

COUNTRY PROFILE:**REPUBLIC OF INDIA****DATED:****AUGUST 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

Recent Political Highlights

- ❑ Mr Singh's Congress-led coalition scored an emphatic victory in the general elections in April and May 2009, coming within 11 seats of winning an absolute majority.
- ❑ Pakistan's Prime Minister said he is hopeful of resuming stalled peace talks with India, following a meeting with Manmohan Singh in July. India broke off the talks that are aimed at averting a fourth war between nuclear-armed neighbours, after last November's raid on Mumbai by 12 gun men killed 166 people.

Recent Economic Highlights

- ❑ The government plans to issue national identity cards to all 1.232bn citizens as most people have a huge identity problem making it harder for them to get jobs, open bank accounts and buy property.
- ❑ India's newly re-elected government may have disappointed investors with a deficit-laden budget lacking big pro-market initiatives. The budget release was heavy on spending for farmers and the poor, funded by a surge in borrowing and widening the budget deficit to a 16-year high of 6.8% of GDP in 2009-10. Investors were hoping for loosened restrictions on foreign ownership, tighter fiscal management and an end to costly fuel subsidies. The government says it won't need to borrow more than estimated in the year to March 2010 even as the drought-like situation threatens budget targets. Government has raised the direct tax collection target for the current fiscal year and will rely on taxes to meet expenditures. It has also increased the royalty it charges from mining companies (iron ore, diamonds, zinc, lead, copper, bauxite, graphite and gold) in a bid to earn more revenue. Only 27 million people pay taxes.
- ❑ India's monsoon season, which brings about three quarters of the nation's annual rains, may be the driest in seven years; more than half of the arable land is not irrigated. State governments have declared droughts in 167 of India's 626 districts according to the Farm Ministry. Rice cultivation has been the worst hit with the crop area down 20% to 22.23 million hectares from the previous year. Sugar cane has been planted on 4.25 million hectares from 4.38 million hectares a year ago. The government will provide assistance to farmers hit by drought and will divert more electricity to farmers so that pumps for irrigation can be run for longer hours. The government will also give a subsidy of 10 billion rupees for diesel to operate water pumps.
- ❑ Sugar prices have surged 84% this year due to a record deficit of 7.8 million tons and analysts forecast a widening supply deficit because of a drought in India, the world's largest consumer, and too much rain in Brazil, the largest producer. Sugar production in the year starting October 2009-September 2010, is forecast at 16 to 18 million tons in India from a previous 26.4 million tons. The nation consumes 22.5 million tons annually. The country has contracted to import 2.5 million tons in 2008-09, with purchases for 2009-10 at 4 million tons or more.
- ❑ India's economy grew 6.7% in the 12 months ended March, the slowest pace of expansion since 2003. Growth averaged 8.8% in the previous five years. During the 2008/9 financial year, which ended this March, the Indian economy crossed the \$1 trillion GDP threshold for the first time.
- ❑ India's wholesale prices (benchmark index for CPI) fell 1.74% in the week to August 1, the most in three decades, from a year earlier. This will give the central bank more time to keep interest rates at a record low repo rate of 4.75% before monsoon rains reduce harvests and stoke inflation. Inflation is slowing from a 16-year high of 12.9% in August 2008 and is forecast at 6.5% by March 2010. Food inflation is forecast to accelerate from October onwards and has the potential to slow down or even derail the economy. The Prime Minister has promised that all efforts will be made to control rising prices of food grains and other goods of daily use.
- ❑ India may trigger as much as \$39bn in stock sales, equivalent to five years of equity offerings, with a proposal to limit stakes of controlling shareholders. The government is considering a plan that would require at least 25% of a company's stock to be traded, even for state-run enterprises. The changes may encourage foreign investment by bringing Indian regulations in line with the US, UK and Hong Kong. The proposal is expected to be positive for markets if introduced in a phased manner.
- ❑ Airlines in India are stalling under the weight of high taxes and last year the aviation industry lost more than \$2.5bn. In the first half of this year passenger numbers fell 8% to 21.1 million. Fuel tax is set by most Indian states at 28% whereas much of the world aviation fuel is untaxed.

Latest Trade Developments

- ❑ Main exports: engineering goods, gems and jewellery, chemicals, textiles, petroleum products, agricultural products, minerals, leather and manufactures, electronic goods and marine products. Indian exports declined 31.3% to \$35.4bn in the first three months of the fiscal year to June 30 from a year ago. The Asean (Association of South East Asian Nations) trade pact is forecast to boost trade.
- ❑ Major imports: gold and silver, crude oil and products, electronic goods, pearls and precious stones, chemicals, coal, iron and steel, edible oil and metal scrap.
- ❑ Major trade partners: US, UAE, China, UK, Singapore, Germany, Switzerland and Belgium. India will seek new customers for overseas sales as the recession in the US and Europe dampens demand.
- ❑ South African exports to India totaled R9.5bn in 2007, R18.7bn in 2008 and R8.1bn in the year-to-May 2009. Imports from India totaled R12.5bn in 2007, R18.8bn in 2008 and R5.3bn in the year-to-May 2009. India was South Africa's largest trading partner in the South Asian region and one of its top 10 trading partners globally.
- ❑ At a July South Africa-India conference, SA revealed that it's ready to speed up engagement with India to strike a preferential trade agreement to boost trade between India and Sacu (Southern African Customs Union) but the talks have been held up as SA's partners in Sacu struggle to identify their export interests in the Indian market. The talks kicked off two years ago.
- ❑ India's Bharti Airtel has approached the State Bank of India for a loan of \$1.05bn. Bharti Airtel and South Africa's MTN are in exclusive tie-up talks in a complex deal that would see both firms pay cash and share for a stake of each other. Mumbai-based Aegis has bought a privately owned call centre CCN as part of its grand plan to create 5,000 new jobs and invest R500m in South Africa over the next three years.
- ❑ The EU threatened to impose tariffs on screws and bolts from India and Malaysia, saying EU producers may be victims of subsidies and price undercutting. Under EU practices, the commission can impose provisional anti-subsidy duties for four months and anti-dumping duties for six months. The commission has nine months from the start of an investigation to decide on provisional measures.

Sindiso Valerie Mpfu – Economic Services