

Weekly Economic Bulletin

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News Feature

Economy to grow by 5.5-7.5 pct: CEA

As RBI projects Indian economy to grow by six per cent this fiscal, Chief Economic Adviser Arvind Virmani said the growth rate would be between 5.5 per cent and 7.5 per cent depending on when the US economy bottoms out.

The economy would grow in the range of 6.5 to 7 per cent this fiscal in case the US economy bottoms out by September this year, otherwise, it would expand in the range of 5.5 to 6.5 per cent, Virmani told.

"... if you want the precise number of the optimistic scenario it can be 7 per cent, plus, minus 0.5 (per cent). It depends on what happens abroad. That's the main point because the external uncertainty is the main source of uncertainty here," he said.

"I can say categorically ... that even in this pessimistic scenario (After World Bank, IMF and ADB estimates of the GDP growth rate), India's growth would be higher than any of those three have indicated. It would definitely be higher than that," he said adding that about 7 percent growth rate also depends on normal agriculture.

IMF projected Indian economy to grow by 5.1 per cent in 2009-10, the World Bank forecast growth rate of four per cent, while ADB has pegged the country's GDP expansion rate at five per cent.

<http://www.financialexpress.com/news/economy-to-grow-by-5.57.5-pct-cea/449586/>

March factory output seen up 10% on month: Macquarie

India's industrial production may have risen 10 per cent on a monthly basis in March as the effects of a recent spate of fiscal and monetary measures started showing up, Macquarie Research said in a note.

Asia's third-biggest economy's export basket was not heavily dependent on electronic and automotive shipments which has helped cushion the impact on the sector, economist Rajeev Malik wrote in a recent note.

"Some industries (motor vehicles, cement and steel) are already showing signs of increased activity, though India's structurally broad industrial base suggests that industrial production will need a bit more time for the year-over-year growth rates to be firmly in the black, and rising," it said.

Industrial output fell 1.2 percent in February from a year earlier, but January's initially reported fall was revised to a rise of 0.4 percent, government data showed on April 9. March numbers are due on May 12.

Macquarie said local banks have more room to cut their lending rates, which should boost economic activity, though the central bank appeared to be nearing a monetary easing cycle.

The Reserve Bank of India cut its key lending rate by 425 basis points since mid-October 2008, as part of its measures to insulate the economy from a deepening global financial crisis.

He expects the domestic economy to start recovering from mid-year, but sees political uncertainty over the outcome of an ongoing federal election as a concern.

<http://economictimes.indiatimes.com/News/Economy/Indicators/March-factory-output-seen-up-10-on-month-Macquarie/articleshow/4454393.cms>

Overseas News

\$30 bn FDI expected in 2009-10

Global investors are expected to remain positive on India and bring USD 30 billion foreign direct investment into the world's second-fastest growing economy in 2009-10 even when the world economy is facing a severe credit squeeze.

India is estimated to have received FDI of USD 27.5 billion in 2008-09, up from USD 24.57 billion in the previous year.

"The overall outlook (for 2009-10) remains positive," Joint Secretary in the Department of Industrial Policy and Promotion Gopal Krishna told on the sidelines of a function organised by Booz & Company and AMCHAM in New Delhi.

However, inflows in March 2009 declined to USD 2.5 billion from USD 4.44 billion in the same month last year.

Though the cumulative increase for 2008-09 is small, it is considered a positive development, given the fact that the global financial crisis is the worst.

Gopal Krishna said if reinvestment by foreign corporations is taken into account, FDI for 2008-09 was USD 37.5 billion. This is expected to go up to USD 40 billion in the current fiscal, he said.

<http://www.financialexpress.com/news/30-bn-fdi-expected-in-200910/450798/>

FDI into India seen at \$40 bln in FY10: Aide

Foreign direct investment into India is expected to be at least \$40 billion in the year to March 2010 on a favourable outlook, a senior industry ministry official said.

Gopal Krishna, a joint secretary, said the FDI during 2008/09 fiscal year were likely around \$37.5 billion, including reinvestment by foreign firms.

"There will be some investment (in 2009/10) which will be delayed but overall outlook is positive and optimistic," he told reporters after a business conference.

<http://economictimes.indiatimes.com/News/Economy/Finance/FDI-into-India-seen-at-40-bln-in-FY10-Aide/articleshow/4443881.cms>

Trade News

India, Syria make changes in pact to avoid double taxation

India and Syria have revised their double taxation avoidance agreement (DTAA). The revised agreement has come into effect from April 1 in India and from January 1, 2009 in Syria, a Central Board of Direct Taxes (CBDT) release said. The revised DTAA includes anti-abuse provisions and provides for source-based taxation of capital gains arising from sale of shares. These are some of the improvements over the earlier DTAA.

It provides a maximum rate of tax of five per cent for dividends, in the country of source, if the beneficial owner of dividends is a company that holds at least 10 per cent of the share capital of the company. In all other cases, the tax rate is 10 per cent. The revised DTAA also provides maximum rate of taxation in the source state at 10 per cent in the case of interest and royalties. It provides that business profits may be taxed in the source state if the activities of an enterprise constitute a permanent establishment in the source state. Profits of a building site, construction, assembly or installation projects may be taxed in the state of source if the site, project or activities continue in that state for 270 days or more.

Profits from the furnishing of services including consultancy services may also be taxed in the state of source if activities of this nature continue within that state for more than a period of 183 days within any 12-month period. Profits derived by an enterprise from the operation of ships or aircraft in international traffic shall be taxable in the country of residence of the enterprise. Capital gains from the sale of shares may be taxed in the country of source.

<http://www.thehindubusinessline.com/2009/04/22/stories/2009042251100400.htm>

Sectoral News

Telecom industry marked the highest subscriber addition

Buoyed by the entry of new telecom players and entry of Reliance Communications in the GSM space, the Indian telecom industry clocked the highest subscriber addition in a month by adding 15.87 million subscribers in March, 2009. According to the latest data released by the Telecom Regulatory Authority of India, (Trai) while the wireless (GSM, CDMA and WLL (Fixed)) segment witnessed addition of 15.64 million users, the wireline segment saw an increase for the first time in two years by adding 2.3 lakh to its subscriber base

At the end of March the wireless subscriber base stood at 391.76 million as compared to 376.12 million in the previous month of the year. The wireline subscriber base grew to 37.96 million as compared to 37.73 million in February 2009. On a year-on-year basis however the wireline segment witnessed a decline of 3.7 per cent from 39.42 million in March, 2008.

This growth has led to a further increase in the total telecom teledensity (number of people having a telephone connection per 100) to 36.98 per cent at the end of March 2009 from 35.65 per cent in February this year.

The broadband penetration in the country is also witnessing a steady increase as the total broadband subscriber base crossed the 6 million mark to reach 6.22 million by the end of March, 2009 as compared to 5.85 million by the end of February, 2009.

With its foray in the GSM space Reliance Communications led the subscriber growth in the wireless segment with the addition of 3.02 million subscribers in March to take its wireless subscriber base to 72.66 million.

In the wireless segment Bharti Airtel led the subscriber growth with the addition of 2.73 million subscribers in December to take its wireless subscriber base to 82.9 million. State-owned Bharat Sanchar Nigam Ltd (BSNL) came in second with a total of 2.9 million subscribers resulting in a subscriber base of 52.14 million. Meanwhile Bharti Airtel and Vodafone Essar added 2.8 million customers each to take their subscriber base to 93.92 million and 68.76 million respectively. Tata TeleServices added about 1.25 million subscribers to about 35.12 million subscribers.

<http://www.business-standard.com/india/news/telecom-industry-marked-highest-subscriber-addition/58977/on>

Indian BPO revenue to double by 2010: Gartner

Fear of US protectionist stance towards business due to the economic turmoil notwithstanding, a recent Gartner report says the business process outsourcing (BPO) market share of Indian vendors is expected to nearly double by 2010.

By the end of 2008, the top 20 India-centric BPO providers accounted for \$4 billion in revenue, representing 5% of the \$80 billion revenue of the top 150 BPO vendors. This is a significant leap considering just six years ago in 2002 there were few, if any, India-centric vendors in the top 150 BPOs worldwide.

North America has been the most successful sales location for Indian BPO providers, where the top-20 India-centric BPO providers generate about \$2.2 billion in revenue. Western Europe showed strong growth, mostly in the UK, and accounted for \$1.4 billion in revenue for the top 20 Indian BPO providers in 2008.

The report also says that Indian BPO providers have proved to be stiff competition to western BPO providers. Further, analysts expect increase in revenue to be evident in the

coming days, accelerated because of the economic pressures that are leading to demand for low-cost BPO.

From a vertical-market perspective, Indian BPO providers also had more success in telecommunications, manufacturing, insurance and banking than in government and retail, however going forward, analysts believe that government and retail will play an important role in the growth of Indian BPO.

“We are expecting that by 2010, the market share of Indian vendors will become something around 10%. Retail, government and services, would become major contributor to this growth, apart from existing major verticals such as banking and financial, manufacturing, telecom, utility,” commented Arup Roy, senior research Analyst at Gartner.

“Indian BPO providers are swiftly evolving to balance exposure to vertical industries, currency and legislation issues,” he added.

“North America will continue to be the major provider, however, Eastern Europe is also seen as a potential location,” commented Arup. Analysts at Gartner feels that contact centers and analytics services will likely to see the highest growth.

“It is highly likely that many new competitors will emerge from India during the next few years.

<http://www.financialexpress.com/news/indian-bpo-revenue-to-double-by-2010-gartner/449238/>

India gem, jewellery exports up 1.45 pct in FY09

India's gem and jewellery exports rose 1.45 per cent to \$21 billion in FY09, despite falling 18.88 per cent in the second half of the fiscal, hit by the slowdown in the US, an industry body said.

The modest rise in exports was mainly due to increase in exports of gold jewellery, The Gem & Jewellery Export Promotion Council (GJEPC) said in a statement.

Gold jewellery exports rose 23.64 per cent in FY09 to \$6.86 billion, the statement said. India's polished diamond exports fell 8.24 per cent to \$13.02 billion in the fiscal, GJEPC added.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-gem-jewellery-exports-up-145-pct-in-FY09/articleshow/4434247.cms>

IT-enabled banking services picking up

There has been a sharp increase in the use of IT in banking services. The Reserve Bank of India devoted almost three pages to it in Annual Policy Statement for 2009-10, released.

With the cellular user base expected to touch 600 million by 2010, the volume of pre-paid card recharging alone could exceed the \$4-billion mark. Bharti Airtel launched its mobile payment services in June 2008 and has already got one million registered users.

“mCommerce will be one of the top three services offered over mobile in the future,” said an Airtel spokesperson. International remittance is another service that operators are piloting in India.

“With the Reserve Bank of India’s new mobile payment guidelines, banks and merchants are fast adopting our open-platform to build a thriving eco-system and a compelling suite of services for consumers,” says Mr Sanjay Swamy, CEO of mChek, a mobile payment service provider. However, operators say that the per-transaction and daily limits narrow the scope of mobile payments to small-ticket purchases. “Even money transfer between different bank accounts will not take off because of this per transaction limit,” says the Internet and Mobile Association of India.

So far, 19 banks have obtained permission from the RBI to provide mobile payment facilities to their customers.

A similar trend can be seen in ATMs. Thanks to the RBI allowing the use of ATM of any bank for cash withdrawal, free-of-cost since April 1, there has been a surge in the average number of transactions put through ATMs per day. Small value transactions are gaining frequency, according to many bankers.

“The RBI move will certainly ensure that there is relocation of ATMs. In many metro centres, one could see a number of ATMs of specific banks next to each other. In the days to come, you will see them getting relocated to semi-urban and rural areas,” Mr R.I.S. Siddhu, Chief General Manager of Punjab National Bank, told Business Line.

PNB currently has about 2,200 ATMs spread across the country. The average number of transactions a day has increased from 3 lakh to 3.2 lakh ever since the RBI move came into force.

“We get to see a lot of outside PNB customers using our ATMs now,” he said.

The national financial switch (NFS) network, which covers 38,714 ATMs of 34 banks as on March 31, 2009, has also seen a surge with a peak of 1.1 million transactions on a single day on April 11, 2009. On an average, daily 8,90,180 transactions were routed through the NFS in March 2009 as against a daily volume of 2,67,598 transactions in March 2008.

<http://www.thehindubusinessline.com/2009/04/23/stories/2009042352020100.htm>

News Round – Up

India lead indicator index points to rebound: UBS

UBS's lead economic indicator has climbed for three consecutive months pointing to a strong recovery in industrial activity by June 2009, it said.

Philip Wyatt, an economist at the bank, said the rebound in the index is likely to be sustainable because there was a low degree of excess capacity and levels of private sector debt and non-performing loans were moderate.

Growth in Asia's third-biggest economy is expected to drop to a seven-year low of 6 percent in 2009/10 and its Reserve Bank of India (RBI) governor Duvvuri Subbarao said and its short and medium-term growth outlook was "mixed" for now.

UBS said the key variables which have boosted its lead indicator index was the government bond yield spread, real (M1) money supply and a revival in foreign capital inflows.

"Our base-case scenario is for the Indian economy and corporate earnings to bottom out by the second half of 2009/10 and for full recovery in 2010/11," it said.

"So we are positive on the Indian stock market on a 12 month view with overweight recommendation for: autos, metals, banks, real estate and conglomerates."

<http://economictimes.indiatimes.com/News/Economy/Indicators/India-lead-indicator-index-points-to-rebound-UBS/articleshow/4454921.cms>

Indian cos ready for IFRS conversion: E&Y

The interest among Indian companies in adopting the International Financial Reporting Standards (IFRS) is on the upswing as the Institute of Chartered Accountants of India (ICAI) and the ministry of corporate affairs make noteworthy strides in moving towards IFRS, said Ernst & Young.

In a recent survey conducted by Ernst & Young, 79% of the respondents surveyed felt that their company would be able to meet the IFRS 2011 deadline.

A majority of those interviewed said that the matter was discussed at the board/management level.

Significantly, both ICAI and the corporate affairs ministry have announced their commitments to adopt IFRS from April 1, 2011.

Recent developments such as the AS-11 (Accounting Standards-11) amendment allowing alternative treatment for accounting of exchange differences up to March 31, 2011, and the April 2009 edition of The Chartered Accountant journal have reiterated the MCA and ICAI commitment to adopting IFRS, the survey pointed out.

Though a large chunk of the respondents have not made a timetable for the transition, the encouraging fact is that 43% of the respondents would make one and 32% would assign resources soon.

More concerted action on IFRS conversion from corporates would take place now on, the survey pointed out.

IFRS conversion is a skilful, onerous and lengthy exercise. Experiences in other parts of the world have shown that conversion to IFRS is much more than an accounting exercise and extends to critical business and regulatory matters such as compliance with debt covenants, structuring of ESOP schemes, modification of IT systems, capital structuring and tax planning.

Converting to IFRS will be a significant and fundamental change for businesses. For large sized entities, the transition to IFRS could take as much as 18 months to two years, the survey said. IFRS conversion, if not planned properly, would result in significant time and cost overruns, and in extreme cases, erosion of reputation for reporting incorrect numbers.

To ensure a smooth transition to IFRS, it is imperative for corporates to put together a carefully structured implementation plan with detailed timelines and allocation of resources.

Overall, it is encouraging to see the India Inc's readiness to IFRS adoption, concludes the survey.

<http://www.financialexpress.com/news/indian-cos-ready-for-ifrs-conversion-e&y/450500/>