

Monthly Economic Analysis

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Macro Economic Developments

Growth of Industry- Recent Trends

Industrial growth slowed to 5% on account of a slight deceleration in manufacturing. However, the Quarterly trends in December do not suggest a significant fall in industrial growth.

In the third quarter production of consumer goods recovered marginally but continued to be in single digits, with a substantial pick up in the consumer durable goods from 8.6% in the second quarter to 10.1%.

Quarterly figures show marginal slowdown in the capital goods in the third quarter from 17.1% in the second quarter to 16.1% in the third.

A rise in production of Basic goods was found in the third quarter from second quarter current fiscal, however intermediate goods grew at 0.5% in quarter three , lowest over the past 14 quarters.

Industries that improved performance in the third quarter include food products ,man made textiles , rubber/ plastic /petrol/ coal / , non metallic minerals, machinery and equipment and transport goods. However, 10 other segments recorded a slowdown including important segments like beverage and tobacco, cotton textiles, textile products, chemicals and basic metals.

Core Infrastructure Industries

Performance of core infrastructure industries bettered in December 2006 at 4.5% from 3% the previous month.

In December, sectors, which picked up were Steel sector from 5.3% to 6.7% while that of cement rose up sharply from 7.8% to 13.4%.

Crude petroleum production dipped for the sixth consecutive month at 8.1% and Coal production slowed a bit by 6.6% in December 2006. Slowdown in the power generation seemed to be checked at a low of 2.9% in December 2006.

Output of Petroleum refinery however went up to 8.8% in December 2006, the highest over the last twelve months.

Telecom subscription touched new high of 130 million April- January 2005-06. This rise is attributed to additions in cellular mobile phone which stood at 80.61 million in April – January 2005-06, adding 28.39 million phones during the period. It is also seen that monthly addition to the mobile network in January 2006 of 2.69 million phones overtook the previous best of 4.46 million in December 2005.

Stock Market Trends

Sensex is soaring high, in January 2006 it went up by 5 percentage points to 9859 points in over a period of month's trading session. Nifty too gained sharply by 4.8 percentage points in January 2006.

Monetary indicators

Broad Money grew at a substantially higher rate of 14.3% by 3rd February 2006 than the corresponding period of previous year . Credit to both the Government and Commercial sector went up to 3.9 and 20.9% respectively. This month Foreign exchange Assets grew only a meager 0.4%.

Aggregate Deposits of the scheduled commercial banks increased faster at 15% in the fiscal year upto 27th January 2006, on account of faster growth in time and demand deposits.

Figures show a drop in the bank investments by 3% in the current fiscal because of lesser purchases of Government securities. Increase in Credit off take remained same as in last year, with a sharp decline in food credit and increase in non-food credit.

Fiscal Trends

There was a marginal increase in the Gross tax revenue collections of 18.% in April – December 2005-06, not far from the budget target. Collections from the corporate slowed substantially to 21.7% and from income at 14.7%, almost half of the budget target.

Collections from the customs surpassed the budget estimates and went up by 16%, whereas excise duties remained much lower than the estimates.

In April- December 2005-06 total revenue receipts is about one third faster at 15%, revenues from tax rose marginally at 9.4% and non tax revenue was up a bit than the previous year.

Revenue expenditure grew substantially by 17.9% during the April- December 2005-06 as compared to the budget projection of 15.7% growth, where both Non-plan revenue and plan revenue grew at 11.8% and 40.6% respectively.

Revenue and Fiscal Deficits remained much higher an the budget projections, growing at 26.5% and 20.1% respectively

Merchandise Trade

During the April – January period of 2005-06 ,there exports rose marginally at 18.87 as against the corresponding period of last FY while imports was found to have grown at 26.67% during the period .Oil imports increased by 46.91% in the April – January 2005-06 and continued to exhibit a sharp rise at 58.9% January 2006. Pace of Non Oil imports remained low at 9.5% in January 2006 .

Growth in exports of broad product categories in the April-October 2005-06 are : Petroleum products (57%), gem and Jewelry at 26.6% , Engineering Goods (23.5%), Manufactured goods (18.6%), Chemical related (17.4%), Handicraft exports (11.6%), Textiles (7.5%) and Leather (6.3%).

Positive Growth in Major Commodities for exports was in Transport Equipments (48%), Iron Ore (40%), Machinery & Instruments (31.9%), Basic chemicals Pharmaceuticals (22.5%), Manufacture of metals (20.1%), Rubber Glass (18.4%), Ready made Garments (15.9%), Electronic goods (3.5%) and Iron and Steel (0.7%).

Commodities with high growth in imports are Iron and Steel (95%), Metal scrap and ores (57%), Fertilizers (57.4)%, Artificial resins (56.7%), Transport equipments (53%) , Machinery (48.9%), Textile yarn fabric (36.5%) , Pearls, precious stones (36.4%), Gold and Silver (34.1)%, Organic and inorganic chemicals (20.6)%, and Electronic goods (18.3%),

Foreign Investment, Reserves and Exchange rates

Total Foreign Investment in the 2005-06 April – October went up to \$ 8472 million from \$ 4740 million in 2004-05. Monthly figures show a drop in Total Foreign Investment inflow due to erosion in Portfolio Investments in October, however, this was offset with the firming up of Foreign Direct Investments in the beginning of Q3 2005-06. NRI deposits with the banks too rose up to \$ 0.2 billion in the current FY.

Foreign reserves increased fractionally by \$2.3 billion in January against a \$ 5.6 billion decline in December 2004-05 mainly on account of redemption of India Millennium Deposits (IMD). However in January our total reserve position bounced back with accretion in Foreign Currency Assets.

The slow appreciation of Rupee against Dollar at the end of last year gathered momentum in January 2006 with the rate going up to 2.7% , the highest appreciation over the last 13 months. Rupee also appreciated against the Euro by 0.6% in January 2006 after five months of steady depreciation

Lead Stories of the Month

GDP growth pegged at 8.1% in FY06

The government has projected a higher GDP growth of 8.1 % for this fiscal from 7.5 % in 2004-05. The Central Statistical Organisation's (CSO) quick estimates reveal that higher growth would be driven by 9.4 % growth in manufacturing and the booming over 8 % growth in services sector.

The GDP growth is slated to be better also due to a good monsoon that will push up farm output by 2.3 % this fiscal after a lacklustre performance of 0.7 % in 2004-05.

The estimated growth in GDP for the trade, hotels, transport and communication sectors during 2005-06 is placed at 11.1 %, mainly on account of a growth of 7.5 % in the gross trading index, 5.3 % in net tonne kilometres of Railways and 10.8 % in passenger kilometres of Railways, 10.9 % in cargo handled at major ports, 9.6 % in the production of commercial vehicles, and 35.2 % in stock of telephone connections, during April-November, 2005-06. The sector, 'financing, insurance, real estate and business services', is expected to show a growth rate of 9.5 % during 2005-06, on account of 18.9 % growth in aggregate deposits and 29.7 % growth in bank credit during November 2004 to November 2005.

The growth rate of 'community, social and personal services' during 2005-06 is estimated to be 7.9 %.

Enthused by higher growth projection, Finance Minister P. Chidambaram has said the Sensex crossing 10,000 points mark and the growth projection of 8.1 % was a 'heady mixture.' The growth rate in per capita income is estimated at 5.9 % during 2005-06, as against the previous year's estimate of 6.1 %.

The "Sensex reflects the business confidence and strong fundamentals of the economy," he said, adding sound monetary and fiscal policy will bring us growth.

Reacting to the CSO's GDP estimate, Planning Commission Deputy Chairman Montek Singh Ahluwalia went a step ahead to say that the country should now aim at 10 % growth. "The 8.1 % growth projection has only vindicated what we have been saying all along that the economy will bounce back," he said.

On the rise in Sensex, Ahluwalia said: "This proves that the fundamentals of our economy are very strong and the world recognises that. Now the test for us is to make sure that we can implement those policies which will yield the desired results. There is an aura of feel-good and shows the nation's ability to draw significant investment."

FDI inflow to cross \$7 bn. in FY 06

The government expects foreign direct investment (FDI) into India to cross US\$ 7 billion in 2005-06, with auto and mining sectors expected to attract huge funds. FDI inflow as of November 2005 stood at \$3.3 billion. Figures for December 2005 are being computed.

Meanwhile, 44 FDI proposals worth Rs 7.41 billion including those of Swiss telecom major Bycell, CDC, Citigroup, Standard Chartered Bank, British Gas and Adidas, have been approved.

Finance Minister P Chidambaram has given the go-ahead to Swiss company Bycell Holding AG for setting a wholly-owned subsidiary in India at an investment of Rs 4.57 bn for offering GSM-based cellular services.

The Foreign Investment Promotion Board has also approved UK-based CDC Group Plc's plan to invest Rs 740 million for picking up stake in an asset reconstruction company to be floated by Corporation Bank and ING Vysya Bank. Standard Chartered Bank has also obtained the green signal for floating a ARC. Citigroup Venture Capital of Mauritius will invest Rs 114.9 mn to pick up stake in textile company Spentex Industries.

Rice exporter KRBL has been permitted to raise Rs 660 mn through GDR issue, while Cargill Mauritius has been allowed to invest in its Indian arm.

Adidas AG of Germany and Adidas International BV of Netherlands has been allowed to transfer shares worth Rs 47.2 mn from residents to non-residents. British Gas has been allowed to hold 50 % stake in Mahanagar Gas Ltd for one more year till December 2006.

FIPB granted permission to Dun & Bradstreet Corporation of US to foray into non-banking finance segment for an investment of Rs 22.0 mn and allows LB India Holding to set up an investment company here.

A comprehensive review of India's FDI policy has recently been undertaken to remove anomalies and inconsistencies. It is aimed not only to revise caps, but also to simplify and rationalise the procedures. The guiding principle is that for some items requiring industrial licence which are in any case well regulated, there will be no need for a second tier Foreign Investment Promotion Board (FIPB) approval, and hence these can be put on to the automatic route".

With a view to facilitating the easier inflow of FDI into India, it has been decided that instead of having to seek FIPB approval, FDI up to 100 % would now be allowed under the automatic route for the following:

- the development of new airports; (so far FDI up to only 74 % was allowed under automatic route)
- laying of natural gas/LNG pipelines;
- market study and formulation and investment/financing in the petroleum sector;

- cash and carry wholesale trading and export trading; (so far, FDI in wholesale cash and carry trading and FDI beyond 51% in export trading required prior government approval); and
- exploration of mining of diamonds and other precious stones. (so far, allowed on automatic route only up to 74%)

It has also been decided that FDI up to 100% under the automatic route would be allowed for:

- processing and warehousing in coffee and rubber industry.
- power trading, subject to provisions of the Electricity Act, 2003.

The Union Cabinet has also decided to raise the FDI caps/ceiling to 100% in case of:

- investment in creation of infrastructure related to marketing in petroleum sector and
- in captive mining of coal and lignite for consumption by eligible users.

It has been decided to allow up to 100% FDI under the automatic route in the above two sectors.

The Cabinet has also given its approval to remove the divestment condition, which had been imposed earlier, with respect to business-to-business e-commerce. Hitherto while FDI up to 100 % was allowed, the investor was required to divest 26 % of the foreign equity within 5 years of making the investment. This was seen to be restricting the level of FDI in these sectors.

As far as retail trade is concerned, the Cabinet has approved to allow FDI up to 51 % with prior Government approval in 'Single Brand' products. This is aimed at attracting investment, technology and best global practices as also catering to the demand of such branded goods in India. This would imply that foreign companies would be allowed to sell goods sold internationally under a single brand, viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if such products are produced by the same manufacturer, would not be allowed.

However, FDI will continue to remain prohibited in coffee and rubber plantations. The Cabinet has approved to allow FDI up to 100 % for the distillation and brewing of potable alcohol, industrial explosives and hazardous chemicals on the automatic route. This would, however, be subject to other applicable regulations.

So far, FDI in industrial projects located within 25 kms of the urban limits of 23 towns required prior government approval besides an industrial licence. The Cabinet has now dispensed with the requirement of prior government approval and henceforth, FDI in such cases would be eligible for the automatic route.

It has also been decided that there will be no need for approval of FIPB for transfer of shares in an existing Indian company from Indian investors to foreign investors in the financial services and where the provisions of the Securities and Exchange Board of India (SEBI) Takeover Code are applicable in cases where approval of

RBI/SEBI/Insurance Regulatory Development Authority of India (IRDA) is also required.

The government has also allowed 100 % Foreign Direct Investment in uplinking of television channels in the non-news category and 26 % for news channels. For the news channels, the government has put the condition that portfolio investment in the form of FII and NRI deposits shall not be persons acting in concert with FDI investors as defined by Securities and Exchange Board of India. For setting up-linking hub and teleports the government has allowed FDI of 49 %.

The government has clarified that the provisions of Press Note 2 (2005 series), which allowed 100 % foreign direct investment in townships, housing and construction projects, will not apply to hotels, hospitals and special economic zones.

FDI up to 100 % was already allowed under the automatic route in hotel and tourism sector vide Press Note 4 (2001 series) and in the hospital sector vide Press Note 2 (2000 series). Special Economic Zones are separately regulated under the SEZ Act, 2005.

Airport modernisation plans take off

Letters of intent have been issued to the consortia led by GMR and GVK industries, which have bagged the orders for the Rs 5,400-crore modernisation projects for the Delhi and Mumbai airports.

GMR and GVK had won bids to modernise Delhi and Mumbai airports, emerging as the top bidders among the four whose financial bids were opened on January 31.

The Union Civil Aviation Ministry had awarded the contract for New Delhi airport to a consortium led by GMR group, which has entered into collaboration with German airport operator Fraport. For the Mumbai airport revamp, a group led by GVK Industries Ltd. and the Airports Company of South Africa won the bid.

GVK-South African Airports, which emerged as the top bidder among the four at Mumbai, offered the Centre a revenue share of 38.7 %, followed by GMR at over 33 %.

Though GMR had the option of matching GVK's bid for Mumbai, it opted for Delhi matching its earlier bid at 43 % with Reliance's 45.99 % and winning the contract on account of being the only bidder to score over 80 % marks for technical qualification. The Union Cabinet has given its approval and the airports are likely to be handed over to the companies within three months.

The two airports are estimated to require an investment of up to Rs. 200 billion (approx. US \$ 4.5 billion) over a five-year period to construct much-needed parallel runways, world-class terminals and shopping facilities.

Govt clears PFC divestment

Putting disinvestment back on track, the government has decided to sell five % stake in Power Finance Corporation in tandem with the state sector undertaking's initial public offer that would raise up to Rs 1,500 crore.

The Union Cabinet has approved the proposal. Power Secretary R V Shahi has said the plan is to ride piggyback on the PFC IPO to disinvest five % stake.

PFC is expected to hit the market in the next three months to float fresh equity of 10 % through its maiden public issue of 10.3 crore new shares. The company will issue 10 % fresh equity.

PFC, a non-banking finance company for the power sector, will be the second public sector power undertaking to get listed on the bourses after NTPC Ltd.

In 2004, the government had divested 5.25 % stake in power giant NTPC during its public offer of an equal amount. NTPC had raised nearly Rs 5,400 crore, of which government had mopped up its share of about Rs 2,700 crore.

The Power Finance Corporation has a paid-up capital of Rs 1,030 crore. This translates to 10.3 crore new shares of Rs 10 face value each. The government's part of disinvestment would be around 5.15 crore equity shares.

Having a book value of Rs 65 per share, the company could charge some premium over this amount. The issue is expected to be priced in the range of Rs. 70 to Rs. 100. However, the final price band as also the timing would be decided in consultation with the merchant bankers.

At the outer limit, PFC could raise up to Rs 1,030 crore while government would collect Rs 515 crore as its share of disinvestment proceeds. The disinvestment proceeds will go in the National Investment Fund for use in social sector projects and revival of ailing public sector undertakings.

The company posted a net profit of Rs 470 crore over a total income of Rs 1,563 crore for the first half this fiscal. During 2004-05, it had reported a net profit of Rs 984 crore over a total income of Rs 3,047 crore. The company has reserves of Rs 5,350 crore while Earnings Per Share (EPS) is Rs 4.56.

Indian, Saudi firms sign six MoUs

Business ties between India and Saudi Arabia received a fillip, as a large contingent of Saudi business delegation, accompanying the Saudi ruler, had a round of hectic deal-making with their Indian counterparts. A slew of public and private companies from the

two sides signing six commercial Memorandum of Understandings (MoUs) for co-operation in energy, financial services and healthcare. The MoUs were signed at the India-Saudi Arabia Joint Business Council meeting. State-run Engineers India signed an MoU with Manar Energy Company for consultancy services in oil and gas sector while Gujarat State Petroleum Corporation tied up with FAS Saudi Holding Company for exploration of oil and gas in Saudi Arabia. Jeddah-based Batterjee group of Industries has signed agreements with Avesthagen (Bangalore) and FICCI-Medical Tourism Council, Maharashtra, for exploring opportunities in development of biopharmaceuticals and promotion of medical tourism respectively. State Bank of India Capital Markets has tied up with Manar Financial Investment Company to set up an investment bank in Saudi Arabia.

Volvo eye India as sourcing hub

Volvo plans to would make India, along with China, the Asian sourcing hub in the bus manufacturing segment for domestic and global markets, according to Volvo Bus Corporation President Hakan Karlsson.

The company was looking at increasing Volvo bus exports from India from the current 10 % to 20-25 % in the “short-term”.

While engines would continue to be sourced from China, the company is looking to source the rest of the components from India, which has been identified as a prioritised market.

Volvo produced 403 inter city/luxury coach buses in India in the calendar year 2005, of which it exported 40 buses to Bangladesh and Sri Lanka, officials said.

The company’s aim was to grow by an annual 25 % in volume terms in the bus segment and sell 1,000 units a year in the next few years in India. Fr the bus segment, the company currently sources 40 % of the components in India itself; the ambition is to increase it to 60 %.

India among top 5 world travel spots

India figures among the top ten world travel destinations and is the fifth choicest place to visit. According to the latest list of the Top Travel Destinations by iExplore, an online seller of adventure and experiential travel, India ranks amongst the fifth choicest place to visit in the world in 2004 and 2005.

Egypt, Peru, Galapagos and China are the first four top travel destinations. Other destinations preferred after India are South Africa, France, Italy, New Zealand and Alaska.

Destinations that showed strong growth in 2005 included Morocco (12th), Argentina (14th) and Jordan (16th). Bumped from last year's top ten were Chile (20th) and Costa Rica (40th).

The list is compiled and determined on the basis of the vacation purchases of its adventure and experiential travellers.

There was no material shift in our best-selling destinations in 2005, with our top five destinations largely unchanged. Both South Africa and New Zealand saw strong growth to move into our annual top ten list for the first time ever, according to iExplore.

External Sector: Foreign Trade April – November

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2004	2005	2005	2004	2005	2005
World	49476.7	58830.6	18.91	66310.8	86666.6	30.70
Africa	3237.2	4143.0	27.98	2351.0	2820.9	19.99
Egypt	256.1	351.9	37.38	100.1	160.2	59.97
Kenya	264.6	274.1	3.57	29.4	28.6	-2.72
Mauritius	139.4	111.7	-19.86	5.3	4.2	-20.01
Nigeria	356.4	526.3	47.66	40.1	41.3	3.14
South Africa	650.9	966.3	48.46	1197.9	1514.9	26.46
America	10638.1	12410.1	16.66	5600.9	6744.1	20.41
Brazil	430.5	683.9	58.87	511.2	612.3	19.77
Canada	526.6	563.9	7.10	411.2	549.5	33.63
Mexico	247.3	236.4	-4.44	47.7	52.2	9.52
USA	8767.1	10095.7	15.15	3939.8	4603.4	16.84
Asia (excl. Middle East)	14957.7	18577.8	24.20	15971.3	19659.7	23.09
Bangladesh	963.6	921.8	-4.33	28.5	43.9	54.06
China	2482.4	3467.6	39.69	4181.4	5963.1	42.61
Hong Kong	2249.6	2823.7	25.52	1009.0	1349.3	33.72
Indonesia	754.7	773.3	2.47	1607.7	1669.4	3.83
Japan	1229.5	1373.6	11.72	1912.6	2031.0	6.19
Korea DPR (North)	106.4	18.8	-82.28	1.6	0.3	-81.95
Korea Republic (South)	606.0	887.1	46.38	1989.7	2502.6	25.78
Malaysia	692.5	632.0	-8.74	1433.4	1393.8	-2.76
Nepal	516.9	530.4	2.61	207.3	246.9	19.08
Philippines	245.6	281.4	14.58	127.8	127.1	-0.59
Singapore	2233.5	3555.3	59.18	1554.4	1836.4	18.15

Sri Lanka	892.5	1262.1	41.41	197.1	321.1	62.96
Taiwan (Taipei)	385.9	331.5	-14.08	679.3	837.7	23.32
Thailand	520.7	626.5	20.32	506.9	716.5	41.33
Viet Nam	330.7	341.3	3.21	58.8	78.3	33.23
Middle East	7627.2	8416.2	10.34	4915.6	6211.8	26.37
Iran	803.5	623.7	-22.38	240.7	410.9	70.69
Iraq	74.2	64.0	-13.80	0.6	1.1	82.71
Israel	653.2	746.4	14.27	549.6	644.1	17.20
Kuwait	253.9	301.1	18.62	154.0	253.9	64.90
Saudi Arabia	878.1	1054.3	20.06	805.0	919.0	14.16
UAE	4176.7	4681.7	12.09	2426.4	2928.0	20.67
Europe	12218.3	14574.9	19.29	15504.6	20252.5	30.62
European Union	10366.1	12548.1	21.05	10540.1	13372.6	26.87
Belgium	1534.1	1677.4	9.35	2685.2	3262.7	21.51
Denmark	173.7	218.4	25.77	156.8	212.0	35.15
France	1001.0	1174.5	17.34	765.7	905.4	18.24
Germany	1664.8	1931.4	16.02	2346.8	3344.7	42.52
Italy	1284.7	1322.1	2.91	803.6	1013.0	26.06
Netherlands	932.0	1427.0	53.12	450.0	631.2	40.29
Spain	799.0	881.8	10.37	238.8	322.0	34.80
Sweden	143.3	178.1	24.27	636.8	598.7	-6.00
UK	2217.6	2962.4	33.59	1955.7	2486.5	27.14
Other European Countries	1852.1	2026.8	9.43	4964.5	6879.8	38.58
Russia	382.2	419.2	9.67	808.6	1330.0	64.49
Switzerland	349.3	276.6	-20.80	3315.3	4284.2	29.22
Turkey	438.2	538.9	22.99	87.6	128.8	46.93
Oceania	530.9	620.9	16.96	2382.7	2983.0	25.19
Australia	445.6	494.7	11.02	2256.9	2824.8	25.16