Weekly Economic Bulletin

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News Feature

Moody's revises India growth forecast to 6.4 per cent

Global consultancy Moody's, which contended that the drought would bring India's growth down to 6.2 per cent, revised its prediction to say the "stronger-than-expected start" this fiscal spelt a 6.4 per cent growth in 2009-10, and 9 per cent by 2012-13.

"India's June quarter economic performance surprised slightly on the upside. On a year-ago basis, GDP growth accelerated to 6.1 per cent compared to (our) forecast of 5.9 per cent," said Sherman Chan, economist with a research arm of Moody's.

"The stronger-than-expected start of the fiscal year has prompted Moody's to revise India's annual growth forecast from 6.2 per cent to 6.4 per cent," Chan added.

"Like China, India has ample long-term growth potential, especially with its large population and vast underdeveloped areas. The need to improve infrastructure will keep overall economic activity buoyant in coming years."

Last week, Moody's had said GDP growth in 2009 would be "mildly slower than in 2008", and predicting it would slow to 6.2 per cent.

Despite the upward revision of its GDP growth forecast, Moody's warned that the farm output was likely to decline till December, impacting overall GDP growth. "The robust momentum in manufacturing during recent months may be unsustainable in the near term," Chan said.

"Policymakers certainly cannot rule out chances of a dip in the September quarter before activity continues with its mild upward trend," Chan said.

"Public expenditure is expected to slow significantly, offset by private investment, as the government attempts to restore fiscal discipline."

Nevertheless, she added, India's medium-term prospects were "rosy", and that GDP growth would accelerate to 7.2 per cent next fiscal and further accelerate to touch 9 per cent in 2012-2013.

http://economictimes.indiatimes.com/News/Economy/Indicators/Moodys-revises-India-growth-forecast-to-64-per-cent/articleshow/4968193.cms

India likely to grow by 7-7.5 pc in FY10, says Kamath

With greenshoots of economic recovery becoming visible, a top banker was optimistic that India will record a growth of 7-7.5 per cent in this fiscal.

"Manufacturing sector has come back to the stream...Infrastructure, mainly power, is coming back in a big way...my belief is that we will see a growth of 7-7.5 per cent (in the current fiscal)," ICICI Bank, Chairman, K V Kamath told.

In July this year, Reserve Bank projected atleast six per cent growth in the current fiscal on the back of an expected recovery in the world markets.

Kamath said if the weak monsoon pose hurdles to the agriculture output, the growth can moderate upto seven per cent, while it could be high at 7.5 per cent if the monsoon is favourable.

In the last three months, Kamath said, ICICI Bank seen its coprorate clients resuming their projects, which were shelved previously, on account of a sharp slowdown in the financial markets.

Key-sectors like oil, cement, auto and services sectors have started recovering from the slowdown, Kamath said.

However, a few other export-oriented sectors, primarily textile, still face challenges, Kamath, who was the Managing Director and CEO of country's second largest bank, said.

Banks have significantly slowed down their unsecured lending to avert rise in loan impairments, he said.

However, loan growth to corporates and home loan consumers have picked up in the recent past and is expected to improve further, Kamath said.

The banking system is equipped with sufficient liquidity on account of various meausres from the policy makers and liquidity is unlikely to emerge as a challenge for growth, Kamath said.

On interest rates, Kamath said an upward movement in the rates is unlikely in the immediate future.

http://economictimes.indiatimes.com/News/Economy/Indicators/India-likely-to-grow-by-7-75-pc-in-FY10-says-Kamath/articleshow/4981775.cms

Overseas News

FDI beyond 24% in micro units to require FIPB nod

Any foreign investment in excess of 24 per cent in an industrial unit, which manufactures items reserved for micro and small enterprises (MSEs), will require prior approval of the Foreign Investment Promotion Board (FIPB), according to Press Note 6 issued by the government.

Moreover, any industry which manufactures items reserved for MSEs will require an industrial licence subject to some general conditions, including export of at least 50 per cent of new or additional production over a period of three years. This was notified by the government in a new Press Note.

Non-MSE units engaged in the production of 21 reserved items like bread, pickles and aluminium utensils will come under this notification.

The Press Note also allows enactment of the Micro, Small and Medium Enterprises Development Act of 2006, which removed the ceiling of 24 per cent foreign equity in these units.

Earlier, any unit having more than 24 per cent foreign direct investment (FDI) had to withdraw its registration as a small-scale unit and obtain industrial licence. However, the new Press Note removed this process which will help in attracting more FDI into the cash-starved MSEs.

The Act defined micro units in the manufacturing sector as those where investment in plant and machinery does not exceed Rs 25 lakh, while small units as those investing between Rs 25 lakh and Rs 5 crore.

In the services sector, the investment in equipment up to Rs 10 lakh is defined as micro enterprises and Rs 10 lakh to Rs 2 crore as small units. The new Press Note is sixth in a series in 2009.

http://www.business-standard.com/india/news/fdi-beyond-24-in-micro-units-to-require-fipb-nod/369149/

Forex up $4.4 bn, 10-yr paper touches 10.5%

The country's foreign exchange reserves for the week ended 28 August rose massively by $4.4 billion to $276.4 billion. According to weekly statistical statement released by RBI While foreign currency assets dropped by $415 million to $260.5 billion, gold reserves were held at $9.67 billion. Special drawing rights with the IMF increased by $4.8billion to $4.82 billion and reserves with the IMF fell by $1 million to $1.35 billion. Foreign exchange reserves slid $18.9 billion in the past year, the RBI said.

Meanwhile the yields in the bond market saw a major firming. However it , came off the 10-month high of 7.50% after the better than expected auction results led to value buying by market participants towards the close.

The benchmark 10-year benchmark paper, 6.90% bond maturing 2019 closed at 7.47%, after touching an intra-day high of 7.50%, as against the close of 7.40%. The auction worth Rs 12,000 crore saw devolvement in two of the three securities offered. The cut-off was set at 7.45% for the auction of 6.49% bond maturing 2015, with a devolvement of Rs 348 crore. "We had expected the 10-year at a cut-off of 7.50%. We have seen the bond market firm up in the last 3-4 months as a result of accelerated bond issuances programme." said jay Marwah, executive director of fixed income at NFIS.
http://www.financialexpress.com/news/forex-up-4.4-bn-10yr-paper-touches-10.5/513018/

Trade News

India signs social security pact with Switzerland

The ministry of overseas Indian affairs has entered into a bilateral social security (SSA) agreement with the government of Switzerland which will help cross-border movement of professionals across the two countries.

The SSA, which was signed by Mr K Mohandas, secretary, MOIA, and Philippe Welti, ambassador of Switzerland in India, is the latest in a series of similar pacts which have been signed with Germany, Belgium and France. This would help over 11,000 Indians in Switzerland and over 800 Swiss nationals working in India.
"This treaty will ensure the avoidance of double taxation for Indian professionals working in Switzerland who, so far, have had to pay for social security. In some cases, it will provide portability of benefits whereby the professionals can avail themselves of social security benefits, such as pension, even after they return to India.

Finally, the pact will also help professionals with the totalisation of benefits over the period of contribution," Mr Mohandas told. He added that the SSA would help Indian companies with operations in Switzerland to reduce HR costs in the long run and would also help Swiss companies that had operations in India.

According to the terms of the SSA, detached workers sent by Swiss companies to their Indian operations and those sent by Indian companies to their branches in Switzerland will be exempt from social security contribution in the host country for a period of 72 months. While working overseas, these employees will only be subject to the social security regulations in the home country.

Further, the agreement provides that employed or self-employed people other than detached workers will be subject only to legislation of the host country. Contributions will also be refunded at the time of relocation.

http://economictimes.indiatimes.com/Economy/India-signs-SSA-with-Switzerland/articleshow/4969777.cms

'India, Canada to sign investment, partnership pact'

India and Canada will sign the Foreign Investment Promotion and Protection Agreement (FIPA) in 2009, according to Mr. Gerald Keddy, Parliamentary Secretary to Minister of International Trade, Government of Canada.

This would be followed by the signing of the proposed Comprehensive Economic Partnership Agreement (CEPA), he said, adding that the agreements were aimed at boosting bilateral trade between the two countries to $14 billion in five years from $5 billion. Addressing media persons on the sidelines of a conference – organised by the Confederation of Indian Industry to announce the opening of the Canadian Trade Office in the city here on Wednesday – Mr Keddy said, "While negotiations towards signing of the two agreements are on separate tracks, the FIPA seems to be the first logical step before the CEPA comes up."

FIPA would be the building block towards the inking of the CIPA, he added. "We discussed the issue with the Indian Government Ministers in New Delhi and India too is eager to seal the agreements," he said.

Investment climate

The FIPA, through the establishment of a framework of legally binding rights and obligations, is expected to facilitate investors from both the countries to invest in the respective markets. The CEPA, on the other hand, is aimed at securing competitive terms of access in each others' markets.
The negotiations towards the FIPA and CEPA were initiated in June 2007 and January 2009 respectively.

Canada would like to extend cooperation with India in sectors such as mining and minerals, agri-processing, oil and gas, and pharmaceuticals, said the High Commissioner of Canada, Mr Joseph Caron.

Sectors

Mr Nirupam Sen, West Bengal Industries Minister, said the State was rich in mineral reserves and agricultural production. Joint ventures between the two countries in mining and food processing would be mutually beneficial, he pointed out. On the possibilities of returning of Tata Motors returning the Singur land, he said, "There should be a political solution before any decision can be taken on the land."

The Canadian Government has planned to open trade offices in Hyderabad and Ahmedabad, Mr Keddy said. Currently, it has trade offices in Delhi, Mumbai and Kolkata.

http://www.thehindubusinessline.com/2009/09/03/stories/2009090350751700.htm

Russia, India set higher trade goal

The presidents of Russia and India pledged to increase the volume of trade between their huge nations to $10 billion next year.

Meeting with Russia's President Dmitry Medvedev in the Kremlin during her first visit to Russia, Indian President Pratibha Patil said India's economy had focused too much on Western markets and consumers in the past ``while ignoring the great potential that always existed'' between India and Russia.

Patil announced that the two countries set a goal to boost the bilateral trade to $10 billion in 2010. Medvedev expressed confidence that this target as feasible ``in the nearest term.'' Trade between Russian and India came to $7 billion in 2008, and Medvedev said it increased by 15 percent in the first five months of this year, despite the economic downturn.

Russia's major exports to India are steel, iron, coal, paper and military hardware, while India's main exports to Russia are food, clothing and pharmaceuticals.

Russian news agencies quoted Sergei Chemezov, head of state-run industrial giant Russian Technologies, as saying on the sidelines of the talks that the two countries would sign a new agreement this month on a Soviet aircraft carrier which Russia pledged in 2004 to refurbish and deliver to India.

http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Russia-India-set-higher-trade-goal/articleshow/4968700.cms

Semiconductor body, UK in biz tie-up

The India Semiconductor Association (ISA) has signed a memorandum of understanding with the UK Trade and Investment to develop and encourage business ties and technology exchange between the semiconductor industries in both countries. The agreement will mean that Indian and UK firms will be working together on agreed business opportunity areas, combining complementary know-how, technology, IP and other capabilities. "There is a tremendous synergy between chip design companies in the UK and India. An increasing high degree of complexity and innovation in chip design is taking place in both geographies. We are seeking the multiplier effect of companies that can focus on developing products for the domestic market," said Ms Poornima Shenoy President, ISA. In continuation of this association, a business delegation of embedded software and chip design companies from India would be going to the UK in September to discuss business opportunities.

http://www.thehindubusinessline.com/2009/09/03/stories/2009090351410400.htm

Namibia gives India access to 'world's best' uranium

Even as Australia reiterated its inability to sell uranium, India signed an agreement on civil nuclear cooperation with Namibia. “Among agreements that we signed is the cooperation between us on uranium. I believe that we have the best uranium (in the world),” said Namibian president Hifikepunye Pohamba after discussions with Prime Minister Manmohan Singh. The pact is an umbrella agreement that includes sale of uranium to India.

An MEA press release issued after signing of the agreement noted the “many opportunities for investment available in Namibia in the uranium, diamond, agriculture, energy, transportation, railways, mining, ICT and SME sectors and resolved to encourage Indian investments in these areas”. Namibia’s Uranium resources are about 5% of the world’s known reserves.

India and Namibia also signed four agreements, including an MoU on cooperation in geology and mineral resources, MoU on cooperation in defence, MoU on pan-African e-network and MoU on waiver of visas for diplomatic and official passports. After discussions with the Namibian president, Mr Singh said: “We reviewed the current state of our relations and have set out the road map for the future. We have decided to inject fresh dynamism in our cooperation in areas such as HRD, capacity building, trade and economic exchanges, agriculture, transportation, defence, information technology, health, energy and mining."

http://economictimes.indiatimes.com/Politics/Nation/Namibia-gives-India-access-to-worlds-best-uranium/articleshow/4957039.cms

Sectoral News

August auto sales zoom on launches

Driving on the back of new products and a revival in customer confidence owing to the upcoming festive season, major auto manufacturers witnessed high double-digit jump in sales in August.

While Maruti Suzuki India, India's largest passenger car manufacturer with nearly 52% market share, registered a growth of 29.3% in the domestic market in August at 69,961 units as against 54,113 units during the same month last year, Hyundai Motor India posted a growth of 12.9% at 24,401 units compared to 21,610 units in August 2008.

On a month-on-month basis, sales of Maruti went up by 3.6% with the company selling 67,528 units in July and that of Hyundai increased by 5.2%. Hyundai sold 23,193 units in July.

Tata Motors reported an 11.3% jump in passenger vehicle sales at 17,364 units in August as compared to 15,597 units in August last year, while sales of Fiat India surged by 692.5% at 2,782 units vis-à-vis 351 units in August 2008.

Honda Siel Cars India registered a growth of 4% in sales last month at 4,102 units vis-à-vis 3,945 units in the year-ago period. Mahindra & Mahindra sales went up by 16.9% at 21,410 units compared to 18,322 units in August last year. However, Honda's sales have declined by 15.5% in August vis-à-vis 4,857 units sold in July. Sales of M&M also declined by 2.5% on a month-on-month basis as the company sold 21,957 units in July.

Though sales numbers by industry body Siam are yet to be released, it is expected that the overall passenger car industry will see positive growth for the eighth consecutive month in August as well, signalling a sustainable recovery for the sector.

"Over the last two months, we have registered steady growth figures and in August domestic sales have been strong. We are now entering the festival season phase and strong sales would help the Indian automotive industry to return to healthy growth," Arvind Saxena, senior vice-president (marketing and sales), HMIL, said.

"The good numbers by all players in August are a combination of several factors. Most players are building up inventories at the dealer end to meet the surge in demand as Navratra sets in towards the second half of this month. Moreover, several new products that have hit the road in the past and a lower base of last year have given an additional boost to overall sales in August," an industry analyst said.

http://www.financialexpress.com/news/august-auto-sales-zoom-on-launches/510416/1

Pharma cos will require DCGI nod for exports

Domestic pharmaceutical companies will not be able to export medicines without the approval of central drug regulator Drug Controller General of India (DCGI) from next month, a health ministry official said. The move is on the lines of the World Health Organisation's (WHO) directive that discourages multiple certifying authorities in one country.

Currently, companies can take state drug regulators' approval to export medicines. "DCGI has asked all state drug regulators to stop issuing export certificates (technically known as certificates of pharmaceutical product or COPP)," the official said.

DCGI has also curbed state drug regulators' power for issuing WHO compliance certification for good manufacturing practices (GMP). The central drug regulator will now be the sole authority to issue GMP certification, he said.

"WHO has time and again expressed concerns on the implementation of WHO certification scheme on the quality of pharmaceutical products moving in international community," the official said. There must be uniformity in issuing certificates to establish their authenticity and that is possible through a centralised system, he added.

In a letter to state regulators, DCGI has said that certificates will be issued "by the Central Drugs Standard Control Organisation (CDSCO) after inspection of manufacturing facilities by CDSCO regulatory officials". The office of the central drug regulator DCGI is known as CDSCO.

Exports constitute about 40% of the Rs 75,000-crore Indian pharmaceutical market. The medicines manufactured here is in demand in various parts of the world due to cost advantage. India also imports medicines worth Rs 15,000 crore.

http://economictimes.indiatimes.com/News/News-By-Industry/Healthcare-/-Biotech/Pharmaceuticals/Pharma-cos-will-require-DCGI-nod-for-exports/articleshow/4979803.cms

Boom time for power equipment companies

It's raining orders for power sector equipment companies and allied supply chain industries.
The order books will swell further, as the government has allowed National Thermal Power Corporation and Damodar Valley Corporation to place orders for another lot of Rs 40,000 crore, reserved for domestic companies only.

Public sector Bharat Heavy Electricals Ltd is already sitting on an order book of Rs 1,24,000 crore and is struggling to double its manufacturing capacity to 10,000 Mw before the end of this year and to 20,000 MW by 2011, just to meet the current delivery timelines.

Larsen & Toubro's joint ventures with Mitsubishi Heavy Industries of Japan for super-critical boilers and steam turbine generators are only in the construction phase, but the company has already bagged a 2x800 Mw steam turbine generator order from the Andhra Pradesh Power Development Corporation and Rs 4,000 crore worth of orders from the Jaypee Group for a 2x660 Mw power project at Nigrie in Madhya Pradesh.

L&T is investing around Rs 1,700 crore in the joint ventures with Mitsubishi at Hazira in Gujarat and another Rs 1,600 crore in building manufacturing capabilities for other allied power plant equipment and solutions.

While the order inflow in the entire first quarter of 2009-10 for L&T was Rs 9,500 crore, it bagged another Rs 12,000 crore in August. "L&T expects another Rs 10,000 crore orders in a month, mainly from the power sector. Infrastructure and oil and gas sectors will also support the order inflow," A M Naik, chairman and managing director, said. The engineering major's total order book position was Rs 70,030 crore at the end of 2008-09, a growth of 23 per cent over the previous year.

Sources said so far orders for about 45 supercritical units of about 45,000 Mw capacity have been placed by various power project developers. Of this, a majority are with overseas players, mainly Chinese companies. BHEL has tie-ups with Alstom and Siemens for manufacturing supercritical boilers and turbines. L&T-Mitsubishi, JSW-Toshiba, Bharat Forge-Alstom and Ansaldo-GB Engineering joint ventures are also building supercritical capacities in India.

Pune-based energy and environment solutions major Thermax's order book has swelled to Rs 3,230 crore for the June quarter, 22 per cent more than the Rs 2,649 crore in the corresponding quarter of last year. Last week, the company teamed with US-based SPX Corporation to set up a joint venture for manufacturing air pollution handling systems for power plants, a niche area which lacks many manufacturers in India.

"Each of the boilers coming up in the country will require Rs 75-100 crore for setting up air pollution handling systems. We expect revenues of about Rs 500 crore in the medium term from this joint venture," said S Unnikrishnan, managing director and chief executive of Thermax.

So, too, with ABB India, the Bangalore-based power solutions provider. It has an order book of Rs 76,223 crore, more than that of L&T. It mobilised Rs 21,116 crore of orders in the quarter ending June, and the majority are for electrical equipment and solutions.

Industry sources said due attention and investment have to be done in the transmission and distribution (T&D) sector to handle power evacuation issues once the new power plants start generation. "Inadequate T&D capacity will cause grid stability issues once the large power projects start generating," said Rakesh Sarin, managing director of Wartsila India, a manufacturer of 25 Mw to 350 Mw flexible power solutions. Wartsila foresees huge growth potential in the coming years in this segment, he said.

Orders are also flowing for engineering, procurement and construction players and other Balance of Plant players. Even relatively smaller players such as BGR Energy, IVRCL Infrastructures and Simplex Infrastructure have a huge order backlog. BGR Energy has Rs 12,500 crore of orders at hand and IVRCL Infrastructures and Projects has Rs 15,000 crore worth, mainly from the power sector.

Similarly, power transmission players such as KEC International, Jyoti Towers and Kalpatharu Power Transmission are also having an unprecedented order backlog, said sources. Kalpatharu's order book is at Rs 4,800 crore, including Rs 2,000 crore from overseas, and the company expects a growth of 25-30 per cent for the year. The RPG Group-promoted KEC International, one of the largest power transmission players in the world had, bagged a major order worth Rs 780 crore. Its order book position, the best in its history, was close to Rs 5,155 crore for the quarter ended June. The company is confident of keeping the momentum in growth in the years ahead, according to its managing director and chief executive, Ramesh Chandak.

http://www.business-standard.com/india/news/boom-time-for-power-equipment-companies/368827/

News Round – Up

India pushes for global trade talks, end to protectionism

Hosting some 40 trade ministers from across the world for a two-day meeting, India made a strong plea for an end to protectionism by some countries, even as it pushed for early resumption of multilateral trade talks.

In his opening remarks at the mini-ministerial meeting of the 153-member World Trade Organisation (WTO), India's Commerce Minister Anand Sharma also asked the assembled dignitaries to remain conscious to the 2010 deadline to conclude the Doha round.

Sharma said the trade ministers had no doubt reaffirmed their commitment to the current round of trade talks ever since it was launched at the Qatari capital in November 2001. Meetings have since been held in Washington, London, Bali, Paris, L'Aquila and Singapore.

"Together, we need to work in this spirit, go beyond yet another reaffirmation and work collectively to provide guidance for a clear road map of multilateral engagement in the months ahead, remaining conscious of the 2010 timeline."

The minister recalled that in the previous meetings, the leaders were also united in their views that sustaining trade and investment flows was critical for the future prosperity of developed and developing economies alike.

"They recognised that one of the main threats to a revival of trade flows is the rising protectionist pressures and continued delay in concluding the Doha round. Therefore, strengthening the multilateral trading system by concluding the Doha round at the earliest is vital, is an imperative."

Sharma said the two-day meeting was certainly not the appropriate forum to talk specific issues in various areas of the negotiations as not all 153 WTO members were represented. This was best left for Geneva, the headquarters of the global trade body.

But he, nevertheless, called for the discussions to focus on the best ways to spark the multilateral negotiations and build a broad-based consensus so that they result in quick conclusion.

The commerce minister said he was aware that sharp differences remained, which needed to be resolved by officials, before the ministers can collectively outline the way forward come up with fair solutions.

"In some quarters, it has been suggested that most issues have been settled and we are almost in end game," he said, adding: "It would be apparent that there are still a few gaps and large number of unresolved issues."

"In some instances, the architecture of a solution is not yet fully in sight. In others, there still remain negotiating gaps that need to be sufficiently narrowed before the ministers can collectively outline the way forward come up with fair solutions."

Earlier, WTO Director General Pascal Lamy told a business conference that restrictive steps by some countries to protect their domestic markets in the wake of the global economic crisis had hurt international trade, which must remain open.

"Some countries have increased tariffs, instituted new non-tariff measures and initiated more anti-dumping actions," Lamy told the conference organised by the Federation of Indian Chambers of Commerce and Industry (FICCI).

"True, none of them has triggered, so far, a tit-for-tat chain retaliation. But there is no denying they have had some trade-chilling effect," said the director general, here at the Indian government's invitation for talks on Doha round.

"While I do not think we are in a situation where we need to cry wolf, we need to remain vigilant and ensure that WTO members remain open to one another."

http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-pushes-for-global-trade-talks-end-to-protectionism/articleshow/4968379.cms