Macroeconomic and Monetary Developments

Third Quarter Review 2007-08

Issued with the Third Quarter Review of the
Annual Statement on Monetary Policy for 2007-08

January 29, 2008
Reserve Bank of India
Mumbai

Macroeconomic and Monetary Developments

Third Quarter Review 2007-08

Reserve Bank of India
Mumbai

Contents

I. THE REAL ECONOMY

The Indian economy continued to exhibit robust growth during the second quarter (July-September) of 2007-08, *albeit* with some moderation. According to the Central Statistical Organisation (CSO), real GDP growth moderated to 8.9 per cent during the second quarter of 2007-08 from 10.2 per cent in the corresponding period of 2006-07. Real GDP growth during the first half of 2007-08 was estimated at 9.1 per cent as compared with 9.9 per cent in the corresponding period of 2006-07 (Table 1 and Chart 1). While agriculture and allied activities recorded higher growth during the first half of 2007-08 over the corresponding period of the previous year, the growth in industrial and services sectors was somewhat lower than in the previous year.

Table 1: Growth Rates of Real GDP (At 1999-2000 prices)

(Per cent)

Sector	2000-01 to 2006-07 (Average)	2005-06*	2006-07#	2006-07				2007-08		2006-07	2007-08
				Q1	Q2	Q3	Q4	Q1	Q2	April-September	
1	2	3	4	5	6	7	8	9	10	11	12
1. Agriculture and Allied Activities	**2.5 (21.4)**	**6.0 (19.7)**	**2.7 (18.5)**	**2.8**	**2.9**	**1.6**	**3.8**	**3.8**	**3.6**	**2.8**	**3.7**
2. Industry	**7.0 (19.6)**	**8.0 (19.4)**	**11.0 (19.6)**	**10.6**	**11.3**	**10.8**	**11.2**	**10.6**	**8.3**	**11.0**	**9.5**
2.1 Mining and Quarrying	4.6	3.6	5.1	3.7	3.9	5.5	7.1	3.2	7.7	3.8	5.4
2.2 Manufacturing	7.7	9.1	12.3	12.3	12.7	11.8	12.4	11.9	8.6	12.5	10.2
2.3 Electricity, Gas and Water Supply	4.8	5.3	7.4	5.8	8.1	9.1	6.9	8.3	7.3	6.9	7.8
3. Services	**8.6 (59.0)**	**10.3 (60.9)**	**11.0 (61.8)**	**11.6**	**11.7**	**10.9**	**10.0**	**10.6**	**10.3**	**11.6**	**10.5**
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	10.3	10.4	13.0	12.4	14.2	13.1	12.4	12.0	11.4	13.3	11.7
3.2 Financing, Insurance, Real Estate and Business Services	7.9	10.9	10.6	10.8	11.1	11.2	9.3	11.0	10.6	10.9	10.8
3.3 Community, Social and Personal Services	6.0	7.7	7.8	11.3	8.3	6.7	5.7	7.6	7.8	9.7	7.7
3.4 Construction	9.9	14.2	10.7	10.5	11.1	10	11.2	10.7	11.1	10.8	10.9
4. Real GDP at Factor Cost	**6.9 (100.0)**	**9.0 (100.0)**	**9.4 (100.0)**	**9.6**	**10.2**	**8.7**	**9.1**	**9.3**	**8.9**	**9.9**	**9.1**

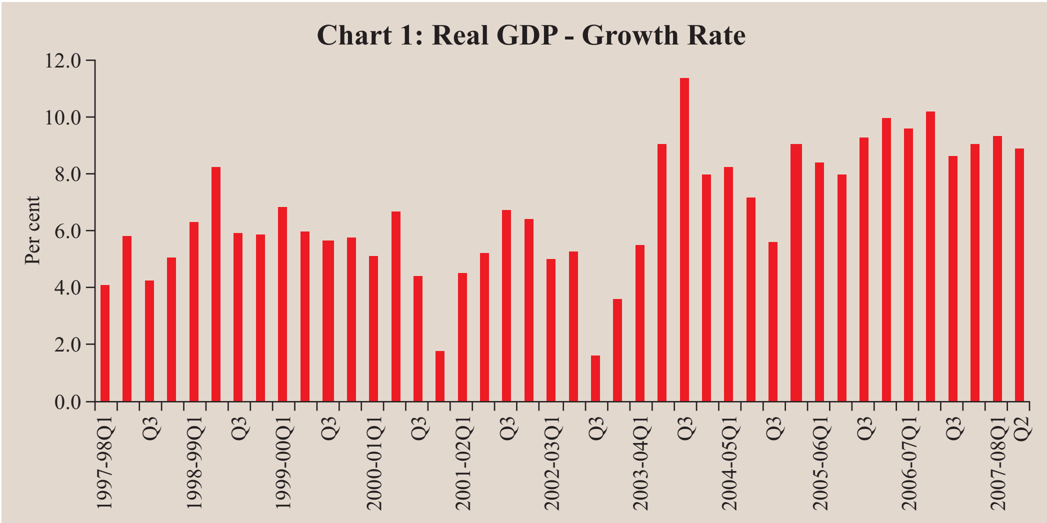
Memo: (Amount in Rupees crore)

	2005-06*	2006-07#
a) Real GDP at factor cost	26,04,532	28,48,157
b) GDP at current market prices	35,67,177	41,25,725

*: Quick Estimates. #: Revised Estimates

Note : Figures in parentheses denote shares in real GDP.

Source : Central Statistical Organisation (CSO).



Agricultural Situation

Cumulative rainfall during the 2007 South-West monsoon season (June 1 to September 30) turned out to be 5 per cent above normal. The seasonal rainfall was well-distributed over time, barring the short spells of rainfall deficiency during the first week of June, third and fourth weeks of July and third week of August. At the end of the season (as on September 27, 2007), water stock in 81 major reservoirs was 79 per cent of the full reservoir level (FRL), lower than 87 per cent during the corresponding period of the previous year, but higher than the average of 67 per cent over the last 10 years. Cumulative rainfall during the North-East monsoon (October 1, 2007 to December 31, 2007) was, however, 32 per cent below normal as compared with 21 per cent below normal during the corresponding period of the previous year. Of the 36 meteorological sub-divisions, cumulative rainfall was deficient/scanty/no rain in 27 sub-divisions (same as last year) (Table 2). As on January 17, 2008, the total live water storage was 55 per cent of the FRL (59 per cent last year).

The sowing of *kharif* crops improved during 2007-08 on account of satisfactory rainfall during the South-West monsoon and remunerative market prices. The reported sown area as on October 26, 2007 was about 2.7 per cent higher than the previous year (Table 3). In contrast, area sown under *rabi* crops so far (up to January 18, 2008) has been about 3.7 per cent lower than a year ago. *Rabi* sowing was lower in case of rice, wheat, pulses and oilseeds, but higher in case of coarse cereals than in the previous year.

Table 2: Rainfall during South-West and North-East Monsoon

(Number of Meteorological Divisions)

Year	South-West Monsoon					North-East Monsoon				
	Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain	Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain
1	2	3	4	5	6	7	8	9	10	11
1998	6	12	21	3	0	-	28	6	1	1
1999	-4	3	26	7	0	-	20	7	6	3
2000	-8	5	23	8	0	-	0	4	13	19
2001	-8	1	30	5	0	-	14	10	9	3
2002	-19	1	14	19	2	-33	3	7	12	14
2003	2	7	26	3	0	9	9	9	6	12
2004	-13	0	23	13	0	-11	8	10	17	1
2005	-1	9	23	4	0	10	11	6	5	14
2006	-1	6	20	10	0	-21	3	6	14	13
2007	5	13	17	6	0	-32	2	7	9	18

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 to -99 per cent. No Rain: -100 per cent.
Source : India Meteorological Department.

The First Advance Estimates for 2007-08 have placed the total *kharif* foodgrains production at 112.2 million tonnes, which though lower than the target, was about 1.6 per cent higher than that of the previous year (110.5 million

Table 3: Progress of Area under Crops - 2007-08

(Million hectares)

Crop	Normal Area	Area Coverage			Crop	Normal Area	Area Coverage (As reported on January 18, 2008)		
		2006	2007	Variation			2006	2007	Variation
1	2	3	4	5	1	2	3	4	5
***Kharif* Crops**					***Rabi* Crops**				
Rice	38.2	37.1	37.3	0.2	Rice	3.7	0.9	0.8	-0.1
Coarse Cereals	22.9	22.1	22.0	-0.1	Wheat	26.2	28.0	27.4	-0.6
of which:					Coarse Cereals	6.4	6.4	6.5	0.1
Bajra	9.4	9.3	8.7	-0.6	*of which:*				
Jowar	4.4	3.8	3.6	-0.2	Jowar	5.0	4.7	4.6	-0.1
Maize	6.2	6.8	7.5	0.6	Maize	0.7	0.8	0.9	0.1
Total Pulses	10.9	11.4	12.6	1.2	Total Pulses	11.4	13.7	12.9	-0.8
Total *Kharif* Oilseeds	15.4	16.8	17.7	0.9	Total *Rabi* Oilseeds	8.8	9.5	8.5	-1.0
of which:					*of which:*				
Groundnut	5.5	4.8	5.4	0.6	Groundnut	0.8	0.7	0.6	-0.1
Soyabean	6.6	8.1	8.8	0.6	Rapeseed/Mustard	5.9	6.6	5.9	-0.7
Sugarcane	4.2	4.8	5.1	0.3	Sunflower	1.2	1.1	0.9	-0.2
Cotton	8.3	9.0	9.3	0.4					
All Crops	**100.8**	**102.1**	**104.9**	**2.7**	**All Crops**	**56.5**	**58.5**	**56.3**	**-2.2**

Source : Ministry of Agriculture, Government of India.

tonnes) (Table 4). The enhanced *kharif* foodgrains production is expected to be largely on account of the recovery in the production of pulses and maize. Amongst the non-foodgrains, while the production of sugarcane, jute and mesta, and cotton are expected to witness modest growth over the previous year, that of oilseeds is likely to show a significant increase.

Food Management

Total procurement of rice and wheat during 2007-08 (up to January 9, 2008) aggregated 30.1 million tonnes, which was higher by 1.5 per cent than that procured during the corresponding period of the previous year mainly on account of a 20.6 per cent increase in wheat procurement at 11.1 million tonnes. Total offtake of rice and wheat during 2007-08 (up to October 31, 2007) at 21.4 million tonnes was marginally lower, by 0.5 per cent, than the 21.5 million tonnes offtake during the corresponding period of the previous year. As on November 1, 2007, total stocks of foodgrains with the Food Corporation of India (FCI) and other Government agencies were at around

Table 4: Agricultural Production

(Million tonnes)

Crop	2003-04	2004-05	2005-06	2006-07*	2007-08	
					T	A@
1	2	3	4	5	6	7
Rice	88.5	83.1	91.8	92.8	93.0	
Kharif	78.6	72.2	78.3	80.1	80.0	80.2
Rabi	9.9	10.9	13.5	12.7	13.0	
Wheat	72.2	68.6	69.4	74.9	75.5	
Coarse Cereals	37.6	33.5	34.1	34.3	37.5	
Kharif	32.2	26.4	26.7	25.7	28.7	26.6
Rabi	5.4	7.1	7.3	8.6	8.8	
Pulses	14.9	13.1	13.4	14.2	15.5	
Kharif	6.2	4.7	4.9	4.7	5.5	5.5
Rabi	8.7	8.4	8.5	9.5	10.0	
Total Foodgrains	213.2	198.4	208.6	216.1	221.5	
Kharif	117.0	103.3	109.9	110.5	114.2	112.2
Rabi	96.2	95.1	98.7	105.6	107.3	
Total Oilseeds	25.2	24.4	28.0	23.9	30.0	
Kharif	16.7	14.1	16.8	13.9	18.5	16.1
Rabi	8.5	10.2	11.2	9.9	11.5	
Sugarcane	233.9	237.1	281.2	345.3	310.0	345.6
Cotton #	13.7	16.4	18.5	22.7	22.0	22.9
Jute and Mesta ##	11.2	10.3	10.8	11.3	11.0	11.3

T : Target. A : Achievement.
@ : First Advance Estimate for *Kharif* Production (September 19, 2007). * : Fourth Advance Estimates.
# : Million bales of 170 kgs each. ## : Million bales of 180 kgs each.
Source : Ministry of Agriculture, Government of India.

19.7 million tonnes, which were higher by 5.7 per cent than a year ago (18.7 million tonnes). Commodity-wise, the stock of rice (10.7 million tonnes) was lower by 14.9 per cent than that of the previous year (12.5 million tonnes), while the stock of wheat (9.0 million tonnes) was 50.6 per cent higher than that of the previous year (6.0 million tonnes) (Table 5).

Industrial Performance

Growth in the index of industrial production (IIP) moderated to 9.2 per cent during April-November 2007 from 10.9 per cent during April-November 2006 (Chart 2).

Table 5: Management of Food Stocks

(Million tonnes)

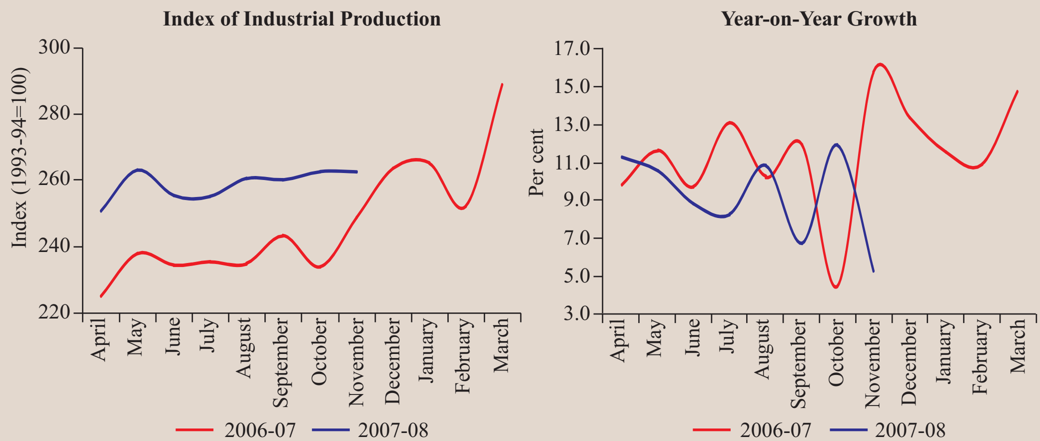
Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains Off-take					Closing Stock	Norms
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS	Exports - Domestic	Total		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05	13.1	6.9	20.7	24.0	16.8	40.8	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	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#	13.7	2.0	16.6	20.4	9.2	29.6	18.4	3.1	0.0	0.0	21.5		
2007-08#	13.2	4.6	17.8	18.9	11.1	30.1	19.3	2.1	0.0	0.0	21.4		
2006													
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	
2007													
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	2.8	0.2	0.0	0.0	3.0	25.9	
June	12.6	13.3	25.9	1.3	0.7	2.0	2.7	0.4	0.0	0.0	3.1	23.9	
July	11.0	12.9	23.9	0.8	0.0	0.8	2.9	0.4	0.0	0.0	3.3	21.2	26.9
August	9.2	12.0	21.2	0.1	0.0	0.1	2.8	0.3	0.0	0.0	3.1	18.0	
September	6.9	11.0	18.0	0.0	0.1	0.1	2.7	0.3	0.0	0.0	3.0	15.6	
October	5.5	10.1	15.6	7.4	0.0	7.4	2.7	0.3	0.0	0.0	3.0	19.7	16.2
November	10.7	9.0	19.7	1.8	0.0	1.8	–	–	–	–	–	–	
December	–	–	–	3.5	0.0	3.5	–	–	–	–	–	–	
January *	–	–	–	1.6	0.0	1.6	–	–	–	–	–	–	

PDS: Public Distribution System. OWS: Other Welfare Schemes. OMS : Open Market Sales. – : Not Available.
: Procurement up to January 9, and offtake up to October 31. *: Procurement up to January 9, 2008.

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.

Chart 2: Industrial Production



The manufacturing sector recorded a lower growth of 9.8 per cent during April-November 2007 as compared with 11.8 per cent during April-November 2006. Mining sector recorded a growth of 4.9 per cent as compared with 4.2 per cent, while the electricity sector moderated to 7.0 per cent as compared with 7.3 per cent during April-November 2006 (Table 6).

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

(Per cent)

Industry Group	Weight in IIP	Growth Rate			Weighted Contribution#		
		April-March	April-November		April-March	April-November	
		2006-07	2006-07	2007-08 P	2006-07	2006-07	2007-08 P
1	2	3	4	5	6	7	8
Sectoral							
Mining	10.5	5.3	4.2	4.9	3.4	2.8	3.6
Manufacturing	79.4	12.5	11.8	9.8	91.1	91.2	89.9
Electricity	10.2	7.3	7.3	7.0	5.5	6.0	6.6
Use-Based							
Basic Goods	35.6	10.3	9.4	8.4	27.2	26.8	27.6
Capital Goods	9.3	18.2	17.4	20.8	17.6	17.1	25.4
Intermediate Goods	26.5	12.0	11.1	10.1	27.0	27.2	29.3
Consumer Goods (a+b)	28.7	10.1	9.9	5.2	28.5	29.2	18.0
a) Consumer Durables	5.4	9.2	12.4	-1.7	6.7	9.7	-1.6
b) Consumer Non-durables	23.3	10.4	8.9	7.8	21.8	19.4	19.7
General	**100.0**	**11.5**	**10.9**	**9.2**	**100.0**	**100.0**	**100.0**

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

The moderation in manufacturing sector growth was due to decelerated/ negative growth of eleven out of the seventeen manufacturing industry groups accounting for 49.3 per cent weight in the IIP (Table 7). These, among others, included 'machinery and equipment', 'basic metal and alloy industries', 'rubber, plastic, petroleum and coal products','cotton textiles', 'non-metallic mineral products', and 'transport equipment and parts'. 'Metal products and parts' group recorded a decline due to the perfomance of tin metal containers, welded link chains and razor blades. The 'leather and leather and fur products' group, however, made a turnaround to register positive growth during the period.

In terms of use-based classification, the capital and intermediate goods sectors recorded double digit growth during April-November 2007 (see Table 6).

Table 7: Growth of Manufacturing Groups

(Per cent)

Industry Group	Weight in IIP	Growth Rate			Weighted Contribution#		
		April-March	April-November		April-March	April-November	
		2006-07	2006-07	2007-08P	2006-07	2006-07	2007-08 P
1	2	3	4	5	6	7	8
1. Food products	9.1	8.7	2.5	6.8	5.7	1.5	4.4
2. Machinery and equipment other than transport equipment	9.6	14.2	15.0	12.2	18.2	20.0	20.3
3. Chemicals and chemical products except products of petroleum and coal	14.0	9.4	9.2	9.4	15.0	16.0	19.3
4. Basic metal and alloy Industries	7.5	22.9	20.5	15.6	16.6	15.8	15.7
5. Wood and wood products, furniture and fixtures	2.7	29.1	2.4	72.6	2.4	0.2	7.4
6. Rubber, plastic, petroleum and coal products	5.7	12.9	12.0	10.8	6.4	6.4	6.9
7. Non-metallic mineral products	4.4	12.9	13.6	8.4	6.6	7.4	5.6
8. Beverages, tobacco and related products	2.4	11.1	13.1	9.5	4.5	5.7	5.1
9. Cotton textiles	5.5	14.8	13.1	5.5	4.8	4.7	2.4
10. Transport equipment and parts	4.0	15.0	16.3	2.7	8.2	9.5	2.0
11. Textile products (including wearing apparel)	2.5	11.5	12.2	4.9	3.2	3.7	1.8
12. Leather and leather and fur products	1.1	0.4	-3.4	12.2	0.0	-0.3	1.1
13. Metal products and parts (except machinery and equipment)	2.8	11.4	7.0	-4.4	2.3	1.5	-1.1
14. Jute and other vegetable fibre textiles (except cotton)	0.6	-15.8	2.3	13.3	-0.4	0.1	0.4
15. Wool, silk and man-made fibre textiles	2.3	8.1	7.6	4.5	1.9	2.0	1.4
16. Paper and paper products and printing, publishing and allied activities	2.7	8.4	8.9	1.6	2.3	2.5	0.5
17. Other manufacturing industries	2.6	7.7	10.8	19.1	2.4	3.4	7.2
Manufacturing - Total	**79.4**	**12.5**	**11.8**	**9.8**	**100.0**	**100.0**	**100.0**

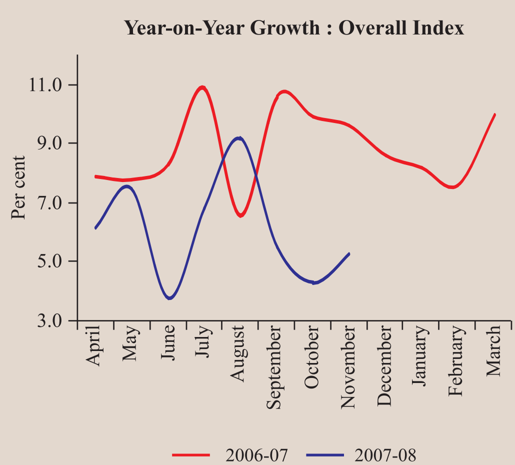
P : Provisional. # : Figures may not add up to 100 due to rounding off.
Source: Central Statistical Organisation.

The sustained high growth in the capital goods sector was driven by increased capital expenditure undertaken by manufacturing firms to augment their production capacities. Growth in the intermediate goods sector was driven by increased production of particle board, plywood commercial, PVC pipes and tubes and metalise bopp films. Growth of the consumer goods sector decelerated to 5.2 per cent during April-November 2007 from 9.9 per cent during April-November 2006 – largely reflecting the sharp decline in the consumer durables segment. The negative growth in the consumer durables was on account of decline in production of telephone instruments, T.V. receiver, motorcycles, *etc.* The growth of the basic goods sector moderated to 8.4 per cent during April-November 2007 from 9.4 per cent during April-November 2006 due to decelerated growth in the cement sector and some aluminium and steel products.

Infrastructure

During April-November 2007, the infrastructure sector recorded a lower growth of 6.0 per cent than a year ago (8.9 per cent) reflecting slow down in all the sectors (Chart 3). High base, decline in refinery output in some public sector refineries and lower capacity utilisation led to the moderation in growth of petroleum refinery products. A sharp deceleration in crude oil production was attributable to decline in production in some of the Oil and Natural Gas Corporation (ONGC) and Oil India Limited wells. Lower growth in the coal sector was mainly on account of decline in production in some of the subsidiaries of Coal India Limited. Capacity constraints faced by major steel producers combined with high base slowed down the growth of the steel sector. High base coupled with capacity constraints have led to moderation in cement sector.

Chart 3: Growth in Infrastructure Industries



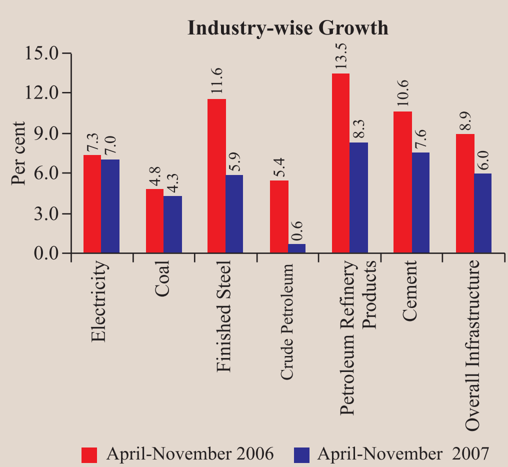


Table 8 : Growth in Services Sectors

(Contribution to real GDP growth; percentage points)

Year/Quarter	Construction	Trade, Hotels, Transport 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
2007-08: Q1	0.7	3.1	1.6	1.1	6.5
2007-08: Q2	0.8	3.1	1.6	1.2	6.6

Services Sector

During the first half of 2007-08, the services sector continued to record double digit growth of 10.5 per cent, though lower than that of 11.6 per cent growth during the corresponding period of the previous year. The services sector continued to be the main driver of growth of the economy, contributing 72.1 per cent to real GDP growth. Services sector activity was led by the sub-sector 'trade, hotel, transport and communication' which contributed nearly 47.5 per cent to growth in services sector during the first half of 2007-08 (Table 8). The 'construction' sub-sector grew by 11.1 per cent during the second quarter of 2007-08, thereby recording double digit growth for eighteen consecutive quarters.

Leading indicators of service sector activity for April-October 2007 show that growth rates in revenue earning freight traffic of the railways, commercial vehicles production, new cell phone connections, passengers handled by civil aviation at domestic terminals, cement and steel moderated *albeit* over a high base (Table 9).

Aggregate Demand

Growth of the Indian economy continued to be driven by domestic demand, particularly gross fixed capital formation (GFCF). While private final consumption demand contributed 36.3 per cent to the incremental growth in real GDP during July-September 2007 (34.9 per cent during July-September 2006), the contribution of real GFCF was 49.4 per cent (34.6 per cent a year ago). The growth rate of private final consumption expenditure (PFCE) was estimated at 5.6 per cent in the second quarter of 2007-08 as compared with 6.3 per cent in the

Table 9: Indicators of Service Sector Activity

(Growth rates in per cent)

Sub-sector	2005-06	2006-07	April-November 2006	April-November 2007
1	2	3	4	5
Tourist arrivals	12.4	13.6	12.2	11.9
Commercial vehicles production #	10.6	33.0	29.5 *	5.3 *
Railway revenue earning freight traffic	10.7	9.2	10.1	8.0
New cell phone connections	89.4	85.4	121.0	44.6
Cargo handled at major ports	10.4	9.5	8.0	13.1
Civil aviation				
a) Export cargo handled	7.3	3.6	4.6	0.2
b) Import cargo handled	15.8	19.4	19.8	22.3
c) Passengers handled at international terminals	12.8	12.1	11.7	13.4
d) Passengers handled at domestic terminals	27.1	34.0	37.4	25.9
Cement * *	10.7	9.1	10.6	7.6
Steel * *	10.8	8.0	11.6	5.9
Aggregate deposits	18.1	23.7	13.2@	14.6@
Non-food credit	31.8	28.4	17.5@	11.8@

* : April-October. @: Up to January 4, 2008.

\# : Leading indicator for transportation. * * : Leading indicators for construction.

Source: Ministry of Tourism, Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Reserve Bank of India and Centre for Monitoring Indian Economy.

corresponding quarter of 2006-07. The growth rate of real GFCF accelerated to 15.2 per cent from 13.3 per cent in the corresponding period of 2006-07 (Table 10). The expenditure composition of real GDP indicates a decline in the share of real PFCE to 55.2 per cent in the second quarter of 2007-08 from 56.9 per cent in the corresponding period of 2006-07. On the other hand, share of real GFCF, as per cent to GDP, increased to 30.3 per cent from 28.6 per cent.

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

(Growth rates in per cent)

Item	2005-06	2006-07	2006-07				2007-08		2006-07	2007-08
	QE	RE	Q1	Q2	Q3	Q4	Q1	Q2	April-September	
1	2	3	4	5	6	7	8	9	10	11
1. Total Final Consumption Expenditure	7.2	6.6	11.8	3.7	5.1	6.1	6.5	6.5	7.8	6.5
a) Private Final Consumption Expenditure (PFCE)	6.7	6.2	6.5	6.3	6.0	6.0	5.6	5.6	6.4	5.6
b) Government Final Consumption Expenditure	9.8	9.0	47.6	-9.7	0.4	6.6	10.5	12.0	15.8	11.1
2. Gross Fixed Capital Formation (GFCF)	15.3	14.6	15.8	13.3	15.5	14.1	15.9	15.2	14.5	15.5
3. Change in Stocks	69.0	10.2	10.2	10.6	9.7	10.3	8.4	8.6	10.4	8.5
4. Valuables	0.4	38.0	38.4	47.1	29.8	37.8	10.5	19.6	42.5	15.0
5. Exports	5.9	8.6	10.3	18.9	-1.9	8.7	5.5	4.4	14.4	5.0
6. Imports	10.3	11.4	11.7	18.7	4.8	11.3	16.1	-0.5	15.1	7.9
Memo:										
Real GDP at market prices	9.2	9.4	8.1	10.7	9.0	9.6	9.2	8.8	9.4	9.0

QE: Quick Estimates. RE: Revised Estimates.

Source : Central Statistical Organisation.

Corporate Performance

The performance of non-government non-financial companies slowed somewhat in the two quarters of 2007-08 (Table 11). Sales during the second quarter of 2007-08 grew by 16.0 per cent as compared with 29.2 per cent in second quarter of 2006-07. The growth in net profits moderated sharply to 22.7 per cent from 49.4 per cent a year ago. The growth in gross profits at 22.1 per cent during the second quarter of 2007-08 was the lowest in the last six quarters.

Business Expectation Survey

Despite continued strength in domestic fundamentals, business confidence indices compiled by various agencies indicate some softening of sentiment against the backdrop of elevated international crude oil prices and global uncertainties (Table 12).

According to the latest business confidence survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) in December 2007, the overall business confidence index during October 2007-March 2008 declined both over the previous quarter and over a year ago, reflecting mainly concerns

Table 11: Corporate Financial Performance

(Growth rates in per cent)

Item	2005-06	2006-07	2006-07	2007-08	2006-07				2007-08	
			April-September		Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11
Sales	16.3	26.2	27.4	17.4	25.6	29.2	30.3	22.5	19.2	16.0
Total Expenditure	16.7	23.5	25.6	16.9	24.6	26.6	26.9	19.5	19.3	15.5
Depreciation	8.1	15.4	16.1	15.1	14.9	16.4	16.8	18.1	18.1	15.8
Gross Profits	24.6	41.5	39.8	28.1	33.9	45.9	51.8	39.2	28.6	22.1
Interest Payments	-2.0	17.4	20.8	10.1	19.9	18.0	11.9	32.3	4.4	18.4
Profits After Tax	32.8	45.2	41.6	31.1	34.7	49.4	59.5	39.6	33.9	22.7
					Select Ratios					(Per cent)
Gross Profits to Sales	12.2	15.6	15.6	16.9	15.6	15.9	15.8	15.3	16.7	16.6
Profits After Tax to Sales	8.2	10.7	10.6	11.7	10.6	11.0	11.0	10.6	11.6	11.5
Interest to Sales	2.2	2.1	2.2	2.0	2.2	2.0	2.0	2.0	2.0	2.1
Interest to Gross Profits	18.1	13.3	14.1	11.9	13.9	12.8	12.5	13.0	11.7	12.6
Interest Coverage(Times)	5.5	7.5	7.1	8.4	7.2	7.8	8.0	7.7	8.5	7.9
Memo:										(Amount in Rs. crore)
No. of Companies	2,730	2,388	2,053	2,082	2,228	2,263	2,258	2,356	2,342	2,228
Sales	7,35,216	10,41,894	4,24,565	5,36,358	2,34,610	2,51,125	2,60,064	2,94,223	2,80,814	2,97,110
Expenditure	6,43,826	8,72,168	3,53,505	4,45,086	1,95,556	2,09,437	2,16,053	2,48,740	2,34,596	2,47,425
Depreciation Provision	28,961	37,095	15,710	19,347	8,449	8,892	9,172	10,338	10,173	10,576
Gross Profits	90,179	1,62,017	66,265	90,472	36,567	40,041	41,169	45,108	46,925	49,228
Interest Payments	16,302	21,500	9,358	10,760	5,083	5,121	5,162	5,862	5,504	6,194
Profits After Tax	60,236	1,11,107	44,927	62,846	24,845	27,710	28,698	31,251	32,699	34,266

Notes: 1. Data for 2005-06 are based on audited balance sheet, while those for 2006-07 and 2007-08 are based on abridged financial results of the select non-Government non-financial public limited companies.

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

3. The quarterly data may not add up to annual data due to differences in the number and composition of companies covered in each period.

Table 12: Business Expectations Surveys

(Per cent)

Agency	Business Expectations		Growth over a year ago	Growth over previous round
	Period	Index		
1	2	3	4	5
NCAER	October 2007-March 2008	Business Confidence Index	-4.3	5.8
FICCI	October 2007-March 2008	Business Confidence Index	-15.1	-10.5
RBI	January-March 2008	Business Expectation Index	-6.2	-4.7
Dun & Bradstreet	January-March 2008	Business Optimism Index	-13.2	-12.6

over rupee appreciation, hardening of interest rates, rising cost of raw materials, particularly oil, and global uncertainties. Fifty-three per cent of the respondents who participated in the survey indicated the current overall economic conditions to be 'moderately to substantially better' than in the preceding six months as against 70 per cent reported in the last survey.

According to the survey by the National Council of Applied Economic Research (NCAER) conducted in October 2007, the overall business confidence index (BCI) for the next six months declined on a year-on-year basis, but improved over the previous round of the survey. A component-wise analysis shows that while expectation about present capacity utilisation (being close to or above optimal level) registered a marginal decline, the other three major components, *viz*., overall economic conditions, investment climate, financial position of the firms recorded an improvement over the previous round. Amongst the various industry sectors, the maximum gain in business confidence was noticed in the capital goods and services sectors, while the minimum gain was expected in the consumer non-durable sector.

According to the Reserve Bank's latest Industrial Outlook Survey, the business expectations indices based on assessment for October-December 2007 and on expectations for January-March 2008 declined by 2.5 per cent and 4.7 per cent, respectively, over the previous quarters.

The decline in expectations index for January-March 2008 emanated from lower net responses for major parameters of the survey such as the overall business situation, availability of finance, production, order books, capacity utilisation, employment, exports and profit margins over the previous quarter (Table 13 and Chart 4).

Purchasing Managers' Index

The ABN-AMRO Purchasing Managers' Index (PMI), which provides the indicators related to the performance of the manufacturing sector, however, rose by 1.6 per cent in December 2007 over the preceding month, signalling a marked improvement in the health of the Indian manufacturing sector. The rise in the PMI was underpinned by sharp increases in new business volumes and a marked expansion of production. Employment levels and stocks of purchases also continued to rise. The seasonally adjusted Output Index increased by 0.6 per cent in

Table 13: Reserve Bank's Survey - Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance

(Per cent)

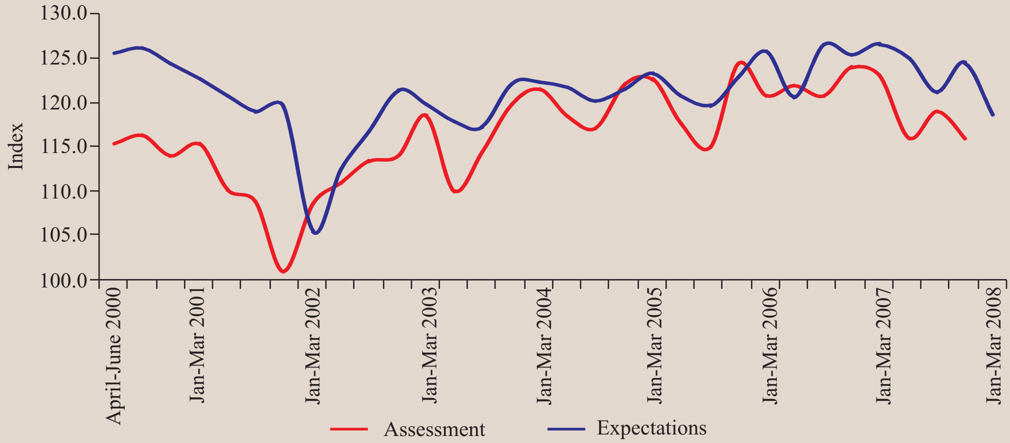
Parameter	Response	Oct-Dec. 2006	Jan-March 2007	Apr-June 2007	July-Sept 2007	Oct-Dec. 2007	Jan-Mar 2008
1	2	3	4	5	6	7	8
1. Overall business situation	Better	51.8	53.7	51.7	49.5	50.2	47.7
		(41.2)	(40.7)	(43.3)	(41.2)	(42.1)	(42.9)
2. Financial situation	Better	41.9	44.5	43.8	41.3	40.1	40.3
		(50.6)	(49.9)	(49.8)	(49.8)	(51.3)	(50.3)
3. Working capital finance requirement	Increase	35.4	36.2	35.3	34.5	32.2	34.7
		(58.3)	(59.2)	(59.2)	(59.2)	(62.6)	(60.3)
4. Availability of finance	Improve	33.4	36.2	35.2	32.1	33.8	31.1
		(57.8)	(56.6)	(57.2)	(58.6)	(58.8)	(59.5)
5. Production	Increase	49.7	50.7	47.8	46.6	49.0	43.9
		(39.6)	(40.1)	(41.6)	(41.1)	(40.9)	(42.3)
6. Order books	Increase	46.3	47.3	45.7	43.6	44.1	37.1
		(42.6)	(43.1)	(45.4)	(46.1)	(46.0)	(48.6)
7. Pending orders, if applicable	Below normal	-2.1	-2.7	-2.2	2.2	-3.5	0.4
		(81.7)	(82.9)	(82.8)	(82.6)	(82.4)	(80.2)
8. Cost of raw material	Decrease	-49.2	-41.7	-42.1	46.0	-42.4	-44.1
		(46.4)	(51.0)	(52.0)	(49.7)	(51.0)	(49.2)
9. Inventory of raw material	Below average	-6.1	-7.1	-7.3	5.4	-6.3	-7.3
		(83.5)	(83.8)	(85.0)	(85.0)	(85.0)	(84.8)
10. Inventory of finished goods	Below average	-4.9	-5.2	-4.4	2.7	-3.5	-4.5
		(83.5)	(84.5)	(85.2)	(87.1)	(86.4)	(86.1)
11. Capacity utilisation (Main product)	Increase	33.2	33.3	29.4	27.0	28.4	24.2
		(56.6)	(57.7)	(60.4)	(61.4)	(61.5)	(62.3)
12. Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	10.9	12.8	11.5	9.4	10.7	6.4
		(76.6)	(76.4)	(77.1)	(76.5)	(77.2)	(78.3)
13. Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	5.1	4.8	4.0	3.0	4.2	4.7
		(79.7)	(81.8)	(82.2)	(82.2)	(83.0)	(83.8)
14. Employment in the company	Increase	17.9	18.1	18.3	17.4	16.7	14.6
		(73.3)	(73.7)	(73.3)	(73.5)	(74.1)	(75.6)
15. Exports, if applicable	Increase	34.2	32.6	33.4	32.6	31.4	24.3
		(57.2)	(57.3)	(56.8)	(55.6)	(55.9)	(58.3)
16. Imports, if any	Increase	23.4	20.8	21.6	23.7	20.8	20.1
		(68.1)	(68)	(68.4)	(68.2)	(68.6)	(70.5)
17. Selling prices are expected to	Increase	16.8	14.2	15.5	19.0	13.0	14.9
		(68.0)	(69.2)	(68.9)(	(67.1)	(68.5)	(67.1)
18. If increase expected in selling prices	Increase at lower rate	14.5	10.5	12.1	10.4	3.7	13.3
		(67.0)	(68.1)	(66.7)	(65.0)	(58.9)	(66.7)
19. Profit margin	Increase	9.2	11.6	9.9	7.5	9.6	5.4
		(60.6)	(61.7)	(62.5)	(62.6)	(59.6)	(60.0)

Notes: 1. 'Net response' is measured as the percentage share differential between the companies reporting 'optimistic' (positive) and 'pessimistic' (negative) responses; responses indicating *status quo* (no change) are not reckoned. Higher 'net response' indicates higher level of confidence and *vice versa*.

2. Figures in parentheses are the percentages of respondents with 'no change over the preceding quarter' as responses.

December 2007 over the preceding month. Reports from the survey panel suggested favourable market conditions, leading to a sharp rise in volumes of incoming new business, and inventory build up.

Chart 4: Reserve Bank's Industrial Outlook Survey - Business Expectation Index



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

(per cent)

Agency	Latest Projection					Earlier Projection	
	Overall Growth	Agriculture	Industry	Services	Month of Projection	Overall Growth	Month
1	2	3	4	5	6	7	8
ASSOCHAM	9.0	3.5	10.0	10.5	December 2007	8.5-8.7	August 2007
JP Morgan	8.6	2.6	9.8	10.0	September 2007	8.0	March 2007
Merrill Lynch	8.8	4.0	9.5	10.0	September 2007	8.5	March 2007
ICRA	9.0	-	-	-	September 2007	8.5	April 2007
Citigroup	9.3	3.0	10.0	11.0	September 2007	9.3	April 2007
CRISIL	8.6	3.4	9.2	10.0	December 2007	7.9-8.4	March/ June 2007
Indicus Analytics	8.4	2.7	8.5	10.1	October 2007	8.4	March 2007
CMIE	9.1	3.9	9.4	10.7	January 2008	9.1	December 2007
NCAER	8.9	3.8	9.0	10.6	October 2007	8.5	August 2007
Economic Advisory Council	8.9	3.6	9.7	10.3	January 2008	9.0	July 2007
UNCTAD	8.5	-	-	-	September 2007	-	-
IMF	8.9 *	-	-	-	October 2007	9.0 *	July 2007
ADB	8.5	-	-	-	September 2007	8.0	March 2007
RBI	Around 8.5	-	-	-	October 2007	Around 8.5	July 2007

- : Not Available.
* : Calendar year.

II. FISCAL SITUATION

Combined Government Finances: 2007-08

The combined finances of the Central and State Governments for 2007-08 are expected to improve with the fiscal rule-based consolidation process that is underway. The key deficit indicators are budgeted to decline over the revised estimates for 2006-07, both in absolute terms and as percentage of GDP. The improvement in combined finances during 2007-08 would be largely brought about by the strengthening of the State Governments' finances, with the consolidated revenue account of the States envisaged to record a surplus. Buoyant tax revenue is expected to raise the revenue receipts in 2007-08, despite sluggishness in non-tax revenue. Non-developmental revenue expenditure is expected to be curtailed, thereby reducing the revenue expenditure. Consequently, the combined revenue deficit in 2007-08 is budgeted to decline by 0.8 per cent of GDP, enabling a reduction in the combined gross fiscal deficit (GFD) by 0.9 per cent of GDP in 2007-08 (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
		Centre		
2002-03	1.1	4.4	5.9	63.6
2003-04	-0.03	3.6	4.5	62.9
2004-05	-0.04	2.5	4.0	63.9
2005-06	0.4	2.6	4.1	63.4
2006-07 RE	0.2	2.0	3.7	61.5
	(-0.2)	(1.9)	(3.5)	
2007-08 BE	-0.2	1.5	3.3	59.2
		States		
2002-03	1.2	2.3	4.1	32.0
2003-04	1.5	2.3	4.4	33.0
2004-05	0.7	1.3	3.4	32.9
2005-06	0.2	0.2	2.5	32.7
2006-07 RE	0.4	0.1	2.8	30.8
2007-08 BE	0.1	-0.3	2.3	29.8
		Combined		
2002-03	3.1	6.7	9.5	80.2
2003-04	2.0	5.8	8.4	81.1
2004-05	1.4	3.8	7.5	81.9
2005-06	1.0	2.8	6.7	80.7
2006-07 RE	0.9	2.1	6.4	77.5
2007-08 BE	0.2	1.3	5.5	74.8

RE: Revised Estimates. BE: Budget Estimates.

*: Includes external liabilities at historical exchange rates.

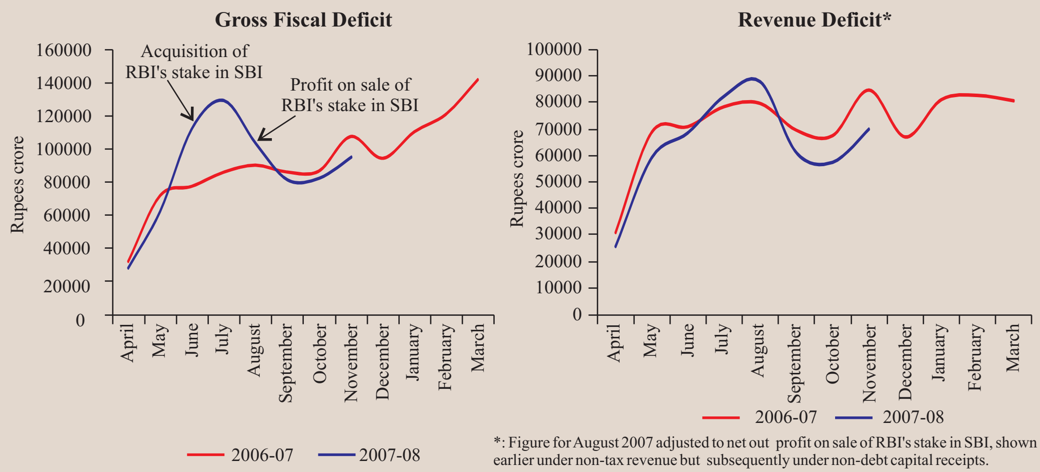
Note: 1. Figures in parentheses relate to provisional accounts.
2. Negative sign indicates surplus.
3. Data in respect of States relate to 28 States.

Centre's Fiscal Situation

According to the latest information on Central Government finances for 2007-08 (April-November), key deficit indicators, *viz.,* revenue deficit and GFD, were placed lower than those in the corresponding period of the previous year, both in absolute terms as well as per cent of budget estimates (BE) (Chart 5). Revenue deficit during April-November 2007 was placed lower than that in April-November 2006 on account of higher revenue receipts and lower revenue expenditure, as per cent of BE. Apart from the lower revenue deficit, contraction in defence capital outlay also moderated the fiscal deficit. There was a primary surplus of Rs. 7,374 crore during the first eight months of 2007-08 as compared with the budgeted surplus of Rs. 8,047 crore.

During April-November 2007, tax revenue, as per cent of BE, was higher than a year ago on account of impressive growth in income tax, corporation tax, customs duties and services tax. Receipts from new taxes, particularly fringe benefit tax and securities transaction tax, also remained buoyant in the first eight months of 2007-08. Union excise duties, however, continued to remain subdued. Non-tax revenue, as per cent of BE, was higher than a year ago on account of higher interest receipts, and dividends and profits. Aggregate expenditure (adjusted for acquisition cost of Reserve Bank's stake in SBI), as per cent of BE, was lower than a year ago. Capital outlay in the first eight months of 2007-08 showed a modest decline. While expenditure on interest payments and subsidies increased, the overall non-plan expenditure (adjusted for acquisition cost of Reserve Bank's stake in SBI) as a per cent of BE, was lower than a year ago. Non-debt capital receipts (adjusted for profit on sale of Reserve Bank's stake in SBI) were higher than the comparable budget estimate due to higher than budgeted recoveries of loans and advances, and disinvestment proceeds (Table 16).

Chart 5: Key Deficit Indicators of the Centre



*: Figure for August 2007 adjusted to net out profit on sale of RBI's stake in SBI, shown earlier under non-tax revenue but subsequently under non-debt capital receipts.

Table 16 : Central Government Finances during April-November 2007

(Rupees crore)

Item	2007-08 (Budget Estimates)	April-November		Per cent of Budget Estimates April-November	
		2006	2007	2006	2007
1	2	3	4	5	6
1. Revenue Receipts (i + ii)	4,86,422	2,21,190	2,74,633	54.8	56.5
i) Tax Revenue	4,03,872	1,76,956	2,20,372	54.1	54.6
ii) Non-tax Revenue	82,550	44,234	54,261	58.0	65.7
2. Non-Debt Capital Receipts	43,151	7,148	40,468	60.4	93.8
	(3,151)		(6,160)		(195.5)
3. Non-Plan Expenditure	4,75,421	2,45,393	2,98,756	62.7	62.8
	(4,35,421)		(2,63,225)		(60.5)
of *which:*					
i) Interest Payments	1,58,995	87,943	1,03,648	62.9	65.2
ii) Defence	96,000	43,184	40,328	48.5	42.0
iii) Subsidies	51,247	36,505	46,222	81.5	90.2
iv) Grants to States & UTs	38,403	24,538	22,428	69.4	58.4
4. Plan Expenditure	2,05,100	91,146	1,12,619	52.8	54.9
5. Revenue Expenditure	5,57,900	3,05,673	3,44,607	62.6	61.8
6. Capital Expenditure	1,22,621	30,866	66,768	40.7	54.5
	(82,621)		(31,237)		(37.8)
7. Total Expenditure	6,80,521	3,36,539	4,11,375	59.7	60.5
	(6,40,521)		(3,75,844)		(58.7)
8. Revenue Deficit	71,478	84,483	69,974	99.7	97.9
9. Gross Fiscal Deficit	1,50,948	1,08,201	96,274	72.8	63.8
			(95,051)		(63.0)
10. Gross Primary Deficit	-8,047	20,258	-7,374	–	–
			(-8,597)		

Note: Figures in parentheses are net of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.

Source: Controller General of Accounts, Ministry of Finance, Government of India.

Mid-Year Review by the Government of India

During the first half of 2007-08, fiscal and revenue deficits (as per cent of BE) were higher than the targets prescribed under the Fiscal Responsibility and Budget Management (FRBM) rules. However, the Government had comfortably met the half-yearly target for total non-debt receipts as a proportion to BE. Fiscal deficit as a proportion of BE was also lower than that in the corresponding period of the previous year. However, there was a slippage in terms of revenue deficit as a proportion to BE. The Mid-Year Review for 2007-08 of the Central Government indicated that this was due to expenditure pressures resulting from higher subsidies as well as higher interest payments on account of larger borrowing under the Market Stabilisation Scheme (MSS). The faster pace of growth in expenditure during the first-half of 2007-08 was also attributed to front-loading, reflecting the seasonality of expenditure in certain sectors, embedded institutional factors relating to transfers to States and Union Territories and cash management measures to avoid parking of funds and rush in expenditure at the year-end. The Mid-Year Review also noted that in contrast, taxes/duties have more back-loaded payment schedules, leading to a gap between expenditures and receipts during the first half of the year. The Government expressed confidence in meeting the annual FRBM targets on the strength of fiscal consolidation measures in conjunction with growth dividends.

Table 17: 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	Period 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
3.	May 4-11, 2007	6,000	10-14	May 11, 2007	6,000	9.92	8.31
		4,000	20 and above	May 11, 2007	4,000	29.06	8.64
4.	May 18-25, 2007	5,000	5-9	May 25, 2007	5,000	8.26	8.24
		3,000	15-19	May 25, 2007	3,000	14.96	8.40
5.	June 1-8, 2007	6,000	10-14	June 5, 2007	6,000	9.86	8.18
		3,000	20 and above	June 5, 2007	3,000	29.00	8.52
				June 12, 2007 *	5,000	9.84	8.44
6.	June 15-22,2007	6,000	10-14	June 15, 2007	6,000	9.83	8.35
7.	July 6-13, 2007	6,000	10-14	July 6, 2007	6,000	10.00	7.99
		4,000	20 and above	July 7, 2007	4,000	28.91	8.45
8.	July 20-27,2007	6,000	5-9	July 20, 2007	6,000	6.10	7.59
		3,000	20 and above	July 20, 2007	3,000	25.10	8.34
9.	August 3-10, 2007	6,000	10-14	August 3, 2007	6,000	9.93	7.93
		4,000	20 and above	August 3, 2007	4,000	24.87	8.45
10.	August 17-24,2007	5,000	5-9	August 24, 2007	5,000	6.02	7.87
		2,000	10-14	August 24, 2007	2,000	9.89	7.91
11.	September 7-14, 2007	4,000	10-14	September 7, 2007	4,000	14.43	8.16
		3,000	20 and above	September 7, 2007	3,000	28.74	8.41
12.	October 5-12, 2007	6,000	10-14	October 12, 2007	6,000	9.73	7.91
		4,000	20 and above	October 12, 2007	4,000	24.87	8.45
14.	October 19-26, 2007	4,000	5-9	October 26, 2007	4,000	5.84	7.74
		4,000	15-19	October 26, 2007	4,000	14.54	8.13
15.	November 2-8, 2007	5,000	10-14	November 8, 2007	5,000	14.26	8.26
		3,000	20 and above	November 8, 2007	3,000	28.57	8.39
16.	November 16-23, 2007	3,000	10-14	November 23, 2007	3,000	9.62	7.90
		4,000	15-19	November 23, 2007	4,000	14.47	8.20
17.	December 7-14, 2007	5,000	10-14	December 14, 2007	5,000	9.56	7.92
		2,000	20 and above	December 14, 2007	2,000	28.47	8.26
18.	January 4-11, 2008	6,000	10-14	January 11, 2008	6,000	9.49	7.55
		4,000	20 and above	January 11, 2008	4,000	28.40	7.89

Memo:

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 January 18, 2007)	14.56	7.86
2007-08 (up to January 18, 2008)	14.57	8.15

* : Not scheduled.

Extra-Budgetary Items

The Central Government, besides providing explicit subsidies on petroleum, food and fertiliser, has also been periodically issuing special bonds to the oil marketing companies (since 1997-98), the Food Corporation of India (FCI) (in 2006-07) and fertiliser companies (in 2007-08) to support them. The issuance of these bonds *per se* is considered to be fiscal deficit neutral since they do not involve cash flow and are, therefore, not treated as part of budgetary expenditure/receipts. However, these bonds have fiscal implications as they add to the fiscal liabilities of the Government. Furthermore, as interest payments on such bonds are treated as part of the revenue expenditure, they affect the revenue deficit and, thereby, the fiscal deficit on a continuing basis.

During 2005-06 and 2006-07, special bonds were issued by the Government to oil marketing companies amounting to Rs.17,263 crore and Rs.24,121 crore, respectively, as compensation for their under recoveries on account of sale of sensitive petroleum products. In addition, special bonds amounting to Rs.16,200 crore were issued to FCI in 2006-07. During 2007-08, special bonds amounting to Rs.7,500 crore and Rs.23,457 crore, respectively, are envisaged to be issued to fertiliser companies and oil marketing companies. During the current fiscal year (up to January 18, 2008), special bonds amounting to Rs.3,890 crore and Rs.11,257 crore, respectively, were issued to fertiliser companies (as compensation for fertiliser subsidy) and to oil marketing companies (towards estimated under recoveries during 2007-08).

Cash Management and Central Government Market Borrowings

During 2007-08 (up to January 18, 2008), the actual issuances of dated securities amounted to Rs.1,47,000 crore as against Rs.1,42,000 crore scheduled in the calendar for the same period. All auctions were reissuances of existing securities, barring one new issue (10-year security) for Rs.6,000 crore on July 9, 2007. For the first time during the current year so far, an amount of Rs.957 crore devolved on the primary dealers (PDs) during the month of November 2007. Gross and net market borrowings (including 364-day Treasury Bills) during 2007-08 (up to January 18, 2008) amounted to Rs.1,73,429 crore and Rs.1,03,977 crore, respectively, accounting for 91.8 per cent and 94.9 per cent of the estimated borrowings for the year. The weighted average maturity of dated securities issued during 2007-08 (up to January 18, 2008) at 14.57 years was marginally higher than that of 14.56 years during the corresponding period of the previous year. The weighted average yield of dated securities issued during the same period was 8.15 per cent, as compared with 7.86 per cent (Table 17).

Commencing the year 2007-08 with a surplus cash balance of Rs.50,092 crore, the Central Government took recourse to Ways and Means Advance (WMA) during the greater part of the first quarter of the year on account of higher than anticipated spending, coupled with decline in investments in Treasury Bills by the States resulting from lower collections under the National Small Saving Fund

(NSSF). The Central Government also resorted to overdraft during this period. A surplus was, however, built up in June 2007, ahead of acquisition of Reserve Bank's stake in SBI, which was used up by the month-end to meet this expenditure and the Central Government reverted to WMA. With the transfer of surplus from the Reserve Bank on August 9, 2007, the Centre's cash balance returned to a surplus mode and remained so thereafter. As on January 18, 2008, the surplus cash balance was placed at Rs.59,723 crore. During 2007-08 (up to January 18, 2008), the Centre took recourse to WMA for 91 days as compared with 39 days during the same period in 2006-07. The average utilisation of WMA/OD during 2007-08 (up to January 15, 2008) was Rs.5,315 crore as compared with Rs.500 crore in the corresponding period of the previous year.

State Finances

State Governments in their budgets for 2007-08 have committed to bring further improvement in their fiscal position in line with their Fiscal Responsibility Legislations. Notwithstanding some variations across the States, the consolidated revenue balance (of 28 State Governments) is budgeted to show a noticeable improvement in 2007-08, with a surplus of 0.3 per cent of GDP as compared with a deficit of 0.1 per cent of GDP in 2006-07 (RE). As a result, the GFD is estimated to decline to 2.3 per cent of GDP in 2007-08 (BE) from 2.8 per cent of GDP during 2006-07(RE). The consolidated primary deficit for the 28 States is budgeted at 0.1 per cent of GDP in 2007-08.

Cash Management and State Governments' Market Borrowings

The net allocation (provisional) for the market borrowings of the State Governments during 2007-08 was placed at Rs.28,781 crore. Taking into account repayment of Rs.11,555 crore during the year, and additional allocation of Rs.37,483 crore (of which Rs. 35,358 crore was on account of allocation made by the Central Government in view of expected shortfall in NSSF collection), the gross allocation of market borrowings was placed at Rs.77,818 crore for the year 2007-08. Up to January 18, 2008, the States raised market loans amounting to Rs.39,671 crore (51.0 per cent of gross allocation) through auctions, as compared with Rs.12,989 crore (48.8 per cent of gross allocation) during the corresponding period of the previous year. The cut-off yield ranged between 8.00-8.90 per cent. The weighted average interest rate on market loans firmed up to 8.35 per cent during 2007-08 (up to January 18, 2008) from 7.99 per cent in the corresponding period of the previous year (Table 18).

The average daily utilisation of WMA and overdraft by the States during 2007-08 (up to December 2007) was Rs.834 crore, as against Rs.262 crore during the corresponding period of 2006-07 (Chart 6). Eight States availed of WMA and three States resorted to overdrafts during 2007-08 (up to December 2007) as

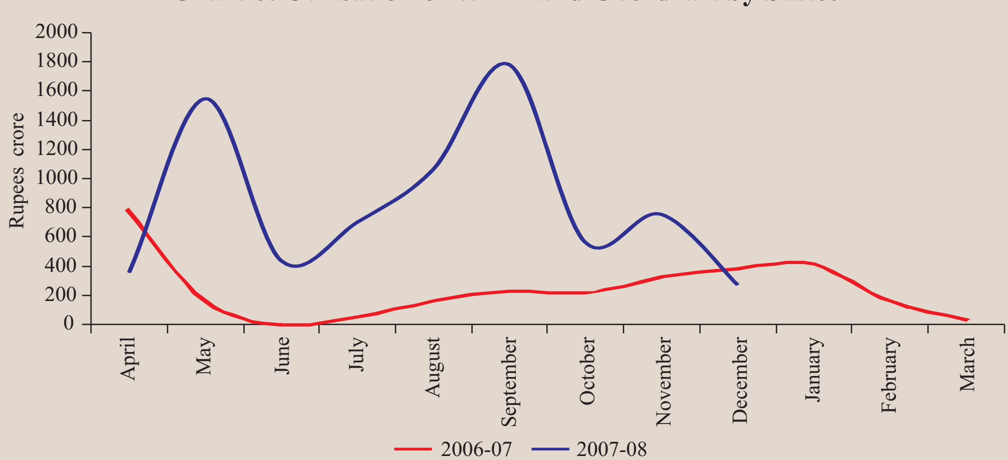
Table 18: Market Borrowings of State Governments - 2007-08

Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees crore)
1	2	3	4	5
Auctions				
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
vi. Sixth	August 16, 2007	8.30-8.90	10	3,485
vii. Seventh	September 20, 2007	8.14-8.50	10	3,074
viii. Eighth	October 4, 2007	8.20	10	590
xi. Ninth	October 8, 2007	8.31-8.40	10	4,672
x. Tenth	November 13, 2007	8.39-8.69	10	5,300
xi. Eleventh	November 30, 2007	8.45-8.50	10	5,212
xii. Twelfth	December 18 ,2007	8.39-8.58	10	2,963
xiii. Thirteenth	January 7, 2008	8.03-8.12	10	5,833
Grand Total				**39,671**
Memo:				
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 January 18, 2007)				7.99
2007-08 (up to January 18, 2008)				8.35

Source: Reserve Bank of India.

compared with six States and two States, respectively, during the corresponding period of the previous year.

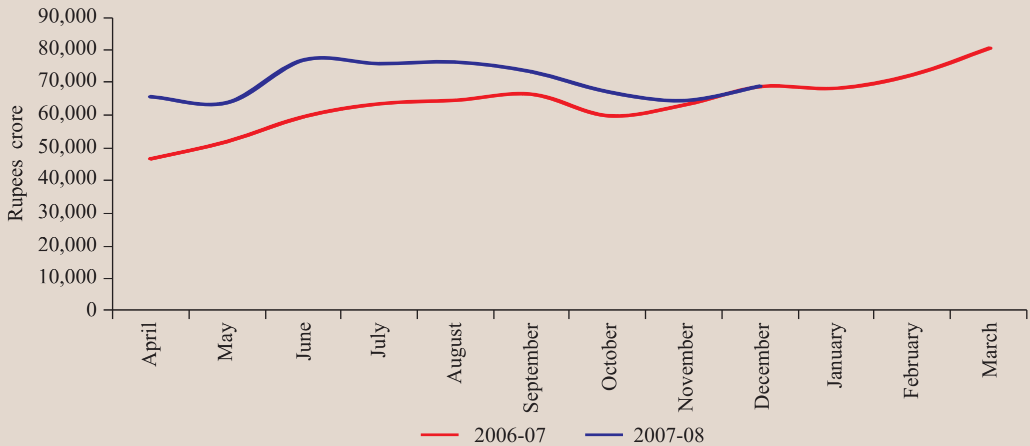
Chart 6: Utilisation of WMA and Overdraft by States*



* Average of daily outstandings

The cash surplus position of the States, as reflected in their investments in Treasury Bills (14-day and auction Treasury Bills), remained sizeable, although it decreased from Rs.73,403 crore at end-March 2007 to Rs.69,764 crore on January 18, 2008. The average investment by the States in Treasury Bills during April-December 2007 amounted to Rs.70,528 crore as against Rs.60,583 crore in the corresponding period of the previous year (Chart 7).

Chart 7: Investments in Treasury Bills by State Governments*



*Average of Friday outstandings

III. MONETARY AND LIQUIDITY CONDITIONS

Expansion in monetary and liquidity aggregates has remained strong during 2007-08 so far. Accretion to bank deposits, led by time deposits, remained buoyant. Year-on-year (y-o-y) growth of broad money (M_3) as on January 4, 2008 was higher than that at end-March 2007, and was also above the indicative trajectory of 17.0-17.5 per cent for 2007-08 set out in the Annual Policy Statement (April 2007). Growth in bank credit moderated, consistent with policy projections. Banks' investments in SLR securities, as a proportion of their net demand and time liabilities (NDTL), were higher than at end-March. The Reserve Bank continued with the policy of active management of liquidity through increases in the cash reserve ratio (CRR), issuances of securities under the Market Stabilisation Scheme (MSS), operations under the liquidity adjustment facility (LAF) and conduct of open market operations (OMO).

Monetary Survey

Broad money growth (M_3), year-on-year (y-o-y), was higher at 22.4 per cent on January 4, 2008, as compared with 21.3 per cent at end-March 2007 and 20.8 per cent a year ago. This reflected a strong expansion in aggregate deposits, which on a year-on-year basis, remained higher than the projected trajectory of Rs.4,90,000 crore for 2007-08 set out in the Reserve Bank's Annual Policy Statement. Monetary expansion was mainly driven by sizeable accretion of net foreign exchange assets. The other major source of monetary expansion, *i.e.*, bank credit to the commercial sector decelerated during the same period. Non-food credit (inclusive of non-SLR investments) decelerated and was close to the policy projection of 24.0-25.0 per cent. 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 22.5 per cent on January 4, 2008 from 20.0 per cent a year ago, mainly reflecting the decline in non-resident foreign currency deposits during this period. Growth in liquidity aggregate, L_1, at 22.4 per cent at end-December 2007 was also higher than that of 19.4 per cent a year ago (Table 19 and Chart 8).

Taking into consideration the trends in monetary aggregates and in order to absorb excess liquidity from the system, the Reserve Bank has increased the CRR by 250 basis points since December 2006. The ceiling on the outstanding amount under the Market Stabilisation Scheme (MSS) for the year 2007-08 was also successively raised on four occasions to Rs.2,50,000 crore.

Table 19 : Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on January 04, 2008	Variation (year-on-year)					
		January 05, 2007		March 31, 2007		January 04, 2008	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
I. Reserve Money*	8,38,050	1,06,877	20.0	1,35,961	23.7	1,96,231	30.6
II. Narrow Money (M_1)	10,12,613	1,35,416	18.2	1,38,820	16.8	1,33,759	15.2
III. Broad Money (M_3)	37,50,334	5,26,566	20.8	5,80,733	21.3	6,86,925	22.4
a) Currency with the Public	5,35,191	66,845	16.8	70,352	17.0	70,245	15.1
b) Aggregate Deposits	32,10,170	4,59,021	21.5	5,09,754	22.1	6,17,035	23.8
i) Demand Deposits	4,72,448	67,871	19.9	67,841	16.7	63,869	15.6
ii) Time Deposits	27,37,721	3,91,150	21.8	4,41,913	23.2	5,53,166	25.3
of which: Non-Resident Foreign Currency Deposits	58,143	10,341	18.7	7,833	13.2	-7,608	-11.6
IV. NM_3	37,64,344	5,12,266	20.0	5,71,550	20.8	6,91,978	22.5
of which: Call Term Funding from FIs	91,561	2,499	3.1	2,692	3.2	7,699	9.2
V. a) L_1	38,37,283	5,08,857	19.4	5,83,181	20.5	7,01,133	22.4
of which: Postal Deposits	1,16,994	13,166	13.0	11,631	11.2	2,629	2.3
b) L_2	38,40,215	5,08,857	19.3	5,83,181	20.4	7,01,133	22.3
c) L_3	38,66,183	5,10,771	19.3	5,85,255	20.3	7,02,478	22.2
VI. Major Sources of Broad Money							
a) Net Bank Credit to the Government (i+ii)	8,46,043	25,976	3.3	71,582	9.3	39,069	4.8
i) Net Reserve Bank Credit to Government	-1,49,592	-19,253	-	-2,384	-29.3	-1,49,280	-
of which: to the Centre	-1,50,278	-19,845	-	-3,024	-58.6	-1,49,358	-
ii) Other Banks' Credit to Government	9,95,635	45,228	5.9	73,967	9.8	1,88,349	23.3
b) Bank Credit to Commercial Sector	23,55,379	4,28,305	28.0	4,30,358	25.4	3,95,215	20.2
c) Net Foreign Exchange Assets	11,15,219	1,84,656	28.0	1,86,985	25.7	2,71,263	32.1
d) Government Currency Liability to Public	8,851	-487	-5.6	-467	-5.3	697	8.5
e) Net Non-Monetary Liabilities of the Banking Sector	5,75,158	1,11,883	25.2	1,07,725	23.2	19,319	3.5
Memo:							
Aggregate Deposits of SCBs	29,88,207	4,44,241	22.9	4,99,260	23.7	6,00,761	25.2
Non-food Credit of SCBs	21,05,235	4,16,418	31.9	4,16,006	28.4	3,82,155	22.2

* : Data pertain to January 18, 2008.

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

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

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

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

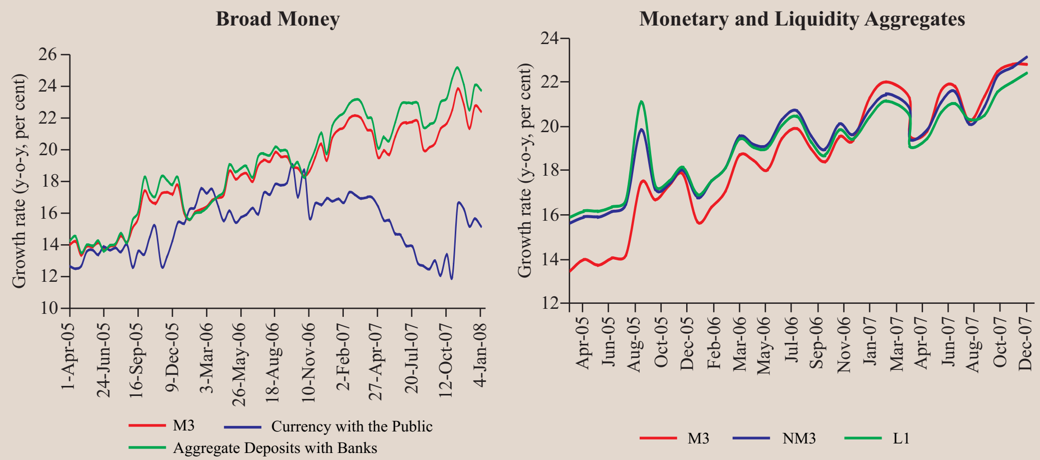
L_3 = L_2 + Public deposits of NBFCs.

Note : 1. Data are provisional. Wherever data are not available the estimates for the last available month have been repeated.

2. Liquidity aggregates pertain to end-December 2007.

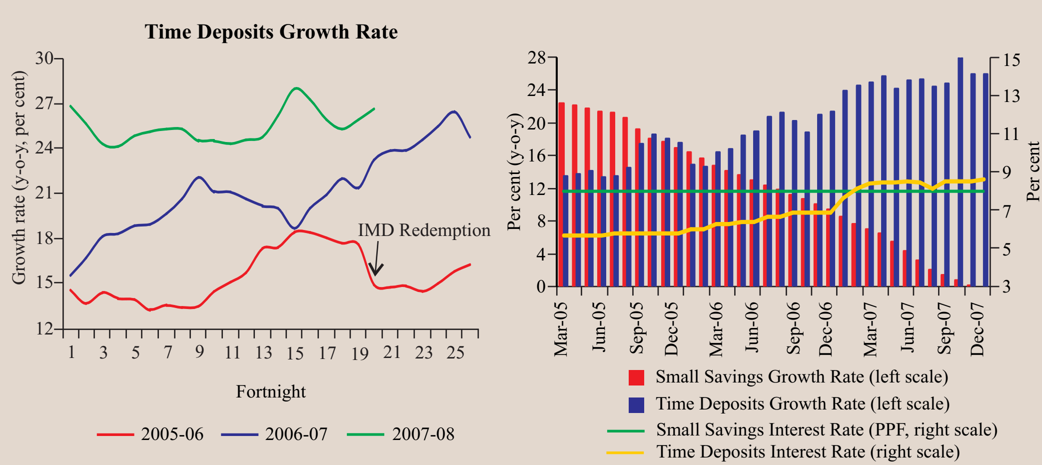
On a year-on-year basis, currency with the public increased by 15.1 per cent, lower than the growth of 16.8 per cent in the corresponding period of the previous year. Growth in demand deposits was also lower than a year ago as well as that at end-March 2007. Growth in narrow money (M_1), y-o-y, was

Chart 8: Money Supply



15.2 per cent as on January 4, 2008 as compared with 18.2 per cent a year ago and 16.8 per cent at end-March 2007. The growth in broad money was higher, reflecting buoyancy in time deposits which accelerated from 21.8 per cent on January 5, 2007 to 23.2 per cent at end-March 2007 and further to 25.3 per cent on January 4, 2008. Concomitantly, the accretion to postal deposits decelerated significantly during the year (Chart 9). The higher order of increase in time deposits can be attributed, *inter alia*, to robust 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. In order to

Chart 9: Time Deposits Growth



revive saving interest in postal deposits, the Government of India announced in December 2007, incentives including tax benefits for certain postal deposits.

Growth in M_3, on a financial year basis, during 2007-08 (up to January 4, 2008) at 13.3 per cent was higher than that of 12.2 per cent in the corresponding period of the previous year. Notwithstanding a sharp accretion during the third quarter of 2007-08 on account of festive season currency demand in November, currency with the public decelerated during the current financial year so far (up to January 4, 2008) (Table 20).

Growth in bank credit to the commercial sector moderated somewhat during 2007-08 (up to January 4, 2008) from the strong pace of the previous

Table 20 : Monetary Aggregates - Variations

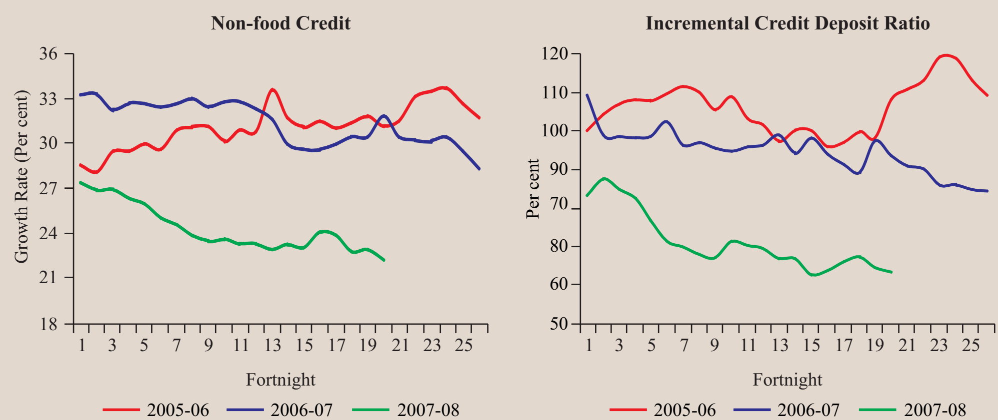
(Rupees Crore)

Item	2006-07 up to Jan. 05	2007-08 up to Jan. 04	2006-07				2007-08		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10
M_3 (1+2+3 = 4+5+6+7-8)	3,33,864	4,40,056	55,411	1,68,401	62,951	2,93,970	76,191	1,97,025	1,19,300
	(12.2)	(13.3)							
Components									
1. Currency with the Public	51,828	51,721	23,797	-2,878	27,587	21,847	17,434	-14,231	47,535
	(12.5)	(10.7)							
2. Aggregates Deposits with Banks	2,83,577	3,90,858	33,227	1,70,827	35,866	2,69,833	59,194	2,12,735	72,520
	(12.3)	(13.9)							
2.1 Demand Deposits with Banks	2,192	-1,780	-42,399	43,794	-8,252	74,697	-42,505	58,255	-5,577
	(0.5)	(-0.4)							
2.2 Time Deposits with Banks	2,81,385	3,92,638	75,626	1,27,033	44,118	1,95,136	1,01,698	1,54,480	78,098
	(14.8)	(16.7)							
3.'Other' Deposits with Banks	-1,541	-2,523	-1,613	452	-502	2,291	-436	-1,479	-756
Sources									
4. Net Bank Credit to Government	40,379	7,866	23,431	14,175	-13,204	47,180	24,833	16,479	-38,624
	(5.3)	(0.9)							
4.1 RBI's Net Credit to Government	-8,448	-1,55,344	53	2,826	-12,754	7,490	-25,483	-54,695	-65,787
4.1.1 RBI's Net credit to Centre	-6,079	-1,52,413	3,071	2,584	-12,568	3,889	-21,825	-55,588	-65,078
4.2 Other Banks' Credit to Government	48,828	1,63,210	23,378	11,349	-451	39,690	50,315	71,174	27,164
5. Bank Credit to Commercial Sector	2,67,159	2,32,017	14,930	1,44,204	78,099	1,93,125	-31,817	1,46,814	92,490
	(15.8)	(10.9)							
6. NFEA of Banking Sector	1,17,762	2,02,040	58,087	20,197	43,160	65,542	-17,945	1,18,249	94,681
6.1 NFEA of RBI	1,06,806	2,18,422	71,845	11,392	27,250	82,682	-2,745	1,19,430	94,681
7. Government's Currency Liabilities to the Public	-600	564	-920	155	166	132	140	354	70
8. Net Non-Monetary liabilities of the Banking Sector	90,837	2,431	40,117	10,330	45,269	12,009	-1,00,980	84,870	29,318
Memo :									
1 Non-resident Foreign Currency Deposits with SCBs	6,476	-8,965	3,917	1,671	1,233	1,011	-3,849	-1,181	-3,392
2. SCB' Call-term Borrowing from Financial Institutions	719	5,725	3,118	-1,576	-4,468	5,618	-2,984	5,756	6,943
3. Overseas Borrowing by SCBs	-4,088	1,958	3,301	-3,685	-2,774	5,229	-6,928	7,830	3,366

SCBs: Scheduled Commercial Banks. NFEA: Net Foreign Exchange Assets.

Note: 1. Figures in parentheses are percentage variations.

Chart 10: Scheduled Commercial Banks' Credit Growth*



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

three years. Non-food credit by scheduled commercial banks (SCBs) expanded by 22.2 per cent, y-o-y, as on January 4, 2008 as compared with 28.4 per cent at end-March 2007 and 31.9 per cent a year ago. The deceleration in credit growth coupled with the acceleration in deposit growth led to a decline in the incremental credit-deposit ratio (y-o-y) of SCBs to 63.3 per cent as on January 4, 2008 from 93.7 per cent a year ago (Chart 10).

Disaggregated sectoral data available up to November 23, 2007 show that about 43 per cent of incremental non-food credit (y-o-y) was absorbed by industry, as compared with 34 per cent in the corresponding period of the previous year. The expansion of incremental non-food credit to industry during this period was led by infrastructure (power, port and telecommunication), iron and steel, textiles, engineering, food processing, vehicles, petroleum, chemicals and construction industries. The infrastructure sector alone accounted for over 28 per cent of the incremental credit to industry as compared with 18 per cent in the corresponding period of the previous year. The agricultural sector absorbed around 12 per cent of the incremental non-food bank credit expansion. Personal loans accounted for nearly 23 per cent of incremental non-food credit as compared with 29 per cent a year ago; within personal loans, the share of incremental housing loans stood at 40 per cent. Growth in loans to commercial real estate remained high, notwithstanding some moderation (Table 21).

Apart from bank credit, the corporate sector continued to meet its funding requirements from non-bank sources such as capital markets, external commercial borrowings and internal generation of funds. Resources raised through domestic equity issuances during the first nine months of 2007-08 (Rs.31,897 crore) were higher by 40 per cent than the corresponding period of

Table 21 : Deployment of Non-food Bank Credit

(Amount in Rupees Crore)

Sector/Industry	Outstanding as on November 23, 2007	Year-on-Year Variation			
		November 24, 2006		November 23, 2007	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	**19,26,550**	**3,66,638**	**30.4**	**3,52,287**	**22.4**
1. Agriculture and Allied Activities	**2,32,124**	**45,788**	**31.5**	**40,863**	**21.4**
2. Industry (Small, Medium and Large)	**7,55,440**	**1,22,984**	**25.6**	**1,52,346**	**25.3**
Small Scale Industries	1,30,284	16,850	21.1	33,259	34.3
3. Personal Loans	**4,88,413**	**1,05,034**	**35.0**	**81,451**	**20.0**
Housing	2,46,689	53,198	33.4	32,424	15.1
Advances against Fixed Deposits	39,269	1,671	5.4	6,360	19.3
Credit Cards	16,951	3,564	43.3	5,157	43.7
Education	18,992	4,157	47.4	5,856	44.6
Consumer Durables	9,081	957	11.2	-419	-4.4
4. Services	**4,50,573**	**92,832**	**33.3**	**77,627**	**20.8**
Transport Operators	29,614	9,676	81.4	7,903	36.4
Professional & Other Services	24,861	6,480	52.8	5,941	31.4
Trade	1,11,835	23,613	34.4	16,828	17.7
Real Estate Loans	50,660	16,603	77.7	12,563	33.0
Non-Banking Financial Companies	53,400	6,850	25.5	18,555	53.3
Memo:					
Priority Sector	**6,61,459**	**1,10,030**	**25.1**	**1,11,851**	**20.4**
Industry (Small, Medium and Large)	**7,55,440**	**1,22,984**	**25.6**	**1,52,346**	**25.3**
Food Processing	42,966	6,493	24.4	9,916	30.0
Textiles	83,478	15,602	30.3	16,376	24.4
Paper & Paper Products	12,262	2,110	25.6	1,973	19.2
Petroleum, Coal Products & Nuclear Fuels	34,936	9,368	46.2	5,277	17.8
Chemical and Chemical Products	56,284	9,682	23.4	5,224	10.2
Rubber, Plastic & their Products	9,266	1,438	23.6	1,740	23.1
Iron and Steel	76,367	15,349	36.5	18,703	32.4
Other Metal & Metal Products	21,149	5,110	36.5	2,100	11.0
Engineering	48,500	4,950	15.1	10,734	28.4
Vehicles, Vehicle Parts and Transport Equipments	26,091	2,079	12.4	7,248	38.5
Gems & Jewellery	24,380	3,640	19.2	1,823	8.1
Construction	21,754	4,549	39.3	5,880	37.0
Infrastructure	1,63,754	22,034	22.2	42,030	34.5

Note : 1. Data are provisional and relate to select scheduled commercial banks.
2. Owing to change in classification of sectors/industries and coverage of banks, data for 2006 are not comparable with earlier data.

the previous year. Mobilisation in the form of equity issuances through American depository receipts (ADRs) and global depository receipts (GDRs) during April-December 2007 (Rs.11,439 crore) were higher by 43 per cent than a year ago. Net mobilisation through external commercial borrowings (ECBs) during April-September 2007 increased by nearly 50 per cent over the corresponding period of the previous year. Internal generation of funds continued to provide strong support to the funding requirements of the corporate sector, with the profit after tax of sample non-financial non-government companies during the first and second quarters of 2007-08 being higher than during the corresponding quarters of the previous year (Table 22).

Growth in deposits, issuances of fresh capital and internal generation of funds by banks on the one hand, and moderation in credit growth on the other, enabled banks to deploy their funds in Government and other approved securities, which increased by 24.7 per cent, y-o-y, as on January 4, 2008 as compared with 5.9 per cent a year ago (Table 23). Commercial banks' holdings of such securities as on January 4, 2008 increased to 29.1 per cent of their NDTL from 28.0 per cent at end-March 2007 and 28.6 per cent a year ago (Chart 11). Excess SLR investments of SCBs, thus, increased to Rs.1,33,017 crore on January 4, 2008 from Rs.84,223 crore at end-March 2007 and Rs. 95,975 crore a year ago. Banks' balances 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) increased substantially during the year. As regards banks' exposure to the external sector, while banks' overseas borrowings expanded, their holdings of foreign currency assets declined.

Table 22 : Select Sources of Funds to Industry

(Rupees Crore)

Item	Variation During								
	2005-06	2006-07	2006-07				2007-08		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10
A. Bank Credit to Industry #	**1,26,804**	**1,41,543**	**-2,336**	**49,290**	**28,415**	**66,174**	**-15,603**	**59,776**	**13,933 ***
B. Flow from Non-banks to Corporates									
1. Capital Issues (i+ii)	13,781	29,180	10,627	1,882	10,840	5,831	13,788	6,226	14,400
i) Non-Government Public Ltd. Companies (a+b)	13,408	29,180	10,627	1,882	10,840	5,831	13,261	4,236	14,400
a) Bonds/Debentures	245	585	0	0	491	94	0	0	0
b) Shares	13,163	28,595	10,627	1,882	10,349	5,737	13,261	4,236	14,400
ii) PSUs and Government Companies	373	0	0	0	0	0	527	1,990	0
2. ADR/GDR Issues	7,263	16,184	4,965	2,130	924	8,165	1,251	9,899	289
3. External Commercial Borrowings (ECBs)	52,877	1,04,046	24,063	20,867	26,036	33,080	37,321	29,604	-
4. Issue of CPs	-1,517	4,970	6,931	4,795	-908	-5,848	8,568	7,358	7,811 @
C. Depreciation Provision +	**28,961**	**37,095**	**8,449**	**8,892**	**9,172**	**10,338**	**10,173**	**10,576**	**-**
D. Profit after Tax +	**60,236**	**1,11,107**	**24,845**	**27,710**	**28,698**	**31,251**	**32,699**	**34,266**	**-**

- : Not Available. *: Up to November 23, 2007. @: Up to December 15, 2007.

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

+ : Data for 2005-06 are based on audited balance sheet, while those for 2006-07 and 2007-08 are based on abridged finanicial result of the select non-Government non-financial public limited companies. The quaterly data may not add up to annual data due to differences in the number and composition of companies covered in each period.

Note: 1. Data are provisional.

2. Data on capital issues pertain to gross issuances excluding issues by banks and financial institutions and are not adjusted for banks' investments in capital issues, which are not expected to be significant.

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

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

Table 23 : Scheduled Commercial Bank's Survey

(Amount in Rupees Crore)

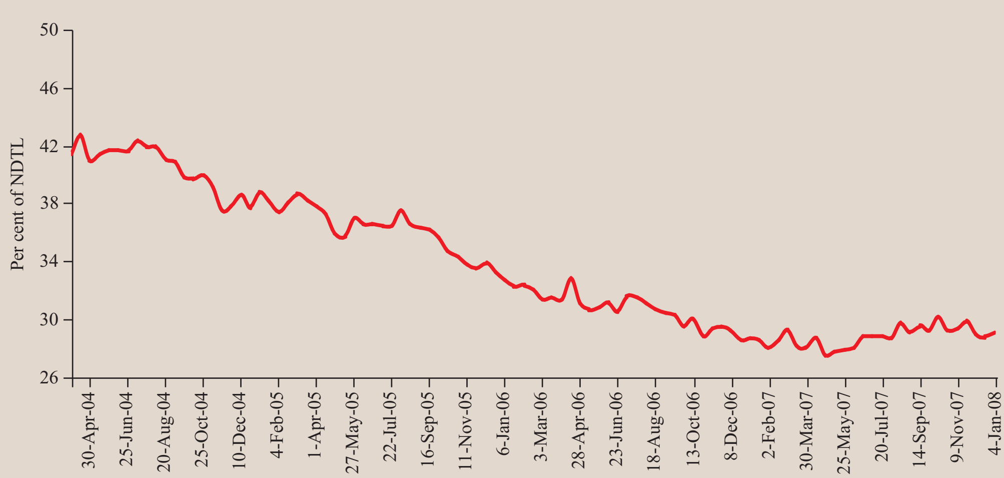
Item	Outstanding as on Jan. 04, 2008	Variation (Year-on-Year)			
		As on Jan. 05, 2007		As on Jan. 04, 2008	
		Amount	Per Cent	Amount	Per Cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	29,88,207	4,44,241	22.9	6,00,761	25.2
2. Call/Term Funding from Financial Institutions	91,561	2,499	3.1	7,699	9.2
3. Overseas Foreign Currency Borrowings	33,863	-4,991	-16.2	8,116	31.5
4. Capital	38,768	2,620	8.8	6,301	19.4
5. Reserves	2,20,432	25,750	18.4	54,493	32.8
Uses of Funds					
1. Bank Credit	21,46,518	4,16,401	30.8	3,80,356	21.5
of which: Non-food Credit	21,05,235	4,16,418	31.9	3,82,155	22.2
2. Investments in Government and Other Approved Securities	9,54,889	42,836	5.9	1,89,349	24.7
a) Investments in Government Securities	9,35,579	45,379	6.4	1,85,524	24.7
b) Investments in Other Approved Securities	19,310	-2,543	-14.1	3,825	24.7
3. Investments in non-SLR Securities	1,73,749	10,650	8.4	35,623	25.8
4. Foreign Currency Assets	31,243	12,122	30.8	-20,236	-39.3
5. Balances with the RBI	2,29,581	29,223	28.9	99,241	76.1

Note: Data are provisional.

Reserve Money Survey

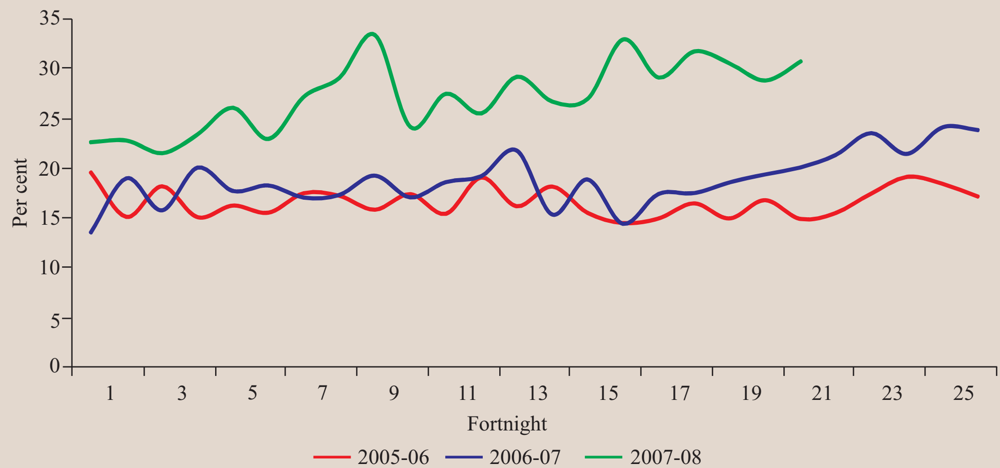
Reserve money growth at 30.6 per cent, y-o-y, as on January 18, 2008 was higher than 20.0 per cent a year ago (Chart 12). Adjusted for first round effect[1] of the hike in CRR, the reserve money growth was 21.5 per cent as

Chart 11: SLR Investments by Scheduled Commercial Banks



[1]The CRR was increased by 250 basis points in stages between December 2006 and November 2007. The first round impact of the increase in CRR is estimated to have impounded banks' resources of Rs.74,500 crore.

Chart 12: Reserve Money Growth



compared with 17.5 per cent a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations and hikes in the CRR.

Growth in reserve money during the financial year 2007-08 (up to January 18, 2008) was 18.2 per cent (11.6 per cent adjusted for the first round effect of the hikes in the CRR) as compared with 12.0 per cent in the corresponding period of 2006-07. Bankers' deposits with the Reserve Bank expanded by 35.4 per cent during 2007-08 (up to January 18, 2008) as compared with 9.1 per cent during the corresponding period of 2006-07 mainly reflecting the hike in the CRR by 150 basis points during April-December, 2007. Currency in circulation expanded by 12.3 per cent as compared with 13.4 per cent during the corresponding period of the previous year (Table 24).

Expansion in reserve money during 2007-08 (up to January 18, 2008) continued to be driven largely by foreign currency assets (adjusted for revaluation), which rose by Rs.3,11,941 crore as compared with Rs.80,166 crore during the corresponding period of the previous year (Chart 13).

Movements in the Reserve Bank's net credit to the Central Government largely reflected the liquidity management operations by the Reserve Bank and movements in Government deposits with the Reserve Bank. Reserve Bank's holdings of Central Government dated securities declined on account of absorption of liquidity in recent period under the liquidity adjustment facility (LAF). The sterilisation operations of the Reserve Bank under the MSS led to an increase in Central Government deposits with the Reserve Bank. Surplus balances of the Central Government with the Reserve Bank also increased. Reflecting these developments, the Reserve Bank's net credit to the Centre declined by Rs.1,57,815 crore during 2007-08 (up to January 18, 2008) as against an increase of Rs. 6,963 crore during the corresponding period of the previous year.

Table 24 : Reserve Money - Variations

(Amount in Rupees Crore)

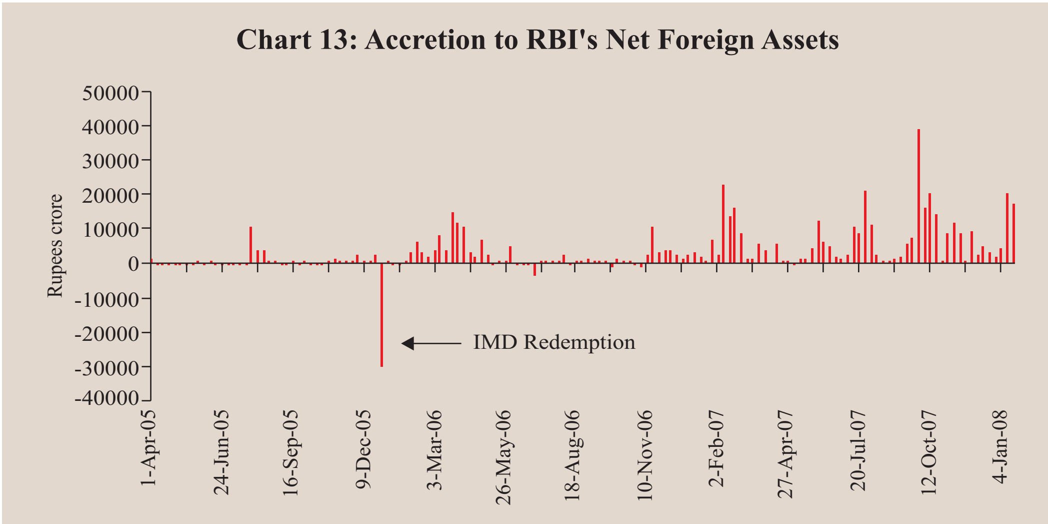
	2006-07 April-March	2006-07 up to Jan. 19	2007-08 up to Jan. 18	Variation						
				2006-07				2007-08		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10	11
Reserve Money	1,35,961	68,764	1,29,034	13,466	18,665	14,204	89,626	11,604	60,688	26,414
	(23.7)	(12.0)	(18.2)							
Components (1+2+3)										
1. Currency in Circulation	73,549	57,726	61,964	22,283	-2,011	26,871	26,405	16,840	-13,297	46,539
	(17.1)	(13.4)	(12.3)							
2. Bankers' Deposits with RBI	61,784	12,319	69,760	-7,204	20,224	-12,165	60,929	-4,800	75,464	-19,369
	(45.6)	(9.1)	(35.4)							
3. 'Other' Deposits with the RBI	628	-1,280	-2,690	-1,613	452	-502	2,291	-436	-1,479	-756
	(9.1)	(-18.6)	(-35.9)							
Sources (1+2+3+4-5)										
1. RBI's net credit to Government	-2,384	4,106	-1,61,631	53	2,826	-12,754	7,490	-25,483	-54,695	-65,787
of which: to Centre (i+ii+iii+iv-v)	-3,024	6,963	-1,57,815	3,071	2,584	-12,568	3,889	-21,825	-55,588	-65,078
i. Loans and Advances	0	0	0	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	26,763	10,615	-52,149	-27,610	24,944	22,733	6,696	-34,284	4,019	20,874
iv. RBI's Holdings of Rupee coins	-143	-37	93	9	-107	97	-142	128	20	3
v. Central Government Deposits	29,644	3,615	1,05,759	-30,672	22,253	35,398	2,665	-12,330	59,627	85,956
2. RBI's credit to banks and commercial sector	1,990	2,528	-3,282	-3,135	3,107	2,065	-47	-6,450	-1256	848
3. NFEA of RBI	1,93,170	1,14,337	2,51,026	71,845	11,392	27,250	82,682	-2,745	1,19,430	94,681
	(28.7)	(17.0)	(29.0)							
of which:										
FCA, adjusted for revaluation	1,64,601	80,166	3,11,941	28,107	10,948	31,634	93,913	47,728	1,18,074	1,00,888
4. Governments' Currency Liabilities to the Public	-467	-550	564	-920	155	166	132	140	354	70
5. Net Non-Monetary liabilities of RBI	56,347	51,657	-42,357	54,376	-1,184	2,524	632	-46,142	3,145	3,398
Memo:										
LAF- Repos (+) / Reverse Repos (-)	36,435	19,060	-41,120	-23,060	28,395	22,195	8,905	-32,182	9,067	16,300
Net Open Market Sales # *	5,125	3,656	-1,793	1,536	1,176	389	2,024	1,246	1,560	-3,919
Centre's Surplus	1,164	-400	9,658	-27,320	13,313	38,713	-23,542	-34,597	15,376	54,765
Mobilisation under MSS	33,912	11,429	98,084	4,062	8,940	-3,315	24,225	19,643	48,856	31,192
Net Purchases(+)/Sales(-) from Authorised Dealers	1,18,994	48,402	2,15,605 ^	21,545	0	19,776	77,673	38,873	1,01,814	74,918 ^
NFEA/Reserve Money @	122.2	122.7	133.3	127.0	125.0	126.5	122.2	119.8	125.8	133.4
NFEA/Currency @	171.8	161.2	197.3	164.4	167.7	164.0	171.8	165.7	193.6	194.4

NFEA: Net Foreign Exchange Assets. FCA: Foreign Currency Assets. LAF: Liquidity Adjustment Facility.
*: At face value. # : Excludes Treasury Bills @ : Per cent, end of period. ^ : Up to November 23, 2007

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

Liquidity Management

The Reserve Bank continued to ensure the maintenance of appropriate liquidity in the system during 2007-08 so far such that all legitimate requirements of credit were met, particularly for productive purposes, consistent with the objective of price and financial stability. In order to achieve this objective, the Reserve Bank used the various policy instruments at its disposal



in a flexible manner to manage liquidity. Capital flows and variation in cash balances of the Central Government remained the key drivers of liquidity conditions.

The first quarter of 2007-08 was generally characterised by easy liquidity conditions interspersed with transient periods of tightness (Table 25). The LAF operations shifted gradually from an injection mode to an absorption mode. However, as the liquidity absorption through reverse repos had been capped at Rs. 3,000 crore under the modified arrangement of LAF between March 5 and August 5, 2007, the Reserve Bank predominantly managed liquidity through the two-stage 50 basis points increase in CRR in April 2007 and increased issuances of government securities under the MSS. The ceiling for outstandings under the MSS was raised from Rs.80,000 crore to Rs.1,10,000 crore on April 27, 2007 (Chart 14). The brief periods of liquidity tightness witnessed during this quarter were assuaged through repos under LAF (Chart 15).

In the second quarter, consequent upon the withdrawal of the ceiling on daily reverse repos under the LAF with effect from August 6, 2007, the Reserve Bank absorbed liquidity through large daily reverse repos under LAF in addition to sizeable absorptions under MSS. The ceiling for outstandings under the MSS was raised to Rs.1,50,000 crore in August 2007. The cumulative impact of the hike in CRR by 50 basis points to 7.0 per cent in August 2007 and also market operations under the MSS moderated the daily reverse repos bids by the close of the quarter. The liquidity conditions mostly remained easy in early September 2007 due to decline in Government cash balances. Some tightness was, however, observed during the end of the month mainly on account of quarterly advance tax outflows and there were liquidity injections through repo window on September 21 and 28, 2007.

Table 25 : Reserve Banks' Liquidity Management Operations

(Amount in Rupees Crore)

	Variation										
	2006-07 April-March	2006-07				2007-08					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct.	Nov.	Dec.
1	2	3	4	5	6	7	8	9	10	11	12
A. Drivers of Liquidity (1+2+3+4+5)	61,739	36,247	-16,896	-25,641	68,028	51,924	1,10,645	-	37,306	3,531	-
1.RBI's net Purchases from Authorised Dealers	1,18,994	21,545	0	22,461	74,988	39,791	1,00,896	-	48,795	31,583	-
2.Currency with the Public	-70,352	-19,648	-1,270	-27,033	-22,400	-12,143	8,940	-46,944	-19,187	-17,041	-10,715
3.Surplus Cash balances of the Centre with the Reserve Bank	-1,164	40,207	-26,199	-30,761	15,590	49,992	-30,771	-49,820	7,036	-12,933	-43,923
4.WMA and OD	0	0	0	0	0	15,159	-15,159	0	0	0	0
5.Others (residual)	14,260	-5,856	10,574	9,693	-150	-40,876	46,739	-	663	1,922	-
B. Management of Liquidity (6+7+8+9)	**-24,257**	**-39,003**	**32,026**	**31,625**	**-48,905**	**-53,943**	**-68,621**	**-11,189**	**-67,009**	**6,264**	**49,556**
6.Liquidity impact of LAF Repos	36,435	-35,315	40,650	33,600	-2,500	-20,290	-2,825	27,795	-24,205	19,455	32,545
7.Liquidity impact of OMO(Net)*	720	545	145	25	5	10	40	5,260	0	0	5,260
8.Liquidity impact of MSS	-33,912	-4,233	-8,769	4,750	-25,660	-18,163	-50,336	-28,244	-42,804	2,809	11,751
9.First round liquidity impact due to CRR change	-27,500	0	0	-6,750	-20,750	-15,500	-15,500	-16,000	0	-16,000	0
C. Bank Reserves (A+B) #	**37,482**	**-2,756**	**15,130**	**5,984**	**19,123**	**-2,019**	**42,024**	**-12,937**	**-29,703**	**9,795**	**6,971**

- : Not Available. WMA: Ways and means advances OD: Overdraft

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

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

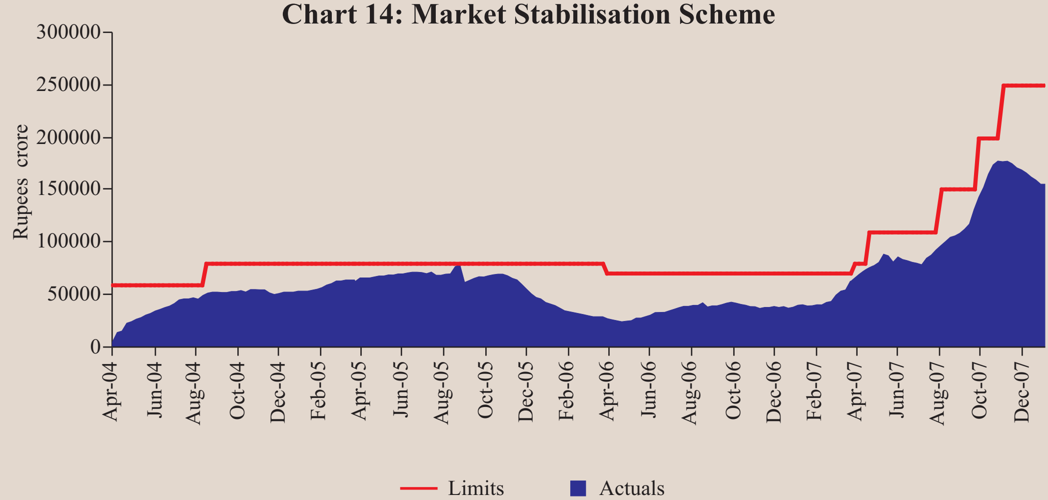
* : Adjusted for Consolidated Sinking Funds (CSF) and including private placement.

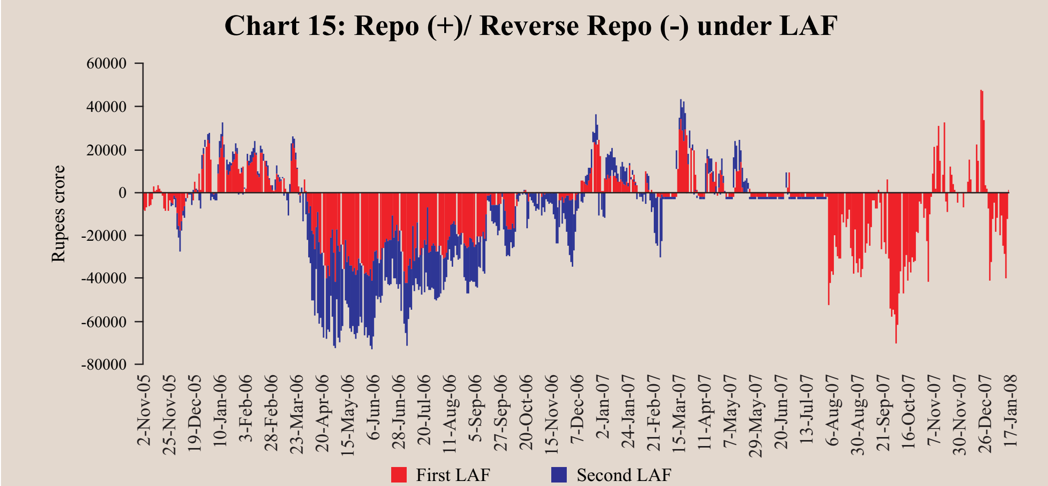
@ : Excludes minimum cash balances with the Reserve Bank in case of surplus.

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

The third quarter commenced with surplus liquidity due to a decline in surplus balances of the Central Government and net purchase of foreign exchange by the Reserve Bank. Daily absorption under the LAF averaged Rs.36,665 crore in October 2007. The continued inflow of foreign capital

Chart 14: Market Stabilisation Scheme





Note: Additional LAF on March 31, 2006 and March 31, 2007 are shown under second LAF. LAF on January 18, 2008 includes special LAF.

necessitated an upward revision in the ceiling for outstandings under MSS to Rs.2,00,000 crore on October 4, 2007 and further to Rs.2,50,000 crore on November 7, 2007.

Liquidity conditions came under some stress towards the end of October and early part of November 2007 on account of festive season currency demand and increase in Central Government balances with the Reserve Bank. Liquidity absorption under the reverse repo window of the LAF, therefore, declined to Rs.10,384 crore during November 1-11, 2007. Liquidity conditions tightened from November 12, 2007 due to impact of CRR hike of 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007 and the increase in surplus balances of the Central Government. The Reserve Bank, therefore, had to inject liquidity; the average daily net liquidity injection under LAF was at Rs.10,341 crore during November 12-30, 2007. The investment of Central government surplus cash balances in dated securities (up to Rs.20,000 crore) which was temporarily suspended between October 4, 2007 and November 19, 2007 was restored with a tightening of liquidity conditions. The tight liquidity conditions continued in December 2007 on account of quarterly advance tax outflows. Average daily net injection under the LAF amounted to Rs.10,804 crore in December 2007.

Liquidity conditions started easing from the beginning of January 2008 partly on account of reduction in surplus balances of the Central Government with the Reserve Bank. The average liquidity absorption under the reverse repo was Rs.18,057 crore during January 1-23, 2008. The steady increase in MSS outstandings is reflected in the significant build up of liquidity overhang since

August 2007. The outstandings under the MSS amounted to Rs.1,61,058 crore as on January 18, 2008 (Table 26).

During the course of 2007-08, the stock of Government securities in Reserve Bank's portfolio got reduced by Rs. 12,485 crore (up to January 18, 2008) mainly on account of periodic redemptions. In order to replenish its stock of Government securities the Reserve Bank resorted to purchases of government securities through open market operations, beginning December 2007. During 2007-08 (up to January 18, 2008) the total amount of Government securities purchased under open market operations was Rs. 8,070 crore. Such operations are liquidity neutral up to the amount of redemption of Government securities in the portfolio of the Reserve Bank.

Table 26 : Liquidity Management

(Rupees crore)

Outstanding as on Last Friday	LAF	MSS	Centre's Surplus with the RBI @	Total (2 to 4)
1	2	3	4	5
2006				
January	-20,555	37,280	39,080	55,805
February	-12,715	31,958	37,013	56,256
March*	7,250	29,062	48,828	85,140
April	47,805	24,276	5,611	77,692
May	57,245	27,817	-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
2007				
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	2992	88,010	-20,199	70,803
August	16,855	1,06,434	20,807	1,44,096
September	-6,070	1,31,473	30,771	1,56,174
October	18,135	1,74,277	23,735	2,16,147
November	-1,320	1,71,468	36,668	2,06,816
December	-33,865	1,59,717	80,591	2,06,443
2008				
January (up to Jan. 18)	11,935	1,61,058	59,650	2,32,643

@ : 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. Between March 5 and August 5, 2007, daily reverse repo absorptions were 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.

3. Negative sign in column 4 indicates injection of liquidity through WMA/overdraft.

IV. PRICE SITUATION

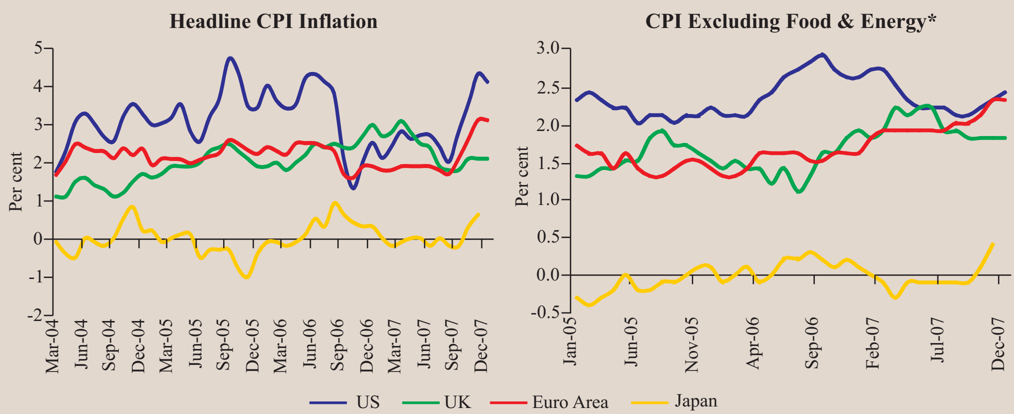
Headline inflation firmed up in major economies during the third quarter of 2007-08 reflecting the combined impact of higher food and fuel prices as well as strong demand conditions, especially in emerging markets. The monetary policy response during the quarter, however, was mixed in view of heightened concerns about the implications of credit crunch arising out of the US sub-prime crisis on financial stability. Since end-September 2007, several central banks (such as the US Federal Reserve System, Bank of England, Bank of Canada, Bank Indonesia, Central Bank of Philippines and Central Bank of the Republic of Turkey) cut their policy rates aimed at promoting financial stability and supporting growth notwithstanding persistence of inflationary pressures. The US Federal Reserve System also reduced the discount rate to improve market liquidity. Apart from independent actions, there has also been a coordinated move by five major advanced country central banks in terms of injection of short-term liquidity aimed at easing strains on the money markets. On the other hand, some central banks [such as the Reserve Bank of Australia, Norges Bank (Norway), Sveriges Riksbank (Sweden), South African Reserve Bank and the People's Bank of China] have further raised policy rates to contain inflation and inflationary expectations. The central banks of China and Russia also raised cash reserve requirements to address concerns regarding excess liquidity.

In India, inflation based on the wholesale price index (WPI) has remained below 4 per cent since mid-August 2007 (3.8 per cent as on January 5, 2008), partly reflecting moderation in the prices of primary food articles and some manufactured products items as well as base effects. Pre-emptive monetary measures since mid-2004 accompanied by fiscal and supply-side measures have also helped in containing inflation. Consumer price inflation also eased during the third quarter of 2007-08 but continued to remain above the WPI inflation, mainly reflecting the impact of food prices and their higher weights in the CPI *vis-à-vis* WPI. Various measures of consumer price inflation were placed in the range of 5.1-5.9 per cent during November/December 2007 as compared with 5.7-7.9 per cent in September 2007 and 6.7-9.5 per cent in March 2007. It may, however, be noted that since pass-through of higher international oil prices to domestic prices remains incomplete, inflation has remained suppressed. Elevated international food prices also pose potential inflationary pressures in the period ahead.

Global Inflation

Headline inflation in major advanced economies firmed up beginning September 2007, mainly reflecting the hardening of food and fuel prices. Amongst major economies, headline inflation in December 2007 was 4.1 per cent in the US, 2.1 per cent in the UK and 3.1 per cent in the euro area as compared with

Chart 16: Consumer Price Inflation



* : Data for Japan is excluding fresh food only.

Source : International Financial Statistics, IMF and official website of respective countries.

2.8 per cent, 1.8 per cent and 2.1 per cent, respectively, in September 2007 (Chart 16). Inflation increased to 3.3 per cent in November, 2007 in the OECD countries from 2.2 per cent in September 2007 and 2.0 per cent a year ago. Core inflation also remained firm in major economies, reflecting high commodity prices and strong demand conditions, especially in emerging markets. In the US, CPI inflation (excluding food and energy) was 2.4 per cent in December 2007 as compared with 2.1 per cent in September 2007. In the OECD countries, CPI inflation (excluding food and energy) was 2.0 per cent in November 2007, as compared with 1.9 per cent in September 2007.

The fallout of the US sub-prime crisis and correction in the housing markets, however, has raised concerns about credit squeeze in many advanced economies, including the UK and the euro area. Notwithstanding the underlying inflationary pressures, many central banks in advanced economies resorted to monetary easing in order to forestall the adverse impact of the tightening credit conditions on the broader economy. In the US, headline inflation firmed up to 4.1 per cent in December 2007 from 2.5 per cent a year earlier mainly due to higher food and energy prices. Notwithstanding the modest improvement in the readings on core inflation, the Federal Open Market Committee (FOMC) in its meeting held on December 11, 2007 judged that inflation risks remained and indicated that it would continue to monitor inflation developments carefully. According to the FOMC, however, incoming information suggested that economic growth was slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending and increasing strains in financial markets in the recent past. Recognising that the recent developments, including the deterioration in financial market conditions, increased the uncertainty surrounding the outlook for economic growth and inflation, the FOMC cut its target for the federal funds rate further by 50 basis points during the October-December 2007 quarter - 25 basis points each on October 31, 2007 and December 11, 2007 - to 4.25 per cent to promote moderate growth over time. The discount rate was also cut further by 50 basis points during the quarter to 4.75 per cent to improve market liquidity. Apart from lowering the discount rate, the US Fed also injected liquidity by auctioning term funds to depository institutions against a wide variety of collaterals at the discount window and through a broader range of counterparties and established foreign exchange swap lines with the European Central Bank (ECB) and the Swiss National Bank. In view of a weakening of the economic outlook and increasing downside risks to growth, the FOMC cut the target for the federal funds rate further by 75 basis points to 3.5 per cent on January 22, 2008. The discount rate was also reduced by 75 basis points to 4.0 per cent. The FOMC, however, noted that it would continue to assess the effects of financial and other developments and would act in a timely manner as needed to address those risks.

In the UK, there are signs of growth beginning to slow and forward-looking surveys of households and business suggest moderation in spending. According to the Monetary Policy Committee (MPC), conditions in financial markets have deteriorated and a tightening in the supply of credit to households and businesses is posing downside risks to the outlook for both output and inflation further ahead. Although higher energy and food prices are expected to keep inflation above the target in the short-term, the MPC is of the view that slowing demand growth should ease the pressures on supply capacity bringing inflation back to target in the medium term. The Bank of England, therefore, cut its policy rate by 25 basis points on December 6, 2007 to 5.5 per cent and left it unchanged thereafter (Table 27).

In the euro area, inflation, based on the Harmonised Index of Consumer Prices (HICP), rose sharply in December 2007 to 3.1 per cent from 1.9 per cent a year ago largely due to upward pressures from energy and food prices. According to the Governing Council of the ECB, there were upside risks to price stability over the medium term from further rises in oil and agricultural prices, increases in administered prices and indirect taxes beyond those foreseen by then as well as the possibility of stronger than currently expected wage growth and increases in pricing power in market segments with low competition. The Council also noted that although the economic fundamentals of the euro area remained sound and money and credit growth very vigorous, the reappraisal of risk in financial markets was evolving and was accompanied by continued uncertainty about the potential impact on the real economy. The ECB observed that firmly anchoring medium and long term inflation expectations in line with price stability was all the more important at times of financial market volatility and increased uncertainty and left the key policy rates unchanged during the quarter. In its meeting held on January 10, 2008,

Table 27: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate	Policy Rate (As on January 23, 2008)	Changes in Policy Rate (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	Dec. 2006	Dec. 2007	2006 (Q3)	2007 (Q3)
1	2	3	4	5	6	7	8	9	10
Developed Economies									
Australia	Cash Rate	6.75 (Nov.7, 2007)	0	75	50	3.9	1.9 #	2.2	4.3
Canada	Overnight Rate	4.00 (Jan. 22, 2008)	125	50	(-) 25	1.4	2.5 *	2.5	2.9
Euro area	Interest Rate on Main Refinancing Operations	4.00 (June 6, 2007)	50	125	25	1.9	3.1	2.8	2.7
Japan	Uncollateralised Overnight Call Rate	0.50 (Feb. 21, 2007)	0 **	50	0	0.3	0.6 *	1.6	1.9
UK	Official Bank Rate	5.50 (Dec. 6, 2007)	(-)25	75	25	3.0	2.1	2.9	3.2
US	Federal Funds Rate	3.50 (Jan. 22, 2008)	200	50	(-)175	2.5	4.1	2.4	2.8
Developing Economies									
Brazil	Selic Rate	11.25 (Sep. 5, 2007)	(-)275	(-)375	(-)150	3.1	4.5	3.2	5.7
India	Reverse Repo Rate	6.00 (July 25, 2006)	75	50	0	6.3	5.5 *	10.2	8.9
	Repo Rate	7.75 (Mar. 31, 2007)	50	125	0				
			(0)	(100)	(150)				
China	Benchmark 1-year Lending Rate	7.47 (Dec. 21, 2007)		81	108	1.9	6.9 *	10.7	11.5
				(250)	(450)				
Indonesia	BI Rate	8.00 (Dec. 6, 2007)	425 @	(-)375	(-)100	6.6	6.6	5.5	6.5
Israel	Key Rate	4.25 (Dec. 24, 2007)	125	(-)75	25	-0.1	3.4	4.6	4.8
Korea	Overnight Call Rate	5.00 (Aug. 9, 2007)	75	50	50	2.1	3.6	4.6	5.2
				(80)					
Philippines	Reverse Repo Rate	5.25 (Dec. 20, 2007)+	75	0	(-)225	4.3	3.9	4.8	6.6
Russia	Refinancing Rate	10.00 (June 19, 2007)	(-)100	(-)150	(-)50	9.0	11.9	6.5	7.6
				(150)	(100)				
South Africa	Repo Rate	11.00 (Dec. 11, 2007)	(-)50	200	200	5.4	8.4 *	4.5	5.1
Thailand	14-day Repurchase Rate	5.00 (June 7, 2006)	225	50					
	1-day Repurchase Rate	3.25(July 18, 2007)		(-)44 ^	(-)125	3.5	3.2	4.5	5.1

@ : 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.

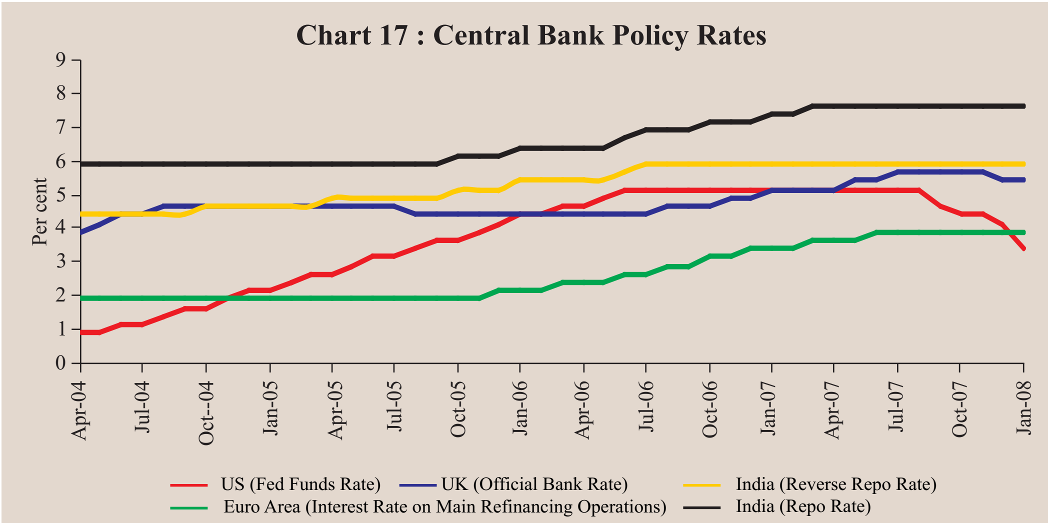
^ : Change over January 16, 2007. Effective January 17, 2007, the 1-day repurchase rate replaced the 14-day repurchase rate as the policy rate.

: Q3 of 2007. * : November 2007.

+ : The tiering system on placement with the BSP was removed and interest rates were adjusted to 6.0 per cent for the reverse repo rate and 8.0 per cent for the repo rate effective July 13, 2007.

Note : 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.

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

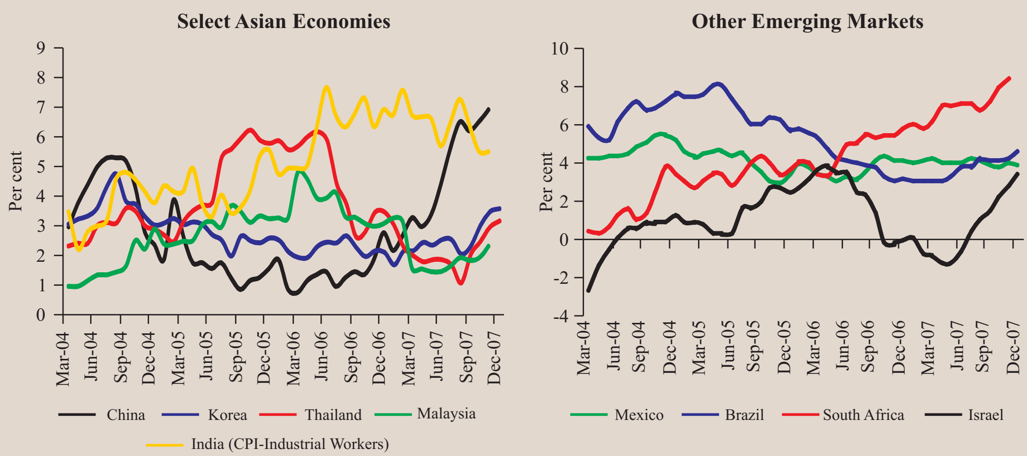


while leaving the policy rate unchanged, the ECB noted that it remains prepared to act pre-emptively so that second-round effects and upside risks to price stability over the medium term do not materialise. The policy rates were last raised by 25 basis points on June 6, 2007 (Chart 17).

Although Japan's economy is expected to continue to expand moderately, the pace of growth is likely to slow mainly due to the drop in housing investment. The year-on-year rate of change in consumer prices is projected to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run. Against this backdrop, the Bank of Japan (BoJ) kept its policy rate unchanged at each of its meetings held since February 2007 when it had 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 other major advanced economies, the policy rate was cut by 50 basis points (including 25 basis points in January 2008) by the Bank of Canada while the Reserve Bank of Australia, the Sveriges Riksbank (Sweden) and Norges Bank (Norway) raised policy rates by 25 basis points each during the third quarter of 2007-08.

Notwithstanding the appreciation of exchange rates, inflation pressures remained firm in major emerging market economies (EMEs) on the back of strong growth and ample liquidity. Consumer price inflation in China increased to 6.9 per cent in November 2007 from 6.2 per cent in September 2007 (and 1.9 per cent a year earlier) mainly due to higher food prices (Chart 18). Economic activity in China has remained buoyant in 2007 so far with real GDP growth accelerating to 11.5 per cent during the third quarter of 2007 from 10.7 per cent a year ago. In order to address the excess liquidity in the banking system and ease pressures on money and credit expansion, the People's Bank of China (PBC) increased the benchmark 1-year lending rate further by 18 basis points

Chart 18: Consumer Price Inflation - Emerging Market Economies



effective December 21, 2007 to 7.47 per cent, *i.e.*, a total hike of 189 basis points since April 2006. Apart from continued issuances of its own bills to mop up liquidity, the PBC raised the cash reserve ratio (CRR) by another 200 basis points since end-September 2007 - 50 basis points effective October 25, 2007, 100 basis points effective December 25, 2007 and 50 basis points to be effective on January 25, 2008 - to 14.5 per cent. The CRR has, thus, been increased by 700 basis points since July 2006. According to the PBC, these adjustments are conducive to prevent the economy from overheating and structural price rises from evolving into apparent inflation.

In Russia, consumer price inflation remained high, increasing from 7.4 per cent in March 2007 to 9.4 per cent in September 2007 and further to 11.9 per cent in December 2007 amidst strong growth. Growth in money supply (M_2) accelerated to 52 per cent, year-on-year, as on December 1, 2007 from 47 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 January 15, 2008 (it was earlier reduced by 100 basis points effective October 11, 2007). The refinancing rate has remained unchanged since June 2007, when it was reduced by 50 basis points to 10.0 per cent.

The South African Reserve Bank has raised its policy rate by 100 basis points since end-September 2007 - 50 basis points each effective October 12, 2007 and December 7, 2007 - to 11.0 per cent. The policy rate has thus been raised by 400 basis points since the tightening began in June 2006 to ensure that the short-term impact of higher inflation does not allow inflation expectations to become entrenched at higher levels. After keeping the policy rate unchanged during the third quarter of 2007-08, the Bank of Israel raised its policy rate by 25 basis points to 4.25 per cent effective January 2008 in view of the rise in inflationary pressures on account of continued rapid growth and closing of output gaps as well as rise in import prices, especially of food and energy.

In Korea, inflation increased to 3.6 per cent in December 2007 from 2.3 per cent in September 2007 (and 2.1 per cent a year ago) mainly due to high oil prices. Although the upward trend of real estate prices has flattened out, financial institutions' lending continues to show a steady increase. Although financial markets are characterised by ample liquidity, financial prices have shown increased volatility following the international financial market unrest. According to the MPC, although the domestic economy is likely to maintain its upward trend, future economic developments are surrounded with a high degree of uncertainty largely due to the run-up in international oil prices and the prolonged international financial market unrest. The Bank of Korea, therefore, has left its policy rate unchanged at 5.0 per cent since August 9, 2007 (when it was last raised by 25 basis points). In Thailand, inflation accelerated in line with rising international oil and commodity prices to 3.2 per cent in December 2007 from 2.1 per cent in September 2007 (it was 3.5 per cent a year ago). Real GDP growth also started to recover reflecting improvement in both consumption and investment. According to the MPC, the overall growth momentum improved although risks to growth remained, particularly from the global economy. Notwithstanding increased risks to inflation, core inflation was expected to remain within the target range for the next eight quarters. The MPC, therefore, has left 1-day repurchase rate unchanged at 3.25 per cent since July 18, 2007 (when it was last cut by 25 basis points).

After reducing its policy rate by 850 basis points between September 2005 and September 2007, the central bank of Brazil left it unchanged during the third quarter of 2007-08 at 11.25 per cent. Inflation has increased in recent months (4.5 per cent in December 2007) and the pace of demand expansion remained robust signifying inflationary pressures on short-term inflation. Against this backdrop, the Monetary Policy Committee emphasised the time lags in the transmission of monetary policy and noted that the evaluation of alternative monetary policy stances should necessarily focus on the prospective inflation scenario and its risks, instead of current inflation indicators.

Amongst other emerging economies, economic expansion in Indonesia is likely to maintain its pace driven by rising consumption and exports. Inflation in 2007 was expected to come within the target range of 6 ± 1 per cent. According to Bank Indonesia, the impact on economic expansion and inflation brought about by external shocks and surging oil prices remain manageable. Despite looming inflationary pressures in 2008, overall progress is expected to be consistent with a long-term declining trend. Accordingly, the Bank Indonesia lowered its policy rate further by 25 basis points to 8.0 per cent on December 6, 2007 - a total of 475 basis points since May 2006. The lower rate is expected to deliver an economic stimulus and sustain momentum for stronger economic growth while maintaining macroeconomic stability. The central bank of Turkey also cut its policy rates, *i.e.*, overnight borrowing and lending rates by 150 basis points and 225 basis points, respectively, since end-September 2007 to support economic activity. The MPC noted that aggregate demand conditions continued to support the disinflation process and notwithstanding the risks related to energy and food prices, inflation is expected to decelerate.

An assessment of key macroeconomic indicators in select EMEs shows that consumer price inflation was in the range of 3.2-11.9 per cent during November/December 2007. Inflation in India was the fifth highest amongst the select EMEs. Real policy rates in most countries ranged between 0.0 and 2.6 per cent in December 2007 (Table 28). Major EMEs, except India

Table 28: Key Macroeconomic Indicators: Emerging Markets

(Per cent)

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	
	Dec. 2006	Dec. 2007	2005	2006	Dec. 2006	Dec. 2007	2005	2006	Dec. 2006	Dec. 2007	2005	2006
1	2	3	4	5	6	7	8	9	10	11	12	13
Brazil	3.1	4.5	1.6	1.2	2.1	15.3	-3.4	-3.2	10.2	6.8	2.9	3.7
China	1.9	6.9*	7.2	9.4	-0.9	5.1	-1.3	-0.6	3.3	0.6	10.4	11.1
							(17.9)	(17.3)				
India	**6.3**	**5.5***	**-1.2**	**-1.1**	**0.0**	**7.7**	**-4.1**	**-3.5**	**0.4**	**2.3**	**9.0**	**9.4**
	(5.9)	**(3.5)**	**(-6.4)**	**(-6.9)**			**(63.4)**	**(61.5)**	**(1.4)**	**(4.3)**		
Indonesia	6.6	6.6	0.1	2.7	7.6	-4.4	-0.5	-1.0	3.2	1.4	5.7	5.5
							(46.5)	(40.9)				
Israel	-0.1	3.4	3.3	5.6	1.0	0.4	-2.9	-2.7	5.1	0.6	5.3	5.2
Korea	2.1	3.6	1.9	0.7	5.9	-5.9	1.9	1.8	2.4	1.4	4.2	5.0
							(29.5)	(32.2)				
Philippines	4.3	3.9	2.0	4.3	6.1	14.0	-2.7	-1.0	3.2	1.4	4.9	5.4
Russia	9.0	11.9	11.1	9.7	8.6	6.1	7.5	7.4	2.0	-1.9	6.4	6.7
South Africa	5.4	8.4*	-4.0	-6.5	-12.7	1.4	—	—	3.2	2.6	5.1	5.0
Thailand	3.5	3.2	-4.5	1.6	11.1	0.8	0.2	0.1	1.5	0.0	4.5	5.0
							(26.1)	(27.3)				

*: November 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, the Economist and official websites of respective central banks.

and South Africa, recorded surplus in current accounts in 2006. The real effective exchange rate (REER) for the select EMEs, barring the currencies in Indonesia and Korea, underwent real appreciation, on a year-on-year basis, in December 2007. Although the Centre's fiscal deficit in India declined during 2006-07 and was budgeted to decline further during 2007-08, it was likely to remain higher than that in most EMEs.

Global Commodity Prices

Global commodity prices firmed up during the third quarter of 2007-08 led by food and crude oil prices, although there was some moderation in prices of metals (Table 29 and Chart 19).

International crude oil prices, represented by the West Texas Intermediate (WTI), rose sharply during the third quarter of 2007-08, reflecting tight supply-demand balance, geo-political tensions, weakening of the US dollar against major currencies and increased interest from investors and financial market players (Table 30). WTI prices touched a historical peak of US $ 99.6 a barrel level on January 2, 2008 and eased somewhat subsequently but continued to remain high and volatile (US $ 89.9 a barrel on January 23, 2008).

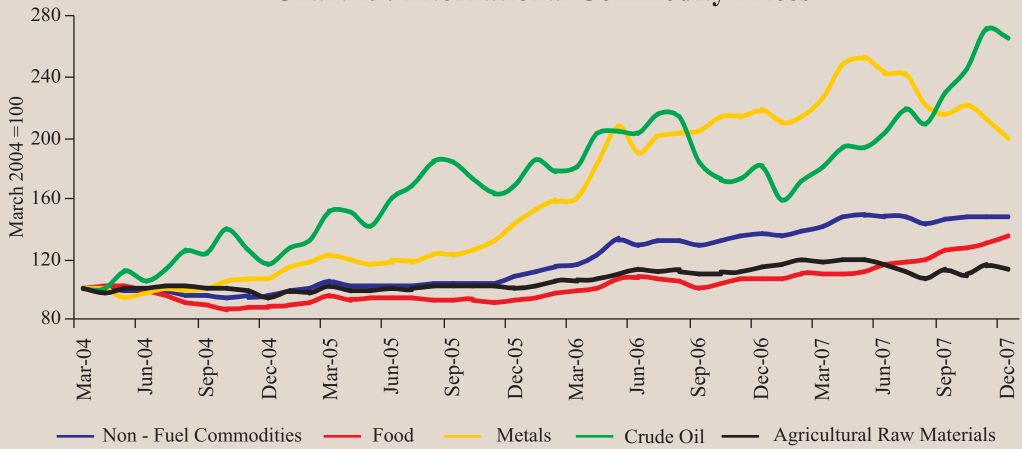
Table 29: International Commodity Prices

Commodity	Unit	2004	Index								Variation (Per cent)	
			2004	2005	2006	2007	2007				Dec. 2007 over Mar. 2007	Dec. 2007 over Dec. 2006
							Mar.	Jun.	Sep.	Dec.		
1	2	3	4	5	6	7	8	9	10	11	12	13
Energy												
Coal	$/mt	53.0	100	90	93	124	105	116	129	172	64.3	82.9
Crude oil (Average)	$/bbl	37.7	100	142	170	188	161	181	203	237	47.7	46.8
Non-Energy Commodities												
Palm oil	$/mt	471.3	100	90	102	165	132	171	177	200	51.6	61.7
Soybean oil	$/mt	616.0	100	88	97	143	117	135	156	188	60.9	65.8
Soybeans	$/mt	306.5	100	90	88	125	105	118	139	168	59.9	73.4
Rice	$/mt	237.7	100	120	128	137	134	136	137	151	12.8	17.9
Wheat	$/mt	156.9	100	97	122	163	127	142	208	235	85.1	80.4
Sugar	c/kg	15.8	100	138	206	141	146	130	136	149	2.2	-7.8
Cotton A Index	c/kg	136.6	100	89	93	102	94	98	110	111	18.2	16.0
Aluminium	$/mt	1716.0	100	111	150	154	161	156	139	139	-13.8	-15.4
Copper	$/mt	2866.0	100	128	235	248	225	261	267	230	2.1	-1.3
Gold	$/toz	409.2	100	109	148	170	160	160	174	196	22.6	27.5
Silver	c/toz	669.0	100	110	173	200	197	197	193	214	8.7	7.6
Steel cold-rolled coil/sheet	$/mt	607.1	100	121	114	107	107	107	107	107	0.0	0.0
Steel hot-rolled coil/sheet	$/mt	502.5	100	126	119	109	109	109	109	109	0.0	0.0
Tin	c/kg	851.3	100	87	103	171	163	166	176	191	17.1	45.7
Zinc	c/kg	104.8	100	132	313	309	312	344	275	225	-28.1	-46.6

$: 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.

Chart 19: International Commodity Prices



Source : International Monetary Fund.

In view of the tight demand supply-balance, prices are expected to remain firm. According to the US Energy Information Administration (EIA), world oil demand will grow much faster than oil supply outside of the Organisation of the Petroleum Exporting Countries (OPEC), leading to the possibility of upward pressure on prices. However, in its meeting in Abu Dhabi on December 5, 2007, the OPEC decided

Table 30: 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
July 2007	69.5	77.2	74.1	73.6	72.8
August 2007	67.2	70.8	72.4	70.1	68.8
September 2007	73.3	77.1	79.9	76.8	74.9
October 2007	77.1	83.0	85.9	82.2	79.6
November 2007	86.7	92.5	94.8	91.3	89.2
December 2007	85.8	91.5	91.4	89.5	88.2

Source : International Monetary Fund and the World Bank.

Table 31: World Supply-Demand Balance of Oil

(Million barrels per day)

Item	2003	2004	2005	2006	2007 (P)	2008 (P)	2008 (P) Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
Demand										
1. OECD	48.7	49.5	49.6	49.3	49.1	49.5	50.5	48.4	49.0	50.2
2. Non-OECD	31.2	33.0	34.4	35.4	36.7	37.9	37.2	38.0	38.1	38.5
of which: China	5.6	6.5	6.9	7.3	7.7	8.1	7.8	8.1	8.2	8.4
3. Total (1+2)	79.9	82.5	84.0	84.7	85.9	87.5	87.7	86.4	87.0	88.7
Supply										
4. Non-OPEC	48.9	50.1	50.3	49.3	49.4	50.2	49.5	49.9	50.4	51.1
5. OPEC	30.7	32.9	34.2	35.3	35.5	37.5	37.0	37.1	37.9	37.8
6. Total (4+5)	79.6	83.1	84.5	84.6	84.8	87.7	86.5	87.0	88.2	88.9
Stock Changes	0.3	-0.6	-0.5	0.1	1.1	-0.2	1.2	-0.6	-1.2	-0.2

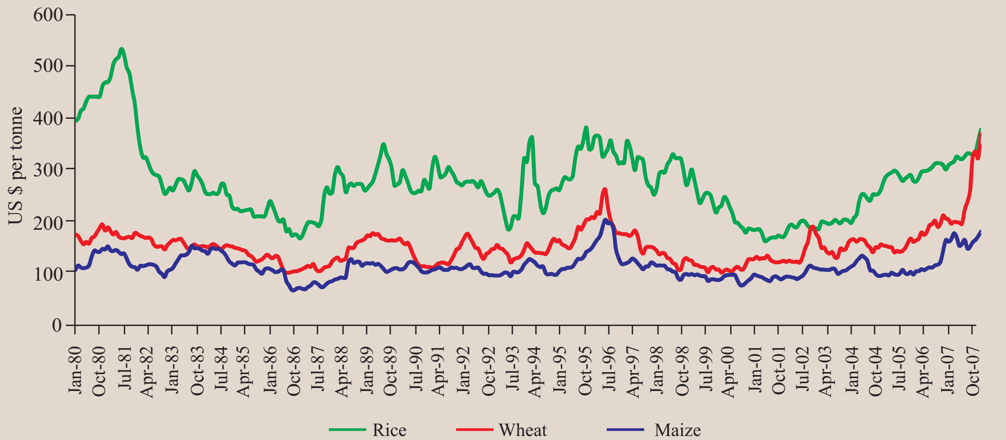
P : Projections.
Source : US Energy Information Administration, January 8, 2008.

to maintain its existing production quotas observing that the global oil market continued to be well supplied. The EIA expects WTI (average) prices to firm up further to US $ 87.2 per barrel during 2008 from US $ 72.3 a barrel during 2007. Futures markets also suggest that WTI prices are expected to remain firm at around US $ 87-88 a barrel levels during the period February-July 2008. High and volatile international crude oil prices, thus, pose another major risk to the global inflation outlook (Table 31).

Metal prices eased further during the third quarter of 2007-08, reflecting lower demand and some improvement in supply. Between September 2007 and December 2007, prices of copper, zinc, lead and nickel fell by 14 per cent, 18 per cent, 20 per cent and 12 per cent, respectively, reflecting concerns about US slowdown and lower Chinese demand. On the other hand, tin prices increased by about 8 per cent over the same period. As a result, the IMF's metals price index declined by 7.0 per cent between September-December 2007 on top of about 12 per cent decline between June-September 2007. On a year-on-year basis, in December 2007, while prices of lead (50 per cent) and tin (46 per cent) continued to show sharp increases, prices of other metals such as nickel, zinc, copper and aluminium witnessed declines. Steel prices have remained flat during the year reflecting higher global production led by China and Brazil.

Food prices firmed up further during the third quarter of 2007-08 led by wheat and oilseeds/edible oils, reflecting surging demand (both consumption demand and demand for non-food uses such as bio-fuels production) and low stocks of major crops, partly on account of weather related disturbances on

Chart 20: Prices of Rice, Wheat and Maize



production in some major producing regions such as Australia (Chart 20). Reflecting these factors, international prices of wheat, soybeans, soybean oils and palm oils increased by 80 per cent, 73 per cent, 66 per cent and 62 per cent, respectively, year-on-year, in December 2007. Consequently, the IMF food price index increased by 26.4 per cent on a year-on-year basis and surpassed the level which was last seen in the late 1980. The supply side pressures on global food prices do not appear to be abating, especially in the case of wheat and oilseeds/edible oils. According to the US Department of Agriculture (USDA) in January 2008, global wheat stocks are expected to decline further by almost 11 per cent (on top of almost 16 per cent decline during 2006-07) during 2007-08 to about 111 million tonnes - their lowest levels since 1981-82. Global oilseeds stocks are also expected to decline by almost 25 per cent during 2007-08 to 53.2 million tonnes. This mainly reflects expected fall in global oilseeds production, mostly caused by a shift of plantings from soybean to maize in northern hemisphere countries and increase in global utilisation of oilseed products. Global vegetables oil stocks are also expected to decline further by about 7 per cent during 2007-08 (to 8.1 million tonnes) on top of almost 15 per cent decline witnessed last year, partly due to growing demand from the biofuel industry. Notwithstanding higher coarse grains production, mainly on account of record production of maize in the US following record high prices, the world's year-ending stocks are projected to decline by almost 8 per cent due to forecast about increase in feed use of coarse grains, especially corns. Rice prices also increased during the third quarter of 2007-08 (around 10 per cent), reflecting low stocks. According to the USDA, rice stocks are expected to decline by about 4 per cent in 2007-08. Global barley stocks are also projected to decline to their lowest levels in 42 years at 15.1 million tonnes during 2007-08. Thus, global food prices are likely to remain firm given the prospects for various crops and their lower levels of year-ending stocks.

International sugar prices remained largely range bound during the third quarter of 2007-08, reflecting higher production in traditional importing countries. Prices in December 2007 were 41 per cent lower than the recent peak touched in February 2006. According to the International Sugar Organisation, global sugar production is estimated to increase further by 4.3 million tonnes to 170.3 million tonnes during 2007-08 (October-September) season, exceeding global consumption by 11.1 million tonnes. On the other hand, global cotton prices increased marginally during September-December 2007 on top of an increase of about 12 per cent during June-September 2007, 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 13 per cent during 2007-08 due to an estimated decline in world cotton stocks by about 12 per cent to 11.2 million tonnes in 2007-08. World cotton production is, however, expected to increase by about 5 per cent in 2008-09, reflecting expected rise in yields.

In response to high food prices, especially of wheat, corns and oilseeds/ edible oils and their implications for headline inflation and inflationary expectations, Governments in both developed and developing countries have resorted to numerous market interventions in the form of price controls, reduction of import barriers and/or imposition of export restrictions to contain price increases and prevent consumption from falling.

Inflation Conditions in India

The Annual Policy Statement for 2007-08 (April 2007) of the Reserve Bank had 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 unfolds. It had also reaffirmed the resolve to respond swiftly with all possible measures to developments impinging on inflation expectations and the growth momentum. Noting that the overarching policy challenge was to manage the transition to a higher growth path while containing inflationary pressures, the policy preference for the period ahead was indicated as strongly in favour of price stability and well-anchored inflation expectations with the endeavour being to contain inflation close to 5.0 per cent in 2007-08 and to the range of 4.0-4.5 per cent over the medium-term. This objective, according to the Statement, would be conducive for maintaining self-accelerating growth over the medium-term.

The First Quarter Review of Annual Statement on Monetary Policy for 2007-08 (July 2007) noted that there were indications that the combination of lagged and cumulative effects of monetary policy actions and fiscal and administrative measures for supply management had had a salutary effect on inflation expectations, and headline inflation had turned benign in sharp contrast to the last quarter of 2006-07. Going forward, the Review added that monetary management would need to be watchful of movements in commodity prices, particularly oil prices, the elevated levels of asset prices and the re-emergence of pricing power among producers as potential threats to inflation expectations. The outlook for inflation in 2007-08 was, however, left unchanged in the Review. Furthermore, the Reserve Bank reiterated its resolve to continue with its policy of active demand management of liquidity through the use of all the policy instruments at its disposal flexibly, as and when the situation warranted. On a review of the liquidity situation, the cash reserve ratio (CRR) was raised further by 50 basis points each with effect from the fortnight beginning August 4, 2007 and November 10, 2007 (Table 32).

Table 32: 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 31, 2007	6.00	7.75 (+0.25)	6.00	5.9
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
August 4, 2007	6.00	7.75	7.00 (+0.50)	4.4
November 10, 2007	6.00	7.75	7.50 (+0.50)	3.2

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 document 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.

The Mid-term Review of the Annual Policy for 2007-08 (October 2007) noted that while the headline inflation outcomes in the recent past, juxtaposed with expectations survey results and information from financial markets, were indicative of reasonably well-anchored inflation expectations, some of the developments had shown that there were major risks to this assessment that were evolving. Threats to inflation in the future emanated not only from domestic liquidity conditions but also from the underlying global pressures. The possible impact of injection of liquidity by central banks to meet the recent turbulence in global financial markets on global inflation was not clear. In any case, globally, pressures on future inflation were embedded in the high and volatile levels of international crude prices as well as prices of food and metals. A key issue going forward in this regard, according to the Review, was the timing of the pass-through in the context of the expected path of headline inflation. Hence, over the next twelve to eighteen months, risks to inflation and inflation expectations would continue to demand priority in policy monitoring. Accordingly, on a review of the then prevailing liquidity situation, it was considered desirable to increase the CRR by 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007.

The Mid-term Review further noted that the policy resolve going forward should be to consolidate the success in lowering inflation on an enduring basis so that an environment of stability prevails to nurture and protect the transition to higher growth. Accordingly, it reiterated the policy endeavour of containing 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, it further resolved to condition expectations in the range of 4.0-4.5 per cent so that an inflation rate of around 3.0 per cent becomes a medium-term objective consistent with India's broader integration into the global economy.

Wholesale Price Inflation

Headline inflation, based on movement in the wholesale price index (WPI), was 3.8 per cent on January 5, 2008 (3.4 per cent at end-September 2007) as compared with 5.9 per cent at end-March 2007 (and 6.4 per cent a year ago). The easing in inflation from a year ago was mainly led by primary food articles and some manufactured products items. The y-o-y inflation, excluding fuel, at 3.8 per cent, came closer to the headline inflation rate (Table 33 and Chart 21). Headline inflation has moved in a range of 3.0-6.4 per cent during 2007-08 so far. The annual average WPI inflation rate (average of 52 weeks) for the week ended January 5, 2008 eased to 4.7 per cent from 5.3 per cent at end-September 2007 and 4.9 per cent a year ago.

Primary articles' inflation, y-o-y, eased to 4.1 per cent on January, 5 2008 from 6.2 per cent at end-September 2007 and 9.4 per cent a year ago (10.7 per cent at end-March 2007). The deceleration was mainly due to easing of food articles' inflation to 2.7 per cent from 9.5 per cent a year ago, which

Table 33: Wholesale Price Inflation in India (year-on-year)

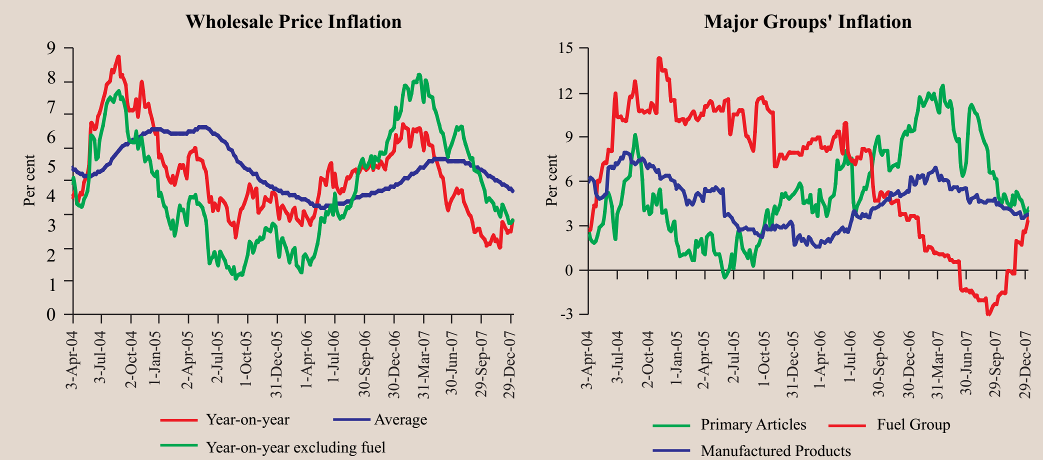
(Per cent)

Commodity	Weight	2006-07 (March 31) Inflation	2006-07 (March 31) WC	2006-07 (January 6) Inflation	2006-07 (January 6) WC	2007-08 (P) (January 5) Inflation	2007-08 (P) (January 5) WC
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**5.9**	**100.0**	**6.4**	**100.0**	**3.8**	**100.0**
1. Primary Articles	**22.0**	**10.7**	**39.0**	**9.4**	**32.4**	**4.1**	**24.5**
Food Articles	15.4	8.0	20.8	9.5	23.0	2.7	11.1
i. Rice	2.4	5.7	2.1	5.3	1.8	7.2	4.0
ii. Wheat	1.4	7.3	1.8	17.4	3.9	-2.2	-0.9
iii. Pulses	0.6	12.5	1.4	26.0	2.6	-9.2	-1.8
iv. Vegetables	1.5	1.2	0.3	2.2	0.5	7.1	2.4
v. Fruits	1.5	5.7	1.8	12.6	3.6	-10.6	-5.4
vi. Milk	4.4	8.4	5.8	8.2	5.2	9.5	10.4
vii. Eggs, Fish and Meat	2.2	9.4	3.8	2.0	0.8	2.3	1.5
Non-Food Articles	6.1	17.2	15.6	9.6	8.4	8.4	12.7
i. Raw Cotton	1.4	21.9	3.5	-3.9	-0.7	24.5	6.2
ii. Oilseeds	2.7	31.6	11.0	22.9	7.6	10.0	6.5
iii. Sugarcane	1.3	1.1	0.3	1.1	0.3	0.0	0.0
Minerals	0.5	17.5	2.6	7.0	1.1	1.9	0.5
2. Fuel, Power, Light and Lubricants	**14.2**	**1.0**	**4.0**	**3.6**	**12.9**	**3.7**	**21.2**
i. Mineral Oils	7.0	0.5	1.1	3.4	7.1	5.4	18.1
ii. Electricity	5.5	2.3	2.8	4.9	5.7	-0.7	-1.4
iii. Coal Mining	1.8	0.0	0.0	0.0	0.0	8.8	4.5
3. Manufactured Products	**63.8**	**6.1**	**57.3**	**6.3**	**54.6**	**3.7**	**54.9**
i. Food Products	11.5	6.1	10.5	4.0	6.6	5.3	14.3
of which: Sugar	3.6	-12.7	-6.6	-4.0	-1.9	-10.3	-7.4
Edible Oils	2.8	14.1	4.7	12.7	4.0	8.9	5.1
ii. Cotton Textiles	4.2	-1.0	-0.6	3.4	1.8	-7.2	-6.2
iii. Man Made Fibres	4.4	3.9	1.3	2.4	0.8	3.3	1.7
iv. Chemicals and Chemical Products	11.9	3.6	7.1	2.6	4.7	5.5	16.0
of which : Fertilisers	3.7	1.8	1.0	1.8	0.9	1.5	1.3
v. Basic Metals, Alloys and Metal Products	8.3	11.3	17.4	15.1	21.2	2.3	5.8
of which: Iron and Steel	3.6	8.1	6.0	11.4	7.7	7.6	9.1
vi. Non-Metallic Mineral Products	2.5	9.0	3.6	14.1	4.8	8.7	5.4
of which: Cement	1.7	11.6	3.2	19.4	4.5	10.7	4.7
vii. Machinery and Machine Tools	8.4	8.1	8.6	8.0	7.9	5.2	8.7
of which: Electrical Machinery	5.0	12.9	6.7	11.9	5.7	8.1	6.8
viii. Transport Equipment and Parts	4.3	2.0	1.2	1.2	0.7	2.1	1.9
Memo:							
Food Items (Composite)	**26.9**	**7.3**	**31.2**	**7.3**	**29.7**	**3.7**	**25.4**
WPI Excluding Food	**73.1**	**5.5**	**68.8**	**6.0**	**70.3**	**3.8**	**74.6**
WPI Excluding Fuel	**85.8**	**7.4**	**96.0**	**7.2**	**87.1**	**3.8**	**78.8**

WC : Weighted Contribution. P : Provisional.

was led by the decline in the prices of wheat, pulses, fruits, and condiments and spices, partly offset by increase in the prices of rice and milk. Wheat prices declined by 2.2 per cent, year-on-year, as on January 5, 2008 as against

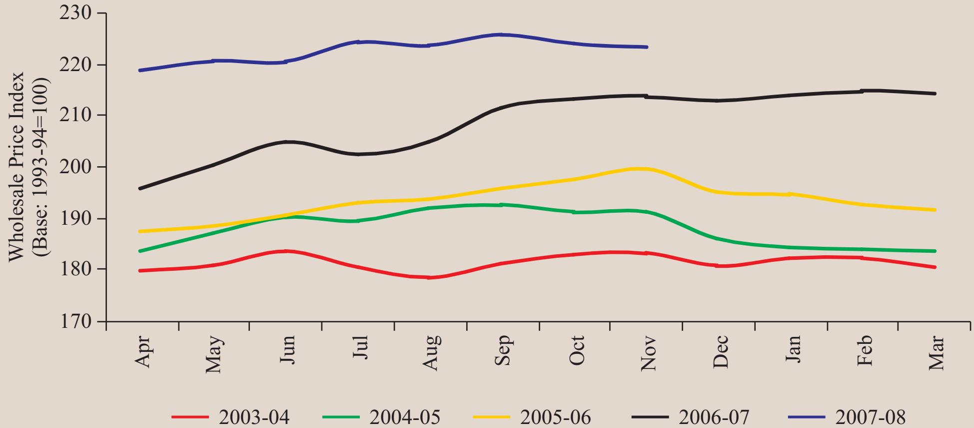
Chart 21: Annual WPI Inflation



an increase of 17.4 per cent a year ago, reflecting expectations about improved production following the normal monsoon and supply-side measures undertaken by the Government. Notwithstanding the y-o-y decline, domestic wheat prices remained at elevated levels. These along with firm international prices, lower acreage under the domestic *rabi* wheat crop (which is down by about 2 per cent, y-o-y, as per the latest data available up to January 18, 2008) and sluggish yield raise concerns, especially as domestic consumption is rising. Rice prices increased by 7.2 per cent, y-o-y, on top of 5.3 per cent a year ago, reflecting lower stocks (at around 10.7 million tonnes as on November 1, 2007 which was lower than 12.5 million tonnes a year ago). Elevated rice prices continued to be a matter of concern in view of the decline in stocks, low productivity and exposure of the crop to frequent weather-related disturbances in the main producing regions as well as other structural factors. Prices of oilseeds, y-o-y, increased by 10.0 per cent on top of an increase of 22.9 per cent a year ago, which could be attributed to higher demand, lower domestic production during 2006-07 season, lower acreage under the current *rabi* crop (which is down by almost 11 per cent, y-o-y, as per the latest data available up to January 18, 2008) as well as rising global prices. Raw cotton prices were 24.5 per cent higher, y-o-y, as on January 5, 2008 as against a decline of 3.9 per cent in the corresponding period of previous year, in line with international price movements; as noted earlier, the Cotlook A index is expected to increase by 13 per cent during 2007-08 (Chart 22).

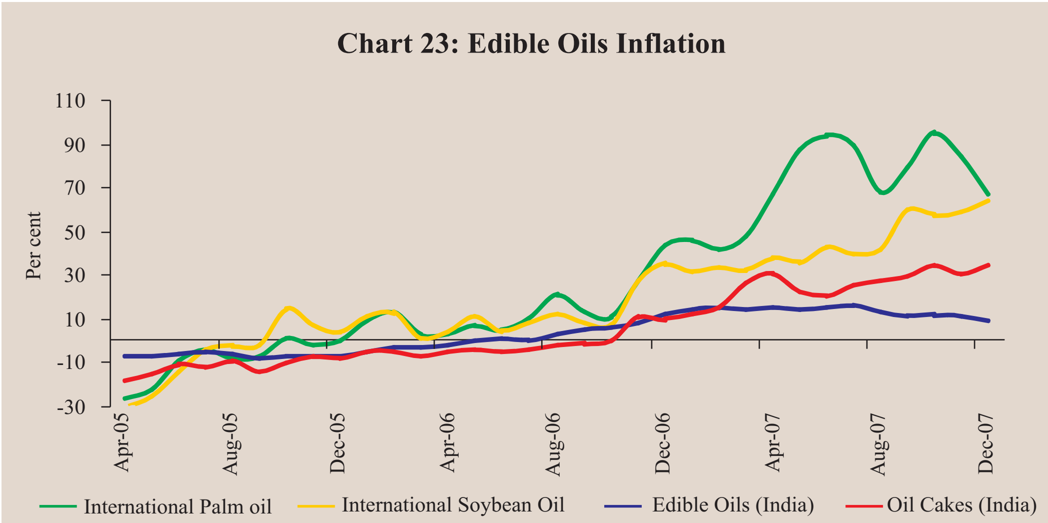
Fuel group inflation, which was negative during June-November 2007, turned positive from the beginning of December 2007 (3.7 per cent on January 5, 2008) partly reflecting the base effects of fuel (petrol and diesel) price cuts

Chart 22: Primary Articles Prices



last year and increase in the prices of some petroleum products such as naphtha, furnace oil and aviation turbine fuel. In this context it may be noted that domestic prices of petrol and diesel have remained unchanged since February 2007, when domestic prices were last cut, even as international crude prices (Indian basket) increased by almost 56 per cent from US $ 56.6 a barrel in February 2007 to US $ 88.2 a barrel level by December 2007. Furthermore, domestic prices of kerosene and liquefied petroleum gas (LPG) have also not been raised by the Government since April 2002 and November 2004, respectively, on grounds of societal concerns. Thus, headline inflation has remained suppressed at the current juncture and inflation risks on account of oil prices remain incipient.

Manufactured products inflation, y-o-y, eased to 3.7 per cent on January 5, 2008 from 4.5 per cent at end-September 2007 and 6.1 per cent at end-March 2007; it was 6.3 per cent a year ago. The deceleration in manufactured products inflation, y-o-y, was mainly due to decline in the prices of non-ferrous metals by 9.3 per cent (against an increase of 43.3 per cent a year ago), textiles by 3.5 per cent (2.4 per cent) and sugar by 10.3 per cent (as compared with a decline of 4.0 per cent). Within the manufactured products group, price of edible oils (increase of 8.9 per cent), oil cakes (42.9 per cent), chemicals (5.5 per cent), cement (10.7 per cent), iron and steel (7.6 per cent) and electrical machinery (8.1 per cent) increased, on a year-on-year basis, on January 5, 2008 (see Table 33). These commodities together contributed 57 per cent to the overall WPI inflation on January 5, 2008. While domestic non-ferrous metals prices have declined in line with the international trends, domestic iron

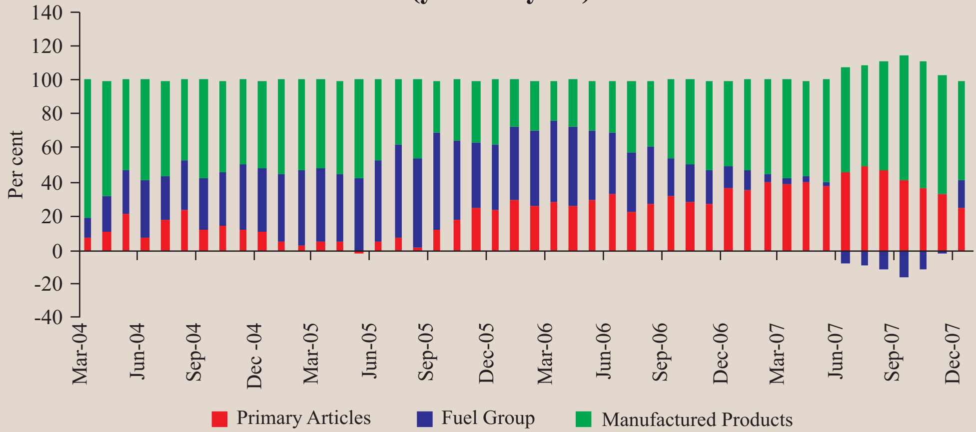


and steel prices have increased even as international steel prices remained flat during the year. Higher prices of cement could be attributed largely to the strong demand from the construction sector and high capacity utilisation rates in the cement industry [94 per cent during 2007-08 (April-December) as compared with 92 per cent a year ago]. The hardening of electrical machinery prices reflected higher input prices as well as investment demand. The firming up of domestic edible oils and oil cakes prices reflected stagnant domestic production, increased demand and rise in international prices (Chart 23). It may be noted that India imported a record 4.7 million tonnes of edible and non-edible oils during the year November 2006-October 2007 according to the Solvent Extractors' Association of India. Edible oils and oil cakes along with oilseeds accounted for more than one-fourth of headline inflation on January 5, 2008.

Overall, manufactured products were the major driver of annual year-on-year WPI inflation as on January 5, 2008 (with weighted contribution of 54.9 per cent), followed by primary articles (24.5 per cent) and the fuel group (21.2 per cent) (Chart 24).

In order to contain inflationary pressures, the Government initiated a number of fiscal and supply-augmenting 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. As per the principle of equitable burden sharing among the different stakeholders, the Government, on October 11, 2007, decided to bear the burden to the extent of 42.7 per cent of the under-recoveries in the retail sale of petroleum products by oil marketing companies through issuance of oil bonds. Furthermore, the subsidy schemes

Chart 24: Major Groups' Weighted Contribution to WPI Inflation (year-on-year)



for kerosene and LPG, which were available through the public distribution system (PDS) till March 2007, were extended till March 2010.

The Government has also taken several measures with the aim of containing food price inflation. The Government reduced customs duty on palm oils by 10 percentage points in April 2007 and by another 5 percentage points in July 2007, and import duty on various edible oils in a range of 5-10 percentage points in July 2007 as well as withdrew the 4 per cent additional countervailing duty on all edible oils. Import of wheat at zero duty, which was available up to end-December 2006, was extended further to end-December 2007. Customs duty on import of pulses was reduced to zero on June 8, 2006 and the period of validity of import of pulses at zero duty, which was initially available up to March 2007, was first extended to August 2007 and further to March 2009. A ban was imposed on export of pulses with effect from June 22, 2006 and the period of validity of prohibition on exports of pulses, which was initially applied up to end-March 2007, was further extended up to end-March 2008. In order to increase the availability of onion, the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) increased the minimum export price (MEP) by US $ 100 per tonne for all destinations from August 20, 2007 and by another US $ 50 per tonne with effect from October 2007 for restricting exports and augmenting availability in the domestic market. The minimum support price (MSP) for paddy has been raised by Rs. 65 per quintal (with an additional incentive bonus of Rs. 100) and for wheat by Rs. 250 per quintal for this year. These measures have supplemented the various pre-emptive monetary measures undertaken by the Reserve Bank since mid-2004 and helped in containing inflation and inflationary expectations.

Consumer Price Inflation

Inflation based on year-on-year variation in consumer price indices (CPIs) also eased during November/December 2007 (from a year ago) but continued to remain above the WPI inflation, mainly reflecting the impact of food prices and their higher weights in the CPI *vis-à-vis* WPI (Table 34). The measures of

Table 34: 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	Sep. 2007	Oct. 2007	Nov. 2007	Dec. 2007
1	2	3	4	5	6	7	8	9	10	11	12
CPI-IW (Base: 2001=100)#											
General	**100.0**	**4.1**	**3.5**	**4.2**	**4.9**	**6.7**	**5.7**	**6.4**	**5.5**	**5.5**	--
Food Group	46.2	3.7	3.1	1.6	4.9	12.2	8.1	8.7	7.8	--	--
Pan, Supari *etc.*	2.3	1.9	4.2	2.1	3.1	4.4	9.6	10.3	10.3	--	--
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	3.2	1.6	2.3	1.5	--	--
Housing	15.3	5.4	3.9	20.4	6.6	4.1	4.1	4.0	4.0	--	--
Clothing, Bedding *etc.*	6.6	1.5	2.1	2.3	3.0	3.7	4.4	5.3	4.4	--	--
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3	4.0	4.0	4.8	--	--
CPI-UNME (Base: 1984-85=100)											
General	**100.0**	**3.8**	**3.4**	**4.0**	**5.0**	**7.6**	**6.1**	**5.7**	**5.5**	**5.1**	**5.1**
Food Group	47.1	2.6	3.0	2.2	5.3	10.9	7.7	7.7	6.8	5.9	6.2
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4	7.2	7.0	6.6	6.2	5.4
Housing	16.4	6.3	5.2	7.5	5.5	5.6	5.6	4.9	4.7	4.7	4.7
Clothing, Bedding *etc.*	7.0	2.6	2.6	2.0	2.9	3.6	4.3	4.0	3.9	4.2	4.1
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4	3.7	3.2	3.2	3.4	3.8
CPI-AL (Base: 1986-87=100)											
General	**100.0**	**4.9**	**2.5**	**2.4**	**5.3**	**9.5**	**7.8**	**7.9**	**7.0**	**6.2**	**5.9**
Food Group	69.2	6.0	1.6	2.2	5.5	11.8	8.8	8.8	7.8	6.4	6.2
Pan, Supari *etc.*	3.8	3.5	4.7	-1.3	6.6	5.7	9.1	11.1	10.8	11.0	11.3
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.9	7.4	7.2	6.9	6.6	6.3
Clothing, Bedding *etc.*	7.0	3.0	4.1	2.5	2.2	3.5	2.7	1.9	1.6	1.3	1.3
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.8	6.7	5.5	5.5	5.2	5.2
CPI-RL (Base: 1986-87=100)											
General	**100.0**	**4.8**	**2.5**	**2.4**	**5.3**	**9.2**	**7.5**	**7.6**	**6.7**	**5.9**	**5.6**
Food Group	66.8	5.6	1.9	1.9	5.8	11.5	8.5	8.8	7.6	6.2	6.2
Pan, Supari *etc.*	3.7	3.5	4.7	-1.0	6.3	5.7	9.3	11.6	11.0	11.1	11.5
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.9	7.4	7.2	6.9	6.9	6.3
Clothing, Bedding *etc.*	9.8	3.3	3.4	2.8	2.7	3.1	2.6	2.1	2.1	2.3	2.6
Miscellaneous	11.9	3.1	3.0	5.5	5.2	6.3	6.2	5.3	5.3	5.2	5.0
Memo:											
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	5.9	4.4	3.4	3.1	3.0	3.5
GDP Deflator based Inflation*		3.9	3.7	4.2	4.4	5.3	5.2	4.2			--

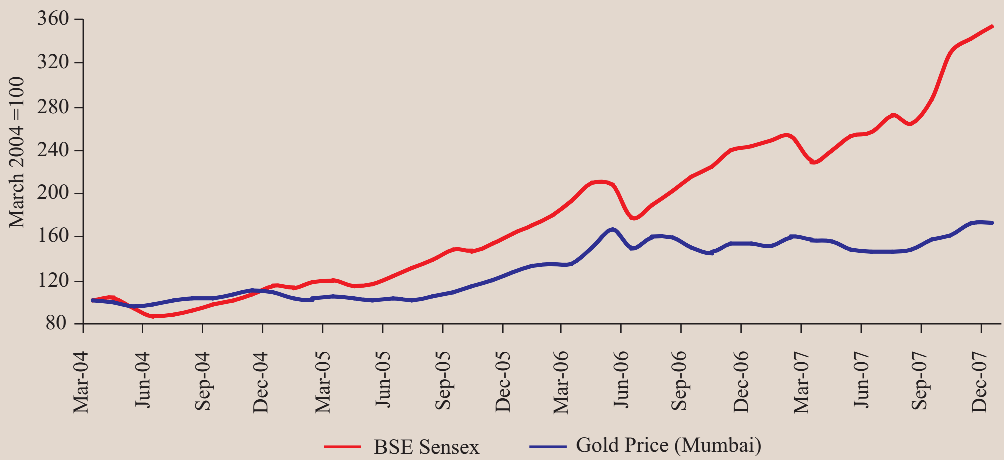
\# : Data prior to January 2006 are based on the old series (Base: 1982=100)

* : Data for March pertain to full year.

IW : Industrial Workers. UNME : Urban Non-Manual Employees.

AL : Agricultural Labourers. RL : Rural Labourers.

Chart 25: Asset Price Movements



consumer price inflation were placed in the range of 5.1-5.9 per cent during November/December 2007 as compared with 5.7-7.9 per cent in September 2007 (and 6.7-9.5 per cent in March 2007). Disaggregated data show that food group inflation in various CPI measures (except for industrial workers) eased to 6.2 per cent during December 2007 from 7.7-8.8 per cent in September 2007; it was in the range of 10.9-12.2 per cent in March 2007.

Asset Prices

Domestic equity prices recorded further gains during the third quarter of 2007-08, amidst intermittent corrections (see Chapter V). This reflected a number of factors such as strong domestic growth, healthy corporate performance, liquidity support from both FIIs and domestic mutual funds. Bullion prices also firmed up during the third quarter in line with international trends (Chart 25). Domestic gold prices have increased by about 10 per cent since September 2007 to an average of around Rs. 10,298 per 10 grams in December 2007 (these were Rs. 9,369 per 10 grams in March 2007) in line with movement in international prices, which increased by almost 13 per cent over the same period. International gold prices touched a high of US $ 840 per ounce on November 9, 2007, reflecting weakening of US dollar, hardening of oil prices and uncertainties surrounding the global financial markets. International gold prices rose further to a peak of US $ 893 per ounce on January 16, 2008.

V. FINANCIAL MARKETS

International Financial Markets

During 2007-08, international financial markets remained volatile as uncertainties about the US sub-prime mortgage market and other credit markets exposures persisted. To ease liquidity conditions, major central banks continued to inject liquidity in a more collaborative manner. Elevated inflationary pressures in many economies reflected historical peaks in crude oil prices. Share prices in advanced economies fell, while those in emerging market economies (EMEs) recorded gains though with intermittent corrections due to country-specific factors. Long-term government bond yields in advanced economies softened, reflecting flight to safety by investors and easing of monetary policy in the US. In the currency markets, the US dollar depreciated against major currencies.

Financial markets in the recent period have witnessed heightened uncertainty, triggered by a sharp repricing of risk following problems in the US sub-prime mortgage market. Recent financial market developments have unfolded against the backdrop of an expanded period of strong broad-based global growth and overall financial stability. The congruence of favourable macroeconomic conditions, abundant liquidity and low nominal rates generated low perception of financial risks. Investor appetite for high returns in a low interest rate environment encouraged market participants to undertake progressively higher risks, stimulated further technological development for unbundling and distributing risks through financial markets and boosted demand for a range of high yielding and complex financial products. Greater appetite for structured instruments was evident in the rapid rise in the issuance of collateralised debt obligations (CDOs).

Delinquency rates on sub-prime mortgages (residential loans extended to individuals with poor credit histories) had started rising markedly after mid-2005. However, the trigger for deterioration in the credit market was provided by the news that two hedge funds, which were active in the structured markets for credit instruments that had sub-prime exposure, had suffered heavy losses and almost lost their capital. The market value of credit products based on sub-prime mortgages also declined[1]. These losses were aggravated by a sharp fall in financial market liquidity as investors became reluctant to invest in such products. These events resulted in a tightening in underwriting standards, with fewer households qualifying for sub-prime loans. Losses on mortgage exposures worsened following adverse developments in the US housing market. There was further downgrading of asset backed securities (ABS) with underlying assets as US sub-prime residential

---

[1] Cash flows generated by sub-prime mortgages were often repackaged into structured credit products and sold to investors.

mortgages. Many issuers of asset-backed commercial paper (ABCP) programs found it extremely difficult to roll over maturing asset backed paper into new longer-term paper. The uncertainty over financial system exposures spread to banks and hedge funds outside the US as they indicated their exposures to this market. The rating agencies also announced that they would be downgrading ABSs with underlying pools of sub-prime mortgages.

In the credit market, the US five-year CDX high-yield index rose by 270 basis points to around 525 between end-May and late July 2007, while the corresponding US investment grade index widened by about 45 basis points to a high of 81 in early August 2007. In Europe, the five-year iTraxx Crossover CDS index climbed by 280 basis points to 471 in late July, 2007, while the headline iTraxx Europe investment grade index increased by 48 basis points to a high of 68. These increases in credit spreads coincided with a significant reduction in investor risk tolerance.

In the wake of these events, activity in ABCP dwindled, while concerns about banks being forced to take ABCP exposures on to their balance sheets generated apprehensions about an impending credit crunch. Inability of commercial paper issuing vehicles to finance at longer maturities induced them to seek liquidity needs from their sponsor banks, which in turn, prompted banks to hoard liquidity. The uncertainty about the quality of counterparty assets also aggravated the situation. The disturbances, thus, spilled over into short-term money markets, causing steep increases in overnight interest rates in major economies in August 2007. The UK witnessed some of the sharpest increases in the inter-bank rates as liquidity problems at the mortgage lender Northern Rock became more pronounced eventually triggering a bank run. The government bond yields in industrialised countries declined sharply with the yield on the 10-year paper in the US dropping by around 65 basis points, and those in the euro area and Japan by around 40 basis points each by late August 2007 over first half of June 2007 as markets sold off and investors retreated from risky assets.

In August 2007, central banks in the US and other affected economies, therefore, injected liquidity to stabilise inter-bank markets. Open market operations of increased size and maturity were undertaken by the Bank of England, European Central Bank (ECB) and the US Federal Reserve System. The types of securities against which banks could borrow were broadened by the US Fed and ECB to include mortgage backed securities. The US Fed also decided to accept ABCP as collateral. On August 17, 2007, the US Federal Open Market Committee (FOMC) lowered its discount rate by 50 basis points to 5.75 per cent, bringing in some calmness in markets. The Bank of England provided emergency liquidity assistance to Northern Rock bank. The US FOMC, at its meeting held on September 18, 2007, decided to cut the fed funds target rate by 50 basis points from 5.25 per cent to 4.75 per cent and correspondingly the federal discount rate from 5.75 per cent to

5.25 per cent. While the primary concern of the FOMC till August 2007 was the existence of inflationary pressures, the risks to economic growth were indicated an added concern in its September 18, 2007 statement.

As a consequence of successive central bank liquidity injections into the inter-bank money markets and lower policy rates in the US, the credit markets recovered briefly in early October 2007. Renewed concerns about the uncertainty in the US housing market and direct and indirect exposures to associated economic and financial risks from mid-October 2007 led to widening of credit spreads. Mirroring the developments in the US, the credit spreads widened in the Euro area. Market conditions weakened for structured instruments, reflecting the deteriorating asset quality and uncertainties about valuation of structured credit products. This also reflected worsening of sentiment in the money market beginning mid-October 2007 as liquidity conditions became adverse leading to rise in inter-bank rates. The swap spreads between three-month inter-bank interest rates and overnight index swaps rose sharply reflecting greater preference for liquidity and rising counterparty risk premia. Market participants evinced keen interest in government paper. Bond yields also fell in anticipation of weakening of economic activity and expectations of further monetary policy easing in the United States.

In order to improve liquidity, the US Federal Reserve Board reduced its fed funds target rate by 25 basis points each on October 31, 2007 and December 11, 2007. The Bank of England and the Bank of Canada also reduced their policy rates. In the situation of heightened tensions and serious impairment of functioning of the money markets, five central banks, *viz.*, the Bank of Canada, the Bank of England, the European Central Bank, the US Federal Reserve System and the Swiss National Bank announced measures on December 12, 2007 in a collaborative manner to address elevated pressures. Actions taken by the US Federal Reserve included the establishment of a temporary Term Auction Facility (TAF) and the establishment of foreign exchange swap lines with the European Central Bank and the Swiss National Bank. The TAF allowed a potentially much larger pool of banks to bid for funds direct from the US Fed. The goal of the TAF was to reduce the incentive for banks to hold cash and increase their willingness to provide credits to households and firms. The ECB announced that the Eurosystem would conduct two US dollar liquidity-providing operations, in connection with the US dollar TAF, against ECB-eligible collateral for a maturity of 28 and 35 days. The Bank of England expanded the amount of reserves offered at three months maturity in its long-term repo open market operations scheduled on December 18, 2007 and January 15, 2008. It also widened the range of collateral accepted for funds advanced at this maturity. The Bank of Canada announced that it would enter into term purchase and resale agreements extending over the calendar year-end.

In the UK, the Government had to extend guarantees to depositors of Northern Rock bank to avoid contagion in the banking system. The Northern Rock bank was also provided a large loan by the Bank of England. Under a fresh rescue plan under current consideration of the authority, the money lent to Northern Rock bank could be converted into government bonds, a move that would allow a private buyer to reduce the burden of heavy loan repayment immediately.

The downside risks to economic growth in the US are becoming increasingly more pronounced in the wake of likely softening in consumer spending due to higher energy prices, lower equity prices and housing downturn. Business investments in equipment and software as well as non-residential construction are also expected to slow down. In view of these concerns, equity markets in several countries in Asia declined sharply on January 21, 2008. In the wake of further worsening of the baseline outlook for real activity in 2008 and increasing downside risks to growth, the US Fed reduced the fed funds target rate sharply by 75 basis points to 3.50 per cent on January 22, 2008, taking the total reduction to 175 basis points beginning September 18, 2007. The Bank of Canada also lowered its benchmark overnight rate by 25 basis points to 4.0 per cent on January 22, 2008.

Recent financial market developments raise several issues and concerns. First, while the practices of increased use of innovative credit instruments and complex layering of risk diffusion have reduced information costs, they have also enabled the investor or risk taker to become progressively remote from the ultimate borrowers where the actual risks reside. With a host of intermediaries in the form of mortgage brokers, mortgage companies and societies, packaging their mortgage assets including non-conforming loans and selling down to different categories of investors, including Special Investment Vehicles (SIVs), and hedge funds, the identification and location of risks in the whole chain is becoming increasingly challenging.

Second, the role of rating agencies has also come under scrutiny. The issues such as small number of rating agencies and the possible conflict of interest clearly suggest that the reliance only on rating agencies for risk assessment needs to be avoided.

Third, the confidence is also falling in the strength of the insurers that guarantee payments on bonds (monoline industry). Two major bond insurers are reportedly have huge exposures in securities backed by assets, including sub-prime mortgages. Some of the bond insurers in fact, have already been downgraded by the rating agencies because of the losses on the sub-prime mortgage bonds they had insured. The cost of buying protection against defaults by US companies has also risen.

Fourth, as far as role of central banks is concerned, on one hand, there is a view that increased credibility of monetary policy has enhanced expectations for stability in both inflation and interest rates, which has led to the mispricing of risk and hence enhanced risk taking. On the other hand, another view is the repeated assurances of stability and guidance to markets about the future path of interest rates by the central banks, coupled with the availability of ample liquidity have led markets to underprice risks.

Recent developments have highlighted the need for central banks to improve the understanding of the continuously evolving financial system. There is also a need to reassess the issue of separation of monetary policy and bank supervision with the growing impact of endogenous liquidity as such separation would inhibit rather than facilitate the conduct of monetary policy. Furthermore, there is a need to strengthen, directly or indirectly, scrutiny of financial activities that have migrated outside their formal jurisdiction. There is also a need for the central banks to operate monetary policy with varied instruments both rate and quantum at their disposal. The recent financial market developments have also highlighted the vulnerabilities created by off-balance sheet exposures, and issues relating to liquidity risk management by banks.

The spreads of even the investment grade corporate bonds in the international markets have widened significantly in the recent period. This would have implications for the corporate sector in India as they, in the recent period, have increased their reliance on external commercial borrowing (ECB).

The money and credit markets in India have so far remained relatively insulated from the international financial market developments. India's exposure to troubled sub-prime assets and related derivatives is negligible in comparison with many other economies. Notwithstanding some reports of accelerated emergence of non-performing assets with regard to consumer credit, housing and real estate in a few banks, preliminary assessment showed that they do not have systemic implications either in terms of solvency or liquidity. This has reflected the nuanced and gradual approach in India's financial sector reform process with building up of appropriate safeguards to ensure stability, while taking account of the prevailing governance standards, risk management systems and incentive frameworks in financial institutions in the country. Although the equity market in India has been impacted by global uncertainties and the trends in equity markets in advanced and other EMEs, the overall conditions in financial markets have, by and large, remained orderly. The Reserve Bank continues to maintain enhanced vigilance so as to respond appropriately to the prevailing uncertainties in global financial conditions. The policy challenge is to continue to ensure financial stability in India during the period of heightened uncertainties, while maintaining the momentum of high growth and ensuring price stability.

Developments during the Third Quarter of 2007-08

Short-term interest rates in the US declined during the third quarter of 2007-08 reflecting the monetary easing. Short-term interest rates in the EMEs witnessed a mixed trend, firming up in Argentina, China, South Korea and Thailand, while softening in Hong Kong and Philippines (Table 35). Bangko Sentral

Table 35 : Short-term Interest Rates

(Per cent)

Region/Country	End of					
	March 2006	March 2007	June 2007	September 2007	December 2007	January 2008*
1	2	3	4	5	6	7
Advanced Economies						
Euro Area	2.80	3.91	4.16	4.73	4.88	4.51
Japan	0.04	0.57	0.63	0.73	0.73	0.74
Sweden	1.99	3.21	3.42	3.54	4.02	4.02
UK	4.58	5.55	5.92	6.28	6.41	5.58
US	4.77	5.23	5.27	4.72	4.16	3.74
Emerging Market Economies						
Argentina	9.63	9.63	9.25	12.31	14.50	12.94
Brazil	16.54	12.68	11.93	11.18	11.18	11.18
China	2.40	2.86	3.08	3.86	4.35	4.48
Hong Kong	4.47	4.17	4.43	4.97	3.73	3.12
India	**6.11**	**7.98**	**7.39**	**7.19**	**7.35**	**7.10**
Malaysia	3.51	3.64	3.62	3.62	3.62	3.62
Philippines	7.38	5.31	6.19	6.94	6.56	6.25
Singapore	3.44	3.00	2.55	2.56	2.56	1.75
South Korea	4.26	4.94	5.03	5.34	5.71	5.86
Thailand	5.10	4.45	3.75	3.55	3.90	3.55

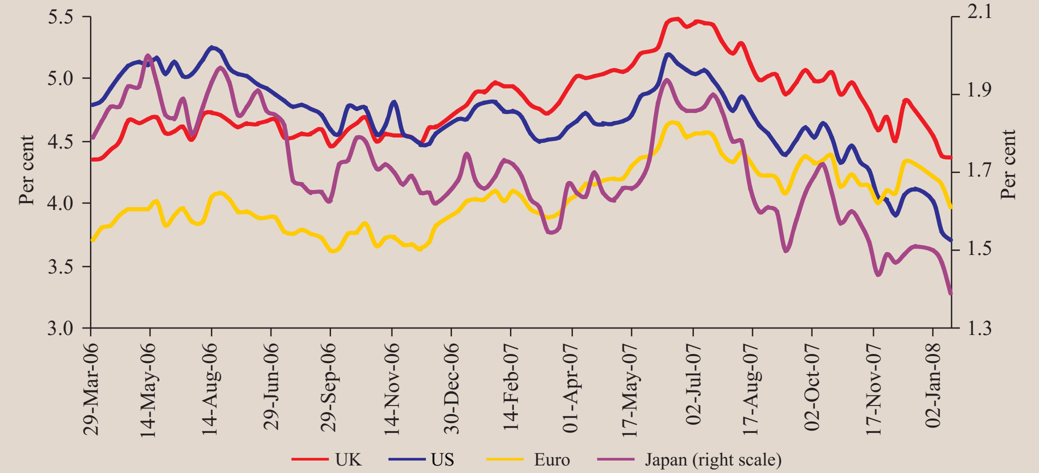
*: As on January 16, 2008.
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

ng Pilipinas (Philippines) lowered its key policy rates on December 20, 2007. The Bangko Sentral ng Pilipinas had earlier also reduced its key policy rates on October 4, 2007 and November 15, 2007. Central banks in China, Taiwan, South Africa and Norway, however, increased their policy rates during the quarter to contain inflation and stabilise inflationary expectations.

Long-term Government bond yields softened in major advanced economies during the third quarter of 2007-08, reflecting lower investor appetite for riskier assets in the wake of deteriorating housing market, turmoil in the credit market and monetary policy easing in the US (Chart 26). Between end-September 2007 and end-December 2007, 10-year yield declined by 49 basis points in the US, 33 basis points in the UK, 14 basis points in Japan and 6 basis points in the Euro area. Between end-March 2007 and end-December 2007, 10-year yield declined by 50 basis points in the US, 18 basis points in the UK and 16 basis points in Japan, while it increased by 29 basis points in the Euro area.

Equity markets in the EMEs recorded further gains during the third quarter of 2007-08 amidst intermittent corrections due mainly to strong portfolio flows, buoyant merger and acquisition activity, continued higher GDP growth and healthy corporate earnings. Equity markets in the advanced economies, however, declined somewhat on account of sub-prime losses, credit squeeze, slump in the US home sales, concerns over slowdown in the US economy, depreciation of the US dollar against major currencies, dismal performance of

Chart 26: 10-year Government Bond Yields



the financial sector and increase in international crude oil prices. Between end-March 2007 and January 16, 2008, the MSCI emerging market index increased by 25.6 per cent, while the MSCI world (developed) market index declined by 2.7 per cent. The gains in EMEs were led by stock markets in China (66.5 per cent), India (54.2 per cent), Egypt (51.0 per cent), Indonesia (44.0 per cent), Brazil (32.1 per cent) and Hong Kong (25.0 per cent) (Chart 27).

In the foreign exchange market, the US dollar depreciated against major currencies during 2007-08 (up to January 17, 2008) (Table 36). The sub-prime crisis, declining capital inflows to the US, fed rate cuts, weaker US housing

Chart 27: Variation in International Stock Market Indices

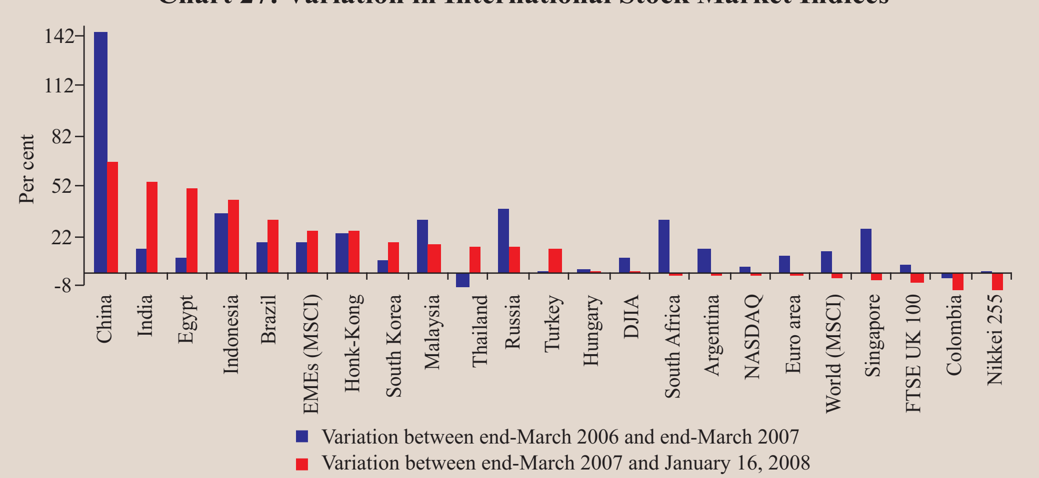


Table 36: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other Currencies

(Per cent)

Currency	End-March 2006 @	End-March 07 @	January 17, 2008 *
1	2	3	4
Euro	7.1	-9.1	-9.3
Pound Sterling	8.5	-11.4	-0.2
Japanese Yen	9.4	0.2	-9.0
Chinese Yuan	-3.1	-3.4	-6.2
Russian Rubble	-0.6	-6.1	-5.8
Turkish Lira	-2.0	3.2	-15.2
Indian Rupee	**2.2**	**-2.5**	**-9.9**
Indonesian Rupiah	-4.3	0.5	3.6
Malaysian Ringgit	-3.0	-6.2	-5.1
South Korean Won	-4.7	-3.7	-0.2
Thai Baht	-0.7	-9.9	-5.4
Argentine Peso	5.4	0.7	1.5
Brazilian Peso	-18.1	-6.4	-14.2
Mexican Peso	-2.6	1.3	-0.8
South African Rand	-0.5	17.2	-3.6

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

data and lower consumer confidence led the US dollar to depreciate against other major currencies, touching a historic low against the euro during October 2007. The US dollar also weakened against the Canadian dollar and the Australian dollar mainly due to surge in crude oil prices. The US dollar's weakness against the Chinese yuan reflected widening of floating band from 0.3 per cent to 0.5 per cent by the Chinese authority in May 2007. The US dollar's weakness against the Thai baht reflected the Thai currency's appreciation largely due to the growing current account surpluses.

Domestic Financial Markets

Indian financial markets remained generally orderly for the most part of the third quarter of 2007-08 except for some volatility in overnight interest rates and in the equity market. Swings in cash balances of the Government and capital flows were the main drivers of liquidity conditions in the financial markets and volatility in overnight interest rates. Interest rates in the overnight money markets mostly remained within the informal corridor set by reverse repo and repo rates during the third quarter of 2007-08. Interest rates in the collateralised segment of the overnight money market hardened but remained below the call rate during the quarter. In the foreign exchange market, the Indian rupee generally appreciated during the quarter. Yields in the Government securities market remained range-bound. The stock markets remained buoyant and the benchmark indices reached new highs (Table 37). The stock markets, however, witnessed some volatility beginning mid-January 2008 reflecting, *inter alia,* global uncertainties. The primary market segment of the capital market witnessed increased activity in the third quarter of 2007-08.

Table 37: Domestic Financial Markets at a Glance

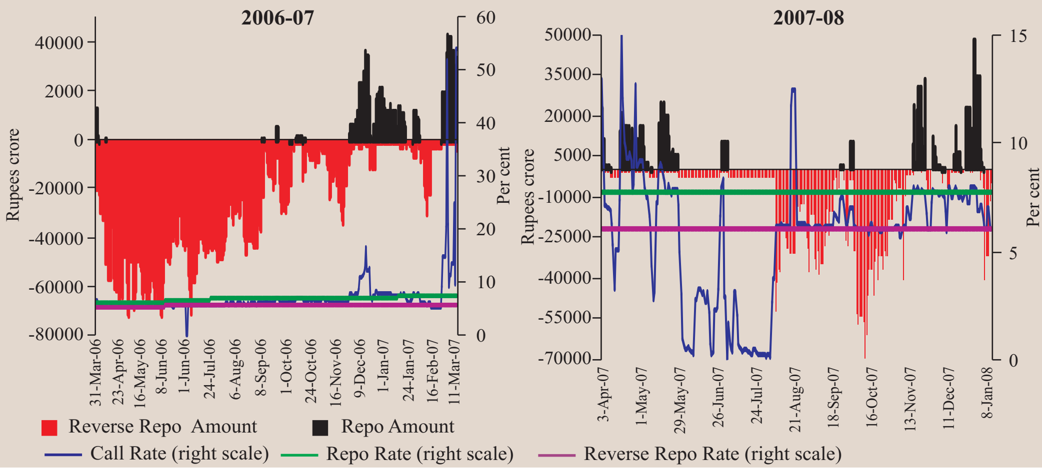
Year/ Month	Call Money		Government Securities		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rs. crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rs. crore)+	Average 10-year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US $ million)	Average Exchange Rate (Rs. per US $)	RBI's net Foreign Currency Sales (-)/ Purchases (+) (US $ million)	Average 3-month Forward Premia (Per cent)	Average MSS Out-standing# (Rs. crore)	Average Daily LAF Out-standing (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. crore)	Average BSE Sensex**	Average S & P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004-05	**14,170**	**4.65**	**4,826**	**6.22**	**8,892**	**44.93**	**20,847 ##**	**1.66**	**46,445**	**35,592**	**2,050**	**4,506**	**5741**	**1805**
2005-06	**17,979**	**5.60**	**3,643**	**7.12**	**12,738**	**44.27**	**8,143 ##**	**1.60**	**58,792**	**10,986**	**3,248**	**6,253**	**8280**	**2513**
2006-07	**21,725**	**7.22**	**4,863**	**7.78**	**18,540**	**45.25**	**26,824 ##**	**2.14**	**37,698**	**21,973**	**3,832**	**7,812**	**12277**	**3572**
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	21,171	44.33	2,830	4.22	39,553	-10,738	4,380	8,757	13983	4037
Feb 2007	23,254	7.16	4,386	7.90	20,298	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	25,992	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	3,192	2.59	83,049	1,689	4,537	9,221	14334	4222
Jul 2007	16,581	0.73	13,273	7.94	32,119 P	40.41	11,428	1.12	82,996	2,230	5,684	12,147	15253	4474
Aug 2007	23,603	6.31	6,882	7.95	33,445 P	40.82	1,815	1.59	1,00,454	21,729	4,820	10,511	14779	4301
Sep 2007	21,991	6.41	5,859	7.92	36,557 P	40.34	11,867	1.45	1,17,674	16,558	6,157	13,302	16046	4660
Oct 2007	18,549	6.03	5,890	7.92	39,453 P	39.51	12,544	1.12	1,58,907	36,665	9,049	20,709	18500	5457
Nov 2007	20,146	6.98	4,560	7.94	30,677 P	39.44	7,827	1.40	1,75,952	-2,742	7,756	18,837	19260	5749
Dec 2007	16,249	7.50	7,704	7.91	_	39.44	_	1.64	1,64,606	-10,804	8,606	19,283	19827	5964

* : 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.
MSS : Market Stabilisation Scheme.
BSE : Bombay Stock Exchange Limited.
NSE : National Stock Exchange of India Limited.
P : Provisional
\- : Not available.
Note: In column 11, (-) indicates injection of liquidity, while (+) indicates absorption of liquidity.

Money Market

Following the withdrawal of the ceiling of Rs.3,000 crore on daily reverse repo acceptance under the LAF and the discontinuation of the Second LAF with effect from August 6, 2007, the weighted average rate in the call money market moved into the informal corridor set by reverse repo and repo rates till the first week of November 2007 (Chart 28). In the wake of relative tightness in the money market from the second week of November 2007, however, the call/ notice money market rates edged up and moved around the upper bound of the informal corridor. This was mainly because of festive season demand for currency, increase in Government cash balances with the Reserve Bank and hike in the cash reserve ratio (CRR) by 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007. The average call/notice money market

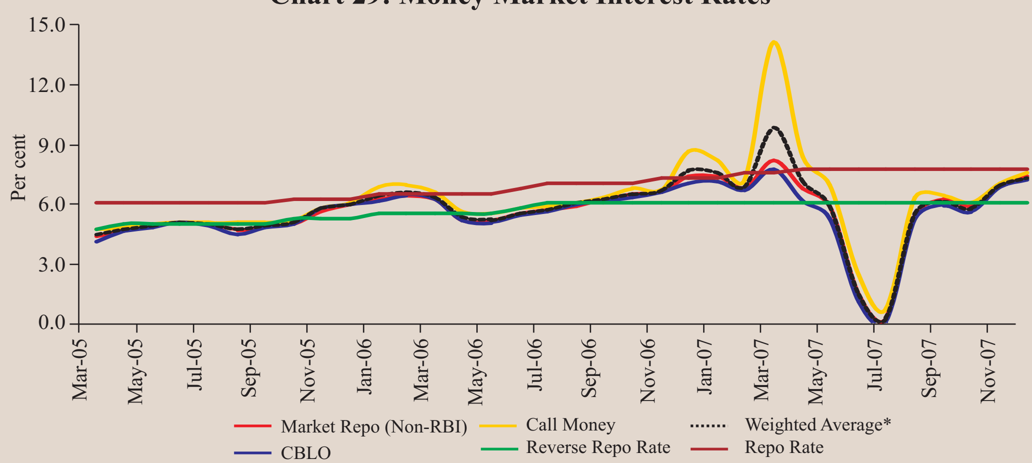
Chart 28: Liquidity Adjustment Facility and the Call Rate



rate rose to 6.98 per cent in November 2007 from 6.03 per cent in October 2007. In December 2007, the call/notice rate moved around the repo rate and the average call/notice rate for December 2007 was at 7.50 per cent. Since the first week of January 2008 the call/notice money market rates softened hovering around the reverse repo rate as liquidity conditions eased. The average call/notice rate was 6.22 per cent as on January 22, 2008.

Interest rates in the collateralised segment of the money market – market repo (outside the LAF) and collateralised borrowing and lending obligation (CBLO) – increased in line with call rates, but remained below the call money rate during October-December 2007 (Chart 29). During October-

Chart 29: Money Market Interest Rates



* : Weighted average of interest rates in call money, CBLO and market repo segments.

Table 38: Activity in Money Market Segments

(Rupees crore)

Year/ Month	Average Daily Volume (One Leg)					Commercial Paper		Certificates of Deposit	
	Call Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Total (2+3+4)	Term Money Market	Outstanding	WADR (per cent)	Outstanding	WADR (per cent)
1	2	3	4	5	6	7	8	9	10
2004-05	**7,085**	**4,284**	**3,349**	**14,718**	**263**	**11,723**	**5.34**	**6,052**	**-**
2005-06	**8,990**	**5,296**	**10,020**	**24,306**	**417**	**17,285**	**6.46**	**27,298**	**-**
2006-07	**10,863**	**8,419**	**16,195**	**35,477**	**506**	**21,372**	**8.08**	**65,021**	**8.23**
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	10.75
May 2007	10,238	8,965	20,810	40,013	277	22,024	9.87	99,715	9.87
Jun 2007	8,413	10,295	20,742	39,450	308	26,256	8.93	98,337	9.37
Jul 2007	8,290	12,322	20,768	41,380	288	30,631	7.05	1,05,317	7.86
Aug 2007	11,802	16,688	26,890	55,380	319	31,527	8.30	1,09,224	8.67
Sep 2007	10,995	17,876	29,044	57,915	265	33,614	8.95	1,18,481	8.57
Oct 2007	9,275	15,300	29,579	54,154	221	42,183	7.65	1,24,232	7.91
Nov 2007	10,073	12,729	28,614	51,416	184	41,308	9.45	1,27,142	8.48
Dec 2007	8,124	13,354	30,087	51,565	509	41,425 @	9.48 @	1,25,326 *	8.60 *

-: Not available. *: As on December 7, 2007.
WADR: Weighted Average Discount Rate. @: As on December 15, 2007.

December 2007, interest rates averaged 6.84 per cent, 6.54 per cent and 6.73 per cent, respectively, in the call, CBLO and market repo segments (7.36 per cent, 6.64 per cent and 6.79 per cent, respectively, a year ago). The weighted average rate in all the three money market segments combined together was 6.64 per cent during October-December 2007 (6.92 per cent a year ago).

The collateralised market remained the predominant segment of the money market, accounting for about 83 per cent of the total volume during the third quarter of 2007-08 (Table 38). In both the CBLO and market repo segments, mutual funds have been the major lenders, while banks and primary dealers (PDs) have been the major borrowers.

Certificates of Deposit

The outstanding amount of certificates of deposit (CDs) increased to Rs. 1,25,326 crore (5.8 per cent of deposits of issuing banks) as on December 7,

Table 39: Commercial Paper - Major Issuers

(Rupees crore)

Category of Issuer	End of				
	March 2006	March 2007	June 2007	September 2007	December 2007@
1	2	3	4	5	6
Leasing and Finance	9,400	12,569	18,260	24,396	27,856
	(73.9)	(70.5)	(69.5)	(72.6)	(67.2)
Manufacturing	1,982	2,754	3,956	5,538	9,804
	(15.6)	(15.4)	(15.1)	(16.5)	(23.7)
Financial Institutions	1,336	2,515	4,040	3,680	3,765
	(10.5)	(14.1)	(15.4)	(10.9)	(9.1)
Total	**12,718**	**17,838**	**26,256**	**33,614**	**41,425**
	(100.0)	**(100.0)**	**(100.00)**	**(100.0)**	**(100.0)**

@ : As on December 15, 2007.
Note: Figures in parentheses are percentage shares in the total outstanding.

2007 from Rs.93,272 crore at end-March 2007 (4.8 per cent of aggregate deposits) (see Table 38). Mutual funds were the major investors in CDs. As on December 7, 2007, the weighted average discount rate (WADR) declined to 8.60 per cent from 10.75 per cent as at end-March 2007 in tandem with the decline in other money market rates.

Commercial Paper

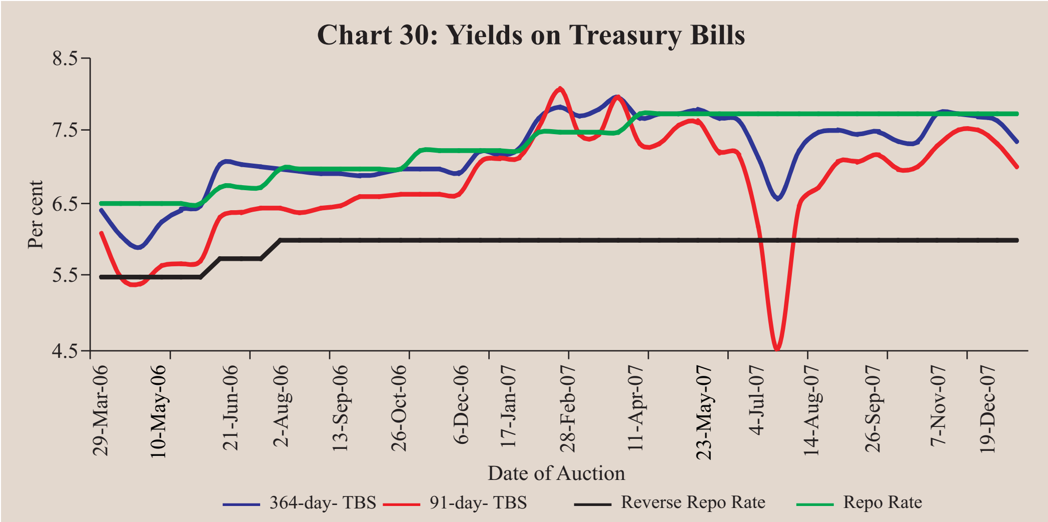
Issuances of commercial paper (CP) increased in the third quarter of 2007-08. Commercial paper outstanding rose to Rs.41,425 crore by December 15, 2007 from Rs. 17,838 crore at end-March 2007 (see Table 38). The weighted average discount rate (WADR) on CP declined to 9.48 per cent as on December 15, 2007 from 11.33 per cent at end-March 2007 following the easing of the liquidity conditions in the short-term money market. The most preferred maturity of CP was for period ranging from '6-month to 12-month'. Leasing and financing companies continued to be the major issuers of CP partly reflecting the policy decision to phase out the access of these companies to public deposits (Table 39).

Treasury Bills

The primary market yields on Treasury Bills (TBs) softened during the third quarter of 2007-08, especially in October 2007, reflecting easy liquidity conditions and cut in the fed funds target rate (Chart 30). Yields hardened again in November 2007 with hike in the CRR by 50 basis points with effect from November 10, 2007. The yield spread between 364-day and 91-day TBs declined to 28 basis points in December 2007 from 40 basis points in September 2007 (17 basis points in March 2007) (Table 40).

Foreign Exchange Market

During the third quarter of 2007-08, the Indian rupee generally appreciated *vis-à-vis* the US dollar. Between end-March 2007 and January 23,



2008, the rupee moved in the range of Rs.39.26-43.15 per US dollar. The rupee's appreciation reflected, *inter alia,* large capital inflows, weakening of

Table 40: Treasury Bills in the Primary Market

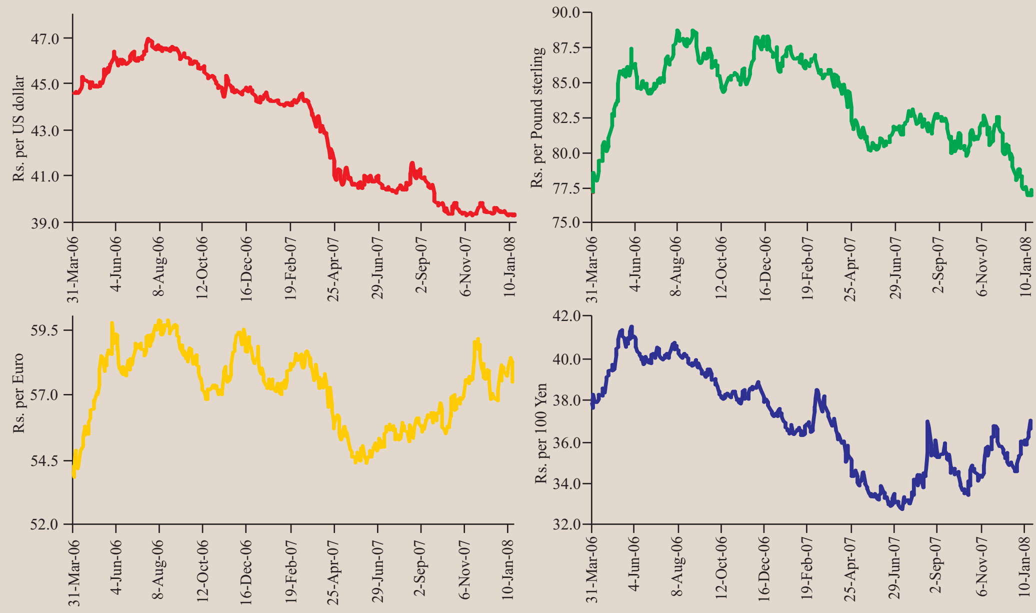
Month	Notified Amount (Rupees crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Average Bid-Cover Ratio		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
2004-05	**1,38,500 @**	**4.91**	**-**	**5.16**	**2.43**	**-**	**2.52**
2005-06	**1,55,500 @**	**5.68**	**5.82**	**5.96**	**2.64**	**2.65**	**2.45**
2006-07	**1,86,500 @**	**6.64**	**6.91**	**7.01**	**1.97**	**2.00**	**2.66**
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	6.15	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	7.73	7.98	7.90	2.08	2.15	3.87
Apr 2007	15,000	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	7.41	7.76	6.67	3.23	4.11	3.97
Jul 2007	12,500	5.07	5.94	6.87	4.48	2.70	4.56
Aug 2007	20,500	6.74	7.37	7.42	2.11	1.41	2.46
Sep 2007	25,000	7.08	7.33	7.48	2.07	2.91	2.83
Oct 2007	28,500	7.11	7.45	7.37	2.16	1.73	3.23
Nov 2007	22,500	7.47	7.65	7.75	1.63	1.38	1.88
Dec 2007	7,500	7.41	7.60	7.69	4.41	4.61	3.67

@: 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).

Chart 31: Movement of Rupee *vis-a-vis* Major Currencies



US dollar *vis-à-vis* other currencies and strong domestic stock markets. The exchange rate of the rupee was Rs.39.57 per US dollar as on January 23, 2008. At this level, the Indian rupee appreciated by 10.2 per cent over its level on March 31, 2007. Over the same period, the rupee appreciated by 10.5 per cent against the Pound sterling, 0.4 per cent against the Euro and 3.1 per cent against the Chinese yuan, while depreciated by 0.5 per cent against the Japanese yen (Chart 31).

On an average basis, the 36-currency trade weighted nominal effective exchange rate (NEER) and real effective exchange rate (REER) of Indian rupee appreciated by 7.5 per cent and 7.6 per cent, respectively, between March 2007 and October 2007. Over the same period, the 6-currency trade weighted NEER and REER appreciated by 7.5 per cent and 7.8 per cent, respectively (Table 41). The 6-currency NEER and REER, however, depreciated by 0.8 per cent and 1.3 per cent, respectively, between end-September 2007 and January 17, 2008.

Forward premia remained lower than their end-March 2007 levels (Chart 32). However, the one-month and three-month forward premia increased from 0.75 per cent each at end-September 2007 to 2.60 per cent and 2.34 per cent, respectively, as on January 17, 2008.

The average daily turnover in the foreign exchange market increased to US $ 45.9 billion during April-November 2007 from US $ 23.8 billion in the

Table 41: Nominal and Real Effective Exchange Rate of the Indian Rupee (Trade Based Weights)

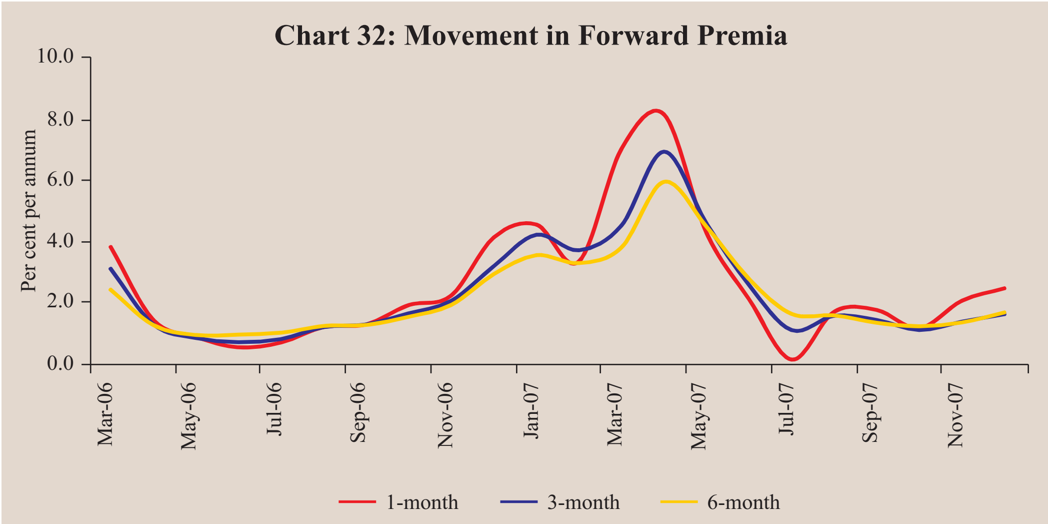
Year/Month	Base : 1993-94 (April-March) = 100			
	6-Currency Weights		36-Currency Weights	
	NEER	REER	NEER	REER
1	2	3	4	5
1993-94	100.00	100.00	100.00	100.00
2001-02	76.04	102.71	91.58	100.86
2002-03	71.27	97.68	89.12	98.18
2003-04	69.97	99.17	87.14	99.56
2004-05	69.58	101.78	87.31	100.09
2005-06	72.28	107.30	89.85	102.35
2006-07 (P)	68.93	105.47	85.88	98.50
Mar 2006	72.45	107.41	89.52	101.25
Apr 2006	71.04	105.75	87.73	98.19
May 2006	68.79	103.48	85.43	96.42
Jun 2006	68.21	103.06	85.11	96.57
Jul 2006	67.59	102.25	84.22	95.73
Aug 2006	67.08	102.14	83.61	95.61
Sep 2006	67.84	104.75	84.65	97.98
Oct 2006	69.11	107.25	86.18	99.94
Nov 2006	69.34	107.82	86.50	100.32
Dec 2006	68.82	106.39	85.89	99.16
Jan 2007 (P)	69.77	107.70	87.05	100.73
Feb 2007 (P)	69.88	107.71	87.20	100.71
Mar 2007 (P)	69.70	107.41	87.11	100.75
Apr 2007 (P)	72.18	111.59	91.50	103.79
May 2007 (P)	74.64	115.67	94.38	107.22
Jun 2007 (P)	74.83	115.28	93.24	107.28
Jul 2007 (P)	74.62	115.27	93.09	107.46
Aug 2007 (P)	73.91	114.24	92.64	106.90
Sep 2007 (P)	74.11	115.14	92.93	107.66
Oct 2007 (P)	74.92	115.80	93.68	108.43
Nov 2007 (P)	73.82	114.03	-	-
Dec 2007 (P)	74.17	114.54	-	-
January 17, 2008	74.11	114.51	-	-

NEER: Nominal Effective Exchange Rate. REER: Real Effective Exchange Rate.
P: Provisional. -: Not available.
Note: Rise in indices indicates appreciation of the rupee and *vice versa.*

corresponding period of 2006. While inter-bank turnover increased to US $ 31.9 billion from US $ 17.2 billion, the merchant turnover increased to US $ 14.0 billion from US $ 6.6 billion (Chart 33). The ratio of inter-bank to merchant turnover was 2.4 during April-November 2007 as compared with 2.6 a year ago.

Credit Market

Interest rates of public sector banks (PSBs) on deposits of maturity of one year to three years were placed in the range of 8.00-9.25 per cent in January 2008 as compared with the range of 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



8.00-9.00 per cent as compared with the range of 7.50-9.50 per cent during the same period.

Benchmark Prime Lending Rates (BPLRs) of PSBs increased from the range of 12.25-12.75 per cent in March 2007 to the range of 12.50-13.50 per cent in January 2008. BPLRs of private sector banks also increased to the range of 13.00-16.50 per cent in January 2008 from 12.00-16.50 per cent in March 2007. The range of BPLRs of foreign banks, however, remained unchanged during this period (Table 42 and Chart 34).

The weighted average BPLR of PSBs and private sector banks increased from 12.43 per cent and 14.34 per cent, respectively, in March 2007 to 13.07 per cent

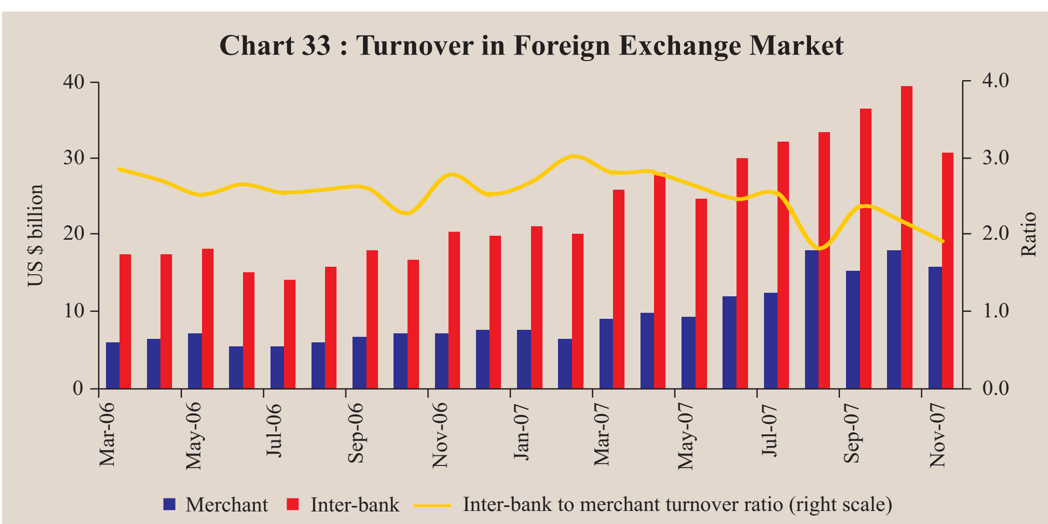


Table 42: Deposit and Lending Rates

(Per cent)

Item	March 2006	March 2007	June 2007	September 2007	December 2007	January 2008
1	2	3	4	5	6	7
1. Domestic Deposit Rate						
Public Sector Banks						
Up to 1 year	2.25-6.50	2.75-8.75	2.75-8.75	2.75-8.50	2.75-8.50	2.75-8.50
More than 1 year and up to 3 years	5.75-6.75	7.25-9.50	7.25-9.75	8.00-9.00	8.00-9.25	8.00-9.25
More than 3 years	6.00-7.25	7.50-9.50	7.75-9.75	8.00-9.50	8.00-9.00	8.00-9.00
Private Sector Banks						
Up to 1 year	3.50-7.25	3.00-9.00	3.00-9.50	2.50-9.25	2.50-8.50	2.50-8.50
More than 1 year and up to 3 years	5.50-7.75	6.75-9.75	6.75-10.25	6.25-10.00	7.25-9.60	7.25-9.60
More than 3 years	6.00-7.75	7.75-9.60	7.50-10.00	7.25-10.00	7.25-10.00	7.25-10.00
Foreign Banks						
Up to 1 year	3.00-6.15	3.00-9.50	0.25-9.00	2.00-9.00	2.00-9.25	2.00-9.25
More than 1 year and up to 3 years	4.00-6.50	3.50-9.50	3.50-9.50	2.00-9.50	2.00-9.75	2.00-9.75
More than 3 years	5.50-6.50	4.05-9.50	4.05-9.50	2.00-9.50	2.00-9.50	2.00-9.50
2. Benchmark Prime Lending Rate						
Public Sector Banks	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50	12.50-13.50	12.50-13.50
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-17.25	13.00-16.50	13.00-16.50	13.00-16.50
Foreign Banks	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-15.50
3. Actual Lending Rate*						
Public Sector Banks	4.00-16.50	4.00-17.00	4.00-17.75	4.00-17.75	-	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-26.00	4.00-24.00	-	-
Foreign Banks	4.75-26.00	5.00-26.50	2.98-28.00	2.00-28.00	-	-

- : Not available.
* : 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.

and 15.14 per cent in December 2007. The weighted average BPLR of foreign banks also increased from 12.63 per cent to 14.00 per cent during the same period.

Chart 34: Deposit and Lending Rates-Public Sector Banks

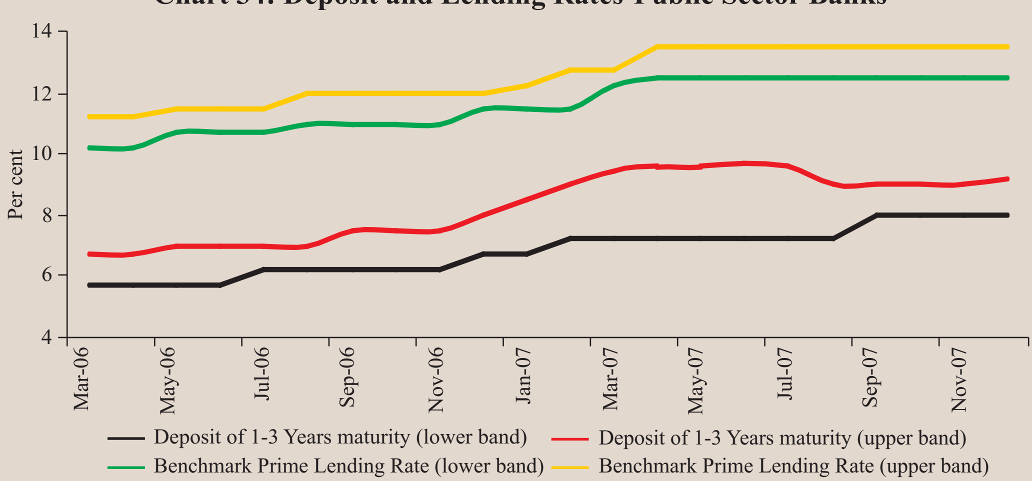
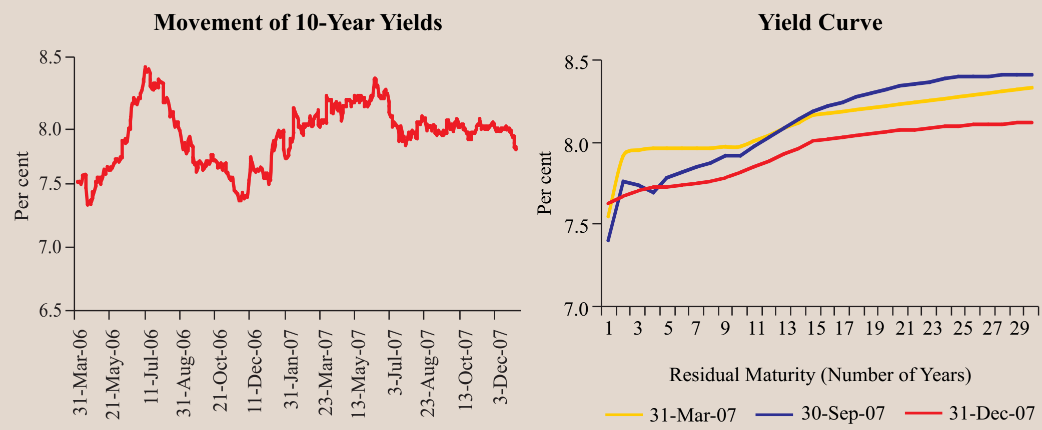


Chart 35: Yields on Central Government Securities



Government Securities Market

Yields in the Government securities market remained range-bound during the third quarter of 2007-08, partly reflecting global trends in yields, lower inflation and easy liquidity conditions (Chart 35). Yields softened since the first week of January 2008 reflecting easy liquidity conditions and lower inflation. The 10-year yield moved in a range of 7.42-8.32 per cent during 2007-08 (up to January 23, 2008). As on January 23, 2007, the yield was 7.42 per cent, 55 basis points lower than that at end-March 2007. The spread between 1-10 year yields was 19 basis points at end-December 2007 as compared with 52 basis points at end-September 2007 (42 basis points at end-March 2007). The spread between 10-year and 30-year yields was 31 basis points at end-December 2007 as compared with 49 basis points at end-September 2007 (37 basis points at end-March 2007).

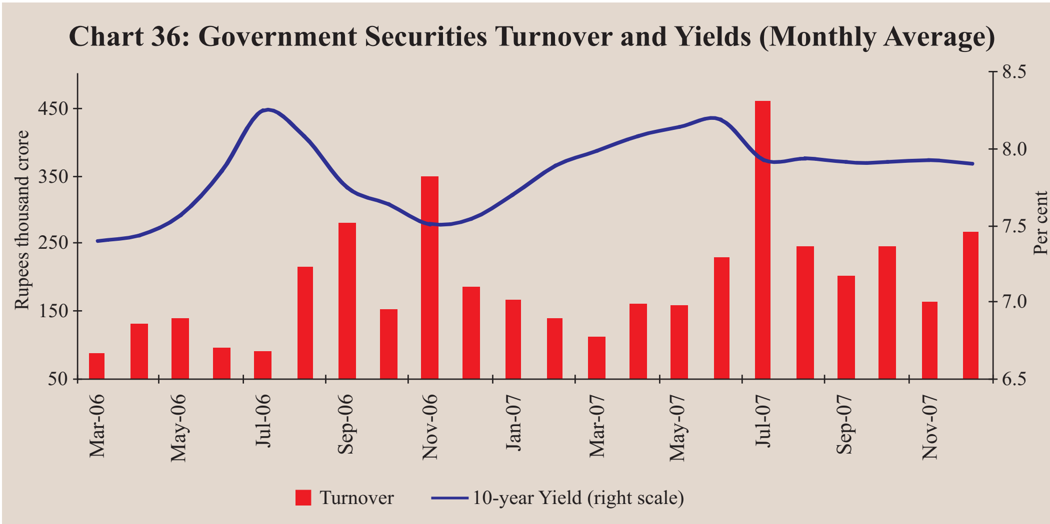
The turnover in the Government securities market declined in November 2007 after increasing in October 2007 on account of hike in the CRR. The turnover, however, increased in December 2007 (Chart 36).

The yield on 5-year AAA-rated corporate bonds softened during the third quarter of 2007-08. The credit spread between the yields on 5-year AAA-rated bonds and 5-year Government securities narrowed to 127 basis points at end-December 2007 from 157 basis points at end-September 2007 (142 basis points at end-March 2007) (Chart 37).

Equity Market

Primary Market

Resources raised through public issues increased sharply during April-December 2007 over the corresponding period of last year. Cumulative resources raised through public issues during April-December 2007 increased by 101.9 per cent to Rs. 49,215 crore. The number of issues increased from 79



in April-December 2006 to 91 in April-December 2007 (Table 43). The average size of public issues also increased to Rs.541 crore during April-December 2007 from Rs.309 crore during April-December 2006. All public issues during April-December 2007 were in the form of equity, barring one. Out of 91 issues during April-December 2007, 65 issues were initial public offerings (IPOs), accounting for 49.8 per cent of total resource mobilisation.

Mobilisation of resources through private placement increased by 25.6 per cent to Rs.94,386 crore during April-September 2007 over the corresponding period of the previous year (Table 43). Resources mobilised by private sector entities increased by 45.1 per cent, while those by public sector entities increased by

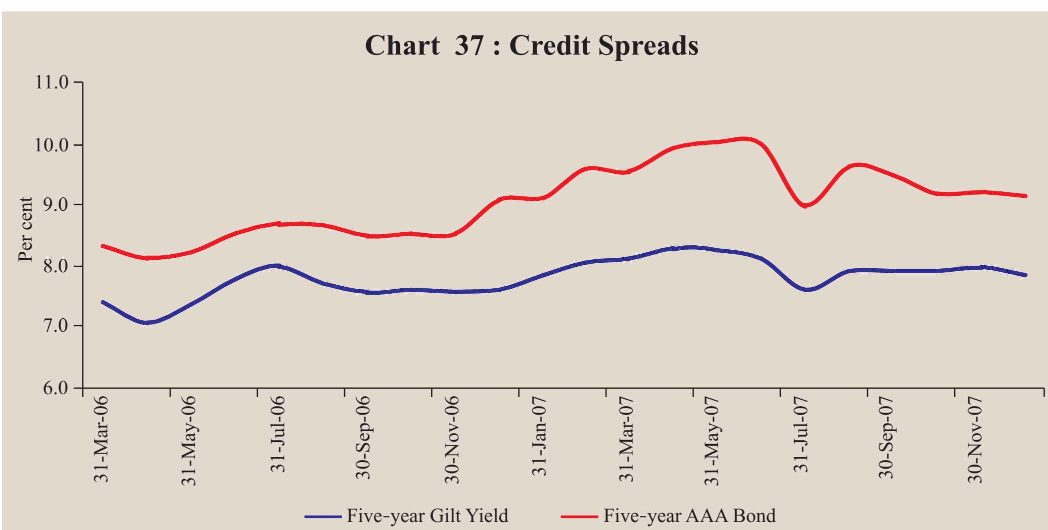


Table 43: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	2006-07 (April-December)		2007-08 (April-December) P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	**79**	**24,381**	**88**	**45,883**
a) Financial	6	1,032	9	13,986
b) Non-financial	73	23,349	79	31,897
2. Public Sector (a+b+c)	**-**	**-**	**3**	**3,332**
a) Public Sector Undertakings	-	-	2	2,516
b) Government Companies	-	-	-	-
c) Banks/Financial Institutions	-	-	1	816
3. Total (1+2)	**79**	**24,381**	**91**	**49,215**
of which:				
(i) Equity	77	23,625	90	48,715
(ii) Debt	2	756	1	500
	2006-07(April-September)		2007-08 (April-September)	
B. Private Placement				
1. Private Sector	**718**	**40,639**	**824**	**58,977**
a) Financial	269	23,630	423	35,346
b) Non-financial	449	17,009	401	23,631
2. Public Sector	**66**	**34,501**	**52**	**35,409**
a) Financial	54	28,882	39	26,131
b) Non-financial	12	5,619	13	9,278
3. Total (1+2)	**784**	**75,140**	**876**	**94,386**
of which:				
(i) Equity	783	75,083	-	-
(ii) Debt	1	57	876	94,386
Memo:				
C. Euro Issues (Apr-Dec) #	**35**	**8,840**	**15**	**14,417**

P : Provisional. * : Excluding offers for sale.

- : Nil/Negligible. # : Includes ADRs and GDRs only.

only 2.6 per cent during April-September 2007. Financial intermediaries (both from public sector and private sector) accounted for the bulk (65.1 per cent) of the total resource mobilisation from the private placement market during April-September 2007 (69.9 per cent during April-September 2006).

Resources raised through Euro issues – American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) – by Indian corporates during April-December 2007 at Rs.14,417 crore were substantially higher than those during the corresponding period of previous year (Table 43).

During April-December 2007, net mobilisation of resources by mutual funds increased by 55.6 per cent to Rs.1,23,993 crore over the corresponding period of 2006 (Table 44). Scheme-wise, 81.5 per cent of net mobilisation of funds was

Table 44 : Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	April-March		April-December			
	2006-07		2006-07		2007-08	
	Net Mobilisation @	Net Assets#	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets #
1	2	3	4	5	6	7
Private Sector	79,038	2,62,079	64,140	2,56,725	1,05,868	4,47,174
Public Sector *	14,947	64,213	15,568	66,873	18,125	1,02,762
Total	**93,985**	**3,26,292**	**79,708**	**3,23,598**	**1,23,993**	**5,49,936**

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

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

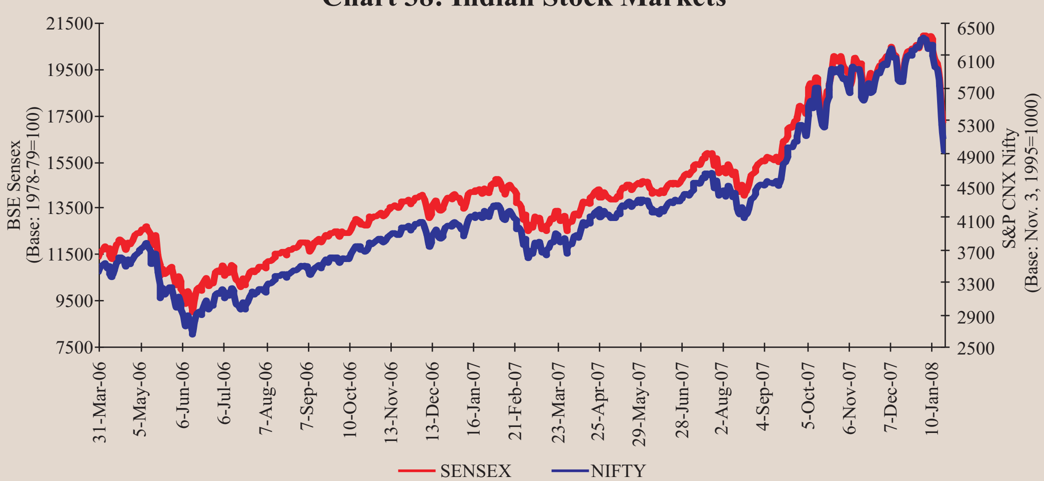
Source: Securities and Exchange Board of India.

under income/debt market-oriented schemes, out of which bulk of the resources were mobilised through debt other than assured return schemes. Growth-oriented schemes accounted for only 15.3 per cent of net resource mobilisation during April-December 2007.

Secondary Market

The domestic stock markets recorded further gains during the third quarter of 2007-08 amidst intermittent corrections (Chart 38). Liquidity support from both foreign institutional investors (FIIs) and domestic mutual funds on the back of strong GDP growth, healthy corporate profitability and decline in the domestic inflation rate aided the market sentiment. The upward trend in EMEs equity markets, increase in ADR prices in the US markets and rise in global metal prices were the other factors that enthused the domestic stock markets. The uptrend in the domestic stock markets, however, was interspersed by corrections

Chart 38: Indian Stock Markets



in mid-August and mid-December 2007 mainly on account of downward trend in advanced economies equity markets on account of worries over sub-prime losses and credit crunch in the US and Europe, concerns over the slowdown in the US economy, depreciation of the US dollar against major currencies and increase in global crude oil prices to record high levels.

Between end-March 2007 and January 23, 2008, the BSE Sensex moved in a range of 12455.37-20873.33. The BSE Sensex closed at a record high of 20873.33 on January 8, 2008, an increase of 59.7 per cent over end-March 2007. The S&P CNX Nifty also reached a record high of 6287.85 on January 8, 2008.

Since mid-January 2008 the domestic stock markets, however, witnessed sharp corrections mainly on account of downward trend in the major international equity markets amidst fears of recession in the US economy and depreciation of the US dollar against major currencies. Liquidity squeeze from the secondary market in the wake of the biggest IPO by Reliance Power, heavy net sales by FIIs in the Indian equity market, decline in ADR prices and fall in metal prices on the London Metal Exchange also dampened the market sentiment. The BSE Sensex closed at 17594.07 on January 23, 2008, witnessing a gain of 34.6 per cent over end-March 2007.

According to the data released by the Securities and Exchange Board of India (SEBI), FIIs have invested Rs.61,234 crore (US $ 14.9 billion) in the Indian equity market during 2007-08 so far (up to January 18, 2008) as compared with net purchases of Rs.18,045 crore (US $ 3.9 billion) during the corresponding period of the previous year (Chart 39). Mutual funds have made net investments of Rs. 9,788 crore during 2007-08 so far (up to January 18, 2008) as compared with net investments of Rs.12,595 crore during the corresponding period of last year.

The major gainers in the domestic stock markets during the current financial year so far (up to January 18, 2008) were metal, capital goods, oil and

Chart 39 : Institutional Investment and Stock Market

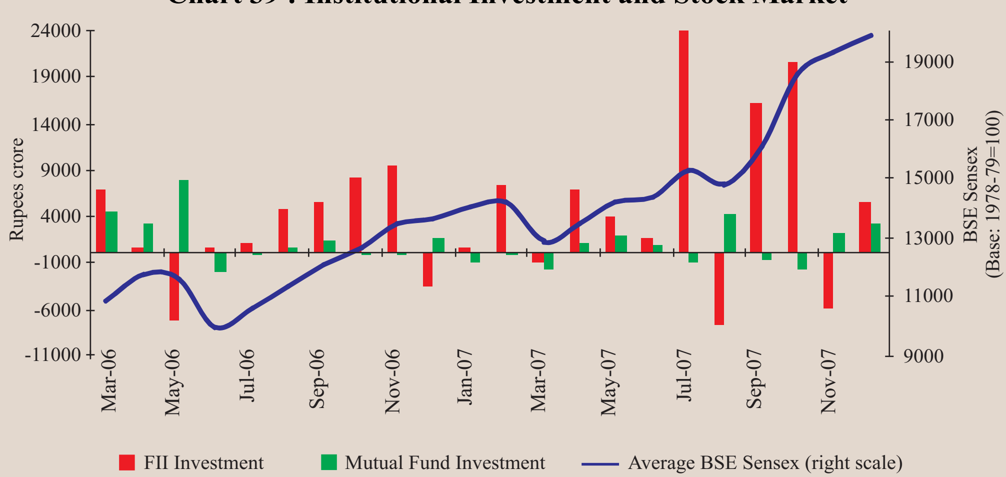


Table 45: BSE Sectoral Stock Indices			
(Base: 1978-79=100)			
Sector	Variation (per cent)		
	End-March 2006@	End-March 2007@	January 18, 2008 #
1	2	3	4
Fast Moving Consumer Goods	109.9	-21.4	32.4
Public Sector Undertakings	44.0	-3.2	63.1
Information Technology	49.2	21.6	-22.6
Auto	101.2	-8.5	5.7
Oil and Gas	61.1	30.5	96.2
Metal	40.3	-4.3	103.3
Health Care	51.2	-5.4	10.3
Bankex	36.8	24.2	73.8
Capital Goods	156.0	11.1	102.0
Consumer Durables	115.4	11.1	63.7
BSE 500	65.2	9.7	60.9
BSE Sensex	73.7	15.9	45.5

@: Year-on-year variation. #: Variation over end-March 2007.
Source: Bombay Stock Exchange Limited.

gas, banking, consumer durables, public sector undertakings, fast moving consumer goods and auto sector stocks (Table 45).

Reflecting the upward trend in stock prices, the price-earnings (P/E) ratios of the 30 scrips included in the BSE Sensex rose sharply from 20.3 at end-March 2007 to 27.7 at end-December 2007. The market capitalisation of the BSE increased sharply by 102.3 per cent between end-March 2007 and end-December 2007. The volatility in the stock market also increased during April-December 2007 (Table 46). The combined turnover of BSE and NSE in the cash segment during April-December 2007 was higher by 75.7 per cent than the corresponding period of 2006.

Table 46: Stock Market Indicators								
	BSE				NSE			
Indicator	2005-06	2006-07	April-December		2005-06	2006-07	April-December	
			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	13787	20287	3403	3822	3966	6139
(ii) Average	8280	12277	11845	16174	2513	3572	3454	4770
2. Coefficient of Variation	16.7	11.1	10.4	14.1	15.6	10.4	9.7	15.0
3. Price-Earning Ratio (end-period)*	20.9	20.3	22.8	27.7	20.3	18.4	21.3	27.6
4. Price-Book Value Ratio*	5.1	5.1	5.2	6.7	5.2	4.9	5.1	6.4
5. Yield* (per cent per annum)	1.2	1.3	1.2	0.8	1.3	1.3	1.2	0.8
6. Listed Companies	4,781	4,821	4,796	4,887	1,069	1,228	1,158	1,353
7. Cash Segment Turnover (Rupees crore)	8,16,074	9,56,185	7,01,710	11,60,248	15,69,556	19,45,285	14,22,014	25,70,712
8. Derivative Segment Turnover (Rupees crore)	9	59,007	18,065	1,78,882	48,24,174	73,56,242	53,31,531	99,16,166
9. Market Capitalisation (Rupees crore) @	30,22,191	35,45,041	36,24,357	71,69,985	28,13,201	33,67,350	34,26,236	65,43,272

* : 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

India's balance of payments position continued to remain comfortable during the first half of 2007-08 (April-September), notwithstanding some deceleration in exports and higher growth in non-oil imports. Merchandise exports maintained the growth momentum during April-November 2007, although there was some moderation as compared with the growth rate during April-November 2006. Imports during April-November 2007 posted a high growth rate; oil imports, however, witnessed a sharp deceleration from the strong growth recorded during the corresponding period of the previous year. Net invisibles surplus remained buoyant during the first half of 2007-08, led by higher growth in private transfers and offset a large part of the trade deficit. The current account deficit during April-September 2007 was marginally higher than that during April-September 2006. Net capital inflows were substantially higher than those in the corresponding period of 2006-07, resulting in a sharp increase in foreign exchange reserves of US $ 85.7 billion during 2007-08 (up to January 18, 2008).

International Developments

Global economic activity remained strong in 2007, although it moderated from very buoyant conditions in 2006. Supported by strong economic conditions in emerging markets, the global economy expanded at a robust pace in the third quarter of 2007 after recording a modest growth in the second quarter (Table 47).

As regards developed economies, the United States experienced significant economic stress due to the ongoing housing market correction and associated financial market turmoil. However, according to the advance release, there was acceleration in real GDP growth in the US by 0.4 percentage point, on a year-on-year basis, to 2.8 per cent in the third quarter of 2007, primarily on account of acceleration in exports, personal consumption expenditure (PCE) and private inventory investment that was partly offset by an upturn in imports, a larger decrease in residential fixed investment and a deceleration in non-residential structures. In Japan, economic activity continued to recover in 2007, supported by domestic demand and strong exports. The Japanese economy witnessed acceleration of 0.3 percentage point in real GDP growth in the third quarter, on a year-on-year basis, attributable to rise in demand both at home and abroad. In the United Kingdom, according to preliminary estimates, real GDP growth remained robust at 3.2 per cent during the third quarter of 2007 mainly on account of firm household consumption and gross fixed capital formation growth. The sustained economic growth experienced in the euro area

Table 47 : Growth Rates - Global Scenario

(Per cent)

Region/Country	2005	2006	2007P	2008P	2006				2007		
					Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10	11	12
Advanced Economies											
Euro area	1.5	2.8	2.5	2.1	2.2	2.7	2.8	3.3	3.0	2.5	2.7
Japan	1.9	2.2	2.0	1.7	3.0	2.1	1.6	2.2	2.6	1.6	1.9
Korea	4.2	5.0	4.8	4.6	6.3	5.1	4.6	4.0	4.0	5.0	5.2
UK	1.8	2.8	3.1	2.3	2.4	2.7	2.9	3.0	3.0	3.1	3.2
US	3.1	2.9	1.9	1.9	3.3	3.2	2.4	2.6	1.5	1.9	2.8
OECD Countries	2.5	2.9	2.7	2.7	3.2	3.3	2.8	3.1	2.6	2.5	2.9
Emerging Economies											
Argentina	9.2	8.5	7.5	5.5	8.6	7.9	8.7	8.6	8.0	8.7	8.7
Brazil	2.9	3.7	4.4	4.0	3.9	1.1	3.2	4.4	4.3	5.4	5.7
China	10.4	11.1	11.5	10.0	10.3	10.9	10.7	10.7	11.1	11.5	11.5
India	9.0	9.4	8.9	8.4	10.0	9.6	10.2	8.7	9.1	9.3	8.9
Indonesia	5.7	5.5	6.2	6.1	5.0	5.0	5.5	6.1	6.0	6.3	6.5
Malaysia	5.2	5.9	5.8	5.6	6.0	6.1	6.0	5.7	5.3	5.7	6.7
Thailand	4.5	5.0	4.0	4.5	6.1	5.0	4.5	4.3	4.3	4.4	5.1

P : IMF Projections.

Note : Data for India in columns 2 and 3 refer to fiscal years 2005-06 and 2006-07, respectively.

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

in the first half of 2007 continued through the third quarter, attributable to consumption growth in line with developments in real disposable income, as continued employment growth provided supportive conditions. Furthermore, continued strong external demand provided support to euro area exports and investment.

In emerging Asia, economic activity continued to be resilient, especially in the larger economies of the region. In China, in particular, the economy expanded at a strong pace with real GDP growing at an annual rate of 11.5 per cent in the third quarter of 2007.

According to the projections made by the IMF (World Economic Outlook, October 2007), the growth rate of the global economy is likely to moderate to 5.2 per cent in 2007 and 4.8 per cent in 2008 from 5.4 per cent in 2006 (Table 48). The extent of the likely impact of housing slowdown in the US on the global economy is still unclear. However, a global economic slowdown of modest nature, as is widely predicted, cannot be ruled out. Risks to the global outlook, however, are firmly on the downside, centred around the concern that financial market strains could deepen and trigger a more pronounced global slowdown. Additional risks to the outlook include potential inflation pressures arising from commodity price rise and volatile oil markets and the impact of likely stronger foreign exchange inflows on emerging markets.

As per the IMF projections, growth in world trade is expected to moderate to 6.6 per cent in volume terms in 2007 from 9.2 per cent in the preceding

Table 48 : Select Economic Indicators - World

Item	2001	2002	2003	2004	2005	2006	2007P	2008P
1	2	3	4	5	6	7	8	9
I. World Output (Per cent change) #	2.5 (1.5)	3.1 (1.9)	4.0 (2.6)	5.3 (3.9)	4.8 (3.3)	5.4 (3.8)	5.2 (3.5)	4.8 (3.3)
i) Advanced economies	1.2	1.6	1.9	3.2	2.5	2.9	2.5	2.2
ii) Other emerging market and developing countries	4.3	5.1	6.7	7.7	7.5	8.1	8.1	7.4
of which: Developing Asia	6.0	7.0	8.3	8.8	9.2	9.8	9.8	8.8
II. Consumer Price Inflation (Per cent)								
i) Advanced economies	2.1	1.5	1.8	2.0	2.3	2.3	2.1	2.0
ii) Other emerging market and developing countries	6.5	5.7	5.7	5.4	5.2	5.1	5.9	5.3
of which: Developing Asia	2.7	2.0	2.5	4.1	3.6	4.0	5.3	4.4
III. Net Capital Flows* (US $ billion)								
i) Net private capital flows (a+b+c)**	80.6	90.1	168.3	239.4	271.1	220.9	495.4	291.3
a) Net private direct investment	185.9	154.7	164.4	191.5	262.7	258.3	302.2	293.9
b) Net private portfolio investment	-79.8	-91.3	-11.7	21.1	23.3	-111.9	20.6	-93.1
c) Net other private capital flows	-25.8	26.0	14.5	25.1	-17.0	73.6	171.0	88.8
ii) Net official flows	0.1	-2.7	-48.7	-67.2	-146.4	-165.8	-132.1	-141.2
IV. World Trade @								
i) Volume	0.2	3.5	5.5	10.8	7.5	9.2	6.6	6.7
ii) Price deflator (in US dollars)	-3.5	1.2	10.4	9.5	5.7	4.8	7.0	2.4
V. Current Account Balance (Per cent to GDP)								
i) US	-3.8	-4.4	-4.8	-5.5	-6.1	-6.2	-5.7	-5.5
ii) China	1.3	2.4	2.8	3.6	7.2	9.4	11.7	12.2
iii) Middle East	6.3	4.8	8.3	11.7	19.4	19.7	16.7	16.0

P : IMF Projections.
: Growth rates are based on exchange rates at purchasing power parities. Figures in parentheses are growth rates at market exchange rates. Please also see 'Note'.
* : Net capital flows to emerging market and developing countries.
** : On account of data limitations, flows listed under 'Net private capital flows' may include some official flows.
@ : Average of annual percentage change for world exports and imports of goods and services.
Note : The IMF has revised downward its estimates for global growth by around 0.5 percentage point each year during 2002-07, based on new statistical calculations of purchasing power parity (PPP) exchange rates published in December 2007 by the International Comparison Programme (ICP). Thus, the IMF's estimate for growth in 2007 has been revised down to 4.7 per cent from 5.2 per cent.
Source : World Economic Outlook, October 2007, International Monetary Fund.

year (see Table 48). Exports of other emerging market and developing countries are projected to grow by 9.2 per cent in 2007 (11.0 per cent a year ago), while those of advanced countries are expected to grow by 5.4 per cent (8.2 per cent a year ago).

World exports (in US dollar terms) in the first nine months of 2007 (January-September) posted a growth of 13.8 per cent (14.6 per cent a year ago), with industrial countries registering a growth of 13.1 per cent (10.9 per cent a year ago). Developing countries witnessed a moderation in export growth at 15.7 per cent during January-October 2007 as compared with 19.2 per cent registered a year ago (Table 49).

Table 49 : Growth in Exports - Global Scenario

(Per cent)

Region/ Country	2005	2006	2006	2007
			January-October	
1	2	3	4	5
World	**14.0**	**15.6**	**14.6 ***	**13.8 ***
Industrial Countries	**8.5**	**12.6**	**10.9 ***	**13.1 ***
USA	10.8	14.5	14.8	11.9
France	3.8	10.1	10.4	10.4
Germany	7.3	15.1	11.0 *	18.9 *
Japan	5.2	9.2	8.1	8.9
Developing Countries	**22.0**	**19.5**	**19.2**	**15.7**
Non-Oil Developing Countries	**19.3**	**19.9**	**19.6**	**17.1**
China	28.4	27.2	26.8	26.5
India	29.9	21.3	22.1#	19.5#
Indonesia	22.9	19.0	19.1	14.2
Korea	12.0	14.4	14.6#	14.1#
Malaysia	12.0	14.0	13.2	9.1
Singapore	15.6	18.4	20.1	9.7
Thailand	14.5	18.7	17.8	16.7

* : January-September # : January-November.

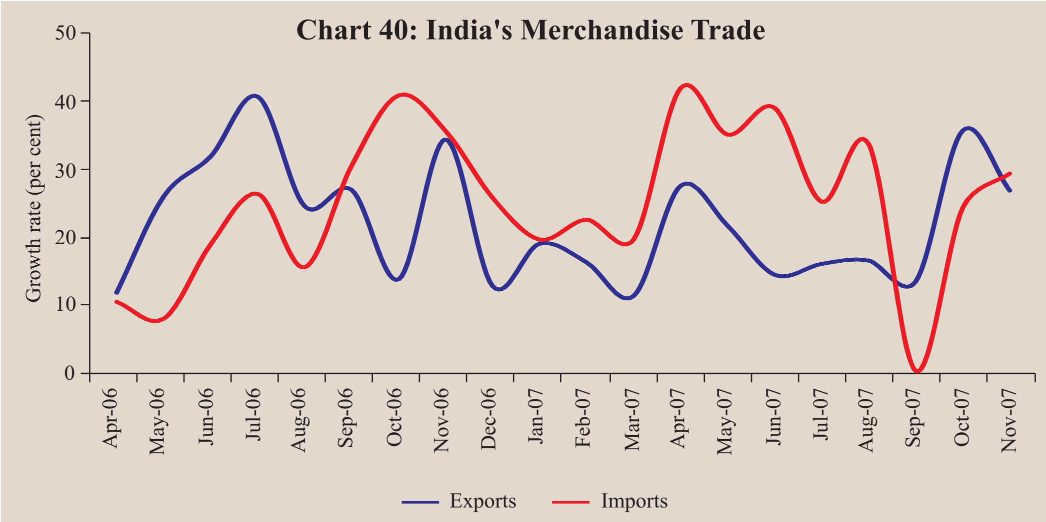
Source: International Financial Statistics, International Money Fund; DGCI&S for India.

Merchandise Trade

As per the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports posted a growth of 21.9 per cent during April-November 2007, moderating from the growth of 26.2 per cent during the corresponding period of 2006-07. Growth in imports at 26.9 per cent was marginally lower than that of 27.4 per cent recorded a year ago (Chart 40). Non-oil imports recorded a substantial increase of 35.3 per cent (21.3 per cent a year ago) and contributed about 88 per cent to overall import growth. Oil imports during April-November 2007 showed a sharp deceleration in growth (9.8 per cent as against 42.0 per cent in April-November 2006). Merchandise trade deficit during April-November 2007 aggregated US $ 52.8 billion, an increase of US $ 14.3 billion over a year ago (US $ 38.5 billion).

Commodity-wise data available for April-September 2007 show that petroleum products, engineering goods, and gems and jewellery remained as the drivers of export growth, together constituting about 67 per cent of the overall export growth. With the exception of gems and jewellery which showed an increase (21.2 per cent as against a decline of 1.0 per cent during April-September 2006), all the other major commodity groups recorded deceleration (Table 50).

Destination-wise, the US continued to be the major market for India's exports during 2007-08, though its share declined from 15.3 per cent in April-September 2006 to 13.7 per cent in April-September 2007. The US was followed



by the UAE (10.3 per cent), China (5.3 per cent), the UK (4.3 per cent) and Singapore (4.2 per cent). Among the major regions, India's exports to European Union (EU) showed accelerated growth, while exports to North America, OPEC and developing countries showed moderation during April-September 2007 (Table 51).

Commodity-wise details on imports available for April-September 2007 revealed that capital goods and gold and silver were the main drivers of growth in non-oil imports. Capital goods increased by 26.9 per cent while imports of gold and silver increased by 71.0 per cent over April-September 2006. Non-oil

Table 50 : Exports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)		
	2006-07	2006-07	2007-08	2006-07	2006-07	2007-08
		April-September			April-September	
1	2	3	4	5	6	7
1. Primary Products	**19.7**	**8.5**	**9.8**	**20.2**	**18.4**	**15.3**
of which:						
a) Agriculture and Allied Products	12.7	5.6	6.4	24.2	24.0	15.1
b) Ores and Minerals	7.0	2.9	3.4	13.6	8.8	15.7
2. Manufactured Goods	**84.9**	**40.9**	**46.7**	**17.0**	**18.3**	**14.1**
of which:						
a) Chemicals and Related Products	17.3	8.3	9.2	17.4	22.0	11.4
b) Engineering Goods	29.6	14.0	16.9	36.1	37.8	20.8
c) Textiles and Textile Products	17.4	8.6	8.7	5.9	11.6	1.3
d) Gems and Jewellery	16.0	7.7	9.4	2.9	-1.0	21.2
3. Petroleum Products	**18.7**	**10.0**	**12.6**	**60.5**	**103.5**	**26.8**
4. Total Exports	**126.4**	**61.1**	**71.9**	**22.6**	**27.3**	**17.6**
Memo:						
Non-oil Exports	107.7	51.2	59.3	17.7	18.6	15.8

Source: DGCI&S.

Table 51 : Direction of India's Exports

Group/Country	US $ billion			Variation (per cent)		
	2006-07	2006-07	2007-08	2006-07	2006-07	2007-08
		April-September			April-September	
1	2	3	4	5	6	7
1. OECD Countries	**52.0**	**25.0**	**28.3**	**13.5**	**16.1**	**13.3**
of which:						
a) European Union	25.8	12.2	14.6	15.1	16.8	19.7
b) North America	20.0	10.0	10.4	8.7	14.7	4.9
US	18.9	9.4	9.9	8.7	14.7	5.0
2. OPEC	**20.7**	**10.4**	**12.5**	**35.8**	**55.8**	**19.7**
of which:						
UAE	12.0	6.2	7.4	40.0	65.2	19.7
3. Developing Countries	**49.9**	**24.5**	**29.3**	**25.5**	**30.6**	**19.7**
of which:						
Asia	36.7	18.2	21.0	18.5	24.7	15.2
People's Republic of China	8.3	3.4	3.8	22.7	18.8	9.8
Singapore	6.1	3.5	3.0	11.9	30.1	-13.1
4. Total Exports	**126.4**	**61.1**	**71.9**	**22.6**	**27.3**	**17.6**

Source : DGCI&S.

imports net of gold and silver increased at an accelerated pace of 28.2 per cent (19.2 per cent during April-September 2006). During the period, while the share of capital goods, and metalliferrous ores and metal scrap in imports growth declined, the contribution of gold and silver, coal, coke and briquettes, pearls, precious and semi-precious stones, chemicals, and iron and steel showed increase (Table 52).

Table 52 : Imports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)		
	2006-07	2006-07	2007-08	2006-07	2006-07	2007-08
		April-September			April-September	
1	2	3	4	5	6	7
Petroleum, Petroleum Products and Related Material	57.1	29.6	34.6	30.0	41.2	16.9
Edible Oil	2.1	1.0	1.4	4.2	-11.8	32.9
Iron and Steel	6.4	2.9	4.4	40.5	16.9	52.8
Capital Goods	47.1	19.8	25.1	25.0	39.1	26.9
Pearls, Precious and Semi-Precious Stones	7.5	3.6	4.7	-18.0	32.8	30.6
Chemicals	7.8	3.9	4.7	12.1	9.5	21.4
Gold and Silver	14.6	6.7	11.5	29.4	-3.1	71.0
Total Imports	**185.7**	**87.4**	**111.6**	**24.5**	**23.5**	**27.7**
Memo:						
Non-oil Imports	128.6	57.8	77.0	22.2	16.1	33.2
Non-oil Imports excluding Gold and Silver	114.0	51.1	65.5	21.4	19.2	28.2
Mainly Industrial Inputs*	104.7	47.2	60.1	19.6	19.5	27.4

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

Source : DGCI&S.

Table 53 : India's Merchandise Trade

(US $ billion)

Item	2005-06	2006-07	2006-07	2007-08
			April-November	
1	2	3	4	5
Exports	103.1	126.4	80.6	98.3
Imports	149.2	185.7	119.1	151.1
Oil	44.0	57.1	39.4	43.3
Non-oil	105.2	128.6	79.7	107.8
Trade Balance	-46.1	-59.4	-38.5	-52.8
Non-Oil Trade Balance	-13.8	-20.9	-11.9	..
				Variation (per cent)
Exports	23.4	22.6	26.2	21.9
Imports	33.8	24.5	27.4	26.9
Oil	47.3	30.0	42.0	9.8
Non-oil	28.8	22.2	21.3	35.3

.. : Not Available.
Source : DGCI&S.

Source-wise, China was the major source of imports in April-September 2007, accounting for 11.2 per cent of total imports (oil *plus* non-oil imports), followed by Saudi Arabia (7.2 per cent), the US (5.8 per cent), Switzerland (5.6 per cent), the UAE (5.5 per cent), Iran (4.2 per cent) Australia (4.0 per cent) and Germany (3.8 per cent).

Trade deficit during April-November 2007 widened to US $ 52.8 billion, an increase of US $ 14.3 billion over the corresponding period a year ago (US $ 38.5 billion) (Table 53). Trade deficit on the oil account increased by US $ 2.3 billion during April-September 2007 to reach US $ 22.0 billion, while non-oil trade deficit increased by US $ 11.1 billion to US $ 17.7 billion.

Current Account

Net surplus under invisibles (services, transfers and income taken together) was higher at US $ 31.7 billion in April-September 2007 (US $ 23.4 billion in April-September 2006), reflecting mainly the rise in remittances from the overseas Indians, higher interest income on reserves and relatively moderate rise in payments of business services (Table 54). Growth in invisible receipts as well as invisible payments decelerated in April-September 2007 mainly on account of deceleration in exports of software and business services. The major components of invisible payments were travel payments, transportation, business service payments such as business and management consultancy, engineering and other technical services, and dividend and profit payments.

Table 54 : Invisibles Account (Net)

(US $ million)

Item	2006-07 PR	2006-07 PR			2007-2008		
	April-March	April-June	July-Sept.	April-Sept.	April-June PR	July-Sept. P	April-Sept. P
1	2	3	4	5	6	7	8
Services	31,810	7,579	6,918	14,497	8,029	6,660	14,689
Travel	2,438	220	-16	204	207	169	376
Transportation	-18	-282	32	-250	-639	-675	-1,314
Insurance	560	109	161	270	232	81	313
Government, not included elsewhere	-153	-39	-61	-100	-16	-62	-78
Software	29,033	6,624	6,716	13,340	7,884	7,213	15,097
Other Services	-50	947	86	1,033	361	-66	295
Transfers	28,168	6,873	5,385	12,258	8,327	10,116	18,443
Investment Income	-6,018	-1,367	-1,668	-3,035	-801	-440	-1,241
Compensation of Employees	-555	-133	-153	-286	-62	-141	-203
Total	**53,405**	**12,952**	**10,482**	**23,434**	**15,493**	**16,195**	**31,688**

PR : Partially Revised P : Preliminary.

The net invisible surplus offset a large part of the trade deficit (74.7 per cent during April-September 2007 as compared with 69.4 per cent during April-September 2006). Despite large merchandise trade deficit, the higher net invisible surplus, mainly emanating from private transfers, contained the current account deficit at US $ 10.7 billion in the first half of 2007-08 (US $10.3 billion in April-September 2006) (Chart 41 and Table 55). Net of remittances, the current account deficit was US $ 29.1 billion during April-September 2007 (US $ 22.6 billion a year ago).

Chart 41: Movement in Current Account Balance

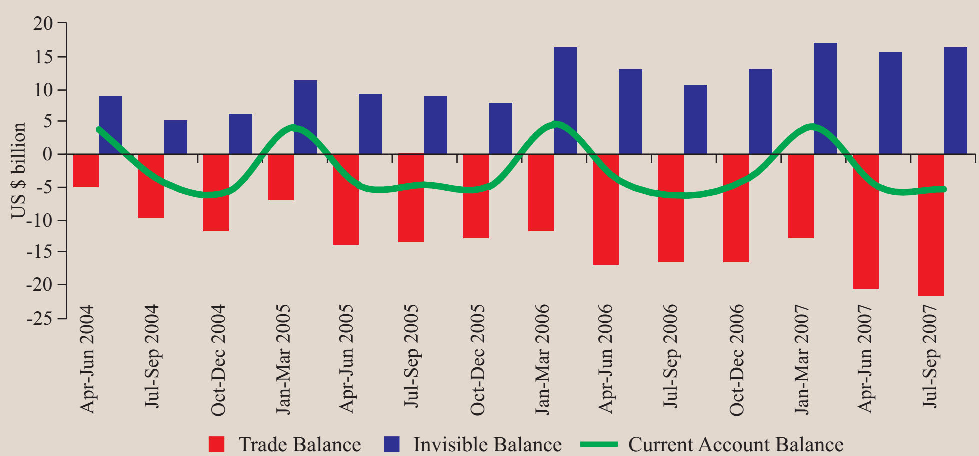


Table 55 : India's Balance of Payments

(US $ million)

Item	2006-07 PR	2006-07 PR			2007-2008		
	April-March	April-June	July-Sept.	April-Sept.	April-June PR	July-Sept. P	April-Sept. P
1	2	3	4	5	6	7	8
Exports	128,083	29,614	31,836	61,450	35,790	37,875	73,665
Imports	191,254	46,631	48,593	95,224	56,480	59,586	116,066
Trade Balance	-63,171 (-6.9)	-17,017	-16,757	-33,774	-20,690	-21,711	-42,401
Invisible Receipts	115,074	24,946	24,953	49,899	29,379	32,213	61,592
Invisible Payments	61,669	11,994	14,471	26,465	13,886	16,018	29,904
Invisibles, net	53,405 (5.8)	12,952	10,482	23,434	15,493	16,195	31,688
Current Account	-9,766 (-1.1)	-4,065	-6,275	-10,340	-5,197	-5,516	-10,713
Capital Account (net)*	46,372	10,444	8,545	18,989	16,397	34,752	51,149
of which:							
Foreign Direct Investment	8,479	1,579	2,912	4,491	1,738	2,142	3,880
Portfolio Investment	7,062	-506	2,150	1,644	7,458	10,876	18,334
External Commercial Borrowings +	16,155	3,974	1,761	5,735	6,963	3,594	10,557
Short-term Trade Credit	6,612	1,182	2,683	3,865	2,153	3,558	5,711
External Assistance	1,767	49	337	386	276	453	729
NRI Deposits	4,321	1,302	908	2,210	-447@	369	-78
Change in Reserves #	-36,606	-6,379	-2,270	-8649	-11,200	-29,236	-40,436
Memo:							
Current Account net of Private Transfers	**-37,707 (-4.1)**	**-10,959**	**-11,646**	**-22,605**	**-13,537**	**-15,596**	**29,133**

P : Preliminary. PR : Partially Revised.
* : Includes errors and omissions. # : On balance of payments basis (excluding valuation); (-) indicates increase.
\+ : Medium and long-term borrowings. @ : Includes Non-resident Rupee Deposits for April-June 2007.
Note : Figures in parentheses are percentages to GDP.

Capital Flows

During the financial year 2007-08 (up to November 2007), various components of foreign investment in India recorded increased inflows. The inflows under foreign direct investment (FDI) were US $ 13.8 billion during April-November 2007 as against US $ 10.1 billion during the corresponding period of the previous year (Table 56). Source-wise data on FDI to India revealed that Mauritius was the largest source of FDI during April-November 2007, followed by Singapore and the US.

Net inflows by foreign institutional investors (FIIs) aggregated to US $ 26.8 billion during the current financial year so far (up to January 11, 2008). The number of FIIs registered with the SEBI increased from 997 at end-March 2007 to 1,219 at end-December 2007. Capital inflows on account of American depository receipts (ADRs)/global depository receipts (GDRs) amounted to US $ 5.7 billion during April-November 2007.

Table 56 : Capital Flows

(US $ million)

Item	Period	2006-07	2007-08
1	2	3	4
Foreign Direct Investment into India	April-November	10,113	13,783
FIIs (net)	April-January *	2,491	26,807
ADRs/GDRs	April-November	1,850	5,674
External Assistance (net)	April-September	386	729
External Commercial Borrowings (net)			
(Medium and long-term)	April-September	5,735	10,557
Short-term Trade Credits (net)	April-September	3,865	5,711
NRI Deposits (net)	April-November	2,971	-433

* : Up to January 11.

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

During the current financial year 2007-08 (April-September), the inflows (net) under external commercial borrowings (ECBs) amounted to US $ 10.6 billion. Net short-term trade credit was US $ 5.7 billion (inclusive of suppliers' credit up to 180 days) in April-September 2007. Out of total short-term trade credit, the suppliers' credit up to 180 days amounted to US $ 1.9 billion during April-September 2007.

Non-Resident Indian (NRI) deposits recorded a net outflow of US $ 433 million during April-November 2007. Although there were inflows under Foreign Currency Non-Resident (Banks) [FCNR(B)] deposits and Non-Resident Ordinary Rupee (NRO) account schemes, there were outflows under Non-Resident External Rupee Account [NR(E)RA] deposits scheme.

With net capital flows being substantially higher than the current account deficit, the overall balance of payments recorded a surplus of US $ 40.4 billion during April-September 2007 (US $ 8.6 billion during April-September 2006).

In response to net capital flows remaining well in excess of the current account financing need, a multi-pronged approach has been followed in India to deal with such flows. The policy responses have included, *inter alia*, liberalisation of capital outflows for residents, modulation of interest rates on non-resident deposits along with increase in minimum maturities, prepayments of external loans, and greater flexibility in exchange rate movements. Sterilisation operations through the use of the cash reserve ratio and open market operations, including the liquidity adjustment facility and the market stabilisation scheme, have also been used to manage capital flows.

A survey of major EMEs, such as Brazil, China and Russia shows that central banks in all these countries intervene in the foreign exchange markets. These

EMEs sterilise their foreign exchange intervention, either fully or partially. With regard to monetary policy, different instruments are used, including increase in reserve requirements, restrictions on bank credit and other traditional monetary policy instruments designed to maintain low inflation and price stability. With respect to capital account management, different countries have initiated measures to increase outflows; in some cases inflows have also been restricted.

Foreign Exchange Reserves

India's foreign exchange reserves were US $ 284.9 billion as on January 18, 2008, showing an increase of US $ 85.7 billion over end-March 2007. The increase in reserves was mainly due to an increase in foreign currency assets from US $ 191.9 billion during end-March 2007 to US $ 276.1 billion as on January 18, 2008 (Table 57).

India holds the third largest stock of reserves among the emerging market economies after China and Russia. 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.

Table 57 : Foreign Exchange Reserves

(US $ million)

Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)
1	2	3	4	5	6
March 1995	4,370	7	20,809	331	25,517
March 2000	2,974	4	35,058	658	38,694
March 2005	4,500	5	135,571	1,438	141,514
March 2006	5,755	3	145,108	756	151,622
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	6,887	12	219,753	455	227,107
August 2007	6,881	2	221,509	455	228,847
September 2007	7,367	2	239,955	438	247,762
October 2007	7,811	13	256,427	441	264,692
November 2007	8,357	3	264,725	435	273,520
December 2007	8,328	3	266,553	432	275,316
January 2008*	8,328	3	276,134	433	284,898

* : As on January 18, 2008.

External Debt

India's total external debt was placed at US $ 190.5 billion at end-September 2007, recording an increase of US $ 20.9 billion (12.3 per cent) over end-March 2007 (Table 58). The increase in external debt during the period was mainly on account of higher external commercial borrowings, followed by higher short-term trade credit and NRI deposits. The increase in outstanding debt to an extent was also due to a positive valuation impact (around US $ 5 billion), reflecting the depreciation of the US dollar *vis-à-vis* other major international currencies. About 52.8 per cent of the external debt stock was denominated in US dollars followed by the Indian rupee (17.6 per cent), Japanese yen (11.5 per cent) and SDR (11.1 per cent). The coverage of short-term debt has been made more comprehensive with the inclusion of (i) suppliers' credits up to 180 days and (ii) investment by Foreign Institutional Investors (FII) in short-term debt instruments, beginning with the quarter ended March 2005. As a result, the short-term debt at end-June 2007 was revised to US $ 28.6 billion from US $ 13.0 billion (preliminary). As at end-September 2007, short-term debt increased to US $ 30.8 billion, accounting for 16.2 per cent of the total external debt. Among the debt sustainability indicators, the ratio of short-term to total debt increased between end-March 2007 and end-September 2007 while the ratio of short-term debt to reserves declined over the same period. Foreign exchange reserves remained in excess of the stock of external debt at end-September 2007.

Table 58 : India's External Debt

(US $ million)

Item	End-March 1995	End-March 2005	End-March 2006	End-March 2007	End-June 2007	End-Sept. 2007
1	2	3	4	5	6	7
1. Multilateral	28,542	31,744	32,620	35,337	36,058	37,067
2. Bilateral	20,270	17,034	15,761	16,062	15,841	16,659
3. International Monetary Fund	4,300	0	0	0	0	0
4. Trade Credit (above 1 year)	6,629	5,022	5,450	7,083	7,747	8,505
5. External Commercial Borrowings	12,991	26,405	26,415	41,722	47,729	51,770
6. NRI Deposit	12,383	32,743	36,282	41,240	42,603	43,643
7. Rupee Debt	9,624	2,302	2,032	1,946	2,032	2,081
8. Long-term (1 to 7)	94,739	115,250	118,560	143,390	152,010	159,725
9. Short-term	4,269	17,723	19,569	26,239	28,568	30,791
Total (8+9)	**99,008**	**132,973**	**138,129**	**169,629**	**180,578**	**190,516**
Memo :						(per cent)
Total debt /GDP	30.8	18.6	17.3	17.9	..	..
Short-term/Total debt	4.3	13.3	14.2	15.5	15.8	16.2
Short-term debt/Reserves	16.9	12.5	12.9	13.2	13.4	12.4
Concessional debt/Total debt	45.3	30.9	28.6	23.3	21.9	21.4
Reserves/ Total debt	25.4	106.4	109.8	117.4	118.2	130.0
Debt Service Ratio*	25.9	6.1	9.9	4.8	4.6	4.5

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

International Investment Position

India's net international liabilities increased by US $ 15.5 billion between end-March 2007 and end-June 2007, as the increase in international liabilities (US $ 31.6 billion) exceeded the increase in international assets (US $ 16.1 billion) (Table 59). While the increase in the liabilities was mainly due to large capital inflows under portfolio investments, direct investments and external commercial loans, the increase in international assets was on account of an increase of US $ 14.2 billion in reserve assets between end-March 2007 and end-June 2007, followed by direct investment abroad (US $ 5.4 billion). International liabilities reflected increases in direct and portfolio investment at end-June 2007 from their levels in end-March 2007. A major part of the liabilities like direct and portfolio investment reflects cumulative inflows, which are at historical prices.

Table 59 : International Investment Position of India

(US $ billion)

Item	March 2004 R	March 2005 PR	March 2006 PR	March 2007 PR	June 2007 PR
1	2	3	4	5	6
A. Assets	**136.0**	**166.8**	**182.8**	**243.6**	**259.7**
	(21.3)	**(23.3)**	**(22.9)**	**(25.7)**	..
1. Direct Investment	7.8	10.0	13.0	24.0	29.4
2. Portfolio Investment	0.4	0.5	1.0	0.8	0.8
2.1 Equity Securities	0.2	0.3	0.5	0.4	0.4
2.2 Debt securities	0.2	0.2	0.5	0.4	0.4
3. Other Investment	14.8	14.8	17.2	19.6	16.2
3.1 Trade Credits	0.5	1.1	-0.3	2.5	1.9
3.2 Loans	1.7	1.9	2.6	2.6	2.0
3.3 Currency and Deposits	9.5	8.4	11.6	10.3	8.1
3.4 Other Assets	3.1	3.4	3.3	4.2	4.2
4. Reserve Assets	113.0	141.5	151.6	199.2	213.4
	(17.7)	(19.8)	(19.0)	(21.0)	..
B. Liabilities	**183.2**	**210.8**	**232.0**	**290.6**	**322.2**
	(29.0)	**(29.5)**	**(29.0)**	**(30.7)**	..
1. Direct Investment	38.2	44.5	51.1	72.3	83.0
	(6.0)	(6.2)	(6.4)	(7.6)	..
2. Portfolio Investment	43.7	56.0	64.6	79.2	93.5
	(6.9)	(7.8)	(8.1)	(8.4)	..
2.1 Equity Securities	33.9	43.2	54.7	63.3	75.2
2.2 Debt securities	9.8	12.8	9.9	15.9	18.3
3. Other Investment	101.3	110.3	116.3	139.1	145.7
	(16.1)	(15.5)	(14.6)	(14.7)	..
3.1 Trade Credits	6.3	9.6	10.5	13.7	14.7
3.2 Loans	61.9	65.9	67.9	82.2	86.0
3.3 Currency and Deposits	32.2	33.6	37.3	42.3	43.8
3.4 Other Liabilities	1.0	1.2	0.6	0.9	1.2
C. Net Position (A-B)	**-47.2**	**-44.0**	**-49.2**	**-47.0**	**-62.5**
	(-7.6)	**(-6.2)**	**(-6.2)**	**(-5.0)**	..

PR : Partially Revised. P : Provisional. .. : Not Available.
Note : Figures in parentheses represent percentage to GDP.