

Weekly Economic Bulletin

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News Feature

No slowdown in industrial activity: CMIE

A leading economic think-tank has said that industrial activity in the country would not slow down despite the monthly Index of Industrial Production (IIP) for manufacturing slipping to 5.6 per cent.

"We believe that industrial growth is not appropriately captured by the IIP numbers and there is no real slowdown in industrial activity," the Centre for Monitoring Indian Economy (CMIE) said in its latest report.

IIP has depicted a deceleration in the growth of the manufacturing sector to 5.6 per cent for the June 2008 quarter.

Financial results of 2,144 listed manufacturing companies have shown a 33.9 per cent rise in aggregate net sales in the June 2008 quarter, the report said.

"After deflating the sales growth by the WPI inflation numbers, we get a real growth of 22.6 per cent in the sales of the manufacturing sector which is much higher than the 5.6 per cent growth in production depicted by the IIP in the June 2008 quarter," CMIE said.

Considering the large sample of companies for which sales data is available and the wide difference in the growth numbers of their real sales and the corresponding IIP, "we conclude that the current industrial growth depicted by the IIP is a gross under-estimate," it said.

A sector-by-sector comparison also shows that there is a discrepancy in the real sales growth and IIP growth figures of food products, textiles, basic metals and metal products and machinery," the report said.

http://economictimes.indiatimes.com/News/Economy/Indicators/No_slowdown_in_industrial_activity_CMIE/articleshow/3520718.cms

India will sustain over 8 per cent growth rate: Kumar

Given the strong fundamentals of the Indian economy, it will be able to sustain a growth rate of over 8 per cent over the next ten years and continue to attract investments in services and manufacturing sectors, Indian Minister of State for Commerce and Industry said.

"Despite some developments that are not favourable, we will still manage to have robust growth," Ashwani Kumar said.

Pointing out to the strength of the country's economy, Kumar told investors attending the annual meeting of the India Investment Forum that the nation would remain on course on the path of economic reform and continue to put investor friendly policies in place.

Supporting the steps being taken by Washington to deal with the financial crisis, Kumar said the US government's action affirms the fact that the State has interventionist as also moderating and stimulating role in an "absolutely critical" situation.

"The State is not going whither away," he remarked. A unique feature of the India's growth story has been that it has uplifted one per cent of the population out of absolute poverty every year since 1985. So far 491 million people have been lifted out absolute poverty and another 290 million will out that situation by 2020, he said.

He pointed out that it costs 60 per cent to set up fully integrated competitive manufacturing facility in India as compared to the rest of the world.

"Our productivity has achieved European standards at 20 per cent of cost and 21 of 100 best running companies in emerging economies are in India," he said.

http://economictimes.indiatimes.com/News/Economy/Indicators/India_will_sustain_over_8_per_cent_growth_rate_Kumar/articleshow/3516599.cms

Overseas Investment

Forex reserves rise to \$292 bn on high \$, credit offtake at 26%

The country's foreign-exchange reserves rose by the most in five months in the week ended September 19, the central bank said.

The rise is surprising at a time when the rupee has dipped to its seventh week of successive dip on sustained outflow of US dollars. But Saugata Bhattacharya, chief economist at Axis Bank said the rise was largely on account of appreciation of the value of RBI's dollar reserves that counteracted the net sales of the greenback in the forex market. This accounted for almost two thirds of the net rise in the reserves, he said.

Total foreign-exchange reserves rose by \$2.51 billion to \$292 billion in the week ended Sept 19, the Reserve Bank of India said in its weekly statistical supplement, on Friday. Foreign-currency assets climbed \$2.5 billion to \$282.8 billion during the week, the central bank said.

Gold reserves stood at \$8.7 billion while reserves with the International Monetary Fund increased \$2 million to \$465 million. The nation's special drawing rights with the International Monetary Fund were unchanged at \$4 million.

The change in foreign-currency assets is partly because of changes in the value of the dollar against the euro, the yen and other currencies during the period, the central bank said.

Foreign-exchange reserves, including overseas currencies, gold and special drawing rights with the International Monetary Fund, have increased \$56.1 billion in the past year. Meanwhile, money supply in India grew 21 % in the two weeks ended Sept. 12 from a year

earlier, same as in the prior two weeks, central bank data showed. M3, which mainly comprises currency in public circulation, bank deposits and money invested in other saving plans, stood at Rs 42,26,143 crore as on September 12, said the RBI.

<http://www.financialexpress.com/news/forex-reserves-rise-to-292-bn-on-high-credit-offtake-at-26/366317/>

India 2nd preferred FDI destination

India has retained its position as the second most-preferred global location for foreign investment in 2008 and will continue to do so till 2010, lagging only behind China, the United Nations Conference on Trade and Development (Unctad) has said in World Investment Report 2008.

Foreign direct investment (FDI) inflows into the country will continue to show the robustness seen in the past couple of years despite the global financial crisis that many feel will impact economies across the world.

The report also mentions a survey by the Japan Bank for International Cooperation (JBIC), in which Japanese transnational manufacturing companies have rated India higher than China for establishing business operations.

“Going by my personal interactions with industry, it could be said that the Indian government’s FDI target of \$35 billion for 2008-09 can be achieved. However, we may not see any big inflows into the country. Inflows may be low for sectors like infrastructure, but other sectors are likely to see enough growth,” said Unctad’s policy expert Premila Nazareth Satyanand, who released the report in India today.

<http://www.business-standard.com/india/storypage.php?autono=335449>

After defence, govt prepares offset policy for other sectors

The government is likely to announce a National Offset Policy, under which foreign vendors of all government departments including public sector units, would have to procure at least 40% of the contract value domestically within a specified time set by the government. The threshold limit for leveraging high-value procurement through offset programme would be Rs 100 crore per project. The offset agreement is proposed to be applicable to all high-value procurements.

The policy is being drafted by the commerce ministry and is awaiting comments from some ministries before it is sent to the Cabinet. “It would be tabled in the Cabinet once the views of the other ministries are incorporated,” a senior government official said. “Participation in the offset programme will be open to both public and private sector. We’ll also be forming an Exemption Committee that will decide which purchases will be excluded from this policy,” the official added.

http://economictimes.indiatimes.com/Policy/After_defence_govt_prepares_offset_policy_for_other_sectors/articleshow/3537813.cms

JP Morgan plans \$800 mn-1 bn PE investment in India

Leading financial services firm JP Morgan said it is looking at an investment of \$800 million-one billion as private equity investment in India over the next two years across various sectors, JP Morgan Chase and Company CEO Kalpana Morparia said.

Speaking on the sidelines of a CII-organised event on women leadership, Morparia said the company had no plans to start retail banking operations in India and that it would focus on existing lines of services like corporate banking, asset management and investment banking.

In India, the firm was looking at growth opportunities, both organically and inorganically, she added.

To a question on the domestic stock market outlook, Morparia said the stock market outlook appeared bright in the mid- and long-term scenario.

She said that interest rates would remain unchanged and did not expect it to fall.

"India continues to evoke interest in the global market with no decrease in global investor interest in India," she added.

JPMorgan had purchased Bear Stearns in a deal for a mere two dollars a share which was about one-tenth of its price in a stock-for-stock exchange.

"This deal makes excellent strategic sense for our company and our shareholders. Our people have worked hard to build a strong franchise and balance sheet - making this compelling transaction possible.

http://economictimes.indiatimes.com/News/Economy/Indicators/JP_Morgan_plans_800_mn-1_bn_PE_investment_in_India/articleshow/3532053.cms

Trade News

India-Korea economic pact to push trade and investment

India and South Korea announced that all outstanding issues in the negotiations for forging the Korea-India Comprehensive Economic Partnership Agreement (CEPA) have been resolved smoothly, paving the way for it to be launched from the first half of 2009.

At the conclusion of the 12th round of the Korea-India Comprehensive Economic Partnership Agreement (CEPA) held in Seoul from September 22-25, it was stated that the

CEPA Agreement is expected to further accelerate the growth of the flows of bilateral trade and investment between Korea and India.

The Indian side was led by Mr Gopal K. Pillai, Commerce Secretary, and the Korean side was led by Mr Hye-min Lee, Deputy Minister.

Both sides expect that they will be able to finalise the formal text of the Agreement including the schedules for liberalisation of goods, services and investment by the end of next month. Major elements of the Agreement will be made public at that time.

Both sides hope to sign the Agreement by the end of this year after completing all domestic procedures and the Agreement will come into effect from the first half of next year on a mutually agreed date.

The Korea-India CEPA negotiations started in March 2006 and a total of 12 rounds of negotiations have been held. India and Korea are 12th and 13th largest economies in the world respectively.

The bilateral trade has been growing by an average rate of around 27 per cent over the last 3 years and amounted to \$ 11.2 billion in 2007, an official release issued said.

<http://www.thehindubusinessline.com/2008/09/26/stories/2008092650901000.htm>

India, Pak announce new CBMs to normalise bilateral ties

Injecting a new momentum in the peace process which has come under strain, India and Pakistan announced a series of confidence building measures, including commencing of cross-LoC trade in Jammu and Kashmir from October 21, and vowed to take "severe action" against any elements involved in terrorist acts.

Prime Minister Manmohan Singh and new Pakistan President Asif Ali Zardari, during their first meeting, decided to give a fresh momentum for an "an early and full" normalisation of bilateral relations and agreed that the forces that have tried to derail the peace process must be "defeated."

Acknowledging that the peace process has been "under strain" in recent months, the two leaders unveiled a slew of measures for a "peaceful resolution and satisfactory settlement" of all bilateral issues including Jammu and Kashmir.

Meeting on the sidelines of the 63rd United Nations General Assembly (UNGA) session at the Millenium hotel where the Pakistan President is staying, the two leaders issued a joint statement, saying that violence, hostility and terrorism have no place in the vision they share of the bilateral relationship and must be "visibly and verifiably" prevented.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/India_Pak_announce_new_CBMs_to_normalise_bilateral_ties/articleshow/3525009.cms

European Parliament urges trade deal with India

The European Parliament urged the EU to negotiate a free trade deal with India by the end of the year.

EU lawmakers voted 392-44 in favour of the motion with 20 abstentions before a EU-India summit scheduled for Monday in the French city of Marseilles.

The parliament also called for greater intelligence cooperation with India to tackle terrorism and urged India to abolish the death penalty. It also expressed "deep concern" about hostility toward Christians in some parts of India.

Negotiations on a free trade agreement began last year, but progress has been slow. Lawmakers called for a "comprehensive, wide-ranging and ambitious" deal.

The 27-nation bloc insists an EU-India trade pact would complement any wider deal struck between trading nations at the World Trade Organization even though the last attempt to strike a deal sunk partly on India's refusal to lift tariffs that protect its farmers from greater competition.

French President Nicolas Sarkozy will head the EU delegation at the summit with Indian Prime Minister Manmohan Singh. France says it wants the meeting to give fresh impetus to the trade talks and launch a new phase in cooperation on climate change, energy and food shortages.

The EU is India's largest trading partner with an 19 per cent share of India's exports and imports. Two-way trade totaled USD 82.26 billion in 2007, but India's exports still represent less than 3 per cent of EU's total imports.

[http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/European Parliament_urges_trade_deal_with_India/articleshow/3523616.cms](http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/European_Parliament_urges_trade_deal_with_India/articleshow/3523616.cms)

Nooyi calls for an India-US bilateral investment treaty

Calling for the "unfettered opening of organised retail in India", Ms Indra Nooyi, Chairman and CEO, PepsiCo, also gave her thumbs-up to the civil nuclear cooperation between India and the US.

"India's economic prosperity depends on access to reliable electricity supply," said Ms Nooyi, who as Chairman of the US-India Business Council (USIBC) was addressing a gathering of the USIBC and CII.

Suggesting the launch of a bilateral investment treaty, Ms Nooyi said, "I am profoundly disappointed that US-India trade is one tenth that of the US trade with China. Now that we are partners in civil nuclear cooperation, we need to champion a successful ongoing trade partnership."

Ms Nooyi listed out three core areas where she wanted both organisations to do more. These were fostering inclusive growth, infrastructure development, and scientific and technological collaboration. In the context of inclusive growth, she pointed out that initiatives in agriculture would help farmers, or a third of the 68 per cent of Indians living in rural areas.

<http://www.blonnet.com/2008/09/25/stories/2008092552051000.htm>

Sectoral News

India to export record soymeal next year

India, Asia's biggest supplier of soybean meal, may export a record quantity next year as higher prices and early rains encouraged farmers to boost planting.

Exports of meal, used as an animal feed, in the year from October may total 6 million metric tonne, 9% more than 5.5 million tonne this year, said Davish Jain, chairman of the Central Organization for Oil Industry and Trade, India's biggest grouping of edible oil processors.

Increased exports of animal feed, made from soybeans, to countries including Vietnam, Japan and South Korea may pose competition to suppliers from US, Brazil and Argentina. Record prices of soybeans, wheat and corn earlier this year have spurred plantings, helping ease a global shortage.

"Area is more this year and which will increase production of soybeans," said Jain, also the managing director of Prestige Foods Ltd., one of the nation's biggest processors of soybeans. "Definitely there will be a market for Indian meal."

Jain is attending a two-day vegetable oils conference starting on Saturday in Mumbai. India's soybean production in the year to June 30, 2009, may exceed 10 million tonne achieved last year, he said. Bloomberg

That compares with the 9.94 million tonne forecast by the government.

Farmers in the central Madhya Pradesh state, which accounts for more than half of the nation's soybean production, planted the crop 15 to 20 days earlier than normal, Soybean Processors Association of India, a trade body, said.

Soybean meal futures for December delivery rose as much 1.1% to \$332.10 a tonne in after-hours electronic trading on the Chicago Board of Trade. The futures have dropped 26% from the July 3 peak of \$445.70.

Soybeans, which makes up about half of the nation's monsoon- sown oilseeds production, was sown in 9.56 million hectare, 9.4% more from a year ago, according to the farm ministry.

Monsoon rains, which account for four-fifths of the nation's annual showers, were 11% above average in the week ended September 17, according to the India Meteorological Department.

India, which grows non-genetically modified soybeans, sells more than 70% of its animal feed output abroad. The meal is fed to animal as a form of protein to aid growth.

Monsoon-sown oilseeds, which make up more than 60% of the nation's total output, are planted in June and harvested this month. Winter-sown oilseeds make up for the remainder.

<http://www.financialexpress.com/news/india-to-export-record-soymeal-next-year/366533/>

Country's spices export b/w Apr-Aug rise by 12 pct

Country's total spices exports in the first five months of fiscal 2008/09 rose 12 percent in volume terms due to strong demand for jeera, chilli and coriander, the Spices Board said .

Spices export during April-Aug stood at 223,050 tonnes, compared with 198,985 tonnes a year ago, it said in a statement.

Exporters may ship more spices from Indian shores this year buoyed by a weak rupee, which has made the country's spices more competitive in the global market, officials, exporters and analysts said last week. The Indian rupee has lost about 14 per cent so far in 2008.

Exports during the five-month period achieved 52 per cent of the estimated target of 425,000 tonnes for 2008/09. Cumin seed, or jeera, exports more than doubled in April-Aug on strong export demand due to lower output in major producers like Syria and Turkey.

The country exported about 21,250 tonnes, compared with 8,260 tonnes a year ago. India is the world's largest jeera producer and exporter. Chilli exports rose on demand from traditional buyers like Sri Lanka, Indonesia and Malaysia.

The country's main competitor, Pakistan, also bought the Indian red spice in April and May to meet domestic demand, the board said. Exports of chilli during the period rose 3 per cent to 96,500 tonnes. Coriander exports also jumped 32 per cent to 14,250 tonnes, while turmeric exports rose 7 per cent to 24,500 tonnes.

http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Countrys_spices_export_bw_Apr-Aug_rise_by_12_pct/articleshow/3521420.cms

Organised retail to form 18% of overall retail pie: McKinsey

This may be good news for leading global retail players waiting to enter the Indian retail bazaar scene: the organised segment of the retail industry is expected to grow from the

current 5 per cent of the total market to about 14-18 per cent of the expected Rs 18-lakh crore market by 2015. But a report by leading management consulting firm McKinsey and Co cautions global players waiting to enter the great Indian retail bazaar that a 'cut and paste' format of their stores elsewhere would not work here.

"They need to have innovative formats based on where to participate in the retail value chain, which geographies to play in and what price points to offer. They also have to craft a customer-insight driven merchandise strategy and create an efficient retail operating platform," suggests the report.

<http://www.thehindubusinessline.com/2008/09/26/stories/2008092650420700.htm>

India to be third largest rubber consumption country by 2020

"India, which currently occupies fourth place in global rubber consumption, will be the third largest rubber consumption country by 2020 after China and the US," Singapore-based International Rubber Study Group (IRSG)'s Secretary General, Hidde Smit, told.

The increase in consumption may drive more imports, he said.

Currently, India is placed fourth in the major global rubber consumption countries after China, the US and Japan.

India's rubber consumption was likely to be 2.2-million tonnes, more than double the current consumption, only third after China with 102.22-million tonnes and the US with 2.32-million tonnes, the IRSG forecast for 2020 said.

http://economictimes.indiatimes.com/News/Economy/Indicators/India_to_be_third_largest_rubber_consumption_country_by_2020/articleshow/3535117.cms

News Round – Up

Small enterprises to contribute 22 per cent of GDP

The share of small and medium enterprises (SMEs) in India's gross domestic product (GDP) is likely to go up to 22 per cent by 2012, according to an industry lobby report, released.

The Associated Chambers of Commerce and Industry of India (Assocham) said in the study that the SME sector was upgrading itself technologically.

"Technological upgradation will reduce input costs and increase production, which will enable SMEs to contribute 22 per cent to India's GDP against 17 per cent by 2012," it said.

The study, 'SMEs-Tomorrow's Blue Chips', said SMEs, which grew at 35 per cent over the last two years, would register 40 per cent growth driven by technological upgradation.

Assocham president Sajjan Jindal said the share of SMEs to the national exports would be up to 44 per cent from 38 per cent in the next five years.

He said over 3.2 million SME units were spread across the country, producing around 7,500 items and providing employment to nearly 400 million people.

He, however, said the government should look into the problems small and medium units face in getting credit from the public banks and financial institutions.

"SMEs are still neglected by banks and financial institutions, mostly in the private sector domain. The public sector banks in India are the only hopes for SMEs," Jindal said.

http://economictimes.indiatimes.com/News/Economy/Indicators/Small_enterprises_to_contribute_22_per_cent_of_GDP/articleshow/3537321.cms

India leads the world in high net worth population growth

India had an estimated 123,000 millionaires or high net worth individuals (HNWIs) at the end of 2007, up 22.7 per cent from a year earlier, says the third annual Asia-Pacific Wealth Report published by Merrill Lynch and Capgemini.

HNWIs are individuals with more than \$1 million in net assets, excluding their primary residence and consumables.

The growth in India's HNWI population was the fastest worldwide and exceeded gains of 22.7 per cent a year earlier. Last year, the combined wealth of India's HNWIs rose 25.7 per cent to \$440 billion, says the latest report from Merrill Lynch and Capgemini.

According to the report, rapid economic expansion, increased foreign investment and gains on the country's stock markets fueled the jump in India's HNWI population last year. Indian HNWIs allocated 36 percent of their assets to equities, among the highest in the nine regional markets covered by the report.

"Despite dislocations in developed markets, the number of high net worth individuals in India grew at a faster rate than the global average," said Pradeep Dokania, head of Global Wealth Management for DSP Merrill Lynch. "Domestic demand and Asia's appetite for commodities continue to drive wealth accumulation in India," he added.

According to the 2008 Report, the average net worth of Indian HNWIs rose slightly to \$3.6 million, compared with \$3.4 million for the Asia Pacific region. The global average was \$4 million.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=47162>