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INSIDE:

. . . active encouragement to the foreign investor is a very important way to handle the looming resource crunch that faces the national economy...

— Ramakrishna Hegde, Commerce Minister of India

Finance Minister Yashwant Sinha visits USA

The Finance Minister of India, Mr. Yashwant Sinha, visited USA in April 1998 in connection with the Spring Meeting of the World Bank and the International Monetary Fund. While in this country, he took time off to address a number of investor meetings in New York and Washington DC.

The Finance Minister said that it is not an accident that he is the first Minister of the new government to come to USA. The United States is India's largest trading partner and its largest source of investment. The Minister expressed happiness at the "unprecedented" interest in India by American investors and Non-Resident Indians.

He emphasized that India is back in business and is, in fact, a better business opportunity today. The days of political instability in India are over with the BJP, which won the largest number of seats in the Parliament in the recent election, being at the center of the coalition government. The Indian Prime Minister, Mr. Atal Bihari Vajpayee, is the most prominent leader in the country today whose popularity extends well-beyond the BJP and whose leadership within the party is unchallenged. This, he stated, would contribute to the stability of the government.

Mr. Sinha also talked about the strong economic fundamentals of the country. The rate of growth has averaged about 7% from 1992-1996. India has sizable foreign exchange reserves and the process of economic reforms has continued. It is because of these strong fundamentals that while the rest of East Asia is experiencing a financial meltdown, India has remained largely untouched.

However, he mentioned some causes for concern. The most worrisome is the high level of fiscal deficit which continues to be above 6%. Though India has been able to bring down the level of fiscal deficit from 8.4% in 1991, the current level is also not sustainable. The slower growth rate of 1997-98 at 5% is

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Finance Minister Yashwant Sinha visits USA *(Continued from page 1)*

also a matter of concern along with the inadequate level of infrastructure development in the country.

Regrading the economic objectives of the new government in India, Mr. Yashwant Sinha said that the growth rate is to be raised to 7-8% in the next few years, much higher than the so-called Hindu rate of growth of 3.5%. The rate of domestic savings is to be increased to 30%. The government is encouraging larger inflows of foreign investment especially in the infra-structure sectors. He said that India will build an investment regime which will be transparent, expeditious and automatic. He assured that the fast-track power projects will be cleared in the near future.

Dispelling the concerns of foreign investors about the economic policies of the government, the Minister said that the BJP had been the earliest advocate of liberalization. He said that the concept of *swadeshi* is a very modern concept and is pro-India without being anti-foreign. *Swadeshi* does not mean a retreat into protectionism or erecting high-tariff walls. It means calibrating globalization to national requirements. This, for example, is evidenced in the recently announced Export - Import Policy in which about 340 items have been shifted from the restricted list of imports to the freely importable category.

The Finance Minister saw a very important role for the Indian-American community in realizing the economic goals of the new government, and stated that by contributing in terms of capital and expertise, the community can be a major investor in the Indian economy.

During the visit, the Finance Minister had separate meetings with the Finance Ministers of Brazil, France, Germany, and Netherlands. He also met US Treasury Secretary Robert Rubin, besides the President of the World Bank and the Managing Director of the IMF.

In his meeting with the US Treasury Secretary, there was an exchange of letters which brought into effect the Investment Incentive Agreement between the Governments of India and the United States. The Agreement was signed in November 1997 at New Delhi. The intent of the Agreement is to promote and protect US investments into India by facilitating investment support to US investors from Overseas Private Investment Corporation (OPIC), a designated agency of the US Administration.

The exchange of letters which brought into effect the Investment Incentive Agreement between India and the US. From left: Robert Rubin, US Treasury Secretary, Yashwant Sinha, Finance Minister of India, Naresh Chandra, Indian Ambassador to the US.

This agreement will replace and supersede the previous exchange of notes between the two governments of 1957, 1959 and 1966 which sought to protect US investments in India against currency non-convertibility and expropriation by providing risk coverage/insurance.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 18.35 million tonnes at the end of January 1998.

Industrial Production: During the financial year 1996-97 (April 1, 1996 - March 31, 1997) industrial production increased by 7%. Industrial production in the period April - December 1997 increased by 4.7%.

Infrastructure Industries: During the period April-December 1997, core infrastructure industries have registered satisfactory performance as compared to the corresponding period last year. During the period April-December 1997, average growth rate for infrastructure industries was 5.2% as compared to 3.6% in the corresponding period of 1996.

Money Supply: During the current financial year to February 13, 1998 money supply (M3) growth was higher at 12.1% as compared to 11.6% in the corresponding period of 1996-97. As on February 6, 1998, Prime Lending Rate was 14% as against 14.5% to 15% on February 7, 1997. As on February 6, 1998, Deposit Rates ranged between 10% to 12% against 10% to 13% as on February 7, 1997.

Foreign Trade: In the financial year 1996-97, exports recorded an increase of 4% in dollar terms while imports increased by 5%. In the period April-January 1997-98, exports increased by 2.4% over their level in April-January 1996-97. Imports increased by 6.2% during the same period.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were $22.4 billion at the end of 1996-97 (March 31, 1997). These reserves have increased to $24.1 billion at the end of February 1998. This level of reserves is enough to finance more than seven months of imports.

Exchange Rates: The average market exchange rate of the Rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, French Franc and Japanese Yen was Rs.38.89, Rs.63.74, Rs.21.43, Rs.6.41, and Rs.0.31 respectively during February 1998.

Rate of Inflation: The annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 5.2% for the week ending February 21, 1998. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 9.7% for the month ending January 1998.

Indian Stock Exchanges on the Internet

The National Stock Exchange (NSE) is on the internet at the following address: www.nse-india.com. NSE was set up to function as a model exchange and to provide nationwide services to investors. It commenced operations in June 1994 and has a fully automated screen-based system. The NSE site helps faster and wider access to near real-time rates and volumes traded at the National Stock Exchange.

The Bombay Stock Exchange (BSE) is also on the internet at the following address: www.bseindia.com. Traditionally, the BSE, which is the oldest stock exchange in India, has accounted for the largest number of listed companies and the highest trading volumes. The BSE has started a screen-based trading system in all listed scrips with the introduction of the Bombay On-Line Trading (BOLT) system.

Changes in the Export-Import Policy (1997-2002) Announced

On April 13, 1998, the Union Commerce Minister, Ramakrishna Hegde, announced the Export-Import Policy modifications and amendments. The modifications have further liberalized the trade regime. The Commerce Ministry has shifted 340 items from the restricted list to the open general license (OGL) list. Of the 340 items shifted to OGL, 298 items are part of India's agreement with various developed countries on removal of quantitative restrictions on imports.

The products removed from the restricted list include shrimp, some vegetables and fruits (processed and fresh), fruit juices, lacquers, synthetic enamel and plastic emulsion paints, various types of oil extracts, soaps, floor coverings of linoxyn, plastics and rubber articles, other leather products, cork, paper and paper board articles, certain varieties of special woven fabrics, some articles of stone, marble, cement bricks, ceramic products, glassware, articles of iron and steel, copper, aluminum, tools and implements, various types of machinery, trailers, clocks and watches, furniture items, toys, and miscellaneous manufactured articles.

The revised Exim Policy is also aimed to reverse the deceleration of export growth. Export growth during April-February 1997-98 is placed at 2.6% in dollar terms over that of the corresponding period in 1996-97. Last year the growth rate was only 4%. Some of the constraints that have reduced the country's export competitiveness are: cumbersome procedures, delays in realization of pending claims, increased transaction costs, high cost of export credit, infrastructure constraints and bottlenecks.

The sector-specific packages for agri-products, textiles, electronics, gems and jewellery and small-scale units contained in the amended Exim Policy would help achieve the export growth target of 20% for 1998-99. Other major policy initiatives for export promotion include neutralization of special customs duty of 5% under the Duty Entitlement Pass Book (DEPB) scheme, reducing the threshold limit for capital goods imports under the Export Promotion Capital Goods (EPCG) scheme for several sectors and setting up of private bonded warehouses to import, stock and sell even negative list items to holders of the advance license.

Hegde also announced the strengthening of the Directorate-General of Anti-Dumping under the commerce ministry. This follows the representations from the domestic industry that with the liberalization of quantitative restrictions, dumping practices have increased. The beefing up of the Directorate will speed up the disposal of cases as well as institutionalize the system so that effective protection is provided to the domestic industry.

Noting that Indian software had great export potential, the Commerce Minister said that a special package for the sector was being evolved so that the country could emerge as a significant player in this segment.

Details of the changes in the Export-Import Policy (1997-2002) are available at the folowing site: www.nic.in/eximpol

Recommendations will usher in Second Phase of Banking Sector Reforms

The first phase of banking sector reforms have followed the recommendations of the Committee on the Financial System (CFS) headed by M. Narasimham which submitted its report in November 1991. The major changes have been in accounting practices, asset classification, prudential norms, capital adequacy requirements, and reduction in Statutory Liquidity Ratio and Cash Reserve Ratio (CRR). Besides, steps have been taken for progressive deregulation of the administered interest rate structure.

The second Narasimham committee on banking sector reforms (April 1998) has made a series of sweeping recommendations which could be used as a launching pad to take Indian banking into the next century. The committee's report covers an entire gamut of issues, ranging from bank mergers and the creation of global-sized banks to bank closures, recasting bank boards and revamping banking legislation.

Making a case for a stronger banking system in the country, especially in the context of capital account convertibility (CAC), the committee has said that CAC will result in large inflows and outflows with attendant implications for exchange rate management and domestic liquidity. "For the system to be able to handle such problems, it would need to be strong and resilient."

The committee has recommended merger of strong banks, as this would have a "multiplier effect" on industry. However, the committee has cautioned against the merger of strong banks with the weak as it would have a negative impact on the asset quality of the stronger bank. It has suggested that a few large Indian banks be given an international character.

The committee has also commented on the government's role in public sector banks by saying that ownership (by the government) has become an instrument of management. Such micromanagement of banks does not enhance autonomy and flexibility. Functions of boards and management need to be reviewed so that the boards remain responsible for enhancing shareholder value through formulation of corporate strategy. The committee has made a strong pitch for professionalising and depoliticising of bank boards, especially with regard to appointment of non-official directors.

The committee has emphasized the need to review minimum prescriptions for capital adequacy, since, among other things, banks are getting more exposed to off-balance sheet risks. Regulation and associated supervision, whether off-site or on-site, should be concerned with laying down prudential and disclosure norms and sound procedures and ensure adherence to these instead of getting involved in day-to-day management.

The Committee has stressed the need to amend some of the provisions in the RBI Act, Banking Regulation Act, Nationalisation Act and State Bank of India Act to bring them in line with the current needs of the banking industry.

Monetary and Credit Policy for first half of 1998-99 Announced

The Reserve Bank of India announced the Monetary and Credit policy for the first half of 1998-99 on April 29, 1998. The salient features of the Policy are:

India's central bank, The Reserve Bank of India

- Cut in bank rate by 1% bringing it down from 10% to 9%.
- Banks given freedom to offer different interest rates according to the size of domestic term-deposits.
- Linking of loans below Rs.0.2 million to Prime Lending Rate. This will increase flow of credit to small-scale sector.
- Export credit refinance restored to 100% of the increase in outstanding export credit and interest rate on pre-shipment export credit up to 180 days reduced by 1%.
- The RBI has introduced 182-day treasury bills (T-bills) auction on fortnightly basis and changed the periodicity of 364-day T-bills auction to monthly basis from fortnightly earlier. Foreign Institutional Investors (FIIs) have been permitted to purchase/sell T-bills within the overall approved debt ceilings. Until now they were allowed to operate only in dated government securities in the primary and secondary markets.

The complete Monetary and Credit Policy for first half of 1998-99 is available at the Reserve Bank of India website at: www.reservebank.com

External Commercial Borrowing Guidelines Modified for 1998-99

In one of the first major economic policy decisions, the BJP government has modified the External Commercial Borrowing (ECB) guidelines for 1998-99. The Policy has been reviewed in the light of South East Asian financial crisis and its impact on international markets and requirements of different sectors. The requirement of having a longer maturity for larger borrowing, caps on borrowing cost and restrictions on end-use of ECB have helped in avoiding the difficulties, which some of the South East Asian countries are currently facing.

The ECB modifications, aimed at giving boost to sagging exports and thrust to infrastructure sectors, included reduction in the average maturity for ECB for export and shipping sectors to five years from the current seven years for proposals of above $15 million. The changes are effective from April 1, 1998.

Corporates will be allowed one time extension of one month for all approvals which lapse between April 1 and April 30 because of the longer time taken for financial closure due to the impact of the South East Asian currency crisis on the international markets. Prepayment facility will be permitted up to 20% of the present balance outstanding of each ECB across the board for all maturities.

The full text of the changes with regard to External Commercial Borrowing policy is available at the Ministry of Finance web site at: www.nic.in/finmin

GDP growth to rebound to 6.7% this year: Asian Development Bank

The Asian Development Bank (ADB) has forecast a recovery in India's economic growth, but urged the government to speed up reforms and clear infrastructure hurdles. The bank projected gross domestic product (GDP) growth of 6.7% in financial year 1998-99 (April-March) and 7% in the following year. It put the rebound, from 5% in 1997-98, to a recovery in agriculture and industry. These projections were published in the 1998 Asian Development Outlook.

The ADB said that while there was potential for a stronger recovery, the nation's creaking infrastructure was a constraint. It said private investment in infrastructure must increase sevenfold per year to about $23 billion by 2007. Lack of an appropriate long-term policy framework, poor coordination among government agencies on project implementation and a shortage of long-term funds are major factors holding back the development of domestic infrastructure.

It said low industrial growth, increased salaries for government employees and curtailed divestment of state-owned enterprises led to a shortfall in government revenues and pushed up the fiscal deficit to 6.1% in 1997-98. It put the fiscal deficit, as a proportion of GDP, at 6.7% in 1998-99 and at 6.5% in 1999-2000.

The ADB said India's trade gap would widen because exports were forecast to rise more slowly than imports, which meant efforts should be made to ensure exchange rate competitiveness. It forecast that exports would grow by 7.5% in 1998-99 and by 7.8% in 1999-2000, while imports would grow at 9.9% and 11.2% respectively.

The Manila-based development bank also suggested in its annual report that the five-week-old coalition government could allow some depreciation of the rupee.

Enron Corp.'s Operations in India

Enron, the Houston-based energy company, is India's largest foreign investor aiming at a $10 billion commitment in the next few years. Its major initiatives in India are:

- Phase I of Dabhol Power Plant (826 megawatts) in Maharashtra will be in commercial operation by December 1998.
- Phase II of Dabhol Power Plant will use liquefied natural gas (LNG) and will be financially closed by this year end and construction will commence. This will mean the development of India's first LNG terminal that will bring in LNG not only for the power plant but also for other industrial users in Maharashtra. The price of power from Dabhol using imported LNG will be comparable to that produced by coal-based plants.
- Enron is bidding for a 2000 MW power plant based on LNG at Ennore in the state of Tamil Nadu.
- Enron is developing a 500 MW power project at Kannur in the state of Kerala.
- Enron has teamed up with GEC Alsthom for taking up Renovation and Modernization (R&M) activities, i.e., refurbishing of existing power plants.
- Enron is also looking at getting into power distribution as the states privatize distribution zones. Distribution in the state of Orissa is the first bid that the company is participating in.
- Enron Oil & Gas Company has entered India's upstream oil and gas sector as operator of the Panna/Mukta and Tapti fields.

NEWS BRIEFS

- ***American International Group*** (AIG), International Finance Corporation (IFC), Asian Development Bank (ADB), Commonwealth Development Corporation (CDC), Deutsche Morgan Greenfell, Standard Life, Singapore government, Swiss government and an Italian bank have picked up a 40% stake in the Infrastructure Development Finance Corporation (IDFC). (Economic Times)

- A Memorandum of Understanding was signed between the state of Arunachal Pradesh and ***Austec Gaming Alliance*** of USA for setting up of a "sun village" in the state at an estimated cost of $100 million. (Times of India)

- Bharat Hotels Ltd. has sought permission from the Secretariat for Industrial Assistance (SIA) to enter into a 10-year technical collaboration with ***Intercontinental Hotels Corporation***, USA. (Times of India)

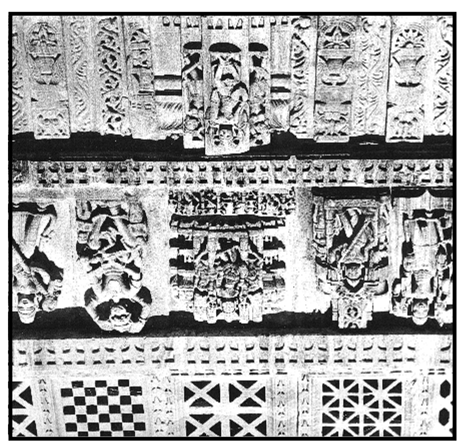
- ***Allstate Insurance Company***, the world's fifth largest insurance firm, has set up an India Focus Group to work out business strategies in pension annuity when the Indian insurance sector opens up to foreign investment. (Economic Times)

- ***Monsanto Company*** of USA, the world leader in biotech life science business, is picking up a 26% stake in Maharashtra Hybrid Seeds Company Limited (Mahyco), one of the largest hybrid seeds company in the country. (Economic Times)

- The US hotel major, ***Mariott Worldwide Corporation*** (MWC), has signed a pact with Chennai-based Golden Crest Hotels for a five-star deluxe hotel. The hotel will be named J W Mariott Hotel. Apart from rendering technical advisory services, MWC will also operate the hotel. (Business Standard)

- Modi Xerox, joint venture of ***Xerox Corporation*** and the Modi Group, will invest about $125 million in the next three years to achieve a turnover of $1 billion by the year 2003. This sum will be invested for infrastructure and training facilities. (Economic Times)

NOTE: This newsletter can also be seen at:
http://www.indiaserver.com



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