



## Update on Indian Economy February 2009

### Economic Snapshot

Contents	Item	Units	January	December	January	(% Change	
			2009	2008	2008	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	229.0	231.1	217.6	(0.91)	5.2
- Capital Market	WPI -Inflation**	Per cent	5.2	6.8	3.8		
- International Developments	IIP (93-94=100)	Week ended 2 months lag	(03.01.09)	(06.12.08)	(05.01.08)		
- Other Markets			267.2	261.5	262.0	2.18	1.98
- Important Policy Pronouncements			(Nov.08)	(Oct.08)	(Nov.07)		
	INR / US\$	Month End	49.02	48.45	39.39	1.18	24.45
	M3	Rs. '000 Cr.	4491.95	4423.74	3750.33	1.54	19.77
	[i] Agg. Deposits	Rs. '000 Cr.	3869.95	3801.57	3215.14	1.80	20.37
	[ii] Currency	Rs. '000 Cr.	622.00	622.17	535.19	(0.03)	16.22
		(Outstanding as on)	(02.01.09)	(05.12.08)	(04.01.08)		
	Call Money	% Range	2.50-5.58	3.00-6.20	4.50-7.60	-	-
	(Lendings)	Week ended	(09.01.09)	(12.12.08)	(11.01.08)		

Source: RBI Weekly Statistical Supplement January 23, 2009 & Economic & Political Weekly January 17, 2009

\*All Commodities. \*\*Over the year.

### Editorial

#### A) Domestic

Data for Index of Industrial Production released on January 12, 2009 indicated that the growth rate during April-November 2008-09 was 3.9 per cent as compared to 9.2 per cent during the corresponding period of 2007-08; it may be recalled during the fiscal year 2007-08 the industrial production grew by 8.5 per cent, a shade lower than 9.2 per cent, indicating there was some slow down during the subsequent period of December-March. Used based classification indicated that during April-November consumer goods sector registered a growth rate of 6.0 per cent as compared to 5.3 per cent in an environment when the overall growth rate at 3.9 per cent was close to 1/3<sup>rd</sup> of the rate of 9.2 per cent during the first eight months of 2008-09. Indications are that despite slow down during April-November 2008 consumer goods production got a boost. Further, easing of the overall interest rate induced by high liquidity in December 2008 and injection of stimulus during January 2009 will contribute rather positively in uplifting the growth rate of industrial production registered during first eight months. Therefore, a cautious optimism in the index of industrial production is called for (*Refer Appendix I*).

Though the rate of industrial production during 2008-09 is likely to be lower than that in 2007-08, this decline will be compensated by the moderate increase in agricultural production particularly rice; production of monsoon sown rice may reach 83.3 million tonne as compared to 83.0 million tonne in 2007-08 and winter sown crops are likely to rise by 3 per cent to 14.2 million tonne. Hence the overall impact will be modest slow down in the growth rate of GDP which is expected to be a shade higher than 7.0 per cent during 2008-09.

## B) International

The IMF has revised in its Global Financial Stability Report the global growth forecast on January 27, 2009 and this forecast declined to its lowest level since World War II with financial markets remaining under stress and the global economy taking a sharp turn for the worse resulting in conditions of contraction in global output and trade. According to the Report, the IMF has revised its global output from 3.4 per cent in 2008 to 0.5 per cent in 2009 and 3.0 per cent in 2010 i.e. except for the year 2009; the output is likely to bounce back in 2010. The GDP growth rate for India is 9.3 per cent in 2007 and 7.3 per cent in 2008. Projections for 2009 are 5.1 per cent and moderate upward forecast of 6.5 per cent in 2010. Similar is the situation with China and several other countries.

The IMF feels that new policy initiatives are needed to produce credible loan loss recognition; sorting out of financial companies according to their medium-run viability; and provide public support to viable institutions by injecting capital, and carving out bad assets, including possible through a bad bank approach. In these areas decisive action is required by both policy makers and market participants with greater emphasis on cleaning up of bank balance sheets.

Further, the IMF has raised its estimate of potential deterioration in US originated credit assets held by banks and others from US\$ 1.4 trillion in last October 2007 to US\$ 2.2 trillion now. Further, the monetary and fiscal policies are needed to become more supportive of aggregate demand, and this stance needed to be sustained in foreseeable future. Here international cooperation will be critical in designing and implementing the policies so as to avoid destabilization and distortion. The Chief Economist of IMF Blanchard has emphasis the two types of measures that are needed to turn around, and these are :

1. **Stronger policy actions** to restore financial sector health. Reviving the functioning of the financial sector and unclogging credit markets is a necessary condition for economic recovery. The building blocks of what needs to be done have been assembled to varying degrees in many countries, but a comprehensive framework for restoring financial health and dealing with bad assets remains to be built. More aggressive and concerted actions are now needed through a unified approach involving liquidity provision, capital injections, and disposal of problem assets.
2. **Macroeconomic stimulus** – both monetary and fiscal – to support demand.  
On monetary policy, many central banks have taken strong actions to cut interest rates and improve credit provision. The IMF still sees some room to lower interest rates, as inflation pressures are subsiding, but the room is diminishing rapidly, and has disappeared altogether in some countries. Moreover, deflation is now a risk. In present circumstances, the effectiveness of low interest rates to support activity is likely to be constrained as long as financial conditions remain disrupted. Therefore, central banks will need to rely increasingly on unconventional measures to unlock key (high-spread, low-liquidity) credit markets.

### Capital Market Review

Throughout the year of 2007 and a large part of 2008, the FIIs have been the driving force in the Indian equity market. The increase in the net cumulative investment during January 2008 to January 2009 amounted to only US\$ 2.52 billion as against the decline of US\$ 13.57 billion spanning over eight months. But from March 2008 onwards, the market went into the choppy and particularly after September 2008 when the Lehman Bros declared Chapter 11 Bankruptcy and some other banks followed, the FIIs in the Indian market started selling the stocks and because there was a loss in the valuation the FIIs pulled out aggressively from the Indian market.

#### Monthly Changes in Net Cumulative Investment by FIIs

(US\$ billion)

Month	Increase	Decrease	Month	Increase	Decrease
January 2008		-2.75	July 2008	0.44	
February 2008	1.05		August 2008	0.01	
March 2008		-0.25	September 2008		-1.26
April 2008		-0.16	October 2008		-4.27
May 2008		-1.28	November 2008	0.40	
June 2008		-2.75	December 2008	0.59	
			January 2009		-0.85
<b>Total</b>	<b>1.05</b>	<b>7.19</b>	<b>Total</b>	<b>1.44</b>	<b>6.38</b>

Earlier, the investment by the FIIs dominated and provided the push to the Bull Run that domestic investors remained as followers. Now the FIIs reflected the withdrawal syndrome while the domestic investors remained uncertain despite the measures undertaken by the Reserve Bank to provide more liquidity into the system and stimulus announced by the Government on January 02, 2009. The markets have not rebounded as expected. In fact the markets are exuding the caution optimism.

The US Federal Reserve recently announced it plans to implement its mortgage-backed securities program early January 2009, and set a goal of buying US\$ 500 billion in assets by mid 2009. The action by policymakers is likely to put a floor in relentless slide in the US house prices – one of the prerequisites for a turnaround in economy.

Satyam Computer Services, Chairman, Ramalinga Raju admitted on 07 January 2009 that Satyam's balance sheet as on 30 September, 2009 had inflated cash and bank balances of Rs.5040 crore, inflated debtors of Rs.490 crore and non-existent accrued interest of Rs.376 crore. Against this, the liability was understated by Rs.1230 crore. Raju further said in the last two years a net amount of Rs.1230 crore was arranged to keep operations going. This was done by pledging all the promoters' shares and raising funds from known sources by giving all kinds of assurances.

Investments routed through the Qualified Institutional Placement (QIPs) have reported unqualified losses amounting to US\$ 4.5 billion out of 50 or so QIPs from September 2006. As the investment made through this route of US\$ 6.6 billion is now worth US\$ 2.1 billion registering a loss of US\$ 4.5 billion. QIP losses on mark-to-market (MTM) valuation basis incurred losses in companies such as GMR (US\$ 752 million), Suzlon (US\$ 498 million), IDFC (US\$ 329 million), Kotak (US\$ 309 million), Phoenix Mills (US\$ 210 million) and Axis Bank (US\$ 200 million) top the charts in terms of the biggest losers. QIP investors include the true blue of investment world – Credit Agricole, Citigroup, Deutsche Bank, UBS, T Rowe Price, HSBC, Merrill Lynch, Fidelity and others.

	January	December	January	December	(% Change		
	2009	2008	2008	2007	[1]/[2]	[1]/[3]	[2]/[4]
<b>Major Indices</b>	[1]	[2]	[3]	[4]	[5]	[6]	[7]
<b>BSE Sensex – Close</b>	9424.24 (30.01.09)	9647.31 (31.12.08)	17648.71 (31.01.08)	20286.99 (31.12.07)	(2.31)	(46.60)	(52.45)
<b>Monthly High</b>	10,335.93 (06.01.09)	10099.91 (19.12.08)	20873.33 (08.01.08)	20375.87 (12.12.07)	2.34	(50.48)	(50.43)
<b>Monthly Low</b>	8674.35 (23.01.09)	8739.24 (02.12.08)	16729.94 (22.01.08)	19079.64 (18.12.07)	(0.74)	(48.15)	(54.20)
<b>S&amp;P CNX Nifty –Close</b>	2874.80	2959.15	5137.45	6138.60	(2.85)	(44.04)	(51.79)
<b>P/E Ratio : BSE – 30</b>	12.80	12.30	21.90	27.60	4.07	(41.55)	(55.43)
<b>FII Investments (Equity+ Debt)</b>							
<b>Inflows – Rs. Cr.</b>	35778.30	40310.70	109334.6	91023.80	(11.24)	(67.28)	(55.71)
<b>Outflows – Rs. Cr.</b>	39220.80	37933.50	120416.6	82132.70	3.39	(67.43)	(53.81)
<b>Net – Rs. Cr.</b>	(3443.00)	2376.60	11081.9	8891.10	(244.87)	(131.07)	(73.27)
<b>Cum. Net Inv–US\$ Mn. (Month End)</b>	58883.90	59737.30	67207.3	69954.30	(1.43)	(12.38)	(14.61)

The net cumulative investment by FIIs declined from US\$ 59.74 billion in end-December 2008 to US\$ 58.88 billion in end January 2009, and thereby registered a fall of US\$ 0.86 billion during January 2009.

### International Developments

(A) The US House of Representatives has passed on January 30, 2009 a US\$ 825 billion stimulus bill containing emergency spending and tax cuts. The Sector wise distribution is as below :

**i) US\$ 358 billion**

- Emergency spending on construction projects.
- Investments aimed at creating jobs.
- Federal investment in education.
- Expansion of food aid programmes.

**ii) US\$ 275 billion**

- Temporary tax cuts.
- Tax incentives to produce renewable energy.
- Breaks for builders and companies that would be allowed to write off current losses against five previous tax years.

**iii) US\$ 100 billion**

- Improvement of broadband Internet access.
- Investment in clean energy and energy efficiency
- Includes US\$ 87 billion to help pay health insurance costs for the poor.

**iv) US\$ 48 billion**

- Help the unemployed keep health insurance.
- Investment in health information technology.

**v) US\$ 46 billion**

- More unemployment benefits.
- Aid to needy families and child support

The bill was passed with 244 Yes and 188 No.

**(B) World Economic Forum - Davos**

The World Economic Forum (WEF) meeting was held for five days from January 28 to February 1, 2009 which was filled with discussions, lectures and workshops. According to the objective of organizers of the forum the discussion is about “improving the state of the world”. This forum’s Annual Meeting is usually held in Davos (Switzerland) but it has also branched out into a series of regional meetings in places such as Rio de Janeiro, Cape Town, Delhi, Dubai and Dalian in China.

The list of Davos participants reads like a who’s-who of business and politics. Bill Gates, Michael Dell, Google co-founder Larry Page, the bosses of corporate giants like BP, Citi, Coca-Cola, Intel and Volkswagen all join the crown thronging the labyrinthine conference centre. In recent years the organizers of the forum have cut down a bit on the number of politicians coming to the event, with the forum rediscovering that its focus should be on business.

A poll of business leaders suggests any recovery could take **three years**. Chinese Premier Wen Jiabao and Russian PM Vladimir Putin are to speak on the first day of the summit, which is themed “**shaping the post-crisis world**”. Klaus Schwab, the founder of the World Economic Forum, has warned that crisis is nowhere near over yet.

Indian delegation from Government side was led by P. Chidambaram, Finance Minister of India; Kamal Nath, Minister of Commerce & Industry; and Montek Singh Ahluwalia, Deputy Chairman, Planning Commission alongwith Sheila Dikshit, Chief Minister, Delhi; Vasundhara Raje, Chief Minister, Rajasthan and Oommen Chandy, Chief Minister, Kerala will lead the “Dream Team” from India at the Annual Meeting of the World Economic Forum from 25<sup>th</sup> to 29<sup>th</sup> January in Davos. The Government team was joined by several prominent Indian business leaders.

The World Economic Forum (WEF) is the brain child of Swiss Professor Klaus Schwab. In 1971, he invited European chief executives to Davos to discuss business strategy. Over the years, the event widened its agenda and attracted more prominent guests, which in turn made it interesting for yet more big names to come. The forum is now run as a not-for-profit member-based organization. Every year the Annual Meeting of the World Economic Forum (WEF) has a big theme and this year the theme is “It’s Shaping the Post-Crisis-World”.

While the theme seems to be laudable and lofty, the discussions held this year exudes a feeling of despondency on whether the participants will be able to come up with a solution to end all problems of the world. A gloomy economic outlook dominated discussions among the global political leaders and business people gathering in Davos. Economists are warning that global recession and trade protectionism will be dire for developing countries.

## Other Markets

### Debt Market

The month of December 2008 witnessed fair amount of activity in the primary issuance market. Power Grid Corporation of India Ltd. remained the biggest issuer for the month with an issue size of Rs.2,400 crore, followed by Indian Oil Corporation Ltd. (Rs.1,600 crore) and Bharat Petroleum Corporation Ltd. (Rs.1,000 crore), Reliance Industries Ltd. and Aditya Birla Nuvo Ltd. came up with several issues of bonds.

	Name of the Issuer	Rate %	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
<b>I.</b>	<b>Bank :</b>					
i)	Corporation Bank	10.35	15 years	AAA	300	Bond/NCD
ii)	Export-Import Bank of India	9.50	5 years	AAA	50	Bond/NCD
iii)	National Housing Bank	9.40	5 years	AAA	100	Bond/NCD
<b>II.</b>	<b>Financial Service Institutions :</b>					
i)	Fullerton India Credit Company Ltd.	12.19	-	AAA	356	Bond/NCD
<b>III.</b>	<b>Public Sector Company :</b>					
i)	Power Grid Corporation of India Ltd.	9.33	15 years	AAA	2,400	Bond/NCD
ii)	Indian Hotels Company Ltd.	11.80	5 years	AA+	300	Bond/NCD
iii)	Bharat Petroleum Corporation Ltd.	10.35	1 year, 5 months	AAA	1,000	Bond/NCD
iv)	Indian Oil Corporation Ltd.	10.70	8 years	AA+	1,600	Bond/NCD
<b>IV.</b>	<b>Private Companies :</b>					
i)	Reliance Industries Ltd.	10.75	10 years	AAA	500	Bond/NCD
		10.10	3 years	AAA	500	
ii)	Aditya Birla Nuvo Ltd.	12.50	3 years	AAA	40	Bond/NCD
iii)	Aditya Birla Nuvo Ltd.	12.25	3 years	AAA	110	Bond/NCD
iv)	Aditya Birla Nuvo Ltd.	11.50	3 years	AAA	225	Bond/NCD
v)	Shriram City Union Finance L.	12.76	1 year	A	95	Bond/NCD
vi)	Shriram Transport Finance Company Ltd.	11.78	-	AA	190	Bond/NCD

*(Source : Credit Analysis & Research Ltd., January 2009)*

### Call Money Market

The call money market rate on January 09, 2009 in respect of borrowings ranged between 2.50% and 5.58% as compared to the rates of 4.50% - 7.60% on January 11, 2008 (i.e. a year ago) reflecting that there was softening of the interest rates. The average daily turnover in the call money market was Rs.9,430 crore for the week ending January 09, 2009 and this daily turnover rose to Rs.11,137 crore in the week ending January 16, 2009.

## Foreign Exchange Market

The exchange rate (RBI reference rate) on January 16, 2009 was Rs.48.77 per US dollar as compared to Rs.48.60 per US dollar on January 12, 2009, 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 2.30% on January 16, 2009 as compared to a premium of 2.41% on January 12, 2009 (a week ago), and this reflects that supply of dollars is likely to become relatively easy in the forthcoming weeks. The foreign currency assets were US\$ 242.85 billion on January 16, 2009, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 252.18 billion. From end-March 2008, the foreign exchange reserves registered a decline of US\$ 57.55 billion upto January 16, 2009. The market rate (buying) was Rs.48.99 per US dollar on January 30, 2009.

### Important Policy Pronouncements

(A) Reserve Bank Governor Dr. D. Subbarao conducted on January 27, 2009 the Third Review of Monetary Policy in the context of a deteriorating global economic outlook and heightened uncertainty about the global financial sector. In the Review, the Governor announced that several measures taken since mid September 2008 have resulted in augmentation of actual/potential liquidity of over Rs.3,88,000 crore, the impact of which has led to increased liquidity conditions in the market. In addition, the permanent reduction in Statutory Liquidity Ratio (SLR) by 1.0 percentage of NDTL to 24 per cent has made available liquid funds of the order of Rs.40,000 crore for the purpose of credit expansion.

#### **I. Overview**

Measures were taken to encourage flow of credit to sectors which are coming under pressure included extending the period of pre-shipment and post-shipment credit for exports, expanding the refinance facility for exports, counter-cyclical adjustment of provisioning norms for all types of standard assets barring some exceptions, reducing risk weights on banks' exposure to certain sectors which has been increased earlier counter-cyclically, and expanding the lendable resources available to the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB) and the Export-Import (EXIM) Bank of India.

To improve the flow of credit to productive sectors at viable costs and to sustain the growth momentum, the Reserve Bank signaled a lowering of the interest rate structure by significantly reducing both its key policy rates – the repo rate to 5.5 per cent and reverse repo rate to 4.0 per cent.

In the mid-term review of October 2008, the Reserve Bank had estimated that the real GDP growth for 2008-09 would be in the range of 7.5-8.0 per cent. Since then the outlook on real GDP growth has been adversely affected, and the downside risks to growth have amplified because of the slowdown of industrial activity and weakening of external demand as reflected in the decline of exports. Services sector activities are likely to decelerate, and as a consequence of slow down in industrial and services and with the assumption of normal agricultural production, the projection of overall real GDP growth for 2008-09 has been revised downward by RBI to 7.0 per cent with a downward bias.

Apart from this, the non-functional and frozen financial markets in the global financial system need to be activated. However, the financial system in India continues to be resilient and stable because of the tightness in liquidity measures noticed by mid-September to early October 2008 in the money market, and now foreign exchange and government securities markets needed to be stimulated. In the past, during the last five years India clocked an average annual growth rate of 8.8 per cent driven largely by domestic consumption and investment. While these fundamental strengths of the Indian Economy continue to remain in place due largely to the growing entrepreneurial spirit and rise in productivity, the global crisis will bring about slow down both in investment and exports.

## **II. Road Ahead**

However, there is a period of painful adjustment ahead in view of the global imbalances but India will be able to manage the adjustment with as little pain as possible. Based on the assessment of the global scenario and that of domestic economy particularly the outlook relating to growth and inflation, the stance of monetary policies for the rest of 2008-09 will be as follows :

- Provision of comfortable liquidity to meet the required credit growth consistent with the overall projection of economic growth.
- Respond swiftly and effectively with all possible measures as warranted by the evolving global and domestic situation impinging on growth and financial stability.
- Ensure a monetary and interest rate environment consistent with price stability, well-anchored inflation expectations and orderly conditions in financial markets.

## **III. Monetary Developments**

### **Bank Rate**

- The Bank Rate has been kept unchanged at 6.0 per cent.

### **Repo Rate / Reverse Repo Rate**

- The repo rate under the LAF has been kept unchanged at 5.5 per cent.
- The reverse repo rate under the LAF has been kept unchanged at 4.0 per cent.
- The Reserve Bank has the flexibility to conduct repo / reverse repo auctions at a fixed rate or at variable rates as circumstances warrant.
- The Reserve Bank retains the option to conduct overnight or longer term repo / reverse repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibly 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.

### **Cash Reserve Ratio**

- The cash reserve ratio (CRR) of scheduled banks has been kept unchanged at 5.0 per cent of NDTL.

### **Liquidity Facilities**

- The Reserve Bank has allowed banks to avail liquidity support under the LAF for the purpose of meeting the funding requirements of mutual funds (MFs), non-banking financial companies (NBFCs) and housing finance companies (HFCs) through relaxation in the maintenance of SLR up to 1.5 per cent of their NDTL.

- Second, a special refinance facility for scheduled commercial banks (excluding RRBs) was provided by the Reserve Bank on November 1, 2008 under Section 17(3B) of the RBI Act, 1934 up to 1.0 per cent of each bank's NDTL as on October 24, 2008. Both these facilities are currently available up to June 30, 2009.
- Third, in order to ensure that banks continue to have flexibility in their liquidity management operations in the current market conditions, it has been decided to extend both the refinance facilities up to September 30, 2009.

#### **IV. Observations :**

- i) The Reserve Bank has slightly scaled down the projections for GDP growth during 2008-09, but the Indian economy continues to remain strong.
- ii) Reserve Bank continues to remain concerned about the retail inflation which remains relatively high though core inflation has declined due to the various policy measures undertaken by the Reserve Bank in the recent past.
- iii) The level of interest rates from the point of view of Corporates is high despite the prime lending rate (PLR) coming down from 13.25-14.00 per cent to 12.0-12.5 per cent but RBI would still like the commercial banks to reduce these rates further.
- iv) The credit deposit ratio remains high at more than 73 per cent. Further reduction in the prime lending rate would critically depend upon the spread which the banks are able to manage between the deposit and the lending rates by taking cost effective measures and bring about efficiency in their operations.

#### **V. Annual Policy Statement 2009-10**

The Annual Policy Statement for 2009-10 will be announced on April 21, 2009.

#### **(B) Reserve Bank of India Policy on External Commercial Borrowings (ECB) and Foreign Travel**

##### **(a) ECB Policy – Liberalised**

Some aspects of the ECB policy have been modified as indicated below :

- i) As per the extent ECB policy, the all-in-cost ceilings for ECBs, in respect of both automatic as well as approval routes are as under :

Average Maturity Period	All-in-Cost Ceilings over 6 months LIBOR*
Three years and up to five years	300 bps
More than five years	500 bps

\* for the respective currency of borrowing or applicable benchmark.

The all-in-cost Ceilings on ECB have been dispensed with until June 30, 2009. Accordingly, eligible borrowers proposing to avail of ECB beyond the permissible all-in-cost ceilings specified above, may approach the Reserve Bank under the approval route. This relaxation in all-in-cost ceiling would be reviewed in June 2009.

- ii) Corporates engaged in the development of integrated township, have now been permitted to avail of ECB under the approval route. **Integrated township includes housing, commercial premises, hotels, resorts city and regional level urban infrastructure facilities, such as, roads and bridges, mass rapid transit systems and manufacture of building materials.** Development of land and providing allied infrastructure form an integrated part of a township's development. The minimum area to be developed should be 100 acres for which norms and standards are to be followed as per the local bye-laws/rules. In the absence of such bye-laws/rules, a minimum of two thousand dwelling units for about ten thousand population will need to be developed. The policy would be reviewed in June 2009.
- iii) NBFCs which are exclusively involved in financing the infrastructure sector are now allowed to avail of ECBs from multilateral / regional financial institutions and government owned development financial institutions for on-lending to borrowers in the infrastructure sector, under the approval route. While considering applications, the Reserve Bank will take into account the aggregate commitment of these lenders directly to infrastructure projects in India. The direct lending portfolio of these lenders vis-à-vis their total ECB lending to NBFCs, at any point of time, should not be less than 3:1. AD Category – I banks should obtain a certificate from the eligible lenders to this effect. This facility would be reviewed in June 2009.
- iv) Entities in the service sector viz., hotels, hospitals and the software sector have now been permitted to avail of ECB up to USD 100 million per financial year under the automatic route, for foreign currency and or rupee capital expenditure for permissible end-use. The proceeds of the ECBs should not, however be used for acquisition of land. The modifications to the ECB guidelines will come into force from January 2, 2009.

**(b) Payment for Foreign Travel**

Ads Category I & II and full-fledged money changers (FFMCs) have been permitted to accept payments made by travelers through debit/credit/pre-paid cards for travel abroad (for private visit or for any other purpose) provided :

- i) Know your customer (KYC) / anti-money laundering (AML) guidelines are complied with;
- ii) Sale of foreign currency/ issue of foreign currency travellers' cheques is within the limits (credit/pre-paid cards) prescribed by the bank; and
- iii) The purchaser of foreign currency/ issue of foreign currency travellers' cheque and the credit/debit/ pre-paid card holders is one and the same person.

It may be recalled that in October 2000, Ads were permitted to accept payment in cash up to Rs.50,000 against sale of foreign exchange for travel abroad (for private visit or for any other purpose). Wherever the sale of foreign exchange exceeds the amount equivalent to Rs.50,000, the payment must be received only by (i) a cross cheque drawn on the applicant's bank account, or (ii) a crossed cheque drawn on the bank account of the firm / company sponsoring the visit of the applicant, or (iii) a banker's cheque / pay order/demand draft.

*(Source : RBI: Monetary and Credit Information Review, January 2009)*

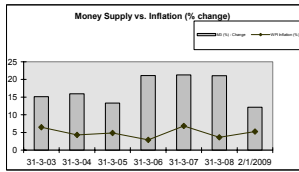
APPENDIX I: Index of Industrial Production : Sectoral and Use-Based Classification

Industry Group	Weight in the IIP	Growth Rate		
		2007-08 April-March**	2007-08 April-November *	2008-09P
1	2	3	4	5
<b>Sectoral</b>				
Mining	104.73	5.2	5.1	3.4
Manufacturing	793.58	9.0	9.8	4.0
Electricity	101.69	6.4	7.0	2.9
<b>Use-Based</b>				
Basic Goods	355.65	7.0	8.4	3.5
Capital Goods	92.57	18.0	20.9	7.5
Intermediate Goods	265.14	9.0	9.8	0.1
Consumer Goods (a+b)	286.64	6.1	5.3	6.0
a) Consumer Durables	53.65	-1.0	-1.9	4.3
b) Consumer Non-durables	232.99	8.6	8.1	6.4
<b>General</b>	<b>1000.0</b>	<b>8.5</b>	<b>9.2</b>	<b>3.9</b>

P : Provisional

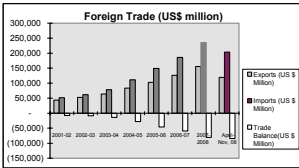
Source : \* Government of India, PIB dated January 12, 2009

\*\*RBI, Handbook of Statistics on the Indian Economy



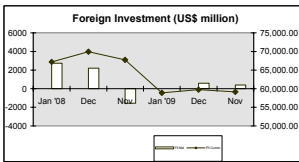
	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	2/1/2009
M3 (Rs. Crore)	17,25,222	20,03,102	22,53,939	27,29,535	33,10,276	40,06,722	44,91,853
M3 (%): Change	15.14	15.95	13.30	21.10	21.27	21.04	12.11
WPI (Index) All Commodities	172.30	180.30	189	196.6	210.0*	217.6**	229.0***
WPI Inflation (%)	6.49	4.29	4.83	2.91	6.82	3.62	5.24

Source: RBI Bulletin January 2009; WSS: January 23, 2009    \$1993-94=100; year/month-end:    \* March 31, 2007    \*\* January 05, 2007    \*\*\* January 03, 2009



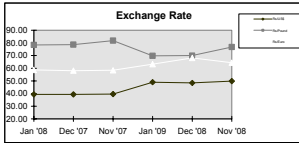
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-2008	April-Nov, 08
Exports (US \$ Million)	43,827	63,843	83,536	103,091	126,414	155,512	155,512	119,301
Imports (US \$ Million)	52,719	78,149	111,517	149,166	185,735	235,911	235,911	203,642
Trade Balance (US \$ Million)	(8,892)	(14,306)	(27,981)	(46,075)	(59,321)	(80,398)	(80,398)	(84,341)

Source: RBI Bulletin, December 2008    Revised figures for 2001-02 to 2007-08 (April-March)  
\* DGC&S data for April 2006 to March 2007 (Provisional) : Economic & Political Weekly, January 17, 2009



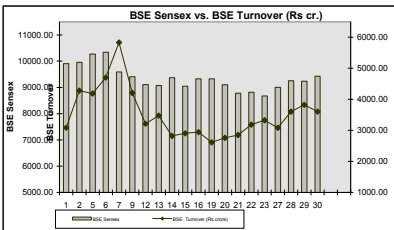
	2007-08 (US\$ million)			2008-09 (US\$ million)		
	Jan '08	Dec '07	Nov '07	Jan '09	Dec '08	Nov '08
FDI Net	2,747.1	2,203.9	(1,566.6)	(853.20)	588.9	400.8
FDI Cum.	67,207.30	69,951.30	67,758.30	58,883.90	59,737.30	59,146.20

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



	2007-08			2008-09		
	Jan '08	Dec '07	Nov '07	Jan '09	Dec '08	Nov '08
Rs/US\$	39.39	39.41	39.67	49.02	48.45	49.84
Rs/Pound	78.40	78.74	81.78	69.84	70.01	76.81
Rs/Euro	58.73	58.12	58.46	63.23	68.22	64.38

Figures are for month-end



January 2009	BSE Sensex	BSE Turnover (Rs crore)
31-Dec-08	9647.31	3746.00
1	9903.46	3089.00
2	9958.22	4280.00
3	10275.60	4188.00
4	10335.93	4701.00
5	9586.88	5832.00
6	9406.47	4207.00
7	9110.05	3213.00
8	9071.36	3477.00
9	9370.09	2819.00
10	9046.74	2985.00
11	9323.99	2943.00
12	9329.57	2613.00
13	9100.55	2759.00
14	8779.17	2852.00
15	8813.84	3185.00
16	8674.35	3326.00
17	9004.08	3084.00
18	9257.47	3607.00
19	9236.28	3825.00
20	9424.24	3606.00



**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 2008	Real Rate (Short-term) (1-3)	Currency unit per Euro 14.01.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 14.01.09	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	2.65	2.94	1.60	3.10	0.76	0.68	-1.60	1.05	1.00	-38.7	-61.5	-0.3
			Dec							Oct		
U. S. A.	0.29	2.21	1.10	4.30	1.00	1.00	-3.20	-0.81	1.32	-833.1	-697.9	-4.5
			Nov							Nov	Q3	
Britain	2.23	3.37	4.10	2.10	0.69	0.51	-5.30	-1.87	0.91	-178.6	-45.6	-2.4
			Nov							Nov	Q3	
Japan	0.62	1.27	1.00	0.60	88.80	107.00	-3.30	-0.38	116.84	47.3	167.1	3.8
			Nov							Nov	Nov	
Sweden	1.30	2.65	0.90	3.50	8.42	6.42	2.40	0.40	11.08	17.7	40.5	7.3
			Dec							Nov	Q3	
Switzerland	0.57	2.02	0.70	2.00	1.12	1.10	0.90	-0.13	1.47	18.2	40.3	9.1
			Dec							Nov	Q2	
India	4.69	6.76	10.40	5.50	48.80	39.30	-4.30	-5.71	64.21	-112.3	-28.5	-3.6
			Nov							Nov	Q3	

Source: The Economist London, January 17th - 23rd, 2009

Figures in Column 9 are derived.

\*\*RPI Inflation rate 3.0% in Nov.

**Annexure 2 : Important Economic Indicators for Select Emerging Market Countries**

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2008	Real Rate (Short-term) (1-3)	Currency unit per Euro 14.01.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 14.01.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	1.48	2.75	2.4	6.9	6.84	7.23	-0.1	-0.92	9.00	295.1	371.8	10.2
			Nov							Dec	2007	
Hongkong	0.80	1.30	3.1	3.4	7.76	7.80	-3.9	-2.30	10.21	-28.0	27.1	9.4
			Nov							Nov	Q3	
Indonesia	11.11	10.10	11.1	4.9	11100.00	9445.00	-1.4	0.01	14605.26	12.1	3.9	0.4
			Dec							Nov	Q3	
Malaysia	3.37	4.10	5.7	2.3	3.57	3.27	-5.0	-2.33	4.70	42.2	38.3	12.8
			Nov							Nov	Q3	
Singapore	0.77	1.85	5.5	4.2	1.49	1.43	0.80	-4.73	1.96	19.7	29.2	16.6
			Nov							Nov	Q3	
South Korea	3.16	4.34	4.1	3.6	1348.00	940.00	1.1	-0.94	1773.68	-14.2	-7.9	-2.2
			Dec							Dec	Nov	
Taiwan	1.15	1.42	1.2	3.3	33.30	32.30	-1.6	-0.05	43.82	3.9	28.8	6.4
			Dec							Dec	Q3	
Thailand	3.85	2.78	0.4	3.2	34.90	33.10	-1.4	3.45	45.92	-1.3	-0.6	-1.0
			Dec							Nov	Nov	
Brazil	13.66	6.16	5.9	4.5	2.36	1.77	-1.5	7.76	3.11	24.7	28.3	-1.8
			Dec							Dec	Nov	
Venezuela	17.65	6.55	30.9	22.4	5.37	5.40	-1.1	-13.25	7.07	50.2	49.4	15.5
			Dec							Q3	Q3	
India	4.69	6.76	10.40	5.50	48.80	39.30	-4.3	-5.71	64.21	-112.3	-28.5	-3.6
			Nov							Nov	Q3	

Source: The Economist London, January 17th - 23rd, 2009

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