



Update on Indian Economy

July 2005

Economic Snapshot

Contents	Item	Units	June	May	June	(%) Change	
			2005	2005	2004	[1] / [2]	[1] / [3]
			[1]	[2]	[3]	[4]	[5]
			(Apr 05)	(Mar 05)	(Apr 04)	-	-
Editorial	WPI -Index*	1993-94=100	192.5	192.0	184.7	0.26	4.22
Capital Market	WPI -Inflation**	Per cent	4.22	6.02	7.01	-	-
Country : U.K.		Week ended	4/6/2005	7/5/2005	5/6/2004	-	-
Other Markets	IIP (93-94=100)	2 months lag	206.1	225.8	190.3	-8.72	8.30
Important Policy			(Apr 05)	(Mar 05)	(Apr 04)	-	-
Pronouncements	INR / US\$	Month End	43.59	43.54	45.96	0.11	(5.16)
	M3	Rs. '000 Cr.	2357.33	2350.37	2070.77	0.29	13.84
	[i] Agg. Deposits	Rs. '000 Cr.	1976.55	1967.8	1734.93	0.44	13.93
	[ii] Currency	Rs. '000 Cr.	380.78	382.57	335.84	(0.47)	13.38
		(Outstanding as on)	(10/06/05)	(13/05/05)	(11/06/04)	-	-
	Call Money	% Range	4.00-5.75	3.50-5.30	3.5-5.50	-	-
	(Lendings)	Week ended	10/6/2005	13/5/2005	11/6/2004	-	-

Source: RBI Weekly Statistical Supplement June 25, 2005 & Central Statistical Organisation, Govt. of India

*All Commodities. **Over the year.

Editorial

A) Domestic

During the month of June 2005, Gujarat State Petroleum Corporation (GSPC) announced that it had struck gas in Krishna Godavari basin. It may be recalled that the company had bid for the block in NELP-III, and won the block against stiff competition from Reliance Industries and ONGC. It started drilling operations with the first well KG-1 in July 2004. GSPC's discovery is expected to spew commercial gas from the end of 2007. The reserves are estimated to be 20 trillion cubic feet (tcf), and valued at almost US\$ 50 billion. It should be possible to pump out 40-50 million cubic meters of gas every day, and this should make it possible to generate 10,000 mw of power. The GSPC is planning to sell 10-20% of equity in the market. However Director General of Hydrocarbon which is exploration regulatory authority is still trying to confirm the reserves claims. With this huge gas discovery, the manufacturing sector which has been registering year to year growth rate increases should help in further expansion of the manufacturing base and would contribute to the energy security of the country.

B) International

According to the IMF's World Economic Outlook, April 2005 three out of the world's 10 largest economies are in Asia i.e. Japan, China and Korea. Asia accounts for about one-fifth of global output and has contributed half of recent world economic growth. Thus global growth in the incoming years would depend upon what happens in Asia.

The gross domestic product (GDP) is expected to grow by 5 ¼ percent in 2005, though this is somewhat slower than the preceding year rate of 6 ¼ percent. Last year was perhaps the best because the growth was induced by exports mainly by surging demand for electronics; the ASEAN4 of semi conductors grew by 41%. The growth in electronics in 2005 is expected to come down to more normal level and consequently would result in slowdown in GDP growth to a more sustainable rate. Emerging Asia – China, India, the NIEs (Newly Industrialised Economies – Hong Kong SAR, Singapore and Taiwan Province of China), and the ASEAN4 (Indonesia, Malaysia, Philippines and Thailand) – is projected to grow collectively by 6 ½ percent in 2005 as compared with 7 ½ percent in 2004.

However, for economic growth in Asia in the coming years, there are three major risks, first, world oil prices have increased again this year, and as of mid-May are around 20 percent higher than they were in December 2004, hurting regional incomes and putting upward pressure on inflation. Second, global current account imbalances have continued to widen, threatening to trigger a disorderly adjustment of world currencies and interest rates. Correcting global imbalances is a responsibility which has to be shared by countries, requiring more flexible exchange rates in emerging Asia where appropriate, as well as policies to increase national savings in the United States, and further structural reforms in Europe and Japan to boost their growth. Third, the risks to growth in the advanced economies outside Asia are predominantly on the downside, in that demand for Asian Exports may decelerate by more than projected in the second half of the year.

Finally, the current account surplus of the region is forecast to decline nominally from 3¼ percent of GDP in 2004 to 2¾ percent of GDP in 2005. Further, regional rate of inflation is projected to remain the same at around 3%.

Capital Market Review

	June	May	June	May	(%) Change		
	2005	2005	2004	2004	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	7193.85	6715.11	4795.46	4759.62	7.13	50.01	41.09
Monthly High	7218.28	6724.99	4963.75	5757.30	7.34	45.42	16.81
Monthly Low	7154.27	6642.61	4644.00	4505.16	7.70	54.05	47.44
S&P CNX Nifty –Close	2220.60	2078.55	1506.00	1483.60	6.83	47.45	40.10
P/E Ratio : BSE – 30	16.03	15.28	14.30	15.80			
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	25959.6	15619.4	10894.10	15654.70	66.20	138.29	(0.23)
Outflows – Rs. Cr.	20701.5	17005.4	11167.50	19200.80	21.73	85.37	(11.43)
Net – Rs. Cr.	5258.2	(1385.8)	(273.60)	(3546.40)	279.4	1821.86	(60.92)
Cum. Net Inv–US\$ Mn. (Month End)	36480	35270	26374.10	27753.80	3.43	38.32	27.08

The market buoyancy during the month of June 2005 was unprecedented; the BSE sensex advanced by 478.74 to 7193.85 on June 30, 2005 from 6715.11 on May 31, 2005. The BSE sensex not only reflected intra day large movements but also closed all time high. The BSE is in the process of corporatisation and demutualization as directed by the Government. However, several Mutual Funds launched their IPOs in recent months with the result that Mutual Funds are flushed with funds. During the month, the market moved by FIIs, Mutual Funds, and both these remained net buyers of equity. The market grapevine indicated that Japanese FIIs were also active in the Indian Capital Market. However, domestic participants remained cautious.

The month was dominated by the settlement between Mukesh Ambani and Anil Ambani. As per the settlement reached between the Ambani brothers, Mukesh Ambani will get hold of Reliance Industries (RIL), and IPCL, while Anil Ambani will take on the responsibility of Reliance Energy (REL), Reliance Capital (RCL) and Reliance Infocomm. RIL will divest its stake in REL, RCL and Reliance Infocomm. The stakes in the three companies are to be transferred to Anil Ambani through special purpose vehicle (SPV), in which shareholders of RIL will be given shares.

	(Rs. Crore)		
	FY 2005 Sales	FY 2005 NP	Market CAP* (on 17 June)
Mukesh Ambani			
Reliance Industries	66051	7572	83729
IPCL	98386	786	4035
Anil Ambani			
Reliance Energy	4159	520	11554
Reliance Capital	295	106	3033
Reliance Infocomm	NA	NA	

Source : Capital Market, July 04-17, 2005

The Board of Centurion Bank Ltd. and Bank of Punjab Ltd. have decided to merge the two banks. This merger has come within two months of the RBI unveiling new norms on mergers and acquisition among private sector banks.

The scripts like **Tata Power, Infosys Technologies, HDFC Bank, Gujarat Ambuja** attracted buyers; followed by some of the media stocks like **NDTV, Zee Telefilms**.

Country – United Kingdom

I Introduction :

The United Kingdom at one time dominated over one-fourth of the earth's surface but during the first half of the 20th Century because of the two World Wars witnessed dismantling of its empire. Now United Kingdom is rebuilding itself into a modern and prosperous European nation. It is a member of the European Union (EU) but it chooses to remain outside the Economic and Monetary Union for the time being. Population estimated for July 2005 is around 60.4 million of which 17.7% are in the age group of 0-14 years; 66.5% in the age group of 15-64 years and 15.8% are 65 years and over. Life expectancy at birth for the total population is 78.4 years.

II The U.K. : Unique Financial Position

United Kingdom is one of the Financial Centre of the world and the trading partner during the last two decades. The public ownership has been greatly reduced and social welfare programmes have been more focused. It produces about 60% of its food needs with less than 2% of the labour force. The country has large coal, natural gas and oil reserves and production of primary energy production accounts for 10% of GDP, which is perhaps the highest share of any industrial nation. While the share of industry has been declining the share of services points namely banking, insurance and business has been growing. Its economy is one of the strongest in Europe with low rates of inflation, interest and unemployment.

III Macro-economic Developments :

1. Macroeconomic performance over the past decade has been strong and steady, owing much to structural reforms and improvements in macroeconomic policies and policy frameworks. Having slowed gradually over the past year, because of higher mortgage interest rates and weaker house price appreciation, household consumption dampened. Real GDP growth is estimated at about 3 percent in 2004 and is expected to stay stable at about 2½ percent in 2005-06, in line with potential growth. Domestic demand remains the key driver of growth, underpinned by continued strong earnings growth and robust corporate profitability. Even though the unemployment rate fell to a 30-year low, wage growth stabilized and inflation remained subdued. Notwithstanding the recent cooling of the housing market, house prices are widely seen as overvalued.

IV India UK relationship :

The UK is India's largest trading partner among the European countries and also the second largest importer of engineering goods next only to US, India's total trade with UK is around US\$ 7 billion, and in 2004-05 the proportion of India's trade with UK was 3.74 of India's total trade (export + import) of US\$ 186.3 billion.

India's Trade with United Kingdom : Exports & Imports

(US\$ Million)

	Exports to UK (US \$ mn)	Total Indian Exports (US \$ mn)	Imports from UK (US \$ mn)	Total Indian Imports (US \$ mn)	Share (percent) of total Indian		Total Trade with U.K (1+3)	India's Total Trade (2+4)
					Exports to U.K.	Imports to U.K.		
	1	2	3	4	5	7	8	9
2000-01	2,299	44,076	3,168	49,975	5.21	6.34	5,467	94,051
2001-02	2,161	43,796	2,563	50,746	4.93	5.05	4,724	94,542
2002-03	2,496	51,072	2,777	59,387	4.89	4.68	5,273	110,459
2003-04	3,023	63,843	3,234	78,149	4.74	4.14	6,257	141,992
2004-05	3,545	79,247	3,431	107,066	4.47	3.30	6,976	186,313

Source: RBI: (i) Handbook of Statistics on Indian Economy 2003-04; (ii) Monthly Bulletin, June 2005

On 20th September 2004 the formation of India-UK Joint Economic Trade Committee (JETCO) was announced by the Prime Minister, Dr. Manmohan Singh and the UK Prime Minister, Mr. Tony Blair to strengthen and deepen the bilateral relationship between the two countries.

Recently in January 2005, the first meeting of JETCO was convened and the key areas such as agricultural, infrastructure included energy, services and knowledge-based industries, including research and development (R&D) were identified and these were considered to offer potential for increased trade and investment between the two countries. These were indicated in the joint statement issued by Shri Kamal Nath, Union Minister of Commerce & Industry and Ms. Patricia Hewitt, Secretary of State for Trade & Industry, UK.

It was agreed to convene an annual UK-India Investment Summit for increased mutual investment in future, and to examine issues of intellectual property rights (IPR) under government leadership. The UK-India Air Services Agreement of 2004 was supported for further increase in the frequency of bilateral trade services. Some of the important recommendations made by JETCO related to :

- a) Opportunities for agricultural co-operation,
- b) Co-operation in infrastructure between interested private sector organizations in the UK and India including with the Investment Commission in India and involving government where appropriate.
- c) Early conclusions of the proposed UK-India bilateral film co-production agreement.
- d) To initiate a dialogue on healthcare co-operation.

It was agreed that JETCO would play an important role in the process.

V The U.K. Economy : Looking Ahead

Looking ahead, the growth of the UK economy is expected to decline somewhat in the near term. This slowdown is, in part, a reflection of the dampening impact both of the recent series of interest rate increases and of the recent moderation in housing market activity.

Growth continues to be strong in the United Kingdom. Real GDP growth picked up to reach a quarter-on-quarter rate of 0.7% in the fourth quarter of 2004. Growth was driven by domestic demand, particularly by investment, which rose to a quarterly rate of 1.4%. Housing market activity decelerated further in January 2005, but the slower increase in house prices seemed to have a more limited impact on consumption than in the past. Given that the employment rate rose to 74.9% in the fourth quarter of 2004 and the number of job vacancies increased as well the labour market continued to be tight. Further the annual growth of average earnings – both including and excluding bonuses – increased slightly in the fourth quarter of 2004, with the impact on unit labour costs being mitigated by strong gains in labour productivity. Annual HICP inflation stood at 1.6% in January (unchanged from December 2004), thus remained below the inflation target of 2%.

The interest rate has been stable since August 2004, when it was raised to 4¾ percent, which is generally viewed as in a neutral range. The widening of the deficit reflected an increase in government spending in response to the perceived demand for better public services and a decline in equity-bubble-related revenues.

Since the United Kingdom is outside the EMU, the relatively good performance of the economy has posed problems with the Government whether to join the EMU or not. However, majority of Britain are still opposed to joining the EMU and the Euro. Meanwhile, Government is trying to speed up the improvement in education, transport and health services even at the cost of higher tax.

Other Markets

Debt Market : International

The decision of the G8 nations to write off the debt of the Highly Indebted Poor Countries (HIPC)s, mainly in Africa has a hard-nosed economic rationale. Sustained global economic growth requires the frontiers of globalisation to extend to countries that have so far been, by and large, outside the global economic system. The writing off of the debt in exchange for greater resources being spent on education and the removal of poverty will, over time, provide a larger labour force for the global economy.

Call Money Market

The call money market rate on June 10, 2005 in respect of borrowings ranged between 4.00% and 5.75% as compared to 3.50% and 5.50% on June 11, 2004 i.e. a year ago. A month ago, the rates were 3.50% - 5.30% on May 13, 2005 reflecting that there was hardening of the rate during the month. The average daily turnover in the call money market was Rs.9,896 crore for the week ending June 10, 2005 and this daily turnover declined to Rs.9,584 crore in the week ending June 17, 2005.

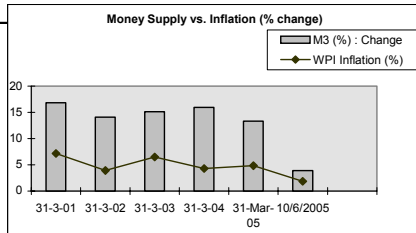
Foreign Exchange Market

The exchange rate (RBI reference rate) on June 17, 2005 was Rs.43.59 per US dollar as compared to Rs.45.63 per US dollar on June 18, 2004. This reflected an appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 1.28% on June 17, 2005 as compared to a premium of 0.55% on June 18, 2004 (a year ago), and this reflects that demand for dollars has risen and is likely to increase in the forthcoming months. The foreign currency asset were US \$ 133.61 billion on June 17, 2005, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 139.57 billion. From end-March 2005, the foreign exchange reserves registered a decline of US\$ 1.95 billion. The market rate (buying) was Rs.43.47 per US dollar on June 30, 2005.

Important Policy Pronouncements

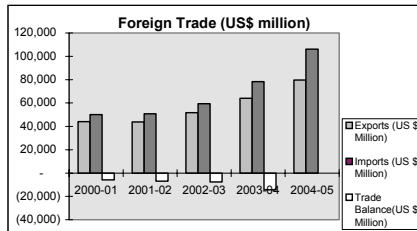
1. The Reserve Bank has decided to allow banks to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment. The bank's board should, however, approve such a policy which should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc.

2. To provide greater flexibility to residents in managing their exposures, it has been decided that all forward contracts, booked by residents to hedge current account transactions, regardless of tenor, may be permitted to be cancelled and rebooked freely. This relaxation would, however, not be applicable to forward contracts booked on part performance basis without documents as also forward contracts booked to hedge transactions denominated in foreign currency but settled in Indian rupee, where the current restrictions would continue.



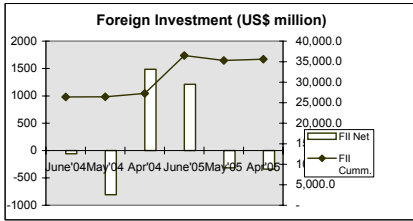
	31-3-01	31-3-02	31-3-03	31-3-04	31-Mar-05	10/6/2005
M3 (Rs. Crore)	13,13,220	14,98,355	17,25,222	20,03,102	22,69,156	23,50,334
M3 (%) : Change	16.82	14.1	15.14	15.95	13.30	3.89
WPI (Index) All Commodities#@	155.7	161.8	172.30	180.30	189	192.5*
WPI Inflation (%)	7.16	3.92	6.49	4.29	4.83	1.85

Source: RBI Bulletin April 2005; WSS: May 28, 2005 *1993-94 = 100 @ year/month-end; *4/06/05



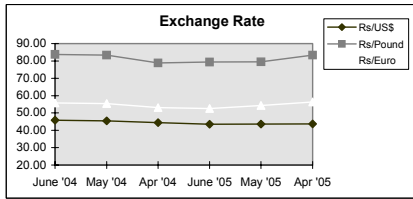
During the Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06*
Exports (US \$ Million)	44,076	43,796	51,702	63,979	79,594	13,789
Imports (US \$ Million)	49,975	50,746	59,387	78,251	106,121	21,003
Trade Balance (US \$ Million)	(5,899)	(6,950)	(7,685)	(14,272)	(26,527)	(7,214)

Source: D G C I S; April-May 2005*



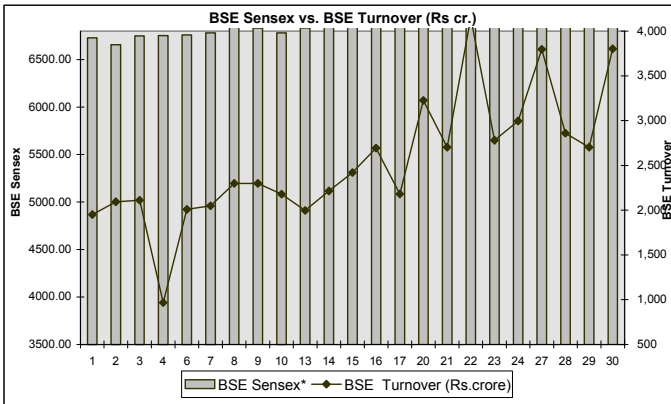
	2003-04 (US\$ million)			2004-05 (US\$ million)		
	June'04	May'04	Apr'04	June'05	May'05	Apr'05
FI Net	(57.1)	(806.0)	1,483.3	1,209.3	(317.7)	(337.6)
FI Cumm.	26,374.1	26,431.3	27,237.3	36,480.0	35,270.8	35,588.0

Source: SEBI



	2003-04			2004-05		
	June '04	May '04	Apr '04	June '05	May '05	Apr '05
Rs/US\$	45.84	45.48	44.41	43.53	43.59	43.72
Rs/Pound	83.75	83.32	78.82	79.41	79.49	83.37
Rs/Euro	55.81	55.44	53.14	52.64	54.37	56.39

Figures are for month-end



June 2005	BSE Sensex*	BSE Turnover (Rs.crore)
1	6,729.90	1,952
2	6,655.56	2,094
3	6,748.85	2,112
4	6,753.00	967
6	6,758.19	2,008
7	6,781.25	2,048
8	6,858.24	2,299
9	6,832.53	2,299
10	6,781.99	2,179
13	6,832.68	1,996
14	6,860.18	2,215
15	6,906.98	2,421
16	6,900.41	2,693
17	6,906.52	2,181
20	6,984.55	3,226
21	7,076.52	2,703
22	7,145.34	4,149
23	7,119.76	2,781
24	7,148.62	2,997
27	7,151.08	3,796
28	7,049.00	2,859
29	7,119.88	2,703
30	7,193.85	3,802



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
	22.06.05				22.06.05		% of GDP 2004	(1-3)	22.06.05
	1	2	3	4	5	6	7	8	9
Euro-11	2.10	2.12	2.00	2.50	0.82	0.83	-2.80	0.10	1.00
			May						
U. S. A	3.31	1.40	2.80	3.10	1.00	1.00	-4.10	0.51	1.21
			May						
Britain	4.77	4.78	1.90	1.50	0.55	0.55	-2.90	2.87	0.67
			May						
Japan	0.02	0.02	0.00	-0.40	109.00	109.00	-6.10	0.02	132.00
			Apr						
Sweden	1.49	1.97	0.10	0.70	7.66	7.59	0.80	1.39	9.30
			May						
Switzerland	0.75	0.47	1.00	0.90	1.27	1.25	-1.00	-0.25	1.54
			May						
India*	5.32	4.60	3.81#	3.70	43.59	45.63	-4.30	1.51	55.06
	(Jun 15, 05)	(May 14, 04)			(Jun 17, 05)	(Jun 18, 04)	(2005-06)		

Source: The Economist London: June 25 - July 1, 2005

For India, RBI - Weekly Statistical Supplement, June 25, 2005 and Union Budget 2005-06

For India, RBI Bulletin, May 2005: Column 1&2 relate to Call Money Rates (borrowings-high)

CPI - Average figures for 12 months (April-March 2004-05 over 2003-04)

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	22.06.05	22.06.05	a year ago	22.06.05	\$ Billion
China	9.4	16.6	1.8	2.50	659.1	8.28	8.28	9.75	71.1	68.7
	Q1	May	May		Mar				May	2004
Hongkong	6.0	5.0	0.5	3.23	122.4	7.77	7.80	9.48	-10.2	16.4
	Q1	Q4	Apr		May				Apr	Q4
India	6.2	8.8	5.0	5.31	134.0	43.50	45.70	53.05	-30.6	-3.9
	Q4	Apr	Apr		May				May	Q4
Indonesia	6.4	10.1	7.4	8.34	35.1	9650.0	9423.0	11768.29	27.5	2.9
	Q1	Mar	May		Apr				Apr	Q4
Malaysia	5.7	6.8	3.1	2.86	73.0	3.80	3.80	4.63	23.3	15.1
	Q1	Apr	May		Apr				Apr	Q4
South Korea	2.7	3.8	3.1	3.52	206.0	1011.0	1160.0	1232.93	27.6	25.4
	Q1	Apr	May		May				May	Apr
Taiwan	2.5	0.6	2.3	1.40	253.2	31.40	33.80	38.29	2.6	16.9
	Q1	Apr	May		May				May	Q1
Thailand	3.3	5.1	3.7	2.75	48.1	41.20	41.00	50.24	-3.2	2.0
	Q1	Apr	May		Apr				Apr	Apr

Source: The Economist London: June 25 - July 1, 2005

@For India, RBI WSS: June 25, 2005

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

*Excluding Gold and SDRs

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