



Update on Indian Economy

July 2006

Economic Snapshot

Contents	Item	Units	June	May	June	(% Change	
			2006	2006	2005	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	203.00	200.5	192.9	1.24	5.2
- Capital Market	WPI -						
- Industry : Steel	Inflation**	Per cent	5.2	4.3	4.3	-	-
- Major Event		Week ended	10.6.06	13.5.06	11.6.05		
- Other Markets	IIP (93-94=100)	2 months lag	224.3	249.2	206.1	-9.99	8.83
- Important Policy Pronouncements			(Apr.06)	(Mar 06)	(Apr 05)		
	INR / US\$	Month End	46.08	46.43	43.51	-0.75	5.91
	M3	Rs. '000 Cr.	2791.46	2771.70	2357.33	0.71	18.42
	[i] Agg. Deposits	Rs. '000 Cr.	2348.82	2329.13	1976.55	0.85	18.83
	[ii] Currency	Rs. '000 Cr.	442.64	442.57	380.78	0.01	16.24
		(Outstanding as on)	(09/06/06)	(12.5.06)	(10/06/05)		
	Call Money	% Range	5.00-5.95	4.00-5.95	4.40-5.25	-	-
	(Lendings)	Week ended	16.6.06	19.5.06	17/6/2005		

Source: RBI Weekly Statistical Supplement July 01, 2005 / June 30, 06 & Economic & Political Weekly June 24, 06,

*All Commodities. **Over the year.

Editorial

A) Domestic

The Planning Commission prepared a draft consultative paper entitled, "Towards Faster and More Inclusive Growth – An Approach to the 11th Five Year Plan" for the period 2007-12, and circulated to all the Chief Ministers on June 14, 2006. The Commission is targeting an average annual growth rate of 8-9 per cent in the Eleventh Plan. This is considered "macro-economically feasible with a strong fiscal effort that is difficult but not impossible," provided other correctives measures on sector policies are put in place. It is believed that high economic growth is an important component of the strategy for development, and it is through the rapidly growing economy India can expect to raise incomes of the masses sufficiently to bring about a general improvement in their living conditions. The economic fundamentals have definitely improved to the point where these can make a decisive impact on the quality of life of the people including the poor.

One of the indicators of strong and resilient Indian economy is that exports during first two months (April-May) of 2005-06 touched US\$ 17.7 billion which was higher by 28.4% over the exports of US\$ 13.8 billion during the corresponding two months of 2004-05. Imports at US\$ 25.8 billion increased by 21.7% over the level of US\$ 21.0 billion in 2004-05. A significant aspect of the import growth is that non-oil imports at US\$ 17.4 billion were higher by 19.0% over the level of US\$ 14.7 billion in corresponding period of 2004-05 and this could be of help in containing inflation in

addition to the monetary measures which RBI has initiated during the month. Industrial production during April 2006 grew by 9.5% as compared to 8.1% during April of last fiscal. Infact, the manufacturing sector which has a weight of nearly 4/5th in the index grew by 10.4% as compared to 8.2% in 2004-05. Growth in industrial production and the external sector are important pointers to the strong fundamentals.

B) International

The global imbalance which have now emerged required to be corrected to deliver balance growth of the World Economy. The IMF Managing Director, Rodrigo de Rato in a seminar in Vienna on May 22, 2006 indicated, “Neither changes in Asian exchange rates nor fiscal adjustment in the United States alone can defuse the problem of global imbalances. What is needed is a coordinated international effort to rebalance growth and demand. The persistence of global imbalances pose a risk in that abrupt unwinding that in a disorderly way to result an abrupt fall in the rate of consumption in the US or perhaps due to development in the housing markets there. The disorderly adjustment could spill over to Finance Minister to avoid this risk global imbalance have to be eventually unwounded. The IMF meeting held in April 2006 has enjoined upon multilateral consultations to help curtail the imbalances in an orderly way. There is now important consensus around the policy makers on the measures required to rate the global imbalance and many policy makers are of the opinion that fiscal adjustment is needed along with measures to stimulate private savings in the United States on one hand and further exchange rate appreciation and measures to stimulate the domestic demand in some of the countries in Asia. In addition, structural reforms to stimulate demand improve productivity in the non tradable sector both in Europe and Japan are needed. Now this opportunity consensus needed to be translated into action which is so far only limited.

The IMF Managing Director emphasized that the process of curtailing the imbalances may be consensual. It is in the going to work if all those involved want to participate and are convinced that the actions they jointly agree to take are in their own best interest. It may take time against global imbalance are a complex problem and only abrupt adjustment towards correction of this global imbalance have to be avoided. The IMF Managing Director indicated that by September 2006, when the IMF Government made some specific proposals would be there along with issue of some member countries whose quota in the funds does not adequately reflect their economic weight.

Capital Market Review

During the month of June 2006 the movement in the Sensex was most erratic and irrational, and during the short period the gains in the earlier days of the month got evaporated towards the close. There were bouts of positive and negative closing of the market, it may be recorded that due to extreme volatility the market was closed for one hour on 22nd May 2006 and market participants got worried whether this was a temporary phenomena in the midst of overheated market or this was the beginning of the bear phase. But the growth story of the Indian Economy gathered momentum, and there was still an optimism in the market.

Though FIIs continue to be big players there were signs of the fatigue among the FIIs and many of them resorted to sales of the equity. Part of this could be due to the expectation of the rising interest rate abroad, and even with the huge fiscal deficit in the US market participants could expect a further increase in the interest rate, may be, 25-50 basis points. The expectation of rising interest rate abroad could lead FIIs to move a part of the funds from the Indian market, and this is what happened because the net purchases by the FIIs during the month of June 2006 was nominal at US\$ 0.2 billion.

The price of crude oil which hovered around US\$ 70 per barrel, and the fears of its rising further led to the increased inflationary expectations which could impact the interest rate. Though Mutual Funds were flushed with liquidity, they also turned slow in selling their units and making investment in the capital market. Notwithstanding the growth story, the market participants atleast the bigger ones were uncertain as to which side the market will move and in the process the small investors remained away from the market. The Sensex closed at 10,609.25 on June 30, 2006 from that of 10,398.61 on May 31, 2006 and thus recorded an increase of 210.64 points during the month.

	June 2006	May 2006	June 2005	May 2005	(%) Change		
					[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	10609.25 (30.06.06)	10398.61 (31.05.06)	7193.85	6715.11	2.03	47.48	54.85
Monthly High	10609.25 (30.06.06)	12612.38 (10.05.06)	7218.28	6724.99	(15.88)	46.98	87.54
Monthly Low	8929.44 (14.06.06)	10398.61 (31.05.06)	7154.27	6642.61	(14.13)	24.81	56.54
S&P CNX Nifty –Close	3128.20	3071.05	2220.60	2078.55	1.86	40.87	47.75
P/E Ratio : BSE – 30	19.4	18.27	16.03	15.28	6.19	21.02	19.57
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	40407.6	48737.8	25959.6	15619.4	(17.09)	55.66	212.03
Outflows – Rs. Cr.	39532.3	55385.1	20701.5	17005.4	(28.62)	90.96	225.69
Net – Rs. Cr.	875.1	(6647.4)	5258.2	(1385.8)	(113.16)	(83.36)	379.68
Cum. Net Inv–US\$ Mn. (Month End)	44152.9	43959.6	36480	35270	0.44	21.03	24.64

Industry : Steel **Major Event**

An important event during the month was the decision on June 25, 2006 announcing the merger of Arcelor-Mittal Steel. Highlights of the terms of Endearment and who gets what and how it'll work out are given below :-

I Arcelor-Mittal

- Luxembourg will be headquarters of the world's largest steel maker.
- Its capacity : 120 million tonne. Annual revenue: \$ 71.9 billion in 2005, market cap of about \$ 46 billion.
- Leading positions in NAFTA, European Union, Central Europe, Africa and South America.

- Expected synergies of \$ 16 billion from purchasing, marketing and manufacturing efficiencies.
- The deal will not face layoffs in EU.
- Listed on BYSE as well as in Paris, Amsterdam, Brussels, Luxembourg and Madrid.

II Offer

- Mittal Steel's 25.6 pound billion (\$32.2 billion) offer to Arcelor will create a world giant three times larger than Nippon Steel, its nearest rival.
- Arcelor shareholders will receive 13 Mittal Steel shares and 150.60 points in cash for 12 Arcelor shares. Mittal also offering 13 Mittal Steel shares and 188.42 pound in cash for 12 Arcelor convertible bonds.
- Offer to comprise 31% or about 8.5 pound billion in cash and 69% in stock.
- Arcelor shareholders to own 50.5% of combined group. Mittal family 43.6% of capital and voting rights.

III Boards

- Board of directors of 18 non-executive members – six nominated by Mittal, of whom three will be independent; six from existing Arcelor board; three from existing Arcelor shareholders and three employee representatives.
- Mittal to be president. Arcelor chairman Joseph Kinsch to be chairman of new group, succeeded by Mittal on retirement. Kinsch to propose a presidential successor.
- Management board to comprise four Arcelor management board members, including chief executive, and three members nominated by Mittal including son Aditya.

IV Mittal Family

- Family has agreed to five-year lock-up and to a stand still so that it does not increase its stake to about 45%.

V Severstal

- Arcelor's plan to merge with Russia's Severstal to still be put to Arcelor shareholders on June 30, unless a Luxembourg court forces a postponement.
- Merger would fall if rejected by holders of 50% or more of Arcelor's capital or if Mittal received more than 50% of the diluted capital of Arcelor in its offer.

Subsequently, the merger of Mittal Steel with Arcelor was confirmed, and L.N. Mittal thereafter visited India, and announced the decision to build a steel plant of 12.5 mt in the state of Orissa.

Other Markets

Debt Market

Gross domestic borrowing of the Government rose to Rs.63,719 crore till June 23, 2006; there were, however, fears that the Reserve Bank of India may raise short term interest rates to contain inflation. Though bond prices remained weak during the month, the sentiment was positive following a statement by the Ministry of Finance that the auction amount of Rs.10,000 crore of Government securities scheduled to be held in early July 2006 could be reduced. Following a hike on June 29, 2006 of 25 basis points of US

Federal Fund rate raising it to 5.25%, there was uncertainty whether RBI would increase the domestic rate in July 2006.

Call Money Market

The call money market rate on June 16, 2006 in respect of borrowings ranged between 5.00% and 5.95% as compared to the rates were 4.40% - 5.25% on June 17, 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.8,327 crore for the week ending June 16, 2006 and this daily turnover rose to Rs.8,936 crore in the week ending June 23, 2006.

Foreign Exchange Market

The exchange rate (RBI reference rate) on June 23, 2006 was Rs.46.20 per US dollar as compared to Rs.45.89 per US dollar on June 19, 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 1.23% on June 23, 2006 as compared to a premium of 1.13% on June 19, 2006 (a week ago), and this reflects that supply of dollars is likely to become tight in the forthcoming months. The foreign currency asset were US \$ 154.18 billion on June 23, 2006, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 161.96 billion. From end-March 2006, the foreign exchange reserves registered a rise of US\$ 10.34 billion. The market rate (buying) was Rs.46.06 per US dollar on June 30, 2006.

Important Policy Pronouncements

→ Limit for Overseas Branch Office Expenses raised

The remittance limits for incurring initial and recurring expenses of branch offices opened abroad have been raised to ten per cent and five per cent respectively, of average annual sales / income or turnover during the last two accounting years of the Indian entity. The earlier limits for such remittance were up to two and one per cent respectively.

→ Realisation of Export Proceeds

As a measure of further liberalization, it has been decided that henceforth, authorized dealer (AD) banks may grant extension of time for realisation of export proceeds beyond the prescribed period from the date of export up to the invoice value limit of USD 1 million. The earlier invoice value limit for such relaxation was USD 100,000.

→ Interest on CRR balances

Consequent upon the amendment to Section 42(1A) of the RBI Act, the statutory minimum Cash Reserve Ratio (CRR) of 3.0 per cent no longer exists. As Section 42(1B) of the RBI Act has been deleted, the Reserve Bank will not pay interest on any portion of CRR balances of banks with effect from the fortnight beginning June 24, 2006.

The Reserve Bank had been paying interest on scheduled banks' CRR balances above the statutory minimum of 3.0 per cent and up to the prescribed level of 5.0 per cent –

known as eligible cash balances – an interest rate determined by the Reserve Bank which had been set at 3.5 per cent from September 18, 2004. No interest was payable on any amount actually maintained in excess of the eligible balance required to be maintained.

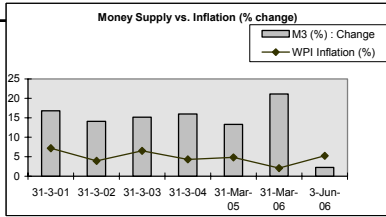
→ **Repo / Reverse Repo Rates increased**

On a review of the current macroeconomic and overall monetary conditions, the reverse repo rate under the Liquidity Adjustment Facility (LAF) has been increased by 25 basis points to 5.75 per cent from 5.50 per cent with immediate effect.

Simultaneously, the repo rate under the LAF, which continues to be linked to the reverse repo rate with a spread of 100 basis points, has been increased by 25 basis points to 6.75 per cent from 6.50 per cent with immediate effect.

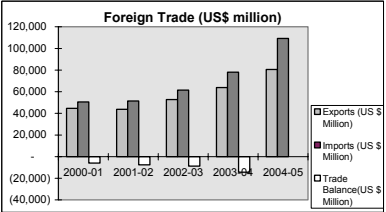
→ **Standing Liquidity Facilities for Banks and PDs**

The standing liquidity facilities provided to banks (export credit eligible for refinance) and primary dealers (PDs) (collateralized liquidity support) from Reserve Bank is available at repo rate i.e. 6.75 per cent with effect from June 9, 2006.



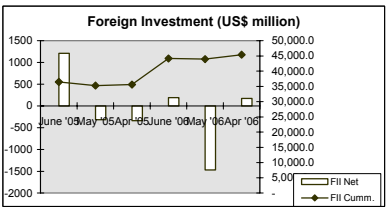
	31-3-01	31-3-02	31-3-03	31-3-04	31-Mar-05	31-Mar-06	3-Jun-06
M3 (Rs. Crore)	13,13,220	14,98,355	17,25,222	20,03,102	22,53,938	27,29,972	27,91,456
M3 (%) : Change	16.82	14.1	15.14	15.95	13.30	21.12	2.25
WPI (Index) All Commodities#@	155.7	161.8	172.30	180.30	189	192.9*	203.0*
WPI Inflation (%)	7.16	3.92	6.49	4.29	4.83	2.06	5.24

Source: RBI Bulletin May 2006; WSS: June 30, 2006 *1993-94 = 100 @ year/month-end. *June 11, 2005 *June 10, 2006



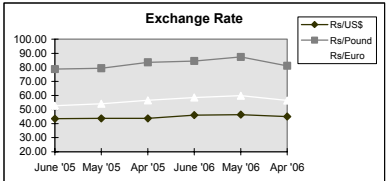
During the Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06*	2006-07*
Exports (US \$ Million)	44,560	43,827	52,719	63,843	80,540	100,607	17,705
Imports (US \$ Million)	50,537	51,413	61,412	78,149	109,173	140,238	25,789
Trade Balance (US \$ Million)	(5,977)	(7,586)	(8,693)	(14,306)	(28,633)	(39,631)	(8,084)

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



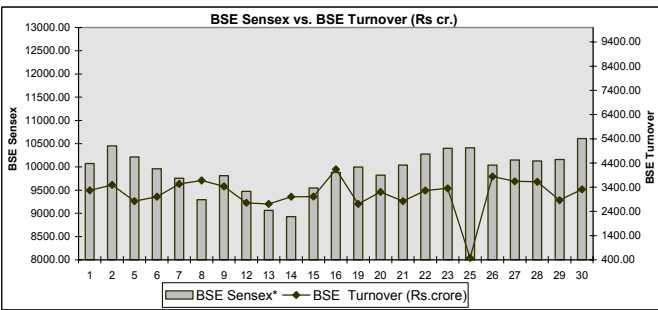
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	June '05	May '05	Apr '05	June '06	May '06	Apr '06
FI Net	1,209.3	(317.7)	(337.6)	193.2	(1,473.0)	173.9
FI Cum.	36,480.0	35,270.7	35,588.0	44,152.9	43,959.6	45,432.4

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



	2005-06			2006-07		
	June '05	May '05	Apr '05	June '06	May '06	Apr '06
Rs/US\$	43.51	43.69	43.65	46.08	46.43	44.97
Rs/Pound	78.75	79.30	83.57	84.45	87.43	81.04
Rs/Euro	52.68	54.13	56.60	58.54	59.80	56.41

Figures are for month-end



June 2006	BSE Sensex* Close	BSE Turnover (Rs.crore)
1	10071.42	3275.00
2	10451.33	3498.00
5	10213.48	2822.00
6	9957.32	3010.00
7	9756.76	3539.00
8	9295.81	3682.00
9	9810.46	3438.00
12	9476.15	2753.00
13	9062.65	2708.00
14	8929.44	3009.00
15	9545.06	3012.00
16	9884.51	4143.00
19	9997.84	2707.00
20	9822.52	3202.00
21	10040.14	2826.00
22	10275.88	3263.00
23	10430.30	3356.00
25	10412.93	484.00
26	10042.06	3840.00
27	10151.01	3644.00
28	10129.70	3624.00
29	10162.16	2866.00
30	10609.25	3313.00



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 21.06.06
	As on 21.06.06	A Year ago	3- Month	A Year ago	As on 21.06.06	A Year ago			
	1	2	3	4	5	6	7	8	9
Euro-11	2.99	2.10	2.50	2.00	0.79	0.82	-2.30	0.49	1.00
			May						
U. S. A.	5.29	3.31	4.20	2.80	1.00	1.00	-3.60	1.09	1.26
			May						
Britain	4.70	4.77	2.20	1.90	0.54	0.55	-3.40	2.81	0.69
			May						
Japan	0.22	0.02	0.40	0.00	115.00	109.00	-5.20	-0.18	145.00
			Apr						
Sweden	2.23	1.49	1.60	0.10	7.28	7.66	1.70	0.63	9.20
			May						
Switzerland	1.49	0.75	1.40	1.10	1.24	1.27	-0.20	0.09	1.56
			May						
India*	5.41	5.20	4.97#	4.59	46.20	45.89	-3.80	0.44	53.52
	(April 26, 06)	(May 04, 05)	(2005-06 over 2004-05)		(June 23, 06)	(June 19, 06)	(2006-07)		

Source: The Economist London: June 24th - 30th, 2006

For India, RBI Weekly Statistical Supplement, (WSS), June 30, 2006 and Union Budget 2006-07

For India, RBI Bulletin, June 2006

CPI - (IW) April 2006 over April 2005 (RBI Bulletin, June 2006)

*RPI Inflation rate 2.4% in January 2006

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
						per US\$		per Euro		
	% change on earlier year	% p. a.	US \$ Billion	21.06.06	21.06.06	a year ago	21.06.06	Latest 12 Months \$ Billion		
	1	2	3	4	5	6	7	8	9	10
China	10.3	17.9	1.4	3.00	875.1	8.0	8.28	10.13	118.1	160.8
	Q1	May	May		Mar				May	2005
Hongkong	8.2	7.0	1.9	4.67	126.5	7.77	7.77	9.84	-12.4	20.3
	Q1	Q1	Apr		May				Apr	Q4
India	9.3	9.5	5.0	6.17	156.7	46.00	43.50	58.23	-41.0	-13.3
	Q1	Apr	Apr		May				May	Q4
Indonesia	4.6	0.2	15.6	13.00	38.3	9363.0	9650.0	11851.90	31.6	3.0
	Q1	Mar	May		Mar				Apr	Q4
Malaysia	5.3	4.7	3.9	3.92	75.2	3.67	3.80	4.65	26.4	19.9
	Q1	Apr	May		Apr				Apr	Q4
Singapore	10.6	3.0	1.1	3.47	128.9	1.59	1.67	2.01	32.7	36.1
	Q1	Apr	Apr		May				May	Q1
South Korea	6.1	9.5	2.4	4.50	224.7	956.0	1011.0	1210.13	18.7	9.0
	Q1	Apr	May		May				May	Apr
Taiwan	4.9	5.5	1.6	1.78	260.9	32.60	31.40	41.27	10.1	18.1
	Q1	Apr	May		May				May	Q1
Thailand	6.0	7.2	6.2	5.40	55.5	38.40	41.20	48.61	-3.7	0.4
	Q1	Apr	May		Apr			Jun	May	Apr

Source: The Economist London: June 24th - 30th, 2006

@For India, RBI WSS, May 26, 2006

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

*Excluding Gold and SDRs

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