



Update on Indian Economy

November 2004

Economic Snapshot

Contents	Item	Units	October	September	October	(%) Change	
			2004	2004	2003	[1] / [2]	[1] / [3]
			[1]	[2]	[3]	[4]	[5]
Editorial Capital Market Switzerland Other Markets Important Policy Pronouncements	WPI -Index*	1993-94=100	188.5	189.1	176	-0.32	7.1
	WPI -Inflation**	Per cent	7.1	7.81	5.2	-	-
		Week ended	9/10/2004	4/9/2004	11/10/2003	-	-
	IIP (93-94=100)	2 months lag	196.4	197.6	173.4	-0.61	13.26
			(Aug 04)	(July 04)	(Aug 03)	-	-
	INR / US\$	Month End	45.41	46.16	45.3	-1.62	0.24
	M3	Rs. '000 Cr.	2123.51	2103.14	1844.1	0.97	15.15
	[i] Agg. Deposits	Rs. '000 Cr.	1793.48	1778.37	1382.1	0.85	29.76
	[ii] Currency	Rs. '000 Cr.	330.04	324.77	270.9	16.23	21.83
		(Outstanding as on	15/10/04	3/9/2004	25/10/03	-	-
	Call Money	% Range	2.60-5.00	1.10-7.30	3.00-4.80	-	-
	(Lendings)	Week ended	15/10/04	10/9/2004	17/10/03	-	-

Source: RBI Weekly Statistical Supplement October 30, 2004 & Central Statistical Organization, Govt. of India. *All Commodities. **Over the year.

Editorial

A) Domestic

According to the recently released Indian exports in the first half (April-September) of 2004-05 registered US\$ 33.8 billion as against US\$ 27.1 billion in the corresponding period of 2003-04. Exports grew by 24.4% during this period as against the target of 16% for the entire fiscal 2004-05. The prospects for growth in exports during the remaining period of the current year appeared to be highly promising despite the unprecedented hike in global crude prices and the associated rise in import bill.

Imports during first half of the current year are US\$ 46.4 billion as compared to US\$ 34.5 billion in the first half of 2003-04; these grew by 34.3%. The significant proportion of the import bill was accounted for by crude oil which at US\$ 14.5 billion increased by 57.8% from the level of US\$ 9.2 billion in the first six months of last year. For most of the recent period the global crude oil price remained close to US\$ 50 per barrel and several times it crossed this ceiling. The non-oil imports during this period are estimated at US\$ 31.9 billion as compared to US\$ 25.3 billion in April to September of 2003-04; there was a jump of 25.8% which resulted in widening of the trade deficit to US\$ 12.6 billion as compared to US\$ 7.4 billion in April-September 2003-04. While significant increase in non-oil imports is conducive to the growth of the economy and the oil import carries with it potential inflationary pressures. Notwithstanding the slow down in agricultural production the overall GDP growth is unlikely to exceed 6.5% during 2004-05.

B) International

According to the World Economic Outlook released by the IMF during its Annual Meeting in October 2004, the global growth in 2004 is expected to be at 5%,- the fastest growth in the decade. However, the global growth is likely to slow down to 4.3% in 2005.

(annual percent change)

	Current Projections				Current Projections		
	2003	2004	2005		2003	2004	2005
World Output	3.9	5.0	4.3	Developing countries	6.1	6.6	5.9
Advanced Economies	2.1	3.6	2.9	Africa	4.3	4.5	5.4
United States	3.0	4.3	3.5	Central and eastern Europe	4.5	5.5	4.8
Euro area	0.5	2.2	2.2	Commonwealth of Independent States	7.8	8.0	6.6
Japan	2.5	4.4	2.3	Developing Asia	7.7	7.6	6.9
Newly industrialised Asian economies	3.0	5.5	4.0	Middle East	6.0	5.1	4.8
				Western Hemisphere	1.8	4.6	3.6

Source : IMF World Economic Outlook, September 2004.

Recovery in the Euro areas has gained momentum and growth has been particularly strong in the emerging Asian economies, especially China where it has picked up the speed. The question is whether China will soft-land at all, despite the recent increase in interest rate. However oil prices in 2005 will continue to weigh on growth of the oil importing economies and it is because of this the slowdown is expected.

Capital Market Review

The BSE Sensex which closed on September 30, 2004 at 5583.61 rose to 5672.27 on October 29, 2004. During the month, the index registered an increase of 88.66 points. The index just managed to cross the 5,700 level on Monday (1st November, 2004) which finished at 5704.10 points registering rise of 32 points on Friday's closing.

With the Government ruling that the domestic prices of petrol and diesel would remain unchanged for another fortnight despite prices crossing US\$ 55 per barrel in the international market. First, the index moved within narrow range during the month and the market sentiments remained cautious with buying activity being concentrated in the heavyweight stocks.

Secondly, the strong quarterly results of many companies provided optimism to the market which on the top of robust sale of automobile helped in building up momentum, particularly in stocks such as **SBI**, **Infosys** and **Hindalco**. This momentum was also supported by scrips like **Tata Steel**, **Zee Telefilms** and **Hero Honda**. Though it was the first month of the last quarter of the calendar year 2004 the market participants continued to remain bullish.

	Oct	Sept	Oct	Sept	% Change		
	2004	2004	2003	2003	[1] / [2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	5,672.27	5,583.61	4906	4,453.20	1.59	15.62	25.38
Monthly High	5,803.82	5,616.87	4913	4,456.40	3.33	14.33	26.04
Monthly Low	5,558.14	5,198.72	4779	4,413.70	6.91	16.30	17.79
S&P CNX Nifty – Close	1502.05	1,775.15	1555	1,417.10	-15.38	-3.41	25.27
P/E Ratio : BSE – 30	16.10	16.30	17.5	16.20	-1.23	-8	0.62
FII Investments (Equity+Debt)							
Inflows – Rs. Cr.	16062.60	13,097.10	15,212.20	12,270.50	22.64	5.59	6.74
Outflows – Rs. Cr.	14034.70	10,522.10	8,489.50	8,095.20	33.38	65.32	29.98
Net – Rs. Cr.	2028.00	2,575.30	6,722.80	4,175.50	-21.25	-69.83	-38.32
Cum Net Inv – US\$ Mn. (Month End)	28075.40	27,636.70	20,707.20	19,241.60	1.59	35.58	43.63

The scrips, which can be considered for investments are TISCO. (Rs.298), Hindalco (Rs.1242) Infosys (1962), Hero Honda (429), SBI (Rs.487) and Zee Telefilms (Rs.154)

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

Switzerland

Swiss economy is among the world's most advanced and prosperous economies. The per capita income is virtually the highest in the world, so also are wages. Historically the unemployment rate of 4.6% is high for Switzerland, but it is only about half the average in West European. Switzerland was one of the few West European countries to emerge from World War II with its economic structure intact, and the country enjoyed virtually uninterrupted economic growth for almost 25 years thereafter.

Swiss companies play a major role in world export markets for high value-added products such as pharmaceuticals, chemicals, watches, specialty machinery, and gourmet foods, - chocolates and cheeses. Swiss banks and insurance companies are major players on the world scene, and these sectors, together with tourism, help compensate for Switzerland's usually negative balance of trade.

After the Swiss economy went through recession in two out of the past three years, there are now signs that it has started to grow again on the back of stronger exports and domestic investment, and supported by accommodative monetary and fiscal policies. Inflation remains negligible and the current account is running a large surpluses.

In order to achieve balance in fiscal position, the focus primarily in Switzerland is on cutting current expenditure rather than increasing taxes. As in many industrialised countries, Switzerland has aging population and is trying to act at an early stage to improve the burden on future generation through reliance on fully funded pension system. The country is moving towards developing framework for anti-money laundering and combating terrorist financing to ensure the possibility of preventing terrorism through institutional mechanism. India's trade with Switzerland is indicated below :

Indian Trade with Switzerland :

	India's exports to and imports from Switzerland				Share in India's total exports / imports			
	1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1. Export	353.68	437.70	409.10	382.72	0.96	0.98	0.93	0.73
2. Import	2597.71	3160.14	2870.75	2329.88	5.22	6.25	5.58	3.79
3. Trade Balance	-2244.03	-2722.44	-2461.65	-1947.16	----	----	----	----
4. Total Trade (1+2)	2951.39	3597.85	3279.85	2712.60	----	----	----	----

Source : Government of India, Ministry of Commerce

The Swiss economy earns more than 50% of its corporate earnings from exports, and about 70% of Swiss exports are destined for the EU market. The Swiss National Bank expects Swiss GDP to rise by 2 percent in 2004. The Swiss service sector is dominated by the banking and insurance companies. Within the banking sector, private banks followed by commercial banks traditionally show the greatest growth potential.

Imports of virtually all agriculture products, regardless of their origin, are subject to import duties and to variable import quotas.

The major macro economic indicators of the Swiss economy are as follows :

Switzerland: Major Economic Indicators

	2000	2001	2002	2003	2004(Est)
Real economy					
• Real GDP	3.7	1.0	0.2	-0.5	1.7
• CPI (year average)	1.6	1.0	0.6	0.6	0.3
• Unemployment rate (percent of labour force)	1.8	1.7	2.5	3.7	3.4
Gross national as percent of GDP					
• Saving	32.5	27.6	27.3	28.3	28.8
• Investment	20.0	19.1	18.8	18.0	19.2

The Swiss economy presents a contrast with India's economy in the sense that India with a population of more than 100 million exports only US\$ 66 billion worth of goods, and its saving rate is around 23-24% of the GDP. In contrast the Switzerland with a population of 7 million exports US\$ 100 billion with saving rate of 28-29%. This itself indicates that there exists a great potential for India in developing economic relations with Switzerland.

Switzerland is the 13th largest foreign investor in India, and its cumulative FDI in India during the period 1991-2003 is about US\$ 926 million.

Bilateral economic relations between India and Switzerland got enriched with establishment of diplomatic relations wayback in 1948. Since then, the Joint Commission met periodically and its 8th session was held in Berne in 2000 and next 9th session in New Delhi in 2004. Companies like ABB, Sulzer, Nestle, EMS Inventa, Ciba Specialty Chemicals, Rieter, Electrowatt, Novartis, Alusuisse, Buhler etc. are the major ones with which India has established business relations.

Other Markets

Debt Market

During April-September 2004-2005, private placement of debt aggregated to Rs.21,202 crore which declined by 15% from Rs.25,025 crore during the same period of 2003 and 2004. In terms of mobilization the public sector undertaking reported the largest decline by 49% at Rs.1,354 crore from Rs.2,618 crore. Konkan Railway Corporation raised maximum resources of Rs.588 crore. Currently, the Government is considering issuing oil bonds to Oil Companies to reduce the subsidy burden which is mainly on account of cooking gas and kerosene because the subsidies of oil companies are estimated to have reached Rs.10,000 crore during the first half of current fiscal year.

Call Money Market

The call money market rate on October 15, 2004 in respect of borrowings ranged between 2.60% and 5.00% as compared to 3.00% and 4.80% on October 17, 2003 i.e. a year ago. The rates a month ago were 2.00% / 4.65% on September 10, 2004 reflecting that there were variations in the rate pointing towards increase during the month. The average daily turnover in the call money market was Rs.7,591 crore for the week ending October 15, 2004, and this daily turnover rose to Rs.9,759 crore in the week ending October 22, 2004.

Foreign Exchange Market

The exchange rate (RBI reference rate) on October 21, 2004 was Rs.45.77 per US dollar as compared to Rs.45.33 per US dollar on October 24, 2003. This reflected a nominal depreciation of the rupee vis-a-vis US dollar. Further the one month forward premia which was 3.16% on October 21, 2004 as compared to 0.21% on October 24, 2003 (a year ago). Six month premium which was 0.55% on October 24, 2003 advanced to 2.64% on October 21, 2004 reflecting the rising demand for dollar in the forthcoming months. The foreign currency asset were US \$ 115.3 billion on October 22, 2004, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US\$ 120.6 billion. From end-March 2004, the foreign exchange reserves registered an increase of US\$ 7.7 billion. The market rate (buying) was Rs.45.34 per US dollar on October 29, 2004.

Important Policy Pronouncements

Following are the highlights of the Mid-Term Review of Annual Policy Statement for the year 2004-05 presented by the Mr. Y. V. Reddy, Governor, Reserve Bank of India (RBI) on Tuesday the 26th October, 2004:

I. Overall Assessment

- Economic growth projection for 2004-05 placed at 6-6.5 percent against the earlier expectation of 6.5-7 percent. The point-to-point inflation rate based on Wholesale Price Index (WPI) for 2004-05 projected at around 6.5 percent for policy purposes against five percent projected earlier.
- Although global economic recovery is gaining strength, there is some increase in downside risk primarily on account of persistence of up-trend in global oil prices.
- Challenges for the rest of the year would broadly remain the same as in the first half of the year with equal weight being given to maintaining growth momentum and stabilizing inflationary expectations.

II. Stance of Monetary Policy

- The stance of monetary policy during 2004-05 will be provision of appropriate liquidity to meet credit growth and support investment with equal emphasis on maintaining price stability.
- RBI to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth.

III. Policy Measures

- Bank rate kept unchanged at 6.0%.
- Repurchase rate increased by 25 basis points to 4.75 percent.
- Banks to increase their disbursements to small and marginal farmers under special agricultural credit plans (SACP) by March 2007 .
- Banks may now extend direct finance to the housing sector up to Rs.15 lakh under priority sector lending.
- Composite loan limit to SSI entrepreneurs enhanced from Rs.50 lakh to Rs.1.0 crore.
- The RBI has constituted empowered committees to focus on operational issues related to better functioning of Regional Rural Banks (RRBs) and to provide clarifications on regulatory issues.
- Report of the task force for reviving the rural cooperative banking institutions is expected shortly.
- A vision document for the future role of Urban Co-operative Banks (UCBs) is being evolved.

IV. Summing Up

The policy statement is the continuation of the earlier policy; however increase in the repo rate by 25 basis points will benefit the banks, and make credit costlier for those planning to buy home. The increase in the interest rates envisaged earlier to subdue the inflation rate has not been announced, and the savings bank holders who continue to get the negative real rate of return on their deposits have not been given relief.

TABLES & GRAPHS ARE ENCLOSED IN A SEPARATE EXCEL SHEET

The Research Group : Prof. Poonam Kumar & Dr. D.K. Bhatia

For research queries contact –

Mega Ace Consultancy [India] Private Limited,

B-68, Mittal Tower, Nariman Point, Mumbai 400 021

Tel : +91-22-2281 2298

Fax: +91-22-2281 2305

Url: www.mega-ace.com

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