

Weekly Economic Bulletin

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News Feature

IIP growth hits a gusher in June

The domestic industry recorded a year-on-year growth of 7.8 per cent in June, marking a 16-month high.

The 7.8-per cent annual increase in the Index of Industrial Production (IIP) for June comes on top of a 5.44 per cent growth registered during the same month last year. This is indicative of a genuine recovery, and not a result of any statistical illusion ('base effect').

"A 7.8-per cent is way above our expectation. While there have been signs of economic pick-up, 3.5-4 per cent growth was what we were anticipating," said Dr Pronab Sen, Chief Statistician of India.

Sectoral numbers

All the three major sectoral components of the IIP contributed to the 7.8 per cent overall growth number for June, which is the best since the 9.52 per cent of February 2008.

The manufacturing index went up 7.27 per cent against a corresponding year-on-year increase of 6.14 per cent for June 2008, while electricity rose 7.97 per cent (2.55 per cent).

Most impressive was the performance of mining, which returned a growth of 15.43 per cent (0.13 per cent). The rebound in mining is being attributed to the ramping up of gas production from Reliance Industries' recently commissioned Krishna-Godavari D-6 fields.

April-June growth

For the April-June period, the general IIP growth amounted to 3.74 per cent (versus 5.33 per cent during the same quarter of 2008-09); the break-up being 3.25 per cent (5.76 per cent) for manufacturing, 6.04 per cent (1.98 per cent) for electricity and 7.27 per cent (3.98 per cent) for mining.

The 'use-based' break-up of manufacturing gives further cause for optimism. Capital goods production was up 11.75 per cent over last year, after having logged three successive months of negative growth.

Again, there seems to be no base effect here, given that the year-on-year growth in capital goods last June stood at 7.81 per cent. "The double-digit growth in capital goods is suggestive of renewed investment activity happening, though we cannot infer this on the basis of one month's data.

A more plausible explanation is that projects that were kept on hold during the acute crisis period are now being restarted," noted Dr Sen.

But for an all-round investment recovery, it is not enough for promoters to execute their already approved capital expenditure. What is required is drawing up implementation of

new capex plans. "Whether that would happen is something that only the coming months' data will show," Dr Sen told.

Consumer durables

Among other use-based industries, the index for consumer durables rose 15.46 per cent in June (4.61 per cent in June 2008), while the corresponding year-on-year growth rates were 0.33 per cent (11.59 per cent) for consumer non-durables, 10.11 per cent (2.18 per cent) for basic goods and 7.85 per cent (2.85 per cent) for intermediate goods.

<http://www.thehindubusinessline.com/2009/08/13/stories/2009081352000100.htm>

Indian economy set for positive growth in 2010: S&P

The turbulence in the global economy and its financial markets during the last year or so has brought home to all of us that were witnessing a shift in the economic world order, from being G-8 focused to, increasingly, the more inclusive and relevant G-20.

As signs of stabilization and even a turnaround have begun to manifest, Standard & Poor's Asia-Pacific chief economist, Subir Gokarn, presents a mid-year review of the Indian economy.

"We anticipate that India will remain in positive growth territory throughout this global recession and financial turmoil," observed Dr Gokarn. Explaining this he added, "Domestic policy responses, both monetary and fiscal, appear to have played a significant role in shoring up domestic demand in an environment of drastically reduced exports."

India's GDP growth is forecast at 5.8-6.3 per cent in 2009 and 6.8-7.3 per cent in 2010. GDP will be driven by the Indian economy's very strong domestic consumption, which has been held up by stable rural demand and the recent hike in public sector salaries."

A review of the last two quarters shows that the expansionary domestic policies and relatively limited financial integration significantly helped India to sustain positive growth in the first quarter. India discarded its fiscal consolidation targets and rapidly increased spending to bolster domestic industry, infrastructure, and construction-and propel domestic consumption.

The elections in India also helped sustain spending in the first half of 2009. Besides the boost to industry, India gave direct stimulus to the larger rural population, low income earners, and pensioners in the form of farm-loan waivers, subsidies to buy consumer durables, tax incentives, and so on.

Some of the potential threats that could slow down or even derail the recovery include revival of inflation, high interest rates and persistent global sluggishness. Although inflation continues to drop, fiscal boosts and previously-pumped-in liquidity are cautioning the central bank against further rate cuts, waiting for fiscal policy to play out.

<http://economictimes.indiatimes.com/Indicators/Indian-economy-set-for-positive-growth-in-2010-SP/articleshow/4888907.cms>

Overseas News

Foreign Trade Policy, on Aug 27, to focus on job creation

The five-year Foreign Trade Policy, to be unveiled on August 27, is expected to give incentives to Indian exporters to widen their global markets beyond the US, the EU and Japan in the face of the economic crisis in these key destinations.

Commerce and Industry Minister Anand Sharma, who apprised Finance Minister Pranab Mukherjee about the difficulties being faced by exporters, said: "We will be surely looking at market expansion because if the diversion and expansion of market is not there, we will not be able to respond to this challenge."

Talking to reporters after his meeting with Mukherjee, Sharma said the government can extend support but will not be in a position to generate demand in the western economies which are contracting.

India's exports are on a downslide since October 2008 and the average contraction has been around 30 per cent over the past nine months. The country's exports were about USD 169 billion in fiscal 2008-09.

Sharma indicated that the policy, which outlines the priority sectors as also the sops, would be focused on employment-generating areas like textiles, leather, gems and jewellery, and handicrafts.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Foreign-Trade-Policy-on-Aug-27-to-focus-on-job-creation/articleshow/4902356.cms>

FIIIs turn net-buyers worth \$6.4 billion in June quarter

Initial signs of recovery in world economies, a stable government in New Delhi and the positive impact of its stimulus packages substantially improved the sentiments of foreign institutional investors (FIIs) in the April-June quarter.

After being net-sellers in the last five quarters, they turned net-buyers in the equities market in the June quarter. According to data from Enam Securities, they were net-buyers of Rs 30,720 crore, or \$6.4 billion (\$1=Rs 48).

However, they were selective in their buying. Only four sectors — real estate, banking & finance, engineering and oil & gas.— garnered almost three-fourths of the money invested by FIIs. These four sectors accounted for over 71 per cent of the total FII investment at \$ 4.55 billion during the quarter.

Realty attracted an investment of \$1.6 billion, followed by banking and financial services (\$1.5 billion), engineering (\$875 million) and oil & gas (\$580 million).

<http://www.business-standard.com/india/news/fiis-turn-net-buyers-worth-64-billion-in-june-quarter/366556/>

India receives \$ 15 billion foreign investment in April-June

Signs of India's economic recovery appears to have raised the confidence among foreign investors with the flow of foreign investment surging five times in the April-June quarter.

As against a flow of nearly USD three billion in the preceding quarter of Jan-March, the direct and portfolio investments flow together rose sharply to USD 15 billion during April-June this year, data released by RBI revealed.

Of the total investment flows during the quarter, portfolio investments accounted for \$8.270 billion, while direct inflows contributed \$7.016 billion to the total flows, Reserve Bank data showed.

In the three months ended March, 2009, total inflows into the domestic market was a mere \$3.589 billion.

Foreign fund inflows had sharply declined in FY09 after the global financial turmoil triggered panic among foreign institutional investors, prompting them to pull out money from emerging markets.

While the country received a total investment of \$61.633 billion in 2007-08, for the full financial year ended March 31, 2009, total investments dropped to \$21.313 billion.

Of the total fund flows that reached the country in 2008-09, direct investment contributed \$35.168 billion while portfolio investments posted a negative flow of \$13.855 billion.

<http://economictimes.indiatimes.com/News/Economy/Finance/India-receives-15-billion-foreign-investment-in-April-June/articleshow/4888438.cms>

Trade News

India, ASEAN ink pact on free trade in goods

As part of the Comprehensive Economic Cooperation Agreement (CECA), India and the 10-member Association of South East Asian Nations (ASEAN) signed a free trade agreement (FTA) in goods in Bangkok.

The Union Minister of Commerce and Industry, Mr Anand Sharma, signed the ASEAN-India Free Trade Agreement in Goods with ASEAN economic Ministers. The FTA in goods will integrate the two globally important economic blocks for mutually beneficial economic gains.

Import tariff

Under the ASEAN-India FTA, the ASEAN member countries and India will lift import tariffs on more than 80 per cent of traded products between 2013 and 2016, starting from January 1, 2010.

Also, tariffs on sensitive goods will be reduced to 5 per cent in 2016, while tariffs will be maintained on up to 489 items of very sensitive products, the press statement said.

ASEAN is a major trading partner for India and accounts for about 10 per cent of its global trade. In the last financial year, bilateral trade between India and ASEAN was more than \$40 billion. India and ASEAN have set an ambitious target of achieving bilateral trade of \$50 billion by 2010. The current agreement which comes into force from January 1, 2010 would help achieve this target.

The agreement has provided flexibilities to India and ASEAN countries to exclude some of the products from tariff concessions or eliminations to address their respective domestic sensitivity. India, on its part, has excluded 489 items from the list of tariff concessions and 590 items from the list of tariff elimination to address sensitivities in agriculture, textiles, auto, chemicals, crude and refined palm oil, coffee, tea, pepper etc. ASEAN countries have also maintained similar exclusion list from the proposed tariff concessions or eliminations.

Bilateral trade

The exchange of tariff concessions between India and the ASEAN member countries would lead to growth in bilateral trade and investment resulting in economic benefits to India and the ASEAN member countries. Indian exporters of machinery and machine parts, steel and steel products, agriculture products such as oilcake, wheat and buffalo meat, auto components, chemicals and synthetic textiles would gain additional market access as a result of tariff liberalisation by ASEAN. Indian manufacturers would also be able to source products at competitive prices from the ASEAN countries.

The agreement also provides for bilateral safeguard mechanisms to address sudden surge in imports after the agreement comes into force. In such an eventuality if it hurts a domestic industry, safeguard measures including imposition of safeguard duties may be put in place for a period up to four years. The flexibility to invoke the safeguard measures will remain available for both the sides for a period of seven years to 15 years from the date, the agreement comes into force. The signing of the agreement signals India's firm commitment to its 'Look East' policy of building upon its historical links with the countries of the Southeast Asian region and further deepening and widening this partnership.

India and ASEAN are currently negotiating Agreements on Trade in Services and Investment, which are to be concluded by December 2009. India looks forward to access the vast services market of ASEAN. India's total trade in services was \$ 137.50 billion in 2006. The corresponding figure for ASEAN is \$ 280.90 billion. Similarly, Foreign Direct Investment (FDI) attracted by India in 2007-08 was \$ 24.60 billion, whereas ASEAN member countries attracted FDI totalling \$ 60.50 billion in 2007.

<http://www.thehindubusinessline.com/2009/08/14/stories/2009081452141500.htm>

India, America talk up bilateral investments

India and the US have started formal talks on a pact on liberalising and protecting bilateral investments. A team of trade officials from the US put in place by the new Barak Obama administration was in New Delhi for the negotiations. The contentious issue of the protection to be given to foreign investors prior to investments actually taking place, however, continues to weigh heavily on the talks.

The two countries had begun exploratory negotiations on a proposed bilateral investment promotion agreement (Bipa) last year under the Bush administration. The talks, however, got stalled due to the election process in the US and later in India.

The US is India's third-largest source of foreign investment after Mauritius and Singapore. Deputy US trade representative Demetrios Marantis, who is leading the group of officials, pointed out that the bilateral investment treaty would help improve investment conditions in both India and the US.

"Negotiations are ongoing and we will probably take some time to do this. We are very optimistic about it we hope to create an environment where investments of both India and US is protected," Mr Marantis told.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-America-talk-up-bilateral-investments-/articleshow/4887737.cms>

BoB to boost India-UAE investment flow

Bank of Baroda (BoB) has launched an initiatives to facilitate two-way flow of investments between India and the UAE, a senior bank official has said.

"We have extensive network of about 3,000 branches in India, and fairly good presence in the UAE market. We will be ready to provide funds to the investors from both the countries and help them identify viable projects and suitable partners at the investment destinations," Ashok K Gupta, the bank's CEO, GCC Operations, said.

Bank of Baroda is the only Indian bank with full-fledged branches in the UAE.

Gupta said that the share of the UAE in the overall FDI flows to India is only one per cent and there is tremendous scope to enhance this.

India currently has very huge appetite for FDI considering its high economic growth levels and the massive expansion plans in infrastructure and several other sectors. "It will be difficult to give an estimate of the Indian investments in the UAE, because thousands of LLC firms are being run by Indian expatriates here," he said.

The bank organised a high-level meeting of corporate groups, banks, investment intermediaries and government agencies in Dubai as part of its initiatives to promote investments in both the countries.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4896837>

Sectoral News

Exports likely to be in positive territory by Dec: Survey

With European and Asian countries like France, Germany and Hong Kong pulling themselves out of the downward spiral, Indian exporters can expect a reasonable growth by December, says a Ficci survey.

In a survey conducted by Federation of Indian Chamber of Commerce and Industry, majority of respondents said exports are expected to be in positive terrain by December this year.

The chamber expects an improvement but only in terms of stemming the falling exports on a year-to-year basis in the months ahead.

"Exports are likely to register a reasonable positive growth but we will have to wait at least till the end of this year," the survey said.

Exports have declined by 26 per cent in June for tenth month in a row due to less demand from the global markets.

Countries like Hong Kong, Germany and France are showing fresh signs of global recovery, with the European economy recording marginal GDP growth of 0.3 per cent and Asian economy expanding 3.3 per cent in the second quarter of 2009.

The survey said, "While orders are not coming in thick and fast, still some foreign clients have started placing some new orders or at least reduced the pace of order cancellation."

Ficci surveyed 316 exporters in different sectors such as automotive, gems and jewellery, textiles, handicrafts, leather and marine IT products during June and July 2009.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Exports-likely-to-be-in-positive-territory-by-Dec-Survey/articleshow/4898571.cms>

GSM operators added 9.48 mn mobile users in July

GSM mobile phone operators in the country added 9.48 million users in July, taking the total GSM subscriber base to 325.7 million.

This is a 6.5 per cent addition, compared with 8.9 million added in the previous month of June.

The addition, however, excludes the subscriber addition of Reliance Communications, which releases data separately.

The country's largest service provider, Bharti Airtel, added 2.8 million new subscribers during the month, taking its total subscriber base to 105.18 million.

The company continued to be the leader with a 32.29 per cent market share of the GSM subscriber base, according to data released by the Cellular Operators' Association of India (COAI).

<http://www.business-standard.com/india/news/gsm-operators-added-948-mn-mobile-users-in-july/366737/>

Cargo traffic at major ports to grow at 5.2 per cent: CMIE

Economic think-tank, Centre for Monitoring Indian Economy (CMIE), has pegged the cargo traffic growth at major ports in the country at 5.2 per cent for 2009-10.

The growth will come on the back of an expected increase in domestic demand and trade in the second half of the current fiscal, CMIE said in its latest report on the state of the Indian economy.

The CMIE report also said that cargo traffic across the country's major ports clocked a robust 8.1 per cent growth at 45.4 million tonnes during June on account of improvement in international trade and other factors.

The traffic staged a recovery after witnessing a decline between October 2008-May 2009 (barring December) as 13 major ports registered an increase, the report said.

Improvement in the international trade situation and higher operational days with respect to cargo movement due to weak monsoon are said to be the main reason driving the growth, the report said, adding the count was highest since May 2008.

Kandla Port, which witnessed 25.1 per cent more traffic at 7.4 million tonnes was the busiest port, replacing Visakhapatnam, CMIE said.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Cargo-traffic-at-major-ports-to-grow-at-52-per-cent-CMIE/articleshow/4884417.cms>

Indian auto sector emerging as manufacturing hub: DIPP Secy

India has weathered the global economic downturn and is emerging as a globally competitive manufacturing hub for small, fuel efficient cars, a senior Indian official said.

Department of Industrial Policy and Promotion Secretary Ajay Shankar told, "India is emerging as a globally competitive manufacturing hub for small fuel efficient cars."

Shankar who was here to interact with the UK-India Business Council and the India Business Forum said, though, export-oriented Small and Medium Enterprises (SMEs) have been severely hit, "fortunately the auto-sector in India has revived."

In July, two large car manufacturing companies, Maruti-Suzuki and Hyundai Motors India Ltd have registered a growth rate of 20 per cent year-on-year. "That in turn has helped the entire Small and Medium Enterprise chain and the auto-component sector to get out of the woods," he said.

Indian car manufacturers were exporting cars mainly to the European markets where people are looking for cheap and fuel efficient cars owing to the economic downturn, he said.

Answering questions, Shankar said compared with other countries, "the Indian economy has fared better" during the global economic crisis. "The budget has also improved the confidence of investors and the last 2-3 months have seen confidence re-emerge in the Indian economy," he said.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4880291>

Indian retail mkt likely to touch \$720 bn by 2011 end

The Indian retail market is expected to grow to \$720 billion by the end of 2011, with the organised segment touching \$90 billion during this period, according to investment bank Northbridge Capital.

In a study 'Indian Retail Research 2009 Edition', the bank said overall the Indian retail market is growing at 30 per cent annually, with the organised segment registering an above average growth of 40 per cent.

"Retail market size in 2009 is estimated to be of \$450 billion, growing at the rate of 30 per cent per annum. It is expected to grow to \$720 billion by the end of 2011," the report said.

Of the total retail market, the organised segment currently constitutes only 14 per cent (\$63 billion).

"However the organised retail market is growing at the rate of 40 per cent and is anticipated to grow at a faster pace over the next three years, especially in view of the fact that major of global players and Indian corporate houses are entering the fray in a big way. At the current growth rate it is expected to touch \$90 billion by 2010," it said.

Retail in India constitutes around 12 per cent of the country's GDP and employs round nine per cent of workforce.

"Retail in India is slowly moving its way towards becoming the next boom industry with the whole new concept of shopping has altered in terms of format and consumer buying behavior".

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4891098>

News Round – Up

India aims for robust GDP growth despite drought

India's economy can achieve in the year to March 2010 the same level of growth seen a year earlier despite worsening dry conditions that threaten to dent its nascent recovery, Commerce and Industry Minister Anand Sharma said.

Speaking to reporters after signing a free trade agreement with the Association of South East Asian Nations, Sharma said serious monsoon rain shortfalls since June had affected farm crops but they would not produce food shortage in the country.

"We grew 6.7 percent last year and we hope to be able to maintain that despite the difficulties that we face. Our domestic demand and consumption is strong. Fundamentally, our economy is strong," he said.

"India keeps substantial buffer stocks of food grains after our two successive years of buffer crops. We have enough of what we have to sustain availability of food," he said.

"We do not visualize any food scarcity in India at all. That is what I can categorically say."

With time running out on the summer sowing season and increasingly gloomy reports from India's farm regions, economists warn that growth could lose as much as 2 percentage points in the current fiscal year if rains don't improve soon.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4892906>

SEZs exports up 25% in Q1

Bucking the trend, exports from special economic zones (SEZs) increased by over 25% in three months ended June 2009, even as overseas sale of Indian goods remained in the negative territory during the period.

Briefing the Board of Approval (BoA) on SEZs on Tuesday, commerce secretary Rahul Khullar said between April and June this year, exports from 98 functional SEZs stood at Rs 39,410 crore.

"This is substantial, but could have been better," Khullar told reporters after the meeting.

The BoA on Tuesday gave its in-principle approval to India's largest solar energy-based SEZ. The 101-hectare zone will be built by Lanco Solar Pvt Ltd in Ramdasapur near Cuttak, Orissa. The developer is yet to complete land acquisition for the zone and so was given in-principle approval. There are four other solar energy-based SEZs, which had been cleared by the BoA in its earlier meetings.

The board formally approved two other SEZs which have completed land acquisition formalities. They are Brooke Bond Real Estates Pvt Ltd, Bangalore, and Karnataka State Electronics Development Corporation Ltd in Shimoga, Karnataka.

Overall merchandise exports from India in the three month period under review contracted 25.7% and stood at Rs 2,48,171 crore, as demand for goods in traditional overseas markets in the United States and Europe weakened. In fact, exports saw contraction for nine consecutive months ended June 2009.

"Over 90% of SEZ exports are from the manufacturing sector ranging from handicraft to hi-tech goods. The growth is despite the fact that none of the multi-product zones having area above 1,000 hectares have become operational," said a commerce ministry official.

The ongoing economic slowdown has adversely impacted the development of zones as many developers have asked for more time to build their SEZs. In Tuesday's meeting, the board allowed 25 formally approved SEZs an additional year to become operational. The zones have cited limited availability of liquidity and lesser demand for space in SEZs as reasons for slow development of the zones.

Khullar said that the commerce ministry is in discussion with other members of the board to establish a sub-committee under the BoA. It will look into procedural issues. The move will decrease the load on the BoA, and is expected to speed up clearance of SEZ-related policy bottlenecks.

<http://www.financialexpress.com/news/sezs-exports-up-25-in-q1/500901/>