



Update on Indian Economy

December 2007

Economic Snapshot

Contents	Item	Units	November	October	November	(% Change	
			2007	2007	2006	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	215.6	214.7	209.1	0.42	3.1
- Capital Market	WPI -Inflation**	Per cent	3.1	3.1	5.3		
- Other Markets		Week ended	(03.11.07)	(06.10.07)	(04.11.06)		
- Important Policy Pronouncements	IIP (93-94=100)	2 months lag	259.1	259.9	242.2	(0.31)	6.98
			(Sept.07)	(Aug 07)	(Sep.06)		
	INR / US\$	Month End	39.67	39.32	44.76	0.89	(11.37)
	M3	Rs. '000 Cr.	3671.50	3582.29	2965.79	2.49	23.79
	[i] Agg. Deposits	Rs. '000 Cr.	3142.26	3080.35	2510.85	2.01	25.15
	[ii] Currency	Rs. '000 Cr.	529.24	501.93	454.94	5.44	16.33
		(Outstanding as on)	(09.11.07)	(12.10.07)	(10.11.06)		
	Call Money	% Range	4.00-8.00	4.00-6.65	5.75-7.70	-	-
	(Lendings)	Week ended	(09.11.07)	(12.10.07)	(17.11.06)		

Source: RBI Weekly Statistical Supplement November 23, 2007 & Economic & Political Weekly November 17, 2007

*All Commodities. **Over the year.

Editorial

A) Domestic

The Index of Industrial Production (IIP) for September 2007 grew at 6.4% which is almost over half of the rate a year ago in the same month; this rate was pulled down largely by the manufacturing sector, especially consumer durables segment. For the first half (April to September) of 2007-08, the general index declined to 9.2% from 11.1% in the corresponding period of 2006-07. The manufacturing sector growth rate decelerated from 12.3% last year to 9.7%. Consumer durable declined sharply and consumer non durable sector posted an extremely low growth rate of 2.2%.

However, the capital goods sector has maintained its momentum, and despite this there was a distinct slow down in the economy mainly because of slacking in the growth of both consumer durable and non-durables.

Index of Industrial Production

(Growth rate %age)

		September		April-September	
		2006-07	2007-08	2006-07	2007-08
1	Mining	6	4.3	5.3	3.1
2	Manufacturing	6.6	12.7	9.7	12.3
3	Electricity	4.5	11.3	9.7	12.3
4	General	6.4	12.0	9.2	11.1

Used Based Classification

		Weight	September		April-September	
			2006-07	2007-08	2006-07	2007-08
1	Basic goods	355.65	11.5	6.7	8.8	9.4
2	Capital goods	92.57	9.5	18.6	17.5	19.6
3	Intermediate goods	265.14	13.8	9.3	10.9	9.5
4	Consumer goods	286.64	12.1	-0.6	11.5	5.3
	4.1 Consumer durables	53.65	11.8	-7.6	15.2	-3.2
	4.2 Consumer non-durables	232.99	12.2	2.2	10.2	8.4
	General Index	1000				

The capital goods sector which has maintained momentum covered factories, machinery and tools to produce finished goods. This indicates that there is a paradigm shift in the growth from consumer based activity to investment based activity.

B) International

Recently the members of the OPEC countries met in Saudi Arabia to consider the strategy that OPEC should adopt in view of the rising crude oil prices internationally. While decision has been taken not to increase the output the Saudi Arabian economy buoyed by record-high oil prices continues to enjoy solid growth with low inflation, and the trend that is likely to continue to remain so through the medium term. The real GDP growth in 2007 is projected at 4.1 per cent despite the expected contraction in oil production but this growth is supported by the strong activity in the non-oil sector. Inflation is expected to remain around 3 per cent. Over the next five years (2008-12), the real GDP growth is expected to average 5.6 per cent. The public sector demand will continue to be an important engine for growth, non-oil activity in the private sector is likely to expand further because of the government's continued implementation of structural reforms, which have improved the business climate. However, the main downside risk to the favourable medium-term outlook is the unlikely event of unexpected decline in the global oil demand for which the possibility seems to be remote. Saudi Arabia will continue to enjoy record high fiscal and external surpluses arising mainly from the current high price in oil internationally.

Further, a number of oil producing countries have established special fiscal institutions (SFIs), such as oil funds, fiscal rules, fiscal responsibility legislation, and budgetary oil prices, to help fiscal management. In some cases, the establishment of these institutions has also been triggered by political economy and institutional considerations, for example in some countries in which governments have had difficulties containing spending.

Higher oil revenues allowed oil producers an opportunity to increase public spending on priority economic and social goals, which could be an appropriate response to rising oil prices. At the same time, many oil producers that have increased spending rapidly show low indices of government effectiveness, which may raise questions about their ability to use the additional resources effectively and efficiently.

According to study by IMF, the long-term fiscal sustainability of a number of oil producing countries improved between 2000 and 2005, assessed on the basis of a standardized sustainability benchmark, but in a few cases it deteriorated, mainly because of the expansion in non-oil primary deficits. Some countries still remained vulnerable to oil price shocks and the possible need for adjustments.

The study found that, under appropriate institutional frameworks, well-designed SFIs may help support sound fiscal policies, though these are not a panacea. Successful SFIs require strong institutions and political commitment.

Source: IMF Survey, October 2007

Capital Market Review

During the quarter ended September 2007, aggregate sales of Corporate India excluding PSU oils and gas companies expanded by 19% which is lower than the growth rate of 25% witnessed in the preceding year. In contrast, the operating profit margin (OPM) rose from 26.4% to 28.7% and at the same time other income accelerated from 44% to 49%. Interest cost went up largely due to the relatively high interest rates. This led to the slow down of the sales. The domestic demand remained strong which led to operating profit margin (OPM) being robust.

Sector-wise, IT did well despite large appreciation of the Indian rupee, so also the margin. At the same time export oriented sectors like textile experienced decline in sales as also in the margins. The small companies continued to struggle in recording decent sales growth while large companies posted encouraging sales. Thus, only the mid sized companies continued to remain afloat. Companies constituting the BSE mid cap index did relatively better with sales rising by 26% and net profit by 30%.

As on 31st October 2007, the Sensex closing was 19837.99, and during the month the index experienced large volatility largely in response to the US and European markets but retained the modest upward trend. The Sensex touched a high of 20238 on October 29, 2007 but closed lower at 19977.67 on the same day.

The month witnessed the Sensex closing at 19,363.19 on November 30, 2007 (Friday) and thereby registered a fall of 474.80 points during the month.

	November	October	November	October	(% Change		
	2007	2007	2006	2006	[1]/[2]	[1]/[3]	[2]/[4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	19363.19 (30.11.07)	19837.99 (31.10.07)	13696.31 (30.11.06)	12961.9 (31.10.06)	(2.39)	41.38	53.05
Monthly High	19976.23 (02.11.07)	19977.67 (29.10.07)	13773.59 (27.11.06)	13,024.26 (30.10.06)	(0.01)	45.03	53.39
Monthly Low	18526.32 (22.11.07)	17328.52 (01.10.07)	13033.04 (01.11.06)	12,204.01 (04.10.06)	6.91	42.15	41.99
S&P CNX Nifty –Close	5762.75	5900.65	3954.50	3744.1	(2.34)	45.73	57.60
P/E Ratio : BSE – 30	26.20	25.52	22.69	21.25	2.66	15.47	20.09
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	88510.5	135411.8	54858.80	39573.9	(34.64)	61.34	242.17
Outflows – Rs. Cr.	94829.5	112321.7	44672.60	30903.9	(15.57)	112.28	263.45
Net – Rs. Cr.	(6319.2)	23090.4	10186.5	8669.6	(127.37)	(162.04)	166.34
Cum. Net Inv–US\$ Mn. (Month End)	67750.3	69316.8	51019.7	48806.8	(2.26)	32.79	42.02

The major companies reporting good performance included IFCI, Bank of India, Punj Lloyd, Zee Entertainment, Larsen & Toubro, BHEL, Idea Cellular, Lupin, Indiabulls Financial services.

During the month of November 2007, the FIIs cumulative net investment declined by US\$ 1.57 billion from US\$ 69.32 billion in end-October 2007 to US\$ 67.75 billion.

Other Markets

Debt Market

The Indian Railway Finance Corporation Ltd. made the largest single issue of bonds worth Rs.700 crore in October 2007. Also, LIC Housing Finance Ltd. stepped in with two issuances of bonds amounting to Rs.700 crore in aggregate. Other entities which made issues in October 2007 included NABARD, Infrastructure Development Finance Company Ltd., Sundaram Finance Ltd. and a few of banks, the details of which are given below :

	Name of the Issuer	Rate %	Duration	Rating	Amount Rs. Crore	Type of Instrument
I.	Banks					
i)	Bank of India	10.40 ^a	Perpetual ^b	AA+	155 ^c	Perpetual Bonds
ii)	State Bank of Bikaner & Jaipur	9.78 ^a	15 years ^b	AAA	100 ^h	Upper Tier II Bonds
II.	NABARD	9.50-9.60 ^g	5 years	AAA	200 ^c	Bonds
III	Railway Finance					
i)	Indian Railway Finance Corporation Ltd.	8.83 9.20	5 years 10 years	AAA	700 ^c	Bonds
ii)	Konkan Railway Corporation Ltd.	9.30 ^e or 9.52 ^f	5 years	AAA	75 ^c	Bonds
IV	Financial Service Institutions					
i)	Infrastructure Development Finance Company Ltd.	9.05	3 years	AAA	100 ^d	Bonds
ii)	Infrastructure Development Finance Company Ltd.	8.80	2 years	AAA	230 ^c	Bonds
iii)	Infrastructure Leasing & Financial Services Ltd.	9.35	3 years	AAA	117 ^c	Non-convertible debentures
iv)	LIC Housing Finance Ltd.	9.80	10 years	AAA	500	Bonds
v)	LIC Housing Finance Ltd.	9.15	3 years	AAA	200	Bonds
vi)	Sundaram Finance Ltd.	9.40	3 years	AA+	25	Bonds

- a. With an increase of 50bps if call is not exercised
b. Call at the end of 10th year
c. Unspecified greenshoe option
d. With a green shoe option of Rs100 crore
e. Payable semi-annually
f. Payable annually
g. Through book building
h. With a greenshoe option of Rs.200 crore.
- (Source : Credit Analysis & Research Ltd., November 2007)

Call Money Market

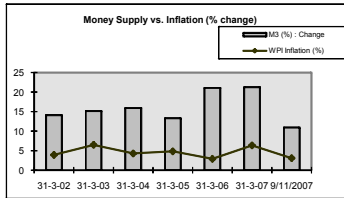
The call money market rate on November 09, 2007 in respect of borrowings ranged between 4.00% and 8.00% as compared to the rates of 5.75% - 7.30% on November 10, 2006 (i.e. a year ago) reflecting that there was moderate softening of the interest rates. The average daily turnover in the call money market was Rs.10,689 crore for the week ending November 09, 2007 and this daily turnover declined to Rs.9,045 crore in the week ending November 16, 2007.

Foreign Exchange Market

The exchange rate (RBI reference rate) on November 16, 2007 was Rs.39.35 per US dollar as compared to Rs.39.33 per US dollar on November 12, 2007, that is, a week ago; this reflected a nominal depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 1.47% on November 16, 2007 as compared to a premium of 1.53% on November 12, 2007 (a week ago), and this reflects that supply of dollars is likely to become relatively comfortable in the forthcoming weeks. The foreign currency assets were US\$ 262.90 billion on November 16, 2007, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 271.15 billion. From end-March 2007, the foreign exchange reserves registered a rise of US\$ 71.97 billion upto November 16, 2007. The market rate (buying) was Rs.39.70 per US dollar on November 30, 2007. The RBI intervened occasionally into the market by buying dollars in a bid to curb the rise of rupee.

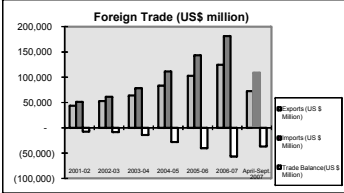
Important Policy Pronouncements

- **MSS ceiling revised upwards**
The Government of India, in consultation with RBI, revised the ceiling for the outstandings under the Market Stabilisation Scheme (MSS) to Rs.2,00,000 crore for the year 2007-08. The threshold to review the ceiling in future, now will be Rs.1,85,000 crore. The ceiling is being hiked as RBI has been mopping up dollars from the market to check the rupee's sustained rise. While buying the dollars, RBI releases an equivalent amount in rupees. As this additional liquidity will push up prices and consequently inflation, RBI normally sterilises the rupee released, by floating Government securities and bonds, sucking the excess liquidity from the system.
- The Payment and Settlement Systems bill was cleared by the Lok Sabha on Monday, 26th November 2007, the purpose of which is to create a new entity independent of the RBI on the ground that the Reserve Bank of India has performed so far functions both as a Regulator and Service provider. The Finance Minister indicated that in the new entity Government would keep 51% of the shares.
- The decision to raise the economic growth to 9% at an estimated expenditure of Rs.30,44,718 crore during the 11th Five Year Plan still continues to remain debatable.



	31-3-02	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	9/11/2007
M3 (Rs. Crore)	14,96,355	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	36,71,498
M3 (%) : Change	14.1	15.14	15.95	13.30	21.10	21.27	10.91
WPI (Index) All Commodities	161.8	172.30	180.30	189	196.5	209.16	215.6
WPI Inflation (%)	3.92	6.49	4.29	4.83	2.91	5.36	3.11

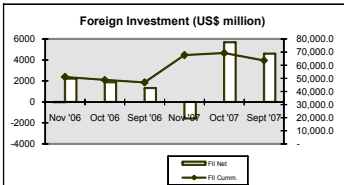
Source: RBI Bulletin, October 2007; WSS: November 23, 2007 \$S1953-94=100, year/month-end, @ November 04, 2006 @@@ November 03, 2007



During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	April-Sept, 2007
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,861	124,629	72,281
Imports (US \$ Million)	51,413	61,412	78,149	111,517	143,433	181,368	109,204
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(40,372)	(56,739)	(36,923)

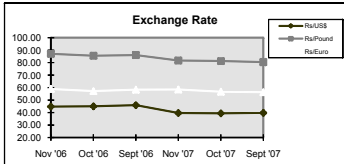
Source: RBI Bulletin, September 2007. Revised figures for 2001-02 to 2006-07 (April-March)

*DGCIAS data for April 2006 to March 2007 (Provisional)



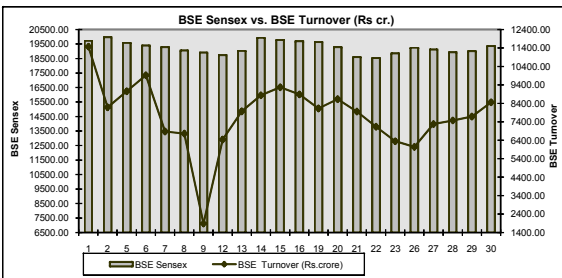
	2006-07 (US\$ million)			2007-08 (US\$ million)		
	Nov '06	Oct '06	Sept '06	Nov '07	Oct '07	Sept '07
FI Net	2,213.1	1,878.5	1,318.2	(1,566.8)	5,683.5	4,608.6
FI Cum.	51,019.7	48,806.8	46,928.5	67,750.30	69,316.80	63,633.50

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



	2006-07			2007-08		
	Nov '06	Oct '06	Sept '06	Nov '07	Oct '07	Sept '07
Re/US\$	44.76	45.02	45.96	39.67	39.35	39.74
Re/Pound	87.21	85.56	86.09	81.78	81.35	80.34
Re/Euro	58.93	57.24	58.33	58.46	56.75	56.30

Figures are for month-end



November 2007	BSE Sensex Close	BSE Turnover (Rs.crore)
1	19837.99	10060.00
2	19724.35	11469.00
3	19976.23	8183.00
4	19990.78	9050.00
5	19400.67	9922.00
6	19289.83	6874.00
7	19058.93	6756.00
8	18907.60	1888.00
9	18737.27	6432.00
10	19035.48	7965.00
11	19929.06	8835.00
12	19784.89	9268.00
13	19695.36	8886.00
14	19633.36	8121.00
15	19280.80	8623.00
16	18602.62	7952.00
17	18526.32	7127.00
18	18852.87	6348.00
19	19247.54	6035.00
20	19127.73	7281.00
21	18938.87	7473.00
22	19003.26	7677.00
23	19363.19	8457.00



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 21.11.07	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 21.11.07	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	4.65	4.01	2.60	1.60	0.67	0.77	-0.90	2.05	1.00	44.5	27.9	0.1
			Oct							Sep	Aug	
U. S. A.	4.40	4.05	3.50	1.30	1.00	1.00	-1.20	0.90	1.49	-805	-793.20	-5.5
			Oct							Sep	Q2	
Britain	6.21	4.59	2.10	2.40	0.49	0.52	-3.00	4.11	0.73	-164.4	-86.60	-3.3
			Oct							Sep	Q2	
Japan	0.73	1.44	-0.2	0.60	108.00	117.00	-2.60	0.93	161.19	104.0	205.00	4.7
			Sept							Sep	Q2	
Sweden	3.90	4.19	2.70	1.30	6.30	7.02	2.80	1.20	9.40	18.3	29.70	7.1
			Oct							Sep	Q2	
Switzerland	2.75	2.87	1.20	0.30	1.10	1.23	0.30	1.55	1.64	11.3	64.90	16.3
			Oct							Sep	Q2	
India	7.50	8.25	6.40	6.80	39.40	44.80	-3.30	1.10	58.81	-65.4	-9.70	-1.2
			Sept							Sep	Q2	

Source: The Economist London: November 24th - 30th, 2007
**2007 Inflation rate 4.2% in Oct

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 21.11.07	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 21.11.07	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.32	4.93	6.5	1.4	7.41	7.86	0.2	-2.18	11.06	256.5	249.9	10.9
			Oct							Oct	2006	
Hongkong	3.67	3.33	3.2	2.0	7.78	7.79	1.9	0.47	11.61	-21.1	24.9	9.7
			Oct							Sep	Q2	
Indonesia	8.15	6.83	6.9	6.3	9405.00	9134.00	-1.7	1.25	14037.31	41.3	11.0	2.5
			Oct							Sep	Q2	
Malaysia	3.62	4.25	1.9	3.1	3.38	3.65	-3.2	1.72	5.04	29.1	27.5	13.5
			Oct							Sep	Q2	
Singapore	2.50	2.80	2.7	0.4	1.45	1.55	0.30	-0.20	2.16	37.4	46.3	27.4
			Sept							Oct	Q3	
South Korea	5.40	5.67	3.0	2.2	929.00	934.00	0.4	2.40	1386.57	19.1	9.1	0.4
			Oct							Sep	Q2	
Taiwan	2.60	2.69	5.3	-1.2	32.30	32.80	-2.0	-2.70	48.21	15.7	28.4	6.4
			Oct							Oct	Q3	
Thailand	3.55	4.78	2.5	2.8	33.80	36.60	-1.9	1.05	50.45	9.7	11.8	3.6
			Oct							Sep	Q2	
Brazil	11.18	6.16	4.1	3.3	1.79	2.16	-1.8	7.08	2.67	42.6	9.0	0.7
			Oct							Sep	Q2	
Venezuela	11.12	6.55	17.2	15.5	6100.00	3213.00	-2.2	-6.08	9104.48	23.8	20.4	7.7
			Oct							Sep	Q2	
India	7.50	8.25	6.40	6.80	39.40	44.80	-3.30	1.10	58.81	-65.4	-9.70	-1.2
			Sept							Sep	Q2	

Source: The Economist London: November 24th - 30th, 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
Ur l: www.mega-ace.com
December 12th 2007