Foreign Capital

&

India's Economic Development

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Foreign Capital & India's Economic Development

INTRODUCTION:

Major improvements in educational standards across India have helped its economic rise. Shown here is the Indian School of Business at Hyderabad, ranked number 20 in global MBA rankings by the Financial Times of London in 2008

The economic development in India is highly dependent upon various sectors like agriculture, manufacturing and services (especially in the software market). India ranks fourth with respect to GDP (PPP) as per the International Monetary Fund (IMF), CIA World Factbook and World Bank India's economy is diverse and encompasses agriculture, handicrafts, textile, manufacturing, and a multitude of services. Although two-thirds of the Indian workforce still earns their livelihood directly or indirectly through agriculture, services are a growing sector and are playing an increasingly important role in India's economy. The advent of the digital age, and the large number of young and educated people fluent in English are gradually transforming India into an important 'back office' destination for global companies for the outsourcing of their customer services and technical support. India is a major exporter of highly skilled workers in software and financial services, and software engineering. Other sectors like manufacturing, pharmaceuticals, biotechnology, nanotechnology, telecommunication, shipbuilding, aviation and tourism are showing strong potentials with high growth rates.

India has an increasing population and the challenge of reducing economic and social inequality. Poverty remains a serious problem, although it has declined significantly since independence. Current estimates state that 25% of India's population is below the poverty level.

WHAT IS FDI? WHAT IS THE ROLE PLAYED BY FDI IN INDIA ECONOMIC DEVELOPMENT?

FDI means Foreign Direct Investment. India Foreign Direct Investment includes investments in the infrastructure development projects including construction of bridges and flyovers, finance sector including banking and insurance services, real estate development, retail sector etc. The foreign direct investment definition says the direct investments in any productive assets in a country by any foreign company are called foreign direct investment or FDI.

FDI in India includes, FDI inflows as well as FDI outflow from India. Also FDI (foreign direct investment) and FII (foreign institutional investors) are a separate case study while preparing a report on FDI and economic growth in India. FDI and FII in India have registered growth in terms of both FDI flows in India and outflow from India. The FDI statistics and data are evident of the emergence of India as both a potential investment market and investing country.

The Foreign direct investment scheme and strategy depends on the respective FDI norms and policies in India. The FDI policy of India has imposed certain foreign direct investment regulations as per the FDI theory of the Government of India (GoI). These include FDI limits in India for example:

- Foreign direct investment in India in infrastructure development projects excluding arms and ammunitions, atomic energy sector, railways system, extraction of coal and lignite and mining industry is allowed upto 100% equity participation with the capping amount as Rs. 1500 crores.
- FDI figures in equity contribution in the finance sector cannot exceed more than 40% in banking services including credit card operations and in insurance sector only in joint ventures with local insurance companies.
- FDI limit of maximum 49% in telecom industry especially in the GSM services

The FDI norms in real estate sector as well as in the retail sector are also predetermined by the GoI after a careful study of the foreign direct investment pros & cons. The foreign direct investment advantages lay in the fact that equity participation form foreign investors brings larger infrastructure base for the project but the FDI disadvantages of losing the ownership rights to a foreign company makes it a cautious decision.

The FDI theories listing the FDI disadvantages include the increased liquidity and consequent inflation due to excessive FDI inflow in India. In order to absorb the FDI entering the Indian economy, the rupee is being pressurized. However the FDI benefits include better efficiency in funds management in India and thus improvisations in the quality standards.

The FDI policy 2007 ascertains regulations on the FDI stocks and this may reduce the foreign direct investment confidence as closing the doors of industrial relations with foreign investors with only hamper the FDI and economic growth in India coordination. FDI and GDP in India working together and brining the reforms to the economics in India.

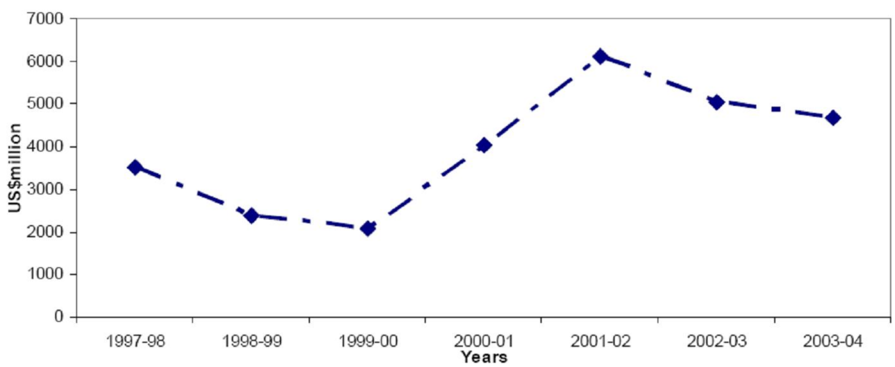
Another form of foreign investment besides FDI is FPI or foreign portfolio investment that is a more easily traded form of foreign investment and less permanent. In FPI investment is made through stocks and bonds in a foreign enterprise without long-term financial relationship plans.

Steps have been taken by the government to impart technical FDI education so as to improvise the FDI database of the country. FDI and trade go hand in hand as both works in a symbiotic situation. FDI has also created more employment opportunities as FDI trends have increased the basic infrastructure of any organization thus demanding growth in terms of organizational structure as well. The foreign direct investment news in India shows the FDI notations being adopted by India, the foreign direct investment strategies, and the FDI guidelines regulating the inflow of foreign funds in India.

STASTICAL DATA

Aggregate FDI inflows into India were somewhat lower during 2003-04 as compared to that during 2002-03 (Table 6.2). The reduction is attributable to a small decline (US$379 million) in fresh equity capital inflows in 2003-04. Reinvested earnings during 2003-04 at US$1.8 billion were more or less the same as in 2002-03. FDI flows into India, on BOP basis, after rising sharply from 1999- 2000, have been showing a decline since 2001-02 (Table 6.2 and Figure 6.3). FDI (net) undertaken by Indian enterprises overseas,
was also lower at US$1.3 billion during 2003- 04, compared to US$1.8 billion in 2002-03. 6.58 The declining trend of FDI flows into India appears to have reversed during the current year, with such flows during the first half of 2004-05 almost US$1 billion higher than that during April-September 2003-04 (Table 6.2). On a quarterly basis, FDI (net) flows into India improved from US$1.3 billion during April- June 2004-05 to US$1.8 billion during July-September 2004. FDI (net) abroad has been broadly at the same level in the two quarters. 6.59 Aggregate FDI flows (net) into India during April-September 2004-05 are estimated at almost 70 per cent of such flows during the whole of 2003-04, thereby indicating a turnaround in the current year. Notwithstanding the upturn, India's capital account in recent years has gained far more strength from short-term portfolio flows than from long-term FDI flows. This probably necessitates revisiting the FDI policy and identifying constraints impeding higher FDI inflows. Procedural simplifications (e.g. removal of anomalies from Press Note 18) are likely to encourage much greater FDI flows.

Fig. 6.3 FDI flows (net) : 1997-98 to 2003-04



Updated Report of July-September 2008

The rapid growth of the economy, favourable investment regime, liberal policy changes and procedural relaxations, has resulted in a horde of global corporations investing in India. The generous inflow of FDI is playing a significant role in the economic growth of the country.

In 2007-08, India's FDI touched US$ 25 billion, up 56 per cent against US$ 15.7 billion in 2006-07, and the country's foreign exchange reserves had crossed US$ 341 billion as on May 21, 2008. In 2005-06, the growth was even sharper at 184 per cent, up from US$ 5.5 billion in 2004-05.

Projections say that the country will attract US$ 35 billion in FDI in 2008-09 (as per data released by the Ministry of Commerce and Industry).

India: A much favoured destination

India has been rated as the fourth most attractive investment destination in the world, according to a global survey conducted by Ernst and Young in June 2008. India was after China, Central Europe and Western Europe in terms of prospects of alternative business locations. With 30 per cent votes, India emerged ahead of the US and Russia, which received 21 percent, votes each.

According to a report by the National Council of Applied Economic Research (NCAER), "In the first nine months of 2007-08, the net capital flows rose to US$ 83 billion from US$ 30 billion the country received during the corresponding period of the previous year." The funds coming in as foreign direct investment (FDI) or external commercial borrowing, had also upped portfolio funds, as between FY 2004 and FY 2008, the reserves increased by more than US$ 150 billion. The influx of foreign funds during the period was sufficient to finance the current account deficit, the report further said.

As per the global survey of corporate investment plans carried out by KPMG International, released in June 2008, (a global network of professional firms providing audit, tax, and advisory services), India will see the largest overall growth in its share of foreign investment, and it is likely to become the world leader for investment in manufacturing. Its share of international corporate investment is likely to increase by 8 per cent to 18 per cent over the next five years, helping it rise to the fourth, from the seventh position, in the investment league table, pushing Germany, France and the UK behind.

According to the AT Kearney FDI Confidence Index 2007, India continues to be the second most preferred destination for attracting global FDI inflows, a position it has held since 2005. India topped the AT Kearney's 2007 Global Services Location Index, emerging as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD's World Investment Report, 2005 considers India the 2nd most attractive investment destination among the Transnational Corporations (TNCs).

A recent survey conducted by the Japan Bank for International Cooperation (JBIC) shows
that India has become the most-favoured destination for long-term Japanese investment.

Sector-wise FDI

A large portion of the FDI has been flowing into the skill-intensive and high value-added services industries, particularly financial services and information technology. India, in fact, dominates the global service industry in terms of attracting FDI with its unassailable mix of low costs, excellent technical and language skills, mature vendors and liberal supportive government policies.

Now, global investors are also evincing interest in other sectors like telecommunication, energy, construction, automobiles, electrical equipment apart from others.

- Leading Japanese, Korean, European, French, and American automobile companies have set up their manufacturing base in India.
- Currently, FDI inflows into the Indian real estate sector are estimated to be between US$ 5 billion and US$ 5.50 billion. Investment in the Indian realty market is set to increase to US$ 20 billion by 2010. Prominent foreign players include Emaar Properties (Dubai), IJM Corp (Malaysia), Lee Kim Tah Holding (Singapore) and Salim Group (Indonesia).
- Many big names in international retail are also entering Indian cities. Global players, such as Wal Mart, Marks & Spencers, Roseby, etc, have lined up investments to the tune of US$ 10 billion for the retail industry.
- According to Mines Minister, Sis Ram Ola, "FDI of about US$ 2.5 billion per annum is expected in the mining sector from the fifth year of implementation of the new National Mineral Policy (NMP)."
- The surge in mobile services market is likely to see cumulative FDI inflows worth about US$ 24 billion into the Indian telecommunications sector by 2010, from US$ 3.84 billion till March 2008.

Aggressive Investment Plans

- The surging economy has resulted in India emerging as the fastest growing market for many global majors. This has resulted in many companies lining up aggressive investment plans for the Indian market.
- Panasonic is planning to line up US$ 200 million investment in India over the next 3 years for setting up new units, brand positioning and upgrading its facilities.
- Japanese engineering major, Toshiba plans to put up a power boiler plant at Ennore, north of Chennai with an initial investment of around US$ 232.91 million.
- Dell would be investing more in India to commensurate with the growth of its products.
- Intel Corp will invest US$ 40 billion in partnership with Indian IT companies to create an end-to-end IT solution for the health sector in the country.

- Cairn India, the Indian arm of British oil and gas company Cairn Energy, will invest about US$ 2 billion over the next 18 months for the development of oil fields and building a pipeline.
- HPCL and Mittal Energy will together put in US$ 81.94 billion worth investment in developing a petrol hub.
- Havells India will bring in US$ 64.92 million as issue of shares and convertible warrants.
- Essar Power will infuse up to US$ 2 billion as foreign equity for undertaking various downstream projects, including power and coal mining.
- Coca Cola India plans to invest US$ 250 million over the next three years in equipment purchases, brand promotion and marketing.
- Goldman Sachs (Mauritius) NBFC LLC will invest US$ 46.51 million in NBFC activities.
- A Merrill Lynch & Co entity had bought 49 per cent equity in seven residential projects in Chennai, Bangalore, Kochi and Indore for US$ 345.78 million.
- Zoom Entertainment Network will bring in US$ 28.02 million through induction of foreign equity.
- Toyoda Gosei Company Ltd of Japan will set up a wholly owned subsidiary worth US$ 10.51 million to manufacture automobile safety systems, body sealing and steering parts.
- Another Japanese company, T S Tech Company, will invest US$ 3.50 million to set up a joint venture firm to manufacture seats and interior of doors for cars.
- UAE mobile retailer, Cellucom, will invest US$ 116.79 million for rolling out 500 stores across India by the end of 2009.

Government Initiatives

- The Indian Government's approach towards foreign investment has changed considerably during the past decade. Foreign investment, which was permitted only in restricted industries under exceptional conditions, has been liberalised across the board, excluding certain restricted or prohibited industries. The sweeping economic reforms undertaken by the government aimed at opening up the economy and embracing globalisation have been instrumental in the surge in FDI inflows.
- The government has taken various steps to further facilitate and augment the inflow of foreign investment into India.
- The government would soon remove the compulsory disinvestment clause on overseas companies in major sectors like food processing and chemicals, a move aimed at simplifying foreign direct investment (FDI) rules further. The finance ministry is weighing the proposal after the Department of Industrial Policy and Promotion (DIPP, which formulates FDI policy) suggested waiving the clause for all companies that have decided on divestment.

- The government may allow 49 per cent FDI in segments such as gems & jewellery and apparel after National Council of Applied Economic Research (NCAER), which studies the effects of multi-brand retail in India, submits its report.
- Restructuring the Foreign Investment Promotion Board (FIPB).
- Shri Kamal Nath, Union Minister of Commerce & Industry, has stated that Foreign Direct Investment (FDI) up to 100 per cent is permitted under the automatic route in most of the sectors.
- Establishment of the Indian Investment Commission to act as a one-stop shop between the investor and the bureaucracy.
- Progressively raising the FDI cap in other sectors like telecom, aviation, banking, petroleum and media sectors among others.
- Removal of the investment cap in the small scale industries (SSI) sector.
- Companies will now require only an FIPB approval for investments up to US$ 231.90 million (Rs 1,000 crore). Clearance from Cabinet Committee of Economic Affairs (CCEA) will be imperative only for investments above US$ 231.90 million (Rs 1,000 crore).

These measures will greatly enhance the global community's confidence in the fundamentals of the Indian economy, and reflect the efforts of the Indian Government to integrate with the global economy. With government planning more liberalisation measures across a broad range of sectors and continued investor interest, the inflow of FDI into India is likely to further accelerate. Already, upbeat due to the buoyant FDI growth in the country, the government has put a target of US$ 35 billion in FDI, in 2008-09.

WHAT DO YOU MEAN BY FPI? WHAY IS THE ROLE PLAYED BY FPI IN INDIA'S ECONOMIC DEVELOPMENT?

Portfolio investment

In economics and finance, Portfolio Investment represents passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities' issuer by the investor; where such control exists, it is known as foreign direct investment.

Some examples of portfolio investment are:

- Purchase of shares in a foreign company.
- Purchase of bonds issued by a foreign government.
- Acquisition of assets in a foreign country.

Factors affecting international portfolio investment:

- tax rates on interest or dividends (investors will normally prefer countries where the tax rates are relatively low)
- interest rates (money tends to flow to countries with high interest rates)
- exchange rates (foreign investors may be attracted if the local currency is expended to strengthen)

Portfolio investment is part of the capital account on the balance of payments statistics

MAJOR UPDATES

Foreign Portfolio Investment, Stock Market and Economic Development

FII portfolio investments drove sensex to 21,000

Major investments through foreign portfolio investments had triggered the boom in the Indian equities market that led the Sensex to exceed the 21,000 mark, according to latest data of Reserve Bank of India.

The RBI latest data shows that in 2007 (April-December) foreign investments have risen to US$ 41.4 bn.

Of this, portfolio investments have risen to to US $ 33bn from 5.2 bn(April-December, 2006). FDI increased to only US $ 8.4 bn from US 4 7.6 bn in the corresponding period.

So, it is clear that there is almost one-to-one correlation between Net FII inflows during that period and the Sensex.

Even when the Reserve Bank of India and the Union Government has repeatedly said that Foreign Direct Investment (FDI) is more sustainable and beneficial in the long run, they have not been able to curb the increasing FII inflows into equity market which is quite volatile.

However, FII inflows do have its beneficial effects and they should not be discouraged.

Major sources of accretion to foreign exchange reserves during the April-December 2007 have been Portfolio Investment, External Commercial Borrowings (ECBs) and Short-Term Credit, according to RBI

The accretion to the foreign exchange reserves was US$ 67.2 billion on a BoP basis (excluding valuation effects) during April-December 2007.

Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for US $ 8.9 billion in total reserves during April-December of 2007 as against a valuation gain of US $ 9.4 billion during the corresponding period of previous year.

The foreign exchange reserves have increased by an amount of US $ 76.1 billion during April-December 2007 including the valuation effects against an increase of US $ 25.6 billion during April-December 2006.

If part of the FII inflows were directed to commodity exchanges the volumes in these futures trade would have gone the Sensex way. However, the primary role of futures markets is price hedging and why should outsiders like FIIs be allowed and lead to increased speculation in the market.

Finally, you can see the vice-versa action on SENSEX and in Indian Economy as inflation has rose to around 12% due to the outflow of FPI's.

NOTE: SEE THE TABLE ON THE NEXT PAGE FOR MORE INFORMATION

Table: Sources of Accretion to Foreign Exchange Reserves

(US $ billion)

Items			April-December 2007	April-December 2006
I.		*Current Account Balance*	**-16.0**	**-14.0**
II.		**Capital Account (net) (a to f)**	**83.2**	**30.2**
	a.	Foreign Investment (i+ii)	41.4	12.8
		(i) Foreign Direct Investment	*8.4*	*7.6*
		(ii) Portfolio Investment	*33.0*	*5.2*
	b.	Banking Capital	5.8	0.2
		of which: NRI Deposits	*-0.9*	*3.7*
	c.	Short-Term Credit	10.8	5.7
	d.	External Assistance	1.3	1.0
	e.	External Commercial Borrowings	16.3	9.8
	f.	Other items in capital account*	7.6	0.7
III.		**Valuation change**	**8.9**	**9.4**
		Total (I+II+III)	**76.1**	**25.6**

*: 'Other Capital' apart from Errors and Omissions' also comprise leads and lags in export, funds held abroad, advances received pending issue of shares under FDI and transactions of capital receipts not included elsewhere. The transactions of these capital receipts mainly constitute cross border transactions relating to financial derivatives and hedging (margin payments and settlement), migrant transfers and other capital transfers (transfers of capital assets by the Indian migrants abroad, investment grants, payments of compensation), realization of guarantee, etc.

WHAT DO YOU MEAN BY FII? WHAT IS THE ROLE PLAYED BY FDI IN INDIAN ECONOMIC DEVELOPMENT?

FII(FOREIGN INSTITUTIONAL INVESTMENT)

One who propse to invest their proprietary funds or on behalf of "broad based" funds or of foreign corporates and individuals and belong to any of the undergiven categories can be registered for FII.

- Pension Funds
- Mutual Funds
- Investment Trust
- Insurance or reinsurance companies
- Endowment Funds
- University Funds
- Foundations or Charitable Trusts or Charitable Societies who propose to invest on their own behalf, and
- Asset Management Companies
- Nominee Companies
- Institutional Portfolio Managers
- Trustees
- Power of Attorney Holders
- Bank

An application for registration has to be made in Form A, the format of which is provided in the SEBI(FII) Regulations, 1995 and submitted with THE REQUIRED documents in duplicate addressed to SEBI as well as to Reserve Bank of India (RBI) and sent to the FII Division in the registered office within 10 to 12 days of receipt of application.

Last Updated Report of July-September 2008

Positive tidings about the Indian economy combined with a fast-growing market have made India an attractive destination for foreign institutional investors (FIIs).

FIIs showed huge interest in 2007, pumping in the highest ever net investment of US$ 17.2 billion in the equity markets and were instrumental in the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) clocking record index levels of over 20,000 and 6,000, respectively. In fact, during the year, FIIs were net buyers in 10 out of 12 months, turning net sellers in the rest, primarily to make up the losses on account of the sub-prime crisis in the US.

Out of the total net inflows, a whopping 70 per cent was invested through the instruments of Foreign Currency Convertible Bonds (FCCBs), Qualified Institutional Placements (QIPs), and initial public offerings (IPOs). Of these, in the current year, all corporates in India raised around US$ 11-13 billion of FCCBs, QIPs raised US$ 3.2 billion in 2007 and IPOs - India Inc has raised a record US$ 12.41 billion through public issues --IPOs and FPOs--in the fiscal 2007-08. India's mobilisation of funds through public equity offerings more than doubled this year as against US$ 5.94 billion mobilised in 2006-07, data compiled by primary market tracking firm Prime shows. The remaining 30 per cent was invested through overseas offers, preferential offers and conversion of warrants. Of these, outstanding NRI deposits at end-March 2008, stood at US$ 43.7 billion. Also, investments in securities have also gone up. Out of the US$ 299.23 billion foreign currency assets as on 31 March 2008, US$ 103.56 billion were invested in securities.

This surge in FII investment has led to the cumulative net investments by FII in to Indian equities to total US$ 66.8 billion by the end of 2007, since December 1993, when FIIs were allowed to enter India.

This is a clear index of how bullish this category of investors has been on the prospects of the Indian market.

Government Initiatives

FIIs are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme (PIS). Under this scheme, FIIs can acquire shares/debentures of Indian companies through the stock exchanges in India.
The ceiling for overall investment for FIIs is 24 per cent of the paid-up capital of the Indian company, and limit is 20 per cent of the paid-up capital in the case of public sector banks. The ceiling of 24 per cent for FII investment can be raised up to sectoral cap/statutory ceiling, subject to the approval of the board and the general body of the company passing a special resolution to that effect.

To further increase FII participation in the Indian market, the government and SEBI have taken several measures:

- Allowed foreign individuals, corporates and other investors such as hedge funds to register directly as foreign institutional investors.
- SEBI has FII investment limit in government securities being increased to US$ 5 billion from US$ 3.2 billion.
- Institutional investors--including FIIs and their sub-accounts--have been allowed to undertake short-selling, lending and borrowing of Indian securities from February 1, 2008.
- SEBI has simplified the registration norms for FIIs and sub-accounts.
- Significantly, it has allowed investment managers, advisors or institutional portfolio managers in the NRI category to be registered as FIIs.

Consequent to the liberalisation of registration norms, the number of foreign institutional investors (FIIs) registered with the Securities and Exchange Board of India (SEBI) has increased to 1403 as on June 27, 2008 as compared with just 1051 FIIs a year back.
Simultaneously, the upgradation of India's sovereign ratings combined with the improvement in the macro-economic situation and growth fundamentals has led to a near tripling of FII investments in the debt market. Total investment in the country's debt market till November amounted to US$ 1.59 billion as against US$ 487 million in the corresponding period in 2006.

Also, with the government raising the investment limit for the FIIs in the Government Securities, the FIIs are rushing in to buy Government paper. As of 27 June, 2008 FIIs have already invested US$ 3.87 billion in the debt market, as against US$ 2.29 billion in debt at the close of 2007. Earlier in May 2008, SEBI had hiked the investment allocations to FIIs in both government and corporate debt collectively by US$ 3.5 billion, taking the total investment limit to US$ 8 billion.

Some Investment Highlights:

The Indian growth story has attracted global majors like CLSA, HSBC, Citigroup, Merrill Lynch, Crown Capital, Fidelity, Goldman Sachs, Morgan Stanley, UBS, T Rowe Price International, Capital International and ABN Amro among others to enter the Indian financial market.

- Goldman Sachs picked up an 8.16 per cent stake in New Delhi Television Ltd (NDTV) and a minority stake in Sterling & Wilson Pvt. Ltd.
- RREEF Alternative Investments, the global alternative investment management business of Deutsche Bank, plans to invest over US$ 1 billion in the country.
- Goldman Sachs and Macquarie have acquired a 20 per cent stake each in PTC India Financial Services Ltd.

- Temasek Holdings, Investment Corporation of Dubai, Goldman Sachs, Macquarie, AIF Capital, Citigroup and India Equity Partners (IEP) have picked a combined stake of 10 per cent in Bharti Infratel.
- Blackstone has taken up a 26 per cent stake in MTAR Technologies.
- Citigroup, Morgan Stanley, Goldman Sachs and BSMA have picked up a combined stake of over seven per cent in Gitanjali Gems.
- Fidelity Investments International has picked up close to seven per cent equity in Transport Corporation of India (TCI).
- Mirae Asset, the premier asset management company in Korea has already set up its asset management business in the country, and currently has assets under management of US$ 570.50 million, is gearing up to start its securities business in India.

Significantly, FIIs have continued to add to their holdings in several Indian stocks. Foreign investors have hiked their holdings in stocks such as Gitanjali Gems, Monnet Ispat, Core Projects and Power Trading Corporation among others for the quarter ended 31 March, 2008 compared to quarter ended 31 December, 2007.

Dominant Players

The FII investments have been the corner stone in the phenomenal rise of the Indian stock markets. According to a study by Citigroup Research, the holding of FIIs in Indian companies exceeds that of domestic financial institutions, including mutual funds and insurance companies, retail and high-net worth-investors (HNIs) all put together.

According to the study, while the value of FII equity holdings was US$ 193 billion by June 2007, equity assets held by domestic mutual funds are worth less than a fifth that amount at US$ 38.17 billion.

The total investment of FIIs in Indian stocks was almost ten times that of the net investment of the domestic mutual funds. Total net investments of FIIs amounted to about US$ 17.2 billion at the end of 26 December, 2007 as against about US$ 1.7 billion by the domestic mutual funds.

In fact, as of 31 March, 2008 FIIs owned about 15 per cent of the BSE-500 basket, reflecting the magnitude of interest shown by this class of investors in the Indian financial market.

Looking Ahead

The Indian stock market will continue to be a safe haven for global investors in 2008 due to the economy's low exposure to slowing global growth, say the strategists of global investment banking firm, Merrill Lynch.

According to its Investment Strategy report, portfolio investors will continue to pour money into the Indian economy, buoyed by the surging Indian economy which is growing at a much faster pace compared to most other countries of the world.
Further while the whole world gets panicky about the impending slowdown of the US economy, India is likely to less affected, due to its robust domestic demand levels. As John Thain, Chairman and CEO, Merrill Lynch, says, "The degree is different for different countries, depending on the domestic demand. And in India, there is a very high level of domestic demand, while there are large investments happening in infrastructure".
No wonder, India is expected to remain one of the most attractive places for investments, in relation to the rest of the world.

Indian Economy Overview

Last Updated Report of April-June 2008

India's economy is on the fulcrum of an ever increasing growth curve. With positive indicators such as a stable 8-9 per cent annual growth, rising foreign exchange reserves, a booming capital market and a rapidly expanding FDI inflows, India has emerged as the second fastest growing major economy in the world.

The economy has been growing at an average growth rate of 8.8 per cent in the last four fiscal years (2003-04 to 2006-07), with the 2006-07 growth rate of 9.6 per cent being the highest in the last 18 years. Significantly, the industrial and service sectors have been contributing a major part of this growth, suggesting the structural transformation underway in the Indian economy.

For example, industrial and services sectors have logged in a 10.63 and 11.18 per cent growth rate in 2006-07 respectively, against 8.02 per and 11.01 cent in 2005-06. Similarly, manufacturing grew by 8.98 per cent and 12 per cent in 2005-06 and 2006-07 and transport, storage and communication recorded a growth of 14.65 and per cent 16.64 per cent, respectively.

Another significant feature of the growth process has been the consistently increasing savings and investment rate. While the gross saving rate as a proportion of GDP has increased from 23.5 per cent in 2001-02 to 34.8 per cent in 2006-07, the investment rate-reflected as the gross capital formation as a proportion of GDP-has increased from 22.8 per cent in 2001-02 to 35.9 per cent in 2006-07.

During April-December 2007-08, gross fixed capital formation has accelerated to 32.6 per cent of GDP, from 30.5 per cent of GDP in the corresponding period in 2006-07.

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