

Weekly Economic Bulletin

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News Feature

Golden Monday takes Indian markets to top of world

Indian markets are literally on the top of world, going by their returns so far in 2009.

Propelled by the prospect of a stable Government at the Centre and a new push to reforms, the Indian indices scaled the circuit breaker twice to make India the best performing equity market in the world, on year-to-date returns.

While the Sensex has returned a stellar 48 per cent since January 1 (all returns in dollar terms for comparability), NSE's Nifty followed close on its heels with its 46 per cent gain. These returns surpass that of even BRIC's, which have been the frontrunners in the global market rally.

Catching up with BRIC

The post-poll surge in Indian markets, defying global trends, has put it ahead of other fast-moving BRICs' markets

<http://www.thehindubusinessline.com/2009/05/19/stories/2009051951721000.htm>

Political stability to positively impact India's rating: S&P

Formation of a stable government at the Centre will have positive implications for India's sovereign rating, global agency Standard and Poor's today said without indicating when it would review country's rating.

"Generally speaking political stability is a positive factor for the sovereign ratings. Because of strong mandate, next government will have a better opportunity to execute its policy agenda", Standard and Poor's director, Sovereign and IPF Ratings, Takahira Ogawa said.

<http://www.financialexpress.com/news/political-stability-to-positively-impact-indias-rating-s&p/463860/>

Overseas News

FDI growth up 85% in '08, highest globally

India achieved a stunning 85.1% increase in foreign direct investment flows in 2008, the highest increase across all countries, even as global flows declined by 14.5%, says the findings of the Unctad study — Assessing the impact of the current financial and economic crisis on global FDI flows.

The study, which updates the organisation's January assessment, estimates that the FDI investments into 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 period. It also cautions of a further decrease in FDI flows in 2009 as the full consequences of the crisis on transnational corporations' (TNCs) investment expenditures continues to unfold

Surprisingly FDI increased by a much slower 10% in China, pushing up the inflows from \$83.5 billion in 2007 to \$ 92.4 billion in 2008. What is, however, significant is that India's FDI flows which was just a fraction of that of China just a few years back has now touched half the levels. More importantly that ratio of FDI to GDP in India would now exceed that of China, indicating its larger role in the Indian economy, as the size of the Chinese economy is around three times higher than that of India.

India's achievement in mobilising FDI is all the more significant because the inflows into the developed countries have declined by 25.3% in 2008. In contrast the overall FDI flows to developing countries increased by 7.2% in 2008.

<http://www.financialexpress.com/news/fdi-growth-up-85-in-08-highest-globally/463892/>

Govt may relax FDI caps for insurance, defence production: Nath

The new UPA Government may liberalise the entry of foreign direct investment in defence production and insurance, and reform the civil aviation policy, senior Cabinet Minister Kamal Nath has said.

"I think there is some room ... we can liberalise the defence sector ... We need more capital in insurance. We should be looking at it. We will see how we frame it and structure it. We are all for getting in more capital in our insurance sector," Nath said .

He said the Government can reform the civil aviation investment policy "as much as we can".

On banks, Nath said the issue needed to be studied. "We need to study it more".

FDI is restricted to 26 per cent both in insurance and defence production. However, the UPA government in its previous tenure had introduced a bill in the Rajya Sabha for raising the FDI limit to 49 per cent in the insurance sector.

In aviation, though the policy allows 49 per cent FDI, foreign airlines have been kept out of it. Several domestic airlines in the private sector, which are hard-pressed for cash, have been lobbying hard for FDI by foreign airlines.

Earlier Nath said "new things would be thrown up" as the Government fine-tunes its FDI policy.

"This is a continuous process and new things would be thrown up as we move on," he said.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Govt-may-relax-FDI-caps-for-insurance-defence-production-Nath/articleshow/4576980.cms>

Govt to simplify SEZ approval

The commerce ministry has initiated steps to reduce the time taken to develop Special Economic Zones (SEZs) by simplifying procedures to get the tax-free industrial enclaves notified.

Developers will now be able to get their land classified as an SEZ at the initial stage of approval by submitting legal documents that prove land ownership.

With exports falling sharply in the last six months, faster development of SEZs is seen as one way of increasing overseas sales of Indian goods and services, an official said.

In the past, formal approval — the first step in notifying an SEZ — was based on a statement by a developer confirming possession of land. Actual documents proving ownership were not required at this level of approval.

Thereafter, the developer had to submit a series of documents including proof of ownership of land, a non-encumbrance certificate and vacancy and contiguity certificates to get the zone notified. Now, all these documents will have to be submitted at the first stage.

Experts point out that the move will help serious zone developers since only firms that actually own the land will now apply. “This shows that the ministry is serious about taking the SEZ policy forward,” said Tapan Sangal, senior manager, PricewaterhouseCoopers.

“This move will also ensure that investments flow in to the zones quickly. Moreover, the pace of job creation in the zones will also become faster,” said L B Singhal, director general of Export Promotion Council on EoUs and SEZs.

Since 2006, about 550 SEZs have been given formal approval. But the commerce ministry was concerned that only 320 were notified. This was because many of the developers adopted a wait and watch policy in the wake of the global economic crisis.

<http://www.business-standard.com/india/news/govt-to-simplify-sez-approval/358751/>

Upbeat FIIs to rework strategy

The surprise election results and the strong market upmove has stunned all. Foreign institutional investors too have joined in the positive sentiment and have started re-working their numbers with a vengeance.

“We expect markets to be re-rate to relatively expensive territory in anticipation of major reforms by the government,” said an analysts at BofA Merrill Lynch.

“Though history suggests that markets sell off post elections, the extent of positive surprise may set this occasion apart from the past. The importance of this polarised mandate is that it comes at a time when India’s recovery rests on fiscal policy,” say analysts at Morgan Stanley. They have started refocusing on their portfolios as well.

Credit Suisse Group said while India will benefit from a “large amount of capital flowing into” the country, the rally may be halted by “global markets, monetary and fiscal constraints, and data disappointment.”

Sensex may surge 20 % over the next week as overseas investors purchase up to \$3 billion of Indian shares within a month, said Singapore-based Samir Arora, who oversees Helios Capital Management Pte. While overall optimism existed on the fate of the market there were also some reasons to stay careful, reckoned analysts. “While our election worries have disappeared, earnings are still likely to be subdued. Hence, government needs to actually implement reforms to ensure a sustained re-rating of the markets,” asserted analysts at BofA Merrill Lynch.

<http://www.financialexpress.com/news/upbeat-fiis-to-rework-strategy/462086/>

Trade News

Indian, Brazilian industries target \$10 billion trade by 2010

The Indian and Brazilian industries said that trade between the two nations may reach \$10 billion by 2010.

"The bilateral trade between the two countries has grown from a mere USD 500 million in 2000 to USD 3.12 billion in 2007 and is targeted to reach USD 10 billion by 2010," CII International Trade Panel Chairperson Harshbeena Zaveri said.

A delegation of Brazilian industrialists and officials of the CII today discussed steps to consolidate the existing trade between the countries besides exploring new business opportunities.

Indian companies are increasingly setting up operations in Latin America in sectors like IT, steel, chemicals, autos and pharmaceuticals, Zaveri said.

"In fact, with the western markets slowing, the time is ripe for Indian and Latin American companies to set up their engagements with each other," she said.

India's major exports to Brazil include mineral fuel, chemicals, iron and steel while the imports include cereals and rubber.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4556978>

Sectoral News

Indian telecom a trendsetter in terms of capex, opex: E&Y

The Indian telecom market has become a trendsetter for the telecom operators in the developed markets such as Europe and the US for efficient ways to reduce their capex and opex at a time of tough economic challenges. A recent report by E&Y on the short-term prospect of telecom sector in the developed markets, has suggested that telecom operators in developed markets need to 'unlock and reclaim the full value of their networks'.

"The Indian telecom market is at least five years ahead of its American and European counterparts in terms of hiving off passive infrastructure. Hiving off the tower business into independent business units is going to catch-up in the developed markets", Vincent de la Bachelerie, the global telecommunications leader with E&Y told FE. Most of the incumbent operators in India, including the country's largest telecom operator, Bharti Airtel, Reliance Communications and Tata Teleservices have hived off their tower business into separate business entities. The report shows that telecom sector has been resilient across Europe and America despite the recent global slowdown. Cost reduction has become high on the operators' agenda making it difficult for the operators to justify huge investments into the business networks.

The report titled 'The Power of the Pipe', further adds that Mobile Virtual Network Operators (MVNO) have largely failed in the developed markets where they are struggling to justify their business model. MVNOs typically buy bulk airtime from the Mobile Network Operators (MNO) and sell it to consumers under another brand. "They don't add any value to MNOs services, their model hinges on a strong marketing and distribution which can be easily done through a normal distributor or a mass market retailer such as Carrefour", Vincent added.

The report was compiled from interviews from 18 telecom companies and industry stakeholders across Europe and America. AT&T, France Telecom, Vodafone Europe and Deutsche Telekom were among the participants.

<http://www.financialexpress.com/news/indian-telecom-a-trendsetter-in-terms-of-capex-opex-e&y/463035/>

Jewellery federation eyes 50% sales growth by 2013

The All India Gem and Jewellery Trade Federation is targeting for 2013 a 50 per cent growth in the retail turnover of the domestic jewellery industry, which is currently worth Rs 1,12,000 crore.

Mr Vinod Hayagriv, Chairman of the Federation, said, "We plan to achieve this by building consumer confidence through the development of uniform gold pricing across cities and States, by joint promotion programmes and joint advertising campaigns together with Gem and Jewellery Export Promotion Council, Rio Tinto (a multinational mining and exploration

company), the World Gold Council, and others. We need all these agencies to actually work together — it is in everyone's interest to grow the industry." The marketing budget for the promotions planned this year by manufacturers and retailers in the industry will be around Rs 30 crore.

The gem and jewellery industry, which has been affected by the global slowdown, is hoping for a fruitful year ahead. The current situation is good with higher footfalls and less "recession fears," said Mr Hayagriv, who took over recently as chairman of the Federation for 2009-2011. The industry, which has seen an impact of 20-30 per cent, should achieve 15 per cent growth this year, he added. "We expect the industry to grow at 15-18 per cent per annum in the next few years."

For these tough times, Mr Hayagriv stressed on educational programmes for front-line staff, increasing consumer confidence, and taking best practices from around the world, such as China and Hong Kong.

<http://www.thehindubusinessline.com/2009/05/19/stories/2009051950841300.htm>

Seafood exports see 8% growth in 2008-09

Indian seafood exports have grown by 9.7% in rupee terms to touch Rs 7,617.97 crore in the April-February period of 2008-09 compared to the same period last year. In terms of quantity, the exports have increased by 7.9% to reach a level of 530,033 tonnes during the same period.

However, in terms of dollar, the exports fell by 1.4% to \$1,705.45 million during the same period. The unit value realisation fell to \$3.22 per kg during April-February period from \$3.52 per kg in the previous corresponding period.

Among the products, shrimp continued to be the major export item accounting for 44% of the kitty. Among the major markets, EU — the largest market for Indian seafood with a share of 33% — recorded an increase of 4% in quantity, 3.7% in rupee value.

But it, however, declined by 6.4% in the dollar earnings.

Japan — the second largest market with a share of 14.9% — recorded a negative growth in quantity and dollar value but a marginal growth in rupee value. China — the third largest market with a share of 14% — recorded a growth of 20% in rupee value.

The US, which stood at second place last year, fell to fourth place with a share of 12%.

<http://economictimes.indiatimes.com/Foreign-Trade/Seafood-exports-see-8-growth-in-2008-09/articleshow/4562620.cms>

News Round – Up

India better placed than US to tide over economic crisis

The US may have a few economic lessons to learn from India, with the emerging economy being better rated than the world's largest economy in terms of their capabilities to tackle the raging financial turmoil.

India has been ranked at the 13th position among 57 countries by Switzerland-based International Institute for Management Development (IMD) for being better equipped to tide over the crisis and emerge more competitive in near term.

The rankings based on 'Stress Test' also takes into account the future scenario along with individual nations' readiness and resilience in a period of global recession.

Denmark has clocked the top position, followed by Singapore, Qatar, Norway and Hong Kong. The US is placed far below at the 28th spot.

Moreover, at the 13th place, India is ahead of neighboring China (18th rank) and the world's second-largest economy, Japan (26).

"The Stress Test shows that smaller nations, which are export-oriented, resilient and with stable socio-political environments are better equipped to benefit immediately from the recovery," IMD World Competitiveness Center Director Professor Stephane Garelli said.

Going by the rankings, India is better placed than Brazil (22), the UK (34), Russia (51).

The 'Stress Test' took into account primarily four factors -- economy forecast, government, business, and society -- to rate how better each country can sail through crisis.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4559801>

Stable govt will ensure faster growth: Barclays

The UK-based investment bank Barclays Research expects the economy to do even better on account of an expected stable government at the Centre. It has said the general election results point to the formation of a strong and stable government. This improves the short-term and medium-term outlook for GDP growth.

Sailesh Jha, director, Asia Economics Research, said he sees a strong pick-up in investment on the back of robust domestic consumption and strong demand for exports. The impact on the GDP is likely to be about 100-200 basis points on account of a few factors.

Barclays' latest India report says, "We see risks to our FY09-10 and FY10-11 GDP growth forecasts as tilted to the upside by around 150 bps. The ability of a strong coalition government increases the possibility of significant structural reforms in financial, infrastructure, retail, and property sectors."

This could increase the trend GDP growth rate of India over the next five years, Barclays has said. "Recent high-frequency indicators on consumers and investment spending are already showing signs of improvement. We believe GDP growth bottomed in Q4 2008. There is also some anecdotal evidence which suggests that credit growth and labour market conditions are improving, while sentiment on the economy's outlook seems to be turning from neutral to negative," it adds.

Election outcome is set to have a crucial bearing on capital flows. The capital account in the balance of payments is likely to turn surplus from deficit in the second half of calendar year 2009 as growth and global liquidity improve. The rupee is expected to strengthen to Rs 45 levels by December 2009 from earlier forecast of 47.

It is expected to strengthen further to Rs 44 level.

Even the current account in the balance of payments is likely to improve. It is expected to turn into a surplus of \$1.8 bn (0.3% of GDP) in the second half of calendar year 2009 from a deficit of \$1.9 bn (-1.9% of GDP) in the first half. This is because goods and services exports are seen to rebound as demand conditions improve in the industrialised economies.

In addition, remittances are also expected to accelerate. Even the trade balance will improve as the oil import bill is set to dip and on improved outlook for exports. Barclays has revised its balance of payments (BoP) forecast for FY10 to \$44.4 bn (4% of GDP) from-\$3.4bn (-0.4% of GDP). Its FY09 BoP forecast is revised to \$-23.8bn (-2.2% of GDP).

<http://economictimes.indiatimes.com/Economy/Stable-govt-will-ensure-growth/articleshow/4558030.cms>