Mega Ace Consultancy [India] Pvt Ltd

Visit us at : www.mega-ace.com

Update on Indian Economy

September 2008

Contents

Economic Snapshot

Item	Units	August 2008 [1]	July 2008 [2]	August 2007 [3]	(%) Change [1] / [2] [4]	[1]/[3] [5]
WPI -Index*	1993-94=100	240.7	238.7	213.7	0.84	12.6
WPI -Inflation**	Per cent	12.6	11.9	4.1		
	Week ended	(09.08.08)	(05.07.08)	(11.08.07)		
IIP (93-94=100)	2 months lag	269.1	273.2	257.3	(1.50)	4.59
		(June 08)	**(May 08)**	**(June 07)**		
INR / US$	Month End	43.79	42.49	40.96	3.06	6.91
M3	Rs. '000 Cr.	4172.36	4146.20	3489.81	0.63	19.56
[i] Agg.Deposits	Rs. '000 Cr.	3575.30	3545.52	2999.12	0.84	19.21
[ii] Currency	Rs. '000 Cr.	597.06	600.68	490.69	(0.60)	21.68
	(Outstanding as on)	(15.08.08)	(04.07.08)	(03.08.07)		
Call Money	% Range	6.00-9.50	7.00-10.00	2.50-6.75	-	-
(Lendings)	Week ended	(15.08.08)	(11.07.08)	(10.08.07)		

Source: RBI Weekly Statistical Supplement August 29, 2008 & Economic & Political Weekly August 25, 2008
**All Commodities. **Over the year.*

Editorial

A) Domestic

Nobel laureate Amartya Sen on Monday, 11th August, 2008 delivered the inaugural Prof.Hiren Mukherjee Memorial Parliamentary Lecture in the central hall of Parliament, Sen said, “There is a lot of immediate agitation to express discontent on new issues such as price rise or the agreement with a foreign country on nuclear issues, but there is little political murmur about the actual living conditions of Indians.” He implicitly criticized the Left and the country’s trade unions for failing to adequately address social injustices such as severe deprivation, child hunger, lack of educational opportunities and healthcare for the poor.

Subsequently, on August 12, 2008, the release of Industrial production data indicated that there was a distinct slowdown during the first three months (April-June) of 2008-09 and the year to year expansion was 5.2 per cent as against 10.3 per cent during the same period of 2007-08; the deceleration in industrial production was driven by both manufacturing and electricity sectors. Manufacturing recorded cumulative growth of 5.6 per cent as compared to 11.1 per cent during the first three months of the preceding year. Electricity sector witnessed a sharp slowdown at 2.0 per cent during the first three months of the financial year which was the lowest growth rate since 1994-95. On account of fall in the rate of electricity generation all the three sectors registered a sharp decline despite the acceleration in the growth rate of mining sector from 2.7 per cent to 4.7 per cent. As a result, one would expect the year 2008-09 to register a growth rate lower, perhaps, in the range of 8 - 9 per cent depending upon the monsoons. The rate may turn out to be close to 8.5 per cent during 2008-09. Even with slowdown the Indian economy continues to remain robust.

B) International

The Geneva collapse in July 2008 may thus prove to be the conclusive finish to the Doha round's design. But that too is not certain, for Doha has survived many a collapse before (Cancun in 2003, the mini-ministerial in Geneva in 2006, the G-4 Potsdam meeting in 2007), only to rise again towards a new stage in the formulation of the modalities[1]. The World Trade Organisation (WTO) Director-General Pascal Lamy is now making visits to India and the US in a bid to get political leaders in these countries to try one more time to reach an agreement on the few issues that remain unresolved and that prevented a deal in Geneva.

Pascal Lamy's visited India recently after the failed meeting of the Senior Ministers of Trade in Geneva. Perhaps his visit was to move ahead towards issues related to Doha Round of World Trade. Lamy mentioned that there were 20 issues and convergence was reached in respect of 17. Despite this, the draft was not accepted by developing countries including India. The draft proposal prepared by Lamy and rejected by the ministers in the mini ministerial meeting was subsequently presented before a Group of Seven Ministers which included Indian Commerce Minister, Mr. Kamal Nath. **First**, the draft talked of the US cutting the maximum unit of trade subsidies by 70 per cent to US$ 14.5 billion. Developing countries want the limit to US$ 13 billion, and according to the latest data it was mentioned that US gave subsidies worth over US$ 7 billion. Even if the proposal is accepted, US will be able to give an additional US$ 6 billion in farm subsidies; this was the one critical issue[2]. **Secondly**, the developing countries did not agree to the special product proposal, special products are farm products that will attract a lesser level of duty cuts. According to Lamy, 12 per cent of total farm tariff lines (nearly 700 for India) can be designated as special products. According to the proposal only 5 per cent of total farm tariff lines will not see any duty cut but developing countries wanted 15 per cent farm tariff lines to be declared as special products. **Third**, the proposals which led to the collapse of the talks related to Special Safeguard Mechanism (SSM). India and other developing countries wanted to invoke the SSM to increase import duties in situation when import surge of 10-15 per cent takes place. While major farm exports like the US wanted the level to be around 40 per cent. Further, points relating to Nama in Lamy's proposal included anti-concentration, sectorals, as well as tariff cuts based on the "Swiss Formula". Officials said there were no specific commitments from India in this regard.

Finally, the noted Economist, Jagdish Bhagwati a professor of economics and law at Columbia University, wrote in the Financial Times, "The US should rethink its trade policies because it has become a selfish giant, fearing trade and seeking to stack agreements in its favour, he said adding that the country is unfairly blaming India, China and Brazil for its workers' stagnant wages. Anxieties of US workers stem not from unfair overseas traders but from the rise of India and China, the intensity of world competition and labour-saving technology that reduces the need for jobs, Bhagwati said. His prescription?[3] Rather than demand protectionist measures, the US should retool its educational system to prepare workers for today's world economy.

---

1. Economic & Political Weekly, August 16-22, 2008, p35
2. Business Standard, August 20, 2008
3. DNA, August 21, 2008

Capital Market Review

The market regulator, Securities and Exchange Board of India (SEBI) began a review of the entire regulatory framework governing the instruments of Participatory Notes (PNs) at its Board Meeting on August 13, 2008. While the market participants, because of the change in environment; were expecting that the review would lead to easing of some of the restrictions that were introduced in October 2007; however, SEBI maintained restricted issuance of PNs in the spot segment to 40 per cent of assets under custody and thus there was no change. In October 2007, SEBI proposed that foreign institutional investors (FIIs) and their sub-accounts cannot issue or renew PNs with underlying as derivatives with immediate effect. They had to unwind their current position within 18 months.

A few important developments in the capital market are :

(a) In the interest of investors SEBI suggested during the month of August 2008, an alternate payment system for public issues, be sparing retail investors from depositing money upfront while applying for shares, and this project will be launched as a pilot one by end August 2008.
(b) On 12th August 2008, the National Stock Exchange (NSE) indicated that it would add 39 additional stocks for trading in the futures and options (F&O) segment from 21 August 2008.
(c) SEBI completed the process of allocating higher investment limits in bonds to select foreign institutional investors (FIIs) like Lehman Brothers, DBS Bank, Citicorp, JP Morgan among others.

Demutualisation of the Bombay Stock Exchange (BSE) and the subsequent induction of strategic investors, which promised a lot, is turning out to be a mirage. Even as the long-term trend of losing market share to the NSE has resumed after a brief reversal, a series of high-profile executive departures has left the exchange directionless. Meanwhile, NSE continues to hold on to its valuations, as evident from the stake dilution by IFCI and SHCIL. The share of BSE in the turnover in the cash segment has dropped to 30 per cent in June 2008, after touching a high of 36.2 per cent in March 2006. Despite its high decibel campaign to position the Sensex as the preferred derivatives index, BSE's derivative volumes are insignificant.

The BSE was demutualised in mid-2007 and inducted outside owners, including the leading European exchange Deutsche Borse. With the new majority owners the share of broker-members came down to 49 per cent, and it was hoped that this would help transform BSE into a professionally managed modern exchange. The exchange did make the right noises; it signed an agreement with OMX for trading and clearing systems to enhance derivatives and securities trading capacity. It launched mini derivatives contracts on the Sensex and entered into a pact with Deutsche Borse to take its indices overseas. But these measures have yet to deliver results.

The Sensex closed at 14,355.75 on 31st July 2008, and during the month of August 2008 it moved both ways marking the existence of volatility, and finally it closed at 14,564.53 on 29th August 2008 registering a nominal increase of 208.78 points.

Major Indices	August 2008 [1]	July 2008 [2]	August 2007 [3]	July 2007 [4]	(%) Change [1] /[2] [5]	[1] / [3] [6]	[2] / [4] [7]
BSE Sensex – Close	14564.53 (29.08.08)	14355.75 (31.07.08)	15318.60 (31.08.07)	15550.99 (31.07.07)	1.45	(4.92)	(7.69)
Monthly High	15502.92 (11.08.08)	14942.28 (23.07.08)	15318.60 (31.08.07)	15794.92 (24.07.07)	3.75	1.20	(5.40)
Monthly Low	14048.34 (28.08.08)	12575.80 (16.07.08)	13989.11 (21.08.07)	14664.26 (02.07.07)	11.71	0.42	(14.24)
S&P CNX Nifty –Close	4360.00	4332.95	4464.00	4528.85	0.62	(2.33)	(4.33)
P/E Ratio : BSE – 30	18.00	17.80	20.76	21.03	1.12	(13.29)	(15.36)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	50139.50	69645.6	57695.20	87331.60	(28.01)	(13.10)	(20.25)
Outflows – Rs. Cr.	50093.50	67863.9	63929.20	64722.30	(26.19)	(21.64)	4.85
Net – Rs. Cr.	46.10	1782.1	(6233.70)	22609.40	(97.41)	(100.74)	(92.12)
Cum. Net Inv–US$ Mn. (Month End)	64270.30	64258.80	59254.50	60797.00	0.02	8.46	5.69

The net cumulative investment by FIIs did not undergo significant changes in the sense that these were about US$ 64.3 billion in end-July 2008 as also in end-August 2008. It seems that domestic institutional investors (DIIs) played a significant role in the capital market during August 2008.

Country : Turkey

I Introduction

Modern Turkey was founded in 1923 by national hero Mustafa Kemal who was later honoured with the title Ataturk or “Father of the Turks”. Under his authoritarian leadership, wide-ranging social, legal and political reforms were undertaken. It was a period of one party rule. Subsequently, an experiment with multi-party politics led to the election in 1950 in which Democratic Party came into power. Since then political parties in Turkey have multiplied but democracy has witnessed period of instability and intermittent military coups (1960, 1971, 1980) which brought political power to civilians. In 1997, military engineered and helped the Islamic-oriented Government. In 1964, Turkey became an associate member of the European Committee. During the past decades, the country has been undertaking many reforms to strengthen democracy and economy so as to enable it to convert accession membership into a full fledged membership of the European Union.

II Turkey : Overview

It has a population of 71.9 million (July 2008). More than 2/3rd (68.6 per cent) of the population is in the working age of 15-64 years, and the population between 0-14 years comprise 24.4 per cent, and above 65 years over comprise 7 per cent. Life expectancy of the population at birth is quite high at 73.14 years. The vast majority of the population is Muslims and mostly Sunni, and ethnically 80 per cent of the population is of Turks and the remaining 20 per cent is of Kurdish origin. Annual growth rate of population estimated in 2008 is 1.013 per cent.

The Gross Domestic Product (GDP) on (purchasing power parity basis) is estimated at US$ 888 billion giving per capita GDP at PPP basis a figure of US$ 12,900. The real GDP growth rate estimated for 2007 is around 5 per cent. Sector-wise 28.3 percent comes from industries, and services contribute 62.8 per cent while the share of agriculture is estimated at 8.9 percent.

III Indo-Turkey Trade

Indian exports to Turkey were just US$ 172 million constituting only 0.54 per cent of the total Indian exports in 1995-96. In 2000-01, exports to Turkey were only US$ 437 million comprising just about one per cent of the total Indian exports. It was during 2005-06 that exports to Turkey crossed one billion mark and these rose to US$ 1.3 billion in 2006-07 and further to 1.8 billion in 2007-08. Despite these increases, the share of exports to Turkey in total Indian exports was just about 1.1 per cent, and imports from Turkey which were almost negligible during the period 1995-96 to 2005-06 rose to US$ 333 million in 2006-07 and these increased to US$ 1.7 billion in 2007-08. As a result, the trade with Turkey which was negligible till 2000-01 touched US$ 1.2 billion in 2005-06 rose to Rs.1.7 billion in 2006-07 and doubled to 3.4 billion in 2007-08.

India's Trade with Turkey : Exports & Imports

Year (April-March)	Indian Exports to Turkey (US$ mn)	Total India Exports (US$ mn)	Indian Imports from Turkey (US$ mn)	Total Indian Imports (US$ mn)	Share (percent) of total Indian: Exports to Turkey	Share (percent) of total Indian: Imports from Turkey	Total Indian Trade with Turkey (1+3) (US$ mn)
	1	2	3	4	5	6	7
1995-96	172	31795	51	36675	0.54	0.14	223
2000-01	437	44076	43	49975	0.99	0.09	480
2005-06	1010	103091	194	149166	0.98	0.13	1204
2006-07	1321	126263	333	185604	1.05	0.18	1654
2007-08	1751	159007	1689	239651	1.10	0.70	3440

Source : DGCI&S, Kolkata ,as quoted in Economical & Political Weekly dated August 9-15, 2008

IV Turkey's Export & Imports

Exports

Commodities exported are estimated at US$ 115.3 billion for 2007.

- Commodities exported by Turkey on FOB basis are **apparel, foodstuffs, textiles, metal manufactures, transport equipment.**
- Export partners : Germany (11.2 per cent), UK (8.1 per cent), Italy (7 per cent), France (5.6 per cent), Russia (4.4 per cent), Spain (4.3 per cent) (2006)

Imports

Commodities imported by Turkey are estimated at US$ 162.1 billion for 2007.

- Commodities imported by Turkey on FOB basis are **machinery, chemicals, semi-finished goods, fuels, transport equipment.**
- Import partners : Russia (13.8 per cent), Germany (10.3 per cent), China (7.8 per cent), Italy (5.9 per cent), US (4.8 per cent), France (4.6 percent) (2006)

V India-Turkey economic relations

(a) To encourage and promote bilateral cooperation in developmental issues in the oil and natural gas sector, India and Turkey on 24th November, 2005 inked a Memorandum of Understanding (MoU). The areas of cooperation between the two countries include tie-ups between companies in undertaking exploration and production (E&P) initiatives in Turkey and bidding by Turkish companies in various New Exploration Licensing Policy (NELP) rounds for participating in the Indian E&P sector. According to the MoU, India and Turkey would undertake joint studies and partnerships to secure oil and gas supplies of the two countries by investments in third countries. The two nations agreed that Caucasian, Caspian/Central Asian, South-East Asian, and African opportunities constitute the high priority areas for such cooperation. It was also agreed to encourage execution of large engineering and construction contracts including oil and gas pipeline projects in Turkey, India and third countries by Turkish and Indian companies. The two also agreed to encourage taking up of LNG-refinery projects by Turkish and Indian companies in Turkey, India and third countries. As per the MoU, the two countries would set up a joint working group (JWG) to coordinate the cooperation activities. The Secretary of the Ministry of Petroleum and Natural Gas and Undersecretary of the Ministry of Energy and Natural Resources of the Republic of Turkey would head the JWG.

(b) With the foreign direct investment (FDI) touching a huge US$ 22 billion during 2007 and expected to cross US$ 25 billion this year, Turkey has emerged as one of the hot investment destinations not only in Europe but also for multinational companies, including those in India which have lined up huge investments there.

(c) Indian companies led by the **Tata group, Mahindra and Mahindra, GMR** and **Arcelor Mittal** are already operating in various parts of Turkey and the rush does not seem to stop. Indian companies having interests in mining, minerals, those wanting to acquire coal mines and also take part in the energy and power projects have made a beeline for Turkey.

According to the Alpasalan Korkmaz, President, Prime Ministry Investment Support and Promotion Agency of Turkey (ISPAT), told a delegation of visiting international journalists statement made in June 2008.

> *"You just press the button. We have a stable economy, a robust gross domestic product (GDP), a massive flow of foreign direct investment and to top that abundance of resources. No questions are asked if you bring in funds or take them out as long as they are through the legal route. We provide the right environment and single window approach,"*

(d) Only recently, 120 of the top Indian auto ancillary manufacturers were in Istanbul to attend a vendor's meet of Maruti Suzuki and Mahindra and Mahindra. In iron and steel, India born L.N. Mittal's Arcelor-Mittal has unveiled major plans to expand operations in Turkey inciting even the Indian counterparts to look for opportunities in Antalaya, Izmir and Adana regions of the country.

(e) On investments from India, Mehmet Gokay Ustun, Head, Project Director, Ispat, and India relations, said four Indian companies, having interests in mining and minerals, had finalised agreements to prospect manganese and chrome ores.

VI Bilateral Relations – Free Trade Agreement (FTA)

In 2008, the Turkish Minister of State for Foreign Trade & Foreign Contracting Services, Mr. Kursad Tuzman and India's Minister of State for Industry, Dr. Aswani Kumar, called for the initiation of a Free Trade Agreement (FTA) have expressed their desire to give a major fillip to their bilateral trade between Turkey and India.

Addressing the India-Turkey Business Forum, Mr. Tuzmen said, with a view to aligning our preferential regime with the EU under the Customs Union, we would like to initiate and conclude free Trade Agreement negotiations with India. The Business Forum was organized by FICCI in association with Turkey's Prime Ministry Under secretariat for Foreign Trade, Aegean Exporters' Association and Tuskon.

On his part, Dr. Ashwani Kumar said, We need to exponentially enhance the economic relationship between India and Turkey, not just in scale but also in quality, and towards that end we need to move towards a Comprehensive Economic Partnership Agreement, that covers trade in goods and services and investment protection pact.

The Turkish Minister said, trade relations between Turkey and India have displayed considerable improvement during the last five years. The total trade volume has reached US$ 2.6 billion in 2007 and we are targeting a figure of US$ 5 billion by 2012 and US$ 10 billion in the next 10 years.

Mr. Tuzmen pointed out that once the proposed FTA is concluded, the business communities in the two countries would have in place a well-designed and smooth atmosphere for trade and economic relations.

Indian companies were invited to invest in Turkey in the energy sector. Turkey, he said, has been implementing a strategic national policy in the energy sector including natural gas and oil procurement from existing and under-construction pipelines, concentrating on alternative energy sources and liberalizing its energy market.

Mr. Tuzmen outlined the potential areas for Indian companies to cooperate with their counterparts in Turkey. Specifically, he saw scope for tie-ups in mining, biotechnology, medicine and pharmaceuticals, including coastal development projects and hotel management, automotive, informational technology and rail transportation.

Likewise, the Turkish business community was keen to broaden its presence in the Indian market by investing in different potential sectors including food and food processing, textiles, plastics, chemicals, machinery, construction materials as well as taking part in the infrastructure projects to be executed in the next decade.

VII Recent Developments

(a) Turkey's ruling AK party (AKP) was re-elected decisively in July 2007, but the resolution of political uncertainty proved short-lived. Elections were brought forward from November to July due to a political crisis in the spring of 2007. The AKP won 47 per cent of the vote and 62 percent of parliamentary seats on a business-friendly platform and a strong economic track record. The new parliament subsequently elected ex-Foreign Minister Gul as president in August 2007, while Prime Minister Erdogan retained his post. Markets viewed this outcome as providing a mandate to renew market-oriented reforms amid political stability. However, domestic political tensions resurfaced in March 2008 when the chief prosecutor filed a court case against the AKP, accusing it of violating Turkey's secular principles and calling for its closure. The political uncertainty still continues.

(b) The economy is dynamic and at the same time it is a complex mixture of modern industry and commerce alongwith the traditional agricultural sector. The agricultural sector still continues to account for more than 35 per cent of employment though its share in GDP is estimated only at 8.9 per cent. The private sector is strong and rapidly growing but the State still plays a major role in basic industry, banking, transport and communication. The largest industrial sector is textiles and clothing which accounts for 1/3rd of the industrial employment. With global quota system having been abolished the sector faces severe competition in international markets. In addition, the automotive and electronics industry sectors are rising in importance, and provide a good mix in exports of commodities by Turkey.

(c) Turkey has taken credit from IMF under the Stand By Arrangement (SBA) the outstanding of the credit in end June 2008 stood at SDR 6.2 billion[1] (approximately equivalent to the US$ 10.13 billion).

Economic growth, public debt reduction, and international reserve accumulation have all exceeded original program targets by wide margins. Social security reform, large privatizations, and new banking, mortgage, and insurance laws have mitigated macroeconomic risks while enhancing efficiency. Base-broadening tax policy and revenue administration measures have also protected the revenue base and allowed tax rate reductions (e.g. the corporate tax rate was cut from 30 to 20 per cent in 2006). Turkey's economy has over performed on several key objectives the details of which are mentioned below:

IMF : IFS, August 2008[1] (1 SDR. = US$ 1.63362 in end June 2008)

Macroeconomic Performance under the SBA, 2005-07

	Original Program			**Actual Outturn**		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
GDP growth (percent)	5.0	5.0	5.0	8.4	6.9	4.5
CPI inflation (end-of-period, percent)	8.0	5.0	4.0	7.7	9.7	8.4
Current account deficit (percent of GDP)	-3.3	-2.7	-2.1	-4.6	-6.0	-5.7
Net FDI (percent of GDP)	0.8	0.8	0.6	1.9	3.6	3.0
Nonfinancial public sector primary balance (percent of GDP)	4.9	4.9	4.9	5.1	4.6	3.5
Nonfinancial public sector overall balance (percent of GDP)	-3.4	-1.7	-0.8	-0.2	-0.5	-1.4
Public sector net debt (percent of GDP)	45.0	43.5	40.4	41.7	34.2	29.1
Gross foreign reserves (billions of U.S. dollars)	39.7	39.5	40.2	52.2	63.3	76.5

Source: IMF staff report;

(d) With implementation of economic reforms, the GDP growth reached 9 per cent in 2004 followed by an average annual growth rate of 5 per cent in 2005-07. Inflation declined from 7.7 per cent in 2005 which was a 30 year low but climbed back to 8.5 per cent in 2007. Oil began to flow through the Baku-Tblisi-Ceyhan pipeline in May 2006, marking a major milestone that will bring up to million barrels per day from the Caspian to market. In 2007, Turkish financial markets weathered significant domestic political turmoil.

These strong economic gains during 2002-07 took place due to the renewed investor's interest in emerging markets, backing from IMF and tighter fiscal policy. However, the economy is still burdened by high current account deficit and large external debt which leaves the economy vulnerable to destabilizing shifts in investor confidence.

Economic and judicial reforms are yet to take place. The membership of EU as and when it comes about will further boost foreign direct investment inflows. The stock value of the FDI Investment currently stands at about US$ 85 billion.

VIII Concluding Observations :

i. Given the fact that India and Turkey are both anxious to develop trade relationships and the present low level of trade at US$ 3.4 billion offers a scope for substantial growth in the near future.
ii. There exists lot of potential for working together in the area of energy, mining, and IT sectors.
iii. With opening up of Trade with Turkey India could have another outlet not only to Turkey but to Europe as and when Turkey becomes a full fledged member of the European Union.
iv. India and Turkey have established Joint Working Group on terrorism and in its meeting in early 2008, it was agreed that it should meet more often, and that the meeting should include sharing of information and approaches on combating terrorism.
v. With reduction in the corporate tax rate from 30 per cent to 20 per cent, it should provide incentive for Indian companies to form joint ventures in that country.

Other Markets

Debt Market

The financial services entities remained active in primary market issuances during the month of July 2008. Housing Development Finance Corporation Limited and Rural Electrification Corporation Ltd were the largest issuers with Rs.500 crore worth of bonds each.

	Name of the Issuer	Rate %	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
i)	Infrastructure Development Finance Company Ltd.	10.75 and 10.75	3 years and 5 years	AAA	250	Bonds
ii)	Housing Development Finance Corporation Ltd.	11.15	3 years	AAA	500	Bonds
iii)	Rural Electrification Corporation Ltd	10.70	10 years	AAA	500	Bonds
iv)	Power Finance Corporation Ltd.	10.75, 10.70 and 10.55	3 years, 5 years and 10 years	AAA	250	Bonds

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

Call Money Market

The call money market rate on August 15, 2008 in respect of borrowings ranged between 6.00% and 9.50% as compared to the rates of 4.75% - 55.00% on August 17, 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.13,126 crore for the week ending August 15, 2008 and this daily turnover declined to Rs.12,480 crore in the week ending August 22, 2008.

Foreign Exchange Market

The exchange rate (RBI reference rate) on August 22, 2008 was Rs.43.38 per US dollar as compared to Rs.43.23 per US dollar on August 18, 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 3.83% on August 22, 2008 as compared to a premium of 3.24% on August 18, 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$ 297.05 billion on August 22, 2008, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US$ 287.29 billion. From end-March 2008, the foreign exchange reserves registered a decline of US$ 12.44 billion upto August 22, 2008. The market rate (buying) was Rs. 43.95 per US dollar on August 29, 2008.

Important Policy Pronouncements

A. Following the announcement of Monetary policy by the Reserve Bank of India on July 29, 2008, in which the policy stance was to restraint credit growth, the banks started gradually increasing the bench mark prime lending rate (PLR). The first was Punjab National Bank, and then the Central Bank of India which raised the PLR by 50 to 75 basis points. Then ICICI Bank, HDFC increased their lending rate by 75 basis points, and subsequently HDFC Bank and Axis Bank announced increases of 50 basis points each. Though late the State Bank of India the country's largest lender went ahead of all these banks and increased the lending rate (PLR) by 100 basis points effective August 13, 2008. The revised lending rates for important banks are indicated below :

Revised Lending Rates of Important Banks

Bank	Increase (bps)	New (%)	Bank	Increase (bps)	New (%)
SBI	100	13.75	ICICI Bank		
Central Bank	100	14.00	Corporate	75	17.25
PNB	100	14.00	Retail loans	75	14.25
Bank of Baroda	75	14.00	HDFC		
HDFC Bank	50	16.50	Floating rate	75	1.75
Axis Bank	50	15.75	Fixed rate	Nil	14.00

It is likely that other banks will increase their deposit rates probably by 25 to 50 basis points to mobilize savings as a result the lending rate on home loans as also interest rates on auto loans would go up. These may affect the off take of the credit on automobiles and reality rates across the segments. Because of the reduced margin available with the banks in mobilizing funds and increase in Cash Reserve Ratio (CRR) should bring about greater efficiency in the operation of the banks.

B. The young generation entrepreneurs, now emerging in the Indian economy, need information about the venture capital and bank funding and their perception is that start up funding is becoming difficult for them. Consequently, the National Knowledge Commission, Chaired by Sam Pitroda based on the study of entrepreneurship in India has suggested for establishing a Stock Exchange exclusively for small companies and creating instruments to enable the small firms to raise initial capital. It should help in the creation of a secondary market for smaller firms, creating new instruments for start-up funding and providing financial literacy to start-ups. The findings pointed that 63 per cent of entrepreneurs interviewed were self-financed, while others were financed by banks, venture capitals, angel investors amongst others.

C. The launch of Currency Futures at the National Stock Exchange (NSE) was inaugurated on August 29, 2008 by the Finance Minister, Mr. P. Chidambaram. This is a crucial event for the Indian Financial Market as now resident Indians such as students, outbound tourists and patients planning to go abroad for treatment can hedge their foreign currency risks through this instrument. The entities such as banks, corporation, exporters and importers will infact be the largest users of this facility.

In addition to NSE financial technology subsidiary MCS stock exchange has also been permitted by SEBI to launch currency futures.

(i) It may be mentioned that currency futures are standardized foreign exchange contracts traded on a recognized stock exchange to buy or sell one currency against another on a specified future date, at a price specified on the purchase or sale date. The RBI has approved only US dollar-Indian rupee currency futures, to start with.

(ii) One contract will be of US$ 1,000 and will be settled in Indian rupees.

II. According to the data released by the CSO, Gross Domestic Product (GDP) of the Indian Economy grew by 7.9 per cent during the first quarter (April-June) of the fiscal 2008-09; this was the slowest growth rate recorded in the past three and a half years. In fact, the economy grew by 9.2 per cent in the first quarter of 2007-08.

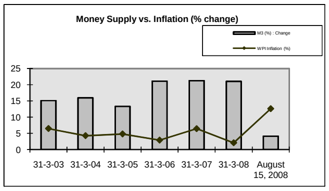
The growth rate in manufacturing declined to 5.6 per cent as compared to 10.9 per cent in the preceding year, and that of electricity declined from 7.9 per cent to 2.6 per cent. It is only the growth rate in construction which rose from 7.7 per cent to 11.4 per cent and that of mining and quarry from 1.7 per cent to 4.8 per cent. The growth rate recorded by agriculture was 3.0 per cent but is considered respectable as compared to the growth rate of 4.4 per cent during the corresponding quarter of 2007-08.

While there was a slow down in the GDP growth from 9.2 per cent to 7.9 per cent, the investment growth remained strong at 32.3 per cent of GDP as compared to 32.0 per cent in the preceding year. The double digit investment growth has remained strong from fiscal 2004 to fiscal 2008 indicating the underlying robustness of the economy.

Estimate of GDP at Factor Cost in Q1 2008-09 (at 1999-00 prices)

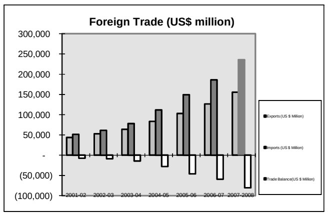
	Percent change over previous year			**Percent change over previous year**	
	2007-08	**2008-09**		**2007-08**	**2008-09**
Agriculture, forestry & fishing	4.4	3.0	Construction	7.7	11.4
Mining & Quarrying	1.7	4.8	Trade, hotels, transport & communication	13.1	11.2
Manufacturing	10.9	5.6	Financing, insurance, real estate & biz services	12.6	9.3
Electricity, gas & water supply	7.9	2.6	Community, social & personal services	5.2	8.4
			GDP at Factor cost	**9.2**	**7.9**

Source : The Economic Times, August 30, 2008



	31-3-03	31-3-04	31-3-05	31-3-06	31-3-07	31-3-08	August 15, 2008
M3 (Rs. Crore)	17,25,222	20,03,102	22,53,938	27,29,535	33,10,278	40,06,722	41,72,361
M3 (%) : Change	15.14	15.95	13.30	21.10	21.27	21.04	4.13
WPI (Index) All Commodites$$	172.30	180.30	189	196.6	209.3*	213.7**	240.7***
WPI Inflation (%)	6.49	4.29	4.83	2.91	6.46	2.10	12.63

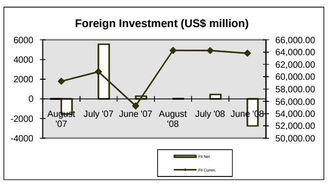
Source: RBI Bulletin July 2008; WSS: August 29, 2008 $$1993-94=100; year/month-end; * March 03, 2007 ** August 11, 2007 ***August 09, 2008



During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-2008	April-June, 08
Exports (US $ Million)	43,827	52,719	63,843	83,536	103,091	126,414	155,512	42,846
Imports (US $ Million)	51,413	61,412	78,149	111,517	149,166	185,735	235,911	73,275
Trade Balance(US $ Million)	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,321)	(80,398)	(30,429)

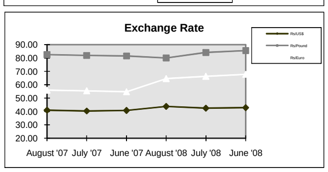
Source:RBI Bulletin, July 2008 : *Revised figures for 2001-02 to 2006-07 (April-March)*

**DGCI&S data for April 2006 to March 2007 (Provisional)*



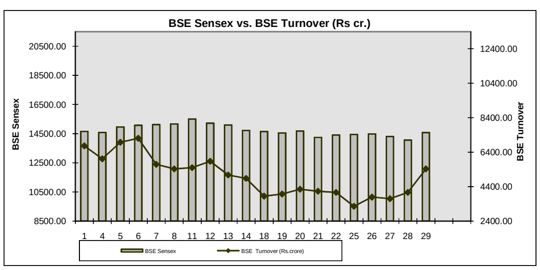
	2007-08 (US$ million)			2008-09 (US$ million)		
	August '07	July '07	June '07	August '08	July '08	June '08
FII Net	(1,542.4)	5,544.8	269.3	11.7	441.7	(2,750.5)
FII Cumm.	59,254.50	60797	55252.1	64270.3	64258.8	63,817.10

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



	2007-08			2008-09		
	August '07	July '07	June '07	August '08	July '08	June '08
Rs/US$	40.96	40.44	40.75	43.79	42.49	42.95
Rs/Pound	82.55	82.03	81.63	80.05	84.21	85.62
Rs/Euro	55.96	55.42	54.79	64.56	66.33	67.81

Figures are for month-end



August 2008	**BSE Sensex Close**	**BSE Turnover (Rs.crore)**
31-Jul-08	14355.75	5091.00
1	14656.69	6764.00
4	14577.87	6009.00
5	14961.07	6976.00
6	15073.54	7203.00
7	15117.25	5691.00
8	15167.82	5432.00
11	15502.92	5497.00
12	15212.13	5875.00
13	15093.12	5076.00
14	14724.18	4882.00
18	14645.66	3848.00
19	14543.73	3972.00
20	14678.23	4255.00
21	14243.73	4135.00
22	14401.49	4067.00
25	14450.35	3256.00
26	14482.22	3790.00
27	14296.79	3701.00
28	14048.34	4063.00
29	14564.53	5431.00

Annexure 1 : Select International Economic Indicators for Developed Industrialised Countries And India

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US $		Union Budget	Real Rate	Currency	Balance Latest :12 months		Col 11 as
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 20.08.08	A Year ago	(+) / (-) % of GDP 2008	(Short-term) (1-3)	unit per Euro 20.08.08	Trade Account (US$ bn)	Current Account (US$ bn)	Percentage of GDP 2008
	1	2	3	4	5	6	7	8	9	10	11	12
Euro-11	4.96	4.13	4.00	1.80	0.68	0.74	-0.90	0.96	1.00	3.5	-14.2	-0.3
			Jul							Jun	May	
U. S. A.	2.06	3.78	5.60	2.40	1.00	1.00	-2.40	-3.54	1.47	-836.2	-710.7	-4.8
			Jul							Jun	Q1	
Britain	5.74	4.56	4.40**	1.90	0.54	0.50	-3.80	1.34	0.79	-186.4	-102.4	-3.6
			Jul							Jun	Q1	
Japan	0.75	1.45	2.00	-0.2	110.00	115.00	-2.80	-1.25	161.76	92.4	207.3	4.1
			Jun							Jun	Jun	
Sweden	4.27	4.07	4.40	1.90	6.38	6.95	2.40	-0.13	9.38	18.3	40.4	7.9
			Jul							Jun	Q1	
Switzerland	2.75	2.81	3.10	0.70	1.10	1.21	0.90	-0.35	1.62	16.5	91.4	13.9
			Jul							Jul	Q1	
India	9.13	9.63	7.70	5.70	43.70	40.90	-3.40	1.43	64.26	-87.5	-17.5	-3.2
			Jun							Jun	Q1	

Source: The Economist London: August 23rd-29th, 2008   *Figures in Column 9 are derived.*

***RPI Inflation rate 5.0% in July*

Annexure 2 : Important Economic Indicators for Select Emerging Market Countries

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US $		Union Budget	Real Rate	Currency	Balance Latest :12 months		Col 11 as
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 20.08.08	A Year ago	(+) / (-) % of GDP 2008	(Short-term) (1-3)	unit per Euro 20.08.08	Trade Account (US$ bn)	Current Account (US$ bn)	Percentage of GDP 2008
	1	2	3	4	5	6	7	8	9	10	11	12
China	4.32	4.81	6.3	5.6	6.85	7.60	0.5	-1.98	10.07	249.2	371.8	8.6
			Jul							Jul	2007	
Hongkong	2.21	3.00	6.3	1.5	7.81	7.81	3.0	-4.09	11.49	-25.6	26.4	9.0
			Jul							Jul	Q1	
Indonesia	9.90	7.23	11.9	5.3	9160.00	9395.00	-2.0	-2.00	13470.59	37.5	10.9	2.8
			Jul							Jun	Q1	
Malaysia	3.70	4.21	7.7	1.4	3.33	3.48	-3.1	-4.00	4.90	37.6	30.6	14.4
			Jun							Jun	Q1	
Singapore	1.22	2.90	7.5	1.3	1.41	1.52	1.00	-6.28	2.07	26.3	32.8	19.4
			Jun							Jul	Q2	
South Korea	5.79	5.83	5.9	2.5	1049.00	944.00	1.5	-0.11	1542.65	-1.6	2.2	-2.5
			Jul							Jul	Jun	
Taiwan	2.75	2.49	5.9	-0.3	31.40	33.00	-1.8	-3.15	46.18	13.9	32.6	5.2
			Jul							Jul	Q2	
Thailand	3.75	4.57	9.2	1.7	34.10	34.50	-3.0	-5.45	50.15	7.8	12.7	-0.4
			Jul							Jun	Jun	
Brazil	12.92	6.16	6.4	3.7	1.62	2.01	-1.6	6.52	2.38	30.8	-18.1	-1.6
			Jul							Jul	Jun	
Venezuela	17.17	6.55	33.7	17.2	3.55	4.23	1.6	-16.53	5.22	30.1	37.8	12.1
			Jul							Q1	Q2	
India	9.13	9.63	7.70	5.70	43.70	40.90	-3.40	1.43	64.26	-87.5	-17.5	-3.2
			Jun							Jun	Q1	

Source: The Economist London: August 23rd-29th, 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
September 08th 2008