

Monthly Economic Analysis

Date: May, 2006

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Macro Economic Developments

Growth of Industry: Recent Trends

The overall growth rate of index of industrial production (IIP) during April, 2006 was 9.5 percent as compared to 8.1 percent in April, 2005. The growth rate achieved by the mining, manufacturing and electricity sectors during April, 2006 was 4.3 percent, 10.4 percent and 5.6 percent respectively as compared to 2.8 percent, 9.2 percent and 3.1 percent during corresponding period last year. As per the use-based classification, growth rate in production, in April, 2006 of basic goods, capital goods, intermediate goods registered higher growth whereas consumer goods showed lower growth as compared to April, 2005

Infrastructure

Core infrastructure sectors achieved an average growth rate of 6.7 per cent during April 2006 as compared with 6.0 per cent in April, 2005.

Capital Flows

The Government has permitted FDI in single-brand stores. Three applications in this regard have been made to the Government. While one has been made by Moza Trading for Nike shoes, the other two applications have been made by Louis Vuitton and Spanish figurines maker Lladro.

Foreign Trade

Exports during April 2006 are valued at US\$ 8346.79 million (provisional), which is 27.08% higher than the level of US\$ 6567.99 million (provisional) during April 2005. In rupee terms, the exports were Rs. 37518.08 Crores (provisional), which is 30.59% higher than the provisional value of exports during April 2005.

Total imports during April, 2006 are valued at US \$ 12560.93 million (provisional), which is 20.52% higher than the level of US \$ 10422.54 million (provisional) during April, 2005. In rupee terms, the imports were Rs. 56460.23 crores (provisional), which is 23.84 % higher than the provisional value of imports during April 2005. (The final reconciled figure of imports for April 2005 is US \$ 10764.70 million/ Rs. 47086.10 crores).

Oil imports during April, 2006 are valued at US \$ 4159.15 million (provisional) which is 34.65 % higher than oil imports valued at US \$ 3088.85 million (provisional) in the corresponding period last year. Non-oil imports during April, 2006 are estimated at US \$ 8401.78 million which is 14.56% higher than the level of such imports valued at US \$ 7333.69 million in April, 2005.

The trade deficit for April 2006 is estimated at US \$ 4214.14 million (provisional), which is higher than the deficit of US \$ 3854.55 million (provisional) during April, 2005.

Inflation

The annual rate of inflation based on Wholesale Price Index (WPI) stood at 4.68 percent for week ended May 27, 2006 compared with 5.25 per cent a year ago. This rate was contributed by an increase of 5.37 per cent in Primary Articles, 9.35 per cent increase in Fuel, Power, Lights and Lubricants and 2.58 per cent increase in Manufactured Products as against a decline of 0.05 per cent and increase of 10.82 per cent and 5.44 per cent respectively on the corresponding date of last year.

Monetary Indicators

The Reserve Bank Of India has projected money supply (M3) to expand by 15 per cent during 2006-2007. The official data indicates that money supply increased by 17.6 per cent as of 14 April 2006. The RBI had projected the growth in M3 to remain at 14.5 percent during 2005-2006, while the actual growth rate in the same turned out to be substantially higher at 20.4 per cent.

During the current financial year 2006-07, broad money stock (M3) (up to May 26, 2006) increased by 1.9 per cent as compared with the growth rate of 4.2 per cent registered during the corresponding period of the last year. The year-on-year growth, as on May 26, 2006, was 18.5 per cent as compared with 13.9 per cent on the corresponding date of last year.

Net foreign exchange assets (NFA) of banking sector (up to May 26, 2006) registered an increase of 9.0 per cent as compared with a decline of 1.6 per cent in the same period last year. The annual growth rate of NFA, as on May 26, 2006, was 21.8 percent as against 10.2 per cent on the corresponding date of last year.

Foreign Exchange reserves

Forex reserves (excluding Gold and SDRs) stood at \$156.07 billion at the end of May, 2006.

Exchange Rate

In 2006, despite a spurt in foreign currency reserves, the Indian Rupee continued to depreciate against the US dollar. From Rs.44.84 per USD in October 2005, the Rupee steadily depreciated to 44.95 per USD in April 2006. The depreciation was mainly on account of the purchase of US dollars by the RBI.

Sustained demand for dollars, particularly from oil companies, and large FII outflows pushed the rupee below 46 level against the greenback towards the end of May, 2006.

The average market exchange rate of the Rupee during May, 2006 depreciated against US Dollar, Pound Sterling, Japanese Yen and Euro as compared with average market exchange rate of the Rupee during April, 2006.

Lead Stories of the Month

\$ 8 billion FDI inflow in 05-06

The Foreign Direct Investment (FDI) inflow into India is likely to cross US\$ 8 billion in 2005-06, a clear US\$ 1 billion more than the projections. Updated official assessments indicate that with the opening up of additional sectors of industry in the last couple of years, the FDI flow in 2005-06 was significantly higher than the previous year's inflow of US\$ 5.3 billion.

Commerce and industry minister Kamal Nath had said he would target US\$ 10 billion of FDI in 2006-07. However, in the light of double digit growth of the manufacturing sector, FDI flow in the current year could exceed the target and touch US\$ 12 billion, which would signify a 300 % increase in three years.

Meanwhile, finance minister P Chidambaram has stressed that the country's FDI policy was still evolving. Addressing the 39th annual General meeting of the Asian Development Bank, the Finance Minister said: "I am aware that some concerns are voiced about our FDI policy. It needs to be kept in mind that our FDI policy, like any other policy, is an evolving policy".

He said that the government recognised the fact that FDI would play a very important role not only in stepping up investments, but also in transfer of technologies and globalisation of Indian firms. "Our growth has been largely fuelled by domestic savings. But we also accept that FDI would play a very important role", he said.

Chidambaram added that he was happy to note that the foreign investors already doing business in India have had satisfactory business experience in the country. He pointed out that the FDI confidence Index 2005 had ranked India as the second most attractive investment destination.

Quoting from a Boston Consulting Group study, the finance minister said the average return on capital employed for MNCs was 19 % and one half of the MNCs earned higher returns in India than their global average. The Government was getting early indications that the country had managed to break away from 2 to 4 % per capita growth average of the past, he said, and that household savings had moved on to a higher growth trajectory.

Inviting investment to help improve India's infrastructure and energy needs, Prime Minister Manmohan Singh has said the government intended to raise the cap on foreign investment in insurance sector to 49 % and allow "greater role" to foreign banks. "We will enable a greater role of foreign banks, step by step," the Prime Minister said in an interview to German newspaper 'Die Handelsblatt' ahead of his three-day visit to Germany recently.

Noting that foreign insurance companies are now permitted to hold a share of 26 % in India, the Prime Minister said: "We intend to increase this to 49 %".

Over the long term, liberalisation of the banking and insurance systems would continue, Dr. Manmohan Singh said.

Regarding allowing foreign investment in the retail sector, the Prime Minister said his Government had "begun a cautious opening" in this area. "We will learn from this experience... There is something such as the fear of the unknown. But with time, we should be able to enable greater presence of foreign firms in this sector as well."

India's growth impresses World Bank & IMF

The World Bank and the International Monetary Fund have termed India's economic growth as "impressive" and said it was an indication that India's economy was becoming more efficient.

Speaking after the conclusion of the Spring Meetings of the International Monetary Fund and World Bank, World Bank President Paul Wolfowitz said: "I think Indian officials that I talk to aren't satisfied with the 7 % or so that they're doing, but I must say that is impressive already, and I think they are making every effort to do more."

Wolfowitz said that "overall, India is doing impressively well" and that it is a "very encouraging story of how a very large country with an extraordinarily diverse population can make real inroads in poverty reduction and in development with a democratic system, and I think that's encouraging,"

Observing that India was attaining its growth rate with very low inflation, the Managing Director of the International Monetary Fund Rodrigo de Rato said: "So that shows that the Indian economy is becoming much more efficient...If I had to say what is the key for the future, we believe that maintaining this macroeconomic stability and deepening reforms".

The IMF MD said: "We have seen some very encouraging announcements by Prime Minister Manmohan Singh regarding further liberalization of financial reforms". He added that infrastructure was a challenge for India in order to further improve the business climate to attract more foreign and domestic investment.

Meanwhile, the Reserve Bank of India has opined that the current momentum of the Indian economy is likely to be maintained in 2006-07.

In its annual Macroeconomic and Monetary Developments document for 2005-06, country's the Central Bank said the economy had exhibited a strong performance during 2005-06, led by sustained growth in the services sector and the industry. Citing advanced estimates of the Central Statistical Organisation (CSO), the document said the real GDP growth accelerated from 7.5 % in 2004-05 to 8.1 % in 2005-06.

"The services sector, which recorded double-digit growth for the second successive year, continued to be the major driver of economic activity, contributing almost three-fourth of overall GDP growth during 2005-06," it said.

Growth in the services sector accelerated to 9.9 % during April-December 2005 from 9.7 % during the same period last year. Trade, hotels, transport, communication, finance, insurance, real estate, business services and construction recorded robust growth, it added. "Growth in industry was propelled by the manufacturing sector," it said, adding the manufacturing sector recorded a growth of nine % in 2005-06 on top of 8.9 % rise a year ago.

GDP to double on 10% growth

Meanwhile the ADB President Haruhiko Kuroda has said India "is on the verge of accelerating the growth" and could double its GDP in just seven years if a 10 % growth rate is maintained.

"I am very hopeful that India can reach the developed economy status at some stage as the country's economy is accelerating, leading to reduction of poverty," Kuroda said after the conclusion of the Banks Annual Meeting.

Pointing out that Indian economy had been growing at 8 % during the last three years, he said further acceleration was possible if steps were taken to improve infrastructure and continue reforms.

Favouring increased private sector participation in the development of infrastructure in the region, he said it was essential to ensure that the poor got the benefits of progress and prosperity.

Industrial growth at 8.8%

Industry grew by 8.8 % in the month of February 2006 powered by growth in manufacturing and electricity sectors.

The index of industrial production (IIP) for the month of February showed that as many as 13 of the 17 industry groups had positive growth as compared to the same month a year ago.

During the cumulative period of April-Feb, 2005-06, IIP registered a growth of 8 % as compared to the same period in the corresponding period the previous fiscal.

IIP (base 1993-94) stood at 227.3 points in February 2006 against 208.9 in the same month of the previous year. The index was 218.6 points during the first eleven months of last fiscal against 202.4 points during April-February, 2004-05.

According to official data, manufacturing grew by 9.5 % in February 2006 compared to the same month of the previous year, electricity by nine % and mining by 0.9 %.

During the first eleven months of last fiscal, manufacturing recorded a nine % growth, electricity by 5.3 % and mining by 0.5 %.

As per use-based classification, capital goods showed the highest growth of 13.5 % in February 2006 over the same month last year, consumer goods at 12.4 %, basic goods at 8.5 % and intermediate goods at 2.5 %.

In the consumer goods category, durables registered an 18.2 % growth and non-durables at 10.6 %.

In terms of industries, other manufacturing industries category showed the highest growth of 20.3 % in February, 2006 year-on-year, followed by 16.2 % in food products and 15.5 % in textile products, including wearing apparel.

On the other hand, the industry group wood and wood product, furniture and fixtures registered a negative growth of 24.5 % followed by a decline of 14.9 % in leather and leather and fur products and seven % in jute and other vegetable fibre textiles (except cotton). There are no significant revisions in the indices for November 2005 and January 2006.

Investors keen on ultra mega power projects

India's ambitious Ultra Mega Power Projects are attracting considerable interest among foreign investors. Union Power Minister Sushil Kumar Shinde has said that there has been a good response to the recent global road shows undertaken by his Ministry.

"We had sent four teams to China, Korea, Australia, New Zealand, Europe and the US. There has been very good response to our road shows and many foreign companies have evinced interest in these power projects," Shinde said.

The Government is planning seven such projects, one each in Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Orissa, Andhra Pradesh and Chattisgarh. The Power Finance Corporation (PFC), the nodal agency for these projects, has invited Eols for the first four of these projects. Two of the seven proposed projects would be coal pithead based plants and the three coastal plants would be based on imported coal.

The Power Finance Corporation was establishing shell companies to set up the projects and to obtain all necessary regulatory clearances and fuel linkages. The Ministry of Power is inviting private investment in these shell companies, with the process of selection of private investors in these companies to be completed by January 2007.

On the US leg of the road shows, which was led by the Minister himself, the Indian delegation met with representatives of American industry at the US Chamber of Commerce in Washington where a large number of power sector companies, including GE, ABB, Caterpillar, AES participated and evinced keen interest.

Shinde said various companies, lending agencies and investors had been apprised of the 4,000 MW projects, each of which would cost about Rs 160 billion. "The US Exim Bank has approved an investment of up to \$1 billion by Khanjee Holdings in one of these projects," he said, adding that many foreign companies had already submitted Expressions of Interest (Eols) for these projects.

Power Secretary R V Shahi has said the government had assured a three-tier payment security mechanism, consisting of a Letter of Credit, an escrow account and the option of selling power directly to high-tension consumers in case of default. He said State Governments and distribution companies had already supported the projects and the shell companies set up by PFC were working on behalf of the State Governments to get all the clearances and to conduct tariff-based bidding.

India Plans ore export deal with China, Japan

India is actively planning to enter a long-term ore export agreement with China besides seeking to re-negotiate a fresh ore supply deal with Japan. "We are thinking of entering a five-year ore export agreement with China in view of the growing demand there," steel minister Ram Vilas Paswan told reporters on the side-lines of the two day Steel Outlook Conference.

"In the case of Japan, we are planning to re-negotiate a fresh deal keeping the business interests of the domestic steel producers paramount," he added. Paswan said a high level delegation comprising officials from the steel and commerce ministries besides representatives from the National Mineral Development Corporation and Kudremukh Iron Ore Company would meet their Japanese counterparts find a solution to the ore export.

India moves up in WTO ranking

India has moved one place up to emerge as the world's 29th largest exporter of goods but jumped seven ranks to become the 17th largest importer in global trade during 2005, according to statistics released by World Trade Organisation.

In services, however, India's rank is far up in the list. The country is now the world's tenth largest importer and exporter of commercial services, compared to 15th and 16th largest respectively in 2004, as per the WTO's World Trade Report 2005 released in Geneva.

The country's merchandise exports last year grew 19 % to US\$ 89.8 billion while market share rose by 0.1 % to 0.9 % of global exports. Imports soared by 35 % - largely on the back of rising oil import bill - to US\$ 131.6 billion and the country's share in global imports stood at 1.2 %.

In services, while exports stood at US\$ 67.6 billion, imports were marginally lower at US\$ 67.4 billion. The country's share in global services exports and imports was almost equal at 2.8 % and 2.9 % respectively.

In merchandise goods, Germany has retained its place as the largest exporter with US\$ 970.7 billion, followed by the US at US\$ 904.3 billion, China at 762 billion dollars, Japan at US\$ 595.8 billion and France at US\$ 459.2 billion. In imports, US is on top of the list with US\$ 1,732.7 billion, followed by Germany at US\$ 774.1 billion, China at US\$ 660.1 billion, Japan at US\$ 516.1 billion and UK at US\$ 501.2 billion.

IBM Global Services India MD Shanker Annaswamy said its operations in India have more than quadrupled in the last five years. IBM at the end of last calendar had over 38,000 employees in India. In 2005, it increased staff in delivery centers by about 15,000. IBM is the biggest MNC in India in terms of employees. The company in 2002 had only 3000 people.

BPO and IT firms spread to new locations

The landscape of the Indian technology industry is undergoing a change. Till date, software services and BPO companies in India had developed in clusters within cities like Bangalore, the Gurgaon/NCR region and Mumbai/Pune. The industry's rapid growth and talent war are forcing firms to relook their growth strategies.

IT and BPO firms have moved from these clusters in cities like Hyderabad, Chennai, Kolkata and Chandigarh. Now some companies are realizing that a large cluster at a single location or region may be harmful, as it leads to higher attrition, battle for talent and plus pressure on the city's infrastructure.

The herd mentality has till now determined the choice of cities that companies wish to invest or build in. If any of the top three IT/BPO companies move to a new city, the rest often follow suit, without developing or evolving their own strategy. The rationale is that if it is good for Infosys or Genpact, it will be bode well for us too.

External Sector: Foreign Trade April - January

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2004-05	2005-06	2005-06	2004-05	2005-06	2005-06
World	64479.7	82528.2	27.99	87222.8	116573.4	33.65
Africa	4345.1	5743.7	32.19	3161.4	3765.9	19.12
Egypt	348.3	505.6	45.18	117.8	190.1	61.43
Kenya	340.7	429.3	26.01	38.8	41.0	5.52
Mauritius	214.7	165.0	-23.13	6.2	5.8	-5.84
Nigeria	494.2	707.9	43.24	43.2	58.6	35.52
South Africa	821.3	1249.3	52.10	1732.7	1977.4	14.12
America	13486.5	17321.3	28.43	7478.6	9260.2	23.82
Brazil	538.5	898.0	66.76	670.0	751.1	12.10
Canada	675.2	814.9	20.69	597.8	772.0	29.14
Mexico	300.8	349.6	16.21	64.6	79.9	23.71
USA	11087.1	14060.3	26.82	5184.5	6459.8	24.60
Asia (excl. Middle East)	19695.0	25510.2	29.53	21027.5	27992.0	33.12
Bangladesh	1270.6	1318.7	3.78	44.9	58.4	30.11
China	3554.8	5100.2	43.48	5536.1	8665.7	56.53
Hong Kong	2846.3	3578.4	25.72	1386.1	1750.7	26.30
Indonesia	1075.7	1052.7	-2.13	2083.2	2311.3	10.95
Japan	1599.5	1991.7	24.52	2444.2	2943.4	20.42
Korea DPR (North)	112.7	27.9	-75.26	3.8	0.3	-92.59
Korea Republic (South)	778.1	1359.5	74.72	2646.6	3633.0	37.27
Malaysia	860.1	923.6	7.39	1864.6	1970.9	5.70
Nepal	600.2	713.1	18.82	288.1	327.9	13.82
Philippines	311.4	386.9	24.27	154.5	173.3	12.16
Singapore	3006.5	4494.7	49.50	2106.6	2638.5	25.25
Sri Lanka	1112.3	1649.1	48.27	292.9	474.9	62.12

Taiwan (Taipei)	506.0	470.8	-6.95	872.3	1159.6	32.94
Thailand	667.5	858.0	28.53	661.9	991.2	49.75
Viet Nam	440.6	523.4	18.79	71.1	105.1	47.93
Middle East	10040.6	12015.6	19.67	6924.7	8174.2	18.04
Iran	999.3	918.4	-8.10	320.1	544.0	69.92
Iraq	103.6	102.0	-1.56	0.8	1.5	80.47
Israel	799.4	959.9	20.09	760.1	919.5	20.97
Kuwait	336.5	416.7	23.84	235.3	392.7	66.92
Saudi Arabia	1139.3	1456.8	27.86	1045.9	1308.5	25.10
UAE	5680.2	6836.2	20.35	3595.6	3563.2	-0.90
Europe	15939.4	20980.5	31.63	21172.1	27487.0	29.83
European Union	13560.2	18143.2	33.80	14293.1	18650.0	30.48
Belgium	1945.2	2284.4	17.44	3640.4	4065.4	11.67
Denmark	238.9	322.2	34.87	211.6	310.3	46.60
France	1326.3	1658.5	25.05	1123.3	1427.9	27.12
Germany	2178.5	2832.1	30.00	3159.3	4817.0	52.47
Italy	1743.9	1952.6	11.97	1082.8	1515.2	39.93
Netherlands	1234.2	2153.0	74.44	635.2	879.4	38.43
Spain	1082.7	1265.5	16.88	312.6	471.0	50.66
Sweden	187.1	261.4	39.74	769.6	882.5	14.66
UK	2837.1	4353.5	53.45	2682.0	3342.0	24.61
Other European Countries	2379.2	2837.3	19.25	6878.9	8837.0	28.47
Russia	504.5	584.8	15.92	1028.3	1740.3	69.24
Switzerland	424.3	372.6	-12.19	4721.9	5336.5	13.02
Turkey	578.3	818.7	41.58	110.7	171.8	55.22
Oceania	687.9	834.5	21.30	3220.8	4045.7	25.61
Australia	573.8	673.6	17.39	3044.4	3786.9	24.39