DEVELOPMENT IN THE GLOBAL ECONOMY POST RECESSION-AN OVERVIEW ON INDIAN ECONOMY 2010

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Abstract

Global Economic recession is fading and the recovery process from the damages is entering another year. Year 2009 gone well thru our expectations and year 2010 is knocking for the faster and stable recovery. As the economic pace is picking up, global commodity prices have staged a comeback from lows and global trade has also seen a decent growth over the last two years. Unprecedented Government intervention and exceptionally large interest rate cuts by the central bank in advanced and emerging economies have contributed a lot to pull the global economy up from the deepest recession since the World War II. Global economy is seems to be expanding after a recent shock.Indian Economy, however just felt the blow of the global economic recession and the real economic growth have seen a sharp fall followed by the lower exports, capital outflow and corporate restructuring. Although, the uncertainty in the shape of the global economic recovery is still persist, however the situation has significantly improved as compare to first quarter of last year. Indian economy is bracing for higher economic growth backed by uninterrupted foreign inflows, eloquent growth in industrial output but the higher inflation and interest rates would also follow.

Introduction of the Study

The Indian economy is the fourth largest economy of the world on the basis of Purchasing Power Parity (PPP). It is one of the most attractive destinations for business and investment opportunities due to huge manpower base, diversified natural resources and strong macro-economic fundamentals. Also, the process of economic reforms initiated since 1991 has been providing an investor-friendly environment through a liberalised policy framework spanning the whole economy. This paper focus about Indian Economy. In this I explain about the History of Indian economy, Challenges before Indian Economy, challenges for current economy ,Recent Growth trends in Indian economy and finally about sectorial overview .

India is today one of the six fastest growing economies of the world. The country ranked fourth in terms of Purchasing Power Parity (PPP) in 2001. The business and regulatory environment is evolving and moving towards constant improvement. A highly talented, skilled and English-speaking human resource base forms its backbone.

The Indian economy has transformed into a vibrant, rapidly growing consumer market, comprising over 300 million strong middle class with increasing purchasing power. India provides a large market for consumer goods on the one hand and imports capital goods and technology to modernize its manufacturing base on the other.

An abundant and diversified natural resource base, sound economic, industrial and market fundamentals and highly skilled and talented human resources, make India a destination for business and investment opportunities with an assured potential for attractive returns.

Far-reaching measures introduced by the government over the past few years to liberalize the Indian market and integrate it with the global economy are widely acknowledged. The tenth five year plan document targets a healthy growth rate of 8% for the Indian economy during the plan period 2002 – 07.

According to the estimates by the Ministry of Statistics and Programme Implementation, the Indian economy has registered a growth of 7.4 per cent in 2009-10, with 8.6 per cent year-on-year (y-o-y) growth in its fourth quarter. The growth is driven by robust performance of the manufacturing sector on the back of government and consumer spending. GDP growth rate of 7.4 per cent in 2009-10 has exceeded the government forecast of 7.2 per cent for the full year. According to government data, the manufacturing sector witnessed a growth of 16.3 per cent in January-March 2010, from a year earlier.

Economic activities which showed significant growth rates in 2009-10 over the corresponding period last year were mining and quarrying (10.6 per cent), manufacturing (10.8 per cent), electricity, gas and water supply (6.5 per cent), construction (6.5 per cent), trade, hotels, transport and communications (9.3 per cent), financing, insurance, real estate and business services (9.7 per cent), community, social and personal services (5.6 per cent). The Gross National Income is estimated to rise by 7.3 per cent in 2009-10 as compared to 6.8 per cent in 2008-09. The per capita income is estimated to grow at 5.6 per cent in 2009-10.

India’s industrial output grew by 17.6 per cent in April 2010. The manufacturing sector that accounts for 80 per cent of the index of industrial production (IIP) grew 19.4 per cent in April 2010, as against 0.4 per cent a year-ago.

Capital goods production grew by 72.8 per cent against a contraction of 5.9 per cent a yearago. Consumer durables output continued to grow at a fast pace of 37 per cent, mirroring higher purchase of goods such as televisions and refrigerators.

The Economic Scenario

The number of registered foreign institutional investors (FIIs) was 1710 as on May 31, 2010 and the total FII inflow in equity during January to May 2010 was US$ 4606.50 million while it was US$ 5931.80 million in debt.

Net investment made by FIIs in equity between June 1, 2010 and June 14, 2010 was US$ 530.05 million while it was US$ 875.73 million in debt.

As on June 4, 2010, India's foreign exchange reserves totalled US$ 271.09 billion, an increase of US$ 9.88 billion over the same period last year, according to the Reserve Bank of India's (RBI) Weekly Statistical Supplement.

Moreover, India received foreign direct investment (FDI) worth US$ 25,888 million during April-March, 2009-10, taking the cumulative amount of FDI inflows during August 1991 - March 2010 to US$ 1, 32,428 million, according to the Department of Industrial Policy and Promotion (DIPP).

Challenges Before Indian Economy

- **Population explosion:** This monster is eating up into the success of India. According to 2001 census of India, population of India in 2001 was 1,028,610,328, growing at a rate of 2.11% approx. Such a vast population puts lots of stress on economic infrastructure of the nation. Thus India has to control its burgeoning population.

- **Poverty:** As per records of National Planning Commission, 36% of the Indian population was living Below Poverty Line in 1993-94. Though this figure has decreased in recent times but some major steps are needed to be taken to eliminate poverty from India.

- **Unemployment:** The increasing population is pressing hard on economic resources as well as job opportunities. Indian government has started various schemes such as Jawahar Rozgar Yojna, and Self Employment Scheme for Educated Unemployed Youth (SEEUY). But these are proving to be a drop in an ocean.

- **Rural urban divide:** It is said that India lies in villages, even today when there is lots of talk going about migration to cities, 70% of the Indian population still lives in villages. There is a very stark difference in pace of rural and urban growth. Unless there isn't a balanced development Indian economy cannot grow.

These challenges can be overcome by the sustained and planned economic reforms.

These Include

- Maintaining fiscal discipline
- Orientation of public expenditure towards sectors in which India is faring badly such as health and education.
- Introduction of reforms in labor laws to generate more employment opportunities for the growing population of India.
- Reorganization of agricultural sector, introduction of new technology, reducing agriculture's dependence on monsoon by developing means of irrigation.
- Introduction of financial reforms including privatization of some public sector banks.

India economy, the third largest economy in the world, in terms of purchasing power, is going to touch new heights in coming years. As predicted by Goldman Sachs, the Global Investment Bank, by 2035 India would be the third largest economy of the world just after US and China. It will grow to 60% of size of the US economy. This booming economy of today has to pass through many phases before it can achieve the current milestone of 9% GDP.

Challenges for Indian Economy in 2009

1. Getting inflation under control
2. Spreading the benefits of growth more equitably.
3. Completing investment projects which are essential for long term development of economy.
4. Dealing with global financial uncertainty, which will make capital flows and exports more difficult.

Recent Growth Trends in Indian Economy

India's Economy has grown by more than 9% for three years running, and has seen a decade of 7%+ growth. This has reduced poverty by 10%, but with 60% of India's 1.1 billion populations living off agriculture and with droughts and floods increasing, poverty alleviation is still a major challenge.

The structural transformation that has been adopted by the national government in recent times has reduced growth constraints and contributed greatly to the overall growth and prosperity of the country. However there are still major issues around federal vs state bureaucracy, corruption and tariffs that require addressing. India's public debt is 58% of GDP according to the CIA World Fact book, and this represents another challenge.

During this period of stable growth, the performance of the Indian service sector has been particularly significant. The growth rate of the service sector was 11.18% in 2007 and now contributes 53% of GDP. The industrial sector grew 10.63% in the same period and is now 29% of GDP. Agriculture is 17% of the Indian economy.

Growth in the manufacturing sector has also complemented the country's excellent growth momentum. The growth rate of the manufacturing sector rose steadily from 8.98% in 2005, to 12% in 2006. The storage and communication sector also registered a significant growth rate of 16.64% in the same year.

Additional factors that have contributed to this robust environment are sustained in investment and high savings rates. As far as the percentage of gross capital formation in GDP is concerned, there has been a significant rise from 22.8% in the fiscal year 2001, to 35.9% in the fiscal year 2006. Further, the gross rate of savings as a proportion to GDP registered solid growth from 23.5% to 34.8% for the same period.

Current Scenario

India, an emerging economy, has witnessed unprecedented levels of economic expansion, along with countries like China, Russia, Mexico and Brazil. India, being a cost effective and labor intensive economy, has benefited immensely from outsourcing of work from developed countries, and a strong manufacturing and export oriented industrial framework. With the economic pace picking up, global commodity prices have staged a comeback from their lows and global trade has also seen healthy growth over the last two years.

The global economy seems to be recovering after the recent economic shock. The Indian economy, however, was hit in the latter part of the global recession and the real economic growth witnessed a sharp fall, followed by lower exports, lower capital outflow and corporate restructuring. It is expected that the global economies will continue to sustain in the short-term, as the effect of stimulus programs is yet to bear fruit and tax cuts are working their way through the system in 2010. Due to the strong position of liquidity in the market, large corporations now have access to capital in the corporate credit markets.

It's almost a decade since we entered into the 2000s. Economic growth in these years wasn't so impressive for the western economies. It proves to be one of the worst economic period for those economies. Indeed, the so-called fastest growing economies (such as India, Brazil, China, Mexico, Russia, and Indonesia) have seen an unprecedented economic expansion because, the eastern economies were the producers and the western economies were the consumer and the same trend would likely to continue as the companies, nowadays, are more conscious about the cost. Rising input cost (or raw material) are forcing the corporations in the industrialized economies to shift their focus on the cost-effective region to keep up the pricing competitiveness in the specific industry, they are in. Change in consumer trend is also major concern for the companies to invest more in the process of innovation, research and development (R&D).

As the economic pace is picking up, global commodity prices have staged a comeback from lows and global trade has also seen a decent growth over the last two years. Unprecedented Government intervention and exceptionally large interest rate cuts by the central bank in advanced and emerging economies have contributed a lot to pull the global economy up from the deepest recession since the World War II. Several Governments around the world launched the stimulus packages to prop up the economic growth, generate employment opportunities and the overall economic growth with the aim to reduce uncertainty in the economy and increased confidence. In this research, aim is discuss about the overall economic prospect for the year 2010 and the how the Indian Economy emerge from the ongoing economic repairment.

1) Economic Prospect for Year 2010 –

Global economy is seems to be expanding after a recent shock. Indian Economy, however just felt the blow of the global economic recession and the real economic growth have seen a sharp fall followed by the lower exports, capital outflow and corporate restructuring. It is expected that the global economies continue to stay strong in the short-term as the effect of stimulus is still strong and the tax cuts are working. Due to strong position of liquidity in the market, large corporations now have access to capital in corporate credit markets.

India's Economic Outlook Projection

	2007	2008	2009	2010
GDP Growth	9.40%	7.30%	7.60%	8.30%
CPI	6.40%	9.30%	5.50%	4.90%

Year 2009 has started on the gloomy note, however the trend reversed from the first quarter of the year, financial markets posted strong gains fueled by huge amount of capital inflows which was set-aside during the economic downturn in search of a higher yield. Number of companies jumped into the equity markets to raise funds to de-leverage themselves, corporate risk have declined. Before the beginning of the economic recession, several companies betted on the better economic future and blindly raised funds thru various options (largely in a way of debt). Real Estate was the hardest hit industry during the recession. Many companies even offloaded their huge amount of stake, in order to meet the deadline to pay-off the short-term debt. Not only the realty companies which has faced that situation, actually many Small & Medium Enterprises (SMEs) have opted that option to expand themselves aggressively and routed out of the business. As the new year begins, the new wave of optimism has surrounded the economies to expand further from the recent shock, with the expectations of fresh stimulus package, shrink in unemployment rate, expectations of the high inflation, higher interest rates in the emerging economies. Over the next few months, inflation would be a worrisome for the economies. According to the estimates, inflation would likely to reach up to 10%, resulted, the expectations of the monetary policy tightening from the Reserve Bank of India in the second quarter review of monetary policy. Asian economies – Chinese economy in particular, along with India are in the strongest place for a sustained recovery. There are increasing signs of a recovery in a private domestic demand.

2) Inflation Direction –

Since the global economies are emerging from the lows, in a short run, inflation is expected to rise due to bounce back in demand for commodities. Although, the underlying inflation are still on the downside. Higher unemployment rate in the west will lead to low wage growth and pricing power would be limited for a long time as demand will be very vulnerable to price rises. But, India would buck the trend in inflation due to ample amount of liquidity in the system and rising demand.

3) India Economy 2010 Overview –

In order to keep the economic growth during the time of worst recession, Federal authorities in India has announced the stimulus packages to prop-up the economic growth. To finance the stimulus packages, Indian Government has raised over $100 billion over the last four quarters in a way to finance the stimulus package. Country's Public debt, according to the latest data has zoomed to over 50% of the total GDP and India's Central bank, Reserve Bank of India has started printing new currency notes.

Central Government Debt

in Rs. Crores (10 Million)	Q3 2008	Q3 2009	% of GDP
Public Debt (Sum of 1 and 2)	2,099,286.23	2,505,450.74	50.71%
1. External Debt	237,351.77	294,941.67	
2. Internal Debt	1,861,934.46	2,210,509.07	

Source: VMW Analytic Services

Going forward, India will see sharp rise in supply side inflation, after the effect of large government borrowings, printing of new currency notes, rise in food prices due to huge gap in demand-supply. Interest rates will also expected to rise awkward, as the central bank will take precautionary measure to contain inflation rate and expanding money supply.

For the equity markets, investors are still in a quest for a higher return and turned down their investments in Government Bonds/Securities. There are a lot of money which are still available to readily invest into the equity markets. Indian financial markets expected to be range-bound as the fear of higher valuation would be the concern for a short while. Moreover, volatility is expected to come down as the market timings have been extended by an hour in parallel to the other Asian equity markets. This will help the Indian markets to hit newer highs which, we have waited for more than two years. There is no extra concern on the front of equity markets, as the Equity, nowadays, considered as the best asset class to invest in, the main reason would be the overstated potential of precious metals like Gold and Silver, which has seen a sharp rally last year, in a time of gloomy economic picture.

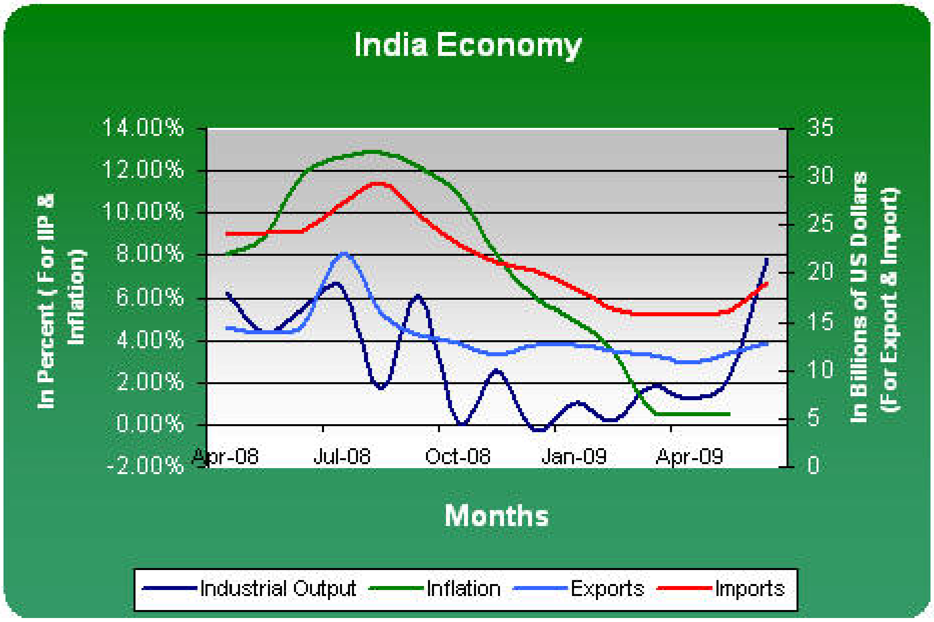
4) Stability in the Global Economy Means Expansion of the Indian Economy –

All of us have seen an unprecedented government intervention during the economic recession by way of announcing huge amount of stimulus package for the economy to prop-up domestic demand. With many recovery tools were used during the crisis, government deficits are in deep red and central bank rates are almost zero in certain countries and the prospect of zero rates over a longer period and deflationary concerns will probably gain the upper hand and send bond yields lower. Hence, there is a low scope of further announcement.

As far as the Indian economy is concerned, is suffering from huge debt to GDP ratio, moreover India is the largest net importer of commodities like Oil, Food, metal in relation to the GDP. Sharp decline in oil prices, could cut the subsidy burden and those savings would be use for the fiscal stimulus. Increased and better expenditure with greater focus on improved outcomes in social and physical infrastructure, and safety nets will speed up the recovery consistent with the long-term growth.

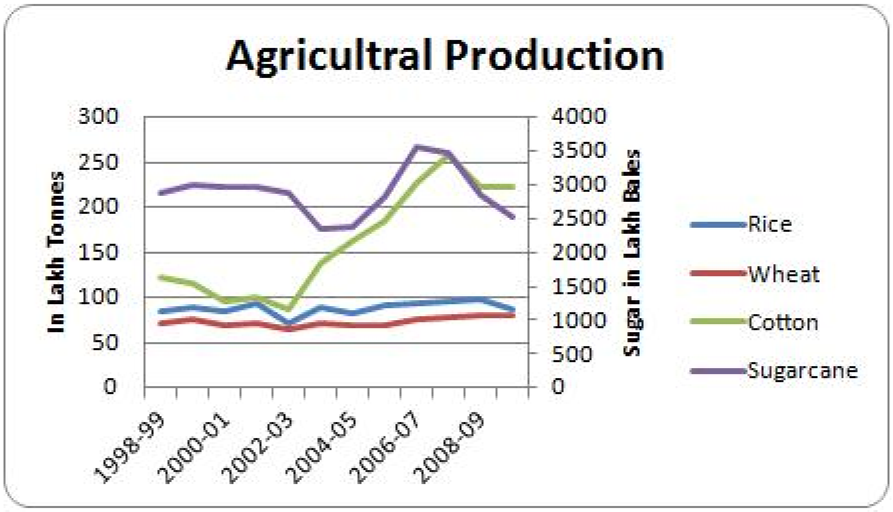
On the global economy with the projection of contraction in the economy is expected in the first half of the year and will likely to see expansion in some of the economies. Germany and France, the largest and second largest economies of the European Union respectively and Japan, the largest economy of Asia has emerged from the recession after 5 quarters, and the United States is somewhat shy to come out of the recession and is expected to expand by the end of this year. The main drivers which might helped the economy, is the active response by the Government Authorities, in a way of announcing trillions of dollars in stimulus packages. Central banks around the world have poured in billions of dollars into the system to make credit market works and slashed interest rates to almost nil to impede the economy to go into deeper recession. With most of the indicators are now offering the sign of strength, however the wobbling unemployment and unsustainable government support to the economy would hamper the growth process. Amid the bleak environment in the global economy, GDP growth in developing economies are shrugging the outlook of their economic growth. With most of the economies were in melancholy, economies like India and China registered a growth rate of 6.7% and 9% respectively.

The immediate effect of the rebound in the global economy could be seen in the financial markets which have posted the spectacular gains in short period of time. Since 2008 fallout, markets in India have been stabilized followed by the unprecendented victory in the recent elections, announcement of stimulus packages, and active response to the crisis by the central bank (RBI) which boosted market sentiment and anticipating greater reforms in the economy. In fact situation at the world level are also improving significantly. US economy in particular has offered strong signs of improvement in its economy and expunging the recession which begun in the last quarter of the year 2007.



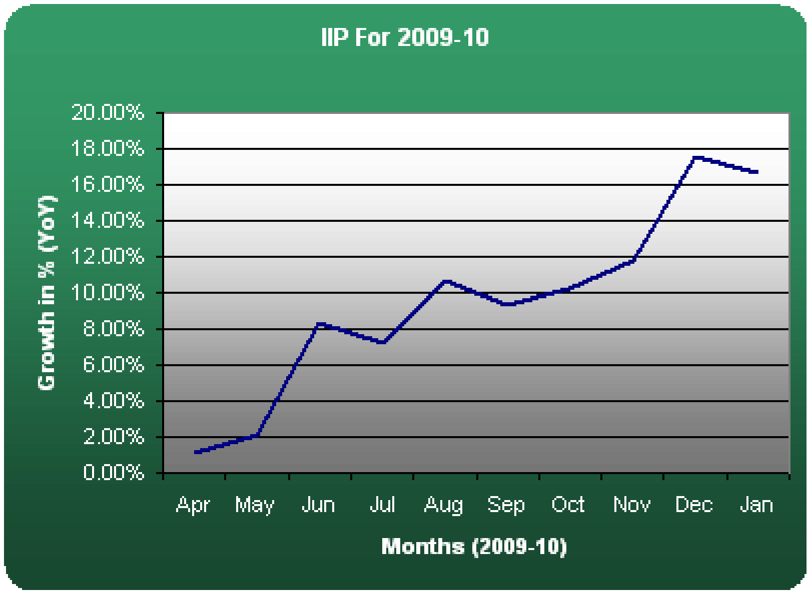
In the above Chart, which is showing the India's IIP, Inflation, Exports and Imports from Apr 2008 to Jun 2009. All trendlines are showing the sign of stability from falling which was started in 2008. Over the last six years, Indian Economy grew at an average rate of 8%, becomes one of the world's largest economy. In 2007-08, Indian Economy posted a growth rate of 9%, though the economic growth has slumped due to recession in the west for the year 2008-09. Service sector will continue to outnumber the manufacturing sector and account for more than 53% of the total GDP, but still less than the advanced economies. According to the GDP data, IT export is on the rise and outpacing the overall growth of the sector.

The acute phase of the financial crisis has passed and the global recovery is underway. Since the announcement of the previous budget amid large fiscal deficit and uncertainties in the Indian Economy, Finance Minister Pranab Mukherjee has announced the growth specific budget for the country. Central government is trying to help states to meet fiscal consolidation by improving tax policy and administration, budget management, rationalization of expenditure and better public financial management. India's economic growth is vulnerable to the Monsoon as the Agriculture and allied sectors alone contributes almost 18 per cent to the annual GDP of India. Last year's nasty monsoon has swayed the economic growth. Earlier, the CSO has forecasted the growth of annual GDP at 7.2 per cent in Feb this year. Now, the India's national income statistics shows the growth of 6.5 per cent, anticipation that the agricultural and allied sectors would suffer a contraction of GDP by 2 per cent, while the Service industry would grow by more than 8.7 per cent. Within the boundaries, the most important issue is price stability i.e. Inflation, specially that arising from supply constraints restricting farm sector output growth. As per the report, advance estimate data shows the food grain production in 2009-10 is likely to be 216.9 million tonne, which is 17.6 mt lower than the last year 's production. Sugarcane output too has a shortfall of almost 12 per cent compared to last year, which has led to big gap between demand and domestic production of sugar. India is the largest consumer of sugar in the world and these combined factors would lead to sharp rise in prices of sugar in both domestic and international market. The overall effect of the shortfall in agriculture production would likely to seen on the economic growth by nearly 2 per cent, as the sector accounts for more than 18 per cent of the total GDP.



Source: **VMW Analytic Services**

In the recent announcement of IIP data, which shows the 16 per cent growth over the last year's data, supported largely by the strong output of natural gas, iron ore, and other prominent minerals and would continue to see strong output expansion. On the laggard side, output of crude oil and coal has continued to show slackening growth. Construction related cement output has also showed sustained growth around double-digits. As per the general budget 2010, Finance minister has proposed to keep up the up gradation of infrastructure in both rural and urban and have provided Rs173,552 Crores ($38.14 Billion). To provide long-term and sustainable infrastructure growth in the country, Government established India Infrastructure Finance Company Limited (IIFCL), and for that purpose, its disbursement expected to touch Rs9,000 Crore ($1.98 Billion) by the end of Mar, 2010.



Source: **VMW Analytic Services**

5) Signs of Recovery

What are the factors, which are showing the signs of recovery is underway in the global economy?

As the acute phase of financial crisis has just over, and global economic recovery is underway, which is fragile and expected to slow in the second half of 2010. However, there are lot of factors which can be determined during the recovery process. The most important points, which getting our attention are:

- Financial markets have stabilized and are recovering but remains weak.
- Interbank lending rates or Call rates in India have declined from a unprecendented 20 per cent to nearly 200 bps and 366 bps in Dollar Rates to almost 15 bps. Interbank rates fell to pre-crisis levels suggesting the ample liquidity in the system which is a good sign for the economy. Even the Indian commercial banking have seen a fall of credit-deposit ratio at 70.3 per cent in Sep 2009 from 74.9 per cent in Sep 2008.
- Major currencies saw a sharp fall against the US Dollar during the financial crisis has now recovered to pre-crisis level.
- International flows to the developing countries such as India, Mexico, China, Brazil and other emerging nations have recovered rapidly during the last months of year 2009. Borrowing cost have also much came down in the developing countries.
- Real economy is also recovered with the world's largest economies like Japan, Germany, France, Italy and the United States recovered from the deep recession in H2CY2009. Although, the industrial production in Oct last year remained at 5 per cent - below its

level as compared to last year. The combine growth of high income and developing countries expanding at 12 per cent.

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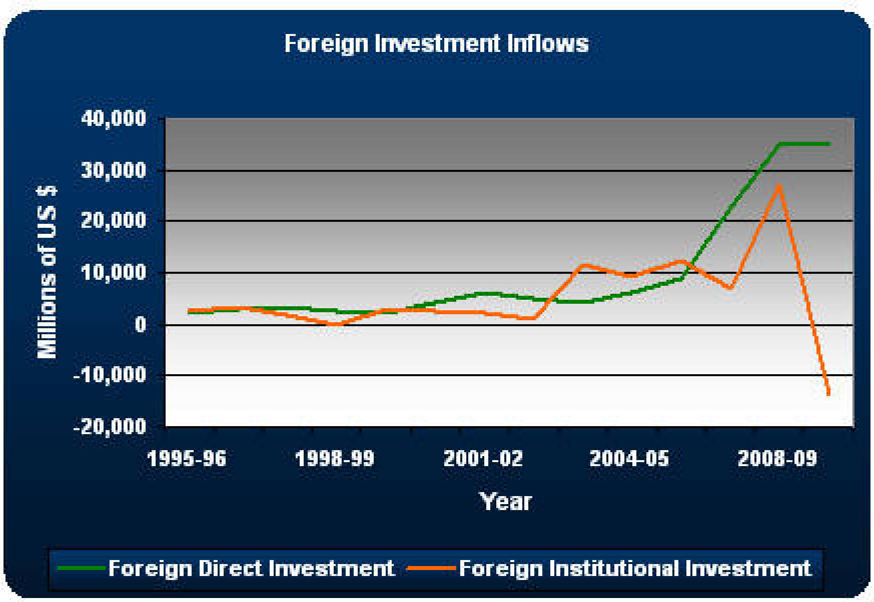
Most importantly, unemployment situation in the US or Spain is bucking the recovery and expected to stay high for the next couple of years.

6) Stability in the Financial Markets, But Dangerous Signs Too

As discussed earlier, the global signs of recovery has significant impact over the Indian Economy. World Bank and the International Monetary Fund (IMF) has estimated the GDP growth for FY2010-11 at 8 per cent. Global financial markets have stabilized since the Post-Lehman Brothers incident. The revival of stock markets have supported the fresh issue. As per the latest data, last year Indian companies have raised more than $25 billion largely through equity placement (QIP) since the revival of equity markets. Initial Public Offering (IPO) has also taken place during that time and was successfully listed on the exchanges. Market phenomenon was unprecedented and highly leveraged companies took part in that event as it helps those companies to keep their credit ratings intact.

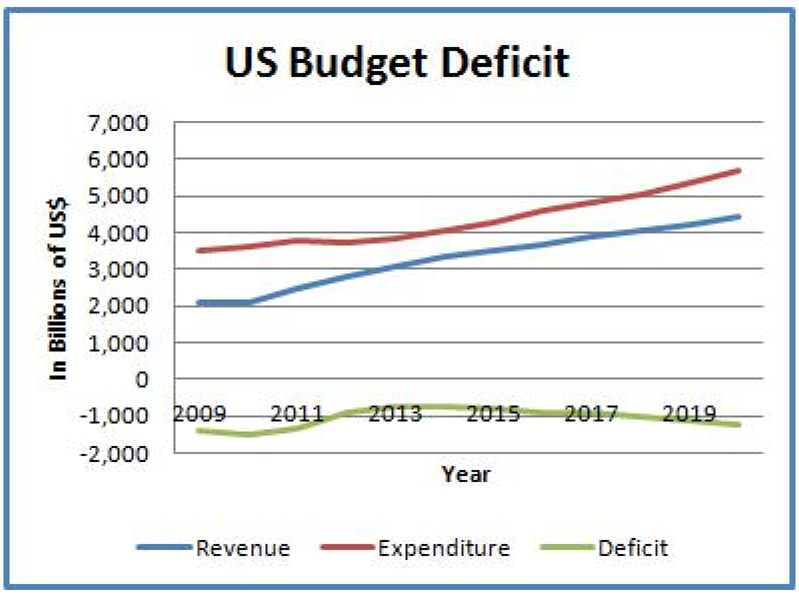


Source: VMW Analytic Services

Somewhere, Foreign Direct Investments (FDI) yet to show the sign of rebound. FDI has declined by 40 per cent in the developing economies since the first quarter of the year 2008. Despite the recent Dubai World's decision to standstill its creditors for six months on debt re-payment, and downgrade of credit rating of Greece and Mexico has made no effect to the financial markets and inflows were unaffected. However, the persisting strong inflows will inflate the probability of asset bubble, leaving the countries vulnerable to the sudden stop in external finances. As discussed this probability, the chances are likely to follow-up as the banking and financial sector in the western economies, which is the root cause of the global economic problems, is still fundamentally remains unchanged. Structurally too, changes have been limited. Under these conditions, large increases in bank credit to stressed sectors cannot be expected and the growth in the advanced economies is limited.

7) Prospect of Interest Rates

As per our calculation based on fact derived from Govt accounts, inflation rate expected to rise steeply both, on supply side and higher food prices. Governments around the are borrowing exceptional amount of money from the market. As shown in the chart, which is depicting the US Budgetary deficit over the period of decade, the US govt will need to finance its recently approved health care bill which will cost more than $1 trillion, and deficit would amount to 10.3 per cent and 8.9 per cent of the total GDP for the year 2010 and 2011 respectively. As per the US Budget Office estimates, debt held by the public would grow from $7.5 trillion (53 per cent of the GDP) in 2011 to $20.3 trillion (90 per cent of GDP) by the year 2020.



Source: VMW Analytic Services

In the domestic economy, Indian Government expected to raise another chunk of debt in the Financial year 2010-11 and it is estimated that the government would raise Rs220,000 Crores. ($48.5 Billion) by issuing government securities. Currently, India's public debt amount to 75.03 per cent and as per the estimates, debt held by the public would grow to 80.4 per cent by the FY2010-11. Moreover, India's Fiscal deficit, which is now stood at 10.47 per cent would likely to grow up to 11.81 per cent by the end of FY2010-11. The huge fiscal deficit the large of government borrowing could cripple the supply side inflation and lead sharp rise in interest rates. It is also expected that the Sovereign Credit Rating of India would likely to hurt and will put

India on watch list, however no signs of worry is expected, due to sturdy foreign reserve assets, which will protect the country from downgrade of its credit rating.

8) Prospect of Indian Economy For Year 2010

As discussed earlier about the possibility of high interest rates, large fiscal deficit, high inflation, we still believes that the Indian economy would grow by 8.5 per cent in 2010-11 and nearly 10 per cent in 2011-12 by taking higher agricultural productivity, industrial output and demand for higher exports followed by the revival of global economy in to account. In the FY2010-11, agriculture would contribute by more than 17.6 per cent to the Indian Economy on the expectations of strong output of Rabi Crop. As per the agriculture data, south-west monsoon and fine winters in the north would likely to increase output, which will contribute to the GDP growth.

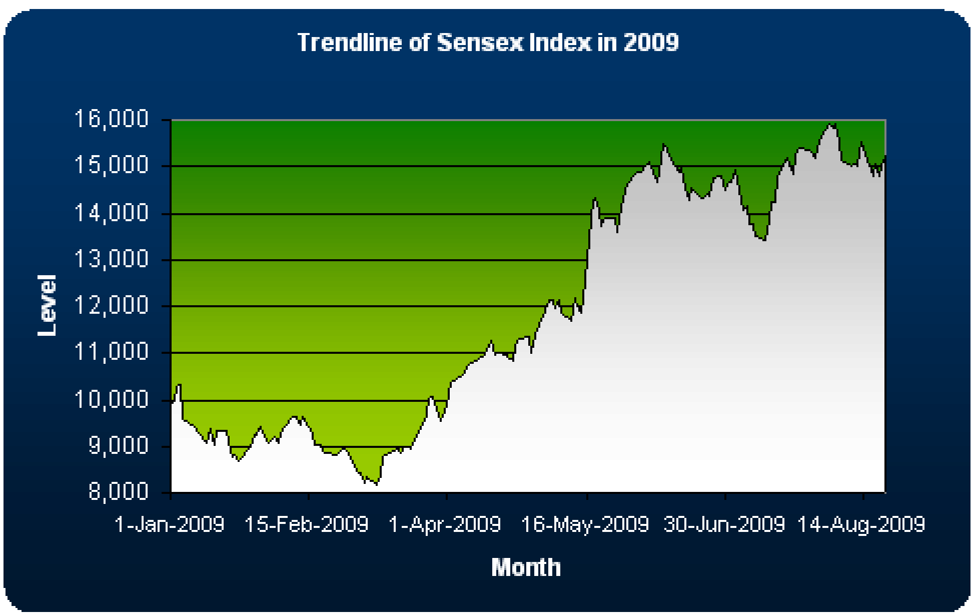
On the - balance of payment (BoP) front, India's trade deficit falls short in Oct-Dec 2009 quarter to $30.72 billion as compare to $34.05 billion in same quarter last year led by strong growth in exports by 13.2 per cent over the corresponding year, while the imports registered a growth of 2.6 per cent. Despite the lower trade deficit, India's current account deficit stands at $12 billion for the third quarter of 2009-10 and $30.3 billion for Apr-Dec of the FY2009-10. India maintains robust Capital Account surplus of $43.2 billion largely supported by Foreign Direct Investments (FDI) and Foreign Institutional Investments (FII), and it is also responsible for the robust building of Foreign Reserve Assets. Substantial current account deficit will not hamper the growth of the country. Perhaps the Current Account (CA) Deficit reflects the country as a net debtor to the world, however for India, which is the emerging economy, may run the CA deficit as it helps India to make itself more productive with the help of foreign inflows and helps it to increase exports in future. Moreover, the recent launch of Indian Depositary Receipts by the second largest foreign bank in India, Standard Chartered Bank will attract the several international players to enter the Indian market which will help India to un-tap its market potential. Listing of further foreign companies would make India a strategic destination for the global multinational corporations. MNCs in India are not only doing business, but they're seeing Indian entities as a strategic entity for their growth and increasing their visibility and profile in the market.

9) Nasty Monsoon

This year's deficient monsoon probably downgrade the overall economic growth as the Agriculture sector accounts for more than 18% of the total GDP. Uttar Pradesh, Andhra Pradesh, West Bengal, Punjab, and Haryana are the key farming locations of India. Almost scanty monsoon in Uttar Pradesh in particular will make a larger impact on India's farm sector as the poor harvesting of Rice and Cane hit hard due to poor monsoon. Monsoon below average will make several kind of impact on India and other parts of the world. As India is the second largest producer of Rice and Sugarcane followed by the US and Brazil respectively, the commodity prices will go up, and according to the NYMEX data, the sugar prices soared by 62% since last year due to bad weather in India and the world had been affected by the food price crisis last year due to several reasons including poor harvesting due to drought situation and various other non-farm reasons.

Primarily, capital inflows into India has supported the sharp ”V” shape recovery in the BSE’s benchmark index, Sensex. Indian equity markets perked up by more than 90% from its March 2009 lows (*See given below figure*). Foreign investments, positive growth outlook, consumer confidence, good corporate earnings, better reforms prospect might be a specific reason of overall growth in the financial markets. But, will the rally be sustainable over the next few months as the economy would not be grow as fast as we had expected earlier?

The global financial markets are trading at a reasonable value after sharp fall from the 2007 highs. From the beginning of this year, lot of money has poured into the markets around the world as the investors are optimistic about the economy. Developed economies would take more than two years to recover however the Asian economies will lead the overall economic recovery. Companies around the world has posted better than expected earnings in the last couple of quarters and showing the signs of recovery in their operations, nevertheless the growth in their earnings was ushered by cost cutting measures such as layoff and restructuring of their businesses. In general, their growth would be sustainable once the consumer confidence revives in the developed economies.



10) Unruly Supply-Side:

Over the next few months, we will see the higher inflation due to supply side exertion. Supply side concern may include shortage of foodgrains, higher stock of money in the system due to spiralling government borrowings will doubtlessly push inflation on the higher side. We will expect the monetary action from Reserve Bank of India (RBI) in response to the microeconomic developments. Over the next few months, perhaps the Interest rates would go up in response to inoculate the economy from the risk of higher inflation and currency depriciation.

Conclusion

It would be bewilder that when we should expect the veritable recovery in the Indian Economy? Of course the Indian economy is not an exception and will go inline with the global economies. It will take a lot of time to recover however the situation has improved significantly and so far we have seen an extremely rapid movement in the economy. Moreover, the G-20 Summit, Pittsburgh in Sep 2009 will play a crucial role in the overall economic recovery as the global leaders were committed to monitor the situation and decision which were taken in G-20 Summit, London. However, we cannot expect the fresh stimulus packages from the Government Authorities to revive the economy. The evidence demonstrates that the economy is clearly on its way to sustained growth but what is critical in the coming years is a combination of inflation control, increased consumer spending, adequate liquidity and emphasis on development of industry & educational infrastructure. In the long run, the emphasis will have to be on decreasing the amount of dependence on the services sector and taking concrete measures to develop agriculture in the country. This can be only possible with sound governmental reforms, increased R&D spending and adequate import of technology and training. The future for the economy looks bright heading into the second year of the 11th 5 year plans.

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