

# Monthly Economic Analysis Fortune 2007

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## **Macro Economic Developments**

### **Industrial Growth**

Sustained high growth in the overall industry continues. Data on the overall IIP from April – December 2006-07 shows overall production clock growth of 10.8 per cent as compared to 8.0 per cent growth in the corresponding period of last year. Among the industry constituents we saw manufacturing continue to post a strong 11.8 per cent growth, followed by electricity and mining recording growths of 7.5 per cent and 3.9 per cent respectively.

On going by the use-base classification of the industry it is observed that the basic goods, intermediate goods and capital goods registered higher growth of 9.7 per cent, 11.1 per cent and 17.5 per cent in the first 9 months of 2006-07 as against 6.1 per cent, 2.3 per cent and 15.7 per cent in the same period, a year before respectively.

Growth in the consumer goods continues to slide; it grew at 9.5 per cent cumulatively up to December 2006-07 on account of a slowdown in both the durable and non-durable goods.

Of the seventeen industries, ten industry groups have shown a higher growth in production in the April- December period of 2006-07 compared with the growth posted in the corresponding period of last year, six industry groups decelerated and one remained in the negative territory.

Industry groups with strong and higher growth during the April- December period of 2006-07 were cotton products, wool products, paper products, non-metallic mineral products, rubber, basic metals, metal products, transport equipments and machinery and equipments as compared with the corresponding period of previous year. Food products, leather and Jute continued to remain the low performers during the period.

### **Core infrastructure industries**

During the April – December period of 2006-07 the six core infrastructure industries recorded a growth of 8.3 per cent as compared to 5.5 per cent in the same period of the previous fiscal.

Data revealed that the production of petroleum refinery (12.6 per cent), electricity (7.5 per cent) and crude petroleum (6.0 per cent) accelerated during the first three quarters of the current fiscal compared to the growths in the same period of previous year. However, the growth of the other three sectors namely coal, finished steel and cement have slowed down as compared to the growth in the same period of previous year.

## **Telecommunication**

The telecommunication sector is growing at a phenomenal rate. In a month's time, by February 2007 end, a total of 200 million registered phones will be achieved. This rise in the total phone subscription to 196.7 million in January 2006-07 is on the back of additions seen in the mobile phones growing at the rate of 4-5 per cent every month. Teledensity of 17 was already achieved a month ago.

Net addition of wireless and fixed line subscribers in the first ten months of FY 2006-07 was 56.39 million, which is almost twice as compared to the addition of 28.39 million in the corresponding period of FY 2005-06.

## **Inflation trends**

Weekly WPI numbers for February 2007 are not available. On looking at the trend of inflation so far (up to January 2007), we can say that average inflation for this fiscal will remain under control. However the growing inflation above 6.0 per cent will be a matter of concern in the next financial year for the growing economy. In January 2007 the inflation has crossed the upper tolerance of 5.5 per cent breaching 6.0 per cent. It has been seen that the inflation was mainly cost-push, with constraints on the supply side. It is therefore advisable not to limit the flow of credit should the growth of 8-9 percent is to be maintained. Perhaps measures other than checking liquidity should be looked into for reducing the rising inflationary pressures.

Primary articles still remain responsible in pushing up the price index. It has been observed that rise in the prices of cereals, pulses, wheat, milk, condiments and spices have pushed up the price index of primary articles.

Among the manufactured articles non-metallic mineral products, machinery and machine tools, food products and basic metals and alloys were found to become dearer contributing to the rising wholesale price index.

The present union budget 2007-08 has made an attempt to address the issues of inflation by empowering the neglected agriculture sector. Several other measures in the direction of taming inflation have been taken using the monetary instruments.

## **Monetary indicators**

It is rightly stated by the RBI in the quarterly review that money supply has exceeded the "indicative trajectory" reflecting strong demand conditions in the

economy. Broad money as on January 06-07 widened by 13.9 per cent against 9.9 per cent in the same period of the previous fiscal. Government borrowings were on the rise by 5.2 per cent while the commercial borrowings grew by 17.9 per cent. Substantial rise in the net foreign exchange assets of banking sector was witnessed; it increased by 15.7 per cent as against the rise of 1.2 per cent in the same period of last year.

Aggregate deposits swelled up by 15.1 per cent, investments in the government securities upped by 5.6 per cent against the negative 2.6 per cent growth seen in the corresponding period of last year.

Credit off take continues at 17.2 per cent up to January 2006-07. On a year on year basis we find the total credit grow by 29.8 per cent.

Responding to the inflationary pressures the RBI in its recent quarterly announcements marked up the cost of money it lends to banks against securities under repo by 25 basis points to 7.50 per cent.

After neutralizing the dollar liquidity by injecting Rupees, the central bank acted swiftly to suck out Rupee liquidity by hiking the CRR by 50 basis points. This move is likely to prevent Rupee from appreciating.

### **Fiscal Trends**

The gross revenue collection of the government speeded up by 32.2 per cent cumulatively up to December 2006 as compared to 18.8 per cent for the same period of last year. During the April- December period of 2006-07 the tax collections from the corporate sources accelerated by 55 per cent. Increase in the income tax collections was by 27 per cent – both, corporate and income tax contributed about 45 per cent to the total tax kitty.

Among the indirect taxes, tax sourced from customs accelerated at 33 per cent and the other two, excise and other taxes slowed during the period.

In the first nine months of 2006-07 the fiscal deficit stood at 63.8 per cent of the budget estimate and this was much lower than what it was a year ago. Revenue deficit to the budget estimates too remained controlled than the deficit in the previous year. The increasing deficits could be checked on account of a pick up in the revenue receipts through the tax sources.

### **Foreign Trade**

The numbers released for the month of January 2007 show moderation in exports. In the first quarter of this fiscal India's merchandise exports grew at 30 per cent (in

US dollar terms), growth in exports further increased to 40 per cent in the second quarter and in the third quarter growth slid below 30 per cent. The third quarter slowdown was on account of relatively low exports in the month of October and December 2006.

Merchandise exports from April- January 2006-07 grew by 32.2 percent at \$ US 99.13 billion as against \$ US 74.9 billion. However growth in exports slowed to 5.5 per cent in January 2007.

The cumulative value of imports during April-January 2007 was \$149.7 billion, this was higher by 37.6 per cent at \$108.8 billion in the corresponding period of the previous fiscal.

There was a 36.4per cent increase in the Crude oil imports during Apr-January 2007 at \$48.6 billion than the imports at \$35.6 billion in the corresponding period last year. Cumulatively, non-oil imports during Apr-January 2007 at \$ 101.11 billion were 23.3 per cent higher than the level of imports at \$82.0 billion in Apr-Jan 2006.

### **Stock Market Trends**

The 30-stock index BSE Sensex crossed 14000 points on 3<sup>rd</sup> January 2007. The NSE Nifty too peaked new heights crossing 4000 points. Robust growth in the industry, high credit growth and better quarterly earnings boosted the sentiments of the investors further leading to bullish trend in the stock market.

### **Capital Inflows**

Total foreign capital inflow is on the rise, for the April-November period of 2006-07 foreign direct investment touched \$ US 14.1 billion, this rise was mainly attributed to the foreign direct inflow of USD by 8.5 billion. Portfolio investment contributed USD 5.6 billion during the period. Portfolio investments mainly come from foreign institutional investments that added USD 3.7 billion to the total foreign investment and about a USD 1.8 billion from the ADR / GDR route during the first nine months of 2006-07.

### **Foreign Exchange Reserves**

Foreign exchange numbers as on 23 February 2007 showed a surge in the Foreign exchange reserves to USD 193.12 billion an accretion of USD 13 billion. This increase is on account of addition to the foreign currency assets, more than USD 10 billion in a month's time. Such sudden buying of dollars was a measure to stabilize the exchange rate (Indian Rupee against the USD). Rest of the constituents to the forex, i.e., gold and reserves maintained with the IMF remained unchanged.

## **Trends In Exchange Rates**

It is to be noted that appreciation of Rupee to such an extent (Rs 44.00) against the USD has led to low realizations to the exporters. This is reflected in low growth posted by the country's merchandise exports. Indian Rupee against the USD still remains in the range of discomfort for the Indian Exporters.

The Indian Rupee stays below but close to Rs 44.00 against the USD. Exchange rates observed for the month of February 2007 shows fluctuation and gaining of Indian Rupee against the currency major USD. Rupee opened at Rs 44.31 and traded at a high / low of Rs 44.31 /44.06 before closing at Rs 44.11.

Indian Rupee against the Euro too strengthened towards the end of February 2007. Indian Rupee opened at Rs 58.58, closed at a low of 57.44 and averaged at Rs 57.74 for the month of February 2007.

## **Lead Stories of the Month**

### **Budget 2007-08 focuses on social sectors**

The Union Budget 2007-08 unveiled by the finance Minister on February 28, 2007 aims at inclusive growth with emphasis on creation of jobs, welfare measures for poor, students, increased spending in social sectors like education and health, revival of agriculture and increase in farm credit.

While providing a thousand rupee relief across the board for income tax payers, the finance minister left income and service tax rates untouched, but proposed a 1% additional education cess.

Prime Minister Manmohan Singh said the prime focus of the Union Budget 2007-08 was on education and healthcare as he reaffirmed his government's commitment on increasing the spending on the social infrastructure.

He said the budget put a lot of emphasis on improving access to social services and social safety net. "Education and healthcare are the primary imperatives as far as this budget is concerned," Singh said. He said there was a need to improve the skill level and special emphasis was being laid on secondary education.

The following are the highlights of the tax proposals for the 2007-08 budget:

- No change in personal, corporate, service tax rates
- Threshold limit for income tax exemption increased by Rs 10,000 for all assesses, giving a relief of Rs 1,000
- For women, threshold exemption raised to Rs 145,000 from Rs 135,000

- Exemption for senior citizens raised to Rs 195,000 from Rs 185,000, giving a relief of Rs 2,000 in income tax
- Deduction in medical insurance premium under Sec 80D raised to Rs 15,000, for senior citizens Rs 20,000
- Surcharge on income tax on all firms and companies with a taxable income of Rs 1 crore or less to be removed

### **India's economy growing at 9.2%**

It has clearly been the best year of economic growth for India since Independence. Vigorous growth with strong macroeconomic fundamentals has characterized developments in the Indian economy in 2006-07 so far. The growth of the services sector and the Industrial sector were stunning by any yardstick.

Bringing this out with compelling facts and figures, the Economic Survey 2006-07 presented by Finance Minister P. Chidambaram in the Parliament says that growth of 9.0 % and 9.2 % in 2005-06 and 2006-07, respectively, by most accounts, surpassed all expectations.

Not only that, despite apprehensions about rising prices, the growth momentum is likely to be sustained and maybe even improved upon in the new financial year.

While the up-and-down pattern in agriculture continued with growth estimated at 6.0 % and 2.7 % in the two recent years, and services maintained its vigorous growth performance, there were distinct signs of sustained improvement on the industrial front.

The Survey document boasts that entrenchment of the higher growth trends, particularly in manufacturing, has boosted sentiments, both within the country and abroad. The overall macroeconomic fundamentals are robust, particularly with tangible progress towards fiscal consolidation and a strong balance of payments position. With an upsurge in investment, the outlook is distinctly upbeat, it says. Services sector growth has continued to be broad based. The three sub-sectors of services - trade, hotels, transport and communication - have continued to boost the sector by growing at double-digit rates for the fourth successive year.

Growth in financial services (comprising banking, insurance, real estate and business services) after dipping to 5.6 % in 2003-04 bounced back to 8.7 % in 2004-05 and 10.9 % in 2005-06. The momentum has been maintained with a growth of 11.1 % in 2006-07.

The impressive growth of industrial sector, propelled by robust growth in manufacturing has continued unabated during the current year so far. Year-on-year industrial growth of 10.6 % in the first nine months of 2006-07 was the highest recorded since 1995-96.

In seven of the eight months of the current year, the year-on-year growth of the manufacturing sector was in double-digits. Lower contribution of industry to GDP growth relative to services in recent years is partly because of its lower share in GDP, and does not adequately capture the signs of industrial resurgence.

A notable feature of the current growth phase is the sharp rise in the rate of investment in the economy reflecting a high degree of business optimism. The rate of gross domestic capital formation for 2005-06 as per the quick estimates released by CSO is 33.8 %. This sharp increase in the investment rate has sustained the industrial performance and reinforces the outlook for growth.

Poor agricultural performance as the current year has demonstrated, can complicate maintenance of price stability with supply-side problems in essential commodities of day-to-day consumption. The survey, however, suggests that the recent spurt of activity in food processing and integration of the supply chain from the farm gate to the consumer's plate has the potential to redress some of the root causes.

### **Double FDI this year**

Foreign direct investment (FDI) into India has increased significantly during the current financial year. The inflows are likely to be more than double the amount recorded in 2006. FDI equity inflows during April 2006 to November 2006 were \$7.2 billion, which is the highest ever for equity capital since economic liberalisation.

The higher inflows as well as the new credit rating reflected growing investor confidence in India, the minister added. FDI inflows by the end of this fiscal would reach \$12 billion. This means an unparalleled growth of 120% over the previous year.

The ministry of Commerce and Industry will be setting up an expert committee to look into the sectors into which FDI was flowing and its impact on the rural economy. The committee will study sectors where FDI has been allowed by the government and has a direct or indirect impact on the rural economy. Its findings would help ensure fair dispersal of FDI and thereby reductions in the rural-urban divide

### **India, China's 10th largest trading partner**

India overtook Canada to become China's tenth largest trading partner in January as monthly trade between China and India soared by 63.3 % to USD 2.63 billion, latest Chinese customs statistics show.

The European Union, the United States and Japan remained China's top three trading partners during the period, with bilateral trade volume of US\$ 26.46 billion,

US\$ 23.43 billion and US\$ 17.51 billion respectively, up 37.9 %, 27.8 % and 26.5 % each, the General Administration of Customs said.

Sino-Canadian trade volume stood at US\$ 2.23 billion last year. India crossed Canada with total trade in the first month of 2007 hitting US\$ 2.63 billion.

In 2006, Sino-Indian trade grew by 33.87 % to US\$ 25.05 billion, crossing the US\$ 20 billion set for 2008 by the two governments in 2005.

At the same time, China enjoyed an impressive trade surplus of US\$ 4.11 billion last year compared to just US\$ 843 million in 2005.

Indian exports to China grew 7.05 % to US\$ 10.46 billion. However, Chinese exports to Indian shot up by 63.23 % to US\$ 14.58 billion, Chinese customs statistics showed.

“The growth in our bilateral trade with China is quite impressive,” Counsellor, Economic & Commercial, Embassy of India, Sanjay Verma said.

Verma stressed that Indian industries should attach more importance to the Chinese market and diversify and expand the trade basket so that the high growth in bilateral trade is sustainable.

### **Vodafone to invest US\$ 2 billion**

Vodafone has said it would invest two billion dollars over the next couple of years to expand Hutch-Essar reach in rural India, while promising cheaper mobile rates and better services to customers.

The company’s India-born CEO Arun Sarin said customers can look forward to cheaper call rates, better handsets and value-added services like banking and money transfer once it enters the country.

“We will try to get more rural areas covered with this investment. The money will be invested in infrastructure and various operations and for expansion of tele-density and reach to customers,” he told reporters here on his first visit after the Hutch-Essar win.

While stating that he expects to close the deal precisely in April, Sarin said the company would retain the Hutch brand for some time and that customers would be consulted before changing the brand.

“This (Hutch-Essar) is the biggest company in the Vodafone group in terms of subscriber base,” he said, commenting on Hutch-Essar, India’s fourth largest mobile player with 24.4 million customers.

He said he now intends to make Hutch-Essar the country's number one player with a target of 100 million customers. Mobile leader Bharti Airtel has over 33 million users.

Sarin, who graduated from IIT-Kharagpur, also described the deal as a homecoming. "This is what we used to talk during the IIT days." While Vodafone had bid 11.1 billion dollars for Hong Kong-based Hutchison Telecom's (HTIL) 67 % stake in the mobile venture, its actual stake acquisition would be only 52 % as the remaining 15% is held by minority Indian shareholders who have opted to continue as partners.

### **Gulf countries keen to invest in India**

India is increasingly becoming a sought after destination for investors from the Gulf countries, with investment from the region already constituting around 1 % of total FDI in the country.

With the liberalisation of the Indian economy and strong economic growth, the Gulf Cooperation Council (GCC) countries have invested USD 406.3 million, accounting for nearly 1 % of the total FDI in India, a report by Kuwait-based Global Investment House said.

Among the GCC countries, United Arab Emirates (UAE) is the largest investor in India, accounting for nearly 79 % (US\$ 321.1 million) of the total investment made by the GCC countries, followed by Bahrain (US\$ 32.7 million), Oman (US\$ 24.51 million), Saudi Arabia (US\$ 19.18 million), Kuwait (US\$ 8.87 million) and Qatar (US\$ 0.09 million), the report said.

Two-way trade between India and GCC is likely to exceed US\$ 24 billion in 2007. The trade balance between the UAE and India during the fiscal year 2005-06 amounted to US\$ 13 billion and is expected to grow by 30 % in the current fiscal year 2006-07, it said.

Companies in UAE like Emaar Properties and Nakheel are playing leading role in infrastructure projects in special economic zones and real estate business in India. Two-way trade and investment in key areas such as ports, power, tourism, roads, gems and jewellery and textiles are expected to get a boost with the GCC and India planning a free trade agreement (FTA). India has a target of around US\$ 2 billion investment from the GCC countries in the next three years, the report said.

### **RIL's Mumbai SEZs to bring Rs 31K cr investment**

Reliance Industries' (RIL) two mega Special Economic Zones (SEZ) in Navi Mumbai are likely to bring in an investment of Rs 3 lakh crore in sectors like

Banking, Finance, Pharma, Auto, Gem and Jewellery and other non-polluting industries.

The Mumbai Special Economic Zone (MSEZ) and Navi-Mumbai Special Economic Zone (NMSEZ), being set up next to each other, will involve investments of about Rs 31,000 crore for required infrastructure for setting up industrial units in an area of 140 square kilometres.

NMSEZ is to come up as a joint venture with City and Industrial Development Corporation of Maharashtra (CIDCO) (26%) and RIL holding the rest in 4,000 hectares. The entire land for the project has already been acquired by CIDCO of which 1,600 hectares has so far been bought by RIL.

MSEZ will be set up in 10,000 hectares of land adjacent to NMSEZ, totally owned by RIL. RIL has so far bought 1,000 hectares of land for the SEZ.

#### External Sector: Foreign Trade April - October

Region/Country	Export			Import		
	US \$ million		% Change	US \$ million		% change
	2005	2006	2006	2005	2006	2006
World	56676.1	70942.0	25.17	82381.1	104042.8	26.29
Africa	3728.4	5786.1	55.19	2877.9	9166.2	218.50
Egypt	341.4	379.2	11.09	163.2	1106.0	577.56
Kenya	270.0	876.3	224.61	29.0	33.3	14.65
Mauritius	110.7	347.0	213.47	4.2	6.7	57.75
Nigeria	425.8	516.0	21.20	43.5	4548.3	10345.21
South Africa	872.3	1365.0	56.48	1501.6	1638.6	9.12
America	12098.5	14086.6	16.43	6584.5	9835.8	49.38
Brazil	677.5	925.2	36.55	638.2	540.0	-15.38
Canada	571.1	656.6	14.98	559.3	731.3	30.76
Mexico	240.4	300.8	25.15	53.0	378.2	613.02
USA	9759.8	10977.0	12.47	4560.1	5930.7	30.06
Asia (excl. Middle East)	17881.8	21073.7	17.85	19624.1	28728.6	46.39
Bangladesh	901.6	895.3	-0.70	59.3	139.4	134.94
China	3382.7	4012.4	18.62	5991.1	9464.6	57.98
Hong Kong	2723.0	2631.4	-3.36	1296.3	1424.8	9.91
Indonesia	733.9	1012.8	37.99	1733.3	2090.9	20.64
Japan	1343.6	1505.9	12.09	2017.1	2532.8	25.57
Korea DPR (North)	18.7	87.5	368.93	0.3	340.1	117905.85
Korea Republic	899.9	1264.4	40.50	2483.5	2814.8	13.34

(South)						
Malaysia	606.8	686.4	13.12	1388.9	3183.1	129.18
Nepal	482.7	546.3	13.16	221.6	162.0	-26.88
Philippines	277.7	359.4	29.40	130.8	109.2	-16.46
Singapore	3284.6	3869.8	17.81	1790.0	3203.9	78.99
Sri Lanka	1251.4	1262.2	0.86	327.4	297.5	-9.14
Taiwan (Taipei)	330.7	466.9	41.18	850.9	931.9	9.52
Thailand	584.5	794.5	35.93	711.3	952.9	33.95
Viet Nam	328.9	466.9	41.94	77.5	105.1	35.65
Middle East	8119.1	12428.6	53.08	5974.3	29085.3	386.84
Iran	580.7	976.8	68.20	430.9	4488.2	941.53
Iraq	53.0	111.4	110.34	1.2	3515.2	281980.19
Israel	696.6	762.2	9.42	610.7	596.5	-2.33
Kuwait	294.1	351.2	19.44	231.2	3469.4	1400.44
Saudi Arabia	1025.2	1390.4	35.62	870.9	8485.2	874.33
UAE	4513.6	7136.6	58.11	2865.0	4987.9	74.10
Europe	14144.2	16468.7	16.43	19731.0	22476.9	13.92
European Union	12185.0	14290.7	17.28	12913.9	14550.4	12.67
Belgium	1610.5	1884.9	17.04	2976.9	2284.1	-23.27
Denmark	222.4	253.4	13.93	210.8	213.7	1.38
France	1170.7	1198.8	2.41	886.2	1197.9	35.17
Germany	1914.5	2234.0	16.69	3286.7	4148.1	26.21
Italy	1324.3	1960.2	48.02	1020.9	1459.7	42.99
Netherlands	1314.7	1382.7	5.17	620.9	624.0	0.50
Spain	869.9	1055.9	21.38	324.4	347.3	7.09
Sweden	181.4	205.2	13.09	598.9	1144.0	91.02
UK	2817.1	3165.6	12.37	2387.9	2291.2	-4.05
Other European Countries	1959.2	2178.0	11.17	6817.1	7926.5	16.27
Russia	417.2	488.1	17.00	1260.3	1059.1	-15.96
Switzerland	275.9	238.8	-13.44	4310.0	5270.3	22.28
Turkey	529.1	635.7	20.15	125.0	118.3	-5.35
Oceania	613.2	1016.8	65.82	3039.6	4480.6	47.41
Australia	488.1	522.7	7.10	2892.3	4096.7	41.64

