



## Update on Indian Economy

August 2006

### Economic Snapshot

Contents	Item	Units	July	June	July	(% Change	
			2006	2006	2005	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	203.6	203.00	194.5	0.3	4.7
- Capital Market	WPI -Inflation**	Per cent	4.7	5.2	4.1	-	-
- Industry : Cement		Week ended	08.07.06	10.6.06	09.07.05		
- Other Markets	IIP (93-94=100)	2 months lag	234.4	224.3	213	4.50	10.04
- Important Policy Pronouncements			(May.06)	(Apr.06)	(May 05)		
	INR / US\$	Month End	46.51	46.08	43.49	0.93	6.94
	M3	Rs. '000 Cr.	2820.65	2791.46	2375.34	1.05	18.75
	[i] Agg. Deposits	Rs. '000 Cr.	2382.46	2348.82	1999.09	1.43	19.18
	[ii] Currency	Rs. '000 Cr.	438.19	442.64	376.25	-1.00	16.46
		(Outstanding as on)	(07/07/06)	(09/06/06)	(08/07/05)		
	Call Money (Lendings)	% Range	5.00-6.00	5.00-5.95	4.00-5.90	-	-
		Week ended	14.07.06	16.06.06	15.07.05		

Source: RBI Weekly Statistical Supplement July 30, 2005 / July 28, 2006 & Economic & Political Weekly July 8-15, 2006, \*All Commodities. \*\*Over the year.

### Editorial

#### A) Domestic

The export-import data for the first quarter (April-June 2006-07) indicated that exports accelerated from the rate of 26.7% in 2005-06 to 32.4% in 2006-07. While there was an acceleration in the exports, a distinct deceleration in the imports was recorded. The growth rate of imports declined from 44.3% in the first quarter of 2005-06 to 24.5% in the first quarter of 2006-07. Further, in the absolute term the trade deficit which was US\$ 5,936 million in the first quarter of 2004-05 almost doubled to US\$ 11,460 in first quarter of 2005-06 and it increased a bit to reach level of US\$ 12,609 in the first quarter of 2006-07. This indicates that the economy has achieved a greater resilience, and if this trend continues there would be further strengthening of the export performance.

#### B) International

Subsequent to the IMF and World Bank meeting in April 2006, the UN Economic and Social Council (ECOSOC) organized a dialogue on April 24 to consider progress in implementing on financing for development and outcomes of the 2005 UN World Summit. UN Secretary General Kofi Annan stated that 2005 UN Summit has advanced development efforts worldwide including aid and debt relief. Members States then pledged to prepare comprehensive national development plans for achieving the Millennium Development Goal (MDGs) and redeem these pledge by end-2006; the completion of pledges and plans should build on the existing efforts including poverty reduction strategy papers and should focus on measurable results. Broad issues were as follows :

#### **I. Doha aid for trade :**

Participants agreed that successful Doha would increase opportunities for countries to accelerate and sustain growth, and reduce poverty.

#### **II. National development strategies :**

It was decided that countries should develop a single national strategy using existing mechanisms that integrated various elements of development and international commitments, such as the MDGs and trade policy. Strategies should be country-owned and should reflect each country's specific conditions.

#### **III. Debt sustainability :**

Participants recognized that adequate economic growth – supported by good governance, transparency, and a conducive business environment – is crucial for avoiding unsustainable debt.

#### **IV. Middle-income developing countries :**

Participants noted that because of the diversity in the level of economic development and size of middle income countries, there is a need to specially focus on the plans in Middle Income countries. The middle income countries require individual analysis and suitable assistance from the international community; and this assistance should be supported by the introduction of new instruments

*(IMF Survey May 29, 2006)*

#### **Capital Market Review**

During the month of July 2006, the BSE Sensex moved in a volatile manner from the low of 10007.34 on July 19, 2006 to the high of 10,930.09 on July 12, 2006. The volatility was induced largely by the oil prices and to a lesser extent by the movement of the indices on the international bourses. On 13 July, 2006 when the oil prices touched a record of above US\$ 75 per barrel, the sensex lost further 72 points to touch 10858.50 and the next date on 14 July, 2006 when the oil prices moved beyond US\$ 78 per barrel there were ripples across the global markets, and this affected Indian stock markets. The stocks in the refinery, cement and construction and to some extent auto and IT pulled the sensex down despite the two major software companies like Infosys and Satyam Computers having registered upward revisions in their earnings and revenues. Further the Indian rupee fell to a 3 year low against the US\$ which raised concerns that the FIIs inflows may slow down and, and indeed this situation took place because the FIIs resorted to heavy sales in mid-July 2006 and during the three trading sessions from July 14-18, 2006 there was a large outflow of funds.

Despite positive developments in the cement sector; ACC registered stronger than expected numbers whereas there two-wheeler major companies like Honda and Baja Auto recorded results which were somewhat below the market expectations.

The continued war between Israel and Hizbollah militant unit of the ruling Hamas party in Palestine impacted adversely in the downfall of the Sensex. The Sensex did not get close to the high of 12,612.38 which reached on May 10, 2006. On July 31, 2006 the Sensex touched 10743.88 which was higher by 134.63 than the Sensex 10743.88 closing on June 30, 2006.

	July	June	July	June	(% ) Change		
	2006	2006	2005	2005	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
<b>Major Indices</b>							
BSE Sensex – Close	10743.88 (31.07.06)	10609.25 (30.06.06)	7635.42	7193.85	1.27	40.71	47.48
Monthly High	10,930.09 (12.07.06)	10609.25 (30.06.06)	7681.11	7218.28	3.02	42.30	46.98
Monthly Low	10,007.34 (19.07.06)	8929.44 (14.06.06)	7596.74	7154.27	12.07	31.73	24.81
S&P CNX Nifty –Close	3,143.20	3128.20	2318.05	2220.60	0.48	35.60	40.87
P/E Ratio : BSE – 30	18.74	19.4	15.81	16.03	(3.40)	18.53	21.02
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	26967.3	40407.6	25716.7	25959.6	(33.26)	4.86	55.66
Outflows – Rs. Cr.	25670.3	39532.3	17956.4	20701.5	(35.06)	42.96	90.96
Net – Rs. Cr.	1297.4	875.1	7760.2	5258.2	48.26	(83.28)	(83.36)
Cum. Net Inv–US\$ Mn. (Month End)	44438.2	44152.9	38263.5	36480	0.65	16.14	21.03

### Industry : Cement

#### Introduction

The cement industry comprises 129 large cement plants with an installed capacity of 152 million tonne, and more than 350 mini cement plants with an estimated capacity of 11 million tonne per annum. The Cement Corporation of India, which is a Central Public Sector Undertaking has 10 units. In addition, there are 10 large cement plants owned by various State Governments. The total installed capacity in the country as a whole is 165 million tonne including mini plants as on end-March 2006. Actual cement production in 2002-03 was 116 million tonne as against a production of 107 million tonne in 2001-02, and thereby registered a growth rate of around 9%. By now, India has emerged as the second largest market after China, surpassing developed nations like the USA and Japan. Major players in cement production are **Ambuja Cement, Aditya Cement, JK Cement** and **L&T (Ultra Tech) Cement**.

The Planning Commission for the formulation of Five Year Plan constituted a “Working Group on Cement Industry” for the development of cement industry. The Working Group has identified following thrust areas for improving demand for cement :

1. Further push to housing development programmes;
2. Promotion of concrete highways and roads; and
3. Use of ready-mix concrete in large infrastructure projects.

## II Policy Development

Cement industry has been decontrolled from price and distribution on 1<sup>st</sup> March 1989 and delicensed on 25<sup>th</sup> July 1991. However, the performance of the industry and prices of cement are monitored regularly. Being a key infrastructure industry, the constraints faced by the industry are reviewed in the Infrastructure Coordination Committee meetings held in the Cabinet Secretariat under the Chairmanship of Secretary (Coordination). The Committee on Infrastructure also reviews its performance.

The industry, in terms of production is expected to grow at the rate of 10% per annum, and thereby adding to the capacity of 40-52 million tonne during the Tenth Plan Period as envisaged in the Annual Report of the Department of Industrial Policy and Promotion.

## III Technological change

Continuous technological upgrading and assimilation of latest technology has been going on in the cement industry. Presently 93 per cent of the total capacity is in the dry process and only 7 per cent of the capacity is based on old wet and semi-dry process for manufacturing cement. There is a tremendous scope for waste of heat recovery in cement plants and thereby reduction in emission level. One project for co-generation of power utilizing waste heat in an Indian cement plant is being implemented with Japanese assistance under Green Aid Plan. This induction of advanced technology has helped the industry immensely to conserve energy and fuel and save materials substantially.

India is also producing different varieties of cement like Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), Portland Blast Furnace Slag Cement (PBFS), Oil Well Cement, Rapid Hardening Portland Cement, Sulphate Resisting Portland Cement, White Cement, etc. Production of these varieties of cement conforms to the Bureau of Standard (BIS) specifications. Also, some cement plants such as Gujarat Ambuja have set up dedicated jetties for promoting bulk transportation and bulk export of cement.

## IV Cement Production

The cement industry recorded a growth rate of about 9.44% during the calendar year 2005 as compared to 8.3% in the preceding period. During the half year January – June 2006, it grew around 12.2% as compared to 10.5% for the corresponding period of previous year. With the continued emphasis by the Government on infrastructure sectors and housing sector, the demand for cement is expected to remain strong.

The Cement Manufacturers' Association (CMA) has indicated that cement sales in the country grew by 12.1% in June to 12.9 million tonne. A strong growth in June means sales for the quarter ended June 30, 2006 grew by 9.5%, higher than the 8.2% growth recorded in April and May, 2006. With cement prices having risen during the period, companies in the sector are expected to report spectacular results for the year 2006-07. The cumulative net profits of **Gujarat Ambuja, ACC, Grasim** and **Madras Cements** are expected to rise significantly. According to a brokerage firm retail cement prices are about 25% higher across the country on a year-on-year basis, and this increase being the highest in the southern region.

One also needs to note that net realizations for the companies operating in the south would be even higher this fiscal since the state of Tamil Nadu has abolished its differential sales tax (DST) structure earlier this year.

The cement production in the country grew at Compound Annual Growth Rate (CAGR) of 8.2 percent during the period 1992-2003 which is higher than 7.2 percent for China and the global average of 3.5 percent, making the country not only the largest producer in the area but also amongst the fastest growing markets in the world.

### V Exports of Cement and Clinker

Keeping in view the past trends, a production target of 133 million tonne was set for the year 2004-05. During the Tenth Plan, the industry is expected to grow at the rate of 10% per annum and the additional capacity of 40-52 million tonne is expected to be created through expansion of existing plants and use of more flyash in the production process. Apart from meeting the domestic demand, the cement industry also contributes towards exports. The export of cement and clinker during the last three years is as under :

#### Export of Cement

Year	(in million tonne)		
	Cement	Clinker	Total
2001-02	3.38	1.76	5.14
2002-03	3.47	3.45	6.92
2003-04	3.36	5.64	9.00
2004-05(Est)*	3.97	5.78	9.75

(\*Estimated from the actual data for April 2004 – January 2005)

From a modest beginning of 0.2 million tonne of exports in 1989-90, Indian exports of cement clinker has grown rapidly at about 30-40 per cent, and now exports are more than 10 million tonne. The industry has strategically located plants, particularly in Gujarat, which can access the Gulf market. The key factors are proximity to market, good cost structure and infrastructure and also now, attractive prices. The key determinant is location because plants far from seaports lose the advantage of freight costs.

The cement industry has also been witnessing a spurt in exports. India exported about 9.75 million tonne of cement and clinker together during 2004-05. The export figures for cement were 3.97 million tonne and 5.78 million tonne for clinker in the same period. The cement industry has been witnessing a spurt in exports.

## VI Major Indian Cement Companies

A number of cement industry leaders have reported increase in despatches ranging from 5.4 per cent to around 10 per cent for the year ended March 31, 2005.

### i. The Holcim Deal

In one of the largest ever deals in India, Holcim, one of the world's leading suppliers of cement, aggregates (crushed stone, sand and gravel), concrete and construction-related services, acquired 67 per cent of equity capital in Ambuja Cement India Ltd at a cost of US\$518 million, making it the second largest cement group in India. The other 33 per cent is held by Gujarat Ambuja Cements Ltd.

### ii. Associates Cement Companies

Associated Cement Companies (ACC) indicated its despatches of 16.6 million tonne which are the highest it has ever achieved. Yearly despatches showed an increase of 7.9 per cent over the previous year (15.4 million tonne) while production at 16.606 million tonne (15.4 million tonne) showed an increase of 8.5 per cent.

Despatches from the Aditya Birla group (from Grasim and UltraTech) rose 5.4 per cent to touch 26.3 million tonne. Clinker despatches stood at 3.0 million tonne. Production rose 5.6 per cent. Grasim recorded cement despatches at 13.4 million tonne, and clinker despatches at 296,000 tonne. For UltraTech, the figures were at 12.9 million tonne for cement and 2.7 million tonne for clinker.

### iii. Ambuja Cement

For Ambuja Cement group, which observes a July-to-June fiscal, the cumulative despatches for the first three quarters of the fiscal rose 10 per cent to 10.745 million tones from 9.733 million tonne. Production for the same period was recorded at 10.756 million tonne, showing a rise of 11 per cent.

Both ACC and Ambuja Cement indicated that their despatches in March were the highest ever for their groups. ACC reported despatches at 1.572 million tonne, up by 6 per cent from the year-ago figure of 1.483 million tonne; production rose 7.5 per cent, to 1.576 million tones from 1.466 million tonne). Ambuja Cements reported despatches of 1.356 million tonne, up by 9 per cent year-on-year and production of 1.358 million tonne, up by 10 per cent.

## VII Cost Advantage

The cement industry has undergone a vital change through technological up gradation and modernization of plants making it highly cost effective. Grasim is amongst the top ten companies in the world while Gujarat Ambuja scores for being amongst the most cost effective firms in the world. The sector has an immense potential to tap foreign markets especially in Middle East and South East Asia due to its locational advantage and large scale limestone and coal deposits. India has an estimated 90 billion tones deposit base of limestone.

## VIII Consolidation

The sector, despite some consolidation is highly fragmented and hence merger and acquisition possibilities are strong. Recently, the sector witnessed some consolidation. Holcim, the world's second largest producer of cement took initiative by buying 14.8 percent in Gujarat Ambuja Cement Limited (GACL) at Rs.2,142 crores, one of the most expensive deals in the global cement industry. Before this, Holcim-ACC ('04), Lafarge-Raymond ('00) and Gujarat-DLF ('99) were involved in mega deals, which were in the \$ 100 million plus league.

## IX Investment Requirement

Per capita consumption has increased from 28 kg in 1980-81 to 110 kg in 2003-04. In relative terms, India's average consumption is still low and the process of catching up with international averages will drive future growth.

Indian cement is an attractive investment destination due to its lower per capita income and faster growth rate. The per capita Indian consumption of 110 kg is lower than the global average of 260 kg, 450 kg in China and 631 kg in Japan. According to an estimate by CRISIL, there is a demand-supply gap of nearly 40 million tonne, and to meet this demand gap in the next five years, the additional capacity creation will need an investment of about US\$ 2.2 billion.

## X Outlook

i) The cement sector is expected to remain buoyant in the coming months as the demand is expected to grow by a healthy 8-9 percent. This buoyancy will be led by a booming construction and housing sector and sudden surge in corporate projects. With current utilization levels of 96 percent and an addition of capacity in the immediate future the overall mood for the industry remains positive.

ii) Over the next five years, the number of households is expected to increase at a CAGR of 2.3 per cent, against a population growth rate of over 1.7 per cent. The growth in urban households will be higher than rural households, shifting the rural urban household ratio from 70:30 to 67:33. As the growth in households is higher than the population growth, it will accelerate the demand for new houses. This boom is expected to propel higher cement demand. With many companies operating at near full capacity, large investment in capacity expansions across sectors is likely to boost cement demand. As indicated earlier, meeting the demand supply gap in the cement industry the additional capacity creation will need investment of the order of US\$ 2.2 billion in the next five years.

iii) The infrastructure opportunity in the form of development of roads, airports, dam, bridges, ports and power plants is likely to boost the demand for cement.

Infrastructure spending (particularly on roads, ports and airports), a spurt in housing construction and expansion in corporate production facilities is likely to spur further growth in this area. South-East Asia and the Middle East are potential export markets.

iv) Low cost technology and extensive restructuring have made some of the Indian cement companies the most efficient across global majors. Despite some consolidation, the industry remains still somewhat fragmented, which means merger and acquisition possibilities are strong.

### Other Markets

#### **Debt Market**

The Governing Council of European Central Bank (ECB) at its meeting held on June 8, 2006 decided to increase the key ECB interest rates by 25 basis points :

- 1) The minimum bid rate on the main refinancing operations of the Eurosystem was increased by 25 basis points.
- 2) The interest rate on the marginal lending facility was increased by 25 basis points.
- 3) The interest rate on the deposit facility was increased by 25 basis points to 1.75%.

<b>Name of the Issuer</b>	<b>Rate %</b>	<b>Duration</b>	<b>Rating</b>	<b>Amount Rs. Crore</b>	<b>Type of Instrument</b>
ICICI Bank Ltd.	8.95%	15 yrs	AAA	250	Upper Tier II Bonds
Kotak Mahindra Bank Ltd.	8.90	10 yrs	AA+	60**	Tier II Bonds
Nabard	8.60	10 yrs	AAA	1500	Bonds
UCO Bank	9.28***	15 yrs	AA	700#	Bonds
UTI Bank Ltd.	8.95	7 yrs	AA+	300@	Lower Tier II Bonds
	9.10##	10 yrs			

The Government of India have announced the sale (re-issue) of “7.55 per cent Government Stock 2010” for a notified amount of Rs.4,000 crore (nominal) through price based auction using multiple price auction method. The auction will be conducted by the Reserve Bank of India, Mumbai Office, Fort, Mumbai on July 27, 2006 (Thursday).

#### **Call Money Market**

The call money market rate on July 14, 2006 in respect of borrowings ranged between 5.00% and 6.00% as compared to the rates of 4.00% - 5.90% on July 15, 2005 (i.e. a year ago) reflecting that there was a hardening of the rate during the year. The average daily turnover in the call money market was Rs.10,697 crore for the week ending July 14, 2006 and this daily turnover declined to Rs.8,300 crore in the week ending July 21, 2006.

## **Foreign Exchange Market**

The exchange rate (RBI reference rate) on July 21, 2006 was Rs.46.83 per US dollar as compared to Rs.46.44 per US dollar on July 17, 2006, that is, a week ago; this reflected a depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 0.88% on July 21, 2006 as compared to a premium of 0.97% on July 17, 2006 (a week ago), and this reflects that supply of dollars is likely to become easy in the forthcoming months. The foreign currency asset were US \$ 156.40 billion on July 21, 2006, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 163.35 billion. From end-March 2006, the foreign exchange reserves registered a rise of US\$ 11.73 billion. The market rate (buying) was Rs.46.57 per US dollar on July 31, 2006.

## **Important Policy Pronouncements**

### **Highlights of First Quarter Review of Annual Policy 2006-2007**

The First Quarter Review of Annual Statement on Monetary Policy for the Year 2006-2007 was presented on July 25, 2006 by RBI Governor, Dr. Y.V. Reddy.

### **Highlights of the Policy are :**

#### **I Overall :**

- Reverse Repo Rate increased to 6.0 per cent and Repo Rate to 7.0 per cent.
- Bank Rate and Cash Reverse Ratio kept unchanged.
- GDP growth projection for 2006-07 retained at 7.5-8.0 per cent.
- Containing inflation within 5.0-5.5 per cent for 2006-07 warrants appropriate priority in policy responses.
- Appropriate liquidity to be maintained to meet legitimate credit requirements, consistent with price and financial stability.
- Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the current assessment of the economy including the outlook for inflation, the overall stance of monetary policy in the period ahead will be :
  - To ensure a monetary and interest rate environment that enables continuation of the growth momentum while emphasizing price stability with a view to anchoring inflation expectations.
  - To reinforce the focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic and, in particular, financial stability.
  - To consider measures as appropriate to the evolving global and domestic circumstances impinging on inflation expectations and the growth momentum.

## II Domestic Developments

- Real GDP growth during January-March 2006 is placed at 9.3 per cent as against 8.6 per cent in the corresponding quarter a year ago and real GDP growth for the year 2005-06 is revised to 8.4 per cent from 8.1 per cent.
- Inflation, measured by variations in the wholesale price index (WPI) on a year-on-year basis, rose from 4.1 per cent at end-March 2006 to 4.7 per cent as on July 8, 2006.
- The average international price of the Indian crude basket increased from US\$ 60.1 per barrel in January-March, 2006 to US\$ 67.3 per barrel in April-June, 2006 and further to US\$ 71.4 per barrel in July 2006 (up to July 21).
- During 2006-07 so far, there has been a reversal of the phenomenon of consumer prices lagging wholesale prices, indicative of the increase in food prices which constitute a relatively larger share in the consumer price basket.
- On a year-on-year basis, money supply (M<sub>3</sub>) growth at 18.8 per cent by July 7, 2006 was higher than 13.8 per cent, net of conversion, a year ago and above the projected trajectory of 15.0 per cent indicated in the Annual Policy Statement for 2006-07.
- The year-on-year increase in aggregate deposits at 20.7 per cent (Rs.3,72,977 crore) was significantly higher than 14.9 per cent (Rs.2,34,020 crore), net of conversion, a year ago.
- On a year-on-year basis, the increase in non-food bank credit was 32.9 per cent (Rs.3,71,993 crore) on top of an increase of 31.0 per cent (Rs.2,60,164 crore) net of conversion of a non-bank into a bank, a year ago.
- The overhand of liquidity in the system, as reflected in the liquidity adjustment facility (LAF), the market stability scheme (MSS) and the Central Government's cash balances with the Reserve Bank which, put together, averaged Rs.65,174 crore during January-March 2006 stood at Rs.91,231 crore as on July 20, 2006.
- Banks increased their deposit rates by about 25-100 basis points across various maturities between March 2006 and July 2006. A majority of public sector banks adjusted their deposit rates up to three year maturity upwards by 25 to 50 basis points, while keeping the range of 6.00-7.25 per cent unchanged for deposits of over three years over the same period. The adjustments in deposit rates made by some private sector and foreign banks were somewhat higher, up to 100 basis points, particularly for deposits rates of over one year maturity.
- Gross market borrowings of the Central Government at Rs.69,533 crore (Rs.60,282 crore a year ago) during 2006-07 so far (up to July 17, 2006) constituted 38.2 per cent of the budget estimates while net market borrowings at Rs.34,572 crore (Rs.39,234 crore a year ago) constituted 30.4 per cent of the budget estimates.

### III External Developments

- Export growth in US dollar terms moderated to 16.9 per cent during April-June 2006 from 35.4 per cent a year ago. Merchandise import also decelerated to 17.7 per cent from 45.4 per cent.
- While petroleum, oil and lubricants (POL) import growth rose sharply to 39.0 per cent from 31.0 per cent reflecting the steep rise in international crude oil prices, non-oil imports posted a relatively modest growth of 9.6 per cent as compared with 51.7 per cent a year ago.
- India's foreign exchange reserves increased by US\$ 11.0 billion over their end-March, 2006 level to US\$ 162.7 billion as on July 14, 2006.
- The exchange rate of the rupee depreciated by 4.7 per cent against the US dollar, by 8.4 per cent against euro, by 10.2 per cent against pound sterling and by 5.1 per cent against Japanese yen during 2006-07 so far (Up to July 21, 2006). Orderly conditions have prevailed in the domestic foreign exchange market during the period.

### IV Global Developments

- According to the World Economic Outlook of the International Monetary Fund (IMF) released in April 2006, global growth is expected to pick up from 4.8 per cent in 2005 to 4.9 per cent in 2006 before easing to 4.7 per cent in 2007.
- In major industrial countries, inflation appears to be on the upswing mainly on account of oil price increases. In addition, risks loom large in the form of lagged second order effects of oil price increases, geopolitical tensions, the probability of disruptive adjustment of current account imbalances and the cooling global housing market.
- A large number of central banks have raised their official interest rates inter alia: the US Federal Reserve, The European Central Bank, the Bank of Japan, the Bank of Canada, the Reserve Bank of Australia, the People's Bank of China, the Bank of Korea and the Banco Central de Chile.

### V Stance of Monetary Policy

- The forecast for GDP growth is retained in the range of 7.5-8.0 per cent during 2006-07 as projected in the Annual Policy Statement, barring domestic or external shocks.
- Taking into account the real, monetary and global factors, containing the year-on-year inflation rate for 2006-07 in the range of 5.0-5.5 per cent warrants appropriate priority in policy responses.
- For the purpose of monetary policy formulation, the expansion in M<sub>3</sub> was projected at around 15.0 per cent for 2006-07 in the Annual Policy Statement. The growth in aggregate deposits was projected at around Rs.3,30,000 crore in 2006-07. Non-food bank credit including investments in bonds / debentures / shares of public sector undertakings and private corporate sector and CP was expected to increase by around 20 per cent. Developments during the first quarter of 2006-07 indicate that money supply, deposit and credit growth are running well above the indicative projections, warranting caution by all concerned in this regard.

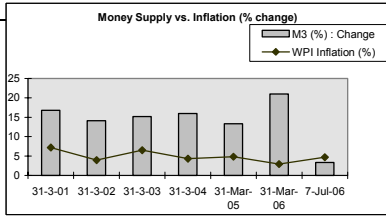
- While domestic developments continue to dominate our economy, global factors tend to gain more attention now than before.
- The Reserve Bank will continue to ensure the appropriate liquidity is maintained in the system so that all legitimate requirements of credit are met, particularly for productive purposes, consistent with the objective of price and financial stability. Towards this end, the Reserve Bank will continue with its policy of active demand management of liquidity through open market operations (OMO) including MSS, LAF and cash reserve ratio (CRR), and using all the policy instruments at its disposal flexibly, as and when the situation warrants.
- Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the current assessment of the economy including the outlook for inflation, the overall stance of monetary policy in the period ahead will be :
  - To ensure a monetary and interest rate environment that enables continuation of the growth momentum while emphasizing price stability with a view to anchoring inflation expectations.
  - To reinforce the focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic and, in particular, financial stability.
  - To consider measures as appropriate to the evolving global and domestic circumstances impinging on inflation expectations and the growth momentum.

#### VI Monetary Measures

- Bank Rate kept unchanged at 6.0 per cent .
- Reverse Repo Rate and Repo Rate, each raised by 25 basis points to 6.00 per cent and 7.00 per cent, respectively.
- CRR kept unchanged at 5.0 per cent

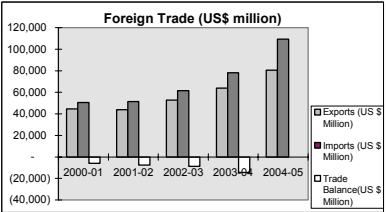
VII Next Mid-term Review of the Annual Policy Statement will be undertaken on October 31, 2006.

Though the RBI Governor has not directly increased the interest rates but it has raised the repo rate giving an indication of the future interest rates moving northwards.



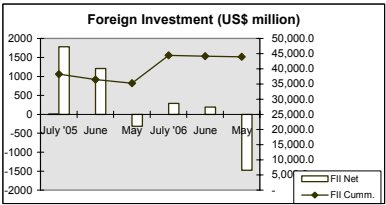
	31-3-01	31-3-02	31-3-03	31-3-04	31-Mar-05	31-Mar-06	7-Jul-06
<b>M3 (Rs. Crore)</b>	13,13,220	14,98,355	17,25,222	20,03,102	22,53,938	27,29,535	28,20,649
<b>M3 (%) : Change</b>	16.82	14.1	15.14	15.95	13.30	21.00	3.34
<b>WPI (Index) All Commodities#@</b>	155.7	161.8	172.30	180.30	189	194.5*	203.6*
<b>WPI Inflation (%)</b>	7.16	3.92	6.49	4.29	4.83	2.91	4.68

Source: RBI Bulletin June 2006; WSS: July 28, 2006 \*1993-94 = 100 @ year/month-end, \*July 09, 2005 \*July 08, 2006



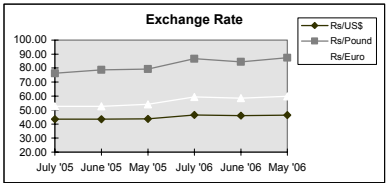
During the Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06*	2006-07*
<b>Exports (US \$ Million)</b>	44,560	43,827	52,719	63,843	80,540	100,607	27,672
<b>Imports (US \$ Million)</b>	50,537	51,413	61,412	78,149	109,173	140,238	40,281
<b>Trade Balance (US \$ Million)</b>	(5,977)	(7,586)	(8,693)	(14,306)	(28,633)	(39,631)	(12,609)

Source: RBI Bulletin, June 2006 : Revised figures for 2000-01 to 2004-05  
\*DGI&S data for April & June 2006 (Press Release)



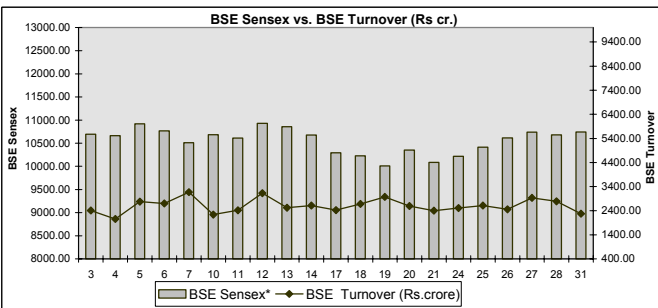
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	July '05	June '05	May '05	July '06	June '06	May '06
<b>FI Net</b>	1,783.8	1,209.3	(317.7)	285.4	193.2	(1,473.0)
<b>FI Cumulative</b>	38,263.5	36,480.0	35,270.7	44,438.2	44,152.9	43,959.6

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



	2005-06			2006-07		
	July '05	June '05	May '05	July '06	June '06	May '06
<b>Rs/US\$</b>	43.49	43.51	43.69	46.51	46.08	46.43
<b>Rs/Pound</b>	76.34	78.75	79.30	86.65	84.45	87.43
<b>Rs/Euro</b>	52.73	52.68	54.13	59.31	58.54	59.80

Figures are for month-end



July 2006	BSE Sensex* Close	BSE Turnover (Rs.crore)
3	10695.26	2412.00
4	10662.22	2059.00
5	10919.64	2775.00
6	10767.97	2700.00
7	10509.53	3172.00
10	10684.30	2243.00
11	10614.35	2414.00
12	10930.09	3130.00
13	10858.50	2523.00
14	10678.22	2613.00
17	10293.22	2426.00
18	10226.78	2683.00
19	10007.34	2975.00
20	10352.94	2591.00
21	10085.91	2404.00
24	10215.37	2514.00
25	10415.61	2612.00
26	10617.27	2455.00
27	10741.59	2935.00
28	10680.23	2792.00
31	10743.88	2271.00



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

Country	3-Month Money Mkt		CPI		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2005	Real Rate (Short-term) (1-3)	Currency unit per Euro 26.07.06
	As on 26.07.06	A Year ago	3- Month	A Year ago	As on 26.07.06	A Year ago			
	1	2	3	4	5	6	7	8	9
Euro-11	3.14	2.13	2.50	2.10	0.79	0.83	-2.30	0.64	1.00
			Jun						
U. S. A.	5.45	3.49	4.30	2.50	1.00	1.00	-3.60	1.15	1.28
			Jun						
Britain	4.70	4.56	2.50	2.00	0.54	0.57	-3.40	2.81	0.68
			Jun						
Japan	0.34	0.02	0.60	0.20	117.00	112.00	-5.20	-0.26	147.00
			May						
Sweden	2.25	1.45	1.50	0.60	7.34	7.84	1.70	0.75	9.26
			Jun						
Switzerland	1.54	0.75	1.60	0.70	1.25	1.30	-0.20	-0.06	1.58
			Jun						
India*	5.69	5.20	5.84#	4.59	46.83	46.44	-3.80	-0.15	59.28
	(May 24, 06)	(June 01, 05)	May 06 over May 05	(2005-06 over 2004-05)	(July 21, 06)	(July 17, 06)	(2006-07)		

Source: The Economist London: July 29th - August 4th, 2006

For India, RBI Bulletin, July 2006

# CPI - (IUNW) May 2006 over May 2005 (RBI Bulletin, July 2006)

\*RPI Inflation rate 5.84% in May 2006

For India, RBI Weekly Statistical Supplement, (WSS), July 28, 2006 and Union Budget 2006-07

**Annexure 2 : Important Indicators for Select Emerging Market Countries**

Country	GDP	Industrial Production	Consumer Prices	Short-term Interest Rates	Foreign Exchange Reserves*	Exchange Rate			Trade Balance	Current Account
	% change on earlier year				% p. a.	US \$ Billion	per US\$	per Euro	Latest 12 Months \$ Billion	
	1	2	3	4	5	26.07.06	a year ago	26.07.06	9	10
China	11.3	19.5	1.5	2.73	925.0	7.98	8.11	10.10	123.0	160.8
	Q2	Jun	Jun		May				Jun	2005
Hongkong	8.2	7.0	2.2	4.39	126.6	7.78	7.78	9.85	-14.0	20.7
	Q1	Q1	Jun		Jun				Jun	Q1
India	9.3	10.0	6.3	6.42	156.0	46.80	43.50	59.25	-51.2	-10.6
	Q1	May	May		Jun				Jun	Q1
Indonesia	4.6	-3.6	15.5	12.72	42.3	9120.0	9840.0	11544.30	32.7	3.0
	Q1	Apr	Jun		May				May	Q4
Malaysia	5.3	5.5	3.9	3.93	79.0	3.68	3.75	4.66	26.9	19.5
	Q1	May	Jun		May				May	Q1
Singapore	7.5	22.5	1.4	3.56	128.7	1.58	1.67	2.00	33.4	36.1
	Q2	Jun	Jun		Jun				Jun	Q1
South Korea	5.3	11.6	2.6	4.63	224.3	955.0	1031.0	1208.86	18.2	7.8
	Q2	May	Jun		Jun				Jun	Jun
Taiwan	4.9	5.5	1.7	1.79	260.4	32.80	32.00	41.52	10.7	18.1
	Q1	Jun	Jun		Jun				Jun	Q1
Thailand	6.0	8.9	5.9	5.40	56.0	38.00	41.70	48.10	-3.7	1.2
	Q1	May	Jun		May				Jun	May

Source: The Economist London: July 29th - August 4th, 2006

\*Excluding Gold and SDRs

@For India, RBI WSS, July 28, 2006

Note : Quotes for currency units per Euro in Col 8 are derived one.

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