

Weekly Economic Bulletin

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News Feature

India's business cycle to peak in 4 yrs

The current phase of high growth may last for more than three years because of strong productivity gains, according to a report by Man Financial.

The report said the current business cycle, which began from a peak in 1998, touched a trough in '04 is expected to peak again in '10. This is a departure from past cycles, which lasted for five-and-a-half to six years. The current cycle is going to take longer to reach its peak levels, as growth is going to be less volatile.

The economy is expected to stretch its growth rate further and have a close to 8% average real GDP growth rate. The economy is expected to join the \$1trillion club in FY08, the report said.

This will be on account a sharp rise in productivity as reflected in the decline in the incremental capital-output ratio (ICOR). Put simply, the cost of output has been falling continuously. Since 1982, productivity growth has been driven by services followed by industry and agriculture, unlike the rest of Asia where growth was driven by manufacturing.

<http://economictimes.indiatimes.com/articleshow/432177.cms>

India's now a major exporter of financial services

After software services, India is now also emerging as a major exporter of financial services. In FY06, the earnings in forex were \$1.7bn from providing financial services to the rest of the world.

From being a net importer of financial services, India, for the first time since '00, has emerged as a net exporter of financial services. Net inflows on account of financial services aggregated \$1,087m in '05-06, according to the latest balance of payments figures. Contrast this with the net outflow of \$1,626m in '00-01.

Flows from financial services in the balance of payments manual (BoP) are non-interest receivables and payables in respect of financial entity. These essentially comprise brokerage, commissions and discounts earned by banks and other authorised dealers for various financial services rendered. Besides, guarantee fees on overseas certain types of overseas borrowings.

<http://economictimes.indiatimes.com/articleshow/432546.cms>

Overseas Investments

Capital inflows into India highest in Asia

It can now be confirmed that India has been the most attractive investment destination for foreign investors. Private-external-inflows to India has been the highest in the last three to four years, compared to other emerging countries. The booming capital markets have greatly enhanced foreign investor's interest in FCCBs , ADRs and GDRs issued by Indian companies. India with inflows of \$19.3 billion in 2005 was third after China and South Korea.

The average inflows for India through bonds, equities and loans during 2003-2005 has risen by 158.4% as against 40.3% for other emerging markets, states the report, "Funding Corporate India Opportunities in International Financial Markets " by Economist's intelligence unit and Bank of America. This is largely driven by Indian companies raising funds in global markets

<http://economictimes.indiatimes.com/articleshow/452974.cms>

Govt to further liberalise FDI in retail

The government on Friday said the Foreign Direct Investment norms in the retail sector would be liberalised further to ensure that investment flows into post-harvest agriculture activities.

"You will soon hear some news (on liberalising FDI in the sector)," Commerce and Industry Minister Kamal Nath said on the sidelines of Hindustan Times Leadership Summit.

"Retail in India is concentrated in the neighbourhood shops. Any FDI should not destabilise the small shops," he said adding the government wants large retail chains to be suppliers for the smaller shops without damaging their businesses.

India currently allows 51 per cent foreign direct investment in single brand retail chains.

<http://economictimes.indiatimes.com/articleshow/462382.cms>

Trade News

India, EU to sign trade pact to free up goods & services

The proposed economic cooperation agreement between India and the European Union (EU) will be sealed in the next two years, EU trade commissioner Peter Mandelson said on Friday. The two sides have already started the groundwork on the key pact, which is likely to become India's largest region trading agreement (RTA).

After discussions with commerce and industry minister Kamal Nath here, Mr Mandelson said the next round of talks would take place on December 14 when the European director general of trade visits India.

The proposed agreement would liberalise trade in goods, services and speed up investment. Mr Nath also sounded optimistic on the proposed pact and pointed out that

trade ties between India and EU were strong. He also pointed out that India and EU were cooperating with each other at various global fora including the World Trade Organisation (WTO).

<http://economictimes.indiatimes.com/articleshow/463024.cms>

Cabinet okays signing of investment pact with China

As the Chinese President, Mr Hu Jintao, is making his maiden visit to India early next week, the Union Cabinet on Thursday gave its nod for signing a Bilateral Investment Promotion and Protection Agreement (BIPPA) with China for 10 years.

As Mr Hu is accompanied by a 150-strong business delegation, BIPPA's clearance by the Cabinet would send positive signals, particularly, at a time when there were some concerns about New Delhi's alleged bid to block Chinese investments in what it called security-risk areas. In fact, the Minister for External Affairs Minister, Mr Pranab Mukherjee, said at a meeting that India does not target any particular country for blocking investments on security grounds.

Officials in the Commerce Ministry told Business Line that bilateral trade was running in India's favour since 2003 with New Delhi enjoying a trade surplus with China of \$907.81 million in 2003, \$1,746.94 million in 2004 and \$ 843.17 million in 2005. But, in the first eight months of 2006, India saw a trade deficit of \$1,793.48 million.

<http://www.thehindubusinessline.com/2006/11/17/stories/2006111700681000.htm>

Trade wants Indo-Mauritius tax agreement to stay

The Mauritius Global Business Industry wants the existing double taxation avoidance agreement (DTAA) between India and Mauritius to remain in the current form as it could continue to enhance foreign direct investment (FDI) and other investment inflows into India.

India and Mauritius are working towards preferential trade agreement (PTA) and a comprehensive economic cooperation and partnership agreement (CECPA). Representatives of the Mauritius Global Business Industry, which is a federation of offshore management companies, banks, corporate lawyers and accountants, told Business Line here that the Indian tax revenue loss was not a valid argument as the benefits outweigh the tax foregone.

It was also pointed out that 19 of the 70 DTAA's signed by India give the taxing rights for capital gains on shares to the country of residence.

<http://www.thehindubusinessline.com/2006/11/17/stories/2006111700691000.htm>

India, Poland to boost bilateral trade

To boost bilateral trade between the two countries, India and Poland are focusing on areas like mining, agri-processing and IT.

New prospects are also opening up in many other fields like crude oil and gas exploitation, maritime economy, pharmaceuticals and medical devices, paper industry, food processing machines and plants, machine tools and aircrafts among others.

Indo-Polish trade more than doubled during 2002-05 and reached \$564.83 million. "At present, the business situation is looking favourable and India is one of the countries we are concentrating on. We are also focusing on areas like education and tourism," Dr Krzysztof Majka, Polish ambassador said in Kolkata on Thursday.

According to Dr Majka, fairs to be hosted in Delhi later this year, will see a group of 20 scientists and directors of Polish universities come down to promote education in Poland and try and attract more Indian students.

<http://economictimes.indiatimes.com/articleshow/461104.cms>

Exports may beat target by a year

Union Commerce Secretary GK Pillai today said India's exports were expected to touch \$150 billion by 2008, a year ahead of schedule. Exports for the current year are pegged at \$125-130 billion.

Most of the exports would be handled electronically by the end of next year as part of initiatives to facilitate trade, he said.

Delivering a lecture instituted in the memory of Yarlagadda Sriramulu, an expert on power projects, by the Institute of Engineers on issues concerning the SEZ Act here today, Pillai pointed at the pressing need for infrastructure development to achieve higher economic growth. He also allayed concerns over the SEZ policy.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=264950

Edible oil imports down 12%

Edible oil imports into the country during the just-concluded oil year (November 2005-October 2006) declined by 12 per cent or 6.2 lakh tonnes (lt) to 44.17 lt, according to data compiled by Solvent Extractors' Association of India (SEA).

A combination of higher domestic production during the year and large rapeseed/mustard inventory with the price support agency Nafed (National Agricultural Cooperative Marketing Federation) resulted in lower arrivals, SEA said. However, because of high prices and overall inflation some demand compression occurred.

For a large part of the year, the market faced uncertainty relating to tariffs and duties as also weather concerns.

Price disparity, too, contributed to traders turning cautious in importing. In five years since 2001-02, annual vegetable oil imports have ranged between 44 lt and 51 lt.

<http://www.thehindubusinessline.com/2006/11/15/stories/2006111504061100.htm>

Sectoral News

Indian drug firms top FDA list

With 62 filings, domestic pharma companies have filed the maximum number of drug master filings (DMFs) with the US Food and Drug Administration (US FDA) in the July-September 2006 quarter.

The total number of DMFs with the US FDA in the last quarter was 223, with Indian companies accounting for 27.8 per cent. In the last quarter, the Chinese were second in terms of DMFs, with 23 filings.

DMFs are confidential, proprietary assets that present to the US FDA the formulae, processes, test methodology, and other data relevant to the manufacture of products used in the composition, packaging and processing of pharmaceuticals or biologics.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=265088

Pvt equity firms ramp up realty investment to \$10b

Ever since Indian finance minister P Chidambaram unleashed overseas investments in Indian real estate sector, there has been close to 150 private equity funds who have lined up with chests to invest in this sector.

According to independent estimates, a total of \$10 billion has already been raised through this route and is expected to be invested in the next two years.

“The figure of \$10 billion is not a surprise at all. On an average each of these funds have a minimum corpus of atleast \$150 million running up to a billion dollar,” said Mayank Saxena, Heal - Retail Service Group, Trammell Crow Megharaj, property consultants. Indian and multinational institutions such as J P Morgan, Falcon, 3i, Blackstone, Carlyle,

Kotak Real Estate, IL&FS, ICICI, HDFC besides a host of others are storming into this sector.

According to a report by Deutsche Bank, private investors are starting to play an important role in the Indian real estate investment market. At the end of 2005, the total Indian private equity volume was roughly \$1.6 billion, accounting for 40 per cent of the Indian real estate capital market. This market is rapidly growing. In 2005, private property companies and individuals' holdings of real estate grew by 40 per cent year-on-year and is growing at double-digit rates.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=265089

Avalanche of cars on its way

50 launches in next 12 months.

The launch of the new Tata Indica today flags off a frenzied rush among car companies, revved up by the success of recent launches, that will see as many as 50 new cars hitting the Indian market in the next one year.

These will cut across segments and price points and join the over 200 cars that are already in the market.

“According to our assessment, there will be 50 new cars in the next 12 months or so. In recent times, new models have done very well and people have come to believe that these are the most effective way to grab eyeballs,” said Dilip Chenoy, head of the Society of Indian Automobile Manufacturers.

Among the recent launches, Maruti Udyog's Swift, Ford's Fiesta and General Motors' Chevrolet Aveo have quickly raced to the top of the best-sellers list.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&bKeyFlag=BO&autono=264969&chkFlg=

Cement sector remains positive

Marketmen continue to maintain a positive outlook on the cement sector and are of the view that with construction activity expected to pick up further, one may see another upward price revision.

Analysts anticipate that third quarter performance would be equally strong on the back of at least 10 per cent growth in demand. However, a section of the market is of the view that

cement prices are already ruling at a high and see no reason for the manufacturers to enforce another hike. The reasoning being a price hike in March would be more appropriate, coming as it would be on the back of YoY base increase.

<http://www.thehindubusinessline.com/2006/11/18/stories/2006111806191400.htm>

News-Round Up

Economy to grow more than expected in 06/07

India's economic prospects have brightened this fiscal year, with economists raising their growth forecast to 8 per cent from the 7.5 per cent projected three months ago as industrial output steams ahead, a Reuters poll shows.

However, full-year growth to the end of March 2007 will still not match the sizzling 8.4 per cent pace of 2005/2006, the quarterly poll shows.

The poll sees 2007/2008 growth at 7.6 per cent.

Last month the central bank raised its growth forecast for the current fiscal year to about 8 per cent from an earlier 7.5-8.0 per cent but warned there was a risk of overheating.

"The momentum is clearly coming from non-farm sectors," ICICI Securities vice president A. Prasanna said.

"The economy is possibly expanding slightly ahead of its potential, but I would hesitate to say that it is overheating," he said.

<http://economictimes.indiatimes.com/articleshow/460229.cms>

'India 11th largest services exporter'

India has jumped five places to become the world's 11th biggest exporter of commercial services in 2005, and inched one step ahead to the 29th rank among the largest merchandise exporters, according to the latest statistics by World Trade Organization.

The country has also emerged as the world's 13th largest importer of commercial services - up two positions from last year, and 17th largest importer of goods from 23rd a year ago, as per WTO's International Trade Statistics for 2005.

Fuelled by booming software and ITeS exports, the country's total exports of services grew by 41.6 per cent to 56.1 billion dollars as against 39.6 billion dollars. This has helped the country maintain a modest surplus in services trade as imports stand at a lower 52.2 billion dollars.

<http://economictimes.indiatimes.com/articleshow/425807.cms>

