

Weekly Economic Bulletin

Date: June 30- July 06, 2009

Issue No. 323

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News Feature

Govt sees GDP growth at 7% in FY10

The government is likely to retain its GDP growth projection of 7% for 2009-10 as it expects a sharp recovery in the second half of the fiscal year.

The figure, forecast in the interim budget presented on February 16, 2009, is much higher than the World Bank forecast of 5.1%. Indian economy had grown 6.7% in the previous fiscal year compared with the World Bank's estimate of 6.1%.

The prospect of poor monsoon rains has dampened the cautious enthusiasm, but there is optimism that recovery would be sharper in the second half, reflecting the growth across the world and making up for the lost steam in the first half, a government official told.

The stimulus packages unveiled by governments around the world are beginning to deliver and once demand revives in the developed world, which is seen post-September, the recovery would be faster, the official added. India too is running a fiscally expansionary policy. The fiscal deficit was pegged at 5.5% of GDP in 2009-10 in the interim budget. All these factors, together with the increased optimism, are the reasons the government is retaining the 7% growth estimate in the economic survey and budget.

The economic growth could be much higher in the next fiscal year at 8-8.5%, the official said. This is in line with the World Bank projection that Indian economy will expand by 8% in 2010, faster than China's expected growth at 7%. Ratings agency Fitch raised growth projection for India in 2009 to 6%.

The government's optimism is also based on the recovery shown by consumer goods, fast-moving consumer goods and cement. In April, industrial growth, as measured by the index of industrial production (IIP), turned positive at 1.4%, after remaining in the negative for previous two months, with as many as 11 out of 17 industry groups showing positive growth.

<http://economictimes.indiatimes.com/Economy/Govt-sees-GDP-growth-at-7-in-FY10/articleshow/4722396.cms>

Overseas News

Forex kitty jumps \$932 million to touch \$265 billion

Foreign exchange reserves rose by \$932 million during the week ended June 26, partly due to cross currency revaluation and the central bank purchasing dollars to prevent the rupee from rising too sharply.

According to the latest data released by the Reserve Bank of India in its weekly statistical supplement (WSS), total foreign exchange reserves, including gold and special drawing rights (currency with the International Monetary Fund) rose by \$932 million to touch

\$264.58 billion during the week ended June 26. Almost the entire growth in reserves was on account of the rise in foreign currency assets.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Forex-kitty-jumps-932-million-to-touch-265-billion-/articleshow/4736555.cms>

FDI into India rose 46% in 2008 to \$46.5 bn: UNCTAD study

India achieved the highest increase in foreign direct investment (FDI) in 2008, the government said in its Economic Survey for 2008-09, quoting a recent study.

A recent study by the United Nations Conference on Trade & Development (UNCTAD) found that India achieved a 85.1 per cent growth in FDI flows in 2008, the highest across countries, the government said in a statement summarising the Survey.

According to the study, FDI investments in to India, went up from \$25.1 billion in 2007 to \$46.5 billion in 2008 even as global flows declined from \$1.9 trillion to \$1.7 trillion during the same period.

<http://www.business-standard.com/ecosurvey/storypage.php?autono=66304&tp=on>

Allow 24% FDI in FM radio'

The commerce and industry ministry has proposed a marginal hike in the FDI limit in FM radio from 20% to 24% and raising the limit in infrastructure-related activities of the broadcasting sector like DTH and uplinking HUBs/Teleports from 49% to 74%.

The proposal is part of a draft note by the ministry intended for the Cabinet Committee on Economic Affairs. The note follows consultations with the commerce, telecom, Information and Broadcasting (I&B) and economic affairs ministries in addition to the Planning Commission and has also been sent to the PMO.

The marginal increase in the FM segment has been proposed by the I&B ministry "in order to allow Indian players adequate gestation time to grow and compete with foreign broadcasters" especially since "the level of investment required in the sector is not so high that it cannot grow without foreign investment" , the note explains.

However, in the case of DTH, Trai's proposal to raise foreign investment to 74% has been accepted in concurrence with the I&B ministry.

<http://economictimes.indiatimes.com/News/Economy/Finance/Allow-24-FDI-in-FM-radio-/articleshow/4736585.cms>

Trade News

India-Asean trade likely to cross \$50 bn by '10

With the India-Asean (Association of South-East Asian Nations) free trade agreement (FTA) likely to be inked in August at the Asean economic ministers meeting in Thailand, India-Asean trade is likely to surpass \$50 billion by 2010.

The FTA will enable member countries to reduce tariffs for more than 4,700 categories from January 2010 onwards, senior government officials told. Diplomats from some members of Asean like Vietnam, Malaysia and Indonesia opined that India should reduce the duties on the four products—palm oil, tea, coffee and pepper. The duty ranged between 50% and 60%.

India has agreed to cut import duties on crude palm oil by 37.5% and on refined palm oil by 45% by 2018.

Both India and Asean have attained growth in exports at rates higher than the global average over the last two-decades. The trade between the two sides accounted for an average of 9% of India's total trade in the last three years. However, Indo-Asean trade, which has been growing at a compounded annual growth rate (CAGR) of 27% since 2000, stood at \$38.37 billion in 2007-08.

Singapore and Malaysia have been India's most prominent trading partners as far as bilateral trade between India and individual Asean countries for the entire period is concerned.

From 1997 to 2008, the two-way trade between India and Asean countries witnessed an approximate seven-fold increase from the level of \$5.9 billion to more than \$38.37 billion in 2007-2008.

"With a trade volume of \$5.83 billion in 1996, the 'East Asian Crisis' gave a hammering blow to this impressive growth resulting in a very little growth in absolute terms for the following two years. The trade picked momentum post 1999-2000, both in absolute and percentage terms and is moving in the positive direction since then," explained officials.

Growth in India's exports to Asean in recent years has been impressive as compared to other important destinations. As far as its imports from Asean countries are considered, the same is not true. Though it showed some improvement in the last year.

<http://www.financialexpress.com/news/indiaasean-trade-likely-to-cross-50-bn-by-10/482856/>

Govt approves signing of India-Korea trade pact

The government approved signing of a Comprehensive Economic Partnership Agreement (CEPA) with South Korea paving the way for an eventual duty free trade of goods and services between the two countries.

The approval was granted by the Union Cabinet at its meeting presided over by Prime Minister Manmohan Singh.

Briefing reporters after the Cabinet meeting, Information and Broadcasting Minister Ambika Soni said, "India's exclusion and sensitive lists includes agriculture, textile and auto components."

She said while South Korea's offer to break duty barriers include items of India's export interest, New Delhi has taken enough care to protect its sensitive industries and the farm sector.

The CEPA comprises six agreements relating to opening up of trade in goods, services and customs, and trade facilitation.

Signing trade pacts with South Korea and Association of South East Asian Nation (ASEAN) are part of the 100-day agenda of the UPA government in its second term.

The CEPA negotiations had started in March 2006 and was concluded in September 2008.

India exports large amount of petroleum products, gems and jewellery, cotton yarn and textile products to South Korea. In 2007-08, bilateral trade was USD 10.12 billion.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Govt-approves-signing-of-India-Korea-trade-pact/articleshow/4730110.cms>

Sectoral News

Commexes trade at 44% higher levels, touch Rs 12,87,708 cr

The total turnover of commodity exchanges in the country surged by 44% to Rs 12,87,708 crore during the current fiscal till June 15, thanks to improved participation in agricultural commodities.

Farm commodities contributed Rs 1,89,841 crore to the total turnover during the review period, which is 46.4% up from the same period last year, commodity market regulator Forward Markets Commission (FMC) said.

Turnover from bullion trade increased by 34% to Rs 5,68,979 crore. Increasing business is a sign of revived confidence in agricultural commodities, which had suffered a setback owing to ban on few items last year, experts said.

During the June 1-15 period, the total turnover of 22 commodity exchanges in the country rose to Rs 3,00,649 crore from Rs 1,91,663 crore in a year-ago period, FMC data showed.

The turnover of the leading exchange, MCX, stood at Rs 2,68,291 crore, while leading agri-commodity bourse NCDEX recorded a business of Rs 21,622 crore. Among other

national level exchanges, Ahmedabad-based NMCE registered a turnover of Rs 7,470 crore.

<http://www.financialexpress.com/news/commexes-trade-at-44-higher-levels-touch-rs-12-87-708-cr/482897/>

Ministry to set up 350 food processing units

The ministry of food processing industries is planning to set up 350 new food processing units in the next 100 days. These processing units will include fruit and vegetable, meat, dairy, fish, grain and consumer food industry. It also intends to create 1 crore jobs by 2015 at a total investment of Rs 1 lakh crore.

“We will extend financial help of up to 25% or a maximum of Rs 50 lakh in setting up each of these units,” minister for food processing industries Subodh Kant Sahai said on wednesday while releasing his ministry's 100-day action plan.

Sahai said, “after the green revolution, we are now ushering in the evergreen revolution in the country, processing is an evergreen activity. It is important for the agricultural sector as well”.

Sahai said his ministry will seek concessions from the government like tax holiday for all food processing units, lowering of customs, excise and value added tax (VAT) on food products, raw materials, machinery and packaging used by the industry.

“We are asking for a VAT of zero to 4% instead of the current 20%. At 20%, VAT is a crime against farmers,” he pointed out.

The ministry intends to commission a study to ascertain the requirements of the industry for trained manpower at various levels. It will also prepare a blueprint for training 10 lakh skilled workers and 5 lakh women entrepreneurs in the next five years.

The ministry will also inaugurate the first phase of the National Institute of Food Technology, Entrepreneurship and Management (NIFTEM) within the next 100 days.

<http://www.financialexpress.com/news/ministry-to-set-up-350-food-processing-units/483728/>

Cement despatch growth remains robust

The 224-million-tonne cement industry is yet again set to strike a growth of 10 per cent in June. If the initial numbers from the top cement makers are anything to go by, industry analysts said, the continuous robust growth will be maintained.

Since November last year, the domestic cement sector has managed to keep its growth over 8 per cent on the back of good demand for the building material. It struck a growth of

as high as 13 per cent in the beginning of the current financial year in April.

The Aditya Birla group, comprising Grasim and UltraTech, posted a rise of close to 22 per cent in its despatches in June at 3.14 million tonnes. Similarly, north major JP Associates clocked a growth of 29 per cent whereas Shree Cement despatched 28 per cent more in June than the corresponding month last year.

Ambuja Cements' despatch growth rate stood at 8.1 per cent whereas that of its sister company ACC, the growth was almost flat at 1.1 per cent. Industry analysts pointed out that capacity constraint is not letting Holcim group companies in India.

The main factors which kept the momentum going in June as well was the delayed monsoon which gave additional time for construction activities.

Election results were another reason, which helped keep the demand robust.

The industry is adding close to 45 million tonne of additional capacities in FY10.

<http://www.business-standard.com/india/news/cement-despatch-growth-remains-robust/362745/>

E&Y, CARE bullish on auto recovery

Reports of sales of passenger vehicles in India doubling in the next five years could bring back confidence to auto manufacturers in the country, after almost a year of sluggish demand for passenger vehicles.

According to an Ernst & Young analysis, passenger vehicle sales in the country will grow at a CAGR of 12% to touch 37.5 lakh units by 2014 as against 18.9 lakh units at the end of 2008-09. While domestic market is expected to contribute 27.5 lakh units to the total tally, the remaining 10-lakh units would contribute towards exports.

Likewise, as per estimates by CARE Research, the domestic two-wheeler sales will grow at a CAGR of 8.8% by 2014 at 11.3 million units vis-a-vis 7.43 million units in 2008-09. However, the demand for two-wheelers will be weak for the next year with sales foreseen to grow by 6.7% in 2009-10 at 7.9 million units, it says. "Indian industry is drifting towards a general monopolistic scenario wherein there will be large number of players selling similar products as against current oligopoly where we have fewer big players," Rakesh Batra, partner and national head (automotive practice), E&Y said.

"Although exports are poised to grow significantly due to India's fuel-efficient low-cost product range, there is an upside risk on exports as it is dependent on the recovery of the global markets," he added.

Stimulus packages announced by the government would prevent the market from a free fall and the benefits are expected to continue till assurance of sustenance of manufacturers is established. Further, the entry of ultra low-cost cars, like the Nano would increase the penetration level from the existing nine cars per 1,000. Moreover, just 65% of

the installed capacity is being used (the global average is 64%), both national and global players are expected to add to the capacities.

“The long-term growth drivers are in place, which is leading both international as well as domestic players to add to their capacities significantly,” Batra said.

<http://www.financialexpress.com/news/e&y-care-bullish-on-auto-recovery/482904/>

FMCG industry seeks GST implementation by Apr '10

The Rs 82,000 crore Indian FMCG industry is primarily seeking the implementation of the GST (Goods & Services Tax) by April 1, 2010 in the upcoming Union Budget. Industry captains expect fiscal measures that will spur growth of the FMCG sector in rural as well as urban India.

Adi Godrej, chairman of the Godrej Group expects the withdrawal of the FBT in the Union Budget 2009. Godrej's wish list also includes reduction of the CST from 2% to 1%.” My expectations for the Budget proposals and pronouncements for the FMCG sector include, continuation of the current excise duty, implementation of the GST by April 1, 2010 and re-imposition of import duty on edible oils,” he added.

Like Godrej, Sunil Duggal, chief executive officer of Dabur India strongly recommends the withdrawal of FBT in the upcoming Budget. According to Duggal, the government should continue with the policy of providing financial stimulus to rural sector in India.” The government should also chart out a clear map for the implementation of GST,” he said.

Sharing similar sentiments, Harsh Mariwala, chairman & managing director of Marico Ltd said the industry expects the roll out of GST by next year. “This move will certainly stimulate growth in the Indian FMCG industry,” he said.

According to Nadia Chauhan, joint managing director, Parle Agro Ltd, at a macro level, the FMCG industry needs a larger impetus for the improvement of infrastructure in the country.” The areas of priority are water, power and roads to facilitate growth for industry. At present, farming industries do not have sufficient power to run their operations. We need proper allocation of funds to improve the state of roads and transport in the country,” she added.

According to a market strategy survey report by ICICI Securities, analysts are optimistic about the prospects of FMCG sector going forward. With the economy growing at a rapid pace and organized retailing making greater inroads, ISEC analysts expect the domestic FMCG industry to garner huge benefits from the same.

“Further FMCG companies in last few years have systematically spread there network in rural areas, with this ongoing thrust we expect these companies to make deeper penetration in rural areas and increase its customer base and expand volumes. We expected the Budget impact to be positive for the industry,” said an analyst with Isec.

<http://www.financialexpress.com/news/fmcg-industry-seeks-gst-implementation-by-apr-10/484201/>

News Round – Up

Economy is sound, let's push reforms, says Economic Survey

Painting a picture of a resilient economy, the pre-Budget Economic Survey 2008-09, tabled in Parliament by Finance Minister Pranab Mukherjee, said India could grow up to 7.75 per cent in 2009-10, up from 6.7 per cent in 2008-09, provided the global economy, particularly the United States, bottomed out by September and the government was able to push the button on significant economic policy reforms.

The World Bank had recently said India would grow 8.1 per cent in 2010, ahead of China (7.5 per cent). The numbers in the survey also suggest India is finally ready to rub shoulders with its northern neighbour.

The economy, according to the survey, can count among its strengths the large services sector which has historically been less affected by cyclical downturns than manufacturing, a strong farm sector, robust savings rate, ambitious infrastructure development programme and upbeat foreign investors. The "shock absorbers of the economy," it said, were the sound banking system, large foreign exchange reserves, a comfortable external debt position and low inflation. It listed as concerns the dip in growth of private consumption and gross capital formation and said the downside risks were the reduced availability of risk capital, lower capital inflows and delayed revival of the OECD economies.

In keeping with the resurgent mood, the survey listed an ambitious reform agenda for the government, a clear signal that it was no longer weighed down by the Communist parties. Surcharges, cesses and new taxes like commodity transaction tax, securities transaction tax, fringe benefit tax and dividend distribution tax had reversed the move towards a simpler tax system, it said. The first three of these taxes were introduced by Mukherjee's predecessor, P Chidambaram (2004-08). High government-administered interest rates on small savings, it added, had kept lending rates from coming down.

Reflecting the new-found boldness of the Manmohan Singh government, the survey made some radical suggestions like restricting the cooking gas subsidy to six or eight cylinders for a family every year, auction of freely tradable 3G spectrum for next-generation mobile telephone services, raising foreign investment in defence to 49 per cent, opening up multi-brand retail, restricting price control to drugs with just five or six players, relaxing the contract labour laws and permitting retrenchment of workers by companies without prior permission.

It conceded that the return to the path of fiscal correction could occur next year with a fiscal deficit target of three per cent of GDP by 2010-11, mobilisation of at least Rs 25,000 crore through disinvestment, de-control of petrol and diesel prices as well as sugar and fertiliser industries, opening coal mining for the private sector and reform of pension, insurance and retail sectors.

"These reforms should be implemented over the next four to five years, which will take the country back on trend of growth," said Arvind Virmani, chief economic advisor in the ministry of finance. These, however, are just a wish list of the finance ministry and may not be implemented in full by the government.

To balance the interests of farmers and consumers, the survey suggested that there should be a domestic price band for agricultural commodities within which imports and exports are freely allowed. If the international price threatens to exceed the band, export restrictions and lower import duties would kick in and vice-versa. To rein in the fuel subsidy, it suggested temporarily taxing upstream crude oil producers.

The survey suggested that the indirect taxes, that were reduced in the recent part as part of fiscal stimulus package, could be restored once the economy is back on track. "The approach of the government has been to use a mix of fiscal measures including reduction in indirect which could be reversed subsequently," it said.

In the last financial year, 2008-09, the government had cut peak excise duty rate in two tranches from 14 to 8 per cent and service tax from 12 to 10 per cent.

<http://www.business-standard.com/ecosurvey/storypage.php?autono=362811&tp>

Business sentiment looking up: D&B

The Indian economy's business sentiment has improved indicating a path of recovery. Dun & Bradstreet, the world's leading source of global business information, knowledge and insight, has found that business optimism has recorded a jump of over 40%, quarter-over-quarter. The Dun & Bradstreet composite Business Optimism Index (BOI) for third quarter of 2009 has recorded an increase of as much as 40.8%, inching up to 132.1 after touching an all-time low of 93.8 in second quarter of 2009.

It was observed that five out of the six optimism indices - namely, volume of sales, net profits, selling prices, new orders, and employee levels have registered an increase as compared to the previous quarter. The improvement witnessed in the business optimism during Q3 2009 indicates that the worst may be behind.

"Positive data releases, improving investment sentiment along with the post-election optimism seem to have provided the much needed support to corporate confidence," said Kaushal Sampat, chief operating officer, Dun & Bradstreet India. Going forward, the policy announcements in the forthcoming budget will be crucial in determining business expectations over the next quarter. Also, the advancement of monsoon and how it pans out during the rest of the season would play an important role in shaping business sentiment in the near future." he added.

Demand conditions are expected to witness some improvement during third quarter of 2009, with as many as 72% of the respondents anticipating an increase in sales volume. While about 19% of the respondents expect volume of sales to remain unchanged, around 9% of the respondents anticipate a decrease in sales during third quarter of 2009. The

resultant optimism for volume of sales stands at 63%, an increase of 40 percentage points as compared to the previous quarter.

Profit expectations of the Indian corporates improved substantially, with as many as 69% of the respondents expecting an increase in their net profits during the forthcoming quarter. While about 10% of the respondents are anticipating a fall in their net profits in the forthcoming quarter, about 21% of the respondents expect no change in net profits during the Jul-Sep 09 quarter. The resultant optimism for net profits stands at 59%, an increase of as much as 41 percentage points as compared to the previous quarter.

<http://www.financialexpress.com/news/business-sentiment-looking-up-d&b/483779/>