



## Update on Indian Economy September 2009

### Economic Snapshot

Contents	Item	Units	August	July	August	(% Change	
			2009	2009	2008	[1]/[2]	[1]/[3]
			[1]	[2]	[3]	[4]	[5]
<b>- Editorial</b>							
<b>- Capital Market</b>	WPI -Index*	1993-94=100	237.4	236.7	241.1	0.3	-1.5
<b>- Free Trade Agreement:</b>	WPI -Inflation**	Per cent	-1.5	0.3	12.6		
<b>India &amp; ASEAN</b>		Week ended	(08.08.09)	(11.07.09)	(09.08.08)		
<b>-Direct Tax Code: Draft</b>	IIP (93-94=100)	2 months lag	290.2	281.9	269.1	2.9	7.8
			<b>(June 09)</b>	<b>(May 09)</b>	<b>(June 08)</b>		
<b>- Other Markets</b>	INR / US\$	Month End	48.89	48.07	43.79	1.7	11.6
<b>-Important Policy Pronouncements</b>	M3	Rs. '000 Cr.	5029.4	4972.02	4172.36	1.2	20.5
<b>-RBI: Annual Report, 2008-09</b>	[i] Agg. Deposits	Rs. '000 Cr.	4343.33	4285.78	3575.3	1.3	21.5
<b>-FTP: 2009-14</b>	[ii] Currency	Rs. '000 Cr.	686.07	686.24	597.06	0.0	14.9
		(Outstanding as on)	(14.08.09)	(17.07.09)	(15.08.08)		
	Call Money	% Range	1.75-3.45	1.5-3.35	6.00-9.50	-	-
	(Lendings)	Week ended	(14.08.09)	(17.07.09)	(15.08.08)		

Source: RBI Weekly Statistical Supplement August 28, 2009 & Economic & Political Weekly August 28, 2009

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

### Editorial

#### A) Domestic

Fears of a poor monsoon in the early part of August 2009 raised concerns and led the Prime Minister Manmohan Singh to call the meeting on August 17, 2009 where in the Chief Ministers of various States were present. PM appealed that there is no need to panic and indicated that the country has faced problems like this earlier. In fact now there is much greater elbow room to deal with the drought than in the past. By month-end 278 districts or 44 percent of nation's total districts were noticed to have drought or drought-like conditions, as rain fall has been deficient (below average) so far by 25 percent during the monsoon season of three months beginning from June 1, 2009. As there is one more month to go for monsoon one could expect softening of drought impact.

The first quarter (April – June ) estimates of GDP for the financial year 2009-10 indicated a growth of 6.1 percent, with Index of Industrial production showing an encouraging rise of 7.8 percent in the month of June 2009, - undoubtedly induced by the impact of the fiscal stimuli given by the government. It may be mentioned that Indian economy during 2008-09 registered a GDP growth rate of 6.7 percent in the wake of external shocks in the form of an intense global financial crisis coupled with a global recession. Thus the Indian economy has exhibited notable resilience.

#### B) International

On August 28, 2009 IMF injected US \$250 billion in SDRs into Global Economy for boosting reserves; this will be followed by an additional albeit much smaller, allocation of US \$33 billion on September 9, 2009. With these two allocations totaling roughly US

\$283 billion, outstanding stock of SDRs would increase nearly ten-fold to total about US \$ 316 billion.

The allocation of SDRs is in response to call of G-20 meetings; first it was at its April 2009 summit in London where the Group of Twenty (G-20) comprising industrial and emerging market countries called for an SDR allocation of US \$250 billion. The proposal general allocation is based on a long term global need to supplement IMF members' existing reserve assets to provide liquidity to the global economic system,

The G-20 has also called for urgent ratification of a long-pending amendment to the IMF's Article of Agreement.

The amendment provides for a special one-time allocation that will be separate and additional to any SDRs allocated to members under the general allocation of SDRs. The special one-time allocation of about US \$33 billion will be made on September 9, 2009.

In short, these SDR allocations are to supplement IMF members' foreign exchange reserves which will also benefit significantly low-income countries.

### **Capital Market Review**

Markets opened with high volatility in the beginning of the week and staged a strong bounce back by the end of the week. BSE Sensex ended with gain of 252 points from 15160.24 on August 7, 2009 to 15411.63 on August 14, 2009, and thus increased by 1.7%. The government released the draft on new Direct Tax Code that proposes widening of the tax slabs range for personal income tax, along with an increase in the limit available on savings for tax deduction. The code also proposes a reduction in the corporate tax rate from 33% to 25%. If implemented, the disposable income of individuals will rise and benefit companies across various sectors from the new tax structure. On the macro economic front, the Index of Industrial Production (IIP) for the month of June 2009 grew by 7.8%; and this 16 month high was significantly higher than 5.4% in the same month last year, and 2.7% in the May 2009.

Subsequently, markets lost ground with BSE Sensex shedding around 171 points or 1.1% to close at 15,240.83 on August 21, 2009. As the Report of US consumer sentiment was disappointing it raised the concerns about the global economic recovery. Markets responded by a plummeting in the benchmark indices to their lowest levels in the month. BSE Sensex lost 4.1% and closed at 14,784.92 on Monday, August 17 2009. However, recovery was noticed in the next trading session but could not be sustained for long. Most of the sectoral indices ended in red, with the BSE Metal loosing the maximum of 3.9%, followed by the BSE Oil and Gas, Healthcare and Reality indices, which lost 3.7%, 2.5% and 2.4%, respectively.

Towards the close of the month, markets turned positive; the BSE Sensex ending at 15,922.34 on August 28, 2009 made a high jump of 682 points or 4.5%. The mid-caps and the small-caps gave a relatively better show on the bourses. Finally, the month ended at 15666.64 on August 31, 2009 which is around same level of 15670.31 on July 31, 2009. Overall, the benchmark index – Sensex failed to register a strong pick up during the month.

	August	July	August	July	(% Change)		
	2009	2009	2008	2008	[1]/[2]	[1]/[3]	[2]/[4]
<b>Major Indices</b>	[1]	[2]	[3]	[4]	[5]	[6]	[7]
<b>BSE Sensex – Close</b>	15666.64 (31.08.09)	15670.31 (31.07.09)	14564.53 (29.08.08)	14355.75 (31.07.08)	-0.02	7.57	9.16
<b>Monthly High</b>	15924.23 (3.08.09)	15670.31 (31.07.09)	15502.92 (11.08.08)	14942.28 (23.07.08)	1.62	2.72	4.87
<b>Monthly Low</b>	<b>14784.92</b> (17.08.09)	13400.32 (13.07.09)	14048.34 (28.08.08)	12575.8 (16.07.08)	10.33	5.24	6.56
<b>S&amp;P CNX Nifty –Close</b>	4662.1	4636.45	4360	4332.95	0.55	6.93	7.00
<b>P/E Ratio : BSE – 30</b>	20.45	20.3	18	17.8	0.74	13.61	14.04
<b>FII Investments (Equity+ Debt)</b>							
<b>Inflows – Rs. Cr.</b>	60673.9	80211.5	50139.5	69645.6	-24.36	21.01	15.17
<b>Outflows – Rs. Cr.</b>	56150.5	67029.5	50093.5	67863.9	-16.23	12.09	-1.23
<b>Net – Rs. Cr.</b>	4523.4	13181.7	46.1	1782.1	-65.68	9712.15	639.67
<b>Cum. Net Inv–US\$ Mn. (Month End)</b>	69179.2	68234.5	64270.3	64258.8	1.38	7.64	6.19

The cumulative investment by FIIs stood at US\$ 69.18 billion in end-August 2009, and the rise during the month from US \$68.23 billion in the end-July 2009 was marginal at US \$0.89 billion.

### **Free trade Agreement: India and ASEAN**

The long awaited Free Trade Agreement (FTA) between India and ASEAN countries was signed in Bangkok on August 13, 2009, - after six years of immense negotiation. The FTA in Goods was signed by the Union Minister of Commerce & Industry Mr. Anand Sharma. The Agreement relating to Trade in Goods, which forms the part of the Comprehensive Economic Cooperation Agreement, will bring two global economies together to boost the trade. Under the Agreement, India and ASEAN countries will remove the tariff on 80% of the traded items (appx 4,000 products) in a gradual manner starting from January 1, 2010.

The Agreement has provided flexibilities to India and ASEAN countries to exclude some of the products from tariff concessions or tariff elimination to deal with respective domestic sensitivity. India will partially cut the tariff on 590 items and will not consider tariff cut on 489 items to protect the industries like agriculture, textiles, auto, chemicals, crude and refined palm oil, coffee, tea, pepper, etc. Similarly, ASEAN countries will maintain the exclusion list from the proposed tariff concessions or eliminations. To control the import to the extent so that it does not hurt the domestic industry, safeguard duties will be imposed for a period up to 4 years.

ASEAN, the association of 10 member countries, is a major trading partner for India and accounts for about 10% of its global trade. Bilateral trade between India and ASEAN stood at around \$ 40 billion in 2008. The new Agreement of Trade in Goods is expected to increase the trade to the tune of \$50 billion in 2010. 'Apart from the negotiation of Trade in Goods, India and ASEAN are also negotiating Agreement on Trade in Services and Investment, which are scheduled to be concluded by December 2009. India looks

forward to access the vast services market of ASEAN. India's total trade in services was US \$ 137.50 billion in 2006. The corresponding figure for ASEAN is US\$ 280.90 billion. Similarly, Foreign Direct Investment (FDI) attracted by India in 2007-08 was US \$ 24.60 billion whereas ASEAN member countries attracted FDI totaling US \$ 60.50 billion in the year 2007'. (Press Release of Ministry of Finance, August 13, 2009)

### **Direct Tax Code in India: Draft**

Government of India released the draft Direct Tax Code on August 12, 2009, which is set to replace the Income Tax Act (1961). The new tax reforms aims to reduce the tax burden on individuals and companies keeping revenue neutral approach and broadening the tax base. The new tax regime will come into effect from April 2011. The main proposals of the new code for individuals, companies, markets and others with their impact on respective segment are outlined below.

#### **(a) For Individuals**

1. Restructuring the slabs of income for taxation will reduce the tax burden on individual. The applicable tax rate will be
  - Up to Rs 1.6 lakh: No tax
  - Rs. 1.6 lakh to Rs 10 lakh income: 10% (Rs 1.2 lakh in hand)
  - Rs. 10 lakh to Rs 25 lakh income: 20% (Rs 2.60 lakh more in hand)
  - And for income over Rs 25 lakh: 30%
2. Increase in the deduction limits for savings up to Rs. 3 lakhs
3. Interest paid on house loans for self-occupied property will be taxable
4. All the withdrawals from Provident Fund accounts, Life insurance, superannuation fund and New Pension System Trust to be taxable.
5. Wealth tax limit increased to Rs. 50 crore and 0.25 per cent of tax above this limit.
6. Perks to be treated as salary income and taxed accordingly.
7. If the retirement benefit is saved in Retirement Benefit Account in accordance with the scheme prescribed by the Government of India, it will be exempted from tax.
8. Expand the scope of tax deduction on interest paid on higher education loans.

**Impact:** Reduction in tax rates and increase in savings limit for deduction will definitely have a positive effect for individuals across various sectors. However, elimination of house loan interest from tax deduction and tax on the savings from PF account, insurance etc will leave some negative impact. Moreover, retirement benefits will be tax free if kept in appropriate retirement benefit scheme. The overall tax structure will increase personal disposable income and hence demand in the economy.

The increase in personal disposable income will have positive impact on sectors like Automobile, Durable consumer Goods Industries, FMCG, Hotel, Retail and Media.

#### **(b) For Companies**

1. Reduction in the tax rate from existing 33.99% (including surcharge) to 25% for domestic companies.

2. Foreign companies can be treated as an Indian resident if the control and management lies in India at any time in a financial year. The applicable tax rate will be 25% as against 42.23% (including surcharge).
3. Dividend Distribution Tax will continue to be 15% for domestic companies. Foreign companies will pay “branch profit tax” at same rate irrespective of profit remittance to the parent company.
4. Exemption on all capital gains earned before April 2000.
5. Computation of tax under the head of “Business Income” will be revised.
6. Tax breaks for sectors such as IT, infrastructure, exports, area-based exemption to be withdrawn.
7. Business losses can be carried forward for indefinite period unlike the present 8 years.
8. Profit linked incentives are to be replaced with a new set of incentives linked to capital investments.
9. Minimum Alternative Tax (MAT) will be paid on percentage of Gross Assets of the company. The percentage is 0.25 for banking companies and 2% for other companies.
10. Amalgamations and demergers to be made tax-neutral.
11. Allowable depreciation rate on plant and machinery will be reduced to 15%.
12. Separate tax computation regime for companies in eight sectors. They are Insurance, Shipping, Oil & Gas producers, Power, Special Economic Zones, Hospital, Fruit & Vegetable processing and infrastructure.
13. Also, there are 11 businesses for whom the determination of profit on presumptive basis will continue. They are airlines, civil construction, retail trading, construction of power plants, oil exploration services providers,

**Impact:** Though the reduction in corporate tax rate seems attractive, it is not beneficial to all the sectors of the economy. The companies that fall under the full bracket of taxation, the reduction of corporate tax rate will bring down their tax liability. However, the companies that are currently enjoying tax exemptions, which will be withdrawn, may not benefit from the reduction in the corporate tax rate. Sectors like Capital Goods, Cement, Hotel, Logistics, Metal, Media and Retail will reap advantages from the lower tax rates.

The companies that have advantages of sector specific tax exemption will come under the net of Minimum Alternative Tax (MAT). Change in the basis for computing MAT will have positive impact on FMCG but highly negative for capital intensive industries like Automobile, infrastructure, Logistics, Oil & Gas, Power, Pharmaceutical, Software and Telecom.

### **(c) For Markets**

1. Securities Transaction Tax (STT) to be waived off and replaced with capital gains tax. There will be no distinction between long term and short term capital gains.
2. All capital gains between April 1981 and March 2000 are not liable to pay tax. The year for calculating capital gain tax would be April 2000.
3. Removal of tax deduction on the interest payable on any government security.
4. Profits of non-life insurance companies to be disclosed annually.
5. No tax deduction on interest payable to banking companies, insurers.

**Impact:** Removal of STT can provide better arbitrage opportunities in the capital markets and can boost the volume. Capital gains would be treated as an income.

**(d) Others**

1. Schedules would be amended to change tax rate
2. To make tax structure simple, the terms ‘previous year’ and ‘assessment year’ will be replaced by ‘financial year’.
3. Taxation of all non-profit organizations will be rationalized

According to Finance Minister Pranab Mukherjee, if the reasonable level of discussion takes place on the Code, a Bill could be placed in the winter session of the Parliament. The new Tax Code will replace four-decade-old Income Tax Act. The thrust of the Code is to improve the efficiency and equity of tax system by eliminating distortions in tax structure and expanding the tax base.

**Other Markets**

**Debt Market**

The month of July witnessed fair amount of activities in the primary issuance market. Indian Oil Corporation Ltd. remained the biggest issuer for the month with an issue size of Rs.2,000.00 crore, followed by Bank of Baroda and Jaiprakash Associates Ltd., - Rs.500 crore each.

Name of the Issuer	Duration	Rating	Amount (Rs. Crore)	Type of Instrument
<b>i. Banks</b>				
Bank of Baroda	15 yrs	AAA	500	Bonds
Corporation Bank	-	AAA	300	Bonds
<b>ii. Financial Services Institution</b>				
L & T Finance Ltd.	2 yrs	AA+	250	Bonds/NCD
Power Finance Corporation Ltd.	3 yrs	AAA	150	Bonds/NCD
<b>iii. Non-Financial Services Institutions</b>				
Indian Oil Corporation Ltd.	3 yrs	AAA	2,000	Bonds/NCD
Jaiprakash Associates Ltd.	5 yrs	A+	500	Bonds/NCD
Infrastructure Leasing & Financial Services Ltd.	5 yrs	AAA	150	Bonds/NCD
TATA Communications Ltd.	-	AAA	150	Bonds/NCD
Kalpataru Power Transmission Ltd.	5 yrs	AA	70	NCD
TATA Capital Ltd.	2 yrs	AA+	40	Bonds/NCD

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

**Call Money Market**

The call money rate on August 14, 2009 in respect of borrowings ranged between 1.75% and 3.45% as compared to the rates of 6.00% - 9.50% on August 15, 2008 (i.e. a year ago) reflecting that there was greater liquidity in the market leading to softening of interest rates. The average daily turnover in the call money market was Rs.7,050 crore

for the week ending August 14, 2009 and this rose to Rs 11,781 crore on August 21, 2009.

### **Foreign Exchange Market**

The exchange rate (RBI reference rate) on August 21, 2009 was Rs.48.74 per US dollar as compared to Rs.48.27 per US dollar on August 14, 2009, 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 2.63% on August 21, 2009 as compared to a premium of 2.92% on August 14, 2009 (a week ago), which reflects that supply of dollars is likely to become relatively easy in the forthcoming weeks. The foreign currency assets were US\$ 260.94 billion on August 21, 2009, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 271.96 billion. From end-March 2009, the foreign exchange reserves registered an increase of US\$ 19.97 billion upto August 21, 2009. The market rate (buying) was Rs. 48.89 per US dollar on August 31, 2009.

### **Important Policy Pronouncements**

#### **[A] RBI: Annual Report, 2008-09**

Reserve bank of India released its Annual Report for the year 2008-09 on August 27, 2009 and in that report it recognized the existence of weak monsoons which will have some adverse impact on drought situation, but the situation is not as bad as it is made out. The relatively poor rains would push up the inflationary pressure. It may be mentioned that real GDP growth, which had averaged at 8.8 percent during 2003-08, decelerated to 6.7 percent in 2008-09. However, the RBI is stuck to its GDP target of 6 percent during 2009-10.

#### **(1) Inflation**

The Report indicated that cereals, pulses and oil seeds grown during the kharip season accounts for only 20 percent of the total farm output, and hence it would experience inflationary pressures. RBI further indicated that WPI used as indicator of price is a statistical phenomenon, and its base effect will run out in October 2009. RBI expressed its concern over the high level of consumer price inflation for agriculture workers which has touched around 13 percent. RBI expects that capital flows to India to increase further.

#### **(2) The Fiscal Stance**

The unprecedented magnitude and complexity of the challenge necessitated temporary deviation from the fiscal consolidation process embodied in the Fiscal Responsibility and Budget Management (FRBM) Act. The combined fiscal deficit of the Central and State Governments (including the special securities issued to oil marketing and fertiliser companies), thus, reached 10.7 per cent of GDP in 2008-09.

The challenge associated with financing of higher deficits emerged in the form of managing large borrowing programmes of the Governments without disrupting the markets, and more importantly, without exerting upward pressures on the interest rates. Significant moderation in inflation in the second half of the year; the deceleration in demand for non-food credit, reflecting the slowdown in growth; and the decline in non-bank sources of funding for the commercial sector created the headroom for smoother management of the borrowing programme.

### **(3) The Monetary Stance**

The accommodative monetary policy stance in the post-September 2008 period was reflected in 400 basis points reduction in CRR, 4.25 percentage point reduction in the repo rate, 2.75 percentage point reduction in reverse repo rate and several other conventional as well as non-conventional windows for access to liquidity (resulting in the availability of more than Rs.4,00,000 crore of additional actual/potential liquidity to the system by the end of the year), The Reserve Bank ensured ample surplus liquidity in the system to ensure flow of credit to productive sectors, within the prudence necessary for preserving the asset quality of the banks.

### **(4) The highlights of the prescription suggested for the economy are as follows:**

- Reduce Non-Plan expenditure
- More liberal FDI policies to bring in technology and productivity.
- Introduce government-funded scheme for potential entrepreneurs
- Link petroleum product prices to international prices
- Augment grain procurement for food security
- CPI (Urban) to be used for measuring inflation
- Number of schemes which an MF can float to be linked to the net owned funds

### **(5) Overall,**

Indian growth continues to be driven by domestic demand and domestic saving, with foreign capital supplementing within the prudent approach to sustainable current account deficit. Thus, return to 9 percent growth trajectory would largely be determined by the country's structural fundamentals and the responsive macro policy environment.

### **[B] Foreign Trade Policy: 2009-14**

Hon'ble Minister for Commerce and Industry, Mr. Anand Sharma, announced the Foreign Trade Policy (FTP) for year 2009-14 on August 27, 2009. The policy focuses on three main objectives.

- a. Reverse the declining trend of exports and provide additional support to the sectors worst hit by the recession
- b. Achieve annual export growth target of 15% and export target of \$200 billion by March 2011
- c. Increase the share of India's foreign trade in global trade by doubling the exports by 2014.

To support India in achieving the above targets, the new FTP consists of improvement in export related infrastructure, lowering transaction cost and providing relief on indirect taxes and levies. The snapshots of the new FTP are presented below.

### **(1) Support market and product diversification**

Under the Focus Market Scheme (FMS), 26 new countries have been added which include 16 from Latin America and 10 in Asia-Oceania. The incentive available under Focus Product Scheme has been raised from 1.25% to 2.5%. Market Linked Focus Product Scheme has expanded by inclusion of more markets and products. The products list will include products in pharmaceuticals, synthetic fabrics, value added rubber and

plastic, textile, knitted and crocheted fabrics, glass products, iron and steel products, aluminium. This will ensure support for exports to all countries in Africa.

## **(2) Technological upgradation, EPCG Scheme Relaxations, Duty Entitlement Passbook (DEPB)**

- a. EPCG Scheme at Zero Duty has been introduced and the scheme will be available for engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products.
- b. To increase the life of existing plant and machinery, export obligation on import of spares, moulds etc. under EPCG Scheme has been reduced to 50% of the normal specific export obligation.
- c. Taking into account the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country, has been extended for the 5 year Policy period 2009-14.
- d. To accelerate exports and encourage technological upgradation, additional Duty Credit Scrips shall be given to Status Holders @ 1% of the FOB value of past exports. The duty credit scrips can be used for procurement of capital goods with Actual User condition. This facility shall be available upto 31<sup>st</sup> March 2011.
- e. Transferability for the Duty Credit scrips being issued to Status Holders under paragraph 3.8.6 of FTP under VKGUY Scheme has been permitted. This is subject to the condition that transfer would be only to Status Holders and Scrips would be utilized for the procurement of Cold Chain equipment(s) only.

## **(3) Stability/ continuity of the Foreign Trade Policy**

- To impart stability to the Policy regime, DEPB Scheme is extended to 31<sup>st</sup> December 2010. The interest subvention of 2% for pre-shipment credit for 7 specified sectors has been extended till 31<sup>st</sup> March 2010 in the Budget 2009-10. Income Tax exemption to 100% EOUs and to STPI units under Section 10B and 10A of Income Tax Act, has been extended for the financial year 2010-11 in the Budget 2009-10.
- The adjustment assistance scheme initiated in December, 2008 to provide enhanced ECGC cover at 95%, to the adversely affected sectors, is continued till March, 2010.

## **(4) Sectoral Policies**

### **(i) Marine sector**

Fisheries have been included in the sectors which are exempted from maintenance of average EO under EPCG Scheme, subject to the condition that Fishing Trawlers, boats, ships and other similar items shall not be allowed to be imported under this provision.

Also, additional flexibility under Target Plus Scheme (TPS) / Duty Free Certificate of Entitlement (DFCE) Scheme for Status Holders has been given to Marine sector.

#### **(ii) Gems & Jewellery Sector**

- To neutralize duty incidence on gold Jewellery exports, it has now been decided to allow Duty Drawback on such exports.
- In an endeavour to make India a diamond international trading hub, it is planned to establish “Diamond Bourse(s)”. A new facility to allow import on consignment basis of cut & polished diamonds for the purpose of grading/ certification purposes has been introduced.
- To promote export of Gems & Jewellery products, the value limits of personal carriage have been increased from US\$ 2 million to US\$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US\$ 0.1 million to US\$ 1 million.

#### **(iii) Agriculture Sector**

To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi-functional nodal agencies to be accredited by APEDA.

#### **(iv) Leather Sector**

Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi finished leather from public bonded ware houses, subject to payment of 50% of the applicable export duty. Enhancement of FPS rate to 2%, would also significantly benefit the leather sector.

#### **(v) Tea**

Minimum value addition under advance authorization scheme for export of tea has been reduced from the existing 100% to 50%. DTA sale limit of instant tea by EOU units has been increased from the existing 30% to 50%. Export of tea has been covered under VKGUY Scheme benefits.

#### **(vi) Pharmaceutical Sector**

Export Obligation Period for advance authorizations issued with 6-APA as input has been increased from the existing 6 months to 36 months, as is available for other products. Pharma sector extensively covered under MLFPS for countries in Africa and Latin America; some countries in Oceania and Far East.

#### **(5) EOUs**

- EOUs have been allowed to sell products manufactured by them in DTA upto a limit of 90% instead of existing 75%, without changing the criteria of ‘similar goods’, within the overall entitlement of 50% for DTA sale.
- To provide clarity to the customs field formations, DOR shall issue a clarification to enable procurement of spares beyond 5% by granite sector EOUs. EOUs will

now be allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguards.

- Board of Approvals (BOA) will consider extension of block period by one year for calculation of Net Foreign Exchange earnings of EOUs. EOUs will be allowed Credit facility for the component of SAD and Education Cess on DTA sale.

#### **(6) Thrust to Value Added Manufacturing**

To encourage Value Added Manufactured export, a minimum 15% value addition on imported inputs under Advance Authorization Scheme has now been prescribed. Project Exports and a large number of manufactured goods under FPS and MLFPS.

#### **(7) Flexibility provided to exporters**

Payment of customs duty for Export Obligation (EO) shortfall under Advance Authorization / DFIA / EPCG Authorization has been allowed by way of debit of Duty Credit scrips. Earlier the payment was allowed in cash only.

Import of restricted items, as replenishment, shall now be allowed against transferred DFIA's, in line with the erstwhile DFRC scheme. Time limit of 60 days for re-import of exported gems and jewellery items, for participation in exhibitions has been extended to 90 days in case of USA.

#### **(8) Simplification of Procedures**

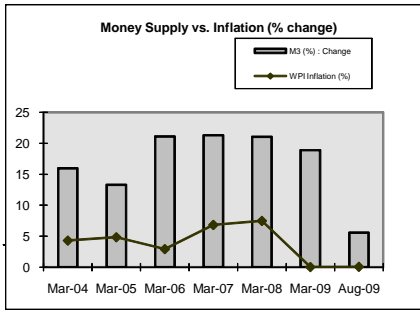
- To facilitate duty free import of samples by exporters, number of samples/pieces has been increased from the existing 15 to 50. Customs clearance of such samples shall be based on declarations given by the importers with regard to the limit of value and quantity of samples.
- To allow exemption for up to two stages from payment of excise duty in lieu of refund, in case of supply to an advance authorization holder (against invalidation letter) by the domestic intermediate manufacturer.

#### **(9) Reduction of Transaction Costs**

No fee shall now be charged for grant of incentives under the Schemes in Chapter 3 of FTP. Further, for all other Authorizations/ licence applications, maximum applicable fee is being reduced to Rs. 100,000 from the existing Rs 1,50,000 (for manual applications) and Rs. 50,000 from the existing Rs.75,000 (for EDI applications).

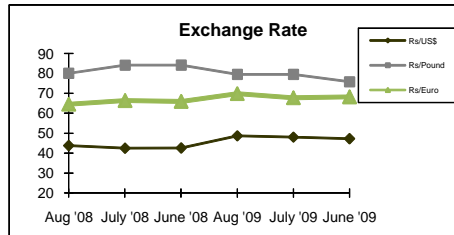
#### **(10) Summing Up**

It may be stated that, India's exports grew by 160% in the five years ending on March 2009. However, exports during the year 2008-09 were \$168.7 billion as against the target set earlier of US\$ 200 billion. Exports have been declining since October 2008 because the demand from the recession affected developed nations fell steeply. The new policy formed on the basis of earlier time tested export promotion schemes has now provided additional benefits to the exporters, and through Focus Market Scheme (FMS) which has brought to the notice of exporters about the potential in the new markets of Latin America and Asia Oceania.



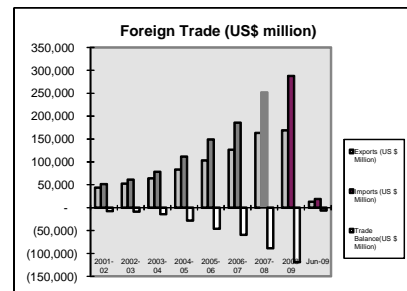
	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Aug-09
<b>M3 (Rs. Crore)</b>	2,003,102	2,253,938	2,729,535	3,310,278	4,006,722	4,764,019	5,029,401
<b>M3 (%) : Change</b>	15.95	13.30	21.10	21.27	21.04	18.90	5.57
<b>WPI (Index) All India</b>	180.30	189	196.6	210	225.7*	227.3**	237.4***
<b>WPI Inflation (%)</b>	4.29	4.83	2.91	6.82	7.47	0.01	0.04

Source: RBI Bulletin March 2009; W-\$\$1993-94=100; year/month-end; \* March 31, 2008 \*\* March 07, 2008 \*\*\* August 8, 2009



	2008-09			2009-10		
	Aug '08	July '08	June '08	Aug '09	July '09	June '09
<b>Rs/US\$</b>	43.79	42.49	42.59	48.74	48.07	47.29
<b>Rs/Pound</b>	80.05	84.21	84.16	79.47	79.48	75.8579
<b>Rs/Euro</b>	64.56	66.33	65.99	69.87	67.84	68.18

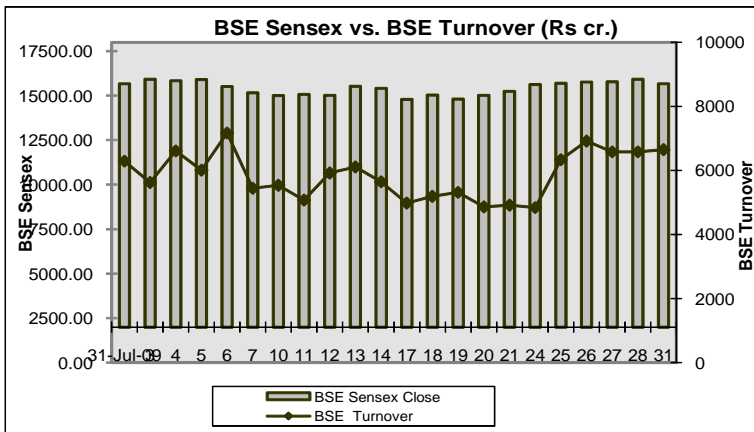
Figures are for month-end



During the Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Jun-09
<b>Exports (US \$ Million)</b>	43,827	52,719	63,843	83,536	103,091	126,361	163,132	168,704	12,815
<b>Imports (US \$ Million)</b>	51,413	61,412	78,149	111,517	149,166	185,749	251,654	287,759	18,977
<b>Trade Balance (US \$ Mill)</b>	(7,586)	(8,693)	(14,306)	(27,981)	(46,075)	(59,388)	(88,522)	(119,055)	(6,163)

Source: Ministry of Comm Revised figures for 2001-02 to 2007-08 (April-March)

\*DGI&S data for April 2008 to March 2009(Provisional) : Economic & Political Weekly, August 28, 2009



August 2009	BSE Sensex Close	BSE Turnover (Rs.crore)
31-Jul-09	15670.31	6292
3	15924.23	5624
4	15830.98	6614
5	15903.83	6010
6	15514.03	7169
7	15160.24	5443
10	15009.77	5537
11	15074.59	5073
12	15020.16	5917
13	15518.49	6105
14	15411.63	5650
17	14784.92	4977
18	15035.26	5189
19	14809.64	5320
20	15012.32	4863
21	15240.83	4915
24	15628.75	4843
25	15688.47	6340
26	15769.85	6917
27	15781.07	6581
28	15922.34	6581
31	15666.64	6651



**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 2009	Real Rate (Short-term) (1-3)	Currency unit per Euro 15.07.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2009
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 26.08.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
<b>Euro-11</b>	0.83	3.23	-0.7	4.00	0.70	0.68	-6.4	1.53	1.00	-40.1	-158.1	-1.3
			Jul							Jun	May	
<b>U. S. A.</b>	0.21	3.45	-2.1	5.60	1.00	1.00	-13.7	2.31	1.43	-639.5	-628.3	-3.0
			Jul							Jun	Q1	
<b>Britain</b>	0.75	3.67	1.8	4.40	0.62	0.54	-14.4	-1.05	0.89	-139.8	-52.5	-1.7
			Jul							Jun	Q1	
<b>Japan</b>	0.4	1.32	-1.8	6.30	94.30	110.00	-7.9	2.2	134.71	9.0	115.3	2.5
			Jul							Jun	Jun	
<b>Sweden</b>	0.14	3.39	-0.90	4.10	7.12	6.40	-4.7	1.04	10.17	12.9	31.4	6.7
			Jul							Jul	Q1	
<b>Switzerland</b>	0.32	1.96	-1.2	3.10	1.07	1.10	-3.1	1.52	1.53	15.8	56.6	7.4
			Jul							Jul	Q1	
<b>India</b>	3.35	7.62	9.3	7.70	48.90	43.80	-7.8	-5.95	69.86	-93.4	-29.8	-1.2
			Jun							Jun	Q1	

Source : The Economist London : August 29th-September 4th, 2009  
 \*\*RPI Inflation rate -1.2 in Jan.

Figures in Column 9 are derived.

**Annexure 2 : Important Economic Indicators for Select Emerging Market Countries**

Country	Interest rates, (%)		CPI (percentage change)		Currency unit per US \$		Union Budget (+) / (-) % of GDP 2009	Real Rate (Short-term) (1-3)	Currency unit per Euro 15.07.09	Balance Latest :12 months		Col 11 as Percentage of GDP 2009
	3-month latest	10-year gov't bonds latest	Latest	A Year ago	As on 26.08.09	A Year ago				Trade Account (US\$ bn)	Current Account (US\$ bn)	
	1	2	3	4	5	6	7	8	9	10	11	12
<b>China</b>	1.73	3.7	-1.8	6.3	6.83	6.84	-4.1	3.53	9.76	269.4	426.1	6.5
			Jul							Jul	Q4	
<b>Hongkong</b>	0.21	2.29	-1.5	6.3	7.75	7.81	-3.9	1.71	11.07	-21	29.6	9.2
			Jul							Jun	Q1	
<b>Indonesia</b>	7.03	6.52	2.7	11.9	10025.00	9160.00	-2.8	4.33	14321.43	11.2	4.4	0.9
			Jul							Jun	Q2	
<b>Malaysia</b>	2.14	2.11	-2.4	8.5	3.52	3.38	-8.0	4.54	5.03	38.2	40.5	14.1
			Jul							Jun	Q1	
<b>Singapore</b>	0.50	2.27	-0.5	6.5	1.45	1.42	-4.1	1	2.07	18.4	21.4	14.4
			Jul							Jul	Q2	
<b>South Korea</b>	2.51	5.30	1.6	5.9	1245.00	1084.00	-5	0.91	1778.57	21.9	20.7	3.2
			Jul							Jul	Jun	
<b>Taiwan</b>	0.85	1.33	-2.3	5.8	32.90	31.50	-5.2	3.15	47.00	15.9	31.9	10.3
			Jul							Jul	Q2	
<b>Thailand</b>	1.38	3.13	-4.4	9.2	34.00	34.10	-5.6	5.78	48.57	11.3	8.1	5.2
			Jul							Jul	Jun	
<b>Brazil</b>	8.65	6.16	4.5	6.4	1.87	1.62	-2.8	4.15	2.67	27.1	-17.9	-1.3
			Jul							Jul	Jul	
<b>Venezuela</b>	14.50	6.55	28.3	33.7	6.40	3.65	-7.6	-13.8	9.14	18.5	10.3	1.4
			Jul							Q2	Q2	
<b>India</b>	3.35	7.62	9.3	7.7	48.90	43.80	-7.8	-5.95	48.90	-93.4	-29.8	-1.2
			Jun							Jun	Q1	

Source : The Economist London : August 29th-September 4th, 2009

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