# Monthly Economic Review

**October 2009**

**EPW Research Foundation**

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## An Overview

### Prelude

As India becomes an open economy, with a steady rise in the share of GDP originating in the traded good sector and the financial markets getting more and more integrated with financial markets worldwide, it becomes necessary to understand the strong two-way links between the real economy and the financial system. This Monthly Economic Review will build up gradually an analytical framework, which captures such linkages; which pose a number of challenges for both the financial system and those responsible for macroeconomic policies and financial regulation.

One important challenge is the risk management standards and practices that protect the financial system soundness in both upturn and downturn in the real economic cycle. There is a need to continuously monitor how the credit risk is assessed and measured at an individual bank level, and for the system as a whole and how they are related to both the state of the economy and overall developments in the financial sector. Another is to ensure that risk-based capital standards do not amplify economic cycles by permitting an undue reduction in capital in expansions and requiring an undue increase in contractions. And the last is the formulation of accounting rules that allow loans to be valued on the balance sheet appropriately, taking into account realistic collateral values and the effect of the economy on borrowers' ability to repay.

### Highlights

*Growth Scenario*

- The Central Statistical Organisation of India has reported the estimated growth rate of gross domestic product for the second-quarter of 2009-10 at 7.9%, beating the analysts' estimate of 6%-6.6%.
- The International Monetary Fund believed that the economic recovery in Asia is faster than the rest of the world and is projected to grow by 5.75% during 2010.
- In the Second Quarter Review of Monetary Policy 2009-10, growth projection for GDP for 2009-10 has been retained at 6.0% with an upward bias.
- The Reserve Bank's professional forecasters survey points to downward revision to the growth outlook from 6.5% to 6.0% in 2009-10.

*Agriculture*

- As per the I$^{st}$ advanced estimates for the *kharif* season 2009-10, output of foodgrains has been pegged at 96.6 million tonnes, lower by 17.9% 117.7 million tonnes projected in IV$^{th}$ AE for 2008-09 *kharif* season. Production of rice has been estimated at 69.5 million tonnes (-13.3%) over the (IV$^{th}$ AE) last year. Similarly, coarse cereals production is likely to drop by 19.7% to 22.8 million tonnes, that of pulses production by 7.5% 4.42 million tonnes. While cotton output has been pegged to increase by 2.2% to 23.7 million bales, sugarcane and jute-mesta production is likely to fall by 8.9% and 1.6% to 249.5 million tonnes and 10.2 million bales, respectively.

- The government is striving to increase *rabi* grain output by over 7% or 8.5 million tonnes through an expansion of acreage.
- Northeast monsoon, after its delayed onset, has further been progressing across the country and is expected to be quite conducive for the growth of *rabi* crops.
- MSP has been hiked marginally for the crops of wheat, *chana* (gram), safflower and barley, while the MSP for all other crops have been retained as that of last year in the wake of soaring prices of agricultural commodities.MSP of wheat has been hiked by Rs 20 over the MSP of Rs 1,080 per quintal for the 2008-09 crop
- New procurement season for rice 2009-10 has started at a slow pace and is expected to improve. The central and state government agencies so far have procured 333 lakh tonnes of rice.

*Industry*

- The Index of Industrial Production (IIP) recorded a robust growth of 9.1% in September 2009 and 6.5% during the first two quarters of the fiscal year on a yearly basis.
- In September 2009, growth rate in Manufacturing was the highest at 9.3%, followed by Mining and Quarrying at 8.6% and Electricity at 7.9%.
- Under the use-based classification of the IIP, capital goods registered a 12.8% rate of growth, whereas intermediate goods and basic goods posted 10.8% and 6.7% growth rates respectively in the month under review.
- Consumer goods recorded a growth rate of 8.2%, where consumer durables grew by 22.2% and consumer non-durables by 2.6% y-o-y.
- A two digit classification of the Manufacturing industries revealed that less number of industries recorded a negative growth rate in September 2009 and during April-September 2009 as compared to the corresponding periods of the previous year. 4 industries, having a combined weight of 31.9% posted higher than 10% growth in September 2009.

*Infrastructure*

- The growth rate in the infrastructure index slowed down to 4% y-o-y in September 2009 after having recorded a 7.8% growth in the previous month. Growth in the first half of the fiscal year, however, improved to 5% from 3.4% in the comparable period last year.
- Electricity recorded the highest growth rate of 7.5% in September 2009 among all the six industries, led by a 45.1% growth in nuclear power and 9.12% in thermal power in the same period.
- All-India power deficit declined to 9.9% during the cumulative period of April-September 2009 from 10.5% in the corresponding period last year.
- Crude petroleum production fell by 0.5% in September 2009 on account of a decline in ONGC's production.

- Production of petroleum refineries revived in September 2009 to register a growth of 3.4%, but cumulative production during April-September fell by 3.6%.
- Cement output grew by 6.5% in September 2009 as against 8.1% in September 2008, but growth during April-September 2009 remained strong at 12.3%.
- Growth in finished steel fell by 0.4% y-o-y in September 2009, while coal production grew by 6.5% in the same period.

*Information and Communication Technology*

- The latest report published by TRAI reveals that by the end of September 2009, the country's gross subscriber base reaches 509 million. The crossing of 500 million base is another significant landmark.
- Barely a week after talks with South Africa's MTN failed, the country's largest telecom operator Bharti Airtel is planning to acquire Luxemburg-based telecom firm Millicom's operations in Sri Lanka.

*Services*

- The number of foreign tourists visiting India has dropped by 1.2% at 4.48 lakh in October 2009 y-o-y, however, foreign exchange earned has posted a noticeable increase of 17.8% to US $ 1028 million from US $ 873 million during the same period.
- As per DGCA, traffic handled by domestic airlines has recorded a double-digit growth of 26.7% in October 2009 with 4.03 million passengers travelling by these airlines against 3.18 million in the corresponding period last year
- The Airports Authority of India (AAI) has deferred its upgrade plans at several airports as the government has not cleared its old request for raising Rs 5,500 crore by issuing tax free bonds.
- As per the ASSOCHAM, the FMCG market is likely to post growth of 18-20% in the second quarter of the current fiscal; it had expanded by 13-14% in the first quarter.
- The government has proposed to make registration of all real estate projects (meant for sale) mandatory. It has published a draft legislation — Model Real Estate (Regulation of Development) Act — that provides for a Regulatory Authority for the purpose.

*Fiscal Scenario*

- Fiscal deficit at 49.3% of the fiscal target.
- Goods and Services Tax (GST) likely to miss the 1 April 2010 deadline.
- The Direct Tax Code too unlikely to make any progress as it may not be taken up for discussion in the Parliament soon.

- Finance Minister to decide on withdrawing stimulus, based on figures in the 2nd and 3rd quarters.
- The central government has introduced Dispute Resolution Panel and Safe Harbour provisions to resolve the issue of transfer pricing, which has long been a taxing issue for both multinational corporations and tax authorities.

*Corporate Developments*

- The M&A activity in the corporate sector is expected to revive gradually on account of lucrative valuations, improving financials of the domestic companies and robust long term demand as found by the ASSOCHAM Financial Pulse Study.
- The board of Reliance Industries Ltd (RIL) has announced a bonus issue in the ratio of 1:1 (i.e. one bonus share for every share held in the company).
- BHEL has expanded its presence in the CIS region bagging its first export contract from the Republic of Belarus worth Rs 270 crore. This is also the first overseas order for a 126 mw gas turbine generator set-based co-generation plant.

*Social*

- The Indian Institute of Information Technology Design and Manufacturing (IIITD&M) to get a new campus in Chennai**.**
- The Indira Gandhi National Open University (IGNOU) has signed a memorandum of understanding (MoU) with the Apparel Export Promotion Council (AEPC) for beginning a number of new courses, which would cater specifically to the apparel industry.
- Central government to set up four law schools.
- WB to offer $500 million loan for education.
- Plans to make AIEEE online.
- The central government is expected to announce the 'Indira Gandhi Matritava Sahyog Yojana (IGMSY)', a scheme for women without maternity leave.
- India-made oral vaccine for cholera found to be highly effective and safe for mass disease prevention use by researchers.
- National Skill Development Council (NSDC) launched.

*Price Situation*

- WPI rose by 1.3% was much lower than that of 11.1% during the review period of previous year.
- The annual inflation in food articles at 13.3% on a y-o-y basis was more than that of 9.9% recorded in the same period of last year. As against this the price rise during April-October 2009 was 14.3%.

- For pulses, annual inflation rate has been 22.8% during the year ended October 2009 as compared to 8.9% during the comparable period of the previous year.
- The annual inflation in fuel, power, light and lubricants registered a fall of 6.6% as compared to an increase of 14.1% during the comparable period of previous year.
- The various measures of consumer price inflation (CPI-IW, CPI-UNME, CPI-AL, CPI-RL) remained high in the range of 11.6 - 13.2% during September 2009 as compared to 9.5-11.0% in September 2008 and 8.0-9.7% in March 2009.
- The significant moderation in global inflation continued in 2009-10, with several advanced economies experiencing negative inflation due to sharp fall in commodity prices since second half of 2008-09 and the continued recession in aggregate demand.

*Money and Banking*

- The RBI has not changed the key rates of interest or the cash reserve ratio. It has left most of the benchmark rates unchanged, except for the statutory liquidity ratio, which it has raised marginally from 24.0% to 25.0%.
- The $M_3$ for the financial year so far, up to October 23, 2009, has registered a lower increase of 8.2% as against a growth of 8.5% for the corresponding period last year.
- Aggregate deposits growth has shown a lower growth of 8.3% for the financial period so far, as against 9.1% for the corresponding period a year ago.
- Investment growth has stood at 16.0% up to October 23, 2009 as against a growth of 8.6% for the corresponding period a year ago.
- Bank credit continued to post a lower growth of 3.4% for the financial period so far, as compared to 10.8% for the financial year 2008-09.
- The merger of State Bank of India with its one of the subsidiary State Bank of Indore is likely to be completed by March 2010.
- Central Bank of India has started restructuring its home finance subsidiary, Centbank Home Finance, in an attempt to raise the valuation of the mortgage company before selling it.

*Financial Market*

- The BSE Sensex and NSE Nifty recorded a negative growth in October over September.
- The secondary market turnover on NSE and BSE has decreased marginally over the month.
- The aggregate derivatives' turnover on the NSE increased by 9% in October over September.
- The BSE has changed the expiry day of all monthly index futures and options from last Thursday of the month to the third-last Thursday of the month.

- RBI released Second Quarter Review of Monetary Policy 2009-10 on 27 October.
- The RBI framed regulations on issuance of NCDs with maturity of less than one year in its monetary policy review.
- RBI has increased the SLR by 1% to 25% with effect from 7 November 2009
- FIIs were net buyers of equities but mutual funds were net sellers of equities in the secondary market.
- The rupee strengthened against dollar during the month as in the previous month.
- The RBI has proposed to permit currency futures contracts in currency pairs of Euro-INR, Yen- INR and Pound Sterling-INR.

*Commodity Derivatives Market*

- The aggregate turnover in all the exchanges increased by 60% in October 2009 over October 2008.
- The share of MCX in total turnover dipped during the month over previous month.
- The share of non- agricultural commodities in October witnessed a marginal growth over September.
- MCX slashed transaction cost from 2 November.
- Turmeric prices have shown phenomenal growth of more than 30% in spot and futures market.

*External Sector*

- India saw a fall of 13.8% in its exports and 31.3% in its imports in September 2009 in US dollar terms.
- Trade deficit stood at US $ 7769 million, 49.4% lower than the previous year.
- The composition of foreign exchange reserves changed in favour of more gold holdings and lower foreign currency assets and reserve tranche position in the IMF, due to the purchase of gold by the RBI on November 3, 2009 from the IMF.
- Total foreign investment inflows increased to US $ 6.5 billion in September 2009 from US$ 1.2 billion last year due to a surge in portfolio investments. Foreign Direct Investment and NRI deposits on the other hand, registered a fall in the month.
- A total of US$ 1.5 billion was raised through ECBs and FCCBs in the month under review, bulk of which was raised through the approval route.
- Calculated by the 6-currency trade based weights, the REER increased in September 2009 as compared to August, but declined when calculated by the 36-currency export and trade based weights during the same period.

## Selected Macro-Economic Indicators

| Economic Indicators | | Unit | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1 Output** | | | 2008-09 | 2007-08 | 2006-07 | Q2 | | | |
| **1.1 Real GDP** | | | (RE) | (QE) | | 2009-10 | 2008-09 | 2007-08 | 2006-07 |
| Gross Domestic Product at Factor Cost | (at 1999-00 prices) | Rs crore | 3339375 | 3129717 | 2871120 | 834780 | 773850 | 718209 | 658827 |
| | | | (6.7) | (9.0) | (9.7) | (7.9) | (7.7) | (9.0) | (10.2) |
| Agriculture and Allied Products | | Rs crore | 566045 | 557122 | 531315 | 106116 | 105214 | 102496 | 98683 |
| | | | (1.6) | (4.9) | (4.0) | (0.9) | (2.7) | (3.9) | (3.3) |
| Industry | | Rs crore | 860459 | 828357 | 766318 | 229767 | 212167 | 199953 | 183301 |
| | | | (3.9) | (8.1) | (11.0) | (8.3) | (6.1) | (9.1) | (11.0) |
| Services Sector | | Rs crore | 1912871 | 1744238 | 1573486 | 498898 | 456471 | 415760 | 376844 |
| | | | (9.7) | (10.9) | (11.5) | (9.3) | (9.8) | (10.3) | (11.7) |
| **1.2 Agriculture** | | | 2009-10 (I AE) | | 2008-09 (IV AE) | | 2007-08 (Final) | | 2006-07 (Final) |
| Total Foodgrains | kharif | Mn. tonnes | 96.6 | (-17.9) | 117.7 | (-2.7) | 121.0 | (9.4) | 110.6 |
| Rice | kharif | Mn. tonnes | 69.5 | (-17.9) | 84.6 | (2.3) | 82.7 | (3.1) | 80.2 |
| Coarse Cereals | kharif | Mn. tonnes | 22.8 | (-19.7) | 28.3 | (-11.1) | 31.9 | (24.5) | 25.6 |
| Pulses | kharif | Mn. tonnes | 4.4 | (-7.5) | 4.8 | (-25.3) | 6.4 | (33.3) | 4.8 |
| Nine Oilseeds | kharif | Lakh tonnes | 152.3 | (-14.8) | 178.8 | (-13.7) | 207.1 | (47.8) | 140.1 |
| Cotton # | Total | Lakh bales | 236.6 | (2.2) | 231.6 | (-10.5) | 258.8 | (14.4) | 226.3 |
| Sugarcane | Total | Lakh tonnes | 2494.8 | (-8.9) | 2739.3 | (-21.3) | 3481.9 | (-2.1) | 3555.2 |

Note: # lakh bales of 170 kgs. each, AE: Advanced Estimates

| **1.3 Infrastructure** | | | September | | Full Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 2009 | 2008 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
| Infrastructure Industries | Index (1993-94=100) | Index | 246.7 | 237.2 | 243.1 | 236.1 | 223.6 | 204.9 | 193.0 |
| | | | (4.0) | (4.0) | (2.7) | (5.9) | (9.2) | (6.2) | (-5.6) |
| Coal | | Mn. tonnes | 36.8 | 34.5 | 487.3 | 45.1 | 42.5 | 401.4 | 376.7 |
| | | | (6.5) | (11.2) | (8.1) | (6.0) | (5.9) | (6.5) | (-4.5) |
| Steel | | 000. tonnes | 4558.0 | 4577.0 | 53500.0 | 52.8 | 50.2 | 44.4 | 40.1 |
| | | | (-0.4) | (2.1) | (0.4) | (6.2) | (13.1) | (10.7) | (-8.4) |
| Cement | | 000. tonnes | 15330.0 | 14370.0 | 187420.0 | 174.3 | 161.3 | 147.8 | 131.6 |
| | | | (6.5) | (8.1) | (7.5) | (8.1) | (9.1) | (12.3) | (-6.6) |
| Crude Petroleum | | 000. tonnes | 2770.0 | 2784.0 | 33506.0 | 34.1 | 34.0 | 32.2 | 34.0 |
| | | | (-0.5) | (-0.4) | (-1.8) | (0.4) | (5.6) | (-5.3) | (-1.8) |
| Petroleum Refinery Products | | 000. tonnes | 12597.0 | 12182.0 | 149519.0 | 145.2 | 136.3 | 120.8 | 118.2 |
| | | | (3.4) | (2.8) | (3.0) | (6.5) | (12.9) | (2.2) | (-4.3) |
| Electricity | | Mn KWh | 63564.8 | 59120.2 | 723555.6 | 704469.0 | 662523.0 | 617510.5 | 587426.3 |
| | | | (7.5) | (4.4) | (2.7) | (6.3) | (7.3) | (5.1) | (-5.2) |
| **1.4 Industrial Production** | | | September | | Full Fiscal Year | | | | |
| | | | 2009 | 2008 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
| Index of Industrial Production | (Base 1993-94=100) | Index | 301.4 | 276.2 | 274.3 | 267.2 | 247.1 | 221.5 | 204.8 |
| | | | 9.1 | (6.0) | (2.4) | (8.1) | (11.6) | (8.2) | (8.4) |
| Mining and Quarrying | | Index | 176.9 | 162.9 | 175.6 | 171.3 | 163.2 | 154.9 | 153.4 |
| | | | (8.6) | (5.8) | (2.3) | (5.0) | (5.4) | (1.0) | (4.4) |
| Manufacuring | | Index | 326.1 | 298.4 | 293.8 | 286.2 | 263.5 | 234.2 | 214.6 |
| | | | (9.3) | (6.2) | (2.3) | (8.6) | (12.5) | (9.1) | (9.2) |
| Electricity | | Index | 236.6 | 219.3 | 223.7 | 217.7 | 204.7 | 190.9 | 181.5 |
| | | | (7.9) | (4.4) | (2.8) | (6.4) | (7.2) | (5.2) | (5.2) |

| **2 Money and Banking** | | | October 30, 2009 | Financial Year So Far 2009-10 | 2008-09 | Mar 31, 2009 | Mar 31, 2008 | Mar 31, 2007 | Mar 31, 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **2.1 Money Supply ($M_3$)** | Outstanding | Rs crore | 5155329 | 5155329 | 4357968 | 4758504 | 4017883 | 3315993 | 2729545 |
| | Absolute Variation | Rs crore | 797361 | 391310 | 340085 | 740621 | 701890 | 586448 | 478096 |
| | Per cent Variation | | (18.3) | (8.2) | (8.5) | (18.4) | (21.2) | (21.5) | (21.2) |
| **2.2 Scheduled Comm. Banks** | | | October 30, 2009 | Financial Year So Far 2009-10 | 2008-09 | Mar 31, 2009 | Mar 31, 2008 | Mar 31, 2007 | Mar 31, 2006 |
| Aggregate Deposits | Outstanding | Rs crore | 4181693 | 4181693 | 3515923 | 3834110 | 3196939 | 2611933 | 2109049 |
| | Absolute Variation | Rs crore | 665770 | 347583 | 318983 | 637171 | 585006 | 502884 | 408850 |
| | Per cent Variation | | (18.9) | (9.1) | (10.0) | (19.9) | (22.4) | (23.8) | (24.0) |
| Non-Food Credit | Outstanding | Rs crore | 2859666 | 2859666 | 2597188 | 2729339 | 2317515 | 1884668 | 1466386 |
| | Absolute Variation | Rs crore | 262478 | 130327 | 279673 | 411824 | 432847 | 418282 | 407078 |
| | Per cent Variation | | (10.1) | (4.8) | (12.1) | (17.8) | (23.0) | (28.5) | (38.4) |
| Accom. provided by Comm. Banks to Comm. Sector | Outstanding | Rs crore | 2925784 | 2925784 | 2663050 | 2827922 | 2413021 | 1968214 | 1545851 |
| | Absolute Variation | Rs crore | 262734 | 91672 | 250030 | 414901 | 444807 | 422363 | 340172 |
| | Per cent Variation | | (9.9) | (3.2) | (10.4) | (17.2) | (22.6) | (27.2) | (28.2) |

| **3 Inflation** | | | October 2009 | Financial Year so far 2009-10 | 2008-09 | Fiscal Year Average 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|---|---|---|---|---|---|---|---|---|
| **3.1 Wholesale Price Index** | (1993-94=100) | Index | 242.2 | 242.2 | 239.0 | 233.9 | 215.7 | 206.2 | 195.6 |
| | | | (1.3) | (6.1) | (6.0) | (8.4) | (4.6) | (5.4) | (4.4) |
| **3.2 Consumer Price Index for Industrial Workers** | (2001=100)* | Index | Sept 2009 | Aug 2009 | Jul 2009 | Fiscal Year Average 2008-09 | 2007-08 | 2006-07 | 2005-06 |
| | | | 163 | 162 | 160 | 145 | 133 | 125 | 117 |
| | | | (11.6) | (11.7) | (11.9) | (9.0) | (6.4) | (6.8) | (4.5) |

Note: *New base 2001=100 introduced from February 2006; linking factor for CPI with base 1982=100 is 4.63;
old series converted into new base by using this linking factor. Variation worked out using monthly figures for October 2009 and fiscal year so far.

| 4 **Central Government Finances** | | April-September | | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|---|---|---|---|---|---|---|---|
| | | 2009 | 2008 | (BE) | (Provisional) | (Accounts) | (Actuals) | (Actuals) |
| **4.1 Gross Tax Revenue** | Rs crore | 258880 | 280141 | 614497 | 609705 | 593147 | 473512 | 366151 |
| | | (-7.6) | (25.3) | (0.8) {10.5} | (2.8) {11.2} | (25.3) {12.6} | (29.3) {11.5} | (20.1){10.2} |
| States' Share | Rs crore | 72135 | 76761 | 164361 | 160179 | 151800 | 120330 | 94386 |
| | | (-6.0) | (24.1) | (2.6) | (5.5) | (26.2) | (27.5) | (20.1) |
| **4.2 Total Expenditure** | Rs crore | 448848 | 349081 | 1020838 | 881469 | 712732 | 583387 | 506123 |
| | | (28.6) | (9.8) | (15.8) {17.4} | (23.7){16.24} | (22.2) {15.1} | (15.3) {14.1} | (1.6) {14.1} |
| Plan Expenditure | Rs crore | 126778 | 108452 | 325149 | 275450 | 205082 | 169860 | 140638 |
| | | (16.9) | (25.0) | (18.0) | (34.3) | (20.7) | (20.8) | (6.3) |
| Non-Plan Expenditure | Rs crore | 322070 | 240629 | 695689 | 606019 | 507650 | 413527 | 365485 |
| | | (33.8) | (4.1) | (14.8) | (19.4) | (22.8) | (13.1) | (-0.1) |
| **4.3 Fiscal Deficit** | Rs crore | 197775 | 102654 | 400996 | 330114 | 126912 | 142573 | 146435 |
| | | (92.7) | (26.4) | {6.8} | {6.1} | {2.7} | {3.5} | {4.1} |
| **4.4 Revenue Deficit** | Rs crore | 164983 | 78313 | 282735 | 247046 | 52569 | 80222 | 92299 |
| | | (110.7) | (28.1) | {4.8} | {4.6} | {1.1} | {2.2} | {2.9} |

Note: BE: Budget estimates, RE: Revised estimates and Pro: provisional estimates. Figures in brace brackets are percentages to GDP at current market prices.

| 5 **Capital Market** | | October | September | August | Full Fiscal Year | | | |
|---|---|---|---|---|---|---|---|---|
| **5.1 Mutual Funds** | | 2009 | 2009 | 2009 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
| Sales | Rs crore | 1050195 | 797144 | 918660 | 5426353 | 4464376 | 1938592 | 1098149 |
| | | (209.2) | (79.7) | (126.2) | (21.5) | (130.3) | (76.5) | (30.8) |
| Redemptions | Rs crore | 908904 | 941471 | 885987 | 5454650 | 4310655 | 1844512 | 1045370 |
| | | (135.2) | (92.4) | (118.2) | (26.5) | (133.7) | (76.4) | (24.8) |
| Net Mobilisation | Rs crore | 141291 | -144327 | 32673 | -28297 | 153721 | 94080 | 52779 |
| **5.2 FII Investments in Debt and Equity** | | October | September | August | Fiscal Year so far | | Full Fiscal Year | |
| | | 2009 | 2009 | 2009 | 2009-10 | 2008-09 | 2008-09 | 2007-08 |
| Purchases | Rs crore | 83353 | 78952 | 60674 | 510243 | 430035 | 614579 | 948020 |
| | | (59.4) | (7.4) | (21.0) | (18.7) | (-15.5) | (-35.2) | (82.1) |
| Sales | Rs crore | 67380 | 58379 | 56151 | 424690 | 467384 | 660389 | 881842 |
| | | (-3.0) | (-25.7) | (12.1) | (-9.1) | (6.9) | (-25.1) | (80.1) |
| Net Investment | Rs crore | 15973 | 20573 | 4523 | 85553 | -37347 | -30464 | 66179 |
| | | (-192.8) | (-505.5) | (9711.9) | (-329.1) | (-152.3) | (-146.0) | (114.6) |
| Net Investment | US $ mn | 3428 | 4263 | 945 | 17789 | -9258 | -11356 | 16040 |
| | | 3428 | (-438.8) | (7973.5) | (-292.1) | (-153.4) | (-170.8) | (139.1) |

| 6 **Investment Indicators** | | | September | | Full Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 2009 | 2008 | 2008-09 P | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
| **6.1 Production of Capital Goods** | (1993-94 = 100) | Index | 530.6 | 470.2 | 396.8 | 370.8 | 314.2 | 265.8 | 229.6 |
| | | | (12.8) | (20.8) | (7.0) | (18.0) | (18.2) | (15.8) | (13.9) |
| **6.2 CMIEs Capital Investment** | | | Mar 2009 | Dec 2008 | Sept 2008 | June 2008 | Mar 2007 | Dec 2007 | Sept 2007 |
| Under Implementation | | Rs crore | 3630073 | 3422589 | 3290537 | 2965189 | 2700203 | 2506129 | 2445313 |
| | | | {40.9} | {42.8} | {43.5} | {42.7} | {42.8} | {43.7} | {45.6} |
| Manufacturing | | Rs crore | 927629 | 907309 | 899394 | 783534 | 732596 | 682454 | 660100 |
| | | | {42.0} | {42.9} | {42.4} | {40.3} | {42.0} | {44.6} | {45.0} |
| Electricity | | Rs crore | 947752 | 912534 | 894210 | 832707 | 720593 | 648348 | 655318 |
| | | | {31.5} | {34.1} | {36.9} | {36.8} | {35.3} | {35.1} | {38.1} |
| Services | | Rs crore | 955585 | 873474 | 832891 | 764567 | 690113 | 649951 | 636067 |
| | | | {44.3} | {45.4} | {46.0} | {47.5} | {47.3} | {48.9} | {50.3} |

Note: Figures in brace brackets refer to the rate of implementation of investment projects.

| 7 **External Sector** | | | April-September | | Full Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **7.1 Foreign Trade** | | | 2009 | 2008 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
| Value of Exports | | US $ bl | 77.9 | 108.9 | 168.7 | 162.9 | 126.4 | 103.1 | 83.5 |
| | | | (-28.5) | (50.1) | (3.6) | (28.9) | (22.6) | (23.4) | (30.8) |
| Value of Imports | | US $ bl | 124.6 | 185.0 | 287.8 | 251.4 | 185.7 | 149.2 | 111.5 |
| | | | (-32.7) | (65.7) | (14.4) | (35.4) | (24.5) | (33.8) | (42.7) |
| Value of Non-Oil Imports | | US $ bl | 89.8 | 121.7 | 194.58 | 171.8 | 128.6 | 105.2 | 81.7 |
| Trade Deficit | | US $ bl | 46.7 | 76.1 | 119.1 | 88.5 | 59.4 | 46.1 | 28.0 |

Note: *Data are provisional and growth is worked out by using provisional over corresponding revised data.

| **7.2 Foreign Exchange Rates** | | | September | August | September | April-March | | | |
|---|---|---|---|---|---|---|---|---|---|
| 36-Currency Trade-Based Weights | (Base:1993-94=100) | | 2009 | 2009 | 2008 | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
| REER | | Index | 90.14 | 90.22 | 95.69 | 94.32 | 104.81 | 98.48 | 102.35 |
| | | | (-5.8) | (-9.3) | (-9.6) | (-10.0) | (6.4) | (-3.8) | (2.3) |
| NEER | | Index | 82.14 | 83.08 | 83.96 | 84.65 | 93.91 | 85.89 | 89.85 |
| | | | (-2.2) | (-4.5) | (-11.3) | (-9.9) | (9.3) | (-4.4) | (2.9) |
| 6-Currency Trade-Based Weights | (Base: 2006-07=100)# | | September 2009 | August 2009 | September 2008 | April-March 2008-09 | 2007-08 | 2006-07 | 2005-06 |
| REER | | Index | 88.91 | 88.21 | 93.63 | 91.45 | 100.00 | 92.41 | 93.93 |
| | | | (-5.0) | (-9.4) | (-7.1) | (-8.6) | (8.2) | (-1.6) | (5.4) |
| NEER | | Index | 81.08 | 81.90 | 86.70 | 86.78 | 100.00 | 92.96 | 96.69 |
| | | | (-6.5) | (-9.5) | (-13.9) | (-13.2) | (7.6) | (-3.9) | (3.9) |
| | | | Oct 30 2009 | Oct 31 2008 | Mar 31 2008 | Mar 31 2007 | Mar 31 2006 | Mar 31 2005 | Mar 31 2004 |
| RBI Reference Rate | (Rs. per US $)* | US Dollar | 49.9600 | 49.2500 | 39.9700 | 43.5900 | 44.6100 | 43.7500 | 43.3900 |
| | | | - | (-20.2) | (9.1) | (2.3) | (-1.9) | (-0.8) | (9.5) |

# Base Year 2006-07=100 is a moving one *Figures in brackets are **Rupee appreciation (+) /depreciation (-)** over the corresponding previous year

Note for all tables: Figures in brackets are year-on-year variation unless otherwise stated.

*Source: RBI and Government of India sources (for details and provisos and caution, see respective chapters).*

# 1. GROWTH SCENARIO

## 1.1 Introduction

There are indications that the economy is attaining the 'escape velocity' and reverting to the growth path, despite continuous contraction in exports and erratic monsoon behaviour. The performance of the industrial sector has improved noticeably in recent months. Domestic and external financing conditions are on the upturn; along with it capital inflows have revived. However, some concerns persist, as there are clear signs of rising inflation stemming largely from the supply side, particularly from food prices. Private consumption demand is yet to pick up, agricultural production is expected to decline, services sector growth remains below trend and above all, bank credit growth continues to be sluggish. The Central Statistical Organisation of India has reported the estimated growth rate of gross domestic product for the second-quarter of 2009-10 at 7.9%, beating the analysts' estimate of 6%-6.6%. The overall growth was remarkable, despite farming sector growing marginally on account of weak monsoon, and continued decline in exports. Besides, the stimulus measures announced by the government pushed demand and increased the pace of manufacturing activity.

## 1.2 Global Economy

The global outsourcing and off-shoring industry continued to show signs of recovery leading to optimism in the Indian industry during $Q_3$ 2009. The Indian offshore services industry witnessed growth amidst the signs of revival in demand. Eleven new captive centres were set up in India during this quarter. India-centric suppliers witnessed increased activity in $Q_3$ compared to $Q_2$. India-centric suppliers are investing in delivery capabilities and setting up new centres. The increase in the number of captive set-ups reflects sign of recovery in the overall market. It is expected that the industry in India will continue this momentum in the last quarter of 2009 as well.

The International Monetary Fund has projected the Asian economies to grow by 5.8% during 2010, higher than the 1.3% predicted for the G-7 economies, but short of the 6.7% average recorded for the region over the past decade. The region is out pacing other parts of the

world, with the 'green shoots' of recovery appearing earlier and taking firmer roots than elsewhere.

After a series of successive and frequent downward revisions to the growth outlook of the world economy for 2009, as also mentioned in our earlier *Monthly Economic Review,* the IMF has revised the projected growth upwards for the first time from (-) 1.4% to (-) 1.1% in October 2009.

According to the World Trade Organisation, world merchandise exports increased by about 8.0% in the second quarter of 2009 over the preceding quarter, even though y-o-y growth continued to decline by 33.0%.

Estimates of the Institute of International Finance (IIF) suggest that net private capital flows to the Emerging Market Economies (EMEs), which had recovered in the second quarter of 2009, gained pace in the third quarter; 30 EMEs are projected to receive US$ 349 billion in 2009.

The US economy returned to growth in the third quarter of the calendar year 2009 after a yearlong contraction as government incentives spurred consumers to spend more on homes and cars. The world's largest economy expanded at 3.5% from July to September for the current year.

Britain's GDP fell by 0.4% in the third quarter of the current calendar year, this is the sixth consecutive decline posted in UK.

Though output is reviving, unemployment is expected to increase to over 10.0%. Investment is also expected to remain weak due to ruptured balance sheets, excess capacity and financing constraints, as the recovery is still fragile. World trade still remains below its level a year ago. In a nutshell, even though, global economic prospects has improved, uncertainties remain about the pace and sustainability of economic recovery.

### 1.3 Domestic Economy

RBI has retained its growth projection for GDP for 2009-10 at 6.0% with an upward bias, in its second quarter review.

The current growth outlook for 2009-10 has both upside prospects as well as downside risks. Upside prospects to growth include the impact of the growth supportive fiscal-monetary policy stance, recovery in industrial production and core infrastructure sector, significant upturn in overall business confidence, strong recovery in the stock market with higher mobilisation of resources, return of capital inflows and improving outlook for the global economy which could boost the sluggish consumer and investor confidence.

The downside risks include the large deceleration in private consumption demand and some decline in corporate sales in the first quarter of 2009-10, the impact of deficient monsoon and recent flood in certain parts of the country on agricultural output and rural demand, sustained deceleration in credit growth and decline in exports.

The Reserve Bank's professional forecasters survey points to downward revision to the growth outlook from 6.5% to 6.0% in 2009-10, reflecting the expected negative impact of the deficient monsoon on agricultural output.

**Table 1.1: Business Expectations Surveys**

| Period Index | NCAER Q3: 2009 Business Confidence Index | FICCI Q1: 2009-10 Overall Business Confidence Index | Dun & Bradstreet Q3: 2009 Business Optimism Index |
|---|---|---|---|
| Current level of the Index | 118.6 | 67.2 | 132.1 |
| Index as per previous survey | 81.6 | 64.1 | 93.8 |
| Index Levels on Year back | 125.4 | 52.5 | 136.5 |
| % Change (Q-on-Q) sequential | 45.4 | 4.8 | 40.8 |
| % Change (Y-on-Y) | -5.7 | 28 | -3.2 |

Source: RBI, *Macroeconomic and Monetary Developments*: Second Quarter Review 2009-10

The October 2009 National Council of Applied Economic Research (NCAER) of Business Confidence shows improvement in the BCI by 45.4% increase as per the previous survey (July 2009), even though y-o-y has shown a negative growth. The findings of the survey suggest that the business sentiments are returning closer to the pre-crisis levels.

The Business Confidence Survey of the FICCI for Q1: 2009-10 suggested that 70.0% of the companies felt the overall economic conditions to be "moderately to substantially better" compared to previous six months. The overall business confidence index raised by 4.8% over the previous quarter level, as 50.0% of the survey respondents expected the sales volume to increase, 30.0% expected investment to increase, and 22.0% viewed that they would add to the workforce in the next two quarters. While 80.0% of the respondents recognised the beneficial effects of the

fiscal stimulus on economic activity, however, rising cost of raw materials and manpower, delayed monsoon and high interest rates were expressed as areas of concern.

The Dun and Bradstreet Business Optimism Index for Q3: 2009 conducted in June 2009 has risen sharply by 40.8% over the lowest level of the index in the previous quarter. Five of the six optimism indices, namely volume of sales, net profits, new orders, selling prices, and employee levels recorded improvement over the previous quarter. Inventory levels, however, declined by 2 percentage points (Table 1.1).

The HSBC Market Purchasing Managers' Index (PMI) which is an indicative measure of the health of the manufacturing sector – moved up in September 2009 after the decline in August 2009, but remained above the threshold (of 50) for the sixth month in a row suggesting the expansion in activities. The turnaround is largely driven by home market since April 2009. PMI for the services remained in the expansion zone (*i.e.,* above 50), though with some moderation in September 2009. The composite PMI in September 2009 was almost unchanged in the expansion zone, as improvement in manufacturing was offset by moderation in services.

The general view about the impact of the delayed monsoon gets reflected in the assessment of the growth outlook of the professional forecasters. The results of the ninth round of survey of professional forecasters' conducted by the Reserve Bank shows overall (median) growth rate for 2009-10 at 6.0%, as against 6.5% in the earlier survey, whereas, the growth rate for the next fiscal year is predicted to be at 7.7% against 7.5% estimated earlier. The sectoral growth rate forecast for the agriculture sector was revised downwards from 2.5% to a decline of 1.4%, whereas for industry the assessment was revised upwards from 4.8% to 6.3%. For services, the forecasts suggest modest downward revision from 8.3% in the earlier survey to 8.1% in the current survey. Exports and imports are expected to decline by 5.0% and 15.7%, respectively, for the same period. The gross domestic savings are expected to be at 36.6% in 2009-10 and gross domestic capital formation at 37.7% for the same period. On quarterly basis, GDP growth rate is expected to be at 6.2% for the second quarter of current fiscal year, followed by 5.7% and 6.7% for the third and fourth quarter, respectively (Appendix I).

### 1.4 Survey of Professional Forecasters: Results of the Ninth Round (Q2: 2009-10)

The Reserve Bank of India has released the 'Survey of Professional Forecasters' conducted through a questionnaire responded by 21 forecasters who had participated in the ninth round of the survey. The survey represents short to medium term economic developments on major macro-economic indicators. The forecasts given are the averages of data obtained from the survey. The results of the survey represent views of the respondent forecasters and not of the Reserve Bank of India.

**Table 1.2: Forecast for 2009-10**

*(%)*

| | 2009-10 | |
|---|---|---|
| | L | E |
| GDP | 6.0 | 6.5 |
| Agriculture | -1.4 | 2.5 |
| Industry | 6.3 | 4.8 |
| Services | 8.1 | 8.3 |
| Gross Domestic Savings | 33.6 | 35.0 |
| Gross Domestic Capital Formation | 37.3 | 36.6 |
| Gross Fixed Capital Formation | 33.5 | 35.1 |
| Private Final Consumption Expenditure | 7.0 | 7.0 |
| Central Government Fiscal Deficit | 7.0 | 6.8 |
| Combined Gross Fiscal Deficit | 11.0 | 10.1 |
| Exports | -5.0 | -0.5 |
| Imports | -15.7 | -3.5 |
| Net Surplus Invisibles | US$83.1 billion | US$80.9 billion |

E - Earlier L - Latest

Source: RBI

Forecasters have revised their real GDP growth rate downwards to 6.0% for 2009-10 from 6.5% in the last survey. The highest probability of 37.5% was assigned to growth range of 6.0-6.4% for the year 2009-10 whereas, for the next fiscal year, the highest probability of 49.3% was assigned to the growth range of 7.5-7.9% for GDP. Table 1.2 represents the forecast for the current fiscal year for both the demand and supply side of GDP.

The real GDP growth for the second quarter of 2009-10 is estimated to be at 6.2%, whereas for the third and fourth quarter of this fiscal year the GDP growth is expected to be at 5.7% and 6.7%, respectively. The contribution of gross fixed capital formation to GDP has been projected at 33.4% in the second quarter of 2009-10 from 34.1% in the last survey. Corporate profit in $Q_2$ is expected to show a growth of 4.5% from 3.0% in its previous survey.

Median forecasts for the real GDP originating from different sectors for the second quarter of the current fiscal year have been projected by the professional forecasters (Table 1.3).

**Table 1.3: Median Forecast for Q2 2009-10**

*(%)*

| | L | E |
|---|---|---|
| Agriculture | -1.0 | 2.4 |
| Industry | 6.6 | 3.5 |
| Services | 7.8 | 8.0 |
| Gross Fixed Capital Formation | 33.4 | 34.1 |

L – Latest E - Earlier

Source: RBI

Long term forecast for real GDP for the next five years is anticipated to post a growth of 5.5%, whereas, for the next ten years the GDP is expected to grow at 7.8%, which is revised downwards from 8.0% in the last survey.

Some of the key macro-economic indicators for the annual year 2009-10 and 2010-11 have been projected by the professional forecasters on mean, median, minimum and maximum basis. It is expected that real GDP growth will be at 7.0% and 8.2% for both current fiscal year and next year, respectively (Appendix II).

The quarterly estimates for the remaining three quarters of the current fiscal year as well as for the first two quarters of next fiscal year have been projected by the professional forecasters in the similar manner as done for the annual forecast of 2009-10 and 2010-11, (Appendix III).

Growth projections for the economy by various agencies are observed to have either been revised upward or kept unchanged. The point of view for India's growth in 2009-10 as projected by different organisations since June 2009 has been either revised upwards or kept unchanged. The Asian Development Bank (ADB) revised the growth outlook for India upwards in September 2009 from 5.0% to 6.0% for the current fiscal year, in the wake of emerging signs of recovery in business confidence and continuation of fiscal stimulus. NCAER report also showed a higher projected growth figure of 7.2% for 2009-10, despite of downward revision in growth outlook for the agriculture sector to 1.0% from the previous projection of 2.5%. The October 2009 outlook of the IMF has retained the projected growth to 5.4%, while highlighting the role of policy stimulus in boosting domestic demand and relatively lower dependence of India on exports in relation to other Asian countries. The Economic Advisory Council to the Prime Minister has projected the Indian economy to grow by 6.5% in 2009-10, with an estimation suggesting that the growth is not likely to be lower than 6.25% but with the prospect of reaching 6.75%. The overall projections made by various agencies fall in a range of 5.1-7.2%, (Table 1.4).

**Table 1.4: Projections of Real GDP for India by Various Agencies – 2009-10**

*(Growth in %)*

| Agency | Latest Projection | | | | | Earlier Projection | |
|---|---|---|---|---|---|---|---|
| | Month of Projection | Overall GDP | Agriculture | Industry | Services | Overall GDP | Month |
| Economic Advisory Council to PM | Oct-09 | 6.5 | -2.0 | 8.2 | 8.2 | 7.0-7.5 | Jan-09 |
| IMF (Calendar year) | Oct-09 | 5.4 | - | - | - | 5.4 | Jul-09 |
| ICRIER* | Oct-09 | 5.8 -6.1 | | | | 6.0 | Jun-09 |
| ADB | Sep-09 | 6.0 | - | - | - | 5.0 | Mar-09 |
| NCAER | Jul-09 | 7.2 | 1.0 | 6.7 | 9.4 | 6.5-6.9 | Apr-09 |
| OECD | Jun-09 | 5.9 | - | - | - | 4.3 | Mar-09 |
| World Bank | Jun-09 | 5.1 | - | - | - | 4.0 | Mar-09 |
| **Range** | | **5.1-7.2** | | | | **4.0-7.5** | |

* ICRIER Macro Team

Source: RBI

The industrial output growth, as measured by the Index of Industrial Production (IIP), stood at 9.1% in September 2009 as against 6.0% registered in the same month last year, The government stimulus packages have been largely instrumental in creating demand for goods and services, which must be taken up by additional private investment and spending. Beginning of June 2009 industrial production has been showing good growth and the latest numbers only substantiate that a sustained recovery is underway. This growth comes on the back of a muted performance of the industries in September 2009, as it grew by about 4.0% and therefore indicates that the rest of the industrial economy is growing at a fast clip. The experts feel that if the policy framework is left untouched, this performance can continue in the months ahead.

The index of six core industries stood at 246.7 in September 2009 and registered a growth of 4.0% same as in September 2008. During April-September 2009-10, six core industries registered a growth of 5.0% as against 3.4% during the corresponding period of the previous year.

Foreign Tourist Arrivals (FTAs) during the month of October 2009 has been 4.48 lakh as compared to FTAs of 4.53 lakh during the month of October 2008. There has been a decline of 0.9% in FTAs in October 2009 over October 2008. However, there was an improvement vis-a-vis the growth rate of (-) 4.1% observed in September 2009 over September 2008. The growth rate in FTAs during January-October 2009 (-7.0%) marginally improved as compared to the growth rate during January-September 2009 (-7.7%). Foreign Exchange Earnings (FEE) during

the month of October 2009 was Rs 4,806 crore as compared to Rs 4, 248 crore in October 2008. FEE in US$ terms during the month of October 2009 were US$ 1028 million as compared to US$ 873 million in October 2008. The growth rate in FEE in rupee term during January-October, 2009 (4.1%) registered an improvement over the growth rate during January-September, 2009 (3.1%). The growth rate in FEE in US$ terms during January-October 2009 (-10.3%) also improved over the growth rate during January-September 2009 (-13.1%).

Shrinking for the twelfth straight month, the country's exports fell by 13.8% to US$ 13.61 billion in September 2009 as compared to US$ 15.78 billion in the same month last year. The imports also fell by 31.3% to US$ 21.38 billion in September 2009 from US$ 31.14 billion in year-ago period. The trade deficit for April- September 2009 was estimated at US$ 46.7 billion, which was lower than the deficit of US$ 76.1 billion during April-September 2008.

### 1.5 Summing Up

The concentration around the world, as also in India, has shifted from managing the crisis to managing the recovery. Balancing between the conflicting goals of supporting economic growth and capping inflation will be a complex task in the months to come. The foreign trade continues to be sluggish and the combination of drought and floods is likely to reduce the kharif output and drag down the overall growth rate of the economy. An end to easy money policy could lead to higher cost of funds, which could reduce the pace of investments and arrest growth; the challenge is to support the revival process without compromising over the financial stability of economy.

## 2. AGRICULTURE

### 2.1. Overview

The poor performance of southwest monsoon has hampered the progress of all kharif sowings. This has been clearly reflected in decline in the production prospects of kharif crops (except for tur, urad and castor seed) displayed by the first advance estimates (I AE) released by the Ministry of Agriculture for 2009-10. It is opined that the government's decision to raise MSP has not been effective in inducing a higher crop area. Since rice which has been hit badly, central government has provided a bonus of Rs 50 per quintal over and above the MSP declared in the kharif season.The only silver lining so far is the record procurements of major staple foodgrains; wheat and rice, which seems to have some sigh of relief that could partly mitigate the food inflation that has gripped the economy.

### 2.2 Rainfall and Water Storage

The southwest monsoon, which had begun withdrawing from September 25, receded from Indian subcontinent by mid-October. The northeast monsoon has set in over southern peninsula regions as on October 29, 2009, marking a delay compared to its normal schedule of October 20. Northeast monsoon has been advancing slowly and gradually, and has covered southern states and some parts of central regions of the country. While so far it has remained sluggish and skewed towards the northwestern regions and few parts of southern states leading the cumulative rainfall below normal by 13% as on November 4, 2009 (Table 2.1). According to *All India Weekly Weather Watch Report* by Indian Meteorological Department (IMD), 19 out of 36 meteorological sub-divisions have received normal to excess rainfall, 17 have witnessed deficient to scanty precipitation so far during the northeast monsoon season (October- December) 2009.

**Table 2.1: Cumulative Rainfall Received in Post Monsoon Season – 2009**

*(millimetres)*

| Regions | Normal Rainfall | Actual Rainfall during Oct 01- Nov 4 | Percentage Deviation |
|---|---|---|---|
| North-West India | 31.4 | 27.9 | -11 |
| Central India | 60.1 | 66.5 | 11 |
| South Peninsular India | 169.4 | 117.6 | -31 |
| North-East India | 130.4 | 116.5 | -11 |
| **Country as a whole** | **84.0** | **72.7** | **-13** |

Deviations: excess: +20 % or more; normal: +19 % to –19 %; deficient: -20 % to –59 %; scanty: -60 % to –99 %; no rain: -100 %
*Source:* Department of Agriculture and Cooperation, Ministry of Agriculture, *(www.agricoop.nic.in)*

*Water Storage*

Poor monsoon have affected water storage levels and major reservoirs rather badly. Data published by the Central Water Commission (CWC) as on November 6 2009 exhibits that current live storage of water has fallen as against that was recorded a year ago, although water level in some reservoirs has improved slightly due to some revival recorded in monsoon. The total live storage in 81 important reservoirs in different parts of the country, monitored by CWC was 92.8 billion cubic meter (BCM) (61% of the storage capacity at FRL). The current year's storage is nearly 93% of the last year's storage and 94% of the average of last ten years (Table 2.2).For the further details refer to Appendix IV.

**Table 2.2: Water Storage in the Major Reservoirs as on Nov06, 2009**

| States | No. of Reserviors | Live Capacity at FRL *(BCM)* | This year Reservoir Storage *(BCM)* | Last year Reservoir Storage *(BCM)* | Storage as a percentage of Last year | Average of Last Ten years |
|---|---|---|---|---|---|---|
| Northern Region | 6 | 18.0 | 8.4 | 14.8 | 169.7 | 11.9 |
| Eastern Region | 15 | 18.8 | 11.7 | 13.7 | 238.4 | 14.3 |
| Western Region | 19 | 21.9 | 12.0 | 16.3 | 147.1 | 15.6 |
| Central Region | 11 | 41.8 | 20.8 | 21.9 | 333.4 | 20.9 |
| Southern Region | 30 | 51.2 | 40.0 | 40.1 | 389.4 | 37.5 |
| **Total** | **81** | **151.8** | **92.8** | **106.7** | **86.9** | **100.2** |

*Source: Central Water Commission (www.cwc.nic.in)*

*Region wise storage status:*

a. North: Overall storage in 6 reservoirs is monitored in this region comprising the states of Himachal Pradesh, Punjab and Rajasthan. Out of which water storage at reservoirs in Himachal Pradesh is less than normal by 30%, in Punjab by 43% and in Rajasthan by 21%.

b. East: Jharkhand, Orissa, West Bengal and Tripura together comprises 15 reservoirs under it. Of which water storage is above than normal in Jharkhand. Whereas storage level is less than normal in Orissa by 18%, in Tripura by 41% and West Bengal by 58%

c. West: Gujarat and Maharashtra together has 19 reservoirs, of which storage is less than normal in Gujarat by 26% and in Maharashtra by 21%.

d. Central: 11 reservoirs are monitored from the states of Uttar Pradesh, Uttarakhand, Madhya Pradesh and Chhattisgarh. Storage level in reservoirs from Madhya Pradesh is higher than normal, while it is less than normal in Uttarakhand by 8%, Uttar Pradesh by 38% and Chhattisgarh by 29%.

e. South: Andhra Pradesh, Karnataka, Tamil Nadu and Kerala together covers 30 reservoirs beneath of which storage level in Tamil Nadu is less than normal by 29%, whereas it is above normal in Andhra Pradesh, Karnataka and in Kerala.

Out of 81 major reservoirs, only one reservoir namely Sriramsagar from Andhra Pradesh have registered no live water storage. Table 2.3 depicts the number of reservoirs having storage levels above and below the normal level.

**Table 2.3: Water storage Level in Major Reservoirs**

| Water storage level | No of Reserviors |
|---|---|
| Above 80% of the normal | 46 |
| Between 50%-80% of the normal | 22 |
| Between 30% - 50% of the normal | 8 |
| Below 30% of the normal | 4 |
| No Live water storage | 1 |
| Total | 81 |

Source: *Central Water Commission (www.cwc.nic.in)*

## 2.3 Downturn in Kharif Output

As per the first advanced estimates (I AE) released by the Ministry of Agriculture on November 3, 2009 for the kharif season 2009-10, output of foodgrains has been pegged at 96.6 million tonnes, 17.9% lower from 117.7 million tonnes estimated earlier (IV AE) (Table 2.4) Decline in output has been projected for all the major crops except for tur, urad and castor seed. It has been estimated that output of most of the food crops are not likely to surpass their respective targets, as a consequence of poor rains and outright drought in more than half the districts for the country.

Production of rice, the largest foodgrain grown during the kharif season, has been hit very badly by 13.3% to 69.5 million tonnes over the (I AE) last year. Coarse cereals production is likely to drop by 16.8% to 22.8 million tonnes owing to fall in output of maize, bajra and jowar over last year's corresponding levels (I AE). Marginal fall has been registered in maize and jowar while a hefty fall is recorded in bajara. However, pulses production is slated to drop marginally to 4.42 million tonnes as against 4.78 million tonnes produced during the last kharif season. Most of the farmers shifted to these crops as it can be harvested within short duration. Production of

tur and urad have displayed an improvement of around 4.2% to 2.5 million tonnes and 7.3% to 0.9 million tonnes, whereas production of moong has declined marginally to 0.5 million tonnes from 0.8 million tones as shown in Appendix V.

**Table 2.4: Trends in Agriculture Production**

| Crop | Season | 2009-10 | 2008-09 | | Year-on-Year | |
|---|---|---|---|---|---|---|
| | | I Advance Estimates | I Advance Estimates | IV Advance Estimates | Percentage Variation | |
| (1) | (2) | (3) | (4) | (5) | (3)/(4) | (3)/(5) |
| *(million tonnes)* | | | | | | |
| Rice | Kharif | 69.5 | 80.2 | 84.6 | -13.3 | -17.9 |
| Coarse Cereals | kharif | 22.8 | 27.4 | 28.3 | -16.8 | -19.7 |
| Total Pulses | Kharif | 4.4 | 4.7 | 4.8 | -6.4 | -7.5 |
| Total Foodgrains | Kharif | 96.6 | 115.3 | 117.7 | -16.2 | -17.9 |
| Total Oilseeds | kharif | 15.2 | 17.9 | 17.9 | -15.1 | -14.8 |
| Cotton# | Total | 23.7 | 23.9 | 23.2 | -1.0 | 2.2 |
| Jute & Mesta ## | Total | 10.2 | 11.1 | 10.4 | -8.0 | -1.6 |
| Sugarcane | Total | 249.5 | 294.7 | 273.9 | -15.3 | -8.9 |

#: Million bales of 170 kgs. each, # # Million bales of 180 kgs. each

Source: Agricultural Statistics Division, Directorate of Economics and Statistics
Department of Agriculture & Cooperation

Among non-foodgrains, total output of oilseeds for 2009-10 is estimated to touch 15.2 million tonnes, 15% lower over 17.9 million tonnes in 2008-09. The big drop in oilseeds has come from groundnut, whose production is projected to fall to 4.52 million tonnes, from around 7.72 million tonnes (IV AE). This reduction is due to less sown acreage and almost 80% deficient rainfall in Gujarat, the country's largest groundnut growing state. Soyabean production is expected to be around 8.93 million tonnes this year, down from 9.90 million tonnes last year's. Castor seed is the only crop showing an improvement over the (I AE).

As for sugarcane, output is expected to slide by 9% to 249.48 million tonnes, due to rain-shortage, mounting arrears, poor price realisation, and delay in payments from the sugar producers. Production of cotton is expected to be around 23.66 million bales, up from last year's actual production of 23.15 million bales (IV AE) but down by 1% from last year's (I AE). Production of jute and mesta is also projected to display a marginal fall of 1.5% to 10.24 million bales (180 kgs. of each) during the current agriculture year 2009-10.

Reduction in production of most of the crops is likely to affect their availability of the crops in the domestic market, which would not only increase the burden on rabi crop output to meet the shortfall but also on the exchequer by necessitating imports. It would be great deal for the central government to cope up with volatile fluctuations that has been recorded in prices of most of the commodities in the domestic market, as downward revision of major kharif crops would act as ominous to consumers.

## 2.4 Sowings of Major Crops

Harvesting of almost all major kharif crops has been in full swing across the country. However, sowings of major rabi crops have started almost since October. rainfall during the month of September, which has increased level of soil moisture would help sowings to progress well.

According to the report of *Crop Weather Watch Group*, Kharif sowing acreages for the crop year 2009-10 have been completed, displaying a fall of 5.4% to 957.5 lakh hectares (lh) as compared to 1012 lakh hectares (lh) in the corresponding period last year (Table 2.5). Barring rice, groundnut, soyabean, sunflower, niger, castor, sugarcane and jute, area cultivated under all the major crops has risen significantly.

**Table 2.5: Progress in Sowing of Major Kharif Crops as on Oct 23**

*(lakh hectares)*

| Crops | Normal | 2009-10 | 2008-09 | Percentage Variation |
|---|---|---|---|---|
| Total Foodgrains | 733.3 | 637.0 | 691.9 | -7.9 |
| Rice | 391.7 | 328.2 | 389.2 | -15.7 |
| Coarse Cereals | 229.6 | 207.4 | 206.7 | 0.3 |
| Total pulses | 111.7 | 101.4 | 96.0 | 5.6 |
| Oilseeds | 169.1 | 174.9 | 184.4 | -5.2 |
| Sugarcane | 44.0 | 42.5 | 43.8 | -2.9 |
| Cotton | 87.2 | 96.2 | 84.9 | 13.4 |
| Jute | 8.0 | 6.9 | 7.1 | -2.0 |
| Total Area | 1041.6 | 957.5 | 1012.0 | -5.4 |

Source: *Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India (www.agricoop.nic.in)*

The area covered under rice, principal kharif crop, has tumbled down sharply by 15.7% to 328.2 lh from 389.2 lh a year ago due to lower coverage in most of the states, as deficient southwest monsoon forced most of the farmers to shift to other short duration crops. Sharp decline has been recorded in Uttar Pradesh, Bihar, Madhya Pradesh, Jharkhand and Andhra Pradesh, while the decline is moderate in states like, Assam, Gujarat, Chhattisgarh, Haryana, Maharashtra, Karnataka and West Bengal. To accrue the loss bared by the farmers, central

government has provided a bonus of Rs 50 per quintal each over and above the MSP for both varieties of paddy.

Sowings of kharif pulses have surged by 5.6% to 101.4 lh as compared to 96 lh. This is partly because of pulses being sown in the rain deficient areas to replace the crops that require excessive water supply and partly die to their prices prevailing at very high levels both in domestic and international markets. This has led to enhancement of sowings of all major pulses tur, urad and moong by 4.2% to 35.9 lh, 7.2 % to 22.4 lh and 7.4% to lh, respectively. Higher area coverage is reported to be in the states of Karnataka, Madhya Pradesh, Maharashtra, Orissa and Bihar.

Acreage under coarse cereals has increased marginally, by 0.3% to 207.4 lh due to a rise in the sown acreages of jowar, bajra and maize. The coverage under maize and bajra each has shown a fractional improvement of 0.5 lh to 71.1 lh and 0.2 lh to 85.4 lh, respectively, while jowar has displayed highest increase of 6.6% to 31.3 lh. The higher coverage has been recorded in states like Karnataka, Maharashtra, Bihar and Rajasthan in comparison to the corresponding period last year.

As for non-food crops, acreages under oilseeds as a group have posted a decline of 5.2% to 174.9 lh as against 184.4 lh covered a year ago. The acreages under the groundnut and sunflower have dipped by 16.6% to 44.5 lh and 10.9% to 6.1 lh, respectively, while that under soyabean has slipped down fractionally by 0.2% to 96.1 lh as against 96.4 lh last year. Sesamum is the only kharif oilseed that has surpassed its last year sown area by 13.9% to 17.8 lh.

Sugarcane sowing has fallen by 2.9% to 42.5 lh as compared with last year. This reduction in sowing is a result of low precipitation and poor price realisation in the last season and diversion of cane growing area to other remunerative crops like tur, rice, etc.

Coverage under cotton has exceeded normal sown acreages as well as last year's sown acreages by 9 lh and 11.4 lh, respectively to 96.2 lh due to good price realisation received in the free market. The area sown has increased significantly in Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra and Rajasthan. Jute sowings so far have been lagging behind by 2% at 6.9 lh compared to 7.1 lh covered during the last season.

## 2.5 Procurement, Distribution and Stock of Foodgrains

*Rice Procurement*

**Table 2.6: State-wise Procurement of Rice**

(*lakh tonnes*)

| States | 01 -0 6 Nov | | | Total Procurement in Marketing Season (Oct-Sept 2008-09) |
|---|---|---|---|---|
| | 2009-10 | 2008-09 | Change in % | |
| Andhra Pradesh | 0.1 | 0.5 | -87.0 | 87.6 |
| Chhattisgarh | 0.4 | 0.6 | -28.6 | 28.5 |
| Haryana | 16.4 | 11.9 | 37.3 | 14.3 |
| Kerala | 0.7 | 0.3 | 100.0 | 2.4 |
| Punjab | 80.5 | 77.0 | 4.6 | 85.5 |
| Tamil Nadu | 0.2 | 1.6 | -86.0 | 11.9 |
| Uttar Pradesh | 0.2 | 1.2 | -85.2 | 36.1 |
| Uttarakhand | 0.0 | 0.0 | 0.0 | 3.5 |
| **All India** | **98.6** | **93.2** | **5.8** | **333.1** |

*Source:* Department of Food and Public Distribution Government of India, *(www.fcamin.nic.in)*

The procurement of rice for the current marketing period 2009-10 has begun in Punjab and Haryana from the last week of September and in other states like Uttar Pradesh, Tamil Nadu and Kerala it started from October 01, 2009. Procurement of rice, as on November 6, 2009 has stood at 98.6 lakh tonnes, 5.8% higher from 93.2 lakh tonnes attained during the corresponding period of the last year (Table 2.6).

Punjab so far has maintained its position as the largest contributor to the central rice pool having a share of 81.7% at 80.5 lakh tonnes, higher by 3.6 lakh tonnes as compared with 77 lakh tonnes procured a year ago. Whereas, in Haryana, state agencies have been able to accumulate 16.4 lakh tonnes of rice, more than 11.9 lakh tonnes that had been purchased in the state during the corresponding period last year. Private traders and millers till mid-October have not been able to procure the quantum that was attained last year. The procurement in other main rice growing states has been started at slow pace and is expected to pick up in the months to come, as arrival of rice would be late due to delay in sowings in several parts of the country. Government intends to procure 26 million tonnes of rice during rice marketing year 2009-10.

Experts are of the view that this year there would be no sizeable contribution coming from Uttar Pradesh, Bihar, Andhra Pradesh Chhattisgarh and Tamil Nadu, as crop has not been sown at larger tracts as erratic behavior of monsoon had forced most of the growers to shift to other crops.

Food Corporation of India (FCI) would open 77 additional paddy procurement centres in Bihar from November 1, 2009 to procure rice at a larger scale.

*Cotton Procurement:*

As per the data collated by cotton corporation of India (CCI) Punjab cotton growers have realised rich harvest as the price of cotton (long staple) is ruling at Rs 2,000 to Rs 3040 per quintal, while the price of medium staple was hovering at Rs 2,050 to Rs 3,435 per quintal in different mandis of the state. As on October 26, CCI and private traders procured 13.74 lakh quintals (2.76 lakh bales) from different mandis as compared to 13.80 lakh quintals (2.74 lakh bales) procured during the same period a year earlier, displaying that the arrival of cotton in different mandis of the state is less as compared to corresponding period last year. At present, the procurement in the state is dominated by private traders who procured 9.24 lakh quintals while CCI has managed to procure 4.50 lakh quintals.

*Stocks of Foodgrains*

As per the media report, wheat stocks as on October 1 has augmented by 30% to 30.1 million tonnes while rice stocks have stood at 15.05 million tones. Stock levels of both the staple foodgrains (wheat and rice), have exceeded their corresponding buffer norms of 11 million tonnes and 5.2 million tonnes, respectively.

## 2.6. Trends in Export of Agriculture Goods

As per the official of Cotton Association of India (CAI) exports of raw cotton in October from the country shot up by 293% to 115,637 bales (of 170 kg each) over the corresponding period of the previous year as demand from overseas market has increased. World cotton output is projected to drop by 5% or 1.1 million tonnes to 22.3 million tonnes in 2009-10. This reduction is expected to be dragged by China, where the crop is projected to drop by 16% to 6.75 million tonnes.

Data released by Mumbai-based Solvent Extractors Association (SEA) asserted that export of oilmeals during October 2009 was 3.09 lakh tonnes, as against 1.53 lakh tonnes during the same period a year-ago. Exports comprised of 2.2 lakh tonnes consisted of soyameal, 0.6

lakh tonnes of rapeseed meal and about 0.3 lakh tonnes of castor meal. Oilmeal exports to Vietnam, South Korea, Japan and Thailand has increased significantly due to less supply of oilmeals from South America and weakening of dollar. However, oilmeals shipment during April-October 2009 has been declined to 15.43 lakh tonnes as compared to 26.82 lakh tonnes in the corresponding period previous year.

According to Speice Board spice exports during the first half (April-September) of the year was 239,300 tonnes valued at Rs 2,525.86 crore against 253,550 tonnes valued at Rs 2,660.75 crore during the same period last year registering 5.7 % drop in volume and a 5 % decline in value. Black pepper exports suffered a setback as its total exports declined to 9,750 tonnes valued at Rs 150.64 crore compared with 12,750 tonnes valued at Rs 215.70 crore last year. Export of chilli, Mint product Spice oils and oleoresin declined over the period of last year. But, some other spices such as coriander and curry powder registered an increase in exports. Spices exports for the month of October have increased by 8.7% in volume to 37,890 tonnes, while gross value realisation moved up by over 1% to Rs 435 crore. Realisation from mint and mint product exports has fallen by 32% to Rs 94 crore and has remained a cause of worry for the board. Exports of spices like turmeric, cumin, fennel, nutmeg and nutmace, have shored up and have performed better than that recorded during the same period last year.

Coir board reiterated that exports of coir and its products from the country have registered a growth of 12.5% in quantity and 10.51% in terms of value during the period from April - September 2009 due to some revival in global export market. Exports touched to 1,10,470 tonnes valued at Rs 351.46 crore during the period as against 98,162 tonnes valued at Rs 318.02 crore recorded during the same period a year ago. Coir mats have displayed a marginal decline of 2% while in value terms it registered a growth of 7% as compared to the previous corresponding period.

### 2.7. Major Developments and Policy Initiatives

The Centre has fixed the minimum support price (MSP) for the current year's wheat crop (to be harvested from April next) at Rs 1,100 per quintal, displaying a rise of Rs 20 over the MSP of Rs 1,080 per quintal for the 2008-09 crop. The MSPs for rapeseed-mustard and masur (lentil) have been retained at their respective 2008-09 levels of Rs 1,830 and Rs 1,870 per

quintal. While for chana (gram), safflower and barley have been raised from Rs 1,730 to Rs 1,760 a quintal, Rs 1,650 to Rs 1,680 a quintal, and Rs 680 to Rs 750 a quintal, respectively. It has provided a bonus of Rs 50 per quintal each on both varieties of paddy over the MSP declared during the kharif season.

The central government is mulling over importing of 2 million tonnes of rice to augment domestic supply, as production of the foodgrain is projected to decline under the twin impact of drought and floods.

The government has ruled out the decision of banning exports of onion, saying that the shooting prices of the edible is a temporary problem and rates may fall in two-and-a-half months with the arrival of the new crop.

The central government as on October 19notified its decision to double the amount of sugar purchased from millers for distribution through ration shops in the 2009-10 season. So that it would protect the poor against high sweetener prices, which have threatened to touch Rs 40 a kg due to a slump recorded in output.

The central government has fixed a fair and remunerative price (FRP) of Rs 129.84 per quintal (linked to 9.5% basic recovery) payable by sugar mills for the cane to be procured during the current season 2009-10 crushing season (October-September). For every 0.1% points increase over the basic recovery rate, mills would be obliged to pay an additional premium of Rs 1.37 per quintal. FRP has replaced the centres statutory minimum support price (SMP) of Rs 107.76 per quintal of the current season.

Import duty of 70% has been scrapped on certain varieties of rice to boost supplies. Custom duty on semi milled and wholly milled rice has also been abolished. This duty would be retained till September 2010. This decision was taken as reduction recorded in the output of the summer sown crop and even prices have shot by about 25% in the last four months.

### 2.8. Summing Up

Drought like situation during the south west monsoon has not only cast a long shadow on the production of crops but also led to rise in prices of the essential commodities in the domestic market as well as in the retail segment. This could further lead to higher imports in the coming

few months turning the market conditions stable. The northeast monsoon progressing at fits and starts is expected to augur the sowing of the rabi crops. Agriculture ministry is striving hard by introducing short-term measures in order to mitigate kharif shortfalls. Procurement of rice for the current marketing period 2009-10 has begun at a slow pace and is expected to improve in the coming months due to late arrival. Experts view that if there would be any unusual behaviour of rainfall during the post monsoon period turns bad, that would impact the overall agricultural output more seriously, raising doubts about the production prospects for 2009-10.

## 3. INDUSTRY

### 3.1 Overview

The Index of Industrial Production (IIP) showed a robust growth of 9.1% in September 2009 over 6% recorded in September 2008, indicating a strong recovery of the Indian economy from the adverse impact of the global economic crisis. The growth rates for August 2009 and September this year were more than the analysts' expectations and also, the highest rates recorded since February 2008. The September 2009 figure was however, slightly lower than that of the August figure of 11%, the difference being more on account of the base effect.

The first half of the fiscal year posted a healthy growth of 6.5% over 5% registered in the comparable period last year. The y-o-y growth rate in the second quarter of the year at 9% as against 3.8% in the first quarter lends further optimism about the upturn in the economy.

**Table 3.1: Trend in Index of Industrial Production -Monthly**

*Base (1993-94=100*

| | 2009-10 | | 2008-09 | | 2007-08 | |
|---|---|---|---|---|---|---|
| April | 269.3 | (1.1) | 266.3 | (6.2) | 250.7 | (11.3) |
| May | 280.3 | (2.1) | 274.6 | (4.4) | 263.1 | (10.6) |
| June | 291.3 | (8.2) | 269.2 | (5.4) | 255.3 | (8.9) |
| July | 290.9 | (7.2) | 271.3 | (6.4) | 255.0 | (8.3) |
| August | 293.7 | (11.0) | 264.7 | (1.7) | 260.3 | (10.9) |
| September | 301.4 | (9.1) | 276.2 | (6.0) | 260.5 | (7.0) |
| October | | | 262.9 | (0.1) | 262.6 | (12.2) |
| November | | | 267.6 | (2.5) | 261.0 | (4.9) |
| December | | | 284.0 | (-0.6) | 284.7 | (8.0) |
| January | | | 284.8 | (1.0) | 281.9 | (6.2) |
| February | | | 276.8 | (0.2) | 276.2 | (9.5) |
| March | | | 305.9 | (0.3) | 304.9 | (-5.5) |
| April-September | 287.9 | (6.5) | 270.4 | (5.0) | 257.48 | (9.5) |

Note: Indices for September 2009 are quick estimates. Indices for the month from April to September 2009 incorporate updated production data. Figures in brackets indicate growth over the corresponding period of the previous year.

Source: CSO, Ministry of Statistics and Programme Implementation, *(www.mospi.nic.in)*

In the sections to follow, we look at the trends in the three major sectors representing the IIP- manufacturing, mining and quarrying and electricity; the use-based index of industrial production and a detailed analysis of the movements in the indices of the industries constituting the manufacturing sector.

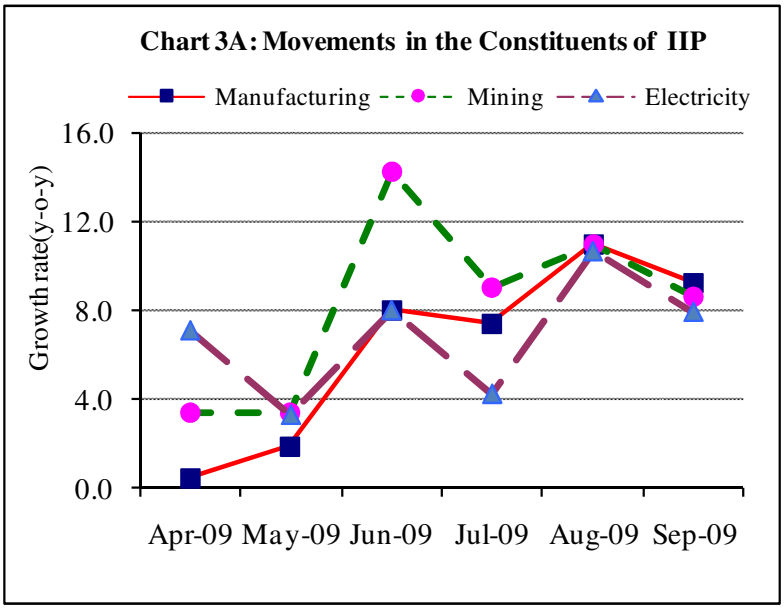
### 3.2 Trends in Major Sectors

The manufacturing sector, which has the highest weight of 79.4% in IIP, recorded the maximum growth of 9.3% in September 2009. Mining and electricity also posted higher growth rates of 8.6% and 7.9%, respectively, in the same period, compared to the corresponding month in the previous year.

**Table 3.2 Trends in Index of Industrial Production-Sector wise**
*Base:1993-94=100*

| Major Groups | Weight | September | | April-September | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009-10 | 2008-09 |
| General Index | 100.0 | 301.4 (9.1) | 276.2 (6.0) | 287.9 (6.5) | 270.4 (5.0) |
| Mining and Quarrying | 10.5 | 176.9 (8.6) | 162.9 (5.8) | 178.8 (8.6) | 165.3 (5.8) |
| Manufacturing | 79.4 | 326.1 (9.3) | 298.4 (6.2) | 308.8 (6.3) | 290.4 (5.3) |
| Electricity | 10.2 | 236.6 (7.9) | 219.3 (4.4) | 237.1 (6.8) | 222 (2.5) |

Note: Indices for September 2009 are Quick estimates. Indices for the month of April to September 2009 incorporate updated production. Figures in brackets indicate growth over the corresponding period of the previous year.
Source: CSO, Ministry of Statistics and Programme Implementation, *(www.mospi.nic.in)*




Though the higher growth rate in manufacturing could be a manifestation of demand having picked up during the festival season, the rise in output of electricity and mining indicate that the overall growth of the economy is buoyant, thanks to the fiscal-monetary stimulus and a rise in consumer confidence. Cumulative growth rates for the fiscal year so far (as given in table 3.2) also hint towards a rebound of the economy. Chart 3A depicts the y-o-y growth rates of the three sectors in the first half of the fiscal year. The chart clearly points to the economy being on its path to recovery since June 2009, due to higher growth in the manufacturing index.

### 3.3 Analysis of Use-Based Classification

A 12.8% increase in the growth of capital goods in September 2009 over and above 20.8% recorded in the corresponding month last year is a positive sign indicating investment demand picking up. Deceleration in the growth rate of capital goods to 5.3% in the first two quarters of the fiscal year from 10.7% last year is on account of negative growth rates recorded in the first two months of the fiscal and low growth in the month of July.

**Table 3.3 - Movements in Industrial Production : Use-Based Classification**

*Base :1993-94 =100*

| Major Groups | Weight | September | | April-September | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009-10 | 2008-09 |
| General Index | 100.0 | 301.4 (9.1) | 276.2 (6.0) | 287.9 (6.5) | 270.4 (5.0) |
| Basic Goods | 35.6 | 239.9 (6.7) | 224.8 (5.0) | 240.2 (6.7) | 225.2 (3.9) |
| Capital Goods | 9.3 | 530.6 (12.8) | 470.2 (20.8) | 397.4 (5.3) | 377.5 (10.7) |
| Intermediate Goods | 26.5 | 286.1 (10.8) | 258.2 -(2.5) | 288.7 (9.5) | 263.7 (0.4) |
| Consumer Goods | 28.7 | 317.7 (8.2) | 293.7 (7.4) | 310.8 (4.3) | 297.9 (7.6) |
| Durables | 5.4 | 544.7 (22.2) | 445.9 (14.7) | 467.6 (18.9) | 393.2 (7.2) |
| Non-Durables | 23.3 | 265.4 (2.6) | 258.6 (4.8) | 274.7 -(0.5) | 276.0 (7.7) |

Note: Indices for September 2009 are quick estimates. Indices for the month of April-September 2009 incorporate updated production data. Figures in brackets indicate growth over corresponding period of the previous year

Source: CSO, Ministry of Statistics and Programme Implementation, *(www.mospi.nic.in)*

Consumer goods recorded a growth rate of 8.2% y-o-y in September 2009 as against 7.4% in the comparable period of the previous year. Expansion in this segment was led by an impressive growth in consumer durables (22.2%), which posted double-digit growth rates throughout the current fiscal so far. With passenger car sales having posted a 34% growth y-o-y in October 2009[1]; and demand for other consumer durables also going strong on account of a revival in the job market, future prospects of growth look positive in this sector. Non-durables on the other hand ended the first two quarters with a negative growth rate of 0.5%, led by a steep

[1] As given by the data released by Society of Indian Automobile manufacturers (SIAM) on November 11, 2009

decline in growth in the first two months of the fiscal year. Growth in non-durables has however picked up since July 2009 and the momentum is expected to sustain if farm output revives.

Basic and intermediate goods registered growth rates of 6.7% and 9.5%, respectively, in the first half of the fiscal year and 6.7% and 10.8%, respectively, in September 2009 on a yearly basis.

### 3.4 Analysis of Two-Digit Classification of Manufacturing Sector

Table 3.4 provides an overview of the performance of manufacturing industries in terms of a frequency distribution table.[2] It is evident from the table that the number of industries having recorded a negative y-o-y growth rate has come down to 5 in September 2009 and to 4 in the first half of the fiscal year from 7 in each of the corresponding periods last year. Similarly, during April-September 2009, 4 industries, having a combined weight of 20.2% recorded above 10% growth rates as against 3 industries in the corresponding period of the previous year. In September 2009, only 4 industries registered above 10% growth rates as compared to 6 industries in the same period in 2008. However, the combined weight of these 4 industries was higher than that of the 6 industries. This shows that the higher growth in manufacturing index in September 2009 has been partly due to the higher-weighted industries having performed better, rather than more number of individual industries having posted better growth rates.

**Table 3.4: Frequency Distribution of Growth in Manufacturing Industries**

| | September | | | | April-September | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009-10 | | 2008-09 | |
| Growth Rate | No. | Wt. | No. | Wt. | No. | Wt | No. | Wt |
| Negative | 5 | 17.6 | 7 | 34.0 | 4 | 14.9 | 7 | 24.1 |
| 0% to 5% | 6 | 23.7 | 1 | 2.3 | 3 | 9.3 | 4 | 15.4 |
| 5% to 10% | 2 | 6.3 | 3 | 19.1 | 6 | 35.1 | 3 | 24.0 |
| Above 10% | 4 | 31.9 | 6 | 24.1 | 4 | 20.2 | 3 | 16.0 |
| Total | 17 | 79.5 | 17 | 79.5 | 17 | 79.5 | 17 | 79.5 |

No. : Number of Industries; Wt. : Weight of the industry in IIP

Source: CSO, Ministry of Statistics and Programme Implementation (*www.mospi.nic.in)*

The industries that drove the growth of the manufacturing index in September 2009 (above 10% growth rates) were Basic Chemicals and Chemical Products (20.1%), Rubber, Plastic, Petroleum and Coal Products (10.1%), Machinery and Equipment (16.5%) and other Manufacturing industries (24.5%). The former two industries, however, registered high growth rates on the back of a low base of negative growth in the

[2] For data on the growth rates of all the individual industries comprising the manufacturing index, see Appendix No.VI

comparable period last year. Hence, the growth in the manufacturing index in September 2009 can be partly attributed to two statistical phenomena: firstly, the industries with a high weight registered soaring growth rates and secondly, the growth in some of these industries was driven by a low base.

Nevertheless, one cannot deny the fact that industries like Wool, Silk and Man-made Fibres, Machinery and Equipment, Transport Equipment and Parts and Other Manufacturing industries have recorded impressive growth rates in spite of a high base and other industries such as Cotton Textiles and Wood and Wood Products recorded positive rates of growth in September 2009 after having witnessed a decline in production in September 2008.

### 3.5 Summing Up

Though the growth in industrial production shows signs of revival from the impact of global crisis, this was partly supported by fiscal-monetary stimulus packages. The export demand is however yet to pick up. It might hence take some more time for the economy to attain growth acceleration and in this light the government and the Reserve Bank of India have rightly delayed their exit from accommodative policies.

# 4. INFRASTRUCTURE

## 4.1 Introduction

The infrastructure index recorded a y-o-y growth rate of 4% in September 2009 after showing a higher growth of 7.8% the last month. The cumulative figure for the first two quarters of the current fiscal year has, however, improved to 5% as against 3.4% during the corresponding period last fiscal. A quarterly analysis shows that the second quarter has done marginally better than the first, registering a growth rate of 0.65% over the quarter. On a y-o-y basis, quarter two witnessed a growth rate of 4.8% as compared to 3.7% registered in the same quarter last year. It is evident from these numbers that the infrastructure industries have responded positively to the stimulus packages.

In the following sections we look at the individual performance of the six core industries comprising the infrastructure index and the recent policy initiatives undertaken for road transport development in the recent period.

**Table 4.1: Monthly Movements in Index of Infrastructure Industries**
(*Base 1993-94 =100*)

| | 2009-10 | | 2008-09 | | 2007-08 | |
|---|---|---|---|---|---|---|
| April | 245.3 | (5.3) | 233 | (2.3) | 227.7 | (7.6) |
| May | 250.5 | (3.0) | 243.2 | (3.1) | 236.0 | (8.7) |
| June | 249.7 | (7.0) | 233.3 | (3.8) | 224.8 | (5.2) |
| July | 246.8 | (2.7) | 240.2 | (5.1) | 228.5 | (6.3) |
| August | 256.9 | (7.8) | 238.4 | (2.1) | 233.6 | (10.1) |
| September | 246.7 | (4.0) | 237.2 | (4.0) | 228 | (6.6) |
| October | | | 246.4 | (2.1) | 241.4 | (5.7) |
| November | | | 237.9 | (1.9) | 233.5 | (5.0) |
| December | | | 246.5 | (1.1) | 243.8 | (4.0) |
| January | | | 250.4 | (1.8) | 246.0 | (3.1) |
| February | | | 240.4 | (1.4) | 237.0 | (7.1) |
| March | | | 270.9 | (3.2) | 262.6 | (2.9) |
| April-September | 294.4 | (5.0) | 237.5 | (3.4) | 229.3 | (5.9) |

Note: Indices are provisional Figures in brackets indicate growth over the corresponding month of the previous year.
Source: (*www.http://eaindustry.nic.in/six_infra/overview.htm)*

## 4.2 Performance of Core Industries

Of the six core industries constituting the infrastructure index, electricity recorded the highest growth rate of 7.5% in September 2009 over and above the rate of 4.4% witnessed in the same period last year. Cumulative growth in the first two quarters of the fiscal also looked robust at 6.8%. Petroleum refinery products posted a modest growth rate of 3.4% against 2.8% last year. Output of petroleum refinery products seems to have revived after consistently recording negative growth rates in the initial four months of the

current fiscal. The decline in output in the first four months led to a negative growth of 3.6% during April-September 2009.

After registering double-digit growth rates since March 2009, the cement sector witnessed a slump in output growth at 6.5% in September 2009. The overall picture however, looks encouraging, with the sector having grown by 12.3% in the fiscal so far. Strong demand from other infrastructure sectors and real estate is expected to further boost growth in the industry. The story in the coal sector also looks similar. After having recorded double-digit growth rates for most of the months in the fiscal so far, the growth rate in September 2009 stood at 6.5% y-o-y. The cumulative growth rate for April-September 2009 was 11.6%, driven by strong growth in the earlier months of this fiscal year.

**Table 4.2: Physical Production of Core Industries**

| | Unit | Weight (%) | September | | April-September | |
|---|---|---|---|---|---|---|
| | | | 2009 | 2008 | 2009-10 | 2008-09 |
| Electricity | mn.kwh | 10.17 | 63565 (7.5) | 59120 (4.4) | 383368 (6.8) | 359127 (2.6) |
| Coal | mn.tn | 3.22 | 36.75 (6.5) | 34.51 (11.2) | 229.92 (11.6) | 206.10 (8.0) |
| Finished Steel | 000.tn | 5.13 | 4558 (-0.4) | 4577 (2.1) | 27449 (3.0) | 26660 (3.3) |
| Crude | 000.tn | 4.17 | 2770 (-0.5) | 2784 (-0.4) | 16600 (-1.2) | 16802 (-0.8) |
| Refinery Products | 000.tn | 2.00 | 12597 (3.4) | 12182 (2.8) | 72532 (-3.6) | 75210 (4.5) |
| Cement | 000.tn | 1.99 | 15330 (6.5) | 14390 (8.1) | 99730 (12.3) | 88790 (5.5) |
| Infrastructure | Index | 26.68 | 246.7 (4.0) | 237.2 (4.0) | 249.4 (5.0) | 237.5 (3.4) |

Source: (*www.http://eaindustry.nic.in/press_out.htm)*

Finished steel and crude oil pulled down the growth rate of the index, their output having fallen by 0.4% and 0.5%, respectively, in September 2009. Finished steel, however, managed to end the first two quarters on a positive rate of growth of 3%, while crude oil production declined by 1.2% in the same period.

*Electricity Generation*

Total electricity generation in the country was up by 7.9% in September 2009 over the same month last year and increased by 6.8% in the cumulative period of April-September 2009, facilitated by higher nuclear and thermal power generation.

Nuclear power generation increased by a whopping 41.15% in September 2009 and about 15% during April-September 2009. The remarkable growth in the sector has been due to better capacity utilization, indicated by the Plant Load Factor (PLF) which stood at 54.8% in September 2009 as against 38.85% in September 2008. The improved efficiency can be attributed to increased fuel supplies from the Turamdih mill in Jharkhand and also to the re-starting of the Rajasthan Atomic Power station Unit II by the Nuclear Power Corporation of India Ltd.

**Table 4.3: Region-Wise Electricity Generation**

*(GWH)*

| Sector | Region | Generation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | September | | | | April-September | | | |
| | | 2009 | 2008 | Growth *(%)* | PLF* | 2009-10 | 2008-09 | Growth *(%)* | PLF* |
| *Thermal* | Northern | 12114.3 | 12157.2 | -0.4 | 75.2 | 79043.0 | 71924.9 | 9.9 | 82.4 |
| | Western | 18033.4 | 15304.9 | 17.8 | 77.1 | 106264.4 | 95689.8 | 11.1 | 76.3 |
| | Southern | 10445.5 | 9462.4 | 10.4 | 74.1 | 70353.5 | 62229.3 | 13.1 | 84.0 |
| | Eastern | 7829.4 | 7426.1 | 5.4 | 58.9 | 51015.0 | 47440.6 | 7.5 | 62.8 |
| | N-Eastern | 348.4 | 343.3 | 1.5 | 48.8 | 2160.7 | 2171.7 | -0.5 | 50.0 |
| | **All-India** | 48770.9 | 44693.9 | 9.1 | 71.7 | 308836.5 | 279456.3 | 10.5 | 76.0 |
| *Hydro* | Northern | 5473.0 | 5498.8 | -0.5 | | 33522.5 | 34104.3 | -1.7 | |
| | Western | 1748.9 | 1109.8 | 57.6 | | 7141.2 | 6817.9 | 4.7 | |
| | Southern | 3614.8 | 3825.0 | -5.5 | | 13839.6 | 18209.7 | -24.0 | |
| | Eastern | 1148.8 | 1229.5 | -6.6 | | 5376.7 | 5526.1 | -2.7 | |
| | N-Eastern | 486.0 | 614.4 | -20.9 | | 2179.4 | 2913.4 | -25.2 | |
| | **All-India** | 12471.6 | 12277.3 | 1.6 | | 62059.4 | 67571.3 | -8.2 | |
| *Nuclear* | Northern | 299.0 | 176.4 | 69.4 | 35.2 | 1581.7 | 1571.4 | 0.7 | 30.5 |
| | Western | 839.1 | 637.2 | 31.7 | 63.3 | 4395.7 | 3906.9 | 12.5 | 54.4 |
| | Southern | 488.7 | 338.9 | 44.2 | 61.7 | 2838.7 | 2189.0 | 29.7 | 58.8 |
| | **All-India** | 1626.7 | 1152.5 | 41.1 | 54.8 | 8816.2 | 7667.2 | 15.0 | 48.7 |
| ***Total*** | Northern | 17886.2 | 17832.4 | 0.3 | | 114147.3 | 107600.5 | 6.1 | |
| | Western | 20621.5 | 17051.8 | 20.9 | | 117801.2 | 106414.6 | 10.7 | |
| | Southern | 14549.0 | 13626.3 | 6.8 | | 87031.8 | 82628.0 | 5.3 | |
| | Eastern | 8978.2 | 8655.6 | 3.7 | | 56391.7 | 52966.7 | 6.5 | |
| | N-Eastern | 834.4 | 957.7 | -12.9 | | 4340.0 | 5085.1 | -14.7 | |
| | **All-India** | 63798.7 | 59120.2 | -100.0 | | 383602.0 | 359127.0 | 6.8 | |

Note: Total includes imports from Bhutan.*: PLF reported is for the period under study.

Source: (*www.cea.nic.in)*

Thermal power continued its consistent performance and grew by 10.5% during April-September 2009 y-o-y. Availability of gas from the KG basin since April 2009 and a rise in imports of coal by power utilities aided in enhancing thermal power generation.

Hydro power plants saw a dip in electricity generation in the cumulative period of April-September 2009 by 8.16%, owing to deficient monsoons this season. However, a growth of over 57% in hydel power generation in the western region in September 2009 led to an increase in generation of hydro power by 1.58% in the country for the month under consideration.

Though electricity generation has improved, it is yet to catch up with the rising demand in the country. As table 4.4 depicts, power deficit amounted to 9.9% during April-September 2009 as compared to 10.5% in the corresponding period of the previous year. Northern, Western and North-Eastern regions all recorded double-digit deficits. Deficit in Jammu and Kashmir was the highest at 25.4%. Other states with huge deficits were Uttar Pradesh (22.4%), Madhya Pradesh (19%), Maharashtra (17.7%), and Arunachal Pradesh (20.5%). [1]

**Table 4.4: Power Supply Position**

*(MU)*

| Region | April-September | | | | | |
|---|---|---|---|---|---|---|
| | 2009-10 | | | 2008-09 | | |
| | Requirement | Availability | Deficit (%) | Requirement | Availability | Deficit (%) |
| Northern | 134229 | 117561 | -12.4 | 115213 | 103597 | -10.1 |
| Western | 124947 | 109537 | -12.3 | 121342 | 102427 | -15.6 |
| Southern | 108015 | 101370 | -6.2 | 101634 | 94461 | -7.1 |
| Eastern | 44646 | 42693 | -4.4 | 41643 | 39616 | -4.9 |
| N-Eastern | 4762 | 4130 | -13.3 | 4940 | 4198 | -15 |
| **All India** | **416599** | **375291** | **-9.9** | **384772** | **344299** | **-10.5** |

Source:*(www.cea.nic.in/god/gmd/Monthly_Power_Supply_position/)*

*Crude Petroleum*

The fall in crude oil output in September 2009 was mainly due to a drop in production at ONGC, the largest oil producer in the country. The total decline in

**Table 4.5: Production of Crude Petroleum**

*(thousand tonnes)*

| Unit | September | | | April-September | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | % Growth | 2009-10 | 2008-09 | % Growth |
| ONGC | 2049 | 2103 | -2.6 | 12371.0 | 12845 | -3.7 |
| OIL | 296 | 287 | 3.1 | 1780.0 | 1751 | 1.7 |
| DGH (Pvt/ JVC) | 425 | 394 | 7.9 | 2449.0 | 2206 | 11.0 |
| Total | 2770 | 2784 | -0.5 | 16600.0 | 16802 | -1.2 |

Source: *(www.petroleum.nic.in)*

[1] For detailed State-wise figures refer Appendix No. VII.

production at ONGC stood at 2.6% in September 2009 and 3.7% in the initial two quarters of the fiscal year together. Production at Mumbai High declined by 4% during April-September 2009, whereas the onshore production of Tamil Nadu plunged by 10.2% in the same period.

*Refinery Production*

An improvement in capacity utilization to 110.7% in September 2009 led to a rise in the output of refinery products by 3.4%. Cumulative production during April-September 2009, however declined, led by a fall in output of the private sector refineries by 8.2% and that of BPCL by 11%.

**Table 4.6: Refinery Production**

*(thousand tonnes)*

| Unit | September | | | | April-September | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | Growth % | %Utilisation of I/C | 2009 | 2008 | Growth % | % Utilisation of I/C |
| Public Sector | 9396 | 9079 | 3.5 | 108.4 | 55030 | 55858 | -1.5 | 104.1 |
| IOC | 4226 | 3938 | 7.3 | 103.5 | 24878 | 25573 | -2.7 | 99.8 |
| BPCL | 1697 | 1687 | 0.6 | 105.9 | 9118 | 10247 | -11.0 | 93.3 |
| HPCL | 1327 | 1371 | -3.2 | 124.3 | 8118 | 7551 | 7.5 | 124.5 |
| CPCL | 907 | 772 | 17.5 | 105.1 | 5463 | 5027 | 8.7 | 103.8 |
| Private Sector | 4149 | 4020 | 3.2 | 116.1 | 22962 | 25013 | -8.2 | 105.3 |
| Total | 13545 | 13099 | 3.4 | 110.7 | 77992 | 80871 | -3.6 | 104.4 |

I/C: Installed Capacity

Source: *(www.petroleum.nic.in)*

*Natural Gas*

**Table 4.7: Natural Gas Production**

*(million cubic metres)*

| | September | | | April-September | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Growth | 2009-10 | 2008-09 | Growth |
| ONGC | 1898 | 1827 | 3.9 | 11588 | 11290 | 2.6 |
| OIL | 197 | 195 | 1.0 | 1205 | 1155 | 4.3 |
| Private/JVC | 1651 | 704 | 134.5 | 8514 | 4170 | 104.2 |
| Total | 3746 | 2726 | 37.4 | 21307 | 16615 | 28.2 |

Source: *(www.petroleum.nic.in)*

Natural gas production saw a rise of 37.4% in September 2009 and 28.2% in the first two quarters of the fiscal. Output is expected to further increase in the next fiscal as Reliance Industries' Krishna Godavari basin has been showing promising growth in the production of gas.

*Cement Production*

The rate of growth in cement despatches fell to 5.7% in September 2009 y-o-y from last month's growth rate of 17% on account of a decline in the growth of cement production from 15.5% to 6.7% in the same period. However, as production picks up, despatches are expected to increase in line. With buoyancy in demand from various other sectors that have linkages with the cement sector, production is expected to climb in the second half of the fiscal.

**Table 4.8 Cement Production and Despatches**

(*million tonnes*)

| Description | September | | | April-September | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Growth | 2009-2010 | 2008-2009 | Growth |
| Cement Production | 14.83 | 13.9 | 6.7 | 96.73 | 86.36 | 12.0 |
| Cement Despatches | 14.71 | 13.92 | 5.7 | 95.94 | 86.05 | 11.5 |

Source: *www.cmaindia.org/wtnew.html*

## 4.3 Road Transport

In its recent report titled 'India's Road Construction Industry: Capacity Issues, Constraints and Recommendations' released in October 2009, the World Bank brought out the following issues plaguing this sector in India:

- Lack of transparency and competition in the bidding process
- Huge cost over runs (estimated between 25% and 50%)
- Delay in pre-construction activity owing to land acquisition problems and absence of a dispute resolution mechanism. Estimates reveal that US $90 billion worth of investments in the sector is locked up in disputes.

The government has hence planned to introduce the following reforms in the road transport sector:

- To attract more private investment, viability gap funding (VGF) has been hiked from 10% to 20% for low traffic stretches of the fifth phase of NHDP and from 5% to 10% for others.
- A proposal has been initiated to increase the exposure of banks to infrastructure projects, especially those in the road sector.

- Government plans to relax the cap on ECB to ease funding norms for road development.
- To speed up the process of land acquisition, the transport ministry is setting up 170 special land acquisition units in states.
- Government has accepted the recommendations of the Chaturvedi Committee. [2]

### 4.4 Summing Up

On account of a decline in private corporate sector investment in the infrastructure sector caused by the global economic crisis, coupled with the absence of bankable Public-Private-Partnership (PPP) projects, the government has been forced to scale down its investment target for the sector in the Eleventh Five Year Plan from US $514 billion to US $420-US $450 billion. Highways and ports especially have seen a sharp decline in investments during the current Plan period, while power and railways have performed comparatively well.

However, looking at the positive signs of economic revival in the country in the past few months, it is hoped that investment in infrastructure will pick up soon.

[2] The recommendations of the B.K. Chaturvedi Committee have been listed out in the Monthly Economic Review, August 2009

# 5. INFORMATION AND COMMUNICATION TECHNOLOGY

## 5.1 Information Technology

*Mergers and Acquisitions (M&As) in the IT and BPO Sector*[@]

Despite a general slowdown in M&A activity across the world, the M&As in the IT and ITeS sector have continued in 2009 at full strength as the deep contraction in the global economy provided an opportunity to the IT and BPO sector to consolidate by acquiring companies across the globe. At the same time, world-over the IT companies are using the M&A route for transforming towards one integrated play as the lines between hardware, solutions and software solutions are blurring. We had made an attempt to trace the M&A deals in the IT & BPO sector from various media sources, which have been announced in the month of September and October 2009, and are presented in Table Nos. 5.1 and 5.2.

*Global Mega Deals*

Recently, Dell Inc has struck a deal to acquire technology services provider Perot Systems Inc in a cash transaction valued at $3.9 billion, as the world's No 2 maker of personal computer looks to take on rivals Hewlett Packard (HP) and IBM in the lucrative software solutions and services domain. The deal has been in the works from 2007. The move will help Dell diversify from its core hardware business, which has become a commodity business with lower margins. The acquisition will give Dell more headroom to compete with the likes of IBM, Accenture, HP and Indian IT and ITeS services providers, such as TCS, Infosys and Wipro. Post acquisition Dell's revenues will be around $7.7 billion, about 25% higher than the top Indian services firm TCS.

**Table 5.1: Company-wise Revenues and Total Employees**

| Company Name | Revenues *(US$ billion)* | Total No of Employees | Number of Employees in India |
|---|---|---|---|
| DELL | 5.1 | 65,200 @ | 12,000 |
| Perot Systems | 2.8 | 24,000 | 8,000 |
| Combined Services Company | 7.7 | 89,200 | 20,000 |

@ - Approximately
Source: The Economic Times, September 21, 2009.

[@] In the Section XI on 'Corporate Sector', a review of M&As in all sectors has been done.

Perot is a specialist services provider, founded by Ross Perot who contested US presidential polls in 1992 and 1996, provides IT services and business solutions to customers in healthcare, government and banking space. Interestingly, EDS, which HP acquired last year, was also founded by Ross Perot. He founded EDS in 1962 and sold it to General Motors in 1984. Four years later, he founded Perot Systems in 1988.

Perot has about 8,000 staff in India, its largest outside the US. The deal will give Dell, a foothold in the healthcare IT market in India as well. Recently, Perot Systems Inc has signed a 10-year deal, valued at around Rs 90 crore, with Max Healthcare to provide IT outsourcing and electronic health records service. In the longer run the Indian IT players, which are now competing to the likes of IBM and HP will have to contend with one more competitor which offers integrated hardware and software solutions.

In another mega deal Xerox Corp is acquiring Affiliated Computer Services Inc (ACS) for $6.4 billion, its biggest purchase, signaling a shift to computer services, as sales of its traditional printing equipment decline. Interestingly, Xerox is moving away from a pure play photocopier and document management provider to a more holistic IT services provider to compete more effectively in an enterprise services space currently dominated by IBM's Global Services Division. Terming the transaction as a 'game-changer for Xerox', the company's Chief Executive Officer said that by combining its strengths in document technology with ACS's expertise in managing and automating work processes, they would be creating a new class of solution provider. The transaction will help Xerox triple sales from services to about $10 billion. The total price of the cash-and-stock deal is about 34% more than Dallas-based ACS' closing price on September 25.

Xerox Corp has been in India for over 25 years and is a well-established brand. Thus, it will be a good opportunity for the company to combine the ACS offering and provide more value-added services to its customers. ACS employs about 74,000 persons globally, and India is among its largest centres outside the US.

**Table 5.2: Company-wise Revenues and Total Employees (Revenues are for Quarter ended June 2009)**

| Company Name | Revenues *(US$ billion)* | Total Employees *(Nos)* |
|---|---|---|
| Xerox Corp | 3.7 | 55,000 @ |
| ACS Inc | 1.7 | 74,000 |
| Post acquisition | 7.7 | 129,000 |

@ - Approximately
Source: Financial Express, September 29, 2009.

The two mega deals will further intensify competition to the Indian IT companies as with the emergence of new behemoths like Dell and Xerox, Indian software vendors like TCS, Infosys and Wipro, among others, can expect some more competition both on global and domestic accounts.

*Other Deals*

Last month Essar Group company Aegis BPO had acquired 80% stake in Sri Lankan outsourcing company Ismart Timex for an undisclosed amount. The acquisition has been done through Essar Services Holdings, the holding company of Aegis. This is Aegis' 14th acquisition. Ismart Timex is one of the largest BPO service providers in Sri Lanka. Ismart provides back office and contact centre requirements in Sri Lanka with services in areas, including human resource profiling, training and quality assurance among others.

L&T Infotech, is in advanced talks to acquire a majority shareholding in the country's sixth-largest software firm, Patni Computer Services. L&T has already completed due diligence and contours of the deal are being worked out. The development comes after all three Patni brothers – finally decided to sell. They together hold around 48.30% stake. Another trigger for a sale at this time is that General Atlantic also wants to exit from the company. The PE firm has around 18% stake and had invested $100 million in Patni in September 2002.

Technology management services company Glodyne Technoserve will merge Pune-based project management software services firm Compulink Services with it. The merger is expected to help Glodyne to leverage on Compulink's strong intellectual property rights and client relationship.

The Nasdaq-listed information technology firm Cognizant is set to acquire UBS India Service Centre (UBSISC), a captive (off-shoring centre) of the world's leading financial firm, UBS, for $75 million (around Rs 350 crore). Cognizant, as a part of the deal, has also entered into a five-year services agreement with UBS. The company expects to receive an aggregate $442 million (around Rs 2,000 crore) of revenues under the services agreement over the tenure of the deal. Around 2000 UBS employees will be transferred to Cognizant. The acquisition will deepen Cognizant's financial services domain in knowledge and enhance its capabilities to

provide integrated services across consulting and technology. Last month, the company has announced the acquisition of Pepperweed Advisors, the IT consulting services division of US-based Pepperweed Consulting, for an undisclosed sum.

In a similar deal, TCS had acquired the back office unit of Citigroup for $505 million while Wipro had followed it in December last year with the acquisition of a second captive of Citigroup for $127 million. Citigroup had signed contracts with both TCS and Wipro, agreeing to outsource work worth $2.5 billion over 9.5 years and $500 million over six years, respectively.

More recently, leading applications services, remote infrastructure services, BPO and KPO services providers, MphasiS Ltd., a subsidiary of EDS, has bought out the captive unit of AIG that was providing back office services to the insurance major out of Chennai and Kolkata.

The Cognizant UBS deal points to the fact that the days for large MNC captives are numbered. Captives are generally said to be 10-20% more expensive in service offerings apart from being quite away from the core-competencies of the conglomerates. Moreover, many MNC's that set up captives have realised that it is hard to manage sub-scale operations particularly in the backdrop of the slowdown and have been looking for opportunities to bail out. While, it would be easier for them to outsource the work, many are opting for the sell-out route keeping in view the headcount.

*Contracts*

The Indian IT and ITeS companies are witnessing a slow rebound in deal flow. Over the last couple of months, both local and global technology majors have announced multi-year, multi-million dollar outsourcing deals. Some of the major deals are listed in Table No. 5.3.

| **Table 5.3: Major Deals announced in October 2009** |
|---|
| Tech Mahindra had bagged a Rs 2,000 crore deal for end-to-end outsourcing of IT applications and infrastructure from Etisalat DB Telecom, a joint-venture between the UAE-based Etisalat and the Dynamix Balwas group. The JV earlier known as Swan Telecom is rolling out cellular services across 15 circles in India. |
| Recently, the US-based conglomerate General Electric (GE) has extended its multi-million dollar contract with Mahindra Satyam for three years starting January 1, 2010, giving a boost to the IT firm, which has started winning new outsourcing deals. |

| Table 5.3: Major Deals announced in October 2009 |
| --- |
| TCS had signed a two-year multi-million dollar deal with Singapore-based People's Association for application management services. |
| IBM had bagged a deal from Datacom Solutions, the telecommunications arm of the Rs 24,000 crore Videocon Industries group. As per the agreement, IBM will provide a high-performance IT infrastructure and a range of business solutions to support Datacon's commercial launch this year and complete pan India coverage over the next two years. |
| Source: Various Media Sources |

*Other Highlights*

IBM, the multi-national computer technology and IT consulting corporation, has decided to move out of few selected cities and focus on Tier-II and Tier-III cities for its expansion. The company has announced its first-ever business partnership with two companies in Uttar Pradesh, which will focus on offering a complete set of solutions to clients, including hardware, software, infrastructure services and consulting services. The two business partners CSPL Computers, Lucknow and Aryan Computers, Kanpur will be among the first channel partners in the country to sell IBM's infrastructure services to clients and focus on green IT, security, business continuity, improved collaboration and communication.

## 5.2 Telecommunications

*M&As in the Telecom Sector*

In the telecom sector the service providers have been actively investing in mobile infrastructure solutions as the global mobile data traffic is expected to more than double every year by 2013. In October, Cisco Systems, the leading network and telecom equipments maker announced the acquisition of Starent Networks (SN) for $2.9 billion. The acquisition is expected to close during the first half of calendar year 2010. The deal represents about a 20% premium over Starent's closing price on October 9. SN is a provider of IP based mobile infrastructure solutions and is involved in wireless networking. With this acquisition Cisco Systems is hopeful to see good revenues through high speed wireless services as the company is betting that consumers will continue to download ever larger amounts of data onto smart phones and laptops via wireless networks.

Barely a week after talks with South Africa's MTN failed, the country's largest telecom operator Bharti Airtel is planning to acquire Luxemborg-based telecom firm Millicom's operations in Sri Lanka. Bharti Airtel, which itself has mobile services running in Sri Lanka, is believed to be keen on acquiring 100% stake of Millicom's operations in the island nation.

In a bid to maximize revenues amid increasing competition in the domestic market, the public sector telecom company, Bharat Sanchar Nigam Ltd (BSNL) has expressed interest in running the networks and operations of ETC on revenue sharing basis after the Ethiopian government invited 'request for special interest' to boost the IT and telecom services in the sub-Saharan country.

A consortium comprising India's telecom PSUs, BSNL and MTNL, among others, has started negotiations for acquiring control of Kuwait's biggest phone company, Zain Telecom, which has a presence in 24 countries.

The world's largest communications firm, the $124 billion AT&T, is poised to re-enter the booming Indian telecom market, nearly five years after it left the country, exiting the three-way venture it had with the Tata and AV Birla groups. Apart from AT&T, other two global majors who are expected to enter the Indian market through the 3G broadband wireless access route are Australia's Telstra, which had exited from its 49% stake in Modi Telstra in 2009 and the South Korea's $12 billion SK Telecom.

*Telecom Subscribers Growth*

Unlike IT industry, telecom sector does not seem to have impacted by the global meltdown because of its domestic demand concentration. The latest report published by the Telecom Regulatory Authority of India (TRAI) reveals that by the end of September 2009, the country's gross subscriber base reaches 509 million. The crossing of 500 million base is another significant landmark after the country achieved the target of 250 million telephone subscribers in December 2007.

Predominantly, over the last three years, the telecom sector has grown remarkably in the range of 29% – 47%. Growth in mobile phones was the principal driver for telecom growth in the country as it has been in other parts of the world. As demand boosters, progressive regulatory regime, network expansion by operators, reduction in tariffs and cost of handsets, which

essentially make the service affordable for the common users, have supplemented the growth of the mobile segment.

**Table 5.4: Growth of the Telecom Sector in India**

*(in millions)*

| Year (End-March) | Mobile | Fixed | Total | Additions (During Calendar Year) | |
|---|---|---|---|---|---|
| 2003-04 | 35.61 | 40.92 | 76.53 | | |
| 2004-05 | 56.95 | 41.42 | 98.37 | 21.84 | (28.5) |
| 2005-06 | 98.78 | 41.54 | 140.32 | 41.95 | (42.6) |
| 2006-07 | 165.11 | 40.75 | 205.86 | 65.54 | (46.7) |
| 2007-08 | 261.09 | 39.42 | 300.51 | 94.65 | (46.0) |
| 2008-09 | 391.76 | 37.96 | 429.72 | 12 9.21 | (43.0) |
| September 2009 | 471.73 | 37.31 | 509.04 | - | - |

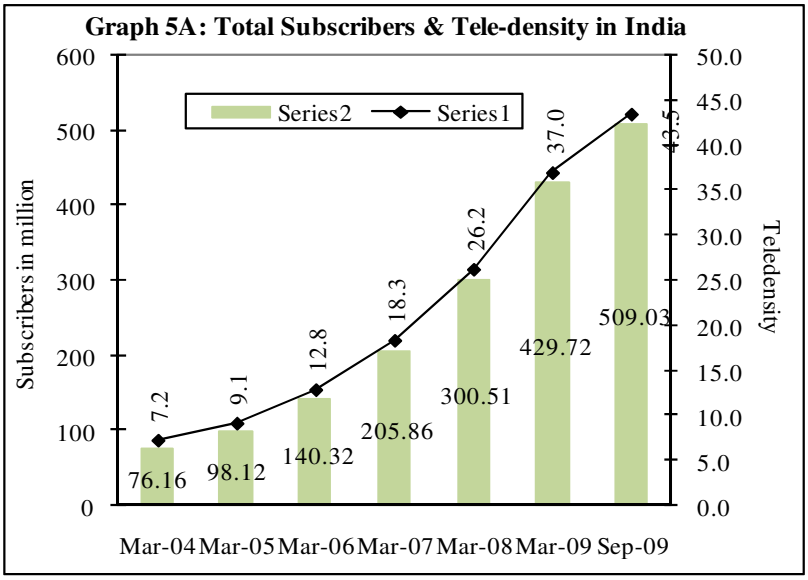
Figures in brackets are percentage changes over the previous year.
Source: TRAI, *(www.trai.gov.in).*

In recent years, however, smaller towns have fuelled further growth in mobile telephony. In the last four and half years period i.e. between March 2005 and

September 2009, the country has added around 414.78 million new wireless subscribers to reach a total of 471.73 million; however, the fixed line subscriptions have declined by 4.11 million, down to 37.31 million over the same period, partly reflecting the substitution effect.

*Tele-density*

India's tele-density (the number of telephone subscribers per 100 people) grew initially slowly from 7.2 in March 2004 to 12.8 in March 2006, but thereafter galloped to a level of 43.50 in September 2009 (Chart 5A).




Notwithstanding such remarkable achievement, it is necessary to note that India still lags far behind countries like Brazil and China, where the tele-density is over 50. However, India's tele-density is much higher compared to the neighboring countries like Pakistan, Bangladesh and Nepal.

### 5.3 Summing Up

The M&As in the IT and ITeS sector have continued in 2009 at full strength as the deep contraction in the global economy provides an opportunity to the IT and BPO sector to consolidate by acquiring companies across the globe. More importantly, world-over the IT companies are using the M&A route for transforming towards one integrated play as the lines between hardware, solutions and software solutions are blurring.

While in the telecom sector the service providers have been actively investing in mobile infrastructure solutions as the global mobile data traffic is expected to more than double every year.

## 6. SERVICES

A glance at the performances of various service sector indicators gives a sense of revival that is ensuing *al beit* at a very slow pace. While stimulus packages announced by the central government have helped in stimulating demand indirectly, celebration of festivals, onset of tourist season, etc., are among the other factors that have directly contributed to this gradual recovery.

**Table 6.1: Select Indicators of Services Sector Activities**

*(Growth rates in %)*

| | Major Sectors | Latest Period^ | | Full Financial Year | | |
|---|---|---|---|---|---|---|
| | | 2009-10 | 2008-09 | 2008-09 | 2007-08 | 2006-07 |
| **1** | **Tourism** (April-October) | | | | | |
| | Tourist arrivals (numbers) | -2.6 | 7.7 | -2.5 | 12.8 | 13.8 |
| | Foreign exchange earnings (US $) | 3.6 | 8.8 | -9.6 | 27.9 | 16.2 |
| **2** | **Transport** | | | | | |
| | **Automobiles** (April-October) | | | | | |
| | Commercial vehicles production (numbers) | -3.7 | -0.5 | -24.0 | 5.6 | 33.0 |
| | Passenger vehicles production (numbers) | 14.3 | 10.4 | 3.4 | 15.0 | 18.0 |
| | Commercial vehicles domestic sales (numbers) | 5.4 | -3.0 | -21.7 | 4.9 | 33.3 |
| | Passenger vehicles domestic sales (numbers) | 16.2 | 4.9 | 0.1 | 12.3 | 20.7 |
| | **Railways** (April-August) | | | | | |
| | Railway revenue earning freight traffic (tonnes) | 6.8 | 19.8 | 4.9 | 9.0 | 9.2 |
| | **Shipping** (April-August) | | | | | |
| | Cargo handled at major ports (tonnes) | 1.3 | 8.9 | 2.1 | 12.0 | 9.5 |
| | **Civil Aviation** (April-August) | | | | | |
| | Aircraft Movement at international airports | 4.3 | 12.6 | 8.8 | 15.3 | 12.9 |
| | Aircraft Movement at domestic airports | -2.1 | 5.4 | -2.2 | 22.9 | 33.1 |
| | Cargo handled at international terminals (tonnes) | -1.6 | 6.5 | 0.2 | 12.3 | 11.0 |
| | Cargo handled at domestic terminals (tonnes) | 12.7 | 1.5 | -3.6 | 7.3 | 9.5 |
| | Passengers handled at international terminals (numbers) | 5.1 | 10.1 | 5.9 | 15.7 | 15.2 |
| | Passengers handled at domestic terminals (numbers) | 3.3 | -4.1 | -11.2 | 23.3 | 38.5 |
| **3** | **Communication** (April-August) | | | | | |
| | New cell phone connections (numbers) | 47.5 | 23.3 | 36.1 | 44.7 | 58.6 |
| **4** | **Banking and Finance*** | | | | | |
| | Aggregate deposits (Rs crore) | 8.3 | 9.1 | 19.9 | 22.4 | 23.8 |
| | Non-food credit (Rs crore) | 3.8 | 10.8 | 17.8 | 23.0 | 28.5 |
| **5** | **Public Administration** (April-September) | | | | | |
| | Central government expenditure (Rs crore) | 28.6 | 9.8 | 23.7 P | 15.5 | 17.5 |

Notes: ^: latest available period specified against each indicator, P: Provisional

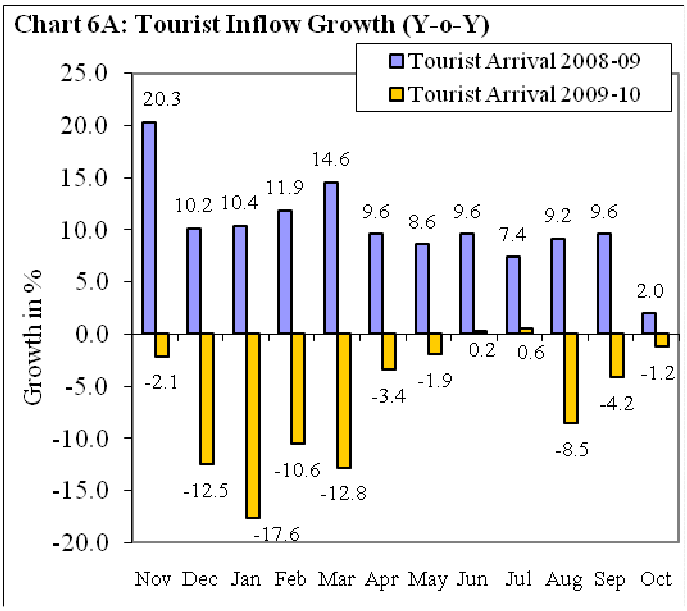
* Refers to scheduled commercial banks and the figures are as on October 23, 2009

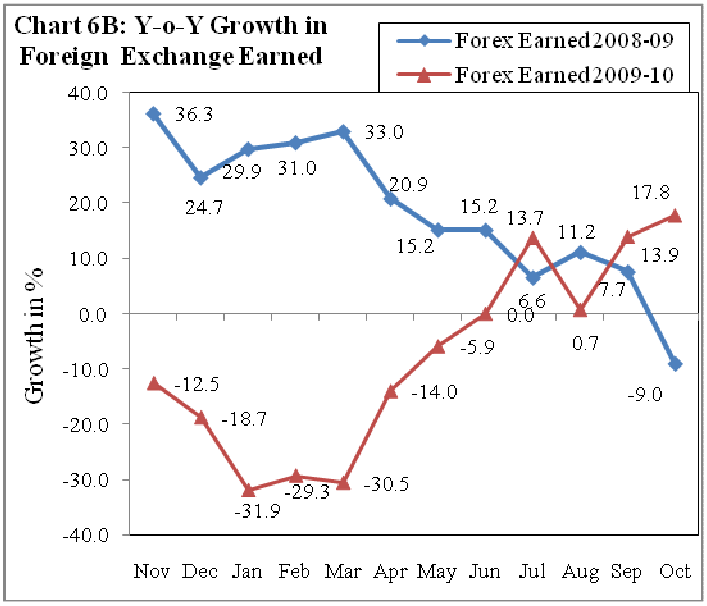
*Sources: Data are taken from respective ministries or other government authorities and CMIE*

With the domination of services sector in contributing to the growth of Indian economy, a review of several services sector performance indicators as enumerated in Table 6.1 provide lead information on prospects for growth.

**Tourism and Hospitality**

The number of foreign tourists visiting India has dropped by 1.2% at 4.48 lakh in October 2009 y-o-y, though it is an improvement vis-a-vis the growth rate of (-) 4.2% observed in September 2009 over September 2008, indicating beginning of the peak season. Tourism sector has been reeling under adverse impacts of various factors, terrorist attacks, economic slowdown, panic of H1Ni and lean season being prominent among them. During January - October 2009, 40.23 lakh tourists visited the country, a fall of 3 lakh as compared to 43.24 lakh visited during January - October 2008.




The foreign exchange earned has posted a noticeable y-o-y increase of 17.8% to US $ 1028 million from US $ 873 million in October 2008. However, substantial losses during the months before June 2009 have dragged down the growth rate for the period January - October 2009 (-10.4%) to US$ 8699 million as compared to US$ 9696 million earned during January - October 2008.

As per a study by consulting firm HVS India, the Indian hotel industry will almost double the number of rooms from the current levels in 3-4 years by adding an estimated 55,000 rooms. The development of new rooms is going to be led by regional real estate players and hospitality firms, as most large real estate developers have abandoned or scaled down their expansion plans. Mumbai, Delhi NCR, Bangalore, Hyderabad and Pune were among the top five cities that are witnessing active development of new projects announced last year. With revival in corporate activity, business travel is expected to bounce back sooner compared to the leisure travel market which is why hotel construction is being pursued aggressively in Mumbai. On the other hand, the five year tax holiday granted by the government for hospitality projects in Delhi & NCR region to increase supply of rooms for the forthcoming Commonwealth Games is driving hotel construction in this region.

The impact of tourism on mountain ecosystems and biological resources are of great concern because of the high biodiversity and environmental sensitivity of the Himalayas. The government could soon place curbs on the number of tourists visiting the Himalayas..The guidelines, will discuss urbanisation, tourism, water security, energy, forest management and infrastructure to address the challenges facing the Himalayan region. It is part of one of the eight missions in National Action Plan on Climate Change (NAPCC) which envisages, among other things, a National Mission for Sustaining the Himalayan Ecosystem. The aim is to promote "sustainable tourism through adoption of 'best practice' norms of eco-friendly and responsible tourism", as stated in National Environment Policy. It seeks to implement measures to regulate tourist flow and ensure that these remain within the carrying capacity of the ecology.

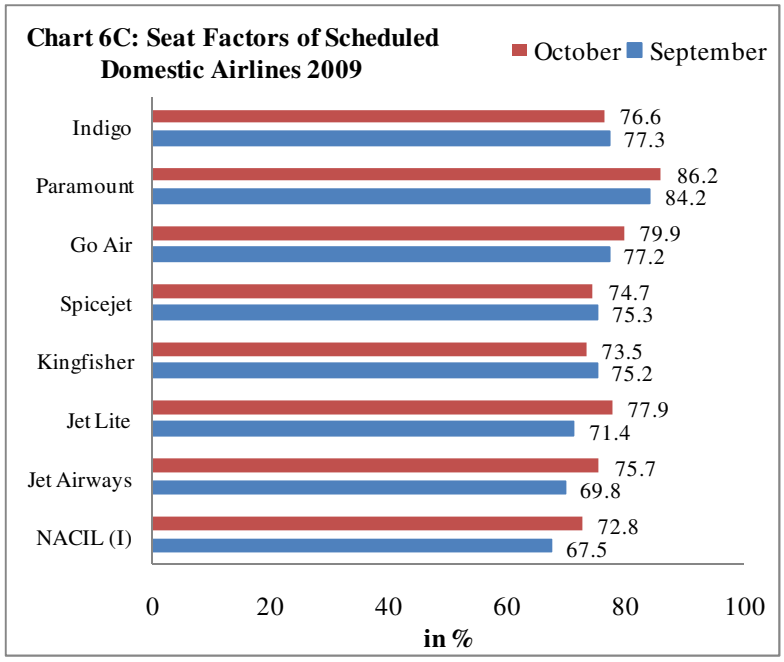
The domestic hotel industry is back on the recovery path, but it is the luxury hotels that have recovered quickly. A FICCI survey of 100 hotels in different categories with turnover ranging from Rs 1 crore to Rs 1,400 crore has revealed a glaring discrepancy in the performances of luxury and budget hotels. Hotels belonging to five-star and five-star deluxe categories have seen occupancy levels over 75% over the last 6 months, whereas a significantly large proportion of hotels from the three-star and four-star category have reported an occupancy level of 25% to 50%. The optimism among five-star hotels stems from the improvement in corporate travel, which suffered badly last year, and the improvement in foreign tourist arrivals for business and leisure. Two-star category hotels have been languishing with almost half the respondents reporting occupancy of less than 25% over the last six months. In terms of the revenue position

as well, the five-star and five-star deluxe category hotels that have reported improvement over the last six months.

**Aviation**

According to data released by the industry regulator Directorate General of Civil Aviation (DGCA), passenger traffic handled by domestic airlines has recorded a double-digit growth of 26.7% in October 2009 with 4.03 million passengers travelling by these airlines against 3.18 million in the corresponding period last year. On the other hand, during the January-October 2009 these airlines have carried 36.01 million passengers as against 34.9 million in the corresponding period of 2008 thereby registering a positive growth of 3.32%. The data excludes MDLR Airlines, as it has suspended its operations effective 1st week of October 2009.

Apart from number of passengers carried another important indicator of efficiency is the seat factor or passenger load factor which indicates how much of an airline's passenger carrying capacity is used. Except for Kingfisher, SpiceJet and Indigo, seat factor for all other major airlines have improved in October 2009 over the previous month, mainly due to onset of tourist season. It is the fall in seat factor that has forced Kingfisher airline to enhance its operations of LCC mode curtailing those of FCC.




Paramount Airways has topped the list of on-time performers in October. It maintained an on-time performance (OTP) of 88.7% followed by Kingfisher Airlines (82.8%). The average OTP of domestic scheduled carriers stood at 75% during this period. Among 70 foreign airlines which operate to and from India only 38 carriers submitted their OTPs. While both Korean Air and Austrian airlines have posted 100% OTPs vis-a-vis departures, Singapore Airline was figured as having highest OTP vis-a-vis arrivals.

The Airports Authority of India (AAI) has deferred its upgrade plans at several airports as the government has not cleared its old request for raising Rs 5,500 crore by issuing tax free bonds. Instead, the authority will now raise this money from banks at a much higher cost at nearly 8.5% instead of 7% associated with tax free bonds. With the cost of capital going up substantially and revenue subdued, AAI has now decided to take up several projects at a later date. Among the projects that have been deferred are construction of a new international airport at Bhubaneswar; new terminals in Leh and Port Blair and extending runway at Jaipur. As per the information provided by media sources, some projects at Kolkata and Chennai airports that are being upgraded at a cost of over Rs 5,000 will now be outsourced instead of being undertaken by AAI itself because of the cash crunch. A multi-storey car park costing Rs 100 crore at Chennai airport will now be built the PPP way. Similarly a Rs 290-crore airport operation control centre in Chennai as well as in Kolkata will now be outsourced.

**Real Estate**

Developers, who were unable to sell a thousand flats in nearly a year, have sold over 16,000 across the country in just the last two quarters. Between April and September 2009, DLF, the largest real estate developer in the country, has launched and sold over 2,000 flats in its mid-income housing range. Unitech, the second-largest player, has generated Rs 4,000 crore of sales in seven months by selling 10.11 million square feet from over 30 new launches. Among others, Parsvnath Developers booked 400-500 flats, while Omaxe claims sales of 400 flats in the same period. All thanks to aggressive marketing, advertising and tie-ups with brokers and investors. Going by them, developers, who are riding high on affordable housing, could soon face execution delays and payment issues as a significant portion, around 50% or more, of flat buyers are speculative investors.

Development of affordable home category is turning rewarding for realtors. A survey of India's top property firms and estimates from industry body Confederation of Real Estate Developer's Associations of India (Credai) has revealed that over 70 million sq ft of residential space was sold in the six months time period, i.e., March-September 2009. It was reported that bulk of the sales happened in the last 90 days and majority of the homes sold were in the affordable segment. For instance, Unitech has sold 8.16 million sq ft of residential space between

March and September 2009, out of a total of 10.11 million sq ft, helping it post revenues of Rs 3,913 crore that are higher than in the boom years of 2006 and 2007. By the end of the fiscal in March 2010, builders hope they will have sold close to the 190 million sq ft they managed in 2007. Developers have mentioned that enquiries for homes began around March 2009 and conversions started to happen July onwards, with bulk of the demand in the affordable segment. The other major developers who have enjoyed the benefits of this new trend include the Jaypee group, DLF, BPTP and Omaxe. However, due to lower pricing, average realisations for most real estate players have fallen by 25-30% per sq ft in comparison to 2007-08. Unitech has seen its average sales price coming down from Rs 4,000 per sq ft before September 2008 to Rs 3,234 per sq ft in the past 6 months. Jaypee, which has sold close to 11.5 million sq ft of residential space in six months, has seen a decline of 25-30% in average basic sale price, primarily because it is selling more affordable homes.

With the companies defaulting on payment, two out of three plots at the Bandra-Kurla Complex are going to be re-auctioned. In March 2008, Jet had quoted Rs 826 crore for a 24,000-sq-mt plot, while Starlight had won the bid at Rs 248 crore each for two 7,050-sq-mt plots. However, due to economic downturn, neither of the company could meet the extended deadline of September 30 for payments, forcing the Mumbai Metropolitan Region Development Authority (MMRDA) to cancel their bids for two of the plots. The sum of Rs 10 crore each paid by Jet and Starlight to MMRDA as earnest money will stand forfeited. MMRD has clarified that Jet Airways would not be provided any concession of paying the bid amount in instalment with interest, though final decision regarding Starlight's request for availing the same has not been reached. MMRDA commissioner Ratnakar Gaikwad said: "There is a provision in the MMRDA Act which permits us to give concession (payment in instalments with interest) as a special case. The authority will decide whether Starlight's request can be accepted." But MMRDA is unlikely to give a similar concession to Jet Airways. The Jet Airways, however, declined to comment on the development. It has been reported that Jet officials have approached the chief minister's office, seeking his intervention in the matter. The sources also said that Jet has been under tremendous pressure from financial institutions to sell or back out from the BKC deal as the aviation industry was among the sectors badly hit by the meltdown.

Figures culled from a cross-sectional survey of the reports of chief real estate tracking firms have shown that the real estate sector saw a growth in demand of 15% in the second

quarter of financial year 2009-10, after slowing down to 10% during the first quarter. As per the analysts, the rise has been helped by the base effect of a negative growth in the corresponding quarter of the previous year. This is still way off the 35% to 40% growth witnessed in January to March 2008 in metro cities. Anshuman Magazine, chairman and managing director, Cushman & Wakefield, too has echoed that by the end of financial year 2009-10, a number of commercial projects that were pending for the past two years will be completed to take advantage of the rising demand.

The Knight Frank Global House Price Index has displayed that property values have increased in almost half of 32 countries surveyed during the second quarter of this year compared to first one though they have remained lower than a level year ago. Real estate markets worldwide are stabilizing and showing signs of a tentative recovery, according to a newly released report from London-based global property consultancy Knight Frank. Countries like Norway, Finland, and Sweden have reported 5.3%, 3.9% and 3.6%, respectively over the previous quarter. Other countries that are witnessing similar trend include Australia, Israel, and the Netherlands. Factors that have fuelled this price hike consists of rising demand spurred by historically low borrowing costs and tax incentives provided to home buyers. Sweden's central bank, for example, has slashed the prime interest rate from 3.75% a year ago to only 0.25% today, so banks there are now offering home loans at interest rates as low as 1.5%. Driven by interest rate reductions by the Bank of England, coupled with a relatively tight supply of housing prices in Britain have gone up by 1.1% in the second quarter after five consecutive quarters of price drops. The survey has mentioned that the market has started rebounding in the U.S., where the subprime mortgage crisis originally began. U.S. home prices have increased by 1.3% in the second quarter, following declines of 7% in each of the previous two quarters. Even hard-hit regions such as California are starting to recover. While recognising potential apprehensions, the report has observed that credit remains constrained, as the global economy struggles to recover, and many countries still have an excess supply of unsold property, putting downward pressure on prices.

It has been reported that to remove the information asymmetry, protect consumer interests, and make real estate transactions easier, the government has proposed to make registration of all real estate projects (meant for sale) mandatory. It has published a draft legislation — Model Real Estate (Regulation of Development) Act — that provides for a

Regulatory Authority for the purpose. The registration process will require disclosure of information of a project and this in turn will be made accessible through the Authority's website. The developers may view the creation of one more authority and more procedures as time-consuming and cost-escalating. But when market fails to self-regulate and exploitative practices abound, the state has a responsibility to intervene and put in place a regulatory system. The urgent need for bringing about greater accountability in this area is highlighted by the fact that a recent survey of 82 real estate markets in the world placed India at as low a rank as 50 in respect of Tier 1 cities. The draft law also represents a significant step forward in safeguarding the interests of buyers.

**Retail**

Big retailers in the country have seen sales during Diwali beating their own targets. The Future Group, which has the country's largest retailer, Pantaloon, has crossed its targeted 24% increase in sales during Diwali. Aditya Birla Retail has seen a 25 to 30% growth in Diwali sales numbers driven by very good offtake for categories such as consumer durables, apparel, food and furniture. RPG's Spencer's Retail has also crossed its target of Rs 100 crore for Diwali sales, with electronics goods comprising 50% of its revenues. Retailers are expecting sales growth to accelerate further during November and December. It has been observed that October to December period is crucial for retailers, as these months contribute 40% of sales of apparel and electronics.

Media sources have reported that despite a slowdown in various segments, the consumer durable industry has been least impacted. The stimulus packages that have been announced so far have given a boost to the consumer sentiments as there was some softening of prices and this has further given a fillip to the demand for consumer durables. High-value goods such as televisions, refrigerators, washing machines and microwave ovens saw double-digit volume growth last year and early this year too. The performance mirrors the robust growth trends seen in basic consumer goods such as soaps and shampoos and was lifted by buoyant demand in rural and semi-urban markets. Among televisions, sales of more expensive LCD and plasma categories, which account for about 5% of total TV sets sold in the country, showed high growth.

As per the ASSOCHAM, the fast moving consumer goods (FMCG) market is set to double from 14.7 billion dollars in 2008-09 to 30 billion dollars in 2012 on account of growing consumption in rural and semi-urban areas. The Indian FMCG sector is the fourth largest sector in the economy with a market size in excess of $14.7 billion. The sector is likely to post growth of 18-20% in the second quarter of the current fiscal; it had expanded by 13-14% in the first quarter Demand for personal and fabric wash products including toilet soaps witnessed a growth of 14.2% in the first quarter this fiscal. The oral care segment that includes toothpaste, tooth brush and tooth powder, grew 10.8% in the first quarter of 2009-10 and has a market size of Rs.33.6 billion. In this segment, the major growth has been in the tooth brush category. Skin care and cosmetics, with an Rs.18.5-billion market size, grew 11.52 percent in the first quarter and is expected grow further. The Rs.80-billion hair care market grew 14.68 percent in the first quarter, Assocham said, adding that the Rs.71.98-billion processed food and beverages sector grew 17 percent in the same period. This segment is expected to grow by 19% in the second quarter. Despite the negative impact of scanty rainfall, demand from rural India is likely to remain robust complimented by a healthy rise in demand from urban areas, a study by the chamber said

**Summing Up**

Outlook on the services sector front looks upbeat with the consumer confidence regaining reflected in the increased demand and other economic activities, especially industrial output showing significant improvement. However, expected fall in kharif output, escalating prices in the domestic market seems to decelerate this growth momentum. It is the, pace of growth of agriculture output, domestic prices as well as global economic recovery that are going be crucial for services growth in the months to come.

# 7. FISCAL SCENARIO

## 7.1 Introduction

A setback to fiscal reforms is the possibility of the Goods and Services Tax (GST) missing the April 2010 deadline. GST is likely to be rolled out on July 1 2010 or September 1 2010. In addition to this, the Direct Tax Code too is unlikely to be discussed in the winter session of the Parliament. This is because the Ministry of Finance is still in the process of interacting with trade and industry. In fact, it is yet to be sent to the Ministry of Law and Justice, which is a month long process. Apparently, seven core areas of the code need to be reviewed. These include clauses relating to minimum alternate tax, EET regime for savings; capital gains taxation in the case of non-residents; the Income Tax Act and the double taxation avoidance agreements; General Anti-Avoidance Rule (GAAR); issues relating to effective management control and taxation of foreign companies in India, and taxation of charitable organisations.

The Finance Minister will take a call on withdrawing the fiscal stimulus measures based on the performance of indicators like, economic growth, third quarter advance tax collections, GDP numbers and industrial production during the 2nd and 3rd quarters.

During the period April-September 2009, the fiscal deficit has almost doubled over the comparable period a year ago. It has risen by 92.7% during the first half of the fiscal year 2009-10 to Rs 1,97,775 crore. While total non-debt receipts have grown at a slower pace of 1.9%, total expenditure has escalated by 28.6% in comparison to a modest growth rate of 9.8% a year ago.

## 7.2 Fiscal Deficit at 49% of the Total Target

**Table 7.1: Trend in Deficit Indicators**

*(Rs crore)*

| | | 2009-10 (BE) | 2008-09 (P) | April-September | | Y-o-Y Change (%) | |
|---|---|---|---|---|---|---|---|
| | | | | 2009 | 2008 | 2009 | 2008 |
| 1 | Total Non-debt Receipts* | 619842 | 551355 | 251073 | 246427 | 1.89 | 4.11 |
| 2 | Total Expenditure | 1020838 | 881469 | 448848 | 349081 | 28.58 | 9.81 |
| 3 | Fiscal Deficit | 400996 | 330114 | 197775 | 102654 | 92.66 | 26.42 |
| 4 | Revenue Deficit | 282735 | 247046 | 164983 | 78313 | 110.67 | 28.12 |
| 5 | Primary Deficit | 175485 | 139629 | 111106 | 16593 | 569.60 | 98.01 |

* Include revenue receipts and non-debt capital receipts

P – provisional estimates, BE – budget estimates

*Source: http://cga.nic.in/*

The fiscal deficit during the six-month period almost doubled to Rs 1,97,775 crore and is 49.3% of the fiscal target of budgeted estimate (BE) of Rs 4,00,996 crore. However, this is significantly lower than 77% of the budget estimate till September 2008. This can be attributed to improved tax collections, coupled with austerity measures being exercised by the central government in the past few months. In the same period a year ago, the deficit rose by 26%.

### 7.3 Trends in Receipts

Total receipts (comprising of revenue receipts and non-debt capital receipts) during April-September 2009 have posted a slower growth rate of 1.9% to Rs 2, 51,073 crore. This is due to revenue receipts which turned negative from a healthy 23.7% growth a year-ago, while non-debt capital receipts have posted a magnificent turnaround of 331.8%. The former resulted from an 8.2% decline in tax revenue (net) despite non-tax revenue having posted a healthy rise of 37.9% to Rs 58, 802 crore. Other receipts have shot up drastically from collections of Rs 43 crore in April-September 2008 to Rs 4300 crore. However, while details of the increase in other receipts at the level of actuals are not available, it is found that the Budget for 2009-10 had anticipated additional disinvestment proceeds from out of the shares of a few public sector undertakings.

**Table 7.2: Receipts of the Government**

*(Rs crore)*

| | | 2009-10 (BE) | 2008-09 (P) | April-September | | Y-o-Y Change (%) | |
|---|---|---|---|---|---|---|---|
| | | | | 2009 | 2008 | 2009 | 2008 |
| 1 | Revenue Receipts | 614497 | 544651 | 244471 | 244898 | *-0.2* | *23.7* |
| 2 | Tax Revenue (Net) | 474218 | 447726 | 185669 | 202247 | *-8.2* | *26.0* |
| 3 | Non Tax Revenue | 140279 | 96925 | 58802 | 42651 | *37.9* | *13.9* |
| 4 | Non-debt Capital Receipts | 5345 | 6704 | 6602 | 1529 | *331.8* | *-96.1* |
| 5 | Recovery of Loans | 4225 | 6158 | 2302 | 1486 | *54.9* | *-26.8* |
| 6 | Other Receipts | 1120 | 546 | 4300 | 43 | *9900.0* | *-99.6* |
| 7 | Total Non-Debt Receipts | 619842 | 551355 | 251073 | 246427 | *1.9* | *4.1* |

P – provisional estimates, BE – budget estimates

*Source: Same as Table 7.1*

Gross tax revenue collections have taken a severe hit in the April-September 2009 period, with collections dropping 7.6% to Rs 2,58,880 crore as against a 25.4% rise a year ago. This can be attributed to earnings from indirect taxes turning negative despite moderate growth in direct taxes. Within indirect tax collections, customs duty has posted the steepest decline of 32.9% to

Rs 37, 744 crore. Excise duty collections too have dropped considerably by nearly 23% to Rs 36,893 crore. Part of the decline in excise collections can be attributed to a cut in cenvat rate from 16% to 8% in the last financial, as part of the government's stimulus measures to tide over slowdown. Service tax collections too posted a decline of 3.7% to Rs 23,236 crore. There has been a slowdown in collections from direct taxes. Corporation tax and income tax have risen by only 7.8% and 7.2% respectively, in comparison to robust double-digit growth rates in the same period last year. Out of the two, corporate tax collections were higher at Rs 1, 04,505 crore. Reportedly, direct-tax mop-up for the first half was up only 3.6% year-on-year (y-o-y) due to a huge 51.1% rise in refunds from last year. The Central Board of Direct Taxes (CBDT) collected Rs 1, 52,625 crore as direct taxes during this period.

**Table 7.3: Tax Revenue**

| Items | *(Rs crore)* | | | *(%)* | | | |
|---|---|---|---|---|---|---|---|
| | Budget Estimates | April-September | | April-Sep to Full Fiscal Year | | Year-on-Year Change | |
| | 2009-10 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Corporation Tax | 256725 | 104505 | 96991 | 46.17 | 45.36 | 7.75 | 38.21 |
| Income Tax | 112850 | 49703 | 46349 | 35.93 | 42.13 | 7.24 | 30.76 |
| Customs | 98000 | 37744 | 56241 | 31.74 | 56.33 | -32.89 | 16.93 |
| Excise | 106477 | 36893 | 47870 | 26.76 | 44.02 | -22.93 | 6.64 |
| Service Tax | 65000 | 23236 | 24139 | 36.05 | 39.66 | -3.74 | 31.61 |
| Other taxes* | 2027 | 6799 | 8551 | 382.83 | 52.10 | -20.49 | 30.75 |
| Gross tax Revenue | 641079 | 258880 | 280141 | 37.64 | 45.95 | -7.59 | 25.35 |
| Net tax Revenue | 474218 | 185669 | 202247 | 36.61 | 45.17 | -8.20 | 26.01 |

* Include Securities Transaction Tax, Banking Cash Transaction Tax, Fringe Benefit Tax, Wealth Tax, etc.
*Source: Same as Table 7.1*

## 7.4 Expenditure

Total expenditure of the government during April-September 2009 at Rs 4,48,848 crore has shot up 28.6%, chiefly on account of a 33.9% rise in non-plan expenditure. This has resulted in the widening of the fiscal deficit. Total expenditure posted a moderate growth of 9.8% in the same period a year ago. In the period under review, plan expenditure has sobered to 17% from a growth of 25% in the year ago period. Non-plan expenditure at Rs 3, 22,070 crore accounted for 46.3% of BE for 2009-10, while plan expenditure accounted for 39%

**Table 7.4: Expenditure of the Government**

*(Rs crore)*

| | | 2009-10 (BE) | 2008-09 (P) | April-September | | Y-o-Y Change (%) | |
|---|---|---|---|---|---|---|---|
| | | | | 2009 | 2008 | 2009 | 2008 |
| 1 | Non-Plan Expenditure | 695689 | 606019 | 322070 | 240629 | 33.85 | 4.11 |
| 2 | On Revenue Account Of which | 618834 | 556521 | 301291 | 229484 | 31.29 | 22.39 |
| 3 | Interest Payments | 225511 | 190485 | 86669 | 86061 | 0.71 | 18.18 |
| 4 | On Capital Account Of which | 76855 | 49498 | 20779 | 11145 | 86.44 | -74.45 |
| 5 | Loans Disbursed | 0 | 1712 | 270 | 360 | -25.00 | -34.19 |
| 6 | Plan Expenditure | 325149 | 275450 | 126778 | 108452 | 16.90 | 25.01 |
| 7 | On Revenue Account | 278398 | 235176 | 108163 | 93727 | 15.40 | 30.96 |
| 8 | On Capital Account | 46751 | 40274 | 18615 | 14725 | 26.42 | -3.04 |
| 9 | Total Expenditure | 1020838 | 881469 | 448848 | 349081 | 28.58 | 9.81 |
| 10 | Total Revenue Expenditure | 897232 | 791697 | 409454 | 323211 | 26.68 | 24.75 |
| 11 | Total Capital Expenditure | 123606 | 89772 | 39394 | 25870 | 52.28 | -56.01 |

P – provisional estimates, BE – budget estimates

*Source: Same as Table 7.1*

## 7.5 Other Developments

*Withdrawal of fiscal Stimulus*

The Economic Advisory Council, headed by Dr. C Rangarajan has stated that the appropriate time to roll-back the fiscal stimulus package would be financial year 2010-2011. While the decision would depend on performance of macroeconomic indicators in the 2nd and 3rd quarters, the roll-back of tax incentives would also depend on the way the economy evolves. This would largely depend on expectations of a normal monsoon, whereby the economy would grow by 7-8% in the next fiscal. Based on GDP growth of 6.1% in the first quarter of 2009-10, the current financial year is likely to clock a growth rate of 6.5%. On monetary policy, if inflationary pressure builds up, the RBI could begin tightening rates even earlier.

Supporting this opinion is the Planning Commission's view that there is no case for withdrawing the stimulus, unless growth picks up to 7%. The commission also reiterated that the government could go ahead with its expenditure as planned. However, the current fiscal year is unlikely to be favourable to exports, as it is dependent on the global economy.

Another view as published in Mint, dated November 10, 2009 is that rolling back excise rates to earlier levels will lead firms to pass on the hike in rates to customers. The impact will be limited to the extent that credit on excise paid on inputs is available. While companies manufacturing basic and intermediate goods will feel the pinch the most, end-use industries will have the benefit of excise credits. Service industries and exporters too would be less affected, as

they do not pay excise. This will lead to inflation in the manufacturing sector. Given this situation, it is advisable that excise duties be phased out gradually. This will enable firms to pass on cost hikes without risking a demand shock.

Another view as presented by RBI Governor is to sequence the exit in a calibrated way, beginning with the closure of some special liquidity support measures. Similarly, the Asian Development Bank (ADB) too has cautioned against any hasty withdrawal of the stimulus. If left too long, deficits would be unsustainable, if withdrawn too soon, the region's recovery could be derailed.

*Dispute Resolution Panel and Safe Harbour provisions introduced for advance pricing agreement*

The central government has taken some proactive measures to resolve the issue of transfer pricing, which has long been a taxing issue for both multinational corporations and tax authorities. The government has introduced Dispute Resolution Panel and Safe Harbour provisions. Taking this forward, the Finance Minister has proposed the introduction of advance pricing agreement (APA) in the area of transfer pricing, as part of the Direct Taxes Code. The APA programme has been successfully used by most countries to provide certainty in the area of transfer pricing for MNEs (multinational enterprises).

An APA is an agreement between a taxpayer and the tax authorities for the upfront determination of the arm's length price and pricing methodology in relation to an international transaction. Simply put, the APA would be an advance ruling sought and agreed between the taxpayer and tax authorities that agree to the pricing of goods or services between related parties. Such a ruling would be binding on the taxpayer and the tax authorities. The arrangement would be valid for a specified period subject to a maximum of five financial years and would continue to be valid during the said period, on the basis that the facts and conditions, based on which the rulings have been passed have not undergone a change. The benefits of APAs are risk management, certainty, avoidance of double taxation and reduced litigation. Some countries do away with the requirements of preparing onerous transfer pricing documentation by the taxpayer y-o-y after entering into an APA.

**Summing Up**

Worsening direct tax collections in the past few months, with escalating expenditure as a result of contingencies across the country will have a lasting impact on the central government finances. To add to it, a delay is expected in the rollout of Goods and Services Tax (GST). The Direct Tax Code (DTC) which is expected to garner large revenues, too is unlikely to be taken up for discussion. Moreover, some issues of DTC are yet to be sorted out and coordinated with trade and industry and other ministries.

## 8. CORPORATE SECTOR DEVELOPMENTS

### 8.1 Declining (M&As) Activity in January-September 2009

In the last 2-3 years, India's corporate sector has witnessed a spurt in M&A activities and private equity (PE) deals – domestic as well as transnational – in order to grow in size by adding manpower and to facilitate expansion of the business as a way of improving competitiveness and efficiency.

However, during the nine months period, i.e. between January – September 2009, the overall M&A activities and PE deals in the corporate sector have led to massive reduction in terms of size and value as the appetite has been falling largely on account of the cascading effect of the financial crisis in the US and global economic slowdown.

The Grant Thorton's report reveals that the total value of M&A transactions in India (domestic and cross-border), have declined sharply by around 72% during January-September 2009 to US $7.66 billion as compared to US $ 27.12 billion during the corresponding period in the previous year.

The PE deals have also declined significantly in the first nine months of 2009 against the corresponding period of last year, but the rate of decline is lower in terms of both, the number and value when compared to the M&A transactions. The total value of PE investments during January-September 2009 has fallen by 8.6% to US $8.67 billion as against US $9.49 billion in same period of 2008.

**Table 8.1: M&As: Total Deals**

| No. | Year/ Month | Volume *(Number)* | | Value *(US $ billion)* | |
|---|---|---|---|---|---|
| | | Jan.-Sep. 2009 | Jan.-Sep. 2008 | Jan.-Sep. 2009 | Jan.-Sep. 2008 |
| I | Total M&As | 234 | 405 | 7.66 (-71.76) | 27.12 |
| II. | PE Investments | 185 | 273 | 8.67 (-8.64) | 9.49 |
| | **TOTAL (I + II)** | **419** | **678** | **16.33 (-55.39)** | **36.61** |

*Note: Figures in brackets are percentage change over the previous year.*
*Source: Grant Thorton.*

However, the M&A activity is expected to revive gradually on account of lucrative valuations, improving financials of the domestic companies and robust long term demand as found by the ASSOCHAM Financial Pulse Study.

*PE Deals*

Blackstone Group, one of the world's largest private equity players in the world, is in exclusive talks to acquire a 63% stake in Mumbai-based agro-chemicals and veterinary drug maker Gharda Chemicals from its founder-promoter K. H. Gharda. The New York-based PE firm has quoted an indicative price of Rs 630 crore for the promoter's stake in Gharda Chemicals, putting the valuation of the company at Rs 1,000 crore.

*M&A Deals*

We had made an attempt to trace the M&A deals from various media sources, which have been announced in the month of October 2009, and the same are presented in Table No. 8.2.

| **Table 8.2: Major M&A Deals** |
|---|
| Tata Motors has acquired 79% stake in Spain-based Hispano Carrocera SA, a bus and coach manufacturing company. TM already holds 21% stake in the Spanish firm, which it bought in 2005 for around Rs 70 crore (including equity, debt and technology licensing). Tata Motors had an option to acquire 100% holding in the Spanish company. |
| Shishir Bajaj-promoted Bajaj Hindusthan, India's largest sugar producer is in talks with its nearest competitor Balrampur Chini Mills to acquire the 36.67% stake of the current promoters, the Kolkata-based Saraogis. The two companies have reportedly held preliminary talks, which are stuck on valuation. |
| Wipro Consumer Care & Lighting has signed an agreement with UK's Lornamead group to acquire the Yardley business in Asia, Middle East, Australia and certain African markets for $45.5 million (about Rs 214 crore). Lornamead, founded by London-settled Jatanias of Indian origin, would retain the Yardley business in Europe and America. The transaction would be completed by mid-December 2009. This is the second largest acquisition by Wipro Consumer Care after Unza, which it acquired for $246 million (about Rs 1,156 crore) in 2007. |
| Essar Oil is in talks with Royal Dutch Shell to buy two of its refineries in Germany and one in the UK. Both companies confirmed the exclusive negotiation on the sale of the Heide and Harburg refineries in Germany and the Stanlow plant in the UK. The refining capacity of these refineries is pegged at 500,000 barrels per day. |
| Source: Various Media Sources |

## 8.2 Performance of the Private Corporate Business Sector during 2008-09

The performance of the private corporate sector remained subdued during the fiscal year 2008-09 after being robust for a number of earlier years. The RBI's recent study, 'Performance

of Private Corporate Business Sector, 2008-09', which analyses the performance of 2,549 non-government and non-financial public limited companies, during the period, April-March 2008-09 reveals that the private corporate business sector showed lower business activity in the manufacturing and services sector during the review period. By and large corporate activity has weakened in terms of nominal growth of domestic sales owing to slowdown in the economy and exports on account of contracting of global demand. Burgeoning interest costs on account of rising interest rates, considerable increase in expenditure owing to sharp rise in input costs, increases in wage bills and mark-to-market losses by a number of companies on their foreign exchange transactions/loans have all made an impact to the overall earnings of all the companies studied.

The study reveals that during 2008-09, the private corporate sector's aggregate sales continue to grow by 17.2% lower by 1.1 percentage points when compared to 18.3% in 2007-08. More significantly, the net profit declined by 18.4% significantly lower by 44.6 percentage points vis-á-vis 26.2% growth over the corresponding period in 2007-08[1].

**Table 8.3: Performance of 2,549 Selected Companies during 2008-09**

| Item | 2008-09 *(Rs crore)* | 2007-08 *(Rs crore)* | Change in % |
|---|---|---|---|
| Paid-up Capital | 74,001 | 56,872 | 7.6 |
| Sales | 15,38,706 | 11,41,711 | 17.2 |
| Other Income | 26,381 | 30,958 | 6.6 |
| Expenditure | 13,11,607 | 9,56,930 | 18.4 |
| Operating Profits $ | 2,32,684 | 1,96,340 | -1.0 |
| Depreciation | 54,909 | 40,664 | 17.4 |
| Gross Profit | 2,04,156 | 1,86,665 | -4.2 |
| Interest | 48,158 | 25,677 | 57.3 |
| Profits before Tax (PBT) | 1,55,998 | 1,60,988 | -14.5 |
| Tax Provision | 31,602 | 34,891 | -17.7 |
| Profits after Tax (PAT) | 1,24,375 | 1,34,291 | -18.4 |

Notes: Per cent change is over the corresponding period of the previous year.
Source: RBI Bulletin, September 2009.

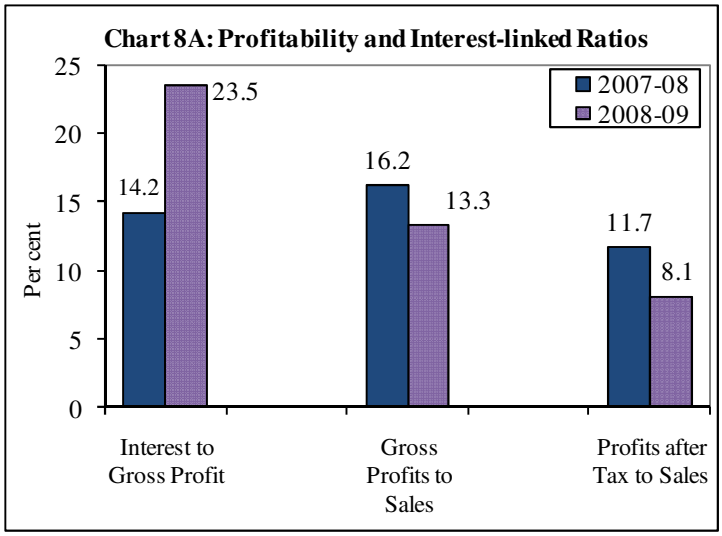
On account of increasing interest burden, there has been a considerable rise in expenditure, particularly due to increasing cost of raw materials in the case of manufacturing companies. The total expenditure incurred by the selected companies shot up by 18.4% to Rs 13.11 lakh crore in 2008-09, considerably higher than the increase in net sales (17.2%). Concurrently, the aggregate net profit of the 2,549 companies descended to Rs 1, 24,375 crore in 2008-09, registering a fall of 18.4% as compared to Rs 1, 34,291 crore in 2007-08. The aggregate depreciation amount of the 2,549 companies stood at Rs 54,909 crore in

[1] As per RBI's study 'Performance of Private Corporate Business Sector during 2007-08', which analyses the performance of 2,359 non-government financial and non-financial public limited companies during the period, i.e., April 2007 to March 2008?

2008-09, registering a rise of 17.4%. However, the aggregate tax provisioning by the selected companies declined by 17.7% to Rs 31,602 crore in 2008-09.

Consequent to the high interest outgo coupled with falling gross profits, the interest burden (interest payments to gross profits) increased significantly by 9.3 percentage points to 23.5% from 14.2% registered in 2007-08. The gross profit margin (gross profits to sales) declined by around 3 percentage points to 13.3% in 2008-09 from 16.2% in the previous year (Chart A).

Operating margins contracted as expenditure outpaced the growth in sales. As a result, the profitability measured in terms of the ratio of net profits to sales decelerated considerably by 3.6 percentage points over 11.7% recorded in 2007-08.




*Business Confidence Index (BCI)*

The Confederation of Indian Industry Business Confidence Index (CII-BCI) has predicted a return to better business conditions than those experienced before the downturn. The index for the period between October 2009 and March 2010 surged by a robust 7.4 points to 66.1 points, against a mere 2.4 points increase during the first half of the current fiscal year. The CII-BCI index, surveyed twice a year, is derived from an average of the current situation index (CSI) and the expectation index (EI). Both indices have fared better than the previous six months ended September 2009.

## 8.3 Deals and New Ventures

Mirc Electronics is planning to set up a manufacturing plant for 'Onida' branded mobile handsets at Rourkee in Uttar Pradesh. At the upcoming plant, the company is also planning to manufacture washing machines.

Bajaj Auto's ultra low cost (ULC) car project with Renault is on track and the car is expected to hit the roads in 2011.

Kishore Biyani-promoted Future Group and leading UK shoe retailer Clarks have agreed to form a joint venture (JV) in the retail footwear segment.

| **Table 8.4: New Deals and Investments of Indian Companies** |
|---|
| Hindalco Industries, a leading copper and aluminum manufacturer, had drawn up Rs 16,000 crore capex plan for the next two years. |
| Pharmaceutical company Ipca Laboratories is planning to set up a new formulation facility in Sikkim at an investment of around Rs 60 crore. |
| BHEL has expanded its presence in the CIS region bagging its first export contract from the Republic of Belarus worth Rs 270 crore. This is also the first overseas order for a 126 mw gas turbine generator set-based co-generation plant. |
| BHEL has also bagged a Rs 5,040 crore contract from Jindal Power for setting up a 2,400 MW thermal power plant in Chhattisgarh. BHEL will install four units of 600 MW each in the extension stake of the O P Jindal Super Thermal Power Plant at Raigarh. |
| Source: Various media sources. |

## 8.4 Regulatory and Developmental Measures

Companies may soon have to separate the posts of Chairman and Chief Executive Officer (CEO)/Managing Director (MD) and go for a 'one-man one-post' policy. The government is considering a proposal to incorporate such a provision in the Companies Bill, 2009 to strengthen corporate governance and prevent incidents like the Satyam scam. In this regard, the Corporate Affairs Ministry had discussions with bodies such as the Institute of Company Secretaries of India (ICSI). Globally, according to executive search consulting firm Spencer Stuart's Board

Index of 2008, around 39% of S&P 500 companies now separate the Chairman and CEO roles, against 16% in 1998.

The electronic payment of stamp duty for setting up a company, which has been introduced on September 13, 2009, will become compulsory from January 1, 2010. The facility of e-stamping is being extended through the web portal of the ministry of corporate affairs. Thus, entrepreneurs can now pay stamp duty sitting anywhere in India electronically by logging on to the corporate affairs ministry's website. This removes the last hurdle for electronic incorporation of new companies without visiting a government office. The on-line payment facility is now available in 22 states.

In a move that would provide a much-needed relief to corporations, the Ministry of Corporate Affairs has asked its inspection officers to desist from charging companies with penal provisions until the charges against them have been established and the companies have received summons for the same. The move comes following pleas by companies that were being penalised without their receiving the summons and charges having been levied against them. The ministry has received presentations from various companies over the manner by which charges are levied by the inspectors even when the firms don't receive summons and notices regarding the same.

Continuing the post Satyam damage control, corporate affairs minister is examining the feasibility of making it mandatory for companies to set up an in-house corporate ombudsman as well as lay down a clear policy for whistle blowers.

### 8.5 Other Highlights

Six global equipment manufacturers – P&H and Caterpillar from the US, Komatu from Japan, Belaz from Belarus, Uralmash from Russia and Taiyuan Heavy from China – are in the race to secure a contract for supplying large mining equipment to Reliance Power's Sasan ultra mega power project. The company is expected to finalise the mega order worth Rs 2,000 crore for mining equipment like draglines, electric shovels, off-highway haul trucks within a fortnight, to kick start coal mining operations in captive blocks, allotted for the 4,000 MW project.

Reeling under a huge debt of around Rs 730 crore, Vishal Retail has approached its lenders to undertake a debt restructuring process to revive the company. The company's lenders are expected to undertake the corporate debt restructuring (CDR) process soon to streamline the debt repayment. The founder chairman and MD of the company has decided to step down, according to a settlement reached with the company's lenders. The company has also planned to shut down around 10 of its outlets to cut costs.

Kumar Mangalam Birla-led Aditya Birla Group plans to invest over Rs 4,000 crore in future technologies by setting up a Knowledge Park and a branch of the Birla Institute of Technology and Sciences (BITS) at Kozhikode in Kerala.

The Enforcement Directorate has attached 280 properties owned by Ramalinga Raju and 131 others, including his brothers after it established that the properties were obtained through all-gotten gains from the Satyam fraud. The attached properties are valued at Rs 1,200 crore, but their worth is shown as Rs 200 crore on paper. The investigations into the rest of the properties are on and more properties would be attached.

The board of Reliance Industries Ltd (RIL) has announced a bonus issue in the ratio of 1:1 (i.e. one bonus share for every share held in the company). The company's bonus issue comes after a long gap of 12 years. The last time it issued a 1:1 bonus in September 1997.

### 8.6 Summing Up

The Grant Thorton's report reveals that during the nine months period i.e. between January – September 2009, the overall M&A activities and PE deals in the corporate sector has led to massive reduction in terms of size and value as the appetite has been falling largely on account of the cascading effect of the financial crisis in the US and global economic slowdown.

As per the RBI's recent study, Performance of Private Corporate Business Sector, 2008-09', the performance of the private corporate sector remained subdued during the fiscal year 2008-09 after being robust for a number of consecutive years.

# 9. SOCIAL SECTOR DEVELOPMENTS

## 9.1 Introduction

October 2009 was marked by the renaming of the National Rural Employment Guarantee Act as the Mahatma Gandhi Rural Employment Guarantee Act. Also, it was a month of significant educational reforms.

Meanwhile, an India-made oral vaccine for cholera has been found to be highly effective and safe for mass disease prevention by researchers. The unique vaccine which also meets World Health Organisation (WHO) standards is an oral dose and takes care of hybrid cholera strains circulating in the atmosphere. It also has very good herd immunity, i.e., even if the vaccine is administered among 40% of the population, it will prevent spread of the disease among the rest.

## 9.2 Education

*IIITD&M to get a new campus soon*

The Indian Institute of Information Technology Design and Manufacturing (IIITD&M) will soon get a new campus in Chennai on about 100 acres of land to be provided by the state government. The construction would take about two years.

*IGCSE launches online classroom programme*

International General Certificate of Secondary Education (IGCSE), a board affiliated to Cambridge University, has launched a new course called 'Global Perspectives' for students in the age group of 14 to 16. At least 80 schools across the world participated in the online classroom sessions, of which 10 were Indian. The session included debates, discussions, chat sessions as well as sharing of newspaper articles and photos on the related topics. Students from these schools could join the online session at any point during the day, so that they would overlap with students in different time zones.

The course aims to help students develop a greater understanding of the world they live in and share and compare experiences in different parts of the world.

*IGNOU plans courses for apparel sector*

The Indira Gandhi National Open University (IGNOU) has signed a memorandum of under (MoU) with the Apparel Export Promotion Council (AEPC) for beginning a number of new courses, which would cater specifically to the apparel industry. The MoU will ensure IGNOU certification for these courses. Diploma and degree certificates would be offered. The MoU also provides the opportunity to explore possibility of setting up 'Activity Centres' to boost employment in textile, apparel, lifestyle and retail sectors. As many as 52 ATDC facilities in the country will be used to provide vocational education certifiable by IGNOU according to the IGNOU standards. The programmes would be technical and vocational and various models to make use of the ATDC network will be explored, such as distance education model, community colleges and open education norms.

*CET for admission to new central universities likely*

The Ministry of Human Resource Development (HRD) has asked 15 new central universities to look at conducting a common entrance test (CET) for admission to their courses. The universities have been asked to invite faculty from abroad and from the private sector in India for short-term teaching stints. The CET will enable common counselling so that students and their families are saved from the trouble of going to various locations for tests and counselling. The University Grants Commission (UGC) has been asked to set up a panel to coordinate with them so that there are fewer number of common courses. UGC will also be asked to look at the possibility of changing its guidelines for bringing in world-class faculty.

*Central government to set up four law schools*

The central government would establish four law schools of excellence in four regions of the country. Discussions with various stakeholders were on and the government was awaiting the final decision of the Bombay High Court where a case is pending on the entry of foreign legal firms in India. Also, discussions were being held with different ministries and a bill would be introduced in the parliament in this regard. Also, a decision would be taken as regards entry of foreign legal firms in India.

*WB to offer $500 million loan to education*

The World Bank (WB) will provide $500 million as soft loan to the newly-launched Rashtriya Madhyamik Shiksha Abhiyan (RMSA) scheme for improvement of the quality of secondary education in the country and check the drop-out rate. The money would be given over a period of 35 years without interest. The Bank has taken interest in RMSA keeping in view the objective of the programme to check the drop-out rate at secondary level completely by 2020. The scheme also aims at achieving a general enrolment target of 75% for classes IX and X within five years from 52.26%.

*Plans to make AIEEE online*

The central government has set up a committee of National Institute of Technology (NIT) directors to explore the possibility of making the All India Engineering Entrance Exam (AIEEE) online, in addition to the written test. The committee will submit its report by January 2010. However, according to some, an online test would not be feasible considering poor internet connectivity and the non-availability of computers in the rural areas. In addition to this, the committee will also look at the problems of seats across NITs staying vacant despite counseling.

The NIT Council has also decided to constitute a committee to look into curriculum framework and design it as per the future needs of the country. The committee will also interact with industry organisations to know their requirements so that the students have the best possible job prospects.

All the 20 NITs were asked by the HRD minister to come up with a vision document. They would be required to show, in their vision statements how they could build their brand image to attract talent from within the country and abroad. The vision could also include whether they would like to set up campuses abroad. The minister also exhorted the NITs to charter a unique eco-system for themselves and also pay emphasis towards greater research and Doctoral, Post Doctoral work.

*Kakodkar to head IIT reforms committee*

In another development, the central government has set up a committee to suggest a broad road map for the Indian Institutes of Technology (IITs) for the next 10 years. The five-member committee, to be headed by atomic energy commission chairman, Anil Kakodkar, will

give its report in six months, outlining the broad areas of reforms required to make the elite institutions global brands. The committee has been set up to make IITs more research oriented and involved in the national projects for development. It would come up with a vision document for 2020 for the IITs.

*State government wants maths and science to be taught the CBSE way*

The government of Maharashtra plans to have the Secondary School Certificate (SSC) Board adopt the Central Board of Secondary Education (CBSE) curriculum for science and mathematics from 2011-2012. The CBSE course for maths and science would be adopted for standard I to XII. This will enable students to compete with their counterparts from the CBSE board when appearing for competitive exams such as AIEEE and IIT-JEE.

*CBSE allows 3 attempts to clear standard IX & X*

The Central Board of Secondary Education (CBSE) will now allow students who do not clear standards IX and X three more attempts to make the grade. Despite this, if they still fail, the board is considering taking into account their performance in extracurricular activities and sports. However, only recently it had allowed 5 attempts to clear the said examinations.

The assessment method would be revamped too. A student who fares poorly in written exams can be tested orally, or via projects, to see if he has understood the concepts. The board wants schools to show students their answer sheets over the two years and take into account their feedback before the final grade is given. The Class IX and X term papers will now be set by the board, so the level of question papers in CBSE schools across the country remains the same. Apart from this, students would also be graded on the basis of extracurricular activities, sports, physical fitness, attitudes and life skills. There will be a single report card for classes IX and X, in which students will have to list goals, strengths, hobbies and interests, sports played and exceptional achievements.

*Private unaided schools may have to reserve seats for disabled*

The central government is expected to amend the Right of Children to Free and Compulsory Education Act 2009 (RTE), to broaden the ambit of disadvantaged children to include children with disabilities. The amendments would be introduced in the winter session of the Parliament. The amendment would help such students take advantage of the 25% seats set

aside in private unaided schools under clause 12 of the Act. The Ministry of Human Resource Development (MHRD) also plans to introduce changes in clause 3 of the Act to extend the Right to Free and Compulsory Education to Children suffering from disabilities as defined in the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999. This act deals with severe mental retardation and goes beyond the scope of the Disabilities Act. At present, the RTE is applicable to differently-abled children covered by the Disabilities Act.

### 9.3. Health

*Central government to help women without maternity leave*

The central government is expected to announce a unique conditional maternity benefit scheme shortly, to provide Rs 4000 to women during pregnancy and six months after that, while they are lactating. Besides taking care of nutritional requirements, the scheme will partly compensate the woman for wage loss she may incur while on leave. To be called the The Indira Gandhi Matritava Sahyog Yojana (IGMSY), it would be for women who are 19 or above, and for the first two child births. The allowance under the new scheme would be over and above the Rs 1400 in rural areas and Rs 1500 in urban areas a woman gets under the health ministry's Janani Suraksha Yojana (JSY) to promote institutional delivery.

Unlike JSY, which is only for women below the poverty line (BPL), the new scheme will be applicable to above poverty line (APL) categories. In order to be entitled to the allowance, the women have to get themselves registered with the nearest *anganwadi* centres during pregnancy. The scheme will help monitor and prevent infant mortality, maternal mortality, malnutrition, early marriage and female foeticide, and will promote safe delivery.

### 9.4 Labour

*NSDC launched; aims to skill 30% of target by 2022*

The National Skill Development Council (NSDC), a unique PPP (public-private partnership) enterprise which has been mandated to skill 30% of the overall target of 500 million people by the year 2022 has been launched. Incorporated as a not-for-profit organisation by the

Union Finance Ministry under Sec. 25 of the Companies Act, 1956, the NSDC has been formed as a 51:49 shareholding venture between the private sector and the government, with contributions from all prominent industry bodies to its initial capital.

The finance minister has favoured dovetailing some of the activities of the NSDC with existing schemes being run by other government ministries in order to avoid duplication of work. Explaining further, he said NSDC could adopt a few of the industrial training institutes on a 'management contract' basis. Similarly, it can also look at conducting skill development programmes for workers in the textile sector in collaboration with the ministry of textiles. The minister has also entrusted NSDC with the responsibility of setting up Sector Skill Councils (SSCs).

*Disabled demand equal rights*

Viklang Manch, a group formed by disabled individuals from 9 states has demanded that disabled people be treated equally for eligibility under the National Rural Employment Guarantee Act (NREGA). While the Act is neutral on giving work to people with disabilities, certain aspects, if amended, can aid states in identifying what jobs can be sanctioned for the disabled. Among other demands, the Viklang Manch has suggested that 3% of the expenditure in each district be reserved for the disabled, new kinds of work be included in the schedule of works and jobs specific for particular disabilities be included. A suggestion was made to include an official from the social justice and empowerment department in the implementation committee of NREGA.

*NGOs demand national authority for NREGA*

A national consortium of NGOs has sought a separate authority for the NREGA scheme. The proposed National Authority for NREGA (NAN) would separate implementation and monitoring from evaluation and grievance redressal and it would discharge three crucial functions of deploying information technology and human resources, social audit and evaluation and grievance redressal. Also, the first annual report of the consortium comprising of 51 partner NGOs working across 59 blocks of 44 most backward districts in 11 States with about one lakh families was released. The report proposes setting up of G*ram Vikas Sankuls* (Village Development Clusters) in 30 villages. It said each sankul would have a team of dedicated professionals comprising project officer, civil engineer, junior engineers, barefoot engineers, *lok*

*sewaks* and the costs of such professionals along with administrative support and capacity-building would be less than 5% of NREGA costs.

### 9.5 Summing Up

Educational sector reforms have been the highlighting feature for some time now. So also, efforts are on to spruce up the NREGA, especially in the wake of drought in the country. The disabled too are raising a voice, thus making their presence felt.

# 10. PRICE SITUATION

## 10.1 Overview[1]

Annual inflation measured by wholesale price index (WPI), after remaining in the negative zone during June-Sep 2009, turned positive in September 2009 and picked up the momentum in October 2009. The annual inflation rate in October 2009 at 1.3% was much lower than that of 11.1% during the review period of previous year (Appendix VIII). Truant monsoon experienced during the year have greater impact on the indices of essential commodities which was already reeling under double digit inflation since June 2008.

Added to this, the reported global economic recovery and the ensuing increase in demand pushed up the crude oil price to US$ 78 per barrel in October 2009 and as a consequence, the prices of all non-administered oil derivatives prices are at a very high level and may be expected to go up further in the coming months. The building up of inflationary pressures can be seen from the trend during the first seven months when the WPI has risen by 6.1%, the same level as that witnessed during the last fiscal year (Appendix IX).

Any expectation that during the remaining part of the fiscal 2009-10, the WPI will ease as experienced during the last year -March 09, will be misplaced due to the following reasons,

- During the final five months of 2008-09, the international crude oil price experienced substantial decline which was reflected in mineral oil prices also. In contrast the current year experienced substantial rise in crude oil price and portends further rise in the coming months. The effect of the increase in coal prices on October 16, 2009 is yet to be taken into account in WPI calculation.
- Kharif production of essential commodities viz., rice, wheat, sugar and pulses registered a fall, resulting upward pressures on their prices. The intended augmentation of availability of these commodities by imports may not help easing prices because the international prices of such commodities will themselves be subject to upward pressure on their prices,

[1] As per the press release by the Ministry of Commerce and Industry dated October 19, 2009, the current series of WPI (base 1993-94=100), would be released on a monthly basis instead of the present practice of weekly releases. However, a weekly price index for 'primary articles' and 'fuel, power, light and lubricants' and the constituent commodities would be compiled to facilitate weekly monitoring of these items. This review will henceforth reflect these changes.

when India, the second largest producer of such commodities, reveals their intention to import.

- It can be expected there will some easing of the prices of vegetables and edible oils. But, it cannot be expected that prices will fall to the earlier levels because of the ratchet effect, i.e., the prices of essential commodities once rose may not fall to the earlier levels.
- Hence one can optimistically expect a further upward swing in prices in the range of at least 2 to 3% and thus, the overall inflation could be in the range of 8 to 9% during the fiscal 2009-10.

**10.2 Price Trends in Essential Commodities: Unabated Increase**

Price index of main group 'primary articles' during April-October 2009 recorded a double-digit inflation of 10.2%, almost double that of 6.6% during the comparable period of the previous year. The annual inflation in food articles at 13.3% on a y-o-y basis was more than that of 9.9% recorded in the same period of last year. As against this the price rise during April-October 2009 was 14.3%.

Food grain prices has risen by 7.5% during the seven month period of current fiscal and the annual inflation was 13.3%, the price increase over the month of October has been 1.6%,due to short fall in food grains production. Paddy is estimated to be about 15 million tonnes and coarse cereals 5.5 million tonnes. Annual inflation in rice is 12.2% as compared to 11.2% last year. Government, fearing a flare up in rice price is contemplating import of rice from Vietnam and Thailand and floated tenders. The India entering the international market pushed up the international price of rice and thus government has put on hold the import of rice for the time being and is trying to import rice on a government to government level. Presently, the annual inflation in wheat has been more or less stable and the government has been taking adequate measures to keep the cropping acreage under wheat unaffected so as to maintain production of about 79 million tonnes during the rabi season. Minimum support price has been increased by the Government besides announcing a bonus of Rs. 50 over and above the MSP for rice

Annual inflation as well as increase in prices during the current fiscal so far in pulses as a whole is more than double to that recorded in the comparable period of the previous year

(Appendix IX). Annual inflation rate has been 22.8% during the year ended October 2009 as compared to 8.9% during the comparable period of the previous year and during the fiscal year so far the price increase has been two-and half times that recorded in the comparable period of previous fiscal year. Even over the month price rise of 1.5% was substantial when compared to the previous year when there was a fall in prices (Appendix IX). Production of pulses was stagnant for more than a decade. But, the per-capita consumption has reached 12 kg per year. This is the main reason for the doubling up of the price. Thus, a long-term policy for augmentation of pulses acreage and production is essential.

Price indices of Vegetables have accelerated by 58.7% during the current fiscal so far as compared to 28.5% in the comparable period of previous year. The truant monsoon in the producing areas resulted in lower production of potatoes and onion which resulted in substantial increase in their prices. But, the prices of vegetables may ease in the coming months due to seasonal decline in their prices.

Price index of fruits has experienced an increase of 7.2% during April-October 2009 as compared to 8.9% during April-October 2008. Apple prices flared up by 20.1% during the year ended October 2009 compared to a fall of 7.1% last year. Main reason for this price rise was successive years of low production. Himachal Pradesh which produces more than one-third of the apples grown in the country has seen output drop due to less snowfall in winter. The price went up nearly 5 times coupled with quality declines. The global warming is another reason for the low output since even at 5750 feet altitude the temperature has risen to 33.5 degree celesius. Moreover aging orchards, labour problems, increasing output cost also contributed to low productivity which declines from 6.46 tonnes per hectare in 2003 to 4.31 million tonnes per hectare in 2009.

Price index of condiments and spices has risen by 15.3% during April-October 2009 and the annual inflation ending October 2009 was 14.9%. Pepper prices declined by 4.1% as on October 2009 on a y-o-y basis as compared to an increase of 1.7% in the comparable period of 2008. Though pepper price during the current financial year so far witnessed an increase of 5.1%, it is expected to decline in the coming months. According to spices board, the domestic crop size this year will be 53000-55000 tonnes with Karnataka leading with a total production of 25,000-27,000 tonnes. Rise in turmeric price during the year ending October 2009 and during the

current fiscal so far was more than 98%. Over the month price increase has been 7.2% as compared to a decline of 1.6% in the comparable period of October 2008.Turmeric production is dwindling in Andhra, the main producing state. The price of stick variety touched Rs 12809 per quintal and bulb variety is Rs 12600 per quintal.

Tea prices rose 35.2% during April-October 2009 as compared to 64.8% in the comparable period of 2008. Significant shortfall in tea supply on the face of shortfall in production coupled with increasing demand pushed up the price. India experienced a short fall of 64 million tonnes to 604 million tonnes during the year.

### 10.3 Price Index of Raw Materials Declines

Non-food articles and minerals under primary articles group represents main industrial raw materials such as fibres, oilseeds, sugarcane, raw rubber, log and wood and minerals. Increase in non-food articles index at 4.8% during April-October 2009 was almost the same as that in last year.

Fibres registered decline of 7.6% in their price index with over the month decline of 1.1%. Raw cotton prices during the year ending October registered a decline of 0.8% with over the month decline of 1.5%. Significant in acreage and at the same time substantial increase in the yield due to usage of BT variety of cotton ( yield increased from 299 kg per hectare to 537 kg per hectare i.e. an increase of 80% kept the price on a downswing.

Price increase in oilseeds was marginal during the year ending October 2009, though over the month oilseeds price experienced a decline of 2.3% in spite of a fall in sowing area by 5.2% to 17.5 million hectares. All oilseeds, viz., groundnut, rape seed and mustard seed, cotton seed, copra, gingerly seed, castor seed, sunflower and soyabean registered declines during October 2009 (Appendix IX). Production of oilseeds witnessed a fall of 5% during the current year from 13.7 million tonnes to 13.1 million tonnes.

Decline in exports of iron ore especially to China may be one of the reasons for fall in price index of iron ore which declined by 18.8% during the first 7 months of current fiscal as compared to a decline of 8.7% in the comparable period of previous year. However, its price

increased over the month in October 2009 due to internal and export demand pushing up the price.

### 10.4 Prices of Fuel, Power, Light and Lubricants: Reversing to Higher Levels

The annual inflation in fuel, power, light and lubricants registered a fall of 6.6% as compared to an increase of 14.1% during the comparable period of previous year mainly due to fall in the price index of mineral oils. However, the international crude reached $78 per barrel in October and the current indicators are it will go up further with global economic recovery gathering momentum; this will have positive impact on the prices of non-administered variant of crude oil in the coming months. The increase in their price during the current fiscal was substantial (Appendix IX).

### 10.5 Price Trend in Manufactured Products: Gathering Momentum

Marginal increase of 1.4% has been witnessed during the year and the fiscal so far the increase was 3.0%, less by 1% to that recorded during April-October 2008. Main contributor for the price rise was ghee and sugar though there has been fall in the prices of edible oils.

Sugar prices flared up by 45% during the year ending October 2009 with one- third rise occurring between April-October 2009. There is an estimated short fall in sugar production of 7 million tonnes during the year. This shortfall has been attributed to the cyclical nature of cane crop. Retail price of sugar currently was Rs 38-40 per kg. up 50% from a year ago. India is the second largest producer next to Brazil, but it is also the largest consumer. Moreover, cane growers are increasingly switching over to rice or wheat, due to better support prices.

Prices of edible oils are on a downswing with annual inflation and during the fiscal so far recording declines. This is mainly because of the double digit fall in rape seed and mustard oil which has the largest weight out of the nine edible oils which find place in the calculation of total edible oils.

Price of cement is softening because of enhanced production due to capacity and actual production. An estimated 75 million tonnes of capacity is expected to be added in 2009-10 on the back of about 29 million tonnes added during last year.

## 10.6 Trends in Consumer Price Indices: Sustaining Increase

The sustained high level of whole sale prices food items kept increases of all the four consumer price indices at double digit level. Thus, the various measures of consumer price inflation remained high in the range of 11.6-13.2% during September 2009 as compared to 9.5-11.0% in September 2008 and 8.0 - 9.7% in March 2009 (Table 10.1).

**Table 10.1: All-India Consumer Price Indices**

| | CPI-IW (Base: 2001=100) | | | | CPI-UNME (Base: 1984-85=100) | | | | CPI-AL (Base: 1986-87=100) | | | | CPI-RL (Base: 1986-87=100) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009-10 | | 2008-09 | | 2009-10 | | 2008-09 | | 2009-10 | | 2008-09 | | 2009-10 | | 2008-09 | |
| Apr | 150 | 8.7 | 138 | 7.8 | 583 | 8.8 | 536 | 7.0 | 468 | 9.1 | 429 | 8.9 | 468 | 9.1 | 429 | 8.6 |
| May | 151 | 8.6 | 139 | 7.8 | 589 | 9.7 | 537 | 6.8 | 475 | 10.5 | 430 | 8.9 | 475 | 10.5 | 430 | 8.6 |
| Jun | 153 | 9.3 | 140 | 7.7 | 595 | 9.6 | 543 | 7.3 | 484 | 11.5 | 434 | 8.8 | 484 | 11.3 | 435 | 8.8 |
| Jul | 160 | 11.9 | 143 | 8.3 | 624 | 13.0 | 552 | 7.4 | 499 | 12.9 | 442 | 9.9 | 498 | 12.7 | 442 | 9.7 |
| Aug | 162 | 11.7 | 145 | 9.0 | 631 | 12.9 | 559 | 8.5 | 507 | 12.7 | 450 | 10.3 | 508 | 12.9 | 450 | 10.3 |
| Sep | 163 | 11.6 | 146 | 9.8 | | | 565 | 9.5 | 515 | 13.2 | 455 | 11.0 | 514 | 13.0 | 455 | 11.0 |
| Oct | | | 148 | 11.2 | | | 574 | 10.4 | | | 459 | 11.1 | | | 459 | 11.1 |
| Nov | | | 148 | 10.4 | | | 575 | 10.8 | | | 460 | 11.1 | | | 460 | 11.1 |
| Dec | | | 147 | 9.7 | | | 569 | 9.8 | | | 459 | 11.1 | | | 459 | 11.1 |
| Jan | | | 148 | 10.4 | | | 574 | 10.4 | | | 461 | 11.6 | | | 461 | 11.4 |
| Feb | | | 148 | 9.6 | | | 575 | 9.9 | | | 462 | 10.8 | | | 462 | 10.8 |
| Mar | | | 148 | 8.0 | | | 577 | 9.3 | | | 463 | 9.5 | | | 464 | 9.7 |

Source: Labour Bureau

CPI inflation has been significantly divergent from the WPI inflation in the recent period and of late, there has been a greater divergence. This divergence can be attributed to the higher weight in CPIs of food items, which have displayed unduly high inflation levels in recent months.

CPI-AL and CPI-RL, which have got a weight of 69.2% and 66.8% respectively for food items, reflected higher inflationary pressures than that displayed by CPI-IW which has got a weight of only 46.2% for food items. But, the trend in CPI-IW food index was much more than that measured by CPI-AL and CPI-RL food indices because CPI-IW basket is mainly confined to urban areas. Thus, the comparatively larger increase in the CPI-AL and CPI-RL as compared to CPI-IW is due to the price rise in fuel and light and clothing and bedding, which command a higher weight than CPI-IW.

The recent spike in the overall increase in the CPI-IW is mainly due to the increase in housing prices which does not find place in CPI-AL and CPI-RL. CPI-IW for housing flared up

by 22.1% in July 2009 on account of revision of imputed rent for rent free accommodation, reflecting partly the impact of the sixth pay commission award on CPI inflation. As housing index is compiled once in every six months, i.e., January and July, the index remain at an elevated level for some time. (Appendix X)

### 10.7 Global Inflation: In the Negative Zone

The significant moderation in global inflation consequent to the global crisis in 2008-09, continued in 2009-10, with several advanced economies experiencing negative inflation due to sharp fall in commodity prices since second half of 2008-09 and the continued impact of recession (Table 10.2)

**Table 10.2: Global Inflation**

*October*

| Country | 2009 | 2008 | Country | 2009 | 2008 | Country | 2009 | 2008 | Country | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Low &Middle Income Economies | | | | | | High Income Countries | | | | | |
| China | -0.8 | 4.6 | Taiwan | -1.8 | 2.4 | United States* | -1.3 | 4.9 | Spain | -0.6 | 3.6 |
| Czech Rep. | -0.2 | 6.0 | Thailand | 0.4 | 3.9 | Japan* | -2.2 | 2.1 | Denmark | 1.0 | 3.7 |
| Hungary* | 4.9 | 5.7 | Argentina* | 6.2 | 8.7 | Britain* | 1.1 | 5.2 | Norway* | 1.2 | 5.3 |
| Poland* | 3.4 | 4.5 | Brazil* | 4.3 | 6.7 | Canada* | -0.9 | 3.4 | Sweden | -1.5 | 4.0 |
| Russia | 9.7 | 14.2 | Chile | -1.9 | 9.9 | Austria* | 0.1 | 3.8 | Switzerland | -0.8 | 2.6 |
| Turkey | 5.1 | 12.0 | Colombia | 2.7 | 3.2 | Belgium | -1.0 | 4.7 | AustraliaQ3 | 1.3 | 5.0 |
| India* | 11.6 | 9.8 | Mexico | 4.5 | 5.8 | France* | -0.1 | 3.0 | Hong Kong* | 0.5 | 3.1 |
| Indonesia | 2.6 | 11.8 | Venezuela | 28.9 | 35.6 | Germany | 0 | 2.4 | Singapore* | -0.4 | 6.7 |
| Malaysia* | -2.0 | 8.2 | Egypt | 13.3 | 20.2 | Greece | 1.2 | 3.9 | Israel* | 2.8 | 5.5 |
| Pakistan | 8.9 | 25.0 | South Africa* | 6.1 | 13.1 | Italy | 0.3 | 3.5 | Saudi Arabia* | 4.4 | 10.4 |
| South Korea | 2.0 | 4.8 | | | | Netherlands | 0.7 | 2.8 | | | |

* data for September

Source : Economist

The consumer price inflation in OECD countries, which had consistently declined turned negative in recent months. Amongst major economies, the USA, Japan, and Euro experienced negative rates and in Britain it is consistently on the declining path. Major factors that contributed to the disinflation process include sharp decline in oil prices from its record level in June 2008 and large downward corrections in food and metals prices, lower transportation costs and industrial slackness.

China, Czech rep, Malaysia, Taiwan and Chile were experiencing disinflation.

Many Latin American countries were able to reduce their consumer price inflation to half to that recorded last year.

Except India, all other Asian countries are able to reduce their inflation rates below to that recorded in the previous year.

### 10.8 Summing Up

Annual inflation measured by WPI is gathering momentum. The vagaries of monsoon pushed up food prices further. However, Industrial raw material prices were stable or declined. Sugar prices doubled over the year. Rice import postponed for the time being as international prices are very high and government is contemplating a government to government transaction where prices will be much less as compared to market tenders. Inflation measured by all CPI is very high. Although food index have its say in their magnitude, it is housing index which rose more than 22% and pushed up CPI-IW inflation since July 2009. The food inflation in case of CPI-AL and CPI-RL were comparatively lower than that in CPI-IW in spite of the weight of food index in CPI-AL and RL are more than 60%. In the recent months, CPI-AL and RL trend were also influenced to a greater extent by fuel & light and clothing and bedding indices.

# 11. MONETARY AND BANKING TRENDS

## 11.1 Overview

The sluggishness in bank credit remains a matter of concern even though the industrial sector is persistently showing a recovery. The banking sector is expected to play a major role in improving the growth of bank credit. The challenge for the Reserve Bank is to support the recovery process without compromising on price stability. RBI has sensibly factored in concern of strain in exports, slowdown in private consumption demand, and bearish investment sentimental among small and medium enterprises. By hiking the SLR to 25.0%, RBI has probably taken the first step towards reversing accommodative monetary policy.

## 11.2 Second Quarter Review of Monetary Policy

Second Quarter Review of Monetary Policy for 2009-10 is a set against the backdrop of initial signs of recovery in the global economy and improving prospects for the domestic economy.

Dr. D. Subbarao, Governor, RBI, announced the second quarter review of monetary policy on 28$^{th}$ October 2009. The RBI has not changed the key rates of interest or the cash reserve ratio. It has left most of the benchmark rates unchanged, except for the statutory liquidity ratio (SLR), which it has raised marginally from 24.0% to 25.0%.

The stance of monetary policy for the remaining period of 2009-10 is as follows:

- Keep a vigil on the trends in inflation and be prepared to respond swiftly and effectively through policy adjustments to stabilise inflation expectations.
- Observe the liquidity situation closely and manage it actively to ensure that credit demands of productive sectors are adequately met while also securing price stability and financial stability.
- Maintain a monetary and interest rate regime consistent with price stability and financial stability, and supportive of the growth process.

*Monetary Projection*

Considering, the borrowing requirement of the government and of the commercial sector in the remaining period of 2009-10, the reasonable projection of money supply growth of 18.0% set out in July 2009 is revised downwards to 17.0%. Aggregate deposits of scheduled commercial banks are projected to grow by 18.0% against 19.0% estimated in the first quarter review of monetary policy. The growth in adjusted non-food credit, including investment in bonds/debentures/shares of public sector undertakings and private corporate sector and CPs, is also revised downwards to 18.0% from 20.0% set out in the Annual Policy Statement and the First Quarter Review off 2009-10. Banks are advised once again to step up their efforts towards credit expansion while preserving credit quality, which is vital for revival of growth, (Table 1.1).

**Table 11.1: Monetary Projections 2009-10**

*in %*

| | Second Quarterly Review | First Quarterly Review |
|---|---|---|
| $M_3$ | 17.0 | 18.0 |
| Aggregate Deposits | 18.0 | 19.0 |
| Non-food credit | 18.0 | 20.0 |

Source: RBI, Second Quarter Review of Monetary Policy for the Year 2009-10

*Arguments for Beginning the Reversal of Monetary Policy*

1. Concern about the inflation is the most dominant argument for reversing monetary policy. Even though the current inflationary pressures are driven by food prices, they can strengthen expectations of higher inflation and lead to generalise inflation.
2. Forceful arguments for early reversal of monetary policy also arise from liquidity concerns. From the liquidity aspect, it is argued that the current large overhang of liquidity could engender inflation expectation even if credit demand remains subdued.

*Arguments for Deferring Reversal of Monetary Easing*

1. The dominant argument for continuing with the current monetary stance is that the recovery is as yet weak. Exports are still on the decline and the recent improvement in industrial production overstates the recovery as part of it is due to the base effect and the one time impact of restocking inventory. Premature tightening will hurt the growth impulses. On the other hand, it is imperative to continue with the accommodative stance to compensate for the decline in agricultural output and till there is firm evidence of sustained global recovery.

2. The argument against an immediate reversal of monetary easing is that the current inflationary pressures are driven by supply side constraints, particularly food prices. Monetary policy is not an efficient instrument for reining in food price inflation.
3. Any reversal at this stage will harden yields on government bonds putting upward pressure on interest rates and dampening both consumption and investment demand. This could seriously loosen the early recovery.

### 11.3 Trends in Money Supply

The money supply numbers for the financial year so far, up to October 23, 2009, has shown somewhat a lower increase of 8.2% as against a growth of 8.5% for the corresponding period last year. The slowdown in $M_3$ has been reflected after a gap of six months for the current fiscal year; however, availability of surplus liquidity in the system was evident. Moderation in money supply was reflected due to some moderation in aggregate deposits for the period under review. Currency with public has shown an increase of Rs 46,641 crore as against Rs 42,450 crore for the comparable period a year ago. A higher growth in cash in hand with public was mainly due to festive season during this period as well as a month earlier.

Among the sources side, net bank credit to government has shown a rise of 13.7% as compared to a growth of 10.1% for the comparable period a year ago. For the financial year ending March 31, 2010, the central government has already completed about 82.0% of the full-year borrowing plan. With the persistence of deceleration in bank credit to the commercial sector and the Reserve Bank's liquidity augmenting measures created space for market absorption of the large government-borrowing programme. Bank credit to commercial sector continued to register a lower growth of 2.3% as compared to a rise of 3.3% for the corresponding period in 2008-09; the flow of resources from non-bank sources to the commercial sector during 2009-10 so far has been marginally higher than the corresponding period of the previous year. Anticipating interest rates to go up, companies drawing up expansion plans are now tapping non-bank sources such as commercial papers and IPO's, these funds sources are cheaper than borrowing from banks account for about 70% of India Inc's long term fund requirement. During the peak of the crisis, it was noted that the flow of resources to the commercial sector from both bank and non-bank sources had contracted. While bank credit continues to decelerate as

indicated earlier, there has been a turnaround in financing from non-bank sources. The resource flow from non-bank sources increased in Q2 of 2009-10 with increase in foreign direct investment, pick-up in primary issues, increased support from insurance companies, and large investment by mutual funds in non-gilt debt instruments.

Net foreign exchange assets of banking sector declined by 0.3% as compared to a rise of 0.7% for the month under comparison in the previous year, as liquidity flows from FII's had turned irregular during this period. On a y-o-y basis, $M_3$ posted decelerated growth of 18.3% as against a growth of 20.5%, whereas, net bank credit to government registered a significant growth of 46.6% as against a growth of 16.8% a year ago. Bank credit to commercial sector continued to be sluggish on y-o-y basis, (Appendix XI.)

### 11.4 Banking Trends

For the month ending October, 23, 2009, aggregate deposits has shown a deceleration of 0.8% as against 1.4% for the comparable month last year, as banks had shed their high-cost deposits. Even though there is some deceleration in deposits growth, excess liquidity within the banking system remains high. Surplus liquidity as measured by funds parked in reverse repo, market stabilisation bonds (MSS) and central government's surplus with the RBI is estimated to be over $30 billion. Investment by banks (mostly in government securities) registered a negative growth of 1.4% against an increase of 7.2% registered for the corresponding month of last year. The economic slowdown is having an adverse impact on credit pick-up. Despite being the beginning of the 'busy season', bank credit declined to 0.2% as compared to a rise of 2.5% for the comparable month a year ago. In the preceding fortnight, bank credit was up by Rs 17,161 crore because of surplus liquidity of over Rs 1 lakh crore parked by banks collectively with the RBI, banks had no choice but to deploy funds with the RBI, in the absence of credit appetite from India Incorporations. Banks had pushed credit in September ahead of the half-yearly closing. Now, with the beginning of the new quarter, growth has again slacked. Even though most of the banks have sanctioned huge amount of funds, availing of loans has not been very good. Food credit registered a growth of 3.4% as against a growth of 10.8% for the corresponding period a year ago, however, the growth in agricultural sector continued to be high. Non-food credit has shown a lower growth of 3.8% as against 10.8% for the corresponding

period a year ago, one reason for low bank credit is the lower demands of funds from oil and fertiliser companies. (Appendix XII)

**Table 11.2: Credit Flow from Scheduled Commercial Banks**

| | Y-o-Y Variation *(%)* | |
|---|---|---|
| | Oct 09 ,2009 | Oct 10,2008 |
| Public Sector Banks | 15.3 | 32.7 |
| Foreign Banks | -15.9 | 32.9 |
| Private Banks | 2.5 | 19.7 |
| All Scheduled Commercial Banks* | 10.8 | 29.5 |

* - Including regional rural banks

Source: RBI

Banks have reined in credit to the retail sector due to the perceived increased risk on account of the general slowdown. This credit retrenchment was more pronounced in the case of foreign banks and private banks. This is evident from bank group-wise analysis, which shows that credit from private banks slowed down sharply, while that from foreign banks actually contracted. Thus, despite ample liquidity in the system, non-food bank credit expansion slowed down. The expansion of credit from the public sector banks has also moderated to some extent, (Table 11.2).

For the financial year so far, aggregate deposits growth has shown a deceleration to 8.3% against 9.1% for the corresponding period a year ago. Of which, growth in demand deposits registered a positive growth of 2.3% against a decrease of 11.5% for the corresponding period last year, due to revival in stock markets, economic activity, fall in term deposits rates as well as sectors such as gems and jewellery are seeing a moderate revival. The growth in time deposits posted a lower growth of 9.3% against 13.2% for the financial year 2008-09, mainly due to falling deposits' rates; individuals are looking for other investment opportunities instead of parking funds in fixed deposits. Investment growth has almost doubled at 16.0% as against a growth of 8.6% for the corresponding period a year ago. Bank credit continued to post a lower growth of 3.4% as compared to 10.8% for the financial year 2008-09. One of the reasons for lower credit growth - easier access to alternate sources of funding such as overseas loans and equity markets-amidst in improvement in global credit markets. Companies have also raised a substantial amount through qualified institutional buyers.

On y-o-y basis, aggregate deposits have increased at 19.0% as against a growth of 21.1% a year ago. Over the last 12 months, India's banking sector has seen a sharp adjustment in credit cycle after a big boom during the period from 2004 to 2007. Credit demand has decelerated significantly to a 12-year low of 9.7% y-o-y as of October 23, 2009, compared to 29.1% last year. The y-o-y data remains a bit distorted. Last year, credit crisis had resulted in a shift in

borrowing from fixed income mutual funds and non-banking financial companies to banks pushing credit growth to close to 30% y-o-y as of November 28, 2008, four percentage points up from September 2008. This high base effect will distort y-o-y credit growth data till the end of November 2009. The only cause for concern with the rising divergence between deposits and advances growth is that the investments in government securities (government-securities) are piling up. Obviously, when banks are not able to lend much, the deposits find their way in government-securities. Investment has reflected a growth of 28.2% as compared to a growth of 11.5% last year, (Appendix XIII). As per data at a disaggregated level drawn from 49 banks accounting for 95.0% of total bank credit, the y-o-y growth in bank credit to industry as of August 2009 was lower than that in the previous year.

*Other Developments*

The government has parked Rs 61,343 crore of idle money in its account with the Reserve Bank of India. The idle money with RBI rose from Rs 12,837 crore in June 2009 to Rs 80,775 crore by end-September, and has been ruling over Rs 60,000 crore since then. The intent of maintaining such surplus appears to help the central bank manage a huge liquidity overhang looming in the system.

The RBI raised objections to the buy and sell options of non-convertible debentures within a short period of issuances and said that such option should not be exercised before the 90-day lock-in for non-convertible debentures.

The RBI has brought Collaterised Borrowing & Lending Obligations (CBLOs) of the Banks under the net of Cash Reserve requirements with effect from November 21, 2009.

The RBI has increased the provisioning requirement for the bank lending to real estate sector from 0.4% to 1.0%, which indicates that banks will have to keep aside one rupee for every Rs100 lent to commercial real estate against the current 40 paise. This will result in increase in the loan pricing to commercial real estate projects and thereby increase the borrowing costs for over-leveraged real estate players.

Banks are also advised to enhance their provisioning coverage to 70% including floating provisions. The hike in provisioning for NPAs will negatively impact the banks having low

provision coverage ratio as they have to take a hit in their bottom-line in the coming quarters by increasing the provisioning.

RBI has guided that the risk weights on bank lending to Infra NBFCs will be directly related to the respective NBFC rating. Thus, these NBFCs with low credit ratings will have to face increased borrowing costs. Also, RBI has discontinued with immediate effect the special refinance facility for banks and has also discontinued the special repo term facility for banks to lend to Mutual Funds, NBFCs and HFCs.

### 11.5 Government's stake to increase in Public Sector Banks (PSBs)

Recently, the government held discussions with all the public sector banks on their capital requirements and growth plans for the next 3-5 years and preferred mode of capital infusion. Bank of Baroda (BoB), Oriental Bank of Commerce (OBC) and Dena Bank preferred a direct capital infusion since their capital base is relatively low compared to their peers. BoB has asked for capital infusion of Rs 5,000 crore to Rs 6,000 crore while OBC and Dena Bank have asked for Rs 1,000 crore each. If the government meets these requirements, its stake in BoB will increase to 64% from 54% and to nearly 60% for both OBC and Dena from 51.1% and 51.2%, respectively.

The government is planning to increase its stake in these banks in order to give them headroom to raise equity capital through public issues, which would have the effect of diluting the government's holding in future. Since the government's holding in public sector banks cannot fall below 51% these three banks do not have such headroom currently.

Most other banks in their presentations have asked for perpetual non-cumulative preference shares, since pure equity will expand their paid up capital and lower earnings per share.

**Table 11.3: Bank-wise Paid-up Capital**

| Bank Name | Paid up Capital *(Rs Crore)* | Government Stake *(in %)* |
|---|---|---|
| Bank of Baroda | 365.5 | 53.81 |
| Oriental Bank of Commerce | 248.15 | 51.1 |
| Dena Bank | 68.8 | 51.19 |

Source: Business Standard, October 13, 2009.

The paid-up capital of OBC and Dena Bank is among the lowest in the industry at Rs 250 crore and Rs 287 crore. The price at which the

government will buy the shares will be decided on the basis of the norms set by the Securities and Exchange Board of India (SEBI). For Rs 5,000 crore capital infusion, BoB will have to issue 100 million equity shares of a face value of Rs 10, assuming that the government buys the share at Rs 500 each.

The government has indicated that it may complete the capital infusion process by the end of December or early January, assuming funds from the World Bank for bank capitalisation comes in the month of November. Recently, the World Bank has granted a $2 billion loan for banks capitalisation in India.

### 11.6 Banks' Home Loan Subsidiaries

Most of the public sector banks with separate home loan subsidiaries have exited or are in the process of exiting the business to avoid duplication as they themselves offer home loans. In May, Punjab National Bank sold 26% in its home finance subsidiary, PNB Housing Finance, to Dawnay Day, with an option to sell another 25%.

Similarly, IDBI Bank is also planning to sell its home loan subsidiary. Recently, the finance ministry has asked IDBI Bank to consider other option instead of selling its mortgage finance arm, IDBI Home Finance (IHFL). The finance ministry has suggested the option of merging IHFL with IDBI Bank and periodically purchases the portfolio of IHFL to free capital for further business.

Central Bank of India has started restructuring its home finance subsidiary, Centbank Home Finance, in an attempt to raise the valuation of the mortgage company before selling it. At present, Central Bank has a 59.5% stake in the subsidiary while UTI and National Housing Bank have 16% each. The remaining 8.5% is held by Hudco. As per the plan, the bank will first buy the shares from other shareholders in the home finance arm and has proposed to sell the subsidiary in the next two years.

### 11.7 Development and Regulatory Measures

The RBI may widen the scope of the 'Business Correspondence' (BC) model for providing banking and financial services to the unbanked after obtaining feedback from banks.

However, the central bank has made it clear that it is not in favour of fixing a ceiling on interest charged on micro lending. The RBI had posted on its website, draft guidelines for BCs in August 2009. The BCs were allowed to conduct banking business as agents of the banks at places other than the bank premises. These included intermediaries such as, NGOs/Farmers Club, co-operatives, community based organizations, post offices, insurance agents, among others, besides micro-finance institutions.

The RBI is likely to come up with capital adequacy norms for bank-sponsored venture capital (VC) firms to prevent reputational risk to their promoters as well as RBI wants banks to re-brand their VC funds in a manner that they appear as subsidiaries and not a part of the bank. Investment in VCs comes under the bank's capital market exposure that cannot exceed 40% of its net worth. Acc. to RBI, within this overall ceiling, a bank's direct investments in VCs, both registered and unregistered, should not exceed 20% of its net worth.

The RBI committee on reviewing the benchmark prime lending rate (BPLR) has recommended that the BPLR system should be replaced with a base rate mechanism to introduce greater transparency in pricing of loans given by banks. At present, banks fix interest rates on loans with reference to BPLR. Under the proposed mechanism, all banks will be required to declare a base rate and charge interest rate over that depending on the credit profile of the borrower and repayment period. The base rate would be linked to one-year term deposit rate and also factor in the negative carry of cash reserve ratio (CRR) and statutory liquidity ratio (SLR). Under the proposed mechanism, the borrowers will be charged base rate plus the borrower-specific charges that would include operating costs, credit risk premium and tenure premium.

In order to make the whole process more transparent, the committee has suggested that banks must announce base rate every quarter with the approval of their respective boards along with minimum and maximum lending rates. The committee has also suggested that only four categories of loans should be kept out of the purview of the base rate mechanism.

*New Companies Bill 2008*

The RBI has sought exemption from the provisions of the new Company Bill 2008 following its strong conflict with the Banking Regulation Act 1947. Private Banks are governed and regulated by RBI under the Banking Regulation Act even as they are registered as companies under the Companies Act before receiving banking licences from the central bank.

According to the sources close to the development, the new Company Bill has not made any specific provisions for banks as was the case in the erstwhile Companies Act 1956. Since it will have serious implications for treatment of bank balance sheets, among other things, RBI has asked for the inclusion of a provision like the Section 616 of the Companies Act 1956. To this effect, it has written a letter to the Ministry of Finance explaining this issue. Section 616 of the Companies Act 1956 used to accord special exemption to banking companies from the provisions of the Companies Act, which, however, has been dispensed with in the new Bill. Among the major items which may get affected without a suitable amendment to the Companies Bill is the preparation of bank balance sheets.

### 11.8 Acquisitions and Other Highlights

The merger of State Bank of India (SBI) with its one of the subsidiary State Bank of Indore (SBIN) is likely to be completed by March 2010. The board of directors of SBIN has approved the scheme of acquisition by SBI under Section 35 of the SBI Act, 1955. The merger swap ratio has been set at 34 shares of SBI for every 100 shares of State Bank of Indore.

SIDBI is in talks to acquire a 5-10% stake in Punjab & Sindh Bank as part of a private placement deal ahead of the latter's initial public offering (IPO) next year. Interestingly, SIDBI earlier had offered to acquire up 30% stake in the bank but the banking regulator, RBI had rejected the proposal as it was not comfortable with the idea of such a high holding by a bank in another bank. As per the RBI norms, there is a restriction on companies or any other entities from buying more than 10% equity in banks. And for entities to pick up more than 10% stake, a special approval from the RBI is required.

Nabard has reduced its interest rates on refinance for investment credit by 0.5% for lending made by various rural financial institutions (RFIs). The revised interest rates will be 8% for commercial banks and 7.5% for co-operative and regional rural banks, with effect from November 3. A special relaxation of 0.5% has been extended for the eastern and north-eastern regions, Andaman & Nicobar Islands and Lakshadweep in respect of financing made by commercial banks. The reduction has been done keeping in view the money-market condition, the macro-economic scenario and the need for promoting capital formation in rural areas.

### 11.9 Summing Up

With the industrial production growth showing buoyancy, increased capacity utilisation will mean higher investments by the corporate sector, which is likely to help revive supporting the credit growth. Some moderation in both money supply and aggregate deposits has been reflected for the period under review. RBI has maintained its accommodative stance in the policy and has indicated the need to move towards tightened monetary regime by increasing the SLR requirement by 100 bps to 25.0%. Inflation more than doubled in a month to 1.34% in October despite cheaper food prices, would strengthen the case for Reserve Bank to tighten money supply. Strong showing by the industry in September has already added fuel to the debate for withdrawing fiscal stimulus. The sluggish credit off-take this fiscal year will make difficult for banks to meet RBI's revised credit off-take target of 18.0%. To attain the projected growth of 18.0%, banks will need to expand credit in the remaining part of the year, which will be difficult unless demand for retail credit accelerates. Real demand needs to pick up in non-metro and rural markets, which are crucial to sustain overall growth for the manufacturing industry.

The RBI committee on reviewing the benchmark prime lending rate (BPLR) has recommended that the BPLR system should be replaced with a base rate mechanism to introduce greater transparency in pricing of loans given by banks.

The RBI has sought exemption from the provisions of the new Company Bill 2008 following its strong conflict with the Banking Regulation Act 1947.

# 12. FINANCIAL MARKETS

## 12.1 Overview

The financial markets in October witnessed negative trends over the previous month following signals of policy tightening in the Second Quarter Review of Monetary Policy 2009-10 from RBI and the profit booking by investors on weak global cues. The intermediate uptrend which had started in mid August is now reflecting a pause as the indices ended lower and dropped below the ascending trend line. But, the Samvat 2065 (the year according to the traditional Hindu calendar) has proved to be quite prosperous for equity investors as it has given the highest returns for any such years in recent times. The BSE Sensex ended Samvat 2065 with a gain of 8,813 points, or 104%, at 17,323 over Samvat 2064.

During the month of October there were liquidity inflows into the banking system of the order of Rs 37,300 crore, when compared to an outflow of Rs 1, 30,500 crore in September. The money market in general remained easy throughout October and the rates remained flat or eased across instruments. Continued central and state government borrowings combined with discontinuation of OMO auctions calendar for purchases of securities by the Reserve Bank have led to up- tick in yields as cut-off prices of the government securities have declined in the auctions during the month.

The US dollar remained strong against most of the major currencies during October. However, the rupee strengthened against dollar during the month as in the previous month, mainly due to the continued inflow of foreign institutional investors (FII) investments. A tremendous growth in the trading activity in the currency futures market was also witnessed during the month.

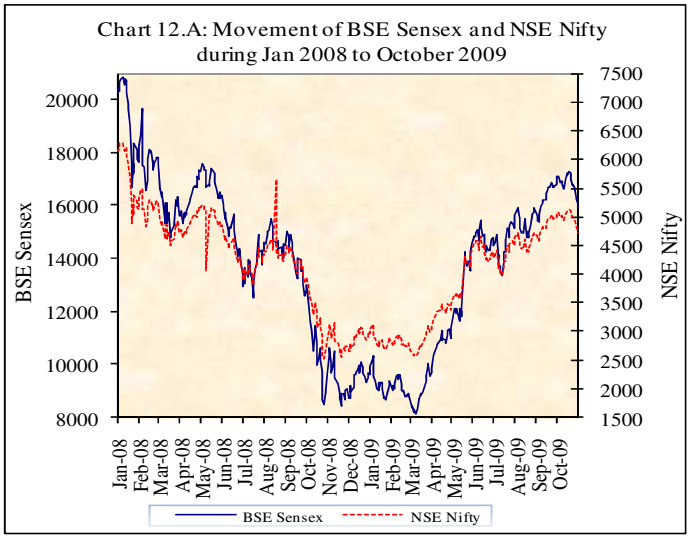
## 12.2 Trends in the Equity Market

*i) Primary Market*

The month had seen two companies tapping the capital market through initial public offerings (IPOs) garnering Rs 2,168 crore against previous month's Rs 3,388 crore (Table 12.1).

| Table 12.1: Primary Issues in the Month of October 2009 | | | | |
|---|---|---|---|---|
| Name | Date of Issuance | | Offer Price | Issue Size |
| | Opening | Closing | *(in Rs)* | *(in Rs crore)* |
| Indiabulls Power Limited | 12-Oct-09 | 15-Oct-09 | 40-45 | 1758 |
| Den Networks Limited | 28-Oct-09 | 30-Oct-09 | 195-205 | 410 |
| Total | | | | 2168 |
| Source: *Various media sources.* | | | | |

*ii) Secondary Market*




A sell-off in telecom stocks on concerns over declining tariffs and rising competition dragged the market lower during the beginning of the month. A liberal 1:1 bonus issue by Sensex heavyweight Reliance Industries failed to lift investor sentiment. But, the market recouped most of the earlier losses during the middle of the month and crossed the psychological levels of 17,000 for the BSE Sensex and 5,000 for the NSE Nifty responding to the news of a probable patch-up between the two Ambani brothers and a surprisingly strong industrial production numbers (IIP). Strong global markets also lifted the sentiments of investors as the US Dow Jones index crossed the vital 10,000-mark. The Samvat year 2066 started on a positive note on the bourses on 17 October as the BSE Sensex opened over 170 points higher but pared its gains on profit-taking and closed at 17,267 points, registering a loss of 56 points on Muhurat trading day. But, the post Diwali trading for indices proved to be worse as the market has entered a correction phase after touching a new 17-month high with fall in global stocks triggered profit taking on the domestic bourses. The concerns over the expected increase in interest rates, tightening liquidity and higher inflation impelled selling especially after the monetary policy on 27 October. A hectic stock-specific activity was witnessed as the second quarter earnings reporting season was at its peak. The BSE Sensex fell below the psychological 16,000-mark. Overall, the stock indices in October witnessed a negative growth of 7% each over the previous month and logged their

biggest monthly fall in a year, with BSE Sensex closing at 15,896 and NSE Nifty closing at 4,712 in 30 October (Chart 12 A).

Sectoral Indices

All the sectoral indices of BSE, have recorded negative growth over the previous month with Realty and TECk being the highest losers witnessing a double-digit loss of 15% and 12%, respectively. Other indices also followed the same trends as major BSE indices registered around 7% loss. Banking and Realty stocks vanished due to the negative fallout of RBI's monetary measures. FMCg was the only index to perform well during October which recorded a profit of 9% over September though it was an underperformer in September compared to other indices.

Likewise, all the Nifty indices have registered negative returns with most of the indices recording around 6% fall over the month. Midcap-50, Nifty 100, Nifty 500, Defty and Bank Nifty recorded a considerable reduction of 6.2%, 6.6%, 6.5%, 5.3% and 4.2%, respectively over the previous month against the Nifty loss of 7.3% (XIV)

Price-to-Earnings (P/E) Ratio and Market Turnover

PE ratios of BSE Sensex and NSE Nifty changed to 21.6 and 22.3 in October 2009 from 21.2 and 31.9, respectively during September.

**Table 12.2: Market Turnover** (*Amount in Rs crore)*

| Year/ Month | BSE | | | | NSE | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Turnover | Average Daily Turnover | Market Capitalisation * | P/E Ratio (Sensex based 30 scrips) | Total Turnover | Average Daily Turnover | Market Capitalisation * | P/E Ratio (S&P CNX Nifty) |
| 2008-09# | 1100074 | 4383 | 3086076 | 13.2 | 1822104 | 12566 | 2820388 | 20.0 |
| 2009-10# | 876212 | 6127 | 5374559 | 18.9 | 2287846 | 18484 | 5024830 | 19.6 |
| Apr-09 | 88943 | 5232 | 3586979 | 15.2 | 266696 | 15688 | 3375025 | 15.9 |
| May-09 | 128542 | 6427 | 4865046 | 17.9 | 382561 | 19128 | 4564572 | 18.7 |
| Jun-09 | 159195 | 7236 | 4749935 | 19.8 | 482414 | 21928 | 4432596 | 20.2 |
| Jul-09 | 138986 | 6043 | 5139943 | 19.1 | 426143 | 18528 | 4816459 | 19.8 |
| Aug-09 | 122319 | 5825 | 5285658 | 20.1 | 364969 | 17379 | 4975800 | 20.5 |
| Sep-09 | 124220 | 6211 | 5708338 | 21.2 | 365063 | 18253 | 5353880 | 21.9 |
| Oct-09 | 114007 | 5700 | 5374559 | 21.6 | 362969 | 18148 | 5024830 | 22.3 |

* At the end of the period. # April to October 2009.
Source: *NSE and BSE websites*

The secondary market turnover on NSE has marginally decreased to Rs 3,62,969 crore in October from Rs 3,65,063 crore in September; similarly, in BSE the total turnover reduced to Rs 1,14,007 crore from Rs 1,24,220 crore during the same period. Likewise, the average daily turnover has declined in both the exchanges over the previous month to 8% and 1%, respectively (Table 12.2).

Major Developments

- Analysis of Funds Raised Through IPO

  The Ministry of Corporate Affairs (MCA) has decided to conduct a quarterly scrutiny of the end use of funds raised through IPO. The Ministry has directed all Registrar of Companies (RoC) to coordinate with the stock exchanges to access the quarterly balance sheets of all the companies that have come out with the IPO in the recent past.

  Market regulator Securities and Exchange Board of India (SEBI) is looking into a proposal by several investors to allow fewer trading holidays on stock exchanges in line with the global practice. Even the trading hours at stock exchanges set to be extended by two and a half hours. The move is aimed to help the domestic bourses to increase their trading volume and to attract foreign investors. The SEBI is also planning to introduce lot sizes for equity derivative contracts, based on the price range of the underlying stock. The move will allow the exchanges to decide on the lot size, and also spare SEBI the trouble of micro-management.

- Hike in SLR Limit

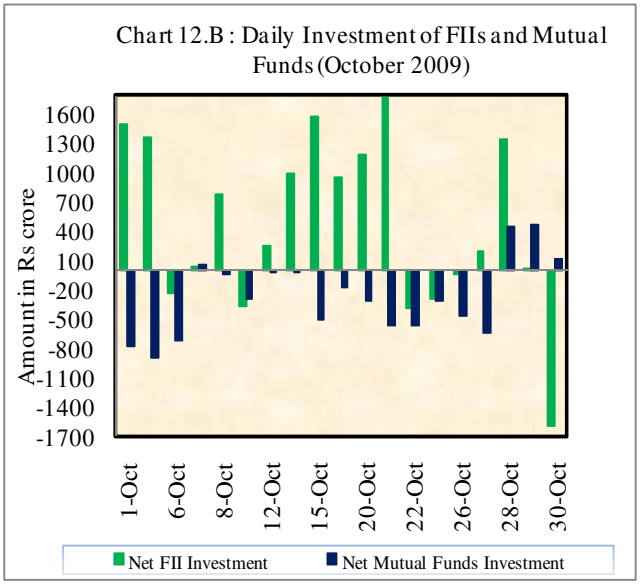
  In view of difficult macroeconomic situation and liquidity conditions in the global and domestic financial markets after the collapse of Lehman Brothers, the statutory liquidity ratio (SLR) of scheduled commercial banks (SCBs) was reduced from 25% to 24% of their NDTL with effect from 8 November 2008. The liquidity situation has remained comfortable since mid-November 2008 as reflected in the surplus funds being placed by banks daily in the LAF window of the Reserve Bank. Accordingly, it has been decided to restore the SLR to 25% with effect from 7 November 2009.

- FIIs' Operations

  FIIs investments in equity nearly halved during the month from the previous month amid negative global cues and rising inflation concerns. Still, FIIs were net buyers of equities to the extent of Rs 9,077 crore in October with purchases of Rs 70,130 crore and sales of Rs 61,053 crore. The net FII inflows in the financial year 2009-10 so far has touched US $15 billion or around Rs 74,000 crore.

- Mutual Funds

  During the month, mutual funds were net sellers of equities in the secondary market to a large extent of Rs 5,194 crore with purchases of Rs 16,252 crore and sales of Rs 21,446 crore.




According to Association of Mutual Funds in India (Amfi) the mobilisation of funds through various new schemes as well as existing schemes stood at Rs 10,50,195 crore, but they also faced redemptions to the extent of Rs 9,08,904 crore, resulting in a net inflow of Rs 1,41,291 crore. As per the Amfi data, the average assets under management (AUM) stood at Rs 7,62,503 crore as of end October compared to Rs 7,42,911 crore but grew around 77% against October 2008.

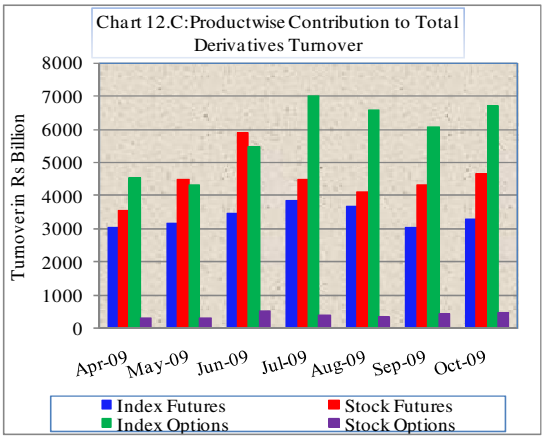
As shown in Chart 12 B, FIIs were net buyers in most part of the month but mutual funds displayed a contradictory trend throughout the month and became net sellers to a large extent compared to the previous month.

*iii) Derivatives*

Contrary to the cash market turnover, the aggregate derivatives' turnover on the NSE rose by 9% in October over September. Similarly, the average daily turnover has fallen from Rs

69,419 crore in September to Rs 75,521 crore in October. The ratio of derivatives turnover to the spot market turnover also moved up from 3.80 to 4.16 during the same period (Appendix XV).

Product-wise Contributions




There has been a steady increase in the share of index options in the total futures and options (F&O) segment in the past several months and they accounted for 44.3% of the total turnover. The share of index futures and stock options were almost stable throughout this fiscal and they accounted for 21.8% and 3%, respectively (Chart 12 C).

Change in the Expiry Day of All Monthly Index Futures and Options (F&O)

In response to inputs from market players and to improve liquidity in the derivative segment, the BSE has decided to change the expiry day of all monthly index F&O from last Thursday of the month to the third-last Thursday of the month. Also, the expiry cycle of all weekly options contracts will be changed from Monday-Friday to Friday-Thursday. BSE is also introducing fortnightly contracts from November. The move is aimed to create more volumes by increasing arbitrage opportunities.

FIIs' Derivatives Operations

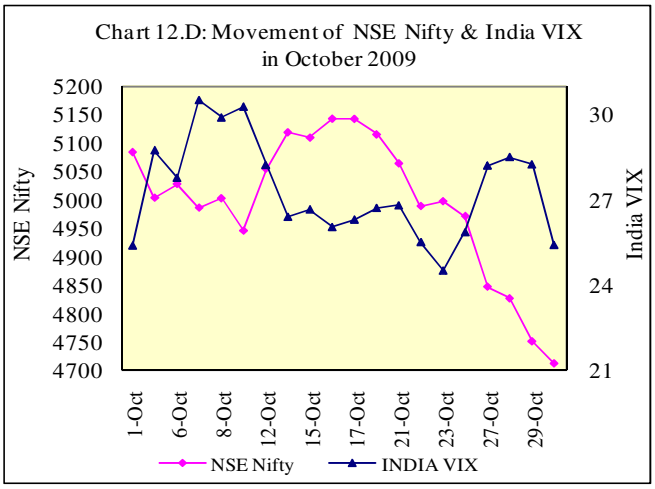
**Table 12.3: Daily Trends in FII Derivative Trades** *(Amount in Rs crore)*

| | No. of Contracts | Total (Buy + Sell) | Average Daily Turnover | | Percentage to Total Derivatives Turnover | |
|---|---|---|---|---|---|---|
| | August-09 | | Oct-09 | Sep-09 | Oct-09 | Sep-09 |
| Index Futures | 2891496 | 72766 | 3638 | 3730 | 4.82 | 5.37 |
| Index Options | 5226586 | 128326 | 6416 | 7295 | 8.50 | 10.51 |
| Stock Futures | 2977375 | 95515 | 4776 | 4163 | 6.32 | 6.00 |
| Stock Options | 28677 | 782 | 39 | 68 | 0.05 | 0.10 |
| Total | 11124134 | 297390 | 14869 | 15255 | 19.69 | 21.98 |

Source: *www.sebi.gov.in*

The share of FII trades in total derivatives trade has decreased marginally from 21.98 in September to 19.69 in October. The average daily volume has also reduced to 3% from Rs 15,255 crore to Rs 14,869 crore during the same period (Table 12.3). Still, the FIIs continued to hold one-third of all open positions in the derivative segment.

NSE Volatility index (VIX)




India VIX or Volatility Index, constructed by the NSE, which measures the immediate expected volatility, moved in the narrow range of 24.49 to 30.48 in October. During the month, VIX climbed above 63 intra-day on 30 October as traders rolled over positions in the derivatives segment from October 2009 series to November 2009 series and touched a low of 23.89 on 23 October but closed the month at 25.39 (Charts12 D).

## 12.3. Corporate Debt Market

The RBI in its Second Quarter Review of Monetary Policy 2009-10 announced that, it may frame regulations on issuance of NCDs with maturity of less than one year, as they fall under the definition of 'money market instruments' of chapter IIID of the Reserve Bank of India (Amendment) Act, 2006. Following the announcement, RBI has already placed in its website a set of draft guidelines for posting comments. While, this is an attempt in filling regulatory gaps in money and bond markets, companies would no longer enjoy the benefit of unrestricted debt capital that made issuing NCDs with maturity of less than one year viable, despite the higher transaction costs compared to other short-term debt instruments such as commercial paper.

Table 12.4: Details of Commercial Bond Issues

| Institutional Category | No. of Issues | Volume in *Rs crore* | Range of Coupon Rates | Range of Maturity in Years |
|---|---|---|---|---|
| FIs/Banks | 3 | 600 | 6.90-9.86 | 2-10 |
| NBFCs | 3 | 825 | 7.87-9.00 | 3-15 |
| State Undertakings | 1 | 500 | 8.40 | 10 |
| Central Undertakings | 2 | 1200 | 7.73-8.80 | 3-16 |
| Corporates | 3 | 5000 | 8.45-9.60 | 1.10-10 |
| Total for October | 12 | 8125 | 6.90-9.60 | 1.10-16 |
| Total for September | 24 | 5765 | 8.32-11.25 | 2-15 |

Source: *Various Media Sources*

The corporate bond market activity witnessed a significant improvement in the month of October compared to the previous month. The total volume of primary issues jumped by 41% to Rs 8,125 crore compared to previous month's Rs 5,765

crore and Rs 1,880 crore in the same month last year. The remarkable growth in volume came essentially from a significant 62% share by three corporates. The issues by financial institutions (FIs)/banks, non-banking financial corporations (NBFCs), state undertakings and central undertakings constituted 7.4%, 10.2%, 6.2% and 14.8% of total issues, respectively. Essar Communication Holdings Ltd., an 'AAA (SO)' (by Fitch) rated company, topped the list in bond issues worth Rs 4,500 crore. The company issued NCDs yielding coupon rates of 9.15% and 9.25%, respectively for 22 months and 25 months maturity. The National Housing Bank was the only one to offer a green shoe option of Rs 200 crore in October. The company had raised Rs 150 crore through issuance of bonds by offering 6.90% for 3 years maturity (Table 12.4 and Appendix XVI).

### 12.4. Government Securities Market

*i) Primary Issues*

Central Dated Securities

In the run up to RBI's second quarter review, there were frequent and often conflicting statements about the stance of monetary policy coming from government circles causing yield rates to fluctuate a bit. There was also a false hope regarding the hike in Held to Maturity (HTM) limit for banks in government securities to make absorption of remaining part of record government borrowings easier by providing respite to banks preventing their mark-to-market losses by some proportion. The hike in Statutory Liquidity Ratio (SLR) by one percentage point in the second quarter review came as a surprise to the market as also the absence of auction in central government securities in the last week of October. All these kept government securities market yields volatile during the month though the yield firmed up in general at the longer end.

During the month of October 2009 central government securities were auctioned thrice, on 9, 16 and 23 October 2009 with the aggregate notified amount of Rs 10,000 crore in each auction. One new security with maturity of 5 years was auctioned on 16 October; otherwise, all securities were re-issued. The total auctioned amount of Rs 30,000 crore was significantly higher compared to Rs 23,500 crore in September.

| Table 12.5: Details of Central Government Market Borrowing *(Amount in Rs crore)* | | | | | |
|---|---|---|---|---|---|
| Date of Auction | Nomenclature of Loan | Notified Amount | Bid Cover Ratio | Devolvement on Primary Dealers | YTM at Cut-off Price (In %) |
| 9-Oct-09 | 7.02% 2016 | 3000 | 2.51 | nil | 7.28% (Rs.98.60) |
| | 6.90% 2019 | 4000 | 1.66 | 576 | 7.31% (Rs.97.13) |
| | 8.28% 2032 | 3000 | 1.95 | 155 | 8.34% (Rs.99.37) |
| 16-Oct-09 | 6.35% 2020 | 4000 | 2.53 | nil | 7.92% (Rs.89.14) |
| | 7.35% 2024 | 3000 | 1.81 | 210 | 8.35% (Rs.91.58) |
| | 5 year 2014 | 3000 | 3.14 | nil | 7.32% |
| 23-Oct-09 | 7.02% 2016 | 3000 | 2.08 | nil | 7.48% (Rs.97.56) |
| | 6.90% 2019 | 4000 | 1.82 | nil | 7.45% (Rs.96.05) |
| | 8.28% 2032 | 3000 | 2.07 | nil | 8.43% (Rs.98.50) |
| **Total for October** | | **30000** | **2.16** | **942** | |
| **Total for September** | | **23000** | **2.46** | **1883** | |

Note: Unlike in the case of Treasury Bills and State Development Loans the weighted average prices of central government dated securities auctions are not disseminated and hence, weighted average yields are not available.
R: Re-issue, N: New issue
Source: *RBI Press Releases*

Overall, the demand for securities in primary auctions appeared dampened. The bid-cover ratio for the month fell to 2.16 compared to 2.46 in the previous month. There were devolvements on primary dealers involving three securities for an amount of Rs 942 crore. Despite this, primary market yields saw an upward pressure during the month.

The cut-off yield on the 10-year benchmark security, 6.90% 2019 increased to 7.45% in the auction held on 23 October from 7.31% in the auction held on 9 October. Another government security, 8.28% 2032, also witnessed yield of 8.43% in the auction held on 23 October against yield of 8.34% in the auction held on 9 October. Government securities 7.02% 2016 and 6.35% 2020 also witnessed similar trends in primary yields (Table 12.5).

State Development Loans

State development loans with maturity of 10 years were auctioned twice in the month of October. In the first auction 11 states and in the second auction 10 states have participated. Andhra Pradesh, West Bengal, Tamil Nadu, Rajasthan and Punjab have accessed market twice during the month. The cut-off yield at the aggregate remained flat at 8.21% compared to 8.20% in September. The weighted average yield at 8.15% in October was however significantly higher compared to 7.92% in September. The narrowing difference between the cut-off and the weighted average yields from 28 bps to 7 bps reflects the bunching of bids at the higher end in October compared to September. It may be added that while the auction system for central

government securities was changed to uniform price method for quite some time, for state government securities the auctions continue to follow the multiple price auction method.

**Table 12.6:Details of State Government Borrowings** *(Amount in Rs crore)*

| Date of Auction | Number of Participating States | Notified Amount | Bid Cover Ratio | YTM at cut-off price (%) | Weighted Average Yield (%) |
|---|---|---|---|---|---|
| 6-Oct-09 | 11 | 9501 | 1.86 | 8.27 | 8.19 |
| 29-Oct-09 | 10 | 4515 | 2.95 | 8.11 | 8.06 |
| Total for October | 21 | 14016 | 2.21 | 8.22 | 8.15 |
| Total for September | 13 | 17500 | 2.42 | 8.20 | 7.92 |

Source*: RBI Press Releases.*

In the first auction Mizoram, Tripura, and West Bengal with relatively small notified amounts had 4 times bid to cover ratio as compared to states like Andhra Pradesh, Bihar, Gujarat, Maharashtra, Tamil Nadu and Uttar Pradesh with notified amounts of more than or equal to Rs 1,000 crore which had bid to cover ratios only up to 2.15 times. Similarly in the second auction where Goa, Jharkhand, Punjab, Rajasthan and West Bengal with smaller notified amounts had bid to cover ratios higher than 3 times, states like Andhra Pradesh and Tamil Nadu with notified amounts of Rs 1,000 each have met with bid to cover ratios of 2.66 and 2.39, respectively. These results clearly establish that investors in general are interested in diversifying their portfolio across states, whether they are small or large, and the demand pressure is more for smaller issues. Overall, the bid-cover ratio for the second auction was much higher at 2.95 compared to the first auction at 1.86, possibly because there were no central government issues in the last week of October, when the second tranche of state loans for the month was concluded (Table 12.6 and Appendix XVII).

Treasury Bills (TBs)

With the demand for short maturities in particular treasury bills showing considerable increase, as evident from higher bid-cover ratios and falling cut-off yields and the demand for medium to long term securities waning, as evident from lower bid-cover ratios and rising cut-off yields, central government rightly showed strong preference for borrowing through treasury bills. Amounts auctioned during the month of October surged for all maturities of treasury bills. 91-day treasury bills were auctioned for Rs 30,000 crore while 182-day and 364-day treasury bills were auctioned for Rs 5,000 core and Rs 4,000 crore, respectively. 91-day Treasury bills cut off yield in October has fallen to 3.23% from 3.39% in the previous month. For 182-day treasury

bills also the cut-off yield has dropped to 3.97% from 4.02%. In the case of 364-day treasury bills, however yield in October has increased to 4.57% from the previous month's 4.47% (Table 12.7).

**Table 12.7: Auctions of Treasury Bills** *(Amount in Rs crore)*

| Date of Auction | Bids Accepted | Bid Cover Ratio | Cut-off Yield (%) | Weighted Average Yield (%) | Cut-off Price (Rs) | Weighted Average Price (Rs) |
|---|---|---|---|---|---|---|
| **A: 91-Day Treasury Bills** | | | | | | |
| 1-Oct-09 | 2000 | 5.19 | 3.15 | 3.15 | 99.22 | 99.22 |
| 9-Oct-09 | 7000 | 3.50 | 3.23 | 3.23 | 99.20 | 99.20 |
| 16-Oct-09 | 7000 | 2.79 | 3.23 | 3.23 | 99.20 | 99.20 |
| 23-Oct-09 | 7000 | 3.39 | 3.23 | 3.23 | 99.20 | 99.20 |
| 30-Oct-09 | 7000 | 2.91 | 3.23 | 3.19 | 99.20 | 99.21 |
| **Total for October** | **30000** | **3.284** | **3.23** | **3.22** | **99.20** | **99.20** |
| **Total for September** | **19500** | **3.282** | **3.40** | **3.39** | **99.16** | **99.16** |
| **B: 182-Day Treasury Bills** | | | | | | |
| 1-Oct-09 | 1000 | 3.08 | 3.80 | 3.78 | 98.14 | 98.15 |
| 16-Oct-09 | 2000 | 3.08 | 4.05 | 3.99 | 98.02 | 98.05 |
| 30-Oct-09 | 2000 | 4.68 | 3.97 | 3.93 | 98.06 | 98.08 |
| **Total for October** | **5000** | **3.72** | **3.97** | **3.92** | **98.06** | **98.08** |
| **Total for September** | **4500** | **4.72** | **4.02** | **3.37** | **98.04** | **98.25** |
| **C: 364-Day Treasury Bills** | | | | | | |
| 9-Oct | 6040 | 3.02 | 4.59 | 4.56 | 95.62 | 95.65 |
| 23-Oct | 5402 | 2.70 | 4.54 | 4.51 | 95.67 | 95.70 |
| **Total for October** | **11442** | **2.86** | **4.57** | **4.53** | **95.65** | **95.68** |
| **Total for September** | **5000** | **3.48** | **4.47** | **4.42** | **95.66** | **95.73** |

Source: *RBI's Press Releases*

In contrast to dated government securities, the traded volume of treasury bills remained almost flat at around Rs 20,300 crore in October as compared to Rs 19,500 crore in September. The overall shift in investor interest to short term securities is reflected in 91-day treasury bills contributing to the major chunk of traded volume which increased to around Rs 16,200 crore in October from Rs 13,600 crore in September.

*ii) Secondary Gilt-Edged Market*

Higher cut-off yields in the primary auctions during the month despite ample liquidity in the system reflected the reduced interest in government securities and added to that was the expectation that the accommodative policy has come to an end and the interest rate will take a northward course. This has resulted in a dip in trading volumes in the secondary market for government securities in October which came down by 17.6% to Rs 1.82 lakh crore as compare

to Rs 2.21 lakh crore in September. Weighted yield of the traded securities inched up by about 10 bps to 7.27% from 7.17% during the same period.

The week-wise traded volumes have varied quite significantly as traded volume of government securities have seen considerable increase in the last week to Rs 61,315 crore as compared to first week at Rs 21, 714 crore.

Though yields of most of government securities have firmed up over previous month's yields, the shift in yield curve was prominent in longer maturities. Ample liquidity and continuation of low policy rates kept the short term interest rates at bay.

The 10-year benchmark security 6.90% 2019 had the highest traded volume of around Rs 73,700 crore with a weighted of 7.29% as compared to previous months traded volume of around Rs 68,300 crore with a weighted yield of 7.22%. The traded volume in one year maturity segment in October was Rs 5,800 crore with a weighted yield 4.01% against previous month's traded volume of Rs 7,206 crore and the weighted yield at 4.34%. As a result the yield spread between 1-year and 10-year maturities has increased to 328 basis points in October against 288 basis points in the previous month anticipating firming up of the yields at the longer end. Similarly, the spread in yield of 1-year and 5-year maturities has also widened to 323 basis points in October against 280 basis points in September.

Total traded volume of state government securities also went down during the month to Rs 2,497 crore with weighted yield of 8% in October against Rs 3,806 core with a weighted yield of 7.98% in the previous month.

*iii) Inter-Category Transactions*

The inter-category transactions data published by the Clearing Corporation of India Limited (CCIL) for NDS reported trades reveals that, foreign banks continued to dominate in total market share and their contribution has seen a substantial rise over a period of one month to reach 46% against 33% recorded in September. But, the share of trades by public sector banks and private sector banks decreased significantly over September. Contrary to this, mutual funds in October showed a remarkable growth in their share and contributed 17% to total transactions from 8% compared to the previous month (Table 12.8).

**Table 12.8: Market Share of Inter-Category wise NDS Reported Outright Trade of Central Government (Buy side)** *(In %)*

| Buyer Category | Apr-09 | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 |
|---|---|---|---|---|---|---|---|
| Foreign Banks | 27.71 | 29.28 | 40.47 | 37.02 | 33.81 | 32.91 | 45.76 |
| Private Sector Banks | 12.71 | 13.00 | 15.86 | 19.63 | 23.71 | 23.39 | 16.31 |
| Public Sector Banks | 23.00 | 22.81 | 14.80 | 21.85 | 17.29 | 20.96 | 9.76 |
| Mutual Funds | 8.95 | 13.25 | 14.74 | 7.46 | 11.03 | 8.38 | 16.70 |
| Primary Dealers | 7.54 | 7.69 | 9.74 | 9.97 | 6.59 | 9.83 | 9.17 |
| Others | 17.37 | 12.18 | 2.14 | 1.79 | 3.82 | 0.85 | 0.58 |
| Ins. Cos | 1.21 | 0.48 | 0.72 | 0.89 | 2.26 | 2.73 | 0.28 |
| Coop Banks | 1.51 | 1.31 | 1.53 | 1.39 | 1.49 | 0.93 | 1.44 |

Source: *Rakshitra, Various Issues.*

## 12.5. Money Market

Opportunity was taken by the government to issue relatively larger amounts of treasury bills at relatively lower cut-off rates. The market activity in general remained subdued. The daily average volume of call money transactions was less by about 15% in October compared to the previous month, the volume showing a decrease from Rs 8,043 crore to Rs 6,831 crore. The daily average notice money volume also came down from Rs 1,807 crore to Rs 1,170 crore. The major collateralised instruments viz., collateralized borrowing and lending obligations (CBLO) and market repo volumes also showed similar trends. The CBLO and market repo volumes decreased from Rs 63,838 crore to Rs 57,735 crore and from Rs 28,818 crore to Rs 22,961 crore, respectively (Table 12.9).

**Table 12.9: Money Market Activity (Volume and Rates)**

| Instruments | October-2009 | | | September-2009 | | |
|---|---|---|---|---|---|---|
| | Daily Average Volume *(Rs crore)* | Monthly Weighted Average Rate *(%)* | Range of Weighted Average Daily Rate *(%)* | Daily Average Volume *(Rs crore)* | Monthly Weighted Average Rate *(%)* | Range of Weighted Average Daily Rate *(%)* |
| Call Money | 6831 | 3.26 | 1.68-3.91 | 8043 | 3.25 | 2.13-3.71 |
| Notice Money | 1170 | 3.20 | 2.44-3.30 | 1807 | 3.24 | 2.25-3.34 |
| Term Money@ | 39 | - | 3.00-6.80 | 106 | - | 2.50-7.05 |
| CBLO | 57735 | 2.63 | 0.03-3.90 | 63838 | 2.63 | 1.27-3.36 |
| Market Repo | 22961 | 2.78 | 1.74-3.54 | 28818 | 2.75 | 1.79-3.06 |

@ Range of rates during the month.

Source*: www.rbi.org.in. and www.ccilindia.com*

*CBLO Liabilities of Scheduled Banks were brought under CRR Prescription*

In the second quarter review of monetary policy for 2009-10 the RBI has made an amendment that, the collateralised borrowing and lending obligation (CBLO) liabilities of scheduled banks were exempted from CRR prescription in order to develop CBLO as a money market instrument. Volumes in the CBLO segment have increased over the years, especially after the phasing out of the non-banks from the inter-bank market. The daily average volume in the CBLO segment, which was only Rs 6 crore in January 2003, is now over Rs 60,000 crore. Since the objective of developing CBLO as a money market instrument has been broadly achieved, it is proposed that liabilities of scheduled banks arising from transactions in CBLO with Clearing Corporation of India Ltd. (CCIL) will be subject to maintenance of CRR with effect from the fortnight beginning 21 November 2009.

*RBI's Market Operations*

The daily average volume of liquidity absorption in liquidity adjustment facility (LAF) auctions peaked in the second week to Rs 1.35 lakh crore and in the last week it came down to Rs 95,000 crore, the daily average absorption showing a significant decline from Rs 1.25 lakh crore in September to Rs 1.04 crore in October. After a few months of vigorous open market operations (OMO) purchases since April 2009, aggregating Rs 75,200 crore till September, the Reserve Bank's OMO purchases during October were only about Rs 1,100 crore (Table 12.10).

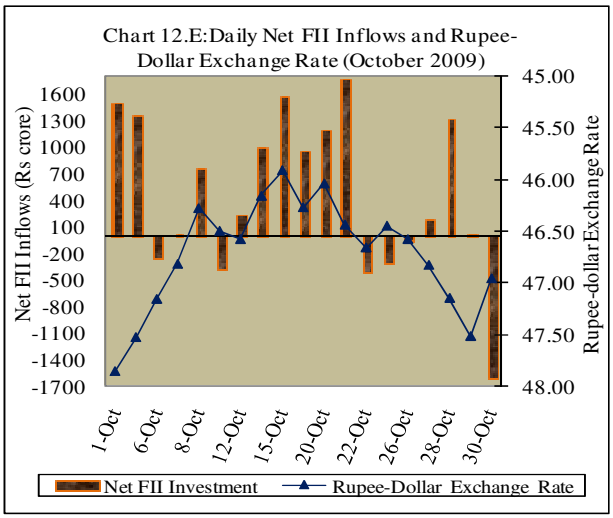
**Table12.10: RBI's LAF and OMO Operations** *(Amount in Rs crore)*

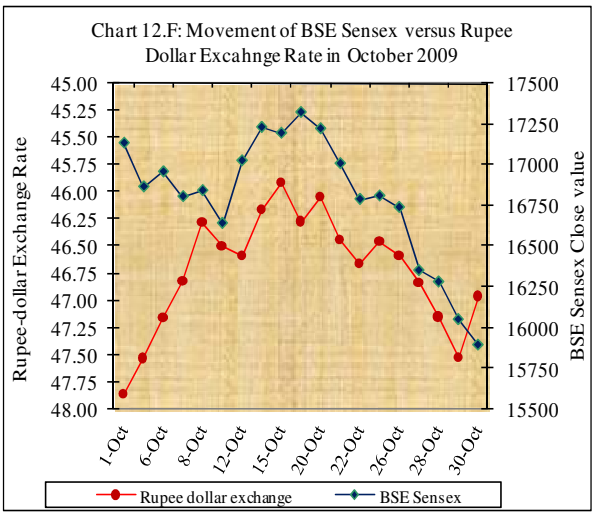
| Month | Repo | | Reverse Repo | | Net injection (+) / absorption (-) | Outstanding Amount (month-end) | OMO (Net Purchase (+)/ Sale (-)) |
|---|---|---|---|---|---|---|---|
| | Daily Average | Rate % | Daily Average | Rate % | | | |
| Apr-09 | 6 | 5.00/4.75 | 109650 | 3.50/3.25 | -109644 | 88565 | 20292 |
| May-09 | 24 | 4.75 | 130978 | 3.25 | -130954 | 110685 | 16959 |
| Jun-09 | 42 | 4.75 | 120768 | 3.25 | -120726 | 87440 | 6451 |
| Jul-09 | 46 | 4.75 | 129539 | 3.25 | -129493 | 139690 | 5243 |
| Aug-09 | 24 | 4.75 | 124355 | 3.25 | -124332 | 121010 | 12073 |
| Sep-09 | 105 | 4.75 | 121622 | 3.25 | -121517 | 58520 | 14275 |
| Oct-09 | 0 | 4.75 | 106430 | 3.25 | -106430 | 58520 | 1082 |

Source: *RBI Weekly Statistical Supplement (WSS)*

## 12.6. Foreign Exchange Market

The US dollar remained strong against most of the major currencies in October. But, the rupee strengthened against dollar during the month as in the previous month, mainly due to the continued inflow of FII investments to the extent of around $3.4 billion in October on top of $ 4.3 billion in September. In spite of the relatively dull stock market performance, the BSE Sensex decreasing by 7% in October, the rupee hit its highest level during the month strongly by investor's confidence about India's improved growth prospects in the backdrop of global economic recovery (Chart 12 E and F).




The month began with the rate of Rs 47.86 per dollar following an appreciation by 1.75% in September backed by huge foreign portfolio inflows. The trend continued till 8 October as the rupee rose to Rs 46.28 per dollar owing to expectations of monetary tightening from the Reserve Bank. But, the rupee weakened to Rs 46.58 on 12 October following the demand pressure from importers. However, rupee again strengthened till middle of the month breaching the 46-mark to Rs 45.91 per dollar on 15 October after JPMorgan Chase and Company reported better than expected earnings. But, rupee fell dramatically, reversing earlier gains on speculation that importers were buying foreign exchange to save on costs. Rupee continued its downward trend except on intermittent occasions till 29 October to end at Rs 47.52 per dollar responding to poor stock market performance but again bounced back to close the month at Rs 46.96 per dollar.

Overall, the rupee appreciated in nominal terms by 2.3% during the month, despite the fact that RBI appeared to be consistently purchasing US dollars on a net basis (Table 12.11)

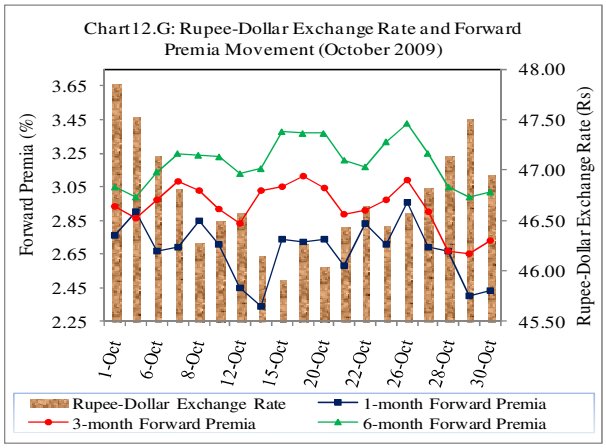
**Table 12.11: Foreign Exchange Market: Select Indicators**

| | Rs/$ Exchange Rate (month end) | Appreciation (+)/ Depreciation (-) in % | FII Flows *(US $ million)* | Net Forward purchases by RBI *(US $ million)* | Net Spot purchases by RBI *(US $ million)* | BSE Sensex (closing) |
|---|---|---|---|---|---|---|
| October | 46.96 | 2.30 | 3428 | NA | NA | 15896 |
| September | 48.05 | 1.75 | 4263 | (+) 539 | (+) 80 | 17127 |
| August | 48.90 | -1.50 | 945 | (+) 619 | (+) 181 | 15667 |
| July | 48.20 | -0.60 | 2727 | (+) 800 | (-) 55 | 15670 |
| June | 47.90 | -1.20 | 1059 | (+) 745 | (+) 1044 | 14494 |
| May | 47.30 | 5.80 | 3577 | (+) 131 | (-) 1437 | 14625 |
| April | 50.20 | | 1790 | (-) 1071 | (-) 2487 | 11403 |

Source: *RBI (www.rbi.org.in), BSE (www.bseindia.com), SEBI(www.sebi.gov.in)*

As shown in Appendix XVIII, the Indian rupee appreciated against almost all the currencies over the previous month, but depreciated against British pound.

*i) Forward Premia*




An upward trend in forward premia was experienced in the initial part of the month. The 1-month, 3-month and 6-month premia for the month-end stood at 2.43% (2.62% in September-end), 2.73% (2.79%) and 3.02% (2.91%), respectively.

*Currency Futures*

A significant growth in the trading activity in the currency futures market was witnessed during the month of October. The average daily turnover in the MCX-SX and NSE was Rs 7,681 crore and Rs 7,542 crore respectively, amounting to a total of Rs 15,224 crore, reflecting a growth of 33% in volume in October against September. The total number of contracts and

notional value increased respectively, by 40% and 45% during the month over the previous month. The MCX-SX topped the currency futures segment in total turnover from past two months (Table 12.12).

**Table 12.12: Trading in Exchange Traded Currency Futures** *(Amount in Rs crore)*

| | September-09 | | | | October-09 | | | |
|---|---|---|---|---|---|---|---|---|
| Exchanges | No. of contacts | Notional Value *(in crore)* | % share | Average Daily Turnover | No. of contacts | Notional Value *(in crore)* | % share | Average Daily Turnover |
| MCX-SX | 22636371 | 109666 | 50.43 | 5772 | 32849655 | 153630 | 50.46 | 7681 |
| NSE | 22251896 | 107789 | 49.57 | 5673 | 32267958 | 150843 | 49.54 | 7542 |
| BSE | 0 | 0.00 | 0.00 | 0.00 | 0 | 0.00 | 0.00 | 0.00 |
| **Total** | **44888267** | **217455** | **100** | **11445** | **65117613** | **304473** | **100** | **15224** |

Source*: BSE, NSE, MCX-CX websites.*

*Permission to Launch New Currency Pairs in Currency Futures Segment*

The RBI has proposed to permit currency futures contracts in currency pairs of Euro-INR, Yen- INR and Pound Sterling-INR, in addition to the US dollar-rupee contracts which are already permitted in the recognized stock exchanges. Market participants have been representing that trading of currency future contracts in other major currency pairs may also be permitted to facilitate direct hedging of their risk in such currencies. Necessary amendments to Currency Futures (Reserve Bank) Directions, 2008 are being made separately.

## 12.7. Summing Up

The financial markets in October responded to the renewed concerns about the durability of the economic recovery which triggered a sell-off on global bourses. In domestic front, the Second Quarter Monetary Policy announced by RBI on 27 October fell short of market expectations. Still, the earnings rebound that started in the first quarter of 2009-10 steamed ahead for the second quarter, signalling that a recovery in the world's second fastest growing major economy remains on track.

# 13 COMMODITY DERIVATIVES MARKET

## 13.1 Overview

Despite intermittent curbs, India's six-year-old commodity futures market has seen a steady stream of new entrants, drawn by the promise of richer rewards. The intense growth, even in the absence of basic reforms, has attracted financial institutions, trading companies and banks to set up large commodity bourse. Since, Indian Commodity Exchange (ICEX), promoted by Indiabulls Financial Services Ltd in partnership with MMTC is going to start its operation from November 2009; it is expected to create an extensive competition among national level commodity exchanges. Commodity derivatives market of India is drawing attention from all over the world, albeit FMC had banned nine commodities since early 2007, out of which 4 are still out of trade and even financial institutions and foreign entities are barred from trading in the market. Even, industry players are of the view that commodity market regulator (FMC) should permit banks and financial institutions to trade in commodity futures, allow options, exchange-traded indices and some more powers to the market regulator from Ministry of Consumer Affairs to develope the market.

## 13.2 Turnover in Commodity Exchanges

**Table 13.1: Monthly Turnover of Commodity Exchanges** (*Amount in Rs crore)*

| | Commodity Exchange | Apr 09- Sep 09 Turnover | Apr 08- Sep 08 Turnover | Sept 09 Turnover | Oct 09 Turnover | Oct 08 Turnover |
|---|---|---|---|---|---|---|
| 1 | Multi Commodity Exchange of India Limited, Mumbai (MCX) | 2838406 (84.5) | 2238939 (86.5) | 548613 (86.7) | 538345 (84.0) | 357183 (89.9) |
| 2 | National Multi-Commodity Exchange of India Limited, Ahmadabad (NMCE) | 109891 (3.3) | 15542 (0.6) | 19346 (3.1) | 19636 (3.1) | 2598 (0.7) |
| 3 | National Commodity & Derivatives Exchange Ltd. Mumbai (NCDEX) | 373793 (11.1) | 309292 (11.9) | 59428 (9.4) | 76275 (11.9) | 34994 (8.8) |
| 4 | Chamber of Commerce, Hapur | 5870 (0.2) | 5954 (0.2) | 858 (0.1) | 698 (0.1) | 168 (0.0) |
| 5 | National Board of Trade, Indore (NBT) | 29012 (0.9) | 10596 (0.4) | 4620 (0.7) | 4413 (0.7) | 881 (0.2) |
| Total (including others)* | | 3360876 (100.0) | 2589290 (100.0) | 632865 (100) | 640986 (100) | 397473 (100.0) |

Note: * Total includes the monthly turnover of the remaining 17 commodity exchanges.
Figures in brackets denotes percentage share in the total turnover.
Source: *www.fmc.gov.in*

The total turnover of commodity exchanges marginally increased to Rs 6,40,986 crore in October 2009 from Rs 6,32,865 crore in September 2009. The turnover in the three national commodity exchanges — the Multi Commodity Exchange (MCX), the National Commodity and Derivatives Exchange (NCDEX) and the National Multi Commodity Exchange (NMCE) — recorded a aggregate turnover of Rs 6,34,256 crore in October as compared to Rs 6,27,473 crore in September and Rs 3,94,775 during October 2008 (Table 13.1).

The turnover in MCX has fallen fractionally during the month over the period of one month due to weakness registered in trades of precious metals and other non-agricultural commodities. But, the turnover in NMCE and NCDEX has shown improvement following the rise in the trading of agricultural commodities. After being dormant for the past several months futures trading in agricultural commodities showing signs of revival in commodity exchanges following the removal of ban on four commodities.

## 13.3 Major Policy Developments

*Notice from FMC to PXIL and its Members*

In a notice to the Power Exchange of India Ltd (PXIL) and its members, the Forward Markets Commission (FMC), the commodity markets regulator, has warned PXIL to cease trading in contracts beyond 11 days of payment and delivery as the exchange has not taken the approval for the same. The FMC has also advised traders that those who enter into such contracts or are involved in organising or assisting in organising such trading are liable for criminal prosecution under the FCR Act, 1952. According to the Act, such trades fall within the jurisdiction of the FMC and organisations offering such contracts for trade require permission from the commodity market regulator.

*Extending Trading Hours*

FMC is eager to consider the issue of extending trading hours, in line with the equity markets. As per industry officials, even if trading time is extended, it would not help increase volume, at least in agricultural commodities, as late evening trading in the spot market is not considered a reality. And they also believe that global development in agri-commodities make only a miniscule impact on prices in local exchanges.

*MCX Slashes Transaction Cost*

MCX on its website asserted that, from 2 November members who record average daily turnover up to Rs 250 crore would have to pay a transaction charge of Rs 2.50 per lakh of turnover, Rs 1.25 per lakh on incremental turnover above Rs 250 crore to Rs 1,000 crore and Re 1 per lakh on turnover above Rs 1,000 crore. The threat of potential competition from upcoming Indiabulls-MMTC-promoted Indian Commodity Exchange (ICEX) could have been one of the reasons behind the move as FMC confirmed that ICEX had applied for transaction tax-related concessions. According to FMC chairman, BC Khatua, ICEX is likely to get the FMC's permission to offer concessional transaction charges for its 100-odd members in the first 3-6 months. Commodity exchanges NCDEX and NMCE also said they would consider reducing transaction fee for their members. Earlier, FMC has given commexes the right to fix transaction fees keeping in view the competition and also stipulated that the difference between the lowest and highest rates should not be more than four times.

*Penalty on Cash Deals*

FMC has levied a penalty of 0.5% on cash transactions over Rs 20,000, in a move that could debar rural farmers from futures trading platforms. FMC in a circular to the commodity exchanges has asked members not to accept cash from clients, either against obligations or as margin money, for trading in commodity derivatives. The regulator has also said that, all payments shall be made and received by the members from or to the clients strictly by account payee crossed cheques or demand drafts or by way of direct credits into bank accounts.

## 13.4 Commodity-wise Turnover

The total share of non-agricultural commodities, including base metals, precious metals has shown a marginal fall in the total turnover in October 2009. During the month, the share of precious metals including gold and silver contributed around 38% of the total turnover as against 40% recorded in the previous month. Trading in gold was not active due to market volatility and concerns over rising price of the precious metal, owing to which the turnover has also come down from the previous month. Base metals also shown similar trend as the demand for agricultural commodities is picking up.

Volumes of agricultural commodities have improved over the previous month due to below average monsoon and increase in demand for the food items. Guar seed, turmeric, soyabean and jeera were the most traded among agri-commodities (Table 13.2).

**Table13.2: Commodity-wise Turnover**

| Commodity | Aug-09 | | Sep-09 | | Oct-09 | |
|---|---|---|---|---|---|---|
| | Trading on all Exchanges *(Rs crore)* | Percentage to total Turnover | Trading on all Exchanges *(Rs crore)* | Percentage to total Turnover | Trading on all Exchanges *(Rs crore)* | Percentage to total Turnover |
| **Metal** | | | | | | |
| Gold | 91419 | 15.1 | 141174 | 22.3 | 140023 | 21.8 |
| Silver | 75206 | 12.4 | 110285 | 17.4 | 104794 | 16.3 |
| Copper | 94141 | 15.6 | 77801 | 12.3 | 69443 | 10.8 |
| Zinc | 17572 | 2.9 | 18225 | 2.9 | 23042 | 3.6 |
| Nickel | 35145 | 5.8 | 24270 | 3.8 | 23776 | 3.7 |
| Lead | 15941 | 2.6 | 30777 | 4.9 | 22877 | 3.6 |
| Crude Oil | 117257 | 19.4 | 96711 | 15.3 | 108511 | 16.9 |
| Natural Gas | 30607 | 5.1 | 40640 | 6.4 | 37640 | 5.9 |
| Total | 477288 | 79.0 | 539882 | 85.3 | 530106 | 82.7 |
| **Agricultural Products** | | | | | | |
| Pepper | 4071 | 0.7 | 1726 | 0.3 | 2019 | 0.3 |
| Jeera | 2272 | 0.4 | 1760 | 0.3 | 2070 | 0.3 |
| Castor Seed | 666 | 0.1 | 597 | 0.1 | 590 | 0.1 |
| Gaur seed | 33753 | 5.6 | 19597 | 3.1 | 25012 | 3.9 |
| R/M seed | 6968 | 1.2 | 8047 | 1.3 | 8570 | 1.3 |
| Soy Bean | 6339 | 1.0 | 5846 | 0.9 | 9014 | 1.4 |
| Turmeric | 11445 | 1.9 | 5355 | 0.8 | 9709 | 1.5 |
| Soy Oil | 17067 | 2.8 | 16498 | 2.6 | 17319 | 2.7 |
| Chana | 14553 | 2.4 | 7687 | 1.2 | 10352 | 1.6 |
| Total | 97133 | 16.1 | 67113 | 10.6 | 84654 | 13.2 |

Source*: www.fmc.gov.in*

## 13.5 Price Movements

Non-agricultural commodities displayed a downward trend in their price movements during October both in spot and futures market. Among the non-agri commodities, gold crossed Rs 16,000 per 10 gms in several occasions during the month following the festive demand for the commodity and also due to expectation of premature inflationary worries in the country. Silver also followed the same trend, witnessing intermittent price variations. While, prices of natural gas have increased more than 40% both in spot as well as futures market during the period of one month.

Of the traded commodities in the commodities exchanges, agricultural commodities have shown remarkable price movements during the month. The rise in the prices of agricultural commodities in October is highly due to the failure of kharif crops following the erratic behaviour of rainfall during the monsoon season (June-September) which has lead to a bullish situation for the prices of pulses and other essential food items. During the month, most of the agricultural commodities recorded a double-digit growth in their prices, although turmeric witnessed a tremendous rise of more than 30% over a period of one month both in spot as well as futures market. This escalation recorded in prices of turmeric is due to fall in production; lower carry forward stock of last year and manipulation of prices in the physical market. Among the other commodities, guar seed, Chana, soyabean and rape seed have also revealed a remarkable growth during the month as against that a month earlier (Table 13.3).

**Table 13.3: Movement of Prices in Major Commodities** *(Amount in Rupees)*

| **Commodities** | | 1st Fortnight Ending September -09 | | 2nd Fortnight Ending September-09 | | 1st Fortnight Ending October -09 | | 2nd Fortnight Ending October-09 | |
|---|---|---|---|---|---|---|---|---|---|
| **Metal** | Price per Unit | Spot | Near Month Futures | Spot | Near Month Futures | Spot | Near Month Futures | Spot | Near Month Futures |
| Gold | 10 gms | 15765 | 15877 | 15620 | 15703 | 15817 | 15729 | 15965 | 15957 |
| Silver | 1 kg | 25945 | 27273 | 26040 | 26486 | 26955 | 26743 | 25999 | 25933 |
| Copper | 1 kg | 310 | 306 | 289 | 297 | 289 | 291 | 306 | 308 |
| Zinc | 1 kg | 89 | 90 | 92 | 92 | 90 | 93 | 103 | 102 |
| Nickel | 1 kg | 812 | 827 | 833 | 833 | 834 | 867 | 867 | 862 |
| Lead | 1 kg | 103 | 107 | 109 | 109 | 98 | 101 | 109 | 108 |
| Crude Oil | Per barrel | 3353 | 3433 | 3205 | 3337 | 3470 | 3554 | 3616 | 3638 |
| Natural Gas | 1mmBtu | 161 | 167 | 234 | 231 | 205 | 208 | 237 | 238 |
| **Agricultural Product** | | | | | | | | | |
| R/M seed | 20 kg | 521 | 533 | 528 | 544 | 545 | 559 | 568 | 594 |
| Turmeric | 100 kg | 8104 | 8217 | 8068 | 7836 | 9464 | 9096 | 10806 | 10736 |
| Gaur seed | 100 kg | 2082 | 2035 | 2177 | 2227 | 2287 | 2306 | 2480 | 2487 |
| Soy Bean | 100 kg | 1976 | 1969 | 2000 | 2033 | 2058 | 2069 | 2152 | 2230 |
| Jeera | 100 kg | 11326 | 10651 | 11430 | 11538 | 13959 | 13743 | 12359 | 12789 |
| Pepper | 100 kg | 14404 | 14107 | 14189 | 14064 | 13959 | 13743 | 14826 | 15010 |
| Chana | 101 kg | 2300 | 2149 | 2250 | 2305 | 2290 | 2276 | 2411 | 2527 |
| Soy Oil | 10 kg | 423 | 422 | 430 | 435 | 434 | 434 | 444 | 451 |

Source: *www.fmc.gov.in*

## 13.6 Other Major Developments

*ICEX Is Likely to Operate from November*

Indian Commodity Exchange (ICEX) is likely to launch operations on 23 November 2009. It has sought an approval to trade gold, silver, natural gas, crude oil, copper cathode, and lead contracts in the non-farm commodities and in the farm sector guar seed, mustard, soyoil, soybean, and turmeric contracts. Within gold, the exchange plans to launch one kg, and 100 gm gold mini contracts.

*Work on Illiquid Commodities*

FMC has asked commodity exchanges to work extensively on illiquid commodities to attract participation from traders, speculators and hedgers. D S Kolamkar, member, FMC said that FMC cannot allow illiquid contracts to remain listed on the exchange platform for ever. They should be time-bound. The MCX, however, has decided to work in phases towards activating illiquid contracts. According to Lamon Rutten, MD and CEO, the exchange has identified five agri-commodities, including cotton, guar seed, soybean, steel and crude palm oil and has started sending its officials to respective production and consumption areas.

*Increase in Farmers' Realisation*

More than a year after the inception of the National Spot Exchange Ltd (NSEL), promoted by Financial Technologies Ltd, it has come to light that price realisation by the farmers in areas where the spot exchange is operational has increased significantly because of application of technology in agricultural marketing. According to a senior official with NSEL, in Gujarat, where the spot exchange was first established, farmers' realisation has increased by more than 6%.

*MCX Launched Three Futures Contracts in Natural Gas and Bullion*

On the eve of Diwali, MCX launched contracts for refined soy oil, crude palm oil, rubber and coriander for January 2010 delivery, while the NMCE launched 11 new futures contracts in agricultural commodities and gold for January, February and April 2010 delivery. On 28 October, again MCX launched three futures contracts in natural gas and bullion for expiry in January and February 2010, respectively. The natural gas contract will expire in January 2010,

while gold HN1 and silver HN1 will end in February next year, as per the circular of the exchange.

### 13.7 Summing Up

The combined trading volume of all commodity exchanges in October over September is minimal but, as compared with the corresponding period of last year, they displayed a growth of 60%. During October, agri-commodities have shown some improvement in their trading volume following the resume in trading in banned commodities. Still, the share is very minimal compared to the non-agri commodities. Even, in the *India Commodity Yearbook 2009,* FMC chairman has said that the relisting of wheat and four other contracts has not restored the confidence or pre-suspension volumes in the Indian commodity futures market.

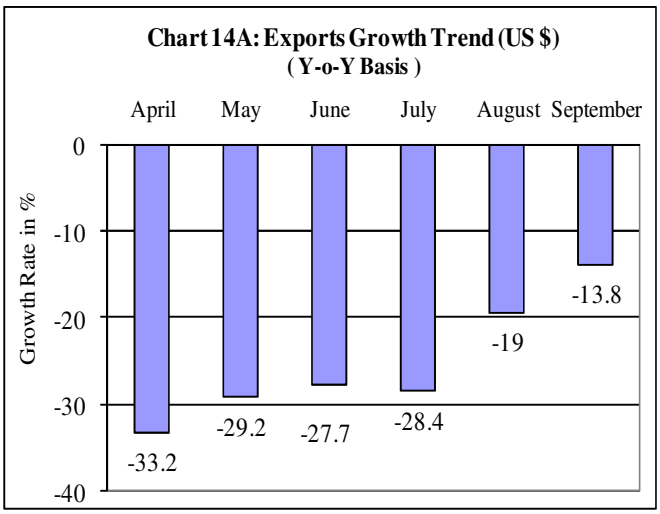
# 14. EXTERNAL SECTOR DEVELOPMENTS

## 14.1 Introduction

The world economic recession has affected India's external sector performance. While the country's merchandise exports have been falling for the past one year, imports have plunged at a greater rate, leading to a fall in the trade deficit. India's foreign exchange reserves on the other hand are at a comfortable level. Foreign investment inflows have started rising recently, hinting towards the global investors' faith in the Indian economy. But this has led to fears of a steep appreciation of the rupee, raising concerns about our export competitiveness in an environment of already suppressed global demand. The subsequent sections provide a deeper insight into these issues.

## 14.2 India's Merchandise Trade

India's exports decelerated for the twelfth consecutive month in September 2009, registering a decline of 13.8% y-o-y in USD terms. The rate of fall in exports was however the lowest in the past seven months, signaling a gradual revival of the external economy, thanks to the government stimulus packages extended to the export sector.




Of the total imports, oil imports reduced by 33.5% on account of a fall in global oil prices and a general slump in oil demand throughout the world. Non-oil imports on the other hand plummeted by 30.4% in September 2009, reflecting a drop in domestic demand. Total imports stood at US $21.4 billion, 31.3% lower as compared to the corresponding period of the previous year. But unlike exports, the rate of fall in imports has not seen a consistent downward trend. Trade deficit stood at US $7.8 billion, 49% lower than the same period last year.

In the first two quarters of the current fiscal, exports fell by 28.5% as against a rise of 50.1% in the comparable period last year. The growth rate in exports in the second quarter of the fiscal (-14.5%) over the previous year, has however been better than that of the first quarter (-32.9%). Imports registered a decline of 32.7% in the first two quarters, with oil imports recording a sharp dip of 45% during the period. The second quarter imports registered a drastic fall of 69.2% y-o-y as against a fall of 36.5% in the first quarter of the fiscal year. As a result, trade deficit during April-September 2009 lowered by 34.6% as compared to the previous year.

**Table 14.1: India's Merchandise Trade**

*(US $ million)*

| | September | | | | April-September | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009-10 | | 2008-09 | |
| Exports | 13608 | (-13.8) | 15789 | (26.8) | 77855 | (-28.5) | 108907 | (50.1) |
| Imports | 21377 | (-31.3) | 31136 | (83.1) | 124584 | (-32.7) | 185002 | (65.7) |
| Oil | 6343 | (-33.5) | 9543 | (64.8) | 34808 | (-45.0) | 63285 | (83.0) |
| Non-Oil | 15034 | (-30.4) | 21592 | (92.5) | 89776 | (-26.2) | 121717 | (56.8) |
| Trade Balance | -7769 | | -15347 | | -46729 | | -76095 | |

Note: Figures for 2008 are the latest revised whereas for 2009 are provisional.
Figures in brackets are growth rates over the same period previous year.
Source: DGCI&S *(www.commerce.nic.in)*

### 14.3 India's Foreign Exchange Reserves (October 2009)

India's total foreign exchange reserves remained more or less constant in October 2009. In USD terms, the reserves increased by 1.4% over the month of October, as compared to 0.8% over September. In Indian rupee terms, they fell marginally by 0.5% in the month under review, reflecting an appreciation of the rupee over the period.

Gold holdings with India increased over the month and witnessed a steep rise in the week ending November 6, 2009, owing to the purchase of 200 metric tonnes of gold by the Reserve Bank of India on November 3, 2009 from the IMF. Gold purchase was made through the foreign currency assets, which fell to US $261.9 billion in the week ending November 6 from US $266.7 billion in the previous week. India's reserve tranche position with the IMF also saw a plunge during this period.

**Table 14.2: Foreign Exchange Reserves (2009)**

*(Rupees in crore and US $ in million)*

| Week Ending | Foreign Currency Assets | | Gold* | | SDRs | | Reserve Tranche Position in IMF | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Rs* | *US $* | *Rs* | *US $* | *Rs* | *US $* | *Rs* | *US $* | *Rs* | *US $* |
| 2-Oct | 1260943 | 263,465 | 49,556 | 10,316 | 24,886 | 5,200 | 6,502 | 1,359 | 1341887 | 280,340 |
| 9-Oct | 1231979 | 264,942 | 49,556 | 10,316 | 24,345 | 5,235 | 6,361 | 1,368 | 1312241 | 281,861 |
| 16-Oct | 1239564 | 267,898 | 49,556 | 10,316 | 24,293 | 5,250 | 6,347 | 1,372 | 1319760 | 284,836 |
| 23-Oct | 1246475 | 268,348 | 49,556 | 10,316 | 24,464 | 5,267 | 7,379 | 1,589 | 1327874 | 285,520 |
| 30-Oct | 1252740 | 266,768 | 50,718 | 10,800 | 24,618 | 5,242 | 7,426 | 1,581 | 1335502 | 284,391 |
| 6-Nov | 1226485 | 261,957 | 82,181 | 17,500 | 24,619 | 5,258 | 3,274 | 699 | 1336559 | 285,414 |

*: Gold is valued at average London market price during the month.
Change in reserves is due to valuation effect.
Source: RBI, *Weekly Statistical Supplement*

India's total foreign currency assets remained in a comfortable position in October –end, having increased by US $22.7 billion over the previous year. The rise in foreign currency assets this year reflects an increase in capital flows to the country after having witnessed a net outflow of FIIs last year. The week-on-week decline in foreign currency assets by US $1.6 billion has been purely due to revaluation effects.

**Table 14.3: Foreign Currency Assets (2009)**

*(Rupees in crore and US $ in million)*

| Week Ending | Foreign Currency Assets | | Variation over the week | | Variation over End-March 2009 | | Variation over End-Dec 2008 | | Variation over the year | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Rs* | *US $* | *Rs* | *US $* | *Rs* | *US $* | *Rs* | *US $* | *Rs* | *US $* |
| 2-Oct | 12,60,943 | 263,465 | -3,319 | -33 | 30,877 | 22,039 | 66,153 | 16,862 | -27,840 | -11,446 |
| 9-Oct | 12,31,979 | 264,942 | -28,964 | 1,477 | 1,913 | 23,516 | 37,189 | 18,339 | -58,991 | -35 |
| 16-Oct | 12,39,564 | 267,898 | 7,585 | 2,956 | 9,498 | 26,472 | 44,774 | 21,295 | -49,780 | 3,037 |
| 23-Oct | 12,46,475 | 268,348 | 6,911 | 450 | 16,409 | 26,922 | 51,685 | 21,745 | 753 | 18,954 |
| 30-Oct | 12,52,740 | 266,768 | 6,265 | -1,580 | 22,674 | 25,342 | 57,950 | 20,165 | 50,820 | 22,723 |
| 6-Nov | 12,26,485 | 261,957 | -26,255 | -4,811 | -3,581 | 20,531 | 31,695 | 15,354 | 68,177 | 19,430 |

Source: RBI, *Weekly Statistical Supplement*

## 14.4 Foreign Investment Inflows

Total foreign investment inflows increased by a massive 155% y-o-y during the first half of the fiscal year. Foreign Institutional Investments (FIIs) saw a net inflow of US $15.3 billion during this period as against a net outflow of US $6.6 billion last year. ADRs/GDRs also rose by 130% y-o-y in the same period. Though NRI deposits dipped in September 2009, the cumulative

figure for April-September 2009 increased to US $ 2.7 billion from US $1.1 billion in the corresponding period of the previous year. Foreign direct investment (FDI) however declined by 8% in the first two quarters of the fiscal. The month of September 2009 registered the lowest FDI figure in the fiscal so far.

The rise in total foreign investment flows into the country is in line with the global economic sentiment of greater faith in emerging economies like India, which have survived the recession far better than the advanced nations.

**Table 14.4 Foreign Investment Inflows and NRI Deposits**

*(US $ million)*

| Item | September | | April-September | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009-10 | 2008-09 |
| (A)Direct Investment | 1512 | 2,562 | 17744 | 19295 |
| Equity | 1512 | 2,562 | 15657 | 17377 |
| Reinvested Earnings | .. | .. | 1696 | 1721 |
| Other Capital | .. | .. | 391 | 197 |
| (B) Portfolio Investment | 4999 | -1,403 | 17875 | -5480 |
| ADRs/GDRs | .. | .. | 2611 | 1135 |
| FIIs | 4999 | -1,403 | 15264 | -6615 |
| Offshore funds and others | .. | .. | .. | .. |
| Total (A+B) | 6511 | 1,159 | 35619 | 13815 |
| Total NRI deposits | 279 | 738 | 2737 | 1072 |

Monthly data on components of FDI as per expanded coverage are not available.

Source: *RBI Bulletin*

## 14.5 ECBs and FCCBs

**Table 14.5: Data on ECBs/FCCBs**

*(US $ million)*

| Month | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Automatic | Approval | Total | Automatic | Approval | Total |
| January | 764.1 | 573 | 1337.1 | 1355.1 | 532.5 | 1887.6 |
| February | 320.9 | 131.7 | 452.6 | 760.8 | 101.3 | 862.1 |
| March | 856.7 | 257.1 | 1113.8 | 3237.8 | 1239.1 | 4476.9 |
| April | 275.6 | 23.1 | 298.7 | 697 | 463.8 | 1160.8 |
| May | 326.7 | 167.6 | 494.3 | 988.9 | 287.2 | 1276.1 |
| June | 573.2 | 1345.9 | 1919 | 752.4 | 862.8 | 1615.2 |
| July | 1940.9 | 74.2 | 2015.2 | 386.2 | 2085.6 | 2471.8 |
| August | 934.8 | 154.7 | 1089.5 | 894.1 | 709.3 | 1603.4 |
| September | 331.9 | 1177.6 | 1509.5 | 370.2 | 2464.7 | 2834.9 |
| October | | | | 321.8 | 803.4 | 1125.2 |
| November | | | | 1520.8 | 181.6 | 1702.4 |
| December | | | | 1582.1 | 87 | 1669.1 |

Source: *Reserve Bank of India*

The corporate sector raised US $1.5 billion thorough ECBs and FCCBs in September 2009. Out of this, US $0.3 billion was raised through the automatic route by a total of 34 companies. Amtek Auto Ltd., which was the only company to raise capital through FCCBs in this month, raised the highest of US $175 million through the automatic route, followed by FMI Automotive Components Ltd at US $17 million.

A total of 10 companies raised US $1.2 billion of capital via the approval route, of which a bulk of US $450 million and US $384 million was raised by the Indian Railway Finance Corporation Ltd. and Tata Steel Ltd. respectively.

## 14.6 Movements in REER and NEER

As per the 36-currency based weights, both REER and NEER recorded a fall in September 2009, reflecting a depreciation of the rupee vis-à-vis the other currencies included in the index. The 6- currency trade based weights saw the steepest fall in NEER in September 2009 during the fiscal so far. The REER on the other hand increased the most in September, indicating a relatively lower level of inflation in India compared to the other 6 countries/regions.

**Table 14.6 : Indices of REER and NEER of the Indian Rupee**

| Year/Month | 36-Currency Export and Trade based Weights (Base 1993-94=100) | | | | 6-Currency Trade Based Weights | | | |
|---|---|---|---|---|---|---|---|---|
| | Trade Based | | Export Based | | Base: 1993-94=100 | | Base: 2007-08=100 | |
| | NEER | REER | NEER | REER | NEER | REER | NEER | REER |
| **2009-10 (P) as on** | | | | | | | | |
| 16-Oct | | | | | 62.83 | 104.92 | 84.04 | 91.85 |
| 9-Oct | | | | | 62.87 | 104.99 | 84.1 | 91.91 |
| 1-Oct | | | | | 61.27 | 102.78 | 81.95 | 89.97 |
| 25-Sep | | | | | 61.12 | 102.66 | 81.75 | 89.87 |
| September | 82.14 | 90.14 | 79.37 | 89.46 | 60.61 | 101.56 | 81.08 | 88.91 |
| August | 83.08 | 90.22 | 80.2 | 89.57 | 61.22 | 100.77 | 81.9 | 88.21 |
| July | 83.39 | 89.82 | 80.48 | 89.15 | 61.36 | 100.64 | 82.08 | 88.1 |
| June | 84.77 | 90.28 | 81.85 | 89.63 | 62.43 | 101.11 | 83.51 | 88.51 |
| May | 84.42 | 89.76 | 81.58 | 89.14 | 62.31 | 101.37 | 83.35 | 88.74 |
| April | 83.61 | 87.67 | 80.72 | 87.14 | 61.49 | 98.58 | 82.25 | 86.3 |
| **2008-09 (P)** | | | | | | | | |
| March | 80.67 | 88.04 | 80.36 | 87.27 | 60.35 | 95.68 | 80.73 | 83.76 |
| February | 83.84 | 90.59 | 83.47 | 90.14 | 62.97 | 99.43 | 84.23 | 87.04 |
| January | 82.27 | 89.8 | 81.85 | 89.28 | 62.49 | 99.23 | 83.59 | 86.86 |
| December | 82.47 | 90.01 | 82.25 | 89.81 | 62.35 | 99.93 | 83.4 | 87.47 |
| November | 83.39 | 92.17 | 83.16 | 92.04 | 63.25 | 102.45 | 84.61 | 89.68 |
| October | 81.91 | 92.01 | 81.81 | 91.99 | 62.34 | 102.09 | 83.38 | 89.37 |
| September | 83.96 | 95.69 | 84.06 | 95.68 | 64.81 | 106.96 | 86.7 | 93.63 |
| August | 87.04 | 99.45 | 87.27 | 99.47 | 67.64 | 111.2 | 90.48 | 97.34 |
| July | 85.41 | 97.22 | 85.83 | 97.34 | 66.3 | 107.91 | 88.69 | 94.46 |
| June | 86.03 | 97.58 | 86.36 | 97.49 | 66.85 | 108.22 | 89.42 | 94.74 |
| May | 87.39 | 97.55 | 87.69 | 97.33 | 67.98 | 108.34 | 90.94 | 94.84 |
| April | 91.51 | 101.67 | 91.92 | 101.6 | 71.18 | 112.23 | 95.21 | 98.25 |
| **2007-08** | 93.91 | 104.81 | 95.3 | 104.12 | 74.76 | 114.23 | 100 | 100 |

Notes: Rise in indices indicates appreciation of rupee and vice versa.
Base year 2007-08 is a moving one, which gets updated every year.
Source*: RBI Bulletin*

The weekly movements in effective exchange rates in October 2009 based on the 6-currency trade based weights reveal a gradual appreciation of the rupee up to the week ending October 9, 2009 and depreciation in the following week. Looking at the surging capital inflows to the country and the weakening of the US dollar, the rupee is expected to appreciate further in the coming months.

### 14.7 Summing Up

Though the domestic economy has started showing signs of revival in terms of better growth projections and industrial production figures, the external sector, being dependent on world economies, is still reeling under the adverse effects of the recession. Nonetheless, there are positive signs in terms of a lower rate of fall in exports on account of government stimulus given to the sector. But the external economy can stand on its own feet only when the world economic scene gets brighter. Going by the IMF projections of the global economy (World Economic Outlook, October 2009), world output is expected to shrink by 1.1% and that of the advanced economies by 3.4% in 2009. World trade volume is set to lower by another 11.9% in the same period. Taking these factors into account, India's external sector would recover only in 2010. Until then, the government's stimulus packages are necessary to support the sector.

**Appendix I: Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters 2009-10**

| Indicators | Actual 2008-09 | Annual forecasts | | | | Quarterly forecasts | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2009-10 | | 2010-11 | | 2009-10 | | | | | | 2010-11 | | | |
| | | | | | | Q2 | | Q3 | | Q4 | | Q1 | | Q2 | |
| | | E | L | E | L | E | L | E | L | E | L | E | L | E | L |
| Real GDP growth rate at factor cost (in%) | 6.7 | 6.5 | 6 | 7.5 | 7.7 | 6.2 | 6.2 | 6.9 | 5.7 | 7.1 | 6.7 | 7.5 | 7.3 | - | 7.6 |
| a. Agriculture & Allied Activities | 1.6 | 2.5 | -1.4 | 3.0 | 3.7 | 2.4 | -1.0 | 3.5 | -3.7 | 3.0 | -1.0 | 3.0 | 2.0 | - | 2.7 |
| b. Industry | 2.6 | 4.8 | 6.3 | 7.4 | 7.3 | 3.5 | *6.6* | 5.9 | 6.9 | 7.2 | 6.9 | 7.0 | 6.7 | - | 6.7 |
| c. Services | 9.4 | 8.3 | 8.1 | 9.0 | 9.1 | 8.0 | 7.8 | 8.5 | 8.4 | 8.5 | 8.6 | 8.8 | 8.9 | - | 9.1 |
| Gross Domestic Saving (% of GDP at current market price) | - | 35 | 33.6 | 36 | 36.6 | - | - | - | - | - | - | - | - | - | - |
| Gross Domestic Capital Formation (per cent of GDP at current market price) | - | 36.6 | 37.3 | 37.9 | 37.7 | 36.4 | 34.8 | 38 | 36.5 | 37 | 36 | 36.2 | 36.2 | - | - |
| Export (growth rate in %)! | 5.4 | -0.5 | -5.0 | 12.0 | 14.2 | - | - | - | - | - | - | - | - | - | - |
| a. Import (growth rate in %)! | 14.3 | -3.5 | -15.7 | 14 | 12 | - | - | - | - | - | - | - | - | - | - |
| b. Trade Balance (US $ billion) | -119.4 | – | – | – | – | -25.8 | -23.5 | -31 | -28.1 | -19.9 | -22.1 | -29.3 | -20.7 | – | -28.9 |

E : Earlier Projection. L : Latest Projection, – : Not Available. # : Actuals. * : BSE listed companies. !:US$ on BoP basis.

Note : The latest round refers to ninth round for the quarter ended September 2009, while earlier round refers to eighth round for the quarter ended June 2009.

Source : Survey of Professional Forecasters, Second Quarter 2009-10.

**Appendix II: GDP Projections for 2009-10 and 2010-11**

| | | Annual Forecasts for 2009-10 | | | | Annual Forecasts for 2010-11 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Maximum | Minimum | Mean | Median | Maximum | Minimum |
| 1 | Real GDP growth rate at factor cost (in %) | 6.1 | 6.0 | 7.0 | 5.8 | 7.7 | 7.7 | 8.2 | 7.0 |
| | a. Agriculture & Allied Activities | -1.7 | -1.4 | 0.6 | -5.7 | 3.8 | 3.7 | 7.6 | 2.0 |
| | b. Industry | 6.6 | 6.3 | 8.3 | 5.5 | 7.4 | 7.3 | 9.3 | 6.0 |
| | c. Services | 8.2 | 8.1 | 9.1 | 7.2 | 9.0 | 9.1 | 9.4 | 8.0 |
| 2 | Private Final Consumption Expenditure | 7.3 | 7.0 | 12.5 | 3.3 | 9.3 | 10.0 | 13.0 | 5.4 |
| 3 | Gross Domestic Saving (% of GDP at current market price) | 34.5 | 33.6 | 37.9 | 32.0 | 36.1 | 36.6 | 38.7 | 34.0 |
| 4 | Gross Domestic Capital Formation (% of GDP at current market price) | 36.5 | 37.3 | 39.1 | 32.1 | 37.6 | 37.7 | 40.7 | 34.3 |
| 5 | Gross Fixed Capital Formation (% of GDP at current market price) | 33.3 | 33.5 | 35.0 | 29.1 | 35.8 | 36.0 | 38.0 | 33.7 |
| 6 | Money Supply ($M_3$) (growth rate in %) | 18.8 | 19.0 | 22.0 | 16.0 | 19.2 | 19.5 | 20.5 | 16.0 |
| 7 | Bank Credit (growth rate in %) | 16.5 | 17.0 | 19.0 | 15.0 | 20.2 | 20.0 | 25.7 | 17.0 |
| 8 | Combined Gross Fiscal Deficit (% of GDP) | 11.1 | 11.0 | 14.0 | 10.0 | 9.3 | 9.0 | 11.0 | 8.0 |
| 9 | Central Govt. Fiscal Deficit (% of GDP) | 7.0 | 7.0 | 7.5 | 6.8 | 5.7 | 5.8 | 6.5 | 5.0 |
| 10 | Export (growth rate in %) | -5.2 | -5.0 | 1.8 | -10.7 | 14.9 | 14.2 | 20.0 | 10.0 |
| 11 | Import (Growth rate in %) | -13.7 | -15.7 | -3.9 | -21.0 | 13.5 | 12.0 | 27.4 | -12.0 |
| 12 | Trade Balance (% of GDP) | -7.8 | -7.7 | -5.9 | -10.1 | -7.8 | -6.9 | -6.1 | -10.6 |

Source: RBI

**Appendix III: Quarterly Forecasts**

| | 2010-11 | | | | | | | | 2009-10 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q2 | | | | Q1 | | | | Q4 | | | | Q3 | | | | Q2 | | | | Q1 |
| | Mean | Median | Max | Min | Mean | Median | Max | Min | Mean | Median | Max | Min | Mean | Median | Max | Min | Mean | Median | Max | Min | Actual |
| Real GDP growth rate at factor cost | 7.7 | 7.6 | 8.5 | 7.2 | 7.4 | 7.3 | 8.0 | 6.8 | 6.6 | 6.7 | 7.9 | 5.0 | 5.6 | 5.7 | 6.8 | 4.0 | 5.9 | 6.2 | 6.4 | 4.9 | 6.1 |
| Agriculture & Allied Activities | 2.8 | 2.7 | 4.0 | 1.5 | 1.7 | 2.0 | 3.5 | -0.3 | -0.5 | -1.0 | 4.0 | -4.0 | -3.5 | -3.7 | -1.0 | -6.0 | -0.9 | -1.0 | 3.0 | -3.0 | 2.4 |
| Industry | 6.9 | 6.7 | 9.5 | 4.1 | 7.2 | 6.7 | 9.0 | 6.0 | 7.4 | 6.9 | 9.4 | 6.0 | 7.3 | 6.9 | 11.7 | 4.0 | 6.6 | 6.6 | 8.7 | 5.0 | 4.2 |
| Services | 8.9 | 9.1 | 9.9 | 7.3 | 9.0 | 8.9 | 9.8 | 8.3 | 8.6 | 8.6 | 9.6 | 7.2 | 8.5 | 8.4 | 10.3 | 7.7 | 7.8 | 7.8 | 8.3 | 7.4 | 7.7 |
| IIP growth rate (per cent) | 7.4 | 7.3 | 8.5 | 6.3 | 7.6 | 8.0 | 9.0 | 6.0 | 7.7 | 7.4 | 10.3 | 6.4 | 8.0 | 7.2 | 10.9 | 6.5 | 6.8 | 7.0 | 8.1 | 5.2 | 3.7 |
| Private Final Consumption | 9.8 | 11.0 | 12.5 | 4.2 | 8.9 | 9.3 | 12.2 | 4.0 | 7.7 | 8.3 | 9.9 | 3.2 | 6.0 | 7.9 | 8.9 | -0.4 | 5.8 | 6.3 | 7.5 | 3.5 | 6.4 |
| Gross Domestic Capital Formation (% of GDP at current market price) | | | 39.5 | 39.5 | 36.0 | 36.2 | 38.6 | 32.8 | 35.9 | 36.0 | 37.2 | 34.8 | 35.9 | 36.5 | 36.7 | 33.2 | 35.3 | 34.8 | 38.4 | 33.4 | - |
| Gross Fixed Capital Formation (% of GDP at current market price) | 35.8 | 35.9 | 37.5 | 34.0 | 35.1 | 34.5 | 36.8 | 34.0 | 33.7 | 33.5 | 36.8 | 31.5 | 33.0 | 33.0 | 35.5 | 30.2 | 33.8 | 33.4 | 35.1 | 33.0 | 33.5 |
| Export (US $ bn.) | 48.1 | 47.6 | 51.0 | 45.5 | 43.2 | 44.0 | 47.0 | 39.8 | 46.1 | 44.7 | 52.0 | 42.6 | 41.9 | 42.2 | 45.1 | 36.1 | 40.6 | 40.3 | 42.4 | 39.0 | - |
| Import (US $ bn.) | 80.3 | 75.5 | 100.6 | 65.8 | 65.0 | 63.6 | 74.8 | 61.1 | 69.5 | 67.3 | 90.0 | 55.7 | 69.2 | 69.6 | 77.0 | 63.3 | 66.6 | 63.5 | 80.3 | 59.5 | - |
| Trade Balance (US $ bn.) | -32.2 | -28.9 | -17.0 | -49.6 | -21.8 | -20.7 | -16.1 | -27.8 | -23.4 | -22.1 | -12.1 | -38.0 | -27.3 | -28.1 | -18.2 | -35.9 | -26.0 | -23.5 | -19.2 | -38.2 | - |

Source: RBI

| Appendix IV: Water Storage in the Major Reserviors as on Nov 6, 2009 | | | | | | |
|---|---|---|---|---|---|---|
| States | No. of Reserviors | Live Capacity at FRL (BCM) | This year Reservior Storage (BCM) | Last year Reservior Storage (BCM) | Storage as a percentage of Last year | Average of Last Ten years |
| Northern Region | | | | | | |
| Himachal Pradesh | 2 | 12.4 | 6.1 | 11.1 | 55.3 | 8.7 |
| Punjab | 1 | 2.3 | 0.6 | 1.3 | 44.7 | 1.0 |
| Rajasthan | 3 | 3.3 | 1.7 | 2.4 | 69.6 | 2.1 |
| Eastern Region | | | | | | |
| Jharkhand | 5 | 1.8 | 1.4 | 1.3 | 107.3 | 1.2 |
| Orissa | 7 | 15.3 | 9.8 | 11.5 | 85.5 | 12.0 |
| Tripura | 1 | 0.3 | 0.1 | 0.1 | 0.0 | 0.2 |
| West Bengal | 2 | 1.4 | 0.4 | 0.8 | 45.5 | 0.9 |
| Western Region | | | | | | |
| Gujarat | 8 | 10.9 | 5.5 | 7.3 | 75.1 | 7.4 |
| Maharashtra | 11 | 11.0 | 6.5 | 9.0 | 72.0 | 8.2 |
| Central Region | | | | | | |
| Uttar Pradesh | 2 | 6.4 | 2.6 | 3.4 | 75.5 | 4.1 |
| Uttrakhand | 2 | 4.8 | 2.9 | 3.8 | 75.9 | 3.1 |
| Madhya Pradesh | 5 | 26.9 | 13.5 | 12.1 | 111.2 | 11.0 |
| Chhattisgarh | 2 | 3.8 | 1.9 | 2.7 | 70.8 | 2.7 |
| Southern Region | | | | | | |
| Andhra Pradesh | 5 | 20.0 | 15.4 | 16.8 | 91.3 | 14.3 |
| Karnataka | 14 | 23.3 | 19.8 | 17.9 | 110.1 | 17.7 |
| Kerala | 5 | 3.6 | 2.8 | 2.4 | 116.8 | 2.6 |
| Tamil Nadu | 6 | 4.2 | 2.0 | 2.9 | 71.2 | 2.9 |
| **Total** | **81** | **151.8** | **92.8** | **106.7** | **86.9** | **100.2** |

Source: Central Water Commission *(www.cwc.nic.in)*

**Appendix V: Agriculture Production Trends**

| Crops | Season | 2009-10 | 2008-09 | | Year-on-Year | |
|---|---|---|---|---|---|---|
| | | I Advance Estimates | I Advance Estimates | Final Advance Estimates | Percentage Variation | |
| (1) | (2) | (3) | (4) | (5) | (3)/(4) | (3)/(5) |
| | | | | | | *(million tonnes)* |
| Rice | Kharif | 69.5 | 80.2 | 84.6 | -13.3 | -17.9 |
| Jowar | Kharif | 2.6 | 3.1 | 3.1 | -17.5 | -17.7 |
| Bajra | Kharif | 5.8 | 9.2 | 8.8 | -36.4 | -34.0 |
| Maize | Kharif | 12.6 | 13.0 | 13.9 | -3.3 | -9.3 |
| Ragi | Kharif | 1.5 | 1.7 | 2.1 | -12.9 | -28.2 |
| Small Millets | Kharif | 0.3 | 0.4 | 0.5 | -19.4 | -35.6 |
| Coarse Cereals | Total | 22.8 | 27.4 | 28.3 | -16.8 | -19.7 |
| Tur | Kharif | 2.5 | 2.4 | 2.3 | 4.2 | 6.9 |
| Urad | Kharif | 0.9 | 0.8 | 0.8 | 7.3 | 6.0 |
| Moong | Kharif | 0.5 | 0.8 | 0.8 | -32.5 | -32.5 |
| Total Pulses | Kharif | 4.4 | 4.7 | 4.8 | -6.4 | -7.5 |
| Total Foodgrains | Kharif | 96.6 | 115.3 | 117.7 | -16.2 | -17.9 |
| Groundnut | Kharif | 4.5 | 6.1 | 7.2 | -25.7 | -37.3 |
| Csstor seed | Kharif | 0.9 | 0.9 | 1.1 | 1.6 | -15.2 |
| Sesamum | Kharif | 0.6 | 0.6 | 0.7 | -2.0 | -24.7 |
| Nigerseed | Kharif | 0.1 | 0.1 | 0.1 | -30.4 | -38.3 |
| Sunflower | Kharif | 0.2 | 0.3 | 0.4 | -34.1 | -45.7 |
| Soyabean | Kharif | 9.0 | 9.9 | 9.9 | -10.0 | -9.6 |
| Total Oilseeds | Kharif | 15.2 | 17.9 | 17.9 | -15.1 | -14.8 |
| Cotton# | Total | 23.7 | 23.9 | 23.2 | -1.0 | 2.2 |
| Jute ## | Total | 9.7 | 10.3 | 9.6 | -6.0 | 0.7 |
| Mesta ## | Total | 0.5 | 0.8 | 0.8 | -33.3 | -29.5 |
| Jute & Mesta ## | Total | 10.2 | 11.1 | 10.4 | -8.0 | -1.6 |
| Sugarcane (cane) | Total | 249.5 | 294.7 | 273.9 | -15.3 | -8.9 |

#Million bales of 170 kgs. each, # # Million bales of 180 kgs. each

Source: Agricultural Statistics Division, Directorate of Economics and Statistics Department of Agriculture & Cooperation

**Appendix VI : Growth in Manufacturing Sector at Two-Digit Classification**

*(Base : 1993-94 =100)*

| Major Groups | Weight | September | | April-September | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009-10 | 2008-09 |
| General Index | 100.0 | 292.3 (10.4) | 264.7 (1.7) | 284.8 (5.8) | 269.2 (4.8) |
| Manufacturing | 79.4 | 326.1 (9.3) | 298.4 (6.2) | 308.8 (6.3) | 290.4 (5.3) |
| Food Products | 9.1 | 122.5 (-10.2) | 136.4 (8.1) | 131.5 (-11.6) | 148.8 (-1.0) |
| Beverages,Tobacco and Related Products | 2.4 | 515.1 (-3.8) | 535.2 (10.6) | 564.2 (-2.6) | 579.1 (20.3) |
| Cotton Textiles | 5.5 | 159.9 (1.7) | 157.3 (-5.2) | 165.8 (0.9) | 164.3 (0.1) |
| Wool, Silk and man-made Fibre Textiles | 2.3 | 281.5 (6.5) | 264.3 (0.8) | 305.9 (11.7) | 273.8 (-0.9) |
| Jute and Other Vegetable Fibre Textiles (except cotton) | 0.6 | 104.1 (-15.3) | 122.9 (-0.4) | 95.3 (-16.2) | 113.7 (-5.5) |
| Textiles products (including Wearing Apparel) | 2.5 | 314.3 (0.8) | 311.9 (7.7) | 337.6 (9.0) | 309.7 (5.2) |
| Wood and Wood Products, Furniture and Fixtures | 2.7 | 127.6 (2.9) | 124.0 (-2.7) | 129.7 (6.8) | 121.4 (-6.1) |
| Paper & Paper Products and Printing, Publishing and Allied Industries | 2.7 | 273.9 (-2.2) | 280.2 (11.8) | 265.3 (1.5) | 261.3 (4.6) |
| Leather & Leather and Fur Products | 1.1 | 149.1 (1.0) | 147.6 (-14.1) | 164.3 (1.1) | 162.5 (-1.8) |
| Basic Chemicals & Chemical Products | 14.0 | 372.5 (20.1) | 310.1 (-3.6) | 361.7 (7.5) | 336.5 (6.1) |
| Rubber,Plastic,Petroleum and Coal Products | 5.7 | 257.1 (10.1) | 233.6 (-2.9) | 266.3 (12.6) | 236.4 (-4.0) |
| Non-Metallic Mineral Products | 4.4 | 327.1 (2.9) | 317.9 (-0.1) | 344.4 (7.2) | 321.4 (0.6) |
| Basic Metals and Alloy Industries | 7.5 | 349.4 (2.9) | 331.1 (7.2) | 343.6 (7.2) | 321.7 (6.7) |
| Metal Products and Parts except Machinery | 2.8 | 196.9 (-7.6) | 213.0 (13.1) | 165.0 (-1.6) | 167.7 (1.9) |
| Machinery and Equipment other than Transport Equipments | 9.6 | 554.0 (16.5) | 475.4 (18.8) | 458.2 (11.0) | 412.9 (10.1) |
| Transport Equipment and Parts | 4.0 | 482.1 (8.9) | 442.5 (16.7) | 438.3 (9.1) | 401.8 (12.1) |
| Other Manufacturing Industries | 2.6 | 552.9 (24.5) | 444.0 (10.4) | 370.6 (13.9) | 325.5 (-1.0) |

Note : Indices for September 2009 are quick estimates. Indices for April-September 2009 incorporate updated production data. Figures in brackets indicate growth over corresponding period of the previous year.

Source: CSO, Ministry of Statistics and Programme Implementation *(www.mospi.nic.in)*

| Appendix VII: State-wise Power Supply Position | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September-2009 | | | | April-September 2009 | | | |
| | Requirement | Availability | Surplus/Deficit | | Requirement | Availability | Surplus/Deficit | |
| | *( MU )* | *( MU )* | *( MU )* | *( % )* | *( MU )* | *( MU )* | *( MU )* | *( % )* |
| Chandigarh | 160 | 134 | -26 | -16.5 | 915 | 889 | -26 | -2.8 |
| Delhi | 2,215 | 2,204 | -11 | -0.5 | 14,167 | 14,027 | -140 | -1 |
| Haryana | 3,025 | 2,923 | -102 | -3.4 | 18,207 | 17,427 | -780 | -4.3 |
| Himachal Pradesh | 569 | 541 | -28 | -4.9 | 3,375 | 3,272 | -103 | -3.1 |
| Jammu&Kashmir | 1,082 | 809 | -273 | -25.3 | 6,244 | 4,661 | -1,583 | -25.4 |
| Punjab | 4,741 | 3,747 | -994 | -21 | 27,312 | 23,180 | -4,132 | -15.1 |
| Rajasthan | 3,303 | 3,248 | -55 | -1.7 | 20,266 | 19,351 | -915 | -4.5 |
| Uttar Pradesh | 6,255 | 4,897 | -1,359 | -21.7 | 39,283 | 30,497 | -8,786 | -22.4 |
| Uttarakhand | 732 | 708 | -24 | -3.2 | 4,462 | 4,261 | -201 | -4.5 |
| **Northern Region** | 22,081 | 19,209 | -2,872 | -13 | 134,229 | 117,561 | -16,668 | -12.4 |
| Chattisgarh | 1,155 | 1,124 | -31 | -2.7 | 6,735 | 6,548 | -187 | -2.8 |
| Gujarat | 6,134 | 6,060 | -74 | -1.2 | 33,606 | 33,080 | -526 | -1.6 |
| Madhya Pradesh | 3,296 | 2,734 | -562 | -17.1 | 19,283 | 15,620 | -3,663 | -19 |
| Maharashtra | 9,835 | 8,080 | -1,755 | -17.8 | 60,860 | 50,113 | -10,747 | -17.7 |
| Daman & Diu | 169 | 151 | -18 | -10.7 | 985 | 879 | -106 | -10.8 |
| D.N.Haneli | 323 | 309 | -14 | -4.3 | 1,970 | 1,837 | -133 | -6.8 |
| Goa | 235 | 231 | -4 | -1.7 | 1,507 | 1,459 | -48 | -3.2 |
| **Western Region** | 21,147 | 18,689 | -2,458 | -11.6 | 124,947 | 109,537 | -15,410 | -12.3 |
| Andhra Pradesh | 6,504 | 6,152 | -353 | -5.4 | 38,763 | 35,963 | -2,800 | -7.2 |
| Karnataka | 3,172 | 2,997 | -175 | -5.5 | 21,479 | 20,049 | -1,430 | -6.7 |
| Kerala | 1,390 | 1,365 | -24 | -1.8 | 8,568 | 8,307 | -261 | -3 |
| Tamil Nadu | 6,184 | 5,828 | -356 | -5.7 | 38,104 | 36,057 | -2,047 | -5.4 |
| Puducherry | 171 | 165 | -6 | -3.6 | 1,101 | 994 | -107 | -9.7 |
| Lakshadweep# | 2 | 2 | 0 | 0 | 12 | 12 | 0 | 0 |
| **Southern Region** | 17,421 | 16,507 | -914 | -5.2 | 108,015 | 101,370 | -6,645 | -6.2 |
| Bihar | 1,004 | 864 | -140 | -13.9 | 5,877 | 5,023 | -854 | -14.5 |
| DVC | 1,236 | 1,195 | -41 | -3.3 | 7,387 | 7,165 | -222 | -3 |
| Jharkhand | 460 | 449 | -11 | -2.4 | 2,829 | 2,694 | -135 | -4.8 |
| Orissa | 1,845 | 1,825 | -20 | -1.1 | 10,766 | 10,642 | -124 | -1.2 |
| West Bengal | 2,908 | 2,819 | -89 | -3.1 | 17,604 | 17,026 | -578 | -3.3 |
| Sikkim | 18 | 18 | 0 | 0 | 183 | 143 | -40 | -21.9 |
| Andaman-Nicobar# | 20 | 15 | -5 | -25 | 120 | 90 | -30 | -25 |
| **Eastern Region** | 7,471 | 7,170 | -301 | -4 | 44,646 | 42,693 | -1,953 | -4.4 |
| Arunachal Pradesh | 41 | 33 | -8 | -19.5 | 190 | 151 | -39 | -20.5 |
| Assam | 488 | 433 | -55 | -11.3 | 2,674 | 2,394 | -280 | -10.5 |
| Manipur | 50 | 43 | -7 | -14 | 243 | 185 | -58 | -23.9 |
| Meghalaya | 146 | 124 | -22 | -15.1 | 770 | 647 | -123 | -16 |
| Mizoram | 29 | 23 | -6 | -20.7 | 170 | 132 | -38 | -22.4 |
| Nagaland | 42 | 39 | -3 | -7.1 | 258 | 215 | -43 | -16.7 |
| Tripura | 78 | 70 | -8 | -10.3 | 458 | 405 | -53 | -11.6 |
| **North-Eastern Region** | 874 | 765 | -109 | -12.5 | 4,762 | 4,130 | -632 | -13.3 |
| **All India** | 68,994 | 62,339 | -6,654 | -9.6 | 416,599 | 375,291 | -41,308 | -9.9 |

# : These are stand alone items and do not form part of regional requirement and availability.

Source: *www.cea.nic.in*

**Appendix VIII: Monthly Trends in WPI and Major Groups** *(%)*

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|---|---|---|---|
| All Commodities | | | | | | | | | | |
| Apr | 6.5 | 5.4 | 1.5 | 6.7 | 4.5 | 5.9 | 3.9 | 6.3 | 8.0 | 1.3 |
| May | 6.3 | 5.6 | 1.6 | 6.5 | 5.0 | 5.5 | 4.8 | 5.5 | 8.9 | 1.4 |
| Jun | 6.6 | 5.3 | 2.4 | 5.3 | 6.7 | 4.3 | 5.1 | 4.5 | 11.8 | -1.0 |
| Jul | 6.5 | 5.2 | 2.8 | 4.7 | 7.6 | 4.3 | 4.8 | 4.7 | 12.4 | -0.7 |
| Aug | 6.1 | 5.4 | 3.3 | 3.9 | 8.5 | 3.7 | 5.1 | 4.1 | 12.8 | -0.2 |
| Sep | 6.5 | 4.5 | 3.5 | 4.9 | 7.9 | 4.1 | 5.4 | 3.5 | 12.3 | 0.5 |
| Oct | 7.5 | 2.9 | 3.1 | 5.1 | 7.3 | 4.7 | 5.5 | 3.1 | 11.1 | 1.3 |
| Nov | 7.6 | 2.6 | 3.4 | 5.4 | 7.5 | 4.2 | 5.5 | 3.3 | 8.5 | |
| Dec | 8.5 | 2.1 | 3.3 | 5.7 | 6.8 | 4.4 | 5.7 | 3.8 | 6.1 | |
| Jan | 8.7 | 1.5 | 4.2 | 6.5 | 5.5 | 4.1 | 6.4 | 4.5 | 5.0 | |
| Feb | 8.3 | 1.4 | 5.3 | 6.1 | 5.0 | 4.0 | 6.4 | 5.3 | 3.5 | |
| Mar | 6.4 | 1.8 | 6.0 | 4.8 | 5.3 | 3.9 | 6.6 | 7.5 | 1.2 | |
| Mar-Oct | 5.6 | 2.1 | 3.5 | 2.6 | 5.1 | 4.4 | 6.0 | 2.6 | 6.0 | 6.1 |
| Oct-Mar | 0.8 | -0.4 | 2.4 | 2.1 | 0.3 | -0.5 | 0.5 | 4.8 | -4.5 | |
| Primary Articles | | | | | | | | | | |
| Apr | 3.1 | 2.2 | 2.4 | 6.4 | 2.2 | 2.1 | 4.3 | 12.0 | 8.9 | 6.6 |
| May | 4.6 | 2.8 | 1.1 | 7.0 | 3.5 | 0.9 | 6.3 | 10.1 | 9.5 | 6.3 |
| Jun | 5.2 | 3.1 | 1.3 | 6.9 | 3.6 | 0.2 | 7.4 | 7.6 | 10.6 | 6.5 |
| Jul | 3.8 | 2.9 | 2.2 | 4.8 | 5.1 | 1.8 | 5.0 | 10.7 | 10.8 | 7.2 |
| Aug | 1.4 | 4.1 | 3.5 | 1.8 | 7.6 | 0.9 | 5.7 | 9.2 | 11.4 | 8.0 |
| Sep | 0.7 | 5.1 | 3.5 | 2.9 | 6.4 | 1.7 | 8.0 | 6.8 | 11.6 | 9.4 |
| Oct | 1.9 | 4.1 | 2.6 | 4.6 | 4.4 | 3.5 | 7.8 | 4.9 | 12.4 | 8.7 |
| Nov | 1.8 | 4.2 | 3.8 | 3.9 | 4.4 | 4.4 | 7.1 | 4.6 | 12.1 | |
| Dec | 3.9 | 4.3 | 3.2 | 3.5 | 3.0 | 4.9 | 9.0 | 4.5 | 11.1 | |
| Jan | 3.9 | 3.1 | 4.4 | 4.8 | 1.3 | 5.5 | 10.0 | 4.9 | 10.7 | |
| Feb | 3.1 | 3.7 | 5.9 | 3.3 | 0.9 | 4.8 | 11.5 | 7.3 | 6.9 | |
| Mar | 1.2 | 3.7 | 6.3 | 1.6 | 1.7 | 4.4 | 11.8 | 9.9 | 5.2 | |
| Mar-Oct | 2.9 | 5.8 | 4.7 | 3.0 | 5.8 | 7.6 | 11.2 | 4.3 | 6.6 | 10.2 |
| Oct-Mar | -1.6 | -2.0 | 1.5 | -1.3 | -3.9 | -3.0 | 0.6 | 5.4 | -1.3 | |
| Fuel, Power,Light and Lubricants | | | | | | | | | | |
| Apr | 27.0 | 14.9 | 3.5 | 10.3 | 3.6 | 11.2 | 8.2 | 1.1 | 7.0 | -5.7 |
| May | 26.8 | 15.0 | 3.5 | 7.5 | 6.7 | 10.9 | 9.2 | 0.6 | 7.7 | -6.1 |
| Jun | 26.7 | 14.5 | 5.1 | 5.3 | 9.7 | 10.5 | 8.9 | -0.8 | 16.3 | -12.5 |
| Jul | 26.7 | 14.3 | 7.2 | 4.6 | 10.3 | 10.7 | 7.4 | -1.5 | 17.2 | -10.3 |
| Aug | 26.8 | 15.6 | 5.2 | 4.9 | 12.1 | 8.8 | 8.1 | -1.9 | 17.2 | -9.3 |
| Sep | 28.8 | 11.6 | 5.5 | 6.6 | 10.7 | 11.0 | 5.6 | -2.5 | 16.6 | -8.2 |
| Oct | 32.8 | 5.2 | 4.6 | 5.4 | 11.0 | 11.0 | 5.1 | -1.6 | 14.1 | -6.6 |
| Nov | 31.6 | 4.8 | 4.4 | 6.0 | 13.9 | 7.4 | 4.6 | 0.1 | 6.4 | |
| Dec | 30.3 | 5.1 | 4.3 | 7.7 | 12.2 | 7.8 | 3.7 | 2.9 | -0.2 | |
| Jan | 30.9 | 3.9 | 6.0 | 8.2 | 10.1 | 7.9 | 3.6 | 3.8 | -1.7 | |
| Feb | 30.8 | 1.9 | 7.5 | 7.3 | 10.5 | 8.5 | 1.8 | 4.8 | -3.4 | |
| Mar | 21.9 | 4.6 | 9.1 | 3.3 | 10.4 | 8.9 | 1.4 | 6.8 | -6.0 | |
| Mar-Oct | 19.8 | 3.4 | 3.4 | -0.1 | 7.3 | 7.9 | 4.2 | 1.2 | 8.1 | 7.5 |
| Oct-Mar | 1.7 | 1.1 | 5.5 | 3.4 | 2.8 | 0.9 | -2.8 | 5.5 | -13.1 | |
| Manufactured Products | | | | | | | | | | |
| Apr | 2.8 | 3.7 | 0.5 | 5.3 | 5.9 | 5.4 | 2.0 | 6.2 | 8.1 | 1.8 |
| May | 1.9 | 3.7 | 1.0 | 6.0 | 5.0 | 5.4 | 2.5 | 5.5 | 9.0 | 2.2 |
| Jun | 1.9 | 3.4 | 1.9 | 4.8 | 7.0 | 3.7 | 2.8 | 5.5 | 10.6 | 0.6 |
| Jul | 2.6 | 3.4 | 1.5 | 4.8 | 7.7 | 2.9 | 3.7 | 4.9 | 11.1 | 0.0 |
| Aug | 2.9 | 2.8 | 2.7 | 4.4 | 7.5 | 2.8 | 3.7 | 4.7 | 11.7 | 0.1 |
| Sep | 3.1 | 1.9 | 3.0 | 5.0 | 7.4 | 2.4 | 4.3 | 4.7 | 10.9 | 0.3 |
| Oct | 3.1 | 1.5 | 2.8 | 5.3 | 7.1 | 2.9 | 4.6 | 4.3 | 9.4 | 1.4 |
| Nov | 3.5 | 1.2 | 2.8 | 5.9 | 6.4 | 2.9 | 5.2 | 4.0 | 7.8 | |
| Dec | 4.4 | 0.2 | 3.1 | 6.1 | 6.2 | 3.1 | 5.2 | 3.9 | 6.6 | |
| Jan | 4.5 | 0.1 | 3.5 | 6.6 | 5.5 | 2.1 | 6.1 | 4.5 | 5.3 | |
| Feb | 4.2 | 0.2 | 4.4 | 6.9 | 4.6 | 2.0 | 6.2 | 4.6 | 4.8 | |
| Mar | 4.0 | -0.1 | 4.8 | 6.6 | 5.0 | 1.7 | 6.7 | 6.9 | 2.3 | |
| Mar-Oct | 2.6 | 0.1 | 3.0 | 3.5 | 4.0 | 1.9 | 4.8 | 2.5 | 4.9 | 3.9 |
| Oct-Mar | 1.4 | -0.2 | 1.8 | 3.0 | 1.0 | -0.2 | 1.8 | 4.3 | -2.5 | |

Source: www.eaindustry.nic.in

**Appendix IX: Trends in Wholesale Price Indices (1993-94=100) - Month over Month**

| Weight | Commodities | Index Oct, 09 | Increase (+) / Decrease (-) | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Over the Month | | Over the Year | | Financial Year so far | |
| | | | Oct-2009 Over Sep-2009 | Oct-2008 Over Sep-2008 | Oct-2009 Over Oct-2008 | Oct-2008 Over Oct-2007 | Oct-2009 Over Mar 2009 | Oct-2008 Over Mar 2008 |
| **100.00** | **ALL COMMODITIES** | **242.2** | **-0.2** | **-1.0** | **1.3** | **11.1** | **6.1** | **6.0** |
| **22.03** | **I PRIMARY ARTICLE** | **273.4** | **-0.9** | **-0.3** | **8.7** | **12.4** | **10.2** | **6.6** |
| 15.40 | Food Articles | 278.2 | -1.0 | 1.1 | 13.3 | 9.9 | 14.1 | 8.3 |
| 5.01 | Food Grains(Cereals+Pulses) | 266.6 | 1.6 | 2.4 | 13.3 | 8.8 | 7.5 | 5.8 |
| 4.41 | Cereals | 258.6 | 1.7 | 2.8 | 11.8 | 8.8 | 5.6 | 5.5 |
| 2.45 | Rice | 243.3 | 2.6 | 5.9 | 13.2 | 11.2 | 4.8 | 8.0 |
| 1.38 | Wheat | 254.9 | 1.7 | -1.3 | 6.9 | 5.0 | 4.4 | 2.2 |
| 0.60 | Pulses | 325.2 | 1.5 | -0.2 | 22.8 | 8.9 | 19.9 | 8.2 |
| 0.22 | Gram | 205.9 | -0.5 | -0.5 | -3.9 | 5.6 | 2.0 | 0.9 |
| 0.13 | Arhar | 353.9 | -0.4 | -0.7 | 55.7 | 9.2 | 39.4 | 4.0 |
| 0.11 | Moong | 402.1 | 6.9 | -1.2 | 36.3 | 17.2 | 30.8 | 15.3 |
| 0.04 | Masur | 458.9 | -0.1 | 2.0 | 15.2 | 21.8 | 12.0 | 14.9 |
| 0.10 | Urad | 422.4 | 1.2 | 1.0 | 21.1 | 1.4 | 16.5 | 14.4 |
| 2.92 | Fruits & Vegetables | 307.8 | -10.5 | 0.4 | 11.1 | 14.3 | 27.8 | 17.3 |
| 1.46 | Vegetables | 305.2 | -16.4 | 3.5 | 17.0 | 12.8 | 58.7 | 28.5 |
| 0.26 | Potatoes | 478.5 | 11.2 | 0.9 | 96.4 | -17.8 | 137.0 | 7.7 |
| 0.09 | Onions | 314.7 | 29.9 | 1.8 | 37.6 | -35.2 | 9.5 | 36.5 |
| 1.46 | Fruits | 310.4 | -3.7 | -2.2 | 5.8 | 15.8 | 7.2 | 8.9 |
| 0.28 | Banana | 281.1 | 2.3 | 1.0 | 4.6 | 13.6 | 12.8 | 12.3 |
| 0.13 | Apples | 569.6 | -3.7 | -0.3 | 20.1 | -1.5 | 9.8 | -7.1 |
| 4.37 | Milk | 252.4 | 1.2 | 0.9 | 10.0 | 7.2 | 7.0 | 4.5 |
| 2.21 | Eggs,Meat & Fish | 308.8 | 3.9 | -0.2 | 23.1 | 7.2 | 23.7 | 3.9 |
| 0.50 | Fish-Inland | 459 | 8.6 | 0.0 | 57.8 | 1.1 | 57.2 | 0.7 |
| 0.44 | Mutton | 385.8 | 3.1 | 0.0 | 29.6 | 14.2 | 28.5 | 5.5 |
| 0.45 | Poultry chicken | 99.4 | -2.1 | 0.0 | 13.2 | 4.4 | 13.2 | 0.0 |
| 0.66 | Condiments & Spices | 317.8 | 0.6 | -0.5 | 14.9 | 13.4 | 15.3 | 14.2 |
| 0.02 | Black pepper | 360 | -0.9 | -1.3 | -4.1 | 1.7 | 5.1 | -9.3 |
| 0.19 | Chillies(Dry) | 464.2 | 0.3 | 0.3 | 7.6 | 18.5 | -4.7 | 22.9 |
| 0.08 | Turmeric | 422.1 | 7.2 | -1.6 | 97.6 | 22.1 | 100.5 | 19.0 |
| 0.02 | Cardamoms | 214.7 | -0.6 | 1.0 | 29.4 | 21.3 | 37.5 | 0.4 |
| 0.03 | Ginger/dry | 317.6 | 0.7 | -2.8 | 23.1 | 43.1 | 12.1 | 5.9 |
| 0.13 | Betelnuts | 182.5 | 2.7 | 0.0 | 11.8 | 0.0 | 11.8 | 0.0 |
| 0.10 | Cummin | 174.5 | -4.0 | -1.4 | 12.7 | 2.2 | 16.6 | 6.6 |
| 0.06 | Garlic | 257.1 | -4.3 | -0.7 | 22.1 | -27.7 | 123.6 | -14.2 |
| 0.24 | Other Food Articles | 240.9 | 1.6 | 3.9 | 4.9 | 48.9 | 23.9 | 42.2 |
| 0.16 | Tea | 226 | 2.6 | 4.1 | 2.8 | 71.4 | 35.2 | 64.8 |
| 0.08 | Coffee | 269.4 | 0.0 | 3.8 | 8.4 | 21.7 | 9.2 | 15.4 |
| 6.14 | Non-Food Articles | 236.4 | -1.3 | -3.7 | -0.8 | 13.8 | 4.8 | 4.7 |
| 1.52 | Fibres | 207.3 | -1.1 | -6.8 | -7.6 | 27.5 | 5.7 | 16.1 |
| 1.36 | Raw Cotton | 207.8 | -1.5 | -7.5 | -8.9 | 31.1 | 5.7 | 18.2 |
| 2.67 | Oil Seeds | 246.9 | -2.3 | -2.0 | 0.6 | 15.3 | 4.2 | 0.4 |
| 0.58 | Rape & mustard seed | 235.2 | -2.4 | 0.8 | -11.0 | 33.6 | 2.5 | 9.4 |
| 0.03 | Copra | 131.1 | -1.9 | -3.0 | -20.6 | 40.2 | -8.4 | 13.3 |
| 0.13 | Gingelly seed | 323 | -4.7 | 2.4 | 24.5 | 36.0 | 15.9 | -3.0 |
| 0.03 | Niger seed | 346.2 | 0.0 | -13.4 | -20.1 | 9.6 | -26.0 | -24.7 |
| 0.48 | Minerals | 587 | 3.0 | 0.0 | -3.7 | 43.4 | -13.1 | -3.3 |
| 0.30 | Metallic Minerals | 879.4 | 3.3 | -0.2 | -1.9 | 45.0 | -14.1 | -4.8 |
| 0.21 | Iron ore | 1108.5 | 4.1 | 0.0 | -5.8 | 42.1 | -18.8 | -8.7 |
| **14.23** | **II Fuel, Power, Light & Lubricant** | **345** | **0.1** | **-1.6** | **-6.6** | **14.1** | **7.5** | **8.1** |
| 6.99 | Minerals Oils | 417.8 | 0.2 | -2.6 | -11.2 | 21.7 | 10.3 | 13.5 |
| 1.84 | Liquified petroleum gas | 352.9 | 0.0 | 0.0 | -7.4 | 13.9 | 0.1 | 13.9 |
| 0.89 | Petrol | 246.7 | 0.0 | 0.0 | -11.9 | 16.2 | 10.0 | 11.2 |
| 0.69 | Kerosene | 357.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.17 | Aviation turbine fuel | 232 | -7.7 | -5.8 | -39.7 | 46.0 | 37.8 | 21.4 |
| 2.02 | High speed diesel oil | 481.4 | 0.0 | 0.0 | -5.9 | 13.8 | 6.5 | 9.8 |
| 0.16 | Light diesel oil | 654.3 | 0.2 | -3.9 | -20.3 | 70.7 | 28.7 | 50.6 |
| 0.42 | Naptha | 658.8 | -0.5 | -12.0 | -25.5 | 32.7 | 28.1 | 8.0 |
| 0.15 | Bitumin | 644.2 | 0.6 | 6.9 | -22.4 | 85.3 | 8.4 | 41.9 |
| 0.49 | Furnace oil | 533.9 | 3.4 | -10.5 | -16.2 | 50.9 | 51.5 | 23.1 |
| 0.16 | Lubricants | 328.8 | 0.0 | 0.4 | -3.5 | 23.9 | 0.0 | 23.4 |
| **63.75** | **III Manufactured Products** | **208.5** | **0.0** | **-1.1** | **1.4** | **9.4** | **3.9** | **4.9** |
| 11.54 | (A) Food Products | 240.1 | -0.2 | -4.0 | 16.6 | 8.6 | 9.3 | 2.1 |
| 0.21 | Ghee | 234.6 | 1.3 | 1.1 | 16.4 | 4.7 | 12.4 | 1.2 |
| 0.05 | Canned fish | 419.4 | 0.0 | 0.0 | 42.8 | 0.0 | 0.0 | 0.0 |
| 3.62 | Sugar | 234 | 1.9 | 0.0 | 45.7 | 13.5 | 29.8 | 9.3 |
| 0.17 | Khandsari | 275.2 | 0.7 | 2.6 | 35.6 | 21.6 | 24.1 | 13.7 |
| 0.06 | Gur | 285.5 | 6.4 | 4.1 | 39.7 | 19.1 | 18.1 | 16.0 |
| 2.76 | Edible Oils | 174.7 | -2.0 | -2.4 | -7.0 | 9.0 | -2.2 | -4.3 |
| 0.49 | Rape & Mustard Oil | 201.2 | -5.8 | 0.0 | -14.2 | 24.9 | -10.4 | 1.3 |
| 0.17 | Coconut Oil | 139.2 | -7.1 | -2.5 | -20.3 | 28.3 | -15.0 | 18.1 |
| 0.17 | Groundnut Oil | 215.9 | -0.8 | -2.3 | -3.9 | -2.6 | 2.4 | -7.0 |
| 0.28 | Cotton seed oil | 140.3 | -2.6 | -5.7 | -11.4 | 2.1 | -6.5 | -13.9 |
| 1.34 | (B) Beverages Tobacco & Tobacco I | 309.7 | 1.3 | 0.0 | 4.4 | 10.1 | 2.6 | 7.4 |
| 9.80 | (C) Textiles | 144.7 | 0.4 | -1.3 | 3.1 | 6.2 | 3.5 | 9.1 |
| 0.17 | (D) Wood & Wood Products | 237.6 | 0.0 | 0.0 | 0.3 | 9.8 | 2.1 | 9.8 |
| 2.04 | (E) Paper & Paper Products | 204 | 0.0 | 0.9 | -0.8 | 5.5 | 0.0 | 5.7 |
| 1.02 | (F) Leather & Leather Products | 166.2 | 0.0 | 0.0 | -1.2 | 0.6 | -0.5 | 2.4 |
| 2.39 | (G) Rubber & Plastic Products | 168.9 | -0.3 | -0.1 | 0.2 | 5.2 | 0.8 | 3.0 |
| 11.93 | (H) Chemicals & Chemical Products | 229.7 | 0.1 | -0.1 | 2.3 | 9.7 | 6.8 | 6.7 |
| 2.52 | (I) Non-Mettallic Mineral Products | 224.7 | -0.2 | 0.0 | 3.0 | 3.6 | 2.9 | 2.0 |
| 1.73 | Cement | 225.8 | -1.0 | 0.0 | 0.3 | 2.4 | 0.2 | 1.9 |
| 8.34 | (J) Basic Metals Alloys & Metals Pr | 256.9 | -0.9 | -1.2 | -13.0 | 19.4 | 0.2 | 4.4 |
| 8.36 | (K) Machinery & Machine Tools | 173.9 | 0.5 | 0.1 | -1.5 | 5.4 | 0.9 | 5.1 |

Source: Office of the Economic Adviser (www.eaindustry.nic.in)

| Appendix X: Consumer Price Inflation : Group-wise | | | | | | |
|---|---|---|---|---|---|---|
| CPI Measure | Weight | Mar-2007 | Mar-2008 | Mar-2009 | Aug-2009 | Sep-2009 |
| CPI-IW ( Base: 2001=100) | | | | | | |
| General | 100.0 | 6.7 | 7.9 | 8 | 11.7 | |
| Food Group | 46.2 | 12.2 | 9.3 | 10.6 | 13.7 | |
| Pan,Supari, etc. | 2.3 | 4.4 | 10.9 | 8.3 | 9.6 | |
| Fuel and Light | 6.4 | 3.2 | 4.6 | 7.4 | 2.8 | |
| Housing | 15.3 | 4.1 | 4.7 | 6 | 22.1 | |
| Clothing, Bedding, etc. | 6.6 | 3.7 | 2.6 | 5 | 4.1 | |
| Miscellaneous | 23.3 | 3.3 | 6.3 | 7.4 | 6.4 | |
| CPI-UNME( Base: 1984-85=100) | | | | | | |
| General | 100 | 7.6 | 6 | 9.3 | 12.9 | |
| Food Group | 47.1 | 10.9 | 7.8 | 12.2 | 15 | |
| Fuel and Light | 5.5 | 6.4 | 4.6 | 5.9 | 2.7 | |
| Housing | 16.4 | 5.6 | 4 | 5.8 | 22 | |
| Clothing, Bedding, etc. | 7 | 3.6 | 4.3 | 3.3 | 4.1 | |
| Miscellaneous | 24 | 4.4 | 4.8 | 8.6 | 6.8 | |
| CPI-AL( Base: 1986-87=100) | | | | | | |
| General | 100 | 9.5 | 7.9 | 9.5 | 12.9 | 13.2 |
| Food Group | 69.2 | 11.8 | 8.5 | 9.7 | 14.1 | 14.6 |
| Pan,Supari, etc. | 3.8 | 5.7 | 10.4 | 15.3 | 16.5 | 15.5 |
| Fuel and Light | 8.4 | 6.9 | 8 | 11.5 | 11.6 | 12 |
| Clothing, Bedding, etc. | 7 | 3.5 | 1.8 | 7.4 | 8.5 | 8.1 |
| Miscellaneous | 11.7 | 6.8 | 6.1 | 6.5 | 7.2 | 7.1 |
| CPI-RL( Base: 1986-87=100) | | | | | | |
| General | 100 | 9.2 | 7.6 | 9.7 | 12.7 | 13 |
| Food Group | 66.8 | 11.5 | 8.2 | 10 | 14.1 | 14.6 |
| Pan,Supari, etc. | 3.7 | 5.7 | 10.6 | 15 | 16.2 | 15.4 |
| Fuel and Light | 7.9 | 6.9 | 8 | 11.5 | 11.4 | 12 |
| Clothing, Bedding, etc. | 9.8 | 3.1 | 2.8 | 8.2 | 9.1 | 9.5 |
| Miscellaneous | 11.9 | 6.3 | 6.2 | 6.7 | 7 | 6.9 |
| *Memo* | | | | | | |
| WPI Inflation | | 6.6 | 7.5 | 1.2 | 0.5 | 1.3 |
| Source: Labour Bureau and CSO | | | | | | |

**Appendix XI: Money Supply Expansion**

*(Rs Crore)*

| Items | Outstanding as on 2009 March 31 | Outstanding as on 2009 Oct 23 | Financial Year so far 2009 | | Financial Year so far 2008 | | Year-on-Year 2009 | | Year-on-Year 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **M3** | **4764019** | **5155329** | **391310** | **(8.2)** | **340085** | **(8.5)** | **797361** | **(18.3)** | **742726** | **(20.5)** |
| Components (i+ii+iii) | | | | | | | | | | |
| i) Currency with the Public | 666364 | 713005 | 46641 | (7.0) | 42450 | (7.5) | 102145 | (16.7) | 104781 | (20.7) |
| ii) Bank Deposits | 4092083 | 4438363 | 346281 | (8.5) | 301653 | (8.8) | 696293 | (18.6) | 637766 | (20.5) |
| of which: Demand Deposits | 581247 | 593872 | 12625 | (2.2) | -62072 | (-10.7) | 77572 | (15.0) | 59015 | (12.9) |
| Time Deposits | 3510836 | 3844491 | 333656 | (9.5) | 363725 | (12.7) | 618721 | (19.2) | 578751 | (21.9) |
| iii) Other Deposits with RBI | 5573 | 3960 | -1612 | (-28.9) | -4018 | (-44.4) | -1076 | (-21.4) | 180 | (3.7) |
| Sources: (i+ii+iii-iv) | | | | | | | | | | |
| i) Net Bank Credit to Government | 1277199 | 1452111 | 174912 | (13.7) | 91246 | (10.1) | 461348 | (46.6) | 142572 | (16.8) |
| a) Reserve Bank | 61579 | 43722 | -17858 | (-29.0) | 4298 | (-3.8) | 152633 | (140.1) | 28156 | (-20.5) |
| b) Other Banks | 1215620 | 1408389 | 192770 | (15.9) | 86948 | (8.6) | 308715 | (28.1) | 114416 | (11.6) |
| ii) Bank Credit to Commercial Sector | 3013336 | 3112140 | 98804 | (3.3) | 256878 | (10.0) | 276272 | (9.7) | 601498 | (26.9) |
| a) Reserve Bank | 13820 | 6491 | -7329 | (-53.0) | -408 | (-22.8) | 5110 | (370.0) | -3 | (-0.2) |
| b) Other Banks | 2999516 | 3105649 | 106133 | (3.5) | 257286 | (10.0) | 271162 | (9.6) | 601501 | (26.9) |
| iii) Net foreign exchange assets of banking sector | 1352184 | 1348070 | -4114 | (-0.3) | 9641 | (0.7) | 43298 | (3.3) | 238830 | (22.4) |
| iv) Banking sector's non-monetary liabilities | 888755 | 767497 | -121258 | (-13.6) | 18187 | (2.4) | -15671 | (-2.0) | 241150 | (44.5) |

Government Balances as on March 31, 2008 are before closure of accounts. Figures within brackets are percentage variations.

Source: RBI, *Weekly Statistical Supplement*

**Appendix XII: Scheduled Commercial Banks - Business in India (Monthly basis)**

*(Rs Crore)*

| Item | Outstanding as on 2009 March 27 | Outstanding as on 2009 Oct 23 | Variation over Latest Month | | Variation over Corresponding Month Last Year | |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | | (5) | |
| **Aggregate deposits** | **3834110** | **4152946** | **32939** | **(0.8)** | **49799** | **(1.4)** |
| Demand | 523085 | 535123 | -16449 | (-3.0) | -34762 | (-7.0) |
| Time | 3311025 | 3617823 | 49388 | (1.4) | 84561 | (2.9) |
| **Investments $** | **1166411** | **1353208** | **-19814** | **(-1.4)** | **71042** | **(7.2)** |
| Government securities | 1155786 | 1338643 | -18494 | (-1.4) | 70852 | (7.3) |
| Other approved securities | 10625 | 14565 | -1320 | (-8.3) | 190 | (1.5) |
| **Bank Credit** | **2775549** | **2868566** | **-4589** | **(-0.2)** | **64955** | **(2.5)** |
| Food Credit | 46211 | 36013 | -6405 | (-15.1) | 3079 | (6.8) |
| Non-food credit | 2729338 | 2832553 | 1816 | (0.1) | 61876 | (2.5) |
| Commercial Investments | 104774 | 93231 | -4198 | (-4.3) | 862 | (0.9) |
| **Total Bank Assistance to Commercial Sector** | **2834112** | **2925784** | **-2382** | (-0.1) | **62738** | (2.4) |
| **Cash-Deposit Ratio** | ***6.74*** | ***5.66*** | | | | |
| **Investment-Deposit Ratio** | ***30.42*** | ***32.58*** | | | | |
| **Credit-Deposit Ratio** | ***72.39*** | ***69.07*** | | | | |

$: Investments set out in this Table are for the purpose of SLR and do not include other investments

Figures within brackets are percentage variations

Figures for scheduled commercial banks are as on last working Friday of the fiscal year

Source: RBI, *Weekly Statistical Supplement*

**Appendix XIII: Scheduled Commercial Banks - Business in India**

*(Rs Crore)*

| Item | Outstanding as on 2009 March 27 | Outstanding as on 2009 Oct 23 | Variations Over: Financial year so far 2009 | | Financial year so far 2008 | | Year-on-year 2009 | | Year-on-year 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (6) | | (7) | | (8) | | (9) | |
| **Aggregate deposits** | **3834110** | **4152946** | **318836** | **(8.3)** | **292187** | **(9.1)** | **663820** | **(19.0)** | **608963** | **(21.1)** |
| Demand | 523085 | 535123 | 12038 | (2.3) | -60173 | (-11.5) | 70986 | (15.3) | 54242 | (13.2) |
| Time | 3311025 | 3617823 | 306798 | (9.3) | 352360 | (13.2) | 592834 | (19.6) | 554721 | (22.5) |
| **Investments $** | **1166411** | **1353208** | **186797** | **(16.0)** | **83884** | **(8.6)** | **297608** | **(28.2)** | **108461** | **(11.5)** |
| Government securities | 1155786 | 1338643 | 182857 | (15.8) | 84455 | (8.8) | 295526 | (28.3) | 109774 | (11.8) |
| Other approved securities | 10625 | 14565 | 3940 | (37.1) | -571 | (-4.4) | 2082 | (16.7) | -1313 | (-9.5) |
| **Bank Credit** | **2775549** | **2868566** | **93017** | **(3.4)** | **254067** | **(10.8)** | **252585** | **(9.7)** | **589272** | **(29.1)** |
| Food Credit | 46211 | 36013 | -10198 | (-22.1) | 3855 | (8.7) | -12242 | (-25.4) | 12388 | (34.5) |
| Non-food credit | 2729338 | 2832553 | 103215 | (3.8) | 250212 | (10.8) | 264827 | (10.3) | 576884 | (29.0) |
| Commercial Investments | 104774 | 93231 | -11543 | (-11.0) | -182 | (-0.2) | -2093 | (-2.2) | 17590 | (22.6) |
| **Total Bank Assistance to Commercial Sector** | **2834112** | **2925784** | **91672** | **(3.2)** | **250030** | **(10.4)** | **262734** | **(9.9)** | **594474** | **(28.7)** |
| **Cash-Deposit Ratio** | ***6.74*** | ***5.66*** | | | | | | | | |
| **Investment-Deposit Ratio** | ***30.42*** | ***32.58*** | | | | | | | | |
| **Credit-Deposit Ratio** | ***72.39*** | ***69.07*** | | | | | | | | |

$: Investments set out in this Table are for the purpose of SLR and do not include other investments.

Figures within brackets are percentage variations. Figures for scheduled commercial banks are as on last working Friday of the fiscal year

Source: RBI, *Weekly Statistical Supplement*

**Appendix XIV: Monthly Percentage Change in the Stock Indices of BSE and NSE**

| Index | Base Year | September 2009 Closing | October 2009 Closing | October | | % Change over the Month |
|---|---|---|---|---|---|---|
| | | | | High | Low | |
| **BSE Indices** | | | | | | |
| BSE SENSEX | 1978-79 | 17126.8 | 15896.3 | 17493.2 | 15805.2 | -7.18 |
| BSE Mid-Cap | 2002-03 | 6324.2 | 6014.3 | 6709.6 | 5989.8 | -4.90 |
| BSE Small-Cap | 2002-03 | 7590.0 | 7058.7 | 7852.8 | 7034.6 | -7.00 |
| BSE 100 | 1983-84 | 8930.3 | 8333.2 | 9198.2 | 8305.7 | -6.69 |
| BSE 200 | 1989-90 | 2094.9 | 1962.9 | 2166.4 | 1957.7 | -6.30 |
| BSE 500 | 1998-99 | 6552.8 | 6142.4 | 6779.2 | 6126.0 | -6.26 |
| BSE IPO | 3-May-2004 | 1985.9 | 1832.2 | 2034.7 | 1828.2 | - |
| BSE TECk | 2-Apr-2001 | 3260.8 | 2855.4 | 3329.9 | 2824.1 | -12.43 |
| BSE PSU | 1998-99 | 8909.2 | 8400.2 | 9324.7 | 8375.1 | -5.71 |
| BSE AUTO | 1-Feb-1999 | 6664.3 | 6307.2 | 6779.6 | 6139.7 | -5.36 |
| BANKEX | 01 Jan 2002 | 9855.6 | 9336.2 | 10698.7 | 9223.5 | -5.27 |
| BSE CG | 1-Feb-1999 | 13757.2 | 12873.5 | 14350.9 | 12780.7 | -6.42 |
| BSE CD | 1-Feb-1999 | 3507.4 | 3348.2 | 3965.7 | 3300.3 | -4.54 |
| BSE FMC | 1-Feb-1999 | 2575.8 | 2809.0 | 2867.9 | 2566.7 | 9.05 |
| BSE HC | 1-Feb-1999 | 4404.3 | 4377.2 | 4546.6 | 4293.9 | -0.61 |
| BSE IT | 1-Feb-1999 | 4570.9 | 4425.5 | 4650.3 | 4264.8 | -3.18 |
| BSE METAL | 1-Feb-1999 | 14176.6 | 13940.2 | 16042.0 | 13797.0 | -1.67 |
| BSE REALTY | 2005 | 4509.7 | 3827.1 | 4794.7 | 3796.3 | -15.13 |
| BSE OIL&GAS | 1-Feb-1999 | 10475.7 | 9434.4 | 10749.2 | 9401.5 | -9.94 |
| BSE -POWER | 3-Jan-2005 | 3076.1 | 2914.6 | 3250.0 | 2901.6 | -5.25 |
| Dollex 30 | | 2927.9 | 2770.3 | 3107.5 | 2734.4 | -5.38 |
| Dollex 100 | | 1923.7 | 1829.9 | 2063.2 | 1805.3 | -4.87 |
| Dollar 200 | | 726.3 | 693.7 | 782.2 | 683.9 | -4.48 |
| **NSE Indices** | | | | | | |
| S&P CNX Nifty | 1995 | 5084.0 | 4711.7 | 5182.0 | 4687.5 | -7.32 |
| CNX Midcap | 2003 | 6713.3 | 6579.8 | 7230.0 | 6482.9 | -1.99 |
| CNX Nifty Junior | 1996 | 9360.7 | 9162.4 | 10094.9 | 9044.7 | -2.12 |
| Nifty Midcap 50 | 2004 | 2513.1 | 2357.0 | 2666.8 | 2350.5 | -6.21 |
| S&P CNX Defty | 1995 | 3662.0 | 3466.8 | 3904.6 | 3447.4 | -5.33 |
| S&P CNX 500 | 1994 | 4118.7 | 3853.2 | 4240.0 | 3844.4 | -6.45 |
| CNX 100 | | 4941.1 | 4617.2 | 5078.1 | 4597.0 | -6.56 |
| CNX IT | 1996* | 5122.1 | 5048.8 | 5236.8 | 4761.5 | -1.43 |
| BANK Nifty | 2000 | 8812.4 | 8438.6 | 9630.4 | 8370.2 | -4.24 |
| **Memo Item** | | | | | | |
| India VIX | | 25.3 | 25.4 | 63.8 | 23.9 | 0.47 |

Note:*the base value has been changed from 1000 to 100 with effect from May 24, 2004

Source: : BSE (www.bseindia.com) and *NSE ( www.nseindia.com)*

**Appendix XV: Business Growth of F&O Segment of NSE** *(Amount in Rs crore)*

| Month/ Year | Index Futures | Stock Futures | Total Futures | Index Options | Stock Options | Total Options | Grand Total | Average Daily | Ratio * |
|---|---|---|---|---|---|---|---|---|---|
| 2008-09 | 3570111 | 3479642 | 7049754 | 3731502 | 229227 | 3960729 | 11010482 | 45130 | 4.01 |
| | (32.4) | (31.6) | (64.0) | (33.9) | (2.1) | (36.0) | | | |
| 2009-10 | | | | | | | | | |
| Apr-09 | 301764 | 356383 | 658147 | 453788 | 31427 | 485215 | 1143362 | 67257 | 4.29 |
| | (26.4) | (31.2) | (57.6) | (39.7) | (2.7) | (42.4) | | | |
| May-09 | 317415 | 448155 | 765570 | 430515 | 31168 | 461683 | 1227252 | 61363 | 3.21 |
| | (25.9) | (36.5) | (62.4) | (35.1) | (2.5) | (37.6) | | | |
| Jun-09 | 346934 | 589657 | 936592 | 545643 | 49746 | 595389 | 1531980 | 69635 | 3.18 |
| | (22.6) | (38.5) | (61.1) | (35.6) | (3.2) | (38.9) | | | |
| Jul-09 | 382924 | 450632 | 833555 | 701247 | 38706 | 739954 | 1573509 | 68413 | 3.69 |
| | (24.3) | (28.6) | (53.0) | (44.6) | (2.5) | (47.0) | | | |
| Aug-09 | 366312 | 412363 | 778674 | 658757 | 36214 | 694971 | 1473646 | 70174 | 4.04 |
| | (24.9) | (28.0) | (52.8) | (44.7) | (2.5) | (47.2) | | | |
| Sep-09 | 302425 | 434119 | 736544 | 609076 | 42758 | 651834 | 1388378 | 69419 | 3.80 |
| | (21.8) | (31.3) | (53.1) | (43.9) | (3.1) | (46.9) | | | |
| Oct-09 | 329610 | 465829 | 795439 | 669591 | 45387 | 714978 | 1510417 | 75521 | 4.16 |
| | (21.8) | (30.8) | (52.7) | (44.3) | (3.0) | (47.3) | | | |

Note: Figures in bracket are per cent to total, *: Ratio of Derivatives Turnover to Total Equity Turnover (In Multiples)

Source: *www.nseindia.com*

**Appendix XVI: Profile of Major Commercial Bond Issues for the Month of October 2009**

| Sr No. | Issuing Company / Rating | Nature of Instrument | Coupon in % per annum and tenor | Amount in Rs crore |
|---|---|---|---|---|
| | **FIs / Banks** | | | |
| 1 | Bank of Baroda<br>AAA by Care | Perpetual Bond | 9.20% with a step up of 50 bps if call is not exercised at the end of 10 years with perpetual maturity. | 300 |
| 2 | Karur Vysya Bank Ltd<br>A+ by Icra | Lower Tier II Bond | 9.86% for 10 years | 150 |
| 3 | National Housing Bank<br>AAA by Crisil, Fitch | Bonds | 6.90% for 3 years with put & call at the end of 2 years | 150<br>(200) |
| | | | | **600** |
| | **NBFCs** | | | |
| 1 | India Infrastructure Finance Co Ltd<br>AAA(SO) by Icra | Bonds | 8.55% for 15 years | 500 |
| 2 | Bajaj Auto Finance Ltd<br>AA+ by Crisil | NCD | 9% for 3 years | 200 |
| 3 | Infrastructure Development Finance Corp Ltd<br>AAA by Icra, Fitch | Bonds | 7.87% for 3 years | 125 |
| | | | | **825** |
| | **State Undertaking** | | | |
| 1 | TamilNadu Electricity Board<br>A+ & A by Care, Fitch | Bonds | 8.40% for 10 years with put & call at the end of 7 years | 500 |
| | **Central Undertaking** | | | |
| 1 | Bharat Petroleum Corp Ltd<br>AAA by Crisil | Bonds | 7.73% for 3 years. | 1000 |
| 2 | Steel Authority of India Ltd<br>AAA by Fitch, Care | STRIPS | 8.80% for 16 years. | 200 |
| | | | | **1200** |
| | **Corporates** | | | |
| 1 | ACC Ltd<br>AAA by Crisil | NCD | 8.45% for 5 years | 300 |
| 2 | Essar Communication Holdings Ltd<br>AAA (SO) by Fitch | NCD | 9.15% & 9.25% for 22 Months & 25 Months, respectively. | 4500 |
| 3 | GE Shipping Co Ltd<br>AA+ by Crisil | NCD | 9.60% for 10 years | 200 |
| | | | | **5000** |
| | **Total**<br>**The amount shown in bracket above denotes the greenshoe option of the issue** | | | **8125**<br>**(200)** |

Note: Total for October-08 (a year ago): Rs 1,880 crore. Total for September-09 (a month ago): Rs 5,765 crore.

*Source: Various Media Sources*

**Appendix XVII: Details of State Government Borrowing** *(Amount in Rs crore)*

| Date of Auction | Name of the State | Notified Amount | Accepted Amount | Bid Cover Ratio | Wtd Yield at cut-off price (in %) | Weighted Average Yield | Greenshoe Amount |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 6-Oct-09 | Andhra Pradesh | 1000.00 | 991.50 | 2.12 | 8.22 | 8.18 | - |
| | Bihar | 1000.00 | 790.81 | 0.87 | 8.49 | 8.30 | - |
| | Gujarat | 1500.00 | 1488.20 | 1.54 | 8.23 | 8.19 | - |
| | Maharashtra | 1750.00 | 1734.50 | 1.73 | 8.27 | 8.21 | - |
| | Mizoram | 101.29 | 101.29 | 5.28 | 8.24 | 8.24 | - |
| | Punjab | 300.00 | 299.00 | 2.36 | 8.20 | 8.17 | - |
| | Rajasthan | 500.00 | 490.00 | 1.67 | 8.21 | 8.18 | - |
| | Tamil Nadu | 1200.00 | 1181.90 | 2.15 | 8.22 | 8.19 | - |
| | Tripura | 150.00 | 150.00 | 5.23 | 8.24 | 8.23 | - |
| | Uttar Pradesh | 1500.00 | 1483.40 | 1.12 | 8.47 | 8.29 | - |
| | West Bengal | 500.00 | 210.00 | 4.39 | 7.65 | 7.62 | - |
| 29-Oct-09 | Andhra Pradesh | 1000.00 | 947.60 | 2.66 | 8.10 | 8.07 | - |
| | Goa | 100.00 | 92.00 | 3.93 | 9.14 | 8.12 | - |
| | Jharkhand | 252.24 | 240.74 | 4.56 | 8.19 | 8.17 | - |
| | Kerala | 850.00 | 807.80 | 2.66 | 8.12 | 8.08 | - |
| | Manipur | 188.78 | 182.78 | 2.90 | 8.18 | 8.18 | - |
| | Meghalaya | 123.54 | 117.54 | 2.54 | 8.24 | 8.23 | - |
| | Punjab | 200.00 | 191.00 | 4.37 | 8.08 | 8.05 | - |
| | Rajasthan | 500.00 | 475.00 | 3.07 | 8.10 | 8.07 | - |
| | Tamil Nadu | 1000.00 | 961.60 | 2.39 | 8.11 | 8.07 | - |
| | West Bengal | 300.00 | 297.00 | 3.94 | 7.68 | 7.65 | - |
| | **Total** | **14016** | **13234** | **2.21** | **8.22** | **8.15** | **0** |

Source: *RBI Press Releases.*

| Appendix XVIII: Exchange Rate for Rupee | | | | | |
|---|---|---|---|---|---|
| **Currencies** | 30-Apr-09 | 29-Sep-09 | 30-Oct-09 | % Change (Oct upon Sept) | % Change (Oct upon April) |
| Euro | 66.67 | 70.38 | 69.50 | 1.26 | -4.08 |
| Japanese Yen* | 51.45 | 53.32 | 51.39 | 3.75 | 0.13 |
| British Pound | 74.45 | 76.12 | 77.58 | -1.88 | -4.04 |
| US Dollar | 50.22 | 48.04 | 46.96 | 2.30 | 6.94 |
| Swiss Franc | 44.23 | 46.25 | 45.91 | 0.73 | -3.66 |
| Chinese Yuan | 7.36 | 7.03 | 6.88 | 2.29 | 6.99 |
| Indonesian Rupiah* | 0.47 | 0.50 | 0.49 | 0.61 | -4.72 |
| South Korean Won* | 3.73 | 4.03 | 3.91 | 2.97 | -4.75 |
| Malaysian Ringgit | 14.10 | 13.77 | 13.78 | -0.05 | 2.33 |
| Pakistan Rupee | 0.62 | 0.58 | 0.56 | 2.99 | 11.11 |
| Singapore Dollar | 33.96 | 33.88 | 33.62 | 0.76 | 1.01 |
| South African Rand | 5.93 | 6.47 | 6.09 | 6.30 | -2.60 |
| Sri Lanka Rupee | 0.42 | 0.42 | 0.41 | 2.41 | 2.25 |
| Thai Baht | 1.42 | 1.43 | 1.40 | 1.94 | 1.43 |
| Hong Kong Dollar | 6.48 | 6.20 | 6.06 | 2.30 | 6.95 |

Source:-*www.imf.org, Hong Kong dollar :- www.fxstreet.com,* * For 100 units, '-' means depreciation.

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