Macroeconomic and Monetary Developments

Mid-Term Review 2006-07

Reserve Bank of India
Mumbai

Contents

I. THE REAL ECONOMY

The Indian economy continued to exhibit strong growth during the first quarter of 2006-07. According to the Central Statistical Organisation (CSO), real gross domestic product (GDP) registered an increase of 8.9 per cent in the first quarter (April-June) of 2006-07 as compared with 8.5 per cent in the corresponding period of 2005-06, benefiting from strong manufacturing as well as service sector activities (Table 1 and Chart 1). All major sub-sectors, excepting 'electricity, gas and water supply' and 'construction', recorded an accelerated growth during April-June 2006; growth in the agricultural sector was the same as a year ago. Services sector remained the key driver of economic activity with a contribution of around 71 per cent to overall real GDP growth followed by industry

Table 1: Growth Rates of Real GDP
(Base Year : 1999-2000)

(Per cent)

Sector	2000-01 to 2002-03 (Average)	2003-04	2004-05*	2005-06#	2005-06				2006-07
					Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9	10
1. Agriculture and Allied Activities	**-0.2 (23.5)**	**10.0 (22.2)**	**0.7 (20.8)**	**3.9 (19.9)**	**3.4**	**4.0**	**2.9**	**5.5**	**3.4**
1.1 Agriculture	-0.5	10.7	0.7	..					
2. Industry	**5.2 (19.7)**	**6.6 (19.5)**	**7.4 (19.5)**	**7.6 (19.3)**	**9.5**	**6.3**	**7.0**	**7.9**	**9.7**
2.1 Mining and Quarrying	4.4	5.3	5.8	0.9	3.1	-2.6	0.0	3.0	3.4
2.2 Manufacturing	5.7	7.1	8.1	9.0	10.7	8.1	8.3	8.9	11.3
2.3 Electricity, Gas and Water Supply	2.8	4.8	4.3	5.3	7.4	2.6	5.0	6.1	5.4
3. Services	**6.6 (56.8)**	**8.5 (58.3)**	**10.2 (59.7)**	**10.3 (60.7)**	**10.1**	**10.3**	**9.7**	**11.0**	**10.5**
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	8.5	12.0	10.6	11.5	11.7	11.0	10.2	12.9	13.2
3.2 Financing, Insurance, Real Estate and Business Services	6.5	4.5	9.2	9.7	8.8	10.5	8.9	10.5	8.9
3.3 Community, Social and Personal services	4.1	5.4	9.2	7.8	7.3	8.0	8.4	7.6	7.4
3.4 Construction	5.9	10.9	12.5	12.1	12.4	12.3	11.5	12.0	9.5
4. Real GDP at Factor Cost	**4.6**	**8.5**	**7.5**	**8.4**	**8.5**	**8.4**	**7.5**	**9.3**	**8.9**

*: Quick Estimates. #: Revised Estimates. .. : Not available separately.

Note : 1. Figures in parentheses denote percentage shares in real GDP.
2. Q1: First Quarter (April-June); Q2: Second Quarter (July-September); Q3: Third Quarter (October-December); Q4: January-March.

Source : Central Statistical Organisation.

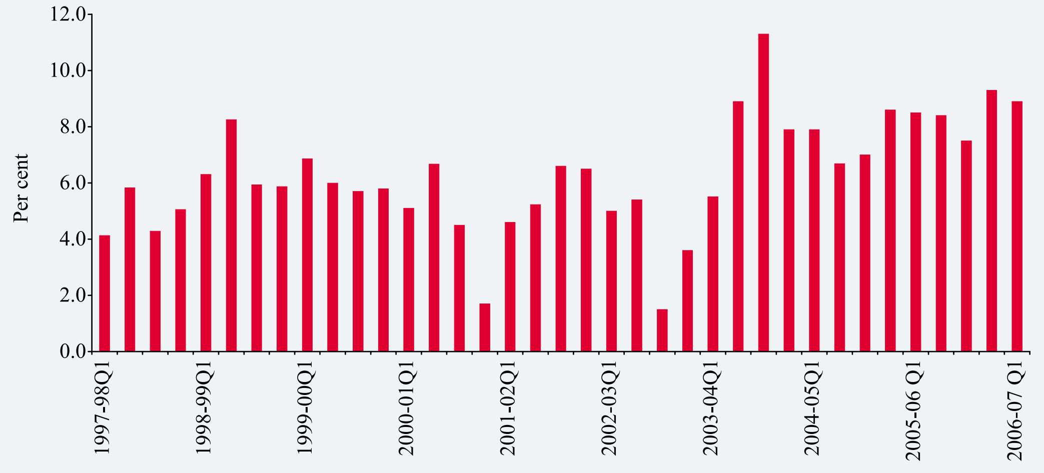


Chart 1 : Real GDP: Growth Rate

(22 per cent). The Indian economy thus maintained the momentum of growth recorded in the latest three years (2003-04 to 2005-06).

Against the backdrop of the economic performance in the first quarter, developments in the real economy during 2006-07 so far covering the agricultural situation, industrial production, lead indicators of service sector activity, business and investment expectations are presented in this section.

Agricultural Situation

The cumulative rainfall during the South-West monsoon season 2006 (June 1 to September 30, 2006) was close to normal (only one per cent below normal); however, the inter-temporal and inter-spatial distribution was uneven. The South-West monsoon arrived six days in advance - it reached Kerala on May 26, 2006 and covered rapidly the west coast by May 31, 2006 and up to Gujarat by June 2, 2006. Subsequently, the monsoon entered a weak phase and there was a prolonged hiatus in advancement of monsoon for about 16 days in June. The monsoon revived in the last week of June 2006, and advanced further into other regions. Monsoon covered the entire country by July 24, 2006, with a delay of nine days. Cumulative seasonal rainfall over the country, as a whole, remained below its long-period average throughout the monsoon period, except for the first week of June 2006. Of the 36 meteorological sub-divisions, cumulative rainfall was deficient/scanty/no rain in 10 sub-divisions (4 sub-divisions during last year) (Table 2). At the district level, 60 per cent of the total number of districts (533) reported excess/normal rainfall, while the rest received deficient/scanty/no rain. The total live water storage in the 76 major reservoirs[1] as on October 12, 2006

[1] These reservoirs account for 63 per cent of the total reservoir capacity of the country.

Table 2: South-West Monsoon

Year	Cumulative Rainfall: Above(+)/Below (-) Normal (per cent)	Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/No Rain
		Number of Sub-Divisions			
1	2	3	4	5	6
1998	6	12	21	3	0
1999	-4	3	26	7	0
2000	-8	5	23	8	0
2001	-8	1	30	5	0
2002	-19	1	14	19	2
2003	2	7	26	3	0
2004	-13	0	23	13	0
2005	-1	9	23	4	0
2006	-1	6	20	10	0

Source : India Meteorological Department.

was 90 per cent of the Full Reservoir Level (FRL), higher than that of 81 per cent a year ago.

Kharif sowing was affected due to uneven and delayed rainfall in some parts of the country. As a result, coverage under *kharif* crops up to October 13, 2006 was around 2.2 per cent lower than a year ago (Table 3). The decline in area coverage was mainly on account of fall in sowing under coarse cereals and

Table 3: Progress of Area under *Kharif* Crops - 2006-07

(Million hectares)

Crop	Normal Area	Area Coverage (As on October 13)		
		2005	2006	Variation 2006 over 2005
1	2	3	4	5
Rice	38.2	37.0	36.7	-0.2
Coarse Cereals	22.9	22.8	21.1	-1.7
Of which				
Bajra	9.4	9.4	8.1	-1.3
Jowar	4.4	3.9	3.7	-0.2
Maize	6.2	6.9	7.3	0.4
Total Pulses	10.9	11.4	11.4	0.0
Total *Kharif* Oilseeds	15.4	17.6	16.8	-0.9
Of which				
Groundnut	5.5	5.6	4.7	-0.9
Soyabean	6.6	7.8	8.1	0.3
Sesamum	1.5	1.9	1.8	-0.1
Sunflower	0.5	0.9	0.9	-0.1
Sugarcane	4.2	4.3	4.4	0.2
Cotton	8.3	8.5	8.9	0.4
All Crops	99.8	101.5	99.3	-2.2

Source: Ministry of Agriculture, Government of India.

oilseeds. The area under irrigation intensive crops like sugarcane, on the other hand, was marginally higher than a year ago reflecting comfortable reservoir position.

Reflecting the uneven rainfall and the modest decline in area sown, total *kharif* foodgrains production during 2006-07 at 105.2 million tonnes is likely to be 4.1 per cent lower than last year (Table 4). This decline is expected to emanate mainly from lower output of major cereals. Among the commercial crops, the output of oilseeds as well as cotton is expected to decline while that of sugarcane is expected to show an improvement.

Food Management

Total procurement of rice and wheat during 2006-07 (up to October 10, 2006) at 18.3 million tonnes (mt) was 14.7 per cent lower than a year ago. The total off-take of foodgrains (up to July 31, 2006) at 11.8 mt was 19.4 per cent lower than a year ago. The off-take under the Targeted Public Distribution System (TPDS), Other Welfare Schemes (OWS) and Open Market Sales (OMS) was lower than the previous year's level. The total stock of foodgrains with the Food Corporation of India (FCI) and the State Government agencies was around 17.5 mt as on August 1, 2006, down by 18.3 per cent from a year ago (Table 5). While

Table 4: Agricultural Production

(Million tonnes)

Crop	2002-03	2003-04	2004-05	2005-06 $	2006-07	
					T	A $$
1	2	3	4	5	6	7
Rice	71.8	88.5	83.1	91.0	92.8	
Kharif	63.1	78.6	72.2	78.0	80.8	75.7
Rabi	8.7	9.9	10.9	13.0	12.0	
Wheat	65.8	72.2	68.6	69.5	75.5	
Coarse Cereals	26.1	37.6	33.5	34.7	36.5	
Kharif	20.0	32.2	26.4	27.0	28.7	24.5
Rabi	6.1	5.4	7.1	7.7	7.8	
Pulses	11.1	14.9	13.1	13.1	15.2	
Kharif	4.2	6.2	4.7	4.7	5.8	5.0
Rabi	7.0	8.7	8.4	8.4	9.4	
Total Foodgrains	**174.8**	**213.2**	**198.4**	**208.3**	**220.0**	
Kharif	87.2	117.0	103.3	109.7	115.3	105.2
Rabi	87.6	96.2	95.1	98.6	104.8	
Total Oilseeds	14.8	25.2	24.4	27.7	29.4	
Kharif	9.0	16.7	14.1	16.8	18.1	13.2
Rabi	5.9	8.5	10.2	10.9	11.3	
Sugarcane	287.4	233.9	237.1	278.4	270.0	283.4
Cotton #	8.6	13.7	16.4	19.6	18.5	18.1
Jute and Mesta ##	11.3	11.2	10.3	10.7	11.3	10.9

T : Target. A : Achievement.
$: Fourth Advance Estimates as on July 15, 2006. $$: First Advance Estimates as on September 15, 2006.
: Million bales of 170 kgs each. ## : Million bales of 180 kgs each.
Source : Ministry of Agriculture, Government of India.

Table 5: Management of Food Stocks

(Million tonnes)

Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains Off-take					Closing Stock	Norms
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS - Domestic	Exports	Total		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05	13.1	6.9	20.7	24.2	16.8	41.0	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	26.6	14.8	41.4	31.4	9.8	1.1	0.0	42.2	16.6	
2005-06@				6.6	14.8	21.4	10.2	4.3	0.1	0.0	14.6		
2006-07@				9.1	9.2	18.3	10.0	1.8	0.0	0.0	11.8		
2005													
April	13.3	4.1	18.0	1.4	12.8	14.2	2.4	1.0	0.0	0.0	3.4	28.5	16.2
May	13.0	15.1	28.5	1.0	1.9	3.0	2.5	0.8	0.0	0.0	3.3	27.9	
June	11.6	15.7	27.9	0.8	0.1	0.9	2.5	1.7	0.0	0.0	4.2	25.1	
July	10.1	14.5	25.1	0.8	0.0	0.8	2.8	0.8	0.1	0.0	3.6	21.4	26.9
August	8.0	13.0	21.4	0.4	0.0	0.4	2.6	0.8	0.1	0.0	3.4	18.4	
September	6.4	11.6	18.4	0.4	0.0	0.4	2.7	0.7	0.1	0.0	3.5	15.6	
October	4.9	10.3	15.6	7.5	0.0	7.5	2.7	0.5	0.0	0.0	3.2	19.8	16.2
November	10.3	9.1	19.8	2.7	0.0	2.7	2.3	0.5	0.1	0.0	2.8	19.0	
December	11.1	7.6	19.0	3.4	0.0	3.4	2.7	0.7	0.2	0.0	3.6	19.3	
2006													
January	12.6	6.2	19.3	3.8	0.0	3.8	2.7	0.8	0.1	0.0	3.6	19.5	20.0
February	14.0	4.9	19.5	2.5	0.0	2.5	2.7	0.6	0.3	0.0	3.6	18.3	
March	14.1	3.5	18.3	1.9	0.0	1.9	2.8	0.9	0.2	0.0	3.9	16.6	
April	13.7	2.0	16.6	1.7	8.7	10.3	2.5	0.3	0.0	0.0	2.8	22.8	16.2
May	12.8	9.0	22.8	1.6	0.6	2.2	2.5	0.4	0.0	0.0	3.0	22.3	
June	12.0	9.3	22.3	1.5	0.0	1.5	2.5	0.6	0.0	0.0	3.1	20.5	
July	11.1	8.2	20.5	0.8	0.0	0.8	2.4	0.4	0.0	0.0	2.9	17.5	26.9
August	9.9	7.3	17.5	0.5	0.0	0.5	N.A	N.A	N.A	N.A	N.A	N.A	
September	N.A	N.A	N.A.	0.2	0.0	0.2	N.A	N.A	N.A	N.A	N.A	N.A	
October *	N.A	N.A	N.A.	2.8	0.0	2.8	N.A	N.A	N.A	N.A	N.A	N.A	16.2

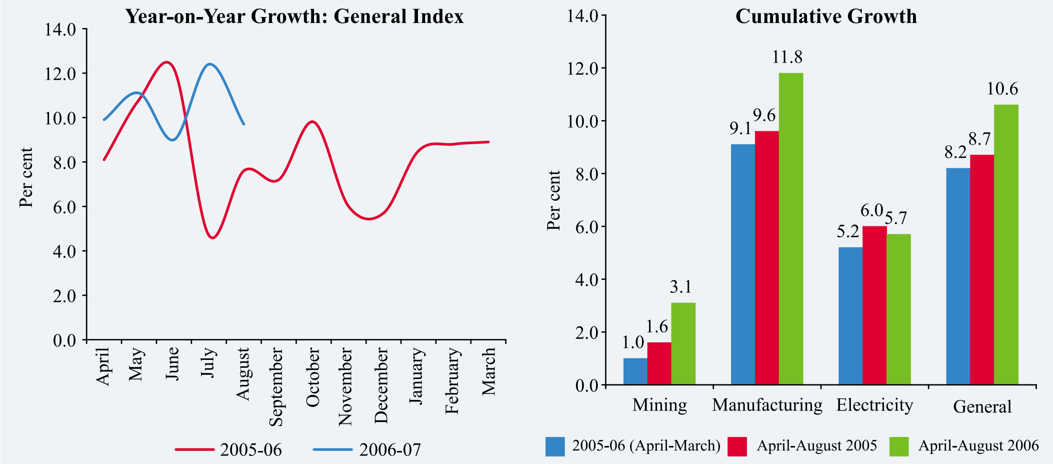
PDS : Public Distribution System. OWS : Other Welfare Schemes. OMS : Open Market Sales.
N.A. : Not Available. @ : Procurement up to October 10 and off-take up to end July.
* : Procurement up to October 10, 2006.
Notes : Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting offtake, as stocks include coarse grains also.
Source : Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

wheat stocks (7.3 mt) were lower than the buffer stock norms of 17.1 mt, the stocks of rice (9.9 mt) were marginally above the buffer stock norms of 9.8 mt.

Industrial Performance

Industrial production, in its fifth year of expansion, remained buoyant during the first five months of 2006-07. During April-August 2006, industrial production accelerated to 10.6 per cent - the highest growth recorded in April-August period since 1995-96 - from 8.7 per cent in the same period of 2005 (Chart 2). The manufacturing sector with a growth of 11.8 per cent, also the highest since 1996-97, continued to be the main driver of the industrial activity.

Chart 2 : Growth in the Index of Industrial Production



Mining sector recorded modest improvement, benefiting from higher production of crude oil. Higher output of crude oil reflected the recovery from the setback to production following the outbreak of fire at Mumbai High in July 2005. Electricity sector recorded subdued growth, which could be attributed partly to shortage of gas in gas-based power stations.

The manufacturing sector performance was broad-based with 14 out of 17 industry groups, at the two digit manufacturing level, recording positive growth (Table 6). Chemicals, machinery, basic metals, transport equipment and cement have led the manufacturing growth during 2006-07 so far.

According to the use-based classification, all sectors, barring consumer non-durable goods sector, recorded higher growth (Table 7). Capital goods recorded an impressive growth of 18.6 per cent during April-August 2006 reflecting strong investment demand in the economy. This is the highest growth for the period April-August since 1996-97. Higher production of machinery and transport equipments contributed to high growth in capital goods sector. While acceleration in basic goods sector benefited from higher production of basic chemicals, that in intermediate goods sector was facilitated by industries such as chemicals, rubber, plastic and petroleum products. Growth in consumer non-durables goods sector decelerated, partly attributable to the high base and negative growth in food products such as wheat flour/maida, milk powder, and edible oils.

Infrastructure

The infrastructure sector witnessed some improvement during April-August 2006 (growth of 6.7 per cent as compared with 6.1 per cent in the comparable

Table 6: Growth Rate of Manufacturing Groups

(Per cent)

	Industry Group	Weight in the IIP	Growth Rate April-August 2005	Growth Rate April-August 2006 P	Weighted Contribution # April-August 2005	Weighted Contribution # April-August 2006 P
	1	2	3	4	5	6
1	Machinery and equipment other than transport equipment	9.6	9.8	14.8	15.7	19.4
2	Chemicals and chemical products except products of petroleum & coal	14.0	12.9	10.5	27.2	18.5
3	Basic metal and alloy industries	7.5	16.8	19.0	14.6	14.4
4	Transport equipment and parts	4.0	11.1	18.6	7.5	10.4
5	Other manufacturing industries	2.6	17.5	26.9	5.8	7.8
6	Non-metallic mineral products	4.4	8.8	12.7	6.0	7.0
7	Beverages, tobacco and related products	2.4	17.0	13.4	8.7	6.0
8	Rubber, plastic, petroleum and coal products	5.7	3.9	9.8	2.8	5.4
9	Textile products (including wearing apparel)	2.5	23.8	16.8	7.7	5.0
10	Cotton textiles	5.5	10.9	9.7	4.8	3.5
11	Paper and paper products and printing, publishing and allied activities	2.7	7.3	7.7	2.7	2.3
12	Wool, silk and man-made fibre textiles	2.3	-1.8	4.3	-0.7	1.2
13	Metal products and parts (except machinery and equipment)	2.8	-2.7	2.7	-0.8	0.6
14	Food products	9.1	-2.9	1.0	-2.4	0.6
15	Jute and other vegetable fibre textiles (except cotton)	0.6	2.7	-0.5	0.1	0.0
16	Leather and leather & fur products	1.1	4.5	-8.3	0.5	-0.7
17	Wood and wood products, furniture & fixtures	2.7	-1.4	-13.2	-0.2	-1.3
	Manufacturing – Total	**79.4**	**9.6**	**11.8**	**100.0**	**100.0**

P : Provisional. # : Figures may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

period of the preceding year) on account of better performance of crude petroleum and petroleum refinery products (Chart 3). The turnaround in crude oil production, as noted earlier, resulted from restoration of production of crude oil

Table 7: Index of Industrial Production: Use-Based Classification of Industries

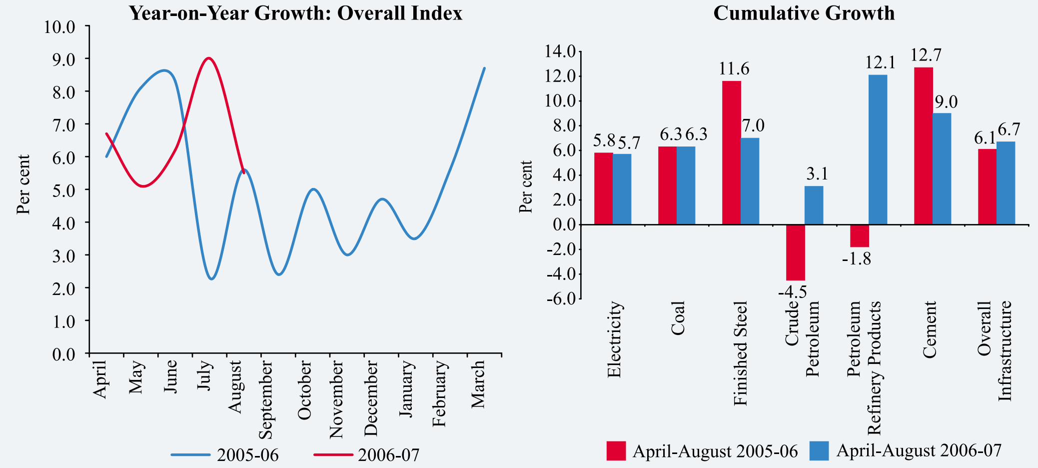
(Per cent)

Industry Group	Weight in the IIP	Growth Rate April-August 2005	Growth Rate April-August 2006 P	Weighted Contribution # April-August 2005	Weighted Contribution # April-August 2006 P
1	2	3	4	5	6
Basic Goods	35.6	6.9	8.3	25.2	24.1
Capital Goods	9.3	13.8	18.6	15.5	17.8
Intermediate Goods	26.5	3.5	9.5	11.7	24.4
Consumer Goods (a+b)	28.7	13.7	11.3	48.1	33.9
a) Consumer Durables	5.4	13.0	16.6	11.7	12.7
b) Consumer Non-durables	23.3	13.9	9.5	36.3	21.2
General	**100.0**	**8.7**	**10.6**	**100.0**	**100.0**

P : Provisional. # : Figures may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

Chart 3 : Growth in Infrastructure Industries



in plants of ONGC at Mumbai high offshore. Double-digit growth in the petroleum refinery products could be attributed to base effect and increased exports.

Services Sector

Services sector with double-digit growth (10.5 per cent in April-June 2006 on top of 10.1 per cent in April-June 2005) remained the leading sector of the Indian economy (Table 1 and Chart 4). Services sector now accounts for more than 60 per cent of overall GDP. Services sector activity continued to be led by the sub-sector 'trade, hotel, restaurants, transport, storage and communication' which recorded growth of 13.2 per cent in the first quarter of 2006-07, contributing

Chart 4 : Services Sector Growth

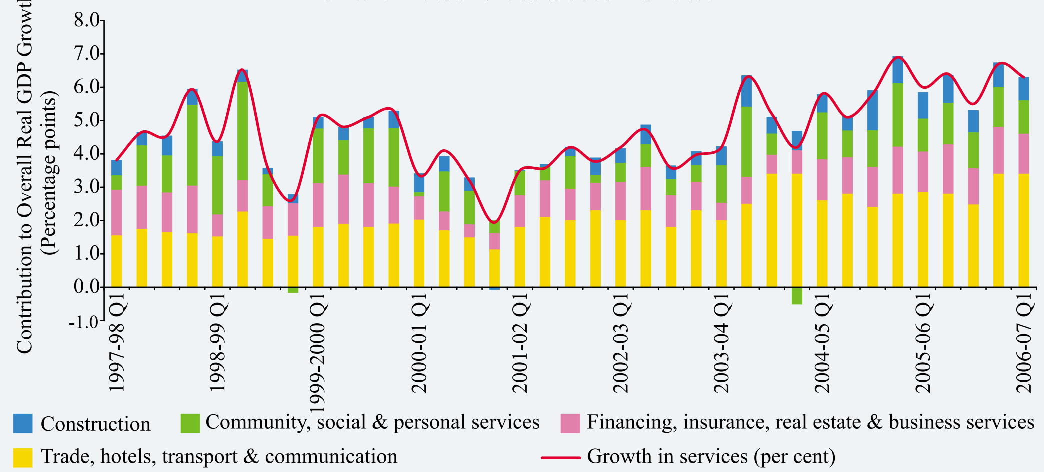


Table 8: Indicators of Services Sector Activity

(Growth rates in per cent)

Sub-sector	2004-05	2005-06	April-July	
			2005	2006
1	2	3	4	5
Tourist arrivals	23.7	11.7	13.0 *	13.8 *
Commercial vehicles production	28.6	10.6	8.2 $	34.9 $
Railway revenue earning freight traffic	8.1	10.7	10.7	10.3
New cell phone connections	10.4	89.4	31.5	120.2
Exports of software services	34.4	37.2	33.1 #	25.1 #
Cargo handled at major ports	11.3	10.3	15.7	6.2
Civil aviation				
a) Export cargo handled	12.4	7.3	9.1	7.8
b) Import cargo handled	24.2	15.8	7.8	23.4
c) Passengers handled at international terminals	14.0	12.8	12.5	12.9
d) Passengers handled at domestic terminals	23.6	27.1	20.4	41.3
Roads: Upgradation of Highways	16.1	-23.4	-0.6	-37.6
Cement	6.6	12.3	12.7 $	9.0 $
Steel	8.4	8.0	11.6 $	7.0 $
Aggregate deposits	11.9	22.3	6.5 @	8.8 @
Non-food credit	31.6	38.4	11.0 @	9.8 @
Central Government expenditure	9.4	9.4	11.2 $	17.4 $

* : April-September. $: April-August. # : April-June.

@ : Up to October 13. Data pertain to scheduled commercial banks.

nearly 38 per cent to overall real GDP growth of 8.9 per cent during the quarter. Revenue earning freight of the railways, new cell phone connections and tourist arrivals continued to record strong growth (Table 8). Substantial activity was witnessed in import cargo handled by civil aviation and passengers handled at domestic and international airports. Acceleration in growth of bank deposits and sustained high growth in non-food credit and exports of software services buoyed up the sub-sector 'financing, insurance, real estate and business services' which recorded growth of 8.9 per cent during April-June 2006 (8.8 per cent a year ago). Construction continued to record strong growth, *albeit* with some deceleration (see Table 1).

Business Expectations Surveys

Various business confidence surveys, after recording steady increase in the previous quarters, indicate a mixed assessment of current economic conditions as well as in expectations in the near term (Table 9). According to the FICCI survey (conducted during July-August 2006), the business confidence index declined over the previous quarter on the back of rising oil prices and hardening of interest rates. Notwithstanding the decline in the overall index during the quarter, the FICCI's expectations index remained in the "significantly optimistic" zone. A majority of 58 per cent of the respondents felt that the

Table 9: Business Expectations Surveys

Agency	Business Expectations		Growth over a year ago (per cent)	Growth over previous round (per cent)
	Period	Index		
1	2	3	4	5
Dun & Bradstreet	2006 (October-December)	Business Optimism Index	-5.0	14.1
NCAER	2006 (July-December)	Business Confidence Index	-1.7	-8.0
FICCI	2006 (July-December)	Business Confidence Index	-5.7	-8.2
RBI	2006 (October-December)	Business Expectation Index	2.1	-0.9

current overall economic conditions were 'moderately to substantially better' *vis-a-vis* the preceding six months. This proportion was, however, lower than that of 85 per cent in the previous survey. The services sector continued to be the most upbeat segment among the industry sectors in the survey. On the other hand, according to the Dun & Bradstreet's survey conducted in early October 2006, business confidence for the period October-December 2006 was higher than the previous quarter. All the six optimism indices comprising the survey, *viz*, sales, net profits, selling prices, new orders, inventory levels and employees were higher than the preceding quarter.

According to the Reserve Bank's latest Industrial Outlook Survey (conducted during July-August 2006), the Business Expectations Index for October-December 2006 quarter declined by 0.9 per cent over the previous quarter's level (Chart 5). The level of confidence was, however, higher than that during the corresponding quarter a year ago. The assessment about the overall business situation for July-September 2006 also showed a marginal decline in

Chart 5 : Reserve Bank's Industrial Outlook Survey: Business Expectation Index

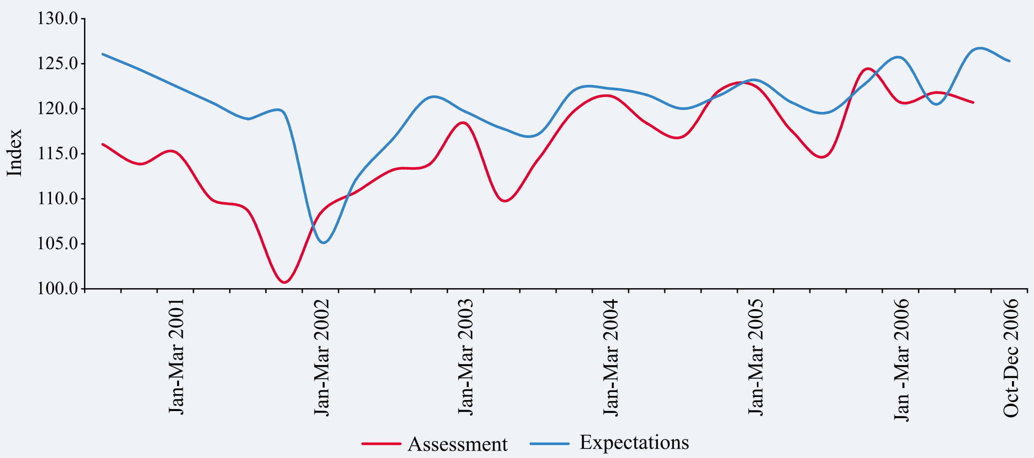


Table 10: Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance

(Per cent)

	Parameter	Response	Oct-Dec. 2005 (961)	Jan-March 2006 (934)	April-June 2006 (1086)	July-Sept. 2006 (1073)	Oct-Dec. 2006 (1138)
	1	2	3	4	5	6	7
1	Overall business situation	Better	51.3	49.8	46.3	53.1	51.8
2	Financial situation	Better	42.3	40.7	40.4	43.4	41.9
3	Working capital finance requirement	Increase	32.7	31.9	30.6	32.7	35.4
4	Availability of finance	Improve	34.1	34.1	33.8	35.0	33.4
5	Production	Increase	46.9	46.3	42.5	49.4	49.7
6	Order books	Increase	43.7	41.0	39.1	45.2	46.3
7	Cost of raw material	Decrease	-30.0	-35.9	-37.3	-45.8	-49.2
8	Inventory of raw material	Below average	-6.9	-6.8	-5.0	-6.3	-6.1
9	Inventory of finished goods	Below average	-3.3	-4.7	-4.5	-2.6	-4.9
10	Capacity utilisation	Increase	31.1	29.6	24.8	32.1	33.2
11	Level of capacity utilisation	Above normal	10.9	11.4	9.4	11.8	10.9
12	Assessment of the production capacity	More than adequate	5.0	4.9	4.1	3.6	5.1
13	Employment in the company	Increase	12.7	13.3	14.5	16.4	17.9
14	Exports, if applicable	Increase	33.3	31.8	31.0	38.3	34.2
15	Imports, if any	Increase	19.2	20.8	22.7	23.8	23.4
16	Selling prices are expected to	Increase	7.8	10.8	12.4	16.6	16.8
17	If increase expected in selling prices	Increase at lower rate	16.6	16.3	12.0	10.5	14.5
18	Profit margin	Increase	9.6	12.6	9.3	11.1	9.2

Note : 1. Figures in parentheses represent number of companies included in the results.
2. 'Net response' is measured as the per cent share differential between the companies reporting 'optimistic' (positive) and 'pessimistic' (negative) responses; responses indicating status quo (no change) are not reckoned. Higher 'net response' indicates higher level of confidence and *vice versa*.

the level of confidence over the previous quarter. The level of confidence was, however, higher than in the same quarter a year ago.

Responses to the survey suggest a marginal decline in expectations for the overall business situation, financial situation, exports, and profit margins during the quarter October-December 2006 *vis-à-vis* July-September 2006. On the other hand, production, order books, capacity utilisation and employment are expected to show an improvement during October-December 2006. The working capital finance requirement is expected to increase, while the availability of finance is expected to show some decline (Table 10).

Although some of the surveys show a dip in business confidence and expectations, the buoyancy in manufacturing and services sector activities coupled with the recovery in domestic stock markets and positive investment climate suggest that the recent growth momentum in the Indian economy is likely to be maintained in 2006-07, as has also been projected by different agencies (Table 11).

Table 11: Projections of Real Gross Domestic Product for India by Various Agencies: 2006-07

Agency		Growth Projections for 2006-07 (per cent)				Month of Projection
		Overall Growth	Agriculture	Industry	Services	
1		2	3	4	5	6
ADB	a)	7.6	–	–	–	April 2006
	b)	7.8	–	–	–	September 2006
CDE-DSE	a)	7.7	2.4	9.5	9.2	May 2006
	b)	8.0	2.4	9.7	9.8	October 2006
CII	a)	Around 8.0	–	–	–	June 2006
	b)	8.0	3.0	8.5	9.6	September 2006
EAC		7.9	–	–	–	September 2006
ESCAP		7.9	–	–	–	March 2006
ICRA	a)	7.4-8.2	2.0	8.2-9.7	9.1-9.7	January 2006
	b)	8.1	1.0	10.8	9.5	July 2006
IMF	a)	7.3 @	–	–	–	April 2006
	b)	8.3 @	–	–	–	September 2006
NCAER		7.9	–	–	–	August 2006
Reserve Bank of India		7.5-8.0				April 2006/July 2006

– : Not Available. @ : Calendar year 2006.

ADB : Asian Development Bank.

CDE-DSE : Centre for Development Economics - Delhi School of Economics.

CII : Confederation of Indian Industry.

EAC : Economic Advisory Council.

ESCAP : Economic and Social Commission for Asia and the Pacific.

IMF : International Monetary Fund.

NCAER : National Council of Applied Economic Research.

ICRA : Investment Information and Credit Rating Agency of India.

II. FISCAL SITUATION

Combined Government Finances: 2006-07

Against the backdrop of the renewed thrust on fiscal consolidation process by the Central Government under the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004 and the adoption of fiscal responsibility legislations at the State level, key deficit indicators of the combined Government finances are budgeted to show a decline during 2006-07. Combined revenue deficit of the Centre and State Governments is budgeted to decline in 2006-07 on account of a reduction in revenue expenditure (by 0.5 per cent of GDP) and improvement in revenue receipts (by 0.3 per cent of GDP). On the revenue front, greater stress has been placed on buoyancy of tax collections, especially in respect of direct taxes, although sluggishness in non-tax revenues would partially offset this rise. The combined Government capital outlay is budgeted to improve in 2006-07. The envisaged improvement in the revenue account is expected to enable a reduction in the combined gross fiscal deficit (GFD) by 1.0 per cent of GDP in 2006-07 (Table 12).

Table 12: Key Fiscal Indicators

(Per cent to GDP)

Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit
1	2	3	4
		Centre	
2002-03	1.1	4.4	5.9
2003-04	-0.03	3.6	4.5
2004-05	-0.1	2.5	4.0
2005-06 RE	0.5 (0.4)	2.6 (2.7)	4.1 (4.1)
2006-07 BE	0.2	2.1	3.8
		States	
2002-03	1.3	2.3	4.1
2003-04	1.5	2.2	4.5
2004-05	0.7	1.2	3.5
2005-06 RE	0.7	0.5	3.2
2006-07 BE	0.2	0.05	2.7
		Combined	
2002-03	3.1	6.7	9.6
2003-04	2.1	5.8	8.5
2004-05	1.4	3.7	7.5
2005-06 RE	1.6	3.1	7.5
2006-07 BE	0.8	2.2	6.5

RE: Revised Estimates. BE: Budget Estimates.

Note : 1. Figures in parentheses are provisional accounts.

2. Data in respect of States are provisional from 2004-05 onwards.

Centre's Fiscal Situation: 2006-07

The information on Central Government finances for the first five months of 2006-07 (April-August) indicates that all key deficit indicators (as proportion to budget estimates) were placed higher than the corresponding period of the previous year. While tax revenues continued to be buoyant, aggregate expenditure was substantially higher. Tax revenues increased mainly on account of higher collections under personal income tax, corporation tax and customs duties. Non-tax revenues also exhibited buoyancy mainly reflecting higher dividends and profits from public sector enterprises and receipts from economic services. The surplus transfer from the Reserve Bank at Rs. 8,404 crore was higher than the previous year. As regards aggregate expenditure, the increase was entirely on account of sharp rise in revenue expenditure; capital expenditure showed a decline. Within revenue expenditure, non-Plan expenditure registered a large increase during April-August 2006 mainly on account of interest payments, defence expenditure, subsidies and grants to States (Table 13). Plan expenditure, on the other hand, decelerated with the evening out of front-loaded expenditures incurred during the first quarter of the year. On account of the substantial

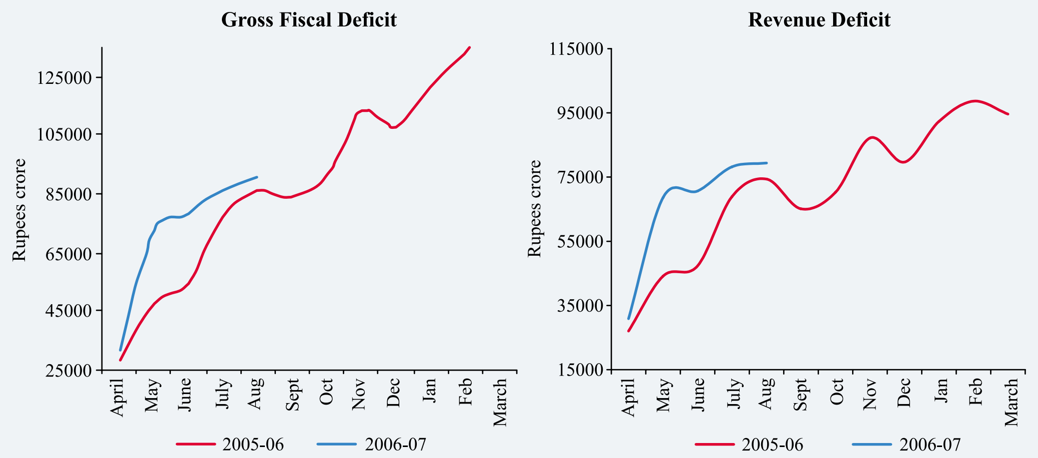
Table 13: Central Government Finances during April-August 2006

(Rupees crore)

Items	2006-07 (Budget Estimates)	April-August		Per cent of Budget Estimates April-August	
		2005	2006	2005	2006
1	2	3	4	5	6
1. Revenue Receipts (i + ii)	4,03,465	81,169	1,06,551	23.1	26.4
i) Tax Revenue	3,27,205	58,482	81,444	21.4	24.9
ii) Non-tax Revenue	76,260	22,687	25,107	29.2	32.9
2. Non-Debt Capital Receipts	11,840	3,292	3,207	27.4	27.1
3. Non-Plan Expenditure	3,91,263	1,23,453	1,46,516	33.3	37.4
of which:					
i) Interest Payments	1,39,823	44,770	51,089	33.4	36.5
ii) Defence	89,000	19,249	22,420	23.2	25.2
iii) Major Subsidies	44,792	19,947	23,784	43.0	53.1
iv) Grants to States	35,361	9,909	14,810	29.2	41.8
4. Plan Expenditure	1,72,728	47,336	53,920	33.0	31.2
5. Revenue Expenditure	4,88,192	1,55,541	1,85,949	34.8	38.1
6. Capital Expenditure	75,799	15,248	14,487	22.5	19.1
7. Total Expenditure	5,63,991	1,70,789	2,00,436	33.2	35.5
8. Revenue Deficit	84,727 (2.1)	74,372	79,398	78.0	93.7
9. Gross Fiscal Deficit	1,48,686 (3.8)	86,328	90,678	57.1	61.0
10. Gross Primary Deficit	8,863 (0.2)	41,558	39,589	241.6	446.7

Note : Figures in parentheses are percentages to GDP.
Source : Controller General of Accounts, Ministry of Finance.

Chart 6 : Key Deficit Indicators of the Centre



increase in non-plan revenue expenditure, the revenue deficit during the first five months of 2006-07 was 93.7 per cent of the full year budget estimates (Chart 6). The cut back in non-defence capital outlay dampened the impact on GFD though, as per cent of budget estimates, it was higher than the position a year ago.

Assessment of Quarterly Central Government Finances: April-June, 2006[1]

The Government in its review of finances for the first quarter of 2006-07 brought out the progress made in meeting the targets as set under the FRBM Rules and the direction of revenues and expenditure in the remaining quarters of the current year. The Government reaffirmed its commitment to a fiscal policy stance guided by FRBM Rules with stress on revenue correction and reprioritisation of expenditure towards social sector programmes ensuring 'quality' rather than 'quantity' in expenditures. The Review noted that the budgetary imbalances witnessed in the first quarter on account of front-loading of Plan expenditures would even out as revenue receipts step up and expenditure pattern stabilises during the remaining part of the year. Furthermore, in order to limit non-Plan expenditures, expenditure management measures were put in place on July 22, 2006.

Financing of the Union Budget

Net market borrowings (excluding allocations under the Market Stabilisation Scheme), at Rs.1,13,778 crore, are budgeted to finance 76.5 per

[1] As reported by the Government of India in "Statement on Quarterly Review of the Trends in Receipts and Expenditure in relation to the Budget at the end of the first quarter of financial year, 2006-07" under the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

cent of the GFD in 2006-07 as compared with 69.2 per cent in the preceding year. Including repayment obligations of Rs.65,939 crore, gross market borrowings of the Central Government work out to Rs. 1,79,716 crore. For 2006-07, there is no provision for utilising draw down of cash balances to finance the GFD whereas in 2005-06 (RE) draw down of cash balances financed 10.3 per cent of the GFD. The investment by National Small Savings Funds (NSSF) in special securities against small savings is budgeted to finance 2.0 per cent of the GFD as against 0.9 per cent in 2005-06 (RE).

During 2006-07 (up to October 23, 2006), the issuances of dated securities at Rs.98,000 crore were higher than the amount raised (Rs.84,000 crore) in the comparable period of the preceding year (Table 14). Though aggregate amount of issuance was as per the indicative issuance calendar, an issuance of Rs. 4000 crore was front loaded on June 22, 2006. On the other hand, the notified amounts of Rs.6,000 crore and Rs.4,000 crore (as per issuance auction calendar) were reduced to Rs.5,000 crore and Rs.2,000 crore, respectively, in the auctions held

Table 14: Central Government Securities Issued during 2006-07

(Amount in Rupees crore/Maturity in years)

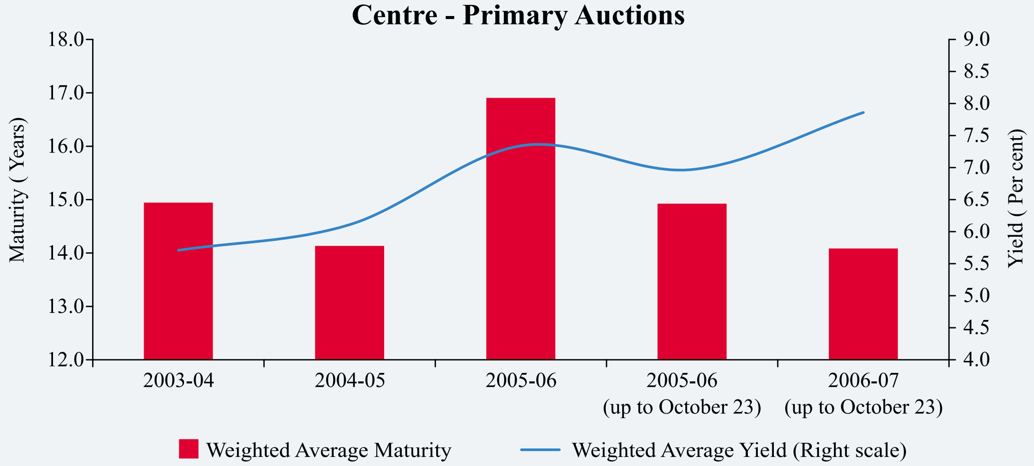
	Borrowings as per Issuance Auction Calendar			Actual Borrowings			
Sr. No.	Date of Auction	Amount	Residual Maturity	Date of Auction	Amount	Residual Maturity	Yield (Per cent)
1	2	3	4	5	6	7	8
1.	April 3-12, 2006	5,000	10-14 years	April 10, 2006	5,000	10.00	7.59
		3,000	20-years and above	April 10, 2006	3,000	28.30	7.97
2.	April 18-25, 2006	6,000	5-9 years	April 25, 2006	6,000	6.02	7.06
		4,000	20-years and above	April 25, 2006	4,000	26.34	8.00
3.	May 2-9, 2006	6,000	10-14 years	May 4, 2006	6,000	9.94	7.55
		4,000	20-years and above	May 4, 2006	4,000	28.26	8.14
4.	May 16-24, 2006	5,000	15-19 years	May 23, 2006	5,000	15.00	7.94
5.	June 1-8, 2006	6,000	5-9 years	June 6, 2006	6,000	5.07	8.33
		4,000	20-years and above	June 6, 2006	4,000	30.00	7.39
6.	June 15-24, 2006	5,000	15-19 years	June 22, 2006	5,000	8.52	7.92
				June 22, 2006	4,000	14.95	8.46
7.	July 3-11, 2006	6,000	10-14 years	July 11, 2006	5,000	9.75	8.29
		4,000	20-years and above	July 11, 2006	2,000	28.08	8.75
8.	July 17-25, 2006	5,000	15-19 years	July 27, 2006	4,000	3.79	7.69
9.	August 1-8, 2006	6,000	5-9 years	August 8, 2006	6,000	4.90	7.94
		3,000	20-years and above	August 8, 2006	3,000	9.68	8.27
10.	August 14-22, 2006	5,000	10-14 years	August 18, 2006	3,000	29.79	8.72
		3,000	20-years and above	August 18, 2006	5,000	10.40	8.12
11.	September 4-12, 2006	6,000	10-14 years	September 8, 2006	6,000	9.59	7.76
		3,000	20-years and above	September 8, 2006	3,000	27.91	8.45
12.	October 6-13, 2006	6,000	10-14 years	October 13, 2006	6,000	9.49	7.63
		3,000	20-years and above	October 13, 2006	3,000	29.64	8.10

on July 11, 2006. Furthermore, the notified amount of issuance was lowered from Rs.5000 crore to Rs.4000 crore on July 27, 2006. During the year so far, 22 securities have been issued. While 19 securities were reissues, three new securities of 10-, 15- and 30-year maturity were issued to provide benchmarks in the respective segments. Gross and net market borrowings (including dated securities and 364-day Treasury Bills) raised by the Centre during 2006-07 (up to October 23, 2006) amounted to 64.1 per cent and 58.0 per cent of the budget estimates as compared with 61.4 per cent and 51.7 per cent, respectively, a year ago.

During 2006-07 (up to October 23, 2006), the weighted average maturity of dated securities of the Central Government at 14.08 years was lower than that of 15.11 years in the corresponding period of the preceding year. The weighted average yield of the dated securities issued over the same period, on the other hand, increased to 7.92 per cent from 7.29 per cent (Chart 7). In this context, it may be noted that the average secondary market yield on 10-year Central Government securities has increased from 6.97 per cent during April-September 2005 to 7.86 per cent during April-September 2006.

With a view to achieving a smooth transition to the new regime as envisaged in the FRBM Act whereby the participation of the Reserve Bank in the primary issuance of Central Government securities has been prohibited with effect from April 1, 2006, the Ways and Means Advances (WMA) arrangements for 2006-07 were revised in consultation with the Government. As per the revised arrangement, the limits would be fixed on a quarterly basis instead of the existing half-yearly basis. Accordingly, the WMA limits for 2006-07 have been placed at Rs.20,000 crore and Rs.10,000 crore for the first and second quarters, respectively, and Rs.6,000 crore each for the third and fourth quarters of the year. The Reserve Bank would

Chart 7 : Yield and Maturity of the Dated Securities of the Centre - Primary Auctions



retain the flexibility to revise the limits in consultation with the Government of India taking into consideration the transitional issues and prevailing circumstances. Furthermore, the interest rates on WMA and overdraft have been linked to the repo rate as against the Bank Rate hitherto, following emergence of the repo rate as the short-term reference rate. Accordingly, the interest rate on WMA is at the repo rate and that on overdraft is at repo rate plus two percentage points.

The Central Government has taken recourse to WMA on 39 days during 2006-07 (up to October 20) as compared with only two days during the entire fiscal year 2005-06. The average WMA utilisation during 2006-07 (up to September 30) was Rs.801 crore as compared with Rs.14 crore in the corresponding period of the preceding year.

State Finances

Financing of the States' Budgets

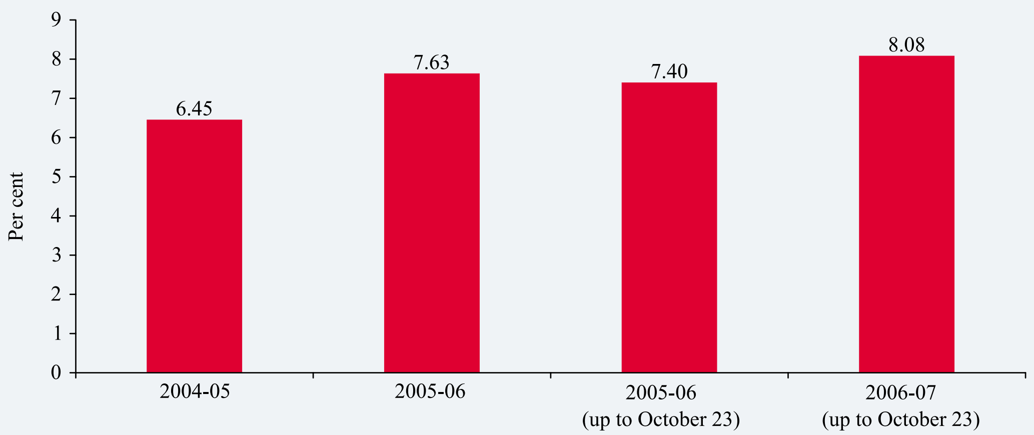
The provisional net allocation under market borrowing programme for the State Governments is placed at Rs.17,242 crore during 2006-07. Taking into account the additional allocation of Rs.35 crore in respect of Arunachal Pradesh and repayments of Rs.6,551 crore, the gross allocation amounts to Rs.23,828 crore. During 2006-07 so far (up to October 23, 2006), the States have raised market loans amounting to Rs.8,595 crore (or 36.1 per cent of gross allocation) through auctions with cut-off rates in the range of 7.65-8.66 per cent (Table 15).

Table 15: Market Borrowings of State Governments during 2006-07

Items	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees crore)
1	2	3	4	5
A. Tap Issues	–	–	–	–
B. Auctions (i to xvii)				**8,595**
i. First	April 27, 2006	7.65	10	300
ii. Second	May 11, 2006	7.89	10	500
iii. Second	May 11, 2006	8.00	10	1,646
iv. Second	May 11, 2006	7.95	10	881
v. Second	May 11, 2006	8.04	10	150
vi. Second	May 11, 2006	7.96	10	130
vii. Second	May 11, 2006	7.87	10	400
viii. Second	May 11, 2006	7.91	10	500
ix. Second	May 11, 2006	7.98	10	57
x. Second	May 11, 2006	8.05	10	15
xi. Second	May 11, 2006	7.93	10	1,307
xii. Third	July 13, 2006	8.65	10	933
xiii. Third	July 13, 2006	8.66	10	300
xiv. Third	July 13, 2006	8.62	10	225
xv. Fourth	August 25, 2006	8.11	10	1,050
xvi. Fifth	October 18, 2006	7.99	10	153
xvii. Fifth	October 18, 2006	8.04	10	48
Grand Total (A+B)				**8,595**

Source : Reserve Bank of India.

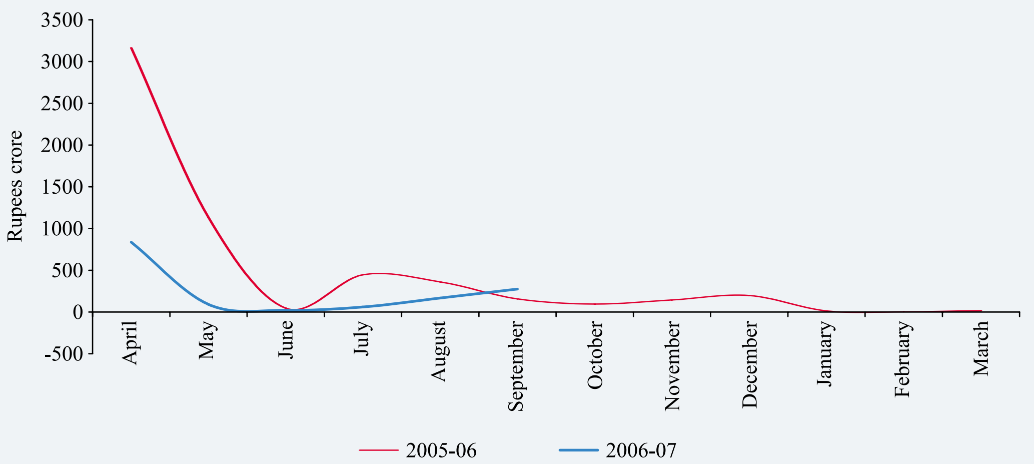
Chart 8 : Weighted Average Interest Rate on State Government Market Borrowings

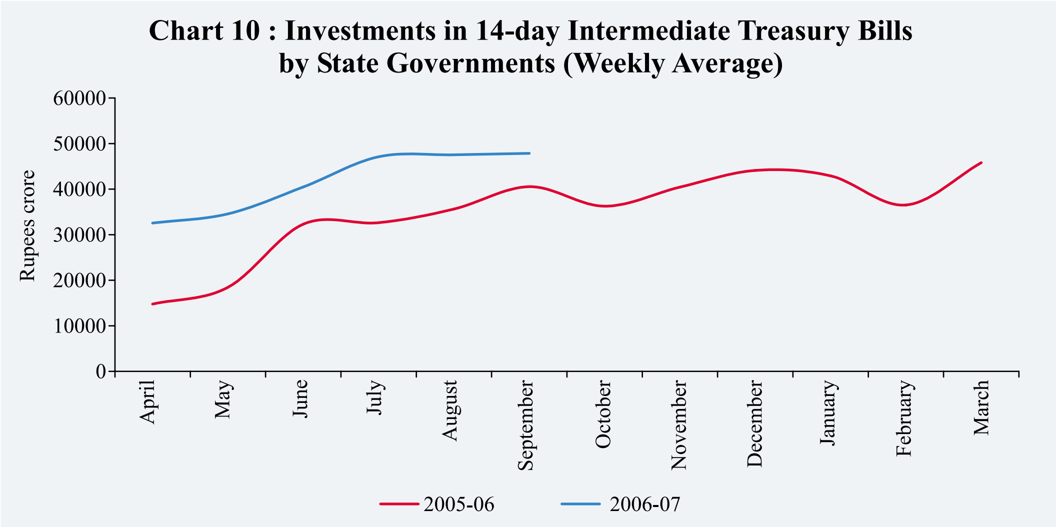


The weighted average interest rate of market loans firmed up to 8.08 per cent during 2006-07 (up to October 23, 2006) from 7.40 per cent in the corresponding period of the previous year (Chart 8).

The liquidity position of the States has remained comfortable during 2006-07 so far. The weekly average utilisation of WMA and overdraft by the States at Rs.121 crore in 2006-07 (up to September 30, 2006) was substantially lower than that of Rs.885 crore in the corresponding period of 2005-06 (Chart 9). Two States have resorted to overdraft during 2006-07 (up to September 30, 2006) as compared with nine States during the corresponding period of the previous year.

Chart 9 : Utilisation of WMA and Overdraft by States (Weekly Average)





Concomitantly, the weekly average investment by the States in the 14-day Treasury Bills during 2006-07 (up to end-September 2006) at Rs.41,677 crore was considerably higher than that of Rs.29,052 crore in the corresponding period of the previous year (Chart 10).

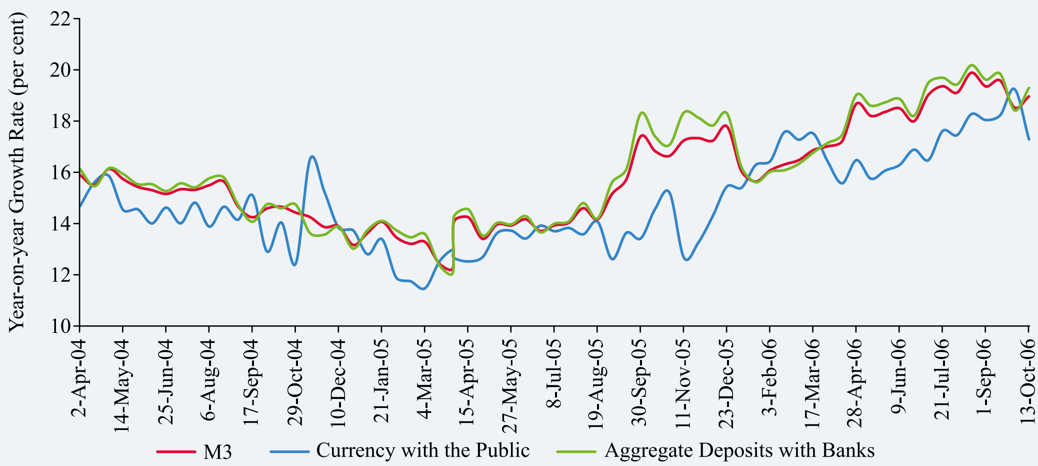
III. MONETARY AND LIQUIDITY CONDITIONS

Monetary and liquidity conditions have remained comfortable during 2006-07 so far. Strong acceleration in deposit growth was able to accommodate sustained growth of bank credit. Growth in non-food credit has remained above 30 per cent, year-on-year (y-o-y), for more than a year. Time deposits have recorded large accretion in 2006-07 so far, partly reflecting higher interest rates as well as availability of tax benefits under Section 80C. Concomitantly, broad money growth has remained above the indicative trajectory, indicative of strong demand conditions. Banks increased their investments in Government securities in the first half of 2006-07 in contrast to the second half of 2005-06 when they liquidated their gilt investments. The Reserve Bank continued to absorb liquidity through reverse repo operations under the liquidity adjustment facility (LAF) during the first half of 2006-07 and issuance of securities under the Market Stabilisation Scheme (MSS). Reserve money growth during the fiscal year 2006-07 so far has been driven by accretion to the Reserve Bank's net foreign assets (NFA).

Monetary Survey

Broad money (M_3) growth, y-o-y, accelerated to 19.0 per cent as on October 13, 2006 from 16.8 per cent a year ago, and remained above the indicative trajectory of 15.0 per cent projected in the Annual Policy Statement in the beginning of the year (April 2006) (Chart 11). On a fiscal year basis (up to October 13, 2006), M_3 growth at 7.8 per cent was higher than that of 6.1 per cent in the corresponding period of 2005-06. In this context, it may be noted that data on fiscal year variations

Chart 11 : Growth in Broad Money



in monetary and banking indicators for 2005-06 have been worked out with respect to April 1, 2005 as the base date. Conventionally, the Reserve Bank publishes data on monetary and banking aggregates on a fortnightly basis on alternate Fridays. Variations in monetary and banking aggregates for a particular financial year are worked out in relation to the last reporting Friday of the previous financial year. Thus, variations for banking data during 2005-06 would have been conventionally calculated from March 18, 2005, which was the last reporting Friday of the previous financial year. This would have resulted in the incorporation of data for an additional fortnight in the variations in monetary and banking aggregates for 2005-06 in relation to the same for 2006-07. For meaningful comparison of variations in monetary and banking variables in 2005-06 with those of 2006-07 on a financial year basis, April 1, 2005 has been taken as the base date for 2005-06.

Expansion in the residency-based new monetary aggregate (NM_3) was higher than M_3, mainly on account of net outflows under foreign currency deposits (Table 16).

Table 16: Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on October 13, 2006	Variation (year-on-year)			
		October 14, 2005		October 13, 2006	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money *	6,16,950	63,088	14.0	1,04,495	20.4
II. Broad Money (M_3)	29,43,426	3,56,328	16.8	4,69,205	19.0
a) Currency with the Public	4,44,102	48,164	14.6	65,445	17.3
b) Aggregate Deposits	24,93,864	3,09,741	17.4	4,03,393	19.3
i) Demand Deposits	3,94,834	62,732	24.1	71,363	22.1
ii) Time Deposits	20,99,030	2,47,009	16.3	3,32,030	18.8
of which: Non-Resident Foreign Currency Deposits	64,147	1,473	1.9	-13,889	-17.8
III. NM_3	29,55,303	3,61,937	17.2	4,84,379	19.6
of which: Call Term Funding from Financial Institutions	84,039	13,121	20.0	5,226	6.6
IV. a) L_1	30,47,504	3,89,392	18.1	4,69,905	18.2
of which: Postal Deposits	93,221	17,580	22.1	-4,027	-4.1
b) L_2	30,50,436	3,85,518	17.9	4,69,916	18.2
of which: FI Deposits	2.932	-3,874	-57.0	11	0.4
c) L_3	30,72,130	3,87,968	17.8	4,69,916	18.1
of which: NBFC Deposits	21,694	2,450	12.7	–	–
V. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	8,05,300	12,451	1.6	34,460	4.5
i) Net Reserve Bank Credit to Government	2,776	-32,198	–	14,109	–
of which: to the Centre	2,567	-26,886	–	13,928	–
ii) Other Banks' Credit to Government	8,02,524	44,649	6.1	20,351	2.6
b) Bank Credit to Commercial Sector	18,36,535	3,07,696	26.9	3,83,390	26.4
c) Net Foreign Exchange Assets of Banking Sector	7,87,161	93,449	16.1	1,13,179	16.8
Memo:					
SCBs' Aggregate Deposits	22,94,293	2,98,229	18.6	3,93,849	20.7
SCBs' Non-food Credit	16,10,275	2,97,903	31.8	3,76,105	30.5

* : Data pertain to October 20, 2006.

SCBs : Scheduled Commercial Banks. FIs: Financial Institutions. NBFCs: Non-Banking Financial Companies.

NM_3 is the residency-based broad money aggregate and L_1, L_2 and L_3 are liquidity aggregates compiled on the recommendations of the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy, 1998). Liquidity aggregates are defined as follows:

L_1 = NM_3 + Select deposits with the post office saving banks.

L_2 = L_1 +Term deposits with term lending institutions and refinancing institutions (FIs) + Term borrowing by FIs + Certificates of deposits issued by FIs.

L_3 = L_2 + Public deposits of non-banking financial companies.

Note : 1. Data are provisional.
2. Data for liquidity aggregates pertain to end-September.
3. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.

Non-resident foreign currency deposits such as India Millennium Deposits (IMDs) and FCNR(B) are not directly reckoned in NM_3. The redemption of IMDs in December 2005 depressed M_3 growth while having no direct impact on NM_3 growth.

Demand for currency has recorded a higher order of expansion during the fiscal year 2006-07 so far, partly reflecting early onset of festival season demand (Table 17). On a year-on-year basis, growth in currency with the public increased from 14.6 per cent as on October 14, 2005 to 17.3 per cent as on October 13, 2006 in consonance with acceleration in economic activity.

Demand deposits increased during the second quarter of 2006-07 as against a decline in the previous quarter, reflecting the usual seasonal pattern.

Table 17: Monetary Aggregates – Variations

(Rupees crore)

	Variation during								
	2005-06 (April-March)	2005-06 (up to Oct.14)	2006-07 (up to Oct.13)	2005-06				2006-07	
				Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10
M_3 (=1+2+3=4+5+6+7-8)	3,96,868	1,41,555	2,13,891	27,448	1,22,457	45,106	2,01,857	55,248	1,57,634
		(6.1)	(7.8)						
Components									
1 Currency with the Public	58,272	23,787	30,960	20,492	-10,835	30,124	18,491	25,603	-4,060
		(6.7)	(7.5)						
2 Aggregate Deposits with Banks	3,38,037	1,18,995	1,84,350	8,819	1,32,531	15,729	1,80,958	31,259	1,61,233
		(6.0)	(8.0)						
2.1 Demand Deposits with Banks	83,861	2,109	-10,389	-21,953	41,566	-2,357	66,604	-43,025	33,857
2.2 Time Deposits with Banks	2,54,176	1,16,886	1,94,740	30,772	90,965	18,086	1,14,354	74,283	1,27,376
		(7.1)	(10.2)						
3 'Other' Deposits with Banks	560	-1,227	-1,419	-1,862	761	-747	2,408	-1,613	461
Sources									
4 Net Bank Credit to Government	20,386	22,133	36,207	17,398	-5,017	-5,722	13,726	22,933	9,887
		(3.0)	(4.7)						
4.1 RBI's net credit to Government	35,799	16,329	-5,361	18,963	-25,251	19,879	22,208	53	2,826
4.1.1 RBI's net credit to Centre	33,374	16,853	-2,593	19,556	-25,251	19,812	19,256	3,071	2,584
4.2 Other Bank's Credit to Government	-15,413	5,805	41,568	-1,565	20,234	-25,601	-8,481	22,880	7,060
5 Bank Credit to Commercial Sector	3,59,703	1,21,888	1,45,575	10,235	1,18,712	61,731	1,69,025	14,441	1,41,539
		(9.2)	(8.6)						
6 Net Foreign Exchange Assets of Banking Sector	78,291	26,080	60,967	-12,026	24,062	27,701	38,554	58,087	11,392
6.1 Net Foreign Exchange Assets of RBI	61,545	25,624	74,726	-13,243	24,823	23,741	26,224	71,845	11,392
7 Governments' Currency Liabilities to the Public	1,306	1,293	177	384	910	-100	112	146	31
8 Net Non-Monetary liabilities of Banking Sector	62,817	29,840	29,035	-11,456	16,210	38,504	19,560	40,357	5,215
Memo:									
1 Non-resident Foreign Currency Deposits with SCBs	-16,876	1,885	4,872	804	187	1,856	-19,723	3,917	1,506
2 SCBs' Call-term Borrowing from Financial Institutions	11,224	6,892	895	-1,002	7,359	1,836	3,031	3,118	-1,611
3 Overseas Borrowing by SCBs	1,295	3,823	595	-925	3,618	-622	-755	3,301	-3,903

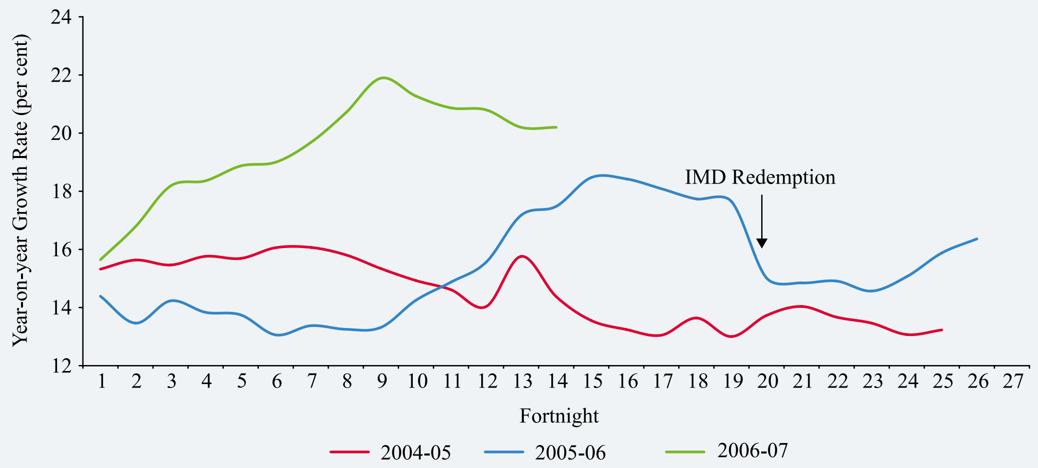
SCBs : Scheduled Commercial Banks.

Note : 1. Variation during 2006-07 so far is worked out from March 31, 2006 whereas the corresponding variation during 2005-06 is worked out from April 1, 2005.

2. Figures in parentheses are percentage variations during the fiscal year.

3. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.

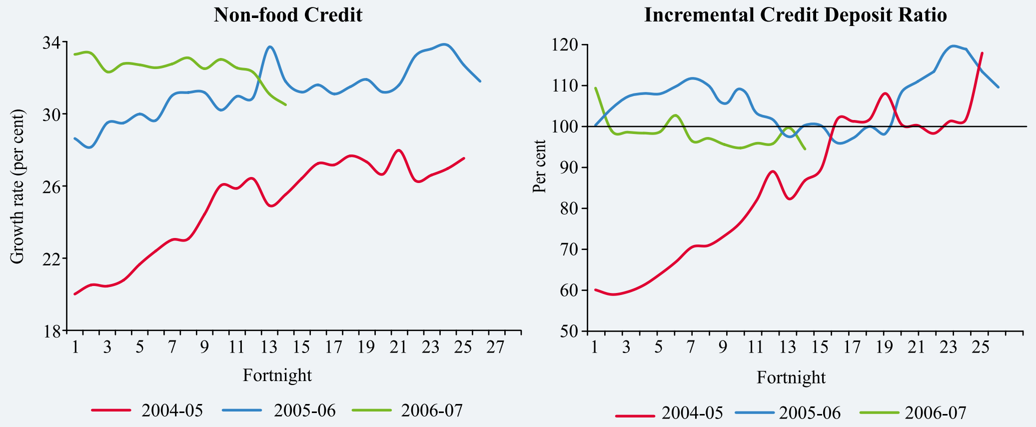
Chart 12 : Time Deposits Growth Rate



On a y-o-y basis, growth in demand deposits was 22.1 per cent as on October 13, 2006 as compared with 24.1 per cent recorded a year ago. Growth in time deposits, on the other hand, was higher than the previous year, reflecting higher interest rates, tax benefits as well as base effects. Scheduled commercial banks' time deposits growth accelerated to 20.2 per cent (y-o-y) as on October 13, 2006 from 17.5 per cent a year ago (Chart 12). Interest rates on time deposits of 1-3 years maturity offered by public sector banks have increased from a range of 5.75-6.75 per cent in March 2006 to 6.25-7.50 per cent by September 2006. Rates offered by private sector banks on similar maturity deposits moved from a range of 5.50-7.75 per cent to 6.75-8.25 per cent over the same period. Growth in time deposits appears to have also gained from tax benefits which have become available recently under Section 80C for deposits with maturity of five years and above. Concomitantly, postal deposits registered a sharp decline between end-March 2006 and end-September 2006.

Demand for bank credit from the commercial sector continued to remain strong during the second quarter of 2006-07. Scheduled commercial banks' non-food credit has increased by 9.8 per cent in the current fiscal year (up to October 13, 2006) (11.0 per cent during the corresponding period of the previous year). On a year-on-year basis, non-food credit registered a growth of 30.5 per cent as on October 13, 2006 on top of a base as high as 31.8 per cent a year ago. Reflecting the sustained credit growth of over 30 per cent for more than a year, the incremental credit-deposit ratio of SCBs has remained high though it has exhibited some moderation in recent months. As on October 13, 2006, the incremental credit-deposit ratio was 95 per cent as compared with over 100 per cent during the most part of 2005-06 (Chart 13). Scheduled commercial banks' food credit,

Chart 13 : Scheduled Commercial Banks' Credit Growth*



* : Year-on-year basis, excluding conversion of a non-banking entity as on October 11, 2004.

on the other hand, witnessed a decline of Rs.7,246 crore during 2006-07 (up to October 13, 2006) reflecting lower order of procurement of foodgrains.

Provisional information on sectoral deployment of bank credit indicates that growth in credit was broad-based. The y-o-y growth in credit to industry and agriculture was 27 per cent and 37 per cent, respectively, at end-June 2006 (Table 18). Retail lending rose by 47 per cent at end-June 2006, y-o-y, with growth in housing loans being 54 per cent. Loans to commercial real estate rose by 102 per cent.

In addition to bank credit, the corporate sector continued to rely on non-bank sources of funds for their financing requirements during the first half of 2006-07. Amounts raised through domestic equity issuances fell sharply during the second quarter of 2006-07 following the volatility in capital markets during May-June 2006; nonetheless, the amounts raised during the first half of 2006-07 were significantly higher. Mobilisation through equity issuances abroad (ADRs/ GDRs) during April-September 2006 was also higher than a year ago. Recourse to external debt flows in the form of external commercial borrowings (ECBs) was substantially higher during the first quarter of 2006-07 than a year ago. Mobilisation through issuances of commercial papers, after remaining subdued during the second half of the 2005-06, increased during the first half of 2006-07. Internal sources of funds provided large support – higher than each of the preceding four quarters – to the corporate sector during April-June 2006 as corporate profits recorded a substantial increase during the quarter (Table 19).

In the current fiscal year 2006-07 (up to October 13, 2006), commercial banks' investments in gilts have increased by Rs.41,796 crore, partly reflecting acceleration in deposit growth. However, as banks had liquidated their investments

Table 18: Deployment of Non-food Bank Credit

(Amount in Rupees crore)

Sector/Industry	Outstanding as on June 23, 2006	Year-on-year variations 2005 (June 24, 2005 over June 25, 2004)		2006 (June 23, 2006 over June 24, 2005)	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 6)	**11,87,215**	**2,30,555**	**30.7**	**3,66,174**	**44.6**
1. Agriculture and Allied Activities	**1,58,506**	**34,300**	**38.2**	**42,619**	**36.8**
2. Industry (Small, Medium and Large)	**4,48,494**	**57,747**	**18.1**	**94,133**	**26.6**
Small Scale Industries	82,667	8,827	13.7	14,716	21.7
3. Services	**45,466**	**-**	**-**	**30,661**	**207.1**
Transport Operators	13,870	-	-	9,149	193.8
Professional and Others	17,124	-	-	11,741	218.1
4. Personal Loans	**3,24,491**	**-**	**-**	**1,04,058**	**47.2**
Housing	1,71,917	-	-	60,495	54.3
		(29,533)	(50.1)		
Advances against Fixed Deposits	29,286	-14,072	-56.8	5,471	23.0
Credit Cards	6,818	-	-	4,539	199.2
Education	9,781	-	-	5,684	138.7
Consumer Durables	7,350	322	4.3	-113	-1.5
5. Trade	**70,679**	**-**	**-**	**29,104**	**70.0**
6. Others	**1,39,579**	**-**	**-**	**65,599**	**88.7**
Real Estate Loans	23,633	6,275	94.6	11,957	102.4
Non-Banking Financial Companies	24,933	3,094	18.5	7,787	45.4
Memo:					
Priority Sector	**4,57,689**	**1,05,035**	**39.4**	**1,13,962**	**33.2**
Industry (Small, Medium and Large)	**4,48,494**	**57,747**	**18.1**	**94,133**	**26.6**
Food Processing	25,806	1,929	9.5	5,299	25.8
Textiles	50,719	7,504	22.3	12,344	32.2
Paper and Paper Products	7,517	844	14.7	1,394	22.8
Petroleum, Coal Products and Nuclear Fuels	17,534	4,797	43.1	1,925	12.3
Chemical and Chemical Products	36,089	1,755	6.0	6,954	23.9
Rubber, Plastic and their Products	6,105	-	-	1,907	45.4
Iron and Steel	41,811	5,780	22.3	12,208	41.2
Other Metal and Metal Products	12,388	1,992	23.4	2,715	28.1
Engineering	31,102	682	2.7	5,818	23.0
Vehicles, Vehicle Parts and Transport Equipments	12,066	2,863	45.1	2,992	33.0
Gems and Jewellery	17,453	3,037	31.6	5,525	46.3
Construction	12,234	1,860	28.0	4,571	59.7
Infrastructure	89,946	18,940	33.2	19,859	28.3

- : Not available.

Note : 1. Data are provisional and relate to select scheduled commercial banks.

2. Owing to change in classification of sectors/industries and coverage of banks, data for 2006 are not comparable with earlier data. Figures in parentheses for 2005 pertain only to housing loans of above Rs.15 lakh. Data on housing loans for 2006, on the other hand, are also inclusive of loans less than Rs.15 lakh.

in gilts in the second half of 2005-06, growth in their holdings of Government securities at 2.5 per cent, y-o-y, as on October 13, 2006 was lower than that of 5.9 per cent a year ago (Table 20). This growth is significantly lower than average growth of around 20 per cent per annum during 2002-2005. Commercial banks' holding of Government securities was 29.8 per cent of their net demand and time liabilities (NDTL) as on October 13, 2006 as compared with 31.3 per cent

Table 19: Select Sources of Funds to Industry

(Rupees crore)

Item	2005-06 (April-March)	2005-06 Q1	Q2	Q3	Q4	2006-07 Q1	Q2
1	2	3	4	5	6	7	8
A. Bank Credit to Industry #	1,22,165	11,148	28,061	24,484	58,472	-1,967	9,786 *
B. Flow from Non-banks to Corporates							
1. Capital Issues (i+ii)	13,781	1,264	2,758	5,549	4,210	10,627	1,882
i) Non-Government Public Ltd. Companies (a+b)	13,408	1,264	2,758	5,549	3,837	10,627	1,882
a) Bonds/Debentures	245	118	0	0	127	0	0
b) Shares	13,163	1,146	2,758	5,549	3,710	10,627	1,882
ii) PSUs and Government Companies	373	0	0	0	373	0	0
2. ADR/GDR Issues	7,704	789	739	3,643	2,533	4,965	2,130
3. External Commercial Borrowings (ECBs)	40,496	4,326	12,989	9,132	14,049	18,747	-
4. Issue of CPs	-1,517	3562	1928	-2,491	-4,516	6,931	4,770
C. Depreciation Provision +	28,883	7,137	7,617	7,748	8,340	8,449	-
D. Profits after Tax +	67,506	16,726	18,169	18,790	21,634	24,845	-

\# : Data pertain to select banks which account for over 90 per cent of bank credit of all scheduled commercial banks.

\+ : Data are based on audited/ unaudited abridged results of select of non-financial non-Government companies. Quarterly variations may not add up to annual variation due to difference in coverage of companies.

* : Data pertain to July 2006 only.

Note: 1. Data are provisional.

2. Data on capital issues pertain to gross issuances excluding issues by banks and financial institutions. Figures are not adjusted for banks' investments in capital issues, which are not expected to be significant.
3. Data on ADR/GDR issues exclude issuances by banks and financial institutions.
4. Data on external commercial borrowings include short-term credit. Data for 2005-06 are exclusive of the IMD redemption.

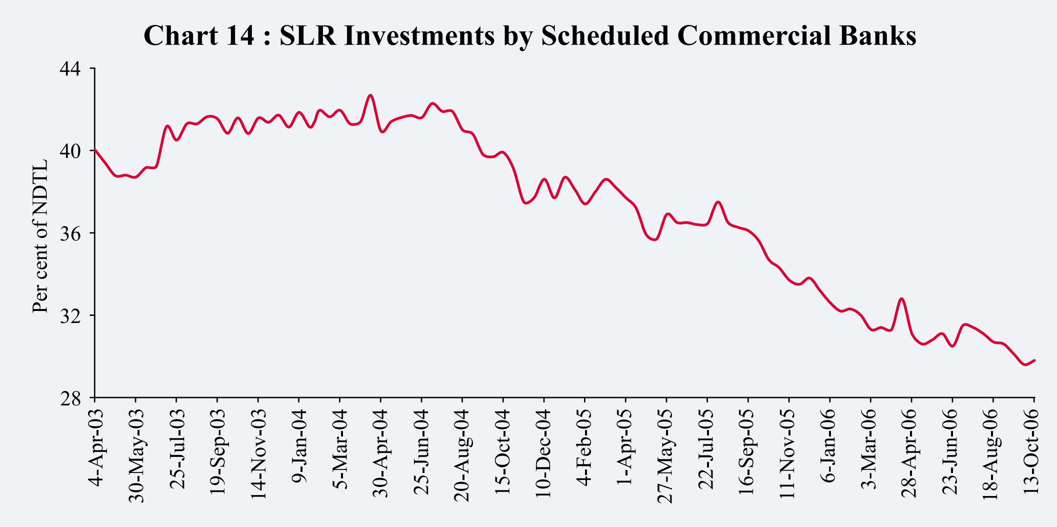
at end-March 2006 and 34.7 per cent a year ago (Chart 14). Excess SLR investments of SCBs were Rs. 1,23,010 crore as on October 13, 2006 as compared with Rs. 2,07,903 crore a year ago. Raising funds through equity issuances in the

Table 20: Scheduled Commercial Banks' Survey

(Amount in Rupees crore)

Item	Outstanding as on October 13, 2006	Variation (year-on-year) As on October 14, 2005 Amount	Per cent	As on October 13, 2006 Amount	Per cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	22,94,293	2,98,229	18.6	3,93,849	20.7
2. Call/Term Funding from Financial Institutions	84,039	13,121	20.0	5,226	6.6
3. Overseas Foreign Currency Borrowings	30,430	7,877	32.2	-1,933	-6.0
4. Capital and Reserves	1,93,141	33,161	25.9	31,790	19.7
Uses of Funds					
1. Bank Credit	16,43,720	2,99,151	30.8	3,72,342	29.3
of which: Non-food Credit	16,10,275	2,97,903	31.8	3,76,105	30.5
2. Investments in Government Securities	7,42,538	40,438	5.9	18,378	2.5
3. Investments in Other Approved Securities	21,831	-2,352	-10.8	2,327	11.9
4. Investments in Non-SLR Securities	1,49,174	-4,950	-3.4	10,040	7.2
5. Foreign Currency Assets	39,896	-8,753	-24.7	13,179	49.3
6. Balances with the RBI	1,25,080	29,562	35.0	11,151	9.8

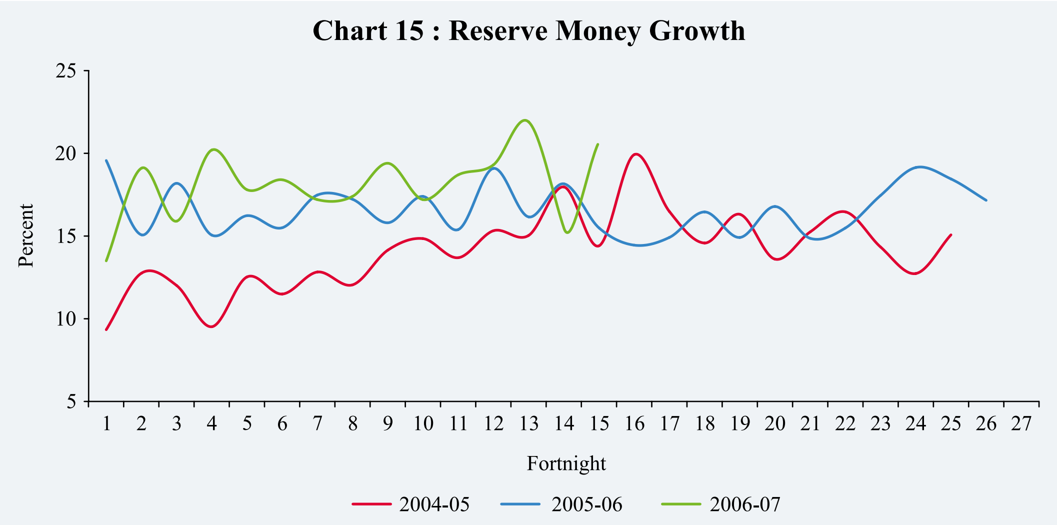
Note : Data are provisional.



primary market as well as internal reserves also helped banks to fund strong credit demand. Banks curtailed their overseas foreign currency borrowings while increasing their investments abroad in contrast to the trends of the previous year.

Reserve Money Survey

Reserve money growth at 20.4 per cent, y-o-y, as on October 20, 2006 was higher than that of 14.0 per cent a year ago (Chart 15). Growth of reserve money during 2006-07 so far has usually remained higher than a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations.



Growth of reserve money during 2006-07 (up to October 20, 2006) continued to be driven largely by expansion in the Reserve Bank's net foreign assets (NFA). The Reserve Bank's foreign currency assets (net of revaluation) have increased by Rs.42,544 crore during the fiscal year 2006-07 so far as compared with an increase of Rs.30,077 crore during the corresponding period of the previous year (Table 21 and Chart 16).

Mirroring the liquidity management operations, the Reserve Bank's holdings of Government securities increased by Rs.491 crore during 2006-07 (up to October 20) as against a decline of Rs.175 crore in the corresponding period of 2005-06. During 2006-07 (up to October 20), there was a decline of Rs.14,670 crore in Central Government deposits with the Reserve Bank. The

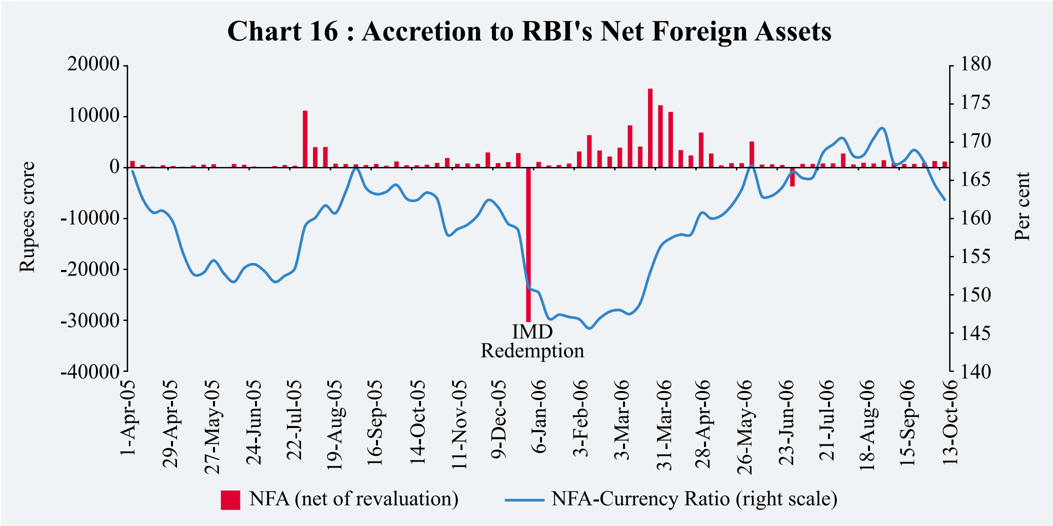
Table 21: Variation in Reserve Money

(Rupees crore)

	Variation during								
	2005-06 (April-March)	2005-06 (up to Oct.21)	2006-07 (up to Oct.20)	2005-06				2006-07	
				Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10
Reserve Money	83,930	23,320 (4.8)	43,884 (7.7)	7,177	1,062	25,440	50,251	14,533	18,551
Components (1+2+3)									
1. Currency in Circulation	62,015	21,877 (5.9)	38,262 (8.9)	19,877	-9,479	29,154	22,462	23,349	-2,134
2. Bankers' Deposits with RBI	21,515	3,289	7,047	-10,680	9,780	-2,967	25,382	-7,204	20,224
3. 'Other' Deposits with RBI	401	-1,846	-1,425	-2,021	761	-747	2,408	-1,613	461
Sources (1+2+3+4-5)									
1. RBI's net credit to Government	26,111	-240	11,988	9,275	-25,251	19,879	22,208	53	2,826
of which: to Centre (i+ii+iii+iv-v)	28417	5,073	15,029	14,600	-25,251	19,812	19,256	3,071	2,584
i. Loans and Advances	0	0	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	13,869	-175	491	8,221	-17,243	19,378	3,513	-27,610	24,944
iv. RBI's Holdings of Rupee Coins	7	116	-132	-40	-33	157	-77	9	-107
v. Central Government Deposits	-14,541	-5,133	-14,670	-6,419	7,974	-277	-15,820	-30,672	22,253
2. RBI's credit to banks and commercial sector	535	-1,325	-377	1,155	-1,869	101	1,148	-3,135	3,107
3. NFEA of RBI	60,193	25,475 (4.2)	77,310 (11.5)	-14,595	24,823	23,741	26,224	71,845	11,392
of which : FCA, adjusted for revaluation	68,834	30,077	42,544	5,034	23,665	11,998	28,137	28,107	10,948
4. Governments' Net Currency Liabilities to the Public	1,306	1,293	177	384	910	-100	112	146	31
5. Net Non-Monetary liabilities of RBI	4,215	1,884	45,214	-10,957	-2,449	18,180	-559	54,376	-1,194
Memo :*									
Net Domestic Assets	23,737	-2,155	-33,426	21,771	-23,761	1,700	24,027	-57,313	7,158
Reserve Bank's Primary Subscription to Dated Securities	10,000	0	0	0	0	0	10,000	0	0
LAF, Repos (+) / Reverse Repos (-)	12,080	3,350	8,730	9,660	-14,835	18,635	-1,380	-23,060	28,395
Net Open Market Sales #	3,913	2,588	2,945	1,543	941	261	1168	1,536	1,176
Mobilisation under MSS $	-35,149	5,037	11,860	7,469	-4,353	-19,713	-18,552	4062	8,940
Net Purchases(+)/Sales(-) from Authorised Dealers	32,884	17,027	21,545 @	0	17,027	0	15,857	21,545	0 @
NFEA/RM (per cent) (end-period)	117.4	124.6	121.6	120.5	125.3	123.7	117.4	126.6	124.8
NFEA/Currency (per cent) (end-period)	156.3	163.4	160.0	154.0	164.4	158.4	156.3	164.1	167.3

NFEA : Net Foreign Exchange Assets. FCA : Foreign Currency Assets. @ : up to end-August 2006.
* : At face value. # : Excludes Treasury Bills $: Adjusted for Centre's surplus investment.

Note : 1. Data are based on March 31 for Q4 and last reporting Friday for all other quarters.
2. Figures in parentheses are percentage variations during the fiscal year.



Reserve Bank's net credit to the Centre, therefore, increased by Rs.15,029 crore during the fiscal year 2006-07 (up to October 20) as compared with an increase of Rs.5,073 crore during the corresponding period of 2005-06 (see Table 21).

Liquidity Management

Liquidity conditions largely remained comfortable during the first half of 2006-07. During the first quarter, unwinding of the Centre's surplus balances with the Reserve Bank and the Reserve Bank's purchase of foreign exchange from authorised dealers led to increase in liquidity of the banking system, which was mirrored in the amounts accepted under LAF reverse repos. Liquidity conditions during the second quarter of 2006-07 continued to remain comfortable till mid-September notwithstanding some build-up of Centre's surplus balances with the Reserve Bank during August 2006. Consequently, the balances under LAF reverse repos witnessed some decline during the second quarter. Liquidity conditions turned tight from the second half of September 2006 on account of advance tax outflows and festival season currency demand amidst high credit off-take. During the second quarter, the Reserve Bank injected liquidity through repos on two occasions only (Rs. 275 crore on September 15, 2006 and Rs. 5,010 crore on September 29, 2006). During October 2006 (up to October 23), the Reserve Bank provided liquidity to some market participants through repos on four occasions (Rs. 35 crore on October 13, Rs. 1,000 crore on October 19, Rs. 1,585 crore on October 20 and Rs. 1,465 crore on October 23). However, there was net injection of liquidity through LAF only on October 20 and October 23, 2006. On an average, the Reserve Bank absorbed liquidity through net reverse repos to the extent of Rs. 36,857 crore during July-September 2006 as compared with Rs. 51,490 crore during the previous quarter. Liquidity is also being absorbed through the MSS,

Table 22: Phases of Reserve Bank's Liquidity Management Operations

(Rupees crore)

Item	Variations during					
	2005-06 (April-March)	2006-07				
		Q1	Q2	July	August	September
1	2	3	4	5	6	7
A. Drivers of Liquidity (1+2+3+4)	**-31,719**	**35,506**	**-15,837**	**1,290**	**-10,228**	**-6,900**
1. RBI's Foreign Currency Assets (adjusted for revaluation)	68,834	28,517	10,538	2,942	2,958	4,638
2. Currency with the Public	-57,280	-21,454	-89	1,713	-1,645	-156
3. Surplus Cash balances of the Centre with the Reserve Bank	-22,726	40,206	-26,199	-149	-18,020	-8,030
4. Others (residual)	-20,547	-11,762	-88	-3,216	6,481	-3,351
B. Management of Liquidity (5+6+7+8)	**57,969**	**-39,002**	**32,026**	**-7,265**	**16,871**	**22,421**
5. Liquidity impact of LAF Repos	12,080	-35,315	40,650	-1,590	20,170	22,070
6. Liquidity impact of OMO (Net) *	10,740	545	145	25	70	50
7. Liquidity impact of MSS	35,149	-4,232	-8,769	-5,700	-3,369	301
8. First round liquidity impact due to CRR change	0	0	0	0	0	0
C. Bank Reserves (A+B) #	**26,250**	**-3,496**	**16,188**	**-5,975**	**6,643**	**15,521**

(+) : Indicates injection of liquidity into the banking system.
(-) : Indicates absorption of liquidity from the banking system.
: Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.
* : Adjusted for Consolidated Sinking Funds (CSF) and Other Investments and including private placement.
Note : Data pertain to March 31 and last Friday for all other months.

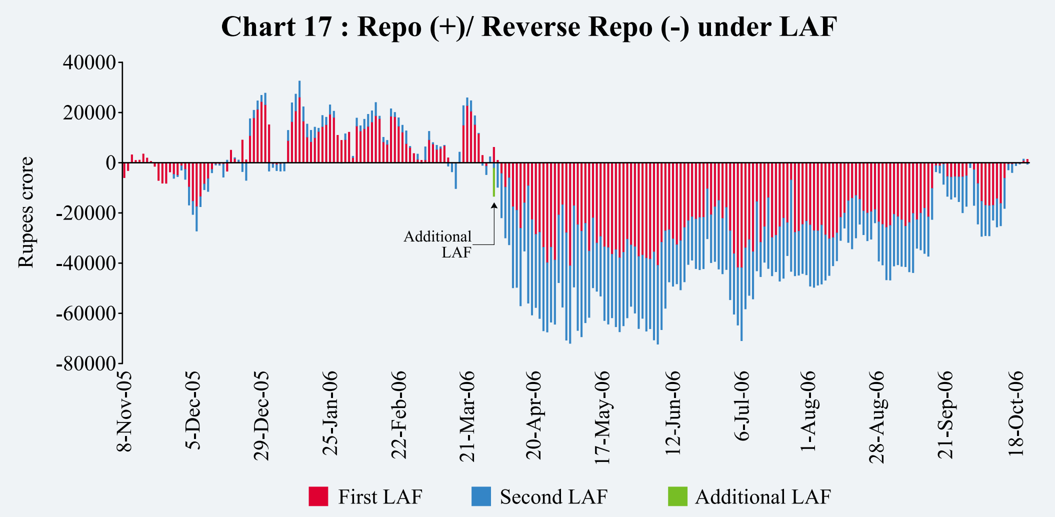
following the reintroduction of issuances under the MSS effective May 3, 2006 (Tables 22 and 23).

Table 23: Liquidity Management

(Rupees crore)

Outstanding as on last Friday of	LAF	MSS	Centre's Surplus with the RBI @	Total (2 to 4)
1	2	3	4	5
2005				
January	14,760	54,499	17,274	86,533
February	26,575	60,835	15,357	102,767
March*	19,330	64,211	26,102	109,643
April	27,650	67,087	6,449	101,186
May	33,120	69,016	7,974	110,110
June	9,670	71,681	21,745	103,096
July	18,895	68,765	16,093	103,753
August	25,435	76,936	23,562	125,933
September	24,505	67,328	34,073	125,906
October	20,840	69,752	21,498	112,090
November	3,685	64,332	33,302	101,319
December	-27,755	46,112	45,855	64,212
2006				
January	-20,555	37,280	39,080	55,805
February	-12,715	31,958	37,013	56,256
March	7,250	29,062	48,828	85,140
April	47,805	24,276	5,611	77,692
May	57,245	27,817	0	85,062
June	42,565	33,295	8,621	84,481
July	44,155	38,995	8,770	91,920
August	23,985	42,364	26,791	93,140
September	1,915	42,064	34,821	78,800
October $	-1,480	40,922	29,711	69,153

@ : Excludes minimum cash balances with the Reserve Bank. * : Data pertain to March 31.
$: As on October 20, 2006.
Note : Negative sign in column 2 indicates injection of liquidity through LAF repo.



An analysis of the recourse by market participants to the second LAF vis-a-vis the first LAF shows that (i) recourse to second LAF was relatively small during the phase of liquidity injection between November 2005 and March 2006, and (ii) with the easing of liquidity conditions, there was a significant recourse to the second LAF during April-September 2006. The daily average absorption under the second LAF during the first quarter of 2006-07 at Rs. 26,860 crore exceeded that of Rs.24,631 crore in the first LAF. The daily average absorption under the second LAF during the second quarter of 2006-07 (Rs. 16,538 crore) remained large, *albeit* lower than the first LAF (Rs. 20,319 crore) (Chart 17 and Table 24).

Table 24: Dynamics of First and Second LAF

(Amount in Rupees crore)

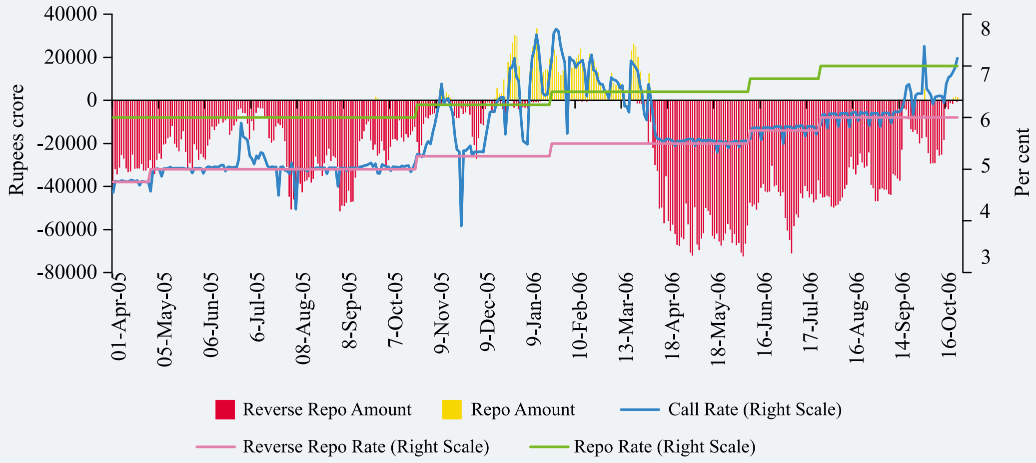
	Average daily LAF Operations (net)	Average daily First LAF Operations (net)	Average daily Second LAF Operations (net)	Share of First LAF in Total LAF (per cent)	Share of Second LAF in Total LAF (per cent)
1	2	3	4	5	6
December 2005	-1,452	654	-2,106	64.6	35.4
January 2006	15,386	12,938	2,447	72.9	27.1
February 2006	13,532	10,850	2,682	74.9	25.1
March 2006@	6,319	5,520	799	54.1	45.9
April 2006	-46,088	-18,480	-27,608	41.1	58.9
May 2006	-59,505	-29,600	-29,905	49.7	50.3
June 2006	-48,611	-25,647	-22,964	52.8	47.2
July 2006	-48,027	-26,486	-21,541	55.2	44.9
August 2006	-36,326	-21,677	-14,649	59.7	40.3
September 2006	-25,862	-12,544	-13,318	47.8	52.2

@ : Additional LAF conducted on March 31, 2006 has been shown under second LAF.

Note : (+) indicates injection of liquidity through LAF repos while (-) indicates absorption of liquidity through LAF reverse repos.

Reflecting the comfortable liquidity conditions, call rates generally remained close to the reverse repo rate during the first half of 2006-07 (Chart 18). During the second quarter of 2006-07, the call rates edged upwards from July 25, 2006 onwards in consonance with the increase of 25 basis points each in the reverse repo rate and the repo rate. Call rates edged higher in the second half of September 2006, as there was some moderation in surplus liquidity due to advance tax outflows and festival season currency demand. Call rates reached 7.38 per cent as on September 29, 2006 but eased to around 6.50 per cent in early October 2006. Call rates again edged higher in the third week of October 2006. Call rate was at 7.15 per cent on October 23, 2006.

Chart 18 : Liquidity Adjustment Facility and Call Rate



IV. PRICE SITUATION

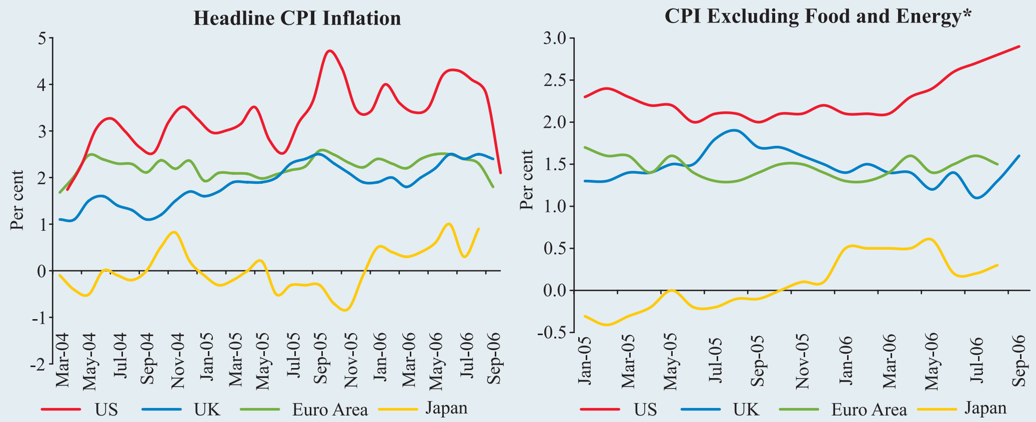
Headline inflation remained at elevated levels till August 2006 in major advanced economies against the backdrop of high international crude oil prices. There was some easing during September 2006 on the back of softening of oil prices; core inflation, however, remains firm. Many central banks continued with pre-emptive monetary tightening to abate the second round effects of soaring oil prices, especially in the face of strong demand. In August 2006, the European Central Bank (ECB), the Bank of England, the Reserve Bank of Australia, the Bank of Korea, the Bank of Israel and the South African Reserve Bank raised their policy rates. The ECB and the South African Reserve Bank raised their policy rates again in October 2006. The US Fed, however, has left its rates unchanged since end-June 2006.

In India, headline inflation has largely remained contained during 2006-07 so far. Primary food articles prices have emerged as the key driver of inflation. Wholesale price inflation was 5.2 per cent on October 7, 2006 as compared with 4.1 per cent at end-March 2006. Pre-emptive monetary and fiscal measures have helped in containing inflationary expectations although underlying inflationary pressures remain.

Global Inflation

Headline inflation remained firm up to August 2006 in major advanced economies in tandem with the movements in international crude oil prices; there was, however, some easing during September 2006 on the back of base effects as well as the sharp decline in international crude oil prices (Chart 19). Consumer price

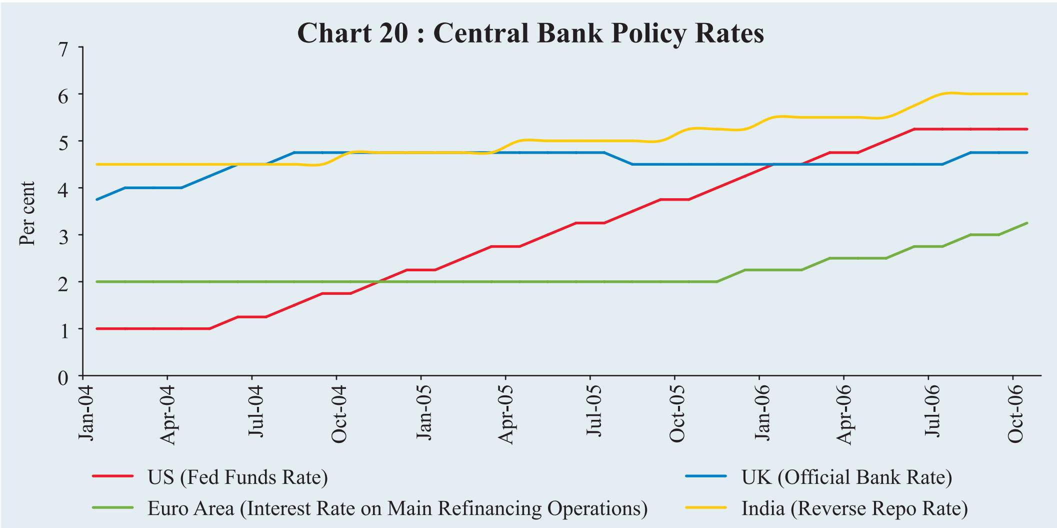
Chart 19 : Consumer Price Inflation



* : Data for Japan is excluding fresh food only.
Source: International Financial Statistics and official websites of respective countries.

inflation in the OECD countries, as a whole, increased from 2.5 per cent in March 2006 to 3.2 per cent in June 2006 before moderating marginally to 3.0 per cent in August 2006. Headline inflation in the US reached 4.3 per cent in June 2006 before easing sharply to 2.1 per cent in September 2006 largely due to the softening of international crude oil prices as well as the favourable base effects of higher fuel prices a year ago. Similarly, in the euro area, inflation remained above the target of 'below but close to 2.0 per cent' till August 2006 (2.3 per cent). It moderated to 1.8 per cent in September 2006. However, core inflation, which had till recently remained relatively stable, has shown signs of some increase. Many central banks, therefore, tightened monetary policy during the second quarter of 2006-07 in order to contain inflation and inflationary expectations, especially in view of continued strength of demand and possible stronger pass-through of previous increases in oil prices.

The US Fed, after having raised its target federal funds rate by 25 basis points on 17 successive occasions between June 2004 and June 2006 – a cumulative increase of 425 basis points since the tightening began in June 2004 – paused at each of its three meetings held since end-June 2006 (Chart 20). Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a cooling of the housing market. Although core inflation has been elevated in recent months, and the high level of resource utilisation has the potential to sustain inflation pressures, the Fed sees inflation pressures likely to moderate over time reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand. The FOMC has indicated that the extent and timing of any additional firming that may be needed to address the inflation risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.



As regards the euro area, notwithstanding some easing in inflation in September 2006, risks to the price outlook are seen on the upside due to the possibility of stronger pass-through of past oil price rises, and additional increases in administered prices and indirect taxes along with stronger than currently expected wage developments. The European Central Bank (ECB), therefore, raised the key policy rate by 25 basis points each in August and October 2006 – a total increase of 125 basis points since December 2005 – to keep medium to long-term inflation expectations in the euro area anchored to levels consistent with price stability (Table 25). The ECB has indicated that it would resort to a progressive withdrawal of monetary accommodation if situation so warrants. In the UK, in view of strong economic activity, limited spare capacity, rapid growth of broad

Table 25: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate	Policy Rates (As on October 25, 2006)	Changes in Policy Rates (basis points)		CPI Inflation (y-o-y)		Growth (y-o-y)	
			Since end-March 2005	Since end-March 2006	2005 (Sept.)	2006 (Sept.)	2005 (Q2)	2006 (Q2)
1	2	3	4	5	6	7	8	9
Developed Economies								
Australia	Cash Rate	6.00 (Aug. 2)	50	50	3.0	3.9	2.6	1.9
Canada	Overnight Rate	4.25 (May 24)	175	50	3.4	0.7	2.7	2.9
Euro area	Interest Rate on Main Refinancing Operations	3.25 (Oct. 5)	125	75	2.6	1.8	1.5	2.4
Japan	Uncollateralised Overnight Call Rate	0.25 (July 14)	**	25	-0.3	0.9 *	2.6	2.5
UK	Official Bank Rate	4.75 (Aug. 3)	0	25	2.5	2.4	1.7	2.6
US	Federal Funds Rate	5.25 (June 29)	250	50	4.7	2.1	3.1	3.5
Developing Economies								
Brazil	Selic Rate	13.75 (Oct. 18)	(-)550	(-)275	6.1	3.7	3.8	1.2
India	Reverse Repo Rate	6.00 (July 25)	125	50	3.4	6.3 *	8.5	8.9
Indonesia	BI Rate	10.75 (Oct. 5)	225 ^	(-)200	9.1	14.5	5.6	5.2
Israel	Key Rate	5.25 (Oct. 23)	175	50	1.9	1.3	4.8	6.2
Korea	Overnight Call Rate	4.50 (Aug. 10)	125	50	2.7	2.4	4.5	4.6 @
Philippines	Reverse Repo Rate	7.50 (Oct. 20, 2005)	75	0	7.0	5.7	4.8	5.5
South Africa	Repo Rate	8.50 (Oct. 13)	100	150	4.0	5.4 *	4.5	3.6
Thailand	14-day Repurchase Rate	5.00 (June 7)	275	50	6.0	2.7	4.6	4.9

*: August. ^: Change since July 2005. @: Third Quarter.

** : The Bank of Japan decided on March 9, 2006 to change the operating target of money market operations from the outstanding balance of current accounts at the Bank to the uncollateralised overnight call rate.

Note : 1. Indian data on inflation pertain to CPI for Industrial Workers.

2. Figures in parentheses in column (3) give the date when the policy rates were last revised.

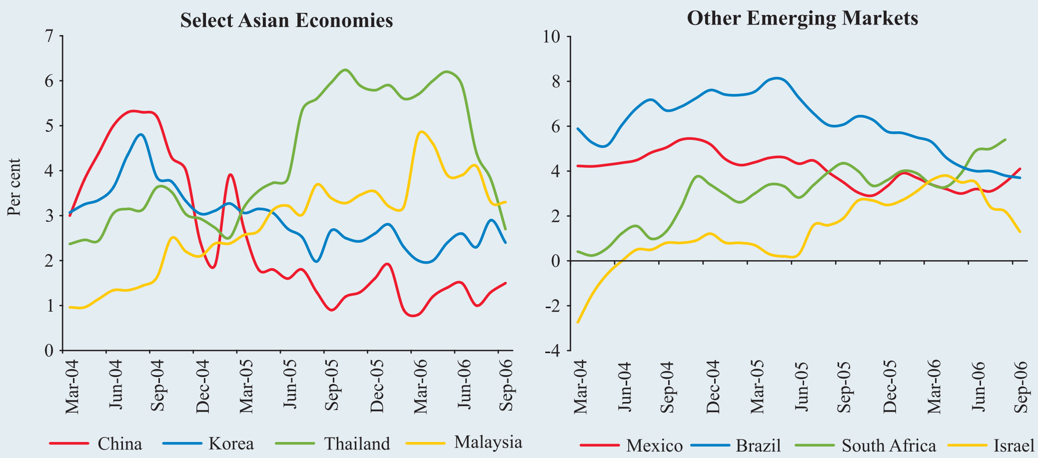
Source : International Monetary Fund, websites of respective central banks and the Economist.

money and credit, and expectations about inflation remaining above the target, the Bank of England – after keeping the policy rate unchanged for almost a year – raised its policy rate by 25 basis points to 4.75 per cent on August 3, 2006.

In Japan, the Bank of Japan (BoJ) expects the economy to expand for a sustained period and the year-on-year change in the consumer prices is also projected to continue to follow a positive trend. Accordingly, after maintaining zero interest rates for an extended period, the BoJ, on July 14, 2006, increased the uncollateralised overnight call rate (adopted as the operating target of monetary policy since March 2006) by 25 basis points. The Reserve Bank of Australia also raised its policy rate by 25 basis points each in May 2006 and August 2006 to 6.0 per cent in response to strong economic activity and underlying inflation pressures.

As regards emerging Asia, inflation remains relatively modest in a number of economies reflecting both pre-emptive monetary tightening as well as appreciation of the exchange rates. In view of inflationary pressures seen from strong economic recovery and high oil prices, the Bank of Korea raised the policy rate by 25 basis points each in June and August 2006 to 4.50 per cent – a total increase of 125 basis points since the tightening began in October 2005. Despite strong growth, consumer price inflation in China remains low (1.3 per cent in August 2006, same level as a year ago) as higher prices of foodgrains, fruits and residence were offset by lower prices of poultry and its products (Chart 21). In view of stronger growth in money supply and credit, however, the People's Bank of China increased the benchmark 1-year lending rate by 27 basis points each in April 2006 and August 2006. It has also raised the cash reserve ratio by 50 basis points each effective July 5, 2006 and August 15, 2006 to 8.5 per cent. On the other hand, after raising the policy rate by 275 basis points between June 2005

Chart 21 : Consumer Price Inflation - Emerging Market Economies



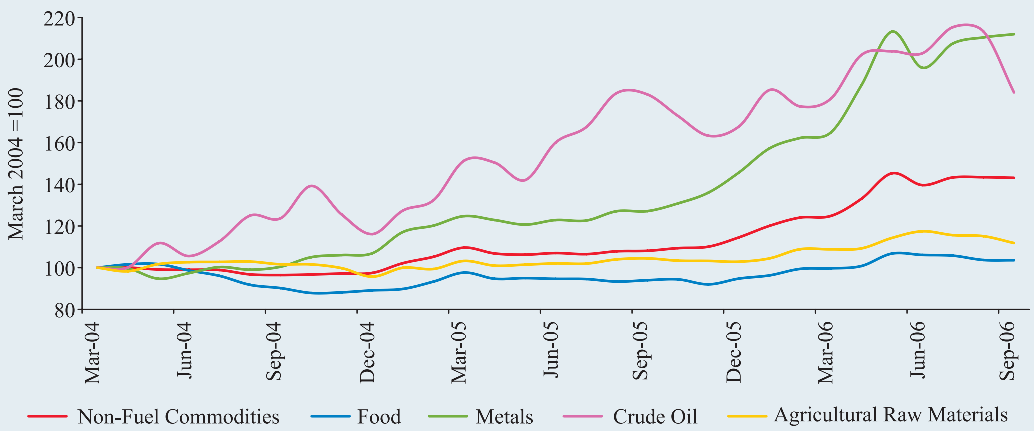
and June 2006, Thailand has kept its policy rate unchanged thereafter as core inflation remains within the target range. In Indonesia, the policy rate has been cut by 200 basis points since May 2006 to 10.75 per cent to support growth. The Bank Indonesia had raised policy rates by 425 basis points during July-December 2005. Inflation still remains high reflecting the oil price pass-through, although there has been some moderation from its recent peak of 18.4 per cent in November 2005 to 14.5 per cent in September 2006.

Amongst other emerging economies, South Africa – after having kept policy rates unchanged since April 2005 – raised the policy rates by 50 basis points each in June, August and October 2006 to 8.5 per cent to control inflationary pressures emanating from persistent petrol price increases and currency depreciation. Turkey increased its policy rate by 425 basis points during June-July 2006 as inflation rate significantly exceeded the target path and on concerns over the possible pass-through effect of the exchange rate movements arising from the volatility in international financial markets. On the other hand, in view of weak economic activity, Brazil has reduced policy rates on eleven occasions (by 600 basis points) since September 2005 to 13.75 per cent on October 18, 2006. The Bank of Israel also cut its policy rate by 25 basis points on October 23, 2006, after having raised rates by 200 basis points between October 2005 and August 2006.

Global Commodity Prices

During the quarter ended September 2006, metals prices remained firm largely reflecting strong demand on the back of robust growth in emerging economies, especially China (Chart 22). Prices of wheat have edged higher, largely reflecting shortfall in global production. Prices of edible oils have also increased

Chart 22: International Commodity Prices



Source: International Monetary Fund.

in recent months. Crude oil and sugar prices, on the other hand, eased during the quarter ended September 2006.

Despite some deceleration in growth in global oil demand, international crude oil prices firmed up till mid-August 2006 reflecting limited spare capacity and geo-political uncertainties (Table 26). WTI prices reached a high of US $ 75.3 a barrel on April 21, 2006 reflecting renewed concerns over Iran's nuclear programme and unrest in Nigeria. Prices eased marginally in subsequent weeks to around US $ 70 a barrel, partly on concerns of slowdown in demand in view of further monetary tightening. However, they again edged higher on concerns of geo-political uncertainties in the Middle East and reached a new record high of US $ 78.4 a barrel on July 14, 2006.

After hovering around US $ 75 a barrel during July 2006 and the first half of August 2006, prices eased sharply to reach around US $ 60 a barrel in the second half of September 2006 – the lowest in the past six months – on the back of signs of possible slowdown of the US economy, increased US stocks and easing of tensions over Iran's nuclear programme. Prices fell below US $ 60 a barrel in early October 2006 on the back of substantial build up of US inventories. Although prices have eased significantly over the past one month, they still remain quite high. Moreover, it is uncertain as to whether this recent fall will be sustained in view of limited spare global crude oil production capacity and tight supply-demand balance (Table 27). Furthermore, in view of the decline in oil prices, the

Table 26: International Crude Oil Prices

(US dollars per barrel)

Year/Month	Dubai Crude	UK Brent	US WTI	Average Crude Price	Indian Basket Price
1	2	3	4	5	6
2001-02	21.8	23.2	24.1	23.0	22.4
2002-03	25.9	27.6	29.2	27.6	26.6
2003-04	26.9	29.0	31.4	29.1	27.8
2004-05	36.4	42.2	45.0	41.3	38.9
2005-06	53.4	58.0	59.9	57.1	55.4
March 2004	30.5	33.8	36.7	33.7	31.9
March 2005	45.6	53.1	54.2	50.9	48.8
March 2006	57.7	62.3	62.9	60.9	59.6
April 2006	64.1	70.4	69.5	68.0	66.8
May 2006	64.9	70.2	70.9	68.7	67.2
June 2006	65.1	68.9	70.9	68.3	66.7
July 2006	69.1	73.9	74.4	72.5	71.1
August 2006	68.8	73.6	73.0	71.8	70.9
September 2006	59.8	62.8	63.8	62.1	61.1
January-September 2006 (Average)	62.8	67.3	68.1	66.0	64.7

Source : International Monetary Fund and the World Bank.

Table 27: World Supply-Demand Balance of Oil

(Million barrels per day)

Item	2003	2004	2005	2006 (P)	2007 (P)	2006			
						Q1	Q2 P	Q3 P	Q4 P
1	2	3	4	5	6	7	8	9	10
Demand									
1. OECD	48.7	49.5	49.4	49.3	49.7	50.0	47.9	49.1	50.1
2. Non-OECD	31.2	33.0	34.4	35.7	36.8	35.1	35.2	35.5	36.9
of which: China	5.6	6.5	6.9	7.4	7.9	7.2	7.3	7.4	7.6
3. Total (1+2)	79.9	82.5	83.8	85.0	86.5	85.1	83.1	84.6	87.0
Supply									
4. Non-OPEC	48.9	50.1	50.2	50.9	52.1	50.4	50.6	51.0	51.5
5. OPEC	30.7	32.9	34.2	33.8	34.4	33.9	33.6	34.0	33.8
6. Total (4+5)	79.6	83.1	84.4	84.7	86.5	84.4	84.3	85.0	85.3
Stock Changes	0.3	-0.6	-0.5	0.2	0.0	0.8	-1.1	-0.4	1.7

P : Projections.
Source : US Energy Information Administration, October 2006.

Organisation of the Petroleum Exporting Countries (OPEC) has decided to reduce crude oil production by 1.2 million barrels per day effective November 1, 2006. The Energy Information Administration (EIA) of the US expects WTI prices to average US $ 63 a barrel in the fourth quarter of calendar 2006. Accordingly, the EIA expects prices to average US $ 66.9 per barrel in calendar year 2006, an increase of about 18 per cent over the price prevailing in 2005 (US $ 56.5 per barrel).

Prices of metals, led by copper, zinc and aluminium, firmed up sharply during April and early May 2006, reaching record highs/multi-year highs on the back of robust construction and manufacturing demand from China and the US, and supply constraints amidst growing investors' interest (Table 28). However, following the release of higher than anticipated US inflation data for April 2006, global metal prices witnessed correction in mid-May 2006 on fears that further tightening by the US might slow down demand for metals. Metals have recovered some of the losses since then. As a result, prices are still substantially higher than their levels a year ago – prices of copper and zinc during September 2006 were higher by about 98 per cent and 143 per cent, respectively, over September 2005 levels. International steel prices corrected in May 2006 but again edged higher during June-July 2006.

Wheat and rice prices have firmed up since the second half of 2005 due to lower production, higher demand from many countries in Asia, and a tightening of export availabilities in major exporting countries. The recent rise in international prices of wheat and rice comes after a period of some softness in the late 1990s. International prices of rice had eased from 1997 onwards and stabilised at around US $ 200 per tonne during 2000-2003. Since then,

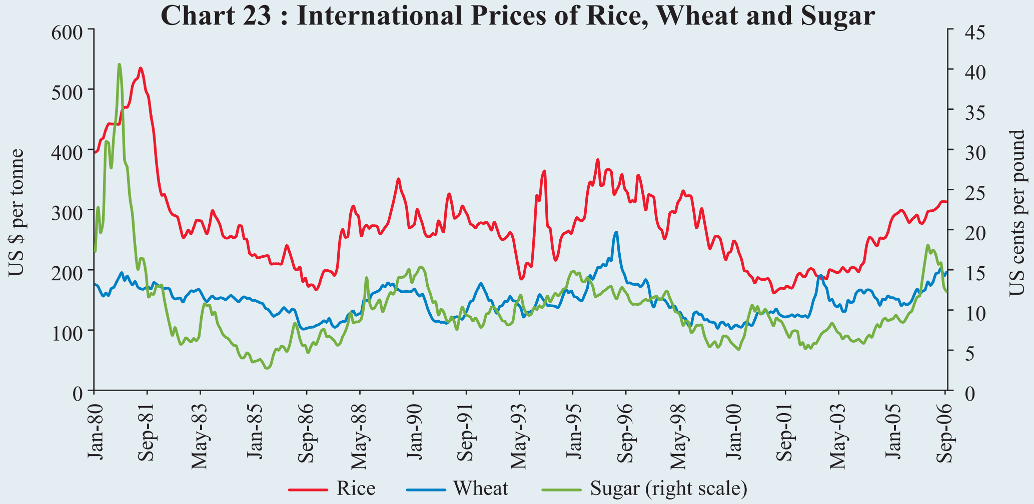
Table 28: International Commodity Prices

Commodity	Unit	2004	2005	2005 Jul-Sep	2006 Apr-Jun	2006 Jul-Sep	2006 Mar	2006 May	2006 Jun	2006 Aug	2006 Sep
1	2	3	4	5	6	7	8	9	10	11	12
Energy											
Coal	$/mt	53.0	47.6	48.4	52.6	50.3	49.7	52.6	52.4	50.9	47.3
Crude oil (Average)	$/bbl	37.7	53.4	60.0	68.3	68.8	60.9	68.7	68.3	71.8	62.1
Non-Energy Commodities											
Palm oil	$/mt	471.3	422.1	415.0	438.7	492.7	440.0	440.0	437.0	510.0	497.0
Soybean oil	$/mt	616.0	544.9	551.7	576.3	620.3	539.0	588.0	601.0	629.0	602.0
Soybeans	$/mt	306.5	274.7	278.3	263.7	263.6	256.0	266.0	267.0	262.0	257.0
Rice	$/mt	237.7	286.3	281.6	307.6	313.4	303.5	308.0	312.5	312.7	312.0
Wheat	$/mt	156.9	152.4	151.0	189.6	196.1	174.4	193.2	195.2	189.9	196.0
Sugar	c/kg	15.8	21.8	22.0	36.5	30.6	38.0	37.1	34.0	29.8	26.6
Cotton A Index	c/kg	136.6	121.7	120.4	121.8	128.4	129.3	120.2	121.5	132.1	131.0
DAP	$/mt	221.2	247.0	261.6	266.9	260.3	256.6	270.8	269.2	260.9	258.8
Urea	$/mt	175.3	219.0	211.7	228.1	210.4	244.1	227.8	208.2	213.7	215.3
Aluminium	$/mt	1716.0	1898.0	1829.0	2653.0	2482.0	2429.0	2861.0	2477.0	2460.0	2473.0
Copper	$/mt	2866.0	3679.0	3757.0	7210.0	7670.0	5103.0	8046.0	7198.0	7696.0	7602.0
Gold	$/toz	409.2	444.8	439.5	627.4	621.5	557.1	675.4	596.1	632.6	598.2
Silver	c/toz	669.0	734.0	709.0	1226.0	1169.0	1037.5	1337.8	1077.4	1225.0	1160.0
Steel products price index	1990=100	121.5	137.9	138.6	131.6	135.8	138.6	125.2	131.2	135.8	135.8
Steel cold-rolled coil/sheet	$/mt	607.1	733.3	750.0	666.7	700.0	750.0	600.0	650.0	700.0	700.0
Steel hot-rolled coil/sheet	$/mt	502.5	633.3	650.0	591.7	600.0	650.0	550.0	575.0	600.0	600.0
Tin	c/kg	851.3	738.0	704.7	852.9	865.3	794.0	883.7	789.6	850.2	903.9
Zinc	c/kg	104.8	138.1	129.7	329.2	336.3	241.7	356.6	322.6	334.7	340.3

$: US dollar c : US cent bbl: barrel mt : metric tonne kg : kilogram toz : troy oz.
Source : World Bank.

prices have edged higher to cross US $ 300, but still remain lower than the levels touched in mid-1990s. Similarly, prices of wheat, after remaining largely range-bound between 1998 and 2004, have edged higher from mid-2005 onwards (Chart 23). According to the latest assessment by Food and Agriculture Organisation (FAO), global cereal production is expected to decline by 1.6 per cent in 2006-07 mainly on account of decline of 4.6 per cent in wheat on the back of exceptionally hot and dry weather affecting crops in Australia, Argentina and Brazil; as a result, wheat stocks are expected to fall by 12.4 per cent by the end of 2006-07 season. Rice production, on the other hand, is expected to increase by 0.5 per cent. With utilisation recording a steady increase, stocks of cereals are estimated to fall to 421.7 million tonnes by the end of 2006-07 season – a decline of 10 per cent over the previous season. This is expected to keep prices of cereals, especially wheat, firm.

Chart 23 : International Prices of Rice, Wheat and Sugar



Prices of oilseeds and edible oils edged up till August 2006 due to strong consumption demand from China, and demand for non-food uses such as biodiesel from the EU and the US. Prices, however, fell to some extent in September 2006. International sugar prices, after having recorded large increase during January-February 2006, eased sharply during August-September 2006 on forecasts of higher global production during 2006-07. According to the International Sugar Organisation, global sugar production is estimated to increase by about 5 million tonnes to 155 million tonnes during 2006-07 (October-September) season, exceeding global consumption by 2.2 million tonnes. The continuing expansion in Brazil, the world's largest producer, along with likely higher production in India and recovery in the Far East is expected to more than offset the contraction in EU output. Notwithstanding the recent easing, prices of sugar in September 2006 were almost 14 per cent higher than their levels a year ago.

Inflation Conditions in India

Taking into account the real, monetary and global factors having a bearing on domestic prices, the Reserve Bank in its Annual Policy Statement for 2006-07 (April 2006) noted that containing inflationary expectations would continue to pose a challenge to monetary management. The policy endeavour would be to contain the year-on-year inflation rate for 2006-07 in the range of 5.0-5.5 per cent. Against the backdrop of widespread and simultaneous monetary policy tightening among several countries in early June 2006 following marked and heightened volatility in the international financial markets, and in the light of the prevailing domestic monetary and credit environment, the LAF reverse repo and repo rates were increased effective June 9, 2006 by 25 basis points each to

5.75 per cent and 6.75 per cent, respectively. In its First Quarter Review of the Annual Statement on Monetary Policy (July 2006), the Reserve Bank observed that containing inflation in the range of 5.0-5.5 per cent warrants appropriate priority in policy responses. Accordingly, the Reserve Bank raised the reverse repo rate and the repo rate by 25 basis points each to 6.00 per cent and 7.00 per cent, respectively, on July 25, 2006 while continuing to keep Bank Rate and cash reserve ratio unchanged (Table 29).

Inflation movements in 2006-07 have been driven largely by primary food articles prices. The impact of mineral oils, which have been the major driver of inflation over the past two years, petered out by early September 2006 on the back of base effects. Headline inflation remained within the indicative trajectory although underlying inflationary pressures continued. Inflation expectations remained largely stable, reflecting pre-emptive monetary policy and fiscal measures. The pass-through of international oil prices to domestic prices in a phased manner amidst the burden sharing strategy by oil companies as well as duty reductions also mitigated the immediate cost push impact of international crude oil prices. Furthermore, competitive pressures, corporate profitability and

Table 29: Movement in Key Policy Rates

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	Effective since	Bank Rate	Effective since	CRR
1	2	3	4	5	6	7
March 5, 2002	6.00	8.50	April 2, 2000	7.00	December 29, 2001	5.50
March 28, 2002	6.00	8.00	July 22, 2000	8.00	June 1, 2002	5.00
June 27, 2002	5.75	8.00	February 17, 2001	7.50	November 16, 2002	4.75
October 30, 2002	5.50	8.00	March 2, 2001	7.00	June 14, 2003	4.50
November 12, 2002	5.50	7.50	October 23, 2001	6.50	September 18, 2004	4.75
March 3, 2003	5.00	7.50	October 30, 2002	6.25	October 2, 2004	5.00
March 7, 2003	5.00	7.10	April 30, 2003	6.00		
March 19, 2003	5.00	7.00				
August 25, 2003	4.50	7.00				
March 31, 2004	4.50	6.00				
October 27, 2004	4.75	6.00				
April 29, 2005	5.00	6.00				
October 26, 2005	5.25	6.25				
January 24, 2006	5.50	6.50				
June 9, 2006	5.75	6.75				
July 25, 2006	6.00	7.00				

Note : With effect from October 29, 2004, nomenclature of repo and reverse repo has been interchanged as per international usage. Prior to that date, repo indicated absorption of liquidity while reverse repo meant injection of liquidity. The nomenclature in this Report is based on the new use of terms even for the period prior to October 29, 2004.

productivity gains in several sectors have enabled corporates to absorb a part of the higher input costs into their profit margins. This has partially helped in abating the second order effects of higher oil prices and contained manufactured products inflation.

Headline inflation, based on movement in the wholesale price index (WPI), eased initially to 3.7 per cent as on April 15, 2006 from 4.1 per cent at end-March 2006, reflecting partly the base effect of higher prices last year. Inflation rate edged up in May-June 2006 to reach 5.5 per cent on June 17, 2006 due to higher prices of petrol and diesel, vegetables, milk and metals. Subsequently, inflation moderated to reach 4.6 per cent as on July 15, 2006. It edged up again to 5.0 per cent during August 2006. Headline inflation moderated thereafter to 4.6 per cent on September 9, 2006 partly due to favourable base effects, but edged up to 5.2 per cent during the week ended October 7, 2006 reflecting higher electricity prices (Chart 24 and Table 30). The average WPI inflation rate eased to 4.5 per cent as on October 7, 2006 from 5.3 cent a year ago.

Prices of primary food articles led by wheat, pulses, fruits and milk have posed upward pressures on headline inflation during 2006-07 (Chart 25). Wheat prices have remained firm on the back of low stocks and high international prices. On a year-on-year basis, wheat prices have increased by 18 per cent as on October 7, 2006. Prices of pulses also edged higher (43 per cent) from last year's level reflecting stagnant domestic production as well as higher demand. Fruits and milk prices have increased by 9.3 per cent and 7.5 per cent, respectively. Vegetable prices have increased by about 57 per cent over end-March 2006 (63 per cent increase during the corresponding period of the previous fiscal), reflecting the seasonal hardening patterns. Overall, prices of primary articles have increased

Chart 24 : Annual WPI Inflation

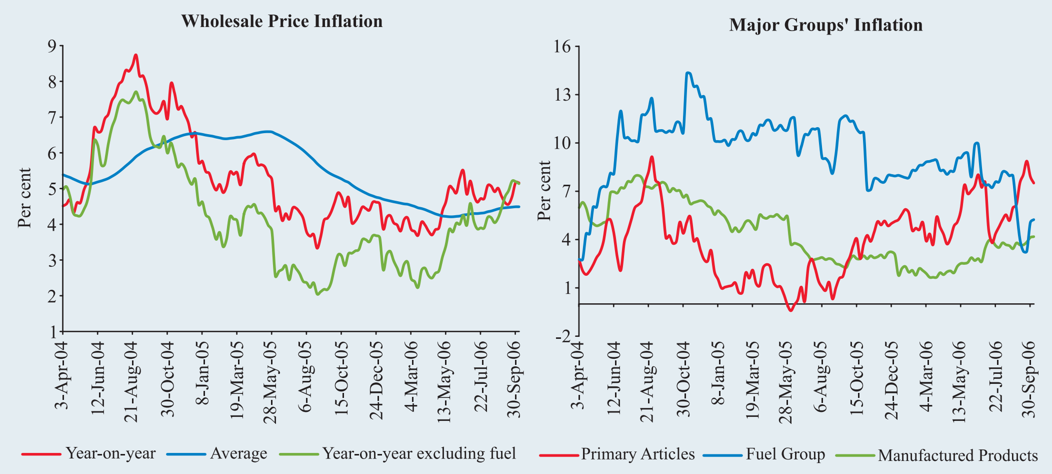


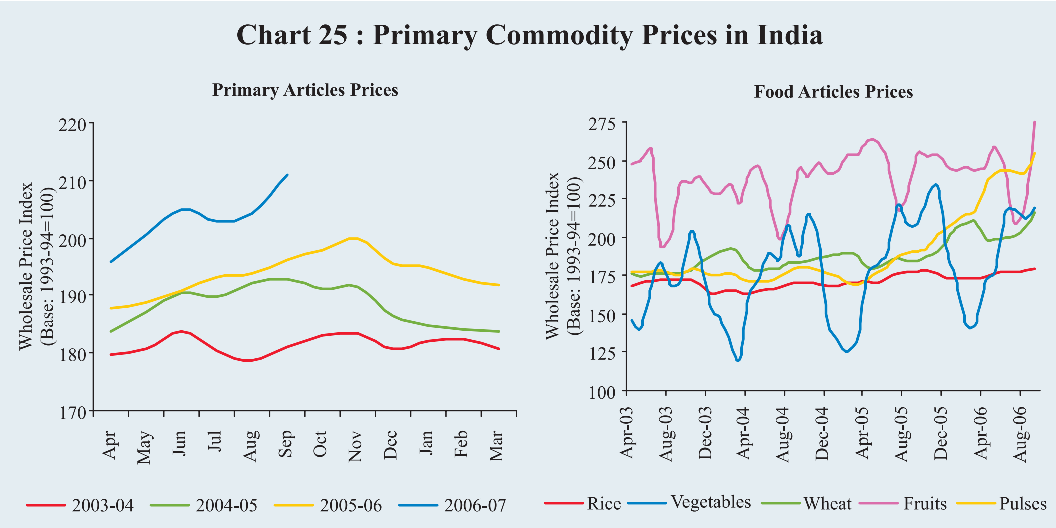
Table 30: Wholesale Price Inflation in India (year-on-year)

(Per cent)

Commodity	Weight	2005-06 (March 25) Inflation	2005-06 (March 25) WC	2005-06 (Oct. 8) Inflation	2005-06 (Oct. 8) WC	2006-07 P (Oct. 7) Inflation	2006-07 P (Oct. 7) WC
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**4.1**	**100.0**	**4.9**	**100.0**	**5.2**	**100.0**
1. Primary Articles	**22.0**	**5.4**	**28.3**	**3.6**	**16.5**	**7.5**	**32.0**
Food Articles	15.4	6.6	24.2	4.9	15.6	8.6	25.8
i. Rice	2.4	2.7	1.4	4.8	2.2	1.2	0.5
ii. Wheat	1.4	12.9	4.3	1.4	0.4	18.0	4.5
iii. Pulses	0.6	33.2	4.4	5.5	0.6	42.9	4.8
iv. Vegetables	1.5	8.1	2.1	5.2	1.7	4.0	1.2
v. Fruits	1.5	-1.0	-0.5	7.3	2.7	9.3	3.3
vi. Milk	4.4	1.9	1.9	0.4	0.4	7.5	5.9
vii. Eggs, Fish and Meat	2.2	14.3	7.9	15.8	7.2	0.5	0.2
Non-Food Articles	6.1	-1.9	-2.7	-2.9	-3.6	2.5	2.8
i. Raw Cotton	1.4	-1.4	-0.4	-11.8	-2.8	9.3	1.8
ii. Oilseeds	2.7	-7.8	-4.5	-5.5	-2.9	-1.4	-0.7
iii. Sugarcane	1.3	0.7	0.3	0.6	0.2	0.7	0.2
Minerals	0.5	43.6	6.8	30.9	4.4	19.8	3.3
2. Fuel, Power, Light and Lubricants	**14.2**	**8.9**	**47.9**	**11.3**	**49.3**	**5.2**	**22.9**
i. Mineral Oils	7.0	13.2	39.8	18.0	43.2	5.6	14.4
ii. Electricity	5.5	4.5	8.2	3.8	5.7	6.0	8.5
iii. Coal Mining	1.8	0.0	0.0	0.7	0.3	0.0	0.0
3. Manufactured Products	**63.8**	**1.7**	**23.2**	**3.0**	**34.6**	**4.2**	**45.0**
i. Food Products	11.5	0.9	2.2	1.0	2.3	2.5	5.1
of which: Sugar	3.6	6.6	4.9	10.6	6.1	3.8	2.2
Edible Oils	2.8	-2.4	-1.3	-7.8	-3.7	5.3	2.1
ii. Cotton Textiles	4.2	1.1	1.0	-12.4	-9.8	6.5	4.1
iii. Man Made Fibres	4.4	-4.6	-2.5	-4.4	-2.1	4.1	1.6
iv. Chemicals and Chemical Products	11.9	3.6	10.2	3.8	8.9	2.2	4.9
of which : Fertilisers	3.7	0.3	0.2	3.1	2.1	0.9	0.5
v. Basic Metals, Alloys and Metal Products	8.3	-2.9	-6.7	8.2	15.3	6.0	11.0
of which: Iron and Steel	3.6	-7.5	-8.7	8.9	8.4	0.2	0.2
vi. Non-Metallic Mineral Products	2.5	8.6	4.7	8.4	3.6	12.6	5.3
of which: Cement	1.7	13.0	4.8	10.4	3.0	18.2	5.1
vii. Machinery and Machine Tools	8.4	3.9	6.1	5.8	7.4	3.9	4.8
viii. Transport Equipment and Parts	4.3	1.2	1.1	2.6	1.9	2.4	1.6
Memo:							
Food Items (Composite)	**26.9**	**4.2**	**26.5**	**3.3**	**17.8**	**6.2**	**30.9**
WPI Excluding Food	**73.1**	**4.0**	**73.5**	**5.4**	**82.2**	**4.8**	**69.1**
WPI Excluding Fuel	**85.8**	**2.7**	**52.1**	**3.1**	**50.7**	**5.1**	**77.1**

WC : Weighted Contribution.

by 9.6 per cent since end-March 2006 (7.5 per cent a year ago) and, by 7.5 per cent on a y-o-y basis (3.6 per cent a year ago). Accordingly, the contribution of primary articles to headline inflation increased to about 32 per cent as on October 7, 2006 from around 17 per cent a year ago. In order to improve domestic supplies

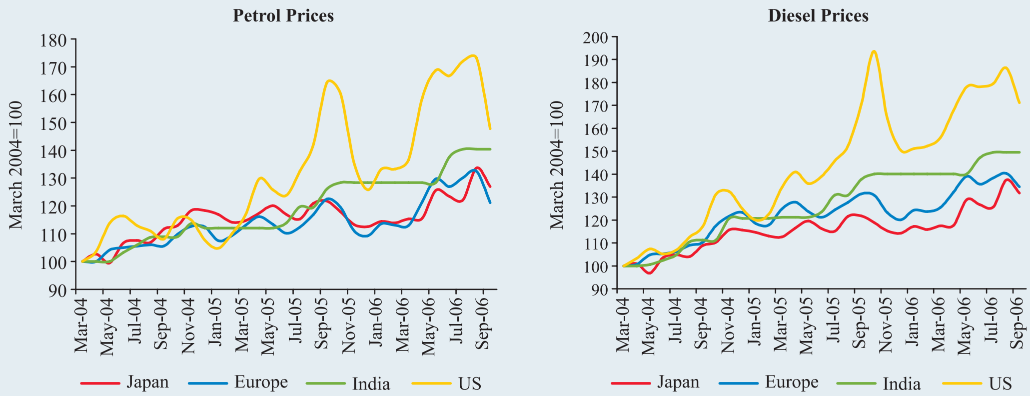


so as to stabilise inflation expectations, the Government, during June and August 2006, took fiscal measures such as exempting imports of pulses and sugar from customs duty (till March 31, 2007 and September 30, 2006, respectively), allowing import of wheat (initially at a concessional rate of 5 per cent customs duty and, effective September 2006, at zero duty till end-December 2006), reduction in customs duty on palm oil (from 80-90 per cent to 70-80 per cent) and restriction on exports of pulses.

Fuel prices dominated the inflation outcome till end-August 2006, notwithstanding the incomplete pass-through. In view of sustained rise in international crude oil prices, domestic petrol and diesel prices were increased by about Rs. 4 (around nine per cent) and Rs.2 (around 6 per cent), respectively, effective June 6, 2006. Apart from raising oil prices, the Government also announced the following measures: i) reduction in customs duty on petrol and diesel to 7.5 per cent from the existing 10.0 per cent, and ii) issuance of oil bonds worth Rs.28,000 crore (over and above Rs.11,500 crore issued during 2005-06) to oil marketing companies to compensate for their under-recoveries in domestic operations.

Fuel group inflation rose to a peak of 9.9 per cent, y-o-y, on June 17, 2006 under the impact of the rise in domestic petrol and diesel prices on June 6, 2006 (Chart 26). Subsequently, the fuel group's inflation rate, however, moderated to 3.3 per cent, y-o-y, as on September 16, 2006, mainly due to the base effects; domestic prices of petrol and diesel, it may be recalled, were increased by 6-7 per cent a year ago (September 7, 2005). Reduction in domestic prices of freely-priced petroleum products such as naphtha and furnace oil in September 2006 following the decline in international crude oil prices also reduced fuel group

Chart 26 : Oil Price Movements

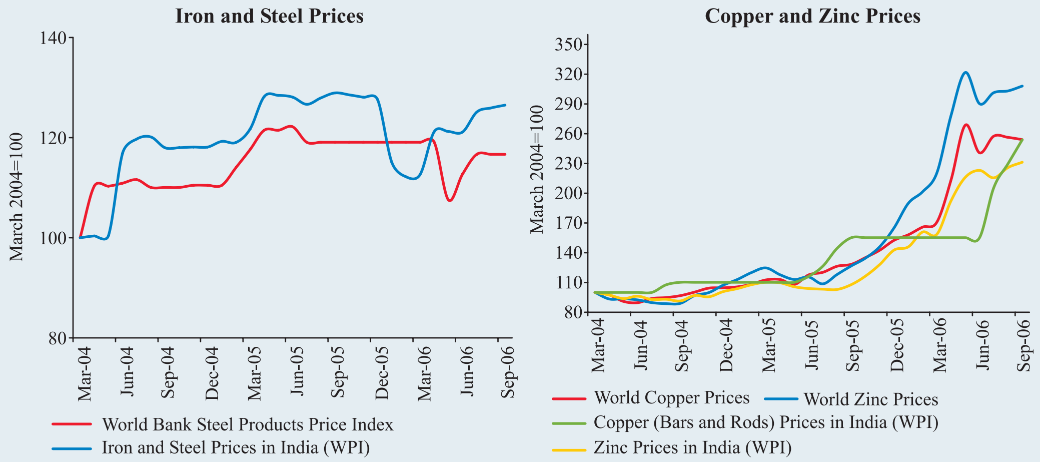


Note: Europe includes France, Germany, Italy, Spain and the United Kingdom.
Source: International Energy Agency.

inflation. Accordingly, the y-o-y WPI inflation excluding the fuel group in the week ended September 9, 2006 exceeded – after a gap of nearly 29 months – the headline inflation rate (see Chart 24). The upward revision in electricity prices pushed fuel group's inflation to 5.2 per cent during the week ended October 7, 2006. The y-o-y inflation excluding the fuel group at 5.1 per cent as on October 7, 2006 was marginally lower than the headline rate. In evaluating movements in fuel group inflation, it may be noted that the pass-through of higher international oil prices has been restricted to petrol and diesel. Domestic prices of liquefied petroleum gas (LPG) have remained unchanged since November 2004 while kerosene prices have been unchanged since April 2002 on grounds of social concerns.

Manufactured products inflation has remained relatively moderate so far, although it has edged higher to 4.2 per cent, y-o-y, as on October 7, 2006 from 3.0 per cent a year ago. Competitive pressures, productivity gains as well as strong corporate profitability have provided firms the flexibility to absorb higher input prices into their profit margins. Furthermore, pre-emptive monetary actions by anchoring inflation expectations have restrained the second order effects of past increases in oil prices to manufactured products prices. Manufactured products inflation was led by metals, textiles and cement. Non-ferrous metal prices have moved in line with international trends (Chart 27). Illustratively, domestic prices of copper and zinc have increased, y-o-y, by about 64 per cent and 97 per cent, respectively, as on October 7, 2006. In contrast, iron and steel prices have increased marginally by 0.2 per cent, y-o-y, as on October 7, 2006 as compared with an increase of 8.9 per cent a year ago; however, since March 2006 the prices have increased sharply (14.2 per cent) in tandem

Chart 27 : Metals Prices



with international price movements. Domestic sugar prices have eased in recent months in line with global trends.

In brief, primary articles' contribution to the overall y-o-y inflation increased to 32 per cent (from 17 per cent a year ago) mainly due to higher prices of wheat, pulses, milk and fruits (Chart 28). Manufactured products group's contribution was higher at 45 per cent (35 per cent), largely on account of an increase in prices of metals, cement and textiles. The contribution of fuel prices to the y-o-y headline inflation, on the other hand, fell to 23 per cent as on October 7, 2006 from 49 per cent a year ago.

Chart 28 : Major Groups' Weighted Contribution to WPI Inflation (year-on-year)

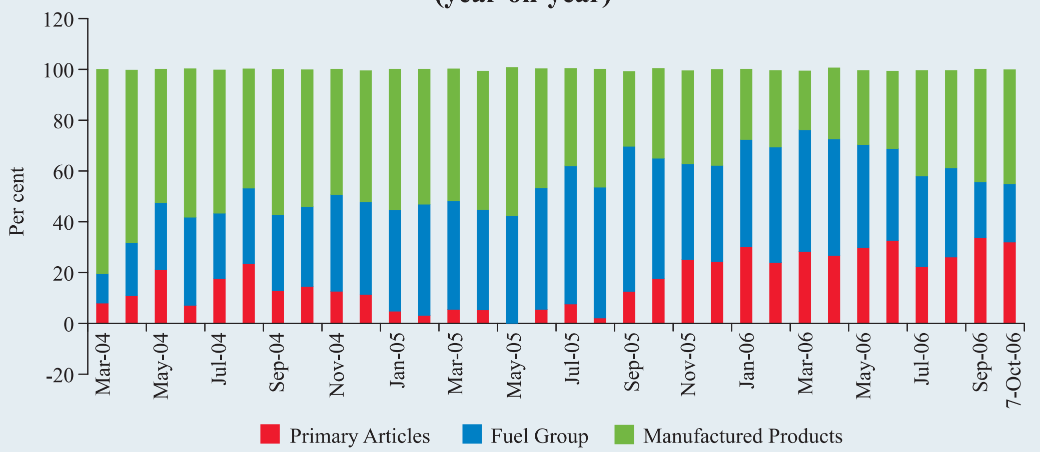


Table 31: Consumer Price Inflation (CPI) in India (year-on-year)

(Per cent)

Inflation Measure	March 2003	March 2004	March 2005	March 2006	June 2006	July 2006	August 2006	September 2006
1	2	3	4	5	6	7	8	9
CPI-IW	4.1	3.5	4.2	4.9	7.7	6.7	6.3	..
CPI- UNME	3.8	3.4	4.0	5.0	6.5	5.7	6.1	6.6
CPI-AL	4.9	2.5	2.4	5.3	7.2	6.3	6.5	7.3
CPI-RL	4.8	2.5	2.4	5.3	7.2	5.9	6.2	7.0
Memo:								
WPI Inflation (end-Month)	6.5	4.6	5.1	4.1	4.8	4.7	5.0	5.2

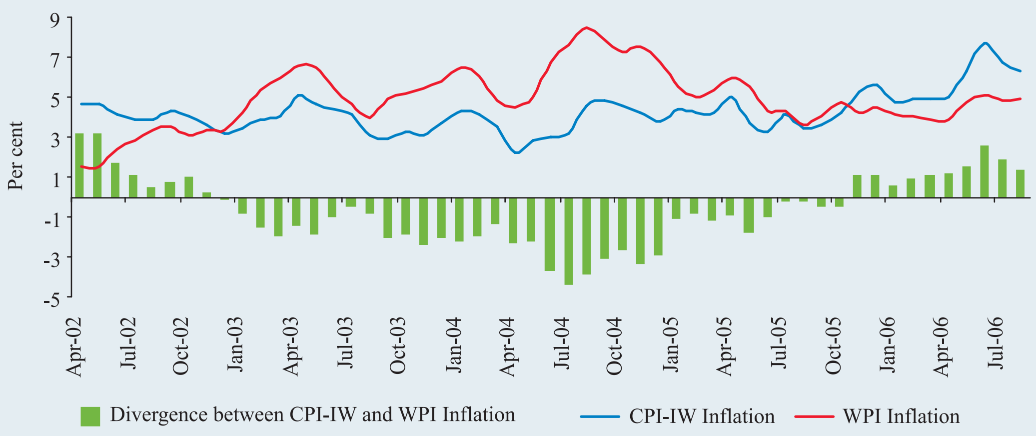
.. : Not available.
IW : Industrial Workers
AL : Agricultural Labourers
UNME : Urban Non-Manual Employees
RL : Rural Labourers

Consumer Price Inflation

Consumer price inflation has remained higher than the WPI inflation since November 2005, reflecting the higher order of increase in food prices as well as the higher weight of food items in the CPI (Table 31 and Chart 29).

Disaggregated data for CPI-Industrial Workers (CPI-IW), available up to August 2006, indicate that food group inflation increased from 3.1 per cent in August 2005 (y-o-y) to 10.0 per cent in June 2006 before moderating marginally to 8.3 per cent in August 2006 (y-o-y). This was largely the outcome of higher prices of cereals and pulses which recorded increases of 10.7 per cent and 18.5 per cent, respectively, in August 2006. Higher prices of meat, fish and eggs, and vegetables and fruits also contributed to food group inflation. Prices of fuel and

Chart 29 : CPI and WPI Inflation



light increased by 8.6 per cent y-o-y in August 2006 as against a decline of 6.6 per cent a year ago. On the other hand, housing inflation – reflecting rents on housing – decelerated sharply from 11.7 per cent in August 2005 to 6.8 per cent in August 2006 (Table 32).

Asset Prices

During the second quarter of 2006-07, domestic equity markets recovered most of the losses recorded in the preceding quarter. Domestic stock markets which, in consonance with international trends, had declined sharply during mid-May and early June 2006, recovered during the quarter ended September 2006 on the back of renewed buying interest, strong growth prospects and better corporate results. As on October 23, 2006 domestic equity prices were around 12 per cent higher over end-March 2006 levels (Chart 30).

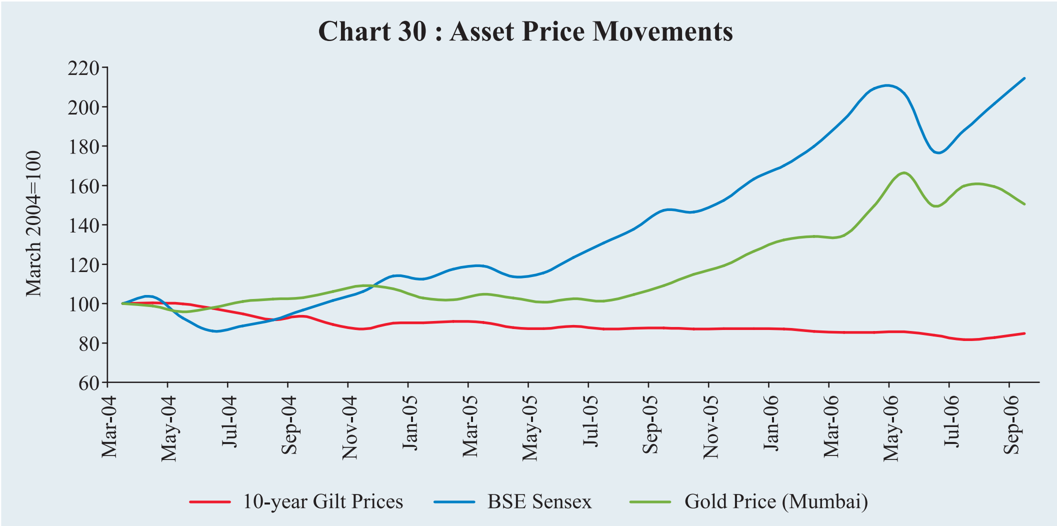
Domestic gold prices mirrored movements in international prices. International gold prices after rising to US $ 715 per ounce on May 12, 2006

Table 32: CPI for Industrial Workers- Major Groups (Base: 2001=100)

(Per cent)

		Year-on-Year Variation				
		2005	2006			
	Weight	August	March	June	July	August
1	2	3	4	5	6	7
General Index	**100.0**	**3.4**	**4.9**	**7.7**	**6.7**	**6.3**
I. Food Group	**46.2**	**3.1**	**4.9**	**10.0**	**7.6**	**8.3**
i) Cereals and Products	13.5	2.2	8.3	10.4	9.9	10.7
ii) Pulses and Products	2.9	6.4	20.3	26.9	21.4	18.5
iii) Oils and Fats	3.2	-4.1	-2.9	1.6	1.2	3.2
iv) Meat, Fish and Eggs	4.0	5.9	3.5	12.4	11.5	10.4
v) Milk and Products	7.3	1.3	2.4	4.0	4.0	4.0
vi) Condiments and Spices	2.6	2.2	0.7	5.3	4.7	4.6
vii) Vegetables and Fruits	6.1	2.0	3.0	15.9	3.4	10.1
viii) Other Food	6.7	6.2	4.3	5.2	4.6	3.5
II. Pan, Supari, Tobacco and Intoxicants	**2.3**	**2.4**	**3.1**	**3.7**	**3.7**	**3.8**
III. Fuel and Light	**6.4**	**-6.6**	**-2.9**	**8.7**	**8.7**	**8.6**
IV. Housing	**15.3**	**11.7**	**6.6**	**6.6**	**6.8**	**6.8**
V. Clothing, Bedding and Footwear	**6.6**	**2.6**	**3.0**	**2.8**	**2.8**	**2.8**
VI. Miscellaneous Group (Services)	**23.3**	**4.4**	**4.6**	**4.7**	**4.9**	**5.1**
i) Medical Care	4.6	2.8	5.3	6.8	6.7	6.8
ii) Education, Recreation and Amusement	6.2	6.5	3.3	2.3	2.0	2.5
iii) Transport and Communication	4.9	8.2	7.3	8.9	7.8	7.9
iv) Personal Care and Effects	4.2	2.8	3.1	3.4	3.6	3.6
v) Other Miscellaneous Items	3.4	2.7	3.1	4.1	4.7	4.5

Note : The variations are worked out by linking the new series (Base: 2001=100) with the old series (Base: 1982=100) with the relevant conversion factors.



witnessed sharp correction and fell to US $ 559 as on June 14, 2006 in consonance with the trends in various commodities in the international market. Prices initially recovered to US $ 664 per ounce as on July 14, 2006 but again fell to below US $ 600 per ounce in the second week of September 2006 as headline inflation in major economies eased in tandem with softening of international crude oil prices. Domestic gold prices, after crossing Rs.10,000 per 10 grams in mid-May 2006, fell to about Rs.8,470 per 10 grams on June 14, 2006. Prices recovered to Rs.10,070 per 10 grams as on July 17, 2006 but have since then declined and were Rs. 8,842 per 10 grams as on October 20, 2006. Gilt prices fell and yields rose up to mid-July 2006 on the back of increase in yields in major economies, concerns over domestic inflation in view of higher oil prices and the hike in the reverse repo rate. Gilt yields have, however, eased since then reflecting softening of international crude oil prices and easing of yields in the US market.

V. FINANCIAL MARKETS

International Financial Markets

During the second quarter of 2006-07, short-term interest rates increased further in major advanced economies, excepting the US, as central banks raised their policy rates to ward off inflationary pressures stemming from higher international crude oil and other commodity prices in an environment of strong domestic demand (Table 33). The European Central Bank increased its policy rate by 25 basis points each on August 3, 2006 and October 5, 2006, while the UK raised its policy rate by 25 basis points on August 3, 2006. After maintaining zero interest rates for an extended period, the Bank of Japan on July 14, 2006 increased the uncollateralised overnight call rate (adopted as the operating target for monetary policy since March 2006) by 25 basis points. Other advanced economies such as Australia and Switzerland also increased their policy rates during the quarter. Short-term rates in the US, on the other hand, eased as the Federal Open Market Committee has kept its fed funds rate unchanged in each of its three meetings held since end-June 2006. Among emerging market economies (EMEs), short-term interest rates increased in South Korea as the central bank raised policy rate. Short-term rates in other economies such as Brazil, Malaysia and Philippines declined as their central banks cut their rates or kept them unchanged.

In contrast to the mixed trend in short-term rates, long-term Government bond yields in major advanced economies eased during the quarter ended September 2006.

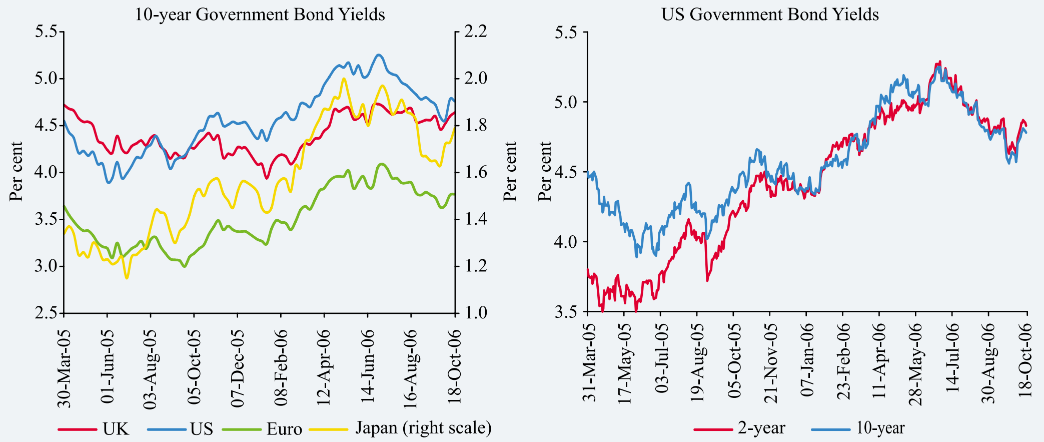
Table 33 : Short-term Interest Rates

(Per cent)

Region/Country	At end of				
	March 2005	March 2006	June 2006	September 2006	October 2006 @
1	2	3	4	5	6
Advanced Economies					
Euro Area	2.15	2.80	3.06	3.38	3.51
Japan	0.02	0.04	0.24	0.34	0.34
Sweden	1.97	1.99	2.23	2.55	2.56
UK	4.95	4.58	4.70	5.02	5.08
US	2.90	4.77	5.48	5.21	5.24
Emerging Market Economies					
Argentina	4.56	9.63	10.00	10.38	10.13
Brazil	19.25	16.54	15.18	14.17	14.16
China	2.25	2.40	3.00	2.95	3.00
Hong Kong	2.79	4.47	4.67	4.20	4.18
India	**5.37**	**6.11**	**6.36**	**6.60**	**6.65**
Malaysia	2.82	3.51	3.93	3.85	3.80
Philippines	7.25	7.38	8.00	7.63	7.75
Singapore	2.06	3.44	3.50	3.44	3.50
South Korea	3.54	4.26	4.57	4.63	4.61
Thailand	2.64	5.10	5.40	5.40	5.30

@ : As on October 18, 2006.
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

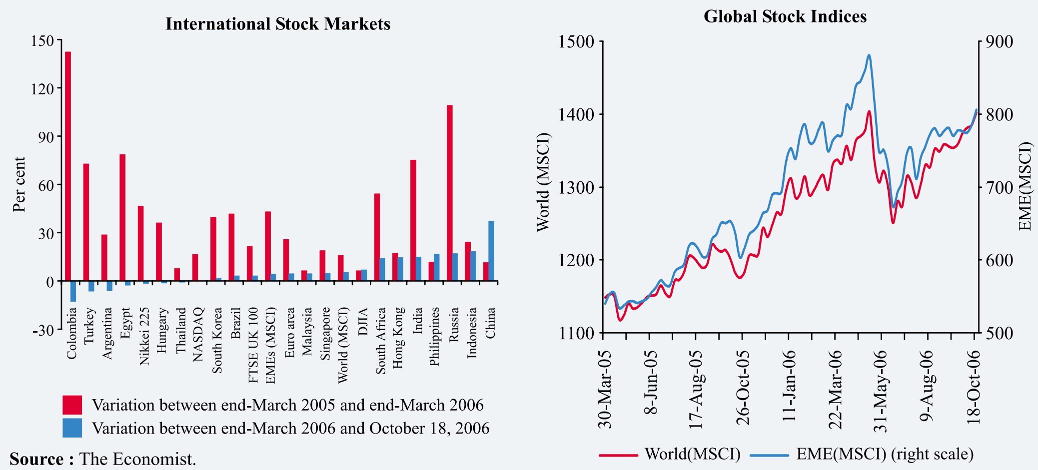
Chart 31 : Long-term Yields : Advanced Economies



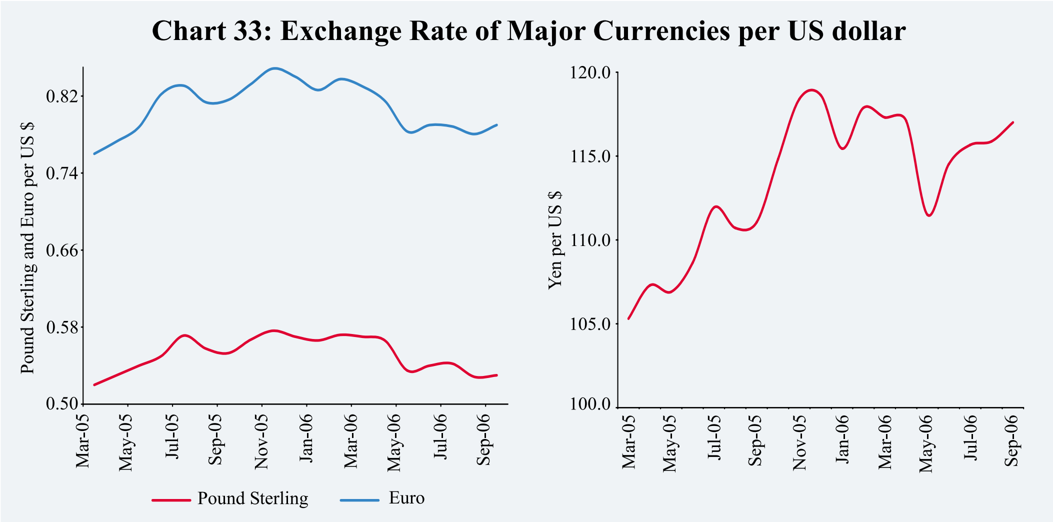
The yields, which had hardened during the quarter ended June 2006, fell on the back of easing of crude oil prices, signs of weakening of economic growth in the US and pause in monetary tightening in the US (Chart 31). Between end-June 2006 and end-September 2006, 10-year yields declined by 66 basis points in the US, 42 basis points in the euro area and 30 basis points in Japan. Since early June 2006, 10-year US bond yields have generally remained below those on 2-year bonds. Spreads on sovereign EME bonds, which had widened during May-June 2006 reflecting repricing of risks, eased during July-August 2006, back to low levels prevailing during April 2006.

Global equity markets during the second quarter of 2006-07 recovered part of the losses suffered during the broad sell-off between mid-May 2006 and early June 2006 (Chart 32). The MSCI World and MSCI emerging markets indices

Chart 32: International Stock Markets



Source : The Economist.



declined by 10.8 per cent and 23.4 per cent, respectively, between June 14, 2006 and their all-time highs on May 10, 2006; since then (up to October 18, 2006), these indices have gained 12.1 per cent and 19.7 per cent, respectively. Strong corporate results, better than expected growth in the euro area, declining bond yields and pause by the US Federal Reserve provided support to the equity markets during the second quarter of 2006-07.

In the foreign exchange market, the US dollar depreciated by 1.9 per cent against the Pound sterling and remained broadly unchanged against the euro during the second quarter of 2006-07 (Chart 33). It, however, appreciated by 2.2 per cent against the Japanese yen during the quarter.

Domestic Financial Markets

Indian financial markets remained largely orderly during the second quarter of 2006-07. Call money rates remained generally close to the reverse repo rate except in the last fortnight of September 2006. Interest rates in the collateralised segment of the overnight money market, the dominant segment in the money market, remained below the reverse repo rate as well as the call rate during July-August 2006. In the foreign exchange market, the Indian rupee exhibited two-way movement. Yields in the Government securities market softened from mid-July 2006 mirroring trends in the overseas markets and developments such as sharp fall in crude oil prices. The release of market borrowings calendar for the second half of 2006-07 was essentially in line with market expectations. In the credit market, deposit and lending rates edged up during the quarter as credit demand remained strong. The stock markets recovered the losses suffered in the global turmoil of May-June 2006. The primary market segment of the equity market witnessed moderation in resources raised during July-September 2006 (Table 34).

Table 34: Domestic Financial Markets at a Glance

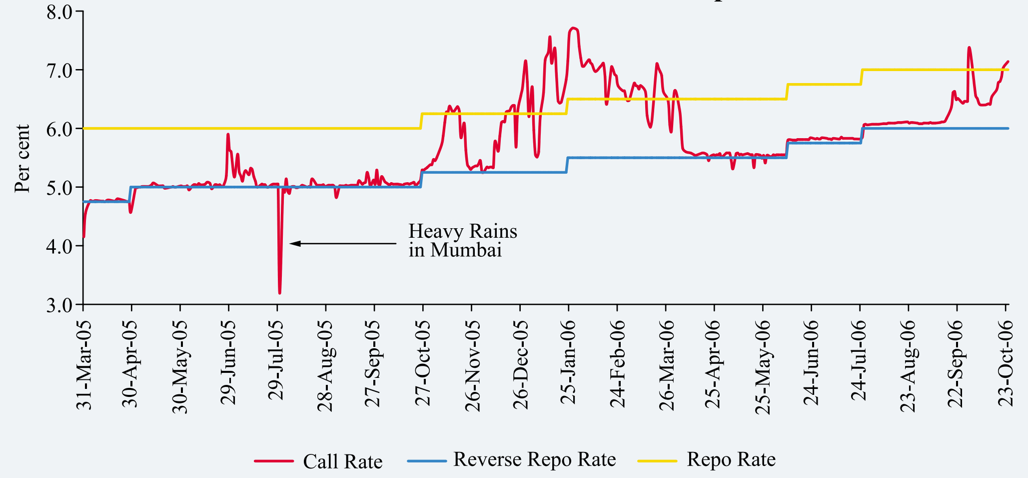
Month	Call Money		Government Securities		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rs. crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rs. crore)+	Average 10-Year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US $ million)	Average Exchange Rate (Rs. per US $)	RBI's net Foreign Currency Sales(-)/ Purchases (+) (US $ million)	Average Forward Premia 3-month (Per cent)	Average MSS Out-standing# (Rs. crore)	Average Daily Reverse Repo (LAF) Out-standing (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. crore)	Average BSE Sensex**	Average S&P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004-05	**14,170**	**4.65**	**4,826**	**6.22**	**8,892**	**44.93**	**20,847 £**	**1.66**	**46,445**	**35,592**	**2,050**	**4,506**	**5741**	**1805**
2005-06	**17,979**	**5.60**	**3,643**	**7.12**	**12,738**	**44.27**	**8,143 £**	**1.60**	**58,792**	**10,986**	**3,248**	**6,256**	**8295**	**2518**
April	17,213	4.77	3,001	7.02	9,880	43.74	0	1.96	65,638	30,675	1,890	4,136	6379	1987
May	15,269	4.99	3,805	7.11	10,083	43.49	0	1.57	68,539	22,754	1,971	3,946	6483	2002
June	20,134	5.10	6,807	6.88	10,871	43.58	-104	1.40	70,651	13,916	2,543	4,843	6926	2134
July	20,046	5.02	3,698	7.13	11,003	43.54	2,473	1.56	70,758	10,754	3,095	6,150	7337	2237
August	16,158	5.02	4,239	7.04	11,749	43.62	1,552	0.69	71,346	34,832	3,452	6,624	7726	2358
September	16,292	5.05	5,207	7.04	11,040	43.92	0	0.62	67,617	30,815	3,871	6,923	8272	2512
October	17,164	5.12	2,815	7.14	13,087	44.82	0	0.69	68,602	18,608	2,955	6,040	8220	2487
November	22,620	5.79	3,314	7.10	11,228	45.73	0	0.67	67,041	3,268	2,635	5,480	8552	2575
December	21,149	6.00	2,948	7.13	13,808	45.64	-6,541	1.51	52,040	1,452	3,516	6,814	9162	2773
January	17,911	6.83	3,094	7.15	16,713	44.40	0	2.60	40,219	-15,386	3,966	7,472	9540	2893
February	13,497	6.95	2,584	7.32	15,798	44.33	2,614	2.85	33,405	-13,532	3,688	7,125	10090	3019
March	18,290	6.58	2,203	7.40	17,600	44.48	8,149	3.11	29,652	-6,319	5,398	9,518	10857	3236
2006-07														
April	16,909	5.62	3,685	7.45	20,837	44.95	4,305	1.31	25,709	46,088	4,860	9,854	11742	3494
May	18,074	5.54	3,550	7.58	20,174	45.41	504	0.87	26,457	59,505	4,355	9,155	11599	3437
June	17,425	5.73	2,258	7.86	15,310	46.06	0	0.73	31,845	48,610	3,261	6,828	9935	2915
July	18,254	5.86	2,243	8.26	14,086 P	46.46	0	0.83	36,936	48,027	2,605	5,652	10557	3092
August	21,294	6.06	5,786	8.09	15,630 P	46.54	0	1.22	40,305	36,326	2,869	5,945	11305	3306
September	23,665	6.33	8,306	7.76	17,837 P	46.12	–	1.31	40,018	25,862	3,411	6,873	12036	3492

* : Average of daily weighted call money borrowing rates.
\+ : Average of daily outright turnover in Central Government dated securities.
@ : Average of daily closing rates.
** : Average of daily closing indices.
LAF : Liquidity Adjustment Facility.
MSS : Market Stabilisation Scheme.
BSE : The Stock Exchange, Mumbai.
NSE : National Stock Exchange of India Ltd.
\# : Average of weekly outstanding MSS.
P : Provisional
– : Not available.
£ : Cumulative for the financial year.
Note : In column 11, (-) indicates injection of liquidity while (+) indicates absorption of liquidity.

Money Market

Money market conditions remained largely comfortable during the second quarter of 2006-07. Call money rates which had edged up during the second half of 2005-06 eased during early April 2006 and, up to mid-September 2006, generally remained close to the reverse repo rate, the lower band of the LAF corridor, reflecting comfortable liquidity conditions. With the increase in the fixed reverse repo rate by 25 basis points effective July 25, 2006, call rates also edged up by a similar magnitude (Chart 34). The call money rate increased during the second half of September 2006 on account of liquidity pressures emanating from advance tax outflows and festival season currency demand amidst high credit demand. Call rates hovered around 6.5 per cent in the last week of September 2006 and increased to 7.38 per cent on September 29, 2006 but eased to 6.55 per cent as on October 3, 2006. The call rates again edged

Chart 34 : Call Rate and the Reverse Repo Rate



higher from mid-October 2006 and were 7.15 per cent as on October 23, 2006, 51 basis points higher than that at end-March 2006.

The interest rates in the collateralised segments of the money market – the market repo (outside the LAF) and the Collateralised Borrowing and Lending Obligation (CBLO) segments – continued to remain below the call rate during July-August 2006. The interest rates averaged 5.56 per cent and 5.60 per cent in the CBLO and market repo segments, respectively, during April-September 2006 as compared with 5.86 per cent in the call money market. The collateralised market is now the predominant segment in the money market, with a share of more than 70 per cent during 2006-07 so far (Chart 35 and Table 35). Mutual

Chart 35 : Money Markets: Interest Rates and Turnover

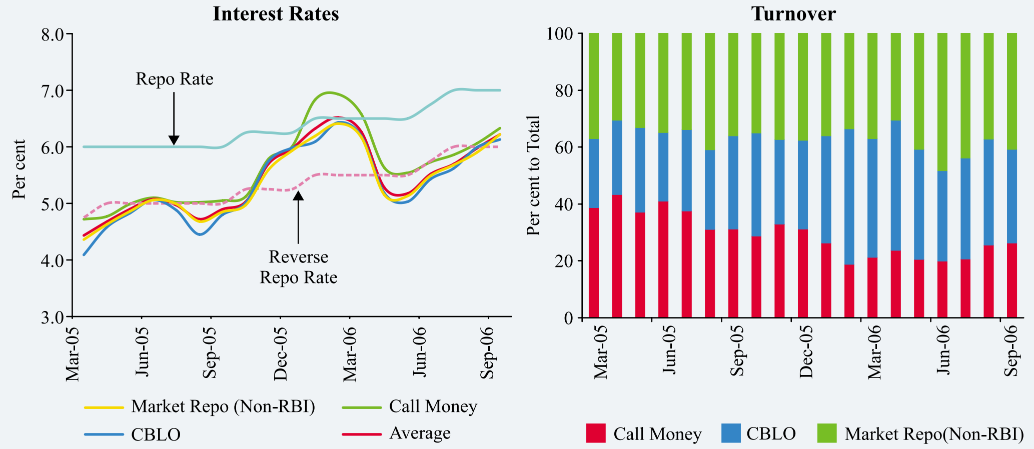


Table 35: Activity in Money Market Segments

(Rupees crore)

Month	Average Daily Turnover #				Commercial Paper		Certificates of Deposit Outstanding
	Call Money Market	Repo Market (outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Term Money Market	Outstanding	Amount Issued	
1	2	3	4	5	6	7	8
2004-05 ^	**14,170**	**17,135**	**6,697**	**526**	**11,723**	**1,090**	**6,052**
2005-06 ^	**17,979**	**21,183**	**20,039**	**833**	**17,285**	**3,140**	**27,298**
April	17,213	12,174	10,370	661	15,598	3,549	16,602
May	15,269	13,688	12,233	545	17,182	3,824	17,689
June	20,134	17,163	11,792	534	17,797	2,925	19,270
July	20,046	18,103	15,292	717	18,607	3,360	20,768
August	16,158	21,325	14,544	754	19,508	4,110	23,568
September	16,292	18,872	17,143	1,116	19,725	2,519	27,641
October	17,164	20,980	21,763	734	18,726	2,892	29,193
November	22,620	25,660	20,496	917	18,013	2,483	27,457
December	21,149	25,574	21,265	775	17,234	4,104	32,806
January	17,911	24,596	25,634	1,089	16,431	1,937	34,521
February	13,497	24,096	34,162	813	15,876	3,160	34,487
March	18,290	31,964	35,775	1,338	12,718	2,813	43,568
2006-07							
April	16,909	21,914	32,657	894	16,550	6,065	44,059
May	18,074	36,107	34,293	945	17,067	4,701	50,228
June	17,425	42,250	27,617	1,256	19,650	4,981	56,390
July	18,254	38,684	31,340	864	21,110	5,812	59,167
August	21,294	31,056	31,178	1,020	22,854	6,460	65,621
September	23,665	36,740	29,541	1,135	24,419	5,220	63,864 @

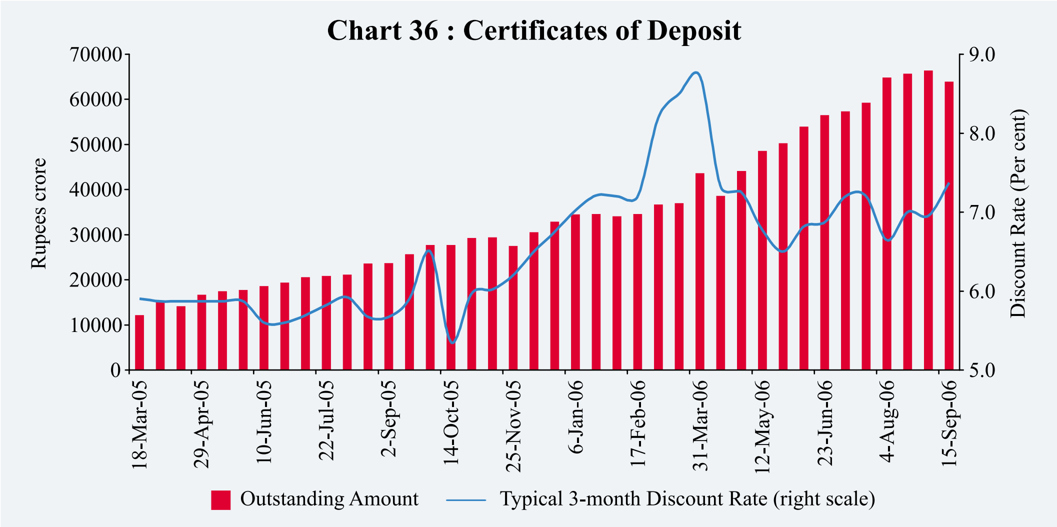
\# : Turnover is twice the single leg volumes in case of call money and CBLO to capture borrowing and lending both, and four times in case of market repo (outside the LAF) to capture the borrowing and lending in the two legs for a repo.

^ : Data are monthly averages. @ : As on September 15, 2006.

funds, insurance companies and financial institutions are the major lenders in the CBLO market with nationalised banks being the major borrowers. In the market repo segment, mutual funds are the major provider of funds, while the foreign banks, private sector banks and primary dealers are the major borrowers.

Certificates of Deposit

Demand for certificates of deposit (CDs) remained strong during the second quarter of 2006-07 as banks continued to supplement their efforts at deposit mobilisation to support sustained credit demand (Chart 36). The amount of outstanding CDs increased from Rs.56,390 crore at end-June 2006 (4.3 per cent of aggregate deposits of issuing banks) to Rs. 63,864 crore (4.3 per cent) by September 15, 2006. The typical discount rate for '3 months to 179 days' maturity CDs was 7.37 per cent as on September 15, 2006 as compared with 6.87 per cent at end-June 2006. Some of the private and public sector banks are increasingly taking the CD route to meet the resource gap.



Commercial Paper

The total outstanding amount of commercial papers (CPs) issued increased from Rs.19,650 crore as on June 30, 2006 to Rs.24,419 crore as on September 30, 2006 (Chart 37). The weighted average discount rate (WADR) on CPs increased from 7.10 per cent on June 30, 2006 to 7.70 per cent as at end-September 2006 in tandem with the increase in the money market rates. Yields on CP issuances during the quarter were in the range of 7.15-8.00 per cent for issuances in the '3-6 month' tenor and 7.55-8.60 per cent in the '6 month to 1 year' tenor.

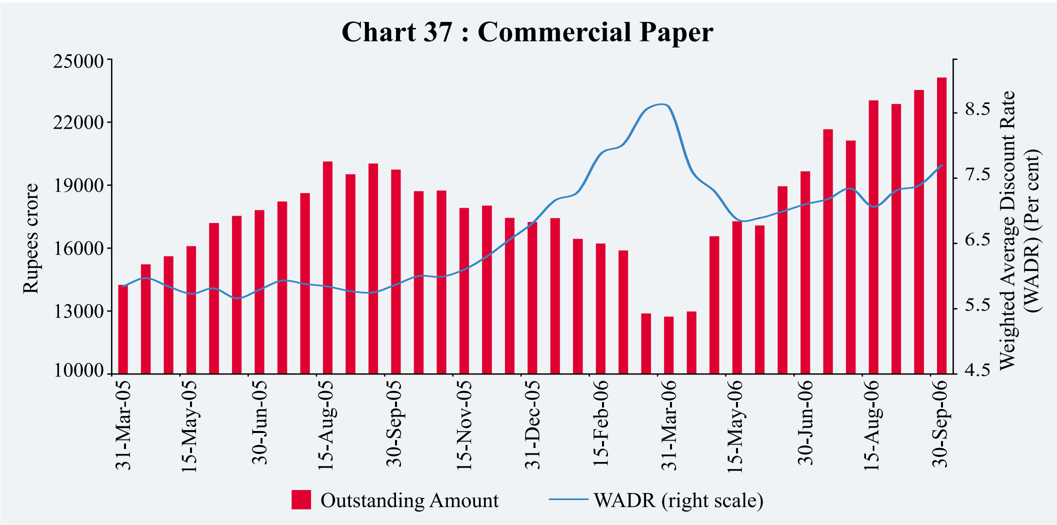


Table 36: Commercial Paper – Major Issuers

(Rupees crore)

Category of Issuer	End of			
	March 2005	March 2006	June 2006	September 2006
1	2	3	4	5
Leasing and Finance	8,479 (59.6)	9,400 (73.9)	13,460 (68.5)	15,792 (64.6)
Manufacturing	2,881 (20.2)	1,982 (15.6)	4,155 (21.1)	4,847 (19.9)
Financial Institutions	2,875 (20.2)	1,336 (10.5)	2,035 (10.4)	3,780 (15.5)
Total	**14,235** **(100.0)**	**12,718** **(100.0)**	**19,650** **(100.0)**	**24,419** **(100.0)**

Note : Figures in parentheses are percentage shares to the total.

Leasing and finance companies remained the pre-dominant issuers of CPs, reflecting the withdrawal of the access of these companies to public deposits (Table 36). Issuances by financial institutions and manufacturing companies also recorded an increase during the second quarter.

Treasury Bills

The primary market yields on 91-day Treasury Bills (TBs) increased from their end-June 2006 levels while yields on 364-day TBs exhibited modest softening during the quarter (Chart 38). As a result, the yield spread between 364-day and 91-day TBs which had widened to 63 basis points in June 2006 narrowed to 29 basis points in October 2006 (up to October 18) (Table 37). All the issues during

Chart 38 : Yields on Treasury Bills

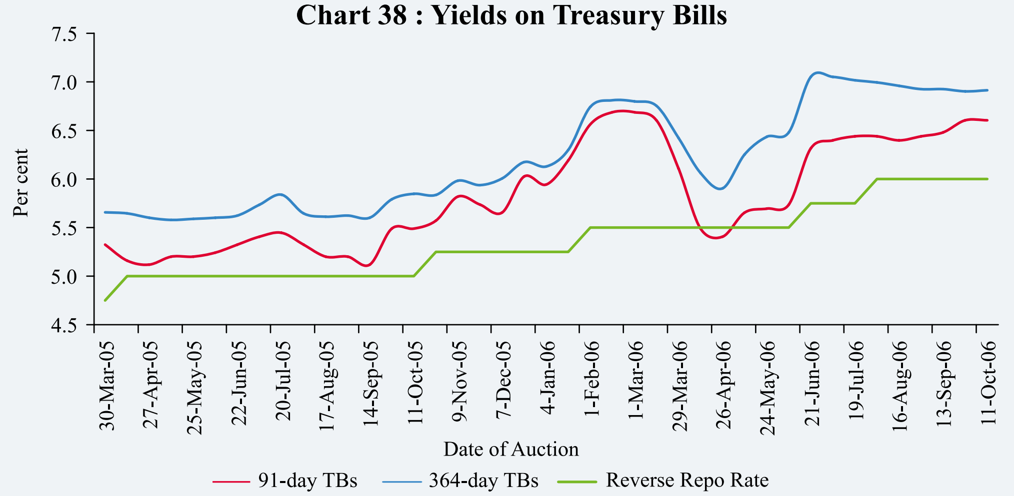


Table 37: Treasury Bills in the Primary Market

Month	Notified Amount (Rupees crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Average Bid-Cover Ratio		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
2004-05^	**1,38,500 @**	**4.91**	**–**	**5.16**	**2.43**	**–**	**2.52**
2005-06^	**1,55,500 @**	**5.68**	**5.82**	**5.96**	**2.64**	**2.65**	**2.45**
April	19,000	5.17	5.36	5.62	4.03	4.48	2.54
May	15,000	5.19	5.35	5.58	3.30	3.37	2.29
June	18,500	5.29	5.37	5.61	1.54	2.42	1.81
July	11,500	5.46	5.67	5.81	1.21	1.79	1.68
August	21,000	5.23	5.42	5.63	3.07	2.68	2.54
September	23,000	5.24	5.37	5.70	1.52	1.45	1.61
October	15,000	5.50	5.71	5.84	1.69	1.53	3.44
November	11,000	5.76	5.85	5.96	2.12	1.92	2.30
December	5,000	5.89	6.00	6.09	3.07	2.97	2.36
January	5,000	6.25	6.22	6.21	2.86	2.83	2.72
February	5,000	6.63	6.74	6.78	3.04	2.07	2.71
March	6,500	6.51	6.66	6.66	4.17	3.43	3.36
2006-07							
April	5,000	5.52	5.87	5.98	5.57	4.96	2.02
May	18,500	5.70	6.07	6.34	1.88	1.84	1.69
June	15,000	6.14	6.64	6.77	1.63	1.35	2.11
July	15,000	6.42	6.75	7.03	1.82	1.55	3.12
August	19,000	6.41	6.70	6.96	2.03	2.71	3.48
September	15,000	6.51	6.76	6.91	1.35	1.80	2.92
October*	11,000	6.62	6.84	6.91	1.33	1.20	2.34

^ : Data are monthly averages. @ : Total for the financial year. * : Up to October 18, 2006.

Note : 182-day TBs were reintroduced with effect from April 2005.

2006-07 so far have been fully subscribed by the market except for the issue of 91-day TBs in the auction held on September 20, 2006.

Foreign Exchange Market

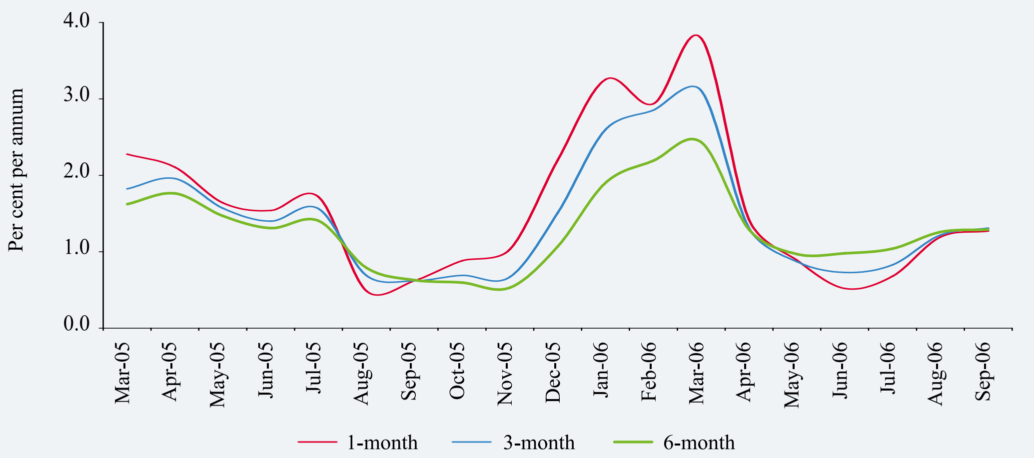
In the foreign exchange market, the Indian rupee exhibited two-way movement during the quarter ended September 2006. The rupee came under pressure during July 2006 due to high crude oil prices and geo-political risk in the Middle East region. The rupee, however, appreciated from the last week of July 2006 on the back of FII inflows and easing of oil prices. The rupee has moved in a range of Rs.44.61– 46.97 per US dollar during 2006-07 so far (up to October 23, 2006) (Chart 39). The exchange rate was Rs.45.40 per US dollar as on October 23, 2006 – a depreciation of 1.7 per cent over its level on March 31, 2006. Over the same period, the rupee depreciated by 8.9 per cent against the Pound sterling, 5.2 per cent against the euro and 0.5 per cent against the Japanese yen.

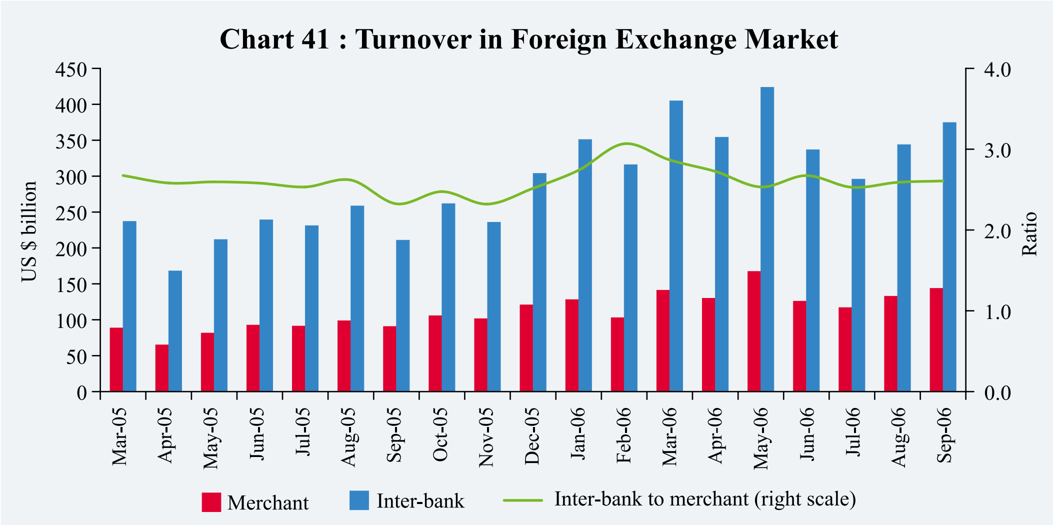
Forward premia increased during the second quarter of 2006-07 reflecting increase in domestic interest rates (Chart 40).

Chart 39 : Movement of Rupee *vis-a-vis* Major Currencies

The turnover in the inter-bank as well as merchant segments of the foreign exchange market during the second quarter of 2006-07 was higher than in the corresponding period of 2005-06. While inter-bank turnover increased from

Chart 40 : Movement in Forward Premia





US $ 233 billion (monthly average) during the second quarter of 2005-06 to US $ 338 billion in the second quarter of 2006-07, the merchant turnover increased from US $ 94 billion to US $ 131 billion (Chart 41). The ratio of inter-bank to merchant turnover was 2.6 during the second quarter of 2006-07, almost the same as that of 2.5 a year ago.

Credit Market

The public sector banks (PSBs) raised their interest rates for deposits of above one year maturity from a range of 5.75-7.25 per cent at end-June 2006 to 6.25-8.00 per cent by mid-October 2006; the interest rates offered on deposits of maturity up to one year also increased from a range of 2.75-6.50 per cent to 2.75-7.00 per cent over the same period (Table 38 and Chart 42). As regards foreign banks and private sector banks, they increased the maximum rates offered on term deposits of various maturities by 25-165 basis points while reducing the minimum rates offered by 25-150 basis points. On the lending side, the PSBs and the private sector banks increased their Benchmark Prime Lending Rates (BPLRs), while the range of BPLRs of the foreign banks remained unchanged during the period. The BPLRs of the public sector banks edged higher from a range of 10.75-11.50 per cent at end-June 2006 to a range of 11.00-12.00 per cent by mid-October 2006. The number of public sector banks with their BPLRs in the range of 11-12 per cent increased from 21 at end-June 2006 to 26 by mid-October 2006. Private sector banks increased their BPLRs from a range of 11.00-14.50 per cent in June 2006 to 11.50-15.00 per cent by mid-October 2006. The number of private sector banks with their BPLRs in the

Table 38: Movements in Deposit and Lending Rates

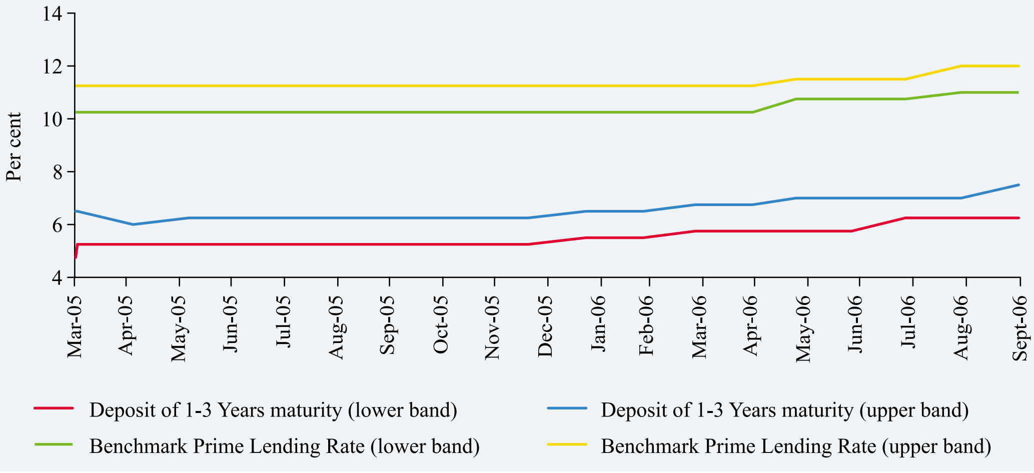
(Per cent)

Interest Rate	March 2005	March 2006	June 2006	July 2006	August 2006	September 2006	October@ 2006
1	2	3	4	5	6	7	8
1. Domestic Deposit Rate							
Public Sector Banks							
Up to 1 year	2.75-6.00	2.25-6.50	2.75-6.50	2.75-6.50	2.75-6.50	2.75-7.00	2.75-7.00
More than 1 year and up to 3 years	4.75-6.50	5.75-6.75	5.75-7.00	6.25-7.00	6.25-7.00	6.25-7.50	6.25-7.50
More than 3 years	5.25-7.00	6.00-7.25	6.00-7.25	6.25-7.25	6.25-7.50	6.50-8.00	6.50-8.00
Private Sector Banks							
Up to 1 year	3.00-6.25	3.50-7.25	3.50-6.75	3.00-7.00	3.00-7.00	3.00-7.25	3.00-8.00
More than 1 year and up to 3 years	5.25-7.25	5.50-7.75	6.50-7.75	5.50-8.00	5.50-8.00	6.75-8.25	6.75-8.25
More than 3 years	5.75-7.00	6.00-7.75	6.50-8.25	6.00-8.25	6.00-8.25	6.75-8.50	6.75-8.50
Foreign Banks							
Up to 1 year	3.00-6.25	3.00-6.15	3.25-6.50	3.00-6.75	3.00-6.75	3.00-7.50	3.00-7.50
More than 1 year and up to 3 years	3.50-6.50	4.00-6.50	5.00-6.50	4.00-7.00	4.00-7.00	3.50-8.15	3.50-8.15
More than 3 years	3.50-7.00	5.50-6.50	5.50-6.75	4.00-7.00	4.00-7.00	4.00-8.25	4.00-8.25
2. Benchmark Prime Lending Rate							
Public Sector Banks	10.25-11.25	10.25-11.25	10.75-11.50	10.75-11.50	11.00-12.00	11.00-12.00	11.00-12.00
Private Sector Banks	11.00-13.50	11.00-14.00	11.00-14.50	11.00-15.00	11.50-15.00	11.50-15.00	11.50-15.00
Foreign Banks	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50
3. Actual Lending Rate*							
Public Sector Banks	2.75-16.00	4.00-16.50	4.00-16.50	–	–	–	–
Private Sector Banks	3.15-22.00	3.15-20.50	3.15-26.00	–	–	–	–
Foreign Banks	3.55-23.50	4.75-26.00	4.75-25.00	–	–	–	–

* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.
@ : As on October 13, 2006.

range of 13-15 per cent increased from two at end-June 2006 to five by mid-October 2006 while those in the range of 11-12 per cent fell from 16 to 10.

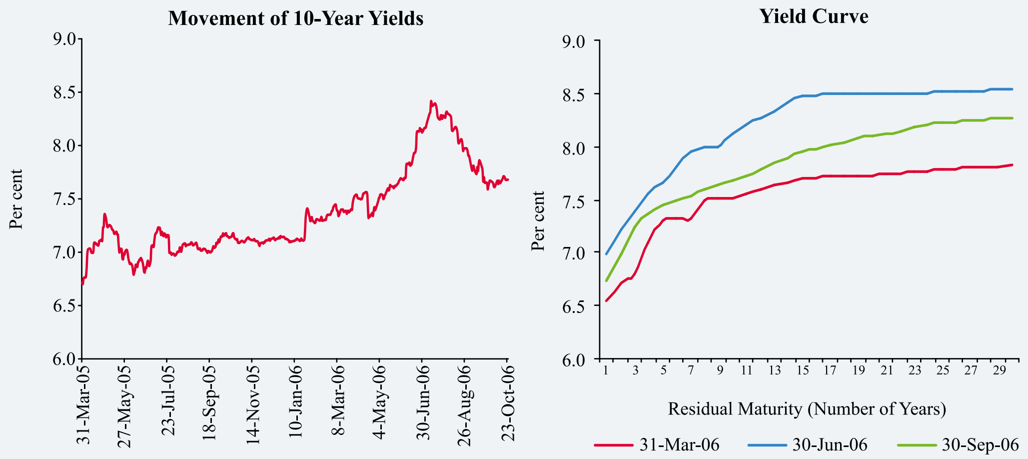
Chart 42 : Deposit and Lending Rates - Public Sector Banks

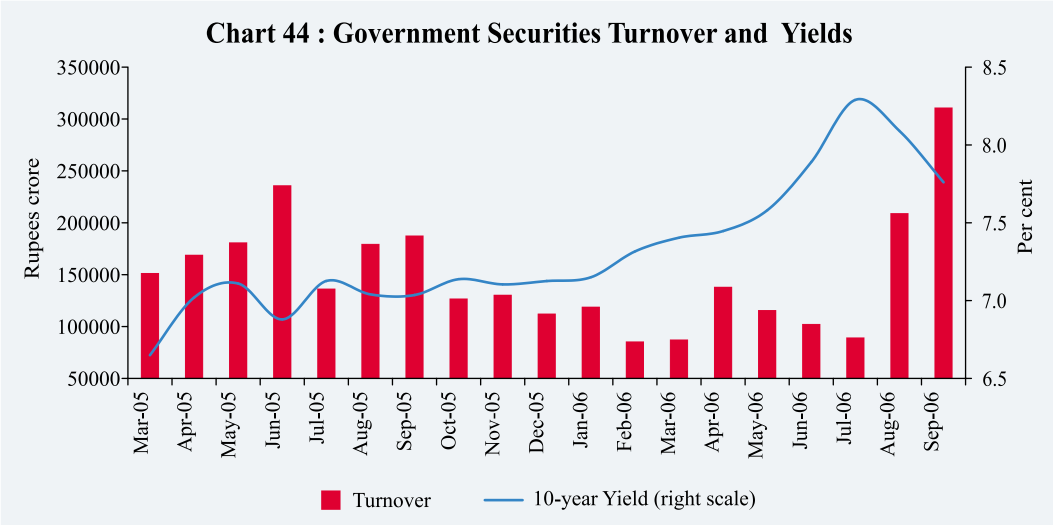


Government Securities Market

The yields in the Government securities market eased during the second quarter of 2006-07, reversing the hardening trend witnessed in the first quarter. After recording some decline around mid-April 2006, yields had moved upwards till mid-July 2006 reflecting a variety of factors such as further monetary policy tightening in the US and in other economies, high and volatile crude oil prices, apprehensions over domestic fuel price hike, expected issuance of oil bonds, higher Government expenditure, volatility in stock markets, devolvement of auction held on July 11, 2006 on the primary dealers and hike in the reverse repo and repo rates by 25 basis points effective June 9, 2006. Reflecting these factors, 10-year yields reached 8.41 per cent on July 10, 2006, an increase of 89 basis points over end-March 2006. Since mid-July 2006, the yields have softened, especially since August. Easing of Government bond yields in the US, the Fed's decision to keep the fed funds rate unchanged in each of its meetings since end-June 2006 and easing of crude oil prices contributed to softening of domestic yields. The announcement of the borrowing calendar of the Central Government was in accordance with market expectations. On the whole, the 10-year yield has increased by 16 basis points during 2006-07 so far: from 7.52 per cent as on March 31, 2006 to 7.68 per cent as on October 23, 2006 (Chart 43). The spread between 1-10 year yields narrowed from 113 basis points at end-June 2006 to 94 basis points at end-September 2006 (comparable to that of 98 basis points at end-March 2006). The spread between 10-year and 30-year yields, however, increased to 61 basis points from 30 basis points at end-March 2006.

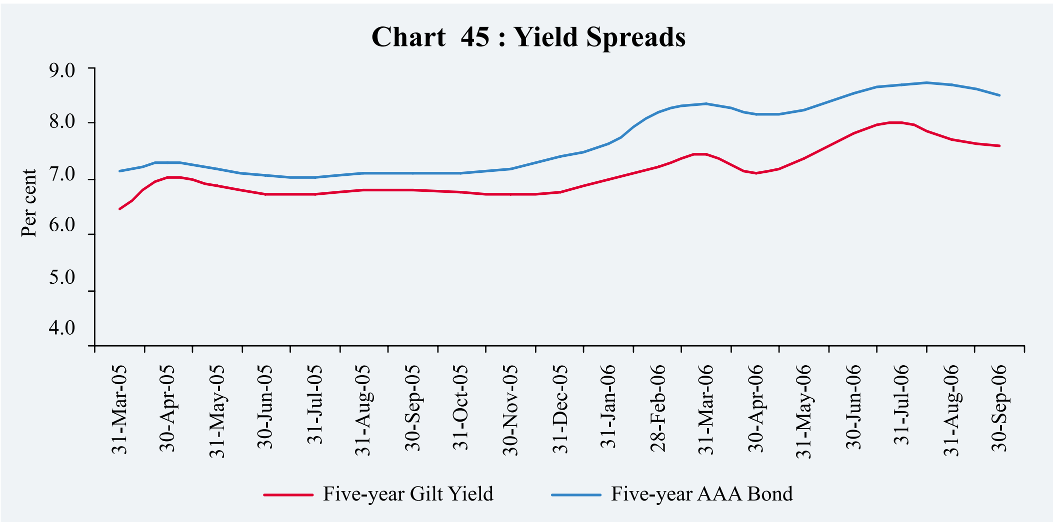
Chart 43 : Yields on Central Government Securities





The turnover in Government securities largely remained subdued during April-July 2006 as banks preferred to hold securities, rather than trade, in an environment of hardening of yields (Chart 44). The turnover, however, increased sharply in August and September 2006 – the highest since June 2005 – as yields trended downwards.

The yields on 5-year AAA-rated corporate bonds remained broadly unchanged during the second quarter of 2006-07, even as yields on Government securities exhibited some easing. The yield spread over 5-year Government securities was 91 basis points at end-September 2006, higher than that of 74 basis points at end-June 2006, but exactly the same (91 basis points) as at end-March 2006 (Chart 45).



Equity Market

Primary Market

Resources raised through the public issues segment increased by 51.6 per cent during April-September 2006 over the corresponding period of 2005, even though the number of issues came down from 55 to 50 (Table 39). Most of the amount was, however, raised during April-May 2006 (Rs.10,390 crore out of Rs.12,770 crore). Following the volatility in stock market in May-June 2006, amounts raised in the subsequent months have been low. The average size of public issues increased from Rs.153 crore during April-September 2005 to Rs.255 crore during April-September 2006. All public issues during April-September 2006 were by non-Government public limited companies (private sector) in the form of equity. Out of 50 issues during April-September

Table 39: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
	2005-06 (April-September)		2006-07 (April-September) P	
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	**52**	**5,903**	**50**	**12,770**
a) Financial	5	1,881	3	261
b) Non-financial	47	4,022	47	12,509
2. Public Sector (a+b+c)	**3**	**2,520**	**–**	**–**
a) Public Sector Undertakings	–	–	–	–
b) Government Companies	–	–	–	–
c) Banks/Financial Institutions	3	2,520	–	–
3. Total (1+2)	**55**	**8,423**	**50**	**12,770**
Of which:				
(i) Equity	54	8,305	50	12,770
(ii) Debt	1	118	–	–
	2005-06 (April-June) P		2006-07 (April-June) P	
B. Private Placement				
1. Private Sector	**241**	**12,171**	**301**	**14,211**
a) Financial	85	7,064	105	7,069
b) Non-financial	156	5,107	196	7,142
2. Public Sector	**40**	**8,806**	**16**	**10,826**
a) Financial	30	4,996	15	9,991
b) Non-financial	10	3,810	1	835
3. Total (1+2)	**281**	**20,977**	**317**	**25,037**
Memo:				
Euro Issues $	**17**	**3,828**	**29**	**7,917**

P : Provisional. * : Excluding offers for sale. – : Nil/Negligible.
$: Data pertain to April-September.

2006, 27 issues were initial public offerings (IPOs), constituting 90.0 per cent of resource mobilisation, while during the corresponding period of 2005, 26 out of 55 issues were IPOs (constituting 79.6 per cent of resource mobilisation).

Mobilisation of resources through private placement increased by 19.4 per cent during April-June 2006 as compared with an increase of 79.8 per cent during April-June 2005 (Table 39). Public sector entities accounted for 43.2 per cent of total mobilisation during April-June 2006, marginally higher than the corresponding period of the previous year (42.0 per cent). Financial intermediaries (both from public sector and private sector) raised the bulk of resources (68.1 per cent of the total mobilisation) during April-June 2006 (57.5 per cent during April-June 2005).

During April-September 2006, the resources raised through Euro issues – American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs) – by Indian corporates more than doubled to Rs.7,917 crore as corporates took advantage of buoyant secondary markets to raise funds for their investment activities (Table 39).

During April-September 2006, net mobilisation of funds by mutual funds increased by 63.1 per cent to Rs.60,048 crore (Table 40). Net inflows were witnessed in case of both income/debt-oriented schemes and growth/equity-oriented schemes.

Table 40 : Resource Mobilisation by Mutual Funds

(Rupees crore)

Mutual Fund	April-March 2005-06		April-September 2005-06		April-September 2006-07	
	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets *	Net Mobilisation @	Net Assets *
1	2	3	4	5	6	7
Private Sector	42,977	1,81,515	30,945	1,59,683	46,311	2,28,254
Public Sector	6,379	20,829	4,501	17,016	7,259	28,197
UTI	3,424	29,519	1,377	24,969	6,478	34,755
Total	**52,780**	**2,31,863**	**36,823**	**2,01,668**	**60,048**	**2,91,206**

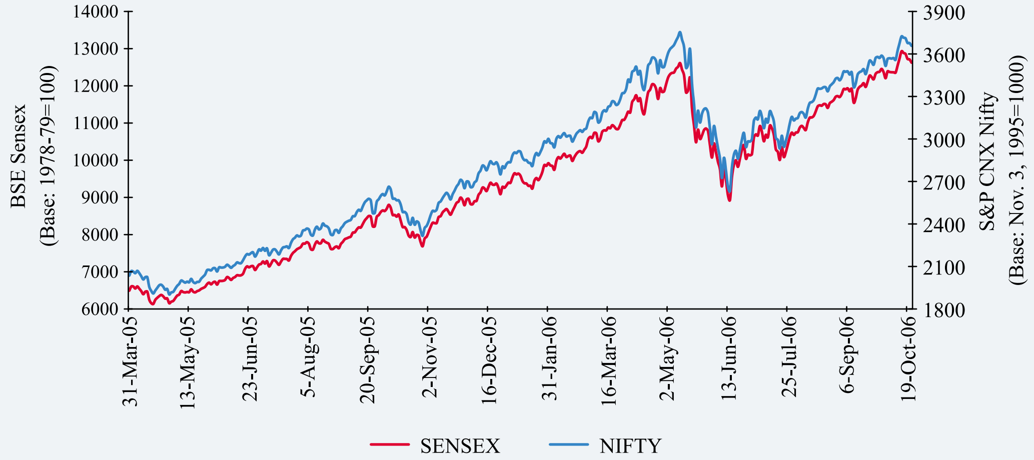
@ : Net of redemptions. # : As at end of March. * : As at end of September.

Source : Securities and Exchange Board of India.

Secondary Market

Domestic stock markets recorded gains during the second quarter of 2006-07 offsetting almost all the losses suffered in the meltdown in May-June

Chart 46 : Indian Stock Markets



2006 (Chart 46). Beginning May 11, 2006, domestic stock markets had witnessed correction in consonance with global trends amidst increased risk aversion over concerns of slowdown in global growth, increase in global inflation and higher international interest rates. The BSE Sensex reached 8929 as on June 14, 2006, a decline of 29.2 per cent over the all-time high of 12612 reached on May 10, 2006. Stock markets recovered these losses thereafter, reflecting fresh buying by FIIs, robust first quarter corporate results, satisfactory progress of monsoon, upward trend in the international equity markets and decline in global crude oil prices. The BSE Sensex reached a new high of 12928 as on October 16, 2006. The BSE Sensex closed at 12623 as on October 23, 2006, 11.9 per cent above its end-March 2006 level.

Profits after tax of corporates, after witnessing some deceleration for three consecutive quarters of 2005-06, exhibited substantial improvement in the first quarter of 2006-07. The ratio of net profits to sales also improved to 10.6 per cent during the quarter ended June 2006 and the ratio was higher than those registered in the preceding quarters (Table 41 and Chart 47).

After recording large sales in May 2006, FIIs have turned net buyers in Indian stock markets, and made large purchases in August-September 2006. According to the Securities and Exchange Board of India (SEBI), FIIs made net investments of Rs.11,213 crore in July-September 2006 offsetting the sales during May 2006. During 2006-07 (up to October 20, 2006), FIIs have made net purchases of Rs.10,276 crore (US $ 2.2 billion) as compared with net purchases of Rs.19,739 crore (US $ 4.5 billion) during the corresponding period of the previous year.

Table 41 : Corporate Financial Performance

(Growth rate in per cent)

Item	2003-04	2004-05	2005-06*	2005-06 Q1	Q2	Q3	Q4	2006-07 Q1*
1	2	3	4	5	6	7	8	9
Sales	16.0	24.1	16.9	18.5	16.4	13.2	19.5	25.6
Expenditure	14.4	22.9	16.4	18.0	16.3	12.7	18.9	24.6
Gross Profits	25.0	32.5	20.3	32.0	19.1	21.2	16.6	33.9
Interest	-11.9	-5.8	1.9	-13.5	-8.0	4.6	3.8	19.9
Profits After Tax	59.8	51.2	24.2	54.2	27.5	27.0	15.1	34.7
Select Ratios (Per cent)								
Gross Profits to Sales	11.1	11.9	13.0	13.1	13.0	12.8	12.7	15.6
Profits After Tax to Sales	5.9	7.2	8.7	8.6	8.5	8.6	8.7	10.6
Interest Coverage Ratio (number)	3.3	4.6	6.4	6.0	6.2	6.2	7.8	7.2
Interest to Sales	3.4	2.6	2.0	2.2	2.1	2.1	1.7	2.2
Interest to Gross Profits	30.7	21.8	15.7	16.6	16.2	16.2	13.7	13.9
Memo:								(Amount in Rupees crore)
No. of Companies	2,214	2,214	2,210	2,355	2,361	2,366	2,415	2,228
Sales	4,42,743	5,49,449	7,74,578	1,94,608	2,12,693	2,19,098	2,49,971	2,34,610
Expenditure	4,22,110	5,14,574	6,66,690	1,66,972	1,83,717	1,88,934	2,18,511	1,95,556
Depreciation Provision	20,406	22,697	28,883	7,137	7,617	7,748	8,340	8,449
Gross Profits	49,278	65,301	1,00,666	25,577	27,620	28,135	31,652	36,567
Interest	15,143	14,268	15,789	4,241	4,467	4,555	4,348	5,083
Profits After Tax	26,182	39,599	67,506	16,726	18,169	18,790	21,634	24,845

Note : 1. Growth rates are percentage change in the level for the period under reference over the corresponding period of the previous year.

2. Data are based on the audited / unaudited abridged results of the non-financial non-Government companies except column (2) and column (3) which are based on audited balance sheets for 2003-04 and 2004-05, respectively. Quarterly data may not add up to annual data due to difference in coverage of companies.

* : Provisional.

Mutual funds have also made net investments of Rs. 10,343 crore in the current financial year (up to October 20, 2006) on top of Rs.10,459 crore during the corresponding period of last year (Chart 48).

Chart 47 : Corporate Performance - Growth Rates

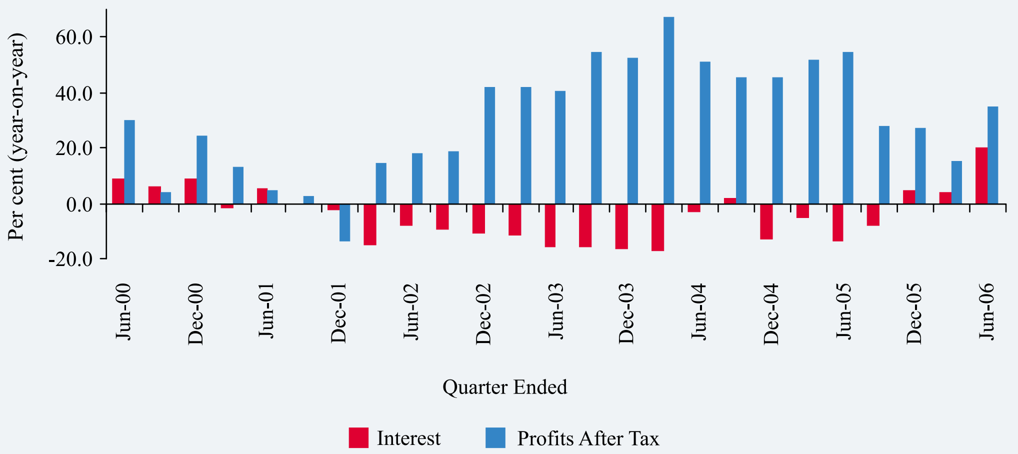
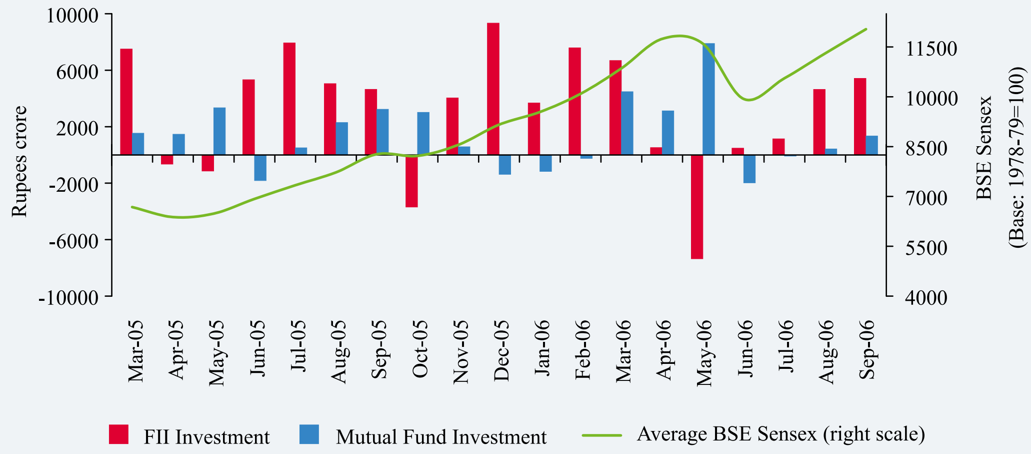


Chart 48 : Institutional Investment and Stock Market



Major indices and sectors have shown mixed trends during 2006-07 so far (Chart 49). On a point-to-point basis (up to October 23, 2006), BSE 500 increased by 7.2 per cent, while BSE Small-cap and BSE Mid-cap declined by 1.9 per cent and 0.4 per cent, respectively, over end-March 2006. Amongst major sectors, oil and gas registered gains of 19.6 per cent followed by IT (17.6 per cent), banking (15.9 per cent), consumer durables (4.5 per cent), capital goods (3.8 per cent) and metals (0.6 per cent). On the other hand, fast moving consumer goods sector recorded losses of 9.6 per cent followed by healthcare (6.5 per cent), PSU (5.0 per cent) and auto (0.1 per cent).

Chart 49 : Trends in BSE Sectoral Stock Indices

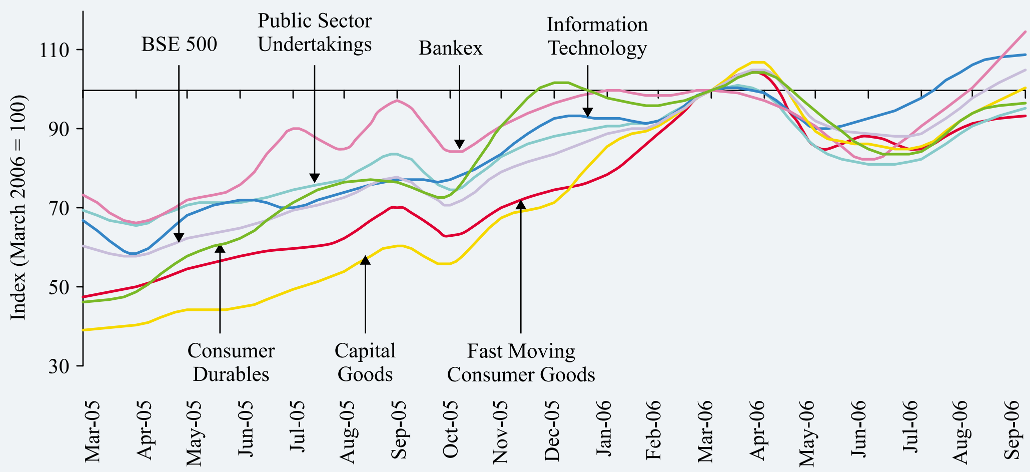


Table 42: Stock Market Indicators

Indicator	BSE				NSE			
	April-March		April-September		April-March		April-September	
	2004-05	2005-06	2005-06	2006-07	2004-05	2005-06	2005-06	2006-07
1	2	3	4	5	6	7	8	9
BSE Sensex / S&P CNX Nifty								
End-period	6493	11280	8634	12454	2036	3403	2601	3588
Average	5741	8279	7187	11167	1805	2513	2205	3280
Volatility	11.16	16.7	9.70	7.65	11.28	15.6	8.75	7.76
P/E Ratio (end-period)*	15.61	20.92	17.80	21.34	14.60	20.26	16.15	20.92
Turnover (Rupees crore)	5,18,716	8,16,074	3,58,770	4,45,090	11,40,071	15,69,556	6,95,049	9,23,664
Market Capitalisation (Rupees crore) (end-period)	16,98,429	30,22,191	22,54,378	31,85,678	15,85,585	28,13,210	20,98,263	29,94,132

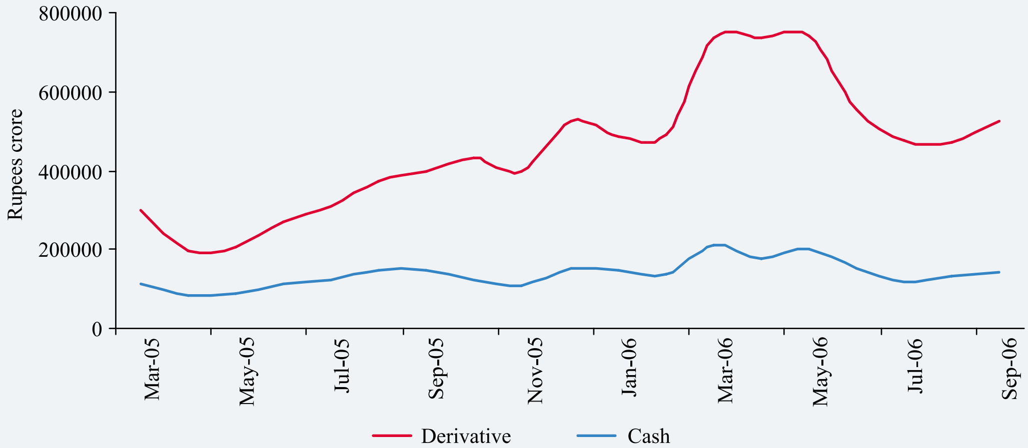
* : For 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty.

Sources : The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE).

The price-earnings (P/E) ratios for the 30 scrips included in the BSE Sensex increased from 19.4 at end-June 2006 to 21.3 as on October 23, 2006 (Table 42). The market capitalisation of the BSE increased by 21.5 per cent between end-June 2006 and October 23, 2006.

At the NSE, the total turnover in the cash segment during 2006-07 (up to end-September, 2006) at Rs.9,23,664 crore was 32.9 per cent higher over corresponding period of 2005 (Chart 50). On the other hand, the total turnover in the derivative segment during 2006-07 (up to end-September 2006) doubled to Rs.35,06,885 crore over the corresponding period of previous financial year.

Chart 50 : Turnover in Cash and Derivative Segment - NSE



VI. THE EXTERNAL ECONOMY

India's balance of payments position has continued to remain comfortable during 2006-07 so far. Merchandise exports recorded strong growth during April-September 2006, *albeit* lower than last year. Growth in non-oil imports registered a sharp deceleration, partly on account of the decline in imports of gold and silver. Imports of capital goods increased on the back of investment demand although they also witnessed some deceleration on a high base. Oil imports remained large in view of further hardening of international crude oil prices. The surplus on the invisibles account remained buoyant during the first quarter of 2006-07, led by exports of software and other business services, and private remittances, and financed two-thirds of the trade deficit. The current account deficit during the first quarter of 2006-07 widened from a year ago, reflecting higher trade deficit. The higher current account deficit was easily financed by capital flows which have remained large during 2006-07 so far. Foreign exchange reserves have increased by US $ 14.5 billion during 2006-07 (up to October 20, 2006).

International Developments

Global economic growth remained robust in the first half of 2006 and became more balanced across the countries. The OECD countries recorded growth of over three per cent in each of the first two quarters of 2006, notably higher than that of 2.4-2.5 per cent in the corresponding period of 2005. Growth was particularly strong in the US in the first quarter. It moderated in the second quarter and is expected to slow further in the second half of 2006 in the face of headwinds from a cooling housing market. In the euro area, the expansion gathered further momentum; the Japanese economy also continued to expand. Emerging market economies continued to exhibit buoyant growth led by China where growth has accelerated even further, remaining well above earlier projections (Table 43). The International Monetary Fund (IMF) projects the world economic growth (using exchange rates based on purchasing power parities) to accelerate from 4.9 per cent in 2005 to 5.1 per cent in 2006; growth is projected to decelerate marginally to 4.9 per cent in 2007, but will still be above the long-run average. There are, however, a number of downside risks to the growth prospects emanating from crude oil prices, large global macroeconomic imbalances and growing protectionism.

Cross-border net private capital flows to emerging and developing economies during 2006 are expected to remain substantial mainly on account of higher direct investment flows attributable to privatisations and cross-border

Table 43: Growth Rates – Global Scenario

(Per cent)

Country	2004	2005	2006P	2007P	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2
1	2	3	4	5	6	7	8	9	10	11
Advanced Economies										
Euro Area	2.1	1.3	2.4	2.0	1.5	1.5	1.6	1.7	1.9	2.4
Japan	2.3	2.6	2.7	2.1	1.4	2.6	2.8	3.7	3.6	2.5
Korea	4.7	4.0	5.0	4.3	2.7	3.2	4.5	5.3	6.1	5.3
UK	3.3	1.9	2.7	2.7	1.9	1.7	1.9	1.8	2.2	2.6
US	3.9	3.2	3.4	2.9	3.3	3.1	3.4	3.1	3.7	3.5
OECD Countries	3.2	2.6	3.1	2.9	2.4	2.5	2.8	2.9	3.3	3.1
Emerging Economies										
Argentina	9.0	9.2	8.0	6.0	8.0	10.1	9.2	9.1	8.6	7.9
Brazil	4.9	2.3	3.6	4.0	2.6	3.8	0.7	1.3	3.0	1.2
China	10.1	10.2	10.0	10.0	9.4	9.5	9.4	9.9	10.2	11.3
India	7.5 *	8.4 #	8.3	7.3	8.6	8.5	8.4	7.5	9.3	8.9
Indonesia	5.1	5.6	5.2	6.0	6.3	5.6	5.6	4.9	4.7	5.2
Malaysia	7.2	5.2	5.5	5.8	5.7	4.1	5.3	5.2	5.5	5.9
Russia	7.2	6.4	6.5	6.5	5.0	5.7	6.6	7.9	5.4	7.4
Thailand	6.2	4.5	4.5	5.0	3.2	4.6	5.4	4.7	6.1	4.9

* : FY 2004-05 # : FY 2005-06. P : IMF Projections.

Source : International Monetary Fund; The Economist; and the OECD.

mergers and acquisitions, partly offset by outflows under portfolio investment (Table 44).

World trade has continued to expand at a fairly robust pace during 2006 so far, although the pace of expansion recorded some deceleration. During January-June 2006, growth in the exports of developing countries (16.5 per cent) remained higher than that in exports of industrial countries (10.0 per cent) (Table 45).

Table 44: Select Economic Indicators – World

Item	2001	2002	2003	2004	2005	2006 P	2007 P
1	2	3	4	5	6	7	8
I. World Output (Per cent change) #	2.6	3.1	4.1	5.3	4.9	5.1	4.9
	(1.5)	(1.8)	(2.7)	(3.9)	(3.4)	(3.8)	(3.5)
i) Advanced economies	1.2	1.5	1.9	3.2	2.6	3.1	2.7
ii) Other emerging market and developing countries	4.4	5.1	6.7	7.7	7.4	7.3	7.2
of which: Developing Asia	6.1	7.0	8.4	8.8	9.0	8.7	8.6
II. Net Capital Flows* (US $ billion)							
i) Net private capital flows (a+b+c)	64.6	77.3	165.6	205.9	238.5	211.4	182.2
a) Net private direct investment	179.4	150.6	159.1	176.9	255.9	263.3	246.1
b) Net private portfolio investment	-78.2	-91.7	-10.9	13.9	3.2	-31.1	-4.6
c) Net other private capital flows	-36.6	18.4	17.3	15.1	-20.6	-20.8	-59.2
ii) Net official flows	-3.3	-4.3	-53.1	-64.7	-151.8	-238.7	-174.1
III. World Trade @							
i) Volume	–	3.4	5.3	10.6	7.4	8.9	7.6
ii) Price Deflator (in US dollars)	-3.2	1.2	10.5	9.7	5.4	4.6	2.2

P : IMF Projections.

: Growth rates are based on exchange rates at purchasing power parities. Figures in parentheses are growth rates at market exchange rates.

* : Net capital flows to Emerging Market and Developing Countries.

@ : Average of annual percentage change for world exports and imports of goods and services.

Source : World Economic Outlook, IMF, September 2006.

Table 45: Growth in Exports – Global Scenario

(Per cent)

Region/Country	2005	2005	2006
		January-July	
1	2	3	4
World	**13.9**	**16.0 ***	**12.7 ***
Industrial Countries	**8.5**	**11.1 ***	**10.0 ***
USA	10.8	10.4	13.9
France	3.5	7.0	9.0
Germany	7.3	9.2	9.5
Japan	5.2	6.3 *	8.3 *
Developing Countries	**21.8**	**23.4 ***	**16.5 ***
Non-Oil Developing Countries	**19.1**	**20.9 ***	**18.4 ***
China	28.4	32.6 *	25.2 *
India	29.9	33.6 @	20.3 @
Indonesia	18.2	23.8	16.2
Korea	12.0	10.7	13.5
Malaysia	12.0	10.7	14.7
Singapore	15.6	27.2 #	21.6 #
Thailand	14.4	13.0	19.1

* : January-June. @ : January-September. # : January-August.

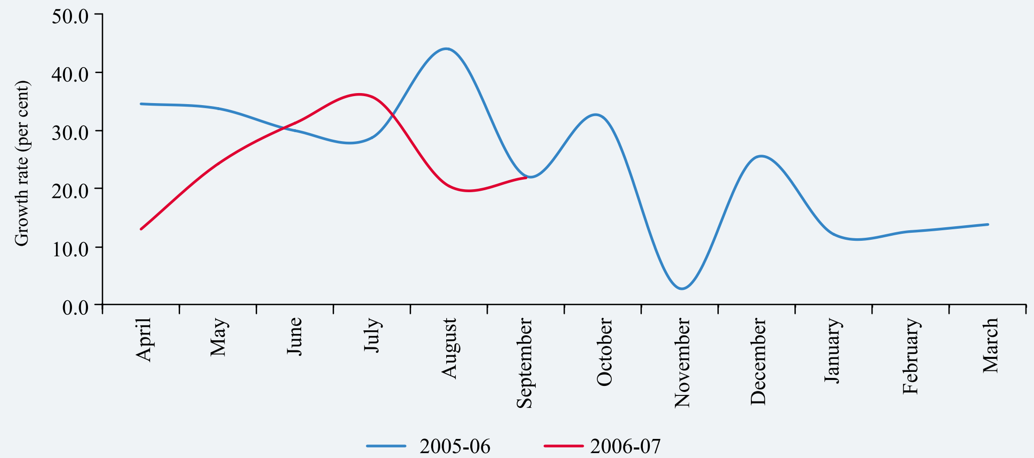
Source : International Financial Statistics, International Monetary Fund, October 2006; DGCI&S for India.

According to the IMF, growth in world trade volume is expected to accelerate from 7.4 per cent in 2005 to 8.9 per cent in 2006 before moderating to 7.6 per cent in 2007.

Merchandise Trade

India's merchandise exports have continued to record strong growth during 2006-07 so far, *albeit* with some deceleration. According to the provisional data released by Directorate General of Commercial Intelligence and Statistics (DGCI&S), exports (in US dollar terms) recorded growth of 23 per cent during April-September 2006 as compared with 34 per cent in the corresponding period of 2005 (Chart 51).

Chart 51 : India's Merchandise Exports



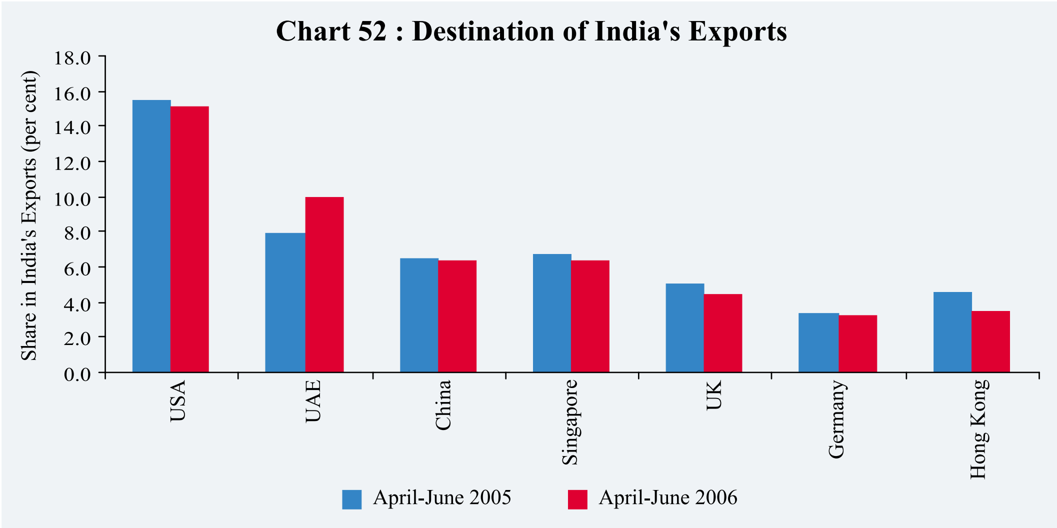
Among the major commodity groups, exports of primary products and manufactured goods showed a deceleration, while exports of petroleum products exhibited sharp acceleration during April-June 2006. Within the primary products, exports of agricultural and allied products accelerated, led by cotton, tobacco, spices, and sugar and molasses. Manufactures, such as, engineering goods, basic chemicals and pharmaceutical products, and readymade garments also posted strong growth, although there was some moderation in the expansion. Engineering goods were the prime movers of growth in manufactured exports. Machinery and instruments, and electronic goods registered sharp growth benefiting from strong demand from the major importing countries. Gems and jewellery exports exhibited sharp deceleration during April-June 2006. Exports of petroleum products, on the other hand, recorded acceleration, reflecting the increase in oil prices in the international market as well as in volumes. POL exports increased by 99 per cent in US dollar terms (49 per cent in volume terms) and accounted for 39 per cent of the increase in overall exports during April-June 2006 (Table 46). Exports, net of petroleum products, grew by 16 per cent during April-June 2006 (32 per cent a year ago).

Destination-wise, the US, the UAE and China were the largest export markets for India during April-June 2006 (Chart 52). Exports to the OPEC countries recorded growth of 50 per cent during April-June 2006. Exports to the US, the largest export market for India, maintained the growth momentum, while export growth to China showed deceleration.

Table 46: Exports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)	
	2005-06	2005-06	2006-07	2005-06	2006-07
		April-June		April-June	
1	2	3	4	5	6
1. Primary Products	**16.4**	**3.7**	**4.4**	**35.0**	**17.0**
of which:					
a) Agriculture and allied products	10.2	2.3	2.7	17.1	20.5
b) Ores and minerals	6.2	1.4	1.6	77.9	11.4
2. Manufactured Goods	**71.8**	**16.8**	**19.4**	**31.5**	**15.1**
of which:					
a) Chemicals and related products	14.5	3.4	3.9	28.2	15.8
b) Engineering goods	21.5	5.1	6.6	49.7	29.1
c) Textiles and textile products	16.0	3.8	4.3	21.2	13.3
d) Gems and jewellery	15.5	3.5	3.5	26.4	0.6
3. Petroleum Products	**11.5**	**2.1**	**4.3**	**61.7**	**99.2**
4. Total Exports	**102.7**	**23.5**	**29.0**	**34.5**	**23.4**

Source : DGCI&S.



Growth in imports moderated during April-September 2006, despite the surge in oil imports. The rise in petroleum, oil and lubricants (POL) imports during April-September 2006 (37 per cent) was mainly due to sharp increase in international crude oil prices. The average crude oil price (Indian basket) recorded an increase of 25 per cent during April-September 2006. In volume terms, oil imports increased by 16 per cent during April-June 2006 as compared with a decline of 4 per cent a year ago.

Non-oil import growth decelerated sharply to 11 per cent during April-September 2006 from 49 per cent a year ago (Chart 53). This is attributable

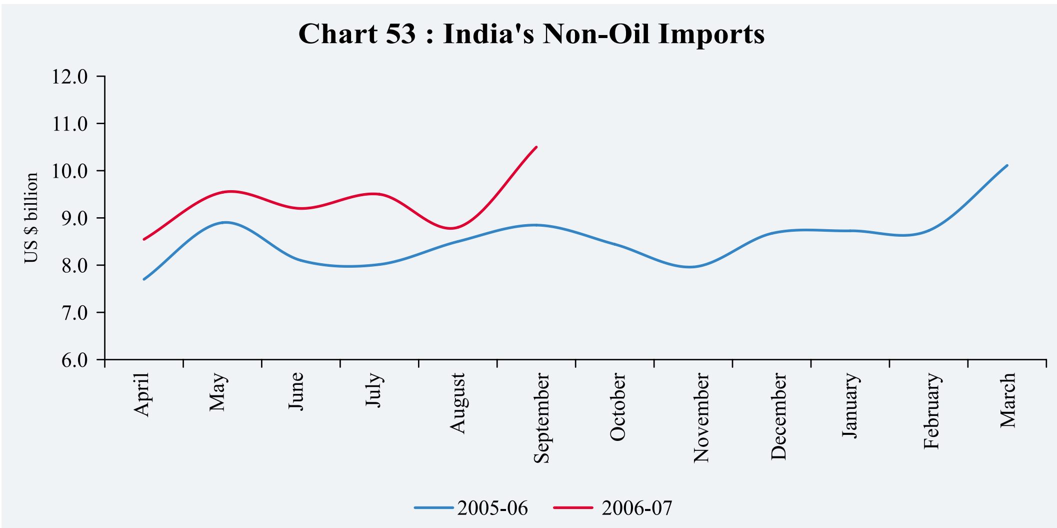


Table 47: Imports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)	
	2005-06	2005-06	2006-07	2005-06	2006-07
		April-June		April-June	
1	2	3	4	5	6
POL	44.0	9.4	13.7	31.0	44.9
Edible Oils	2.0	0.5	0.5	-14.2	14.6
Fertilisers	2.1	0.4	0.5	184.4	21.4
Iron and Steel	4.4	1.2	1.3	113.7	11.0
Capital Goods	31.7	6.9	9.5	52.4	37.8
of which:					
a) Electronic Goods including Computer Software	14.1	2.9	3.9	25.8	36.2
b) Transport Equipments	3.2	0.7	1.0	118.3	45.5
Pearls, Precious and Semi-Precious Stones	9.1	2.7	1.8	59.1	-34.1
Chemicals	6.9	1.7	1.8	54.4	8.2
Gold and Silver	11.2	4.3	3.0	52.1	-30.3
Total Imports	**142.4**	**34.4**	**40.9**	**46.2**	**19.0**
Memo:					
Non-oil Imports	98.5	25.0	27.2	52.9	9.1
Non-oil Imports excluding gold and silver	87.3	20.7	24.3	53.0	17.3
Mainly Industrial Imports*	81.0	19.3	22.6	54.8	17.1

* : Non-oil imports net of gold and silver, bulk consumption goods, manufactured fertilisers and professional instruments.

Source : DGCI&S.

partly to the decline in the imports of gold and silver which fell by 30 per cent during April-June 2006 in contrast to an increase of 52 per cent a year ago (Table 47). This decline could be, *inter alia*, on account of the surge in international prices of gold. Imports of mainly export related items such as pearls, precious and semi precious stones also registered sharp decline during April-June 2006. Capital goods maintained the momentum of strong growth (38 per cent during April-June 2006 as compared with 52 per cent a year ago) reflecting the sustained investment demand in the economy.

Country-wise, China was the largest source for India's imports during April-June 2006 with a share of 8.9 per cent in India's total imports, followed by Saudi Arabia (8.0 per cent), the US (5.9 per cent) and the UAE (5.6 per cent). Region-wise, developing economies (excluding OPEC) were the major source, accounting for 32.5 per cent of India's total imports. Within developing economies, East Asian countries were the largest source (25.3 per cent) of India's total imports.

Trade deficit, based on DGCI&S data, increased by 10.5 per cent to US $ 24.6 billion during April-September 2006 mainly on account of surge in oil imports (Table 48). Non-oil trade deficit, in fact, declined to US $ 2.5 billion during April-June 2006 from US $ 3.6 billion a year ago.

Table 48: India's Merchandise Trade

(US $ billion)

Item	2004-05	2005-06	2005-06	2006-07
			April-September	
1	2	3	4	5
Exports	83.5	103.1	48.3	59.3
Imports	111.5	149.2	70.5	83.9
Oil	29.8	44.0	20.9	28.7
Non-oil	81.7	105.2	49.8	55.3
Trade Balance	-27.9	-46.1	-22.3	-24.6
Non-oil Trade Balance	-5.1	-13.6	-3.6 *	-2.5 *
			Variation (per cent)	
Exports	30.8	23.4	34.1	22.9
Imports	42.7	33.8	46.6	19.0
Oil	45.1	47.3	43.6	36.8
Non-oil	41.8	28.8	48.5	11.0

*: April-June.

Source : DGCI&S.

Current Account

Net surplus under the invisibles account continued to exhibit buoyancy during the first quarter of 2006-07, on the back of higher exports of software and business services, and private transfers. Net surplus under software services during April-June 2006 (US $ 5.9 billion) increased by 22.5 per cent over that during April-June 2005; the surplus under business and other services more than trebled to US $ 1.7 billion (Table 49). Private transfers at US $ 5.8 billion were almost five per cent higher than a year ago. Investment income balance

Table 49: Invisibles Account (Net)

(US $ million)

Item	2005-06 P	2005-06				2006-07
	April-March	April-June PR	July-Sept. PR	Oct.-Dec.PR	Jan-March P	April-June P
1	2	3	4	5	6	7
Services	22,265	5,372	6,139	4,432	6,322	7,575
Travel	1,368	178	250	432	508	79
Transportation	-1,117	-169	-96	-409	-443	-260
Insurance	57	6	253	-127	-75	105
Government, not included elsewhere	-175	-17	-50	-18	-90	-28
Software	22,262	4,853	4,989	5,755	6,665	5,947
Other Services	-130	521	793	-1,201	-243	1,732
Transfers	24,276	5,503	4,990	6,436	7,347	5,735
Investment Income	-5,027	-695	-1,409	-2,693	-230	-791
Compensation of Employees	-572	-132	-133	-164	-143	-134
Total	**40,942**	**10,048**	**9,587**	**8,011**	**13,296**	**12,385**

PR : Partially Revised. P : Preliminary.

Table 50: India's Balance of Payments

(US $ million)

Item	2005-06 P April-March	2005-06 April-June PR	2005-06 July-Sept.PR	2005-06 Oct.-Dec.PR	2005-06 Jan-March P	2006-07 April-June P
1	2	3	4	5	6	7
Exports	104,780	24,150	24,060	26,400	30,170	28,245
Imports	156,334	37,754	38,692	38,237	41,651	46,729
Trade Balance	-51,554 (-6.5)	-13,604	-14,632	-11,837	-11,481	-18,484
Invisible Receipts	91,481	19,686	19,832	24,024	27,939	24,138
Invisible Payments	50,539	9,638	10,245	16,013	14,643	11,753
Invisibles, net	40,942 (5.1)	10,048	9,587	8,011	13,296	12,385
Current Account	-10,612 (-1.3)	-3,556	-5,045	-3,826	1,815	-6,099
Capital Account (net)*	25,664 [31,164] @	4,803	10,301	-846 [4,654] @	11,406	12,477
of which:						
Foreign Direct Investment	5,733	1,198	1,086	1,412	2,037	1,727
Portfolio Investment	12,489	972	4,436	2,748	4,333	-527
External Commercial Borrowings $	1,591 [7,091] @	1,091	1,758	-4,281 [1,219] @	3,023	3,560
Short-term Trade Credits	1,708	-151	1,123	759	-23	417
External Assistance	1,438	212	183	477	566	23
NRI Deposits	2,789	-108	341	881	1,675	1,231
Change in Reserves #	-15,052	-1,247	-5,256	4,672	-13,221	-6,378

P : Preliminary. PR : Partially Revised.
* : Includes errors and omissions.
$: Medium and long-term borrowings.
: On balance of payments basis (excluding valuation); (-) indicates increase.
@ : Excluding the IMD redemption.
Note : Figures in parentheses are per cent to GDP.

continued to record a deficit, as payments associated with servicing of India's external liabilities remained in excess of earnings on India's external assets. On balance, the net surplus under invisibles (services, transfers and income taken together) increased from US $ 10.0 billion during April-June 2005 to US $ 12.4 billion during April-June 2006.

The net invisibles surplus continued to finance bulk (67 per cent) of the merchandise trade deficit during April-June 2006. However, in view of the large expansion in merchandise trade deficit, current account deficit widened to US $ 6.1 billion from US $ 3.6 billion during April-June 2005 (Table 50).

Capital Flows

Capital flows to India have remained large during 2006-07 so far. Foreign direct investment (FDI) inflows at US $ 4.0 billion during April-August 2006 were 62 per cent higher than in the corresponding period of the previous year (Table 51). The pick-up in FDI inflows reflects growing investor interest in the Indian

Table 51: Capital Flows

(US $ million)

Components	Period	2005-06	2006-07
1	2	3	4
Foreign Direct Investment into India	April-August	2,470	4,008
FIIs (net)	April-October *	4,682	-29
ADRs/GDRs	April-August	568	1,547
External Assistance (net)	April-June	212	23
External Commercial Borrowings (net) (Medium and long-term)	April-June	1,091	3,560
Short-term Trade Credits (net)	April-June	-151	417
NRI Deposits (net)	April-August	33	1,635

* Up to October 13.

economy on the back of strong fundamentals as well as the impact of policy initiatives aimed at rationalising and liberalising the FDI policy and simplifying the procedures. FDI was channelled mainly into manufacturing, banking and financial services. Mauritius, the US and Singapore remain the dominant sources of FDI to India.

Foreign institutional investors (FIIs) registered outflows during May-July 2006 against the backdrop of weakness in domestic equity markets in consonance with the trends in international markets. Since August 2006, however, FIIs have made large purchases in the Indian stock markets. Overall, FIIs have registered marginal net outflows of US $ 29 million during 2006-07 so far (up to October 13, 2006). The number of FIIs registered with the SEBI has increased from 882 at end-March 2006 to 973 by October 20, 2006. With corporates resorting to greater issue of American depository receipts (ADRs)/global depository receipts (GDRs) abroad, amounts mobilised through this route were also substantially higher during April-August 2006.

Mobilisation through external commercial borrowings (ECBs) during April-June 2006 was considerably higher as compared to the corresponding period of the previous year in consonance with strong investment demand in the economy. Commercial bank loans and foreign currency convertible bonds (FCCBs) accounted for majority of the increase in the ECBs during the quarter. Net inflows under various NRI deposits witnessed large inflows during April-August 2006 as compared with the corresponding period of 2005, partly reflecting higher interest rates. The ceiling interest rate on NRE deposits was raised by 25 basis points each in November 2005 and April 2006 to LIBOR/SWAP rates of US dollar *plus* 100 basis points. The ceiling interest rate on FCNR(B) deposits was also raised by 25 basis points to "LIBOR/SWAP rates for the respective currency/maturity" in March 2006 from "LIBOR/SWAP rates *minus* 25 basis points".

Table 52: Foreign Exchange Reserves

(US $ million)

End-Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)
1	2	3	4	5	6
March 1995	4,370	7	20,809	331	25,517
March 2000	2,974	4	35,058	658	38,694
March 2005	4,500	5	135,571	1,438	141,514
March 2006	5,755	3	145,108	756	151,622
April 2006	6,301	6	153,598	772	160,677
May 2006	7,010	–	156,073	785	163,868
June 2006	6,180	–	155,968	764	162,912
July 2006	6,557	7	157,247	766	164,577
August 2006	6,538	1	158,938	767	166,244
September 2006	6,202	1	158,340	762	165,305
October 2006 *	6,202	1	159,304	646	166,153

– : Negligible.
* : As on October 20, 2006.

Foreign Exchange Reserves

India's foreign exchange reserves were US $ 166.2 billion as on October 20, 2006, showing an increase of US $ 14.5 billion over end-March 2006 level (Table 52). The increase in reserves was mainly due to increase in foreign currency assets from US $ 145.1 billion at end-March 2006 to US $ 159.3 billion as on October 20, 2006.

India holds the fifth largest stock of reserves among the emerging market economies. The overall approach to the management of India's foreign exchange reserves in recent years reflects the changing composition of the balance of payments and the 'liquidity risks' associated with different types of flows and other requirements. Taking these factors into account, India's foreign exchange reserves continued to be at a comfortable level and consistent with the rate of growth, the share of external sector in the economy and the size of risk-adjusted capital flows.

External Debt

During the first quarter of 2006-07, India's total external debt increased by US $ 6.9 billion to US $ 132.1 billion at end-June 2006. The increase during the quarter was mainly on account of external commercial borrowings which recorded an increase of US $ 5.4 billion, reflecting strong domestic investment activity. The rise in NRI deposits can be attributed, *inter alia*, to the upward revision in interest rates on NRE term deposits. Notwithstanding increase in the stock of external debt, various sustainability indicators suggest continued

Table 53: India's External Debt

(US $ million)

Item	End-March 1995	End-March 2005	End-March 2006	End-June 2006
1	2	3	4	5
1. Multilateral	28,542	31,702	32,558	33,105
2. Bilateral	20,270	16,930	15,784	15,833
3. International Monetary Fund	4,300	0	0	0
4. Trade Credit	6,629	4,980	5,326	5,455
5. External Commercial Borrowings	12,991	27,024	25,560	30,975
6. NRI Deposits	12,383	32,743	35,134	35,651
7. Rupee Debt	9,624	2,301	2,031	1,915
8. Long-term (1 to 7)	94,739	1,15,680	1,16,393	1,22,934
9. Short-term	4,269	7,524	8,788	9,196
Total	**99,008**	**1,23,204**	**1,25,181**	**1,32,130**
Memo:				(Per cent)
Total debt/GDP	30.8	17.3	15.8	..
Short-term/Total debt	4.3	6.1	7.0	7.0
Short-term debt/Reserves	16.9	5.3	5.8	5.6
Concessional debt/Total debt	45.3	33.3	31.5	30.2
Reserves/Total debt	25.4	114.9	121.1	123.3
Debt Service Ratio*	25.9	6.1	10.2	..

*: Relates to the fiscal year.

improvement in India's external debt position. The ratio of short-term to total debt at 7.0 per cent at end-June 2006 remained unchanged from that at end-March 2006, while the ratio of short-term debt to reserves declined marginally to 5.6 per cent. India's foreign exchange reserves exceeded the external debt by US $ 30.8 billion providing a cover of 123.3 per cent to the external debt stock at end-June 2006 (Table 53).

International Investment Position

India's international assets increased by US $ 14.2 billion during the year ended March 2006, mainly on account of an increase in reserve assets. India's direct investment abroad also continued its rising trend, reflecting growing investment interest by Indian companies in the overseas markets. International liabilities of the country expanded by US $ 20.0 billion during 2005-06, led by portfolio and direct investment. As the increase in international liabilities exceeded that in international assets during the year, India's net international liabilities increased by around US $ 6 billion, mirroring the widening of current account deficit. At end-March 2006, the ratio of India's net international liabilities to GDP at 6.4 per cent was marginally higher than that a year ago, but almost one-half of that at end-March 2003 (Table 54).

Table 54: International Investment Position of India

(US $ billion)

Item		March 2003	March 2004	March 2005	March 2006
1		2	3	4	5
A.	**Assets**	**95.6**	**137.8**	**168.9**	**183.1**
		(20.2)	**(23.5)**	**(26.0)**	**(25.5)**
	1. Direct Investment	5.8	7.8	10.1	12.1
	2. Portfolio Investment	0.8	0.8	0.8	1.3
	2.1 Equity Securities	0.4	0.4	0.4	0.7
	2.2 Debt Securities	0.4	0.4	0.4	0.6
	3. Other Investment	12.9	16.3	16.5	18.2
	3.1 Trade Credits	1.1	1.9	2.8	1.0
	3.2 Loans	1.4	1.8	1.9	2.6
	3.3 Currency and Deposits	7.5	9.5	8.4	11.2
	3.4 Other Assets	2.9	3.2	3.4	3.5
	4. Reserve Assets	76.1	113.0	141.5	151.6
		(16.0)	(19.3)	(21.8)	(21.1)
B.	**Liabilities**	**156.1**	**183.1**	**209.2**	**229.2**
		(32.9)	**(31.3)**	**(32.2)**	**(31.9)**
	1. Direct Investment	31.2	38.2	43.6	50.3
		(6.6)	(6.5)	(6.7)	(7.0)
	2. Portfolio Investment	32.4	43.7	55.3	63.4
		(6.8)	(7.5)	(8.5)	(8.8)
	2.1 Equity Securities	20.1	33.9	42.7	54.3
	2.2 Debt Securities	12.3	9.8	12.5	9.0
	3. Other Investment	92.4	101.3	110.3	115.6
		(19.5)	(17.3)	(17.0)	(16.1)
	3.1 Trade Credits	4.9	6.3	9.6	10.5
	3.2 Loans	61.1	61.9	65.8	67.8
	3.3 Currency and Deposits	25.6	32.2	33.6	36.2
	3.4 Other Liabilities	0.9	0.9	1.4	1.1
C.	**Net Position (A-B)**	**-60.5**	**-45.3**	**-40.3**	**-46.1**
		(-12.7)	**(-7.7)**	**(-6.2)**	**(-6.4)**

Note : Figures in parentheses are percentages to GDP.