



Update on Indian Economy

October 2008

Economic Snapshot

Contents	Item	Units	September	August	September	(%) Change	
			2008	2008	2007	[1] / [2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
- Editorial	WPI -Index*	1993-94=100	241.1	240.7	215	0.17	12.1
- Capital Market	WPI -Inflation**	Per cent	12.1	12.6	3.3		
- Industry : Energy		Week ended	(06.09.08)	(09.08.08)	(08.09.07)		
- Security	IIP (93-94=100)	2 months lag	273.0	269.1	252.2	1.45	8.25
- Other Markets			(July 08)	(June 08)	(July 07)		
- Important Policy	INR / US\$	Month End	46.94	43.79	39.74	7.19	18.12
- Pronouncements	M3	Rs. '000 Cr.	4226.14	4172.36	3487.13	1.29	21.19
	[i] Agg.Deposits	Rs. '000 Cr.	3633.02	3575.30	2993.08	1.61	21.38
	[ii] Currency	Rs. '000 Cr.	593.12	597.06	494.05	(0.66)	20.05
		(Outstanding as on)	(12.09.08)	(15.08.08)	(14.09.07)		
	Call Money	% Range	5.25-11.00	6.00-9.50	1.00-7.50	-	-
	(Lendings)	Week ended	(12.09.08)	(15.08.08)	(14.09.07)		

Source: RBI Weekly Statistical Supplement September 26, 2008 & Economic & Political Weekly September 20, 2008

*All Commodities. **Over the year.

Editorial

A) Domestic

The quick estimate of Index of Industrial Production (IIP) released by CSO for the month of July 2008 indicates that cumulative growth during the first four month April-July of 2008-09 was 5.7 per cent as compared to 9.7 per cent during the same period of 2007-08. There was a sharp decline in the index of electricity from 8.1 per cent to 2.6 per cent, and in manufacturing the decline was from 10.5 per cent to 6.1 per cent. It may be mentioned that the manufacturing sector has the weight of nearly 80 per cent in the index and therefore the general index and employment critically depends on this sector. The production in the mining sector increased from 2.7 per cent to 4.5 per cent. Because of the slow down in the manufacturing followed by electricity this will have repercussions on the overall growth rate of GDP. Notwithstanding, any increase in the growth rate of services sector the growth rate of agriculture is estimated at around 3 per cent against the targeted growth rate of 4 per cent. This itself will drag down the GDP growth rate to a figure which is lower than the rate of 8.7 per cent during 2007-08.

According to the used based classification, the deceleration was in basic goods (from 9.2 per cent to 3.9 per cent), followed by intermediate goods from 8.9 per cent to 2.2 per cent. However, there was a respectable growth in the capital goods though it was slower at 11.3 per cent in 2008-09 than 17.3 per cent during the corresponding period of 2007-08. The growth during 2008-09 is likely to be driven by consumer goods largely non-durable goods which during the first four months have registered a growth rate of 9.1 per cent as compared to 11.9 per cent during the same period last year.

The earlier growth was driven by capital goods, and which avenue is not likely to be available to the same degree during 2008-09 in view of higher cost in borrowing of funds induced by tight monetary policy to reign in inflation. There is likely to be slow down in the overall growth rate of GDP which may be close to 8.0 per cent during 2008-09.

B) International

I. Recent Upheavals in financial market :

On September 15, 2008 the dramatic history of Wall Street was written, Merrill Lynch agreed to sell itself on Sunday to Bank of America for roughly US\$50 billion to avert a deepening financial crisis, while another prominent securities firm, Lehman Brothers, filed for bankruptcy protection and hurtled toward liquidation after it failed to find a buyer. On the same day, Lehman indicated that it would file for Chapter 11 bankruptcy protection in New York for its holding company in what would be the largest failure of an investment bank since the collapse of Drexel Burnham Lambert 18 years ago.

Its oldest and fourth-largest investment bank Lehman Brothers Holdings filed for bankruptcy, while Merrill Lynch, famous for its iconic bull statue in the New York City financial district, sold out before it was too late. With stunning speed, two of the most storied investments banks faded into history, with Lehman headed for the biggest ever bankruptcy filing and Bank of America (Bank Am) buying Merrill in a US\$50 billion stock deal. At the time of writing, another world titan, the largest US insurer, American International Group (AIG) was given special permission to access US\$20 billion of capital in its subsidiaries to free up liquidity. AIG has asked the US Federal Reserve for a bridge loan.

The enormity of the disaster sparked distrust among high-street banks, which refused to lend to each other and created panic among investors who sold fearing the worst, forcing some of the central banks to swing into action. People's Bank of China cut interest rate for the first time in six years and lowered reserve requirements for smaller banks, while the US Fed made it easier for bond houses to borrow. The greed and excesses of the market had come home to roost.

II. What Chapter 11 Bankruptcy mean :

Chapter 11 is typically used to reorganize a business, which may be a corporation, sole proprietorship, or partnership. A corporation exists separate and apart from its owners, the stockholders. The chapter 11 bankruptcy case of a corporation (corporation as debtor) does not put the personal assets of the stockholders at risk other than the value of their investment in the company's stock. A sole proprietorship (owner as debtor), on the other hand, does not have an identity separate and distinct from its owner(s). Accordingly, a bankruptcy case involving a sole proprietorship includes both the business and personal assets of the owners-debtors. Like a corporation, a partnership exists separate and apart from its partners. In a partnership bankruptcy case (partnership as debtor), however, the partners' personal assets may, in some cases, be used to pay creditors in the bankruptcy case or the partners, themselves, may be forced to file for bankruptcy protection.

The Indian Capital Market functioned under the shadow of the U.S. sub prime crisis, and the proposal of the bailout to the extent of US\$ 700 billion was submitted by President George W. Bush and Henry Paulson, Treasury Secretary. The Indian markets were impacted following the submission of Lehman Brothers for bankruptcy under Chapter 11 to SEC, takeover by the Government of AIG at the cost of US\$ 85 billion. However, the sharp decline was triggered by the voting out of the US\$ 700 billion bail-out by the US Congress of 228 votes against and 205 in favour. Congress delivered the stunning blow to President George Bush on September 29, 2008 (Monday), rejecting administration US\$ 700 billion financial bail-out plan because it was not clear if it were a solution to the economic crisis and how money would be paid at the end. As a result, the Dow Jones plunged to 777 points but it quickly recovered and hovered around 10,365 points. BSE Sensex fell by 506 points to 12,596 on Monday and according to the market participants it is likely to crash further because of the rejection of the bail-out proposal.

The US Bail-out plan involved discretion in determining the methods for buying assets: US\$ 250 billion initial authorized, US\$ 100 billion Presidential request needed, and US\$ 350 billion further act of Congress needed totaling US\$ 700 billion of package.

The sub-prime crisis in early part of 2008 and subsequently the crisis in which many investment banks got involved was largely due to their leveraging their position quite high by borrowing upto 20-30 times their equity and then making investments in various kinds of derivatives such as credit default swaps, etc., but when the crisis emerged it was then realized that they had over borrowed and had no reserves to fall back.

III. U.S. Depression Era :

It will be recalled that after the crisis in early 1930s the Glass-Steagal Act 1933 was introduced which envisaged barrier between investment banking and commercial banking. Over the years, the wall between American investment banks and commercial banks became thin. In USA while the commercial banking sector is regulated by Fed and investment banks by SEC. A wall that existed between investment banking and commercial banking got weakened and many of the investment banking institutions moved towards becoming commercial banks. This was not only true in USA but the same happened in other countries including India. This is so because the commercial bank's expansion outreach inspires confidence, and it is also necessary for social and financial inclusion in the countryside. Further commercial banks, are regulated by Central Banks, that is RBI in India and Federal Reserve in USA. Further the commercial banks exude confidence that is necessary for the financial markets.

The engines that powered record growth in the financial industry over the past decade -- cheap credit and surging property values -- have been thrust into reverse. Companies that once thrived on making real estate loans and holding assets bought with borrowed money are now under siege, giving the upper hand to those less reliant on leverage and holding the fewest assets tied to property.

The industry convulsions that started last year have already eliminated Bear Stearns Cos., forced into a cut-price sale to JP Morgan Chase & Co. with government support in March. A week ago, the U.S. Treasury placed mortgage companies Fannie Mae and Freddie Mac into conservatorship, guaranteeing their widely held debt securities while all but erasing their equity value.

American International Group Inc. (AIG), once the world's largest insurer, is struggling to raise cash to avoid a credit-rating downgrade that could cripple its business.

IV. Bail-out Package :

The Bill's defeat on September 29, 2008 caused a 778 point drop in the Dow Jones Industrial Average (DJIA), promoting dozens of lawmakers to reverse their vote on the legislation, the government's largest intervention in the markets since Franklin Roosevelt's New Deal. Then after rejecting the earlier version, the house approved the financial market bail out plan in 263-171 vote. This bail out package is considered critical in stabilizing the economy.

Though on September 29th, 2008 the financial bail-out plan was rejected by the Congress, the Administration modified the plan and resubmitted on October 3, 2008 and the revised plan of US\$ 700 billion termed as financial market bail-out was designed to unlock credit markets and reverse the rejection that sent global stock markets plunging and threatened to worsen the economic slow down. The revised financial market-bail out was a bipartisan efforts to restore confidence in the US banking system and authorize the Government to buy troubled assets from financial institutions which were reeling from record home foreclosures. The Bill of October 03, 2008 contains US\$149 billion in tax breaks, and affirms the power of regulators to suspend asset valuing rules that companies blame for fueling the crisis.

Using money borrowed in the bond market – the leverage led to the undoing of Bear Stearns and Lehman Brothers. Federal Reserve is the regulator of the bank-holding companies which are firms that own or are commercial banks, for example Citigroup Inc., Bank of America Corp. and JP Morgan are bank holding companies. Now Goldman Sachs and Morgan Stanley will be able to become bank holding companies immediately. As bank holding companies Goldman Sachs and Morgan Stanley will no longer be required to mark all their assets to the current market values. Assets held in the bank divisions of the firms need not have to be valued at market rates, potentially allowing the companies to allow further write-downs on the value of their holdings.

V. Some Observations :

The market crisis in USA has arisen mainly from three sources **first** sub-prime crisis which led to the sharp decline in housing prices which made difficult for the borrowers to meet their commitments to the lenders. **Secondly**, the high leverage indulged in by the investment banks but the bail-out package as such was to save the American Financial institutions. **Thirdly**, the Wall Street has shaped the world for two decades when Goldman Sachs Group Inc. and Morgan Stanley dominated the investment banking but now they determined that there is no future in investment banking. The Federal Reserve approval of their bid helped these to become commercial banks the resource base of which would be deposits. This is in contrast to the investment banks the resource base of which are bonds and which are valued on mark to market basis in contrast to the banks contributed to high leverage.

While the bail-out package will infuse liquidity into the system, the unbridled increase in the leverage need to be regulated.

Capital Market Review

The Indian capital market could not remain immune from the financial market developments in USA, and the Sensex after recovering some earlier losses closed at 13,531.27 on September 15, 2008 down 469.54 points after touching a low of 13,150.81. Global events will continue to haunt Dalal Street for the rest of this week as also subsequent weeks. The Sensex closed at 14,000 points on September 12, 2008 due to the crisis on September 15, 2008 when Lehman Brothers filed bankruptcy under Chapter 11, the Sensex went down by 469.54 points.

Earlier events witnessed the firm Bear Stearn fail, and was allowed to be bought over by JP Morgan at a fire sale. Then the government has to nationalize two failing mortgage refinancing institutions, Freddie Mac and Fannie Mae. Now with Lehman Brothers filing for bankruptcy court protection and hoping to sell parts to Barclays, while another Merrill Lynch was bought over by Bank of America. The government again rode in to rescue AIG, the giant insurance company. Other firms are re-defining themselves by trying to merge, and so on. These are all long-standing companies with once enviable reputations and hold in trust billions of investors money.

Among the market participants, FIIs were net sellers of stocks, Domestic Institutional Investors (DIIs) bought scrips which looked much cheaper and were net buyers of stocks for Rs.1328 crore, according to the combined data for BSE and NSE trades. The Sensex during the month experienced sharp fluctuations while the trend was gyration of the index close to 13000 mark. On the last trading day of the preceding month that is, on August 29, 2008 the index was 14,564.53. It went upto 15,049.86 on September 02, 2008 and from then onwards the index steadily declined and reached the lowest at 12,595.75 on September 29, 2008 after registering a decline of 506.43 points on single day.

The one positive factor emanating from the all-pervasive sea of negativity is that one by one, the mega-multi-billion dollar uncertainties in the US are achieving closure, albeit slowly and painfully. The closure came about with US\$ 700 billion revised bail-out package being approved by Congress on October 03, 2008.

	September	August	September	August	(%) Change		
	2008	2008	2007	2007	[1] / [2]	[1] / [3]	[2] / [4]
Major Indices	[1]	[2]	[3]	[4]	[5]	[6]	[7]
BSE Sensex – Close	12860.43 (30.09.08)	14564.53 (29.08.08)	17291.10 (28.09.07)	15318.60 (31.08.07)	(11.70)	(25.62)	(4.92)
Monthly High	15049.86 (02.09.08)	15502.92 (11.08.08)	17291.10 (28.09.07)	15318.60 (31.08.07)	(2.92)	(12.96)	1.20
Monthly Low	13102.18 (26.09.08)	14048.34 (28.08.08)	15422.05 (03.09.07)	13989.11 (21.08.07)	(6.74)	(15.04)	0.42
S&P CNX Nifty –Close	3921.20	4360.00	5021.35	4464.00	(10.06)	(21.91)	(2.33)
P/E Ratio : BSE – 30	16.10	18.00	23.25	20.76	(10.56)	(30.75)	(13.29)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	73514.90	50139.50	71164.80	57695.20	46.62	3.30	(13.10)
Outflows – Rs. Cr.	78589.60	50093.50	52377.00	63929.20	56.89	50.05	(21.64)
Net – Rs. Cr.	(5073.90)	46.10	18788.40	(6233.70)	(11106.29)	(127.01)	(100.74)
Cum. Net Inv–US\$ Mn. (Month End)	63012.50	64270.30	63633.50	59254.50	(1.96)	(0.98)	8.46

The net cumulative investment by FIIs reflected that during the month of September 2008 FIIs were net sellers to the extent of US\$ 1.3 billion. This is largely due to the financial crisis in the USA.

Given the developments in USA, the Foreign Institutional Investors (FIIs) would desire to mobilize cash to meet the liability of their parent companies in US and Europe. FIIs who bought Indian stocks at an exchange rate of Rs.40-41 per US dollar are facing problems due to fall in equities and in the exchange rate of rupee. More selling is expected. It will also put pressure on the Indian rupee vis-à-vis the US dollar, and chances are that Indian rupee is likely to depreciate further. The companies that would be adversely affected would be the banks who have large exposure outside, but it is the exporting companies in the IT, automobile, gems and jewellery sectors which will benefit from this depreciation of the Indian rupee, which by the end of September 2008 reached close to Rs.48 per US dollar.

Industry : Energy Security

I. Introduction :

Recent economic growth which has reached around 9 per cent annually, has raised the question that to continue this level of growth India should emerge from the shadow of past and ensure to sustain this order of growth in future. This will require tremendous energy in several sectors of the economy; agriculture, transport, manufacturing and even in services. In order to maintain economic growth, growth in services, manufacturing and infrastructure sectors will be needed. The concept of energy security which remained in the background till atleast 1991 when the economic reforms were initiated is now being debated as a goal to be achieved.

II. Energy usage :

With economic reforms having now being embodied into the system, there is now a need for larger but ever growing expansion of energy. Taking from 1990 to till date today, energy usage has steadily declined in the emerging economies of Brazil, China, whereas the use of energy per capita in India has remained moderate, but this has increased at a much slower rate than many other emerging market countries. This is partly due to the supply constraints on account of which the domestic demand remained unsatisfied. And secondly, there is no further scope to improve energy efficiency in areas especially in generation and transmission and in the end use of electricity as also in use of motor vehicles. Table below indicates energy use for selected countries.

Table : Energy use for selected countries

Energy		Total Use of Energy (MMTOE)				Energy Use Per Capita (KGOE)				CRW / Total 1990%	CRW / Total 2004%
		1990	2004	Change 1990-2004	Growth (%) 1990-2004	1990	2004	Change 1990-2004	Growth (%) 1990-2004		
1		2	3	4	5	6	7	8	9	10	11
1.	Brazil	134	205	71	3.2	897	1114	217	1.7	31.1	26.5
2.	Russian Fed.	775	642	-133	-1.2	5211	4460	-751	-0.9	1.6	1.1
3.	India	362	573	211	3.3	426	531	105	1.5	48.6	37.4
4.	China	867	1609	743	3.6	763	1242	479	2.6	23.1	13.7
5.	EMU	1053	1245	192	1.3	3568	3990	422	0.9	3.1	4.2
6.	UK	212	234	22	0.6	3686	3906	220	0.3	0.3	1.3
7.	US	1928	2326	398	1.4	7722	7921	199	0.2	3.2	3.0

Source : World Development Report & Economic Survey 2007-08

To improve energy efficiency and demand side management measures like encouraging urban mass transport system as compared to individual car system are necessary. Further, sustaining economic growth is critically dependent on the increased supply of energy as also change in the composition of energy use. Import dependence of India for meeting the primary energy demand has been going up over a long period since 1991 to 2006-07. Nearly 60 per cent of the villages in the country still do not have recourse to electricity whereas certain urban centres and semi urban centres are perpetually subject to electricity load shedding.

In the absence of adequate available electricity, it becomes difficult to increase per capita productivity and achieve integration within the country, and derive the advantages of IT industry.

III Suggested Policy Measures :

In order to ensure energy security and meet the increasing demand for energy, in an environment of growing economy like India several policy options have been identified by Government and which are.

- i. Taping India's coal reserves with appropriate technology and reforms in the coal sector to increase competition.
- ii. Mitigating transportation constraint on availability of coal.
- iii. Accelerating exploration of oil and gas.
- iv. Fully exploiting the nuclear and hydro potential for power generation.
- v. Expediting programmes for energy generation through renewal and non conventional sources such as solar and wind power.
- vi. There is a need for regulatory reforms to implement open access in the power sector to facilitate competition.

In addition to these policy measures, a step-up of domestic production would be required to meet the deficit and bridge this deficit by entering into strategic geo political alliances to access the energy assets in the regions.

Sectoral policy reforms as envisaged by Government can be initiated in the energy related sectors with speed so that the target of energy security is achieved :

- **Coal mining** : Amend Coal Mines Nationalisation Act to allow regulated private entry into coal mining. Privatize old coal mines to improve recovery of "in-place" reserves by 5-10 per cent, subject to a professional, independent, regulator for safety and environment issues.
- **Oil** : Sell old oil fields to private sector for application of improved / Enhanced Oil Recovery Techniques.
- **PSUs** : Complete the process of selling of 5-10 per cent equity in previously identified profit making non-navratnas. List all unlisted public sector enterprise and sell a minimum of 10 per cent of equity to the public. Auction all loss making PSUs that cannot be revived. For those in which net worth is zero, allow negative bidding in the form of debt write-off.
- **Industrial decontrol** : Phase-out control on Sugar, Fertilizer, Drugs.

IV Power Generation

Electricity generation in the country was 617.5 billion kwh in 2005-06, but this rose by 7.3 per cent to 662.5 billion kwh in 2006-07 of which 17.1 was contributed by hydro-electric, 79.6 per cent by thermal the base of which is coal. The remaining 2.8 per cent is contributed by nuclear.

Power Generation by Utilities (Billion kWh)

Category		2005-06	2006-07	April-December		Growth (%)	
				2006	2007	2006	2007
1.	Power generation	617.5	662.5	493.3	525.9	7.5	6.6
i	Hydro-electric	101.3	113.4	91.8	100.7	13.8	9.8
ii	Thermal	497.2	527.6	385.6	407.4	6.1	5.7
iii	Nuclear	17.2	18.6	13.6	12.8	3.0	(-) 5.7
	Memorandum item						
	PLF in per cent	73.6	76.8	75.3	77.2		

Source : Economic Survey 2007-08, p207; PLF, Plant Load Factor

Indo-US Civilian Nuclear Agreement which has been pending for the last three years for proper clearance was cleared by the member of the Nuclear Supply Group (NSG) in September 2008, and subsequently it was to be cleared by the US Congress. The US Congress has cleared this bill, and it is now awaiting the signature of US President before the provisions of the Indo-US Civilian Nuclear Deal can be implemented. The same has to be converted into an Agreement which act is likely to be completed during the month of October 2008.

V Future Plans

With the signing of the US-India Civil Nuclear Deal avenues have been opened for trade between India and other countries who are party to the NSG in regard to the import of technology and reactors which go into the production of electricity. According to the press reports, France has agreed to supply three third generation nuclear reactors for producing electricity. It is likely that other countries who have signed and are members of NSG, would also be ready to trade in equipment and technology required by India in production of electricity. The policy measures need to be initiated without much delay, and it is likely that during the next 3-5 years the share of power generated by nuclear sources would considerably go up. This policy will ensure increased fuel supply and reprocessing facilities. The future will witness expanding supply of energy to meet the rising demand. According to the Eleventh Plan the Nuclear Power Generation which has moderately increased would now make quantum jump after the coming into effect of the Agreement under US-India Civil Nuclear Deal and thereby contribute significantly towards the goal of achieving energy security.

Other Markets

Debt Market

The month of August 2008 witnessed a fair amount of activity in primary issuance market. The largest bond issues worth Rs.1,708.50 crore was made by Rural Electrification Corporation Ltd., followed by LIC Housing Finance Ltd. which valued Rs.800 crore next in order were Power Finance Corporation Limited with an issue worth Rs.740.70 crore. Export-Import Bank of India raised Rs.580 crore, and Housing Development Finance Corporation Limited issued Rs.400 crore.

Name of the Issuer		Rate %	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
I.	Bank :					
i)	Export-Import Bank of India	11.1	3 years	AAA	395	Bond / NCD
		11			35	
		11.1			150	
				TOTAL	580	
II.	Financial Service Institutions :					
i)	Power Finance Corporation Ltd.	10.9, 10.82	5 years, 10 years	AAA	740.7	Bond / NCD
ii)	Housing Development Finance Corporation Ltd.	11.15	10 years	AAA	400	Bond / NCD
iii)	LIC Housing Finance Ltd.	11.08	10 years	AAA	300	Bond / NCD
		11.15			500	
				TOTAL	800	
iv)	Rural Electrification Corporation Ltd.	10.95, 10.9 & 10.85	3 years, 5 years & 10 years	AAA	1,708.50	Bond / NCD
v)	ICICI Home Finance Company Ltd.	11.45, 11.45 & 11.25	2 years, 3 years & 5 years	AAA	50	Bond / NCD

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

Call Money Market

The call money market rate on September 12, 2008 in respect of borrowings ranged between 5.25% and 11.00% as compared to the rates of 1.00% - 7.50% on September 14, 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.12,516 crore for the week ending September 12, 2008 and this daily turnover rose to Rs.14,172 crore in the week ending September 19, 2008.

Foreign Exchange Market

The exchange rate (RBI reference rate) on September 19, 2008 was Rs.46.32 per US dollar as compared to Rs.45.94 per US dollar on September 15, 2008, that is, a week ago; this reflected a depreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 1.34% on September 19, 2008 as compared to a premium of 1.70% on September 15, 2008 (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\$ 282.81 billion on September 19, 2008, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 291.97 billion. From end-March 2008, the foreign exchange reserves registered a decline of US\$ 17.75 billion upto September 19, 2008. The market rate (buying) was Rs. 46.99 per US dollar on September 30, 2008.

Important Policy Pronouncements

I RBI - Initiatives

(A) Consequent to the crisis faced by Lehman Brothers in USA on September 15, 2008, The Reserve Bank of India has issued notices placing restrictions on the Indian subsidiary of Lehman Brothers. The notice issued on Tuesday, September 16, 2008 stipulated in public interest and in the interest of financial stability and placed restrictions on the activities of the Indian Subsidiaries of Lehman Brothers. Lehman Brothers Capital Private Limited is a non banking financial company and would need a prior approval of the RBI before contracting any direct or indirectly liability from any institution in or outside India or before making any foreign currency remittance.

2. The RBI also said that Lehman Brothers Fixed Income Securities Private Ltd., a primary dealer cannot declare any interim dividend or remit any amount to its holding company or any other group company without its prior approval.

3. The RBI has also asked the primary dealer not to undertake transactions in government securities in the primary market.

4. It may be mentioned that according to the website of Securities & Exchange Commission, US, there are eight subsidiaries of Lehman Brothers in India.

The Reserve Bank of India RBI is keeping a close watch on the developments in the wake of filing of Chapter 11 bankruptcy petition by Lehman Brothers Holding Inc. in the US and is in constant touch with banks and other market participants to manage any fallout of these developments on the Indian markets in an orderly manner.

In public interest and in the interest of financial stability, RBI has advised Lehman Brothers Capital Pvt. Ltd., a NBFC that it would need prior approval of RBI before contracting any direct/indirect liability from any institution in India or outside India or making any foreign currency remittance.

Lehman Brothers Fixed Income Securities Pvt. Ltd. a Primary Dealer has been advised not to declare any interim dividend or remit any amount to its holding company or any other group company without prior approval of RBI. Further, Lehman Brothers Fixed Income Securities Pvt. Ltd. has been advised not to undertake transactions in Government securities as a Primary Dealer in the primary market.

(B) 1. By notification dated September 22, 2008 RBI modified some aspects of the External Commercial Borrowings (ECB) policy as indicated below:

(a) At present, borrowers in the infrastructure sector are allowed to avail ECB up to USD 100 million per financial year for Rupee expenditure for permissible end-uses under the Approval Route. Considering the huge funding requirements of the sector, particularly for meeting Rupee expenditure, the existing limit of USD 100 million has been raised to USD 500 million per financial year for the borrowers in the infrastructure sector for Rupee expenditure under the Approval Route. ECBs in excess of USD 100 million for Rupee expenditure should have a minimum average maturity period of 7 years.

(b) In view of widening of credit spreads in the international financial markets, the all-in-cost ceilings for ECBs are modified as follows:

Average Maturity Period	All-in-Cost ceilings over 6 Months LIBOR*	
	Existing	Revised
Three years and up to five years	200 bps	200 bps
More than five years and up to seven years	350 bps	350 bps
More than seven years	350 bps	450 bps
* for the respective currency of borrowing or applicable benchmark		

2. The amendments to the ECB guidelines will come into force with immediate effect. All other aspects of the ECB policy such as USD 500 million limit per borrower per financial year under the Automatic Route, eligible borrower, recognised lender, end-use of foreign currency expenditure for import of capital goods and overseas investments, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged. The existing limit of USD 50 million for Rupee expenditure under the Approval Route for borrowers other than those in the infrastructure sector also remains unchanged.

II Financial Bail-Out Package : USA

The Bush administration sought unchecked power from Congress to buy US\$ 700 billion in bad mortgage investments from financial companies in what would be an unprecedented government intrusion into the markets. Through his plan, Treasury secretary Henry Paulson aims to avert a credit freeze that would bring the financial system and the world's largest economy to a standstill. The bill would prevent courts from reviewing actions taken under its authority.

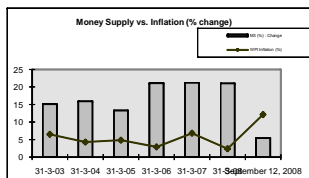
Paulson would have authority to buy home loans, mortgage-backed securities, commercial mortgage-related assets and, after consultation with the Federal Reserve chairman, "other assets, as deemed necessary to effectively stabilize financial markets," the Treasury said in a statement. The Treasury would also have discretion, after discussions with the Fed, to make non-US financial institutions eligible under the programme.

- Paulson would have authority to buy home loans, mortgage-backed securities, commercial mortgage-related assets and other assets.
- Treasury may buy only assets issued or originated on or before September 17.
- Foreign firms with big operations in the US will be able to unload assets.
- The proposal will curb executive pay for companies getting government help
- Hedge funds would not be eligible for the bailout plan.

III At present Federal Deposit Insurance Corporation (FDIC) of USA insured deposits upto US\$ 100,000. But in view of the melt down in the US financial system law makers agreed to its temporary increase in the present limit of US\$ 100,000 to US\$ 250,000 as a part of the bail-out package. Once panic subsides there will be a pressure to reverse this.

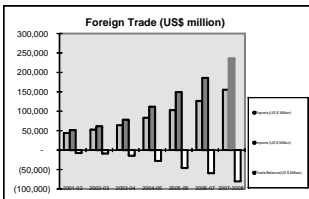
IV Commerce Ministers' Statement on Indian Rupee

The rupee has fallen "very low" against the US dollar, but this appears to be an aberration, says the Union Commerce and Industry Minister, Mr. Kamal Nath. "We have allowed rupee to move from 39 to 46 against the dollar. We should not calibrate. Not calibrating it shows the strength of our institutional systems and that the best practices have been adhered to in Asia".



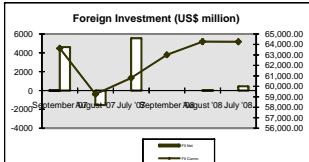
	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	September 12, 2008
M3 (Rs. Crore)	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	40,06,722	42,26,143
M3 (%) : Change	15.14	15.95	13.30	21.10	21.27	21.04	5.48
WPI Index All Commodities	172.30	180.30	189	196.0	210.0*	215.0**	241.1***
WPI Inflation (%)	6.43	4.25	4.83	2.91	6.82	2.38	12.14

Source: RBI Bulletin, August 2008; WSS: September 26, 2008. \$1993-94=100, year/month-end. * March 31, 2007. ** September 08, 2007. *** September 06, 2008.



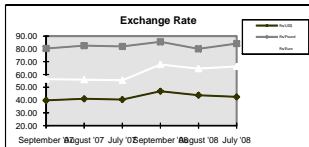
During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	April-July, 08
Exports (US \$ Million)	43,827	52,719	63,843	83,536	103,091	126,414	155,512	59,191
Imports (US \$ Million)	51,413	61,412	78,149	111,517	149,166	185,735	235,911	100,418
Trade Balance (US \$ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,321)	(80,398)	(41,227)

Source: RBI Bulletin, August 2008. Revised figures for 2001-02 to 2006-07 (April-March). *DGCI&S data for April 2006 to March 2007 (Provisional); Economic & Political Weekly, September 20, 2008.



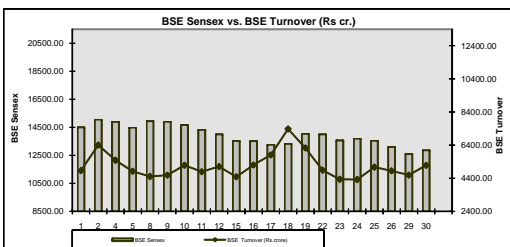
	2007-08 (US\$ million)			2008-09 (US\$ million)		
	September '07	August '07	July '07	September '08	August '08	July '08
FDI Net	4,808.8	11,542.4	3,544.9	1,258.00	11.7	441.7
FDI Cum.	63,633.50	59,254.50	60,797	63,12.5	64,270.3	64,258.8

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



	2007-08			2008-09		
	September '07	August '07	July '07	September '08	August '08	July '08
Ru/US\$	39.74	40.96	40.44	46.91	43.79	42.49
Ru/Pound	80.34	82.55	82.03	85.57	80.05	84.21
Ru/Euro	56.30	55.96	55.42	67.77	64.54	66.33

Figures are for month-end



September 2008	BSE Sensex Close	BSE Turnover (Rs crore)
29-Aug-08	14541.53	5431.00
1	14498.51	4854.00
2	15049.86	6407.00
3	14899.10	5485.00
4	14483.83	4815.00
5	14944.97	4506.00
6	14900.76	4587.00
7	14662.61	5186.00
8	14324.29	4798.00
9	14000.00	5103.00
10	13531.27	4485.00
11	13518.86	5208.00
12	13262.90	5813.00
13	13315.60	7376.00
14	14042.32	6227.00
15	13994.96	4887.00
16	13570.31	4336.00
17	13692.52	4319.00
18	13547.18	5071.00
19	13102.48	4850.00
20	12957.75	4594.00
21	12860.43	5180.00



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 17.09.08	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 17.09.08	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	4.97	4.01	3.80	1.70	0.70	0.72	-0.90	1.17	1.00	-10.9	-31.5	-0.3
			Aug							Jul	Jun	
U. S. A.	2.04	3.41	5.40	2.00	1.00	1.00	-2.50	-3.36	1.43	-844.6	-699.0	-4.8
			Aug							Jul	Q2	
Britain	5.90	4.40	4.70*	1.80	0.56	0.50	-3.80	1.20	0.80	-187.4	-102.4	-3.4
			Aug							Jul	Q1	
Japan	0.75	1.49	2.30	nil	105.00	116.00	-2.80	-1.55	150.00	88.2	206.4	3.7
			Jul							Jul		
Sweden	4.29	3.73	4.30	1.80	6.79	6.62	2.40	-0.01	9.70	19.0	38.6	7.7
			Aug							Jul	Q2	
Switzerland	2.73	2.73	2.90	0.40	1.12	1.19	0.90	-0.17	1.60	16.4	91.4	14.5
			Aug							Aug	Q1	
India	8.71	8.63	8.30	6.50	46.30	40.20	-3.40	0.41	66.14	-93.3	-17.5	-3.2
			Jul							Jul	Q1	

Source: The Economist London, September 20th-26th, 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 17.09.08	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 17.09.08	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.29	3.82	4.9	6.5	6.84	7.51	0.6	-0.61	9.77	252.5	371.8	8.3
			Aug							Aug	2007	
Hongkong	2.24	2.53	6.3	1.5	7.78	7.79	3.0	-4.06	11.11	-26.3	26.4	9.0
			Jul							Aug	Q1	
Indonesia	10.84	7.54	11.8	5.5	9400.00	9225.00	-2.0	-0.96	13428.57	35.0	6.3	2.8
			Aug							Jul	Q2	
Malaysia	3.70	3.52	8.5	1.6	3.45	3.46	-3.1	-4.80	4.93	39.7	30.6	14.4
			Jul							Jul	Q1	
Singapore	1.98	2.82	6.5	2.6	1.43	1.51	1.00	-5.12	2.04	25.5	32.8	20.3
			Jul							Aug	Q2	
South Korea	5.78	5.74	5.6	2.0	1116.00	927.00	1.5	0.18	1594.25	-7.5	-1.8	-2.5
			Aug							Aug	Jul	
Taiwan	2.73	2.13	4.8	1.6	32.10	33.10	-1.8	-2.07	45.86	9.3	32.6	5.2
			Aug							Aug	Q2	
Thailand	3.85	4.29	6.4	1.1	34.40	34.30	-2.9	-2.55	49.14	6.8	11.4	1.1
			Aug							Jul	Jul	
Brazil	13.66	6.16	6.2	4.2	1.86	1.86	-1.6	7.46	2.66	29.5	-19.5	-1.6
			Aug							Aug	Jul	
Venezuela	17.02	6.55	34.5	16.0	4.95	4.23	1.6	-17.48	7.07	41.9	37.8	12.1
			Aug							Q2	Q2	
India	8.71	8.63	8.30	6.50	46.30	40.20	-3.40	0.41	66.14	-93.3	-17.5	-3.2
			Jul							Jul	Q1	

Source: The Economist London, September 20th-26th, 2008

The Research Group : Prof. Poonam Kumar & Dr. D.K. Bhatia
For research queries contact –
Mega Ace Consultancy [India] Private Limited,
B-68, Mittal Tower, Nariman Point, Mumbai 400 021
Tel : +91-22-2281 2298
Fax: +91-22-2281 2305
Url: www.mega-ace.com
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