



Update on Indian Economy

July 2007

Economic Snapshot

Contents	Item	Units	June	May	June	(% Change	
			2007	2007	2006	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	211.9	211.4	202.2	0.24	4.8
- Capital Market	WPI -Inflation**	Per cent	4.8	5.4	5.2		
- Country: Germany		Week ended	02.06.07	05.05.07	03.6.06		
- Other Markets	IIP (93-94=100)	2 months lag	255.9	284.5	224.3	(10.05)	14.09
- Important Policy Pronouncements			(Apr.07)	(Mar 07)	(Apr.06)		
	INR / US\$	Month End	40.75	40.65	46.08	0.25	(11.57)
	M3	Rs. '000 Cr.	3377.62	3333.17	2791.46	1.33	21.00
	[i] Agg. Deposits	Rs. '000 Cr.	2871.24	2822.56	2348.82	1.72	22.24
	[ii] Currency	Rs. '000 Cr.	506.38	510.61	442.64	(0.83)	14.40
		(Outstanding as on)	(08.06.07)	(11.05.07)	(09/06/06)		
	Call Money	% Range	0.05-4.00	1.00-7.75	5.00-5.95	-	-
	(Lendings)	Week ended	(08.06.07)	11.05.07	16.6.06		

Source: RBI Weekly Statistical Supplement June 22, 2007 & Economic & Political Weekly June 23, 2007

*All Commodities. **Over the year.

Editorial

A) Domestic

With the continued appreciation of the Indian Rupee vis-à-vis US dollar and high interest rates prevailing in India, the Indian exporters particularly those who are involved in exporting low technology and labour intensive goods such as textile, handloom are likely to suffer significantly in their revenues. Mr. Kamal Nath, Minister for Commerce and Industry scheduled a meeting on June 13, 2007 with representative of prominent exports' organisation mainly to gauge the mood of exporters and assess the damage caused by the recent rise in rupee. The meeting with the representative of the Federation of Indian Export organisations (FIEO) convened by the Commerce Secretary prior to the meeting with Minister ensured some relief to exporters specially small and medium ones, and those who have been hit the hardest. Also the Finance Ministry wants the facilities to be limited only to the few sectors like textile, and a moderate hike in the duty drawback, and Duty Entitlement Pass Book (DEPB) rates by 5% and these would bring a big relief to exporters, plus cheaper bank credit.

According to Federation of Indian Export Organisations (FIEO), export realisations have fallen by 12 per cent for chemicals, 6-6.5 per cent for textiles and exports are likely to dip by 20-22 per cent for processed foods and agro-products, electronics and electrical items and steel products. Further, the rising rupee in relation to the US dollar will result in :

- Job loss estimated at 8 million this fiscal.
- Export realisation loss of \$ 5-6 billion in a year.

- Export realisation down 12% for chemicals, 6-6.5% for textiles.
- FIEO for reintroduction of tax exemption on export profits.

With rising rupee, Indian export competitiveness is estimated to have been eroded by 10% to 12% while one may debate the extent on the wide range of exported products. Accordingly one estimate is that the rupee may hover within the range of Rs.40.8 and Rs.41.3 per US dollar, and may not fall below Rs.40 per US dollar, and this limited range could be considered as adequate.

B) International

The successor to the Kyoto Protocol, which is due to expire in 2012, the G-8 Summit of industrialised nations held at Heiligendamm, Germany in June 2007, got only closer to agreeing to German chancellor Angela Merkel's proposal that world emissions of CO₂ be halved by 2050. In the press release the Heads of State and Government agreed to achieve this goal together as a part of a UN process. The big emerging economies are also to be incorporated in the process.

The German Chancellor and G8 President was convinced and visibly pleased that this was "the most important decision for the coming two years." Many participants had moved their positions quite considerably. The agreement that binding goals on reducing emissions were necessary was "an important signal", said Angela Merkel. The resolutions adopted by the EU, Japan and Canada form the basis of the agreement reached on climate protection at Heiligendamm. The approach suggested by the United States was added to this, namely of incorporating the biggest greenhouse gas emitters outside the United States, especially China and India.

The environment ministers of the United Nations Framework Convention on Climate Change can now negotiate details of how these goals regarding global reductions are to be achieved. A post-Kyoto Protocol regulation is to be agreed during the Global Climate Change Conference to be held there. The Kyoto Protocol expires in 2012. Up until now it was not clear what this was to be based on. Now it is clear that the successor agreement is to be adopted by 2009 which will contribute to the agreed UN process.

There has to be an acceptance by the industrialised world's governments of the fact that most of the responsibility for global warming lies with their societies. However, what has made matters worse is the inability of China and India to come against climate change cannot be at the expense of their economic growth. While this argument brooks no debate – after all, the developed world cannot deny other countries the right to grow after being through the process and reaping gains from it – we have to move on.

In fact, climatic changes affects us all. Therefore, it is desirable that only a truly global efforts should be made so that it can save the world. One approach may be that India and China should take the lead in persuading the US and EU to set aside a proportion, say 5% or 10% of their defence budgets to serve another form of security expenditure – one that protects the mankind from possible extinction.

Capital Market Review

During the month of June 2007, the Sensex (30-share index) of BSE increased from 14,544.46 on the last trading day of May 31, 2007 to 14,650.51 on June 29, 2007 the last trading day of the month. The index experienced movement within the narrow range as it did not cross the level of 15,000. In fact the index was the highest at 14,650.51 on June 29, 2007 and the index touched the lowest at 14,003.03 on June 13, 2007. There was thus built-in resistance for the index to climb to more than 15,000 which many of the market participants continued to remain strongly bullish about the index in the coming weeks.

June 2007 was the last month of the first quarter of 2007-08, and the quarterly results of companies would be eagerly awaited. During the month, IPOs of ICICI Bank Ltd, as also DLF attracted greater attention while investment in IPO of DLF was more than three times, and that of ICICI Bank Ltd. was equal to about 11.5 times. IPO of Spice Communications Ltd. with issue size of Rs.520 crore also entered the market, and on June 28, 2007 it was reported to have been subscribed 37.5 times. It seems that the effect of increase in the rate of interest and rise in the CRR announced earlier by RBI was over, and these measures caused a mild slow down in the rate of inflation.

	June 2007	May 2007	June 2006	May 2006	(%) Change		
					[1] / [2]	[1] / [3]	[2] / [4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	14,650.51 (29.06.07)	14,544.46 (31.05.07)	10609.25 (30.06.06)	10398.61 (31.05.06)	0.73	38.09	39.87
Monthly High	14,650.51 (29.06.07)	14,544.46 (31.05.07)	10609.25 (30.06.06)	12612.38 (10.05.06)	0.73	38.09	15.32
Monthly Low	14,003.03 (13.06.07)	13,765.46 (08.05.07)	8929.44 (14.06.06)	10398.61 (31.05.06)	1.73	56.82	32.38
S&P CNX Nifty –Close	4318.30	4295.80	3128.20	3071.05	0.52	38.04	39.88
P/E Ratio : BSE – 30	21.09	21.05	19.4	18.27	0.19	8.71	15.22
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	50202.9	52127.6	40407.6	48737.8	(3.69)	24.24	6.96
Outflows – Rs. Cr.	49101.6	46808.0	39532.3	55385.1	4.90	24.21	(15.49)
Net – Rs. Cr.	1101.7	5319.8	875.1	(6647.4)	(79.29)	25.89	(180.03)
Cum. Net Inv–US\$ Mn. (Month End)	55252.1	54982.4	44152.9	43959.6	0.49	25.14	25.07

Some scrips specially Reliance Industries Ltd., Mahindra & Mahindra Ltd, ACC Ltd and Grasim Industries Ltd in the cement sector, and IFCI, HDFC Bank Ltd., ICICI Bank and State Bank of India in the financial sector steadily increased. In the energy sector Suzlon Energy Ltd which largely depends upon wind power also made a mark. Surprisingly, IT companies such as Infosys, Satyam and HCL Technologies have been quoting for most of the period far below their all-time highs mainly due to the appreciation of the rupee against US dollar.

Country - Germany

I. Introduction :

After defeat in World War II Germany was divided into East and West but under the Marshall Plan German's economy was rejuvenated and the western part of Germany grew faster than the eastern till 1990 when the two Germanies were reunified.

It may be recalled that on June 5, 1947, then Secretary of State George C. Marshall outlined what became known as the Marshall Plan. Europe, devastated by the war, had nothing to sell for hard currency and just survived one of the worst winters on record. European Democratic socialist governments in many countries were unwilling to adopt the draconian proposals for recovery advocated by old-line classical economists. Something had to be done, both for humanitarian reasons and also to stop the potential spread of communism westward.

The United States offered up to \$20 billion for relief, but only if the European nations could get together and draw up a rational plan on how they would use the aid. For the first time, they would have to act as a single economic unit; and that they would have to cooperate with each other. Marshall also offered aid to the Soviet Union and its allies in eastern Europe, but Stalin denounced the program as a trick and refused to participate.

Germany is the founding member of the European Union (EU) with a population of over 82 million, and among the member States of the EU, it has the largest population. Germany is officially called Federal Republic of Germany. It is a member State of the United Nations, NATO, the G8, the G4 nations and ranks fourth worldwide in defence spending. Measured by nominal GDP, Germany is the world's third largest economy, it is the world's largest exporter of goods, and the world's second largest importer of goods. In 2007 the country holds the rotating presidencies of both the European Council and the G8 Summits.

II. Indo-German Trade :

Indian **exports** to Germany which were US\$ 1.7 billion in 1999-00 crossed US\$ 2 billion in 2002-03 and have now reached the level of US\$ 3.5 billion in 2005-06. In a span of 6 years, Indian exports to Germany have almost doubled but in terms of the share of total Indian exports, German's share has declined from 4.7% in 1999-00 to 3.4% in 2005-06. The major items of exports to Germany are engineering goods, textiles and leather goods.

India's Trade with Germany : Exports & Imports

Year (April- March)	Exports to	Total Indian	Imports from	Total Indian	Share (percent) of total Indian		Total Indian Trade with Germany	Total Indian Trade
	Germany (US\$ mn)	Exports (US\$ mn)	Germany (US\$ mn)	Imports (US\$ mn)	Exports to Germany	Imports from Germany	1+3 (US\$ mn)	2+4 (US\$ mn)
	1	2	3	4	5	6	7	8
1999-00	1738.4	36822	1841.6	49671	4.72	3.71	3580.0	86493
2000-01	1907.6	44560	1759.6	50537	4.28	3.48	3667.2	95097
2001-02	1788.4	43827	2028.1	51413	4.08	3.94	3816.5	95240
2002-03	2106.7	52719	2404.5	61412	4.00	3.92	4511.2	114131
2003-04	2544.6	63843	2918.6	78149	3.99	3.73	5463.2	141992
2004-05	2826.2	83536	4015.3	111517	3.38	3.60	6841.5	195053
2005-06	3517.0	102725	5818.4	142416	3.42	4.09	9335.4	245141

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

Indian **imports** from Germany which were US\$ 1.8 billion in 1999-00 crossed US\$ 2 billion in 2001-02 earlier than this level of exports. Indian imports from Germany reached US\$ 4.0 billion in 2004-05 and US\$ 5.8 billion in 2005-06 which is more than 3 times the level of imports made by India in 1999-00.

In terms of the share, Germany's share in total Indian imports was 3.7% in 1999-00, and the share gradually increased to 4.1% in 2005-06. Thus, while the share of Germany in Indian exports has declined but at the same time, Germany's share in Indian imports has climbed up. The major items of imports are machinery and chemicals & pharmaceutical. As a result, the total Indian trade (exports and imports) with Germany stands at US\$ 9.3 billion in 2005-06.

III. Germany and its Population

Demographically, 66.3% of the population is in the working age of 15-64 years, and the dependent in the age group 0-14 years constitute 13.9% and the remaining in the age of 65 years and over constitute 19.8%. It is estimated that its population will shrink to approximately 75 million by 2020.

As of December 2004, the country had 7 million foreign citizens, and large proportion of these were from Turkey, and the remaining from the European States such as Italy, Serbia, Greece, Poland, and Croatia. Accordingly to the United Nations Report entitled State of World Population (2006), Germany was host to third-highest percentage of international migrants worldwide, that is, about 10 million of total world wide 191 million migrants. With a population of over 82 million Germany is the most populous country in the European Union and at the same time its fertility rate of 1.39 children per mother is one of the lowest in the world.

IV. Economy of Germany

Germany's economy is the largest in Europe and the third largest in the world, next only to the United States and Japan. It is ranked fifth in the world in terms of purchasing power parity.

According to the Purchasing Power Parity (PPP), GDP of Germany in 2006 was estimated as US\$ 2630 billion giving per capita figure of US\$ 31900. Sector-wise 70% of GDP was contributed by services, 29.1% by industry and only 0.9% by agriculture.

Although problems created by reunification in 1990 have begun to diminish, the standard of living still remains higher in the western half than in the eastern half of the country.

The exports of goods is an essential part of the German economy and one of the main factors in creating wealth. Germany is the world's top exporter with exports of US\$ 1,133 billion. Major commodities exported are engineering, especially in automobiles, machinery, metals, chemical goods, vehicles, and manufactures, foodstuffs, and textiles. Main export partners are France (10.2%), US (8.8%), UK (7.9%), Italy (6.9%), Netherlands (6.1%), Belgium (5.6%), Austria (5.4%), Spain (5.1%).

Germany's imports are US\$ 916 billion and major commodities imported are machinery, vehicles, chemicals, foodstuffs, textiles, metals. Its main trading partners in imports are France (8.7%), Netherlands (8.5%), US (6.6%), China (6.4%), UK (6.3%), Italy (5.7%), Belgium (5%), Austria (4%).

Despite large exports and low imports its external debt at the end of June 2006 is estimated at US\$ 3,904 billion which works out to US\$ 47,610 per capita. The country has large trade surplus of US\$ 217 billion or about euros 165 billion. In the service sector, Germany ranks second only to the United States. Germany is first in the world to generate electricity especially from wind power, and it is also the main exporter of wind turbines.

Important Macro-economic parameters : Germany

Item	2005	2006	2007 Est	2008 Proj	2009
	(percentage change from previous period unless otherwise noted)				
Real GDP	0.9	2.5	1.6	1.7	1.8
Unemployment rate	9.1	8.1	7.7	7.6	7.5
Employment growth	-0.2	0.7	0.5	0.3	0.3
Consumer price index	1.9	1.7	2.2	1.6	1.6
Current account balance ¹	4.1	4.1	4.3	4.3	4.2

Sources : German authorities; IMF staff projections, end-January 2007. ¹In percent of GDP

V. Indo-German Relations

During the Indo-German Business Summit on April 24, 2006 at Hannover, Germany, the Prime Minister Dr. Manmohan Singh shared the enthusiasm with Germany's Chancellor Merkel for closer business and trade relations between the two countries. The Business Summit and various other events organized provided an excellent opportunity to forge useful linkages between the business communities of the two countries and also provided a new impetus to bilateral commercial engagement. He mentioned that fundamentals of the Indian economy are strong and robust, and India is confident of sustaining high economic performance. Indian firms are now becoming globally competitive and India is witnessing the rise of Indian multinationals. India is becoming a production base and an export hub for a range of products from agricultural goods to automobile components and IT enabled services. There is thus an immense scope for Indo-German Cooperation based on the triad of infrastructure development, manufacturing and high technology.

The "Agenda for the Indo-German Partnership in the 21st Century" emphasizes "the special significance of contacts between Parliamentarians of the two countries in shaping the relations...". These contacts have been growing especially via the German-Indian Friendship Group in the German Bundestag (founded in 1971 whose current chairperson: is Mr. Sebastian Edathy), and the Indo-German Forum of Parliamentarians (founded in 2003 the chairperson of which is Mr. Suresh Prabhu, MP (Lok Sabha). In 2003, the exchange was significantly intensified through reciprocal visits of parliamentary delegations in August and September. A delegation of the German Group visited India again in February 2005. A delegation of the Indian Group travelled to Germany again in January 2007.

VI. Germany's Investment in India

Germany is the 6th **largest foreign investor in India** with cumulative Foreign Direct Investment inflows during August 1991-March 2007 amounted to US\$ 1.7 billion. This is about 3.12% of the total cumulative inflows received during the same period. The top sectors attracting German investment into India are electrical equipment and metallurgical industry. Number of technical collaboration approvals from Germany totaled 1,103 upto March 2007 constituting 14.06% of the total technical approvals signed upto March 2007. The largest collaborations are in the field of machinery and parts, followed by heavy vehicles, chemicals, technical consultancy services, computers, electrical appliances etc.

There are now some signs of greater German interest in India with the big German companies stepping up their existing investments and several new companies entering into the Indian market. **Siemens** has plans to invest Euro 600 million in the next three to four years for setting up new factories and expanding its existing capacities in the country. Siemens has also bagged orders to modernize the hot rolling mill at the Bokaro Steel Plant and to build a power plant (valued at Euro 400 million) for the Torrent Group. **Bosch** has plans to invest Euro 500 million for auto component units in India over the coming years.

SAP AG, the world's largest business software maker has announced its plan to invest Euro 760 million in India over the next five years. Since December 2005, three automobile majors have entered India – **BMW** (assembly plant in Chennai), **MAN AG-Force Motors** (joint ventures near Indore and Pune for manufacturing mid-size trucks and buses) and **Volkswagen** which has recently announced its decision to invest in India. The Company would commence assembly unit of Audi A6 in Aurangabad from CDK kits in Autumn 2007. Skoda has already set up a CKD assembling plant in India. **European Aeronautic and Defence Company (EADS)**, a global leader in aerospace, defence and related services, is planning to invest about € 2.0 billion in India over the next 15 years in various operations like production and setting up of research and development facilities.

DaimlerChrysler which initially set up a joint venture with Tata for manufacture of passenger cars has its own subsidiary Mercedes Benz India. **Deutsche Bank** is opening new open retail banking operations branches in various cities in India. **Metro Cash & Carry** India is seeking to open new branches in West Bengal and in other cities.

Fraport (together with GMR Industries) have won bid to modernize Delhi airport. **Osram GmbH** is building a second factory in India in Sonapat for producing energy savers and other sustainable products with an investment of Euro 10–15 million. **Giesecke & Devrient** is building a smart card production facility in Noida, which when completed, will be the largest of its kind in India. Besides cards for mobile communications, the plant will also produce cards for applications such as electronic payment, identity cards, etc. **Behr India** (a 60:40 Joint Venture between Behr Germany and Anand Automotive Systems) will open its plant in Maharashtra for manufacturing engine cooling modules, heat exchangers including radiators, charge air coolers and condensers. The companies have already invested Euro 9 million in 2006 and would be investing another Euro 4.0 million in 2007. Besides large companies, German SMEs are showing new interest in India.

The German market for outsourcing is growing fast; increased to over € 16 billion by 2006. Germany's leading news magazine **Der Spiegel** has cited India as No. 1 destination for offshore development by German software companies. Deutsche Bank in its 2006 Global Strategy Report has identified India as its No.1 destination. Several global German corporations like Daimler Chrysler, Siemens, SAP, Deutsche Bank, Lufthansa, GE/German office and IBM/German office have R & D / Call Centers in India.

VII. Indian Companies in collaborations with German Companies

There is a **growing trend of Indian investments in Germany**. **Bharat Forge Limited (BFL)**, **Ranbaxy**, **Samtel**, **Hexaware Technologies**, **NIIT**, **Wockhardt**, **Graphite India Limited** and others have either acquired German companies or have started their own subsidiaries in Germany. Tata Consulting Services (TCS) inaugurated their 'Solutions Centre' in Munich on November 16, 2005. The centre, is catering to business clients in southern Germany and Austria with focus on manufacturing, telecom and insurance sectors. **Tata Auto Component Systems** has acquired the Bavarian based automotive component supplier Wuendsch Weidinger for € 4 million. The Indian IT firm **Megasoft** is acquiring a majority stake in Baden Wuerttemberg based firm Beam AG; Megasoft has already an office in Munich. **Torrent Pharmaceutical**, a mid-sized Indian pharmaceutical company, acquired Heumann Pharama GmbH, located in Nuremberg, which focuses on generic drugs.

India's second largest pharmaceuticals company **Dr. Reddy's Laboratories** has acquired Betapharm GmbH, Augsburg, Bavaria, one of Germany's top five generic pharmaceuticals companies for € 480 million from its former owner 3i investment firm of UK. Recently, **Mahindra and Mahindra** acquired 67.9% stake in a German forgings firm Jeco Holding AG, Aalen and has also acquired another German forging company, Schoeneweiss & Co., Hagen (in North-Rhine Westphalia) for about Euro 150 million to grow its auto component footprint across the globe.

VIII. Future Business Potential of India with Germany

The economic policy of Germany is based on the strengths and potential of the country, and that the companies should be nationally efficient and internationally competitive. Germany is one of the world's largest exporters of goods with modern and efficient infrastructure, and maintaining at the same time a high level of social stability. The German Government intends to do this by a three-part economic strategy of **reorganizing reforming** and **investing**. It is believed that only a combination of these three parts will take into account both the economic cycle and growth, and will allow the investors and consumers to regain the confidence in the future and achieve economic dynamism.

In a study done by an economist of the IMF, it is revealed that share of Germany's export in world increased since 2000, while many industrial countries experienced declines in their shares. This study explored four explanations and evaluated their empirical contributions: (i) improved cost competitiveness, (ii) ties to fast growing trading partners, (iii) increased demand for capital goods, and (iv) regionalized production of goods (e.g. off-shoring). The dominant factors explaining the increase in market share are trade relationships with fast growing countries and regionalized production in the export sector.

Products in sectors like IT, Biotech, Entertainment, Medium range engineering goods, fresh fruits and processed food stuffs, floriculture would provide value addition. Apart from traditional sectors, knowledge-driven sectors hold tremendous potential for collaboration between the two countries. There is, for instance, scope for considerable co-operation in the field of software development, chemicals, pharmaceuticals, human and animal health products, agriculture biotechnology, industrial and other biotech products, bio-informatics and entertainment industry.

Other Markets

Debt Market

There was a flurry of primary market issuance from several banking and financial institutions. The largest issue was from NABARD of Rs.1,200 crore worth of bonds. State Bank of India issued Upper Tier-II bonds worth Rs.750 crore. Other institutions with issuances in May 2007 were Housing Development Finance Corporation Ltd., IDFC Ltd., LIC Housing Finance Ltd., Power Finance Corporation Ltd. and State Bank of Travancore.

	Name of the Issuer	Rate %	Duration	Rating	Amount Rs. Crore	Type of Instrument
i)	Dewan Housing Finance Co. Ltd.	10.50, 10.55 & 10.60	5, 7 & 10 years	AA+	38	Bonds
ii)	Housing Development Finance Corporation Ltd	10.25	5 years	AAA	100 ^a	Non Convertible Debentures
iii)	Housing Development Finance Corporation Ltd	10.35& 0b	10 years & 7 years	AAA	450 ^a	Bonds
iv)	IDFC Ltd.	10	5 years	AAA	75 ^a	Bonds
v)	LIC Housing Finance Ltd.	10.25	10 years	AAA	200	Bonds
vi)	NABARD	10.05	7 years	AAA	200	Bonds
vii)	NABARD	10	5 years	AAA	1200	Bonds
viii)	Power Finance Corporation	9.96	10 years	AAA	530	Bonds
ix)	State Bank of India	10.20	15 years ^c	AAA	750	Upper Tier-II Bonds
x)	State Bank of Travancore	10.25 ^a	15 years ^c	AAA	300	Upper Tier-II Bonds

a. With a greenshoe option of Rs.100 crore

b. Call option at the end of 10th year

b. Put at the end of 3rd year for Zero coupon bond

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

Call Money Market

The call money market rate on June 08, 2007 in respect of borrowings ranged widely between 0.05% and 4.00% as compared to the rates of 4.00% - 5.90% on June 09, 2006 (i.e. a year ago) reflecting that there was a not only hardening of the interest rate but reflected also volatility during the year. The average daily turnover in the call money market was Rs.5,346 crore for the week ending June 08, 2007 and this daily turnover more than doubled to Rs.12,094 crore in the week ending June 15, 2007.

Foreign Exchange Market

The exchange rate (RBI reference rate) on June 15, 2007 was Rs.40.97 per US dollar as compared to Rs.40.91 per US dollar on June 11, 2007, that is, a week ago; this reflected a small depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 3.12% on June 15, 2007 as compared to a premium of 2.64% on June 11, 2007 (a week ago), and this reflects that supply of dollars is likely to become relatively tight in the forthcoming weeks. The foreign currency asset were US\$ 203.67 billion on June 15, 2007, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 211.02 billion. From end-March 2006, the foreign exchange reserves registered a rise of US\$ 11.84 billion upto June 15, 2007. The market rate (buying) was Rs.40.77 per US dollar on June 29, 2007. The RBI intervened occasionally into the market by buying dollars in a bid to curb the rise of rupee

Important Policy Pronouncements

I. Salient Features of PMRY

The Prime Minister's Rozgar Yojana (PMRY) for providing self-employment to educated unemployed youth of economically weaker sections has been in operation since October 2, 1993. The scheme aims at assisting the eligible youth in setting up self-employment ventures in industry, service and business sectors. The salient features of the scheme are :

(i) Age Limits

1. 18 to 35 years for all educated unemployed.
2. 18 to 40 for all educated unemployed in north-east states, Himachal Pradesh, Uttarakhand and Jammu and Kashmir.
3. 18 to 45 years for scheduled castes/scheduled tribes, ex servicemen, physically disabled and women.

(ii) Educational Qualification

The beneficiary should have passed Standard VIII. Preference is given to those who have been trained for any trade in government recognised/approved institutions for a duration of at least six months.

(iii) Family Income

Neither the income of the beneficiary along with his/her spouse nor the income of the beneficiary's parents should exceed Rs.1,00,000 per annum.

(iv) Activities Covered

All economically viable activities are permitted including agriculture and allied activities but excluding direct agricultural operations like raising crop, purchase of manure, etc.

(v) Project Cost

Rs.2 lakh for business/service sector and Rs. 5 lakh for industry sector. Loan should be of composite nature. If two or more eligible persons join together in a partnership, project up to Rs.10 lakh is covered. Assistance would be limited to individual admissibility.

(vi) Subsidy/Margin Money

Subsidy is limited to 15 per cent of the project cost subject to a ceiling of Rs.12,500 per entrepreneur. Banks are allowed to take margin money from the entrepreneur varying from 5 per cent to 16.25 per cent of the project cost so as to make the subsidy and the margin money together equal to 20 per cent of the project cost.

For north-eastern states, Himachal Pradesh, Uttarakhand and Jammu and Kashmir, the subsidy is 15 per cent of the project cost subject to a ceiling of Rs.15,000 per entrepreneur. Margin money contribution from the entrepreneur may vary from 5 per cent to 12.5 per cent of the project cost so as to make the subsidy and the margin money together equal to 20 per cent of the project cost.

(vii) Collateral

No collateral for units in industry sector with project cost up to Rs.5 lakh (the loan ceiling under PMRY). For partnership projects under industry sector, the exemption limit for obtaining collateral security is Rs. 5 lakh per borrower account. For units in service and business sector, no collateral for project up to Rs.2 lakh. For partnership project, exemption from collateral is limited to an amount of Rs.2 lakh per person participating in the project cost.

(viii) Rate of Interest/Repayment Schedule

Normal rate of interest shall be charged. Repayment schedule may range from 3 to 7 years after an initial moratorium as may be prescribed.

II. TDS on 8 % Savings Bonds, 2003

The Reserve Bank has advised banks that in terms of Government of India's notification dated May 31, 2007, tax should be deducted at source on interest exceeding rupees ten thousand payable during the financial year, on 8 per cent Savings (Taxable) Bonds, 2003 from June 1, 2007.

III. Norms for MF Investment in Overseas Securities Liberalised

To enable mutual funds (MFs) to tap a larger investible stock overseas, they have been permitted to invest in –

- (a) Overseas mutual funds that make nominal investments (to the extent of 10 per cent of net asset value) in unlisted overseas securities;
- (b) Overseas exchange traded funds that invest in securities; and
- (c) American depository receipts (ADRs)/global depository receipts (GDRs) of foreign companies.

IV. Foreign Investments in Debentures

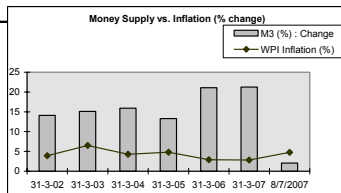
The Reserve Bank has clarified that henceforth, only instruments which are fully and mandatorily convertible into equity, within a specified time would be reckoned as part of equity under the foreign direct investment (FDI) policy and eligible to be issued to persons resident outside India under the FDI scheme.

Foreign institutional investors (FIIs) registered with SEBI, would be eligible to invest as hitherto, in listed non-convertible debentures/bonds issued by Indian companies in terms of Reserve Bank/SEBI norms on investment in rupee debt instruments, including the ceilings prescribed from time to time.

Companies which have already received funds from outside India for issue of partially/optionally convertible instruments on or before June 7, 2007 may issue such instruments. The existing investments in instruments which are not fully and mandatorily convertible into equity may continue till their current maturity.

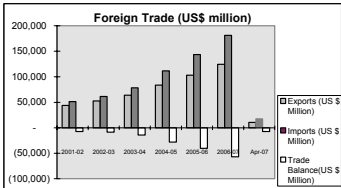
V. Limited use of Foreign Exchange Reserves

Reserve Bank is reported to have agreed to making investment of US\$ 5 billion out of Foreign Exchange Reserve in the infrastructure sector. Pursuant to the recommendation of the Parekh Committee Reserve Bank has decided to extend loan of US\$ 5 billion out of the existing Foreign Exchange Reserve for improvement of infrastructure. This is on the assurance given to the Finance Minister Mr. P. Chidambaram that the reserves will not be spent on domestic market which can lead to increase in the money supply and thereby cause rise in the rate of inflation.



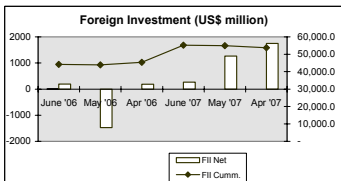
	31-3-02	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	8/7/2007
M3 (Rs. Crore)	14,98,355	17,25,222	20,03,102	22,53,938	27,29,535	33,10,212	33,77,624
M3 (%) Change	14.1	15.14	15.95	13.30	21.10	21.27	2.03
WPI (Index) All Commodities@	161.8	172.30	180.30	188	196.8*	202.2@	211.9*
WPI Inflation (%)	3.92	6.49	4.29	4.83	2.91	2.85	4.80

Source: RBI Bulletin, May 2007; WSS: June 22, 2007 #1993-94=100@year/month-end. @ June 03, 2006 *June 02, 2007



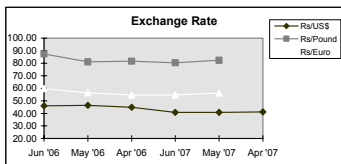
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Apr-07
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,061	124,629	10,575
Imports (US \$ Million)	51,413	61,412	78,149	111,517	143,433	181,368	17,635
Trade Balance(US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(40,372)	(56,739)	(7,060)

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



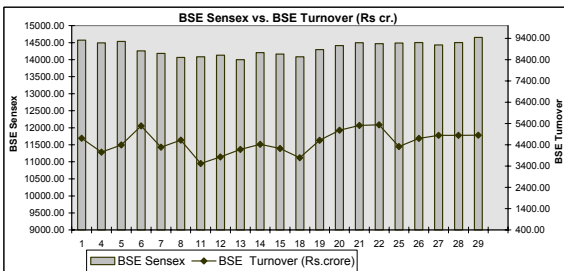
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	June '06	May '06	Apr '06	June '07	May '07	Apr '07
FI Net	193.2	(1,473.0)	185.5	269.3	1,265.0	1,752.0
FI Cumulative	44,152.9	43,959.8	45,443.9	55252.1	54982.4	53717.7

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



	2005-06			2006-07		
	Jun '06	May '06	Apr '06	Jun '07	May '07	Apr '07
Rs/US\$	46.08	46.43	44.97	40.75	40.73	41.29
Rs/Pound	84.45	87.43	81.04	81.63	80.43	82.30
Rs/Euro	58.54	59.80	56.41	54.79	54.74	56.20

Figures are for month-end



June 2007	BSE Sensex Close	BSE Turnover (Rs.crore)
May 31, 2007	14544.46	4537.00
1	14570.75	4700.00
4	14495.77	4061.00
5	14535.01	4391.00
6	14255.93	5290.00
7	14186.18	4289.00
8	14063.81	4619.00
11	14083.41	3524.00
12	14130.95	3836.00
13	14093.03	4189.00
14	14203.72	4427.00
15	14162.71	4229.00
18	14080.14	3795.00
19	14295.50	4607.00
20	14411.95	5085.00
21	14499.24	5307.00
22	14467.36	5344.00
25	14487.72	4316.00
26	14501.08	4706.00
27	14431.06	4844.00
28	14504.57	4848.00
29	14650.51	4855.00



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 20.06.07	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 20.06.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
Euro-11	4.16	4.64	1.90	2.50	0.75	0.79	-0.80	2.26	1.00	8.6	9.9	0.1
			May								Apr	
U. S. A.	5.27	5.12	2.70	4.20	1.00	1.00	-1.70	2.57	1.33	-829.9	-803.40	-6.2
			May								Apr	
Britain	5.82	5.48	**2.5	2.20	0.50	0.54	-2.80	2.53	0.67	-158.3	-80.10	-3.1
			May								Apr	
Japan	0.62	1.88	nil	-0.10	124.00	115.00	-4.40	0.62	165.33	92.0	186.90	4.3
			Apr								Apr	
Sweden	3.41	4.50	1.70	1.60	6.90	7.28	2.20	1.71	9.20	19.7	29.80	6.6
			May								Apr	
Switzerland	2.54	3.04	0.50	1.40	1.24	1.24	0.30	2.04	1.65	10.5	106.10	15.7
			May								Apr	
India	7.75	8.43	6.70	5.00	40.80	46.00	-3.30	1.05	54.40	-61.3	-10.00	-1.8
			Apr								Apr	

Source: The Economist London: June 23rd-June 29th, 2007

Figures in Column 9 are derived.

**RPI Inflation rate 4.8% in March

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 20.06.07	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 20.06.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	3.06	4.12	3.4	1.4	7.62	8.00	-1.3	-0.34	10.16	216.7	249.9	8.1
			May								2006	
Hongkong	4.50	4.52	1.3	1.9	7.81	7.77	2.6	3.20	10.41	-19.0	20.6	9.8
			Apr								Q4	
Indonesia	8.43	6.48	6.0	15.6	8945	9363	-1.6	2.43	11926.67	41.5	9.6	2.2
			May								Apr	
Malaysia	3.62	5.63	1.4	3.9	3.43	3.67	-3.7	2.22	4.57	28.3	25.6	13.5
			May								Apr	
Singapore	2.56	2.84	0.6	1.1	1.54	1.59	0.3	1.96	2.05	35.0	38.1	23.3
			Apr								Q1	
South Korea	4.87	5.44	2.3	2.3	928	956	0.5	2.57	1237.33	16.6	5.2	0.2
			May								Apr	
Taiwan	3.50	2.48	nil	1.6	33.10	32.6	-2.3	3.50	44.13	13.7	28.1	6.7
			May								Q1	
Thailand	3.75	3.99	1.9	6.2	34.6	38.4	-1.9	1.85	46.13	7.0	8.8	2.1
			May								Apr	
Brazil	11.93	6.16	3.2	4.2	1.91	2.24	-2.4	8.73	2.55	47.6	13.6	0.8
			May								Mar	
Venezuela	10.11	6.55	19.5	10.4	2147	2583	-4.7	-9.39	2862.67	28.2	23.8	9.8
			May								Q1	
India	7.75	8.43	6.70	5.0	40.8	46.0	-3.3	1.05	54.40	-61.3	-10.0	-1.8
			Apr								Apr	

Source: The Economist London: June 23rd-June 29th, 2007

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