

Weekly Economic Bulletin

Date: October 21- 27, 2008

Issue No. 287

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News Feature

Capital inflows volatile, forex reserves comfortable: RBI

Review of the mid-term Macroeconomic and Monetary Development, released by the Reserve Bank of India (RBI), said that capital flows have remained volatile. Net capital flows during 2008-09 were lower than those in the corresponding period of 2007-08, mainly on account of outflows by foreign institutional investors (\$7.3 billion) during 2008-09 (up to October 10, 2008) in contrast to net FII inflows (\$ 18.9 billion) during the corresponding period of 2007-08.

On the other hand, net FDI flows into India were placed higher at \$16.7 billion during April-August 2008 against \$8.5 billion during April-August 2007. The funds raised through issuances of ADRs/GDRs abroad were at \$1.1 billion during April-August 2008 (\$2.8 billion in April-August 2007).

NRI deposits recorded a net inflow of \$273 million during April-August 2008 mainly due to inflows under the rupee deposit accounts as against a net outflow (\$168 million) during April-August 2007, said the report.

With net capital flows being higher than the current account deficit, the overall balance of payments recorded a surplus of \$2.2 billion during the first quarter of 2008-09 (\$11.2 billion in the first quarter of 2007-08).

India's foreign exchange (forex) reserves were \$274.0 billion as on October 10, 2008, showing a decline of \$35.7 billion over end-March 2008. The decline in the forex reserves was due to decline in almost all the components of reserves. While foreign currency assets declined from \$299.2 billion as at end-March 2008 to \$265 billion as on October 10, 2008, gold declined from \$10 billion to \$8.6 billion on account of decline in the value of gold; SDRs declined from \$18 million in March 2008 to \$4 million

India holds the third largest stock of reserves among the emerging market economies as at September 2008-end. The overall approach to the management of India's forex reserves in recent years reflects the changing composition of the balance of payments and the 'liquidity risks' associated with different types of flows and other requirements.

Taking these factors into account, India's forex reserves continued to be at a comfortable level and consistent with the rate of growth, the size of external sector in the economy and the size of risk-adjusted capital flows.

<http://www.financialexpress.com/news/capital-inflows-volatile-forex-reserves-comfortable-rbi/377333/>

India to grow between 7.5-8 pct: PM

India will achieve a GDP growth rate of 7.5 per cent to 8 per cent this year despite the current global economic turmoil, which has only partially affected the country, Prime Minister Manmohan Singh has said.

"India is relatively less affected" by the global financial crisis as "our banks are well capitalised," Singh has told major Japanese newspapers in New Delhi.

"The country will be able to grow by 7.5 per cent to 8 per cent," Singh was quoted as saying by 'Ashahi' newspaper.

Backing Japan's push for broadening the frame of financing the International Monetary Fund to overcome the global economic turmoil, he said: "if the reinforcement of IMF is necessary, India will willingly cooperate," the report said.

<http://www.financialexpress.com/news/india-to-grow-between-7.58-pct-pm/376547/>

Overseas Investment

Overseas investment plan in KPCL gets FIPB approval

The Foreign Investment Promotion Board (FIPB) has cleared an overseas investment proposal in Krishnapatnam Port (KPCL) despite strong objections from the department of revenue (DoR), a part of the finance ministry. DoR has said that the Mauritius-based Hitech Infra borrowed funds from ICICI Bank's Bahrain branch as a term-loan and subsequently invested that money in KPCL as share capital. The structure of the transaction results in revenue loss as interest income does not come to India, DoR said. Hitech Infra, which has common directors with KPCL, had invested Rs 141 crore in KPCL in December 11, 2007.

But FIPB after discussing the concerns of DoR, observed that there was no plausible reasons for rejecting the investment. "There has to be an apparent illegality on the face of a proposed investment for the board to reject the investment which is not the case here," said the board.

http://economictimes.indiatimes.com/News/Economy/Policy/Overseas_investment_plan_in_KPCL_gets_FIPB_approval/articleshow/3634610.cms

FII investments may be allowed in more sectors

With FII funds continuously flowing out of the country due to the global meltdown and RBI finding it difficult to defend the rupee, the government may revisit the proposal to allow FII to invest beyond sectoral limits on foreign direct investment (FDI).

In a bid to step up capital inflows, an inter-ministerial may take up this issue which has a significant impact on key segments like stock exchanges, information & broadcasting and telecom.

The department of industrial policy and promotion (DIPP) had mooted the idea some months ago, but opposition from other government departments held it up. A cabinet note to this effect is pending due to lack of consensus.

As the economy is facing serious liquidity constraints now due to the global slowdown, the DIPP intends to revive the proposal. As a sweetener, the department has said that strict riders can be attached to the liberalisation proposal. For instance, FIIs will be denied management control in such cases and investments over the FDI limit would be subject to clearance by the Foreign Investment Promotion Board (FIPB). The proposed liberalisation need not cover sectors like banking and insurance which are governed by Acts of Parliament, the department has said.

The thin line dividing FDI and FII investments has sparked a debate among the policy-makers. RBI had recently written to the finance ministry that the issue needs close examination.

If the proposal goes through, companies in sectors that have foreign investment caps would be in a position to attract more FII investment. A good example is the telecom sector which has overall foreign investment limit of 74%. If the DIPP proposal is accepted, a telecom company that has 74% FDI, can have FII equity over and above this limit.

http://economictimes.indiatimes.com/News/Economy/Policy/FII_investments_may_be_allowed_in_more_sectors/articleshow/3644025.cms

FIIs can now invest in unlisted bourses

Stock exchanges can now look forward to a new set of investors—foreign institutional investors (FIIs). The government has now clarified the stance and mentioned that FIIs can now also invest in stock exchanges that are not listed. Both the premier exchanges BSE and NSE are corporate bodies that are not listed at the moment.

A Securities & Exchange Board of India's (Sebi) circular states, "In respect of exchanges that are not listed, FIIs purchase of shares of such exchanges can be through transactions outside of the exchange provided it is not an initial allotment."

This means that exchanges like the BSE and NSE, which have already allotted shares to strategic investors and individuals, can now allot shares to FIIs as well. This will have to be done through an off market transaction. "However, if the exchange is listed, transactions by FIIs should be done through the exchange," the Sebi note added.

Earlier on December 22, 2006, when the policy decision of the government of India regarding foreign investments in infrastructure companies in securities markets like . stock

exchanges, depositories and clearing corporations, was communicated it prescribed that FII will be allowed only through purchases in the secondary market. The exchanges had then made a representation to the government to clarify and expand the scope of FII investment.

However, the investment limit for each FII will remain at the 5% levels as prescribed by Sebi. Earlier, the regulator had eased the norms from 5% to 15% for strategic or 'anchor' investors. BSE has Deutsche Borse and Singapore Stock Exchange and the NSE has NYSE as strategic investors.

Earlier, BSE had approached the regulator seeking direct listing on the exchange foregoing the initial public offer (IPO) route under section 192B of the SCRA Act.

<http://www.financialexpress.com/news/fiis-can-now-invest-in-unlisted-bourses/377230/>

Govt may ease rules for more FDI inflow

Extraordinary situations require extraordinary actions. This appears to be the latest mantra for policymakers and government functionaries. Hectic discussions are on in North Block and Udyog Bhawan to liberalise FDI norms and relax existing regulations in a bid to infuse more investments into the Indian economy.

The Department of Industrial Policy and Promotion (DIPP) and the finance ministry are working together to do away with the cap on FDI in single-brand retail and allow up to 100% foreign investments.

As of now, the policy permits foreign investments up to 51% in single-brand retail. This apart, consultations are on to examine the possibilities of allowing 51% FDI in the multi-brand retail — hitherto an untouchable area for the government.

The government's recent thinking on easing FDI restrictions comes on the back of the current liquidity crisis which has been compounded with a significant outflow of foreign investments by FIIs. Despite the present difficulties, India is expected to sustain an economic growth of 7%-plus in coming years. The government feels that policy measures are needed to prop up India as an investment destination.

http://economictimes.indiatimes.com/News/Economy/Policy/Govt_may_ease_rules_for_more_FDI_inflow/articleshow/3616783.cms

Finmin not to increase FII investment cap in govt securities

Finance Ministry ruled out any increase in the investment limit by Foreign Institutional Investors (FIIs) in the government securities.

"We are not looking at increasing FII (investment) limit in government securities," Department of Economic Affairs Secretary Ashok Chawla told.

He further said that as only 65% of FII investment cap of \$ 5 billion in government securities has been exhausted so far, there is no case for reviewing the limit.

Earlier in June, the government raised the FII investment limit in government securities to USD 5 billion from \$3.2 billion.

Although the government has not hiked the investment limit in government securities, it has recently increased the FII investment cap in corporate debt to \$ 6 billion from \$ 3 billion to encourage flow of foreign investment.

<http://businessstandard.com/india/storypage.php?tp=on&autono=48376>

Trade News

Indo-German trade promising prospects

The financial system in a country plays a pivotal role in enhancing its trade relations with other economies. The efficiency of banks and financial institutions is critical for companies engaged in trade-related activities. As one of the premier banks in India, HSBC has been actively involved in helping Indian companies, including small and medium enterprises, execute their trade transactions smoothly.

Puneet Chaddha, managing director and head, commercial banking, HSBC India, feels that Indo-German trade offers enormous opportunities that are waiting to be tapped. Though the global meltdown is likely to affect the volume of trade, the bankers feel there are positives as well that bode well for the future.

Speaking on the sidelines of the Indo-German Trade Summit jointly organised by HSBC and The Economic Times, he said, "The inherent strengths of the industrial environment in India and Germany are complementary. Whilst strong technical expertise and industrial research characterise the German industry, a strong underlying production capability along with the ability to quickly integrate innovations and a strong IT capability are demonstrated by Indian firms.

This ensures that there are significant avenues to establish mutually beneficial relationships between Indian and German companies." "We do expect growth on the longer term and capex investments are likely to strengthen. Consequently, the growth areas would continue to be machinery and equipment imports from Germany. Key exports from India would be garments and also software and offshoring services," added Bhiguraj Singh, senior vice-president and head, trade services, HSBC India.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Indo-German_trade_promising_prospects/articleshow/3634640.cms

Indo-Pak trade may touch \$9 bn-mark: Assocham

Given the fast changing trade equations between the two neighbours, Indo-Pak two-way trade should touch \$9 billion-mark in the next a few years only, industry chamber Assocham said.

"Despite the bilateral trade, as per current estimates, reaching only USD 2 billion figure, the two-way trade has the potential to grow manifold. This will lead to an increased economic and trade-related inter-dependence between the two countries that will also gradually lead to the two sides burying political differences," said Assocham Secretary General D S Rawat while releasing the industry body's publication on Indo-Pak trade ties here.

The Assocham Secretary General expressed optimism that with the opening up of rail and road links between India and Pakistan, the two countries' trade would see a further boost and also pave way for larger movement in trade and tourism sectors.

"Let us ignore for a while what has happened on the political front in the past between India and Pakistan and hope that confidence building measures between the two countries will pick up for increased two-way economic gains," said Rawat.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Indo-Pak_trade_may_touch_9_bn-mark_Assocham/articleshow/3625137.cms

India and Japan ready to assume 'commensurate global role', says PM

Describing India and Japan as "major powers" and "two major pillars of new Asia," Prime Minister Manmohan Singh said the two strategic partners are ready to play a "commensurate global role" in world affairs.

"On the strength of our strong bilateral partnership, we stand today as two major powers ready to play a commensurate global role," Singh said a day after inking a landmark security cooperation agreement with his Japanese counterpart Taro Aso.

"India believes that a strong and dynamic Japan is a powerful factor of peace and stability in Asia and the world at large," Singh said at a welcome lunch reception held in his honour by the Japan-India Association and Japan-India Parliamentary Friendship League.

"We look to the wise counsel and leadership of Japan" to meet the challenges facing the globe, he said, adding that New Delhi wished to draw upon Tokyo's vast developmental experience and her traditional emphasis on "consensus, harmony and balance in solving formidable problems that now threaten global peace and prosperity".

Significantly, the function was also attended by former Japanese Premier Yoshiro Mori, who was instrumental in transforming the bilateral ties with a landmark visit in 2000, besides ex-premier Yasuo Fukuda.

Describing himself as a “frequent visitor” to Japan, Singh said: “it has been my earnest desire for past several decades, to see this relationship prosper and grow. I am very happy to witness today the transformation of India-Japan relations. It is truly developing into a global and strategic partnership as envisaged when Prime Minister Mori visited India in 2000”.

“In the past 60 years, we have broadened and deepened the relationship into a durable and productive partnership,” he said at the event, attended by prominent members of the growing Indian community in Japan.

In the next phase of the growing bilateral ties, the two sides plan to exploit opportunities offered by globalisation, he said.

Singh also thanked Japan for the developmental assistance it has been offering to India, especially for industrial modernisation.

<http://www.financialexpress.com/news/india-and-japan-ready-to-assume-commensurate-global-role-says-pm/377152/>

Sectoral News

Spice export up 14% to touch Rs 2,660 crore

Spice exports from the country have registered a 14% increase to touch Rs 2,660.75 crore in the April-September period of this fiscal as compared to the same period of the previous year. The quantity of exports increased by 8% to 2,53,550 tonne during the period.

In dollar terms, the exports increased by 9% to \$624.15 million during the first six months of the current year. Spice oils and oleoresins including mint products contributed 40% of the total export earnings. Chilli contributed 22%, followed by cumin 9%, pepper 8% and turmeric 5%.

During the April-September 2008, the export of most of the major spices have shown an increasing trend both in terms of quantity and value as compared to the same period previous year. However, the export of pepper and mint products have declined both in terms of quantity and value as compared to the previous year.

During the period, the exports of ginger and nutmeg have declined in quantity only. During the period, India has exported 1,09,000 tonne of chilli valued at Rs 581.18 crore as against 1,08,760 tonne valued at Rs 590.37 crore of the previous year. Apart from the traditional buyers of Indian chilli like Malaysia, Indonesia and Sri Lanka, Pakistan was active in the market.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Spice_export_up_14_to_touch_Rs_2660_crore/articleshow/3634514.cms

Castor oil exports may touch 3 lakh tonne in 2008

Castor oil exports may reach a new high of 3 lakh tonne in the calendar year of 2008 spurred by the depreciating value of the rupee against the US dollar and higher crude oil prices worldwide, as castor oil serves as a substitute for most petroleum products.

Traders expect castor oil exports to record 3 lakh tonnes in 2008, mainly due to good purchases by China, Europe and USA. The total exports till September 2008 have so far registered at 2.37 lakh tonne over 1.26 lakh tonne in the same period in 2007, up by over 50%. Exports of castor oil are expected at 40,000 tonnes in October. "I think exports may touch 3 lakh tonne this year as there is good availability of castor oil thanks to bumper crop of castor seed in Gujarat, Rajasthan and Andhra Pradesh. The castor crop is estimated at about 10 lakh tonne this season," Waman Udeshi, director, Jayant Agro, said.

Apart from this, the country may continue to export castor oil derivatives of about 6,000 tonne - 7,000 tonne per month on continued buying interest from the EU and the US. "Thanks to a good castor crop this season, the total availability of castor oil may go up to nearly 4 lakh tonne which is fair enough to cater to the domestic demand and exports as well," added sources.

<http://www.financialexpress.com/news/castor-oil-exports-may-touch-3-lakh-tonne-in-2008/376249/>

Coir export surges

Coir exports have increased in volume and value during the first half of the current fiscal (2008-09). During the six months (April-September 2008), exports increased by 5.75% in volume and 9.76% in value, when compared to the performance of the first half of 2007-08.

However, exports for September registered a fall in volume by 16.7% and in value terms by 9.76%.

The country exported 97,137 tonne of coir and coir products valued at Rs 310.22 crore during the current fiscal, as against 91,852 tonne valued at Rs 288.02 crore during the first half of 2007-08. India exported 1,87,566 tonne of coir products in fiscal 2007-08 valued at Rs 592.88 crore.

<http://www.financialexpress.com/news/coir-export-surges/376735/>

Cashew export up due to supply shortage in Vietnam

Cashew exports have increased dramatically during the first half of the current fiscal (2008-09) on the back of supply shortage and default by Vietnam exporters.

Revenue has increased by 44.6% during the six months to touch Rs 1,586.65 crore, as against Rs 1,097.06 crore in the last comparable period. The performance is close to 70% of the export revenue of Rs 2,288.90 crore generated during the entire fiscal of 2007-08. Unit value realisation on a kilogram of export has also increased by 78.46% to touch Rs 270.39 per kg from Rs 191.94 for the first half of last FY. But exports for September 2008 have fallen nominally when compared to the performance of September 2007 as some consignments were rejected and buyers deferred contracts.

During the six months (April-September 2008-09), India exported 58,679 tonne of processed cashew, as against 57,157 tonne during the first half of last FY. The volume has increased by 2.6% during the period as the US buyers preferred to deal with India as Vietnam defaulted on contracts.

<http://www.financialexpress.com/news/cashew-export-up-due-to-supply-shortage-in-vietnam/376732/>

Telecom subscriber base reaches 354 million

The total telecom subscriber base in the country reached 353.66 million in September, up from 343.87 million adding a 9.03 million connections during the month, according to the latest subscriber figures released by the Telecom Regulatory Authority of India.

With this tele-density in the country has reached 30.64% against the 29.83% registered during August.

The total wireless subscribers including GSM, CDMA and WLL (F) base stood at 315.31 million at the end of September. A total of 10.07 million wireless subscribers were added during the month against 9.16 million wireless subscribers added during the month of August this year.

In the wireline segment, the subscriber base has decreased to 38.35 million against 38.63 million in August registering a drop of 0.30 million.

While the total broadband subscribers base reached 4.90 million by the end of the month compared to 4.73 million by the end of August. The broadband segment has grown by 56% from January this year, while it grew by 27.14% for the corresponding period last year.

<http://www.financialexpress.com/news/telecom-subscriber-base-reaches-354-million/377604/>

News Round – Up

India has important role to shape global economy: UK

Against the backdrop of global financial meltdown, Britain said India has an important role to shape the world economy and pitched for a new system of economic governance at international arena.

"Business is going to have a key role into the world. Now, what is needed is a world in which prosperity is widespread and opportunities are there. But for that, we need a new system of economic governance," British High Commissioner to India Richard Stagg told.

Stagg said India and Britain share "natural platforms" for partnerships at bilateral level and the two countries must realize their common culture, similar working of the systems and long colonial heritage.

"To shape the new system, reforms are needed at every international level, including the IMF, so to accommodate countries like India and other developing economies.

Today's world has changed from that of the Cold War period and so the new realities should be accommodated for the benefit of the globe," he said.

The High Commissioner said the new realities like rise of China, India and Russia should be recognized at the global arena.

On the educational front, he said there is a big opportunity in India.

"Processes are on to build relations at the educational front. We will try that more Indian students get educational opportunities in the UK. Recently we opened a research council in India," he said.

<http://businessstandard.com/india/storypage.php?tp=on&autono=48422>

Country not in recession mode: RBI

A day after keeping rates stable in the mid-term review of the RBI Annual Policy, governor Duvvuri Subbarao mentioned that the central bank will remain vigilant to the situation and would act as the circumstances arise. He also stated that the revision of the GDP numbers should not be interpreted as a recession, it is just moderation.

Speaking with reporters in Mumbai Subbarao said, "India's growth will continue and even if there is some moderation, it will only be a modest moderation. But it will not be a recession, there will only be some deceleration." The central bank had revised the GDP growth forecast to a range of 7.5%-8% for the year, while sticking to the Central Bank's earlier projection of inflation of 7% for the same period. Subbarao also added that this was "our best growth estimate" and that there were other estimates ranging from 7.2-8.7%.

As India's growth is mainly driven by domestic demand and consumption, the country would be less affected by the global financial turmoil but it would not go completely unscathed, Subbarao said.

The governor also stressed on the need to remain vigilant and monitor all the critical factors in moments of 'heightened uncertainty'. He said, "We can't drop our guard on controlling inflation."

Inflation, he said, continued to be a matter of concern as the RBI forecast was based on not merely the wholesale price index but also other data. "There are inflationary concerns (in the economy). Even though in a mathematical sense it is coming down, we have to balance the concerns of maintaining price stability and sustaining growth," he said.

Between October 6 and 20, the RBI has injected Rs 1,85,000 crore liquidity into the system and the "1% repo rate cut was aimed at getting the financial markets going and giving them confidence," he said. If the situation warranted, Subbarao said RBI would not hesitate to either infuse or withdraw liquidity from the system.

"Our job is to send a signal to the bankers and we have sent the signal to them. Lowering rates is a business decision that the banks have to take and we respect that," the governor told.

He also added that the bankers had a "challenging task" and his message to bankers on was that, "they should keep credit flowing to productive and vulnerable sectors."

<http://www.financialexpress.com/news/country-not-in-recession-mode-rbi/378087/>