



Update on Indian Economy

November 2006

Economic Snapshot

Contents	Item	Units	October	September	October	(% Change	
			2006	2006	2005	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	207.9	206.6	197.7	0.63	5.2
- Capital Market	WPI -Inflation**	Per cent	5.2	4.6	4.6	-	-
- Country :South Korea		Week ended	07.10.06	09.09.06	08.10.05		
- Other Markets	IIP (93-94=100)	2 months lag	233.5	233.9	212.5	-0.17	9.88
- Important Policy Pronouncements			(Aug.06)	(July 06)	(Aug 05)		
	INR / US\$	Month End	45.02	45.96	45.11	-2.05	-0.20
	M3	Rs. '000 Cr.	2943.43	2896.32	2482.95	1.63	18.55
	[i] Agg. Deposits	Rs. '000 Cr.	2499.33	2457.89	2105.24	1.69	18.72
	[ii] Currency	Rs. '000 Cr.	444.10	438.43	377.71	1.29	17.58
		(Outstanding as on)	13.10.06	15.09.06	14/10/05		
	Call Money	% Range	5.25-6.95	5.25-6.50	2.00-5.65	-	-
	(Lendings)	Week ended	13.10.06	15.09.06	14/10/05		

Source: RBI Weekly Statistical Supplement Oct 27, 2006/Oct 28, 2005 & Economic & Political Weekly October 21, 2006, *All Commodities. **Over the year.

Editorial

A) Domestic

On the back of the strong economic growth supported by broad based manufacturing, the Planning Commission approved on October 18th, 2006 the Approach Paper of the Eleventh Five-Year Plan (2007-12).

- The Prime Minister, Dr Manmohan Singh, reiterated rooting for a growth rate of 10 per cent in the final years of the Plan in order to be in "the front ranks of fast growing developing countries".
- Further the Prime Minister indicated that by ensuring inclusive growth, the Eleventh Plan would set "our economy on a growth path, which would finally liberate millions of our countrymen from the perennial scourges of poverty, ignorance and disease".
- Elaborating his vision of India, Dr Singh said "agriculture must be one of the central elements of the planning efforts in the 11th Plan" and emphasised the need for a mission on vocational education and skill development to ensure greater employment.
- He drew attention to socio-economic priorities that must have the first charge on resources: agriculture, irrigation, water resources, health, education, critical investment in rural infrastructure and the essential public investment needs of general infrastructure.

Finally certain targets were fixed which were :

- **Reduction of** poverty ratio by 5 percentage points by 2007 and by 15 percentage point by 2012.
- **Providing gainful** and high quality employment at least to addition to the labour force over the Tenth Plan period.
- **All children** in school by 2003, all children to complete 5 years of schooling by 2007.
- **Reduction in** the decadal rate of population growth between 2001 and 2011 to 16.2 per cent.
- **Increase in** literacy rates to 75 per cent within the Plan period. All villages to have sustained access to potable drinking water within the Plan period.

It was indicated by the Deputy Chairman, Planning Commission, Mr. Montek Singh Ahluwalia that the Approach Paper would be processed for consideration by the National Development Council probably by December 2006. He said that the Approach Paper estimates that the gross budgetary support for the Plan (Centre and States combined) would have to increase by 2.5 percentage points of GDP above the Tenth Plan period, and this could be achieved within the constraints of fiscal prudence through higher tax collections and rationalisation of non-Plan expenditure.

B) International

The World Economic Outlook (WEO) released in September 2006 Annual Meeting of the IMF held in Singapore forecast a strong global growth of 5.1% in 2006, and then slowing slightly to 4.9% in 2007, but both these numbers are higher than forecast made in April 2006. The information technology revolution and increased global competition promoted productivity growth in the past, but now the political support is fading in many economies in the face of popular discontents and by rising inequality is likely to slow down growth. In addition, “the collapse of the Doha Round, the rising tide of economic nationalism coming in the way of cross-border mergers, and the strengthening of resistance to immigration” has led to short-term risks – which are to some degree related to projected growth of the global economy : Some of the factors are :

- A sharper than projected slowdown in the United States, driven by a cooling of the housing sector, coupled with uncertainty about the extent to which growth in the rest of the world relies on US growth;
- A further increase in global inflationary pressures, stemming from tightening labor and commodities markets, which could induce central banks to tighten more than now envisaged, disrupting currently benign conditions in financial markets; and
- Overall growth in emerging markets has remained very strong, with good short-term prospects.
- Emerging Asia was once again the world’s most dynamic region in the first half of 2006, driven by buoyant China and India (see table).

Economic Growth Rate : World & Various Economies

	(annual percent change)				(annual percent change)		
	Projections				Projections		
	2005	2006	2007		2005	2006	2007
I. World Growth	4.9	5.1	4.9	IV Other economies			
II Developed Economies				Africa	5.4	5.4	5.9
United States	3.2	3.4	2.9	Central & Eastern Europe	5.4	5.3	5.0
Euro	1.3	2.4	2.0	Commonwealth of Independent States	6.5	6.8	6.5
Japan	2.6	2.7	2.1	V Developing Asia	9.0	8.7	8.6
United Kingdom	1.9	2.7	2.7	China	10.2	10.0	10.0
Canada	2.9	3.1	3.0	India	8.5	8.3	7.3
III Other advanced economies	3.7	4.1	3.7	VI Middle East	5.7	5.8	5.4
				VII Western Hemisphere	4.3	4.8	4.2

Source : IMF Survey October 2, 2006

- China's economy continues to rely heavily on fixed asset investment, however, and excess liquidity is exacerbating the problem. China is fast becoming a market economy. It has counseled for some time that the best means of managing a market economy is to rely more on market incentives by moving all prices, including the exchange rate and interest rates, progressively to market levels. This may cause a short-term pain, but it is ultimately the only way to go, and it is best to take such steps when growth is strong.
- In India, expansion is led more by domestic demand. The authorities should be commended for seeking to spread the benefits of growth, but that job is better done by expanding opportunity through improvements in education, health care, finance, and infrastructure than by offering often-misdirected subsidies, guarantees, and tax sops that a stretched budget can ill afford.

Capital Market Review

The BSE Sensex which closed at 12,454.42 on September 29 rose to 13,024.26 as on October 30 but declined to 12,961.90 on October 31, 2006; the index went beyond 13000 mark on October 30. The index was 3001 on May 6, 2003 and in a period of 3½ years it rose to more than four times but this was at the back of large inflow of funds by Financial Institutional Investors (FIIs) though domestic retail participation continued to be low. There were several reasons for the bullish trend in the month's and these were due to the leading manufacturers recording excellent half-yearly results and the sectors which contributed to these good results were telecom, banking, refinery and pharma. According to the data available the investments by FIIs during the month of October 2006 alone amounted to US\$ 1.88 billion.

While this may indicate a strong bullish perspective in future it is also a sign of large speculative element playing significant role in the market. Though commodity and the capital markets are legally separate, but in the present environment these are well

integrated and that funds being fungible it is quite likely that the bull run in October 2006 could in part be due to strong speculative elements with funds moving from one market to another.

SEBI as a regulator has taken the right initiative to dampen the speculation by mandating a 12 month lock-in period on venture funds who were planning to make huge speculative profits through pre-IPO purchases. In the near future the market could expect a correction. The Companies which gained prominently were Cement stocks such as **ACC, Gujarat Ambuja, Madras Cement, India Cement** and **Saurashtra Cement** followed by oil and gas stocks which showed increases on the back of the decline in international crude prices. These stocks were **BPCL, HPCL** and **IOC**.

	October	September	October	September	(%) Change		
	2006	2006	2005	2005	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	12961.9 (31.10.06)	12454.42 (29.09.06)	7798.49	8634.48	4.07	66.21	44.24
Monthly High	13,024.26 (30.10.06)	12454.42 (29.09.06)	8724.47	8650.17	4.58	49.28	43.98
Monthly Low	12,204.01 (04.10.06)	11550.69 (11.09.06)	7798.49	7876.15	5.66	56.49	46.65
S&P CNX Nifty –Close	3744.1	3588.40	2352.90	2605.40	4.34	59.13	37.73
P/E Ratio : BSE – 30	21.25	21.34	15.35	17.80	(0.42)	38.44	19.89
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	39573.9	34056.7	22514.3	26651.60	16.20	75.77	27.78
Outflows – Rs. Cr.	30903.9	27922.80	25788.6	22193.70	10.68	19.84	25.81
Net – Rs. Cr.	8669.6	6133.4	(3274.4)	4457.90	41.35	(364.77)	37.58
Cum. Net Inv–US\$ Mn. (Month End)	48806.8	46928.5	39602.6	40348.10	4.00	23.24	16.31

Three unlisted public sector banks, viz, **Central Bank, United Bank of India** and **Indian Bank** are expected to make Initial Public Offers (IPOs) early next year. This will also see the dilution of the Government’s stake in these banks by 8-10%. The Government’s current holding in these banks is 100 per cent.

Country - South Korea

Introduction :

After World War II, a Republic of Korea (ROK) was set up in the southern half of the Korean Peninsula while a Communist-style government was installed in the north (the DPRK) during the Korean War (1950-53). An armistice was signed in 1953, splitting the peninsula along a demilitarized zone at about the 38th parallel. The country achieved independence from Japan on 15th August 1945. In June 2000, a historic first North-South summit took place between the South's President KIM Dae-jung and the North's leader KIM Jong Il. South Korea has a population of 49 million of which 18.9% is young in the age group of 0-14 years, 71.9% working in the age of 15-64 years and the remaining 9.2% are seniors 65 years and above. Therefore, the country has a relatively low dependency ratio, and a significantly large proportion of population is working. Life expectancy of the population at birth is 77 years, and bulk of the population is homogeneous with a small minority with nearly 26% each belonging to Christian and Buddhist faith.

II. Economy :

Since the early 1960s, South Korea has achieved an incredible record of growth and integration into the high-tech modern world economy. Four decades ago, its per capita GDP was comparable with levels in the poorer countries of Africa and Asia. In 2004, South Korea joined the trillion dollar club of world economies. Today its GDP per capita is equal to the lesser economies of the EU. This success, through the late 1980s was achieved by a system of close government/business ties, including directed credit, import restrictions, sponsorship of specific industries, and a strong labor effort. The government promoted the import of raw materials and technology at the expense of consumer goods and encouraged savings and investment over consumption. The Asian financial crisis of 1997-99 exposed longstanding weaknesses in South Korea's development model, including high debt/equity ratios, massive foreign borrowing, and an undisciplined financial sector. GDP plunged by 6.9% in 1998, then recovered 9.5% in 1999 and 8.5% in 2000. Growth fell back to 3.3% in 2001 because of the slowing global economy, falling exports, and the perception that much-needed corporate and financial reforms had stalled. Led by consumer spending and exports, growth in 2002 was an impressive 7%, despite anemic global growth. Between 2003 and 2005, growth moderated to about 4%. A downturn in consumer spending was offset by rapid export growth.

Now its Gross Domestic Product (GDP) at Purchasing Power Parity is US\$ 1101 billion, and per capita GDP works out to US\$ 22,600. Sector composition of GDP is agriculture 3.3%, industry 40.3% and services 56.3%. A large proportion of the labour force of around 24 million is engaged in services and 26.4% in industry and 6.4% in agriculture. South Korea achieved rapid economic growth with per capita income rising to roughly 14 times the level of North Korea. South Korea today is a fully functioning modern democracy.

III South Korean Trade

South Korean exports in 2005 are estimated at US\$ 288 billion with commodities such as in electronics, telecommunications, wireless, telecommunication, semi conductor, motor vehicles, computer, steel, shipbuilding and petro chemicals, etc and its export partners are China 21.8%, US 14.6%, Japan 8.5%, Hong Kong 5.5% (2005).

Imports by South Korea is US\$ 256 billion and the commodities that are imported are machinery, electronics and electronic equipment, oil, steel, transport equipment, organic chemicals, plastics and its partners in imports are Japan 18.5%, China 14.8%, US 11.8%, Saudi Arabia 6.2% (2005).

South Korean trade with India has been growing in recent years. Indian exports to South Korea which were US\$ 477 million in 1999-00 rose to US\$ 765 million in 2004-05, and then jumped to US\$ 1,042 million in 2004-05 and then sharply rose by about 75 per cent to US\$ 1,819 million in 2005-06, However, Indian imports from South Korea rose even more rapidly than exports .

In 1999-00, Indian imports from South Korea were US\$ 1,273 million, and these more than doubled to US\$ 2,829 million in 2003-04. In subsequent years, Indian imports have been expanding by about US\$ 1 billion each year (Table).

Table : India's Trade with South Korea : Exports & Imports**(US\$ Million)**

Year (April- March)	India's Exports		India's Imports		Share (percent) of total Indian		Total Trade with South Korea (1+3)	India's Total Trade (2+4)
	to South Korea (US \$ mn)	Total (US \$ mn)	from South Korea (US \$ mn)	Total (US \$ mn)	Exports to South Korea	Imports from South Korea		
	1	2	3	4	5	6	7	8
1999-00	477	36,822	1,273	49,671	1.30	2.56	1750	86,493
2000-01	451	44,560	894	50,537	1.01	1.77	1345	95,097
2001-02	471	43,827	1,141	51,413	1.07	2.22	1612	95,240
2002-03	645	52,719	1,522	61,412	1.22	2.48	2167	114,131
2003-04	765	63,843	2,829	78,149	1.20	3.62	3594	141,992
2004-05	1,042	83,536	3,509	1,11,517	1.25	3.15	4551	195,053
2005-06	1,819	102,725	4,343	1,42,416	1.77	3.05	6162	245,141

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

IV Technology & Investment : India - South-Korea co-operation

(a) Technical Collaborations

The top five sectors attracting technology from South Korea are transportation industry (48 cases), electrical equipment (including computer software & electronics) (43 cases), chemicals (other than fertilizers) (19 cases), metallurgical industries (13 cases) and industrial machinery (12 cases).

South Korea has been granted 212 technical collaborations (2.82% of the total) since 1991, amounting to 7,529 cases.

The highest number of technical collaboration cases has been in the transportation industry followed by electrical equipment (including computer software & electronics) sector and chemicals (other than fertilizers).

(b) Indian investment in Korea

In February 2004, Tata Motors, Mumbai signed an agreement for acquiring Daewoo Commercial Vehicles, Kunsan (South Korea) at a cost of US\$ 102 million. There is tremendous potential for technical transfers and Korean companies could look at joint ventures as well as sub-contracting arrangements with Indian companies, especially in the small and medium enterprises sector. There are tremendous opportunities for small and medium size Korean companies to synergize with Indian SMEs in the areas of semi-conductors, plastics, auto parts, agricultural instruments, textiles, multi-media, ceramic products, software etc. Korean participation can also be invited in the special economic zones in India.

In addition to the above sectors, studies have also revealed that the two countries could set up joint collaborations in the sectors of infrastructure - power, ports, telecommunications, ship building & ship repair, petrochemicals, automobile ancillary, electrical & electronics, office equipment, banking & financial services, software as well as iron & steel.

V. Economic relations : India – South Korea:

Following a meeting in Seoul between the Presidents of South Korea and APJ Abdul Kalam of India in February 2006 under which a Memorandum of Understanding was signed for starting negotiations, for a Comprehensive Economic Partnership Agreement (CEPA), and which need to be concluded by late 2007. Negotiations are likely to cover protections for foreign investments and regulations on the movement of businesspeople between the two countries. India's existing CEPA with Singapore includes provisions on goods, standards, investment, services, and labour movement.

According to Friday's ministry statement, South Korea and India agreed to seal a Comprehensive Economic Partnership Agreement aimed at promoting bilateral trade including services, investment and economic cooperation, as well as goods.

The Joint Study Group concluded that a CEPA between Korea and India would serve as a plausible institutional framework to this end and provide significant benefits for both countries.

In the light of the above consideration and the principles as set out in the relevant chapters of the Report and also taking into account the long-term economic relationship to be developed between the two countries, the Joint Study Group recommended that the Korea-India CEPA cover, among other things:

- 1) Trade in goods;
- 2) Trade in services;
- 3) Measures for trade facilitations;
- 4) Promotion, facilitation and liberalization of investment flows;
- 5) Measures for promoting bilateral economic cooperation in identified sectors; and
- 6) Other areas to be explored for furthering bilateral partnership.

The report of the JSG was signed by the Co-chairs in Seoul on January 6, 2006. The first meeting of the Joint Task Force between India and Korea was held on 23-24 March, 2006

VI. Overall

According to the recent assessment made by the IMF there is likely to be soft landing with South-Korean GDP growth slowing down from 5% in 2006 to 4.3% estimated in 2007 while inflation will continue to remain low.

Table : Korea - Important Macro-Economic Indicators

	(Percentage growth)					
	2002	2003	2004	2005	Projections	
					2006	2007
I. Real Sector						
1. Real GDP (percent change)	7.0	3.1	4.7	4.0	5.0	4.3
2. Consumption	7.6	-0.3	0.4	3.4	4.5	3.8
3. Gross Fixed investment	6.6	4.0	2.1	2.3	1.8	4.0
II Prices (Percent Change)		9.0	13.9	7.0		11.2
4. Consumer prices (end of period)	3.7	3.4	3.0	2.6	3.0	2.7
5. GDP deflator	2.8	2.7	2.7	-0.4	-1.6	1.7
III Money & Exchange						
6. Overnight call rate	4.3	3.8	3.3	3.7	4.5	-
7. M3 growth	13.6	4.7	7.1	7.4	7.7	-
8. Yield on corporate bonds	5.9	5.6	3.7	5.5	5.1	-
IV Balance of payments						
9. Current account balance (in billions of US dollar)	5.4	11.9	28.2	16.6	3.3	2.9
10. Current account balance (in Percent of GDP)	1.0	2.0	4.1	2.1	0.4	0.3
11 Won per US dollar (period average)	1,252	1,192	1,146	1,024	-	-

Source : IMF staff projections.

This scenario has a risk for the South Korean economy because of the downward tilt in particular the US economy could experience a sharper than expected slow down. This would have major impact on Korean exports because nearly 40% of its GDP comes from exports, and the US is Korea's second largest export market after China. In order to maintain the momentum the South Korean economy may have to seek the export prospects to other markets like India.

Other Markets

Debt Market

The month of October 2006 was the month where equities predominated and the debt issuances took place largely in the month of September 2006 mainly by banks and Financial Institutions. Canara Bank came up with a total issue of Rs.1075 crore and it was the largest issuer during the month. Following this were Allahabad Bank and Dena Banks each of which issued Tier II bonds each of Rs.300 crore. HUDCO and NHBs were major issuers in September 2006, and most of the issues carried an interest rate ranging from 8.10% to 9.95%.

Name of the Issuer	Rate %	Duration	Rating	Amount Rs. Crore	Type of Instrument
Allahabad Bank	8.85%	10 years	AA	300a	Lower Tier II bonds
Canara Bank	8.85%	10 years	AAA	575	Tier II bonds
Canara Bank	9b	15 years c	AAA	500	Upper Tier II Bonds
Dena Bank	9.20d	15 years c	A	300e	Upper Tier II Bonds
Dewan Housing	9.40f [^]	n.a.	AA+	50h	Secured redeemable
Finance Co. Ltd.	9.50g [^]				Non-convertible debentures
GRUH Finance Ltd.	8.15	5 yrs i	AA+	25	Bonds
Housing and Urban Development Corporation L.	8.20	365 days	PR1+	300j	Debentures
Lakshmi Vilas Bank Ltd.	9.95	115 months.	A	30k	Lower Tier II bonds
National Housing Bank	8.10 Zero coupon bond	2 years	AAA	200a	Unsecured debentures
West Bengal Infrastructure Development Finance Corporation Ltd.	8.75f [^] l	n.a.	A(SO)	50n	Debentures
	9g [^] m				
	9.10g [^]				

[^] Payable semi-annually

a Plus a greenshoe option of Rs.300 crore

b Coupon rises to 9.50 percent from 11th year if call option is not exercised

c With call option at end of 10 years

d With a 50 basis points increase after 10th year

e Including a greenshoe option of Rs1.50 crore

f For 7 years

g For 10 years

(Source : Credit Analysis & Research Ltd. October 2006)

h With an option to retain an oversubscription of Rs.25 crore

i With put/call option after one year.

j With a greenshoe option of an additional Rs.200 crore

k Including option to raise oversubscription.

l With a 5 year put/call option.

m With a 7 year put/call option.

n With a greenshoe option for another Rs.500 core

Call Money Market

The call money market rate on October 13, 2006 in respect of borrowings ranged between 5.25% and 6.95% as compared to the rates of 2.00% - 5.65% on October 14, 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.12,682 crore for the week ending October 13, 2006 and this daily turnover rose to Rs.13,952 crore in the week ending October 20, 2006.

Foreign Exchange Market

The exchange rate (RBI reference rate) on October 20, 2006 was Rs.45.31 per US dollar as compared to Rs.45.46 per US dollar on October 16, 2006, that is, a week ago; this reflected an appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 1.61% on October 20, 2006 as compared to a premium of 1.65% on October 16, 2006 (a week ago), and this reflects that supply of dollars is likely to remain comfortable in the forthcoming weeks. The foreign currency asset were US \$ 159.30 billion on October 22, 2006, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 166.15 billion. From end-March 2006, the foreign exchange reserves registered a rise of US\$ 14.53 billion. The market rate (buying) was Rs.45.06 per US dollar on October 31, 2006.

Important Policy Pronouncements

RBI Governor, Dr. Y.V. Reddy presented the Mid-term Review of Annual Policy Statement for the Year 2006-07 on October 31, 2006. The Highlights of the Policy are :

I Macro-economic developments :

- The major sector recorded accelerated growth during April-June 2006 but the growth in the agricultural was the same as the year ago; the key drivers of the economic activity was services sector which contributed about 71% to overall GDP growth followed by industry 22%. The economy thus maintained the growth momentum in the last three years 2003-04, 2004-05 and 2006-07.
- The industrial production continued its expansion in the fifth year and during the first five months of 2006-07, when the index of industrial production (IIP) accelerated to 10.6%, the highest growth recorded in April-August period since 1955 in the corresponding period of 2005 from 8.7%. Not only the industrial production was high but the performance of the manufacturing sector was broad based with 14 out of 17 industry groups registering positive growth. Chemical, machinery, basic metals, transport equipment and cement led the manufacturing growth during 2006-07 so far.
- Infrastructure : Due to slow down in the prices of crude petroleum the growth in petroleum refinery products was relatively high, and according to the used based classification, the index of industrial production (IIP) during the first five months (April-August) rose sharply for capital goods (from 13.8% to 18.6% in 2006) indicating a strong investment demand.

II Half yearly (April-June) Perceptions :

- For the year 2006-07, the GDP growth forecast is at around 8.0 percent.
- Inflation is to be contained within 5.0-5.5 percent for the year 2006-07.
- CPI inflation for industrial workers is placed at 6.3 per cent in August 2006 as against 3.5 per cent a year ago.
- Money Supply Growth (M3) was higher at 19.0 per cent on October 13, 2006 than that of 18.6 per cent (Rs.2,98,229 crore)
- Non-food credit of Rs.3,76,105 crore as on October 13, 2006 rose by 30.5 per cent on top of an increase of Rs.2,97,903 crore (31.8 per cent) a year ago.

- Central Government gross borrowings were at Rs.98,000 crore as compared to Rs.84,000 crore a year ago through dated securities upto October 27, 2006 constituted 63.2 per cent of the Budget Estimates (BE).

III Policy Initiatives : Monetary Measures

(a) Domestic Sector :

- Repo rate under the LAF is increased by 25 basis points from 7.0 per cent to 7.25 per cent with immediate effect.
- The Reserve Bank retains the option to conduct overnight repo or longer term repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.
- Reverse Repo Rate and Bank Rate have been kept unchanged at 6.0 per cent.
- CRR has been kept unchanged at 5.0 per cent.

(b) External Sector :

- Resident individuals would now be free to remit up to US\$ 50,000 per financial year for any current or capital account transaction or a combination of both, as against the earlier limit of US\$ 25,000. The existing facilities for gifts, donations and investment by resident individuals in overseas companies would be subsumed under this revised limit.
- All categories of foreign exchange earners may retain up to 100 per cent of their foreign exchange earnings in their Exchange Earners' Foreign Currency (EEFC) accounts.
- Borrowers eligible for accessing ECBs can avail of an additional US\$ 250 million with average maturity of more than 10 years under the approval route, over and above the existing limit of US\$ 500 million under the automatic route, during a financial year.
- Prepayment of ECB up to US\$ 300 million, as against the earlier limit of US\$ 200 million, will be allowed by authorized dealer banks without prior approval of the Reserve Bank subject to the stipulated minimum average maturity period as applicable to the loan.
- Authorised dealer banks may allow remittances on behalf of their customers up to 15 per cent of the average annual sales / income or turnover during the last two financial years or up to 25 per cent of their net worth, whichever is higher, for initial expenses, and allow remittances up to 10 per cent of the average annual sales / income or turnover during the last two financial years for recurring expenses. They may also permit remittances for acquisition of immovable property for the overseas office, within these limits.
- Large turnkey / project exporters / service exporters with satisfactory track record may operate one foreign currency account with inter-project transferability of funds / machinery in any country, subject to specified reporting requirements.
- Large turnkey / project exporters / service exporters with good track record may deploy their temporary cash surpluses in either short-term bank deposits or AAA-rated short-term paper abroad, subject to monitoring by the authorized dealer banks(s).

- The existing limit of US\$ 2 billion on investments in Government securities by foreign institutional investors (FIIs) will be enhanced in phases to US\$ 2.6 billion by December 31, 2006 and further to US\$ 3.2 billion by March 31, 2007.
- The extant ceiling of overseas investment by mutual funds of US\$ 2 billion is enhanced to US\$ 3 billion.
- It is proposed to permit authorized dealer banks to issue guarantees / letters of credit for import of services up to US\$ 100,000 where the guarantee is intended to secure a direct contractual liability arising out of a contract between a resident and a non-resident.
- It is proposed to eliminate the lock-in period for sale proceeds of the immovable property credited to the NRO account, provided the amount being remitted in any financial year does not exceed US\$ one million.
- Authorised dealer banks may borrow funds from their overseas branches and correspondent banks (including borrowing for export credit, external commercial borrowings (ECBs) and overdrafts from their Head Office / Nostro account) up to a limit of 50 per cent of their unimpaired Tier I capital or US\$ 10 million, whichever is higher, as against the earlier overall limit of 25 per cent (excluding borrowing for export credit). Short-term borrowings up to one year or less should not exceed 20 per cent of unimpaired Tier I capital within the overall limit of 50 per cent.

IV Credit Delivery

- For opening small accounts, banks need to seek only a photograph of the account holder and self-certification of address.
- Banks, with approval of their boards, may formulate a transparent policy for providing One Time settlement (OTS) facility to those farmers whose accounts have been rescheduled / restructured due to natural calamities as also those who have defaulted on account of circumstances beyond their control.

V Prudential Measures

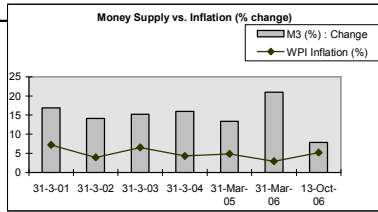
- Foreign banks operating in India and Indian banks having presence outside India are to migrate to the standardized approach for credit risk and the basic indicator approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are encouraged to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009.
- It is proposed to enhance the prudential limit on credit and non-credit facilities to Indian Joint Ventures / Wholly Owned Subsidiaries abroad extended by banks from the existing 10 per cent to 20 per cent of unimpaired capital funds (Tier I and Tier II capital).

VI Institutional Developments

- Banks are urged to harmonise their IT-based initiatives to ensure that the objective of greater financial inclusion is achieved.
- It is proposed to allow financially sound UCBs registered in States that have signed MoU with the Reserve Bank and those registered under the Multi-State Co-operative Societies Act, 2002 to convert existing extension counteresses into full-fledged branches.

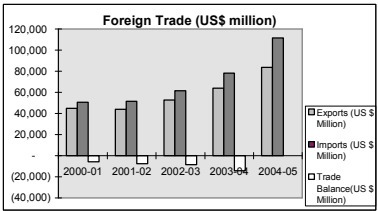
VII Overall

- The Policy Statement has moved further towards liberalisation of the capital account. However, the concern remains about the inflation as also the interest rate. The Reserve bank has focused mainly on the repo rate and fixed the rates for the banks who would approach the RBI to meet their requirements for lending to their customers.
- **First**, in a deregulated environment the interest rate which the banks would charge to their customers are likely to converge to a single rate, and the Reserve Bank as a regulator in the Banking system should have given indication of the interest rates that would emerge from this policy because it is the rate which the borrowers at the market place would have to pay to the banks for loans taken from banks in meeting their requirements. While the rate that is likely to converge because of the deregulated environment, increase in the repo rate now could to eh converged rate which will be higher than the rate that is now charged on the borrowings by the clients.
- **Secondly**, the depositors of the savings bank accounts who are largely small savers and who do not have the maneuverability to get higher returns on their savings will continue to get an interest rate of only 3 ½% on their deposits when the inflation rate is forecast to be at 5.0-5.5%. Perhaps there is a need to increase the interest rate on savings deposits from 3.5% at present to 4% or even higher.



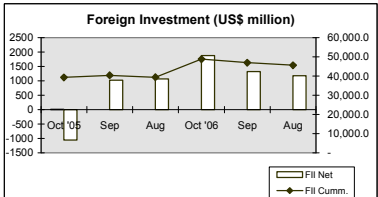
	31-3-01	31-3-02	31-3-03	31-3-04	31-Mar-05	31-Mar-06	13-Oct-06
M3 (Rs. Crore)	13,13,220	14,96,355	17,25,222	20,03,102	22,53,938	27,29,535	29,43,426
M3 (%) : Change	16.82	14.1	15.14	15.95	13.30	21.00	7.83
WPI (Index) All Commodities#(a)	155.7	161.8	172.30	180.30	189	197.7*	207.9
WPI Inflation (%)	7.16	3.92	6.49	4.29	4.83	2.91	5.16

Source: RBI Bulletin, October 2006; WSS: October 27, 2006 *#1993-94 = 100 @ year/month-end; *October 8, 2005; *October 07, 2006



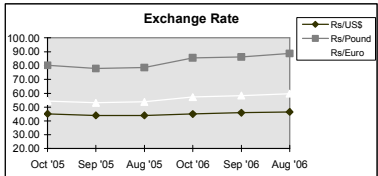
During the Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
Exports (US \$ Million)	44,560	43,827	52,719	63,843	83,536	102,725	48,136
Imports (US \$ Million)	50,537	51,413	61,412	78,149	111,517	142,416	68,323
Trade Balance(US \$ Million)	(5,977)	(7,586)	(8,693)	(14,306)	(27,981)	(39,691)	(20,187)

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



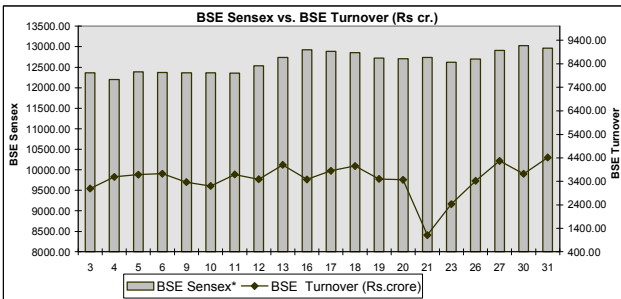
	2005-06 (US\$ million)			2006-07 (US\$ million)		
	Oct '05	Sep '05	Aug '05	Oct '06	Sep '06	Aug '06
FI Net	(1,053.8)	1,022.2	1,062.3	1,879.5	1,318.2	1,172.6
FI Cum.	39,294.6	40,348.1	39,325.8	48,806.8	46,928.5	45,610.6

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



	2005-06			2006-07		
	Oct '05	Sep '05	Aug '05	Oct '06	Sep '06	Aug '06
Rs/US\$	45.11	43.99	44.04	45.02	45.96	46.55
Rs/Pound	80.09	77.78	78.58	85.56	86.09	88.72
Rs/Euro	54.43	53.09	53.80	57.24	58.33	59.71

Figures are for month-end



Oct 2006	BSE Sensex* Close	BSE Turnover (Rs.crore)
Sept 29	12454.42	3706.00
3	12366.39	3094.00
4	12204.01	3588.00
5	12389.41	3681.00
6	12372.81	3724.00
9	12365.83	3363.00
10	12363.77	3200.00
11	12353.49	3689.00
12	12537.98	3484.00
13	12736.42	4101.00
16	12928.18	3480.00
17	12883.83	3846.00
18	12858.48	4050.00
19	12723.59	3500.00
20	12709.40	3467.00
21	12736.82	1116.00
23	12623.28	2431.00
26	12698.41	3418.00
27	12906.81	4267.00
30	13024.26	3716.00
31	12961.90	4414.00



Annexure 1 : Select International Economic Indicators for Developed Industrialised Countries And India

Country	3-Month Money Mkt		CPI		Currency unit per US \$		Union Budget	Real Rate	Currency
	As on	A Year ago	3- Month	A Year ago	As on	A Year ago	(+) / (-)	(Short-term)	unit per Euro
	25.10.06				25.10.06		% of GDP 2005	(1-3)	25.10.06
	1	2	3	4	5	6	7	8	9
Euro-11	3.54	2.21	1.70	2.60	0.79	0.83	-2.30	1.84	1.00
			Sept						
U. S. A.	5.23	4.17	2.10	4.70	1.00	1.00	-3.60	3.13	1.26
			Sept						
Britain	5.11	4.53	2.40	2.50	0.53	0.56	-3.40	2.71	0.67
			Sept						
Japan	0.34	0.02	0.90	-0.30	119.00	116.00	-5.20	-0.56	150.00
			Aug						
Sweden	2.74	1.46	1.50	0.60	7.32	7.87	1.70	1.24	9.22
			Sept						
Switzerland	1.87	0.83	0.80	1.40	1.27	1.28	-0.20	1.07	1.59
			Sept						
India*	6.52 ^{AA}	5.53 ^{AAA}	6.14	4.59	45.31	45.46	-3.80	0.38	57.35
	(October 20, 06)	(October 21, 05)	(August 06 over August 05)	(2005-06 over 2004-05)	(October 20, 06)	(October 16, 06)	(2006-07)		

Source: The Economist London: October 28th - November 3rd, 2006 For India, RBI Bulletin, October 2006

For India, RBI Bulletin, October 2006

CPI - (IUNW) June 2006 over June 2005 (RBI Bulletin, October 2006)

AA Implicit yield 91 day 7 BS on date of issue (October 20, 2006)

AAA Implicit yield 91 day 7 BS on date of issue (October 21, 2005)

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
	% change on earlier year				% p. a.	US \$ Billion	per US\$		per Euro	Latest 12 Months
	1	2	3	4	5	25.10.06	25.10.06	a year ago	25.10.06	\$ Billion
China	10.4	16.1	1.5	3.00	987.9	7.90	8.09	10.00	143.6	160.8
	Q3	Sept	Sept		Sept				Sept	2005
Hongkong	5.2	5.3	2.1	4.14	130.3	7.78	7.75	9.95	-14.9	18.6
	Q2	Q2	Sept		Sept				Aug	Q2
India	8.9	9.7	6.3	6.63	158.3	45.40	45.00	57.47	-41.8	-13.2
	Q2	Aug	Aug		Sept				Aug	Q2
Indonesia	5.2	12.2	14.5	10.92	40.8	9165.0	9992.0	11601.27	36.4	4.1
	Q2	Jul	Sept		Sept				Aug	Q2
Malaysia	5.9	5.0	3.3	3.80	79.0	3.68	3.77	4.66	28.0	20.0
	Q2	Aug	Sept		Aug				Aug	Q2
Singapore	7.1	7.6	0.4	3.44	129.4	1.57	1.69	1.99	33.7	38.3
	Q3	Sept	Sept		Sept				Sept	Q2
South Korea	4.6	10.6	2.4	4.61	228.2	956.0	1046.0	1210.13	15.6	5.8
	Q3	Aug	Sept		Sept				Sept	Aug
Taiwan	4.6	2.1	-1.2	1.84	261.6	33.30	33.70	42.15	21.7	20.6
	Q2	Sept	Sept		Sept				Sept	Q2
Thailand	4.9	7.4	2.7	5.25	57.7	37.10	40.80	46.96	-1.9	3.4
	Q2	Aug	Sept		Aug				Jul	Aug

Source: The Economist London: October 28th - November 3rd, 2006

@For India, RBI WSS, October 27, 2006

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

*Excluding Gold and SDRs

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