

Weekly Economic Bulletin

Date: August 04-10, 2009

Issue No. 328

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News Feature

Credit Suisse ups GDP growth to 6.2 per cent

Revising upwards its forecast on India's GDP growth to 6.2 per cent, global financial services major Credit Suisse said the Reserve Bank of India may start increasing interest rates from the first quarter of calendar year 2010.

The Reserve Bank of India may be forced to increase (rates) to ensure that price pressures do not increase, Credit Suisse economist, Cem Karacadag, told.

"The scope for expanding fiscal policy had exhausted and the RBI was unlikely to hike interest rates till the end of this year," Karacadag said.

India's economy may grow at a rate of 6.2 per cent in the current fiscal against the 4.9 per cent as projected by Credit Suisse earlier, he said.

There are limited policy options, he said, adding that "fiscal and monetary policy needs to be tightened, if not now than later."

<http://economictimes.indiatimes.com/News/Economy/Indicators/Credit-Suisse-ups-GDP-growth-to-62-per-cent/articleshow/4857279.cms>

Investments in India to grow despite slump: Crisil

Capital expenditure will continue to rise in India despite slowing economic growth thanks to pent-up demand and banks picking up the slack from reduced foreign investment, according to a survey of 500 industrial projects.

In the next three years, Indian companies will pour Rs 10.5 trillion (\$215.25 billion) into industrial expansion, research and ratings agency Crisil said in the report covering 11 sectors of the economy released.

That's down about 25% from announced capital spending plans, but still represents an average compound annual growth rate of 7% through the fiscal year ending March 2012, said Crisil research head Manoj Mohta.

Though investment in textiles and autos will be weak, investment in power is expected to rise 30 to 40% over the next three years, and investment in gas transmission and distribution is expected to double, he said. "This is a healthy sign for our economy."

During past economic slowdowns in India, notably 1997-1998 and 2002-2003, private sector investment contracted by 1 to 2% a year due to cautious bank lending and weak demand, he said.

During the last four-year boom, however, Indian companies built up cash and today banks remain willing to lend to high-demand sectors like power and telecommunications, both of which are rapidly expanding, Mohta said.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Investments-in-India-to-grow-despite-slump-Crisil/articleshow/4865338.cms>

Overseas News

Forex kitty swells \$3.9 bn to \$272 bn

Forex reserves rose \$3.9 billion during the week ended July 31, on the back of inflows due to corporate borrowing and investment by FIIs. Also, the revaluation of non-dollar assets in reserves played their part in shoring up reserves in dollar terms.

According to the latest RBI data in WSS, total forex reserves, including gold and SDR rose \$3930 million to touch \$271.6 billion. While foreign currency assets and reserves with IMF rose \$3,974 million and \$85 million, the value of gold in reserves dipped \$129 million.

"Inflows were seen from a variety of sources. Besides FDI and FII inflows during the week, some corporates have also brought in funds borrowed earlier," said Navin Raghuvanshi, associate V-P, Development Credit Bank.

In addition to the mop-up by the central bank, reserves were also impacted by the valuation of non-dollar assets in reserves against the dollar. Both central and state governments vacated their WMA account with RBI for yet another week. While borrowings within the limit is at the prevailing repo rate, borrowings above the agreed limit is at 2% higher than the repo rate.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Forex-kitty-swells-39-bn-to-272-bn/articleshow/4869566.cms>

India likely to attract \$10 bn FDI for roads in two years

India is likely to attract foreign direct investment of about USD 10 billion for the roads sector in the next two years, Transport Minister Kamal Nath said.

"We would need, and I hope we will get, about 10 billion USD of foreign investment in the next two years," Nath said, speaking at an event organised by the Indian Chamber of Commerce here.

The Minister said all impediments would be removed to get the foreign investment in the roads and highways sector.

"There are some issues people have--in our concession agreement, documents. Some are valid, some are not so valid. I hope they will be addressed in the next one month...there are some very serious concerns like the terminations clause. There are several such clauses which have to be addressed to make it (the roads sector) investment worthy," Nath said.

Speaking on the food situation in the country, Nath said that India had enough foodgrains stocks to counter even the worst monsoon scenario.

Nath, who has handled issues like the export and import of different farm commodities in his previous role as the Commerce Minister, ruled out an imminent food crisis because of the poor monsoon.

<http://economictimes.indiatimes.com/News/Economy/Finance/India-likely-to-attract-10-bn-FDI-for-roads-in-two-years/articleshow/4867686.cms>

Trade News

Indo-US bilateral trade to double in next five years

Indo-US bilateral trade would be doubled in the next five years from USD 44 billion, a senior US Diplomat said..

US has identified education, science and technology, power, retail, food processing and agriculture among the key areas of investment and improvement, Andrew T.Simkin, Consul General, U S Consulate General, Chennai, told.

Asked about the economic slowdown, he said the US had felt the major impact and trade between India and US had come down drastically as a result of global recession.

Allaying fears over US outsourcing to India, he said time and again US had made it clear that it wanted to continue its good relations with countries like India and it stood for free trade.

Moreover, US Secretary of State, Hillary Clinton, during her recent visit to India, had reiterated the stand and extended full cooperation in various fields, including combating terrorism,he said.

Simkin was here in connection with a road show on Engineering Service Outsourcing- Opportunities and Challenges, organised by Indo-American Chamber of Commerce and Southern India Engineering Manufacturers Association.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Indo-US-bilateral-trade-to-double-in-next-five-years/articleshow/4864611.cms>

Indian Inc signs \$50-m biz orders with Syria, Jordan

Coming as a shot in the arm for Indian businesses, 19-member business delegation during their visit to Syria and Jordan earlier this month has been able to chart new business ties with the two countries.

They have successfully raised new business orders in excess of \$50 million and have evaluated other business offers which if materialize, would substantially raise the figures.

The delegation which went under the Ficci banner had CEOs from 19 Indian companies representing chemicals, infrastructure development, textiles, power, steel, home furnishings, agricultural goods and engineering services to name a few.

The Syrian deputy Prime Minister for Economic Affairs Abdullah Dardari, told that, "Indian and Syrian companies should establish joint venture projects in Syria and benefit from the diversity of its investment map and features."

Reviewing the growing relations of cooperation between the two countries, Dardari apprised the Indian delegation of the investment opportunities available in various areas and to further enhance the prospects of cooperation and increase the volume of trade exchange between the two countries. He also called the on the businessmen and Indian companies to establish joint investment projects in Syria and benefit from the diversity of its investment map and features and facilities provided by the government to the Arab and foreign investors.

Dr Amit Mitra, secretary general, Ficci, said, "the business delegation's visit to Syria and Jordan has indeed been path-breaking in more than one way. Apart from evaluating and successfully signing new business contracts, it has opened newer vistas for Indian businesses to proactively raise their presence in other West Asian markets.

<http://www.financialexpress.com/news/indian-inc-signs-50m-biz-orders-with-syria-jordan/497205/>

India, South Korea ink free trade pact

India and South Korea signed a comprehensive economic partnership agreement which will make Korean consumer products and auto-parts cheaper in India.

The deal excludes fully built-up vehicles, and provides for easier movement of contractual service providers and professionals between the two countries and treatment of investments from the one another's country at par with domestic investments.

This is the second CEPA signed by India, the other being with Singapore. This is also India's first bilateral trade agreement with an OECD country.

As per the agreement, South Korea will eliminate duties on 93% of its industrial and agricultural products and India will do the same on 85% of its goods. India has excluded sensitive items farm products, textile items and built up automobiles from tariff elimination commitments. Duties will be phased out on most of these products in the next eight years.

The Indian subsidiary of Korean electronic goods manufacturer, Samsung India, pointed out that the pact will further strengthen business relationship between the two countries. "It will become easier to get new technology and innovative products into the country. Besides, the move will attract more Korean investments into India and vice-versa," Samsung India deputy managing director R Zutshi told.

South Korean auto manufacturers with operations in India, too, are celebrating the pact as gradual elimination of the 12% duty on auto components would considerably bring down their input costs.

“It will make us more price competitive. Though the actual benefits of the FTA will result in a few years, but the reduction in duties on components and other automotive parts will bring down their effective prices and help create price advantage from our Indian operations,” Hyundai Motor India spokesman said.

The Indian industry is looking at the pact as an opportunity to bridge the bilateral trade deficit in favour of South Korea and improve export of services.

“We have projected a doubling of trade between India and South Korea within the next 5 years. Of the \$10.2 billion bilateral trade for the period April 2008-February 2009, India had a deficit of \$4.6 billion with Korea and this imbalance has to be corrected through greater market access for exports from India, said Ficci secretary general Amit Mitra.

Liberalisation in movement of service professionals is among the major gains expected for Indian industry out of the India–Korea CEPA, CII director general Chandrajit Banerjee pointed out. “India has a comparative advantage in services, such as IT/ITeS, Educational Services etc. We welcome the market access provided by Korea for Indian service providers”, said Mr. Banerjee.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-South-Korea-ink-free-trade-pact/articleshow/4869589.cms>

Sectoral News

Auto cos log double-digit growth on new launches

Driving on the back of new models, passenger car manufacturers like Hyundai Motor India Ltd (HMIL), Tata Motors, Mahindra and Mahindra (M&M) and Fiat India witnessed a high double-digit growth in July sales.

While Hyundai Motor India, the country’s second largest passenger car manufacturer, registered a 53.19% jump in domestic sales last month at 23,193 units against 15,066 units in July last year on the back of recently launched i20, its close competitor Tata Motors posted an increase of 17.3% at 17,191 units as compared to 14,652 units during the same month last year, courtesy the Tata Nano.

“HMIL registered a steady growth rate in July and it seems the market is stabilising at this point,” Arvind Saxena, senior vice-president (marketing and sales) said, adding that strong demand for its latest models i20 has helped HMIL maintain its share in the domestic market.

According to Saxena, in the next few months, the company hopes to see both export and domestic markets picking up, especially as the festival season kickstarts from next month.

The recently launched Mahindra Xylo helped utility vehicle major M&M to register a growth of 26.9% at 21,957 units last month as against 17,302 units in July 2008, while the Grand Punto resulted in a 552.9% growth for Fiat India at 2,690 units vis-à-vis 412 units in July last year.

General Motors India, on the contrary, registered a decline of 13.8% in sales last month at 4,914 units against 5,706 units during the same month last year and analysts attribute this to the absence of new products in the portfolio as well as a fallout of the parent company going bankrupt in the US.

Earlier on August 1, Maruti Suzuki India had reported a 27.6% jump in sales in the domestic market at 67,528 units in July against 52,911 units during the same month last year. Even Honda Siel Cars India (HSCI), which has recently forayed into the compact car category with its premium small car Jazz, also said that it posted a growth of 12% in sales last month at 4,857 units vis-à-vis 4,337 units in July 2008.

<http://www.financialexpress.com/news/auto-cos-log-doubledigit-growth-on-new-launches/497587/>

Online ad spends will see highest growth over next five years: PwC

PricewaterhouseCoopers(PwC) has forecast the domestic entertainment and media (E&M) industry to grow by 10.5 per cent cumulatively between 2009 and 2013 to reach Rs 93,900 crore. Releasing its report for 2009, PwC claimed that the E&M industry had witnessed remarkable growth in recent years having consistently outpaced growth in domestic GDP.

While the annual average growth in nominal GDP was 14.48 per cent over the period 2004 to 2008, overall E&M growth in 2008 slowed, reflecting weaker overall economic conditions. This is expected to continue in 2009.

Mr Timmy Kandhari, Leader, India Entertainment and Media practice, PwC, said, "The slowdown in growth requires the E&M industry to revisit its short-term business plans and strategies. However, double digit growth is expected to return over the forecast period with India recording one of the highest growth in the E&M industry as well as in advertising spending in the world, along with China."

Forecast period

After registering a growth of around 16.6 per cent compounded annually over the period 2004-08, growth in the E&M industry is set to decelerate to 8 per cent in 2009. This has largely been influenced by a marked slowdown in advertising spending, which is expected to touch 9.2 per cent in 2009 after having posted a CAGR of close to 17.3 per cent during 2004 to 2008.

Growth rates will increase in 2010 to 10.4 per cent as economic conditions are expected to gradually improve. For the remaining years of the forecast period, the industry will continue to grow at increasing rates, resulting in the overall compound annual growth rate for the period 2009 to 2013 of 10.5 per cent.

Advertising Spending

The report further stated that owing to the economic slowdown, the growth in advertising spending has slowed after a period of robust growth. In 2008, overall advertising spending recorded a growth of 11.3 per cent, over the previous year which is much lower than the growth rate of 20.7 per cent in the earlier year. Overall spending expected to increase from the present size of Rs 216 billion in 2008, to Rs 366 billion in 2013 (a cumulative growth of 11.1 per cent on an overall basis).

Fragmentation of media

Mr Kandhari added, "Against the backdrop of volatility in advertising spending, we are also experiencing increased fragmentation of media and its audiences. This will result in a structural change in the advertising world with advertising becoming more targeted, interactive and accountable.

Online advertising

While online is currently the smallest component of total advertising spend, it will experience the highest growth over the next five years, growing at a compound rate of 32 per cent. As a consequence, its share of total advertising spend will increase to 5.5 per cent in 2013 from 2.3 per cent in 2008.

The next highest growth over the period 2009 to 2013 is expected by the radio industry at 18 per cent – estimated to reach Rs 1,900 crore in 2013, from Rs 830 crore in 2008. The share of the print advertising spend is expected to decline from 47.9 per cent to 41.5 per cent. Television, the other large contributor in the segment, is expected to grow marginally from 39 per cent to 41 per cent.

<http://www.thehindubusinessline.com/2009/08/04/stories/2009080450410500.htm>

India an attractive destination for clinical trials'

Despite accounting for only 2% of the global clinical trials pie in terms of volumes, India has emerged as the third most attractive destination for clinical trials in the AT Kearney global survey and the twelfth most active country in terms of industry-sponsored Phase II & III sites.

The number of industry-sponsored Phase II-III sites in India has grown by 116% over the last 15 months and India has moved from rank 18 to 12 among the 60 most active countries. India ranks second in Asia after Japan in the number of industry-sponsored Phase II-III clinical trial study sites and accounts for nearly 20% of all Asian study sites, a Ficci-E&Y paper notes.

Indian clinical trials market has a growth rate of two and a half times the overall market growth, albeit at a lower base. India participates in 7% of global Phase III and 3.2% of Phase II trials with industry-sponsored trials having grown at 39% CAGR between 2004-2008. The number of clinical trials investigators in India has also grown the fastest among Asian, Latin American and Eastern European countries with a 42% CAGR between 2002-

2008. There are 1500 investigators currently and the government is laying emphasis on training and capacity building in the area with the department of biotechnology setting up six Clinical Research Training Centres to provide specialised training to clinical investigators.

India has one of the fastest clinical trial subject recruitment rates globally and dropout rates of subjects are lower by nearly 40-50%, as compared to global averages. As a result, India contributes 15-30% of global enrolment in multi-centric studies in which it participates. In addition, clinical trial conduct in India comes at 50-60% of the cost as compared to developed markets.

The study notes India's strength also lies in encashing on the clinical trials associated subsectors. "India's value proposition extends beyond Phase I-IV trials with other allied services such as data management, medical writing, pharma covigilance and biostatistics services gaining the attention of sponsors and CROs. Delivery of allied services requires an appropriate blend of system and domain skills, and India's proven track record has made it a destination of choice for these services," said the study.

<http://www.financialexpress.com/news/india-an-attractive-destination-for-clinical-trials/499988/>

Commexes turnover jumps 34%

Buoyed by agri-futures, the turnover of 22 commodity exchanges has increased by 34.19% to Rs 18,15,807 crore till July 15 in the current fiscal, compared with Rs 13,53,173 crore in the same period a year ago, commodity market regulator FMC said.

The turnover from agricultural commodities rose to Rs 2,66,956 crore between April and July 15 from Rs 1,82,639 crore in the same period last year, the Forward Markets Commission (FMC) said. "Uncertainty over rainfall has boosted volumes in agricultural commodities, while bullion trade was modest due to subdued price movement and demand," FMC chairman B C Khatua said.

The turnover from bullion trade rose by 13.94% to Rs 7,48,344 crore from Rs 6,56,804 crore during the review period, according to FMC data.

MCX, the country's leading commodity bourse, clocked a business of Rs 2,09,606 crore, largely from crude oil, gold and copper, till July 15 this fiscal, it said. NCDEX, that largely deals in agri-items, generated a turnover of about Rs 31,174 crore, NMCE made a business of about Rs 7,647 crore during the review period, the data showed. The turnover of NCDEX and NMCE was mostly from agricultural commodities like soya oil, chana and guarseed.

Among regional bourses, Indore-based National Board of Trade (NBoT) made an impressive turnover of Rs 2,236 crore from soya oil, it added.

<http://www.financialexpress.com/news/comexes-turnover-jumps-34/497564/>

India's steel output rises 5.9%

India's steel production rose 5.9% to 4.79 million tonne in July, steel secretary Pramod Rastogi said. Output in the period April to July 2209 gained 3.8% to 18.77 million tonne, he said.

<http://www.financialexpress.com/news/indias-steel-output-rises-5.9/498946/>

Cement sector logs 10.56% despatch growth in July

The domestic cement industry has again, in July, shown a double-digit despatch growth, fifth month in a row since March. The 227-million tonne industry grew at 10.56 per cent in July, which in the corresponding month last year stood at 8.13 per cent.

The industry, with over 50 players, despatched 16.02 million tonnes of the building material in the month. The production grew to 16.28 mt, up 11.2 per cent, as per provisional data from the Cement Manufacturers' Association (CMA).

Though the sector managed to sustain a double-digit growth in July, the month so far has registered the lowest growth in the current financial year. On a sequential basis, the growth dipped by over 2 per cent.

Hari Mohan Bangur, president of CMA, said, "Demand has remained strong during the month and the growth came because of the low base effect. We hope this kind of growth will continue till September."

<http://www.business-standard.com/india/news/cement-sector-logs-1056-despatch-growth-in-july/366334/>

News Round – Up

Corporate India upbeat on domestic M&As: report

India Inc has emerged as a very attractive and enthusiastic player in the M&A space, both domestically and globally, though it is in the domestic space that its success is more evident, a report said.

"Indian acquirers domestic M&A deals are more successful, generate significantly higher shareholder value and outperform overall market returns, compared to those involved in cross-border M&A deals," a Watson Wyatt's Horizon Report on M&A in Emerging Markets said.

Watson Waytt's Horizon report tracks M&A activity in emerging markets. "Success, domestically, is because it is easier to achieve efficiencies. Familiarity with legal and regulatory environment, accounting issues and the culture makes it easy for Indian firms to

succeed in the Indian market more than overseas,” Watson Wyatt's managing director, Dhritiman Chakrabarti, said.

“Investor confidence goes up almost immediately and the market responds positively,” he said. However, when these firms venture outside, they under-perform the Indian market. “The dismal performance is more prominent in US acquisitions compared to that in the UK. Indian acquirers in the US under-perform Indian acquirers in the UK by nearly 43%,” the Horizon report said.

“Indian companies experience a greater familiarity with the UK environment in terms of legal, accounting and regulatory framework and hence it is easy for them to adjust there,” Chakrabarti said.

The US, on the other hand, is extremely market-oriented.

“The practices adopted there are very different to India and even Europe. Cultural issues also come into play,” Chakrabarti said, adding, however, that “there is no empirical evidence to show this.”

Success in M&As primarily boils down to cultural factors, human issues and integration, he said.

“Indian companies are good in financials and strategic decisions but not as good in corporate culture and this delays a successful merger,” the Watson Wyatt official said.

The Horizon report pointed out that a high-performing Indian stockmarket, excess cash flow, an appreciating Rupee and higher interest rates at home than abroad boosted M&A activity for Indian firms.

“Indian firms are driven by the need to be more competitive. They want to gain market-share, specialised areas of expertise and global branding. Organic growth will be slow, M&A gives scale and size quickly,” Chakrabarti said.

<http://www.financialexpress.com/news/corporate-india-upbeat-on-domestic-m&as-report/499959/>

PMI steady in July, expands for 4th month

The Markit Purchasing Managers' Index (PMI) for the month of July remained stationary at the previous month's level of 55.3 mainly driven by strong growth in the domestic market while demand from abroad also picked up slightly.

Production of new businesses continued to grow considerably while employment levels remained broadly unchanged.

A reading of 50 in the seasonally adjusted index, which gets responses from purchasing managers from 500 industrial companies, indicates expansion of the particular variable

while a figure below 50, an overall decrease. The overall index saw an expansion for the fourth consecutive month.

“Business conditions in India’s manufacturing economy continued to strengthen in July. The domestic market remained the primary impetus to growth, although the export market also played a part as its recovery gained pace,” said Gemma Wallace, economist at Markit.

New order index saw a significant rise to 59.7 in July from 58.6 in June. Respondents linked new order and output growth to a combination of better global economic conditions, successful promotional activities and government expenditure, particularly in infrastructure and water projects.

<http://www.business-standard.com/india/news/pmi-steady-in-july-expands-for-4th-month/365853/>