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News Feature

PM hopeful of 8.5% growth in current fiscal

Prime Minister Manmohan Singh has expressed confidence that his government will be able to achieve 8.5 per cent growth during the current fiscal despite concerns over high oil prices.

"As of now I have not seen any sign that we should change our view with regard to our ability to sustain a growth rate of 8.5 per cent... I am confident that we will be able to sustain a growth rate of 8.5 per cent this year," Singh told.

The Reserve Bank in its annual credit policy had pegged the growth for the current fiscal at 8 per cent, down from 8.6 per cent recorded during 2010-11.

Referring to agriculture situation and its impact on inflation, Singh said, "Whatever evidence we have, we expect a normal monsoon. And if the monsoon is normal, it will strengthen our ability to control food inflation".

http://economictimes.indiatimes.com/news/economy/indicators/pm-hopeful-of-85-growth-in-current-fiscal/articleshow/8639442.cms

OECD sees India economic growth at 8.5% in 2011-12

Paris-based think tank OECD pegged India's growth at 8.5 per cent for the current fiscal, indicating that economic expansion would be slower.

The Organisation for Economic Cooperation and Development (OECD) has projected the Indian economy to expand 8.5 per cent in 2011-12, much lower than the growth of 9.6 per cent witnessed in 2010-11 financial year.

Recently, Finance Minister Pranab Mukherjee had said the Indian economy is expected to grow 8 per cent in 2011-12, which is lower than budgetary estimate of 9 per cent growth.

Reserve Bank of India (RBI) has pegged GDP growth at 8 per cent, citing high oil prices among other things as the reason for this moderation.

OECD said in 2012-13, the economy is projected to expand 8.6 per cent.

OECD, a grouping of 34 developed and developing nations, noted that India's growth slowed to a more sustainable pace towards the end of 2010, after strong post-crisis rebound driven by a surge in private investment.

"Going forward, growth will pick up somewhat, underpinned by buoyant corporate sentiment and demand for infrastructure spending," the think-tank said.

Pointing out that inflationary pressures have become more generalised due to rising non-food prices, OECD said that liberalisation of FDI in retail sector would help in easing pressures of food inflation.

"... liberalisation of foreign direct investment in the retail sector would promote competition and help modernise supply chains, thereby reducing food inflation pressures," it added.

Food inflation, which was in double digits for most of 2010, stood at 7.47 per cent for the week ended May 7. Meanwhile, headline inflation has been above 8 per cent since January last year and touched 8.66 per cent in April 2011.

The government is likely to take a decision soon on FDI in multi-brand retail. Presently, FDI is allowed only in single brand retail, which is capped at 51 per cent.

"The recent increase in world oil prices has been passed through into domestic petroleum product prices only to a limited extent and higher energy subsidy outlays are likely in 2011," OECD said.

http://economictimes.indiatimes.com/news/economy/indicators/oecd-sees-india-economic-growth-at-85-in-2011-12/articleshow/8573032.cms

Overseas Investment

FIPB may clear FDI plans of over R1,200 cr

In a bid to fast-track approvals for foreign direct investment (FDI) proposals, the government plans to do away with the mandatory Cabinet Committee on Economic Affairs (CCEA) nod for FDI above R1,200 crore. Even such large projects would now be cleared at the sub-ministerial level of the Foreign Investment Promotion Board (FIPB), provided no national security angle is involved.

This would save foreign investors five to six months when it comes to obtaining the regulatory clearance and spur FDI inflows which have slowed in the last couple of years.

Currently, all FDI proposals above R1,200 crore have to be referred to the CCEA for vetting. Major cross-border deals involving FDI flows into India such as Daicchii-Ranbaxy, Hero-Honda, Tata-Docomo, Unitech- Telenor have all gone through the CCEA.

"The department of industrial policy and promotion (DIPP) has decided to modify the

regulation which makes CCEA approval compulsory for FDI investments above Rs 1,200 crore, in addition to the approval of Foreign Investment Promotion Board (FIPB)," said a government official privy to the development. "A draft note of the proposal has already been prepared and it would soon be sent for the Cabinet so that the relaxation could be implemented without delay," the official added.

The change has been considered in wake on increasing size of investments in greenfield FDI projects as well as M&A deals. Apart from cutting a layer of scrutiny that appears redundant, the planned move would also also make it easier for existing foreign investors who wish to enhance their investments.

At present, if a foreign investor has invested up to R1,200 crore in an existing venture and wishes to scale up its investment even by, say, R10 crore, he needs approvals from both FIPB and CCEA.

The move will also lessen the burden on CCEA which always has its hands full with more important matters of national importance.

However, government will not rule out the possibility of a CCEA nod in FDI cases which have serious implication with regard to national security. Mostly such cases fall in telecom and defence, where the government can always ask for CCEA opinion.

Last year, the government relaxed its norms a bit by allowing FIPB to clear FDI proposals of up to R1,200 crore. Till then, all project proposals that involved investment of above R600 crore were put up before the CCEA for approval.

The government also feels that the move would help increase the FDI flows into the country, which seem to have slowed. Overall FDI inflows into the country dropped by 25% to $19.4 billion during 2010-11 against $25.8 billion in the year ago period, according to official data.

The government is also taking steps like allowing FDI in Limited Liability Partnership firms to attract foreign fund inflows into the country.

The government is also considering to liberalise FDI policy in multibrand reatil sector. An Inter-ministerial Group headed by chief economic advisor Kaushik Basu suggested that foreign investments in the multi-brand retail should be allowed at the earliest as it would help address supply side constraints in the economy and ease inflationary pressures.

http://www.financialexpress.com/news/fipb-may-clear-fdi-plans-of-over-r1-200-cr/796907/0

RBI eases overseas investment norms

In a move that will give Indian companies more flexibility in managing international joint ventures (JVs) and wholly-owned subsidiaries, the Reserve Bank of India (RBI) has changed its overseas direct investment guidelines.

Indian companies will now be allowed to restructure balance sheets of their overseas JVs and wholly-owned subsidiaries.

Listed companies will be allowed to write off 25 per cent capital, loans and other receivables such as royalty and management fee of their JVs and wholly-owned subsidiaries through the automatic route. Unlisted companies have also been allowed this write-off, but will have to seek permission. In case of JVs, the Indian promoters should own at least 51 per cent. Existing regulations allow restructuring of balance sheets only for winding-up of JVs and wholly-owned subsidiaries abroad.

Companies are enthused. Chaitanya Deshpande, head, mergers & acquisitions and investor relations, Marico, said, "This is welcome to the extent that RBI recognises that all business ventures entail an element of risk. That there could be some write-off is a reality." The company has subsidiaries in West Asia, Egypt, South Africa and Banglalesh.

V Balakrishnan, CFO, Infosys Technologies, said, "Earlier, there were a number of administrative issues. Now, it is a simple guideline. If you have subsidiaries making losses, you can write off. It will help companies take quick action."

In another change, only 50 per cent of the amount of performance guarantee provided by Indian companies to overseas ventures will be taken into account while computing the overall exposure limit. Indian companies are allowed financial commitments in overseas ventures up to 400 per cent of their net worth. At present, 100 per cent performance guarantee is taken into account while calculating the overall exposure limit.

Explains Hitesh Gajaria, executive director, KPMG: "This will benefit companies in the infrastructure space which are executing projects in different parts of the world. The entire performance guarantee will not be calculated, giving them more headroom to inject funds."

A 'financial commitment' means the amount of direct investment outside India by way of contribution to equity and loans and the guarantee issued to or on behalf of overseas JVs/wholly-owned subsidiaries.

"This is a welcome step to provide additional headroom for overseas investments through the automatic route and ease procedural complexities for companies which have global operations," said Koushik Chatterjee, CFO, Tata Steel.

http://www.business-standard.com/india/news/rbi-eases-overseas-investment-norms/437051/

I&B ministry okay with 74% FDI ceiling for DTH, IPTV

The information and broadcasting ministry endorsed the recommendation by the Telecom Regulatory Authority of India (Trai) to enhance foreign direct investment (FDI)

ceiling for direct to home TV, Internet protocol TV and teleport from 49% to 74%.

However, it rejected recommendation to reduce the FDI ceiling for local cable operators from 49% to 26%, arguing that the limit had been 49% since 1995. "The nature of control as per the provisions of the Company Law would also not undergo any change since the power to initiate a special resolution remains the same at 26% or at 49%. The ministry is of the view that not much purpose would be served by reducing the FDI limit and, therefore, 49% FDI may be retained for the LCOs," the ministry said in its draft note, which has now been sent back to Trai for consideration.

On the recommendations on FDI cap for uplinking of non-news and current affairs TV channels and downlinking of TV channels uplinked from abroad and in news channels and FM, radio, the I&B ministry agreed with views of Trai under those heads.

http://articles.economictimes.indiatimes.com/2011-05-24/news/29577955_1_tv-channels-fdi-ceiling-i-b-ministry

Trade News

India signs pact with Ethiopia to avoid double taxation

India has signed a double taxation avoidance agreement (DTAA) with Ethiopia.

The agreement would provide tax stability to residents, facilitate mutual economic cooperation and flow of investments, technology and services between the countries.

The DTAA was signed by Mr S.M. Krishna, External Affairs Minister, and Mr Sufian Ahmed, Ethiopian Minister, at Addis Ababa in the presence of the Prime Minister, Dr Manmohan Singh, and Ethiopian Prime Minister, Mr Meles Zenawi.

Under the DTAA, business profits will be taxable in the source State if the activities of an enterprise constitute a permanent establishment.

Permanent establishment include branch and factory.

Profits of a construction, assembly or installation projects will be taxed in the source State if the project continues in that State for more than 183 days.

Profits from operation of ships or aircraft in international traffic will be taxable in the country of residence of the enterprise.

The DTAA also provides that dividends, interest, royalties and fees for technical services (FTS) income will be taxed both in the country of residence and in the country of source.

However, the maximum rate of tax that could be charged in the source country will not exceed 7.5 per cent in the case of dividends and 10 per cent in the case of interest, royalties and FTS.

Capital gains on sale of shares will be taxable in the source country.

The DTAA provides for effective exchange of information between tax authorities including banking information.

It also incorporates anti-abuse provisions to ensure that the benefits of the agreement are obtained only by genuine residents of both the countries.

http://www.thehindubusinessline.com/todays-paper/tp-economy/article2055296.ece

Economic cooperation on mind, German Chancellor Merkel heads to India

German Chancellor Angela Merkel spoke of India as a large and highly dynamic nation which presented "never-ending possibilities" for cooperation.

In her weekly Internet video address three days before leaving for New Delhi at the start of an Asian tour, Merkel said that the first inter-governmental consultations at the cabinet level will be the main highlight of her India visit.

This comes over a decade after the two countries took their relationship to a higher level by agreeing on a strategic partnership.

Merkel told an interviewer that she will be taking along with her five cabinet ministers and representatives of several ministries for the Indo-German consultations.

Her visit will also mark the 60th anniversary of the "successful diplomatic relations" between the two countries.

In addition, she will attend the opening of the 'Year of Germany in India' with a concert in New Delhi.

"The theme of this event speaks for the never-ending possibilities for cooperation between Germany and India," she said.

"This time really there are several reasons for my travel to India," she said.

In the field of bilateral cooperation, the chancellor referred to Germany's two-pronged approach to promote India's economic and social development by fostering industries and by assisting the government in combating poverty.

Industrial development-oriented economic cooperation between the two countries in the past decades has been progressing so well that the two countries have now become competitors in certain markets, she said.

http://economictimes.indiatimes.com/news/economy/foreign-trade/economic-cooperation-on-mind-german-chancellor-

merkel-heads-to-india/articleshow/8630172.cms

Working to boost two-way trade with India: Australia

India and Australia have expressed a keen interest to work together to boost two-way trade following talks in Canberra during the visit of Indian Commerce Minister Anand Sharma , its Trade Minister has said.

India and Australia have embarked upon talks to conclude an ambitious Comprehensive Economic Cooperation Agreement and the latest engagement resulted in an initiative being launched to develop two-way trade between the two nations and its success is expected to add over USD 40 billion to each economy.

In a recent interview of Australian Trade Minister Craig Emerson by ABC radio, he stressed on the growing importance of India, especially in the backdrop of India's quest for food security.

"With our two-way relationship with India, I think food security is going to be an issue for India and other countries of the region. The more they seek self-sufficiency in one type of food, that's less land available for another type of food. Interestingly, we're a major exporter of chick peas to India, and so that's a source of protein in Indian food," he said.

"So there are boundless opportunities and I think we have under-tapped the potential over this period since 1991," he commented.

To a query on whether the Australian government seeks to gain some concessions with regard to the massive tariffs imposed by India on food and agricultural products, he said the government would be looking at a reduction in these barriers at least in some lines and gradual elimination over time.

http://economictimes.indiatimes.com/news/economy/foreign-trade/working-to-boost-two-way-trade-with-india-australia/articleshow/8553324.cms

Sectoral News

Spice Exports Treble in Five Years

Spice exports have seen risen three-fold in value terms in the last five years. In quantity terms, the increase would be close to 60% in the period. Exports of spices and spice products stood at 6,030.74 crore during the April-February period of 2010-11.

They were at around 2,100 crore during the April-February period of 2005-06.

Though almost all items in the spice basket have registered a growth during the past five years, the phenomenal rise in chilli, turmeric and cumin and value-added items like curry powder, mint products and spice oils have led

to the boom in exports.

"The increase in the value of spice exports is the combined effect of an increase in the prices of major items, a moderate increase in the quantity of exports and higher exports of value-added items," said Philip Kuruvila, former chairman of the All India Spice Exporters Forum.

http://articles.economictimes.indiatimes.com/2011-05-25/news/29581997_1_quantity-terms-value-terms-products-and-spice-oils

Apparel exports grow about 13% in April

India's apparel exports grew by about 13 per cent to USD 1 billion in April 2011 year-on-year, due to strong demand from the US and European markets.

The exports stood at USD 972 million in April last year, according to the data provided by the Apparel Export Promotion Council (AEPC).

"There is a good demand for our exports from the US. Also, the European market is picking up," AEPC Chairman Premal Udani said.

The US and Europe together account for about 65 per cent of India's total garment exports. The council expects garments exports' growth to continue in 2011-12.

"We expect exports to touch USD 14 billion in the current fiscal as we are getting good orders not only from the western markets, but also from new markets like Latin America," Udani said.

During 2010-11, garments exports grew by 4.4 per cent to USD 11.1 billion compared to the previous fiscal.

The garment industry employs about 70 lakh people in the country, out of which almost half are engaged in the export sector.

http://economictimes.indiatimes.com/news/economy/indicators/apparel-exports-grow-about-13-in-april/articleshow/8647100.cms

Handicrafts exports up about 14% to $204 million in April y-o-y

Handicrafts exports grew by about 14 per cent to USD 204 million in April year-on-year, mainly driven by the growing demand from the US and European markets.

In April last fiscal, the exports during the period stood at USD 179.9 million, according to the Export Promotion Council for Handicrafts (EPCH) data.

The council expects the exports growth to continue in the current fiscal.

"We expect the exports to touch USD 2.7 billion in 2011-12 due to increasing demand not only from the US and Europe, but also from emerging markets like Middle East, Latin America and Africa," EPCH Executive Director Rakesh Kumar said.

The US and Europe together account for

about 60 per cent of the country's handicraft shipments.

Among the items that registered the maximum growth in exports were wood wares (26.9 per cent), followed by imitation jewellery (21 per cent), shawls as art wares (19 per cent), miscellaneous handicrafts (15 per cent) and art metal wares (13.49 per cent).

Moradabad, Jaipur, Saharanpur, Jodhpur and Narsapur are the major handicraft hubs catering to world markets, employing one million people.

During April-March 2010-11, handicrafts shipments jumped about 26 per cent to USD 2.3 billion as compared to the previous fiscal.

The growth is in sync with the country's total merchandise exports growth which registered the highest ever growth of 37.5 per cent to USD 245.9 billion in 2010-11.

http://economictimes.indiatimes.com/news/economy/foreign-trade/handicrafts-exports-up-about-14-to-204-million-in-april-y-o-y/articleshow/8586235.cms

India set to sign catchup cooperation deals with Africa

Indian Prime Minister Manmohan Singh was due to sign deals in fields from trade to life sciences to boost India's footprint on the African continent, where China has a strong advance.

The agreements come after Singh promised three-year credit lines of $5 billion (3.6 billion euros) to African nations, on the first day of the India-Africa summit.

The two parties were also to sign a political statement -- the so-called Addis Ababa Declaration -- calling for comprehensive reform of the United Nations system including an expanded UN Security Council in which the partners have pledged each other's support for a permanent seat.

China has a 10-year advance over India in penetrating the African market and India is keen to play catch up.

Singh also promised an additional $700 million to set up a raft of institutions and training programmes in different African regions in fields ranging from food processing to weather forecasting.

The human resources projects India has set up and plans to develop include the India-Africa Institute of Foreign Trade in Uganda , the India-Africa Institute of Information Technology in Ghana, the India-Africa Diamond Institute in Botswana, and the India-Africa Institute of Education, Planning and Administration in Burundi.

The essential of the India-Africa talks, aimed at consolidating trade ties between two regions that together account for a third of the world's population, took place on Tuesday, with Singh and the dozen African leaders in attendance reconvening to finalise

the agreements.

The two sides were to sign both a cooperation framework to further bolster the economic relations that got a boost after the first India-Africa summit in 2008 in New Delhi and a political agreement.

"Africa possesses all the prerequisites to become a major growth pole of the world in the 21st century," said Singh. "We will work with Africa to enable it realise this potential."

At the 2008 New Delhi summit, India offered $5.4 billion in concessionary credit lines over a five-year period.

"In the three years since the first India-Africa summit, Indian trade and investment in Africa have significantly increased," noted Alex Vines of the London-based think-tank Chatham House in a report last week.

Last year, India's imports from Africa were worth $20.7 billion, compared with $18.7 billion the previous year, and its exports stood at $10.3 billion the same year.

http://economictimes.indiatimes.com/news/economy/foreign-trade/india-set-to-sign-catchup-cooperation-deals-with-africa/articleshow/8569416.cms

News Round-Up

India will grow faster than China in next 20 years: Standard Chartered

India is likely to emerge as the world's third-largest economy by 2030 and grow faster, on an average, than China over the next two decades, says the Standard Chartered report India in the Super Cycle. However, regulatory burden, infrastructure bottlenecks, high oil prices and slowdown in foreign direct investment could affect growth.

"We factor in a trend rate of growth of 6.9% for China, allowing for setbacks along the way, and 9.3% for India, again taking into account the business cycle," said Gerard Lyons, chief economist and group head, global research, Standard Chartered Bank.

The world may be experiencing its third 'super-cycle', which is defined as "a period of historically high global growth, lasting a generation or more, driven by increasing trade, high rates of investment, urbanisation and technological innovation, characterised by the emergence of large, new economies, first seen in high catch-up growth rates across the emerging world," Standard Chartered said.

The third supercycle, the report says, is led by India and China and other emerging economies, shifting the balance of economic and financial power from the West to the East. The winners of the supercycle would be those countries which have abundance of cash or commodities. Currently, the Indian

economy is expected to grow at about 9%, however, the rising inflation poses a risk to growth. In 2010-11, the central bank has raised key policy rates eight times.

The wholesale price based inflation was at 8.66% in April, compared with 9.04% in March. "India's growth is particularly vulnerable if infrastructure investment is not rapid enough. India needs to attract foreign capital to fill the funding gap," the report said. Net FDI inflows as a proportion of net FII inflows averaged around 40% between 2003 and 2007, but this dropped to just 28% in 2010. "The government's inability to push ahead with the relaxation of FDI caps in sectors such as multibrand retail and insurance has also dampened FDI inflows.

Further, opening of the corporate bond market would also be needed," said the report. "Indian bureaucracy and the corruption that often accompanies it need to be overhauled to make decision making more efficient," it added. The rising oil prices could also be a potential risk to growth. "The regulatory environment in India has been inherited from the British. There needs to be right regulations and investment opportunities for investors," added Mr Lyons.

"The regulators need to broaden regulation and make regulatory framework conducive for foreign investors and foreign banks to participate in the local market," he added. However, he is of the view that international banks need to avoid subsidarisation as it can work against international banks. "Banks that facilitate international trade need to operate as a single unit. International Banks need to operate as one entity so that they can move capital freely," said Mr Lyons.

http://economictimes.indiatimes.com/news/economy/indicators/india-will-grow-faster-than-china-in-next-20-years-standard-chartered/articleshow/8575753.cms

India tops global consumer confidence level for fifth quarter

Indians were more concerned about rising food prices than job security, employment prospects or the state of their finances in the first quarter of the 2011 calendar year, according to a survey by consultancy firm Nielsen.

As many as 14 per cent of Indians cited food prices as their biggest concern in the Nielsen Global Online Consumer Confidence Survey.

Nielsen conducted its global survey through an online poll of 28,000 people from 51 countries, out of which 500 (rpt) 500 people were from India.

It found that India topped the global consumer confidence level for the fifth straight quarter on the basis of the responses, Nielsen India Managing Director (Consumer) Justin Sargent told reporters here.

"India's consumer confidence has remained consistent over the last five quarters, driven by strong economic growth and optimistic job market. If confidence levels among consumers have remained flat over the last quarter, it is largely due to global factors of weaker equity markets, higher commodity prices and overall weaker global recovery compounded by rising domestic inflation," Sargent said.

Indians were also the most optimistic about the state of their personal finances in the next 12 months, with nearly 87 per cent are optimistic about their personal finances and 61 per cent opining it is a 'good' time to make purchases.

http://economictimes.indiatimes.com/news/economy/indicators/india-tops-global-consumer-confidence-level-for-fifth-quarter/articleshow/8563410.cms

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