

Weekly Economic Bulletin

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News Feature

India's share of global trade set to cross USD half trillion

Emerging from the grip of a crippling recession, world trade is set to surge by 13.5 per cent in 2010, with a resurgent India contributing over half a trillion dollars to global commerce for the first time in history.

With global trade coming out of a "painful economic recession" in 2009, India's merchandise engagement with the world -- both imports and exports -- picked up pace in the 2010-11 fiscal after a rather lacklustre performance in the previous year.

The value of India's inbound and outbound trade in goods is set to touch USD 550 billion in the 2010-11 fiscal, with imports expected to touch USD 350 billion, as against USD 288 billion in the 2009-10 fiscal.

"Following a faster-than-expected recovery in global trade flows so far in 2010, WTO economists have revised their projection for world trade growth in 2010 upward to 13.5 per cent," a WTO report said.

Making out a strong case against protectionism, World Trade Organisation (WTO) Director General

Pascal Lamy said: "This surge in trade flows provides the means to climb out of this painful economic recession and can help put people back to work. It underscores, as well, the wisdom governments have shown in rejecting protectionism."

India stood out among other countries during the year in terms of its open trade policies, as is evident from the huge trade deficit of USD 120-130 billion projected for the current financial year.

The restrictive trade policies adopted by India's larger neighbour, China, stood out in sharp contrast. The past year witnessed an escalating currency war between the US and China, with Washington urging Beijing to allow the yuan to rise, claiming that the Chinese currency was artificially depressed in order to create an unfair trade advantage.

However, the US has been accused of doing the same thing, following an announcement in November that the Federal Reserve will purchase Treasury Securities to infuse USD 600 billion into the struggling economy by June, 2011. This would be achieved by printing more dollar bills, thereby lowering the value of the currency.



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What is more, the US has taken an increasingly protectionist stance against outsourcing to countries like India, with the state of Ohio imposing a ban on state departments awarding work orders to overseas IT companies. Furthermore, a controversial legislation to beef up security along the US-Mexico border by hiking the cost of visas sought after by overseas professionals also attracted criticism.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/indias-share-of-global-trade-set-to-cross-usd-half-trillion/articleshow/7189641.cms>

Govt mulls new IIP, WPI series with 2011-12 as base year

The Centre is planning a 'thick' National Sample Survey (NSS) round for 2011-12, which could be the precursor for a new index of industrial production (IIP) as well as wholesale price index (WPI) series with 2011-12 as base year.

The move comes even as the Central Statistical Office is yet to release a revised IIP with 2004-05 as base to replace the existing 1993-94 series. "We are looking at starting work for a (completely) new base year of 2011-12. One of the steps towards that is to launch a thick survey round next year," Prof T.C.A. Anant, Chief Statistician of India, told.

The NSS Office (NSSO) normally does 'thick' nationwide surveys — involving a sample size of around 1.5 lakh households and over six lakh persons — only once every five years. These quinquennial surveys are conducted for a full year as against the usual six-month 'thin' surveys that NSSO undertakes annually, involving a smaller sample of 50,000-odd households and 2.5 lakh persons.

In recent times, the NSSO has had full-fledged quinquennial surveys in 1993-94, 1999-2000, 2004-05 and 2009-10. "The 2009-10 survey results will be released in March-April. But since 2009-10 happened to be a year of slowdown as well as drought, there is a feeling it might not serve as a good base year (for constructing new IIP and WPI series, among others). So, we are planning a thick survey for 2011-12 even though technically it may not amount to a quinquennial survey," Prof Anant said.

The Working Group for the proposed 68th NSS round will meet in January and "would hopefully freeze the design elements (sample size, questionnaire, schedules, etc), so that the survey can be launched from July and extend till June 2012," he added.



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The NSSO surveys largely cover household consumption expenditure (which are also used for generating poverty estimates), employment and unemployment trends and the status of unorganised manufacturing and services sectors.

<http://www.blonnet.com/2010/12/29/stories/2010122952720400.htm>

Overseas Investment

India's FX reserves at \$295.031 bn as of Dec 24

India's foreign exchange reserves rose to \$295.031 billion as on Dec. 24 from \$294.602 billion in the previous week, the central bank said in its weekly statistical supplement.

Changes in foreign currency assets, expressed in dollar terms, include the effect of appreciation or depreciation of other currencies held in its reserves like the euro, sterling and yen, the central bank said.

Foreign exchange reserves include India's Reserve Tranche position in the International Monetary Fund (IMF), the central bank said.

<http://economictimes.indiatimes.com/news/economy/indicators/indias-fx-reserves-at-295031-bn-as-of-dec-24/articleshow/7196719.cms>

Rs 23,700 cr worth FDI proposals cleared in 2010

The Foreign Investment Promotion Board (FIPB) recommended proposals entailing foreign direct investment (FDI) inflow of Rs 23,700 crore for approval by the Finance Minister/the Cabinet Committee on Economic Affairs during 2010, an official statement said.

FIPB (the body mandated to consider and recommend FDI proposals under the Government route) held 14 meetings in 2010. It received 387 proposals for consideration during last year, of which 212 entailing FDI inflow of around Rs 23,700 crore were recommended for approval. While 77 proposals were rejected, others are at various stages of consideration.



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Major proposals recommended for approval included India Infrastructure Development Fund, Enam India Infrastructure Fund, Oman Refineries and AES India Holdings, the statement said.

<http://www.thehindubusinessline.com/2011/01/02/stories/2011010251100300.htm>

India exploring capping FDI in drugmakers: report

India is exploring a proposal to cap foreign direct investment in drugmakers at 49 per cent, and make additional stakebuys subject to government approval, to head off foreign takeovers, a business daily reported.

The daily said officials from the ministry of commerce and industry and the ministry of health have had multiple rounds of discussions on the proposal following a note written to them by the finance ministry in November.

Currently, foreign companies can purchase as much as 100 per cent in a local drugmaker without

prior approval of the Foreign Investment Promotion Board, a government body that scrutinizes investment proposals.

<http://www.business-standard.com/india/news/india-exploring-capping-fdi-in-drugmakers-report/120812/on>

FII net buyers Rs 2,385cr in Futures & Options

The Foreign Institutional Investors (FIIs) were net buyers of Rs 2,384.71 crore in futures and options segments.

According to the data released by the NSE, FIIs were sellers of index futures to the tune of Rs 73.74 crore while bought index options worth Rs 2,497.7 crore. They were net sellers of stock futures to the tune of Rs 26.73 crore and sold stock options worth Rs 12.53 crore.

<http://www.business-standard.com/india/news/fiis-net-buyers-rs-2385cr-in-fofriday/120810/on>

Trade News

Iran says no gap in oil exports to India

A senior Iranian Oil Ministry official said Iran's oil exports to long-time trading partner India had

continued despite a dispute over the method of payment, student news agency ISNA reported.



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"There has been no disruption in the sale and exports of oil to India in recent days," said Ahmad Qalebani, the head of state National Iranian Oil Company (NIOC).

India buys about 400,000 barrels per day of Iranian crude.

Qalebani said the two countries were determined to carry on cooperating despite problems agreeing a new payment method, after India said last week it would no longer use a regional clearinghouse system which had been criticised for being opaque.

"The economic cooperation between Iran and India in this (oil trade) connection is still continuing," Qalebani said.

The Islamic state, the world's fourth-largest oil producer, is under sanctions over its nuclear work. Washington and its allies fear the programme is a cover to build bombs, while Tehran says it is only aimed at generating power.

Although U.S. sanctions do not cover oil sales, the Asian Clearing Union system used by India and Iran for the trade had been criticised for making it difficult to monitor flows into Iranian organisations against which Washington has sanctions.

Deputy Oil Minister Ahmad Khaledi said the dispute with India had been settled by changing the currency for trading. "By changing the currency for oil transactions between Iran and India the problem was solved."

A senior Indian official present at meeting with Iranian officials said the idea of using euros instead of dollars was discussed but the two sides would need to make sure the European Central Bank would be happy with the transparency.

<http://www.business-standard.com/india/news/iran-says-no-gap-in-oil-exports-to-india/120808/on>

India, Pak exchange list of nuclear installations

India and Pakistan exchanged the lists of their nuclear installations for the 20th consecutive year under an agreement which prohibits any kind of attack on such facilities.

The lists were exchanged through diplomatic channels simultaneously at New Delhi and Islamabad under the Agreement on the Prohibition of Attack against Nuclear Installations and Facilities, a statement by the External Affairs Ministry said.



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Under the agreement signed on December 31, 1988, which came into force on January 27, 1991, the two countries share details of their nuclear installations with each other on the first day of every year. The first such list was exchanged on January one, 1992. The pact is one of the best confidence-building measures between the two countries which has continued even when the relations witnessed acrimony and chill.

<http://www.business-standard.com/india/news/india-pak-exchange-listnuclear-installations/120770/on>

Bangladesh scouts for Indian investors; wants Tatas to return

Three years after Tata Group called off its \$3-billion investment plan in Bangladesh, the government in Dhaka is now wooing the Indian conglomerate to reconsider the project, citing better political and business climate.

“We did not have a elected government when the Tatas came. The ruling regime was unstable and was anti-India. It considered the investment to be an Indian one, rather than an investment for common good. We want the company to reconsider the project here,” said Muhammad Faruk Khan, commerce minister of Bangladesh.

Tata had signed a memorandum of understanding with Bangladesh in 2004 for one of the largest

foreign direct investments (FDI) in that country. It included setting up of a 2.4-million tonne steel mill, a 1-million tonnes fertiliser factory and 1,000-Mw gas-fired and 500- Mw coal-fired power plants. However, due to political instability and lack of availability of natural resources, the Tatas were forced to move out of the neighbouring country in 2007.

“Tatas are one of the most reputed groups in the world, and if they come back, it would be beneficial for Bangladesh as well as the company. Moreover, we want Indian firms to explore gas here. Since we have huge coal deposits, companies can invest in the power sector, too ,” he added.

He assured that the political climate had changed in the country and the process would be smoother for foreign investors.

Khan expressed hope that in the coming financial year, more Indian companies would enter Bangladesh. “This is a very good opportunity for both nations to improve trade relationships, and governments on both sides have the political will to do it. The investment from Indian firms is expected to touch \$1 billion next fiscal,” he said. Bangladesh attracted overall investments worth \$2 billion in the last two years, of which investments from India were around \$400 million.



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“There are a lot of opportunities for Indian firms in power, infrastructure and textile sector. In October, we signed MoUs with five companies and this month we have signed a deal with an Indian firm,” he added.

Bangladesh industry leaders, too, seemed optimistic about Indian investments. “There is a vast opportunity for Indian firms to invest in Bangladesh. We are open minded regarding this.

But regarding imports from Bangladesh, we demand further concessions and removal on non-tariff barriers from the Indian government,” said Mir Shahabuddin Mohammad, secretary of the Federation of Bangladesh Chambers of Commerce and Industry.

<http://www.business-standard.com/india/news/bangladesh-scouts-for-indian-investors-wants-tatas-to-return/420229/>

Sectoral News

Exports surge by 26.5% to \$18.8 bn in Nov

India's exports in November rose by 26.5 per cent to USD 18.8 billion on year-on-year basis, prompting the government to exude confidence that the outbound shipments will touch USD 215 billion this fiscal.

Last November the exports stood at USD 14.9 billion.

Imports grew by 11.2 per cent in November to USD 27.7 billion. The trade balance in the month was USD 8.9 billion.

During April-November 2010 level, the outbound shipments were worth USD 140.2 billion compared to USD 110.6 billion in the year-ago period.

Commerce Secretary Rahul Khullar has said that India's merchandise exports would be around USD 210-215 billion in the current fiscal.

Earlier, the government had fixed an export target of USD 200 billion during 2010-11.

Imports during the first eight months of this fiscal stood at USD 221.9 billion compared to USD 179 billion in the corresponding period last year.



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The trade deficit stood at USD 81.6 billion during April-November this fiscal.

Oil imports during November 2010 were valued at USD 7.7 billion, which was 2.31 per cent higher than oil imports valued at USD 7.5 billion in the corresponding period last year.

Oil imports during April-November 2010 were valued at USD 64.8 billion, which was 21.4 per cent higher than the oil imports of USD 53.4 billion in the corresponding period last year.

Non-oil imports during November 2010 were stood at USD 20.07 billion, which was 15.05 per cent higher than non-oil imports of USD 17.44 billion in November, 2009.

During April- November period 2010, non-oil imports stood at USD 157.11 billion, which was 25.04 per cent higher than the level of such imports, valued at USD 125.64 billion in the same period last fiscal.

Exports sectors, which performed well during April-November period, include engineering goods, petroleum and refinery items and cotton yarn.

<http://financialexpress.com/news/exports-surge-by-26.5-to-18.8-bn-in-nov/732533/0>

Drug retail sales up 18% in 2010 as cos take rural roads

Sales in the domestic drug retail market rose a healthy 18.36% during 2010, making India an attractive destination for foreign players who have been looking to buy local companies to increase exposure in one of the fastest growing healthcare markets globally.

The size of Indian drug retail market crossed Rs 46,500 crore for the 12 months ended November 2010, according to research firm IMS Health Information and Consulting Services. The stock market also captured the double digit growth in the pharma market with BSE Healthcare, a share index of drugmakers generating 31% returns for shareholders, better than the market benchmark Sensex.

Ranjit Kapadia, VP Institutional Sales at brokerage HDFC Securities who tracks pharma companies said, "Many companies forayed in rural market through new marketing teams and channels expanding the overall market."

American drugmaker Abbott Laboratories, which acquired Mumbai-based Piramal Healthcare's domestic branded medicines business for \$3.7 billion in May this year, held on to its top position with a 6.9% market share despite a sluggish growth of its new business.



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<http://economictimes.indiatimes.com/news/news-by-industry/healthcare/biotech/pharmaceuticals/drug-retail-sales-up-18-in-2010-as-cos-take-rural-roads/articleshow/7199257.cms>

Manufacturing units most hopeful since mid-2007, shows RBI index

The business expectation index (BEI), which acts as a barometer of the overall health of the manufacturing sector, has gone up to 126.5 for the October-December 2010 quarter, its highest reading since the April-June 2007 quarter. The index was at 119 for the quarter ended September and at 82.6 for the quarter ended March 2009.

The BEI is based on the quarterly industrial outlook survey (IOS), on the weighted average of responses from different industries on nine selected performance parameters. The Reserve Bank of India has been conducting the IOS since 1998. The survey gives insight into the perception of public and private limited companies in manufacturing activities about their own performance and prospects.

The latest one covered about 3,000 non-financial public and private limited companies, mostly with

paid-up capital above Rs 50 lakh, in the manufacturing sector. The field work for the survey was done during the two-month period ending August 2010.

The survey shows the manufacturing sector took further steps to recovery, pointing towards economic growth. The industry-wise break-up showed a majority of the industry groups had positive overall business sentiment in the quarter. Specifically, transport equipment, electrical machinery, pharmaceuticals & medicines and other machinery & apparatus are more optimistic than the others. Food products, cement, wood and wood products expect low business performance in the third quarter ended December.

The survey reveals 46 per cent of the companies reported constraints in attaining the normal production level during the October- December quarter, slightly lower as compared to the last survey round (49 per cent). The major industry groups for which over half the companies reported production constraints are cement, paper and paper products, textiles, food products, and rubber and plastics. On the other hand, only 35 per cent of those in pharmaceuticals and medicines reported production constraints.



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The good news has been that the sentiment on profit margin has improved, with 25.2 per cent of respondents expecting improvement, from 22.2 per cent in the preceding two quarters. The sentiments, however, are still in negative terrain, but the extent of pessimism has declined, compared to the preceding quarter. A diversified industry anticipates improvement in profit margin as compared to the other industry groups.

The survey reveals that the pressure on input cost has reduced marginally as compared to the preceding quarter. A size-wise analysis shows improvement across all size groups, but the bigger companies are more optimistic and they expect high order books, building of inventory and return of pricing power. Though the smaller companies (annual production less than Rs 100 crore) have improved their performance, their growth is at a lower rate as compared to bigger ones.

<http://www.business-standard.com/india/news/manufacturing-units-most-hopeful-since-mid-2007-shows-rbi-index/420527/>

Mobile handset market grows by 3.6% in Q3

The India mobile handsets market continued to grow in the third quarter 2010 as well to record a

quarter-on-quarter growth of 3.6 per cent to touch 40.08 million units in the quarter, according to market intelligence firm IDC's India Quarterly Mobile Handsets Tracker. The year 2010 is expected to end with total mobile handset sales of 155.9 million units.

The study further showed that the Finnish handset maker Nokia had the largest share of 31.5 per cent in terms of units shipped during 3Q 2010. Nokia was followed by the Chinese brand G'Five in terms of unit shipments market share and Korean handset manufacturer Samsung occupied the third slot.

The third quarter, meanwhile, saw a strong quarter-on-quarter growth in smartphone sales by 34.2 per cent and a year-on-year increase by 294.9 per cent. This clearly underscores the trend that India mobile handset consumers have started showing higher preference for adopting smartphones.

Further, smartphone prices continued to drop through the year and as competition increased, devices were made available by vendors at successively lower price points. So, while 80 per cent of total India smartphone sales were below the ASV (Average Sales Value) of Rs 18,000 in 2Q 2010, this proportion increased to 90 per cent in 3Q 2010.



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"The India mobile handsets market got even more crowded and fragmented in the lower- and mid-market segments with the further entry of new players offering innovative models at attractive price points to lure buyers", stated Anirban Banerjee, Associate Vice President, Research, IDC India.

"The propensity to adopt feature phones and smartphones is greatest amongst the youth and business executive segments, whose purchase decisions are often driven by peer group influence and workplace usage patterns, as well as larger disposable incomes and willingness experiment with new technology platforms", he added.

The study also showed that Android gained acceptance as a mobile operating system and 9.4 per cent of smartphones shipped in 3Q 2010 were based on the Android as compared to 2.9 per cent in Q3 2009. The number of models with Android also increased to 19 in 3Q 2010 as compared to only 2 models in 3Q 2009.

<http://www.business-standard.com/india/news/mobile-handset-market-grows-by-36-in-q3/120508/on>

Govt to come out with New Telecom Policy 2011: Sibal

In an effort to infuse greater transparency into the sector, Telecom Minister Kapil Sibal today

announced formulation of a new and comprehensive National Telecom Policy 2011 that he says will be "clear and transparent."

"Eleven years have passed since NTP'99 and many changes have taken place thereafter. Action will be initiated to formulate a comprehensive NTP 2011," the Minister told while releasing the 100-day agenda for telecom sector.

He, however, did not elaborate if changes would be made to the existing NTP'99 policy in respect of allocation of spectrum on the basis of first-come first-served. Sources, however, said that revenue share would continue to be the regime for payment of licence fee by operators.

<http://www.financialexpress.com/news/govt-to-come-out-with-new-telecom-policy-2011-sibal/731944/>

Retail sector logs healthy growth, expansion in 2010

The \$20-billion (around Rs 90,000 crore) organised retail sector has seen a space addition of 2.5-3 million square feet across formats in calendar year 2010, marking the end of the 'hibernation and correction' phase witnessed in 2009. Moreover, most large-format retailers like Aditya Birla Retail (ABRL), Shoppers Stop, and the Future Group, among others, have seen a 10-15% growth in same-store sales in 2010.



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The growth in space addition was seen most in the hypermarket format, with an 8-10% increase in space addition this calendar year compared to the last. Currently, the organised retail segment forms a mere 5% of the \$400 billion retail industry in the country, but is expected to garner a 24% share by 2020.

In 2010, while ABRL added close to 0.4 million sq ft, Big Bazaar saw a space addition of one million. On the other hand, both Spencers' Retail and Lifestyle added 0.2 million sq ft and 0.4-0.5 million sq ft, respectively. Thomas Varghese, CEO, ABRL says, "While 2009 was the year of hibernation and correction for retailers, 2010 was of rapid roll out of retail stores, especially in the second half of the financial year 2010-11. After the downturn in 2008-09, real estate owners abandoned their properties and malls were left unfinished. All those properties reached completion in 2010, and retailers could open new stores extensively."

Saloni Nangia, senior VP & head- retail & consumer products, Technopak Advisors says, "We observed an 8-10% increase in space in the hypermarket format by retailers such as Reliance, ABRL and Hypercity." Shoppers Stop has a robust expansion ahead and plans to add 1.2 million sq ft of retail

space across cities. Govind Shrikhande, managing director, Shoppers Stop says "It has been a remarkable year for us as we went on to open 4 stores of Shoppers Stop in existing as well as new territory. Currently, we have 2.2 million sq ft space of Shoppers Stop and an additional 9 lakh sq ft under Hypercity. In the coming year, we plan to open 8 Shoppers Stop outlets and 4 HyperCity outlets which will translate into an addition of 1.2 million sq ft of shop floor." Ernst & Young reckons that most retailers in the organised sector witnessed a healthy same-stores sales and have made significant investments in back-end infrastructure.

<http://www.financialexpress.com/news/retail-sector-logs-healthy-growth-expansion-in-2010/731795/0>

Cotton output to hit new high of 345 lakh bales in 2010-11

The country's cotton production is all set to reach a new high of over 345 lakh bales in 2010-11, Cotton Association of India said.



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“The acreage under cotton has touched a record of about 110 lakh hectare and the production is poised to reach a new high of over 345 lakh bales in 2010-11. Productivity is also likely to reach above 530 kg per hectare,” Cotton Association of India’s President, Dhiren N Sheth said while addressing the CAI’s 88th annual general meeting (AGM).

The agro-climatic conditions at the time of sowing in cotton season 2010-11 had been favourable in all the cotton growing states. As a result, the crop progress in all the cotton growing states was satisfactory and there were no reports of any major pest/diseases, Sheth said.

Cotton season runs from October to September.

The 2009-10 cotton season saw the highest acreage under cotton—the first time when the area crossed the 100 lakh hectare mark—and the production level touching 29.5 million bales (1 bale is equal to 170 kg).

The seasonal conditions in 2009-10 proved generally conducive to cotton. The onset of monsoon was delayed which caused concern about the prospects of sowing cotton. However, large scale cotton plantings were reported with the receipt of good rains, he said.

Apart from the increase in total cotton area, there was also further expansion in the area under Bt Cottons during 2009-10. The coverage by Bt cottons at the national level went up from 73% in 2008-09 to 78% in 2009-10.

Although, there has been a surge in India’s cotton production in recent years due to the rapid area expansion of Bt cottons, the Cotton Advisory Board placed cotton production at 29.5 million bales which was 0.5 million bales higher as compared to last season.

Considering the good weather conditions and improved Bt Technology, our Association estimated the 2009-10 crop at 30.75 million bales, which is 1.25 million bales higher than CAB’s estimates. Commenting on increased cotton prices, Sheth said that the recent increase in price is mainly due to strong market fundamentals than speculation. This reflects primarily a combination of low global cotton stocks and continued demand by mills.

<http://www.financialexpress.com/news/cotton-output-to-hit-new-high-of-345-lakh-bales-in-201011/732346/0>



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News Round-Up

Indian M&As in 2011 may surpass 2010's record

Indian mergers and acquisitions in 2011 may surpass this year's record \$71 billion of deals, led by oil and gas, metals and mining companies, according to M&A bankers including Topsy Mathew of Standard Chartered.

Billionaire Sunil Mittal's \$10.7 billion acquisition of mobile-phone operators in Africa led an almost four-fold increase in takeovers this year as deals surpassed 2007's \$69 billion, according to data compiled by Bloomberg.

"Large Indian corporates are going through a growth phase: they think there is a lot of opportunity, they think they have access to capital," 35-year-old Mathew, managing director for M&A for India, said in an interview. The London-based bank climbed 13 places to No. 2 among Indian takeover advisers this year, its highest ranking. "They are capitalizing on the positive sentiment to undertake long-term strategic transactions," he said.

Companies in Asia-Pacific including India and China are expected to be the most acquisitive buyers in 2011 as attractive valuations and domestic competition drive deals globally, according to

Bloomberg's M&A Global Outlook survey. Overseas firms may target Indian pharmaceutical and consumer firms, and local enterprises will seek natural resources, said Bank of America, ranked No. 3.

"Outbound deals would continue to be highly active given that international companies' valuations are still relatively depressed, and Indian companies have access to debt and equity capital," Saurabh Agrawal, the 41-year-old head of India investment banking at Charlotte, North Carolina-based Bank of America, wrote in an e-mailed response to questions. "Inbound and local deals will also take place."

Cross-border deals rose to a record \$59.2 billion in India this year, after Mittal's New Delhi-Bharti Airtel in March agreed to buy the African assets of Zain for \$10.7 billion. Outbound M&A accounted for 74% of that volume. The acquisition spree in India, China and Brazil contrasts with a slowdown in global deals. Mergers worldwide are down 46% from 2007's record. In the US, the world's largest market, volumes are 51% lower, and levels in Europe are down by 59%.

<http://www.financialexpress.com/news/indian-m&as-in-2011-may-surpass-2010s-record/730981/0>



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Domestic financial sector stress free, reports RBI

The Indian financial sector remains stress-free notwithstanding intermittent volatility — especially in equity and foreign exchange markets — driven primarily by exogenous developments, the Reserve Bank of India (RBI) said. In its second financial stability report (FSR), the central bank, however, cautioned, that some soft spots were discernible.

“The current account deficit is widening while capital flows continue to be dominated by volatile components,” the RBI pointed out, adding “external sector ratios have deteriorated, fiscal conditions are still under pressure and inflationary pressures persist.” The RBI believes that with both financial and real sectors still under stress in advanced economies, the country will have to guard against vulnerabilities arising from risks to global growth and financial stability.

The tail risks to financial stability, RBI believes, are largely exogenous given increasing correlation between global growth and growth of emerging market economies (EMEs) including India. “Convergence with the emergent international

reforms agenda presents challenges and will require careful calibration. The finance channel has assumed greater importance increasing the pace and degree of contagion from disturbances abroad. Similarly, business cycle synchronisation of the Indian economy with most of the advanced economies and other EMEs has increased,” RBI observed.

The RBI feels the asset quality of banks and their ALM position continue to warrant monitoring. The RBI said emerging developments in the telecom and real estate sectors may impact lending to and asset quality of these sectors. “The developments may still have adverse repercussions in the form of overly cautious lending to both the sectors,” it noted, adding that non-performing assets (NPAs) for the real estate sector had seen an increase of 8% during the quarter ended September 2010.

The central bank also said regulatory gaps in the non-banking financial sector will need to be plugged. “Some issues in the financial market microstructure will need to be addressed and a robust macroprudential framework for the identification of systemic risks will need to be set up,” the central bank observed.



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The RBI feels liquidity conditions have tightened beyond its comfort level, though some policy measures have recently been taken to alleviate the stress. The RBI noted that the share of core deposits to total assets has progressively declined over the years, except in the quarter ended March 2010 and September 2010. Despite a high ratio of temporary assets to total assets, the coverage of liquid assets in relation to volatile liabilities has remained less than one, indicating potential

liquidity strains. Nevertheless, growth, it said, had rebounded strongly while financial conditions remained stable since the publication of the first FSR, in March 2010. Financial institutions, the RBI said, remained healthy and credit offtake had picked up as had profitability, especially in the first half of 2010-11.

<http://www.financialexpress.com/news/domestic-financial-sector-stress-free-reports-rbi/731448/0>

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