

Weekly Economic Bulletin

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News Feature

Indian financial system bankable, says RBI panel

The Indian banking system can easily weather a doubling of bad loans or a sudden spike in interest rates that can send bond yields soaring, a stress test of the system by a panel of top RBI and finance ministry officials reveals, highlighting the relative strength of banks in this country amid the turmoil in the global financial sector.

The high-level committee on financial sector assessment headed by RBI deputy governor Rakesh Mohan also forecast economic growth of 8% in the medium term, as it concluded that India's banking sector was an oasis of stability in a global financial sector strewn with effigies of once-mighty international banking names.

The panel also suggested that the regulation of housing finance companies be transferred to RBI whose permission should be sought before any change in strategic shareholding.

The panel, which explored varying so-called "stress test" scenarios, said most Indian banks had raised enough capital and could easily cope with a steep jump in bad loans. If bad loans rise by 150% — in its worst-case scenario — the panel concluded that the overall capital adequacy position of Indian banks falls to 10.6% in September '08 as against 11% in March '08.

"Even under the worst case scenario, capital remained comfortably above the regulatory minimum," said the panel in its report released.

The other stress test involved an interest-rate shock and the committee noted that an overnight impact of a 244-basis point increase in bond yields resulted in an erosion of 19.5% of a bank's capital and reserves. "The capital-to-risk-weighted assets (CRAR) would reduce from 13% to 10.9% for a 244-basis point shock," it said, adding that only in case of 20 banks, which account for 36% of total assets, would the CRAR slip below the regulatory 9%.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Indian-financial-system-bankable-says-RBI-panel/articleshow/4337115.cms>

India will grow 8%-plus as soon as global economy is back on track: Rakesh Mohan

Voicing his view on the growth of the economy, Reserve Bank of India deputy governor Rakesh Mohan said that while there will be some moderation in growth in the immediate future due to uncertain global market conditions, it is felt that India will return to its trend of 8% plus growth rate as and when global economy returns to normalcy. "This will however depend upon certain critical areas such as agriculture, infrastructure and fiscal consolidation being addressed," he said.

Addressing the media in Mumbai while unveiling the report India's financial sector assessment prepared by the central bank's committee on financial sector assessment, he

said, "Despite the widening trade deficit, the current account deficit has remained modest, largely due to high levels of private transfers and service sector exports. The low debt-to-equity ratio in the Indian corporate sector points to higher internal accrual and buoyancy in their revenues and profitability. Recent times have, however, seen a sharp correction in the valuations of listed firms as also in their profitability, as has happened globally. To that extent, there could be some reversal in the declining debt-to-equity ratio in the Indian corporate sector in the current context.

<http://www.financialexpress.com/news/india-will-grow-8plus-as-soon-as-global-economy-is-back-on-track-rakesh-mohan/440966/>

Overseas Investment

Service sector corners 24% of total FDI inflows in '08

There is good news for India Inc. Despite the global financial crisis, inflow of foreign capital to the country has increased sharply in 2008. The aggregate inflow of foreign direct investment (FDI) has more than doubled in 2008 over 2007. The stake was enormous. For, Corporate India's dependence on foreign funds has increased steadily in recent years as the easing of norms for FDI, especially, external commercial borrowings (ECB), over the years had led to a dramatic rise in the inflow of foreign capital in India.

Granted, there are reasons for caution as these data relate to 2008 only and the situation may have changed in 2009. After all, the crisis is not over yet. In fact, RBI's recent release shows that the inflow of ECB and foreign currency convertible bonds (FCCBs) has slowed down considerably in 2009 — down 73% from \$1,702 million in November 2008 to \$453 million in February 2009.

The decline in ECB is feared to affect the investment plans of companies. After all, a large number of companies use these funds to import capital goods. In fact, of the 32 companies which raised funds through ECB and FCCBs last February through the automated route, as many as 15 did so for import of capital goods for expansion of capacity or for modernisation of plants.

That India's investment activities in recent years have largely been financed by foreign sources may be seen in the sharp rise in FDI inflows. Aggregate inflow of FDI has increased more than nine times during the past five years, from Rs 14,781 crore in 2004 to Rs 1,39,725 crore in 2008.

While improved macro fundamentals in recent years have strengthened the confidence of foreign investors in Indian industry, opening up of new areas and changes in government policy towards FDI must have engineered this jump in foreign capital inflow. That opening up of new areas has given foreign investors more investment options is reflected in the changing destinations of foreign capital. The service sector, which was a restricted domain for foreign capital in the past, for example, has become the most sought-after area of late.

The service sector has been the prime mover of India's gross domestic product in recent years and foreign investors never had doubts about its potential. However, policy restrictions in the past did not allow them to invest in this industry as much as they willed. Now that restrictions have been eased, FDI has flowed in to this industry as never before.

It accounted for a huge 24.3% of the total FDI inflow in 2008. In actual terms, the FDI inflow to this sector has grown 32 times in the past five years from a mere Rs 1,074 crore in 2004 to Rs 33,947 crore in 2008.

The second most important destination of FDI in 2008 was telecommunication. It accounted for about 8.3% of the total FDI flowing into the country in 2007.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Service-sector-corners-24-of-total-FDI-inflows-in-08/articleshow/4363565.cms>

FDI flow to India will remain robust: Goldman Sachs

The global economic slowdown will not affect the foreign direct investment (FDI) flow to India as the domestic demand remains "resilient", investment banker Goldman Sachs said.

"FDI is showing positive signals," Tushar Poddar, an economist with Goldman Sachs said, adding: "We expect FDI inflows to remain significant in 2009-10, given India's relatively resilient domestic demand momentum."

According to the bank, the FDI flow to India during September-January - the months when the credit crisis was at its peak - amounted to \$9.2 billion, higher than \$7.9 billion in the corresponding period last year.

Pranjul Bhandari, another economist at Goldman, said: "India's balance of payments (BOP) may have had its worst quarter in October-December 2009, when it showed a deficit of \$18 billion."

However, "in 2009-10, we expect the current account deficit to narrow to 1.3 per cent of GDP from 3.5 per cent last fiscal with the trade deficit narrowing considerably," she added.

Notwithstanding the weakness in trade credit and foreign portfolio inflows, the basic balance of payments (BBOP) are expected to move to positive this fiscal, the economists said.

According to them, the major risks India faces are "political uncertainty and the high fiscal deficit".

"Portfolio investment and trade credit on the other hand, have fallen sharply and we expect them to remain weak this fiscal," Poddar said.

"NRI deposits showed an uptick last fiscal, but we expect it to remain flat in 2009-10. We expect NRI deposits coming due in the next year (\$32 billion) to get rolled over to a large extent, but do not expect large fresh inflows," he added.

External commercial borrowings (ECBs) are expected to moderate in the current fiscal. Although ECBs have slowed to \$9.1 billion during September-February from \$11.8 billion in the previous six months.

"In 2009-10, we expect ECBs to remain positive due to higher growth and yields in India, notwithstanding the \$7 billion of outstanding commercial loans coming due," Bhandari said.

<http://economictimes.indiatimes.com/News/Economy/Finance/FDI-flow-to-India-will-remain-robust-Goldman-Sachs/articleshow/4365858.cms>

Trade News

Non-oil trade with Arab may touch \$100 billion

India's non-oil trade with 22-nation League of Arab States could touch \$100 billion mark in the next two years provided the trade basket is enlarged to include gems, jewellery and textiles, apex exporters' body FIEO has said. "India-Arab League trade has the potential to cross \$100 billion in 2010-11 if the trade basket is enlarged," Federation of Indian Exports Organisation (FIEO) director general Ajay Sahai said.

He said the trade basket should be enlarged to include textiles, gems and jewellery, marine products and electronic items. The League of Arab States includes UAE, Saudi Arabia, Egypt, Iraq and Kuwait. In the last five years, India's total trade with the members of the League of Arab States has increased from about \$12.68 billion during 2003-04 to about \$87 billion in 2007-08.

<http://www.financialexpress.com/news/nonoil-trade-with-arab-may-touch-100-billion/443481/>

Bangladesh keen to boost bilateral trade with India

Bangladesh is keen to resolve all issues relating to its connectivity improvement with the North-East and eastern India. It has also agreed to consider opening of a consulate or an office of the Bangladesh deputy High Commission in Guwahati or Shillong to boost bilateral trade with India.

This was conveyed by the Hasina government to an Indian delegation, led by Indian Chamber of Commerce (ICC), which is now touring the neighbouring country.

The Indian delegation, headed by ICC president Sanjay Budhia, while meeting Bangladesh Prime Minister Sheikh Hasina in Dhaka, expressed willingness to set up an SEZ there. For this, it has sought a suitable 150-acre plot in that country, wherein it may attract Indian investments worth \$5 billion, suggested the chamber.

Direct investment from India could help Bangladesh reduce its trade deficit with India. Massive investments from Indian corporates, including prominent ICC members will create

surplus capacity which would not only improve availability of manufactured goods and diversify its basket of goods for re-export to India, said ICC.

During its discussion with the Bangladesh authorities, the Indian delegation has pointed out that sectors like energy, power (both hydel and thermal), steel, communication, healthcare, fertiliser, oil & gas, limestone and forest-based industries like paper, export of plantation crops, spices, fruits, vegetables, flower, herbs and processed foods are some of the areas which can drive a stronger bilateral economic relations between the two countries.

Dwelling on hurdles to Indo-Bangla trade, Bangladesh Prime Minister Sheikh Hasina said issues like product codification and quality checking, raised by India, are acting as non-tariff barriers.

To remove such bottlenecks, she has asked ICC to take up initiatives in resolving the problem of delays in getting certificates from India on Bangladesh's exports and lack of testing facilities in the Northeast.

In this context, she told ICC that her government is working on product specification and upgradation of quality in consultation with Bureau of India Standard (BIS).

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Bangladesh-keen-to-boost-bilateral-trade-with-India/articleshow/4367255.cms>

Sectoral News

Cement industry to achieve 12% growth during last quarter

Despite concerns on slowdown, led by a change in economic scenario along with excess supply pressure, the 208 million tonne cement industry is ending FY09 on a strong note.

According to experts, the fourth quarter of the current financial year 2009 will report a 2-3% growth in margins due to rise in prices and 10-12% year-on-year growth in sales due to sudden increase in demand this quarter.

On the backdrop of good demand coming from the infrastructure segment, cement dispatches from the past consecutive four months had increased with 11% y-o-y in November 2008, 12% y-o-y growth in December and 8.26% and 8.73% y-o-y growth in January and February 2009, respectively.

HM Bangur, CMD, Shree Cement and president of Cement Manufacturers Association told, "For the full year, the volumes for the industry will be higher by 8%. However, the yearly profits are expected to be lower than last year. This is because the price hikes in the fourth quarter were able to only partially recover the high cost."

"Meanwhile, our company's volumes are expected to be higher by 18-20% as we have increased our capacities this year and our profitability is expected to be better than last year," Bangur adds.

Experts say every thing was positive in the fourth quarter starting from government's announcement of stimulus package, where there was reduction in excise duty and re-imposition of counter-vailing duty on imported cement, to price hikes on the backdrop of better than anticipated demand.

<http://www.financialexpress.com/news/cement-industry-to-achieve-12-growth-during-last-quarter/443516/>

Wireless user base grows 10% in Oct-Dec

India, the world's fastest growing wireless market, added 31.58 million subscribers in the wireless segment in the third quarter ended December last fiscal, a growth of 10% over the previous quarter.

During the quarter, the subscriber base for wireless services has increased to 346.89 million from 315.31 million in the previous quarter, telecom regulator Trai said.

Telecom operators earned Rs 39,408 crore revenue in the quarter, posting an increase of 6% over the Q2. The Adjusted Gross Revenue, or AGR, for Q3 was also up 6% at Rs 28,940 crore, it said. Operators have earned less average income per user in both GSM and CDMA segments. The all-India blended ARPU per month has dropped by 45% to Rs 220 in the quarter over preceding quarter.

CDMA operators' ARPU is down to Rs 111 from Rs 122 for the quarter ended December 2008. ARPU for post-paid service has shown a decline of 4.2% to 559 in December 2008 while that of prepaid service has gone up by 1.6% to Rs 190.

The total subscriber base of the wireline and wireless services reached 384.79 million in the said period, a growth of 8.80% over the previous quarter, Trai said.

The tele-density (number of phones per 100 people) is 33.23 as on December 2008. The subscriber base of wireline service decreased to 37.90 million in the third quarter from 38.35 million in the preceding quarter last fiscal.

Rural wireline user base decreased by 2.46% to 10.68 million in the quarter, whereas the rural subscriber base rose by 2.38% to 93.15 million. The number of PCOs has also decreased by 4.32% to 5.98 million. Internet subscriber base in the quarter reached 12.85 million, registering a growth of 12.24%. BSNL was the top Internet service provider in the country, with more than 50% of the total subscriber base.

Broadband subscriber base surged by 12.65% to 5.52 million in the third quarter, Trai said. The AGR of PSU telecom units is Rs 8,321 crore while that of the private sector is Rs 20,619 crore, it added.

<http://www.financialexpress.com/news/wireless-user-base-grows-10-in-octdec/442358/>

Packtech market to grow to Rs 26K cr by 2012-13: IMaCS

Textiles made of man-made fibres/filament yarns and used in packaging are in great demand. The Rs 14,000-crore market for technical textiles used in packaging, commonly known as packtech, is estimated to grow to around Rs 26,000 crore by 2012-13.

This has been conveyed by ICRA Management Consulting Services (IMaCS) to makers of such technical textiles, after taking a stock of the future of packtech in the country.

Packtech includes several flexible packaging material for packing industrial, agricultural, consumer and other goods. Products like polyolefin woven sacks, leno bags, wrapping fabric, jute hessian and sacks, soft luggage, tea-bags filter paper and jumbo-sized bags fall under the category. Jumbo-sized ordinary bags or tote bags are technically known as flexible intermediate bulk container (FIBC).

Demand for packaging products is dependent on industrial growth. In the medium term (next five years), the packaging industry is expected to grow by 13% per annum. Within the industry, polymer-based products like woven sacks, FIBC, leno bags and wrapping fabric are expected to grow higher at a CAGR of 17% during the period, said IMaCS.

It further said the maximum growth in packtech consumption is expected in the FIBC segment, which is used for bulk packaging segment. With exports multiplying each year, demand for FIBC is expected to shoot up to 4.5 lakh tonne over the next five years from the existing consumption of 1.5 lakh tonne.

Leno bags, which were largely used for packing onion and potato, are also being used for packaging of fruits and vegetables. Due to this, about 10,800 tonne of leno bags would be required in 2013-14, instead of its present annual consumption at 5,400 tonne.

Another segment, which has high growth potential is soft luggage products. According to IMaCS, this segment is expected to grow by about 25% in next five years. With declining use of jute hessian and sacks in domestic market, coupled with some amount of its imports from Bangladesh, consumption of polyolefin woven sacks is projected to rise to 11.27 lakh tonne in the next five years from 6.41 lakh tonne in 2007-08, IMaCS forecasts.

Technical textiles consumption under packtech is estimated at around Rs 14,067 crore. Woven sacks (excluding FIBC) account for around 50% of the technical textiles consumption, followed by jute hessian and sacks (including food grade jute bags) with around 30% share. FIBC and wrapping fabrics account for around 20% of the total usage.

<http://economictimes.indiatimes.com/Packaging/Packtech-market-to-grow-to-Rs-26K-cr-by-2012-13-IMaCS/articleshow/4363912.cms>

43% growth in unique IP addresses: Report

India is ranked 20th globally for number of unique IP addresses, 17th in terms of attack traffic and 115th in terms of average connection speed.

These are the findings of Akamai Technologies Inc in the fourth edition of its quarterly 'State of the Internet'.

According to the report, India ranked 20 globally for number of unique IP addresses, with 2.63 million IPs, up 42.91 per cent year-on-year, and 1.69 per cent from the third quarter of 2008. In comparison, the US was ranked number one with 114.1 million unique IPs.

It noted that India's average connection speed was at 772 Kbps and ranked 115 in terms of average connection speed.

Globally, the average connection speed was approximately 1.5 Mbps. South Korea ranked first with an average connection speed of 15 Mbps and the US at 17th with average connection speed of 3.9 Mbps.

<http://www.thehindubusinessline.com/2009/04/06/stories/2009040650561300.htm>

News Round – Up

Job index up 5% in February

Despite the economic slowdown taking a toll on jobs, hiring activity this February improved as indicated by Naukri-JobSpeak's overall job index which moved up 5 per cent — from 738 in January 2009 to 774 in February 2009.

The improved job scenario in industries like oil and gas, auto, construction, pharma and insurance, pushed up hiring in seven cities of Delhi, Chennai, Pune, Ahmedabad, Chandigarh, Baroda and Jaipur, according to the report. On the other hand, Mumbai witnessed a decline in hiring activity by 5 per cent from January.

WINDS OF CHANGE

- * Chandigarh and Ahmedabad topped 7 cities where hiring increased
- * Hiring in Oil and Gas, Auto, Construction, Pharma and Insurance rose
- * Senior management saw a push in hiring
- * Fresher hiring and junior executive hiring remained stable at January levels
- * Greater demand for sales and business development professionals and production personnel

The job index is calculated on the basis of job listings added to Naukri.com every month and the data shows an increase or decline in the jobs. To calculate the index, job listings added to the site in July 2008 have been taken on a base of 1000. The subsequent months have been indexed with data of July 2008.

Sector-wise, hiring in the oil and gas industry picked up by 24 per cent while index for the education industry moved down by 16 per cent -- from 1,112 in January to 940 in February. The pharma industry continued to see an upward trend in hiring and the job index for the industry moved up by 11 per cent in January whereas hiring scenario in the

IT- BPO remained stable, whose index moved marginally by 1-3 per cent vis-a-vis January.

<http://www.business-standard.com/india/news/job-index5-in-february/353694/>