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Update on Indian Economy
October 2004

Economic Snapshot

Contents

Item	Units	September 2004	August 2004	September 2003	(%) Change	
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		[1]	[2]	[3]	[4]	[5]
WPI -Index*	1993-94=100	189.1	187.2	175.4	1.02	7.81
WPI -Inflation**	Per cent	7.81	7.95	4.53	-	-
	Week ended	4/9/2004	7/8/2004	6/9/2003	-	-
IIP (93-94=100)	2 months lag	197.6	190.2	173.3	3.89	14.02
		(July 04)	**(June 04)**	**(July 03)**	-	-
INR / US$	Month End	46.16	46.31	45.8	-0.32	0.79
M3	Rs. '000 Cr.	2103.14	2097.71	2003.1	0.26	4.99
[i] Agg. Deposits	Rs. '000 Cr.	1778.37	1772.58	1687.61	0.33	5.38
[ii] Currency	Rs. '000 Cr.	324.77	325.13	315.49	-0.11	2.94
	(Outstanding as on	3/9/2004	6/8/2004	30/09/04	-	-
Call Money	% Range	1.10-7.30	3.20-14.60	3.65-4.75	-	-
(Lendings)	Week ended	10/9/2004	13/08/04	12/9/2003	-	-

*Source: RBI Weekly Statistical Supplement September 25, 2004 & Central Statistical Organization, Govt. of India. *All Commodities. **Over the year.*

Editorial

A) Domestic

Data on trade released during the month of September 2004 indicated that exports during April to August (2004-05) were valued at US$ 27.6 billion as compared to US$ 21.9 billion during the corresponding period of 2003-04. Imports during April-August (2004-05) amounted to US$ 37.1 billion which represented an increase of 30.4% over the level of imports of US$ 28.5 billion in the same period of the preceding year. Non oil imports are estimated at US$ 25.4 billion which is higher by 21.6% over the non oil imports of US$ 20.9 billion in April-August of 2003-04. There was thus a rise in trade deficit from US$6.6 billion in April-August 2003-04 to US$ 9.6 billion in the current financial year so far.

Oil imports during the period stood at US$ 11.7 billion and these were higher by 54.8% than the oil imports of US$ 7.6 billion in the corresponding period of 2003-04. A high increase in the oil imports has a transmission effect on the domestic inflation whereas increase in growth of non-oil imports would contribute to the overall economic growth. Though the rainfall has fallen short of the normal during 2004-05 and this has effected production of kharif foodgrains and oilseeds. Consequently, there will be downward revision of production estimates of foodgrains and oilseeds. Despite the somewhat increase in industrial production, the GDP growth rate is unlikely to exceed 6.5% during 2004-05.

B) International

Many developing countries towards the close of 20th Century especially those in Latin America experienced high inflation. The strategies to control inflation were mainly economic : One exchange rate based stabilization, which involved pegging the country's currency to that of a low-inflation country, second was money based approach which involved fixing the intermediate targets for monetary growth. These two strategies had similar effects but led to different consumption cycles. The first strategy generated an initial consumption boom followed by recessionary conditions in the economy, but the second strategy generated an early consumption bust followed by recovery. In the latest working paper of IMF, it is argued that initial consumption booms makes exchange rate based stabilization more attractive than money-based approach. The exchange rate based stabilization often lead to balance of payment crisis, loss of international reserves and major devaluation and hence it is not an easy task for the policy makers to decide which stabilization strategy would work. The task becomes more difficult when the economy is not a recessionary set prior to the launching of the stabilization programme. The study now highlights the importance of political dimension because in several Latin American countries policy makers preferred to choose exchange rate based stabilization before the election. This is clear from the experience of Brazil, Mexico and Argentina largely because the consumption boom which the voters, shortsighted as they are, tilted the fortunes in favour of the political bosses who were responsible for the strategy. The experience of Argentina and Brazil did reflect that strategies based on exchange rate stabilization not only promoted consumption boom in the earlier years but also led to the increased growth.

Capital Market Review

The month of September 2004, witnessed bullishness in the stock market; the BSE Sensex which was 5192.08 on August 31, moved upto 5583.61 registering thereby a whooping increase of 391.53 points. The index was bolstered by the announcement that GDP growth was 7.4 per cent on the back of strong performance of manufacturing and services sectors aided by marginal decline in the prices of crude oil and the announcement by the government that no increase in domestic prices of petroleum products will be effected.

While the market shrugged off the introduction of Securities Transaction Tax (STT), which replaced the long-term capital gains tax on October 01, 2004 (Friday), there could be some influence of the new tax regime. Short-term capital gains tax will be applicable at a uniform 10% as compared to the earlier 20%. Turnover tax on delivery based trades will be levied at 0.015% to be shared equally between buyer and seller.

The sectors which outperformed were automobile, information technology and metals. In addition, Reliance Industries and ONGC were the main market movers. This rally has been fuelled by the strong liquidity inflows by the FIIs. One is seeing fresh money being invested in the market. The sectors, which could do well, are Stand-alone refineries and information technology.

	2004	2004	2003	2003	[1] /[2]	[1] / [3]	[2] / [4]
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Major Indices							
BSE Sensex – Close	5,583.61	5,192.08	4,453.20	4,244.73	7.54	25.38	22.32
Monthly High	5,616.87	5,252.78	4,456.40	4,277.64	6.93	26.04	22.80
Monthly Low	5,198.72	5,033.69	4,413.70	4,228.85	3.28	17.79	19.03
S&P CNX Nifty – Close	1,775.15	1,631.75	1,417.10	1,356.55	8.79	25.27	20.29
P/E Ratio : BSE – 30	16.30	15.85	16.20	15.55	2.84	0.62	1.93
FII Investments (Equity+Debt)							
Inflows – Rs. Cr.	12,385.10	12,856.20	12,270.50	8,847.50	(3.66)	0.93	45.31
Outflows – Rs. Cr.	9,999.80	10,335.10	8,095.20	6,620.50	(3.24)	23.53	56.11
Net – Rs. Cr.	2,385.60	2,520.90	4,175.50	2,227.50	(5.37)	(42.87)	13.17
Cum Net Inv – US$ Mn. (Month End)	26,751.90	27,080.50	19,241.30	18,334.50	(1.21)	39.03	47.70

The scrips, which can be considered for investments are TISCO. (Rs.301), Jindal Vijaynagar (Rs 12),MRPL (Rs. 42) and Tata Sponge (Rs160),Wyeth Ledrle(Rs.500)

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

Gems & Jewellery

Gems & Jewellery is one of the sectors where the Government has been devising strategies for exports. Though a high level strategy group is likely to chart Indian policy for global trade under the Aegis of the World Trade Organisation. In 2000-01, India's export of Gems & Jewellery was around US$ 7.3 billion and this constituted 16.7% of total exports from India. The Government wants to give fresh thrust not only to Gems & Jewellery, but to other sectors like textiles and farm products, and automobile and automobile components, steel and other metallurgical products. However, the major the direction of Indian trade is tilted towards three big zones viz the European Union, the United States and the Gulf countries.

As far as the Gems & Jewellery is concerned its exports is reported to have peaked at US$ 11.9 million in 2003-2004 which is higher than the target of US$ 10 billion. The growth was highly diversified in the sense that exports of cut and polished diamonds were US$ 8.6 billion, the jewellery at US$ 2.5 billion as compared to US$ 1.5 billion in 2002-03. The targets fixed for Gems & Jewellery exports in 2006-07 US$ 16 billion; and nearly one-third of which is likely to come from value added. Segment involving cutting and polishing diamonds.

Industry is demanding Gems & Jewellery park in Surat, and hopefully this should generate a value added exports and thereby make Surat as one of the important hub during the next 2-3 years. One of the reasons is that many units in Surat are graduating from small units to the larger ones, and therefore to fulfil their aspirations the demand is for the separate Gems & Jewellery park.

Apart from Surat, Rajasthan is setting up a second Special Economic Zone (SEZ) at a cost of Rs.350 million (or about US$ 8 million). The first Special Economic Zone for Gems & Jewellery industry has been set up in state capital Jaipur. Park in the Special Economic Zone is designed to create a transparent system, simplifying the procedure and enhance productivity and facilitate easy business. The units in the Special Economic Zone will get concession and incentive for power distribution to the units on continuous basis, and even individual units will be allowed to set up independent power generating plant. The dessert state of Rajasthan is famous for coloured Gems & Jewellery. In addition, Silver Smithy in which use of silver is made and is widespread in the traditional Jewellery. The precious and semi-precious gems like ruby emerald, pearl, blue sapphire are made in Jaipur and Jodhpur, and for some of the items of Jewellery made in Jaipur enjoy virtual monopoly in the market.

Exports of Gems & Jewellery and Imports of Precious Stones :

(US$ Million)

	Exports			**Imports**		
Year	**Total Exports**	**Of which Gems & Jewellery**	**Col 2 over Col 1 (Per Cent)**	**Total Imports**	**Of which Pearls, precious and semi precious stones**	**Col 5 over Col 4 (Per Cent)**
	1	**2**	**3**	**4**	**5**	**6**
1990-91	18,145	3,181	17.53	24,073	2,083	8.65
1995-96	31,795	5,275	16.59	36,675	2,106	5.74
2000-01	44,560	7,384	16.57	50,537	4,808	9.51
2001-02	43,827	7,306	16.67	51,413	4,623	8.99
2002-03	52,719	9,030	17.13	61,412	6,063	9.87
2003-04	63,454	10,510	16.56	77,032	7,128	9.25

Source : RBI Handbook of Statistics on the Indian economy 2002-03, and 2003-04 and Monthly Bulletin, September 2004

About one-sixth of Indian exports is in the form of gems and jewellery whereas imports of pearls, precious and semi-precious stone, a large proportion of which is used in gems and jewellery constitute about 8-9 per cent of total India imports. These help in creating value addition to the exports, and presents future potential for growth.

Other Markets

Debt Market

In the primary debt market state run enterprises were quite active :

(i) Sardar Sarovar Narmada Nigam Ltd. raised Rs.550 crore by way of privately placed bonds, with a green shoe option of Rs.250 crore,

(ii) Rural Electrification Corporation (REC) priced its priority sector bond issue at 6.60 percent, at the highest end of the book-building band, and

(iii) The Himachal Pradesh State Forest Corporation Ltd. (HPSFC) raised Rs. 140 crore through private placement of bonds with coupon rate of 8 per cent payable annually.

In addition, ICICI Bank raised $300 million at coupon rate of 5% and this issue will mature in 2009. Further HDFC raised Rs.350 crore through floating rate bonds. In the Debt Market, RBI revised upward ceiling of Market Stabilisation Scheme (MSS) to Rs.80,000 crore in a move to clear the excess liquidity in the system and also to curb the inflationary pressures in the economy.

Call Money Market

The call money market rate on September 17, 2004 in respect of borrowings ranged between 2.05% and 6.12% as compared to 3.50% and 7.00% on August 13, 2004 i.e. a month ago. The rates a year ago were 3.457% / 4.70% on September 19, 2003 reflecting that there were wide variations in the rate during the month as compared to last year. The average daily turnover in the call money market was Rs.13.562 crore for the week ending September 24, 2004 as compared to Rs.8.101 crore for the week ending August 13, 2004.

Foreign Exchange Market

The exchange rate (RBI reference rate) on September 24, 2004 was Rs.45.94 per US dollar as compared to Rs.45.87 per US dollar on September 26, 2003. This reflected a nominal appreciation of the rupee vis-a-vis US dollar. Further the six month forward premia which was 1.83% on September 24, 2004 as compared to 0.70% on September 26, 2003 (a year ago) and this reflected increase in the demand for US dollar in the wake of appreciating rupee. The foreign currency asset were US $ 113.3 billion on September 24, 2004, and inclusive of gold and SDRs and the reserve position in the Fund, the foreign exchange reserves aggregated to US$ 118.8 billion. From end-March 2004, the foreign exchange reserves registered an increase of US$ 5.8 billion. The market rate (buying) was Rs.45.84 per US dollar on September 30, 2004.

Important Policy Pronouncements

Important Policy Pronouncement

- The US Federal Reserve hiked interest rates by 25 basis points in the third week of September 2004. The Fed believes that, even after this action, the stance of monetary policy would remain accommodative and coupled with robust underlying growth in productivity, would provide ongoing support to economic activity.
- The Cash Reserve Ratio (CRR) to be maintained by scheduled commercial banks (SCBs) has been increased by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, effective from fortnights as indicated below :

Fortnight beginning	Effective CRR
September 18, 2004	4.75 per cent
October 2, 2004	5.00 per cent

The effective CRR maintained by SCBs on total NDTL should, however, be not less than 3.00 per cent, as stipulated under the Reserve Bank of India Act, 1934.

- **Exports to Latin American Countries**

It has been decided to discontinue the facility for realization and repatriation of full value of goods / software exported to Latin American countries within a period of 360 days from the date of shipment. The facility has been discontinued from September 1, 2004.

Accordingly, exporters exporting to the Latin American counties or after September 1, 2004, would be under obligation to realize full export proceeds within the prescribed period of six months from the date of export.

The facility of 360 days for export realization would, however, continue to be available for exports made to Latin American countries by status holder exporters and manufacturer exporters / merchant exporters / traders of certain products and having export contracts of Rs.100 crore (Rs.1000 million) and above.

- **Sri Lankan Citizens Permitted to Invest in Indian Companies**

  The Government of India has lifted the restriction imposed on Sri Lankan citizens of investing in Indian companies. Accordingly, citizens of Sri Lanka would henceforth be eligible to purchase shares or convertible debentures of an Indian company under Foreign Direct Investment scheme subject to specified terms and conditions.

- **90-Day Norm for Identification of NPAs**

  With a view to moving towards international best practices and to ensure greater transparency, the Reserve Bank has introduced 90 days overdue norm for identification of non-performing assets (NPAs). Accordingly, with effect from March 31, 2004, NPAs would be a loan or an advance where –

  (a) interest and / or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.

  (b) The account remains out of order in respect of an overdraft / cash credit.

  (c) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

  (d) Interest and /or instalment of principal remain overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.

  (e) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

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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