

Industrial sector to grow by 10.4 per cent in FY 2009: CMIE

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Mumbai: The latest government data on industrial growth has painted a gloomy picture but economic think-tank Centre for Monitoring Indian Economy (CMIE) says all is not lost and has pegged the expansion at 10.4 per cent for fiscal 2009.

"We expect the industrial production to grow by 10.4 per cent in FY 09. The current investment boom is expected to correct the slowdown problem," CMIE said in its monthly report.

The reason for the current slowdown in industrial production was the supply problem faced by sectors like cement, aluminium, electricity and steel, it said.

India's industrial growth slipped to 5.3 per cent in January as compared to 11.6 per cent in the same month last year as growth in all major sectors comprising manufacturing, electricity and mining declined.

The report also said, "We expect interest rates to start easing in the first quarter, thus, reviving demand for consumer durables."

It expected the country's gross capital formation to increase by 15.5 per cent in FY 09 and continue to drive growth in its GDP.

CMIE said India's GDP was expected to grow by 8.9 per cent in FY 08 and 9.1 per cent in FY 09. The real GDP grew by 7.5 per cent in FY 05, nine per cent in FY 06 and 9.6 per cent in FY 07.

CMIE's prediction of a 9.1 per cent growth in real GDP in FY 09 is based on the assumption of an adequate precipitation during the monsoon.

Besides, the Union Budget would help fuel growth as the finance minister has proposed a sharp cut in tax rates.

For a large section of urban Indian households, this translates into significant additional spending power, CMIE said, adding this is bound to lead to a substantial increase in the demand for consumer durables and other goods and services that have taken a hit in the recent past.

"Independent of the merits and demerits of the farm loan waiver of Rs 60,000-crore, we see this transfer to the farmers also feeding into additional demand," it said.

While the personal income taxes would spur demand from urban India, the loan waivers and additional allocations for the National Rural Employment Guarantee Scheme would spur demand from rural India.

The increase in spending power would help sustain the growth in investments on hand. This would ensure the continuation of the virtuous cycle of additional investments creating additional demand, which in turn spurs further investments, CMIE said.