

India's Growth Story

Is It Sustainable?

Parag Saxena

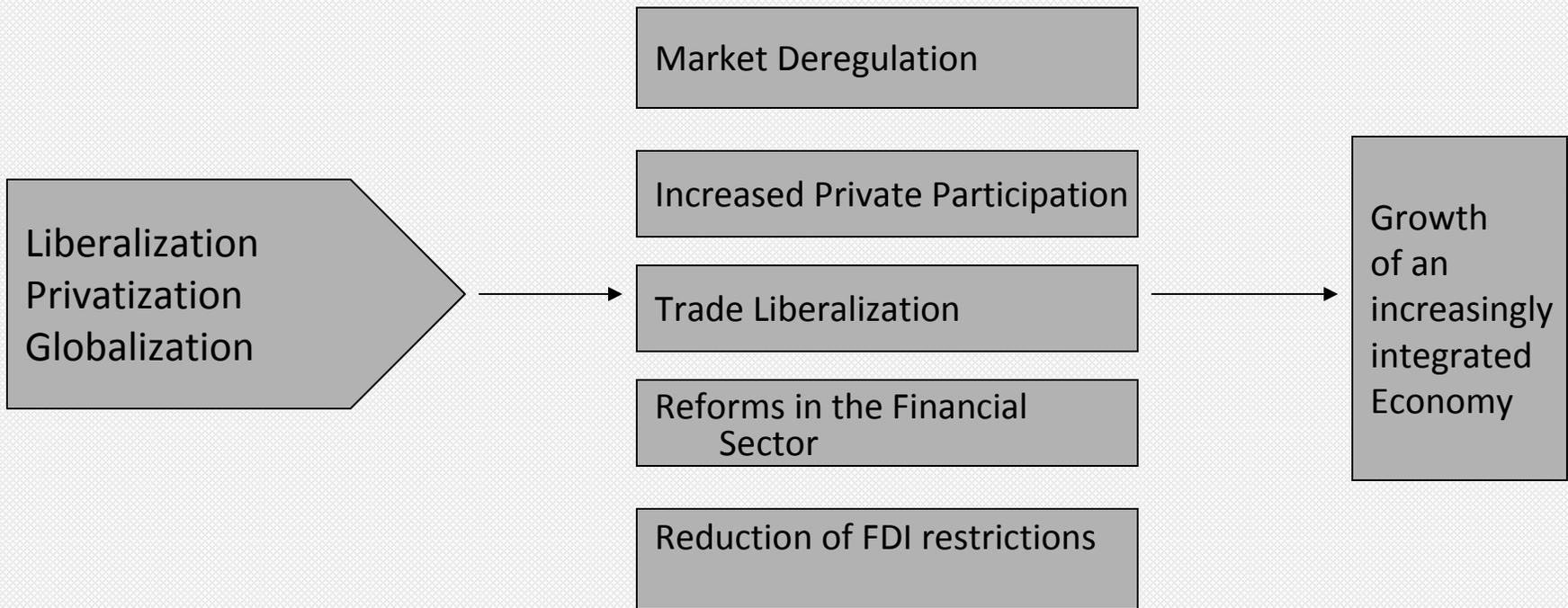
May 30, 2008

Widely Acknowledged to be the Architect of Indian Reforms

In 1991, Manmohan Singh, as Finance Minister in Narasimha Rao's government, embarked on a programme of liberalization prompted by an acute balance-of-payments crisis

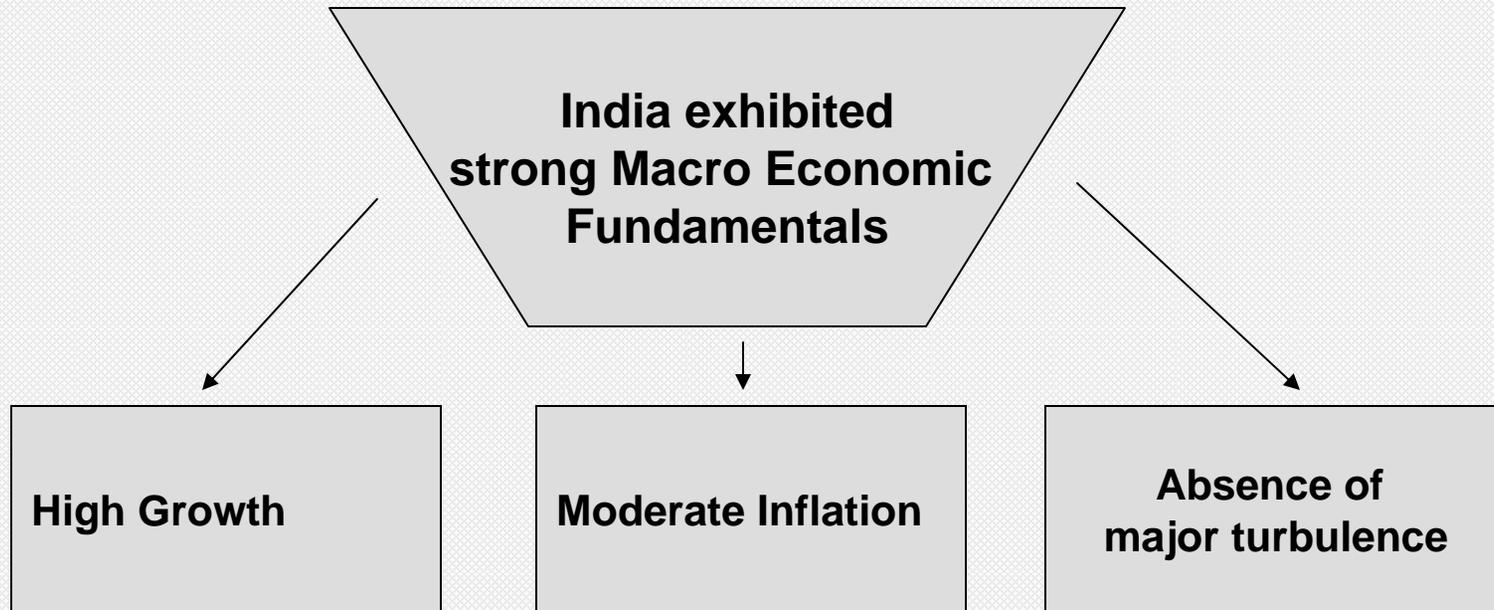


The Path of Economic Reforms led to Gradual but Significant Changes



Six governments have been in power since the reform process was initiated and yet no reform has been reversed

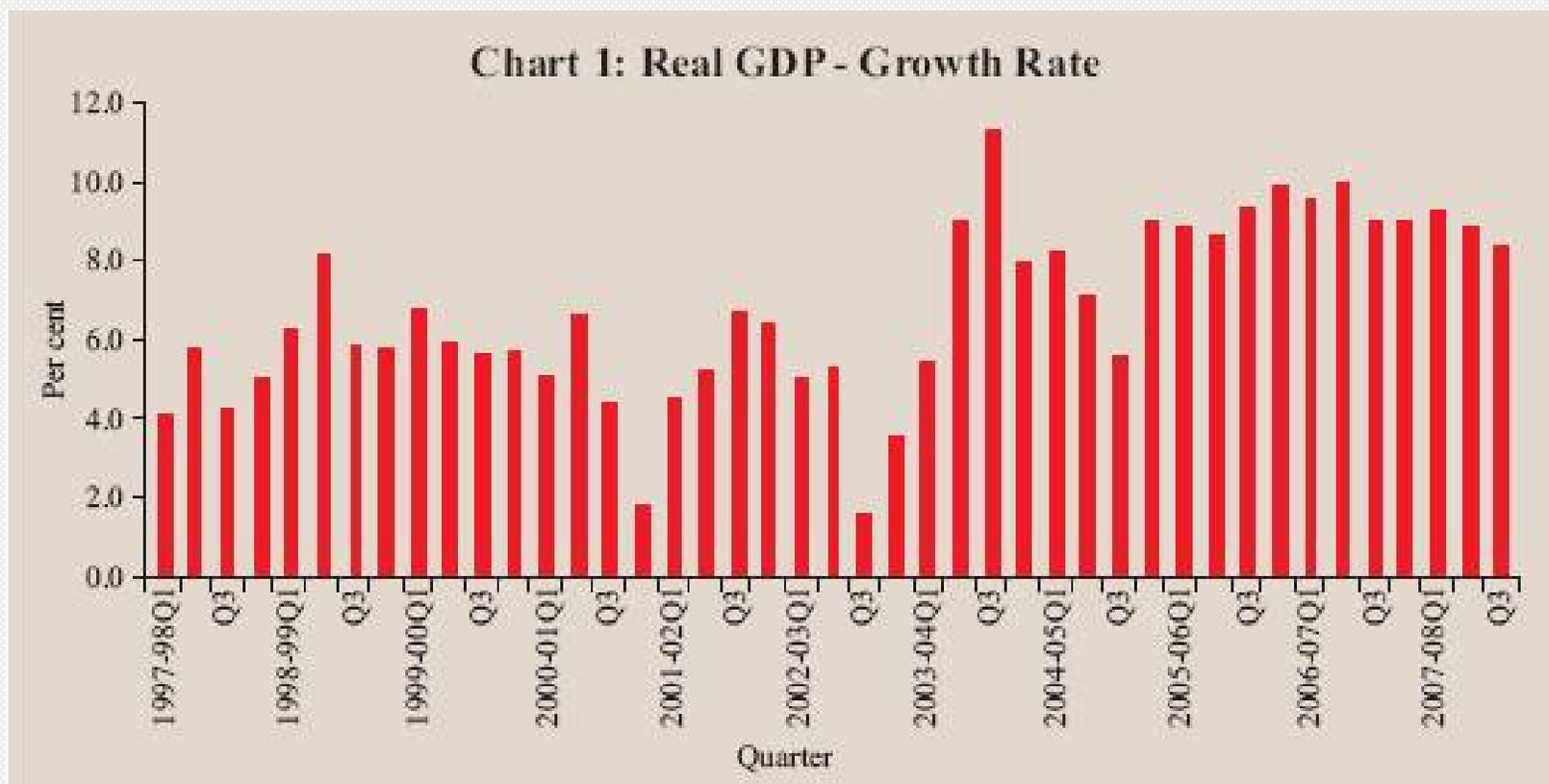
In the last few years in particular.....



And Today

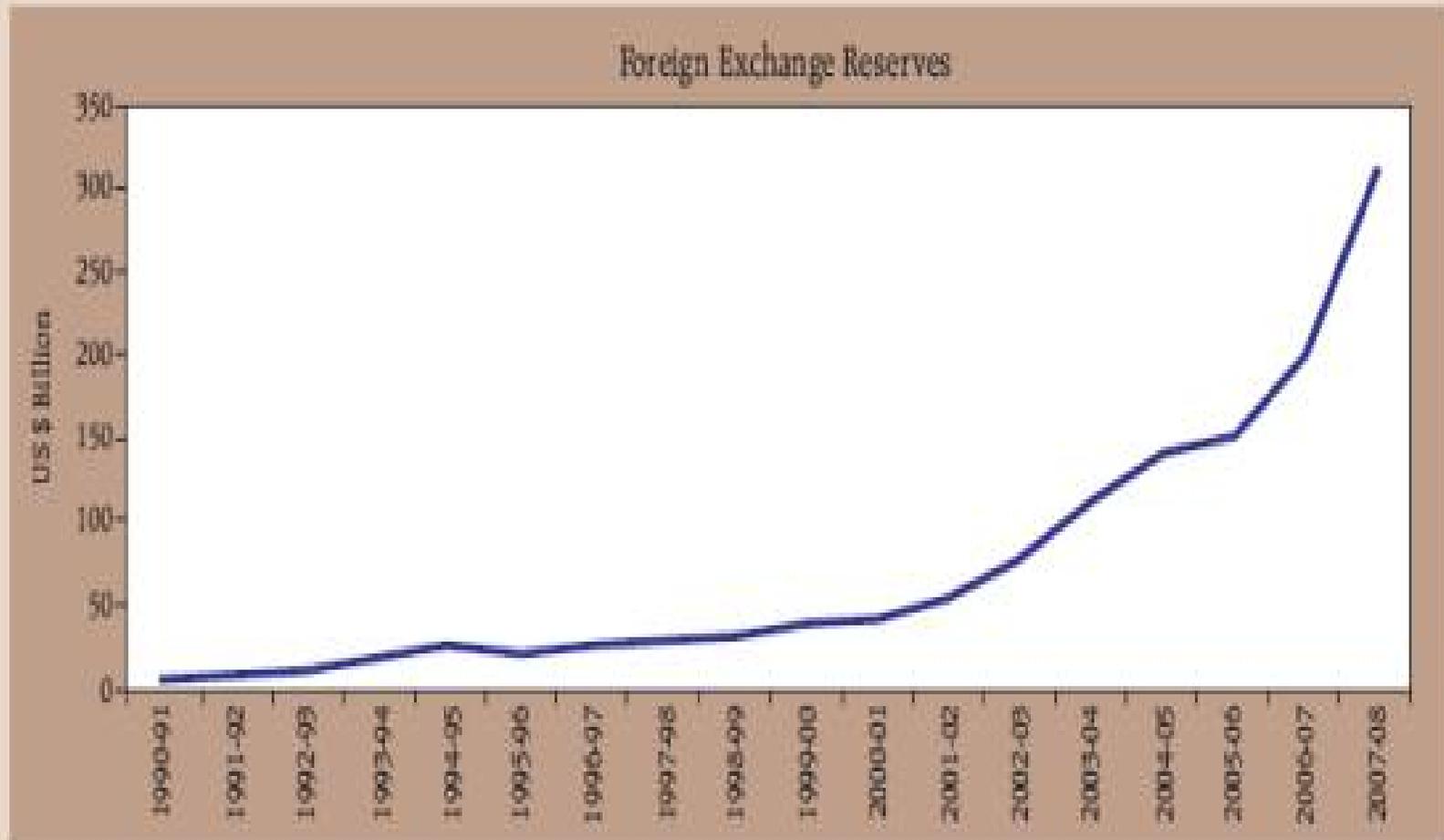
- India's 912 billion dollar economy is the third largest in Asia
- Foreign Direct Investment (FDI) flows remain vibrant - over \$25 billion in 2007-08
- Foreign Exchange Reserves crossed \$341 billion

Reforms resulted in overall robust GDP Growth



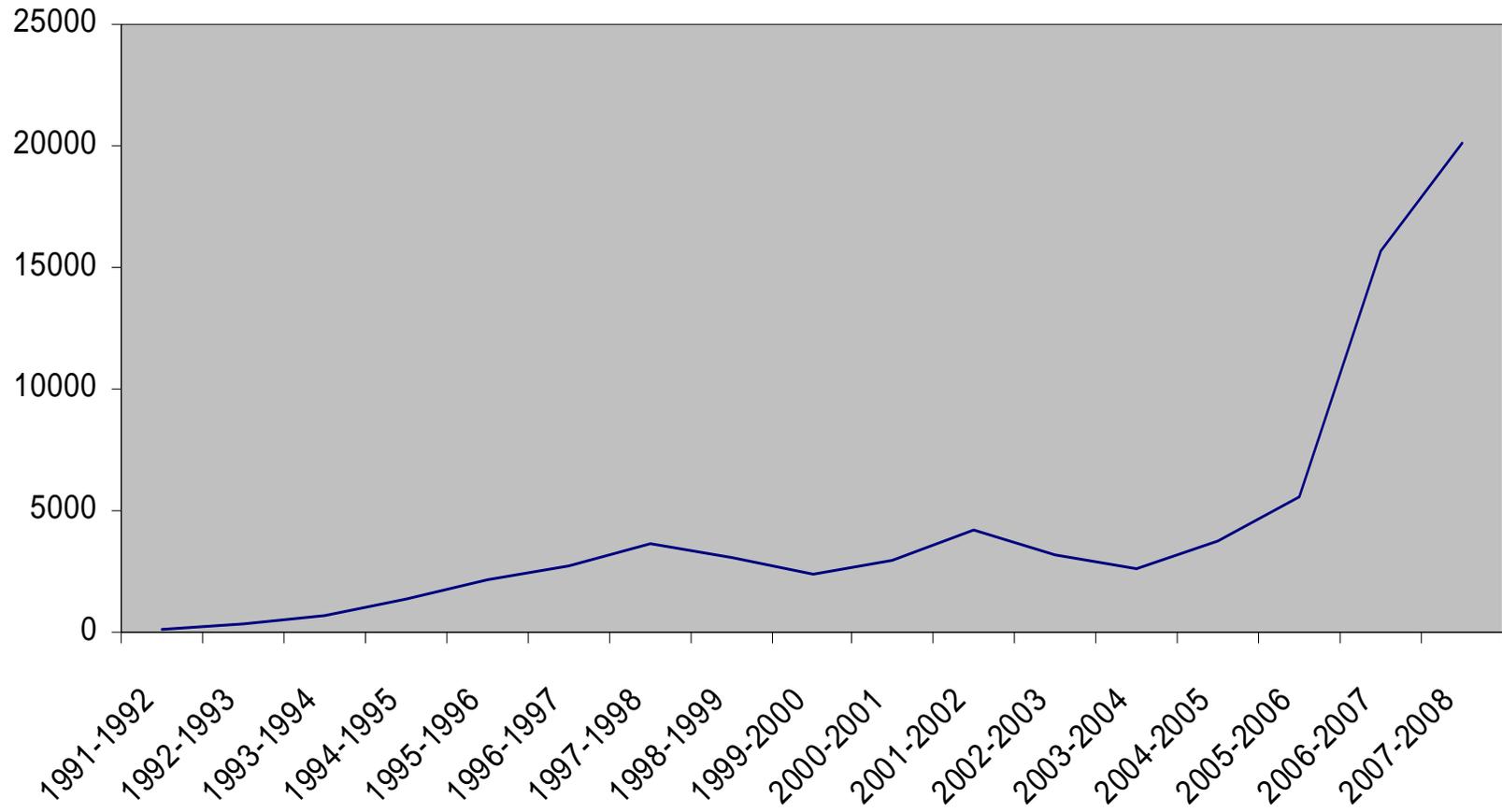
Source: Reserve Bank of India

Increase in Foreign Exchange Reserves



Source: Reserve Bank of India

Year Wise FDI Inflows in USD Millions



Success fostered ambitious projections

Projections of Real GDP for India 2007-08

Overall Growth	Agriculture	Industry	Services	Month of Projection
9.5	2.6	11.4	10.6	April 2008

Centre for Monitoring the Indian Economy (CMIE)

The CMIE expects industrial growth to accelerate from the estimated 8.5% in 2007-2008 to 10% in 2008 - 2009

India is a USD 1 trillion opportunity by 2015 – *(Source: IDFC/SSKI)*

India's GDP is projected to be 90% of the US GDP by 2050 *(Source: PwC report)*

So, what are some Drivers of the Economy?

- 69% of the population is less than 35 years of age and has spurred consumption demand
- 54 per cent of the population is in the working group
- High Savings and Investment Rate (over 35 per cent of GDP).
- India's manufacturing growth is amongst the fastest in the world. India's manufacturing base is the fourth largest globally.
- The growth potential of the services sector in India is enormous at \$200 billion offering employment to 40 million people
- The confidence of a robust growth in the services sector is the highest in India among the four BRIC countries including Brazil, Russia and China and Indian service sector. Around 60 percent of firms there expect a rise in activity while none expects a decline – *Source: KPMG survey*

The India Growth Story

Global
Competitiveness

Knowledge Based
Businesses

Consumption

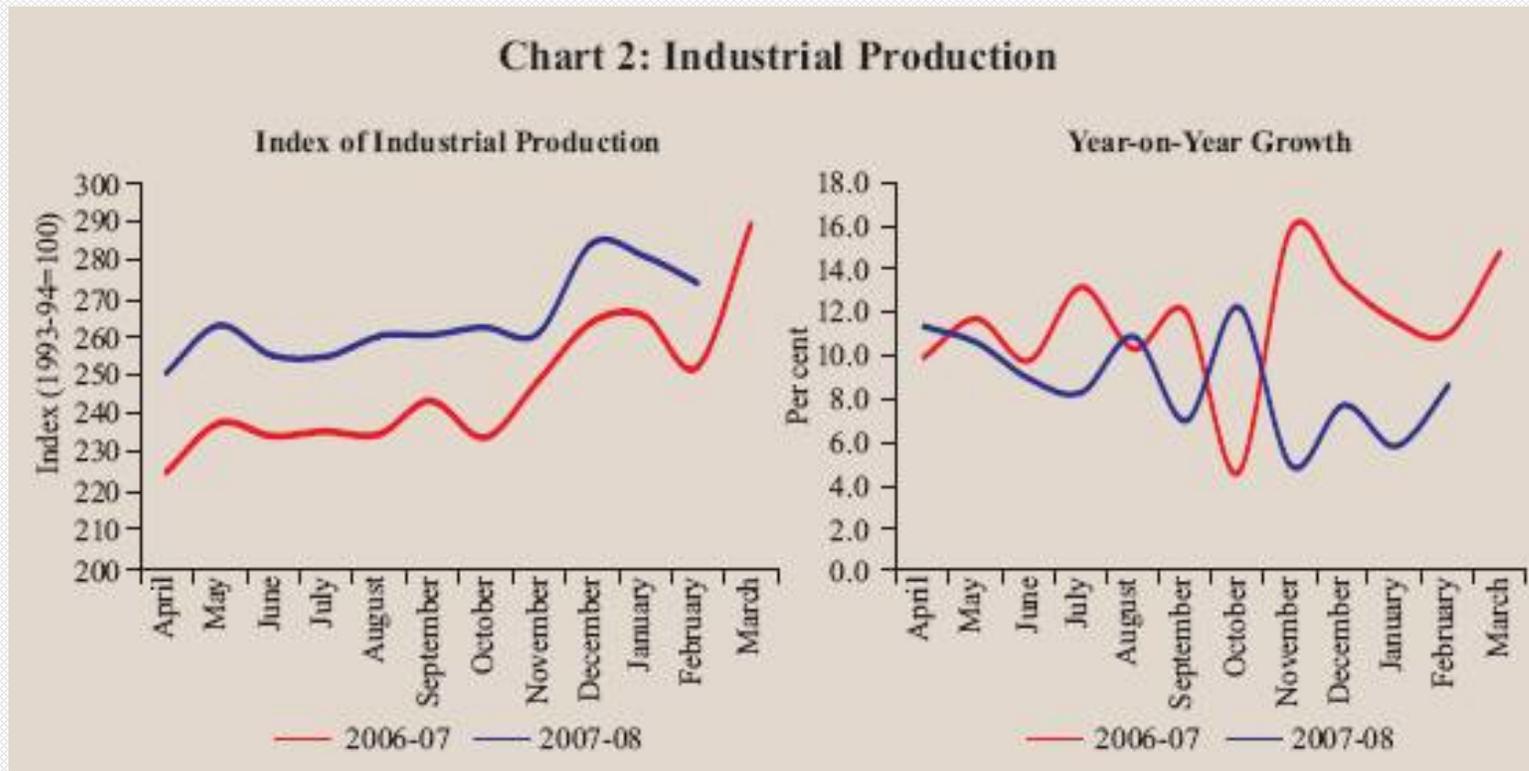
*Cyclical downturns in any one sector
can occur but it is the combination of
all factors that will keep the economy
running at the rates we are now
seeing – K.V. Kamath*

Industrial Growth

Investment

Domestic Demand

Strong Industrial Production



Source: Reserve Bank of India

Growth in Consumption from 1995 to present spurred by a young India with disposable incomes

1995

2008



India's IT sector put India on the global map

- Nasscom predicts software and services exports will be worth \$40bn, while domestic sales will raise \$23bn in the financial year 2008.
- By 2010 Nasscom expects the Indian software and services market to bring in revenues of between \$73bn and \$75bn. Indian IT firms are increasingly doing more work for other Indian organizations.



Infosys®



By throwing open this sector to private players in the early 1990s, India has become one of the fastest growing mobile markets in the world, 5-7 new players are looking to enter the market

In January 2008, telephony subscribers (wireless and landline) reached 300.51 million and by March 2008, teledensity reached 26.22% per cent although rural teledensity in India is at 8% as compared with ~60% in urban areas

Projected teledensity is 500 million
- 40% of population by 2010

India - An Emerging Telecom Powerhouse

RELIANCE TELECOMMUNICATIONS, INC



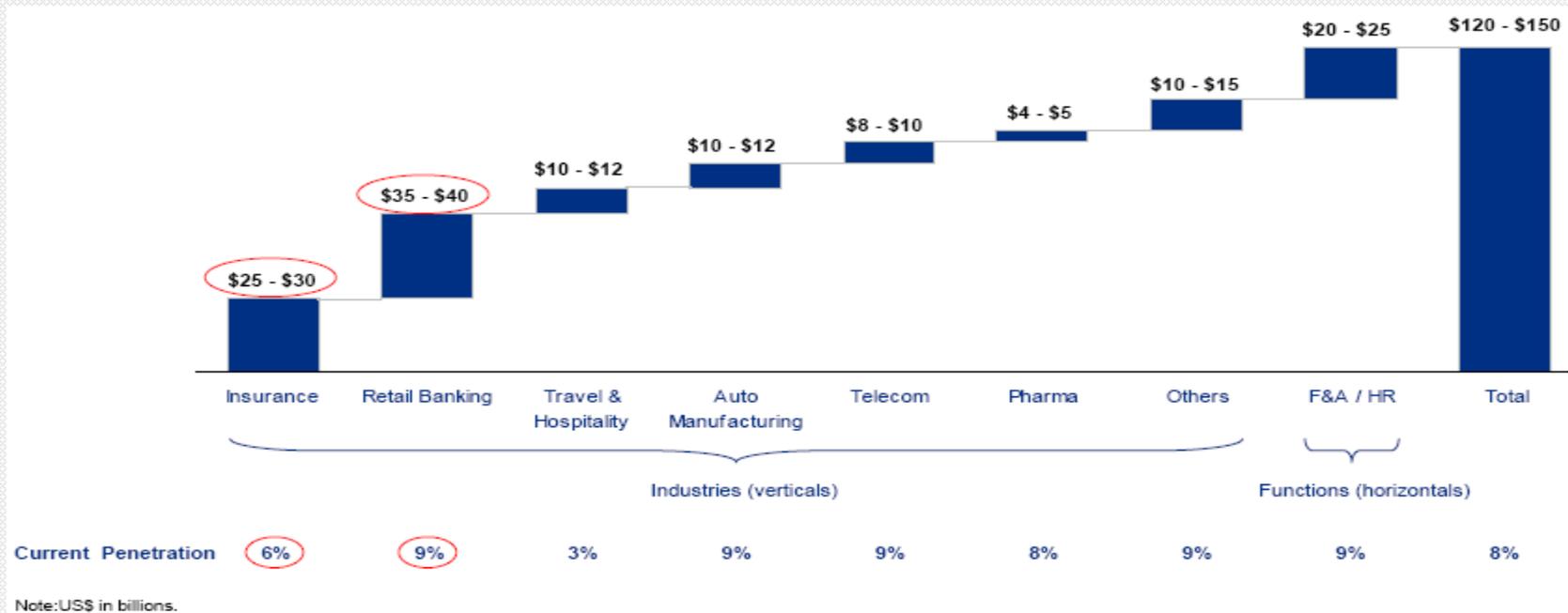
bharti



Key Statistics

<u>Category</u>	<u>Statistic</u>	<u>Ranking</u>
▪ Total Telecom Base	~270mm	3 rd Largest in the World
▪ Wireless Subscriber Base	~230mm	3 rd Largest in the World
▪ Wireless Penetration	<25%	One of the lowest in the world
▪ ARPU	USD 7-8	One of the lowest in the world
▪ MoU per Sub per Month	~470 minutes	4 th highest in the world
▪ Realized RPM	~2 cents per minute	Lowest in the world
▪ Fixed Line Sub Base	~40mm	Stagnant for last 6 years
▪ Broadband Sub Base	~3.4mm	Large Potential Market

India: The Manufacturing Outsourcing Opportunity



McKinsey Nasscom Report 2005

The IT sector leveraged India's intellectual horsepower in services - now the same is happening in manufacturing :

- Global trends favor India as more global Companies outsource to India
- Potential across sectors – auto parts, telecom equipment, pharma, etc.
- Overall penetration by Indian manufacturers set to increase

And yet, today, the economy faces challenges in maintaining high growth

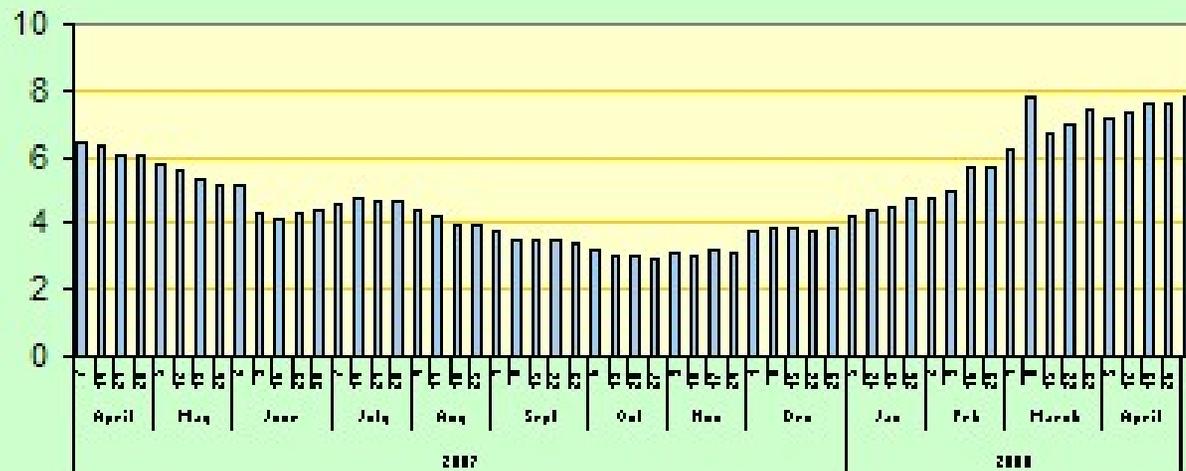
- Surging capital inflows causing complications for domestic macro policies
- Inflation - India's inflation rate rose again in the week ended 3 May 2008, to the highest -182-week high of 7.83 per cent
- Infrastructure Challenges – The previous 3 years' average growth of 8.6% has put tremendous pressure on existing infrastructure
- Global market volatility
- Slow pace of reforms in many sectors including in the financial and legal services sectors
- Huge challenges in the agriculture sector
- Shortages in the Power Sector
- Political Challenges – Coalition government makes reforms slow and difficult to implement

Inflation – the biggest challenge

- The inflation rate has been above 5.5 percent for 13 consecutive weeks – much above RBI's target of 5.5% by year end March 2009 – with increases in the price of food grains, crude oil's continuous price hike and price of steel
- The Govt. in its attempts to curb inflation, has cut import duties on edible oil, curbed rice exports and forced steel and cement companies to cut prices.

Global Economic
Perspectives

India Wholesale Price Inflation 2007/8
(weekly, % change year on year)



Source: India Ministry of Commerce and Industry

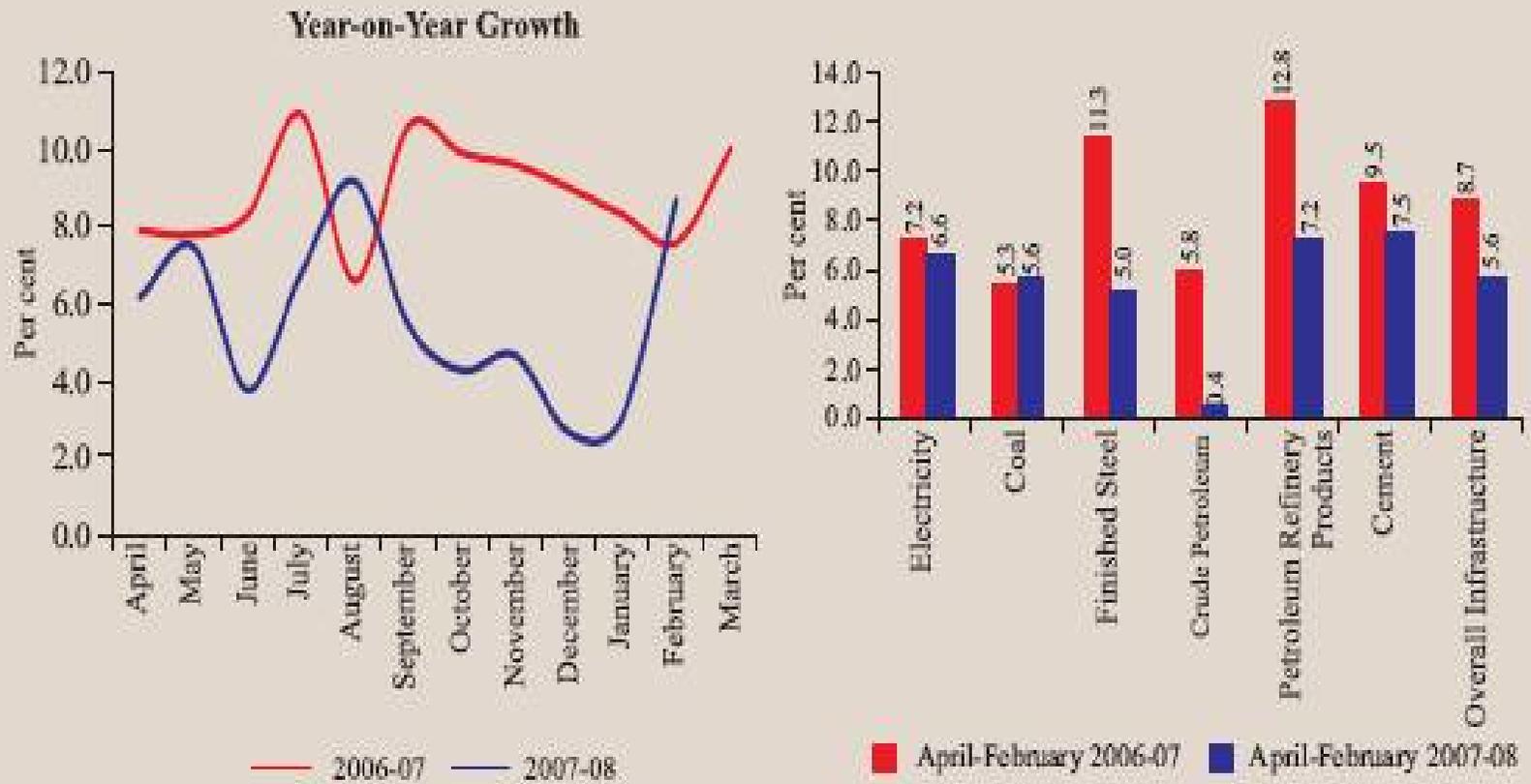
India's Financial Services – Urgently needed reforms

- The Financial System is not providing adequate services to the majority of retail customers, small and medium sized enterprises or large corporations
- Government ownership of 70% of the banking system and hindrances to the development of corporate debt and derivatives markets have stunted financial development and growth
- With government barriers removed and properly regulated, the sector has the potential to generate millions of much-needed jobs and, more important, have an enormous multiplier effect on economic growth
- Financial stability is more important than ever to keep growth from being derailed by shocks hitting the system, especially from abroad
- Financial inclusion is a key priority for India, especially rural India
- What is needed is more competition between formal and informal financial institutions and fewer restrictions on the former.
- Need to allow foreign investors to participate in corporate and government debt markets to increase liquidity to provide financing for infrastructure investment and reduce public debt financing through banks *(Source: WSJ article by Raghuram Rajan's who was Chairman of the Committee on Financial Sector Reforms and team member Eswar Prasad)*

The Infrastructure Challenge

- India requires USD 500 billion to build roads, highways, ports, airports, railways etc
- Infrastructure projects face land constraints with socio political ramifications of landowners
- The government recognizes the importance of this sector and is removing barriers and encouraging public private participation (PPP)
- The Planning Commission envisages that at least 75 % of new investment into infrastructure will be from the private sector
- Currently investment into infrastructure is 5% of GDP – aim is to increase it to ~9%
- Acute shortage in power – with energy and peak shortages of 9.5% (55,000 million units) - Power has been identified as one of the main constraints which may derail the growth trajectory envisaged in the 11th Five Year Plan
- A need to focus on soft infrastructure – health, education

Chart 3: Growth in Infrastructure Industries



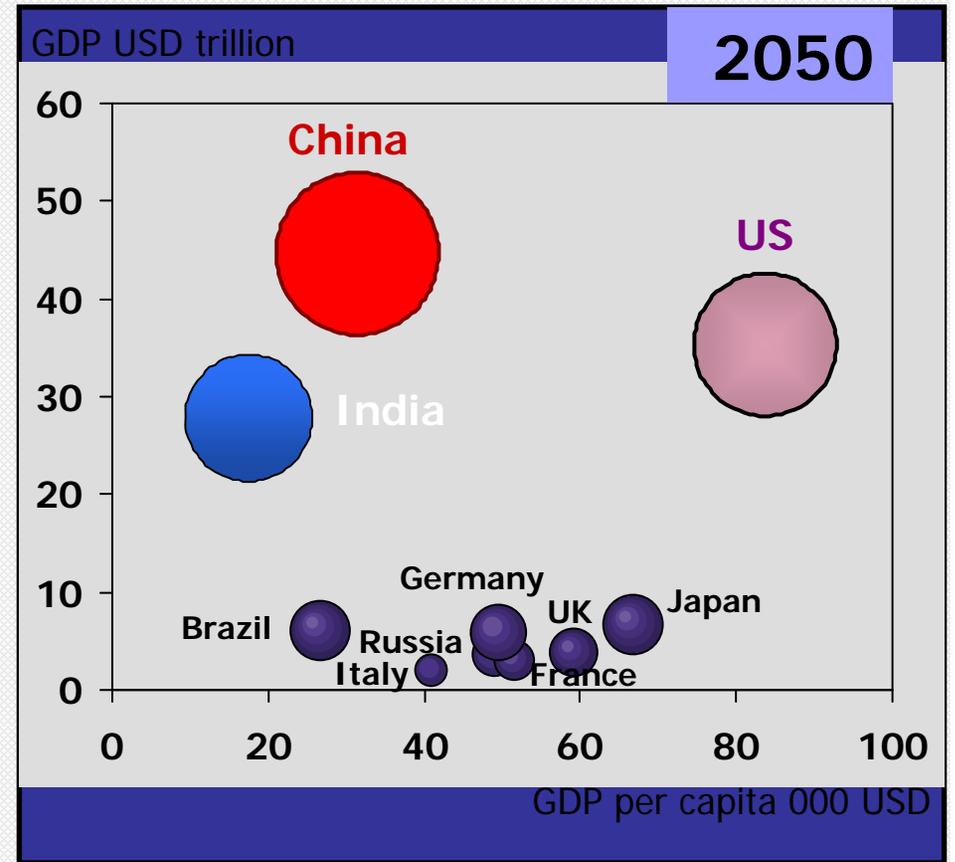
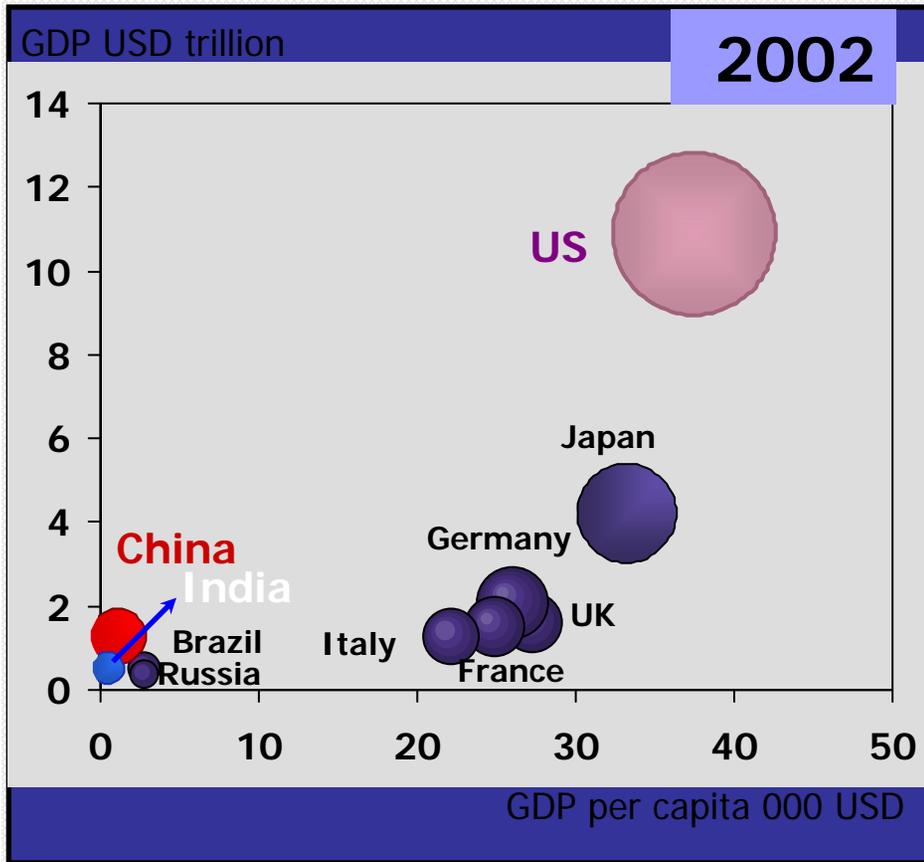
Source: Reserve Bank of India

The Agriculture Sector – Lagging behind

- Agriculture is the backbone of the Indian economy - 75 per cent of India's population depends on agriculture or agro-industries
- The growth rate in the agricultural sector has been stagnant at about 2.3 to 2.6 per cent per year over the last decade and is unlikely to reach the Eleventh Plan target of 4 per cent without major intervention and reform
- Today there is large-scale migration of farmers and farm workers to cities in search of job opportunities
- The challenge is to consolidate the fragmented landholdings based on land capability studies, and introduce low cost agricultural credit systems, including micro-credits
- And a need to strengthen rural infrastructure, post-harvest storage, and public distribution systems, to renew investment and modernisation of agricultural education, research, and development and to attract private and foreign investment in the Indian agriculture and the food sector

So with all these challenges, where do I see India in the next few years, in the next few decades?

India's place in the world



Source: Goldman Sachs Economic Paper # 99; BCG analysis

Bubble size corresponds to GDP size

China and India will be among the top 3 economies