

## Weekly Economic Bulletin

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## News Feature

### Economy to improve from mid FY10: Rangarajan

Expressing optimism over the current downturn in the country, former Reserve Bank of India (RBI) chief C Rangarajan said here that the Indian economy will see improvement from middle of FY10.

On his visit to the Entrepreneurship Development of Institute to inaugurate the 'Eighth Biennial Conference on Contemporary Issues in Entrepreneurship Research', Rangarajan said, "Our economy will see improvement from second half of FY10 and will recover fully in FY11."

Talking about how the recession abroad is having an adverse effect on the country's exports of goods and services, Rangarajan suggested that the current account deficit in 2008-09 could be taken to around 2 per cent of GDP.

"The decline in growth rate in exports will strongly affect some sectors where exports constitute a significant proportion of the total production such as textiles, automobile components, gems and jewellery," he added.

When asked about the decline in inflation, Rangarajan said, "We might see a further decline in inflation. In 2-3 months, the year-on-year inflation may come down to zero. While the consumer price index (CPI) is running high, the wholesale price index (WPI) is not reflective of CPI. "

However, substantial decline in WPI can be seen in near future."

Commenting on possible impact on the economy post-elections, Rangarajan pointed out that additional expenditure will be incurred which might increase the fiscal deficit. "We should ensure fiscal deficit begins to drop by 2010-11. The interest payment in proportion to revenue by the government may rise as a consequence to fiscal deficit. Consequently, level of borrowing will also rise and the interest rates may not remain low," added Rangarajan.

On possible steps that can be taken by the new government, Rangarajan said, "The new government should redistribute expenditure in favour of sectors like automobile components and textiles. Also, expenditure for 2009-10 is 6 per cent higher than the revised estimates. Therefore, the government should ensure that these expenditure are actually incurred."

<http://www.business-standard.com/india/news/economy-to-improvement-fy10-rangarajan/352406/>

### India to become member of Basel, FSF

In a meeting held on March 10-11, the Basel Committee on Banking Supervision (BCBS) has decided to expand its membership and invite India as a new member. The other countries that are invited to become members are Australia, Brazil, China, Korea, Mexico

and Russia. The Basel Committee's governance body will also be enlarged to include the central bank governors and heads of supervision from these new member organisations.

Meanwhile, the Financial Stability Forum (FSF), established by the G7 finance ministers and central bank governors in 1999, has also decided at its plenary meeting in London, on March 11-12, to broaden its membership and to invite India as a new member. Other countries invited to become as new members are the G-20 countries that are not currently in the FSF and these, apart from India, are Argentina, Brazil, China, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, Spain and the European Commission.

The FSF was established to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. The current FSF comprises national financial authorities like central banks, supervisory authorities and finance ministries from the G7 countries, Australia, Hong Kong, Netherlands, Singapore and Switzerland, as well as international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. The FSF Secretariat is based at the Bank for International Settlements in Basel, Switzerland.

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. It seeks to promote and strengthen supervisory and risk management practices globally. With its expanded membership, the committee is comprised of representatives from Australia, Belgium, Brazil, Canada, China, France, Germany, India, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Spain, Sweden, Switzerland, the United Kingdom and the United States. The Committee's Secretariat is based at the Bank for International Settlements in Basel, Switzerland.

<http://www.financialexpress.com/news/india-to-become-member-of-basel-fsf/435809/>

## **Overseas Investment**

### **India beats meltdown, back on FDI radar**

At a time when the world economy is facing the worst credit freeze in several decades, India attracted \$2.7-billion FDI in January, up 58.8% from a year ago, and remained a favourite destination for cross-border investments.

“January numbers are very good...it is an indication of the confidence that the rest of the world has in India,” secretary in the department of industrial policy and promotion Ajay Shankar said. The foreign direct investment inflows for the April-January period aggregated to \$23.8 billion and is expected to cross the last year's target of \$25 billion this fiscal.

Though the government had set a target of \$35-billion FDI for 2008-09, it looked rather ambitious in the wake of the global downturn.

Up to September this fiscal, the monthly inflows were in excess of \$2 billion. However, the following three months saw a sharp dip in the overseas investments.

The January figures bring a renewed hope that India is back on the radar of global investors.

<http://www.financialexpress.com/news/india-beats-meltdown-back-on-fdi-radar/435269/>

### **Forex reserves at \$249 bn on March 13**

Foreign exchange reserves rose \$1.4bn during the week ended March 13, reversing the trend of the past five weeks, during which reserves dipped by close to \$4bn. This was partly due to revaluation of non-dollar reserves in assets and partly due to dollar purchases by the central bank.

According to the latest figures released by the Reserve Bank of India, total foreign exchange reserves including gold and SDR (currency with the International Monetary Fund- IMF) rose \$249m to touch \$249.3 billion.

While foreign currency assets rose \$1,432m, the value of gold in reserves rose \$862m during the week largely on account of the sharp rise in global bullion prices. Reserves with the IMF dipped \$5m. The value gold and SDR in reserves however remained unchanged during the week.

<http://economictimes.indiatimes.com/News/Economy/Finance/Forex-reserves-at-249-bn-on-March-13/articleshow/4292968.cms>

### **FII's put in Rs 29,000 cr bids for debt**

Foreign institutional investors (FIIs) have responded enthusiastically to the government's decision to increase the cumulative investment limit in corporate debt from \$ 6 billion to \$ 15 billion.

In an open bidding held at the National Stock Exchange, 24 bidders were allocated investments of Rs 29,350 crore, the highest ever investment allocation by FIIs in India. In comparison, the net investment of FIIs in 2008 was only Rs 12, 069 crore. Since January 2009, FII's net investment in debt instrument has fallen by 634 crore.

Standard Chartered Bank got the maximum bids of Rs 5,300 crore, followed by Barclays Bank Rs 5,050 crore, Kotak Mahindra UK Rs 4,150 crore and Deutsche Bank International Asia Rs 3,550 crore. The bids have to be executed in the next 45 days.

As per the Securities and Exchange Board of India (Sebi), \$8 billion (Rs 41,000 crore) was available for allocation to FIIs and their sub-accounts in an open bidding platform.

<http://www.business-standard.com/india/news/fiis-put-in-rs-29000-cr-bids-for-debt/352011/>

## Trade News

### India calls to boost trade with Africa to \$70 bn

India has called for doubling the India-Africa bilateral trade to the level of \$70 billion over the next five years, continuing the growth trajectory that began in 2000-01 when trade was a mere \$3 billion and shot up to \$36 billion in 2007-08.

In April 2008 India had announced duty free tariff preferential scheme for 49 least developed countries (LDCs), which has benefited 33 African countries.

Delivering the keynote address at a special plenary at the 5th CII-EXIM Bank Conclave on India Africa Project Partnership 2009, the Indian External Affairs Minister, Pranab Mukherjee said, "Given the concrete opportunities that exist between the two sides, India-Africa trade could easily be doubled to \$70 billion over the next five years. I would urge this conclave to accept this challenge and plan out strategies to achieve it." He also urged for supplementing government's effort with those from the industry, civil society and private institutions in order to widen and deepen the foundation of India's growing partnership with the African continent.

While Indian companies have already begun investing in Africa, the African leaders have called for boosting investments in agriculture, mining, power, agro-processing, irrigation, pharmaceuticals, IT, health, retail chain and small and medium scale sector for generating employment.

The two-day conclave has the participation from 450 participants from Africa, including ministers from 12 African countries namely Mauritius, Burkina Faso, Cote d'Ivoire, Botswana, Mozambique, Sudan, Comoros, Togo, Congo, Uganda and Central African Republic.

India is the world's largest importer of rough diamonds, most of which are sourced from Africa. It is also an exporter of cut and polished diamonds.

Mukherjee assured the African leaders that India was favourably considering the request of some African countries to set up Diamond Cutting and Polishing Institutes in that continent for training their personnel. He supported the endeavours of the African Union towards regional integration and for building Pan-African institutions. He said that despite the current global economic downturn India would continue to fulfill its commitments towards Africa made at the India-Africa Summit in April, 2008.

Mukherjee said that both India and Africa were in a position to confront international terrorism, hunger, poverty and to tackle global warming and evolve new frameworks for global institutions.

<http://www.financialexpress.com/news/india-calls-to-boost-trade-with-africa-to-70-bn/437998/>

## **Chile signs MoU with Nasscom**

“India, topping the chart of 10 most attractive destinations for offshoring and IT, and Chile, ranking 28th among 127 countries in IT readiness index, are perfect partners to jointly work towards reaping the IT growth,” said Miguel Perez, president, association of information technology companies (ACTI), at the signing of memorandum of understanding (MoU) between Nasscom and ACTI.

Speaking about the strategic strengths of Chile in IT sector, he said that the country ranks 28th among 134 countries in global competitiveness index and occupies an enviable 40th place among 181 countries in business attractiveness. “The IT sector that had grown at a rate of 9.5% in 2007 has currently dropped to 7%, but still offers a great potential in areas like consumer segment, communications, finance, services, oil and gas,” he added.

Enumerating the rapid steps taken by the Latin American country in boosting the IT penetration, he said that the government is expanding the broadband and telecom connectivity across the regions of the country and encouraging online dissemination and dispensing of its services like e-procurement, tax payment and verification and obtaining of demographic records among its citizens. He added that Chile government is focusing on imparting English and IT skills in school and college across the country.

Highlighting India’s early bird gains in global outsourcing IT business, R Chandrasekhar, CEO, Cognizant Technologies said, “Now there has been a paradigm shift from India being leveraged for cost arbitrage to intellectual arbitrage in the global delivery system.

He remarked that Indian IT market shifting to intellectual arbitrage from labour arbitrage would attract higher quantum of foreign investment into the sector especially on many emerging areas of IT apparently helping Indian companies to move many notches up in the advance areas of the sector.

<http://www.financialexpress.com/news/chile-signs-mou-with-nasscom/437057>

## **India second favourite investment destination among Japanese firms**

India remains the second favourite investment destination for Japanese companies, a survey by the Japan Bank of International Cooperation (JBIC) has revealed.

About 58 per cent of the 620 companies surveyed said they found India a promising investment destination, compared with 50 per cent in last year’s survey. The report observed that though China retained the top position, its percentage share decreased to 63 per cent from 68 per cent.

According to the data available with JBIC, a financial institution based on that country’s external economic policy, Japanese FDI into India tripled to \$5.4 billion in 2008 from \$1.78 billion in the previous year.

The increase in Japanese investment comes when India is expected to miss the FDI target of \$30 billion for 2008-09, as many foreign companies have postponed or cancelled their plans in the backdrop of the ongoing economic crisis.

<http://www.business-standard.com/india/news/india-second-favourite-investment-destination-among-japanese-firms/352410/>

### **India is on top of Chile's Asia business policy: Bachelet**

India and Chile would double their bilateral trade to USD six billion in the next five years and strengthen the cooperation in new areas like IT and biotechnology.

Speaking at a seminar, Chilean President Michelle Bachelet said, "the two countries have agreed to endeavour to double bilateral trade in next five years."

Chiles trade engagement with India is poised for a big leap with the two countries looking to upgrade the Preferential Trade Agreement (PTA) into a Free Trade Agreement (FTA), she said.

The PTA between Chile and India, which has been in force since August 2007, has facilitated the growth in bilateral trade which reached USD 2.3 billion in 2008 from USD 300 million in 2004, Bachelet, the first woman president of Chile, said.

The seminar was on 'Chile-India Investment and Business Opportunities' organised by Federation of Indian Chambers of Commerce and Industry (FICCI).

"The two countries have agreed to enhance the periodic exchanges of business missions and participation in each others trade fairs to promote bilateral trade," she said.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-is-on-top-of-Chiles-Asia-business-policy-Bachelet/articleshow/4287955.cms>

## **Sectoral News**

### **India adds 13.45 mn mobile users in Feb: TRAI**

The Indian telecom scene continues to record a robust growth with the operators adding over 13 million customers in February, higher than the average additions of 10 million in past few months. However, the total addition in February is a notch lower than the January additions of over 15 million subscribers. Telecoms attribute the marginal dip to being a shorter month by two days.

The number of phone connections in the country — mobile and landline — has reached 413 million as of February-end compared to 400 million in January, telecom regulator Trai said. Mobile phone users now account for close to 91% of the country's telephone base with 375.74 million mobile connections. The robust growth has also helped push the country's

teledensity to 35.62%, an increase of 1.12% when compared to January. This means, there are about 36 phone connections for every 100 people in India.

The growth in the telecom sector has come in the backdrop of increased competition in the market leading to cheap call rates, which are among the lowest in the world. Reliance Communications (RCOM) took the lead once again by adding over 3 million in new users in February, GSM and CDMA combined. Last month, the company added close to 5 million new users. The company now has a subscriber base of 69.6 million compared to 66.2 million in January. RCOM launched GSM services in January.

Bharti Airtel and Vodafone, the two largest GSM operators in the country added 2.7 million and 2.5 million new subscribers respectively in the month of February, while Tata Teleservices, a CDMA operator added about 1 million new users.

India, the world's fastest growing mobile market, is expected to sustain the current growth rates as telcos expand their offerings to rural India. Currently, rural India accounts for only 27% of the country's cellular base even though it represents about 70% of India's population.

Despite enjoying the lowest tariffs in the world, call rates are set to fall further as operators are set to ignite several rounds of price wars as they expand their offerings. For instance, Aircel, which launched GSM services in Delhi unveiled tariffs as low as 40 paise/minute while also introducing special packages for students and migrants. Aircel is set to expand to several new circles over the next two months. Ditto with Sistema-Shayam, which is set to launch services in the southern circles beginning Chennai and Tamil Nadu later this month. Tata Teleservices too is expected to launch pan-Indian GSM services soon. Several other players such as Unitech-Telenor, Swan, Loop and Datacom are also set to launch mobile services over the next few months.

<http://economictimes.indiatimes.com/News/News-By-Industry/Telecom/India-adds-1345-mn-mobile-users-in-Feb-TRAI/articleshow/4288835.cms>

### **Coir exports may exceed 2007-08 level**

The devaluation in rupee has helped coir exports gain ground in spite of the economic downturn affecting the demand. While the coir exports show a drop in February on year-on-year basis, the cumulative figures for the April- February period have recorded a rise in export value.

In February, the coir exports stood at 16,032 tonnes valued at Rs 48.36 crore compared with 20,642 tonnes valued at Rs 51.63 crore in the same month of the previous year. However, for the period April-February, the exports touched 1,71,859 tonnes valued at Rs 572.30 crore against 1,71,698 tonnes valued at Rs 541.19 crore. The increase in quantity terms is marginal at 0.09 % while value has shown 5.75 % rise.

Coir export in 2007-08 was valued at Rs 589 crore. This year, the exports are expected to exceed that level given that the main item of coir mats has shown a rise in value terms thanks to rupee devaluation, despite a drop in quantity.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Coir-exports-may-exceed-2007-08-level/articleshow/4288114.cms>

### **High quality, low costs keep IT product companies ticking**

There is no major impact from the current economic downturn, in fact there is an upturn, said a CEO of an Indian software product company. This may sound unreal in an environment where the IT industry is struggling to find new business. But, industry trackers say, software product companies, the less-known cousins of India's services-led IT industry, may be better perched to tackle the economic slowdown.

The ongoing economic recession across the globe has actually spurred demand for Indian software product companies. "We are seen as problem solvers bringing direct benefit to customers," said Subash Menon, CEO, Subex and chairman of Nasscom product forum.

In fact, the Indian IT industry, which has established its brand in software services, may now be coming of age in delivering high value products at lower costs. Srishti Software CEO Ajay Shankar Sharma agreed, saying, at a time when budgets are shrinking, Indian software products are very cost competitive and promise high quality. Srishti, which operates in web publishing and healthcare, has seen record signings last year, both in India and abroad.

According to a study by Nasscom and consultancy firm Zinnov, there are 600-700 Indian software product companies recording a revenue of \$1.4 billion in FY08. This could potentially touch \$9.5-12 billion by 2015. These companies operate in enterprise resource management (ERM), telecom, collaborative applications, search engines, business intelligence and security.

Zinnov director CS Chandramouli said, Indian software products have a clear understanding of market requirements. Further, disruptions in the field of technology like open source and virtualisation has given a level-playing field for small companies to carve a niche for themselves. Past examples of established product companies, though few in number, include iflex (now Oracle Financial Services), Subex, Tally, Finacle of Infosys, Tejas Networks and Cranes Software.

Today, culmination of various factors has given a good platform for the growth of product companies. Presence of large number of technology MNCs like Intel, Google and Microsoft here has created a sizeable talent pool with good understanding of global requirements. At the same time, the Indian market has opened up throwing open a window of opportunity for product companies.

<http://economictimes.indiatimes.com/Infotech/Software/High-quality-low-costs-keep-IT-product-companies-ticking---/articleshow/4289757.cms?curpg=1>

## **Iron ore exports jumped 21.53% in Jan**

Rupee depreciation seems to have offset the impact of 5% export duty on Indian iron ore, thus acting as a boon for Chinese steel companies, which are trying to slowly roll back production cuts announced in October 2008.

As a result, iron ore exports have been climbing since December 2008 led by rising demand from China. Experts, however, say the trend may not be sustained in March.

India's iron ore exports jumped 21.53% to 13.9 million tonnes in January 2009 against 11.5 million tonnes in January 2008, as per the joint study conducted by Minerals and Metals Trading Corp, Goa Mineral Ore Exporters Association and Kudremukh Iron Ore Co.

While large mining companies with clout among foreign buyers see it as an opportunity to withstand the pressure of a cut in long-term contract prices, domestic steel companies like Tata Steel, JSW Steel, SAIL and Ispat Industries are also keeping a close eye on it.

“Globally, demand for steel has moved up marginally in two months. Some Chinese steel mills that had shut down as a result of low demand have now increased production levels. This has, in turn, pushed up the demand for ore,” a Delhi-based analyst told.

Last month, spot iron ore prices in China rose to \$85 per tonne — up from \$65 level in November-December 2008 — as Chinese steel makers were seen stocking up iron ore.

“Iron ore f.o.b. prices had fallen to \$60-65 per tonne in December which made Indian ore attractive. Chinese steel makers bought iron ore in bulk, which is showing in higher iron ore export figures. However, demand for iron ore will be bleak for some time as Chinese steel makers are sitting on huge stocks,” independent steel and natural resources consultant AS Firoz said.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Iron-ore-exports-jumped-2153-in-Jan/articleshow/4279322.cms>

## **News Round – Up**

### **All India consumer price index rises to 462 points**

The All India Consumer Price Index Numbers for Agricultural and Rural labourers for February this year increased by one basis point each to 462 points for both series.

In the case of agricultural labourers, four States reflected an increase in the index ranging between four to six points and seven States between one and three points, an official statement said.

The statement adds that the index of three States remained constant while six States reflected a decrease in index ranging between one and three points. Haryana, with 501 points, topped the index table while Himachal Pradesh was at the bottom with an index level of 405 points. In the case of rural labourers, the increase in the index ranged between four

and six points in five States, between one and two points in four States and it was constant in the case of five States.

The Consumer Price Index numbers of Haryana for agricultural labourers and rural labourers registered the highest increase of six points each mainly due to increase in the prices of wheat atta, bajra atta, pulses, ghee, vegetables and fruits, sugar, gur and fire-wood.

<http://www.blonnet.com/2009/03/22/stories/2009032251090500.htm>

### **At 40%, SEZ exports growing four times faster than national average**

Exports from the country's special economic zones (SEZs) are growing faster than the country's average, but 100 zones on the anvil could become a casualty of the global economic downturn.

Units in existing SEZs are expected to post a 40% increase in exports to reach Rs 90,000 crore this fiscal, according to commerce secretary G K Pillai, whose department is overseeing the development of SEZs. They are likely to increase another 55% to touch Rs 1,45,000 crore in 2009-10, he said.

The 40% growth in exports from SEZs in 2008-09 is much higher than the overall growth in exports from the country pegged at less than 10%. The country's goods exports in 2008-09 are estimated at \$170 billion compared to \$162 billion in 2007-08.

The slowdown has, however, forced 100-odd SEZ developers with formal approvals from the government to put their investment plans on hold. "New SEZs, where project implementation has not yet started or has just begun, want to wait for a while to be first sure of their anchor investors. They may postpone their investment plans by 6-12 months. Projects which are more than two-thirds complete would, however, start operations soon," Mr Pillai added.

The commerce department expects about 120 SEZs to be operational by 2009-end, up from existing 87. Investments are also expected to flow into zones which have infrastructure in place. SEZs with infrastructure in place — such as the Mundra multi-product SEZ and Reliance Industries' Jhajjar SEZ — are the ones expected to attract maximum investment.

"We expect investment worth Rs 1,00,000 crore in the Mundra SEZ, when the 2,400 mw power plant gets commissioned. The first phase, with 315 mw, will get commissioned in March," Mr Pillai said. Infosys, too, is likely to make three IT SEZs operational by June this year.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/At-40-SEZ-exports-growing-four-times-faster-than-national-average/articleshow/4273963.cms>