Ministry of External Affairs
Government of India

Weekly Economic Bulletin

Date: January 26- February 02, 2009 **Issue No. 301**

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News Feature

India Inc invests the most in 2007-08

Private corporates have never dominated investment activity in the Indian economy as they did in 2006-07 and 2007-08.

The latest data of Central Statistical Organisation (CSO) on gross fixed capital formation show that the organised private sector accounted for nearly Rs 4 out of every Rs 10 invested in plant and machinery or construction activity during 2006-07 and 2007-08.

In these two years, private corporates invested more than their public sector counterparts and the household sector that includes SMEs and firms not incorporated under the Companies Act. This was not the case until as recently as 2003-04, when private companies had a meagre 25 per cent share in gross fixed capital formation – below that of the public sector and households.

But in 2004-05, private corporates invested more than public sector and departmental undertakings, and in the next couple of years, went on to displace households and unincorporated enterprises.

The last and only other time when the private sector had such an overwhelming dominance in investment was from 1995-96 to 1997-98. That binge was rudely interrupted and followed by an almost five-year investment famine – private corporate gross capital formation in 2001-02 was lower than that of 1995-95 even in absolute (current prices) terms.

Whether the same story would repeat itself, particularly in the post-meltdown period, remains to be seen.

The Chief Statistician of India, Dr Pronab Sen, said any likely investment slowdown will not get reflected in the CSO data for the current fiscal.

Gross fixed capital formation during 2007-08 touched an unprecedented 33.99 per cent of GDP – meaning more than a third of income generated in the country last fiscal was ploughed back into future income-earning physical assets. And 39.5 per cent of this fixed investment came from private corporates, with households and the public sector making up the balance 36 per cent and 24.5 per cent, respectively.

Of the gross Rs 633,328 crore invested by the organised private sector, three-fourths (Rs 474,147 crore) was in machinery and equipment. In households, Rs 429,260 crore of Rs 578,775 crore went towards construction. In public sector, Rs 269,394 crore out of Rs 393,336 crore (68.5 per cent) was directed to construction – roads, railways, irrigation and various other infrastructure projects.

The CSO's historical data show investment by private corporates, more so in machinery and equipment, to exhibit wide volatility. Public sector and household investment have, on the other hand, tended to be more steady. Gross fixed capital formation in the public sector went up in absolute terms even in the recessionary phase of the late nineties.

http://www.thehindubusinessline.com/2009/02/02/stories/2009020250680400.htm

Govt-RBI assessment says financial system essentially sound, resilient

In what will be widely seen as a riposte to previous reports on the subject, the Government and the Reserve Bank of India will come out with their plan for financial sector development and reform in a couple of weeks from now.

Called the Report of the Committee on Financial Sector Assessment, the document pragmatically assesses the entire financial sector and identifies the weaknesses in it. It also makes literally hundreds of suggestions on how to remove these weaknesses, without being overwhelmed by ideology.
The report has the joint imprimatur of the Finance Ministry and the RBI. The Committee that has authored the report had the RBI Deputy Governor, Dr Rakesh Mohan, and the Finance Secretary of the time as co-chairmen.

Overall, the assessment has found that "the financial system is essentially sound and resilient, and that systemic stability is robust. Compliance with international standards and codes is generally satisfactory, and India is broadly compliant with most of the standards and codes. The assessment documents the areas of non-compliance, partial or otherwise."

It goes on to say that "Stress tests have revealed that banking system can withstand significant shocks due to changes in credit quality, interest rate and liquidity conditions."

It says there is an urgent need to reform bankruptcy laws. In many ways, it thinks of this issue as being one of the five most crucial issues.

On banks, it says, "As a first step, Government could consider amalgamating those banks which are in the borderline of 51 per cent shareholding with those banks having higher than stipulated minimum of 51 per cent keeping in view synergies in mind." On foreign banks it says "The roadmap will be reviewed in March 2009."

On accounting standards, the report says, "The International Auditing Standards (ISAs) are widely accepted in India. Some gaps need to be addressed in areas relating to convergence with ISAs, implementation of auditing standards, strengthening the peer review, access to working papers and independence of auditors."

http://www.thehindubusinessline.com/2009/02/02/stories/2009020251250100.htm

Overseas Investment

Keystone Realtors among 31 FDI proposals cleared

The Government cleared 31 foreign direct investment (FDI) proposals worth Rs 1,277.23 crore of companies including Morgan Stanley Financial Services, Keystone Realtors and Ramky Enviro Engineers.

Japanese telecom giant NTT DoCoMo's proposal to pick-up a 26 per cent equity stake in Tata Teleservices (TTSL) has been recommended for consideration of the Cabinet Committee on Economic Affairs as its total investment of Rs 13,873 crore exceeds the key FIPB threshold (of Rs 600 crore).

In November 2008, NTT DoCoMo Inc had announced it would acquire 26 per cent stake for $2.7 billion in Tata Teleservices to expand into the world's fastest-growing wireless market, valuing the company at $10.4 billion. It will also make an open joint tender offer to acquire up to 20 per cent of the outstanding common shares of Tata Teleservices (Maharashtra), which is listed on the Indian bourses, as per the Indian regulatory laws.

The 31 proposals cleared include proposals by Ramky Enviro Engineers and Keystone Realtors, entailing FDI inflow of Rs 320 crore and Rs 300 crore, respectively. Besides this, Morgan Stanley Financial Services' application for "post facto approval for conversion of operating company into an operating-cum-holding company to make further downstream investment" involving an FDI inflow of Rs 100 crore, also got Government approval.

In addition, FIPB has also cleared a proposal by Dow Jones & Company Inc, US, to set up a wholly owned subsidiary to carry out the publishing of facsimile edition of the Wall Street Journal (WSJ).

Rama Cylinders' Rs 84 crore proposal to issue and allot fully funded/paid warrants also got the Centre's nod.

A total of 17 proposals have been deferred including those by Mahindra Forgings, Broadband Pacenet and JT International. Four proposals of RBS Credit and Financial, Vatika Ltd, GSR Sugars and Meta Telecom were rejected.

http://www.thehindubusinessline.com/2009/01/29/stories/2009012951401000.htm

Easier FDI rules for real estate likely

To ease the flow of foreign direct investment (FDI) into real estate, the government is mulling a proposal that mixed development projects should be exempt from the minimum capitalisation and area development norms.

The changes, proposed by the ministry of commerce and industry, will be discussed by the committee of secretaries set up for the purpose. A mixed development project can include townships, housing, commercial premises, hotels, multiplexes and recreational facilities.

Current rules allow 100 per cent FDI in such a project, provided it has been capitalised at $10 million (Rs 49 crore) or more ($5 million if it's a joint venture where funds have to be brought in within six months), has in its possession at least 25 acres and proposes minimum built-up area of 50,000 square feet.

Under the proposed policy, the government is seeking to exempt such projects from the $10 million requirement, reduce the project size to 10 acres and cut the minimum built up area to 10,000 square feet. All FDI brought to these projects will continue to have a lock-in of three years after the date of completion of the project.

However, the developers of these projects will have to keep at least 50 per cent of the total built up area for hotel and tourism related activities and ensure the project is regulated by the concerned authority and residential buildings are not misused for non-residential purposes.

http://www.business-standard.com/india/news/easier-fdi-rules-for-real-estate-likely/01/49/347303/

India story still lures foreign companies

Contrary to popular perception, foreign firms invested more in Indian companies through strategic partnerships in 2008 compared with 2007. Among the cross-border mergers & acquisition (M&A) deals in 2008, inbound deals rose nearly 50% compared with a growth of 30% in the previous year.

According to dealmakers, although company valuations have fallen steeply, the control premium (the extra price that a strategic investor offers to pay over the prevailing market price) on Indian companies is still in the range of 60-75%.

While the overseas investments in Indian companies touched $18 billion in 2008, the number of outbound deals (Indian companies buying stake in foreign companies) declined 63% from the previous year to $13 billion, ending a four-year rise.

“The higher number of inbound deals highlights the fact that Indian companies are still valued high by foreign peers,” said ICICI Bank Global Investment Banking Group general manager Hemant Vora.

“The vastness of India as a market, which is still growing, is a major reason why foreign companies are looking for business ties with their Indian counterparts,” Mr Vora added. The spurt in inbound deals, according to corporate advisors, is not entirely linked to the steep fall in valuations following the economic slowdown.

“The control premiums have been high in most inbound deals that happened in 2008. This, in a way, reflects the robustness of Indian companies,” said Equirus Capital director Abhay Bhalerao. “The price premium of inbound deals in 2008 was as much as 75% in certain cases. With the market value touching floor levels, the control premium can touch triple-digit percentage points in 2009,” Mr Bhalerao added.

According to corporate advisors, foreign companies, with sufficient cash levels, will continue to look for expansion opportunities in India.

“The need for new technology and market expansion are some of the key drivers for corporates to opt for an inorganic strategy. Big deals, for sure, have slowed down, largely on account of the global economic outlook and tough leveraged financing,” Mr Vora of ICICI Bank added.

http://economictimes.indiatimes.com/Corporate_Trends/India_story_still_lures_foreign_companies/articleshow/4061018.cms

FII inflows may resume in second half of 2009: experts

Foreign Institutional Investors, who deserted the Indian bourses last year, leaving them to face the heat of the global economic crisis are likely to make a come back in the second half of this year.

FIIs, which pulled out over 13 billion dollar from the Indian stock markets in 2008, following severe credit crunch in the US and Europe are likely to again gain momentum in the later part of this year.

According to a latest India strategy report by BNP Paribas, currency appreciation could be a significant driver of FII inflows. "Our outlook on Rupee appreciation implies that FII inflows into Indian equities could restart in H2CY09. Concerns on capital outflows still exist (due to deleveraging in developed markets), but our empirical analysis shows currency appreciation is a significant driver of FII inflows," BNP Paribas analyst Manishi Raychaudhuri said in the report.

The report stated that even as there is an ongoing debate about whether currency appreciation causes FII inflows or vice-versa. Meanwhile, not giving any prediction about the time period by when the FII flows into the country may be revived, Coxe Advisors LLC Global Capital Markets Strategist and CEO Donald Coxe told PTI that with return of confidence in the market the inflows would pick up.

"By some estimates, USD 650 billion in dollar-denominated bank loans to Emerging Market private sector banks need to be refinanced or rolled over in 2009, and that is a steep overhang. If the refinancing moves smoothly for even a few months, there will be a huge return of confidence and FII will respond favourably," Coxe said. The BNP Paribas report revealed that the Indian experience shows currency appreciation to be the causal variable and when the Rupee had started appreciating from mid-2002, FII flows had began accelerating a year later from mid-2003.

http://www.financialexpress.com/news/fii-inflows-may-resume-in-second-half-of-2009-experts/415452/

Trade News

India, Asean likely to ink free-trade pact on Feb 26

India and the Asean, a grouping of 10 Southeast Asian nations, are expected to sign a free-trade agreement on February 26 to eliminate tariffs on around 4,000 products traded between the two sides.

Commerce and industry minister Kamal Nath has been invited by the economic ministers of Asean to sign the pact, provided it is approved by all 10 Asean countries. The signing will take place at the Hua Hin beach resort, 130 kilometres southwest of Thailand's capital Bangkok, a day before the 14th Asean summit begins.

The treaty will result in the abolition of tariffs on a variety of manufactured items ranging from consumer electronics and farm products to metals and chemicals. A commerce department official said the Asean members will have to get the agreement ratified by their respective parliaments before the trade ministers sign it. He said the Asean countries are expected to get their domestic clearances by February 10.

"India will try its best to ensure that the FTA is signed next month as it will be the last chance for the current government to conclude the pact," the official said. Asean is India's fourth-largest trading partner after the EU, US and China. Indo-Asean trade, which has been growing at a compounded annual rate of 27%, stood at $38.37 billion in 2007-08. It is projected to reach $48 billion in 2008-09.

The FTA provides for the elimination of tariffs on 80% of the items traded between the sides in a phased manner by 2015. For about 10% of additional items on the sensitive track, the tariffs will not be eliminated, but brought down to 5%. India has 489 items, mostly farm products, on the sensitive list, which will not be subject to tariff cuts.

The 10 Asean members are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Asean and India will gradually turn their free-trade agreement into a comprehensive economic cooperation agreement that will also include services and investment.

India already has a comprehensive economic cooperation agreement with Singapore and an early harvest programme with Thailand wherein the two sides have reduced duties on 82 products.

http://economictimes.indiatimes.com/Economy/India_Asean_to_ink_free-trade_pact/articleshow/4034317.cms

Bilateral pact with Jordan comes into force

The Bilateral Investment Promotion and Protection Agreement (BIPA) between India and Jordan has come into force, with the two countries exchanging instruments of ratification (IRs).

Dr Anup K. Pujari, Joint Secretary, Department of Economic Affairs, and Mr Mohamed Ali Daher, Ambassador of Jordan, exchanged IRs. Mr Virender Gupta, Additional Secretary, Ministry of External Affairs, presided over the ceremony.

Investment promotion

BIPA seeks to promote and protect investments from either country in the territory of the other country with the objective of increasing bilateral investment flows.

The Cabinet had approved signing and ratification of BIPA with Jordan on November 30, 2006. The agreement was signed in New Delhi on December 1, 2006 by erstwhile Finance Minister, Mr P. Chidambaram.

An official release said that India has so far signed BIPA with 73 countries. Of these, 61 have already been ratified and had come into force.

BIPA with Syria had also come into effect from January 22. Jordon is the 63rd country with which BIPA has come into force.

http://www.blonnet.com/2009/01/27/stories/2009012751230500.htm

Sectoral News

IPO market to boom in second half

India may be in the throes of a meltdown but slowdown may just be the last word in your thoughts if you look at the initial public offering (IPO) estimates for 2009. And it's not just doubling or tripling, India Inc may actually be gearing up to raise four times the proceeds it collected from the primary market in 2008.

According to a Thomson Reuters study, India Inc is eyeing to raise as much as Rs 77,500 cr through public issues. This is in sharp contrast to 2008, when IPOs garnered only about Rs 22,000 cr. Even in terms of number of offerings, a growth of 20% is expected in 2009. While only 36 public issues were seen in action in 2008, the number is expected to reach 44 this year.

Although India may see heightened activity in the IPO space, it may be dethroned from its second slot in the Asia-Pacific (APAC) region (with respect to IPO volumes).

Of the Rs 470,000 cr projected to be raised in the APAC region through 275 issues, China is again poised to lead regional IPO volumes with proceeds of Rs 197,250 cr from 88 offerings. South Korea is, however, expected to take India's second position in the hierarchy with issuances worth Rs 101,500cr from 28 deals.

But even as India slips into the third place, it is projected to capture over 16% of the IPO market in the APAC region. The most anticipated IPOs in India include UTI Asset Management, NHPC, Oil India and RITES. The study says Reliance Telecom's Rs 10,000-cr IPO is the most awaited in India, while in Korea it's Korea Development Bank's Rs 96,500-cr offering.

Also, the proceeds from the IPOs in the APAC region in 2009 are expected to be thrice the amount collected in 2008. In 2008, IPO volumes in Asia totalled Rs 156,500 cr from 374 issues. This is down 68.3%, the lowest annual volume since 2002.

Experts say the spurt in number of IPOs this year could be due to delay in offerings in an uncertain market in 2008. Around 83 IPOs, worth Rs 127,500cr, were postponed in Asia in 2008.

According to Sanjay Aggarwal, executive director at KPMG, “Requirements for capital will be very high in the financial services sector, both for meeting capital adequacy norms for managing existing business as well as for growth.

http://economictimes.indiatimes.com/Market_News/IPO_mkt_to_boom_in_second_half_in_09/articleshow/4027957.cms

Experts see normal steel production by March

The demand in the steel sector appears to be crawling back and by March, production is expected to be restored to normal levels. The price fall in China has been arrested and raw material prices like those of scrap have moved up on demand.

Vinod Garg, director (marketing), Ispat Industries, said production would resort to 85-90 per cent capacity levels in February, while in March it should normalise. Most of the domestic steel majors had cut production in November. JSW Steel, which announced a 20 per cent production-cut in November has, however, come back to normal production levels in January.

Seshagiri Rao, finance director, JSW Steel, said the worst was October-December. “Domestic demand is much better. Projects are slowly coming back internationally but auto components are yet to pick up. Also, while China demand is domestically okay, in Europe, US and the rest of Asia, prices are stable,” he said. But right now, all that the steel industry is discussing is a demand revival, not prices. Even if prices do not appreciate in the near term, margins are expected to be better.

JSW Steel has negotiated with Rio Tinto for a cut in coking coal prices for the last three months of its existing contract.

Rao said, for the current three months of the existing contract, prices had been reduced to $175 a tonne from the earlier $305 a tonne. The move would set a precedence for raw material contracts, which would come up for renewal mostly in April.

Jatinder Mehra, chief executive officer, Essar Steel, said steel prices came down to 1994 levels. So, iron ore prices should also come down to that level.

Steel prices have fallen by 50 per cent from their peak levels in 2008. Hot rolled coil prices globally were at $500-$550 a tonne while new raw material contract prices were yet to set in.

Mehra was a little skeptical about a demand revival and said that demand would come back once the financial markets were set right, which would boost consumer demand. “The demand seen in China is a situational blip,” he added.

However, global studies indicate that restocking could begin like last year, especially once the Chinese New Year ushers in.

http://www.business-standard.com/india/news/experts-see-normal-steel-production-by-march/12/30/347729/

News Round – Up

Policy forecasts stable external balance of payment

The third quarter review of monetary policy 2008-09 has forecast a stable external balance of payment situation, thus stating the fears of deficit current account balance — due to outstanding external debt with residual maturity of less than one year — as "misplaced".

The current account is the difference between a nation's exports and imports of goods and services in a financial year, if all financial transfers and investments and the like are ignored. A nation is said to have a current account deficit if it is importing more than it exports.

According to the central bank analysis, the country's total external debt, with residual maturity of less than a year as on March 2008 and which would mature in FY09, is estimated at $85 billion.

While sovereign debt and commercial borrowings are most likely to be rolled over during 2008-09, current trends indicate that maturing debt on account of foreign currency denominated deposits by non-resident Indians (NRIs) will not only get rolled over. But RBI expect net accretions, said the report.

NRI deposits are likely to get further accretions since interest rates have been revised upwards since September 2008. Non-resident deposits, maintained as FCNR (B) and NR(E) RA deposits, witnessed interest rate ceilings pegged to Libor minus 50 basis points (bps) increase to minus 25 basis points and plus 50 bps, respectively in September 2008.

These rates were further revised upwards by 50 bps each to Libor plus 25 bps (for FCNR (B)) deposits and Libor plus 100 bps for NR(E)NR deposits in October 2008. Thereafter, in November 2008, both these rates were further increased by 75 bps to Libor plus 100 bps for FCNR (B) deposits and Libor plus 175 bps for NR (E) RA deposits.

The data available with the central bank on NRI deposits up to December 2008 indicates positive accretion, which leaves the total trade deficit to be repaid in 2008-09 to $43.2 billion. Of this around $28.1 billion has already been disbursed in April-November 2008, leaving a balance of $15.1 billion.

RBI is of the view that the balance trade deficit could be compensated with large inflows in pipeline on account of commitments of buyer's credit by the importers and oil companies.

"India's external payment situation remains stable even conservatively projecting that only a small portion of this balance would be rolled over," said the central bank.

http://www.business-standard.com/india/news/policy-forecasts-stable-external-balancepayment/11/00/347283/

Finance ministry says adequate liquidity in banks

The finance ministry said that there is adequate liquidity in the banking system but the transmission of bank credit has to be more effective.

Asked about the need for more rate cuts, economic affairs secretary Ashok Chawla told reporters, "Certainly a possibility that the Reserve Bank will keep in mind." The central bank's third quarterly review of the credit policy on Tuesday points out that the it has, since mid-September, injected Rs 3,88,000 crore into the system.

Mr Chawla said inflation had to still come down to a more realistic and acceptable rate. The central bank on Tuesday revised its inflation estimate downwards to 3% at the end of March. Inflation for the week ended January 10 is at 5.6%, less than half of the 12.91% peak in August.

RBI left its key short-term interest rates unchanged at a policy review to give it time to assess the impact of its recent aggressive easings.

"Falling inflation is not indicative of coming recession in the economy and there is no fear of recession," Economic Affairs Secretary Ashok Chawla said, while commenting on the third quarterly review of the credit policy.

http://economictimes.indiatimes.com/Finance/Finance_ministry_says_adequate_liquidity_in_banks/articleshow/4038665.cms