



Update on Indian Economy

February 2005

Economic Snapshot

Contents	Item	Units	January	December	January	(% Change	
			2005	2004	2004	[1] / [2]	[1] / [3]
			[1]	[1]	[3]	[4]	[5]
Editorial	WPI -Index*	1993-94=100	188.6	189.1	178.6	-0.26	5.59
Capital Market	WPI -Inflation**	Per cent	5.59	7.02	6.75	-	-
Industry : Paper		Week ended	8/1/2005	4/12/2004	10/1/2004	-	-
Other Markets	IIP (93-94=100)	2 months lag	203.1	203	199.6	0.05	1.75
Important Policy			(Nov 04)	(Oct 04)	(Dec 04)	-	-
Pronouncements	INR / US\$	Month End	43.69	43.79	45.31	-0.23	-3.58
	M3	Rs. '000 Cr.	2187.58	2152.04	1925.36	1.65	13.62
	[i] Agg. Deposits	Rs. '000 Cr.	1843.06	1806.83	1619.39	2.01	13.81
	[ii] Currency	Rs. '000 Cr.	344.52	345.21	305.97	-0.19	12.59
		(Outstanding as on)	(07/01/05)	(10/12/04)	(23/01/04)	-	-
	Call Money	% Range	2.00-6.00	2.25-5.20	3.50-4.60	-	-
	(Lendings)	Week ended	14/01/05	10/12/2004	16/01/04	-	-

Source: RBI Weekly Statistical Supplement January 29, 2005 & Central Statistical Organization, Govt. of India.

*All Commodities. **Over the year.

Editorial

A) Domestic

The Union Finance Minister in Parliament presented on December 13, 2004, Mid Year Review of the Economy and indicated that the economy has been set on the path of a broadbased and sustainable growth which is evident from the trend in growth in industry exports and credit supported by the pace of reforms. The modification in the Securities Contracts (Regulation) Act 1956 would enable small and medium enterprises (SMEs) to mobilise resources from the capital market. Further, the rapid development of insurance and pension funds was also noticeable during the period.

Based on the kharif agricultural production and to supplemented by the ensuing rabi harvest, the aggregate agricultural production is likely to give necessary impetus to growth of the Indian economy which may be in the range of 6.0% - 6.5% in 2004-05. Robust global growth, surging exports and accelerating manufacturing sector would help in the growth of the service sector, and this would tend to increase growth rate of world output from that of 3.9% during 2003 to 5.0% during 2004. However, a small slow down is expected during 2005.

US Federal Reserves in its mid December 2004 meeting, effected this year 5th increase in 25 basis points in the Federal Funds rate. This action has taken the Federal fund rate to 2.25% which is substantially higher than the rate in the last decade.

B) International

The first Global monitoring Report (GMR 2004) which has been produced jointly by the World Bank and IMF in collaboration with other international partners was released recently. It provides a comprehensive and integrated review of the Global Development policy agenda. The first issue of the GMR shows that, on current trends, many MDGs goals will not be met by several countries. Some progress has been made recently but it is uneven and too slow. The first goal of halving income poverty between 1990 and 2015 is likely to be achieved at the global level, but sub-Saharan Africa will fall well short.

It may be recalled that in September 2000, at the United Nations Millennium Summit, world leaders agreed to eight specific and measurable development goals – now called the Millennium Development Goals (MDGs) to be achieved by 2015, the first seven goals focus on reducing poverty, hunger, illiteracy, gender inequality, child and maternal mortality, disease, and environmental degradation, while the eighth calls for the creation of a global partnership for development, with targets for aid, trade and debt relief. The Millennium Development Goals (MDGs) are a set of development targets agreed to by the international community, which center on halving poverty and improving the welfare of the world's poorest by 2015.

A significant step toward meeting the MDGs was taken in Monterrey, Mexico, in March 2002, when the international community adopted a two pillar strategy, whereby sustained pursuit of sound policies and good governance by the low-income countries are to be matched by larger and more effective international support.

Capital Market Review

During the month of January 2005, the Sensex rose from 6602.69 on December 31, 2004 to 6555.94 on January 31, 2005, and this registered a small decline of 46.75 points. However, the index falling in the earlier weeks reached a low of 6102.74 on January 12, 2005, and registered a quantum jump towards the close of the month. The undertone throughout the month remained bullish and a few stocks on the mid-cap and large-cap sectors registered sharp gains. The notable among them being VSNL, HDFC, HDFC Bank, Sesa Goa and Cadilla Healthcare. Other stocks which are included in the index whose prices showed sharp increases were Reliance Energy, Sail and Gail. ITC stocks which has been maintaining better performance ruled weak towards the close and this was on the reports of a demand notice from Government for payment of Rs.450 crores by ITC. It appears that the market has reached a high in the bullish phase and in the coming months one could expect a moderate decline, followed by series of mergers and acquisition.

	Jan	Dec	Jan	Dec	(% Change)		
	2005	2004	2004	2003	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	6555.94	6602.69	5620.98	5791.85	(0.71)	16.63	13.99
Monthly High	6565.30	6609.78	5715.46	5920.76	(0.67)	14.87	11.64
Monthly Low	6455.55	6541.38	5550.17	5762.6	(1.31)	16.31	13.51
S&P CNX Nifty – Close	1768.25	1781.10	1809.75	1873.25	(0.72)	(2.29)	(4.92)
P/E Ratio : BSE – 30	16.33	16.88	17.89	18.68	(3.26)	(8.72)	(9.64)
FII Investments (Equity+ Debt)							
Inflows – Rs. Cr.	17502.20	25841.3	17652	14114.9	(32.27)	(0.84)	83.08
Outflows – Rs. Cr.	17818.90	15702.2	13782.7	8161	13.48	29.28	92.41
Net – Rs. Cr.	(316.60)	10139.7	3869.3	5953.7	(96.88)	(91.82)	70.31
Cum Net Inv – US\$ Mn. (Month End)	32012.40	32086.9	23749.20	22805.5	(0.23)	34.79	40.69

Internationally, an agreement for biggest acquisition was reported in which the telecommunication company AT&T, the roots of which go back to 1875 with founder Alexander Graham Bell inventor of telephone, will be acquired by SBC Communication in a US\$ 16 billion deal. It is a huge deal and is expected to bring about communication revolution in the 21st Century.

*The scrips, which can be considered for investment in the present bullish environment are : **IPCL (Rs.184.80) Sail (Rs.65.20), Goetze (Rs.218.05), Morepen (Rs.14.50) and TISCO. (Rs.403.95).***

(The Authors do not hold any position in the above mentioned scrips)

Paper

I. Industry

The scenario of global paper industry has undergone rapid changes in the past decade. World production of paper is around 310 million tonne with North America and Scandinavian countries such as Finland and Norway accounting for 55 per cent of the output. Asia accounts for a fourth of the world production. While the European and American output is largely based on soft pulp and is of better quality, the Asian production is a mix of hard wood pulp, soft wood pulp and other agri-residues.

World annual average of per capita consumption of paper is 48 kg, whereas it is around 4 kg in India. In the US it is 312 kg while in western Europe it is 160 kg.

Writing and printing paper accounts for 33 per cent, industrial paper for 61 per cent and newsprint for around 6 per cent of the market.

The dominant theme in the global paper industry is one of consolidation. The global paper majors have pursued growth largely through acquisitions and mergers whereas fresh capacity creation has been marginal. Capacity growth is expected to be less than a

percentage point in almost all varieties of paper. Over the next two-three years in addition to the freeze on capacity creation, production is now tuned to likely demand. This could help restore better balance between demand and supply once demand improves. Whether this would lead to longer cycles of firm paper prices will be a key determination of the industry's profitability.

The number of big players is shrinking, leading to a concentration of capacity in the hands of fewer companies. The effect of consolidation is evident from a look at the share of the top five players in different paper varieties. From 40-50 per cent, their shares have now moved up to 60-80 per cent.

In the North American markets the consolidation levels are closer to 80 per cent. But fragmentation still continues but this does have an adverse bearing on producer discipline.

II Indian situation

In the domestic paper industry, the growing shortage of cellulosic fibre has not only affect the growth but also made the country more dependent on imports of newsprint, paper and boards and pulp and waste paper in the coming years.

According to the Indian Paper Manufacturers' Association (IPMA), the projected fibre shortfall for domestic paper industry, based on six to eight per cent demand growth rate in paper demand in the next decade, is likely to be about 6.6 million tonne mt in 2005-06, about 9.5 mt in 2010-11 and about 13.2 mt in 2015-16. In other words, the domestic paper industry will not be able to grow due to fibre shortage.

Of the country's registered production of paper, paperboard and newsprint of about 5.6 mt, about 45 per cent comes from mills using hard woods and bamboo and about 55 per cent from mills using waste paper and agricultural residues as raw materials. Expecting that the domestic market will grow up to 12 to 15 mt in next 15 years, IPMA feels that to meet the domestic demand it will be necessary to resort to massive plantation programmes to meet the shortage of raw material.

The Union Commerce Minister, Mr. Arun Jaitley while inaugurating 'Paperex 2003', said that the domestic paper industry should upgrade and become globally competitive so that world-class products became available to Indian consumers. "At the end of the day, all consumers are entitled to get world class products, whether in manufacturing or services, and we have to prepare ourselves for such a scenario."

Mr. Jaitley said that with growing literacy, the demand for paper would rise and the industry, which had an annual turnover of Rs.14,000 crore and employed nearly three lakh people had a great future.

Further, Calcutta Paper Traders' Association (CPTA) has urged the West Bengal Government to take a fresh initiative to revive the State's paper industry. The State, once a pioneer in the industry, has been virtually wiped out from the country's paper production map. The State has almost been converted into a paper-importing State in the aftermath of the closure of Titaghur Paper Mills, Indian Paper and Pulp, Bengal Paper Mills, Universal Paper Mills, while a few small players such as Nayek Paper Industries, East India Paper and Board Mills, Supreme Paper Mills, Arambagh Paper Mills and Everest Paper Mills are fighting for their existence. States such as Maharashtra, Karnataka, Andhra Pradesh, Tamil Nadu, Gujarat, Punjab, Uttar Pradesh and Orissa were playing an important role for the continuous growth and development of the domestic Paper industry.

According to the Indian Institute of Packaging, it is estimated that Indian packaging is growing at the rate of 15% which is more than twice the growth rate of GDP. Currently the Indian packaging market is estimated at around US\$ 14 billion which is 2.3% of the world market. In addition to the demand emerging from growing literacy and education, the demand for paper is also emerging as the fastest growing food processing industry the capacity of which is likely to double in the next few years. The Institute has estimated that increase in potential is five fold, but the fastest growing packaging segments are laminates, flexible packaging and woven sacks.

III Perception

In view of the fact that our present consumption of paper is relatively low, the surge in literacy and education, and the ever expanding food processing industry, the potential for expansion of paper industry is tremendous. Massive plantations to generate fibre are needed and restructuring of the existing companies, may be by way of consolidation, could help the growth of paper industry.

Other Markets

Debt Market

During the month of January 2005, the primary debt market was not very active as compared to the month of December 2004; the mobilisation of funds through the bond issue were few and largely restricted to banks and Financial Institutions which wanted to approach the market for raising resources either for IPOs or for building up Tier II, Capital.

Call Money Market

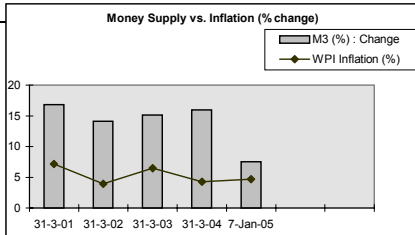
The call money market rate on January 14, 2005 in respect of borrowings ranged between 2.00% and 6.00% as compared to 3.50% and 4.50% on January 16, 2004 i.e. a year ago. A month ago, the rates were 2.25% - 5.20% on December 10, 2004 reflecting that there were small variations in the rate pointing towards relative stability during the month. The average daily turnover in the call money market was Rs.9,361 crore for the week ending January 14, 2005 and this daily turnover declined to Rs.6,297 crore in the week ending January 21, 2005.

Foreign Exchange Market

The exchange rate (RBI reference rate) on January 20, 2005 was Rs.43.78 per US dollar as compared to Rs.45.36 per US dollar on January 23, 2004. This reflected an appreciation of the rupee vis-a-vis US dollar. Further, the six month forward premia was 2.29% on January 20, 2005 as compared to 0.56% on January 23, 2004 (a year ago), and this reflects a rising demand for dollar in the forthcoming months. The foreign currency assets were US \$ 123.4 billion on January 21, 2005, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 129.4 billion. From end-March 2004, the foreign exchange reserves registered an increase of US\$ 16.5 billion. The market rate (buying) was Rs. 43.67 per US dollar on January 31, 2005.

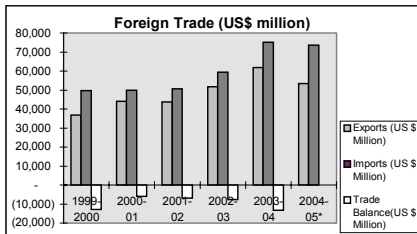
Important Policy Pronouncements – Tsunami Disaster

1. The Reserve Bank, on a review, has decided to increase with immediate effect, margins on all advances against shares / initial public offerings (IPOs)/issue of guarantees from 40 per cent to 50 per cent and the minimum cash margin from 20 per cent to 25 per cent. This is restoration of the position which existed in May 2004 when the margins were reduced.
2. Post-Tsunami Measures
 - On December 27, 2004, the Reserve Bank activated the relief package for the states / union territories affected by the Tsunami. Further, a Task Force formed under the Chairmanship of the Deputy Governor, Shri V. Leeladhar is to monitor the progress of relief and rehabilitation measures through banks and to constantly review the situation to see if any further measures are required.
 - The National Housing Bank has formulated a concessional scheme for financial assistance to banks and housing finance companies for providing finance for construction/ repair / renovation of house.
 - The National Bank for Agricultural and Rural Development (NABARD) has proposed to provide refinance at concessional rate to banks for financing the affected persons. NABARD has also been requested to advise banks that the unit costs (presently being circulated among banks by NABARD) for providing term loans for purchase of boats, fishing nets, etc., were only indicative rates and as such, the banks should be flexible depending on the local conditions.



	31-3-01	31-3-02	31-3-03	31-3-04	7-Jan-05
M3 (Rs. Crore)	13,13,220	14,98,355	17,25,222	20,03,102	21,87,576
M3 (%) : Change	16.82	14.1	15.14	15.95	7.49
WPI (Index) All Commodities# @	155.7	161.8	172.30	180.3*	188.6*
WPI Inflation (%)	7.16	3.92	6.49	4.29	4.66

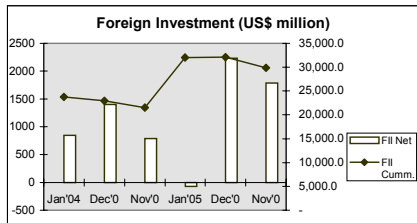
Source: RBI Bulletin December 2004; WSS: January 29, 2005 #1993-94 = 100 @ year/month-end; *8/01/05
 **Average



During the Year	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05*
Exports (US \$ Million)	36,805	44,076	43,796	51,702	61,850	53,500
Imports (US \$ Million)	49,710	49,975	50,746	59,387	75,210	73,650
Trade Balance(US \$ Million)	(12,904)	(5,899)	(6,950)	(7,685)	(13,360)	(20,150)

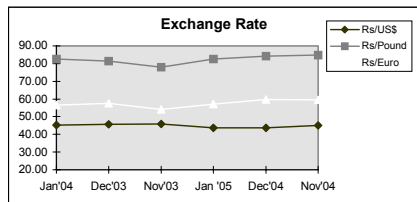
Source: D G C I S

*April-December 2004



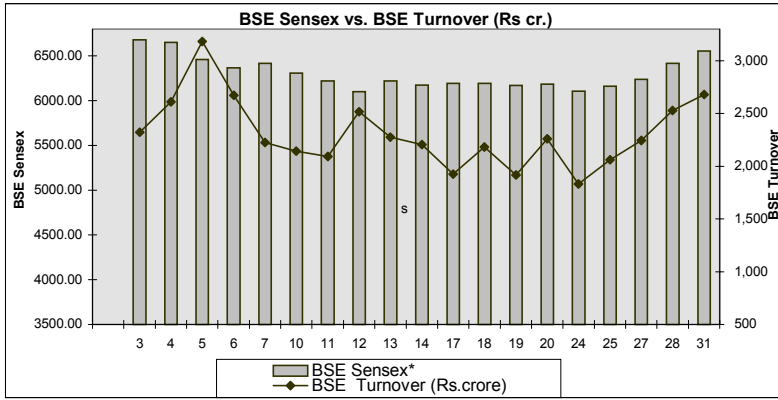
	2003-04 (US\$ million)			2004-05 (US\$ million)		
	Jan'04	Dec'03	Nov'03	Jan'05	Dec'04	Nov'04
FII Net	849.6	1,403.9	788.2	(74.8)	2,229.1	1,782.8
FII Cum.	23,748.8	22,899.2	21,495.4	32,012.3	32,086.9	29,858.0

Source: SEBI

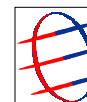


	2003-04			2004-05		
	Jan'04	Dec'03	Nov'03	Jan'05	Dec'04	Nov'04
Rs/US\$	45.30	45.60	45.93	43.72	43.72	45.07
Rs/Pound	82.67	81.33	78.03	82.56	84.18	84.79
Rs/Euro	56.52	57.45	54.17	57.02	59.62	59.42

Figures are for month-end



Jan 2005	BSE Sensex*	BSE Turnover (Rs. crore)
3	6,679.20	2,322
4	6,651.01	2,612
5	6,458.84	3,185
6	6,367.39	2,673
7	6,420.46	2,225
10	6,308.54	2,142
11	6,222.87	2,092
12	6,102.74	2,519
13	6,221.06	2,277
14	6,173.82	2,207
17	6,194.07	1,925
18	6,192.35	2,182
19	6,173.32	1,917
20	6,183.24	2,259
24	6,106.43	1,833
25	6,162.98	2,062
27	6,239.43	2,246
28	6,419.09	2,529
31	6,555.94	2,680



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

Country	3-Month Money Mkt		CPI*		Currency unit per US \$		Union Budget	Real Rate	Currency
	As on	A Year ago	3- Month	A Year ago	As on	A Year ago	(+) / (-)	(Short-term)	unit per Euro
	19.01.05				19.01.05		% of GDP 2004	(1-3)	19.01.05
	1	2	3	4	5	6	7	8	9
Euro-11	2.14	2.08	2.30	2.00	0.77	0.79	-2.90	-0.16	1.00
			Dec						
U. S. A	2.58	1.05	3.30	1.90	1.00	1.00	-4.40	-0.72	1.30
			Dec						
Britain	4.81	3.97	1.60	1.30	0.53	0.55	-3.20	3.21	0.69
			Dec						
Japan	0.02	0.03	0.08	-0.50	103.00	107.00	-6.50	-0.06	134.00
			Nov						
Sweden	1.99	2.57	0.40	1.40	6.93	7.23	0.50	1.59	9.04
			Dec						
Switzerland	0.73	0.24	1.30	0.60	1.18	1.24	-1.60	-0.57	1.54
			Dec						
India*	5.37	4.37	1.00	2.00	43.78	45.36	-4.40	4.49	58.41
	(Jan 19, 05)	(Mar 31, 04)	Aug 04 over Aug 03)	2003-04 over 2002-03)	(Jan 20, 05)	(Jan 23, 04)	(2004-05)		

Source: The Economist London: January 22-29, 2005

For India, RBI : Bulletin, November 2004

Note: * Column 1 & 2 relate to Call Money Rates (borrowings-high)

For India, RBI Weekly Statistical Supplement, January 29, 2005 and Union Budget 2004-05

* CPI - Not seasonally adjusted. Average figures for 12 months ending with the months indicated

Annexure 2 : Important Indicators for Select Emerging Market Countries

Country	GDP	Industrial Production	Consumer Prices	Short-term Interest Rates	Foreign Exchange Reserves*	Exchange Rate			Trade Balance	Current Account
	% change on earlier year				% p. a.	US \$ Billion	per US\$		per Euro	Latest 12 Months \$ Billion
	1	2	3	4	5	19.01.05	19.01.05	a year ago	19.01.05	9
China	9.1	14.8	2.8	2.35	609.9	8.28	8.28	10.75	31.9	45.9
	Q3	Nov	Nov		Dec				Dec	2003
Hongkong	7.2	3.4	0.2	0.87	123.6	7.80	7.77	10.13	-12.4	14.2
	Q3	Q3	Nov		Dec				Nov	Q3
India	6.6	7.9	4.2	5.39	125.2	43.60	45.40	56.62	-22.2	3.5
	Q3	Nov	Nov		Dec				Dec	Q3
Indonesia	5.0	-2.3	6.4	7.56	34.6	9160.0	8405.0	11896.10	24.3	4.0
	Q3	Aug	Dec		Nov				Nov	Q3
Malaysia	6.8	9.9	2.1	2.82	62.2	3.80	3.80	4.94	21.2	14.7
	Q3	Nov	Dec		Nov				Nov	Q3
South Korea	4.6	10.1	3.0	3.46	192.5	1031.0	1189.0	1338.96	29.8	27.5
	Q3	Nov	Dec		Nov				Dec	Nov
Taiwan	5.3	5.4	1.6	1.35	241.7	31.60	33.60	41.04	6.1	24.8
	Q3	Nov	Dec		Dec				Dec	Q3
Thailand	6.0	9.5	2.9	2.43	47.1	38.40	39.00	49.87	1.3	7.0
	Q3	Nov	Dec		Nov				Nov	Nov

Source: The Economist (London): January 22-29, 2005

@For India, RBI WSS, January 29, 2005

Note : Quote for currency units per Euro is a derived one

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