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*He has been appointed as a Director on the boards of New India Assurance Company Limited and Export-Import Bank of India for a term of three years and he has also been appointed as a Member of the Oversight Committee for India Infrastructure Finance Company Limited.*

*He is also a Director on Baroda Pioneer Asset Management Company Ltd, a Joint Venture between the Bank and Pioneer Investments, Italy. He also serves as a Director on the Board of Agricultural Finance Corporation of India.*

*He is a member on various committees of Indian Banks' Association and National Institute of Bank Management (NIBM), Pune.*

# Indian

## Well poised for better growth

**I**ndian economy could demonstrate its resilience by recovering quickly from the impact of global financial crisis and is cruising ahead to fall in line with the past growth trends. Though the direct impact of the financial crisis on the Indian economy was negligible, the deep down swings even in other major economies have hit our exports, manufacturing and service sector due to our increasing engagement with the rest of the world.

After posting an average growth rate of 8.8 per cent in previous five years (2003-04 to 2007-08), the economic growth of 6.7 per cent in 2008-09 and a projected growth of 9 per cent in 2009-10 are clear symptoms of resurgence of the economy well poised to soon leap towards earlier pace. Another notable feature of growth of Indian economy has been the rising trend in the gross domestic capital formation increasing from 27.6 per cent in 2003-04 to 39.1 per cent in 2007-08. Much of this rise is attributable to increase in investment by corporate sector. The growth in capital formation is amply supported by a rise in the savings as a percentage of GDP rising from 29.8 per cent to 37.7 per cent during the same period.

A look at the granular composition of GDP in 2008-09 indicates that 17 percent comes from agriculture, 18.5 percent is contributed by industry and 64.5 percent flows from service sector as against 17.8 percent, 18.5 percent and 63 percent respectively in 2007-08. This trend

# Economy

indicates that there is meager change in the composition leaving immense potentiality for agriculture and industry to do better in 2009-10 though service sector occupies a strategic position as a major contributor to the growth of the economy. India still continues to be the back office of the world creating future for outsourcing and human intensive call center activities. These opportunities have marginally mellowed down in 2008-09 but have the potentiality to regain pace.

Coming to the specific of growth segments, the focus areas could be financing technology and digitalization, nano-technology projects, IT parks, retail sector, health care, health clubs, lifestyle ventures, development of fashion and design technology, private security services, training and private education, knowledge parks,

entertainment industry, travel and tourism. Infrastructure projects such as Express highways, multiple flyovers, bridges, development of waterways, ships and ship building, ports, airports, power, telecommunication and such other projects.

Other focus areas could also be financing agro and agro based food-processing industries. Floriculture, horticulture, processing and export of seafood and organic farming. Financing units generating commercial non-conventional energy such as solar, windmills, energy from recycled waste, projects reducing carbon emission; green projects etc will also need attention.

In this backdrop, good spurt in industry, agriculture and service sector can be expected during the year setting path for a 9 per cent growth. Though the scant rainfall in some states is a matter of concern that could affect agriculture growth, the economy in general can withstand the ramifications of weak monsoon.

Moreover, the signs of revival in the economy are also evident from the macro economic perspectives mapped in the Economic Survey 2008-09. The main provisions of the Budget too are clearly articulated to disseminate growth down to the bottom of the pyramid. The increased allocations for Bharat Nirman (45 per cent), National Rural Employment Guarantee Scheme ( 144 percent), higher allocations for National Highways (23 Per cent) and urban infrastructure are meant to create more growth opportunities in the hinterland. The opportuni-



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ties can promote enterprise to those who can sense the upcoming growth.

An effective financial intermediation is essential to sustain growth. Hence the resource mobilization and deployment are critical to keep the different sectors of the economy growing. In the case of deposits, Reserve Bank of India has fixed a target of 18 per cent growth for 2009-10. The growth in deposits in 2008-09 at 22 per cent is less than 23.1 per cent recorded in 2007-08. During the current year 2009-10, though banks have reduced the interest rates on deposits, the deposit growth in first quarter (April-June 2009) has been 3.6 per cent, higher than 1.8 per cent recorded in the previous year.

In the case of advances, year-on-year growth in credit at 15.7 per cent for the first quarter is lower than 26.1 per cent growth recorded in 2008. It is also lower than 20 per cent target set by the central bank for the current year. The target for agriculture credit flow is set at Rs.325000 crores in 2009-10 as against Rs 287000 crores of last year. Interest subvention of 2 per cent on pre-shipment export credit is extended to March 2010. ECGC cover at 95 per cent is also extended to March 2010.

The growth oriented measures provided in the budget backed by the recent surge in Index for Industrial Production (IIP), commitments of the government to push up disinvestments, likely rise in FDI limits in insurance and banking sector have already improved market sentiments in stock markets. These pointers will stimulate growth in the second quarter onwards when the demand for bank credit is expected to pick up. The FII inflows are also set to rise pushing up liquidity position.

As far as the money markets are concerned, since September 2008, we have seen a gradual southward movement of interest rates. While the repo and reverse repo has come down from 9 % to 4.75 % and from 6 % to 3.25%, the individual banks have also brought down interest rates. The



liquidity conditions are better, the investments of banks through reverse repo window has gone up. There has been an overhang of liquidity in the money market. Banks have in general brought down BPLR by 200-250 basis points between September 2008 and are now falling in line with market developments. With the likely spurt in the demand for credit from the current quarter, entrepreneurs can foresee a stabilization of interest rates at this stage.

The recap of the current developments of economy more than amply reveals the immense prospects for multi dimensional growth in agriculture, industry and service sector. The role of entrepreneurs in coming forward to expand activities will be critical in engineering growth. Liquidity is sufficient, banks are gearing up to focus on expanding credit, and government is providing several sops to put the economy on fast track. A right blend of enterprise, tapping timely finance and support of government policies can strike the right target of growth. The economy is in for better growth prospects.