3: 2007-08. The growth of exports was low despite 23.5 per cent depreciation of the Rupee against the Dollar during Q3: 2008-09 over Q3: 2007-08.

This suggests that India's export growth in the recent past was inelastic to exchange rate depreciation and elastic to sluggish demand among her major trading partners. India's import payments increased by 31.1 and 64.2 per cent during Q1 and Q2 of 2008-09 respectively compared to 25.2 and 4.5 per cent during the corresponding period of the previous year. Imports during Q3: 2008-09 grew significantly by 36.4 per cent compared to a low growth of 11.9 per cent during Q3: 2007-08.

As a result of relatively higher growth in imports over exports, the trade deficit increased from 8 and 7.7 per cent as a percentage of GDP during Q1 and Q2 of 2007-08 to 10.7 and 13.2 per cent in Q1 and Q2 respectively. During Q3: 2008-09, the deficit increased to 10 per cent of GDP from 6.1 per cent in the corresponding quarter in the previous year. Similarly, during H1: 2008-09, the trade deficit increased to 11.8 per cent of GDP compared to 7.9 per cent during the corresponding period of the previous year.

Net invisibles (invisibles receipt minus invisibles payments) grew by 46.3 and 66.3 per cent during Q1 and Q2 of 2008-09 respectively compared to 5.5 and 41.2 per cent during the corresponding quarters of the previous year. The rise appears to be on account of all the major constituents of receipts.

The capital account surplus declined mainly due to the large net outflows recorded under portfolio investment. Portfolio investment as a percentage of GDP (at market price) declined to -1.4 and -0.4 per cent during Q1 and Q2 of 2008-09 compared to 2.9 and 4.1 per cent during the corresponding quarter of 2007-08. Portfolio investment comprising of foreign institutional investors' (FIIs) investments and American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) witnessed huge net outflows during H1: 2008-09, caused by large sales of equities by FIIs in the Indian stock market and a slowdown in the net inflows under ADRs/GDRs due to drying-up of liquidity in the overseas market.

FDI increased to 3.4 and 1.9 per cent of GDP during Q1 and Q2 of 2008-09 respectively compared to 1 and 0.8 per cent during corresponding quarters of 2007-08. During the current year, net inward FDI recorded higher than net outward FDI reflecting the relatively strong fundamental of the Indian economy.

The resulting deficit in the current account and comparatively small surplus in the capital account has resulted in the drawing down of foreign exchange reserves during the H1: 2008-09. The import cover, measured by the ratio of forex reserves to monthly import bill, has been declining since April 2008 from 13 to 10 months in August 2008.

The outlook on the balance of payment front largely depends on the duration of the global financial crisis. Liberalising NRI deposit rates and lifting the restrictions on FDI inflows are some key measures to correct our capital account balance. Similarly, development of new industries, export diversification and import substitution can help us regain positive trade balance.

India's export growth in the recent past was inelastic to exchange rate depreciation and elastic to sluggish demand among her major trading partners

Sustainability of bank linkage programmes for SHG

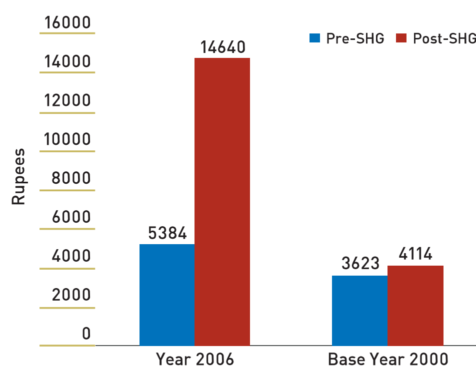
As high as 80 per cent of functioning SHGs have only women members. Apart from that, the distribution of members by caste indicates that SC/ST and OBC account for 22.3 per cent of members. More than 60 per cent of SHGs members belong to BPL families

THE RESULTS of a recent study on the impact of the bank linkage programme on the sustainability of self help groups (SHG) provides some interesting insights into the socio-economic performance and empowerment of SHG members. The study was conducted at three different levels: by group, by individual members, and, for the various functionaries associated with bank-linkage.

The study extended over all five regions of the country and covered six states - Andhra Pradesh and Karnataka (southern region), Maharashtra (west), Orissa (east), Uttar Pradesh (central) and Assam (north-east). Two districts in each state have been selected taking into account the development of the SHG-Bank Linkage Programme (SBLP) against their overall socio-economic profile. The classification of the districts into 'developed' and 'less developed' according to their development indices was made on the basis of data on the number of SHGs, the extent of bank branch networks in rural areas and the indicators of economic development at the district level (e.g. the poverty ratio).

The specific objectives of the study were: (1) Assessment of the impact due to participation in the SHGs' economic activities, household welfare and social empowerment of members; (2) comparative assessment of the quality of the groups promoted by different self-help promotion institutions (SHPI) including the changes over time in group members' participation and behaviour, the quantity and quality of financial services and their sustainability; (3) Identification/ assessment of the extent of capacity building/ training needs of SHG members for undertaking income generating activities; (4) Preparation of strategies for further strengthening of group cohesion within SHGs; and (5) Study/assessment of the factors affecting the sustainability of SHGs, and, identification of constraints, if any.

Figure 1: Change in average borrowings per household



In the study, 80 functioning SHGs with bank linkage going back to 2002 were selected from each district. In all, 160 SHGs from two districts of each state and a total sample of 960 SHGs from six states were selected at the all-India level. Then, to study the impact at the household level, five members from the sample SHGs were selected. This resulted in a total sample size of 4,800 households, representing 77 per cent of the bank-linked SHGs in India as of March 31, 2002. Of them, about 41 per cent have been in existence for more than five years, while the rest have obtained bank linkage in the last 3-5 years. State-wise, a higher percentage of SHGs (around 57 per cent) in Maharashtra and Andhra Pradesh have been linked for more than five years. In the others, most SHGs have been bank-linked for only 3-5 years.

It is important to highlight that as high as 80 per cent of functioning SHGs have only women members. Apart from that, the distribution of members by caste indicates that SC/ST and OBC account for 22.3 per cent of members. As targeting the poor has been one of the aims of SHG formation, it is not surprising that more than 60 per cent of SHGs members belong to BPL families.

As a result of bank-linked SHG membership, the changes in net household income between pre-SHG and post-SHG situations was significant in 2006, clocking an annual growth rate of 6.1 per cent. It has also been observed that livestock registered highest growth at 11.2 per cent across different income groups. There has also been improvement in household consumption of both food and non-food items - an annual growth rate of 5.1 per cent and 5.4 per cent respectively. More interestingly, even the household expenditure on education and health grew by 5.6 per cent and 5.5 per cent respectively.

Compared to consumption growth, there has been improved savings and the average level of savings (financial and physical) per household registered 14.2 per cent annual growth between 2000 and 2006. Apart from high savings in SHGs' own funds (99.6 per cent), the share of savings of households was 28.5 per cent in banks followed by 17.6 per cent in Life Insurance Corporation and 8.6 per cent in post offices. On an average, each household borrowed Rs 14,640 in the post-SHG period compared to

Rs 5,384 earlier. The average loan amount per household grew at an annual rate of 20.5 per cent between the pre-SHG and the post-SHG periods. About 93 per cent of households reported that loans were taken in the post-SHG situation as compared to 46.5 per cent earlier. It is noteworthy that the repayment rate of households with bank-linked SHGs is as high as 96.4 per cent.

A very interesting finding regarding the economic situation of member households in pre and post-SHG situations reflect the positive impulses arising from becoming members of SHGs with bank linkage. The average household borrowed Rs 14,640 in the post-SHG period (with about 5 years of bank linkage), compared to Rs 5,384 earlier (Figure.1). The average loan taken by households grew at an annual rate of 20.45 per cent. The average per-household loan in the post-SHG period for the different types of models varied only to a small extent - between Rs 14,202 in Model type 3 to a maximum of Rs 14,922 in Model type 2.

It is widely known that SHGs purport to improve the basic living standards of their members. The findings show that the share of households living below the poverty line went down from 58.3 per cent in the pre-SHG period to 33 per cent in the post-SHG situation. The average annual poverty reduction rate was 10 per cent. More than 60 per cent of the households indicated that there is an increase in the ownership of productive assets in the post-SHG situation. In terms of control over money, about 21.3 per cent of the households reported a significant improvement in control over money with respect to buying of consumer durable assets, and 27 per cent reported enhanced decision-making and control over expenditure on children's education.

One of the acknowledged contributions of SHGs is their record in empowering poor India's rural poor, especially the women. The findings show that as high as 22.5 per cent of women SHG members had taken decisions with respect to children's education in the post-SHG period as compared to 9.1 per cent earlier. About 92 per cent of households reported that the social empowerment of women had increased over time after becoming SHG members. More than 70 per cent of women respondents reported improvement (or even significant improvement) in their ability to face health-related problems and financial crises.

A critical driver behind formation of SHGs had been freedom of the poor from money lenders. Has this been achieved? An indicator of dependence of households on moneylenders is derived as the share of number of loans taken from the moneylender by households in total count of loans. When the pre and post SHG situation of households are examined it is reassuring to note that there is a drastic reduction in this share in the post SHG situation (see Table 1).

From a pre-SHG situation, where the dependence was as high as 60.1 per cent of the total count of loans from moneylenders, this declined at the average level to only 1.2 counts of loans from moneylenders in 2006. The reduction in dependence on moneylenders has been very significant. At the state level, substantial reduction in the dependence of moneylenders was observed in Andhra Pradesh, followed by Karnataka and Orissa.

Apart from structured questionnaire survey, case studies of SHGs as a group, as well as their individual members, were conducted to supplement the findings of the structured survey. A few case studies of individual members of SHGs, as well as SHGs as a group itself were carried out to understand the cause of their success or failure. Important insights regarding SHGs could be obtained from case studies. One such case revealed that heterogeneous social groups did not help in successes of SHGs. A SHG comprising both educated and illiterates led to disastrous outcomes for this group, as there was lack of mutual trust between them. This SHG ultimately failed to sustain itself. Case studies also illustrated that it was important for members to choose suitable and competent leaders who were trusted and respected by the group members.

Table 1: Change in dependence on moneylenders (%)

State	Share of number of times loan taken from money lender in total count of loans	
	Base level	2006
Assam	32.0	0.1
Orissa	68.1	1.0
Uttar Pradesh	37.2	4.7
Maharashtra	23.6	0.3
Andhra Pradesh	86.2	0.3
Karnataka	79.4	0.5
All India	60.1	1.2

The share of households living below the poverty line went down from 58.3 per cent in the pre-SHG period to 33 per cent in the post-SHG situation

This article draws heavily from the NCAER Report titled Impact and Sustainability of SHG Bank Linkage Programme funded by GTZ-NABARD.

Infrastructure sector for short and long term

A piecemeal approach of putting together a few billion rupees is not sufficient. Only huge investment in infrastructure as part of a stimulus package would help India cope with the downturn

INDIA'S GDP registered an impressive growth of 9 per cent in 2007-08 and its economic development gave the country a better global image. Infrastructure is an essential requirement for sustaining this momentum, particularly during recession. In these critical times, infrastructure development could stimulate demand resulting in the reversal of the situation and stimulate employment generation. The importance and the urgency of removing infrastructure constraints has, therefore, increased. Traditionally, power, railways, roads, ports, airports and telecommunications were the exclusive domain of the government. But over the past few years, these policies have been modified under pressure from the yawning gap between demand and supply.

The Planning Commission has proposed $ 494 billion in infrastructure investment for the 11th Plan period (2007-12). That would take up the share of infrastructure investment to 9 per cent of GDP from 5 per cent in 2006-07. This translates into additional annual investment of roughly $ 40 billion. The government has already taken many proactive measures such as opening up a number of infrastructure sectors to private players, permitting foreign direct investment (FDI) into various sectors, etc.

Investment has been growing in infrastructure, indeed it is emerging as the leading destination for private equity. Telecommunications, construction and power have already attracted huge FDI. Infrastructure is emerging as the leading destination for private equity. This can be largely attributed to the fact that India has advanced legal systems, an independent judiciary and property rights which give security to private ownership. The rule of law prevails in the country with no executive interference.

The government has asked the Infrastructure Investment Finance Company Ltd. (IIFCL) to put together a corpus of over $8.15 billion for improving infrastructure in the country. This is an addition to the $ 320 billion that the government plans to invest for the upgradation of ports, railroads, highways and airports over the next 15 years.

The government has identified 276 projects entailing an investment of $ 12 billion for ports. These include development of new berths, expansion and upgradation of existing ones, deepening of channels, equipment modernisation and upgradation of rail and road connectivity. According to the Planning Commission, there is an investment opportunity of $ 25 billion by 2011-12 in India's shipping and ports sectors, as the country seeks to double ports capacity to 1,500 million tonnes (major ports capacity to 1,000 million tonnes and non-major ports to 500 million tonnes capacity).

In the case of airports, the Civil Aviation Ministry plans to develop 35 greenfield airports across India by 2010 with an investment of $ 35 billion for the proposed airports. Further, the government plans to attract private players through public-private partnerships (PPP) for the development of over 300 airports and airstrips. The other key important infrastructure sector is Railways which has taken up an ambitious annual plan for 2008-09, entailing an enormous investment of $ 7.91 billion, a 21 per cent increase over the previous year. During 2007-08, an amount of $ 1.86 billion had been provided for national highways and state roads. Of this amount, $ 1.5 billion is for national highways and $ 0.36 billion for state roads.

The share of the infrastructure sector in total investment during the three-month period (October-December) reduced from 32.5 per cent in 2007-0 to 11.3 per cent in 2008-09. Liquidity crunch and global financial crisis have combined to dampen fresh investment announcements by domestic business leaders in the sector. Therefore, the government continues to accord the highest priority to the development of ports, airports, power, telecommunications, highways, railways and other sectors. It is actively seeking foreign private investment in the sector. However, the government's piecemeal approach of putting together a few billion rupees is not sufficient. Only huge investment in infrastructure as part of a stimulus package would help India cope with the downturn. Only infrastructure has the capability to influence both the output of the economy and employment.

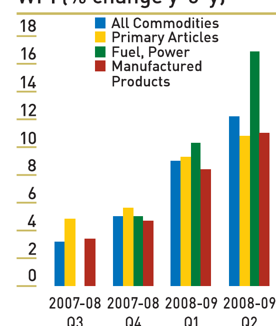
Select Economic Indicators

PERCENTAGE VARIATION (Y-O-Y)*

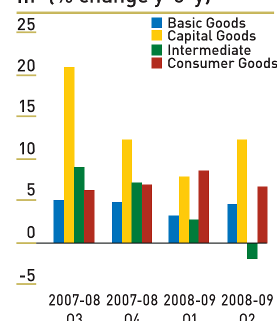
	2006-07	2007-08	2007-08 Q3	2007-08 Q4	2008-09 Q1	2008-09 Q2	2008 SEP	2008 OCT	2008 NOV
INDEX NUMBER OF WHOLESALE PRICES									
All Commodities	5.4	4.4	3.2	5.0	9.0	12.2	12.2	11.1	8.8
Primary Articles	7.8	7.3	4.8	5.6	9.3	10.8	10.9	11.2	11.8
Fuel, Power	5.6	0.8	0.0	5.0	10.3	16.9	16.6	14.5	7.6
Manufactured Products	4.5	4.6	3.4	4.7	8.4	11.0	11.0	9.7	8.1
Basic Goods	5.3	3.9	2.0	5.1	13.1	15.1	14.9	14.7	11.7
Capital Goods	5.1	6.7	6.2	5.2	5.7	5.8	6.0	5.7	5.5
Intermediate Goods	6.1	1.0	1.2	3.7	10.4	17.7	17.4	15.1	8.7
Consumer Goods	3.4	4.9	4.2	5.5	6.6	8.0	8.7	6.6	5.0
Consumer Durables	2.0	4.6	4.0	4.3	3.7	1.7	3.7	4.2	4.8
Consumer Non-durables	3.6	4.9	4.3	5.6	7.1	9.0	9.4	6.9	5.1
CPI Industrial Workers	6.4	6.2	5.5	6.3	7.8	9.0	9.8	10.4	10.4
CPI Agricultural Labourers	7.8	7.5	6.3	6.6	8.9	10.2	11.0	11.1	11.1
INDUSTRY									
IIP General	11.5	8.5	8.3	7.0	5.3	4.5	5.5	-0.3	2.4
IIP Mining	5.3	5.1	5.5	5.2	4.0	3.8	5.7	3.2	0.5
IIP Electricity	7.3	6.3	4.6	5.5	2.0	3.2	4.4	4.4	3.1
IIP Manufacturing	12.5	9.0	8.9	7.3	5.8	4.7	5.6	-1.1	2.4
IIP Basic Goods	10.3	7.0	5.0	4.7	3.1	4.6	4.6	3.1	2.3
IIP Capital Goods	18.2	18.0	20.8	12.2	7.9	12.3	18.6	2.9	-2.3
IIP Intermediate Goods	12.0	8.9	8.9	7.1	2.6	-1.7	-2.6	-4.0	2.6
IIP Consumer Goods	10.1	6.1	6.2	6.8	8.6	6.5	7.2	-2.2	4.4
IIP Consumer Durables	9.2	-1.0	2.1	0.1	3.5	10.8	14.6	-3.1	-4.2
IIP Consumer Non-durables	10.4	8.5	7.6	8.9	10.1	5.1	4.6	-1.8	7.3
Coal Production	5.9	6.0	8.3	8.6	8.2	7.4	10.7	10.9	9.6
Electricity Generation	7.3	6.3	4.6	5.5	2.0	3.2	4.4	4.4	2.6
Steel	13.1	5.1	3.9	1.8	5.7	4.4	4.7	-1.6	-1.4
Cement	9.1	8.1	5.7	9.1	5.8	6.4	8.1	6.2	8.7
Crude Oil	5.6	0.4	-0.5	0.6	-0.1	-1.5	-0.4	-0.3	0.5
Petroleum Refinery	12.9	6.5	3.3	3.6	3.3	5.7	2.8	5.0	-1.1
MONEY & BANKING									
M3	19.5	21.8	22.7	21.0	20.7	18.2	18.2	20.2	19.2
Net Bank Credit to Central Government	4.6	8.0	6.5	9.9	9.6	11.5	11.5	15.7	21.8
RBI Credit to Central Government	-245.9	-1252.1	-800.2	3940.3	473.8	-3.5	-3.5	-94.0	-56.7
Bank Credit to Commercial Sector	27.3	22.0	20.9	21.0	24.5	21.3	21.3	27.1	25.1
Bank Credit	31.1	23.4	21.6	22.1	26.1	23.0	23.0	29.1	31.2
Food Credit	-5.2	5.8	-2.7	-4.6	18.3	22.1	22.1	34.5	33.7
Non-food Credit	32.3	23.8	22.2	22.8	26.2	23.0	23.0	29.0	31.1
Bank Rate (%)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
PLR (%)	11.3	13.0	13.0	13.0	13.0	13.0	13.0	14.0	13.4
Auc 91 dtb (%)	6.6	7.1	7.3	7.3	7.9	9.0	8.6	7.4	7.1
EXTERNAL SECTOR									
Exports ($)	22.7	23.0	32.5	23.9	22.3	38.9	10.4	-12.1	-9.9
Imports ($)	24.5	27.0	27.7	24.5	29.7	52.6	59.1	16.6	6.1
Trade Balance ($ million)	-59321.0	-80398.0	-20031	-20671	-30429	82	-13316	-11820	-10066
Foreign Currency Assets ($ million)	153598	155509	266767	299147	311790	306603	282652	244045	245870
Exchange Rate (Re/$)	2.0	-11.1	-12.3	-9.8	1.4	8.3	13.39	23.07	24.20
Exchange Rate (Re/£)	8.4	-5.7	-6.5	-8.7	0.6	1.2	1.0	1.6	-8.2
FISCAL (CENTRE)									
Total Receipt	22.4	32.6	29.7	23.6	22.7	-3.3	21.9	-10.1	-7.6
Revenue Receipt	24.8	24.5	31.9	20.6	27.8	21.8	146.2	-8.4	-8.9
Tax Revenue	30.1	24.5	32.6	18.6	30.0	23.8	25.6	-13.5	-15.5
Non-tax Revenue	6.5	24.5	28.1	27.6	8.9	15.0	-124.1	4.4	44.5
Total Expenditure	15.2	22.4	18.7	20.1	-6.1	30.5	49.3	16.3	101.8
Plan Expenditure	20.9	20.9	18.2	16.9	29.8	19.1	51.1	-10.4	23.6
Non-plan Expenditure	13.0	23.0	18.9	21.5	-19.1	35.0	48.5	25.0	137.4
Fiscal Deficit (Rs crore)	142793	129814	-3622	52236	86126	16528	-14236	14416	59440
Revenue Deficit (Rs crore)	80410	55535	10354	-15943	76557	1756	-19566	8714	54337
CAPITAL MARKETS									
Sensex	45.9	35.8	47.1	26.9	9.5	-13.2	-25.6	-50.7	-53.0
Market Capitalisation	45.7	61.9	90.1	56.9	30.1	-5.2	-20.9	-53.0	-56.2
All-India Net FII Investment	-23.6	107.8	51.8	-220.3	-189.5	-107.6	-123.5	-186.8	-131.9

* Actuals where indicated

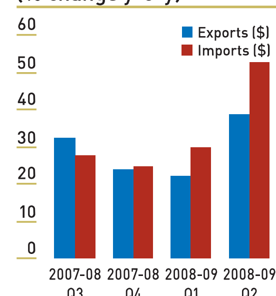
WPI (% change y-o-y)



IIP (% change y-o-y)



External Trade (% change y-o-y)



- **Energy prices drive the overall WPI rise**
- **Intermediates goods production declines**
- **Exports rise in Q2 dramatically despite the weak global demand**

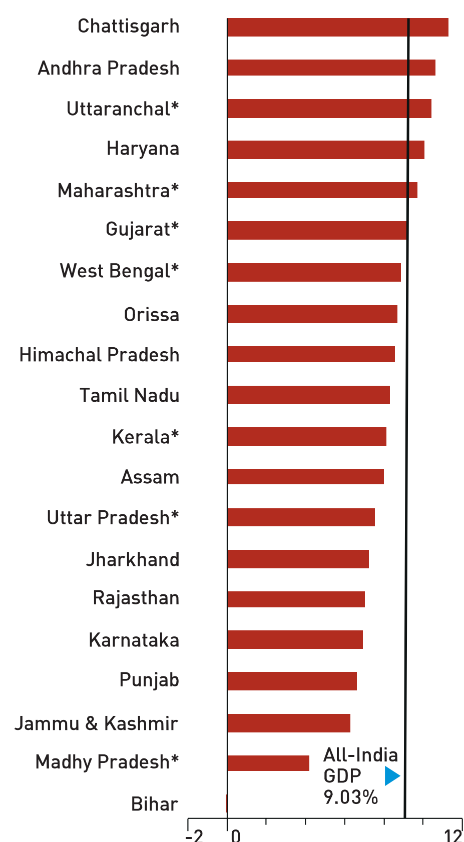
Percentage Growth in Gross State Domestic Product (At 1999-00 Prices)

STATES	2003-2004	2005-2006	2007-2008
Andhra Pradesh	9.27	8.72	10.64
Assam	6.02	5.98	7.97
Bihar	-5.09	2.79	-0.07
Jharkhand	8.03	2.58	7.22
Gujarat	14.77	11.18	9.17
Haryana	9.00	9.15	10.07
Himachal Pradesh	8.08	8.54	8.54
Jammu & Kashmir	5.17	6.17	6.28
Karnataka	3.80	7.45	6.92
Kerala	6.20	7.32	8.11
Madhy Pradesh	11.42	4.23	4.20
Chattisgarh	16.54	10.33	11.30
Maharashtra	7.51	9.29	9.69
Orissa	14.71	6.35	8.67
Punjab	5.52	5.54	6.62
Rajasthan	28.67	6.71	7.01
Tamil Nadu	6.00	7.36	8.29
Uttar Pradesh	5.18	5.64	7.52
Uttaranchal	7.61	6.42	10.40
West Bengal	5.75	7.49	8.86
All India GDP	8.54	9.34	9.03

Note: * = 2006-67

Source: Central Statistical Organisation

GSDP Growth Across States (%YOY) 2007-08



Quarterly Review

The Quarterly Review offers reports and seminars on the Indian economy. This service is provided by NCAER on an annual subscription basis. A number of large corporations, institutes, multilateral donor agencies and embassies are our subscribers.

The Quarterly Review Comprises
Comprehensive Review of the Economy on a Quarterly Basis
Business Expectations Survey Report on a Quarterly Basis
Quarterly Seminar on the State of the Economy

The Annual subscription for Quarterly Review is Rs 50,000.
For details write to indpack@ncaer.org or
Secretary, National Council of Applied Economic Research,
11, I.P. Estate, New Delhi- 110002

Enquiries on subscription to MacroTrack may also be addressed to the address above

Contributors:
Forecast: Shashanka Bhide and Purnachandra Parida; **Business expectations:** Shashanka Bhide and M.M. Khan; **Asian economic outlook:** Geethanjali Nataraj and Ashwani; **Balance of payments:** Purnachandra Parida and Atul Mehta; **Report:** Anushree Sinha; **Infrastructure:** Geethanjali Nataraj and Geetha Mohan; **Statistics pages:** K.A. Siddiqui; **Secretarial Support:** S. Bala

Printed and Published by Secretary, National Council of Applied Economic Research and printed at Cirrus Graphics Pvt. Ltd., B – 261, Naraina Industrial Area, New Delhi – 110028. Editor: SHASHANKA BHIDE
For Limited Circulation Only Annual Subscription: Members: Rs 2500/- Non-members: Rs 3000/-