

Weekly Economic Bulletin

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News Feature

OECD upgrades India growth forecast to 5.9% for 2009

India's growth outlook has been revised upwards by the Organisation for Economic Co-operation and Development (OECD) in the wake of recovery signs in the global economy. Global financial major Citigroup also projected higher growth for the Indian economy due to increased investment inflows expected in 2009-10.

In its semi-annual economic outlook release, the Paris-based organisation projected a growth of 5.9 per cent in the current financial year ending March 2010 and 7.2 per cent for fiscal 2010 -11, an upward revision of 160 basis points and 140 basis points, respectively.

Though India is not an OECD member, the report mentioned projections about the economy, as well as other non-member countries like Brazil, Russia and China — collectively known as BRIC.

“With the gradual recovery of the global economy and easier financial conditions, growth is projected to gradually regain momentum,” the OECD report said. Before the latest report, OECD's projections for India's growth stood at 4.3 per cent and 5.8 per cent for fiscal 2010 and 2011, respectively.

In a separate report, Citigroup forecast a 6.8 per cent rise in the Indian economy during 2009-10, higher than its earlier forecast of 5.5 per cent. However, the financial major warned that delay in the monsoons could adversely impact the growth prospects.

Recognising the increased public spending that India provided as the part of the three stimulus packages, the OECD said: “Any further easing in policy should be achieved through lower interest rates, rather than discretionary fiscal expansion.”

The OECD also called for restoring fiscal discipline, speedier structural reform and increase sales of public-sector assets. “The Indian deficit is very high, something we are concerned about,” Jorgen Elmeskov, OECD's chief economist, told.

“The public sector wage increases as well as the debt relief for farmers have constrained the fiscal situation,” he said, arguing that “the new government must consolidate its fiscal situation, otherwise there would be more hurdles for economic growth”.

<http://www.business-standard.com/india/news/oecd-upgrades-india-growth-forecast-to-59-for-2009/362076/>

At 8%, India to grow fastest in '10: World Bank

The World Bank has projected an 8% growth for India in 2010, which will make it the fastest-growing economy for the first time, overtaking China's expected 7.7% growth. The multilateral lender has revised upwards the growth rate for the Indian economy this year to 5.1% from an earlier projection of 4%, according to its Global Development

Finance Report. India has consistently outperformed growth forecasts by the World Bank in the past.

The prospects for the global economy remain 'unusually uncertain' despite recent signs of improvement in some parts of the world, the report points out. Barring a few countries, including India and China, the bank has cut 2009 growth projections for all other economies and expects the world economy to contract by 2.9% this year.

"Developing countries are expected to grow by only 1.2% this year, after 8.1% growth in 2007 and 5.9% growth in 2008.

"When China and India are excluded, GDP in the remaining developing countries is projected to fall by 1.6%, causing continued job losses and throwing more people into poverty," the report said.

The report calls on governments around the world to be vigilant when drawing up strategies to reverse the recent expansionary monetary and fiscal policies once the world economy takes off.

The bank has urged rich countries to boost the flow of credit to developing nations to help speed up economic recovery. "Developing countries can become a key driving force in the recovery, assuming their domestic investments rebound with international support, including a resumption in the flow of international credit," said Justin Lin, chief economist at World Bank.

Despite the gloomy picture for this year, the bank says growth in developing countries, led by India and China, could reach 4.4% in 2010 and 5.7% by 2011.

Since global growth will only return to its full potential by 2011, the gap between actual and potential output, unemployment and disinflationary pressures continue to build, the report adds.

This World Bank report compares with a more upbeat assessment by the International Monetary Fund, which said last week the decline in global output has moderated and it may raise its 2010 growth forecast for the world economy.

<http://economictimes.indiatimes.com/Economy/At-8-India-to-grow-fastest-in-10-World-Bank/articleshow/4689810.cms>

Overseas News

DIPP clears Bharti, Tata Tele proposals under new policy

The Department of Industrial Policy and Promotion, or DIPP, has given three clearances under press notes 2 and 4, issued in February this year, which changed the way indirect foreign equity is treated while computing the total foreign investment.

The clearances are for three proposals submitted to the Foreign Investment Promotion Board: By Bharti Telemedia, which offers direct-to-home television services, Tata Teleservices, in which Japan's DoCoMo has picked up 27.3 per cent equity, and SKR BPO Services, which has made downstream investments in Sparsh BPO.

The final decision will come from Finance Minister Pranab Mukherjee, who heads FIPB, after taking into account the views of other ministries and departments represented on FIPB.

The press notes state that foreign investment routed through an Indian company owned and controlled by resident Indians will not be taken into account while calculating the total foreign direct investment, or FDI, as was the case before. An Indian-owned company is defined as one in which resident Indians or Indian companies have more than 50 per cent beneficial stake; control means the power to appoint the majority of directors.

<http://www.business-standard.com/india/news/dipp-clears-bharti-tata-tele-proposals-under-new-policy/361959/>

Govt looks to raise FDI cap in FM channels, DTH service providers

The government is planning to raise foreign direct investment (FDI) limit in FM radio broadcasters and direct-to-home TV service providers. But several departments, including the Planning Commission, have expressed reservations. The Department of Industrial Policy and Promotion (DIPP) has proposed that FDI ceiling for FM broadcasters be raised to 24% from the current 20%, and to 74% from the existing cap of 49% in the case of DTH service providers. It has also proposed simpler FDI rules for Internet service providers (ISPs).

The proposal has been discussed among several government departments and a Cabinet note has been circulated. The proposal is likely to be taken up by the Cabinet soon, said a government official, who did not wish to be named.

The proposals are expected to go through since key nodal departments are in favour of easier FDI norms in these sectors. The proposals are in line with the new rules on direct and indirect foreign holding. All forms of foreign investments, including GDRs, ADRs and FCCBs, would be taken into account while calculating FDI.

The proposals come close on the heels of the information and broadcasting ministry's clearance to 22 new TV channels from more than a hundred pending applications. This is the first major move on FDI liberalisation since Anand Sharma took over as the commerce and industry minister. The information and broadcasting (I&B) ministry is the parent ministry for the broadcasting sector.

DIPP has suggested that up to 24% foreign investment be allowed in FM radio, subject to the approval of the Foreign Investment Promotion Board (FIPB). The current policy allows FDI and FII only up to 20%. For broadcasting infrastructure activities, DTH as well as earth stations, the proposed FDI limit is 74%. Currently, 49% foreign investment is allowed in

this segment with FIPB approval. In the case of DTH, FDI component is not allowed to go beyond 20%.

DIPP has also proposed that FDI regime for ISPs without gateways be simplified. Currently, 100% FDI is allowed, but FIPB approval is needed beyond 49%. However, ISPs have to divest 26% of their equity in favour of Indian public if they are listed overseas. The proposal seeks to raise foreign investment limit to 74%, with prior FIPB approval beyond 49%. This will do away with the distinction between ISPs with and without gateways.

<http://economictimes.indiatimes.com/articleshow/4713820.cms>

Bhutan liberalizes FDI laws to attract Indian investors

Bhutan is keen to attract Indian investors in areas like generation of hydel power, information and communication technology, hospitality, agriculture and infrastructure. With such an objective, the Bhutanese government is liberalizing its FDI laws and sectoral cap to make the nation an attractive investment destination, said Bhutan's prime minister Jigme Yoser Thinley.

Addressing a press conference organized by the Indian Chamber of Commerce, Mr Thinley said Bhutan is keen to allow more than 70% FDI in these sectors. "We are drafting our new economic policy to attract FDI from India and deepen bilateral relations. The new laws will allow much more fiscal benefits," he said.

Mr Thinley said Bhutan already allows up to 100% FDI in the IT sector which has attracted Indian companies like Infosys, Wipro and Genpact. "In some other sectors, we will shortly offer up to 100% FDI. The present investment cap of \$0.5 million for services sector and \$1 million for manufacturing sector will also be liberalized," he said.

Bhutan has also relaxed for Indian investors its investment laws which stipulate all foreign investment only in local currency. "For instance, Punjab National Bank has invested in rupees. We believe the future of India and Bhutan are inter-twined and hence we need to attract larger quantum of Indian investment," said Mr Thinley.

In the energy sector, Bhutan has a FDI cap of up to 51%. By 2020, both India and Bhutan has agreed to develop 11,000 MW of hydel power. "This will be done through ten projects undertaken by Indian PSUs. While the detailed project reports for each of these are under preparation, work for one of the projects has already started. A significant portion of this green energy will flow to West Bengal and other parts of India," said Mr Thinley.

The Bhutan prime minister also met West Bengal chief minister Buddhadeb Bhattacharjee. "We discussed possibilities of expanding bilateral trade, investment, joint ventures and joint co-operation and promotion of Bhutan as a country specializing in production of organic food. We are also keen to attract industrialists from Kolkata and Siliguri to set up projects in Bhutan," said Mr Thinley.

Bhutan is currently developing its legal system and is in the process of establishing its Supreme Court. "In fact, the Indian government is supporting us to develop the building of

the Supreme Court. While Bhutan achieved democracy last year, the government feels we are yet to instill the democratic culture amongst people. We want to educate and create awareness about democracy to make it workable," said Mr Thinley.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Bhutan-liberalizes-FDI-laws-to-attract-Indian-investors/articleshow/4717430.cms>

Trade News

India, South Korea close to concluding CEPA

India and South Korea are close to concluding a free trade agreement for opening markets to each other for giving a boost to bilateral trade.

The 'Comprehensive Economic Partnership Agreement (CEPA)' was among major issues discussed when South Korean minister for foreign affairs and trade Yu Myung-hwan met commerce minister Anand Sharma and external affairs minister SM Krishna. Reiterating their commitment to strengthen long-term cooperative partnership of peace, Myung-hwan and Krishna stressed upon the need to have regular high-level political interactions between the two countries.

"They expressed happiness that the two sides are close to concluding a bilateral CEPA, which will give a boost to economic partnership between them," an official statement said.

Assuring his Korean counterpart of a conducive investment environment for Korean firms, Krishna expressed hope that negotiations for other agreements including a revised Double Taxation Avoidance Convention, could be concluded soon.

Myung-hwan on his a day-long official visit to India, also called on Prime Minister Manmohan Singh. With the signing of CEPA and enhanced access of markets to the business players of the two countries, the \$15-billion bilateral trade will get a fillip. The two sides also discussed matters of regional and international concerns with the Korean minister briefing Krishna about the situation in the Korean peninsula and the external affairs minister talking about the situation in India's neighbourhood.

Myung-hwan and Krishna emphasised that official dialogue mechanism should continue on a regular basis between the two sides.

The two ministers shared the view that it was important for North Korea to return to the six-party talks.

<http://www.financialexpress.com/news/india-south-korea-close-to-concluding-cepa/480390/>

India to invest \$4.2 bn in Ethiopia

India will invest \$4.2 bn in 439 projects in Ethiopia, the Indian Ambassador to the country said.

"Indian entrepreneurs have received licences from the Ethiopian authorities to invest an aggregate capital of USD 4.2 billion in 439 investment projects in the country," Gurjit Singh said on his visit to Dire Dawa recently.

"Trade and investment ties between Ethiopia and India had been flourishing since the two countries were on the same track of development. The co-operation between the countries had been enhanced in the fields of agriculture, human resource development sectors, infrastructure and communication technology," he said.

There is favourable trade and investment climate in Ethiopia, Singh said, adding that India would continue promoting various investment opportunities in the country.

<http://economictimes.indiatimes.com/Foreign-Trade/India-to-invest-42-bn-in-Ethiopia/articleshow/4687219.cms>

Sectoral News

Mobile advertising market to see 55% y-o-y growth

Analysts say 22% companies are expected to increase their mobile advertising spend in FY 2009 as compared to 15% companies that did so in FY2008. Telecom and FMCG sectors are investing around Rs 20 crore to Rs 35 crore on this medium to communicate their product messages in rural areas.

Deval Parikh, chief officer, handsets, value added services and procurement, Virgin Mobile (India) said, "The year-on-year growth of mobile digital advertising market is expected to be 55%. Digital advertising is still in a nascent stage in India and brands are in the experimental stage with a focus to reach remote areas." Digital advertising space grew by about 74% in 2008-09 to reach Rs 680 crore and is expected to be Rs 5,390 crore by 2011. Of Rs 680 crore, wireless application protocol based advertising was about 30% of the mobile ad market, while opt-in SMS contributed 10% of the market share.

Chandan Mendiratta, VP, service provider-system engineering, Cisco India & SAARC said, "With increasing mobile penetration in India, mobile digital advertising will be critical in reaching rural audience. Cisco is developing a new network-centric approach that allows real-time market segmentation enabling mobile operators to gain new revenues in the mobile advertising space."

Siddhartha Roy, COO, Hungama Digital Media added, "In rural areas mobile penetration is much higher than the distribution of brands like HUL or Coca Cola. Brands are using voice-based services to overcome barriers such as language." As per a CII and Ernst & Young report, 100 million of the next 250 million Indian mobile users are likely to be from

rural areas and that by 2012, rural users will account for over 60 % of the total telecom subscriber base.

<http://www.financialexpress.com/news/mobile-advertising-market-to-see-55-yoy-growth/481350/>

Indian foods business poised for leap

The Indian foods industry is at an inflection point, believe major fast moving consumer goods (FMCG) companies. While Hindustan Unilever (HUL) has already worked out a 10-year turnover road map, others like ITC and PepsiCo are scaling up their businesses to cater to the rapid growth.

HUL, which has completed 75 years of operations in India, is confident that its foods business alone will reach a top line of more than Rs 20,000 crore (almost its current turnover) over the next decade. If it achieves this target, the figure will be at least eight times more than the current turnover of its food and beverages division. For the 12 months ending December 2008, the division's turnover stood at Rs 2,642 crore, of which beverages (Brooke Bond and Lipton) accounted for Rs 1,805 crore, processed food (Knorr and Kissan) for Rs 647 crore and ice creams (Kwality Walls) raked in Rs 190 crore.

"Processed foods contribute to less than 5 per cent of India's food consumption. However, by 2012 the market will grow by 44 per cent to be a \$90 billion market. And packaged foods will grow even faster, at 68 per cent, to be a \$22 billion industry. Moreover, the per capita packaged food spending will increase by 57 per cent to \$18 by 2012," asserts HUL executive director (foods), Shrijeet Mishra. For instance, in the 1930s, Indians did not drink tea. Today, the consumption of tea is seven million tonnes and is largely driven by brands like Brook Bond and Lipton.

Says Abheek Singhi, partner at The Boston Consulting Group: "If the company adds Rs 1,500-2,000 crore to its topline every year, then the target of Rs 20,000 crore in 10 years is surely possible." However, he qualifies, "Considering Indian consumption habits will not change that much over the next 10 years, the company would need to focus on oils — a Rs 15,000 crore market — and staples like dals and atta (HUL has Annapurna atta) to achieve this growth and also strengthen its back-end supply chain to achieve the scale."

Additionally, the foods business requires large risk appetite and HUL is not particularly known to have one, say other analysts. For instance, after seven years in the foods business, ITC's food division is still in investment mode, with certain segments yet to turn profitable even though it has become one of the top three players in the segments it operates in. "To achieve a revenue of Rs 20,000 crore, the company will require investments of Rs 5,000 crore and their ability to stay put for a long period of time will determine their ability to penetrate this segment," says Nikhil Vora, MD, IDFC SSKI.

Meanwhile, FMCG players like PepsiCo and ITC are also gunning in this high-growth market. For instance, Frito-Lay India has planned a \$150 million investment for the next three years in the food market. Earlier this year, the maker of salty snacks like Kurkure and Desi Beats had diversified into the biscuits category with Aliva. "The aim is to address

new consumer needs and thereby grow our portfolio in the near future," says Deepika Warriar, marketing director, Frito-Lay. The company had driven growth and conversion of a predominantly unbranded salty snacks' market to a branded snacks market now estimated at Rs 3,000 crore with its entry in the segment in 1989.

Likewise for ITC, maker of Classic and Wills cigarettes to Fiama di Wills shampoo, Bingo chips, Sunfeast biscuits and Aashirwad atta, the foods business is a high-growth area. For, the industry, despite the slowdown, is garnering a 15 to 16 per cent growth rate. "Our objective is to grow at a higher rate than the market rate," says Chitranjan Dar, chief operating officer, foods division, ITC.

ITC's e-Choupal, for instance, gives the company tremendous synergies in its spices business. "We are exploring new segments and new product extensions and also for synergistic growth to harness our e-Choupal capabilities as we grow our foods business," says Dar.

<http://www.business-standard.com/india/news/indian-foods-business-poised-for-leap/361850/>

News Round – Up

'India fared better than others during economic crisis'

Though affected by the current global economic meltdown, India has fared much better than other countries of the world, minister of state for external affairs Preneet Kaur said.

"We have fared much better than others though we are also affected and our growth rates have come down from the nearly nine per cent average of the past four years to 6.7 per cent in 2008-09," Kaur said in her address to the UN Conference on World Financial and Economic Crisis being held at the UN headquarters in New York.

In response to the crisis, Kaur said India has made aggressive use of fiscal and monetary policy, with particular focus on fiscal stimulus in infrastructure investment.

"Our primary challenge is to get rid of chronic poverty, ignorance and disease, which still afflict millions and millions of our citizens. For this, we need a high rate of growth coupled with measures to make it inclusive," she said.

"We have endeavored to achieve this through huge investments in the rural and farm sector, a massive rural employment guarantee scheme, infrastructure development projects, major national food security and rural health missions, and an urban renewal mission," Kaur said.

India, Kaur said, has actively engaged in the G-20 framework aimed at redressing the current global economic situation so as to bring the global economy back to the trajectory of sustained growth.

Leaders of some of the largest economies, the G-20, have met twice in the past months and declared their determination to instill confidence and restore stability to the world economy, she said, adding they have also pledged to strengthen regulation, reform international financial institutions, reject protectionism and build recovery.

The package of \$1.1 trillion to restore credit and growth together with national measures constitutes a global plan for recovery on an unprecedented scale, Kaur said.

Noting that India has a vested interest in the world economy doing well as that is a key enabler for India's growth too, the minister said: "But as we strive for global solutions to this global crisis, we must remember that development or economic growth cannot be slowed, halted or sacrificed in the search for solutions to the crisis."

<http://economictimes.indiatimes.com/News/Economy/Indicators/India-fared-better-than-others-during-economic-crisis/articleshow/4705114.cms>

Economy will kickstart in 3rd quarter'

Key decision makers and influencers gathered at the fourth Emerging Markets Forum and expressed their views on the Indian economy, while most seemed bullish; there were also some voices of concern.

On the positive side, HDFC Bank chairman Deepak Parekh, reckoned that the Indian banking system was flush with funds and the commercial banks were parking these with the Reserve Bank of India (RBI). "The demand for credit is not rising in line with the liquidity, As a result, I think the lending rates are likely to go down further. I expect the rates to go down by at least 50 basis points over next six months," said Parekh

Speaking about the housing sector Parekh mentioned that the demand for affordable housing (up to Rs 30 lakh per unit) is on constant rise in the country as property prices have corrected lot in this segment in recent past. "HDFC's loan disbursements in this segments is improving on month-over-month basis in current year," said an optimistic Parekh.

Planning Commission deputy chairman Montek Singh Ahluwalia also mentioned that the economy would surely kickstart in the third quarter of the calendar year. Ahluwalia was promptly surrounded by the a host of eager participants from over the globe and India as well.

<http://www.financialexpress.com/news/economy-will-kickstart-in-3rd-quarter/480407/>