



Update on Indian Economy

February 2007

Economic Snapshot

Contents	Item	Units	January	December	January	(% Change	
			2007	2006	2006	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	208.1	207.7	196.9	-0.24	5.7
- Capital Market	WPI -Inflation**	Per cent	5.7	5.3	4.2	-	-
- Country : Netherlands	Week ended		06.01.07	09.12.06	07.01.06		
- Other Markets	IIP (93-94=100)	2 months lag	245.8	237.7	216.7	3.41	13.43
- Important Policy Pronouncements			(Nov.06)	(Oct.06)	(Nov.05)		
	INR / US\$	Month End	44.11	44.23	44.07	-0.27	0.09
	M3	Rs. '000 Cr.	3054.16	3029.38	2534.42	0.82	20.51
	[i] Agg. Deposits	Rs. '000 Cr.	2589.33	2568.40	2136.56	0.81	21.19
	[ii] Currency	Rs. '000 Cr.	464.82	460.98	397.86	0.83	16.83
		(Outstanding as on)	(05.01.07)	08.12.06	(06.01.06)		
	Call Money	% Range	5.00-10.50	5.00-8.50	4.50-8.00	-	-
	(Lendings)	Week ended	12.01.07	15.12.06	13.01.06		

Source: RBI Weekly Statistical Supplement January 26, 2007 & Economic & Political Weekly January 20, 2007

*All Commodities. **Over the year.

Editorial

A) Domestic

The index of wholesale price (1993-94=100) which is considered as a measure of inflation reached 208.1 on December 30, 2006 as compared to 197.1 on December 31, 2005 registering a growth of 5.6% which is higher than what has been estimated earlier. Judged by the consumer price index of urban non-manual employees there is a steady increase in the rate of inflation from month to month and the latest available data for October 2006 indicates that the increase in index over the corresponding month of 2005-06 was perhaps the highest at 7.17%. Therefore, both the wholesale price index and the consumer price indices are rising, and inflation is the cause for concern. The overall growth rate of GDP is around 9% on the back of growing manufacturing sector judged by the index of industrial production (IIP) which zoomed to 14% in November 2006 the highest in recent years. The high growth rate of industrial production is due to the increasing manufacturing activity. The present economic environment reflects a state of high GDP growth which seems to be a trend rather than a flash in the pan. Gross domestic savings which hovered around 22-23% of GDP during 1990s have now increased to close to 28%. The data on production of six core industries released recently indicate that their production which has a weight of 26.68% in the IIP grew by 7.8 per cent during April-November 2006 of 2006-07 and this is higher than the rate of 5.2 per cent in the corresponding period of 2005-06.

Six-Core Industries : Production

Sector		Weight (%)	November		April-Nov 2005-06	April-Nov 2006-07
			2005	2006		
1.	Crude Petroleum	4.17	-8.5	10.1	-5.7	5.5
2.	Petroleum Refinery Products	2.00	1.5	16.4	-0.9	13.5
3.	Coal	3.22	6.9	4.9	6.1	4.8
4.	Electricity	10.17	3.4	8.8	4.9	7.3
5.	Cement	1.99	7.8	11.5	10.6	10.2
6.	Finished steel (carbon)	5.13	14.8	9.0	10.0	7.6
	Overall	26.68	5.7	9.5	5.2	7.8

Source: Concerned Ministries/Departments/Organization(s)

The growth rate of the manufacturing has now reached in the range of 8-9% whereas this was just around 4-5% five years ago. Thus the trajectory of the manufacturing sector has moved upward, and because in the manufacturing sector which has a weight of around 80% in the IIP a significant growth has taken place in the capital goods segment. In fact, output of capital goods rose at an average rate of 8.4% per annum during the period from 1999-2000 to 2005-06, and this was higher than all other segments of the industrial sector. Because the growth has taken place in the capital goods segment and this portends a continuing of the output growth in the manufacturing which in turn will continue to provide boost to GDP growth in the wake of higher rate of gross domestic savings and (ii) expected continuation in the momentum of export growth of more than 20% with prospects in growth of exports of software of more that 30%. Thus there is a good chance of GDP growth touching 9% per annum and this could be considered as sustainable.

The relatively high rate of inflation as also the industrial production are going hand in hand indicating possibly the upward moving aggregate supply curve which some economists have termed as over heating. To what extent this increased growth would help in raising the standard of living of the poor is a challenge for the policy makers. If this does not take place then the rising inflation is indeed a cause for concern, and unless this is tamed by policy initiatives, both fiscal and monetary, it will have adverse impact on the trajectory of the growth path, and in result the dream target in GDP growth of 10% per annum could become unsustainable in the near future.

B) International

The meeting of the World Economic Forum (WEF) was held during January 24-28, 2007 in Switzerland and the Forum published a new report called 'Global Risks 2007' which assesses 23 'core' risks facing companies around the world. The report suggests that many of the 23 core global risks have worsened over the last 12 months, despite growing awareness of their potential impacts. The report suggests two such innovations – the appointment of 'Country Risk Officers' and the creation of flexible 'coalitions of the willing' around specific global risk issues, providing crucial momentum to mitigation efforts. The first would provide a focal point in government for mitigating global risks across departments, learning from private-sector approaches and escaping a 'silo-based' approach. The second would allow mitigation strategies to emerge from dynamic interplay between governments and business, achieving a balance between inclusiveness and decisiveness. According to the report the core global risks are :

I. Economic

- Oil price shock/energy supply interruptions
- US current account deficit/fall in US\$
- Chinese economic hard landing
- Fiscal crises caused by demographic shift
- Blow up in asset prices/excessive indebtedness

III. Geopolitical

- International terrorism
- Proliferation of weapons of mass destruction (WMD)
- Interstate and civil wars
- Failed and failing states
- Transnational crime and corruption
- Retrenchment from globalization
- Middle East instability

V. Technological

- Breakdown of critical information infrastructure (CII)
- Emergence of risks associated with nanotechnology.

II. Environmental

- Climate change
- Loss of freshwater services
- Natural catastrophe: Tropical storms
- Natural catastrophe: Earthquakes
- Natural catastrophe: Inland flooding

IV. Societal

- Pandemics
- Infectious diseases in the developing world
- Chronic disease in the developed world
- Liability regimes

Capital Market Review

During the month of January 2007, the Sensex reflected movement in narrow range. It moved from 13,786.91 on December 29, 2006 and closed at 14,090.92 on January 31, 2007 which was the last trading day of the month. In terms of movement the index registered a small rise of 304.01 points.

	January	December	January	December	(%) Change		
	2007	2006	2006	2005	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	14090.92 (31.01.07)	13786.91 (29.12.06)	9919.89 (31.01.06)	9323.25 (29.12.05)	2.21	42.05	47.88
Monthly High	14282.72 (25.01.07)	13972.03 (07.12.06)	9919.89 (31.01.06)	9442.98 (23.12.05)	2.22	43.98	47.96
Monthly Low	13362.16 (10.01.07)	12995.02 (12.12.06)	9237.53 (18.01.06)	8815.53 (06.12.05)	2.83	44.65	47.41
S&P CNX Nifty –Close	4082.70	3966.40	3001.10	2821.95	2.93	36.04	40.56
P/E Ratio : BSE – 30	21.85	22.76	18.49	18.51	(4.00)	18.17	22.96
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	45769.9	44207.1	34971.2	33,548.00	3.54	30.88	31.77
Outflows – Rs. Cr.	47451.8	46972.9	32362.5	25,187.40	1.02	46.63	86.49
Net – Rs. Cr.	(1681.9)	(2766)	2608.3	8,360.60	(39.19)	(164.48)	(133.08)
Cum. Net Inv–US\$ Mn. (Month End)	50050.9	50420.6	42,116.7	41,545.70	-0.73	18.84	21.36

At the end of January 2007, the net cumulative investment by the FIIs stood at US\$ 50.05 billion but compared to the position at the end of December 2006 the net cumulative investment by the FIIs declined by US\$ 0.37 billion.

Last month, the Indian stock markets were hammered down in line with other Asian emerging markets mainly due to Thailand making a move to curb sharp rise of its local currency (baht) against the dollar by prescribing a one year lock-in for investment. However the month of January 2007 witnessed Tata Steel winning the battle for acquisition of Corus Steel Company in Europe when it bid at the Corus price of 608 pence per share against other competitors. This will give Tata Steel access to Indian iron-ore reserves which has been a virgin market for steel. India's per capita steel consumption is about 35 kg a year, or about one-tenth of consumption in the developed countries. The Tata-Corus combination will be the world's fifth biggest steel producer. Tata Steel may have to raise debt of about Rs.50,000 crore to fund over Rs.55,000 crore (US\$ 12.1 billion) deal.

The power sector will need an investment to the tune of \$100 billion if it goes in for a capacity addition of 68,000 mw during the Eleventh Plan period. Of the total amount, \$50 billion would alone be needed for raising the generation capacity while the balance would be needed for transmission, distribution and related activities. In this regard, Government has proposed an IPO of PFC, with non-performing assets of 0.22%, which is expected to be successful like PTC and NTPC. After PFC, IPOs of other central public sector undertakings, viz, National Hydro Electric Power Corporation (NHPC), Power Grid Corporation, Rural Electricity Corporation (REC), North Eastern Electric Power Corporation (Neepco) are also likely to hit the market during 2007-08. The issues of PFC and other undertakings would constitute 10.22% each of fully diluted post issue capital of these companies.

The Government is working on a big bang approach to capital market reforms, which may include doing away with FII registration and also making the domestic market a preferred option for Indian Inc to raise funds, instead of tapping the overseas market for external commercial borrowings and ADRs / GDRs. The move is likely to be spelled out in the forthcoming Union Budget and is intended to eventually make Indian companies fund their overseas mergers and acquisitions domestically. At present, a negligible portion of the business is financed in India.

After the National Stock Exchange (NSE) and the Bombay Stock Exchange Ltd. (BSE), foreign stock exchanges are now eyeing equity stake in the Over the Counter Exchange of India (OTCEI), as the Government is planning to throw a lifeline to the now defunct bourse for small and medium companies and wants to position the OTCEI on the lines of London's Alternative Investment Market (AIM) by allowing easier corporate governance norms for the companies listed on the exchange.

The Bombay Stock Exchange Ltd. (BSE), which has last year separated trading rights from ownership rights of member-brokers, is likely to shortly reduce the stake in the exchange from 100 per cent to 49 per cent.

Country - Netherlands

I. Introduction :

Kingdom of Netherlands was formed in 1815 and the country suffered invasion and occupation by Germany in World War II. It is now a modern industrialised nation and a large exporter of agricultural products. It was a founding member of NATO and the EEC now the European Union (EU). It has co-operated and participated in the introduction of the Euro in 1999. The country has a population of 16.5 million (estimated in 2006); and according to the available data 18.5% of the population is in the age group of 0-14 years and 68% is the working population in the age group of 15-64 years. The remaining population of 14% is aged 65 years and over. Life expectancy at birth of the total population is 79 years.

II. Economy :

The country's economy depends heavily on foreign trade. The country is known for stable industrial relations, modern unemployment, low inflation and sizable amount of current account surplus, food processing, petroleum refining and electrical machinery are the major sectors involved in industry. The agricultural sector which employs just 2% of the labour force but because of the highly mechanised nature of agricultural sector generates large surplus for the food processing industry and for exports. The country has remained an important destination for foreign direct investment, though the overall economic growth during the first four years of 2001 and 2005 slowed down but the country's annual growth rate averaged nearly 4% much above the European Union average.

Gross domestic of the country on Purchasing Power Parity basis (PPP) was estimated at US\$ 490 billion. The per capita GDP of US\$ 30,300, this per capita GDP is well above the per capita GDP of many European countries.

Sectorwise contribution to GDP remained highest by services by account for 74% and industrial 24% and the remaining 2% is accounted for by agriculture.

Exports were estimated in 2005 as US\$ 365 billion and significant items of exports were machinery and equipment, chemicals, fuels and food stuffs. A large proportion of the exports went to European countries such as Germany 24.9%, Belgium 13%, France 9.4%, UK 9.1%, Italy 5.7%, US 4.3%, Spain 4.1% (2005).

Imports for 2005 imports were US\$ 327 billion and the commodities imported were machinery and transport equipment, chemicals clothing and fuels. A large part of the imports came from countries in Europe and to a small extent from China and Russia. Countries contributing to Netherlands imports were Germany 16.6%, Belgium 9.3%, France 8.8%, US 7.6%, UK 5.8%, France 4.7%, Russia 4.4% (2005). (Appendix : For important Macro-Economic Indicators)

III. Excellent business climate :

The Dutch are business people. The population is highly educated, internationally oriented and largely multilingual. This explains why the Netherlands has proved attractive for foreign companies in recent years. A number of companies recently established their European head offices in the Netherlands, including China's Huawei

Technologies (telecom), ARI Network Services (US, IT), Zebra Technologies (US, European distribution), Teijin Twaron (Japan, chemicals), Brunner Mond (GB, chemicals), VisualSonics (Canada, biomedical), Abbott Laboratories and Amgen (US, pharmaceuticals).

Top Ten companies in the Netherlands

		Expenditure in 2005 (in millions of euros)	Employees 2005 (in FTEs)			Expenditure in 2005 (in millions of euros)	Employees 2005 (in FTEs)
1.	Philips largest manufacturer of electronic equipment	1001	7830	6.	Unilever Manufactures ice cream, margarine, olive oil products	140	1000
2.	Akzo Nobel Makers of human and animal healthcare products	425	2250	7.	Océ printing systems and document solutions for larger organisations	130	1100
3.	ASML lithography systems for the semiconductor industry	348	1500	8.	Thales Naval defence systems, air defence, communications, optronics, munitronics, cryogenics and security	63	775
4.	Shell oil, gas and petrochemical companies	239	1500	9.	Corus Production, monitoring and distribution of steel and aluminium and metals research	62	482
5.	DSM nutrition, pharma, performance materials and industrial chemicals	163	1150	10.	Stork industrial production processes	61	597

IV. Bilateral Trade : India and Netherlands

Trade between India and Netherlands has generally been in favour of India. Indian exports to Netherlands were US\$ 0.9 billion in 1999-2000 and the level remained below US\$ 1 billion during the next two years. In 2002-03 exports crossed US\$ 1 billion and rose gradually to US\$1.6 billion in 2004-05. These rose sharply to US\$ 2.5 billion in 2005-06. In terms of share of Indian exports to Netherlands, the share was 2.41% and the share remained low generally less than 2% till 2002-03 but rose slightly to US\$ 2.02 in 2003-04. Despite the 53% growth in Indian exports to Netherlands, from US\$ 1605 million in 2004-05 to US\$ 2456 million in 2005-06, the share of Indian exports to Netherlands in relation to total Indian exports at 2.39% was still lower than the share of 2.41% in 1999-2000.

Table : India's Trade with Netherlands : Exports & Imports

(US\$ Million)

Year (April- March)	India's Exports		India's Imports		Share (percent) of total Indian		Total Trade with Nether- lands (1+3)	India's Total Trade (2+4)
	to Nether- lands (US \$ mn)	Total (US \$ mn)	from Nether- lands (US \$ mn)	Total (US \$ mn)	Exports to Nether- lands	Imports from Nether- lands		
	1	2	3	4	5	6	7	8
1999-00	886	36822	471	49,671	2.41	0.95	1,357	86,493
2000-01	880	44560	438	50,537	1.97	0.87	1,318	95,097
2001-02	864	43827	467	51,413	1.97	0.91	1,331	95,240
2002-03	1048	52719	386	61,412	1.99	0.63	1,434	114,131
2003-04	1289	63843	536	78,149	2.02	0.69	1,825	141,992
2004-05	1605	83536	792	111,517	1.92	0.71	2,397	195,053
2005-06	2456	102,725	1039	142,416	2.39	0.73	3,495	245,141

Source: RBI: Handbook of Statistics on the Indian Economy, 2005-06

While there was a pick up, albeit small, in Indian exports to Netherlands share of imports from Netherlands to total Indian imports steadily declined from 0.95% in 1999-2000 to 0.73% in 2005-06.

Main Indian exports to the Netherlands are: textiles & garments, yarns, fabrics and carpets, fruits & vegetables, leather goods, cars and other vehicles, organic chemicals, plastics & works thereof, mineral products, iron & steel bars and rods, seeds, plants for industrial use, coffee, tea and spices, marine products, processed foods and vegetables.

The main products imported from the Netherlands to India are: machinery & mechanical appliances; optical, photographic, cinematographic, measuring, medical or surgical instruments and parts thereof; chemicals; plastics & articles thereof; iron & steel; copper and articles thereof; pharmaceuticals; paper and paperboard; electrical machinery and equipment.

V. Economic Relations

Recently, Minister for Foreign Trade of The Netherlands, Mr. E G Karien Van Gennip, came to India with the objective of consolidating and strengthening bilateral economic relations between the two countries. She was accompanied by a business delegation from Netherlands consisting of 30 Dutch companies from the sectors of Information Technology, Agro-Industry, Biotechnology, Healthcare, Banking. The main theme of the mission was globalization, innovation and research and development cooperation. With an ever-increasing potential for growth in economic relations in exports, imports and outbound as well as inbound investments, another objective of the visit is to raise awareness among Indian companies about the excellent investment opportunity existing in Netherlands.

It was emphasised that the trade between the two countries is likely to grow in the coming years especially in the domain of knowledge. She mentioned that Netherlands is the best port and airport to Europe and the Government had created a pro-business climate including that of investment to share the ICT knowledge, and invite companies to establish base in Netherlands. She also mentioned that Netherlands is a gateway to Europe.

APPENDIX : Netherlands - Important Macro-Economic Indicators

	(Percentage growth)						
	2001	2002	2003	2004	2005	2006	2007
I. Real Sector (change in percent)							
1. Real GDP	1.4	0.1	-0.1	1.7	1.1	2.6	2.8
2. CPI (harmonized)	5.1	3.9	2.2	1.4	1.5	1.5	1.6
3. Gross National Saving (in percent of GDP)	25.5	24.7	24.5	28.5	25.6	26.5	27.8
4. Gross domestic investment (in percent of GDP)	21.5	19.7	19.0	19.5	19.2	19.6	20.1
II Interest rates (in percent)							
5. Money market rate 3/	4.3	3.3	2.3	2.1	2.2	2.7	...
6. Government bond yield 4/	5.2	5.0	4.2	4.1	3.4	3.7	...
III Balance of payments (in percent of GDP, unless otherwise noted)							
7. Trade balance	4.8	4.2	6.6	7.1	7.0	8.0	8.9
8. Current account balance	2.4	2.5	5.5	8.9	6.4	6.9	7.8
9. Official reserves, excl. gold (in US\$ billion) 3/	9.0	9.6	11.0	10.1	9.1	9.3	-
10. Reserve cover (in months of imports of GNFS)	0.4	0.5	0.4	0.3	0.3	-	-
IV Exchange rate regime	Member of EMU						
11. U.S.dollar per euro (May 2006)						1.28	
12. Nominal effective rate (1990=100) 3/	94.0	95.6	100.9	102.5	102.4	101.8	...
13 Real effective rate (1990=100) 3/, 6/	99.4	102.3	107.4	109.5	108.2	107.95	...

Sources: International Financial Statistics; information provided by the Dutch authorities; and IMF staff estimates.

1/ Staff projections, unless otherwise indicated.

2/ In 2001, an indirect tax increase is estimated to have boosted inflation by 1.2 percentage points.

3/ As of April for 2006.

4/ As of May for 2006.

5/ Transactions basis.

6/ Based on relative normalized unit labor costs.

Other Markets

Debt Market

During the month of December 2006, the issues in primary debt market were from infrastructure institutions, banking and Financial Institutions as per details given below :

Name of the Issuer	Rate %	Duration	Rating	Amount Rs. Crore	Type of Instrument
HDFC Ltd.	8.50	2 years	AAA	300a	Bonds
IndusInd Bank Ltd.	9.75b	15 years c	A	100d	Upper Tier-II bonds
NABARD	8.15-8.25 8.30-8.40	3 years 5 years e	AAA	200	Bonds
PNB Housing Finance Ltd	8.70	10 years	AA+	50f	Bonds
Power Grid Corporation Ltd.	8.68	10 years	AAA	500a	Bonds
Rural Electrification Corporation Ltd	8.85	10 years	AAA.	500g	Bonds
State Bank of Indore	8.95b	15 years c	AAA	100	Upper Tier-II bonds

<i>a With a greenshoe option for an additional Rs.200 crore</i>	<i>e With a put/call option at the end of 1 year & 3 years respectively.</i>
<i>b With a 50 basis points increase if the call option is not exercised.</i>	<i>f With a greenshoe option for an additional Rs.50 crore</i>
<i>c With a call option at the end of the 10th year.</i>	<i>g With a greenshoe option for an additional Rs.500 crore</i>
<i>d With a greenshoe option for an additional Rs65 crore</i>	

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

Call Money Market

The call money market rate on January 12, 2007 in respect of borrowings ranged between 5.00% and 10.50% as compared to the rates of 4.50% - 8.00% on January 13, 2006 (i.e. a year ago) reflecting that there was a hardening of the interest rate during the year. The average daily turnover in the call money market was Rs.11,545 crore for the week ending January 12, 2007 and this daily turnover declined to Rs.10,234 crore in the week ending January 19, 2007.

Foreign Exchange Market

The exchange rate (RBI reference rate) on January 19, 2007 was Rs.44.34 per US dollar as compared to Rs.44.31 per US dollar on January 15, 2007, that is, a week ago; this reflected slight depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 3.61% on January 19, 2007 as compared to a premium of 3.34% on January 15, 2007 (a week ago), and this reflects that supply of dollars is likely to remain relatively tight in the forthcoming weeks. The foreign currency asset were US \$ 171.07 billion on January 19, 2007, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 178.13 billion. From end-March 2006, the foreign exchange reserves registered a rise of US\$ 26.51 billion. The market rate (buying) was Rs.44.19 per US dollar on January 31, 2007.

Important Policy Pronouncements

- I. President APJ Abdul Kalam has approved on January 23, 2007 an ordinance empowering the Reserve Bank of India to lower the statutory liquidity ratio (25 per cent at present), the mandatory percentage of deposits banks must hold in government bonds.

- II. The Reserve Bank has revised the guidelines on banks' exposure to capital markets. The modified guidelines, which will come into effect from April 1, 2007, are :
Banks' capital market exposures would include both their direct exposures and indirect exposures. Aggregate exposures (both fund and non-fund based) of banks to capital markets in all forms would include :
 - i) direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds, the corpus of which, is not exclusively invested in corporate debt;
 - ii) advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including initial public offerings (IPOs)/ employees' stock option plans {ESOPs}), convertible bonds, convertible debentures and units of equity-oriented mutual funds;
 - iii) advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds are taken as primary security;
 - iv) advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds i.e., where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances;
 - v) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;
 - vi) loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;
 - vii) bridge loans to companies against expected equity flows / issues;
 - viii) underwriting commitments taken up by banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds;
 - ix) financing to stockbrokers for margin trading; and
 - x) all exposures to venture capital funds (VCFs) (both registered and unregistered).

The aggregate exposure of a bank to the capital markets in all forms (both fund based and non-fund based) should not exceed 40 per cent of its net worth as on March 31 of the preceding year.

III. The Reserve Bank Governor announced on January 31st, 2007 the Third Quarter Review of Annual Monetary Policy for the year 2006-07. The review is divided into three sections; VIZ. (i) Assessment of Macroeconomic and Monetary developments; (ii) Stance of Monetary Policy; and (iii) Monetary Measures. The highlights of Review are as follows :

i. Monetary Developments and Assessment of Macroeconomic

- Real GDP originating in agriculture, industry and services sectors rose by 2.6 per cent, 10.1 per cent and 10.6 per cent, respectively, during the first half of 2006-07 as against 3.7 per cent, 7.9 per cent and 10.2 per cent a year ago, respectively.
- Buoyant domestic and export demand conditions continued to support private corporate sector performance. Sales of sampled non-financial private companies grew by 27.4 per cent in the first half of 2006-07, up from 17.2 per cent, a year ago. Net profits increased by 41.6 per cent, on top of a growth of 41.3 per cent, in the first half of 2005-06.
- On a year-on-year basis, the growth in money supply (M₃) at 20.4 per cent on January 5, 2007 was higher than 16.0 per cent a year ago and above the projected trajectory of 15.0 per cent indicated in the Annual Policy Statement for 2006-07.
- Inflation, measured by variations in the wholesale price index (WPI) on a year-on-year basis, increased from its end-March 2006 level of 4.1 per cent to 5.4 per cent at end-October, 2006 and increased to the intra-year peak of 6.1 per cent on January 6, 2007 before marginally declining to 6.0 per cent by January 13, 2007.
- Inflation based on the consumer price index (CPI) for urban non-manual employees, agricultural labourers and rural labourers showed a sharp year-on-year increase to 6.9 per cent, 8.9 per cent and 8.3 per cent in December 2006, respectively, from 5.7 per cent, 4.7 per cent and 4.9 per cent, a year ago.
- Capital flows to India remained sizeable during 2006-07 so far, taking the form of foreign direct investment (FDI), capital issues under American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs) and net accretions to NRI deposits. FDI inflows at US\$ 8.6 billion during April-November 2006 were higher by 91.7 per cent than in the corresponding period of the previous year.

ii. Stance of Monetary Policy

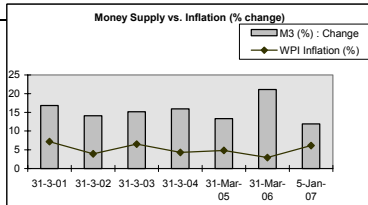
- Against this backdrop, the outlook for inflation assumes criticality in terms of policy monitoring and action. Prices of food articles will have considerable impact on headline inflation over the rest of the year.
- The recent monetary policy measures, in particular, the increase in the CRR in December 2006 in two stages from 5.0 per cent to 5.25 per cent and further to 5.5 per cent effective from the fortnights beginning December 23, 2006 and January 06, 2007, respectively absorbing about Rs.13,500 crore of resources of the banks should work towards containing inflation expectations.

iii. Monetary Measures

- The Bank Rate has been kept unchanged at 6.0 per cent.
- Also the Reverse Repo Rate under the LAF has not been changed and kept also at 6.0 per cent.
- In view of the current macroeconomic and overall monetary conditions, it has been decided to increase the fixed repo rate under the LAF by 25 basis points from 7.25 per cent to 7.50 per cent with immediate effect.
- The cash reserve ratio (CRR) of scheduled banks is currently at 5.5 per cent. On a review of the current liquidity situation, it is felt desirable to keep the present level of CRR at 5.5 per cent unchanged.
- The Annual Policy Statement for the year 2007-08 will be announced on April 24, 2007.

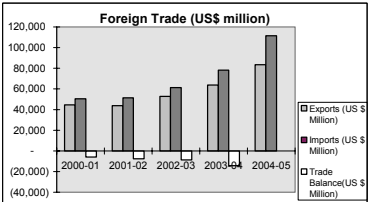
In short, the policy statement while keeping the other key rates unchanged has raised the GDP forecast from 8% for 2006-07 to 8.5-9%. Concerns over the international crude prices which impact the inflation continues to remain while it is considered desirable to bring about inflation close to 5-5.5%. As mentioned the overnight lending rate (repo) has been raised by 0.25% to 7.5%. This is a step in the right direction as a strategy towards management of liquidity.

However, the strong inflows of foreign funds has made the job of Reserve Bank more demanding and complicated and the Central Bank may have to devise newer instruments to absorb these funds. NRIs currently earn about 6% on their deposits in India. The same deposits would fetch only about 4-4.5% in the UK or the US, and only 1% in Singapore. Therefore, RBI has moved towards reducing interest rate on FCNR(B) and NRE deposits which policy will make slightly unattractive for the depositors, and as a result, the flows of such deposits are expected to slow down. Worried by these inflows specially the funds from NRIs, and subsequently borrowing by NRIs against these funds Reserve Bank has rightly taken action in reducing the interest rates.



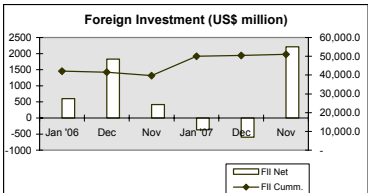
	31-3-01	31-3-02	31-3-03	31-3-04	31-Mar-05	31-Mar-06	5-Jan-07
M3 (Rs. Crore)	13,13,220	14,98,355	17,25,222	20,03,102	22,53,938	27,29,535	30,54,159
M3 (%) Change	16.82	14.1	15.14	15.95	13.30	21.10	11.89
WPI (Index) All Commodities#	155.7	161.8	172.30	180.30	189	196.2*	208.2*
WPI Inflation (%)	7.16	3.92	6.49	4.29	4.83	2.91	6.12

Source: RBI Bulletin January 2007; WSS: January 26, 2007 #1993-94=100@year/month-end; *January 07 2006; *January 06, 2007



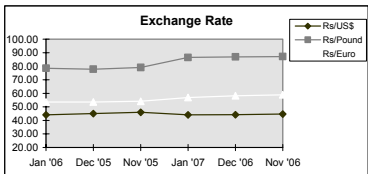
During the Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	April-Dec 2006*
Exports (US \$ Million)	44,560	43,827	52,719	63,843	83,536	103,091	89,489
Imports (US \$ Million)	50,537	51,413	61,412	78,149	111,517	149,166	131,212
Trade Balance (US \$ Million)	(5,977)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(41,723)

Source: RBI Bulletin, November 2006; Revised figures for 2000-01 to 2005-06 (April-March)
*DGI&S data for April to December 2006



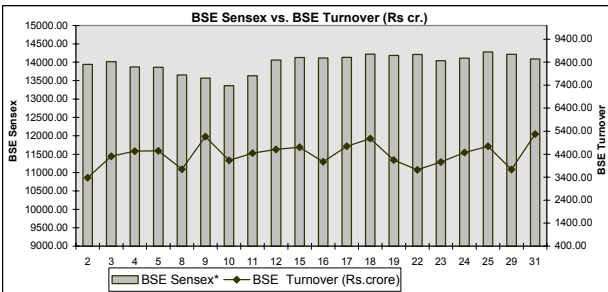
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	Jan '06	Dec '05	Nov '05	Jan '07	Dec '06	Nov '06
FII Net	603.4	1,831.0	419.8	(369.7)	(599.2)	2,213.1
FII Cum.	42,148.9	41,545.7	39,714.3	50,050.9	50,420.6	51,019.7

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



	2005-06			2006-07		
	Jan '06	Dec '05	Nov '05	Jan '07	Dec '06	Nov '06
Rs/US\$	44.13	45.07	45.94	44.13	44.23	44.76
Rs/Pound	78.52	77.89	79.07	86.46	86.91	87.21
Rs/Euro	53.63	53.55	54.16	56.99	58.26	58.93

Figures are for month-end



Jan 2007	BSE Sensex* Close	BSE Turnover (Rs. crore)
Dec 29, 2006	13786.91	4015.00
2	13942.24	3381.00
3	14014.92	4312.00
4	13871.71	4532.00
5	13860.52	4545.00
8	13652.15	3743.00
9	13566.33	5167.00
10	13362.16	4131.00
11	13630.71	4443.00
12	14056.53	4608.00
15	14129.64	4704.00
16	14114.73	4072.00
17	14131.34	4746.00
18	14217.75	5077.00
19	14182.71	4145.00
22	14209.24	3719.00
23	14041.24	4056.00
24	14110.46	4470.00
25	14282.72	4744.00
29	14211.96	3734.00
31	14090.92	5276.00



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 24.01.07	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 24.01.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6				7	8	
Euro-11	3.76	na	1.90	2.20	0.77	0.82	-1.70	1.86	1.00	-15.7	-31.4	-0.1
			Dec									
			Nov									
U. S. A.	5.24	4.81	2.50	3.40	1.00	1.00	-2.30	2.74	1.30	-837.2	-880.30	-6.3
			Dec									
			Nov									
Britain	5.56	4.90	3.00	1.90	0.51	0.56	-2.70	2.56	0.66	-152.2	-69.70	-2.8
			Dec									
			Nov									
Japan	0.48	1.66	0.30	-1.00	121.00	116.00	-4.80	0.18	157.14	79.6	171.10	3.8
			Dec									
			Nov									
Sweden	2.98	3.89	1.60	0.90	7.00	7.55	2.40	1.38	9.09	20.7	26.20	6.4
			Dec									
			Nov									
Switzerland	2.16	2.53	0.60	1.00	1.25	1.26	1.20	1.56	1.62	9.7	105.90	13.4
			Dec									
			Nov									
India	7.12	8.11	6.30	5.30	44.30	44.10	-4.30	0.82	57.53	-48.8	-13.70	-2.2
			Dec									
			Nov									

Source: The Economist London: January 27th, 2007 - February 02, 2007

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 24.01.07	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 24.01.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6				7	8	
China	2.95	3.1	1.9	1.3	7.77	8.06	-1.9	1.05	10.09	177.5	160.8	6.7
			Nov									
			Dec									
Hongkong	4.0	3.95	2.3	1.3	7.80	7.76	1.1	1.70	10.13	-17.3	19.2	9.3
			Dec									
			Nov									
Indonesia	9.39	6.25	6.6	17.1	9078	9343	-0.9	2.79	11789.61	38.5	7.0	1.4
			Dec									
			Nov									
Malaysia	3.72	5.4	3.1	3.5	3.50	3.75	-4.1	0.62	4.55	28.6	22.2	11.1
			Dec									
			Nov									
Singapore	3.38	3.12	0.8	1.3	1.54	1.62	0.3	2.58	2.00	33.1	39.0	25.2
			Dec									
			Nov									
South Korea	4.94	5.04	2.1	2.7	936	969	0.4	2.84	1215.58	16.7	6.2	na
			Dec									
			Nov									
Taiwan	1.82	2.07	0.7	2.2	32.80	32.0	-2.8	1.12	42.60	21.3	26.3	5.0
			Dec									
			Nov									
Thailand	5.05	4.72	3.5	5.8	35.1	39.1	-1.2	1.55	45.58	1.3	2.1	na
			Dec									
			Nov									
Brazil	13.19	6.16	3.1	5.7	2.13	2.25	-2.2	10.09	2.77	46.1	13.7	0.3
			Dec									
			Nov									
Venezuela	10.00	6.55	17.0	14.3	4368	2735	-2.5	-7.00	5672.73	36.8	29.7	10.1
			Dec									
			Nov									
India	7.12	8.11	6.30	5.3	44.3	44.1	-4.3	0.82	57.53	-48.8	-13.7	-2.2
			Dec									
			Nov									

Source: The Economist London: January 27th, 2007 - February 02, 2007

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