

5 February 2009

## India EcoTrix – February '09

Theme: *Beyond deflation. Fear price volatility*

GDP Growth: 7.8% (FY09e)

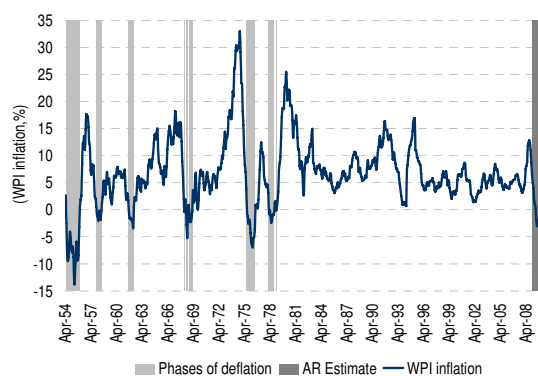
Inflation: 1.0% (Mar '09e)

Rs/US\$: 45.00 (Mar '09e)

- We forecast India to experience deflation starting May '09, for the first time in three decades. We, however, do not expect this to last for long (around six months). We are more concerned about the ongoing price instability becoming worse. The emerging scenario is moving the terms of trade in favour of agriculture (vs manufacturing), enhancing the role of government spending (vs private investment and discretionary spend) and boosting financial savings (vs physical savings). The trend reversals would favour investment themes linked to government spending, rural demand and banks and disfavour those aligned towards private investment, discretions and external demand.

**Also in this issue:**

- **GDP** – We expect India's growth to moderate to 7.8% and 7.5% in FY09 and FY10, respectively.
- **IIP** – Industrial growth in Nov '08 was 2.4%. Despite immediate term headwinds, we expect a slight recovery by end FY09.
- **Inflation** – Inflation continues to ease. We expect deflation in 1HY09. Significant monetary softening by end FY09 expected.
- **Government finance** – Sharp fall in non-tax revenue and strong jump in revenue expenditure take the fiscal deficit to alarming levels.
- **Foreign trade** – The trade deficit in Dec '08 has halved from the high reached in Aug '08, mainly due to the contraction in oil imports.
- **BoP** – The current account deficit has been moderated by record workers' remittances. We expect 3QFY09 numbers to be alarming.

**Fig 1 – India last experienced deflation in the late '70s**

Source: Government of India, Anand Rathi Research.

**Fig 2 – Key forecasts**

(%)	FY08	FY09e	FY10e
Real growth - GDP	9.0	7.8	7.5
Wholesale price inflation	4.6	8.5	4.5
Consumer price inflation	6.2	9.4	4.0
Fiscal deficit to GDP	3.0	4.6	4.0
Bank deposits	22.0	18.0	17.0
Bank credit	21.6	20.0	16.0
Export growth	25.1	11.0	6.0
Import growth	31.7	20.0	-5.0

Source: Government of India, Anand Rathi Research.

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