

Indian Economy Overview

Indian economy has been witnessing a phenomenal growth since the last decade. The country is still holding its ground in the midst of the current global financial crisis. In fact, global investment firm, Moody's, says that driven by renewed growth in India and China, the world economy is beginning to recover from the one of the worst economic downturns in decades.

The growth in real Gross Domestic Product (GDP) at factor cost stood at 6.7 per cent in 2008-09. While the sector-wise growth of GDP in agriculture, forestry and fishing was at 1.6 per cent in 2008-09, industry witnessed growth to 3.9 per cent of the GDP in 2008-09.

The Prime Minister, Dr Manmohan Singh, on August 15, 2009, in his address to the nation on its 63rd Independence Day, said that the Government will take every possible step to restore annual economic growth to 9 per cent.

Further, the World Bank has projected an 8 per cent growth for India in 2010, which will make it the fastest-growing economy for the first time, overtaking China's expected 7.7 per cent growth.

A number of leading indicators, such as increase in hiring, freight movement at major ports and encouraging data from a number of key manufacturing segments, such as steel and cement, indicate that the downturn has bottomed out and highlight the Indian economy's resilience. Recent indicators from leading indices, such as Nomura's Composite Leading Index (CLI), UBS' Lead Economic Indicator (LEI) and ABN Amro' Purchasing Managers' Index (PMI), too bear out this optimism in the Indian economy.

Industrial output as measured by the index of industrial production (IIP) clocked an annual growth rate of 6.8 per cent in July 2009, according to the Central Statistical Organisation.

Significantly, among the major economies in the Asia-Pacific region, India's private domestic consumption as share of GDP, at 57 per cent in 2008, was the highest, according to an analysis by the McKinsey Global Institute.

Meanwhile, foreign institutional investors (FIIs) turned net buyers in the Indian market in 2009. FIIs inflows into the Indian equity markets have touched US\$ 10 billion in the April to September period of 2009-10.

Foreign direct investments (FDI) into India went up from US\$ 25.1 billion in 2007 to US\$ 46.5 billion in 2008, achieving a 85.1 per cent growth in FDI flows, the highest across countries, according to a recent study by the United Nations Conference on Trade & Development (UNCTAD).

According to the Asian Development Bank's (ADB) 'Asia Capital Markets Monitor' report, the Indian equity market has emerged as the third biggest after China and Hong Kong in the emerging Asian region, with a market capitalisation of nearly US\$ 600 billion.

The Economic scenario

Indian investors have emerged as the most optimistic group in Asia, according to the Quarterly Investor Dashboard Sentiment survey by global financial services group, ING. As per the survey, around 84 per cent of the Indian respondents expect the stock market to rise in the third quarter of 2009.

With foreign assets growing by more than 100 per cent annually in recent years, Indian multinational

enterprises (MNEs) have become significant investors in global business markets and India is rapidly staking a claim to being a true global business power, according to a survey by the Indian School of Business and the Vale Columbia Center on Sustainable International Investment.

In its optimistic report on Macroeconomic and Monetary Development of the economy in 2009, the Reserve Bank of India (RBI) said overall business sentiment was slated for a sharp improvement from that in the April-June 2009 quarter.

Further, India and China will soon emerge as the preferred destinations for foreign investors, revealed Economy.com, the research arm of global rating agency Moody's.

- The country's foreign exchange reserves rose by US\$ 1.28 billion to touch US\$ 277.64 billion for the week ended September 4, 2009, according to figures released in the RBI's Weekly Statistical Supplement.
- Net inflows through various non-resident Indians (NRIs) deposits surged from US\$ 179 million in 2007-08 to US\$ 3,999 million in 2008-09, according to the RBI. The most recent World Bank update on migration and remittances reveals that the remittances of US\$ 52 billion by overseas Indians in 2008 makes it India's largest source of foreign exchange. India, along with China and Mexico, retained its position as one of the top recipients of migrant remittances among developing countries in 2008.
- FDI inflows into India in April-May 2009-10 have surged by 13 per cent at US\$ 4.2 billion as against the previous two months driven by recovery in the global financial markets. Cumulative FDI in India from April 2000 to March 2009 stood at about US\$ 90 billion.
- FIIs inflows into the Indian equity markets have touched US\$ 10 billion in the April to September period of 2009-10.
- Venture Capital firms invested US\$ 117 million over 27 deals in India during the six months ending June 2009, according to a study by Venture Intelligence in partnership with the Global-India Venture Capital Association.
- The private equity (PE) investment into the country reached US\$ 1.03 billion during April-June 2009—registering an increase of 17 per cent sequentially—according to data compiled by SMC Capitals, an equity research and analysis firm.
- The year-on-year (y-o-y) aggregate bank deposits stood at 21.2 per cent as on January 2, 2009. Bank credit touched 24 per cent (y-o-y) on January 2, 2009, as against 21.4 per cent on January 4, 2008.
- Since October 2008, the RBI has cut the cash reserve ratio (CRR) and the repo rate by 400 basis points each. Also, the reverse repo rate has been lowered by 200 basis points. Till April 7, 2009, the CRR had further been lowered by 50 basis points, while the repo and reverse repo rates have been lowered by 150 basis points each.
- Exports from special economic zones (SEZs) rose 33 per cent during the year to end-March 2009. Exports from such tax-free manufacturing hubs totalled US\$ 18.16 billion last year up from US\$ 13.60 billion a year before.
- India Inc's order book has more than doubled to an all-time high of US\$ 15.32 billion in the second quarter of the current financial year, compared to the first quarter. On a year-on-year basis, the increase is 21 per cent.
- Advance tax collections for the second quarter of the current financial year (2009-10) have shown robust growth of 35 to 40 per cent across industries.
- The domestic mutual fund industry registered a moderate growth of 5 per cent in its assets under management (AUM) in August 2009 at US\$ 15,702, due to good performance by debt funds.
- India exported a total of 230,000 cars, vans, sport utility vehicles (SUVs) and trucks between January and July 2009, a growth of 18 per cent owing to its liberal investment policies and high quality manufacturing that stems from its growing prowess in research and development.
- India's gems and jewellery exports regained momentum and aggregated to US\$ 1.9 billion in July 2009 as compared to US\$ 1.7 billion in June 2009.
- The total Merger and acquisition (M&A) deals registered during the first seven months of this year stand at 158 with a value of US\$ 5.91 billion, while PE deals stand at 114, totalling a value of US\$ 4.89 billion, according to consulting firm, Grant Thornton.
- Investments in the Indian stock market through participatory notes (PNs) crossed US\$ 20.65 billion-mark in May 2009.

- Sustainable energy investment in India went up to US\$ 3.7 billion in 2008, up 12 per cent since 2007, according to a report titled 'Global Trends in Sustainable Energy Investment 2009'.

The rural India growth story

The Indian growth story is spreading to the rural and semi-urban areas as well. The next phase of growth is expected to come from rural markets with rural India accounting for almost half of the domestic retail market, valued over US\$ 300 billion. Rural India is set to witness an economic boom, with per capita income having grown by 50 per cent over the last 10 years, mainly on account of rising commodity prices and improved productivity. Development of basic infrastructure, generation of employment guarantee schemes, better information services and access to funding are also bringing prosperity to rural households.

Per Capita Income

Per capita income of Indian individuals stood at US\$ 773.54 in 2008-09, according to Central Statistical Organisation data. The per capita income in India stood at US\$ 687.03 in 2007-08 and has risen by over one-third from US\$ 536.79 in 2005-06 to US\$ 773.54 in 2008-09.

Advantage India

- According to the World Fact Book, India is among the world's youngest nations with a median age of 25 years as compared to 43 in Japan and 36 in USA. Of the BRIC—Brazil, Russia, India and China—countries, India is projected to stay the youngest with its working-age population estimated to rise to 70 per cent of the total demographic by 2030, the largest in the world. India will see 70 million new entrants to its workforce over the next 5 years.
- India has the second largest area of arable land in the world, making it one of the world's largest food producers—over 200 million tonnes of foodgrains are produced annually. India is the world's largest producer of milk (100 million tonnes per annum), sugarcane (315 million tonnes per annum) and tea (930 million kg per annum) and the second largest producer of rice, fruit and vegetables.
- With the largest number of listed companies - 10,000 across 23 stock exchanges, India has the third largest investor base in the world.
- India's healthy banking system with a network of 70,000 branches is among the largest in the world.
- According to a study by the McKinsey Global Institute (MGI), India's consumer market will be the world's fifth largest (from twelfth) in the world by 2025 and India's middle class will swell by over ten times from its current size of 50 million to 583 million people by 2025.
- India, which recorded production of 22.14 million tonne of steel during April-August 2009, is likely to emerge as the world's third largest steel producer in the current year.
- India continues to be the most preferred destination—among 50 top countries—for companies looking to offshore their information technology (IT) and back-office functions, according to global management consultancy, AT Kearney.
- The Indian stock markets have risen to be amongst the best performers globally across the emerging and developed markets in 2009 year-to-date, according to an analytical study by MSCI Barra indices.
- India has reclaimed its position as the most attractive destination for global retailers despite the downturn, according to the Global Retail Development Index (GRDI) brought out by US-based global management consulting firm, A T Kearney.

Growth potential

- According to the CII Ernst & Young report titled 'India 2012: Telecom growth continues,' India's telecom services industry revenues are projected to reach US\$ 54 billion in 2012, up from US\$ 31 billion in 2008. The Indian telecom industry registered the highest number of subscriber additions at 15.84 million in March 2009, setting a global record.

- A McKinsey report, 'The rise of Indian Consumer Market', estimates that the Indian consumer market is likely to grow four times by 2025, which is currently valued at US\$ 511 billion.
- India ranks among the top 12 producers of manufacturing value added (MVA)—witnessing an increase of 12.3 per cent in its MVA output in 2005-07 as against 6.9 per cent in 2000-05—according to the United Nations Industrial Development Organisation (UNIDO).
- In textiles, the country is ranked fourth, while in electrical machinery and apparatus it is ranked fifth. It holds sixth position in the basic metals category; seventh in chemicals and chemical products; 10th in leather, leather products, refined petroleum products and nuclear fuel; twelfth in machinery and equipment and motor vehicles.
- In a development slated to enhance India's macroeconomic health as well as energy security, Reliance Industries (RIL) has commenced natural gas production from its D-6 block in the Krishna-Godavari (KG) basin.
- India has a market value of US\$ 270.98 billion in low-carbon and environmental goods & services (LCEGS). With a 6 per cent share of the US\$ 4.32 trillion global market, the country is tied with Japan at the third position.
- PE players are planning to raise funds for the infrastructure sector. Presently, around US\$ 1.42 billion is being raised by India-dedicated infrastructure funds, according to data released by Preqin, a global firm that tracks PE and alternative assets.
- Infrastructure, including roads, power, highways, airports, ports and railways, has emerged as an asset class with long-term growth that can provide relatively stable returns, said an Assocham-Ernst & Young survey on Private Equity in Indian Infrastructure: Strengthening the Nexus.
- NASSCOM has estimated that the IT-BPO industry will witness an export growth of 4-7 per cent and domestic market growth of 15-18 per cent in 2009-10. Further, it has projected that around 40,000 students will be absorbed by IT companies this fiscal.
- With the availability of the 3G spectrum, about 275 million Indian subscribers will use 3G-enabled services, and the number of 3G-enabled handsets will reach close to 395 million by 2013-end, estimates the latest report by Evaluateserve.

Exchange rate used:

1 USD = 48.21 INR (as on July)

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