



Indian Economy

February 2011

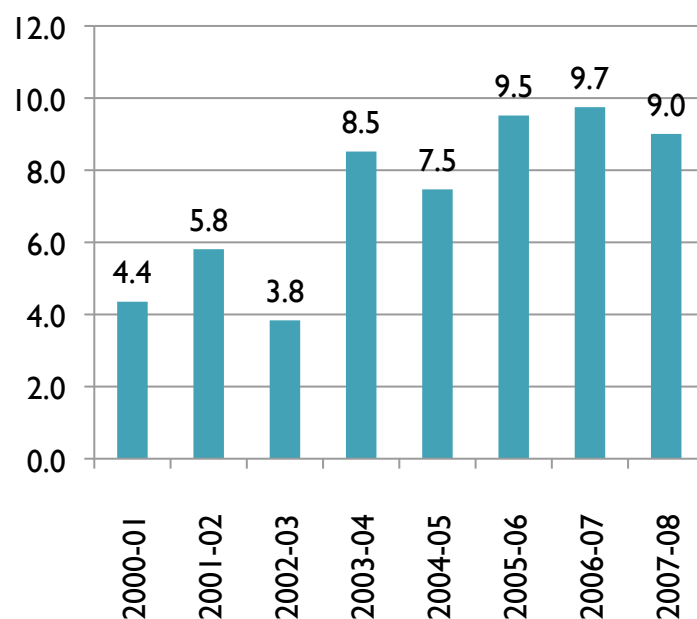
Agenda

- India's recent economic performance
- Global economic crisis – Impact, response & results
- Current economic challenges
- Near term economic outlook
- India as an investment destination

India's recent economic performance

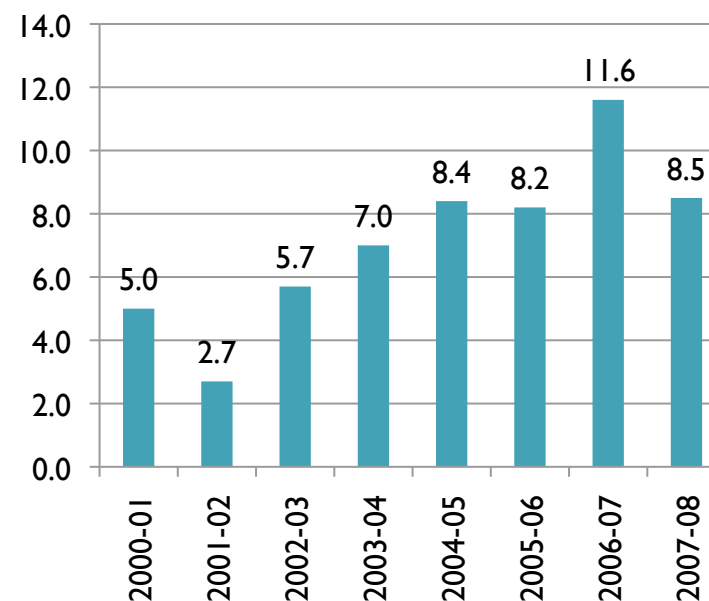
2003-04 to 2007-08 : Strong growth

GDP growth in %



Average growth GDP : 8.8%

IIP growth in %

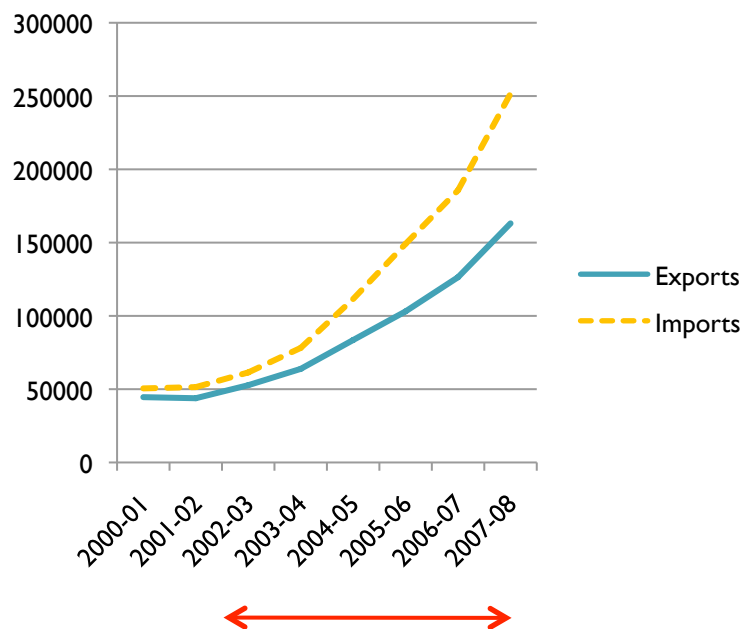


Average growth IIP : 8.7%

India's recent economic performance

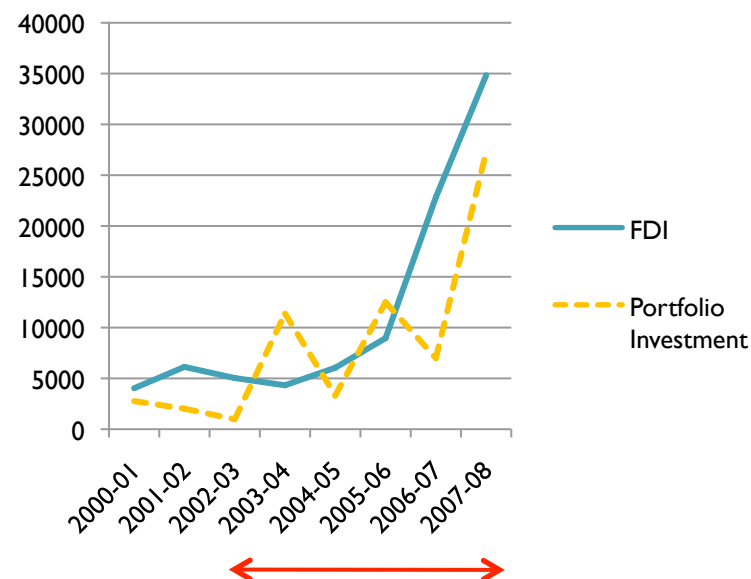
2003-04 to 2007-08 : Strong growth

Foreign trade in \$ Mn



Average growth Exports : 25.4%
Imports : 32.7%

Foreign investments in \$ Mn

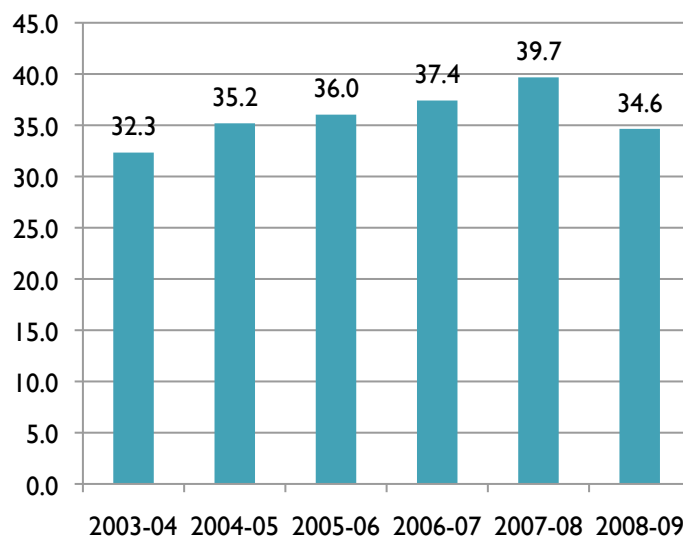


Average growth FDI : 56.2%
Portfolio Investments on the rise

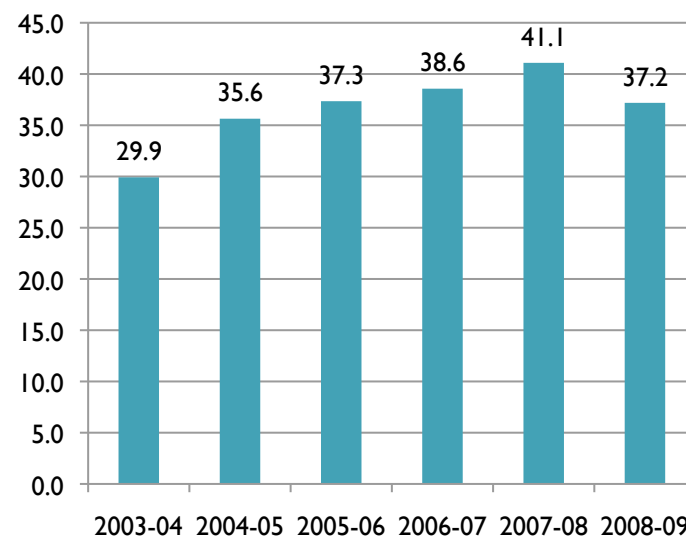
India's recent economic performance

2003-04 to 2007-08 : Strong growth

Gross Domestic Savings/ GDP (in %)



GDCF/GDP (in %)



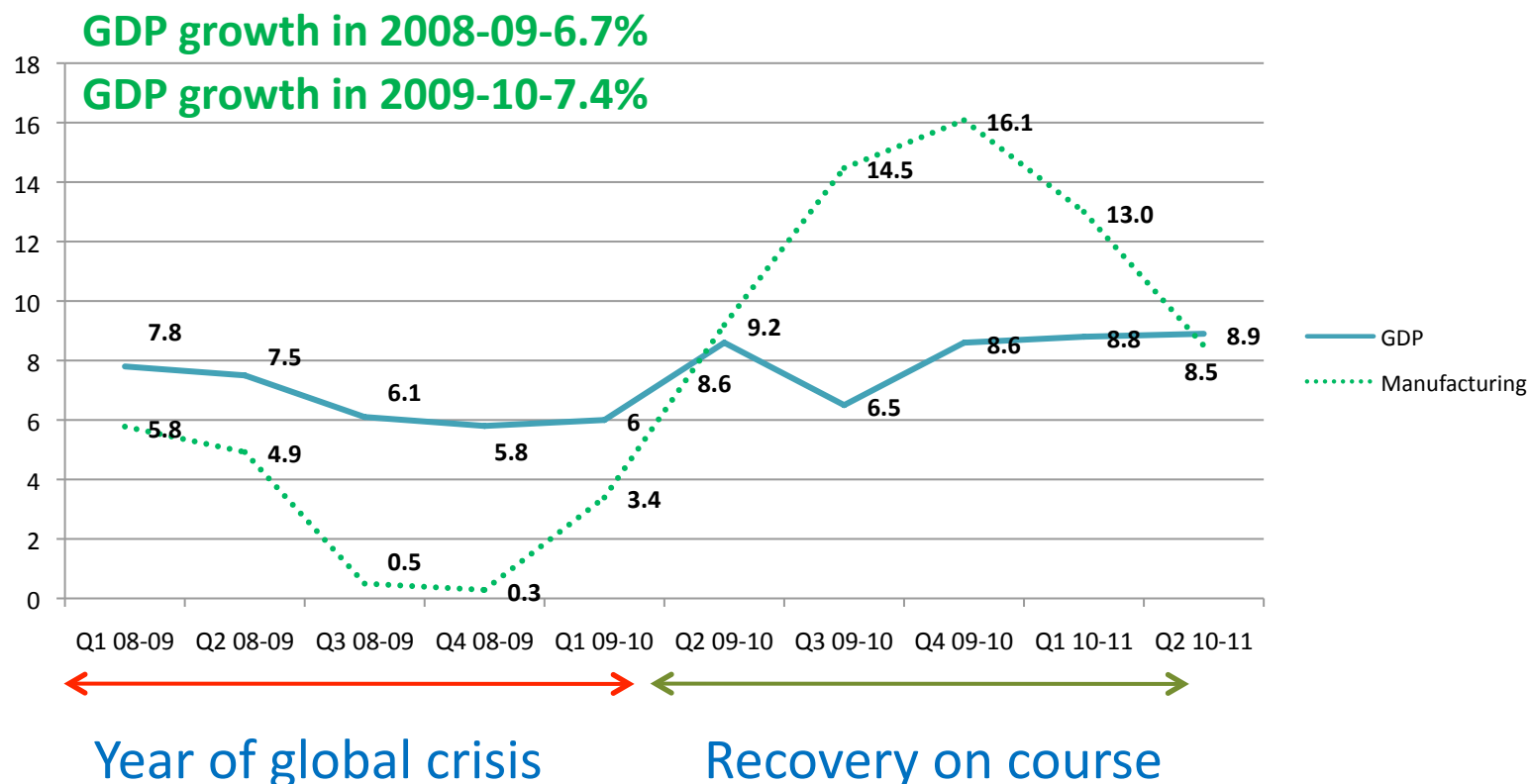
Over the five years ending 2007-08, gross domestic saving and gross domestic capital formation (GDCF) grew at an annual average growth rate of over 20%

India's recent economic performance

2008-09 and 2009-10 :

Moderation in growth followed by recovery

Impact of global crisis on India was through two channels –
Real channel and financial channel



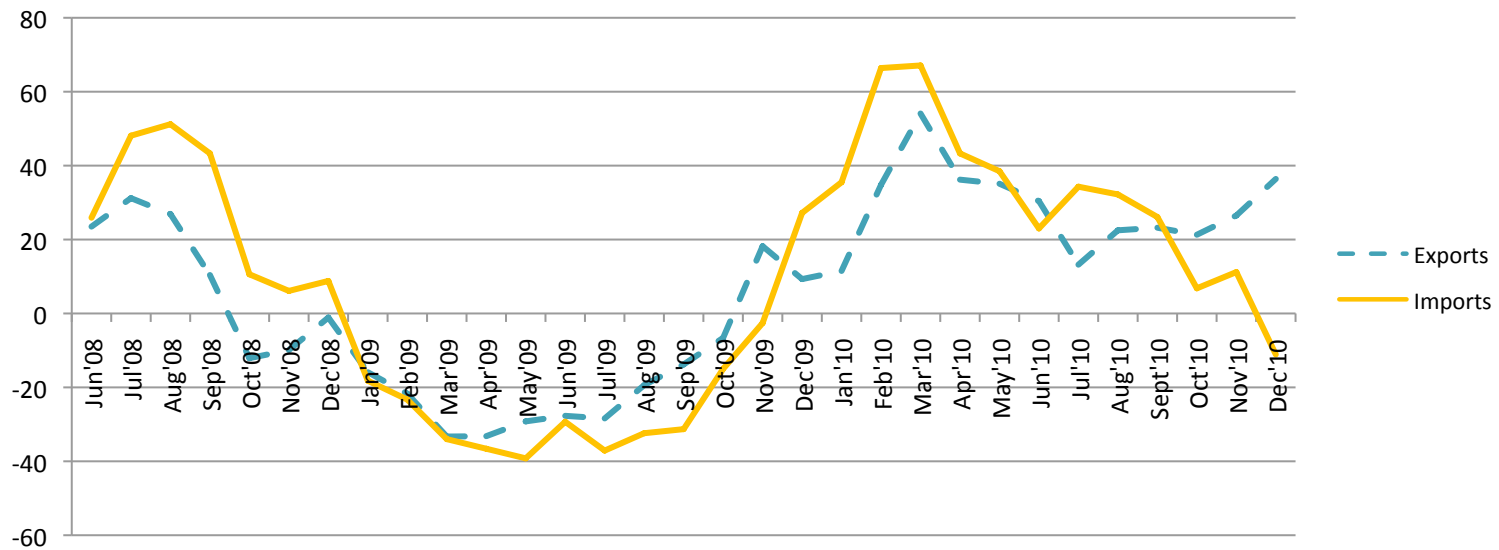
India's recent economic performance

2008-09 and 2009-10 :

Moderation in growth followed by recovery

Impact of global crisis on India was through two channels –

Real channel and financial channel



Exports saw negative growth for 13 months

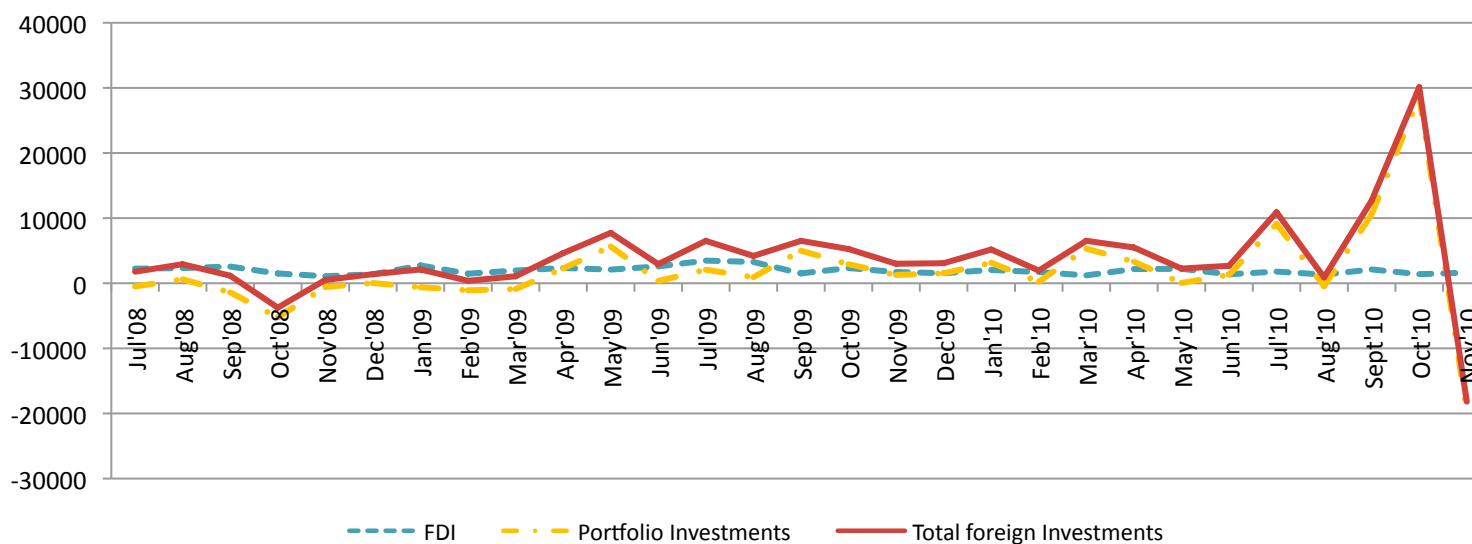
Growth in imports also weakened

India's recent economic performance

2008-09 and 2009-10 :

Moderation in growth followed by recovery

Impact of global crisis on India was through two channels –
Real channel and **financial channel**



FDI has been largely stable; Portfolio flows have shown volatility
impacting exchange rate and stock market

India's response to the crisis

As a result of the global crisis there was...

- Moderation in export growth, which eventually turned negative for 13 months beginning October 2008
- Both industrial production and GDP growth lost some momentum
- Sell off pressure from the foreign institutional investors affecting stock market and exchange rate

To cushion economic activity both government and RBI came out with a series of measures

- **Fiscal measures** – 3 stimulus packages were announced in quick succession (Dec '08, Jan'09 and Feb'09) with various elements
- **Monetary measures** – RBI introduced cuts in key policy rates, injected liquidity in the system, relaxed ECB norms

India is returning to the pre-crisis growth trajectory

Current economic challenges

As India moves back to its pre-crisis growth trajectory, **three significant challenges for the economy are**

▪ **Inflation**

- Headline inflation in Jan 2010 was 8.23%
- Getting generalized. Price rise phenomenon is extending from primary goods to non-food manufactured goods
- Household budgets have been hit with prices of cereals, pulses, fruits & vegetables, milk, edible oil increasing
- Industry – Raw material prices are increasing at a fast clip, companies renegotiating long term wage contracts

▪ **Current Account Deficit** – likely to exceed 3 percent in 2010-11
(Current Account Deficit- April-Sept 2010 - 27.9 billion
April-Sept 2009 – 13.3 billion)

▪ **Fiscal Deficit** – though expected to be below the targeted level of 5.5% in 2010-11, continues to be a concern

Near term economic outlook



Macro variable	2010-11 Forecast	Factors to look out for
GDP growth	8.6%	Still uncertain global environment. Question over growth trajectory of EU, USA and China (-) India's high fiscal deficit (-) Investment demand remains robust (+) Normal monsoon (+)
Manufacturing growth	About 9%	Domestic demand is holding at strong levels (+) Normal monsoon (+) High inflation could moderate real wages and consumption (-) Aggressive monetary tightening by RBI (-)
Inflation	7% by March 2011	Normal monsoon (+) Restrictive monetary policy (+) Slow global growth could cap commodity prices (+) Base effect (+) Deregulation of diesel prices (-)

Near term economic outlook

Macro variable	2010-11 Forecast	Factors to look out for
Exports	Over \$ 200 billion against \$ 176 billion in 2009-10	Still uncertain global environment (-) Diversifying trade destinations. Latin America, Asia, Africa could reduce downside risks (+) Talks for greater engagement with Japan, EU etc. (+)
Foreign investments	FDI – about 30 billion Portfolio inflows – about \$ 40 billion	Strong macro fundamentals. Resilient economy (+) Continuation of accommodative monetary policies in developed countries (+) Shock emanating from EU to financial markets could increase risk aversion towards EMEs (-)

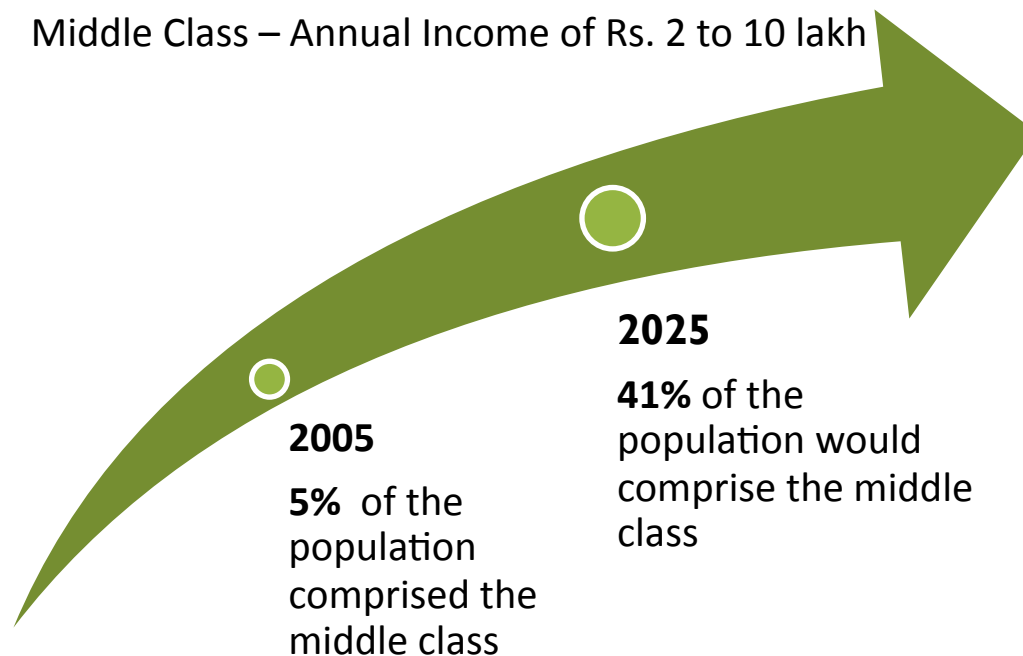
India as an investment destination



Huge Domestic Market

India's market potential is yet to be fully tapped

Middle Class – Annual Income of Rs. 2 to 10 lakh



RURAL MARKET – Lent support to companies during the crisis period

YOUTH MARKET – Young nation, high awareness levels, driving demand in urban centres

With income level rising, discretionary spending will increase – INDIA TO BE THE 5th LARGEST CONSUMER MARKET BY 2025

Source: McKinsey Global Institute

India as an investment destination

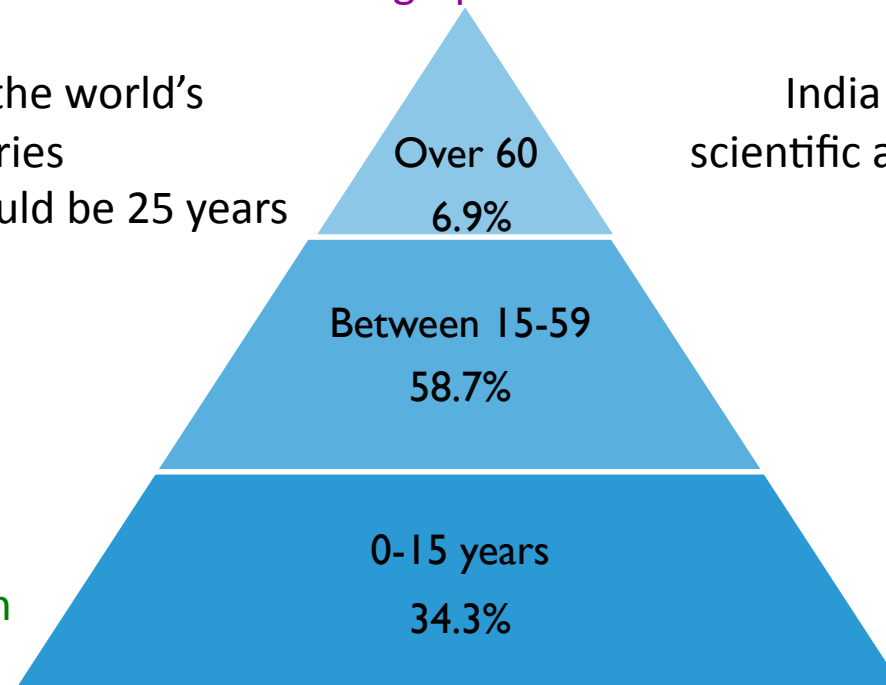


Human Capital

Demographic Dividend

India is among the world's youngest countries
Median age would be 25 years even in 2025

India has third largest pool of scientific and technical manpower in the world



Large English Speaking Population

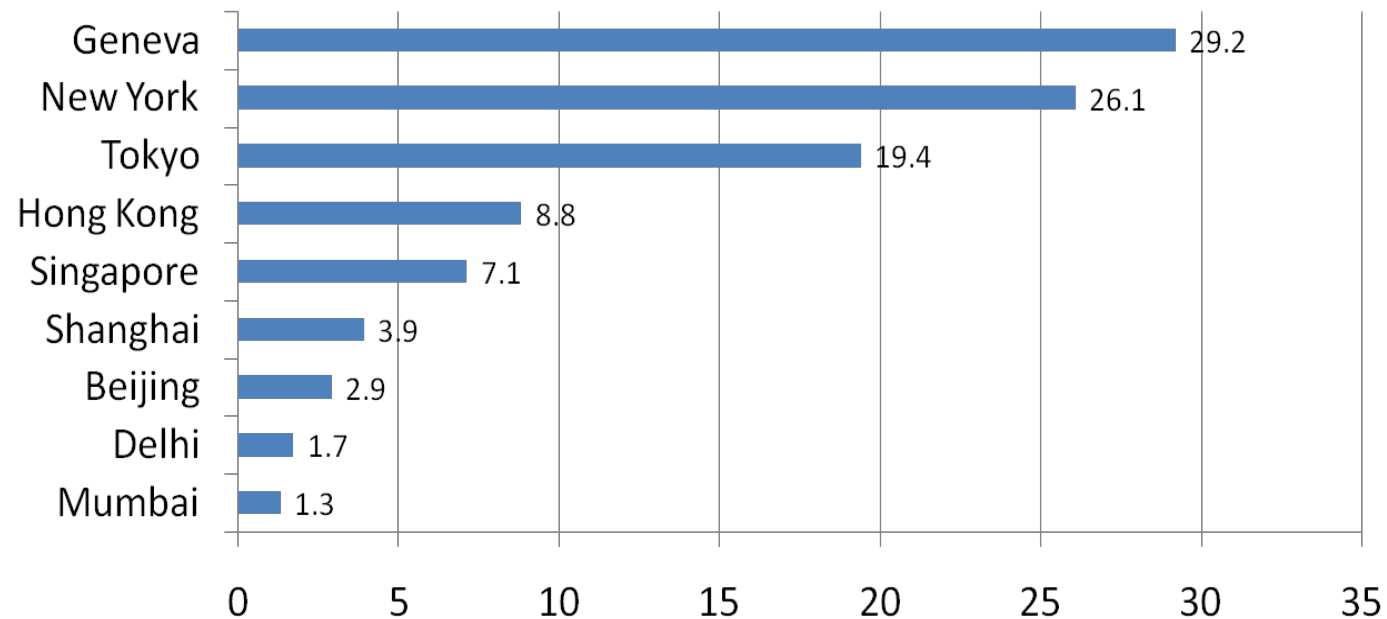
Strong Intellectual Base

India as an investment destination



Cost Competitiveness

Cost Comparisons (Gross USD/Hour)



Source : Prices and Earnings 2009, UBS

India ranked **FIRST** in
AT KEARNEY Global Services Location Index 2009 &
AT KEARNEY Global Retail Development Index 2009

India as an investment destination



Pro Investment Environment

- Government taking all steps to improve investment environment

FDI Policy

- Share of FDI approvals through automatic route increased from an average 21.6% during 2000-03 to 71.6% in 2008
- Consolidated FDI Policy announced in March 2010
- 6 discussion papers dealing with issues like FDI in defense, in retail, voting rights in banks in line with shareholding to be released - **Defense and retail papers are already out and stakeholder consultation in going on**

SEZ Policy

- India is the first promoter of Export Processing Zones in Asia.
- Asia's first EPZ set up in Kandla, 1965
- Today there are 575 formally approved SEZs in India with total investment of Rs 1,28,390 crore and total employment of 4,89,831 as on December 31, 2009
- Last year SEZs accounted for about a quarter of India's total exports

India as an investment destination



Rationalized Tax Structure

Goods and Services Tax : April 2012

- Introduction of GST will lead to uniformity in tax regime and will lead to ON INDIA MARKET

New Direct Tax Code : April 2012

- Will do away with exemptions and bring down tax rates

India as an investment destination



India's Global Integration

- **13 Free Trade Agreements and Preferential Trade Agreements signed –** ASEAN, Sri Lanka, Singapore, South Korea, Thailand, Chile etc
- Talks for greater engagement with countries such as Japan, EU ongoing
- These have a stimulating effect on foreign investments by **increasing the size of the potential market**. These offer opportunities for **achieving greater economies of scale**
- You can have access to a **wider resource base** and **new business opportunities**

India as an investment destination



Sectors to look out for

- Infrastructure
- Defense
- Pharmaceuticals
- Entertainment
- Auto and auto ancillary
- Telecommunications
- Agriculture
- Healthcare
- Education
- Real Estate



Thank you

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