



**Macroeconomic and  
Monetary Developments**  
First Quarter Review 2007-08

Reserve Bank of India  
Mumbai

# Contents

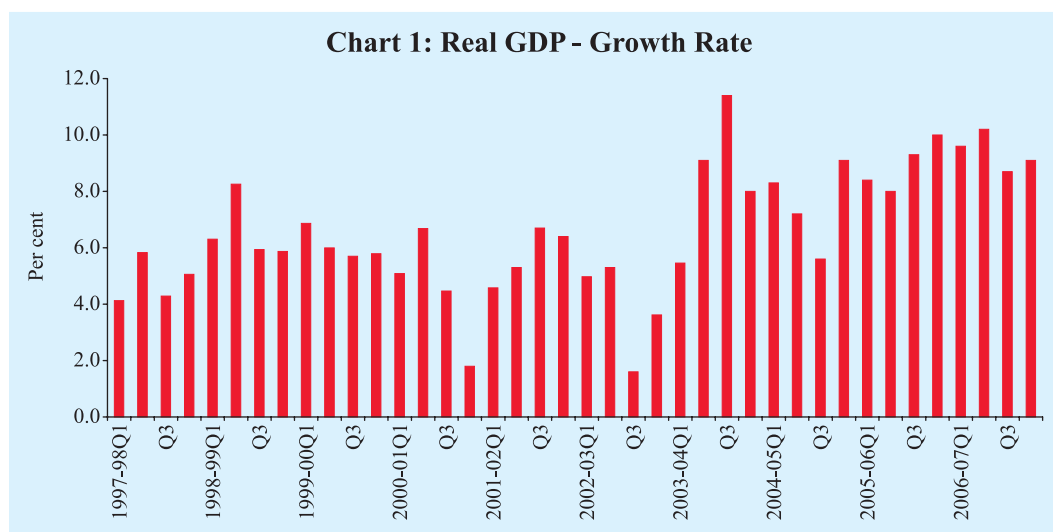
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## I. THE REAL ECONOMY

The Indian economy continued to record robust growth in 2006-07 for the fourth successive year, buoyed by the sustained momentum in the services and manufacturing sectors. The latest estimates released by the Central Statistical Organisation (CSO) in May 2007 revised real GDP growth upwards to 9.4 per cent during 2006-07 from 9.2 per cent in the advance estimates (released in January 2007) (Table 1 and Chart 1). The upward revision was mainly due to manufacturing (12.3 per cent from the earlier estimate of 11.3 per cent) and construction (10.7 per cent from 9.4 per cent), partly offset by downward revision in financing, insurance, real estate and business services (10.6 per cent from 11.1 per cent). Real GDP growth averaged 8.6 per cent per annum during 2003-04

**Table 1: Growth Rates of Real GDP**

Sector	2000-01 to 2006-07 (Average)	2004-05	2005-06*	2006-07#	(Per cent)							
					2005-06 *				2006-07 #			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11	12	13
<b>1 Agriculture and Allied Activities</b>	<b>2.5</b>	<b>0.0</b> <b>(20.2)</b>	<b>6.0</b> <b>(19.7)</b>	<b>2.7</b> <b>(18.5)</b>	<b>4.0</b>	<b>4.0</b>	<b>8.7</b>	<b>6.2</b>	<b>2.8</b>	<b>2.9</b>	<b>1.6</b>	<b>3.8</b>
<b>2 Industry</b>	<b>7.0</b>	<b>8.4</b> <b>(19.6)</b>	<b>8.0</b> <b>(19.4)</b>	<b>11.0</b> <b>(19.7)</b>	<b>9.8</b>	<b>6.6</b>	<b>7.2</b>	<b>8.6</b>	<b>10.6</b>	<b>11.3</b>	<b>10.8</b>	<b>11.2</b>
2.1 Mining and Quarrying	4.6	7.5	3.6	5.1	6.1	0.1	2.7	5.2	3.7	3.9	5.5	7.1
2.2 Manufacturing	7.7	8.7	9.1	12.3	10.7	8.1	8.2	9.4	12.3	12.7	11.8	12.4
2.3 Electricity, Gas and Water Supply	4.8	7.5	5.3	7.4	7.4	2.6	5.0	6.1	5.8	8.1	9.1	6.9
<b>3 Services</b>	<b>8.6</b>	<b>10.0</b> <b>(60.2)</b>	<b>10.3</b> <b>(60.9)</b>	<b>11.0</b> <b>(61.8)</b>	<b>9.5</b>	<b>9.5</b>	<b>10.3</b>	<b>11.6</b>	<b>11.6</b>	<b>11.7</b>	<b>10.9</b>	<b>10.0</b>
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	10.3	10.9	10.4	13.0	10.2	9.5	10.0	11.8	12.4	14.2	13.1	12.4
3.2 Financing, Insurance, Real Estate and Business Services	7.9	8.7	10.9	10.6	8.9	10.6	9.8	14.2	10.8	11.1	11.2	9.3
3.3 Community, Social and Personal services	6.0	7.9	7.7	7.8	7.5	7.9	8.3	7.2	11.3	8.3	6.7	5.7
3.4 Construction	9.9	14.1	14.2	10.7	12.7	11.3	16.6	16.1	10.5	11.1	10.0	11.2
<b>4 Real GDP at Factor Cost</b>	<b>6.9</b> <b>(100)</b>	<b>7.5</b> <b>(100)</b>	<b>9.0</b> <b>(100)</b>	<b>9.4</b> <b>(100)</b>	<b>8.4</b>	<b>8.0</b>	<b>9.3</b>	<b>10.0</b>	<b>9.6</b>	<b>10.2</b>	<b>8.7</b>	<b>9.1</b>
<i>Memo:</i> (Amount in Rupees crore)												
a) Real GDP at factor cost (1999-2000 prices)	23,89,660	26,04,532	28,48,157									
b) GDP at current market prices	31,26,596	35,67,177	41,25,725									
* : Quick Estimates. # : Revised Estimates.												
<b>Note</b> : Figures in parentheses denote shares in real GDP												
<b>Source</b> : Central Statistical Organisation.												



to 2006-07 and 7.6 per cent per annum for the Tenth Plan period (2002-03 to 2006-07). Per capita income growth averaged 7.1 per cent per annum during the last four years (2003-04 to 2006-07), over twice the average growth of 3.4 per cent recorded during the 1980s and the 1990s.

Against the backdrop of sustained buoyancy in 2006-07, this chapter presents the developments in the real economy during the first quarter of 2007-08.

### Agricultural Situation

According to the revised forecast of the India Meteorological Department (IMD) released in June 2007, the rainfall during the 2007 South-West monsoon season (June-September) is likely to be 93 per cent of the long-period average, with a model error of +/- 4 per cent. Monsoon advanced over Kerala on May 28, 2007, four days earlier than the normal date of June 1. By May 29, 2007 monsoon covered the entire coastal Karnataka and some parts of south interior Karnataka and south Tamil Nadu. After this, there was a hiatus in the advancement of monsoon for about one week. The monsoon covered the entire country by July 4, 2007. The cumulative rainfall during the 2007 season (up to July 25) was 4 per cent above normal as compared with 14 per cent below normal during the corresponding period of the previous year. Of the 36 meteorological sub-divisions, cumulative rainfall was deficient/scanty in 7 sub-divisions (14 sub-divisions during last year) (Table 2). As on July 19, 2007, the total live water storage in the 78 major reservoirs<sup>1</sup> was 54 per cent of the full reservoir level (FRL), higher than that of 38 per cent last year and the average of 28 per cent for the past ten years.

<sup>1</sup> These 78 reservoirs have FRL of 134.2 billion cubic metres and account for around 64 per cent of the total reservoir capacity of the country.

The Real Economy

**Table 2: Spatial Distribution of Rainfall - South-West Monsoon (June-September)**

Year	Cumulative Rainfall: Above(+)/Below (-) Normal (per cent)	Number of Sub-Divisions			
		Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain
1	2	3	4	5	6
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
2006@	-14	1	21	14	0
2007@	4	14	15	7	0

Excess : +20 per cent or more.    Normal : +19 per cent to -19 per cent.    Deficient : -20 per cent to -59 per cent.  
 Scanty : -60 per cent or less.    No Rain : -100 per cent.    @ : Up to July 25.  
**Source** : India Meteorological Department.

*Kharif* sowing is progressing with the advent of the South-West monsoon in various States. As of July 20, 2007, total area sown was 1.7 per cent higher than that in the corresponding period of 2006. Area covered under rice, coarse cereals, oilseeds and cotton increased while that under sugarcane and pulses declined (Table 3).

According to the Fourth Advance Estimates, the foodgrains production during 2006-07 was 216.1 million tonnes, an increase of 3.6 per cent over the

**Table 3: Progress of Area under *Kharif* Crops – 2007-08**

Crop	Normal Area	(Million hectares)		
		Area Coverage (as on July 20)		
		2006	2007	Variation
1	2	3	4	5
Rice	38.2	11.5	11.7	0.2
Coarse Cereals	22.9	13.7	14.4	0.7
<i>of which:</i>				
Bajra	9.4	4.7	5.7	1.0
Jowar	4.4	2.6	2.4	-0.2
Maize	6.2	5.7	5.5	-0.2
Total Pulses	10.9	4.8	4.0	-0.8
Total Oilseeds	15.4	11.7	12.2	0.5
<i>of which:</i>				
Groundnut	5.5	3.2	3.4	0.2
Soyabean	6.6	6.7	7.2	0.5
Sugarcane	4.2	4.8	4.4	-0.4
Cotton	8.3	6.4	7.2	0.8
<b>All Crops</b>	<b>100.7</b>	<b>53.8</b>	<b>54.7</b>	<b>0.9</b>

**Source** : Ministry of Agriculture, Government of India.

**Table 4: Agricultural Production**

Crop	2002-03	2003-04	2004-05	2005-06	(Million tonnes)	
					2006-07	
					T	A S
1	2	3	4	5	6	7
Rice	71.8	88.5	83.1	91.8	92.8	92.8
<i>Khharif</i>	63.1	78.6	72.2	78.3	80.8	80.1
<i>Rabi</i>	8.7	9.9	10.9	13.5	12.0	12.7
Wheat	65.8	72.2	68.6	69.4	75.5	74.9
Coarse Cereals	26.1	37.6	33.5	34.1	36.5	34.3
<i>Khharif</i>	20.0	32.2	26.4	26.7	28.7	25.7
<i>Rabi</i>	6.1	5.4	7.1	7.3	7.8	8.6
Pulses	11.1	14.9	13.1	13.4	15.2	14.2
<i>Khharif</i>	4.2	6.2	4.7	4.9	5.8	4.7
<i>Rabi</i>	7.0	8.7	8.4	8.5	9.4	9.5
Total Foodgrains	174.8	213.2	198.4	208.6	220.0	216.1
<i>Khharif</i>	87.2	117.0	103.3	109.9	115.3	110.5
<i>Rabi</i>	87.6	96.2	95.1	98.7	104.8	105.6
Total Oilseeds	14.8	25.2	24.4	28.0	29.4	23.9
<i>Khharif</i>	9.0	16.7	14.1	16.8	18.1	13.9
<i>Rabi</i>	5.9	8.5	10.2	11.2	11.3	10.0
Sugarcane	287.4	233.9	237.1	281.2	270.0	345.3
Cotton #	8.6	13.7	16.4	18.5	18.5	22.7
Jute and Mesta ##	11.3	11.2	10.3	10.8	11.3	11.3

T : Target.      A : Achievement.      S : Fourth Advance Estimates as on July 19, 2007.  
# : Million bales of 170 kgs each.      ## : Million bales of 180 kgs each.  
**Source** : Ministry of Agriculture, Government of India.

previous year, led by higher production of wheat. Amongst the non-foodgrains, sugarcane and cotton reached new peaks, while production of oilseeds was lower (Table 4).

#### Food Management

The procurement of foodgrains (rice and wheat) during 2007-08 (up to July 19) aggregated 15.3 million tonnes (mt), 4.1 per cent higher than that in the corresponding period of the preceding year. This was mainly on account of 20.2 per cent increase in wheat procurement to 11.1 mt (Table 5). The offtake of foodgrains during 2007-08 (up to April 30, 2007) was 2.8 mt, 1.4 per cent lower than that in the corresponding period of the previous year. The total stock of foodgrains with the Food Corporation of India (FCI) and other Government agencies increased to 25.1 mt as on May 1, 2007 from 22.8 mt a year ago. The stocks were higher than the buffer stock norms (16.2 mt as on April 1, 2007). The stocks of rice as well as wheat exceeded the respective buffer stock norms of 12.2 mt and 4.0 mt.

The Real Economy

**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	24.0	16.8	40.8	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	26.9	14.8	41.7	31.4	9.8	1.1	0.0	42.2	16.6	
2006-07	13.7	2.0	16.6	26.7	9.2	35.9	31.6	5.1	0.0	0.0	36.8	17.8	
2006-07@				5.5	9.2	14.7	2.5	0.3	0.0	0.0	2.8		
2007-08@				4.2	11.1	15.3	2.5	0.2	0.0	0.0	2.8		
<b>2006</b>													
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	2.7	0.4	0.0	0.0	3.1	17.1	26.9
August	9.5	7.3	17.1	0.5	0.0	0.5	2.7	0.4	0.0	0.0	3.1	15.5	
September	7.8	6.7	15.5	0.2	0.0	0.2	2.3	0.5	0.0	0.0	2.8	12.6	
October	6.0	6.4	12.6	8.0	0.0	8.0	2.4	0.3	0.0	0.0	2.7	18.7	16.2
November	12.5	6.0	18.7	2.0	0.0	2.0	2.5	0.4	0.0	0.0	2.9	17.8	
December	12.1	5.6	17.8	2.6	0.0	2.6	2.6	0.3	0.0	0.0	3.0	17.5	
<b>2007</b>													
January	12.0	5.4	17.5	4.3	0.0	4.3	2.7	0.4	0.0	0.0	3.1	18.1	20.0
February	12.6	5.4	18.1	2.4	0.0	2.4	2.7	0.5	0.0	0.0	3.1	19.1	
March	14.0	5.1	19.1	1.2	0.0	1.2	2.7	0.5	0.0	0.0	3.2	17.8	
April	13.2	4.6	17.8	0.9	7.9	8.7	2.5	0.2	0.0	0.0	2.8	25.1	16.2
May	13.5	11.6	25.1	1.5	2.6	4.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
June	N.A.	N.A.	N.A.	1.3	0.7	2.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
July*	N.A.	N.A.	N.A.	0.5	0.0	0.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	26.9

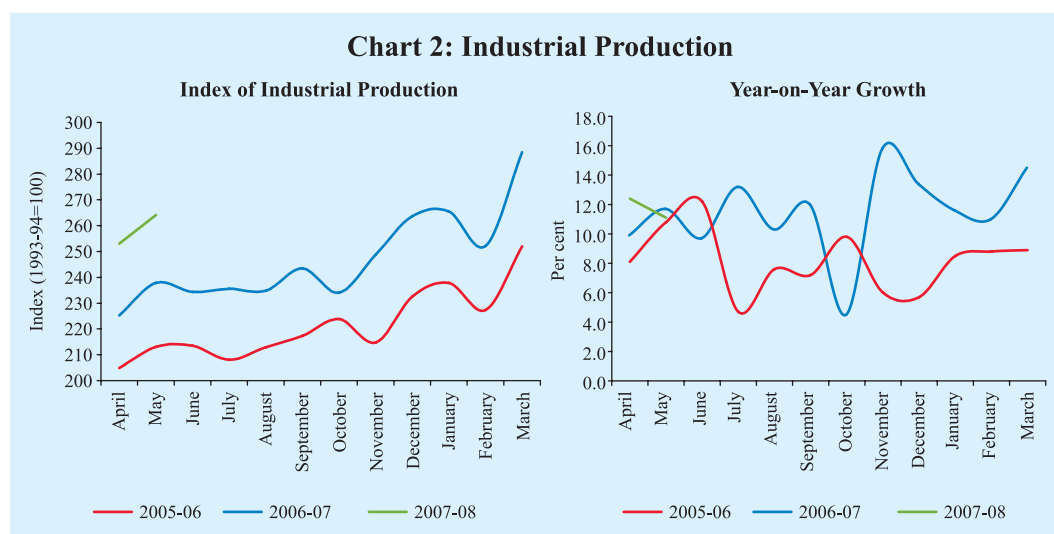
PDS : Public Distribution System. OWS : Other Welfare Schemes. OMS : Open Market Sales. N.A. : Not Available.  
 @ : Procurement up to July 19 and offtake up to April 30. \* : Procurement up to July 19.  
**Note** : Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting offtake, as stocks include coarse grains also.  
**Source** : Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

**Industrial Performance**

Industrial production remained robust during April-May 2007, recording a year-on-year expansion of 11.7 per cent. The manufacturing sector remained the key driver of industrial activity, with growth of 12.7 per cent (Chart 2 and Table 6). While growth of the mining sector remained subdued, that of the electricity sector was higher than that during April-May 2006.

The manufacturing sector's robust performance was largely contributed by 'machinery and equipment', 'food products', 'basic metal and alloy industries' and 'chemicals and chemical products' (Table 7). The higher growth in 'food products' and 'wood and wood products' could be partly attributed to the base effect.

In terms of use-based classification, the consumer goods sector witnessed strong growth during April-May 2007 on the back of acceleration in the growth of



non-durables sub-sector, which in turn, was due to higher production of food products, cigarettes and non-cotton cloth (Table 6). The intermediate goods sector recorded a growth of 10.5 per cent, the same as in April-May 2006, aided by higher production of jute and other vegetable fibre, wood and wood products, and metal products and parts. The basic goods and capital goods sectors continued to record robust growth, *albeit* some deceleration was observed in the latter.

**Table 6: Index of Industrial Production - Sectoral and Use-Based Classification of Industries**

Industry Group	Weight in the IIP	(Per cent)					
		Growth Rate			Weighted Contribution #		
		April-March	April-May		April-March	April-May	
		2006-07	2006-07	2007-08 P	2006-07	2006-07	2007-08 P
1	2	3	4	5	6	7	8
<b>Sectoral</b>							
Mining	10.5	5.3	3.2	3.0	3.4	2.2	1.9
Manufacturing	79.4	12.5	12.2	12.7	91.1	93.2	91.4
Electricity	10.2	7.2	5.5	9.0	5.5	4.7	6.8
<b>Use-Based</b>							
Basic Goods	35.6	10.3	9.2	9.4	27.2	26.4	24.6
Capital Goods	9.3	18.3	20.6	18.6	17.6	18.3	16.7
Intermediate Goods	26.5	11.9	10.5	10.5	26.9	26.2	24.1
Consumer Goods (a+b)	28.7	10.1	9.7	12.7	28.7	29.2	35.0
a) Consumer Durables	5.4	9.1	12.5	3.8	6.7	9.5	2.7
b) Consumer Non-durables	23.3	10.5	8.8	15.9	21.8	19.7	32.3
<b>General</b>	<b>100.0</b>	<b>11.5</b>	<b>10.8</b>	<b>11.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

P : Provisional. # : Figures may not add up to 100 due to rounding off.  
**Source** : Central Statistical Organisation.



The Real Economy

**Table 7: Growth of Manufacturing Groups**

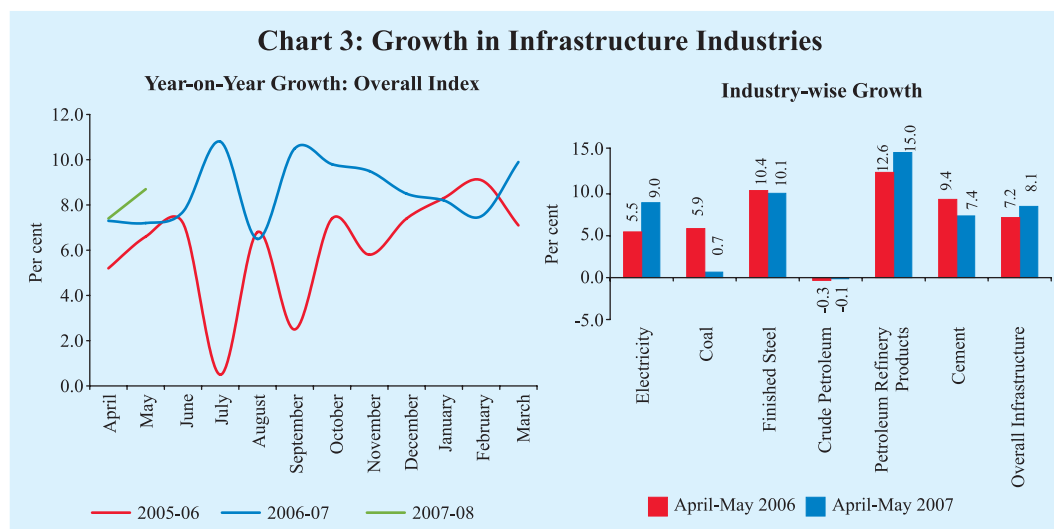
Industry Group	Weight in the IIP	(Per cent)					
		Growth Rate			Weighted Contribution #		
		April-March 2006-07	April-May		April-March 2006-07	April-May	
			2006-07	2007-08P		2006-07	2007-08P
1	2	3	4	5	6	7	8
1. Food products	9.1	8.7	-6.8	39.8	5.8	-4.4	20.6
2. Machinery and equipment other than transport equipment	9.6	14.2	11.4	19.6	18.3	14.3	23.3
3. Chemicals and chemical products except products of petroleum and coal	14.0	9.4	14.6	7.2	14.6	24.5	11.7
4. Basic metal and alloy industries	7.5	22.9	21.4	19.5	16.6	15.4	14.5
5. Wood and wood products, furniture and fixtures	2.7	29.1	-14.1	112.2	2.4	-1.4	8.1
6. Rubber, plastic, petroleum and coal products	5.7	12.7	8.3	11.5	6.3	4.5	5.7
7. Non-metallic mineral products	4.4	12.9	13.3	7.0	6.6	7.3	3.7
8. Beverages, tobacco and related products	2.4	11.3	14.3	6.4	4.7	6.3	2.7
9. Cotton textiles	5.5	14.8	11.7	8.2	4.8	4.1	2.7
10. Transport equipment and parts	4.0	15.0	20.0	2.3	8.2	10.7	1.3
11. Textile products (including wearing apparel)	2.5	11.5	15.3	11.1	3.2	4.5	3.2
12. Leather and leather and fur products	1.1	0.4	-13.3	8.4	0.0	-1.2	0.5
13. Metal products and parts (except machinery and equipment)	2.8	11.4	-3.4	7.4	2.3	-0.7	1.3
14. Jute and other vegetable fibre textiles (except cotton)	0.6	-15.8	-2.7	27.8	-0.4	-0.1	0.6
15. Wool, silk and man-made fibre textiles	2.3	8.1	12.5	6.2	2.0	3.1	1.5
16. Paper and paper products and printing, publishing and allied activities	2.7	8.4	13.0	0.3	2.2	3.5	0.1
17. Other manufacturing industries	2.6	7.7	35.9	-5.2	2.4	9.5	-1.6
<b>Manufacturing - Total</b>	<b>79.4</b>	<b>12.5</b>	<b>12.2</b>	<b>12.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

P : Provisional. # : Figures may not add up to 100 due to rounding off.  
**Source** : Central Statistical Organisation.

While the production of basic goods was led by iron and steel items, electricity, and high speed diesel, that of capital goods benefited from growth in agricultural implements, boilers, diesel engines, insulated cable wires, and computer systems and their peripherals.

### Infrastructure

The infrastructure sector recorded higher growth of 8.1 per cent during April-May 2007 than a year ago (7.2 per cent) mainly on account of improvement in electricity and petroleum refinery products (Chart 3). Higher plant load factor (PLF) in thermal power plants and higher generation of hydro-electricity propelled electricity growth. Higher export demand and higher capacity utilisation led to higher production of petroleum refinery products. Deceleration in the growth of the steel and cement sectors could be attributed, *inter alia*, to the base effect as well as capacity constraints.



### Services Sector

The services sector continued to record double digit growth during 2006-07 – the latest period for which data are available - for the third year in succession. Accelerated growth in ‘trade, hotels, restaurants, transport, storage and communication’ more than offset the deceleration in ‘construction’ (see Table 1). The services sector contributed 71.5 per cent to the overall real GDP growth of 9.4 per cent during 2006-07 (Table 8). The sub-sector ‘trade, hotels, restaurants, transport, storage and communication’ contributed more than a third of the overall

**Table 8: Growth in Services Sectors**

(Contribution to real GDP growth; percentage points)

Year	Construction	Trade, Hotels, Restaurants, Transport, Storage and Communication	Financing, Insurance, Real Estate and Business Services	Community, Social and Personal Services	Total Services
1	2	3	4	5	6
2000-01	0.4	1.6	0.5	0.7	3.2
2001-02	0.2	2.0	0.9	0.6	3.8
2002-03	0.5	2.1	1.1	0.6	4.2
2003-04	0.7	2.9	0.8	0.8	5.2
2004-05	0.9	2.7	1.2	1.1	5.9
2005-06	0.9	2.7	1.5	1.1	6.2
2006-07	0.7	3.4	1.5	1.1	6.7
2006-07: Q1	0.7	3.2	1.5	1.6	7.0
2006-07: Q2	0.8	3.7	1.6	1.3	7.4
2006-07: Q3	0.7	3.3	1.4	0.9	6.3
2006-07: Q4	0.8	3.4	1.3	0.8	6.2

**Table 9: Indicators of Services Sector Activity**

Item	2005-06	2006-07	(Growth rates in per cent)	
			April-May	
			2006	2007
1	2	3	4	5
Tourist arrivals	12.4	13.6	18.6 #	7.2 #
Commercial vehicles production	10.6	33.0	44.9	10.6
Railway revenue earning freight traffic	10.7	9.2	9.4	6.0
New cell phone connections	89.4	85.4	162.8	50.4
Cargo handled at major ports	10.4	9.5	3.7	17.8
Civil aviation				
a) Export cargo handled	7.3	3.6	8.7	1.6
b) Import cargo handled	15.8	19.4	23.6	21.7
c) Passengers handled at international terminals	12.8	12.1	14.1	13.1
d) Passengers handled at domestic terminals	27.1	34.0	47.2	24.4
Cement	12.4	9.1	9.4	7.4
Steel	11.2	10.9	10.4	10.1
Aggregate deposits	18.1	23.7	3.5 @	4.0 @
Non-food credit	31.8	28.4	2.5 @	-0.6 @

# : April-June.   @ : Up to July 6.

**Sources :** Ministry of Tourism, Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Reserve Bank of India and Centre for Monitoring Indian Economy (CMIE).

real GDP growth, benefiting from strong growth in tourism, railway freight traffic, civil aviation and telecommunications. Robust growth in bank deposits and non-food credit offtake and exports of business process outsourcing and information technology-enabled services helped in sustaining the growth of the sub-sector 'financing, insurance, real estate and business services'.

Growth rates in tourist arrivals, revenue earning freight traffic of the railways, new cell phone connections, export cargo handled by civil aviation, passengers handled by civil aviation, cement and steel have moderated during 2007-08 so far. On the other hand, cargo handled at major ports accelerated *vis-à-vis* the previous year (Table 9).

### Aggregate Demand

Estimates of expenditure of GDP for 2006-07, which were released for the first time along with the revised estimates of GDP, indicate that growth during 2006-07 was largely domestic demand driven, especially investment. Real gross fixed capital formation (GFCF) rose by 14.6 per cent during 2006-07 as compared with 15.3 per cent during 2005-06. Real GFCF grew at an average of 13.7 per cent per annum during 2003-04 to 2006-07, well-above the average real GDP growth of 8.6 per cent over the same period. Investments in valuables recovered from the negligible growth of the previous year. Final consumption expenditure, both private and government, witnessed some deceleration during 2006-07 (Table 10). Almost

**Table 10: Disposition of National Income (at 1999-2000 prices)**

Item	(Growth rates in per cent)					
	2005-06 QE	2006-07 RE	2006-07 RE			
			Q1	Q2	Q3	Q4
1	2	3	4	5	6	7
1 Total Final Consumption Expenditure	7.2	6.6	11.8	3.7	5.1	6.1
a. Private Final Consumption Expenditure	6.7	6.2	6.5	6.3	6.0	6.0
b. Government Final Consumption Expenditure	9.8	9.0	47.6	-9.7	0.4	6.6
2. Gross Fixed Capital Formation (GFCF)	15.3	14.6	15.8	13.3	15.5	14.1
3. Change in Stocks	69.0	10.2	10.2	10.6	9.7	10.3
4. Valuables	0.4	38.0	38.4	47.1	29.8	37.8
5. Exports	5.9	8.6	10.3	18.9	-1.9	8.7
6. Imports	10.3	11.4	11.7	18.7	4.8	11.3
<i>Memo:</i>						
Real GDP at market prices	9.2	9.4	8.1	10.7	9.0	9.6
QE : Quick Estimates.      RE : Revised Estimates.						
<b>Source :</b> Central Statistical Organisation.						

one-half of the incremental growth in real GDP during 2006-07 was on account of final consumption demand (55.5 per cent during 2005-06), while around 42 per cent (the same as a year ago) was on account of the rise in real GFCF. The share of real private final consumption expenditure in total output declined from 58.9 per cent in 2005-06 to 57.2 per cent in 2006-07, while that of real GFCF rose from 26.7 per cent to 27.9 per cent.

### Corporate Performance

The corporate sector continued to exhibit robust performance during 2006-07. Data on select non-Government non-financial companies revealed that growth in sales accelerated to 26 per cent during 2006-07 from 17 per cent during 2005-06. Gross profits rose by about 42 per cent during 2006-07, while profits after tax increased by 45 per cent (Table 11). Notwithstanding higher interest payments, the ratio of interest payments to gross profits declined during 2006-07. Profit margins - profits after tax to sales - improved to 10.7 per cent during 2006-07 from 8.7 per cent in the previous year.

### Business Expectations Surveys

Business confidence surveys conducted by various agencies present a mixed short-term outlook of the economy. According to the survey by the National Council of Applied Economic Research (NCAER) conducted in June 2007, the overall business confidence index (BCI) for July-December 2007 declined by 8.8 per cent over the previous quarter (Table 12). All the four main components of the index, viz., overall economic conditions, investment climate, financial position of the firms and capacity utilisation registered a fall. Amongst the various

The Real Economy

**Table 11: Corporate Financial Performance**

Item	(Growth rates in per cent)										
				2005-06				2006-07			
	2004-05	2005-06	2006-07*	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4*
1	2	3	4	5	6	7	8	9	10	11	12
Sales	24.1	16.9	26.2	18.5	16.4	13.2	19.5	25.6	29.2	30.3	22.5
Expenditure	23.6	16.4	23.5	18.0	16.3	12.7	18.9	24.6	26.6	26.9	19.5
Depreciation Provision	11.2	10.2	15.4	4.4	7.4	10.2	13.2	14.9	16.4	16.8	18.1
Gross Profits	32.5	20.3	41.5	32.0	19.1	21.2	16.6	33.9	45.9	51.8	39.2
Interest Payments	-5.8	1.9	17.4	-13.5	-8.0	4.6	3.8	19.9	18.0	11.9	32.3
Profits after Tax	51.2	24.2	45.2	54.2	27.5	27.0	15.1	34.7	49.4	59.5	39.6
	Select Ratios (Per cent)										
Gross Profits to Sales	11.9	13.0	15.6	13.1	13.0	12.8	12.7	15.6	15.9	15.8	15.3
Profits After Tax to Sales	7.2	8.7	10.7	8.6	8.5	8.6	8.7	10.6	11.0	11.0	10.6
Interest to Sales	2.6	2.0	2.1	2.2	2.1	2.1	1.7	2.2	2.0	2.0	2.0
Interest to Gross Profits	21.8	15.7	13.3	16.6	16.2	16.2	13.7	13.9	12.8	12.5	13.0
Interest Coverage (Times)	4.6	6.4	7.5	6.0	6.2	6.2	7.3	7.2	7.8	8.0	7.7
	Memo: (Amount in Rupees crore)										
No of Companies	2,214	2,210	2388	2,355	2,361	2,366	2,415	2,228	2,263	2,258	2,356
Sales	5,49,449	7,74,578	10,41,894	1,94,608	2,12,693	2,19,098	2,49,971	2,34,610	2,51,125	2,60,064	2,94,223
Expenditure	4,77,609	6,66,690	8,72,168	1,66,972	1,83,717	1,88,934	2,18,511	1,95,556	2,09,437	2,16,053	2,48,740
Depreciation Provision	22,697	28,883	37,095	7,137	7,617	7,748	8,340	8,449	8,892	9,172	10,338
Gross Profits	65,301	1,00,666	1,62,017	25,577	27,620	28,135	31,652	36,567	40,041	41,169	45,108
Interest Payments	14,268	15,789	21,500	4,241	4,467	4,555	4,348	5,083	5,121	5,162	5,862
Profits After Tax	39,599	67,506	1,11,107	16,726	18,169	18,790	21,634	24,845	27,710	28,698	31,251

\* : Provisional.

**Note :** 1. Data for 2004-05 are based on audited balance sheets, while those for 2005-06 and 2006-07 are based on the abridged results of the select non-Government non-financial public limited companies.

2. Growth rates are percentage changes in the level for the period under reference over the corresponding period of the previous year for common set of companies.

3. Data for the full year may not add to the quarterly totals due to difference in the number of companies covered in each period.

industry sectors, the decline in BCI over the previous round was the least (2.8 per cent) for the consumer non-durables sector and the highest (15.6 per cent)

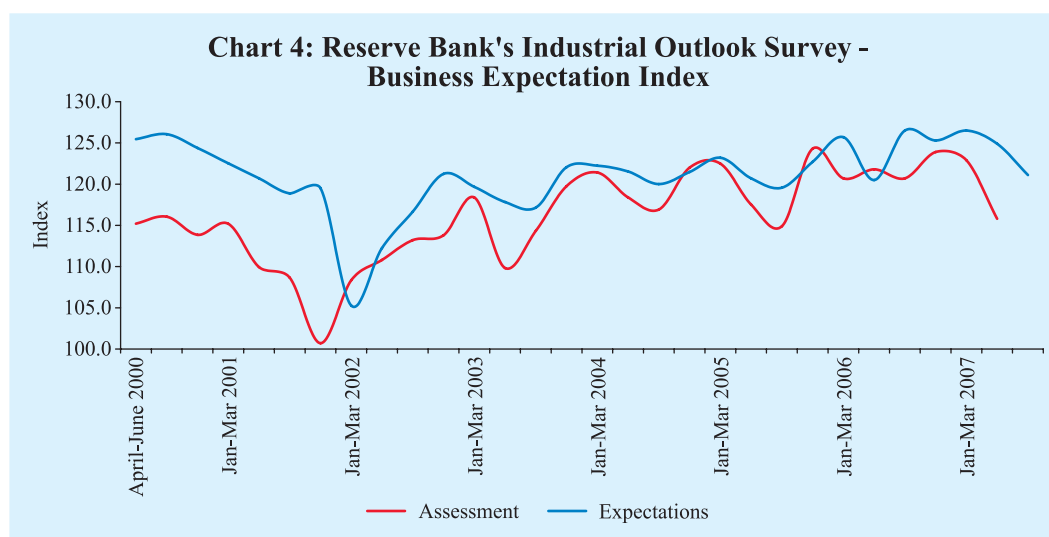
**Table 12: Business Expectations Surveys**

Agency	(Per cent)			
	Business Expectations		Growth over a year ago	Growth over previous round
	Period	Index		
1	2	3	4	5
Dun & Bradstreet	April-June 2007	Business Optimism Index	13.3	3.4
NCAER	July-December 2007	Business Confidence Index	-2.7	-8.8
Reserve Bank of India	July-September 2007	Business Expectation Index	-4.3	-3.0

for the capital goods sector. The Business Optimism Index of the survey by Dun and Bradstreet for April-June 2007 (conducted in March 2007) recorded an increase of 3.4 per cent over the preceding quarter; four of the six optimism indices, viz., volume of sales, net profits, selling prices and new orders, however, declined during the period. The capital goods sector was positive on most parameters, while consumer goods sector was the least optimistic on expectations for April-June 2007.

According to the Reserve Bank's latest Industrial Outlook Survey conducted during June 2007, the business expectations index based on assessment for April-June 2007 declined by 5.8 per cent over the previous quarter (Chart 4). The business expectations index, based on expectations for July-September 2007, declined by 3.0 per cent over the previous quarter. The indices based on assessment and expectations were lower by 4.9 per cent and 4.3 per cent, respectively, than a year ago.

The decline in the expectations index for July-September 2007 over the previous quarter was on account of fall in net responses for most of the parameters of the survey such as overall business situation, production, working capital finance, order books, capacity utilisation, exports, employment and profit margin. Net responses were, however, higher than the previous quarter in the case of imports and selling prices. For most of the parameters, the maximum proportion of respondents was placed in the category 'no change in expectations over the preceding quarter' (Table 13).



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**Table 13: Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance**

(Per cent)						
Parameter	Response	July-Sept. 2006	Oct-Dec. 2006	Jan-March 2007	Apr-June 2007	July-Sept 2007
1	2	3	4	5	6	7
1. Overall business situation	Better	53.1 (37.9)	51.8 (41.2)	53.7 (40.7)	51.7 (41.3)	49.5 (41.2)
2. Financial situation	Better	43.4 (49.2)	41.9 (50.6)	44.5 (49.9)	43.8 (49.8)	41.3 (49.8)
3. Working capital finance requirement	Increase	32.7 (59.1)	35.4 (58.3)	36.2 (59.2)	35.3 (59.2)	34.5 (59.2)
4. Availability of finance	Improve	35.0 (56.8)	33.4 (57.8)	36.2 (56.6)	35.2 (57.2)	32.1 (58.6)
5. Production	Increase	49.4 (38.0)	49.7 (39.6)	50.7 (40.1)	47.8 (41.6)	46.6 (41.1)
6. Order books	Increase	45.2 (42.6)	46.3 (42.6)	47.3 (43.1)	45.7 (45.4)	43.6 (46.1)
7. Pending orders, if applicable	Below normal	-0.8 (81.5)	-2.1 (81.7)	-2.7 (82.9)	-2.2 (82.8)	2.2 (82.6)
8. Cost of raw material	Decrease	-45.8 (50.0)	-49.2 (46.4)	-41.7 (51.0)	-42.1 (52.0)	46.0 (49.7)
9. Inventory of raw material	Below average	-6.3 (84.5)	-6.1 (83.5)	-7.1 (83.8)	-7.3 (85.0)	5.4 (85.0)
10. Inventory of finished goods	Below average	-2.6 (84.4)	-4.9 (83.5)	-5.2 (84.5)	-4.4 (85.2)	2.7 (87.1)
11. Capacity utilisation (Main product)	Increase	32.1 (55.7)	33.2 (56.6)	33.3 (57.7)	29.4 (60.4)	27.0 (61.4)
12. Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	11.8 (75.4)	10.9 (76.6)	12.8 (76.4)	11.5 (77.1)	9.4 (76.5)
13. Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	3.6 (80.6)	5.1 (79.7)	4.8 (81.8)	4.0 (82.2)	3.0 (82.2)
14. Employment in the company	Increase	16.4 (71.2)	17.9 (73.3)	18.1 (73.7)	18.3 (73.3)	17.4 (73.5)
15. Exports, if applicable	Increase	38.3 (52.8)	34.2 (57.2)	32.6 (57.3)	33.4 (56.8)	32.6 (55.6)
16. Imports, if any	Increase	23.8 (65.6)	23.4 (68.1)	20.8 (68)	21.6 (68.4)	23.7 (68.2)
17. Selling prices are expected to	Increase	16.6 (67.9)	16.8 (68.0)	14.2 (69.2)	15.5 (68.9)	19.0 (67.1)
18. If increase expected in selling prices	Increase at lower rate	10.5 (62.5)	14.5 (67.0)	10.5 (68.1)	12.1 (66.7)	-10.4 (65.0)
19. Profit margin	Increase	11.1 (64.8)	9.2 (60.6)	11.6 (61.7)	9.9 (62.5)	7.5 (62.6)
<b>Memo:</b>						
Number of companies included in the results		1,073	1,138	1,115	1,108	1,056
<p><b>Note :</b> 1. 'Net response' is measured as the percentage share differential between the companies reporting 'optimistic' (positive) and 'pessimistic' (negative) responses; responses indicating <i>status quo</i> (no change) are not reckoned. Higher 'net response' indicates higher level of confidence and <i>vice versa</i>.</p> <p>2. Figures in parentheses are the percentages of respondents with 'no change over the preceding quarter' as responses.</p>						
<b>Source :</b> Industrial Outlook Survey, Reserve Bank of India.						

Forecasts by various agencies for real GDP growth in 2007-08 are set out in Table 14.

**Table 14: Projections of Real GDP for India by various Agencies: 2007-08**

Agency	(Per cent)				
	Overall Growth	Agriculture	Industry	Services	Month of Projection
1	2	3	4	5	6
ABN Amro	7.6	-	-	-	March 2007
Asian Development Bank	8.0	-	-	-	March 2007
Confederation of Indian Industry (CII)	8.5	3.0	9.3	9.9	April 2007
	9.2	3.0	9.4	11.2	July 2007
Centre for Monitoring the Indian Economy (CMIE)	8.5	-	-	-	June 2007
Citigroup	9.3	3.0	10.3	10.9	April 2007
CRISIL	7.9-8.4	3.0	8.4-9.1	9.3-9.9	March/ June 2007
Economic Advisory Council to the Prime Minister	9.0	2.5	10.6	10.4	July 2007
ICRA	8.5	-	-	-	April 2007
Indicus Analytics	8.4	3.0	7.9	9.7	April 2007
International Monetary Fund	8.4 *	-	-	-	April 2007
	9.0 *	-	-	-	July 2007
JP Morgan	8.0	-	-	-	March 2007
Organisation for Economic Cooperation and Development (OECD)	8.5	-	-	-	May 2007
National Council for Applied Economic Research (NCAER)	8.3	2.6	8.7	9.9	April 2007
Reserve Bank of India	Around 8.5	-	-	-	April 2007

- : Not Available.  
\* : Calendar Year.



## II. FISCAL SITUATION

### Combined Government Finances: 2007-08

The key fiscal indicators, viz., gross fiscal deficit (GFD), revenue deficit and primary deficit of combined finances of the Central and State Governments are budgeted to decline by 0.7-0.9 percentage points of GDP during 2007-08 over the revised estimates (RE) for 2006-07 (Table 15). The budgeted revenue surpluses by the States would be an important contributing factor to the envisaged reduction in the key deficit indicators. A significant feature of both the Central and State Government finances during 2007-08 would be higher allocation for development expenditure, while continuing with the process of fiscal consolidation. Reflecting the fiscal consolidation process and buoyancy in economic growth, the combined debt-GDP ratio of the Central and State Governments is budgeted to decline from 77.0 per cent at end-March 2007 to 74.2 per cent by end-March 2008 (Table 15).

**Table 15: Key Fiscal Indicators**

(Per cent to GDP)				
Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities *
1	2	3	4	5
<b>Centre</b>				
2002-03	1.1	4.4	5.9	63.4
2003-04	-0.03	3.6	4.5	62.8
2004-05	-0.04	2.5	4.0	63.8
2005-06	0.4	2.6	4.1	63.4
2006-07 RE	0.1	2.0	3.7	61.5
	(-0.2)	(1.9)	(3.5)	
2007-08 BE	-0.2	1.5	3.3	59.2
<b>States</b>				
2002-03	1.3	2.2	4.2	32.5
2003-04	1.5	2.2	4.5	33.4
2004-05	0.7	1.2	3.5	33.3
2005-06	0.1	0.04	2.4	32.5
2006-07 RE	0.4	-0.01	2.6	30.3
2007-08 BE	-0.02	-0.4	2.1	29.2
<b>Combined</b>				
2002-03	3.1	6.6	9.6	80.7
2003-04	2.1	5.8	8.5	81.4
2004-05	1.4	3.7	7.5	82.4
2005-06	1.0	2.6	6.6	80.5
2006-07 RE	0.7	2.0	6.2	77.0
2007-08 BE	0.0	1.2	5.3	74.2

RE : Revised Estimates. BE : Budget Estimates.

\* : Include external liabilities at historical exchange rates.

**Note :** 1. Figures in parentheses relate to provisional accounts.

2. Negative sign indicates surplus.

3. Data in respect of States are provisional from 2005-06 onwards and relate to 27 States (including National Capital Territory of Delhi), of which two are *vote-on-accounts*.

**Table 16: Financing Pattern of Combined Gross Fiscal Deficit of the Centre and States**

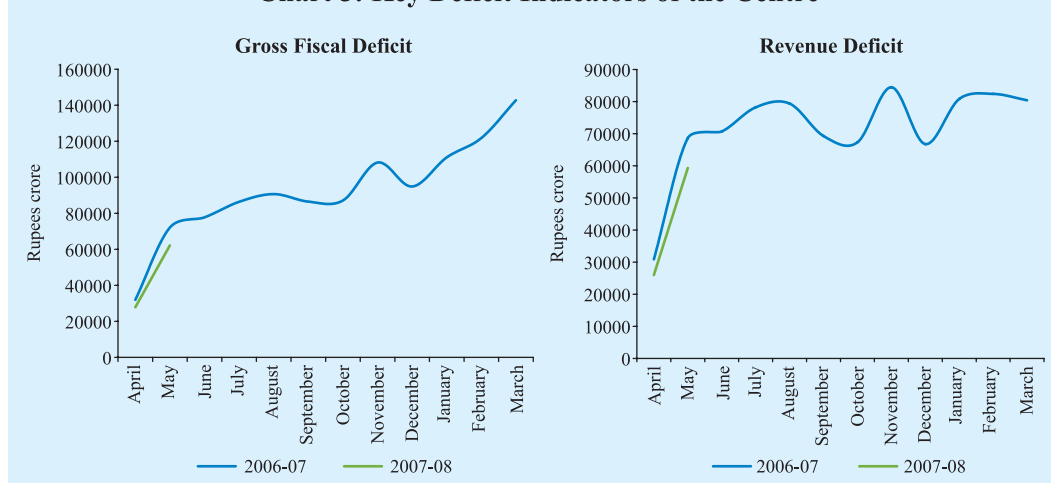
(Rupees crore)						
Year	Market Borrowings	State Provident Funds	Small Savings	External Assistance	Others	Gross Fiscal Deficit
1	2	3	4	5	6	7
2003-04	1,36,156 (58.1)	12,014 (5.1)	67,642 (28.8)	-13,488 (-5.8)	32,177 (13.7)	2,34,501
2004-05	85,498 (36.4)	13,139 (5.6)	87,690 (37.4)	14,753 (6.3)	33,641 (14.3)	2,34,721
2005-06	1,20,164 (51.2)	14,687 (6.3)	89,836 (38.3)	7,472 (3.2)	2,630 (1.1)	2,34,789
2006-07 RE	1,28,245 (49.9)	14,437 (5.6)	61,600 (24.0)	7,892 (3.1)	44,887 (17.5)	2,57,061
2007-08 BE	1,34,544 (54.4)	15,583 (6.3)	57,500 (23.3)	9,111 (3.7)	30,459 (12.3)	2,47,197

BE : Budget Estimates. RE : Revised Estimates.  
**Note :** Figures in parentheses are percentages of GFD.

Market borrowings would finance 54.4 per cent of the combined GFD during 2007-08, followed by small savings (23.3 per cent) (Table 16).

#### Centre's Fiscal Situation: 2007-08

The budgeted revenue deficit and the GFD of the Centre at 1.5 per cent and 3.3 per cent of GDP, respectively, during 2007-08 would be 0.5 percentage point and 0.4 percentage point lower than those in the revised estimates for 2006-07. Available information on Central Government finances for April-May 2007 indicates that all the key deficit indicators were lower than a year ago in absolute terms (Chart 5). GFD was also lower than in April-May 2006 in terms of percentage of budget estimates.

**Chart 5: Key Deficit Indicators of the Centre**


## Fiscal Situation

The improvement in the Central Government finances during April-May 2007 was brought about by higher tax revenues, higher non-debt capital receipts and lower plan expenditure. All major tax revenues were higher than a year ago; revenue from corporation tax increased by more than three times that of the corresponding period of the previous year. Aggregate expenditure during April-May 2007 declined over April-May 2006 on account of a decline in plan revenue expenditure (Table 17).

### *Financing of the Union Budget*

The fiscal deficit during 2007-08 would continue to be financed largely by market borrowings. According to budget estimates, net market borrowings would finance 73.4 per cent of GFD in 2007-08 as against 72.5 per cent in 2006-07 RE. The net market borrowings do not include the increase of Rs.10,000 crore budgeted under the Market Stabilisation Scheme (MSS). Receipts under the MSS remain in the cash balance of the Government and are not available for financing GFD.

Net market borrowings through dated securities and 364-day Treasury Bills (excluding allocations under MSS) for 2007-08 are placed at Rs.1,09,579 crore. Including repayments of Rs.79,249 crore, gross market borrowings are estimated at Rs.1,88,828 crore. The issuance calendar for dated securities, fixed at Rs.92,000 crore for the first half of 2007-08 (Rs.89,000 crore during the corresponding period of 2006-07), was released on March 30, 2007, in consultation with the Central Government. During 2007-08 (up to July 26, 2007), the actual issuances of dated

**Table 17: Central Government Finances: April-May 2007**

Item	2007-08 (Budget Estimates)	April-May		Per cent of Budget Estimates April-May	
		2006	2007	2006	2007
1	2	3	4	5	6
1. Revenue Receipts (i + ii)	4,86,422	19,330	25,899	4.8	5.3
i) Tax Revenue	4,03,872	15,087	21,725	4.6	5.4
ii) Non-tax Revenue	82,550	4,243	4,174	5.6	5.1
2. Non-Debt Capital Receipts	43,151*	500	2,716	4.2	6.3
3. Non-Plan Expenditure	4,75,421*	62,882	67,615	16.1	14.2
<i>of which:</i>					
i) Interest Payments	1,58,995	23,919	26,221	17.1	16.5
ii) Defence	96,000	6,314	6,770	7.1	7.0
iii) Subsidies	51,247	11,412	15,508	25.5	30.3
4. Plan Expenditure	2,05,100	29,036	23,135	16.8	11.3
5. Revenue Expenditure	5,57,900	87,950	85,234	18.0	15.3
6. Capital Expenditure	1,22,621*	3,968	5,516	5.2	4.5
7. Total Expenditure	6,80,521*	91,918	90,750	16.3	13.3
8. Revenue Deficit	71,478	68,620	59,335	81.0	83.0
9. Gross Fiscal Deficit	1,50,948	72,088	62,135	48.5	41.2
10. Gross Primary Deficit	-8,047	48,169	35,914	543.5	-446.3

\* : Includes an amount of Rs.40,000 crore on account of transactions relating to transfer of RBI's stake in SBI to the Government.

**Source :** Controller General Of Accounts, Ministry of Finance.

securities amounted to Rs.73,000 crore as against Rs.68,000 crore scheduled in the calendar. All auctions were in accordance with the indicative issuance calendar except the one held on June 12, 2007 for Rs.5,000 crore. All auctions were reissuances of existing securities, barring one new issue (10-year security) for Rs.6,000 crore on July 6, 2007 (Table 18). There was no devolvement on the primary dealers. Gross and net market borrowings (dated securities and 364-day Treasury Bills) during 2007-08 (up to July 26, 2007) amounted to Rs.85,628 crore and Rs.46,047 crore, respectively, accounting for 45.3 per cent and 42.0 per cent of the estimated borrowings for the year. During the corresponding period of the previous year, the gross and net borrowings accounted for 39.5 per cent and 31.3 per cent, respectively, of the actual borrowings for 2006-07. The weighted average maturity of dated securities issued during 2007-08 (up to July 26, 2007) at 14.10 years was lower than that of 14.88 years during the corresponding period of the previous year. The weighted average yield of dated securities issued during the same period increased to 8.25 per cent from 7.86 per cent.

In consultation with the Central Government, the limits for Ways and Means Advances (WMA) for 2007-08 were fixed on a half-yearly basis as against on quarterly

**Table 18: Central Government Securities Issued during 2007-08**

(Amount in Rupees crore/Maturity in years/Yield in per cent)								
Sr. No.	Borrowings as per Issuance Auction Calendar			Actual Borrowings				
	Period of Auction	Amount	Residual Maturity	Date of Auction	Amount	Residual Maturity	Yield	
1	2	3	4	5	6	7	8	
1.	April 5-12, 2007	6,000	5-9	April 12, 2007	6,000	8.39	8.16	
		4,000	20 and above	April 12, 2007	4,000	29.15	8.58	
2.	April 20-27, 2007	6,000	10-14	April 27, 2007	6,000	9.71	8.16	
		6,000	10-14	May 11, 2007	6,000	9.92	8.31	
3.	May 4-11, 2007	4,000	20 and above	May 11, 2007	4,000	29.06	8.64	
		5,000	5-9	May 25, 2007	5,000	8.26	8.24	
4.	May 18-25, 2007	3,000	15-19	May 25, 2007	3,000	14.96	8.40	
		6,000	10-14	June 5, 2007	6,000	9.86	8.18	
6.	June 1-8, 2007	3,000	20 and above	June 5, 2007	3,000	29.00	8.52	
		6,000	10-14	June 12, 2007*	5,000	9.84	8.44	
7.	June 15-22, 2007	6,000	10-14	June 15, 2007	6,000	9.83	8.35	
		6,000	10-14	July 6, 2007	6,000	10.00	7.99	
8.	July 6-13, 2007	4,000	20 and above	July 6, 2007	4,000	28.93	8.45	
		6,000	5-9	July 20, 2007	6,000	6.11	7.56	
9.	July 20-27, 2007	3,000	20 and above	July 20, 2007	3,000	25.10	8.34	
<i>Memo:</i>								
Year	Weighted Average Maturity			Weighted Average Yield				
2003-04				14.94				5.71
2004-05				14.13				6.11
2005-06				16.90				7.34
2006-07				14.72				7.89
2006-07 (up to July 26, 2006)				14.88				7.86
2007-08 (up to July 26, 2007)				14.10				8.25
* : Not scheduled.								
<b>Source :</b> Reserve Bank of India.								

basis a year ago. The WMA limits were placed at Rs.20,000 crore for the first half of 2007-08 (April to September) as against separate limits of Rs.20,000 crore and Rs.10,000 crore for the first and second quarters in the preceding year; the limits for the second half (October to March) would be Rs.6,000 crore, the same as that for the third and fourth quarters a year ago. The Reserve Bank retains the flexibility to revise the limits at any time, in consultation with the Government of India, taking into consideration the transitional issues and prevailing circumstances. The interest rate on WMA and on overdraft, as in the preceding year, would be the repo rate and two percentage points above the repo rate, respectively.

The Central Government recorded a surplus cash balance of Rs.50,092 crore at end-March 2007. Reflecting the usual seasonal pattern, the cash balances dwindled rapidly during April 2007, necessitating recourse to WMA on April 27, 2007. The cash position of the Centre was again under pressure towards the end-June on account of the acquisition of the SBI stake by the Government from the Reserve Bank. During 2007-08 (up to July 20, 2007), the Centre took recourse to WMA for 72 days as compared with 33 days during the same period in 2006-07. During 2007-08 (up to July 20, 2007), the Centre resorted to overdrafts on three occasions; during the previous year, the Centre had not resorted to overdrafts.

#### State Finances: 2007-08<sup>1</sup>

The State Governments in their budgets for 2007-08 proposed various policy initiatives to carry forward the process of fiscal correction and consolidation through measures aimed at augmenting revenue and improving expenditure management. Some State Governments proposed to undertake a comprehensive review of the functioning of the State PSUs and their restructuring. In order to restore financial viability of electricity boards, some States have signed Memorandum of Understanding (MoU) with the Central Government. All States, barring Uttar Pradesh, have implemented Value Added Tax (VAT) in lieu of sales tax as on April 1, 2007. In view of the priority given to infrastructure development in the Eleventh Five Year Plan, the State Governments envisage implementation of various projects, especially power and roads, through the framework of public-private partnership (PPP). Fiscal Responsibility Legislations (FRLs) have been enacted by 25 State Governments (as of end-March 2007).

Reflecting the efforts towards fiscal consolidation, the State Governments have budgeted for a revenue surplus of 0.4 per cent of GDP in 2007-08, as compared with the near balance in the revenue account in the previous year. Consequently, gross fiscal deficit, as a ratio to GDP, is budgeted to decline to 2.1 per cent in 2007-08 from 2.6 per cent a year ago (see Table 15). The fiscal correction in 2007-08 is proposed to be brought about mainly by containing the growth in revenue expenditure; as a result, the revenue expenditure-GDP ratio is budgeted to decline

<sup>1</sup> Based on information pertaining to 27 State Budgets (including NCT Delhi), of which two are *Vote-on-Accounts*.

from 12.5 per cent in 2006-07 to 12.2 per cent in 2007-08. Revenue receipts relative to GDP are budgeted to be maintained at 12.5 per cent in 2007-08; the major components of the revenues, viz., State's own revenues (taxes and non-taxes) and current devolution and transfers would be unchanged at 7.4 per cent and 5.1 per cent of GDP, respectively, during 2007-08.

#### *Financing of the States' Budgets*

The provisional net allocation under market borrowing programme for the State Governments during 2007-08 is placed at Rs.21,434 crore (excluding four State Governments for which the Annual Plans are yet to be finalised). Taking into account the repayments of Rs.11,554 crore and additional allocation of Rs.335 crore, the gross allocation amounts to Rs.33,323 crore for 2007-08 as compared with actual borrowings of Rs.20,825 crore for 2006-07. During 2007-08 (up to July 26, 2007), fourteen States raised market loans amounting to Rs.8,542 crore (25.6 per cent of gross allocation) through auctions at cut-off rates in the range 8.00-8.57 per cent as compared with Rs.7,343 crore at cut-off yields in the range of 7.65-8.66 per cent during the corresponding period of the previous year. All the issues during 2007-08 so far have been of 10-year maturity, as in the previous year. The weighted average interest rate of market loans hardened to 8.35 per cent during 2007-08 (up to July 26, 2007) from 8.08 per cent a year ago (Table 19). The spreads over the corresponding yields of Central Government securities were 11 to 36 basis points.

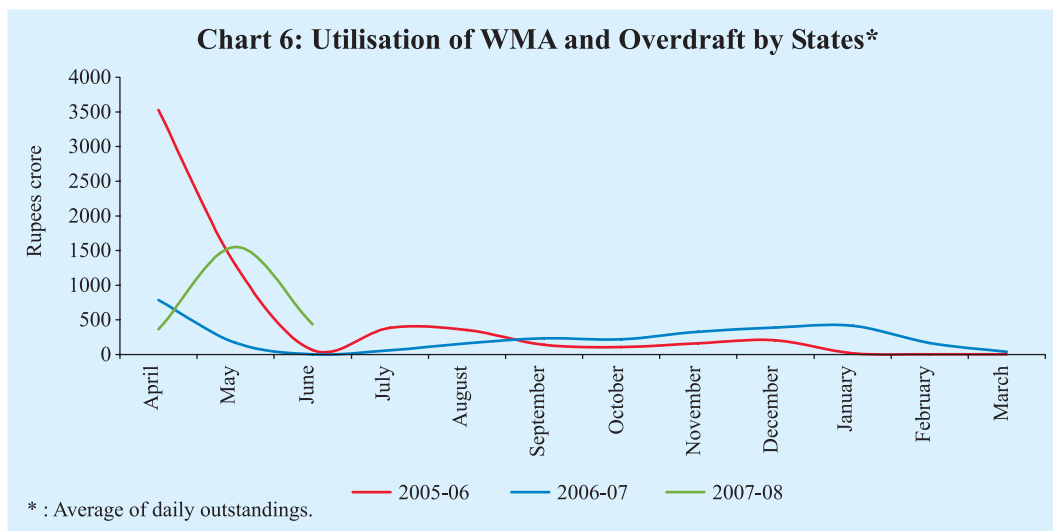
The average daily utilisation of WMA and overdraft by the States was Rs.694 crore during 2007-08 (up to July 20, 2007) as compared with Rs.258 crore in

**Table 19: Market Borrowings of State Governments during 2007-08**

Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees crore)
1	2	3	4	5
<b>Auctions</b>				
i. First	April 19, 2007	8.30	10	1,837
ii. Second	May 10, 2007	8.34	10	350
iii. Third	May 17, 2007	8.40	10	1,400
iv. Fourth	June 19, 2007	8.45-8.57	10	3,566
v. Fifth	July 26, 2007	8.00-8.25	10	1,389
<b>Grand Total</b>				<b>8,542</b>
<i>Memo:</i>				
Year	Weighted Average Yield (per cent)			
2003-04	6.13			
2004-05	6.45			
2005-06	7.63			
2006-07	8.10			
2006-07 (up to July 26, 2006)	8.08			
2007-08 (up to July 26, 2007)	8.35			
<b>Source :</b> Reserve Bank of India.				

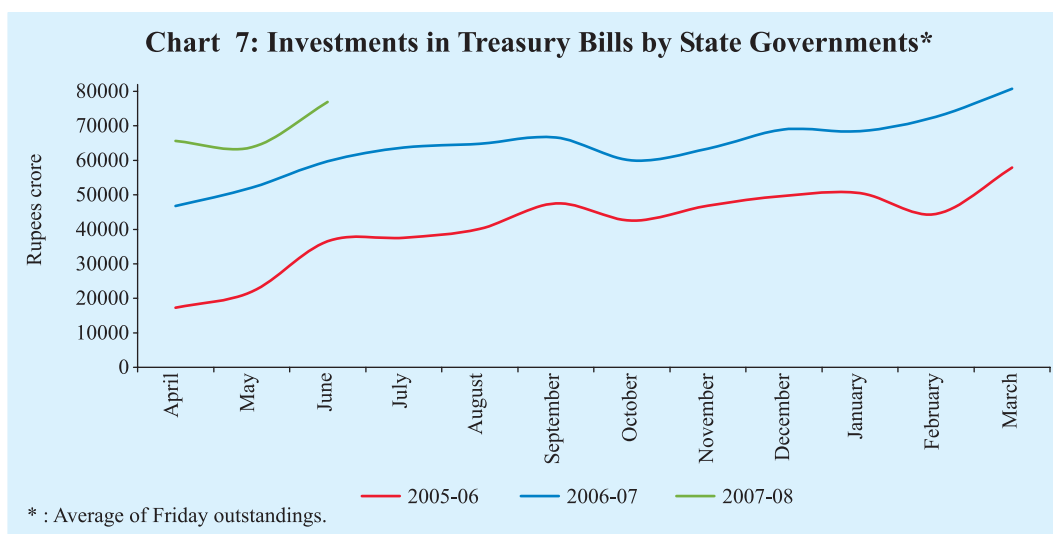


Fiscal Situation



the corresponding period of the previous year (Chart 6). Three States resorted to overdrafts during 2007-08 (up to July 20, 2007) as compared with two States during the corresponding period of the previous year.

The cash surplus position of the States, as reflected in their investments in Treasury Bills (14-day intermediate Treasury Bills and Auction Treasury Bills) was Rs.75,321 crore on July 20, 2007 as compared with Rs.76,930 crore at end-June 2007 and Rs.80,768 crore at end-March 2007. The average investment by the States in Treasury Bills during April-June 2007 amounted to Rs.68,800 crore as against Rs.52,876 crore in the corresponding period of the previous year (Chart 7).

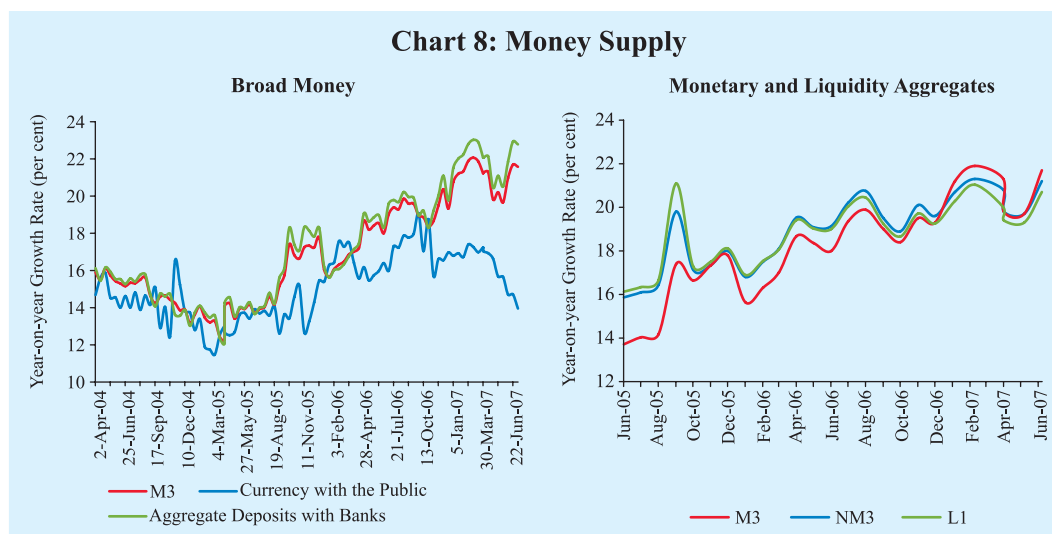


### III. MONETARY AND LIQUIDITY CONDITIONS

Growth in bank credit moderated during the first quarter of 2007-08 from the strong pace of the preceding three years. Accretion to banks' deposits remained buoyant, led by time deposits. Year-on-year growth of broad money ( $M_3$ ) on July 6, 2007 was marginally higher than that at end-March 2007, and also remained above the indicative trajectory of 17.0-17.5 per cent for 2007-08 set out in the Annual Policy Statement (April 2007). Banks' investments in SLR securities, as a proportion of their net demand and time liabilities (NDTL), rose during the quarter. Liquidity conditions continued to be dominated by movements in cash balances of the Governments and capital flows. The Reserve Bank modulated market liquidity with the help of issuances of securities under the Market Stabilisation Scheme (MSS), operations under the liquidity adjustment facility (LAF) and increase in the cash reserve ratio (CRR).

#### Monetary Survey

Growth in broad money ( $M_3$ ), year-on-year (y-o-y), was 21.6 per cent on July 6, 2007 as compared with 21.3 per cent at end-March 2007 and 19.0 per cent a year ago. Expansion in the residency-based new monetary aggregate ( $NM_3$ ) – which does not directly reckon non-resident foreign currency deposits such as FCNR(B) deposits – also accelerated to 21.3 per cent on July 6, 2007 from 20.0 per cent a year ago. Growth in liquidity aggregate,  $L_1$ , at 20.7 per cent at end-June 2007 was higher than that of 20.4 per cent at end-March 2007 and 19.0 per cent a year ago (Chart 8 and Table 20).





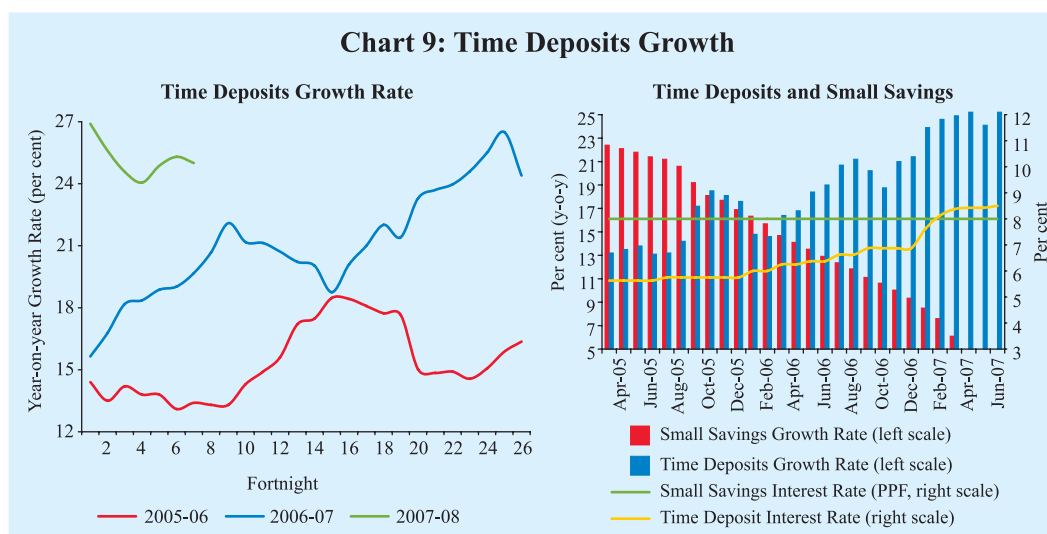
Monetary and Liquidity Conditions

**Table 20: Monetary Indicators**

Item	Outstanding as on July 6, 2007	Variation (year-on-year)					
		July 7, 2006		March 31, 2007		July 6, 2007	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
I. Reserve Money*	7,52,675	85,647	17.2	1,35,961	23.7	1,69,551	29.1
II. Narrow Money (M <sub>1</sub> )	9,55,793	1,39,774	20.6	1,38,820	16.8	1,38,933	17.0
III. Broad Money (M <sub>3</sub> )	34,34,643	4,51,636	19.0	5,80,733	21.3	6,09,610	21.6
a) Currency with the Public	4,97,817	60,216	16.0	70,352	17.0	60,960	14.0
b) Aggregate Deposits	29,25,038	3,90,409	19.6	5,09,754	22.1	5,42,766	22.8
i) Demand Deposits	4,46,188	78,547	26.6	67,841	16.7	72,089	19.3
ii) Time Deposits	24,78,850	3,11,862	18.4	4,41,913	23.2	4,70,677	23.4
of which: Non-Resident Foreign Currency Deposits	62,506	-13,174	-17.1	7,833	13.2	-1,185	-1.9
IV. NM <sub>3</sub>	34,41,815	4,73,728	20.0	5,70,274	20.8	6,03,306	21.3
of which: Call Term Funding from FIs	82,240	13,398	18.9	2,692	3.2	-2140	-2.5
V. a) L <sub>1</sub>	35,11,133	4,64,458	19.0	5,82,836	20.4	6,02,011	20.7
of which: Postal Deposits	1,15,204	14,301	15.4	11,286	10.9	-	-
b) L <sub>2</sub>	35,14,065	4,64,164	19.0	5,82,836	20.4	6,02,011	20.7
c) L <sub>3</sub>	35,40,129	4,67,208	18.9	5,85,059	20.3	6,04,234	20.6
VI. Major Sources of Broad Money							
a) Net Bank Credit to the Government (i+ii)	9,13,087	37,748	4.9	71,582	9.3	1,04,372	12.9
i) Net Reserve Bank Credit to Government	28,167	3,068	-	-2,384	-29.3	30,358	-
of which: to the Centre	27,847	3,265	-	-3,024	-58.6	30,191	-
ii) Other Banks' Credit to Government	8,84,920	34,680	4.5	73,967	9.8	74,014	9.1
b) Bank Credit to Commercial Sector	21,15,497	3,71,050	27.3	4,30,358	25.4	3,87,136	22.4
c) Net Foreign Exchange Assets	9,14,552	1,60,694	25.6	1,86,985	25.7	1,25,715	15.9
d) Government's Currency Liability to Public	8,457	2	0.0	-467	-5.3	624	8.0
e) Net Non-Monetary Liabilities of the Banking Sector	5,16,951	1,17,857	30.2	1,07,725	23.2	8,237	1.6
<i>Memo:</i>							
Aggregate Deposits of SCBs	27,13,843	3,77,392	20.9	4,99,260	23.7	5,31,881	24.4
Non-food Credit of SCBs	18,70,299	3,70,899	32.8	4,16,006	28.4	3,67,258	24.4

\* : Data pertain to July 20, 2007.  
 SCBs : Scheduled Commercial Banks. FIs : Financial Institutions. NBFCs : Non-Banking Financial Companies.  
 NM<sub>3</sub> is the residency-based broad money aggregate and L<sub>1</sub>, L<sub>2</sub> and L<sub>3</sub> are liquidity aggregates compiled on the recommendations of the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy, 1998).  
 L<sub>1</sub> = NM<sub>3</sub> + Select deposits with the post office saving banks.  
 L<sub>2</sub> = L<sub>1</sub> + Term deposits with term lending institutions and refinancing institutions (FIs) + Term borrowing by FIs + Certificates of deposits issued by FIs.  
 L<sub>3</sub> = L<sub>2</sub> + Public deposits of non-banking financial companies.  
**Note :** 1. Data are provisional.  
 2. Postal deposits data pertain to end-March 2007.  
 3. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.

Consistent with the projections of money supply, the Annual Policy Statement for 2007-08 placed growth in aggregate deposits in 2007-08 at around Rs.4,90,000 crore. Based on an overall assessment of the sources of funding, the Statement noted that a graduated deceleration of non-food credit including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and commercial paper (CP) to 24.0-25.0 per cent in 2007-08 from the average of 29.8 per cent over 2004-07 would be consistent with the monetary projections.



Growth of currency with the public on July 6, 2007 decelerated from end-March 2007 and also from the position a year ago. Growth in demand deposits, though higher than that at end-March 2007, was lower than a year ago. Consequently, growth in narrow money ( $M_1$ ), y-o-y, slowed down from 20.6 per cent on July 7, 2006 to 17.0 per cent on July 6, 2007, *albeit* marginally higher than 16.8 per cent at end-March 2007. On the other hand, growth in time deposits accelerated from 18.4 per cent on July 7, 2006 and 23.2 per cent at end-March 2007 to 23.4 per cent on July 6, 2007 (see Table 20). Concomitantly, the accretion to postal deposits decelerated to 10.9 per cent in March 2007 from 17.2 per cent a year ago. The higher order of increase in time deposits can be attributed, *inter alia*, to higher economic activity, increase in interest rates on bank deposits, unchanged interest rates on postal deposits and extension of tax benefits under Section 80C for bank deposits (Chart 9).

On a financial year basis, growth in  $M_3$  during 2007-08 (up to July 6, 2007) was 3.8 per cent as compared with 3.5 per cent during the comparable period of the previous year (Table 21).

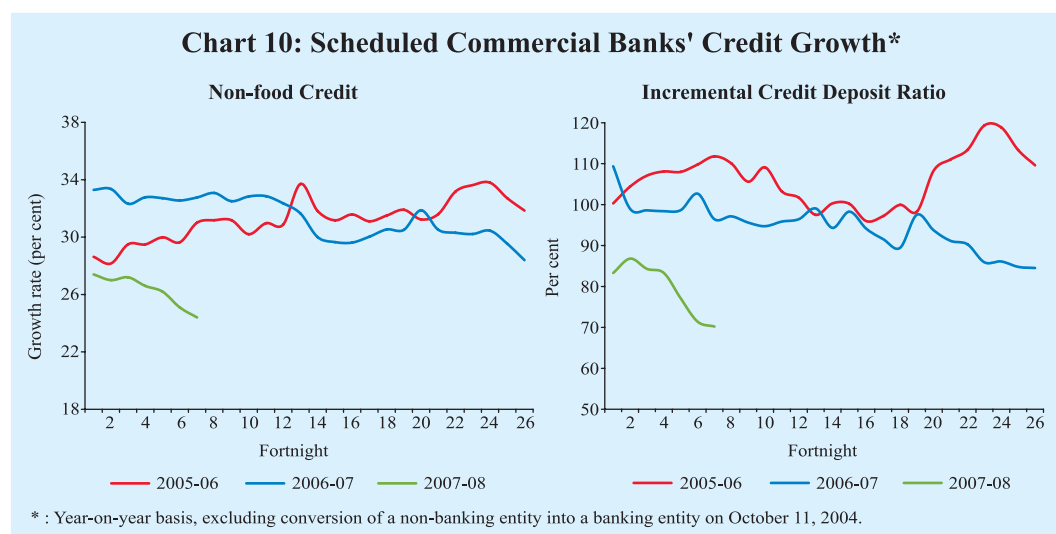
Bank credit to the commercial sector exhibited some moderation during the first quarter of 2007-08 from the strong pace of the previous three years. Scheduled commercial banks' (SCBs') non-food credit expanded by 24.4 per cent, y-o-y, on July 6, 2007 as compared with 28.4 per cent at end-March 2007 and 32.8 per cent a year ago. Non-food credit of SCBs including their non-SLR investments (shares, bonds/debentures and CPs) increased by 23.1 per cent (Rs.3,66,450 crore), y-o-y, on July 6, 2007 as compared with 29.5 per cent (Rs.3,60,938 crore) on July 7, 2006. Banks' investments in instruments issued by mutual funds increased by Rs.30,381 crore, y-o-y, on July 6, 2007 as compared with Rs. 15,331 crore on July 7, 2006. The deceleration in credit growth coupled with the acceleration in deposits

Monetary and Liquidity Conditions

**Table 21: Monetary Aggregates - Variations**

Item	(Rupees crore)						
	2006-07	2007-08	2006-07			2007-08	
	(up to July 7)	(up to July 6)	Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
<b>M<sub>3</sub> (1+2+3 = 4+5+6+7-8)</b>	<b>95,488</b>	<b>1,24,365</b>	<b>55,411</b>	<b>1,68,401</b>	<b>62,951</b>	<b>2,93,970</b>	<b>78,638</b>
	(3.5)	(3.8)					
<b>Components</b>							
1. Currency with the Public	23,738	14,346	23,797	-2,878	27,587	21,847	17,752
	(5.7)	(3.0)					
2. Aggregate Deposits with Banks	72,715	1,05,727	33,227	1,70,827	35,866	2,69,833	60,567
	(3.1)	(3.8)					
2.1 Demand Deposits with Banks	-32,289	-28,040	-42,399	43,794	-8,252	74,697	-42,300
	(-7.9)	(-5.9)					
2.2 Time Deposits with Banks	1,05,004	1,33,767	75,626	1,27,033	44,118	1,95,136	1,02,866
	(5.5)	(5.7)					
3. 'Other' Deposits with Banks	-964	4,292	-1,613	452	-502	2,291	319
<b>Sources</b>							
4. Net Bank Credit to Government	42,120	74,910	23,431	14,175	-13,204	47,180	18,976
	(5.5)	(8.9)					
4.1 RBI's Net Credit to Government	-10,328	22,415	53	2,826	-12,754	7,490	-25,483
4.1.1 RBI's Net credit to Centre	-7,504	25,711	3,071	2,584	-12,568	3,889	-21,825
4.2 Other Banks' Credit to Government	52,448	52,495	23,378	11,349	-451	39,690	44,459
5. Bank Credit to Commercial Sector	35,357	-7,865	14,930	1,44,204	78,099	1,93,125	-25,063
	(2.1)	(-0.4)					
6. NFEA of Banking Sector	62,643	1,373	58,087	20,197	43,160	65,542	-2,745
6.1 NFEA of RBI	76,402	1,373	71,845	11,392	27,250	82,682	-2,745
7. Government's Currency Liabilities to the Public	-920	171	-920	155	166	132	171
8. Net Non-Monetary liabilities of the Banking Sector	43,712	-55,776	40,117	10,330	45,269	12,009	-87,299
<b>Memo:</b>							
1. Non-resident Foreign Currency Deposits with SCBs	4,416	-4,602	3,917	1,671	1,233	1,011	-4,527
2. SCBs' Call-term Borrowing from Financial Institutions	1,236	-3,596	3,118	-1,576	-4,468	5,618	-2,916
3. Overseas Borrowing by SCBs	1,265	-6,850	3,301	-3,685	-2,774	5,229	-6,666
SCBs : Scheduled Commercial Banks. NFEA : Net Foreign Exchange Assets.							
<b>Note :</b> Figures in parentheses are percentage variations.							

growth led to a reduction in the incremental credit-deposit ratio (y-o-y) of SCBs to 70.2 per cent on July 6, 2007 from 96.4 per cent a year ago and 110.0 per cent at March 31, 2006 (Chart 10).



Disaggregated sectoral data available up to May 2007 show that about 39 per cent of incremental non-food credit (y-o-y) was absorbed by industry, led by infrastructure (power, port, telecommunication, etc.), textiles, iron and steel, engineering, petroleum, chemicals, construction and food processing industries. The infrastructure sector alone accounted for around 25 per cent of the incremental credit to the industry. The agricultural sector absorbed around 15 per cent of the incremental non-food credit expansion. Personal loans accounted for around 24 per cent of the incremental non-food credit; within personal loans, the share of incremental housing loans was around 11 per cent. Growth in loans to commercial real estate remained high (Table 22).

**Table 22: Deployment of Non-food Bank Credit**

(Amount in Rupees crore)					
Sector/Industry	Outstanding as on May 25, 2007	Year-on-Year Variation			
		May 26, 2006		May 25, 2007	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
<b>Non-food Gross Bank Credit (1 to 4)</b>	<b>17,52,349</b>	<b>3,10,316</b>	<b>32.2</b>	<b>3,65,814</b>	<b>26.4</b>
<b>1. Agriculture and Allied Activities</b>	<b>2,22,042</b>	<b>42,122</b>	<b>35.0</b>	<b>54,038</b>	<b>32.2</b>
<b>2. Industry (Small, Medium and Large)</b>	<b>6,76,440</b>	<b>98,947</b>	<b>26.4</b>	<b>1,41,280</b>	<b>26.4</b>
Small Scale Industries	1,15,884	14,863	20.3	26,387	29.5
<b>3. Personal Loans</b>	<b>4,55,439</b>	-	-	<b>87,944</b>	<b>23.9</b>
Housing	2,30,751	-	-	41,066	21.6
Advances against Fixed Deposits	39,092	6,076	22.9	6,237	19.0
Credit Cards	14,221	-	-	4,411	45.0
Education	15,438	-	-	4,903	46.5
Consumer Durables	8,831	-1,103	-13.3	1,661	23.2
<b>4. Services</b>	<b>3,98,428</b>	-	-	<b>82,551</b>	<b>26.1</b>
Transport Operators	25,321	-	-	7,922	45.5
Professional and other Services	24,834	-	-	8,999	56.8
Trade	1,05,536	-	-	23,319	28.4
Real Estate Loans	46,295	-	-	19,010	69.7
Non-Banking Financial Companies	44,425	11,564	64.0	12,401	38.7
<i>Memo:</i>					
<b>Priority Sector</b>	<b>6,25,298</b>	<b>1,22,394</b>	<b>33.7</b>	<b>1,20,463</b>	<b>23.9</b>
<b>Industry (Small, Medium and Large)</b>	<b>6,76,440</b>	<b>98,947</b>	<b>26.4</b>	<b>1,41,280</b>	<b>26.4</b>
Food Processing	37,367	4,545	19.9	6,758	22.1
Textiles	77,657	14,704	37.8	19,223	32.9
Paper & Paper Products	11,391	2,093	35.1	2,243	24.5
Petroleum, Coal Products & Nuclear Fuels	29,039	2,135	14.5	9,884	51.6
Chemical and Chemical Products	52,415	6,800	22.2	6,511	14.2
Rubber, Plastic and their Products	8,855	2,291	56.3	1,938	28.0
Iron and Steel	63,374	13,031	42.5	13,554	27.2
Other Metal & Metal Products	20,454	2,769	26.7	5,447	36.3
Engineering	42,592	5,683	22.3	8,553	25.1
Vehicles, Vehicle Parts and Transport Equipments	23,691	5,045	58.3	5,267	28.6
Gems and Jewellery	23,423	5,623	45.9	2,572	12.3
Construction	20,123	4,192	50.6	6,632	49.2
Infrastructure	1,43,520	25,557	35.0	35,292	32.6
- : Not available.					
<b>Note :</b> 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 onwards are not comparable with the earlier periods.					

Monetary and Liquidity Conditions

Apart from bank credit, the corporates continued to fund their requirements through non-bank sources of funds such as capital markets, external commercial borrowings (ECBs) and internal funds. Resources raised through domestic equity issuances remained strong at Rs.13,261 crore during 2007-08 (April-June) (Table 23). Resources raised from international markets through American depository receipts (ADRs) and global depository receipts (GDRs) were Rs.1,251 crore during 2007-08 (April-June) as compared with Rs.4,965 crore a year ago. Net mobilisation under ECBs almost doubled to Rs.88,472 crore during 2006-07 (April-March). Internal generation of funds continued to provide strong support to the funding requirements as profits after tax of sample non-financial non-government companies during 2006-07 were around 45 per cent higher than that in the previous year.

Investments by scheduled commercial banks in Government and other approved securities increased by 10.5 per cent, y-o-y, on July 6, 2007 as compared with 4.1 per cent a year ago (Table 24). Commercial banks' holdings of Government securities at 28.7 per cent of their net demand and time liabilities (NDTL) on

**Table 23: Select Sources of Funds to Industry**

Item	(Rupees crore)						
	2005-06	2006-07	2006-07			2007-08	
			Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
<b>A. Bank Credit to Industry #</b>	<b>1,26,804</b>	<b>1,41,543</b>	<b>-2,336</b>	<b>49,290</b>	<b>28,415</b>	<b>66,174</b>	<b>-20,894 *</b>
<b>B. Flow from Non-banks to Corporates</b>							
1. Capital Issues (i+ii)	13,781	29,180	10,627	1,882	10,840	5,831	13,788
i) Non-Government Public Ltd. Companies (a+b)	13,408	29,180	10,627	1,882	10,840	5,831	13,261
a) Bonds/Debentures	245	585	0	0	491	94	0
b) Shares	13,163	28,595	10,627	1,882	10,349	5,737	13,261
ii) PSUs and Government Companies	373	0	0	0	0	0	527
2. ADR/GDR Issues	7,263	16,184	4,965	2,130	924	8,165	1,251
3. External Commercial Borrowings (ECBs)	45,078	88,472	20,498	14,232	16,077	37,665	N.A.
4. Issue of CPs	-1,517	4,970	6,931	4,795	-908	-5,848	7,661
<b>C. Depreciation Provision +</b>	<b>28,883</b>	<b>37,095</b>	<b>8,449</b>	<b>8,892</b>	<b>9,172</b>	<b>10,338</b>	<b>N.A.</b>
<b>D. Profit after Tax +</b>	<b>67,506</b>	<b>1,11,107</b>	<b>24,845</b>	<b>27,710</b>	<b>28,698</b>	<b>31,251</b>	<b>N.A.</b>

N.A. : Not available.

\* : April-May 2007.

# : Data pertain to select scheduled commercial banks. Data for 2005-06 are not comparable with those of later period due to increase in number of banks selected in the sample.

+ : Data are based on audited/ unaudited abridged results of select non-financial non-Government companies. Data for the full year may not add to the quarterly totals due to difference in the number of companies covered in each period (see Chapter I).

**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.

3. Data on ADR/GDR issues exclude issuances by banks and financial institutions.

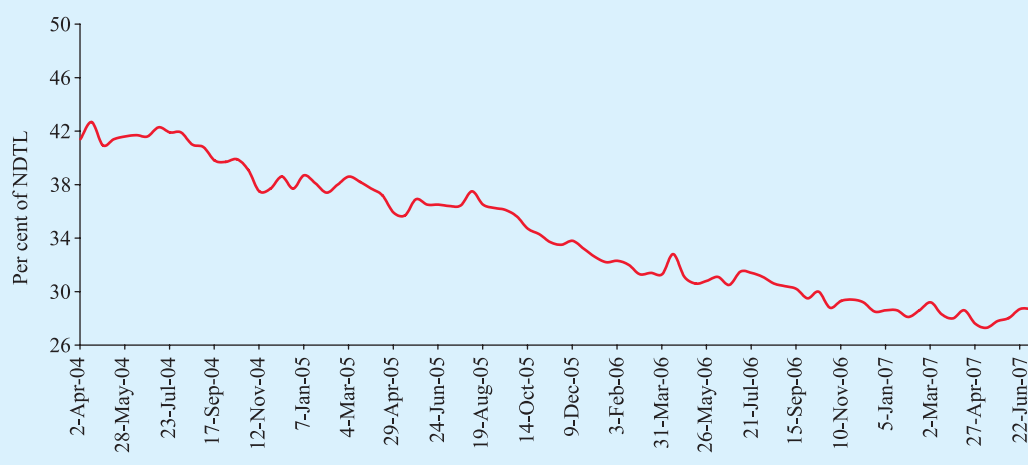
4. Data on external commercial borrowings include short-term credit. Data for 2005-06 are exclusive of the IMD redemption.

**Table 24: Scheduled Commercial Bank Survey**

Item	Outstanding as on July 6, 2007	Variation (year-on-year)			
		As on July 7, 2006		As on July 6, 2007	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
<b>Sources of Funds</b>					
1. Aggregate Deposits	27,13,843	377,392	20.9	5,31,881	24.4
2. Call/Term Funding from Financial Institutions	82,240	13,398	18.9	-2,140	-2.5
3. Overseas Foreign Currency Borrowings	25,055	3,190	11.4	-6,045	-19.4
4. Capital	36,748	987	3.5	7,792	26.9
5. Reserves	2,10,763	31,950	24.5	48,518	29.9
<b>Uses of Funds</b>					
1. Bank Credit	19,14,527	363,936	30.9	3,73,632	24.2
<i>of which: Non-food Credit</i>	18,70,299	3,70,899	32.8	3,67,258	24.4
2. Investments in Government and Other Approved Securities	8,49,946	30,101	4.1	80,715	10.5
a) Government Securities	8,29,251	33,351	4.6	76,409	10.1
b) Other Approved Securities	20,695	-3,250	-16.5	4,306	26.3
3. Investments in Non-SLR Securities	1,78,371	9,842	7.0	27,716	18.4
4. Foreign Currency Assets	62,065	4,202	14.8	29,420	90.1
5. Balances with the RBI	1,99,592	19,542	20.3	83,877	72.5

**Note :** Data are provisional.

July 6, 2007 were somewhat higher than 28.0 per cent at end-March 2007 but lower than that of 31.5 per cent a year ago (Chart 11). Excess SLR investments of SCBs increased to Rs.1,10,207 crore on July 6, 2007 from Rs.84,223 crore at end-March 2007 but were lower than Rs.1,59,029 crore a year ago. Banks' balances

**Chart 11: SLR Investments by Scheduled Commercial Banks**




## Monetary and Liquidity Conditions

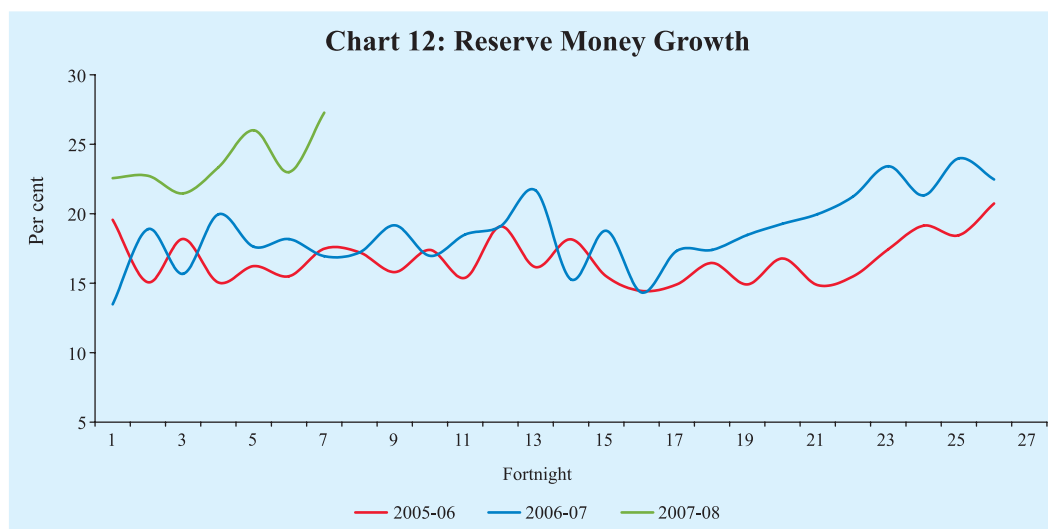
with the Reserve Bank expanded, reflecting the impact of the increase in their NDTL as well as the increase in the CRR. Investments by SCBs in non-SLR securities (such as shares/bonds/commercial papers) were also higher than a year ago. Banks' holdings of foreign currency assets abroad were higher than that in the previous year; their overseas borrowings contracted. Funds raised through capital issues as well as internal accruals were higher than in the previous year.

### Reserve Money Survey

Reserve money expanded by 29.1 per cent, y-o-y, as on July 20, 2007 (21.7 per cent adjusted for the first round effects of the hikes in the CRR<sup>1</sup>) as compared with 17.2 per cent a year ago (Chart 12).

During the financial year 2007-08 (up to July 20, 2007), reserve money expanded by 6.2 per cent (4.0 per cent adjusted for the first round effects of the hikes in the CRR) as compared with 1.8 per cent in the corresponding period of 2006-07. Growth in bankers' deposits with the Reserve Bank increased by 14.0 per cent during 2007-08 (up to July 20, 2007) as against a decline of 6.2 per cent during the corresponding period of 2006-07. Currency in circulation expanded by 2.1 per cent as compared with 4.6 per cent during the corresponding period of the previous year (Table 25).

On the sources side, reserve money continued to be driven by net foreign currency assets (adjusted for revaluation), which rose by Rs.72,947 crore in 2007-



<sup>1</sup> The cash reserve ratio was increased by 150 basis points in stages between December 2006 and May 2007 (see Table 33, Chapter 4) and this is estimated to have absorbed Rs.43,000 crore of banks' resources.

## Macroeconomic and Monetary Developments: First Quarter Review 2007-08

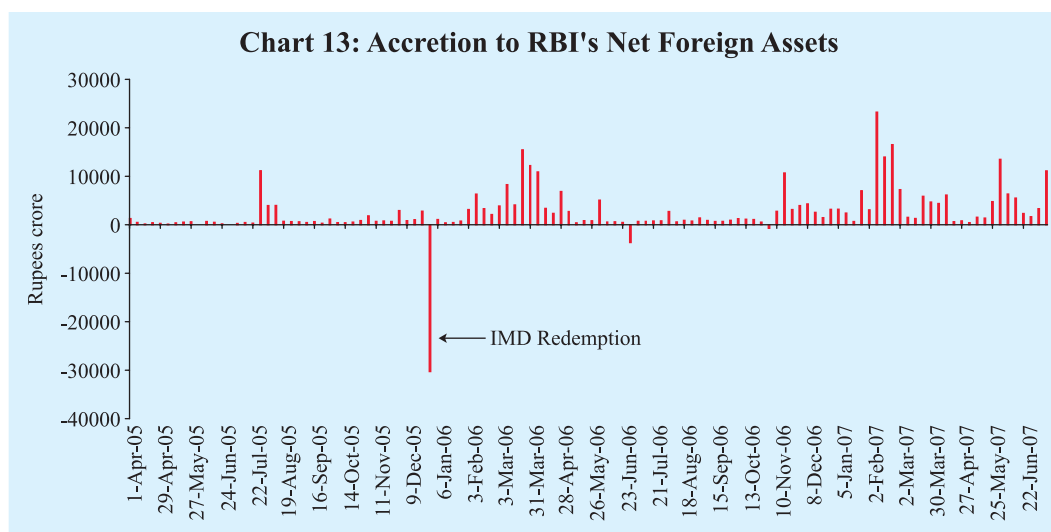
<b>Table 25: Reserve Money</b>									
(Amount in Rupees crore)									
Item	Outstanding as on July 20, 2007	Variation							
		2006-07 (April March)	2006-07 (Up to July 21)	2007-08 (Up to July 20)	2006-07				2007-08
1	2	3	4	5	Q1	Q2	Q3	Q4	Q1
<b>Reserve Money</b>	<b>7,52,675</b>	<b>1,35,961</b>	<b>10,069</b>	<b>43,659</b>	<b>13,466</b>	<b>18,665</b>	<b>14,204</b>	<b>89,626</b>	<b>12,390</b>
<b>Components (1+2+3)</b>									
1. Currency in Circulation	5,14,605	73,549 (17.1)	19,630 (4.6)	10,380 (2.1)	22,283	-2,011	26,871	26,405	16,870
2. Bankers' Deposits with RBI	2,24,980	61,784 (45.6)	-8,453 (-6.2)	27,685 (14.0)	-7,204	20,224	-12,165	60,929	-4,800
3. 'Other' Deposits with the RBI	13,090	628 (9.1)	-1,108 (-16.1)	5,594 (74.6)	-1,613	452	-502	2,291	319
<b>Sources (1+2+3+4-5)</b>									
1. RBI's Net Credit to Government	21,884	-2,384	-9,374	16,132	53	2,826	-12,754	7,490	-25,483
<i>of which:</i> to Centre (i+ii+iii+iv-v)	21,011	-3,024	-6,356	18,875	3,071	2,584	-12,568	3,889	-21,825
i. Loans and Advances	30,058	0	0	30,058	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	75,990	26,763	-33,913	-21,182	-27,610	24,944	22,733	6,696	-34,284
iv. RBI's Holdings of Rupee coins	91	-143	-20	79	9	-107	97	-142	128
v. Central Government Deposits	85,127	29,644	-27,577	-9,921	-30,672	22,253	35,398	2,665	-12,330
2. RBI's Credit to Banks and Commercial Sector	1,394	1990	-3,094	-7,778	-3,135	3,107	2,065	-47	-6,450
3. NFEA of RBI	8,93,888	1,93,170 (28.7)	87,888 (13.1)	27,735 (3.2)	71,845	11,392	27,250	82,682	-2,745
<i>of which</i> :FCA, adjusted for revaluation		1,64,601	30,663	72,947	28,107	10,948	31,634	93,913	47,728
4. Government's Currency Liabilities to the Public	8,457	-467	-868	171	-920	155	166	132	171
5. Net Non-Monetary liabilities of RBI	1,72,948	56,347	64,483	-7,400	54,376	-1,184	2,524	632	-46,897
<i>Memo:</i>									
LAF Repos (+) / Reverse Repos (-)	-3,000	36,435	-38,820	-32,185	-23,060	28,395	22,195	8,905	-32,182
Net Open Market Sales # *		5,125	2,503	1,910	1,536	1,176	389	2,024	1,246
Centre's Surplus **	0	1,164	-42,699	-49,992	-27,321	13,313	38,713	-23,542	-34,597
Mobilisation under MSS *	85,027	33,912	8,664	22,053	4,062	8,940	-3,315	24,225	19,643
Net Purchases(+)/Sales(-) from Authorised Dealers		1,18,994	21,545	14,614 +	21,545	0	19,776	77,673	14,614 +
NFEA/Reserve Money @	118.8	122.2	130.5	118.8	127.0	125.0	126.5	122.2	119.7
NFEA/Currency @	173.7	171.8	169.0	173.7	164.4	167.7	164.0	171.8	165.7
NFEA : Net Foreign Exchange Assets.    FCA : Foreign Currency Assets.    LAF : Liquidity Adjustment Facility. * : At face value.    + : Up to May 25, 2007.    # : Excludes Treasury Bills.    @ : per cent, end of period. ** : Excludes minimum cash balances with the Reserve Bank in case of surplus.									
<b>Note :</b> 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.									

08 (up to July 20, 2007) as compared with Rs.30,663 crore during the corresponding period of the previous year (Chart 13). Movements in the Reserve Bank's net credit to the Centre largely reflected liquidity management operations by the Reserve Bank and trends in Government deposits. During 2007-08 (up to July 20, 2007), the Reserve Bank's holdings of Central Government's dated securities declined by Rs.21,182 crore, partly on account of absorption of liquidity





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under the liquidity adjustment facility (LAF). On the other hand, there was an increase of Rs.30,058 crore in ways and means advances/overdraft from the Reserve Bank. Central Government deposits declined reflecting a reduction in the Government's cash surplus (Rs.49,992 crore), partly offset by an increase in balances under the MSS (Rs.22,053 crore). Reflecting these developments, net Reserve Bank credit to the Centre increased by Rs.18,875 crore during 2007-08 (up to July 20, 2007) as against a decline of Rs.6,356 crore during the corresponding period of the previous year.

**Liquidity Management**

During 2007-08, the Reserve Bank continued with its policy of active management of liquidity, using all the policy instruments at its disposal flexibly. Variations in cash balances of the Government and capital flows remained the key drivers of liquidity conditions.

Liquidity pressures eased gradually from April 4, 2007 onwards, partly on account of reduction in the Centre's cash balance from Rs.50,092 crore at end-March 2007 to Rs.32,023 crore by mid-April 2007. Consequently, the amount injected through LAF repos fell from Rs.29,185 crore at end-March 2007 to Rs.1,455 crore by April 5, 2007 and subsequently, liquidity was absorbed under the LAF reverse repos during April 9-15, 2007. The amount absorbed was capped at Rs.3,000 crore as per the modified arrangements effective March 5, 2007. Accordingly, amounts absorbed under LAF reverse repos since March 5, 2007 onwards are not comparable with previous data (Table 26 and Chart 14).

Although the Centre's cash balance declined further from mid-April 2007 onwards, liquidity conditions tightened; this could be partly attributed to the

**Table 26: Reserve Bank's Liquidity Management Operations**

Item	(Rupees crore)							
	2006-07	2006-07				2007-08		
	(April-March)	Q1	Q2	Q3	Q4	April	May	June
1	2	3	4	5	6	7	8	9
<b>A. Drivers of Liquidity (1 to 5)</b>	61,739	36,247	-16,896	-25,641	68,028	34,179	12,797	N.A.
1. RBI's net Purchases from Authorised Dealers	1,18,994	21,545	0	22,461	74,988	8,835	5,779	N.A.
2. Currency with the Public	-70,352	-19,648	-1,270	-27,033	-22,400	-19,953	-1,007	8,498
3. Surplus Cash Balances of the Centre with the Reserve Bank*	-1,164	40,207	-26,199	-30,761	15,590	49,992	0	0
4. WMA/Overdraft to the Centre	0	0	0	0	0	980	6,773	7,406
5. Others (residual)	14,260	-5,856	10,574	9,693	-150	-5,676	1,252	N.A.
<b>B. Management of Liquidity (6 to 9)</b>	-24,257	-39,003	32,026	31,625	-48,905	-39,879	-24,451	10,387
6. Liquidity Impact of LAF Repos	36,435	-35,315	40,650	33,600	-2,500	-19,189	-5,306	4,205
7. Liquidity Impact of OMO (Net)@	720	545	145	25	5	10	0	0
8. Liquidity Impact of MSS	-33,912	-4,233	-8,769	4,750	-25,660	-12,950	-11,395	6,182
9. First Round Liquidity Impact due to CRR change	-27,500	0	0	-6,750	-20,750	-7,750	-7,750	0
<b>C. Bank Reserves (A+B) #</b>	37,482	-2,756	15,130	5,984	19,123	-5,700	-11,654	15,047

N.A. : Not available.

(+) : Indicates injection of liquidity into the banking system.

(-) : Indicates absorption of liquidity from the banking system.

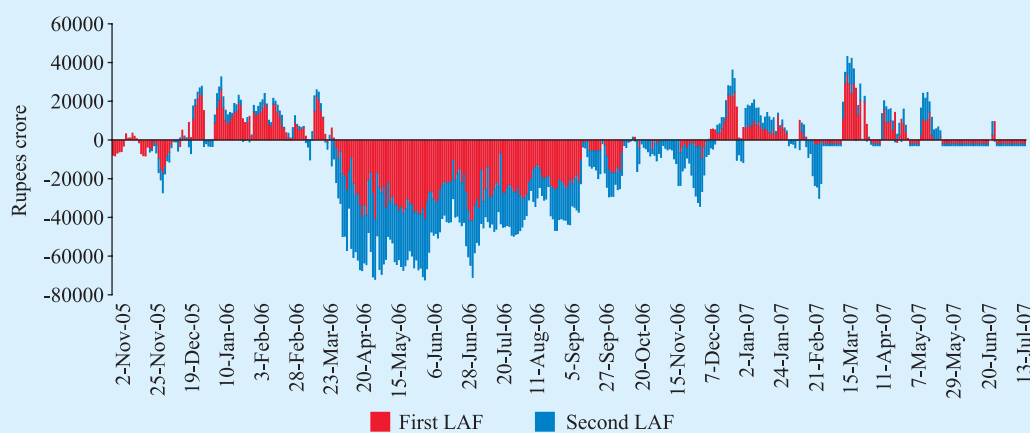
\* : Excludes minimum cash balances with the Reserve Bank in case of surplus.

# : Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.

@ : Adjusted for Consolidated Sinking Funds (CSF) and including private placement.

**Note** : For end-March, data pertain to March 31; for all other months data pertain to last Friday.

hikes of 25 basis points each in the CRR coming into effect from the fortnights beginning April 14, 2007 and April 28, 2007. The LAF window witnessed injection of liquidity during most part of April 16-May 27, 2007 with the daily net injection of liquidity averaging Rs.9,629 crore. Liquidity pressures eased from May 28,

**Chart 14: Repo (+)/Reverse Repo (-) under LAF**


**Note** : Additional LAF on March 31, 2006 and March 31, 2007 are shown under second LAF.

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2007 onwards, reflecting increase in Government expenditure and net purchase of foreign exchange from authorised dealers by the Reserve Bank. The Centre's WMA/overdraft rose from Rs.7,753 crore on May 25, 2007 to Rs.26,707 crore by June 1, 2007 before falling to Rs.8,248 crore by June 15, 2007. The cash balance of the Government again turned into deficit on June 29, 2007 reflecting the transfer of the Reserve Bank's stake in the State Bank of India (SBI) to the Government. The LAF window turned into an absorption mode on May 28, 2007 and remained so up to July 24, 2007 (except during June 28-July 2, 2007 when liquidity was injected through repo operations to the tune of Rs.9,009 crore daily on an average). The amount of liquidity absorbed through the reverse repo operations remained limited to a maximum of Rs.3,000 crore in terms of the modified arrangements. Outstanding balances under the MSS rose from Rs.62,974 crore at end-March 2007 to Rs.85,027 crore by July 20, 2007 reflecting the enhanced MSS programme that was put in place in March/April 2007 to restore LAF as a facility for equilibrating very short-term mismatches (Table 27). Towards this objective, a mix of Treasury Bills and dated securities for MSS issuances is used in a more

**Table 27: 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
<b>2006</b>				
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	-1,203	83,859
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	12,270	40,091	25,868	78,229
November	15,995	37,917	31,305	85,217
December	-31,685	37,314	65,582	71,211
<b>2007</b>				
January	-11,445	39,375	42,494	70,424
February	6,940	42,807	53,115	1,02,862
March *	-29,185	62,974	49,992	83,781
April	-9,996	75,924	-980	64,948
May	-4,690	87,319	-7,753	74,876
June	-8,895	81,137	-15,159	57,083
July (as on 20 July)	3,000	85,027	-30,058	57,969

@ : Excludes minimum cash balances with the Reserve Bank in case of surplus.

\* : Data pertain to March 31.

**Note :** 1. Negative sign in column 2 indicates injection of liquidity through LAF repo.

2. Negative sign in column 4 indicates WMA/overdraft.

3. Beginning March 5, 2007, daily reverse repo absorptions under LAF have been restricted to a maximum of Rs.3,000 crore comprising Rs.2,000 crore in the First LAF and Rs.1,000 crore in the Second LAF.

flexible manner keeping in view the capital flows, the assessment of volatility and durability of capital flows.

In the recent period, there have been sharp variations in domestic liquidity conditions and overnight interest rates on the back of large movements in Government cash balances and capital flows. Reduction in Government cash balances and increase in capital inflows lead to an increase in market liquidity and downward pressures on overnight interest rates and *vice versa*. As noted earlier, modified liquidity management arrangements were put in place effective March 5, 2007. An enhanced MSS programme along with a cap of Rs.3,000 crore on absorption of liquidity under LAF reverse repos was put in place to restore LAF as a facility for equilibrating very short-term mismatches. However, in view of relatively large build-up of Government cash balances, the call rate reached a high of 54 per cent by end-March 2007. More recently, reduction in Government cash balances and large capital inflows have led to a sharp reduction in the call rate to below one per cent.

## IV. PRICE SITUATION

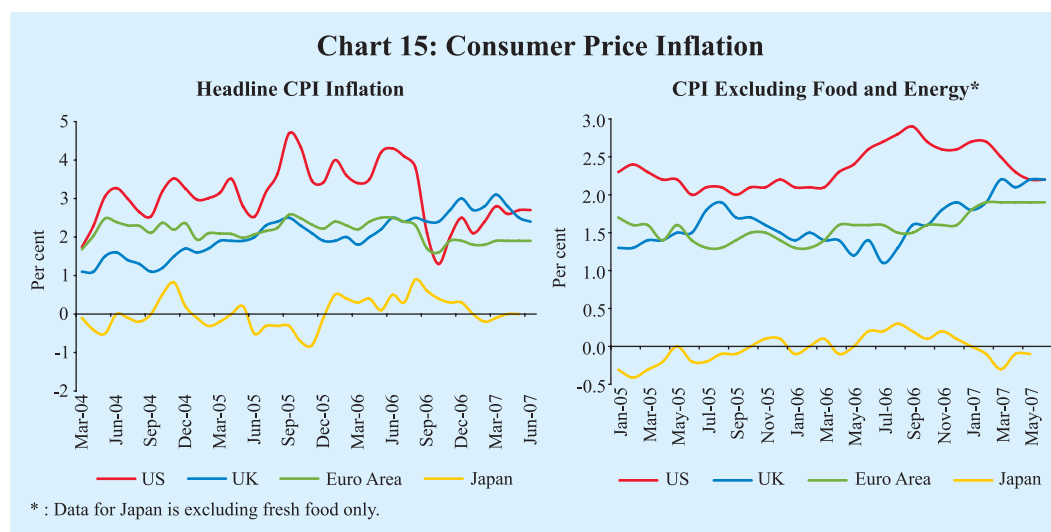
Both headline and core inflation in major economies remained firm during the first quarter of 2007-08, reflecting the combined impact of high commodity prices and strong demand conditions. Since end-March 2007, several central banks such as European Central Bank (ECB), Bank of England, Bank of Canada, Reserve Bank of New Zealand, Norges Bank (Norway), Sveriges Riksbank (Sweden), South African Reserve Bank and People's Bank of China have further raised policy rates to contain inflation and inflationary expectations. Central banks of China and Russia also raised cash reserve requirements to address concerns regarding excess liquidity. On the other hand, central banks of Thailand, Indonesia and Brazil have further eased monetary policy since end-March 2007 in view of easing of inflationary pressures. The US Fed kept the policy rates unchanged during the first quarter.

In India, inflation based on the wholesale price index (WPI) initially rose to above 6.0 per cent in early April 2007 but eased to 4.4 per cent by July 14, 2007. Consumer price inflation also eased during the quarter ended June 2007, though it continued to remain above the WPI inflation, mainly reflecting the impact of higher food prices. Pre-emptive monetary measures since mid-2004 accompanied by fiscal and supply-side measures have helped in containing inflation.

### Global Inflation

Headline inflation in major advanced economies remained firm in the first quarter of 2007-08 reflecting increases in prices of crude oil and food items (Chart 15). Notwithstanding some moderation during the quarter, headline inflation exceeded the targets/comfort zones in some cases. Amongst major economies, headline inflation (June 2007) was 2.7 per cent in the US, 2.4 per cent in the UK and 1.9 per cent in the euro area. Inflation was 2.2 per cent in May 2007 in the OECD countries, marginally lower than that of 2.4 per cent in March 2007. Core inflation also remained firm in major economies. In the US, CPI inflation (excluding food and energy) was 2.2 per cent in June 2007 (2.5 per cent in March 2007). In the OECD countries, CPI inflation (excluding food and energy) was 2.1 per cent in May 2007 (the same as in March 2007).

Many central banks have further tightened monetary policy during 2007-08 so far against the backdrop of persistent inflationary pressures, especially in view of continued strength of demand, ample liquidity and possible pass-through from past and present increases in oil and other commodity prices. In the euro area, risks to the price outlook are seen on the upside over the medium term. The European Central Bank (ECB), therefore, raised the key policy rate further by 25 basis points



on June 6, 2007 – a cumulative increase of 200 basis points since the tightening began in December 2005 (Table 28). Given the positive economic environment, the ECB is of the view that monetary policy is still on the accommodative side, with overall financing conditions favourable, money and credit growth vigorous and liquidity in the euro area ample. In the UK, in view of steady growth in output, continued rapid growth in credit and broad money, and margin of spare capacity in firms appearing limited, the risks to the outlook for inflation in the medium term are seen to be tilted to the upside. The Bank of England, therefore, raised its policy rate further by 50 basis points – 25 basis points each on May 10, 2007 and July 5, 2007 to 5.75 per cent – a cumulative increase of 125 basis points since the tightening began in August 2006 (Chart 16). Amongst other major advanced economies, the Bank of Canada (25 basis points), the Sveriges Riksbank (25 basis points), Norges Bank (50 basis points) and the Reserve Bank of New Zealand (75 basis points) have raised their policy rates during 2007-08 so far.

On the other hand, the US Fed did not change the policy rate during the quarter. Although core inflation moderated during April-June 2007, it remains at somewhat elevated level. The Federal Open Market Committee in its latest meeting held on June 28, 2007 noted that the risk that inflation would fail to moderate as expected remained the predominant policy concern. It indicated that future policy adjustments would depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information. The Bank of Japan (BoJ) has kept its policy rate unchanged at each of its meetings held since February 2007 when it raised the uncollateralised overnight call rate (the operating target of monetary policy since March 2006) by 25 basis points to 0.50 per cent.

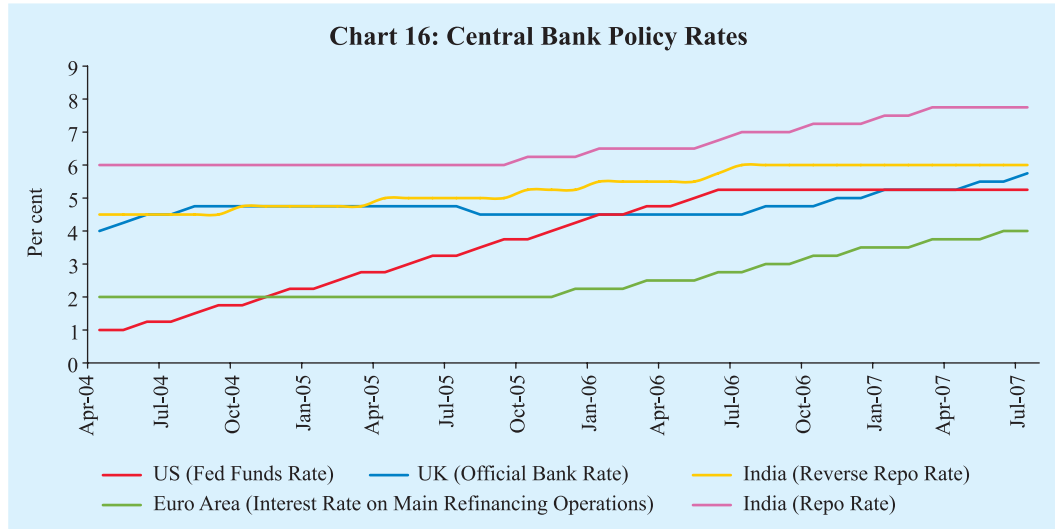
Amongst major emerging economies, consumer price inflation in China increased to 4.4 per cent in June 2007 from 3.3 per cent in March 2007 and 1.5

Price Situation

**Table 28: Global Inflation Indicators**

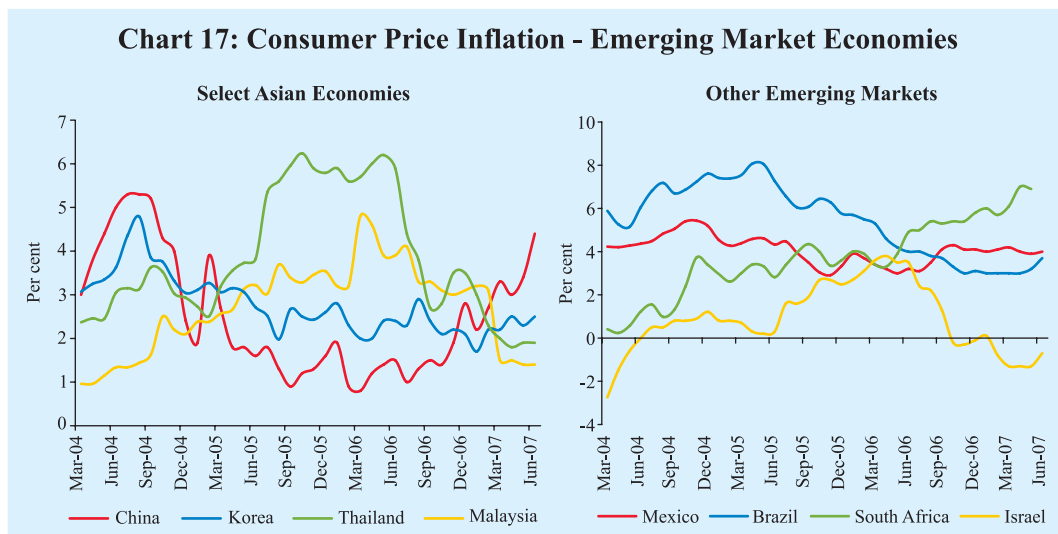
(Per cent)									
Country/ Region	Key Policy Rate	Policy Rates (As on July 24, 2007)	Changes in Policy Rates (basis points)			CPI Inflation (y-o-y)		Real GDP Growth (y-o-y)	
			2005-06 (April- March)	2006-07 (April- March)	Since end- March 2007	June 2006	June 2007	2006 (Q1)	2007 (Q1)
1	2	3	4	5	6	7	8	9	10
<b>Developed Economies</b>									
Australia	Cash Rate	6.25 (Nov. 8, 2006)	0	75	0	3.0	2.4 #	3.1	3.8
Canada	Overnight Rate	4.50 (Jul.10, 2007)	125	50	25	2.4	2.2	3.2	2.0
Euro area	Interest Rate on Main Refinancing Operations	4.00 (Jun. 6, 2007)	50	125	25	2.5	1.9	2.2	3.0
Japan	Uncollateralised Overnight Call Rate	0.50 (Feb. 21, 2007)	0**	50	0	0.1	0.0 *	3.0	2.6
UK	Official Bank Rate	5.75 (Jul. 5, 2007)	(-)25	75	50	2.5	2.4	2.4	3.0
US	Federal Funds Rate	5.25 (Jun. 29, 2006)	200	50	0	4.3	2.7	3.7	1.9
<b>Developing Economies</b>									
Brazil	Selic Rate	11.50 (Jul. 18, 2007)	(-)275	(-)375	(-)125	4.0	3.7	3.9	4.3
India	Reverse Repo Rate	6.00 (Jul. 25, 2006)	75	50	0	6.3	6.6 *	10.0	9.1
	Repo Rate	7.75 (Mar. 30, 2007)	50 (0)	125 (100)	0 (50)				
China	Benchmark 1-year Lending Rate	6.84 (Jul. 21, 2007)		81 (250)	45 (150)	1.5	4.4	10.9	11.9 \$
Indonesia	BI Rate	8.25 (Jul. 5, 2007)	425 @	(-)375	(-)75	15.5	5.8	5.0	6.0
Israel	Key Rate	3.75 (Jul. 23, 2007) &	125	(-)75	(-)25	3.5	-0.7	5.2	5.4
Korea	Overnight Call Rate	4.75 (Jul. 12, 2007)	75	50 (80)	25	2.4	2.5	5.1	4.9 \$
Russia	Refinancing Rate	10.00 (Jun. 19, 2007)	(-)100	(-)150 (150)	(-)50 (100)	9.1	8.5	5.5	7.9
South Africa	Repo Rate	9.50 (Jun. 8, 2007)	(-)50	200	50	3.9	6.9 *	4.0	5.4
Thailand	14-day Repurchase Rate	5.00 (Jun. 7, 2006)	225	50					
	1-day Repurchase Rate	3.25 (Jul. 18, 2007)		(-)44 ^	(-)125	5.9	1.9	6.1	4.3
<p>@ : Bank Indonesia adopted BI rate as the reference rate with the formal adoption of inflation targeting in July 2005.  ** : 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.  ^ : Change over January 16, 2007. Effective January 17, 2007, the 1-day repurchase rate replaced the 14-day repurchase rate as the policy rate.  # : Q1 of 2007. * : May 2007. \$ : Q2 of 2007. &amp; : To be effective from August 2007.</p> <p><b>Note</b> : 1. For India, data on inflation pertain to CPI for Industrial Workers.  2. Figures in parentheses in column (3) indicate the date when the policy rates were last revised.  3. Figures in parentheses in columns (5) and (6) indicate the variation in cash reserve ratios during the period.</p> <p><b>Source</b> : International Monetary Fund, websites of respective central banks and the Economist.</p>									

per cent a year earlier, partly on the back of higher food prices (Chart 17). Economic activity has remained buoyant in 2007 so far; real GDP growth accelerated to 11.9 per cent during the second quarter of 2007 from 10.9 per cent a year ago. In view of strong growth in money supply and credit, the People's



Bank of China (PBC) increased the benchmark 1-year lending rate by 18 basis points on May 19, 2007 and 27 basis points on July 21, 2007 to 6.84 per cent – a total hike of 126 basis points since April 2006. Apart from continued issuances of its own bills to mop up liquidity, the PBC has raised the cash reserve ratio (CRR) by another 150 basis points since end-March 2007 - 50 basis points each effective April 16, 2007, May 15, 2007 and June 5, 2007 - to 11.50 per cent. The CRR has, thus, been increased by 400 basis points since July 2006.

In Korea, inflation was 2.5 per cent in June 2007 (2.2 per cent in March 2007). Although the upward pace of real estate prices has slowed down





significantly, financial institutions' lending has increased sharply. Against the backdrop of the domestic economy likely maintaining its upward trend and ample liquidity in the financial markets, the Bank of Korea raised the policy rate by 25 basis points to 4.75 per cent on July 12, 2007 - a cumulative increase of 150 basis points since October 2005. In other major Asian emerging economies such as Thailand and Indonesia, inflation remains relatively benign, reflecting both pre-emptive monetary tightening as well as appreciation of the exchange rates. In Thailand, real GDP growth has moderated on the back of slowdown in private consumption and investment demand. Inflation was moderate (1.9 per cent in June 2007 as compared with 2.0 per cent in March 2007). Therefore, the Bank of Thailand lowered the 1-day repurchase rate by 50 basis points each on April 11, 2007 and May 23, 2007, and another 25 basis points on July 18, 2007 to 3.25 per cent. The policy rate has been lowered by 169 basis points since January 17, 2007, partly reversing the increase of 275 basis points between June 2005 and June 2006. In Indonesia, economic activity is gradually regaining momentum, driven primarily by rapidly expanding exports and also by domestic consumption. Inflation was 5.8 per cent in June 2007, substantially lower than the peak of 18.4 per cent in November 2005. The Bank Indonesia, therefore, cut its policy rate by another 25 basis points to 8.25 per cent on July 5, 2007 - a total of 450 basis points since May 2006 - to support growth. The policy rate was earlier raised by 425 basis points during July-December 2005 to contain inflation.

Amongst other emerging economies, the South African Reserve Bank raised its policy rate by 50 basis points in June 2007 to 9.5 per cent. The policy rate has been raised by 250 basis points since June 2006 to contain inflationary pressures emanating from volatility in oil prices and from food and services prices. Turkey has kept rates unchanged since August 2006 due to slowdown in domestic demand and moderation in inflation expectations. Turkey had earlier increased its policy rate by 425 basis points during June-July 2006 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/easing of inflation, Brazil has reduced policy rate further by 125 basis points during 2007-08 so far - 25 basis points on April 18, 2007 and 50 basis points each on June 6, 2007 and July 18, 2007 - to 11.50 per cent. The policy rate has, thus, been reduced by 825 basis points since September 2005. The Bank of Israel initially lowered its policy rate by 50 basis points during 2007-08 (25 basis points each for May and June 2007) but increased the policy rate by 25 basis points on July 23, 2007 to 3.75 per cent. In Russia, consumer price inflation remains high, increasing from 7.1 per cent in March 2007 to 8.5 per cent in June 2007. Growth in money supply (M2) accelerated to 53 per cent, year-on-year, as on July 1, 2007 from 44 per cent a year ago. The Bank of Russia raised the required reserve ratio on credit institutions' liabilities to non-resident banks in roubles and foreign currency by another 100 basis points to 4.5 per cent effective July 1, 2007 (it was earlier raised by 150 basis points effective

October 1, 2006). However, the refinancing rate was reduced by 50 basis points in June 2007 – a total cut of 200 basis points of 50 basis points each on four occasions – from 12.0 per cent in December 2005 to 10.0 per cent in June 2007.

An assessment of key macroeconomic indicators in select EMEs shows that real GDP growth during 2006 was in the range of 3.7-11.1 per cent. Real GDP growth in India was the highest after China. Consumer price inflation was in the range of 1.9-8.5 per cent in select EMEs in June 2007 and inflation in India was the third highest amongst the select EMEs. Real policy rates in most countries ranged between 2 and 4 per cent in July 2007 (Table 29). Major EMEs, except India and South Africa, recorded surplus in current accounts in 2006. The real effective exchange rate (REER) for most EMEs has appreciated in the recent period; in June 2007, the year-on-year real appreciation ranged from 0.9 per cent (Korea) to 14.3 per cent (Philippines). Although the Centre's fiscal deficit in India declined during 2006-07 and is budgeted to decline further during 2007-08, it would remain higher than the most EMEs.

**Table 29: Key Macroeconomic Indicators: Emerging Markets**

Country	Consumer Price Inflation		Current Account Balance (per cent to GDP)		Real Effective Exchange Rate (REER)		Central Govt. Fiscal Balance (per cent of GDP)		Real Policy Rate		Real GDP Growth	
	June 2006	June 2007	2005	2006	June 2006	June 2007	2005	2006	July 2006	July 2007	2005	2006
	2	3	4	5	6	7	8	9	10	11	12	13
Brazil	4.0	3.7	1.6	1.3	6.8	13.7	-3.4	-3.2	10.8	7.8	2.9	3.7
China	1.5	4.4	7.2	9.1	1.6	4.7	-1.3	-0.7	4.9	2.4	10.4	11.1
<b>India</b>	<b>6.3</b>	<b>6.6 *</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-4.8</b>	<b>12.0</b>	<b>-4.1</b>	<b>-3.5</b>	<b>0.3</b>	<b>1.2</b>	<b>9.0</b>	<b>9.4</b>
	(5.2)	(4.3)	(-6.4)	(-7.1)			(63.9)	(63.4)	(2.3)	(3.3)		
Indonesia	15.5	5.8	0.1	2.7	14.6	6.1	-0.5	-1.0	-3.0	2.5	5.7	5.5
							(46.5)	(40.9)				
Israel	3.5	-0.7	2.9	5.2	-0.8	-0.8	-2.9	-2.7	2.9	4.2	5.2	5.1
Korea	2.4	2.5	1.9	0.7	5.2	0.9	1.9	1.8	2.0	2.3	4.2	5.0
							(29.5)	(32.2)				
Philippines	6.7	2.3	2.0	2.9	7.5	14.3	-2.7	-1.0	1.1	3.7	5.0	5.4
Russia	9.1	8.5	10.9	9.8	10.0	4.6	7.5	7.5	2.2	1.5	6.4	6.7
South Africa	3.9	6.9 *	-3.8	-6.4	-3.0	-2.1	--	--	2.5	2.6	5.1	5.0
Thailand	5.9	1.9	-4.5	1.6	9.6	8.9	0.2	0.1	0.6	1.4	4.5	5.0
							(26.1)	(27.3)				

\* : May.

# : As on July 24, 2007.

**Note** : 1. For India, data pertain to fiscal years 2005-06 and 2006-07.

2. Consumer price inflation data are on a year-on-year basis. Data for India are for CPI-Industrial Workers.

3. Real policy rate is the policy rate less year-on-year consumer price inflation. For India, repo rate is used.

4. Figures in parentheses in columns (2) and (3) refer to wholesale price inflation.

5. Figures in parentheses in columns (4) and (5) refer to trade balance/GDP ratio.

6. Data on fiscal balance for Korea and Israel pertain to general government balance.

7. Figures in parentheses in columns (8) and (9) refer to central government debt/GDP ratio. For China, data refer to public sector debt.

8. Figures in parentheses in columns (10) and (11) for India are based on wholesale price inflation.

9. Data on REER refer to year-on-year variation in broad indices (CPI-based) compiled by the Bank for International Settlements. A positive figure indicates appreciation while a negative figure indicates depreciation. For India, data are based on movements in 6-currency indices.

**Source** : International Monetary Fund, Asian Development Bank, Bank for International Settlements, World Bank and official websites of respective central banks.

Price Situation

**Table 30: International Commodity Prices**

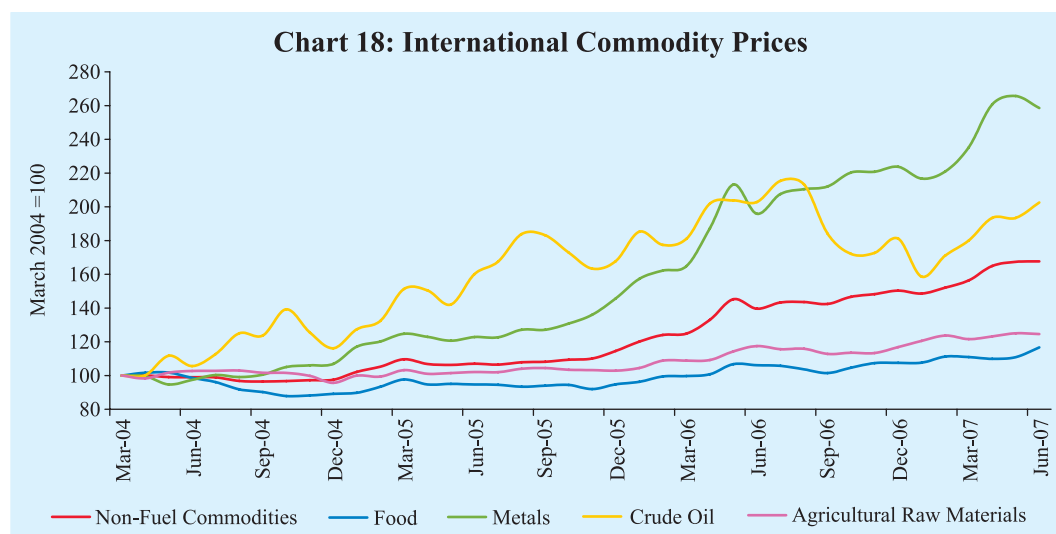
Commodity	Unit	2004	Index						Variation (per cent)	
			2004	2005	2006	2007			June 2007/ March 2007	June 2007/ June 2006
						January- June	March	June		
1	2	3	4	5	6	7	8	9	10	11
Coal	\$/mt	53.0	100	90	93	105	105	114	9.0	15.3
Crude oil (Average)	\$/bbl	37.7	100	142	170	163	161	181	12.5	-0.1
Palm oil	\$/mt	471.3	100	90	102	146	132	171	29.7	84.7
Soybean oil	\$/mt	616.0	100	88	97	122	117	135	15.7	38.3
Soybeans	\$/mt	306.5	100	90	88	107	105	118	12.1	35.2
Rice	\$/mt	237.7	100	120	128	133	134	136	1.4	3.5
Wheat	\$/mt	156.9	100	97	122	129	127	142	12.0	14.2
Sugar	c/kg	15.8	100	138	206	140	146	130	-11.0	-39.7
Cotton A Index	c/kg	136.6	100	89	93	93	94	94	0.0	5.9
Aluminium	\$/mt	1716.0	100	111	150	162	161	156	-3.1	8.1
Copper	\$/mt	2866.0	100	128	235	237	225	261	15.8	3.8
Gold	\$/toz	409.2	100	109	148	161	160	160	0.1	10.0
Silver	c/toz	669.0	100	110	173	199	197	196	-0.2	22.0
Steel cold-rolled coil/sheet	\$/mt	607.1	100	121	114	107	107	107	0.0	0.0
Steel hot-rolled coil/sheet	\$/mt	502.5	100	126	119	109	109	109	0.0	-4.3
Tin	c/kg	851.3	100	87	103	158	163	166	1.5	78.6
Zinc	c/kg	104.8	100	132	313	340	312	344	10.1	11.7

\$ : US dollar. c : US cent. bbl : barrel. mt : metric tonne. kg: Kilogram. toz: troy oz.

**Source :** Based on World Bank's actual commodity price data. The year 2004 has been taken as the base to better exhibit price trends over the relevant period.

**Global Commodity Prices**

Commodity prices firmed up further in the first quarter of 2007-08 led by crude oil, metals and edible oil (Table 30 and Chart 18).



International crude oil prices (WTI) rose during the first quarter of 2007-08 reflecting limited spare capacity, renewed interest by hedge funds and concerns over supply disruptions due to strike in Nigeria (Tables 31 and 32). The two rounds of production cuts by the Organisation of Petroleum Exporting Countries (OPEC) effected during November 2006 (1.2 million barrels per day) and February 2007 (0.5 million barrels per day) also supported prices. WTI crude prices increased to US \$ 76 a barrel on July 19, 2007 from around US \$ 60 a barrel level in March 2007. During the first quarter, UK Brent and Dubai crude prices – and hence the Indian basket price – recorded higher increases *vis-à-vis* WTI crude prices. During April-June 2007, Brent prices were US \$ 3.8 a barrel above WTI prices while the premium of the WTI over Dubai variety was only US \$ 0.25 a barrel. Typically, WTI prices have been higher than other varieties. For instance, during the six-year period, 2001-02 to 2006-07, WTI prices, on average, were US \$ 1.7 a barrel above Brent and US \$ 4.8 a barrel above Dubai crude.

Metal prices firmed up further during the first quarter of 2007-08 on the back of robust demand and supply constraints amidst speculative investor interest. Between March 2007 and June 2007, prices of lead and copper rose by 27 per cent and 16 per cent, respectively. On a year-on-year basis, prices of lead, nickel and tin during June 2007 were higher by about 152 per cent, 101 per cent and 79 per cent, respectively.

Increases in food prices during the first quarter of 2007-08 were led by oilseeds/edible oils, reflecting a shortfall in global production and rising demand for non-food uses. According to the latest assessment by the US Department of Agriculture (USDA), world vegetable oils stocks were forecast to fall by 13 per cent

**Table 31: 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
2006-07	60.9	64.4	64.7	63.3	62.4
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
March 2007	59.1	62.1	60.6	60.6	60.4
April 2007	63.8	67.4	63.9	65.1	65.4
May 2007	64.5	67.5	63.5	65.2	65.8
June 2007	65.8	71.3	67.5	68.2	68.2

**Source :** International Monetary Fund and the World Bank.

Price Situation

**Table 32: World Supply-Demand Balance of Oil**

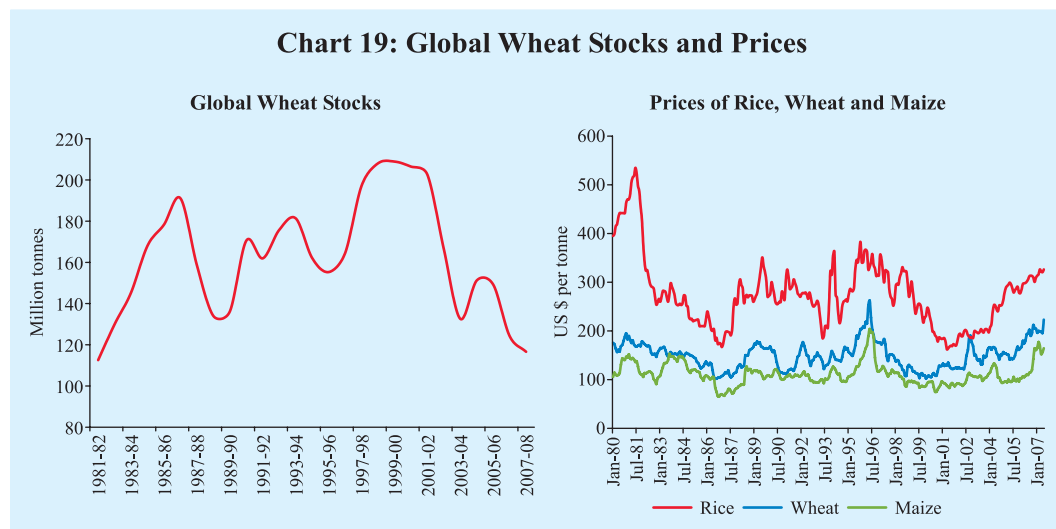
Item	2003	2004	2005	2006	2007 (P)	2008 (P)	(Million barrels per day)			
							2007 P			
							Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
<b>Demand</b>										
1. OECD	48.7	49.5	49.6	49.1	49.4	49.6	49.5	48.2	49.3	50.4
2. Non-OECD	31.2	33.0	34.4	35.4	36.6	37.8	36.0	36.4	36.6	37.2
of which: China	5.6	6.5	6.9	7.3	7.8	8.3	7.5	7.8	7.8	8.1
3. Total (1+2)	79.9	82.5	84.0	84.6	85.9	87.4	85.5	84.7	85.9	87.6
<b>Supply</b>										
4. Non-OPEC	48.9	50.1	50.3	49.2	49.9	50.8	49.6	49.5	49.9	50.4
5. OPEC	30.7	32.9	34.2	35.3	35.2	36.7	34.5	34.7	35.3	36.2
6. Total (4+5)	79.6	83.1	84.5	84.5	85.1	87.5	84.1	84.3	85.2	86.6
<b>Stock Changes</b>	0.3	-0.6	-0.5	0.0	0.9	-0.1	1.4	0.4	0.7	1.0

P : Projections.

Source : US Energy Information Administration.

during 2006-07 and by an additional 8 per cent in 2007-08. Edible oil prices hardened by 16-30 per cent between March 2007 and June 2007; on a y-o-y basis, prices in June 2007 were higher by 38-85 per cent. Amongst other food items, prices of wheat rose by 12 per cent between March 2007 and June 2007. According to the USDA, although global wheat production is expected to increase by 3.3 per cent in 2007-08 (June-May), global wheat stocks are likely to decline further in 2007-08 to 116.6 million tonnes - their lowest levels since 1981-82 (Chart 19). Rice stocks are also expected to decline by about 5 per cent during 2007-08. The overall food price index compiled by the IMF increased by about 10 per cent in June 2007 (y-o-y) on top of an increase of 12 per cent a year ago. The IMF's food price index in June 2007 has been the highest since early 1981.

**Chart 19: Global Wheat Stocks and Prices**



The decline in international sugar prices that began in August 2006 continued through the first quarter of 2007-08 on forecasts of higher global production during 2006-07 season (October-September). Sugar prices fell by 11 per cent during April-June 2007 and have almost halved from the recent peak touched in February 2006. According to the International Sugar Organisation, global sugar production is estimated to increase by 10.5 million tonnes to 162.6 million tonnes during 2006-07 season, exceeding global consumption by 9.1 million tonnes. A record crop in Brazil, the world's largest producer, significant growth in sugar output in countries such as Bangladesh, Thailand and Vietnam along with higher production in India are expected to more than offset the contraction in the output in the European Union. Global cotton prices have largely remained unchanged since March 2007, but are expected to harden during 2007-08 reflecting shortfalls in production. According to the latest assessment by the International Cotton Advisory Committee (ICAC), the cotlook A index is expected to increase by about 12 per cent during 2007-08 due to an estimated decline in world cotton stocks by 13 per cent to 10.6 million tonnes in 2007-08.

#### **Inflation Conditions in India**

The Annual Policy Statement for 2007-08 (April 2007) of the Reserve Bank observed that the stance of monetary policy in 2007-08 would be conditioned by the patterns in which the global and, more particularly, the domestic environment unfold. It further observed that the likely evolution of macroeconomic and financial conditions indicated an environment supportive of sustaining the growth momentum in India. The Statement reiterated that monetary policy, while contributing to growth, had to ensure and maintain conditions of price and financial stability. Accordingly, the policy preference for the period ahead was articulated strongly in favour of reinforcing the emphasis on price stability and anchoring inflation expectations.

In view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming that supply management would be conducive, capital flows would be managed actively and in the absence of shocks emanating in the domestic or global economy, the Statement noted that the policy endeavour would be to contain inflation close to 5.0 per cent in 2007-08. In recognition of India's evolving integration with the global economy and societal preferences in this regard, the resolve, going forward, would be to condition policy and perceptions for inflation in the range of 4.0-4.5 per cent. This objective would be conducive for maintaining self-accelerating growth over the medium-term.

As announced on March 30, 2007, the cash reserve ratio (CRR) was raised by another 50 basis points in two stages of 25 basis points each effective April 14, 2007 and April 28, 2007 - a cumulative increase of 150 basis points beginning December 2006 (Table 33).

Price Situation

**Table 33: Movement in Key Policy Rates and Inflation in India**

(Per cent)				
Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio	WPI Inflation
1	2	3	4	5
March 31, 2004	4.50	6.00	4.50	4.6
September 18, 2004	4.50	6.00	4.75 (+0.25)	7.9
October 2, 2004	4.50	6.00	5.00 (+0.25)	7.1
October 27, 2004	4.75 (+0.25)	6.00	5.00	7.4
April 29, 2005	5.00 (+0.25)	6.00	5.00	6.0
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00	4.5
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00	4.2
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00	4.9
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00	4.7
October 31, 2006	6.00	7.25 (+0.25)	5.00	5.3
December 23, 2006	6.00	7.25	5.25 (+0.25)	5.8
January 6, 2007	6.00	7.25	5.50 (+0.25)	6.4
January 31, 2007	6.00	7.50 (+0.25)	5.50	6.7
February 17, 2007	6.00	7.50	5.75 (+0.25)	6.0
March 3, 2007	6.00	7.50	6.00 (+0.25)	6.5
March 30, 2007	6.00	7.75 (+0.25)	6.00	6.5
April 14, 2007	6.00	7.75	6.25 (+0.25)	6.3
April 28, 2007	6.00	7.75	6.50 (+0.25)	6.0

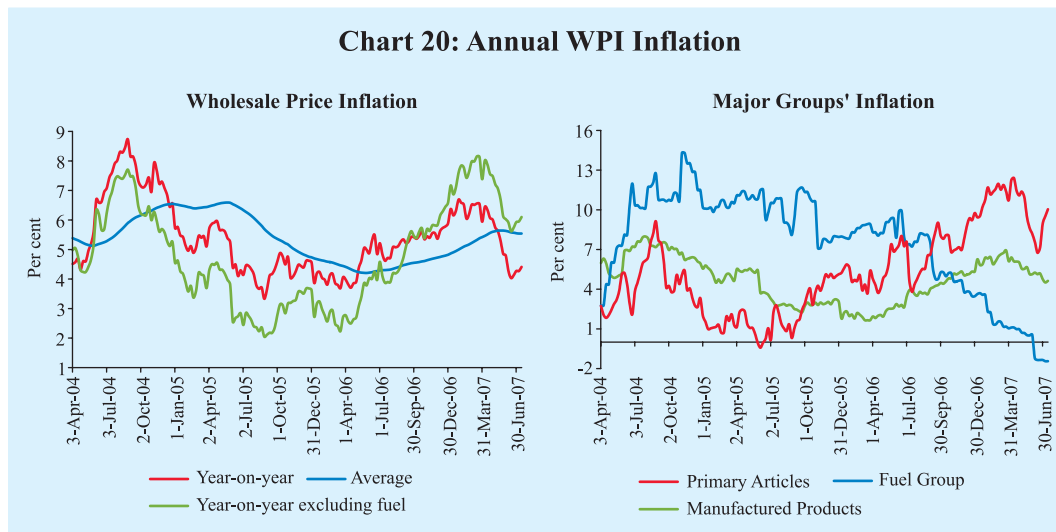
**Note :** 1. With effect from October 29, 2004, the nomenclature of repo and reverse repo was changed in keeping with international usage. Now, reverse repo indicates absorption of liquidity and repo signifies injection of liquidity. Prior to October 29, 2004, repo indicated absorption of liquidity, while reverse repo meant injection of liquidity. The nomenclature in this Report is based on the new usage of terms even for the period prior to October 29, 2004.

2. Figures in parentheses indicate change in policy rates.

**Wholesale Price Inflation**

Headline inflation, based on movement in the wholesale price index (WPI), eased to 4.4 per cent (y-o-y) as on July 14, 2007 from 5.9 per cent at end-March 2007 (and 4.6 per cent a year ago). The y-o-y inflation excluding fuel, at 6.1 per cent, was above the headline inflation rate (Chart 20 and Table 34). Headline inflation has

**Chart 20: Annual WPI Inflation**



**Table 34: Wholesale Price Inflation in India (year-on-year)**

Commodity	(Per cent)						
	Weight	2006-07 (March 31)		2006-07 (July 15)		2007-08 P (July 14)	
		Inflation	WC	Inflation	WC	Inflation	WC
1	2	3	4	5	6	7	8
<b>All Commodities</b>	<b>100.0</b>	<b>5.9</b>	<b>100.0</b>	<b>4.6</b>	<b>100.0</b>	<b>4.4</b>	<b>100.0</b>
<b>1. Primary Articles</b>	<b>22.0</b>	<b>10.7</b>	<b>39.0</b>	<b>3.8</b>	<b>18.1</b>	<b>10.0</b>	<b>49.7</b>
<i>Food Articles</i>	15.4	8.0	20.8	2.6	8.9	9.0	31.3
i. Rice	2.4	5.7	2.1	0.7	0.4	5.6	2.7
ii. Wheat	1.4	7.3	1.8	7.8	2.2	11.1	3.4
iii. Pulses	0.6	12.5	1.4	29.7	3.7	1.7	0.3
iv. Vegetables	1.5	1.2	0.3	-9.2	-3.5	22.4	7.8
v. Fruits	1.5	5.7	1.8	-5.7	-2.0	3.1	1.1
vi. Milk	4.4	8.4	5.8	3.7	3.3	7.7	7.2
vii. Eggs, Meat and Fish	2.2	9.4	3.8	-1.9	-1.1	10.0	5.5
<i>Non-Food Articles</i>	6.1	17.2	15.6	1.4	1.7	12.6	15.9
i. Raw Cotton	1.4	21.9	3.5	3.6	0.8	16.9	3.8
ii. Oilseeds	2.7	31.6	11.0	-6.2	-3.3	29.8	14.6
iii. Sugarcane	1.3	1.1	0.3	0.7	0.2	1.1	0.4
<i>Minerals</i>	0.5	17.5	2.6	52.8	7.6	11.4	2.5
<b>2. Fuel, Power, Light and Lubricants</b>	<b>14.2</b>	<b>1.0</b>	<b>4.0</b>	<b>7.2</b>	<b>34.8</b>	<b>-1.4</b>	<b>-7.4</b>
i. Mineral Oils	7.0	0.5	1.1	13.1	35.6	-3.7	-11.3
ii. Electricity	5.5	2.3	2.8	-0.6	-0.9	2.4	3.9
iii. Coal Mining	1.8	0.0	0.0	0.0	0.0	0.0	0.0
<b>3. Manufactured Products</b>	<b>63.7</b>	<b>6.1</b>	<b>57.3</b>	<b>3.9</b>	<b>47.5</b>	<b>4.6</b>	<b>58.1</b>
i. Food Products	11.5	6.1	10.5	2.0	4.5	2.5	5.9
<i>of which: Sugar</i>	3.6	-12.7	-6.6	6.3	4.1	-17.9	-12.3
Edible Oils	2.8	14.1	4.7	-0.5	-0.2	15.8	7.2
ii. Cotton Textiles	4.2	-1.0	-0.6	3.8	2.7	1.1	0.8
iii. Man Made Fibres	4.4	3.9	1.3	2.2	1.0	1.2	0.5
iv. Chemicals and Chemical Products	11.9	3.6	7.1	4.5	11.1	3.9	9.9
<i>of which: Fertilisers</i>	3.7	1.8	1.0	1.0	0.7	1.7	1.2
v. Basic Metals, Alloys and Metal Products	8.3	11.3	17.4	4.4	9.0	6.4	13.6
<i>of which: Iron and Steel</i>	3.6	8.1	6.0	-1.3	-1.3	6.8	6.9
vi. Non-Metallic Mineral Products	2.5	9.0	3.6	13.7	6.4	8.9	4.7
<i>of which: Cement</i>	1.7	11.6	3.2	19.8	6.2	11.1	4.2
vii. Machinery and Machine Tools	8.4	8.1	8.6	4.2	5.7	8.7	12.4
<i>of which: Electrical Machinery</i>	5.0	12.9	6.7	4.3	2.8	16.3	11.2
viii. Transport Equipment and Parts	4.3	2.0	1.2	1.4	1.1	2.0	1.5
<i>Memo:</i>							
<b>Food Items (Composite)</b>	<b>26.9</b>	<b>7.3</b>	<b>31.2</b>	<b>2.4</b>	<b>13.4</b>	<b>6.4</b>	<b>37.2</b>
<b>WPI Excluding Food</b>	<b>73.1</b>	<b>5.5</b>	<b>68.8</b>	<b>5.4</b>	<b>86.6</b>	<b>3.7</b>	<b>62.8</b>
<b>WPI Excluding Fuel</b>	<b>85.8</b>	<b>7.4</b>	<b>96.0</b>	<b>3.9</b>	<b>65.2</b>	<b>6.1</b>	<b>107.4</b>

WC : Weighted Contribution. P : Provisional.

moved in a range of 4.0-6.4 per cent during 2007-08 so far. The annual average WPI inflation rate (average of the 52 weeks) for the week ended July 14, 2007 was 5.5 per cent as compared with 5.4 per cent at end-March 2007 and 4.3 per cent a year ago.

Primary articles' inflation (10.0 per cent on July 14, 2007) eased from end-March 2007 level (10.7 per cent) but was higher than the previous year's level (3.8 per cent). Primary articles' inflation, y-o-y, was led by wheat, vegetables, eggs, fish and meat, milk, oilseeds and raw cotton. Wheat prices increased marginally by 0.4 per

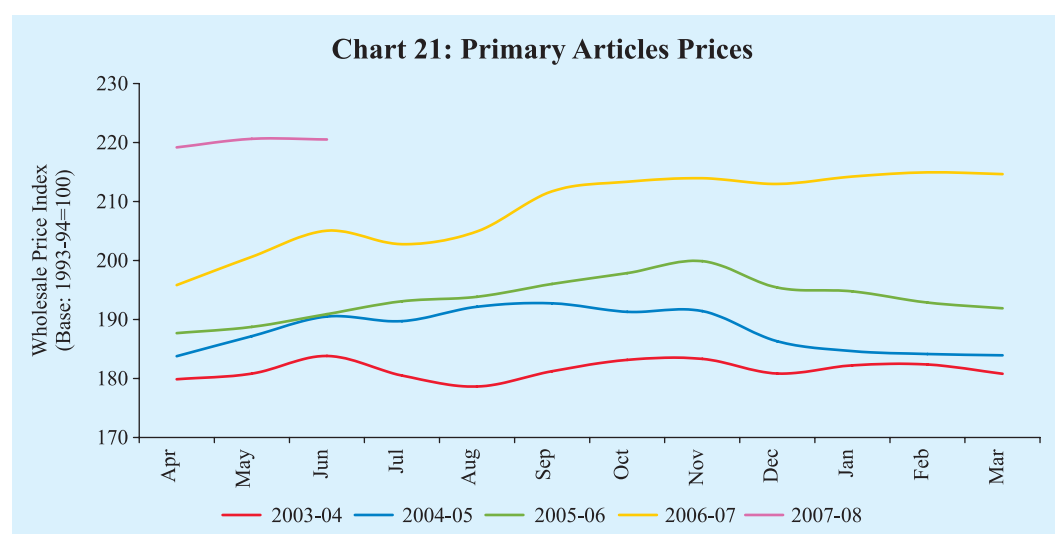


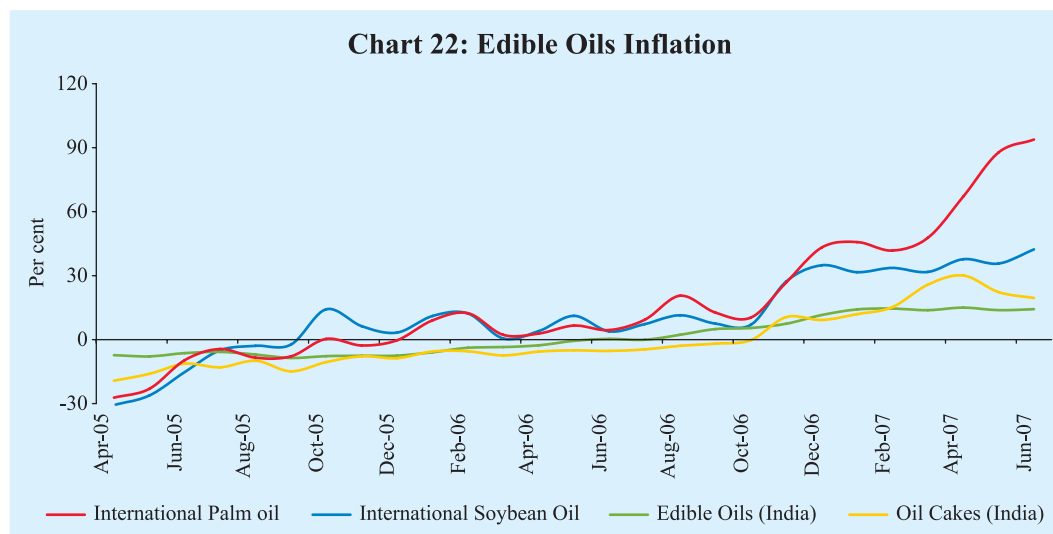
## Price Situation

cent between end-March and July 14, 2007, but were higher by 11.1 per cent on y-o-y basis. Prices of oilseeds have increased by 29.8 per cent, y-o-y, as against a decline of 6.2 per cent a year ago, which could be attributed to lower domestic production as well as firm global prices. Raw cotton prices were 16.9 per cent higher, y-o-y, as on July 14, 2007 as compared with 3.6 per cent in the previous year (Chart 21).

Fuel group inflation turned negative (-1.4 per cent), y-o-y, on July 14, 2007 from 7.2 per cent a year ago, reflecting the cuts in domestic prices of petrol, diesel and other fuel products in November 2006 and February 2007. While domestic prices have remained unchanged since February 2007, international crude prices (WTI) have increased by over 20 per cent over the same period.

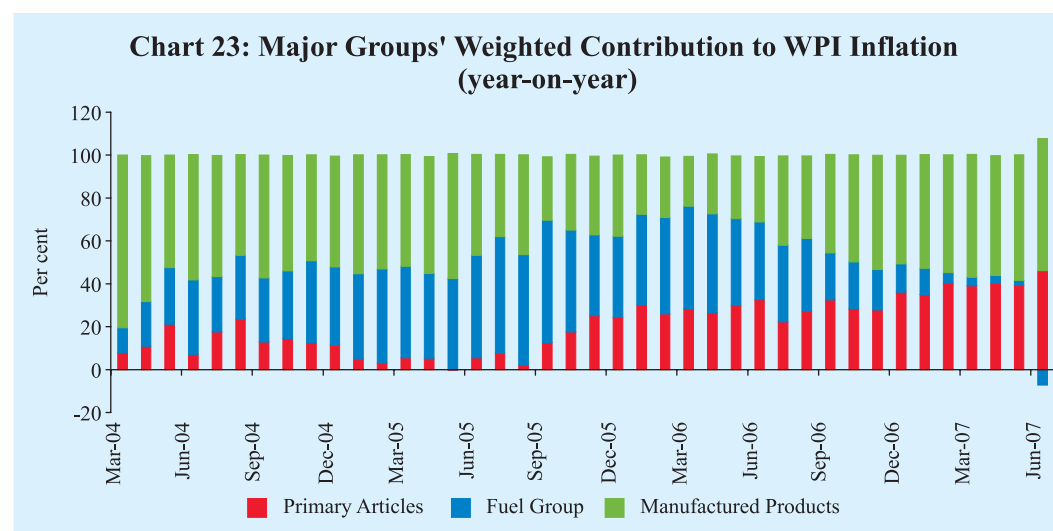
Manufactured products inflation at 4.6 per cent as on July 14, 2007 was higher than a year ago (3.9 per cent), although lower than that of 6.1 per cent at end-March 2007. Manufactured products inflation was led by edible oils (y-o-y increase of 15.8 per cent), oil cakes (22.7 per cent), metals (6.4 per cent), cement (11.1 per cent) and electrical machinery (16.3 per cent), partly offset by decline in sugar prices (17.9 per cent) (see Table 34). Edible oils, oil cakes, metals, cement and electrical machinery together contributed 43 per cent of the overall WPI inflation on July 14, 2007. The rise in domestic prices of metals broadly mirrored the hardening trends in the international markets. Higher prices of cement could be attributed largely to the strong demand from the construction sector and high capacity utilisation in the cement industry (98 per cent during 2007-08 (April-June) as compared with 95 per cent a year ago). The rise in electrical machinery prices reflected higher input prices as well as investment demand. The firming up of domestic edible oils and oil cakes prices reflected lower domestic output and rise in international prices (Chart 22). Edible oils and oil cakes along with oilseeds accounted for more than one-fourth of headline inflation on July 14, 2007.





In order to contain inflationary pressures, the Government continued to take fiscal measures during 2007-08. On April 3, 2007, the Government decided to exempt import of portland cement from countervailing duty and special additional customs duty; it was earlier exempted from basic customs duty in January 2007. On July 23, 2007, the Government reduced the import duty on palm oils by five percentage points - from 50 per cent to 45 per cent in case of crude palm oil and from 57.5 per cent to 52.5 per cent in case of refined palm oil.

Overall, manufactured products were the major driver of domestic inflation as on July 14, 2007 (with weighted contribution of 58.1 per cent) followed by primary articles (49.7 per cent) (Chart 23). The fuel group's contribution to the y-o-y headline inflation, on the other hand, was negative at 7.4 per cent.



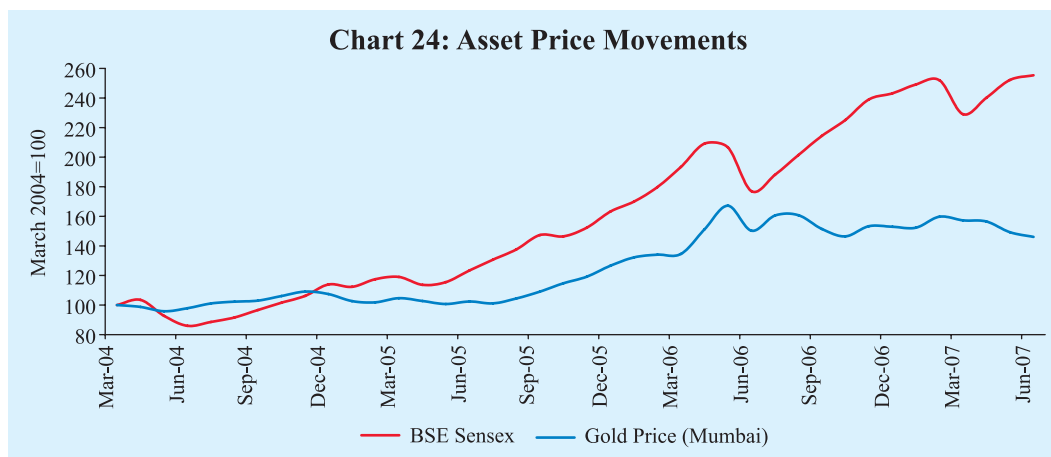
Price Situation

*Consumer Price Inflation*

Consumer price inflation eased during the first quarter of 2007-08, but remained higher than WPI inflation. Moderation in consumer price inflation during the quarter could be attributed to some lowering of food price inflation. Disaggregated data show that food group inflation in various CPI measures eased to 7.7-9.2 per cent by May/June 2007 from 10.9-12.2 per cent in March 2007 and 8.0-10.0 per cent a year ago (Table 35). Various measures of consumer price inflation were placed in the range of 6.1-7.8 per cent during May/June 2007 as compared with 6.7-9.5 per cent in March 2007.

**Table 35: Consumer Price Inflation : Major Groups**

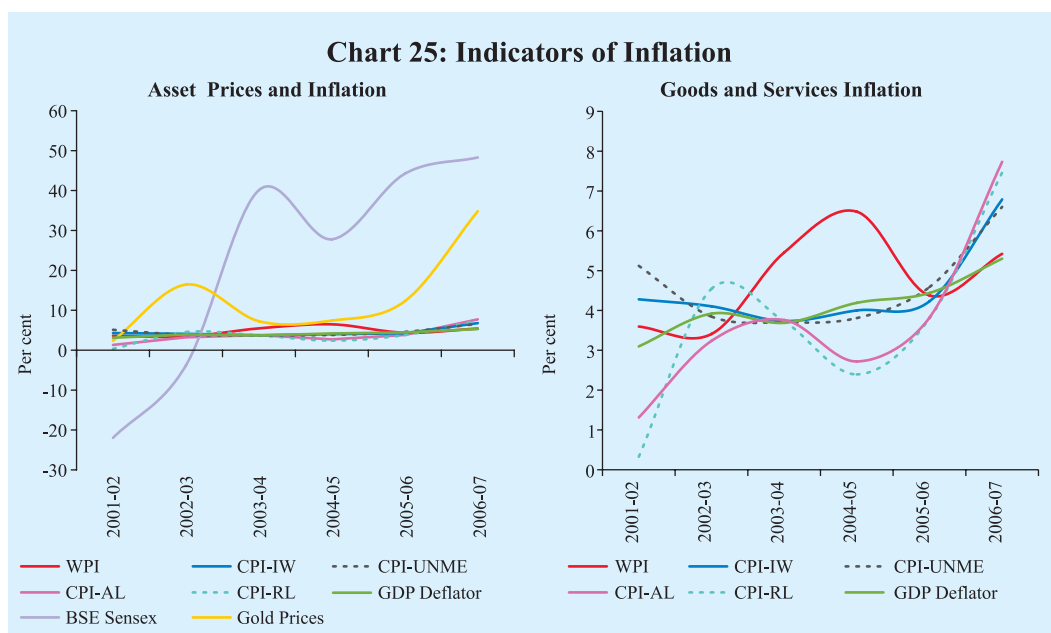
(Year-on-year variation in per cent)							
CPI Measure	Weight	March 2003	March 2004	March 2005	March 2006	March 2007	June 2007
1	2	3	4	5	6	7	8
<b>CPI-IW (Base: 2001=100)</b>							
<b>General</b>	<b>100.0</b>	<b>4.1</b>	<b>3.5</b>	<b>4.2</b>	<b>4.9</b>	<b>6.7</b>	<b>6.6 *</b>
Food Group	46.2	3.7	3.1	1.6	4.9	12.2	9.2 *
Pan, Supari etc.	2.3	1.9	4.2	2.1	3.1	4.4	9.6 *
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	3.2	2.3 *
Housing	15.3	5.4	3.9	20.4	6.6	4.1	4.1 *
Clothing, Bedding, etc.	6.6	1.5	2.1	2.3	3.0	3.7	3.5 *
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3	3.2 *
<b>CPI-UNME (Base: 1984-85=100)</b>							
<b>General</b>	<b>100.0</b>	<b>3.8</b>	<b>3.4</b>	<b>4.0</b>	<b>5.0</b>	<b>7.6</b>	<b>6.1</b>
Food Group	47.1	2.6	3.0	2.2	5.3	10.9	7.7
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4	7.2
Housing	16.4	6.3	5.2	7.5	5.5	5.6	5.6
Clothing, Bedding, etc.	7.0	2.6	2.6	2.0	2.9	3.6	4.3
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4	3.7
<b>CPI-AL (Base: 1986-87=100)</b>							
<b>General</b>	<b>100.0</b>	<b>4.9</b>	<b>2.5</b>	<b>2.4</b>	<b>5.3</b>	<b>9.5</b>	<b>7.8</b>
Food Group	69.2	6.0	1.6	2.2	5.5	11.8	8.8
Pan, Supari etc.	3.8	3.5	4.7	-1.3	6.6	5.7	9.1
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.9	7.4
Clothing, Bedding, etc.	7.0	3.0	4.1	2.5	2.2	3.5	2.7
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.8	6.7
<b>CPI-RL (Base: 1986-87=100)</b>							
<b>General</b>	<b>100.0</b>	<b>4.8</b>	<b>2.5</b>	<b>2.4</b>	<b>5.3</b>	<b>9.2</b>	<b>7.5</b>
Food Group	66.8	5.6	1.9	1.9	5.8	11.5	8.5
Pan, Supari etc.	3.7	3.5	4.7	-1.0	6.3	5.7	9.3
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.9	7.4
Clothing, Bedding, etc.	9.8	3.3	3.4	2.8	2.7	3.1	2.6
Miscellaneous	11.9	3.1	3.0	5.5	5.2	6.3	6.2
<i>Memo:</i>							
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	5.9	4.3
GDP Deflator		3.9	3.7	4.2	4.4	5.3	-
* : May 2007.							
IW : Industrial Workers.		UNME : Urban Non-Manual Employees.					
AL : Agricultural Labourers.		RL : Rural Labourers.					



### Asset Prices

Domestic equity prices (the BSE Sensex) recorded gains of 20.7 per cent between end-March 2007 and July 26, 2007 (see Chapter V). International gold prices increased by around three per cent during 2007-08 (up to July 26, 2007); prices moved in a range of US \$ 640-691 per ounce (Chart 24). Domestic gold prices declined by about 6 per cent over the same period (to around Rs.8,875 per 10 grams), which could be attributed to appreciation of the Indian rupee *vis-à-vis* the US dollar.

Increase in asset prices in recent years has been significantly higher than that in inflation indicators based on wholesale and consumer price indices (Chart 25).



## V. FINANCIAL MARKETS

### International Financial Markets

During the first quarter of 2007-08 (April-June), short term as well as long-term interest rates hardened in major advanced economies. Global equity markets recorded further gains, while in the currency markets the US dollar depreciated against major currencies. Emerging market spreads narrowed to new historical lows during the quarter, reversing the trend witnessed during the global sell-off during late February 2007.

Short-term rates hardened in a number of economies (Table 36), moving broadly in tandem with policy rates. Several central banks such as Bank of England, European Central Bank, People's Bank of China, Reserve Bank of New Zealand, South African Reserve Bank, Norges Bank (Norway), Sveriges Riksbank (Sweden) and Swiss National Bank raised their policy rates during the quarter ended June 2007 to contain inflation and stabilise inflationary expectations. Short-term rates eased in a few emerging market economies (EMEs) such as Brazil and Thailand, as central banks in these countries continued to cut policy rates to support growth.

Long-term Government bond yields increased in major advanced economies during the first quarter of 2007-08, reversing the decline observed during February

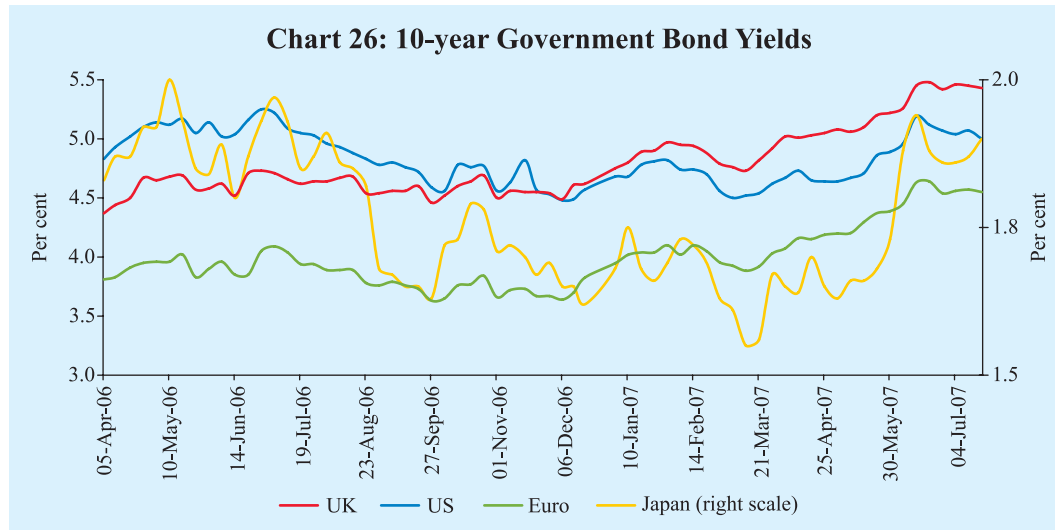
**Table 36: Short-term Interest Rates**

Region/Country	At end of					(Per cent)
	March 2005	March 2006	March 2007	June 2007	July 2007 *	
	2	3	4	5	6	
<b>Advanced Economies</b>						
Euro Area	2.15	2.80	3.91	4.16	4.22	
Japan	0.02	0.04	0.57	0.63	0.66	
Sweden	1.97	1.99	3.21	3.42	3.43	
UK	4.95	4.58	5.55	5.92	6.00	
US	2.90	4.77	5.23	5.27	5.19	
<b>Emerging Market Economies</b>						
Argentina	4.56	9.63	9.63	9.25	9.50	
Brazil	19.25	16.54	12.68	11.93	11.93	
China	2.25	2.40	2.86	3.08	3.14	
Hong Kong	2.79	4.47	4.17	4.43	4.41	
<b>India</b>	<b>5.37</b>	<b>6.11</b>	<b>7.98</b>	<b>7.39</b>	<b>4.50</b>	
Malaysia	2.82	3.51	3.64	3.62	3.62	
Philippines	7.25	7.38	5.31	6.19	6.38	
Singapore	2.06	3.44	3.00	2.55	2.50	
South Korea	3.54	4.26	4.94	5.03	5.07	
Thailand	2.64	5.10	4.45	3.75	3.75	

\* : As on July 19, 2007.

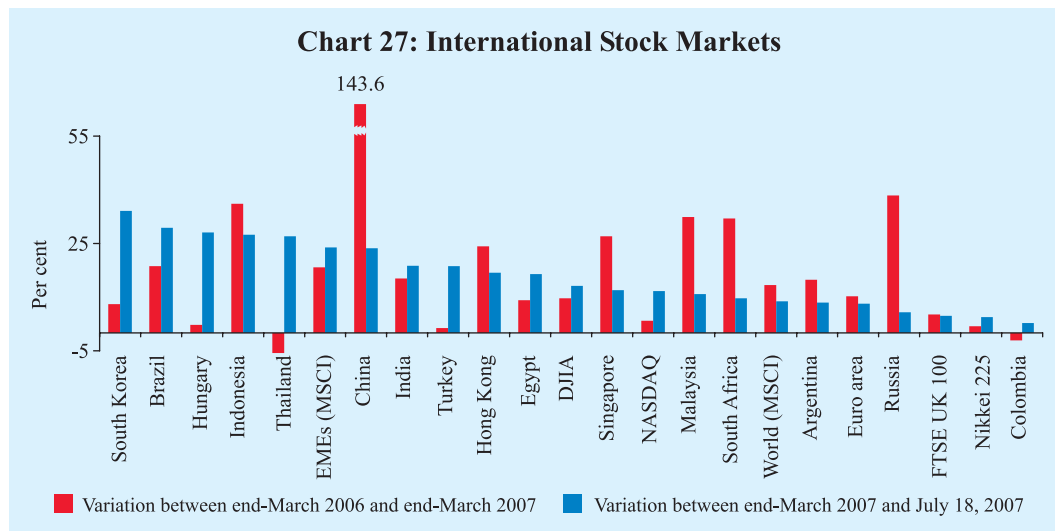
**Note** : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.

**Source** : The Economist.



2007. The rise in yields could be attributed to higher short-term rates and upward revision in growth expectations. During 2007-08 (up to July 18, 2007), 10-year yields increased by 38 basis points in the US, 51 basis points in the UK, 52 basis points in the euro area and 23 basis points in Japan (Chart 26).

Global equity markets recorded further gains during the first quarter of 2007-08, despite rise in long-term yields. Upward revision in growth expectations, robust corporate earnings, buoyant merger and acquisition activity, and increased risk appetite buoyed equity markets in major economies (Chart 27). The MSCI World and MSCI emerging markets indices on July 18, 2007 were higher by 8.8 per



**Table 37: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other Currencies**

(Per cent)			
Currency	End-March 2006 @	End-March 07 @	July 20, 2007 *
1	2	3	4
Euro	7.1	-9.1	-3.5
Pound Sterling	8.5	-11.4	-4.6
Japanese Yen	9.4	0.2	3.9
Chinese Yuan	-3.1	-3.4	-2.2
Russian Rubble	-0.6	-6.1	-2.3
Turkish Lira	-2.0	3.2	-9.1
Indian Rupee	2.2	-2.5	-7.5
Indonesian Rupiah	-4.3	0.5	-0.5
Malaysian Ringgit	-3.0	-6.2	-0.8
South Korea Won	-4.7	-3.7	-2.6
Thai Baht	-0.7	-9.9	-4.3
Argentine Peso	5.4	0.7	0.2
Brazilian Peso	-18.1	-6.4	-9.8
Mexican Peso	-2.6	1.3	-2.2
South African Rand	-0.5	17.2	-5.4

@ : Year-on-year variation.      \* : Variation over end-March 2007.

cent and 23.9 per cent, respectively, over their levels at end-March 2007. These gains were led by stock markets in South Korea (34.1 per cent), Brazil (29.4 per cent), Hungary (28.1 per cent), Indonesia (27.4 per cent) and Thailand (27.0 per cent).

In the foreign exchange market, the US dollar depreciated against the major currencies during the first quarter of 2007-08. The US dollar, however, recorded some appreciation against the Japanese yen (Table 37).

One of the key downside risks to the global economy is the possibility of a sharper slowdown in the US housing market. Over the past year, home sales and construction have slowed substantially and house prices have decelerated. Conditions in the sub-prime mortgage sector have deteriorated significantly in view of the rise in the delinquencies on adjustable-rate loans. These developments are also leading to reassessment of credit risks in other segments such as lower quality corporate bonds. Further deterioration in sub-prime delinquencies could lead to an abrupt rise in risk premium across products and markets. Such developments could lead to greater volatility in capital flows to EMEs. Such volatility could be exacerbated by the growing dominance of players such as hedge funds in the volume of cross-border flows. Increased speculative activity by hedge funds is also getting reflected in higher global commodity prices. Rapid growth in the hedge funds activity is a cause of concern among the regulators as these funds are largely unregulated and are governed by opaque investment partnerships.

Furthermore, private equity funds have also emerged as a key source of capital flows to the EMEs. Private equity funds are highly leveraged, and their operations so far have been enabled by still benign long-term rates and compression

of risk premia. Private equity flows to the EMEs could also witness large retrenchment on the back of further monetary tightening in major economies, reassessment of risks by investors or through other shocks which lead to higher margin calls. The consequent volatility in global financial markets could lead to large swings in capital flows and exchange rates and could have adverse impact on the real economy.

### Domestic Financial Markets

Indian financial markets remained generally orderly for the most part of the first quarter of 2007-08 except for some volatility in overnight interest rates. Swings in cash balances of the Governments and capital flows were the main drivers of liquidity conditions in the financial markets and imparted some volatility to overnight interest rates (Table 38). The call money rate softened during the quarter and remained below the reverse repo rate on many occasions. Interest rates in the collateralised segment of the overnight money market also softened

**Table 38: Domestic Financial Markets at a Glance**

Year/ 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 Sales (-)/ Purchases (+) (US \$ million)	Average 3-month Forward Premia (Per cent)	Average MSS Out-standing# (Rs. crore)	Average Daily Reverse Repo 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	6,253	8280	2513
2006-07	21,725	7.22	4,863	7.78	17,852	45.25	26,824 ##	2.14	37,698	21,973	3,877	7,812	12277	3572
Jan 2006	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
Feb 2006	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
Mar 2006	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
Apr 2006	16,909	5.62	3,685	7.45	17,712	44.95	4,305	1.31	25,709	46,088	4,860	9,854	11742	3494
May 2006	18,074	5.54	3,550	7.58	18,420	45.41	504	0.87	26,457	59,505	4,355	9,155	11599	3437
Jun 2006	17,425	5.73	2,258	7.86	15,310	46.06	0	0.73	31,845	48,610	3,131	6,567	9935	2915
Jul 2006	18,254	5.86	2,243	8.26	14,325	46.46	0	0.83	36,936	48,027	2,605	5,652	10557	3092
Aug 2006	21,294	6.06	5,786	8.09	15,934	46.54	0	1.22	40,305	36,326	2,867	5,945	11305	3306
Sep 2006	23,665	6.33	8,306	7.76	18,107	46.12	0	1.31	40,018	25,862	3,411	6,873	12036	3492
Oct 2006	26,429	6.75	4,313	7.65	16,924	45.47	0	1.67	41,537	12,983	3,481	6,919	12637	3649
Nov 2006	25,649	6.69	10,654	7.52	20,475	44.85	3,198	2.07	38,099	9,937	4,629	8,630	13416	3869
Dec 2006	24,168	8.63	5,362	7.55	19,932	44.64	1,818	3.20	38,148	-1,713	4,276	8,505	13628	3910
Jan 2007	22,360	8.18	4,822	7.71	21,065 P	44.33	2,830	4.22	39,553	-10,738	4,380	8,757	13984	4037
Feb 2007	23,254	7.16	4,386	7.90	20,050 P	44.16	11,862	3.71	40,827	648	4,676	9,483	14143	4084
Mar 2007	23,217	14.07	2,991	8.00	24,231 P	44.03	2,307	4.51	52,944	-11,858	3,716	7,998	12858	3731
Apr 2007	29,689	8.33	4,636	8.10	28,131 P	42.15	2,055	6.91	71,468	-8,937	3,935	8,428	13478	3947
May 2007	20,476	6.96	4,442	8.15	24,843 P	40.78	4,426	4.58	83,779	-6,397	4,706	9,885	14156	4184
Jun 2007	16,826	2.42	6,250	8.20	30,122 P	40.77	N.A.	2.59	83,049	1,689	4,512	9,221	14334	4222

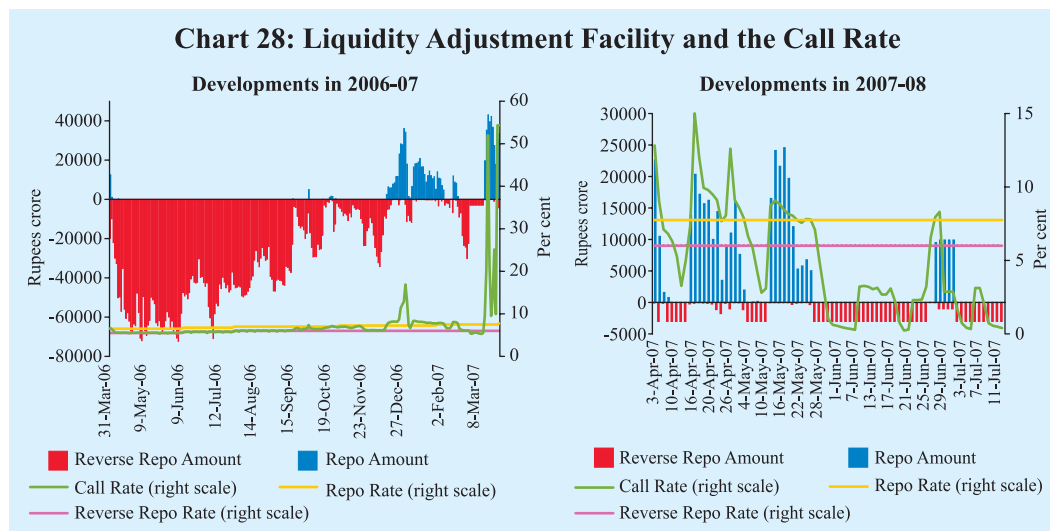
\* : Average of daily weighted call money borrowing rates. + : Average of daily outright turnover in Central Government dated securities.  
 @ : Average of daily closing rates. # : Average of weekly outstanding MSS.  
 \*\* : Average of daily closing indices. ## : Cumulative for the financial year. 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

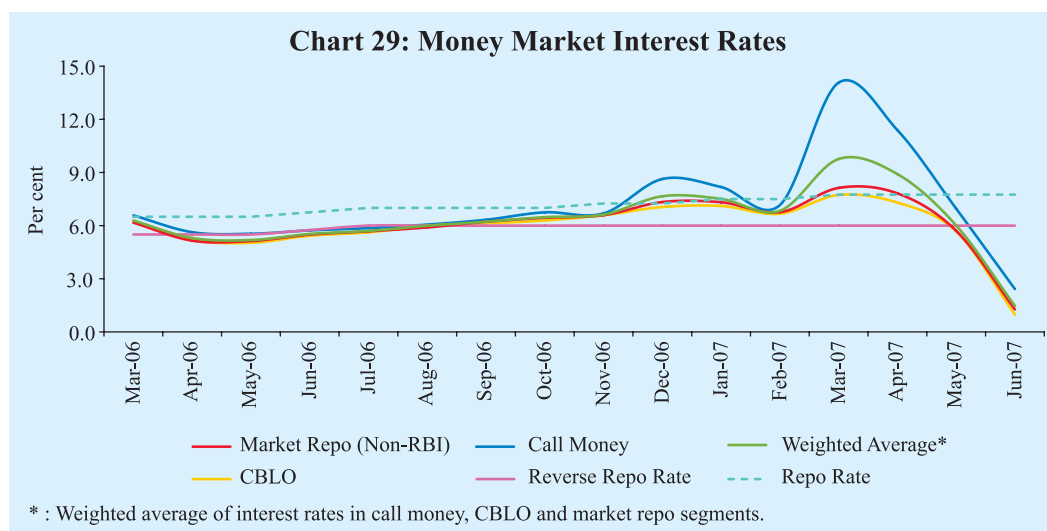


and remained below the call rate during the quarter. In the foreign exchange market, the Indian rupee appreciated *vis-a-vis* all major currencies (US dollar, Euro, Pound sterling and Japanese yen) during the first quarter. Yields in the Government securities market hardened up to mid-June 2007 and declined thereafter. Banks' deposit and lending rates rose further during the first quarter; however, there was some softening in deposit rates in July 2007. The stock markets remained buoyant and the benchmark indices reached record highs. The primary market segment of the capital market witnessed increased activity in June 2007.

### Money Market

Money market rates eased during the first quarter of 2007-08 from the elevated levels witnessed in the second half of March 2007. The various interest rates in the money market, however, exhibited volatility during the first quarter, moving in tandem with the evolving liquidity conditions. The daily average call rate, which had reached an intra-year high of 54.32 per cent on March 30, 2007, moderated in the first week of April 2007 on the back of easier liquidity conditions following a decline in cash balances of the Central Government (Chart 28). The call rate moved below the reverse repo rate in early April 2007. With the first stage of hike in the cash reserve ratio (CRR) becoming effective on April 14, 2007 and the Government raising resources as part of its market borrowing programme, the call rate again edged higher and exceeded the repo rate during the second half of April 2007 and most of May 2007. Beginning end-May 2007, the call rate eased significantly and, on a number of occasions in June 2007, it was below one per cent. The call rate reached 0.23 per cent on June 21, 2007 and has remained low since then, except for a couple of days towards end-June 2007. The call rate





averaged 2.42 per cent during June 2007 as compared with 6.96 per cent during May 2007. The call rate was 0.21 per cent on July 26, 2007.

Interest rates in the collateralised segments of the money market – the market repo (outside the LAF) and the Collateralised Borrowing and Lending Obligation (CBLO) – declined in line with call rates, and continued to remain below the call rate during the first quarter of 2007-08 (Chart 29). During April-June 2007, interest rates averaged 5.90 per cent, 4.17 per cent and 4.66 per cent in the call, CBLO and market repo segments, respectively (5.63 per cent, 5.21 per cent and 5.26 per cent, respectively, a year ago). The weighted average rate in all the three money market segments combined together was 4.78 per cent during April-June 2007 (5.34 per cent a year ago).

The average daily volume in the money market segments – call market, market repo (outside the LAF) and CBLO – during April-June 2007 was 21.3 per cent higher than that in the same period of 2006. The collateralised market – market repo (outside the LAF) and CBLO – remained the predominant segment of the money market, and accounted for about 70 per cent of the total volume during April-June 2007 (Table 39). Mutual funds, financial institutions and nationalised banks are the major lenders in the CBLO market with nationalised banks, primary dealers and non-financial companies being the major borrowers. In the market repo segment, mutual funds are the major provider of funds, while foreign banks, private sector banks and primary dealers are the major borrowers.

#### *Certificates of Deposit*

The outstanding amount of certificates of deposit (CDs) increased from Rs.93,272 crore at end-March 2007 (4.8 per cent of aggregate deposits of issuing

Financial Markets

**Table 39: Activity in Money Market Segments**

(Rupees crore)									
Year/ Month	Average Daily Volume (One Leg)				Term Money Market	Commercial Paper		Certificates of Deposit	
	Call Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Total (2+3+4)		Outstanding	WADR (per cent)	Outstanding	WADR (per cent)
1	2	3	4	5	6	7	8	9	10
<b>2004-05</b>	<b>7,085</b>	<b>4,284</b>	<b>3,349</b>	<b>14,718</b>	<b>263</b>	<b>11,723</b>	<b>5.34</b>	<b>6,052</b>	-
<b>2005-06</b>	<b>8,990</b>	<b>5,296</b>	<b>10,020</b>	<b>24,306</b>	<b>417</b>	<b>17,285</b>	<b>6.46</b>	<b>27,298</b>	-
<b>2006-07</b>	<b>10,863</b>	<b>8,419</b>	<b>16,195</b>	<b>35,477</b>	<b>506</b>	<b>21,621</b>	<b>8.08</b>	<b>63,746</b>	<b>8.23</b>
Jan 2006	8,956	6,149	12,817	27,922	545	16,431	7.29	34,521	6.45
Feb 2006	6,749	6,024	17,081	29,854	407	15,876	8.02	34,487	7.68
Mar 2006	9,145	7,991	17,888	35,024	669	12,718	8.59	43,568	8.62
Apr 2006	8,455	5,479	16,329	30,263	447	16,550	7.30	44,059	7.03
May 2006	9,037	9,027	17,147	35,211	473	17,067	6.89	50,228	7.17
Jun 2006	8,713	10,563	13,809	33,085	628	19,650	7.10	56,390	7.19
Jul 2006	9,127	9,671	15,670	34,468	432	21,110	7.34	59,167	7.65
Aug 2006	10,647	7,764	15,589	34,000	510	23,299	7.31	65,621	7.77
Sep 2006	11,833	9,185	14,771	35,789	568	24,444	7.70	65,274	7.80
Oct 2006	13,214	9,721	16,964	39,899	466	23,171	7.77	65,764	7.73
Nov 2006	12,825	9,374	16,069	38,268	348	24,238	7.88	68,911	7.99
Dec 2006	12,084	7,170	15,512	34,766	481	23,536	8.52	68,619	8.28
Jan 2007	11,180	6,591	15,758	33,529	515	24,398	9.09	70,149	9.22
Feb 2007	11,627	7,794	19,063	38,484	467	21,167	10.49	72,795	9.87
Mar 2007	11,608	8,687	17,662	37,957	739	17,838	11.33	93,272	10.75
Apr 2007	14,845	7,173	18,086	40,104	440	18,759	10.52	95,980	10.55
May 2007	10,238	8,965	20,810	40,013	277	22,024	9.87	99,715	9.87
Jun 2007	8,413	10,294	20,742	39,450	308	25,500*	9.13	99,287 @	9.31

- : Not available. \* : June 15, 2007. @ : June 8, 2007.  
WADR : Weighted Average Discount Rate.

banks) to Rs. 99,287 crore (5.3 per cent) by June 8, 2007. The flexibility of return that can be offered by banks to attract bulk deposits has made CDs the preferred route for mobilising resources, especially for private sector banks. Mutual funds are the major investors in the CDs due to their tradability and liquidity. The weighted average discount rate (WADR) of CDs stayed firm till mid-May 2007 but declined to 9.31 per cent by mid-June 2007.

#### Commercial Paper

Issuances of commercial papers (CPs) increased in the first quarter of 2007-08. Outstanding CPs rose from Rs.17,838 crore at end-March 2007 to Rs. 25,500 crore as on June 15, 2007 (Table 39). The WADR on CPs which had hardened to 11.33 per cent during the fortnight ended March 31, 2007 stayed firm at around 10.50 per cent till mid-May before declining to 9.13 per cent during the fortnight ended June 15, 2007 in tandem with the moderation in other money market rates. The discount rate on CPs was in the range of 7.00-10.80 per cent during the fortnight ended June 15, 2007 (10.25-13.00 per cent during the

**Table 40: Commercial Paper – Major Issuers**

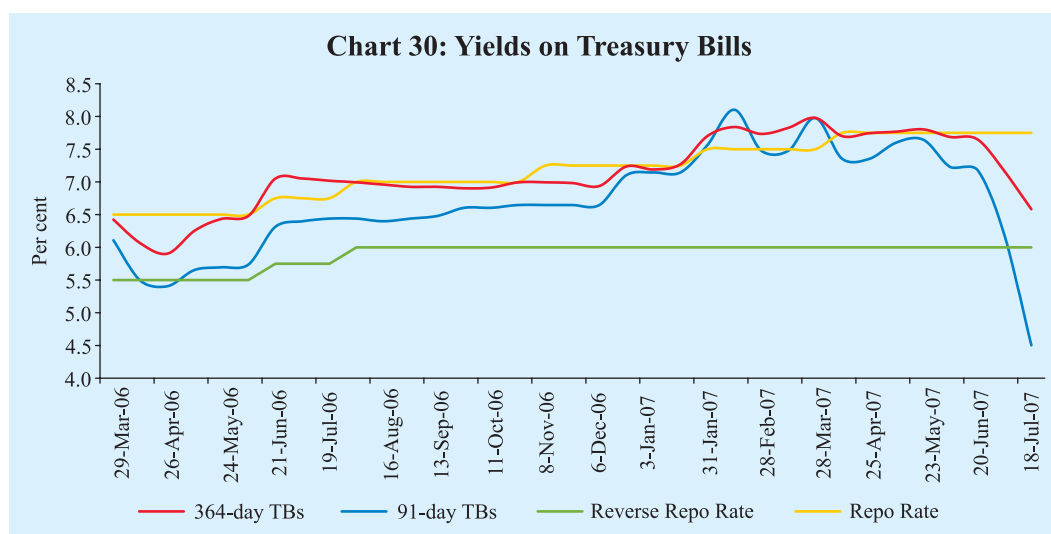
Category of Issuer	(Rupees crore)		
	March 2006	March 2007	June 2007*
1	2	3	4
Leasing and Finance	9,400 (73.9)	12,569 (70.5)	17,341 (68.0)
Manufacturing	1,982 (15.6)	2,754 (15.4)	4,068 (15.9)
Financial Institutions	1,336 (10.5)	2,515 (14.1)	4,091 (16.1)
<b>Total</b>	<b>12,718</b> <b>(100.0)</b>	<b>17,838</b> <b>(100.0)</b>	<b>25,500</b> <b>(100.0)</b>

\* : June 15, 2007.  
**Note :** Figures in parentheses are percentage shares in the total outstanding.

fortnight ended March 31, 2007). Leasing and finance companies remained the major issuers of CPs (Table 40).

### Treasury Bills

The primary market yields on Treasury Bills (TBs) softened during the first quarter of 2007-08, especially in June 2007, reflecting the trends in money market segments as well as fall in domestic inflation rate (Chart 30). The yield spread between 364-day and 91-day TBs was 28 basis points in June 2007, marginally higher than that in March 2007 (22 basis points) (Table 41). The primary market yields of Treasury Bills softened further during July 2007 (up to July 20, 2007).



Financial Markets

**Table 41: 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
<b>2004-05</b>	<b>1,38,500 @</b>	<b>4.91</b>	-	<b>5.16</b>	<b>2.43</b>	-	<b>2.52</b>
<b>2005-06</b>	<b>1,55,500 @</b>	<b>5.68</b>	<b>5.82</b>	<b>5.96</b>	<b>2.64</b>	<b>2.65</b>	<b>2.45</b>
<b>2006-07</b>	<b>1,86,500 @</b>	<b>6.64</b>	<b>6.91</b>	<b>7.01</b>	<b>1.97</b>	<b>2.00</b>	<b>2.66</b>
Jan 2006	5,000	6.25	6.22	6.21	2.86	2.83	2.72
Feb 2006	5,000	6.63	6.74	6.78	3.04	2.07	2.71
Mar 2006	6,500	6.51	6.66	6.66	4.17	3.43	3.36
Apr 2006	5,000	5.52	5.87	5.98	5.57	4.96	2.02
May 2006	18,500	5.70	6.07	6.34	1.88	1.84	1.69
Jun 2006	15,000	6.14	6.64	6.77	1.63	1.35	2.11
Jul 2006	16,500	6.42	6.75	7.03	1.82	1.55	3.12
Aug 2006	19,000	6.41	6.70	6.96	2.03	2.71	3.48
Sep 2006	15,000	6.51	6.76	6.91	1.35	1.80	2.92
Oct 2006	15,000	6.63	6.84	6.95	1.31	1.20	2.02
Nov 2006	18,500	6.65	6.92	6.99	1.33	1.22	2.49
Dec 2006	15,000	7.01	7.27	7.09	1.19	1.29	3.34
Jan 2007	19,000	7.28	7.45	7.39	1.02	1.35	1.74
Feb 2007	15,000	7.72	7.67	7.79	2.48	2.56	3.16
Mar 2007	15,000	7.68	7.98	7.90	2.08	2.15	3.87
Apr 2007	14,000	7.53	7.87	7.72	2.87	3.36	3.16
May 2007	18,500	7.59	7.70	7.79	2.33	2.57	2.33
Jun 2007	35,000	7.39	7.76	7.67	3.23	4.11	3.97

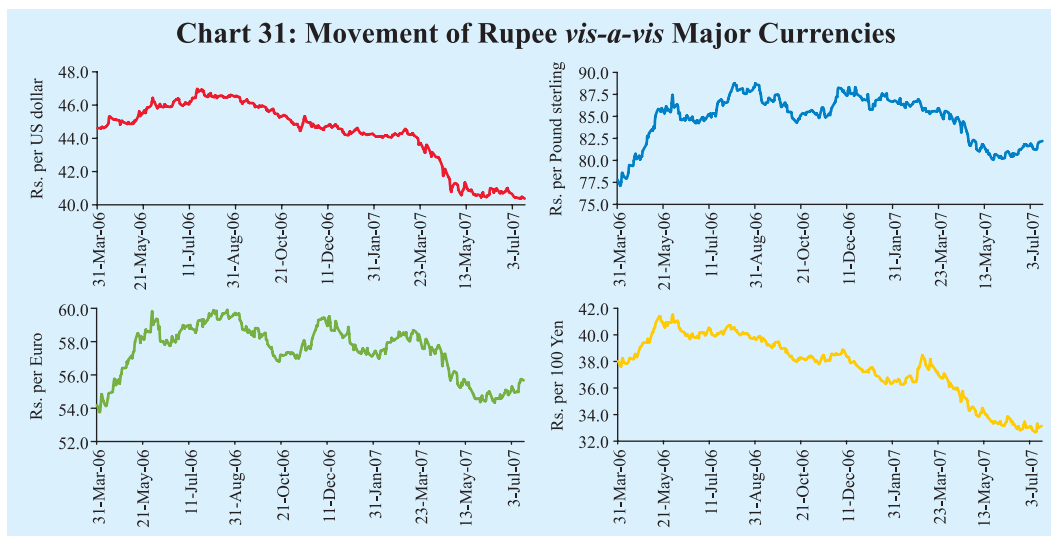
@ : Total for the financial year.

Note : 1. 182-day TBs were reintroduced with effect from April 2005.

2. Notified amounts are inclusive of issuances under the Market Stabilisation Scheme (MSS).

**Foreign Exchange Market**

During the first quarter of 2007-08, the Indian rupee appreciated *vis-à-vis* the US dollar. During 2007-08 (up to July 26, 2007), the Indian rupee moved in a range of Rs.40.24-43.15 per US dollar (Chart 31). Reflecting a variety of factors



such as large capital inflows, weakening of the US dollar *vis-à-vis* other major currencies in international markets and the widening of the daily trading band of yuan against the US dollar (0.5 per cent from 0.3 per cent effective May 21, 2007), the Indian rupee appreciated from Rs.43.60 per US dollar as at end-March 2007 to reach a level of Rs.40.46 per US dollar as on May 29, 2007. Since then, the rupee has been largely range-bound. The exchange rate of the rupee was Rs.40.28 per US dollar on July 26, 2007. At this level, the Indian rupee appreciated by 8.2 per cent *vis-à-vis* the US dollar over its level on March 31, 2007. Over the same period, the rupee appreciated by 3.7 per cent against the Pound sterling, 5.3 per cent against the Euro and 10.8 per cent against the Japanese yen.

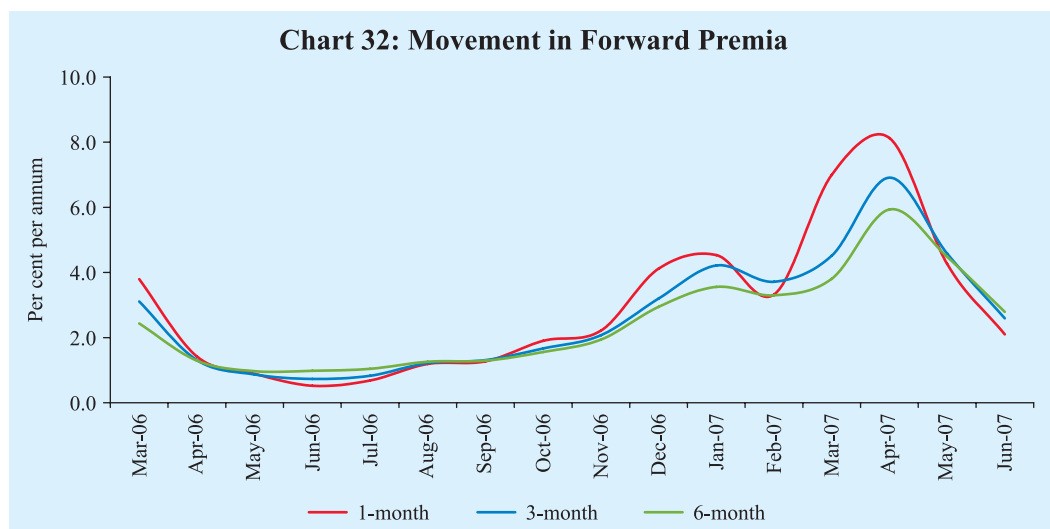
The nominal effective exchange rate (NEER) of the Indian rupee (six-currency trade-based weights) appreciated by 7.3 per cent between March 2007 and July 26, 2007. Over the same period, the real effective exchange rate (REER) of the Indian rupee (six-currency trade-based weights) appreciated by 7.7 per cent (Table 42). The 36-currency NEER and REER of the Indian rupee appreciated by 3.5 per cent and 2.9 per cent, respectively, between March 2007 and April 2007.

**Table 42: Nominal and Real Effective Exchange Rate of the Indian Rupee (Trade-Based Weights)**

Year/Month	Base : 1993-94 (April-March) = 100			
	6-Currency Weights		36-Currency Weights	
	NEER	REER	NEER	REER
1	2	3	4	5
1993-94	100.00	100.00	100.00	100.00
2000-01	77.43	102.82	92.12	100.09
2001-02	76.04	102.71	91.58	100.86
2002-03	71.27	97.68	89.12	98.18
2003-04	69.97	99.17	87.14	99.56
2004-05	69.58	101.78	87.31	100.09
2005-06	72.28	107.30	89.84	102.34
2006-07 (P)	68.93	105.46	86.04	98.50
Mar 2006	72.45	107.41	89.52	101.25
Apr 2006	71.04	105.75	87.88	98.12
May 2006	68.79	103.48	85.58	96.35
Jun 2006	68.21	103.06	85.26	96.48
Jul 2006	67.59	102.25	84.37	95.64
Aug 2006	67.08	102.14	83.76	95.54
Sep 2006	67.84	104.75	84.80	97.91
Oct 2006	69.11	107.25	86.33	99.89
Nov 2006	69.34	107.82	86.65	100.30
Dec 2006	68.82	106.39	86.05	99.20
Jan 2007 (P)	69.77	107.70	87.20	100.86
Feb 2007 (P)	69.88	107.71	87.29	100.77
Mar 2007 (P)	69.70	107.41	87.26	100.94
Apr 2007 (P)	72.18	111.59	90.32	103.83
May 2007 (P)	74.64	115.34	-	-
Jun 2007 (P)	74.83	115.39	-	-
July 26, 2007 (P)	74.80	115.66	-	-

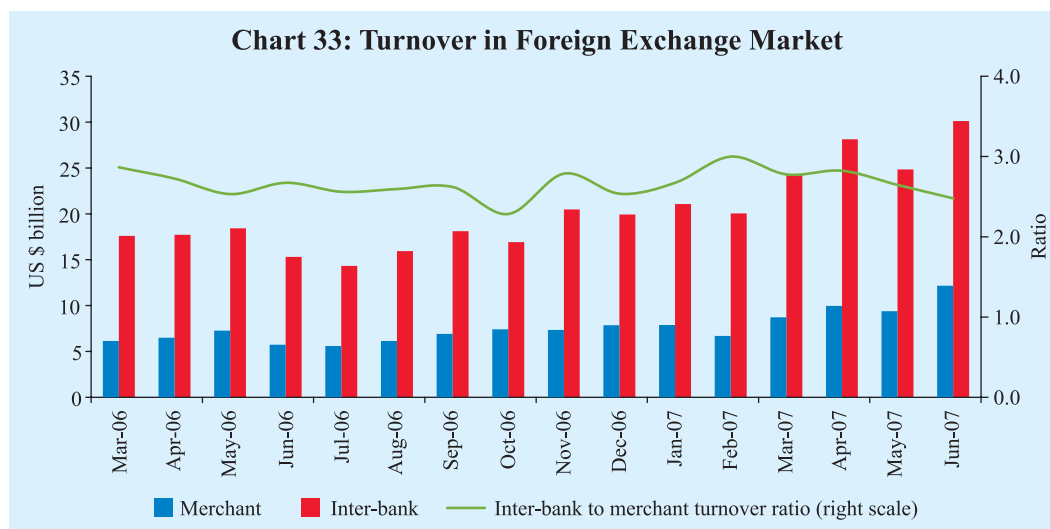
- : not available. P : Provisional. NEER : Nominal Effective Exchange Rate. REER : Real Effective Exchange Rate.

**Note:** Rise in indices indicates appreciation of the Indian rupee and *vice versa*.



Forward premia declined during the first quarter of 2006-07, mirroring the decline in domestic overnight interest rates. The one-month forward premia declined from 6.99 per cent in March 2007 to 2.10 per cent in June 2007, while the six-month forward premia declined from 3.80 per cent to 2.79 per cent over the same period (Chart 32).

The average daily turnover in the foreign exchange market increased to US \$ 38.2 billion during April-June 2007 from US \$ 23.6 billion in the corresponding period of 2006. While the inter-bank turnover increased from US \$ 17.1 billion to US \$ 27.7 billion, the merchant turnover increased from US \$ 6.5 billion to US \$ 10.5 billion (Chart 33). The ratio of inter-bank to merchant turnover at 2.6 during April-June 2007 was the same as a year ago.



## Credit Market

The deposit and lending rates of scheduled commercial banks (SCBs) increased further during the first quarter of 2007-08. However, there was some softening in deposit rates in July 2007, particularly at the short-end of the maturity spectrum. Interest rates of public sector banks (PSBs) on deposits of maturity of one year to three years were placed in the range of 7.25-9.60 per cent in July 2007 as compared with 7.25-9.50 per cent in March 2007, while those on deposits of maturity of above three years were placed in the range of 7.75-9.60 per cent in July 2007 as compared with 7.50-9.50 per cent in March 2007 (Table 43 and Chart 34).

The weighted average benchmark prime lending rate (BPLR) of public sector banks increased from 10.7 per cent in March 2006 and 12.4 per cent in March 2007 to 13.1 per cent in July 2007. The weighted average BPLR of private sector banks increased from 12.4 per cent in March 2006 and 14.1 per cent in March 2007 to 14.9 per cent in July 2007. The weighted average BPLR of foreign banks rose from 12.7 per cent in March 2007 to 13.9 per cent in July 2007.

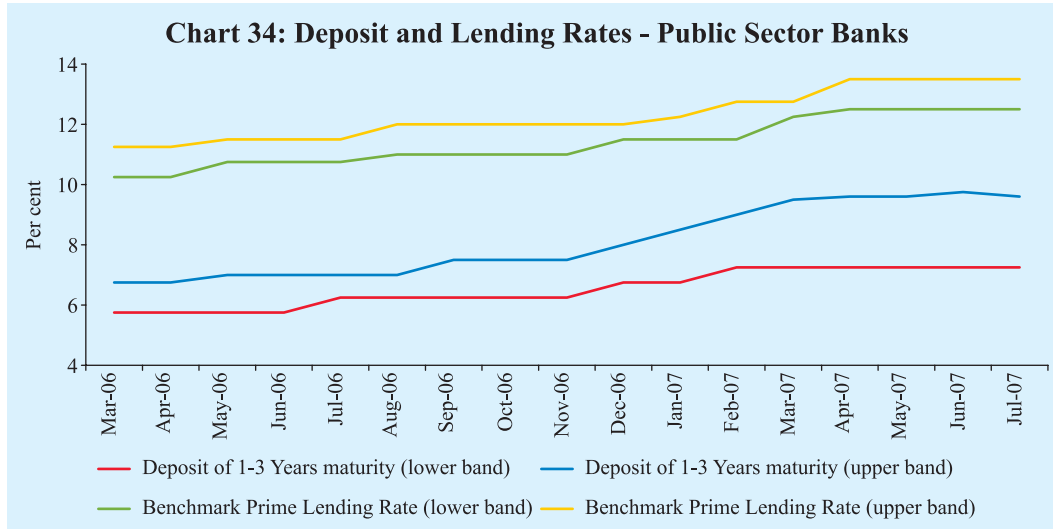
**Table 43: Deposit and Lending Rates**

Interest Rate	(Per cent)					
	March 2004	March 2005	March 2006	March 2007	June 2007	July 2007 #
1	2	3	4	5	6	7
<b>1. Domestic Deposit Rate</b>						
<b>Public Sector Banks</b>						
Up to 1 year	3.75-5.25	2.75-6.00	2.25-6.50	2.75-8.75	2.75-8.75	2.75-8.50
More than 1 year and up to 3 years	5.00-5.75	4.75-6.50	5.75-6.75	7.25-9.50	7.25-9.75	7.25-9.60
More than 3 years	5.26-6.00	5.25-7.00	6.00-7.25	7.50-9.50	7.75-9.75	7.75-9.60
<b>Private Sector Banks</b>						
Up to 1 year	5.00-6.50	3.00-6.25	3.50-7.25	3.00-9.00	3.00-9.50	1.00-9.25
More than 1 year and up to 3 years	5.00-6.50	5.25-7.25	5.50-7.75	6.75-9.75	6.75-10.25	6.75-10.25
More than 3 years	5.25-7.00	5.75-7.00	6.00-7.75	7.75-9.60	7.50-10.00	7.50-10.00
<b>Foreign Banks</b>						
Up to 1 year	2.75-7.75	3.00-6.25	3.00-6.15	3.00-9.50	0.25-9.00	0.25-8.50
More than 1 year and up to 3 years	3.25-8.00	3.50-6.50	4.00-6.50	3.50-9.50	3.50-9.50	2.50-9.00
More than 3 years	3.25-8.00	3.50-7.00	5.50-6.50	4.05-9.50	4.05-9.50	2.50-9.50
<b>2. Benchmark Prime Lending Rate</b>						
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50
Private Sector Banks	10.50-13.00	11.00-13.50	11.00-14.00	12.00-16.50	13.00-17.25	13.00-17.25
Foreign Banks	11.00-14.85	10.00-14.50	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50
<b>3. Actual Lending Rate*</b>						
Public Sector Banks	4.00-16.00	2.75-16.00	4.00-16.50	4.00-17.00	-	-
Private Sector Banks	4.50-22.00	3.15-22.00	3.15-20.50	3.15-25.50	-	-
Foreign Banks	3.75-23.00	3.55-23.50	4.75-26.00	5.00-26.50	-	-

- : Not available.  
 # : As on July 25, 2007.  
 \* : 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.



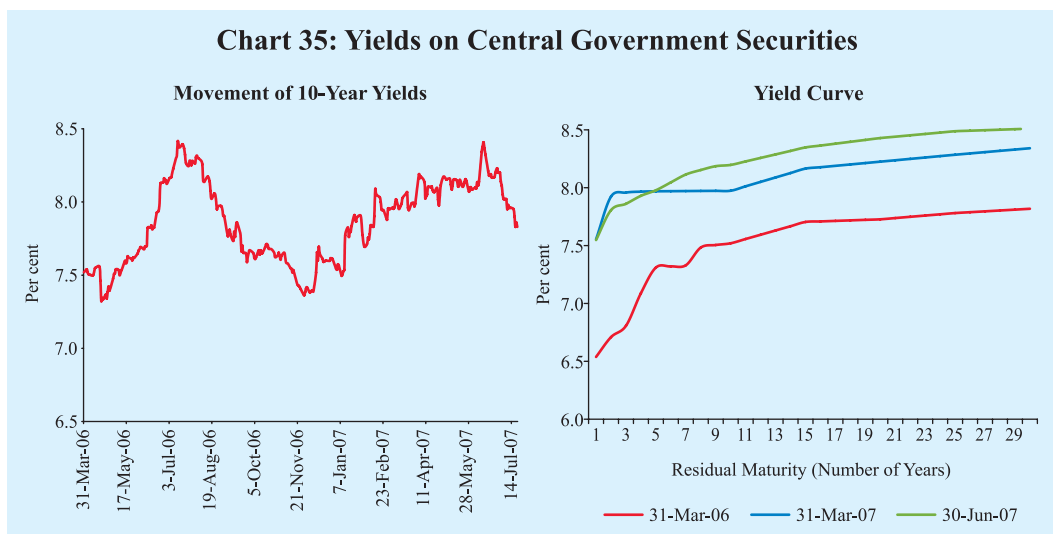
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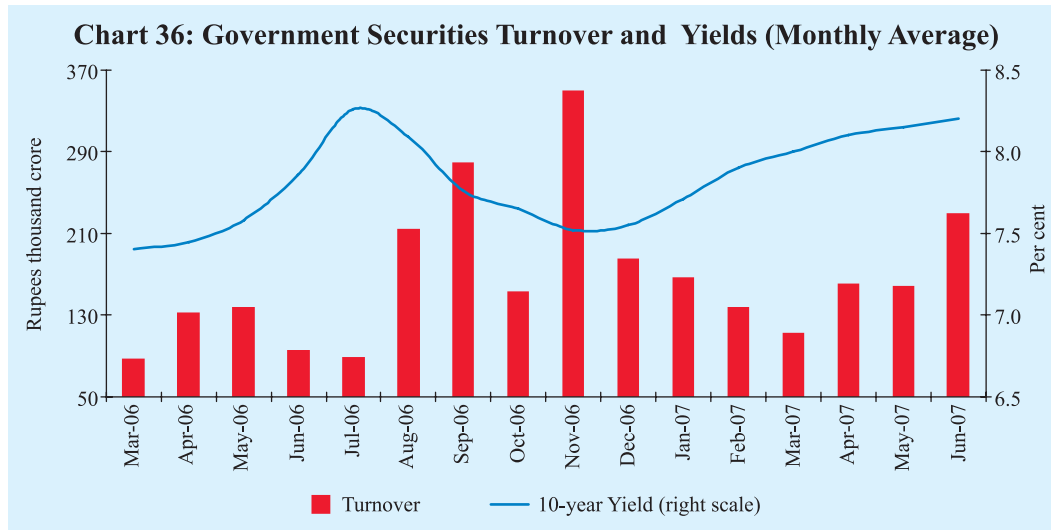


**Government Securities Market**

The yields in the Government securities market initially hardened during the first quarter of 2007-08, partly reflecting global trends and announcement of an unscheduled auction (Chart 35). Subsequently, yields eased from mid-June 2007 onwards. The 10-year yields moved in a range of 7.80-8.41 per cent during 2007-08 (up to July 26, 2007). The 10-year yield was 7.89 per cent as on July 26, 2007, 8 basis points lower than that at end-March 2007.

The spread between 1-10 year yields was 65 basis points at end-June 2007 as compared with 42 basis points at end-March 2007. The spread between

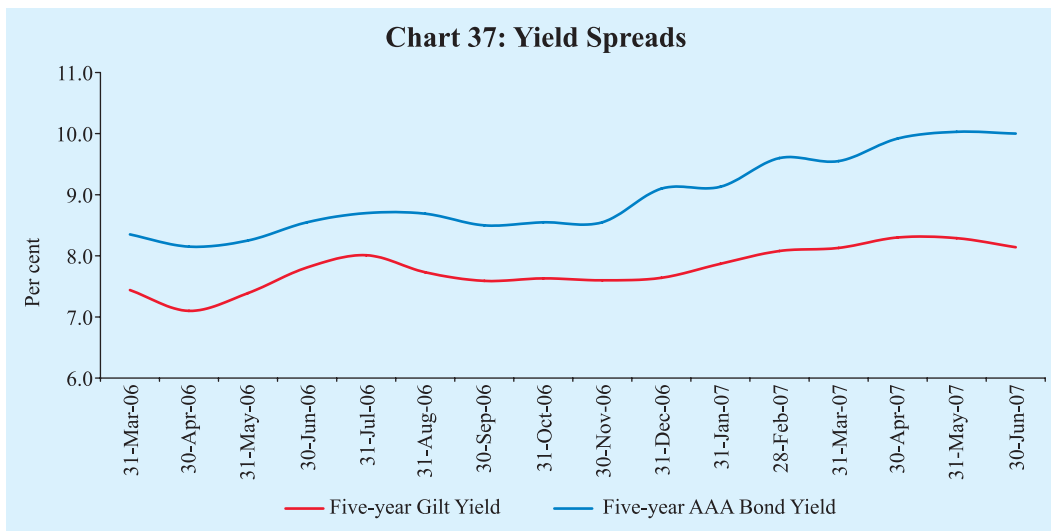




10-year and 30-year yields was 31 basis points at end-June 2007 (37 basis points at end-March 2007).

The daily turnover in the Government securities market averaged Rs. 5,109 crore during April-June 2007, which was 25.6 per cent higher than that in the preceding quarter (Chart 36).

The yield spread between 5-year AAA-rated bonds and 5-year Government securities widened to 186 basis points at end-June 2007 from 142 basis points at end-March 2007 (Chart 37).



## Equity Market

### Primary Market

Resources raised through the domestic public issues aggregated Rs.23,851 crore during April-June 2007, an increase of 124.1 per cent over the corresponding period of 2006 (Table 44). The average size of public issues increased from Rs.426 crore during April-June 2006 to Rs.994 crore during April-June 2007. All the 24 public issues during April-June 2007 were in the form of equity, of which, 20 were initial public offerings (IPOs) accounting for 54.8 per cent of total resource mobilisation.

Mobilisation of resources through private placement increased by 50.9 per cent to Rs.1,45,571 crore during 2006-07 over the previous year (Table 44). This was mainly on account of more than doubling of resources mobilised by private sector entities to Rs.84,387 crore, while resources raised by public sector

**Table 44: Mobilisation of Resources from the Primary Market**

Item	(Amount in Rupees crore)			
	2006-07 (April-June)		2007-08 (April-June) P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
<b>A. Prospectus and Rights Issues*</b>				
<b>1. Private Sector (a+b)</b>	<b>25</b>	<b>10,642</b>	<b>23</b>	<b>23,324</b>
a) Financial	1	15	1	10,063
b) Non-financial	24	10,627	22	13,261
<b>2. Public Sector (a+b+c)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>527</b>
a) Public Sector Undertakings	-	-	1	527
b) Government Companies	-	-	-	-
c) Banks/Financial Institutions	-	-	-	-
<b>3. Total (1+2)</b>	<b>25</b>	<b>10,642</b>	<b>24</b>	<b>23,851</b>
of which:				
(i) Equity	25	10,642	24	23,851
(ii) Debt	-	-	-	-
<b>B. Private Placement</b>				
	2005-06		2006-07	
<b>1. Private Sector</b>	<b>946</b>	<b>41,190</b>	<b>1,539</b>	<b>84,387</b>
a) Financial	375	26,463	649	51,321
b) Non-financial	571	14,727	890	33,066
<b>2. Public Sector</b>	<b>169</b>	<b>55,283</b>	<b>139</b>	<b>61,184</b>
a) Financial	137	39,165	108	49,026
b) Non-financial	32	16,119	31	12,158
<b>3. Total (1+2)</b>	<b>1,115</b>	<b>96,473</b>	<b>1,678</b>	<b>1,45,571</b>
of which:				
(i) Equity	1	150	1	57
(ii) Debt	1,114	96,323	1,677	1,45,514
<i>Memo:</i>				
<b>C. Euro Issues</b>	<b>21</b>	<b>5,786</b>	<b>3</b>	<b>1,251</b>

P : Provisional. \* : Excluding offers for sale. - : Nil/Negligible.

entities increased by only 10.7 per cent. Resource mobilisation by financial intermediaries (both from public sector and private sector) increased by 52.9 per cent to Rs.1,00,347 crore accounting for 68.9 per cent of total resource mobilisation during 2006-07 (68.0 per cent a year ago).

Resources raised through euro issues - American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) - by Indian corporates during April-June 2007 at Rs.1,251 crore were lower than the corresponding period of previous year.

During April-June 2007, net mobilisation of resources by mutual funds was Rs.51,450 crore, a decline of 1.2 per cent over the corresponding period of 2006 (Table 45). Bulk of the net mobilisation of funds (55.0 per cent of total) was under debt-oriented schemes followed by liquid/money market-oriented schemes (36.2 per cent). Growth/equity-oriented schemes accounted for 4.7 per cent of the net mobilisation of funds.

### Secondary Market

The domestic stock markets recorded gains during the first quarter of 2007-08 (Chart 38). Liquidity support from foreign institutional investors (FIIs) and mutual funds, buoyant growth and strong corporate profitability provided support to the domestic stock markets. During 2007-08 (up to July 26, 2007), the BSE Sensex moved in a range of 12455-15795 with a record high of 15795 on July 24, 2007. The S&P CNX Nifty also reached a record high of 4621 on July 24, 2007. The BSE Sensex closed at 15776 on July 26, 2007, an increase of 20.7 per cent over end-March 2007.

Profits after tax of sampled companies increased by 45.2 per cent during 2006-07 (24.2 per cent during 2005-06) (see Table 11). According to the data released by the Securities and Exchange Board of India (SEBI), FIIs have invested

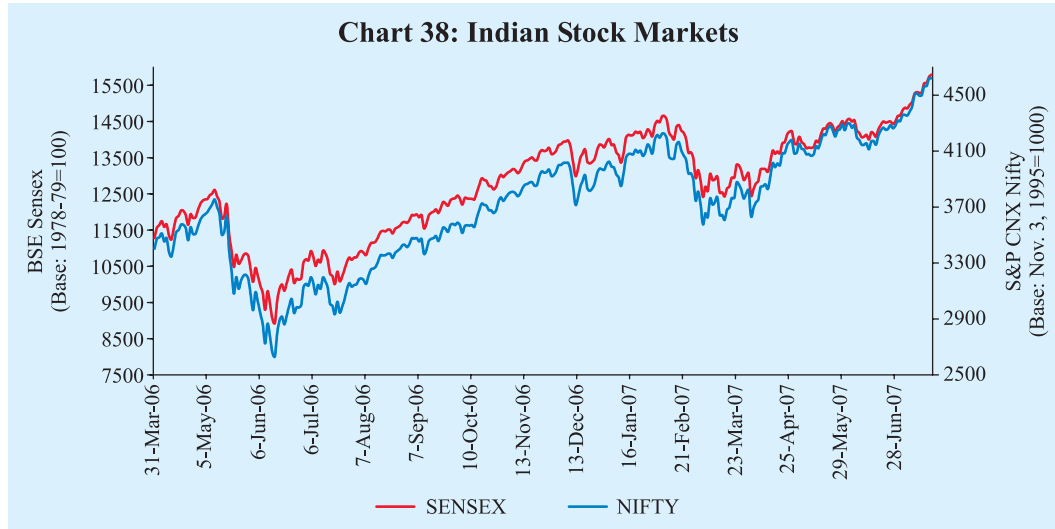
**Table 45: Resource Mobilisation by Mutual Funds**

Mutual Fund	April-March		April-June			
	2006-07		2006-07		2007-08	
	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets #
	2	3	4	5	6	7
Private Sector	79,038	2,62,079	43,039	2,11,225	48,542	3,29,421
Public Sector *	14,947	64,213	9,013	54,309	2,908	71,421
<b>Total</b>	<b>93,985</b>	<b>3,26,292</b>	<b>52,052</b>	<b>2,65,534</b>	<b>51,450</b>	<b>4,00,842</b>

@ : Net of redemptions. # : End-period. \* : Including UTI Mutual fund.

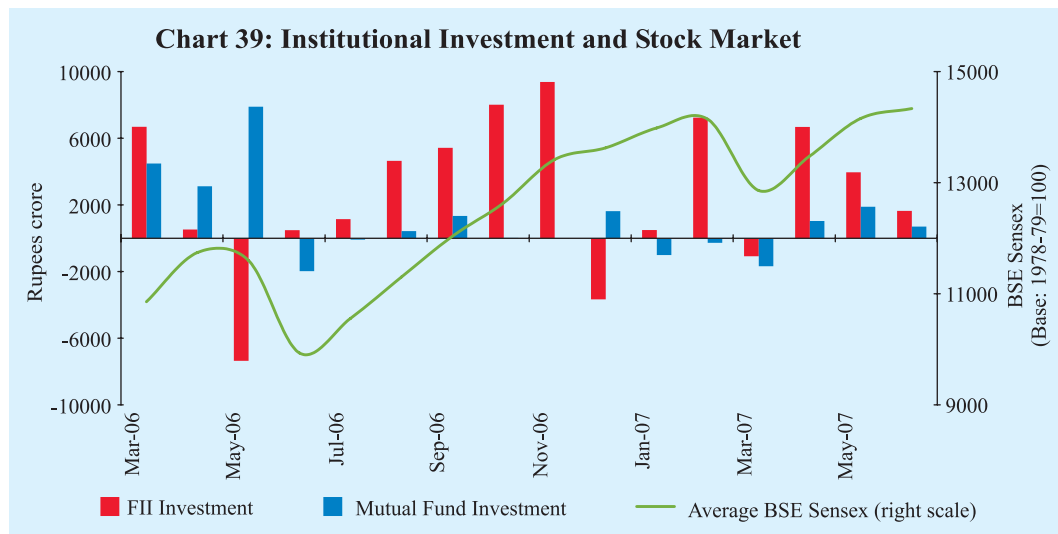
**Note :** Data exclude funds mobilised under Fund of Funds Schemes.

**Source :** Securities and Exchange Board of India.



Rs.36,438 crore (US \$ 8.8 billion) in the Indian stock markets during 2007-08 so far (up to July 25, 2007) as against net sales of Rs.6,084 crore (US \$ 1.3 billion) during the corresponding period of the previous year (Chart 39). Mutual funds have made net investments of Rs.1,759 crore during 2007-08 so far (up to July 25, 2007) as compared with net investments of Rs.8,538 crore during the corresponding period of the last year.

The gains in the domestic stock markets during 2007-08 (up to July 24, 2007) were led by capital goods, metal, banking, oil and gas, PSU and consumer durables stocks (Table 46).



**Table 46: BSE Sectoral Stock Indices**

Sector	Variation (per cent)		
	End-March 2006@	End-March 2007@	July 24, 2007 §
1	2	3	4
Auto	101.2	-8.5	5.3
Bankex	36.8	24.3	27.7
BSE 500	65.2	9.7	24.6
BSE Sensex	73.7	15.9	20.8
Capital Goods	156.0	11.1	51.7
Consumer Durables	115.4	11.1	18.2
Fast Moving Consumer Goods	109.9	-21.3	6.0
Health Care	51.2	-5.4	3.5
Information Technology	49.2	21.6	1.3
Metal	40.3	-4.3	45.7
Oil and Gas	61.1	30.5	27.9
Public Sector Undertakings	44.0	-3.2	23.1

@ : year-on-year variation. § : variation over end-March 2007.  
**Source** : Bombay Stock Exchange Limited.

Reflecting the upward trend in stock prices, the price-earnings (P/E) ratios of the 30 scrips included in the BSE Sensex rose from 20.3 at end-March 2007 to 21.1 by end-June 2007 (Table 47). The market capitalisation of the BSE increased by 17.6 per cent between end-March 2007 and end-June 2007. The volatility in the stock market declined during April-June 2007. The combined turnover of BSE and NSE in the cash and derivative segments during April-June 2007 was higher by 7.3 per cent and 7.8 per cent, respectively, than the corresponding period of 2006.

**Table 47: Stock Market Indicators**

Indicator	BSE				NSE			
	2005-06	2006-07	Apr-June		2005-06	2006-07	Apr-June	
			2006	2007			2006	2007
1	2	3	4	5	6	7	8	9
1. BSE Sensex / S&P CNX Nifty								
(i) End-period	11280	13072	10609	14651	3403	3822	3128	4318
(ii) Average	8280	12277	11032	13998	2513	3572	3263	4121
2. Coefficient of Variation	16.7	11.1	9.0	3.6	15.6	10.4	9.6	3.9
3. Price-Earning Ratio (end-period)*	20.9	20.3	19.4	21.1	20.3	18.4	18.4	20.6
4. Price-Book Value Ratio*	5.1	5.1	4.4	4.8	5.2	4.9	4.7	5.4
5. Yield* (per cent per annum)	1.2	1.3	1.5	1.1	1.3	1.3	1.5	1.1
6. Number of Listed Companies	4,781	4,821	4,793	4,842	1,069	1,228	1,099	1,283
7. Cash Segment Turnover (Rupees crore)	8,16,074	9,56,185	2,55,320	2,72,782	15,69,556	19,45,285	5,29,831	5,69,800
8. Derivative Segment Turnover (Rupees crore)	9	59,007	19	50,357	48,24,174	73,56,242	20,37,019	21,46,272
9. Market Capitalisation (Rupees crore) @	30,22,191	35,45,041	27,21,678	41,68,272	28,13,201	33,67,350	25,24,659	39,78,381

\* : Based on 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty. @ : End-period.  
**Source** : Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange of India Ltd. (NSE).

## VI. THE EXTERNAL ECONOMY

During 2006-07, both exports and imports recorded strong growth, *albeit* with some moderation. Growth in oil imports as well as oil exports remained high, notwithstanding some deceleration. Merchandise trade deficit widened further in consonance with higher investment and economic activity. Net invisibles surplus remained buoyant during 2006-07, led by exports of services and remittances. The surplus on the invisibles account continued to finance a large part of the deficit on the merchandise trade account. As a result, the current account deficit as a proportion to GDP was contained at the previous year's level. Net capital inflows were substantially higher than those in 2005-06 reflecting large flows under foreign direct investment (FDI) and external commercial borrowings. With capital flows (net) remaining well above the current account deficit, there was an accretion of US \$ 47.6 billion to foreign exchange reserves during 2006-07 (US \$ 10.1 billion in 2005-06). While the stock of external debt rose, that of net international liabilities fell during 2006-07.

During 2007-08 (April-May), merchandise exports and imports exhibited acceleration in growth. Capital flows have remained buoyant. Foreign exchange reserves have increased further by US \$ 22.9 billion during 2007-08 (up to July 20, 2007).

### International Developments

After expanding at an impressive pace of 5.5 per cent in 2006, global economic activity in 2007 so far has remained buoyant, fuelled by growth in major emerging markets. Amongst the major advanced economies, growth of the US economy recorded a marked slowdown to 1.9 per cent in the first quarter of 2007 due to negative contributions from net exports, inventories and residential investment. At the same time, consumption continues to hold up well and there is some evidence of a rebound of growth in the US in the second quarter. In the euro area, growth remained robust, benefiting from strong domestic as well as export demand. Various surveys suggest the continuance of the growth momentum in the second quarter in the euro area. Japan also recorded strong growth in the first quarter of 2007, largely on account of support provided by exports, business fixed investment and the steady recovery of consumption (Table 48). In emerging Asia, economic activity remained robust, led by China and India. Net exports and domestic demand maintained a strong momentum in major economies of the region.

According to the projections released by the International Monetary Fund (IMF) in July 2007, growth in the world economy is likely to moderate to 5.2 per cent in 2007 as also in 2008 from 5.5 per cent in 2006 (Table 49). While global

## Macroeconomic and Monetary Developments: First Quarter Review 2007-08

**Table 48: Growth Rates – Global Scenario**

Country	(Per cent)									
	2004	2005	2006	2007 P	2008 P	2006				2007
						Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9	10	11
<b>Advanced Economies</b>										
Euro area	2.0	1.5	2.8	2.6	2.5	2.2	2.7	2.8	3.3	3.0
Japan	2.7	1.9	2.2	2.6	2.0	3.0	2.1	1.4	2.2	2.6
Korea	4.7	4.2	5.0	4.4	4.4	6.3	5.1	4.8	4.0	4.0
UK	3.3	1.8	2.8	2.9	2.7	2.4	2.7	2.9	3.0	3.0
US	3.9	3.2	3.3	2.0	2.8	3.7	3.5	3.0	3.1	1.9
OECD Countries	3.2	2.5	3.0	2.5	2.7	3.3	3.4	3.0	3.3	2.7
<b>Emerging Economies</b>										
Argentina	9.0	9.2	8.5	7.5	5.5	8.6	7.9	8.7	8.6	8.0
Brazil	5.7	2.9	3.7	4.4	4.2	3.9	1.1	4.4	4.4	4.3
China	10.1	10.4	11.1	11.2	10.5	10.3	10.9	10.7	10.7	11.1
India	7.5	9.0	9.4	9.0	8.4	10.0	9.6	10.2	8.7	9.1
Indonesia	5.0	5.7	5.5	6.0	6.3	5.0	5.0	5.9	6.1	6.0
Malaysia	7.2	5.2	5.9	5.5	5.8	6.0	6.1	6.0	5.7	5.3
Thailand	6.3	4.5	5.0	4.5	4.8	6.1	5.0	4.7	4.3	4.3

P : IMF Projections.

**Note** : Data for India in columns 2 to 4 refer to fiscal years 2004-05, 2005-06 and 2006-07, respectively.

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

economic activity has remained resilient during 2007 so far, protectionist pressures, further rise in oil prices, persisting global imbalances, adjustment in the US on

**Table 49: Select Economic Indicators – World**

Item	2001	2002	2003	2004	2005	2006	2007P	2008P
1	2	3	4	5	6	7	8	9
<b>I. World Output (Per cent change) #</b>	2.5	3.1	4.0	5.3	4.9	5.5	5.2	5.2
	(1.5)	(1.8)	(2.6)	(4.0)	(3.4)	(3.9)	(3.6)	(3.7)
i) Advanced economies	1.2	1.6	1.9	3.3	2.6	3.1	2.6	2.8
ii) Other emerging market and developing countries	4.3	5.0	6.7	7.7	7.5	8.1	8.0	7.6
of which: Developing Asia	6.0	7.0	8.4	8.7	9.2	9.7	9.6	9.1
<b>II. Consumer Price Inflation (Per cent)</b>								
i) Advanced economies	2.1	1.5	1.8	2.0	2.3	2.3	2.0	2.1
ii) Other emerging market and developing countries	6.7	5.8	5.8	5.6	5.4	5.3	5.7	5.0
of which: Developing Asia	2.7	2.0	2.5	4.1	3.6	4.0	3.9	3.4
<b>III. Net Capital Flows* (US \$ billion)</b>								
i) Net private capital flows (a+b+c)	70.2	88.3	173.3	238.6	257.2	255.8	252.7	259.3
a) Net private direct investment	182.8	152.2	165.3	190.0	266.3	266.9	283.7	288.9
b) Net private portfolio investment	-80.5	-90.9	-12.1	25.0	29.4	-76.3	-62.0	-52.2
c) Net other private capital flows	-32.1	26.9	20.1	23.5	-38.5	65.2	30.9	22.6
ii) Net official flows	6.6	2.3	-44.5	-57.8	-122.6	-143.8	-96.4	-116.6
<b>IV. World Trade @</b>								
i) Volume	0.2	3.4	5.4	10.6	7.5	9.4	7.1	7.4
ii) Price deflator (in US dollars)	-3.5	1.2	10.4	9.8	5.5	5.4	2.8	0.8
<b>V. Current Account Balance (Per cent to GDP)</b>								
i) US	-3.8	-4.5	-4.8	-5.7	-6.4	-6.5	-6.1	-6.0
ii) China	1.3	2.4	2.8	3.6	7.2	9.1	10.0	10.5
iii) Middle East	6.2	4.7	8.4	12.1	18.8	18.1	12.1	10.7

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, April 2007; World Economic Outlook Update, July 2007, International Monetary Fund.



**Table 50: Growth in Exports - Global Scenario**

Region/Country	(Per cent)			
	2005	2006	2006 Q1	2007-Q1
1	2	3	4	5
<b>World</b>	<b>14.1</b>	<b>15.5</b>	<b>11.8</b>	<b>18.5</b>
<b>Industrial Countries</b>	<b>8.5</b>	<b>12.6</b>	<b>8.2</b>	<b>12.9</b>
US	10.8	14.5	14.2	10.8
France	4.0	9.7	3.4	9.4
Germany	7.3	15.1	6.2	20.8
Japan	5.2	9.2	5.3	5.4
<b>Developing Countries</b>	<b>22.1</b>	<b>19.2</b>	<b>16.7</b>	<b>25.8</b>
<b>Non-Oil Developing Countries</b>	<b>19.2</b>	<b>19.6</b>	<b>18.9</b>	<b>27.7</b>
China	28.4	27.2	26.6	27.8
India	29.6	21.5	13.0	12.6
Indonesia	22.9	19.0	15.2	9.7
Korea	12.0	14.4	10.6	14.6
Malaysia	12.0	14.0	14.0	7.6
Singapore	15.6	18.4	23.0	9.9
Thailand	14.5	18.7	18.4	17.2

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

account of housing slowdown and potential shifts in financial market sentiment pose downward risks to global growth prospects.

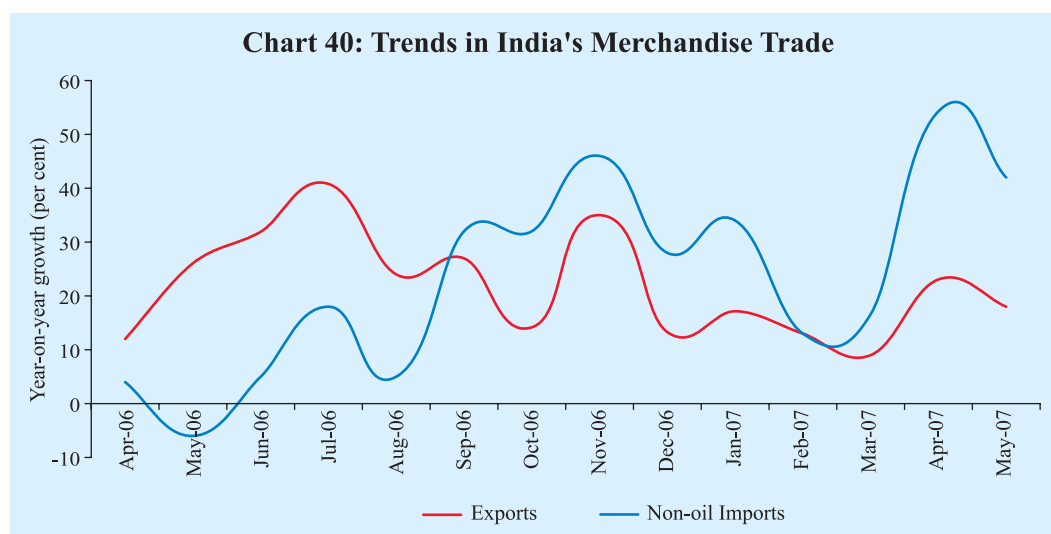
According to the IMF, world trade of goods and services is expected to moderate to 7.1 per cent in volume terms in 2007 from 9.4 per cent in the preceding year. Exports of emerging market and developing countries are projected to grow by 10.7 per cent in 2007 (11.1 per cent a year ago), while those of advanced countries are expected to grow by 5.5 per cent (8.5 per cent a year ago) (see Table 49).

World exports (in US dollar terms) in the first quarter of 2007 posted an accelerated growth (18.5 per cent from 11.8 per cent a year ago) (Table 50).

#### **Balance of Payments: 2006-07**

According to the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports posted a growth of 20.9 per cent in 2006-07 (23.4 per cent a year ago), while merchandise imports grew by 21.6 per cent in 2006-07 (33.8 per cent in 2005-06) (Chart 40).

Commodity-wise data available for 2006-07 (April-February) indicate that exports of both primary products and manufactured products exhibited moderation in growth. The moderation was on account of the decline in the exports of gems and jewellery and deceleration in textiles, chemicals and ores and minerals (Table 51). On the other hand, tea, spices, sugar and molasses, engineering goods and petroleum products maintained the growth momentum. Engineering goods and petroleum products together contributed 62 per cent to total export growth during 2006-07 (April-February).



Destination-wise, export growth decelerated to almost all major markets during 2006-07 (April-February), with the exception of the UAE (Table 52). The US remained the major market for India's exports with a share of 15.0 per cent, followed by the UAE (9.6 per cent), China (6.5 per cent), Singapore (4.8 per cent) and the UK (4.5 per cent).

Both oil and non-oil imports exhibited moderation in growth during 2006-07. The deceleration in non-oil imports was partly due to decline in imports of pearls, precious and semi-precious stones. On the other hand, imports of capital goods

**Table 51: Exports of Principal Commodities**

Commodity Group	US \$ billion			Variation (per cent)		
	2005-06	2005-06	2006-07	2005-06	2005-06	2006-07
		April-February			April-February	
1	2	3	4	5	6	7
<b>1. Primary Products</b>	<b>16.4</b>	<b>14.3</b>	<b>16.8</b>	<b>20.8</b>	<b>27.2</b>	<b>17.5</b>
<i>of which:</i>						
a) Agriculture and Allied Products	10.2	9.0	10.8	20.5	21.9	20.3
b) Ores and Minerals	6.2	5.3	6.0	21.4	37.4	12.9
<b>2. Manufactured Goods</b>	<b>72.2</b>	<b>64.3</b>	<b>73.9</b>	<b>18.9</b>	<b>21.2</b>	<b>15.0</b>
<i>of which:</i>						
a) Chemicals and Related Products	14.8	13.1	14.9	18.6	18.9	14.2
b) Engineering Goods	21.5	19.0	25.6	23.7	27.8	36.2
c) Textiles and Textile Products	16.3	14.6	15.3	20.6	22.5	4.8
d) Gems and Jewellery	15.5	13.9	13.8	12.8	15.5	-0.5
<b>3. Petroleum Products</b>	<b>11.5</b>	<b>10.6</b>	<b>16.9</b>	<b>64.9</b>	<b>67.7</b>	<b>59.1</b>
<b>4. Total Exports</b>	<b>103.1</b>	<b>91.5</b>	<b>112.5</b>	<b>23.4</b>	<b>26.2</b>	<b>23.1</b>
<i>Memo:</i>						
Non-oil Exports	91.6	80.9	95.6	19.6	22.2	18.3

Source : DGC&S.

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**Table 52: Direction of India's Exports**

Group/Country	US \$ billion			Variation (per cent)		
	2005-06	2005-06	2006-07	2005-06	2005-06	2006-07
	April-February			April-February		
1	2	3	4	5	6	7
<b>1. OECD Countries</b>	<b>45.8</b>	<b>41.1</b>	<b>46.5</b>	<b>25.6</b>	<b>27.9</b>	<b>13.2</b>
of which:						
a) EU	22.4	20.1	23.1	27.6	31.1	14.9
b) North America	18.4	16.5	17.9	25.6	26.3	8.8
US	17.4	15.6	16.9	26.1	26.6	8.8
<b>2. OPEC</b>	<b>15.2</b>	<b>13.5</b>	<b>18.6</b>	<b>15.4</b>	<b>16.5</b>	<b>38.0</b>
of which:						
UAE	8.6	7.6	10.8	16.9	18.7	42.0
<b>3. Developing Countries</b>	<b>39.7</b>	<b>34.9</b>	<b>44.9</b>	<b>25.8</b>	<b>30.2</b>	<b>28.6</b>
of which:						
Asia	31.0	27.1	33.5	24.1	29.4	23.7
People's Republic of China	6.8	5.8	7.3	20.4	38.6	25.6
Singapore	5.4	4.8	5.4	35.6	40.2	13.6
<b>4. Total Exports</b>	<b>103.1</b>	<b>91.5</b>	<b>112.5</b>	<b>23.4</b>	<b>26.2</b>	<b>23.1</b>

Source : DGCI&S.

continued to record a buoyant growth in consonance with strong domestic investment activity. Capital goods accounted for 45 per cent of the growth in non-oil imports during 2006-07 (April-February). Imports of gold and silver increased sharply, partly on account of higher prices (Table 53).

Source-wise, China was the major source of non-oil imports during 2006-07 (April-February) (14.1 per cent of total non-oil imports), followed by the US (8.1 per cent), Switzerland (7.2 per cent), Germany (6.0 per cent) and Australia (5.6 per cent).

**Table 53: Imports of Principal Commodities**

Commodity Group	US \$ billion			Variation (per cent)		
	2005-06	2005-06	2006-07	2005-06	2005-06	2006-07
	April-February			April-February		
1	2	3	4	5	6	7
Petroleum, Petroleum Products and Related Material	44.0	39.8	52.2	47.3	49.7	31.2
Edible Oils	2.0	1.8	1.9	-17.9	-20.9	7.6
Iron and Steel	4.6	4.1	5.7	71.3	79.1	39.7
Capital Goods	37.7	28.5	37.8	49.9	38.1	32.5
Pearls, Precious and Semi-Precious Stones	9.1	8.6	6.6	-3.1	3.9	-23.3
Chemicals	7.0	6.3	7.1	22.5	27.8	13.0
Gold and Silver	11.3	10.1	13.1	1.5	-0.4	29.2
<b>Total Imports</b>	<b>149.2</b>	<b>129.4</b>	<b>162.5</b>	<b>33.8</b>	<b>33.0</b>	<b>25.5</b>
<i>Memo:</i>						
Non-oil Imports	105.2	89.6	110.3	28.8	26.8	23.0
Non-oil Imports excluding Gold and Silver	93.9	79.5	97.2	33.1	31.4	22.3
Mainly Industrial Imports*	87.5	73.7	89.5	34.7	32.7	21.5

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

Considering the overall imports (including oil), China was the major source accounting for 9.7 per cent followed by Saudi Arabia (7.6 per cent), the US (5.7 per cent), Switzerland (4.9 per cent), the UAE (4.7 per cent) and Germany (4.1 per cent).

During 2006-07 (April-February), India's overall trade deficit was the highest against Saudi Arabia (US \$ 10.1 billion) followed by China (US \$ 8.4 billion), Switzerland (US \$ 7.6 billion) and Australia (US \$ 5.4 billion). India recorded a trade surplus of US \$ 7.7 billion with the US. It is noteworthy that China has emerged as the single most significant source of imports for India and India's overall trade deficit with China is second only to Saudi Arabia.

The merchandise trade deficit, on balance of payments basis, rose from US \$ 51.8 billion in 2005-06 to US \$ 64.9 billion in 2006-07. As a proportion of GDP, the trade deficit widened from 6.4 per cent to 7.1 per cent.

#### Current Account

Net surplus under invisibles (services, transfers and income taken together) remained buoyant during 2006-07 and increased from US \$ 42.7 billion (5.3 per cent of GDP) in 2005-06 to US \$ 55.3 billion (6.0 per cent of GDP) in 2006-07. Exports of services and inflows under remittances remained the key drivers of the net surplus (Table 54). Amongst miscellaneous services, both software and non-software continued to record robust growth. Investment income deficit narrowed from a year ago, on account of higher earnings on India's external assets.

The net invisible surplus offset a large part of the trade deficit (85 per cent during 2006-07 as compared with 82 per cent during 2005-06). Reflecting the support provided by the invisibles surplus, the current account deficit was contained at US \$ 9.6 billion in 2006-07 (US \$ 9.2 billion in the previous year). As a proportion of GDP, the current account deficit at 1.1 per cent in 2006-07 was the same as in 2005-06

**Table 54: Invisibles Account (Net)**

Item	(US \$ million)							
	2005-06PR		2006-07P		2005-06PR		2006-07	
	April-March		Jan-March	April-June PR	July-Sept. PR	Oct.-Dec. PR	Jan-March P	
1	2	3	4	5	6	7	8	
Services	23,881	32,727	7,465	7,965	7,268	7,467	10,027	
Travel	1,389	2,188	601	220	-31	792	1,207	
Transportation	-1,550	-788	-463	-314	-31	-255	-188	
Insurance	22	559	-78	111	162	92	194	
Government, not included elsewhere	-197	-144	-90	-24	-62	-11	-47	
Software	22,262	28,798	6,665	6,601	6,678	6,864	8,655	
Other Services	1,955	2,114	830	1,371	552	-15	206	
Transfers	24,284	27,415	7,347	5,692	5,226	7,844	8,653	
Investment Income	-4,921	-4,282	-180	-1,147	-1,300	-1,088	-747	
Compensation of Employees	-589	-564	-124	-131	-162	-133	-138	
<b>Total</b>	<b>42,655</b>	<b>55,296</b>	<b>14,508</b>	<b>12,379</b>	<b>11,032</b>	<b>14,090</b>	<b>17,795</b>	

PR : Partially Revised.

P : Preliminary.

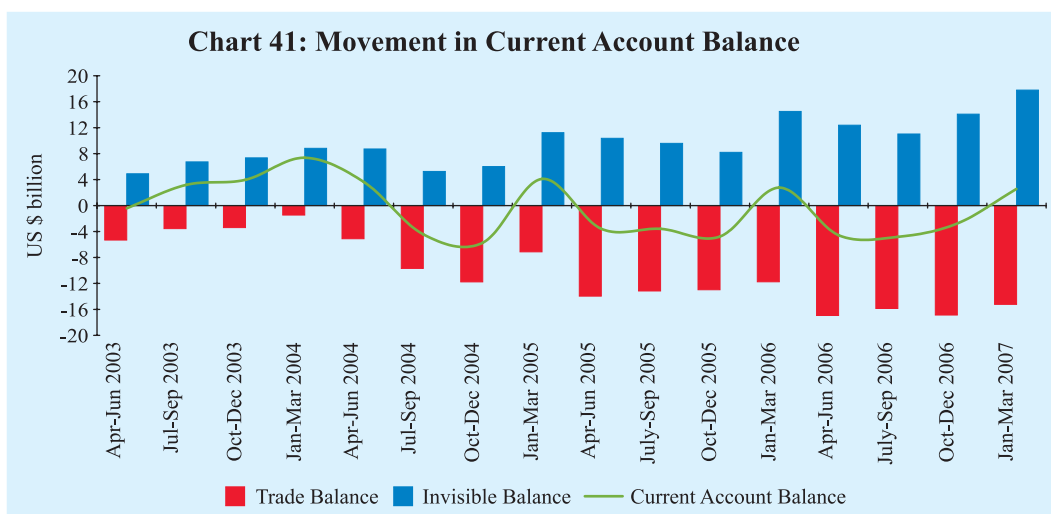
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**Table 55: India's Balance of Payments**

Item	(US \$ million)						
	2005-06 PR	2006-07 P	2005-06 PR	2006-07			
	April-March		Jan-March	April-June PR	July-Sept. PR	Oct-Dec. PR	Jan-March P
1	2	3	4	5	6	7	8
Exports	1,05,152	1,27,090	30,579	29,674	32,700	30,664	34,052
Imports	1,56,993	1,91,995	42,331	46,620	48,562	47,529	49,284
Trade Balance	-51,841	-64,905	-11,752	-16,946	-15,862	-16,865	-15,232
	(-6.4)	(-7.1)					
Invisible Receipts	92,294	1,19,163	28,700	24,643	25,597	31,658	37,265
Invisible Payments	49,639	63,867	14,192	12,264	14,565	17,568	19,470
Invisibles, net	42,655	55,296	14,508	12,379	11,032	14,090	17,795
	(5.3)	(6.0)					
Current Account	-9,186	-9,609	2,756	-4,567	-4,830	-2,775	2,563
	(-1.1)	(-1.1)					
Capital Account (net)*	24,238	46,215	10,465	10,946	7,100	10,280	17,889
	[29,738] @						
<i>of which:</i>							
Foreign Direct Investment	4,730	8,437	1,383	1,416	2,426	2,558	2,037
Portfolio Investment	12,494	7,062	4,333	-505	2,152	3,569	1,846
External Commercial Borrowings \$	2,723	16,084	3,934	3,959	1,458	3,994	6,673
	[8,223] @						
Short-term Trade Credit	1,708	3,275	-23	417	1,554	-316	1,620
External Assistance	1,682	1,770	592	49	337	633	751
NRI Deposits	2,789	3,895	1,675	1,231	797	1,236	631
Change in Reserves #	-15,052	-36,606	-13,221	-6,379	-2,270	-7,505	-20,452
<b>Memo:</b>							
Current Account net of private transfers	-33,288	-36,804	-4,472	-10,280	-10,047	-10,429	-6,048
	(-4.1)	(-4.0)					

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 percentages to GDP.

(Table 55 and Chart 41). Net of remittances, the current account deficit was 4.0 per cent of GDP in 2006-07 (4.1 per cent in 2005-06 and 3.3 per cent in 2004-05).



### Capital Flows

Net capital flows to India increased from US \$ 24.2 billion during 2005-06 to US \$ 46.2 billion during 2006-07, led by foreign direct investment (FDI) inflows and external commercial borrowings (ECBs) (see Table 55). FDI inflows at US \$ 19.5 billion during 2006-07 were more than two and a half times those of the previous year (Table 56), mainly on account of positive investment climate and growing investor interest in the Indian economy amidst gradual liberalisation of the policy regime with regard to FDI. FDI was channelled mainly into manufacturing, financial services and computer services. Mauritius, the US, and the Netherland were the dominant sources of FDI to India. Alongwith the jump in inward FDI inflows, there was a large increase in outward foreign direct investment from US \$ 2.9 billion during 2005-06 to US \$ 11.0 billion during 2006-07, reflecting large overseas acquisitions by the Indian corporates to gain market shares and reap economies of scale, amidst the progressive liberalisation of the external payments regime. Both FDI inflows and outflows during 2006-07 included one transaction amounting to US \$ 3.1 billion involving swap of shares. Net of this transaction, FDI inflows and outflows at US \$ 16.4 billion and US \$ 7.9 billion, respectively, during 2006-07 were significantly higher than the previous year.

India follows the internationally accepted definition of FDI. According to the IMF definition, FDI is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. In line with international best practices, FDI includes both equity capital, reinvested earnings (retained earnings of FDI companies) and 'other direct capital' (intercorporate debt transactions between related entities). Data on equity capital

**Table 56: Capital Flows**

Item	(US \$ million)			
	2005-06 (April-March)	2006-07 (April-March)	2006-07 (April)	2007-08 (April)
1	2	3	4	5
Foreign Direct Investment (FDI) into India	7,722	19,531 #	661	1,551
FDI Abroad	(-) 2,931	(-) 11,005 #	-	-
FIIIs (net)	9,926	3,225	-1,955 *	8,417 *
ADRs/GDRs	2,552	3,776	435	11
External Assistance (net)	1,682	1,770	-	-
External Commercial Borrowings (net) (Medium and long-term)	8,223 @	16,084	-	-
Short-term Trade Credits (net)	1,708	3,275	-	-
NRI Deposits (net)	2,789	3,895	253	(-) 274

# : Includes swap of shares of US \$ 3.1 billion.

@ : Excluding IMD redemption.

- : Not available.

\* : Up to July 13.

**Note :** Data on FIIIs presented in this table represent inflows into the country. They may differ from data relating to net investment in stock exchanges by FIIIs.

include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad) besides equity of incorporated bodies.

Foreign institutional investors (FIIs) continued to invest in the Indian capital market during 2006-07, although the inflows (US \$ 3.2 billion) were only a third of the preceding year. With corporates resorting to greater issue of American depository receipts (ADRs)/global depository receipts (GDRs) abroad, capital inflows through this route were higher than FII inflows during 2006-07.

According to the IMF definition, portfolio investment refers to cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Generally, FIIs include hedge funds, insurance companies, pension funds and mutual funds. In India, FIIs include overseas pension funds, mutual funds, investment trusts, asset management companies, nominee companies, banks, institutional portfolio managers, university funds, endowments, foundations, charitable trusts, charitable societies, a trustee or power of attorney holder incorporated or established outside India proposing to make proprietary investments or investments on behalf of a broad-based fund (*i.e.*, fund having more than 20 investors with no single investor holding more than 10 per cent of the shares or units of the fund). India is among the largest recipients of portfolio inflows among EMEs.

Net draws under ECBs rose from US \$ 2.7 billion during 2005-06 (US \$ 8.2 billion adjusted for the redemption of India Millennium Deposits) to US \$ 16.1 billion during 2006-07, reflecting sustained domestic investment and import demand, and some hardening of domestic interest rates. Net inflows under the various NRI deposit schemes at US \$ 3.9 billion during 2006-07 exceeded those of US \$ 2.8 billion during the previous year, partly due to the higher interest rates on various deposit schemes for the large part of 2006-07. The ceiling interest rate on NRE deposits was initially raised by 25 basis points each in November 2005 and April 2006 but was subsequently scaled down by 50 basis points each in January 2007 and April 2007 to "LIBOR/swap rates of US dollar". Similarly, the ceiling interest rate on FCNR(B) deposits was raised by 25 basis points to "LIBOR/ swap rates for the respective currency/maturity" in March 2006 but was reduced by 25 basis points in January 2007 and by a further 50 basis points to "LIBOR *minus* 75 basis points" in April 2007.

With net capital flows being substantially higher than the current account deficit, the overall balance of payments recorded a surplus of US \$ 36.6 billion in 2006-07 (US \$ 15.1 billion in 2005-06).

### **External Debt**

India's total external debt was placed at US \$ 155.0 billion at end-March 2007, an increase of US \$ 28.6 billion over end-March 2006. The increase in external debt during the period was mainly on account of the rise in external

**Table 57: India's External Debt**

(US \$ million)							
Item	End-March 1995	End-March 2005	End-March 2006	End-June 2006	End-Sept 2006	End-Dec 2006	End-March 2007
1	2	3	4	5	6	7	8
1. Multilateral	28,542	31,702	32,559	33,101	33,594	34,569	35,641
2. Bilateral	20,270	16,930	15,727	15,833	15,734	15,770	16,104
3. International Monetary Fund	4,300	0	0	0	0	0	0
4. Trade Credit	6,629	4,980	5,398	5,498	5,658	5,957	6,964
5. External Commercial Borrowings	12,991	27,024	26,869	31,114	32,421	35,980	42,780
6. NRI Deposits	12,383	32,743	35,134	35,651	36,515	38,382	39,624
7. Rupee Debt	9,624	2,301	2,031	1,915	1,921	1,983	1,949
8. Long-term (1 to 7)	94,739	1,15,680	1,17,718	1,23,112	1,25,843	1,32,641	1,43,062
9. Short-term	4,269	7,524	8,696	9,105	10,625	10,015	11,971
<b>Total (8+9)</b>	<b>99,008</b>	<b>1,23,204</b>	<b>1,26,414</b>	<b>1,32,217</b>	<b>1,36,468</b>	<b>142,656</b>	<b>1,55,033</b>
<i>Memo:</i> (Per cent)							
Total debt/GDP	30.8	17.3	15.8	-	-	-	16.4
Short-term/Total debt	4.3	6.1	6.9	6.9	7.8	7.0	7.7
Short-term debt/Reserves	16.9	5.3	5.7	5.6	6.4	5.7	6.0
Concessional debt/Total debt	45.3	33.0	31.2	30.1	29.3	28.3	25.7
Reserves/Total debt	25.4	114.9	119.9	123.2	121.1	124.3	128.5
Debt Service Ratio*	25.9	6.1	9.9	-	-	-	4.8

\* : Relates to the fiscal year. - : Not Available.

commercial borrowings and NRI deposits, as alluded to earlier. About 49 per cent of the external debt stock was denominated in US dollar, followed by the Indian Rupee (17.4 per cent), SDR (13.3 per cent) and Japanese Yen (12.5 per cent). The ratios of short-term to total debt and short-term debt to reserves recorded modest increases between end-March 2006 and end-March 2007 (Table 57). Foreign exchange reserves remained in excess of the stock of external debt.

### International Investment Position

India's net international liabilities declined by US \$ 4.6 billion between end-March 2006 and end-December 2006, as the increase in international assets (US \$ 41.1 billion) exceeded that in international liabilities (US \$ 36.4 billion) (Table 58). The increase in international assets was mainly on account of reserve assets, while that in international liabilities reflected inflows on account of direct and portfolio investment, commercial borrowings and non-resident deposits.

### Developments during 2007-08

According to the DGCI&S data, growth in merchandise exports as well as imports accelerated during April-May 2007. While exports increased by 20.2 per cent, imports expanded by 33.0 per cent. The increase in merchandise imports was led by non-oil imports, which recorded a growth of 47.3 per cent. Growth in oil imports moderated, mainly reflecting the impact of international crude oil prices. The Indian basket of crude oil price at US \$ 65.6 per barrel in April-May 2007 was lower by 2.1 per cent than a year ago (US \$ 67.0 per barrel in April-May 2006).



The External Economy

**Table 58: International Investment Position of India**

(US \$ billion)					
Item	March 2005 PR	March 2006 PR	June 2006 PR	September 2006 P	December 2006 P
1	2	3	4	5	6
<b>A. Assets</b>	<b>168.2</b>	<b>183.5</b>	<b>192.1</b>	<b>198.2</b>	<b>224.5</b>
	<b>(23.5)</b>	<b>(22.9)</b>			
1. Direct Investment	10.0	13.0	14.1	15.3	21.6
2. Portfolio Investment	0.8	1.3	1.1	1.2	1.2
2.1 Equity Securities	0.4	0.7	0.5	0.5	0.6
2.2 Debt Securities	0.4	0.6	0.6	0.7	0.6
3. Other Investment	15.9	17.6	14.0	16.4	24.4
3.1 Trade Credits	2.2	0.4	0.1	0.3	4.1
3.2 Loans	1.9	2.6	1.6	2.2	3.6
3.3 Currency and Deposits	8.4	11.2	8.8	10.3	12.9
3.4 Other Assets	3.4	3.5	3.5	3.6	3.8
4. Reserve Assets	141.5	151.6	162.9	165.3	177.3
	(19.8)	(19.0)			
<b>B. Liabilities</b>	<b>210.0</b>	<b>231.3</b>	<b>237.3</b>	<b>246.0</b>	<b>267.7</b>
	<b>(29.4)</b>	<b>(28.9)</b>			
1. Direct Investment	44.0	50.7	51.6	55.1	65.3
	(6.2)	(6.3)			
2. Portfolio Investment	55.7	64.6	64.7	67.4	73.6
	(7.8)	(8.1)			
2.1 Equity Securities	43.2	54.7	52.5	54.8	60.0
2.2 Debt Securities	12.5	9.9	12.2	12.6	13.6
3. Other Investment	110.3	116.0	121.0	123.5	128.8
	(15.4)	(14.5)			
3.1 Trade Credits	9.6	10.5	10.9	12.4	11.8
3.2 Loans	65.7	68.2	70.7	72.2	76.2
3.3 Currency and Deposits	33.6	36.2	38.2	37.5	39.4
3.4 Other Liabilities	1.4	1.1	1.2	1.4	1.4
<b>C. Net Position (A-B)</b>	<b>-41.8</b>	<b>-47.8</b>	<b>-45.2</b>	<b>-47.8</b>	<b>-43.2</b>
	<b>(-5.9)</b>	<b>(-6.0)</b>			

PR : Partially Revised. P : Provisional.  
**Note :** Figures in parentheses are percentages to GDP

The trade deficit widened to US \$ 13.3 billion in April-May 2007 from US \$ 8.2 billion in April-May 2006 (Table 59).

**Table 59: India's Merchandise Trade**

(US \$ billion)				
Item	2005-06	2006-07	2006-07	2007-08
			April-May	
1	2	3	4	5
Exports	103.1	124.6	18.6	22.4
Imports	149.2	181.3	26.9	35.7
Oil	44.0	57.3	8.8	9.2
Non-oil	105.2	124.0	18.0	26.5
Trade Balance	-46.1	-56.7	-8.2	-13.3
Non-Oil Trade Balance	-13.6	-14.7 *	-1.8	-
			Variation (per cent)	
Exports	23.4	20.9	19.2	20.2
Imports	33.8	21.6	16.9	33.0
Oil	47.3	30.4	39.1	3.7
Non-oil	28.8	17.9	8.4	47.3

\* : April-February. - : not available.  
**Source :** DGCI&S.

Available information on capital flows indicates that FDI inflows were US \$ 1.6 billion during April 2007 (US \$ 0.7 billion a year ago). During 2007-08 (up to July 13, 2007), FIIs registered net inflows of US \$ 8.4 billion as compared with net outflows of US \$ 2.0 billion in the corresponding period of 2006-07. Non-resident deposits registered net outflows amounting to US \$ 274 million during April 2007 as against net inflows of US \$ 253 million during April 2006.

India's foreign exchange reserves were US \$ 222.0 billion on July 20, 2007, an increase of US \$ 22.9 billion over end-March 2007 level (Table 60). 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.

India's foreign exchange reserves increased from US\$ 5.8 billion at end-March 1991 to US \$ 199.2 billion by end-March 2007. The accretion to foreign exchange reserves was on account of net capital flows, which amounted to US \$ 212.2 billion over the period, partly offset by a deficit of US \$ 34.1 billion in current account. Valuation changes also added US \$ 15.3 billion to reserves. Of the components of capital flows, cumulative foreign investment inflows (net) amounted to US \$ 109.3 billion (including US \$ 52.0 billion under FII inflows), external commercial borrowings (net) were US \$ 37.6 billion and net inflows under NRI deposits were US \$ 29.2 billion.

A comparison of major reserve holding countries over the period 2000-2006 shows that current account surpluses accounted for 179 per cent and 138 per cent of accretion to reserves in Japan and Russia, respectively, and 56 per cent each in case of China and Korea. In contrast, in India, over the same period, accretion to foreign exchange reserves was almost entirely due to capital inflows. While net capital inflows were US \$ 143.9 billion during 2000-2006, total reserves increased by US \$ 143.8 billion over the same period.

**Table 60: Foreign Exchange Reserves**

Month	(US \$ million)				
	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
March 2007	6,784	2	191,924	469	199,179
April 2007	7,036	11	196,899	463	204,409
May 2007	6,911	1	200,697	459	208,068
June 2007	6,787	1	206,114	460	213,362
July 2007 *	6,787	1	214,790	465	222,043

\* : As on July 20, 2007.