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Investment in India Since Liberalisation

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Preface

There have been major changes in the investment scenario in India after the changes in economic policies since July 1991. Private Investment in manufacturing and infrastructure have begun to be the new engines of growth. The capital markets have seen dramatic changes. Indian companies are raising more and more capital from the markets in India. A new element has been the rising inflow of foreign exchange for investment by foreign and Indian companies, as direct and portfolio investments. This paper is an attempt to describe and explain the changes that have taken place as well as the constraints, and put together all the factors in one document. Growth is not balanced between sectors. Agriculture, and many geographical areas in India, continue to receive low investment. However the paper does not discuss the work of SEBI, and regulations, since this is by itself a large subject.

Mr. K.A. Siddiqi cross-checked the figures after the paper was prepared. Dr. S. Bhide offered useful comments.

New Delhi
September 12, 1995

S.L. Rao

Investment in India Since Liberalisation

IT could be argued that the most impressive success of the new Indian economic policies since 1991 lies in the transformation of the investment climate in India. This is perceived to be so both by domestic and foreign investors. The evidence lies in the growth of foreign exchange reserves (as on 31st March 1995) to US$ 20.8 billion (excluding gold); and to US$ 19.6 billion in end-June 1995; dramatic rise in capital issues in 1994-95 to Rs.106.45 billion and Rs.68.39 billion in April to July 1995 (Source: CMIE); rise in market capitalisation of Indian companies registered in the stock exchanges to almost Rs.4331 billion (in March 1995); foreign direct investment inflows of over US$ 1 billion (between 1991 and 1994); foreign portfolio investment inflows of US$ 5.3 billion in just two years (1992 to 1994); and a remarkable steadiness in the external value of the Indian Rupee, with the blackmarket illegal rate being very close above to the rate determined by the legal market.

This paper will look at the changes in (*a*) the way in which savings have behaved, (*b*) investments in India by domestic and overseas investors, (*c*) the factors influencing investment flows, (*d*) the performance of equity and debt markets, and (*e*) external flows from India, the policy changes that have come about and which are further required.

SAVINGS

Gross domestic savings in India rose steadily from 12.7 per cent in 1960-61 to a high of 23.7 per cent in 1990-91. Since then it has declined every year and reached a level of 20.0 per cent in 1992-93. These are estimates of the Central Statistical Organization (CSO) of the Government of India. The Reserve Bank of India figures are not the same, due to differences in compilation method.

Percentage of Gross Domestic Savings to GDP at Current Prices	*RBI*	*CSO*
1980-81	21.2	21.2
1989-90	23.1	22.3
1990-91	23.9	23.7
1991-92	24.2	23.1
1992-93	22.5	20.0
1993-94	24.2	20.2

Sources: RBI.
NAS 1995, CSO.

A Committee appointed by the Government of India is examining the methods used for estimating savings in India. Savings of the public sector (government), and of the private corporate sector are calculated from the source data of government incomes and expenditures and private corporate performance. However the biggest component of savings in India is by the household sector which has savings in financial assets and in physical assets. This is not based on a periodic and comprehensive sample survey of households but is arrived at as a residual from the national income accounts. It is essential that a more generally acceptable and reliable method to estimate savings should be adopted.

The continuous decline in savings (according to CSO figures) after 1990-91 could be attributed to inflation. The wholesale price index for all commodities rose (percentages over previous year), as follows:

	(Per Cent)
1989-90	7.5
1990-91	10.3
1991-92	13.7
1992-93	10.1
1993-94	8.4
1994-95	10.9

Source: Ministry of Industry.

The last time when CSO figures showed a continuous annual decline in savings rate was from 1980-81:

	Gross Domestic Savings as Per Cent of GDP	*Inflation (Per Cent Rise in WPI Over the Previous Year)*
1980-81	21.2	18.2
1981-82	19.8	9.3
1982-83	19.0	4.9
1983-84	18.9	7.5
1984-85	18.2	6.5
1985-86	19.8	4.4

Source: *NAS*, CSO.
Ministry of Industry.

The decline in savings rate at that time was not accompanied by inflation and the decline was primarily in household savings.

We can see the decomposition of the gross domestic savings rate from the RBI figures. (Table1).

Table 1: Percentages to GDP at Current Prices

	Total	*Household Sector*		*Public Sector*	*Private Corporate Sector*
		Financial Assets	*Physical Assets*		
1980-81	16.1	6.3	9.7	3.4	1.7
1989-90	18.8	8.2	10.7	1.6	2.6
1990-91	20.2	8.7	11.5	1.0	2.7
1991-92	19.5	10.1	9.4	1.7	3.0
1992-93	17.1	7.8	9.3	2.1	3.3
1993-94	19.6	10.1	9.5	1.3	3.3

Household savings declined in 1991-92 and 1992-93 primarily in physical assets, but also to an extent in financial assets. The decline in public sector savings in 1989-90 and 1990-91, reflects the rise in those years in the government's overall fiscal deficit. The subsequent improvement in public sector savings reflects the improvement in government's management of its deficit. Public sector savings fell in 1993-94 when the deficit had risen to 7.7 per cent of GDP:

	Fiscal Deficit as Per Cent to GDP
1989-90	7.8
1990-91	8.4
1991-92	5.9
1992-93	5.7
1993-94	7.7
1994-95 (RE)	6.7
1995-96 (BE)	5.5

Source: Budget Papers 1994-95.

AGGREGATE INVESTMENT

Aggregate investment rose upto 1990-91 because of the high and rising inflow of foreign resources. When these fell sharply in subsequent years, there was a considerable fall in the level of aggregate investment. Despite considerable private foreign fund inflows for investment since 1991, the level of savings did not pick up because of the virtual disappearance of the deficit in trade account, leading to a fall in the deficit in the balance of payments. This affected the net inflow of foreign resources as is reflected in the deficit in the balance of payments, which began to improve with the savage restrictions on imports in 1991-92. In subsequent years, even though the restrictions on imports were removed, and imports were made much easier. The significant improvement in exports (up from 6.1% of GDP in 1990-91 to 8.8% of GDP in 1993-94), helped to keep the current account deficit as a proportion to GDP at much lower levels than they had been in 1991-92. (Table 2).

Table 2: Percentage to GDP at Current Prices

	Gross Domestic Savings	*Net Inflow of Foreign Resources*	*Aggregate Investment*
	1	2	3 (1+2)
1980-81	21.2	1.7	22.8
1989-90	23.1	2.8	25.9
1990-91	23.9	3.4	27.2
1991-92	24.2	0.6	24.8
1992-93	22.5	2.0	24.5
1993-94	24.2	0.3	24.4

Source: RBI Papers.

CAPITAL FORMATION

As a proportion to GDP, gross capital formation in India has been higher in the private sector than in the public sector. (Table 3).

Table 3: Gross Capital Formation : Private and Public Sectors

	As Per Cent of GDP at Market Prices			*Per Cent Share in Total Capital Formation*	
	Public Sector	*Private Sector*	*Total Unadjusted*	*Public Sector*	*Private Sector*
1960-61	7.0	8.9	15.9	44.2	55.8
1970-71	6.5	10.6	17.1	38.1	61.9
1980 81	8.7	12.3	20.9	41.4	58.6
1985-86	11.2	13.0	24.2	46.4	53.6
1989-90	10.0	14.3	24.3	41.1	58.9
1990-91	9.7	15.9	25.7	38.0	62.0
1991-92	9.2	13.7	22.9	40.1	59.9
1992-93	8.9	14.4	23.3	38.1	61.9
1093-94	8.9	12.4	21.3	41.7	58.3

Source: CMIE.

There has been a decline in investment in the economy from 1991-92. The improvement in 1992-93 over 1991-92 was marginal. This is due to persistent decline in the public sector, and erratic changes from year to year in the private sector.

According to the World Bank's Country Study on India (1995), "declining investment and growth has been a frequent response to stabilization and reform".

In India private investment has for most of the years since Independence, been concentrated in housing, agriculture, and manufacturing. Improvement in capital formation and investment has to come from these three sectors, if public sector investments do not show increase. Investments in housing may not rise fast enough to lead this recovery because of very limited housing finance; and obstacles created by the Urban Land Ceiling Regulation Act of 1976 which make any sale of urban land subject to state government approval.

The World Bank says that in both public and private sector, investments in agriculture have been declining for some years in real terms since 1980-81. The reasons are many and the World Bank Report *(op.cit.)*, summarizes them:

"(i) the policy framework which fragments India's domestic agricultural markets and restricts private investment in wholesale trade, storage and agro processing;

(ii) declines in public investment in agriculture, which has a proven strong inducive effect on private investment in this sector; crude policy instruments such as external trade restrictions and domestic price interventions;

(iii) crude policy instruments such as external trade restrictions and domestic price interventions;

(iv) large implicit and explicit subsidies for fertilizer, power consumed by farmers, and irrigation, have partially offset the effect of this taxation at an exceedingly high fiscal cost ......T(t)his has crowded out, however, more productive form of public spending on agriculture."

"The decline in *real* capital formation in agriculture by the public sector is more perceptible, as it has come down to Rs.10.65 billion in 1992-93 compared to Rs.17.96 billion in 1980-81. Private sector real investment in agriculture has increased in absolute terms from Rs.28.40 billion in 1980-81 to Rs.35.52 billion in 1992-93, though its share in total gross capital formation has declined significantly during the period." (*op.cit.*)

There is a need to strengthen the incentives to attract more private investment into agriculture. This would also depend on the pace of development of agricultural processing and export of value-added non-traditional agricultural products.

	Gross Capital Formation in Agriculture at 1980-81 Prices (Rs. crores)
1987-88	44.14
1988-89	43.47
1989-90	43.53
1990-91	45.93
1991-92	44.97
1992-93	46.17
1993-94	46.95

Source: *Economic Survey*, 1994-95.

This analysis leads to the conclusion that manufacturing must take the lead in accelerating private investment. Past government policies have resulted in considerable excess capacity in Indian manufacturing, which could give significant increases in production without additions to capacity. (Table 4).

Table 4: Trends in Capacity Utilization

	1970-80	*1980-90*	*1970-90*
Basic goods	57.8	69.2	63.2
Intermediate goods	94.1	87.1	90.7
Capital goods	65.2	66.9	66.0
Consumer goods	74.3	76.1	75.1
Durables	84.6	78.9	81.9
Non-durables	76.8	75.6	76.2

Source: World Bank - *India Report, 1995, op.cit.*

However in 1995, NCAER's quarterly surveys of business expectations have shown that capacity utilization has risen greatly, and capacity shortages can be expected, unless there are substantial additions to capacity.

At the same time, there is also need for large additional investments because of past government policies which :

(i) led to proliferation of plants with sub-critical production capacities;

(ii) made companies show idle capacity as a barrier to new entrants who would then be denied industrial licenses by government;

(iii) led to considerable unrelated diversification and lack of specialization by companies which found it easier to get industrial licences for new products than for expansion for existing product lines, leading to yet another reason for low productivity and high cost of production.

In order to be competitive, investments are required to expand capacity to more economic levels, improve productivity and quality.

CAPITAL FORMATION IN CORPORATE MANUFACTURING SECTOR

The private sector has shown a significant improvement in gross capital formation after 1988.

	Gross Fixed Capital Formation	*Total Gross Capital Formation* (Rs. billion)
1980-81	35.41	34.48
1985-86	100.43	144.05
1989-90	152.10	196.45
1990-91	202.91	247.03
1991-92	343.51	365.40
1992-93	421.08	474.09
1993-94	564.72	534.64

Source: CMIE.

Investments in central government owned public enterprises have not shown similar steady imrovement.

(Rs. crores)

	Budget	*Actual*
1990-91	287.00	281.00
1991-92	308.00	294.00
1992-93	368.00	366.00
1993-94	474.00	439.00
1994-95 (Budget)	501.00	NA

Source: World Bank, *op.cit.*

Fixed capital formation grew by 55 per cent in the private corporate sector between 1990-91 and 1992-93. Investment in the central public enterprises grew by 30 per cent, and the actuals each year were behind budget, due to shortfalls in borrowings, especially on external commercial borrowings.

PUBLIC ENTERPRISES

The Plan investments in central public enterprises since 1990 have been primarily from internally generated resources, i.e. profit and depreciation. The next important source has been budget support from government. External borrowings were also important. There was in each year except one, a shortfall in investment as against the Plan. (Table 5).

Table 5: Investments in Central Public Enterprises

(Rs. billion)

	1990-91		*1991-92*		*1992-93*		*1993-94*		*1994-95 Budget*
	Budget	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*	
Internal Resources	131.00	107.00	137.00	120.00	151.00	161.00	191.00	189.00	229.00
Bonds & Debentures	39.00	49.00	59.00	57.00	61.00	63.00	69.00	62.00	75.00
External Commercial (Incl. Supplies Credits)	15.00	26.00	20.00	19.00	59.00	37.00	52.00	41.00	72.00
Public Deposits and Inter-companies Borrowing	34.00	23.00	24.00	29.00	28.00	39.00	96.00	72.00	53.00
Budget Support	68.00	76.00	68.00	69.00	69.00	66.00	66.00	75.00	72.00
TOTAL	*287.00*	*281.00*	*308.00*	*294.00*	*368.00*	*366.00*	*474.00*	*439.00*	*501.00*

Source : World Bank - India, *op.cit.*

Central public enterprises appear to find it difficult to borrow in the market even as secured debt. However they are able to raise intercorporate debt and fixed deposits from the public, which the public perhaps regard as being in some way backed by government, and hence to be safe.

Since 1991, Government of India has continuously tried to sell portions of its equity in public enterprises, and between 1991 and 1994, about Rs.50 billion worth of equity have been sold in 35 PSEs. These sales have reduced government equity in these enterprises from a low of 1.12 per cent in Hindustan Copper Ltd., to a high of 45 per cent in Cochin Refineries Ltd. (in which there was already private equity), and 44 per cent in Hindustan Organic Chemicals Ltd. (*Economic Survey, 1994-95*). Others had government equity reduced in varying proportions in between. These disinvestments were completed in several rounds of offerings. The disinvestments started with a "bundle" of shares including good performing as well as bad performing companies, at an averaged price because government had no idea as to the value of the shares. The initial sales were to government owned financial institutions. In subsequent disinvestments, the shares were auctioned to the highest bidder in individual lots. The minimum value of the lot was reduced in 1994 to Rs.25,000 in order to enable relatively small investors also to participate.

State governments have begun to sell control over some of their public enterprises to private parties. Details of the number and the value of sales are not available.

CAPITAL RAISED BY INDUSTRY

Industry has raised around half of the funds for capital formation from its own savings and depreciation. The balance has been raised from three sources:

- equity share issues in India;
- borrowings from financial institutions and the public in India;
- equity and/or borrowing in overseas markets.

Table 6: Distribution of Capital Issues

(Rs. billion)

	1988-89	*1989-90*	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*
Equity Issues Total of which	*10.60*	*18.08*	*15.23*	*23.95*	*165.61*	*168.71*	*NA*
Private sector companies	9.56	11.78	13.51	17.95	97.91	103.45	NA
Mutual funds & FI's	1.04	6.30	1.72	6.00	64.33	62.83	NA
Public sector companies	0	0	0	0	3.37	2.43	NA
Debentures							
Non-Convertible Total of which	*26.49*	*51.26*	*57.14*	*73.96*	*36.18*	*72.34*	*NA*
Private sector companies	2.65	3.30	6.35	10.11	23.68	17.49	NA
Mutual Funds & FI's	3.26	4.42	6.19	6.63	4.00	24.25	NA
Public sector companies	20.58	44.44	44.60	57.22	8.50	30.60	NA
Convertible	*17.56*	*52.63*	*24.46*	*36.59*	*80.16*	*82.17*	*NA*
TOTAL CAPITAL ISSUES	**54.65**	**121.97**	**96.83**	**134.50**	**281.95**	**323.22**	**406.45**

Note: Figures for 1988-89 to 1993-94 from CMIE.

The monthly trends show some slackening after February 1995. (Table 7).

Table 7: Capital Issues

	Number of Issues			*Amount* (Rs. billion)		
	Public	*Rights*	*Total*	*Public*	*Rights*	*Total*
1994						
August	98	27	125	14.12	13.06	27.18
September	118	27	145	19.93	7.69	27.62
October	79	35	114	15.63	22.85	38.48
November	80	26	106	8.09	11.82	19.91
December	111	24	135	15.80	43.91	59.71
1995						
January	149	33	182	28.67	11.88	40.55
February	199	38	237	72.84	16.50	89.34
March	170	38	208	18.40	16,80	35.20
April	137	25	162	15.50	5.98	21.48
May	118	21	139	9.29	1.57	10.86
June	68	11	79	5.09	2.66	7.75
July	61	8	69	27.08	1.23	28.31
1994-95	*1349*	*360*	*1709*	*230.69*	*175.76*	*406.45*
April 1995 to July 1995	384	65	449	56.96	11.44	68.39

Source: *Monthly Review of the Indian Economy,* July 1995, CMIE.

The scenario depicted in the data on capital issues shows the dramatic change that has taken place in India's investment climate in the years after 1991.

1. Equity

The Indian investor has shifted in a big way to equity issues. In 1993-94 the total capital issues were not much different from 1992-93. That was perhaps because of the various problems in the stock market including the 'scam'. These included the very high premia charged by some companies after the abolition of issue price clearance by the Controller of Capital Issues accompanied in many cases by suspicious price rises before the issues, allegedly due to price rigging by promoters. In many cases the market price fell below the premium levels after the issue, and this adversely affected overall investor confidence. The markets in 1994-95 were affected by the abolition of 'badla' in December 1994 when SEBI asked all stock exchanges to enforce conclusion of all transactions in securities by delivery and payment, and not to allow any carry forward of transactions. This also affected liquidity in markets. The decline in portfolio investments by foreign financial institutions due to fears about the volatility of portfolios in emerging markets, also affected liquidity. Towards the end of 1993-94, companies which had invested surplus funds in the stock market, also began to withdraw them in order to proceed with their capital investments. All this affected the flow of funds into secondary markets, and also into primary markets. The year 1994-95 showed an improvement in primary issues.

The new issues market was flooded during January and February 1995.

	Feb. 1995	*Jan. 1995*
Amount (Rs. billion)	56.20	21.52
Total Number of Issues	198	145
Equity Issues	193	142

Source: CMIE.

In March 1995 it was expected, around 150 issues would open for subscription. It appears (according to Prime Data Base) that the proportion

of public issues open to the public for subscription, has been dropping -

1993-94 -	57% of issue price was called
1994-95 -	49% of issue price was called
1995-96 - (April-June)	43 to 59% issue price was called.

2. Mutual Funds

It was the private sector that took maximum benefit of equity issues. The mutual funds also primarily invested in private sector issues. Mutual Funds saw a decline in subscriptions in 1993-94 though it picked up in 1994-95. This was due to relative lack of liquidity and to market prices being low, and at a discount over their net asset values (navs). Many mutual funds in fact are quoted at below par value (e.g., Taurus, Morgan Stanley and many domestic funds). Resources mobilised by Mutual Funds (including UTI) under various schemes rose substantially from Rs.20.18 billion in 1987-88 to Rs.130.18 billion in 1992-93, and Rs.114.06 billion in 1993-94 (provisional). In April-September 1995 the amount is provisionally placed at Rs.77.50 billion (RBI).

3. Debt Instruments

While there was a small amount of equity subscription to public sector shares in 1992-94, it was of minor significance compared to the amounts raised by the private sector. Public sector raised maximum resources through secured debt in the market, as non-convertible debentures. These are high cost instruments and will further erode the profitability of public sector enterprises who accounted till 1991-92 for the maximum proportion of these instruments. In subsequent years the private sector were major users of this instrument. The mutual funds consistently raised money in this way. It is clear that the private sector was continuously changing its capital structure to more equity and debt, and that this process really accelerated from 1992-93. The public sector continued to go for more debt. This is a reflection of the central government's inability to reduce its equity stake in public sector enterprises by allowing them to raise equity capital from the market. The large sums raised through convertible debentures were also by the private sector, for whom this was a way to attract investors to subscribe to equity on conversion of the debentures, after enjoying the position of secured creditors, and for a while earning interest, though somewhat lower than available on non-convertible debentures.

4. Overseas Capital Issues

Table 8: Euro Issues and Amount of Inflow

(US$ billion)

	Issues Launched (Capital Raised)			*Amount of Inflow*		
	Global Depository Receipts (GDR)	*Foreign Currency Convertible Bonds (FCCB)*	*Total*	*GDRs*	*FCCBs*	*Total*
1992-93	0.24	-	0.24	0.09	-	0.09
1993-94	1.52	1.00	2.52	1.46	0.91	2.37
1994-95*	1.85	0.10	1.95	1.74	0.09	1.83
TOTAL	*3.61*	*1.10*	*4.71*	*3.29*	*1.00*	*4.29*

*Upto January 1995.
Source: *Economic Survey 1994-95.*

Indian companies were allowed to access international capital markets from 1992. The two instruments used were equity and debt, designated as GDRs and FCCBs, the latter also including Euro Convertible Bonds.

> *Global Depository Receipts (GDR)* are *equity instruments* created by a so-called Overseas Depository Bank (ODB) authorized by the issuing company to issue outside India GDRs to non-resident investors against the shares delivered to a Domestic Custodian Bank who instructs the ODB to issue GDRs against the shares it holds. A company willing to raise foreign fund through GDRs is required to obtain prior permission from the Department of Economic Affairs in the Ministry of Finance. The shares correspond to the GDRs in a fixed ratio (for example 1 GDR can represent 5 shares). The GDRs may be issued in a negotiable form, and are typically listed in a country that does not tax capital gains and can be traded on international computerized networks. GDRs can be redeemed at the price of the corresponding ordinary shares of the issuing company at the date of redemption. The Indian authorities treat GDRs as direct investment in the issuing company and are subject to the ceiling on foreign equity participation. (World Bank, *India, 1995*).

Euro-Convertible Bonds (ECB) are bonds subscribed by a non-resident in foreign currency and convertible into ordinary shares of the issuing company. The same authorization procedure that applies to GDRs holds for ECBs and are treated as direct investment in the issuing company. (World Bank, *India, 1995*).

In October 1994, government stipulated that Euro Issue proceeds should be mandatorily retained abroad, to be repatriated as and when expenditure for the approved end uses were incurred. The reason was to curb the inflationary protential of a massive accumulation of foreign exchange reserves, which was inevitable because of the long gestation period of new investment, during which period the funds would not be spent.

5. Term Loan

The other important source of finance for investment is through term loans by financial institutions. Both sanctions and disbursements show an upward trend. In 1993-94 the aggregate assistance sanctioned by all financial institutions was Rs.414.44 billion, a rise of 26.8 per cent over 1992-93, while disbursements were Rs.256.32 billion, a rise of 15.1 per cent.

6. Use of Funds from Capital Issues

Capital goods in India's industrial production showed a decline from 1991-92 to 1993-94. They began to show high growth - indeed the highest growth – comparison with other sectors in the economy, from July 1994 and this high growth has continued (cumulative growth of 24 per cent over previous year in 1994-95). Similarly it was only from January 1995 that capital goods imports showed significant growth (in 1994-95, 42.1 per cent over previous year). It would not be wrong to conclude that Indian companies began to use the substantial sums they had raised in the capital markets for investment, only from around mid 1994. It can be conjectured that a great part of the amounts raised in India and overseas till then, were used to reduce high cost domestic borrowings from banks and financial institutions, and substantial amounts went for investment in the stock market. When it began to be withdrawn for capital investments in the second half of 1994, there started a major liquidity crisis in the stock markets, which continues. Meanwhile, there has been considerable expansion in sales and production, and bank credit is again in demand, and perceived to be tight.

7. Capital Markets Reforms: 1992-93 to 1994-95

- Capital Issues (Control) Act, 1947 repealed and the office of Controller of Capital Issues abolished; control over price and

premium of shares removed. Companies are now free to approach capital market after clearance by SEBI.

- Securities and Exchange Board of India armed with necessary authority and powers for regulation and reform of capital market.

- Through a notification issued under the Securities Contract (Regulation) Act, 1956 the power to regulate stock exchanges was delegated to SEBI. This includes recognition, rules, articles, voting rights, delivery contracts, stock exchange listing and nomination of public representatives.

- Merchant banking brought under SEBI regulatory framework and a code of conduct issued.

- SEBI notified regulations for primary and other secondary market intermediaries, bringing them within the regulatory framework.

- The 'Banker to the Issue', brought under purview of SEBI for investor protection.

- The due diligence certificate by lead managers regarding disclosure made in the offer document, has been made a part of the offer document itself for better accountability and transparency on the part of the lead managers.

- New reforms by SEBI in the primary market included improved disclosure standards, introduction of prudential norms and simplifications of issue procedures.

- Companies required to disclose all material facts and specific risk factors associated with their projects while making public issues.

- The stock exchanges required to ensure that the companies concerned have a valid acknowledgement card issued by SEBI. SEBI vets the offer document, to ensure that all disclosures have been made by the company, in the offer document, at the time the company applies for listing of its securities to the stock exchange.

- Stock exchanges advised to amend the listing agreement to ensure that a listed company furnishes annual statement to the stock exchanges showing variations between financial projections and projected utilisation of funds made in the offer document and actuals. This will enable shareholders make comparisons between performance and promises.

- To discourage the use of stock-invest by institutional investors, the facility has been restricted to mutual funds and individual investors.

- SEBI introduced a code of advertisement for public issues for ensuring fair and truthful disclosures.

- To reduce cost of issue, underwriting by issues made optional, subject to the condition that if an issue was not underwritten and was not able to collect 90 per cent of the amount offered to public, the entire amount collected would be refunded to the investors.

- Redressal of complaints of investors is to be encouraged sharing it with recognised investor associations. This will facilitate filing of class action suits in consumer courts against erring companies.

- The extant guidelines for the bonus shares have been relaxed.

- SEBI introduced regulations governing substantial acquisition of shares and takeovers and lays down the conditions under which disclosures and mandatory public offers are to be made to the shareholders.

- SEBI reconstituted the governing boards of the stock exchange, introduced capital adequacy norms for brokers and made rules for making the client/broker relationship more transparent, in particular, segregating client and broker accounts.

- "Renewal" of transactions in 'B' group securities prohibited, so that transactions could be settled within 7 days.

- Private mutual funds permitted and a few such funds have already been set up. All mutual funds allowed to apply for firm allotment in public issues.

- UTI brought under the regulatory jurisdiction of SEBI.

- Fresh guidelines for advertising by mutual funds issued by SEBI and the requirement of pre-vetting of advertisements removed by SEBI.

- To improve the scope of investments by mutual funds, mutual funds were permitted to underwrite public issues and the guidelines for investment in money market instruments were relaxed.

- Over the Counter Exchange of India (OTCEI) and the National Stock Exchange of India with nationwide stock trading and electronic display, clearing and settlement facilities commenced operations.

- The practice of making preferential allotment of shares at prices unrelated to the prevailing market prices was stopped and fresh guidelines were issued by SEBI.

- Foreign Institutional Investors (FII) allowed access to Indian capital markets on registration with SEBI. 286 FIIs have been registered by the end of January 1995.

- The procedures for lodgement of securities for transfer was considerably eased for domestic and FIIs through the introduction of 'jumbo' transfer deeds and consolidated payment of stamp duty.

- Indian Companies permitted to access international capital markets through Euro equity shares.

- Investment norms for NRIs liberalised, so that NRIs and overseas corporate bodies can buy shares and debentures without prior permission of RBI.

(Economic Survey, 1994-95)

FOREIGN INVESTMENTS

This consists of NRI investments, foreign direct investments, foreign portfolio investments, and moneys raised by Indian companies overseas as equity and debt.

NRIs:

The NRI investments broadly take the following forms:

(i) deposits under various schemes such as FCNRA, and other schemes;

(ii) direct equity participation under various direct investment schemes; and

(iii) portfolio investment.

The outstanding balances (inclusive of interest) under various NRI deposits (at end March) were:

(US$ billion)

	1991	*1992*	*1993*	*1994*	*Jan. 20, 1995*
Total	13.691	12.319	14.091	15.780	17.219

Source: RBI.

While the phased discontinuation of maturity slabs under FCNRA resulted in a outflow of US$ 1.317 billion in 1993-94, these were more than compensated by inflows under schemes such as NR(NR)RD and the FCNR(B) which were introduced as a part of the measures to restructure various deposit schemes for the NRIs.

The improvement in the response of the NRIs to the liberalised environment climate is evident from the significant increase in the amount of investment proposals from the NRIs/overseas corporate bodies (OCBs) approved during 1993. However there was no change in the value of approvals under the portfolio investment schemes, which continued to remain at low levels. The inflows were only a small proportion of approvals, though the proportion is rising. (Table 9).

Table 9: Value of Approvals for Investment by NRIs

(Rs. billion)

Year	*On Repatriation Basis*	*On Non-repatriation Basis*	*Portfolio Investment*	*Total Inflow*	*Actual*
1989	3.3705	0.6520	0.0309	4.0534	
1990	2.0246	0.1724	0.0618	2.2588	
1991	2.0708	0.0704	0.0487	2.1899	1.6025
1992	13.5438	0.0202	0.2774	13.8414	1.4969
1993	22.6322	-	0.2739	22.9061	5.5969
1994	NA	NA	NA		11.0831
1995	NA	NA	NA		8.5257
TOTAL (1991 to 1995*)	*NA*	*NA*	*NA*		*28.3041*

*Upto May 1995.

Source: RBI : Actual figures taken from *SIA*, June, 1995.

Direct Foreign Investment (Foreign Collaboration)

These come under three categories: those subject to automatic approval by RBI; those approved by the Secretariat for Industrial Approvals (SIA); and those that are approved by the Foreign Investment Promotion Board (FIPB), the difference between each being dependent on the size and extent of foreign equity.

The following tables (Tables 10 to 12) give details of foreign collaboration approvals and the actual inflows.

Table 10: Foreign Collaboration Approvals - Comparative Figures

	1991	*1992*	*1993*	*1994*	*1995*
Total No. of Foreign Collaboration Approvals by :					
(i) SIA	760	585	307	382	231
(ii) RBI	188	736	676	702	343
(iii) FIPB	2	199	493	770 *	341 #
TOTAL	*950*	*1520*	*1476*	*1854*	*915*
No. of FC Approvals Involving Foreign Investment:					
(i) SIA	246	243	59	92	58
(ii) RBI	41	251	235	201	95
(iii) FIPB	2	198	491	769 *	340 #
TOTAL	*289*	*692*	*785*	*1062*	*493*

(Continued)

Table 10 : *(Contd.)*

	1991	*1992*	*1993*	*1994*	*1995*
Total Amount of Foreign Investment Involved (Rs. billion)					
(i) SIA	3.60	4.20	1.60	3.20	1.20
(ii) RBI	1.40	7.80	6.60	5.30	1.50
iii) FIPB	0.30	26.90	80.40	133.40 *	72.10 #
TOTAL	*5.30*	*38.90*	*88.60*	*141.90*	*74.80*

Table 11: Foreign Investment

(Rupees billion)

	1991	*1992*	*1993*	*1994*	*1995 (Upto 31 May)*
Total Number of Approvals	95	1520	1476	1854	915
Total Foreign Investments	5.30	38.90	88.60	141.90	74.80
Inflow From:					
Portfolio	0.20	2.82	109.63	98.53	17.13 (Apr. 1995)
GDRs	-	2.64	45.88	54.14	NA
FCCBs	-	-	28.69	NA	NA

* Includes 22 proposals for Global Depositary Receipts (GDRs) involving investment of Rs. 52.3 billion.

\# Includes two proposals for Global Depositary Receipts (GDRs) involving investment of Rs.7.1 billion.

Notes:(1) Figures for 1995 updated to 31.5.1995.

(2) Inflow figures are converted in Rupees billion by using average exchange rate for the corresponding period.

(3) Inflow figures are for financial year, 1991 figure refer to 1991-92 and so on.

(4) 1994-95 inflow figures are for the period Apr.-Dec.

Source: *Economic Survey, 1994-95* and *SIA*, June 1995.

Table 12: Monthly Statement of Actual Inflow of Foreign Direct Investment/ NRI Investment Report for the Month of May, 1995

(Rs. billion)

	1991	*1992*	*1993*	*1994*	*1995 (Upto May, 1995)*	*Total 1991 to 1995 (Upto May)*
Actual Inflow of Direct Foreign Investment in Respect of						
1. Government's Approval	1.9118	4.7795	9.8516	15.0076	16.1151	47:6656
2. RBI's Automatic Approval	Nil	0.4754	2.4110	3.6258	3.9829	10.4951
3. NRIs						
a) 40% Scheme	1.6025	1.4798	4.8980	8.5244	8.5257	28.3041
b) 100% Scheme	Nil	0.0171	0.6979	2.5587		
TOTAL	*3.5143*	*6.7518*	*17.8585*	*29.7165**	*28.6237**	*86.4648*

**Provisional.*

Sources: Reserve Bank of India, Bombay.

S.I.A. Newsletter.

The FDI approved during January-February 1995 at Rs.2120 crores is 162.7 per cent more than that in the corresponding period last year. The striking feature is that the growth in numbers of total foreign collaborations is only 57.1 per cent while the amountwise growth is 162.7 per cent thereby indicating that foreign collaborators are entering in capital intensive industries. Another notable feature is that growth in financial collaborations has also picked up from 39.2 per cent in January-February 1994 to 64.4 per cent in January-February 1995. It has been good from actual investment point of view also as the growth in actual investment in this period is all the more pronounced registering 267.1 per cent growth over the corresponding period last year. (Table 13).

Table 13: Inflow of Foreign Investments

	Foreign Collaborations Approved (Nos.)						*Foreign Investment* (Rs. billion)				
	Total			*Financial*			*Approved*			*Actual*	
	1993	*1994*	*1995*	*1993*	*1994*	*1995*	*1993*	*1994*	*1995*	*1994*	*1995*
January	83	142	188	35	69	96	8.16	2.59	5.57	1.35	4.42
February	121	103	197	62	66	126	15.70	5.48	15.63	1.66	6.63
March	110	134		52	76		1.81	3.72	-	2.93	6.53
Jan.-Mar.	314	379		149	211		25.67	11.79		5.94	17.58
		(20.7)			(41.61)			(-54.1)			(196.0)
Jan.-Dec.	1476	1832		785	1040		88.59	89.57		29.68	-
		(24.12)			(32.5)			(1.1)			
Jan.-Feb.	204	245	385	97	135	222	23.86	8.07	21.20	3.01	11.05
		(20.1)	(57.14)		(39.2)	(64.4)		(-66.2)	(162.7)		(267.1)

Source: R.B.I.

The country-wise breakup of foreign direct investment shows interesting changes. (Table 14).

Table 14: Statement Showing Country-wise Breakup of Foreign Direct Investment Approved During 1991 to 1995

(Rs. billion)

Name of Country	*1991*	*1992*	*1993*	*1994*	*1995*
1. U.S.A.	1.8585	12.3150	34.6185	34.8809	17.6934
2. U.K.	0.3210	1.1767	6.2273	12.9915	11.1642
3. Germany	0.4180	0.8627	1.7593	5.6936	1.7338
4. Mauritius	-	-	1.2424	5.3474	1.7069
5. Japan	0.5271	6.1023	2.5743	4.0090	0.4770
6. Italy	0.1781	0.8939	1.1735	3.9094	3.1331
7. Australia	0.0261	0.7762	0.2956	3.8845	1.0632
8. Singapore	0.0137	0.6021	0.6674	2.6550	1.5190
9. Netherlands	0.5592	0.9679	3.2165	2.0696	3.0754
10. Hongkong	0.2115	0.5708	0.8795	1.6478	1.3301
11. Korea (South)	0.0615	0.3940	0.2933	1.0685	0.7863
12. Russia	0.0861	0.1159	0.0195	1.0569	0.0010
13. France	0.1933	0.2964	1.2909	0.8973	0.7829
14. Denmark	0.1117	0.2523	0.3199	0.5330	1.0895
15. U.A.E.	0.0220	0.0645	4.0449	0.5123	0.0010
16. Afghanistan	-	-	0.0010	-	-
17. Armenia	-	-	0.0010	-	-

(Continued)

Table 14: *(Contd.)*

Name of Country	1991	1992	1993	1994	1995
18. Austria	0.0159	0.0614	0.1557	0.2497	0.0658
19. Bahamas	-	0.0075	-	0.0812	0.0048
20. Bahrain	-	0.0040	0.0041	0.0484	-
21. Belgium	0.0161	0.2370	0.0600	0.0766	1.4364
22. Belorussia	-	-	0.0005	-	-
23. Bermuda	-	0.0332	-	0.2603	0.1337
24. Brazil	0.0001	0.0011	-	-	-
25. British Virgin Islands	-	0.0053	0.0460	0.0365	0.0652
26. Canada	0.0486	0.0078	0.2728	0.4204	3.7792
27. Cayman Island	-	-	0.0330	0.0350	-
28. Channel Island	-	-	-	0.0125	-
29. China	0.0075	-	0.6166	0.2725	-
30. Cyprus	-	-	-	0.0003	0.0044
31. Czech Republic	-	-	0.0044	-	0.0007
32. Czecholovakia	-	0.0526	-	-	-
33. Estonia	-	-	0.0700	-	0.0031
34. Finland	0.0253	0.1050	0.0207	0.1037	0.1075
35. Hungary	-	-	0.0227	0.0016	-
36. Indonesia	-	0.0190	0.0038	-	1.2000
37. Ireland	-	0.0001	1.6564	0.0641	0.1310
38. Israel	-	0.0127	0.0146	0.0852	0.1496
39. Kazakistan	-	-	0.0150	-	-
40. Korea (North)	0.0016	-	-	-	-
41. Kuwait	-	0.0009	0.0005	0.3459	-
42. Latvia	-	0.0026	-	-	-
43. Luxembourg	-	-	0.0290	-	0.0217
44. Malaysia	0.0018	0.7443	0.0848	0.2522	3.3445
45. Maldives	-	-	-	0.0060	-
46. Malta	-	0.0013	-	-	-
47. Mexico	-	0.0528	2.3898	0.0001	0.0816
48. Nepal	-	-	-	0.0002	-
49. New Zealand	-	0.0032	0.0005	-	0.4928
50. Nigeria	-	-	-	0.0154	-
51. Norway	0.0038	0.0092	0.0267	0.0032	0.0010
52. Oman	-	-	5.4298	0.1738	0.0310
53. Panama	-	-	0.0255	-	-
54. Papua New Guinea	-	-	-	-	0.0192
55. Phillipines	-	0.0500	0.1325	0.0410	0.3111

(Continued)

Table 14: *(Contd.)*

Name of Country	1991	1992	1993	1994	1995
56. Poland	0.0004	-	0.0015	-	-
57. Portugal	0.0016	0.0120	0.1400	-	1.7356
58. Qatar	-	0.0453	-	-	-
59. Saudi Arabia	-	0.0031	0.1087	-	0.0012
60. Scotland	-	-	-	-	0.0005
61. Slovakia	-	-	0.0005	-	-
62. South Africa	-	-	-	0.0025	0.1578
63. Spain	0.0033	0.0192	0.0980	0.0202	0.0007
64. Sri Lanka	-	-	0.0151	0.0243	-
65. Sweden	0.0698	0.4841	0.0062	0.1164	0.8336
66. Switzerland	0.3550	6.8976	4.2680	0.4830	1.0485
67. Taiwan	0.0045	0.1800	0.1001	0.1020	0.0258
68. Thailand	-	0.0252	3.6842	0.0998	6.2199
69. Ukrine	-	0.0084	0.0028	0.0045	-
70. Uruguay	-	0.0001	-	-	-
71. West Indies	-	0.0030	-	0.0005	-
72. Yugoslavia	-	0.0044	-	-	-
73. NRIs*	0.1970	4.3913	10.4332	4.9088	3.0753
74. Euro Issues**	-	-	-	52.3044	7.0988
75. ALL COUNTRIES INCLUDING ABOVE	*5.3411*	*38.8754*	*8.85933*	*14.18719*	*74.7296*

* Represents NRI proposals only.

** Represents proposals for Global Depository Receipts (GDRs).

Note: (i) Figures for 1995 updated to 31.5.1995.

(ii) Ranking of all countries according to 1994 approval figures.

Source: *S.I.A. Newsletter.*

The USA remains the leading foreign investor in India throughout, followed by the U.K. In 1995, for which figures are available till May, Germany which held third place in earlier years, has been overtaken by Thailand. Another important spurt in 1995 has come from Malaysia and Canada. Other large investors in 1995 have been Belgium, Denmark, Portugal, Indonesia and Switzerland.

Figures for investments approved between August 1991 and May 1995 are available state-wise. West Bengal has jumped to second place after Maharashtra among the states that have had approvals for foreign investment. (Table 15).

Table 15: State-wise Breakup of Foreign Direct Investment Approvals During the Post Policy Period (1-8-1991 to 31-5-1995)

State	*August 1991 - May 1995*	
	No. of Approval	*Investment* (Rs. billion)
Maharashtra	464	57.3511
West Bengal	101	37.0131
Delhi	235	35.7142
Tamil Nadu	275	24.4211
Gujarat	143	24.1429
Orissa	24	17.4346
Andhra Pradesh	163	12.8250
Madhya Pradesh	59	9.8261
Uttar Pradesh	120	7.9874
Karnataka	205	7.7942
Punjab	34	5.1212
Rajasthan	85	4.5450
Haryana	142	4.2095
Himachal Pradesh	14	2.7712
Pondicherry	18	1.1503
Goa	22	0.9092
Kerala	36	0.8549
Bihar	12	0.7929
Chandigarh	10	0.7236
Dadar & Nagar Haveli	11	0.4722
Arunachal Pradesh	2	0.1106
Daman & Diu	6	0.0548
Assam	4	0.0150
Andaman & Nicobar	5	0.0100
Tripura	1	0.0070
Lakshadweep	1	0.0050
Others (State Not Indicated)	1042	92.1589
TOTAL	*3234*	*348.4474*

Source: *S.I.A. Newsletter.*

FDI seems to be concentrated in Maharashtra, West Bengal and Delhi. Tamil Nadu and Gujarat come next. The worst off among the larger states, are Kerala and Bihar.

However, the pace of implementation is slow. Thus, only 300 out of 2171 cases approved for foreign investment between July 1991 and April 1994 were able to acquire land, or factory. Out of these only 200 have been able to begin construction of factories.

It is interesting to see where foreign direct investment is likely to flow in the coming years, from the sanctions already given for investment.

1. Power: Even though the first phase of the Enron agreement has been announced as repudiated and the second phase as cancelled by the Maharashtra government, it can be expected to be revived in some form in the future. The Enron situation is not expected to adversely affect the other seven large "fast track" power projects or the many other smaller ones already approved or on their way to approval. The seven projects are likely to have a total investment of Rs.406.08 billion. Enron had proposed a project cost of Rs.90.15 billion at Dabhol.

The basic problem for power projects in India is the poor financial performance of the State Electricity Boards who are the customers, and who in turn supply power to consumers who are priced at cost, below cost or free, or steal the power. Reform of SEBs is the fundamental issue to be addressed. The other is the need for an independent authority to regulate this industry.

2. Telecommunications: It has been announced that Indians can get telephones on demand by 1997. The investment required for this purpose is Rs.600 billion, of which government investment planned till 1997 is Rs.370 billion. Almost every major telecom company is bidding for a share of this market. According to very rough estimates, foreign investment for setting up the basic services to add about 10 million plain telephone lines over the next three years is US$ 1 billion. This is without taking count of many applications lying in smaller towns.

Foreign equity is allowed upto a limit of 49 per cent. Only one new license is to be given in one telecom circle (out of 18 circles and 4 metropolitan networks). Still to be decided are technical standards, fixing access charges for private operators for using DOT network, and price regulation. A Telecom Regulatory Authority of India is to be set up.

In value-added services also (E-mail, voice mail, data service, video conferencing, video text services) no investments have yet taken place.

Cellular services have however, stalled in some cities. Another major area for investment is radio transmission for new rural connections. Expenditure on transmission equipment could reach almost US$ 1 billion in 1995.

3. Crude Oil: Four off-shore oil fields are expected to receive investment of US$ 1.2 billion. The Bombay High Development Project is likely to cost upto US$ 3 billion.

4. Roads: The Government of India has a 20-year road plan (1987-2000) that has targetted an addition of 31,942 km. to India's national highways. The total cost of construction in this plan is Rs.600 billion. Problems in implementation are due to adhocism without an overall policy, the need for counter-guarantees and assured return on equity. Just three key projects are on hand, for fairly short length of roadways and bridges, but have an investment proposed of Rs.50 billion.

Liberalization in Selected Key Sectors

The following table gives a summary of the extent of liberalization in selected key sectors.

Table 16: The Liberalization of India's Investment Regime in Selected Key Sectors, 1991-94

Sectors	*Reserved for the Public Sector*		*Remarks*
	June 1991	*March 1994*	
Mining	Yes	No	*In March 1993*, the Government tabled in Parliament a new National Mineral Policy to open mining (except for hydrocarbon, uranium and coal) to the private sector for the first time in decades. Foreign equity participation up to 50 per cent would be allowed, with majority ownership to be allowed on a case by case basis. *In February 1994*, the Mines and Minerals (Regulation and Development) Act, 1957 was amended in line with the new National Mineral Policy.

(Continued)

Table 16 : *(Contd.)*

Sectors	*Reserved for the Public Sector*		Remarks
	June 1991	*March 1994*	
Coal	Yes	No	Investment in "captive" mines have been allowed; *in March 1994* the Coal Ministry offered 13 proven coal mines to private power, iron, steel companies and power companies, including foreign companies.
Hydrocarbons	Yes	No	Effort to attract private investors have intensified; however, results have been modest.
Manufacturing	Yes	No	*In July 1991,* a New Industrial Policy (NIP): (*i*) reduced the number of industrial sectors reserved exclusively for public sector investment from seventeen to eight (coal, oil, mining of ferrous metals, mining of non-ferrous metals, mining of atomic minerals, defence equipment and ammunition, atomic energy, railway transport, Annexure I of the NIP); (*ii*) abolished the requirement for prior government approval for domestic investments except for those in eighteen "sensitive" industries specified on a negative list (Annexure II of the NIP) which account for about 20 per cent of manufacturing value added; and (*iii*) granted "automatic approval" for new foreign investments up to 51 per cent of equity and foreign technology agreements in 34 sectors (accounting for close to 50 per cent of value added in manufacturing) designated on a positive list (Annexure III of the NIP). *In April 1992,* the Government added electronic software to the 34 priority sectors. *In April 1993,* three important sectors (leather except chamois leather, motor cars, and "white goods") were deleted from Annexure II of the NIP.

(Continued)

Table 16 : *(Contd.)*

Sectors	*Reserved for the Public Sector*		*Remarks*
	June 1991	*March 1994*	
Electricity	Yes	No	*In June 1992* the Government opened the power sector to private investment with foreign participation allowed up to 100 per cent of equity.
Railways	Yes	Yes	Some steps have been taken to attract private sector participation through "own your own wagon" schemes.
Air Transport	Yes	No	Since *November 1992*, private airlines have been allowed to compete in the domestic market with the two dominant public sector airlines (Indian Airlines and Air India) but until the Air Corporation Act of 1953 was repealed in *February 1994*, the private airlines fell under the statute of "air taxis" which meant, for example, that they could not publish their time schedules.
Ports	Yes	No	Private sector investments and operations are being increasingly encouraged. Prior approval required.
Roads	Yes	No	Institutional obstacles remain.
Telecom-munications	Yes	No	Private sector foreign and domestic only allowed for the provision of "value added" services.
Postal Service	Yes	No	Private couriers, domestic and foreign, are allowed to compete with the public sector.
Banking	Yes	No	*In January 1993*, the RBI announced guidelines for entry of new private commercial banks.
Insurance	Yes	No	Private sector entry under consideration (para. 1.39).

Source: *World Bank, India.*

FOREIGN INVESTMENT BY INDUSTRIES

The following figures show the industries in which foreign investments have been approved for investing. It must be noted in the light of the earlier discussion that the investments in power, telecom, and roads are likely to shoot up in coming years and dominate the foreign investment.

Table 17: Foreign Investment Approved (August 1991 to March 1995)

	(Per Cent)
Power	14.0
Oil Refining	16.7
Food Processing	9.8
Electrical Equipment	7.9
Chemicals (Excluding Fertilizer)	6.5
Metallurgical	9.5
Others	35.6
TOTAL	*100.0*
TOTAL	*Rs. 143.37 billion*

Portfolio Investment

One of the important consequences of economic reforms was the opening up of Indian equity and debt markets to foreign financial institutions for institutional investment. This has led to an inflow of US$ 3,448 million in 1994-95 which was almost as much as in 1993-94. In June 1995 the net monthly FII investment was US$ 0.118 billion against US$ 0.005 billion in March 1995, and US$ 0.065 billion in May 1995. There is an upward trend. (Table 18).

Table 18: Portfolio Investment

(US$ billion)

	1991-92	*1992-93*	*1993-94*	*1994-95*
Portfolio Investment	0.008	0.092	3.493	3.448
a. FIIs	0	0.001	1.665	1.607
b. Euro Equities	0	0.086	1.463	-
c. Offshore Funds	0.008	0.005	0.365	-

Sources: *Economic Survey, 1994-95.*
Economic Times, 31st August 1995.

The FII inflow had dipped from a high of US$ 0.396 billion in January 1994 to US$ 0.0155 billion in December 1994.

SECONDARY MARKETS

The Indian stock market indices fell almost throughout 1995.

Table 19: Performance on the Stock Exchange

Month	*Avg. Daily Turn Over* (Rs.billion)			*Returns* (Per Cent)		
	BSE	*NSE*	*OTCEI*	*BSE Sensex*	*NSE Index*	*OTCEI Index*
June 1994	2.650		0.008	6.7		19.0
July 1994	2.350		0.012	2.5		24.5
Aug. 1994	3.350		0.014	9.5		15.7
Sep. 1994	2.990		0.016	-6.7		6.8
Oct. 1994	2.770		0.017	-0.1		11.6
Nov. 1994	2.720	0.070	0.017	-3.5		-0.3
Dec. 1994	2.060	0.070	0.018	-4.8	-5.9	-5.5
Jan. 1995	1.670	0.150	0.016	-7.8	-8.4	-2.0
Feb. 1995	1.590	0.230	0.014	-5.5	-6.9	-6.9
Mar. 1995	1.270	0.370	0.008	-4.7	-2.5	-9.1
Apr. 1995	1.030	0.340	0.009	-3.9	-6.3	-4.7
May 1995	1.200	0.720	0.008	7.0	5.4	-8.2
June 1995	2.070	0.870	0.008	-3.1	-4.3	-7.8
July 1995	2.530	0.990	0.011	4.3	3.5	-2.2

Source: *Monthly Review*, July 1995, CMIE.

This has brought the P/E ratio down by over 20 per cent in 1994-95 over the previous year. The P/E ratio in June 1995 was 19.61 (on the Bombay Sensex) versus 34.18 in the 1994 and 34.95 in July 1995.

Between August 1993 and February 1994 the sentiments in stock markets improved because of

(i) large purchases by foreign institutional investors;

(ii) favourable monsoon;

(iii) government assurance of protection of investors' interest against shares attached in the scam;

(iv) improvement in the balance of payment position;

(v) rising foreign exchange reserves; and

(vi) improved performance of companies.

After March 1994, the retreat of markets was because of

(i) ban on carry-forward transactions by SEBI requiring brokers to square up their outstanding positions as an March 11, 1994; and

(ii) rise in interest rate in the USA causing FII to withdraw temporarily.

In 1995, the further improvement in corporate results, resulted in some upward movement in share prices. However the state election results going against the Congress in 1994, the Mexican wills causing FIIs to be cautious, along with the fall in values in many emerging markets, rising interest rates, continued ban on badla, all helped to keep the equity prices down.

The problems bedevelling portfolio investments are the differential rates of capital gains taxes favouring foreign versus Indian investment, and the so called "Mauritius" route. India has an agreement with Mauritius under which there is no tax deduction at source on capital gains for investments from Mauritius. Mauritius does not have such a tax. Hence portfolio investers from Mauritius can enter and exit the Indian market at no cost in taxes, which acts as a disincentive for such volative movements by other investors. The Mauritius route tends to make foreign institutional investments in India much more volatile or "hot".

INDIAN INVESTMENT ABROAD

According to RBI, there were 430 joint ventures abroad by Indian companies. Of these 167 were in operation and 263 in different stages of implementation. Indian companies had equity participation of Rs.1.418 billion in end December 1993. Of the 167 operating joint ventures, 58 per cent were in manufacturing, and 42 per cent in non-manufacturing sectors.

The joint ventures were spread over 62 countries with

East Asia at	36% - 60	ventures
Europe-America at	20% - 33	ventures
Africa at	16.7% - 28	ventures
South Asia at	13.7% - 23	ventures
West Asia at	11.3% - 19	ventures
Oceania at	2.3% - 4	ventures

There were also 172 wholly owned subsidiaries of Indian companies at end December 1993. Of these 52 were in operation and 120 were in different stages of implementation. The total equity in these ventures amounted to Rs.3.449 billion.

The limit for overseas investment by Indian companies is US$ 0.005 million. Investments upto US$ 0.004 million are now subject to automatic approval. It is reported that investments in Nepal and Sri Lanka are picking up rapidly since mid 1994.

The Indian investments overseas remain at low levels. The limits on foreign investment imposed by government, the opportunities available in India, the lack of many Indian brands, are some of the reasons. However some companies are going in for all areas with companies overseas to leverage their limited financial resources into a global presence for themselves.

With economic growth and a changing demographic composition, the prognosis for rising savings in India in coming years is good, despite reported decline in the last few years. There appears to be some improvement in capital formation in agriculture on private account, not on public account. In industry there is a preference for equity to debt in the private sector. The public sector continues to go for high debt mainly because of the high government equity. Foreign direct investment is showing an upward trend, though approvals are far ahead of actuals, and implementation is slow. The dominant fields for FDI are likely to be in infrastructure investments. Foreign portfolio investments have been large and because of the "Mauritius route", even more volatile than is normally the case. NRI investment are rising. Asian countries are showing more interest in investing in India. The poor record of public investment is a worry and could create problems for future economic growth.