

Weekly Economic Bulletin

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News Feature

Exports up 13% to \$16.24 bn in July

India's exports rose in July, for the ninth month in a row, by 13.2 per cent to USD 16.24 billion, Commerce Secretary Rahul Khullar said.

Imports too rose by 34.3 per cent to USD 29.17 billion, taking the trade gap for the month to USD 12.93 billion, he added.

Overseas shipments in April-July this fiscal aggregated at USD 68.63 billion, up 30.1 per cent over the same period last year. Imports during the April-July period this fiscal were at USD 112 billion, up by 33.3 per cent over the year-ago period.

<http://www.financialexpress.com/news/exports-up-13-to-16.24-bn-in-july/661446/>

Growth has peaked, signal macro indicators

After growing at a fast clip for nearly nine months, Corporate India seems to have taken a breather in the first quarter of 2010-11. Companies in the CNX-500 index (excluding banks, financial institutions and oil refineries) notched up a year-on-year growth in net sales of about 14 per cent while adjusted profits were almost flat (up by about 1.5 per cent).

Given the robust demand, this does not mean any slowdown yet. But certain signs emanating from the economy indicate that growth may have peaked out. Adding credence to this line of thought is that growth this year has to be on a higher base.

Besides, the central bank has also begun to hike policy rates, signalling an exit from the days of easy money. Finally, with the European crisis and the Chinese slowdown, the global 'recovery' supporting growth has become uncertain too.

Lead indicators max out

The OECD Composite Leading Indicators (CLI), the HSBC Markit Manufacturing Purchasing Managers' Index (PMI) and the HSBC -Markit Services PMI — three lead indicators of economic activity in India — all point to a moderation in growth in the months to come. Based on industrial production, the OECD Index is designed to give early signals of turning points in economic activity.

Back in February 2009, the CLI pointed to a possible trough in economic activity in India, indicating the beginning of an upswing, much before the PMI captured the trend in April/May 2009. This year, the CLI for India peaked in May and figures for June 2010 point to a possible turn downwards from this peak.

A survey of purchasing managers of about 850 manufacturing and service companies by HSBC-Markit too reveals a similar finding. The manufacturing companies index reached its peak of 59 points in May, [50 points is the line that differentiates expansion (>50) from contraction (<50)] the highest since February 2008, before falling in June and July. The

services index too peaked at 64 points in June, the highest since June 2008. But sub-components of these indices captured what was to come much before the peak.

<http://www.blonnet.com/iw/2010/08/22/stories/2010082250680500.htm>

New series of IIP data expected by year-end

The government is likely to come out with more representative data on industrial production by this year-end by adding nearly 150 new items and deleting the obsolete ones from the index.

"Some remaining work is going on...most probably the new IIP (Index of Industrial Production) series with the base year 2004-05 (will be out) by the end of this year," a senior industry ministry official said.

Currently, around 350 items are in the IIP basket to calculate the monthly industrial production figure. The new series would be more representative and would constitute around 500 items, the official added.

The new IIP series would reflect industrial scenario better than the base of 1993-94 used currently.

IIP data is often criticised for not catching up with the times and provide archaic figures compared to the ones provided by other agencies like Centre for Monitoring Indian Economy (CMIE).

The new series is expected to do away with obsolete items and add those products which have entered the markets in recent years.

The official, however, did not divulge the details of new products and the old ones which will be deleted.

On a query whether the expansion of items would lead to a surge in the IIP numbers, the official said, "Probably not. I don't think it would be very different."

<http://economictimes.indiatimes.com/news/economy/indicators/New-series-of-IIP-data-expected-by-year-end/articleshow/6340257.cms>

Overseas Investment

Realty check! FDI grows 80 times in 5 years

It's not Indians alone who are monitoring the real estate market here. Foreign direct investment (FDI) in India's booming real estate and housing market jumped 80 times between 2005 and 2010.

Figures show that in 2005, FDI in real estate was a mere Rs 171 crore. That soared to Rs 13,586 crore in 2009-10. In April and May this year, Rs 737 crore in FDI was pumped into the sector.

Technically speaking, the Foreign Exchange Management Act or FEMA, prohibits foreign investment in real estate and construction of farm houses. However, the definition of “real estate business does not include development of townships, construction of residential or commercial premises, roads or bridges, educational institutions, recreational facilities, city and regional level infrastructure”.

More and more money is being pumped into India’s housing sector from abroad. And this, despite the recent downturn. Since 2005, foreign direct investment (FDI) worth Rs 37,986 crore has come into the housing sector in India, including Rs 13,586 crores already this year.

It is no surprise that the largest number of building projects where FDI is in play are in the country’s commercial capital, Mumbai. Of the total 1,614 projects in which foreign investors have put in money since 2005, 422 were cleared by the Reserve Bank of India’s Mumbai office, followed closely by 316 in Delhi. Other big cities like Bangalore (225 projects), Hyderabad (105 projects) and Chennai (68 projects) also enjoyed considerable attention of foreign real estate developers.

Interestingly, given the booming property market across the country, FDIs are not confined to metros and big cities alone. Thus since 2005, various real estate projects have been given a green signal by RBI’s offices in Bhopal, Kanpur, Kochi, Jaipur and Panaji, amongst other places. The largest FDI in the last five years remains in the construction of a technology park at Bandra Kurla Complex in Mumbai. In this case, \$372 million has been brought in through a foreign collaborator based in Mauritius.

Although the FDI has come from as many 34 countries and destinations as diverse as the Netherlands, USA, Saudi Arabia and even Sudan, data available shows that in last five years the largest number of foreign collaborators working with Indian real estate firms were based in Mauritius.

<http://economictimes.indiatimes.com/news/economy/indicators/Realty-check-FDI-grows-80-times-in-5-years/articleshow/6390384.cms>

'Allow 49 pc FDI in multi-brand retail, but with riders'

The Consumer Affairs Ministry has recommended allowing FDI in multi-brand retail to the Commerce Ministry, but with the rider that a model law should first be put in place at the state-level to protect small businesses.

"Multi-brand retail should be permitted with a cap of 49 per cent," the ministry has suggested to the Commerce Ministry.

However, if FDI is allowed in multi-brand retail, a major chunk of the investment should be spent on back-end infrastructure, besides logistics and agro-processing, it said.

The Department of Industrial Policy and Promotion (DIPP), under the aegis of the Commerce Ministry, has floated a consultation paper seeking various stakeholders' views on whether to allow FDI in multi-brand retail.

Currently, Foreign Direct Investment (FDI) in multi-brand retail is prohibited in India. FDI up to 51 per cent has been permitted in single-brand retail since 2006.

The Consumer Affairs Ministry, however, stressed that since retail business is a state subject, there should be a model law, for instance a Shopping Mall Regulation Act, to protect the interest of small retailers.

<http://economictimes.indiatimes.com/news/economy/policy/Allow-49-pc-FDI-in-multi-brand-retail-but-with-riders/articleshow/6391319.cms>

Govt likely to allow 100% FDI in ARCs

The government may allow higher foreign investment in asset reconstruction companies (ARCs) that buy distressed loans of banks and make money by recovering them. The proposal is aimed at addressing the capital constraints faced by ARCs, which has impaired their ability to scale up business. Foreign direct investment, or FDI, in ARCs may be increased to 100% from 49% at present.

The finance ministry and the central bank will work together to make regulatory changes in the law relating to security and reconstruction of financial assets, also known as SARFESI Act, to facilitate this increase in limit. "The proposal (for raising foreign equity up to 100%) is being discussed with RBI. Given that there is a rise in non-performing assets of banks, foreign investment will help resurrect some of these potentially viable distressed assets," said a finance ministry official.

ARCs typically set up a trust to raise money from qualified institutional buyers (QIB) to buy distressed assets from banks and in turn issue security receipts (SR), or certificates of share in the distressed asset.

<http://economictimes.indiatimes.com/news/economy/policy/Govt-likely-to-allow-100-FDI-in-ARCs/articleshow/6328162.cms>

Trade News

India, Japan likely to sign trade pact by year-end

India and Japan would be wrapping up talks to ink Comprehensive Economic Partnership Agreement (Cepa) soon even as both sides will sit for the final round of negotiations in Tokyo early next month.

Senior trade negotiators and chief interlocutors will be visiting Tokyo during September 8-10 led by Commerce Secretary Rahul Khullar for the final round of negotiations. The last round got over on August 17 here. The talks, once concluded, will be followed by final legalities after which the deal will be formally signed during Prime Minister Manmohan Singh's visit in Japan in October.

"The last round of talks turned out to be extremely fruitful. We hope to close the round next month in Tokyo followed by signing of the deal by the end of the year," a senior trade official told.

Under the deal, India's main interests lie in expanding access to the Japanese market in the field of services and pharmaceuticals, which does not enjoy much favour within the Japanese industry. However, both sides will also preserve a negative list on which the tariffs will not be reduced keeping in mind the sensitivities of both countries, the official has said.

The deal is expected to slash tariffs on more than 8,000 products ranging from drugs, apparel, agricultural products to machinery, increasing the bilateral trade between both countries to \$20 billion by 2012-13 from around \$13 billion at present. In the last summit meeting held in December 2009, Japanese Prime Minister Hatoyama extended invitation to his Indian counterpart Manmohan Singh for their next annual bilateral summit in Japan this year.

<http://www.business-standard.com/india/news/india-japan-likely-to-sign-trade-pact-by-year-end/405463/>

Indian firms offer \$1-bn investment in Bangladesh

The Bangladesh government has said it has received proposals worth \$1 billion (around Rs 4,600 crore) from various Indian companies and financial institutions. It also said it would ask the diversified Tata Group to reconsider its earlier proposal of \$3 billion investment in power plants. The proposal was called off in 2008, when the previous government failed to guarantee natural gas. for the project.

"It was unfortunate as the project could have brought more investments into the country. We are now asking them to reconsider," said S A Samad, executive chairman of the board of investment, government of Bangladesh.

Samad, who was leading a business delegation to India, said Bangladesh attracted overall investments worth \$2 billion in the last two years, of which investments from India were around \$400 million, or 20 per cent, said Samad.

"We have proposals worth \$1 billion from India in hand. This includes \$250 million in power plants and \$50 million by various banks, insurance companies and leasing companies," Samad added.

<http://www.business-standard.com/india/news/indian-firms-offer-1-bn-investment-in-bangladesh/405050/>

Sectoral News

Jewellery sector sees growth path ahead

August glittered for India's gems and jewellery sector, with demand from domestic as well as foreign markets rising sharply ahead of the festival season. Indications of revival in the global economy ensured robust jewellery demand in the US market. Experts believe the trend will continue for the rest of the financial year, on stable gold prices and positive global economic indicators.

“Demand from the Americas have rebounded, with the 40 per cent growth we have witnessed in jewellery sales there,” said Mehul Choksi, chairman of Gitanjali Gems, which runs a chain of 130 retail shops in the world’s largest jewellery consuming market, contributing 13 per cent of the company’s turnover.

In the first quarter of the current financial year, a majority of jewellery companies reported robust growth in their sales and net profit.

The resilience of the jewellery industry, one of the country’s leading foreign exchange earners, was seen over the last year, when it continued with plans of penetrating newer markets. As a consequence, India is undeniably the US’ largest supplier of jewellery, with that country importing 25 per cent of its gold and diamond jewellery from here. India’s diamond share in the world market also witnessed an increase in this period in value terms, increasing from 60 per cent to 70 per cent, said Vasant Mehta, chairman of the apex trade body, Gems & Jewellery Export Promotion Council (GJEPC).

According to GJEPC, India’s cut and polished diamond exports reported 74 per cent rise in rupee terms to Rs 27,149.7 crore during the first quarter of the current financial year. In dollar terms, the growth was even higher, at 85.4 per cent, to \$5,946.6 million. Every 9 out of 11 diamonds worldwide are processed in India.

India imports rough diamonds and gold bars from abroad to process in local units. Total import of rough diamonds showed a 54.3 per cent growth in rupee terms at Rs 14,265.9 crore, while the same in dollar terms rose sharply by 63.1 per cent to \$3,102 million. Imports of gold bars, however, declined 36 per cent in rupee terms to Rs 5,206.8 crore and 31.8 per cent in dollar terms to \$1,136.6 million in the quarter ended June. Analyst attribute this to a dramatic increase in scrap gold availability from local sources, as consumers booked profit on every price spurt.

“Jewellery sales started recovering since April and continued until now. But demand, especially from the US, Europe and Asian countries grew faster than expected on stabilisation of gold prices and beginning of buying seasons,” said Vishal Doshi, Group Executive Director of Shrenuj & Company Ltd.

In India, post-monsoon seasonal demand begins with the onset of the festival season, which is starting with Raksha Bandhan on August 24, followed by the Ganapati festival on September 11 and continues until May next year.

European and Asian markets, including India, China, Hong Kong and Vietnam, have also emerged as major contributors to growth in jewellery sales. Retailers and stockists have booked raw material to full capacity in anticipation of high orders during the ongoing India International Jewellery Show, a five-day global exhibition currently being held in Mumbai. Last year, Indian jewellers contracted around Rs 3,000 crore worth of jewellery supplies during the exhibition and this is estimated to rise to around Rs 4,000 crore this year.

<http://www.business-standard.com/india/news/jewellery-sector-sees-growth-path-ahead/405125/>

BSNL to add 1.025 million subscribers in 2010-11

Bharat Sanchar Nigam Limited (BSNL) would set up 496 new mobile towers in Orissa and add 1.025 million subscribers over and above its existing subscriber base of around 2.5 million in the state, in the current financial year.

This apart, Wi-Max services of BSNL would be made operational across 80 centres across the state from Saturday.

Addressing media persons here, Sachin Pilot, Union minister of state for communications and information technology, said, "BSNL would add 1.025 million new subscribers in the state in this fiscal. It would also set up 496 new mobile towers across the state including the Maoist infested regions in 2010-11. Presently, BSNL has around 2.5 million subscribers and close to 2000 mobile towers in the Orissa circle."

<http://www.business-standard.com/india/news/bsnl-to-add-1025-million-subscribers-in-2010-11/405279/>

PC reach doubles in 3 years: Intel

PC penetration in India has doubled in the last three years and desirability continues to be on the upswing among the urban population, said a study.

Now, one in every four urban household has a personal computer.

The study by Intel and IMRB revealed that PC penetration has increased from 19 per cent to 38 per cent across SEC A, B and C in India over the last three years. The study also said PC desirability is on the rise across all sections, and by over 100 per cent in SEC C.

The study, India Urban Consumer Segment Nationwide Study 2009-2010, was conducted across 82 cities sampling over 19,000 households.

"This is an exciting time for the Indian PC market and our study reiterates the same. We have always believed that the personal computer is a multi-functional device that consumers can use to work, learn and play. Most importantly it helps people to take full advantage of today's technological advances and prepare for tomorrow's challenges," said R Sivakumar, managing director, sales & marketing, Intel South Asia.

"The jump is across user profiles, socio-economic segments as well as town classes," said Prakash Bagri, director of marketing for Intel South Asia.

The study said more and more first-time buyers are buying notebooks. In 2009 the percentage of non-owners opting for notebooks has doubled to a whopping 31 per cent while those opting for a desktop PC stayed relatively flat at 44 per cent.

<http://www.business-standard.com/india/news/pc-reachdoubles-in-3-years-intel/405094/>

Govt allows cotton exports without licence from Oct 1

The government allowed export of cotton with effect from October 1 without the required licences even as it needs to be registered with the authorities concerned, said a notification issued by the Directorate General of Foreign Trade (DGFT), which is under the Ministry of Commerce and Industry.

The government has also removed the export duty of '2,500 a tonne on raw cotton which it had imposed on April 9. On the back of steep rise in the prices of cotton and ballooning exports, the registration of cotton export was stopped from April 19 and only those under licence were allowed.

“Export duty on cotton has been removed and export will be allowed under the Open General Licence from October 1 onwards,” said Commerce Secretary Rahul Khullar. The textiles commissioner’s office would now start registering export contracts from September 1.

He also said that officials from the ministries of commerce, textiles and agriculture would meet next month to review the status of cotton production and demand for the item, both in domestic and overseas markets. The officials would also determine the quantum of exports.

<http://www.business-standard.com/india/news/govt-allows-cotton-exports-without-licenceoct-1/404913/>

TN unveils rural BPO policy

The Tamil Nadu government has unveiled a Rural Business Process Outsourcing (BPO) policy, adopting an incentive-based approach to encourage establishment of BPOs in rural areas. The new policy is an outcome of the success of rural BPO units in Sanasandiram Chennathur panchayat in Hosur block, three years ago.

“Tamil Nadu being a major Information and Communication Technology (ICT) Hub and with the ICT industry now expanding to Tier II, Tier III cities, and towns and indeed into villages in Tamil Nadu, it is indispensable to have a comprehensive Rural BPO policy to increase employment in the rural areas of state,” the state government's order said.

The two forms of subsidy - capital and training -- will be given to BPO units located in village panchayats. A BPO unit can avail itself of both categories of subsidy and may get a total of Rs 7.5 lakh.

The state Information Technology department, will play the role of a facilitator in exchanging information with the BPO industry. It will also help to find interested institutions, both educational and otherwise, which would want to partner with BPO units.

A 15 per cent capital subsidy will be provided on investment subject to a maximum of Rs 3 lakh to any unit that is functioning for a minimum of three years and that has been directly employing a minimum of 100 trained persons in the unit.

This subsidy will be back-ended and paid in three equal installments at the end of each year. As for the training subsidy, the cost of training would be shared by the government and the company concerned. The government will provide Rs 1,500 per month per person for three months, the duration of a normal period of skill building training for a BPO unit.

<http://www.business-standard.com/india/news/tn-unveils-rural-bpo-policy/404837/>

Mining revenue collection at Rs 611.31 crore by June-end

The Orissa government has achieved more than 25 per cent of the mining revenue collection target in the first quarter (April-June) of the current financial year.

As against the target of Rs 2500 crore of mining revenue fixed for this fiscal, the state government has collected Rs 611.31 crore till the end of June.

If the state government succeeds in achieving the target, it would be a 24 per cent growth over Rs 2020 crore which it achieved in 2009-10.

The mining revenue collection in the state during the last fiscal had overshoot the target of Rs 1600 crore.

In 2009-10, the highest mining revenue collection was from the Talcher circle at Rs 504.51 crore followed by Rs 324.51 crore for Sambalpur and Rs 485.62 crore for Joda circle.

Among the circles which failed to achieve the target in the last fiscal were Talcher, Sambalpur, Jajpur Road, Koraput, Cuttack, Berhampur, Kalahandi and Phulbani.

On the other hand, the collections exceeded the target in six circles namely Joda, Rourkela, Koira, Baripada, Keonjhar, Bolangir.

The mining revenue collection in Rourkela, Koira, Baripada in 2009-10 stood at Rs 139.19 crore, Rs 171.17 crore and Rs 28.27 crore. On the other hand, the Keonjhar and Bolangir circles posted revenue collection of Rs 45.87 crore and Rs 18.17 crore respectively.

It may be noted that the state's mining revenue collection has grown progressively from Rs 930.18 crore in 2006-07 to Rs 2015 crore in 2009-10.

<http://www.business-standard.com/india/news/mining-revenue-collection-at-rs-61131-crore-by-june-end/404855/>

News Round-Up

India to become world's fastest growing economy by 2013-15: Morgan Stanley

The two hands to produce count for more than that one mouth to feed, after all. Driven by a sterling demographic dividend, continuing structural reform and globalisation, India is poised to accelerate its growth rate to 9-9.5% over 2013-15, even as China will cool down to a more sedate 9% by 2012 and to 8% by 2015. So finds a new report by Morgan

Stanley, authored by Chetan Ahya (managing director for Asia and India economist, who writes a monthly column for ET) and Tanvee Gupta.

India has one of the lowest median ages among the major economies. When an economy prospers, first its death rate and then, its birth rate falls. As this trend proceeds, there is a big bulge in the working age population while the non-working population (the young and the old) shrink as a share of the population. The lowering of the dependent (non-working) population to working age population ratio has twin effects.

One, it allows people to save a large proportion of their income, raising the country's rate of savings; two, it boosts the number of people who work and contribute to growth. Thanks to structural reform, the additional hands available for work find work. Even with stagnant per capita output, the sheer increase in the number of workers would raise GDP growth. With reform pushing up productivity per worker, GDP would rise even faster.

Globalisation gives additional job opportunities, additional capital to augment rising domestic savings and additional know-how. With this happy combination, the report expects India to become the world's fastest-growing economy. The government's chief economic advisor Kaushik Basu has been forecasting such a development as well.

"Real GDP growth in China has averaged 10% annually over the past 30 years, compared with 6.2% in India. During this period, China's GDP grew 16 times to \$5 trillion whereas India's rose seven times to \$1.2 trillion. China's exports (including services) surged 65 times over this period to \$1,330 billion while India's exports increased 22 times to \$250 billion" says the report.

China has overtaken Japan to become the world's second-largest economy. China's demographic transition pushed up its savings rate above 30% in 1985, while India's savings rate crossed that level only in 2005. India's consumption level will now come down, even as China's will rise.

Underlying the Morgan Stanley forecast is the assumption that India will significantly jack up its expenditure on infrastructure and in plant and machinery. Infrastructure expenditure has gone up from 5.4% of GDP in 2005 to 7.5% in 2009 and is poised to go up to 8% of GDP in 2010. Over 2012-17, the forecast is that India's infrastructure spend would be \$1 trillion as compared with \$530 million over the previous five-year period.

Another assumption is on the quantity and quality of the young people coming into the workforce. While India will be the largest contributor to the world's workforce — all of 136 million people — over the next 10 years (fully a quarter of the entire world's additional workforce), China will add just 23 million.

<http://economictimes.indiatimes.com/news/economy/indicators/India-to-become-worlds-fastest-growing-economy-by-2013-15-Morgan-Stanley/articleshow/6322333.cms>