

# Budget 2008-09: A Macroeconomic Perspective

Suman Bery, Director-General

Assocham House

New Delhi, March 12 2008

- Remarkable performance by economy over Tenth Plan (Economic Survey; EAC Report)
- Growth acceleration
- Sharp rise in corporate saving and Investment; improved investment climate
- Well-behaved balance of payments
- Significant adjustment in public savings



# Growth Expectations 2007-08: Under 9% but still strong



Period	< 8.5	8.5-9.0	>9.0
Upto April 2007	ADB, Indicus NCAER (8.3)	Merrill Lynch	Citigroup
May-September 2007	RBI (around 8.5%), JP Morgan	IMF, ASSOCHAM, ICRA, NCAER (8.5), UNCTAD	
October-December 2007	Crisil	NCAER (8.9%) CEA (9%)	CMIE, Citigroup, FM
January 2008	RBI (Around 8.5%)	CEA (8.9%)	NCAER (9.1%)
Feb 2008		CSO (8.6)	





## Deceleration in industrial growth: IIP % YOY 2007



Period	IIP- General	IIP-Mfg.	IIP- Mining	IIP- Electricity
Apr-June	10.28	11.13	2.64	8.27
Jul-Sep	8.71	8.96	7.61	7.07
Oct-Dec	8.23	8.93	4.74	4.63





# Inflationary pressures raise head: WPI % YOY

Month	WPI-ALL	WPI-Primary Articles	WPI-Fuel, Power, Light	WPI-Manufactured Goods
Apr-07	6.26	11.92	1.06	6.21
May-07	5.45	10.12	0.62	5.58
Jun-07	4.52	7.58	-0.85	5.46
Jul-07	4.71	10.72	-1.56	4.93
Aug-07	4.14	9.19	-1.96	4.64
Sep-07	3.39	7.06	-2.56	4.31
Oct-07	3.03	5.32	-1.73	3.98
Nov-07	3.07	4.52	-0.24	2.44
Dec-07	3.57	4.58	2.14	3.71
Jan-08	3.91	3.94	3.79	3.95



# Primary articles drive inflation: WPI % YOY

Period	WPI-ALL	WPI- Primary Articles	WPI-Fuel, Power, Light	WPI- Manufa ctured Goods
Apri-June	5.41	9.87	0.28	5.75
Jul-Sep	4.08	8.99	-2.02	4.63
Oct-Dec	3.22	4.81	0.05	3.38
Jan	3.91	3.94	3.79	3.95
Feb	4.58	4.94	4.89	4.34



## Squeeze on commercial credit: % YOY

Period	M3	Reserve Money	Bank Credit to Comm. sector
April-June	20.4	23.7	23.8
Jul-Sep	21.2	28.6	21.6
Oct-Dec	22.7	29.2	21.1



## Goals of Policy

- To sustain high growth through efficient investment
- Requires ability to direct domestic, foreign capital into productive uses.
- Role of financial sector critical





# Complications



- No “political consensus” on how to manage “trilemma” (exchange rate, monetary autonomy, capital opening)
- International, domestic rigidities generating supply, demand shocks
- High political sensitivity to price changes





## Issues and Choices

- Is there a domestic/international cyclical case for stimulus?
- If so, should it be fiscal or monetary?
- Does the budget facilitate monetary easing?
- What is the appropriate response to supply shocks?



## Political Economy of Policy Mix

- Pure inflation targeting requires both fiscal restraint and a floating exchange rate.
- Indian circumstances currently permit neither.
- As EAC notes, probably at limit of nominal appreciation of the rupee

- See powerful underlying forces demanding a real appreciation.
- Inflation likely to be part of adjustment mechanism
- Fiscal policy needs to be tighter to permit monetary easing
- But inconsistent with political imperatives.

**Thank You**

