INDIAN Economy & Policy WATCH

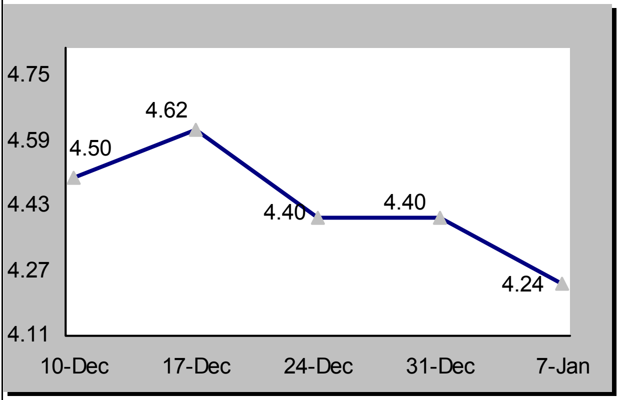
Week ended January 21, 2006 Issue No: 43 FY2006

CONTENTS

HIGHLIGHTS

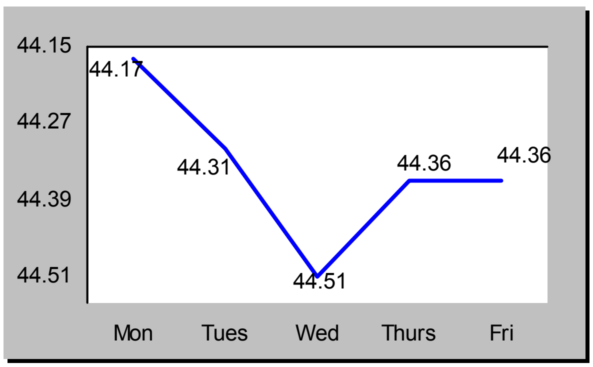
- Inflation lower on lower textile prices
- Rupee ends steady
- Foreign currency reserves rise by US$ 158 million
- CII predicts 40% growth in IT sector
- Export growth at 23.5% during April-Oct
- Exports in December up 16%
- SEZ: 70 proposals worth Rs 10,000 cr under study
- Foreign currency reserves rise by US$ 158 million

ECONOMIC INDICATORS



Inflation

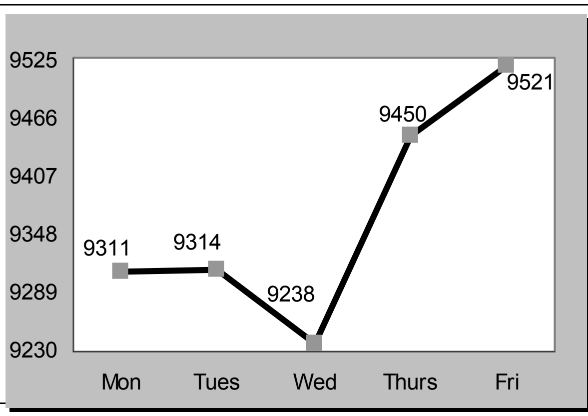
The annual wholesale price index-based inflation rose 4.24 percent during the week ended January 7. It was, however, lower than the previous week's annual rise of 4.40 percent. The lower rate was largely because of a dip in textile prices and certain primary articles, according to data released here on Friday by the Ministry of Commerce and Industry. The inflation rate was 5.77 percent during the corresponding week of 2004.



Rs v/s US $

The rupee stood barely changed at 44.24 per dollar this week but was under pressure through most of the week. Fears of global risk, aversion due to tumbling international bourses and crude oil prices nearly four month high weighed on the market.

However, global and domestic equity markets bounced back strongly as FII inflows again poured in later in the week. The rupee drew support from strong inflows and recovered.



BSE Sensex

The markets started the week on a bearish note continuing the trend of losing from the previous week. The Sensex, however, recovered the previous week`s losses partly this week to gain 146 points. The index had witnessed a hefty loss of 266 points previous week.

The BSE Sensex shed 63 points on Monday, while on Tuesday the Sensex closed flat, gaining only 3 points. On Wednesday, the Sensex fell by 77 points pulled by index heavyweights and on Thursday it reversed its direction and went on a gaining spree, flaring up by 212 points. On Friday the Sensex gained 71 points on the back of FII inflows.

Economy & its sectors

CII predicts 40% growth in IT sector

A survey conducted by the Confederation of Indian Industry (CII) has pegged a 40 percent growth rate in information technology sector during October 2005-March 2006.

The Business Outlook Survey conducted by CII's southern region for April-September 2005 also predicted a growth rate of 25 percent for the manufacturing sector and 20 percent for the textile sector in the second half of the current financial year.

It, however, pointed out that high power tariff, unreliable power supply, inadequate effluent facilities and difficulties in raising working capital were some of the bottlenecks for achieving the higher growth rates.

The survey, which covered Karnataka, Kerala, Pondicherry, Tamil Nadu and Andhra Pradesh, was conducted to analyse the performance of the top five sectors in each of these States during the first half (April - September) of the fiscal. The survey was also aimed at making predictions for the remaining period and identifying issues and concerns. It took the opinions of senior officials of leading companies in each of these five sectors.

In Andhra Pradesh, the survey was carried out in the IT, manufacturing, pharmaceuticals, textiles and agriculture sectors.

The survey found that the IT industry in the State had reported a 20-percent growth in revenues and a 30-percent growth in overseas billing in the fist half. It predicted that the second half could see a growth rate of 40 percent in revenue due to higher IT spending across the globe.

The industry felt improvement in rural telecom infrastructure would allow the expansion and sustained growth of the sector.

The manufacturing sector posted a robust performance during the period. "Strong demand saw companies posting over 25 percent growth in sales. The trend in profit margins was also positive," the survey said.

High power tariff, increase in customs duty and difficulty in raising working capital finance by SMEs were some of the concerns affecting the sector's competitiveness.

The textile sector recorded a 10-percent growth in sales and exports. The industry was confident that it could achieve a growth rate of 16 to 20 percent. To achieve this, the industry felt that cost of working capital and timely credit should be streamlined. It also called for improvement in road infrastructure and easing of procedural restrictions at ports.

The CII survey said the agriculture-based industry faced challenges in terms of lack of research and development support, high costs in obtaining certification and raising capital. The industry wanted the State to speed up implemention of the Contract Farming Policy and the Uniform Food Processing Act to give a further boost to the sector.

The pharmaceutical industry pointed out that inadequate effluent facilities, unreliable power supply, delays in price approvals for essential drugs were some of the roadblocks for high growth.

Export growth at 23.5% during April-Oct

Four traditional items - agriculture and allied products, gems and jewellery, chemicals and related products and engineering goods - accounting for close to 58 percent of the country's total exports, performed exceedingly well during the first seven months of the 2005-06 fiscal to pull the overall export growth rate to 23.50 percent in dollar terms.

Disaggregated trade data based on provisional figures of the Directorate-General of Commercial Intelligence & Statistics (DGCI&S) Kolkata and compiled by the Economic Division of the Department of Commerce show that agriculture and allied products with a weight of 7.03 percent in total exports notched up a robust 18.17 percent growth during April-October 2005 at $1,145.39 million, against $973.18 million in the corresponding months of 2004.

While gems and jewellery (weight 17.88 percent) posted a growth of 26.90 percent at $9,347.51 million during April-October 2005 as against $7,366.03 million in the corresponding months of 2004, chemicals and related products (14.66 percent) logged a 17.79 percent growth at $7,663.53 million ($6,506.17 million). Engineering goods with a weight of 18.06 percent in total exports performed well by clocking up a growth of 25.47 percent at $9,441.81 million ($7,525.00 million).

Another traditional export item, textiles (weight 14.25 percent) which had not been doing well in the last couple of years, appeared to have reversed its skidding show by registering a modest 6.72 percent growth during the period under review at $7,448.79 million ($6,979.97 million).

Even as the country had been paying through the nose to import crude, its export of petroleum products accounting for a respectable share of 11.05 in aggregate exports, registered an

impressive 57.71 percent growth at $5,779.25 million ($3,664.49 million).

Overall, exports during the first seven months of the current fiscal at $52,284.12 million against $42,334.29 million in the corresponding months of the previous fiscal show a growth rate of 23.50 percent.

Destination-wise, India's exports to Asia and Oceania, which absorb as much as 47.03 percent of the country's exports, showed a growth of 26.08 percent at $24,587.59 million during the period under review, against $19,501.24 million in the corresponding months of 2004. Exports to West Europe, which takes as much as 23.07 percent of the exports, showed a growth of 24.66 percent at $12,533.21 million ($10,054.26 million).

While exports to the Americas (21.03 percent) registered a growth of 18.05 percent at $10,997.02 million ($9,315.81 million), India's exports to Latin American countries, despite accounting for a meagre 3.07 percent in overall exports, recorded a 37.08 percent growth at $1,605.62 million ($1,171.32 million).

Among the top 15 countries for exports, Singapore logged the highest growth of 68 percent during the period under discussion, followed by Sri Lanka of 54 percent, the Netherlands of 53 percent, and South Africa of 49 percent and China of 49 percent.

On the import front, bulk imports, which account for close to 44 percent in the country's total imports, registered a hefty growth of 41 percent at $33,524.53 million ($23,816.79 million). This was followed by import of petroleum crude and products, which, with a share of 31.82 percent in aggregate imports, recorded a growth of 41.41 percent at $24,392.16 million ($17,249.33 million).

The spurt in imports owed mostly to the pronounced hike in the cost of imported crude price and less to any marked jump in indigenous consumption even as the latter's growth is relatively faster in the wake of a pickup in the growth of the economy. This is also evident from a big jump in machinery imports which registered a 47 percent growth at $7,360.13 million ($5,021.44 million) even as this segment accounts for a share of 9.60 percent in total imports.

Interestingly, import of gold and jewellery (9.02 percent) logged a growth of 34.02 percent during the period under review at $6,916.80 million ($5,159.36 million), while import of electronic goods (8.18 percent) registered a growth of 18 percent at $6,273.19 million ($5,321.58 million).

On the whole, imports during the period April-October 2005 at $76,647.86 million was 34.33 percent higher than the level of imports at $57,060.12 million in the corresponding period of 2004.

Destination wise, the country's imports from West Asia were a shade higher than from Asia and Oceania even as the latter continues to be the major source of imports. Asia and Oceania which account for a share of 33.39 percent in the country's aggregate imports logged a growth of 30.42 percent at $25,593.78 million ($19,623.89 million), while import from West Europe (21.33 percent) registered a growth of 33.25 percent at $16,350.92 million ($12,271.08 million). Import from the Americas (share being 7,67 pr cent) was showing a growth of 26 percent at $5,880.63 million ($4,674.26 million).

Among the top 15 countries for India's imports, the highest growth was shown by Germany at 48 percent, followed by China at 47 percent, Switzerland and Hong Kong at 43 percent each and South Africa and the United Arab Emirates at 40 percent each.

Exports in December up 16%

After suffering a decline in November 2005 following a scorching pace of growth in the previous months, the country's exports regained momentum in December 2005 by logging a growth of 16.19 percent in dollar terms to take the cumulative export growth during the first three quarters of the current fiscal to $66.4 billion.

In a statement issued by the Department of Commerce to announce the trade data for the first three quarters, the Union Commerce Minister, Kamal Nath, said that "I am bullish on exports," while commenting on the pick-up in exports during December 2005.

Goaded by the sound performance of exports, the Commerce Minister is organising a meeting of Exports during 2005 now are valued at $8,283.70 million, which is 16.19 percent higher than the level of $7,129.23 million during December 2004, while the cumulative export figure for the period April-December 2005 are valued at $66,431.00 million, which is 18.03 percent higher than the level of $56,284.61 million during April-December 2004.

The country's import growth was somewhat moderated in December 2005 as it registered a modest 8.44 percent growth at $10,985.94 million over the level of imports valued at $10,130.59 million in December 2004.

However, cumulative import growth continues to be on a higher gear as imports during the first three quarters registered a hefty 27.29 percent growth at $96,263.95 million over the level of imports valued at $75,627.19 million in April-December 2004.

Oil imports during the period under review are valued at $31,123.72 million, which is 45.43 percent higher than oil imports valued at $21,401.08 million in the corresponding period of the last fiscal, owing primarily to the sustained high price of imported crude throughout the current fiscal than to any unprecedented uptrend in energy consumption at home.

Non-oil imports during April-December 2005 are valued at $65,140.23 million, which is 20.13 percent higher than the level of such imports valued at $54,226.11 million in April-December 2004-05.

The higher growth in non-oil imports reflect in the salutary industrial growth the country recorded as most of the non-oil imports pertain to import of machinery and other industrial intermediates that also go into export production.

As a result of high export and import growth, the country's overall trade balance turned sharply up at $29,832.95 million during April-December 2005, which is far higher than the deficit of $19,342.58 million during April-December 2004. As the trade deficit during the first three quarters is running close to a whopping $30 billion, its effect on the current account balance has emerged as a source for discomfort even as the receipts from invisibles and remittances in the current account remains on a high growth path.

In rupee terms, the cumulative exports during the first three quarters of the current fiscal amounted to Rs 2,93,829.21 crore, which is 15.18 percent higher than the value of exports during the corresponding periods of the previous fiscal.

In contrast, import growth in rupee terms rose by 24.18 percent during the period under review at Rs 4,25,666 crore.

SEZ: 70 proposals worth Rs 10,000 cr under study

The Government expects to notify sector-specific Rules of the SEZ Act within the next 10 days, and this is expected to bring in substantial investments in these zones.

Briefing newspersons after speaking at the Special Plenary on `India and the World: Global Trade Strategy' of the CII Partnership Summit 2006, the Union Minister of Commerce and Industry, Kamal Nath, said that some 70 proposals envisaging investments to the tune of Rs 10,000 crore are under consideration; once the Rules come into play, things would begin to happen.

He said that the Rules would provide stability to the now functioning 25 SEZs, which have hitherto not been under any specific piece of legislation and are therefore not attracting investments to the desired extent.

The Minister also announced that the Government expects to sign an FTA with Asean (governing trade with all Asean countries) sometime in mid-2006. On FDI in the retail sector, he said that the problem was that 98 percent of the retail sector in the country was unorganised; hence, any FDI has to ensure that there is no displacement of existing employment opportunities and no loss of jobs.

The UPA Government, he said, is examining such FDI proposals only in a cold chain for fruits and vegetables. No definitive structure has been proposed as yet, even though some States actually want FDI in various other sectors, he added.

Earlier, addressing the captains of industry, the Minister said that the country was poised to move up the value chain of global perception, with everybody recognising India as being on the cusp of a new economic paradigm.

Stating that high-end R&D in sectors like pharmaceuticals research, avionics, etc., was now putting India on the global knowledge map as a vibrant source of intellectual capital for the world, he said: "The next step on the journey is to move from BPOs to engineering process outsourcing and even knowledge process outsourcing."

Sounding confident that "we will have a host of homegrown MNCs operating all around the world," he said that most global merger & acquisition deals have focused on the larger companies.

"If more mid-sized Indian companies were to go in for acquisition deals, the boost to India's economy can be substantial."

Lauding India Inc for substantially contributing to this upbeat perception of India, Kamal Nath said: "The Indian corporate sector has displayed an extraordinary ability to adapt creatively to the challenges and opportunities of globalisation. We have evolved now into a low-cost base for a range of goods and services, and at the same time, are rapidly ascending the knowledge chain."

External sector

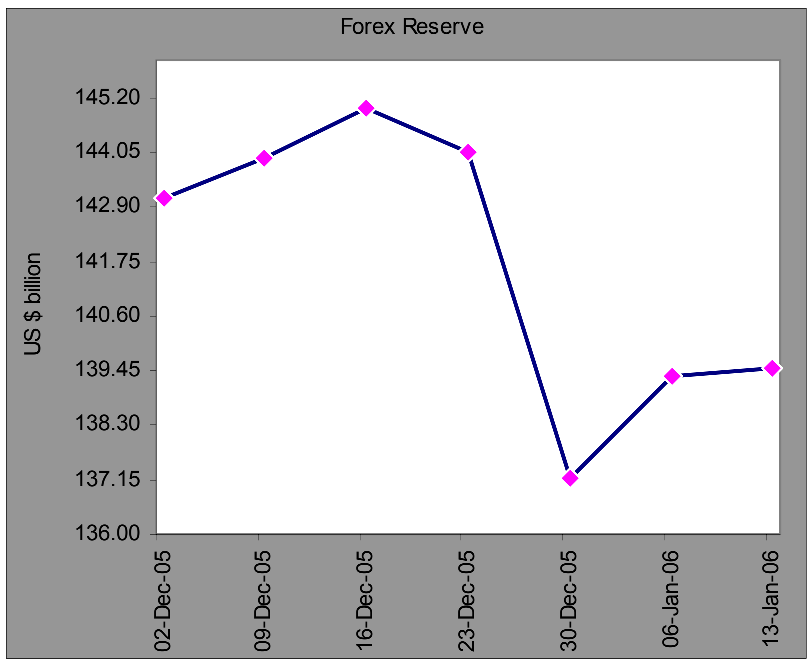
FOREIGN EXCHANGE RESERVES

Foreign currency reserves rise by US$ 158 million

India's total foreign exchange reserves rose by US$ 158 million to US$ 139.510 billion for the week ended January 13, mostly due to a rise of US$ 154 million in foreign currency assets (including the effect of appreciation/depreciation of non-US currencies) to US$ 133.308 billion according to the RBI's weekly statistical supplement released on January 20.

Gold remained unchanged at $5.274 billion and SDRs were the same at $5 million.

The country's reserve tranche position at the IMF improved by US$ 4 million to US$ 923 million.



Money & Banking

INTEREST RATES & DEBT MARKET

Gilts subdued ahead of monetary policy review

Gilts prices this week were subdued on tight liquidity and high call rates. There was also little activity ahead of the RBI's monetary policy review and its decision on interest rate on January 24.

The yield on the 8.07% 2017 closed at 7.21%.

Liquidity improves, call rates drop

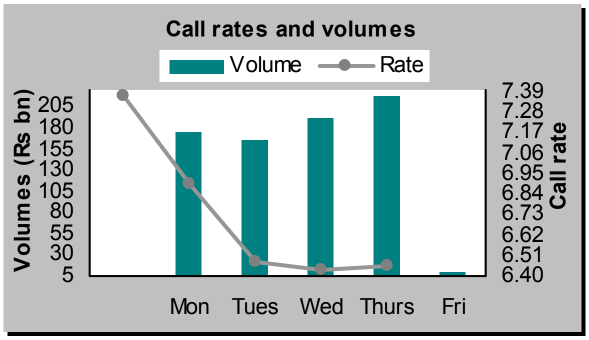
Liquidity conditions in the money market improved comparatively as the call rates eased by around 100 bps to 6.40-6.60% from 7.50-7.75% in the previous week.

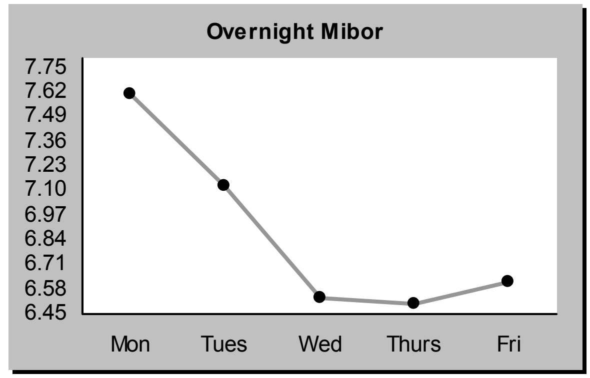
Rupee ends steady

The rupee stood barely changed at 44.24 per dollar this week but was under pressure through most of the week. Fears of global risk, aversion due to tumbling international bourses and crude oil prices nearly four month high weighed on the market.

Investors and traders were nervous due to geo-political risks surrounding Nigeria's oil industry and Iran's showdown against the west. As a result, oil prices went soaring to new highs.

Additionally, stock markets across the globe plunged deep into red triggered by a nearly 5% fall in the Nikkei share average. The rupee dipped as low as 44.53 per dollar. However, global and domestic equity markets bounced back strongly as FII inflows again poured in later in the week. The rupee drew support from strong inflows and recovered.





Stock Markets

Weekly Wrap : Sensex gains 146 points

The markets started the week on a bearish note continuing the trend of losing from the previous week. The Sensex, however, recovered the previous week`s losses partly this week to gain 146 points. The index had witnessed a hefty loss of 266 points previous week.

The BSE Sensex shed 63 points on Monday, while on Tuesday the Sensex closed flat, gaining only 3 points. On Wednesday, the Sensex fell by 77 points pulled by index heavyweights and on Thursday it reversed its direction and went on a gaining spree, flaring up by 212 points. On Friday the Sensex gained 71 points on the back of FII inflows.

FIIs invested in equities worth $81.4 mn this week from (Monday to Thursday) while mutual funds offloaded in the equity segment to the tune of Rs 733.01 crore.

Inflation declined by 0.16 per cent to 4.24 per cent for the week ended January 07 as against 4.4 per cent for the preceeding week despite rise in prices of fruits and vegetables and some fuel items.

On the corporate front, Reliance Industries had a special trading session on January 18, 2006 between 8 to 9 a.m., where the stock closed at Rs 713.95 after the weighted average price was discovered at Rs 710.47.

Corporate results for the week:

ITC Ltd posted 15.02 per cent increase in net profit to Rs 536.83 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 466.70 crore for the quarter ended December 31, 2004 (Q3 FY 04-05). Total Income has increased by 36.30 per cent to Rs 2604.92 crore for Q3 FY 05-06 from Rs 1911.12 crore in Q3 FY 04-05.

JSW Steel Ltd has posted 38.16 per cent down in net profit to Rs 139.20 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) where as the same was at Rs 225.11 crore for the quarter ended December 31, 2004 (Q3 FY 04-05). Total Income has decreased by 11.55 per cent to Rs 1520.71 crore for Q3 FY 05-06 where as the same was at Rs 1719.45 crore in Q3 FY 04-05.

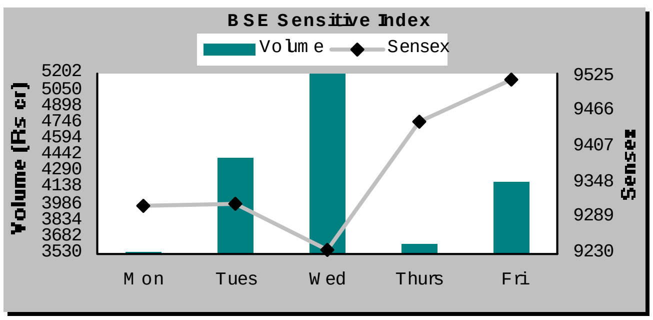
ICICI Bank Ltd posted 23.64 per cent rise in net profit of Rs 640.08 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 517.68 crore for the corresponding quarter previous year. Total Income has increased by 45.6 per cent to Rs

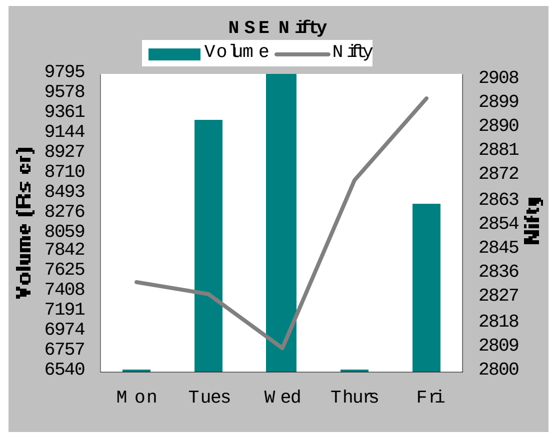
4762.78 crore for Q3 FY 05-06 from Rs 3269.09 crore in the same period last year.

Maruti Udyog Ltd has posted 41.4 per cent rise in net profit to Rs 339.01 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 239.66 crore for the corresponding quarter previous year. Total Income (net of excise) has increased by 9.6 per cent to Rs 3220.79 crore for Q3 FY 05-06 from Rs 2938.37 crore in the same period last year.

Satyam Computer Services Ltd posted 182.1 per cent surge in net profit to Rs 493.07 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 174.78 crore for the corresponding quarter previous year. Total Income has increased by 69.8 per cent to Rs 1518.48 crore for Q3 FY 05-06 from Rs 893.84 crore in Q3 FY 04-05 .

Reliance Energy Ltd posted 22.6 per cent rise in net profit to Rs 164.64 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 134.22 crore for corresponding quarter previous year. Total Income has increased marginally to Rs 1137.63 crore for Q3 FY 05-06 from Rs 1134.75 crore in Q3 FY 04-05.





Inflation

Inflation lower on lower textile prices

The annual wholesale price index-based inflation rose 4.24 percent during the week ended January 7. It was, however, lower than the previous week's annual rise of 4.40 percent. The lower rate was largely on account of a dip in textile prices and certain primary articles, according to data released here on Friday by the Ministry of Commerce and Industry. The inflation rate was 5.77 percent during the corresponding week of 2004.

On a disaggregated basis, the Primary Articles' group index rose 0.2 percent to 194.7 due to an increase in the prices of essential food and non-food articles. The Fuel, Power, Light and Lubricants group index rose marginally to 311.2 points during the week from 311.1 due to increase in the prices of bitumen by 4 percent and naphtha by 1 percent. However, the prices of furnace oil declined by 2 percent.

The Manufactured Products group index rose by 0.1 percent to 172.2 points due to costlier food products, paper, rubber, plastic, chemicals and cement.

Among the Primary Articles' Group, the Food Products' index rose 0.4 percent to 177.7 as bran and hydrogenated vanaspati prices moved up by 3 percent each, rice bran oil and atta (2 percent each), sugar, maida, sooji (rawa) and coconut oil (1 percent each). However, the prices of rapeseed and mustard oil and oil cakes declined by 1 percent each. During the week, prices of wheat, fruits and vegetables rose by 1 percent each, while barley went up by 2 percent. Among the other food articles, prices of bajra, rice and condiments and spices declined by one percent each. Among the non-food articles, prices of sunflower moved up 6 percent, while raw jute and fodder were up by 3 percent each and linseed increased by 2 percent. Prices of mesta, groundnut seed and raw tobacco rose by 1 percent each.

Among the Manufactured Products' group, the group index for textiles declined by 0.5 percent to 129.5 due to lower prices of tyre cord (13 percent) texturised yarn (5 percent), synthetic yarn (4 percent) and acrylic yarn (1 percent). However, the prices of woollen cloth rose by (7 percent) and the same for hessian and sacking bags, viscose staple fibre and hessian cloth moved up by (1 percent each).

The group index for Paper and Paper Products rose by 0.1 percent to 177.8 due to higher prices of newspaper which rose by (2 percent).

The index for Leather and Leather products group declined by 1.0 percent to 168.1 due to lower prices of footwear western type (1 percent).

The group index for Rubber and Plastic Products rose by 0.9 percent to 141.3 on account of higher prices of cycle tubes (11 percent) and cycle tyres (4 percent).

The index for chemicals group rose by 0.1 percent to 188.9 due to higher prices of epoxy resins (11 percent).

The group index for non-metallic mineral products rose by 0.8 percent to 169.7 due to higher prices of cement (1 percent). The index for Base Metal Alloys and Metal Products group declined by 0.1 percent to 221.2 on account of lower prices of other iron steel (2 percent) and basic pig iron, foundary pig iron, lead ingots and steel sheets, plates and strips (1 percent each). However, the prices of zinc ingots moved up by (1 percent).

The group index for Transport Equipment and Parts fell by 0.1 percent to 160.5 due to lower prices of motorcycles (1 percent).

INDIAN Policy WATCH

January 21, 2006

Issue No: 43 FY2006

HIGHLIGHTS

- Govt to divest 5% equity in PFC
- IRDA slashes entry fee for surveyors
- TRAI issues paper on tariff plans with lifetime validity
- Govt staggers tax recovery on DEPB sale profits over 5 years
- New SEBI norms for institutional placement
- RBI panel moots more powers to PSE boards
- Cabinet nod for India-Venezuela pact in hydrocarbon sector
- Govt to ease approval norms for hydel power plants

C O N T E N T S

POLICY WATCH

POLICY WATCH

DIVESTMENT

Govt to divest 5% equity in PFC

The Government will be disinvesting five percent of its equity in Power Finance Corporation to the public. PFC will also issue fresh shares equivalent to 10 percent of its equity base to the public simultaneously.

"The Cabinet has cleared the PFC initial public offer. The issue will be on the lines of the NTPC disinvestment process. The Government will piggyback to divest its stake," the Power Secretary, RV Shahi, said on the sidelines of a conference on hydropower here on Tuesday.

Shahi, however, did not divulge any details on either the timing or the pricing of the public issue. The PFC public offer is part of the Government's plan to disinvest small stake in profit-making non-navratna companies.

The Centre currently holds 100 percent stake in the non-banking finance company (NBFC), which exclusively funds power sector projects.

In 2004, the Government had sold around 5.5 percent of its equity in NTPC through its initial public offer (IPO). Last month, the Union Cabinet decided to allow PFC to float a public issue to sell 10 percent of the company's authorised capital base of Rs 1,030 crore.

Alongside, the Government will disinvest 5 percent of its existing equity in the company.

PFC had posted a net profit of Rs 470 crore over a total income of Rs 1,563 crore during the first half of this fiscal.

In 2004-05, the Corporation had reported a net profit of Rs 984 crore over a total income of Rs 3,047 crore.

The company has reserves of Rs 5,350 crore while earnings per share (EPS) is Rs 4.56. The disinvesment proceeds from the issue, according to the commitment made by the UPA Government, will go to the National Investment Fund for use in social sector projects and revival of ailing public sector undertakings.

INSURANCE

IRDA slashes entry fee for surveyors

Following representations from a large section of insurance surveyors, the Insurance Regulatory and Development Authority (IRDA) has decided to reduce the entry fee and annual subscription amounts.

Earlier, the IRDA and the Indian Institute of Insurance Surveyors and Loss Assessors had, vide notice dated November 26 last year, invited applications for membership of the Institute indicating the fee structure. They had stipulated an entry fee of Rs 10,000 for the surveyors enrolled before the cut-off date - November 20, 2000, and Rs 5,000 for surveyors enrolled after cut-off date, with an annual subscription of Rs 3,500 for Fellow and Rs 2,500 for Associate.

As per the new structure, one-time entry fee would be Rs 5,000 (uniform for all members) and the annual fee would be Rs 2,000 for Fellow and Rs 1,500 for Associate.

The due date for submission of applications has also been extended up to February 28.

TELECOM

TRAI issues paper on tariff plans with lifetime validity

The Telecom Regulatory Authority of India (TRAI) on Monday issued a consultation paper on tariff plans with lifetime validity, raising issues including the long-term sustainability of tariff schemes with lifetime validity and protection against hike in tariffs.

"Mobile operators have marketed and offered tariff schemes promising lifetime validity (with free incoming calls). In the views of the authority, there are some issues arising out of these plans and hence it needs to consult the consumers, service providers and all other interested parties about the impact of such long-term plans with lifetime validity," TRAI said in a statement here.

The paper discusses various aspects of tariff schemes with lifetime validity and its impact both on consumer as well as the telecom sector. It poses questions on whether lifetime can exceed the balance license period of the operators.

The consultation paper also covers issues pertaining to long-term viability and sustainability of tariff schemes with lifetime validity, the concept of such validity, change in traffic patterns and Interconnect Usage Charge (IUC) regime, protection against hike in tariffs and possible measures to protect interest of consumers who subscribe to lifetime tariff plan.

It also seeks views of stakeholders on the nature of the penalty on operators should they renege on the contract of lifetime offer, the possible implications of tariff schemes with lifetime validity for the orderly growth of the telecom sector, and the need for exit options in the case of lifetime validity.

TRAI has asked the stakeholders to submit their comment on these issues by January 31, 2006.

TRADE

Govt staggers tax recovery on DEPB sale profits over 5 years

In a major relief to exporters, the Finance Ministry has said that income-tax demands made on exporters for the profits earned from the sale of duty entitlement passbook (DEPB) credits during 1998-99 to 2004-05 would be recovered over five years. Also, the interest and penalty for late payment have been waived off for the exporters.

The Central Board of Direct Taxes (CBDT) has given a directive to its field formations that penalty would not be levied nor interest charged on any fresh demands made (after the recent income-tax law amendments) by the income-tax department to recover taxes on profits arising from the sale of DEPB credits.

In the cases where the assessments have been completed, the chief commissioners of income tax have been authorised to waive the penalty that has been levied or the interest that has been charged.

Where penalty proceedings relating to claim of profit on the sale of DEPB credit under Section 80 HHC of the Income Tax have been initiated but not levied, the CBDT has said that such proceedings would have to be dropped.

In the estimate of the Federation of Indian Export Organisations (FIEO), the exporting community will now be required to pay about Rs 6,800 crore over five years. The Government had late last year amended the income-tax law to confer legal validity to the income-tax department's efforts to recover taxes, on a retrospective basis, on profits arising from the sale of DEPB credits.

It, however, did not accede to the exporting community's demands that the profits earned from the sale of DEPB credits should be tax-exempt across the board. The Government had brought in amendments in such a manner that exporters with export turnover of less than Rs 10 crore were not required to fork out any taxes on the sale of DEPB credits. However, a large section of the exporting community with an export turnover of over Rs 10 crore were required to pay taxes on the profits earned from the sale of DEPB credits.

F I I

New SEBI norms for institutional placement

The committee set up by SEBI on raising funds from the domestic market has said the aggregate number of the proposed placement and all previous placements made in the same financial year in terms of placement size should not exceed five times the pre-issue net worth as per the audited balance sheet of the last financial year.

Under the scheme, only QIBs as defined in the Disclosure and Investor Protection guidelines would be permitted to participate in the restricted institutional placement. No allotment would be permitted directly or indirectly to promoters or persons acting in concert with them.

FIIs, VC funds and foreign VC funds could participate in above placement only if they have no special arrangements in the form of shareholder agreements, including board representation etc. (if they do, then they must come in through the preferential route), the SEBI report said.

Allocation would be discretionary subject to a reservation of at least 10 percent in favour of mutual funds registered with SEBI. Securities allotted under this route can only be transferred on the floor of the stock exchange or in a bulk/block transaction in accordance with the procedures prescribed by SEBI, the report said.

There should be at least two investors for an issue size of up to Rs 250 crore and at least five investors for an issue size in excess of Rs 250 crore. No single investor would be allotted greater than 50 percent of the issue.

On pricing, the SEBI committee said it should be on par with those for GDR issues, in terms of MOF guidelines. Allotments can be made on payment of 25 percent of the price, in case of equity shares and convertibles (other than warrants). In case of warrants, the payment stipulations shall be 10 percent on allotment of warrants, with equity shares being allotted only after payment of balance 90 percent.

RBI panel moots more powers to PSE boards

Corporate governance in public sector enterprises in the financial sector could be improved by shifting this responsibility from the administrative Ministries concerned to their (PSEs) boards.

This was suggested by a Working Group on "Conflicts of Interest in the Indian Financial Services Sector" set up by the Reserve Bank of India.

The group, which released its draft report today, said the Government could also think of exercising its ownership rights through specialised agencies (trusts, SPVs, etc), to be created for the specific purpose. Such agencies should create, develop and renew the governing board so as to ensure the qualities of leadership, enterprise, integrity and judgement among its members.

These agencies only should deal with the PSEs as an owner, so as to provide a reasonable hedge between ownership and management, the report said.

It is suggested that the process for professionalisation of directors on the lines of practices being employed in UK, Australia and New Zealand, could be considered.

In the case of private sector, control structures should be so devised as to be consistent with the interest of shareholders who are the owners, especially as control is often exercised through thin holdings and cross holding through a complex pattern of subsidiaries, companies and investment companies, with the added dimension of investments by institutions incorporated abroad. The Group headed by DM Satwalekar was set up to identify the sources and nature of potential conflicts of interest in the financial sector in India and possible measures/actions to be taken for mitigating them.

It also suggested that a Conflict Management Policy (CMP) for managing conflicts should be developed by each institution or profession, by which a commensurate premium/discount is placed on the ethical/unethical behaviour of the individuals or the institutions.

The Government has an important role in ensuring that the politico-judicial reforms are calibrated to meet the enhanced needs of an increasingly complex financial sector. Stating that defining financial crime and crafting technology neutral laws are the imperatives in this context, the Group has pointed out that financial services is too crucial an industry in a country's economy to be left solely in the hands of the institutions and the regulators.

In the Group's view an enlightened public, who are aware of their rights and obligations are the best safeguard for ensuring non-exploitation of conflicts of interest by the financial intermediaries.

In the Indian conditions, the Government and the regulators have an important role in enlightening the public of their rights and obligations. The society at large should send a strong message, through all possible means available that pro-consumer behaviour would be rewarded, while anti-consumer behaviour would be appropriately punished.

Cabinet nod for India-Venezuela pact in hydrocarbon sector

The Union Cabinet has given an ex-post facto approval for the agreement signed between India and Venezuela on cooperation in the hydrocarbon sector.

The Cabinet also gave its approval for authorising any non-substantive changes suggested by the Venezuelan side, as also decisions on the level at which the agreement was signed, made with the approval of Minister of Petroleum & Natural Gas in consultation with the Ministry of External Affairs, the Parliamentary Affairs Minister, Priyaranjan Dasmunsi, said.

Briefing presspersons, Dasmunsi said this is an umbrella agreement aimed at establishing a general framework for implementing actions of cooperation and mutual interest in the hydrocarbon sector.

"Steps towards nourishing mutual cooperation between India and Venezuela in the hydrocarbon sector have been initiated as far back as 1995. The efforts culminated in the establishment of Indo-Venezuelan Joint Working Group for cooperation in hydrocarbon sector and its first meeting in Caracas in 1999," he said.

Venezuela is among the top 10 crude oil producers in the world and holds among the largest proven reserves in the Western Hemisphere. The economy of Venezuela is oil-dependent, since oil accounts for roughly three-quarters of its total exports, about half of the Government revenues.

Govt to ease approval norms for hydel power plants

The Government is planning to ease norms for hydroelectric projects that require techno-economic clearance from the Central Electricity Authority (CEA) to expedite approvals for hydel projects.

"At present, all hydro projects above Rs 2,500 crore need techno-economic clearance from the CEA. We will shortly notify the new ceilings below which projects would not be required to get this approval," the Power Secretary, RV Shahi, said at a seminar on hydro power here.

The move would exempt a large number of projects that would otherwise have to get this approval, he said. This would encourage private companies to set up more hydro plants, he said, adding that all thermal projects have already been taken out of the purview of the CEA's clearance.

Shahi said the Ministry has set a target of adding about 20,000 MW from hydroelectric projects during the Eleventh Plan. Of this, projects totalling 15,000 MW were certain to come through during the Eleventh Plan, while some of the remaining 5,000 MW might spill over to the Twelfth Plan period.

To order a subscription to The Indian Economy Watch, The Indian Policy Watch or the combined weekly report, e mail **francis.antony@irisindia.net**

Or write to us

IRIS

T 131, International Infotech Park

Vashi, Navi Mumbai - 400705 India

Ph: +91 22 2781 4435

Fax: +91 22 2781 4434

Disclaimer: This report is meant for the exclusive use of the addressee only. Contents of this report cannot be sold/re-sold or circulated in any form/medium without the written consent IRIS. Select sections of this report, however, may be quoted without any written consent of IRIS, provided it explicitly acknowledges IRIS as a source along with the issue number and date. All data presented in this report are compiled and computed from official sources. While great care has been taken to ensure the accuracy of the data provided herein, IRIS makes no representation to its accuracy and completeness. IRIS accepts no liability whatsoever for any direct or consequential loss arising from the use of this report.