

Weekly Economic Bulletin

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News Feature

Mid-year review report forecasts 7-8% growth

Given the global uncertainties, it would be very difficult at this juncture to gauge the efficacy of the fiscal stimulus package that had been unveiled in the recent weeks, according to the Chief Economic Advisor in the Finance Ministry, Dr Arvind Virmani.

Speaking after the mid-year review of the economy was tabled in Lok Sabha, Dr Virmani also said that annual inflation, which fell below 7 per cent in early December, was “under control” and could decline further to 4-5 per cent levels by end-March 2009. The mid-year review report was tabled in Lok Sabha by the Minister of State for Finance, Mr S.S. Palanimanickam.

The review highlighted that it would be difficult to make a precise forecast about growth prospects for the whole year at this stage because of uncertainty, though the expectation was that growth would be in the range of 7-8 per cent. However, the mid-year review has sought to prepare the country for growth rate closer to 7 per cent and above.

“We should be prepared for growth in 2008-09 as a whole to be around 7 per cent,” said Dr Virmani, reading out to reporters from the mid-year review report for 2008-09.

<http://www.blonnet.com/2008/12/24/stories/2008122451830500.htm>

Overseas Investment

DIPP to finalise norms of FIPB

The Department of Industrial Policy and Promotion is meeting to finalise norms for downstream investments by Indian arms of foreign companies.

The department is considering a proposal, according to which, joint venture companies with foreign equity will need to seek fresh approval from the Foreign Investment Promotion Board (FIPB) within 90 days while investing in downstream companies like subsidiaries.

The proposal also suggests that foreign companies setting up holding companies without prior approval from FIPB would not be allowed to make investments till they pay penalty to the RBI. Compounding is recommended by the FIPB in the case of policy violation RBI levies the penalty. The DIPP is, at present, consulting industry representatives on the measures that would be needed to contain violations of downstream investment norms.

http://economictimes.indiatimes.com/News/Economy/Policy/DIPP_to_finalise_norms_of_FIPB/articleshow/3909352.cms

FDI in primary dealership of debt instruments likely via auto route

Foreign direct investment (FDI) in companies engaged in primary dealership of commercial papers, security receipts, asset and mortgage-backed securities may soon be allowed through the automatic route. Foreign investors may also get automatic approval for undertaking dealerships of brokerage and underwriting services in government securities and corporate bonds, an official in the industry ministry said.

Currently, foreign companies have to take prior approval of the Foreign Investment Promotion Board (FIPB) for investing in these business activities. Under the automatic route, a foreign investor only informs the Reserve Bank of India before making an investment.

The change will be effected by including primary dealership activities under the head of non-banking finance company (NBFC) permitted under the automatic route, the official, who wished not to be named, said. India allows 100% foreign ownership in NBFCs.

NBFCs are engaged in the business of loans, purchase of securities, leasing, hire-purchase, insurance business and chit business. Unlike banks, they cannot accept demand deposits — funds deposited at a depository institution that are payable on demand, immediately, or within a very short period, like a savings bank account.

Last month, the FIPB cleared a proposal of Morgan Stanley Group for Morgan Stanley India Cap to act as an 'operating-cum-holding company' and make downstream investments in primarily dealership activities. Two months ago, it had cleared a similar proposal of Goldman Sachs. If the proposal goes through, such firms would have an easy entry.

The system of primary dealers in the government securities market was introduced by the RBI in 1995 to strengthen the market infrastructure of government securities and put in place an improved, efficient secondary market trading system. This was to encourage holding of government securities on large scale and make the market more vibrant and liquid. In 2006-07, RBI gave banks the option to undertake primary dealership business departmentally.

http://economictimes.indiatimes.com/News/Economy/Finance/FDI_in_primary_dealership_of_debt_instruments_likely_via_auto_route/articleshow/3906191.cms

Forex reserves up by \$4-billion

India's foreign exchange reserves swelled to USD 254.052 billion for the week ended December 19, up by USD 3.599 billion over the previous week.

Foreign exchange reserves stood at USD 250.453 billion in the previous week.

The foreign currency assets (FCA), during the week, went up to USD 245.308 billion, up USD 3.583 billion, from USD 241.725 billion in the week-ago period, the Reserve Bank's weekly data showed.

The country's gold reserves and Special Drawing Rights (SDR), during the week, stood unchanged at USD 7.861 billion and USD 3 million respectively, the RBI said.

FCAs expressed in US dollar terms include the effect of appreciation or depreciation of non-US currencies such as euro, sterling and yen, the apex bank said.

India's reserve position in the international monetary fund further swelled by USD 16 million to USD 880 billion during the week from USD 864 million in the previous week, the RBI said.

<http://www.financialexpress.com/news/forex-reserves-up-by-4billion/403265/>

Trade News

India, Serbia to sign pact on agri cooperation

The proposed agreement will facilitate cooperation between the two countries in the field of agricultural research and production, post harvest management and agro processing and marketing, Home Minister P Chidambaram told after the Cabinet meeting.

It will also include cooperation in veterinary and SPS issues, trade in agricultural and food products and encourage business to business cooperation, he said.

The home minister said the agreement will be signed in Serbia during the proposed visit of the Agriculture Minister in January.

<http://www.business-standard.com/india/news/india-serbia-to-sign-pactagri-cooperation/16/30/51842/on>

Sectoral News

Textile ministry targets \$8-billion foreign investment in five years

The textile ministry has set a target to attract more than \$8 billion (Rs 40,000 crore) foreign direct investment (FDI) in textile and garment sectors over the next five years. The ministry is in the process of firming up a mission to identify potential investors in Europe, the US and China. It is also working on an incentive package to woo potential investors to set up manufacturing units in India.

"The ministry has roped in a consultant to chalk out a strategy," a senior ministry official, said.

The ministry will also invite leading private equity funds and foreign banks to invest in the domestic textile sector. It will also attract foreign designer houses and garment manufacturers. The ministry is targeting about \$20 billion (approximately Rs 100,000 crore) domestic investments in the sector.

“We want to promote India as a textile outsourcing hub for global retail chains. To bolster our initiative, we are also setting up supply chain in various cities and textile and apparel clusters in many states. We have initiated talks with many state government to this effect,” the official said.

The consultant has been asked to make a perception analysis of potential investors, both in the country and abroad. It has also been asked to find out whether foreign companies are interested to enter India through the joint venture route, he added. The ministry is willing to remove all hurdles specified by potential investors to facilitate investments, he added.

The proposed mission, which would include ministry officials and industry experts, would also visit various countries and lobby with their governments. The mission will launch publicity campaigns and hold road shows abroad. It would seek to inform foreign companies about the Indian textile sector, cost benefits in India, central and state level policies, availability of raw materials and details of FDI in recent years, he said.

http://economictimes.indiatimes.com/News/Economy/Finance/Textile_ministry_targets_8-billion_foreign_investment_in_five_years/articleshow/3892824.cms

‘IT spend in logistics may touch Rs 1,000 cr in 5 years’

The ‘Technology Survey for the Indian Logistics Industry - 2008’ has stated that the IT spends in the Indian logistics industry would grow to approximately Rs 1,000 crore from the present Rs 400 crore in the next 5 years (CAGR of 20-22 per cent).

The demand is expected from the western region of the country followed by the northern and the southern regions. It noted that 46 per cent of the IT investments, currently made, are towards capital expenditure and the remaining 54 per cent in operational.

10 locations

The survey was conducted by Kale Consultants Ltd, in partnership with Feedback Business Consulting Services Pvt Ltd.

It was conducted across ten cities in India — Delhi, Bangalore, Chennai, Mumbai, Pune, Kochi, Vizag, Kolkata, Paradip and Hyderabad.

Over 500 respondents across the organisations participated in the survey.

Market dynamics

Mr Sumeet Nadkar, Head Logistics SBU, Kale Consultants, sharing details, said that the key objective was to assess market dynamics and highlight technology adoption trends in the logistics industry.

“Small and medium family owned enterprises are growing in stature in the integrated logistics space.

Global majors have committed to huge investments for their Indian operations. PE funds are increasingly eyeing the sector.

The sector has already attracted investments of over Rs 20,000 crore in the first half of 2008," he said.

India spent around 13 per cent of its GDP on logistics, higher than the US (10 per cent), Europe (11 per cent) and Japan (10 per cent).

Mr Sumeet said the technology spend in freight forwarding is expected to grow by 160 per cent.

It presently constitutes 14 per cent of the IT demand and is expected to rise to approximately Rs 170 crore (17 per cent of overall IT spend by FY 2013). The market size is currently at Rs 11,000 crore and is expected to reach Rs 21,180 crore. He said current IT spends by airports are estimated at approximately 1.1 per cent of the overall revenues. New investments of Rs 28,525 crore are expected in the next four years to boost the IT requirement. This is one of the segments where IT utilisation is maximum compared to other segments in the logistics space.

<http://www.thehindubusinessline.com/2008/12/25/stories/2008122552161600.htm>

India's iron ore exports double in November

The country's iron ore exports doubled to about nine million tonnes in November as against 4.13 million tonnes in October, mainly due to better demand from Chinese steel mills.

As per a data compiled by Federation of Indian Mineral Industries (FIMI), the total quantity of iron ore shipped in November was 8.74 million tonnes, against 4.13 million tonnes in October.

"Iron ore shipments witnessed an increase last month mainly due to a surge in demand of the raw material from China," FIMI Secretary General R K Sharma said.

Chinese steel makers were blending high cost iron ore bought from miners such as BHP Billiton and Rio Tinto with that obtained from Indian producers to cut cost, he said.

Even as the country's iron ore export registered 100% jump in November, on a year-to-year basis it declined 13.68%.

For the April-October period, iron ore exports fell 12.82% to 50.80 million tonnes. Sharma, however, said the downward trend may soon be overcome as the cut in export duty on iron ore on December 7 may soon see more quantities being shipped from the country.

"It may become possible to maintain the gradual increase iron ore exports. The downward trend would be a passe," he said.

Earlier this month, the government scrapped 8% export duty on iron ore fines, while reducing it to 5% from the previous 15% on lumps as part of the multi-billion dollar stimulus package to boost demand.

By the end of last fiscal, India exported about 104 million tonnes of the iron ore, of which 88% went to China.

<http://www.business-standard.com/india/news/indias-iron-ore-exports-double-in-november/16/29/51860/on>

India targets \$58 billion software export this fiscal

The ninth edition of the largest IT global networking event in India, INDIASOFT 2009, to be held in Kolkata, is targeting the new emerging markets of South Africa, Spain, France and Germany for software exports and services.

Last fiscal, the country exported software worth \$45 billion and the target this fiscal is around \$58 billion. Out of this, \$3.6 billion has been earmarked for electronics hardware and \$55 billion for software and services.

“The software market in South Africa is estimated to be around \$12 billion and we want to tap this potential market. At present, we export 0.7% of it only and want to increase it,” said DK Sareen, executive director of Electronics & Computer Software Export Promotion Council (ESC).

INDIASOFT 2009 will have around 120 buyers from these focus regions and also from Latin America, he said. The event will be held in Kolkata on February 26 and 27, 2009.

Around 80 domestic exhibitors will participate in the event. When asked about the last fiscal figures of the IT industry, Sareen said the industry did a business of \$25 billion from April to September, involving \$2 billion in the electronics hardware and \$23.65 billion in software services segment.

“We have already achieved 45% of the total target of \$58 billion in the first six months and let us see how we fare in the coming months,” Sareen said. The first six months recorded a growth rate of 30%.

West Bengal IT minister Debesh Das, who was present in the curtain raiser of the event, made it clear that INDIASOFT 2009 is a big opportunity for the city’s small and medium scale enterprises in the IT sector. “IT SMEs in the city are surpassing the SMEs of Hyderabad, Pune and Chennai in quality,” Das told.

<http://www.financialexpress.com/news/india-targets-58-billion-software-export-this-fiscal/402112/>

Coffee exports brew high, to rake in over Rs 2,400 cr

The Indian coffee segment seems to be immune to the global financial meltdown as foreign exchange through annual coffee exports is likely to touch Rs 2,400 crore for the first time in 2008, trade sources said. According to statistics available with state-owned Coffee Board, exports during the January - December 24 period in 2008 touched Rs 2,396 crore (\$ 572.02 million), posting an increase of 26% from Rs 1,897 crore (\$ 458.89 million) reported in the same period a year ago.

The volume of coffee exports remained almost flat while value increased significantly. The country exported 2,18,206 tonne of coffee against 2,17,840 tonnes during the same period. The weakening rupee, higher prices at international markets and increasing demand for Indian coffee are major reasons for the increase in foreign exchange through coffee exports this year, an official said. The average unit value of Indian coffee at overseas markets this year climbed to Rs 1,09,821 per tonne from Rs 87,083 a tonne seen last year.

<http://www.financialexpress.com/news/coffee-exports-brew-high-to-rake-in-over-rs-2-400-cr/403278/>

News Round – Up

Services ind maintains growth: FICCI

Amid the prevailing global economic scenario, the services industry has managed to maintain growth momentum, though at a lower rate, according to a FICCI survey. The growth registered in the increase in the number of wireless subscribers, internet subscribers, earnings of the railways through passenger and freight traffic, foreign tourists are some of the categories that have posted a reasonable growth during April-November 2008 as compared to the previous fiscal, said the FICCI survey on services industry.

The report notes that the number of wireless subscribers during April-November grew by almost 50 per cent as compared to 58 per cent during the last fiscal. Internet subscribers numbers too surged, posting a 26 per cent increase as against the 20 per cent, it recorded last year. The highest surge has been in the number of broadband subscribers, which jumped almost 87.7 per cent during April-November this year as against 23.6 per cent previous year.

"Although the slowdown is expected to make a further dent in the growth of some segments of the services sector, given its overall contribution of 63 per cent to GDP, the services sector growth is expected to help maintain a healthy GDP growth this fiscal," the chambers has said.

Among the other service industry sectors that continued to grow were railway earnings through passenger traffic which stood at 12.2 per cent, marginally lower compared to the 14 per cent last year. Railway earnings through freight increased to 15.7 percent during this fiscal up to November, up from 14 per cent that it recorded last year. Franchising,

exchange earnings through foreign tourists, entertainment and media industry, software services are few of the other sectors that posted between 10-16 per cent growth.

According to the survey the sectors that grew in single digit were cargo movement by roads, air, ports, retail trade amongst others. However, the sectors which saw a negative growth included air passenger traffic, fixed line subscribers, insurance premium and assets mobilised by mutual funds.

<http://www.blonnet.com/2008/12/28/stories/2008122851010500.htm>

'Indian economy still second fastest growing in the world'

The Indian economy continues to remain the second-fastest growing economy in the world, a top economist said.

"India's economic fundamentals are quite robust and its economy remains the second-fastest growing one in the world," the Prime Minister's Economic Advisory Council's Chairman Suresh Tendulkar told.

India was not experiencing a recession as other advanced economies and its economy would not be affected to the same extent as some other emerging Asian economies, he said.

On MSMEs, Tendulkar said that the present economic slowdown would test the strength of the sector.

"Rising interest rates in the recent past has further accentuated the credit crunch for MSME entrepreneurs," he said.

According to him, the financial meltdown in advanced economies "has been very serious".

"The depth of recession in advanced countries has been greater than anticipated a few months back," Tendulkar said, adding that export-linked sectors in India "are bound to be affected much more than anticipated earlier owing to the depth of recession in advanced economies".

He described the foreign exchange reserve position in the country as "comfortable" despite FII outflows causing some depletion.

The current account deficit, would be well within limits, but it might be wider than in the earlier years, he said.

<http://www.business-standard.com/india/news/indian-economy-still-second-fastest-growing-inworld/16/44/51691/on>

