

Weekly Economic Bulletin

Date: June 02-08, 2009

Issue No. 319

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News Feature

Economy to grow by at least 6.7 pc in FY'10: Montek

With economic conditions turning better compared to that three months ago, the Planning Commission said economy should record at least 6.7 per cent growth rate this fiscal, the same as was witnessed in 2008-09.

"What I can say is we should at least be aiming at the same growth as achieved last year and I think we could do a little better," Planning Commission Deputy Chairman Montek Singh Ahluwalia told. Last week he was reappointed as deputy chief of the Planning Commission.

Many people say 7 per cent growth is not impossible this fiscal and some believes it could be better, he said.

Lots of it depends on how global economy behaves in the second half of this fiscal. Everybody expects that sharp downturn is coming to an end, but people are not sure how good a rebound we are going to see in the world economy, he said.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4631878>

Core sectors' best show in 10 months

April is no longer the cruellest month. In the very first month of the current fiscal, six core industries together clocked the fastest growth rate in 10 months, emboldening the prime minister's key economic advisor to hint at the possibility of an upward revision of the growth forecast for the year.

Power, crude oil, refinery products, coal, cement and finished steel grew 4.3% year-on-year, recovering from the low of 1.1% in December 2008, according to a release by the ministry of commerce and industry.

The April figures have raised hopes of a brighter industrial output, as these six industries have a combined weightage of 26.7% in the Index of Industrial Production (IIP).

"The growth in core sectors is on expected lines. Upside risk for economic growth projections made by EAC is emerging with a stable government coming to power, and the business confidence slowly returning," said Suresh Tendulkar, chairman of the Economic Advisory Council (EAC) to the prime minister.

EAC had earlier projected a growth rate of 7% — plus or minus 0.5% — for 2009-10. April's figures are the highest since last July, when the global financial meltdown pushed the Indian economy into rough waters. Consequently, the growth rate had dipped to 2.7% for the last fiscal against 5.9% for 2007-08.

Coal, followed by cement, clocked the highest growth, and the annual growth rate in steel production moved into positive territory after a month-long gap.

Economists forecast that the revival in cement and steel production will pick up further post-April on the back of boosted public spending. Data on cement despatch for May from major manufacturers, including Ambuja Cement, Grasim Industries and its subsidiary UltraTech Cement, showed robust growth. However, the regular lull in construction activity during monsoon is likely to dampen this momentum thereafter.

Economists expect private investment activity to pick up further, with business confidence making a comeback.

<http://economictimes.indiatimes.com/Indicators/Core-sectors-best-show-in-10-months/articleshow/4610655.cms>

Overseas News

Forex reserves up \$1.67 bn

After rising over \$6 billion for the week ended May 22, country's foreign exchange reserves rose by \$1.67 billion to \$262.3 billion, for the week ended May 29.

Even though dollar inflow has continued as FIIS have kept their investment momentum in stock market, the forex rise has not happened to that extent during the week as there has been suspected intervention by the Reserve Bank of India (RBI) in the forex market, in a bid to prevent rupee from appreciating sharply. The rupee after surging past 47 has hovered around over 47 during the week.

The weekly statistical supplement released by the RBI showed that foreign-currency assets increased \$1.29 billion to \$251.5 billion, while the country's gold reserves increased \$373 million to \$9.6 billion.

India's special drawing rights with the International Monetary Fund were unchanged at \$1 million, while its reserves with the IMF rose \$3 million to \$1.25 billion.

<http://www.financialexpress.com/news/forex-reserves-up-1.67-bn/472122/>

Damas' single brand retail among 23 FDI plans cleared

Damas LLC's plans to establish a joint venture company with Gitanjali Lifestyle Ltd for retail trading of jewellery and related accessories is among 23 FDI (foreign direct investment) proposals worth Rs 564 crore cleared by the Government. The joint venture where Damas would hold 51 per cent stake entails an FDI inflow of Rs 180 crore.

According to an official release, other proposals which have been cleared by the Government based on the recommendations of the Foreign Investment Promotion Board include an application by Lazard India, Mauritius. "Lazard India Growth Fund (LIGF) is being set up as a contributory trust. LIGF will be settled by Lazard India Advisors (LIAPL) and would be marketed to institutional investors including Indian public sector banks and

will target to raise Rs 500 crore,” sources said, adding that the proposal involved an FDI inflow of Rs 125 crore representing the contribution of Lazard India Mauritius.

Other proposals cleared include FIM Bank, Malta (Rs 25 crore FDI), Era Infra Engineering (Rs 35.1 crore) and HP India Holdings, Mauritius (Rs 125 crore).

Besides, Financial Times’ (India) application “to induct foreign equity by up to 100 per cent by way of transfer of existing equity shares from resident Indian shareholders ” also got FIPB’s green signal. Sources said that FT Singapore plans to make investment up to 100 per cent in the issued and paid-up capital of Financial Times India.

<http://www.blonnet.com/2009/06/08/stories/2009060851250200.htm>

Tax holidays likely for FDI in food processing

In a bid to attract foreign direct investment (FDI) into food processing sector, the government is working out a strategy for giving tax holidays to foreign investors for the next five years.

According to Subodh Kant Sahai, Union minister for food processing, the focus would be to ensure that the average annual growth of 13.5% in the sector at present will be doubled over the next few years.

“We are emboldened by the rising paying capacity of the middle class and we are now concentrating on how to reach to the farmers through demand-driven, market-oriented policies to build the economic sustainability of our farmers,” Sahai said after meeting industry leaders in the food processing sector.

He said the proposed policy would seek to ensure that the food-processing sector receives fiscal benefits on the lines of sectors such as telecom and information technology.

Industry representatives also informed Sahai that the government needs to taken immediate steps towards dealing with the issues such as increasing the processing levels, decreasing wastages, inadequate cold chain infrastructure, regulatory constraints, fiscal incentives, and cross departmental issues concerning the APMC Act and modern retail.

“We are now working on a scheme to train the farmers so that they become entrepreneurs by adopting scientific practices and technical know-how,” Sahai said at the meeting organised by Ficci. He also urged industry to support government in raising technical standards, research & development efforts.

<http://www.financialexpress.com/news/tax-holidays-likely-for-fdi-in-food-processing/472128/>

Trade News

EU keen on joint nuclear research

The European Union is keen to initiate a joint nuclear research programme that would enable India not only partner in developing a technology but also facilitate easier transfer of technology. Negotiations are expected to start next month on safeguards and environmental issues.

Ms Danièle Smadja, Head of the Delegation of the European Commission to India, said that the Commission has received a mandate from its member-states to hold the talks. The mandate for joint research was for related, not core, nuclear technology. The latter would be bilateral, such as the one concluded between France and India recently, she clarified.

Talking to media persons after a daylong workshop, Ms Smadja said any agreement on nuclear research would be limited to government agencies for now. It would be easier to interact with India as the Indo-US civil nuclear deal has tackled the waiver issue.

On the proposed Free Trade Agreement, Ms Smadja said the EU would be more than happy to accommodate India's interest. At the same time it would also want more flexibility from India, keeping in mind each other's mutual interests. Both sides had agreed to cover 90 per cent of their trade under a FTA to start with, even exchanging lists of products for free or controlled entry.

Already six rounds of negotiations have been held, since the talks began in 2007. But the two sides are yet to arrive at a consensus that will eventually eliminate duties on the goods traded.

<http://www.blonnet.com/2009/06/07/stories/2009060750160400.htm>

India-LatAm biz ties to get a fillip

To further strengthen ties with the Latin American countries, a series of meetings have been organised in those countries starting with Trinidad and Tobago.

The India-LatAm Conclave will take place on July 2 where a high-level business delegation under the aegis of CII will be there with representatives from all sectors including agriculture, IT, Chemicals and others.

According to senior government officials, "A CII delegation will visit Trinidad and Tobago, Uruguay and Argentina from June 26– July 3. The delegation will visit the Port of Spain from June 26-27 and reach Montevideo on 29 June, Cordoba on July 1 and Buenos Aires July 2-3."

This is the fourth conclave in Lat America, where delegates from other regions as well as various sectors will be participating, officials said. India's trade with Latin America in 2008 was \$16 billion, of which exports were \$7.5 billion and imports \$8.5 billion. The trade has

increased by 45% from 2007 when the trade was \$11 billion. India's exports have increased by 40% from \$5 billion in 2007.

Increase in imports in 2008 was 33% from \$ 6 billion in 2007. Brazil was the top destination of India's exports, followed by Mexico, Peru, Chile, Colombia and Argentina. In the export with Brazil almost s to Brazil, 40% were diesel, oil exported by Reliance.

A major portion of India's imports in 2008 was crude oil imported by Reliance from Venezuela, Mexico, Brazil and Ecuador. Soy oil is sourced mostly from Argentina while most of copper comes from Chile.

The number one item of India's exports to Latin America is Chemicals including bulk drugs. The other major items are engineering products such as auto parts, two wheelers, and equipments and machinery, textiles, pharmaceuticals, The major items of imports are crude oil, copper, soy oil, minerals, precious and semi precious stones, agro products, leather, wool, metal scrap, wood.

"We are good investors in Lat America. Country's investment there is to the tune of \$9 billion. Also, we have contributed in the Human resource development there by first training and then employing almost 8,000 Latin Americans in IT," said an official.

Indian IT companies have established software development centers, BPOs and KPOs in Latin America employing 8000 locals.

<http://www.financialexpress.com/news/indialatam-biz-ties-to-get-a-fillip/469725/>

Post-PTA, India-Mercosur trade to touch \$10 bn

With Preferential Trade Agreement (PTA) with the Mercosur group coming into effect from June 1, the combined trade between India and the South American bloc is expected to more than double to \$10 billion in the next five years.

"This development will open up new trade and business opportunities for the nations at a time when adverse fallout of the international financial turmoil has engulfed the world," said G V Pappalardo, ambassador of Paraguay, one of the Mercosur members.

The South American Common Market, more commonly known as Mercosur, is the largest integrated market after the European Union (EU) and North American Free Trade Agreement (Nafta). This treaty is, significantly, the bloc's first outside the region.

At present, the goods' flow between the parties stood at \$3.9 billion for the nine months ended December 2008. Unlike a free trade agreement (FTA), PTA only reduces the tariff of agreed list of items to a lower rate on majority of tariff lines. Typically in an FTA, duty rates on more than 80 per cent of tariff lines are completely eliminated over a period of time.

“The PTA will allow a more favourable setting for the exchange of goods between partners by lowering tariff rates,” said Ficci Secretary-General Amit Mitra. India and Mercosur have agreed to reduce duty by 10 to 100 per cent in 450 products that are traded.

The economic bloc comprises Brazil, Argentina, Uruguay and Paraguay. Among the member nations, India has the highest volume of trade with Brazil. However, with possible inclusion of Venezuela, a leading oil seller, in Mercosur, the trade volume is expected to increase substantially, experts said. Venezuela is currently a special member of Mercosur.

India’s major trade items to Mercosur include drugs, pharmaceuticals and fine chemicals and major imports from the South American trade block comprise edible oils (primarily soya bean), metal scrap and non-electrical machinery. This, according to Mitra, offers a huge playing field beneficial to both parties.

<http://www.business-standard.com/india/news/post-pta-india-mercosur-trade-to-touch-10-bn/360072/>

Use recession to boost Indo-China biz: Ficci

The Federation of Indian Chambers of Commerce and Industry (Ficci) opines that the present recession is one of the most opportune periods to strengthen trading relations with China as the conventional developed markets are drying up.

“The time is ripe to take advantage of the window of opportunity offered by the growth trajectory in India and China at a time when the economies of the western world and other nations are shrinking,” said K K Modi, former president, Ficci and chairman, India-China Joint Business Council and Modi Enterprises.

Modi is leading a Ficci business delegation to Hong Kong, Macau and Zhuhai with an aim to hunt for trading opportunities, especially in the sectors of finance, tourism, entertainment, gems & jewellery and manufacturing.

Considering the increasing significance of India-China relationship, especially in the wake of current global uncertainties, there is an urgent need to develop greater financial and manufacturing synergies between the two emerging economic powers of the world, Modi said.

The delegation will also seek mechanisms to increase the collaboration among the two countries and explore synergies in trade and investment between India and China. Both powers miss great opportunities of catering to each others’ markets because of language barriers and the political history of mistrust between the two nations, he added. He said that opening channels of communications would facilitate mutual understanding and increase benefits for the two nations.

<http://www.financialexpress.com/news/use-recession-to-boost-indochina-biz-ficci/472753/>

Sectoral News

Car exports on uphill drive with 42 pc jump in May

Exports of passenger cars from the country soared 41.64 per cent in May, mainly on the back of robust performance by Maruti Suzuki, although domestic sales increased by a meager 2.48 per cent.

According to the data by the Society of India Automobile Manufacturers (SIAM), passenger car exports from the country stood at 29,619 units in May this year as against 20,911 units during the corresponding month of 2008.

The export growth was largely driven by the country's largest carmaker Maruti Suzuki India as its sales grew 90.69 per cent to 9,012 units in the month compared with 4,726 units during the year-ago period, SIAM said.

The country's largest-exporter Hyundai Motor India reported a jump of 27.77 per cent in exports during May at 20,125 units compared with 15,751 units in the same month last year.

Homegrown auto major Tata Motors, however, witnessed a dip of 25.35 per cent in its overseas sales of passenger cars at 324 units as against 434 units in the year-ago period.

SIAM said exports of the total passenger vehicles, including utility cars, grew by 39.22 per cent in May at 29,763 as against 21,378 units in the same month last year.

Domestic passenger car sales increased by 2.48 per cent to 1,13,490 units in May from 1,10,745 units in the same month last year, it added

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4631046>

India will get next 400 million mobile users five times faster

It took 15 years for India to get 400 million mobile users, but under three years it will add the next 400 million.

According to the revised estimates by the Cellular Operators Association of India, the mobile subscriber base is expected to zoom to 893 million by 2012. That is 150 million more subscribers than what was projected earlier. The COAI's earlier estimates had put the mobile user base at 743 million by 2012.

The reason for the new optimism is derived from the huge uptake of mobile services in rural areas.

Explains Mr T. V. Ramachandran, Director-General, COAI: "We have revised the projections because the rate at which infrastructure is growing is faster than what we had expected. Operators are moving into the hinterland and uncovered areas. Secondly, we are getting almost 50 per cent of our new additions from the rural areas. The third factor is

that the level of competition has increased with new players in the sector which again leads to faster deployment of networks.”

According to Mr Atul Bindal, President, Mobility, Bharti Airtel, three out of five new subscribers are now coming from non-urban areas. “Indian growth story is here to stay. I will push back against any view that says to the contrary. There is still a huge untapped market in both rural and urban areas,” says Mr Bindal, who expects Airtel to get its next 100 million users in another two-three years.

India, with 400 million mobile users, is now the second largest market in the world after China, which has over 650 million subscribers. According to COAI’s projection, there will be 1.24 billion mobile users in 2015 - which means one phone for every Indian.

<http://www.thehindubusinessline.com/2009/06/04/stories/2009060451750100.htm>

Carpet industry eyes 10% growth

The carpet industry hopes to post 8-10% growth this fiscal year on the back of strong domestic demand and cheaper products stimulating demand in new export markets.

"The industry has started looking at unconventional markets, such as Russia, Latin America, South Africa and the Gulf region. The council is hoping to surpass last year's export figure of \$600 million by entering new geographies," Ashok Jain, chairman of the Carpet Export Promotion Council (CEPC), told.

He said carpet shipments may rebound this September in response to new business strategies being planned by exporters, which include introduction of more affordable product ranges. The domestic carpet industry grosses around Rs 5,000 crore annually and employs over three million workers. The industry saw a 30% fall in exports last fiscal year due to falling demand due to the economic recession.

However, the Indian market has been relatively less affected, said Manish Malani, president and CEO of Birla TransAsia Carpet. "There should be a significant growth in demand from hospitality, office and transport sectors," he added.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4610666>

Cement sector hopes to keep despatch momentum going

Having clocked the highest growth in dispatches in five years, during April, the cement industry is hoping to sustain the growth momentum in the months ahead. The optimism stems from the fact that the growth in dispatches during the last few months was on account of a higher demand from the eastern states of Bihar, Jharkhand and Orissa, and eastern Uttar Pradesh.

In addition to this, the demand emanated from the tier II and tier III cities and rural areas, industry analysts said. The other source of demand was infrastructure projects that took off before the Lok Sabha elections.

With the government making its intent to restart highway construction and signs of higher demand from the real estate sector, the cement manufacturers expect demand to come from across the country. According to government estimates, infrastructure projects worth nearly Rs 46,000 crore, many of which were held up due to the elections, are expected to be awarded in the coming months.

“This year, 8 per cent growth rate in cement sector is guaranteed. The new government’s focus on infrastructure will boost demand for cement,” said Ambuja Cements managing director Amrit Lal Kapur.

“Now there is clarity and we foresee a good demand for cement. Demand from rural areas and infrastructure projects will continue. Situation in urban region is also likely to sustain,” said a cement analyst at a domestic brokerage firm.

During 2008-09, dispatches had risen 7.94 to 181.01 million tonnes, while production was 7.79 per cent higher at 181.42 million tonnes.

Since November, dispatches have consistently grown by over 8 per cent.

In April, the 218-million-tonne industry witnessed a growth of over 13 per cent. And, in May, according to the numbers available with the top manufacturers, the growth momentum has continued.

<http://www.business-standard.com/india/news/cement-sector-hopes-to-keep-despatch-momentum-going/360025/>

News Round – Up

Industry on road to recovery; output nearing last year’s high

Green shoots of recovery have started to sprout on the landscape of India’s industrial output.

It is now comfortably above the October 2008 low; though still marginally below the peak recorded in March 2008. The Index of Industrial Production (IIP), the official gauge for industrial output, is now nearly 14 per cent above its low point and just a whisker (2 per cent) away from last year’s record reading.

Among individual sectors, cement, power and consumer durables may be the first to get back to growth, as their output has either already matched last year’s highs or is just 5 per cent short of it.

In contrast, sectors such as utility vehicles, commercial vehicles and two-wheelers have a long way to go before they reclaim their earlier highs in output. But even they have rebounded substantially from their lows.

Divergent trends

Sectors differed widely in the severity of the slump and the time they took to recover, an analysis of the IIP and monthly sales/production numbers for key sectors shows. IIP data show that basic goods such as cement, coal and capital goods were among the earliest to recover, bottoming out in July/August 2008.

Cement production for March and April 2009, for instance, had already surpassed the highs made last year. The basic goods index is also hovering above last year's peak.

But monthly sales numbers show that the automobile sector, be it passenger cars, two-wheelers, commercial vehicles or utility vehicles, reached its lowest point in December 2008, and has since delivered sequential growth. The April sales for utility vehicles had more than doubled from December levels.

Consumer goods have followed an entirely different trajectory, showing signs of slowdown only towards the end of 2008, but recovering lost ground in recent months.

In terms of the severity of the slowdown, commercial vehicles, utility vehicles and capital goods were worst hit. Medium and heavy CVs saw their sales plunge to 20 per cent of their peak levels by December and are even now at just a third of their peak output.

The capital goods index contracted by 32 per cent, but has managed to climb back nearly to its peak level in 2009. In contrast, sectors such as refineries, power and steel were relatively unscathed by the slowdown, with output contracting by 5-15 per cent at the bottom of the cycle.

<http://www.blonnet.com/2009/06/08/stories/2009060851520100.htm>

Indian economy better placed than China's, says Roach

Stephen S Roach, chairman of Morgan Stanley Asia, expressed his optimism on the prospects for the Indian economy over that of China, saying that India has made a lot of improvement in recent years on the macro developments, especially with an increase in foreign direct investments, higher savings and improvement in infrastructure in the share of India in GDP.

"These improvements reinforce the long-standing accomplishments of India on the micro front—large collection of world-class competitive companies, well educated IT competent workforce, extraordinary entrepreneurs and innovators, well developed capital market, solid financial institutions, rule of law and democracy," said Roach, adding that what has been missing in this interplay between the micro and now the improved macro has been the political impetus to reforms, something it has hobbled your government in the last five years.

“India is a more balanced economy than the rest of export-led Asia,” Roach told. In fact, for the first time, Roach is now more optimistic about prospects for India than China. “China faces major challenges for the first time in 30 years,” Roach said. “It pushed its export-led model too far, leaving it too dependent on the external climate.”

Roach noted that the recent election changes the prospects for reforms going forward and hopes that the new Congress-led government will be more effective in pushing the reforms forward on a number of fronts and will be much less hobbled by the politics of coalition management.

Talking about the growth forecast for the Indian economy, Roach said the growth would remain between 5.5-6.5% for now. Incidentally, Morgan Stanley on May 28 raised India’s growth forecast to 5.8% in the fiscal year to March 31, 2010, from an earlier estimate of 4.4%. The economic growth in the \$1.2 trillion economy may turn out to be the real surprise in Asia, Roach said.

<http://www.financialexpress.com/news/indian-economy-better-placed-than-chinas-says-roach/470770/>