



Update on Indian Economy March 2009

Economic Snapshot

Contents	Item	Units	February	January	February	(% Change	
			2009	2009	2008	[1] / [2]	[1] / [3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	228.0	229.0	219.4	(0.44)	3.9
- Capital Market	WPI -Inflation**	Per cent	3.9	5.2	4.1		
- Interim Budget of Union Government : 2009-10	IIP (93-94=100)	Week ended 2 months lag	(07.02.09) 279.1	(03.01.09) 267.2	(09.02.08) 283.8	4.45	(1.66)
- Other Markets	INR / US\$	Month End	50.73	49.02	39.92	3.49	27.08
- Important Policy Pronouncements	M3	Rs. '000 Cr.	4590.19	4491.95	3856.84	2.19	19.01
	[i] Agg.Deposits	Rs. '000 Cr.	3937.75	3869.95	3317.81	1.75	18.69
	[ii] Currency	Rs. '000 Cr.	652.44	622.00	539.03	4.89	21.04
		(Outstanding as on)	(13.02.09)	(02.01.09)	(01.02.08)		
	Call Money	% Range	2.00-5.54	2.50-5.58	4.50-8.25	-	-
	(Lendings)	Week ended	(13.02.09)	(09.01.09)	(08.02.08)		

Source: RBI Weekly Statistical Supplement February 27, 2009 & Economic & Political Weekly February 21, 2009

*All Commodities. **Over the year.

Editorial

A) Domestic

As a follow-up of the Union Government's Interim Budget, 2009-10 the Third Fiscal Stimulus was announced and this would help increase the demand among the middle level urban and rural households through reduction in excise duties, but still some steps are required to revive the economy. The Government feels that the fiscal stimulus provided needs to be supplemented by the monetary policy in the form of interest rate cuts so that growth momentum is maintained. But again there are limitations with the cash strap government. It is now expected that the Reserve Bank of India should either cut rate directly or indirectly keep on trimming the repo rate which is the rate at which the banks borrow from the RBI in short term; repo rate at present which is at 5.5 per cent needs to be reduced further.* Compared to the Government RBI certainly has more flexibility in exercising its policy tools so that growth remains strong and at the same time ample liquidity is available in the system. With inflation declining gradually, it is expected that the turn is of the RBI to exercise the policy options to prop up growth.

As far as the growth rate is concerned, quarterly GDP data on rates at factor cost at constant prices (1999-2000) was released by the Central Statistical Organisation (CSO) on Friday, February 27, 2009. It indicates that during the third quarter of 2008-09 (October to December), GDP was estimated at Rs.873,426 crore which grew by 5.3

* RBI announced on March 4, 2009 reducing the key rates,

i) Repo rate from 5.5 per cent to 5 per cent and; ii) Reverse repo rate from 4 per cent to 3.5 per cent.

per cent over the corresponding quarter of the preceding year. While the growth rate in agriculture was reported to have declined by 2.2 per cent during the third quarter; data on growth in agriculture for rabi crops will be known later sometime in June 2009. There was a deceleration in manufacturing. The economic activities which registered significant growth in Q3 of 2008-09 over Q3 of 2007-08 are, 'mining and quarrying' at 5.3 per cent, 'construction' at 6.7 per cent, 'trade, hotels, transport and communication' at 6.8 per cent, 'financing, insurance, real estate and business services' at 9.5 per cent, and 'community, social and personal services' at 17.3 per cent. The impact of three stimuli and the RBI policy measures will be positive, and will show up in the growth rate of GDP. As a result the yearly GDP growth rate for 2008-09 is likely to show up to **more than 7.0 per cent.**

B) International

During the month of February 2009, IMF has been trying to boost its lendable resource upto US\$ 500 billion as a precaution in case the current crisis worsens and as reassurance to the international community that IMF can meet any eventuality. Recently, the IMF has signed on February 12, 2009 an agreement with Japan to get supplemental funding to the extent of US\$ 100 billion. Apart from this money from Japan, the IMF has around US\$ 200 billion in its kitty for lendable purposes. The initial period of the borrowing by IMF from Japan is one year, and this is the largest supplemental financing contribution by any IMF member country. This commitment by Japan could be extended by IMF upto a total of five years if warranted by the Funds liquidity situation and its actual and prospective borrowing needs.

The IMF has so far committed around US\$ 50 billion in lending to a number of economies affected by the crisis, including **Belarus, Hungary, Iceland, Latvia, Pakistan, Serbia and Ukraine.** It announced a precautionary loan for El Salvador last month and the IMF team has also been in negotiations with Turkey.

But the global economy is projected to grind to a virtual halt during 2009, and both trade and capital flows are likely to plummet. The IMF Managing Director, Strauss-Kahn foresees mounting problems for developing countries in the year ahead, "There's going to be a true, massive problem of financing for developing countries in 2009."

Before the meeting of G-7 countries in Rome during February 13-14, 2009 the IMF Managing Director welcomed economic stimulus measures announced by several major and emerging market economies, but it is now critical to start implementing them at the ground level. The next critical step is to take action to clean up the banking sector. "Today the problem is not really stimulus any more. It's really the problem of the banking sector and the restructuring of the banking sector." He indicated that credit markets were still not functioning well, "...so the restructuring of the financial sector is absolutely essential." **"What we must do is to test viability bank by bank. The banks that are viable you must help them with public money. The ones that aren't you must help them to be taken over by another."**

It was recognized that spending additional public money was politically difficult when people legitimately felt that the banking sector had created the crisis. But it was important to do so; otherwise the economy would not recover. The IMF had studied 122 banking crises around the world and the lesson was that banks' balance sheets must be cleaned up for real recovery to begin. "The banking sector can start distributing credit only once it has shrunk and it's been cleaned up," he said.

(Source : IMF Survey – February 13, 2009 & G-7 Meeting February 13-14, 2009)

Capital Market Review

There was virtually no impact of the Interim Budget, 2009-10 on the stock market in the sense the market witnessed a downward trend. Maybe the focus of the Budget was more on the rural sector than on the corporate, and it was because of this the market remained unaffected. However, the market news was that the Reserve Bank of India (RBI) would cut policy rates further and help the economy to rebound. It is around these times the market around the world come under selling pressures on concerns that the US measures to alleviate the financial crisis were not proving enough to revive the US economy. In fact, there was another news that the month of February 2009 witnessed collapse of 8 American banks pushing the total number of bank failure to 14 during the two months of 2009. This is compared to 25 such entities which were shut down during the entire year of 2008. This reflects a deepening of economic recession, and inadequacy of the stimulus package of US\$ 787 billion. As a result the financial sector of the US continued to remain weak, and there are still concerns about the health of key institutions such as Citigroup and Bank of America, and even possibilities of nationalization of these two entities and American International Group Inc. (AIG).

The Insurance Company which is considered too important to fail and may get new capital infusion of US\$30 billion and probably may have debts to the U.S. forgiven in the firm's third bailout. It may be mentioned, that insurer AIG was first saved from collapse in September 2008 with a package that grew to US\$ 150 billion. The AIG is a systemically and significant failing institution but that has to be propped up according to the Treasury.

The Indian Stock Market could not remain immune to the developments in the midst of these crises. The month of January 2009 witnessed heavy selling pressure from the FIIs, but the earlier part of February 2009 experienced moderate inflows through buying by the FIIs. As a result, the Sensex moved within the narrow range during the month but remained below 10,000 points as if it was a hurdle point for the market. Even in the falling market companies like, Siemens, and companies in the automobiles and infrastructure sectors, and the index heavy weight stock Reliance Industries Ltd. led the rally. The Sensex closed at 9424.24 on January 13, 2009 moved to 9634.74 on February 13, 2009 recording a small increase of 210.50 points or 2.23 per cent. The Sensex closed at 8891.61 on February 27, 2009 and thereby registered a decline of 532.63 points during the month. The month witnessed a major merger in the corporate history when the boards of directors of Reliance Industries Ltd. (RIL), and Reliance Petroleum Ltd. (RPL) on Monday, March 02, 2009 approved RPL's merger with RIL., subject to necessary approvals. The exchange ratio recommended by both boards is one share of RIL for every 16 shares of RPL. The appointed date of merger is April 1, 2009.

In the present depressed market while the small investors are not involved in trading, the promoters of many companies are adding to their share holdings in the hope when the market goes up they will be able to reap the benefits in the absence of any cap on the promoters shareholding in the Company.

	February	January	February	January	(% Change)		
	2009	2009	2008	2008	[1]/[2]	[1]/[3]	[2]/[4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	8891.61 (27.02.09)	9424.24 (30.01.09)	17578.72 (29.02.08)	17648.71 (31.01.08)	(5.65)	(49.42)	(46.60)
Monthly High	9647.47 (10.02.09)	10,335.93 (06.01.09)	18663.16 (05.02.08)	20873.33 (08.01.08)	(6.66)	(48.31)	(50.48)
Monthly Low	8822.06 (24.02.09)	8674.35 (23.01.09)	16608.01 (12.02.08)	16729.94 (22.01.08)	1.70	(46.88)	(48.15)
S&P CNX Nifty –Close	2763.65	2874.80	5223.50	5137.45	(3.87)	(47.09)	(44.04)
P/E Ratio : BSE – 30	12.50	12.80	21.90	21.90	(2.34)	(42.92)	(41.55)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	27986.90	35778.30	79,298.4	109334.6	(21.78)	(64.71)	(67.28)
Outflows – Rs. Cr.	31111.50	39220.80	75068.2	120416.6	(20.68)	(58.56)	(67.43)
Net – Rs. Cr.	(3124.40)	(3443.00)	4230.1	11081.9	(9.25)	(173.86)	(131.07)
Cum. Net Inv–US\$ Mn. (Month End)	58109.40	58883.90	68255.8	67207.3	(1.32)	(14.87)	(12.38)

The net cumulative investment amounted to US\$ 58.11 billion in end-February 2009 and this was lower by US\$ 0.77 billion from US\$ 58.88 in end-January 2009.

Interim Budget of Union Government : 2009-10

I. Introduction

Acting Finance Minister Hon'ble. Pranab Mukherjee presented in Parliament on February 16, 2009 an Account for votes Union Budget for 2009-10. This Interim Budget has put the focus on the "Aam Admi" (common man) at the center stage. Expenditure on various social sector schemes / programmes have been substantially raised, and the total spending on some of the major flagship programmes works out to Rs.116 thousand crore.

A Vote on Account Budget is primarily a statement by Finance Minister to seek Parliament's approval for obligatory expenditure that the Government has to incur for the first three-four months of the Financial Year till the new government is installed.

This is the 16th Vote on Account Budget presented by acting Finance Minister Mr. Pranab Mukherjee. It may be mentioned that the first Vote on Account Budget was presented in 1951, and since then every time the Government was in the process of changing hands a Vote on Account Budget was presented. The last Vote on Account Budget was presented in 2004 by the Former Finance Minister Mr. Jaswant Singh.

II. Tax Rates : Unchanged

The Government has decided to continue with the existing tax rates and has left these to be decided by the next Government which will present the full fledged Budget in July 2009. However, "the government will continue to provide interest subvention in 2009-10 to ensure that farmers get short term crop loans up to Rs.3 lakh at 7 per cent per annum." For this, Rs.2,011 crore has been provided. This is less than the Rs.2,600 crore outgo this year 2008-09.

III. Receipts and Expenditure

Budget at a Glance

(Figures in Rs.crore)

	2007-08 Actuals	2008-09 Budget Estimates	2008-09 Revised Estimates	2009-10 Budget Estimates
Revenue Receipts	5,41,925	6,02,935	5,62,173	6,09,551
Capital Receipts	1,70,807	1,47,949	3,38,780	3,43,680
Total Receipts	7,12,732	7,50,884	9,00,953	9,53,231
Non-Plan Expenditure	5,07,650	5,07,498	6,17,996	6,68,082
Plan Expenditure	2,05,082	2,43,386	2,82,957	2,85,149
Total Expenditure	7,12,732	7,50,884	9,00,953	9,53,231
Revenue Deficit	52,569	55,184	2,41,273	2,38,534
Fiscal Deficit	1,26,912	1,33,287	3,26,515	3,32,835
Primary Deficit	-44118	-57520	1,33,821	1,07,324

Source : Business Line dated February 17, 2009

Revenue receipts are estimated at Rs.610 thousand crore which are higher by 8.5 per cent than the revised estimate for receipts of Rs.562 thousand crore in 2008-09. There is a nominal increase of Rs.4.9 thousand crore on capital side, and the remaining Rs.47.4 thousand crore are on revenue side.

In contrast, the non-plan expenditure is expected to increase by Rs.50.1 thousand crore. The plan expenditure is expected to rise nominally by Rs.2.2 thousand crore. The total expenditure both Plan and Non-Plan is expected to rise by Rs.52.3 thousand crore.

This is an overall situation of receipts and expenditure but the vote on account budget has made significant sectoral changes and the focus being on the social sector, and export sectors which are highly labour intensive such as textile, handicrafts, gems and jewellery, etc.

IV. Fiscal Deficit

The fiscal deficit which was budgeted at 2.5 per cent of GDP for 2008-09 is now expected to be 6.0 per cent of GDP again for 2008-09 largely because of the decline in the growth rate of Gross Domestic Product. But for 2009-10 the fiscal deficit is estimated to be 5.5 per cent of GDP.

Given the current global trend of not worrying too much about the fiscal deficit, the Government has decided to give the Fiscal Responsibility and Budget Management (FRBM) targets a go-by for the time being. The Minister has conceded that this level of fiscal deficit was “higher than what would be appropriate under normal circumstances.” He said that conditions in the year ahead are not likely to be normal and therefore the high deficit is inevitable. “We will return to FRBM targets once the economy is restored to its recent trend growth path.”

VII. Social Sector

- Besides allocating Rs.8,000 crore for the mid-day meal scheme, the government has also proposed an allocation of Rs.6,500 crore for the integrated child development scheme.
- An amount of Rs.7,400 crore has been allocated to the Rajiv Gandhi Rural Drinking Water Mission, Rs.12,070 crore for the National Rural Health Mission (NRHM), and Rs.11,842 crore to the Jawaharlal Nehru National Urban Renewable Mission (JNNURM).
- Two new schemes – Indira Gandhi National Widow Pension and Indira Gandhi National Disability Pension Schemes to be launched.
- 15 Central Universities established, 6 New IITs start functioning; two more to commence this year.

VIII. Exports

For the exporters, the Government has offered some relief on the interest subvention front. It has extended the subvention of 2 per cent on pre-and post shipment credit for certain employment-oriented sectors such as textiles (including handloom and handicrafts), carpets, leather, gems and jewellery, marine products and SMEs from March 31, till September 30, 2009. This will involve an additional outgo of Rs.500 crore.

IX. Subsidies

- The food and fertilizer subsidies, along with the other major subsidies, are estimated to cost the exchequer Rs.95,579 crore.
- Rs.65,300 crore debt waiver and relief given to 3.6 crore farmers.
- Farm Credit Disbursements up 300 per cent – touch Rs.2.5 lakh crore in 2007-08.

X. Banks

- The Centre has also decided to recapitalize 15 public sector banks over the next two years. Rs.1,900 crore has been provided for infusing funds into four public sector banks this year itself.
- Financial Sector reforms to be introduced to strengthen regulatory mechanism of securities market.
- NPAs of Public Sector banks decline.

XI. Defence

- The allocation for defence has been increased to Rs.1,41,703 crore, including Rs.54,824 crore for capital expenditure.

XII. Unique Identification

- Rs.100 crore for unique identification authority.

XIII. Infrastructure Project

a. Rural

- Rural Infrastructure Development fund corpus increased to Rs.14,000 crore in 2008-09.
- 60.12 lakh houses for weaker sections constructed under Indira Awaas Yojana.

b. Major Projects

The Government has accorded approval to 37 infrastructure projects worth Rs.70,000 crore from August 2008 to January 2009 alone. This was stated by the Hon'ble Finance Minister, Pranab Mukherjee. He further stated that under the Public Private Partnership (PPP) mode, 54 central sector infrastructure projects with a project cost of Rs.67,700 crore were given in principal or final approval, and 23 projects amounting to Rs.27,900 crore approved for viability gap funding in 2008-09.

XIV. FDI Inflows

A record US dollar 32.4 billion FDI received in 2007-08 notwithstanding financial uncertainty and slow down, FDI inflows during April-December 2008 were US dollars 23.3 billion recording a growth of 45 per cent over the same period in 2007.

XV. Stimulus Package

The fallout of global slow down on Indian economy were countered with fiscal stimulus packages announced in December 2008 and January 2009 providing tax relief to boost demand and increasing expenditure on public projects.

XVI. Observations :

- According to the Press Report of February 23, 2009, the Comptroller and Auditor General (CAG) has indicated in a report that the Government has been overstating the expenditure. Over Rs.51,000 crore was allocated for these flagship schemes in 2007-08 which got transferred to the bank accounts of NGOs (autonomous bodies and district authorities). Raising an alarm, the CAG said money often remained unspent in the accounts of these implementing agencies. Kept outside government accounts, they were beyond the purview of any checks and balances of the Centre. The aggregate amount of the unspent balances in the accounts of the implementing agencies kept outside government accounts is not readily ascertainable. The government expenditure as reflected in the accounts to that extent is, therefore, overstated.
- Being a vote on account Budget, the acting Finance Minister presented a Budget with the focus rightly on social sector, rural areas and labour intensive exports.
- There is a little that the Finance Minister has provided to the manufacturing sector which generates urban employment. Instead the allocation is more for those living in rural areas.
- Given the poor governance at the grass root level, it is to be seen whether under the present system prevailing, the allocation made by the Finance Minister trickles down to those who need it.

Other Markets

Debt Market

The month of **January 2009** witnessed fair amount of activity in the primary issuance market. India Infrastructure Finance Company Ltd. remained the biggest issuer for the month with an issue size of Rs.7,370.30 crore, followed by Indian Railway Finance Corporation Ltd. (Rs.10,295.30 crore). Barclays Investments & Loans (India) Ltd., Indian Railway Finance Corporation Ltd. and LIC Housing Finance Ltd. came up with several issues of bonds.

	Name of the Issuer	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
I.	Bank :				
i)	Bank of Baroda	-	AAA	300.20	Bond/NCD
ii)	Bank of India	-	AAA	200.00	Bond/NCD
iii)	Corporation Bank	-	AAA	237.50	
iv)	Dena Bank	10 years	AA-	200.00	Bond/NCD
II.	Financial Service Institutions :				
i)	ABN Amro Securities (India) Pvt. Ltd.	40 months	AAA	1.00	Bond/NCD
ii)	Barclays Investments & Loans (India) Ltd.	39 months	AAA	5.10	Bond/NCD
iii)	Barclays Investments & Loans (India) Ltd.	25 months	AAA	3.20	Bond/NCD
iv)	Barclays Investments & Loans (India) Ltd.	25 months	AAA	10.10	Bond/NCD
v)	Housing Development Finance Corporation Ltd.	10 years	AAA	104.10	Bond/NCD
vi)	India Infrastructure Finance Company Ltd.	5 years	AAA	7,370.30	Bonds
vii)	Indian Railway Finance Corporation Ltd.	5 years, 10 years & 15 years	AAA	600.00	Bond/NCD
viii)	Indian Railway Finance Corporation Ltd.	5 years, 10 years & 15 years	AAA	1,125.00	Bond/NCD
ix)	Indian Railway Finance Corporation Ltd.	5 years, 10 years & 15 years	AAA	525.00	Bond/NCD
x)	Indian Railway Finance Corporation Ltd.	10 years	AAA	300.00	Bond/NCD
xi)	Indian Railway Finance Corporation Ltd.	5 years, 10 years & 15 years	AAA	375.00	Bond/NCD
III.	Private Companies :				
i)	ETC Networks Ltd.	6 years	A	50.00	Bond/NCD
ii)	Larsen & Toubro Ltd.	3 years	AAA	250.00	Bond/NCD
iii)	LIC Housing Finance Ltd.	3 years	AAA	170.00	Bond/NCD
iv)	LIC Housing Finance Ltd.	3 years	AAA	105.00	Bond/NCD

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

Call Money Market

The call money market rate on February 13, 2009 in respect of borrowings ranged between 2.00% and 5.54% as compared to the rates of 4.50% - 6.94% on February 15, 2008 (i.e. a year ago) reflecting that there was softening of the interest rates. The average daily turnover in the call money market was Rs.9,981 crore for the week ending February 13, 2009 and this daily turnover rose to Rs.13,961 crore in the week ending February 20, 2009.

Foreign Exchange Market

The exchange rate (RBI reference rate) on February 19, 2009 was Rs.49.85 per US dollar as compared to Rs.48.72 per US dollar on February 16, 2009, that is, a week ago; this reflected a depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 1.89% on February 19, 2009 as compared to a premium of 2.09% on February 16, 2009 (a week ago), and this reflects that supply of dollars is likely to become relatively easy in the forthcoming weeks. The foreign currency assets were US\$ 239.82 billion on February 20, 2009, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 249.53 billion. From end-March 2008, the foreign exchange reserves registered a decline of US\$ 60.20 billion upto February 20, 2009. The market rate (buying) was Rs.51.13 per US dollar on February 27, 2009.

Important Policy Pronouncements

A. Railway Budget :

Union Minister for Railways Mr. Lalu Prasad Yadav presented on February 13, 2009 to the Parliament the Interim Budget for Railways for the year 2009-10. Highlights of the Budget Speech are :

I. Present Position

- i) Railways have deployed their investible surplus of nearly Rs.70,000 crore earned between 2004-05 and 2008-09 to increase its productivity. Railways will invest Rs.2,30,000 crore under the 11th Five Year Plan, which is almost three times the amount allocated in the 10th Five Year Plan. The objective is to increase the transport capacity of the Railways and to reduce the unit cost of operations.
- ii) Railways investment outlays has been stepped up from Rs.13,394 crore in 2003-04 to Rs.36,773 crore in 2008-09. Railways would be completing the work of 4900 kms of gauge conversion, 1800 kms of doubling and laying 1100 kms of new lines, over five years.
- iii) The dream of bringing rail services to the Kashmir Valley has also been realized with the start of train services between Anantnag and Rajwansher. The service up to Baramula will be extended up to Qazigund in the next four months.
- iv) The production of wagons is targeted to increase from 6,600 per annum to nearly 15,000 (vehicle units) and diesel and electric locomotives from 202 to about 480. These trains can now carry a load of 4100 tonne compared with the earlier load of 2300 tonne. The capacity of the freight trains comprising of open wagons with new design will now be 22 per cent more than before. Similarly, the capacity of passenger trains has also been increased.

II. Performance Review of 2007-08

The operating results for the preceding fiscal 2007-08, registered a growth of 9 percent, Railways loaded 794 million tonnes, which was 66 million tonnes more than the loading in 2006-07. Freight and passenger earnings grew by 14 and 15 percent respectively. Total traffic earnings also increased by 15 percent to reach Rs.71,645 crore. The cash surplus before dividend increased from the level of Rs.20,338 crore in 2006-07 to Rs.25,006 crore in 2007-08. The Plan expenditure increased to Rs.28,980 crore compared with Rs.25,002 crore in 2006-07.

III. Budget Estimates for 2009-10

- i) The Budget Estimates for goods earnings, passenger earnings, sundry and other earnings and other coaching earnings have been kept at Rs.59,059 crore, 25,000 crore, Rs.6,000 crore and Rs.3,000 crore, respectively, in 2009-10. The Gross Traffic Receipts have been projected at Rs.93,159 crore, exceeding the Revised Estimates for the current year by Rs.10,766 crore.
- ii) The Ordinary Working Expenses have been kept at Rs.62,900 crore in 2009-10 which are Rs.7,900 crore more than the Revised Estimates for 2008-09. This is mainly due to payment of 60 percent of the arrears to the staff in view of the recommendations of the Sixth Pay Commission. The total Working Expenses are estimated at Rs.83,600 crore. The cash surplus before dividend is expected to be Rs.18,847 crore and the operating ratio 89.9 percent. Dividend payable to the General Revenues for 2009-10 is estimated at Rs.5,304 crore based on the current applicable rate.
- iii) The Annual Plan for 2009-10 envisages investment of Rs.37,905 crore. The budgetary support from the General Revenue has been proposed at Rs.9,600 crore excluding Rs.1,200 crore to be received from Central Road Fund. The Internal and Extra Budgetary Resource component would, accordingly, comprise 72 percent of the Annual Plan.
- iv) Due to implementation of the Sixth Pay Commission recommendations, Railways are expected to incur an additional burden of Rs.9,000 crore on salaries and Rs.4,500 crore on pensions.
- v) Railways expected to show a surplus of Rs.18,847 crore in the next fiscal.
- vi) It may be recalled that the Passenger trains in Japan, Germany and France generally run at speeds of 300 to 350 km per hour. It is proposed to have feasibility report of these trains which may be called **Bullet Trains** for stations between Delhi–Amritsar, Ahmedabad–Mumbai–Pune, Hyderabad–Vijaywada–Chennai, Chennai–Bangalore–Ernakulam and Howrah–Haldia.
- vii) It is proposed to start **43 new trains**, extend the services of 14 trains and increase the frequency also of 14 trains connecting mainly Delhi, Mumbai, Lucknow, Patna and Bhubaneswar. Finally it is proposed to create two new railway divisions at Bhagalpur and Thawe in the coming year.

IV. Passenger Fares: Reduction

- i) Reduction in passenger fare of ordinary passenger trains by one rupee for fares costing up to Rupees fifty per passenger for journey above ten kilometers.
- ii) Second class and sleeper class fares of all Mail / Express and ordinary passenger trains to be reduced by 2 per cent for tickets costing Rupees fifty and more per passenger.

- iii) Fares of AC First Class, AC II tier, AC III tier and AC Chair Car also to be reduced by two per cent.

V. Observations

This Railway Budget has laudable objective

- i) to reduce the operating cost
- ii) No increase in the passenger fare, but only moderate increase in the freight rates.

B. Foreign Direct Investment : Policy Liberalisation :

Government announced on February 17, 2009 revision in FDI Regulations which are more liberal and investor friendly on Foreign Direct Investment (FDI) under which FDI upto 100 per cent is permitted on the automatic route in most sectors /activities. The World Investment Reports bought out by UNCTAD for 2007 and 2008 have rated India as the second attractive investment destination. Highlights of the new liberalized regulations are :

I. Defence Production :

FDI up to 26 per cent under the FIPB route, is allowed for Defence Production subject to licensing under Industries (Development & Regulation) Act, 1951 and guidelines on FDI in production of arms and ammunition.

II. Air Transport Services Sector :

1. FDI up to 49 per cent and investment by Non-resident Indians (NRI) up to 100 per cent will be allowed on the automatic route in Domestic scheduled Passenger Airline Sector.
2. FDI up to 74 per cent and investment by Non-resident Indians (NRI) up to 100 per cent will be allowed on the automatic route in Non Scheduled airlines, Chartered airline and Cargo airlines.
3. FDI up to 74 per cent and investment by NRI up to 100 per cent will be allowed on the automatic route in Ground Handling Services.
4. FDI up to 100 per cent will be allowed on the automatic route in Maintenance and Repair organizations; flying training institutes; technical training institutions; and helicopter services /seaplane services.

III. Print Media

a.	Publishing of newspaper and periodicals dealing with news and current affairs	26%	FIPB
b.	Publishing of scientific magazines / specialty journals / periodicals	100%	FIPB
c.	Publishing of facsimile edition of foreign newspapers	100%	FIPB
d.	Publishing of Indian editions of foreign magazines dealing with news and current affairs	26% (FDI & Investment by NRIs/PIOs/ FII)	FIPB

Note : The FDIs in above noted sectors are subject to Guidelines issued by Ministry of Information & Broadcasting

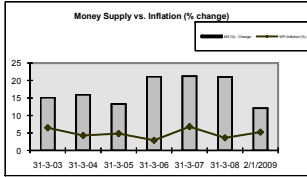
C. Third Stimulus Package

On February 24, 2009 (Tuesday) Finance Minister announced the Third Fiscal Stimulus package in the form of reducing, service tax, excise duty and countervailing duty on imports. This package is worth Rs.30,000 crore. The highlights of the package are :

- The excise duty rate on all products on which it was 10 per cent will come down to 8 per cent.
- While service tax has been reduced by 2 per cent across the board to 10 per cent from 12 per cent earlier.
- Customs duty exemption on naphtha imports for power generation has been extended beyond March 31, 2009.
- This stimulus package is the third in a row after the ones announced in December 02, 2008 and January 07, 2009. The rate cuts as well as 4 per cent cut in excise duty announced in December 2008 will continue beyond March 31, 2009. The Government also announced in December 2008 slashing median excise duty by 4 per cent and by announcing Rs.20,000 crore additional spending plan to boost economic activity.
- It may be mentioned that 90 per cent of the manufactured goods which attract excise duty of 10 per cent at present include colour television set, washing machine, refrigerator, soap and detergents, cola hybrid cars and commercial vehicles, etc. These are expected to become cheaper as a result of the excise duty cut.
- Phone bills, airline tickets, credit card charges, insurance premia, crude packages will become cheaper as a result of cut in service tax rates.
- The cess for health and education are likely to come down as these are levied as a proportion of the total cost including the indirect taxes and these have now been reduced.
- The reduction in service tax will serve the twin objective of giving relief to the service sector which comprises 50 per cent of the GDP and probably this will be a move towards the unified goods and service tax regime scheduled to be kicked from the fiscal 2010 and 2011.
- Sector-wise impact of the two per cent cut in service tax from 12 per cent to 10 per cent, and also 2 per cent cut in excise duty from 10 per cent to now 8 per cent will be as follows :

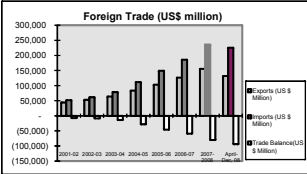
Sectorial Impact of Excise and Service Tax Cuts

1.	Steel prices to come down by Rs.500-600 / tonne for end users.	6.	International first and business class air ticket to get cheaper by Rs.900-8,000
2.	Consumer durable markers to cut prices marginally.	7.	Relief for credit card users
3.	Bulk cement prices to come down by Rs.4 per 50-kg bag.	8.	Cost of leisure and hospitality services like health clubs, spas, business centres, banquets to come down marginally.
4.	Monthly bills for post-paid mobile users to come down 2 per cent, post-paid users to get extra talk time.	9.	No impact on prices of medicines.
5.	Truck prices to come down by Rs.15,000-1 lakh, hybrid vehicles to get cheaper by up to Rs.28,000, 3-wheelers to be cheaper by up to Rs.6,000, no impact on small cars and 2-wheelers.	10.	Automotive tyre prices will come down by up to Rs.500.
		11.	No impact on FMCG prices.



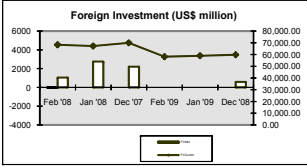
	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	2/1/2009
M3 (Rs. Crore)	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	40,06,722	44,91,853
M3 (%) Change	15.14	15.95	19.30	21.10	21.27	21.04	12.11
WPI (Index) All Commodities	172.30	180.30	198	196.6	210.0*	217.8**	229.0***
WPI Inflation (%)	6.49	4.29	4.83	2.91	6.82	3.62	5.24

Source: RBI Bulletin February 2009; WSS: February 27, 2009 **\$1993-04=100, year/month-end. * March 31, 2007 ** January 05, 2007 *** January 03, 2009



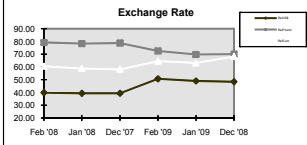
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	April-Dec, 08
Exports (US \$ Million)	43,827	52,719	63,843	63,536	103,091	126,414	155,512	131,990
Imports (US \$ Million)	51,413	61,412	78,149	111,517	149,166	185,735	235,911	225,809
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,321)	(80,398)	(93,819)

Source: RBI Bulletin, February 2009. Revised figures for 2001-02 to 2007-08 (April-March)
*DGCIAS data for April 2006 to March 2007 (Provisional). Economic & Political Weekly, February 21, 2009



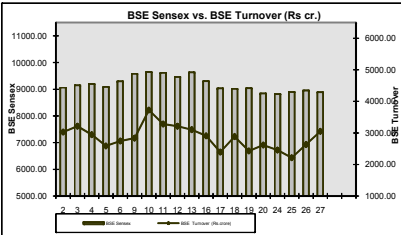
	2007-08 (US\$ million)			2008-09 (US\$ million)		
	Feb '08	Jan '08	Dec '07	Feb '09	Jan '09	Dec '08
FDI Net	1,048.7	2,747.1	2,293.9	174.5	(853.25)	589.9
FDI Cum.	68,325.90	67,207.30	69,954.30	58,109.40	58,883.90	59,737.30

Source: SEBI - DIT. In total figures are due to rounding off.



	2007-08			2008-09		
	Feb '08	Jan '08	Dec '07	Feb '09	Jan '09	Dec '08
Ru/US\$	39.92	39.39	39.41	50.73	49.02	48.45
Ru/Pound	78.31	78.40	78.74	72.52	69.84	70.01
Ru/Euro	60.63	58.73	58.12	64.57	63.25	68.22

Figures are for month-end



February 2009	BSE Sensex Close	BSE Turnover (Rs.crore)
30-Jan-09	9424.20	3626.00
2	9066.70	3026.00
3	9149.30	3213.00
4	9201.85	2947.00
5	9090.88	2589.00
6	9300.96	2743.00
9	9383.89	2836.00
10	9647.47	3727.00
11	9618.56	3281.00
12	9465.83	3212.00
13	9634.74	3103.00
16	9305.45	2908.00
17	9035.00	2392.00
18	9015.18	2884.00
19	9042.63	2429.00
20	8843.21	2616.00
24	8822.06	2457.00
25	8902.54	2217.00
26	8954.86	2632.00
27	8891.61	3053.00



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 11.02.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 11.02.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
Euro-11	2.00	3.34	1.10	3.20	0.78	0.69	-1.70	0.90	1.00	-52.0	-88.9	-0.4
U. S. A.	0.42	2.76	0.10	4.10	1.00	1.00	-3.20	0.32	1.28	-820.6	-697.9	-4.6
Britain	2.15	3.61	3.10	2.10	0.70	0.51	-5.30	-0.95	0.90	-173.0	-45.6	-2.2
Japan	0.61	1.30	0.40	0.70	90.30	108.00	-3.10	0.21	115.77	36.2	156.0	3.6
Sweden	0.78	2.99	0.90	3.50	8.38	6.42	2.60	-0.12	10.74	17.2	40.5	7.3
Switzerland	0.50	2.02	0.10	2.40	1.16	1.11	0.90	0.40	1.49	18.4	40.3	8.9
India	4.82	7.01	9.70	5.50	48.70	39.80	-6.00	-4.88	62.44	-114.5	-28.5	-3.6

Source: The Economist London: February 14th - 20th, 2009

Figures in Column 9 are derived.

**RPI Inflation rate 0.9% in Dec.

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 11.02.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 11.02.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	1.31	3.25	1.0	7.1	6.83	7.20	-0.1	0.31	8.76	314.8	371.8	10.2
Hongkong	0.78	1.57	2.1	3.8	7.75	7.80	-1.2	-1.32	9.94	-26.0	27.1	10.0
Indonesia	9.91	10.11	9.2	5.6	11760.00	9260.00	-1.4	0.71	15076.92	8.7	3.9	0.4
Malaysia	2.59	4.02	4.4	2.4	3.60	3.24	-5.1	-1.81	4.62	42.7	38.3	11.4
Singapore	0.59	1.90	4.3	4.4	1.51	1.42	0.80	-3.71	1.94	18.4	29.2	13.5
South Korea	2.91	5.26	3.7	3.9	1393.00	946.00	1.7	-0.79	1785.90	-12.2	-6.4	-2.1
Taiwan	1.10	1.52	1.6	2.9	34.00	31.60	-1.7	-0.50	43.59	6.2	28.8	4.7
Thailand	2.20	2.78	-0.4	4.3	35.10	32.90	-1.4	2.60	45.00	0.2	-0.2	-0.3
Brazil	12.66	6.16	5.8	4.6	2.27	1.75	-0.7	6.86	2.91	23.3	-28.3	-1.9
Venezuela	17.14	6.55	30.7	24.1	5.60	5.25	-1.1	-13.56	7.18	50.2	49.4	14.8
India	4.82	7.01	9.70	5.50	48.70	39.80	-6.0	-4.88	62.44	-114.5	-28.5	-3.6

Source: The Economist London: February 14th - 20th, 2009

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
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