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News Feature

RBI's economic review for Q3 FY13: 10 key takeaways

Emphasising the need for sustained policy reforms from the government, Reserve Bank of India in its report 'Macroeconomic and Monetary Developments: Third Quarter Review 2012-13', said that monetary policy easing was possible only with fiscal consolidation and reforms provide support.

The bank raised concerns of a rising current account deficit and also acknowledged that inflation is still above its comfort level.

Here is a look at the highlights and takeaways from the central bank's report on the economy:

1) FY13 GDP growth likely to fall: Growth in 2012-13 may fall below the projection of 5.8%.

2) Growth slowdown continues: Growth remains below potential for the fifth successive quarter. Policy initiatives of the government are yet to show up fully or definitively in data. Revival may take some more time.

3) Inflation path may turn sticky: RBI has said that inflation may moderate below projection of 7.5%. However, 'suppressed inflation' will pose a significant risk to the inflation in 2013-14. Average WPI inflation is expected to moderate from 7.5% in 2012-13 to 7.0% in 2013-14.

Going forward, risks remain from suppressed inflation, pressure on food prices and high inflation expectations getting entrenched into the wage price spiral. The inflation path for 2013-14 could face downward rigidity

4) Agriculture outlook: Rabi crop is expected to be normal despite deficient rains, but is unlikely to fully compensate for kharif deficiency. Sowing under rabi crop has been broadly the same as the level in the previous year.

5) Industrial outlook: Weak industrial performance is likely to persist. Subdued external demand and lack of reliable power supply amidst coal shortages are constraining capacity utilisation. Lead indicators of service sector and the Reserve Bank's Service Sector Composite Indicator signal moderation.

6) Improvement in investment climate a prerequisite for economic recovery: Demand

conditions remained tepid, with private consumption continuing to decelerate and with investment yet to recover. Increased public investment to crowd in private investment along with removal of structural impediments that is slowing private investment is needed to pull the economy out of the current slowdown.

7) Fiscal deficit target looms: RBI feels that the quality of fiscal adjustment remains a concern, even as fiscal risks have reduced in 2012-13. Government is working towards achieving revised fiscal deficit target of 5.3% of GDP by restricting both plan and non-plan expenditure during the last quarter of the year, even as significant shortfall in tax revenue is likely.

8) Widening CAD a concern: Widening current account deficit has emerged as a major constraint in easing monetary policy, RBI acknowledged. The bank feels that the CAD/GDP ratio may exceed 4% of GDP for the second successive year in 2012-13.

9) Contraction in exports: The central bank has blamed weak external demand alongside with structural bottlenecks for contraction in exports. In addition, continuing large imports of oil and gold has resulted in deterioration in India's trade balance.

10) Market sentiment: RBI said that better global liquidity and policy reforms have aided FII inflows. This has led to a turnaround in equity markets and revival of the Initial Public Offering (IPO) market.

http://economictimes.indiatimes.com/news/economy/indicators/rbis-economic-review-for-q3-fy13-10-key-takeaways/articleshow/18222870.cms

Overseas Investment

Government approves 4 FDI proposals worth Rs 280 cr

The government said it has approved 4 foreign direct investment (FDI) proposals, including that of IT giant Wipro, totalling Rs 280 crore.

The proposal regarding WiproBSE -0.99% sought transfer of shares by way of swap consequent to a demerger of non-IT activities.

Besides, IvyCap Ventures Trust has been allowed NRI investment of Rs 200 crore through normal banking channels in compliance with

Foreign Exchange Management Act (FEMA) Regulations and the extant FDI Policy.

The Foreign Investment Promotion Board (FIPB) has also cleared the Rs 80 crore proposal of SpancoBSE 1.48 % Power Distribution Ltd to act as an investing company and make downstream investments in power distribution sector.

As per the statement issued by the Finance Ministry, the only other proposal cleared by FIPB is GPX India Pvt Ltd. It had sought permission to issue equity shares to the foreign collaborator against import of machinery equipment for setting up a domestic Other Service Provider Data Centre.

However, FIPB deferred the proposal of Yalamanchili Software Export Ltd for conversion of non-repatriable equity held by majority shareholder to repatriable equity and share swap of this holding to shares of a foreign company.

Last week, the nodal agency for approving FDI proposals had cleared Rs 10,000 crore investment proposal of Swedish furniture major IKEA to set up retail stores in the country with cafeterias.

The FIPB had earlier permitted IKEA to invest Rs 4,200 crore for opening single-brand retail stores.

http://economictimes.indiatimes.com/news/economy/policy/government-approves-4-fdi-proposals-worth-rs-280-cr/articleshow/18225389.cms

RBI hikes FII limit in govt securities, corp bond by $5 bn

The Reserve Bank hiked FII investment limits in government securities and corporate bonds by $ 5 billion each, taking the total cap in domestic debt to $ 75 billion, with a view to bridging the current account deficit.

Further liberalising the norms, the three-year lock-in period for foreign institutional investors (FIIs) purchasing government securities (G-Secs) for the first time has been done away with, RBI said.

The sub-limit of $ 10 billion for investment by FIIs and long-term investors in G-Secs stands enhanced by $ 5 billion, it said.

The limit in corporate debt, other than infrastructure sector, stands enhanced from $ 20 billion to $ 25 billion, RBI said.

With increase of $5 billion in each of the two

categories, FIIs and long-term investors can now invest $25 billion in G-Secs and $ 50 billion in corporate debt instruments, taking the total to $75 billion.

The earlier FII investment limit in G-Secs was $ 20 billion and for corporate debt it was $ 45 billion, including sub-limit of $ 25 billion for infra bonds.

RBI further said: "Residual maturity condition shall not be applicable for the entire sub-limit (in GSecs) of $15 billion but such investments will not be allowed in short-term paper like Treasury Bills, as hitherto".

The overall FII limit of domestic debt is distributed through a host of categories across government, corporate and infrastructure debt.

Long-term investors include sovereign wealth funds, multilateral agencies, pension funds and foreign central banks.

Government, which is battling a high current account deficit (CAD) -- the gap between inflows and outflows of foreign funds -- is trying to attract more foreign funds into the country.

The CAD touched a record high of 5.4 per cent in the July-September quarter of the current fiscal.

In order to check outflow of foreign currency, the government recently hiked import duty on gold and also took steps to encourage mutual funds park their gold in deposit schemes offered by banks.

As a measure of further relaxation, the RBI added that it has dispensed with the one year lock-in period on holding infrastructure bonds.

http://economictimes.indiatimes.com/news/economy/policy/rbi-hikes-fii-limit-in-govt-securities-corp-bond-by-5-bn/articleshow/18164549.cms

FIPB clears IKEA's Rs 10,000 crore investment proposal

The Foreign Investment Promotion Board (FIPB) has given its nod to Swedish home furnishings retailer IKEA's revised 10,500-crore investment proposal that will allow the company to set up retail stores along with its popular cafes in India and also sell more categories of products.

FIPB had cleared IKEA's proposal on November 21 last year but disallowed it from selling many items such as home and office-use products, textiles, apparel and fabric, and also said the company could not set up cafes in the stores.

The company, which is keen to replicate its global format stores in India, approached the Department of Industrial Policy and Promotion (DIPP) requesting a review of the FIPB decision.

"The company's proposal has been cleared," said a government official adding that company can sell 18 product categories compared to 15 categories approved earlier. The company wanted to retail 29 product categories but those contained many duplications that FIPB has removed.

The proposal will now go to Cabinet Committee on Economic Affairs for final endorsement as the board can clear investments of up to 1,200 crore only.

http://economictimes.indiatimes.com/news/economy/policy/fipb-clears-ikeas-rs-10000-crore-investment-proposal/articleshow/18119150.cms

Private investors to pour in $1.1 trillion in emerging markets this year

Fuelled by strong growth prospects and easy liquidity conditions, private sector investors are expected to pump in a whopping $1.11 trillion into emerging markets including India in 2013, says a report.

According to the report by Institute of International Finance (IIF), international lobbying group for financial firms, private capital flows to emerging economies would rise to USD 1.11 trillion in 2013, a 3.5 per cent growth from an estimated USD 1.10 trillion last year.

It said the flows are expected to rise further to USD 1.15 trillion next year.

"The macroeconomic backdrop remains unusually favourable for private capital flows to emerging economies," the report said.

"...very easy monetary policy in mature economies and the prospect of poor returns is "pushing" money out of those markets...higher growth in emerging economies, combined with higher interest rates is "pulling" funds in," it added.

The report said private capital flows to emerging Asia including India, China and Indonesia should remain close to their 2011 high of USD 547 billion.

The share of emerging Asia in total private capital flows should average 46 per cent in 2013 and 2014, just short of the 50 per cent in the previous two years.

"FDI inflows to India will be lifted by the

opening up of previously closed sectors and the withdrawal of controversial tax plans, although infrastructural deficiencies and administrative hurdles will remain dampening factors," the report said.

"The improvement in global sentiment from the third quarter of last year is reflected in revived foreign interest in the region's stock markets. In India, the resumption of the reform program is on course to lift foreign purchases of domestic stocks to USD 21 billion in the fiscal year ending March 2013, from USD 7.6 billion in 2011-12," IIF noted.

After investing a staggering USD 24 billion in Indian equities in 2012, foreign investors have infused USD 2.8 billion so far this year.

The report noted that there had been a strong revival in flows into the emerging economies since mid-2012, even though overall investment dipped slightly last to USD 1.10 trillion last year, from the 2011 level of $1.08 trillion.

http://economictimes.indiatimes.com/news/economy/indicators/private-investors-to-pour-in-1-1-trillion-in-emerging-markets-this-year/articleshow/18148547.cms

Trade News

India, Lanka to hold more talks to strengthen economic ties

Given the vast untapped potential between India and Sri Lanka, the two countries have stressed on intensive consultations for a more comprehensive framework for economic co-operation and building a special economic partnership, External Affairs Minister Salman Khurshid said.

“We are working on setting up a special economic zone in Trincomalee, a pharmaceutical and a textiles cluster elsewhere in Sri Lanka. I have conveyed India’s readiness to support Sri Lanka’s endeavour in capacity building in science and technology, agriculture, ICT, education and health sector. We agreed to enhance cooperation in the energy sector,” he said after the conclusion of the 8th ound of India-Sri Lanka Joint Commission meeting (JCM).

A joint statement issued said the two sides agreed to encourage closer economic and trade linkages with a view to doubling bilateral trade to $10 billion in the next three years. It was also agreed to initiate a dialogue between the Commerce Secretary of India and the Secretary of the Ministry of Finance and Economic Development of Sri Lanka at an early date to evolve a framework for a special economic partnership.

http://www.thehindubusinessline.com/industry-and-economy/economy/india-lanka-to-hold-more-talks-to-strengthen-economic-ties/article4332001.ece

Indo-US ties making world more secure: Hillary

Greeting people of India on the occasion of its Republic Day, US Secretary of State Hillary Clinton has said that her three trips to the country as the top American diplomat reinforced her “unyielding belief” that the Indo-US strategic partnership is making the world “more united, prosperous and secure’’.

“The United States and India share an unwavering commitment to democratic government. Our shared values are the foundation for the innovative, entrepreneurial drive that is allowing more and more of our 1.5 billion people to realise their potential,” Clinton said in a statement, possibly her last India-specific before she leaves the State Department early next month.

She said her three trips to India as Secretary of State “reinforced my unyielding belief that the US-India strategic partnership is making the world more united, prosperous and secure’’.

Together, the two countries are strengthening their ties and working to address some of the “most difficult global challenges’’, Clinton said.

“On behalf of President Obama and the people of the United States, I am delighted to send my best wishes to the people and Government of India as you celebrate your 64th Republic Day this January 26th,” she said.

“As you celebrate this special day, know that the United States stands with you. Best wishes for a year filled with peace and prosperity,” Clinton said.

http://www.thehindubusinessline.com/industry-and-economy/economy/indous-ties-making-world-more-secure-hillary/article4343784.ece

Sectoral News

Indian packaging industry likely to touch $44 bn by 2016

The sales turnover of Indian packaging industry is likely to touch USD 43.7 billion by 2016, according to Indian Institute of Packaging (IIP).

"The total turnover of the packaging industry in India at present is USD 27.6 billion and expected to grow to around USD 43.7 billion by 2016, whereas the global turnover is about USD 550 billion", said the Indian Institute of Packaging (IIP) Chairman S K Ray.

He said the packaging industry was growing at 12 per cent per annum in India as against the global growth rate of 5 per cent.

There are roughly 22,000 packaging companies in the country--from raw material manufacturers to machinery suppliers to ancillary material and nearly 85 percent of them are MSMEs, Ray said.

"India's per capita consumption of packaging is only 4.3 kg per person per annum, as against Germany's 42 kg and China's 20 kg, which is very low compared to global standards. Initiatives are needed to convert the large unpacked commodities into processed and packed and well-presented commodities. There is a scope for innovation, entrepreneurship as well as logistical advancements," IIP Director N C Saha said.

The Indian Institute of Packaging set up in May 1966 by the Indian packaging and allied industry and Ministry of Commerce is organising 5th edition of the 'Indiapack 2013' exhibition in Mumbai between January 28-31.

It is expected to provide a unique platform for the packaging and allied industries to showcase the development of newer packaging materials.

http://www.financialexpress.com/news/indian-packaging-industry-likely-to-touch-44-bn-by-2016/1063182

Global mobile advertising revenue to hit $11.4 bln in 2013

The mobile advertising revenue worldwide is expected to jump 19 per cent year-over-year to $11.4 billion in 2013, according to technology research and advisory firm Gartner.

The firm projected that revenue is projected to

reach 24.5 billion dollars in 2016, with mobile advertising revenue creating new opportunities for app developers, ad networks, mobile platform providers, specialty agencies and even communications service providers in certain regions.

According to Enterprise Innovation, Stephanie Baghdassarian, research director at Gartner, said the mobile advertising market took off even faster than they expected due to an increased uptake in smartphones and tablets, as well as the merger of consumer behaviors on computers and mobile devices.

Baghdassarian said growth in mobile advertising comes in part at the expense of print formats, especially local newspapers, which currently face much lower ad yields as a result of mobile publishing initiatives, the report added.

Gartner believes that mobile advertising will become progressively easier to segment and target, driving the growth of spending for brands and advertisers.

The firm recommended that mobile advertising should be integrated into advertisers' overall marketing campaigns in order to connect with their audience in specific, actionable ways.

Gartner believes that mobile display ad spending will grow and take over from mobile search.

He said it will initially remain divided between in-app and mobile web (in-browser) placements — reflecting consumer usage — although after several years of in-app dominance, Web display spending will take over in-app display from 2015, the report added.

http://www.financialexpress.com/news/global-mobile-advertising-revenue-to-hit-11.4-bln-in-2013/1063124

India 4th largest in steel output, logs highest growth in 2012

India's rank in the world order of steel production remained unchanged at fourth slot with an output of 76.7 million tonnes, despite logging the highest growth of 4.2 per cent among major producing nations in 2012.

There was no change in the top three steel producing nations with China, Japan and the US retaining their slots in the respective order in 2012, World Steel Association (WSA) data revealed.

India was world's fourth largest steel maker in 2011 and 2010 as well with a total production of 73.6 MT steel and 69 MT respectively. It had clinched the third spot in 2009, but the US grabbed the slot since 2010.

India's growth in steel output was, however, the highest at 4.3 per cent in 2012 among top five major steel producing nations.

Meanwhile, WSA said,"World crude steel production reached 1,548 MT for the year 2012, up by 1.2 per cent compared to 2011. This is a record for global crude steel production."

"The growth came mainly from Asia and North America while crude steel production in the EU and South America decreased in 2012 compared to 2011," it added.

Recording a 2.6 per cent increase, Asia produced 1,012.7 MT steel, hiking its share of world steel production slightly from 64.5 per cent in 2011 to 65.4 per cent in 2012. Country-wise, China produced 716.5 MT, an increase of 3.1 per cent over 2011, and thereby increased its share of world steel output to 46.3 per cent in 2012 from 45.4 per cent in 2011. Japan produced 107.2 MT and South Korea 69.3 MT in 2012.

"In 2012, crude steel production in North America was 121.9 MT, an increase of 2.5 per cent on 2011. The US produced 88.6 MT of crude steel, 2.5 per cent higher than 2011," WSA said.

Production in European Union recorded a 4.7 per cent dip to 169.4 MT. Germany produced 42.7 MT, Italy produced 27.2 MT and France produced 15.6 MT among others. Output in the CIS also declined by 1.2 per cent to 111.3 MT. Russia produced 68.9 MT.

Annual crude steel production for South America was 46.9 MT in 2012, a decrease of three percent. Brazil produced 34.7 MT, a decline of 1.5 per cent compared to 2011.

"The average capacity utilisation ratio in 2012 was 78.8 per cent compared to 80.7 per cent in 2011," WSA said.

http://www.financialexpress.com/news/india-4th-largest-in-steel-output-logs-highest-growth-in-2012/1063757/0

IT sector to see better growth, create more jobs in 2013: Kris

Enthused by the improving global economic scenario and a renewed wave of reforms back in India, IT major Infosys says it is bullish over better growth prospects for the IT sector in 2013 and expects greater job creation this year.

“I believe 2013 to be better than 2012 for the IT sector as globally lots of uncertainties have

been removed, US elections are over, Europe is not going to split and people believe that it is going to stay together," Infosys Co-founder and Executive Co-Chairman S. Gopalakrishnan told PTI here.

Kris, as he is known, is here for the Annual Meeting of the World Economic Forum along with the top executives of a host of other Indian IT firms such as TCS, Wipro, HCL and Mahindra Satyam-Tech Mahindra.

"When I say 2013 is going to be better, this means that growth opportunities for the Indian IT industry is going to be better and that is what I expect," he said.

"That also means that more jobs will be created by the industry. 25 lakh people are currently employed by the IT industry and even if you look at 10 per cent growth, then you are looking at 2-2.5 lakh additional people being hired by the industry and that is very good.

Kris said a clearer picture would emerge after Infosys and other IT firms announce their full fiscal results for 2012-13.

About the broader economic scenario, Kris said, "Reforms that have happened in the last few months have improved the sentiments, increased the confidence, and I expect the growth to reach 7 per cent or more in 2013.

"This is a right signal to the investment community saying that we continue to emphasise on economic growth and on attracting investment and continue to focus on making sure that jobs are created with economic growth.

"It's actually a very positive thing and the reaction that I am getting from the foreign investment community and the business leaders here is that they want this to be continued and sustained and I am hoping that we will see more announcements and more initiatives from the Government and that will help us achieve a seven per cent growth and even more," he said.

S. Gopalakrishnan, along with N. R. Narayana Murthy and five others, founded Infosys in 1981.

He has served as Director (Technical) and his initial responsibilities included the management of design, development, implementation, and support of information systems for clients in the consumer products industry in the US.

http://www.thehindubusinessline.com/industry-and-economy/info-tech/it-sector-to-see-better-growth-create-more-jobs-in-2013-kris/article4343942.ece

News Round-Up

IMF says India to grow at 5.9% in 2013

The International Monetary Fund (IMF) pegged India's economic growth rate in 2013 at 5.9 per cent and projected a higher growth of 6.4 per cent next year in line with the gradual strengthening of global expansion.

IMF in its update to the World Economic Outlook (WEO) also said the global growth is expected to reach 3.5 per cent this year, higher than the estimated 3.2 per cent.

For China, the IMF report has projected a growth rate of 7.8 per cent in 2012, 8.2 per cent in 2013 and 8.5 per cent in 2014.

In 2011, China had achieved a growth rate of 9.3 per cent while India grew by 7.9 per cent in the same year.

"Growth in emerging market and developing economies is on track to build to 5.5 per cent in 2013. Nevertheless, growth is not projected to rebound to the high rates recorded in 2010-11.

"Supportive policies have underpinned much of the recent acceleration in activity in many economies," the IMF said.

"But weakness in advanced economies will weigh on external demand, as well as on the terms of trade of commodity exporters, given the assumption of lower commodity prices in 2013 in this Update," it said.

IMF said the space for further policy easing has diminished, while supply bottlenecks and policy uncertainty have hampered growth in some economies for example, Brazil and India.

Observing that economic conditions improved modestly in the third quarter of 2012, with global growth increasing to about three per cent, the IMF report said the main sources of acceleration were emerging market economies, where activity picked up broadly as expected, and the United States, where growth surprised on the upside.

http://economictimes.indiatimes.com/news/economy/indicators/imf-says-india-to-grow-at-5-9-in-2013/articleshow/18152908.cms

Indian CEOs most optimistic in world: PWC survey

CEOs of Indian companies have emerged as the most optimistic lot in the world when it comes to expectations for improvement in global economy this year and revenue prospects of their own businesses in the longer term.

The high confidence levels of Indian CEOs is in sharp contrast to the declining confidence level of CEOs across the world in their own businesses as well as for the broader economic scenario, an annual global CEO survey conducted by consultancy giant PwC and released here last night on the sidelines of the World Economic Forum (WEF) Annual meeting showed.

The CEO confidence level is very high in India also in terms of hiring people for their companies, while the percentage of CEOs having overseen job cuts in their companies during the past year is the lowest in India, the survey said.

Announcing the results of its 16th annual CEO survey, which is released every year in this Swiss ski resort town during the WEF summit, PwC said that the CEOs are also getting about finding the right talent for their businesses, lack of stability in stock markets, the government response to fiscal deficit, as also growing regulatory and tax burden.

Globally, 36 per cent of CEOs said they are 'very confident' of their company's growth prospects in 2013. This is down from 40 per cent last year and 48 per cent in 2011.

About the overall economic scenario, 28 per cent CEOs expect further downtrend in the global economy this year, while only 18 per cent expected an improvement and more than 50 per cent expected it to remain same. However, the confidence level has improved on this front, as 48 per cent of CEOs expected a decline in global economy last year.

The survey results are quite different for India, where 90 per cent CEOs said they are 'somewhat or very confident' of their own company's revenue growth in the next 12 months.

Out of this, a massive 63 per cent said they are very confident, making them the second-most optimistic lot on this front after Russian CEOs (66 per cent). The confidence level of CEOs in India as well as Russia has gone higher on this front, from 55 per cent and 48 per cent respectively.

In the longer term, 97 per cent of Indian CEOs were found to be 'somewhat or very confident' of revenue growth over the next three years, out of which 85 per cent said they are very confident -- making them the most optimistic in the world.

About global economy, 38 per cent of Indian CEOs anticipate improvement in the global economy in 2013, which make them the most optimistic across the world.

http://www.financialexpress.com/news/indian-ceos-most-optimistic-in-world-pwc-survey/1063543/0

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