Weekly Economic Bulletin

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News Feature

It's official: India poised to grow at 6.5% in FY10

A key economic think-tank has made the most optimistic official projection yet for growth in the fiscal to March 2010, flagged rising More Pictures food prices as a major concern and suggested that tighter monetary and fiscal policies are unlikely in the coming months.

The Prime Minister's Economic Advisory Council, headed by former Reserve Bank of India governor C Rangarajan, said it sees gross domestic product (GDP) expanding by 6.5% in 2009-10 as Asia's third-largest economy keeps a watchful eye on inflation and the fiscal deficit while it emerges from a slowdown.

"(It is) unlikely that growth will be lower than 6.25 %, but may reach 6.75%," the panel said in its Economic Outlook for 2009-10 report to Prime Minister Manmohan Singh.

The RBI had in July forecast that India's economy this fiscal would grow by 6%, with an upward bias, and the Planning Commission said in early September that it sees GDP growth at 6.3%. The economy expanded by 6.7% in 2008-09 after three years of growing at over 9%.

The scaling up of growth forecasts is taking place amid strong recovery by the industrial sector — which grew at its fastest pace in 22 months in August — and expectations of a decline in agricultural output.

"In light of the recent resurgence in the non-farm sector the 6.5% growth rate is quite feasible. The manufacturing sector is bouncing back as is evident from the IIP figures and due to its strong correlation with the services sector, we can expect the services sector to turn around as well," YES Bank chief economist Shubhada Rao said.

The improving trend is unlikely to prompt any immediate withdrawal of stimulus measures or a tightening of monetary policy even though the panel made clear its concern about inflation and fiscal deterioration.

It expects the consolidated fiscal deficit of the Centre and the states at 10.09% for 2009-10 and sees inflation, imported and local food, as a significant risk for the economy.

Wholesale price inflation could rise to 6% by the end of March 2010 from 0.92% for the week ended October 3.

"Accommodative monetary policy will continue till March 2010. The accommodative policy stance will have to change, but that will depend on the growth performance of the economy and taking into account inflationary pressures," Mr Rangarajan said at the event.

He told that "unless inflation breaches 6%, the monetary authorities may not take action". The question of rolling back tax breaks, he added, will come up for review only early next year.

DK Joshi, principal economist at ratings agency Crisil, was also of the view that a tighter monetary policy is not imminent. “Monetary policy can support growth for sometime... Thus, interest rates will not shoot up immediately,” he said.

http://economictimes.indiatimes.com/news/economy/indicators/Its-official-India-poised-to-grow-at-65-in-FY10/articleshow/5147190.cms

EAC is bullish on IIP

The Prime Minister’s Economic Advisory Council expects industrial output to grow in double digits through the remainder of 2009-10, implied by its projection of an 8.5% growth in the index of industrial production (IIP) for the year. The EAC, chaired by C Rangarajan, will release its economic outlook for 2009-10.

The much-awaited outlook reviews the country’s macroeconomic scenario and provides projections for various key economic indicators for the year. It comes just a few days ahead of RBI’s mid-term review of monetary policy on October 27.

IIP grew by a robust 10.4% in August—the highest in 22 months—on the back of a low base-year growth of 1.7% in the same month last year. For the first five months of this year, IIP grew by 5.8%, against 4.8% in 2008. For the EAC projection of 8.5% industrial output growth to materialise, IIP needs to expand by an average 10.4% for the remaining seven unreported months of the fiscal.

According to India’s chief statistician, Pronab Sen, industrial growth will be robust from November onwards, even though there is uncertainty on the extent to which the drought will impact industrial expansion as rural poor lower consumption. “We had three consecutive months of impressive industrial growth (June-August). This in itself is a cause for considerable confidence,” he told.

Sen—who is also secretary in the ministry of statistics & programme imple- mentation, which prepares quarterly and annual GDP data—projects the economy to grow at close to 6%. Even if the agriculture sector contracts at 6.5%, which is a worst-case scenario, GDP growth will range between 5.5% and 6%, Sen said.

The EAC forecasts GDP to grow at close to 6.5% in 2009-10, a shade below the 6.7% *achieved in 2008-09, according to a member of the council. GDP grew at 6.1% in the* April-June quarter, according to Central Statistical Organisation data. The services sector is also expected to expand at around 8.5%, while a contraction of as much as 2% is being seen in the agriculture sector.

http://www.financialexpress.com/news/eac-is-bullish-on-iip/531137/

Planning Commission sees growth rebounding to 8% next fiscal

The Planning Commission expects the economy to stage a full recovery by next fiscal and register a growth of 8%. It also expects last year’s final GDP number to be a tad higher than the revised estimate of 6.7%.

"GDP growth in the last fiscal will be revised upwards to 6.9%," Planning Commission member Saumitra Chaudhuri said. The upward revision is likely because of a better-than-estimated performance by the manufacturing sector, he explained.

The Planning Commission paints a rather bright picture for the next couple of years, "In 2010-11, we expect GDP could register a growth of close to 8%, while in 2011-12 it could grow at 8-8.5%," Chaudhuri said at the India Forecasting Forum.

The forward-looking estimates are far more optimistic than the panel's projections for the current fiscal. The Planning Commission expects GDP to grow at 6.3% in 2009-10, a shade lower than the 6.5% projected by the Prime Minister's Economic Advisory Council (EAC).

"If the monsoon had been normal, we would have got 7%-plus GDP growth this year. The monsoon has essentially taken half a percentage point off growth," explained Chaudhuri, who is also a member of the EAC.

"We expect that if overall global conditions are unfavourable, the Indian economy could grow at 7%. If, on the other hand, global conditions are favourable, growth could be close to 9%." The Plan panel hopes that private corporate investment will pick up in 2010-11.

Significantly, Chaudhuri played down the role of disinvestment proceeds in bridging the fiscal deficit. "Disinvestment can only play a small role in the dynamics of the fiscal deficit. You can't go for asset sales to improve your balance sheet," he postulated, adding, "The basic correction in the fiscal deficit has to come from revenue and expenditure management, and not from disinvestment."

http://www.financialexpress.com/news/planning-commission-sees-growth-rebounding-to-8-next-fiscal/532091/

Overseas News

Foreign investors keen on bourses' stake as mkts look up

As the markets and the economy have started booming again, foreign investors are back in business. Nowadays, their attention is primarily centering around the Indian exchanges such as the National Stock Exchange (NSE), National Commodity & Derivatives Exchange Ltd (NCDEX) and Multi Commodity Exchange Ltd (MCX).

US-based hedge fund Tiger Holding is set to acquire 2% stake owned by Stock Holding Corporation of India (SHCIL) and another investor in the NSE, in which Soros Funds is learnt to have acquired 1% stake owned by SHCIL. Sources in the know said the seller could be LIC. The deals value the NSE at over $3 billion. In June this year, Norwest Venture Partners (NVP) picked up a 2.11% stake in the NSE in a secondary transaction for Rs 250 crore, at an overall valuation of about Rs 12,000 crore.

Sohil Chand, managing director, NVP, said, “On a macro perspective, Indian economy keeps growing and the stock market also grows in line with it. The NSE is a leader among the global exchanges and is the most credible exchange in India. Also, the trading volume as well as valuation has gone up tremendously.”

Following the Press Note issued by the ministry of commerce last year allowing foreign investors to hold not more than 5% stake in a local commodity bourse, Goldman Sachs (2%) and Intercontinental Exchange (3%) together sold their 5% stake in NCDEX to Shree Renuka Sugars for about Rs 36 crore, valuing the exchange at Rs 730 crore by the end of the last month.

Crisil Ltd, Indian subsidiary of US-based Standard & Poor's, which holds 12% in NCDEX, is also set to reduce the stake to 5%. It has appointed JM Financial as the advisor. The other shareholders in NCDEX are NSE, LIC and UTI with 15% stake each, while Iffco holds 12%, and

Punjab National Bank and Canara Bank has 8% each.

http://www.financialexpress.com/news/foreign-investors-keen-on-bourses-stake-as-mkts-look-up/531551/

Trade News

India, China sign 5-yr pact to tackle climate change

India and China signed a five-year agreement to jointly fight climate change and negotiate international climate deals. The two countries also set up a Joint Working Group (JWG) that will hold annual meetings alternately in China and India to discuss respective domestic policies and measures and implementation of related cooperative projects.

The agreement, which comes ahead of a United Nations climate-change summit to be held in Copenhagen this December, was signed by the Minister of State for Environment and Forests Jairam Ramesh and China’s National Development and Reform Commission (NDRC) Vice-Chairman Xie Zhenhua. China’s NDRC and India’s Ministry of Environment and Forests will be designated authority for implementation of this agreement.

“The Memorandum of Agreement (MoA) is first of its kind for both China and India and the cooperation had fructified within the short span of less than a month. There is virtually no difference between Indian and Chinese negotiating positions on international climate treaties,” said Ramesh in a statement.

“The implementation of the MoA will usher in a new scenario and take cooperation on climate change between the two countries to a new high. The agreement will also keep the Indian side informed on China’s policies on climate change and at the same time help share best practices to improve the approach to deal with the issues involved,” Xie said through an interpreter.

The agreement emphasises that the United Nations Framework Convention on Climate Change and its Kyoto Protocol are the most appropriate framework for addressing climate change. India and China have been in the same bloc as the Group of 77 countries in climate negotiations.

The two countries also agreed to establish the India-China Partnership on Combating Climate Change to strengthen their bilateral dialogue and practical cooperation on climate change. The agreement also calls for annual meetings of scientists and economists and joint research and development programmes in areas of solar and wind energy, coal technology and forestry. “We are discussing further what the two countries should be doing for a successful outcome at Copenhagen,” said Ramesh, who also held a bilateral meeting with Xie.

Experts from both sides who participated in a workshop, shared their respective national action plans to tackle climate change including domestic initiatives, issues in multilateral negotiations (mitigation, adaptation, technology transfer and finance) and outlook for the Copenhagen conference in December.

More than 190 nations are set to gather in Copenhagen starting 7 December for the final round of talks on a climate accord to replace the Kyoto Protocol, expiring in 2012. China and India say wealthy countries including the US should lower emissions by 40 per cent from 1990 levels by 2020 and share technology with poorer nations to help them fight climate change.

South Asian Treaty

India will consider outside measurement and verification of its efforts to tackle climate change if they were supported by international finance and the transfer of technology from developed nations, Ramesh said in a statement.

http://www.business-standard.com/india/news/india-china-sign-5-yr-pact-to-tackle-climate-change/373961/

India, Russia mulling return to rupee-rouble trade

India and Russia are mulling returning to the rupee-rouble trade arrangement to end the dependency on the volatile dollar and step up economic interactions.

Indo-Russian trade till the demise of the Soviet Union was based on rupee-rouble transactions, which had resulted in India emerging as the biggest trade partner of the former USSR in the developing world with two-way trade to the tune of USD 5 billion in 1991.

"The Central Banks of the two countries have agreed to hold consultations to study the possibility of using national currencies transactions in foreign economic operations between Russia and India," Bank of Russia said in a release.

According to the Bank of Russia (Central bank), both sides discussed the issue at the 15th session of Indo-Russian working group on banking and financial matters in Hyderabad earlier this month.

Russia, which has made its rouble a fully-convertible currency since July, 2008, is keen to add it into the basket of global reserve currencies on the backdrop of sliding value of the US greenback.

Earlier this week, the 15th session of Indo-Russian Inter-Governmental Commission (IRIGC), co-chaired by External Affairs Minister S M Krishna and Russian Vice-premier Sergei Sobyanin, said the commerce secretary-level Joint Task Force (JTF) should monitor implementation of its recommendations to promote bilateral trade, investment and economic cooperation.

The current bilateral trade is hovering around USD 7 billion. New Delhi and Moscow have set to boost it to USD 20 billion in 2015.

http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5153005

Sectoral News

Textile Inc gets set for foreign play

A trade delegation led by textiles minister Dayanidhi Maran is set to initiate trade talks with manufacturers and business groups in Switzerland, Italy and Turkey. This is part of the government's strategy to attract foreign investments in the textile sector.

The Indian textiles sector has been able to attract only $ 200 million, which is a meagre 0.6% of the overall FDI of $ 33 billion in the year 2008. In comparison to India's dismal figures, the Chinese textiles industry has been able to attract foreign investment of $ 10 billion.

Targetting foreign direct investment (FDI) worth $ 6 billion for the domestic textile industry by 2015, the idea is to tap foreign capital towards establishing green field units in textiles machinery, fabric and garment manufacturing and attracting investments in the field of technical textiles, an official release stated.

The trade talks which begin early next week will see the Indian contingent hold talks with leading fabric manufacturers based across Europe. The delegation will organise road-shows in Zurich (Switzerland), before visiting Milan (Italy) and Istanbul (Turkey). The Indian contingent will also visit Frankfurt and Paris, with a view to attract investments in technical textiles.

The delegation is scheduled to meet textile machinery manufacturers like Beninger, Rieter, Jacob Muller and high-end fabric manufacturers Weisbrod-Zuerrer (all in Switzerland). Other companies being looked at include Miroglio, Vincenzo Zucchi, Zegna among others (in Italy), and Bilsar (Turkey).

“We expect to attract 20% of the $6 billion FDI target in the first year (2009-10),” Mr Maran told media persons in the capital.

According to government estimates, the country’s textiles industry will require an additional investment of $24 billion by the year 2015 to maintain a high growth rate of 8%. This may include domestic investment of $ 18 billion and FDI of $6 billion. In line with the government’s agenda to attract foreign capital to the ailing textile industry, the government has been recently scouting for various foreign locations like in Japan.

Mr Maran said that India offers various incentives to foreign investors like low-cost labour and intellectual right protection. The government has allowed 100% FDI in the textiles sector. Indian has a vertical and horizontal integrated textiles value chain, and represents a strong presence in the entire value chain from raw materials to finished goods.

http://economictimes.indiatimes.com/Garments-/-Textiles/Textile-Inc-gets-set-for-foreign-play/articleshow/5147100.cms

Jewellery exports shine on global economic recovery

The signs of global economic recovery have given new life to the Indian diamond processing industry, with export orders rising sharply by 20 per cent for execution on the occasion of Christmas and New Year.

Export orders generally begin in August and continue till October-end. Ready jewellery items are delivered within 45 days from the date of booking.

Jewellery retailers in developed countries, especially in the US, prefer delivery a month ahead of Christmas, for display in their showrooms. This year, too, delivery is likely to be completed by November-end, for which last-minute orders are still flowing in.

According to a senior official with one of the largest jewellery exporters, “We have regained last year’s lost ground. We cannot say whether the entire industry has gained the same rate of growth. But, there is a general consensus that the Indian diamond processing industry has achieved the level of export orders in 2007.”

According to an estimate by the apex body, the Gems & Jewellery Export Promotion Council (GJEPC), India’s exports to the US declined by 20 per cent on these two occasions that constitute about 40 per cent of total sales.

Lehman’s bankruptcy triggered an economic recession in the US, to which India supplies 75-80 per cent of finished jewellery.

Data compiled by the GJEPC show that jewellery exports has turned around to positive territory, with shipments witnessing a marginal growth of 2.26 per cent in September from a sharp decline of over 30 per cent early this year.

Gems and jewellery exports constitute about 13 per cent of India’s merchandise export basket. They recorded an export turnover of $2,566 million (Rs 12,429 crore) in

September 2009, as compared to $2,509 million (Rs 11,433 crore) in the same month last year.

http://www.business-standard.com/india/news/jewellery-exports-shineglobal-economic-recovery/373810/

Commexes post 30% growth in H1 revenue

A jump in traded values of agri products, energy and base metals helped domestic commodity exchanges record a 30% year-on-year growth in turnover at Rs 33.6 lakh crore in the first-half of the fiscal, latest data from market regulator Forward Markets Commission (FMC) on 21 commexes, including three national level bourses, show.

The increase in agri traded values, by 61% to Rs 5.3 lakh crore, has enabled exchanges such as National Commodity & Derivatives Exchange (NCDEX) and Ahmedabad-based National Muti Commodity Exchange (NMCE) increase their average daily turnover. NCDEX's daily turnover has gone up from Rs 2,048 crore in the first half of FY09 to Rs 2,621 crore in first half of FY10, while NMCE has witnessed a spectacular 518% jump at Rs 1,280.5 crore over the same period.

Exchange officials attributed the jump in agri volumes to the relisting of four commodities — potato, soyaoil, rubber and chana — that were suspended from trading in May last year and to price volatility in the light of the poor monsoon. "In the comparative period last year, these four commodities were absent from trading so we are effectively looking at growth from a zero base," said Anil Mishra, CEO, NMCE.

Meanwhile, the country's largest bourse MCX recorded a 29% year-on-year growth in daily turnover to Rs 18,534.5 crore in the April-September '09 period. A market analyst attributed the jump in turnover to high volatility in base metals and energy during the first half of the current fiscal. Cumulative value of trade in other commodities, which include energy and base metals, rose a whopping 77% at Rs 15.8 lakh crore in the period under review.

http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5147349

FMCG sector may grow 20% in July-Sep period: Assocham

Riding on robust demand from rural India the FMCG sector is likely to post growth of 20 per cent in July-September period this fiscal, up from about 14 per cent in the previous quarter, Assocham said.

Despite the negative impact of scanty rainfall, demand from rural India is likely to remain robust complimented by a healthy rise in demand from urban areas, a study by the chamber said.

"The sector is likely to post growth of 18-20 per cent in the second quarter of the current fiscal...the segment had expanded by 13-14 per cent in the first quarter," it said.

It further said the FMCG market is set to more than double from the present $14.7 billion to $30 billion.

"FMCG sector will witness more than 50 per cent growth in rural and semi-urban India by 2010," Assocham said.

Half of the sales of Hindustan Unilever and Dabur India can be attributed to rural India, it said, adding that Nestle India and GSK Consumer drive 25 per cent sales from rural areas.

The food segment, which includes processed food and beverages, grew by 17 per cent in Q1.

"In the second quarter of this fiscal, this segment is expected to grow by 19 per cent." it added.

http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5148941

News Round-Up

Positive outlook on investment in India, says survey

The prospect of a global economy recovery has driven confidence across the board, supported by a sustained confidence in the domestic economy, says a survey conducted in September by JP Morgan Asset Management, in association with ValueNotes, a market research company.

The survey covered eight cities - Mumbai, Delhi/NCR, Kolkata, Chennai, Ahmedabad, Bangalore, Pune and Hyderabad.

Under the Investment Confidence Index in India, which captures the confidence of retail, corporate investors and financial advisors on the Indian economic and investment environment, the survey's findings said appetite for investment is back and advisors across the country are most confident.

Advisor confidence has recorded the highest growth, up 15.7 points, followed by corporate (9 points) and retail (6.8 points), said the survey report. Among advisors, banks continue to be the most confident (157.2 points), breaching the 150-confidence benchmark.

The indices can move from 0 to 200, with 0 depicting the most negative outlook, while 200 depicts full and absolute confidence, whereas 100 shows a neutral position. The survey is published on a quarterly basis.

According to the survey, 56 per cent of retail investors expect their income will increase and they will make additional investments over the next six months as compared to 48 per cent in July 2009. Retail investor confidence continued to be the highest in Chennai, at 164 points, an increase of four, whereas Hyderabad remained at the lowest with 130 points.

Around half of corporate treasuries view GDP growth meeting or exceeding expectations as the biggest positive economic indicator, while there was no clear consensus among investors and advisors.
The report further added that 35 per cent of retail investors and 48 per cent of companies consider inflation the most negative economic indicator in India, while 37 per cent of advisors view the high government borrowings/fiscal deficit with concern.

http://www.business-standard.com/india/news/positive-outlookinvestment-in-india-says-survey/373860/