



Update on Indian Economy

November 2008

Economic Snapshot

Contents	Item	Units	October	September	October	(% Change	
			2008	2008	2007	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
			(Aug 08)	(July 08)	(Aug 07)		
- Editorial	WPI -Index*	1993-94=100	239.6	241.1	215.0	0.84	11.4
- Capital Market	WPI -Inflation**	Per cent	11.4	12.1	3.1		
- Country : Spain		Week ended	(04.10.08)	(06.09.08)	(06.10.07)		
- Other Markets	IIP (93-94=100)	2 months lag	263.6	273.0	259.9	(3.44)	1.42
- Important Policy Pronouncements							
	INR / US\$	Month End	49.25	46.94	39.32	4.92	25.25
	M3	Rs. '000 Cr.	4314.12	4226.14	3582.29	2.08	20.43
	[i] Agg.Deposits	Rs. '000 Cr.	3710.41	3633.02	3080.35	2.13	20.45
	[ii] Currency	Rs. '000 Cr.	603.71	593.12	501.93	1.79	20.28
		(Outstanding as on)	(10.10.08)	(12.09.08)	(12.10.07)		
	Call Money	% Range	5.00-23.00	5.25-11.00	4.00-6.65	-	-
	(Lendings)	Week ended	(10.10.08)	(12.09.08)	(12.10.07)		

Source: RBI Weekly Statistical Supplement October 24, 2008 & Economic & Political Weekly October 18, 2008

*All Commodities. **Over the year.

Editorial

A) Domestic

According to the data released by Central Statistical Organisation (CSO) real GDP growth during the first quarter of 2008-09 was estimated at 7.9 per cent as compared to 9.2 per cent during the corresponding quarter of the preceding year, and 9.0 per cent during the entire year 2007-08. The deceleration in the growth rate during the first quarter of 2008-09 was widespread among sectors; agriculture and allied activities from 4.4 per cent to 3.0 per cent, and 9.6 per cent to 5.2 per cent and services from 10.6 per cent to 10.2 per cent, all in the first quarter of 2008-09 vis-à-vis in the corresponding quarter of 2007-08.

The target set for foodgrain production for the year 2008-09 was 233 million tonne and this target is set against the production of 230.7 million tonne reached in 2007-08. Further, the index of industrial production during April-August indicated that the growth rate of mining declined from 4.9 per cent in 2007-08 to 4.1 per cent in 2008-09, manufacturing which accounts for nearly 4/5th of the weight in the Industrial production index declined from 10.6 per cent to nearly less than half to 5.2 per cent. The growth rate of electricity generation declined very sharply from 8.3 per cent in 2007-08 to 2.3 per cent in 2008-09.

Use based data indicated that there was a sharp decline in the growth rate of capital goods from 20.1 per cent to 9.2 per cent and that of intermediate goods from 9.9 per cent to 0.7 per cent. (*Appendix : Index of Industrial Production*).

This scenario indicates that industrial production is likely to register sharp decline and the deceleration in production of basic goods and capital goods suggests that the growth rate in 2009-10 will in no way be different from that in 2008-09. In other words, the growth rate of 7.5-8.0 per cent estimated by the Reserve Bank in its October 24, 2008 policy for 2008-09 is unlikely to increase significantly in 2009-10.

The data on India's trade during the first half (April-September) of 2008-09 has registered a trade deficit of US\$ 60 billion as against US\$ 39 billion in the corresponding period of 2007-08. This has taken place when during recent months oil prices have been declining internationally, and the FIIs have been unloading equity in the capital market. Both these developments are likely to put pressure on the Indian rupee resulting in the depreciating of rupee vis-à-vis the US dollar.

B) International

- (i) Ben Bernanke threw his support behind a new US\$150 billion stimulus package that the Democrats want to pass. The chairman of the Federal Reserve said the measure “seemed appropriate” given the outlook for a protracted economic slowdown.

America's Federal Reserve took further measures to boost liquidity by unveiling a plan to provide up to US\$ 540 billion to support money-market mutual funds. The funds which are usually low-risk investments in short-term debt, have been troubled since the collapse of Lehman Brothers, which caused Reserve Primary to lose money for its investors, the first time such a fund had done so for 14 years. Around US\$ 500 billion has since been withdrawn from the market, which invests in commercial paper, certificates of deposit and other financial instruments. The Fed's facility creates five “special-purpose vehicles” that will buy instruments held by the funds.

George Bush held a meeting at Camp David to discuss the global financial crisis with Nicolas Sarkozy, the French president, who is also the current head of the European Union, and Jose Manuel Barroso, the president of the European Commission. Later, a date of November 15th, was set for a summit in Washington of 20 countries, including such emerging economies as China, India, Russia and South Korea. The summit will address a “**common set of principles**” for reforming the regulation of international markets. Broadly speaking, the Europeans want more of it, but the Americans are resisting.

(Economist : October 25-31, 2008)

(ii) Central banks inject US\$ 247 billion to defuse crisis

In a co-ordinated move, central banks worldwide have pumped in US\$ 247 billion to revive the world financial system, hit by what the former Federal Reserve governor Alan Greenspan has described as 'the crisis of the century'. This is the biggest ever lifeline offered to the world financial markets, where Morgan Stanley became the latest to join the growing list of investment bankers seeking a bail out. The lifeline, including those from the US Federal Reserve, Bank of England (BoE), European Central Bank, Swiss National Bank and Bank of Japan (BoJ) will encourage commercial banks to lend more vigorously among themselves.

Capital Market Review

The month of October 2008 started with the Sensex at 12860.43 on September 30, 2008, and during the first week of the month it gradually went down to level of around 11000 but subsequently, the trend was towards a continuous decline. On October 23, 2008 it closed at 9771.70 and further to 8701.07 on October 24, 2008, this is was the steepest decline ever noticed in the recent past. One of the reasons was the US investment bank Lehman Brothers going into Chapter 11 bankruptcy on September 15, 2008 and taking along the markets not only of US but also European and Asian countries. The melt down continued even after approval by the Congress of the US\$ 700 billion package to save but the media called a situation of crony American Capitalism.

The impact on the Indian Stock Market was not significant to the extent it affected the US market, because the Indian Regulatory Mechanism remained cautious and moved rather slowly. Because of the melt down in the US, the FIIs who number around 1500 started selling Indian equities and mobilizing the cash to meet the demand of their parent companies mainly in US and a few FIIs in other countries. It has been noticed that during the past two-three months the FIIs have been selling equities on an average of US\$ 1.0-1.5 billion every month to generate cash. The downward slide coupled with high volatility largely kept retail Indian investor to remain away from the market, as a result the burden of purchase of the equities sold by the FIIs had fallen on the Domestic Institutional Investor (DIIs). As the capacity of the DIIs is limited in absorbing the sales of equities by FIIs, the pressure got built up on the price. The decline in the Indian Capital Market to some extent can be explained by the dominant FIIs and the small DIIs because there was no level playing field. Hence there is a need to develop DIIs which could match the FIIs for a proper price discovery in the equity market.

The FIIs net cumulative investment is of the order of US\$ 64 billion, and if the impact of melt down continues, then FIIs could be selling Indian equities at the rate of US\$ 1.0 to 1.5 billion every month. But this process is unlikely to be continued indefinitely because the FIIs still hold optimistic view of the Indian Capital Market and of the Indian Economy. The sale by the FIIs would continue and the net cumulative investment would still remain sizeable given the optimistic outlook about the Indian economy. At best FIIs would sell to the extent the melt down continues to afflict the US market. At best the net cumulative investment by the FIIs could slide upto US\$ 30-35 billion. To provide the level playing field to the Indian investors, there is a need to consolidate the Indian Domestic Institutions so that the price discovery mechanism takes place realistically.

The Sensex closed at 13055.67 on October 01, 2008, and on October 31, 2008 it reached 9,788.06 and thereby recorded a fall of 3,267.61 points, which is perhaps the highest in a single month. The companies which lost significantly during the second half of the month when the market was falling were Unitech and Suzlon Energy, and the companies which gained in the falling market were Sun Pharma, Essar Oil, Nestle India and Hindustan Unilever.

	October	September	October	September	(%) Change		
	2008	2008	2007	2007	[1] / [2]	[1] / [3]	[2] / [4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	9788.06 (31.10.08)	12860.43 (30.09.08)	19837.99 (31.10.07)	17291.10 (28.09.07)	(23.89)	(50.66)	(25.62)
Monthly High	13055.67 (01.10.08)	15049.86 (02.09.08)	19977.67 (29.10.07)	17291.10 (28.09.07)	(13.25)	(34.65)	(12.96)
Monthly Low	8509.56 (27.10.08)	13102.18 (26.09.08)	17328.52 (01.10.07)	15422.05 (03.09.07)	(35.05)	(50.89)	(15.04)
S&P CNX Nifty –Close	2885.60	3921.20	5900.65	5021.35	(26.41)	(51.10)	(21.91)
P/E Ratio : BSE – 30	11.80	16.10	25.52	23.25	(26.71)	(53.76)	(30.75)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	52286.6	73514.90	135411.8	71164.80	(28.88)	(61.39)	3.30
Outflows – Rs. Cr.	69492.2	78589.60	112321.7	52377.00	(11.58)	(38.13)	50.05
Net – Rs. Cr.	(17205.4)	(5073.90)	23090.4	18788.40	239.10	(174.51)	(127.01)
Cum. Net Inv–US\$ Mn. (Month End)	58747.4	63012.50	69316.8	63633.50	(6.77)	(15.25)	(0.98)

The net cumulative investments declined by US\$ 4.26 billion during October 2008, from US\$ 63.01 in end-September 2008 to US\$ 58.75 billion in end-October 2008.

Country : Spain

I Introduction

Spain was one of the country which remained neutral to World War I and II but suffered heavily during civil war from 1936-39. Following the death of Dictator Francisco Franco in 1975, there was a peaceful transition to democracy and rapid modernisation of economy. Spain joined the European Union in 1986 and at present it is the global champion of freedom. It has a population of 42 million (estimated in July 2008), the working population is in the age group of 15-64 years which constitutes 67.6 per cent, and 17.9 per cent comprises 65 years and over. The remaining population of 14.4 per cent is in the age group of 0-14 years. Life expectancy at birth is 79.9 per cent, and the total fertility rate is lower at 1.3 children born per woman.

Per capital GDP on PPP basis was US\$ 30,100 in 2007. Sector-wise GDP originating in agriculture is 3.5 per cent, industry 29.8 percent and services 66.6 per cent. Its gross domestic product on purchasing power parity (PPP) basis is US\$ 1352 billion, and at official exchange rate is US\$ 1439 billion and its annual growth rate was 3.8 per cent in 2007.

II. Spain's Exports & Imports

Export was US\$ 252 billion on FOB basis in 2007 and **imports** was US\$ 374 billion on FOB basis in 2007.

Commodities that were exported were machinery, motor vehicles; foodstuffs, pharmaceuticals, medicines and other consumer goods. **Export partners** : France 18.8 per cent, Germany 10.8 per cent, Portugal 8.6 per cent, Italy 8.5 per cent, UK 7.6 per cent, US 4.2 per cent, (2006).

Commodities that were imported were machinery and equipment, fuels, chemicals, semi-finished goods, foodstuffs, consumer goods, measuring and medical control. **Import partners**: Germany 15.7 per cent., France 12.7 per cent, Italy 8.4 per cent, China 5.8 per cent, UK 4.8 per cent., Netherlands 4.6 per cent.

Taxation : The top rate of personal income tax was reduced from 45 per cent to 43 per cent in 2007. The standard corporation tax has been cut from 35 per cent in 2006 to 32.5 per cent in 2007 and 30 per cent from 2008. The standard rate of capital gains tax is 15 per cent (for assets held for more than one year), which is likely to be raised to 18 per cent over the next four years, to bring it in line with a new flat-rate 18 per cent tax on all earning from savings (except pensions plans). The standard rate of value added tax is 16 per cent. Wealth tax is likely to be abolished in 2008.

III. India's Trade with Spain

Indian exports to Spain were relatively low at 0.5 per cent of total exports in 2006-07, and this increased nominally to 0.63 per cent in 2007-08. However, imports from Spain were US\$ 1.9 billion in 2006-07, and these rose to US\$ 2.3 billion in 2007-08 but the share of imports in relation to total imports slightly declined to 0.96 per cent in 2007-08 from 1.03 per cent in 2006-07. The value of bilateral trade worked out to US\$ 2.5 billion in 2006-07 which increased to US\$ 3.3 billion in 2007-08. Given the fact, that the two economies have similarities, there is a tremendous scope for expansion not only of commodity trade but also of tourism.

India's Trade with Spain : Exports & Imports

Year (April- March)	Indian Exports to Spain (US\$ mn)	Total India Exports (US\$ mn)	Indian Imports from Spain (US\$ mn)	Total Indian Imports (US\$ mn)	Share (percent) of total Indian		Total Indian Trade with Spain (1+3) (US\$ mn)
					Exports to Spain	Imports from Spain	
	1	2	3	4	5	6	7
2006-07	626.4	126361.5	1876.3	185749.3	0.50	1.01	2503
2007-08	993.8	159006.7	2291.3	239650.5	0.63	0.96	3285

Source : DGCI&S, Kolkata, as available in <http://commerce.nic.in/eidb/ergnnt.asp>

Imports of goods from Spain into India were US\$ 2.3 billion comprising mainly industrial goods. India imports iron and steel, vegetable oil, rubber, wine, electrical gadgets, engineering products, tiles, chemicals and construction material.

Exports from India to Spain were relatively low at about US\$ 1 billion in 2007-08, and commodities exported were textiles, leather, fish and automobiles. Earlier in 1999, more than 5,000 Tata Safari vehicles were sold in Spain.

In the Indo-Spanish business met held during 13-14th December 2007, in Mumbai which was inaugurated by the Spanish Ministry for Industry, Tourism and Commerce, Mr. Joan Clos, along with Mr. Ion de la Riva Guzman de Frutos, Ambassador of Spain, and Mr. Habil Khorakiwala, President of Indian Chambers of Commerce and Industry (FICCI), it was envisioned that many Spanish companies are interested in making India a great destination for the internationalisation of their business especially having regard to the size of Indian market and its relative fast growth. India's economic stability indicates high future potential for trade and investment. According to the World Economic Prospects Survey for 2007-09 released by the United Nations Conference of Trade and Development (UNCTAD), India will be the second economy to receive more foreign direct investments in the upcoming years after China.

Sectors that have generated interest of the Spanish companies which have shown interest for investment are :

- Renewable energies
- Environment
- Transport infrastructures
- Automotive components
- Machine Tool
- Machinery for food industry
- Agricultural machinery
- Biotechnology
- Pharmaceutical
- IT (Information Technology)
- BPO (Business Process Outsourcing)

IV. Indo-Spanish Trade and Investment

Spain seems to be getting closer to India every day; Jet Airways has announced that it will start operations to Madrid via Brussels but Qatar airways also plans to increase the number of flights to India to Madrid via Doha. However, the delegation from both Governments plans to have direct flights between India and Spain.

In 2006, the Spanish wind power industry reported a record number of installations, putting Spain in the lead worldwide in terms of annual megawatt production. The country accounts for 23.6 per cent of worldwide turbine manufacturing, with two companies (Gamesa and Ecotecnia) among the world's top ten in 2005. Acciona Energia, meanwhile, is the world's largest wind-park constructor and developer.

Spain is also a major world centre for the photovoltaics and biofuel industries. As researchers continue to explore new ways to promote and improve solar power, Spanish companies are becoming world leaders in this emerging field. Regarding biofuel, Spain is home to Abengoa Bioenergia, the first bioethanol producer in Europe and second in the world.

Spanish companies have expertise in infrastructure creation. Almost three out of every five airports across the world are managed by Spanish companies. These include London's Heathrow airport. The Spanish company Dragados has tied up with Gammon for expansion of the Jawaharlal Nehru port in Mumbai at an investment of around euros 250 million.

According to the Indian Ministry of Commerce & Industry FDI inflows during the period from April 2000 to July 2008 from Spain aggregated to US\$ 257 million which constituted 0.3 per cent of the total FDIs inflows.

V. Indian Companies in business with Spanish companies

- (i) Macmet, established in 1974 as a trading house, has since then come a long way in expanding and diversifying its activities into construction engineering and execution of turnkey projects for steel, power and cement sectors. Kolkata-based Macmet India Ltd., supplier of bulk material handling solutions, on Tuesday announced a technical tie-up with Spanish firm TAIM-TFG to manufacture and market the full range of the foreign company's products in India. TAIM-TFG's products will complement the bulk material transportation systems like pipe conveyors, cross country curved belt conveyors and others being supplied by Macmet to customers in the country. It is expected that a joint company will be formed within 12 months to address the growing need of steel, cement and mining industries for bulk material handling systems. Mr. Madappa said that the proposed manufacturing facility was expected to come up at Kalyani in West Bengal's Naida district.
- (ii) Dabur India is negotiating with Antonio Puig of Spain, the maker of the Paco Rabane perfume range, and Kesling of France to set up joint ventures in the country as a part of its strategy to establish a strong presence in the personal care sector. In 1999, Dabur India Ltd. has entered into an agreement with its Spanish partner Agrolimen to offload its 49 per cent stake in the joint venture company General de Confiteria India Ltd. in favour of an Agrolimen group company.
- (iii) "Destination Punjab" is the slogan given to 160-odd Spanish companies coming to New Delhi to participate in the IETF-2001 to be held at Pragati Maidan in New Delhi from February 15 to 19. Spain is the partner country for the fair. According to Mr. Deepak Vohra, a senior diplomat working as Minister in the Indian Embassy at Madrid, "Spaniards have both special affiliation and attraction for Punjab. The affiliation dates back to the visit of the Maharaja of Kapurthala to Spain in 1898 and his subsequent marriage to Anita Delgado, a Flamenco dancer, in 1906. Since that day, young brides after opulent weddings are teased as if they are getting married to a Maharaja. The attraction is primarily because of numerous similarities in the carefree lifestyle, dances, merry-making and good eating habits.
- (iv) Both Tata Consultancy and Aptech are about to set up their centres in Spain as Telco already has its business presence there. Blow Plast is another company which will have its business presence in Spain.

VI. Spanish Economy

Spanish economy experienced a long phase of growth upto 2006 when the year to year economic growth accelerated and averaged at 3.9 per cent. Domestic demand remained the engine of growth, but demand composition showed some signs of rebalancing. Private consumption and housing investment growth moderated, affected by rising interest rates and stretched household balance sheets. In turn, non-housing investment and export growth quickened, supported respectively by rising corporate profitability and firming external demand. On the supply side, industrial output and

productivity picked up. Job creation continued at a fast pace, with further declines in unemployment and increases in occupation rates. Buoyant fiscal revenues raised the general government surplus to an unprecedented 1.8 percent of GDP-despite steadily rising primary expenditure, and public debt declined below 40 percent of GDP. The current account deficit widened to 8.8 percent of GDP and net external liabilities rose to 58 percent of GDP.

The financial sector of Spain continues to be vibrant, sound and stable. However, vigilance by the Bank of Spain in the face of strong credit growth and exposure to the real estate sector and implementation of the markets and financial instruments and under Basel II may be necessary for future growth. Important Macro-Economic Variables of the Spain economy are indicated below :

Spain: Selected Economic Indicators, 2002-06

	2002	2003	2004	2005	2006
Real economy (change in percent)					
Real GDP	2.7	3.0	3.2	3.5	3.9
Unemployment rate (in percent)	11.5	11.5	11.0	9.2	8.5
Interest rates					
Money market rate	3.3	2.3	2.0	2.1	2.8
Government bond yield	5.0	4.1	4.1	3.4	3.8
Balance of payments (in percent of GDP)					
Trade balance	-5.0	-5.1	-6.4	-7.6	-8.3
Current account	-3.3	-3.5	-5.3	-7.4	-8.8
Exchange rate					
Exchange rate regime	Euro Area Member				
Present rate (April 05, 2007)	US\$ 1.3428 per euro				
Nominal effective rate (2000 = 100)	102.9	106.7	107.8	105.9	107.0
Real effective rate (2000 = 100)	106.4	111.1	113.3	113.3	114.8

Sources: INE; Bank of Spain; IFS; and IMF staff estimates.

VIII. Observations :

First, Spanish economy is the eight largest worldwide and fifth largest in Europe. It is a member of the European Union but its economic growth rate has been above EU average rate because of the strength of the industry, and increased trade with Latin American countries as also Asia. **Secondly**, the bilateral trade with India is now low which could be doubled up in the near future and that Indian companies could explore joint ventures, technology transfers with the companies in Spain. In short, Spain and India together provides opportunities for expansion of trade and through this economic growth. **Thirdly**, increased trade with Spain could provide greater opportunities to Indian companies to enter into the EU.

Other Markets

Debt Market

The month of September 2008 witnessed a fair amount of activity in the primary issuance market. The largest bond issue of Rs.1,310.00 crore was made by Indian Railway Finance Corporation Ltd., followed by Rural Electrification Corporation Ltd. with an issue of Rs.1,027.6 crore. Indian Oil Corporation Ltd., ICICI Bank Ltd. and Indian Overseas Bank were other major issuers.

	Name of the Issuer	Rate %	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
I.	Bank :					
i)	Andhra Bank	11.00	10 years	AA+	600	Bonds
ii)	Export-Import Bank of India	11.10	3 years	AAA	617.6	Bonds
iii)	Housing Development Finance Corporation Ltd.	11.25	10 years	AAA	500	Bonds
iv)	ICICI Bank Ltd.	11.25	15 years	AAA	1,000	Bonds
v)	ICICI Home Finance Company Ltd.	11.35	10 years	AAA	180	Bonds
vi)	Indian Oil Corporation Ltd.	11.6	Below one year	A1+	1000	NCD
vii)	Indian Overseas Bank	11.05	15 years	AA+	700	Bonds
viii)	Punjab & Sind Bank	11.05	127 months	AA	400	Bonds
II.	Financial Service Institutions :					
i)	Indian Railway Finance Corporation Ltd.	10.60 & 10.70	10 years & 15 years	AAA	1,310	Bonds
ii)	Infrastructure Development Finance Company Ltd.	11.25	1 years	AAA	235	Bonds
iii)	LIC Housing Finance Ltd.	11.15	10 years	AAA	500	Bonds
iv)	Indian Overseas Bank	11.05	15 years	AA+	700	Bonds
v)	Rural Electrification Corporation Ltd.	10.90 & 10.85	5 years & 10 years	AAA	1,027.6	Bonds

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

Call Money Market

The call money market rate on October 10, 2008 in respect of borrowings ranged between 5.00% and 23.00% as compared to the rates of 4.00% - 6.65% on October 12, 2007 (i.e. a year ago) reflecting that there was hardening of the interest rates. The average daily turnover in the call money market was Rs.13,716 crore for the week ending October 10, 2008 and this daily turnover rose to Rs.15,048 crore in the week ending October 17, 2008.

Foreign Exchange Market

The exchange rate (RBI reference rate) on October 17, 2008 was Rs.48.68 per US dollar as compared to Rs.48.14 per US dollar on October 13, 2008, that is, a week ago; this reflected a nominal depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 0.74% on October 17, 2008 as compared to a premium of 0.50% on October 13, 2008 (a week ago), and this reflects that supply of dollars is likely to become relatively tight in the forthcoming weeks. The foreign currency assets were US\$ 264.86 billion on October 17, 2008, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 273.89 billion. From end-March 2008, the foreign exchange reserves registered a decline of US\$ 35.84 billion upto October 17, 2008. The market rate (buying) was Rs.49.44 per US dollar on October 31, 2008.

Important Policy Pronouncements

- I. The new Governor, Dr. D. Subbarao Reserve Bank took charge and made a statement on September 6, 2008 on the financial sector reforms. He made three short comments which are as follows :

First, the liberalisation and development of the financial sector over the last few years has been a key factor in financing our 9 per cent growth. To sustain and accelerate this growth, financial sector reform, aimed at improved efficiency and financial stability, will remain important. In moving forward, we will draw from the lessons of global experience of the recent period, and be cognizant of the evolving global situation.

Second, financial sector reform are not an end in themselves. They have meaning and relevance only if they are anchored in real sector objectives.

Third, financial sector reform should promote inclusive growth through efficient and easily accessible financial services.

Source : RBI Bulletin October 2008, Pg 1641

- II. Reserve Bank Governor, Dr. D. Subbarao announced on October 24, 2008 the Mid-Term Review of Annual Policy Statement for the year 2008-09.

- (i) The policy announced takes into consideration several complex and challenging policies in the global financial system which is now in a crisis of unprecedented dimensions. The Mid-Term Review takes into account the developments taking place abroad such as delinquencies in the US sub-prime mortgage market and the associated ballooning of the market into complex derivatives in August 2007 largely because of the highly increased leverages which snowballed into a financial sector turmoil. The developments abroad basically rose from the liquidity problem turned quickly into a solvency problem triggering a crisis of confidence in the financial markets around the world. However, according to the RBI Mid-Term review, one need to note the following points :
- India's financial sector is stable and healthy. All indicators of financial strength such as capital adequacy, ratios of non-performing assets (NPA) and return on assets (RoA) for our commercial banks, which account for 88 per cent of banking assets, are robust.

- Indian banks have been affected only peripherally as they do not have direct financial exposure to the US sub-prime assets.
- The overall capital adequacy ratio of commercial banks in India is 12.7 per cent, well above the regulatory minimum of 9 per cent and the Basel Accord requirement of 8 per cent. In fact, all commercial banks in India have a capital adequacy ratio above 10 per cent.
- The regulatory mandate of keeping 25 per cent of net demand and time liabilities as SLR and 6.5 per cent as CRR provides an inherent strength to the Indian banks.

(ii) In view of the persisting uncertainty in the global financial situation and its impact on India, and continuing demand for domestic market liquidity, the measures taken by RBI in October 2008 policy were as follows :

- In view of the continuing uncertain global situation, these measures were augmented by a cumulative reduction of 250 basis points in the CRR effective from the fortnight beginning October 11.
- A special 14-day repo facility for a notified amount of Rs.20,000 crore was instituted to alleviate liquidity stress faced by mutual funds and banks were allowed temporary access to SLR-eligible securities by an additional 0.5 per cent of NDTL exclusively for this purpose.
- Commercial banks and All India term lending and refinancing institutions were allowed to lend against and buy back CDs held by mutual funds for a period of 15 days.
- At the request of the Government, the Reserve Bank agreed to provide the sum of Rs.25,000 crore as the first instalment under the Agricultural Debt Waiver and Debt Relief Scheme to commercial banks, RRBs and co-operative credit institutions immediately.
- The interest rate ceilings on FCNR (B) deposits of all maturities and on deposits under the NR(E)RA for one to three years maturity were further increased by 50 basis points each.
- Banks were permitted to borrow funds from their overseas branches and correspondent banks to the extent of 50 per cent of their unimpaired Tier I capital or US\$ 10 million, whichever is higher.
- The Reserve Bank also announced that it would institute special market operations to meet the foreign exchange requirements of public sector oil market companies against oil bonds when they become available.

iii. Monetary Measures

a) Bank Rate

The Bank Rate has been kept unchanged at 6.0 per cent.

b) Repo Rate

The repo rate under the LAF has been kept unchanged at 8.0 per cent.

The reverse repo rate under the LAF has been kept unchanged at 6.0 per cent.

The Reserve Bank has the flexibility to conduct repo/revenue repo auctions at a fixed rate or at variable rates as circumstances warrant.

The Reserve Bank retains the option to conduct overnight or longer term repo/revenue repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibly including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.

c) Cash Reserve Ratio

The Cash Reserve Ratio (CRR) of scheduled banks is currently at 6.5 per cent of net demand and time liability (NDTL). On a review of the current liquidity situation, it has been decided to keep the CRR unchanged at 6.5 per cent of NDTL.

d) Third Quarter Review

The Third Quarter Review of the Annual Policy Statement on Monetary Policy will be undertaken on Tuesday, January 27, 2009.

III. On November 01, 2008, Reserve Bank Governor, Dr. D. Subbarao announced another set of measures to crop up the liquidity in the financial sector.

- a. **Repo** is the rate at which RBI lends to banks. This rate has been reduced by 50 basis points with effect from November 03, 2008 and with this reduction the repo rate is 7.5 per cent.
- b. **CRR** : It is the proportion of net demand and time liabilities which the banks need to maintain with RBI. This has been reduced by 100 basis point (BPS) from 6.5 per cent to 5.5 per cent. This measure will release Rs.40,000 crore into the system.
- c. **SLR** : Statutory liquidity ratio is the proportion of net demand and time liabilities that banks have to compulsorily invest in Government approved securities. The SLR has again been reduced from 25 per cent to 24 per cent and this reduction will release around Rs.40,000 crore into the banking system.

With these measures the banking system would have more liquidity into the system and now it is upto the banks to adjust the lending rates which many of the sectors have been demanding reduction in the interest rates.

IV. Comments

There is a paradigm shift in handling of the monetary policy in the sense that earlier focus of the Monetary Policy was to tame the inflation. In the new paradigm the focus is to bring about the stability in the Indian Financial Markets, especially, equity markets and promote economic growth.

V. Banks need an additional Rs.5.7 lakh crore within 5 years

RBI, in its "Report on Currency and Finance 2006-08", has indicated that for banks to maintain capital for operational risks, overall capital requirements are likely to go up even if there is an expected decline in the capital required on account of credit risk. Since most banks in India are presently operating at a capital adequacy ratio higher than the prescribed level, meeting the Basel-II requirements is not an issue in the immediate future. **In the medium to long-term, however, banks will need to raise capital resources to keep pace with the expansion of their business.**

Source : IIBF Vision : October 2008

- US plans transfer of bad assets to a new institution
US Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben S. Bernanke have proposed moving troubled assets from the balance sheets of American financial companies into a new institution.

Source : IIBF Vision : October 2008

VI Government shareholding in big companies : A suggestion

In a speech to the European Parliament in Strasbourg, Mr. Sarkozy suggested that governments should take shareholdings in big companies and that Europe should set up the equivalent of sovereign-wealth funds to deter foreign predators.

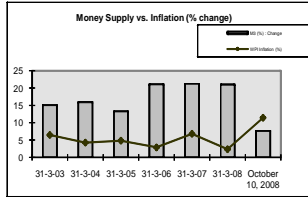
(Economist : October 25-31, 2008)

APPENDIX : Index Of Industrial Production : Sectoral and Use-Based Classification

Industry Group	Weight in the IIP	Growth Rate		
		2007-08	2007-08	2008-09P
		April-March	April-August	
1	2	3	4	5
Sectoral				
Mining	10.5	5.1	4.9	4.1
Manufacturing	79.4	9.0	10.6	5.2
Electricity	10.2	6.3	8.3	2.3
Use-Based				
Basic Goods	35.6	7.0	9.9	3.8
Capital Goods	9.3	18.0	20.1	9.2
Intermediate Goods	26.5	8.9	9.9	0.7
Consumer Goods (a+b)	28.7	6.1	6.7	7.8
a) Consumer Durables	5.4	-1.0	2.3	5.6
b) Consumer Non-durables	23.3	8.5	10.0	8.6
General	100.0	8.5	10.0	4.9

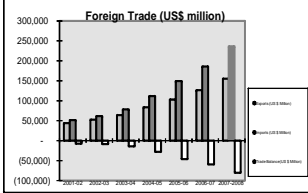
P : Provisional

Source : RBI Macroeconomic and Monetary Developments p6 (October 24, 2008)



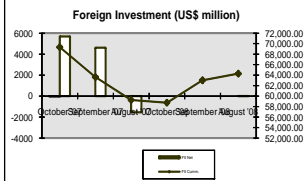
	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	October 10, 2008
M3 (Rs. Crore)	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	40,06,722	4,314,125
M3 (%): Change	15.14	15.95	13.30	21.10	21.27	21.04	7.67
WPI (Index) All Commodities	172.30	180.30	189	196.6	210.0*	215.0**	239.6***
WPI Inflation (%)	6.49	4.29	4.83	2.91	6.82	2.38	11.44

Source: RBI Bulletin September 2008; WSS: October 24, 2008 \$1993-94=100, year/month-end: *March 31, 2007 ** October 06, 2007 ***October 04, 2008



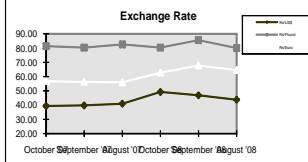
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	April-Aug. 08
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,091	126,414	155,512	81,225
Imports (US \$ Million)	51,413	61,412	78,149	111,517	149,166	185,735	235,911	130,364
Trade Balance (US \$ Million)	7,586	8,693	14,306	27,981	46,075	59,321	80,399	49,139

Source: RBI Bulletin, September 2008; Revised figures for 2001-02 to 2006-07 (April-March)
*DGCIAS data for April 2006 to March 2007 (Provisional); Economic & Political Weekly, October 18, 2008



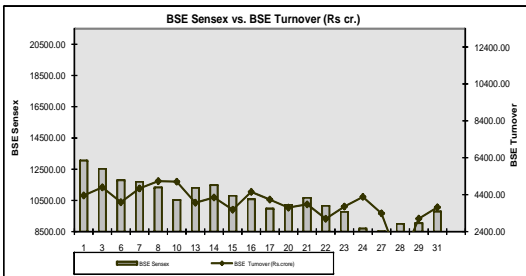
	2007-08 (US\$ million)			2008-09 (US\$ million)		
	October '07	September '07	August '07	October '08	September '08	August '08
FDI Net	5,883.3	4,928.6	11,542.4	4285.3	1258.00	11.7
FDI Cum.	69,316.30	63,633.50	59,254.50	58,747.40	63,012.30	64,270.30

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



	2007-08			2008-09		
	October '07	September '07	August '07	October '08	September '08	August '08
Rs/US\$	39.35	39.74	40.96	49.25	44.94	43.70
Rs/Pound	81.35	80.34	82.55	80.34	85.57	80.05
Rs/Euro	56.75	56.30	55.96	62.84	67.79	64.56

Figures are for month-end



October 2008	BSE Sensex Close	BSE Turnover (Rs crore)
30-Sep-08	12860.43	5180.00
1	13055.67	4399.00
3	12526.33	4801.00
5	11801.70	3992.00
7	11695.24	4742.00
8	11328.36	5135.00
10	10527.85	5107.00
13	11309.09	3966.00
14	11483.40	4252.00
15	10809.12	3581.00
16	10581.49	4552.00
17	9975.35	4135.00
20	10223.09	3698.00
21	10683.39	3882.00
22	10199.96	3095.00
23	9771.70	3755.00
24	8701.07	4285.00
27	8509.56	3389.00
28	9008.08	680.00
29	9044.51	3104.00
31	9788.06	3717.00



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 22.10.08	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 22.10.08	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
Euro-11	4.94	3.79	3.6 Sep	2.10	0.77	0.70	-0.9	1.34	1.00	-26.4 Aug	-38.5 Jul	-0.4
U. S. A.	2.15	3.61	4.9 Sep	2.80	1.00	1.00	-2.5	-2.75	1.30	-848.0 Aug	-699.0 Q2	-4.7
Britain	6.23	4.47	5.2 Sep	1.80	0.61	0.49	-3.8	1.03	0.79	-188.9 Aug	-82.9 Q2	-3.1
Japan	0.79	1.54	2.1 Aug	-0.2	98.90	114.00	-3.0	-1.31	128.44	77.9 Aug	197.3 Aug	3.9
Sweden	3.4	3.55	4.4 Sep	2.20	7.78	6.49	2.4	-1.00	10.10	18.7 Aug	38.6 Q2	7.6
Switzerland	2.98	2.76	2.5 Sep	0.70	1.16	1.17	0.9	0.08	1.51	17.3 Sep	60.2 Q2	13.0
India	8.66	8.10	9.00 Aug	7.30	49.30	39.60	-4.30	-0.34	64.03	-100.3 Aug	-21.9 Q2	-2.9

Source : The Economist London | October 25th-31st, 2008

Figures in Column 9 are derived.

**RPI Inflation rate 4.8% in August

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 22.10.08	Balance Latest :12 months		Col 11 as Percentage of GDP 2008
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 22.10.08	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.19	3.34	4.6 Sep	6.20	6.83	7.49	0.4	-0.41	8.87	258 Sep	371.8 2007	8.5
Hongkong	3.14	2.26	4.6 Aug	1.60	7.75	7.75	0.7	-1.46	10.06	-26.1 Sep	27.5 Q2	10.8
Indonesia	12.11	15.35	11 Sep	7.00	9900.00	9178.00	-2.0	1.11	12857.14	19 Sep	6.3 Q2	2.8
Malaysia	3.67	5.81	8.5 Aug	1.90	3.55	3.37	-3.1	-4.83	4.61	4.1 Aug	35.3 Q2	14.4
Singapore	1.16	2.7	6.7 Sep	2.70	1.50	1.46	1	-5.54	1.95	22.9 Sep	32.8 Q2	18.6
South Korea	6.12	5.37	5.1 Sep	2.30	1363.00	918.00	1.1	1.02	1770.13	-11.7 Sep	-7.1 Aug	-3.3
Taiwan	2.6	2.18	3.1 Sep	3.10	33.00	32.60	-1.8	-0.50	42.86	6.9 Sep	32.6 Q2	4.6
Thailand	3.85	3.99	6 Sep	2.10	34.60	34.10	-2.9	-2.15	44.94	5.4 Aug	7.8 Aug	1.1
Brazil	13.66	6.16	6.3 Sep	4.10	2.37	1.80	-1.6	7.36	3.08	28.8 Sep	-21.9 Aug	-1.6
Venezuela	17	6.55	36 Sep	15.30	5.38	4.23	1.6	-19.00	6.99	41.9 Q2	37.8 Q2	14.8
India	8.66	8.10	9.00 Aug	7.30	49.30	39.60	-4.30	-0.34	32.87	-100.3 Aug	-21.9 Q2	-2.9

Source : The Economist London | October 25th-31st, 2008

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