Weekly Economic Bulletin

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News Feature

Indian economy grows by 8.8% in Q1

Economy grew by an impressive 8.8 per cent during the quarter ended June on the back of robust manufacturing growth.

However, certain sectors like financial services restrained the growth in economy, which had recorded 6 per cent growth rate in April-June 2009-10.

Agriculture and allied activities grew by 2.8 per cent, higher than 1.9 per cent in the year-ago period, but it is nowhere between the target of four per cent pegged by the government in the medium term.

Manufacturing expanded by strong 12.4 per cent in April-June, 2010 against a mere 3.8 per cent growth rate in the same period last year.

Construction too grew by 7.5 per cent compared to 4.6 per cent.

Among services, financial, insurance and real estate services expanded by just 8 per cent, against a growth rate of 11.8 per cent in the year-ago quarter, while community social and personal services growth slowed down to 6.7 per cent, against 7.6 per cent a year ago.

However, trade, hotels and communication services rose by 12.2 per cent, against 5.5 per cent during April-June 2009.

The government expects economy to grow by 8.5 per cent this fiscal. Though the GDP numbers for the April-June quarter are higher than that of 8.6 per cent in the previous quarter, they lag expectations of 8.9-9.4 per cent forecast by various experts.

The last time the economy grew at a faster clip was in the last three months of 2007 when it expanded 9.7 percent.

Deputy chairman of the Planning Commission, Montek Singh Ahluwalia said that India's economy could grow better than 8.5 percent in the fiscal year that ends in March 2011.

http://economictimes.indiatimes.com/news/economy/indicators/Indian-economy-grows-by-88-in-Q1/articleshow/6466705.cms

India's July exports up 13.2% YoY

India's exports rose for the ninth straight month in July, growing an annual 13.2 percent to $16.24 billion, government data showed. Imports for the month rose 34.3 percent to $29.17 billion, widening the country's trade deficit to $12.93 billion. Exports during the April-July period rose 30.1 percent to $68.63 billion. Asia's third-largest economy is targeting close to 15 percent export growth in the current fiscal year, following a drop of 4.7 percent in the 2009/10 fiscal year as the global financial crisis-led slowdown crimped demand.

http://economictimes.indiatimes.com/news/economy/indicators/Indias-July-exports-up-132-YoY/articleshow/6473205.cms

Overseas Investment

India second most important FDI destination

India has replaced the US as the second most important foreign direct investment (FDI) destination for transnational corporations during 2010-2012, according to a survey conducted UNCTAD.

In its latest 'World Investment Prospects Survey 2010-2012', the United Nations Conference on Trade and Development said transnational corporations remain buoyant about investment prospects in China, India and Brazil.

According to the survey, India is the most important FDI destination next only to China.

India replaced the US as the second most important destination for FDI by transnational companies last year following severe recession in the US. In the last survey, the US was the second most important destination and this time the country has slipped to fourth position.

Global FDI flows are expected to jump increase from USD 1.2 trillion this year to USD 1.3-USD 1.5 trillion in 2011 and USD 1.6-2.0 trillion in 2012.

"The results point to a recovery in global FDI flows in 2010 and further growth in 2011 and 2012," UNCTAD said.

Basing its results on the responses from 236 leading transnational corporations and 116 investment promotion agencies, it forecasts an upswing in the international foreign direct investment flows.

"The crisis was less destructive to FDI than had been feared" despite the worsening economic situation and growing recession in the industrialised countries, UNCTAD said.

Notwithstanding the squeeze in the investment budget during the worst economic crisis in the last eighty years, there has been perceptible shift in the TNC's geographical focus to developing and transition economies.

The emerging countries weathered the downturn better than their industrialised country counterparts. Further, the developing countries are leading the global recovery and are also contributing to the TNC strategies.

http://economictimes.indiatimes.com/news/economy/indicators/India-second-most-important-FDI-destination/articleshow/6507461.cms

Forex kitty swells by $293 million

Foreign exchange reserves rose by $293 million during the week ended August 27, largely on account of revaluation of non-dollar assets in reserves. The reserves are at $282.8 billion. Foreign currency assets comprising dollar, British pound and euro, among others, rose $279 million during the week.

Special drawing rights, or SDRs — the reserve currency with the International Monetary Fund — and the reserve capital with the IMF surged $10 million and $4 million, respectively. However, the value of gold in reserves remained unchanged during the week. During the said period, the dollar weakened against some currencies in the SDR basket on some days, resulting in revaluation of non-dollar assets in reserves, said a treasury official with a public sector bank.

In other developments, the government maintained only a minimum of Rs 100 crore in its account with the RBI. On the other hand, it also did not resort to any short-term borrowings from RBI.

the central bank. Such borrowings are resorted to by the government to meet its daily revenue mismatches. These short-term borrowings are known as Ways and Means Advances (WMA), a facility under which governments borrow from the central bank to meet their daily revenue mismatches. State governments, however, borrowed Rs 164 crore higher during the week ended August 27 under this facility.

http://economictimes.indiatimes.com/news/economy/indicators/Forex-kitty-swells-by-293-million/articleshow/6488796.cms

Govt will soon start releasing monthly data on FDI outflows

The government will soon start releasing monthly data on outward foreign direct investments on the lines of FDI inflow figures that it makes public regularly, according to an official.

The data will be released in coordination with the Reserve Bank, which has so far been the sole agency for compiling information on the outward FDI.

The new mechanism has been suggested by a committee headed by RBI Deputy Governor Shyamala Gopinath, the official said. It has already devised a format for detailed collection of fund outflows.

The Department of Industrial Policy and Promotion (DIPP), the nodal agency on FDI policy, is closely working with the RBI, the official said.

At present, the DIPP releases detailed foreign direct investment inflows to India on a monthly basis.

"While we have a very detailed data base on FDI inflows, such data for outward investment is missing. Whatever information is available it is quite sketchy," the official said.

India's outward investments were USD 10.3 billion during 2009-10. With firms becoming more aggressive in overseas mergers and acquisitions arena, the fund outflow may increase in the coming years.

Recently, companies like Bharti Airtel and Mahindra's have done major overseas acquisitions entailing large outflow of funds.

http://economictimes.indiatimes.com/news/economy/policy/Govt-will-soon-start-releasing-monthly-data-on-FDI-outflows/articleshow/6513158.cms

Sharma backs FDI in multi-brand retail, says opening up to create more jobs

Coming out in support of allowing foreign direct investment (FDI) in multi-brand retail sector, commerce and industry minister Anand Sharma has said that despite “sceptics and scaremongers'' predicting job losses, unorganised retail will actually grow and thousands of jobs will be created if the sector is opened up to foreign investments. He said that his department had received all inputs on the position paper floated on the issue and a inter-ministerial core group will hold discussions on it soon.

“There are sceptics and scaremongers who will say that it (multi-brand retail) should continue the way it is and there will be job losses. On the contrary, both organised and unorganised retail will grow,” Mr Sharma said on the sidelines of a India-South Africa business event organised by CII in Johannesburg.

Opening up the sector will allow retail giants like Wal-Mart and Carrefour to tap India’s growing retail market, currently estimated at over $400 billion and growing at 13%.

The discussion paper on permitting FDI in multi-brand retail, circulated by the department of industrial policy and promotion (DIPP) on July 8, has received its share of criticism from small traders, farmer groups and non-government organisations (NGOs) such as the Bhartiya Majdoor Sangh, Confederation of All India Traders and Kisan Jagriti Manch which claim that liberating the sector would endanger the livelihood of 4 crore people directly dependent on retail and 20 crore people indirectly earning their livelihood through it.

Opening up multi-brand retail to foreign investment is a sensitive issue in India as the sector is dominated by mom-and-pop stores, which are afraid of losing business to retail giants. The present FDI regime allows 51% foreign investment in single brand retail and 100% in wholesale cash and carry, but none in multi-brand.

According to the minister, allowing foreign investment in multi-brand retail will not lead to weakening of the unorganised retail since it is also modernising itself. “It will generate tens of millions of jobs from sorting to processing and from packaging to marketing,” the minister said. It would also lead to creation of much needed infrastructure such as warehouses and cold-storages, he added.

Once the inter-ministerial core group goes through the inputs on the discussion note, it may frame a Cabinet note on the issue. It would then be placed before the Union Cabinet for clearance after it is vetted by all ministries and departments concerned.

http://economictimes.indiatimes.com/news/economy/finance/Sharma-backs-FDI-in-multi-brand-retail-says-opening-up-to-create-more-jobs/articleshow/6482714.cms

FIIs pump in $13 billion till August

Indian equities fell to a one-month low tracking weak Asian and European markets, but cut its losses thanks to a smart recovery in late trade. However, the upside was that foreign institutional investors (FIIs), remained net buyers, according to data put out by the exchanges.

In fact, for January-August this year, they have bought near $13 billion worth of shares, a record for this period.

On Tuesday, the BSE Sensex fell 60.9 points, or 0.34%, to close at 17,971, while the broader 50-share NSE Nifty was down 13 points, or 0.24%, at 5402.4.

At one point, the Sensex had touched an intraday low of 17,819 but recovered about 152 points in late trade.

“There has clearly been a bit of profit booking seen at these levels as there is some amount of risk aversion arising out of negative global news flow,” said Arindam Ghosh, CEO, Mirae Asset Management. “In the immediate term there could be some reversal of liquidity (FII inflows) because of the prevailing uncertainty in the global markets.”

According to BSE’s provisional estimates, FIIs were net buyers to the tune of Rs 287 crore, while domestic institutional investors sold shares worth Rs 595 crore. In fact, they have purchased equities worth $2.2 billion in August so far, taking the year-till date figure to $12.7 billion.

“We are getting mixed global and local cues. Locally, while the growth numbers look good, exports are in a spot of a bother. Volatility will remain high for at least another two weeks,” said Naresh Kumar Garg , CEO, Sahara Mutual Fund.

It was a gloomy day for global markets on Tuesday. While European shares were trading in the red, key benchmark equity indices in Asia Pacific mostly declined. The Nikkei 225 lost the most at 3.5%, while Hang Seng and Kospi slipped about a percentage point.

http://www.financialexpress.com/news/fiis-pump-in-13-billion-till-august/675586/

Trade News

India to boost trade ties with Ghana

The Commerce and Industry Minister, Mr Anand Sharma, underlined the need for enhancing bilateral trade with Ghana.

The Minister, who was on a visit to the African nation, discussed various issues related to trade and investments.

Mr Sharma met with Mr John Evans Atta Mills, President, Republic of Ghana, and Ms Hannah Tetteh, Trade and Industry Minister of Ghana.

Areas of ties

Given the recent oil and gas find in Ghana, India's partnership with Ghana in fertiliser, petroleum and gas sector was underscored.

Mr Sharma impressed upon the need for a gas supply commitment by 2014 for the $1 b ammonia-urea fertiliser plant in Ghana, for which, an MoU was signed recently between the two countries.

Other related issues like availability of land, potable water and infrastructural development for the project, were also raised.

http://www.thehindubusinessline.com/2010/09/06/stories/2010090651560300.htm

ADB sanctions $100 mn for Indo-Bangladesh power project

The Asian Development Bank said it will provide USD 100 million loan for a cross-border electricity initiative between India and Bangladesh, which is expected to provide impetus for increased power trading in the South Asian region.

The Manila -headquartered bank's board has approved loan for the Bangladesh-India Electrical Grid Interconnection Project, which is scheduled for completion by December 2012, ADB said in a statement.

"The funds will be used to build a 40 kilometer 400 kv transmission line, along with a high voltage direct current substation and connecting loop, linking the western electrical grid of Bangladesh with India¿s eastern grid," it said.

The project is expected to result in flow of at least an additional 500 megawatt of power to Bangladesh by 2012. It would be beneficial for the country where less than half of its 15.6 crore people have access to power.

"Connecting the two grids will demonstrate the substantial economic benefits that come from enhanced regional cooperation and help to address energy gaps across the region," ADB Director General (South Asia department) Sultan Hafeez Rahman said.

ADB's loan, from the Asian Development Fund, will take care of around 63 per cent of the total costs project of USD 156.8 million.

The loan has a 32-year term, including a grace period of eight years, with interest charged at 1 per cent annually during the grace period and 1.5 per cent per annum for the rest of the term.

"The balance of the investment of USD 58.6 million will be funded by government of Bangladesh, while interconnection facilities on the Indian side will be financed, developed and operated by India," ADB said.

http://www.financialexpress.com/news/adb-sanctions-100-mn-for-indobangladesh-power-project/675348/

Gujarat looks to tap Israeli investors

A business delegation from Gujarat has appealed to the Israeli business community to partner with the state, bringing out its relative strength as an investment friendly destination.

Speaking at a seminar attended by senior executives of leading Israeli companies, the leader of the 11-member Gujarat delegation, Mukesh Kumar, the Managing Director of Industrial Extension Bureau, presented the major achievements of the state in various sectors calling upon Israeli businesses to participate in the Fifth Vibrant Gujarat Global Summit to be held on 12-13 January, 2011, to identify scope of partnership.

"While our national economy is growing at 7.2 per cent, Gujarat's annual rate of growth has been consistently in excess of 10 per cent.

"The progressive steps taken by the state to maintain its leadership position is reflected in all the important sectors," Kumar told Israeli businessmen.

The senior official also emphasised on the possibility of cooperation between various Israeli and Gujarati institutes of learning, calling upon for exchange programmes, as the state is putting special emphasis on imparting quality education.

Sujit Ghosh, first secretary at the Indian embassy in Tel Aviv, highlighted the remarkable progress made by the two sides in enhancing bilateral trade which is likely to hit the USD 5 billion mark this year as per available trend.

Officials from the two countries have also started discussions towards signing a Free Trade Agreement.

Several Israeli businesses expressed interest in participating in the Vibrant Gujarat Global Summit with their senior executives enquiring about state government policies in various sectors.

Several questions were asked by participants regarding Gujarat's solar policy which has generated more interest among investors than the centre government's Jawaharlal Nehru National Solar Mission which is offering more attractive terms for investors.

India has leaped to become Israel's second largest export destination, only next to close ally the US, as the Jewish state focusses at tapping potential in the Asian markets.

As per the figures provided by Israel's Export and International Cooperation Institute, India jumped from the eighth position to second as the favoured destination for Israeli exports in the first half of 2010.

India and Israel have registered phenomenal growth in bilateral trade starting from humble figures of USD 200 million in 1992 when diplomatic relations were established between the two countries and approaching the USD 4 billion mark in 2008, with still room for improvement.

http://www.financialexpress.com/news/gujarat-looks-to-tap-israeli-investors/675151/

Sectoral News

Farm sector grows by 2.8 pc in Apr-Jun

Agriculture and allied sectors grew by 2.8 per cent in the first quarter of 2010-11 fiscal, higher than 1.9 per cent in the same period last year.

In 2009-10 fiscal, the agriculture and allied sector had recorded the lowest growth in five years, at 0.2 per cent, due to widespread drought that affected almost half of the country. Foodgrain production had declined by 16 million tonnes to 218.2 million tonnes.

While compiling the farm GDP during the April-June quarter of this fiscal, the government has used the performance of agriculture and allied activities during the rabi season, which ended June 2010.

According to the official data, cereal production declined by 2.2 per cent to 104.07 million tonnes in the rabi season this year, against 106.45 million tonnes in the year-ago period.

Whereas pulses output showed an increase of 4.2 per cent to 10.29 million tonnes from 9.88 million tonnes in the review period.

Cotton production grew by 7.5 per cent to 23.93 million bales of 170 kg each, while sugarcane output declined by 2.6 per cent to 277 million tonnes from the year-ago period.

The government has set a target of 4 per cent agriculture growth per annum in the 11th Five-Year Plan (2007-12).

http://economictimes.indiatimes.com/news/economy/indicators/Farm-sector-grows-by-28-pc-in-Apr-Jun/articleshow/6468446.cms

Govt to review cotton export cap on Nov 15

The government said the ceiling of up to 55 lakh bales of cotton export effective October 1 will be revised in mid-November and shipments beyond that would attract export duty.

"For now, up to 55 lakh bales can be exported (in 2010-11 season). This decision will be subject to review, which will be held on November 15," Commerce Secretary Rahul Khullar told reporters here.
He said as per a conservative estimate the cotton production in 2010-11 is likely to be 325 lakh bales (of 170 kg each). However, the Ministry of Agriculture expects the yield to touch 335 lakh bales.

A more clear picture on the production, industry demand and prices would emerge by mid-November, Khullar said.

The Textiles Commissioner would start the mandatory registration of the export contracts from September 15.

While there would be no ban or requirement of licence for exports of 55 lakh bales at present, he said the subsequent shipments would attract duty.

"The moment you (exporters) hit the ceiling (fixed at 55 lakh bales from October 1) a prohibitive export duty will kick in," he said.

At present all cotton exports attract a duty of Rs 2,500 per tonne.

He said that the amount of prohibitive duty would be decided by the commerce and revenue departments.

The decision to allow unrestricted export was taken at a meeting of Commerce Secretary Khullar, Agriculture Secretary P K Basu and Textiles Secretary Rita Menon here on September 1.

The secretaries on November 15 would again meet to review the extent of cotton exports between October 1 and November 15, production and prices of the fibre in the international and domestic market.

"...on that basis we will have a revised view on what should be permitted for export and what the carry over stock should be," Khullar said.

Prices of cotton are currently ruling at about Rs 1 lakh per tonne, which according to Khullar is speculative.

The government estimates the domestic consumption of cotton at 266 lakh bales. The industry is also likely to import about seven lakh bales.

Cotton exports last year stood at 83 lakh bales against a production of 295 lakh bales.

In the wake of increased exports and rising prices, the Centre during April-May this year suspended the registration of new export contracts, besides restricting shipments under the licence regime.

Cotton prices had increased by about 35 per cent in the global market between October 2009 and May 2010.

http://economictimes.indiatimes.com/news/economy/policy/Govt-to-review-cotton-export-cap-on-Nov-15/articleshow/6491495.cms

India's telecom sector favourite among foreign investors

India attracted $891 million (Rs 4,023 crore) foreign direct investment in the telecommunications segment in the first two months of the current fiscal, the highest among all sectors.

The telecommunications sector, including radio paging, cellular mobile, basic telephone services, had attracted $612 million (Rs 3,055 crore) during April-May 2009-10.

It was followed by services sector that attracted $587 million investment, metallurgical industries ($461 million) and power ($313 million) in that order during the period.

The country managed to attract $4.42 billion foreign direct investment (FDI) during April-May 2010-11, while it was $4.43 billion in the year ago month, according to the latest official data.

The highest FDI of $1.29 billion came from Mauritius followed by Singapore ($854 million), Japan ($369 million) and the Netherlands ($298 million) in April-May 2010-11.

The government is making sustained efforts to make the FDI policy regime more attractive and investor friendly, with a view to attract investments from all major investing countries.

The government had floated discussion papers for public comments to liberalise FDI in multi-brand retail and defence sector.

The FDI for 2009-10 at $25.88 billion was lower by five per cent from $27.33 billion in the previous fiscal.

http://economictimes.indiatimes.com/news/economy/finance/Indias-telecom-sector-favourite-among-foreign-investors/articleshow/6473622.cms

Retail sector sees a bright future

In a recently concluded Power Breakfast meeting on Retail industry, in New Delhi, the “Ideas for Growth” were discussed by the top management of various Retail and Realty sector players.

The emphasis was on to various verticals like service, manpower, attrition rates, footfalls, brand building, human behavior etc. The mark of the morning was the sincere sharing of case studies and the seriousness towards growth of the industry.

The interesting fact discussed was the grading system of cities where everyone agreed that tier based system has flaws as the target audience for retail sector is spread across cities.

According to Manjula Tiwari, COO, Esprite, “The growth in food and apparel will not stop in retail sector, as the women are the main revenue generators and it will keep on going up.”This reflected at how much the new age Indian women is contributing to a booming sector.
However fears were raised as the booming tag has been carried long by this sector and it may be a booming industry even after 10 years. The issues were discussed at length regarding government policies, infrastructure, quality of human resource, scarcity of leadership in the industry etc

Shailja Dutt, MD, Stellar search concluded, “The future of retail industry is unquestionably bright as the organized retail will have 6-7% of consumers pocket as the basic demand is too high. The only worry for this sector is the talent which is concentrated on top and based on B-School tie-ups, the representation of the industry is completely wrong. Currently, this sector should learn from telecom industry.”

http://www.financialexpress.com/news/retail-sector-sees-a-bright-future/677935/

News Round-Up

India likely to quadruple industrial growth to 225 billion dollar by 2020: Som Mittal

National Association of Software and Services Companies (NASSCOM) President Som Mittal on Wednesday said that India is likely to quadruple its industrial growth to 225 billion dollar by 2020.

Delivering a keynote on 'India 2015: Leveraging It For Growth' here today, Mittal pointed out the recent economic growth in the country, especially with reference to the Information Technology sector.

"Our assessment is that if we get our acts right, then in 2020, we could be a 225 billion dollar industry, which is four times that what we are today. And, by the way, it would not be constrained by demand. It will be constrained by our own ability to deliver," said Mittal.

Mittal emphasised the fact that many IT firms are going also global, and opined that in a reverse process; India has become the second largest investor in the United Kingdom.

"India is becoming the R&D engineering hub. Parts of Boeing, satellites parts, parts of Airbus, and automotives are being designed here. Chip designing end-to-end is happening here. Even a company like SAP does three products which were designed, developed, conceived from India, supported from India and marketed from India," said Mittal.

The NASSCOM chief also pointed out that more than 2.3 million people were working in the Information Technology- Business Process Outsourcing (IT-BPO) sector.

"If you look at the IT-BPO sector. I think we had an opportunity, the world needed us, we had the resources available with us. And I think very young people made it happen. We have today, about 60 billion dollars of total IT exports that we do, which is 20-25 percent of country's exports," said Mittal.

http://economictimes.indiatimes.com/news/economy/indicators/India-likely-to-quadruple-industrial-growth-to-225-billion-dollar-by-2020-Som-Mittal/articleshow/6475593.cms

Tax incentives for business to be investment-linked

The Direct Taxes Code (DTC) Bill has proposed to substitute all profit-linked incentives with investment-linked incentives for businesses that enjoy tax sops under the existing law.

Apart from developers of Special Economic Zones (SEZs) and units operating out of them, the proposal will also affect companies in power, infrastructure, food processing, hotel and hospital sectors, among others.

DTC will substitute profit-linked incentives with investment-based incentives wherein capital expenditure incurred for specified businesses will be allowed as a deductible expenditure. However, certain profit-linked tax incentives under the Income Tax Act are grandfathered in the DTC. This means certain profit-linked deductions currently available will be protected for unexpired period in the code.

Setting up and operating a cold chain and warehousing facility for the storage of agricultural produce will qualify for investment-linked tax incentives. The benefit will be extended to exploration and production of mineral or natural gas.

The investment-linked incentives will also apply to businesses involved in generation, transmission or distribution of power; developing or operating and maintaining any infrastructure facility; operating and maintaining a hospital in a specified area; processing, preservation and packaging of fruits and vegetables; and laying and operating of a cross country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of the network.

Building and operating a new hotel of two-star plus category commencing operations on or after April 1, 2010 will get investment-based sops. A similar benefit will be given for building and operating a new hospital with at least 100 beds, and developing and building a housing project under slum redevelopment or rehabilitation scheme commencing operations on or after April 1, 2010. Deduction will be allowed on all capital expenditure, other than land, goodwill and financial instruments.

The government has found profit-linked incentives distortionary, inefficient and inequitable, thereby leading to increased administrative burden, revenue loss and litigation. Revenue secretary Sunil Mitra had said profit-linked deductions would be replaced by investment-linked deductions, with the provision for availing the unexpired portion of area-based and profit-linked deductions under the Income Tax Act.

http://www.businessstandard.com/india/news/tax-incentives-for-business-to-be-investment-linked/406572/