

Monthly Economic Analysis

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Macro Economic Developments

Industrial Growth

The index of industrial production for the period April- November 2006-07 reveals a strong sustained growth in the Indian Industry. The general index on industrial production shows a rise of 10.6 per cent in the first eight months of 2006-07 against the 8.3 per cent growth seen in the corresponding period of last year. All the three categories of the industry, manufacturing, mining and electricity sectors have fueled the growth in the economy, each growing at 11.5 per cent, 3.8 per cent and 7.3 per cent as compared to the 9.4 per cent, 0.5 per cent and 5.0 per cent growth respectively in the same period of previous year.

Going by the index on the use-based classification we observe acceleration in the growth of basic and the intermediate goods. In the eight months of the year the capital goods too maintained the rate of growth at 16 per cent, same as posted in the corresponding period of last year. The basic and intermediate goods clocked a growth of 9.3 per cent and 10.0 per cent in the April- November period of 2006-07 in contrast to 6.1 per cent and 2.5 per cent in same period of the previous fiscal.

A slowdown was however observed in the consumer goods sector during the April-November period of 2006-07 on account of deceleration in both consumer durables and non-durables.

The Industry sectors that have posted growths much higher compared to the growths in the corresponding period of previous year are basic metals (20.4 per cent), transport equipments (16.3 per cent), machinery equipments (14.1 per cent), non metallic products (13.7 per cent), cotton textiles (13.1 per cent), rubber plastic products (11.9 per cent), metal products (6.8 per cent) and wool (6.6 per cent). Beverages and tobacco products, chemical products and textile products were however the laggards during the period .

The poor performers among the 17 industry sectors were the food products , jute , wood and leather.

Core infrastructure industries

During the April – December period of 2006-07 the six core infrastructure industries grew at 8.3 per cent as compared to 5.5 per cent in the same period of the previous fiscal. It was observed that the production of petroleum refinery (12.6 per cent), electricity (7.5 per cent) and crude petroleum (6.0 per cent) accelerated during the first three quarters of the current fiscal compared to the growth in the same period of last year. However, the growth of the other three sectors namely coal, finished steel and cement were found to have slowed compared to the growth in the same period of previous year.

Telecommunication

The number of telephone users registered is 10 million short of achieving the 200 million mark. Upto December 2006 India has achieved a total telephone subscription of 189.9 million phones and a teledensity of 17.16. Growth in the total phone subscription sustained solely on the back of growing mobile phone connections. Net addition of wireless and fixed line subscribers in the first nine months of FY 2006-07 was 49.6 million, which is almost twice as compared to the addition of 26.37 million in the corresponding period of FY 2005-06.

Inflation trends

The rising overall wholesale price index has become a cause of concern for the growing Indian economy. Inflation for the month of January 2007 has crossed 6.0 per cent. However on a cumulative basis, the average inflation from April- January period of 2006-07 still remains controlled, containing within the upper limit of inflation tolerance of 5.5 per cent.

Data on inflation reveals primary articles and manufactured items responsible in pushing up the price index to 208.33. In January 2007 specific commodities that become dearer and took the inflation beyond 5.5 per cent mark were cereals and pulses, milk and condiments and spices. Among the manufactured products the non-metallic mineral products, machinery and machine tools, food products and basic metals and alloys were found to be the primary contributors to the rising price index.

In December 2006 the government used the monetary instrument to combat the alarming inflation. Despite the use of preemptive monetary and fiscal measures the inflation index failed to show desirable results. It seems that reasons beyond liquidity in the market were responsible in pushing up the price index. Perhaps the supply constraints have played a role in the rise in the prices of these commodities.

Monetary indicators

The third quarter review observed that money supply has exceeded the "indicative trajectory" reflecting strong demand conditions in the economy. Variation in broad money as on December 22, 06-07 grew by 10.6 per cent against 8.4 per cent in the same period of the previous fiscal. Government borrowings were on the rise by 2.6 per cent while the commercial borrowings marginally fell to 14.0 per cent. Substantial rise in the net foreign exchange assets of banking sector was witnessed; it increased by 14.5 per cent as against the rise of 6.1 per cent in the same period of last year.

Aggregate deposits swelled up by 13.2 per cent , investments in the government securities grew by 3.8 per cent against the negative 5.7 per cent growth seen in the corresponding period of last year.

Total credit off take slid marginally to 17.2 per cent upto December 2006-07 compared to the bank credit off take in the same period of previous fiscal. On a year on year basis we find the total credit grow by 30.1 per cent.

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

Fiscal Trends

The gross revenue collection of the government speeded up by 32.8 per cent cumulatively up to October 2006 as compared to 18.8 per cent for the same period of last year. During the April- December period of 2006-07 the tax collections from the corporate sources accelerated by 55 per cent and income tax collections grew by 27 per cent - both contributing 45 per cent to the total tax kitty.

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

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

Foreign Trade

After registering a relatively high growth for a few months the export growth slowed down in December 2006, registering 19.5 per cent growth at \$9.9 billion. However, cumulatively, the country's exports remain buoyant during the first three quarters of the current fiscal, posting 36.27 per cent growth at \$89 billion as against \$66 billion during the corresponding period of the previous year.

Export growth for the period April- December 2006 slowed down to 22 per cent if the revised figure for April-December 2005 (\$73 billion) is compared to the provisional figure of the corresponding period this fiscal (\$89 billion).

The country's imports during December 2006 valued at \$15.5 billion against \$10.9 billion in December 2005 grew at 42 percent. Import growth during the first three quarters of the current fiscal was at 36.30 per cent

Cumulatively, non-oil imports during April-December 2006 valued at \$87.3 billion increased by 18.67 per cent higher than the level of imports valued at \$73.6 billion in the corresponding period last year.

Crude oil imports during the first three quarters of the current fiscal were valued at \$43.8 billion that was 39.23 per cent higher than the \$31.4 billion of oil imports in the same period of previous year. This has widened the trade deficit to \$41.7 billion higher than the deficit of \$30.5 billion during April-December 2005.

Stock Market Trends

The 30 stock index BSE Sensex achieved 13942 points in the beginning of the calendar 2007. The Sensex was few points from achieving another peak of 14000 points. The NSE Nifty too peaked new heights crossing 4000 points . This surge in the stock market was on the back of strong buying by the FIIs.

Capital Inflows

Total foreign capital inflows touched \$ US 10.7 billion, contributed mainly by foreign direct investments that stood at \$ US 7.4 billion in the first eight months of 2006-07. The foreign direct investment during the period was higher than the \$ US 7.3 billion received in fiscal 2005-06. The other component of Capital inflows, portfolio investment which is mainly composed of the GDR / ADR and FIIs started picking up since August 2006, solely on account of strong inflows from the FIIs. For the April- October period of 2006-07 portfolio investment stood at \$ US 3.3 billion.

Foreign Exchange Reserves

In the end of January 2007 India's foreign exchange reserves rose by \$ 2 billion to touch \$ US 179.0 billion compared to \$ US 177 billion in the end of December 2006. The rise in the reserves was on account of increase in the foreign currency assets by about \$ US 2 billion. Foreign currency assets expressed in dollars include the effect of appreciation or depreciation in non-US currencies (such as euro, sterling and yen) held in reserves.

Trends In Exchange Rates

The exchange rates that have been analyzed from December 2006 to January 2007 show gradual firming up of Indian Rupee against the USD. Indian Rupee traded at Rs 44.67 in the beginning of December 2006 and gradually firmed up to Rs 44.23 towards the month end. Rupee continued to remain strong in the in early January 2007 and weakened in the middle of the month before closing at a strong Rs 44.17.

Against Euro the Indian Rupee gained gradually from December 2006 to the end of January 2007. Rupee traded at an average of Rs 58.99 in December 2006 and Rs 57.67 in January 2007. In January 2007 INR vis-a vis Euro traded at a high Rs 58.88 and low of Rs 57.13.

Lead Stories of the Month

Indian economy set to grow at 9.2 per cent

Continued buoyancy in manufacturing and services will see the Indian economy grow 9.2 per cent in 2006-07, making it the second consecutive year that the economy has grown at this rate, according to advance estimates of national income from the government's Central Statistical Organisation (CSO).

These numbers come a week after the government revised 2005-06 GDP growth from 8.4 per cent to 9 per cent. They surpass initial CSO estimates of 8.1 per cent and Reserve Bank's revised estimates of 8.5-9 per cent. This is also the fastest growth since 1989.

Reacting positively to the advance estimates, the benchmark BSE Sensex jumped 164.94 points, a 1.14 per cent increase, to close at 14,643.13.

"We are happy to note that the estimate for GDP growth at constant prices is 9.2 per cent. This is particularly gratifying because it is upon a base year growth of 9 per cent in 2005-06," said Finance Minister P Chidambaram.

The advance estimates peg manufacturing growth at 11.3 per cent, against 9.1 per cent a year ago, and services at 11.2 per cent (9.8 per cent a year ago).

However, agricultural growth at 2.7 per cent is slower than the targeted 4 per cent and 6 per cent in the previous year.

GDP growth of 9.2 per cent also raises the possibility of a lower fiscal deficit. If the government contains its fiscal deficit at Rs 1,48,686 crore during the year and the current revenue buoyancy continues, Chidambaram will be able to announce a fiscal deficit of around 3.6 per cent of GDP, against the targeted 3.8 per cent.

Dispelling fears about the economy overheating, the finance ministry's chief economic advisor Ashok Lahiri said there were no signs of this happening. "Does high growth entail overheating? My categorical answer is no," he said.

"If you have ambitions of developing and (reducing) eradicating poverty, the economy needs to grow like this for decades," Lahiri added, underlining that the country could sustain high growth.

Experts agree that India will continue to record high growth rates. "The 9.2 per cent advance estimate of GDP growth does not surprise me, after 9.1 per cent growth in the first half of the year. The final figure may not be very far from the advance estimates," said Subir Gokarn, chief economist, CRISIL.

WTO Services negotiations to be win-win for India

The ongoing negotiations in the World Trade Organisation (WTO) on services as part of the Doha Round is expected to lead to an ambitious outcome that will be a win-win scenario for India and other developing countries having a comparative advantage in the area of services such as professional and IT-enabled services. Participating in the CII Partnership Summit session on “ Trade in Services: Dynamics are Different”, Shri Kamal Nath, Union Minister of Commerce and Industry, said that the services negotiations were very important for India as 52 % of India’s GDP today constituted services and this year India would be exporting services worth more than US \$ 50 billion – equivalent to almost half of the country’s total trade in merchandise or goods. The services sector also contributed significantly to employment growth in the country. Hence, it was important to ensure market access for India abroad in the areas of movement of persons as well as cross-border supplies like business process outsourcing (BPO) by addressing in the WTO negotiations the issue of the new barriers being erected in the developed countries.

At the Hong Kong Ministerial, Shri Kamal Nath said, in services, India sought to strike a balance between the “development” dimension as well as push towards more liberal offers from developed countries in areas of interest to developing countries. “ To do so, it was felt that the dynamics of the negotiations would have to include plurilateral requests as well, while retaining the primacy of the request-offer process in the negotiation. We got binding commitments (from other countries) in cross border supply of services and in movement of natural persons. Of course, it is expected that plurilateral requests would also be placed on India and other developing countries, mainly in mode 3 (which in WTO parlance refers to commercial presence including foreign direct investment). But plurilateral requests are optional and countries always retain the policy space and space best suited to their own special needs”, he explained.

Automobile Industry grows over 15.91 % in April- December 2006

The Automobile Industry registered a total production of 8.2 million vehicles in April-December 2006 and witnessed a production growth of 15.91 percent in April-December 2006 compared to April - December 2005.

Looking at the calendar year, the automobile industry has registered a total production of 10.9 million vehicles in the period January to December 2006 and witnessed a production growth of 16.22% over 2005. This is up from 14.5% growth witnessed in 2005 over calendar year 2004.

The cumulative growth of overall Passenger Vehicles during April- December 2006 was 20.76 percent.

The cumulative growth of passenger vehicles was 18.45% during the calendar year 2006. This is in contrast to less than 7% growth witnessed in 2005 over 2004.

Passenger cars grew at 20.0% compared to 12.4% for utility vehicles and 16.3% in MPVs.

Overall Two Wheeler market grew by 13.45 percent during April- December 2006 over the same period last year. Motorcycles grew by 15.81 percent; Scooters grew by 1.46 percent and Mopeds Grew at 5.21 percent.

Overall two wheeler market grew by 15.4% in January to December 2006 over the same period last year. Motorcycles grew by over 15.8%, scooters by 1.5% and mopeds by 5.2%.

Three Wheelers sales grew at 17.94 percent. Goods Carriers grew by 21.25 percent and Passenger Carriers grew at 15.64 percent during the April- December 2006, over the same period last year.

During January to December 2006, Three Wheeler sales grew at 19.4%. Also passenger 3 wheelers have again picked up momentum and grew at 21% compared to 16% for goods carrier unlike the previous year when goods carrier grew at a higher rate than passenger carrier.

Overall Commercial Vehicles segment grew at 37.15 percent. Growth of Medium & Heavy Commercial Vehicles was 39.12 percent. Light Commercial Vehicles also performed well with a growth of 34.44 percent.

During the calendar year 2006, commercial vehicles sales grew at 32% with both M&HCV and LCVs showing similar trend (around 32% growth). However, while the goods carriers grew at 36.3%, the passenger carrier segment is not keeping pace with the overall growth and expected to be only around 6%.

Overall automobile Exports registered 28.74 percent growth rate in April-December 2006 over the same period last year. Passenger Vehicles Exports grew by 13.97 percent.

Two Wheelers Exports grew by 25.76 per cent, Three Wheelers grew by 83.2% percent and Commercial Vehicles by 27.64 percent.

During the calendar year 2006, overall automobile exports registered a 29% growth over the last calendar year. Passenger vehicles export was 193,810 in 2006 registering a growth of 12.9%. Two-wheelers and commercial vehicles registered 24% and 26% growth in exports during the year while that of three wheelers was 72%.

Indian biz optimism at peak

Global business executives are more confident about the economic outlook for their businesses in 2007, led by rising optimism in Asia and Europe. Business

sentiment is at an all-time high in India, which tops the list of 32 countries surveyed by London-based accounting firm Grant Thornton.

Business sentiment in Asia is at an all-time high with India the most upbeat, followed by the Philippines and China, according to Grant Thornton International's new survey on business optimism/pessimism that polled 7,200 leaders of private firms in 32 countries. The survey found Asians the most confident in the world as they looked ahead to the next 12 months. Asian countries took the top four spots on the list. The indicator covers 81% global GDP.

India was the most upbeat with 97% of the respondents optimistic. The Philippines followed with 88%, China was third at 85% and Singapore fourth with 84%. Ireland, the Netherlands, South Africa, Hong Kong, Sweden and Argentina filled the remaining top 10 spots with the global average at 45%.

The poll, which was included in the firm's International Business Report (IBR) for 2007, indicated that for the first time in five years, the findings of the survey didn't appear to be influenced by extraordinary global events like terrorism, natural disasters or health threats.

The initial findings from the business report showed that medium to large privately held businesses around the world are considerably more optimistic about the prospects for their economies in 2007. Overall, the IBR shows businesses in 29, of 32 countries, are optimistic about their economy's performance in 2007, with 24 being more optimistic than last year.

India's position at the top of the optimism/pessimism league table has strengthened to an unprecedented +97% up from +93% in 2006. The survey is based on the percentage balance of positive and negative responses. The highest possible figure countries are able to record is 100 and the lowest is minus 100.

"It is remarkable to note the jump in confidence over the Indian economy among Indian business owners to a balance of 97% from 93% in 2006, and therefore for the fourth consecutive year Indian business owners are the most optimistic amongst over 7,000 others in 32 countries globally. It is this business confidence of Indian business owners that is marking the steady stream of global acquisitions by Indian corporates," Vishesh Chandiok, Partner & Director, International Business, Grant Thornton India said.

India Inc upbeat on future growth, says CII survey

Indian Inc is upbeat about future growth, both for itself and the economy, says Confederation of Indian Industry's 66th Business Outlook Survey.

The chamber's business confidence index for the period October to March of the current fiscal at 71.8 was higher by 2.5 points compared with April to September period of the previous fiscal.

The survey revealed that 85 per cent of the respondents plan to increase investments during the October to March period.

Capacity utilisation across the board has increased and 58 per cent of the respondents have expressed confidence that capacity utilisation will be in the range of 75-100 per cent.

Yet another 24 per cent of the respondents expressed confidence that the capacity utilisation will exceed 100 per cent.

Fifty six per cent expected employment to increase in the second half of this financial year, while 73 per cent expressed confidence in growth in exports. On the performance of the economy, 32 per cent respondents said that GDP growth for 2006-07 is expected to be between 8.5 and 9 per cent. Twenty two per cent of them feel that economy would grow in excess of 9 per cent in the near future.

However, 67 per cent of the respondents felt that procedural delays on the export front had not reduced.

This has been a long-standing hurdle for exporters, which raises transactions costs and needed urgent attention.

The survey covered around 200 respondents from companies across the country.

FDI inflow may double in 2007

Inflows of foreign direct investment (FDI) into India have increased significantly during the current financial year, according to the minister of commerce and industry Kamal Nath.

The inflows are likely to be more than double the amount recorded in 2006, said Mr Nath while presiding over the meeting of the parliamentary consultative committee on Tuesday.

FDI equity inflows during April 2006 to November 2006 were \$7.2 billion, which is the highest ever for equity capital since economic liberalisation. Mr Nath said that monthly inflows this fiscal crossed \$1 billion during July, October and November 2006.

The higher inflows as well as the new credit rating reflected growing investor confidence in India, the minister added. According to him, FDI inflows by the end of

this fiscal would reach \$12 billion. This means an unparalleled growth of 120% over the previous year.

A presentation made on the occasion highlighted the fact that in the A T Kearney's FDI confidence index India's rank as a FDI investment destination has improved from number 15 in 2003 to number 2 in 2006. According to the leading financial firm J P Morgan, the return on equity on investments made in India is the highest in Asia at 18%. Services sector has become the top sector in attracting FDI during April-November 2006.

In response to a suggestion made by the members of the committee, Mr Nath agreed to set up an expert committee to look into the sectors into which FDI was flowing and its impact on the rural economy. The committee will study sectors where FDI has been allowed by the government and has a direct or indirect impact on the rural economy. Its findings would help ensure fair dispersal of FDI and thereby a reduction in the rural-urban divide, the minister said.

The committee members agreed with the minister on the importance of FDI in the country's economy in terms of not only generating economic activities and jobs, but equally in facilitating transfer of technology and managerial capabilities, which helps enhance India's global competitiveness.

Foreign Trade Statistics

External Sector: Foreign Trade April - September

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2005	2006	2006	2005	2006	2006
World	48031.1	61207.7	27.43	70748.2	87284.0	23.37
Africa	3162.0	5034.3	59.22	2559.7	7686.1	200.27
Egypt	300.3	323.2	7.61	138.1	934.6	576.74
Kenya	227.5	785.6	245.37	26.6	27.9	4.98
Mauritius	97.3	284.7	192.68	3.4	5.9	75.65
Nigeria	351.7	434.4	23.51	39.6	3888.9	9718.63
South Africa	718.6	1217.6	69.44	1343.4	1295.4	-3.57
America	10249.1	11987.3	16.96	5548.2	8063.9	45.34
Brazil	627.3	804.3	28.23	564.4	376.9	-33.22
Canada	495.7	573.1	15.60	450.4	573.7	27.38
Mexico	201.8	258.4	28.08	43.9	268.1	510.71
USA	8181.7	9386.7	14.73	3856.3	5021.0	30.20
Asia (excl.	15098.6	18438.3	22.12	16448.6	24262.8	47.51

Middle East)						
Bangladesh	773.1	808.1	4.53	45.6	128.1	180.93
China	2899.9	3443.3	18.74	4970.2	7991.3	60.79
Hong Kong	2299.9	2242.8	-2.48	1097.9	1220.6	11.18
Indonesia	542.2	904.8	66.89	1458.6	1759.5	20.63
Japan	1151.5	1229.3	6.75	1720.8	2143.5	24.57
Korea DPR (North)	15.7	83.0	427.55	0.3	309.1	106741.56
Korea Republic (South)	805.4	1061.2	31.75	2054.8	2399.4	16.77
Malaysia	514.1	592.2	15.21	1180.8	2560.6	116.86
Nepal	412.4	468.2	13.53	183.8	140.4	-23.62
Philippines	246.8	322.7	30.75	112.8	100.4	-11.01
Singapore	2693.8	3530.3	31.05	1489.2	2696.5	81.07
Sri Lanka	1038.5	1146.9	10.44	277.4	265.3	-4.35
Taiwan (Taipei)	295.7	397.1	34.28	724.1	813.1	12.29
Thailand	497.0	696.4	40.11	602.6	811.8	34.71
Viet Nam	281.5	398.6	41.61	65.6	89.6	36.59
Middle East	6806.0	10741.2	57.82	5138.9	24792.8	382.46
Iran	505.4	832.6	64.75	357.5	3822.0	969.20
Iraq	43.4	100.9	132.44	1.0	2967.6	297416.96
Israel	609.9	643.7	5.54	530.6	499.1	-5.93
Kuwait	247.6	298.2	20.42	156.7	2890.2	1744.58
Saudi Arabia	902.5	1178.5	30.58	716.1	7188.8	903.85
UAE	3744.1	6177.9	65.00	2565.1	4419.5	72.30
Europe	12120.5	14030.1	15.76	17269.2	18464.9	6.92
European Union	10433.5	12234.6	17.26	11089.9	12315.7	11.05
Belgium	1350.7	1604.6	18.80	2574.7	1949.6	-24.28
Denmark	193.6	224.5	15.97	180.4	187.1	3.76
France	1057.2	1077.0	1.87	761.2	974.1	27.98
Germany	1646.4	1954.4	18.71	2846.0	3584.3	25.94
Italy	1160.7	1692.6	45.82	882.9	1247.4	41.29
Netherlands	1106.9	1165.3	5.28	538.3	512.0	-4.88
Spain	737.7	879.8	19.26	271.4	302.2	11.36
Sweden	152.2	172.9	13.62	534.5	897.8	67.97
UK	2397.9	2678.2	11.69	1996.6	1913.1	-4.18
Other European Countries	1686.9	1795.5	6.44	6179.3	6149.3	-0.49
Russia	350.9	418.9	19.38	1039.5	833.3	-19.83
Switzerland	241.2	205.5	-14.79	4054.4	3931.1	-3.04
Turkey	453.3	474.7	4.73	108.8	98.7	-9.34
Oceania	520.1	918.7	76.62	2698.4	3746.0	38.82
Australia	410.8	439.4	6.98	2563.6	3381.0	31.89

