



INSIDE:

Indian Economy adjusts for Global Growth 2

Annual Report of RBI .. 3

Draft Electronic Commerce Act in making 4-5

Growth Estimates for India Revised 4

New Gold Deposit Scheme 5

New Initiatives on Economic Reforms 6

Moody's Raises Outlook on India's Ratings to Positive 6

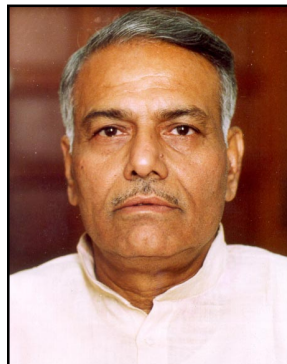
Economic Update 7

ICICI becomes first Indian Co. to be listed on NYSE 7

News Briefs 8

Annual Fund-Bank Meeting

Finance Minister Visits USA



**Mr. Yashwant Sinha
Finance Minister**

The Finance Minister of India, Mr. Yashwant Sinha visited USA in the last week of September as the head of the Indian delegation to attend the Annual Meetings of the World Bank and IMF. Speaking at the meeting of the IMF Interim Committee, the Finance Minister stated that while it is gratifying that the outlook for the world economy is positive for the first time after two years, one should not lose sight of the impoverishment of millions of people in Asia, especially since unemployment rates in the affected countries are forecasted to stay at unprecedented levels for some time.

At the Development Committee meeting, Mr. Sinha stated that globalization and economic integration has ushered in an era of fresh promise and at the same time has posed serious challenges to developing economies. This has also brought the issues of institutional reform, governance, transparency and participatory models of development into sharp focus. The new international financial architecture being discussed as a response to these developments must keep in mind a role for the World Bank consistent with its mandate, resources and comparative advantage.

Mr. Yashwant Sinha's speech at the Meeting of the Joint Boards of Governors touched upon three themes. First, in the context of the recent crises, he stated that while the Bretton Woods Institutions should be empowered to deal effectively with the emerging challenges, we must not lose sight of the basic mandate of these organizations. The pre-occupation with crisis management in some countries must not distract them from their basic missions of providing temporary balance of payments support and long-term development finance to all developing countries. Second, on the issue of a new international financial architecture, Mr. Sinha stated that it should not be focussed on a limited modification of the existing system. Long-standing concerns of developing countries must also get their due attention. Issues such as the declining levels of aid, stagnation of other official flows, insufficient international liquidity at times of financial stress, low primary product prices and the limited access of most developing countries to private capital flows need to be brought to the

"I think India has done pretty well. I think it is an economy that has grown remarkably well over the last decade".

**— James D. Wolfensohn
President,
World Bank**

(Continued on page 2)

Finance Minister Visits USA *(Continued from page 1)*

forefront of the global agenda. Thirdly, Mr. Sinha cautioned that political considerations should not be injected into the programmes and operations of the Bretton Woods Institutions and we must protect the integrity of these great institutions from the encroachments of short-term, national foreign policy expediencies.

Recent Developments in the Indian Economy

While in Washington DC, Mr. Sinha addressed a large gathering of the American business community at a luncheon meeting organised by the US-India Business Council (USIBC) and the Confederation of Indian Industry (CII). Reiterating the commitment of the Indian Government to continue with its programme of economic reforms, Mr. Sinha outlined the impressive macroeconomic achievements of India against the background of serious global slowdown. India improved its GDP growth rate from 5 per cent in 1997-98 to 6 per cent in 1998-99 and is expected to register a higher growth rate in 1999-2000. This makes India one of the ten fastest growing economies during this decade. Furthermore, this recent revival in India's growth has been accompanied by a welcome decline in the rate of inflation to below 2 per cent, the lowest attained in 17 years.

The major indicators of external stability continue to improve. Although world trade growth has remained anemic, the current account deficit is expected to be below 2 per cent in 1999/2000, despite the sharp increase in world oil prices. The debt service ratio is expected to decline even further to less than 18 per cent in 1999/2000. Foreign currency reserves have increased substantially in the last 18 months. It has been India's policy to ensure that short-term debt is kept within prudent limits, and it now constitutes less than 5 per cent of the aggregate external debt.

Mr. Sinha highlighted the political consensus in India in favour of reforms and pointed out that this is evident from an almost total convergence on economic issues in the election agendas of the two major political formations. No one should, therefore, have any doubt that the new government in India will implement an ambitious agenda of second-generation reforms. These will cover the entire spectrum, including revitalization of rural economy, fiscal policy, the financial sector, trade, foreign investment, infrastructure and industrial relations besides the rightsizing of government and restructuring and privatization of public enterprises, as necessary. The Finance Minister said, "With these reforms, we are confident that the daunting task of lifting hundreds of millions of people out of poverty is attainable within the first decade of the new millennium."

Indian Economy Adjusts for Global Growth

In a Special Report on India in its October 1999 issue, the widely regarded Global Finance magazine has highlighted how the Indian economy is adjusting for global growth. According to the author, Aaron Chaze, the continued structural reforms and a new sense of urgency about being able to compete globally are changing the business environment in India and creating new opportunities for both domestic and foreign investors.

A result of seven years of continuous reforms and the last three years of restructuring has made Indian companies more outward looking and globally competitive. The need for capital and to remain competitive has forced even the family owned Indian companies to turn over the management to professionals, thus improving investor perception, both domestic and international alike.

The Report also mentions the favorable shift in the macroeconomic indicators of India especially after April 1999 onwards when the inflation had dropped to a 17 year low level and the industrial production had registered a recovery against the back drop of bumper harvest and a strong agriculture growth. The growth in the manufacturing sector, particularly in capital goods and automobile sector, is sending positive signals to international investors.

Annual Report of RBI

The RBI Annual Report, released in August 1999, illustrated a positive picture of the Indian Economy. According to the report, the year 1998-99 provided yet another evidence of resilience of the Indian economy to withstand several domestic and international uncertainties. Not only was the real GDP growth estimated to be higher in 1998-99 than in 1997-98, but also the inflation rate was significantly lower, The Foreign currency reserves increased substantially, while foreign exchange market, despite the uncertain international environment and deceleration in the world trade, remained orderly in general. Agriculture made a recovery. The performance of the services sector remained significant. However, there was some slowdown in industrial output. Monetary and fiscal policy ensured that aggregate demand-supply balance was secured without constraining growth impulses.

Monetary Policy

The stance of monetary policy for 1999-2000 took into account the significant improvement achieved in the year-end price situation, agriculture production and stability of the external sector in 1998-99. Keeping in view the paramount need to improve industrial growth, the stance of monetary policy continued to place emphasis on facilitating availability of liquidity in the economy along with stable medium and long term interest rates, with policy preference for softening to the extent circumstances permitted. In April 1999, monetary expansion for 1999-2000 was projected within the range of 15.5 - 16 per cent consistent with the objective of a real GDP growth of 6.0 to 7.0 per cent and inflation rate of around 5.0 per cent.

Fiscal Policy

The approach of private placement combined with active Open Market Operations (OMOs) proved effective in containing the adverse interest rate effect of the Government large borrowing from the market without distorting the yield curve and market expectations regarding interest rates. The medium and long term interest rates, therefore, remained fairly stable during the year.

Exchange Rate Policy

The management of exchange rate during 1998-99, particularly in the early part of the year, was a challenge in view of the turbulence in the Southeast Asian financial markets, the spread of contagion to other markets such as Russia and Brazil and the economic sanctions. The exchange rate of the rupee moved sharply from around Rs.39.73 per US dollar to around Rs.42.27 per US dollar in September '98. The exchange rate, by and large, remained stable during September 1998 - March 1999, moving within a range of Rs.42.27 to Rs.42.63 per US dollar. From August 1998 to March 1999, the cumulative purchases of the RBI was around US \$4143 million resulting in net purchases of US \$1842 million by the Reserve Bank for the year as a whole.

Financial Sector Reforms

Out of the 27 public sector banks, 26 banks achieved the minimum capital to risk weighted asset ratio (CRAR) of at least 8 per cent by March 1998. While 19 banks had CRAR exceeding 10 per cent, 7 banks had CRAR between 8 to 10 per cent. Recently, commercial banks and other financial institutions have entered the world of information technology and computer networking in India. The Indian Financial Network (IFINET), a wide area satellite based network using VSAT technology, has been inaugurated. The IFINET would cover, in a phased manner, 100 commercially important centres and serve as communication backbone of the proposed Integrated Payment and Settlement System (IPSS). It is planned to introduce Real Time Gross Settlement (RTGS) in about one and half years time. In order to address the Y2K problem, a high level Working Group with members were drawn from banking, regulatory, supervisory and information technology departments of RBI, Indian Banking Association (IBA), Commercial Banks and National Institute of Bank Management (NIBM) to review the progress made by banks and financial institutions in complying with Y2K requirements at frequent intervals.

Note: The complete report may be viewed at: <http://www.rbi.org.in>

Draft Electronic Commerce Act in Making

The rapid development of information and communication technologies over the past decade has revolutionized business practices. Transactions accomplished through electronic means — collectively “electronic commerce” — have created new legal issues. The shift from paper based to electronic transactions has raised questions concerning the recognition, authenticity and enforceability of electronic documents and signatures. The challenge for lawmakers has been to balance the conflicting goals of safeguarding electronic commerce and encouraging technological development.

On the initiatives of Ministry of Commerce, a draft of Electronic Commerce Act and Electronic Commerce Support Act has been prepared to facilitate a secure regulatory environment for e-commerce. The legislation aims to facilitate the development of secure regulatory environment for electronic commerce by providing a legal infrastructure governing electronic environment for electronic contracting, security and integrity of electronic transactions, the use of digital signatures and other issues related to electronic commerce.

The Electronic Commerce Act is divided into fifteen parts, which can be summarized as follows:

Part I of the Act outlines the general purpose of the Act, provides definitions for terminology used within the Act and defines the scope of the application of the Act.

Part II of the Act addresses electronic records and electronic signatures generally. It provides that, with limited exceptions, electronic records and signatures should be accorded the same treatment as paper records and signatures for purposes of complying with statutory writing, signature, evidentiary and record-keeping requirements.

Part III of Act addresses the integrity and authentication of secure electronic records and secure electronic signatures. Secure electronic records and signatures define specific categories of records and signatures that are afforded greater evidentiary presumptions because of their enhanced reliability and trustworthiness. The concept of a secure electronic record or a secure electronic signature will foster the growth of electronic commerce by providing businesses with assurances that records and signatures which meet the statutory definitions of “secure” records or signatures will be accorded the heightened evidentiary presumptions necessary to make business transactions effectively nonrepudiable.

Part IV of the Act addresses issues of electronic contracting. This Part deals with the form in which

(Continued on page 5)

Growth Estimates for India Revised

IMF has revised upward the estimates of recent output growth in India in the October 1999 issue of World Economic Outlook (WEO). The revision, which is referenced to their May 1999 projections, goes up by 0.5 per cent for 1999 from 5.2 per cent to 5.7 percent and by 0.4 per cent for 2000 from 5.1 to 5.5 per cent. The revision partly reflects a strong rebound of agriculture and improvements in the short-term prospects. According to WEO, the increase in agricultural incomes is providing a boost to domestic demand, and with exports also recovering, the industrial production has begun to revive. Inflationary pressures, meanwhile, have declined with easing of supply problems in a number of key agricultural commodities. However, to establish the conditions for strong sustainable growth over medium term, policy action is needed on various fronts. As per WEO, in addition to the public sector reforms for fiscal consolidation, prospects for meaningful growth in per capita income would be greatly improved through faster progress with privatization of state-owned banks, combined with measures to increase labour market flexibility, deregulate product markets, and liberalize the trade regimes.

Draft Electronic Commerce Act in Making *(Continued from page 4)*

an offer and an acceptance may be expressed and legal recognition of contracts formed in an electronic medium. This Part aims to provide increased legal certainty as to the conclusion of contracts by electronic means.

Parts V, VI, VII, VIII and IX of Act address the legal issues related to the use of digital signatures. Digital signature technology, which utilizes asymmetric cryptography technology, has been developed to facilitate secure transactions over the Internet and other computer networks. Although the electronic contracting sections of the Act have been drafted to be technologically neutral, Parts V-IX have been included to establish rules for the use of the most prominent current technology. Thus, a digital signature issued in accordance with Part V will be presumed to be a secure electronic signature.

Part X of the Act addresses the acceptance and use of electronic records and electronic signatures by governmental entities. This section authorizes any department or ministry to accept electronic filing of documents and to issue permits, licenses or approvals electronically. This section also empowers any department or ministry of the Government to specify the conditions and procedures for electronic filing or retention of documents. However, this section does not compel a department or ministry of the Government to accept or issue any document in electronic form if it does not wish to do so.

Part XI of the Act deals with issues relating to the liability of network service providers.

Part XII of the Act provides criminal penalties for intentional damage or destruction of information systems or data, intentional “trespass” into a system and intentional theft of computer services, tampering with data, interrupting network services and intentionally introducing viruses into computers or computer networks.

Part XIII of the Act contains general provisions relating to the use of electronic records.

Legislative changes are also required in several other Acts which have some aspects relating to e-commerce. These facilitating changes are covered by The Electronic Commerce Support Act, which will be an Act to amend various Central Acts such as the India Penal Code (IPC) of 1860, Contract Act (1872), General Clauses Act (1897), Indian Evidence Act (1872), Indian Telegraph Act (1885), Reserve Act of India Act (1934) and the Banker’s Book Evidence Act (1891). Both these draft legislations would be placed for parliamentary approvals with modifications as considered necessary.

New Gold Deposit Scheme '99

To help bring privately-held gold stock into circulation and reduce the country’s gold imports, the Union Government last week notified the long-awaited Gold Deposit Scheme, 1999

The scheme, which comes into immediate effect, will also help gold owners generate income from the yellow metal and relieve them of the problems associated with its storage, security and movement. The scheme was announced by Union Finance Minister Yashwant Sinha earlier this year, during the presentation of the Union budget in Parliament.

According to the notification issued by the Ministry of Finance on Sept. 15, select banks will be authorized to operate the scheme after getting approval from the Reserve Bank of India (RBI).

The gold deposited could be in the form of bars, coins or jewelry. The bank, after assessing the gold received, will issue the depositor a gold certificate, a statement of account and a passbook.

The bank will pay interest at rates and intervals it decides upon, unless the RBI steps in with a directive. A nomination facility will be available on the lines of rupee deposit schemes. The gold certificate will be transferable by endorsement.

New Initiatives on Economic Reforms

The new Council of Ministers of the Central Government which was sworn in on October 13, 1999 has immediately got down to business. In two successive meetings within the first ten days, it has cleared a number of measures to speed up the process of economic reforms. The long-awaited Insurance Regulatory bill was the first in this line. Among others were the Foreign Exchange Management Act (FEMA), the Prevention of Money Laundering Act (PMLA), and amendment to Securities Act to permit trading in derivatives.

The Insurance Regulatory Bill paves the way for opening up the insurance sector to Indian Joint-venture firms with a maximum foreign equity of 26 per cent. Subsequently, Life Insurance Corporation (LIC) Act and General Insurance Act will be suitably amended to end the monopoly of state owned companies writing insurance business in the country.

The FEMA and PMLA are twin legislation, which would replace the draconian Foreign Exchange Regulation Act (FERA) for which a bill had been presented to Parliament and then sent to the Parliamentary Standing Committee. The Committee had suggested some changes in this legislation, which have now been incorporated in the new bills. These bills would be introduced in the Parliament.

Another major decision of the Cabinet was the clearance for derivatives trading in the country, which had not been allowed since independence. The other legislative business approved included transfer of certain appellate functions to Securities Appellate Tribunals and the telecom package to provide for migration to revenue sharing formula for private telecom operators.

With a view to contain the fiscal deficit, the Government had already reduced substantially the subsidy on diesel. At the Cabinet meeting, the Finance Minister emphasized the urgency of reducing subsidies further on food and fertilizer. The cabinet was informed about the need of increasing prices of LPG and kerosene in tandem with the increase in diesel prices though not in the same proportion. The Finance minister also sought the cooperation of his cabinet colleagues in expediting the disinvestment process to achieve the budget target of Rs. 10,000 crores.

Moody's Raises Outlook on India's rating to Positive

Almost immediately after the announcement of India's general election results, Moody's Investor Service raised the outlook on India's foreign and domestic currency debt to positive with BA2 ratings. In Moody's opinion, the new government is likely to stay in office longer and be able to undertake a more aggressive economic restructuring.

India's favorable external sector factors provided the main basis for upgradation. Throughout the East Asian and Russian crisis as well as the imposition of the sanctions after the nuclear testing, India's balance of payment remained resilient. Moreover, Moody's also felt that prudent management of the external debt and strengthening of the foreign exchange reserves in recent years has considerably reduced the vulnerability of the Indian economy to external shocks.

On the domestic factors, Moody's felt that the Indian business confidence seems less affected by political instability. They also noted the economic recovery registered during the year, which was largely due to factors such as the restructuring of private enterprises and an improvement in infrastructure as well as recovery in the Asian and European export markets.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 30.74 million tones as on August 1, 1999. This level of stocks was higher by 12.6% than the level of 27.31 million tones as on August 1, 1998.

Industrial Production: In the financial year 1998-1999 (April 1st 1998 to March 31st 1999), industrial production increased by 4% as compared to 6.6% in the last financial year. In April-July 1999, industrial production increased by 5.4% as compared to 4.2% in the last financial year.

Infrastructure Industries: During 1998-1999 average growth rate of this sector was 2.5%. During April-July 1999, production in infrastructure industries grew by 5.5% as compared to 3.5% in April-July 1998.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 19.2%. In the current financial year up to August 13, 1999, money supply growth was 5.4% as against an increase of 4.6% in the corresponding period of 1998-99. As on August 13, 1999, Prime Lending Rate was 12% to 12.5% as against 12.75% to 13% on August 14, 1998. As on August 13, 1999, Deposit Rate ranged between 8% to 10.5% as against 9% to 11.5% as on August 14, 1998.

Foreign Trade: In 1998-99, exports increased

by 3.7% in dollar terms while imports increased by 7.9%. Exports in dollar terms during April-July, 1999 increased by 4 % as compared to a decline of 3.8 % during April-July, 1998. Imports increased by 1% as against 8.3% during April-July, 1998.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were \$ 29.52 billion at the end of 1998-99 (March 31, 1999). These reserves have increased to \$30.60 billion at the end of August 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.43.46, Rs.69.83, Rs.23.58, Rs.7.03, and Rs.0.38 respectively during August 1999.

Rate of Inflation: As of August 28, 1999, the annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 1.8% as compared to 8.8% in 1998. For the month ending July 1999, the annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 3.2% as compared to 14.8% in the corresponding period last year.

ICICI becomes first Indian company to be listed on NYSE

In the 207-year history of the New York Stock Exchange (NYSE), ICICI became the first Indian company to be listed on the NYSE. Trading began on the stock of the Indian company on September 22nd, 1999.

ICICI also became the first non-Japanese Asian financial services company to be listed on the NYSE, and the second Indian company, after Infosys Technologies, to be listed on a foreign stock exchange.

The ICICI stock, in the form of American depository receipts (ADRs), shot up to \$11, up over 12 percent from its offer price, signaling strong investor interest.

ICICI met the accounting standards of the U.S. generally accepted accounting principles and all the other strict regulatory requirements.

At a press conference, ICICI chief executive officer and managing director K.V. Kamath said the company had completed the listing in a short 12-week period, which investment bankers said is remarkable for any company. He said the completion of the issue sent out a message to other Indian companies aspiring to be listed on U.S. stock exchanges that transparency pays.

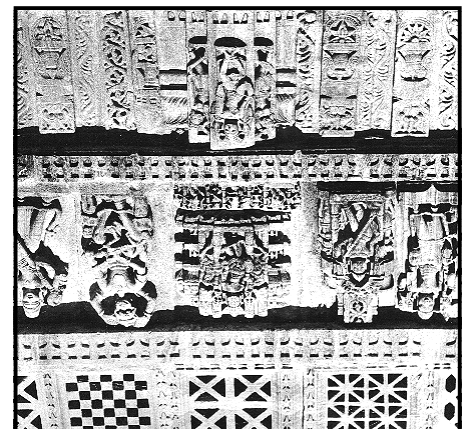
NEWS BRIEFS

- **Discovery Communications Incorporated** of the United States has decided to infuse \$13 million into its Indian subsidiary — Discovery Communications India (DCI), and is planning to beam various sector-specific pay channels. Besides, the media giant is also exploring the feasibility of increasing its presence in the regional markets of India by dubbing its programs in several regional languages like Tamil, Bengali, and Telugu. - (*India Abroad*)
- Representatives of the **US-India council** are drawing up a co-operation roadmap for several sectors of industry with particular focus on Infotech, E-commerce and Infrastructure. These are said to be the high-priority areas which could be developed in a co-operative manner between US business houses and Indian Corporates - (*Economic Times*)
- **Wipro Infotech and IBM** have entered into a tie-up whereby Wipro will distribute IBM's Intel PC range in India. To begin with, the focus will be on servers and notebooks. According to a statement from Wipro, this relationship seeks to enhance market addressability for both IBM and Wipro. The addition of the IBM range will enhance

Wipro's portfolio of products while providing system integration solutions to the Indian IT markets. (*Business Standard*)

- Massachusetts-based **Aspen Technology**, a leading supplier of integrated software and services has announced "a multimillion dollar" agreement with Bharat Petroleum Corporation Ltd. (BPCL) to help improve its efficiency. BPCL, India's second-largest oil company, would use AspenTech's "Plantelligence" (software) solution to operate its Mumbai oil refinery at peak efficiency and integrate the plant's operations with those of the entire corporation. - (*India Abroad*)
- **Logistix**, a world leader in supply chain management, outsource operations and e-commerce services, has announced a strategic alliance with Repro India Ltd., one of India's largest integrated fulfillment houses. Through this alliance, Logistix expands its global network of operating centers and offers its full range of supply chain management services to its customers around the world that have operational needs on the Indian sub-continent, and is well positioned to support the high-tech industry in the region. - (*Economic Times*)

NOTE: This newsletter can also be seen at:
<http://www.indianembassy.org>
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