



**Ministry of External Affairs
Government of India**

**Monthly Economic Analysis
Fortune 2008**

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Macro Economic Developments

Industrial Growth:

The numbers released by CSO on Indian Industrial growth show deceleration in the first quarter of this fiscal compared to the first quarter of the previous fiscal. Indian Industry recorded a growth of 5.2% from April- June of this fiscal compared to 10.3% recorded in the corresponding period of the previous year.

Taking the above developments into account the EAC (Economic Advisory Council) further revised the projected GDP growth for 2008-09 to 7.7% from 8.5% estimated earlier.

The Industrial growth in June remained lower than in the corresponding month of previous year. However going by the used based category we see growth coming from the consumer goods that posted a 10% growth compared to a low 3.6% in the same month of previous year.

Core infrastructure industries :

The growth posted by the six-core infrastructure industries continues to stay steady in the first three months of 2008-09 at 3.5%. Only growth in coal during the quarter exceeded the growth in the previous year. The rest of the sectors turned out a negative performance during the first quarter of the current fiscal as compared to the first quarter of the previous year.

Inflation Trends :

Inflation continues to stay above 11.0%, pushed up by prices of fuel and manufactured products. However softening in the overall prices is expected in the near term on account of the falling fuel prices. Crude oil prices have dropped to USD 112 / barrel in August 2008 from a peak USD 147/ barrel in June 2008.

Inflation is currently reigning at a 16 year high of 12.44 % as data released for the week ending 4 August, 2008 shows. This is on account of higher food and fuel prices.

Monetary Indicators:

The government builds pressure on the money supply even more. In its recent announcement it increased the repo rate by 50 basis point from 8.5% to 9% and CRR too was increased by 25 basis points to 9 %.

Although money supply swelled by 3.5% in July 2008 (growth computed from March 2007-08 to July 2008-09), it grew at a rate lower than the growth in the previous year. While borrowings by the government slowed marginally compared to the previous year, the commercial sector began to record positive growth. There has also been a build up in the net foreign exchange assets in July 2008. Slowdown was observed not only in the aggregate deposits but also in the investments made in the government and other approved securities. Credit off-take largely diverted towards the non-food segment.

Fiscal Trends:

Growth in tax collection in June 2008 was maintained at 28%. Corporate tax collection slowed during the month however collection from the income sources scaled up significantly vis-à-vis the previous year's growth rate.

Collection from customs continued to grow at 19% however the union excise's negative growth remains a worry area. The service tax introduced in 2006 was earlier included in the other taxes is treated now under a separate head. This accounted for 8-10% of the total tax collected.

The government has approved the sixth pay commission award aggravating concerns in the revenue deficit category. The government may have to plan some provision to cover the liability of about Rs 30,000 crore as payments to 50 lakh government employees in addition to the loan waiver announcement made during the budget .

Stock Market Trends:

The Indian stock market showed weakness during the June- July period of 2008-09 on account of moderation in industrial growth coupled with political uncertainties over the nuclear deal. The political tussle over the issue of Indo-US Nuclear civil deal ended with a trust vote. The government survived despite the withdrawal by

the left. The market remained volatile and weak throughout the months eroding the gains made in the previous months.

Foreign Trade:

In Q1 08-09 merchandise exports grew at 25.9% as against 18% recorded in the corresponding quarter of the previous year. This high growth rate came in the midst of adversities like the rise in the prices of oil and raw material. In the first quarter the country exported of goods worth USD 42.8 billion.

The Indian Rupee began to depreciate against the USD from May 2008 bringing relief to the exporters. Slowdown in exports and high bill in imports have resulted into a negative trade balance of USD 30.4 billion in June 2008.

Foreign Exchange Reserves:

Forex reserves accumulated by the end of June 2008 were found to stay at USD 312 billion, same as in the previous month. On June 6th forex reserves swelled to USD 315 billion and on June 27th dropped to USD 311.7 billion. While about USD 302 billion came from foreign currency assets, the rest were accounted for by Gold, SDR , reserve tranche position in IMF.

Capital Inflows:

Total foreign investment received by the country was USD 5.8 bn in the first quarter of this fiscal, compared to USD 12.3 billion recorded in the previous year. The erosion was due to weaker market sentiments.

The Foreign direct investment received in the first quarter of this fiscal was observed to double (US10 billion) against the FDI received in Q1 of previous year.

Trends in the Exchange Rates:

In July 2008, Indian Rupee averaged at Rs 42.83 against the USD, nearing the level that was in March 2007. Rupee traded at a high of 41.96/ USD and a low of 43.37/ USD in July. Indian Rupee traded weak in the beginning of July and gained strength towards the concluding trading sessions of the month.

The Rupee /Euro movement in July 2008 was almost identical to the Re/USD movement. Re recorded a high of 65.82 against the Euro and low of 68.78 averaging at 67.56 in July 2008.

Lead Stories of the Month

FICCI's 100 day agenda for double-digit growth

Industry body Ficci submitted a 100-day agenda to Prime Minister Manmohan Singh and pressed for reforms in the agricultural and financial sectors. "We presented our agenda to the Prime Minister and he said that we respect the opinion of Ficci," Ficci president and MP Rajeev Chandrasekhar said.

Commenting on the monetary policy of RBI to be presented, Chandrasekhar said the tightening of the monetary policy by the Central Bank is not a permanent solution to tame inflation.

The 100-day agenda talked about measures to urgently stimulate investment in sectors like financial, agriculture and telecom so that the country could attain double-digit rate of growth.

"We feel its is imperative for the government to re-ignite investment across the economy. The expansion of the Indian economy over the last four years has been on the back of increasing investment inflows and rising investment to GDP ratio.

Therefore, it is important for the government to sustain and stimulate such investments in critical sectors so that growth is maintained," Chandrasekhar said.

The agenda also called upon the government to enhance efficiency and competitiveness of the economy by targeting reduction in transaction costs, set new standards in governance and address the perception of the looming financial crisis. According to industry chamber, the much-awaited changes in the sectors like insurance, pension and banking would lead to the development of the country's capital markets.

Chandrasekhar claimed that industry's confidence level has declined over the last nine months due to rising interest rates and said that Ficci has proposed a 100-day agenda for government as a prescription to restore the confidence of investors in economy and attain double-digit rate of growth.

He also said the Prime Minister would meet Ficci officials in middle of the next month.

The industry body, which believes that foreign investors could be an important source of capital for domestic players in insurance business urged the government to take up the Insurance Laws Amendment Bill, including hiking of cap on FDI stake to 49% from 26%.

It also urged the government to pass the Pension Fund Regulatory and Development Authority Bill and Banking Regulation (Amendment) Bill, still pending in the Parliament. Calling for a second green revolution, the chamber suggested that private sector investment in agri- infrastructure should be eligible for 150% weighted deduction.

Ficci also suggested setting up of private mandis, allowing direct procurement from farmers and contract farming to attract investment.

India finally gets a say in OECD tax convention

The model tax convention of the OECD, on which tax treaties of most countries are modelled, has given out guidance on taxation of permanent establishment (PE), incorporating India's views for the first time. The powerful grouping had granted 'observer status' to India in July 2006. Inclusion of the views of a non-member in the model convention is an important development, pointing at the growing stature of India.

"The development (OECD document containing India's position) has significant meaning. This clearly becomes a benchmark for how the Indian tax authorities intend to interpret the tax treaty positions laid down in the model convention. It also formally defines India's tax treaty policy for any future negotiation with a country on a tax pact," says Srinivasa Rao, partner & national leader-tax at Ernst & Young.

Overseas investments by Indian cos rise

Indian business houses are increasingly investing abroad.

Last fiscal, the number of proposals for investments in joint ventures and wholly-owned subsidiaries stood at 2,261 involving a total investment of \$23,072 million, reflecting a growth of about 53 per cent compared with the previous fiscal.

The latest Reserve Bank of India bulletin points out that 35 per cent of the proposals for outward foreign direct investment were towards Singapore, followed by Netherlands (23 per cent) and British Virgin Islands (7 per cent). "Large Indian investments going to countries like Singapore, Cyprus, the Netherlands, the UAE and Mauritius reflect the generally liberal policies of these countries, particularly favourable tax treatment and investment protection treaties," according to the report.

Indian companies have been allowed to invest in excess of 400 per cent of their net worth in the energy and natural resources sectors such as oil, gas, coal and mineral ores. The investment in excess of 400 per cent of the net worth has to be made with the prior approval of the Reserve Bank.

Sector wise, during the last fiscal, 43 per cent of the proposals were in the manufacturing sector, followed by non-financial services (11 per cent) and trading (4 per cent). Within the manufacturing sector, proposals were in the areas like electronic equipment, fertilisers, agriculture and allied products and gems and jewellery.

The RBI report further said the actual outward FDI during the year was \$ 17,436 million, an increase of 29.6 per cent over the investments of \$ 13,454 million in the previous fiscal. Of the total investments, 81.6 per cent were in the form of equity and the remaining 18.4 per cent were loans.

During 2007-08, inflows from India's outward FDI amounted to \$916 million, recording a growth of 76.7 per cent over the previous year.

Marks & Spencer among 28 FDI plans cleared

Global retail major Marks & Spencer's proposal for 51 per cent foreign direct investment in single brand retail business was among 28 FDI proposals worth Rs 1,328 crore, cleared by the Government.

"Based on the recommendations of the Foreign Investment Promotion Board (FIPB) in its meeting held on June 24, the Finance Minister, Mr P. Chidambaram, has approved 28 FDI proposals," an official statement said here.

The approved proposals relate to chemicals & petrochemicals, industrial policy & promotion, information & broadcasting, urban development, tourism and economic affairs, amongst others.

A proposal of Giordano Fashions (India) to establish a chain of single brand retail stores, and another by Pearle Europe BV involving induction of 50 per cent FDI for single brand retail trading also received the Government's green signal. Parryware Roca's Rs 741-crore proposal has also got approval for increasing foreign equity from 50 per cent to 100 per cent in the sanitary ware venture, while the Government nod was also granted to Multiscreen Media's FDI proposal (about Rs 158 crore).

FIPB also approved real estate major Eldeco's Rs 195.7 crore proposal for induction of foreign equity and change in status from operating company into operating-cum-holding company.

Indo-US trade to hit \$100 bn

Notwithstanding the impasse in the Indo-US civilian nuclear deal, the bilateral relations have reached a new high with India gearing itself to launch four US satellites and the two-way trade expected to more than double to touch 100 billion dollars in the next 3-4 years.

After successful launch of Israeli, German and Canadian satellites from Shriharikota near Chennai, four US satellites are to be launched by Indian launch vehicles.

“As part of the collaboration in space technology, four American satellites are to be launched by India in the next two years,” the outgoing Consul-General Michael Owen said.

It is not correct to say that Sino-Indian trade is growing rapidly at the cost of Indo-US trade, Owen said.

“No doubt Sino-Indian trade is growing fast. Nonetheless Indo-US trade has more than doubled from 20 billion dollars to 42 billion dollars in the last three years,” he said.

The bilateral trade doubles every 3-4 years and “our next target is to take to 100 billion dollars,” he said.

Regarding defence collaboration with India, he said the American companies are responding to Indian competitive tender for military hardware and fighter aircrafts like F-16 and F-18.

Another exciting thing will be the American companies are going for co-production with the Indian companies, Owen said.

Elaborating on the all time high relations between India and US, he said, there have been a series of agreements in various fields like energy, agriculture, trade, investment and open sky policies which were not there 15 years back.

Owen said the relationship is at two levels -- government to government and the other is between the people and the relationship will continue to increase.

Talking about collaboration in energy and agriculture, he said during Prime Minister Manmohan Singh’s visit to the US, emphasis was laid on collaboration with Agriculture Knowledge Initiative (AKI) and bringing researchers and technologists from both the countries together to improve productivity.

'Indo-Thailand bilateral trade set to reach \$10 bn'

Bilateral trade between Thailand and India was expected to reach USD 10 billion by 2010, Tamil Nadu Governor Surjit Singh Barnala said.

Speaking at the inauguration of an exhibition 'Destination Thailand 2008', he said the trade between the two nations had been growing steadily and stood at over \$4 billion in 2007.

The programme of cooperation in science and technology bio-technology and the MoUs on cooperation in the field of agricultural science, technology and economy stand testimony for the Indo-Thai bilateral relations, he said.

Expressing happiness that many Indian companies like the Aditya Birla Group, Tata Motors, Tata Steel, Satyam Computers had set up their operations in Thailand, he said "conducive climate, infrastructure and peaceful atmosphere are attractions for new companies to set up their operations from abroad".

India, Nepal identify tie-up avenues

Indo-Nepal bilateral trade volume was at Nepalese rupees (NPR) 159,000 crore in 2007-08, according to Mr Durgesh Man Singh, Ambassador of Nepal. "The total trade volume was at NPR 252,000 crore, and almost 63.2 per cent of it came from the trade between India and Nepal," he said.

Mr Singh identified hydropower, tourism, education and health services as possible areas of co-operation between India and Nepal. "We will focus on those areas where we have a competitive advantage over others," he said.

Nepal, according to Mr Man Singh, was addressing issues of economic development. The Government should play a regulatory role in the economic development of the nation, he pointed out, while the private sector should help propel the growth. "In my interaction with various political parties in Nepal, I have realised that there is a general consensus about allowing the private sector to play an important role in the development of the economy," he said.

Mr Singh was in favour of the continuance of the 1996 trade treaty between India and Nepal. "It is one of the best treaties between the two nations and should be allowed to continue in its present form," he said.

Notebook sales double

India's total PC sales – desktops and notebooks combine – rose 16 per cent during 2007-08 fiscal to 7.34 million units, propelled by a significant 114 per cent growth in notebook consumption.

Even as the sales to large enterprises was less-than-expected, the consumption was led by telecom, banking and financial services sector, education and BPO services and e-governance initiatives, as well as SMEs and households - all of which helped the IT sector maintain its growth targets set at the beginning of last fiscal.

The total PC sales are expected to be 8.5 million units this financial year, which translates into a growth rate of 16 per cent (the growth rate being the same as last year).

The desktop sales are likely to be almost flat at 5.5 million units, while the notebook sales are estimated to grow 65 per cent at three million units this fiscal, as consumers seem to be preferring notebooks over desktops.

Announcing the industry performance review for 2007-08, hardware association Manufacturers Association for Information Technology (MAIT) said while the desktop sales in unit terms grew one per cent, the notebooks stole the sectoral limelight with sales jumping 114 per cent. However, with drop in prices of both desktops and notebooks, in value terms the notebook space posted 90 per cent growth in FY08, while for desktops it was a two per cent drop.

India is witnessing retail boom

With rise in prosperity and disposable income of the middle class people in cities due to high economic growth, India is witnessing a retail boom.

This has led to the growth of organized retailing, which is changing the way shopping is done, particularly in big cities like Delhi, Mumbai, Bangalore, Pune, Chennai, Hyderabad among others.

The most visible symbols of organised retailing are the swanky malls, which have mushroomed in most of the large and medium size cities across the country. In cities like Delhi, with extreme weather conditions, malls have become a runaway success.

Even at the height of summer season, when temperature soars up to 42 degree Celsius, shopping is no more an unpleasant exercise. Instead, these malls in various part of the city have made it a pleasurable exercise, in fact, it has become a way to relax and chill out in an airconditioned environment!

This mall phenomenon had given rise to apprehensions that high street shops were heading for an ignominious death. But, a recent survey done by Jones Lang LaSalle Megharaj, a global real estate consultancy firm, found that despite rise in number of malls in a city, high street shops continue to flourish

Biotech sector revenues cross Rs 10,000 cr

The domestic biotech industry has grown further to post revenues of Rs 10,273 crore (\$2.56 billion) in fiscal 2007-08.

However, the rupee's appreciation against the US dollar and price pressures in global markets brought down the heady growth rate of the last five years to 20 per cent.

Based on current trends aided by the new biotech policy, the 2015 revenue forecast is Rs 64,400 crore (\$13-16 billion). In 2006-07, the industry posted revenues totalling Rs 8,541 crore (\$2.01 billion).

These are the findings of the sixth yearly BioSpectrum-ABLE Biotech Industry Survey, according to a release by the nodal Association of Biotech Led Enterprises.

According to Mr N. Suresh, Group Editor, BioSpectrum, "After five straight years of over 30 per cent growth, India's fledgling biotech industry has slowed down.

The appreciation of the rupee for most of 2007-08 stole the high growth momentum from an industry that records two-thirds of its revenues from exports," which was Rs 5,733.7 crore in 2007-08. Investments touched Rs 2,750 crore, or up 21 per cent.

During the surveyed year that ended on March 31, 2008, 56 per cent of the revenue came from exports, the release said.

ABLE's President, Dr K.K. Narayanan, was quoted as saying, "The inability to sustain the growth momentum can be attributed to several factors; the primary one being that the revenues from Indian-made innovative biotech products that can be sold globally are yet to kick in".

"The biopharma industry in India is coming of age now and the next five years will be a very interesting period for the Indian biotechnology industry. While bioservices will continue to attract significant interest, and biogenerics exports to the regulated markets are likely to produce a quantum leap in company earnings, there is a growing club of companies in India that are developing novel biotechnology-based pharmaceutical products.

"We expect biotechnology to begin to contribute significantly to other areas such as biofuels," commented Mr Shrikumar Suryanarayan, Director-General, ABLE.

Telecom services revenue up 21% to Rs 1.30 lakh cr

With one out of four Indians owning a phone, revenue of the country's telecom services industry has swelled to Rs 1,30,561 crore in 2007-08, up 21 per cent over the the previous fiscal.

India added 100 million new subscribers in this period.

The revenue of telecom services, including that of cellular, fixed line, national long distance, international long distance, broadband, radio trunking and VSAT services, has risen to Rs 1,30,561 crore, registering a growth of 21.3 per cent, a survey by Voice&Data revealed.

Among the services, cellular segment contributed a major chunk of around 59 per cent to the total revenue. The segment's topline rose to Rs 76,608 crore in 2007-08, compared to Rs 56,183 crore last fiscal, a growth of about 36 per cent.

BSNL topped the survey list in terms of revenue with Rs 35,296 crore total income. However, it registered a negative growth of 12 per cent. Its revenue for last fiscal was Rs 40,135 crore.

Bharti with Rs 26,436 crore topline clinched the second slot while Reliance communications was placed at the third position reporting total income of Rs 18,638 crore, the survey read.

Fixed line business was the second biggest revenue earner for the industry, contributing more than 20 per cent. However, its total income dipped 11.6 per cent in this financial year to Rs 26,692 crore, compared to Rs 30,190 in 2006-07, it said.

Broadband business showed a huge growth of 162.7 per cent in terms of revenue. It reached to Rs 5,359 crore in 2007-08, compared to Rs 2,040 crore in the previous fiscal.

The growth in the number of broadband subscribers, however, was not appealing as the country added only 1.4 million new users in this period. The total subscriber base was up 56 per cent to 3.9 million, the survey added.

External Sector: Foreign Trade April – March

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2006-07	2007-08	2007-08	2006-07	2007-08	2007-08
World	126262.7	159084.9	26.00	185061.3	238599.7	28.93
Africa	10270.7	13855.7	34.91	14727.4	20497.8	39.18
Egypt	760.4	1328.9	74.76	1741.7	1983.7	13.90
Kenya	1314.5	1434.7	9.14	56.4	86.6	53.37
Mauritius	736.0	1086.5	47.63	14.5	10.1	-30.49
Nigeria	902.8	1083.1	19.97	7021.4	7619.8	8.52
South Africa	2244.7	2477.4	10.36	2469.7	3615.0	46.37
America	24280.2	27153.6	11.83	19727.6	21713.6	10.07
Brazil	1452.3	2257.3	55.43	990.9	948.4	-4.29
Canada	1109.5	1265.0	14.01	1776.0	1934.7	8.94
Mexico	535.4	591.9	10.57	789.8	1184.2	49.94
USA	18851.4	20710.6	9.86	11727.0	13207.8	12.63
Asia (excl. Middle East)	38686.7	50999.3	31.83	51487.6	69960.0	35.88
Bangladesh	1626.6	2535.4	55.87	228.3	270.9	18.66
China	8287.5	10786.9	30.16	17447.0	27093.2	55.29
Hong Kong	4676.9	6307.7	34.87	2481.9	2697.4	8.68
Indonesia	2026.5	2059.1	1.61	4165.8	4826.1	15.85
Japan	2860.5	3574.2	24.95	4592.0	6326.8	37.78
Korea DPR (North)	105.4	715.2	578.37	491.3	167.8	-65.84
Korea Republic (South)	2512.8	2852.2	13.51	4802.3	6033.8	25.65
Malaysia	1303.3	2526.1	93.83	5290.7	6008.2	13.56
Nepal	927.8	1471.1	58.56	305.7	628.3	105.50
Philippines	582.1	618.6	6.27	167.2	205.0	22.56
Singapore	6064.2	6855.9	13.06	5485.3	8115.6	47.95
Sri Lanka	2253.87	2719.5	20.66	470.3	631.4	34.27
Taiwan (Taipei)	912.8	1713.2	87.69	1677.0	2401.6	43.21
Thailand	1443.2	1807.9	25.27	1744.2	2302.1	31.98
Viet Nam	981.8	1600.0	62.96	167.5	173.5	3.55
Middle East	21179.3	27356.7	29.17	47802.0	66440.4	38.99
Iran	1449.7	1943.6	34.07	7621.9	10991.3	44.21
Iraq	203.3	270.8	33.21	5521.7	6832.5	23.74
Israel	1320.4	1603.6	21.45	1078.9	1428.7	32.43
Kuwait	613.9	680.7	10.88	5987.5	7693.6	28.50

Saudi Arabia	2586.2	3583.5	38.56	13373.4	194107.7	45.14
UAE	12022.8	15372.7	27.86	8650.8	13477.3	55.79
Europe	30086.3	37990.2	26.27	43548.8	51226.5	17.63
European Union	25736.7	32197.4	25.10	28409.4	33073.7	16.42
Belgium	3471.7	4201.6	21.02	4138.6	4364.0	5.45
Denmark	457.5	495.5	8.31	339.9	464.4	36.63
France	2099.2	2540.2	21.01	4208.8	2840.1	-32.52
Germany	3976.4	5090.6	28.02	7540.4	9576.0	26.99
Italy	3580.1	3909.9	9.21	2672.4	3877.3	45.09
Netherlands	2668.1	4841.3	81.45	1155.5	1924.9	66.58
Spain	1876.3	2287.5	21.91	626.4	993.6	58.62
Sweden	387.1	542.5	40.16	1931.4	2134.2	10.50
UK	5613.6	6582.9	17.27	4171.2	4959.4	18.90
Other European Countries	4349.6	5792.8	33.18	15139.5	18152.8	19.90
Russia	902.2	940.2	4.22	2407.6	2476.3	2.85
Switzerland	466.2	615.3	32.00	9116.3	9832.5	7.86
Turkey	1321.2	1751.4	32.56	332.6	1690.0	408.09
Oceania	1517.7	1416.4	-6.68	7631.3	8393.6	9.99
Australia	924.1	1149.1	24.36	7002.5	7840.9	11.97