

COUNTRY PROFILE: REPUBLIC OF INDIA**DATED: MARCH 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2C	No restriction

Recent Political Highlights

- The next general election is due by May 2009, but the prime minister can dissolve parliament when he chooses and call for an earlier election.

Recent Economic Highlights

- India's economy is projected to grow 8.7% in 2007-08. The EIU expects economic growth to decelerate to 7.8% in 2008-09 and 7.2% in 2009-10.
- Inflation rose by 0.8% to 5.9% during the week ended March 8, as metal prices soared and food items turned expensive in line with the global trend. India has blamed the US policy of diverting food grains such as corn for producing biofuels for the spurt in food grain prices globally. With inflation reaching 6%, the Reserve Bank of India may not cut interest rates despite sluggish industrial growth. Latest data from the Central Statistics Organisation showed that industrial growth sharply fell by 3.1% in January 2008 from a year earlier, on sluggish demand. The slowdown prompted the government to scale down its economic growth forecast to 8.7% compared with 9.6% a year earlier.
- On January 30, the government approved a slew of long-delayed changes to FDI rules. Although the cabinet took two years to sign off the changes and postponed them six times, the new rules are not particularly groundbreaking. Restrictions will be relaxed in sectors such as civil aviation, construction development, industrial parks, petroleum and natural gas, commodity exchanges, credit information services and mining. India's foreign investment policy is fairly liberal allowing up to 100% foreign investment in most sectors with caps only in areas considered strategic or sensitive. FDI inflows into India reached a record \$19.5bn in 2006-07, more than double the total of \$7.8bn in the previous fiscal year.
- The government will remain committed to increasing spending on health, education and rural-welfare projects in a bid to improve living standards outside the country's fast-growing urban areas. Increased spending in rural welfare and public sector wages suggest that the government will miss its 3% target for the budget deficit in 2008/09. Peasant farmers, burdened by the rising costs of inputs, meager crop prices and sometimes thoughts of suicide were expected to receive debt forgiveness. A hike in India's massive and wasteful fertilizer subsidy would add another splash of electoral gravy.
- The government approved a fresh package of Rs 500 crore in interest subsidies for exporters battling a sharp appreciation of the rupee over the past year; the rupee rose about 12 per cent against the US dollar through 2007, denting profits. Exporters would be eligible for an interest subsidy of two per cent; subject to the condition that interest rate does not fall below 7 per cent, in sectors that are severely hit by rupee appreciation. Textile and pharmaceutical exports have been worst hit forcing exporting firms to lay off workers and cut down production. The Federation of Indian Export Organisations expects exports in 2007/08 to fall short of the government's target of \$160bn.
- Tata Motors Ltd geared up for bigger international presence with its \$2.3 billion purchase of Jaguar and Land Rover from Ford Motor Corporation- the purchase price amounts to almost a third of Tata Motors's annual sales of \$7.2 billion last year. The deal comes after months of negotiations over the iconic luxury brands and gives Tata an expansive product range with the ultra-cheap Nano at the bottom and Jaguar at the top. It also adds to the national pride as many Indians will see such acquisitions as a reflection of India's economic rise.
- Last year, India's media and entertainment industry grew 17% over the previous year. While the mainstream sectors such as print, television and filmed entertainment continued to grow robustly, emerging segments such as animation, gaming and visual effects, radio, out-of home advertising and online advertising grew faster. FDI into the sector surged to \$211 million from \$89.2m in 2006. The world's largest chip designer firm ARM is expanding its India design centre to make it the largest outside Britain.
- About half a dozen beer brands are making their India debut this summer with some of the best-known names in the business: Lowenbrau, Stella Artois, Beck's, Baron's Strong Beer, Tiger, Cobra Bite and an array of British ales. The country's beer market is estimated to be 137 million cases a year and growing at 30% annually. The growing market and the reduction in additional customs duty on liquor have made India a land of opportunity for multinational companies.

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. Main 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, Switzerland and Belgium. South African exports to India amounted R5.6bn in 2006 and R8.5bn in the year-to-November 2007. Meanwhile imports from India totalled R10.9bn in 2006 and R11.8bn in the year-to-November 2007.
- Faced with increasing crude oil prices, India and the European Union have begun an exercise at closer cooperation in clean coal conversion technologies and exploring possibilities of transfer of advanced technologies between companies, possibly through joint ventures. Coal has been a key element of the EU's energy security and India could gain from association with EU as it has abundant coal.

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