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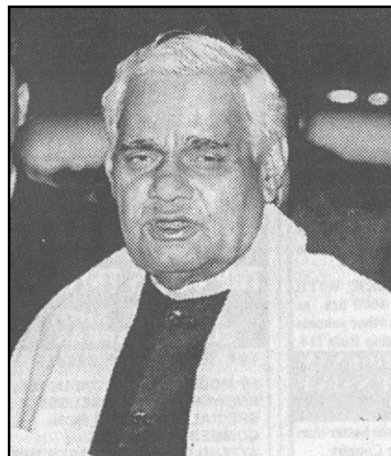
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New Indian Government Takes Over



*Atal Bihari Vajpayee
Prime Minister*

India ushered in the new Bharatiya Janata Party (BJP)-led coalition government when Atal Bihari Vajpayee was sworn in as Prime Minister on March 19, 1998.

Vajpayee has been a member of Lok Sabha (Lower House of Parliament) from 1957 to 1962 and then again from 1967 to 1984. In the years 1962 to 1967 and in 1986 he was a member of Rajya Sabha (Upper House of Parliament). He has again been elected to the Lok Sabha in the recent elections.

In 1977, Vajpayee was appointed the External Affairs Minister in the Janata government and served India with distinction in that capacity until 1980. He was one of the founder members of the BJP which came into existence in 1980. He served as the President of BJP from 1980 to 1986. He also officiated as the Leader of BJP parliamentary party during this period. He was the Leader of the Opposition in the Eleventh Lok Sabha, 1996-98.

In his maiden address to the nation as the Prime Minister, Vajpayee stressed that his government was committed to speedy internal liberalization of the economy. He said the priority would be on "freeing it (the economy) from all growth-hindering controls of the government and the bureaucracy."

The Finance Minister in the new government is Yashwant Sinha. A former IAS officer, Sinha is among the liberals in the BJP. He was elected for the first time to the Rajya Sabha in 1988 and rose to prominence as a spokesman of the Janata Dal during the 1989 Lok Sabha elections. Sinha has earlier served as finance minister in 1990-91.

"Economic reforms will be deepened, broadened and accelerated. Our goal is to make India an economically strong and vibrant nation which will participate in the world economy with confidence and from a position of strength."

— Yashwant Sinha,
Finance Minister of
India

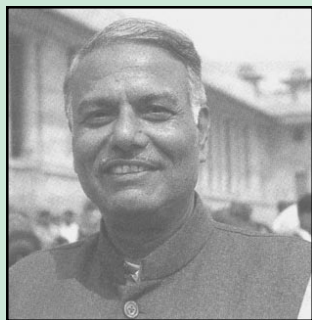
National Agenda for Governance

The new BJP-led coalition government has drawn up a National Agenda for Governance (NAG). The Agenda is the joint commitment of members of the coalition and an assurance to the people of India. The following are the excerpts relating to the Economy from the NAG.

- We will continue with the reform process ... reappraise and revitalize reforms through giving primacy to removal of unemployment, and to an accelerated development of infrastructure, particularly energy and power production. We will bring GDP growth to the 7-8% bracket, and control deficits - fiscal and revenue. We will take all such steps as would expedite implementation of policies and programs in accord with our national interests; and give to the entire national development efforts a humane face with total eradication of poverty as the ultimate goal. For this "*Berozgari batao*" eradicate unemployment is our call.
- We will carefully analyze the effects of globalization, calibrate the process of it by devising a time-table to suit our national conditions and requirements so as to not undermine but strengthen the national economy, the indigenous industrial base and the financial and services sectors.
- We will increase the national savings to 30% of the GDP in the next five years by appropriate incentives and through motivation; encourage Foreign Direct Investment in core areas so that it usefully supplements the national efforts and discourage FDI in non-priority areas.
- We will give a major thrust to infrastructure development, particularly energy and power, by recommencing public expenditure in the sector. Towards this we will access long-term funds in the national and international markets, remove administrative bottlenecks, reverse the slowdown in this critical area of national economy, thus giving a fresh impetus to growth.
- We will undertake a review of all laws and regulations relating to industry so as to free it from bureaucratic control; institute a system of voluntary compliance with laws, including tax laws; ensure speedy redressal of industrial sickness; arrange for meaningful interaction between industry and government; and revive the capital market as a viable and transparent mechanism for raising capital. We will also expedite comprehensive reform of the public sector undertakings, including restructuring, rehabilitation and divestment.

***For the full text of the National Agenda for Governance, please access the following site:
<http://www.bjp.org>***

Interim Budget 1998-99



*Yashwant Sinha
Finance Minister*

Finance Minister Yashwant Sinha presented the Interim Budget 1998-99 to the Parliament on March 25, 1998. The Budget is the annual financial plan of action of the Government of India. The Interim Budget 1998-99 is being presented for the purpose of a Vote-on-Account to enable the Government to carry on its business and meet essential expenditure during the first four months of the next financial year. (The Indian financial year starts from April 1 and ends on March 31). The Regular Budget will be presented in a few weeks time.

The highlights of the Interim Budget 1998-99 are:

- Fiscal deficit pegged at 6.1% for 1997-98. This is above the budget target of 4.5%.
- Net tax revenue for Center shows a shortfall of 12.6%. Large shortfall in disinvestment receipts.
- Growth in establishment expenditure to be contained. Process of Public Sector Undertaking disinvestment being accelerated and made transparent.
- Economic reforms to be deepened, broadened and accelerated.
- Regular budget will seek to impart necessary stimulus to agriculture and industry, restore dynamism to exports and encourage larger flows of foreign investment.
- Regular budget to strengthen financial system, improve infrastructure and bring strict fiscal discipline.

*The full text of the Interim Budget is available at the Ministry of Finance website at:
<http://www.nic.in/finmin>*

Embassy News

Ambassador meets representatives from Eastman Kodak Company

Edward Hoppe, Asia General Manager and Vice President, Sandra Taylor, Director and Vice President, and Ira Wolf, Regional Director for Public Affairs at Eastman Kodak Company met Ambassador Naresh Chandra on March 9, 1998. During the discussions, they stated, inter-alia, that the company employs 500 people in India at three different facilities, producing finished film, photographic paper, and cameras. Hoppe, who is a member of the US-India Commercial Alliance, said that he would be briefing Congressional and Administration leaders in Washington on the company's positive experiences in India. Stating that Kodak sees India as a major destination for future investment, the delegation expressed confidence that India will continue its program of economic liberalization.

Indo-US Economic Relations — An Update

India attracted the highest amount of Foreign Direct Investment in the year 1997 compared to any year in the past. The US continues to be the dominant investor in India in terms of Foreign Direct Investment (FDI) approvals, actual inflows and portfolio investment.

FDI Approvals

Total FDI Approvals between 1991 and November 1997 were \$43.2 billion. The first eleven months of 1997 recorded an approval of about \$14.2 billion of foreign direct investment, already 37% more than the \$10.3 billion approved during the whole of 1996. The year 1997 will set a new record for the FDI approvals.

Out of the total approvals between 1991 and November 1997, US FDI Approvals account for \$11.5 billion. US FDI approvals have been going up year after year and in the first eleven months of 1997 these approvals have already reached over \$3.7 billion. The following chart gives the country-wise break-up of FDI approvals.



Dabhol Power Project is promoted by Enron Corporation

Foreign Direct Investment Approvals: 1991 - November 1997 (In US \$ Million)

COUNTRY	1991	1992	1993	1994	1995	1996	1997	Total
USA	75.80	466.30	1100.05	1111.92	2137.69	2873.11	3719.01	11483.87
MAURITIUS	0	0	39.48	170.46	548.03	666.86	2536.88	3961.72
UK	13.09	45	197.88	414.14	522.99	435.60	1171.56	2799.81
JAPAN	21.50	231.06	82	127.80	458.87	425.21	523.76	1869.99
GERMANY	17.05	32.67	55.90	181.50	405.91	439.40	489.93	1622.34
KOREA	2.51	14.92	9.32	34.06	95.21	920.26	540.47	1616.75
ISRAEL	0	0.48	0.46	2.72	1253.70	4.30	13.78	1275.45
AUSTRALIA	1.06	29.39	9.39	123.83	455.82	238.41	100.10	958.01
NRI	8.03	166.27	331.53	156.48	215.06	625.91	302.07	1805.37
EURO ISSUE	0	0	0	1667.34	360.45	1503.94	1250.60	4782.33
SUB-TOTAL	139.04	985.65	1825.82	3990.24	6453.73	8133.01	10648.15	32175.63
OTHERS	77.94	484.36	989.51	530.30	3265.43	2194.65	3526.61	11068.79
TOTAL	216.98	1470.00	2815.33	4520.54	9719.16	10327.66	14174.76	43244.42

The US accounts for 31% of the investment approvals, if Euro issues and NRI investments — whose breakdown by country is not available — are excluded from the aggregate.

FDI Inflows

Total FDI Inflows between 1991 and January 1998 were \$9.9 billion. In 1997, FDI Inflows have been of the order of \$3.4 billion, 40% more than the \$2.4 billion inflows in the whole of 1996. Thus, 1997 has set a new record for FDI Inflows.

US FDI Inflows between 1991 and January 1998 were about \$1.5 billion. The figure for 1997 is \$692 million which is more than double the total US FDI inflows in 1996 (\$271 million). There is, thus, a definite trend towards increasing American investment interest in India.

(Continued on page 5)

(Continued from page 4)

The table below presents the country-wise FDI Inflows between 1991 and June 1997. As in the case of FDI Approvals, US leads the FDI Inflows also, if we exclude investment routed through Mauritius for tax reasons.

Foreign Direct Investment Inflows: 1991-June 1997

(In US \$ Million)

COUNTRY	1991	1992	1993	1994	1995	1996	1997	TOTAL
MAURITIUS	0	0	1.19	28.80	498.88	650.52	683.05	1862.44
USA	13.26	44.35	152.05	107.03	198.01	270.98	475.84	1261.51
GERMANY	22.58	21.98	12.75	41.54	72.06	135.04	102.13	408.09
UK	20.30	28.76	73.87	136.29	52.92	51.70	35.94	399.77
JAPAN	3.09	27.29	21.77	86.65	66.08	85.95	67.03	357.85
SINGAPORE	0	4.35	0.42	5.88	75.34	63.43	21.61	171.04
ITALY	1.29	1.30	1.76	3.38	9.80	19.96	19.74	57.22
AUSTRALIA	0	0.01	0.76	0.60	9.74	14.74	3.04	28.89
NRI	65.35	56.68	184.53	368.68	596.90	589.15	156.86	2018.15
SUB-TOTAL	125.87	184.71	449.09	778.84	1579.73	1881.47	1565.24	6564.95
OTHERS	17.46	70.94	118.39	168.45	350.38	532.34	434.20	1692.15
TOTAL	143.32	255.65	567.48	947.29	1930.11	2413.81	1999.44	8257.10

The proportion of US FDI Inflows in the total works out to 20%, if we exclude the NRI Inflows for which country-wise breakdown is not available.

FDI Approvals By Sector

The table below shows the major sectors into which approved investment is divided. (Only those sectors are included which constitute more than 1% of the total approved investment).

Analysis of Investment by Sectors

(1991-August 1996)

SECTOR	Percent Total Investment	US Investment as Percent of Sector Total	Rank of US in the Sector
Telecommunications	24	16	2
Fuels	20	45	1
Service Sector	07	51	1
Food Processing Industries	07	60	1
Transportation Industries	06	23	2
Metallurgical Industries	06	06	5
Chemicals (Other than Fert)	06	16	1
Electrical Equipment	06	29	1
Hotel & Tourism	03	10	3
Textiles (Including Dyed)	02	14	1
Industrial Machinery	02	05	2
Paper and Pulp	01	03	4
Fermentation Industries	01	11	1

Out of the 13 sectors which have more than 1% of the total investment, the US is the leading investor in all except one. Infact, in seven out of these 13 sectors, the US occupies the first place. As is apparent from the above, many of the sectors in which US leads are also high priority sectors for the government.

(Continued on page 6)

Portfolio Investment

The total Foreign Institutional Investment (FII) in the country was \$8.9 billion between 1993, when FIIs were allowed to invest in India, and 1997. The table below presents the year-wise net FII investment in the country.

Net Investment by FIIs
(in US \$ Million)

Year	Amount
1993	821
1994	2160
1995	1222
1996	2764
1997	1919
Total	8886

Breakdown of portfolio investment by country is not available, but one can safely assume that the major portion of the inflows are from the US. Out of the 471 FIIs registered with SEBI, more than 170 are from US, and many of them are well known investment institutions

Microsoft Software Development Center in India

Microsoft Corp. has announced plans to establish its first overseas software development center in Hyderabad, India. Subject to clearance by regulatory agencies, the facility is scheduled to become operational during the second half of 1998 and will focus development work on interoperability of the Microsoft Windows NT operating system and the BackOffice family with non-Microsoft platforms.

“This group’s focus on interoperability and Windows NT is vital to our company’s future. Microsoft Windows NT and Microsoft BackOffice technologies today are the fastest growing area for Microsoft’s business,” said Paul Maritz, group vice president of platforms and applications at Microsoft. “The majority of our development work will always be based in the United States, but we have a great deal of faith in the IT skills of India. Although this center is initially relatively small, the work will be highly valued and strategically important to Microsoft’s platform initiatives.” The development center initially will employ about 25 people.

“India is strategically important to Microsoft, and the investment in a development center is a tremendous addition to the commitments we have already made,” said Rajiv Nair, Microsoft regional director, Indian subcontinent. “India has incredible software talent and a high level of acceptance for Windows NT in the developer community.”

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 18.24 million tonnes at the end of December 1997.

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 April-December 1996. 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 January 16, 1998 money supply (M3) growth was higher at 11.1% as compared to 10.4% in the corresponding period of 1996-97. As on January 16, 1998, Prime Lending Rates ranged between 12.5% to 13% as against 14.5% to 15% on January 17, 1997. As on January 16, 1998, Deposit Rates ranged between 9% to 11.5% as against 11% to 13% on January 17, 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-December 1997, exports increased by 3.3% over their level in April-December 1996. Imports increased by 7.4% 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 \$24.4 billion at the end of January, 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.39.38, Rs.64.42, Rs.21.68, Rs.6.47, and Rs.0.30 respectively during January 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 5.8% for the week ending January 24, 1998. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 6.3% for the month ending December 1997.

Standard & Poor's Retains India's Credit Rating

The international rating agency Standard & Poor's has reaffirmed the stable outlook on India's long term foreign currency (BB+) and local currency rating (BBB+) following the installation of a new BJP-led coalition government.

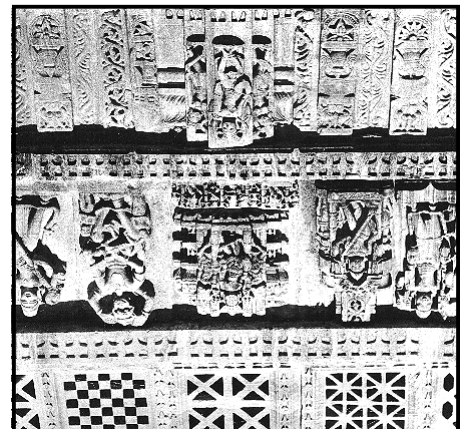
The agency stated in its review on India's rating that the new government "inherits a stable economy that has largely avoided the economic turmoil of other Asian countries."

S&P was of the view that the new government was likely to privatize state-owned industries more aggressively, announce measures to help exporters and attract foreign direct investment in infrastructure. The review stated that the government would also boost infrastructure investment by developing a long-term domestic debt market and is likely to liberalize the insurance sector by opening it to private Indian companies.

NEWS BRIEFS

- US-based telecom giant **Motorola** will set up a software development center in the Indian state of Andhra Pradesh by mid-1998.
- **Cushman & Wakefield**, part of the Rockefeller group and one of the leading real estate service providers from the US, has opened offices in New Delhi and Mumbai.
- The Government of India has permitted the US based **Duracell** to hike its stake to 93% from 74% in its Indian joint venture company.
- Whirlpool of India Ltd., the Indian arm of the US-based **Whirlpool Corporation**, has launched the country's first indigenous non-chloro fluoro carbon (non-CFC) refrigerators with a commitment to free its entire product line from CFC in the next few years. (Economic Times)
- **Standard & Poor's Financial Information Services**, the National Stock Exchange (NSE) and the Credit Rating Information Services Ltd. (CRISIL) have announced a joint venture to launch an index business in India. (Business Standard)
- **American Express**, the world's largest travel related services company and a leading issuer of travelers' checks, has entered into a marketing alliance with SOTC-Kuoni, India's largest package tour company. (Economic Times)
- The Andhra Pradesh government has awarded the **Nellore bypass road project** to a consortium consisting of United Infrastructure Resources of Malaysia and the Andhra-based Gayathri Construction Company, with a concession period of 10 years. The Nellore project, which involves construction of two small bridges and a rail overbridge, will span about 20 km. The award marks the first time a foreign company will take a stake in a road project in India.
- India's first private port project (**Gujarat Pipavav Port Ltd.**) is well on its way to completion.

NOTE: This newsletter can also be seen at:
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