

# Weekly Economic Bulletin

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## News Feature

### India's exports rose 44.2 per cent in August

India's exports increased by 44.2 per cent to \$24.3 billion in August, while imports rose 41.8 per cent to \$38.4 billion, leading to a trade deficit of \$14.1 billion, official data showed.

Although the growth in exports is much above the government's target, it has slowed down significantly when compared to the previous month.

Exports had surged 81.79 per cent to \$29.34 billion in July, while imports had grown by 51.52 per cent to \$40.42 billion, resulting in the month's trade deficit of \$11.08 billion.

Talking after releasing the provisional data, Commerce Secretary Rahul Khullar said the government would help exporters to maintain the growth momentum.

"Something will have to be done," Khullar said.

The cumulative value of exports for the April-August period has increased to \$132.64 billion, while imports during the period increased to \$189.44 billion, resulting in a

trade deficit of \$56.79 billion during the first five months of the fiscal.

<http://economictimes.indiatimes.com/news/economy/policy/indias-exports-rose-44-2-per-cent-in-august/articleshow/9923081.cms>

### Indian economy to grow 8.1 per cent in 2011: UNCTAD

India's economic growth rate is likely to climb down to 8.1 per cent in 2011 from 8.6 per cent in the previous year due to slowdown in the global economy, the United Nations Conference on Trade and Development (UNCTAD) said in a report.

According to the UNCTAD report, global economic growth is estimated to slow down to 3.1 per cent in the current year from 3.9 per cent in 2010.

The US economy is estimated to grow 2.3 per cent in 2011 as against 2.9 per cent in the previous year.

The UNCTAD's Trade and Development Report 2011 shows that the global economy is in bad shape and that its pace has been slowing down in 2011, following a rebound in 2010.

Although the economic slowdown will affect



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developed and developing countries alike, growth rates will remain much higher in the developing economies at close to 6.3 per cent than in the developed ones at around 1.8 per cent.

The report points out that growth in developing countries like India would remain high on the back of strong domestic demands.

While the developing economies are expected to grow at over 6 per cent, growth in the developed world is estimated to remain in the

range of 1.5 to 2 per cent.

"The developing countries like India are in a healthier shape but shape of global economy is not good," said Jayati Ghosh, economist and professor of economics at the Jawaharlal Nehru University.

<http://economictimes.indiatimes.com/news/economy/indicators/indian-economy-to-grow-8-1-per-cent-in-2011-unctad/articleshow/9884029.cms>

## Overseas Investment

### Forex reserves touch all-time high at \$321 bn

India's foreign exchange reserves reached an all-time high of \$321 billion, up by \$1.6 billion for the week ended September 2. The increase was on account of an increase in the gold reserves by \$3 billion. According to the Reserve Bank of India, gold reserves stood at \$28 billion for the reporting period. The previous high was reached in the week ended July 29, when the reserves touched \$319 billion.

According to analysts, a significant increase in the gold reserves was an indication that the central bank may be holding on to more gold, which is considered a safe haven in uncertain

market conditions. Experts attribute the rise in gold reserves to the increase in prices of the yellow metal. Moses Hardings, executive vice president and head, global market group of IndusInd Bank, said: "Gold prices have moved up sharply and hence the rise in value of outstanding gold reserves."

After the US downgrade in August, the global markets tumbled and investors have been withdrawing funds from risky assets and putting it in safe havens like gold. The sovereign debt rating of the US was downgraded to AA+, against AAA earlier.

The upward trend is likely to continue for a while," said Madan Sabnavis, chief economist, Care Ratings.



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“Increase in gold reserves by \$3 billion is a clear indicator that the central bank may be holding on to more gold, as this metal is a good substitute for the dollar to hedge against currency risks, given the fragile nature of the

dollar and euro.

<http://www.business-standard.com/india/news/forex-reserves-touch-all-time-high-at-321-bn/448678/>

### Trade News

#### Trade with Malaysia targeted at \$15 billion

India established diplomatic relations with the Federation of the erstwhile Malaya in 1957. During the visit of Prime Minister Manmohan Singh to Malaysia last October, both countries agreed to work on a Framework for Strategic Partnership, which aims to elevate bilateral relations to the level of a long-term and strategic partnership. Also, the first-ever India-Malaysia CEOs Forum, comprising 18 CEOs from both sides, was jointly launched by Singh and his counterpart, Dato' Seri Mohd Najib, to develop enhanced partnership and cooperation at the business level. The second meeting of the CEOs Forum took place in Mumbai in May and will be followed by a third, likely in November 2011, in Kuala Lumpur.

Dato' Tan Seng Sung, high commissioner of Malaysia in New Delhi, said he is working towards forging closer ties with India and achieving an 'ambitious' trade volume target

of \$15 billion. “Our two-way trade volume with India has been on an increase by almost 14.6% this year. In the first five months of the current year, bilateral trade registered \$3.99 billion, double the amount for the same period in 2010. This is comparable to figures of the same period last year.” And based on these projections, it will cross the \$10-billion mark this year.

“With the CECA (comprehensive economic cooperation agreement) coming into effect from July 1, 2011, the bilateral trade has good prospects of increasing further,” said Tan. The CECA will facilitate temporary movement of business people, including contractual service suppliers and independent professionals in accounting, architecture, engineering services, medical and dental, nursing and pharmacy, computer services and management consulting. Bilateral trade has increased 17 times, from \$0.6 billion in 1992 to \$10.5 billion in 2008, and has more than doubled, from \$5 billion to \$10.5 billion, between 2005 and 2008.



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<http://www.financialexpress.com/news/trade-with-malaysia-targeted-at-15-billion/845191/0>

### **Double taxation avoidance pact signed with Uruguay**

India has signed a double taxation avoidance agreement (DTAA) with Uruguay.

This agreement provides for effective exchange of information, including banking information, besides assistance in collection of taxes between the tax authorities of two countries.

Under this DTAA, business profits will be taxable in the source State if the activities of an enterprise constitute a permanent establishment in that State. Dividends, interest and royalty income will be taxed both in the country of residence and in the country of source.

The maximum rate of tax to be charged in the country of source will not exceed five per cent in the case of dividend and 10 per cent in the case of interest and royalties.

Capital gains from sale of shares will be taxable in the country of source and tax credit will be given in the country of residence.

The agreement was signed by Mr M.C.Joshi, Chairman of the Central Board of Direct Taxes

(CBDT) on behalf of the Indian Government and Mr Cesar Ferrer, Ambassador of Uruguay to India on behalf of Uruguay here today.

The profits derived by an enterprise from the operation of ships or aircraft in international traffic will be taxable in the country of residence of the enterprise, according to the DTAA.

<http://www.thehindubusinessline.com/today-s-paper/tp-economy/article2437065.ece>

### **Indonesia explores business opportunities in UP**

Indonesia, the largest economy in Association of Southeast Asian Nations (ASEAN) bloc, is exploring business and trade ties with Uttar Pradesh.

While Indonesia is the world's fourth largest market after China, India and USA, UP is virtually a country in itself with a mammoth and growing middle class and a total population of about 200 million.

To take the agenda forward, Imbang Listiyadi, trade counsellor, embassy of the Republic of Indonesia, and his aide Jusuf Juliady, held a meeting with Assocham of UP.

Listiyadi said bilateral trade between the two countries had gone up from \$1.12 billion in 1995-96 to \$13 billion in 2010-11. UP industry



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interface Udyog Bandhu representatives also participated in the deliberations, which were focussed on trade promotion between the two countries and furthering prospects of trade between UP and Indonesia.

Udyog Bandhu presented potentials of new investments in UP and invited Indonesian investments in food processing industry, storage and preservation of food grains, fruit, etc. The state government has assured all help and support to overseas investors.

India imports palm/vegetable oil, coal, petroleum, paper products and spices, whereas major Indonesian imports are textile yarn, chemicals, electric and power machinery, refined petroleum products, iron and steel goods, wheat, rice and sugar.

India is the largest importer of crude palm oil and Indonesia has become India's second largest trading partner in ASEAN after Singapore. India is planning procuring natural gas from Indonesia via undersea pipeline.

Assocham suggested there was big scope in industry based on essential oils and aromatic plants in UP. Indonesia has invited UP industry and government to participate in Trade Fair in Indonesia in December.

Udyog Bandhu has invited Indonesian investments in food processing industry, storage and preservation of food grains.

<http://businessstandard.com/india/news/indonesia-explores-business-opportunities-in-up/449024/>

## Sectoral News

### Montek: Aim to increase healthcare spending to 2.5% of GDP

The Planning Commission said expansion of healthcare will be one of its top priorities during the 12th Five-Year Plan (2012-17) and it aims to increase spending in the sector to 2.5 per cent of the GDP from around 1 per cent at present by the end of the period.

"In the 12th Plan, we hope that we will be able to increase the percentage of both

central and state government spending (on health) as a percentage of GDP somewhere up to 2.5 per cent from a little over 1 per cent," Planning Commission Deputy Chairman Montek Singh Ahluwalia told reporters on the sidelines of a Ficci seminar.

The healthcare sector, he said, was a focus area in the ongoing 11th Plan as well and the effort will continue in the 12th Plan.

"We tried to make a start in the 11th Plan, but



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it has to continue in the 12th Plan. India spends too little on the public sector in health," Ahluwalia said.

In its Approach Paper to the 12th Plan, which was approved by the full Planning Commission headed by Prime Minister Manmohan Singh last month, the Plan panel had emphasised on increased spending in social sectors, including health and education.

It had also called for greater public-private partnership in the sector.

Ahluwalia, while addressing the seminar, said the Srinath Reddy Committee on Healthcare will submit its report by the end of this month.

The high-level expert group was set up by the Planning Commission in 2010 to examine the prospects for a universal health cover and to develop a blueprint and investment plan for meeting the human resource requirement to achieve the objective of health insurance for all by 2020.

<http://economictimes.indiatimes.com/news/economy/policy/montek-aim-to-increase-healthcare-spending-to-2-5-of-gdp/articleshow/9922994.cms>

**India has the potential to emerge among the top five economies in the world for electronic payments**

India has the potential emerge among the top five economies in the world for electronic payments and transactions, according to study by a global player in the industry.

"India will climb...to be one of the world's top five generators of non-cash payments by 2017," said a study conducted by analysts with TSYS.

The study notes that in the emerging BRIC (Brazil, Russia, India and China) markets, cash remains king; but in India the tide is turning as consumers increasingly conduct electronic payment transactions with either plastic cards or, to a lesser degree, mobile phone-based applications.

Electronic card transactions - debit, credit and prepaid - are growing at double-digit rates with debit cards' compounded annual 45.5% driving the growth.

This market trend is being driven by a population of more than 1.2 billion, 350-400 million of which are part of the burgeoning middle class. This key demographic, growing annually at 5%, is developing a strong appetite for consumer goods that can be supported through access to basic banking services provided by domestic and foreign financial institutions.



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<http://economictimes.indiatimes.com/news/economy/finance/india-has-the-potential-to-emerge-among-the-top-five-economies-in-the-world-for-electronic-payments/articleshow/9950988.cms>

### **Billion-dollar govt projects to drive IT growth**

A spending windfall from the government is awaiting IT companies. The Centre and state governments may collectively award more than a billion dollars' worth of technology projects, including the UID-managed service provider contract, Crime and Criminal Tracking Network System projects, commercial tax and treasury, Department of Posts and spending by the municipalities as well as different state agriculture departments, in the next six months.

The government spending, which is about 30% of the domestic tech spending, is likely to shoot upwards over the next few years. According to market research firm Gartner, the Indian IT services market is on track to reach \$9.5 billion in 2011, an 18% increase from 2010 revenues of \$7.6 billion. The market is seen growing to \$15 billion by 2014 end.

"We have bid for projects worth \$2 billion. These are under contention at the moment. This is a mix of system integration and

outsourcing deals. UID is the larger pie," Anand Shankaran, VP and business head of Wipro Infotech, said. The India business accounts for 9-10% of its services revenues.

The UID-managed service provider contract is worth R2000-2500 crore. Crime and Criminal Tracking Network System, commercial tax and treasury, municipality and agriculture total to R4,900 crore, estimates from different companies show.

President of EMC India & Saarc Manoj Chugh noted that R4,500 crore worth of decisions by March 2012 look realistic. "The implementation would take several years. But there is a clear intent on the government's part. While phase one of data centres have been done in many states, investments in disaster recovery and business continuity have to be made," he said.

Nasscom president Som Mittal said 26 mission-mode projects are on their way. "Most of these are significant ones. The government has also committed that in the next three years it would connect 250,000 village with broadband. It could mean a large amount of IT spending. The government will become the largest driver of IT in India," he noted.

<http://www.financialexpress.com/news/billion-dollar-govt-projects-to-drive-it-growth/842235/0>



## **Animation industry to reach Rs 4,375 cr by 2013: study**

The Indian animation industry is poised to touch Rs 4,375 crore by 2013, growing at a compound annual growth rate (CAGR) of 23%, driven by a strong demand from entertainment and other sectors, a study said.

According to a joint study by industry chamber Assocham and Deloitte, the Indian animation industry is expected to touch Rs 4,375 crore by 2013, from Rs 2,325 crore in 2010.

While animation entertainment sector (content for television, films or DVD) comprised 20% of the animation industry, the custom content development and education segment made up 64%.

The custom content development and education segment is also expected to see momentum largely due to corporate e-learning programmes and grow at 11% a year, the study said.

The animation visual effects (VFX) involve special effects development, mainly used in movies and advertisement productions, constitutes the remaining 16%.

"The rising number of TV channels, greater accessibility to internet, proliferation of mobile devices that leads to popularity of

video and gaming content are set to offer a huge potential for animation and character licensing," the study said.

The gaming market in the country is also estimated to grow at a CAGR of 53% to touch Rs 2,125 crore in 2013, from Rs 900 crore in 2010, the study said.

<http://businessstandard.com/india/news/animation-industry-to-reach-rs-4375-cr-by-2013-study/146196/on>

## **Tea output up 6.37% in first seven months**

The country's tea production in the first seven months of current calendar increased by 6.37 per cent over the same period a year ago, reveals an analysis of the latest data available with Tea Board and producers' organisations.

Between January and July, production increased to 491.59 million kg (mkg) from 462.16 mkg during Jan-July 2010. This increase of 29.43 mkg marks a growth of 6.37 per cent. The increase would have been more had it not been for a decline of 3.60 mkg in South Indian production. North India posted a gain of 33.03 mkg.

North Indian output rose by to 348.14 mkg from 315.11 mkg. Assam continued to dominate India's tea map with a production of 234.32 mkg (last year: 204.50) accounting for



47.67 per cent (44.25 per cent) of the country's overall output. West Bengal's production increased to 110.38 mkg (107.33) of which, the share of Darjeeling tea, hailed to be the tea champagne, was 4.99 mkg (4.20).

South India's production dropped to 143.45 mkg from 147.05. Tamil Nadu's output declined to 100.19 mkg from 103.27 mkg. Kerala and Karnataka also posted lower production.

<http://www.thehindubusinessline.com/today-paper/tp-agri-biz-and-commodity/article2440199.ece>

### **Rubber exports rise 280% in April-August**

Natural rubber (NR) exports from the country increased 280 per cent in the April-August period of this financial year. Total exports were 12,219 tonnes as against 4,364 tonnes in the same period last year.

The increase was mainly due to the low price India held for rubber in that period. NR export from the country was in a pathetic stage for the past couple of years for several reasons, including high prices and inferior quality. Exports were almost nil in some months of 2010.

In August, exports grew to 1,082 tonnes as against 17 tonnes in the same month last

year. This July, too, India shipped 779 tonnes as against 24 tonnes in July 2010.

This financial year, Indian price tags were advantageous to global buyers as local tags were lower by Rs 17-19 per g. Hence, it is likely that there would be an increase in exports in the remaining part of this financial year. The main drawback of Indian natural rubber in the global market is its inferior quality. But if the price is lower by Rs 12-15 per kg, the country would be an attractive destination for foreign buyers. As local consumption is higher, India is not a major player in the rubber export market. So, the country is not having much balance to be shipped, another reason for the poor performance on export.

<http://businessstandard.com/india/news/rubber-exports-rise-280-in-april-august/449032/>

### **Tyre industry to invest up to Rs 10,000-cr by 2013**

The domestic tyre industry has lined up investments worth over Rs 10,000 crore between now August 2013. The additional investment is in 19 tyre projects targeted for completion this year. A major chunk of the projects are coming up in Gujarat, Tamil Nadu and Maharashtra.

Industry experts say that post-2013, with the stabilisation of these projects and the



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availability of incremental domestic radial capacities, the dependence on Chinese imports would reduce. "Despite the worrying macroeconomic indicators and a general slowdown in domestic automotive sales, the Indian tyre industry continued to post a healthy 25-30 per cent revenue growth during the first quarter of 2011-12 supported by strong replacement and export demand," said a report prepared by ICRA.

Domestic OEM demand growth was also healthy at around 15-20 per cent, albeit weaker than in the previous fiscal. However continued cost pressure from high cost NR inventory led to a 300-350 bps operating margin erosion, both on a year-on-year (y-o-y) and sequential quarter basis, the report said.

For fiscal 2011-12, while ICRA expects moderation in automotive OEM tyre demand, the strong growth in OEM sales in the last two fiscals is expected to translate into higher replacement demand. Growth in M&HCV replacement demand however could be affected by a slower economic growth.

Besides grappling with high input costs and weak demand, domestic players are expected to face additional pressure with the lifting of anti dumping duty (ADD) (with effect from August 2011) on Truck and Bus radials (TBRs) imported from China and Thailand.

While this move is expected to be contested by the industry players, the lifting of ADD makes the imported TBRs cheaper by 15-20 per cent, limiting domestic demand and pricing power. The domestic tyre industry has been in an investment mode during the last few years with almost all participants adding significant capacities.

<http://businessstandard.com/india/news/tyre-industry-to-invest-to-rs-10000-cr-by-2013/448364/>

### PC sales to increase by 35% in FY12

Personal computer (PC) sales in India is expected to grow 35 per cent in FY12, more than double the growth reported in the previous fiscal, according to a the annual review by hardware association MAIT (Manufacturers' Association for Information Technology). The Industrial performance review for 2010-11 said increasing mobility among consumers is driving the sales of personal computers—desktops, notebooks and netbooks—to cross 12.6 million units in the ongoing fiscal.

According to the review, in 2010-2011, PC sales grew by 16 per cent to 9.31 million units in India despite the inflationary pressures. The sales of desktops stood at 6.03 million units in FY '11, translating into a growth of 9 per cent year-on-year, while notebooks and netbooks



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recorded combined sales of 3.28 million, a 31 per cent increase vis-a-vis the previous fiscal.

“The overall IT hardware Industry scenario is good and stable as it witnessed growth across all the products,” said MAIT president Sandeep Nair. “The year 2010-11 has indeed been a great year for the Indian IT hardware market as the sales have really picked up across all product segments.” He attributed the growth to stable economic growth and an increase in disposable income.

MAIT found that the growth in sales of notebooks and netbooks was primarily driven

by the household segment, which accounted for about 57 and 75 per cent of the total sales, respectively.

Netbook sales crossed the three lakh unit mark for the first time, registering an impressive growth of 80 per cent over the same period last year.

In the case of desktop sales, households and organisations accounted for 50 per cent each of the total sales.

<http://businessstandard.com/india/news/pc-sales-to-increase-by-35-in-fy12/448585/>

### News Round-Up

#### India pushes for economic integration of South Asia

Underlining the need for expanding intra-regional trade and investment, India has pushed for “progressive economic integration” of South Asia ahead of the Saarc summit in the Maldives later this year. “We all know that our region is among the least economically integrated in the world; there are adequate studies that offer statistics in this regard,” said external affairs minister SM Krishna at a dinner in honour of representatives from the South Asian Association for Regional Cooperation (Saarc)

countries participating in the first South Asia Forum.

“However, for me, the litmus test of integration is really whether we are able to make it viable for our businesses to expand intra-regional trade and investment flows,” said Krishna, urging the forum to “assemble a robust argument in favour of progressive integration of the region”.

“If this can be incentivised either through policy measures or by means of forward-looking steps by our premier chambers of commerce and industry, the connective tissue



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of a South Asian economic community can begin to be created," he said.

The two-day South Asia Forum, organised in association with the government, Ficci and the Saarc Secretariat, started with an inaugural address by Planning Commission deputy chairman Montek Singh Ahluwalia. The theme for the first South Asia Forum is 'Integration in South Asia: Moving Towards a South Asian Economic Union'.

Touted as a Track 1.5 initiative, the South Asia Forum brings together government functionaries, businessmen, media and academics to generate 'out of box ideas' for facilitating greater regional economic integration and people-to-people contact.

The minister also called for enhancing the participation of civil society in the Saarc integration process. "For future editions of the Forum, we may perhaps need to consider widening representation from the civil society, media, academia and business, while proportionately reducing the scale and extent of government presence," he said.

<http://www.financialexpress.com/news/india-pushes-for-economic-integration-of-south-asia/844253/0>

**India to have over 4 lakh millionaires by 2012**

The millionaire club is set to witness a major boom as their numbers are expected to more than double to 4.03 lakh by 2015 on the back of a robust economic growth and impressive returns from stock and property markets.

The total wealth of these millionaires, having minimum investible assets of USD 1 million, is also estimated to more than double to about USD 2.5 trillion by 2015, a report on Asian wealth market has said.

Investment banking major CLSA said in its report, titled 'Wealthy Asia' that there were a total of 1,73,000 millionaires in India at the end of 2010, with total wealth of USD 949 billion (over Rs 42,00,000 crore).

For 2015, the report forecasted the country to have as many as 4,03,000 HNWI's (High Net Worth Individuals), who have been classified as those having minimum investible assets of USD one million, with a combined wealth of USD 2,465 billion (more than Rs 1,00,00,000 crore).

CLSA said that wealth growth in India was expected to be "extremely strong" on the back of strong economic growth and robust returns from key asset classes.

"The stock market should provide almost 14 per cent annual returns, while we estimate Indian properties to rise on an average close to five per cent per annum," it said.

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The report, which tracked the wealth market in entire Asia excluding Japan, said that India accounted for 15 per cent of total HNWI population in the region, which was second largest after China's 44 per cent.

<http://economictimes.indiatimes.com/news/economy/indicators/india-to-have-over-4-lakh-millionaires-by-2012/articleshow/9944035.cms>

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