

Weekly Economic Bulletin

Date: October 28-November 03, 2008

Issue No. 288

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News Feature

S&P outlook on India's long-term rating remains stable

International ratings agency Standard and Poor's affirmed its 'BBB-' long-term and 'A-3' short-term sovereign credit ratings on India. The outlook on the long-term rating remains stable.

The report by S&P said the ratings on India reflect the country's strong economic growth prospects and its deep Government debt market, which helps accommodate its weak fiscal position.

The report quoted S&P's credit analyst Mr Takahira Ogawa as saying, "India's economic prospects remain strong with growth likely to average more than 7 per cent in the medium term. Underpinning that growth is the gradual deregulation of the industrial sector, continued trade liberalisation, a dynamic service sector, and modest improvements in infrastructure."

Mr Ogawa also said that the ratings on India remain constrained by a weak fiscal profile, especially the high Government debt burden and deficit, which are still among the largest for rated sovereigns.

The report also said that the stable rating outlook balances India's good external liquidity and growth prospects with its weak fiscal flexibility. An improvement in the sovereign ratings will depend on resumed fiscal consolidation that leads to a materially lower debt and interest burden, and additional reforms that lift the country's growth prospects and income levels.

<http://www.thehindubusinessline.com/2008/11/01/stories/2008110150511000.htm>

Export growth slows to 10.4% on global slowdown

Global financial turmoil and recessionary tendencies in major economies have impacted India's export growth, which slowed to 10.4 per cent in September even as the country increased its imports by 43.3 per cent over September 2007.

Outward shipments, which rose by 27 per cent in August, saw growth plunging to 10.4 per cent in September as the world bought less of Indian goods. Exports for September totalled USD 13.74 billion.

According to the official data released, exports in rupee terms were up 24.7 per cent to Rs 62,541 crore.

Imports jumped 43.3 per cent in September to USD 24.38 billion, more than one-third of which was accounted for by oil imports. With global oil prices soaring, the country paid 57.1 per cent more for oil imports at USD 9.09 billion.

Non-oil imports saw 36.2 per cent growth to USD 15.28 billion.

Trade deficit - surplus of imports over exports - more than doubled to USD 10.63 billion in September as opposed to USD 4.55 billion deficit in the same month the previous year.

Export expansion in the first six months of the current fiscal was 30.9 per cent to USD 94.97 billion while imports climbed 38.5 per cent to USD 154.74 billion.

A 60 per cent higher payout for buying oil at USD 55.06 billion was single-largest reason for the soaring import bill for April-September. Non-oil imports during the period increased 29.3 per cent to USD 99.68 billion.

Trade deficit in April-September was estimated at USD 59.77 billion as against USD 39.1 billion in the same period the last fiscal.

http://economictimes.indiatimes.com/News/Economy/Indicators/Export_growth_slows_to_104_on_global_slowdown/articleshow/3668388.cms

Overseas Investment

Cabinet clears way for 49% FDI in insurance

The government has decided to increase the foreign direct investment (FDI) limit in insurance firms from 26% to 49%. The government will now introduce a bill in Parliament to effect this change. The government, however, conceded that the bill may not be passed by the current Parliament for want of time.

Finance minister P Chidambaram announced that the Union Cabinet, which met last night, had decided that the government would introduce a comprehensive amendment bill. "The Union Cabinet gave its approval for introduction of the Insurance (Amendment) Bill, 2008, for amendment to Insurance Act 1938, General Insurance Business (Nationalisation) Act, 1972, and Insurance Regulatory and Development Act, 1999, in the Rajya Sabha on the basis of recommendations made by Group of Ministers," Mr Chidambaram said. The bill is being introduced in the Rajya Sabha as it is not a money bill.

The Cabinet also approved introduction of Life Insurance Corporation (Amendment) Bill in the Lok Sabha. The bill, after its passage, will allow an increase in equity base of the insurance major from current Rs 5 crore to Rs 100 crore. Currently, insurers have to maintain minimum paid-up capital of Rs 100 crore as per the IRDA Act, but LIC was an exception since it is covered by a separate Act.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Cabinet_clears_way_for_49_FDI_in_insurance/articleshow/3660672.cms

Education sector poised to attract FDI

Even as the Indian markets go through a bad phase, foreign private equity investors are eyeing educational institutions to invest in.

“By the end of fiscal 2009, education sector will have received total FDI of Rs 1,000 crore. Investors from US, Middle East and EU still believe in India’s long term growth potential and they are on the lookout for right entities to invest in,” said Sunil Shirole, managing director, YEN Management Consultants, who is instrumental in striking such deals and was recently on a world tour to meet investors to gauge their sentiment.

Recently, Qatar-based Altanmiya group struck a multi-million dollar deal with Thane based Prolific Systems & Technologies, which is into vocational training in industrial automation and has ambitious expansion plans both onshore and offshore.

“This investment shows our confidence in the Indian economy, the viability of human capital as a profitable business, and its necessity for progressive success both economically and socially,” commented Eugene Koshy, COO of Altanmiya, who refused to disclose the deal value.

Altanmiya expects 15 per cent internat rate of return on their investment in Prolific Systems.

According to Shirole, other foreign players are also looking at investing in education sector. These include US-based Leaw Sterling Partners (having total asset base of \$1.5 billion), Qatar based Educational Holding group (corpus \$2 billion), CDC group (assets of \$4 billion), a semi UK government owned PE fund, and many others.

With the pace of growth, industries will keep requiring a large number of trained professionals who should be endowed with quality education in specialised streams. This has added immensely to the growth potentials of all educational institutions in India.

“Some big educational institutes are approaching me to arrange FDI for them to meet their mega expansion plans. All of them have plans to go for public fund raising in the later stage,” added Shirole.

http://economictimes.indiatimes.com/News/Economy/Policy/Education_sector_pois ed to attract FDI/articleshow/3657927.cms

ILFS-ORIX among 40 FDI plans cleared

A proposal from ILFS-ORIX Trust Company Ltd to bring in foreign direct investment (FDI) worth Rs 400 crore from Foreign Offshore Fund by issuing units of the Trust was among the 40 FDI proposals approved by the Government.

A total of 40 proposals involving FDI worth Rs 1,498.51 crore has been cleared by the Finance Minister, Mr P. Chidambaram, following recommendations from the Foreign Investment Promotion Board (FIPB), an official release said.

Pepsico's long-pending proposal to delete a disinvestment condition in its original approval and increase approved equity was recommended for the consideration of the Cabinet Committee on Economic Affairs (CCEA) as the initial approval was given by the Cabinet Committee on Finance and Investments (CCFI) which later got converted into CCEA.

A proposal from Asset Reconstruction Company (India) Ltd to increase foreign equity participation in the company from the present 5 per cent to 14.66 per cent by inducting a new foreign collaborator and involving FDI worth Rs 272.86 crore was also cleared by the Minister.

<http://www.blonnet.com/2008/11/01/stories/2008110151191300.htm>

Trade News

India, Iran vow to enhance bilateral trade

Seeking to inject new momentum in bilateral relations, India and Iran vowed to enhance trade and business ties and signed two agreements and four MoUs in this regard as New Delhi said the Indo-US nuclear deal was not at the cost of the IPI gas pipeline.

Iran also invited Indian companies to explore oil and gas in the hydro-carbon rich Persian Gulf as the two countries decided to improve banking and insurance linkages to encourage two-way investments.

Wrapping up his three-day official visit to Iran, External Affairs Minister Pranab Mukherjee said the nuclear deal with the US was not at the cost of the Iran-Pakistan- India gas pipeline as atomic power was one of the country's sources to ensure the fast growing economy's energy security.

Nuclear power "is one source of energy, the other important source is the Iran-Pakistan-India (IPI) gas pipeline. One is not exclusive to the other," Mukherjee said at a joint press conference with Iranian Economic Minister Shamseddin Hossein after the two-day Joint Commission Meeting set up by the two countries.

Mukherjee asserted that the nuclear deal with the US will have no impact on the IPI gas pipeline.

"India's energy requirement is quite substantial and we have to locate various sources of energy, including civil nuclear cooperation with countries like the US, France and Russia or any other country willing to cooperate with us," he said.

Mukherjee, who met Iranian President Mahmoud Ahmadinejad and other senior leaders, said he got positive indications to expand the political relationship between the two countries.

<http://economictimes.indiatimes.com/News/Economy/Foreign Trade/India Iran vow to enhance bilateral trade/articleshow/3665942.cms>

Mitsubishi looks at ASEAN trade pact for hub in India

Mitsubishi Motors of Japan is looking forward to a free trade pact between India and the 10-nation Association of South-East Asian Nations (ASEAN) to start production in the country and make it an export hub, a top official has said.

"We still do not have enough volumes to set up a manufacturing base in India," said Tetsuro Aikawa, Mitsubishi's managing director in charge of product strategy and development, at the group's headquarters.

"We are looking for better timing - perhaps, once the free trade agreement with ASEAN comes through, we will look for production in India," Aikawa told IANS. "Our immediate target is to achieve a minimum market share of one percent."

Mitsubishi, which launched its sports utility vehicle Outlander in India recently, has a market share of only 0.3 percent in terms of units sold in the Indian market and uses Hindustan Motors to assemble and market its cars.

Admitting that most other global auto majors had been more aggressive than Mitsubishi in tapping the Indian market and setting up a base here, Aikawa said: "We do appreciate the evaluation of other manufacturers and we are looking at their performance."

India has already finalised its free trade pact with the ASEAN, which is expected to be formally signed later this year. The free trade agreement may not only allow the Japanese car maker to import cheaper components but also export at lower tariff.

The Mitsubishi official said the company also intended to continue its ties with Hindustan Motors that makes the iconic "Ambassador" cars. "Hindustan Motors has been delivering very high quality and we will certainly continue with our collaboration," Aikawa said.

He said Mitsubishi's current India strategy was to introduce unique vehicles that would help to build the Mitsubishi brand in the country.

<http://economictimes.indiatimes.com/News/Economy/Foreign Trade/Mitsubishi looks at ASEAN trade pact for hub in India/articleshow/3664904.cms>

India, Iran pitch for two-way investments in various fields

Seeking to give a major push to their relations, India and Iran strongly pitched for increased two-way investments in various fields as they finalised the Double Taxation Avoidance Agreement (DTAA) and decided to conclude a pact on promotion and protection of investments at the earliest.

External Affairs Minister Pranab Mukherjee, who met President Mahmoud Ahmedinejad and Oil Minister Gholam Hossein Nozari, asked Tehran to implement the bilateral agreement of 2005 on supply of LNG as he affirmed New Delhi's commitment to the proposed 7.4 billion USD Iran-Pakistan-India (IPI) gas pipeline project.

Mukherjee also pitched for greater Indian investment in Iran, including in petroleum sector, a proposal that found acceptance in Tehran which said it was undertaking major economic reforms to allow entry of private companies in various areas and Indian firms could explore the possibilities.

"India and Iran have common interests and perceptions. The leaderships of our two countries have, therefore, always unreservedly stood for a broader and multi-dimensional engagement," he said, while inaugurating the Joint Commission meeting that discussed ways to enhance cooperation in various specific areas of energy, trade and investment, mining and railways.

Noting that India and Iran are developing countries with "obvious synergies", Mukherjee said so far, energy sector has been at the focus of the bilateral economic ties with Tehran emerging as a major supplier of energy resources imperative for driving his country's growth.

"Iran is energy-rich country while India is energy-deficient economy," he said.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/India_Iran_pitch_for_two-way_investments_in_various_fields/articleshow/3663300.cms

Canadian Companies demand FTA with India

Canadian companies have demanded Free Trade Agreement (FTA) with India to enhance economic and political ties between the two countries.

"India is one of the largest and fastest growing markets in the world. We need India more than India needs us," Gary M Comerford, Senior Vice President of Sunlife said.

"Serious efforts should be made to accelerate the process to finalise the FTA that will enhance Canadian companies' access to the vast Indian market and further strengthen bilateral trade and investment relations," Comerford said.

He was delivering a lecture on the success story of Sunlife in India at a meeting organised by the Canada India Business Council and Ontario Bar Association.

Urging Canadian companies to investment in India, Comerford said "Do not go to India unless you have a strategy, and you are focused, determined, prepared, and have a lot of patience."

Cliff Sosnow, international trade expert with one of Canada's largest law firm, Blake, Cassels and Graydon, said that the FIPPA agreement should be followed by a free trade agreement so that Canada-India trade relations were strengthened and move to a higher plateau.

He said "In the current economic situation, the threat of much slower global trade appears to be real. It is important India and Canada should sign free trade agreement to keep a crucial engine of growth running as it braces for fallout from the global financial crisis."

[http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Canadian Companies demand FTA with India/articleshow/3656618.cms](http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Canadian_Companies_demand_FTA_with_India/articleshow/3656618.cms)

Sectoral News

Rs100cr Biotech Pharma IT park planned

The Hyderabad-based Bharat Biotech International Limited has been asked by the Orissa government to develop a Rs 100 crore Biotech Pharma IT park at Andharua near Bhubaneswar.

The park will be developed over 64.86 acres in public-private-partnership (PPP) mode. The project is expected to promote biotechnology, pharmaceuticals and information technology industries in the state, official sources said. Bharat Biotech has significant experience in the development and successful commercialization of technology parks in India. It has also successfully developed an integrated food biotech park in Bangalore.

The government has allotted 54.96 acres for the project which will be handed over in two phases. The land will be given in the form of a long term lease basis and the company will be required to make commitment on time bound development of infrastructure and facilities in the park.

A Special Purpose Vehicle (SPV) will be formed by the company to implement the project which will execute the lease cum development agreement of the company with Orissa Industrial Infrastructure Development Corporation (IDCO). "The project is expected to be completed in about 8 years and the state government and IDCO will provide all external infrastructure such as road connectivity, water supply, power supply with 33 KVA sub-station", a senior official of the state science and technology department said.

A Biotechnology Incubation Centre (BIC) will also be developed over 10 acres of land within the park. This facility will be used by researchers, entrepreneurs and students. The department of biotechnology, Government of India, has assured funding for the equipment or instrumentation of this 'Centre of Excellence' within the park.

<http://www.business-standard.com/india/storypage.php?autono=338559>

Plans to boost ornamental fish exports to \$50 m by 2012

Ornamental fish exports have almost doubled from Rs 3.2 crore in 2001-02 to Rs 5.6 crore in 2006-07, but remains quite insignificant compared with the export of food fish which is worth Rs 8,000 crore a year.

Even at the global level, India's ornamental fish exports continue to be negligible at 0.06 per cent. The Marine Products Export Development Authority (MPEDA) has evolved a strategy to boost ornamental fish exports to \$50 million by 2012.

A study by the School of Industrial Fisheries of the Cochin University of Science and Technology has found that the ornamental fish industry in the country remains scattered with low production volumes. Inadequate transport facilities, high air freight charges and lesser or non-availability of brood stock have further hampered the growth of the industry.

<http://www.blonnet.com/2008/10/30/stories/2008103051461900.htm>

Unit value of marine exports rises

A sea change seems to have overtaken Indian marine exports. While the composition of shrimps in the Indian marine export basket has fallen from close to 60 per cent to 40 per cent recently, the European Union has emerged as the biggest marine export destination this year, and Pipavav has become the biggest port of marine export in value.

The EU has overtaken both Japan and the US, which were the biggest export destinations earlier, while the port of Kochi has been relegated to the third position. The Jawaharlal Nehru Port (Mumbai) has become the second biggest port of export during the period. Marine exports from the country rose 5 per cent to \$380 million (\$361 million) during April-June 2008. The growth of foreign exchange earnings was backed by a marginal growth in volume and enhanced unit value realisation.

Frozen shrimp continued to be a dominant item in the marine export basket, accounting for 42 per cent of the value realisation, followed by frozen fish with 14 per cent, squid 10 per cent and cuttlefish 6 per cent.

European Union was the top group market accounting for 34 per cent of the value of export, followed by Japan with 22 per cent, China with 11 per cent, US 10 per cent, South East Asia 6 per cent and West Asia with 5 per cent.

<http://www.blonnet.com/2008/10/31/stories/2008103150832200.htm>

News Round – Up

Bank deposits safe, assures Prime Minister

Prime Minister Manmohan Singh said that the government is behind the banking system and no one should fear about safety of the bank deposits. He also said more steps would be taken to protect growth.

"We have successfully conveyed to our people that our banking system, both in public and private sector is safe and the government stands behind it and that no one should fear for the safety of banking deposits", Manmohan Singh told industry leaders.

Admitting that the present global crisis is bound to affect the Indian economy and has done so, Singh said the situation is being watched on day-to-day basis and more steps would be taken if required.

"Government will take all necessary monetary and fiscal policy measures on the domestic front to protect our growth rates," he said, adding that India would seek reform of the international financial institutions for improved regulation and supervision to prevent recurrence of such a crisis.

He asked the industry to act in a "true spirit of partnership" with the government to meet the challenges that lie ahead.

Singh further said the inflationary process is showing signs of "definite abatement."

The Prime Minister was meeting with leaders of India Inc to discuss the state of economy in the backdrop of global financial crisis.

Mukesh Ambani, Anand Mahindra, K V Kamath, Sunil Bharti Mittal, Deepak Parikh, Shashi Ruia, K P Singh and Rajkumar Dhoot were among those who attended the meeting.

Besides, CII's Kamath, FICCI President Rajeev Chandrasekhar and Assocham chief Sajjan Jindal represented their chambers and urged the Prime Minister to give direction for enhancing liquidity in the system and restore confidence by lowering the interest rates.

Finance minister P Chidambaram, deputy chairman of Planning Commission Montek Singh Ahluwalia and RBI Governor D Subbarao were with the Prime Minister for the interaction with the industry to explore options for pushing the economic growth in difficult times.

Senior government officials, including Chairman of Prime Minister's Economic Advisory Council Suresh Tendulkar and Economic Affairs Secretary Ashok Chawla were among those who attended the meeting.

http://economictimes.indiatimes.com/News/Economy/Indicators/Bank_deposits_safe_assures_Prime_Minister/articleshow/3667963.cms

Economy's in green, and no pink slips: FM

Finance minister P Chidambaram has said the country's growth rate forecast of 7.5% will not be revised downwards even if the economic scenario in the US and Europe worsens. "The global slowdown has been factored into RBI's 2008-09 growth forecast of 7.5%," he said while talking to reporters in the Capital.

Expressing confidence in the fundamentals of the country's economy, Mr Chidambaram said that India is in a better position to weather the financial turmoil than many other emerging economies.

"India is a domestic consumption- and investment-driven market where contribution of exports to the growth is not as big as China's." According to him, though the slump in the US growth rate might affect Indian exports, the impact would be less compared to many other economies. "The exports have been robust in July and August, though there has been a dip in September," Mr Chidambaram said.

The economy is growing at 7% and it is a job-creating economy rather than a job-destructing one, the finance minister pointed out. Wearing his political hat, the FM said that even with a slowdown in the pace of job creation, the situation will be better than the job creation during the NDA regime where average growth rate was 5.8%.

He termed the economy growing at 7% as a job-creating economy and dismissed industry body Assocham's report that predicted that Indian corporates would cut jobs by 25% after Diwali due to the global financial crisis. Assocham withdrew the report after finance minister dismissed chances of job destruction.

http://economictimes.indiatimes.com/Economy/Economys_in_green_no_pink_slips/articleshow/3660332.cms