日本の力を、世界のために。

Supporting Your Global Challenges

Infrastructure and Finance

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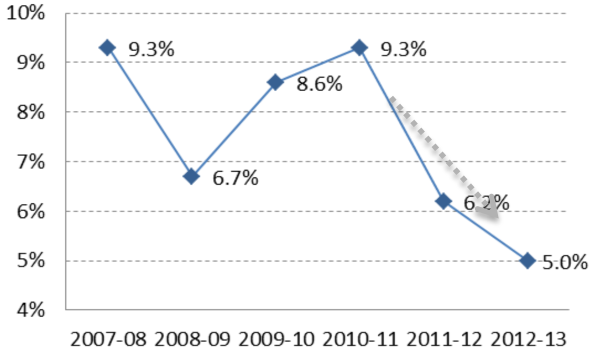
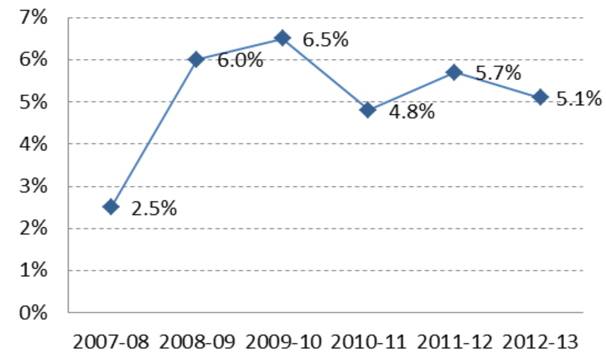
Snapshot of the Indian Economy

GDP Growth



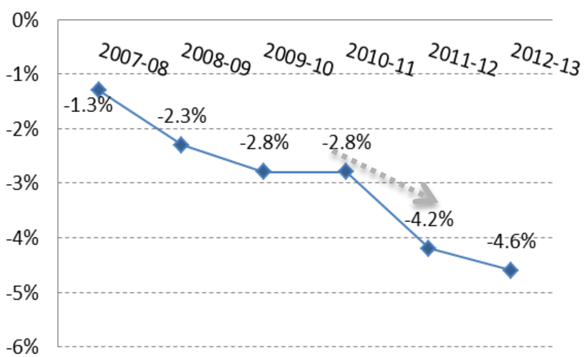
- Slowdown in the global economy, high policy rates to cater inflation and investment bottlenecks resulted in a growth rate of 5% in 2012-13, lowest in the past decade

Fiscal Deficit (% of GDP)



- As growth slowed and government revenues could not keep pace with spending, fiscal deficit threatened to breach the target and touched 5.7% in 2011-2012 and 5.1% in 2012-2013

Current Account Balance (% of GDP)

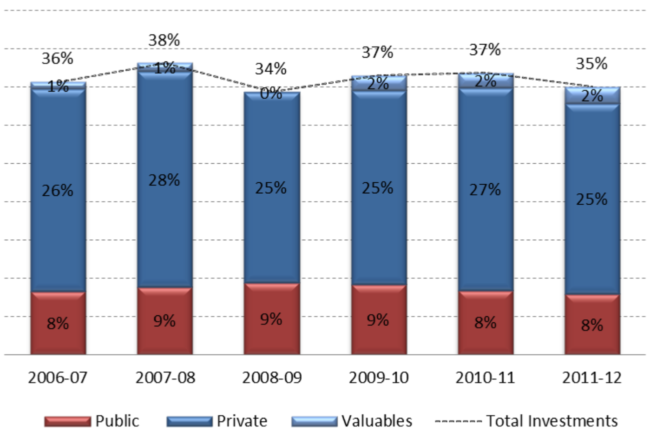


- With government savings falling and private savings also shrinking, the CAD widened and touched 4.2% in 2011-12 and reached a historically high level of 5.4% in Q2 of 2012-13; it stood at 4.6% for the period April-September 2012

Source for Charts: Economic Survey

Saving and Investments

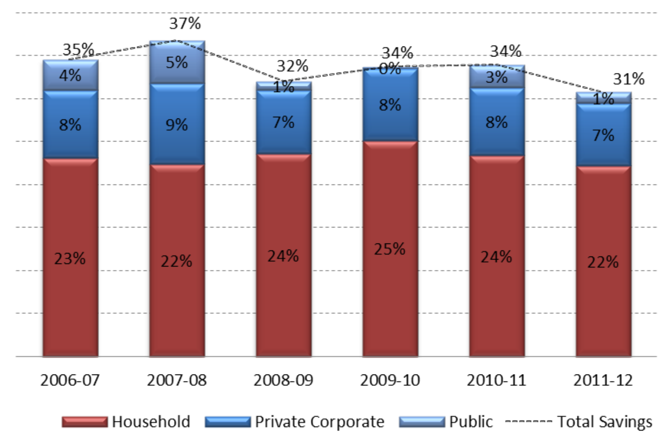
Gross Domestic Capital Formation as a % of GDP



- Private Corporate Investments have registered a decline since 2011-12 due to: a) tight monetary policy, b) lower export demand and c) policy bottlenecks as environmental issues

Gross Domestic Savings as a % of GDP

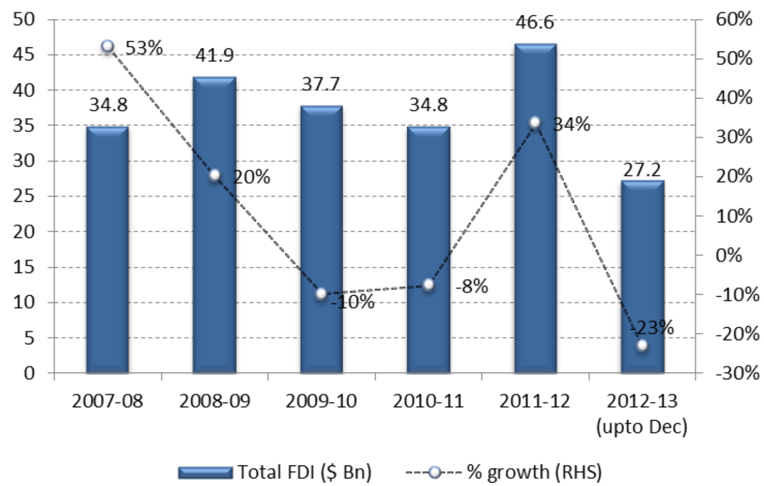
- Saving rate reached an eight year low in 2011-12
- Lower savings rate takes resources away from investment and deepens the current account deficit
- Household savings need to be raised by promoting reliable financial saving opportunities such as inflation indexed bonds



Source for Charts: Economic Survey

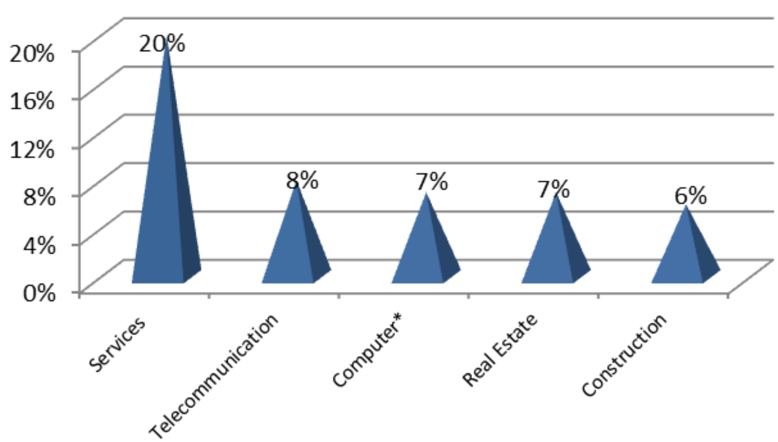
FDI Inflows

FDI Inflows into India

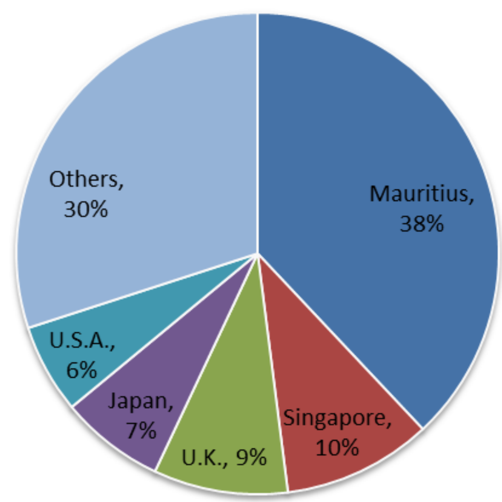


- FDI remained strong in 2011-12 , however there was a 23% decline in total FDI inflows in April-Dec 2012 period as compared to the same period last year.
- Decline in inflows is partly due to uncertainties in the global economy
- Foreign investments are important for India, which needs around $1 trillion in the next five years to support its infrastructure
- Decline in foreign investments will put pressure on the country's balance of payments and could also impact the value of rupee

Top 5 Sectors attracting FDI (April 2000-Dec 2012)



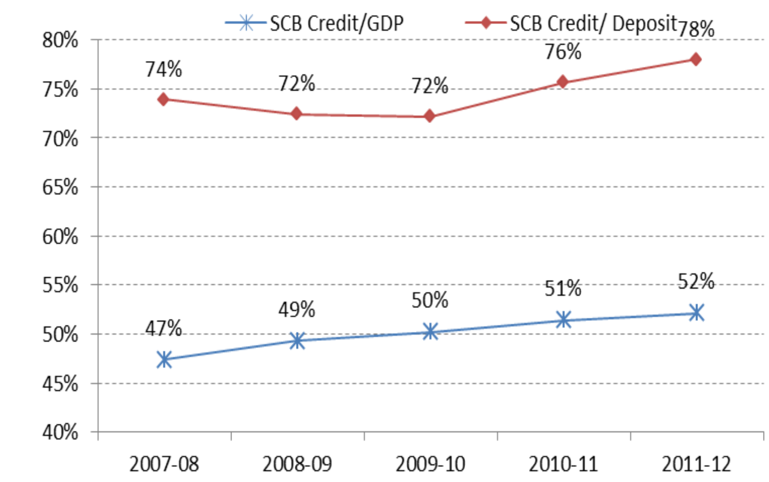
Share of Countries FDI Equity Inflows (April 2000-Dec 2012)



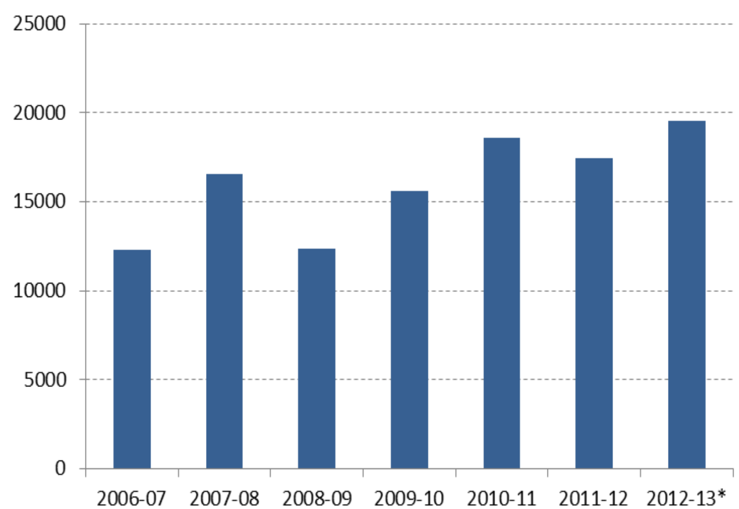
Source for Charts: DIPP
*Note: * Includes computer hardware and software*

Financial Market Trends

Bank Credit



Performance of BSE Sensex

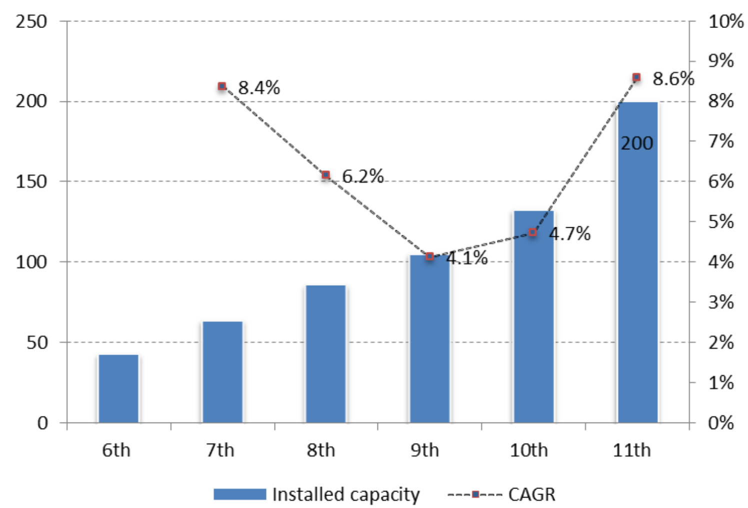


Source for Charts: RBI Database

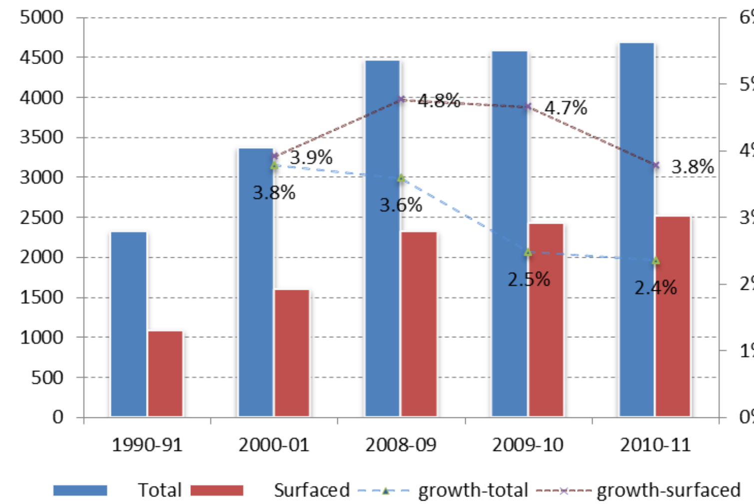
- Growth in bank credit moderated from an average of 21.7% in Q1 of 2011-12 to 16.5% in Q3 of 2012-13 on the back of slow deposit growth and poor asset quality
  - NPAs of the banking sector increased from 2.7% of total credit advanced in March 2011 to 3.6% in September 2012, mainly due to sharp rise in NPA of the industry and infrastructure sectors
- Equity markets on the other hand have performed well and the BSE Sensex crossed the 20,000 mark during 2012 on the back of recent reforms (such as the diesel price hike, cap on subsidised LPG, permission for FDI in retail and aviation) hopes of a cut in the policy rates and sustained FII inflows
- However the Indian corporate bond market continues to lag behind the active and well developed equity market and the banking sector; the proportion of corporate debt to GDP at only 5% as compared to 52% for SCB loans to GDP.

Current Status of the Infrastructure Sector

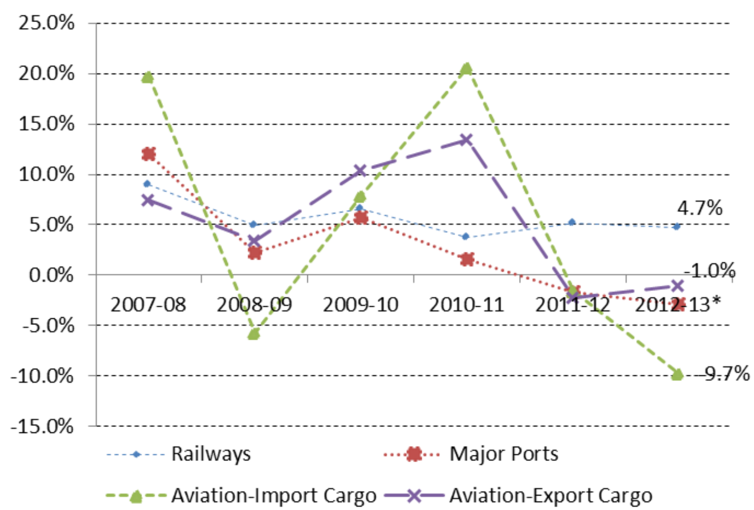
End of Plan Installed Power Capacity (GW)



Total Road Length ('000 km)



Freight Traffic Growth for Infrastructure Services

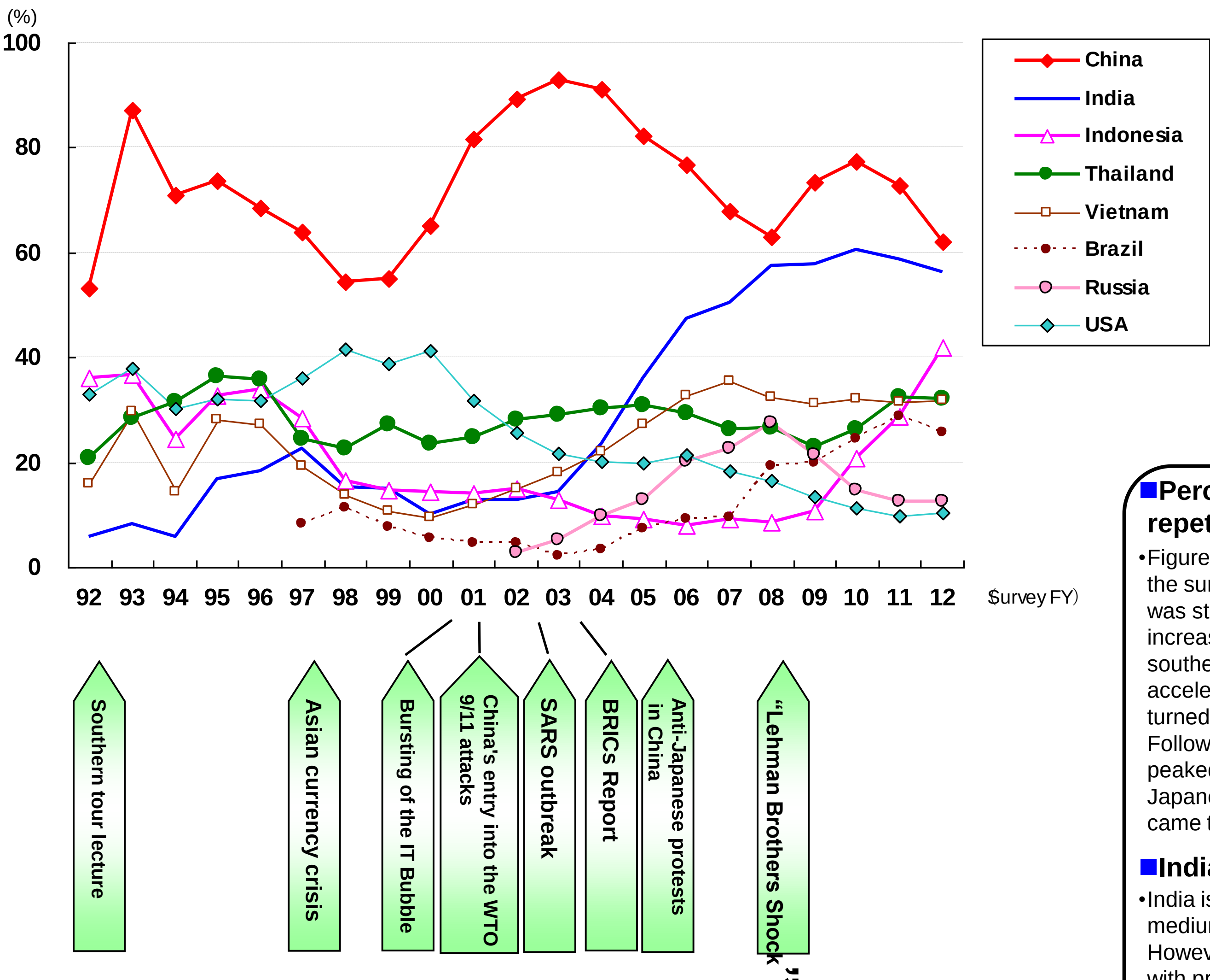


- India has the fifth largest generation capacity in the world with an installed capacity of 211.8 GW as of January 2013; however its per capita consumption at 818 kwh is very low as compared to worldwide per capita annual average of 2600 kwh and 6200 kwh in the European Union during the year 2010–11

Source for Charts: Economic Survey

Promising Countries/Regions: Changes in Percentage Shares

Figure 32: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so): Percentage Shares



(Reference) The Number of Companies Which Have One or More Overseas Affiliates of Production in China

Year of survey	No. of respondent companies	Proportion
FY2000	268	57.5%
FY2003	408	71.8%
FY2005	487	82.5%
FY2010	481	80.3%
FY2012	490	81.3%

Note: The ratio in the table shows the ratio of the number of companies which have one or more overseas affiliates of production in China to the number of responding companies to the question regarding the number of overseas affiliates.

■Percentage share of China shown in a repetition of ups and downs.

•Figure 32 illustrates trend of percentage shares since the survey of promising countries with the present form was started in 1992. While the top ranked China increased the percentage share as a result of the southern tour lecture by Deng Xiao Ping who advocated acceleration of reform/opening, it later declined but turned upward again after the Asian currency crisis. Following entry into the WTO, the percentage share peaked out, declining afterward by SARS and Anti-Japanese protests. After the Lehman Brothers Shock, it came to be highlighted as a market as well.

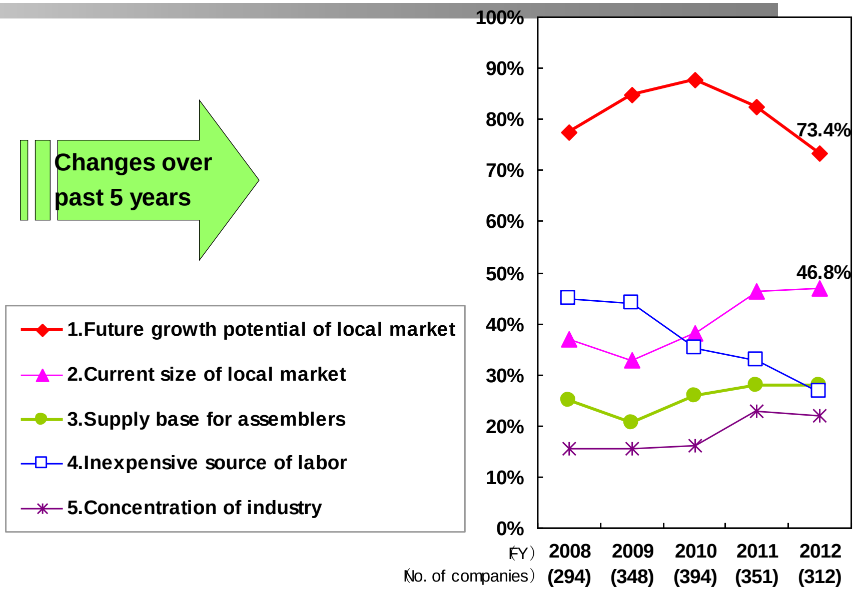
■India, which has had trouble growing.

•India is a promising country ranked at 2nd over the medium-term, and 1st over the long-term perspectives. However, under present situation, degree of satisfaction with profitability remains low. It is considered that such a situation exists highlighting the background of a percentage share of India which has resisted to grow.

No.1: China

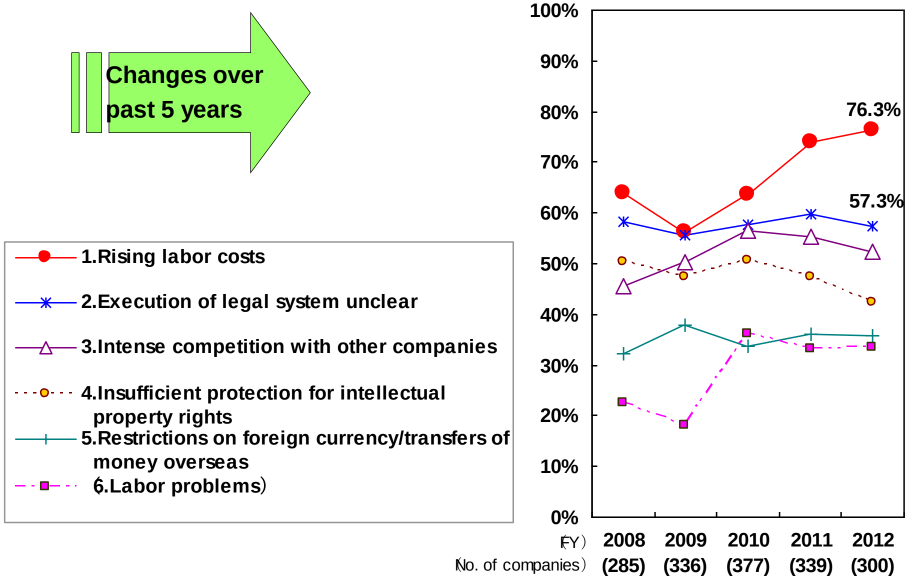
Reasons

(Total No. of respondent companies: 312) (Note 1)		No. of companies	Ratio (Note 2)
1	Future growth potential of local market	229	73.4%
2	Current size of local market	146	46.8%
3	Supply base for assemblers	87	27.9%
4	Inexpensive source of labor	83	26.6%
5	Concentration of industry	69	22.1%



Issues

(Total No. of respondent companies: 300)		No. of companies	Ratio
1	Rising labor costs	229	76.3%
2	Execution of legal system unclear (frequent changes)	172	57.3%
3	Intense competition with other companies	157	52.3%
4	Insufficient protection for intellectual property rights	127	42.3%
5	Restrictions on foreign currency/transfers of money overseas	107	35.7%



- While there was no change in the order from last year both for reasons as promising and issues, the ratio of companies that cited “Future growth potential of local market” has continued to fall with FY2010 as the peak. On the other hand, the ratio of companies that cited “Current size of local market” increased slightly, indicating that it is continuing to be viewed as an attractive market.
- While the ratio of companies that pointed out “Inexpensive source of labor” as the reason for being promising continued to decline, the ratio of companies that pointed out “Rising labor cost” increased also in this survey. It shows that while Japanese manufacturing companies continue their production in China, rising personnel expenses have become a major issue.

Note 1: The “No. of companies” here refers to the number of companies that responded to questions concerning “reasons for being a promising country” and “issues” out of the number of companies that listed the country/region in Figure 31. For this reason, the number of companies here may not be the same as in Figure 31.
Note 2: “Ratio” refers to the number of companies that cited “reasons for being a promising country” or “issues “ divided by the total number of respondent companies.

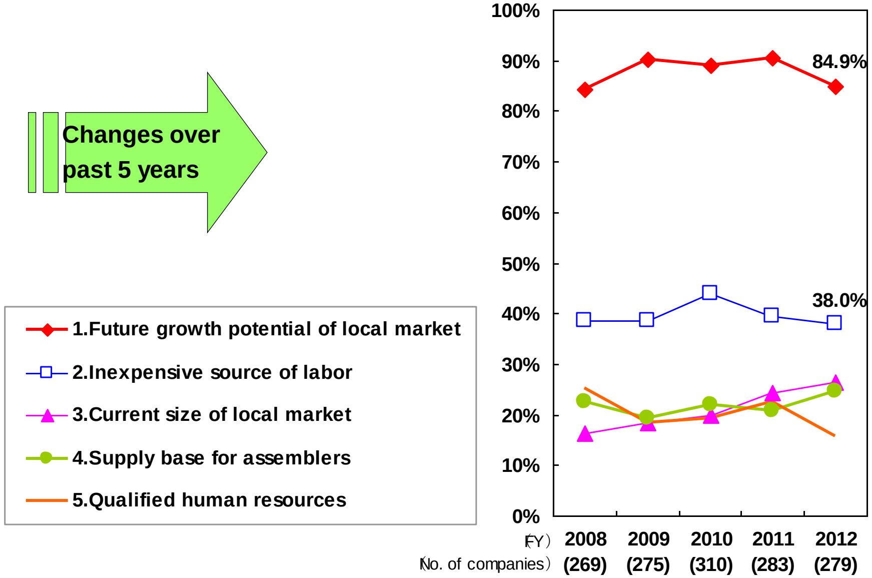
Reasons for Countries as Promising for Overseas Operations and Issues: India

No.2: India

Reasons

(Total No. of respondent companies: 279)		No. of companies	Ratio
1	Future growth potential of local market	237	84.9%
2	Inexpensive source of labor	106	38.0%
3	Current size of local market	74	26.5%
4	Supply base for assemblers	69	24.7%
5	Qualified human resources	44	15.8%

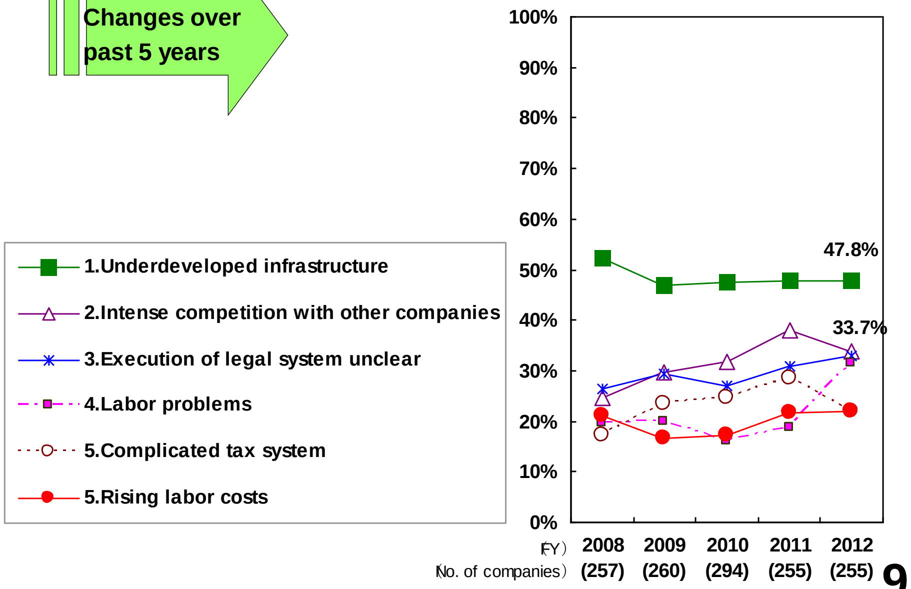
Changes over past 5 years



Issues

(Total No. of respondent companies: 255)		No. of companies	Ratio
1	Underdeveloped infrastructure	122	47.8%
2	Intense competition with other companies	86	33.7%
3	Execution of legal system unclear (frequent changes)	84	32.9%
4	Labor problems	80	31.4%
5	Complicated tax system	56	22.0%
5	Rising labor costs	56	22.0%

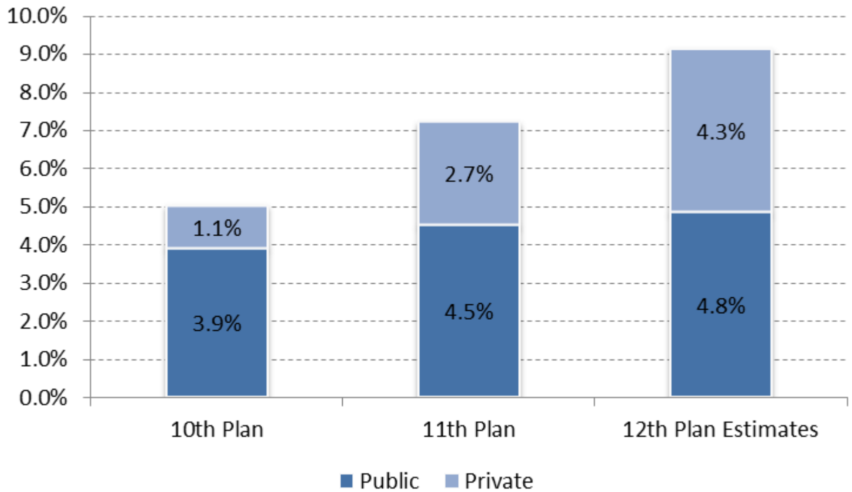
Changes over past 5 years



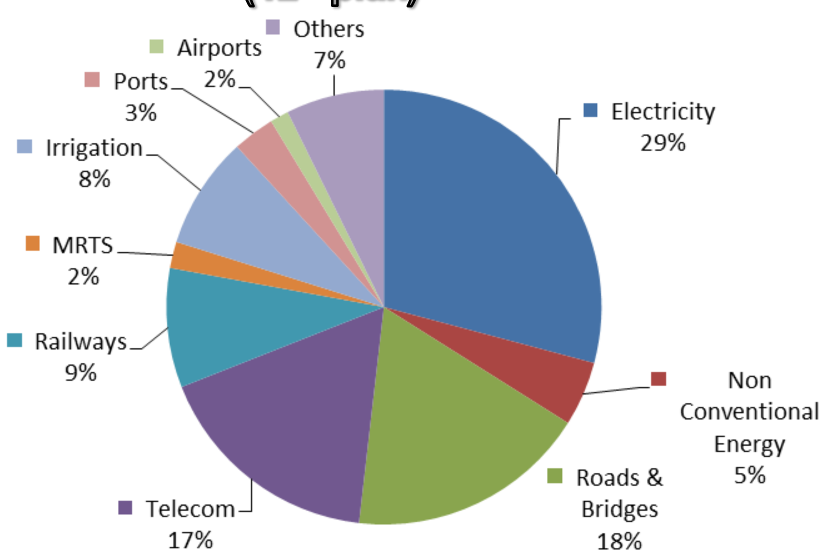
- The order from the 1st to 3rd of the reasons for being promising remained unchanged from the last result. The number of companies citing “Future growth potential of local market” was reduced slightly reflecting recent slowdown of growth of the Indian economy, but most of the companies hold expectation for growth potential of the Indian market. Further, the number of companies citing “Supply base for local assemblers” increased in line with the increased number of local affiliates.
- Also with respect to the issues, the order was unchanged except for the 4th “Labor issues”, and responses wishing for development of infrastructure continued to reach close to half of the companies. In the back of sudden emergence of labor issues in this survey, it is assumed that there was influence regarding the violence against a Japanese company that occurred in July, this year.

Strong Emphasis on Infrastructure Development in the 12th Plan

Infrastructure Investment as % of GDP



Infrastructure spending in different sectors (12th plan)



- A recent IMF study (dated Dec 2012) pointed out India's poor infrastructure as one of the important reasons for the slowdown in the Indian economy
- 12th plan therefore envisages increased investment in infrastructure from an average of 7% of GDP in11th plan to 9.14% of GDP during the 12th plan
- Estimated investment in the infrastructure sector during the 12th stands at 56.3 lakh crore (approx. US$1trillion), nearly double of investment made during the Eleventh Five Year Plan
- The share of private investment to total investment in infrastructure projected at 47% cent during the 12th Plan as compared to 38 per cent in 11th Plan.

Source for Charts: Interim Report of the High Level Committee on Financing Infrastructure

Key Challenges faced by the Indian Power Sector

	Key issues	Drivers
Generation Issues	**Inadequate Fuel Supply**	Coal India unable to meet growing demand, captive coal blocks underutilized, increasing regulatory and price risks around coal imports, sub-60% PLF for gas fired given the inadequate availability of fuel
	Regulatory Bottlenecks	Land acquisition issues, environmental clearances and permit delays
	Financing Hurdles	Financing large project like UMPP is a critical constraint for developers, delays in financial closure, disbursements and high interest rates create pressure on developers Issues relating to fuel cost pass-through
Transmission and Distribution Issues	**Technical losses**	High network losses (32% as compared to global average of 15%)driven by far-reaching networks with low-voltage lines, transformer loss, heavy loads in the system
	Theft and corruption	Electricity theft of ~1.5% of GDP driven by poor law enforcement; high rates of bribery and political interference