

# ICRIER - OECD Symposium

December 3, 2009

## *Global Economic Prospects and the Indian Economy*

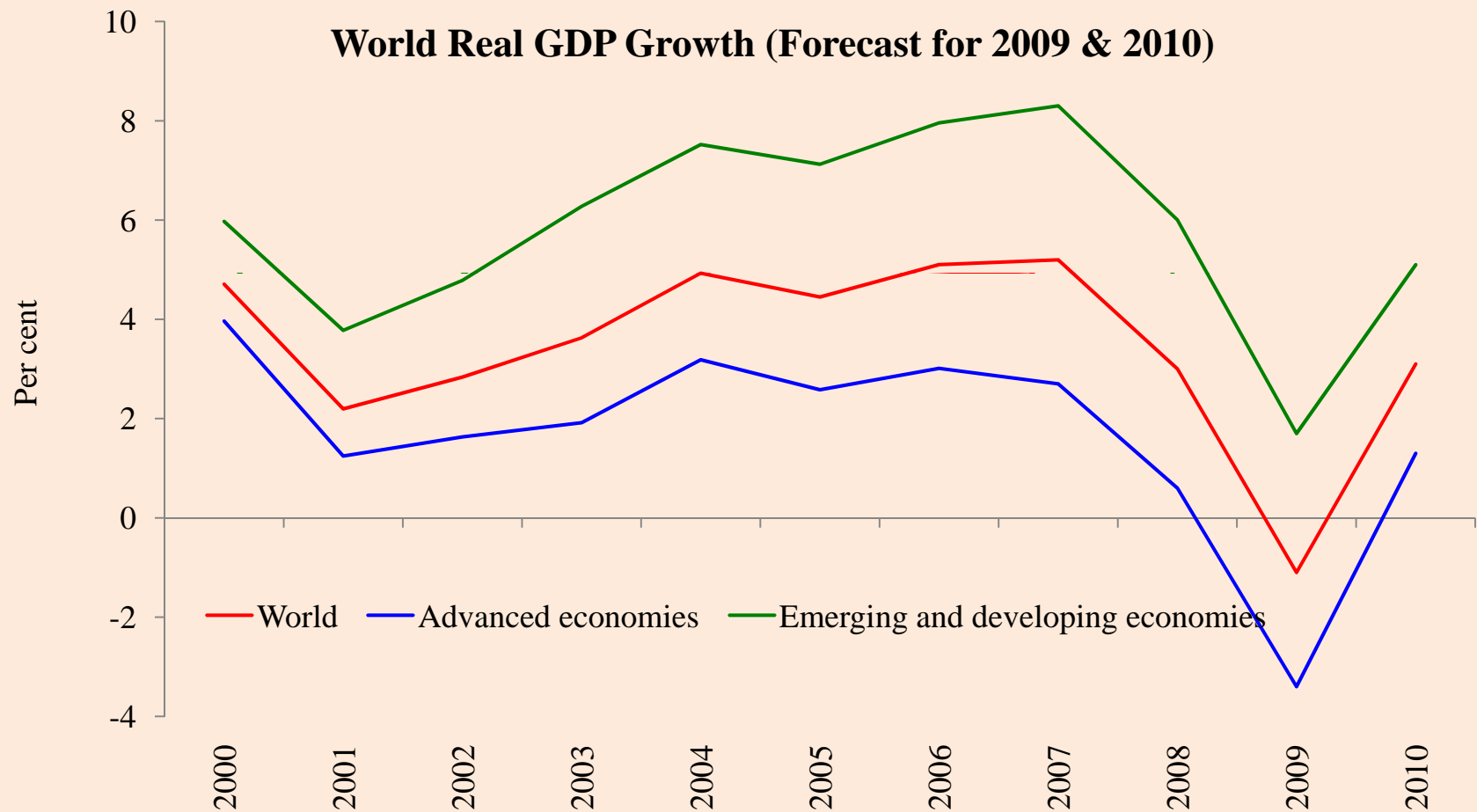


**Usha Thorat**  
**Deputy Governor, Reserve Bank of India**

# ***Broad Outline***

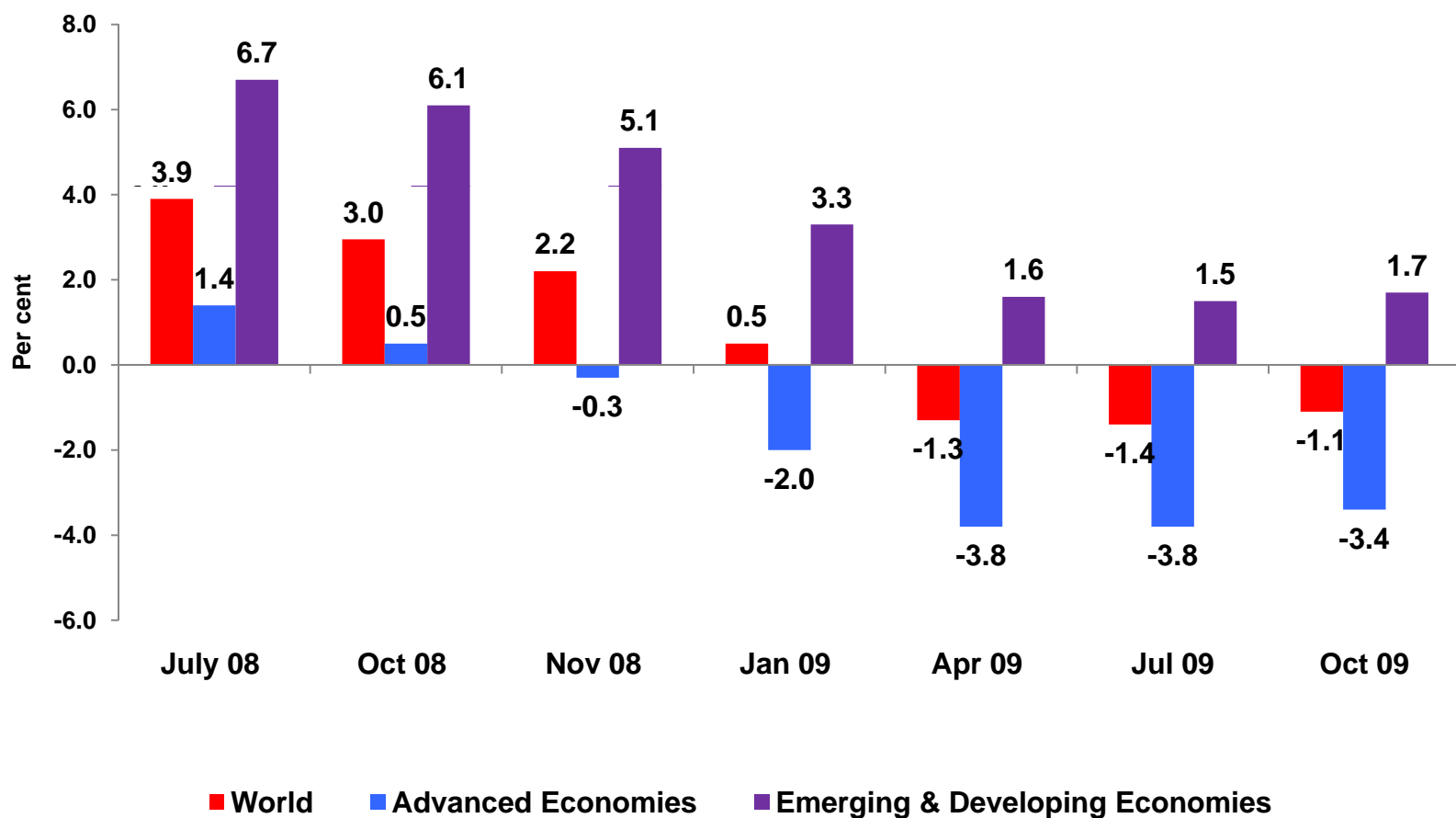
- **Section I**
  - **Global Economy - prospects**
- **Section II**
  - **Indian Economy – retrospect, current trends & outlook**
- **Section III**
  - **Overview of Monetary and Inflation Conditions**
- **Section IV**
  - **Global Crisis and its Impact on Indian Economy**
  - **India's Policy Response**
  - **Resilience of Indian Banking sector**
- **Section V**
  - **Way Forward: Issues**

## Section I: Global Economy - Prospects

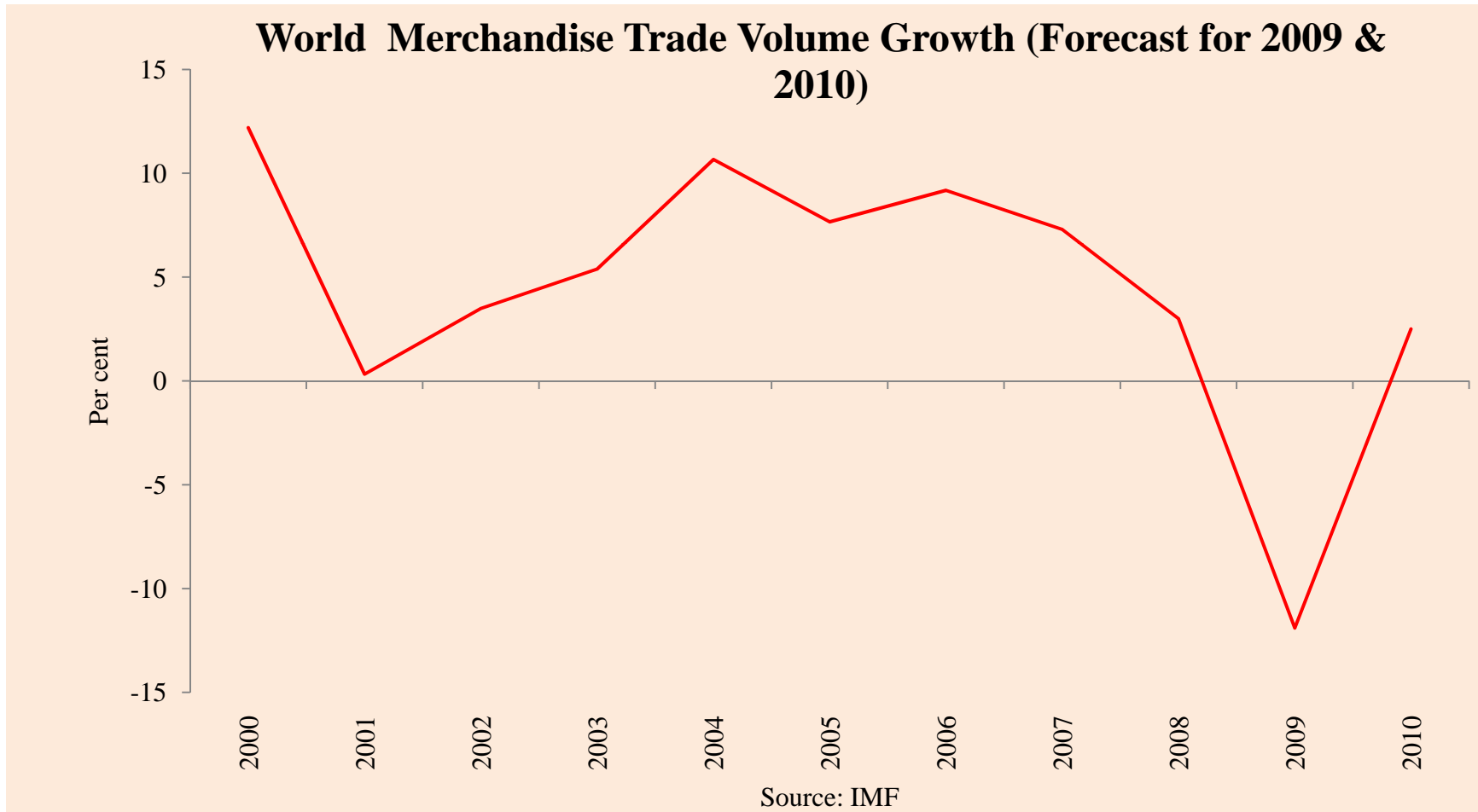


Source: IMF

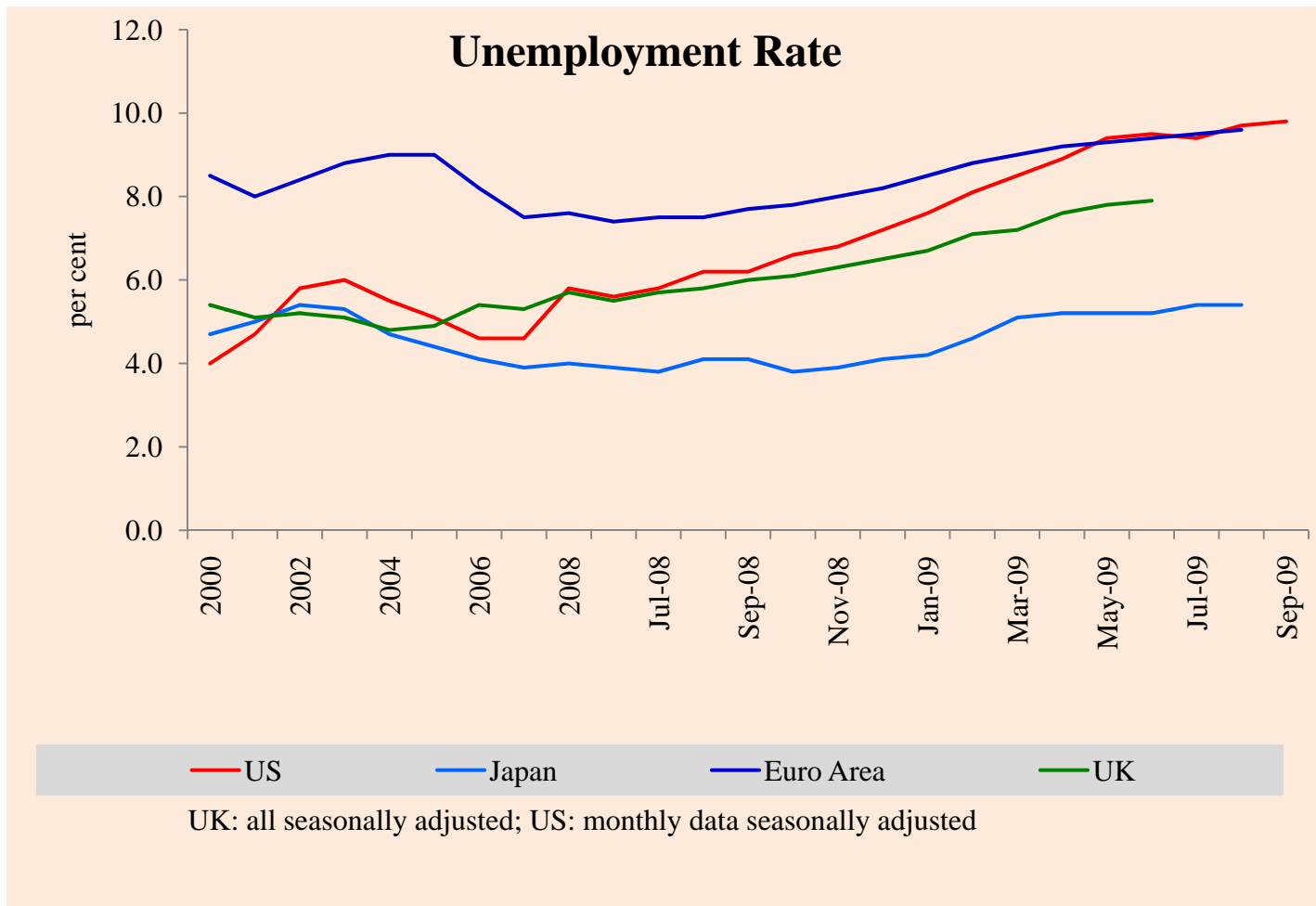
## *Successive Revisions to the IMF's World Output Growth Forecast for 2009*



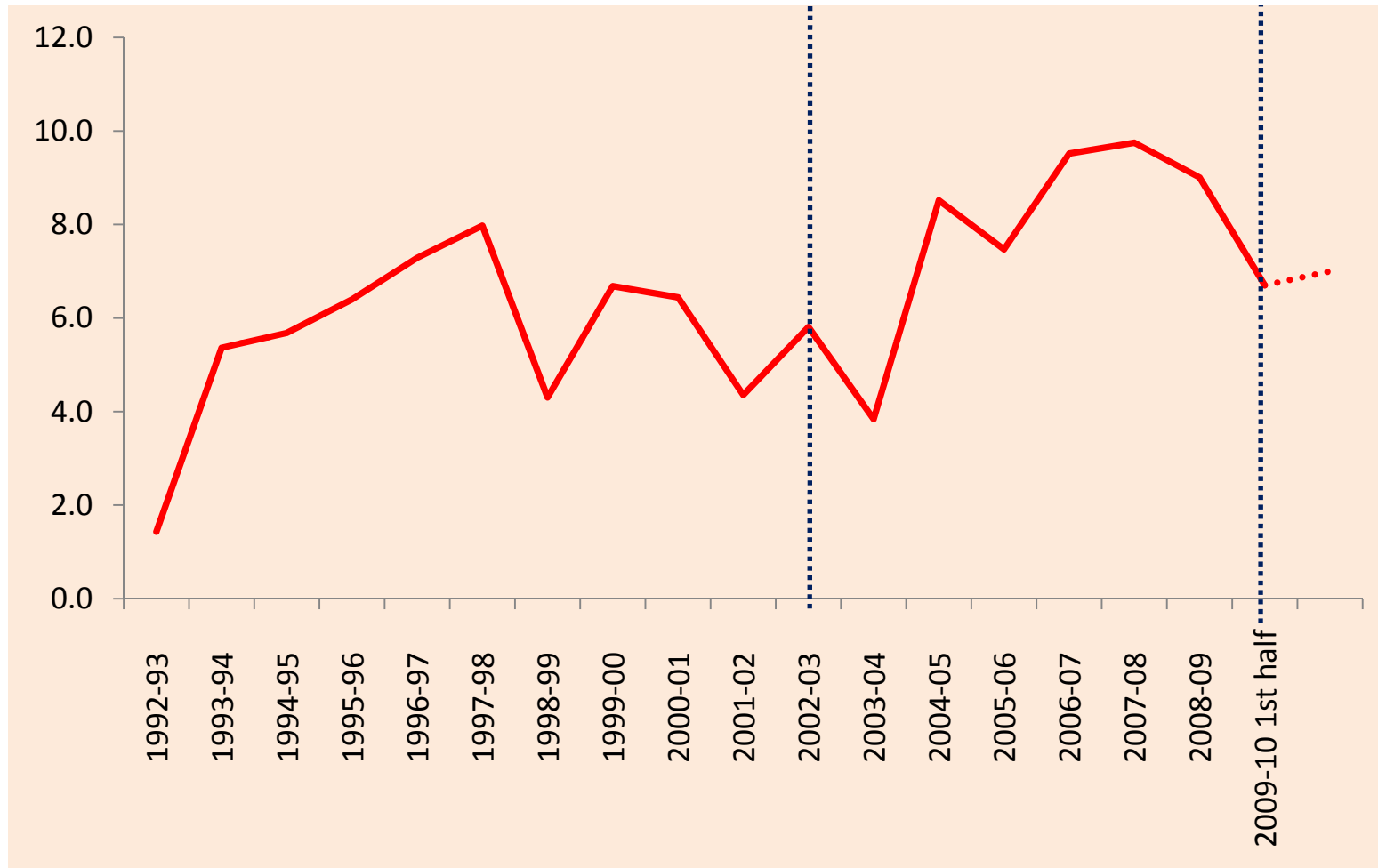
# ***Decline in World Trade***



# Rising Unemployment



## Section II - Indian Economy Growth Trajectory



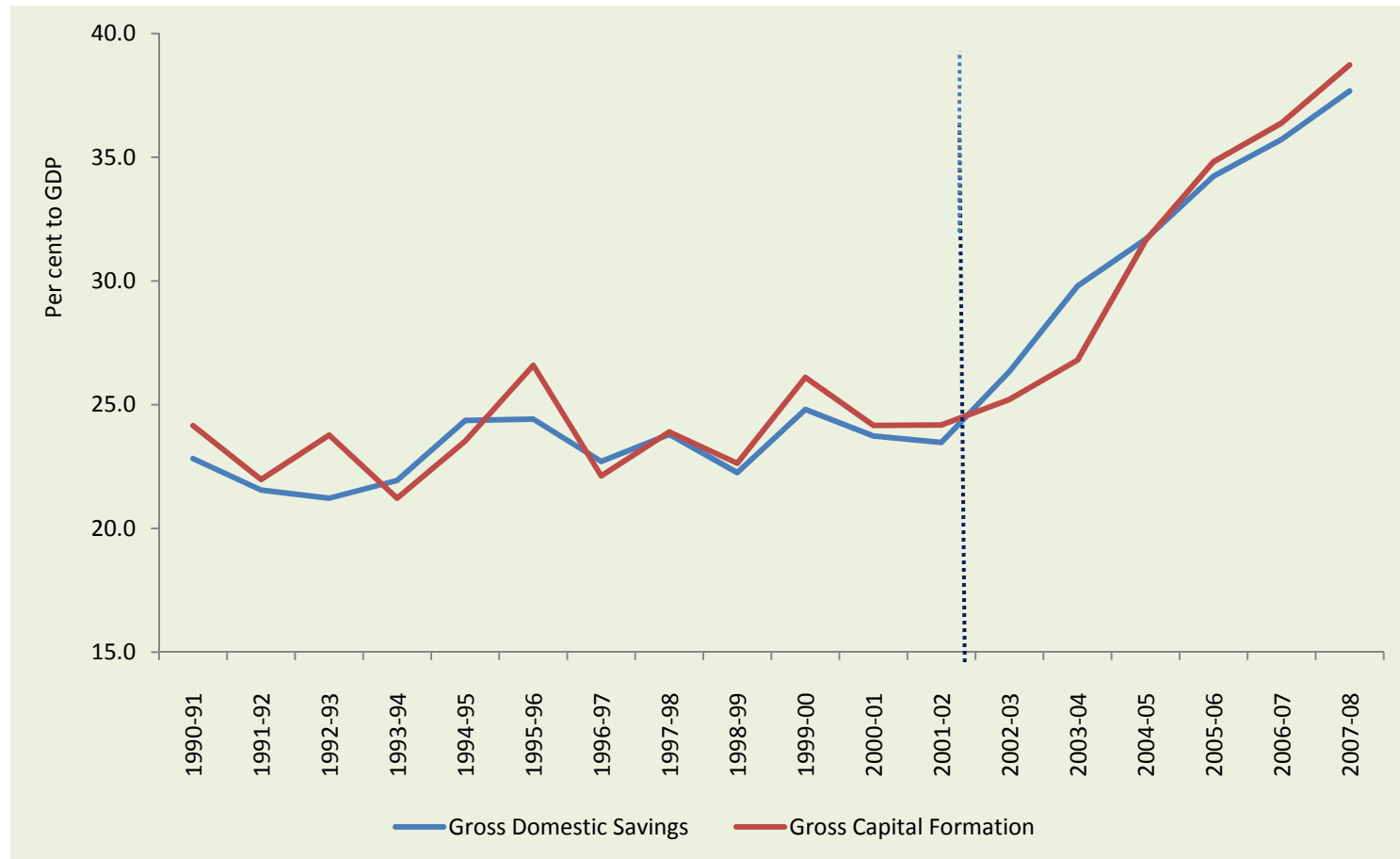
- Average annual 8.8 per cent growth during 2003-08

## ***Domestic Demand Driven Growth***

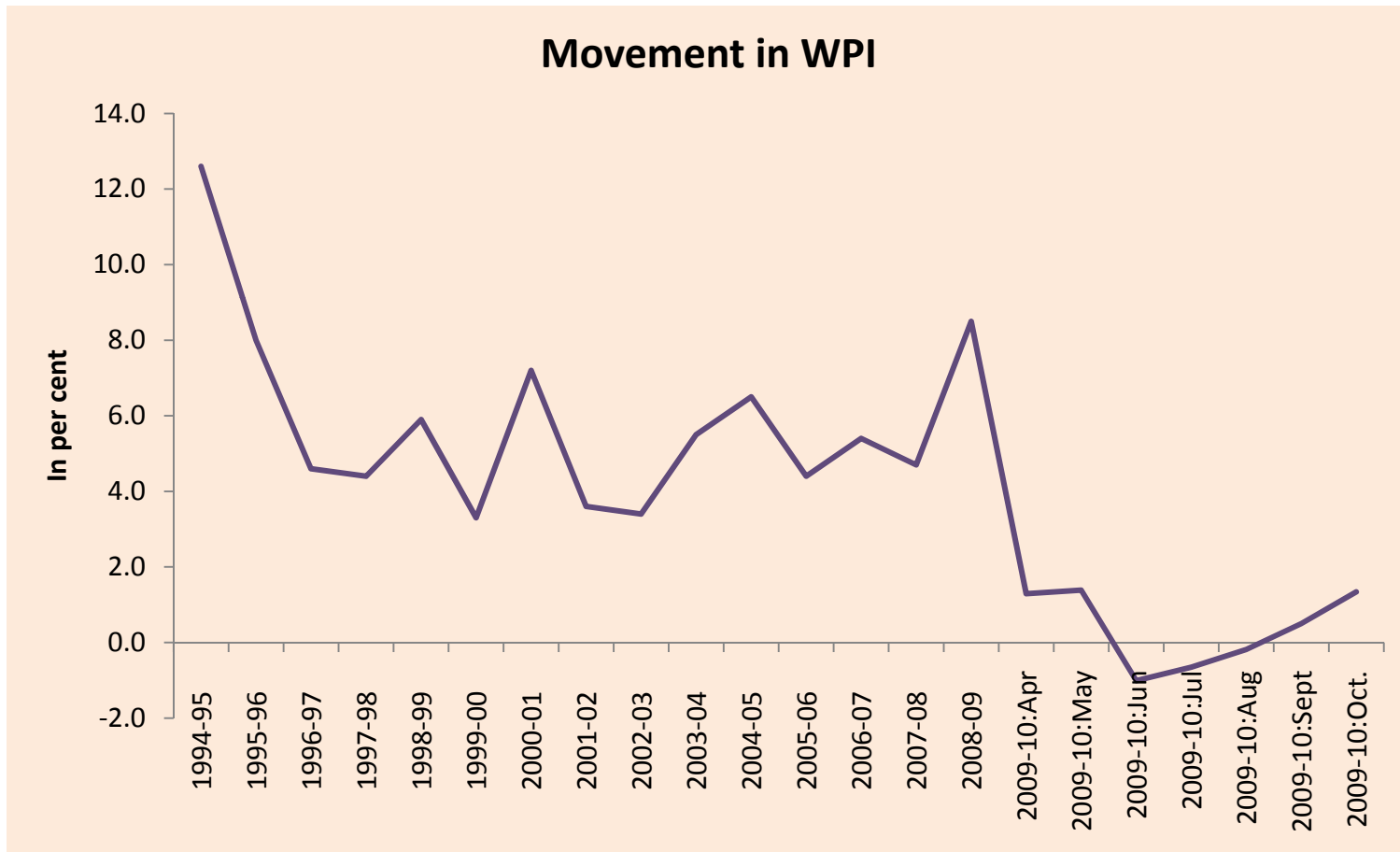
<b>Item</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08QE</b>	<b>2008-09RE</b>
<b>Total Final Consumption</b>	<b>76.7</b>	<b>75.6</b>	<b>73.6</b>	<b>71.5</b>	<b>69.8</b>	<b>67.6</b>	<b>67.0</b>	<b>66.6</b>
<b>Private Final Consumption Expenditure</b>	<b>64.5</b>	<b>63.9</b>	<b>62.5</b>	<b>60.9</b>	<b>59.5</b>	<b>57.7</b>	<b>57.2</b>	<b>55.5</b>
<b>Govt. Final Consumption Expenditure</b>	<b>12.2</b>	<b>11.7</b>	<b>11.1</b>	<b>10.6</b>	<b>10.3</b>	<b>9.9</b>	<b>9.8</b>	<b>11.1</b>
<b>Gross Domestic Capital Formation</b>	<b>22.2</b>	<b>25.0</b>	<b>27.1</b>	<b>30.5</b>	<b>33.3</b>	<b>34.4</b>	<b>35.9</b>	<b>36.6</b>
<b>Private Sector Capital Formation</b>	<b>16.7</b>	<b>18.6</b>	<b>19.6</b>	<b>23.4</b>	<b>26.1</b>	<b>28.5</b>	<b>16.7</b>	<b>--</b>
<b>Public Sector Capital Formation</b>	<b>6.9</b>	<b>6.1</b>	<b>6.3</b>	<b>6.9</b>	<b>7.6</b>	<b>9.1</b>	<b>6.9</b>	<b>--</b>
<b>Net Exports</b>	<b>0.0</b>	<b>1.4</b>	<b>0.3</b>	<b>1.1</b>	<b>-2.5</b>	<b>-3.5</b>	<b>-4.4</b>	<b>-5.8</b>
<b>Incremental Capital Output Ratio (ICOR)</b>	<b>2.5</b>	<b>3.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.7</b>	<b>--</b>



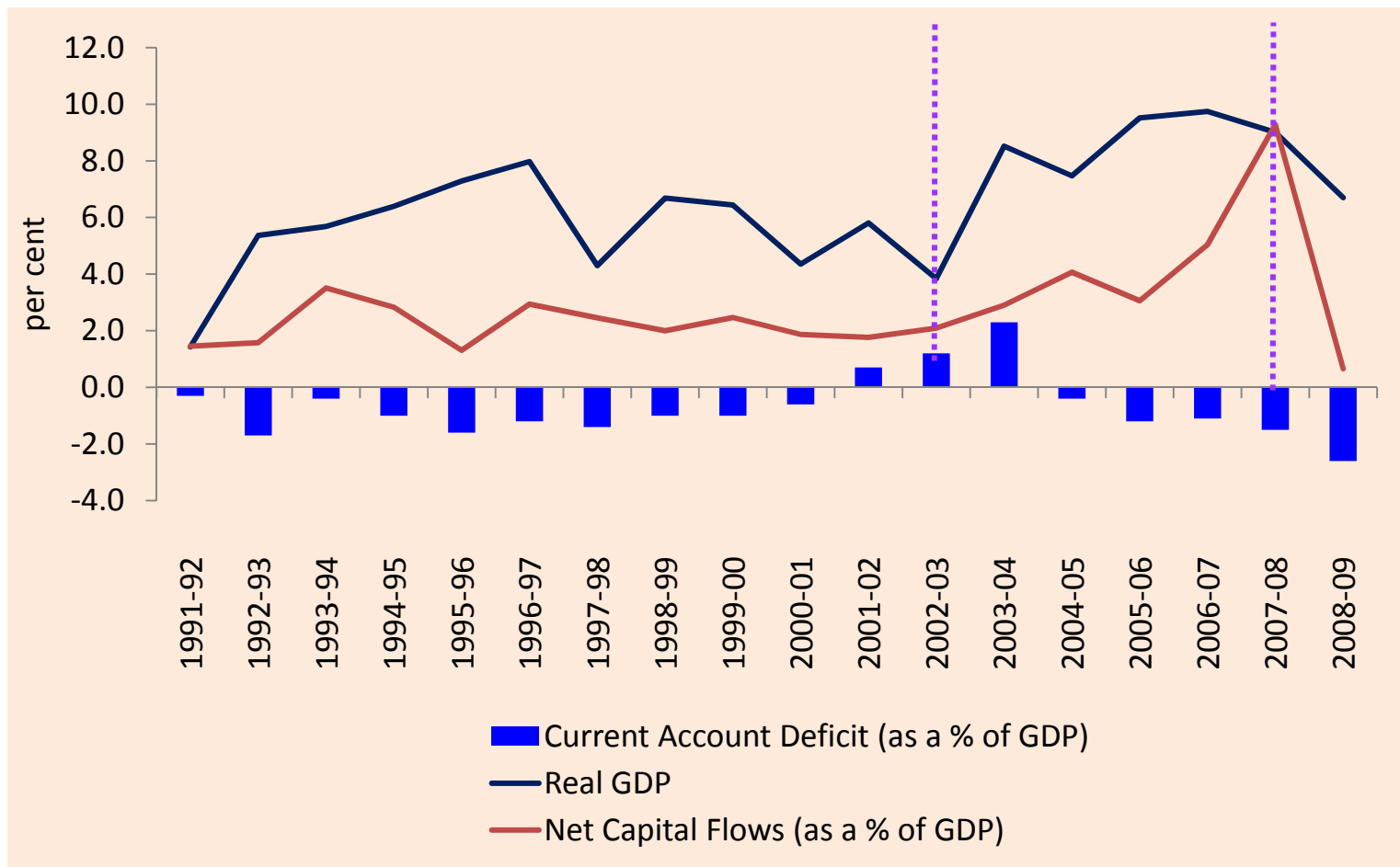
## *High Domestic Saving & Investment Rates- with Modest S/I Gap*



***Moderation in Inflation before the oil-price driven surge in 2008-09 and considerable easing thereafter.***



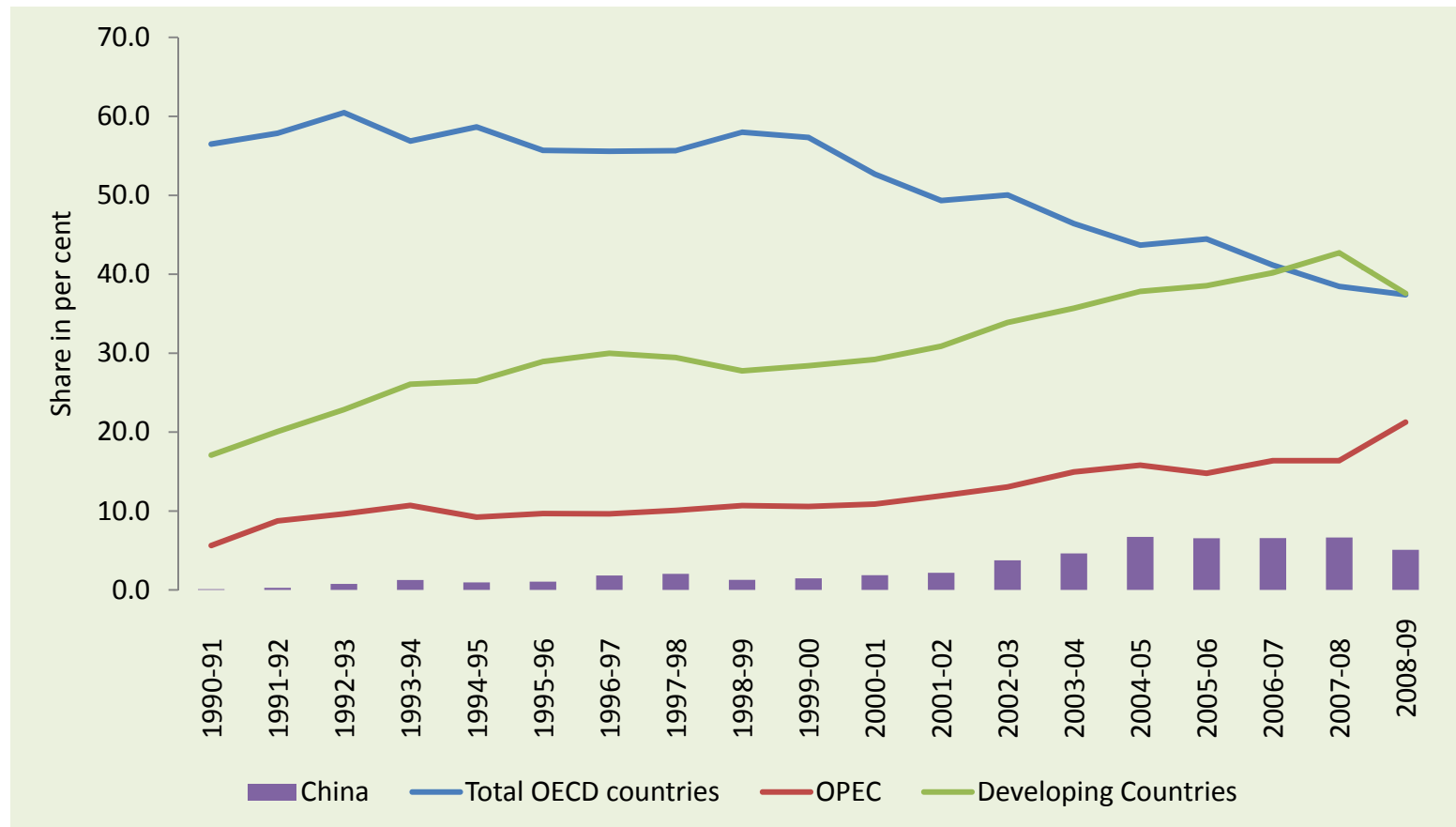
## ***Sustainable Current Account Balance & Surges in Capital Inflows***



## ***Growing Openness***

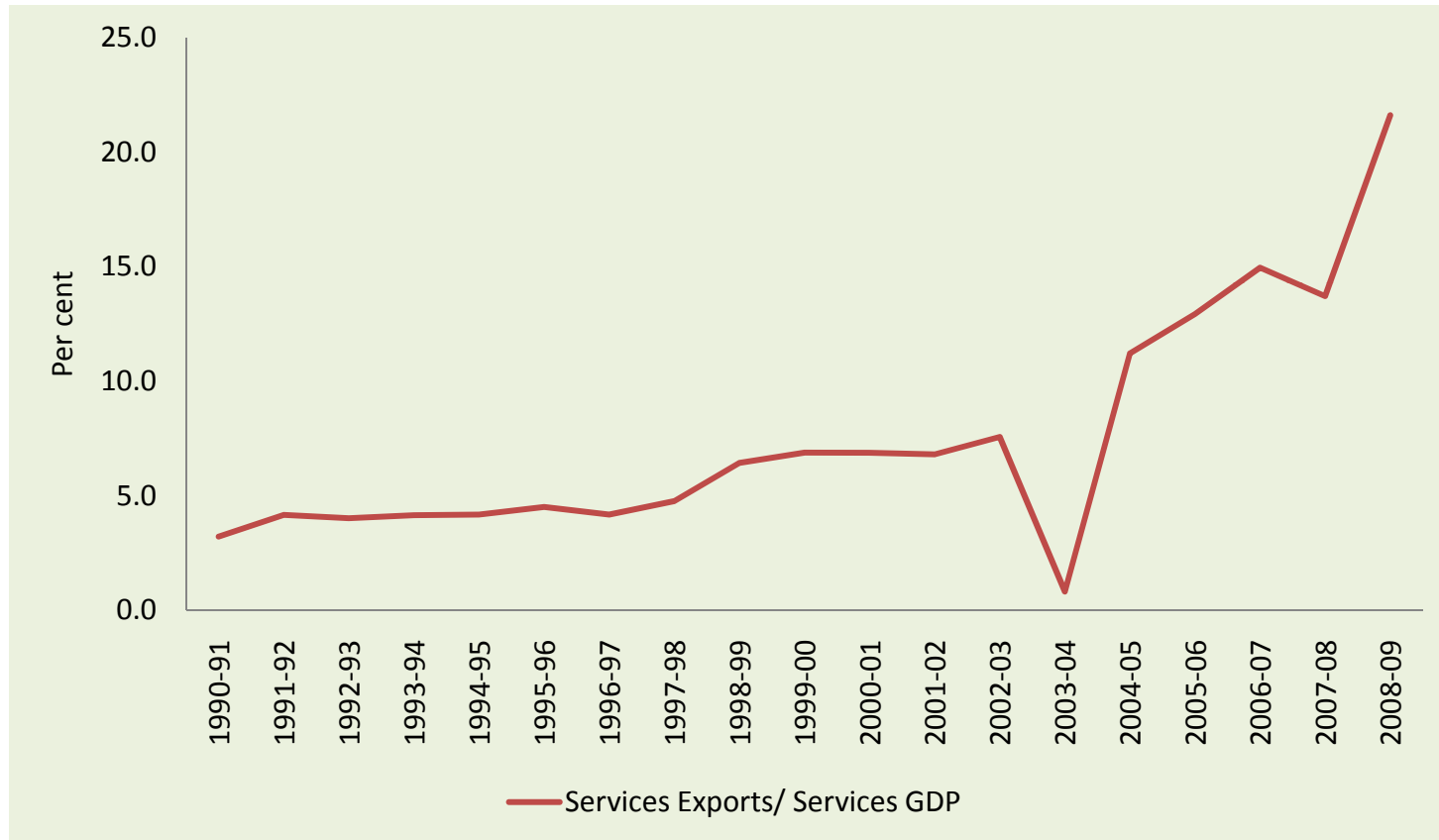
<b>India's Trade Openness (% of GDP)</b>				
	<b>Exports</b>	<b>Imports</b>	<b>Current Account</b>	<b>Capital Account</b>
<b>1990s</b>	<b>9.3</b>	<b>11.3</b>	<b>26.7</b>	<b>15.1</b>
<b>2000s</b>	<b>17.1</b>	<b>20.2</b>	<b>45.0</b>	<b>32.7</b>
<b>2008-09</b>	<b>19.0</b>	<b>23.2</b>	<b>60.5</b>	<b>51.0</b>

## *Exports: Growing Share of OPEC and Developing Countries*

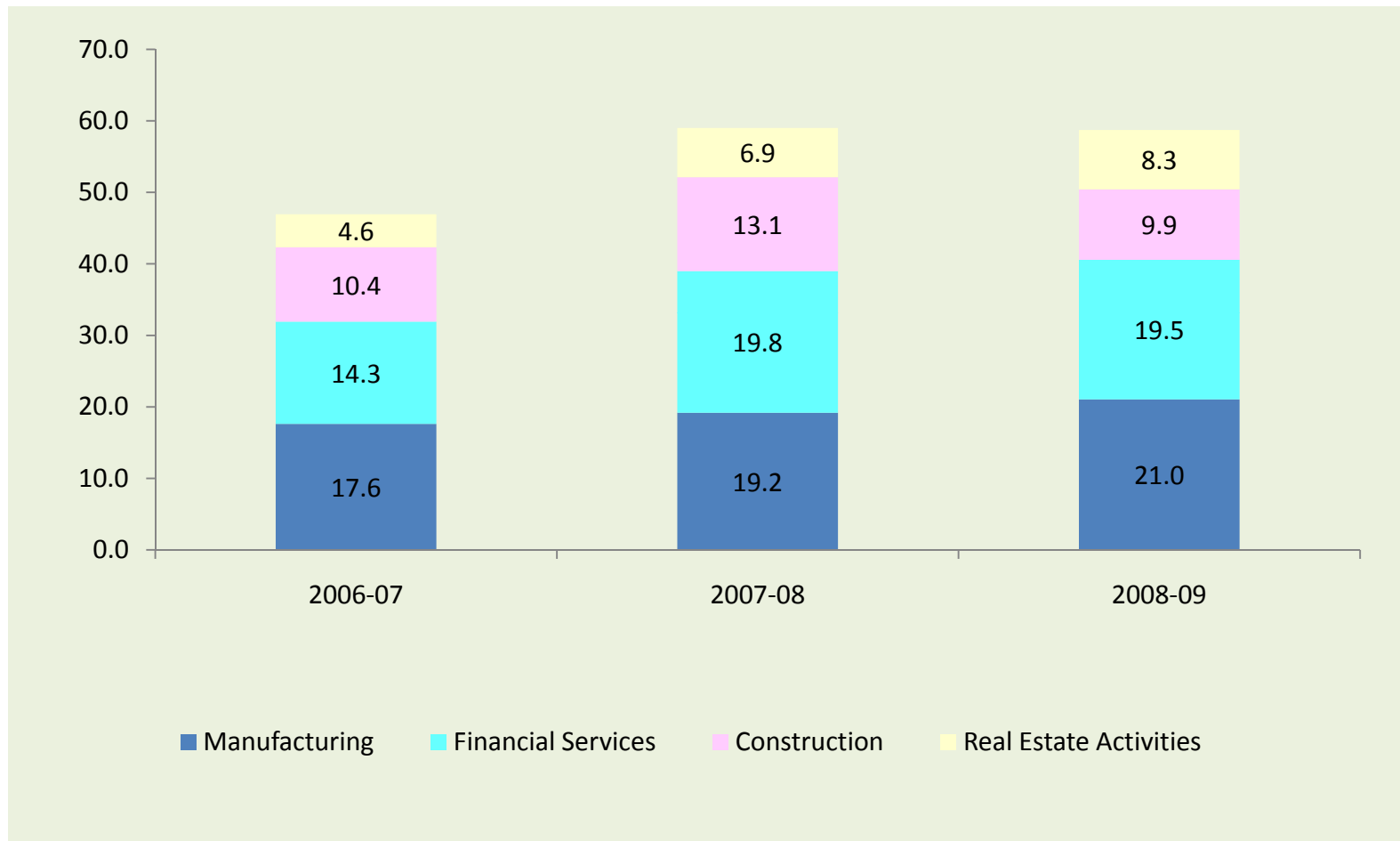


**China is the major trading partner now**

## ***Increased Tradability of Services***



## ***FDI Flows - Major Sector-wise (Shares in Total)***



## ***Outward FDI***

(US \$ million)

<b>Industry</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Manufacturing</b>	<b>4,185</b>	<b>5,409</b>	<b>8,096</b>
<b>Financial Services</b>	<b>28</b>	<b>88</b>	<b>143</b>
<b>Non-financial Services</b>	<b>7,527</b>	<b>1,748</b>	<b>1,154</b>
<b>Trading</b>	<b>659</b>	<b>1,050</b>	<b>937</b>
<b>Others</b>	<b>1,499</b>	<b>10,435</b>	<b>6,450</b>
<b>Total</b>	<b>13,898</b>	<b>18,730</b>	<b>16,780</b>



## **Current Trends - Real GDP Growth**

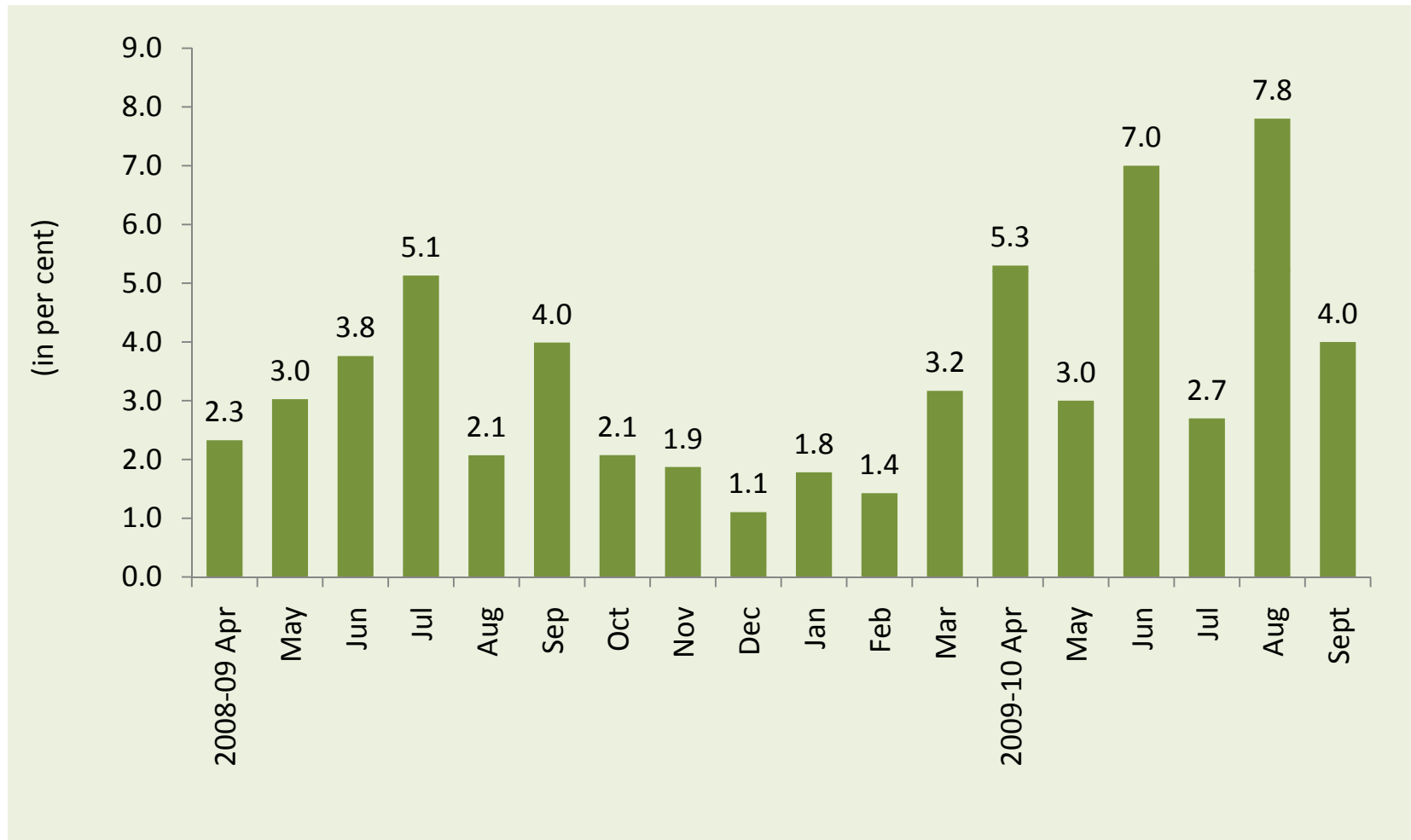
		(Per cent)							
Sector		2007-08*	2008-09#	2008-09				2009-10	
				Q1	Q2	Q3	Q4	Q1	Q2
1		2	3	4	5	6	7	8	9
1.	<b>Agriculture and Allied Activities</b>	4.9	1.6	3.0	2.7	-0.8	2.7	2.4	0.9
2.	<b>Industry</b>	7.4	2.6	5.1	4.8	1.6	-0.5	4.2	9.0
	(i) <b>Mining &amp; Quarrying</b>	3.3	3.6	4.6	3.7	4.9	1.6	7.9	9.5
	(ii) <b>Manufacturing</b>	8.2	2.4	5.5	5.1	0.9	-1.4	3.4	9.2
	(iii) <b>Electricity, Gas &amp; Water Supply</b>	5.3	3.4	2.7	3.8	3.5	3.6	6.2	7.4
3.	<b>Services</b>	10.8	9.4	10.0	9.8	9.5	8.4	7.7	9.0
	(i) <b>Community, Social &amp; personal services</b>	6.8	13.1	8.2	9.0	22.5	12.5	6.8	12.7
4.	<b>Real GDP at Factor Cost</b>	9.0	6.7	7.8	7.7	5.8	5.8	6.1	7.9

@: At 1999-2000 Prices    \*: Quick Estimates.    #: Revised Estimates.  
 Note : Figures in parenthesis indicate shares in real GDP.  
 Source: **Central Statistical Organisation.**

## ***Growth in Index of Industrial Production (Y-o-Y)***



## ***Growth in Infrastructure Industries (Y-o-Y)***



## ***Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters 2009-10***

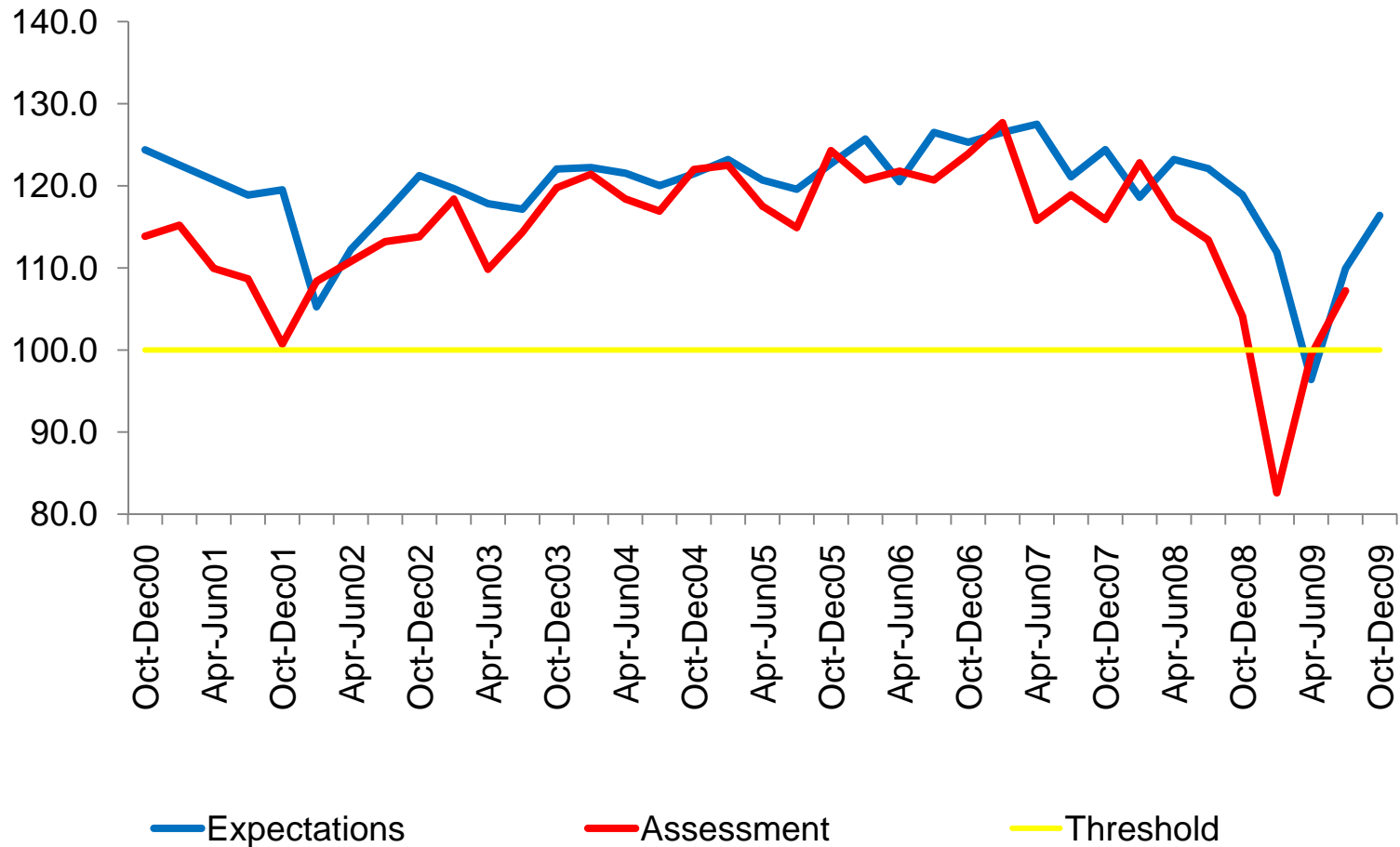
		Actual 2008-09	Annual forecasts			
			2009-10		2010-11	
1		2	E	L	E	L
			3	4	5	6
1.	Real GDP growth rate (%)	6.7	6.5	6.0	7.5	7.7
2.	Gross Domestic Saving as % of GDP	-	35.0	33.6	36.0	36.6
3.	Gross Domestic Capital Formation as % of GDP	-	36.6	37.3	37.9	37.7

**E : Earlier Projection. L : Latest Projection.**

**Source : Survey of Professional Forecasters, Second Quarter 2009-10**

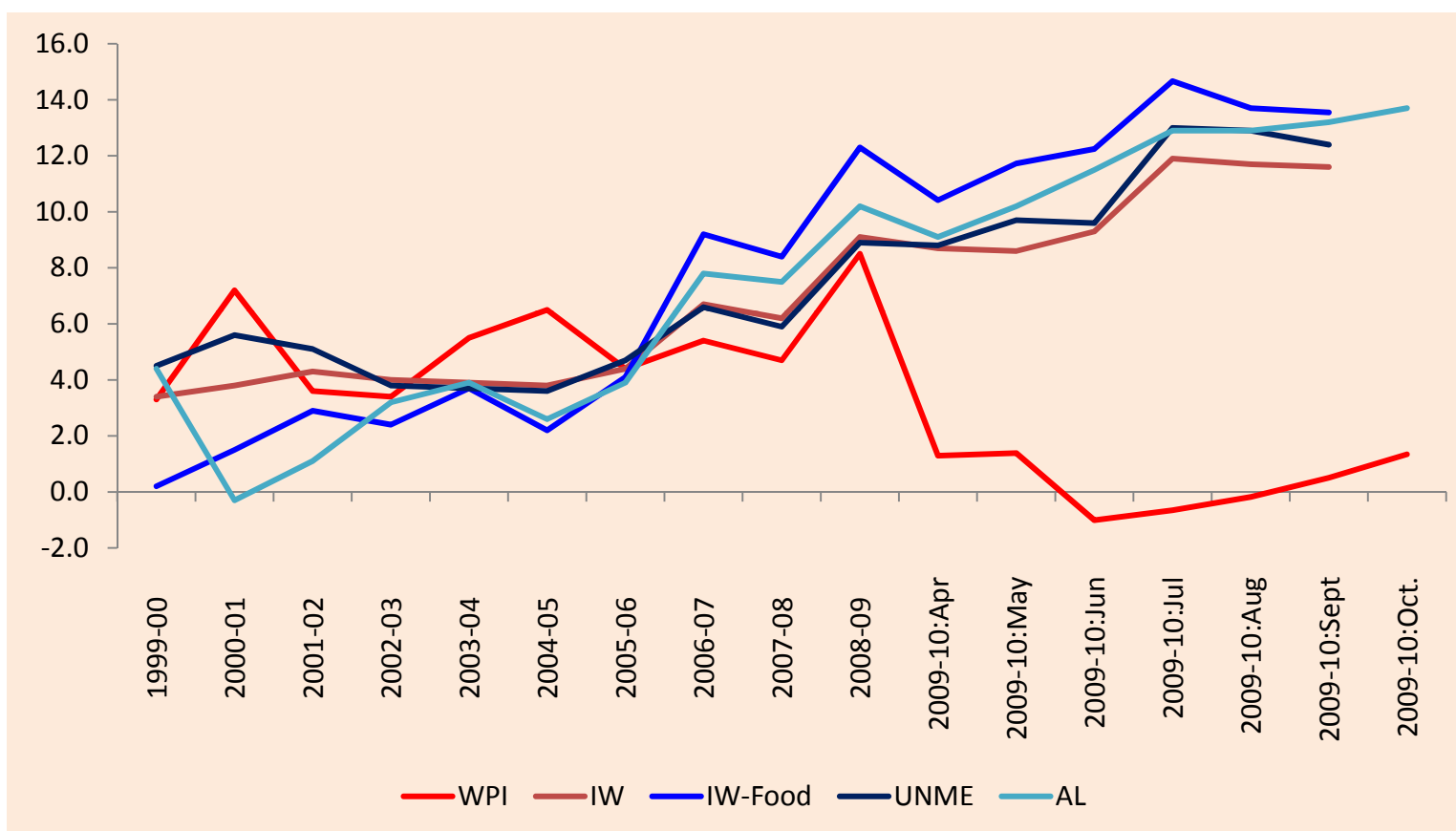
# Turnaround in Industrial Outlook Survey Results

Reserve Bank's Industrial Outlook Survey- Business Expectations Index



## Section III – Monetary and Inflation conditions

### Inflation - WPI and CPI

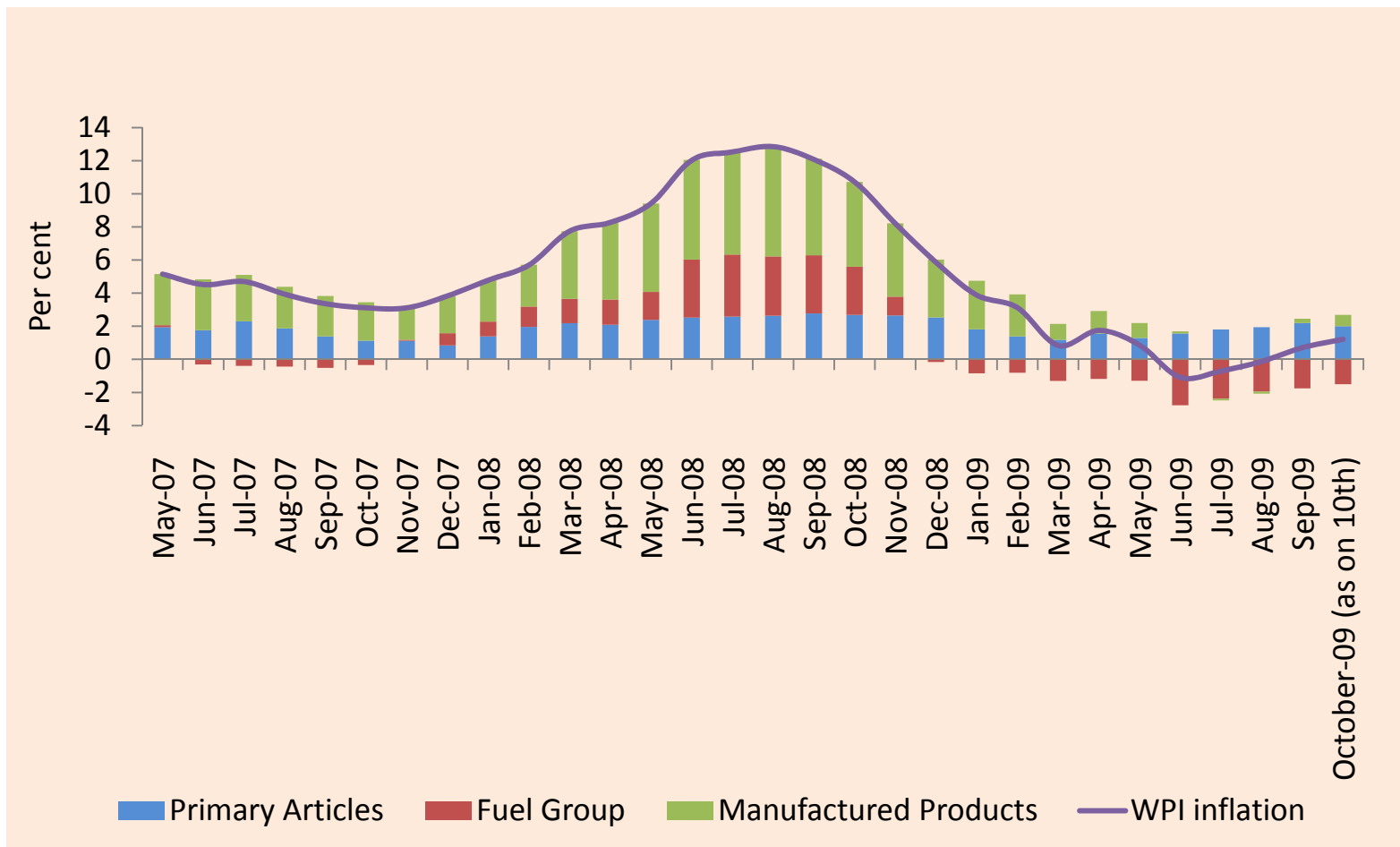


IW : Industrial workers. UNME : Urban non-manual employees

AL : Agricultural labourers. IW : Industrial workers.

IW and IW - Food data since January 2006 are based on New Series (Base : 2001=100).

## Contribution of Major Groups to WPI Inflation

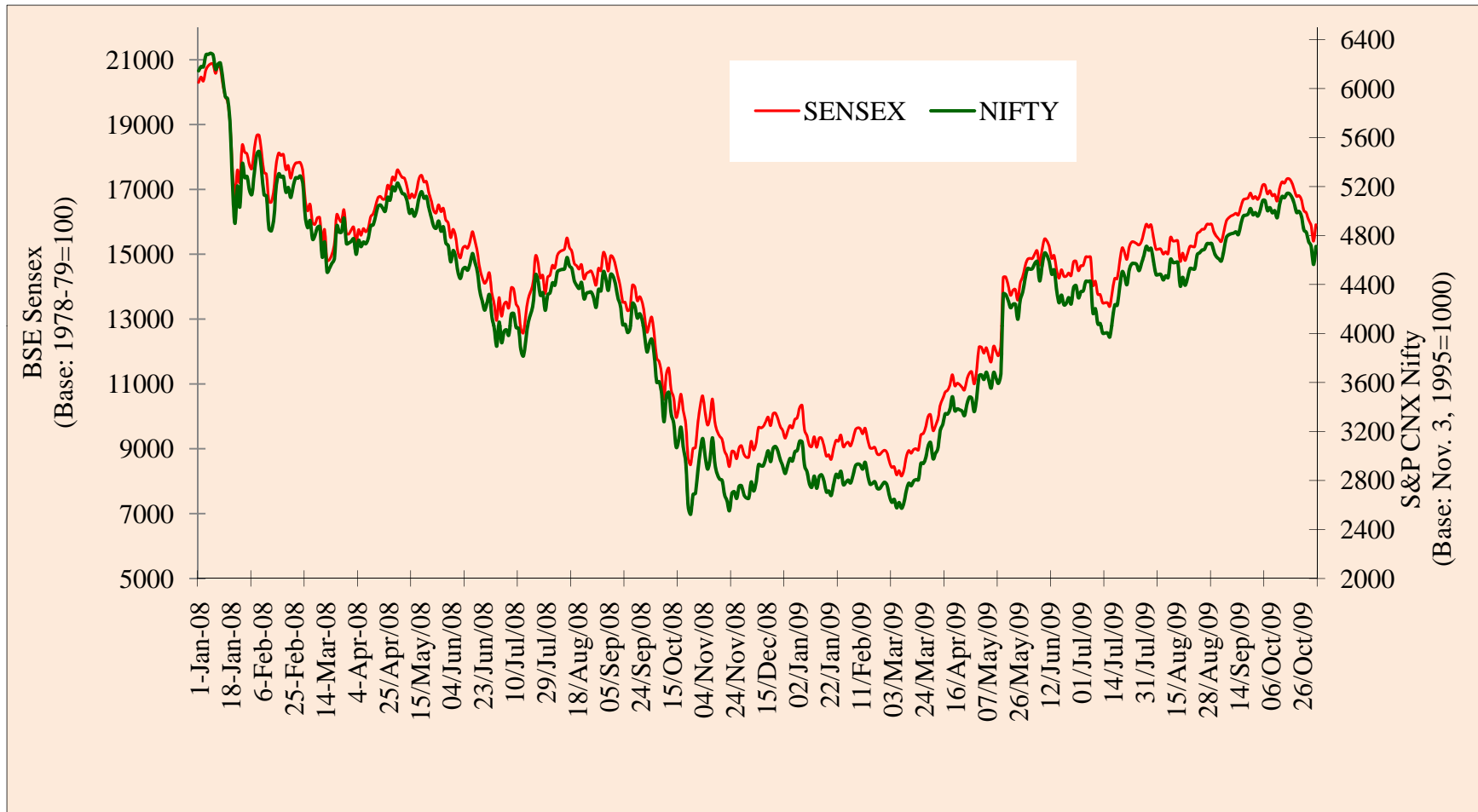


## *Recent WPI Inflation-Major Sub Groups (y-o-y )*

	Primary Articles		Fuel group		Manufactured Products		All commodities	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
Apr	8.9	6.6	7.0	-5.7	8.1	1.8	9.51	6.32
May	9.5	6.3	7.7	-6.1	9.0	2.2	10.58	6.49
Jun	10.6	6.5	16.3	-12.5	10.6	0.6	10.77	7.23
Jul	10.8	7.2	17.2	-10.3	11.1	0.0	11.41	7.93
Aug	11.4	7.9	17.2	-9.3	11.8	0.0	11.60	9.37
Sep	11.6	9.4	16.6	-8.2	10.9	0.3	12.33	0.50
Oct	<b>12.4</b>	<b>8.7</b>	<b>14.1</b>	<b>-6.6</b>	<b>9.4</b>	<b>1.4</b>	<b>12.09</b>	<b>1.34</b>
Nov	12.1		6.4		7.8		11.16	
Dec	11.2		-0.2		6.6		10.69	
Jan	10.7		-1.7		5.2		6.87	
Feb	6.9		-3.4		4.8		5.24	
Mar	5.2		-6.0		2.3		6.61	



## Indian Stock Markets



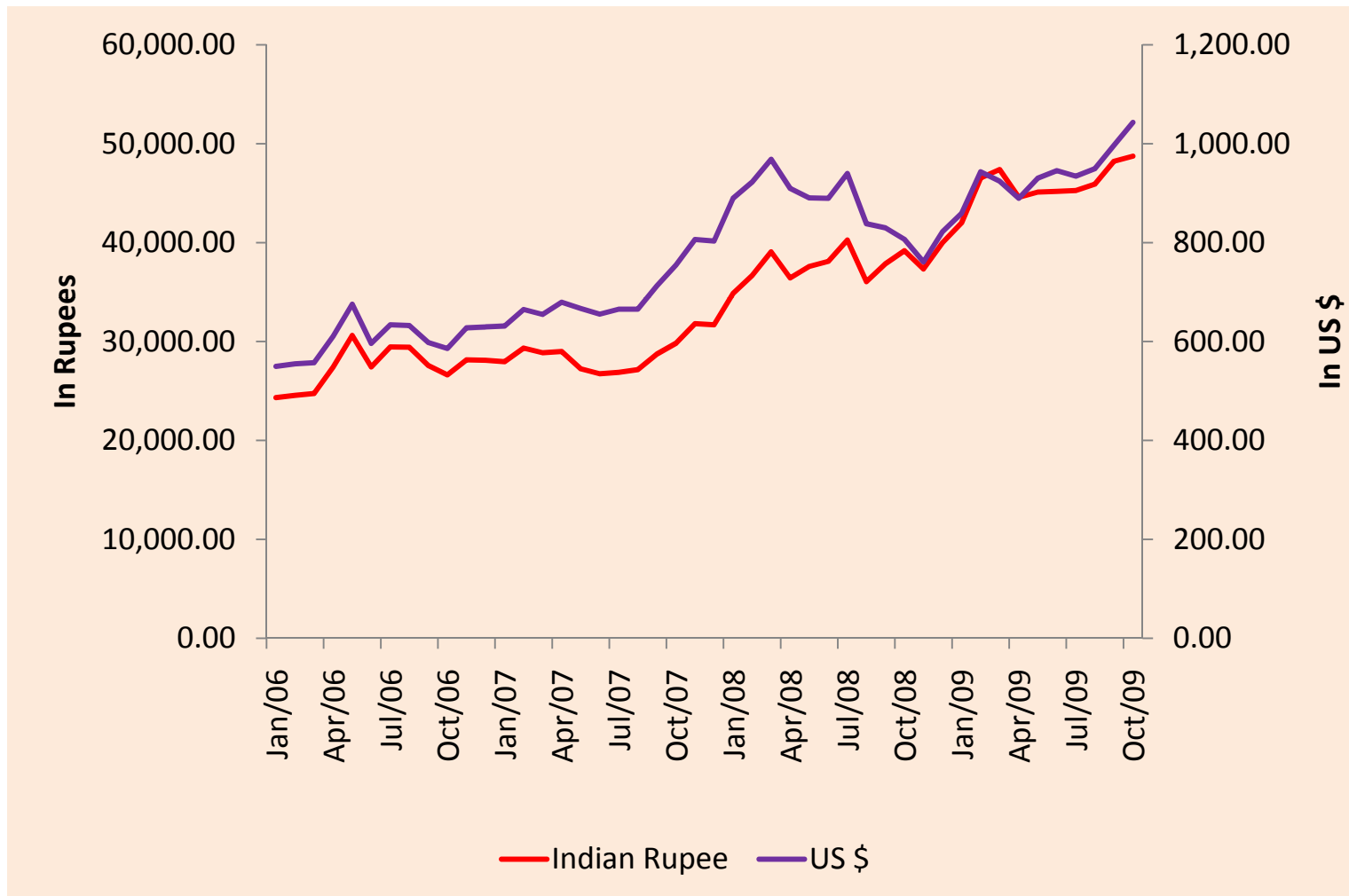
- **Equity market revived indicating restoration of investor's confidence**

## ***Movement in Housing Prices***

### **NHB RESIDEX**

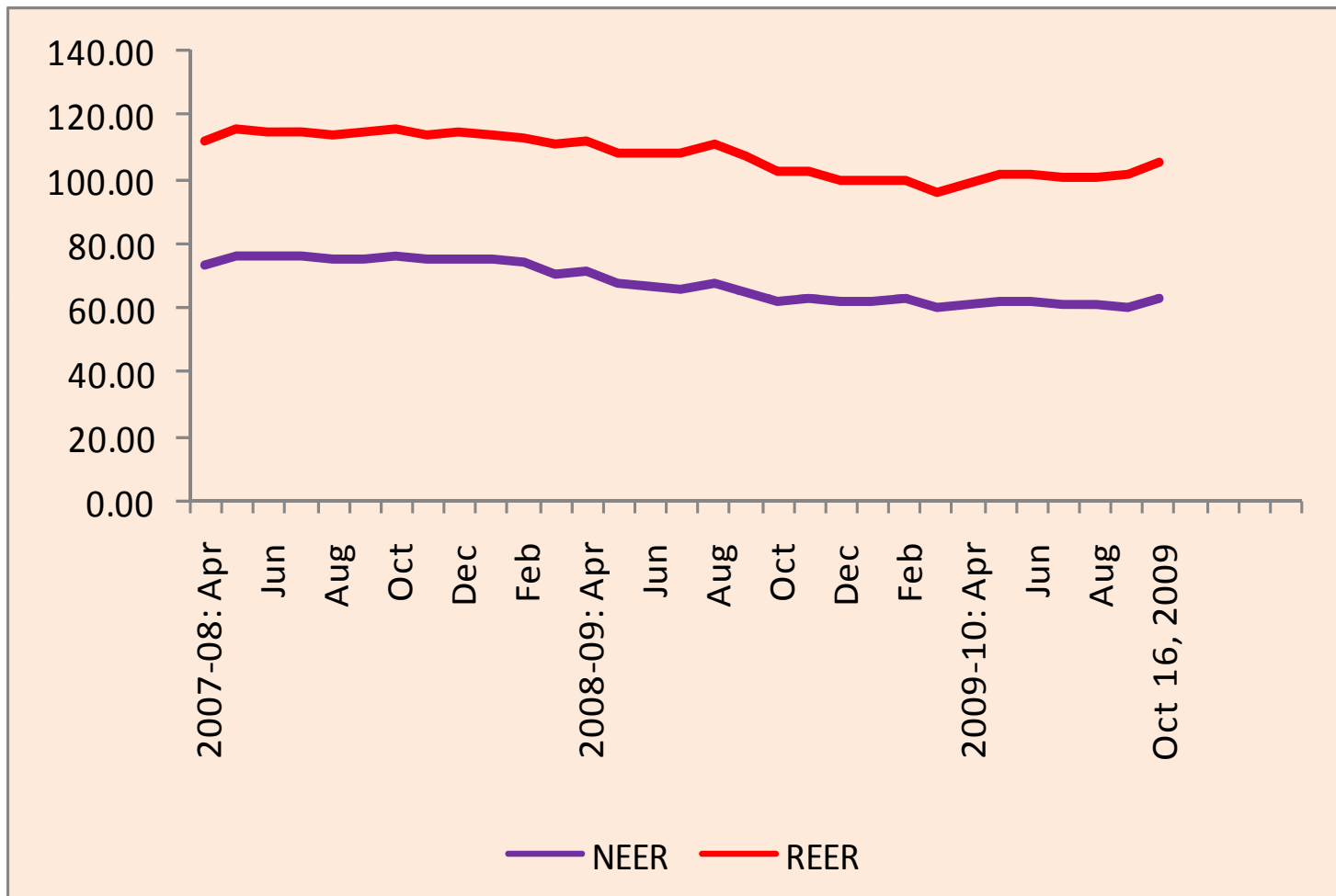
<b>Cities</b>	<b>2008 Jan- June</b>	<b>2008 July- Dec</b>	<b>2009 Jan-Jun</b>
<b>Delhi</b>	124	130	121
<b>Bengaluru</b>	73	76	58
<b>Mumbai</b>	112	117	124
<b>Kolkata</b>	114	140	159
<b>Hyderabad</b>	96	92	65
<b>Ahmedabad</b>	106	100	127
<b>Chennai</b>	104	95	120

## Movement in Gold Prices

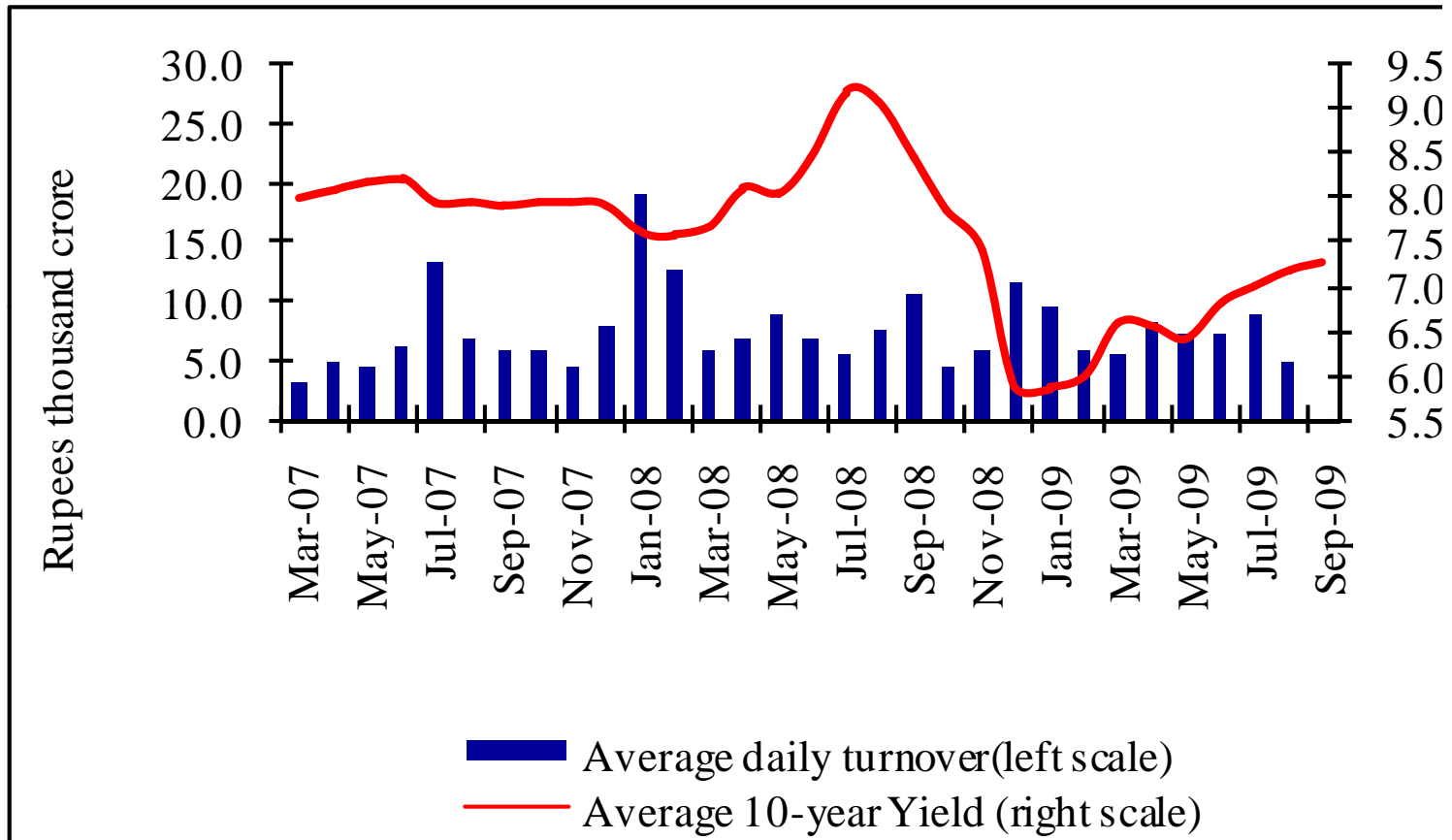


# ***Movement in Exchange Rate***

(6-currency trade based weights)

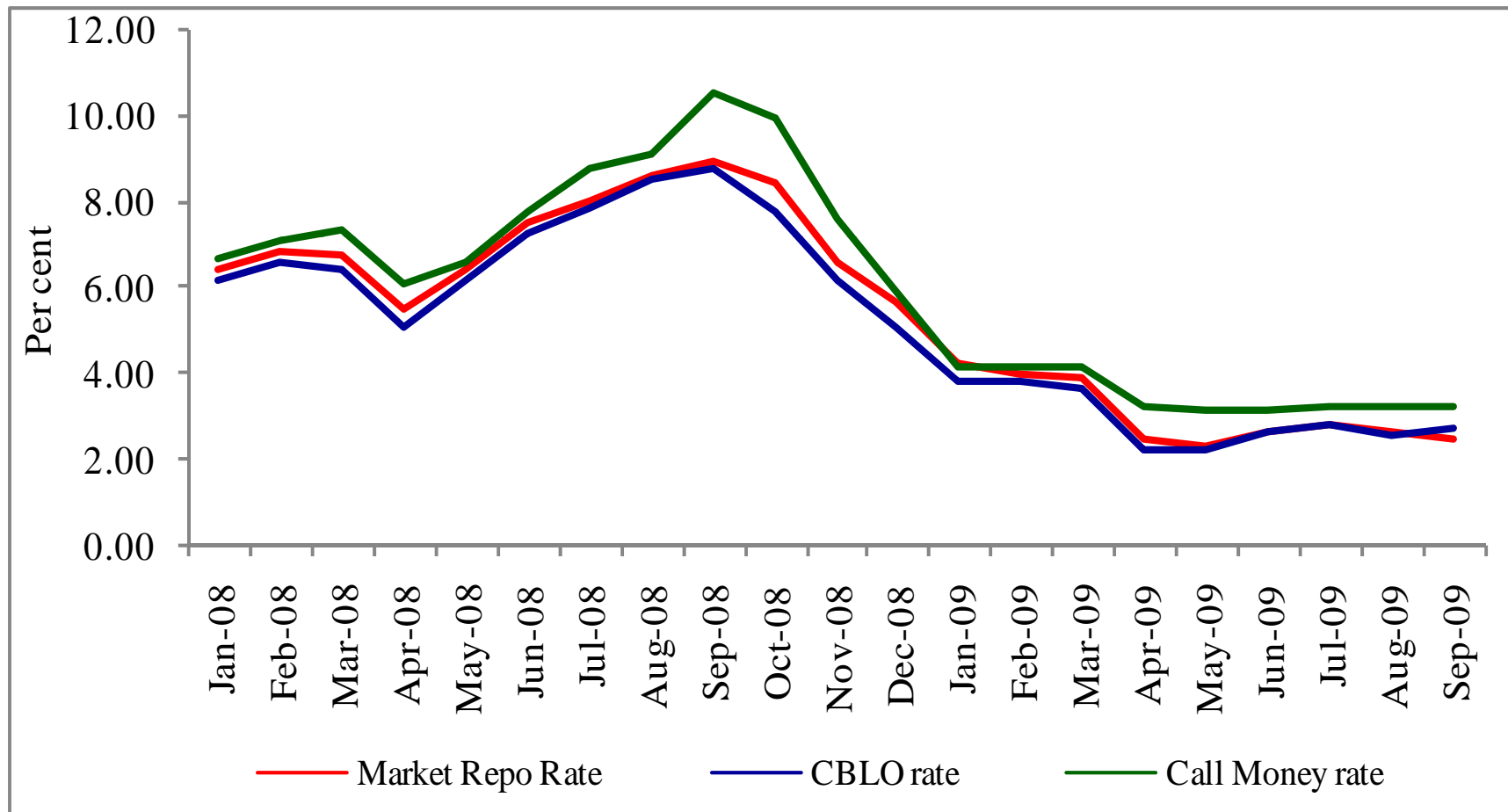


## G Secs –10-Year Yields



# *Trends in Money Market*

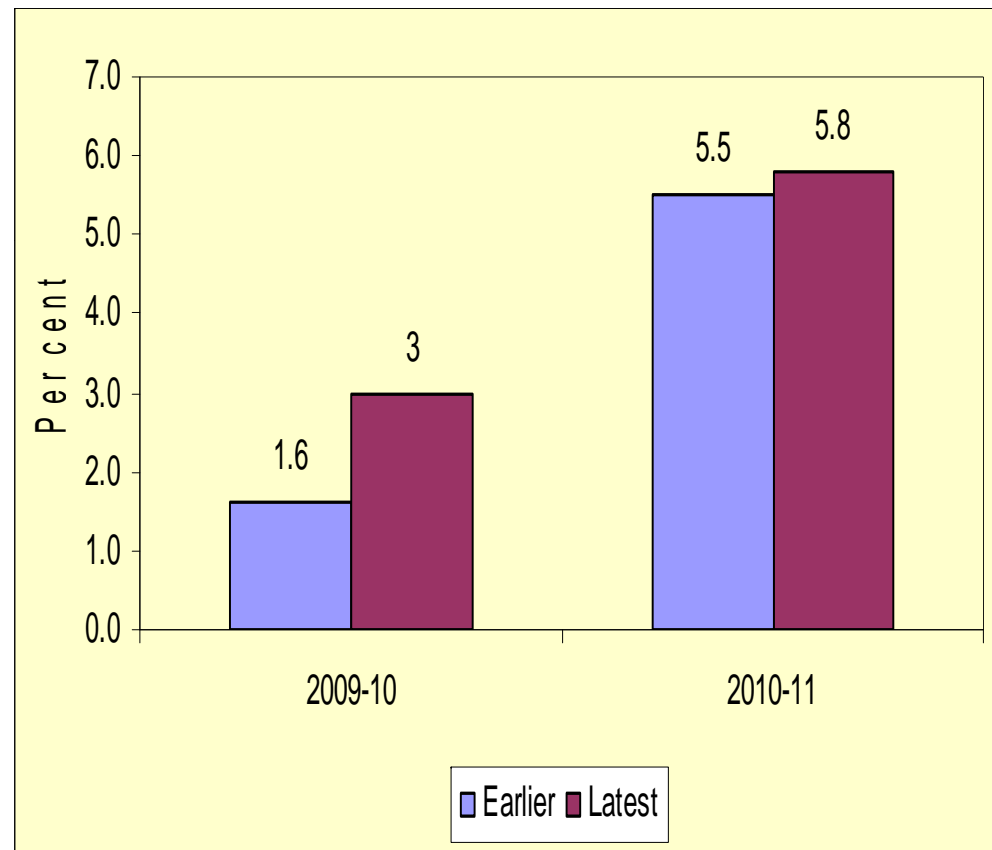
## Money Market Interest Rates



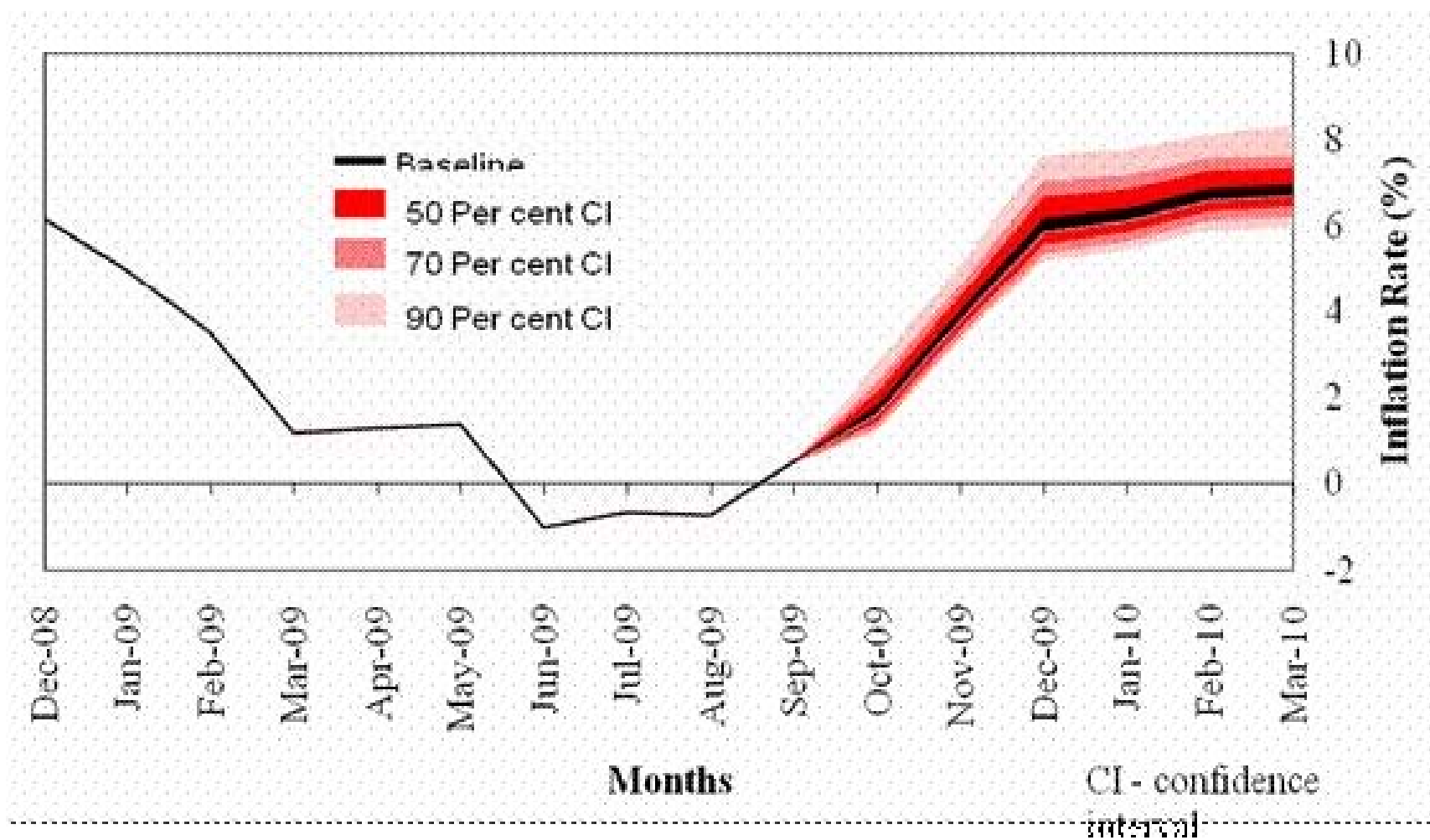
# ***Inflation Expectations- WPI (Survey of Professional Forecasters 2009-10 Conducted by RBI)***

**RBI's quarterly inflation expectations survey for households:**

**Inflationary expectations remain contained, but majority respondents expect inflation rate to increase over the next 3 months and also over the next year**

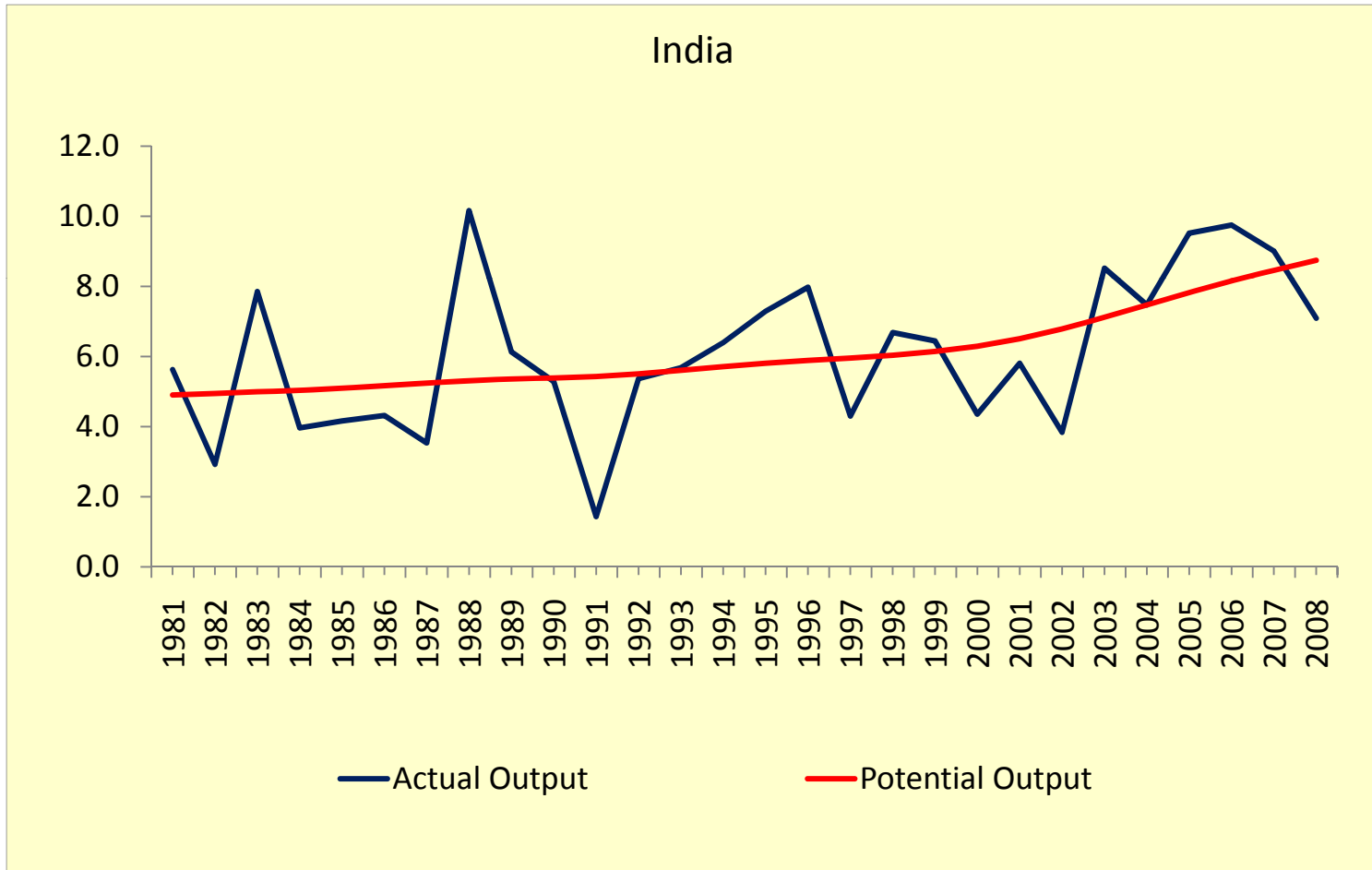


## Projected path of Y-o-Y WPI Inflation

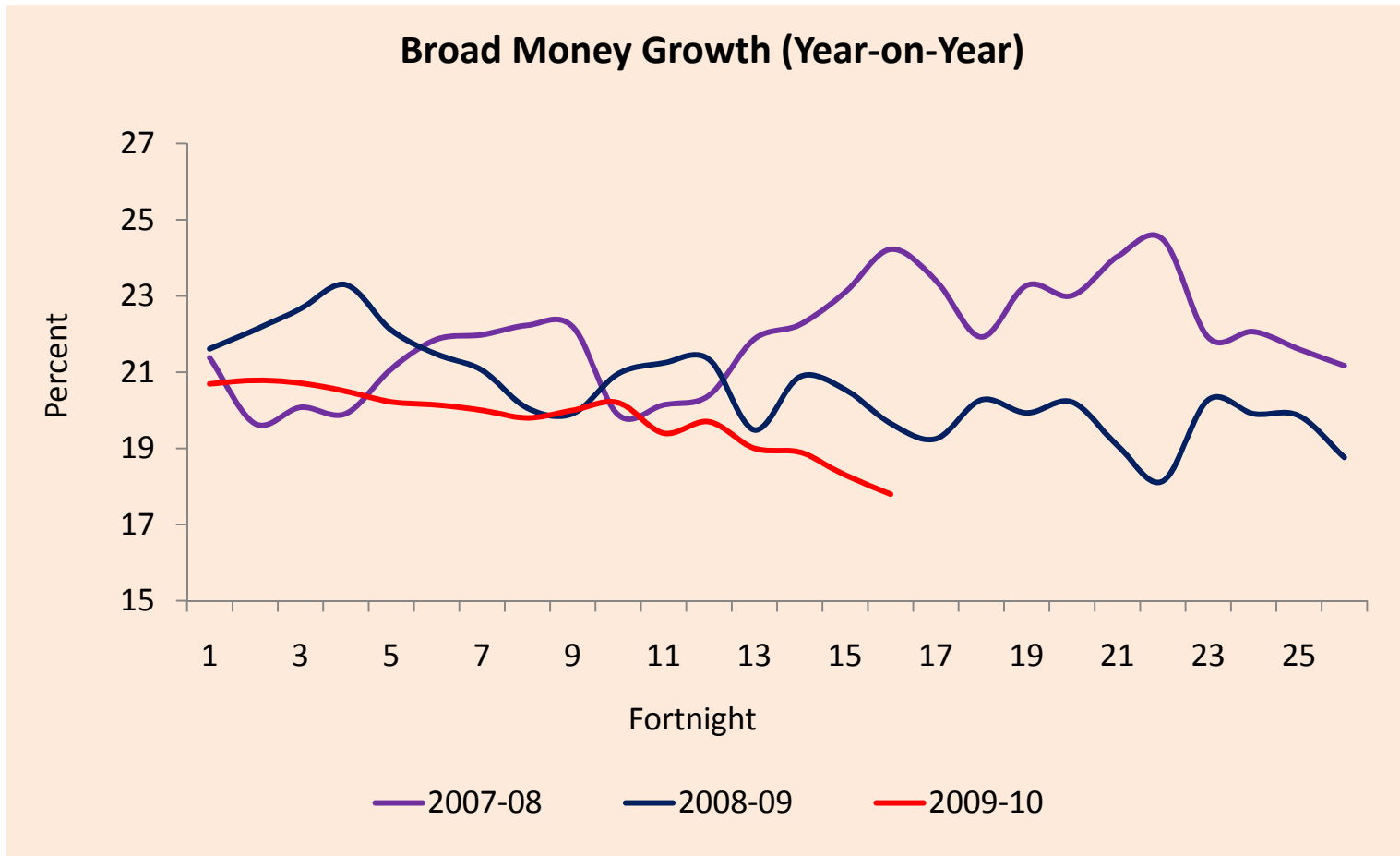




# Output Gap



# Money Supply (Growth in M3)



## **Section IV – Impact of Global Crisis**

### **Demand Condition**

Demand side of GDP (1999-2000 Prices) (per cent)								
Item	2007-08*	2008-09#	2008-09				2009-2010	
			Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9
<b>Growth Rates</b>								
(i) Private Final Consumption Expenditure	8.5	2.9	4.5	2.1	2.3	2.7	1.6	5.6
(ii) Government Final consumption Expenditure	7.4	20.2	-0.2	2.2	56.6	21.5	10.2	26.9
(iii) Gross Fixed Capital Formation	12.9	8.2	9.2	12.5	5.1	6.4	4.5	1.9
(iv) Exports	2.1	12.8	25.6	24.3	7.1	-0.8	-10.9	-15.0
(v) Imports	6.9	17.9	27.4	35.3	21.7	-5.7	-21.1	-29.8

\*: Quick Estimates      #: Revised Estimates.

Source: Central Statistical Organisation.

## ***Impact on Fiscal Situation: Key Indicators***

<b>Year</b>	<b>Primary deficit</b>	<b>Revenue deficit</b>	<b>Gross Fiscal Deficit</b>
1	2	3	4
		<b>Centre</b>	
2007-08	-0.9	1.1	2.7
2008-09 RE	2.5	4.4	6.0
2009-10 BE	3.0	4.8	6.8
		<b>States</b>	
2007-08	-0.6	-0.9	1.5
2008-09 RE	0.7	-0.1	2.7
2009-10 BE	1.4	-0.6	3.4
		<b>Combined</b>	
2007-08	-1.3	0.2	4.2
2008-09 RE	3.5	4.4	8.9
2009-10 BE	4.5	5.5	10.2

RE: Revised Estimates: BE: Budgeted Estimates.

Note; data pertain to 27 State Governments.

## Impact on Capital Flows

Net Capital Flows (US\$ billion)

Item	2008-09	2008-09				2009-10	2009-10
	April-March	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	So far
1	2	3	4	5	6	7	8
1. Inward FDI	35.0	11.9	8.8	6.3	8.0	9.5	17.7*
2. FII's	-15.0	-5.2	-1.4	-5.8	-2.6	8.2	19.0**
3. External Commercial Borrowings	8.2	1.5	1.7	3.9	1.1	-0.4	9.9@
4. NRI Deposits	4.3	0.8	0.3	1.0	2.2	1.8	3.0#
5. Other Banking Capital	-7.7	1.9	1.9	-6.0	-5.4	-5.2	N.A
6. Short-term Trade Credits	-5.8	2.4	1.3	-4.0	-5.5	-3.1	N.A
<b>Total</b>	<b>9.1</b>	<b>11.1</b>	<b>7.6</b>	<b>-4.3</b>	<b>-5.3</b>	<b>6.7</b>	

\*: Pertains to Apr-Sept. 2009 ( US \$ 19.0 billion for the corresponding period of the previous year.

\*\* : pertains to Apr-Nov 20, 2009 ( US \$ -12.2 billion ( outflows) during the corresponding period of the previous year) .

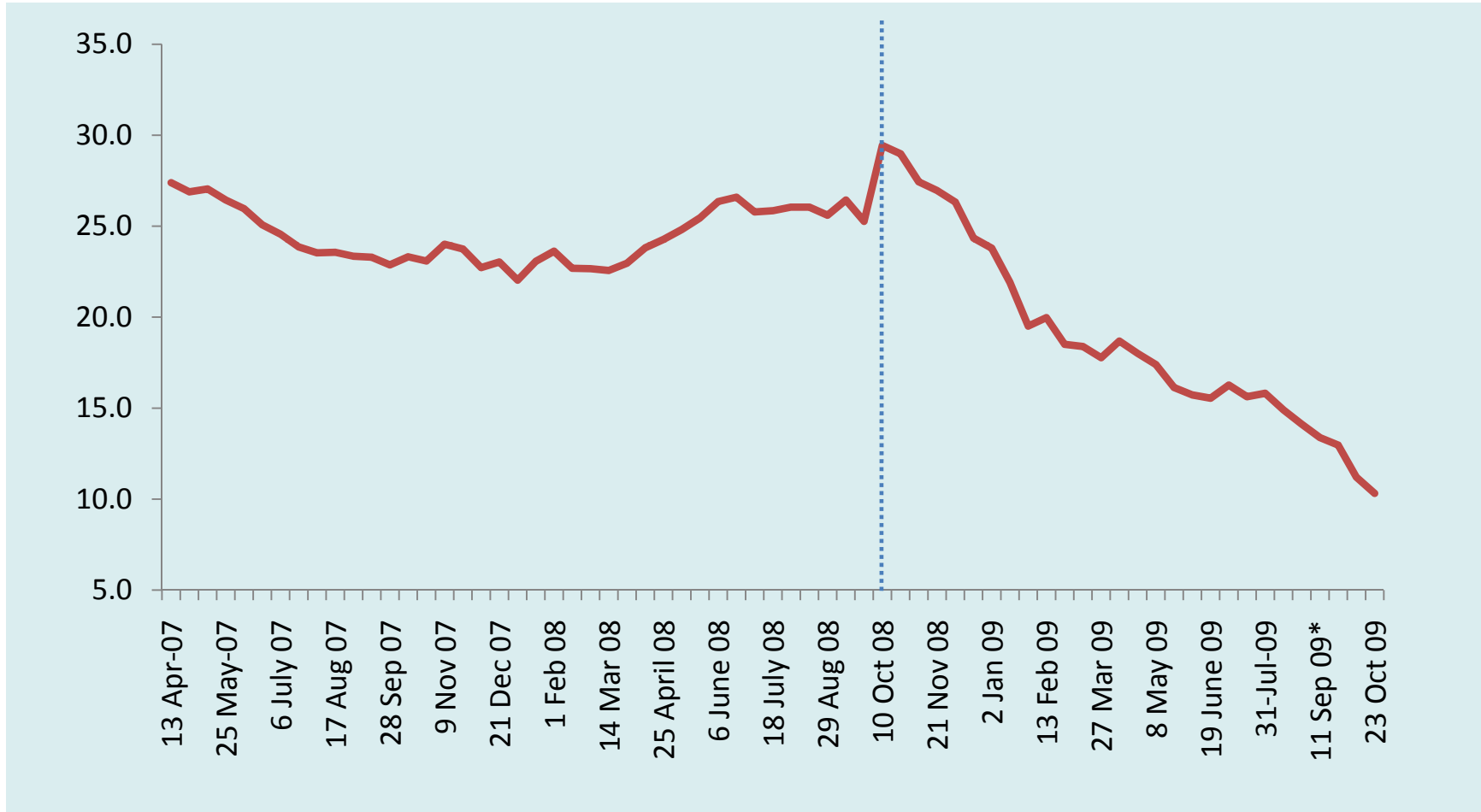
@: ECBs ( approvals) pertains to Apr-Oct. 2009 ( US \$ 11.3 billion during the corresponding period of the previous year ).

#: pertains to Apr-Oct. 2009 ( US \$ 1.2 billion during the corresponding period of the previous year ). 37

## ***Impact on Exchange Rate, Reserves***

- **Exchange Rate Appreciation by about 10 % since March 09**
  - *vis-à-vis* depreciation from Rs.40.02 per US dollar (April 08) to Rs.51.23 per US dollar (March 09)
- **Revival in capital inflows , particularly foreign investments**
  - Capital account turnaround to a positive balance of US\$ 6.7 billion during the first quarter of 2009-10, second quarter inflows have further improved.
- **Increase in Reserves (including valuation)**
  - By US\$ 34.7 billion to US\$ 286.7 billion this year so far (Nov. 27, 09)

## ***Non-Food Bank Credit Growth (Year on year)***



## ***Sectoral Deployment of Non-Food Bank Credit***

Sector/Industry	Outstanding September 25, 2009 (Rs. crore)	Year-on-Year Variation	
		Sep-09/Sep-08 Per cent	Sep-08 /Sep-07 Per cent
<b>Non-Food Bank Credit (1 to 4)</b>	<b>26,92,843</b>	<b>12.6</b>	<b>25.7</b>
<b>1. Agri. &amp; Allied Activities</b>	<b>3,36,935</b>	<b>22.4</b>	<b>19.7</b>
<b>2. Industry</b>	<b>11,41,253</b>	<b>16.5</b>	<b>34.6</b>
<i>of which:</i> Textiles	1,06,352	5.5	24.3
Infrastructure	3,18,147	46.1	34.9
Chemical & Chem. Prod.	76,679	-1.4	41.9
Petro., Coal Products etc.	70,290	-4.1	95.9
Iron & Steel	1,13,139	22.2	31.9
<b>3. Personal Loans</b>	<b>5,66,439</b>	<b>2.4</b>	<b>12.0</b>
<i>of which:</i> Housing	2,87,159	6.4	9.6
<b>4. Services</b>	<b>6,48,216</b>	<b>11.3</b>	<b>29.6</b>
<i>of which:</i> Trade	1,53,204	15.4	18.8
Real Estate	94,032	33.9	41.8
NBFC	1,05,630	29.4	49.7
Professional Services	47,712	22.9	60.5
<b>Memo:</b>			
Small Enterprises	3,31,038	21.3	19.8
Manufacturing	1,84,837	28.0	16.5
Services	1,46,201	13.8	23.8

Data are provisional.



## **Flow of Resources to Commercial Sector**

Amount in \$ billion

	Full Year		% $\delta$	April- Sept		% $\delta$
	2007-08	2008-09		2008-09	2009-10	
<b>A. Non-food Bank Credit (NFC)</b>	<b>95.0</b> <b>(44.1)</b>	<b>90.0</b> <b>(47.3)</b>	<b>-5.3</b>	<b>51.3</b> <b>(51.3)</b>	<b>23.1</b> <b>(31.9)</b>	<b>-55.0</b>
<b>B. Flow from Non-banks (B1+B2)</b>	<b>120.6</b> <b>(55.9)</b>	<b>100.2</b> <b>(52.7)</b>	<b>-17.0</b>	<b>48.8</b> <b>(48.8)</b>	<b>49.2</b> <b>(68.1)</b>	<b>1.0</b>
<b>B1. Domestic Sources</b>	<b>54.5</b> <b>(25.3)</b>	<b>63.8</b> <b>(33.5)</b>	<b>17.1</b>	<b>26.2</b> <b>(26.2)</b>	<b>30.0</b> <b>(41.5)</b>	<b>14.5</b>
<b>B2. Foreign Sources</b>	<b>66.1</b> <b>(30.6)</b>	<b>36.4</b> <b>(19.1)</b>	<b>-44.9</b>	<b>22.6</b> <b>(22.6)</b>	<b>19.2</b> <b>(26.6)</b>	<b>-15.0</b>
<b>C. Total Flow of Resources (A+B)</b>	<b>215.6</b>	<b>190</b>	<b>-11.8</b>	<b>100.0</b>	<b>72.0</b>	<b>-28.0</b>

Figures in bracket are share in total

## ***Policy Response - Fiscal Measures***

- **Central Government launched two stimulus packages in Dec'08 and Jan '09 amounting to 3% of GDP**
- **The stimulus packages included :**
  - **Capital expenditure, Government guaranteed funds for infrastructure spending**
  - **Cuts in indirect taxes**
  - **Expanded guarantee cover for credit to MSEs**
  - **Additional support to exporters**
- **The stimulus packages came on top of :**
  - **Expanded safety-net for rural poor**
  - **Farm loan waiver package and**
  - **Salary increases for government staff**

## ***Monetary Measures***

- **CRR reduced from 9 % to 5%;**
- **SLR reduced from 25% to 24% (Now reversed)**
- **Repo rate reduced: 9 % to 4.75 %; Reverse repo: 6% to 3.25%**
- **Fresh issuances under MSS stopped**
  - **Buyback of existing MSS securities resorted**
- **Term repo introduced through banks for MFs, NBFCs (Now reversed)**
- **Special refinance facilities for specialized FIs**
  - **SIDBI, NHB and EXIM Bank**
- **Measures for forex liquidity**
  - **Sale of forex and swap facility**
  - **Increase in interest rate spreads on non-resident deposits trade credit and ECB**
  - **Easing of restrictions on ECB**

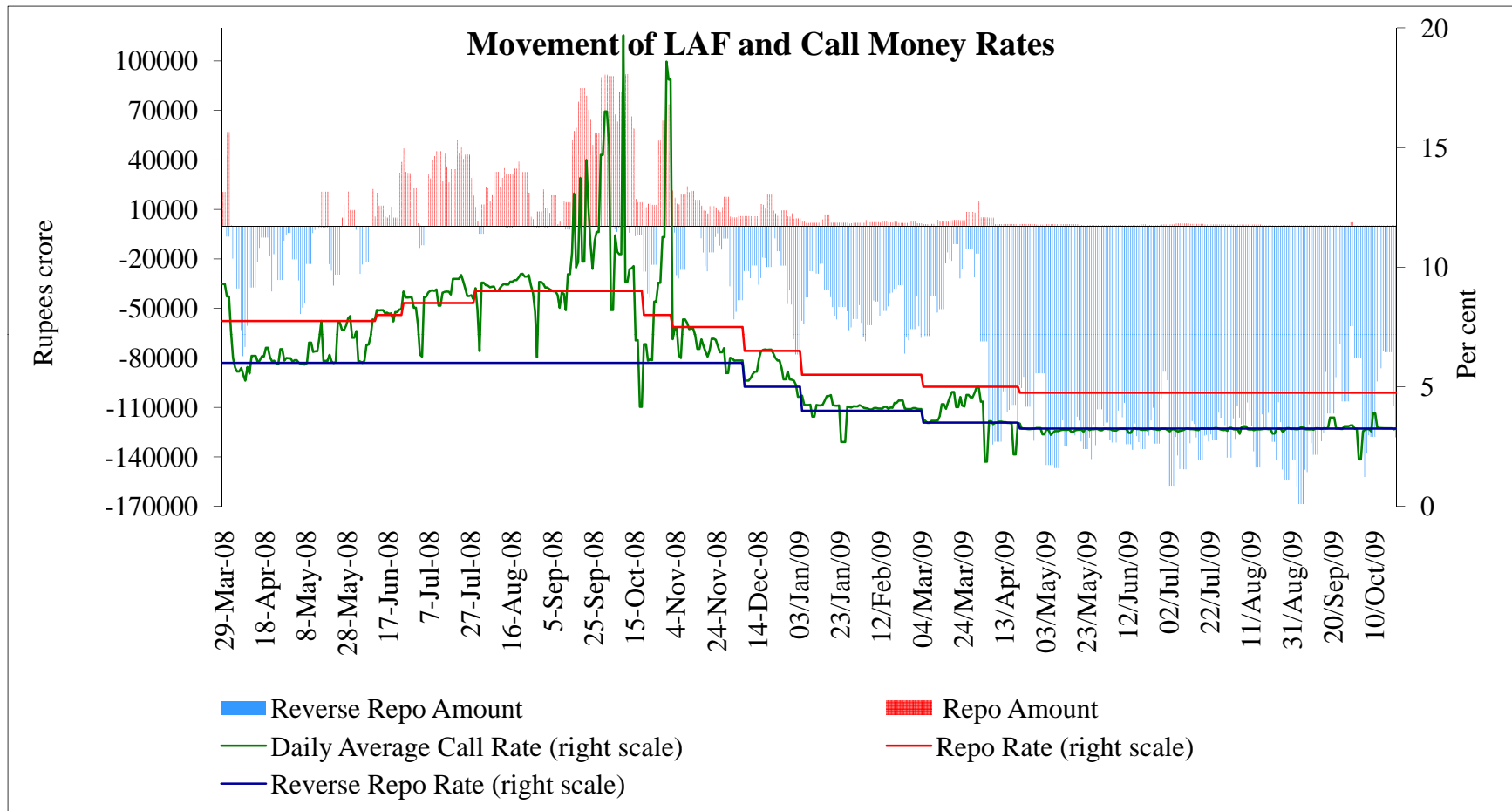
# *Regulatory Measures*

- **For mitigating pro-cyclicality**
  - Provisioning for standard assets reduced to 0.40%
  - Risk weights that had been increased restored to 100 per cent
- **For preserving the economic/productive value of assets**
  - restructured accounts permitted to be treated as standard assets
- **NBFCs, in view of their need for raising capital, have been:**
  - allowed to issue perpetual debt instruments
  - allowed time of one more year to comply with 15% CRAR

## ***Recent Measures***

- **SLR, which was reduced from 25% to 24% of DTL restored to 25 %**
- **Export credit refinance Limit, which was raised to 50 % returned to 15%**
- **Non-standard refinance facilities being discontinued**
- **Provisioning cover for NPAs increased to 70 per cent**
- **Specific provisioning for standard CRE assets increased to 1%**
- **Minimum lock in period and minimum retention by originators laid down for securitisation exposures**

# Impact of Policy Actions



- **Inter-bank call rate reverts to (within) LAF corridor - LAF window in net absorption mode**

## ***Resilience of India's Banking Sector***

- **Limits on exposure to real estate capital markets**
- **Managing liquidity risk- SLR, interconnectedness**
- **Countercyclical regulatory policies during credit boom from 2005-07**
- **Approach to financial conglomerates**
- **Existence of a measure akin to leverage ratio for Developmental Financial Institutions (multiples of NOF)**
- **Large NBFCs brought under regulation even if non deposit taking**
- **Gradual and sequential approach to capital a/c liberalisation**

## **Key Indicators - India's Banking Sector**

	(Amount in Rs. crore)		
Items	Mar-00	Mar-08	Mar-09
CRAR	11.10	13.01	13.19
Core CRAR (%)	8.20	9.06	8.95
No. of banks having CRAR >9%	96	79	79
Reporting Banks	101	79	79
Gross NPAs	58189	55844	68222
Gross NPAs to Gross Advances	13.11	2.39	2.44
Net NPAs	29402	24892	31102
Net NPAs to Net Advances	7.08	1.08	1.13
Provisions For Credit Losses	23335	29343	34543
Provision Coverage Ratio	40.10	52.54	50.63
NIM	2.69	2.37	2.44
Return on Total Assets	0.66	0.99	1.02



## ***Section V***

### ***Way Forward - Issues***

- **Growth vis-a-vis Price Stability**
  - Recovery still fragile
  - WPI inflation turned +ve and CPI inflation remains elevated
- **Supply side – but inflationary expectations**
  - High food prices due to supply side constraints
- **Demand side-fiscal stimulus**
- **Managing capital flows**
  - Large capital flows & Asset prices could feed on each other
  - Exchange rate appreciation/cost of sterilisation
- **Managing Government borrowing**

## ***Way Forward - Issues***

- **Financial inclusion**
  - IT based solutions - scaling-up, inter-operability
- **Sectoral focus**
  - Infrastructure, MSE and agriculture
- **Fiscal rectitude**
  - Early return to fiscal consolidation
  - Managing subsidies
  - Improving productivity of expenditure
- **Financial stability**
  - Excess liquidity
  - Asset bubbles