INDIAN Economy & Policy WATCH

Week ended March 11, 2006 Issue No: 50 FY2006

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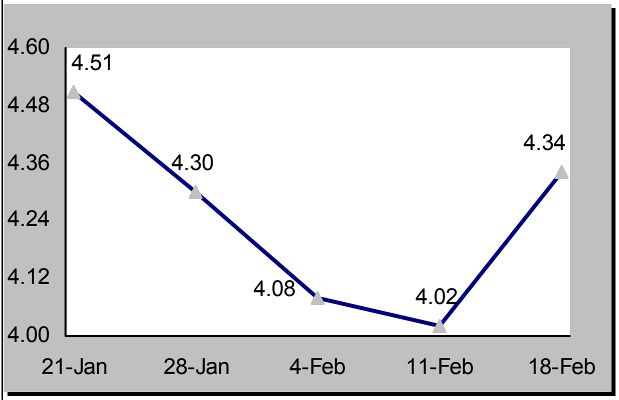
IRIS

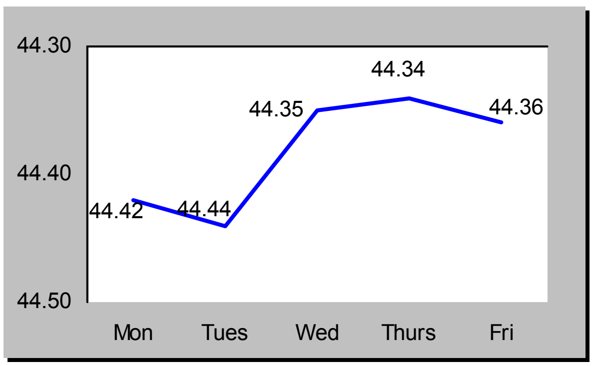
ECONOMIC INDICATORS



Inflation

The annual wholesale price index-based inflation rose 4.29 percent during the week ended February 25, lower than the previous week's annual rise of 4.34 percent.

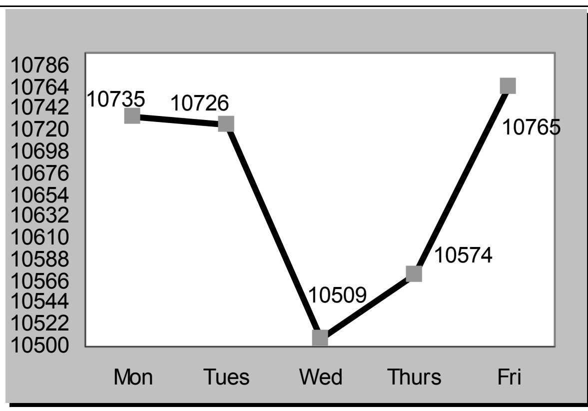
The dip in the year-on-year inflation rate was mainly due to a decline in essential food articles and non-food items, according to data released by the Ministry of Commerce and Industry today.



Rs v/s US $

The rupee moved in both directions in a broad range but ended flat over Monday. The rupee was once again caught in a range on Tuesday and closed a few paise lower mainly because of the dollar's rise against the yen. The rupee slipped to one-week lows as sharp fall in the domestic stock market on Wednesday raised doubts over FII inflows. The dollar's rise against most regional currencies also weighed on the rupee.

The rupee came off highs around 44.30 per dollar and ended 0.25% lower at 44.48 per dollar. The rupee came off two-week lows and ended Thursday trade flat against the dollar helped by the yen's rebound and smart recovery in the domestic stock indices. The rupee opened a tad weaker on the last trading day of the week as the dollar was holding firm against the yen. The rupee was trading at 44.50 per dollar by noon.



BSE Sensex

The Budget`s focus on the road, power and infrastructure sector boosted the market further this week. The BSE Sensex gained a whopping 394 points to close at 10595. The budget aims to boost economic growth to 10% in coming years from an estimated 8.1% in the current year.

The markets started the week on an optimistic note with the Sensex gaining 81 points on Monday and 88 points on the budget day. On Wednesday the index made a hefty gain of 195 points and on Thursday it added 61 points on the news of nuclear deal between India and US. The markets witnessed correction on Friday with the Sensex losing 31 points.

Economy & its sectors

April-Feb indirect tax collections up 16.2%

The Centre's indirect tax collections surged by 16.2 percent during April-February 2005-06 to touch Rs 1,71, 071 crore against of Rs 1,47,238 crore recorded in the same period last year.

On the direct taxes front, personal income tax collections for the period under review stood at Rs 47,960 crore (32 percent increase), corporation tax collections at Rs 70,590 crore (about 28 percent increase), securities transaction tax at Rs 2,248 crore and banking cash transaction at Rs 269 crore.

While the Budget 2006-07 has pegged the revised estimate for personal income tax at Rs 66,239 crore, the revised estimate for corporation tax for 2006-07 stood at Rs 1,03,573 crore.

As against a revised excise duty estimate of Rs 1,12,000 crore for 2005-06, the Centre has in April-February 2005-06 collected Rs 95,445 crore from this tax. In February 2006, the excise duty collections of the Centre stood at Rs 10,415 crore (Rs 8,795 crore in February 2005)

Finance Ministry officials say that the increase in exports coupled with lesser than expected demand growth in petroleum products had impacted excise duty collections during the current fiscal. Analysts say that achieving the revised estimates on the excise duty front may prove to be a tough call for the revenue department.

On the customs duty front, the Centre has during April-February 2005-06 collected Rs 57,431 crore as against revised estimate of Rs 64,215 crore for 2005-06. In February 2006, the customs duty collection stood at Rs 4,678 crore (Rs 4,867 crore).

According to an official release, service tax collections of the Centre surged by 68.1 percent during April-February 2005-06 to Rs 18,195 crore (Rs 10,826 crore). In February 2006, the Centre has collected service tax of Rs 1,976 crore (Rs 1,075 crore).

In February 2006, the indirect tax collections of the Centre increased by 15.8 percent to touch Rs 17,069 crore (Rs 14,737 crore).

Direct tax collections up 74% in February

With a robust 74% growth in February collections, direct tax revenue rose 29% to Rs 1,18,600 crore in the first 11 months of the current fiscal, raising hopes that the revised estimate (RE) of Rs 1,69,812 crore for the year would be met.

Considering that, conventionally, 30% of the target revenue comes in March, the revenue department is confident that the RE, which is lower than the budget estimate of Rs 1,76,812 crore by Rs 7,000 crore, would be achieved if not slightly surpassed.

Official sources said that the direct tax collections in February '06 stood at Rs 9,000 crore, as against Rs 5,200 crore in the corresponding month of the previous year. In January 06, the collections had shown an increase of 56% at Rs 8,100 crore (Rs 5,500 crore). Thanks to the buoyant collections in January and February, the growth in collections jumped from a level of 22% in April-December to 29% in April-February.

Corporate income tax (CIT) collections for April-February stood at Rs 70,600 crore, compared with Rs 55,250 crore in the year-ago period, a growth of 28%. It may be noted that the Budget had revised the estimate of CIT collection for the fiscal downward from the originally estimated Rs 1,10,573 crore to Rs 1,03,573 crore.

Personal income tax (PIT) collections in the 11 months logged a growth of 32% to Rs 48,000 crore (Rs 36,400 crore). The target in this case remains unchanged at Rs 66,239 crore.

The PIT revenue incudes the FBT, STT and BCTT collections. FBT revenue up to February this fiscal was Rs 2,850 crore, while STT raked in Rs 2,250 crore. The revenue from banking cash transaction tax stood at Rs 270 crore till February.

India Inc picks up speed

India's industrial output picked up speed in January to rise 8.3 percent from a year earlier, soothing analysts' fears of a slowdown and raising the chance of an interest rate rise in April.

Manufacturing, which makes up more than three quarters of industrial production, increased 9.2 percent in January from a year earlier compared to December's 5.9 percent rise.

The strong expansion in January followed a revised 5.3 percent annual growth rate in December. It stood at 6.1 percent in November, below the 8 percent growth seen for most of 2005.

FDI inflow up 326% in January

Foreign direct investment (FDI) inflow into the country has registered an increase of 326 percent in January amounting to $647.7 million against $152 million in January last.

``What is heartening about the growth in FDI is that the inflows are coming in the manufacturing, which we want, will contribute increased share in India's GDP," the Minister for Commerce and Industry, Kamal Nath, said here while releasing the figures.

The Minister indicated that FDI inflow in equity during the first nine months stood at $4.34 billion. This represents an increase of 60.5 percent over the FDI inflows of $2.7 billion received during the corresponding period of the previous year 2004-05, he said.

The major investing countries during this period have been Germany (35 percent), the UK (26 percent), Mauritius (22 percent), Singapore (6 percent) and the US (2 percent).

RBI to ensure ample funds, liquidity: FM

With a view to keep the growth story going, the Reserve Bank of India on Saturday said that it would ensure ample liquidity in the economy and the productive sectors would not face any shortage of funds.

Addressing mediapersons after the post-Budget customary meeting with the central bank, finance minister P Chidambaram said, "RBI will provide liquidity to all productive sectors of the economy so that the growth story is not hampered."

The minister also said that the government and the RBI will jointly work towards putting implementing a system to provide concessional short-term credit to farmers for the kharif and rabi crops. The finance minister, while presenting the Budget had announced that farm credit would be provided at a concessional 7% interest rate. The move would cost the exchequer Rs 1,700 crore annually. Chidambaram also said that the RBI was in favour of the government's efforts to bring about fiscal prudence, while increasing the tax-GDP ratio beyond 11%.

Later addressing India Inc. at a post-budget meeting organised by FICCI, he suggested the industry to stop bothering about tax rates and its implications and focus more on stepping up investments and shaping growth.

"I acknowledge that corporate sector pays the bulk of the tax in India. But the corporate tax rates are now moderate with effective rate of 21%. So rather than looking at cutting taxes further we would have to find ways how to make life easy with current level of taxation," Chidambaram told the captains of the industry while refusing most of their demands to reconsider the some of the proposals in the budget.

Prepared with all the facts and figures, the minister countered all the suggestions about more changes required in the fringe benefit tax (FBT) and changes made in case of minimum alternate tax (MAT).

The finance minister said that even with higher MAT rate of 10%, a company would pay one-third of the normal tax rate. Moreover, MAT payments would get credits over a period of seven years over other tax liabilities of a company. Justifying continuation of MAT, Chidambaram questioned why a company making profits should benefit from a zero tax regime.

On inclusion of long-term capital gains in MAT, the finance minister informed FICCI members that he had only enabled restoration of the status that prevailed before 2004.

On retrospective application of 29 amendments proposed in the Finance Bill, the minister said it included amendments only in four groups and these were largely technical in nature.

External sector

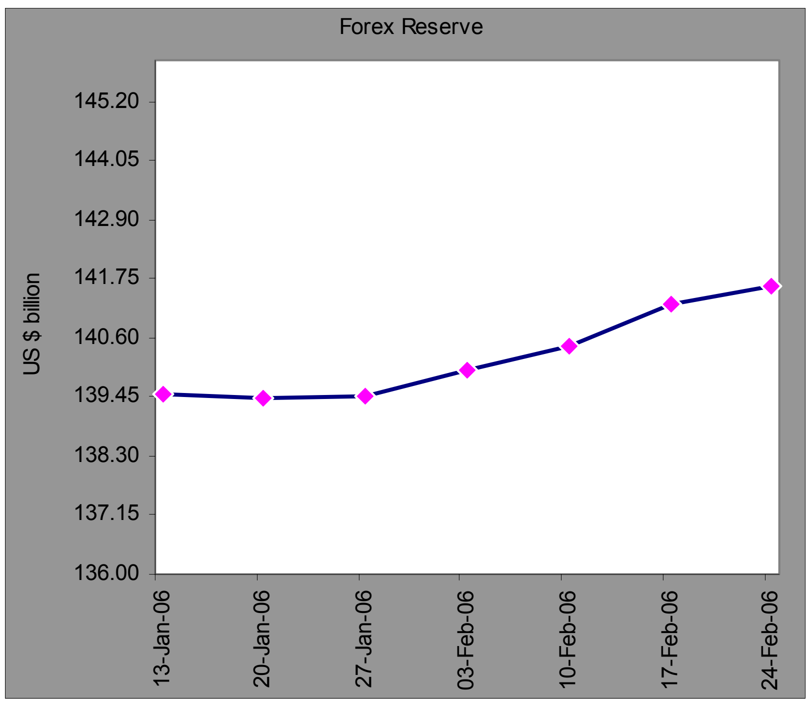
FOREIGN EXCHANGE RESERVES

Foreign currency reserves soar by US$ 1.558 billion

India's total foreign exchange reserves rose by US$ $1.558 billion to US$ $143.148 billion for the week ended March 4, helped by a rise of US$ 1.488 billion in foreign currency assets (including the effect of appreciation/depreciation of non-US currencies) to US$ $136.643 billion according to the RBI's weekly statistical supplement released on March 10.

Gold reserves increased by US$ 67 million to touch US$ 5.747 billion. SDRs were unchanged at $3 million.

The country's reserve tranche position at the IMF improved by US$ 3 million to US$ 755 million.



Money & Banking

INTEREST RATES & DEBT MARKET

Gilts higher on improved liquidity

Gilts prices came off highs but closed higher over the week, mainly due to better liquidity and improved market undertone.

The government's decision to place 7.40% 2035 papers worth Rs. 10,000 crore and the indication that it would not borrow from the market before the end of the financial year on March 31 offered the much need respite to the depressed sentiment.

Consequently after rising early in the week, yields eased back on growing convictions that cash shortage would ease with increase in the government's spendings this month.

A drop in the inflation rate (4.29% from 4.34% previously) and higher-than-expected industrial output growth (8.3% in Jan) did not have significant impact on trading.

Late in the week, the RBI Governor Y.V Reddy's discouraging remarks that financial markets were vulnerable to risks arising from global imbalances and high crude oil prices acted as a dampener and triggered selling.

The yield on the actively traded 8.07% 2017 dropped to 7.37% before closing at 7.40%, down from its previous week's close of 7.44%.

Call rates higher on fund mismatches

Call rates ended the week at 6.70-6.80% higher from the previous week's close of 6.50-6.70% amidst vast fund mismatches.

Excess covering ahead of the advance tax outflows in addition to the new fortnightly cycle kept the borrowing requirements high throughout the week.

Indications of no additional borrowings in the current fiscal by the government and possibility of increased government expenditure provided the required respite to the money market.

However, shortage of cash surpluses in the banking system sustained pressure on the call rates.

Rupee touches 2-week lows on FII concerns

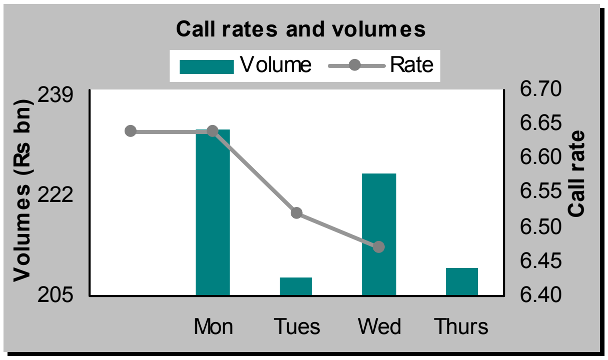
The rupee moved in both directions in a broad range but ended flat over Monday. The yen's sharp fall across the board & anticipation of RBI intervention kept the traders on the sidelines. However, continued expectation of inflows due to rallying stocks kept the rupee well supported blocking its downside. The rupee ended a tad stronger at 44.32 per dollar.

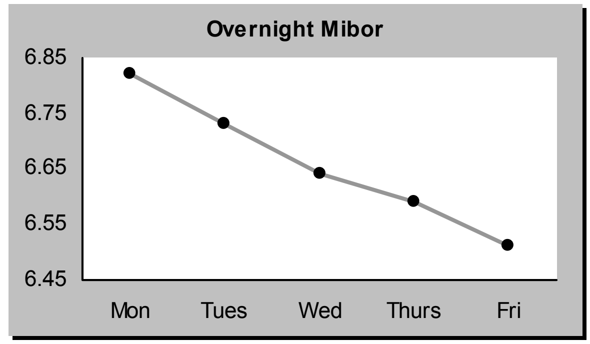
The rupee was once again caught in a range on Tuesday and closed a few paise lower mainly because of the dollar's rise against the yen. Traders were also cautious of possible RBI intervention to curb the rupee's upside. However, expectation of foreign fund inflows continued to support the rupee's downside. SEBI data showed that FII's have already bought Indian shares worth $464.4 million so far in March. The unit moved in a range of 44.33-38 per dollar through the day and closed at 44.36 per dollar.

The rupee slipped to one-week lows as sharp fall in the domestic stock market on Wednesday raised doubts over FII inflows. The dollar's rise against most regional currencies also weighed on the rupee. The rupee came off highs around 44.30 per dollar and ended 0.25% lower at 44.48 per dollar. The BSE Sensex fell by a whooping 217 points over the day.

The rupee came off two-week lows and ended Thursday trade flat against the dollar helped by the yen's rebound and smart recovery in the domestic stock indices. The rupee extended losses and slipped below 44.50 per dollar level early on. Concerns over FII inflows following last session's sharp fall in domestic stock indices also weighed on the rupee. However, the yen reversed its losses and rose against the dollar during the European trade allowing most Asian currencies to follow suit against the dollar. SEBI data showed that FIIs bought Indian shares worth $187.8 million in the previous session relieving some tension about slowing inflows. The rupee closed at flat at 44.48 per dollar.

The rupee opened a tad weaker on the last trading day of the week as the dollar was holding firm against the yen. Anticipation of RBI intervention to curb rupee's downside also took circled in the market. However, expectation of continual FII inflows kept the rupee's downside supported. SEBI data showed that FII's bought Indian shares worth $187.8 million on Wednesday when the market had crashed by 2%. The psychological 44.50 per dollar also provided some support to the rupee. The rupee was trading at 44.50 per dollar by noon.





Stock Markets

Weekly Wrap : Sensex gains 394 points

The Budget`s focus on the road, power and infrastructure sector boosted the market further this week. The BSE Sensex gained a whopping 394 points to close at 10595. The budget aims to boost economic growth to 10% in coming years from an estimated 8.1% in the current year.

The markets started the week on an optimistic note with the Sensex gaining 81 points on Monday and 88 points on the budget day. On Wednesday the index made a hefty gain of 195 points and on Thursday it added 61 points on the news of nuclear deal between India and US. The markets witnessed correction on Friday with the Sensex losing 31 points.

The annual rate of inflation rose 4.34% on a point-to-point basis for the week ending February 18, higher then the previous week`s 4.02%, due to higher tobacco and fuel prices.

FIIs invested $407.2 mn in equities this week and mutual funds bought Rs 556.95 crore. (from Monday to Thursday)

Auto stocks surged this week after the finance minister proposed cuts in duties on small cars and duties on key raw materials including steel and plastic in the budget for the year to March 2007.

FMCG stocks were also in the limelight as the finance minister had levied an additional import duty of 4%, a step that will add more cheer to the domestic FMCG sector.

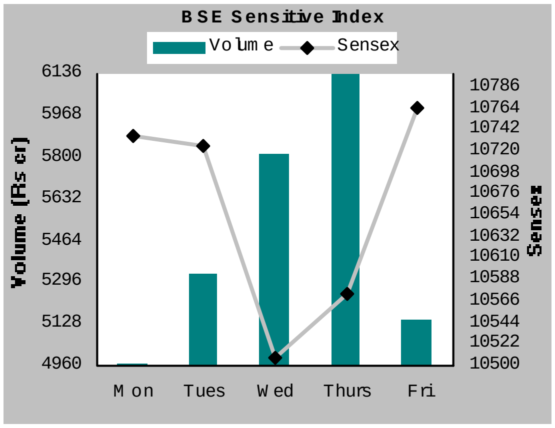
Steel shares moved up this week after domestic steel maker raised steel prices tracking firm global prices. With effect from 1 March 2006, steel firms raised hot-rolled steel prices by Rs 2,000 per tonne to around Rs 21,000 a tonne for spot delivery. Galvanized steel prices have been increased by Rs 750-1,000 per tonne from 1 March 2006.

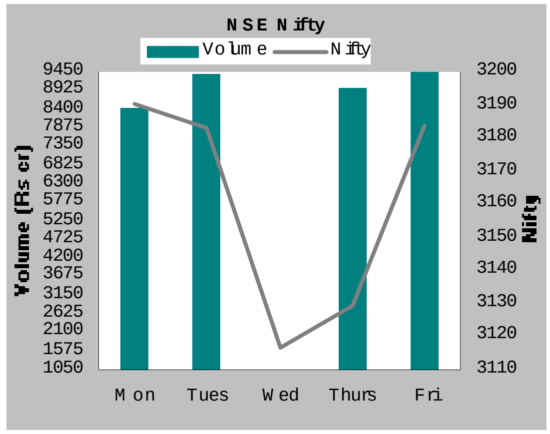
Car major Maruti Udyog (MUL) gained 19.35% to close at Rs 928.45. The finance minister announced a sharp cut in excise duty to 16% from 24% on small cars in the budget. MUL has slashed small car prices. The price reductions on Maruti`s five small car models range from Rs 12,704 on the mini 800 to Rs 25,052 on a premium Zen hatchback.

Associated Cement Companies rose 15.29% to close at Rs 683.10 . The cement despatch rose 11.80% to 1.534 million tonnes in Feb 2006 as compared to1.372 million tonnes in Feb `05. The cement company`s cumulative despatch inceased 10.63% to 3.182 million tonnes in Feb `06 as compared to 2.876 million tonnes in Feb `05. Gujarat Ambuja Cements` despatch rose 16% to 10.72 lakh tonnes in Feb `06 as compared to 9.27 lakh tonnes in Feb `05.

Sunil Hitech Engineers, a thermal power plant construction major, made its debut on the BSE today. The stock was listed on the BSE at Rs 125. It closed at Rs 142.9, down 8.51%.

The securities transaction tax was raised by 25% across the board in the budget.





Inflation

Cheaper food, non-food items check inflation

The annual wholesale price index-based inflation rose 4.29 percent during the week ended February 25, lower than the previous week's annual rise of 4.34 percent.

The dip in the year-on-year inflation rate was mainly due to a decline in essential food articles and non-food items, according to data released by the Ministry of Commerce and Industry today.

During the latest reported week, the Wholesale Price Index (WPI) was down 0.1 percent to 197 points.

The index was at 188.9 points a year ago. The inflation rate was at 5.06 percent during the corresponding week of the previous year.

On a disaggregated basis, the Primary Articles' group index fell 0.4 percent to 194.5 points as food items became cheaper by 0.5 percent and non-food essential items by 0.2 percent. The Fuel, Power, Light and Lubricants group index remained stable at previous week's level of 311.9 points.

The Manufactured Products group index rose 0.1 percent to 172.2 points due to costlier textile, paper, chemicals, non-metallic mineral, base metals, alloys and machinery.

Among the Primary Articles' group, the Food Articles' group index dipped to 195.6 points as prices fell for eggs, fish marine (4 percent each), fruits and vegetables (2 percent), barley, bajra, maize, jowar, gram and masur (1 percent each). The Non-food articles index fell to 176.4 points due to cheaper copra and sunflower (2 percent each), safflower and raw tobacco (1 percent each). But prices of nigerseed moved up by 2 percent and cottonseed by 1 percent.

Among the Manufactured Products' group, the index for food products declined 0.5 percent to 181 points as prices fell for sugar, coconut oil, imported edible oil, oil cakes and rice bran oil (1 percent each).

The Textiles group index moved up by 0.5 percent to 130.5 points as prices rose for cotton yarn hanks (2 percent), other cotton yarn and cotton yarn cones (1 percent each). Newsprint prices rose 2 percent pushing up the Paper, Paper Products group index by 0.2 percent to 178.3 points.

The Chemicals and Chemical Products group index was up 0.1 percent to 189.2 points as firework prices surged by 10 percent and synthetic resins by 7 percent. Cement prices increased by 1 percent to push up the Non-metallic Mineral Products group index to 177.5 points. The Base Metals Alloys and Metal Products group index rose 0.2 percent to 211.8 points.

The Machinery and Machine Tools group index rose 0.2 percent to 147.1 points due to rise in electric motors phase-one (9 percent), electric motors (6 percent) and electric motor phase-three (3 percent).

The Government also revised upward the final inflation figure for the week ended December 31 to 4.56 percent from the provisional 4.4 percent and WPI stood corrected at 197.1 points from the earlier estimate of 196.8 points.

INDIAN Policy WATCH

March 11, 2006 Issue No: 50 FY2006

HIGHLIGHTS

- Competition Act amendment Bill introduced in Lok Sabha
- Govt to issue Rs 11,500 cr oil bonds by March 15
- Competition Act amendment Bill introduced in Lok Sabha

C O N T E N T S

POLICY WATCH

INDUSTRY

Competition Act amendment Bill introduced in Lok Sabha

The Competition Commission of India (CCI) could soon transform into an expert body that would function as a market regulator as well as perform advocacy functions if the Bill proposing amendments to the Competition Act, 2002, gets Parliamentary nod.

The Competition (Amendment) Bill, 2006 introduced in Lok Sabha today by the Minister for Company Affairs, Prem Chand Gupta, envisages the CCI to be an expert body with 2-7 members performing the said task.

It proposes to delete the provision of the existing Act, which envisions the CCI as one with judicial members and decision-making made through benches.

The Bill also seeks to facilitate the continuation of the MRTP Commission for two more years to try pending cases.

All cases pending even after the two-year period would be transferred to the Appellate Tribunal or National Commission of Consumer Protection, according to the Bill.

Moreover, all staff of MRTPC would be absorbed in the Appellate Tribunal and the CCI.

As regards selection of the members of the CCI, the Amendment Bill stipulates that the Chairman and members of the Commission would be experts picked by a selection committee headed by the Chief Justice of India or his nominees; Secretaries of Company Affairs and Law Ministries may also be included as members.

Further, as per the proposed amendments, the CCI would not adjudicate on disputes between two or more parties but would be competent to pass orders, including cease and desist orders, and impose monetary penalties.

In effect, it would work as a collegium and its decisions would be based on simple majority.

The Bill also proposes that the appeals against the orders of the CCI could be made before the Competition Appellate Tribunal, which would be a three-member quasi-judicial body headed by existing or retired judge of the Supreme Court or Chief Justice of a High Court.

The selection committee for the chairperson and members of the Appellate Tribunal would be the same as that of CCI.

The Appellate Tribunal as proposed in the Amendment Bill would adjudicate on compensation claims that may arise on the findings of the CCI or the orders of the Tribunal.

Further, the orders of the Tribunal would be implemented as a decree of a Civil Court. Appeals against the orders of the Tribunal would lie with the Supreme Court.

Govt to issue Rs 11,500 cr oil bonds by March 15

Petroleum Minister Murli Deora said today the government would issue Rs 11,500 crore bonds before March 15, with the first tranche coming on Wednesday. The average rate of return would be 7.3 percent.

Deora, who met Finance Minister P Chidambaram, said the petroleum ministry had demanded that the government bear the higher subsidy burden. "If food and fertilisers can get huge subsidies, then why cannot the petroleum sector?" he said.

The minister met Chidambaram to discuss petrol pricing. Deora also discussed with him the matter of oil firms incurring huge losses due to subsidies. The issues of duty rationalisation and infrastructure status for pipelines were also taken up.

"The finance minister agreed on certain demands, but did not give in to others and whether some amendments may take place is still to be decided," he said.

He added that the C Rangarajan Committee report which had suggested an increase in cooking gas prices by Rs 75, was not discussed.

Earlier, the petroleum ministry had demanded a package along with the issue of oil bonds to help oil marketing companies tide over their losses. The government, however, only approved the proposal for issue of oil bonds.

The ministry had asked for an increase in the price of petrol by Rs 3 per litre, diesel by Rs 2 per litre, PDS kerosene by Re 1 per litre and LPG cylinder by Rs 20.

It was also proposed that the oil marketing companies be given freedom to increase the price of diesel up to an approved limit and of cooking gas by Rs 5 per cylinder in a month during 2005-06. In addition, it was sought that the specific excise duties be reduced by a rupee on a litre of petrol and diesel.

The petroleum ministry had also asked for an approval in-principle for identifying families below the line for distribution of PDS kerosene and making available open market kerosene to others.

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