

Monthly Economic Analysis Fortune 2007

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Macro Economic Developments

Industrial Growth

Industrial growth reduces to 7.6% in December 2007-08 compared to high growth in the same month of the previous fiscal. During the month this slowdown was witnessed in all the three sectors, mining, manufacturing and electricity that posted 3.8%, 8.4% and 3.0% respectively in December 2007-08 compared with 9.1%, 14.5% and 6.1% respectively in the corresponding month of previous year.

The lackluster performance was also seen in the use-based classification. Basic, intermediate and capital goods sectors slowed in the month of this fiscal. Consumer goods too were seen to decelerate, on account of slowdown in non-durables category. Growth in the durables sector has however picked up by a margin.

During the April-December period of 2007-08, growth of the main driver of industrial growth, manufacturing sector, remains low as compared to the growth of the previous year.

In the first three quarters of 2007-08 growth in the basic and intermediate goods was lower than the growth registered in the corresponding period of 2006-07, while that of capital goods remained ahead.

Growth in consumer goods decelerated to 5.8% in the nine-month period of 2007-08 compared to 9.9% in the corresponding period of the previous year. During the period the consumer durables still continues to post negative growth.

In December 2007 all the industry sectors have posted a positive growth except for wool, leather, non-metallic products, metal products. During the period we found only production of metal products decline.

Core infrastructure industries

In the ninth month of the year the six-core infrastructure industries witnessed a slippage in growth numbers, a low growth rate of 4.0% as against the 9% previously. Growth remained subdued even during three quarters of the year, it stood at 5.7% as against the 8.9% a year ago.

In December 2007 the growth rate of finished steel, cement and powered was almost half of that of the previous year and slipped even below that in the case of petroleum refinery. Crude petroleum turned negative, however growth of coal continues to post a higher growth since August 2007.

Telecommunication

Total phone connection heads to achieve the next 100 million by the end of this fiscal. Total phone subscription touched 272.88 million connections, a jump of 66.08 million over the subscription numbers by the end of 2006-07. Mobile phone connections are seen to add 7-8 million phones on an average every month, whereas the landline connections are found to drop, standing still at 39.25 million.

Inflation trends

Speedy rise in the price index has been curbed below 4%, however the Inflationary pressures remain. Monetary instruments and partly the high base effect in last year also aided to reduced inflation numbers. Ban on the exports of some of the food items too were responsible in bringing down inflation.

There has been a slight bounce back in the inflation numbers. Inflation went up again from an average of 3.1% in November 2007, to 3.6% in December 2007 and now nearing to an average of 4.0% (3.9%) in January 2008. Weekly numbers show this gradual rise in inflation, began in the last week of November 2007. The rise in the overall index has been mainly due to increase in the fuel, oil and lubricants (coal mining) and manufacturing products (food products and transport equipments).

Monetary indicators

Money supply has picked up (percentage change is from March 2007 to the December 2007). The increase in M3 is much more than what has been targeted (17-17.5%) for the current fiscal FY08 when calculated in Y-o-Y terms. Government and commercial borrowings in December this fiscal suffers from a slowdown, 0.3% and 9.8% respectively from 3.2% and 14.0% recorded in the corresponding month of previous fiscal. While the net foreign exchange assets of the banks continue to rise ahead (21.4%) of the previous year's increase of 16.7%.

The growth in net non-monetary liabilities remained at a low 2.3% against 20.6% in the previous year. Investments in the government and other approved securities picked up sharply by 16.8% compared to 3.6 % in the corresponding period a year ago. High interest rates led to a slowdown in the total credit off take, a rise of 11.4% in December 07-08 as against 17.4% in FY07. The increase was seen only in the non-food credit.

Fiscal Trends

Gross tax collected in the end of third quarter (cumulative) of FY08 rose by 27.0% to Rs 389345 crores. Percentage of taxes from the direct sources crosses 50% compared to about 45% previously. Corporation tax mops Rs 128698 crores in December 2007; its growth continues to chase the high growth rate of 55% achieved in the previous fiscal. There has been speed-up in the income tax collected since July 2007 it increased by 42.7 percent, in December 2007 against 27.0 percent recorded in the previous year.

Taxes from the indirect sources have shown a gradual decline accounting for remaining half of the total tax collected. Customs and Excise collection have slowed to 16.9% and 5.1% in the ninth month of this financial year as against 32.9% and 6.8% respectively in the corresponding month of previous year.

Government total spend is running steady, 69.7% of the targeted for FY08 spent in the first nine months and so has been the case of receipts, 74.9%.

Foreign Trade

Merchandise exports has slowed to 21.7 % (in US dollar terms) during the first three quarters of 2007-08 compared to 21.9 % in the corresponding period of previous year . In December 2007 our cumulative exports for the three quarters stand at USD 111049 million and imports have increased by 25.9% to USD 168871 million, widening trade deficits to USD 57821 million. In Rupee terms the numbers show an acute slowdown in exports.

Detailed numbers available up to September 2007 show Indian exports speed-up in value (USD) terms seen in commodities such as Rice and Spices among the Agricultural and allied products, Iron ore in ores and minerals category, and Gems and Jewelry in the case of manufactured products. Growth in markets for Indian exports namely UK, USA, UAE and China suffered a slowdown and export growth to Singapore turned negative. Three markets that emerged strongly were Belgium, Netherlands and Hong Kong.

On the other hand India's imports accelerated by 27.7%, the commodities of high value mainly contributing to the increase are edible oil, pulses, iron and steel, pearls, precious and semi-precious stones, gold and silver, coal coke and briquettes. Growth in imports from main partners has slowed. It has been seen that imports from Belgium and Netherlands are on the rise proving to be potential trading partners.

Stock Market Trends

In February 2008 Indian stock market indices have taken a dip. Sensex was witnessed to melt by 10.1 percentage points and Nifty by 13.5 percentage points. Sensex dropped from above 20k points to near 18K points. During the period we saw overseas investments being taken away from Indian as well as global markets due to the fear over US recession, which will not see recovery soon. Domestic institutional investors too pulled back from the Indian Market and moreover IPO fever diverted most investments. Volatility in the Indian stock market will remain in the near-term, however the long-term outlook curve looks positive.

Capital Inflows

India's total foreign investments inflated to US\$ 48.9 billion in December 2007-08 with about US\$ 33.3 billion coming from portfolio sources and the rest US\$15.3 billion as foreign direct investments. During the same period of previous year total foreign investments stood at US \$15.7 billion of which 67% about US\$10.5 billion was received as FDI and the rest as portfolio.

Foreign Exchange Reserves

Present foreign exchange reserves are enough to cover roughly 18 months of imports, but such high reserves comes with a cost that it incurs. Forex reserves increased by a margin in a month's time when reserves in December 2008 were compared with that of the previous month's. India's foreign exchange reserves touched USD 275.9 billion in December 2007, where USD 266.7 billion (96%) comes as foreign currency assets and the rest from Gold, SDR and reserve tranche position in IMF.

Trends In Exchange Rates

Rupee stays stable in the third consecutive month of the fiscal. Despite intervention from the central bank Rupee traded at a high if Rs 39.27 as against the USD. In the initial trading sessions Rupee was seen to trade strong before weakening in the concluding trading sessions. It averaged at Rs 39.37 to a \$ in January 2008.

However during the month Rupee stays firm in its battle against Euro. It remained volatile throughout the trading sessions of December 2007 and showed firmness towards the last few sessions.

Lead Stories of the Month

India's GDP Grows by 9.6% in 2006-07

The Central Statistical Organisation (CSO), India's nodal agency for monitoring national income statistics, has estimated India's GDP to have grown by 9.6 per cent during the year as against the growth rate of 9.4 per cent during the previous year.

The growth rate of 9.6 per cent in the GDP during 2006-07 has been achieved due to high growth in mining & quarrying (5.7%), manufacturing (12.0%), electricity, gas & water supply (6.0%), construction (12.0 %), trade, hotels & restaurants (8.5%), transport, storage and communication (16.6%), financing, insurance, real estate & business services (13.9%), and community, social and personal services (6.9%).

The per capita income (per capita net national product at factor cost) in real terms, i.e. at 1999-00 prices, is estimated at Rs. 22,553 for 2006-07 as against Rs. 20,858 in 2005-06, registering an increase of 8.1 per cent during the year. The per capita income at current prices is estimated at Rs. 29,642 in 2006-07 as against Rs. 25,956 for the previous year depicting a growth of 14.2 per cent.

FM Assures Policy Response to Keep up Growth

The Government will make rapid adjustments in economic measures depending upon evolving global economic situation, the Finance Minister, Shri P Chidambaram said, while exuding confidence that the growth during the current fiscal would be close to 9 per cent.

"My goal is to continue to maintain the same level of growth but at the same time government reserves the right to make rapid adjustments depending upon evolving global economic situation," Shri Chidambaram told reporters immediately after the GDP figures for 2006-07 were released.

Economy grew by 9.6 per cent during the year 2006-07, up from 9.4 per cent in the previous year, on the back of strong showing of manufacturing sector.

FDI Norms Further Liberalised

The Government has further liberalised the foreign direct investment (FDI) cap across various sectors including public sector oil refineries, while allowing foreign investment in areas such as commodity exchanges and credit information companies (CICs).

In the case of petroleum refining by PSUs, the Union Cabinet has approved hiking the equity cap to 49 per cent (from the existing 26 per cent) with prior approval of the FIPB.

However, it does not envisage dilution in the existing PSUs.

Also in the case of trading and marketing of petroleum products, the Cabinet has waived-off a condition of compulsory divestment of up to 26 per cent in favour of Indian partner/public within five years.

While FDI up to 100 per cent through automatic route is allowed for private companies, in the case of PSUs, there was a cap of 26 per cent. The decision would ease the entry of foreign players in the refining sector in partnership with PSUs.

The move assumes significance in the backdrop of the interest envisaged by foreign companies such as Kuwait Petroleum for forging alliances with new refining projects of state owned refiners.

FDI up to 26 per cent and the FII up to 23 per cent has been allowed in commodity exchanges subject to the condition that no single investor would hold more than five per cent.

The move is in sync with the stance of the Department of Economic Affairs that there should be separate caps within the overall cap of 49 per cent for the FDI and the FII investment at 26 per cent and 23 per cent, respectively.

However, DIPP had said there was no justification for imposing separate caps on the FDI and the FII within the overall foreign investment cap.

The Cabinet has also decided to exempt foreign investment in industrial parks from the provisions of Press Note 2 (2005) that stipulates conditions such as minimum capitalisation and a three-year lock in.

Similarly, in case of construction development projects, investment by registered FIIs under the portfolio investment scheme would be distinct from the FDI and outside the provisions of Press Note 2 (2005).

Retail FDI may now come in three phases

The Government may allow FDI in the retail sector in three phases. The Commerce and Industry Ministry has reopened discussions on allowing FDI in consumer electronics and sports goods retail, and if everything goes as planned, it may happen before the Commonwealth Games in 2010. In the second phase, FDI in single-brand retail may be hiked from 51% to 100%.

Depending on the impact of the first two phases, the government would consider allowing FDI in the sensitive area of multi-brand retailing. Hectic discussions are on among policymakers in Udyog Bhawan for letting foreign investors into the retail sector.

“The government would always take local vendors, kirana stores and traders into confidence before moving ahead on the retail policy. We would try and overcome resistance from factions opposing the move. But we would do it gradually,” according to a Commerce and Industry Ministry official.

The Commerce and Industry Minister, Shri Kamal Nath, has also indicated that the Government is keen to allow foreign companies in specific sectors ahead of the Commonwealth Games. The government’s view is that retail in electronics will not upset the neighbourhood kirana stores. “It’s a misconception that FDI in retail will upset all kirana stores,” the official said.

Policymakers are toying with different models for allowing foreign investors in the retail industry. Recently, the Minister for Food Processing Industries, Shri Subodh Kant Sahai, had said India would open up its \$330-billion retail market, but only after being convinced that big retailers would not affect neighbourhood stores.

The government had earlier announced plans to allow 51% FDI in multi-brand retail of consumer electronics, sports goods, building equipment and stationery. But it did not go ahead with them, largely because of the Congress President, Smt. Sonia Gandhi’s letter to the Prime Minister, asking for a study on the impact of transnational retail on mom & pop stores.

Exports Up in December by over 16%

India's exports registered a growth of 16.04 per cent to 12.31 billion dollars in December 2007, as against 10.61 billion dollars in the same month of 2006.

Imports during the month were valued at 17.68 billion dollars, up 18.06 per cent, from 14.97 billion dollars in December 2006.

For April-December period of 2007-08, India's exports stood at 111 billion dollars, registering a growth of 21.76 per cent, from 91.20 billion dollars in the corresponding period of the previous fiscal.

Imports for the April-December period of current fiscal grew 25.97 per cent to 168.87 billion dollars, compared to 134.05 billion dollars in the year ago period.

Oil imports during December, 2007 were valued at US \$ 5962.62 million which was 23.78 per cent higher than oil imports valued at US \$ 4817.29 million in the corresponding period last year. Oil imports during April- December, 2007 were

valued at US \$ 49311.55 million which was 11.68 per cent higher than the oil imports of US \$ 44156.20 million in the corresponding period last year.

Non-oil imports during December 2007 were estimated at US \$ 11718.02 million, which was 15.34 per cent higher than non-oil imports of US \$ 10159.24 million in December 2006. Non-oil imports during April- December 2007 were valued at US \$ 119559.46 million, which was 32.99 per cent higher than the level of such imports valued at US \$ 89898.56 million in April- December 2006.

The trade deficit for April-December stood at \$ 57.82 billion.

India expects to add \$100 bn to forex reserve in FY '08

At a time when managing capital flows is becoming a challenge for the authorities, the government said it expects to add \$100 billion to the forex reserves in the current financial year.

"We added \$47 billion last fiscal. In 2007-08, we expect to add \$100 billion," said the Finance Minister, Shri P Chidambaram, recently at a lecture on 'Law - an Instrument for Economic Growth.'

Overall, India's forex reserves stands at \$284.8 billion for the week ended January 19.

In this context, Shri Chidambaram said the Government's response to situation would be different from 1991, when India's forex reserves dipped below a billion dollars.

"A few years ago, we were bemoaning our forex position. I remember (the) day in 1991... (when) the forex reserves had dipped below a billion dollars. Today, our problem is not that we do not have foreign exchange but what to do with that foreign exchange," he said.

Tatas Buy Up US Chemicals Company

Tata Chemicals Ltd has said that it would acquire US-based General Chemical Industrial Products Inc (GCIP) for over \$1 billion. The company said it has entered into definitive agreements for acquiring GCIP for \$1.005 billion (approx Rs 4,000 crore).

GCIP is a leading producer of soda ash with a capacity of 2.5 million tonnes per annum with manufacturing facilities located at Wyoming, Tata Chemicals said in a filing to the BSE on January 31, 2008.

The US chemical company supplies essential raw materials used in the process of manufacturing range of familiar everyday products such as glass, soap, powdered detergent, paper, textiles, and even food. Tata Chemicals also said the transaction is subject to the receipt of stockholder and other regulatory approvals.

India Gets More Chinese Tourists

Buoyed by a 14 per cent increase in the arrivals of Chinese tourists in the country, India has expressed hope that it will soon become the number one tourist destination for the people of the neighbouring giant.

Speaking at the closing ceremony of the first "China-India Year of Friendship Through Tourism 2007" at Kunming, capital of southwest China's Yunan province, India's Ambassador to China, Smt. Nirupama Rao said 70,000 Chinese tourists visited India last year, a 14 per cent rise year on year. And 460,000 Indian tourists came to China during the same period, registering a 48 per cent jump.

She said since 2005, India had been having cooperation with many Chinese airlines, which had been conducive to the promotion of tourism interaction between the two countries.

"Further connections are required between cities of the two countries," Smt. Rao was quoted as saying by the official Xinhua news agency. "I hope in the near future, India will become the No. 1 tourist destination for the Chinese people and vice versa," she said.

"The year 2007 is just a beginning. The Sino-India exchanges mechanism will improve further with the promotion of tourism," Mr. Shao Qiwei, head of China's National Tourism administration, said.

New Ferro Alloy Project at Bhilai

The country's largest steel producer, Steel Authority of India Limited (SAIL), and Manganese Ores India Limited (MOIL) would set up a ferro alloy project at Bhilai in Chattisgarh. The plant would be a 50:50 joint venture between the two companies and would have a capacity of 100,000 tones per annum.

"The project is likely to come up with an investment of Rs 250 crore and the construction work for the project would start in a couple of months," Shri KL Mehrotra, CMD, MOIL told reporters recently after presenting a dividend cheque of Rs.29.69 crore to the Minister for Steel, Chemicals and Fertilisers, Shri Ram Vilas Paswan.

The company is also planning setting up a ferro alloy plant in Vishakhapatnam and has already acquired 100 acres of land for this purpose.

Besides, the company also plans to set up a sintering plant at Balaghat at a cost of Rs 18 crore. MOIL profit after tax shot up by 156 per cent Rs 205.50 crore during first six months of current fiscal as against Rs 80.18 crore in the corresponding period of the previous fiscal.

ONGC Videsh Goes to Colombo

The overseas-arm of the state run ONGC, ONGC Videsh, which paid one million dollars for acquiring data in the Mannar offshore basin in Sri Lanka, and Cairn India have bid for oil exploration blocks in the Island country.

"While the ONGC Videsh (India) Ltd has bid for block No 1, the Cairn India has submitted bids for block 2 and 4," the Sri Lankan Petroleum and Petroleum Resources Development Minister, Mr. A H M Fowzie said.

Studies reveal a potential for one billion barrels of crude oil in the Mannar offshore basin, he said, adding "we will get the first barrel of crude oil by 2010."

The international arm of the ONGC has already bought the Norwegian group TGC NOPE's seismic survey for one million dollars for acquiring data on the Mannar Offshore Basin. As many as 18 oil and 11 gas reserves have been identified on the Indian side of Cauvery Bay.

The Mannar Basin, located between southwestern Sri Lanka and Indian coastline in water depths ranging from 50 m to over 3,000 m, is estimated to be rich in both oil and gas.

Besides the bids on offer, Sri Lanka has offered one block each to India and China on a nomination basis. The country offered to give OVL 5,000-6,000 sq km of exploration area in the Mannar Offshore Basin on nomination basis.

This is in lieu of assistance in training their professionals and marking the exploration and production blocks.

External Sector: Foreign Trade April – September

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2006	2007	2007	2006	2007	2007
World	61102.4	71944.3	17.74	87161.9	111359.9	27.76
Africa	5034.9	6814.0	35.34	7678.2	10308.1	34.25
Egypt	323.2	631.6	95.40	934.6	966.3	3.39
Kenya	785.7	577.3	-26.52	27.9	38.1	36.53
Mauritius	284.1	484.6	70.54	5.9	5.6	-5.17
Nigeria	434.4	506.1	16.51	3888.9	3683.5	-5.28
South Africa	1217.6	1297.9	6.59	1287.9	2087.0	62.04
America	11979.9	12938.0	8.00	8106.3	10108.1	24.70
Brazil	805.0	957.5	18.94	376.9	478.8	27.02
Canada	570.8	589.6	3.30	573.7	785.6	36.95
Mexico	258.7	280.8	8.56	268.1	329.3	22.81
USA	9377.7	9859.0	5.13	5063.4	6442.8	27.24
Asia (excl. Middle East)	18396.7	20914.7	13.69	24258.7	32341.2	33.32
Bangladesh	801.4	1004.3	25.31	128.2	130.9	2.09
China	3443.3	3785.8	9.95	7986.8	12540.3	57.01
Hong Kong	2241.4	2904.2	29.57	1220.6	1280.2	4.88
Indonesia	904.8	740.9	-18.11	1759.5	2332.7	32.58
Japan	1215.7	1581.6	30.10	2143.6	2923.2	36.37
Korea DPR (North)	83.0	418.2	403.65	309.1	117.9	-61.87
Korea Republic (South)	1061.5	1063.7	0.20	2399.4	2694.6	12.31
Malaysia	592.2	955.3	61.31	2560.9	2925.7	14.25
Nepal	468.2	582.6	24.42	140.4	189.1	34.69
Philippines	322.8	265.8	-17.65	100.4	101.4	1.02
Singapore	3502.7	3047.3	-13.00	2696.5	3475.7	28.90
Sri Lanka	1147.2	1125.0	-1.93	265.3	233.2	-12.10
Taiwan (Taipei)	397.3	878.5	121.12	813.1	1253.2	54.13
Thailand	695.8	848.7	21.98	811.8	1169.7	44.08
Viet Nam	405.8	479.7	18.20	89.6	79.0	-11.75
Middle East	10742.9	13404.5	24.78	24790.8	28479.6	14.88
Iran	832.7	1190.5	42.97	3822.4	4636.5	21.30
Iraq	100.9	90.5	-10.28	2967.6	2838.3	-4.36
Israel	641.7	761.3	18.64	496.8	784.2	57.86
Kuwait	298.5	313.5	5.00	2890.2	3079.7	6.56
Saudi Arabia	1179.7	1661.3	40.82	7188.8	7990.8	11.16
UAE	6179.9	7407.5	19.87	4419.5	6175.1	39.72

Europe	13982.1	17142.2	22.60	18497.5	25300.3	36.78
European Union	12182.8	14604.7	19.88	12313.1	15553.7	26.32
Belgium	1604.9	2004.4	24.89	1949.6	2631.6	34.99
Denmark	227.1	222.7	-1.93	187.1	227.7	21.69
France	1074.7	1150.9	7.08	974.1	1138.2	16.84
Germany	1915.1	2287.1	19.42	3584.2	4291.4	19.73
Italy	1693.0	1826.9	7.91	1247.4	1668.4	33.75
Netherlands	1174.7	2027.2	72.57	512.0	772.0	50.78
Spain	880.6	1013.2	15.06	302.2	433.9	43.58
Sweden	176.0	245.7	39.62	897.8	1049.8	16.93
UK	2650.5	3058.0	15.37	1910.8	2485.0	30.05
Other European Countries	1799.3	2537.5	41.03	6184.4	9746.6	57.60
Russia	417.0	407.7	-2.21	868.9	1009.6	16.20
Switzerland	207.7	278.1	33.90	3931.1	6195.7	57.61
Turkey	475.2	745.8	56.96	98.7	917.8	830.35
Oceania	918.6	620.3	-32.48	3761.4	4701.2	24.98
Australia	439.3	522.6	18.95	3396.5	4447.1	30.93