D&B ECONOMY OBSERVER

Decide with Confidence

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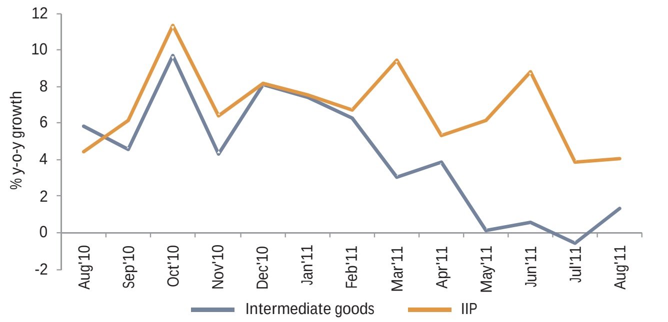
Intensifying debt related strains in the Euro-zone and United States, policy dithering and economic deceleration in advanced economies have exacerbated global economic uncertainty. Reflecting the rising risk aversion and growing downside risks to global growth, the volatility in the financial markets have increased significantly over the last few months.

Domestic economic activity has lost momentum with growth in GDP and industrial production slowing down. Elevated inflation levels for a prolonged duration and the high interest rates are the two biggest factors affecting the growth momentum currently. The persistently high interest rates, which have nearly peaked, and continued policy drift, have dented business confidence levels. Business confidence witnessed its steepest decline in two-and-a-half years as reflected in the D&B Business Optimism Index for Q4 2011. The steep drop in confidence also adds to the evidence that businesses are wary about the potential impact of global economic uncertainty on business outcomes. High input prices and rising interest rates (RBI had raised the repo rates by 350 bps in 12 tranches during Mar-10 to Sept-11) had dented the corporate profitability and increased the cost of domestic funds. The rupee is facing a crisis of confidence with the currency depreciating by 11.4% for the period 1-Aug-11 to 14-Oct-11. This situation is likely to continue till the end of the current fiscal as a sharp deterioration in the global economic confidence could accelerate capital outflows from India.

In this uncertain environment, there is renewed urgency for affirmative action on policy reforms from the Government. While the continuous hike in policy rate by RBI will bring about a moderation in inflation rate by Mar 2012, a long term action plan is needed to remove supply side rigidities. Timely and effective policy action will be critical to restore business confidence and stimulate economic activity over the next quarter.

Declining intermediate goods convey subdued demand in future

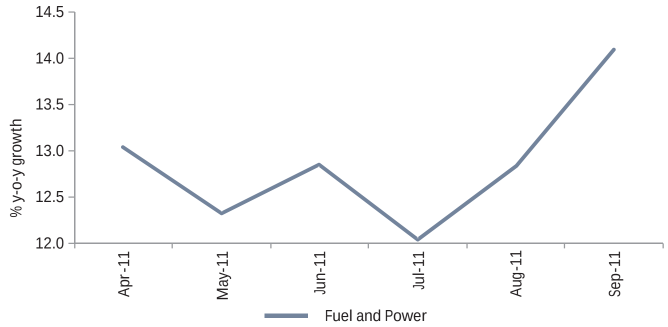


Source: CSO

Real Sector

- IIP grew by 4.1% (y-o-y) during Aug-11 as against 3.8% during Jul-11 with the manufacturing index posting a moderate growth of 4.5% during Aug-11 as compared to 3.2% during Jul-11.
- Capital goods registered a positive growth of 3.9% (y-o-y) in Aug-11 as against a decline of 13.8% in Jul-11 while the intermediate goods sector also grew by 1.3% in Aug-11 as against a decline of 0.6% in previous month.
- Growth in the consumer goods sector moderated to 3.7% (y-o-y) in Aug-11 as against 7.7% in Jul-11 with consumer durables and consumer non-durables growth slowing down to 4.6% and 2.9% as compared to 9.0% and 6.5% respectively.
- Gross direct tax collection registered a growth of 23% during H1 of FY12 to Rs 2,570 bn.

Rising fuel index - consumption basket to become costlier

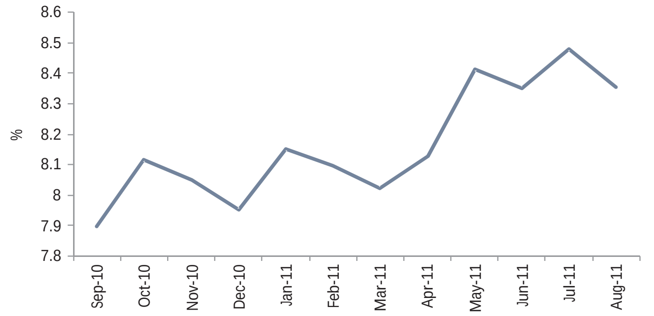


Source: Ministry of Commerce & Industry

Price Scenario

- WPI headline inflation stood at 9.7% (y-o-y) during Sep-11 as against 9.8% in Aug-11.
- Primary articles moderated to 11.8% (y-o-y) during Sep-11 as compared to 12.6% during Aug-11 on declining food and non food prices.
- Fuel index registered a growth of 14.1% during Sep-11 as against a growth of 12.8% during Aug-11.
- Manufactured products grew by 7.7% (y-o-y) during Sep-11 indicating a marginal decline over a 7.8% growth during Aug-11.
- All India Consumer Price Index Number for Industrial Workers stood at 9.0% during Aug-11 as compared to 8.4% during Jul-11.

Rising yields on G-secs leading to rising borrowing costs

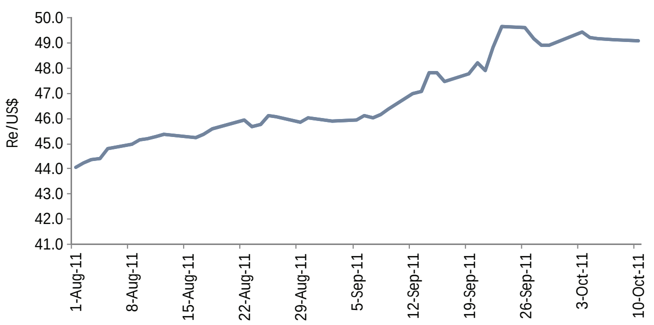


Source: RBI

Money & Finance

- RBI under the liquidity adjustment facility (LAF) increased the repo rate by 25 basis points to 8.25%.
- The Marginal Standing Facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, stands recalibrated at 9.25 %.
- Aggregate deposits increased by 17.5% on 23-Sep-11 as compared to 14.3% during the same period previous year.
- Bank credit increased by 19.6% as on 23-Sep-11 as against a growth of 19.1% in the previous year.
- Food credit and non food credit grew by 35.9% and 19.4% as on 23-Sep-11 as against a growth of 18.4% and 19.1% during same period previous year.

Rupee depreciates on capital outflows led by global sentiments



Source: RBI

External Sector

- India's exports rose by 44.3% (y-o-y) to US$ 24.3 bn during Aug-11, while imports rose by 41.8% (y-o-y) to US$ 38.4 bn leading to a trade deficit of US$ 14.0 bn.
- The current account balance witnessed a deficit of US$ 14.1 bn during Q1 FY12 as against a deficit of US$ 12.0 bn during Q1 FY11.
- The capital account recorded a deficit of US$ 0.3 bn during Q1 FY12 as against a deficit of US$ 0.1 bn during Q1 FY11.
- India's external debt amounted to US$ 317.0 bn as at end-Jun-11, while the forex reserves stood at US$ 315.7 bn as at end-Jun-11.
- External commercial borrowings rose by 27.3% (y-o-y) to US$ 93.2 bn during Q1 FY12.

Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period	D&B's Comments
Inflation W.P.I	9.1% - 9.3% Oct-11	9.72% Sep-11	Notwithstanding some moderation, inflation is expected to remain elevated at high levels as structural bottlenecks continue to prevail, rendering transmission of the monetary policy signal ineffective to some extent. Inflationary pressures are expected to start abating from Dec-11.
Inflation C.P.I (I.W)	8.4% - 8.6% Sep-11	8.99% Aug-11	
Exchange Rate INR v/s US$	49.1-49.3 Oct-11	47.64 Sep-11	Rupee is expected to remain volatile and witness depreciation as concerns of a slowdown in the global economy coupled with rising dollar demand from oil and gold importers continue to put downward pressure to the rupee. However, favorable interest rate differentials and strong fundamentals are expected to attract FIIs in mid term and long term.
I.I.P Growth	3.0%-4.0% Sept-11	4.05% Aug-11	IIP is expected to witness further moderation during the coming months. Hardening of interest rates coupled with weak investment activity will continue to dampen the industrial activity. Further, demand have also been moderating as evidenced in the subdued growth in the consumer durables sector. With investment activity still remaining weak and withering demand conditions, the domestic economy is expected to remain subdued for the subsequent two to three quarters.
GDP Growth	7.5% Q2 FY12	7.7% Q1 FY12	
15-91 days T-Bills	8.2% - 8.4 % Oct-11	8.29% Sep-11	Concerns over additional government borrowing, persistence of high inflationary pressures coupled with rising interest rates is expected to keep the yields in the bond market at elevated levels in the near to medium term. As an impact of high interest rate and slowing demand, bank credit is expected to see moderation in near future.
10 year G-Sec Yield	9.0% - 9.2% Oct-11	9.08 Sep-11	
Bank Credit*	19.3 - 19.5% Oct-11	19.6% Sep-11	

All figures are monthly average

** Refers to End Period*

Land Acquisition and Rehabilitation and Resettlement Bill (LARR) – A perspective

Issues of land acquisition which has currently been considered as one of the major factors hindering the pace of development of infrastructure and industrialization has been finally addressed by the Government through the new Land Acquisition and Rehabilitation and Resettlement Bill, 2011. Land acquisition issues have had severe implications in many parts of the country with big projects coming to a halt against protests by the local residents. The various provisions included in the new bill takes into consideration some of the important issues which were long required and are thus quite commendable. One of the most notable factors about the bill is that it considers land acquisition along with rehabilitation and resettlement (R&R) of the displaced families. Earlier the land acquisition and rehabilitation issues were dealt by different ministries as a result of which in certain cases after completion of land acquisition proper rehabilitation and resettlement were not doled out to the displaced people at desired pace.

Some of the major provisions of the LARR Bill

The other most important provision is the clear definition of the purpose for which land is being acquired. The draft bill permits land acquisition under three broad categories – 1) when the government acquires land for its own use 2) when the government acquires land with the ultimate purpose to transfer it for the use of private companies for stated public purpose (including PPP projects) and 3) immediate and declared use by private firms for public purpose.

The bill also stipulates that the consent of at least 80% of the project affected families is mandatory before the government acquires land for use by private companies.

The bill lays out safeguards to avoid indiscriminate usage of land after acquisition by incorporating the provision that the purpose of land use cannot be changed after acquisition.

The Bill also clearly defines the compensation of the land to be paid, sharing of the appreciated value of the land with the land owners and an extensive resettlement and rehabilitation package to be paid which includes mandatory employment.

Besides, defining the compensation and the rehabilitation package, the bill stipulates fixed timelines for paying the same. Not only that by including the provision that land will not be transferred until R&R is completed, the bill ensures that the rehabilitation of the displaced families are being taken care of after land is being acquired.

However, there arise certain questions regarding certain provisions which raise doubt over its successful implementation. For constructing large infrastructure projects or industries, thousands of acres of land would be required, the ownership of which might belong to hundreds of families. In India property rights are not properly defined. Especially, when it is the case of agricultural land, the asset market is very fragmented and not well documented. Thus improper documentation could turn out to be a major hindrance for land acquisition and settlement of legal issues. Thus more focus on the issue of land title is required for successful implementation of the new land acquisition bill, without which the process of land acquisition might continue to face several hurdles. However, in urban areas for implementing security of land title the Ministry of Urban Development has set up Project Platinum (Partnership for Land Title Implementation in Urban Management). A draft framework law called Land Titling Bill 2010 has already been prepared in this regard.

Nonetheless, while the bill aims to resolve land acquisition issues to promote balanced growth for urbanization and industrialization, the implications for food security should also be considered as vast stretches of agricultural land might be transferred for non-agricultural purposes.

The provision that after acquisition land cannot be transferred to any other purpose except for a public purpose does ensure that land once acquired is not misused. The bill also states that the land would be returned to the original owner if not used within five years for the purpose for which it is acquired. Given the financial vulnerability of the farmers, in such cases, the displaced farmers in most circumstances might not be in a position to buy back the land.

The comprehensive resettlement and rehabilitation package listed in the bill might turn out to be more rewarding for the families displaced in the urban areas rather than the rural areas. Typically for a farmer, cash entitlements might not always enable him in securing a viable alternate means of livelihood. The R&R package does not contain the provision of deployment of another plot of land for the land acquired (except in cases of irrigation projects).

Nonetheless, the fact that the Government has finally decided to overhaul the archaic Land Acquisition Bill of 1894, gives us hope that the bill would be able to establish a more transparent and organized process for land acquisition and resettlement of displaced families thereby ensuring that going forward the bitter hostilities witnessed in several states would not be a recurrent affair.

Please send your feedback to Dr Arun Singh, Senior Economist.
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