



Update on Indian Economy

August 2007

Economic Snapshot

Contents	Item	Units	July	June	July	(% Change	
			2007	2007	2006	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	212.6	211.9	203.9	0.33	4.3
- Capital Market	WPI -Inflation**	Per cent	4.3	4.8	4.7		
- Industry: Crude oil		Week ended	08.07.07	02.06.07	08.07.06		
- Other Markets	IIP (93-94=100)	2 months lag	264.2	255.9	234.4	3.24	12.71
- Important Policy Pronouncements			(May 07)	(Apr 07)	(May 06)		
	INR / US\$	Month End	40.44	40.75	46.51	(0.76)	(13.05)
	M3	Rs. '000 Cr.	3434.64	3377.62	2820.65	1.69	21.77
	[i] Agg. Deposits	Rs. '000 Cr.	2936.83	2871.24	2382.46	2.28	23.27
	[ii] Currency	Rs. '000 Cr.	497.82	506.38	438.19	(1.69)	13.61
		(Outstanding as on)	(06.07.07)	(08.06.07)	(07/07/06)		
	Call Money	% Range	0.01-4.75	0.50-4.00	5.00-6.00	-	-
	(Lendings)	Week ended	(13.07.07)	(08.06.07)	(14.07.06)		

Source: RBI Weekly Statistical Supplement July 27, 2007 & Economic & Political Weekly July 28, 2007

*All Commodities. **Over the year.

Editorial

A) Domestic

In the Economic Outlook Report for 2007-08 of the Economic Advisory Council (EAC) released on Monday, 16th July, 2007 indicated that with favourable global interest rates and with added advantage of the appreciating rupee, the Indian corporates are raising funds through ECBs, and that they are raising money overseas at rates lower than what is prevailing in the domestic market. While there is an incentive for them to borrow from abroad and use these funds to meet the working capital needs, treasury operations or even acquiring domestic assets but by doing so the companies are by passing the structure of domestic interest rates and the framework of monetary policy.

The Council emphasised that it is against any restrictions on equity inflows whether portfolio or direct investment, because equity investments by its nature is high risk and there is a need for policy continuity to initiate and maintain such inflows. The equity investment inflows cannot be turned on and off at will. And even if this is done then we are going back on the liberalisation of the capital account.

However, any curbs on capital inflows to prevent rupee appreciation should be limited to the debt side and not equity side. The EAC Outlook has estimated that the Reserve Bank of India (RBI) could buy up dollar inflows upto US\$ 25 billion a year, so that there is no resultant effect on money supply which is in excess of the 'desired' 17.5 per cent. It is only inflows beyond US\$ 25 billion that are a cause of concern and required to be sterilised through the issue of Market Stabilisation Scheme (MSS) of bonds and / or raising of Cash Reserve Ratios (CRR).

It is, therefore, necessary that the companies using ECB window be prevented to bypass the domestic interest rate structure. Finally, the Council has projected that the GDP growth rate in 2007-08 is likely to be at 9% which is lower than the growth rate of 9.4% recorded during 2006-07.

Following the Government's decision to grant subsidy to exporters hit hard by the appreciation of the rupee, the Reserve Bank of India directed all commercial banks to reduce interest rates on export finance by two percent points. The interest subsidy of two percentage points should be given to nine sectors viz **textiles, leather products, readymade garments, handicrafts, engineering products, sports goods, processed agriculture products, marine items and toys**. This benefit is to be extended to small and medium exporters whose investments in plant and machinery does not exceed Rs.10 crore. With this notification credit to these categories of exporters will be available at 4.5 percent less than the prime lending rate, which is in the range of 12 percent. Earlier the difference between prime lending rate and credit to exporters was 2.5 percent. Finally, the rate will apply to pre-shipment and post-shipment credit disbursed between April and December 2007. The subsidy of two percent would be borne by the Central Government which is a part of Rs.1400 crore package announced earlier for exporters adversely affected by the appreciation of the Indian rupee.

B) International

During the first half of 2007, the global economy continued to expand at a brisk pace and the estimates in the World Economic Outlook presented in April 2007 were revised upwards; the expansion has taken place largely in the emerging market countries. China grew by 11.5% in the first half of 2007 and India and Russia have also been growing strongly. The growth in the US economy which slowed down in the first quarter is inching upwards, according to the recent indicators, in the second quarter of 2007. In the euro area and Japan, growth has remained above the trend with some welcome signs that domestic demand is taking a more central role in the expansion.

	Actuals		Current Projections			Actuals		Current Projections	
	2005	2006	2007	2008		2005	2006	2007	2008
World output	4.9	5.5	5.2	5.2	Developing Asia	9.2	9.7	9.6	9.1
United States	3.2	3.3	2.0	2.8	China	10.4	11.1	11.2	10.5
Euro area	1.5	2.8	2.6	2.5	India	9.0	9.7	9.0	8.4
Japan	1.9	2.2	2.6	2.0	Middle East	5.3	5.7	5.4	5.5
United Kingdom	1.8	2.8	2.9	2.7	Western Hemisphere	4.6	5.5	5.0	4.4
Commonwealth of Independent States	6.6	7.7	7.6	7.1	Brazil	2.9	3.7	4.4	4.2
Russia	6.4	6.7	7.0	6.8	Mexico	2.8	4.8	3.1	3.5

Source : IMF World Economic Outlook, 2007 – Revisions in July 2007.

Despite strong global growth inflation has remained generally well contained. Against this background the global growth is now projected at 5.2% each in 2007 and 2008, - 0.3 percentage points higher for both years than the projections made in April 2007. However, risk in credit has risen and there is a weakening of credit discipline which can result in delinquencies, defaults and foreclosures.

Capital Market Review

The BSE Sensex (30-share) index moved up and up and reached record level of 15,732.20 on Monday, 23 July 2007, and further to 15,794.92 on July 24, 2007; the index closed at 15,550.99 on July 31, 2007. As compared to the last trading day of June 29, 2007 when the index was 14,650.51, the July 2007 month saw the index moving up by 900.48 points or 6.15%. This was after the Finance Minister, Mr. P. Chidambaram made a statement that funds are available to build **roads, power plants and ports**.

First, one of the biggest news of the month was the announcement by Hindustan Unilever Ltd. (HUL) on Friday, 20th July 2007 about the buyback of its own shares in the market after the approval from its board. However, the board of the Company is likely to meet on July 29, 2007 to consider the buyback price and the price band which was not revealed on the day when the buyback was announced. Some of the IT Companies were mildly adversely affected by the rising rupee in relation to US dollars.

The losers were Cipla in pharma sector, Satyam Computer in IT, Sesa Goa Ltd in iron ore exports and ICICI Bank in the banking sector. Despite the decline in the international markets, the Indian stock market maintained an upward momentum. With large volatility on day to day basis the gainers were Bharat Heavy Electricals (BHEL), L&T and ABB in the power sector. The rally was lead by Larsen & Toubro and Bharat Heavy Electricals followed by Reliance Industries, Bharti Airtel and Hindustan Unilever. Larsen & Toubro moved the Sensex by 54 points and Bharat Heavy Electricals by 30 points. Larsen & Toubro and Bharat Heavy Electricals already have strong order books and the stocks were in the limelight market expects further orders after the positive news on the Indo-US nuclear deal.

Secondly, the continued downtrend in the US housing market particularly after the release of the report on housing sales by US department prompted the global investors to remain away from the riskier assets like equities both in the U.S. and the emerging markets. The impact on Friday, July 27, 2007 was a steep fall in the sensex of BSE (30-share) index by as many as 541.74 points to 15234.57 points. This bench mark index registered a decline by 3.43% from the closing on the preceding day. Reliance Industries Ltd. which is a heavy weight in the index fell by 3.8% or by Rs.74.55 to Rs.1866.45 along with this ICICI Bank the country's largest lender declined by 3.3% or Rs.30.85 to Rs.914.25. These two stocks accounted for about a quarter of the weight in the index. Not only the Indian stock markets experienced declines, the markets the world over also registered steep fall.

July 27, 2007	Dow Jones (USA)	Nikkei 225 (Japan)	Hang Seng (Hong Kong)	FTSE 100 (UK)	Bovespa (Brazil)	Bombay Sensex (30) (India)
Close	13,473.57	17,283.81	22,570.41	6,251.20	53,893.15	15,234.57
Difference	311.50	418.28	641.28	203.10	2,108	541.74
Decline %	2.26	2.36	2.76	3.14	3.76	3.43

Source : Financial Express, July 28, 2007

	July	June	July	June	(%) Change		
	2007	2007	2006	2006	[1] / [2]	[1] / [3]	[2] / [4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	15550.99 (31.07.07)	14,650.51 (29.06.07)	10743.88 (31.07.06)	10609.25 (30.06.06)	6.15	44.74	38.09
Monthly High	15794.92 (24.07.07)	14,650.51 (29.06.07)	10,930.09 (12.07.06)	10609.25 (30.06.06)	7.81	44.51	38.09
Monthly Low	14664.26 (02.07.07)	14,003.03 (13.06.07)	10,007.34 (19.07.06)	8929.44 (14.06.06)	4.72	46.54	56.82
S&P CNX Nifty –Close	4528.85	4318.30	3,143.20	3128.20	4.88	44.08	38.04
P/E Ratio : BSE – 30	21.03	21.09	18.74	19.4	(0.28)	12.22	8.71
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	87331.60	50202.9	26967.3	40407.6	73.96	223.84	24.24
Outflows – Rs. Cr.	64722.30	49101.6	25670.3	39532.3	31.81	152.13	24.21
Net – Rs. Cr.	22609.40	1101.7	1297.4	875.1	1952.23	1642.67	25.89
Cum. Net Inv–US\$ Mn. (Month End)	60797.00	55252.1	44438.2	44152.9	10.04	36.81	25.14

The month of July 2007 saw the net cumulative investment by FIIs registering a rise of US\$ 5.54 billion as compared to only US\$ 0.29 billion in month of July 2006 (a year ago).

It seems that the Capital Markets all over the world declined in tandem with the US market, and this reflects the adverse impact of the dominant economy on the small and emerging market economies to the extent these are financially integrated, consequent to the globalisation and the degree to which these economies have liberalised their capital accounts. In case the liberalisation of the capital account is more or less complete then the small economies including emerging market economies become crucially dependent on the movement of the dominant economies like that of USA, Europe and Japan. With the continued pressure to liberalise the capital accounts then what has been done so far would pose a risk to the Indian economy as the market conditions in the dominant economies change for adverse. The economic policies in the dominant economies turn the causation from the dominant economies to the emerging market economies cannot be ruled out especially when the dominant economies exhibit adverse conditions. However, the causation from the emerging market economies to the dominant economies are indeed weak, and because of this the emerging market economies have to insulate themselves from the adverse impact of the external shocks through the appropriate economic policy measures.

Industry – Crude Oil

I. Introduction

In a country like India, control of inflation continues to be one of the major objectives and in doing so the level of prices of the crude oil is considered to be an important element in determining both the level of inflation and inflationary expectations. India is one of the countries whose import bill for crude is quite high; during the period 2000-01 to 2006-07 the proportion of oil imports to total imports varied from 26.23% to 31.58% giving an average of 29.81%. With the discovery of the oil reserves increasing only slowly, there is now a greater emphasis on energy efficiency and enhancing energy security.

II. Crude Oil Imports

The oil import bill which was US\$ 15.7 billion in 2000-01 has gradually risen. In 2004-05 it became about 2.5 times of what it was in 2000-01. In 2005-06, the oil import bill tripled to US\$ 43.9 billion, and in 2006-07 it went up further to US\$ 57.3 billion. However, in relation to the total imports, the proportion of oil imports was just 28.6 per cent in 2001-02, and it rose by about 3 percentage points to reach 31.6% in 2006-07. In other words while the oil imports in absolute terms has been growing fast but the share of oil in total imports has been allowed to rise only gradually. In the first two months, April-May of 2007-08, the oil imports was US\$ 9.2 billion and the proportion of oil imports in total imports was 25.7% (table).

Imports – Oil & Non-Oil

Year	Imports (US\$ Million)			Proportion of Oil Imports to Total percent (col.1/3)
	Oil	Non-Oil	Total	
	1	2	3	
April-March				4
2000-01	15,650	34,886	50,536	30.97
2001-02	14,684	36,729	51,413	28.56
2002-03	18,872	42,540	61,412	30.73
2003-04	20,497	57,652	78,149	26.23
2004-05	34,745	76,772	1,11,517	31.16
2005-06	43,951	1,05,233	1,49,184	29.46
2006-07	57,271	1,24,097	1,81,368	31.58
April-May				
2006-07	9,073	17,768	26,841	33.80
2007-08	9,165	26,548	35,713	25.66

Source : RBI : Handbook of Statistics on the Indian Economy, 2005-06 & Economic and Political Weekly August 03, 2007

Large increases in the share of oil imports in the total imports have been avoided because of the various measures taken by the Government, especially, increasing the retail price of oil from time to time, the introduction of CNG in the transportation system, particularly in buses, taxis and other vehicles apart from the awareness programmes about the need for energy conservation.

III. Dr. Rangarajan Committee Report

As a part of the strategy to bring about efficiency in the consumption by stabilizing and rationalizing the prices of petroleum products, Government set up a Committee on October 26, 2005 under the Chairmanship of Dr. Rangarajan, and this Committee was also to keep in view the financial position of the companies in the oil sector. The recommendations, made in the report which was submitted on 17th February 2006, can be divided broadly into three major areas :

1. Pricing of petrol and diesel :
 - (i) Shift to a trade parity pricing formula for determining refinery gate as well as retail prices;
 - (ii) Government to keep at arms length from price determination and to allow flexibility to oil companies to fix the retail price under the proposed formula; and
 - (iii) Reduce effective protection by lowering the customs duty on petrol and diesel to 7.5%.

2. Pricing of domestic LPG and PDS kerosene :
 - (i) restrict subsidized kerosene to BPL families only;
 - (ii) Raise the price of domestic LPG by Rs.75/cylinder;
 - (iii) discontinue the practice of asking upstream companies to provide upstream assistance, but instead collect their contribution by raising the OIDB cess from the present level of Rs.1,800/MT to Rs.4,800/MT; and
 - (iv) Government meeting the balance cost of subsidy from the budget.

3. Restructuring excise duty:

Shift from the present mix of specific and advalorem to a pure specific levy and calibrating the levies at Rs.5.00 per litre of diesel and Rs.14.75 per litre of petrol.

The Committee has recommended that each of the first two sets of recommendations should be implemented as integrated packages.

IV. Oil Scenario

The World Economy especially the US depends heavily on oil particularly in the transportation sector. The world oil production has been running close to known capacity to meet the rising demand which in turn has been pushing up prices upward. The question whether the increased demand would be made with finite resources and how long the demand supply gap could close before the level of production reached the peak remains debatable. The questions are being examined separately and several studies have estimated that the oil production will peak sometimes between now and 2040. But this range appears to be very wide, this has also given a push to the resources and technological developments, and particularly investment in some countries where the oil is located and those where the oil is consumed. This has given rise to both economical and political challenges. While this debate goes on several countries including India are trying to developing strategies for alternative fuels in transportation, and at the same time increase the known reserves, for example the ethanol production which is technically feasible and can be obtained from corn as well as sugarcane. India has taken some measures to produce ethanol based on sugarcane. India has taken initiative to produce ethanol but also make investment in infrastructure such as pipeline and storage tanks, and as also initiated measures to conduct research in exploring use of alternative fuels in transportation and in domestic consumption. The level of effort required to generate the use of one or more alternate fuel would need heavy investment and the time is not very far off when India will be able to make use of alternative fuels in different sectors of the Indian economy.

V. Alternative Fuels

1. Ethanol-Blended Petrol Programme

Government announced in October 2004, the scheme of 5% ethanol blended petrol, in accordance with Bureau of Indian Standards specifications, to be sold in notified areas if the price of sourcing indigenous ethanol for supply of ethanol blended petrol is comparable to the price of indigenous ethanol for alternative uses, and if the delivery price of ethanol at the location is comparable to the import parity price of petrol at that location, and the indigenous ethanol industry is able to maintain the availability of ethanol for ethanol-blended petrol programme at such prices.

2. Hydrogen as an Autofuel

Hydrogen is receiving worldwide attention as a clean fuel and efficient energy storage medium for automobiles. Hydrogen can replace or supplement oil used in road transportation. Hydrogen production technologies can be both fossil fuel based and renewable resource based. However, substantial research and development is needed to establish use of hydrogen as an alternative fuel in a cost effective manner.

Introduction of Hydrogen energy applications in the market would require an integrated system development approach. This will include all aspects of Hydrogen energy technologies such as production, storage, transportation, delivery and end use applications and associated devices. While some progress has been made in the world and in India, considerable R&D and technology development efforts are required to achieve a low cost of production of Hydrogen.

3. Coal Bed Methane (CBM)

Coal Bed Methane is an environment friendly clean fuel similar to Natural Gas. To give impetus to its Exploration & Production, Government has formulated a CBM policy. The estimated investment in these blocks is about Rs.560 crores. Estimated CBM resources are to the tune of 850 Billion Cubic Meters (BCM). Commercial production of CBM from some of these blocks is expected to commence in 2007-08.

VI. Enhancement of the Oil Security

For enhancement of the oil security in the country, Government decided to set up 5 million metric ton (MMT) strategic crude oil storage at different locations – Mangalore 1.5 mmt; Vizag 1.0 mmt; Udipi 2.5 mmt. These storages would be in addition to the existing storages of crude oil and petroleum products with oil companies and would provide an emergency response mechanism in the case of short term supply disruptions. For this purpose a special purpose vehicle owned by oil industry development board (OIDB) was created and these proposed facilities would be managed by Indian Strategic Petroleum Reserve Limited Company (ISPRL) but the estimated capital cost of the storage location is Rs.2400 crore plus the cost of crude oil imported at Rs.9000 crore reckoning the price of crude oil as US\$ 55 per barrel.

VII. World Oil Market

It is well known that worldwide oil market is dominated by the Organization of the Petroleum Exporting Countries (OPEC). According to the Economist (July 21, 2007) last year when there was no short supply, climate was favourable in the sense that it was

not the winter season the stocks of crude oil were going up, oil prices internationally touched as high as US\$ 80 per barrel. The oil producers then were working nearly at full capacity. At that time, it was the fear factor that worked. However, this summer OPEC countries are now producing roughly one million fewer barrels per day than they were producing at this time of last year. Also the global demand has risen now by over one million barrels per day to over 84 million. Oil stocks have been declining when in fact these should have been rising higher than last year. Anticipating, shortage traders have been gradually pushing up prices of Brent Europe's benchmark crude which has reached US\$ 78 plus per barrel. Goldman Sachs issued a report recently arguing that prices could rise as high as US\$ 95 per barrel later in the year unless OPEC opened its taps to increase supply in the market. The International Energy Agency (IEA) has also warned that supplies in the future will be tight and prices will be high for several years to come. In the light of these developments various measures taken by the Government of India need to be brought on the fast track.

VIII. Recent Indian Policy Initiatives

Recently, there has been a greater emphasis on energy conservation and energy security. According to one source, India is one of the least energy efficient country in the world with identified scope of reducing energy consumption by 20-30% under all major sectors through conservation measures. Energy conservation and energy efficiency are highly desirable goals in all areas including production, conversion, transmission and consumption. Apart from energy consumption the paradigm shift has been introduced in policy with the focus on enhancing energy security. Under the energy security policy planned exploration areas are to be awarded through international competitive bidding in a deregulated scenario. Three pronged strategy has been visualized - first appraisal of 35% of the total sedimentary basins, second acquisition of acreage abroad and encouraging use of advanced technology.

India is believed to have oil and gas reserves amounting to approximately 28-32 billion tones across 3.14 million sq km and 26 basins. Of this, only 1.09 million sq km have been divided into blocks that have been licensed out for exploration. Further New Exploration Licencing policy (NELP) has been initiated which envisages providing all international contractual framework for exploration and production of hydrocarbons. In the first five rounds of NELP during 2002-05, 110 exploration blocks were signed involving total investment of Rs.21725 crore and now NELP VII is planned. In addition to NELP another strategy is to finalize an Open Acreage Licensing Policy (OALP) which gives companies a round-the-year window to pitch for oil and gas in blocks of their choice. It is planned to be introduced in 2008. On the NELP VI contract for 52 blocks was awarded and out of which 21 blocks were awarded to ONGC which is a Public Sector Company. The launch of OALP will make NELP VII contributing towards efforts in enhancing energy security.

NELP VII is believed to be the last round under NELP bidding and is likely to witness one of the most fierce competitions in the sector, as the government is planning to move to Open Acreage Licensing Policy (OALP) which would give companies round-the-year window to pitch for oil and gas in blocks of their choice.

Oil & Natural Gas Corporation (ONGC) is negotiating with global energy giants such as Bharat Petroleum (BP), British Gas, Brazil's federal energy company Petroleo Brasileiro (Petrobras), and ENI of Italy to jointly bid for blocks proposed to be offered under the New Exploration and Licensing Policy (NELP).

Further, Indian hydrocarbons vision 2025 envisages a quantum jump in production of oil and gas through escalation of acceleration efforts to squeeze out Indian sedimentary basins by the year 2007 to the tune of 50% by the year 2010, 75% by the year 2015 and 100% by the year 2025 . As a result of these efforts 30 oil and gas discoveries have been made, and out of which gas discoveries in Krishna-Godavari (KG) basin is the most significant.

Other Markets

Debt Market

National Bank for Agriculture and Rural Development (NABARD) has been very active in the primary market with several issues in various forms. It made two issues of subordinated debt, one of non-convertible debentures and one of bonds, for a total of Rs.500 crore. United Bank of India issued upper Tier-II bonds for the same amount, while the largest single issue was from the State Bank of India for Rs.750 crore. These issues took place during the month of June 2007.

	Name of the Issuer	Rate %	Duration	Rating	Amount Rs. Crore	Type of Instrument
i)	Housing Development Finance Corporation Ltd.	10.35	10 years	AAA	250	Bonds
ii)	L&T Finance Ltd.	10.80	2 years	AA+	75	Bonds
iii)	NABARD	9.50-9.70 ^{a c}	3 years			
		9.65-9.75 ^{b c}	3 years	AAA	200	Subordinated debt
iv)	NABARD	10	3 years	AAA	100	Non-convertible debentures
v)	NABARD	10.05	7 years	AAA	200	Bonds
vi)	Power Finance Corp. Ltd.	9.90	3 years			
		10	5 years	AAA	150	Bonds
vii)	Power Grid Corp. Ltd.	9.85				
		10.15 ^c	16 years	AAA	75 ^d	Non-convertible debentures
viii)	State Bank of India	10.20	5 years ^e	AAA	750	Upper Tier II Bonds
ix)	United Bank of India	10.65	10 years	AA-	500	Upper Tier II Bonds

a. Put/ Call option at the end of 1 year

b. With a greenshoe option of Rs.75 crore

c. Put/ Call option at the end of 2 years

d. Call option at the end of 10th year

e. Through book building

(Source : Credit Analysis & Research Ltd. July 2007)

Call Money Market

The call money market rate on July 13, 2007 in respect of borrowings ranged widely between 0.01% and 4.75% as compared to the rates of 5.00% - 6.00% on July 14, 2006 (i.e. a year ago) reflecting that there was not only softening of the interest rate but also reflected existence of abundant liquidity in the system. The average daily turnover in the call money market was Rs.10,609 crore for the week ending July 13, 2007 and this daily turnover declined to Rs.8,586 crore in the week ending July 20, 2007.

Foreign Exchange Market

The exchange rate (RBI reference rate) on July 20, 2007 was Rs.40.33 per US dollar as compared to Rs.40.37 per US dollar on July 16, 2007, that is, a week ago; this reflected a small appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 1.24% on July 20, 2007 as compared to a premium of 1.78% on July 16, 2007 (a week ago), and this reflects that supply of dollars is likely to become relatively comfortable in the forthcoming weeks. The foreign currency asset were US\$ 214.79 billion on July 20, 2007, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 222.04 billion. From end-March 2007, the foreign exchange reserves registered a rise of US\$ 22.86 billion upto July 20, 2007. The market rate (buying) was Rs.40.40 per US dollar on July 31, 2007. The RBI intervened occasionally into the market by buying dollars in a bid to curb the rise of rupee.

Important Policy Pronouncements

- I. The Reserve Bank of India (RBI) Governor Yaga Venugopal Reddy announced on July 31, 2007 in the First Quarterly Review of Annual Statement on Monetary Policy for the year 2007-08 .. The focus of RBI policy is to continue vigil on price stability, and at the same time conduct operational management of liquidity which according to the governor “is the most challenging task”. The highlights of the policy are :
 - i. Economy / Inflation :
 - The central bank has kept the GDP forecast for 2007-08 at 8.5%.
 - RBI intention of keeping inflation below 5% remains a priority.
 - ii. Cash Reserve Ratio :
 - The RBI raised the cash reserve ratio (CRR) by 50 basis points from 6.50% to 7% effective from the fortnight beginning August 04, 2007.
 - iii. Other Rates unchanged :
 - Repo, reverse repo and bank rate were kept unchanged at 7.75%, 6.0% and 6.0%, respectively.
 - iv. Reverse repo actions :
 - Ceiling of Rs.3,000 crore on daily reverse repo withdrawn with effect from August 06, 2007.
 - Afternoon repo/reverse repo auctions also withdrawn with effect from August 06, 2007.

The banking system is saddled with over Rs.40000 crore of excess liquidity as credit growth has moderated and banks mobilize more resources. The CRR increase will suck out Rs.16000 crore.

Of the three concerns that the RBI was facing, two concerns viz inflationary expectations and credit growth have subsided, but money supply growth is still on the high side.

The next Mid-Term Review of the Annual Policy Statement for the year 2007-08 will be undertaken on October 30,2007.

- II. The Central Board of Taxes of the Employee Provident Fund (EPF) agreed on July 23, 2007 to continuing paying 8.5% interest rates on Provident Fund contribution for the year 2006-07. This was done after several inconclusive meetings in the last few months. The announcement, it may be mentioned, that 8.5% interest will put a burden of Rs.455 crore and this deficit would be met from surplus of Rs.590.16 crore. Government has also made a suggestion to invest 5% of the corpus in stocks, a suggestion which will be considered in due course for improving the income.

III RBI introduced single form for all types of overseas investments

RBI has replaced six existing forms with a single application-cum-reporting form for all types of investments and remittances. As per the new reporting packages, all the forms have been subsumed into one form viz., Overseas Direct Investment (ODI), comprising four parts. A single form will make it easier for the Indian corporates to file required investment information about their overseas ventures and ensure monitoring of foreign investment in a “dynamic environment”.

IV. IRDA may halve agents’ training hours

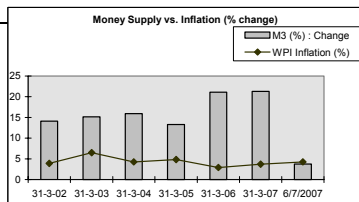
IRDA is considering halving the minimum training period for insurance agents for 100 hours to 50 hours. Insurers have long maintained that the 100 hours of mandatory training translated to micro-management by the regulator. In its Report on “Currency and Finance” for 2005-06, RBI has said that a predominant and growing proportion of over 80% of the commercial banks’ loan portfolio is at sub-PLR rates. The report says that the rate has ceased to be a reference rate, thereby hindering an assessment of the efficiency of the monetary transmission.

V. IDBI Opens Centralized Treasury

Industrial Development Bank of India (IDBI) has inaugurated a centralized treasury, which will act as a single point reference on interest and exchange rates for all its branches. The treasury will deal with various portfolios, securities, bonds, forex and also significant expansion in the number of dealing terminals. With the fixed income equities, money market, foreign exchange under one roof, the information flow and decision making will be seamless.

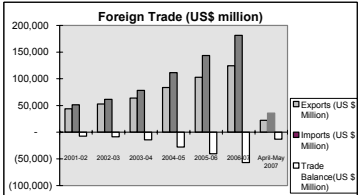
VI. NSDL, CDSL in pact with US firm

The Depository Trust & Clearing Corporation (DTCC) New York has signed a Memorandum of understanding (MoU) with National Securities Depository Ltd. (NSDL), Mumbai and Central Depository Services (India) Ltd. to build a cooperative relationship. Under the terms of MoU, NSDL and CDSL will establish a mechanism with DTCC whereby senior management and staff of both sides could meet on a regular basis to increase mutual understanding and exchange market updates.



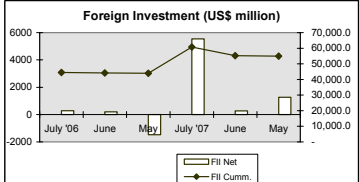
	31-3-02	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	6/7/2007
M3 (Rs. Crore)	14,98,355	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	34,34,643
M3 (%) Change	14.1	15.14	15.95	13.30	21.10	21.27	3.76
WPI (Index) All Commodities@	161.8	172.30	180.30	189	196.6 ^a	203.9 [@]	212.6 ^{@@}
WPI Inflation (%)	3.92	6.49	4.29	4.83	2.91	3.71	4.27

Source: RBI Bulletin - June 2007; WSS: July 27, 2007 #1993-94=100@year/month-end; @ July 08, 2006 @@ July 07, 2007



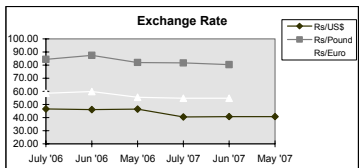
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	April-May 2007
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,061	124,629	22,436
Imports (US \$ Million)	51,413	61,412	78,149	111,517	143,433	181,368	35,713
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(40,372)	(56,739)	(13,277)

Source: RBI Bulletin - June 2007; Revised figures for 2001-02 to 2006-07 (April-March)
*DGC&S data for April 2006 to March 2007 (Provisional)



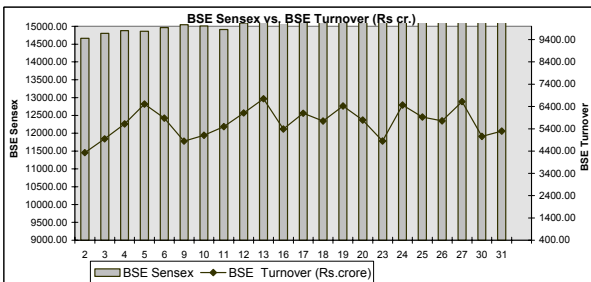
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	July '06	June '06	May '06	July '07	June '07	May '07
FI Net	285.4	193.2	(1,473.0)	5,544.8	269.3	1,265.0
FI Cum.	44,438.2	44,152.9	43,959.6	60797	55252.1	54982.4

Source: SEBI - Diff. in total figures are due to rounding off.



	2005-06			2006-07		
	July '06	Jun '06	May '06	July '07	Jun '07	May '07
Ru/US\$	46.51	46.08	46.43	40.44	40.75	40.73
Ru/Pound	86.65	84.45	87.43	82.03	81.63	80.43
Ru/Euro	59.31	58.54	59.80	55.42	54.79	54.74

Figures are for month-end



July 2007	BSE Sensex Close	BSE Turnover (Rs crore)
June 29, 2007	14650.51	4855.00
2	14664.26	4327.00
3	14806.51	4948.00
4	14880.24	5624.00
5	14861.89	6515.00
6	14964.12	5878.00
9	15045.73	4845.00
10	15009.88	5111.00
11	14910.62	5496.00
12	15092.04	6113.00
13	15272.72	6752.00
16	15311.22	5392.00
17	15289.82	6100.00
18	15301.17	5750.00
19	15550.13	6426.00
20	15565.55	5791.00
23	15732.20	4855.00
24	15794.92	6464.00
25	15699.33	5929.00
26	15776.31	5758.00
27	15234.57	6622.00
30	15260.91	5058.00
31	15550.99	5298.00



Annexure 1 : Select International Economic Indicators for Developed Industrialised Countries And India

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2007	Real Rate (Short-term) (1-3)	Currency unit per Euro 25.07.07	Balance Latest :12 months		Col 11 as Percentage of GDP 2007
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 25.07.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
Euro-11	4.24	4.40	1.90	2.50	0.73	0.79	-0.90	2.34	1.00	15.9	-1.0	nil
			Jun							May	Mar	
U. S. A.	5.21	4.90	2.70	4.30	1.00	1.00	-1.20	2.51	1.37	-827.1	-803.40	-6.0
			Jun							May	Q1	
Britain	6.00	5.30	**2.4	2.50	0.49	0.54	-2.70	3.60	0.67	-155.2	-83.00	-3.2
			Jun							May	Q4	
Japan	0.66	1.86	nil	0.10	120.00	117.00	-4.40	0.66	164.38	91.4	190.00	3.4
			May							May	May	
Sweden	3.47	4.33	1.90	1.50	6.73	7.34	2.40	1.57	9.22	19.5	29.80	6.9
			Jun							Jun	Q1	
Switzerland	2.73	3.07	0.60	1.60	1.21	1.25	0.30	2.13	1.66	11.0	102.10	14.4
			Jun							Jun	Q1	
India	4.49	8.12	6.60	6.30	40.40	46.80	-3.30	-2.11	55.34	-63.2	-9.60	-1.1
			May							May	Q1	

Source: The Economist London: July 26th-August 3rd, 2007
**RPI Inflation rate 4.4% in June

Figures in Column 9 are derived.

Annexure 2 : Important Economic Indicators for Select Emerging Market Countries

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2007	Real Rate (Short-term) (1-3)	Currency unit per Euro 25.07.07	Balance Latest :12 months		Col 11 as Percentage of GDP 2007
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 25.07.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	3.19	4.16	4.4	1.5	7.56	7.98	-0.7	-1.21	10.36	229.1	249.9	10.7
			Jun							Jun	2006	
Hongkong	4.38	4.52	1.3	2.2	7.82	7.78	1.8	3.08	10.71	-18.9	23.2	10.1
			Jun							May	Q1	
Indonesia	8.23	6.80	5.8	15.5	9105.00	9120.00	-1.6	2.43	12472.60	41.4	10.3	1.9
			Jun							May	Q1	
Malaysia	3.62	5.42	1.4	3.9	3.42	3.68	-3.4	2.22	4.68	28.5	26.0	9.9
			Jun							May	Q1	
Singapore	2.56	2.94	1.3	1.4	1.51	1.58	0.3	1.26	2.07	35.5	38.1	23.1
			Jun							Jun	Q1	
South Korea	5.07	5.41	2.5	2.4	914.00	955.00	0.5	2.57	1252.05	18.7	4.8	1.0
			Jun							Jun	May	
Taiwan	2.55	2.79	0.1	1.7	32.80	32.80	-2.2	2.45	44.93	13.8	28.1	5.1
			Jun							Jun	Q1	
Thailand	3.60	4.11	1.9	5.9	33.70	38.00	-1.9	1.70	46.16	7.7	9.6	2.3
			Jun							May	May	
Brazil	11.43	6.16	3.7	4.0	1.88	2.21	-2.4	7.73	2.58	47.4	15.0	1.0
			Jun							Jun	Jun	
Venezuela	10.17	6.55	19.4	11.8	2147.00	2628.00	-4.1	-9.23	2941.10	28.2	23.8	7.6
			Jun							Q1	Q1	
India	4.49	8.12	6.60	6.30	40.40	46.80	-3.3	-2.11	55.34	-63.2	-9.6	-1.1
			May							May	Q1	

Source: The Economist London: July 26th-August 3rd, 2007

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