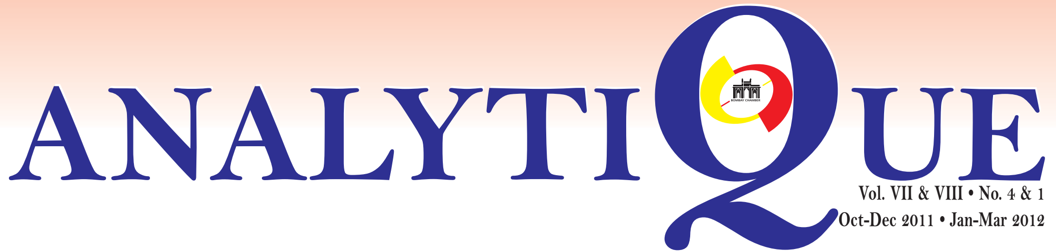

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Oct-Dec 2011 • Jan-Mar 2012

On the Last Issue of Analytique

An Account of Economic Disparity in India

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Non-Retail Private Pool of Capital – within the Regulatory Compass!

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Quarterly Journal of the Bombay Chamber of Commerce and Industry Trust for Economic and Management Studies

Bombay Chamber of Commerce & Industry

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ANALYTIQUE

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From the Editor's Desk

As we go to press, the Finance Minister's penultimate Budget on behalf of UPA II has been presented to Parliament. There is no doubt now that growth of India's GDP has slowed considerably and will probably end up around 6.5%. It is also fairly clear that we are not as "de coupled" as we had thought we were from the rest of the world. It was therefore quite expected that the Budget would be an effort at maintaining the status quo rather than one in which bold new measures would be introduced.

In terms of bold new measures, it is well recognized that there are no surprises left and the so called roadmap has been fully articulated by the government already in the past. The two most important features of that roadmap are the introduction of major tax reforms through the Direct Tax Code and introduction of GST. Both are stalled, ostensibly due to 'procedural' issues. No one expected any fresh initiatives on either in the Budget speech.

But expectations there were and these have been belied in respect of macroeconomic management. The government has been less than responsible in this very crucial issue because there does not appear to be a credible move towards fiscal consolidation, which itself is a bit of a misnomer. Frankly stated, this Budget stokes the fears of unsustainable deficits, increase in government borrowing and its consequent crowding out effect and concomitant inflationary pressures. A statement of intent that the deficit would be capped at 5.1% of GDP needs to be translated into a goal by setting a path to achieving it. Some of the constituents of government spending that need to be curbed have to be identified up front, similar to the firm commitments have been given in respect of large items of expenditure such as the Food Security Bill, MGNREGA and RTE. In the absence of such clear statements an overall target of 5.1% of GDP is only a statement of intent and not a goal. The Budget has shied away from clear commitments and hence has accentuated the trust deficit.

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On the Last Issue of Analytique

The stock market continues to be volatile due to global uncertainties and local factors like high inflation along with a bloated budget deficit and various other political factors.

The first article written by **Ashith Kampani** and **Rajgopal Narasimham** is on Securities Transaction Tax (hereafter STT) which was introduced in 2004. The objective of STT was to offset the revenue shortfall arising from the withdrawal of long-term capital gains tax and the reduction of tax on short-term capital gains. The article takes the reader from why the STT was introduced to the how it has affected the stock market in India. The tax was not appreciated by brokers and investors.

STT structure in India is shows that equity transactions are taxed higher than others. There has been significant fall in average daily turnover in both institutional and non institutional segment. Whereas the turnover for both the segment in case of derivatives is increasing. The data shown in article is for three years and in the same period we have seen extraordinary circumstances in the financial world. STT could be one of the reasons for fall in the turnover but it might not be the only reason.

STT has impacted retail participation and liquidity in the market. STT has discouraged the participants from trading unless spread is wide enough to cover at least the tax amount. With increased cost of trading investors would expect higher rate of return. STT impacts price discovery, it could slow a correction of prices as there would be less than enough trades required for correction.

It poses competitive disadvantage for India; investors can choose other markets for transaction where cost is lower.

The author has compared the rates of STT in India with other countries. Given that India has still not become a strong financial hub. There has to measures to make it one. STT will not contribute positively in this direction. With such rates of STT, government could increase its revenues for some time. Securities transaction tax receipts had declined by around 18-22% during the first six months in the current fiscal year from a year ago period. The government is witnessing a downfall which can be addressed by reducing STT rates per say leading to an increase in volume.

The second article titled Understanding True Value of Gold, **Mehrab Irani** talks about factors determining the value of gold.

International prices of spot gold have risen 21% on the year, their 11th straight year of rises, and a weakening rupee is also increasing domestic prices.

Gold is one of the most craved commodities. Gold has been regarded as the safest investment which can never go down. Gold's history has not been impressive. It has given less returns then Dow Jones Industrial Average. From 1971 gold has given

return of 9.9% in CAGR whereas DGIA has given CAGR return of 12.7%. If value of gold is determined through discounted cash flow method also, gold has negative cash flow in the form of storage cost. Gold has very few practical use. And has minimum importance for human existence.

Gold is a speculative commodity. Gold is regarded safe because it is considered as an alternative currency. Internationally prices of gold are in dollar terms, if the value of dollar goes down, value of gold goes up. So it is not the gold which is becoming expensive because of its own characteristics but it's the value of dollar which is the reason for its rise. Central banks are increasing their gold holding after understanding that they cannot keep all their reserves in dollar term which is depreciating continuously. Supply of gold has weakened whereas new avenues of demand have arisen with gold exchange traded funds. According to the article till there is uncertainty about various international scenarios in terms of weak dollar, Fed printing money, balance sheet recession in the US, investors around the world will move to the so called safe heaven gold. In the words of Peter L. Bernstein, author of The Power of Gold "But it's never been clear if we have gold – or gold has us."

Last article is written by **Naresh Makhijani** on Non Banking Financial Companies which cover the recent legislative changes proposed by the Usha Thorat Committee Report for NBFC.

The NBFC sector in India has undergone a significant transformation in the past few years and has come to be recognised as a systemically important element of the financial system. It is playing a complementary and active role to the banking system. It is reaching to even the rural areas of the country which banks could not do.

The financial crisis in the world has made it important for regulators to look again for the regulatory gaps. The capital and reserve requirements differ for NBFC and banking operations.

The report proposed to increase the Tier 1 capital to 12% from 7.5%. The various measures taken by RBI will increase equity capital requirements for NBFC and bring down the leverage. The proposed change in standard assets and non performing assets which is to be brought in line with the banks will increase cost and affect the profitability for NBFC. NPA ratio will increase for NBFC. While RBI's proposal of NBFC converting into banks or forming a new bank will give it access to less expensive funds but will increase its cost in terms of capex in opening new branches and employee cost.

The proposed changes are expected to change the way NBFC function today and will definitely affect profitability and put pressure on performance and efficiency.

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An Account of Economic Disparity in India

*Pundarik Mukhopadhaya**

Abstract

Since 1990s India has achieved rapid economic growth in real per capita GDP. Despite this achievement due to lack of proper policy management the fruit of growth has not been distributed evenly across states and across the population. This essay investigates the trend of economic disparity and spells out some possible causes.

Introduction

There are several studies available on Indian consumption inequality based on the National Sample Survey (NSS) estimates of household private expenditures.And on the basis of majority of them it would be erroneous to conclude that inequalities of income distribution have diminished. Firstly, NSS data is not reliable with respect to consumption expenditure of higher expenditure groups. Understatement of consumption is quite common to evade tax. Furthermore no attempt has been made in the NSS data to value the perks enjoyed by the higher income class (particularly executives).[1] Secondly, over time the household savings rate in India has increased from the higher income groups.

Recent studies reveal mixed evidence on total and state specific inequalities. According to Bhalla (2003), both rural and urban inequalities declined between 1993-94 and 1999-00. The Government of India (2001) reveals that between 1983 and 1999-00 the rural Gini had declined consistently (29.5 to 25.5) while there was a gradual rise of urban inequality (33 to 33.9). Jha (2004), using various Rounds of NSS data, shows that both urban and rural Gini increased in the period between 1993-94 and 1997 and declined between 1997 and 1999-2000. However, as the methodology had changed in the 55th Round of NSS, the results of 1999-2000 are not comparable with earlier rounds. Decline in inequality should be interpreted with due care.

Sundaram and Tendulkar (2003a, 2003c) find that the rural Gini was 28.6 and 26.3 from the 50th and 55th Rounds of NSS respectively. However, their revised and comparable estimates show that the Gini of 50th Round was 25.8 (not 28.6), an increase of 2 per cent instead of a decrease of 8 per cent (if no adjustment is considered). They have also observed an increase in urban Gini from 31.9 to 34.8 in the same period.

The data reported by the World Bank India Database has been corrected for

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firewood price which in the original survey was assumed to be constant over the rounds, but it does not have a big impact on the Gini coefficients. Based on World Bank estimates, consumption inequality (Gini) in India has increased from 34.08 in 1983 to 32.53 in 1991, and to 35.51 in 2004-05, while total inequality increased from 31.49 in 1983 to 32.02 in 1991, and to 35.51 in 2004-05, although there was some decrease in the late 1980s. see (Figure 1). The rural inequality trend as estimated by Datt (1999) moved from 28.58 in 1993-94 to 30.56 in 1997. There is no reason to believe that in the recent years there has been any reverse movement.

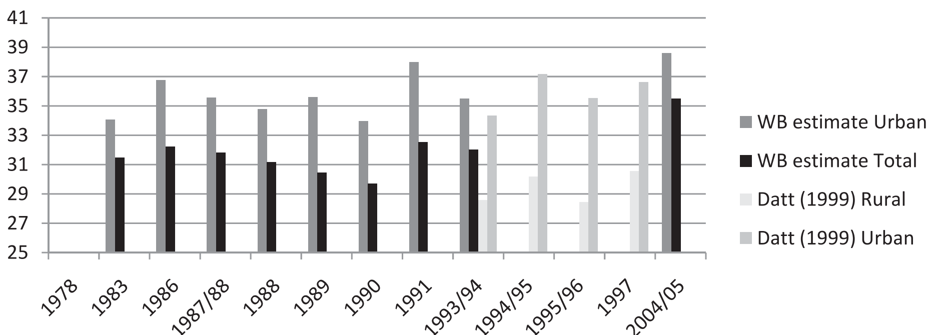
Banerjee and Piketty (2001) have shown a disproportionately high increase of income: in the 1990s the highest one per cent earners' real income increased by 50 per cent. Real income of the top-most income class has increased by at least three times.[2]

However, the present paper is arranged in the following. The introduction section is followed by section one on a discussion of regional inequality. Section two studies other dimensions of economic inequality and section three briefly discusses various reasons that cause the disproportionate distribution. The last Section concludes.

I. Regional Inequality

In early 1990s, public investment in crucial sectors like agriculture, rural development, infrastructure development, and industry were scaled down to reduce capital expenditure. This has affected public health, education, infrastructure and sanitation. Also, when government current expenditure on rural development declined, the rural sector was severely affected. The decade of 1980s had seen substantial increase in rural development expenditure (due to political reasons) resulting in employment increases in the rural sectors. But the negative effects of the partial withdrawal of agricultural projects, rural development and anti-poverty schemes during '90s became visible with increased regional disparity in India.

Figure 1: Consumption Inequality Trend in India: 1983-2004/5



What is the trend in between-state dispersion? In 2002-03, the per capita State Net Domestic Product (SNDP) of the richest state Punjab was 4.7 times that of the poorest state (Bihar), while it was 4.2 times in 1993-94. Banerjee and Piketty (2001) developed a time series graph showing the ratio of per capita SNDP of three richest states (Punjab, Haryana, Gujarat) and two poorest states (Bihar and Orissa) – this series shows a trend from 2.19 in 1985-86 to 3.00 in 1994-95, and 3.17 in 2000-2001. Ghosh and Chandrasekhar (2003) have demonstrated a sharp increase in between-state inequality in the 1990s: during that period while Punjab, Haryana and Maharashtra remained the richest states, Bihar and Orissa were the poorest.

The author finds that there is a continuous increase in the between-state Gini: 1.6 per cent per annum between 1981 and 1991, 3.6 per cent between 1991 and 2001, and 2.1 per cent between 2001 and 2007. This clearly indicates that interstate inequality had increased mostly in the period of 1990s. Ahluwalia (2002) and Daumal (2008) have also observed an increasing trend in interstate inequality during the 1990s.

In the 1990s, there was a reduction in financial transfers to state governments by the central government: it reduced Central Sales Tax, introduced non-shareable levies in Direct Taxes and adopted a Value Added Tax – these reduced the resources generated for the states. As State Governments are the major providers of basic services and rural infrastructure, only rich States could continue with their developmental spending while the poorer states lagged behind. This could have increased the interstate inequality.

Furthermore, a number of loss-making Public Sector Units (PSUs) were closed down. They used to provide important services to farmers, small enterprises and people in general. Many of the PSUs were established to achieve equity-related socio-economic services. With their closure, a number of states were affected by the deprivation of socio-economic benefits. Moreover, privatization of electricity and transport raised the prices of their services in many parts of India – relatively richer firms and States could cope with this changed situation while others could not. The poorer states, where private participation of industry was low, were the worst hit.

There has been a disproportionate FDI flow into the states of India. Both domestic and FDI flows contribute to the inter-state variation in inequality. Reserve Bank of India data reveals that the top 10 Indian States had attracted 63 per cent of total FDI, while the bottom 10 states received only 1 per cent in 1991 to 2002. The southern states (Andhra Pradesh, Karnataka and Tamil Nadu), and Western States (Maharashtra, Gujarat) received 17.35 and 7.70 per cent of FDI inflows respectively. The seven Northern States together received only 0.03 per cent of total FDI inflows in the same period. There is no recent change in this trend.

Besides unequal regional FDI flows, there is a stronger sectoral bias

of FDI flows in India. The major portion of FDI goes to high-end consumer goods and financial services (Banks, Insurance Companies and Consultancies). India's comparative advantage in the world market is in information technology – and FDI flows are strong in that area. Only few regions in India are thus blessed with FDI flows offering a large domestic market, or inexpensive and skilled labour. Governments in many states, in an effort to attract FDI to their States, concentrated their development expenditure only in urban development. This policy, increased within-state inequality, sometimes generating political tension and toppling of government (as evidenced in Andhra Pradesh in 2004 elections). This is inevitable in a democratic society.

However, Indian democracy is perceived to be incomprehensible. In 2008/9 the Left Front government in West Bengal, in an effort to attract domestic private investment using occupied agricultural land from farmers without compensating on the basis of market price, faced public protest to such an extent that Tata Corporation had to shift the location to Gujarat. In general, domestic private investment is also regionally biased. In the market reform process, Central Government relinquished its ability to channel investment to specific underdeveloped areas encouraging flows of domestic investment to places which have a specifically skilled labour force, better infrastructure and 'work culture' (Ahluwalia, 2000). The resultant inequality in India, however, is an indirect and unintentional consequence of market reform.

We admit that regional economic analysis for India is not meaningful because there is no reason why any kind of agglomeration should conform to some administrative and political boundaries for which data is available. With free movement of labour and capital across regions, free trade between regions and in the presence of nationally uniform law and regulations, agglomeration may easily transcend administrative borders. Some policies and regulations, however, are different for different States. Different political parties in different regions (pro or against the party elected nationally) have separate agendas which may affect growth and inequality situations between region.

II. Other Dimensions of Inequality

Health: India's performance in the health sector has been disappointing over the years. There is a huge regional gap with respect to the improvement in health care facilities in India. Health services are much better in the urban areas compared to rural regions.

National Family Health Survey (NFHS-3, carried out in 2005-6) data and District Level Household Survey on Reproductive Health (RCH, carried out in 2002-4) show that some of the India's health indicators were worse than that of Bangladesh (in maternal mortality, infant mortality, child immunization, etc.), and even of sub-

Saharan Africa (in the percentage of underweight children), despite much higher growth rates in India. While 46 per cent of children below 3 years of age suffer from malnutrition (30 per cent on average in sub-Saharan Africa, and 8 per cent in China)[3], 79 per cent suffer from anemia. The percentage of underweight children in Gujarat (one of the richest states) increased between 1998-1999 and 2005-2006; 56 per cent children are not fully immunized, and 79 per cent did not receive Vitamin-A dose in the last 6 months prior to 2005-6. Also, 33 per cent of ever married women suffer from chronic energy deficiency, 58 per cent from anemia, 59 per cent deliveries did not take place in institutional agencies (according to NFHS) and 76 per cent adolescent girls suffer from severe and moderate anemia (as per RCH).

The female-male ratio in population is lower in India than in sub-Saharan Africa. Regional diversity with respect to other social developments is quite pronounced: the life expectancy of birth in Madhya Pradesh is 58 while that of Kerala is 74 (2002-06 observation); similarly, the female to male ratio in Punjab is 86.1 per cent while that in Kerala it is 105.8 per cent. The performance of south Indian States is generally much better than other States. In terms of health indicators, the performance of two most populous States (Uttar Pradesh and Bihar) is below many sub-Saharan African countries.

There is considerable variation in the incidence of child malnutrition in Indian States: it varies from 27 per cent in Punjab and 29 per cent in Kerala and Jammu & Kashmir to 60 per cent in Madhya Pradesh according to NFHS-3. The nutritional status of middle income states like Kerala and Tamil Nadu is better than higher income States like Maharashtra and Gujarat. The success of Kerala and Tamil Nadu should be attributed to successful public intervention in those States.

Although Indian Planning Documents have emphasized health and health care, there was persistent negligence in Public Health Policy. The public expenditure on health by government of India was only 0.27 per cent of GDP (in 2007-8 total public sector outlay on health was Rs 1487.8 million while GDP was Rs 532,175.3 million) – in the world scenario of 142 countries only Burundi, Cambodia, Georgia, Indonesia, Myanmar and Sudan have lower figures for public expenditure on health as a proportion of GDP. Inefficient use of available resources coupled with inequalities (based on caste, gender and religion) has aggravated this problem.[4] Furthermore, nutritional conditions have close relationship with overall health. NSSO revealed that per capita food grain consumption has declined from 476 grams per day to 418 grams per day between 1990 and 2001. In this context, there was reduction of availability of food grains in the country at that time: per capita availability of food grain declined to 458 grams in 2000, from 510 grams in 1991.[5] Widespread hoarding by big business and corruption has aggravated

the problem. Although Banerjee and Piketty (2001), Pal and Ghosh (2007) and several others blamed liberalization as the cause of enhanced inequality in India, market reform was not responsible for the aggravation of different facets of inequality in India; rather, it is the economic policy management which was responsible for increased inequality.

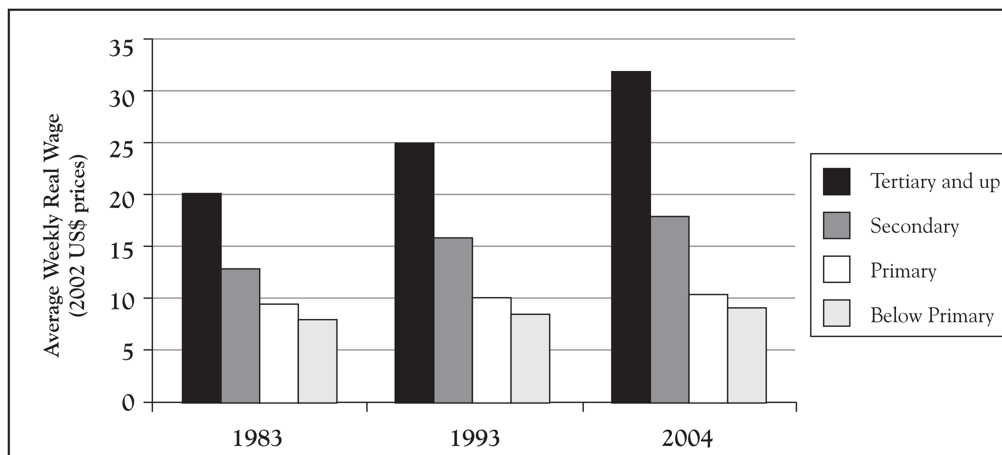
Education: Literacy rates in India increased very slowly with substantial rural-urban and gender disparity. India has a lower primary school enrolment rate as compared to Sri Lanka and Bangladesh. The dropout rate is strikingly high (although decreasing). Many of the primary schools in rural India do not have basic resources. Despite this drawback, the education system in India is the second largest in the world (it has 1.04 million schools, 17,000 colleges and 329 universities) (Tilak, 2007). According to Dreze and Sen (2002) Indian education system suffers from inconsistency between ends and means. While the Constitution of India (Article 45) urges the State to provide free and compulsory education to age 14, practical measures taken to implement this goal were insufficient.

In 2008-9, the public sector planned outlay in education as a proportion of GDP was 5.9 per cent (and increasing over the last few decades). However, this amount was far below the requirement of the education system to provide a reasonable level of quality education to all enrolled students, thus affecting the goal of universal elementary education of eight years for every child in ages 6-14; this goal also provides universal provision of resources, universal enrolment, universal retention and that could lead to growth in secondary and higher education. Without political power, illiterate people could not force the government to invest and develop the education sector in India.[6]

Moreover, focus beyond primary education (that is, secondary and higher education) is also important, in view of the flow of FDI to India's comparative advantageous sectors. ADB (2007) has pointed out that "Decomposition of changes in wage inequality among urban Indian full-time employees reveal that a little more than 80 per cent of the change in the Gini coefficient from 40.5 in 1993 to 47.2 in 2004 can be accounted for by differences in educational attainments among workers." From Figure 2 we can visualize that the rate of wage growth of urban tertiary workers has been much faster than of others, and wage inequality is determined by education levels.

If one considers twenty richest Indian cities in terms of 2007-8 average household annual income, of these, five are from Punjab, two each from Haryana, Gujarat, Tamil Nadu and Uttar Pradesh, three from Maharashtra, and one each for Rajasthan, Karnataka and West Bengal (note Chandigarh city belongs to both Punjab and Haryana). More than 30 per cent of the population of Maharashtra State earned less than Rs 665 per household and would be considered as absolute poor; in Mumbai (Capital of

Figure 2: Average Weekly Real Wage by Level of Education (Urban Full-time Employees)



Source: Computed from ADB (2007)

Maharashtra), the average household monthly income is almost Rs 40,000, which is in stark contrast. The poverty rates in Uttar Pradesh (as exemplified by the cities of Lucknow and Kanpur), and Madhya Pradesh (by the city of Bhopal) were higher than all-India poverty rates. Although Gujarat (with cities like Surat and Ahmadabad) performed better in terms of poverty reduction, their life expectancy at birth and infant mortality rate were average. Only Punjab and Haryana did better when compared to other states. This observation clarifies the within-state diversity in terms of income and other dimensions.

III. Some Specific Reasons behind Consumption/ Income Disparity in India

Sector Specific Variation in Employment growth: It can be observed that the population and labour force have decelerated during the 1990s when compared to an earlier reference period.[7] Like the supply factor, growth in workforce has also decelerated during the 1990s; this high decline has been causing an increase in the incidence of unemployment during the period. The growth of workforce in the rural and urban sectors has further widened: in urban sector it declined marginally, while the rural sector decline was significant. The incidence of unemployment in the urban sector is high as compared to the rural sector. In the rural sector, incidence of unemployment has increased by more than 1.6 per cent during this period. NSSO (various Rounds) indicates that total employment in agricultural sector increased from 190.72 million in 1993-94 to 190.94 million in 1999-00 (an annual growth of 0.02 per cent), which is much lower than the population growth rate over the same period (1.67 per cent).

It was also lower than the corresponding figures in the previous periods: the annual growth rates of employment in agriculture in 1983, 1987-88, 1993-94 were respectively 1.77, 2.57 and 2.23 per cent. While agriculture experienced a fall in employment growth during 1993-94 to 1999-00 when compared to 1983 to 1993-94, some sectors evidenced an increase in employment growth, such as manufacturing (growth rate 2.58 per cent as compared to 2.26 per cent in 1983-1993/94), construction (5.21 per cent as compared to 4.18 per cent in 1983-1993/94), services in trade, hotel and restaurants (5.72 per cent as compared to 3.35 per cent in 1983-1993/94) and financial services (5.40 per cent as compared to 4.60 per cent in 1983-1993/94).[8] This sector-specific variation in employment growth is an ingredient of increasing inequality in India.

Furthermore, the proportion of casual workers increased steadily in rural India with a steady decrease in self employed workers (both genders). In the urban areas, although the share of casual employment for female workers dropped over time, regular employment went up (unlike in rural areas). For male counterparts, both the share of casual workers and self employment workers had increased. Along with the decrease in employment share, regional variation in gender is observed in the occupational structures of rural and urban workers. While 37.8 per cent of urban female workers were employed in the service sector, the corresponding figure in the rural sector is only 4.3 per cent. Various social factors alongside low skills, do not allow rural females to move to the urban service sectors where wage rate is higher. However, in the organized urban sectors, female employment growth has exceeded male employment growth since 1997. The impact of this on inequality is minimal as only 8 per cent of total population is involved in the organized sector.

Variation in the Wage Rate in Different Sectors:

While growth of per capita income of rural agricultural workers was limping, the urban sector had been experiencing increasing unemployment while some specific service sectors were booming. In some of the Indian cities, per capita average household income was extremely high. A report by ECA International, International Human Resources Organization noted that real pay hikes in urban India is on average 7 per cent, the highest in the world. Because of the presence of multinational companies (and some domestic companies that remained competitive), who could offer internationally competitive salaries at the top end, urban inequality had increased several fold. High salaries and lucrative placements are only offered to those from elite educational institutes. It has been reported that at Indian Institute of Management (IIM), Ahmadabad, IT firms like Wipro, Microsoft, IBM, Cognizant Technology Solution, Tata Consultancy Services, HCL Technologies, Trilogy, etc hire fresh graduates at a salary of Rs 0.6 million to 10 million per year. Salaries of similar range are offered to

IIM Kolkata or Bangalore graduates as well. According to Bharti Airtel's annual report 2005-06, no less than 13 employees drew a salary of Rs 10 million a year. Similar compensations paid to several CEOs in the country spread across high growth sectors like financial services, private equity, consulting, and telecommunication and information technology. These salaries were growing at a rate of 30 to 40 per cent in the last few years.[9] The DQ-IDC India Salary Survey 2004 reports that, generally in these firms, employees with 10 years' experience received a 26 per cent salary hike while those with less than 5 years' experience received 11 per cent higher salary. However, fresh employees' salary decreased by 12 per cent on average.

Incomes of business executives, engineers, information technologists, physicians and other professions are high. It is true that income inequality emanates from professional competence. In a class-conscious society, training for professional competence is not universally available. There is a severe imperfection in the capital, labour and education markets. Only children from elite families have access to elite educational institute (due to the imperfect capital and educational training markets) which later determines their position in the income ladder . Children of agricultural workers, industrial workers and most of the minorities (like *tribals* and *dalits*) cannot get these educational opportunities. Thus the education and training which perpetuate inequalities in income distribution in India have their fundamental roots in unequal distribution of wealth and private property.

Minority Communities: Inequality of opportunity, as indicated above, among the heterogeneous society of India is quite pronounced if we look at the minority communities. There are many categories among this minority: in terms of religion (there are 13.4 per cent Muslims, 2.3 per cent Christians, 1.1 per cent Buddhists, 1.9 per cent Sikhs and 0.4 per cent Jains), and in terms of caste (16.33 per cent Scheduled Castes (SC)[10] and 8.01 per cent Scheduled Tribes (ST)[11]).[12]

In proportionate terms, the incidence of poverty is more pronounced among the minority groups. Compensatory or positive discrimination policies reserve 15 per cent seats in the institution of higher education and State and Central Government jobs for the SCs, and 7.5 per cent seats are reserved for the STs. These programmes had been strengthened by improved enforcement and increased funding in the 1990s. However, the outcome is dismal as evidenced above.[13] It has been observed that STs often live in those States which have low education status and they are mostly concentrated in the rural regions (while Muslims are more concentrated in the urban areas). Although in modern times the caste system is not occupationally-driven, there is much less evidence of the presence of minority groups in the professional category.[14] SC and STs are more likely to be manual workers and less likely to own land. While the

mean per capita expenditure of upper caste was Rs 731.4 per month, that of SC and ST were Rs 495.6 and Rs 453.0 (for Muslims it was Rs 600.5).

Concentration of Land Ownership in the Rural Areas: The legacy of concentration of land ownership prevalent under the *zamindary* system during the British period is still persistent. According to NSS (26th Round), in 1971-72, large farms, constituting 5.5 per cent of peasant households, possessed almost 40 percent of total agricultural land in India; 44 per cent of peasant households were marginal farmers (who had a land of size less than 1 acre), who owned only 1.6 per cent of the total agricultural land. According to Thorat (1997), Gini coefficients of land ownership distribution for 1961-62, 1971-72, 1982 and 1992 hovers around 0.71 – this indicates some evidence of high concentration of land ownership. Furthermore, over time, there is hardly any change in the land distribution pattern in India. According to the Rural Development Institute[15], there are 60 million households who are landless, and around 250 million households have less than 0.2 hectare land per head.

Big farmers have access to institutional finance and are able to improve farming techniques. This has enhanced their earnings several fold. The control method of government is either absent or ineffective. Over the years, the large farmer lobby groups had gained tremendous power to influence political decisions on agricultural tax, subsidization on fertilizers and food grain pricing.

In the case of India rural households do not have land and that forces them to work in someone else's land. In many parts of rural India, a semi-feudalistic mode of production still exists because of the presence of big landlords. West Bengal is the only state where land reform has been implemented to a substantial extent and as a result the poverty rate among rural population was eradicated several fold.

Private Ownership in the Urban Areas: NCAER noted, for 1975-76, that the distribution of assets in urban areas was quite skewed as well. The top 10 per cent had accounted for 46.28 per cent of total wealth of urban areas, while the bottom 60 per cent had 11.67 per cent of wealth. A NSS 1981-82 survey concluded a similar pattern. This lop-sided pattern of asset distribution has enabled only a certain group to prosper over the years. Because of their control of means of production they are the major beneficiaries of growth. Recently there is some evidence of a booming middle class; however, the concentration of wealth remains an issue since it accrues only to a few. The existing inheritance law in India added to the perpetuation of inequalities in income. Accordingly, properties of the father are inherited by the children and thus children of low income people hardly inherit anything. Only recently, there has been some mobilization of income, however the amount is very little.

Conclusion

This essay provides an account of economic disparity in India over the last two decades. It has been observed that consumption inequality has increased over time at the all India level and the regional growth is also disproportionate. Various reasons have been identified for this unequal growth those consequently cause economic disparity. It has been established that economic liberalization should not blamed for the disparity rather the problem lies in economic policy management.

Notes

1. A report by DQ-IDC India Salary Survey indicates that perks and benefits available to private and public employees in the urban region are quite high. Medical and life insurance cover, along with conveyance are the benefits passed on to the largest portion of the workforce. Availability of subsidised food coupons are increasing substantially. Another category of benefits that saw a fair increase in percentage of diffusion is the provision of telephone services, mobile or otherwise, by the company. These perks are generally confined to the seniors in the company though.
2. Bardhan (2010) using the National Council of Applied Economic Research (NCAER) survey, made a correction for rural urban price variation, and has reported a Gini coefficient of income as 0.535.
3. According to RCH, 49 percent children under 6 years suffer from malnutrition.
4. In many states in India the health services are dilapidated, medicines are not available and doctors are absent. Only 15 percent of Indian population has health insurance. The out of pocket expenses in total spending of health care is more than 70 percent. India does not have any tradition of training village doctors. Public doctors have more incentive to practice privately (Hammer, et al., 2007) that their quality of services had deteriorated.
5. Before 1990s, the Public Distribution System (PDS) in India used to provide fair-priced food to low income households. In the early 1990s, there was a reduction in food subsidy, and from then only those who were below the poverty line were eligible for subsidised food under PDS. In 2000, the government increased food prices which led to doubling of food prices for people above poverty line households, and 80 per cent increase in food price to below poverty line households. However, the major harm was in the 1990s when procurement prices of some major food grains increased from political pressures. As a result, purchase from PDS declined and the stock of Food Corporation of India increased by three times, which increased the cost of holding as well.
6. See Dreze and Gazdar (1996) for a case study in Uttar Pradesh.

7. The rate of growth of population and labour force is significantly different in the rural and urban sectors; this difference to some extent is exaggerated on account of classification of towns. Other factors, like migration of rural youth to urban centres from the rural sectors, cannot be ruled out.
8. Mining and quarrying, Electricity-gas-water supply and community-social & personal services, however, experienced decrease in employment.
9. According to a report in Business Standard, May 28, 2007, Rajiv Bajaj of Bajaj Auto received a 362 per cent rise in salary to take 20 million and Naveen Jindal 's (of Jindal Steel and Power) salary rose by 248 per cent to Rs 135 million a year for 2005-06.
10. Scheduled Caste is a term used in Indian Constitution, currently termed as dalits.
11. Scheduled Tribe is a term used officially by Indian Constitution to refer to the people of various indigenous groups in India, also called Adivasi.
12. The 61st Round of NSS reported that nine-tenth of Buddhists and one-tenth of Sikhs in India belonged to notified Scheduled Caste (SC) of the constitution, while one third of Christians belonged to the notified Scheduled Tribe (ST).
13. The within minority disparity is also quite high. Only some people in the minority groups taking the advantage of politics have managed to gain most of the facilities provided for the whole community. Some political leaders from the minority community are the richest in the whole country and have less interest for the development of the minority community.
14. According to NSS (55th Round) while 15.4 per cent upper caste households are in professional category the proportions of SC and ST are respectively 6 and 5.7 per cent; If we consider farm labour as household operation, 17.3 per cent of total upper class people are involved, while that of SC and ST are respectively 42.4 per cent 37.1 per cent.
15. http://www.rdiland.org/OURWORK/ourwork_India.html accessed on 23 June 2010.

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Listing of Securities on the SME Exchange: A Legal Analysis

*Vaibhav Shukla**

Abstract

The critical role and place of SME sector in the Indian economy is very well known in terms of employment generation, exports and economic empowerment of a vast section of the population. But SMEs face a number of problems. Access to Equity capital is a genuine problem alongwith absence of adequate and timely banking finance which may pose a serious challenge to development of knowledge-based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. SEBI has permitted BSE and NSE to set up an Exchange for MSMEs in terms of the recommendations of the PM's Task Force on MSMEs in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. The article dealt with some legal aspects of SME Exchange.

Introduction

Small and Medium Enterprises **("SME")** play a catalytic role in the development process of most economies as they constitute a major part of the industrial activity in these economies. The growth of the Indian economy is largely dependent on SMEs and this can be reflected by the fact that the sector contributes to around 8% of the GDP, 45% of the manufacturing output and 40% of the country's exports.[1] SMEs are the second largest employer of human resources after the agricultural sector and provide employment to about 60 million persons through approximately 30 million enterprises producing over 6 thousand products.[2] The definition of a SME is provided in Section 7 of Micro, Small and Medium Enterprises Development Act, 2006 and which in gist is as follows:

Manufacturing Sector	**Investment in plant & machinery**
Small	Rs. 25 lakhs to Rs.5 crores
Medium	Rs. 5 crores to Rs.10 crores
Service Sector	**Investment in equipments**
Small	Rs. 10 lakhs to Rs.2 crores
Medium	Rs. 2 crores to Rs.5 crores

The Security and Exchange Board of India ("SEBI") came up with a discussion paper on developing a market for SMEs in India. The discussion paper highlighted certain key areas of concern relating to the SME sector, which *inter alia* included the following:

- The cost of raising capital for SMEs is quite high.

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- The current means of financing (such as bank loans) for SMEs are not adequate as they do not have easy access to funds from angel investors, venture capitalists and private equity players.
- Most costs of compliance in raising capital under the existing guidelines are fixed. As a result, the cost becomes burdensome for SMEs.

In order to overcome the difficulties listed above, SEBI in the said discussion paper proposed a dedicated stock exchange for the SMEs **("SME Exchange")**[3] so as to provide a framework that would enable the SMEs to raise capital quickly and at a low cost. The discussion paper was based on the success of similar exchanges such as AIM in London, GEM in Hong Kong, TSXV in Canada, KOSDAQ in Korea and MOTHERS in Japan.

Therefore, to establish SME Exchanges in India, SEBI has issued a notification[4] introducing Chapter XA (now Chapter XB *vide* amendment[5] dated 23 September 2011) to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 **("ICDR Regulations")**. The ICDR Regulations laid down the provisions pursuant to which a SME can get its shares listed on the SME Exchange. To implement the provisions pertaining to SME Exchanges in practice, SEBI has granted the final approval to the Bombay Stock Exchange ("BSE") to launch a BSE SME Exchange as recently as in October 2011. However, BSE has not yet announced the date on which the BSE SME Exchange will start and the securities of the SMEs would be listed.[6] SEBI has also granted final approval to the National Stock Exchange to launch a SME Exchange.[7]

I. Key Provisions of Chapter XB of the ICDR Regulations

The key provisions regulating the manner in which the securities issued by SMEs can be listed on a SME Exchange are as follows:

- **Applicability**

  Chapter XB of the ICDR Regulations applies to an issuer with a post-issue face value capital of (i) upto Rs.10 crores; and (ii) more than 10 crores but less than 25 crores. The latter however, has an option either to list its securities on the SME exchange or on the main board.[8]

- **Minimum Application Value**

  In the offer document the issuer is required to stipulate a minimum application amount which cannot be less than Rs.1 lakh for any applicant.[9] The provision restricts the accessibility of a common investor to the listed SME looking to invest a sum of less than Rs.1 lakh. This may be detrimental to the interest of the SME, as an interested investor may wish to invest a smaller sum initially and increase his investments in the SME gradually through the secondary market over a period of time.[10]

- **Minimum Number of Allottees**

  For an allotment to be made pursuant to an Initial Public Offer ("IPO"), the SME would require a minimum of 50 prospective allottees.

  By a joint reading of (b) and (c), it can be said that the size of an IPO can be as low as Rs.50 lakhs. Considering the fact that SMEs need lesser capital to fund their operations, as compared to larger enterprises, reduced size of the IPO will attract more SMEs to consider equity financing as an option to raise capital.

- **Underwriting**

  The major incentive offered to the SMEs to list on the SME Exchange is that of 100% underwriting of the issue. It implies that there is no minimum subscription level which is to be subscribed to by the public at the time of the IPO. The underwriter to the issue has to subscribe to all the shares which are offered and not subscribed by the public. From the viewpoint of the issuer, the IPO will thus be a 100% success, irrespective of whether it is fully subscribed or not. Here, the intention of SEBI is to encourage the SMEs to come forward in a big way by eradicating the uncertainty of failure of an IPO.

- **Market Making**

  The merchant banker to the issue is required to undertake market making through a stock broker who is registered as a market maker with the SME Exchange for minimum period of 3 years.[11] The rights and obligations of a market maker set out by the BSE SME Exchange require the market maker to provide two way quotes for at least 75% of the time in a day and state that there cannot be more than 5 market makers for a single scrip.[12] During the compulsory market making period, the shareholding of the promoter of the issuer will not be available for offering to the market makers. Further, the market makers are required to hold 5% of the specified security to be listed at the time of allotment in their inventory to do the market making.

According to Mr. Lakshman Gugulotha, CEO, SME Exchange, the provision of compulsory market making have been introduced to provide liquidity to the securities of the companies listed on the SME Exchange and will attract companies listed on the main board to migrate to the SME Exchange, as the securities of the SMEs listed on the main board are generally illiquid. A leading financial newsletter recently reported an interview of Vijay Shankar Sharma, who said that the "trading activity is scarce for our scrip. So we have not been able to attract institutional investors ever since we listed".[13] The statement mentioned above highlights the presence of illiquidity among the mid and small capital companies on BSE. Such illiquidity can be attributed to the fact that many SME promoters

hold such a huge chunk of their company's shares that there is little left to trade. Moreover, the illiquidity can be attributed to the reluctance on the part of the promoter to dilute their stake.

- **Migration**

  The SMEs listed on the SME Exchange can migrate to the main board without bringing a fresh IPO, if the post-issue face value capital of the listed SME is above Rs.10 crores and the non-promoter shareholders of the issuer approve the migration by 2/3rd majority and if such issuer fulfils the eligibility criteria for listing on the main board.

  Similarly, companies listed on the main board and having a post-issue face value capital of less than 25 crores can migrate to the SME Exchange, if its shareholders approve such migration by passing a special resolution to that effect and if such issuer fulfils the eligibility criteria for listing on the SME Exchange.

II. Special Incentives

The SEBI has in order to attract SMEs to list its securities on the SME Exchange exempted SMEs from complying with certain requirements under the ICDR Regulations, which have to be complied with by companies listing on the main board. A broad overview of such exemptions is as follows:

- The SME proposing to list its securities is not required to have a 3 year profit making track record.[14]
- The listing norms for SMEs have been simplified to a great extent. The important stages of listing on the main board like the filing of the draft red herring prospectus, obtaining an in-principle approval of the exchange and issuing public notice are waived for listing of the SMEs. This would save approximately 6 months[15] time for bringing the IPOs on the SME Exchange as compared to the main board. The SME is merely required to intimate the SEBI regarding the listing. The merchant banker can file the red herring prospectus along with due diligence certificate[16] (in the form prescribed) with the SME Exchange and its approval would be sufficient.
- The recurrent compliances which are required to be made by companies on the main board are narrowed down for listed SMEs. The financial results are required to be submitted on half yearly basis instead of on quarterly basis.[17] SMEs can send abridged version of the annual report to its investors consisting of the summary of annual report, details of the profit & loss account and balance sheet to the shareholders instead of sending printed hard copies of the complete annual reports.[18] The SMEs can also make the soft copy of the annual report available on their website.[19]

III. Issues Surrounding the SME Exchange

As mentioned above, the ICDR

Regulations have imposed certain additional responsibilities over a merchant banker which involves underwriting, sub-underwriting and responsibility of market making for 3 years. As a result, the fees paid to the merchant banker in case of SME Exchange will be higher as compared to the fees paid in case of a company listed on the main board.

The standard listing fees for the SME exchange needs to be levied keeping in mind the profitability of the company, current industry market capitalization and affordability. The Model SME Equity Listing Agreement provides for the following benefits:

- SME exchange may send to their shareholders, a statement containing the salient features of all the documents instead of a full annual report;
- SMEs are still required to submit their periodical financial results on "half yearly basis", instead of "quarterly basis"; and
- SMEs can publish financial results on their website.

All those may not result in a substantial decrease of the expenses to be incurred by the SMEs as the remission of regulatory obligations is very little and the costs in terms of compliance are more or less the same as applicable to a regular listed company. Besides, the profits earned by the SMEs are lesser than that of the companies listed on the main board. All this may result in the promoters of the SMEs rather waiting for few years and list on the main exchange. Hence, there is a continuing need to further lessen the statutory expenditure incurred for different compliance and reporting requirement for SMEs.

Conclusion

Given the fact that raising debt from onshore and offshore lenders is presently the best option available to SMEs for their short and long term capital requirements, the SME Exchange will go a long way in providing a great opportunity to the entrepreneurs to raise the equity capital for the growth and expansion of the SMEs. The SME sector can grow better on two pillars of the financial system i.e. banking and capital markets. This can also be an incentive for the employees of the SMEs which are listed on the SME Exchanges, as they can participate in its ownership and benefit by being its shareholders. It will also provide immense opportunity to the investors to identify and invest in the good companies at an early stage. It will help unleash the valuation of the company and in the process create wealth for all the stake holders including investors, besides considerable long term and short term capital gains tax benefits and facility to exit at any point of time.

Notes

1. Report of Prime Minister's Task Force on Micro, Small and Medium Enterprises, January 2010.
2. Information available on the website of the BSE SME Exchange

at http://bsesme.com/aboutsme.htm.

3. Chapter XB of the ICDR Regulations defines the "SME Exchange" as, "a trading platform of a recognised stock exchange having nationwide trading terminals permitted by the Board to list the specified securities issued in accordance with this Chapter and includes a stock exchange granted recognition for this purpose but does not include the Main Board".
4. No. LAD-NRO/GN/2010-11/03/1104 dated 13 April 2010
5. No. LAD-NRO/GN/2011-12/25/30309
6. Interview dated October 2011 with Mr. Lakshman Gugulotha, CEO, SME Exchange available at http://www.smeworld.org/story/sme-exchange/sebi-approves-sme-exchange.php
7. Article in The Hindu available at http://www.thehindu.com/business/markets/article2593943.ece
8. Chapter XB of the ICDR Regulations defines the Main Board as "a recognized stock exchange having nationwide trading terminals, other than SME exchange"
9. Regulation 106Q. ICDR Regulations.
10. Regulation 106R. ICDR Regulations.
11. Regulation 106V. ICDR Regulations 2009.
12. Information on 'market making' available at http://www.bsesme.com/obligations_and_responsibilities.htm
13. CEO of Orient Ceramics, a company listed on BSE since 1993.
14. Regulation 106M. ICDR Regulations 2009.
15. Interview dated October 2011 with Mr. Lakshman Gugulotha, CEO, SME Exchange available at http://www.smeworld.org/story/sme-exchange/sebi-approves-sme-exchange.php
16. Regulation 106O. ICDR Regulations 2009.
17. Clause 3(b). Model SME Equity Listing Agreement.
18. Clause 3(a). Model SME Equity Listing Agreement.
19. Clause 3(c). Model SME Equity Listing Agreement.

Non-Retail Private Pool of Capital – within the Regulatory Compass!

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Abstract

Securities and Exchange Board of India ('SEBI') has released a concept paper along with draft SEBI (Alternative Investment Funds) Regulations, 2011 (the 'AIF Regulations'). The AIF Regulations intend to create a comprehensive legal framework to regulate various categories of non-retail private pools of capital e.g. Private Equity ('PE'), debt funds, hedge funds, Private Investment in Public Equity ('PIPE'), Venture Capital Funds ('VCF'), etc.

The concept paper has mention of G-30 report that recommended as follows:

"Managers of private pools of capital that employ substantial borrowed funds should be required to register with an appropriate national regulator. The regulator of such managers should have authority to require periodic regulatory reports and public disclosures of appropriate information regarding the size, investment style, borrowing, and performance of the funds under management."

At present, Investment Management Regulations are limited to Mutual Funds (MFs), Collective Investment Schemes (CIS), Venture Capital Funds (VCF) and Portfolio Managers (PMs). Whilst MFs and CIS mainly deal with retail investors, the rest deals with institutional investors and high networth investors ('HNI's). Now, SEBI feels the need to regulate non-retail private pool of capital.

SEBI VCF Regulations, 1996 (the 'VCF Regulations'), does not prescribe for mandatory registration with SEBI. Presently, various funds like PE, PIPE, etc. are operating without registration and are not subject to investment restrictions applicable to registered VCFs. With intent to bring uniformity and to eliminate regulatory gaps and create a level playing field, SEBI has come out with its concept paper on AIF Regulations.

One of the important purposes of the AIF Regulations is to create a structure where regulatory framework is available for all shades of private pool of capital or investment vehicles so that such funds are channelized in the desired space in a regulated manner without posing systemic risk.

Introduction

The Fund industry in India has undergone a transformation over a

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past decade with matured investors, experienced managers, high leveraging abilities and varied ways of pooling funds for investments in highly systemic risk oriented sectors / financial instruments. The innovation in financial markets has given a strong impetus to the fund industry and contributed substantially to economies across territorial boundaries. Albeit such innovation, the lack of regulation has raised eyebrows of regulators across the globe on account of high systemic risk posed by such pooling vehicles has on the economies.

SEBI has drafted the AIF Regulations that tries to sort out funds tangled with varied objectives that are bunched together and loosely governed by the VCF Regulations.

The term 'alternative investment funds' is defined to mean pooling or raising of private capital from institutional or High Net Worth Investors with a view to investing it in accordance with a defined investment policy for benefit of those investors and includes private pool of capital such as Private Equity Funds, Venture Capital Fund, PIPE Funds, Infrastructure Debt Fund, Real Estate Funds, Social Venture Fund, Strategic Funds, SME Fund etc. such other similar funds as may be specified by Board, presently not covered under the SEBI (Mutual Funds) Regulations, 1996, and SEBI (Collective Investment Schemes) Regulations, 1999 or any other Regulations of SEBI to regulate fund management activities.

The AIF Regulations intend to cover the following:

- an AIF investing in securities market having domicile anywhere, whether in India or outside India and collects its funds from institutional or high net worth investors ('HNIs') in India or
- the manager of such fund who manage AIFs for investments in India.

The AIF Regulations identifies categories of funds and application for grant of certificate shall be made in any of the following categories:

- Venture Capital Fund (VCF)
- PIPE Fund
- Private Equity Fund
- Infrastructure Equity Fund
- Debt Fund
- Real Estate Fund
- SME Fund
- Social Venture Fund
- Strategy Fund (includes hedge funds)

I. Salient features of AIF Regulations:

- AIF may be formed as a company, LLP or as a trust
- No AIF can function below the minimum fund limit of INR 200 million and minimum term of AIF shall be five years
- Each AIF shall be a stand-alone entity and no further scheme can be launched under one registration
- VCFs already registered under VCF Regulations shall continue to be regulated by VCF Regulations

till the existing fund or scheme managed by the fund is wound up

- Any alteration to the fund strategy can be made only with the consent of 75% unit holders
- Minimum investment amount shall be 0.1 percent of fund size subject to minimum amount of INR 10 million
- The fund shall be closed ended and duration of the fund and fund size (can be increased up to 25 percent) shall be determined upfront
- The FVCIs would continue to be governed by FVCI Regulations and will not be governed by the proposed AIF Regulations

II. Analysis:

1. Extra-Territorial Nexus:

The interpretation of the scope regulation can be summarized as below:

Location of investor	Offshore fund invest in India	Offshore fund invest outside India
Investor in India	AIF regulation would be applicable	It seems that AIF regulation would be applicable
Investor outside India	AIF regulation would not be applicable	AIF regulation would not be applicable

Bare perusal of the AIF Regulations suggests that some Indian link is necessary if one has to be governed by these Regulations and it is not sufficient that the investment is made in India. Either fund should have Indian investors/funds should be raised in India or the manager of such fund managing fund for investments in India shall be bound by these regulations.

It must be noted that recent news reports[1] suggest that SEBI does not intend to regulate funds raising money from investors abroad, but if these funds are raising money inside, then it will put in place the customer protection framework for such funds.

If above clarification is considered in the final Regulations then it would provide much needed relief to funds raising money from investors abroad.

It appears that these Regulations would apply to offshore funds investing outside India and having few Indian investors. It is important to note that the offshore funds would normally be regulated overseas by the competent regulatory authority in that country and making such fund also liable to register in India could lead to dual regulation. SEBI could consider including the offshore funds having Indian investors by providing a threshold for materiality with respect to the percentage/quantum of the Indian investor(s) contributions to the fund corpus.

This aspect needs to be deliberated further and requires clarification by SEBI as this may result in extra-territorial nexus of the proposed AIF Regulations.

2. Foreign Investors:

High Networth Investors are defined to mean individuals or corporate or any other legal entity located in India

[1] *Source: By N Sundaresha Subramanian, Mumbai, reported in business standard edition of November 30, 2011 (http://www.business-standard.com/india/news/big-relief-for-pe-vc-majors/457065/)*

or overseas who invest in AIF for a value of not less than INR 10 million. It is important to note that Foreign Exchange Management Act, 1999 read with rules and regulations issued thereunder ('FEMA') and Consolidated Foreign Direct Investment Policy of the Government of India ('Consolidated FDI Policy') needs to be amended to allow actual participation to foreign investors in AIF under the automatic route.

3. Permissible Structures:

One of the highlights of the AIF Regulations is permissible means of structuring the funds through LLPs. However, it is important to note that LLPs with FDI are not permitted to make downstream investments as per Consolidated FDI Policy.

4. Multi-Strategy Funds:

The AIF Regulations aim to compartmentalize the funds into categories, which may be cumbersome and difficult to achieve. Moreover, the AIF Regulations do not make any provisions for AIFs in a sphere of multi-strategy fund categories. SEBI could consider including a multi-strategy fund with a mixed investment category for registration as an AIF under the residual category.

5. Stringent Conditions Which Could Affect Operations of the Fund:

The intent behind introduction of the AIF Regulations is to regulate the disclosures and ensure protection of investors without interfering with the operations of the fund. However, the Regulations prescribe certain onerous conditions which require reconsideration i.e.:

- the sponsor of the fund to contribute from their own account an amount of investment equal to atleast 5% of the Fund which shall be subject to lock-in till the redemption by the last investor of the Fund. The condition seems to be onerous for small fund managers,
- no redemption rights exercisable by the investors which may ultimately deter investments as investors seek to free transferability and participation in the funds,
- any alteration to the fund strategy requires consent of at least 75% of unit holders,
- Regulations requires key members of management team to devote 'substantially all their business time' to each fund which certainly may not work well with institutional fund managers,
- separate registration of each fund and non-permissible change in its category subsequent to registration would increase the cost and operational burden substantially.

6. Issues with Certain Fund Categories:

Following few points are worth highlighting:

- **VCF:**
  - i) cap of total investment of INR 2,500 million in VCF is not justifiable considering no cap is defined for other type of funds as well as no cap is defined in

current VCF Regulations. This may not work well with the funds who are interested in setting up a larger fund,

ii) the intention behind the condition specifying VCF shall not invest in any company that is promoted, directly or indirectly by any of the top 500 listed companies by market capitalization or by their promoters appears to be unwarranted,

iii) flexibility to invest in equity linked instruments and warrants should be provided.

- **PIPE:**

i) Condition regarding investing in shares of small sized listed companies which are not part of any market indices in exchanges having nationwide terminals requires clarity that condition is applicable only at the time of investment and will not impact if post investment the company is included in market indices,

ii) flexibility to invest in equity linked instruments needs to be provided,

iii) prohibition from selling/dealing in securities of investee company for a period of five years is onerous and unreasonable requiring reconsideration in current market sphere.

- **Debt Fund:**

It seems that investment into listed debt securities of unlisted entities has been inadvertently missed. There seems to be no reason as to why investment into listed debt securities of unlisted entities should not be permitted especially given the fact that investment in listed debt securities of the listed companies is permissible. This will provide flexibility to invest and improve structural alternatives for funds.

- **Infrastructure Fund:**

As per investment conditions an Infrastructure Fund shall invest at least 66.67% of its corpus in the equity or equity linked instruments of infrastructure companies or SPVs of infrastructure projects as defined by Central Government or Planning Commission. Scope of infrastructure companies or SPVs of infrastructure projects is very limited i.e. as defined by Central Government or Planning Commission. This could be widened to include project defined by other regulatory/Government authorities.

- **Real Estate Funds:**

While the investments in real estate projects are permissible under Regulation 22, there is investment restriction that at least 66.67% of corpus must be in equity or equity linked instruments and upto 33.33% of corpus must be in debt or debt instruments. There seems to be some anomaly while at one hand investments in real estate projects are permissible and on the other hand there is mandatory requirement to invest 100% in equity or equity linked instruments or debt

instruments. It is very important to remove this anomaly and allow direct investments into real estate projects.

The stipulated obligation on fund manager to take up un-liquidated investments at the end of the winding down period could pressurize fund managers to make untimely exit and could severely impact the returns / interests of investors which runs counter to intention behind proposed AIF Regulations.

As per concept paper, the fund managers or investment managers of AIF are proposed to be regulated under a framework for regulation of Investment Advisors. However, Investment Advisor regulations issued by SEBI for public comments (on or before 31 October 2011) do not make any direct reference to AIF Regulations which indicated to regulate fund managers of AIF under regulation of Investment Advisors.

On a separate note, to avoid different interpretations than intended, SEBI may also consider defining the undefined terms like equity seed capital, proposed to be listed, real estate projects, allied sectors of real estate, etc.

Conclusion

The upside of AIF Regulations is in facilitation of separate categories of funds which permits / grants an opportunity to the Government to incentivize the priority sectors and regulate the other. On the other hand, the downside lies in onerous conditions imposed on the operations, strategies, etc. of the funds which may result in over-regulation of an industry that has contributed substantially to the growth of India.

However, one must appreciate vigilance of regulators and their intent must be applauded for carefully considering different set of regulations for different fund structures which provides better quality, ensures easy application of applicable provisions and assists in incentivizing the required industry.

Notes

1. Concept Paper on Proposed Alternative Investment Funds Regulation for Public Comments.
2. SEBI (Venture Capital Funds) Regulations, 1996.
3. Rules and regulations under Consolidated Foreign Direct Investment Policy of the Government of India, Foreign Exchange Management Act, 1999.
4. www.sebi.gov.in
5. www.rbi.org.in

Quarterly Overview

Global growth is slowing down again, after a contraction in 2009 and a recovery in 2010. The euro area appears headed for recession. A slowing global economy will continue to drag domestic recovery in 2012-13. However, available information suggests that in spite of a dip in growth, the world economy is unlikely to enter another recession. Growth in India is moderating more than was expected earlier. It is likely to be below potential during 2011-12, but is expected to recover at a modest pace in 2012-13. The slack in investment and net external demand components of aggregate demand may keep the pace of recovery low. Inflation has started to fall, broadly in line with the projected trajectory. Nonetheless, price pressures remain, with risks emanating from suppressed domestic energy prices, the incomplete pass-through of rupee depreciation and slippage in fiscal deficit .The decline in food inflation is likely to reverse ahead with the waning of base effects and seasonal factors behind the fall.

- **Global Economic Conditions**

❋ Global Growth Moderates, Hinging on Euro Area Debt Resolution

Global recovery is likely to lose traction due to the continuing euro area debt crisis. The news flow from the US has been mixed, with growth accelerating in Q3 of 2011 but getting revised downwards substantially from the initial estimates. Unemployment rate fell to 8.5 per cent in December 2011 and Consumer confidence improved. However, growth in euro area is already stagnating and as fiscal austerity progresses, the area could enter into a recession. With growth decelerating in emerging and developing economies (EDEs), the spillovers from euro area are likely to pull down global growth. As such, global growth hinges on resolution of euro area debt problem, which, notwithstanding significant policy responses in recent months, faces impediments.

❋ Financial Market Stress Rises as Sovereign Credit Risks Mount with Private Sector Bailouts

Global financial markets came under stress during Q3 of 2011-12. An adverse feedback loop between bank and sovereign debt generated significant refinancing risks that could only be contained in the interim through policy actions in the euro area. These measures may still fall short of successful debt resolution and the risk of contagion may continue to loom. The S&P's sovereign rating downgrade of nine euro area countries on January 13, 2011, with four of them being downgraded by two notches, was reflective of the rising sovereign

balance sheet problems. Tightening credit conditions, rising risk premiums, deleveraging, weakening economic growth in the euro area are keeping global financial markets under stress.

❋ Global Commodity Prices Continue to Moderate, but Oil Prices Hold

Global commodity prices, especially those of metals, continue to moderate. The LME Metals index has softened and the FAO food index has also dropped. However, oil prices have defied the trend. The current Brent crude oil price is still 30 per cent higher than its average for 2010-11, reflecting a combination of demand and supply factors along with financial impact of large quantitative easing by Advanced Economies (AEs). Going forward, some further softening in commodity prices on the back of weaker global growth is likely in 2012-13. However, upside risk to oil price remain from rising geo-political uncertainty.

• Indian Economy: Developments and Outlook

❋ Global Linkages Reinforce Domestic Factors to Slow Down Economy

Global spillovers through trade and capital flow channels are slowing down India's growth more than earlier anticipated. The impact has been exacerbated by domestic factors, both cyclical and structural.

Industrial growth has been adversely affected by contraction in mining, deceleration in manufacturing and slowdown in construction activity. This will have some adverse impact on the growth of services sector.

❋ External and Investment Demand may Drag Growth Ahead

Growth in the economy has been impacted by lower external and investment demand during last three quarters. There has been a sharp decline in new corporate fixed investment since H2 of 2010-11 and this trend continues. Going forward, investment may start recovering in 2012-13 contributing to growth recovery. There is need to contain fiscal slippage and rebalance public spending from consumption to investment to support medium-term growth.

❋ CAD Risks Amplify as Capital Flows Moderate

Early indicators suggest that the current account came under increased pressure during Q3 of 2011-12. Inelastic demand for oil and rising gold imports has widened the trade deficit, while exports decelerated. As capital flows have also moderated since August 2011, financing pressure on the current account deficit (CAD) translated into exchange rate pressures. While various external vulnerability indicators deteriorated, India's net international investment position improved. To reduce external sector pressures, moderation in import demand and acceleration in domestic reforms are needed.

❋ Monetary Growth Keeps Pace Even as Money Market Liquidity Tightens

Monetary policy rate was kept on hold in December 2011 based on forward looking assessment of risk to growth and moderation in inflation. However, a turnaround in the monetary cycle would depend on how growth-inflation dynamics shape ahead. Money market liquidity tightened significantly since November 2011 partly due to dollar sales by RBI, but monetary growth has kept pace with the money multiplier rising endogenously. Credit growth slowed below the indicative projection due to demand as well as supply side factors. Demand for credit weakened in response to slack in real activity. Supply also slowed down with rising risk aversion stemming from deteriorating macroeconomic conditions and rising nonperforming loans.

❋ Markets Come Under Pressure from Global Spillovers

Global spillovers and macroeconomic deterioration resulted in pressures on equity and currency markets. The sharp depreciation of the rupee during August-December 2011 contributed to the drying up of foreign equity inflows and in turn, further weakened the rupee. The sudden stop of equity financing also impacted investment financing. The impact was compounded by poor resource mobilization in the primary capital market. The stress in the financial markets was mitigated by policy measures that included infusion of rupee and dollar liquidity. As a result, call money rates largely remained within the interest rate corridor and the spikes were effectively contained.

❋ Inflation Trending Down but Exchange Rate Pass-Through to Limit Falls

Inflation is moderating as result of fall in vegetable prices, favourable base effects and some fall in pricing power of the manufacturers. The current momentum of decline in inflation is likely to persist through Q4 of 2011-12. However, the as yet incomplete exchange rate pass-through, pressures from suppressed energy prices and structural factors contributing to protein-based food inflation are likely to limit the decline in inflation. Furthermore, expansionary fiscal policy is likely to impact price stability by affecting aggregate demand. Since the fiscal expansion is largely on revenue account and capital spending remains low, it can adversely affect the supply responses needed to lower long-run inflation.

• Macroeconomic Outlook

❋ Growth Outlook Weakens, Calibrated Response Needed as Inflation Risks Stay

The Growth outlook has weakened as a result of adverse global and domestic factors that have been

mentioned above. Business and consumer confidence has been impacted. Professional forecasters now see a weaker growth in the economy. However, inflation and expectations of inflation remain high and upside risks emanate from exchange rate pass-through, revisions in administered prices and higher-than expected current fiscal spending. Consequently, monetary actions will need to strike a balance between risks to growth and inflation.

Both global and domestic factors have increased the downside risks to growth. Inflation has shown some moderation as anticipated though upside risks remain from incomplete pass-through of rupee depreciation, suppressed inflation in energy segment and expansionary fiscal policy.

The weakening business climate is corroborated by business expectation surveys of various agencies, as well as the Reserve Bank's industrial outlook survey. The professional forecasters' survey also suggests growth moderation. Most international and domestic agencies have revised downward their earlier growth projections for the Indian economy. Even as growth slowdown emerges as the major challenge, inflation risks persist, posing a challenge for monetary policy in achieving low and stable inflation with minimal sacrifice of growth.

Although a moderation in growth was anticipated previously, developments over the past few months in the global economy indicate that the degree and spread of the slowdown may turn out to be higher than earlier thought. EDEs too have started to face slowdown concerns as the contagion from unfavorable global environment is weighing in on growth prospects. OECD's composite leading indicators (CLI) which are designed to provide early signals of business cycle movements, have declined for almost all major economies. Consumer and Business Confidence have been showing signs of growing pessimism. This could further delay recovery as fiscal space for stimulus in the debt ridden global economy is limited.

Amidst weakening global growth, India's near-term growth outlook has deteriorated and poses challenges for economic management. The Reserve Bank in its Second Quarter Review of Monetary Policy 2011-12 on October 25, 2011 revised downwards the baseline projection of GDP growth for 2011-12 from 8.0 per cent to 7.6 per cent on the basis of the macro-economic situation prevailing then.

Since then, developments on both the global and domestic fronts have not been favourable and the growth is likely to turn weaker than earlier anticipated.

Outlook for Agriculture in 2011-12 is encouraging. However, the headwinds facing the domestic economy thus far, viz., inflationary pressures, which resulted in high interest rates, global uncertainty and the domestic policy

environment, have adversely impacted the industrial sector performance in 2011-12. A bigger risk arises from inflation and the downturn in investment cycle as they pose threat to growth sustainability. Services sector also faces downside risks both from weakening global demand and slowing industrial growth.

It is possible to raise growth from the current levels but restoration of business confidence is the key. The pause in the tightening of the monetary policy and further moderation in inflation should help activity regain some momentum. Higher IIP growth in November 2011 and rise in manufacturing and services PMI for December 2011 already indicates some improvement. However, on balance, the downside risks to real GDP growth during 2011-12 have increased.

❋ Inflation Moderates, but Risks Remain as Exchange Rate Pass-Through has Enlarged

Headline WPI inflation decelerated since November 2011. The recent decline in inflation has largely been on account of the base effects and seasonal fall in food prices, especially vegetables. Even though food inflation has been pushed into negative territory, inflation in protein-rich items persists in double digits. Therefore, once the seasonal moderation ends and base effect wanes, food inflation could revert course significantly.

Decline of growth to below potential is expected to ease pressures on aggregate demand and thereby have a softening impact on generalized inflation. Apart from this, declining international commodity prices has also emerged as a favourable factor. The pass through of rupee depreciation and expansionary fiscal policy, however, has emerged as major risks, offsetting the favourable impact from the lower demand pressures and commodity prices. The suppressed inflation from energy prices further complicates policy options as revisions in these prices could be inevitable. Wage inflation is still high in rural areas and real wages increased, though at a slower pace than previous year.

Overall, the emerging trend in inflation so far is broadly in line with the projected path towards 7.0 per cent by March 2012. The risks to softening of inflationary pressures, however, remain. The policy response to emerging macroeconomic conditions has to take these risks into account.

❋ Business Expectations, Industrial Outlook Surveys Suggest Confidence Ebbs

Surveys conducted by different agencies corroborate the overall moderation in business climate. Both CII and FICCI business confidence indices declined from the previous quarter and the current levels are lower than what was recorded a year ago. The latest survey of NCAER on business confidence also shows a decline both on y-o-y basis and

from the previous period of survey. Dun & Bradstreet Business Optimism Index, however, showed some improvement over the survey period. Weakening demand, increased global uncertainties, lower availability of credit and higher input costs are seen to be the significant factors affecting the overall business sentiment.

❋ Industrial Outlook Survey Suggests Weakening Ahead

The 56th round of the Industrial Outlook Survey of the Reserve Bank conducted during October-December 2011, showed marginal increase in the Business Expectation Index (BEI) for the assessment quarter (October-December 2011) whereas marginal decline was recorded in expectation for the next quarter (January-March 2012). The index is a composite indicator based on assessment of several business related parameters for the assessment quarter as well as for the expectation quarter.

Analysis of the net responses among various components of the BEI indicates that the assessment on 'production' was marginally higher in Q3 of 2011-12, while the expectation for Q4 of 2011-12 remains flat. Net response on 'order books' continued to decline for fourth consecutive quarter. Level of optimism on 'availability of finance' lowered further. While increasing proportion of respondents reported rise in 'cost of finance' over previous seven quarters, the trend appears to have reversed for Q4 of 2011-12. Most of the respondents felt that pressure from 'cost of raw material' continued and was expected to elevate further in the next quarter. The optimism on 'selling price' and 'profit margins' further declined in both the assessment and expectation quarter

❋ Consumer Confidence Indicate Some Improvement

The seventh round of Consumer Confidence Survey, conducted by the Reserve Bank in December 2011, indicates some improvement in positive perceptions of the household after recording marginal decline in the previous quarter. High inflation, however, continues to remain as the major drag factor on overall positive sentiments.

❋ Agencies Lower Growth Forecasts

The Government of India had revised downwards significantly its growth projection on December 9, 2011. Some of the other agencies also had scaled down their projections earlier even as their updates are expected to be lower.

❋ Survey of Professional Forecasters sees Weak Growth and Softer Inflation1

In the 18th round of 'Survey of Professional conducted by the Reserve Bank, GDP growth forecasts for 2011-12 and 2012-13 have been revised downwards as compared to previous survey. There has been a significant downward revision of growth forecast for industry for 2011-12 and for services,

it is revised downwards marginally. Average inflation is projected to decline over 2011-12 and 2012-13. The survey results indicate lower optimism on growth while inflation is expected to show gradual moderation.

❋ Inflation Expectations Remain Sticky

The latest round of Inflation Expectations Survey of Households (IESH) indicates that the perception of current quarter inflation as well as the expectations on future inflation has increased. The rate of increase in expectations, however, has slowed down in the recent period. The survey was conducted among 4000 households across 12 cities and seven occupational categories in December 2011.

❋ Heading into 2012-13, Some Challenges Persist, Others Arise Along with Some Opportunities

In the final quarter of 2011-12 and going forward into 2012-13, the Indian economy has to deal with several persistent challenges as well as some new ones. While inflation is showing welcome signs of moderation, it is important to remember that demand-supply mismatches are never very far from the surface in a variety of commodities and services, not to mention human capital. A sharp inflationary response to even a modest recovery in growth is a persistent risk, which materialized in late 2009. Beyond this, adverse global conditions, both in terms of trade and capital flows amidst a hostile oil price environment have clouded growth and stability prospects for the past three years.

New challenges have emerged in the form of large and rapid movements in the exchange rate. The consequences of these movements for both flow (balance of payments, fiscal deficit) and stock (balance sheet) indicators are unquestionably adverse. However, in the event of a prolonged non resolution of global problems, considerations of financial and external stability are critical. A prudent policy approach is to accommodate the pressure of depreciation in a way which reduces the likelihood of a much more severe and, perhaps uncontrollable, shock. As expectations of a quick and robust resolution to the European sovereign debt crisis diminish, it is all the more important for India to maintain adequate capacity to withstand further external shocks.

Finally, amidst these formidable challenges, there are clear opportunities. Several policy initiatives that address the critical bottlenecks of food availability, fiscal capacity, infrastructure investment, land acquisition and skill formation are in advanced stages of design. Credible progress in the implementation of even some of these initiatives will have a dramatic impact on the investment climate, which is essential to the sustainability of a high-growth and low inflation environment.

Select Economic Indicators

Economic Growth

Item	Constant (2004-05) Prices				Current			
	2011-12		2010-11		2011-12		2010-11	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
GDP at Factor Cost (Rs. in Crore)	1226339 (7.7)*	1227254 (6.9)*	1138286 (8.8)*	1148472 (8.4)*	1937123 (16.7)*	1955880 (16.0)*	1659708 (21.3)*	1685793 (18.7)*
GDP at Market Prices (Rs. in Crore)	1,315,395	1,321,038	1,212,620	1,237,610	2,061,940	2,085,315	1,755,341	1,801,957
Growth Rate (Per cent)								
Private Final Consumption Expenditure	60.5	59.5	61.7	59.9	58.1	59.6	58.7	59.4
Government Final Consumption Expenditure	11.1	10.9	10.4	10.7	10.5	10.7	11.1	10.9
Gross Fixed Capital Formation	31.2	30.5	31.4	32.8	28.4	28	29.2	30.3
Change in Stocks	3.5	3.4	3.6	3.6	3.4	3.4	3.5	3.5
Valuables	3.1	2.9	2.4	2.4	3.9	3.6	2.3	2.4
Exports	24.3	25.3	21.2	21.2	24	24.9	20.8	20.8
Less Imports	33.0	29.9	28.9	28.8	29.2	26.8	25.8	25.7
Discrepancies	-0.1	-2.3	-2.5	-2	1.0	-3.4	0.2	-1.5

* *Percentage Change over previous years.*

Source: Same as below.

Agriculture & Industrial Production

Sector-wise Percentage Change over Previous Year

Item	Constant (2004-05) Prices				Current			
	2011-12		2010-11		2011-12		2010-11	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Agriculture, Forestry & Fishing	3.9	3.2	2.4	5.4	16.7	15.9	26.3	27.0
Industry								
Mining and Quarrying	1.8	-2.9	7.4	8.0	14.4	13.8	26.9	21.2
Manufacturing	7.2	2.7	10.6	7.8	13.8	9.6	18.3	14.6
Electricity, Gas & Water Supply	7.9	9.8	5.5	2.8	8.2	9.6	12.7	9.1
Serivces								
Construction	1.2	4.3	7.7	6.7	10.7	14.3	19.0	16.6
Trade, Hotels, Transport and Communication	12.8	9.9	12.1	10.2	20.5	17.5	20.4	16.9
Financing Institutions, Real Estates & Business Services	9.1	10.5	9.8	10.0	19.1	20.6	21.2	20
Communtiy, Social & Personal Services	5.6	6.6	8.2	7.9	15.3	16.6	21.1	18.5

Source: Ministry of Statistics and Programme Implementation, Government of India. Estimates of Gross Domestic Product for Second Quarter (July- September) of 2011-12.

Agriculture & Industrial Production *(Contd.)*

Performance of Core-Industries (Q2)		
Sector-wise Growth Rate (%) in Production (Weigth in IIP: 37.90 %)	**2010-11**	**2009-10**
Overall Index	5.8	6.6
Coal	-0.2	8.1
Crude Oil	11.9	0.5
Natural Gas	10	44.6
Refinery Products	3	-0.4
Fertilizers	0	12.7
Steel	8.9	6
Cement	4.5	10.5
Electricity	5.6	6.2

Overall Indices from 2010-11 & 2009-10.

Compiled by BCCI; Source of data Office of the Economic Advisor.

External Sector

Exports and Imports (in US $ million)

Item	2010-11 (Apr-Mar)	2009-10 (Apr-Mar)	November		% Change in Nov, 2011
			2011	2010	
Exports	251136	178751	22322	21489	3.9
Imports	369769	288373	35922	28842	24.5
Oil Imports	105964	87136	10307	7792	32.3
Non-Oil Imports	263805	201237	25615	21050	21.7
Trade Balance	-118633	-109621	-13601	-7353	–

Source: Provisional data as per the Press Note of the Ministry of Commerce and Industry.

Foreign Currency Assets

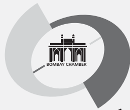
	Amount		Variation	
	Rs. Crore	**US $ Million**	**Rs. Crore**	**US $ Million**
At the end of				
March, 2008	1196023	299230	359426	107306
March, 2009	1231340	241676	35317	-57554
March, 2010	1150778	254935	-80562	13259
March, 2011	1225999	274580	75221	19645
2011-12			**(over last month)**	
April, 2011	1252790	282287	26791	7707
May, 2011	1259881	279787	7091	-2500
June, 2011	1268744	283708	8863	3921
July, 2011	1264787	286410	-3957	2702
August, 2011	1317478	286284	52691	-126
September, 2011	1350855	276079	33377	-10205
October, 2011	1380417	282467	29562	6388
November, 2011	1425029	273151	44612	-9316
December, 2011	1402670	263313	-22359	-9838

Source: Reserve Bank of India.

External Sector *(Contd.)*

Rupees per unit of foreign Currency*				
	US Dollar	Pound Sterling	Japanese Yen	Euro
March,2008	40.3561	80.8054	0.4009	62.6272
March,2009	51.2287	72.9041	0.5251	66.9207
March,2010	45.4965	68.436	0.5018	61.7653
March, 2011	44.9684	72.707	0.5498	62.9660
2011-12				
April, 2011	44.3700	72.7237	0.5331	64.2505
May, 2011	44.9045	73.4103	0.5532	64.4833
June, 2011	44.8295	72.7881	0.5565	64.5157
July, 2011	44.4174	71.6485	0.5591	63.4602
August, 2011	45.2538	74.1083	0.5868	64.9380
September, 2011	47.6335	75.1168	0.6203	65.4744
October, 2011	49.2579	77.4901	0.6411	67.4458
November, 2011	50.8564	80.2523	0.6560	68.9058
December, 2011	52.6769	82.1329	0.6763	69.2889

FEDAI Indicative Market Rates (on Yearly/Monthly average basis).



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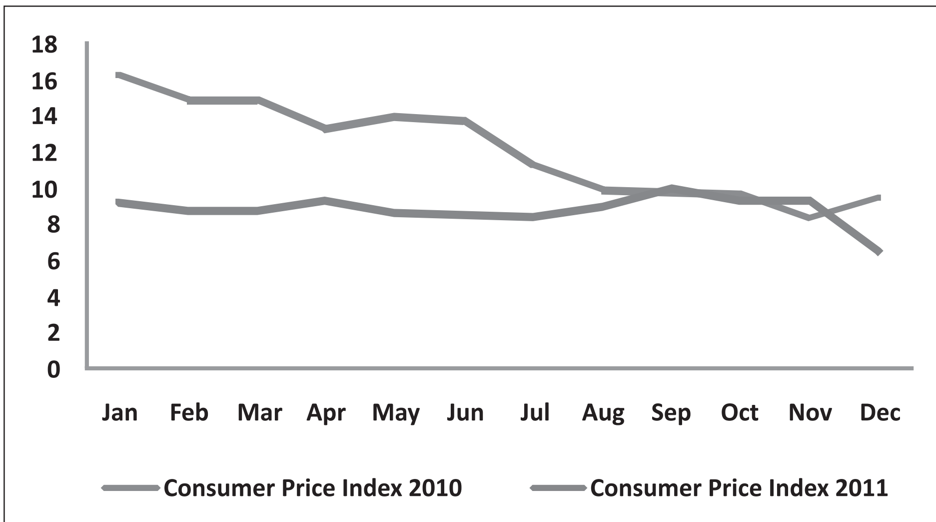
For further information please refer the link below:

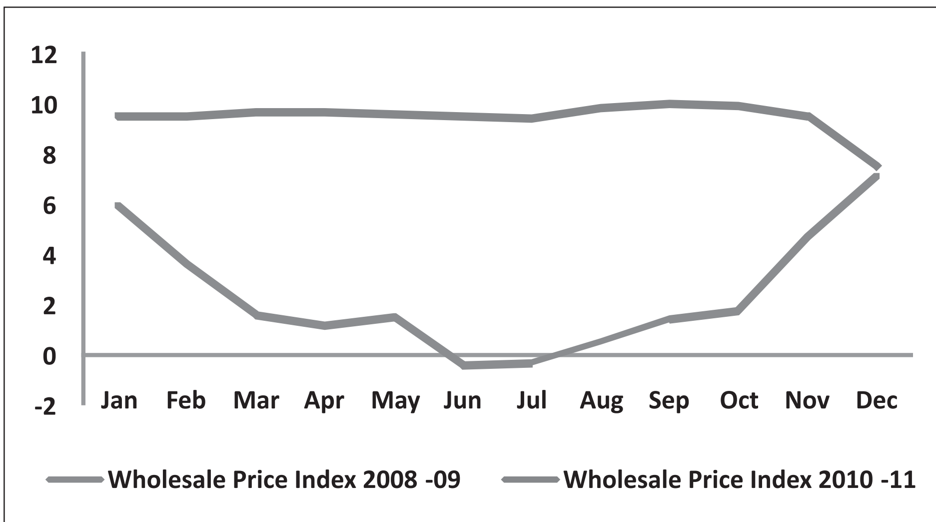
http://www.bombaychamber.com / services_offered.aspx

Prices

Current price situation based on monthly Wholesale Price Index in December 2011 (Base: 2004-05=100)							
Items/Groups	Weight(%)	Cumulative change (%) Since March		Inflation (%) (Year-on-Year)		Inflation(%) Average of last 12 months	
		2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
All Commodities	**100.00**	**4.95**	**7.12**	**7.47**	**9.45**	**9.42**	**9.56**
Primary articles	20.12	5.15	15.73	3.07	18.37	11.99	19.09
Food Articles	14.34	6.59	15.11	0.74	15.07	10.41	19.60
Fuel and Power	14.91	9.52	7.21	14.91	11.26	13.25	11.82
Manufactured Products	64.97	3.69	3.72	7.41	5.39	7.33	5.43

Point to Point Rate of Growth





Point to Point Rate of Inflation (%) Base 2001= 100; =

World Prices of Select Commodities

Commodity	Unit	Annual Averages			Monthly Averages		
		Jan-Dec 2009	Jan-Dec 2010	Jan-Dec 2011	at 2010	Nov 2011	Dec 2011
Energy							
Coal, Australia	$/mt	71.84	98.97	120.94	118.99	113.8	109.66
Crude Oil, average	$/bbl	61.76	79.04	104.01	99.85	105.41	104.23
Crude oil,Brent	$/bbl	61.86	79.64	110.94	109.47	110.5	107.91
Crude oil,Dubai	$/bbl	61.75	78.06	106.03	103.67	108.59	106.22
Crude oil, West Texas Int.	$/bbl	61.65	79.43	95.05	86.41	97.12	98.56
Natural gas, Europe	$/mmbtu	8.71	8.29	10.52	11.42	11.32	11.53
Agriculture Beverages							
Coffee, arabica	c/kg	317.1	432	597.6	546.3	540.3	521.9
Tea, auctions(3), average	c/kg	272.4	288.5	292.1	291.1	278.8	269.5
Food							
Coconut oil	$/mt	725	1,124	1,730	1,209	1,479	1,439
Groundnut oil	$/mt	480	750	1,157	804	980	968
Copra	$/mt	1,184	1,404	1,985	n.a	2,225	n.a
Palm oil	$/mt	683	901	1,125	995	1,053	1,026
Palm kernel oil	$/mt	700	1,184	1,648	1,085	1,298	1,363
Soybean meal	$/mt	408	378	398	374	354	341
Soybean oil	$/mt	849	1,005	1,299	1,216	1,217	1,203
Soybeans	$/mt	437	450	541	502	486	477
Grains							
Barley	$/mt	128.3	158.4	207.2	208.8	211.5	212.5
Maize	$/mt	165.5	185.9	291.7	274.8	274.4	258.6
Rice, Thailand, 25%	$/mt	458.1	441.5	506	559.6	584.7	565.5
Wheat, Canada	$/mt	300.5	312.4	439.6	414.1	407.7	393.7
Sugar, world	c/kg	40.00	46.93	5732	56.11	52.95	50.79
Raw Materials							
Logs, Malaysia	$/cum	287.2	278.2	390.5	435.9	403.3	387.9
Plywood	c/sheets	564.6	569.1	607.5	621.2	617.5	615
Cotton A Index	c/kg	138.2	228.3	332.8	242.3	230.8	210.1
Rubber RSS3	c/kg	192.1	365.4	482.3	406.1	337.2	338.4
Metals and Minerals							
Aluminium	$/mt	1,665	2,173	2,022	2,181	2,080	2,022
Copper	$/mt	5,150	7,535	7,565	7,394	7,581	7,565
Gold	$/toz	973	1,225	1,642	1,665	1,738	1,642
Iron ore, spot, cfr China	c/dmt	80	145.9	136.4	150.4	135.5	136.4
Steel cr coilsheet	c/kg	783	816	900	900	900	900

Source: World bank-The Pink Sheet.

Government Accounts

Trends in Central Government Finances: April-November 2011

Item	Budget Estimates 2011-12	April-November 2010-11	April-November 2011-12	Col. 3 as % of 2010-11 BE	Col.4 as % of 2011-12 BE	% Change over preceeding year 2010-11	% Change over preceeding year 2011-12 (4/3)
(Rs. Crore)							
1. Revenue Receipts	**7,89,892**	**476,716**	**392,813**	**69.9**	**49.7**	**55.2**	**-17.6**
Gross tax revenue	**9,32,440**	**418,051**	**473,213**	**56.0**	**50.7**	**26.8**	**13.2**
Tax(net to Centre)	6,64,457	296,634	320,470	55.5	48.2	27.4	8.0
Non Tax	1,25,435	180,082	72,343	121.6	57.7	142.5	-59.8
2. Capital Receipts of which:	**4,67,837**	**213,971**	**367,881**	**50.2**	**78.6**	**-32.0**	**71.9**
Recovery of loans	15,020	6,267	11,781	122.2	78.4	55.9	88.0
Other Receipts	40,000	21,182	2,731	53.0	6.8	392.0	-87.1
Borrowings and other liabilities	4,12,817	186,522	353,369	48.9	85.6	-39.1	89.5
3. Total Receipts(1+2)	**12,57,729**	**690,687**	**760,694**	**62.3**	**60.5**	**11.1**	**10.1**
4. Non-Plan Expenditure (a)+(b)	**8,16,182**	**479,771**	**539,416**	**65.2**	**66.1**	**7.1**	**12.4**
(a) Revenue Account of which:	7,33,558	438,015	485,446	68.1	66.2	5.1	10.8
Interest payments	2,67,986	134,544	165,910	54.1	61.9	12.6	23.3
Major Subsidies	1,34,211	90,137	90,811	82.9	67.7	-0.7	0.7
Pensions	54,521	34,969	35,930	81.6	65.9	12.3	2.7
(b) Capital Account	82,624	41,756	53,970	45.4	65.3	32.9	29.3
5. Plan Expenditure (i) +(ii)	**4,41,547**	**210,916**	**221,278**	**56.5**	**50.1**	**21.4**	**4.9**
(i) Revenue Account	3,63,604	178,859	187,824	56.8	51.7	20.5	5.0
(ii) Capital Account	77,943	32,057	33,454	55.3	42.9	27.0	4.4
6. Total Expenditure (4) + (5)=(a)+(b)	**12,57,729**	**690,687**	**760,694**	**62.3**	**60.5**	**11.1**	**10.1**
(a) Revenue Expenditure	10,97,162	616,874	673,270	64.3	61.4	9.2	9.1
(b) Of which Grants for creation of Capital Assets	1,46,853	25,202	65,356	80.5	44.5	–	159.3
(c) Capital Expenditure	160,567	73,813	87,424	49.2	54.4	30.3	18.4
7. Revenue Deficit	307,270	1,40,158	280,457	50.7	91.3	-45.7	100.1
8. Effective Revenue Deficit	1,60,417	1,14,956	215,101	46.9	134.1	–	87.1
9. Fiscal Deficit	4,12,817	1,86,552	353,369	48.9	85.6	-39.1	89.4
10. Primary Deficit	1,44,831	51,978	187,459	39.2	129.4	-72.2	260.7

Source: Review of Union Government Accounts, November 2011, Ministry of Finance.

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Money & Banking

Money Stock - Components and Sources (₹ Billion)

Items	Outstanding as on 2011		Variation over (per cent)			
			Financial Year so Far		Year on Year	
	Mar. 31	Dec. 30	2010-11	2011-12	2010	2011
M3	64,995	71,987	11.1	10.8	16.9	15.6
Components (i+ii+iii+iv)						
(i) Currency with the Public	9,142	9,780	13.2	7.0	19.1	12.6
(ii) Demand Deposits with Banks	7,177	7,094	0.2	-1.2	13.5	-1.4
(iii) Time Deposits with Banks	48639.8	55,090.1	12.6	13.3	17.1	18.9
(iv) "Other" Deposits with Reserve Bank	36.5	22.9	–6.2	–37.2	–3.8	–35.8
Sources (i+ii+iii+iv)						
(i) Net Bank Credit to Government (a+b)	19827.7	22351.1	7.7	12.7	17.3	24.4
(a) Reserve Bank	3965.5	4500.6				
(b) Other Banks	15862.2	17850.5	5.2	12.5	3.1	16.4
(ii) Bank Credit to Commercail Sector (a+b)	42354.1	46817.9	16.0	10.5	23.9	15.6
(a) Reserve Bank	21.6	32.7	–	–	–	–
(b) Other Banks	42332.4	46785.3	16.0	10.5	24.0	15.6
(iii) Net Foreign Exchange Assets of Banking Sector*	13933.4	15905.6	5.3	14.2	1.0	17.9
(iv) Government's Currency Liabilities to the Public	127.2	137.2	9.8	7.8	13.3	10.8
(v) Banking Sector's Net Non- Monetary Liabilities	11247.6	13225.0	15.5	17.6	19.0	34.6
of which						
Net Non-Monetary Liabilities of RBI	3683.5	6232.4	13.7	69.2	–8.5	81.7

** : Includes Investments in foreign currency denominated bonds issued by IIFC(UK) since March 20, 2009.*

Note: Government Balances as on March 31, 2011 are before closure of accounts.

Scheduled Commercial Banks - Business in India

Items	2011-12 Outstanding as on (Rs.Crore)		Percentage Variation			
			Financial Year So Far		Year on Year	
	March 25, 2011	December 30, 2011	2010-11	2011-12	2010	2011
Bank Credit	3,938,659	4,365,640	16.0	10.7	24.5	15.9
Non-Food Credits	3,874,376	4,281,100	15.8	10.5	26.4	15.8
Aggregate Deposits	5,204,703	5,827,910	11.0	11.9	16.8	16.9
Investments in Govt. and other approved securities	1,500,039	1,693,370	4.6	12.8	2.3	16.9

Policy Rates/ Interest Rates (per cent per annum)

Item/Week Ended	2010	2011
	December 31	December 30
Cash Reserve Ratio (per cent) (1)	6.00	6.00
Bank Rate	6.00	6.00
Repo Rate	6.25	8.50
Reverse Repo Rate	5.25	7.50
Prime Lending Rate (2)	7.60 / 9.00	10.00-10.75
Deposit Rate (3)	7.00/8.75	8.50 – 9.25
Call Money Rate (Low/High) (4)		
– Borrowings	6.83	9.11
– Lendings	6.83	9.11

(1) Cash Reserve Ratio relates to the Scheduled Commercial Banks (excluding Regional Rural Banks).
(2) Prime Lending Rate related to five major Banks.
(3) Deposit Rate related to major Banks for term deposits of more than one year maturity.
(4) Data cover 90-95 per cent of total transactions reported by participants.

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