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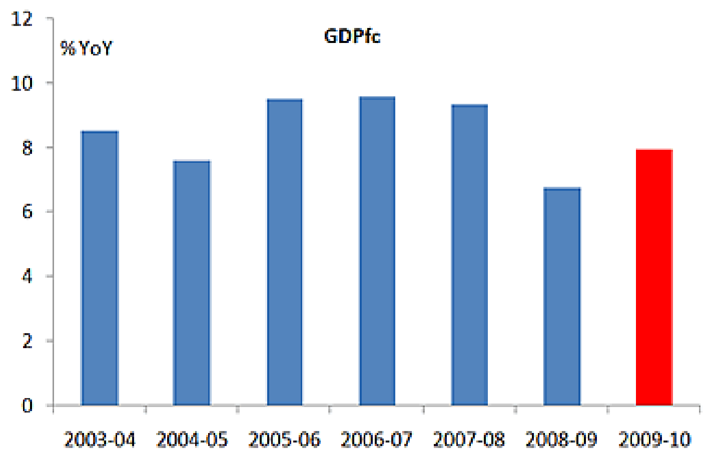
India finds another gear

By Kunal Kumar Kundu

India's economic growth in the last fiscal year rose higher than previously estimated, with the revised gross domestic product (GDP) data from the Central Statistical Organization (CSO), published on Monday, indicating that gross domestic product in the year to March 2010 increased 8%, rather than the previously recorded 7.4%.

GDP growth rates for the fiscal years from 2006-2007 through to 2008-2009 have also been increased by 10 basis points.



Source: RBI & MOSPI
Note – GDPfc refers to GDP at factor cost

With these revised numbers, the average GDP growth rate for the past seven years clocked a healthy 8.5%. With the growth rate for the current financial year expected to be between 8.5% and 8.6%, India should be able to boast of an extremely enviable growth number over eight years, despite the severe impact the recent financial crisis had on the global economy.

Interestingly, this growth came about during a period of high inflation. As a result, the growth in India's nominal GDP in 2009-10 was as high as 16.1%. In nominal terms, therefore, India comfortably outgrew China.

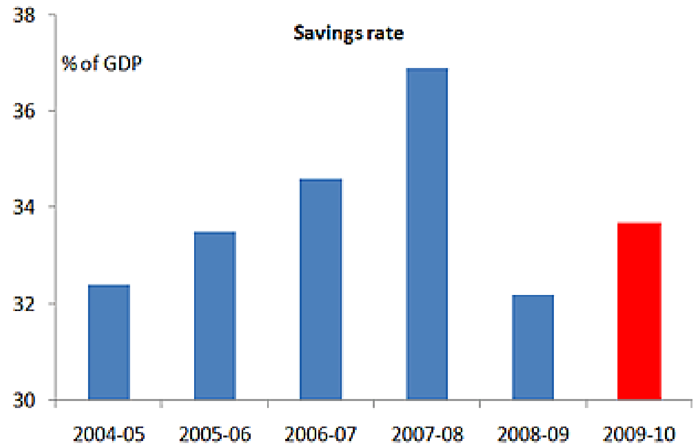
What then explains this considerable 0.6%, or 60 basis points, increase in the FY2009-10 GDP? A few months ago, the government revised the inflation numbers (as represented by the Wholesale Price Index, or WPI) by rejigging the components; it also changed the base year to 2004-05. This resulted in a somewhat lower inflation than what it ought to have been under the previous series. Subsequently, the index of industrial production (IIP) was also revised. Naturally, some revision in the GDP numbers was expected. The impact, however, should not have been more than 0.3%. The higher revision is, therefore, quite positive.

The revision in estimates was also on account of the use of the latest available data on agricultural production, industrial production and government expenditure.

A heartening feature is the increase in gross domestic capital formation. In nominal terms, it increased from

19,271 billion rupees (US$422.5 billion) in 2008-09 to 23,892 billion in 2009-10. As a result, the rate of gross capital formation at current prices stands at 36.55% in 2009-10 as against 34.5% recorded in the previous year. The increase in the rate by 2 percentage points is largely attributable to rising government expenditure and continuation of fiscal stimulus.

As per the available data, the savings rate, or gross domestic saving (GDS), has increased by 1.5 percentage points to 33.7% from 32.2% a year back to clock an estimated 22,074 billion rupees (as against 17,983 billion rupees in 2008-09).



Source: MOSPI

The increase in the rate of savings has mainly been due to the increase in the rates of savings of the public sector from 0.55% in 2008-09 to 2.1% in 2009-10 and of the private corporate sector from 7.9% in 2008-09 to 8.1% in 2009-10.

In respect of the household sector, the rate of saving has decreased from 23.8% to 23.5%. The decline in the household savings rate (which constitutes the largest part of saving) confirms that India's domestic demand driven growth story is intact.

It is important to point out that during FY2009-10, Indian per capita income for the first time crossed the US$1,000 mark as it touched 46,492 rupees (an increase of 14.5% over the previous year's level of 40,605 rupees).

During the last decade, India's per capita income doubled from $500 to $1,000. It is believed that the $1,000 per capita income mark acts as an inflexion point from which a country's growth takes off. China took about six years to double its per capita GDP from $500 to $1,000 (from 1995 to 2001) and around 13 years to increase it from $300. In the next decade, China's per capita income more than trebled. The stories of Japan, South Korea and Taiwan are not different either.

Seemingly, India has reached that point in terms of rising purchasing power and its likely impact on the demand for goods and services. This can be best understood by the fact that a highly populous nation like India remains one of the youngest countries in the world (given its favorable demographics). It is estimated that during the current decade, another 200 million to 250 million people will be coming into the consuming class in India.

Following the global financial crisis, it is now expected that emerging markets like India and China will be the key drivers of global economic growth. India, with its huge and upwardly mobile young population is expected to script a strong growth story going forward

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