



Update on Indian Economy June 2010

Economic Snapshot

<u>Contents</u>	Item	Units	May	April	May	(%) Change	
			2010	2010	2009	[1]/[2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
-Editorial	WPI -Index*	1993-94=100	253.7	250.8	231.5	1.2	9.6
-Capital Market	WPI -Inflation**	Per cent	9.6	9.9	0.6		
-Biomass Energy		Week ended	(April 2010)	(Mar.10)	(09.05.09)		
In India	IIP (93-94=100)	2 months lag	347.3	318.5	297.9	9.0	16.6
-Other Markets			(Mar 2010)	(Feb 10)	(Mar 09)		
-Important Policy	INR / US\$	Month End	46.40	44.44	47.29	4.41	-1.88
Pronouncements	M3	Rs. '000 Cr.	5663.42	5640.05	4918.61	4.1	15.1
	[i] Agg.Deposits	Rs. '000 Cr.	4849.12	4855.46	4220.96	4.2	14.9
	[ii] Currency	Rs. '000 Cr.	814.30	784.6	697.2	3.9	16.8
		(Outstanding as on)	(07.05.2010)	(09.04.2010)	(08.05.09)		
	Call Money	% Range	2.20-4.50	1.25-3.75	2.25-4.30	-	-
	(Lendings)	Week ended	(07.05.2010)	(09.04.2010)	(29.05.09)		

Source: RBI Weekly Statistical Supplement May 21, 2010 & Economic & Political Weekly May 22, 2010

*All Commodities. **Over the year.

Editorial

A) Domestic

The revised estimates of GDP for 2009-10 by the CSO show that India achieved a growth rate of 7.4 %. This was to a large extent boosted by the revival in industrial / related outputs, with the manufacturing sector income rising by as much as 10.8 % and mining and quarrying sector by 10.6 %. Though the growth rate of income in the services sector slowed down compared to the previous year, it maintained a share of close to 57 % in the overall GDP.

While the GDP outcome for the last fiscal has been hailed as the sure sign of an emerging uptrend, doubts have been expressed by some analysts that the forecasts for 2010-11 in the range of 8.5 % to 9 % may not be realised. These concerns stem from emerging domestic and global developments.

On the domestic front it has been pointed out that the Private Final Consumption Expenditure (PFCE) has shown a steep decline, while expenditure on Gross Fixed Capital Formation (GFCF) has remained static and these may decline during the current fiscal. Moreover, a view has also been expressed that the fate of agricultural sector is uncertain and industrial growth may not be sustained at the same rate.

On the global front it has more or less been assumed by many analysts that the European debt crisis / fiscal correction and the likelihood of oil prices firming up would have their repercussions on India's critical macro economic variables like Net Exports and Capital Inflows. The net fallout of this would be in slowing down India's growth rate.

We are not aware to what extent GDP forecasts have factored in recent global developments, but the European crisis was public knowledge since early 2010 and it was generally expected that oil prices might emerge firmer in the current year. Moreover, the uncertainty of the Indian monsoon is a well known fact. Therefore, it is quite likely that at least some of the predictions would have taken these factors into account.

With regard to PFCE it might be stated that a downtrend in 2009-10 does not imply that this trend should necessarily persist into the next year especially as the circumstances might be different. The difference might be partly on account of higher agricultural incomes and swifter growth rate in non-food credit as compared to last year.

As far as GFCF is concerned a significant contribution is made by the government sector. In view of likely changes in the budgetary arithmetic due to more than doubling of inflows on account of telecom licence fees as compared to budget estimates for 2010-11, the 'fiscal space' available to government is much larger than anticipated. Therefore, much would depend on how government chooses to use these funds.

While problems and uncertainties do exist the Indian revival has largely been driven via domestic demand. Should the monsoon improve as compared to last year there would be a further boost. Moreover, there are preliminary signs of fiscal improvement. We, therefore, feel that despite negative global developments India should log a GDP growth rate of 8.5 % growth in 2010-11.

B) International

Greek Bailout Package: The rescue plan for Greece is the biggest since G20 leaders threw money at the global economy following the collapse of Lehman Brothers in 2008. The package of standby funds and loan guarantees that could be tapped by euro zone governments shut out of credit markets, plus central bank liquidity measures and bond purchases to steady markets impressed financial analysts by its sheer scale. But the deal left many longer-term questions about whether Europe's weakest economies can manage their debt and how the European Union can develop more coherent economic and fiscal policies to underpin the single currency.

The European Central Bank immediately began implementing its part of a deal that involved EU finance ministers, central bankers and the IMF, with euro zone central banks buying government bonds in the open market. The deal won global endorsement from the Group of Eight and G20 major economies.

The \$1 trillion package consists of 440 billion euros in guarantees from euro area states, plus 60 billion euros in a European stabilization fund that could be disbursed to help euro zone states if needed on strict austerity conditions. EU finance ministers said the IMF would contribute up to 250 billion euros for a total of 750 billion, about \$1 trillion.

It is the austerity measures in the aftermath of the bailout that have engendered some measure of concern with regard to economic revival in 2010. Further there are concerns with regard to the impact of the debt crisis on the banking sector and the consequential effect on economic growth.

Capital Market Review

Month of May started on a weak note. Both the domestic as well as global markets witnessed panic selling as Greek debt crisis worsened during the first week of May. BSE Sensex fell 172.63 points to 17,386.08 on May 3, 2010 and kept falling thereafter pulling the index down below 17,000-mark. BSE Sensex shed 100.43 points and ended at 16,987.53 on May 06, 2010. The dispute between Ambani brothers ended by the court with decision favouring Reliance Industries. When markets had lost ground, RIL industry was trading in green on the bourses. BSE Sensex lost 218.42 points ending at 16,769.11 on May 7, 2010.

On Monday, May 10, 2010, domestic equities bounced back after the EU agreed on nearly \$1-trillion euro rescue package to contain global fallout from the Greek debt crisis. Benchmark Sensex surged 561 points or 3.35% to close above the 17,000-mark at 17,330.55. The broader Nifty gained 3.5% ending at 5,193.6. All the major global indices that had lost substantially recovered on that day.

On May 19, 2010, investors across the globe dumped shares as Germany banned short sales in some of the government bonds, stocks and credit default swaps sparked the fear about derailing in Europe. The equity markets fell to a near three-month low, benchmark Sensex plunged 467.27 points to end at 16,408.49 and broad Nifty lost 145.55 points to close at 4919.65 on that day. FIIs were net sellers to the tune of Rs. 1,384 crore.

Domestic markets recovered in subsequent trading sessions but failed to sustain the movement. On May 24, 2010, the 'harmony' among Ambani brothers cheered the markets and boosted investor's sentiments. But could not add strong support as domestic markets fell drastically on global cues. BSE and NSE lost ground next day over Korean geopolitical tensions and European debt worries. Nifty ended at 3 months low on bloodbath across the globe. Both BSE Sensex and NSE Nifty breached the psychological 16,000 and 4800 levels respectively. All the sectoral indices ended in red. Sensex lost massive 447.07 points to end at 16,022.48 and NSE Nifty shed 137.20 points and closed at 4806.75.

Short-covering ahead of the futures and options expiry and positive global cues helped the equity markets rebound on May 26, 2010. The Sensex surged 388 points in intraday trade, finally closing up 365 points, or 2.28 per cent, at 16,387 on Wednesday. The Nifty was up 2.3 per cent at 4,917.

Markets ended on a positive note. GDP growth of 7.4% was encouraging. Finally, BSE Sensex closed at 16944.63 gaining 81.57 points and NSE Nifty ended flat to 5086.30 by gaining 19.75 points on May 31, 2010.

	May	April	May	April	(% Change)		
	2010	2010	2009	2009	[1]/[2]	[1]/[3]	[2]/[4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	16944.63 (31.05.2010)	17558.71 (30.04.2010)	14625.25 (29.05.09)	11403.25 (29.04.09)	-3.50	15.86	53.98
Monthly High	17386.08 (03.05.2010)	17970.02 (07.04.2010)	14625.25 (29.05.09)	11403.25 (29.04.09)	-3.25	18.88	57.59
Monthly Low	16022.48 (25.05.2010)	17380.08 (28.04.2010)	11682.99 (11.05.09)	9901.99 (01.04.09)	-7.81	37.14	75.52
S&P CNX Nifty –Close	5086.30	5278.00	4448.95	3473.95	-3.63	14.33	51.93
P/E Ratio : BSE – 30	20.40	20.60	19.87	15.90	-0.97	2.67	29.56
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	71568.6	74374.3	81265.9	49714.60	-3.77	-11.93	49.60
Outflows – Rs. Cr.	78554.7	61981	63860.6	40716.20	26.74	23.01	52.23
Net – Rs. Cr.	-6986.1	12393.1	17405.3	8998.50	-156.37	-140.14	37.72
Cum. Net Inv–US\$ Mn. (Month End)	90611.1	92116.01	64448.6	60741.70	-1.63	40.59	51.65

The cumulative investment by FIIs stood at US\$ 90.61 billion in May 2010, and this reflected a decline of US\$ 1.51 billion over the previous month.

Biomass Energy in India

Biomass source of energy is the oldest form of energy generation. Main sources of biomass energy are trees, crops and animal waste. They are broadly discussed below.

Solid Biomass

Plants use photosynthesis to store solar energy in the form of chemical energy. The easiest way to release this energy is by burning the dried up plants. Solid biomass such as firewood or combustible field crops including dried manure is actually burnt to heat water and to drive turbines. Field crops may be grown specifically for combustion or may be used for other purposes and the processed plant waste then used for combustion. Most sorts of biomass, including Sugarcane residue, wheat chaff, corn cobs and other plant matter can be and is burnt quite successfully. A drawback is that all biomass needs to go through some of these steps; like it needs to be grown, collected, dried, fermented and burned. All of these steps require resources and an infrastructure. In the area of small scale biomass gasification, significant technology development work has made India a world leader.

Biofuel

Biofuel is any fuel that derives from biomass - recently living organisms or their metabolic byproducts, such as manure from cows. Typically biofuel is burned to release its stored chemical energy. Biomass can be used directly as fuel or to produce liquid biofuel. Agriculturally produced biomass fuels, such as, ethanol, and bagasse (often a by-product of sugarcane cultivation) can be burned in internal combustion engines or boilers. India is the largest producer of cane sugar and the Ministry is implementing the world's largest co generation programme in the sugar mills.

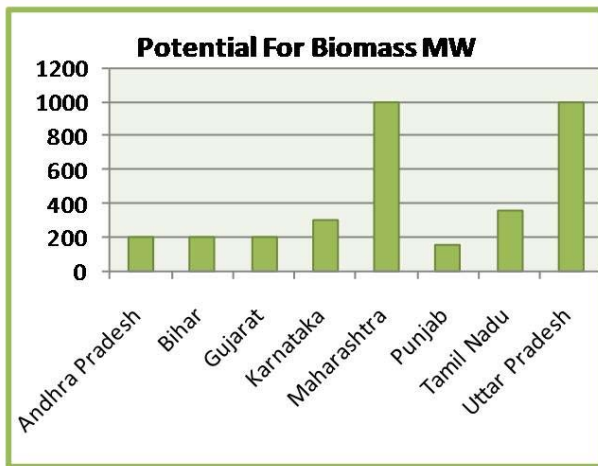
Biogas

Biogas can easily be produced from current waste streams, such as: paper production, sugar production, sewage, animal waste and so forth. These various waste streams have to be slurred together and allowed to naturally ferment, producing 55% to 70% inflammable methane gas. India has world's largest cattle population – 400 million, thus offering tremendous potential for biogas plants. Biogas production has the capacity to provide us with about half of our energy needs, either burned for electricity production or piped into current gas lines for use. It just has to be done and made a priority. Though about 3.71 millions biogas plants in India up to March, 2003 are successfully in operation but still it is utilizing only 31% of the total estimated potential of 12 million plants. The payback period of the biogas plants is only 2/3 years, rather in the case of Community and Institutional Biogas Plants it is even less. Therefore biogas electrification at community/Panchayat level is required to be implemented.

In India, Biomass may be used in a number of ways to produce energy. The most common methods are:

1. Combustion
2. Gasification
3. Fermentation
4. Anaerobic digestion

India is very rich in biomass. It has a potential of 19,500 MW (3,500 MW from bagasse based cogeneration and 16,000 MW from surplus biomass). Currently, India has 537 MW Commissioned and 536 MW under construction. The facts reinforce the idea of a commitment by India to develop these resources of power production.



Following is a list of some States with most potential for biomass production:

1. Andhra Pradesh (200 MW)
2. Bihar (200 MW)
3. Gujarat (200 MW)
4. Karnataka (300 MW)
5. Maharashtra (1,000 MW)
6. Punjab (150 MW)
7. Tamil Nadu (350 MW)
8. Uttar Pradesh (1,000 MW)

The potential available and the installed capacities for Biomass and Bagasse

Table 10: The potential available and the installed capacities for Biomass and Bagasse :

Source	Potential	Installed
Biomass	16,000 MW	222 MW
Bagasse (Cogeneration) in existing sugar mills	3,500 MW	332 MW

In India, diesel has larger share than in other countries for transport purposes. Consumption of diesel is expected to rise at an annual 5.6% rate. Domestic supply can presently satisfy 22% of demand and dependence on crude oil imports (>18 billion \$/a) is increasing. There is a growing demand gap between production and consumption. Biodiesel however doesn't need any introduction. With the diesel consumption scaling new heights and controlling about 70% of the fuel matrix, the concentration on this alternative of diesel is absolutely imperative. Biodiesel can be made after transesterification from virgin or used vegetable oils (both edible and non-edible). It is meant to be produced in India mainly from *Jatropha curcas* and, to a lesser extent, from other non-edible virgin oils (in particular *Pongamia pinnata*). *Jatropha* cultivation requires largely an unproductive land located in poverty-stricken, watershed areas and degraded forests.

To accomplish this, the National Biodiesel Mission is being implemented in a phased manner.

Phase I consisting of a Demonstration Project with an investment of Rs. 1500 crore (\$300 million) on 400,000 ha land. As a follow up of the Demonstration Project, Phase II consists of a self sustaining expansion of the programme leading to production of Biodiesel required in the year 2011-12. Expected outputs from 400,000 ha are meant to be 0.5 Million tonnes of bio-diesel, compost from the press cake, and generation of employment for the poor.

Steps taken by state governments for Biofuels

Most of the states governments are taking steps to promote *Jatropha Curcas* and *Pongamia Pinatta*. In Chhattisgarh, the government planted 80 million saplings of *jatropha*, a source of bio-fuel in 2005, as the state attempts to tap non-conventional energy sources. Andhra Pradesh has also taken the lead in *Jatropha* Plantation. The state government has set up a separate department for bringing into productive use the 728,000 hectare cultivable wasteland for *Jatropha* plantation to produce bio-diesel. The state government is drawing up a roadmap, which will see the involvement of oil majors to make the state one of the biggest producer of bio-diesel. It is planning to bring between 4 and 5 million acres of land in seven to eight districts under biodiesel plantations and ensure that micro-irrigation is used in a big way in these areas.

Future of biomass energy in India

Biomass use is growing globally. Despite advancements in biomass energy technologies, most bio-energy consumption in India still remains confined to traditional uses. The modern technologies offer possibilities to convert biomass into synthetic gaseous or liquid fuels (like ethanol and methanol) and electricity (Johansson et al, 1993).

Lack of biomass energy market has been the primary barrier to the penetration of modern biomass technologies. Growing experience with modern biomass technologies in India suggests that technology push policies need to be substituted or augmented by market pull policies.

A primary policy hampering the growth of modern biomass energy is the implicit environmental subsidy allowed to fossil fuels. Increasing realization among policy makers about positive environmental benefits of modern biomass technologies is likely to make inroads into the energy market. Modern biomass has potential to penetrate in four segments –

1. Process heat applications in industries generating biomass waste,
2. Cooking energy in domestic and commercial sectors (through charcoal and briquettes),

Other Markets

Debt Market

The month of April 2010 witnessed considerable activity in the primary market with a total of 22 issues amounting to Rs.7,430 crore. Bharat Petroleum Corp. Ltd, Hindustan Petroleum Corporation Ltd., Housing Development Finance Corporation Ltd. and Tata Sons Ltd. were amongst the biggest issuer.

	Name of the Issuer	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
I.	Bank :				
i)	Corporation Bank	NA	AAA	550	Bonds/NCD
II.	Financial Service Institutions :				
i)	Bajaj Auto Finance Ltd.	NA	AA+	155	Bonds/NCD
ii)	Housing Development Finance Corporation Ltd.	NA	AAA	1000	Bonds/NCD
iii)	Infrastructure Development Finance Corporation Ltd.	15	AAA	250	Bonds/NCD
		NA		775	
iv)	L&T Finance Ltd.	NA	AA+	175	Bonds/NCD
v)	L&T Infrastructure Finance Co.Ltd.	2/3/4/5/6/7/8 years	AA+	525	Bonds/NCD
vi)	Religare FinvestLtd.	NA	A+	200	Bonds/NCD
vii)	Shriram City Union Finance Ltd.	NA	A+	175	Bonds/NCD
viii)	Tata Capital Ltd.	NA	AA+	70	Bonds/NCD
III.	Public Sector Company :				
i)	Bharat Petroleum Corp. Ltd.	NA	AAA	1000	Bonds/NCD
ii)	Hindustan Petroleum Corporation Ltd.	NA	AAA	1000	Bonds/NCD
iii)	Larsen & Toubro Ltd.	NA	AAA	200	Bonds/NCD
IV.	Private Companies :				
i)	India Infoline Investment Services Ltd.	2/3 years	AA-(SO)	220	Bonds/NCD
ii)	Sti Fertilizers Pvt. Ltd.	2	AA-(SO)	135	Bonds/NCD
iii)	Tata Sons Ltd.	NA	AAA	1000	Bonds/NCD

(Sources: Credit Analysis & Research Ltd., May, 2010)

Call Money Market

The call money rate on May 7, 2010 in respect of borrowings ranged between 2.20% and 4.50% as compared to the rates of 0.75% - 3.35% on May 8, 2009 (i.e. a year ago) reflecting that there was less liquidity in the market leading to hardening of interest rates. The average daily turnover in the call money market was Rs.9,662 crore for the week ending May 7, 2010 and this daily turnover rose to Rs.10,036 crore on May 14, 2010.

Foreign Exchange Market

The exchange rate (RBI reference rate) on May 14, 2010 was Rs.45.10 per US dollar as compared to Rs.44.96 per US dollar on May 10, 2010, that is, a week ago; this reflected a depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 2.44% on May 14, 2010 as compared to a premium of 2.85% on May 10, 2010 (a week ago), which reflects that supply of dollars is likely to become relatively soft in the forthcoming weeks. The market rate (buying) was Rs. 46.40 per US dollar on May 31, 2010. The foreign currency assets were US\$ 248.60 billion on May 14, 2010, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 273.30 billion. From end-March 2010, the foreign exchange reserves registered a decline of US\$ 5.76 billion upto May 14, 2010.

Important Policy Pronouncements

RBI Announces Liquidity Easing Measures

Though the recent Monetary Policy stance by the Reserve Bank of India was meant for liquidity tightening, it intends to actively manage liquidity to ensure that the growth in demand for credit by both the private and public sectors is satisfied in a non-disruptive way.

The latest assessment of liquidity conditions suggests that there could be temporary liquidity pressures in the market largely due to changes in government balances on account of advance tax payments and 3G auctions. In order to address the temporary liquidity pressures, the following measures are being taken:

- I. Scheduled commercial banks may avail of additional liquidity support under the LAF to the extent of up to 0.5 per cent of their net demand and time liabilities (NDTL). For any shortfall in maintenance of SLR arising out of availment of this facility, banks may seek waiver of penal interest purely as an ad hoc, temporary measure. This facility will be available till July 2, 2010.
- II. The second LAF (SLAF) will be conducted on a daily basis up to July 2, 2010. The SLAF will be conducted between 4.00 p.m. and 4.30 p.m.
- III. These measures are ad hoc in nature and the additional liquidity support under this scheme and the daily SLAF will be available with effect from May 28, 2010 and up to July 2, 2010.



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 2010	Real Rate (Short-term) (1-3)	Currency unit per Euro 19.05.2010	Balance Latest :12 months		Col 11 as Percentage of GDP 2010
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 19.05.2010	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	0.69	2.72	1.5	0.60	0.81	0.73	-7.1	-0.81	1.00	45.5	-63.3	0.0
			Apr							Mar	Feb	
U. S. A.	0.29	3.36	2.2	-0.70	0.00	0.00	-11.0	-1.91	0.00	-546.4	-419.9	-3.3
			Apr							Mar	Q4	
Britain	0.72	3.66	3.7	2.30	0.70	0.64	-12.8	-2.98	0.86	-131.6	-28.8	-1.0
			Apr							Mar	Q4	
Japan	0.24	1.29	-1.1	-0.30	91.40	95.30	-7.9	1.3	112.84	71.9	169.4	3.2
			Mar							Mar	Mar	
Sweden	0.61	2.60	1.00	0.10	7.84	7.54	-2.1	-0.39	9.68	10.9	29.2	6.6
			Apr							Mar	Q4	
Switzerland	0.21	1.44	1.4	-0.30	1.15	1.10	-1.3	-1.19	1.42	21.7	48.2	8.7
			Apr							Mar	Q4	
India	4.22	7.99	14.5	8.40	46.40	47.50	-6.0	-10.28	57.28	-94.3	-31.5	-1.6
			Mar							Mar	Q4	

Source : The Economist London: May 20th - 26th, 2010

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 2010	Real Rate (Short-term) (1-3)	Currency unit per Euro 19.05.2010	Balance Latest :12 months		Col 11 as Percentage of GDP 2010
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 19.05.2010	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	1.95	2.94	2.8	-1.5	6.83	6.83	-3.0	-0.85	8.43	138.7	282.2	4.3
			Apr							Apr	Q1	
Hongkong	0.22	2.36	2.0	1.2	7.80	7.75	0.8	-1.78	9.63	-35.8	18.3	9.0
			Mar							Mar	Q4	
Indonesia	6.86	5.38	3.9	7.3	9160.00	10345.00	-2.0	2.96	11308.64	21.1	10.6	1.6
			Apr							Mar	Q4	
Malaysia	2.71	1.58	1.3	3.5	3.25	3.54	-5.4	1.41	4.01	36.2	32.0	14.0
			Mar							Mar	Q4	
Singapore	0.50	2.4	1.6	2.6	1.40	1.46	-2.7	-1.1	1.73	27.7	34.0	13.4
			Mar							Apr	Q4	
South Korea	2.46	4.93	2.6	3.6	1165.00	1251.00	-4.1	-0.14	1438.27	39.7	35.3	2.9
			Apr							Apr	Mar	
Taiwan	0.91	1.24	1.3	-0.5	32.00	32.80	-3.1	-0.39	39.51	15.8	39.8	7.1
			Apr							Apr	Q1	
Thailand	1.42	3.1	3.0	-0.9	32.30	34.40	-3.7	-1.58	17.80	13.8	16.0	5.9
			Apr							Mar	Mar	
Brazil	9.4	6.16	5.3	5.5	1.84	2.02	-2.4	4.1	2.00	20.8	-31.5	-2.7
			Apr							Apr	Mar	
Venezuela	14.63	6.55	30.4	29.4	7.90	6.49	-3.2	-15.77	9.75	19.2	8.6	6.3
			Apr							Q4	Q4	
India	4.22	7.99	14.5	8.40	46.40	47.50	-6.0	-10.28	57.28	-94.3	-31.5	-1.6
			Mar							Mar	Q4	

Source : The Economist London: May 20th - 26th, 2010

Figures in Column 9 are derived.

The Research Group: Prof. Poonam Kumar, Dr. D.K. Bhatia, Mr. Rajiv Channa
Research Support: Vaishali Padake
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
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