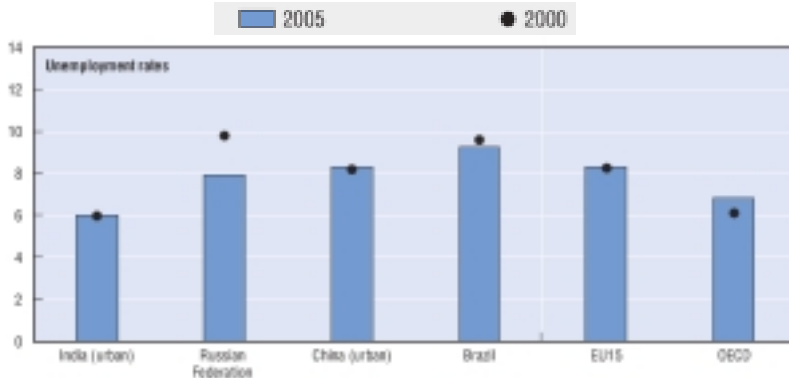


India Update: Employment & Inflation Trends July 2, 2007

India is the highest new job creator in the world.....

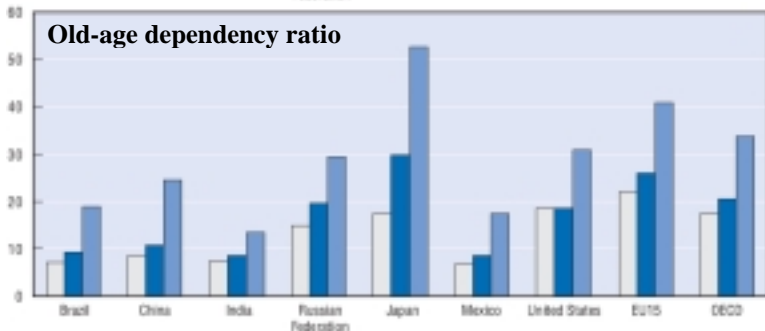
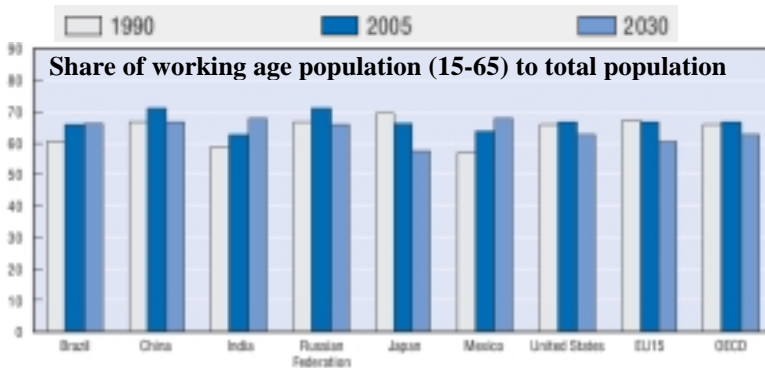
- According to OECD's "Employment Outlook 2007" report, India's latest acceleration in economic growth was positive for the country's large stock of job-seekers. The economy created 11.3 million net new jobs per year on an average during the period 2000-2005. China, Brazil and Russia created 7 million, 2.7 million and 0.7 million net new jobs respectively.



- While India's 6% urban unemployment rate seems low, note that it excludes rural data, which is significantly higher.
- Employment growth was 2.5% in five years ending in 2004-05, higher than the 1.6% in five years ending in 1999-2000

Some caveats to the cheery headlines:

- The high levels of under-employment in both rural and urban areas require job creation to accelerate even further than the current level.
- Although construction and services (particularly transport, storage and communication) are creating new jobs, manufacturing job growth actually fell below potential and (although data are hard to come by) the agricultural sector may be losing jobs rapidly.
- Around 85% of the jobs in India are in the informal sector, at relatively low and stagnant wages.

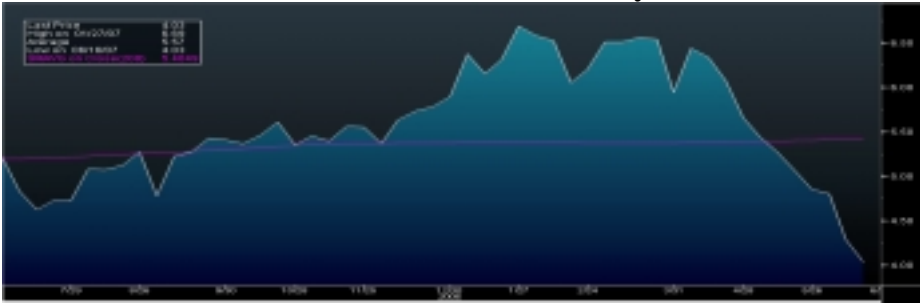


- India is expected to suffer from demand-supply mismatch in skills. There is a shortfall in (and hence galloping wages for) qualified engineers for the technology sector and trained graduates for booming BPO and organized retail sectors. On the other hand, low-skilled labour awaits greater manufacturing and infrastructure investment in order to find jobs.
- Although India is currently in an advantageous position in terms of working/old age population, unless growth and incomes pick up significantly, the challenge of providing for an aging majority will confront India well before it reaches the levels of affluence of today's OECD members.

Inflation continues to decelerate

- WPI Inflation rate was down to 4.03% yoy for the week ended June 16, 2007 (4.28% in previous week), on account of decline in prices of primary articles (6.75%) (especially food articles (4.73%)) and manufactured articles (5.13%). Although non-food articles prices are declining, their double-digit growth (12.94%) continues to be concern.
- Week on week basis, the prices continues to exhibit declining trend. A primary articles prices, a key contributor to inflation since start of year, along with manufactured products declined by 0.14% and 0.05% respectively.

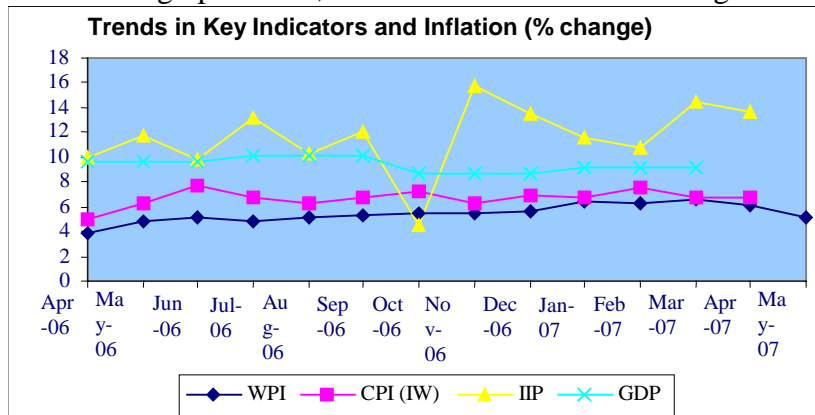
Trends in WPI inflation rate in last one year



Although WPI inflation has been declining in India since mid-April, only a good monsoon and abating global inflation will convince us that this is a sustainable trend.

Implication:

- Impact of RBI’s monetary tightening measures, favourable base effect and the predictions of a good monsoon are expected to keep prices subdued (within 4% to 4.5% range) up to September. (Food output and expansion in manufacturing supply will determine inflation trends thereafter).
- With WPI rate within the central bank’s target range, the RBI is expected to adopt a wait and watch policy. As is evident from graph below, WPI and CPI are both showing a continuous declining trend.



Key Indicators

(% Chg.)	2006								2007				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
WPI	5.12	4.82	5.13	5.38	5.47	5.49	5.68	6.38	6.34	6.61	6.11	5.15	
CPI (IW)	7.66	6.71	6.32	6.78	7.30	6.33	6.91	6.72	7.56	6.72	6.67	-	
IIP	9.74	13.17	10.29	12.01	4.51	15.83	13.42	11.60	10.78	14.53	13.63	-	
Credit Growth	31.00	31.23	31.35	30.19	28.49	28.76	30.35	29.80	29.25	27.61	27.18	26.32	
M3	17.99	19.36	19.74	18.86	18.29	19.36	19.22	21.12	21.79	20.79	19.81	19.73	
Repo Rate	6.75	7.00	7.00	7.00	7.25	7.25	7.25	7.5	7.5	7.5	7.75	7.75	
Reverse Repo Rate	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	
Call Money Rate	5.73	5.87	6.08	6.34	6.68	6.68	8.52	8.09	7.12	13.18	8.68	6.71	
FDI (\$ Million)	523	1,127	619	916	1,698	1,151	5,130	1,921	698	603	-	-	
FII (\$ Million)	106	252	1,000	1,166	1,736	2,037	-797	113	1,620	-244	1,752	1,265	
US\$ Exchange Rate (Average)	46.06	46.56	46.54	46.12	45.47	44.85	44.63	44.33	44.16	44.03	42.15	40.78	
US\$ Exchange Rate (Mnth End)	46.08	46.50	46.55	45.96	45.02	44.76	44.23	44.17	44.31	43.59	41.29	40.73	