

Weekly Economic Bulletin

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News Feature

GDP jumps 8.6 pct in Q4; 7.4 pct in FY10

Driven by a robust performance by the manufacturing sector, the Indian economy grew by 8.4 per cent in the last quarter of 2009-10, pushing up the overall growth to a better-than-expected 7.4 per cent.

The manufacturing sector grew by 16.3 per cent in the fourth quarter (January-March 2009-10) and 10.8 per cent in the fiscal.

The Gross Domestic Product (GDP) grew at 7.4 per cent for 2009-10, higher than the February projection of 7.2 per cent.

The Central Statistics Organisation (CSO) also revised upwards the growth rates for Q2 and Q3 of 2009-10 on better-than-expected performance by manufacturing, mining and quarrying industries than first thought.

There was no decline in agriculture growth in 2009-10, despite widespread drought and floods hitting the farm output.

According to the CSO data, the farm sector recorded a growth rate of 0.2 per cent contrary to expectations of negative growth.

Following the global financial crisis, the GDP had moderated to 6.7 per cent in 2008-09 after recording a growth rate of 9 per cent in the three preceding years.

<http://www.financialexpress.com/news/gdp-jumps-to-8.6-pct-in-q4/627112/>

Core growth moderates to 5.1% in April

Core sector industries expanded by 5.1% in April, a drop from the healthy 7.2% growth in March, indicating at a possible moderation in industrial growth.

The six industries - petroleum refinery products, crude production, coal, electricity, cement and finished steel - have a 26.7% weight in the index of industrial production which is used to measure industrial growth.

The government data showed finished steel production had expanded by 4.7% in April against a 1.3% contraction in April 2009.

Because of its over 25% weight in the index of industrial production, the core sector is seen as a good indicator of industrial activity. It is also available almost a fortnight before the wider industrial production data is released.

However, a strong core sector growth does not necessarily mean an equally robust industrial production or vice-versa. In April 2009, for instance, core sector grew a healthy 3.8% but industrial growth came in at only 1.1%.

The strong growth in production of steel and cement, which grew a strong 8.7% in April 2010, indicates a pickup in user industries such as white goods, automobiles and construction.

The cement and steel sector are expected to be the biggest beneficiary of the government's emphasis on infrastructure.

<http://economictimes.indiatimes.com/news/economy/indicators/Core-growth-moderates-to-51-in-April/articleshow/5986895.cms>

Overseas Investment

FDI in multi-brand retail set to get 100% backing

The commerce and industry ministry is likely to propose 100% foreign direct investment (FDI) in multi-brand retail, opening the doors to the likes of Wal-Mart and Tesco, but will suggest stiff local sourcing requirements and mandatory investments in backward linkages.

"We are preparing the paper that will be placed for public debate in some time," a senior official of the department of industrial policy and promotion (Dipp), the nodal body for foreign investment policy, told.

Though the earlier view within the department was to keep the FDI limit at 51%, same as in single-brand retail, it has veered around to keeping it much higher and even pegging it at 100% to have an intense debate on the subject, he added.

A final decision on the proposed cap will be taken after deliberations with the consumer affairs ministry, the nodal department for retail, he said.

Interestingly, in another paper on FDI in defence, the department has proposed foreign investment up to 74%. The paper on retail will be the second in a set of six discussion papers proposed to be put out by Dipp.

The paper is also expected to make it mandatory for big multi-brand foreign retailers to create a back-end cash-and-carry for small shopkeepers, giving them benefit of scale on the sourcing side.

"The idea is that big multi-brand retail outlets should enable growth of small retailers and not threaten their existence," the official said.

<http://economictimes.indiatimes.com/news/economy/policy/FDI-in-multi-brand-retail-set-to-get-100-backing/articleshow/5970605.cms>

Forex reserves marginally up

Reversing the trend, India's foreign exchange reserves inched up marginally to \$273.364 billion during the week ended May 21 compared to USD 273.300 billion, a week earlier.

The forex reserves of the country have gone down by nearly USD 6 billion in the previous two weeks, due to the depreciation of major global currencies and possible dollar sale by the RBI in the market to support rupee.

Foreign currency assets, during the week, went up to USD 248.637 billion as against USD 248.597 billion in the previous week, the RBI said in its weekly report.

Foreign currency assets expressed in US dollar terms include the effect of appreciation or depreciation of non-US currencies, such as euro, sterling and yen, held in the reserves, the RBI said.

During the week, gold reserves remained static at USD 18.537 billion, while the country's special drawing rights slightly improved to USD 4.877 billion, the RBI said.

India's reserves position in the International Monetary Fund also went up to USD 1.313 billion from USD 1.308 billion a week ago, the RBI said.

<http://economictimes.indiatimes.com/news/economy/indicators/Forex-reserves-marginally-up/articleshow/5988906.cms>

Trade News

Indian delegation off to Taiwan to explore business opportunities

In the first high-level visit from India, a delegation led by a senior government official and including top executives from leading companies today embarked on a six-day tour of Taiwan to explore business opportunities.

Amid Taiwan's keen interest to step up investments in India, the delegation, led by Rakesh Singh, Additional Secretary in the Department of Information Technology of the Union Communications Ministry, will meet top officials and executives of Taiwanese companies.

The visit of the delegation is part of India's 'Look East Policy', Pradeep Kumar Rawat, Indian Representative in Taiwan, said in a statement.

India does not have diplomatic relations with Taiwan as China considers it a part of it.

Taiwan is a world leader in manufacturing units and has helped brands like Nokia and Hewlett Packard to build 3G communication systems.

As part of its new policy of investing in developing and resurgent markets, Taiwan is interested in collaborating with Indian IT companies so that they can retrieve the domestic markets by building their own brands.

Besides Singh, the delegation includes Vijay Malhi of Moser Baer, Rajesh Raizada of HCL Infosystems, Anand Prasad Arkalgud of Infosys, Ajay Nijhawan of Reliance Haryana Special Economic Zone.

Senior officials of the Union ministries of Commerce and Communication and representatives of state governments are also part of the delegation.

A Taiwanese delegation of 12 heavy-weight industrialists had visited India for a week early this month.

David HSU, Director of Economic Division, Taipei Economic and Cultural Centre said trade relations between India and Taiwan have been developing smoothly and steadily in the last years.

He noted that more than 40 trade delegations from Taiwan visited India every year during the last three years to explore trade and investment opportunities.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Indian-delegation-off-to-Taiwan-to-explore-business-opportunities/articleshow/5990478.cms>

Potential to sustain, boost trade with UAE

With the United Arab Emirates (UAE) emerging as number one trading partner for India, followed by China, the US, Saudi Arabia and Germany, there is significant potential for further growth in trade numbers based on the current trends, according to representatives from both these countries.

The bilateral trade between India and the UAE for the period April 2008-2009 was at \$48.27 billion, which is a significant growth over \$29.11 billion a year ago. The Indian exports to the UAE grew at over 53 per cent and India's imports were up at 52.89 per cent. This is time to consolidate, feel both the countries as there has been enhanced interest for partnerships and joint ventures.

Mr Mana S. Sultan Al Suwaidi, Commercial Attache, Embassy of United Arab Emirates, said that Andhra Pradesh and Hyderabad, in particular, and India, in general, continue to engage businesses across both sides. This is evident from the recent interactions between representatives of both the countries.

“Therefore, we are in the process of preparing a report that highlights the potential for trade and co-operation in some of the areas such as energy including solar power generation. The learning from some of the large projects such as the solar-powered satellite city in Abu Dhabi could be shared between the two,” he said.

The recent Dubai debt crisis has had some impact on the trade between the two. Yet, the growth momentum in the UAE continues. In fact, India, which provides significant manpower to support projects in the UAE, is playing a vital role in supporting engineering, infrastructure and services segments. However, there is potential to tap into new areas, including agri-food processing, it is felt.

<http://www.blonnet.com/2010/05/25/stories/2010052552631900.htm>

Indonesian Ambassador hails bilateral ties

Indonesia attaches great importance to relations with India since it sees the latter as an emerging economic superpower. This was stated here by the visiting Indonesian Ambassador, Mr Andi M. Ghalib, while addressing members of the Kerala Chamber of Commerce and Industry.

Annual bilateral trade between the two countries had grown from \$4 billion to \$10.55 billion within a span of four years between 2005 and 2009. The two countries shared a solid foundation of values, commitment to democratic pluralism and rule of law and genuine multilateralism. The free trade agreement between India and Association of Southeast Asian Nations (ASEAN) would help this cause further, the Ambassador added.

<http://www.blonnet.com/2010/05/26/stories/2010052653442100.htm>

India, Turkmenistan ink MoUs to boost trade

India and Turkmenistan inked several bilateral accords to enhance co-operation in trade, education, science and technology, art and culture and visa free travel to holders of diplomatic passport.

During the talks between Prime minister Manmohan Singh and the visiting Turkmenistan President Gurbanguly Berdimuhamedov, oil and gas featured large on the agenda, and a natural gas pipeline through Afghanistan as a boost to bilateral ties, officials said.

External affairs minister SM Krishna and Turkmenistan deputy prime minister Rashid Meredov signed an agreement providing for visa free travel for diplomats of the two countries.

Commerce and industry minister Anand Sharma inked the treaty about co-operation in economic and trade fields with deputy prime minister Hojamuhamet Muhammedov.

Berdimuhamedov, who arrived on a three-day maiden visit to India, also met President Pratibha Devisingh Patil as well as vice-president Hamid Ansari, including several senior leaders.

<http://www.financialexpress.com/news/india-turkmenistan-ink-mous-to-boost-trade/623566/>

Trade pact talks with Mercosur next month

Negotiations for the expansion of India-Mercosur Preferential Trade Agreement (PTA) will be in New Delhi early next month to discuss further and widening the list of goods with preferential tariffs covered under this agreement.

The meeting would be attended by members of Brazil, Paraguay, Uruguay and Argentina and senior officials from the external affairs and the commerce and industry ministries.

The PTA has been covered 450 items each of India and Mercosur exports since it become operational in June 2009. The latter has become a successful regional market with GDP of \$2 trillion. It is the third largest integrated market after EU and NAFTA. Its full members are Argentina, Brazil, Uruguay and Paraguay.

Senior officials in the foreign ministry said that, “The talks for expanding the lists has been scheduled for next month.”

“Mercosur has already drawn up their list of 1,600 items and the Indian commerce ministry is starting the list collection. Indian exporters, export promotion councils and trade and industry bodies have been presenting their cases to the ministry, mentioning the item with the Harmonised System code and percentage of preference they desire,” R Vishwanathan, Indian ambassador to Argentina, Uruguay and Paraguay told.

With the signing of the PTA, it has been expected that the India and Mercosur trade would double to \$10 billion in the next 3 to 5 years.

While, the PTA contemplates lowering of tariffs for a list of specific products which include chemical components, some agricultural items, household appliances and petrochemicals, pharma ceutical products and components, vaccines, industrial machinery (for India into Mercosur).

<http://www.financialexpress.com/news/trade-pact-talks-with-mercotur-next-month/624597/>

India-Finland tax treaty from April 2011

The revised double taxation avoidance agreement (DTAA) between India and Finland will come into effect from April 1, 2011.

An order to this effect has now been issued by the Indian side.

This new tax treaty was signed at New Delhi in January this year.

Besides reducing the withholding tax rate on dividends, royalty and fees for technical services (FTS) to 10 per cent, it also explicitly provides for transfer pricing disputes to be taken through the Mutual Agreement Procedure (MAP) route.

Also, the revised tax treaty has withdrawn the facility of tax sparing credits for companies, which could imply a revenue gain for the Finland Government.

No tax sparing credit will be allowed unlike the existing India-Finland DTAA, according to Mr Prashant Khatore, Tax Partner, Ernst & Young.

In the revised DTAA, there are a number of anti-abuse provisions, including limitation of benefits clause. Also, the scope of the article on ‘exchange of information’ has been widened and another article has been inserted for ‘assistance in collection of taxes’.

As of now, there are about 75 Finnish companies operating in India, including mobile handset major, Nokia. The existing DTAA was signed at Helsinki in June 1983, and later modified at New Delhi in April 1997.

<http://www.thehindubusinessline.com/2010/05/29/stories/2010052952170400.htm>

Investment opportunities in Australia showcased

Potential business and investment opportunities between Indian-Australian companies were showcased and discussed at a seminar on 'Winning Business & Investment with Australia' organised by the Australian Trade Commission.

The seminar focussed especially on the opportunities in New South Wales, with bilateral trade between that State and India being of the order of \$2.13 billion. It was pointed out that India is NSW's 14th largest trading partner, with exports from that State into India valued at US\$ 1.37 billion. The areas that provided opportunities for furthering trade between the two were identified as the creative, including the film sector, financial services, mineral development and pharma and healthcare.

The NSW Government has recently established a business office in Mumbai. Mr Aminur Rahman, Australian Consul General for Southern India and Trade Commissioner, said: "Andhra Pradesh is a very significant business destination for Australian companies. Australia can provide value-added competitive solutions and expertise both in traditional and emerging sectors for businesses in Andhra Pradesh."

<http://www.blonnet.com/2010/05/28/stories/2010052851600400.htm>

Sectoral News

Plastic exports likely to grow by 10 pc in 2010-11

India's plastics exports are likely to grow by 10 per cent in the current fiscal from an estimated USD 3.2 billion in 2009-10 on account of demand revival in the western markets.

The exports were impacted during the last fiscal due to demand slowdown in the US and the EU, which together account for over 30 per cent of the outward plastic shipments.

"Exports are showing signs of recovery in the western markets. We expect the exports would grow by about 10 per cent in 2010-11," Plastics Export Promotion Council Chairman Manoj Agarwal told.

While the exports in the current year are likely to grow over 2008-09, the expansion would be less than in the Pre-economic crisis years. Earlier, exports were growing between 15-20 per cent, Agarwal said.

The council said if the government provides market linked incentives for the US and the EU to plastics exporters, it would significantly enhance overseas shipments. Plastics exporters get such incentives in several African and Asian countries.

Agarwal further said that when the proposed plants of oil companies like ONGC and GAIL would become functional, the availability of raw material for the plastics sector would increase which in turn would help the industry.

The council also said the financial crisis in some EU countries could have significant impact on their business.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Plastic-exports-likely-to-grow-by-10-pc-in-2010-11/articleshow/5981513.cms>

Power sector clocks 25% higher investments

Thanks to a private sector surge, the power sector has seen nearly 25 per cent higher investment flows than envisaged.

In the first two years of the current Plan period, the sector, especially generation projects, saw investments of Rs 2.28 lakh crore against the projected Rs 1.84 lakh crore, according to preliminary estimates compiled by the Planning Commission.

Compared to the power sector, other key infrastructure sectors have seen investments well below the projected levels.

The inflows into the roads sector during the first couple of years were Rs 90,849 crore compared to the projected investment of Rs 1.07 lakh crore. In the ports sector, the investment was Rs 12,090 crore against the projected Rs 27,231 crore, according to the data.

“Investment inflows have been buoyant in the power sector, well beyond projections, mainly on account of private developers coming into the picture. The private sector's contribution to capacity addition has gone up from 8 per cent in 2007-08 to 25 per cent in 2008-09 and now to 45 per cent during 2009-10. A number of these projects has come up as unplanned capacities,” an official involved in tracking project schedules in the Central Electricity Authority said.

According to the Planning Commission data, the power sector, easily one of the laggards among key infrastructure areas, is projected to see the highest levels of investment inflows during the Eleventh Plan. The projected investment in the electricity sector, including renewables, is pegged at Rs 6.66 lakh crore during the Eleventh Plan period, against Rs 3.14 lakh crore in roads, Rs 2.58 lakh crore in telecommunications, Rs 2.62 lakh crore in Railways, Rs 2.53 lakh crore in irrigation, 87,995 crore in the ports sector, Rs 30,968 crore in airports and Rs 16,855 crore in the gas sector. The cumulative investments being targeted during the five-year period is Rs 20.56 crore.

During the Tenth Plan, about 25 per cent of the total investment in infrastructure came from the private sector. This is expected to rise to about 36 per cent, during the current Plan, with the power sector leading the charge.

<http://www.thehindubusinessline.com/2010/05/26/stories/2010052650450400.htm>

PC sales up 33% in Jan-Mar

Personal computer sales in India jumped 33% to 22.40 lakh units during the January-March quarter over the year-ago period, indicating a broad based recovery in the market, research firm IDC said. Sequentially, sales rose 14%.

Desktop sales generated two-thirds of overall PC sales at 14.36 lakh units, a growth of 18% over the year-ago quarter. The high traction was attributed to spending on IT infrastructure by large and very large businesses as well as from the government segment. Notebook sales continued its strong momentum, climbing 72% to 8.03 lakh shipments, driven primarily by a revival in demand.

IDC said in the combined notebook and desktops market, HP retained the top spot with a market share of 16.5%, while Dell (13.6%) and Acer (13.0%) took the second and third spots, respectively.

In desktops, HP had a market share of 11.2%, followed by Acer and HCL in second and third spots during the Jan-March quarter. In notebook shipments, HP reclaimed the top spot from Dell with a market share of 25.9%; Dell slipped to the second position, while Acer was ranked at No. three.

<http://www.financialexpress.com/news/pc-sales-up-33-in-janmar/623067/>

India gold demand near record: WGC

Akshaya Tritiya festival may have been a damp squib, but India's gold demand for the quarter to end-March was robust, and could match the levels seen in the first quarter of 2007, when total demand stood at 211 tonnes, a senior official of the World Gold Council (WGC) said.

Demand for gold in Q1 has been robust, growth in value terms are in double digits, close to 40-45 percent..., Ajay Mitra, managing director India and Middle East, WGC, said in an interview, ahead of the release of quarterly demand figures, adding they look close to 2007 numbers.

We expect the momentum to continue in coming months on excess surplus cash and liquidity, said Mitra, adding gold offers better returns than other asset class.

MCX gold struck a record high of 18,424 rupees on May 17, when safe haven buying overseas supported the yellow metal.

India recorded a 13 percent rise in consumption to 180.7 tonnes in the fourth quarter to end December 2009.

Demand had revived in 2010 in the world's largest consumer, after a dismal performance in 2009, when the worst monsoon in 37 years badly hit gold sales.

While gold sales have generally been good so far this year, the major gold buying festival of Akshaya Tritiya earlier this month saw a fall in demand due to record high prices, traders and retailers said. See

India's gold consumption during Akshaya Tritiya last year stood at 45 tonnes.

However, Mitra said sales for Akshaya Tritiya have been good on expectations of higher prices.

They (jewellers) have repeated their good sales in all jewellery category, Mitra said, without giving details on quantity consumed.

Mitra sees further growth in investments into Exchange Traded Funds (ETF).

The 3-4 tonnes of increase in investment in ETFs in recent months is remarkable and could be the next driver for growth, Mitra said.

India's gold collection under exchange-traded funds more than doubled to cross the 10-tonne mark in April, data from the funds showed. See

Investments into diamonds have been witnessing significant growth from the urban upper middle class, Mitra added.

India is the world's fourth biggest diamond consumer accounting for about 7 percent of total consumption, while the U.S. leads with 40 percent.

<http://www.financialexpress.com/news/india-gold-demand-near-record-wgc/623353/>

News Round-Up

PE investment rises over 3-fold in Jan-April

Investment by private equity (PE) companies rose over three-fold during January-April this year as compared to the same period last year. The comparative figures are \$3,044 million (Rs 14,521 crore) and \$837 million (Rs 3,993 crore). These investments were driven by energy and healthcare services sectors. The number of deals rose from 73 to 92, shows data compiled by Venture Intelligence.

"While the appetite for investments has improved across industries, the economic recovery has boosted investments in industries like energy and healthcare & life sciences," said Arun Natarajan, chief executive officer of Venture Intelligence.

According to the Chennai-based research company, energy attracted investments worth \$823.4 million (Rs 3,927.7 crore), as against \$87.4 million (Rs 416.8 crore) a year earlier. Some major ones included \$425 million by a consortium in Asian Genco in March, a \$200-million investment by Temasek in GMR Energy in April and \$115 million by TPG Growth and others in the Greenko Group.

The healthcare and life sciences sector attracted \$247.3 million, compared to \$37.8 million a year earlier. Some major investments in the sector are New Silk Route's investment of \$55 million in Nectar Lifesciences in February and a \$50 million investment by AIF Capital in Famy Care.

The information technology and IT-enabled services industries got \$322.8 million, compared to \$141.4 million a year earlier. Banking, financial services and insurance got \$457.5 million, compared to \$76.8 million.

<http://www.business-standard.com/india/news/pe-investment-rises-over-3-fold-in-jan-april/396043/>

Indian economy to grow 8.3 pc in 2010: OECD

A grouping of developed nations OECD projected 8.3 per cent economic growth rate for India in 2010 and a slightly better 8.5 per cent expansion next year.

Calling for further tightening of monetary policy to tackle rising inflationary pressures and avert "asset-price bubbles", the Organisation for Economic Cooperation and Development (OECD) said the country needs to guard against the overheating of the economy.

Prime Minister Manmohan Singh had said that the economy would grow at 8.5 per cent rate for the current fiscal ending March 31, 2011.

"A boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy in some non-OECD countries, including China and India, to counter inflationary pressures and reduce the risk of asset-price bubbles," OECD said in its Economic Outlook report.

The Reserve Bank of India (RBI) is already embracing a tight monetary policy and recently hiked its key rates.

Inflation for April stood at 9.59 per cent while the food inflation is hovering at over 16 per cent.

"Timely policy action to limit the scope for second-round price increases is therefore required. Monetary policy normalisation is also important in light of relatively modest fiscal consolidation," OECD said.

According to the report, the expected rebound in agricultural activity should help limit further increases in food prices, which have been a major contributor to recent high inflation.

However, underlying inflationary pressures are likely to persist given the strong outlook for demand.

"With agricultural output expected to rebound sharply, economic growth should be strong in the near term before moderating to around trend rates," it noted.

In April, RBI hiked repo and reverse repo rates (the rates at which it lends to and borrows short-term funds from banks) by 25 basis points each to 5.25 per cent and 3.75 per cent, respectively. These rates were hiked by an identical margin on March 19.

<http://economictimes.indiatimes.com/news/economy/indicators/Indian-economy-to-grow-83-pc-in-2010-OECD/articleshow/5978352.cms>