



## Update on Indian Economy May 2009

### Economic Snapshot

Contents	Item	Units	April	March	April	(% Change				
			2009	2009	2008	[1]/[2]	[1]/[3]			
			[1]	[2]	[3]	[4]	[5]			
			- Editorial	WPI -Index*	1993-94=100	228.2	227.3	227.8	(0.66)	0.2
			- Capital Market	WPI -Inflation**	Per cent	0.2	0.4	7.1		
- Industry: Gem & Jewellery	IIP (93-94=100)	2 months lag	272.8	280.4	273.9	(2.71)	(0.4)			
- Other Markets	INR / US\$	Month End	50.22	50.95	40.46	(1.43)	(24.12)			
- Important Policy Pronouncements	M3	Rs. '000 Cr.	4853.91	4655.83	4019.47	4.25	20.76			
	[i] Agg.Deposits	Rs. '000 Cr.	4173.12	3986.03	3435.65	4.69	21.47			
	[ii] Currency	Rs. '000 Cr.	680.79	669.80	583.82	1.64	16.61			
		(Outstanding as on)	(10.04.09)	(13.03.09)	(11.04.08)					
	Call Money	% Range	1.25-4.00	2.00-4.50	1.00-6.50	-	-			
	(Lendings)	Week ended	(10.04.09)	(13.03.09)	(11.04.08)					

Source: RBI Weekly Statistical Supplement April 24, 2009 & Economic & Political Weekly April 18, 2009

\*All Commodities. \*\*Over the year.

### Editorial

#### A) Domestic

In March 2009, the IMF had projected India's growth rate as 5.25 per cent in 2009-10 while pegging the growth rate during 2008-09 at 6.25 per cent. The World Bank also made a forecast for India's economic growth of 4 per cent in 2009-10 and indicated that the recovery would start as late as 2010-11. Though one would question these figures for both 2008-09 and 2009-10, the fact of the matter is that India still continues to be the fastest growing economy in the world. In a speech on April 19, 2009 (Sunday\*), the Prime Minister Dr. Manmohan Singh said that there is a global financial crisis, and this crisis according to him, is "mishandling of the financial system by the major developed countries" and now it has moved from a financial crisis to credit crisis. It has also affected a large number of developed countries, including India's export, as also flows of credit and capital flows to India. Prime Minister hoped that the World Economy would recover at least partially by September 2009 and if that happens, India would be able to clock the growth rate of 8-9 per cent during 2009-10.

Despite the projections made by IMF and the World Bank, and some slow down in exports, India is likely to register a growth rate of close to 7 per cent during 2008-09, and in the words of Prime Minister in the range of 6.5-7 per cent.

\* Times of India (Mumbai) April 20, 2009, p15

## B) International

Following G-20 Summit in April 02-03, 2009 (London) decisions were taken to increase lending capacity of IMF from US\$ 250 to US\$750 billion. Apart from this it was also decided to double the concessional lending to low income countries. One of the reasons was to combat financial contagion and provide significant new financing and broad mandate to IMF for action. The IMF multiple roles were reaffirmed in a variety of ways, as follows:

- **Economic forecaster.** IMF economic forecasts were now the central reference point for countries planning how to respond to the crisis. The IMF is forecasting that the global economy will recover in 2010, but only if the right policy actions, including a coordinated fiscal stimulus, are taken.
- **Policy advisor.** The IMF has been outspoken during the crisis in pressing for a coordinated response to the crisis through cuts in interest rates, big increases in government spending, cleaning up the financial sector, and bolstering regulation. The IMF has become a partner in governments to discuss policies and help them analyze what policy responses are required in the crisis.
- **Economic surveillance.** The IMF will monitor policy implementation by governments around the world and has been asked to beef up early warning systems, along with the Financial Stability Forum. **“We call on the IMF to assess regularly the actions taken and the global actions required,” the G-20 communiqué said.**
- **Global lender.** The resources which the IMF has to support its members will be tripled to US\$ 750 billion, including US\$ 100 billion each from Japan and the European Union. The IMF will use the money to buttress countries affected by the global downturn.
- **Provider of help to low-income countries.** The IMF Managing Director, Strauss-Kahn had earlier committed at a conference in Tanzania in March 2009 to being the voice for low-income countries at the G-20 summit. The summit set a target to more than double concessional lending to the world’s poorest countries. **“So the commitment made by the IMF is Dar es Salaam has been fulfilled, and the low-income countries are not forgotten at the G-20.”**
- **Boosting world liquidity.** The G-20 mandated the IMF to make a new general allocation of SDRs which will inject US\$ 250 billion into the world economy and increase global liquidity. Strauss-Kahn said that although US\$ 250 billion did not seem that much in a global context, “you will see that it’s the beginning of increasing the role of the IMF, not only as a lender of last resort, not only as the forecaster, not only as an advisor in economic policy and its old traditional role, but also in providing liquidity to the world, which is the role finally and in the end, of a financial institution like ours.”

Finally, reflecting the growing role of the emerging markets, the G-20 leaders committed to improving the package of IMF quota and reforms, and agreed to bring forward a further review of quota by January 2011; the quota determine representation in the IMF of countries whose number is 185. The IMF and the World Bank will hold their Spring Meetings in Washington on April 25-26, 2009 where these proposals will be discussed and reaffirmed.

### Capital Market Review

The rally in the capital markets noticed during the second fortnight of March 2009 and early April 2009 is largely due to domestic Mutual Funds which were consistently buying at every rebound. However, these Mutual Funds have been cautious and have converted a significant part of their assets into cash to protect downside in the sliding market, while keeping sufficient amount of cash ready to be invested at lucrative valuations. Further the funds garnered by insurance companies through Unit Linked Insurance Plans (ULIP) have also found their way into capital markets at lower levels.

In the capital markets, the role of retail investors remained insignificant, and given the volatility despite slow upside the retail investors have remained marginal sellers. The retail investors have become extra cautious because it seems that they have burnt their fingers when the market was rising sharply last year. Though FIIs have invested significantly in the Indian capital markets, their investments are fraught with uncertainty as compared with Domestic Institutional Investors (DFIs). In addition, redemption pressure from their own investors has induced FIIs to be net sellers in the Indian equity markets during February 2009. Since then the investment by the FIIs has indeed been small and given their risk appetite the investment remained only in the selected sectors.

The Asian markets have started reflecting optimism and seems to have stabilized induced by the confidence after the conclusion of G20 meeting on April 3, 2009. One of the policy stances was to strengthen the resources available with the IMF by increasing these from US\$ 250 billion to US\$ 750 billion. This confidence building has also led to buying by FIIs in the Indian market and this together with the optimism in the Asian markets has led to the steady increase in the Sensex.

Further, responding to the rising anti-capitalist anger against the reckless behaviour of those at the helm of top companies, the G-20 countries are toying with economic embargo on tax havens including **Bahamas, Cayman Islands** and **Mauritius**, where most India-specific foreign funds are registered, giving rising to concerns that off-balance-sheet cash of many of our citizens is re-routed from here back to India as foreign portfolio investment.

The Sensex has already crossed 10000 market point and the volumes have also increased significantly. The Sensex was up 11.98 per cent in calendar 2009 till April 9, 2009 from its close of 9,647.31 on December 31, 2008. From a three-year closing low of 8,160.40 on March 9, 2009, the Sensex has jumped by 2,643.46 points, or 32.39 per cent to 10,803.86 on April 9, 2009 – its highest closing since October 15, 2008.

The Companies which have recorded to the positive growth are **Larsen & Toubro** in the engineering sector which expected a free healthy order inflow, **Mahindra & Mahindra** and **Tata Motors** in the auto sectors and **Reliance Communication** and the mortgage lender **HDFC** during the month of April 2009. The market is likely to witness steady upward movement despite the overall deceleration in the rate of industrial production which probably could be a trough for the year 2008-09.

Major Indices	April	March	April	March	(% Change)		
	2009	2009	2008	2008	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	11403.25 (29.04.09)	9708.50 (31.03.09)	17287.31 (30.04.08)	15644.44 (31.03.08)	17.46	(34.04)	(37.94)
Monthly High	11403.25 (29.04.09)	10048.49 (27.03.09)	17378.46 (29.04.08)	16677.88 (03.03.08)	13.48	(34.38)	(39.75)
Monthly Low	9901.99 (01.04.09)	8160.40 (09.03.09)	15343.12 (04.04.08)	14809.49 (17.03.08)	21.34	(35.46)	(44.90)
S&P CNX Nifty –Close	3473.95	3020.95	5165.90	4734.50	15.00	(32.75)	(36.19)
P/E Ratio : BSE – 30	15.90	13.60	21.50	20.10	16.91	(26.05)	(32.34)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	49714.60	40978.60	62329.1	71159.4	21.32	(20.24)	(42.41)
Outflows – Rs. Cr.	40716.20	46868.60	62955.8	72169.6	(13.13)	(35.33)	(35.06)
Net – Rs. Cr.	8998.50	(5890.00)	(626.9)	1010.1	(252.78)	(1535.40)	(683.11)
Cum. Net Inv–US\$ Mn. (Month End)	60741.70	56649.30	67850.1	68005.4	7.22	(10.48)	(16.70)

The net cumulative investment amounted to US\$ 60.74 billion in end-April 2009 and this was higher by US\$ 4.09 billion than the US\$ 56.65 billion in end-March 2009. It seems that the FIIs have now returned to the Indian market and it portends that index could gradually rise.

### Industry: Gems & Jewellery

#### I. Introduction :

Gems and Jewellery industry has emerged as one of the fastest growing industries in India. It has strong domestic demand and has contributed significantly to the total exports in India.

#### Exports and Imports of Gems and Jewellery:

Year	Exports			Imports		
	Total Exports (US\$ mn)	Of which Gems & Jewellery (US\$ mn)	Col 2 over Col 1 (Per Cent)	Total Imports (US\$ mn)	Of which Pearls, precious & semi precious stones (US\$ mn)	Col 5 over Col 4 (Per Cent)
	1	2	3	4	5	6
1990-91	18,145	2,924	16.11	24,073	2,083	8.65
1995-96	31,795	5,275	16.59	36,675	2,106	5.74
2000-01	44,560	7,384	16.57	50,537	4,808	9.51
2001-02	43,827	7,306	16.67	51,413	4,623	8.99
2002-03	52,719	9,030	17.13	61,412	6,063	9.87
2003-04	63,843	10,573	16.56	78,149	7,129	9.12
2004-05	83,536	13,762	16.47	111,517	9,423	8.44
2005-06	103,091	15,529	15.06	149,166	9,134	6.12
2006-07	126,362	15,977	12.64	185,749	7,488	4.03
2007-08	159,007	19,657	12.36	239,651	7,975	3.33

Source: RBI Handbook of Statistics on the Indian economy 2008-09

Gems and Jewellery industry has been growing at around 15 percent annually but recently its share in total exports has started declining. For the year 2006-07 and 2007-08, contribution of Gems and Jewellery exports to the Indian exports was 12.5% each year. But the exports have increased by more than 18% from US\$ 15.98 billion in FY 2006-07 to US\$ 19.66 billion during FY 2007-08. On the import front, total imports have fell from US\$ 9.13 billion in FY 2005-06 to US\$ 7.49 billion in FY 2006-07. There was, however, a slight increase in FY 2007-08 to US\$ 7.98 billion.

#### **Current Scenario:**

As per the data available from Gems and Jewellery Export Promotion Council, exports for the period April 2008 – February 2009 stood at US\$ 17.79 billion, and imports at US\$ 18.65 billion. There was sharp decline in exports in the month of November 2008. It was US\$ 987.1 million, 34 % decline as compared to US\$ 1.5 billion in the same month preceding year.

#### **II. Use of Gold :**

India is the largest consumer of gold as also the largest diamond processor in the world. Gems and Jewellery industry consist of sourcing, processing, manufacturing and selling of precious metals, gemstones, gold/silver Jewellery with precious/ non precious metal embedded etc. The processing of gold largely comes from the unorganized sectors. Also skilled and inexpensive workforce makes India as one of the best in the world for processing of diamonds. India imports gold and rough diamonds along with other precious metals. Gold is purchased from countries like Switzerland, South Africa, Australia, UAE, etc and rough diamonds are sourced from Belgium, UK, Israel, UAE, etc.

#### **III. Structure of Industry:**

The Indian Gems and Jewellery industry mainly consists of unorganized sector. There are large number of domestic private sector companies who have focused on developing strong brands, large retail outlets, strengthening core manufacturing operations and creating strong international presence. In Gems and Jewellery segment Rajesh Exports is the dominant player. Other includes Gitanjali Gems, Suhashish Diamonds, Su-Raj Diamonds, Vaibhav Diamonds and Tanishq.

Gems and Jewellery industry is concentrated in Surat, Bhavnagar, Ahmedabad, Mahesana, Navsari, Palanpur and Valsad in Gujarat and Mumbai in Maharashtra. Other areas are:

- Jaipur is a key centre for polishing precious and semi-precious gemstones.
- Delhi and its neighbouring states are famous for manufacturing silver jewellery and articles.
- Kolkata is famous for its lightweight plain gold jewellery. This category of jewellery finds a large market in Tamil Nadu.
- Hyderabad is the centre for precious and semi-precious studded jewellery.
- Nellore is a source for hand made jewellery that has been supplying the Chennai market for quite a few decades. Belgaum in Karnataka and Nellore together, specialize in studded jewellery using synthetic or imitation stones.
- Coimbatore in Tamil Nadu specializes in casting jewellery.

- Trichur in Kerala is another source for lightweight gold jewellery and diamond cutting.
- Mumbai is the centre for machine made jewellery. The city is also India's largest wholesale market in terms of volume.

#### IV. Government Initiatives :

The industry has received significant attention by the Indian Government as it employs over 1.3 million people directly and indirectly.

- The industry is permitted 100% FDI through the automatic route.
- SEZs and Gems and Jewellery Parks have been set up to promote investments in the sector.
- Jewellery is permitted to be exported on a consignment basis, allowing the re-import of the unsold pieces.
- In April 2006, the government allowed the import of precious metal scrap and used jewellery for melting, refining and re-export of jewellery for higher utilization of melting, refining and jewellery-making production capacity.
- Cutting and polishing of gems and jewellery is treated as manufacturing for exemption under Section 10A of the Income Tax Act.

#### V. Problems faced by Gems and Jewellery Industry:

- Due to recession, many firms could not secure orders from overseas from abroad. Generally, companies receive Christmas orders in the month of September. Business was affected badly and there was no work available for the labourers. They had to shut their factories.
- Most of the processing of diamonds takes place in Surat (Gujarat) and in Jaipur (Rajasthan), where over a million artisans cut and polish rough diamonds into beautiful stones. When the factories were closed, these labourers, who worked on daily wages, were jobless.
- Domestic sales mainly come from retail outlets. Some companies own retail outlets or appoint franchisee to sale their product under a brand. For e.g., Gitanjali Gem has various brands like Nakshatra, Asmi; Tata group owns Tanishq, caters to different income group. Also, there are retail outlets owned by private individual who sell multiple brands by different companies. The choice of which brands to sell remains with the private player as per the demand by different income group, location and demography. At present, when demand is falling, firms have found it difficult to sustain their outlets. The cost of running the outlet and maintaining the stock is much more than the income. In this situation, companies are closing less income generating outlets. They are selling their products at discounted price to recover the cost.
- There are possibility of losing business of polishing diamonds to other countries in West Asia and Africa. Gems and Jewellery industry is facing problems tough competition from China. Increase in taxes (octroi, sales tax, value added tax) are also making exports expensive and hence less competitive.

## VI. RBI initiatives for relief to Gems and Jewellery exporters :

In view of the set back to the exports of Gems and Jewellery it was only recently that the Reserve Bank of India has liberalized the guidelines for (AD Category-I) authorized dealers and allowing them to permit firms and companies dealing in purchase and sale of rough and cut and polished diamonds / precious metal jewellery plain, minakari and / or studded with / without diamond and /or other stones, with a track record of at least 3 years in import / export of diamonds / coloured gemstones / diamond and coloured gemstones studded jewellery / plain gold jewellery, and having an average annual turnover of Rs.5 crore or above during preceding three licensing years to open and maintain **Diamond Dollar Accounts (DDA)** with them, subject to the terms and conditions as follows :

- i) The DDA should be opened in the name of the exporter and maintained in US Dollars only.
- ii) An exporter firm / company should not be permitted to open and maintain more than 5 DDAs.
- iii) The balances held in the accounts would be subject to cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements.
- iv) The transactions in the DDA would be as under :

### Permissible Credits

- Amount of pre-shipment and post-shipment finance availed in US Dollars.
- Realisation of export proceeds from shipments of rough, cut, polished diamonds and diamond studded jewellery.
- Realisation in US Dollars from local sale of rough, cut and polished diamonds.

### Permissible Debts

- Payment for import /purchase of rough diamonds from overseas / local sources.
- Payment for purchase of cut and polished diamonds, coloured gemstones and plain gold jewellery from local sources.
- Payment for import / purchase of gold from overseas / nominated agencies and repayment of USD loans availed from the bank.
- Transfer to rupee account of the exporter.

## VII. Future Prospects

There has been demand for branded jewellery which caters to different income groups in domestic markets. The companies are able to capture market share by categorizing their products and target clients. Gitanjali Gem has Nakshatra diamond that caters to high income group, 'Asmi' for middle income group. Other players are Kia, Flawless Diamond India Ltd, Pranda Jewellers, Gold Souk India Daman Swarovski who are global players and now expanding their business in domestic market.

There is new trend which caters to working women in the country. Tanishq has line called 'Everyday'; Swarovski's 'Passage of Night' has made strong presence in the Indian Fashion scene. Gitanjali Gem's 'Asmi' line has 'Corporate and Graduate' that contributes more than half of the sales of this line.

According to CRISIL\* global demand for diamond jewellery has declined steeply. Prices of polished diamonds and diamond jewellery have dropped by 15-20 percent between September 2008 and February 2009 adversely affecting the profitability of diamond polishers.... it is believed “that large inventories of polished and rough diamonds, coupled with the demand slowdown, will keep prices low for the rest of 2009, and will further stretch diamond companies’ liquidity. Some buyers in developed market have already begun delaying payment, and a few buyers could even file for bankruptcy.”

Overall, the Indian Gems and Jewellery industry offers potential for growth not only in organized / unorganized domestic sector, but also in foreign markets. The thrust to the industry from abroad will be greater in 2010 and 2011 when the economies come out from the present recessionary conditions.

### Other Markets

#### Debt Market

The primary issuance market witnessed fair amount of activity during the month of March 2009, led by banks. According to the available data, 8 Indian banks came up with several issues, accounting for around 70 percent of total issuance size. Power Grid Corporation of India Ltd. remain the biggest issuer for the month with an issue size of Rs.1, 297.50 crore, followed by ICICI Bank Ltd. (Rs.1, 271 crore).

	Name of the Issuer	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
<b>I.</b>	<b>Bank :</b>				
i.	State Bank of India	111 months	AAA	500	Bonds/NCDs
		15 years	AAA	500	Bonds/NCDs
ii.	Allahabad Bank	-	AA	150	Perpetual Bonds
iii.	Andhra Bank	15 years	AA	200	Bonds/NCDs
iv.	Bank of Baroda	15 years	AAA	1000	Bonds/NCDs
		109 months	AAA	500	Bonds/NCDs
v.	Canara Bank	-	AAA	240.3	Perpetual Bonds
vi.	HDFC Bank Ltd.	15 years	AAA	100	Bonds/NCDs
vii.	ICICI Bank Ltd.	15 years	AAA	1271	Bonds/NCDs
viii.	IDBI Bank Ltd.	-	AA	332	Perpetual Bonds
		20 months	AA+	2	Bonds/NCDs
<b>II.</b>	<b>Financial Service Institutions :</b>				
i.	Barclays Investments & Loans (India) Ltd.	25 months	AAA	3	Bonds/NCDs
		25 months	AAA	6.8	Bonds/NCDs
		38 months	AA+r	4.3	Bonds/NCDs
ii.	Era Infra Engineering Ltd	5 years	A+	40	Bonds/NCDs
iii.	ICICI Home Finance Company Ltd.	10 years	AAA	300	Bonds/NCDs
iv.	IDBI Home Finance Ltd.	10 years	AA	50	Bonds/NCDs
v.	LIC Housing Finance Ltd.	-	AAA	210	Bonds/NCDs
<b>III.</b>	<b>Non Banking Financial Institutions :</b>				
i.	Power Grid Corporation of India L.	15 years	AAA	1297.5	Bonds/NCDs

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

\*Crisil : Press Release April 06, 2009

### Call Money Market

The call money market rate on April 10, 2009 in respect of borrowings ranged between 1.25% and 4.00% as compared to the rates of 1.00% - 6.5% on April 11, 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.9,251 crore for the week ending April 10, 2009 and this daily turnover rose nominally to Rs.10,370 crore in the week ending April 17, 2009.

### Foreign Exchange Market

The exchange rate (RBI reference rate) on April 17, 2009 was Rs.49.71 per US dollar as compared to Rs. 49.86 per US dollar on April 13, 2009, that is, a week ago; this reflected a nominal appreciation of the rupee vis-à-vis US dollar. Further, the six month forward premia was 2.78% on April 17, 2009 as compared to a premium of 2.81% on April 13, 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\$ 241.91 billion on April 17, 2009, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 252.46 billion. From end-March 2009, the foreign exchange reserves registered a decline of US\$ 27.7 billion up to April 17, 2009. The market rate (buying) was Rs.50.11 per US dollar on last working day (April 29, 2009).

### Important Policy Pronouncements

- I. Reserve Bank announced the reduction in the Repo rate and reverse repo rate effective from March 5, 2009, the revised rates are:
  - a) The **repo rate** under the liquidity adjustment facility (LAF) has been reduced by 50 basis points from 5.5 per cent to 5.0 per cent.
  - b) The **reverse repo rate** under the LAF has been reduced by 50 basis points from 4.0 per cent to 3.5 per cent.
- II. On April 21, 2009, Dr. D. Subbarao Reserve Bank of India Governor announced the Annual Policy Statement 2009-10 under the backdrop of Macroeconomic and Monetary Developments in 2008-09. The highlights of the developments during 2008-09, and suggested policy response during 2009-10 are given below:

#### II(A). Developments during 2008-09

##### **Overview**

- Following the growing distress among large international financial institutions the global financial environment entered a crisis phase in mid-September 2008.
- An important challenge in the macroeconomic and monetary policy making during 2008-09 has been to manage the volatility and slide down in the Indian economy.

##### **Output**

- The global financial crisis led to slackening of the growth momentum in India, despite the strong dominance of domestic sources of growth, and moderation of growth by the third quarter of 2008-09 was visible.

- The prospects for rabi production remain favourable with area sown under rabi crops being higher than a year ago. However, total food grains production during 2008-09 was placed at 227.9 million tones (Second Advance Estimates) as compared with 230.8 million tones during 2007-08.
- In the context of the severity of the impact of the crisis on the real sector around the world, the growth outcome reflected resilience for India.

### **Aggregate Demand**

- The role of aggregate demand in a phase of weakening growth impulses came to the forefront of public policy in 2008-09. The sharp contraction in external demand – as evident in falling global output, employment and global trade – clearly affected India's export performance.
- The rate of Gross Domestic Saving (GDS) peaked at 37.7 per cent of GDP in 2007-08, mainly due to improved saving performance of the private corporate and public sectors.
- The rate of Gross Domestic Capital Formation (GDCF) also peaked to 39.1 per cent of GDP in 2007-08.
- The slowing of economic activity may, however, affect both saving and investment rates for the year 2008-09.

### **Monetary Conditions**

- Growth in broad money (M<sub>3</sub>), year-on-year (y-o-y), was 18.4 per cent at end March 2009 as compared with 21.2 per cent a year ago, reflecting deceleration in the expansion of bank credit and capital flows.

### **Financial Markets**

- The process of deleveraging and dysfunctional financial markets in the advanced economies, which accentuated into a global financial crisis, has underlined the importance of orderly functioning of markets for achieving macroeconomic objectives.
- In the government securities market, reflecting the economy's need for large fiscal stimulus, the gross market borrowings of the Government in 2008-09 were substantially higher than those for 2007-08, and the entire market borrowing programme was managed smoothly by the Reserve Bank.
- In the credit market following significant reduction in policy rates by the Reserve Bank, the lending rates of banks have begun to exhibit some moderation.
- In the context of the high volatility witnessed in global financial markets in 2008-09, a notable aspect of the Indian markets was that markets functioned normally with occasional volatility for short periods.

### **Price Situation**

- In India, inflation, as measured by year-on-year variations in the Wholesale Price Index (WPI), reached an intra-year peak of 12.91 per cent on August 02, 2008. Subsequently, it fell sharply to 0.26 per cent as at end-March 2009 and further to 0.18 per cent on April 4, 2009.

- Unlike the WPI based inflation, CPI based inflation in India, however, remained high, with recent evidence of very modest moderation, and the transmission process of lower inflation at the wholesale level to inflation at the retail level has emerged as an important issue in the conduct of Reserve Bank's monetary policy.
- Various measures of consumer price inflation, though started declining, still remained high in the range of 9.6-10.8 per cent during January / February 2009 as compared with 5.2-6.4 per cent in February 2008.

## II(B). Annual Policy Statement 2009-10

### ➤ **Reserve Bank's Policy Thrust**

The policy measures of the Reserve Bank have ensured that the Indian financial markets continue to function in an orderly manner. These measures have augmented actual / potential liquidity in the financial system by over Rs.420,000 crore. This should assure financial markets that the Reserve Bank will continue to maintain comfortable liquidity.

### ➤ **Growth Outlook**

In the January 2009 policy review, we projected growth rate of 7.0 per cent with a downward bias for 2008-09. The downside risks have since materialized, and GDP growth for 2008-09 is now projected to be in the range of 6.5-6.7 per cent. Going forward, the fiscal and monetary stimulus initiated during 2008-09 coupled with lower commodity prices will cushion the downturn by stabilizing domestic economic activity. On balance, with the assumption of a normal monsoon, for policy purpose real GDP growth for 2009-10 is placed at around 6.0 per cent.

### ➤ **Monetary Policy Action**

Consistent with the current assessment of macroeconomic and monetary conditions, the Reserve Bank has decided to:

- i. reduce the repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 5.0 per cent to 4.75 per cent with immediate effect.
- ii. reduce the reverse repo rate under the LAF by 25 basis points from 3.5 per cent to 3.25 per cent with immediate effect.
- iii. Keep the CRR unchanged at 5.0 per cent of net demand and time liabilities (NDTL).

### ➤ **Monetary Policy Stance**

On the basis of this overall assessment, the stance of monetary policy in 2009-10 will broadly be as follows:

- i. Ensure a policy regime that will enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path.
- ii. Continuously monitor the global and domestic conditions and respond swiftly and effectively through policy adjustments as warranted so as to minimize the impact of adverse developments and reinforce the impact of positive developments.

iii. Maintain a monetary and interest rate regime supportive of price stability, and financial stability taking into account the emerging lessons of the global financial crisis.

➤ **Developmental and Regulatory Issues**

Policy measures relating to credit delivery mechanism and banking services include:

- i. Issuing guidelines to banks on rehabilitation of sick SMEs;
- ii. Phased introduction of capital to risk-weighted asset ratio (CRAR) for regional rural banks (RRBs);
- iii. A non-disruptive roadmap to ensure that only banks with license operate in the co-operative space by 2012; and
- iv. Setting up banking facilities at commercially unviable centers in the North-Eastern region.

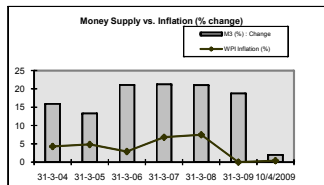
**II(C). Observations:**

1. The policy stance is highly accommodative and the measures introduced by the Reserve Bank are in the right direction. But it has to be seen as to how the banks would translate these in granting credit at lower interest rates during the upcoming months.
2. The big corporates who have made large borrowings from the banking system are being constantly encouraged to take more credit in the present slow down environment.
3. Reduction of the repo rate by 25 basis points from 3.5 per cent to 3.25 per cent will technically force them to lend more to the private sector customers. But what has happened during the last four months that credit deposit ratio instead of going up has declined from 75 per cent to 71 per cent. It reflects that what Reserve Bank is intending is not taking place at the ground level. The reverse repo rate has also been reduced from 5.0 per cent to 4.75 per cent
4. The Reserve Bank has given a hint of doing some justice to the saving bank deposit holders and many of these are small. Measured in terms of WPI which is close to trough the rate of return is modestly positive. But it is only for short period. With the inflation measured by the consumer price index the saving bank deposit holders are earning negative real rate of return in sharp contrast to the corporates who are being encouraged credit at lower interest rates.

It may be added that nearly 72 percent of the account holders are savings bank depositors and in terms of the amount their deposits comprise Rs.679,070 crore or 26.1 percent of the total deposits of Rs.2,597,045 crore held at the end of March 2007 with commercial banks. As majority of the account holders are small there is an urgent need for these account holders from being prevented in realising a negative real rate of interest when the consumer price index continues to rule high\*.

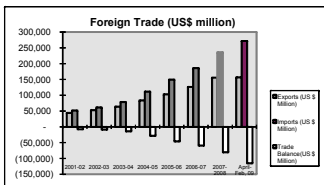
- The Small and Medium Enterprises (SMEs) have been hard hit by the slowdown because these are finding it difficult to market their products while the supply of their products continues to be steady. These have fallen into a situation which could rightly be called as the credit trap. With slow down their borrowings threaten to result in the rise of Non-Performing Assets (NPA) for the banks.
- For the banks there is an urgent need to extend the period of defining NPA from 90 days to 180 days at least during the period when slow down continues. The restructuring of the advances by the banks through one time settlement or otherwise is a long drawn process but the immediate need is to provide relief to SMEs and other sectors such as Gems & Jewellery, textiles which are badly hit by the present slow down.

\*(Source : Basic Statistical Returns, March 2007 released in August 2008).



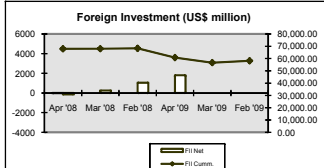
	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	31-3-09	10/4/2009
M3 (Rs. Crore)	20,03,102	22,53,938	27,29,535	33,10,278	40,08,722	4,758,504	4,853,911
M3 (%) - Change	15.95	13.30	21.10	21.27	21.04	18.76	2.91
WPI (Index) All Commodities	180.30	189	196.6	210	225.7*	227.3**	228.2**
WPI Inflation (%)	4.29	4.83	2.91	6.82	7.47	0.01	0.40

Source: RBI Bulletin March 2009; WSS: March 27, 2009      \$81993-94\*100; year/month-end.      \* March 31, 2008      \*\* March 07, 2008      \*\*\*April 17, 2009



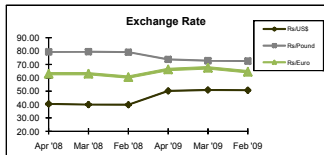
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-2008	April-Feb, 09
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,091	126,414	155,512	156,597
Imports (US \$ Million)	51,413	61,412	78,149	113,517	140,166	185,736	235,911	271,687
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,321)	(80,398)	(115,090)

Source: Ministry of Commerce      Revised figures for 2001-02 to 2007-08 (April-March)  
\*DGCI&S data for April 2006 to March 2007 (Provisional) : Economic & Political Weekly, April 18, 2009



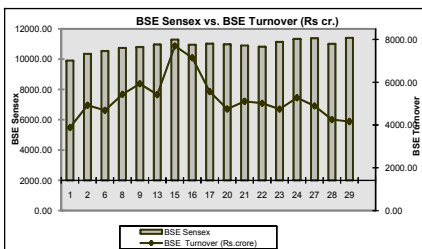
	2007-08 (US\$ million)			2008-09 (US\$ million)		
	Apr '08	Mar '08	Feb '08	Apr '09	Mar '09	Feb '09
FI Net	155.2	250.3	1,048.7	1,700.5	1,459.9	774.5
FI Cum.	57,550.10	68,005.40	68,255.80	60,741.70	56,648.30	58,108.40

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



	2007-08			2008-09		
	Apr '08	Mar '08	Feb '08	Apr '09	Mar '09	Feb '09
Ru/US\$	40.46	39.97	39.92	50.22	50.95	50.73
Ru/Pound	79.50	79.53	79.31	73.876	72.861	72.52
Ru/Euro	63.09	63.09	60.63	66.29	67.49	64.57

Figures are for month-end



April 2009	BSE Sensex Close	BSE Turnover (Rs.crore)
31-Mar-09	9708.50	3993.00
1	9901.99	3888.00
2	10348.83	4926.00
6	10534.87	4690.00
8	10742.34	5438.00
9	10803.86	5933.00
13	10967.23	5820.00
15	11284.73	7702.00
16	10947.40	7149.00
17	11023.09	5570.00
20	10979.50	4750.00
21	10898.11	5109.00
22	10817.54	5024.00
23	11134.99	4743.00
24	11294.05	5279.00
27	11371.85	4898.00
28	11001.75	4255.00
29	11403.25	4168.00



**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 07.04.09	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 07.04.09	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	1.50	3.23	0.60	3.60	0.75	0.64	-5.30	0.90	1.00	-53.8	-90.2	-1
			Mar								Jan	
U. S. A.	0.50	2.90	0.20	4.00	1.00	1.00	-13.70	0.30	1.33	-797.1	-673.3	-3.3
			Feb								Jan	Q4
Britain	1.63	3.44	3.20	2.50	0.68	0.51	-11.30	-1.57	0.91	-167.7	-44.6	-1.7
			Feb								Jan	Q4
Japan	0.54	1.42	-0.10	1.00	101.00	103.00	-5.60	0.64	134.67	28.5	131.8	1.5
			Feb								Jan	Feb
Sweden	0.25	3.23	0.90	3.10	8.17	5.97	-3.30	-0.65	10.89	14.3	40.3	7.3
			Feb								Feb	Q4
Switzerland	0.40	2.20	-0.40	2.60	1.14	1.01	-2.00	0.80	1.52	18.4	53.3	7.5
			Mar								Feb	Q4
India	4.49	7.51	9.60	5.50	50.10	40.00	-7.20	-5.11	66.80	-113.3	-37.5	-3.7
			Feb								Feb	Q4

Source: The Economist London, April 11th - 17th, 2009

Figures in Column 9 are derived

\*\*RPI Inflation rate all in Feb.

**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 07.04.09	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 07.04.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	1.22	3.36	-1.6	8.7	6.84	7.00	-3.6	2.82	9.12	311.5	400.7	6.1
			Feb								Feb	Q2
Hongkong	0.90	2.02	0.8	6.3	7.75	7.79	-4.5	0.10	10.33	-25.1	30.6	9.1
			Feb								Feb	Q4
Indonesia	9.27	9.26	7.9	6.3	11320.00	9195.00	-2.9	1.37	15093.33	7.2	0.6	-0.4
			Mar								Feb	Q4
Malaysia	2.09	3.38	3.7	2.7	3.59	3.19	-6.6	-1.61	4.79	42.1	39.1	7.8
			Feb								Feb	Q4
Singapore	0.56	1.94	1.9	6.5	1.51	1.38	-4.1	-1.34	2.01	14.7	27.1	15.4
			Feb								Feb	Q4
South Korea	2.41	5.05	3.9	3.9	1324.00	978.00	-3.5	-1.49	1765.33	-2.8	0.7	1.2
			Mar								Mar	Feb
Taiwan	0.90	1.44	-0.1	3.9	33.60	30.50	-5.0	1.00	44.80	9.8	25.0	7.9
			Mar								Mar	Q4
Thailand	1.72	2.79	-0.2	5.3	35.40	31.70	-4.7	1.92	47.20	6.1	4.5	1.4
			Mar								Feb	Feb
Brazil	11.16	6.16	5.9	4.6	2.23	1.70	-1.9	5.26	2.97	25.0	-25.7	-2.0
			Feb								Mar	Feb
Venezuela	17.25	6.55	28.6	29.1	6.28	3.70	-5.3	-11.35	8.37	39.2	39.2	0.1
			Mar								Q4	Q4
India	4.49	7.51	9.60	5.50	50.10	40.00	-7.2	-5.11	66.80	-113.3	-37.5	-3.7
			Feb								Feb	Q4

Source: The Economist London, April 11th - 17th, 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](http://www.mega-ace.com)**  
**May 06<sup>th</sup> 2009**