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News Feature

Economists see India's GDP growth near 7.6% in Apr-Jun

India's gross domestic product during April to June is expected to increase at its slowest pace in six quarters as interest rate hikes, inflation and global slowdown begin to impact growth.

The country's quarterly GDP is likely to grow at a median 7.65%, says a survey of 14 economists, most of whom expect the annual growth to range between 7.5% and 8%. The RBI has pegged the full year's growth rate at 8%.

"Growth prospects in India look fairly steady," said Madan Sabnavis, chief economist, CARE Ratings, but cautioned against risks from the external environment.

Growth is expected to decelerate in the coming two quarters with a possible pick-up in the last three months of the current fiscal. "Domestic demand is expected to slow appreciably over the coming quarters as the full impact of the monetary and fiscal tightening takes hold. That said, we expect some uptick in the private investment cycle later in the fiscal as capacity constraints are increasingly binding," said Sajid Chinoy, India Economist at JP Morgan.

Besides, Q1 growth would also be affected by the negative base effect as last year the economy had expanded by 9.3%, according to Kaushik Das, India economist at Deutsche Bank.

Global Uncertainty

Most economists are cautious in their outlook as the external environment had become very uncertain in the last few weeks.

While the US growth in the first quarter has been revised sharply down to 0.4% from 1.9%, the second quarter figure for the world's largest economy is pegged at 1.3%, below street estimates of 1.8%. In Europe, the sovereign debt crisis shows little signs of resolution as consensus on a single fiscal authority looks difficult. Besides, upcoming elections in Germany and France, the two strongest euro-zone nations, have also added to the uncertainty.

The future trajectory would be dictated by global events and would test our resilience in the second half of the year," said DK Joshi, chief economist, Crisil.

While some respondents raise the possibility of a double-dip recession in the US, most economists said the probability of such an event was low. "Our base case scenario is not for recession in the US," said Samiran Chakraborty , chief economist, Standard Chartered.

There is one silver lining, though. Exports earnings in April to July have reached $108.3 billion, up 54%, while imports have risen 40% to $151 billion, compressing the trade deficit to $42.7 billion. "Exports have diversified and we do not expect the growth to completely fall off, though some moderation would be likely," said Shubhada Rao, chief economist, Yes Bank.

http://economictimes.indiatimes.com/news/economy/indicators/economists-see-indias-gdp-growth-near-7-6-in-apr-jun/articleshow/9725844.cms

Overseas Investment

Forex reserves rise $1.6 billion

India's foreign exchange reserves increased $1.6 billion to $318 billion during the week ended August 19, largely on account of valuation changes.

Foreign currency assets, which predominantly include dollars, yen and euro, among others, increased by $1.6 billion, according to the latest data released by the Reserve Bank of India. Other components like special drawing rights (SDR) - currency with the International Monetary Fund - rose $19 million while reserves with IMF rose $12 million. The value of gold in reserves, however, did not rise during the week.

Spurred by an increase in time deposits and currency with the public, money supply for the fortnight ended August 12 rose Rs 25,744 crore to Rs 68,23,852 crore, as per the updated money-supply figures released by the Reserve Bank of India.

Demand deposits with banks reduced by 3.2%, or Rs 20,552 crore, during the period. On a year-on-year basis, total money supply, which includes bank deposits and cash in the economy, rose 17.3%, or Rs 10,04,586 crore.

Despite rising interest rates, bank advances picked up in the fortnight ended August 12. However, deposit growth slowed down. Data released by the Reserve Bank of India shows that banks mobilised only 10,440 crore of deposits while it gave Rs 43,657 crore in advances.

On a year-on-year basis, data show that advances have grown 20.3% while deposits have risen 17%. For the current financial year,

the central bank has projected 19% growth in loans and 18% on deposits.

http://economictimes.indiatimes.com/news/economy/indicators/forex-reserves-rise-1-6-billion/articleshow/9752023.cms

FDI worth over 4000 crore in renewable energy sector: Farooq Abdullah

India has received Rs 4,900 crore in the last three years as Foreign Direct Investment (FDI) in the renewable energy sector.

"Rs 4,900 crore has been received as FDI equity inflows in the renewable energy sector during the last three years and the current year," New and Renewable Energy Minister Farooq Abdullah said.

He said the highest investment took place in 2009-10 when Rs 2,872 crore were received in FDI.

Abdullah said a recent Ernst and Young report has ranked India as the third-best investment destination in the world after China and the US.

He said 100 per cent FDI under the automatic route is permitted in the Renewable Energy Generation and Distribution projects.

The Minister said that several key initiatives taken in the recent past include the introduction of generation-based incentives scheme for wind power to promote projects and the launch of Jawaharlal Nehru National Solar Mission with 22,000 MW target for solar power by 2022.

Meanwhile, replying to another query, Abdullah said it is envisaged that a power generation capacity of around 3400 MW grid-interactive and 130 MW off-grid power will be produced from various renewable energy sources in the country during the current financial year 2011-12.

"The same would require capital investment of the order of around Rs 29,000 crore including Rs 14,500 crore in wind power, Rs 2,500 crore in small hydro power, Rs 3,000 crore in bio-power and Rs 9,000 crore in solar power," he said.

The Minister said an additional investment of about Rs 1,000 crore is envisaged in deployment of devices like biogas plants, solar water heating systems and SPV lighting systems in remote villages.

http://economictimes.indiatimes.com/news/economy/finance/fdi-worth-over-4000-crore-in-renewable-energy-sector-farooq-abdullah/articleshow/9748701.cms

FDI in telecom sector at Rs 5,434.48 cr in June quarter

The foreign direct investment in the telecom sector was Rs 5,434.48 crore during the quarter ended June 30, 2011, Parliament was informed.

The country has received a cumulative total of Rs 36,931 crore as FDI in telecom sector in the period from April 2008 to June 2011, Minister of State for Communications and IT Milind Deora told.

For telecom services, FDI up to 49 per cent is permitted under automatic route and beyond 49 per cent and up to 74 per cent is through Foreign Investment Promotion Board (FIPB).

The country received FDI of Rs 11,684.81 crore during 2008-09, Rs 12,269.66 crore during 2009-10 and Rs 7,542.04 crore during 2010-11, respectively, Deora said.

http://economictimes.indiatimes.com/news/economy/finance/fdi-in-telecom-sector-at-rs-5434-48-cr-in-june-quarter/articleshow/9723333.cms

Trade News

Double taxation pact with India on track, say Swiss officials

Swiss authorities have confirmed that the amendment to the Double Taxation Avoidance Agreement with India is on track to be completed by the end of the year.

"The Swiss Parliament has approved the revised DTA and the referendum period is about to come to an end without having anyone collecting signatures against the DTA with India," said a spokesperson for Switzerland's Federal Department of Finance.

He added, "So there is a good chance that from the Swiss perspective the DTA can enter into force by the end of 2011."

Once the DTA comes into force, there can be exchange of information relating to any fiscal year beginning on or after January 1, 2011.

Under the amended terms, India will be able to request information related to tax evasion cases, rather than bank information on tax fraud cases.

http://www.thehindubusinessline.com/todays-paper/tp-economy/article2397637.ece

India, Belgium and SA team up for AEO: SD Mazumdar, Chairman, CBEC

Scrutiny or inspection-free trade could soon become a reality with India, Belgium and South Africa launching a pilot to connect their

customs under an initiative to network customs departments across countries.

As a first step, India is rolling out a system - authorised economic operator, or AEO - under which traders, logistics providers, and customs agents sporting secure trader tag would be able to move their goods speedily through customs in countries with similar facility.

US, Japan, South Korea and China already have such a system in place and talks are on with them for a mutual recognition agreement.

"Trade facilitation is high on government's agenda and the AEO programme is one big step in this direction. With AEO system, the focus will now be on globally networked customs," SD Mazumdar, chairman, Central Board of Excise and Customs told.

Finance minister Pranab Mukherjee has given his go-ahead to the pilot that will serve the twin objective of improving facilitation and securing trade lines. The project is expected to start by 2012.

Networking of customs with Belgium and South Africa will give Indian industry easier access to Europe and the African continent.

The three countries had pitched for a globally networked customs programme at the World Customs Organization. Such a network facilitates exchange of information on valuation of goods, rules of origin and intellectual property rights on real-time basis, making movement of goods faster and more secure. The AEO certification acts like a green card allowing for processing of trade consignments without inspection, a finance ministry official said.

AEO status will also ensure a low risk score, that may be incorporated into customs 'risk management system' used to determine the frequency of customs physical and documentary checks. The benefits may also include simplified customs procedure and declarations.

"The objective of the AEO programme is to provide businesses with an internationally recognised quality mark that will indicate their secure role in the international supply chain and that their customs procedures are efficient and compliant," the CBEC said.

Industry agrees that this is big step forward in trade facilitation. "This is a positive move, particularly for large companies, as AEO stamp will not only facilitate imports, but also exports," said Ajay Sahai, director general, FIEO.

http://articles.economictimes.indiatimes.com/2011-0825/news/29927101_1_facilitation-cbec-customs-agents

India signs tax avoidance pact with Georgia

India has signed a double taxation avoidance agreement (DTAA) with Georgia.

This agreement provides a mechanism for effective exchange of information between the tax authorities of two countries, including exchange of banking information.

The DTAA was signed by Mr M.C. Joshi, Chairman of the Central Board of Direct Taxes (CBDT), on behalf of the Indian Government and Mr Zurab Katchkatchishvili, Ambassador of Georgia to India, on behalf of the Government of Georgia.

Under this DTAA, business profits will be taxable in the source State if the activities of an enterprise constitute a permanent establishment (PE) in the Source State.

The Agreement provides for fixed place PE, building site, construction and installation PE, service PE, insurance PE and agency PE.

Dividends, interest and royalties and fees for technical services income will be taxed both in the country of residence and in the country of source.

The low level of withholding rates of taxation for dividend (10 per cent), interest (10 per cent) and royalties & fees for technical services (10 per cent) is expected to promote greater investments, flow of technology and technical services between the two countries.

The DTAA also incorporates anti-abuse (limitation of benefits) provisions to ensure that the benefits of the agreement are availed of by the genuine residents of both the countries.

http://www.thehindubusinessline.com/todays-paper/tp-economy/article2394096.ece

Pakistan agrees to grant 'Most Favoured Nation' status to India

Pakistan has agreed to grant the Most Favoured Nation (MFN) status to India, something which New Delhi had been demanding for many years, a media report said.

A senior official of the Ministry of Trade said on the condition of anonymity that the status of MFN would be granted during the current year, Urdu daily Jang reported.

Pakistan has in return asked for immediate lifting of non-tariff restrictions on its exports to India.

Sources said that Trade and Commerce Minister Makhdoom Amin Fahim would soon announce basic changes in Pakistan's trade policy.

One of the amendments will be a draft to review the list of trade items between the two countries.

According to the source, Pakistan has agreed to grant MFN status to India this very year in return for lifting the non-tariff restrictions on imports from Pakistan. This will fulfill the long-standing Indian demand in return for lifting of non-tariff restrictions alone.

The report comes ahead of a possible meeting between the Commerce Ministers of India and Pakistan after a gap of over three years in New Delhi next month to discuss ways to boost trade and proposals to remove non-tariff barriers as the two countries make efforts to normalise relations.

Indian Commerce Minister Anand Sharma has invited his Pakistani counterpart Fahim, a senior leader of the ruling Pakistan People's Party, to visit New Delhi for the meeting.

http://economictimes.indiatimes.com/news/economy/foreign-trade/pakistan-agrees-to-grant-most-favoured-nation-status-to-india/articleshow/9767953.cms

Sino-India bilateral trade maintains strong momentum into 2011

Bilateral trade between India and China maintained its rapid growth momentum into 2011, crossing $ 35 billion in the first half of the current calendar year, a 16 per cent rise vis-a-vis the corresponding period of 2010, according to China's Ambassador to India, Zhang Yan.

China and India are major trading partners and in the past ten years, bilateral trade has surged 20 times, Zhang said.

In 2010, trade flows between the two countries amounted to $ 61.7 billion. "During the first half of this year (January-June, 2011), bilateral trade maintained a strong momentum of fast growth. The two-way trade volume has reached $ 35.27 billion, a 16.1 per cent increase on a year-on-year basis," he said.

But Zhang also said given the magnitude of the two countries' population, which stands at more than 2.5 billion, and huge markets, as well as the potential of the two economies, there are still great opportunities for India and China to explore.

China and India, he said, should make new efforts to diversify their economic cooperation by expanding the scope, adding that he was happy that while maintaining a strong momentum in trade, both sides have started looking for new cooperation in areas of mutual interest.

"China and India are two fast-growing economies in the world today. Against the turbulence in the world economic and financial situation, we have every reason to join hands and work together to withstand the challenges and ensure the sustained and healthy development of our economies," he said.

http://economictimes.indiatimes.com/news/economy/foreign-trade/sino-india-bilateral-trade-maintains-strong-momentum-into-2011/articleshow/9731439.cms

Melbourne unveils draft plan to strengthen business ties with India

The Australian city of Melbourne has announced a draft plan to strengthen business ties with India, with a focus on building economic prosperity, facilitating learning and supporting community, cultural and civic links between the two countries.

According to an official statement from the City of Melbourne Council, the plan was endorsed and the International Engagement Framework Draft India Statement was initiated to focus on the scope for business development activities with India.

The city of Melbourne already has a strong working relationship with India and this engagement framework will ensure it continues to grow.

"The draft statement outlines its past engagement with India and looks toward our future plans, focusing in particular on business development activities in major Indian cities," the statement said.

Currently, India is Australia's fifth largest trading partner and through this engagement, the city of Melbourne now plans to focus on three key goals -- building economic prosperity, facilitating learning and supporting community, cultural and civic links between the countries.

The Chair of the Future Melbourne (Economic Development and Knowledge City) Committee, Councillor Kevin Louey, said the City of Melbourne already has a strong working relationship with India and this engagement framework will ensure it continues to grow.

"This draft statement outlines our past engagement with India and also our future plans, focusing in particular on business development activities in major Indian cities including New Delhi and Mumbai," Louey said, adding, "The city of Melbourne has had a strategic alliance with New Delhi since 2008 -- the only one of its kind in Australia."

"Mumbai is also a member of our Business Partner Cities network and there are great business opportunities to be sought through this relationship," he added.

"Melbourne's Indian population is becoming much stronger. The number of new migrants to Melbourne with Indian ancestry has increased significantly in the last five years, while the number of tourists from India to Australia has grown by 14 per cent since 2007

"India is Australia's fifth largest trading partner and through this engagement, we plan to focus on three key goals -- building economic prosperity, facilitating learning and supporting community, cultural and civic links.

"The framework will guide the development of a long-term and productive relationship with India. The focus for Delhi will be civic, government, educational and cultural relationships, whilst the focus for Mumbai will be business and educational partnerships," he said.

To do this, the Council will establish new partnerships and strengthen existing ones with a range of Australian and India-based partners. This will involve cooperation between the countries' governments, besides industry chambers, lobbies and educational institutes on both sides.

http://economictimes.indiatimes.com/news/economy/foreign-trade/melbourne-unveils-draft-plan-to-strengthen-business-ties-with-india/articleshow/9718353.cms

Sectoral News

India's exports to touch $300 bn in FY'12: Anand Sharma

Despite the slowdown in the world economy, the Government has set a target of USD 300 billion for exports this fiscal year.

"In the first quarter (FY'12), we have achieved exports of USD 108 billion and we are hopeful of achieving exports of USD 300 billion in the current fiscal, as against USD 246 billion last fiscal," Minister for Commerce & Industry and Textiles Anand Sharma told on the sidelines of first International Conference on Technical Textiles - TECHNOTEX.

Sharma said, however, that crisis in the world economy is severe and demand in Europe and America is weak as slow recovery, sovereign debt crises remain major concerns.

The minister also said that the Technology Upgradation Funds Scheme (TUFS) that provides Plan support for textiles through interest reimbursement and capital subsidy, will be extended during the 12th Plan period as well.

On 'National Manufacturing Policy', which aims to raise contribution of the sector in GDP from 16 per cent to 26 per cent by 2025,

creating 200 million jobs, Sharma said the Cabinet will soon take it up for consideration.

On inflation, Sharma said he is confident that it will come down following good rainfall in August, which is expected to boost crop production.

http://economictimes.indiatimes.com/news/economy/foreign-trade/indias-exports-to-touch-300-bn-in-fy12-anand-sharma/articleshow/9736665.cms

US$18.6 bn manufacturing sector M&A deals in Apr-June: PwC

The manufacturing sector witnessed mergers and acquisitions worth USD 18.6 billion globally in the April-June quarter of 2011, a 90 per cent jump vis-a-vis the year-ago period, according to global consultancy firm PwC.

Domestic deals across all regions globally led deal activity, with North America contributing 13 deals and Asia and Oceania, BRIC countries (Brazil, Russia, India and China) and Europe contributing 10 deals each.

India and Russia also present great opportunities for M&A deals in the manufacturing sector, the report said, though it cautioned that companies need to be aware that incidents of corruption and bribery are a significant concern when doing business in these markets.

According to the report, in the second quarter of 2011, there were 46 deals worth more than USD 50 million, with a total deal value of USD 18.6 billion, compared to 33 deals worth USD 9.8 billion in the second quarter of 2010.

"The maturity of the industry, a fairly high market concentration and favorable deal valuations were factors that drove and will continue to drive deal activity in the industrial manufacturing industry.

"In the near term, continuous global economic growth, fuelled by emerging markets, greater capital availability and more cash on balance sheets, should continue to aid strong deal activity in the industrial manufacturing sector," PwC Global Industrial Manufacturing Leader Barry Misthal said.

During the quarter under review, US-focused transactions dominated M&A activity, with 19 deals worth USD 12.3 billion accounting for 41 per cent of the overall deal volume and 66 per cent of total deal value.

http://economictimes.indiatimes.com/news/economy/finance/18-6-bn-manufacturing-sector-ma-deals-in-apr-june-pwc/articleshow/9707538.cms

Mobile Net users to touch 46 million by September

The number of subscribers using their mobile phones to access Internet will touch 46 million in September, according to a report published by the Internet and Mobile Association of India (IAMAI) and market research firm IMRB.

This represents a 15 per cent growth quarter to quarter.

According the report, online news is most frequently accessed followed by e-mail; chat and social networking sites.

Dr Subho Ray, President – IAMAI, said, "India is witnessing a healthy growing usage of mobile Internet. The convenience of accessing internet on the move coupled with good tariff plans and connectivity has ensured growth of the segment. Going by the quarter-on-quarter growth, the mobile Internet sector will continue to grow at a fast pace."

The report said that consumers are paying Rs 389 a month on an average to access Internet services.

This is good news for operators that are struggling with declining Average Revenue Per User (ARPU). Operators get less than Rs 100 a month from a subscriber at present.

There are about 40 million mobile Internet users as of June 2011 of which about 30 million are termed as active users.

http://www.thehindubusinessline.com/todays-paper/tp-info-tech/article2394115.ece

'Indian banking sector to be third-largest by 2025'

The Indian banking sector is poised to become the world's third-largest in terms of assets over the next 14 years, according to a report by The Boston Consultancy Group (BCG).

"The domestic banking industry is set to see exponential growth in the coming years, with its assets poised to touch $28,500 billion by 2025, compared with the current $1,350 billion (2010)," says the report by Indian Banks' Association (IBA), Ficci and BCG titled 'Being five-star in productivity — Roadmap for excellence in Indian banking', prepared for the IBA.

The report was released on the eve of the three-day IBA-Ficci-BCG bank summit. The summit would be inaugurated by Reserve Bank Governor D Subbarao and would be attended by the heads of banks and the four central bank deputy governors.

The report adds China would overtake the US as the world's largest banking industry by 2015. It is expected the asset size of Chinese banks would be nearly $30,000 billion, while that of the US would be around $28,000 billion.

http://www.business-standard.com/india/news/indian-banking-sector-to-be-third-largest-by-2025/446716/

Leather exports to touch $5.4 bn by 2014: ASSOCHAM

Despite slowdown in European economies, leather exports from India are likely to register a growth of 13% and touch $5.4 billion by 2014 from the current level of $3.8 billion, according to the latest study undertaken by apex chamber Assocham. The leather industry currently employs over 3 million workers. "With a strategy in place, the number of potential employees can rise by another 3 million in next 5 years since the potential of leather industry is yet to be harnessed," said The Associated Chambers of Commerce and Industry of India (ASSOCHAM).

Exports of leather and leather products have risen from US$ 3404.57 million in 2009-2010 to US$ 3844.86 million in 2010-11, recording a positive trend of 13%. India has a 3.5% share in the global leather trade and ranks eighth in the world in terms of the country's foreign exchange earnings from the industry. The composition of exports has also been changing, with more focus on value added products.

The major markets for Indian leather products are Germany with a share of 14.34%, UK 12.80%, Italy 11.52%, USA 8.72%, Hong Kong 8.11%, France 7.07%, Spain 6.31%, Netherlands 3.98%, Belgium 2.02%, U.A.E.1.92%, Australia 1.30%. These 11 countries together accounts for nearly 78.09% of India's total leather products export. Export of leather & leather products to Germany, USA, UK, Italy, France, Hong Kong, Spain, Netherlands, Russia, New Zealand, Canada, South Africa, UAE and Japan have shown positive growth during April-March 2010-11.On the other side, exports to Australia, Greece, Switzerland, Portugal, and Ireland have shown a decline.

The chamber study said an estimated 15% of total purchase of leading global brands in footwear, garments, leather goods & accessories in Europe is outsourced from India.According to the suggested roadmap for leather industry, it has been projected that footwear would continue to be the largest segment of exports constituting about 56% of the total exports.

http://economictimes.indiatimes.com/news/economy/foreign-trade/leather-exports-to-touch-5-4-bn-by-2014-assocham/articleshow/9747428.cms

Gems, jewellery exports grow 5.4% in July

Gems and jewellery exports grew at a slow

pace of 5.4 per cent to USD 3.3 billion in July year-on-year.

In the previous month, the exports had jumped by 17 per cent. The exports stood at USD 3.1 billion in July last fiscal, according to the Gems and Jewellery Export Promotion Council (GJEPC) data.

Exporters said the demand from the main markets like the the US and Europe had shown a sluggish trend, which led to the decline in gems and jewellery exports.

While the US accounts for about 25 per cent of the country's total gems and jewellery exports, Europe contributes 20 per cent.

"There are less number of orders from markets like the US and European markets," GJEPC Chairman Rajiv Jain said.

However, he added that demand from new markets like Russia, Latin America and Africa is increasing.

Traders are worried that the debt crisis in the Western world may hit demand and lead to payment problems.

As per the GJEPC data, exports of silver jewellery saw the maximum growth of 63.4 per cent year-on-year in July, followed by gold medallions and coins (33.8 per cent), gold jewellery (25.33 per cent).

However, coloured gemstones exports declined by 82 per cent.

In the first four months of this fiscal, the gems and jewellery exports jumped 14.4 per cent to USD 14.1 billion compared to the same period last fiscal.

During 2010-11, the shipments grew 15.34 per cent to USD 33.54 billion compared to the previous fiscal, according to the figures provided by the Commerce Ministry.

http://economictimes.indiatimes.com/news/economy/foreign-trade/gems-jewellery-exports-grow-5-4-in-july/articleshow/9710533.cms

Coffee exports increase 15.9% in first nine months to hit record levels

Coffee exports from producing countries have touched record levels in the first nine months of the current coffee year with a year-on-year increase of 15.9%.

With the exception of Colombian Milds, all other varieties witnessed great export numbers. The decline in exports in Colombian Milds was due to reduced production in Colombia during the last three years.

According to the latest report released by International Coffee Organisation (ICO), the total exports for the first nine months

(October 2010 to June 2011) stood at 80.7 million bags, up by 15.9% from 69.7 million bags recorded in the same period a year ago. Arabica exports totalled 52.5 million bags while Robusta exports totalled 28.2 million bags. Both types of coffee achieved record export levels.

Brazil, Vietnam, Colombia, India, Indonesia, Honduras, Guatemala, Peru, Uganda and Mexico are the top ten coffee exporting countries respectively during the period. The exports from Brazil increased to 26.36 million bags in the first nine months of the current year compared to 22.34 million bags in the same period a year ago while exports from Vietnam climbed to 13.85 million bags from 11.32 million bags and Colombia's exports surged to 6.73 million bags from 5.45 million bags.

Indian exports increased to 4.90 million bags from 2.87 million bags while Indonesia's exports declined to 3.85 million from 4.77 million bags and exports in Honduras and Guatemala surged to 3.58 million bags from 2.82 million bags and to 2.78 million bags from 2.72 million bags respectively. Peru's exports recorded at 2.15 million bags, up from 1.85 million bags while Uganda's exports increased to 2.12 million bags from 2.06 million bags.

http://www.financialexpress.com/news/coffee-exports-increase-15.9-in-first-nine-months-to-hit-record-levels/835570/0

News Round-Up

Moody's, Fitch set to retain India's short-term rating

Encouraged by India's efforts to contain its fiscal deficit and inflation, global rating agencies Moody's and Fitch have said they are unlikely to make any change in the country's sovereign ratings in the short term, following the downgrade of US sovereign debt by another Standard & Poor's. The statements came after S&P cautioned India of potential long-term consequences of a weaker global growth.

"... Recent developments (in the US and Europe) have not changed our view on India's ratings and outlook," said Atsi Sheth, Moody's lead analyst for India.

Fitch Asia Sovereign Ratings director Art Woo said that the rating agency was encouraged by the recent response of the Reserve Bank of India in tightening monetary policy, which

should help cool inflationary pressures. “Though it appears that the Union Budget’s central government fiscal deficit target of 4.6% of GDP for 2011-12 may not be met due to the rising cost of subsidies, the potential slippage is unlikely to be significant,” said Woo, adding that Fitch was optimistic on the Indian authorities' efforts to tackle the challenges of large fiscal deficit.

Earlier this month, S&P had lowered the US sovereign credit rating to AA+ and said it did not see an immediate impact of the move on India’s sovereign rating but warned there could be “potential longer-term consequences of weaker global growth”, pointing to negative factors for the country.

Moody’s said that though the cloudy global growth outlook as well as the impact of domestic monetary policy tightening would impinge upon India’s growth in the near term, its healthy domestic savings and investment rates, propensity for domestic consumption and growing private sector competitiveness should keep the slowdown shallow. “India's ratings also incorporate its strong official foreign exchange reserve position and an expectation that the current account deficit will remain manageable,” it said.

Last month, Fitch retained India’s sovereign rating at investment grade, stating it had “robust growth prospect” and solid external financial condition. The agency affirmed long-term BBB- rating for the country with stable outlook. BBB denotes a moderate default risk relative to other nations for investors. S&P too has rated India as BBB- for the long-term.

In 2010, Moody’s upgraded India’s sovereign local currency rating by a notch in light of its commitment to reforms. However, the upgrade of the government bond local currency rating to Ba1 from Ba2 is still a notch below investment grade. “The positive outlook on India’s Ba1 rupee denominated government debt reflects Moody’s belief that although the general government fiscal deficit and debt ratios (as % of GDP) are above the median for comparably rated countries, strong growth should allow the country to grow out of this debt,” it added.

http://www.financialexpress.com/news/moodys-fitch-set-to-retain-indias-shortterm-rating/835984/0

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