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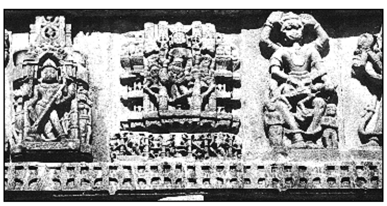

"With the Indian Economy presently supplying the world with only one percent of its overall trade in services, India has the potential to convert its immense human resources skills and capabilities into vast services exports"

— **Hon. Kenneth W. Dam**
Deputy Secretary,
US Treasury Department

Highlights of the Union Budget 2002-03

The broad strategy of the Union Budget 2002-03 is continuing emphasis on agriculture and food economy reforms, enhancing public and private investment in infrastructure, strengthening the financial sector and capital markets, deepening structural reforms and regenerating industrial growth.

Agriculture

Several measures initiated to decontrol and deregulate agriculture:

- A Credit Linked Subsidy Scheme for construction of cold storages.
- A new Corporation for agriculture insurance to be promoted by the existing public sector General Insurance Companies.
- Increase in the allocation for the Accelerated Irrigation Benefit Program (AIBP) from Rs. 2000 crore during the current year to Rs. 2,800 crore in 2002-03 to accelerate the completion of unfinished medium and major irrigation projects.
- Additional allocations in respect of centrally sponsored schemes would be linked to decontrol and deregulation of the agricultural sector by the States.
- Allocation for agriculture research enhanced to Rs. 775 crore (about $160 million) from Rs. 684 crore (about $141 million).
- For the promotion of agricultural exports, Agri Export Zones will be promoted in different states.
- Expansion of future and forward trading to cover all agricultural commodities

Infrastructure

- Golden Quadrilateral highways project to be completed substantially by December 2003
- All major ports to be corporatised in a phased manner. International airports in Delhi, Kolkata, Mumbai and Chennai are to be upgraded to the standard of world-class airports by inducing private sector management and investment through long term leasing systems. Private sector participation in greenfield airports to be encouraged

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Budget Highlights *(Continued from page 1)*

- Infrastructure equity fund of Rs. 1,000 crore (about $206 million) will be setup.
- APDP being redesigned as the Accelerated Power Development and Reform Program (APDRP), with an enhanced plan allocation of Rs. 3,500 crore (about $720 million) for 2002-03. The focus of reform has shifted from generation to transmission and distribution.
- For rural electrification, a new subsidy scheme called Accelerated Rural Electrification Program (AREP) with total outlay worth Rs. 164 crore (about $34 million) to be introduced
- Investment in public infrastructure pushed up sharply to Rs. 37,919 crore (about $7.8 billion)
- Urban Reform Incentive Fund (URIF) to be setup with an initial allocation of Rs. 500 crore (about $103 million) to provide reform-linked assistance to States.
- A City Challenge Fund (CCF) to be set up as an incentive based facility that will support cities to fund transitional costs of moving towards sustainable and creditworthy institutional systems of municipal management and service delivery.
- Six tourism circuits would be identified for development to international standards during 2002-03, Special Purpose Vehicles (SPVs) will be permitted to raise resources from both public and private sectors for infrastructure development in these circuits

Financial Sector

- Banking sector reform bill to be introduced to strengthen creditors' rights through foreclosure and enforcement of securities by banks and financial institutions
- Additional fiscal relief is being offered to help banks and financial institutions to make provisions for NPAs.
- A pilot Asset Reconstruction Company to be set up by June 30, 2002 for initiating measures for taking over non-performing assets in the banking sector and also developing a market for securitised loans.
- Foreign banks to be allowed either to operate fully-owned branches or set up subsidiaries in India
- SEBI Act to be modified to strengthen investor protection
- Deposit Insurance Credit and Guarantee Corporation (DICGC) will be converted into the Bank Deposits Insurance Corporation (BDIC) to make it an effective instrument for dealing with depositor's risks and for dealing with distressed banks.
- FII portfolio investments not to be subject to the sectoral limits for foreign direct investment except in specified sectors.

Structural Reforms

- Administered Price Mechanism (APM) in the petroleum sector to be dismantled as of April 1, 2002. The pricing of petroleum products to be market determined.
- Over 50 items of knitwear, certain agricultural implements, auto components, some chemicals and drugs, and others to be dereserved.
- Most administered interest rates reduced by 50 basis points and to be benchmarked to the average annual yields of government securities of equivalent maturities in the secondary market. Future adjustments would be made annually on a non-discretionary automatic basis.
- Disinvestment target set for Rs. 12,000 crore (about $2.5 billion) for 2002

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Major Economic Reforms Initiated in 2001-02

Structural Reform Initiatives

- Interest rates on small savings reduced.
- Government equity disinvested in select public sector undertakings like VSNL, IBP, CMC, HTL, PPL, BALCO and certain ITDC hotels.
- Licensing requirements and restrictions on storage and movement of wheat, rice, sugar, edible oilseeds and edible oils removed.
- New Pharmaceuticals Policy announced reducing the span of price control rigors on several bulk drugs and formulations.
- Fourteen items de-reserved from the list of items reserved for exclusive manufacture by the small-scale sector.

Fiscal Reforms

- Excise duty structure was rationalized to a single rate of 16 percent CENVAT (Central Value Added Tax) in 2000-01. The Budget for 2001-02 replaced earlier three special rates of 8 per cent, 16 per cent and 24 per cent by a single rate of 16 per cent.
- Peak level of customs duty reduced from 38.5 per cent to 35 per cent with abolition of surcharge on customs duty. Customs duty reduced on specified textile machines, information technology, telecommunications and entertainment industry.
- Goods imported by 100 per cent EOUs and units in FTZs and SEZs exempted from anti-dumping and safeguard duties.
- Weighted deduction of 150 per cent of expenditure on in-house R&D extended to biotechnology.
- Five-year Tax holiday and 30 per cent deduction of profits for the next five years extended to enterprises engaged in integrated handling, transportation and storage of foodgrains.

Infrastructure

- Initial period for availing of ten-year tax-holidays for infrastructure projects rationalized and extended to 15 to 20 years.
- Five-year tax holiday and 30 per cent deduction of profits for the next five years for telecommunications extended to internet service providers and broadband networks.
- Electricity Bill 2001 and Communication Convergence Bill 2001 introduced in Parliament.
- National Highway Development Project launched.
- Accelerated Power Development Program started for incentivising power sector reforms in states.

Capital and Money Markets

- Clearing Corporation of India Ltd (CCIL) set up. The Negotiated Dealing System (NDS) is being introduced.
- Badla banned and rolling settlement introduced
- Trading in index options, options on individual securities and stock futures introduced.
- Aggregate limit for FII portfolio investment enhanced to 49 per cent and subsequently up to sectoral ceiling.

External sector

Trade

- Quantitative Restrictions (QRs) on BOP grounds removed by dismantling restrictions on the remaining 715 items.
- Agri-Economic Zones set up for promoting agricultural exports on the basis of specific products and geographical areas.
- Interest rates on export credit rationalised by indicating interest rates on export credits as PLR linked ceiling rates.

Capital account

- FDI up to 49 per cent from all sources permitted in the private banking sector.
- 100 per cent FDI permitted for B to B e-commerce, courier services, oil refining, hotel and tourism sector, drugs and pharmaceuticals, Mass Rapid Transport Systems including associated commercial development of real estate.
- Foreign investors permitted to set up 100 per cent operating subsidiaries without the condition of disinvesting a minimum of 25 percent equity to Indian entities.
- FDI up to 100 per cent permitted with prior approval of the Government for development of integrated township.
- Defense industry opened up to 100 per cent private sector participation by Indian companies with FDI permitted up to 26 percent, both subject to licensing.

Budget Highlights *(Continued from page 2)*

Social Sector

- Under the scheme of micro credit through Self Help Groups a target of 1.25 lakh additional self-help groups set.
- Jai Prakash Rozgar Guarantee Yojana (JPRGY) to be launched to provide employment guarantee to the unemployed in the most distressed districts of the country.
- Wardha Institute started by Mahatma Gandhi in 1935 to be upgraded as a National Institute to be called Mahatma Gandhi Institute for Rural Industrialization.
- Rural local bodies, cooperatives and NGOs will be assisted to set up rural produce marketing centres and sub-centres at the district and block levels and to upgrade village haats.
- Plan allocation to the Department of Elementary Education and Literacy enhanced from Rs. 4,000 crore (about $823 million) this year to Rs. 4,900 crore (about $1 billion).
- An insurance scheme called "Janraksha" being designed by the public sector insurance companies to provide protection to the needy population.

External Sector

- Overseas JV investment limit up to 50% of net worth
- Indian companies may now invest up to $100 million on an annual basis through the automatic route.

Defense

- Provision of Rs. 65000/- crore (about $13.4 billion) for defense expenditure next year, which is 4.8% higher than Rs. 62000 crore (about $12.8 billion) of the B.E. of 2001-02.

Tax

- For fiscal 2002-2003, the total expenditure pegged at Rs. 4,10,309 crore (about $84.4 billion) of which Rs. 1,13,500 crore (about $23.4 billion) is for Plan and Rs. 2,96,809 crore (about $61 billion) for non-Plan. The central plan assistance to states and union proposed to be increased by nearly 20 per cent. The total revenue receipts of the Federal Government are estimated to be worth Rs. 245105 crore (about $50.4 billion). The Fiscal deficit of Rs. 135524 crore (about $27.9 billion) envisaged would be 5.3% of the GDP.
- Corporate tax for foreign companies down to 40% from 48%
- Custom peak rate down to 30 percent from 35 percent
- No change in personal, corporate income tax rates
- Capital gains exemption under section 54EC allowed on amounts invested in bonds issued by SIDBI and NHB.
- Taxable income between Rs. 1,50,000 and Rs 5 lakhs to get a rebate of only 10 per cent under section 88 of the amount invested. No rebate where taxable income exceeds Rs. 5 lakhs.
- Two per cent earthquake tax abolished and a new National Security surcharge of 5% introduced.
- Custom Duties reduced on IT capital goods, cement, and cellular phones, pagers and non ferrous metal
- Excise tax structure rationalized and duty rates reduced on tea, garments and exempted on cotton yarn
- Service tax net increased, to cover cable operators, drycleaners, and health clubs

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Budget Highlights *(Continued from page 4)*

- Distribution tax of 10% on companies and mutual funds on the dividends or income distributed by them abolished. Such income will henceforth be taxed in the hands of the recipients at the rates applicable to them, and will be subject to tax deduction at source at 10 per cent.
- A Scheme called "Sampark" to be launched to enable taxpayers to obtain information and forms through the Internet.
- Expenditure exceeding Rs. 25,000 (about $514/-) incurred in cash on foreign travel, purchase of bank drafts exceeding Rs. 50,000 (about $1028/-) in cash and making cash deposits exceeding Rs. 50,000 in any bank account will require compulsory quoting of permanent account number.

Budget at a Glance

(Rs. crore)

	2000-2001 Actuals	2001-2002 Budget Estimates	2001-2002 Revised Estimates	2002-2003 Budget Estimates
1. Revenue Receipts	**192624**	**231745**	**212572**	**245105**
2. *Tax Revenue (net to centre)*	136916	163031	142348	172965
3. *Non-Tax Revenue*	55708	68714	70224	72140
4. Capital Receipts (5+6+7)	**132987**	**143478**	**151864**	**165204**
5. *Recoveries of Loans*	12046	15164	15143	17680
6. *Other Receipts*	2125	12000	5000	12000
7. *Borrowings and other liabilities*	118816	116314	131721	135524
8. Total Receipts (1+4)	**325611**	**375223**	**364436**	**410309**
9. Non-Plan Expenditure	**242942**	**275123**	**265282**	**296809**
10. *On Revenue Account of which*	226782	250341	242471	270169
11. *Interest Payments*	99314	112300	107257	117390
12. *On Capital Account*	16160	24782	22811	26640
13. Plan Expenditure	**82669**	**95100**	**99154**	**113500**
14. *On Revenue Account*	51076	60225	61834	70313
15. *On Capital Account*	31593	34875	37320	43187
16. Lump sum provision for Additional Plan expenditure linked to disinvestment receipts	**...**	**5000**	**...**	**...**
17. Total Expenditure (9+13+16)	**325611**	**375223**	**364436**	**410309**
18. *Revenue Expenditure* (10+14)	277858	310566	304305	340482
19. *CapitalExpenditure* (12+15+16)	47753	64656	60131	69827
20. Revenue Deficit (18-1)*	**85234 (4.1)**	**78821 (3.2)**	**91733 (4.0)**	**95377 (3.8)**
21. Fiscal Deficit* {17-(1+5+6)}	**118816 (5.7)**	**116314 (4.7)**	**131721 (5.7)**	**135524 (5.3)**
22. Primary Deficit (21-11)*	**19502 (0.9)**	**4014 (0.2)**	**24464 (1.1)**	**18134 (0.7)**

* Figures of deficit as a percentage of GDP for 2000-01 have undergone change over last year mainly because of revision in GDP figures.

Economic Survey 2001-02: Salient Features

Review of Developments

Macroeconomic Overview for 2001-2002

The Indian economy is passing through a difficult phase caused by several unfavorable domestic and external developments. Domestic output and demand conditions were adversely affected by poor performance in agriculture in the previous two years. The global economy experienced an overall deceleration and is estimated to record an output growth of 2.4 per cent during the past year. These tendencies were exacerbated in the aftermath of the terrorist attacks in the United States in September 2001. Consequently, export growth has suffered and industrial profitability has also been affected by the prevailing low commodity and product prices globally. Despite these constraints, growth in real GDP in 2001-02 is expected to be 5.4 per cent, which will also be one of the highest growth rates in the world in the current year.

Real Sector

- GDP growth rate of 5.4 percent in 2001-02 is supported by a growth rate of 5.7 percent in agriculture and allied sectors, 3.3 percent in industry and 6.5 percent in services.
- Agriculture and allied sectors witnessed a significant improvement in value added in 2001-02 from a negative growth rate of (-) 0.2 percent in 2000-01. The foodgrains output in 2001-02 is likely to be 209.2 million tonnes, an increase of more than 13 million tonnes over the previous year.
- Significant deceleration has been recorded in the growth rate of industry. The broad-based nature of the industrial slowdown is also evident from the disaggregated sub-sectoral growth rates as reflected in the use-based classification of industrial production. Capital goods suffer an absolute decline in production (-4.8 per cent growth in April-December 2001). Basic, intermediate, and consumer goods also have had much lower growth rates in the current year than in the previous year. The only silver lining lies in the performance of consumer durables, which grew at a double-digit rate (12.5 per cent in April-December 2001).
- Performance of the services sector has improved moderately. Financial and other services are doing well in the current year. However, the performance of certain service sectors like transport (other than railways), tourism, business and social services has been adversely affected by slowdown in both domestic and external demand. But, Software and IT enabled services have emerged as a niche sector for India in the global context. The software industry was one of the fastest growing sectors in the last decade with a compound annual growth rate exceeding 50 per cent.
- Inflation rate, during 2001-02, declined in terms of the WPI. The point-to-point inflation rate reached a low of 1.3 per cent by the end of January 2002, which was the lowest in over two decades.
- Unsatisfactory performance of the infrastructure industries during the current year is reflective of the overall slowdown prevailing in the economy. Six core and infrastructure industries viz. electricity, crude oil, petroleum refinery products, coal, steel and cement, having a weight of 26.7 per cent in overall Index of Industrial Production (IIP) achieved an average growth rate of only 2 per cent during the first three quarters of the current year (i.e. April-December 2001) compared with 6.8 per cent during the corresponding period of the previous year.

Financial Sector

Money Supply

- The year-on-year growth in broad money (M3) as on January 11, 2002 was 14.4 per cent compared with 16.6 per cent a year ago. The sharp decline in money supply since November 16, 2001 reflects the sudden expansion in volume of broad money resulting from India Millennium Deposits with effect from the corresponding date in the previous year.

Financial Developments

- Reduction in the administered interest rates on contractual savings has made the interest rate regime more flexible. Reduction in the Bank Rate to 6.5 per cent (the lowest since May 1973) has been supplemented by reduction in the Cash Reserve Ratio to 5.5 per cent, which has further improved liquidity in the banking system.

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Economic Survey *(Continued from page 6)*

- Prime Lending Rates (PLRs) of five major public sector banks softened from 12.00 - 12.50 percent in December 2000 to 11.00-12.00 per cent by December 2001.
- Short-term interest rate represented by the yield on 91-day Treasury Bills declined by 125 basis points to 7.25 per cent between April and December 2001. At the long end of the yield curve, the secondary market yields on Government paper in the range of 10-12 years have declined from 10.05-10.41 per cent to 8.15-8.35 per cent during this period.
- Deceleration in the growth of non-food credit to 8.7 per cent till January 11, 2002 from 12.1 per cent during the corresponding period in the previous year mirrored the weak demand for commercial credit owing to economic slowdown, which has been aggravated by the global downturn in economic activity.
- During April-December 2001, sanctions by All-India Financial Institutions (AIFIs) declined by 32.1 per cent compared to an increase of 18.3 per cent in the corresponding period of the previous year.

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Trail Blazers

PRADMAN P. KAUL
Chairman and Chief Executive Officer
Hughes Network Systems

Mr. Pradman Kaul is chairman and Chief Executive Officer of Hughes Network Systems (HNS) and a senior vice president of Hughes Electronics Corporation. Under his leadership, HNS has transitioned to become one of the world's major providers of broadband satellite services, products and network solutions, besides being a technology innovator and manufacturer. HNS today counts many of the Fortune 1000 companies as loyal customers, with approximately 500,000 installations in 85 countries, and has an employee base of over 6,000 worldwide, including its subsidiaries, Hughes Software Systems, Hughes Telecom and Hughes Escorts Communications Ltd.

Mr. Kaul received a Master of Science degree in electrical engineering from the University of California at Berkeley and a Bachelor of Science degree in electrical engineering from George Washington University.

Prior to his CEO appointment, Mr. Kaul served as president and chief operating officer of HNS from 1984 to 2000. As director of engineering for HNS and its predecessor companies, he managed the development of advanced digital communications equipment for voice, data and television systems. Before joining HNS in 1973, Mr. Kaul was manager of the High Speed Logic Program at COMSAT Laboratories in Clarksburg, MD, where he worked on the transmission of color television signals using various bit reduction techniques.

An acknowledged leader in satellite communications and digital wireless networks, Mr. Kaul is a frequent speaker at top-level industry events. He holds numerous patents and has published articles and papers on a variety of technical topics concerning satellite communications. Currently he serves on the Board of Directors for Optimos, Virginia and additionally holds the titles of Chairman and Vice Chairman of Hughes Software Systems and Hughes Telecom, Ltd., India respectively. He is a senior member of IEEE and recipient of a distinguished alumnus award from UC Berkeley.

Economic Survey *(Continued from page 7)*

- Disbursements by AIFIs also declined by 16.9 per cent during the same period in contrast to an increase of 16.1 per cent last year.

Capital Markets

- From December 31, 2001, all stocks are under rolling settlement in all stock exchanges. This constitutes one of the most far-reaching reforms in the history of India's capital market. Equally important were the widening of the spectrum of equity derivatives to trading in options on both indices and stocks, and to stock futures, which can perform hedging functions hitherto performed by the deferral products.
- Pronounced bearish sentiments in the stock market saw the Sensex falling to 3184 on April 12, 2001, which implied a cumulative fall of 36.3 per cent from 5001 at the end of March 2000. The National Stock Exchange (NSE) Index (S&P CNX Nifty) also suffered a similar slump during this period. The decline in equity prices in leading stock markets abroad following the terrorist attacks on the USA on September 11, 2001 led to further squeezing of the stock indices at home. The Sensex dropped to 2600 on September 21, 2001, registering a fall of more than one thousand points from 3604 on the eve of the current financial year.
- Measures taken by both the Government and the regulatory authorities in the wake of the September 11 crisis, backed by improvement in investor sentiment abroad, facilitated significant recovery in the stock market, the Sensex regained more than 800 points to close at 3443 on December 10, 2001. However, the market again came under selling pressure, precipitated by developments following the terrorist attack on the Indian Parliament (December 13, 2001) and the Sensex lost around 180 points by the end of December, 2001.
- Stock market prospects improved in the new year (2002) and the Sensex regained 232 points to close at 3494 on February 8, 2002.
- The adverse sentiments in the secondary market also affected the mobilisation of resources from the primary market. The amount raised through public and rights issues during the first nine months of the current year (Rs. 3,777 crore), constituted around 90 percent of the relatively modest amount of Rs. 4,240 crore raised during the corresponding period of the previous year.
- Resource mobilisation through IPOs (Rs. 208 crore) accounted for only 5.5 per cent of the total resource mobilisation during this period, compared to about 56.7 per cent in the corresponding period of the previous year. The low level of resource mobilisation may be attributed to the prevailing economic slowdown and preference for private placement.
- Except for September 2001, the net FII investment was positive during the first ten months of the current year. Net FII investment amounted to US $1,295 million during April 2001-January 2002 compared to US $1,379 million during the corresponding previous period. The uncertainty and panic resulting from the terrorist attacks on the USA led to sudden increase in sales, which exceeded purchases by about 16 per cent.

Fiscal Sector

- The gross fiscal deficit as a proportion of GDP is now estimated at 5.5 per cent for 2000-01 and 5.1 per cent for 2001-02.
- There are significant shortfalls in indirect taxes due to slowdown in industrial production and significant deceleration of both oil and non-oil imports. Collections from excise and custom duties at Rs. 77224 crore during April-December 2001 posted a decline of 3.6 per cent compared with an increase of 4.9 per cent in April-December 2000.
- Direct tax collections are likely to be below target for the current year. During April-December 2001, collections from personal income tax and corporation tax at Rs.44021 crore were lower by 1.2 per cent, compared with the robust increase of 30.8 per cent in the corresponding period of the previous year.
- There is also a shortfall in revenues from disinvestment. Disinvestment proceeds are now expected to pick up in the coming months due to a much smoother working of the disinvestment process.

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Economic Survey *(Continued from page 8)*

- Various economy measures taken by the government for reducing non-plan and non-capital expenditure have helped to keep the overall expenditure under control. Despite these measures, the gross fiscal deficit of the Central government at the end of the year is likely to exceed the budgeted target.

External Sector

- India's balance of payments remained reasonably comfortable in both 2000-01 and 2001-02. The current account deficit as a percentage of GDP declined from 1.1 per cent in 1999-2000 to about 0.5 per cent in 2000-01 due to a dynamic export performance and sustained buoyancy in invisible receipts. However, in the current year, exports have been almost stagnant and have recorded a growth of only 0.6 per cent in April-December 2001. An assessment of the Balance of Payments (BOP) outlook conducted jointly by the Reserve Bank of India (RBI) and the Ministry of Finance for the current year indicates that the current account deficit as percentage of GDP may widen to some extent, though it will remain within 1 per cent of GDP, which is quite manageable.
- Net inflow of invisibles, despite larger outflows on account of interest and dividend payments, is expected to remain broadly at last year's level, supported by the continued buoyancy in software service exports and private transfers. The widening of the current account deficit will, however, be more than matched by the expected net capital inflows from normal sources, resulting in large accretions to reserves.
- The exchange rate of the rupee in terms of the major currencies of the world remained reasonably stable during the year.
- Foreign exchange reserves (including gold and SDR) reached a record level of nearly US $50 billion at the end of January 2002, which is equivalent to almost 10 months of estimated imports for the current year.
- India's external debt situation has improved significantly in recent years as a result of effective external debt management by the Government. The external debt-GDP ratio decreased from 28.7 per cent at the end of March 1991 to 22.3 per cent at end-March 2001 and further to 21 per cent at the end of September 2001. The debt service ratio declined from a peak level of 35.3 per cent of current receipts in 1990-91 to 16.3 percent in 2000-01. It is particularly noteworthy that for the first time, the World Bank has classified India as a less-indebted country.

Population: Census 2001

- India accounts for 2.4 per cent of the world surface area but it supports 16.7 per cent of the world population. According to the provisional results of Census of India 2001, the population of India as on March 1, 2001 crossed one billion and was enumerated at 1.027 billion. The decadal growth of population at 21.34 per cent between 1991-2001 was the sharpest decline in the rate of growth of population witnessed since independence.
- Urban population constitutes 27.8 per cent of the total population of the country, which is higher by 2.1 percentage points as compared to the situation in 1991. The density of population has increased steadily from 117 persons per sq. km. in 1951 to 324 persons per sq. km. in 2001. The sex ratio for the country as a whole has improved from 927 females per 1000 males in 1991 to 933 females per 1000 males in 2001.

Issues and Priorities

India has now gone through more than a decade of economic reforms. Beginning in 1991, the thrust of reforms was fiscal stabilization and the initiation of major structural reforms aimed at de-regulation of the economy to induce accelerated investment, growth, employment, and hence reduction in poverty. A good number of these original objectives have been realized. GDP growth in the 1990s, after the initial year of reforms in 1991-92, was higher than that obtained in the 1980s. The external sector has been brought into balance with a comfortable balance of payments that is sustainable. Foreign currency assets have risen from less than US $1 billion in 1991 to over US $45 billion today; and debt service has been brought to very

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Economic Survey *(Continued from page 9)*

comfortable levels, so that India is now internationally regarded as a "less indebted" country. Average inflation has been brought down from 10.6 per cent in 1990-91 to 1995-96 to 5 per cent in the last five years. Poverty has fallen from 36 per cent in 1993-94 to 23 to 26 percent in 1999-2000 according to alternative estimates; and literacy has risen substantially from 52 per cent in 1991 to 65 percent in 2001. Despite all these achievements, however, there are major challenges with respect to the sustenance of high economic growth in the years to come.

Fiscal

- Despite the efforts made to curtail expenditure and increase revenues, it has proved difficult to reduce the fiscal deficit below 5 per cent of GDP. The deleterious impact of such a high deficit on the economy has been made worse by similar levels of deficits being recorded by State Governments, resulting in total fiscal deficit of the central and state Governments amounting to around 10 per cent of GDP.
- The problem of fiscal deficit has to be addressed both on the revenue side and the expenditure side. There has been a popular tendency to focus excessively on expenditure reduction, but this has proved difficult with the rigidity in the structure of Government expenditure. Revenue enhancement now lies more in enforcing compliance in direct taxes and in extending the service tax.

Agriculture

- A new focus on food management necessitates a review of current MSP system, so that there are adequate signals to farmers to shift to other activities that provide greater scope for improvement in income realization through value addition.
- Greater emphasis is required on rural infrastructure, food processing, non-farm activities and freeing up the storage and movement of agricultural products in the country, removal of restrictions of the entry of large processors in milk and milk products.

Industry

- For industrial growth, it is essential to initiate the process of amending labor laws for providing greater flexibility in employing labor, accelerate the process of dereservation of export competing industries reserved only for small scale industries, usher proactive policies for corporate debt restructuring, and address the issues concerning high interest rates and rationalization tariffs.

Infrastructure

- Infrastructure being among the most cited impediments to the achievement of higher growth, it has received the highest policy attention on a continuous basis since the early 1990s. Considerable success has been achieved over these years in some sectors such as telecommunications, port sector and road sector.
- Much remains to be done other sectors such as power, urban infrastructure, civil aviation and railways. That successes have been achieved in some sectors suggests that the problems that exist in these sectors are amenable to solution.
- The provision of efficient and affordable infrastructure is essential for inducing investment in competitive activities in all other sectors.

Financial sector

- With the considerable progress made over the last decade, the time is now ripe for further development of the Indian financial sector with reduction in government holding of nationalized banks, better enforcement of creditors' rights and greater degree of transparency in capital markets.

The Indian economy responded to the economic reforms of the 1990s with a higher growth performance than in previous decades. The economy has, therefore, shown that it is capable of achieving high growth rates in response to the implementation of appropriate economic reform policies. Consequently, higher growth rates in the rest of the decade can indeed be achieved through further deepening of the economic reform process. Second generation reforms have been initiated already and, as their implementation proceeds, acceleration in economic growth can be expected in the coming years.

Chief Minister of Andhra Pradesh Visits Raleigh, North Carolina

Seated left to right: *Dr. Charles E. Hamner, President, North Carolina Biotechnology Center; The Honorable James Fain, Secretary of Commerce, State of North Carolina; The Honorable three-time Governor, James Hunt, Jr., State of North Carolina; The Honorable Mr. N. Chandrababu Naidu, Chief Minister, State of Andhra Pradesh; Mr. Steven Burke, Senior Vice President, North Carolina Biotechnology Center.* Standing left to right: *Veeraindar Goli, MD, Director Medical Affairs; Richard Martin, CPA, Advisor Finance; Bhaskar Venepalli, Ph.D., Director Pharmaceutical; Chacko P. Verghese, MS, Managing Director; Vipin K. Garg, Ph.D., Advisor Technology; all with Biotechnology International, LLC.*

The Chief Minister of Andhra Pradesh, Hon. N. Chandrababu Naidu made an official visit to the Research Triangle Park (RTP), North Carolina (NC) in February to develop biotech initiative and cooperation between Andhra Pradesh and North Carolina. He was accompanied by a delegation of about 15 people from Andhra Pradesh. Addressing a symposium called "Biotechnology Bridges Continents" hosted jointly by Bio-Technology International, LLC of North Carolina, the North Carolina Biotechnology Centre, the Department of Commerce, State of North Carolina and the World Trade Centre – North Carolina in RTP, NC, the Chief Minister said that biotechnology, the next big wave after information technology, fits in well with his "Vision 2020". In his brief presentation, Hon. Naidu highlighted the initiatives already taken by his government and explained in detail about the 'genome valley' project that has already been initiated by the state government in the outskirts of Hyderabad. The symposium concluded with the signing of a letter of intent in the field of biotechnology by the Chief Minister and Mr. James Fain (Secretary of Commerce, State of North Carolina). Another letter of intent was signed in the presence of CM by Mr. Chacko P. Verghese (Managing Director of Bio-Technology International, LLC of North Carolina) and Mr. Mohan Hingorani, (Chairman of Shapoorji Pallonji Biotech Park Pvt., Ltd., Hyderabad, AP). The Chief Minister also attended the annual meeting of the World Economic Forum and a business event organized by Asia Society and CII in New York and had very useful interactions with NYSE officials and business leaders.

Indian Economy at a Glance

	1998-99	1999-2000	2000-01	2001-02
Gross Domestic Product				
At current prices (%)	15.0	9.9	8.0	9.7 A
At 1993-94 prices (%)	6.5	6.1	4.0	5.4 A
Index of Agricultural Production (%)	7.6	-0.9	-6.6	6.9 P
Index of Industrial Production (%)	4.1	6.7	5	2.3 **
Foodgrains Production (million ones)	204	210	196	209 P
Electricity Generated (billion Kwh)	449	481	500	383 **
Consumer Price Index for Ind. Workers (%)	9.0	5.0	3.0	5.0 @
Imports at current prices				
($ million)	42,389	49,671	50,536	38,362**
(%)	2.2	17.2	1.7	0.3**
Exports at current prices				
($ million)	33,218	36,822	44,560	32,572**
(%)	-5.1	10.8	21	0.6**
Foreign Exchange Reserves (excluding SDRs & Gold) – ($ million)	29,552	35,058	39,554	46,561 ##
Exchange Rate				
(Rs./US $)	42.1	43.3	45.7	47.5 #*
(%)	-11.7	-2.9	-5.1	-3.8 #*

A – Advance Estimates P – Provisional
* – As on Jan. 19, 2002 (provisional) ** – April-December 2001
@ – December 2001 # – As on January 11, 2002 ## – At the end of Jan. 2002
#* – Average for April-January 2001-02

NEWS BRIEFS

- **MFS/YORK/STORMOR of USA** and the Bangalore-based APE Grain Systems has tied up recently to offer bulk grain handling solutions in India. The two plan to address the emerging storage and warehousing market, which was opened up to the private sector in the last Budget. The two have also bid for a recent FCI tender to set up warehouses to store around 18 lakh tonnes of foodgrains. Bulk handling is a new concept in India, with most of the grain storage being in bags in godowns till now. Bagged storage takes up more space, requires more labor and involves wastage of 15-20 per cent. Stormor, the global manufacturer of grain systems sees a growing market in Asia-Pacific. It has operations in countries including Thailand, Ukraine, Kazakhstan and China. Stormor offered storage solutions that range from 5 tonnes to 14,000 tonnes capacity. – *Business Line*

- Buoyed by its Indian experience, the $8.4-billion **GE Medical Systems (GEMS)** is moving to India the manufacture of crucial components like computed tomography detectors and magnetic resonance coils from Milwaukee, USA and CT tubes from Buc, France. GE BEL (a joint venture between GEMS and Bharat Electronics) will make CT detectors and tubes and GE X-ray will manufacture MR coils, in Bangalore. Indian market for medical systems is estimated at $315 million. The company is also focusing on the cardiology market in India. – *Economic Times*

- **PointRed Inc,** the US-based last mile wireless broadband solutions provider, is in the process of establishing a formal presence in India. As part of this move, the company is evaluating options of either setting up a wholly-owned subsidiary or forming a joint venture. In the next 12 months, the Acer-funded company intends to enter the country by taking either of the routes. PointRed is also in talks with Shyam Telecom and Piramas to work out a joint venture. In Chennai, the company is using the manufacturing facility of Sienna Group to develop digital boards for CPUs and microprocessors. It plans to invest $2.5 million over the next 12 months. PointRed is in talks with HCLInfinet and Titan Broadband besides other ISPs for its broadband solutions. – *Financial Express*

- **Penwest Pharmaceuticals Co, USA** and Ranbaxy Laboratories Ltd (India) have entered into an agreement granting Ranbaxy, exclusive marketing rights to Nifedipine XL in select markets. According to information available on the Bombay Stock Exchange website, Nifedipine XL, developed using Penwest's TIMERx® drug delivery technology, is a cardiovascular drug indicated for the treatment of hypertension. The companies have also agreed to explore the joint development of other products that Ranbaxy will market in its region. Under the agreement, Ranbaxy will have exclusive rights to market Nifedipine XL in China, Malaysia, Singapore, Thailand, Philippines, South Africa, and Sri Lanka and non-exclusive rights in Mexico. Ranbaxy will manufacture the product in its state-of-the-art facility in Dewas, India and plans to launch by the end of the 2002. Penwest will receive royalties on net sales after the commercialization of the product. The market for Nifedipine XL is estimated to be around $50 million in the countries where Ranbaxy has obtained selling rights. Ranbaxy does not foresee any major generic competition in these markets since the delivery profile for Nifedipine XL is difficult to mimic. – *Deccan Herald*

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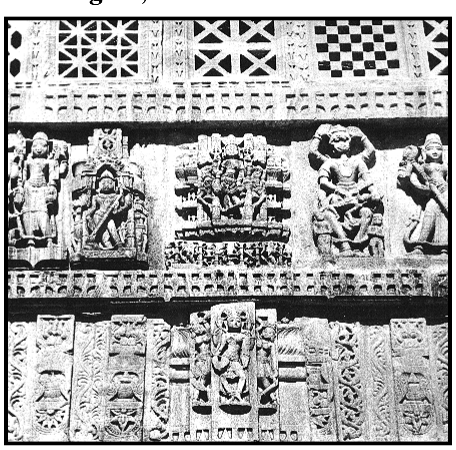

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