# Weekly Economic Bulletin

**Date: October 9-15, 2007** **Issue No. 234**

## Contents

**News Feature**

**S&P forecasts 8.6% GDP growth for 2007-08**

High interest rates and the appreciating rupee could bring about a slowdown in Indian economy.

Standard & Poor's in its mid-year review has estimated India's GDP growth to be at 8.6 per cent during 2007-08, a moderation from last year's 9.4 per cent. The rating agency also felt that agricultural sector which is estimated to grow by 3.4 per cent would be a key contributor to this performance.

Talking about the industrial sector, Dr Subir Gokarn, Chief Economist, Standard and Poor's, Asia Pacific, said, "The industrial sector, reflecting the cumulative impact of rising interest rates and rupee appreciation, will expand by 9.2 per cent, somewhat slower than last year, but still a healthy rate reflecting continuing buoyancy in investment spending. Services are expected to grow by 10 per cent, based on strong domestic demand."

***http://www.blonnet.com/2007/10/10/stories/2007101052131000.htm***

**Industry grows at 10.7% in August**

Industrial production bounced back in August this year to notch a year-on-year growth of 10.7 per cent after dipping to 7.1 per cent in July 2007. The growth came about because of improvement in manufacturing along with increases in the performance of power and mining sectors.

In August 2006, the Index of Industrial Production (IIP) had gone up by 10.3 per cent over the corresponding period of the preceding year.

According to the data released by the Government, manufacturing sector recorded a double-digit growth rate of 10.4 per cent during August. However, it was down from 11.9 per cent a year ago. The mining sector growth improved significantly to 17.1 per cent compared to a decline of 1.7 per cent in the corresponding month last year.

Electricity generation in August grew by 9.2 per cent (4.1 per cent). The capital goods sector recorded a growth of 30 per cent (16.6 per cent).

The growth of the consumer durables sector, however, notched a negative 6.2 per cent as compared to a positive growth of 19 per cent in August 2006. The basic goods and intermediate goods recorded growth rates of 13.3 per cent and 12.3 per cent, respectively during August as against 4.8 per cent 8.7 per cent in the corresponding period last year.

***http://www.blonnet.com/2007/10/13/stories/2007101352721000.htm***

**Overseas Investment**

**100% FDI likely in oil marketing**

The government may allow 100 per cent foreign direct investment in oil and petroleum marketing companies.

This follows a review of the FDI norms by the nodal body for policy making in foreign investment — the Department of Industrial Promotion and Policy (DIPP).

At present, if a foreign company sets up an oil marketing company, it is required to divest 26 per cent in favour of an Indian partner within a period of five years. This holds good for oil refining companies as well.

Sources close to the development said that there were many applications from foreign companies to market oil and petroleum. The government, according to them, was thinking of allowing 100 per cent FDI on a case-to-case basis. However, both the Foreign Investment Promotion Board (FIPB) and the DIPP have taken a joint policy decision to allow 100 per cent FDI in oil marketing companies.

***http://www.business-standard.com/economy/storypage.php?tab=r&autono=301230&subLeft=1&leftnm=3***

**Forex reserves at record $251 bn**

Dollars mobilised through the intervention of the Reserve Bank of India (RBI) to check the rupee's rise pushed the country's foreign-exchange reserves by $3.6 billion to a record $251.3 billion in the week ended October 5.

The central bank bought $39.9 billion in the first eight months of 2007, according to latest data.

Consequently, money supply growth quickened in the last two weeks of September, central bank data showed. The forex reserves increased by $86.1 billion over the past year and by $52.2 billion in the financial year that began April 1. The reserves comprise overseas currencies, gold and special drawing rights with the International Monetary Fund.

The rise in foreign-currency assets is partly because of changes in the value of the dollar against the euro, yen and other currencies during the period, said the central bank. Analysts say the central bank bought dollars from the local currency market. The foreign-currency assets increased by $3.6 billion to $243.5 billion. The nation's special drawing rights with the International Monetary Fund remained unchanged at $2 million, the bank said.

Reserves with the International Monetary Fund fell by $1 million to $437 million in the week through October 5, while gold reserves were held at $7.37 billion, the central bank said. The M3 measure of money supply increased 21 % in the two weeks through September 28 from a year earlier, compared with 20.4 % in the previous two weeks. M3, which mainly comprises currency in public circulation, bank deposits and money invested in other saving plans, stood at $ 908 billion) as on September 28.

***http://www.financialexpress.com/news/Forex-reserves-at-record-251-bn/227758/***

**Foreign brands keep tapping India's FDI window**

With spending on luxury witnessing unprecedented growth, a number of foreign brands including French Connection, Sanrio of Hello Kitty fame, Gucci, Jimmy Choo, La Pearla and Calvin Klein have lined up for permission to infuse foreign direct investment through the single-brand retail window. Government sources said proposals under consideration for FDI in single-brand retail include Build-A-Bear brand toys and Tumi brand luggage.

While the government has sought more information on a proposal to bring in FDI for the D&G brand, the other recent proposals for single-brand retail include Diesel readymade apparel, TOD leather jackets and shoes, Groggy sports goods, Signature Kitchen equipment, LA Sovereign bicycles and Forever New.

***http://economictimes.indiatimes.com/News_by_Industry/Foreign_brands_keep_tapping_Indias_FDI_window/articleshow/2440946.cms***

**Govt may permit FDI in commodity brokerages**

Commodity brokerages may not be too far from being eligible to receive foreign direct investment (FDI). The government is mulling over a proposal to permit FDI in these brokerages. At present, foreign companies can enter the Indian commodities market only through their outfits or joint ventures in the equity markets.

The finance ministry is in favour of allowing foreign companies to invest directly in commodity brokerages.

In a letter to the ministry of consumer affairs, which regulates commodity brokerages through the Forward Markets Commission, the finance ministry has suggested that since the government is opening the doors to foreign investment in commodity exchanges, a policy should be formulated for commodity brokerages as well.

***http://economictimes.indiatimes.com/articleshow/2452148.cms***

## Trade News

### India, Russia to boost bilateral trade

Long-term allies India and Russia have pledged to increase economic and energy cooperation.

Indian Foreign Minister Pranab Mukherjee and Russian Deputy Prime Minister Alexander Zhukhov told that they have identified new areas for a quantum increase in bilateral trade and economic cooperation.

Their comments came after both leaders concluded the plenary of the 13th session of the India-Russia Inter-Governmental Commission (IRIGC) on trade, economic, scientific, technological and cultural cooperation.

"Both Deputy Prime Minister (of Russia) and myself had substantial discussions relating to trade, commerce, investment, energy, science and technology, services, metallurgy and culture. We also identified new areas such as high technology, nanotechnology for a quantum increase in our bilateral trade and also in economic cooperation," Mukherjee said.

***http://economictimes.indiatimes.com/articleshow/2454936.cms***

### India, S Africa aim $12 bn trade by 2012

India and South Africa are aiming to treble the bilateral trade between the two countries to $12 billion by 2012.

“Prime Minister Manmohan Singh has set the target of $12 billion for bilateral trade between India and South Africa,” South African minister in the office of the Presidency Essop Pahad said. The two governments can open up various opportunities and possibilities to give a boost to the bilateral trade, he said. The minister said South Africa can help India overcome its infrastructural woes. “South African companies have expertise in repair of roads and they have the infrastructure technology to help India,” he said. Deep-level mining of gold is another area where South Africa has expertise, which it can share with India, he added.

***http://www.financialexpress.com/news/India-S-Africa-aim-12-bn-trade-by-2012/226234/***

### India, Brazil and South Africa to sign trade pact

India, Brazil and South Africa will sign a co-operation agreement on trade and investment at the tri-nation IBSA (India, Brazil, South Africa) summit in Pretoria on October 17.

President Thabo Mbeki, Prime Minister Manmohan Singh of India and Brazilian President Luiz Inacio "Lula" da Silva will sign the agreement at the summit, a South African government official said.

Government spokesman Themba Maseko said the value of the trade volume among the three countries stood between $ 6 billion and $ 7 billion and the objective was to increase it to USD 10 billion over the next three years.
He said other agreements likely to be signed at the summit include arrangements on international poverty alleviation and social development, trilateral exchanges of information, international best practices, technology and skills transfers, and tourism and transport.

"The summit will be preceded by a ministerial troika forum involving Cabinet-level meetings between the three countries", he said.

"The summit comes after the 62nd session of the United Nations General Assembly where developing countries reaffirmed the need for collaboration and multilateral approaches in addressing development challenges."

He said a number of other IBSA-related meetings, to be held at the Sandton Convention Centre in Johannesburg from October 15, would precede the actual summit, with a strong focus on business ties.

Maseko said India would host the third IBSA summit next year.

***http://economictimes.indiatimes.com/articleshow/2451248.cms***

**India, Iceland sign MoU for renewable energy cooperation**

India entered into an agreement with Iceland for cooperation in development of new and renewable energy technologies.

The MoU signed by New and Renewable Energy Ministry also envisages cooperation for development of systems, sub-systems, devices, components and monitor and evaluation of cooperation activities, an official statement said.

The memorandum follows a delegation led by Minister of New and Renewable Energy Vilas Muttemwar to Iceland in June last year.

During the visit, both sides agreed to explore cooperation in the areas of geothermal, hydrogen and fuel cells and wind energy.

Iceland and India cooperate in hydrogen and fuel cells under the forum of International Partnership for Hydrogen Economy (IPHE).

***http://economictimes.indiatimes.com/articleshow/2443454.cms***

## Sectoral News

### 'Bio-tech policy in two weeks'

The Government is willing to enter into partnership with the industry for new biotechnology strategy and will announce a policy in the next two weeks, said Mr Kapil Sibal, Union Minister for Science and Technology and Earth Sciences.

While speaking at a session on life science, organised by the Confederation of Indian Industry, Mr Sibal said the Government was planning to implement a policy framework to ensure support to the life sciences companies in the initial stage of product development, launch of the product and to assist companies to deal with intellectual property right issues.

"We are willing to go into equity relationship with private companies and provide grant for research and development," said Mr Sibal. India needs to rethink its administrative setup to facilitate the global need in the sector, he added.

***http://www.thehindubusinessline.com/2007/10/14/stories/2007101451520300.htm***

### E-commerce is Rs 9,200 cr mart in India

The e-commerce market in India is expected to touch Rs 9,210 crore by the end of FY2007-08. This segment had an estimated market size of Rs 7,080 crore at the end of 2006-07 and is expected to grow at an average rate of 30 per cent in 2007-08, according to a survey conducted by the Internet and Mobile Association of India (IAMAI) and Indian Market Research Bureau (IMRB).

Among the various businesses, online travel segment leads the pack. It is expected to grow at the rate of 30 per cent and reach Rs 7,000 crore by the end of 2007-08. This would be followed by Online Classifieds, which is projected to reach Rs 820 crore. eTailing (online retail) stood at Rs 850 crore in the year 2006-07 and is expected to be a Rs 1,105 crore industry at the end of 2007-08. Digital downloads and paid content accounted for the rest.

According to the study, the three major triggers of e-Commerce in India were saving of time, convenience associated with shopping at home and the availability of a range of products. However, the report also highlighted hurdles to growth such as product quality, the ability to bargain and security issues with regard to e-transactions.

***http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=300810***

**'Tyre Industry to grow by 8-10% in 5 years'**

The tyre industry is expected to grow by 8-10 per cent in the next five years, Apollo Tyres' Chairman Onkar S Kanwar said.

Rising prices of natural rubber was a cause of concern to the industry, as it would eat way about 3-5 per cent of the margin, he said.

"We are trying very hard to be above water and are trying to cut every corner to bring down production cost," Kanwar added.

On the traders' plea for a ban on futures trading in rubber, Onkar said rubber futures was a "good step in the right direction."

"We have been using futures platform and we are happy", he said.

The company uses 15 per cent of the natural rubber produced in the country. It has an annual requirement of 15,000 tons.

Apollo's total turnover was expected to touch 2 billion dollars in the next three years from the present one billion dollars, he said.

"We are looking at inorganic growth and have acquired a facility in South Africa and are also in the process of starting a facility in Europe, Onkar said.

The exports have been 20 per cent of production, he added.

***http://economictimes.indiatimes.com/articleshow/2452752.cms***

**India has potential to tap $30 bn organic market**

India has the potential to raise its share in the USD 30 billion global market of organic products given its wealth of natural resources, experts said.

"We can certainly improve our standard in the world organic market, estimated at USD 30 billion," Agricultural and Processed Food Products Export Development Authority Director S Dave said.

According to the industry sources current annual export of organic products stands at Rs 250-300 crore while as per the government data export was at Rs 104.87 crore in 2005-06.

Dave said among the organic products exported, tea has a major share of Rs 35 crore Cashew, rice, honey are the other major products that are exported. "While we have created a market by establishing and legalising stringent quality parameters for organic products, there is need to have regular supply," he said.

Manoj Menon of International Competence Centre for Organic Agriculture, said the domestic market has potential of Rs 1,450 crore out of which Rs 560 crore are in the metros.

APEDA Chairman K S Money said India has natural advantage in the organic sector. But it is important to know that "organic is all about certification".

"India has credible system of organic certification and we have received equivalence from the US and EU," Money said.

***http://economictimes.indiatimes.com/articleshow/2443447.cms***

**News Round – Up**

**S&P says domestic demand to drive Indian economy**

India's economic expansion is being driven by strong local demand, and a moderation in growth in the current fiscal year was a "soft landing", international ratings agency Standard and Poor's said.

Despite adverse global developments, S&P forecast the Indian economy to grow 8.6 percent in the fiscal year ending in March 2008, slower than 9.4 percent in 2006/07 but a notch higher than the central bank's forecast of 8.5 percent.

"Overall, while global developments have made the environment more risky, the strength of domestic demand is expected to keep the Indian economy on a relatively high growth trajectory," S&P said in a report.

In the calendar year 2007 and 2008, S&P expects the economy to grow 9 percent and 8.8 percent respectively.

The ratings agency said Indian interest rates were clearly peaking. The central bank has raised its main short-term lending rate five times since last June, with the last increase taking effect in March, to cool demand pressures in the world's fastest growing major economy after China.

***http://economictimes.indiatimes.com/articleshow/2442446.cms***

**India to challenge China in manufacturing**

India, popularly known as the world's back office for IT and BPO services, is all set to threaten China's position as the world's backyard for manufacturing in the next 3-5 years, says a new report.

"India could challenge the position of China as the manufacturing centre of the world in next three to five years.

Companies are planning to offshore manufacturing activities primarily to India that will surpass its IT and BPO activities," global consulting, technology and outsourcing services major Capgemini said in its latest report.

At present, manufacturing is the least offshored activity to India, but the survey respondents expected the country to become the number one outsourced manufacturing destination due to its competitive cost advantages over China, Capgemini added.

"Current developments suggest that some of the main manufacturing locations in China are becoming too expensive relative to other countries in the region, which includes India," the report added.

Emerging economies like India and China have the largest market share of offshoring activities. India is diversifying from its stronghold in the IT and BPO segment to the manufacturing segment, which is currently dominated by its neighbour.

The report, however, highlights that India has to make significant investments for improving its infrastructure to cater to the increased demand of manufacturing and supply chain operations.

The Indian government is eager to attract foreign manufacturing activities, but it will need to make significant investments to harvest this potential, Capgemini added.

***http://www.financialexpress.com/news/India-to-challenge-China-in-manufacturing/228276/***