

# Monthly Economic Analysis Fortune 2007

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## **Macro Economic Developments**

### **Industrial Production**

The figures for overall production growth released recently show that during April – November period of 2007-08 the industry grew by 9.2%, a rate that was slightly behind the growth posted in same period a year ago. Manufacturing sector was seen to register a growth rate of 9.8% against the increase of 11.8% during the corresponding period of 2006-07. Mining and electricity sectors went up by 4.9% and 7.0% as compared to the growth of 4.3% and 7.3% respectively in the same period of last fiscal.

In November 2007 industry grew by 5.3 % as compared to 15.8% in the corresponding month a year ago. The slippage in growth was seen mainly in the manufacturing sector to 5.4% as against the 17.2% in the previous year and the other two sectors namely mining and electricity too decelerated to 3.5% and 5.8 % respectively this FY.

Acceleration was observed only in the capital goods segment during April-Nov period of 2007-08, which grew by 20.8% as compared to 17.4% during the 8-month period of 2006-07. Growth subdued in the case of basic and intermediate goods during the April-November period of 2007-08, that grew at 4.8% and 10.1 % respectively as against 12.1% and 11.1%. Consumer goods too showed lackluster performance on account of negative growth numbers in the consumer durables category.

In November 2007 growth in consumer goods segment turned negative due to a sharp decline in both consumer durables and non-durables segment.

Cumulative numbers from April-November 2007-08 show only 6 of the 17 industry sectors post higher growths compared to the growths recorded in the previous year. Those sectors included food products, jute, wood, leather, basic chemicals and metal products. Growth for the remaining industry sectors during the April-Nov period of 2007-08 decelerated compared to the growth in the corresponding period of 2006-07, except for metal products where the production declined.

### **Core Infrastructure Industries**

Overall core infrastructure industry sectors witnessed a slowdown, it grew at 6.0% during April-November period of 2007-08 as against 8.9 % in the same period a year ago. During the eight-month period of 2007-08 slowdown in growth was seen across the sectors, particularly in the crude oil sector.

## **Telecommunication**

Total phone connections neared 265 million, touching 264.77 million by the end of November 2007. Wireless connection added 8.32 million in November 2007, taking wireless connection to 225 million, whereas the number of wired line connection marginally fell by 0.10 million to 39.31 million by the end of the month.

## **Inflation**

Average inflation computed upto December of the current fiscal is found to remain below the targeted 5% level for 2007-08. In December 2007, inflation was averaged at 3.6% vis-à-vis 5.7% in the same month of the previous year. Weekly inflation for the month of December 2007 shows a gradual rise compared to the rise in the previous weeks of this fiscal.

Inflation rate of primary articles (pulses, fruits, condiments and spices became cheaper) slowed to 4.6% in December 2007 as against 9.0% in the same month of previous year. Fuel, power and lubricants and Manufactured items (textiles turned cheaper) too slowed to 2.1% and 3.7% vis-à-vis 3.7% and 5.2% respectively in December of last fiscal.

## **Monetary Indicators**

Money supply grew (% change from March end 2006-07 to November 2007-08 ) by 9% 2006-07 to 11% in the present fiscal. It is to be noted that money supply growth remains above the targeted level for the current fiscal (YoY basis). Slowdown was however observed in the borrowings by the government and commercial sector, compared to that of the increase in the previous fiscal. Net foreign exchange assets of the banking sector swelled by 21.3% as against 13.0% in November a year ago.

Growth in aggregate deposits inched up to 12% (computed from march-end 2006-07 to November 2007-08) against the 10% growth recorded in the same period a year ago. Pick up in investments in the government and other approved securities continue. Investments swelled by 22% in November 2007-08 against 6.6% in the same month of 2006-07. Bank credit to the non-food category slipped while the growth turned negative in the case of food category.

## **Stock Market Trends**

In December 2007 major indices have surged due to heavy buying by the FIIs. The 30-stock index Sensex crossed 20K points on 6th December 2007. On January 1st 2008 Sensex went up by 4.8 percentage points to touch 20300 points and Nifty by 6.6 percentage points.

## **Fiscal Management**

Cumulative gross tax collection from April–November 2007-08 went up by 25%, while collection rate was up 31% in the same period a year back. Corporation tax grew by 41% and direct tax collection by 37%, contributing 28% and 16% respectively to the total tax collected.

Indirect tax collection accounted for 55% in the tax kitty, where customs and excise duties accounting for 21% share each. During the period customs and excise have however recorded lower growths than what was seen in the previous year.

## **Capital Flows**

The growth pace recorded by Indian merchandise exports during the April–November period of 2007-08 slowed to 22% from a high 39% recorded in the corresponding period of previous fiscal. During the first eight months of the current financial year exports achieved USD 98 billion against the achieved USD 80 billion during the same period of last fiscal. Imports were seen to pick up by 26% during the April–November period of 2006-07 compared to 36.5% in the previous year, widening the trade deficits to USD 52 billion.

## **Foreign trade**

India's exports during November 2007 were valued at US \$ 12425.11 million, which was 26.82% higher than the level of US \$ 9797.67 million during November 2006. In rupee terms, exports touched Rs. 49000.16 crore, which was 11.51 % higher than the value of exports during November 2006. Cumulative value of exports for the period April–November, 2007 was US\$ 98386.06 million (398385.78 Crore) as against US\$ 80590.19 million (Rs. 368807.15 Crore) registering a growth of 22.08% in Dollar terms and 8.02% in Rupee terms during the same period last year.

Imports during November 2007 were valued at US \$ 19831.79 million representing an increase of 29.26 % over the level of imports valued at US \$ 15342.36 million in November 2006. In Rupee terms, imports increased by 13.66%. Cumulative value of imports for the period April–November, 2007 was US\$ 151190.37 million (Rs.612356.61 Crore) as against US\$ 119078.24 million (Rs. 544674.11 Crore) registering a growth of 26.97% in Dollar terms and 12.43% in Rupee terms during the same period last year.

Oil imports during November, 2007 were valued at US \$ 5823.49 million, which was 16.72% higher than oil imports valued at US \$ 4989.14 million in the corresponding period last year. Oil imports during April–November, 2007 were

valued at US\$ 43348.93 million, which was 10.19% higher than the oil imports of US\$ 39338.91 million in the corresponding period last year.

### **Foreign Exchange Reserves**

In April – November 2007-08, total foreign investment received was in excess of USD 41 billion. Of which direct investment accounted for USD 13.7 billion and the rest came as portfolio investments (about 90 % of the portfolio investments is received from FII).

Forex reserves averaged for November 2007 stood at USD 273.5 billion. This rise in foreign exchange reserves was due to large build up in the foreign currency assets, that rose to USD 264.7 billion from USD 256.4 billion a month ago, an increase by 3%.

Reasons attributed to capital inflows are cut in the interest rates by the US Federal Reserve and the subsequent widening of interest rate differentials.

### **Trends in Exchange Rate**

In December 2007 Rupee stayed below 40 against the USD, averaging Rs 39.44 . There had been high intervention from the central bank during the month to check Rupee from further appreciating caused due to high capital inflows. Rupee traded at a high/low of 39.57/39.37 to the US\$ during the month.

Rupee averaged at Rs 57.50 vis-à-vis Euro during the last month of the previous calendar. It traded at a high/ low of Rs 58.12 /56.77 against Euro.

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

#### **New Oil Exploration Bids Launched**

Minister of Petroleum and Natural Gas Murli Deora has launched a new round of bids for licences for exploration of oil in India.

The seventh round of New Exploration Licensing Policy (NELP-VII) invited global competitive bids for blocks on offer. The government in NELP-VII is offering the highest number of exploration blocks ever, namely, 57 blocks covering a sedimentary area of about 1,71,000 sq. km. The offered blocks include 19 deepwater blocks, 9 shallow water blocks and 29 on land blocks.

The minister has emphasized that the present offer has been made with a view to consolidating the experiences and advantages gained in the first six rounds in which a total of 162 exploration blocks were awarded under a transparent mechanism. Deora has stated that an investment of about US\$ 3.5 billion is expected in the exploration alone which would increase manifold if hydrocarbon discoveries are made.

The minister stressed that the development of E&P sector has been significantly boosted through NELP which permitted 100% FDI and thus opened the sector for private and foreign investment. Before implementing new exploration licensing policy (NELP), 11% of Indian sedimentary basins area was under exploration. At present, after concluding six rounds of NELP, area under exploration would increase four times. During the Eleventh Plan period, area under exploration has been targeted at 80% of total Indian sedimentary basins area.

The minister has said that the road shows will be held at important oil and gas locations in the world along with opening data centres. A dedicated website has also launched by the minister for this bidding round which will be an interactive one. Further an international agency has been appointed to market the blocks for making this round a success.

Deora invited all E&P companies as well as investor companies to participate in the NELP-VII bidding process and become partners in the efforts to enhance the energy security of the country and be part of the ever growing energy market of India.

A special website on NELP-VII containing a large set of information including online data has been prepared and is being hosted for NELP-VII. Connectivity is also being provided through the website of the Ministry of Petroleum & Natural Gas and Directorate General of Hydrocarbons.

### **Industrial Production Grows by 11.8% in October 2007**

The Quick Estimates of Index of Industrial Production (IIP) for the month of October 2007 have been released by the Central Statistical Organisation of the Ministry of Statistics and Programme Implementation. The General Index stands at 261.5, which is 11.8% higher as compared to the level in the month of October 2006. The cumulative growth for the period April-October 2007-08 stands at 9.7% over the corresponding period of the previous year.

The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of October 2007 stand at 167.3, 279.1, and 221.4 respectively, with the corresponding growth rates of 3.7%, 13.3% and 4.2% as

compared to October 2006. The cumulative growth during April-October, 2007-08 over the corresponding period of 2006-07 in the three sectors have been 4.8%, 10.4% and 7.2% respectively, which moved the overall growth in the General Index to 9.7%.

In terms of industries, as many as sixteen out of the seventeen industry groups (as per 2-digit NIC-1987) have shown positive growth during the month of October 2007 as compared to the corresponding month of the previous year. The industry group 'Wood and Wood Products; Furniture and Fixtures' have shown the highest growth of 73.7%, followed by 34.2% in 'Other Manufacturing Industries' and 32.2% in 'Leather and Leather & Fur Products'. On the other hand, the industry group 'Metal Products and Parts, except machinery and Equipment' has shown a negative growth of 19.8%.

### **Upgradation of Indian Project Exports Vital**

Kamal Nath, Union Minister of Commerce and Industry, has stressed emphasized the critical importance of technological upgradation of Indian project exports for competing in the international markets. Distributing the annual Export Awards of the Project Exports Promotion Council of India (PEPC) recently, Nath underlined the efforts of the developed countries to increasingly upgrading their technology, project management skills and equipment. The minister also stated that a review for considering the proposals to simplify procedures and also follow up issues relating to taxes for moving towards conducive policies for consistent growth in project exports was under way.

Nath expressed satisfaction over the fact that project exports are increasing and the value of project exports from India has touched Rs.11,381 crore during 2006-07 while its growth over the previous year was more than 87% in dollar terms. In order to further accelerate exports growth, he said, we should look out for product diversification and newer markets. More efforts are needed to explore emerging opportunities in the African, Caribbean and CIS regions. Nath stated that Indian project exporters have serviced an impressive array of clientele in diverse fields of operation.

### **SMEs Crucial to India's Growth & Equity**

Kamal Nath, Union Minister of Commerce and Industry, has said that the promotion of Small & Medium Enterprises (SMEs) were are crucial to India's growth and for addressing issues of poverty and unemployment. While addressing the TIE Entrepreneurial Summit 2007 recently, he stressed that the entrepreneurship is critical for increasing competitiveness as new services, products, processes and innovations increase efficiency, thereby improving the competitive strength of the economy as a whole. The minister said: "We are extremely fortunate in India that people here have an abundance of entrepreneurial spirit. India has been relatively successful in creating a policy environment that

takes advantage of this intangible, yet vital, asset. Entrepreneurs have emerged as the engine of economic and social development throughout the world- by generating employment, growth and international competitiveness".

Nath pointed out that Industry has been one of the major drivers of the growth of the Indian economy. The last four years have witnessed impressive rates of industrial growth averaging around 10%. In 2006-07, the industrial growth was quite impressive at 11.5%, while the rate of growth of manufacturing was even higher at 12.5%. This has resulted in FDI inflows to India growing at a fast rate. Compared to US\$5.5 billion in 2005-06, FDI inflows reached US \$15.5 billion during 2006-07 which corresponds to an increase of 185%, he further added.

### **Bahrain Bank Investment for Mumbai Economic Zone**

Bahraini Islamic investment bank Gulf Finance House has said it has signed a deal to develop a \$10 billion economic development zone near Mumbai that would tap booming sectors such as energy and telecommunications.

"The economic development zone... will include an energy city, apart from incorporating three additional components -- telecom city Mumbai, software city Mumbai and entertainment city Mumbai," the Gulf Finance House said in a statement.

The bank in October said it had raised \$630 million for an Indian infrastructure project.

### **Air India Joins Star Alliance**

With Air India's entry into Star Alliance, the 20-member global airline group, its passengers can look forward to better fares, frequent flier benefits and lounge facilities during their international travels.

The decision to include Air India into the group was taken by the board of Star Alliance in a meeting held in Beijing. The Alliance board comprises CEOs of member airlines.

Commenting on the development, V. Thulasidas, Chairman and Managing Director of Air India, has said: "Air India is delighted in being invited to join Star Alliance. In being selected as a future Star Alliance member, the company will add value to passengers patronising member airlines of the alliance."

"In addition, the recently announced fleet expansion of over 100 aircraft will help Air India serve the travelling public better in terms of global reach and services," he added.

With the possibility of Air India setting up a European hub in Munich or Vienna, joining Star Alliance would help its operations as most of the European airlines were its members.

The Chairman of the Star Alliance board, Glenn Tilton, who also heads United Airlines, has said, "India has long been on the radar of Star Alliance. It is one of the world's fastest growing economies and aviation markets. Having now come to an agreement with Air India makes us the first airline alliance to secure a member in India."

### **Laptop Market in India Grows by 85%**

The laptop computer market in India grew by 84.8% in the third quarter of 2007 against the corresponding quarter last year, contributing significantly to the overall PC market growth of 25.1%.

More than five lakh notebook PCs were sold in the quarter, a study by market analyst IDC India said.

Hewlett Packard (HP) retained the top slot with a market share of 37.8%, while Lenovo occupied the second position and Acer third.

Notebook PC sale in home and 'Small Office and Home Office' (SOHO) segments grew by 166% and made up 43% of the total business. The next largest contributors were enterprise and education segments.

"Portability, rather than mobility has emerged as the 'number one' driver for the sustained growth in notebook PC shipments in India," Kapil Dev Singh, Country Manager, IDC India, said.

Given the choice of portability, flexibility and ease of use and narrowing of price-performance gap that once existed between portables and desktops, consumers are almost overwhelmingly inclined to buy notebook PCs, he said.

Meanwhile, the desktop PC shipments showed a growth of 10.9% in the same quarter.

### **IPOs for 34 Mini-Ratna Companies planned**

More public sector companies in India are looking forward to getting listed on the stock exchanges. After the leading navratna public sector companies, it may now be the turn of the mini-ratna government enterprises to make the public richer. The government is planning discussions with 34 unlisted mini-ratna companies to get them listed on the stock exchanges and unlock their value.

The list of companies with which the government plans to initiate talks include Bharat Sanchar Nigam (BSNL), Coal India (CIL) and Rashtriya Ispat Nigam (RINL). While Rural Electrification Corporation (REC) and Oil India Corporation (OIC) have already announced their plans to tap the market, RINL is in the process of firming up its plans.

"We want every profitable PSU to be listed on the stock exchange and would soon initiate consultation in this regard," a department of public enterprises (DPE) official said, adding that the department would kick off the process soon. The talks may also focus on dilution of government's stake in the companies through the IPOs.

The official said that the department has not yet finalised whether to start talks individually with the companies or convene a general meeting of all the mini-ratna PSUs in this regard. However, he said the department wishes to list BSNL and CIL at the earliest. The department may also start consultation with the nodal ministries to take steps in this regard soon.

### **Indian Drug Firms Zero In on R & D**

Two years after India entered the product patents regime, the year 2007 saw Indian drug firms striving to shed the copycat image and become innovators with emphasis on research activities.

Four major drug firms -- Dr Reddy's Laboratory (DRL), Sun Pharmaceuticals, Nicholas Piramal India Ltd (NPIL) and Ranbaxy Laboratories -- spun off their research and development and drug discovery operations into separate units to unlock better value for shareholders and attract funds for new products. The collective market capitalisation of new research entities is estimated to touch 120 billion dollars in less than a decade.

Analysts predict if the country's top 10 pharmaceutical firms hive-off their R&D divisions, the collective market capitalisation of new research entities would touch \$120 billion in less than a decade. Compare this with the present \$20 billion collectively invested by the firms in R&D, with the industry size being about \$150 billion.

Though R&D requires huge investments, it does not guarantee new drugs. This makes sense for companies to demerge their R&D units, a move which is expected to reduce the cost burden on other group businesses and improve valuation.

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

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2006	2007	2007	2006	2007	2007
World	50292.6	59758.9	18.82	70359.8	94481.5	34.28
Africa	4053.9	5698.4	40.57	6036.9	8802.6	45.81
Egypt	265.7	530.2	99.58	797.8	786.0	-1.47
Kenya	660.2	442.5	-32.97	23.3	30.3	29.68
Mauritius	202.8	387.7	91.19	5.1	5.2	1.50
Nigeria	329.2	414.3	25.86	3171.3	3100.0	-2.25
South Africa	1019.7	1102.1	8.08	987.0	1837.6	86.19
America	9696.5	10649.6	9.83	6525.1	8726.6	33.74
Brazil	580.6	860.9	48.29	294.8	425.0	44.14
Canada	471.5	490.7	4.07	420.7	673.6	60.12
Mexico	210.3	232.0	10.32	257.8	312.5	21.25
USA	7630.5	8109.1	6.27	4101.7	5360.5	30.69
Asia (excl. Middle East)	15346.0	17296.3	12.71	19718.7	27235.7	38.12
Bangladesh	675.8	817.1	20.92	105.4	121.6	15.38
China	2849.3	3099.3	8.77	6502.9	10431.7	60.42
Hong Kong	1775.3	2332.4	31.38	1014.0	1118.6	10.32
Indonesia	781.2	654.1	-16.26	1412.5	2014.9	42.65
Japan	986.3	1309.3	32.76	1824.4	2459.6	34.81
Korea DPR (North)	79.9	357.0	346.55	244.7	91.3	-62.69
Korea Republic (South)	841.9	918.8	9.13	1878.0	2296.6	22.29
Malaysia	480.1	772.1	60.83	1971.2	2483.2	25.97
Nepal	382.9	518.9	35.50	110.3	158.5	43.70
Philippines	280.2	219.5	-21.66	75.9	77.6	2.19
Singapore	3082.4	2550.0	-17.27	2253.5	2902.3	28.79
Sri Lanka	987.1	946.2	-4.14	230.5	183.4	-20.43
Taiwan (Taipei)	328.2	780.2	137.70	664.7	1061.0	59.62
Thailand	560.1	603.4	7.73	652.9	995.1	52.40
Viet Nam	328.5	396.8	20.78	77.1	68.3	-11.42
Middle East	8923.9	11341.4	27.09	20778.1	23626.7	13.71
Iran	691.8	1079.2	56.00	3276.8	3913.6	19.43
Iraq	89.8	78.8	-12.28	2355.2	2230.0	-5.32
Israel	518.5	625.9	20.71	378.9	700.5	84.88
Kuwait	236.1	260.8	10.49	2619.9	2516.1	-3.96
Saudi Arabia	950.5	1361.9	43.29	5989.5	6399.1	6.84
UAE	5251.4	6303.9	20.04	3733.9	5299.6	41.93
Europe	11417.1	14180.4	24.20	14284.3	21858.1	53.02

European Union	9947.0	12057.8	21.22	10021.1	13126.6	30.99
Belgium	1261.3	1702.5	34.98	1529.3	2197.4	43.69
Denmark	190.2	186.6	-1.91	151.8	177.7	17.05
France	930.7	965.7	3.76	796.2	946.7	18.89
Germany	1579.7	1888.2	19.53	2936.6	3640.2	23.96
Italy	1401.2	1544.9	10.25	1032.8	1388.7	34.46
Netherlands	883.7	1625.8	83.98	411.7	654.7	59.03
Spain	729.6	851.2	16.67	249.9	377.5	51.02
Sweden	140.5	200.2	42.43	719.4	909.7	26.44
UK	2211.3	2444.4	10.54	1538.2	2107.6	37.02
Other European Countries	1470.1	2122.6	44.39	4263.2	8731.5	104.81
Russia	336.3	331.6	-1.39	663.4	836.6	26.11
Switzerland	171.3	236.7	38.20	2492.4	5689.7	128.28
Turkey	387.9	622.7	60.54	80.4	832.1	934.71
Oceania	817.8	491.5	-39.91	2961.9	4128.5	39.39
Australia	358.5	410.4	14.49	2658.8	3913.6	47.19