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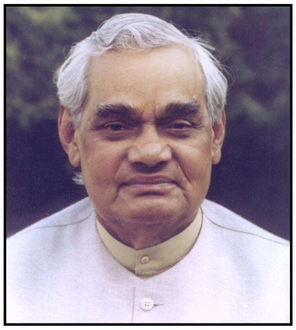
INSIDE:

"I have reasons to believe that there is a pick up in the economy, one of the indications being the 11 percent growth in exports in March (1999)."

— **Yashwant Sinha, Finance Minister of India**

Government Will Carry Forward Reforms, Invigorate Economy: Prime Minister



Atal Bihari Vajpayee
Prime Minister

Prime Minister Atal Bihari Vajpayee has said that as head of the government that will run the affairs of the country till the elections are held, it will be his unflinching endeavor to take care of the needs of the economy. "We shall not allow the normal affairs of governance to slacken," Vajpayee told the National Conference and annual session of the Confederation of Indian Industry (CII).

Performance of the Government

Outlining what his government has done in the past thirteen months, the Prime Minister said that the government took many decisions on a variety of fronts and unveiled several new policies to strengthen the economy. The government gave a new impetus to agriculture, infrastructure, financial sector, foreign investment, exports, telecommunications, information technology, and other sectors. In the backdrop of an unprecedented financial and political crisis in southeast Asia and several other parts of the world, the Indian economy stood firm and even achieved steady recovery.

In policymaking, as also in the management of the economy, the Government adopted an approach of active partnership with business. The task forces the Government constituted on different subjects enabled it to have the benefit of the knowledge and experience of the private sector.

The results began showing, especially after the Budget of 1999. The "feel good" factor was back in the business and investor community. It was also impressively mirrored by the upswing in the capital market.

The Task Ahead

The Prime Minister said that India must not lose sight of her destiny. He said he has a vision for India as a land of limitless

(Continued on page 2)

Government Will Carry Forward Reforms *(Continued from page 1)*

opportunity and achievement for every citizen. Before this can happen, India must be freed from the curse of mass poverty, mass unemployment, and mass illiteracy.

What is required is "growth, more growth and still more growth," he said adding that his government will push ahead with its agenda of accelerated internal liberalization and calibrated globalization. He said the government would soon bring out a document on the ***second generation of reforms*** with the hope of generating a fruitful nationwide debate.

The unfinished agenda of reforms will have ***five thrust areas***, he said. First, the economic reforms will focus on the elimination of red tape, so as to make life easier for trade and industry. He said his government would put an end to unnecessary bureaucratic control and unjustified governmental interference. Timely implementation, and not just good policy-making, would receive the highest priority.

Second, the benefits of reforms would be taken rapidly to those areas that have so far been neglected. This includes agriculture, agro-processing industries and the huge unorganized sector. These sectors have the highest potential to create productive employment, and hence to rapidly enlarge the market for consumer and other goods.

Third, his government would make efforts to continue its policy of encouraging foreign investments. Transparency, stability and continuity would be the cornerstones of this policy. "We will also fashion an appropriate strategy in relation to all the WTO-related issues, which will secure our national interest while simultaneously enabling India to gain her rightful share in global exports," he said.

Fourth, he said that economic reforms would not yield the desired results unless Indian business fulfils its social obligations to the fullest. "It is not enough that politics in India should be value-based. It is equally important that business too should be based on certain basic values and principles that are rooted in Indian culture and are essential for good business in the long run."

Lastly, tackling the many entrenched problems in education will be an integral part of the government's economic policy. The future of any nation aspiring to achieve prosperity on a sustainable basis depends on the development of knowledge-based industries. Unless the country improves the standards of education at all levels, beginning with primary education, India will be deprived of the great opportunities that the new millennium holds, the Prime Minister said.

Merrill Lynch bullish on India

Foreign Institutional Investors remain bullish on India. One of the foremost bulls is James Leighton, managing director, Merrill Lynch Asset Management, Asia Pacific, who lists India among the top five markets for investment in Asia. Leighton believes that India is a cyclical market and offers good investment opportunities for overseas investors. He lists South Korea, Hong Kong, Singapore and Thailand as his other favorite markets.

Political uncertainty is a key factor affecting the investor sentiment about India, according to Leighton. However, from the long-term investors' perspective, Leighton said that he believes that foreign investors have discounted the political events in the country. Merrill Lynch is focussing on companies that have good governance. He said that there is a need for better disclosures on behalf of corporates so that the investor is apprised of various developments.

US Congressional Delegation Visits India

A ten member US Congressional delegation led by Congressman R. Gephardt, Minority Leader, US House of Representatives visited India in March-April 1999. The delegation called on the Finance Minister Yashwant Sinha in New Delhi. Speaking to the delegation, the Finance Minister enumerated the proactive steps taken by the Government to liberalize the economy and accelerate the economic reforms. He said that India weathered the East Asian crisis because of the important steps taken by the Government on controlling current account deficit and its cautious approach towards the inflow of short-term funds to the country. He said that these steps resulted in only marginal withdrawal of foreign investments from India when compared to the global economic crisis. The market sentiments continued to be buoyant and the foreign exchange reserves have touched an all time high.

The Finance Minister also informed the delegation that the Government is taking all possible measures to streamline the system for attracting more foreign investments to core sectors, high technology and infrastructure. Procedures are being made more transparent and policy is shifting towards the automatic regime for foreign investments. He mentioned the recent initiatives taken by the Government like opening up of Insurance Sector, Coal and Lignite, announcement of new Telecom Policy and measures initiated in Ports and Roads and in Power Sector. He also informed the delegation that India is committed to abide by the international trading obligations of the World Trade Organization (WTO). He mentioned that the Intellectual Property Rights and Copy Rights Acts would be further amended to help facilitate more liberal regime in trade and commerce.

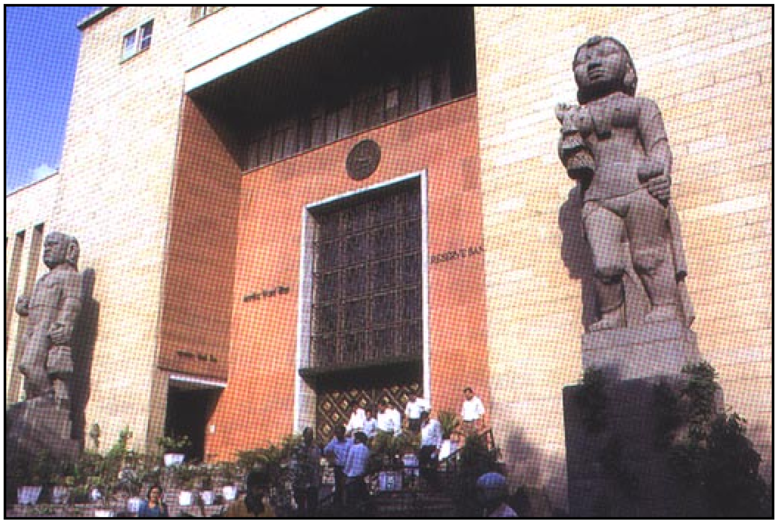
Answering the questions of the American delegates, the Finance Minister said that the major initiatives of the Government bear a stamp of political consensus and the policies on reforms encompass the aspirations of common people. He also apprised the delegation about the steps taken by the Government to control prices of essential commodities, inflation and the rural thrust given in the Budget 1999-2000.

US commends India's Initiatives on Patents

With regard to the matter before the Dispute Settlement Body (DSB) of the World Trade Organization (WTO) relating to Patent Protection for Pharmaceutical and Agricultural Chemical Products, India had undertaken to implement the recommendations of the DSB and to meet its obligations under the WTO by 19 April 1999. The issue related to implementation of India's obligations under Article 70.8 and 70.9 of the TRIPS Agreement, that is, obligations relating to setting up a "mailbox" system as also a mechanism for grant of Exclusive Marketing Rights (EMRs) in respect of pharmaceutical and agricultural chemical products. The Patents (Amendment) Act 1999 was passed in the Budget Session of Parliament and notified, after receiving the assent of the President on 26 March 1999. With these amendments, the facilities for "mailbox" and EMR have been provided and India has fully complied with the recommendations of the DSB in the matter.

After the passage of the Patents (Amendment) Act 1999, the US delegation at the WTO, in a statement made before the DSB of the WTO in Geneva, has said that "we are pleased to conclude that no further action by the United States or the DSB is appropriate at this time…" The US delegation has also thanked the Government of India for its "cooperative and constructive approach towards addressing our concerns…"

Monetary and Credit Policy for the year 1999-2000 Announced



India's central bank, The Reserve Bank of India

Dr. Bimal Jalan, Governor of India's central bank, Reserve Bank of India (RBI), announced the Monetary and Credit Policy for the year 1999-2000 on April 20, 1999. The Governor, after presenting a review of macro-economic developments during 1998-99, spelt out the stance of the policy for the current year and announced an array of measures. ***Cash Reserve Rate (CRR) has been reduced by 0.5 percentage points to 10% to ease liquidity. Other measures which were announced related to the development of money, government securities and debt markets, strengthening of prudential norms, rationalization of interest rates, introduction of a new liquidity adjustment facility, and reforms in Micro Credit, Venture Capital and Infrastructure Financing.***

Domestic Developments

The Governor said that according to the preliminary estimates of the Central Statistical Organization (CSO), the ***GDP growth*** in 1998-99 is likely to be 5.8% as compared to 5% for 1997-98. ***Inflation*** is anticipated to be between 5% and 6% in 1998-99.

The Governor observed that the continuing large ***fiscal deficits*** year after year in 1990s have led to sharp increase in repayment obligations and a reduction in average maturity profile of outstanding public debt. The Governor also stated that sooner or later, the pressure on market interest rates would become unavoidable unless fiscal deficit of the Government and its borrowing requirements were kept within reasonable limits.

The Governor said that developments during the past year illustrate the dilemma faced by monetary authorities in a situation of uncertain macro-economic outlook in respect of inflation and growth, alongside high monetary growth. A high rate of growth in money supply warrants tightening of liquidity (and increase in interest rates) in order to dampen aggregate demand and to avoid potential problems. However, if growth of output is also low, tightening of money supply during a period of relatively low inflation may result in a further loss of output. This in turn could result in lower revenue and the need for Government to borrow further.

External Developments

The Governor said that the 18-month period since September 1997 presented major challenges for management of the external sector. Faced with several unfavorable developments, the Reserve Bank had to take recourse to monetary and other measures from time to time in order to stabilize the situation in the foreign exchange market. The day to day movements in ***exchange rates*** were market-determined and would continue to remain so. The primary objective of the Government and the Reserve Bank in regard to the management of the exchange rate is to maintain orderly conditions in the foreign exchange market, and to curb destabilizing and self-fulfilling speculative activities by some foreign exchange operators during certain periods in order to take advantage of prevailing uncertainties in the domestic or international situation.

(Continued on page 5)

Monetary and Credit Policy for 1999-2000 Announced *(Continued from page 4)*

Stance of Monetary Policy for 1999-2000

The Governor said that a major challenge for monetary policy in 1999-2000 is the need to reconcile the conflicting objectives of restraining the overall growth of liquidity in order to ensure price-stability, and at the same time facilitating the flow of adequate bank credit for productive sectors of the economy in order to improve growth. If industrial growth picks up, this may also help in restraining the Government's demand for additional credit from the banking sector, he added. He felt that keeping in view the Government's borrowing requirements, an unduly restrictive credit policy could militate against the need to enhance growth prospects. As such, he said, a reasonable projection for money supply (M3) growth in 1999-2000 would be in the range of 15.5 to 16%.

Credit for Infrastructure - Guidelines

The RBI has finalized operational guidelines, in consultation with select banks and financial institutions, for extending credit for infrastructure projects. Banks/Financial Institutions will be free to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public and private sector undertakings subject to prescribed criteria. Banks are also being permitted to issue inter-institutional guarantee subject to certain norms.

Payment and Settlement System and Y2K Compliance

The Reserve Bank will expand the VSAT (Very Small Aperture Terminal) based network in order to ensure that both funds and non-funds business are placed on an on-line basis as soon as possible. A National Payments Council with a Deputy Governor as the Chairman and representative membership is being constituted. It is planned to have real time gross settlement (RTGS) system in place in the next 15 to18 months.

The financial sector has responded reasonably well to the Reserve Bank's initiative in September 1997 to take necessary action to be Y2K compliant. Regular meetings between the banks and RBI in recent months have helped to give confidence that the system would not carry the Y2K risk. The information about the Y2K compliance position in the financial sector is being shared with the groups working on Y2K compliance in the rest of the economy.

The full text of the Monetary and Credit Policy for 1999-2000 is available at the Reserve Bank of India website at: www.rbi.org.in

Exchange Control Manual on RBI Website

The Reserve Bank of India has put up the Exchange Control Manual on its website (www.rbi.org.in). The Exchange Control Manual is updated till December 1998. The Reserve Bank has also made available on the website all the forms required for exchange control purposes. The Exchange Control Manual can be directly accessed at the following website: www.ecm.rbi.org.in. The circulars as well as forms issued since January 1999 are separately available on the RBI Website under “Notifications” and “Forms” respectively.

Standard & Poor's Affirms India's Currency Ratings; says Outlook Stable as Economic Policy Shielded from Political Turmoil

International Credit Rating agency, Standard & Poor's, has affirmed its existing currency ratings for India despite the political upheaval and termed the outlook as stable. According to the US-based rating agency, the affirmation reflects the fact that India's reliance on weak coalition governments is factored in for its current rating.

Standard & Poor's has affirmed its BB foreign currency and BBB local currency long term issuer credit ratings for India. The agency also affirmed its single-B foreign currency and A-3 local currency short term issuer credit ratings for the country.

"Frequent changes of government are the inevitable consequence of the fragmentation of India's voting patterns in recent years, the long-term decline of the once-dominant Congress party, and the heightened assertiveness of regional political groupings," an agency press release stated.

According to Standard & Poor's, India's ratings continue to be constrained by limited prospects for meaningful fiscal adjustment and vulnerability to terms-of-trade shocks in the external sector. However, the ratings were supported by ongoing regulatory and structural reforms in other sectors, as well as prudent international liquidity management. Official foreign exchange reserves cover about 165% of total government, public sector, and private sector external repayment obligations due within the next 12 months, the agency said. At $32.6 billion on April 7, they mitigate the risk of a sudden loss of external confidence even as exports decelerate and the trade gap widens.

Moody's Rating Outlook on India Remains Stable in spite of Political Turmoil

International credit rating agency, Moody's Investors Service, has maintained its stable outlook for India's Ba2 country ceiling on foreign currency bonds and notes, following the collapse of the Bhartiya Janata Party (BJP) led coalition government on April 17. Moody's sovereign analysts said that this type of circumstance was within the boundaries of what they had anticipated might recur when the rating was lowered by two notches in June 1998. At that time, Moody's had pointed out that the fractious political environment had made it difficult to correct the country's weakening fiscal and external balances. In Moody's opinion, these frequent changes of government are detrimental to substantive progress on needed structural reform, which in turn has contributed to a loss of investor confidence.

Among the structural problems that need to be addressed, according to Moody's, are: deterioration in public sector finances, a slowdown in export growth leading to worsening external balances, infrastructure limitations that have restrained output, and the absence of a coherent, growth-oriented macroeconomic policy framework.

The rating agency indicated that since the current rating already incorporates the possibility of electoral changes, it would not be affected by which party or parties ultimately form the government, unless a new government appears to have a better chance to remain in office for a full term.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 22.75 million tonnes as on March 1, 1999. This level of stocks was higher by 21% than the level of 18.74 million tonnes as on March 1, 1998.

Industrial Production: During the financial year 1997-98 (April 1, 1997 - March 31, 1998) industrial production increased by 6.6%. In the period April 1998 - February 1999, industrial production increased by 3.9% as compared to 6.9% in the same period in the last financial year.

Infrastructure Industries: During 1997-98, production in infrastructure industries grew by 5.4%. During April 1998 - February 1999 average growth rate of this sector was 2.2% compared to 5.5% in the same period in the last financial year.

Money Supply: During the financial year 1997-98, money supply (M3) growth was 17.9%. During the current financial year up to March 26, 1999 money supply (M3) growth was lower at 17.9% as against 18% in the corresponding period of 1997-98. As on March 19, 1999, Prime Lending Rate was 12% to 13% as against 14% on March 20, 1998. As on March 19, 1999, Deposit Rate ranged between 9% to 11.5% as against 10.5% to 12% as on March 20, 1998.

Foreign Trade: In the financial year 1997-98, exports recorded an increase of 1.5% in dollar terms while imports increased by 4.2%. In April 1998 - February 1999, exports increased by 1.6%. Imports increased by 8.1% during the same period.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were $ 25.98 billion at the end of 1997-98 (March 31, 1998). These reserves have increased to $29.52 billion at the end of March 1999. This level of reserves is enough to finance about eight 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.42.45, Rs.68.77, Rs.23.58, Rs.7.03, and Rs.0.35 respectively during March 1999.

Rate of Inflation: The annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 4.6% as on April 3, 1999. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 8.6% for the month ending February 1999.

Reforms in States: Four states sign Memoranda of Understanding on fiscal reforms with Ministry of Finance

Four states, Punjab, Orissa, Himachal Pradesh and Rajasthan have, in a path-breaking move, committed themselves to substantial fiscal reforms, including time-bound hike in user charges for infrastructure and containment of expenditure. A series of memoranda of understanding (MoU) — binding the state governments to World Bank style-conditionalities — have been signed with the Finance Ministry. By agreeing to the conditionalities, the four states are entitled to additional assistance from the federal government. The MoU is one element of the long-term strategy to extend fiscal reforms to the states.

NEWS BRIEFS

- Three firms founded and operated by Indian Americans employing a total of 2,009 employees, have figured in the Washington Post's list of top 100 largest public companies in Washington and the surrounding suburbs. The firms, all in the telecommunications sector, are: ***Primus Telecommunications Group Inc***, placed 43rd; ***Startec Global Communications Corp***, placed 74th; and ***LCC International Inc***, placed 93rd.

- ***Principal Financial Group***, the largest provider of pension plans in the United States, has shortlisted three companies to buy a stake into, in its bid to enter India. (Business Standard)

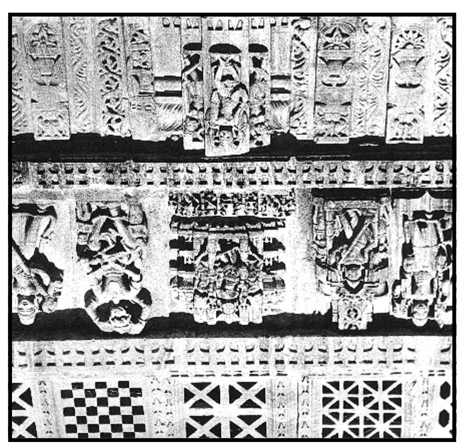
- The Foreign Investment Promotion Board has approved the proposal of ***Thomas Publishing*** of USA to publish trade and commerce directories in India. The venture will be 100% owned by the US publishing firm. (Business Standard)

- US major ***Merck & Co*** has emerged as a frontrunner in the race to license Ranbaxy Laboratories' original research molecule to treat benign prostatic hyperplasia (BHP). (Business Standard)

- US-based power major ***PSEG Global*** is proposing to pick up a 63% stake in the 525 MW Tri-Sakthi power project in North Chennai. The company will also be a partner in the 300 MW power project of Madras Refineries Limited and is hoping to participate in a number of other power projects across the country. (Times of India)

- Unitech Limited is setting up three 5-star hotels under the franchise and management of ***Radisson Hotels*** in the country. Unitech has already set-up a 5-star hotel in Delhi bearing the Radisson name. (Times of India)

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



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