Good times over for India

Monday 16 February 2009, by AFP (Date first published: 16 February 2009).

India’s acting finance minister Pranab Mukherjee says the nation’s fiscal deficit will come in at 6 per cent of gross domestic product this year.

INDIA’S ruling Congress party warned on Monday the good economic times were over in a pre-poll mini-budget and said the fiscal deficit would have to rise sharply to fight the global slump.

The government, whose five-year mandate expires in May, said the economy had enjoyed a ’dream run’ over the past few years with annual growth running at an average of close to nine per cent — ’much faster than ever before’. But acting finance minister Pranab Mukherjee said the worldwide economic downturn meant there was now a need for more spending to stimulate domestic growth.

The fiscal deficit will be 6.0 per cent of gross domestic product for the fiscal year to March 2009 - more than double the government’s target of 2.5 per cent.

’*Extraordinary economic circumstances (call for) very extraordinary measures,*’ Mr Mukherjee told parliament, presenting what was tantamount to a political manifesto for general elections due in April-May.

The increased spending will have to be financed through borrowings and credit rating agencies have warned that a rise in the fiscal deficit could lead to rating downgrades and deter investors from buying Indian debt.

India’s deficit position is already one of the world’s worst.

’*Expenditure may have to be increased substantially if we are to give the economy the stimulus it needs to cope with the global recession,*’ Mr Mukherjee told parliament.

He said India needed to accelerate financial policy reforms to speed growth and that the government would give the ’highest priority’ to the vast rural sector - a signal of the Congress party’s election priorities.

The Congress-led government owed its surprise 2004 election win to India’s impoverished masses, who turfed out the Hindu nationalist Bharatiya Janata Party because they felt bypassed by an economic boom.

The full budget for the financial year 2009-10 will be presented by the party which wins power and will not come until around July. But the mini-budget, which seeks spending approval for the period until then, will form a bedrock of Congress’s re-election campaign.

Mr Mukherjee promised more interest rate subsidies for debt-burdened farmers and spending on infrastructure, education and other social development.

But the lack of any detailed new spending announcements disappointed investors and pushed India’s benchmark Sensex index down by 3.09 per cent percent or 297.39 points to 9,337.35 points by early afternoon.

The mini-budget '*was completely a non-event*', said Mr Pradeep Jain, chairman of Parsvnath Developers, a real estate group. '*There was nothing for any sector*.' Industry has been clamouring for more moves to aid the ailing manufacturing, construction, infrastructure, automobile and other sectors.

Half a million workers lost their jobs in the three months to December, with export-oriented sectors worst hit and an export lobby group forecasts the number of unemployed will rise to at least 1.5 million by the end of the current fiscal year.

The government expects growth to slacken this year to 7.1 per cent - the weakest in six years.

Economists warn the economy could lose more steam next year, slowing to 5.5 per cent, still strong by anaemic world standards but not enough to lift India's millions from poverty.

'*Attention is now bound to refocus on the central bank and to what extent it is prepared to cut rates further' to spur spending*, said HSBC economist Robert-Prior Wandesforde, adding '*some sort of action looks imminent*'.

P.S.

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