

## Weekly Economic Bulletin

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## News Feature

### India targets 10 per cent near-term growth, 5 per cent inflation: PM

Putting inclusive growth and taming price rise on top of United Progressive Alliance's (UPA) agenda, Prime Minister Manmohan Singh set a medium-term target of 10 per cent annual economic expansion for India with moderate inflation.

"The agenda for our second term seeks to strengthen a pro-people policies and programmes initiated by our government since 2004," the prime minister said in his opening remarks, predicting a 8.5-percent growth for this fiscal.

This was the first formal press meet to mark his second term as the prime minister of the year-old United Progressive Alliance (UPA) government and he answered questions from the national and international media at the Vigyan Bhavan convention centre.

The previous one during his first term, which the Prime Minister's Office described as his first national press conference, was organised Sep 4, 2004 at the same venue.

According to the Oxford-Cambridge educated economist-prime minister, social and economic uplift of the members of Scheduled Caste and Scheduled Tribes, other backward classes, minorities and women will continue to receive priority attention in our plans.

He stressed on the need for a rapidly growing economy, which generates productive employment and resources to finance the government's "ambitious" social and economic agenda.

"Our medium term target is to achieve a growth rate of 10 percent per annum. I am convinced that given our savings and investments rate this is an achievable target," he said.

Underlining that the Indian economy had done well in the wake of global recession, the prime minister said his government's first priority was to protect the country's economy from the global slowdown and ensure momentum of inclusive growth is not interrupted.

"Our annual growth rate had averaged nine percent for four years before the crisis. It reduced to 6.5 percent in 2008-09 and recovered to 7.2 percent in 2009-10. We expect 8.5 percent in this financial year," he said.

"This is widely regarded as one of the best performances among the larger economies of the world."

<http://economictimes.indiatimes.com/Indicators//articleshow/5967553.cms>

## **Economy to login 8.2 pc growth this fiscal: ING Vysya**

The economy is likely to grow by 8.2 per cent in the current fiscal from the estimated 7.2 per cent last financial year on the back of strong performance by the industrial and services sectors, ING Vysya Bank has said.

"The output gap is likely to close this fiscal as the economy stages a strong recovery. GDP growth is expected to rebound to 8.2 per cent in 2010-11 vs 7.2 per cent (estimated) in FY10," ING Vysya Bank economist Deepali Bhargava said while presenting the bank's economic outlook for 2010-11.

She further said a strong recovery in manufacturing is already established, adding the services sector is likely to complement industrial growth this fiscal.

Finance Minister Pranab Mukherjee has pegged GDP growth at around 8.5 per cent in the current fiscal while RBI had pegged it at 8 per cent with an upward bias.

GDP growth slowed to 6.7 per cent in 2008-09 due to the global financial meltdown. However, government's stimulus packages and stepped-up public spending pushed growth to an estimated 7.2 per cent in fiscal 2009-10-- as projected by Central Statistical Organisation. The FY10 GDP numbers will be released on May 31.

<http://economictimes.indiatimes.com/Indicators//articleshow/5964853.cms>

## **Exports rise 36% in April, govt says it's base effect**

Exports in April clocked a 36% growth y-o-y on back of higher demand for Indian gems & jewellery, textiles, petroleum, oil & lubricants and engineering, but the shipments were way below what the country managed two years ago indicating a slow pace of recovery in key overseas markets.

"Don't get carried away by the growth. The huge bump up is pure base-effect," said commerce secretary Rahul Khullar, pointing to fresh challenges ahead. A key concern here is how the European Union countries will shape up in the coming months as the debt crisis in Greece continues to cast a shadow.

Imports went up by 43.3% in April 2010 fuelled by growth in manufacturing and increase in domestic demand. Exports in April 2010 at \$16.9 billion is much higher than exports worth \$12.4 billion in April 2009, but is below the previous April's level of \$18.5 billion.

The base-effect that Mr Khullar pointed to notwithstanding, the latest figures show that crucial sectors that were hit most by the slowdown such as gems & jewellery and textiles were picking up globally.

"Recovery in the US is far from gung-ho and the situation in Europe is still not stable. If the Greece contagion spreads to other countries, what can you do?" Mr Khullar said. Exporters' body Fieo's director general Ajay Sahai said the government should constantly review the progress in Euro zone to take timely action if required. "If the crisis does not extend beyond Greece, then we are well on our way to achieve the \$200 billion export

target set for the year. But if it spreads, then the government has to strategise and take action to help exporters," he said.

<http://economictimes.indiatimes.com/news/economy/indicators/Exports-rise-36-in-April-govt-says-its-base-effect/articleshow/5951312.cms>

## **Overseas Investment**

### **100 per cent FDI in defence 'desirable': Industry ministry**

The industry ministry, which proposed 74 per cent FDI in the defence sector, has said even 100 per cent foreign investment would be "desirable" for the country to have latest technology for armed forces.

"In case if we really want to have the state of art technology, we have to permit anything above 50 per cent if not 100 per cent. It may be therefore, desirable to allow either 100 per cent or 74 per cent (FDI) as in the telecom sector," the discussion paper of the Department of Industrial Policy and Promotion (DIPP) on the issue has said.

The DIPP allayed concerns that the national security could be compromised by removing the ceiling on the FDI in the sensitive sector.

In any case, FDI would be subject to licensing provision. At present, 26 per cent FDI is allowed in defence sector. "Since there is licensing provision in the defence sector we can refuse to permit FDI in the sector by refusing the licence where the background of the company is suspected," the paper said.

Besides, the security concern can be met by imposing a condition that "the government has a right to expropriate a manufacturing facility in case there is need to do so due to the exigencies of national security, by payment of suitable compensation".

Experts, however, have cautioned against the proposal. "Allowing 74 per cent FDI looks desirable in the non-strategic sector, the (Industry) Ministry will have to be cautious while allowing it in the strategic sector as foreign players will have control over these companies," Observer Research Foundation (ORF) Senior Research Fellow and Defence Analyst Deba Mohanty said.

<http://economictimes.indiatimes.com/news/economy/policy/100-per-cent-FDI-in-defence-desirable-Industry-ministry/articleshow/5944853.cms>

### **24 foreign investment proposals worth Rs.1,412 crore approved**

The government cleared 24 foreign investment proposals, including those of media company Asianet and broadcasting firm Tata Sky, worth Rs.1,412 crore.

Asianet's proposal worth Rs.425 crore is on induction of foreign equity to undertake the business of broadcasting non-news and current affairs television channels.

Global media magnate Rupert Murdoch-controlled Star India holdings is making an investment of Rs.324 crore to acquire shares of direct-to-home (DTH) provider Tata Sky.

Another major proposal is by AIP Power to set up power plants either directly or indirectly by promotion of joint ventures at an investment of Rs.113 crore.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/24-foreign-investment-proposals-worth-Rs1412-crore-approved/articleshow/5950160.cms>

## **Trade News**

### **All ASEAN members to implement trade pact with India by August**

The India-ASEAN trade pact, which reduced duties on India's trade with Singapore, Thailand and Malaysia since January, is expected to be operationalised with the remaining seven members of the bloc by August.

India had signed the Free Trade Agreement (FTA) with the Association of Southeast Asian Nations (ASEAN) in August 2009, but it was operationalised by only three of its members.

A Commerce Ministry official said that though Singapore, Thailand and Malaysia account for more than 90 per cent of India's trade with ASEAN countries, the remaining seven were also "important markets".

The FTA, which significantly reduces or even eliminates duties on goods such as machinery, steel and oilcake, was to be extended to all ASEAN members by June. However, some of them sought an extension of deadline.

"Some of the nations, such as Cambodia and Myanmar, required approval from their Parliament. As for Philippines, a new government had just taken over," the official added.

The seven countries, which are yet to implement the pact, are Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, Philippines and Vietnam.

The Indo-ASEAN trade in goods stood at USD 45 billion in 2008-09. However, it declined in 2009-10 due to global economic problems.

The two sides also engaged themselves in negotiations to widen the base of the pact by including services and investments in the trade treaty.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/All-ASEAN-members-to-implement-trade-pact-with-India-by-August/articleshow/5964834.cms>

### **Thailand, India talk of replacing limited trade pact with FTA**

India and Thailand are likely to restart talks on a full-fledged free trade agreement including goods, services and investments. Talks on an FTA were suspended after the two sides implemented a limited agreement involving just 82 items six years back.

“It is important to commence work on an FTA. It would not only include a larger number of goods, but also services and investment,” Thai deputy minister of commerce Alongkorn Ponlabhoo said in an interaction organised by Ficci.

Mr Alongkorn said that he had already discussed the issue with the Indian government and hoped that talks on an FTA would begin soon.

Both countries want to double bilateral trade to \$12 billion by 2012 from the present level of \$5-6 billion.

“We are hoping that the increase in trade would be generated through cooperation under various agreements like the BIMSTEC, the Asean-India FTA and the proposed Thailand-India FTA,” he said.

India and Thailand signed an early harvest programme in 2004 under which the two sides agreed to eliminate duties on 82 items like television tubes, refrigerators, mangoes, apples grapes and some metals.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Thailand-India-talk-of-replacing-limited-trade-pact-with-FTA/articleshow/5951286.cms>

## **Sectoral News**

### **Indian engg, R&D services mkt to top \$45 bn by 2020**

India's Engineering and R & D (ER&D) services market is projected to reach \$40-45 billion by 2020, with export revenues of \$35-40 billion and domestic revenues at \$4-6 billion, and to be the next growth engine for 'desi' IT-BPO industry, according to a study.

Infrastructure, aerospace and energy are expected to contribute more than 80 per cent of the domestic revenue, said the study "Global ER&D: Accelerating Innovation with Indian Engineering", released by National Association of Software and Services Companies (NASSCOM) in association with management consulting firm Booz & Company.

Indian ER&D services market reflected revenue growth of over 40 per cent in the last three years with 2009 revenues amounting to \$8.3 billion and an increase in employee base from 54,000 in 2006 to 150,000 in 2009.

"India is now an epicentre for global ER&D services with a compelling value proposition, based upon the growing depth and breadth of services, flexible business models, large engineering base and global footprint with greater proximity to customers", NASSCOM President Som Mittal told on the sidelines of the "NASSCOM Engineering Services Conclave 2010".

Major growth triggers have been identified as: continued ER&D investment critical for innovation and penetrating new markets; increasing use of electronics, fuel efficiency/alternate fuels and convergence of technologies driving future ER&D spend; greater focus

on emerging markets resulting from rise of a new consumer segment with varied requirements.

The study said global ER&D spend surpassed \$one trillion in 2009 and is expected to touch \$1.4 trillion by 2020. Automotive, consumer electronics and telecom are the top spenders on ER&D.

Partner, Booz & Company, Vikas Sehgal, said a \$45-45 billion industry has potential to create more than five million employment opportunities in engineering and related fields.

However, it said collaborative stakeholder action would be imperative to achieve \$40-45 billion industry in 2010.

"Focused investments are required to capture new markets, deepen capabilities within verticals and build services portfolio across the product development value chain", the report added.

<http://economictimes.indiatimes.com/news/economy/indicators/Indian-engg-RD-services-mkt-to-top-45-bn-by-2020/articleshow/5954053.cms>

### **Crisil reaffirms telecom operators' ratings following 3G auction**

Crisil has reaffirmed its outstanding ratings on telecom players on conclusion of the auction for 3G spectrum blocks.

In a release, the rating agency said that it believes that availability of 3G spectrum will positively impact the business profiles of telecom players, enabling them to protect their current market positions, and offer value-added services.

In addition, the bidding strategy, and the final spectrum fees paid by each Crisil rated telecom player is in line with Crisil's expectations.

As expected by Crisil, its rated telecom players have followed a circle-specific strategy in the bidding process, with their overall goal being to defend their market positions in their key circles.

Idea Cellular Ltd, for instance, has won 3G spectrum blocks in all circles where it ranks among the top three players. Bharti Airtel Ltd and Vodafone Essar Ltd have won spectrum blocks in about 70 per cent of the circles where they rank among the top three players. Tata Teleservices Ltd, on the other hand, won spectrum blocks in most Category-B circles, and in three of five Category-A circles.

Winning 3G spectrum blocks in their key circles will help the players retain their market positions, reduce congestion in traffic through use of additional spectrum, and thereby, enhance the quality of their services. Their business risk profiles will, therefore, be positively impacted, even though 3G service revenues are unlikely to grow significantly in the next two years.

The final spectrum fees, and the associated capital expenditure over the medium term, have been in line with Crisil's expectations for each rated player. Given that these investments will primarily be debt funded, the players' financial risk profiles are expected to be under pressure over the medium term.

However, this pressure will be offset by strong cash flows from the players' pan-India operations, and in a few cases, by support from parents.

The auction for broadband wireless access (BWA) is scheduled to begin shortly. Crisil expects investments associated with the auction of BWA spectrum to be significantly lower than the 3G spectrum fees. However, Crisil will closely monitor the outcome of the BWA bidding process and its impact on the ratings of entities in the telecom services sector.

<http://www.business-standard.com/india/news/crisil-reaffirms-telecom-operators-ratings-following-3g-auction/95184/on>

### **Textiles exports may touch \$24 billion in 2010-11**

With the revival of demand in Western markets, India's textile exports may grow up to \$24 billion in 2010-11 from an estimated \$20 billion in the previous fiscal, industry and government officials have said.

"In 2009-10, our textiles exports are estimated at \$20 billion due to the global economic crisis. We expect exports to be \$24 billion for the current fiscal," an official in the Textile Ministry said.

The textile exports are set to move in sync with the country's overall exports, which have been growing for six months since November, 2009.

Federation of Indian Export Organisations (FIEO) President A Sakthivel said textile exports can reach \$24 billion if the government extends a helping hand to the industry, which is facing problems.

There has been a steep rise in cotton prices, which shot up by over 20 per cent in the past six months, resulting in higher fabric costs.

"The target can be met provided the government continues some regulations on cotton and cotton yarn exports," he said.

The government has brought cotton exports under the restricted category, with overseas shipments subject to licensing.

US and European markets, which account for 30-35 per cent of textile exports from India, have seen revival of demand across different sectors, exporters said.

The exporters are also exploring new markets like Africa, Latin America and Oceania.

"Orders are improving. Demand for fabric has also gone up," said Confederation of Indian Textile Industry (CITI) Secretary General D K Nair.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Textiles-exports-may-touch-24-billion-in-2010-11/articleshow/5965415.cms>

### **Handicrafts exports up by 16 pc to USD 179 mn in April'10**

India's handicrafts exports grew by 16 per cent to USD 179 million in April compared to the same period in the previous fiscal, on growing demand from the US market.

The exports stood at USD 154.78 million in April, 2009. "We are getting good number of export orders from the US market. But there is less business from the European markets," Export Promotion Council for Handicrafts Chairman Raj Malhotra said.

The exporters are hopeful that exports would continue to grow in the current fiscal.

"We are expecting a growth of 9 to 10 per cent in 2010-11 compared to the last fiscal," Malhotra added.

Among the items that registered a healthy growth are imitation jewellery, which grew by 21 percent, followed by wood wares 20.66 per cent, shawls (as art wares) 18.39 percent, zari and zari goods 16.67 percent and art metal ware 14.32 percent.

After 11 months of contraction since October 2008, exports from the handicrafts sector turned positive in September 2009, registering a growth of over 160 percent compared to September 2008.

The US and EU together account for 70 per cent of the country's handicrafts exports.

Moradabad, Jaipur, Saharanpur, Jodhpur and Narsapur are the major handicraft hubs catering to world markets and employ one million people.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Handicrafts-exports-up-by-16-pc-to-USD-179-mn-in-April10/articleshow/5944946.cms>

### **GSM players add 11 million new customers in Apr**

The all-India GSM cellular subscriber base has touched 433 million with the addition of 11.18 million new users in April, according to the Cellular Operators Association of India (COAI). Bharti Airtel, the number one GSM operator, added three million new users, which took its total subscriber base to 130.6 million, data from COAI showed.

Rival Vodafone Essar, UK-based Vodafone's India unit, added 2.9 million subscribers during the month, which pushed up its customer base to 103.8 million, it said.

Bharti is the market leader, with a 30.16% market share. In March, GSM operators added around 14 million subscribers around the country.

Idea Cellular added 1.5 million users in April, taking its subscriber base to 65.3 million, while Aircel-in which Malaysia's Maxis owns a majority stake-added 1.6 million customers to reach the 38.5 million-mark.

State-run telecom firms BSNL and MTNL registered 1.25 million and 33,217 new users respectively, which took their subscriber base to 64.7 million and 4.8 million respectively.

The COAI data excludes RComm figures. India is one of the most attractive and rapidly growing mobile telephony markets in the world. There are 15 operators operating in this fastest growing wireless market and approximately 14-15 million mobile (GSM and CDMA) new users are added every month.

<http://www.financialexpress.com/news/gsm-players-add-11-million-new-customers-in-apr/622083/>

### **Seafood exports rise 10% in '09-10**

Despite stiff tariff and non-tariff barriers from the US and European Union, India's seafood sector survived to post a record \$2 billion worth exports in 2009-10.

Last year, India's seafood exports faced tariff hurdles in the US market as the fourth review by the United States International Trade Commission (USITC) increased duty by a whopping 300%, while the EU put hurdles in the form of mandatory catch certificate for all seafood products.

Weathering all the bottlenecks, the country's seafood exports crossed all previous records in volume, rupee value and dollar realisation in 2009-10, the Marine Exports Product Development Authority (MPEDA) officials said.

Exports during FY 2009-10 aggregated to 663,603 tonne valued at Rs 9921.46 crore (\$ 2105.60 million), Leena Nair, chairperson of MPEDA said. "Compared to the previous fiscal, we recorded a growth of 10.08% in volume, 15.26% in rupee earning and 10.32% growth in dollar earnings in spite of the recession in the international market," she added.

Increased exports have due to increased trade in Middle East and South Asian countries, while exports to the traditional US market recorded a decline. Exports to Middle East countries have increased by 27% during the last one year while Southeast Asian countries imported 62% more during the last fiscal, Nair said.

Exports to countries like Libya, Reunion Islands, Australia, Puerto Rico, Dominican Republic, Kenya, Tanzania, Ukraine and Brazil also registered a positive growth.

<http://www.financialexpress.com/news/seafood-exports-rise-10-in-0910/620516/>

### **News Round-Up**

#### **India's growth showing strength in the face of crisis**

The year 2009-10 has seen the Indian economy recovering fast from the impact of the international financial crisis. After having grown at more than 9% per annum for three years, in the second half of 2008-09, the economy slowed to 5.7%. This was the direct consequence of the international financial crisis.

However, it is estimated that the Indian economy would have grown by 7.2% in 2009-10. This is despite a fall in farm production due to drought. The manufacturing sector is doing well. It has grown by 10.9% during the year. The service sector also has done well. The Indian economy will see even better performance in the current year.

Price rise has been a big concern. Inflation as measured by WPI had crossed 10% in February 2010. It was triggered by a shortfall in foodgrains production. But by now the food inflation has spread to other sectors as well. The year-on-year inflation in the manufacturing sector as of April 2010 was 6.7%. Inflation in the non-food manufacturing sector stood at 5.45%.

Controlling inflation should be the policymakers' most important task in the coming months. We have sufficient stocks of foodgrains. As of April 1, 2010, the stock of wheat was 16.13 million tonnes and that of rice 26.7 million tonnes. They are higher than what they were on the corresponding date in the previous year.

We should be able to use the stocks in a manner that leads to the softening of food inflation. Apart from releasing more foodgrains through subsidised public distribution system, the state governments should also identify alternate channels through which stocks can be sold at prices lower than market price, but equal to MSP plus freight.

The recovery is a testimony to the resilience of the Indian economy as well as the response to the policy initiatives taken by the government. An accommodative fiscal policy was adopted. This was done by way of reduction in the excise duty and expansion in public expenditure. Total expenditure under the budget 2009-10 was 36% higher than the budgeted estimates for 2008-09.

This extraordinary increase in government expenditures had resulted in fiscal deficit rising sharply. The revised estimates for 2009-10 show that the fiscal deficit stands at 6.7% of GDP. Obviously, this level of fiscal deficit is not sustainable over a long period.

Wisely, the budget for 2010-11 has brought it down to 5.5% of GDP. A process of fiscal consolidation has thus been put in motion. The budget has struck a proper balance between the need for fiscal consolidation and the need to provide adequate stimulus for growth. After the Greek episode, no one can mock at the critics of high fiscal deficits.

In 2009-10, against the background of the international financial crisis, the Reserve Bank of India adopted a policy of expanding liquidity. Reduction in CRR, repo and reverse repo rates were steps in the right direction. However, it became necessary for the RBI to watch the liquidity situation as the price scenario changed.

The inflationary spurt that was seen the last year was peculiar to the Indian economy. Under these circumstances, the monetary policy must contain the price increase within reasonable limits even as support is provided to facilitate growth. In response to the inflationary situation, the RBI raised the CRR by 75 basis points. More recently, it has raised the repo rate and reverse repo rate as well as CRR by 25 bps. If inflation persists at this level, further tightening may be called for.

Capital inflows have been moderate in 2009-10. Perhaps the addition to reserves has been less than \$15 billion.

This is a level of accretion that can be easily absorbed. One should expect the capital inflows to rise in the current year. But it is unlikely to be of the order that should cause serious concern to the level of reserves or the exchange rate. The correction of the appreciation of the real effective exchange rate must come through control of inflation.

<http://economictimes.indiatimes.com/news/economy/indicators/Indias-growth-showing-strength-in-the-face-of-crisis/articleshow/5956421.cms>

### **India, Australia more positive about economic recovery: Survey**

Senior financial executives across India, Asia and Australia see the brightest outlook for economic recovery, compared with their peers in other countries, and plan to invest in growth by actively tapping new markets, according to an American Express/CFO Research Survey. The survey also shows a robust hiring outlook with 85% of Indian respondents citing plans to increase headcount in 2010.

These findings were released in the third annual American Express/CFO Research Global Business & Spending Monitor, a survey of 479 senior finance executives from the United States, Europe, Canada, Mexico, Asia, and Australia. Asia/Australia represents 35% of responses, and India makes up 21% of that subset.

“We’re seeing a significant shift to a more positive outlook among finance executives as companies have moved from simply surviving the present to investing in growth for the future,” said Manoj Adlakha, head, Global Commercial Card, American Express, India. “At the same time, the experience of the slowdown set the stage for a newfound and long-term focus on financial discipline and management rigor.”

The report reveals that senior finance executives from around the world are exhibiting growing optimism about economic recovery but are proceeding with caution -- investing in categories that will boost growth such as sales and product development while selectively increasing discretionary spending in areas like marketing and technology. At the same time, companies continue to closely manage the bottomline and maintain the strong financial discipline that was renewed during the recession.

India along with Australia and other Asia countries lead in Optimism and Renewed Focus on Growth.

Executives worldwide report a more positive economic outlook, indicating that a sustained recovery is taking hold. Nearly three-quarters of all respondents (71%) anticipate economic expansion for their countries over the next 12 months, while only 10% expect contraction. This is the highest percentage of respondents indicating that they expect economic expansion in their countries in the three years the American Express/CFO Research study has been fielded. A small majority (56%) said they expected expansion in 2008 and only 18% in 2009.

The brightest outlook for economic recovery comes from Asia and Australia – 83% of executives in Australia, 87% from Hong Kong, 82% from Singapore, and 78% from India expect economic growth in the year ahead. 92% of the respondents based in India have seen or expect to see a sustained increase in demand for their companies' products and/or services in 2010. 28% of respondents in India say their companies have already experienced an increase in demand and 56% expect an increase in the second or third quarters of this year.

As the economic outlook brightens, survey results show that, in general, capital expenditure will remain stable over the next 12 months compared to last year. The results suggest that Indian companies will approach capital expenditure less conservatively than their counterparts in many other countries -- 95% of the respondents based in India said their companies plan to maintain or increase capital spending compared to last year.

The majority of respondents based in India (85%) cite robust hiring plans. In general, respondents in India are more likely than their peers in other countries to say they expect their companies will begin hiring relatively soon—by the third quarter of 2010.

<http://economictimes.indiatimes.com/news/economy/indicators/India-Australia-more-positive-about-economic-recovery-Survey/articleshow/5949496.cms>