

NEWS WRAP

AGD

THE RESERVE BANK OF INDIA has warned that economic growth in fiscal 2011-12 is likely to be lower than budgeted originally. A sharp fall in economic growth will lead to a sharp increase in the fiscal deficit-to-gross domestic product (GDP) ratio. Persistently high government borrowing is causing private investment deceleration. The government's subsidy bill has significantly increased. The chronic high subsidy bills for food, fertilisers and petroleum, increased from 1.5% of GDP in 2007, to 2.5% of GDP in 2009-10. However, defence expenditure has been less-than-budgeted, though raising fears on defence preparedness and national security. There are fresh concerns about the sustainability of India achieving even 8% economic growth, with delays in tax reforms and introduction of a Goods and Services Tax, lack of focus on revenue mobilization, and slowing down of disinvestment targets.

The proposed organized retail entering the food chain, will have backward linkages with farmers, and the integration of the spot and futures markets, for better price discovery and price stability. The Essential Commodities Act of 1955, amended on several occasions, is being amended again to reintroduce compulsory licensing and registration of commodity traders. License and inspector raj are set to return, increasing corruption to a large extent. There are hopes that the proposed linkage between commodity growers and organized retail trade could potentially reduce margins, with fewer inter-mediaries between farmers and consumers. While the Indian economy has been growing at 7.8%, the number of hungry people in India has increased by 65 million.

TECHNOLOGY OURSOURCING

Information Technology companies in India, generate about 60% of their combined \$50 billion in annual revenue from US clients. India's Technology outsourcing industry suffered a setback in 2009, chairman of Satyam Computer Services, confessed to a massive accounting fraud. During the global economic downturn, the technology sector faces difficulties because of its huge reliance on hard hit US and European markets for business. The IT industry has emerged from the recession, and has now returned to fast growth. For the Indian IT companies, the stakes are high in USA, where there is a heavy reliance on H-1B employment visas, given to highly skilled workers for long term jobs. Such visas have a ceiling of 65,000 a year, and are hard to obtain. USA is investigating Infosys centres on whether it misused B-1 visas, a category the US issues for short term visits, to fetch Indian workers into USA, for long term projects. A 2010 US law enactment has significantly increased fees for skilled worker visas.

Over a decade, outsourcing firms like Infosys, have been sending personnel to USA, to work at client sites, where they help facilitate big off-shore projects for banks and insurance companies, and other commercial ventures. Indian firms are considering whether they are better off, keeping more staff in India.

PHASING OUT NUCLEAR POWER

Germany is phasing out nuclear power by 2022. The country's oldest nuclear power plants would remain permanently closed. After the nuclear disaster at the Fukushima Daichi in Japan, seven plants were shut down in March 2011. The German government intends to phase out the remaining nine plants by their age, with the older facilities shutting down over the next few years, and the last three nuclear plants in 2022. The plans to withdraw from nuclear energy will be popular with the German Public and the Ethics Commission for Secure Energy. But German manufacturers fear that the cost of energy could rise, from

lowered capacity. The nuclear power shutdown in a phased manner, would bring networks to the limit of capacity, and may cause failures in some parts of the national power grid. The exit from nuclear energy within a decade, will rule out the risks from nuclear power. Wind, solar and water, geo-thermal energy, and bio-mass energy from waste have been identified as alternative power sources. □□□