

## Weekly Economic Bulletin

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## News Feature

### **Budget 2009-10: FM goes easy on personal tax; makes a host of products cheaper**

Budget speak, such as fiscal deficit, GDP growth et al be damned. Consumers decode their well being and prosperity in simple terms — whether their money is able to buy more or less of everyday goods and services (that's real marketplace inflation) and whether their real income (after adjusting for inflation) is up or down.

So even as finance minister Pranab Mukherjee disappointed the stock markets with his Budget, the 224-million-odd Indian households had enough reason not to feel let down. Though not as radical as the UPA's FY09 Budget, which re-adjusted personal income tax slabs upwards, Mr Mukherjee's proposal to raise standard deduction by Rs 10,000 and scrap surcharge is symbolic of the government's intent to put more money in consumers' wallets, hoping that some of it finds its way into the market and spurs demand.

Minor tinkering in excise and customs duties, which will make products like LCD televisions, life-savings drugs, bigger cars and branded jewellery cheaper, and set-top-boxes for cable, direct-to-home television and cotton apparel more expensive, too, signal a consumption-enabling environment, more so when the inflation remains benign compared with a high of 13% in August last year.

A clear roadmap to rollout the goods and services tax (GST) from April 1, 2010, will bring down prices across the board, barring cigarettes, which will become costlier because of a dual GST duty structure wherein both the Centre and states continue to tax 'vice' products.

"The very fact that the Budget outlay has been increased by over 30% means there will be a lot of spending to encourage growth. There is also a lot of savings for taxpayers, and all this will boost consumption across urban and rural markets," said Future Group CEO Kishore Biyani.

Mr Biyani may have a point here, for even though the stock market rues the absence of sector-specific measures to kickstart growth, Mr Mukherjee's Budget is rich in signalling the importance of medium-to-long-term consumption enablers, such as lifting more people out of poverty, focusing on building roads and houses, raising female literacy, creating more jobs (12 million every year) et al.

"It is, of course, not the Budget alone, the monsoon, too, has to be equally good to ensure consumption-led growth," said Marico chairman Harsh Mariwala. The rains have been delayed in some parts of the country and there are fears that the sowing season, usually in July, will be affected.

"Some categories may have been affected and job cuts too have impacted sentiment. But looking ahead, the Budget has all the elements, such as incentives for rural markets and tax concessions, to fuel consumption and growth," said Technopak Advisors chairman Arvind Singhal.

<http://economictimes.indiatimes.com/News/Economy/Policy/Budget-2009-10-FM-goes-easy-on-personal-tax-makes-a-host-of-products-cheaper/articleshow/4746853.cms>

## **IIP rises 2.7% in May on domestic demand**

India's industrial output expanded 2.7 per cent in May this year, the most since September last year, on the back of strong consumer demand in the domestic market. This is significantly more than the downwardly revised 1.2 per cent in April and betters forecasts of a 1.4 per cent rise.

With 10 out of 17 sectors in the Index of Industrial Production, or IIP, registering growth in May, Finance Secretary Ashok Chawla said the government expected the positive momentum to continue in the coming months.

Output had fallen in December, February and March as Asia's third-largest economy was hit hard by a sudden liquidity crunch and the global downturn.

"We do believe that the worst is over, but there is a difference between the worst being over and getting back to robust growth," said Montek Singh Ahluwalia, deputy chairman of the Planning Commission.

The manufacturing sector, which has nearly 80 per cent weight in the index, increased by 2.5 per cent as producers are believed to be increasing output to meet anticipated demand.

"Producers in India may have run down inventories during the early stage of the global turmoil, meaning that the decline in production was steeper than the fall in orders, and the recent rise in production could be a result of businesses rebuilding inventories," Moody's Economy.com analyst Sherman Chan wrote in a research note.

Rubber, plastic, petroleum and coal products — which have 58 per cent weight in IIP — grew by 16 per cent. This industry group alone contributed 0.8 percentage point in IIP's growth rate.

Gas production from the Krishna Godavari basin, from which Reliance Industries began to pump gas in April, is seen as a reason why this particular industry sector increased sharply in May.

Food products, which have 90 per cent weight in the index, continued to be in negative territory and declined by 15 per cent.

After being in the negative territory for three months, consumer goods production increased by 1.2 per cent in May, aided by a 12.4 per cent expansion in consumer durables output.

<http://www.business-standard.com/india/news/iip-rises-27-in-maydomestic-demand/363579/>

## Overseas News

### India's services sector most lucrative for FDI over last 3 yrs

India's services sector attracted \$17.45 billion foreign direct investment in the last three years, the highest in the said period, leaving computer and telecom sectors to trail behind.

The services sector accounted for 27 per cent of the \$64.40 billion total FDI received during April 2006-March 2008, according to the data provided by Minister of State for Commerce and Industry Jyotiraditya Scindia in Lok Sabha.

Computer software and hardware industry was a distant second, receiving \$5.7 billion foreign interest, followed by housing and real estate (\$5.4 billion) and construction activities (\$4.75 billion) and telecom (\$4.29 billion), it said.

"FDI inflows in the country have increased from \$5.5 billion in 2005-06 to \$27.31 billion in 2008-09," Scindia said, adding that despite the economic slowdown, inflows in 2008-09 showed a growth rate of 11 per cent over the previous year's \$24.58 billion.

He said the government is undertaking various initiatives like economic co-operation with developed as well as developing countries to promote FDI.

The Centre, along with state governments and business associations, is also making concerted efforts to make regulations conducive for business, he added.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Indias-services-sector-most-lucrative-for-FDI-over-last-3-yrs/articleshow/4773224.cms>

### No plans to change retail FDI rules: Jyotiraditya Scindia

India has no plans to change the present policy on foreign direct investment in retail trade, the junior trade minister said in a written reply to parliament.

Jyotiraditya Scindia also said there was no proposal to implement full capital account convertibility as of now.

<http://economictimes.indiatimes.com/News/Economy/Finance/No-plans-to-change-retail-FDI-rules-Jyotiraditya-Scindia/articleshow/4771798.cms>

### Key Ministries to review FDI policy in tobacco sector

Senior officials of Ministries of Health, Commerce and Industry, and Finance met to discuss and review the foreign direct investment (FDI) policy in the tobacco sector. They were expected to be deliberate on whether foreign investment in tobacco sector should be prohibited or not.

*Health factor*

The current policy allows 100 per cent FDI in cigar and cigarettes manufacture on a case to case basis, but there has been a growing opposition against encouraging investments including FDI into the sector. In the past, the Health Ministry has taken a clear position that no FDI be permitted in the tobacco sector.

Earlier when the Foreign Investment Promotion Board (FIPB) was deliberating on a proposal by JT International Mauritius and JT International Holding to hike foreign shareholding in JT International India to 74 per cent (from 50 per cent), the Health Ministry had told FIPB that in view of the public health policy it does not favour further growth of the tobacco industry, in the country.

The JTIL proposal came up in the FIPB meetings in July 2008 and October 2008 and again on January 2009 but a decision on the same was deferred. On January 9, 2009, Department of Industrial Policy and Promotion (DIPP) sought deferment of the application saying it needed more time to finalise FDI policy on tobacco sector.

<http://www.thehindubusinessline.com/2009/07/10/stories/2009071052280100.htm>

## **Trade News**

### **Singapore top ASEAN investor in India: FICCI**

Singapore was the biggest investor among the 10-nation Asean bloc in India in 2008 with FDI worth Rs 15,775.90 crore, a study by industry body FICCI said.

Investment from the island city-state was 1,416.90 crore in 2005.

Malaysia was a distant second with an investment of Rs 453.80 crore last year, which, however, is a big jump from Rs 21.30 crore in 2005.

"The interest of these two nations and other countries in the Asean bloc is expected to get a shot in the arm after the signing of the free trade pact between India and Asean next month," the chamber said.

FDI flows from Indonesia, too, rose to Rs 24.50 crore in 2008 from Rs 4.20 crore in 2005.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Singapore-top-ASEAN-investor-in-India-FICCI/articleshow/4768393.cms>

### **India in talks to tweak tax treaty with Mauritius**

India has initiated discussions with Mauritius to tweak the provisions of their tax treaty, following domestic and international pressure to act against tax havens. More than 43% of foreign investment inflows into India are routed through the island nation to take advantage of the tax benefits provided in the treaty.

Though it may be difficult to do away with all the tax benefits immediately due to diplomatic pressures, New Delhi may attempt to restrict such benefits. Restrictions could be on the lines of the India-Singapore double tax avoidance agreement (DTAA), wherein the benefits of the treaty are linked to certain conditions to ensure that only genuine investors gain from it.

Such a condition is called limitation of benefit clause. Some countries keep conditions such as a minimum level of investment to ensure that there is no tax or limited tax arbitrage. Some other countries impose additional tax on investments flowing from such tax havens.

For example, the US government has legislative powers to impose additional tax on investments from a country after declaring it a tax haven.

India is also seeking to amend other DTAA's to ensure greater flow of information. Globally, tax havens are under pressure to comply with international standards of taxation, and India will also have to take some action, said a government official privy to the development.

<http://economictimes.indiatimes.com/News/Economy/Finance/India-in-talks-to-tweak-tax-treaty-with-Mauritius/articleshow/4770703.cms>

## **Sectoral News**

### **Union Budget 2009-'10: Deal for steel, right mix for cement**

The Budget proposals signal a huge boost for infrastructure spending, with steel and cement sectors looking forward to new business opportunities. In the case of steel, public-private partnerships (PPPs) and government spending could stimulate the sector. Cement, too, is banking on the higher infrastructure expenditure that was announced.

Proposed investments in new roads, highways and ports will bolster demand for both construction-grade and flat steel. SAIL chairman SK Roongta said: "This Budget has emphasised infrastructure building through substantially higher allocations for JNNURM, Bharat Nirman, national highways, railways and housing for paramilitary forces, apart from an initiative for funding PPP projects through IIFCL and banks." Steel majors such as SAIL, RINL, Tata Steel, JSW Steel, Ispat Industries as well as mid-sized companies are likely to gain.

A 23% hike in allocation for highway development and a Rs 5,000-crore increase in budgetary support to Railways augurs well for the industry. RINL CMD PK Bishnoi said: "A step-up in infrastructure spending, higher allocation for highways and railways will raise steel demand.

This has its own multiplier effect on the economy." The railways is a huge consumer of steel through investment in new tracks and rolling stock. The cement industry, too, is looking to benefit from the government's focus on infrastructure and housing sectors. Experts add there will be no immediate increase in cement prices.

According to Binani Cement MD Vinod Juneja, the decision to remove excise duty from site fabrication is good news for the industry. However, the FM did not meet other demands from the cement industry such as rationalisation of VAT, bringing it on par with other commodities.

<http://economictimes.indiatimes.com/News/News-By-Industry/Indl-Goods-Svs/Union-Budget-2009-10-Deal-for-steel-right-mix-for-cement/articleshow/4746835.cms>

### **Branded jewellery firms eye 25% sales growth, more SEZs**

Post-budget, branded jewellery majors are planning to expand the number of special economic zones (SEZs) apart from eyeing 20-25% growth in sales during the upcoming festival season.

According to Sadanand Pawar, president, Gitanjali Gems, "Now, with excise duty on branded jewellery scrapped, we expect sales to boost by 20-25% during the upcoming festive season. Post-budget, we are now planning to set up five to six new special economic zones (SEZs) in addition to our existing seven SEZs."

In the Budget, the finance minister did mention that the sunset for the exemption clause to units in free trade zones (FTZs) has been pushed ahead by one more year, that is, financial year 2010-11. According to Tehmasp Printer, MD, International Gemological Institute, "This makes profits earned in these zones exempt from being subject to income tax for one more year. Its time now for branded jewellery majors to expand the number of SEZs for the benefit of the industry."

<http://www.financialexpress.com/news/branded-jewellery-firms-eye-25-sales-growth-more-sezs/486333/>

### **Synthetic latex polymers industry likely to grow at 10% till 2013: study**

The synthetic latex polymers industry in India would grow at a compound annual growth rate of 10.4% until 2013, according to the latest research from consulting & research firm Kline & Company.

The estimated growth rate of the Indian synthetic latex polymers market has been about 14% (by volume) since 2005. "The major driver for development of the synthetic latex polymers industry in India is the high growth rate of end-use industries like paints & coatings, adhesives, construction, automotive, etc," said Parvesh Magoo, consultant (chemicals & materials practice) at Kline.

Another impetus comes from the fact that there are no major substitutes to replace synthetic latex polymers in their functional aspects across various application segments. In 2008, the domestic synthetic latex polymers market was estimated at 219,000 dry tonne. Most suppliers of synthetic latex polymers in the Indian market, both multinational

companies and local players, are mainly competing in the acrylics product category. Though there are no stringent regulations in place currently, the suppliers have been continuously creating awareness amongst end users with regards to the usage of environment-friendly and 'green' products. The price, quality and assurance of supply are the critical factors affecting the choice of suppliers by the end users. "Although export-oriented industries like leather, textiles and carpet have been affected by the global economic turndown, they are expected to rebound in the next three to five years, subsequently increasing the synthetic latex polymer usage within these applications," adds Mridul Joy, consultant, chemicals & materials practice.

The key applications which consume synthetic latex polymers in the Indian market are adhesive & sealants, paints & coatings and textiles, constituting together around 75% of the total market by volume. Among the product categories of synthetic latex polymers, acrylics form the dominant product type, constituting about 45% of the overall Indian market.

In 2008, the volume of synthetic latex polymers consumed in India was in excess of 200,000 dry tonne, valued at just over \$600 million. Styrene acrylics is the leading latex with respect to both volume and value, closely followed by PVAc and then pure acrylics.

<http://www.financialexpress.com/news/synthetic-latex-polymers-industry-likely-to-grow-at-10-till-2013-study/487411/>

### **GST, FDI can quadruple FMCG turnover in 10 yrs: Survey**

Despite the economic slowdown, India's Fast Moving Consumer Goods (FMCG) sector has grown consistently during the past three to four years, reaching a size of \$25 billion (Rs 120,000 crore) at retail sales in 2008. The industry is poised to grow 10-12 per cent yearly for the next 10 years to reach \$43 billion (Rs 206,000 crore) by 2013 and \$74 billion (Rs 355,000 crore) by 2018.

The report has made wide-ranging recommendations to iron out the rough patches in the industry's growth trajectory, urging the government, FMCG companies and retailers to put their act together. It suggests the government needs to rapidly implement GST to replace the multiple indirect taxes currently levied on FMCG products. This would have several benefits, including uniform, simplified and single-point taxation and reduced prices. Consumption growth and improved tax compliance will result in an increase in tax collections.

The 30-35 per cent taxation levels in India are much higher when benchmarked internationally, argues the report. Also, the tax structure creates logistical delays because of its multi-level system at central and state levels, with each state itself having different tax structure.

The study also urges the government to enforce Trade Mark and Copyright Laws to drastically reduce counterfeits, and protect the rights of consumers and FMCG companies. Counterfeit products account for almost 5 per cent of the industry and pose serious challenges in its growth and also impact the government's tax collections significantly.

Modernisation of labour laws, the study says, will enable Indian manufacturers to improve efficiency, serve consumers better and also raise exports from India.

The study simultaneously calls on traditional retailers to invest in better customer service, product display and store ambience and invest in infrastructure, especially for products that require a controlled temperature environment. Its advice to modern retailers is to work with FMCG brands to improve fill rates, capture consumer and shopper needs better, and explore co-branding and co-promotion opportunities.

The report also highlights the sector's contribution to the socio-economic front. With about eight million kirana stores selling FMCG products, it supports the livelihood of 13 million people. Another 25 million people are employed as wholesalers, distributors, stockists, etc. Also, \$2 billion (Rs 9,600 crore) of agricultural produce is purchased by the FMCG sector, processed and converted into value-added products. And 40 per cent of media industry earnings from advertising come from the FMCG sector, a contribution of \$2 billion (Rs 9,600 crore). About 10 per cent of FMCG production is outsourced to contract manufacturing units, with ancillary industry contribution at about \$1.5 billion (Rs 7,200 crore).

The FMCG sector is also one of the major contributors to the exchequer with \$6.5 billion (Rs 31,000 crore) paid through direct and indirect taxes.

<http://www.business-standard.com/india/news/gst-fdi-can-quadruple-fmcg-turnover-in-10-yrs-survey/363391/>

### **India continues to be most attractive outsourcing hub**

India continues to be the most preferred destination for companies looking to offshore their IT and back-office functions, despite the backlash against outsourcing to the country. It also retains its low-cost advantage and is among the most financially attractive locations when viewed in combination with the business environment it offers and the availability of skilled people, according to global management consultancy AT Kearney.

India has retained its numero uno position even as some other well-established outsourcing hubs dropped in their attractiveness to be replaced by new emerging destinations in AT Kearney's latest ranking of the top outsourcing destinations across the globe. "The top three countries in the 2009 Global Services Location Index (GSLI) remain the same — India, China and Malaysia — but the world's volatile economic environment is reflected in the rest of the rankings," the consultancy pointed out. The study evaluates 50 top countries.

<http://economictimes.indiatimes.com/articleshow/4755280.cms>

### **News Round – Up**

#### **Budget 2009-10 a good one in difficult times: Experts**

Businessmen and economists from the city in general welcome the Union Budget 2009-10 saying the finance minister has done a good job in this difficult time.

"In these trying times, the finance minister has placed a budget that is extremely well crafted, provides fresh stimulus for growth, a special focus on social sectors and the promise of a more inclusive future," says ITC chairman Y C Deveshwar.

"Finance minister has tried to do a balancing act between boosting economic growth, generating demand and at the same time trying to benefit the poor and middle class. Though a lot of expenditure schemes have been announced, avenues for revenue generation has still not been clearly outlined. The fiscal deficit touching 6.8% of GDP is a matter of concern. Overall, I feel, the budget augurs well for core industries like cement, steel and iron. Abolition of FBT - a long standing demand of the industry, is a positive sign, but raising of MAT from 10% to 15% will dent the bottomline," says EMAMI Group director Aditya V Agarwal.

"The budget has addressed the needs of three key sectors - agriculture, small & medium enterprises and exports. The 1% additional interest subvention for farmers who repay their dues in time, will improve banks' recovery of farm loans. The proposals related to infrastructure financing is welcome. But I would like to mention that 82% of core sector financing comes from banks alone. Overall, I would say its a good budget as it emphasises on key areas like agriculture and social sector. The proposal to scrap the controversial and complex fringe benefit tax is a welcome move," says Uco Bank CMD SK Goel.

IIM, Calcutta professor (economics) Anindya Sen gives the budget a rating of 5, saying, "The finance minister has very little room for manoeuvre given the recessionary conditions. The budget has taken steps to bring down the deficit slowly but the degree of freedom is that much less because of the current economic situation. The FBT has been abolished but hardly any tinkering has been done with taxes. In education, some good measures have been taken. But more should have been done towards the running expenditure of existing institutes".

"The finance minister had limited room to manoeuvre. Given that, he has done a fairly balanced job. One could have hoped for greater impetus on important issues such as divestment and fiscal consolidation by rationalisation of various subsidies which has outlived their purpose. The budget will help India's rural economy consolidate which, in turn, will help India in the long run. While the direction is absolutely appropriate, one could have hoped for a faster pace of implementation," says Lodha & Co senior partner Aditya Lodha.

<http://economictimes.indiatimes.com/Policy/Budget-2009-10-a-good-one-in-difficult-times-Experts/articleshow/4744672.cms>