



Update on Indian Economy

February 2008

Economic Snapshot

Contents	Item	Units	January	December	January	(% Change	
			2008	2007	2007	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	216.6	216.0	208.7	0.28	3.8
- Capital Market	WPI -Inflation**	Per cent	3.8	3.7	6.1		
- Country : China		Week ended	(05.01.08)	(01.12.07)	(06.01.07)		
- Other Markets	IIP (93-94=100)	2 months lag	262.0	261.5	245.8	0.19	6.59
- Important Policy Pronouncements			(Nov.07)	(Oct.07)	(Nov.06)		
	INR / US\$	Month End	39.39	39.41	44.11	(0.05)	(10.70)
	M3	Rs. '000 Cr.	3750.33	3682.40	3054.16	1.84	22.79
	[i] Agg.Deposits	Rs. '000 Cr.	3215.14	3152.21	2589.33	2.00	24.17
	[ii] Currency	Rs. '000 Cr.	535.19	530.20	464.82	0.94	15.14
		(Outstanding as on)	(04.01.08)	(07.12.07)	(05.01.07)		
	Call Money	% Range	4.50-7.60	3.50-7.90	5.00-10.50	-	-
	(Lendings)	Week ended	(11.01.07)	(07.12.07)	(12.01.07)		

Source: RBI Weekly Statistical Supplement January 25, 2008 & Economic & Political Weekly January 19, 2008

*All Commodities. **Over the year.

Editorial

A) Domestic

In contrast to the month of October 2007, when the Index of Industrial Production (IIP) clocked the growth rate of 12 per cent on account of robust festive demand, the month of November 2007 witnessed a sharp decline in the growth rate in the Index of Industrial Production; and this decline was driven by the manufacturing sector, the weight of which is around 80 per cent in the index; the growth rate of manufacturing sector was only 5.4 per cent in November 2007 as compared to 17.2 per cent in November 2006. As a result during the first eight months (April-November), the overall Index of Industrial Production registered a growth rate of 9.2 per cent during 2007-08 as compared to 10.9 per cent in the same period of 2006-07.

Sector	(percentage growth)			
	November		April-November	
	2007	2006	2007-08	2006-07
Mining	3.5	8.8	4.9	4.2
Manufacturing	5.4	17.2	9.8	11.8
Electricity	5.8	8.7	7.0	7.3
Overall	5.3	15.8	9.2	10.9

Source : Central Statistical Organization

By the end of fiscal 2007-08, the manufacturing growth is likely to be in the range of 9-10 per cent, and given the expected growth rate in other two sectors, namely, mining and electricity the Index of Industrial Production is likely to grow by about 9-9.5 per cent on expectation of the recovery in the ensuing four months.

As for fiscal 2008-09, Dr. C. Rangarajan, Chairman of the Economic Advisory Council indicated on January 15, 2008 that the Indian Economy is likely to grow at 8.5 per cent provided the government takes appropriate steps to spur consumer durables demand by moderating indirect taxes.

Dr. C. Rangarajan, after his pre-Budget meeting with Finance Minister, on Wednesday, 16th January 2008 told the press, “We discussed what can be done to stimulate growth in the economy ... the possibility of increase in public investment and also some adjustment in indirect taxes could be done in order to stimulate the durable consumption goods sector”.

Despite increase in the exports to US\$ 98.39 billion during April-November (2007-08) from US\$ 80.59 billion in the corresponding period of 2006-07, and slowdown in manufacturing growth, the overall rate of GDP growth during fiscal 2007-08 is not likely to exceed 9 per cent; - may be in the range of 8.75 to 9.0 per cent.

B) International

The US economy is undergoing from the fallout of the US sub-prime mortgage market which has led to the expected economic slow down. Before the sub-prime crisis surfaced, the world economy was expanding at a growth rate of 5 per cent and above, Chinese economy at 11.5 per cent, Indian economy grew strongly at more than 9 per cent, Russian grew by about 8 per cent. In fact, these three countries, China, India and Russia accounted for half of the global growth.

The moderation in the growth rate in the US subsequent to the sub-prime crisis led to the slow down in the growth in the Euro area and Japan in the second half of 2007. Expectations are that US growth would remain at 1.9 per cent in 2008 due to the decline in the residential investment aided by high energy crisis and weaker housing prices; these factors will have dampening effect on consumption spending.

The Euro area and Japan are projected to grow lower at 2.9 per cent and 1.7 per cent respectively in 2008. In contrast, the emerging markets are expected to expand strongly (IMF update):

	2005	2006	Projected	
			2007	2008
World output	4.8	5.4	5.2	4.8
Untied States	3.1	2.9	1.9	1.9
Euro area	1.5	2.8	2.5	2.1
Germany	0.8	2.9	2.4	2.0
Japan	1.9	2.2	2.0	1.7
Africa	5.6	5.6	5.7	6.5
China	10.4	11.1	11.5	10.0
India	9.0	9.7	8.9	8.4

Source : IMF, World Economic Outlook, October 2007

Note : Real effective exchange rates are assumed to remain constant at the levels prevailing during August 22-September 19, 2007

Capital Market Review

The month of January 2008, witnessed one of the biggest IPO's in the Indian Stock Market history viz Reliance Power which had planned to raise Rs.11,700 crore from the market. The Asian market experienced volatility, and expectation was that the US market will be slowing down or entering into recessionary phase. Despite these misgivings, the Indian Stock Market on the very first day responded positively to the Reliance Power issue. The huge issue of the size of Reliance Power will suck out the liquidity in the secondary market and could lead to a lot of volatility in the coming days.

The Reliance Power issue of Rs.11,700 crore or about US\$ 3 billion opened on 15th January 2008 and closed on 18th January 2008. The IPO generated investors demand for Rs.752,000 crore in which the Qualified Institutional Bidder (QIB) segment subscribed over 80 times, and the high net worth investors by 208 times and the retail investors segment subscribed 16 times. The total issue was subscribed 72 times beating all the records of the IPO in the past. The issue price was fixed at Rs.450 per share and with face value Rs.10, and for the retail investors, as initially mentioned, that there will be a discount for them at Rs.430 per share of Rs.10. Since many investors liquidated their holdings by selling share of large cap companies with the result the large cap companies experienced relatively sharp declines whereas the small and mid cap companies fared relatively better. It now appears that sell out of the large cap companies promoted the market who experienced declines because the market participants raised liquidity for investment in the IPOs of Reliance Power. Some bare facts about Reliance Power's initial public offer are :

Category	Shares reserved	Application money per share	No of times over-subscribed	Amount collected (in Rs. Crore)	Total bid amount (Rs. Crore)
QIB*	13.68 cr	Rs.45	82.5	50,787	5,07,870
HNI*	2.28 cr	Rs.115	190.5	49,949.1	1,95,453
Retail	6.84 cr	Rs.115	14.4	11,327.04	42,353.28
Total				1,12,063.14	7,45,676.28

No. of applications	Total bid amount	Oversubscribed
50 lakh	Rs.7,45,676.28 cr	72.9 times

Source : Hindustan Times January 21, 2008

Till the issue is listed it is very likely that the market can experience volatility on the downward side. It is clearly a case of Reliance Power sucking funds from the market, and over subscribed by all the segments i.e. Qualified Institutional Bidder (QIB), the high net worth investors (HNIs) and the retail investors. According to the estimate more than 5 million applications were made for investments. This indicates that the Indian Stock Market is vibrant but heading towards correction in the near future when the subscription to this big ticket issue settles down.

So far the Indian Capital Market was dominated by the Foreign funds through Foreign Institutions (FIIs). This IPO has demonstrated that local operators are increasingly becoming active and that market which was earlier moved by FIIs is now not dependant upon the tremors of the inflows of foreign funds; consequently, the large amount of the domestic flows have now become more important.

Theoretically, the market is indicated by the performance of the companies primarily of those which are listed. When the performance is good, the companies do attract money through them to the market. The companies target their growth potential on the projects, and the projects get delayed due to deficiencies in the infrastructure which are compounded by the Governmental procedures and licences. It is, therefore, necessary that the Governmental procedures are further simplified and the projects are allowed to be completed fast especially infrastructure projects which imply that bringing reforms on fast track in case the Indian growth story is to be maintained.

It was a contrasting situation when the overall market experienced declines and the Sensex falling from 20,836.47 by 476.96 to 20,251.09 on one hand, and the Reliance Power sucking funds through over subscription by 10.5 times on the very first day.

The Indian data indicated that the net sales of equity by FIIs were significantly large between January 16 to January 25, 2008. Net sales of equity by FIIs amounted to Rs.5,821 crore on three days of January 16 to 18, 2008, and further to Rs.8,533 crore during January 21 to 25, 2008 and thereafter from January 28 to 30, 2008 the net sales contracted to Rs.2,409 crore. The month ended with Sensex closing at 17,648.71 points on January 31, 2008, and this reflected a decline of 2,638.28 points, from 20,286.99 on December 31, 2007.

	January	December	January	December	(% Change)		
	2008	2007	2007	2006	[1] / [2]	[1] / [3]	[2] / [4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	17648.71 (31.01.08)	20286.99 (31.12.07)	14090.92 (31.01.07)	13786.91 (29.12.06)	(13.00)	25.25	47.15
Monthly High	20873.33 (08.01.08)	20375.87 (12.12.07)	14282.72 (25.01.07)	13972.03 (07.12.06)	2.44	46.14	45.83
Monthly Low	16729.94 (22.01.08)	19079.64 (18.12.07)	13362.16 (10.01.07)	12995.02 (12.12.06)	(12.32)	25.20	46.82
S&P CNX Nifty –Close	5137.45	6138.60	4082.70	3966.40	(16.31)	25.83	54.77
P/E Ratio : BSE – 30	21.90	27.60	21.85	22.76	(20.65)	0.23	21.27
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	109334.6	91023.80	45769.9	44207.10	20.12	138.88	105.90
Outflows – Rs. Cr.	120416.6	82132.70	47451.8	46972.90	46.61	153.77	74.85
Net – Rs. Cr.	11081.9	8891.10	(1681.9)	(2766)	24.64	(758.89)	(421.44)
Cum. Net Inv–US\$ Mn. (Month End)	67207.3	69954.30	50050.9	50420.60	(3.93)	34.28	38.74

During January 2008, the net cumulative investment by FIIs declined by US\$ 2.79 billion from US\$ 70.0 billion in end December 2007 to US\$ 67.21 billion in end January 2008.

The melt down of the Indian stock market has hit some sectors like metal, oil, sugar, real estate, construction and refinery.

Country : China*

I. Introduction

For a long time, the Chinese economy based its economic policies on a centrally planned system, which was largely closed to international trade. But with withdrawal of US forces from Vietnam the Chinese economy turned towards market oriented policies giving more space to the private sector. In fact, the Chinese reforms started in the 1970s, after phasing out of collectivized agriculture, gradual liberalization of prices, fiscal decentralization, and thereby provided greater autonomy to state enterprises along with promotion of the private sector. About 71.7% of the population is working and in the age group of 15-64 years, but only 7.9% of the population is considered to be aged and is in the age group of 65 years and above; this is in sharp contrast to the population in many developed countries where there is a dominance of the aged population. Only about one fifth (20.4%) of the population is in the age group of 0-14 years. Taking the population in the age group of 0-14 years and that above 65 years plus the level of dependency works out 28.3%. The country has followed one child norm and as a result of this the population growth rate estimated in 2007 is low at around 0.61%. Life expectancy at the birth is estimated at around 73 years.

II Economic Growth : Overview

The opening of the economy began in the area of foreign trade and investment, and implementation of the reforms moved gradually to other sectors though the process continues even till today. However, it was only in 2005, that the sale of equity in China's largest state bank was opened to foreign investment which led to the refinements in foreign exchange and bond markets.

* Official name is People's Republic of China

The opening of the economy has resulted in increased efficiency, and rise in GDP on purchasing power parity (PPP) basis which was estimated at US\$ 10,210 billion (in 2006) with per capita GDP of US\$ 7800. Sector-wise 48.9% of GDP was contributed by industry, 39.3% by services, and the remaining 11.7% by agriculture. The construction and manufacturing industry has played a major role, and the real annual GDP growth rate in 2006 was estimated at 11.1% in 2006 when the labour force participation was of 795.3 million. The GDP is expected to accelerate further with a growth rate of 11.3 per cent in 2007.

“Economic development has generally been more rapid in coastal provinces than in the interior, and there are large disparities in per capita income between regions. The government has struggled to : (a) sustain adequate job growth for tens of millions of workers laid off from state-owned enterprises, migrants, and new entrants to the work force; (b) reduce corruption and other economic crimes; and (c) contain environmental damage and social strife related to the economy’s rapid transformation. From 100 million to 150 million surplus rural workers are adrift between the villages and the cities, many subsisting through part-time, low-paying jobs.”¹

III The China : Its Demography

Demographic consequence of the one child policy in the earlier years is that China is likely to face in the near future rapidly aging population. Over emphasis on manufacturing is likely to pose a threat not only to growth but also in the near future to deterioration in the environment like air pollution, soil erosion, and the steady fall in the water table. Expansion in world trade and consequently growth in the urban jobs attracting foreign investment remains one of the goals of economic policy. Because of the Chinese aggressiveness in international trade, the country has accumulated foreign exchange reserves which exclusive of gold and SDRs were US\$ 1,609 billion in end-October 2007.

Month	China, People’s Republic			Total
	Mainland	Hongkong	Macau	
End-October 2007 (US\$ Billion)	1,455	142	12	1,609

Source : IMF: IFS, January 2008

IV India-China Trade

Trade of India with China indicates that total trade was US\$ 5.2 billion in 1999-2000 which steadily increased to US\$ 8.4 billion in 2002-03 i.e. over a period of two years, and which further rose to US\$ 11.8 billion in 2003-04 and further to US\$ 18.15 billion in 2004-05. Now during 2006-07, India’s trade with China including Hongkong stands at US\$ 32.9 billion. The trade with India has always been deficit in that China continued to enjoy a surplus, and trade deficit with China rose to US\$ 6.9 billion in 2006-07 (Table 1).

¹ Internet : www.cia.gov

Table 1 : India's Trade with China : Exports & Imports – Yearly
(US\$ Million)

Year (April- March)	Exports to China (US\$ mn)	Total Indian Exports (US\$ mn)	Imports from China (US\$ mn)	Total Indian Imports (US\$ mn)	Share (percent) of total Indian		Total Trade with China (1+3)	India's Total Trade (2+4)
					Exports to China	Imports from China		
	1	2	3	4	5	6	7	8
1999-00	3050	36822	2105	49671	8.28	4.24	5154	86493
2000-01	3472	44560	2354	50537	7.79	4.66	5827	95097
2001-02	3318	43827	2765	51413	7.57	5.38	6084	95240
2002-03	4589	52719	3765	61412	8.70	6.13	8353	114132
2003-04	6217	63843	5546	78149	9.74	7.10	11763	141992
2004-05	9308	83536	8828	111517	11.14	7.92	18136	195053
2005-06	11230	103091	13075	149166	10.89	8.77	24305	252256
2006-07	12975	126331	19881	190566	10.27	10.43	32856	316897

Source : RBI : Handbook of Statistics on Indian Economy 2006-07;

Exports to China include exports to People's Republic of China plus Hongkong

Similarly, Imports from China include imports from People's Republic of China plus Hongkong

Recently Prime Minister Dr. Manmohan Singh visited China from January 16-18, 2008; and at that time, it was indicated that the bilateral trade between the two countries is estimated to reach US\$ 37 billion in 2007-08 which is double the size of the trade achieved in 2004-05.

V Issue of Free Trade Agreements (FTA) with China

Since 1991 India has invested US\$ 170 million in China while China's investment in India is small at US\$ 10 million. As for the trade deficit, it has been widening with China and now it stands at US\$ 6.9 billion in 2006-07. While it is considered desirable to have Sino-Indian free trade Agreement (FTA), there are fears that such a wide trade deficit need to be resolved first. In fact there was not much progress in the negotiations relating to FTA unless the issue of trade deficit is resolved. According to Kamal Nath, Minister for Trade the final decision on the FTA would need to be taken after consulting the industry. The Joint Economic Group at the Ministerial Level will hold meetings shortly and would consult the industry in their respective country. At present, the Indian Industry is against either FTA or a preferential trading agreement (PTA) because it fears that preferential tariffs would result in an increased flow of cheap goods from across the border making the Indian domestic players uncompetitive and could result in further widening of the trade deficit with China rather than reducing. Another reason, is that China is not yet ready to get market economy status and therefore, the FTA remains in the background.

VI India's Exports to China

Major items of India's export to China are iron ore and other mineral ores; marine products; drugs and pharmaceuticals; inorganic, organic, agro and fine chemicals; cotton yarn, fabrics & madeups; castor oil, plastic & linoleum products; guergum meals, etc.

Top five items of exports to China which include iron ore, other ores & minerals, plastic & linoleum, marine products and drugs & pharmaceuticals, accounted for a share of about 66 per cent in India's total exports to China

Following products have been identified as **focus products** for enhancing India's exports to China:

- Software
- Diamonds, gems & jewellery
- Processed minerals & steel
- Drugs & pharmaceuticals
- Residual chemicals & allied products
- Textile machinery
- Processed foods, agricultural products esp. fresh fruits & marine products,
- Films, etc.

VII India's Imports from China

India's major imports from China include chemicals, mechanical and electronic goods, silk, pharmaceuticals, machinery, minerals, iron and steel etc. Among the fastest growing Chinese exports to India are artificial resins, plastics, and manufactures of metals, electrical machinery and equipments, project goods, crude minerals and professional instruments.

VIII India-China Investment Links

With China's entry into the WTO, immense opportunities have opened for setting up joint ventures and business collaborations between the two countries. Though there has not been significant transfer of technology between the two countries, many Chinese conglomerates are looking keenly at the Indian market as part of their "go-out" strategy and have plans to enter the Indian market. Major Chinese companies have set up offices in India in sectors such as **machinery, metallurgical equipments, chemicals, automobiles, silk, engineering, and IT.**

The presence of Indian companies in China has also increased substantially, especially in such sectors as **iron and steel products, textiles, chemicals, automobile components, pharmaceuticals**, etc. Indian companies in China are active in **Services Sector** as well including Restaurants, Entertainment, Culture, Banking, etc.

Further, Indian companies are looking at projects in China in the areas of gas turbine, steel, steel plant, etc. Project exports are an important area, particularly as China receives a large amount of multi-lateral loans and Indian companies can participate in projects enjoying multi-lateral funding.

IX Economic Relations : India-China

In 1984, India & China signed a Trade Agreement, providing for **Most Favoured Nation Treatment**. In 1988, Indian Prime Minister Rajiv Gandhi visited China. His visit brought the relations of the two countries into a new stage of development as the two sides agreed to maintain peace and tranquility along the line of actual control and make efforts to improve and develop bilateral relations. It was then decided to constitute a **Joint Working Groups on Trade, Science & Technology**. In 1994, the two countries signed the agreements on avoiding **double taxation**. Agreements for cooperation on health and medical science, MOUs on simplifying the procedure for visa application and on banking cooperation between the two countries have also been signed.

The 7th Session of a Joint Group on Economic, Trade, Science and Technology Cooperation between Governments of China and India was held in New Delhi on March 16, 2006. Minister of Commerce of PRC Bo Xilai co-chaired the plenary meeting with Mr. Kamal Nath, Minister for Commerce and Industry of India.

Mr. Kamal Nath said that total population of China and India accounted for 40% of the population worldwide. The economies of the two countries have been expanding, and therefore, China and India should actively reap the benefits of bilateral trade and economic cooperation. China would be the largest trading partner and the Minister emphasized that the Governments of the two countries should provide convenience to the enterprises on both sides to promote increased trading and investment opportunities.

The Two Ministers came at a consensus on several important issues mainly to implement the Five-year Plan for China-India All-round Trade and Economic Cooperation, arrived at an agreement on China-India investment promotion, and agreed to establish a working mechanism by which India recognizes the market economy status of China, and launching the joint feasible research on China-India Regional Trading Arrangement (RTA), and build consensus of the solid political, economic, cultural foundation. The two countries should develop bilateral relations and should go hand in hand in the New Century. Further the business circles of the two countries should correspondingly tap the potential development of bilateral trade and economic co-operation.

In this joint economic forum more than 130 entrepreneurs from China and India took part in the Forum. Chinese entrepreneurs mainly came from Dongfang Electric Corporation, Huawei, ZTE, Sinosteel, China Minmetals Corp., CMEC, CWE and Shanghai Electric Group Co.,Ltd. etc. Indian entrepreneurs mainly came from TATA, MAHINDRA & MAHINDRA, BHARTI, JUBILANT, RTC and SRS.

X Recent visit of Prime Minister Dr. Manmohan Singh

Recently Prime Minister Dr. Manmohan Singh visited China from January 16-18, 2008; the three day visit was dominated by talk about the rise of new power house which economist have termed as BRIC (Brazil, Russia, India and China) countries and about the spectacular economic potential of 'Chindia'. In today's world China and India are the fastest growing developing economies and when the cyclical uncertainties about the global economy exist, the strong growth of China and India is a positive international endeavour which will benefit Asia and the world economy as a whole. Both the Chinese Premier Wen Jiabao and Dr. Singh signed a seven page document called 'Shared Vision for the 21st Century' which highlighted the common concerns of the two Asian giants on issues like climatic change, instability in Pakistan, Islamic fundamentalism in the neighbourhood and terrorism. India and China are the two largest developing nations on the earth which represents one-third of humanity and the time has come when the two countries should look to the future in building a relationship. Following '**Look East**' policy of India; India has been building up ties with countries like China, backyard countries like Vietnam and Singapore.

ANNEXURE

During the visit of Dr. Manmohan Singh Prime Minister of India to China on January 14-18th, 2008, the following documents were signed between the two Governments at the Great Hall of the People :

1. A Shared Vision for the 21st Century of the People's Republic of China and Republic of India.
2. Memorandum of Understanding for Cooperation between the Planning Commission of India and National Development and Reform Commission of the People's Republic of China.
3. Memorandum of Understanding on Cooperation between Ministry of Railways, India and Ministry of Railways, PRC.
4. Memorandum of Understanding between Ministry of Housing and Urban Poverty Alleviation of India and Ministry of Construction, PRC.
5. Memorandum of Understanding between the Ministry of Rural Development of the Republic of India and the Ministry of Land Resources of the PRC for Cooperation in Land Resource Management, Land Administration and Resettlement and Rehabilitation.
6. Memorandum of Understanding between Indian Council for Cultural Relations and Chinese People's Association for Friendship with Foreign Countries on India-China Joint Medical Mission.
7. Memorandum of Understanding between Indian Council for Cultural Relations and Chinese People's Association for Friendship with Foreign Countries on Cooperation in Culture.
8. Memorandum of Understanding on Cooperation between Geological Survey of India and China Geological Survey in Geo-sciences.
9. Memorandum of Understanding between Department of AYUSH, Ministry of Health and Family Welfare and State Administration of Traditional Chinese Medicine (SATCM), PRC Covering Cooperation in Traditional Medicine.
10. Memorandum of Understanding between NABARD and Agricultural Development Bank of China on Mutual Cooperation.
11. Protocol of Phytosanitary Requirements for the Export of Tobacco Leaves from India to China between the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and Ministry of Agriculture of the Republic of India.

Other Markets

Debt Market

As in the past, primary market issuances were dominated by Banks during December, 2007. The largest issue came from Punjab National Bank, with a combined value of Rs.800 crore followed by Union Bank of India with a combined issue worth Rs.600 crore. Bank of Baroda issued Tier II bonds worth Rs.500 crore and State Bank of Patiala and UCO Bank also made considerably large issues in the month. Other banking institutions that remained active in the month were Export-Import Bank of India with a combined issue Rs.450 crore and NABARD with Rs.336 crore.

	Name of the Issuer	Rate %	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
I.	Banks					
i)	State Bank of Patiala	9.30 ^a	15 years ^b	AAA	300 ^d	Upper Tier II Bonds
ii)	Bank of Baroda	9.30 ^a	15 years ^b	AAA	500	Upper Tier II Bonds
iii)	Dena Bank	10.05	Perpetual ^b	A	100 ^c	Perpetual Bonds
iv)	Export-Import Bank of India	9.10	3 years	AAA	250	Bonds
		9.25	5 years	AAA	200	Bonds
v)	Punjab National Bank	9.35 ^a	15 years ^b	AAA	500	Upper Tier II Bonds
		9.75 ^a	Perpetual ^b	AAA	300	Perpetual Bonds
vi)	UCO Bank	9.35	15 years ^b	AA-	320	Upper Tier II Bonds
vii)	Union Bank of India	9.35	124 months	AA+	400	Lower Tier II Bonds
		9.90 ^a	Perpetual ^b	AA+	200	Perpetual Bonds
viii)	Vijaya Bank	9.35	10 years	AA+	200	Lower Tier II Bonds
II.	NABARD	9.15	3 years	AAA	336	Bonds
III.	Financial Service Institutions					
i)	Global Trade Finance Ltd	10.30	67 months	AA	15	Bonds
ii)	PNB Housing Finance Ltd.	9.30	5 years	AA+	100	Bonds
IV.	Tamil Nadu Electricity Board	8.45	7 years ^c	A	200	Bonds

a. With an increase of 50 bps if call is not exercised.

b. Call at the end of 10th year

c. With an unspecified greenshoe option

d. With a greenshoe option of Rs.100 crore

d. With a put and call option at the end of the 5th year.

(Source : Credit Analysis & Research Ltd., January 2008)

Call Money Market

The call money market rate on January 11, 2008 in respect of borrowings ranged between 4.50% and 7.60% as compared to the rates of 5.00% - 10.50% on January 12, 2007 (i.e. a year ago) reflecting that there was moderate softening of the interest rates. The average daily turnover in the call money market was Rs.12,308 crore for the week ending January 11, 2008 and this daily turnover declined to Rs.9,937 crore in the week ending January 11, 2008.

Foreign Exchange Market

The exchange rate (RBI reference rate) on January 18, 2008 was Rs.39.27 per US dollar as compared to Rs.39.29 per US dollar on January 14, 2008, that is, a week ago; this reflected a nominal appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 2.04% on January 18, 2008 as compared to a premium of 1.95% on January 14, 2008 (a week ago), and this reflects that supply of dollars is likely to become relatively tight in the forthcoming weeks. The foreign currency assets were US\$ 276.13 billion on January 18, 2008, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 284.90 billion. From end-March 2007, the foreign exchange reserves registered a rise of US\$ 85.72 billion upto January 18, 2008. The market rate (buying) was Rs.39.41 per US dollar on January 31, 2008. The RBI intervened occasionally into the market by buying dollars in a bid to regulate the inflows and thereby curb the rise of rupee.

Important Policy Pronouncements

Dr. Y. Venugopal Reddy, Governor, Reserve Bank of India presented the Third Quarter Review of Annual Statement on Monetary Policy for the year 2007-08 on January 29, 2008. Highlights of the policy are :

(A) INDIA:

I Economy Overview :

1. Bank Rate, Reverse Repo Rate, Repo Rate and Cash Reserve Ratio (CRR) kept unchanged.
2. Overall real GDP growth projection for 2007-08 at around 8.5 per cent is retained.
3. The policy endeavour would be to contain inflation close to 5.0 per cent in 2007-08 while conditioning expectations in the rate of 4.0-4.5 per cent.
4. While non-food credit has decelerated, growth in money supply and aggregate deposits of scheduled commercial banks continue to expand well above indicative projections.
5. 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 growth and inflation, the overall stance of monetary policy in the period ahead will broadly continue to be :
 - a. To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment conducive to continuation of the growth momentum and orderly conditions in financial markets.
 - b. To emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

II Monetary Measures :

1. Bank Rate kept unchanged at 6.0 per cent.
2. The reverse repo rate and the repo rate under the Liquidity Adjustment Facility (LAF) are kept unchanged at 6.0 per cent and 7.75 per cent, respectively.
3. The Reserve Bank retains the option to conduct overnight or longer term repo/reverse repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.
4. CRR kept unchanged at 7.5 per cent.

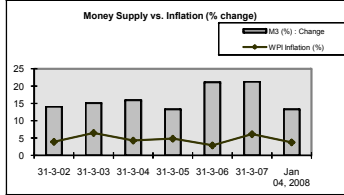
The policy appears to be status quo but this is one which takes into account more domestic factors than the events in the US economy. Firstly, the primary concern of the Central Bank is to control inflation and inflationary expectations and that the credit is available in adequate quantity to the real sector. Secondly, the policy has rightly emphasis the credit delivery for employment-intensive sectors and at the same time pursue the financial inclusion. The third reason is basically to ensure the proper regulation of the capital market which of late has gone into the hands of the bull operators. Though maintenance of the key rates by the Reserve Bank of India on one hand and steep reduction of the key rates by the Fed Reserve of USA on the other has led to widening of the differential in the interest rates between the two countries, and this could theoretically provide scope for the arbitrage operations. It however, appears unlikely that the arbitrage operations would take place on large scale because the FIIs during the month of January 2008, generally remained busy in shoring up their balance sheets.

(B) U.S.A.

In order to cope up with the threat of recession when global stock markets tumbled the Fed Reserve of USA reduced its bench mark interest rate from 4.25% to 3.5% i.e. by 75 basis points on January 22, 2008. This policy measure was taken because of the Sub-prime crisis in USA. Subsequently, on January 31, 2008, the Fed Reserve reduced further its bench mark rate by 50 basis point to 3.0 per cent. It appears there is a distinct slow down in the US economy and these monetary policy measures in reducing rates are basically to ward off the recession as also to prop up the capital market.

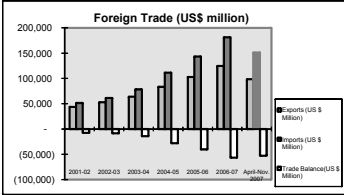
Further the White House and the Democratic Congress hammered out an economic stimulus package that would put about US\$ 150 billion into the hands of US consumers and businesses while seeking to revive the market for large mortgages. Main elements of the package are :

- One important provision is temporarily to raise the dollar limit on mortgages that can be bought or guaranteed by government-sponsored mortgage giants Fannie Mae and Freddie Mac. The current limit of US\$ 417,000 would rise above US\$ 600,000 and perhaps as high as US\$ 730,000 in the most expensive areas.
- The centerpiece of the package is US\$ 100 billion in tax credits for an estimated 117 million families this spring. Most individuals who pay income taxes would get US\$ 600; working couples would receive US\$ 1,200. Workers who make at least US\$ 3,000 but don't pay income taxes would get checks of US\$ 300 to US\$ 600. People in both groups would get US\$ 300 credits for each of their children.
- Businesses would be able to deduct an additional 50 per cent of the cost of certain investments in 2008. In addition, small businesses would be able to write off more expenses from their taxes : US\$ 250,000 up from US\$ 125,000.
- Top Democrats said they intend to send a bill to President Bush by February 15, 2008 and if that happens, rebate checks or electronic transfers would probably arrive between May and July, 2008.



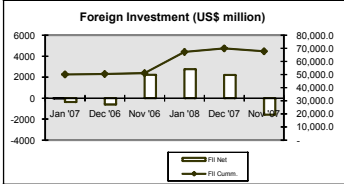
	31-3-02	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	Jan 04, 2008
M3 (Rs. Crore)	14,98,355	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	37,50,334
M3 (%) Change	14.1	15.14	15.95	13.30	21.10	21.27	13.29
WPI (Index) All CommoditiesSS	161.8	172.30	180.30	189	196.6	208.76	216.66
WPI Inflation (%)	3.92	6.49	4.29	4.83	2.91	6.15	3.78

Source: RBI Bulletin, December 2007; WSS, January 25, 2008 \$1993-94=100, year/month-end. @ January 06, 2007 @@ January 05, 2008



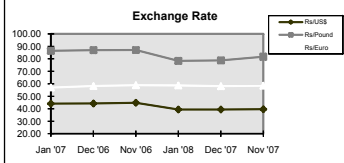
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	April-Nov. 2007
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,061	124,629	98,386
Imports (US \$ Million)	51,413	61,412	78,149	111,517	143,433	181,368	151,190
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(40,372)	(56,739)	(52,804)

Source: RBI Bulletin, December 2007 - Revised figures for 2001-02 to 2006-07 (April-March)
*DGI&S data for April 2006 to March 2007 (Provisional)



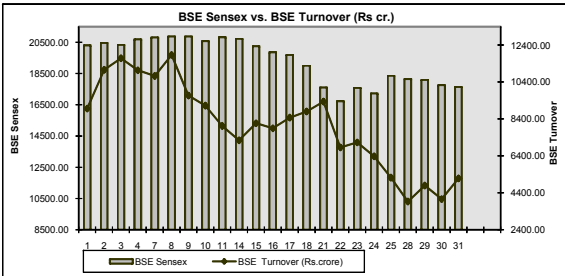
	2006-07 (US\$ million)			2007-08 (US\$ million)		
	Jan '07	Dec '06	Nov '06	Jan '08	Dec '07	Nov '07
FI Net	(369.7)	(599.2)	2,213.1	2,747.1	2,203.9	(1,566.6)
FI Cumul.	50,050.9	50,420.6	51,019.7	67,207.30	69,954.30	67,750.30

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



	2006-07			2007-08		
	Jan '07	Dec '06	Nov '06	Jan '08	Dec '07	Nov '07
Ru/US\$	44.13	44.23	44.76	39.39	39.41	39.67
Ru/Pound	86.46	86.91	87.21	78.40	78.74	81.78
Ru/Euro	56.99	58.26	58.93	58.73	58.12	58.46

Figures are for month-end



January 2008	BSE Sensex Close	BSE Turnover (Rs.crore)
31-Dec-07	20286.99	9540.00
1	20300.71	8956.00
2	20465.30	11060.00
3	20345.20	11694.00
4	20686.89	11040.00
7	20812.65	10728.00
8	20873.33	11870.00
9	20869.78	9669.00
10	20582.08	9123.00
11	20827.45	8019.00
14	20728.05	7246.00
15	20251.09	8171.00
16	19868.11	7900.00
17	19700.82	8472.00
18	19013.70	8801.00
21	17605.35	9336.00
22	16729.94	6861.00
23	17594.07	7133.00
24	17221.74	6379.00
25	18361.66	5222.00
28	18152.78	3924.00
29	18091.94	4793.00
30	17758.64	4659.00
31	17648.71	5185.00



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 2008	Real Rate (Short-term) (1-3)	Currency unit per Euro 23.01.08	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 23.01.08	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	4.29	3.88	3.10	1.90	0.69	0.77	-0.90	1.19	1.00	47.6	38.2	0.2
			Dec							Nov	Oct	
U. S. A.	3.74	3.42	4.10	2.50	1.00	1.00	-1.70	-0.36	1.45	-813	-752.40	-4.8
			Dec							Nov	Q3	
Britain	5.48	4.42	2.10	3.00	0.51	0.51	-3.20	3.38	0.74	-168.2	-129.40	-3.4
			Dec							Nov	Q3	
Japan	0.74	1.34	0.6	0.30	106.00	121.00	-2.50	0.14	153.62	107.0	212.90	4.8
			Nov							Nov	Nov	
Sweden	3.97	3.90	3.50	1.60	6.54	7.00	2.30	0.47	9.48	18.7	29.40	6.4
			Dec							Nov	Q3	
Switzerland	2.64	2.72	2.00	0.60	1.09	1.25	0.60	0.64	1.58	11.8	69.60	14.7
			Dec							Nov	Q3	
India	7.08	7.61	5.50	6.30	39.60	44.30	-3.30	1.58	57.39	-67.9	-10.90	-2.0
			Nov							Nov	Q3	

Source: The Economist London: January 26th-February 1st, 2008
**CPI inflation rate 4.0% in Dec

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 2008	Real Rate (Short-term) (1-3)	Currency unit per Euro 23.01.08	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 23.01.08	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.50	4.62	6.5	2.8	7.23	7.77	0.1	-2.00	10.48	261.5	249.9	10.9
			Dec							Dec	2006	
Hongkong	2.50	2.53	3.8	2.3	7.81	7.80	2.3	-1.30	11.32	-22.7	26.9	8.9
			Dec							Nov	Q3	
Indonesia	8.07	6.85	6.6	6.6	9390.00	9078.00	-1.8	1.47	13608.70	40.3	10.3	1.9
			Dec							Nov	Q3	
Malaysia	3.62	3.68	2.4	3.1	3.28	3.50	-3.1	1.22	4.75	29.9	28.7	12.0
			Dec							Nov	Q3	
Singapore	1.63	2.31	4.4	0.8	1.43	1.54	0.10	-2.77	2.07	36.1	46.3	22.4
			Dec							Dec	Q3	
South Korea	5.84	5.25	3.6	2.1	953.00	936.00	0.2	2.24	1381.16	15.3	7.2	0.8
			Dec							Dec	Nov	
Taiwan	2.60	2.50	3.3	0.7	32.40	32.80	-2.0	-0.70	46.96	16.7	28.4	5.9
			Dec							Dec	Q3	
Thailand	3.50	3.90	3.2	3.5	33.10	35.10	-2.1	0.30	47.97	12.1	14.4	2.4
			Dec							Dec	Nov	
Brazil	11.18	6.16	4.5	3.1	1.81	2.13	-2.5	6.68	2.62	40.0	4.7	-0.1
			Dec							Dec	Nov	
Venezuela	11.48	6.55	22.5	17.0	5.25	**	-2.6	-11.01	7.61	23.4	20.2	7.0
			Dec							Q3	Q3	
India	7.08	7.61	5.50	6.30	39.60	44.30	-3.3	1.58	57.39	-67.9	-10.90	-2.0
			Nov							Nov	Q3	

Source: The Economist London: January 26th-February 1st, 2008

**Not available

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