



Update on Indian Economy January 2010

Economic Snapshot

Contents	Item	Units	December	November	December	(%) Change	
			2009	2009	2008	[1]/[2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	245.4	242.2	234.2	1.3	4.8
- Capital Market	WPI -Inflation**	Per cent	1.3	4.8	4.4		
- India-Canada Relationship	IIP (93-94=100)	2 months lag	290.1	301.4	262.9	-3.7	10.3
- Other Markets			(Oct 09)	(Sept 09)	(Oct.08)		
- Important Policy Pronouncements	INR / US\$	Month End	46.56	46.42	48.45	0.3	-3.9
	M3	Rs. '000 Cr.	5218.62	5173.15	4423.74	0.9	18.0
	[i] Agg.Deposits	Rs. '000 Cr.	4488.35	4458.18	3801.57	0.7	18.1
	[ii] Currency	Rs. '000 Cr.	730.27	714.97	622.17	2.1	17.4
	Call Money (Lendings)	% Range Week ended	1.50/3.40 (11.12.09)	2.00/3.35 (13.11.09)	3.00-6.20 (12.12.08)	-	-

Source: RBI Weekly Statistical Supplement Dec 25, 2009 & Economic & Political Weekly Dec 26, 2009

*All Commodities. **Over the year.

Editorial

A) Domestic

According to the Index of Industrial Production, the latest data available for October 2009 indicates that the industrial production has increased to 7.1% during April–October 2009-10 from 4.3% in the corresponding period of 2008-09. The growth in the manufacturing sector which comprises about 80% of the weight in the index increased remarkably to 7.1% from the low of 4.5% during the first seven months (April – December) in 2009-10. There was also a significant increase in the growth rate of mining & quarrying, again from 3.8% to 7.9%. These developments indicate that the growth rate in gross domestic product (GDP) is sustained by the manufacturing sector. There was however, a decline in the foodgrains production of Kharif largely due to erratic monsoons. However, the Rabi production of foodgrains and other Rabi crops is expected to be higher and expected to compensate the loss in Kharif production.

Thus the growth rate of GDP in 2009-10, according to Dr. C Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister, is forecasted to be 7–7.5% despite some slowdown in agricultural production. The industrial and service sector growth rate is likely to be each around 8.7%, and this will provide sustainability to GDP growth rate of around 9% during next two years 2010-11 and 2011-12, because thrust of the economic policy continues to achieve 9% in GDP growth rate. With the control on inflation, this order of growth rate would significantly improve the quality of life of the common man.

B) International

The talks under the United Nations Framework Convention on Climate Change (UNFCCC) were held from December 7–18, 2009. The talks involved intense two-year negotiation process, dotted with additional high-level meetings, and blessed by the presence of more than 130 heads of State. At the end of talk press release was issued representing what is called “Copenhagen Accord”. There were divergent views and by the developing countries the Accord represented complete collapse of negotiations. The outcomes called into question whether the community of nations can, in fact, craft an effective response to climate change.

Copenhagen Crunch

The concrete negotiation issues that led to this impasse, or ‘crunch’ issues in the parlance of the talks – mitigation commitments, financing, and measurement, reporting and verification (MRV) – reflect the underlying tension over differential treatment of industrialized and developing countries.

The USA has made it clear that economic issues are more important for them than climate problems; and it was only a symbolic gesture when Vice President Al Gore signed the protocol in November 1998. Neither the Clinton administration nor President George W. Bush have been willing to agree to the Kyoto Protocol’s term of action. The big question is now: Will President Barack Obama act differently? Well, so far he has done nothing! He hasn’t asked US Senate to change its previous negative decisions; he hasn’t made any proposals in relation to changes of policy in favor of a cleaner and better environment; and regarding the Kyoto Protocol he said, “It doesn’t make sense for the USA to sign because it is about to end”. However, when he said that in a speech in Turkey in April 2009, the Kyoto agreement would remain as the set of rules for almost three more years.

Interpreting the Accord

There are multiple ways of asking whether Copenhagen was a meaningful step. From a strictly emissions perspective, the Copenhagen process did culminate in a variety of country pledges to emission cuts. Annex–1 country pledges are estimated to aggregate to 6.4% below 1990 levels by 2020, substantially short of the IPCC calls for a 25-40% reduction.

The final Copenhagen Accord reaffirms the importance of limiting global warming to 2°C, but current national commitments would lead to approximately 3.9°C (7.0°F) warming by 2100.

Copenhagen Accord and India

Minister of State for Environment and Forest, Jairam Ramesh, has offered the conclusion that the Copenhagen Accord is a “Good Deal” for India. This perspective seems to be based on the claim that India’s “redlines” of no cuts, no international verification had been met.

Capital Market Review

The month of December 2009 started on a positive note especially after witnessing setback over Dubai's debt fallout. BSE Sensex surged 227.05 points to close at 17,198.27 on December 1, 2009. The GDP growth rate of 7.9% in the Second Quarter of 2009-10 beaten the expectations and surprised the markets positively. The General Index of Industrial Production (IIP) for the month of October was 10.3 % which resulted in rate of industrial production during April–October (2009-10) to 7.1% as compared to the rate of 4.3% in corresponding period of 2008-09.

BSE Realty index that lost had substantially in the last week of November recovered during the first week of December 2009. Among the sectoral indices, BSE IT index gained the maximum 9% in the month of December 2009. The rally was led by bellwether Infosys followed by HCL Tech, TCS and Wipro. The signs of stability in the Global economy had positive impact on IT companies. The other indices, BSE Metal gained 6.8% as base metal prices rallied. Top gainers in this segment were SAIL, Tata Steel, JSW Steel, Hindalco and Jindal Steel.

The mixed trend were noticed in the month of December 2009 but the overall performance of the capital market remained positive with BSE Sensex closing at 15 months high of 17,464.81, registering a rise of 538.59 points or 3.18 per cent.

	December	November	December	November	(%) Change		
	2009	2009	2008	2008	[1]/[2]	[1]/[3]	[2]/[4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	17464.81	16926.22	9647.31	9092.72	3.18	81.03	86.15
	(31.12.09)	(30.11.09)	(31.12.08)	(28.11.08)			
Monthly High	17464.81	17198.95	10099.91	10631.12	1.55	72.92	61.78
	(31.12.09)	(25.11.09)	(19.12.08)	(04.11.08)			
Monthly Low	16601.20	15404.94	8739.24	8451.01	7.77	89.96	82.29
	(24.12.09)	(03.11.09)	(02.12.08)	(20.11.08)			
S&P CNX Nifty –Close	5201.05	5032.7	2959.15	2755.1	3.35	75.76	82.67
P/E Ratio : BSE – 30	22.36	21.53	12.3	11.6	3.86	81.79	85.60
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	57393.5	63623	40310.7	39488.7	-9.79	42.38	61.12
Outflows – Rs. Cr.	48682.6	57451.8	37933.5	37871.3	-15.26	28.34	51.70
Net – Rs. Cr.	8710.9	6171.2	2376.6	1616.7	41.15	266.53	281.72
Cum. Net Inv–US\$ Mn. (Month End)	80072.71	78199.9	59737.3	59148.2	2.39	34.04	32.21

The cumulative investment by FIIs stood at US\$ 80.07 billion in December 2009, and this reflected a rise of US\$ 1.87 billion over the month.

India Canada Relationship

Introduction

India and Canada has longstanding relationship since independence of India in 1947. The relationship flourished during 1940s to 1960s, thanks to the then Prime Ministers of India and Canada who served during those years. Canada was the first country to assist India in building nuclear reactor for civil purposes. The first atomic reactor built in India at

Rawatbhata in the state of Rajasthan was based on Canadian design. The relation came to a halt in 1974 after a nuclear test conducted by India.

After the Indian economic reforms & liberalization in 1991, Canadian government and business community started focusing on India. However, the nuclear test in 1998 put India Canada trade relation on hold. India – Canada relations resumed in 1999 after the efforts from both the side governments. Since then, the relations have been picking up as regular bilateral meetings have been successful resulting in trade and investments deals.

Trade

Initially, the barrier to trade and invest in India was hurdle in expanding economic relations between the two countries. In 2003-04, the share of Canadian trade in India's total trade is merely 1% where total trade was US \$1.48 billion. The trade balance was favorable to India during the three years from 2003-04 to 2005-06, but subsequently Indian imports from Canada rose much above the exports to Canada resulting in trade balance becoming adverse to India. Indian Exports to Canada continued to remain below 1% of the total Indian Exports.

India Canada Trade (US \$ million)

Year (April-March)	Indian Exports to Canada	Total India Exports	Indian Imports from Canada	Total Indian Imports	Share (percent) of total Indian		Total Indian Trade with Canada (1+3)
					Exports to Canada	Imports from Canada	
	1	2	3	4	5	6	7
2003-04	763	63843	726	78149	1.2	0.9	1489
2004-05	867	83536	776	111517	1.0	0.7	1643
2005-06	1022	103091	920	149166	1.0	0.6	1942
2006-07	1110	126263	1776	185604	0.9	1.0	2886
2007-08	1266	162984	1973	251562	0.8	0.8	3239
2008-09*	1008	131127	1781	235338	0.8	0.8	2788

Source: Ministry of Commerce and Industry

Note: *Figures for 2008-09 is for the period April – December.

Exports to Canada include Textiles, Carpets, Floor spreads, Readymade garments, Jewelry, Cotton yarn, Organic chemicals, Coffee Spices, Iron and steel articles, Rice, cereals, processed foods, Marine products and Footwear.

Imports from Canada consist of Peas, Copper, Minerals, Industrial chemicals, Newsprint, Wood pulp, Asbestos and Iron scrap.

Investments

Canadian Foreign Direct Investment in India stood at US \$ 277.15 million for the period April 2000 to October 2009, which is 0.27% of the overall FDI in India. The sectors that have attracted investment in India are power & energy, equipment & services; oil and gas; environment products & services; telecommunications & information technology; and the financial sector, including insurance.

Indian investment in Canada has increased from US\$ 18 million in 1999 to US \$ 29 million in 2002. After removal investments ceiling of US \$100 million, Indian investments in Canada has increased with major software companies investing in Canada and expanded their operations.

Bilateral Relations

The Prime Minister of Canada, Mr. Stephen Harper, paid an official visit to India from November 15-18, 2009, at the invitation of the Prime Minister of India, Dr. Manmohan Singh. The Prime Ministers agreed on initiatives to strengthen and diversify bilateral relations and to collaborate on a shared international agenda. They also agreed to intensify the economic and trade relationship by concluding bilateral economic agreements.

Canadian Prime Minister Mr. Stephen Harper and Indian Prime Minister Dr. Manmohan Singh announced late on Saturday (November 28, 2009) night that they concluded the Civil Nuclear Cooperation Agreement after a year of negotiations. It is believed that the Nuclear Deal will warm up Canada India Relationship.

The leaders discussed regional and global issues of shared interests. The Prime Ministers noted the depth and dynamism of the relationship between the two countries which is marked by common values and shared traditions of democracy, the rule of law and pluralism.

The Prime Ministers agreed on the importance of working collaboratively towards global economic recovery, building international efforts in advance of the G-20 meeting that Canada will host in June 2010.

Other Markets

Debt Market

In November 2009, various financial entities remained active in the primary issuance market. Few players like ICICI Home Finance Ltd., Infrastructure Development Finance Company Ltd., LIC Housing Finance Ltd. entered the market repeatedly to raise funds. Rural Electrification Corporation Ltd. remained the single largest issuer with issue size of Rs.1,938.90 crore, followed by Nuclear Power Corporation of India Ltd.(Rs.1,350 crore). Infrastructure Development Finance Company Ltd. raised an aggregate amount of Rs.1,455 crore via five different issues.

Name of the Issuer	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
I. Bank				
IDBI Bank	15 yrs	AA	280	Upper Tier II Bond
I. Financial Institutions				
Infrastructure Development Finance Company Ltd	14, 16 months	AAA	1,100	Bonds/NCD
	25 months	AAA	175	Bonds/NCD
	3 yrs	AAA	100	Bonds/NCD
	2 yrs	AAA	60	Bonds/NCD
	61 months	AAA	10	Bonds/NCD
LIC Housing Finance Ltd.	3 yrs	AAA	500	Bonds/NCD
	14 months	AAA	300	Bonds/NCD
Housing Development Finance Corporation Ltd.	13 months	AAA	500	Bonds/NCD
ICICI Home Finance Company Ltd.	10 yrs	AAA	400	Bonds/NCD
	10 yrs	AAA	99	Bonds/NCD
PNB Housing Finance Ltd.	10 yrs	AAA	200	Bonds/NCD
I. Non Financial Institutions				
Rural Electrification Corporation Ltd.	3, 10 yrs	AAA	1938.9	Bonds/NCD
Nuclear Power Corporation of India Ltd.	10 yrs	AAA	1350	Bonds/NCD
Reliance Capital Ltd.	3 yrs	AAA	250	Bonds/NCD
TATA Chemicals Ltd.	2 yrs	AA+	150	Bonds/NCD
Tube Investments of India Ltd.	5 yrs	AA	150	Bonds/NCD
Mahindra & Mahindra Financial Services Ltd.	10 yrs	AA	75	Bonds/NCD
	10 yrs	AA	25	Bonds/NCD

(Sources: Credit Analysis & Research Ltd., December, 2009)

Call Money Market

The call money rate on December 11, 2009 in respect of borrowings ranged between 1.50% and 3.40% as compared to the rates of 3.00% - 6.20% on December 12, 2008 (i.e. a year ago) reflecting that there was greater liquidity in the market leading to softening of interest rates. The average daily turnover in the call money market was Rs.5,366 crore for the week ending December 11, 2009 and this rose to Rs 5,936 crore on December 18, 2009.

Foreign Exchange Market

The exchange rate (RBI reference rate) on December 18, 2009 was Rs.46.85 per US dollar as compared to Rs.46.66 per US dollar on December 14, 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 2.95% on December 18, 2009 as compared to a premium of 2.83% on December 14, 2009 (a week ago), which reflects that supply of dollars is likely

to become relatively hard in the forthcoming weeks. The foreign currency assets were US\$ 258.85 billion on December 18, 2009, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 283.64 billion. From end-March 2009, the foreign exchange reserves registered an increase of US\$ 31.66 billion upto December 18, 2009. The market rate (buying) was Rs.46.56 per US dollar on December 31, 2009.

Important Policy Pronouncements

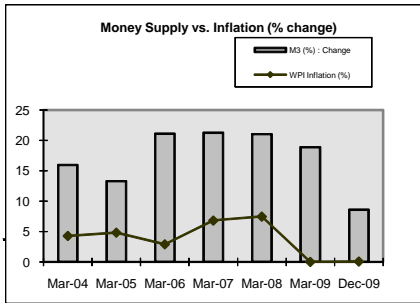
RBI buys gold from IMF

The RBI has purchased 200 tonnes of gold valued at Rs.31,490 crore (US\$ 6.7 billion) from the International Monetary Fund (IMF) under the latter's limited gold sales programme. The purchase was done as part of the foreign exchange reserves management operations. It was an official sector off-market transaction, executed over a two-week period from October 19, 2009 at market-based prices. Of the total foreign exchange reserves of \$286 billion as on October 23, 2009, the RBI holds gold valued at US\$ 10 billion. With the latest purchase, the RBI's gold holding will touch 557.7 tonnes. India has come long way since 1991, when foreign currency reserves shrank to almost nothing and default on external borrowings appeared imminent.

RBI: Payments settlement within 2 days

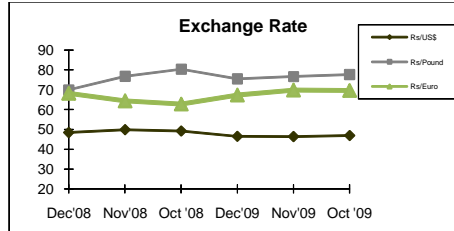
The RBI has stipulated that payments made using electronic and online modes for purchasing goods and services should be settled within two days of completing the transaction. All payments to merchants that do not involve transfer of funds to nodal banks will need to be effected within a maximum of T+2 settlement cycle (T is defined as the day of intimation regarding the completion of transaction). Also, all payments to merchants involving nodal banks should be effected within a maximum of T+3 settlement cycle.

(Source: IIBF Vision, December 2009)



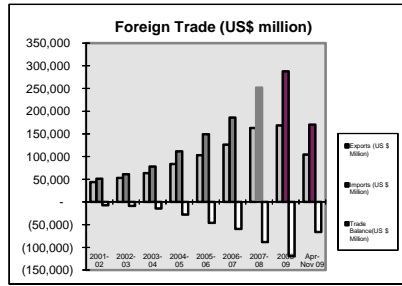
	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Dec-09
M3 (Rs. Crore)	2,003,102	2,253,938	2,729,535	3,310,278	4,006,722	4,764,019	5,173,152
M3 (%): Change	15.95	13.30	21.10	21.27	21.04	18.90	8.59
WPI (Index) All C	180.30	189	196.6	210	225.7*	227.3**	245.4***
WPI Inflation (%)	4.29	4.83	2.91	6.82	7.47	0.01	0.07

Source: RBI Bulletin March 2009; W: \$1993-94=100; year/month-end * March 31, 2001 ** March 07, 2008 *** November, 2009



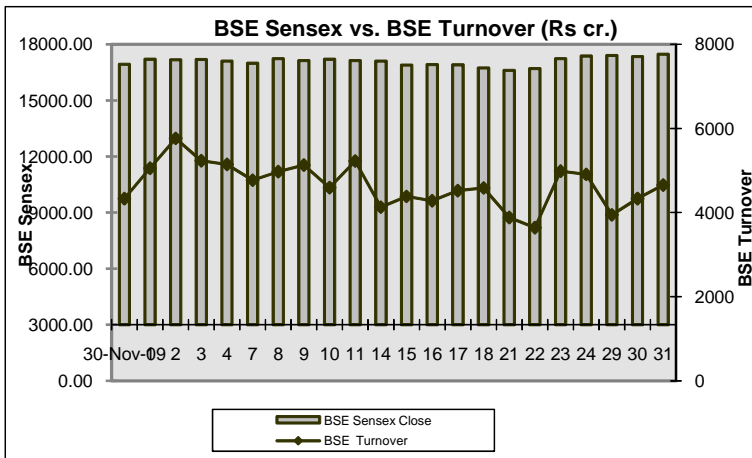
	2008-09			2009-10		
	Dec'08	Nov'08	Oct '08	Dec'09	Nov'09	Oct '09
Rs/US\$	48.45	49.84	49.25	46.56	46.42	46.98
Rs/Pound	70.01	76.81	80.36	75.48	76.74	77.66
Rs/Euro	68.22	64.38	62.84	67.36	69.88	69.65

Figures are for month-end



During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Apr-Nov 09
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,091	126,361	163,132	168,704	104,247
Imports (US \$ Million)	51,413	61,412	78,149	111,517	149,166	185,749	251,654	287,759	170,430
Trade Balance (US \$ Mill)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,388)	(88,522)	(119,055)	(66,183)

Source: Ministry of Commerce Revised figures for 2001-02 to 2007-08 (April-March)
*DGCI&S data for April 2008 to March 2009(Provisional)



December 2009	BSE Sensex Close	BSE Turnover (Rs.crore)
30-Nov-09	16926.22	4328
1	17,198.27	5050
2	17,169.91	5764
3	17,185.68	5228
4	17,101.54	5141
7	16,983.14	4769
8	17,227.68	4969
9	17,125.22	5129
10	17,189.31	4588
11	17,119.03	5226
14	17,097.55	4130
15	16,877.16	4382
16	16,912.77	4277
17	16,894.25	4518
18	16,719.83	4585
21	16,601.20	3878
22	16,692.00	3640
23	17,231.11	4982
24	17,360.61	4909
29	17,401.56	3945
30	17,343.82	4327
31	17,464.81	4652



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 2009	Real Rate (Short-term) (1-3)	Currency unit per Euro 15.07.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2009
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 26.08.09	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	0.83	3.23	-0.7	4.00	0.70	0.68	-6.4	1.53	1.00	-40.1	-158.1	-1.3
			Jul							Jun	May	
U. S. A.	0.21	3.45	-2.1	5.60	1.00	1.00	-13.7	2.31	1.43	-639.5	-628.3	-3.0
			Jul							Jun	Q1	
Britain	0.75	3.67	1.8	4.40	0.62	0.54	-14.4	-1.05	0.89	-139.8	-52.5	-1.7
			Jul							Jun	Q1	
Japan	0.4	1.32	-1.8	6.30	94.30	110.00	-7.9	2.2	134.71	9.0	115.3	2.5
			Jul							Jun	Jun	
Sweden	0.14	3.39	-0.90	4.10	7.12	6.40	-4.7	1.04	10.17	12.9	31.4	6.7
			Jul							Jul	Q1	
Switzerland	0.32	1.96	-1.2	3.10	1.07	1.10	-3.1	1.52	1.53	15.8	56.6	7.4
			Jul							Jul	Q1	
India	3.35	7.62	9.3	7.70	48.90	43.80	-7.8	-5.95	69.86	-93.4	-29.8	-1.2
			Jun							Jun	Q1	

Source : The Economist London : August 29th-September 4th, 2009
 **RPI Inflation rate -1.2 in Jan.

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 2009	Real Rate (Short-term) (1-3)	Currency unit per Euro 15.07.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2009
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 26.08.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	1.73	3.7	-1.8	6.3	6.83	6.84	-4.1	3.53	9.76	269.4	426.1	6.5
			Jul							Jul	Q4	
Hongkong	0.21	2.29	-1.5	6.3	7.75	7.81	-3.9	1.71	11.07	-21	29.6	9.2
			Jul							Jun	Q1	
Indonesia	7.03	6.52	2.7	11.9	10025.00	9160.00	-2.8	4.33	14321.43	11.2	4.4	0.9
			Jul							Jun	Q2	
Malaysia	2.14	2.11	-2.4	8.5	3.52	3.38	-8.0	4.54	5.03	38.2	40.5	14.1
			Jul							Jun	Q1	
Singapore	0.50	2.27	-0.5	6.5	1.45	1.42	-4.1	1	2.07	18.4	21.4	14.4
			Jul							Jul	Q2	
South Korea	2.51	5.30	1.6	5.9	1245.00	1084.00	-5	0.91	1778.57	21.9	20.7	3.2
			Jul							Jul	Jun	
Taiwan	0.85	1.33	-2.3	5.8	32.90	31.50	-5.2	3.15	47.00	15.9	31.9	10.3
			Jul							Jul	Q2	
Thailand	1.38	3.13	-4.4	9.2	34.00	34.10	-5.6	5.78	48.57	11.3	8.1	5.2
			Jul							Jul	Jun	
Brazil	8.65	6.16	4.5	6.4	1.87	1.62	-2.8	4.15	2.67	27.1	-17.9	-1.3
			Jul							Jul	Jul	
Venezuela	14.50	6.55	28.3	33.7	6.40	3.65	-7.6	-13.8	9.14	18.5	10.3	1.4
			Jul							Q2	Q2	
India	3.35	7.62	9.3	7.7	48.90	43.80	-7.8	-5.95	48.90	-93.4	-29.8	-1.2
			Jun							Jun	Q1	

Source : The Economist London : August 29th-September 4th, 2009

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