



Update on Indian Economy

March 2007

Economic Snapshot

Contents	Item	Units	February	January	February	(% Change	
			2007	2007	2006	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	209.2	208.1	196.0	0.53	6.7
- Capital Market	WPI -Inflation**	Per cent	6.7	5.7	4.1		
- Union Budget 2007-08	Week ended		03.02.07	06.01.07	04.02.06		
- Other Markets	IIP (93-94=100)	2 months lag	258.3	245.8	231.1	5.09	11.77
- Important Policy Pronouncements			(Dec 06)	(Nov.06)	(Dec 05)		
	INR / US\$	Month End	44.28	44.11	44.44	0.39	-0.36
	M3	Rs. '000 Cr.	3109.94	3054.16	2576.52	1.83	20.70
	[i] Agg. Deposits	Rs. '000 Cr.	2637.01	2589.33	2171.41	1.84	21.44
	[ii] Currency	Rs. '000 Cr.	472.93	464.82	405.11	1.74	16.74
		(Outstanding as on)	(02.02.07)	(05.01.07)	(03.02.06)		
	Call Money	% Range	5.75-8.50	5.00-10.50	5.25-7.50	-	-
	(Lendings)	Week ended	09.02.07	12.01.07	10.02.06		

Source: RBI Weekly Statistical Supplement February 23, 2007 & Economic & Political Weekly February 20, 2007

*All Commodities. **Over the year.

Editorial

A) Domestic

The increased rate of inflation remained much in the news throughout the month of February 2007. The Third Quarter Review 2006-07 of Macroeconomic and Monetary Developments released by the Reserve Bank of India on January 31, 2007 indicated that not only the inflation rate accelerated but also its contribution to the inflation rate came largely from the primary articles; the weighted contribution of primary articles which was 28.7% during 2005-06 (upto January 14, 2006) rose to 34.1% during 2006-07 (upto January 13, 2007). Similarly, inflation was contributed by significant rise in prices of edible oils, basic metals and cement (Appendix). Though the Government reduced the prices of petroleum and diesel, petroleum by Rs.2 and diesel by Re. 1 litre during the month, it made no dent in the rate of inflation.

Some measures were taken in the Union Budget 2007-08 announced on February 28, 2007 but the impact of these measures still remains unclear. While GDP has been growing at the rate of more than 8.0%, the sluggish growth in the agriculture sector which remained during 2.2-2.3 percent annually is far from the desired growth rate in agriculture of 4.0%.

Appendix : Wholesale Price Inflation in India (year-on-year)

(Per cent)

	Commodity	Weight	2005-06 (March 25)		2005-06 (Jan. 14)		2006-07 P (Jan. 13)	
			Inflation	WC	Inflation	WC	Inflation	WC
	1	2	3	4	5	6	7	8
	All Commodities	100.0	4.1	100.0	4.2	100.0	6.0	100.0
1	Primary Articles	22.0	5.4	28.3	5.6	28.7	9.3	34.1
	Of which:							
(a)	<i>Food Articles</i>	15.4	6.6	24.2	7.4	26.5	8.5	22.0
	i. Wheat	1.4	12.9	4.3	8.3	2.8	14.7	3.6
	ii. Pulses	0.6	33.2	4.4	18.2	2.4	25.4	2.7
	iii. Fruits	1.5	-1.0	-0.5	1.9	0.8	12.0	3.7
(b)	<i>Non-Food Articles</i>	6.1	-1.9	-2.7	-2.4	-3.3	9.6	8.9
	i. Oilseeds	2.7	-7.8	-4.5	-11.9	-7.1	21.0	7.5
2.	Fuel, Power, Light and Lubricants	14.2	8.9	47.9	7.9	41.1	3.7	14.0
	i. Mineral Oils	7.0	13.2	39.8	12.5	36.2	3.5	7.8
	ii. Electricity	5.5	4.5	8.2	2.7	4.9	4.9	6.0
	iii. Coal Mining	1.8	0.0	0.0	0.3	0.2	0.0	0.0
3	Manufactured Products	63.8	1.7	23.2	2.2	29.9	5.6	52.3
	i. Food Products -	11.5	0.9	2.2	0.8	2.0	2.7	4.8
	Of which: Edible Oils	2.8	-2.4	-1.3	-5.9	-3.1	11.2	3.8
	ii. Basic Metals, Alloys and Metal Products	8.3	-2.9	-6.7	1.6	3.5	13.4	20.2
	of which Iron and Steel	3.6	-7.5	-8.7	-2.6	-2.9	11.4	8.2
	iii Non-Metallic Mineral Products	2.5	8.6	4.7	8.4	4.2	12.5	4.6
	Of which : Cement	1.7	13.0	4.8	12.9	4.2	17.9	4.5

WC: Weighted Contribution

(RBI : Macroeconomic and Monetary Developments : Third Quarter Review 2006-07, p49)

The index of wholesale prices (base 1993-94=100) published in the latest WSS (March 02, 2007) indicated that there was no let-up in rate of inflation; from end-March 2006 the rate of inflation was 6.1% and year-to-year inflation as on February 10, 2007 was 6.6%.

B) International

A Seminar was organised on February 12, 2007 by the IMF and the World Bank at which Sir Nicholas Stern, a former Chief Economist at the World Bank who conducted a review of climatic changes for the UK Government urged both the World Bank and the IMF that it is still possible to avoid the worst effects of global warming and there is a need for the two institutions to work together.

He indicated that the level of greenhouse gases in the atmosphere at 450-550 parts per million (ppm) of carbon dioxide (CO₂) is closing fast, and this level currently stands at 430 ppm. The global warming has already caused a rise in the earth's temperature by more than half a degree Celsius. Based on the current trends, he indicated that average global temperatures will rise by 2-3 degree Celsius within the next 50 years or so and added that the most severe impact of global warming will be felt in its effects on water. Some of the points raised by him were as follows :

- Melting glaciers will initially increase flood risk and will then strongly reduce water supplies.

- Declining crop yields could leave hundreds of millions of people without the ability to produce or purchase sufficient food.
- There will be a worldwide increase in deaths from malnutrition and heat stress in lower altitudes – although in higher altitudes, cold-related deaths will decrease.
- Rising sea levels will put hundreds of millions of people at risk for being flooded each year.
- About 15-40 percent of all species could face extinction as a result of global warming.

He estimated that fighting global warming will cost about one percent of annual global GDP by 2050, and added that developed countries should be prepared to shoulder most of the burden at least initially, and urged that international financial institutions like the IMF and the World Bank take a leading role in combating global warming. (Source: IMF Survey: February 26, 2007).

Capital Market Review

During the month of February 2007, the Sensex (30 share index) of BSE experienced wide swings. In the earlier weeks, the market participants remained pessimistic about the movement of share prices consequent to the expected increase in the interest rate announced by several banks and non banking financial institutions. The Reserve Bank of India has increased the CRR but subsequently it announced that it will pay interest rate of 3.5% on the graded scale on deposits kept with Reserve Bank. The hangover of the Union Budget 2007-08 also contributed modestly to this pessimism amidst the wide fluctuations except during the pre-budget some sectors experienced rally such as metals, FMCG, pharma and auto. However, the Railway Budget, 2007-08 announced on January 25, 2007 added bullish sentiment to the market because the proposal of Railway Minister to spend Rs.30,000 crore to build dedicated freight lines impacted positively among some vendors of railway equipments and among several stocks which makes rail coaches.

	February	January	February	January	(%) Change		
	2007	2007	2006	2006	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	12938.09 (28.02.07)	14090.92 (31.01.07)	10370.24 (28.02.06)	9919.89 (31.01.06)	(8.18)	24.76	42.05
Monthly High	14652.09 (08.02.07)	14282.72 (25.01.07)	10422.65 (28.02.06)	9919.89 (31.01.06)	2.59	40.58	43.98
Monthly Low	12938.09 (28.02.07)	13362.16 (10.01.07)	9742.58 (03.02.06)	9237.53 (18.01.06)	(3.17)	32.80	44.65
S&P CNX Nifty –Close	3745.30	4082.70	3067.45	3001.10	(8.26)	22.10	36.04
P/E Ratio : BSE – 30	19.85	21.85	19.02	18.49	(9.15)	4.36	18.17
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	58256.9	45769.9	35670.7	34971.2	27.28	63.32	30.88
Outflows – Rs. Cr.	50061.8	47451.8	28234.8	32362.5	5.50	77.31	46.63
Net – Rs. Cr.	8195.1	(1681.9)	7436.2	2608.3	(587.25)	10.21	(164.48)
Cum. Net Inv–US\$ Mn. (Month End)	51884.2	50050.9	43808.5	42,116.7	3.66	18.43	18.84

As usual, leading players in cement stocks such as Gujarat Ambuja Cement, ACC, Grasim Cement also moved upwards reflecting the bullish sentiments but stocks in the capital goods sentiments remained weak and some of these stocks were L&T and ABB.

During the month of February 2007, the net cumulative investment rose from US\$50.05 billion in end January 2007 to US\$ 51.88 billion in end-February 2007 recording a net increase of US\$ 1.83 billion during the month. Despite the FIIs making investment, the post-Budget 2007-08 days witnessed sharp decline in the index.

The Sensex moved from 14090.92 on January 31st, 2007 to close at 12938.09 on February 28th, 2007 thereby registered a fall of 1152.83 points.

Union Budget : 2007-08

The Finance Minister, Mr. P.C. Chidambaran presented the Union Budget 2007-08 on February 28, 2007 to the Parliament. The highlights of the budget are as follows :

A. Receipts & Expenditure :

Receipts : Tax receipts (net to centre) were budgeted for 2006-07 at Rs.327.2 thousand crore, but the actual receipts turned out to be Rs.346.0 thousand crore; in the light of this tax revenue receipts for the budget 2007-08 have been estimated at Rs.403.9 thousand crore. Non-tax revenue receipts were estimated at Rs.76.3 thousand crore in the Budget for 2006-07, again the actual receipts turned out to be a shade higher than the budgeted estimate for 2006-07. Consequently, the Budget for 2007-08 estimated these receipts at Rs.82.6 thousand crore. As a result, the total revenue receipts are now budgeted at Rs.486.4 thousand crore which are higher by 20.5% than the receipts of Rs.403.5 thousand crore budgeted for 2006-07.

The capital receipts, mainly consisted of borrowings and other liabilities, which were budgeted at Rs.160.5 thousand crore, and for 2007-08 these are budgeted at Rs.194.1 thousand crore. Taking both revenue and capital receipts, the total receipts for 2007-08 have been budgeted at Rs.680.5 thousand crore which are higher by 20.7% than the total receipts of Rs.564.0 thousand crore budgeted for 2006-07.

Expenditure : The revenue expenditure was budgeted at Rs.488.2 thousand crore for 2006-07 but the revised estimate of revenue expenditure for 2006-07 is placed at Rs.506.8 thousand crore which is higher by only 3.8% than the budget estimate indicating that a fair degree of control has been exercised in incurring expenditure. This is excellent which has led to placing the estimate of revenue expenditure Budget for 2007-08 at Rs.557.9 thousand crore.

The total expenditure level for 2007-08 has been estimated at Rs.680.5 thousand crore which is higher than the budget estimate for total expenditure of Rs.564.0 thousand crore for 2006-07 by 20.7%. Of the total expenditure 13.4% or Rs.75.8 thousand crore was budgeted for 2006-07 which related to capital expenditure. However, capital expenditure for 2007-08 is now budgeted at Rs.122.6 thousand crore which constitutes 18.0% of the total budgeted expenditure indicating that the present budget has given more importance to the capital expenditure in the form of investment. (Table)

Deficit : The revenue deficit is budgeted at Rs.71.5 thousand crore for 2007-08 which works out to 1.5% of the GDP, and this is significantly lower than the ratio of revenue deficit to GDP estimated for 2006-07. Similarly the fiscal deficit is now budgeted at Rs.150.9 thousand crore as compared to the budget estimate of Rs.148.7 thousand crore for 2006-07. In 2006-07 it comprised 3.8% of the GDP and now this is planned to be maintained at 3.3% during 2007-08.

Table : Receipts & Expenditure : Union Budget 2007-08

(Rs. '000 crore)

Items		'05-06 Actuals	'06-07 BE [^]	'06-07 RE [^]	'07-08 BE
1.	Revenue Receipts	347.5	403.5	423.3	486.4
2.	Tax Revenue (net to centre)	270.3	327.2	346.0	403.9
3.	Non Tax Revenue	77.2	76.3	77.4	82.6
4.	Capital Receipts (5+6+7)\$	158.7	160.5	158.3	194.1
5.	Recoveries of Loans	10.6	8.0	5.5	1.5
6.	Other Receipts	1.6	3.8	0.5	41.7
7.	Borrowings & Other Liabilities \$	146.4	148.7	152.3	150.9
8.	Total Receipts (1+4)\$	506.1	564.0	581.6	680.5
9.	Non-Plan Expenditure	365.5	391.3	408.9	475.4
10.	On Rev. Account, of which	327.9	344.4	362.2	383.5
11.	Interest Payments	132.6	139.8	146.2	159.0
12.	On Capital Account	37.6	46.8	46.7	91.9*
13.	Plan Expenditure	140.6	172.7	172.7	205.1
14.	On Revenue Account	111.9	143.8	144.6	174.4
15.	On Capital Account	28.8	29.0	28.1	30.7
16.	Total Expenditure (9+13)	506.1	564.0	581.6	680.5
17.	Revenue Expenditure (10+14)	439.8	488.2	506.8	557.9
18.	Capital Expenditure (12+15)	66.4	75.8	74.9	122.6*
19.	Revenue Deficit (17-1)	92.3	84.7	83.4	71.5
	As % of GDP	(2.6)	(2.1)	(2.0)	(1.5)
20.	Fiscal Deficit {16-(1+5+6)}	146.4	148.7	152.3	150.9
	As % of GDP	(4.1)	(3.8)	(3.7)	(3.3)
21.	Primary Deficit (20+11)	13.8	8.9	6.1	(-)8.0
	As % of GDP	(0.4)	(0.2)	(0.1)	-(0.2)

Based on provisional Actuals for '05-06

*Includes an amount of Rs.40,000 crore on account of transactions relating to transfer of RBI's stake in SBI to the Government \$ Does not include receipts in respect of Market Stabilisation Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.

[^] BE : Budget Estimate; RE : Revised Estimate

Tax-to-GDP Ratio : The Finance Minister has rightly stated that the year 2007-08 will mark the beginning of the Eleventh Plan. The declared objective is "Faster and More Inclusive Growth". In his Budget speech the Minister exuded the confidence that on the even of the Plan the Indian Economy is in a stronger position than ever before.

In the Budget, the tax-to-GDP ratio is estimated to increase to 12% in 2007-08, as calculated from the nominal (current price) GDP growth of 11.5% from 11.4% (revised estimate) tax-to-GDP ratio achieved in 2006-07 and the abysmally low ratio 9.2% in 2003-04. This reflects a marked improvement.

B. Budget Proposals :

I. Agriculture

- Farm credit target of Rs.2,25,000 crore
- Outlay for irrigation up by 54%
- NABARD to issue Rs.5,000 crore rural bonds
- Rural Infrastructure Development Fund (RIDF) which sanctions and disburses funds to State Government out of corpus of Rs.10,000 crore is planned to be increased to Rs.12,000 crore in 2007-08.

II. Direct Taxes

- No change in tax rates
- Basic exemption limit raised to Rs.1,10,000
- Income tax exemption limit hiked by Rs.10,000. New limit for women tax-payers Rs.1,45,000 and for senior citizens Rs.1,95,000.
- Medical insurance premium increased to Rs.15,000; for senior citizens the limit hiked to Rs.20,000.
- Education cess increased from 2% to 3%.
- Income of software exporters under MAT
- Banking Cash Transactions Tax (BCCT) limit raised to Rs.50,000 for individuals and HUF from Rs.25,000.
- Sale of works of art subject to capital gains
- Corporate income tax remains unchanged. Surcharge removed on income tax on all firms and companies with taxable income of Rs.1 crore or less.
- Minimum Alternate Tax (MAT) extended to IT companies and companies under Section 10A & 10B.
- Tax holiday for undertakings in Jammu & Kashmir extended upto March 31, 2012.
- Rate of dividend distribution tax raised from 12.5 per cent to 15 per cent on dividends distributed by companies, and 25 per cent on dividends paid by money market mutual funds and liquid mutual funds.
- Banking Cash Transactions Tax (BCCT) exemption limit for individuals and HUFs increased from Rs.25,000 to Rs.50,000.
- Additional cess of 1 per cent levied on all taxes to fund secondary and higher education.
- Employees' stock option plan (ESOP) brought under the Fringe Benefit Tax (FBT).

III. Indirect Taxes

a) Customs Duties

- Peak rate of customs duty for non-agricultural products slashed from 12.5 per cent to 10 per cent to align with East Asian rates
- Full duty exemption to coking coal irrespective of ash content.
- Duty on most chemicals and plastics reduced from 12.5 per cent to 7.5 per cent.
- Duty on seconds and defectives of steel cut down to 10 per cent from 20 per cent
- Duty on polyester fibres and yarns slashed from 10 per cent to 7.5 per cent

- Duty on their raw materials like DMT, PTA and MEG to also go down from 10 per cent to 7.5 per cent
- Export duty imposed on iron and chromium ores
- Coking coal, dredgers exempt from import duty
- Duty on cut and polished diamonds to attract 3 per cent duty instead of 5 per cent. Duty on rough and synthetic stones brought down to 5 per cent from 12.5 per cent.
- Dredgers exempted from import duty.
- Drip irrigation and sprinkler irrigation equipment to carry 5 per cent duty, instead of 7 per cent.
- Duty on food processing machinery down from 7.5 per cent to 5 per cent.
- General rate of import duty on medical equipment brought down to 7.5 per cent
- Crude and refined edible oils exempted from additional countervailing duty of 4 per cent.
- Duty on crude and refined sunflower oil cut down by 15 percentage points.
- Concessional rate of 5 per cent duty applicable to public funded research institutions extended to all research institutions registered with the Directorate of Scientific and industrial Research.
- Duty on 15 specific machinery used by the pharmaceutical and biotechnology sector slashed from 15 per cent to 7.5 per cent.
- Private importers of aircraft and helicopters, earlier exempted from import duty, to pay 3 per cent duty compatible with the WTO bound rate. These imports to attract countervailing duty and additional customs duty as well.
- Export duty of Rs.300 per tonne levied on iron ores and concentrates and Rs.2000 per tonne on chrome ores and concentrates.

b) Excise duties

- No change in CENVAT rates.
- Ad Valorem component of excise duty on petrol and diesel slashed from 8 per cent to 6 per cent.
- Excise Duty exemption limit for small scale industry hiked from Rs.1 crore to Rs.1.5 crore.
- Cement sold at less than Rs.190 per bag to attract excise of Rs.350 a tonne, instead of Rs.400 earlier; higher priced cement to attract excise at Rs.600 a tonne
- Full excise exemption for biscuits costing less than Rs.50 a kg.
- Full excise exemption for all kind of food mixes, including instant mixes.
- Parts of footwear to carry 8 per cent excise, against earlier 18 per cent.
- Excise on plywood cut down to 8 per cent from 16 per cent.
- Biodiesel exempted from excise duty.
- Water purification devices operating on specified membrane based technologies as well as domestic water filters not using power, fully exempt from excise.
- No excise on pipes for carrying water from a supply source to storage facility. All pipes of less than 200 mm diameter used in water supply also exempted from excise.
- Cement sold at less than Rs.190 per bag to attract excise of Rs.350 a tonne, instead of Rs.400 earlier; higher priced cement to carry Rs.600 a tonne excise duty.
- Excise on cigarettes raised by 5 per cent.
- Duty (excluding cess) on biris raised from Rs.7 to Rs.11 per thousand for non-machine made from biris and from Rs.17 to Rs.24 for machine made biris.

- Pan masala not containing tobacco to carry lower excise duty on 45 per cent, against on 66 per cent earlier. Exemption to pan masala containing tobacco and other tobacco products in the North-eastern states withdrawn.

IV Service Tax

- Service Tax exemption limit for small service providers raised from Rs.4 lakh to Rs.8 lakh. Consequently, 2 lakh small service providers to be out of the services tax net.
- Service Tax extended to services outsourced for mining of mineral, oil or gas and commercial rentals, but, residential properties, vacant land used for agriculture and similar purposes, land for sports, entertainment and parking purposes, and immovable property for educational or religious purposes to be excluded.
- Development and supply of content for use in telecom and advertising purposes, asset management services provided by individuals and design services brought under the Service Tax.
- Services provided by resident welfare associations exempted from tax.
- Services provided by technology business incubators with annual turnover not more than Rs.50 lakh exempted from tax for first three years.
- A DoT committee to study the current structure of levies on revenues in the telecommunications industry.

V. Capital Market

- No change in STT and capital gains tax rates.
- Dividend distribution tax increased to 15% from 12.5%.
- PAN to be universal ID.
- Institutions allowed to short-sell/borrow stocks.
- ESOPs to suffer Fringe Benefit Tax.
- MFs to launch dedicated infrastructure funds.

VI. Government Finances

- Fiscal deficit down to 3.3% from 3.7% of GDP.
- Revenue deficit down to 1.5% from 2% of GDP.
- Tax revenues up 17% versus 26% in 2006-07.
- Interest payments to be higher by 9%.
- Plan expenditure up 19% to Rs.2,05,100 crore.
- Non-plan expenditure up 16% to Rs.4,75,420 crore.

VII. Other Proposals

- More for Bharat Nirman, mid-day meal scheme
- Means-cum-Merit Scholarship introduced.
- Rural Employment Guarantee Scheme expanded.
- Enhanced allocation for SC/ST welfare schemes.
- Five year income tax holiday for new hotels (2,3 & 4 Star) and convention centres with seating capacity of over 3,000 that become operational by March 31, 2010, in the NCR.

C. Overall

Firstly, the thrust of the Budget has been on the agriculture sector in allocating more resources. It will spur the rural demand for both personal and commercial vehicles, tractors, and two wheelers among the small farmers.

Secondly, so far as cement is concerned, the Finance Minister has hinted that the retail price of cement should not exceed Rs.190 per bag of 50 kg to avail of lower excise duty. By this policy cement companies will have huge dent on their revenues. However, if the cost goes beyond Rs.190 per bag higher excise duty will be levied. In view of the increased aggregate demand for cement due to large scale infrastructure projects, the measure is likely to be hardly effective in controlling cement prices. Further, increase in the Dividend Distribution Tax (DDT) from 12.5% to 15% would tend to reduce the present high margins enjoyed by the cement companies. In result, the cement prices are unlikely to fall as envisaged in the Budget.

Thirdly, the textile sector has been a major beneficiary of the Budget. The sector not only received an extension of Technology Upgradation Fund (TUF) scheme but was also bestowed with duty cuts on key inputs. The extension along with an increase in allotment from Rs.535 crore in the previous year to Rs.911 crore under TUF is expected to help the industry to achieve the target. The TUF scheme was extended till FY 2012.

On the duties front, excise duty on polyester yarn and fibres has been left unchanged against the expectation of the sector to reduce it by four percentage points to align it with the duty of 4% on cotton yarn and fibre. However, custom duty on polyester fibres and yarns has been reduced from 10% to 7.5%. This is considered essential in order to sustain the current spurt in textile investment. According to industry estimates, \$32 billion of investment is required to achieve the target of \$50 billion in exports by 2010. Provision under Integrated Textiles Parks Scheme has been increased from Rs.241 crore to Rs.321 crore. This is expected to benefit small and medium enterprises which can build and share common infrastructure. The government has increased allocation for handlooms from Rs.241 crore to Rs.321 crore. The number of clusters under these will also be increased by 100-150.

Fourthly, Debt Management Office : World over, debt management is distinct from monetary management. The establishment of a Debt Management Office (DMO) in the Government has been advocated for quite some time. The fiscal consolidation achieved so far has encouraged us to take the first step. The budget is proposed to set up an autonomous DMO and, in the first phase, a Middle Office will be set up to facilitate the transition to a full-fledged DMO.

Fifthly, Fringe Benefit Tax (FBT) : Employees' Stock Option Plan (ESOP) which is provided by several companies particularly, in the IT sector is used to prevent talent from hopping has now been brought under Fringe Benefit Tax (FBT). The Budget has further stated that the value of fringe benefit will be determined in accordance with a prescribed method, on the date of exercise of the option. Particularly the IT Companies which have enjoyed full freedom during the recent growth are opposed to the introduction of ESOP and some of the companies are taking advantage of providing ESOP to their employee before the end of March 31, 2007 to beat the tax provisions of the Budget which will be effective from April 1, 2007.

Finally, **Inflation** has been a major concern for the economic policy makers. Some monetary measures have already been taken by the Reserve Bank of India to control spiraling inflation which according to the Reserve Bank was 6% during 2006-07 (upto January 13th) as compared to 4.2% in the corresponding period of 2005-06 and 4.1% in the financial Year 2005-06.

To further curb inflation the Budget has rightly reduced the custom duty on edible oil and sunflower oil but this will have a lagged effect on prices. The Budget has also taken measures to stop forward trading in **wheat** and **rice** on the top of reducing excise duties on petrol and diesel from 8% - 6%. The exact impact of these measures in controlling inflation for the benefit of what is now called as 'Aam Admi' is not clear.

Other Markets

Debt Market

During January 2007, the biggest issue of Rs.500 crore was from the Rural Electrification Corporation Ltd. Other notable issuers were as follows :

	Name of the Issuer	Rate %	Duration	Rating	Amount Rs. Crore	Type of Instrument
i)	Rural Electrification Corporation Ltd	8.85	10 years	AAA.	500a	Bonds
ii)	LIC Housing Finance Ltd.	9.10	10 years	AAA	265	Bonds
iii)	Punjab State Industrial Development Corpn. Ltd.	9.32	10 years	n.a.	30	Bonds
iv)	Transmission Corporation of Andhra Pradesh Ltd.	8.59 8.69	10 years c 15 years d	A	200e	Bonds
v)	Yes Bank Ltd.	9.60	15 years	A+	75f	Bonds
vi)	Sundaram Finance Ltd	9.60	5 years	AA+	100b	Non-convertible debentures

<i>a With a greenshoe option of Rs.500 crore</i>	<i>d With a put/call option in the 12th year.</i>
<i>b With a greenshoe option of Rs.60 crore</i>	<i>e With a greenshoe option of Rs.100 crore</i>
<i>c With a put and call option in the 7th year.</i>	<i>f With a greenshoe option of Rs.75 crore</i>

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

Call Money Market

The call money market rate on February 09, 2007 in respect of borrowings ranged between 5.75% and 8.50% as compared to the rates of 5.25% - 7.50% on February 10, 2006 (i.e. a year ago) reflecting that there was a hardening of the interest rate during the year. The average daily turnover in the call money market was Rs.11,783 crore for the week ending February 09, 2007 and this daily turnover nominally rose to Rs.11,953 crore in the week ending February 16, 2007.

Foreign Exchange Market

The exchange rate (RBI reference rate) on February 15, 2007 was Rs.44.09 per US dollar as compared to Rs.44.175 per US dollar on February 12, 2007, that is, a week ago; this reflected slight appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 3.67% on February 15, 2007 as compared to a premium of 3.00% on February 12, 2007 (a week ago), and this reflects that supply of dollars is likely to remain tight in the forthcoming weeks. The foreign currency asset were US \$ 181.92 billion on February 16, 2007, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 188.91 billion. From end-March 2006, the foreign exchange reserves registered a rise of US\$ 37.29 billion. The market rate (buying) was Rs.44.29 per US dollar on February 28, 2007.

Important Policy Pronouncements

- (a) On December 8, 2006 RBI increased cash reserve ratio (CRR) by 50 basis points to 5.5% which sought to absorb around Rs.13,500 crore of bank deposits. On January 31, 2007, the RBI in its Third Quarter Review of the Annual Monetary Policy for the year 2006-07 increased the repo rate by 25 basis points to 7.5% (the rate at which banks borrow from RBI against gilts).

Now with rising inflationary pressures and in controlling inflationary expectations, RBI on February 13, 2007 decided to increase cash reserve ratio (CRR) of scheduled commercial banks (SCBs), regional rural banks (RRBs), scheduled co-operative banks and scheduled primary (urban) co-operative banks by one-half of one percentage point of their net demand and time liabilities (NDTL). The increase in CRR by 50 basis points to 6.00% would be effected in two stages as follows :

Effective Date (i.e., the fortnight beginning from)	CRR on net demand and time liabilities (per cent)
February 17, 2007	5.75
March 3, 2007	6.00

As a result of this increase an amount of Rs.14000 crore of resources of the banks would be absorbed. The major impact of this measure would be that lending rates all around would increase and the commercial banks in order to raise the resources would be obliged to increase the deposit rates. This increase of both lending and deposit rates would help not only taming inflationary expectations but also in providing long overdue correction to the stock market and therefore one could expect a period of correction in an environment of bullish sentiments.

(b) On February 26, 2007, Railway Minister Lalu Prasad Yadav, presented the fourth Railway Budget 2007-08 :

i) Passenger Fares :

- No increase in Passenger fares
- Discounts in busy season (April 16-July 14 & September 16- January 14) and lean season (January 15-April 15 and July 15-September 15)
- Lean season AC III tier / chair car fares cut 8 per cent.
- Peak season AC III tier / chair car fares cut by 4 per cent.
- Lean season AC first class fares cut 6 per cent, peak season cut 3 per cent.
- Lean season AC II tier fares cut 4 per cent.
- Peak season AC II tier fares cut 2 per cent.

ii) Safety and Convenience

- Metal detectors to detect bombs in sensitive divisions.
- CCTVs, smart video cameras for sensitive stations.
- Women, senior citizens to get lower berths.
- E-tickets in petrol pumps, ATMs.
- Number of berths to be increased from 72 to 84 in sleeper coaches.
- Railway inquiry number 139 across country.
- Smart rail travel cards to be introduced.

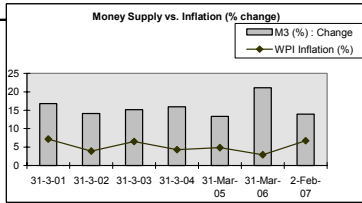
iii) New Trains : Eight new Garib Raths and 32 pairs of new trains

The Garib Raths are :

- Secunderabad-Yesvantpur
- Jaipur-Bandra via Ahmedabad
- Kolkata-Patna
- Bhubaneswar-Ranchi
- Thiruvananthapuram-Mumbai
- Kolkata-Guwahati
- New Delhi-Dehradun
- Raipur-Lucknow Junction

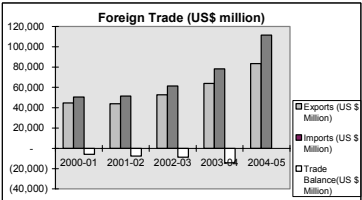
(c) Important Financials

- Rs.20,000 crore – Cash surplus expected before dividend
- Rs.46,943 crore – Freight earnings
- Rs.20,075 crore – Passenger earnings
- The annual plan for 2007-08 has been fixed at Rs.31,000 crore, largest ever so far.
- No rise in freight
- 5 per cent cut in freight rates for diesel, petrol
- 6 per cent reduction in iron ore, limestone



	31-3-01	31-3-02	31-3-03	31-3-04	31-Mar-05	31-Mar-06	2-Feb-07
M3 (Rs. Crore)	13,13,220	14,98,355	17,25,222	20,03,102	22,53,938	27,29,535	3,109,939
M3 (%) : Change	16.82	14.1	15.14	15.95	13.30	21.10	13.94
WPI (Index) All Commodities#	155.7	161.8	172.30	180.30	189	196.0*	209.2*
WPI Inflation (%)	7.16	3.92	6.49	4.29	4.83	2.91	6.73

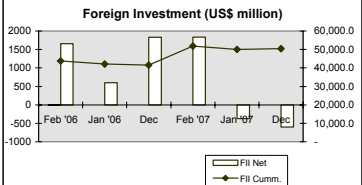
Source: RBI Bulletin February 2007; WSS: February 23, 2007 #1993-94+100/year/month-end; *February 04,2006 *February 03, 2007



During the Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	April 06-Jan 2007
Exports (US \$ Million)	44,560	43,827	52,719	63,843	83,536	103,091	98,137
Imports (US \$ Million)	50,537	51,413	61,412	78,148	111,517	149,166	149,726
Trade Balance (US \$ Million)	(5,977)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(50,589)

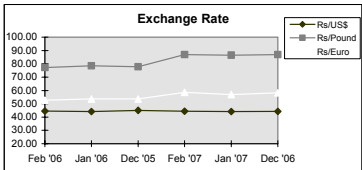
Source: RBI Bulletin, January 2007; Revised figures for 2000-01 to 2005-06 (April-March)

*DGCI&S data for April 2006 to January 2007 (Provisional)



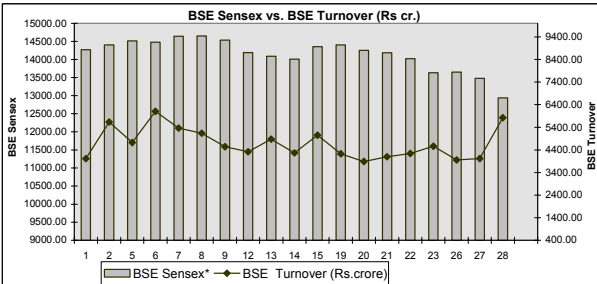
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	Feb '06	Jan '06	Dec '05	Feb '07	Jan '07	Dec '06
FI Net	1,659.5	603.4	1,831.0	1,833.8	(369.7)	(599.2)
FI Cum.	43,808.5	42,148.9	41,545.7	51884.2	50,050.9	50,420.6

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



	2005-06			2006-07		
	Feb '06	Jan '06	Dec '05	Feb '07	Jan '07	Dec '06
Rs/US\$	44.43	44.13	45.07	44.31	44.13	44.23
Rs/Pound	77.31	78.52	77.89	86.96	86.46	86.91
Rs/Euro	52.63	53.63	53.55	58.58	56.99	58.26

Figures are for month-end



Feb 2007	BSE Sensex* Close	BSE Turnover (Rs.crore)
Jan 31,2007	14090.92	5276.00
1	14267.18	4012.00
2	14403.77	5632.00
5	14515.90	4722.00
6	14478.19	6103.00
7	14643.13	5362.00
8	14652.09	5137.00
9	14538.90	4543.00
12	14190.70	4318.00
13	14090.98	4876.00
14	14009.90	4267.00
15	14355.55	5050.00
19	14402.90	4229.00
20	14253.38	3886.00
21	14188.49	4099.00
22	14021.31	4243.00
23	13632.53	4563.00
26	13649.52	3957.00
27	13478.83	4020.00
28	12938.09	5826.00



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 14.02.07	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 14.02.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6				10	11	
Euro-11	3.82	na	1.90	2.40	0.76	0.84	-1.50	1.92	1.00	-15.7	-31.4	-0.1
			Jan									
			Nov									
U. S. A.	5.17	4.74	2.50	3.40	1.00	1.00	-2.20	2.67	1.32	-836.1	-880.30	-6.1
			Dec									
			Q3									
Britain	5.52	4.94	2.70	1.90	0.51	0.57	-2.70	2.82	0.67	-155.3	-69.70	-2.8
			Jan									
			Dec									
Japan	0.40	1.72	0.30	-0.40	121.00	117.00	-4.80	0.10	159.21	79.6	170.40	3.8
			Dec									
			Nov									
Sweden	3.22	3.92	1.90	0.60	6.96	7.84	2.90	1.32	9.16	20.7	26.20	6.3
			Jan									
			Dec									
Switzerland	2.21	2.59	0.10	1.30	1.24	1.31	1.20	2.11	1.63	9.4	105.90	14.0
			Jan									
			Dec									
India	7.50	8.23	6.90	5.60	44.10	44.20	-4.30	0.60	58.03	-51.7	-13.70	-2.7
			Dec									
			Q3									

Source: The Economist London: February 17th-23rd 2007

Figures in Column 9 are derived.

Annexure 2 : Important Economic Indicators for Select Emerging Market Countries

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (*) / (-) % of GDP 2007	Real Rate (Short-term) (1-3)	Currency unit per Euro 14.02.07	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 14.02.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6				10	11	
China	2.90	3.13	2.2	1.9	7.76	8.05	-1.6	0.70	10.21	183.5	160.8	7.0
			Jan									
			Jan									
Hongkong	4.27	4.29	2.3	1.3	7.81	7.76	1.0	1.97	10.28	-17.9	19.2	9.8
			Dec									
			Q3									
Indonesia	9.08	6.29	6.3	17.0	9068	9225	-0.9	2.78	11931.58	39.8	7.0	1.2
			Jan									
			Dec									
Malaysia	3.68	5.33	3.1	3.5	3.50	3.72	-4.3	0.58	4.61	29.5	22.2	11.3
			Dec									
			Q3									
Singapore	3.38	3.22	0.8	1.3	1.54	1.63	0.3	2.58	2.03	33.1	39.0	24.5
			Dec									
			Q3									
South Korea	4.95	4.94	1.7	2.2	938	974	0.4	3.25	1234.21	16.4	6.1	0.1
			Jan									
			Dec									
Taiwan	1.82	2.06	0.4	2.7	33.00	32.4	-2.2	1.42	43.42	10.9	26.3	5.6
			Jan									
			Q3									
Thailand	5.00	4.69	3.0	5.9	33.3	39.3	-1.2	2.00	43.82	2.2	3.2	1.3
			Jan									
			Dec									
Brazil	12.93	6.16	3.0	5.7	2.10	2.13	-2.2	9.93	2.76	45.8	13.5	0.7
			Jan									
			Dec									
Venezuela	10.06	6.55	13.4	13.1	3918	2676	-3.1	-3.34	5155.26	36.8	29.7	10.1
			Jan									
			Q3									
India	7.50	8.23	6.90	5.6	44.1	44.2	-4.3	0.60	58.03	-51.7	-13.7	-2.7
			Dec									
			Q3									

Source: The Economist London: February 17th-23rd 2007

The Research Group : Prof. Poonam Kumar & Dr. D.K. Bhatia
For research queries contact –
Mega Ace Consultancy [India] Private Limited,
B-68, Mittal Tower, Nariman Point, Mumbai 400 021
Tel : +91-22-2281 2298
Fax: +91-22-2281 2305
Url: www.mega-ace.com
March 06th 2007