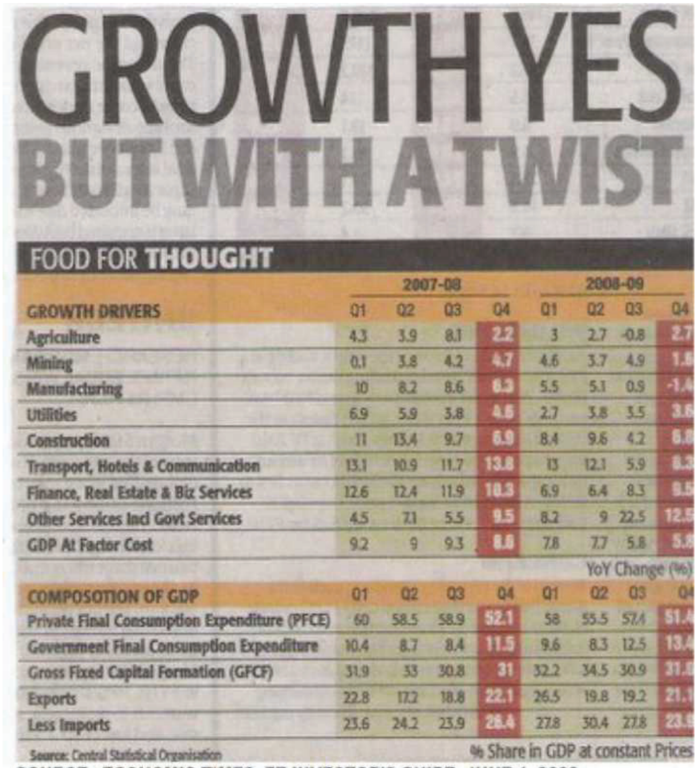
INDIAN ECONOMY: AMIDST GLOBAL TURMOIL



GROWTH YES BUT WITH A TWIST

FOOD FOR THOUGHT

GROWTH DRIVERS	2007-08 Q1	Q2	Q3	Q4	2008-09 Q1	Q2	Q3	Q4
Agriculture	4.3	3.9	8.1	2.2	3	2.7	-0.8	2.7
Mining	0.1	3.8	4.2	4.7	4.6	3.7	4.9	1.6
Manufacturing	10	8.2	8.6	6.3	5.5	5.1	0.9	-1.4
Utilities	6.9	5.9	3.8	4.6	2.7	3.8	3.5	3.6
Construction	11	13.4	9.7	6.9	8.4	9.6	4.2	6.8
Transport, Hotels & Communication	13.1	10.9	11.7	13.8	13	12.1	5.9	8.3
Finance, Real Estate & Biz Services	12.6	12.4	11.9	10.3	6.9	6.4	8.3	9.5
Other Services Incl Govt Services	4.5	7.1	5.5	9.5	8.2	9	22.5	12.5
GDP At Factor Cost	9.2	9	9.3	8.8	7.8	7.7	5.8	5.8

YoY Change (%)

COMPOSOTION OF GDP	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private Final Consumption Expenditure (PFCE)	60	58.5	58.9	52.1	58	55.5	57.4	51.4
Government Final Consumption Expenditure	10.4	8.7	8.4	11.5	9.6	8.3	12.5	13.4
Gross Fixed Capital Formation (GFCF)	31.9	33	30.8	31	32.2	34.5	30.9	31.0
Exports	22.8	17.2	18.8	22.1	26.5	19.8	19.2	21.1
Less Imports	23.6	24.2	23.9	28.4	27.8	30.4	27.8	23.9

Source: Central Statistical Organisation

% Share in GDP at constant Prices

SOURCE : ECONOMIC TIMES, ET INVESTOR'S GUIDE, JUNE 1, 2009.

The Indian economy has survived the global turmoil, and is now looking to consolidate its position as one of the few countries with a **positive GDP growth** rate that is driven by **domestic consumption.** The Equity markets went into overdrive after a 'positive' election result, and the FIIs who were panic selling in March 2009, are re emerging with buy recommendations of various stocks!

India has tremendous potential - a **hard working population,** strong and growing **household savings,** and increasing levels of literacy. If we do not clean up our act, soon enough, we will continue to suffer from **'non inclusive growth',** unfulfilled potential and a **growing rural -urban divide.**

Although the economy has shown signs of recovery, several factors that threaten to **restrain the growth of Indian manufacturing sector still persist**. Amongst the several detrimental factors two - **high interest cost** and **fall in exports** - have turned out to be hurdles in India's growth story. It is an alarming situation that the **share of manufactured goods exports declined from 81 percent in 1999-2000 to 63 percent in 2008-09**.

Sectors like **manufacturing and construction have slowed down.** Funding issues have started to stress expansion projects across sectors as companies have turned to conserving cash and paying down debt.

Today, credit is available at a **steep rate** which is making manufacturers totally uncompetitive. Banks are reluctant to lend to **SMEs** that are into manufacturing owing to the fact that many of them had incurred losses in the last fiscal and banks are insisting on **credit ratings** for these borrowers. Additionally, banks are also asking for a **higher value of collateral security** than the sanctioned limit. Thus borrowing for SMEs is still a distant dream.

If we look at our exports, with demand from our conventional markets of US and Europe dwindling, exports have taken a beating. In a recent survey, an industry body says that "...5 out of 10 manufacturing sectors are expected to witness a fall in their export level in July-September 2009 vis-à-vis the same quarter last year." For instance, the **textile sector production is likely to be lower** than last year's. This means more job losses?

It's a wait and watch game for now, and the **second half of 2009 looks as challenging as ever!**