

## Weekly Economic Bulletin

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## News Feature

### IIP zooms by 10.4 pct, at 22-mth high

Adding to the festive mood, industrial growth catapulted to a 22-month high of 10.4 per cent in August, clearly showing that stimulus measures have yielded results which may make up for the likely decline in farm output in months to come.

"This is a very good Diwali gift," Planning Commission Deputy Chairman Montek Singh Ahluwalia said.

Even though part of the rise is due to low base effect as the index of industrial production (IIP) grew by just 1.7 per cent a year ago, the impact of stimulus measures is also evident as there was all-round rise in factory production.

Manufacturing output grew by 10.2 per cent in August, mining by 12.9 per cent and electricity production by 10.6 per cent. Of 17 industry groups, 14 showed positive growth.

On the basis of use-based industrial break-up, consumer durables production grew by 22.3 per cent, basic goods by 10 per cent and intermediate goods by 14.3 per cent.

Industrial growth is expected to post high figures in the months to come due to low base effect of last year, which might make up for the likely loss in farm production.

"We are hoping that when the final figure of second quarter will be available, perhaps there will be some higher growth. If the higher growth projection is there, then in the third quarter, fourth quarter we can make up," Finance Minister Pranab Mukherjee said.

<http://www.financialexpress.com/news/iip-zooms-by-10.4-pct-at-22mth-high/528042/>

### India may lead global private equity recovery: KPMG

The domestic and international private equity players see India as the second most attractive destination after China and feel that the country may lead the global PE recovery, according a survey.

As many as 33 per cent of investors, who participated in the survey, ranked China as the most attractive market, followed by India (29 per cent), other emerging markets (19 per cent) and developed markets (20 per cent).

"India offers immense opportunities for PE investments and India will likely be at the forefront of a global PE recovery," said a survey by research firm KPMG.

It said investors find India attractive as a PE destination because of its robust economic growth, tax environment, corporate governance and investment structuring.

"The next 12 months should be viewed as an opportunity to build value in portfolio terms and show that PE is an integral part of India's future," the survey added.

It projected 2010 to be the year of consolidation with focus on portfolio nurturing, fewer new deals or fund raising, smaller investment sizes and fewer exits.

The KPMG survey, conducted along with Stanford University's Shorenstein Asia-Pacific Research Center, covered 40 General partners (GPs) and Limited Partners (LPs). Broadly, GPs handle investment operations directly for PEs, while LPs invest in them.

KPMG said Indian public markets have recovered significantly since August 2009, and initial signs are indicating that there is considerable amount of liquidity in the market from institutional investors for IPOs.

Exit options for PE funds include initial public offering, public market or strategic sale.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5111949>

## **Overseas News**

### **83% investors feel economy will recover in next fiscal: Fitch**

The Indian economy will recover in the next financial year even as concerns over poor monsoon, drought and fall in exports loom large, a survey says.

More than 80 per cent of debt investors who participated in the survey conducted by global rating agency Fitch believe that the Indian economy would recover in the next fiscal, while only three per cent of them say that the slowdown would last for more than 18 months.

However, the area that still concerns about 91 per cent investors is the failed monsoon, drought conditions and continued fall in exports.

"A clear majority of investors (83 per cent) believe the economy will recover (back to 2007 levels) over the next financial year," Fitch said in its Fixed Income Investors Survey conducted between August and September 2009.

Fitch surveyed 45 investors, which included some of the larger institutions operating in the Indian market.

It further said that 14 per cent believe that the current slowdown in India would continue for less than six months.

Besides, it said 57 per cent felt that the RBI will increase repurchase (repo) rates within the next six months.

The economy would remain stable at the current level, said 60 per cent of the investors surveyed, and 31 per cent expect it to grow even faster.

The survey said that 80 per cent of the investors expect the financial performance of lower-rated corporates to significantly deteriorate, while 57 per cent felt that banks will need additional capital to withstand the current credit conditions.

<http://www.financialexpress.com/news/83-investors-feel-economy-will-recover-in-next-fiscal-fitch/525796/>

### **Forex reserve up by \$430 m**

The country's foreign exchange reserves have risen by \$430 million to \$280.3 billion in the week ended October 2, the Reserve Bank of India said in its weekly statistical supplement.

While foreign currency assets declined by \$33 million to \$263.5 billion, gold reserves climbed by \$488 million to \$10.3 billion, the RBI said.

Meanwhile, with the increase of foreign inflows into the Indian market and dollar turning weak against other major international currencies like euro and yen, rupee has strengthened by almost 3% during the week.

However, after continuously appreciating for last few days, rupee on fell to 46.41 against the dollar compared to 46.35.

Dealers said that several banks and companies transacted in the non-deliverable forward market (NDF) during the week to hedge their onshore exposure and make profits from the spreads between onshore and offshore currency exchange rates.

"The rupee has gained widely against the dollar in the five sessions, due to the arbitrage trade to gain from lower dollar rates in the NDF market. Dealers have bought dollars offshore to sell them at higher rates in the domestic market," noted a trader.

<http://www.financialexpress.com/news/forex-reserve-up-by-430-m/527308/>

### **FDI norms in retail sector should be relaxed: CBRE**

The government needs to relax norms on foreign direct investment in retail to facilitate fresh infusion of funds and also promote competition in the sector, which has been hit by the economic slowdown, real estate consultant CB Richard Ellis has said.

"The existing FDI rules are a constraint. There is need to open up the sector a bit more as it will facilitate fresh infusion of funds and also promote competition," CB Richard Ellis (CBRE) Chairman and MD (South Asia) Anshuman Magazine said.

Currently, 100 per cent FDI is allowed in wholesale cash-and-carry business, while in single-brand retailing 51 per cent FDI is allowed but none in multi-brand retailing.

The Parliamentary Committee on Commerce had earlier this year submitted a report opposing further opening up of the retail sector for FDI.

However, a report by the Indian Council of Research in International Economic Relation (ICRIER) in 2008, had mooted liberal FDI norms in the sector saying the sector would grow to \$590 billion by 2011-12, of which organised retail would have a share of 16 per cent.

Sharing ICRIER's views, Magazine said: "(Curently) the share of organised retail is still very small in the overall market and has scope for growth."

Magazine cited rise in retail rentals and unbridled expansion, besides the recession, as main reasons for the slowdown suffered by the organised sector but said it would continue to sustain growth.

He also said growth in organised retail would not entirely displace the neighbourhood mom-and-pop stores.

"However, some balance has to be maintained while making the FDI rules more liberal," Magazine added.

Regarding concerns that neighbourhood 'kirana' shops would go bust due to proliferation of branded retail, he said: "In India, organised retail players would continue to co-exist with the 'kirana' segment. There is space for both to grow."

Citing the growth of the organised retail sector so far in the country, he said that India has now over 200 malls, within a short span of eight years since the first mall came up in Mumbai in 2001.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5111956>

## **Trade News**

### **FDI norms in retail sector should be relaxed: CBRE**

India-European Union Free Trade Agreement (FTA) is on the anvil as the European Union is India's top-most partner in the area of trade and investment inflows and one of the major partners in the field of economic and development co-operation, Minister for Overseas Indian Affairs, Vayalar Ravi, said at the recently concluded 'India Calling' conference at Brussels.

For further reinforcing relations, both India and the European Union are now engaged in negotiating a Free Trade Agreement, designed to provide a further impetus to the growing partnership, Ravi said.

By 2020, India would have the worlds largest youth population, and the world's largest work-force, "estimated at over 820-million in the working age group as compared to its 400-million strong work-force today", he said.

The scenario presented a tremendous opportunity to both domestic and foreign players to fund and operate infrastructure development projects on the basis of the public-private partnership (PPP) model, Ravi said.

Yves Leterme, Belgium's Minister of Foreign Affairs, called upon enterprising business leaders in India and Belgium to take full advantage of the close economic ties between India and the European Union for expanding their businesses by forging partnership in the fields of trade, industry, investment and transfer of technology and know-how for mutual benefit.

Yves Leterme, who was the chief guest at the Indian Merchants' Chamber's 10th 'India Calling' Conference, said the conference was being held at the most opportune time between two historic events--the state visit of Belgium's King Albert II to India in November 2008 and the Prince Philippe-led Belgian Economic Mission to India, scheduled in March 2010.

"Belgium will assume the Presidency of the European Union in the second-half of 2010 and will host the EU-India Summit in Brussels in that capacity", he said.

IMC President, Gul Kirpalani, highlighted the significance of the India-EU business partnership summit against the backdrop of a dismal global economic environment. He complimented the authorities of the European Union for actively assisting in promotion of this conference at this historic juncture.

Kripalani welcomed the offering to the IMC, the free use of an office space for one year for carrying on its promotional activities in Belgium, "which is the gateway to Europe and by itself also an important centre of business".

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5112364>

### **Indo-Thai FTA to cover services too**

India and Thailand are planning to expand their limited free-trade agreement (FTA), which includes just 82 items, to services and investments, Thailand's deputy PM Korbsak Sabhavafu has said.

"At present, both the countries are engaged in lifting the free-trade agreement into a comprehensive pact to include services and investments," Mr Korbsak said at a meeting organised by FICCI.

The deputy PM said that expanding commercial ties could push up bilateral trade from \$ 6 billion at present to \$10 billion in 2011.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Indo-Thai-FTA-to-cover-services-too/articleshow/5099685.cms>

### **Sectoral News**

## **Exports from SEZs set to touch Rs 140k cr**

New Special Economic Zones, including the Reliance Industries' Jamnagar refinery, would help increase India's SEZ exports by 40 per cent this fiscal, righting partially the dismal picture of the country's total exports, according to government estimates.

About 10 new SEZs would be operational within this fiscal.

Exports from the RIL's Jamnagar refinery are expected to be Rs 35,000 crore, a Commerce Ministry official said.

Exports from 91 SEZs in 2008-09 were Rs 99,689 crore.

"New SEZs are coming up ...by the end of this fiscal, more and more units would start operating," Director General of the Export Promotion Council for EoUs (Export-oriented Units) and SEZs L B Singhal said.

A total of 579 SEZs have been approved in the different parts of the country and 335 of them have been notified.

The SEZs have attracted an investment of over Rs 1.10 lakh crore

<http://www.financialexpress.com/news/exports-from-sezs-set-to-touch-rs-140k-cr/526703/>

## **Industry likely to grow over 9 per cent in August: Experts**

Industrial recovery may well be back as economists projected factory production to grow by a whopping over 9 per cent in August against 6.8 per cent in the previous month, on the back of robust activities in core sector.

The government will come out with data on Index of Industrial Production (IIP).

"There has been strong support from mining and electricity coupled with growth in manufacturing sector. I expect IIP to be 9.9 per cent in August," Yes Bank Chief Economist Shubhada Rao said.

In July, factory production expanded at a greater pace for the second month in a row growing by 6.8 per cent against 6.4 per cent a year ago, signalling an industrial recovery.

It was for the first time in June that the industry grew by a high rate of 8.2 per cent, after it was hit hard by the global financial crisis in the middle of September last year.

Axis Bank Economist Saugata Bhattacharya said the factory production is likely to breach nine-per cent mark in August mainly due to base effect.

"I expect Industrial growth at 9.2 per cent in August. The rise from July is mainly due to base effect," he said.

According to HDFC Bank economist Jyotinder Kaur, industry could grow by 8.8 per cent in August.

"The rise of IIP is mainly due to base effect. The core sector is also high and exports have also picked up on the sequential basis," Kaur said.

Economic think-tank Institute of Economic Growth (IEG) has recently said as the economy is showing signs of recovery the industry would pick up further momentum with a growth of more than seven per cent in August and nearly nine per cent in October.

"The Index for Industrial Production (IIP) has shown an impressive growth of 6.8 per cent (in July). This figure was slightly higher than the last year's growth. It is definitely a pointer towards the revival of industrial growth," the IEG had said in its monthly monitor for the economy.

Indian industry came under adverse impact after US financial services icon Lehman Brothers collapsed, deepening the financial crisis across the world.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5111967>

### **Release of scientific research papers up 80% over the decade: Study**

The annual output of scientific research publications released by Indian scientists has grown by around 80 per cent in the past decade, says a study by Thomson Reuters titled 'Global Research Report: India.'

According to the study, the annual output of publications, which has risen to nearly 30,000 in 2007 from 16,500 in 1998, will be on par with most G8 nations within seven-eight years and overtake them between 2015 and 2020.

"India's current rise in science is as impressive as its economic surge of recent years and clearly has the potential to become the home for world class research," said Mr Mike Boswood, CEO, Healthcare & Science Business, Thomson Reuters.

#### *Useful information*

He added that the report which has analysed over 10,000 research journals between 1998 and 2007, has taken into account indexed papers which have least one Indian author.

The study further points out that while India's research portfolio is well balanced between the life sciences and physical sciences, its annual growth rate has vaulted in recent years in comparison to well-established countries such as Japan, France, Germany and the UK.

"By examining India's scientific focus and how its areas of concentration map to the rest of the world, the report will provide policymakers and institutions with useful information and insights that will help them leverage opportunities for innovation," said Mr Boswood.

### *Stable, growing partnership*

It added that India has established a stable and growing research partnership with countries such as the US, Germany, the UK and Japan. Also, the country has hugely increased its collaborative papers with South Korea, while doubling the figure in terms of its Asian partners.

Mr Boswood further added that a similar study was conducted for Brazil earlier this year, while two more on China and Russia are slated to come out next year.

<http://www.thehindubusinessline.com/2009/10/08/stories/2009100851601700.htm>

### **Apparel exports for April-Sept up 2-3 pct**

India's apparel exports have grown 2-3 per cent in April-Sept compared to the same period last year, the textiles minister said.

"We are seeing positive trends in exports, particularly in markets like Europe and US," Dayanidhi Maran said.

Maran also said he was in favour of raising the minimum support price for jute.

"We got some suggestions from an industry body to increase the minimum support price (MSP) for jute by Rs 300 per quintal and we support it," he added.

MSP for jute is currently at Rs 1,375 per quintal.

<http://www.financialexpress.com/news/apparel-exports-for-aprilsept-up-23-pct/526172/>

### **PM pitches for simpler tax regime to boost processed food trade**

Prime Minister Manmohan Singh laid out a blueprint for rapid growth in the country's food processing sector, which is limited at less than 2% of the world's food trade. This can be achieved by simplifying the tax structure, formulating a National Food Processing Policy and improving rural infrastructure, he said.

"I recognise that we need to look at the taxation structure in the industry. Though primary agricultural commodities are mostly exempted from taxes, processed foods are subjected to multiple levies. There is therefore an urgent need to rationalise and simplify the tax structure," Singh said at the Conference of state food processing ministers.

At present, just 6% of the food items produced in the country India are processed in contrast to the developed nations where 60% to 80% of the food items are processed.

But there is a need to promote the sector as it is not only a sunrise industry, the PM said, as 'it has the potential to dramatically improve rural livelihood opportunities and employment, to bridge the rural urban divide and to improve farming methods and practices.'

The tax incidence on food items varies across the country because of the numerous taxes levied at varying rates. While primary agricultural commodities are mostly exempt from tax, processed commodities attract heavy taxes including a central sales tax of 2% and value added tax of 12.5%. Additionally, these products are subject to other state and local level taxes like entry tax and octroi. Meanwhile at the Centre, central excise duty is levied on all branded products.

The issue was also flagged by the group of ministers (GoM) constituted a few years ago for promotion of agri-business, which had pointed out that the high tax burden on processed agricultural products was a disincentive to private investors and also distorted the competitiveness of food products.

The sector may get some relief once the goods and services tax comes into effect. It is expected that under GST, food products would be taxed at a lower rate while exemption would be given to some. The proposed regime would also subsume a number of state level duties.

While the sector grew at an impressive 14.7% in 2008-09 despite the global slowdown, the Prime Minister expects the National Food Processing Policy to give a boost to the sector.

<http://www.financialexpress.com/news/pm-pitches-for-simpler-tax-regime-to-boost-processed-food-trade/525824/>

## **News Round-Up**

### **Debt investors optimistic on mkt: survey**

In its latest 'India Fixed Income Investors Survey' report, conducted between August and September 2009, Fitch Rating states that the debt investors are optimistic about India's economic prospects.

Under the survey, the investors were asked to respond to 17 questions on various market developments. Fitch received 35 responses from 45 of the investors polled, which includes some of the larger institutions operating in the Indian market — over half of the respondents have more than Rs 5,000 crore of fixed income investment under management.

The survey indicates that 60% respondents expect the economy to remain stable while 31% foresee a faster pace of growth. Overall, 63% of investors feel the worst in market disruption is over, and that the loss taking curve has bottomed out. This represents a considerable easing of investors' views on the financial markets.

A clear majority of investors (83%) believe the economy will recover over the next financial year. Only 3% expressed the view that the current slowdown in India would last for more than 18 months; 14% believe it will only continue for less than six months. About 82% of the investors feel the markets are past the worst of their disruption for the manufacturing sector however, a large number (55%) still feel they are yet to see the peak of market disruption in structured finance.

<http://www.financialexpress.com/news/debt-investors-optimistic-on-mkt-survey/525870/>

### **16 Indian cos in Forbes Asia's 200 'small' Best**

Sixteen Indian companies figure in this year's Forbes list of mid- and small-size companies - "Asia's 200 Best Under A Billion".

The list include Biocon, Birla Corporation, Deepak Fertiliser, Divi's Lab, Everest Kanto Cylinder, FDC, Geodesic, GSS America Infotech, ICOSA, IVRCL, Micro Technologies, Nitin Fire, Opto Circuit, Pareskh Aluminex Raj Television and Selan Exploration.

Forbes said: "This year's list of the best small- and mid-size companies in the Asia-Pacific region is chock-full of survival stories and lessons for entrepreneurs.

Unprecedented dislocations in the global economy disrupted supply chains over the past 12 months, froze lines of credit, depleted consumer coffers and sent business spending into hibernation.

<http://www.thehindubusinessline.com/2009/10/10/stories/2009101050020200.htm>