

Monthly Economic Analysis

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Macro Economic Developments

Industry

In April – November 2005 -06 overall industrial production achieved a growth rate of 8.3 % , marginally below the growth rate last year. The index indicates a slowdown in the month of November 2005.

Manufacturing continued to grow faster in April- November 2005-06 than it did last year and remained the main growth driver in the current FY.

Industry was aided by the buoyancy in both the consumer and investment goods sectors. Growth in the capital goods sector was up by 3 percentage points to 15.9% in April- November 2005-06. However in the consumer goods sector it was the consumer non-durable that registered a significant pick up in growth even as the growth in the consumer durable goods segment.

Despite fluctuations in the output the growth the growth in the basic goods sector was marginally higher than in the previous year at 6%. In contrast overall growth in the intermediate goods sector went down by more than half to 3%.

Sectors with positive growth rate in November 2005-06 are Cotton Textiles (13.3%), Basic Metals (13.3%), Transport (11.8%), Food Products (5.8%), Jute and other fiber textiles (4.2%), Manmade textiles (3.4%) and Rubber (1.8%).

Index of six core infrastructure industries grew at a slower pace of 4.4% in April- November period of current FY.

Among the six core infrastructure industries, production grew faster only for Cement at 10.6% in the April- November period of 2005-06.

In the April- November 2005-06 Production of Finished Steel, Coal and Power grew up at a lower rate than last year, by 7.2%, 7.1% and 4.9% respectively.

Highest ever addition to telephone network of 28.37 million was made at the end of December 2005-06. Total phones stood at almost 125 million on account of 23.7 million cellular phones booked in April- December 2005-06. Mobile phone network also added a record of 4.46 million phones in December 2005-06.

Fiscal trends

Stock Markets had shown resilience in November 2005-06, further picking up to exceptionally all time high levels. Sensex and Nifty increased to 9390 and 2835 points respectively. Both the indices recorded a 5% rise in November against the previous month of 2005-06.

Broad Money grew at higher magnitude of 12% in the fiscal year upto December 2005-06 this was mainly due to higher growth credit to the commercial sector. Government Borrowings reduced further, however, aggregate deposits in Scheduled Commercial banks increased by 14% by December 2005. Lower government

borrowings is also reflected in low investments made by SCB, which registered a decline.

The total credit of SCBs increased in December 2005-06, ascribed to higher non -food credit.

Merchandise Trade

Exports increased at a higher rate of 16.19% in December 2005-06 where as Imports grew at 8.44%.

In December 2005 Oil imports exhibited a sharp rise by 63% over a negative 18% in the December 2004. On the other hand, the non-oil imports decelerated sharply in the second consecutive month of Q3 2005-06.

Growth in April-October 2005 period of the major commodities for Indian exports are: Transport equipments (48%), Iron ore (40%), Machinery & instruments (31.9%), Basic Chemicals Pharmaceuticals (22.5%), Manufacture of Metals (20.1%), Rubber Glass (18.4%), Readymade Garments (15.9%), Electronic Goods (3.5%) and Iron and Steel (0.7%).

Major partners for Indian exports in April-October 2005 are : Singapore with 68% growth, Sri Lanka (54%), Netherlands(53.2%), China (48.8%), UK (37.6%), Hong Kong (34.7%), EU (25.2%), France (24.9%), Japan (20.9%,) Germany (18%), UAE(15.6)%, Belgium (15.1)% and Italy (8.6).

Growth in major commodities for India's 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%),

Major Importing Partners for India are : Russia (62%), Germany (48.1%), China (47%), Switzerland (43.1%), Hong Kong (42.6%), UAE (40%), Australia (37%), EU (30%), UK (29.9%), South Korea (29.8%), USA (21.8%), Belgium (21.%), Singapore (19.7%), Japan (12.9%) and Malaysia (6.7%).

Foreign Investment, Reserves and Exchange rates

Total Foreign Investment in the April – October 2005-06 went up to \$ 8472 million. October 2005-06 figures show a drop in Total Foreign Investment inflow due to erosion in Portfolio Investments, however, Foreign Direct Investment firmed up in the beginning of Q3 2005-06.

In December 2005-06 Foreign Exchange Reserves fell by 3.4%, from \$ 142.1 billion in November 2005-06 to \$ 137.2 billion. This is mostly due to the sale of dollars for the redemption of IMDs (India Millennium Deposits).

Indian Currency exchange rates vis-à-vis USD remained unchanged at Rs 45.7 in last month of Q3 2005-06 against previous month of 2005-06 and in the same period INR position weakened against Euro at Rs 54.15 , changing by 0.47% .

Lead Stories of the Month

Government to look at further FDI liberalization

A group of senior ministers has reviewed India's existing FDI regime and has made extensive recommendations for creating a more "enabling environment" for attracting a larger volume of foreign direct investment into the country. Among other issues, the GoM considered allowing 100% FDI in airport projects under the automatic route, FDI in the retail sector, trading, sourcing of exports, in coal and lignite mining, power trading and exploration and mining of precious stones.

The group is headed by Mr Sharad Pawar, union agriculture minister, and its recommendations will be placed before the union cabinet.

Meanwhile, union government has approved 44 FDI proposals worth Rs 741 crore, including those of Swiss telecom major Bycell, CDC, Citigroup, Standard Chartered Bank, British Gas and Adidas. The Finance Minister has given the go-ahead to Swiss company Bycell Holding AG for setting up a wholly owned subsidiary in India at an investment of Rs 457 crore for offering GSM-based cellular services. The Foreign Investment Promotion Board (FIPB) has also approved UK-based CDC Group Plc's plan to invest Rs74 crore 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 an ARC. Citigroup Venture Capital of Mauritius will invest Rs 11.4 crore to pick up stake in textile company Spentex Industries. Rice exporter KRBL has been permitted to raise Rs 66 crore through GDR issue, while Cargill Mauritius has been allowed to invest in its In

SAFTA to boost intra-regional trade, FDI flows

With the South Asian Free Trade Area (SAFTA) becoming a reality from January this year, there is optimism that strengthening of infrastructure and tariff reduction in a stipulated time frame could double intra-regional trade flows from the current level of US\$ 7 billion to \$ 14 billion by 2010.

A positive fall out of SAFTA shall be enhanced attractiveness of South Asia as an FDI destination due to integrated market and liberalized trade. The foreign investors

can set base in one country of the region and cater to the supply chain of the entire region.

While in the year 2004, FDI inflows into India touched a record of US \$ 5 billion, in Pakistan and Bangladesh; it rose to around US \$ 1 billion. But in other countries of SAARC it is well below US \$ 1 billion mark. However, if South Asia becomes an integrated market, it can draw a much higher FDI for the entire region with a huge market size of over 1.5 billion people and a burgeoning consumer base.

On a more ambitious note, Indian industry is of the view that the scope of SAFTA must be expanded to cover trade in services and investment liberalization. Private sector needs to be given adequate incentives to set up enterprises across South Asia. For this, an encouraging investment climate is essential and concluding a Regional Investment Agreement within SAARC is a must. This alone shall result in maximizing gain from enhanced intra trade and investment flows.

The reduction in tariff rates as effected by SAFTA shall multiply trade and commerce only if it is complemented and supported by adequate infrastructure and trade facilitation measures by member Governments. This includes improving and strengthening the network of road and highways, railways and air and shipping agreements, harmonization of custom regulations, quality standards, easy visa regulations, dispute settlement mechanism, etc. This would create an enabling framework for SAFTA and its benefits would percolate to the entire business community leading to poverty reduction and enhanced economic welfare.

For SAFTA to be an effective vehicle for faster regional economic integration several steps need to be taken such as free movement of people, seamless movement of goods and services through improved infrastructure, trade facilitation and a SAARC region agreement for investment promotion and protection.

As far as physical infrastructure is concerned, it is imperative to upgrade and establish linkages through road, railways, shipping and appropriate air links for increasing intra-regional trade to substantial levels. In fact, the current level of trade can be almost doubled provided appropriate regional agreements on roads, rail, shipping and air are put in place which enable seamless movement like that happens in the European Union and other trading blocs. At the same time, it is important to harmonise customs, banking, insurance, quality standards and arbitration regulations in the region.

Japan to invest \$2 billion in India

Japan proposes to invest \$2 billion in India over the next three years in order to broaden its economic activity in the country, according to the Japanese Ambassador to India Yasukuni Enoki.

This interest in India is in recognition of India as Asia's major economic power alongside China and Japan. At present, Delhi, Mumbai, Pune and Bangalore are the main centres of Japanese business activities in India, but the Ambassador said his country aimed to move beyond.

"We have to expand our business centres," he remarked. Japan is also considering a key project in petrochemicals and automotives as part of the proposed investment, the Ambassador said while addressing an Indo-Japanese Dialogue on Ocean Security and Maritime Cooperation in New Delhi.

Pharmaceuticals, he said, was "next promising area" in India-Japan business ties. Indian pharma products have also been finding takers in Japan's market because of their highly competitive prices, the Ambassador said.

Indian pharma industries should therefore be much more aggressive in exploring Japan, where we want to drastically reduce public expenditure on medical care, he said and added that a couple of Japanese pharmaceutical firms are also likely to set up business in India soon.

Real estate upbeat in year 2005

The relaxation of FDI norms and high demand for commercial property from the booming IT & ITES sector, even in non-metros, have given a fillip to the real estate sector, which saw a robust 30 per cent growth in 2005, even as increase in cement prices drove up construction costs.

2005 started on a promising note when the government in February allowed 100 per cent FDI under the 'automatic route' in the construction and development sector, in order to spur investment in the vital infrastructure sector.

The relaxation saw biggies like Dubai-based Emmar Properties - the largest listed real estate developer in the world - joining hands with the Delhi-based MGF Developments to announce India's largest FDI in realty sector amounting to over US \$500 million in projects having capital outlay of US \$4 billion.

Groups evincing keen interest included insurance company American International Group Inc (AIG), High Point Rendel of the UK, Edaw- US, Japan's Kikken Sekkel, Lee Kim Tah Holdings and Cesma International from Singapore.

During the year, India's realty sector not only emerged as the growing target destination for investment at par with China, but it also provided highest 20 per cent of returns on real estate investment as against 10 per cent elsewhere in the Asia Pacific region.

India tops in remittances

Indians working abroad sent a whopping US\$21.7 billion to their kins in 2004, making the country highest recipient of remittances worldwide, according to a recent World Bank report.

Remittance inflows to India was higher than China (US\$21.3 billion), Mexico (US\$18.1 billion), France (US\$12 billion) and Philippines (US\$12 billion), the World Bank report on Global Economic Prospects said.

Among South Asian nations, Indian migrants sent back home more than five times than their counterparts in Pakistan (US\$3.9 billion) and Bangladesh (US\$3.4 billion). With rise in migration of workers across the borders, remittances worldwide is set to touch US\$232.8 billion this year from US\$225.8 billion in 2004.

"Of this, developing countries are expected to receive US\$167 billion, more than twice the level of development aid from all sources," it said. Remittances to developing nations were at US\$160.4 billion last year.

Remittances sent through informal channels could add at least 50 per cent of the official estimate, making remittances the largest course of external capital in many developing nations, it said.

The increase in remittances reflected a rise in migration, which can generate substantial welfare gains for migrants and their families, as well as the home country, the bank said.

World Bank estimates that increase in migrants would raise the work force in high-income countries by 3 per cent by 2025, which would in turn increase global income by 0.6 per cent or by US\$356 billion.

Of the US\$162 billion going to new migrants, the bank estimates US\$143 billion will go to developing nations and US\$51 billion to people in high-income nations. To attain these gains, World Bank asked developing nations to enter into agreements with countries to which their workers migrate, to improve the conditions under which they cross borders, seek and maintain employment and send a part of their earnings home.

Managed migration programs including temporary work visas for low-skilled migrants in industrial countries, could help alleviate problems associated with a large stock of irregular migrants and allow increased movement of temporary workers, the report said.

The bank also pointed to high fees charged by remittance service providers at about 10-15 per cent for small transfers, and said: "Increased competition in the remittance transfer market would result in lower fees, thereby increasing the

disposable income of poor migrants as well as their incentives to send more money home."

Net subscriber base tops 6-million mark

IT is not just the mobile segment that is breaking records, the dial-up Internet subscriber base too has crossed the 6-million mark three months ahead of the target date set by the Government as part of its broadband policy. According to the Telecom Regulatory Authority of India (TRAI) quarterly performance indicators, Internet user base has grown 15% from September 2004 to September 2005, with the private operators accounting for 2.6 million users. Broadband usage has, however, had a slow growth with just over 0.6 million subscribers against a target of 3 million by end of 2005. TRAI pointed out that the minimum monthly tariff for broadband had come down to the level of dial-up Internet charges for a month for similar usage.

Retail market may touch 36% growth by 2008

EVEN as the Government weighs the option of opening retail sector to foreign participation, a bullish economy has already increased the size of the sector in the country with an Associated Chambers of Commerce and Industry of India (ASSOCHAM) study projecting the overall size of domestic retail market to grow at the rate of about 36% by 2008. According to the study 'Retail and its Prospects', this growth would broaden the total size of the market to over Rs 14,790 billion from its current level of Rs 5,880 billion. The study also forecasts that the size of organised sector retailing will witness about three-fold growth which will balloon to Rs 150 billion by end of 2008 from its present estimated size of Rs 50 billion.

India Inc. raises \$1 billion via ECBs, FCCBs

INDICATING that India Inc is investing heavily in greenfield projects and is looking increasingly towards the overseas market for raising funds about 49 corporates from India Inc raised close to \$1 billion in the form of External Commercial Borrowings (ECBs) or Foreign Currency Convertible Bonds (FCCBs) during November 2005. According to the data released by the Reserve Bank of India (RBI), at least 15 corporates raised close to \$383 million for the purpose of project financing. A majority of these are greenfield projects. Meanwhile, out of the total amount of \$967.5 million mobilised from overseas during November, loans aggregating \$951.5 million were raised through the automatic route, while, another \$16 million was raised through the approval route of the RBI.

External Sector: Foreign Trade April - October

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2004	2005	2005	2004	2005	2005
World	42421.9	52434.1	23.60	57178.2	76867.7	34.44
Africa	2707.4	3648.8	34.77	1998.7	2455.1	22.83
Egypt	217.8	309.9	42.30	92.9	152.6	64.32
Kenya	238.3	254.0	6.58	25.5	25.3	-0.72
Mauritius	112.0	102.0	-8.87	4.7	3.8	-20.03
Nigeria	308.6	418.6	35.66	37.4	38.6	3.08
South Africa	576.6	860.8	49.29	987.2	1383.1	40.10
America	9335.8	11029.0	18.14	4707.9	5910.8	25.55
Brazil	389.4	652.3	67.51	391.3	574.2	46.74
Canada	458.9	499.6	8.87	315.5	498.9	58.14
Mexico	214.6	214.6	-	38.3	47.0	22.76
USA	7695.5	8902.8	15.69	3350.6	4085.5	21.93
Asia (excl. Middle East)	12646.9	16662.0	31.75	13700.7	17488.1	27.64
Bangladesh	805.5	846.1	5.05	24.0	40.5	68.95
China	2016.3	3002.0	48.89	3557.5	5233.5	47.11
Hong Kong	1961.7	2643.8	34.77	870.9	1243.2	42.74
Indonesia	639.7	701.8	9.71	1422.3	1518.4	6.76
Japan	1014.4	1227.1	20.97	1606.2	1815.1	13.01
Korea DPR (North)	102.4	16.6	-83.80	1.6	0.3	-81.83
Korea Republic (South)	527.7	791.7	50.05	1710.5	2222.3	29.92
Malaysia	616.2	556.2	-9.74	1234.3	1243.2	0.72
Nepal	446.0	463.6	3.95	177.7	217.0	22.07
Philippines	206.8	253.7	22.68	113.5	115.0	1.24
Singapore	1898.9	3196.9	68.35	1356.2	1624.8	19.80
Sri Lanka	741.4	1143.0	54.17	157.1	280.1	78.33
Taiwan (Taipei)	318.0	307.0	-3.47	565.2	752.5	33.13
Thailand	443.7	550.7	24.11	432.4	634.3	46.69
Viet Nam	263.5	301.0	14.22	46.8	64.8	38.39
Middle East	6572.4	7555.7	14.96	4055.3	5566.0	37.25
Iran	684.4	553.9	-19.06	188.2	378.5	101.10
Iraq	70.4	51.2	-27.30	0.5	1.0	94.32
Israel	598.0	673.0	12.54	485.1	576.7	18.89
Kuwait	225.6	271.7	20.46	122.2	208.0	70.30
Saudi Arabia	775.5	961.4	23.97	658.2	788.9	19.85
UAE	3569.8	4191.8	17.42	1964.2	2751.7	40.09

Europe	10451.8	12898.4	23.41	13393.0	18186.4	35.79
European Union	8854.5	11098.6	25.34	9144.8	11901.4	30.14
Belgium	1331.7	1533.9	15.19	2391.2	2913.1	21.83
Denmark	150.3	198.6	32.13	128.9	190.6	47.86
France	859.5	1083.1	26.01	652.7	800.0	22.57
Germany	1453.6	1715.8	18.04	1998.0	2960.6	48.18
Italy	1092.5	1186.9	8.64	682.5	898.8	31.70
Netherlands	766.0	1174.7	53.36	381.6	561.8	47.22
Spain	670.6	783.9	16.90	201.5	288.7	43.25
Sweden	124.6	158.9	27.47	572.9	532.1	-7.13
UK	1867.5	2571.1	37.68	1709.5	2222.5	30.01
Other European Countries	1597.3	1799.7	12.68	4248.2	6285.1	47.95
Russia	327.9	381.4	16.31	706.4	1145.1	62.11
Switzerland	319.3	253.9	-20.46	2822.6	4043.0	43.24
Turkey	375.7	486.6	29.55	77.9	117.0	50.20
Oceania	459.6	563.3	22.57	1954.6	2669.2	36.56
Australia	386.1	446.8	15.72	1844.7	2544.0	37.91