

## Weekly Economic Bulletin

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## **News Feature**

### **IIP surges to 11.5 pct in May**

Industrial output rose by 11.5 per cent in May, growing in double digits for the eighth straight month, on good showing by manufacturing, particularly capital and consumer goods.

In comparison, industry grew by 2.1 per cent in May last year.

The manufacturing segment, which constitutes around 80 per cent of the index of industrial production (IIP), grew 12.3 per cent in May against 1.8 per cent in same month last year, according to the official data released.

Within manufacturing, capital goods production rose by 34.3 per cent in May against a negative growth rate of 3.6 per cent a year ago.

Consumer durables output rose by 23.7 per cent during the month under review against 13.2 per cent in the same period last year.

The other two sectors, mining and electricity, expanded by 8.7 per cent and 6.4 per cent in May, respectively against a growth rate of 3.4 per cent and 3 per cent in the same period last year.

According to the data, of the 17 industries, as many as 15 showed positive growth in May.

The industrial output for April was revised downwards to 16.52 per cent from provisional figures of 17.6 per cent earlier.

<http://www.financialexpress.com/news/iip-surges-to-11.5-pct-in-may/645273/>

### **IMF lifts India growth forecast to 9.4% in 2010**

The International Monetary Fund (IMF) raised its India growth forecast for 2010 to 9.4 per cent from 8.8 per cent estimated in April.

In its July update of the World Economic Outlook (WEO) projections, the Washington-based multilateral agency, however, kept unchanged its 2011 India growth forecast at 8.4 per cent.

In a report released, the IMF said that India's GDP growth is expected to accelerate to 9.4 per cent in 2010 as robust corporate profits and favourable financing conditions fuel investments.

The Government expects the country's economic growth to be over 8.5 per cent in 2010-11 (April-March). The growth forecast made by IMF and the Indian government are strictly not comparable, as they count different months for arriving at an annual period.

While IMF forecast is for the calendar year 2010, the Government makes its growth projection for fiscal year (April-March).

Reacting to the IMF's India GDP growth forecast upgrade, Mr T.C.A. Anant, Chief Statistician of India, told that this was a positive signal and reflected their confidence in the economic growth outlook for India in the near term.

"IMF is an independent body monitoring India. It is a positive signal. If there are similar signals and confirmation from other agencies (monitoring the Indian economy), it will give greater confidence to us about the Government's own assessment of the growth prospects for the year," Mr Anant said.

Meanwhile, in the July update, the IMF has raised its global growth forecast for 2010 to 4.5 per cent from its earlier estimate of 4 per cent in the April 2010 WEO, reflecting stronger activity in the first half of 2010 (January-June).

The IMF said that the higher growth was on expectations of a modest but steady recovery in most advanced economies and strong growth in many developing and emerging economies.

<http://www.thehindubusinessline.com/2010/07/09/stories/2010070954690100.htm>

## **Overseas Investment**

### **India's FX reserves at \$278.267 bn as of July 2**

India's foreign exchange reserves rose to \$278.267 billion as on July 2, from \$276.980 billion a week earlier, 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 such as 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/finance/Indias-FX-reserves-at-278267-bn-as-of-July-2/articleshow/6148015.cms>

### **Govt makes case for FDI in multi-brand retailing**

After deregulating petrol prices and cutting subsidies on other fuels, including kerosene, the UPA government seemed to take the bull by the horns, pushing the politically sensitive proposal to allow unrestricted foreign direct investment (FDI) in the retail sector.

"Keeping in view the large requirement of funds for back-end infrastructure, there is a case for opening up of the retail sector to foreign investment," the industry ministry said in a discussion paper released on Tuesday. The ministry set an early deadline of July 31 for all stakeholders to comment on its views, signalling the government's plan for immediate policy action.

The government move drove up the stocks of retail companies by as much as 5% on a day when the benchmark 30-share BSE Sensex rose 0.99%. Pantaloon Retail closed 4.84% higher, while Provogue closed up 3.98%. Other retail stocks like Shoppers Stop (2.02%) and Trent (3.19%) too moved up.

Official sources told that FDI in retail could be allowed in three phases. The industry ministry has already resumed discussions on allowing FDI in consumer electronics and sports goods retail and this would constitute the first phase. In the second phase, FDI in single-brand retail may be hiked from 51% to 100%.

After assessing the impact of the first two phases, the government would take a call on allowing FDI in the sensitive area of multi-brand retailing.

Calling FDI in retail an efficient measure to address the concerns of farmers and consumers, the ministry said in the paper that it would not only help farmers earn more but also keep the price-line under check.

At present, FDI in multi-brand retail is prohibited in India. In multi-brand retail, a retailer can sell different brands under the same roof. However, the government allows 51% FDI in single brand retailing and 100% in wholesale trade. This has led to global giants like Metro of Germany taking the 'cash & carry' route to establish business in India. In the cash & carry route, retailers are allowed to sell multi-brand goods to institutional buyers like hotels, restaurants, caterers and traders. Since the opening of single brand retail to FDI in April 2006, the sector has seen FDI of around Rs 900 crore.

<http://www.financialexpress.com/news/govt-makes-case-for-fdi-in-multibrand-retailing/643181/>

## **Trade News**

### **Iran to sign investment protection pact with India**

Iran has expressed its willingness to sign a bilateral investment protection treaty with India to enhance the flow of investments in both the countries and double the bilateral trade turnover to \$30 billion by 2015, minister of economic affairs and finance of Iran Seyed Shamsodin Hosseini said.

Addressing a seminar on Investment Opportunities in Iran, organised by Ficci, Hosseini who is here to co-chair the 16th India-Iran Joint Commission meeting said, "My mission to India in this trip is to use the capacity of the joint commission to remove all barriers to the two-way trade and facilitate the flow of investments."

The Iranian minister accompanied by 50-member delegation comprising officials from the ministries of finance and petroleum said Iran-India trade had seen over 60% increase in the last three years from \$9 billion to \$15 billion. "We need to now double the trade volume by 100% in the next five years to \$30 billion," he declared. The Iranian delegation had brought 50-60 projects in several sectors for possible joint ventures.

The visiting minister, while assuring India of Iran's commitment to ensure sustainable energy supplies to meet India's growing crude oil requirements, invited Indian firms to invest in Iran's infrastructure projects, oil, gas and petrochemicals, mining and metals, automobiles, transportation and machinery, chemicals and pharmaceuticals, textiles and agriculture, especially the food industry.

<http://www.financialexpress.com/news/iran-to-sign-investment-protection-pact-with-india/643991/>

### **India & Singapore seek early conclusion of Asean FTA**

Commerce minister Anand Sharma and his Singaporean counterpart Lim Hng Kiang have emphasised on the early conclusion of the India-Asean free trade agreement in services and investments. India and the 10-member Association of South-east Asian Nations (Asean) has already operationalised a free trade agreement in goods from this January 1.

Both the sides are engaged in intense negotiations to expand this pact to include services and investments. According to the sources, India and Asean aim at entering the market opening pact in the services sector by August. Singapore is a member of Asean.

The services sector, which has emerged as an important area for export earnings, contributes about 55% to India's GDP. India is looking at expanding trade with the Asean in several services, including banking, insurance, health, accounting, architecture and engineering.

<http://www.financialexpress.com/news/india-&-singapore-seek-early-conclusion-of-asean-fta/644469/>

### **India-Malaysia trade pact to be ready by September**

India and Malaysia said the Comprehensive Economic Cooperation Agreement between the two countries is expected to be ready by September, in time for Indian Prime Minister Manmohan Singh's visit here in November this year.

Indian Trade and Commerce Minister Anand Sharma and his Malaysian counterpart Mohammad Mustapha met for a bilateral meeting and discussed the CECA, with both noting that though a few issues remained on the table, it would be done by September.

However, sources who did not want to be named said though the issues on table were not unsurmountable, time was needed to resolve them.

Later, Sharma told a press conference that despite last year's economic downturn, India was hopeful of achieving 15 per cent growth in its exports.

"Yes, we will achieve our target, the world lives on hope and we are very much focused on our target for doubling our share by 2015," he added.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/India-Malaysia-trade-pact-to-be-ready-by-September/articleshow/6137795.cms>

## **Sectoral News**

### **Handicraft exports may touch Rs 10,000 cr mark**

Buoyed by a surge in demand from the US and Europe, India's handicraft exports may increase by more than 12 per cent in the current fiscal to touch the Rs 10,000 crore mark, Export Promotion Council for Handicrafts said.

"India had exported handicrafts worth Rs 8,719 crore in the last fiscal. With demand from the US and Europe on the rise, it is likely to touch Rs 10,000 crore this fiscal," EPCH Chairman R K Malhotra said.

Malhotra said the pace of export growth gained momentum, after a two-year lull, from the later part of the last fiscal and the trend is a continuous one so far in the current fiscal as well.

The country's handicraft shipments rose by 15.45 per cent (in rupee terms) in the first three months of the current fiscal over the corresponding period last fiscal.

The increase in exports were led by the fashion jewellery and accessories segment, which recorded a significant 32 per cent growth in the first three months over the same period last year, Malhotra said.

"Although the increase has been by and large in all product categories, yet the increase in exports of fashion jewellery and accessories has been remarkable," he said.

The world market for fashion jewellery and accessories is estimated to be around USD 16 billion, but India's share in this segment is negligible.

Malhotra said EPCH has devised a strategy, which includes participation in trade shows and organising buyer-seller meets in upcoming markets among others to shore up India's exports in the world market.

<http://www.financialexpress.com/news/handicraft-exports-may-touch-rs-10-000-cr-mark/644980/>

### **Rlys, shipping ministry join hands for deep draught port at Sagar**

Union minister of state for shipping Mukul Roy said that the railways and the shipping ministries were taking an integrated approach towards developing a deep draught port at Sagar since a port there would not be feasible without rail and road connectivity.

Roy said while finance minister Pranab Mukherjee in his Budget speech had mentioned that there would be a deep draught port at Sagar, railway minister Mamata Banerjee in her last railway budget also mentioned that railway link would be extended up to Sagar.

However, none of the ministers made any financial allocation against their announcement but according to Roy, the railways and the shipping ministries would sit together to work out a comprehensive plan and make estimates of the expenditure required to set up a deep draught port and provide railway link to it.

“Banerjee and the railway board chairman will hold a meeting with the KoPT chairman and other shipping ministry officials to discuss infrastructure creation for setting up the Sagar port,” Roy said.

The junior shipping minister said railway links are available up to Diamond Harbour in South 24 Parganas and Namkhana in the Sunderban region. Now the link has to be extended either from Diamond Harbour or Namkhana up to Hardwood point, from where a 4.5-5 km bridge has to be made over Muri Ganga to connect with Kochuberia, which at present is connected to Sagar with a 24 km road link.

The deep draught port, according to Roy, is likely to be situated 32 km from Kochuberia and the railway and the shipping ministries will together work out as to how to create connectivity with the port.

<http://www.financialexpress.com/news/rlys-shipping-ministry-join-hands-for-deep-draught-port-at-sagar/642986/>

### **Passenger vehicles to register 12-13% growth in 2010-11: Siam**

The average 30 per cent growth in the Indian passenger vehicle industry over the last six months will no longer be seen from July onwards. The industry is expected to close the current financial year with 12-13 per cent growth over 2009-10 as the base effect tapers down.

According to the annual forecast of the Society of Indian Automobile Manufacturers released, passenger vehicle sales in the country will be 21,96,791 units in 2010-11 as compared to 19,49,248 units in 2009-10.

“While the first quarter of the ongoing financial year has witnessed good growth, demand is likely to slow down in the second quarter as high base effect from last year will start kicking in. Moreover, the rising commodity prices, although they have stabilised in the last two-four weeks, and the supply constraints from the suppliers are some of the key challenges for the industry going forward. It is projected that the passenger vehicle industry will end the year at 12-13 per cent higher sales than last year,” said Pawan Goenka, president, Siam said.

“Rising interest rates and possible increase in prices of vehicles when Bharat Stage III norm is implemented across the country by October, are other factors that may impact demand,” he added. While two-wheeler sales are expected to be up 9-10 per cent at 10,287,837 units from 9,368,230 units in 2009-10, commercial vehicle sales in India will grow 17-18 per cent at 6,21,681 units vis-à-vis 5,31,395 units last financial year. Sales of three-wheelers are expected to go up 7-8 per cent at 4,73,693 units in the current financial year as against 4,40,368 units in 2009-10.

“The pent up demand for passenger vehicles is getting fulfilled with several new launches over the last six months. Therefore, it is natural for the industry to now slow down a bit and enter the phase of natural growth for the remaining period of the current financial year,” said VG Ramakrishnan, senior director (automotive practice), Frost & Sullivan.

In fact, eight new models and 11 facelifts launched during the first quarter of the financial year helped boost sales in June as well and the overall automobile sales surged 31 per cent last month at 12,05,990 units as compared to 9,17,645 units in June last year. While commercial vehicles registered the highest growth of 44.1 per cent at 52,211 units as compared to 36,222 units on the back of a buoyant economy, sales of passenger vehicles went up 29.2 per cent at 1,81,810 units in June vis-à-vis 1,40,748 units during the same month last year.

This was led by 17.9 per cent growth in domestic sales of Maruti Suzuki India at 72,812 units, 18.9 per cent growth in sales of Hyundai at 27,366 units and 56.4 per cent increase in sales of Tata Motors at 32,479 units last month.

“The industry had benefited from a good overall macro-economic environment in the first three months of the financial year and this had a positive impact on consumer confidence,” Goenka added.

<http://www.business-standard.com/india/news/passenger-vehicles-to-register-12-13-growth-in-2010-11-siam/400886/>

### **Railways register 7% growth**

Indian Railways has clocked a 7% rise in revenues during the first quarter of the current financial year. During the period, the national transporter earned Rs 22,061 crore as compared to Rs 20,610 crore in the same period last year.

The increase in total earnings were backed by over 7% rise in revenue from goods traffic at Rs 14,930 crore against Rs 13,927 crore in the corresponding period of the previous year. At the same time, total passenger revenue went up to Rs 6,191 crore from Rs 5,803 crore a year ago, a growth of 6.69%, official data showed. The revenue earnings from other coaching amounted to Rs 626 crore during April-June 2010 compared to Rs 578 crore in the same period last year, an increase of 8.35%.

The number of passengers booked during the period were 1,937.22 million as against 1,836.51 million during the same period last year, showing an increase of 5.48%.

In the suburban and non-suburban sectors, the number of passengers booked were 965.05 million and 972.17 million respectively. The corresponding figures for 2009-10 were 922.94 million and 913.57 million. This led to an increase of 4.56% and 6.41%, respectively, in the passenger booking in suburban and non-suburban sectors.

<http://www.financialexpress.com/news/railways-register-7-growth/644475/>

## **Ficci moots skill development fund for food sector**

Industry chamber Ficci sought government intervention to set up a dedicated fund and a high level panel for faster development of the \$181- billion food processing sector that is reeling under acute shortage of skilled manpower.

The rising demand for specific skill sets and available supply has eroded the competitiveness of the sector, the survey based study of Ficci said.

The study on Rising Skill Demand: A Major Challenge for Indian Food Industry, reveals that about 60 per cent of the 250 participant firms were not satisfied with their employees' current level of technical skills and knowledge.

As the sector is projected to become a \$285-billion industry by 2015, it would face further pressure on the manpower front, the study said, adding the sector would require 23 lakh production managers, engineers, quality controllers and R&D specialists.

"Meeting this demand would be challenging, since 80 per cent of the total work force in the food processing sector comprises people having lower-end skill set," it said.

Due to lucrative job opportunities in other sectors, there was scarcity of production managers and engineers in this sector, which needs to be addressed, said the study.

Respondents felt that the courses offered by various institutions are outdated and it was imperative to review the course curriculum to match industry expectations. "The government should immediately formulate a task force of all the stakeholders...to get the course curriculum across all institutions and training institutes reviewed and updated," it said.

The chamber also felt there was a need for immediate adoption of ITI's by the food processing industry in various clusters to upgrade the lower-end skills.

Besides, the government should allocate separate budget for human resource development for the sector for enhancing and upgrading skills, it said.

The food processing industry should partner with food technology/processing institutes on a pilot basis for up gradation of higher-end skills, it suggested.

<http://economictimes.indiatimes.com/news/economy/policy/Ficci-moots-skill-development-fund-for-food-sector/articleshow/6154748.cms>

## **Global costume jewellery market reviving: Export council**

The Export Promotion Council for Handicrafts has said there is demand for costume jewellery in the international market.

The apex industry body said the Government is working towards international compliance code for manufacturing costume jewellery.

“There is demand revival from international market and we are working towards making jewellery as per international standards. We would like large retailers to procure from us as it would help the market grow. For this, we are working towards achieving all compliance standards,” Mr Raj Kumar Malhotra, Chairman, Exports Promotion Council for Handicrafts (EPCH), said.

The industry body is hosting an Indian Fashion Jewellery and Accessories fair in Greater Noida. “We hope at least 350-odd buyers from US and UK will visit the fair.” The three-day fair will start on July 9.

He said, “there is need to make vigorous efforts to increase the export of fashion jewellery and accessories from India, which as of now is negligible”.

The fair will offer costumes jewellery, semi-precious fashion jewellery, hand bags and embroidered accessories, he said.

At least 150 agents of major global retailers are also likely to visit the fair. The market for costume jewellery and accessories is estimated at \$16.3 billion. India's exports are a meagre \$53 million.

The recovery in western economies would help Indian exports, which expanded even during the recession.

<http://www.thehindubusinessline.com/2010/07/08/stories/2010070852430400.htm>

### **Coir exports up on South Asia demand**

Coir exports this fiscal seems to be on a healthy curve. With South Asian neighbours relentlessly lifting good volumes of coir raw materials from India, the slump in exports to traditional markets of US and European countries has been somewhat compensated off late.

According to latest figure released by the state-run Coir Board, exports in the first two months of current financial year that started in April is up by 80% in volume terms and 17% in value terms when compared to the performance of the same period last year.

In April-May 2010, India exported 62,181 tonne of coir materials and products valued at Rs 125.83 crore as against 34,513 tonne valued at Rs 107.20 crore during the same period of 2009-10.

In May alone, exports showed an increase of 61% in volume and 6% in value compared to May 2009.

In 2009-10 coir exports touched 2,94,508.05 tonne valued at Rs 804 crore, registering a growth of 47.31% in terms of volume and 25.64 % in value terms as against 1,99,924.94 tonne valued at Rs 639 crore exported during the corresponding period of the previous year.

“Increase in price of natural rubber and problems in European countries are a setback. Rubber is used widely as base material in coir mats and flooring,” KC Eapen, secretary of the Coir Shippers Council told.

The increased volume has come mainly from coir rope, fibre, rugs and curled coir exports. There has been a turnaround in rugs and carpets market after some months of slump. Coir rope exports has been the star performer May with volumes rising by 2,500% and value increasing by 4,071%.

Coir Board sources said huge quantities of coconut husk available in the Malabar region, which accounted for 60% of the Kerala’s coconut production, was being procured by neighboring Tamil Nadu which exported substantial quantities of fibre and coir pith, particularly to China. This has resulted in cost escalation coupled with shortage of raw materials in the home of coir at Alappuzha.

The Board has also urged the Union finance ministry to withdraw the recently imposed excise duty ranging of 10 to 16 % on coir and coir products in order to make these products competitive with other products in the domestic and overseas markets.

<http://www.financialexpress.com/news/coir-exports-up-on-south-asia-demand/644442/>

### **India sees highest rise in natural gas output in '09**

India recorded the highest rise in natural gas output worldwide in 2009 after Reliance Industries’ (RIL) eastern offshore KG-D6 field began production, global energy giant BP said.

Mukesh Ambani-run RIL began gas production from the Krishna-Godavari basin in April 2009, and its 60 million metric standard cubic metres per day (mmscmd) output led to a 75% jump in natural gas availability in the country to 140 mmscmd. “Last year, India had the highest increase in production of natural gas worldwide. And I just checked, it also had the highest corresponding increase in consumption in natural gas worldwide,” said BP Group chief economist Christof Ruhl.

The jump in natural gas production in India was possible because the government allowed private sector firms to take a lead in exploration for hydrocarbons. “When you look at countries where gas production is heavily government-controlled, like Russia, they had the biggest decline in gas production and consumption,” he said.

“When you look at countries such as the US where new technologies like unconventional shale gas have been developed, it was because they have an investment environment which is very competitive,” he added. Shale gas, trapped in sedimentary rocks, is said to hold the potential of doubling gas output in US.

Mr Ruhl said that it was very clear who was left behind, as countries where natural resources were tightly controlled were less flexible. Mr Ruhl also added that the recent Supreme Court ruling in the Ambani gas dispute will help investment in the sector.

For investors, “rule of law” and “sanctity of the contracts” they sign is important, he said.

The court in May upheld the provisions of the Production Sharing Contract (PSC) an explorer enters into with the government for oil and gas prospecting. It said the PSC gives the government the right to approve a gas price and fix its users, rejecting Anil Ambani Group firm RNRL’s claim for gas from RIL at subsidised rates.

“That (judgement) has certainly improved stability and the sanctity of contract,” he said. “That was a step in the right direction.”

<http://economictimes.indiatimes.com/news/economy/indicators/India-sees-highest-rise-in-natural-gas-output-in-09/articleshow/6149061.cms>

## **News Round-Up**

### **Asian nations told to adopt India’s growth model**

Asian Development Bank(ADB) has hailed India’s move to make inclusive growth central to its development agenda and suggested other Asian economies follow the country’s example.

ADB has also highlighted the need for Asian region public and private sectors to work together to achieve inclusive growth.

“No inclusive growth strategy can succeed without the support of private sector. Many economies in Asia, including India, are now embracing inclusive growth as central element of their development plans,” ADB said in a book ‘Poverty, Inequality and Inclusive Growth in Asia, Management, Policy Issues and Country Studies’.

The Bank stressed on growing discrepancies in wealth and persistent gaps in access to social services in Asia and asked governments to address policy issues and institutional weaknesses. It also said in the last two decades Asia’s per capita gross domestic product has expanded almost three-fold and percentage of people living below poverty line has nearly halved.

However, Asia is still home to two-thirds of the world’s poorest people.

“Rising inequalities in income and access to employment and social services in Asia are casting a shadow over its unprecedented economic boom, and governments and the private sector need to work together to make the benefits of growth more inclusive,” the book said.

“While in a big portion, little progress has been made on key social indicators, such as child and maternal mortality rates, inequalities in income and non-income indicators have widened in many countries, particularly between large urban centres and the countryside,” ADB said. It said an effective inclusive growth strategy is needed to focus on high growth to create productive jobs and initiate social inclusion.

<http://www.financialexpress.com/news/asian-nations-told-to-adopt-indias-growth-model/642989/>

### **Double-digit industrial growth in FY11: Finance Secretary**

India's industrial output is expected to maintain double-digit growth in the current 2010/11 fiscal year, Finance Secretary Ashok Chawla said.

India's industrial output grew at a slower-than-expected 11.5 percent from a year earlier in May, but expectations of a RBI rate hike for the second time this month remain unchanged due to inflationary pressures.

<http://economictimes.indiatimes.com/news/economy/indicators/Double-digit-industrial-growth-in-FY11-Finance-Secretary/articleshow/6158039.cms>