

# NEWS ALERT

## *Overheating China melts Indian market*

### THE BLOW

- China's GDP surges 10.7% between Oct and Dec, compared with a year earlier
- Consumer inflation rises to 1.9% in Dec from 0.6% previous month

### IMPLICATION

- Beijing expected to lift interest rates in next few months

### RIPPLE EFFECTS

- Dollar rises to its highest in 4 months
- Asian markets other than Japan close in the red

### **BANKS SEE LOAN DEMAND INCREASING IN JANUARY AS MANY COS SEE THEIR SURPLUS INVENTORIES DRY UP**

However, even with this surge, banks are far from achieving the 18% growth rate projected by RBI.

In the past few quarters, many corporate had surplus inventories and thus did not feel the need to borrow as much. Now in many cases, this inventory has been exhausted and they are back in the market for working capital loans.

## **Something New! TAKEOUT FINANCING**

After a fortnight of moving uncertainly within a narrow range, the stock market finally gave way on Thursday, with the Sensex and Nifty falling 2.4%. Analysts attributed this to the lower-than-expected quarterly corporate profits, as well as to weak global markets.

### What is the takeout financing scheme?

The takeout financing scheme is aimed at encouraging commercial banks to lend more to the infrastructure sector. Under the scheme, banks lend to infrastructure projects, but sell a part of that loan to a third party after a certain period of time.

### Why is takeout financing important for infrastructure projects?

Core sector have long gestation periods and therefore, require long term funds, which banks are unable to provide because of the risks of asset-liability mismatch. By selling a part of the loan to an institution that has long term funds, banks are able to reduce lending that involves some asset-liability mismatch.

For details, refer The Economic Times, Jan 22, 2010; page 11