



INDIAN ECONOMY



OVERVIEW

India, the world's largest democracy, is also one of the largest developing countries in the world and has undertaken a major revamp of its economic structures over the past two decades. As a result, it has emerged as a global player in information technology, business process outsourcing, telecommunications, pharmaceuticals and biotechnology.

In terms of Purchasing Power Parity, India is the fourth largest economy in the world. Private sector has played a major role in the industrial development of India since Independence. Immediately after Independence in 1947, public sector enterprises took the lead in setting up an industrial base, making large investments in heavy industries like steel, mining, power, machinery, manufacturing of capital goods etc. Now, the private sector is playing a lead role in infrastructure development, manufacturing and services sector.

India's time tested institutions offer foreign investors a transparent environment that guarantees the security of their long-term investments. These include a free and vibrant press, a well-established judiciary, a sophisticated legal and accounting system and a user-friendly intellectual infrastructure. India's dynamic and highly competitive private sector has long been the backbone of its economic activity and offers considerable scope for foreign direct investment, joint ventures and collaborations.

India's diverse economy comprises conventional village farming as well as modern agriculture, a wide range of modern industries and a large number of services and handicrafts. Services are the chief source of economic growth, accounting for more than half of India's output with less than one third of its labour force. India's chief strength comes from its large numbers of well-educated, skilled people, adept in the English language, helping India to become a major exporter of software services and software workers.

The economy has registered an annual average growth rate of 6% over the last 25 years. The growth rate has accelerated to more than 7 per cent since 1997. India achieved an average annual GDP growth of 8.8% between 2003-04 to 2007-08. The economy continued to grow at 6.7% in 2008-09 despite the global economic crisis.

ECONOMIC PROFILE

GDP at Factor Cost (current prices) in 2008: US\$ 1.21 Trillion (Est.)

Growth Rate of GDP: 9.6% in 2006-07; 9% in 2007-08; 6.7% in 2008-09

Per Capita Income in purchasing power parity: US\$ 2900 (Est.) 2008

GDP composition by sector during 2008-09: Services 57.0%, Agriculture 17.1%, and Industry 25.9%

Growth Rate of Manufacturing: 11.8% in 2006-07; 8.2% in 2007-08; 2.4% in 2008-09

Growth Rate of Services: 11.2% in 2006-07; 10.9% in 2007-08; 9.7% in 2008-09

Forex Reserves: US \$ 271.64 billion (August 2009)

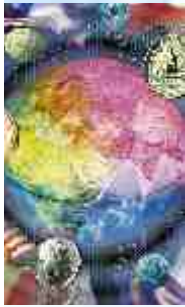
Exports: US\$ 183 billion in 2008-09

Imports: US\$ 291 billion in 2008-09

Cumulative FDI Inflows: US\$ 110.97 billion (August 1991 to May 2009)

Investment: 39% of GDP in 2008 est.





GLOBAL ECONOMIC CRISIS

India has suffered relatively less from the global economic crisis beginning 2008. The impact was muted on account of low exposure of Indian banks to toxic assets overseas, rapid and aggressive measures taken by government and central bank, and comparatively small export to GDP ratio at 15%. Nevertheless, India felt the adverse impact on its industrial production and exports. GDP dropped to 6.7% in 2008-09 and to 6.1% in the first quarter of 2009-10.

The Government responded through aggressive stimulus packages, with 9% of GDP liquidity unlocked in market. Interest rates were brought down in six steps by 425 basis points. Fiscal stimulus in three stages amounted to about 3% of GDP. Excise rates were cut, and special measures for SME, export sectors, NBFCs, etc were introduced.

Positive signs were evident in the economy from the second half of 2009 with Index of Industrial Production in June at 7.8%, revival of consumer durable demand at 17%, and expanding infrastructure index. India's key stock market climbed 80% in April to June 2009 and FII net inflows recorded \$3 billion in July, up by 55%.

ECONOMIC SCENARIO

Investor sentiment in India has improved significantly in the first quarter of 2009, according to a survey conducted by financial services firm ING. With foreign assets growing by more than 100% 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.

- Despite the global financial crisis, inflow of foreign capital to the country has increased sharply in 2008-09.
- India's foreign exchange reserves increased to US\$ 271.64 billion in August 2009 from US\$ 255.9 billion in May 2009;

- Net inflows through various non-resident Indians (NRIs) deposits surged from US\$ 179 million in 2007-08 to US\$ 3999 million in 2008-09, according to the Reserve Bank of India;
- FDI inflows during April 2008-March 2009 as per international best practices stood at US\$35.2 billion compared with US\$ 34.3 billion in the previous fiscal, according to the Department of Industrial Policy & Promotion. In calendar 2009, US\$13.2 billion were received until June 2009.
- FIIs have made net investments of around US\$ 8.2 billion in the first quarter of 2008-09, after a net outflow the previous year, reflecting the revived interest of overseas investors in the Indian economy as the global recession reversed.

INDUSTRIAL GROWTH

Industrial sector in India has witnessed positive structural changes since 1991 particularly by way of improvements in productivity, modernization and infusion of new technology. Companies have consolidated their core competencies, while several have tied up with foreign companies to acquire new technologies, management expertise, and access to foreign markets. The Government has introduced a number of initiatives to place the industrial sector on an accelerated growth path with the objective of sustained growth in productivity, enhanced gainful employment, optimal utilization of human resources and attain international competitiveness and to transform India into a major partner and player in the global arena. These initiatives also focused on deregulating Indian industry as well as allowing it flexibility in responding to market forces.

Industrial licensing by the central government was almost abolished except for a few hazardous and environmentally sensitive industries. The list of industries reserved solely for the public sector -- which used to cover 18 industries, including iron and steel, heavy plant and machinery, telecommunications and telecom equipment, minerals,





oil, mining, air transport services and electricity generation and distribution - was drastically reduced to three, namely defense aircrafts and warships, atomic energy generation, and railway transport. Further, restrictions that existed on the import of foreign technology were withdrawn. The corporate sector has also been allowed free access to GDR/ECB windows to obtain finance at globally competitive rates. Furthermore, the Government has significantly increased spending on infrastructure to kick-start the economy and also has announced several measures to increase investment in the sector.

India also has a vibrant micro and small enterprise sector that plays an important role in sustaining the economic growth, by contributing around 40 per cent to the manufacturing output and 35 per cent to the exports. It is the second largest employer of human resources after agriculture, providing employment to over 30 million people in the rural and urban areas of the country.

SERVICES SECTOR

The services sector has been at the forefront of the rapid growth of the Indian economy, contributing around 60 per cent of the GDP. The sector has come to play an increasingly dominant role in the economy accounting for 59.6 per cent of the overall average growth in GDP in the last eight years between 2000-01 and 2007-08.

The growth of the Indian services sector has not been confined to the domestic market alone. It is also reflected on its trade front. India's share in the global trade of services increased from 2 per cent in 2004 to 2.74% in 2007. India achieved a landmark in 2008-09 when its services exports crossed the milestone of \$100 billion, given that the figure stood at \$43.2 billion in 2004. Software exports have doubled in the last four years, attaining an average growth rate of 30% per annum, before dropping to half that rate in 2008-09 in the wake of the global economic crisis. India today is the world's largest exporter of

IT-BPO services, and the sector has given the country a high brand image as a knowledge hub.

Today the Indian financial structure is inherently strong, functionally diverse, efficient and globally competitive. During the last fifteen years, the Indian financial system has been incrementally deregulated and exposed to international financial markets along with the introduction of new instruments and products.

INDIA'S EXTERNAL ECONOMIC RELATIONS

Trade in goods

India's merchandise trade has expanded dramatically after the liberalization of the economy commenced in 1991. External orientation has been a key plank of the reform agenda.

Both exports and imports benefited from the strengthening of world trade and grew in double digits after the global economic lull in 2002.

Exports stood at \$183 billion in 2008-09, growing by over 25% each year from 2004. The export value almost tripled in the five years since 2004. The global economic crisis dented the rate of growth but expansion for the year 2008-09 remained at a robust 12%.

Imports from the world also expanded rapidly, making India a favored market for global products. Imports totaled \$291 billion in 2008-09, multiplying 3.7 times since 2004.

The exports to GDP ratio went up to 13.9% in 2007-08, and imports formed 21.1% of GDP. The globalization of the economy is evident in the aggregate trade to GDP ratio now at 35%, much over the 14.6% seen in 1990-91.





India's Merchandise Trade 2003-04 to 2008-09 US\$ million

Year	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-09
India's Total Export	63,842.55	83,535.95	103,090.54	126,262.67	162,983.90	182,630.50
%Growth		30.85	23.41	22.48	29.08	12.05
India's Total Import	78,149.11	111,517.44	149,165.73	185,604.10	251,562.26	291,474.56
%Growth		42.70	33.76	24.43	35.54	15.87
India's Total Trade	141,991.66	195,053.38	252,256.27	311,866.78	414,546.15	474,105.06
%Growth		37.37	29.33	23.63	32.92	14.37
India's Trade Balance	-14,306.56	-27,981.49	-46,075.20	-59,341.43	-88,578.36	-108,844.06
Exchange rate: (1US\$ = Rs.)	45.9516	44.9315	44.2735	45.2849	40.2410	45.9933

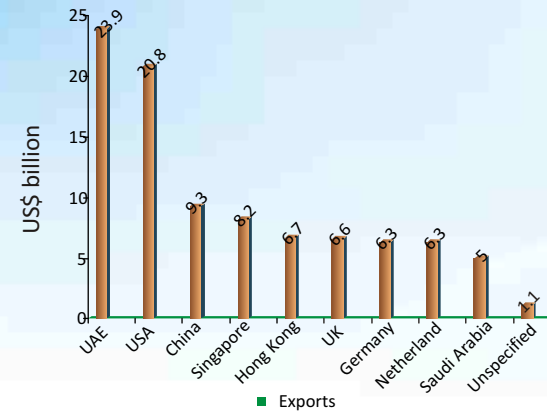
Source: Department of Commerce, India

Direction of trade

Exports US\$ million

Rank	Country	Apr-Mar 2008	Apr-Mar 2009(P)	%Growth	%Share
1	United Arab Emirates	15,634.56	23,921.12	53.00	13.10
2	USA	20,722.17	20,818.38	0.46	11.40
3	China	10,834.08	9,275.55	-14.39	5.08
4	Singapore	7,371.15	8,206.97	11.34	4.49
5	Hong Kong	6,308.31	6,661.66	5.60	3.65
6	UK	6,701.49	6,594.64	-1.59	3.61
7	Germany	5,118.89	6,343.90	23.93	3.47
8	Netherland	5,228.12	6,279.86	20.12	3.44
9	Saudi Arabia	3,708.30	4,987.94	34.51	2.73
10	Unspecified	364.74	4,418.36	1,111.38	2.42
	Total	162,983.91	182,630.50	12.05	100.00
	Exchange Rate: (1US\$ = Rs.)	40.2410	45.9933		

Data Source: DGCI, Kolkata



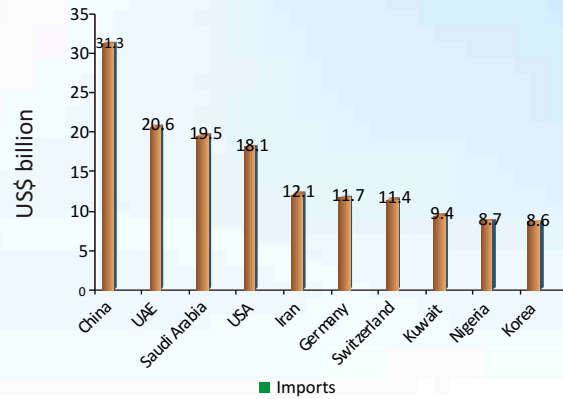
The UAE remains India's largest export destination, and apart from USA, the other top five destinations for the country belong to the Asian continent. Singapore has rapidly entered the top five destinations after the Comprehensive Economic Cooperation Agreement was signed in 2005. Asian countries account for over half of India's exports.

Imports US\$ million

Rank	Country	Apr-Mar 2008	Apr-Mar 2009(P)	%Growth	%Share
1	China	27,115.66	31,333.86	15.56	10.75
2	United Arab Emirates	13,477.10	20,604.75	52.89	7.07
3	Saudi Arabia	19,410.63	19,492.97	0.42	6.69
4	U S A	21,029.58	18,162.92	-13.63	6.23
5	Iran	10,920.69	12,133.72	11.11	4.16
6	Germany	9,874.52	11,694.28	18.43	4.01
7	Switzerland	9,833.46	11,447.19	16.41	3.93
8	Kuwait	7,693.63	9,392.55	22.08	3.22
9	Nigeria	7,619.82	8,695.92	14.12	2.98
10	Korea	6,040.58	8,591.34	42.23	2.95
	Total	251,562.27	291,474.56	15.87	100.00
	Exchange Rate: (1US\$ = Rs.)	40.2410	45.9933		

Data Source: DGCI, Kolkata



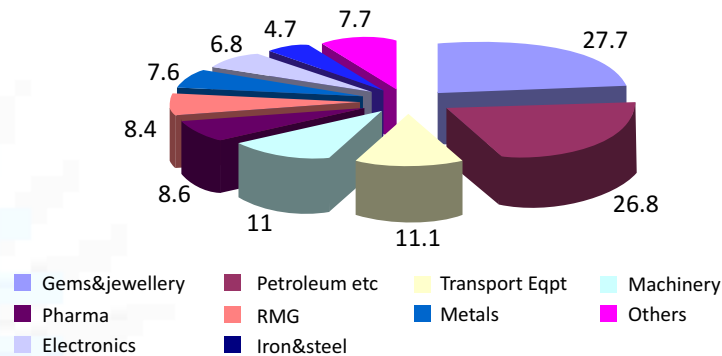


Imports from China are the largest in India's import profile, while UAE is India's largest trade partner overall. India's import growth even during the global economic recession indicates that it remains a strong market for the world's goods.

Exports US\$ million

Rank	Commodity	Apr-Mar 2008	Apr-Mar 2009(P)	%Growth	%Share
1	Gems & Jewellery	19,688.31	27,704.98	40.72	15.17
2	Petroleum (Crude & Products)	28,376.95	26,829.56	-5.45	14.69
3	Transport Equipments	7,028.17	11,142.12	58.54	6.10
4	Machinery And Instruments	9,132.56	10,953.00	19.93	6.00
5	Drugs, Pharma & Fine Chemicals	7,643.86	8,596.40	12.46	4.71
6	RMG Cotton Incl Accessories	7,538.53	8,375.36	11.10	4.59
7	Other Commodities	4,012.46	7,655.08	90.78	4.19
8	Manufactures Of Metals	7,054.76	7,550.79	7.03	4.13
9	Electronic Goods	3,362.78	6,789.62	101.91	3.72
10	Iron & Steel	4,155.87	4,733.98	13.91	2.59
	Total	162,983.91	182,630.50	12.05	100.00
	Exchange Rate: (1US\$ = Rs.)	40.2410	45.9933		

Data Source: DGCIS, Kolkata

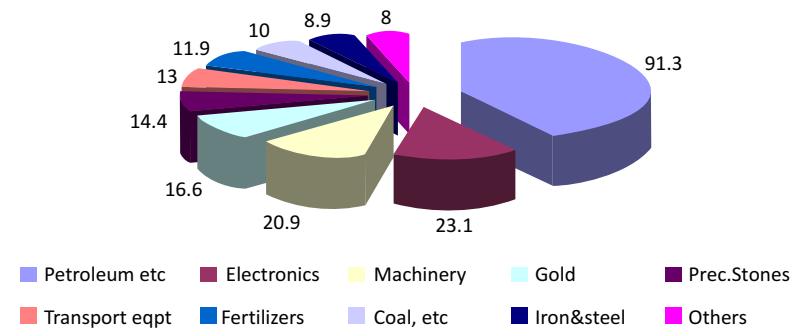


India's gems and jewellery exports became its largest exported item in 2008-09 after the fall in the price of petroleum products. Dynamic growth has been witnessed in the exports of transport equipment, including vehicles, ships, aircraft equipment and auto components, as well as in electronic goods.

Imports US\$ million

Rank	Commodity	Apr-Mar 2008	Apr-Mar 2009(P)	%Growth	%Share
1	Petroleum, Crude & Products	79,683.53	91,291.20	14.57	31.32
2	Electronic Goods	20,219.75	23,149.32	14.49	7.94
3	Machinery Except Electrical & Electronic	19,870.13	20,914.52	5.26	7.18
4	Gold	16,731.79	16,647.71	-0.50	5.71
5	Pearls, Precious/Semiprecious Stones	7,975.52	14,439.10	81.04	4.95
6	Transport Equipments	20,121.45	13,022.88	-35.28	4.47
7	Fertilizers, Manufactured	4,578.86	11,891.93	159.71	4.08
8	Coal, Coke & Briquettes etc.	6,426.83	9,991.93	55.47	3.43
9	Iron & Steel	8,235.70	8,919.32	8.30	3.06
10	Other Commodities	6,140.77	7,973.43	29.84	2.74
	Total	251,562.27	291,474.56	15.87	100.00
	Exchange Rate: (1US\$ = Rs.)	40.2410	45.9933		

Data Source: DGCIS, Kolkata



India imports about three-quarters of its petroleum requirements; however, the next largest items of import are electronic goods and machinery, reflecting the nature of its consumer and industrial markets. Gold and precious stones, primarily diamonds, make up the other top five items of import.

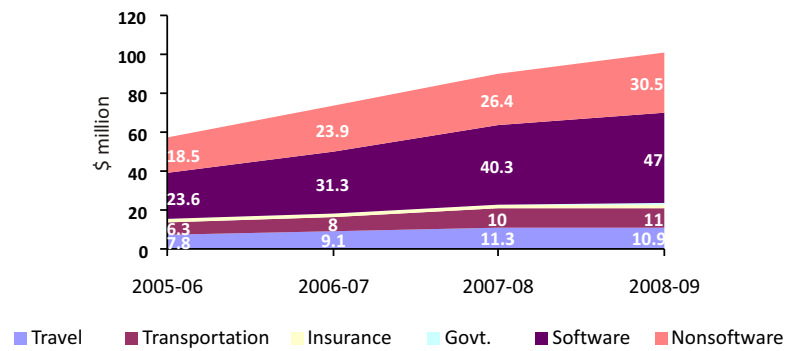




Trade in services

India's burgeoning current account deficit, arising from stronger imports from the rest of the world, has been largely met by rising 'net invisibles', the category of foreign exchange inflows that arises from sale of services overseas and remittances. In 2000-01, exports of services were \$16.2 billion – by 2008-09, the figure went up to \$101 billion, more than six-fold increase.

Exports of IT and IT enabled services reached \$47 billion in 2008-09. India's share in services exports has gone up from 0.5% of world trade in 1995 to 2.7% in 2007 and India is now the largest exporter of computer and information services. Other services such as trade related services, business consultancy services, engineering services, etc, also increased.



Investments

Inward Investments: FDI jumped from \$4.3 billion in 2003-04 to \$19.5 billion in 2006-07 and \$33 billion in calendar 2008. FDI now forms 2.9% of GDP, up from 1.5% in 2000-01. India's share in global FDI flows went up from 2.3% in 2005 to 4.5% in 2006.

Outward investments: Indian companies have aggressively entered the global Mergers and Acquisitions market since 2001. As the norms of investing outside India were relaxed, the rise of the Indian multinational was witnessed. Outward FDI aggregated \$17.5 billion in 2008-09.

Several overseas acquisitions of over \$1 billion each were carried out in the last two years, including the US \$12.1 billion Tata acquisition of Anglo-Dutch steel-maker Corus, its takeover of Jaguar and Land Rover, Indian aluminium major Hindalco's \$6 billion bid for Novelis, Suzlon Energy acquiring REpower for \$1.6 billion and Essar Steel taking over Algoma Steel for \$1.58 billion.

