

# Monthly Economic Analysis

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## Macro Economic Developments

### Industrial Growth

The overall industrial production index released by the CSO for the April- October period of 2006-07 achieved an impressive growth of 10.3 per cent which was driven mainly by the manufacturing sector. The growth in the corresponding period of last year was 8.6 per cent. The manufacturing, mining and power sectors accelerated at 11.2 per cent, 3.4 per cent and 7.1 per cent respectively. These growth rates were much higher than the growth rates recorded in the same period of last year.

However, the overall industrial growth for the month of October 2006 decelerated sharply on account of a slowdown in the manufacturing sector. The industrial growth notched down to 6.2 per cent in October 2006. This was the lowest growth recorded in the first seven months of this year.

Going by the use based classification in the April- October period of 2006, the growth in the basic goods and intermediate goods speeded-up. These posted growth of 9.0 per cent and 10.4 per cent respectively as opposed to the growth registered in the corresponding period of last fiscal. During the same period of the current fiscal the indicator of investment demand i.e. the capital goods, however, slowed to 15.0 per cent from 16.9 per cent registered last year. Growth in capital goods for the month of October 2006 revealed a sharp deceleration from 24.3 per cent in October 2005 to 8.2 per cent in the same month of 2006. Intermediate and basic goods continued to grow at a faster pace in October this year.

Production growth slackened for Consumer goods during the April- October period of 2006, consumer goods slipped to 9.8 per cent during the April-October period of this fiscal from 13.5 per cent in the corresponding period of last year. This slowdown was on account of both the durables and non-durables that increased by only 13.2 per cent and 8.5 per cent in April–October 2006 as against the rise of 13.9 per cent and 13.5 per cent in the corresponding period of last year respectively.

During the first seven months of 2006-07, production growth of 11 specified industry sectors accelerated, while that for the 3 other sectors slackened and turned negative for the remaining 2 sectors. During the period the sectors that posted a higher growth than the previous year were the basic metals (19.6 per cent), transport equipment (16.1 per cent), machinery and equipment (14.2 per cent), non metallic mineral products ( 13.4 per cent), cotton textiles (12.4 per cent), rubber, plastic and petrol (10.4 per cent), paper(8.2 per cent), metal products and parts (7.8 per cent), manmade textiles, wool and silk (5.6 per cent), wood ( 2.5 per cent) and food products( 1.5 per cent).

### **Core Infrastructure Industries**

The overall six core infrastructure industries recorded a growth of 7.5 per cent in April-October 2006-07 compared to the growth of 5.2 per cent in the corresponding period of last fiscal.

Petroleum refinery, finished steel, power and crude petroleum sector revved past the growth posted in the same period of previous year, registering growth rates of 13.1 per cent, 7.3 per cent, 7.1 per cent and 4.9 per cent respectively, this year.

However, in the month of October 2006 production growth of the infrastructure industries had accelerated, achieving higher growth in all the six sectors compared to the last year. Output of petroleum refinery increased by 18.0 percent, power (9.7 per cent), crude petroleum (9.3 per cent), cement (9.1 per cent), finished steel (7.1 per cent) and coal (6.1 per cent).

### **Telecommunications**

Total number of phones registered with TRAI stood at 183.5 million cumulatively for the April – November period of 2006. This record achievement in total phones registered could be ascribed to additions in the mobile network every month. Overall teledensity reached 16.60 in November 2006 compared to 16 in the previous month of this year. In November 2006 wireless lines added 6.79 million phones. The landline phone ceased to maintain the growth that existed a year ago.

### **Inflation Trends**

The annual wholesale price index – based inflation for the month of November 2006 averaged at 5.3 per cent compared to the inflation of 4.4 per cent in the corresponding month of last year. The inflation is contained below the targeted inflation rate 5-5.5 per cent. This spurt in the price was on account of increase in the prices of primary and manufactured items.

On a disaggregated basis, the price index of primary articles went up by 6.9 per cent in November 2006-07 compared to the rise of 5.0 per cent in last year. The articles responsible for pushing up the primary articles were pulses & condiments and spices that rose by 34.4 per cent and 36.1 per cent respectively.

During November 2006 the prices of Fuel, Power light and lubricants slowed a bit to 5.4 per cent against the rise in last year. Prices of manufactured items grew at the rate of 4.7 per cent in November 2006, this was higher than what was registered in the previous year.

The items that became dearer in November of this fiscal were the food products (32.2 per cent), non metallic mineral products (13.7 per cent), paper products (8.7 per cent), rubber and plastic products (7.9 per cent), basic metals and alloys (7.3 per cent), machinery and machine tools (6.3 per cent), beverages and tobacco (5.5 per cent), textiles (4.3 per cent), transport equipment (2.3 per cent) and chemicals

products (2.2 per cent). However, wood and leather products were found to become cheaper by 3.1 per cent and 8.1 per cent.

### **Monetary Indicators**

Broad money continues to expand in November 2006; it increased by 8.1 per cent, higher as compared to the rise in the same month of last year. Government borrowings increased by 4.8 per cent and commercial borrowings too went up by 11 per cent. However growth in the commercial borrowings remained slightly slower than the increase in last year.

Increase in aggregate deposits is maintained in November 2006, it went up by 10.5 per cent and investments in the government securities were also found to be on the rise, investments accelerated by 6.7 per cent as against the rise of 0.3 per cent in the corresponding month of last year. Total credit has gone up by 11.5 per cent on account of non-food credit, although food credit continued to be on the negative.

The 50-point basis hike in CRR came after a gap of 2 years; it is believed that this monetary tool might help in checking the inflation that edged close to the already set inflation target. However, it appears that the banks will have to rework on their lending strategies.

### **Stock Market Trends**

The 30-stock index Sensex touched the 13,000 level on October 30. In 2006 Sensex already achieved 13844 points and soon to complete another thousand supported by strong market sentiments led by overheating in the economy. The 50-share index Nifty too is just few points short of touching the 4000 mark. It is believed that the Foreign institutional investments and good earnings from the companies supported the market to grow on a steady pace.

### **Fiscal Trends**

The gross revenue collection of the government speeded up by 29 per cent cumulatively up to October 2006 as compared to 20.8 per cent for the same period of last year. percentage contribution of direct sources had been more than 40 per cent, where taxes from the corporation sources contributed 26.3 per cent and from the income sources contributed 15.4 per cent, growing at 47.5 per cent and 28.5 per cent respectively.

About 59 per cent of the total tax is sourced from the indirect channels. Taxes collected from the Customs and Excise went up by 31.3 per cent and 7.1 per cent respectively, together accounting for 46 per cent of the total tax kitty.

There has been an improvement in the Fiscal condition of the country. Total receipts grew at 26.1 per cent up to October 2006, and was much higher than the receipts last year. Revenue receipts increased in the first seven months of 2006-07 and achieved 48.7 per cent of the budget-estimated figure. Better revenue receipts was on account of revenue from the tax sources that grew at 33.3 per cent, contributing about 72 per cent to the revenue. The total expenditure up to October 2006 was 51.3 per cent of the budget-estimated figure. These have kept the fiscal deficit within limits.

## **Foreign Trade**

India's exports are most likely to achieve the exports target of \$ 125 billion this fiscal. In the first seven months of this fiscal Indian exports achieved \$ 69.5 billion. Up to October 2006 India's merchandise exports grew at an average rate of 35 per cent. Though exports subdued a bit in the month of October but exports is expected to maintain the rate of growth at about 30 per cent.

There has been widening of trade deficit on account of higher imports. Imports, cumulatively up to October 2006 were at \$ 99.7 billion registering a growth of 33 per cent. The rise in imports was on account of both oil and non-oil imports. This inflow of goods has widened trade deficit to \$30.2 billion

As per the detailed numbers on merchandise trade available for the April- August period of 2006-07, the agriculture exports grew by 22.8 per cent, ores and minerals by 7.3 per cent and manufactured goods by 18 per cent. It was observed that growth in the exports of all the product groups in the manufactured category has slowed down and gems and jewelry and handicrafts registered a negative growth.

Growth accelerated for the Indian exports to UAE. However, the rise in Indian exports to rest of the export destinations slowed a bit, except for Hong Kong where Indian exports turned fell during the period.

India's imports saw a pick up in the growth of bulk items faster than the non-bulk items. This rise was on account of higher imports of petroleum products and other bulk items like fertilizers.

## **Capital Inflows**

Total foreign investments during the April- September 2006-07 went up to \$ 6539 million from \$ 1592 million a year ago. Foreign direct investment received during the seven-month period of the current fiscal stood at \$ 4924 million, this was much higher than the foreign direct investment received last year. The confidence of the foreign institutional investors on the Indian stock market was back as reflected by the strong pick up in portfolio investments since June 2006.

The deposits under the foreign currency non-resident (Banks) and non-resident (external) Rupee account accelerated during the year as compared to the deposits last year.

### **Foreign Exchange Reserves**

India's foreign exchange reserves rose sharply by \$ 8.4 billion to touch \$ 175 billion by the end of November 2006. The hefty climb in the Foreign exchange reserves was on account of an \$ 8 billion accretion in the foreign currency assets. Gold reserves rose sharply by \$ 426 million too reach \$ 6494 million.

### **Trends In Exchange Rates**

In the first trading session of November 2006, the Indian Rupee traded at Rs 43.93 vis-à-vis US dollar. The Indian Rupee strengthened to Rs 45.45 near the middle of the month before weakening to Rs 45.34 and started strengthening towards the last trading sessions, ending at Rs 44.76. For the month of November the INR vis-à-vis USD averaged at Rs 44.9 as compared to the average of Rs 45.5 a month ago.

However, Indian Rupee against the Euro averaged at Rs 57.8, showing weakness in most of the trading sessions of the month before closing at Rs 58.96. Rupee against the Euro traded at a high of Rs 58.96 and at a low of Rs 56.98 during the month.

### **Lead Stories of the Month**

#### **Govt. clears FDI of Rs.64.66 cr**

Swiss firm Nuance Group's plan to set up duty-free shops in airports and Nokia Siemens Networks' proposal to make investment for manufacturing telecom equipment were among the 18 applications involving a total of 64.66 crore FDI inflow cleared by the government.

While Nuance Group plans to invest Rs 25 crore to manage duty-free shops in airports, Nokia Siemens Networks would make an investment of Rs 12.42 crore in manufacturing and marketing of telecom equipment.

The proposals were cleared by Finance Minister P Chidambaram on the recommendations of Foreign Investment Promotion Board, an official statement said.

Nuance Group's proposal is to undertake operation and management of duty-free shops, food and beverage outlets at airports in Mumbai, Bangalore, Hyderabad and other places. Besides, Italian company Ermenegildo Zegna Holditalia would set up a single brand 'zegma' retail stores in India. The proposal involves FDI of Rs 1.53 crore.

Parry Murray & Company of UK would set up a subsidiary in Chennai for trading of textile and other products for home furnishing sourced from third parties. The proposal involves FDI of Rs 0.2 crore. Mauritius-based Nalisfield Ltd would set up a subsidiary to make investment of Rs 4.6 crore in India.

### **49% foreign investment allowed in bourses**

The government has opened up the country's stock exchanges for foreign investment, with a cap of 49 per cent.

The Reserve Bank and SEBI have issued separate notifications in this regard, which said 49 per cent foreign investment would be allowed in infrastructure companies in the securities market like stock exchanges, depositories and clearing corporations.

Within overall foreign investment cap of 49 per cent, FDI would be permitted up to 26 per cent and FII 23 percent. However, no foreign investor will be allowed to hold more than five per cent of the equity in the stock exchanges.

The notifications said that necessary amendments would be carried out in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.

Clearance from the Foreign Investment Promotion Board (FIPB) will be mandatory for foreign direct investment in these companies.

While foreign institutional investments will be allowed only through purchases in the secondary market, they will not be allowed to hold representation on the Board of Directors of such companies.

The move is widely expected to benefit demutualisation of stock-exchanges beginning with the Bombay Stock Exchange (BSE). The BSE had been waiting for these guidelines as it has to demutualise by May next year.

### **India, China trade targets doubled**

Setting the stage for a new era in India-China economic cooperation, India and China have jointly declared their desire to double bilateral trade to US\$ 40 billion by 2010 and encourage investment flows as part of measures to step up cooperation between the world's two fastest growing economies.

After historic discussions between Prime Minister Manmohan Singh and visiting Chinese President Hu Jintao in New Delhi, the two Asian giants have pledged to “make joint efforts to diversify their trade basket, remove existing impediments, and utilise the present and potential complementarities to sustain and strengthen bilateral commercial and economic cooperation”.

To impart further momentum to greater interactions, the two leaders also asked a Joint Task Force to expedite its study of the feasibility and benefits of India-China Regional Trading Arrangement and submit its report by October 2007.

The two countries also agreed to implement the provisions of the Memorandum on Cooperation in oil and gas signed in January 2006. They would encourage collaboration between their enterprises, including through joint exploration and development of hydrocarbon resources in third countries.

The Joint Declaration specified that the two sides would step up the exchange of experience in agriculture and rural development, including food security, and hold discussions on the standards for agricultural goods to facilitate trade in such goods.

“As two large Asian states and as two of the fastest growing emerging economies of the world, cooperation between India and China transcends the bilateral and has global significance,” Dr. Manmohan Singh said in his statement. “Jointly, our countries can make effective contributions in dealing with global issues of sustainable and equitable development, energy security, peace and prosperity in Asia and in the world, environment protection and the fight against terrorism and cross-border crime,” he added.

Both countries have also agreed to strengthen their cooperation in the World Trade Organisation. As founder members of the G-20 and G-33, India and China would strengthen cooperation and coordinate with other members of the WTO.

“They (India and China) support the establishment of an open, fair, equitable, transparent and rule based multilateral trading system, early resumption of Doha negotiations, and are determined to safeguard the legitimate rights and interests of the developing countries,” the joint declaration said.

In another significant agreement aimed at bringing the commodity sector under the scope of their bilateral economic relations, India and China have also signed an MoU for promoting synergies between their commodity market regulators for better functional efficiency. Forward Markets Commission chairman S Sundareshan and Sun Yuxi, Chinese Ambassador to India, on behalf of China Securities Regulatory Commission, signed the MoU in the presence of Chinese President Hu Jintao and Prime Minister Manmohan Singh.

The tie-up aims at promoting mutual assistance and exchange of information to assist the two regulatory authorities to perform their respective functions more efficiently, the official said. The agreement provides a framework for cooperation between the two authorities. The tie-up would also open channels of communication between the two authorities, besides mutual understanding and exchange of regulatory and technical information.

The two bodies would exchange information on investor disclosure norms, enforcement laws, operation of brokers, monitoring, clearing and settlement of disputes. They would also share information regarding market manipulation, and other deceptive and fraudulent practices concerning trading of commodity futures contract.

Further cementing their friendship and strategic ties, India and China have inked a major pact envisaging joint exploration, production and acquisition of oil assets in third countries, which could substantially reduce their energy costs.

“It is a historic moment for India-China relations”, Minister for Petroleum and Natural Gas Murli Deora said while disclosing that the two major oil consumers have recently concluded a joint bid in Columbia and Syria. “We have been working for this MoU and I am sure this agreement will go a long way to strengthen India-China friendship,” Deora said, after toasting with the Chairman of China’s National Development and Reform Commission (NDRC), Ma Kai, in Beijing on December 17.

Murli Deora said the Memorandum of Understanding between the two governments, signed at the fag end of the joint celebration of ‘India-China Friendship Year’ would allow oil and gas companies of the two countries to engage in mutually beneficial cooperation in acquiring hydrocarbon assets in third countries without undercutting each other.

“This agreement will help both India and China to acquire oil blocks around the world in partnership which will help both countries as has been proved in Columbia and Syria recently,” the minister said.

### **Japan Inc. invited to invest**

Portraying India as a profitable investment destination, which will require fund inflows to the tune of USD 500 billion over the next five years, Prime Minister Manmohan Singh has invited Japanese companies to seize the opportunity with an assurance that “all legitimate concerns” of investors are being addressed.

During his highly successful four-day visit to Japan, the prime Minister urged Japanese companies to regain their country’s “historic status” of being the most important business partner of India by participating in public-private partnership and outlined various measures undertaken by the government to ease

investments, like creating provision for grant assistance through a specially-created 'viability gap funding'.

Addressing Japanese business leaders in Tokyo, he said India was witnessing high economic growth in which Japan should participate as the economic relations between the two countries presently fall short of potential. "An economically-resurgent India offers a variety of investment opportunities, both in traditional and new sectors, in labour-intensive and knowledge-based industries," Dr. Singh said. He informed the Japanese investors that India is looking for investment of the magnitude of US\$ 320 billion over the next five years in the infrastructure alone and the total investment required would be closer to US\$ 500 billion. "This requires public and private, domestic and foreign participation in the sector," he said, adding, "We happily welcome foreign investment and seek to promote public-private partnership".

### **Audi targets India**

Autumn of 2007 will see the premier carmakers of the world, Audi, bringing in their newest brand Audi A6 onto the Indian roads. Part-sets manufactured in Germany will be assembled using the Completely Knocked Down (CKD) production in an exclusive part of Skoda Auto India Ltd. site at Aurangabad, Maharashtra.

The company is gearing up its sales strategy, which involves greater involvement in new, economically emerging markets. As well as CKD production - which should produce over 300 vehicles in 2008, the first full year - the creation of a sales company to be based in Mumbai is scheduled for early 2007.

"Audi is in the right place at the right time. India is one of our most important future growth markets. Our goal is to become the leading prestige brand there too. By 2010, we plan to achieve vehicle sales of around 3,000 units. That said, the main priority for us is not volume, but rather a strong brand position and gaining the trust of customers," Ralph Weyler, Board Member for Marketing and Sales at AUDI AG, said.

The existing dealer network is currently selling the Audi A4, Audi A6, Audi A8 and the Audi Q7. In 2006, Audi will sell around 300 vehicles. In the first full year of CKD production, i.e. 2008, this figure should reach around 1,000 - including vehicles still being imported directly.

### **External Sector: Foreign Trade April - August**

<b>Region/Country</b>	<b>Export</b>			<b>Import</b>		
	<b>US \$ million</b>		<b>% change</b>	<b>US \$ million</b>		<b>% change</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>

World	39583.9	50484.1	27.54	58214.4	70466.8	21.05
Africa	2624.4	4055.7	54.54	2070.3	6040.2	191.76
Egypt	253.3	265.7	4.90	124.4	797.8	541.36
Kenya	199.0	660.2	231.79	23.3	23.3	-0.07
Mauritius	83.2	202.7	143.82	2.8	5.1	81.46
Nigeria	295.4	329.2	11.45	34.6	3171.3	9072.86
South Africa	590.4	1019.7	72.73	1114.1	990.3	-11.11
America	8265.0	9739.1	17.84	4403.8	6526.7	48.21
Brazil	583.7	580.6	-0.54	430.1	294.8	-31.45
Canada	410.7	472.0	14.93	333.0	420.4	26.23
Mexico	167.8	210.3	25.33	35.5	257.8	626.86
USA	6560.4	7672.6	16.95	3140.4	4103.4	30.66
Asia (excl. Middle East)	12625.7	15406.7	22.03	13489.2	19707.6	46.10
Bangladesh	642.8	676.2	5.20	31.0	99.2	219.96
China	2439.2	2849.0	16.80	4027.1	6497.4	61.34
Hong Kong	1860.9	1776.6	-4.53	881.0	1014.0	15.09
Indonesia	469.1	781.2	66.54	1228.5	1412.5	14.98
Japan	977.4	1011.2	3.46	1416.7	1824.2	
Korea DPR (North)	13.1	79.9	509.86		245.1	28.76
Korea Republic (South)	639.8	842.1	31.62	1681.6	1877.4	11.65
Malaysia	406.7	480.1	18.05	987.5	1971.2	99.61
Nepal	319.9	394.0	23.15	152.4	110.3	-27.64
Philippines	217.2	280.2	29.01	92.9	75.9	-18.25
Singapore	2323.7	3103.3	33.55	1222.7	2253.2	84.28
Sri Lanka	884.1	987.1	11.65	227.0	230.4	1.53
Taiwan (Taipei)	255.2	328.2	28.61	597.0	668.4	11.96
Thailand	404.2	562.0	39.02	500.1	652.8	30.54
Viet Nam	239.6	328.5	37.09	57.0	77.1	35.24
Middle East	5587.5	8930.2	59.82	4262.9	20779.1	387.44
Iran	451.0	691.8	53.39	274.2	3276.7	1095.07
Iraq	35.6	89.8	152.53	0.9	2355.2	265837.85
Israel	498.3	519.9	4.34	413.9	380.0	-8.19
Kuwait	204.4	236.0	15.50	120.9	2619.9	2067.18
Saudi Arabia	735.7	952.5	29.47	588.3	5979.1	916.30
UAE	3020.9	5253.4	73.90	2213.0	3733.9	68.72
Europe	10004.5	11496.6	14.91	14671.1	14282.3	-2.65
European Union	8669.5	10024.8	15.63	9269.1	10029.0	8.20
Belgium	1115.0	1263.0	13.27	2178.8	1529.3	-29.81
Denmark	161.4	190.1	17.78	152.2	151.8	-0.25
France	914.2	938.0	2.60	619.8	796.3	28.48
Germany	1379.2	1624.5	17.79	2367.4	2939.8	24.18
Italy	978.2	1404.4	43.56	726.8	1033.2	42.16

Netherlands	875.8	886.8	1.25	455.6	411.7	-9.64
Spain	592.2	729.8	23.24	226.3	249.9	10.43
Sweden	121.8	140.4	15.31	455.8	721.4	58.26
UK	1995.5	2229.6	11.73	1663.1	1540.5	-7.37
Other European Countries	1335.0	1471.8	10.24	5402.0	4253.3	-21.26
Russia	280.5	337.9	20.48	840.9	653.5	-22.29
Switzerland	200.6	171.4	-14.54	3650.2	2492.4	-31.72
Turkey	319.0	387.9	21.61	95.3	80.4	-15.59
Oceania	427.1	818.4	91.60	2314.5	2963.4	28.04
Australia	333.8	359.0	7.55	2227.5	2660.4	19.43