



Update on Indian Economy

July 2008

Economic Snapshot

Contents

- Editorial
- Capital Market
- Country : Germany
- Other Markets
- Important Policy Pronouncements

Item	Units	June	May	June	(% Change	
		2008	2008	2007	[1] / [2]	[1]/[3]
		[1]	[2]	[3]	[4]	[5]
WPI -Index*	1993-94=100	235.2	228.6	211.8	2.89	11.0
WPI -Inflation**	Per cent	11.0	7.8	4.8		
	Week ended	(07.06.08)	(03.05.08)	(09.06.07)		
IIP (93-94=100)	2 months lag	268.3	297.8	255.9	-9.91	4.85
		(Apr.08)	(Mar 08)	(Apr.07)		
INR / US\$	Month End	42.95	42.53	40.75	0.99	5.40
M3	Rs. '000 Cr.	4099.96	4060.58	3377.62	0.97	21.39
[i] Agg.Deposits	Rs. '000 Cr.	3495.77	3459.89	2871.24	1.04	21.75
[ii] Currency	Rs. '000 Cr.	604.19	600.69	506.38	0.58	19.31
	(Outstanding as on)	(06.06.08)	(09.05.08)	(08.06.07)		
Call Money	% Range	5.50-8.40	4.75-8.00	0.05-4.00	-	-
(Lendings)	Week ended	(13.06.08)	(16.05.08)	(08.06.07)		

Source: RBI Weekly Statistical Supplement June 27, 2008 & Economic & Political Weekly June 21, 2008

*All Commodities. **Over the year.

Editorial

A) Domestic

Under the shadow of high inflation induced by rising food and fuel prices, there are reports which speak positive about Indian Economy. According to the report prepared by Goldman Sachs (Global Economics Paper No.169) India has recently joined the League of Hottest Growth economies when its Gross Domestic Product (GDP) crossed a trillion-dollar mark in 2007 and has grown over 9 per cent in last three years. However, the inflation rate has reached a worrisome level of around 8.75 per cent and according to many analysts this rate is unlikely to subside. This is according to the report prepared by Goldman Sachs (Global Economics Paper No.169) which calls for raising educational standards, improving quality of universities, and controlling inflation, besides development in several other areas to achieve its full potentials by 2050.

According to the report, the Indian Economy has the potential to grow 40 times its current size and probably could surpass the US economy but some rapid changes in several key areas are necessary. According to the report ten things that India should do to achieve its potential by 2050 and these are :

1. Improve Governance
2. Raise educational achievement
3. Increase quality and quantity of universities
4. Control inflation
5. Introduce a credible fiscal policy
6. Liberalise financial markets.
7. Increase trade with neighbours
8. Increase agricultural productivity
9. Improve infrastructure
10. Improve environmental quality.

B) International

G-8 meetings held in Osaka, Japan during June 13-14, 2008 noted that slow down in the world economy is not deep but likely to be protected. It called upon the IMF to probe into real and financial factors behind the recent hikes in oil prices, and also to look into possible role of speculators.

The main theme of the talks was the impact of high energy and food prices, and its impact on the global growth. The meeting was attended by the Finance Ministers of Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United State. This June 2008 meeting was in preparation for the July 2008 G-8 meeting which will also be held in Japan.

First, the G-8 communiqué called on the IMF and the International Energy Agency “to work together, with appropriate national authorities, in carrying out further analysis of real and financial factors behind the recent surge in oil and commodity prices, their volatility, and the effects on the global economy, and report back at the next Annual Meetings.

Second, the G-8 also urged oil-producing nations to step up output to curb the feverish rise in crude prices, which has stoked protests worldwide over rising fuel costs.

Third, other issues in the G-8 communiqué relating to the IMF were :

- **Strengthening the financial system.** The G-8 looked forward to concrete progress by the IMF and the Financial Stability Forum on reinforcing early warning capabilities in financial sector work.
- **Promoting oil market transparency.** Ministers called for greater transparency and reliability in market data, including on oil stocks, and urged wider and more timely participation in the Joint Oil Data Initiative.
- **Sovereign wealth funds.** The G-8 encouraged investors to work with the IMF to identify and adopt high standard in areas such as governance, risk management and transparency.
- **Addressing high food prices.** The G-8 welcomed work by the IMF to address the needs of food importing countries facing balance of payments difficulties, including through a review of its Exogenous Shocks Facility.
- **Examining fuel subsidies.** The G-8 asked the IMF to conduct work on reform of fossil fuel subsidies, with a report by the Annual Meetings.

Capital Market Review

The month of June 2008 experienced high volatility in the capital markets in the face of rise in the rate of inflation. The trend in the movement of the Sensex was downward, and the Sensex closed at 13,461.60 on June 30th, 2008 in comparison with the closing index of 16415.57 on the last trading day of 30th May, 2008. There was, thus, huge decline in the index by 2953.97 points or by 18.00 per cent, and from the peak value of 21,206.77 on January 10, 2008 the decline was 7745.17 points or 36.52 per cent. It seems the bears have overtaken the market throughout the month, the main worry of the policy makers has been the steady increase in the rate of price inflation. Because of this the policy stance focused mainly on controlling the inflation and inflationary expectations. During the month of June 2008, the Reserve Bank took drastic steps by increasing the CRR by 50 basis points, and by increasing the repo rate account by 50 basis points. These monetary measures were designed to control inflation and inflationary expectations, and the Reserve Bank took this indirect route rather than increasing the interest rates as it might affect the growth and its prospects.

The gyrations in the stock market pulled down the stock prices from the all time peak reached in January 2008; there were concerns because the role of the capital market is to mobilize savings and help in the deployment of these savings in the form of investment by the companies; part of this could be speculative reflecting inflationary expectations and then the process reflects price discovery.

The policy makers believed that inflation should get a priority because of political consequences. Consequently, the movement of the Sensex reflecting the capital market got a second priority. Apart, from this the Asian capital markets, European capital market, because of the sub-prime crisis in USA remain subdued hence the Indian Capital markets also reflected volatility with steady movement of the respective indices downward on account of the following reasons; first, desire to control domestic inflationary pressures, second, the movement of the Indian Capital market induced by the steady decline of the Asian and European markets, and third, the policy measures taken by the Reserve Bank of India.

	June	May	June	May	(%) Change		
	2008	2008	2007	2007	[1] / [2]	[1] / [3]	[2] / [4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	13461.60 (30.06.08)	16415.57 (30.05.08)	14,650.51 (29.06.07)	14,544.46 (31.05.07)	(17.99)	(8.12)	12.86
Monthly High	16063.18 (02.06.08)	17600.12 (02.05.08)	14,650.51 (29.06.07)	14,544.46 (31.05.07)	(8.73)	9.64	21.01
Monthly Low	13802.22 (27.06.08)	16275.59 (27.05.08)	14,003.03 (13.06.07)	13,765.46 (08.05.07)	(15.20)	(1.43)	18.23
S&P CNX Nifty –Close	4040.55	4870.10	4318.30	4295.80	(17.03)	(6.43)	13.37
P/E Ratio : BSE – 30	16.50	19.80	21.09	21.05	(16.67)	(21.76)	(5.94)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	63153.5	58966.1	50202.9	52127.6	7.10	25.80	13.12
Outflows – Rs. Cr.	74248.0	64140.5	49101.6	46808.0	15.76	51.21	37.03
Net – Rs. Cr.	(11094.5)	(5174.4)	1101.7	5319.8	114.41	(1107.03)	(197.27)
Cum. Net Inv–US\$ Mn. (Month End)	63817.1	66567.3	55252.1	54982.4	(4.13)	15.50	21.07

The sectors which were worst affected were reality and the banks. Reality sectors because of the increase in the rate of borrowing of funds provided by the banks, and the banking sector because of the liquidity crunch induced by policy measures of the Reserve Bank of India. The automobile and aviation sectors were also adversely affected by combination of policy measures and high crude oil price. However, the IT sector was not much adversely affected.

During June 2008, the net cumulative investment by FIIs declined by US\$ 2.75 billion from US\$ 66.57 billion in end May 2008 to US\$ 63.82 billion in end June 2008. The month reflects the declining role of the FIIs in the market.

Country : Germany

Introduction :

After the World War II, two German states came into being in 1949 : the western Federal Republic of Germany (FRG) and the eastern German Democratic Republic (GDR). The democratic FRG embedded itself in key Western economic and security organizations, the EC which became the EU, and the NATO, whereas the Communist GDR was on the front line of the Soviet-led Warsaw Pact. The decline of the USSR and the end of the Cold War allowed for German unification in 1990. Since then, considerable funds have been infused to bring Eastern productivity and wages up to Western standards. In January 1999, Germany and 10 other EU countries introduced a common European exchange currency, called the euro.

II. Overall economy

Germany has a population of 82.4 million (estimated for July 2008); population within the age group of 0-14 years accounts for 13.8 per cent, and population of 65 years and above is around 20 per cent, the remaining population nearly 2/3rd is in the age group of 15-64 years. In fact, German population is relatively young compared to other developed industrialized countries but annual growth rate of population is negative at around 0.04 per cent. Life expectancy of the population at birth is high at 79 years. Its gross domestic product (GDP) estimated for 2007 on purchasing power parity basis (PPP) is US\$ 2.81 trillion, and that estimated at official exchange rate is US\$ 3.32 trillion. Per capita GDP on PPP basis works out to US\$ 34,200. Annual real GDP growth rate for 2007 is estimated at 2.5 per cent. Sector-wise industry contributes 29 per cent to GDP, and services 70.1 per cent whereas the share of agriculture is estimated to be quite low at 0.8 per cent. Inflation rate measured by consumer prices for 2007 is low at 2.3 per cent.

III. Indo-German Trade

Indian exports to Germany which were US\$ 1.7 billion in 1999-2000 rose to US\$ 1.9 billion in 2000-01 but from 2002-03 onwards these steadily rose and reached US\$ 4.0 billion in 2006-07 i.e. more than twice the level in 1999-2000. As a proportion of the total Indian exports, exports to Germany were 4.7 per cent in 1999-2000 but from 2002-03 the share of exports to Germany in total Indian exports gradually fell to reach 3.16 per cent in 2006-07.

India's Trade with Germany : Exports & Imports

Year (April- March)	Exports to Germany (US\$ mn)	Total Indian Exports (US\$ mn)	Imports from Germany (US\$ mn)	Total Indian Imports (US\$ mn)	Share (percent) of total Indian		Total Indian Trade with Germany 1+3 (US\$ mn)	Total Indian Trade 2+4 (US\$ mn)
					Exports to Germany	Imports from Germany		
	1	2	3	4	5	6	7	8
1999-00	1738.4	36822	1841.6	49671	4.72	3.71	3580.0	86493
2000-01	1907.6	44560	1759.6	50537	4.28	3.48	3667.2	95097
2001-02	1788.4	43827	2028.1	51413	4.08	3.94	3816.5	95240
2002-03	2106.7	52719	2404.5	61412	4.00	3.92	4511.2	114131
2003-04	2544.6	63844	2918.6	78149	3.99	3.73	5463.2	141993
2004-05	2826.2	83536	4015.3	111517	3.38	3.60	6841.5	195053
2005-06	3586.1	103091	6023.6	149166	3.48	4.04	9609.7	252257
2006-07	3987.5	126331	12666.5	190566	3.16	6.65	16654.0	316897

Source : RBI : Handbook of Statistics on the Indian Economy, 2006-07

However, imports from Germany which were slightly higher than exports to Germany in 1999-2000 reached US\$ 2.0 billion in 2001-02; these rose to US\$ 2.4 billion in 2002-03 and further to US\$ 2.9 billion in 2003-04, and subsequently these made a leap jump to US\$ 4.0 billion in 2004-05 and rose sharply to US\$ 6.0 billion in 2005-06 and doubled from the preceding year to US\$ 12.7 billion in 2006-07. In other words, Indian imports from Germany have not only been rising but registered quantum jump during the period 1999-2000 to 2006-07 in the sense that the share of imports from Germany which was 3.7 per cent almost doubled to 6.7 per cent in 2006-07. As a result, the total Indian trade with Germany stood at US\$ 16.7 billion in 2006-07 which is almost 5 times the trade registered in 1999-2000.

IV. Indo-German economic relations

(A) Visit of Dr. Manmohan Singh to Germany

In April 2006, the Prime Minister of India Dr. Manmohan Singh inaugurated the Hannover Technology fair in Germany in the presence of Chancellor of Germany, Dr. Angela Merkel. This was an acknowledgement of the growing strength of the Indian economy and it was the single biggest brand building exercise for Indian manufacturing and engineering technologies. The special report titled, "India Brand Equity Foundation (IBEF)" prepared by KPMG was released which provided a useful guidelines for MNCs seeking business in India and the Report synthesise and strategies suggested were based on 30 companies having established presence in India. Some key highlights of the Report are :

- 65 percent of the companies rated India "High" or "Very High" in terms of attractiveness of market size, and nearly 85 per cent felt that India was one of the most exciting growth markets in the world.
- 65 per cent of the manufacturing companies have established manufacturing facilities in India and another 30 percent are planning to set-up a manufacturing base in the near future to leverage advantages India offers.
- 18 per cent of the companies are planning to either start or invest more on their R&D facility in India.

- 6 per cent of the companies are looking at India as an outsourcing destination for their IT and other backend operations.
- Nearly 320 Indian companies including **Bharat Forge, Reliance, Ashok Leyland** and other organisations, large as well as Small & medium enterprises (SMEs), and 5 state governments participated in the fair representing various sectors including Automotive, Energy, Engineering Services, Research & Development, Subcontracting, Digital Processes, Micro Technology and Science & Technology (Satellite Technology, Innovations).
- With the staggering growth of the automotive sector globally and in India, a Seminar on the 'Auto Component Sector in India' was organized.

As a follow up of the visit the Press Release issued stated, "Federal Chancellor Angela Merkel and Prime Minister Manmohan Singh today reaffirmed the Strategic Partnership of Germany and India. Building upon the 'Agenda for the Indo-German Partnership in the 21st Century', which will deepen their strategic partnership based on shared democratic values and basic common interests. Highlights of the Press Release were :

- a. Economic and trade relations between Germany and India flourished in recent years. India's participation as the Partner Country in this year's Hannover Messe reflects the growing interest in India as a global economic partner and offers an excellent opportunity to intensify bilateral economic ties.
 - i. Infrastructure and Energy provide major areas of deepening engagement between the two countries. The Indo-German Joint Commission on Industrial and Economic Cooperation will continue to focus on specific areas of cooperation for mutual benefit. Both sides note with satisfaction that bilateral trade is growing rapidly and that the target of doubling the trade within five years, which was set at the previous Summit meeting in New Delhi in October 2004 is likely to be achieved much earlier.
 - ii. Both sides recognize the significant role of the small and medium enterprises in further promoting the trade, investment and technology links and agree to facilitate intensification of linkages of such enterprises.
 - iii. They also noted with appreciation, the contribution of the Indo-German Chamber of Commerce, and also welcomed the growing trend of Indian investments in Germany.
- b. Both sides acknowledged the valuable contributions of Indo-German development cooperation in wide-ranging areas including energy, environmental policy, sustainable economic development, health and vocational training.
- c. The establishment of an Indo-German Energy Forum at Senior Officials level and including the private sector highlights the importance accorded by both countries to cooperate in this sector. The Energy Forum will address strategic energy concerns including energy security, efficient use of energy, promotion of renewable energy sources and environmentally friendly technologies, taking into account the environmental challenges of sustainable development.

(B) Visit of German Chancellor, Dr. Angela Merkel to India

Dr. Angela Merkel, the German Chancellor visited India in the last week of October 2007 with a view to exploring the vast uncharted opportunities which India has to offer. She came with a challenge to explore business opportunities, at the Urban Age Awards function hosted by Deutsche Bank. Dr. Merkel delivered the keynote address and mentioned that helping cities also means developing the countryside. This has been the basic rule of the German development policy. She indicated that German firms are keen to take a share of over €350 billion that India plans to invest in infrastructure and other projects in the next five years. Besides infrastructure, sectors such as science and technology, energy, research and development and information technology are areas in which German firms are most interested. Germany is one of the largest investors in India and the newly-confident Indian companies are increasingly make acquisitions in Europe's largest economy. She was clear and emphatic and was seeking ways to tap what experts say are vast uncharted opportunities in energy and infrastructure among other sectors.

Politically, the environmental issues were high on her agenda in talk with Indian leaders who have signaled that country has not yet ready to compromise economic growth by accepting binding limits on greenhouse gas emissions. At the same time, the two leaders Dr. Manmohan Singh and Dr. Angela Merkel seem to be determined to find solutions on the two key global questions – World Trade Talks and Climate Change.

It was mentioned that compared to Germany, the degree of pollution in India on per capita basis is still low and German companies have a lot to offer to India in terms of renewable energy, clean coal technology and energy efficiency know-how. Together, Germany and India urged all nations to actively contribute to negotiations for a comprehensive climate protection treaty that is to succeed the Kyoto Protocol in 2012.

V. German companies in India

Among the large number of German companies in India the few important companies operating in India are indicated below :

Abicor Binzel	Adidas Marketing	Baerlocher Additives
Bajaj Allianz	Basf	Baumuller
Bayer	Beiersdorf	Bosch Group
Braun Medical	Burgmann	Carl Bechem
Carl Zeiss	Daimler Chrysler	DHL Express
DMG	Durr	Fichtner
Henkel	Kluber Lubrication	Knorr Bremse
Lahmeyer International	Lapp	Pharmaplan
Schuler	Steag Encotec	Stollberg
Suspa Pneumatics	Worth	Zeppelin Mobile Systems
Zwick Roell		

VI. Indian companies in Germany

Indian investment into Germany has also increased in recent years. Business with Germany provides Indian companies an opportunity to interface with some of the largest companies in the European Union, access cutting edge technologies, innovate products, absorb best practices and expand businesses in more regulated markets.

Some of the companies where the Indian investments have gone in Germany are as follows : **Bharat Forge Limited (BFL), Ranbaxy, Samtel, Hexaware Technologies, NIIT, Wockhardt, Graphite India Limited** and others have either acquired German companies or started their own subsidiaries in Germany. **TCS** inaugurated their 'Solutions Centre' in Munich on November 16, 2005. The centre, employing 150 persons, is catering to business clients in southern Germany and Austria with focus on manufacturing, telecom and insurance sectors. **Tata Auto Component Systems** has acquired the Bavarian based automotive component supplier Wuensch Weidinger for € 4 million. The Indian IT firm **Megasoft** is acquiring a majority stake in Baden Wuerttemberg based firm Beam AG; Megasoft has already an office in Munich. **Torrent Pharmaceutical**, a mid-sized Indian pharmaceutical company, acquired Heumann Pharama GmbH, located in Nuremberg, which focuses on generic drugs.

India's second largest pharmaceuticals company **Dr. Reddy's Laboratories** has acquired Betapharm GmbH, Augsburg, Bavaria, one of Germany's top five generic pharmaceuticals companies for €480 million from its former owner 3i investment firm of UK. Recently, **Mahindra and Mahindra** acquired 67.9% stake in a German forgings firm Jeco Holding AG, Aalen and has also acquired another German forging company, Schoeneweiss & Co., Hagen (in North-Rhine Westphalia) for Euro 115 – 153 million to grow its auto component footprint across the globe. Machine tools manufacturer Bharat Fritz Werner Ltd (BFW) is planning to open a facility near Munich with an investment of Euro 2.5 million.

VII. Indian investments in Germany

- In November 2003, Bharat Forge (BFL) acquired M/s. Carl Dan Peddighaus GmbH (CDP), a forging company and a major supplier of critical chassis components to leading automakers, making BFL the second largest forging company in the world.
- Dr. Reddy's Laboratories acquired the fourth-largest German generic drug maker Betapharm Arzneimittel GmbH for US\$ 595.2 million. This is one of the biggest overseas acquisitions by an Indian pharmaceutical company.
- Wockhardt Ltd acquired Espharma GmbH
- Sundram Fasteners Ltd. (SFL) bought out Textron Deutschland Beteiligungs GmbH to acquire 100 per cent share capital of its subsidiary company Peiner Umformtechnik GmbH (Peiner)
- Graphite India Ltd acquired Conradty Group for a total amount of US\$ 14 million.

Indian subsidiaries of German companies :

Companies	Industry
Siemens	Indian subsidiary, Parent
BASF	Indian subsidiary, Parent
KSB	Indian subsidiary, Parent
Bosch	Indian subsidiary, Parent
Merck	Indian subsidiary, Parent

Industry position of Indo-German JVs

Company	Industry
MICO	Fuel Injection Pump, Nozzle, Nozzle Holder
BASF India Ltd	Leather & Textile Auxiliaries
Bayer Cropscience	Pesticides
Siemens Ltd	Medical Equipments
Siemens Ltd	Private Automatic Branch Exchange
Bayer Cropscience	Rubber Chemicals

Indo-German ventures make it to the top :

High technology standards, efficient business execution and long term commitment have earned Indo-German JVs, market leadership positions in several product groups in India. IGCC's annual market share review indicates that Indo-German companies are market leaders in as many as 21 product groups out of the 48 product groups considered in the manufacturing sector. 17 others occupied second spot in their respective industries, while another 10 ranked third.

VIII. Recent Economic Scenario : Germany

According to the IMF, GDP growth is projected to slow to 1.5 per cent in 2008 from 2.5 per cent in 2007. Given Germany's strong external dependence a slowing U.S. economy and weaker world trade is pulling down Germany's GDP growth to a lesser extent a strengthened euro and high oil prices are weighing down on output growth. Helped by steady employment expansion and limited wage moderation a pick-up in consumption is expected and inflation is likely to slow down moderately to 2.2 per cent in 2008. The report further states that, *"There is a need to press ahead for medium-term reform agenda in the areas of labour markets, the general framework for investment, the financial sector, and the fiscal policy. Coordinated efforts are necessary to raise Germany's growth potential. To that end, skills shortages need to be addressed by improving education and training, but also by encouraging the immigration of skilled workers. There is a need to enhance the business climate by continuing to reduce taxes on capital and labour in a neutral manner, in the budget. There is a need to further develop capital markets, and underscored the importance of promoting transparency in corporate governance."*

Germany: Important macro-economic parameters

		2003	2004	2005	2006	2007 Proj
I	Output and demand (Percent change)					
	Real GDP	-0.3	1.1	0.8	2.9	2.5
	Total domestic demand	0.6	-0.2	0.3	1.9	1.1
	Private consumption	0.1	0.2	-0.1	1.0	-0.3
II	Saving and investment (in percent of GDP)					
	Gross national saving	19.8	21.8	22.0	23.0	24.0
	Gross domestic investment	17.9	17.5	17.4	18.0	18.4
III	Money and credit (end of period)					
	M3 (percent change)	3.5	2.2	5.2	4.8	8.9
	Private sector credit	0.0	-0.2	2.1	3.5	1.7
IV	Interest rate (in percent)					
	Three month money market rate	2.3	2.1	2.1	3.7	4.6
	Ten year government bond yield	4.1	4.1	3.6	3.8	4.3
V	Exchange rate					
	Euro per US dollar	0.88	0.80	0.80	0.80	0.73

Sources: IMF Public Information Notice (PIN), February 2008.

VIII. Consolidation of German Banks

- a. Reverberations from the U.S. sub-prime mortgage crisis first hit Germany in mid-2007. The near collapse last July of IKB, the first midsize German bank in three decades faced serious problems, indicating low profitability and excessive risk taking among some German banks. As a result of deep-rooted fragmentation, interest margins remained low by international standards, and Germany's banking sector has made only modest progress in generating income from non-traditional services.
- b. Because of competitive pressures, consolidation in banking sector has been taking place with number of banks having declined to approximately one-fourth since the beginning of this decade. Moreover, the current policy is to consolidate mainly first the banks within the public pillar of the three-pillar banking system – comprising the private, cooperative, and public pillars – risks creating regional banks.

(Source : IMF Survey, May 2008)

IX. Concluding Observations

1. Major items of exports from India to Germany are textiles and leather goods, and major items of imports are machinery, pharmaceuticals.
2. India accounts for trade with Germany of US\$ 16.6 billion which is just 0.7 percent of total German trade of US\$ 2423 billion, but ranks seventh among the Asian countries trading with Germany. Apart from the traditional items, there is a great deal of potential in trade relating to IT, bio-technology, entertainment, healthcare, medium range engineering products, silk, leather, sports goods, toys, Christmas decorations. In addition the knowledge driven sectors hold good prospects for collaboration such as software development chemicals, pharmaceuticals, agriculture biotechnology and entertainment industry.
3. India and Germany signed in May 2008 financial and technical agreements for projects committed in 2007. The agreements entailed German development assistance amounting € 302.79 million (Rs.1,998 crore). The funds under the German development co-operation have been increasing in quantum in recent times in the 1990s the annual commitments were in the range of €60-80 million. Subsequently, Germany increased its engagement in India by committing overall funds of €352 million in 2005, €240 million in 2006 and now €302 million in 2007 which marks the 50th year of Indo-German development co-operation.

Other Markets

Debt Market

In the month of May 2008, financial services entities were active in primary market issuances. The biggest issue was made by Indian Railway Finance Corporation Ltd., ICICI Home Finance Company Ltd. and Infrastructure Development Finance Company Ltd. were the other issuers.

	Name of the Issuer	Rate %	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
i)	Infrastructure Development Finance Company Ltd	9.35	2 years	AAA	100	Bonds
ii)	ICICI Home Finance Company Ltd.	9.90 & 10.80	5 yrs-3 months & 10 years	AAA	170	Bonds
iii)	Indian Railway Finance Corporation Ltd.	9.43	10 years	AAA	300	Bonds

(Source : Credit Analysis & Research Ltd., June 2008)

Call Money Market

The call money market rate on June 13, 2008 in respect of borrowings ranged between 5.50% and 8.40% as compared to the rates of 0.50% - 4.75% on June 15, 2007 (i.e. a year ago) reflecting that there was moderate hardening of the interest rates. The average daily turnover in the call money market was Rs.9,758 crore for the week ending June 13, 2008 and this daily turnover increased to Rs.10,120 crore in the week ending June 20, 2008.

Foreign Exchange Market

The exchange rate (RBI reference rate) on June 20, 2008 was Rs.42.97 per US dollar as compared to Rs.42.90 per US dollar on June 16, 2008, 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 4.10% on June 20, 2008 as compared to a premium of 3.03% on June 16, 2008 (a week ago), and this reflects that supply of dollars is likely to become relatively tight in the forthcoming weeks. The foreign currency assets were US\$ 302.74 billion on June 20, 2008, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 312.48 billion. From end-March 2008, the foreign exchange reserves registered a rise of US\$ 2.76 billion upto June 20, 2008. The market rate (buying) was Rs. 43.05 per US dollar on June 30, 2008.

Important Policy Pronouncements

A. Reserve Bank of India

- i. In view of the continuing price rise the Reserve Bank of India on June 11, 2008 increased the repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points to 8.00 per cent from 7.75 per cent with immediate effect; the repo rate represents the rate at which the commercial bank borrow from Reserve bank. However, there was no increase in the reverse repo rate.
- ii. Under pressure from public the need to control rate of inflation which touched 11.05 per cent on year to year basis for the week ending June 07, 2008, the Reserve Bank of India on Tuesday, June 24, 2008 increased the bench mark repo rate and cash reserve ratio (CRR) by 50 basis points each. Repo Rate is the rate at which the banks borrowed from Reserve Bank while CRR is a portion of deposits of customers with the banks have to set aside as cash with the Reserve Bank. These monetary measures went against the market expectation of increasing the interest rates, but this policy of Reserve Bank reflected a desperate politically leadership and decisive Central Bank to take the inflation understood of directly increasing the rate against the Central Bank do not want to jeopardize the economic growth which has still projected at around 8.5 for the year 2008-09.

As a result of which Repo Rate increase has to come into effect immediately while the hike in CRR will be affected in two tranches to suck out Rs.19,000 crore from the system. This will make the liquidity somewhat tighter and the bank margins could be hit.

B. Government : Oil Sector

NELP-VII receives bids from 96 Oil Firms : As many as 96 Indian and foreign oil majors including ONGC, RIL, Essar, BP Plc and BHP Billiton, placed 181 bids for 45 exploration blocks in India. Of the 57 blocks that were put up for auction, the largest ever offering of exploration blocks by the government, 19 received just single bids in the Seventh Round of National Exploration Licensing Policy (NELP) which is expected to bring in investments to the tune of \$4.5 billion.

C. Securities and Exchange Board of India (SEBI)

a. Allocation of debt investment limits

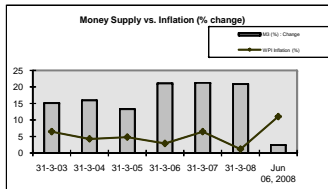
The Government of India has reviewed the External Commercial Borrowing policy and has increased the cumulative debt investment limits from US \$3.2 billion to US \$5 billion and US \$1.5 billion to US \$3 billion for FII investments in Government Securities and Corporate Debt, respectively.

The enhanced limits have been allocated to the registered entities on a 'first come first served' basis in terms of SEBI Circular dated January 31, 2008, subject to a ceiling of US \$200 million per registered entity. (SEBI's PR 127/2008 of June 20, 2008)

b. SEBI simplifies Issuance and Listing of Debt Securities

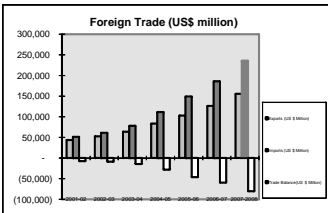
In order to facilitate development of a vibrant primary market for corporate bonds in India, Securities and Exchange Board of India (SEBI) has notified Regulations for Issue and Listing of Debt Securities to provide for simplified regulatory framework for issuance and listing of non-convertible debt securities (excluding bonds issued by Governments) issued by any company, public sector undertaking or statutory corporations. The Regulations will not apply to issue and listing of, securitized debt instruments and security receipts for which separate regulatory regime is in place.

While the requirement of filing of draft offer documents with SEBI for observations has been done away with, emphasis has been placed on due diligence, adequate disclosures, and credit rating as the cornerstones of transparency. Regulations prescribe certifications to be filed by merchant bankers in this regard. The Regulations emphasize on the role and obligations of the debenture trustees, execution of trust deed, creation of security and creation of debenture redemption reserve in terms of the Companies Act. (SEBI's PR 123/2008 of June 19, 2008)



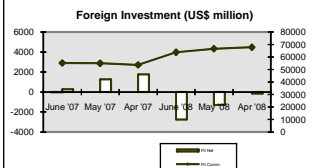
	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	Jun 06, 2008
M3 (Rs. Crore)	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	40,02,189	40,99,957
M3 (%) - Change	15.14	15.95	13.30	21.10	21.27	20.90	2.44
WPI (Index) All Commodities	172.30	180.30	189	196.6	209.3*	211.8**	235.2***
WPI Inflation (%)	6.49	4.29	4.83	2.91	6.46	1.19	11.05

Source: RBI Bulletin June 2008; WSS: June 27, 2008 \$S1993-94=100; year/month-end; * March 03, 2007 ** June 9, 2007 *** June 7, 2008



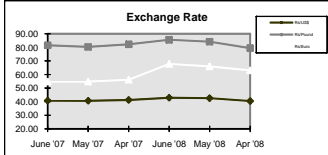
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-2008	April 08
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,091	126,414	155,512	14,400
Imports (US \$ Million)	51,413	61,412	78,149	111,517	149,166	185,735	235,911	24,274
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,321)	(80,398)	(9,874)

Source: RBI Bulletin, June 2008; Revised figures for 2001-02 to 2006-07 (April-March)
*DGCI&S data for April 2006 to March 2007 (Provisional)



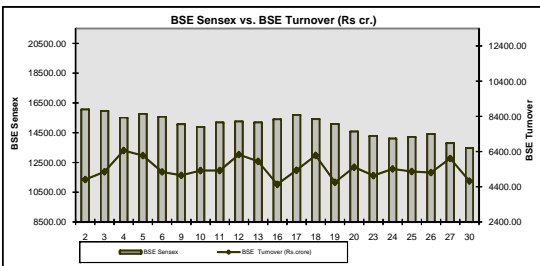
	2007-08 (US\$ million)			2008-09 (US\$ million)		
	June '07	May '07	Apr '07	June '08	May '08	Apr '08
FDI Net	269.3	1,265.0	1,752.0	(2,750.5)	(1,282.8)	(155.2)
FDI Cum.	5325.1	54982.4	53717.7	63,817.10	66,567.30	67,830.10

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



	2007-08			2008-09		
	June '07	May '07	Apr '07	June '08	May '08	Apr '08
Rs/US\$	40.75	40.73	41.29	42.95	42.59	40.46
Rs/Pound	81.53	80.43	82.30	85.62	84.16	79.50
Rs/Euro	54.79	54.74	56.20	67.81	65.99	63.09

Figures are for month-end



June 2008	BSE Sensex Close	BSE Turnover (Rs cr.)
30-May-08	16115.87	5514.00
2	16063.18	4809.00
3	15962.56	5253.00
4	15514.79	6462.00
5	15769.72	6173.00
6	15572.18	5245.00
7	15066.10	5054.00
8	14889.25	5322.00
9	15185.32	5318.00
10	15250.20	6233.00
11	15189.62	5847.00
12	15395.82	4538.00
13	15696.90	5337.00
14	15422.31	6183.00
15	15087.99	4655.00
16	14571.29	5514.00
17	14293.32	5036.00
18	14106.58	5414.00
19	14220.07	5265.00
20	14421.82	5206.00
21	13802.22	6015.00
22	13461.60	4726.00



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 18.06.08	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 18.06.08	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	4.96	4.59	3.70	1.90	0.64	0.75	-0.90	1.26	1.00	17.3	5.3	-0.1
			May							Apr	Mar	
U. S. A.	2.14	4.15	4.20	2.70	1.00	1.00	-2.40	-2.06	1.56	-831.2	-710.7	-4.9
			May							Apr	Q1	
Britain	5.93	5.15	3.30	2.50	0.51	0.50	-3.20	2.63	0.80	-184.5	-115.4	-3.9
			May							Apr	Q4	
Japan	0.75	1.79	0.80	nil	107.00	124.00	-2.90	-0.05	167.19	100.3	213.5	4.3
			Apr							Apr	Apr	
Sweden	4.09	4.44	4.00	1.70	6.03	6.90	2.10	0.09	9.42	18.9	40.4	7.2
			May							Apr	Q1	
Switzerland	2.92	3.35	2.90	0.50	1.03	1.24	0.90	0.02	1.61	14.6	71.1	14.8
			May							Apr	Q4	
India	7.66	8.73	7.80	6.70	42.90	40.80	-3.20	-0.14	67.03	-80.5	-12.8	-2.4
			Apr							Apr	Q4	

Source: The Economist London, June 21st-27th, 2008

Figures in Column 9 are derived.

**RPI Inflation rate 4.2% in Apr

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 18.06.08	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 18.06.08	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.47	4.50	7.7	3.4	6.92	7.62	0.3	-3.23	10.81	254.2	371.8	9.8
			May							May	2007	
Hongkong	2.35	3.72	5.4	1.3	7.81	7.81	2.9	-3.05	12.20	-24.4	28.0	9.1
			Apr							Apr	Q4	
Indonesia	9.31	7.48	10.4	6.0	9305.00	8945.00	-2.1	-1.09	14539.06	38.1	10.9	2.3
			May							Apr	Q1	
Malaysia	3.69	4.57	3.8	1.4	3.27	3.43	-3.1	-0.11	5.11	33.4	28.9	12.5
			May							Apr	Q4	
Singapore	1.25	3.42	7.5	0.6	1.37	1.54	1.00	-6.25	2.14	29.6	35.8	24.4
			Apr							May	Q1	
South Korea	5.36	5.76	4.3	2.3	1030.00	928.00	0.5	0.46	1609.38	5.3	2.9	0.3
			May							May	Apr	
Taiwan	2.73	2.75	3.7	nil	30.40	33.10	-1.8	-0.97	47.50	13.9	32.2	5.4
			May							May	Q1	
Thailand	3.60	5.52	7.6	1.9	33.10	34.60	-3.1	-4.00	51.72	6.3	11.7	3.2
			May							Apr	Apr	
Brazil	12.17	6.16	5.6	3.2	1.65	1.91	-1.9	6.57	2.58	31.9	-14.7	-1.1
			May							May	Apr	
Venezuela	18.07	6.55	31.4	19.6	3.30	4.23	2.1	-13.33	5.16	30.1	26.7	7.0
			May							Q1	Q1	
India	7.66	8.73	7.80	6.70	42.90	40.80	-3.20	-0.14	67.03	-80.5	-12.8	-2.4
			Apr							Apr	Q4	

Source: The Economist London, June 21st-27th, 2008

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
Url: www.mega-ace.com
July 04th 2008