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“You liberated your markets and now you have one of the fastest growing economies in the world. At the rate of growth within your grasp, India’s standard of living could rise by 500 percent in just 20 years. You embraced information technology and now, when Americans and other big software companies call for consumer and customer support, they are just as likely to find themselves talking to an expert in Bangalore as one in Seattle.”

— U.S. President Clinton

President Clinton Visits India



President Clinton

The U.S. President Bill Clinton was on a five-day visit to India from March 21 to 25, 2000. Speaking on his visit, the President said that they have come as friends. America is the largest trading partner and investor for India and the objective, he said, is to build a new partnership on a level higher than that experienced over the last two decades. He also saw the visit as strengthening the commitment to work together to protect the environment, to promote clean energy, to fight against deadly disease and to use science and technology to help people rise from poverty.

Following agreements were signed by the Government of India and the United States during the visit:

- **Vision Statement: India-U.S. relations – a vision for the 21st century**
The leaders of the two countries agreed that a regular, wide ranging dialogue is important for achieving the goal of establishing closer and multifaceted relations between India and the United States and for the two countries to work jointly for promotion of peace and prosperity in the 21st century. They also decided to institutionalize the bilateral dialogue and envisaged following initiatives.
 - a. A **Coordination Group** to be set up to develop the agenda and to undertake preparations for meetings at the level of the Heads of Governments.
 - b. **U.S.-India Financial and Economic Forum:** The U.S. Secretary of the Treasury and the Indian Minister of Finance will host a forum on finance and investment issues, macroeconomic policy and international economic developments at regular intervals.
 - c. **U.S.-India Commercial Dialogue:** The U.S. Secretary of Commerce and the Indian Minister of Commerce and Industry will lead a dialogue to deepen ties between the Indian and American Business communities. The dialogue will encompass regular government-to-government meetings to be held in conjunction with private sector meetings.
 - d. **U.S.-India Working Group on Trade:** The United States Trade Representative and the Ministry of Commerce and other concerned Ministries/Departments of the Government of India will engage in regular discussion to enhance cooperation on trade policy.
- **Joint Statement on Cooperation in Energy and Environment**
A joint statement on cooperation on energy and environment issues has also been signed by the two countries during the Presidential visit. The statement outlines a common agenda on clean energy development and environmental protection. The two countries intend to work together and with other countries in appropriate multilateral fora toward

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Monetary and Credit Policy: 2000-2001 Announced

Dr. Bimal Jalan, Governor of the Reserve Bank of India (RBI), announced the Monetary and Credit Policy for the year 2000-2001 on April 20, 2000. The Governor, after presenting a review of macro-economic developments during 1999-2000, spelt out the stance of the policy for the current year.

Domestic Developments

The Governor stated that a relatively high growth of output, supported by sustained industrial recovery, combined with low inflation and high reserves, provided a positive environment for monetary management in 1999-2000. During 1999-2000, the annual growth in M_3 , on a point to point basis, was 13.6 per cent (provisional) as against 19.2 per cent in 1998-99. Non-food credit showed an expansion of 16.0 per cent as against an increase of 13.0 per cent in the previous year.

Dr. Jalan disclosed that due to favorable macro economic environment, the Reserve Bank was able to meet the large market borrowing requirements of government without too much stress and without causing upward pressure on interest rates. The Governor said that partly as a result of tax concessions extended to mutual funds in the last year's Budget, there was a substantial increase in resources flowing to such funds during 1999-2000, which is a positive sign for the development and stability of the financial system in the long run.

External Developments

The Governor said that the increase in oil import bill was absorbed without an undue pressure in the overall current account deficit. The current account deficit is likely to be around one per cent of the GDP in 1999-2000. The relatively low current account deficit was made possible by a turnaround in exports, lower growth of non-oil imports and continued buoyancy in invisible receipts. After taking into account the recent changes in oil prices as well as changes in EXIM policy, the current account deficit in the year 2000-2001 is still expected to be well below 2 per cent of GDP.

The Governor observed that the developments in respect of both the exchange rate of the rupee as well as movements in foreign exchange reserves were also satisfactory. At the end of March 2000, the foreign currency assets of the country were higher by U.S. \$5.54 billion compared with a year ago, and reached the highest level of U.S. \$35.06 billion.

Stance of Monetary Policy for 2000-2001

The Governor disclosed that for purposes of monetary policy formulation on the basis of current trends, growth in real GDP might be placed at 6.5 to 7.0 per cent in 2000-2001. Assuming the rate of inflation to be around 4.5 per cent, the projected expansion in M_3 for 2000-2001 is about 15 per cent.

Financial sector Reforms and Monetary Policy Measures

This year's policy also proposes to carry forward the direction of financial reforms initiated in recent years, keeping in view the actual experience in implementation and other relevant developments.

- **Introduction of Liquidity Adjustment Facility (LAF)**

It was decided in principle, to introduce a Liquidity Adjustment Facility (LAF) operated through repo and reverse repos in order to set a corridor for money market interest rates. In the proposed LAF, the quantum of adjustment as also the rates would be flexible. Funds made available by the RBI through this facility would meet primarily the day-to-day liquidity mismatches in the system and not the normal financing requirements of eligible institutions.

- **Banks' entry into Insurance Business**

Banks having a minimum net worth of Rs.500 crore, and satisfying other criteria in regard to capital adequacy, profitability, etc., will be allowed to undertake insurance business through joint ventures on risk participation basis.

- **Interest Rate Policy**

Banks are now free to offer a fixed rate or a floating rate on deposits of any maturity of 15 days and above. On the lending side, banks are free to prescribe their own lending rates including the Prime Lending Rate (PLR). Further, banks have been given the freedom to offer tenor-linked PLRs and fixed rate loans.

The full text of the Monetary and Credit Policy for 2000-2001 is available at the Reserve Bank of India website at: www.rbi.org.in

Finance Minister Visits USA

The Finance Minister of India, Mr. Yashwant Sinha visited USA in the second week of April 2000 as the head of the Indian delegation to attend the Spring Meetings of the World Bank and IMF. While in USA, Mr. Sinha also had meetings with officials of U.S. Administration and addressed several gatherings of American investor community.

At the meeting of the International Monetary and Financial Committee, the Finance Minister stated that the global economic and financial conditions have improved markedly and prospects look promising for world output to grow at 4 percent in 2000. However, the non-oil commodity exporters are unlikely to benefit fully from this recovery. The prices of their products are forecast to increase only modestly after two years of precipitous decline and this will constitute a major terms-of-trade shock for the oil importing developing economies.



Mr. Lawrence Summers, Secretary of the U.S. Treasury and Mr. Yashwant Sinha, Finance Minister of India.

The Finance Minister also expressed concern over the sharp decline in global demand, which could have adverse consequences for sustained growth. These include systemic repercussions on the international financial system and adverse effects on consumption and investment emanating from unfavorable developments in equity markets. He said that a strong and sustained growth is a *sine qua non* for poverty reduction to which all of us must remain committed.

At the Development Committee meeting, Mr. Sinha stated that though the official development assistance has marginally improved, it is disturbing to note the declining trend in long term capital flow to developing countries compared to the high level reached prior to the East Asian financial crisis. The Minister felt that the access of developing countries to the international capital market still remains limited despite a number of confidence-boosting steps. With 1.2 billion people living on income below \$1 a day, fighting poverty is the biggest challenge before the international community today, he said. On the issue of HIV/AIDS, Mr. Sinha stated that the World Bank should design programs based on their experience for all countries affected by AIDS.

Indo-U.S. Economic Relations & Developments in the Indian Economy

In New York and Washington DC, Mr. Sinha addressed large gatherings of the U.S. business community at investment promotion road shows. These were organized by the Asia Society and the Confederation of Indian Industry (CII) in New York and by the U.S.-India Business Council and the Federation of Indian Chambers of Commerce & Industry (FICCI) in Washington DC.

Addressing the investors, Mr. Sinha said that the Indian economy is robust and growing at 6 percent plus in the last decade. The resilience of the economy could be gauged from the manner in which it absorbed the trebling of international oil prices. The process of liberalization and opening up of the economy has continued and in this context, referred to the removal of quantitative restrictions on import of large number of consumer goods. There are, however, some areas of concern and the government is conscious that bold measures are required especially in the areas of fiscal consolidation and improvement of infrastructure.

(Continued on page 6)

President Clinton Visits India (Continued from page 1)

early agreement on the elements of the Kyoto mechanisms, including the Clean Development Mechanism. It has also been agreed to set up a Joint Consultative Group on Clean Energy and Environment. The Group will hold periodic ministerial/high level meetings and will lay emphasis on collaborative projects, developing and deploying clean energy technologies, public and private sector investment and cooperation.

- **India-US Renewable Energy Memorandum of Understanding**

A Memorandum of Understanding in the field of renewable energy was signed between the Solar Energy Center of the Ministry of Non-Conventional Energy Sources and the National Renewable Energy Laboratory of the United States Department of Energy.

- **Science and Technology Agreement**

India and the United States signed an Agreement to establish the Indo-U.S. Science and Technology Forum to facilitate and promote the interaction, of government, academia, and industry in science, technology and other related areas. The Forum will focus on issues of common concern and activities of mutual benefit while exploring trends in science and technology. The Forum will promote research and development, the transfer of technology, the creation of a comprehensive electronic reference source for Indo-U.S. science and technology cooperation, and the electronic exchange and dissemination of information on Indo-U.S. science and technology cooperation.

- **Financial Institutions Reform and Expansion (FIRE) Program**

U.S. Agency for International Development has re-started the Financial Institutions Reform and Expansion (FIRE) program, a four-year, \$25 million initiative to provide technical assistance to strengthen Indian financial markets and regulatory agencies. FIRE will also assist in creating the institutional base necessary for the emergence of a flourishing private insurance industry.

- **Internet for Economic Development Initiative (IED)**

An announcement has been made to include India in the US sponsored, Internet for Economic Development Initiative (IED). Under the initiative, the U.S. Agency for International Development (USAID) will launch a \$5 million, five-year Rural Information Technology Expansion effort to help India utilize the Internet to promote equitable access in under-served rural areas to health and education resources.

- **New Financing to Expand India-U.S. Trade**

Financial support through US Ex-Im Bank for American exports to India was also announced during the Presidential visit. Broadly,

- a) The U.S. Export-Import Bank has pledged a total of \$1 billion to the Ex-Im Bank of India, the Industrial Development Bank of India, and its subsidiary, the Small Industries Bank of India, to enable Indian small and medium sized businesses to purchase U.S.-made goods and services.
- b) The U.S. Ex-Im Bank would guarantee up to \$1 billion in loans denominated in Indian rupees.
- c) A preliminary commitment for \$358 million in financing has been made for the purchase of 10 Boeing B737-800 aircraft to be operated by Jet Airways of India.

In addition, commercial MOUs worth about \$3.5 billion were also signed during the visit by, among others, Motorola, Hughes Network Systems, Bank of America, IBM, Enron and Ogden Energy.

World Bank approves loans worth \$754.3 million to India

The World Bank's Board has recently approved five loans to India worth a total of more than U.S. \$754.3 million. Out of these, three loans have been approved for the state of Uttar Pradesh, one for Rajasthan and one for a health sector project. The *Immunization Strengthening Project* (U.S. \$142.6 million) to be managed will support immunization campaigns and eradicate polio. The *Rajasthan District Poverty Initiatives Project* (U.S. \$100.48 million) would help through improved economic opportunities about 1.6 million people living in 7,000 villages in some of Rajasthan's most economically disadvantaged areas.

The other three loans worth U.S. \$511.3 million approved by the World Bank were aimed to assist Uttar Pradesh (UP). A U.S. \$251 million Fiscal Reform and Public Restructuring Project will assist UP to implement a comprehensive set of reforms in the areas of public expenditure management, tax policy and administration, anti-corruption, deregulation, and privatization. A U.S. \$150 million loan for the UP Power Sector Restructuring Project is critical for the state's achievement of fiscal sustainability over the medium-term, and for meeting the energy needs of the population. A U.S. \$110 million loan for a UP Health Systems Development Project has been cleared to help establish an effective and sustainable health system to better meet the health needs of the state's population.

India's Export-Import Policy 2000

The Commerce and Industry Minister of India, Mr. Murasoli Maran, announced the EXIM Policy for the year on March 31, 2000. The Policy includes new initiatives for export promotion, rationalization of the tariff structure and significant changes in India's regime of quantitative restrictions. Highlights are :-

- **SETTING UP SPECIAL ECONOMIC ZONES:** With a view to enabling hassle free manufacturing and trading activity for the purpose of exports, Special Economic Zones are being set up. The units in these Zones shall not be subjected to any pre-determined value addition, export obligation, input output/wastage norms. They shall be treated as being outside the Customs territory of the country.
- **INVOLVEMENT OF STATE GOVERNMENTS IN EXPORT PROMOTION EFFORT:** For making exports a national effort by involving all the State Governments, a Scheme has been evolved for granting assistance to the States on the basis of their export performance for development of export related infrastructure.
- **INITIATIVES RELATING TO E-COMMERCE:** To speed up the transactions and to bring about transparency in the offices of DGFT, electronic filing of license applications has been already introduced in 7 major ports. This is being extended to all the remaining ports by June 30, 2000.
- **RATIONALISATION OF EXISTING EXPORT PROMOTION SCHEMES:**
 - a) Export Promotion Capital Goods Scheme: No additional customs duty/countervailing duty required to be paid.
 - b) Duty Exemption Scheme:
 - Introduction of post-export duty free replenishment license scheme for enabling import of inputs on the basis of input-output norms.
 - Pre-export DEPB Scheme abolished.
 - c) Duty Entitlement Passbook Scheme: DEPB rates rationalized to account for the changes in Customs duties.
- **SECTOR SPECIFIC RATIONALIZATION:**
 - a. Gems & Jewellery:**
 - Diamond Dollar Account Scheme has been introduced for import of rough diamonds and for purchase of rough diamonds/cut and polished diamonds from local market.
 - Personal carriage of import parcels of Gems & Jewellery has been allowed. Export of jewellery by Speed Post also allowed.
 - Replenishment license, for duty free import of consumables required for Gems & Jewellery items, has been introduced.
 - b. Leather, Handicrafts & Garments:** Entitlement for duty free import of trimmings, embellishments and other items increased from 2 to 3% of FOB value of exports.
 - c. Drugs and Pharmaceuticals, Agro Chemical and Bio- technology exports:** For encouraging exports in these new economy areas, manufacturing firms allowed to import laboratory equipment, chemicals and re-agents for R&D purposes up to 1% of the f.o.b. value of exports duty free.
- **ENCOURAGEMENT TO EXPORT OF QUALITY/BRANDED GOODS:** In an attempt to promote export of branded products, value caps under DEPB Scheme will not be applicable to the identified branded products. Double weightage on FOB or NFE on exports made by units having ISO or equivalent status for granting status certification.
- **RATIONALISATION OF DEEMED EXPORT BENEFITS:** Uniform benefits extended to eligible categories under deemed exports. Benefits have been extended to core infrastructural sectors, involving an investment of Rs.100 crore and above.
- **PROCEDURAL SIMPLIFICATIONS:** Registration cum Membership Certificate shall now be required to be filed once in 4 years instead of with each application. Requirement of endorsement from Export Promotion Councils for export of non-quota textile items to quota countries and textile items to non-quota countries has also been dispensed with.
- **OTHER PROVISIONS:** Project exporters/construction companies, domestic service providers with a domestic turnover of Rs. 100 crores or more shall now be eligible for "International Service House" status on signing an MoU with the DGFT for exports.
- **IMPORT OF SECOND HAND CAPITAL GOODS:** Second hand capital goods, which are less than 10 years old, will be allowed to be imported without obtaining any license on surrender of SIL.
- **ABOLITION OF SPECIAL IMPORT LICENCE (SIL):** The SIL list will be abolished by 1.4.2001 and the grant of SIL will be discontinued after 31.3.2001.
- **REMOVAL OF QUANTITATIVE RESTRICTIONS:** Quantitative restrictions are being removed on 714 tariff lines.

The full text of the Export Import Policy is available at the Ministry of Commerce and Industry website at: <http://commin.nic.in>

Trail Blazers



VICTOR J. MENEZES

Chairman and CEO,
Citibank, N.A.

Mr. Victor J. Menezes, Citigroup's Regional Business Executive for emerging markets, has been appointed recently as the new Chairman and Chief Executive Officer of Citibank, N.A., and Co-Chief Executive of Citigroup's Global Corporate and Investment Bank. Mr. Menezes, as Co-CEO of the Global Corporate and Investment Bank, is primarily responsible for integrating the activities of Salomon Smith Barney and Citibank's corporate banking.

A veteran of Citibank since 1972, Mr. Menezes began his career in Corporate Banking in Asia, with responsibilities for India, Hong Kong, Macao and the People's Republic of China. In 1985 he became Citibank's Senior Corporate Officer for Latin America and Africa. In 1989 he became head of the European consumer business and two years later his responsibilities were extended to include consumer banking in the United States. In 1995 he was named Chief Financial Officer of Citicorp, then Citibank's parent company.

Mr. Menezes was born in Pune, India, on May 14, 1949. He received an electrical engineering degree from the Indian Institute of Technology, Mumbai in 1970 and a Master of Science degree in finance and economics from the Sloan School of the Massachusetts Institute of Technology in 1972. He is also a trustee of the Asia Society in New York.

Finance Minister Visits USA *(Continued from page 3)*

Mr. Sinha also addressed members of the Indian American community who had come from various places. He lauded their achievements, especially in the information technology sector.

India-United States Financial and Economic Forum

The "Vision Statement" issued by Prime Minister Vajpayee and President Clinton during the U.S. President's visit to India envisages a broader dialogue between the two countries. As part of this dialogue, Mr. Sinha and U.S. Treasury Secretary, Mr. Lawrence Summers, signed an agreement setting up the India-United States Financial and Economic Forum.

The objective of the Forum is to strengthen the financial and economic relationship between the two countries through regular government-to-government meetings of the economic policy makers. The Forum is to be headed by the Indian Finance Minister and the U.S. Treasury Secretary, who are expected to meet on an annual basis.

These meetings are to be supplemented by sub-Cabinet level meetings of officials of the two governments and involve, as appropriate, the participation of U.S. Securities and Exchange Commission, Federal Reserve Board, office of the Comptroller of Currency, Reserve Bank of India and the Securities and Exchange Board of India. The sub-Cabinet level meetings are expected to focus on strengthening and development of financial services through mutual exchange of experiences on issues relating to capital markets in the two countries as well as macro-economic and investment issues such as, structural reform, fiscal and economic policies, and bilateral trade.

Economic Update

Food grains Stocks: Stocks of food grains stood at 29.74 million tons as on March 1, 2000. This level of stocks was higher by 31 percent than the level of 22.74 million tons as on March 1, 1999.

Industrial Production: In the financial year 1998-1999 (April 1, 1998 to March 31, 1999), industrial production increased by 4 percent as compared to 6.6 percent in the last financial year. In April-February (1999-2000), industrial production increased by 7.9 percent as compared to 2.1 percent in the corresponding period of the last financial year.

Infrastructure Industries: During 1998-1999 average growth rate of this sector was 2.5 percent. During April-February (1999-2000), production in infrastructure industries grew by 7.6 percent as compared to 2.1 percent in the corresponding period of the previous financial year.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 19.2 percent. In the current financial year up to March 24, 2000 money supply growth was 14 percent as against an increase of 15.6 percent in the corresponding period of 1998-99. Prime Lending Rate, as on March 24, 2000, was 12 to 12.5 percent as against 12.75 to 13 percent on, March 10, 2000. Deposit Rate, as on, March 24, 2000, ranged between 8 to 10.5 percent as against 9 to 11.5 percent on March 10, 2000.

Foreign Trade: In 1998-99, exports increased by 3.7 percent in dollar terms while import increased by 7.9 percent. During 1999-2000, Exports, in dollar terms, increased by 11.58 percent. Imports, in dollar terms, increased by 10.19 percent during 1999-2000.

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 \$35.06 billion at the end of March 2000.

Exchange Rates: The average market exchange rate of the Rupee per unit of U.S. Dollar, Pound Sterling, Deutsche Mark, French Franc and Japanese Yen was Rs.43.59, Rs.68.93, Rs.21.54, Rs.6.42, and Rs.0.42 respectively during March 2000. The average exchange rate of Indian Rupee appreciated during March 2000 against U.S. dollar, Pound Sterling, Deutsche Mark, and French Franc and depreciated marginally against Japanese Yen.

Rate of Inflation: As of April 8, 2000, the annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 4.6 percent as compared to 4.3 percent in 1999. For the month ending February 2000, the annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 3.6 percent as compared to 8.6 percent in the corresponding period last year.

GLOBAL INVESTORS MEET

(JUNE 5-6, 2000 - BANGALORE, INDIA)

To build investors confidence and to attract greater foreign investment to Karnataka, the Government of Karnataka is organizing a two day conference in Bangalore in association with the Confederation of Indian Industry (CII). The Meet will show case Karnataka as an investment destination. A shelf of infrastructure and related projects will also be offered to private investors at the event. The Finance Minister of India Mr. Yashwant Sinha will set the tone for the two day proceedings with his key note address followed by Chief Minister Mr. S.M. Krishna, Union Minister for Power Mr. P.R. Kumaramangalam, RBI Governor Dr. Bimal Jalan, Union Minister for Tourism Mr. Ananth Kumar and the former Finance Minister of India Dr. Manmohan Singh.

Venue: The Taj West End, Race Course Road, Banglore, India

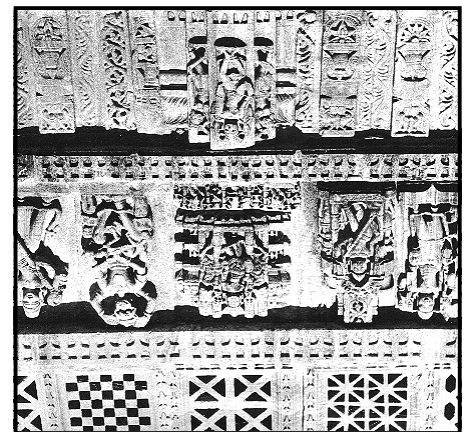
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NEWS BRIEFS

- **JANUS Funds**, a US-based institutional investor, has acquired 59.39m shares of Reliance Industries (RIL) from secondary markets at a total consideration of \$450m. This is the largest ever investment made by any foreign institutional investor (FII) in the equity of any single Indian company either through the primary or secondary market route. Janus is among the largest value-based and long-term investors in the world alongside Capital International, Fidelity and Templeton. It has currently \$350bn in total assets under its management. Janus' investment in RIL is the second-largest non-Japanese Asian investment. The fund normally invests in minimum lots of \$200m in a company. Its investment of \$450m in RIL accounts for nearly 30 per cent of the cumulative net FII investment of \$1.5bn into India, so far, during 2000. - *Economic Times*
- The US-based **NHancement Technologies Inc.** has launched its Indian operations — Enhancement Technologies India (P) Ltd. NHancement specializes in collaborative commerce and multimedia solutions which include a range of computer telephony products and services equipped to function in an Internet-enabled environment and over standard telephone lines. The company has developed expertise in personalized information portals, call center solutions, web collaboration, unified communication etc. In the first year of operations, the company is targeting five call centers. It will also be setting up support centers in major metros. - *Business Standard*
- **NASDAQ**, the US based technology stock exchange, would set up its representative office in India before the year end to lure more Indian companies into it. The tremendous economic growth of India has made NASDAQ think of expanding its operation in India. Nasdaq stock market with the collaboration of an India company, SSI Technologies, would introduce internet based trading and market systems for Nasdaq's global market. - *PTI*
- **Igate Capital**, the United States-based information technology firm, has firmed up plans to float a second venture capital fund (VCF) with a corpus of \$300 million to incubate dotcom start-ups in India and the U.S. Igate has also entered an alliance with an investment arm of American giant General Electric (GE) to launch a new company called iProcess. The company will be based in India and work in the area of e-commerce applications and onsite consultancy services. The \$500 million Igate Capital is the parent company of 10 different ventures, specializing in software development, e-commerce applications and venture capital funding. The company has offices in 14 countries and is listed on the Nasdaq stock exchange in the US. - *India Abroad*

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



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