

Indian Economy Overview: Provided by India Brand Equity Foundation



Last Updated: May 2009

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.

Quarterly gross domestic product (GDP) at factor cost at constant (1999-2000) prices for Q3 of 2008-09 is estimated at US\$ 171.24 billion, as against US\$ 162.57 billion in Q3 of 2007-08, showing a growth rate of 5.3 per cent over the corresponding quarter of previous year.

Despite the global slowdown, the Indian economy is estimated to have grown at close to 6.7 per cent in 2008-09. The Confederation of Indian Industry (CII) pegs the GDP growth at 6.1 per cent in 2009-10. This scenario factors in sectoral growth rates of 2.8-3 per cent, 5-5.5 per cent and 7.5-8 per cent, respectively, for agriculture, industry and services.

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.

Meanwhile, foreign institutional investors (FIIs) turned net buyers in the Indian market in 2009. Direct investment inflows also remain strong, prompting official expectations that foreign direct investment (FDI) inflows in 2009 would better the realized inflows of US\$ 33 billion in 2008 and touch US\$ 40 billion.

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 capitalization of nearly US\$ 600 billion.

The Economic scenario

Investor sentiment in India has improved significantly in the first quarter of 2009, according to a survey conducted by Dutch financial services firm ING. 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.

Despite the global financial crisis, inflow of foreign capital to the country has increased sharply in 2008-09.

- India's foreign exchange reserves increased by US\$ 4.2 billion to US\$ 255.9 billion for the week ended May 8, 2009, according to figures released in the Reserve Bank of India's (RBI) 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.
- FDI inflows during April 2008-January 2009 stood at US\$ 23.9 billion compared with US\$ 14.4 billion in the corresponding period of the previous fiscal, witnessing a growth of 65 per cent, according to the Department of Industrial Policy & Promotion.
- FIIs have made investments of around US\$ 2 billion as of May 14, 2009, including a record single day net purchase of US\$ 824.72 million on May 13, 2009, according to the Securities and Exchange Board of India (SEBI).
- Inflation for the week ended March 7, 2009, fell to an all time low of 0.44 per cent. The sharp fall in inflation was due to several factors including easing prices of food articles and fuel items along with a high base effect. Currently, the inflation rate stood at 0.7 per cent for the week ended April 25, 2009.
- 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 totaled US\$ 18.16 billion last year up from US\$ 13.60 billion a year before.

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

The per capita income in real terms (at 1999-2000 prices) during 2008-09 is likely to attain a level of US\$ 528 as compared to the Quick Estimate for the year 2007-08 of US\$ 500. The growth rate in per capita income is estimated at 5.6 per cent during 2008-09, as against the previous year's estimate of 7.6 per cent.

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 tones of food grains are produced annually. India is the world's largest producer of milk (100 million tones per annum), sugarcane (315 million tones 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.

Growth potential

- Special Economic Zones (SEZs) are set to see major investments after the straightening out of certain regulatory tangles. The commerce department expects about 120 SEZs to be operational by 2009-end, up from existing 87.
- 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.
- The volume of mergers and acquisitions (M&As) and group restructuring deals in India witnessed a sharp nine times jump at US\$ 2.27 billion during March 2009 against the volume of deals in February 2009, according to a Grant Thornton report.
- 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 Organization (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.

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