Macroeconomic and Monetary Developments

First Quarter Review 2008-09

Issued with the First Quarter Review of the
Annual Statement on Monetary Policy for 2008-09

July 29, 2008
Reserve Bank of India
Mumbai

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I. THE REAL ECONOMY

The Indian economy continued to record robust growth in 2007-08, although marginally lower than the last year. According to the revised estimates released by the Central Statistical Organisation (CSO) in May 2008, the real GDP growth was placed at 9.0 per cent during 2007-08 as compared with 9.6 per cent in 2006-07. The deceleration in growth was on account of industry and services, offset partially by recovery in agriculture. The overall growth momentum moderated particularly during the second half of the year (Table 1 and Chart 1).

Table 1: Growth Rates of Real GDP @

(Per cent)

Sector	2000-01 to 2007-08 (Average)	2005-06	2006-07 *	2007-08 #	2006-07				2007-08			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Agriculture and Allied Activities	**2.9** (20.9)	**5.9** (19.6)	**3.8** (18.5)	**4.5** (17.8)	**2.7**	**3.2**	**4.0**	**4.9**	**4.4**	**4.7**	**6.0**	**2.9**
2. Industry	**7.1** (19.6)	**8.0** (19.4)	**10.6** (19.5)	**8.1** (19.4)	**10.0**	**10.7**	**10.3**	**11.5**	**9.6**	**8.6**	**8.6**	**5.8**
2.1 Mining and Quarrying	4.9	4.9	5.7	4.7	4.1	3.9	6.0	8.2	1.7	5.5	5.7	5.9
2.2 Manufacturing	7.8	9.0	12.0	8.8	11.7	12.2	11.3	12.8	10.9	9.2	9.6	5.8
2.3 Electricity, Gas and Water Supply	4.8	4.7	6.0	6.3	4.3	6.6	7.6	5.4	7.9	6.9	4.8	5.6
3. Services	**9.0** (59.6)	**11.0** (61.1)	**11.2** (61.9)	**10.7** (62.9)	**11.7**	**11.6**	**11.1**	**10.5**	**10.6**	**10.7**	**10.0**	**11.4**
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	10.3	11.5	11.8	12.0	10.9	12.7	12.1	11.6	13.1	11.0	11.5	12.4
3.2 Financing, Insurance, Real Estate and Business Services	8.8	11.4	13.9	11.8	13.6	13.9	14.7	13.4	12.6	12.4	11.9	10.5
3.3 Community, Social and Personal services	5.8	7.2	6.9	7.3	10.3	7.2	5.6	5.1	5.2	7.7	6.2	9.5
3.4 Construction	10.6	16.5	12.0	9.8	13.1	12.0	10.8	12.2	7.7	11.8	7.1	12.6
4. Real GDP at Factor Cost	**7.3** (100)	**9.4** (100)	**9.6** (100)	**9.0** (100)	**9.6**	**10.1**	**9.3**	**9.7**	**9.2**	**9.3**	**8.8**	**8.8**

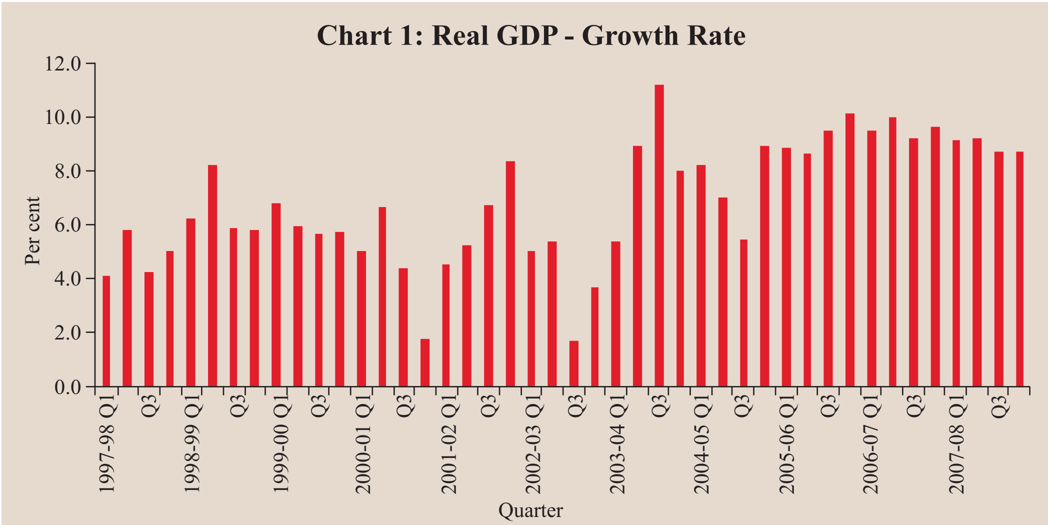
Memo: (Amount in Rupees crore)

a) Real GDP at Factor Cost	26,12,847	28,64,310	31,22,862
b) GDP at Current Market Prices	35,80,344	41,45,810	47,13,148

@ : At 1999-2000 prices. * : Quick Estimates. # : Revised Estimates.

Note : Figures in parentheses indicate shares in real GDP.

Source : Central Statistical Organisation.



Agricultural Situation

According to the revised forecast of the India Meteorological Department (IMD) released in June 2008, the rainfall during the 2008 South-West monsoon season (June to September) is likely to be 100 per cent of the long period average (LPA) with a model error of (+/-) 4 per cent. Monsoon set in over Kerala on May 31, 2008 coinciding almost with its normal date of arrival (June 1). It advanced rapidly and covered parts of south peninsula and entire north-eastern States by June 2, 2008. Northward advance of monsoon over east and central India also has been near normal. Advance of this year's monsoon has been smooth and rapid, unlike last year when it was marked by a hiatus of about one week over south peninsula. Rainfall during this year's monsoon so far (up to July 23) has been less satisfactory, with rainfall over the entire country amounting to 2 per cent below normal as against 4 per cent above normal during corresponding period of the previous year (Table 2). Out of the 36 meteorological sub-divisions, 21 have received excess/normal rainfall this year (up to July 23) as compared with 29 last year. As on July 17, 2008, the total live water storage of 81 important reservoirs accounting for around 72 per cent of the total reservoir capacity of the country was 28 per cent of the full reservoir level (FRL) as compared to 45 per cent recorded during the corresponding period of the previous year. The average live water storage as per cent of FRL for the last ten years has been much lower at 25 per cent.

Kharif sowing is progressing with the advent of the South-West monsoon in various States. Area coverage under *kharif* crops up to July 18, 2008 was higher

Table 2: Cumulative Rainfall

(Number of Meteorological Divisions)

Year	South-West Monsoon					North-East Monsoon				
	Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	Spatial Distribution				Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	Spatial Distribution			
		Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain		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
2008*	-2	9	12	14	1					
	(4)	(14)	(15)	(7)	(0)					

* : up to July 23. 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.

Note : Figures in parentheses indicate comparative position during the corresponding period of 2007.

Source : India Meteorological Department.

by 1.3 million hectares over the corresponding period of the previous year. Among food crops, rice exhibited significant increase in sown area along with coarse cereals and oilseeds (Table 3).

Table 3: Progress of Area under *Kharif* Crops 2008-09

(Million hectares)

Crop	Normal Area	Area Coverage (As on July 18, 2008)		
		2007	2008	Variation
1	2	3	4	5
Rice	39.1	12.1	14.9	2.8
Coarse Cereals	22.7	9.6	9.9	0.3
of which:				
Bajra	9.2	3.2	4.0	0.8
Jowar	4.2	1.8	1.3	-0.5
Maize	6.4	4.3	4.1	-0.2
Total Pulses	10.9	4.2	4.2	0.0
Total Oilseeds	15.9	9.9	10.1	0.2
of which:				
Groundnut	5.4	3.0	2.7	-0.3
Soyabean	7.3	5.5	6.5	1.0
Sugarcane	4.1	5.3	4.3	-1.0
Cotton	8.4	7.0	5.8	-1.2
All Crops	**101.9**	**48.8**	**50.1**	**1.3**

Source : Ministry of Agriculture, Government of India.

According to the Fourth Advance Estimates, the foodgrains production during 2007-08 was placed at an all-time high of 230.7 million tonnes, indicating an increase of 6.2 per cent over the previous year predominantly on account of *kharif* foodgrains production. Barring sugarcane, all foodgrains and non-foodgrains are estimated to reach an all-time record production during 2007-08 (Table 4). Crops witnessing significant increase in production included coarse cereals (20.1 per cent) and oilseeds (18.6 per cent).

Food Management

The procurement of foodgrains (rice and wheat) during 2008-09 (up to July 18, 2008) aggregated to 27.3 million tonnes, 78.6 per cent higher than that in the corresponding period of the previous year (Table 5). This was mainly on account of a more than two-fold increase in wheat procurement during the current year as compared with the previous year. The offtake of foodgrains (rice and wheat) during 2007-08 at 37.4 million tonnes was marginally higher by 1.8

Table 4: Agricultural Production

(Million tonnes)

Crop	2003-04	2004-05	2005-06	2006-07	2007-08 Target	2007-08 Achievement @
1	2	3	4	5	6	7
Rice	88.5	83.1	91.8	93.4	93.0	96.4
Kharif	78.6	72.2	78.3	80.2	80.0	82.8
Rabi	9.9	10.9	13.5	13.2	13.0	13.6
Wheat	72.2	68.6	69.4	75.8	75.5	78.4
Coarse Cereals	37.6	33.5	34.1	33.9	37.5	40.7
Kharif	32.2	26.4	26.7	25.6	28.7	31.7
Rabi	5.4	7.1	7.3	8.3	8.8	9.0
Pulses	14.9	13.1	13.4	14.2	15.5	15.1
Kharif	6.2	4.7	4.9	4.8	5.5	6.5
Rabi	8.7	8.4	8.5	9.4	10.0	8.7
Total Foodgrains	213.2	198.4	208.6	217.3	221.5	230.7
Kharif	117.0	103.3	109.9	110.6	114.2	121.0
Rabi	96.2	95.1	98.7	106.7	107.3	109.7
Total Oilseeds	25.2	24.4	28.0	24.3	30.0	28.8
Kharif	16.7	14.1	16.8	14.0	18.5	19.8
Rabi	8.5	10.2	11.2	10.3	11.5	9.0
Sugarcane	233.9	237.1	281.2	355.5	310.0	340.6
Cotton #	13.7	16.4	18.5	22.6	22.0	25.8
Jute and Mesta ##	11.2	10.3	10.8	11.3	11.0	11.2

@: Fourth Advance Estimates as on July 9, 2008.

: Million bales of 170 kgs each. ## : Million bales of 180 kgs each.

Source : Ministry of Agriculture, Government of India.

Table 5: Management of Food Stocks

(Million tonnes)

Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains Offtake					Closing Stock	Norms
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS-Domestic	Exports	Total		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05	13.1	6.9	20.7	24.0	16.8	40.8	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	26.7	14.8	41.5	31.4	9.8	1.1	0.0	42.3	16.6	
2006-07	13.7	2.0	16.6	26.3	9.2	35.5	31.6	5.1	0.0	0.0	36.8	17.9	
2007-08	13.2	4.7	17.9	26.4	11.1	37.5	33.5	3.9	0.0	0.0	37.4	19.8	
2008-09 @	13.8	5.8	19.8	4.7	22.5	27.3	..	..	..	..	..	..	
				(4.2)	(11.1)	(15.3)							
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	17.9	
April	13.2	4.7	17.9	0.9	7.9	8.7	2.6	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	3.0	23.9	
July	11.0	12.9	23.9	0.8	0.0	0.8	2.9	0.4	0.0	0.0	3.2	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	3.0	17.9	
September	6.9	11.0	17.9	0.1	0.0	0.1	2.7	0.3	0.0	0.0	2.9	15.6	
October	5.5	10.1	15.6	7.4	0.0	7.4	2.7	0.3	0.0	0.0	2.9	19.7	16.2
November	10.7	9.0	19.7	1.8	0.0	1.8	2.7	0.3	0.0	0.0	2.9	18.5	
December	10.1	8.4	18.5	3.5	0.0	3.5	2.7	0.3	0.0	0.0	3.0	19.2	
2008													
January	11.5	7.7	19.2	4.5	0.0	4.5	2.9	0.3	0.0	0.0	3.2	21.4	20.0
February	14.0	7.2	21.4	3.0	0.0	3.0	2.9	0.4	0.0	0.0	3.4	21.4	
March	14.7	6.5	21.4	1.6	0.0	1.6	3.1	0.5	0.0	0.0	3.5	19.8	
April	13.8	5.8	19.8	1.1	12.6	13.7	..	..	..	..	..	..	16.2
May	..	..	..	2.1	8.8	10.9	..	..	..	..	..	..	
June	..	..	..	1.2	0.9	2.2	..	..	..	..	..	..	
July @	..	..	..	0.3	0.2	0.5	..	..	..	..	..	..	26.9

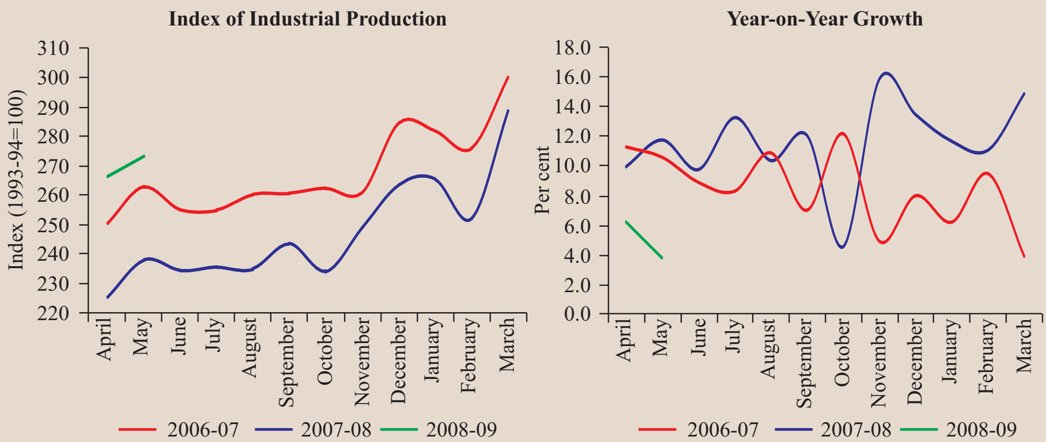
PDS : Public Distribution System. OWS : Other Welfare Schemes. OMS : Open Market Sales. .. : Not Available.
@ : Procurement up to July 18, 2008.

Note : 1. 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.
2. Figures in parentheses indicate procurement of foodgrains during the corresponding period of 2007-08.
3. Total minimum stocks are to be maintained, as on April 1, July 1, October 1, and January 1, by public agencies under the 'new buffer stocking policy' with effect from March 29, 2005.

Source : Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

per cent than that of the previous year. The total stocks of foodgrains with the Food Corporation of India (FCI) and other Government agencies were at around 19.8 million tonnes as on April 1, 2008, which was higher by 10.2 per cent than that a year ago. Both, the stocks of rice (13.8 million tonnes) and of wheat (5.8 million tonnes) were higher than their buffer stock norms (12.2 million tonnes and 4.0 million tonnes, respectively).

Chart 2: Industrial Production



Industrial Performance

Industrial production moderated during April-May 2008, recording year-on-year expansion of 5.0 per cent as against 10.9 per cent in April-May 2007 (Chart 2 and Table 6). The industrial deceleration was driven by both the manufacturing and electricity sectors. Manufacturing recorded cumulative growth of 5.3 per cent

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

(Per cent)

Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution#		
		2007-08	2007-08	2008-09 P	2007-08	2007-08	2008-09 P
			April-May			April-May	
1	2	3	4	5	6	7	8
Sectoral							
Mining	10.5	5.1	3.2	5.6	4.3	2.1	7.5
Manufacturing	79.4	8.8	11.8	5.3	89.4	90.6	89.2
Electricity	10.2	6.3	9.0	1.7	6.4	7.3	3.0
Use-Based							
Basic Goods	35.6	7.0	9.5	3.5	25.1	26.4	21.0
Capital Goods	9.3	16.9	16.9	6.5	23.9	16.2	14.4
Intermediate Goods	26.5	8.9	9.7	2.3	27.7	23.6	12.0
Consumer Goods (a+b)	28.7	6.1	11.6	7.9	23.3	34.1	50.9
a) Consumer Durables	5.4	-1.0	0.8	4.8	-1.0	0.6	7.3
b) Consumer Non-durables	23.3	8.5	15.4	8.8	24.4	33.5	43.6
General	**100.0**	**8.3**	**10.9**	**5.0**	**100.0**	**100.0**	**100.0**

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

during April-May 2008 as compared with 11.8 per cent during the corresponding period of the previous year. Electricity sector at 1.7 per cent witnessed a sharp slowdown - the lowest growth since 1994-95 for April-May period on account of decline in electricity generation in all the three segments. The mining sector growth, however, accelerated.

The slowdown in manufacturing activity was driven by 13 industry groups (56.3 per cent weight in the IIP) that recorded decelerated/negative growth in April-May 2008 (Table 7). Industry groups such as 'metal products and parts', 'other manufacturing industries', 'rubber, plastic, petroleum and coal products', 'food products', 'jute and other vegetable fibre textiles' and 'wood and wood

Table 7: Performance of Manufacturing Groups

(Per cent)

Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution #		
		2007-08	2007-08 April-May	2008-09 P April-May	2007-08	2007-08 April-May	2008-09 P April-May
1	2	3	4	5	6	7	8
1. Food products	9.08	7.1	39.3	-7.9	6.4	21.9	-12.3
2. Beverages, tobacco and related products	2.38	11.9	8.4	30.8	6.9	3.9	30.8
3. Cotton textiles	5.52	4.3	7.4	1.5	2.0	2.7	1.2
4. Wool, silk and man-made fibre textiles	2.26	4.8	4.1	3.6	1.6	1.0	1.9
5. Jute and other vegetable fibre textiles (except cotton)	0.59	33.0	27.8	-10.1	1.0	0.7	-0.6
6. Textile products (including wearing apparel)	2.54	3.7	7.5	2.6	1.4	2.3	1.7
7. Wood and wood products, furniture & fixtures	2.70	39.6	87.9	-17.4	5.3	6.9	-5.1
8. Paper and paper products and printing , publishing and allied Industries	2.65	2.7	0.8	2.5	1.0	0.2	1.4
9. Leather and leather & fur products	1.14	11.5	8.9	8.5	1.1	0.6	1.3
10. Chemicals and chemical products (except products of petroleum & coal)	14.00	10.6	6.6	12.2	22.8	11.6	45.9
11. Rubber, plastic, petroleum and coal products	5.73	8.9	13.2	-5.2	6.2	7.1	-6.4
12. Non-metallic mineral products	4.40	5.7	8.1	1.4	4.2	4.6	1.7
13. Basic metal and alloy industries	7.45	12.1	19.6	4.6	13.7	15.7	8.8
14. Metal products and parts (except machinery and equipment)	2.81	-5.6	4.2	-0.8	-1.6	0.8	-0.3
15. Machinery and equipment other than transport equipment	9.57	9.5	16.1	5.7	17.6	20.6	17.0
16. Transport equipment and parts	3.98	2.9	1.8	11.6	2.3	1.1	14.0
17. Other manufacturing industries	2.56	19.8	-4.8	-1.5	8.2	-1.6	-0.9
Manufacturing - Total	**79.36**	**8.8**	**11.8**	**5.3**	**100.0**	**100.0**	**100.0**

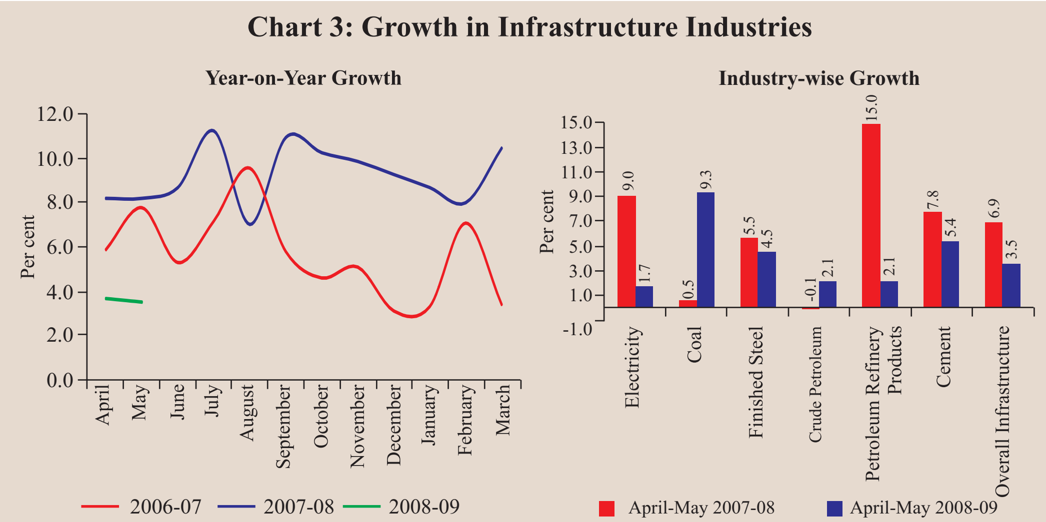
P : Provisional. # : Figures may not add up to 100 due to rounding off.
Source : Central Statistical Organisation.

products' recorded a decline in production; while 'leather and leather and fur products', 'machinery and equipment', 'basic metal and alloy industries', 'wool, silk and manmade fibre textiles', 'textile products', 'cotton textiles' and 'non-metallic mineral products' recorded decelerated growth. However, the growth in 'chemicals and chemical products', a dominant segment of the manufacturing industry, accelerated reflecting sharp expansion in nitrogenous fertilisers segment and other pharmaceutical drugs.

In terms of use-based classification, the basic goods sector decelerated during April-May 2008, mainly due to decline in production of certain petroleum and steel products. The intermediate goods sector also witnessed deceleration, mainly on account of lower performance of yarn, hessian, sacking and naptha segments. The capital goods sector that performed well during 2007-08, decelerated to 6.5 per cent due to lacklustre performance of printing machinery, material handling equipments, machine tools and computer systems and peripherals during the period. The consumer goods sector recorded decelerated growth due to moderated performance of non-durables. The consumer durable goods industry, which declined in eight months of the last financial year, posted 4.8 per cent growth during April-May 2008 led by the improved performance of two wheeler tyres, window type air conditioners, washing/laundry machines, motor cycles, passenger cars and T.V. receivers, among others. The consumer non-durables segment moderated in April-May 2008 on account of base effect and decline in production of sugar, wheat flour/maida, and certain edible oils.

Infrastructure

The core sector recorded lower growth at 3.5 per cent during April-May 2008 than 6.9 per cent during April-May 2007-08 (Chart 3). Sharp deceleration in electricity and subdued performance of petroleum refinery products impacted the growth of infrastructure during April-May 2008. The coal sector, on the other hand, recovered and posted robust growth. The electricity sector slowed down mainly on account of decline in nuclear and hydro electricity generation along with lower plant load factor in thermal power plants. The cement sector recorded decelerated growth due to base effect. The steel sector recorded moderate growth on account of capacity constraints. Increased production in Oil and Natural Gas Corporation (ONGC) Ltd. and Assam unit of Oil India Ltd. (OIL) contributed to a turnaround in crude oil sector. The petroleum refinery sector decelerated sharply on account of base effect and decline in production in some of the public sector refineries.



Services Sector

The services sector continued to record double digit growth during 2007-08, although there was some moderation. Accelerated growth in 'trade, hotels, transport, storage and communication' and 'community, social and personal services' was more than offset by deceleration in 'financing, insurance, real estate and business services' and 'construction'. Notwithstanding some moderation, services sector remained the major contributor to the GDP growth (Table 8).

Table 8: 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	2.2	1.1	0.6	4.3
2003-04	0.7	2.9	0.8	0.8	5.2
2004-05	1.0	2.7	1.2	1.0	5.8
2005-06	1.1	3.0	1.5	1.0	6.6
2006-07	0.8	3.1	1.9	1.0	6.8
2007-08	0.7	3.2	1.7	1.0	6.6
2006-07 : Q1	0.9	2.8	1.9	1.4	7.1
: Q2	0.9	3.4	2.0	1.1	7.4
: Q3	0.7	3.1	1.9	0.7	6.5
: Q4	0.8	3.1	1.8	0.7	6.5
2007-08 : Q1	0.6	3.4	1.8	0.7	6.5
: Q2	0.9	3.0	1.9	1.1	6.9
: Q3	0.5	3.0	1.6	0.8	5.9
: Q4	0.9	3.4	1.5	1.3	7.1

Source : Central Statistical Organisation.

The leading indicators of services sector activity for 2008-09 so far suggest acceleration in growth in respect of some indicators such as railway revenue earning freight traffic, tourist arrivals and export cargo handled by civil aviation during April-May 2008 as compared with April-May 2007. On the other hand, growth decelerated in respect of cargo handled at major ports, various indicators of civil aviation excluding export cargo and commercial vehicles production. Some deceleration was also observed in production of cement and steel during April-May 2008, which are among the important indicators of construction industry (Table 9).

Aggregate Demand

The Indian economy continued to be driven by domestic demand with consumption accounting for more than two-thirds and investment little less than one-third of real GDP. During 2007-08, the share of final consumption expenditure declined to 67.8 per cent, while that of gross fixed capital formation rose to 31.9 per cent (Table 10).

Savings and Investment

Gross Domestic Saving (GDS), as percentage of GDP at current market prices, increased to 34.8 per cent in 2006-07 from 34.3 per cent in 2005-06

Table 9: Indicators of Services Sector Activity

(Growth rates in per cent)

Sub-sector	2006-07	2007-08	2007-08	2008-09
			April-May	
1	2	3	4	5
1. Tourist arrivals	13.0	11.3	8.2 *	10.2 *
2. Commercial vehicles production #	11.2	-0.2	10.6	4.6
3. Railway revenue earning freight traffic	5.1	10.9	6.2	10.2
4. New cell phone connections	85.4	38.3	50.4	42.9
5. Cargo handled at major ports	22.1	14.7	17.7	10.3
6. Civil aviation				
a) Export cargo handled	3.6	7.5	1.6	7.6
b) Import cargo handled	19.4	19.7	21.7	9.3
c) Passengers handled at international terminals	12.1	11.9	13.1	9.0
d) Passengers handled at domestic terminals	34.0	20.6	24.4	5.9
7. Cement **	5.8	6.9	7.8	5.4
8. Steel **	2.7	4.0	5.5	4.5
9. Aggregate deposits of SCBs	23.8	22.4	4.1 @	3.5 @
10. Non-food credit of SCBs	28.5	23.0	-0.7 @	1.7 @

* : April-June # : Leading Indicator for transportation. ** : Leading indicators for construction.

@ : Up to July 4. SCBs : Scheduled Commercial Banks.

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.

Table 10: Expenditure Side of GDP (at 1999-2000 Prices)

(Rates as per cent of GDP)

Item	2006-07*	2007-08#	2006-07				2007-08			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
1. Total Final Consumption Expenditure	68.4	67.8	72.2	68.9	69.3	64.2	70.1	68.2	69.0	64.6
(i) Private Final Consumption Expenditure	58.6	58.2	60.7	60.3	60.4	53.7	59.8	59.5	60.7	53.4
(ii) Government Final Consumption Expenditure	9.8	9.6	11.5	8.6	8.9	10.5	10.3	8.7	8.3	11.2
2. Gross Fixed Capital Formation	30.6	31.9	30.8	31.2	29.6	30.9	32.0	33.4	31.0	31.6
3. Change in Stocks	2.1	2.0	2.1	2.2	2.0	2.0	2.1	2.1	1.9	1.9
4. Valuables	1.2	1.3	1.3	1.3	1.2	1.1	1.2	1.3	1.4	1.1
5. Exports	20.6	20.3	24.5	18.8	17.9	21.4	23.8	16.8	19.0	21.6
6. *Less:* Imports	24.7	24.4	25.6	27.0	24.2	22.6	24.9	24.8	25.4	22.8
7. Discrepancies	1.8	1.1	-5.3	4.6	4.3	3.0	-4.3	3.1	3.0	1.9
Memo:										(Rupees crore)
Real GDP at market prices	31,17,372	33,98,767	7,04,841	7,22,355	8,25,401	8,64,774	7,69,871	7,88,514	8,99,098	9,41,283

* : Quick Estimates. # : Revised Estimates.

Source : Central Statistical Organisation.

mainly due to improvement in the saving performance by the private corporate and public sectors. On the other hand, the household saving rate declined marginally in 2006-07 from the previous year on account of decline in the financial saving rate (Table 11). The rate of gross domestic capital formation (GDCF) was estimated to be marginally higher at 35.9 per cent of GDP in 2006-07 than 35.5 per cent in 2005-06. During 2006-07, while the overall saving rate increased by 0.5 percentage point in 2006-07, the overall investment rate increased by 0.4 percentage point, reflecting a marginal narrowing down of current account deficit.

Corporate Performance

The performance of non-government non-financial companies moderated during 2007-08 relative to the previous year (Table 12). Sales growth, which slowed down in the first two quarters of the year, accelerated in the third and fourth quarters. On the whole, sales growth during 2007-08 at 18.5 per cent was lower than 26.2 per cent registered in the previous year. Growth in gross profits and net profits also decelerated during 2007-08. The gross profits to sales ratio, however, improved marginally over the same period. Growth in sales and net profits in the fourth quarter of 2007-08 were at 20.6 per cent and 14.1 per cent, respectively, as compared with 22.5 per cent and 39.6 per cent in the fourth quarter of 2006-07.

Table 11: Rates of Gross Domestic Saving and Investment

(Per cent of GDP at current market prices)

Item	2001-02	2002-03	2003-04	2004-05	2005-06 PE	2006-07 QE	10th Plan Average
1	2	3	4	5	6	7	8
1. Household Saving	22.1	23.2	24.4	23.0	24.2	23.8	23.7
of which :							
a) Financial assets	10.9	10.3	11.4	10.1	11.8	11.3	11.0
b) Physical assets	11.3	12.9	13.0	12.9	12.5	12.5	12.7
2. Private Corporate Saving	3.4	3.9	4.4	6.6	7.5	7.8	6.0
3. Public Sector Saving	-2.0	-0.6	1.1	2.2	2.6	3.2	1.7
4. Gross Domestic Saving	23.5	26.4	29.8	31.8	34.3	34.8	31.4
5. Net capital inflow	-0.6	-1.2	-1.6	0.4	1.2	1.1	0.0
6. Gross Domestic Capital Formation #	22.8	25.2	28.2	32.2	35.5	35.9	31.4
7. Gross Capital Formation	24.2	25.2	26.8	31.6	34.5	36.0	30.8
of which :							
a) Public sector	6.9	6.1	6.3	6.9	7.6	7.8	6.9
b) Private corporate sector	5.4	5.7	6.6	10.5	13.3	14.5	10.1
c) Household sector	11.3	12.9	13.0	12.9	12.5	12.5	12.8
d) Valuables	0.6	0.6	0.9	1.3	1.2	1.2	1.0
8. Total Consumption Expenditure (a+b)	76.7	75.1	73.0	69.2	67.8	66.1	70.2
a) Private Final Consumption Expenditure	64.4	63.2	61.7	58.4	57.4	55.8	59.3
b) Government Final Consumption Expenditure	12.4	11.9	11.3	10.7	10.4	10.3	10.9
Memo:							
Saving-Investment Balance (4-6)	0.7	1.2	1.6	-0.4	-1.2	-1.1	0.0
Public Sector Balance	-8.9	-6.7	-5.3	-4.7	-5.0	-4.5	-5.3
Private Sector Balance	8.8	8.5	9.2	6.1	5.9	4.5	6.8
a) Private Corporate Sector	-2.1	-1.9	-2.2	-4.0	-5.8	-6.8	-4.1
b) Household Sector	10.9	10.3	11.4	10.1	11.8	11.3	10.9

PE : Provisional Estimates. QE : Quick Estimates.
: Adjusted for errors and omissions.
Note : Figures may not add up to the total due to rounding off.
Source : Central Statistical Organisation.

Business Expectation Survey

According to the quarterly business expectations survey of the National Council of Applied Economic Research (NCAER) released in April 2008, the overall business confidence index (BCI) for the next six months declined both over the previous round and the previous year (Table 13). A component-wise analysis shows that three out of four components, *viz.*, overall economic conditions, investment climate and financial position of firms declined over the previous round, while the capacity utilisation did not show any variation. The BCI in respect of consumer durables, services and intermediates sectors declined, while modest gains were observed in respect of capital goods and consumer non-durables.

Table 12: Corporate Financial Performance

(Growth rates in per cent)

Item	2005-06	2006-07	2007-08P	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 Q4	2007-08 Q1	2007-08 Q2	2007-08 Q3	2007-08 Q4
1	2	3	4	5	6	7	8	9	10	11	12
Sales	16.3	26.2	18.5	25.6	29.2	30.3	22.5	19.2	16.0	18.0	20.6
Other Income	17.3	7.1	47.0	21.6	15.5	9.2	0.4	106.7	45.2	70.2	28.5
Expenditure	16.7	23.4	18.6	24.0	27.7	25.7	20.0	18.0	15.3	18.9	23.3
Depreciation	8.1	15.4	14.8	14.9	16.4	16.8	18.1	18.1	15.8	17.9	15.4
Gross Profits	24.6	41.9	23.3	32.7	46.0	52.9	35.5	31.9	22.5	20.4	16.8
Interest Payments	-2.0	17.4	28.8	19.9	18.0	11.9	32.3	4.4	18.4	45.7	35.8
Profits After Tax	32.8	45.2	27.0	34.7	49.4	59.5	39.6	33.9	22.7	29.4	14.1
Select Ratios (Per cent)											
Gross Profits to Sales	12.2	15.5	16.3	15.2	15.6	15.8	15.4	16.7	16.3	16.2	15.0
Profits After Tax to Sales	8.2	10.7	11.8	10.6	11.0	11.0	10.6	11.6	11.5	12.2	10.3
Interest to Sales	2.2	2.1	2.3	2.2	2.0	2.0	2.0	2.0	2.1	2.5	2.2
Interest to Gross Profits	18.1	13.4	13.9	14.2	13.1	12.6	12.9	11.8	12.8	15.3	14.6
Interest Coverage (Times)	5.5	7.5	7.2	7.0	7.6	7.9	7.7	8.5	7.8	6.5	6.8
Memo: (Amount in Rupees crore)											
No of Companies	2,730	2,388	2,219	2,228	2,263	2,258	2,356	2,342	2,228	2,329	2,357
Sales	7,35,216	10,41,894	10,88,203	2,34,610	2,51,125	2,60,064	2,94,223	2,80,814	2,97,110	3,06,238	3,50,917
Other Income *	17,088	23,895	28,798	4,304	5,282	4,927	8,466	9,151	8,057	9,221	10,082
Expenditure #	6,43,826	8,78,645	9,12,834	2,00,120	2,11,043	2,17,472	2,49,133	2,37,698	2,49,194	2,57,472	3,02,105
Depreciation	28,961	37,095	38,528	8,449	8,892	9,172	10,338	10,173	10,576	10,961	11,805
Gross Profits	90,179	1,61,006	1,76,845	35,761	39,055	40,995	45,424	46,780	48,296	49,717	52,583
Interest Payments	16,302	21,500	24,551	5,083	5,121	5,162	5,862	5,504	6,194	7,609	7,703
Profits After Tax	60,236	1,11,107	1,27,968	24,845	27,710	28,698	31,251	32,699	34,266	37,470	36,109

P : Provisional; data pertain to 2,219 companies available so far.

* : Other income excludes extraordinary income/expenditure if reported explicitly.

: The increase or decrease in stock in trade is accounted under total income instead of total expenditure as was hitherto done.

Notes : 1. Data for 2005-06 are based on audited annual accounts, 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 percentage 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.

The CII business confidence index (CII-BCI) for April-September 2008 declined by 5.3 per cent as compared with the past six months and 2.9 per cent as compared with the corresponding period a year ago (Table 13). The decline was

Table 13: Business Expectations Surveys

(Per cent)

Organisation	Business Expectations: Period	Business Expectations: Index	Growth over a year ago	Growth over previous round
1	2	3	4	5
NCAER	April-September 2008	Business Confidence Index	-1.7	-3.4
CII	April-September 2008	Business Confidence Index	-2.9	-5.3
Reserve Bank of India	July-September 2008	Business Expectations Index	0.8	-0.9
Dun & Bradstreet	July-September 2008	Business Optimism Index	-18.0	-11.2

on account of uncertain global economic outlook and concerns about high interest rates. The composite business optimism index for July-September 2008 compiled by Dun and Bradstreet (D&B) declined by 11.2 per cent as compared with the previous quarter and by 18.0 per cent as compared with the previous year. All the six optimism indices - volumes of sales, net profits, selling prices, new orders, inventory levels and employee levels declined as compared with the previous quarter. Optimism was particularly low among respondents in the consumer durables and basic goods sectors.

According to the Reserve Bank's Industrial Outlook Survey of manufacturing companies in the private sector for April-June 2008, the business expectations indices based on assessment for April-June 2008 and on expectations for July-September 2008 declined by 5.4 per cent and 0.9 per cent, respectively, over the corresponding previous quarters. The indices, however, increased by 0.3 per cent and 0.8 per cent, respectively, over the corresponding quarters of the previous year (Chart 4).

The decline in expectations index for July-September 2008 over the previous quarter was due to lower net responses for major parameters of the survey such as overall business situation, overall financial situation, production, order books, cost of raw materials, capacity utilisation, employment, imports and profit margins than in the previous quarter (Table 14). Most of the corporates expect increase in raw material prices and the increased production cost is

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

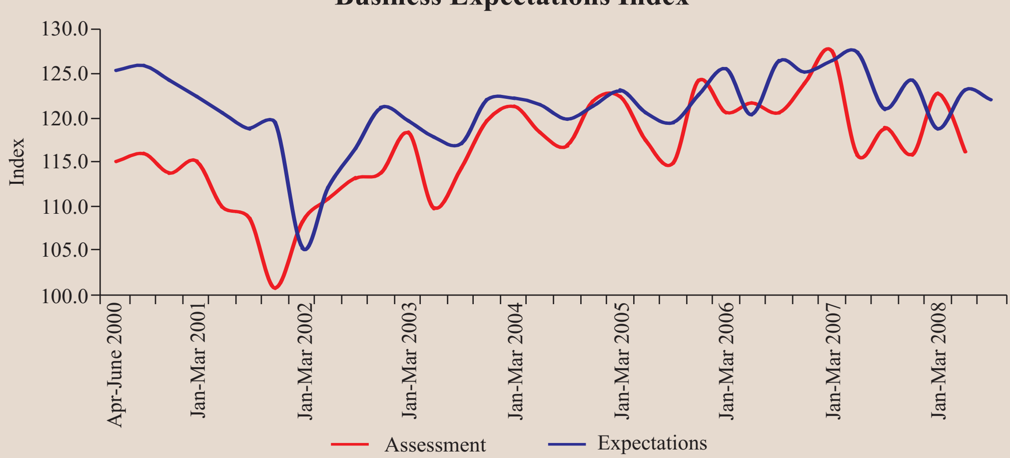


Table 14: Reserve Bank's Industrial Outlook Survey - Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance

(Per cent)

	Parameter	Response	Apr-June 2007	July-Sept 2007	Oct-Dec 2007	Jan-Mar 2008	April-June 2008	July-Sept 2008
	1	2	3	4	5	6	7	8
1.	Overall business situation	Better	51.7	49.5	50.2	47.7	46.0	41.8
			(43.3)	(41.2)	(42.1)	(42.9)	(42.7)	(42.6)
2.	Financial situation	Better	43.8	41.3	40.1	40.3	36.6	32.7
			(49.8)	(49.8)	(51.3)	(50.3)	(51.6)	(53.0)
3.	Working capital finance requirement	Increase	35.3	34.5	32.2	34.7	36.6	33.6
			(59.2)	(59.2)	(62.6)	(60.3)	(56.5)	(57.3)
4.	Availability of finance	Improve	35.2	32.1	33.8	31.1	32.3	30.2
			(57.2)	(58.6)	(58.8)	(59.5)	(58.3)	(57.9)
5.	Production	Increase	47.8	46.6	49.0	43.9	45.2	43.5
			(41.6)	(41.1)	(40.9)	(42.3)	(41.0)	(36.6)
6.	Order books	Increase	45.7	43.6	44.1	37.1	41.5	38.5
			(45.4)	(46.1)	(46.0)	(48.6)	(44.3)	(43.5)
7.	Pending orders, if applicable	Below normal	-2.2	-2.2	-3.5	0.4	-4.3	2.2
			(82.8)	(82.6)	(82.4)	(80.2)	(81.3)	(80.9)
8.	Cost of raw material	Decrease	-42.1	-46.0	-42.4	-44.1	-48.2	-54.7
			(52.0)	(49.7)	(51.0)	(49.2)	(46.0)	(39.1)
9.	Inventory of raw material	Below average	-7.3	-5.4	-6.3	-7.3	-7.0	-3.8
			(85.0)	(85.0)	(85.0)	(84.8)	(83.2)	(81.8)
10.	Inventory of finished goods	Below average	-4.4	-2.7	-3.5	-4.5	-5.8	-1.5
			(85.2)	(87.1)	(86.4)	(86.1)	(84.5)	(84.5)
11.	Capacity utilisation (Main product)	Increase	29.4	27.0	28.4	24.2	25.6	22.2
			(60.4)	(61.4)	(61.5)	(62.3)	(59.9)	(58.8)
12.	Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	11.5	9.4	10.7	6.4	9.4	3.6
			(77.1)	(76.5)	(77.2)	(78.3)	(77.0)	(74.9)
13.	Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	4.0	3.0	4.2	4.7	8.0	4.6
			(82.2)	(82.2)	(83.0)	(83.8)	(81.2)	(81.3)
14.	Employment in the company	Increase	18.3	17.4	16.7	14.6	20.8	15.8
			(73.3)	(73.5)	(74.1)	(75.6)	(68.2)	(71.5)
15.	Exports, if applicable	Increase	33.4	32.6	31.4	24.3	27.7	27.7
			(56.8)	(55.6)	(55.9)	(58.3)	(53.3)	(54.9)
16.	Imports, if any	Increase	21.6	23.7	20.8	20.1	25.3	21.3
			(68.4)	(68.2)	(68.6)	(70.5)	(65.6)	(66.5)
17.	Selling prices are expected to	Increase	15.5	19.0	13.0	14.9	19.1	21.0
			(68.9)	(67.1)	(68.5)	(67.1)	(66.0)	(61.5)
18.	If increase expected in selling prices	Increase at lower rate	12.1	10.4	3.7	13.3	9.0	3.0
			(66.7)	(65.0)	(58.9)	(66.7)	(64.0)	(61.3)
19.	Profit margin	Increase	9.9	7.5	9.6	5.4	7.2	3.8
			(62.5)	(62.6)	(59.6)	(60.0)	(61.0)	(59.8)

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.

expected to be adjusted by keeping inventory levels (both raw material and finished goods) at 'below average' and by increasing selling prices.

The recent projections for growth rate of industrial production in 2008-09 by the Centre for Monitoring Indian Economy (CMIE) present an optimistic view in the light of large capital investments scheduled for commissioning during the year. The CMIE expects the industrial growth to accelerate from the estimated 8.5 per cent in 2007-08 to 11.4 per cent in 2008-09. Growth rates in the manufacturing, mining and electricity sectors are projected at 10.8 per cent, 8.0 per cent and 6.3 per cent, respectively. As per CMIE, the industrial rebound is expected to be well spread across all the sectors and would be fuelled by robust growth in capital goods in the wake of large capital goods imports and investments, healthy order-book position and a pick-up in the growth of consumer goods.

The ABN-AMRO Purchasing Managers' Index (PMI)[1] for June 2008 rose to its highest reading in four months at 58.6 (57.4 in May 2008), supported by increase in the rate of growth of both output and new orders, indicating strong growth in the manufacturing sector. Manufacturing firms attributed higher new order levels to improvement in market conditions and robust underlying demand. However, on the down side, input price inflation accelerated to its sharpest for nineteen months in June, on account of higher raw material costs.

Survey of Professional Forecasters[2]

The results of professional forecasters' survey conducted by the Reserve Bank in June 2008 suggested moderation in economic activity for each of the three forthcoming quarters and for 2008-09 on the whole (Table 15). Between the third round of survey conducted in March 2008 and fourth round survey in June 2008 forecast of real GDP growth for 2008-09 was revised downward to 7.9 per cent from 8.1 per cent. The sectoral growth rate forecasts for industry and services sector were also revised downwards. On the other hand,

[1] The PMI is a composite indicator designed to provide an overall view of activity in the manufacturing sector. A PMI of 50.0 indicates no change while values above or below this level indicate an expansion or a contraction of manufacturing activity.

[2] Introduced by the Reserve Bank from the quarter ended September 2007. The forecasts made in the section are that of professional forecasters and not that of the Reserve Bank.

Table 15: Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters 2008-09

Indicators	Actual 2007-08	2008-09 Annual E	Annual L	Q1 E	Q1 L	Q2 E	Q2 L	Q3 E	Q3 L	Q4 L
1	2	3	4	5	6	7	8	9	10	11
1 Real GDP growth rate at factor cost (in per cent)	9.0	8.1	7.9	8.1	8.0	8.3	7.7	8.1	7.6	7.5
a. Agriculture & Allied Activities	4.5	3.0	3.0	3.0	3.1	3.0	3.4	2.9	3.1	3.8
b. Industry	8.1	8.1	7.5	8.4	7.1	8.5	7.0	8.6	7.4	7.3
c. Services	10.7	9.7	9.5	10.0	9.9	9.6	9.6	9.8	9.6	9.5
2 Gross Domestic Saving (per cent of GDP at current market prices)	34.8 *	35.0	35.0	-	-	-	-	-	-	-
3 Gross Domestic Capital Formation (per cent of GDP at current market prices)	35.9 *	36.0	36.3	36.2	36.6	36.0	36.0	36.0	35.8	36.1
4 Corporate profit after tax (growth rate in per cent)	27.0	24.7	16.0	21.3	20.3	22.6	17.4	23.1	16.0	19.5
5 91-day Treasury Bill Yield (per cent-end period)	7.2	6.8	8.2	-	-	-	-	-	-	-
6 10-year Government Securities Yield (per cent-end period)	7.9	7.8	8.8	-	-	-	-	-	-	-
7 Export (growth rate in per cent)	23.7	15.8	20.0	-	-	-	-	-	-	-
8 Import (Growth rate in per cent)	29.9	20.0	29.5	-	-	-	-	-	-	-
9 Trade Balance (US $ billion)	-90.1	-115.5	-126.2	-28.4	-31.1	-27.5	-32.1	-28.1	-31.1	-29.0

E : Earlier Projection. L : Latest Projection. * : Pertains to 2006-07. - : Not Available.

Note : The latest round refers to the fourth round for the quarter ended June 2008, while earlier round refers to third round for the quarter ended March 2008.

Source : Survey of Professional Forecasters, First Quarter 2008-09.

growth rates in export and import were revised upwards to 20 per cent and 30 per cent, respectively. The trade deficit is expected to increase in 2008-09.

Forecasts by various agencies for real GDP growth in 2008-09 are set out in Table 16.

Table 16: Projections of Real GDP for India by Various Agencies - 2008-09

(per cent)

Agency	Overall Growth	Agriculture	Industry	Services	Month of Projection
1	2	3	4	5	6
ASSOCHAM #	7.9	2.6	7.6	9.7	Apr-08
Confederation of Indian Industries (CII)	8.0 -8.5	-	-	-	Mar-08
Citigroup	7.7	3.0	7.5	9.2	Mar-08
	8.3	-	-	-	Feb-08
Merrill Lynch	7.9	2.5	7.4	9.6	June-08
	8.2	3.0	7.6	9.9	Mar-08
JP Morgan	7.0	-	-	-	Mar-08
	7.5	-	-	-	Dec-07
Centre for Monitoring Indian Economy (CMIE)	9.5	3.2	11.4	10.6	July-08
	9.1	-	-	-	Feb-08
NCAER @	8.5-8.8	2.5	8.9-9.4	10.2-10.5	May-08
Standard & Poor's, CRISIL	7.8	3.0	7.5	9.5	June-08
	8.1	3.0	8.3	10.3	Apr-08
	8.5	-	-	-	Feb-08
Asian Development Bank	8.0	-	-	-	Apr-08
	8.5	-	-	-	Sep-07
International Monetary Fund *	8.0	-	-	-	July-08
	7.9	-	-	-	Apr-08
	8.4	-	-	-	Oct-07
United Nations Organisation	8.2	-	-	-	Jan-08
Economic Advisory Council to Prime Minister	8.5	-	-	-	Jan-08
Reserve Bank of India	8.0-8.5	-	-	-	Apr-08

- : Not Available. * : Calendar year. # : The Associated Chambers of Commerce and Industry of India.
@ : National Council of Applied Economic Research.

II. FISCAL SITUATION

Combined Government Finances: 2008-09

An overview of the combined budgetary position of the Central and State Governments indicates that the key deficit indicators are budgeted to decline significantly during 2008-09. The revenue deficit and gross fiscal deficit (GFD) of combined Government finances are budgeted to decline by 0.4-0.6 percentage points during 2008-09 over the revised estimates (RE) for 2007-08 (Table 17). Primary balance, which turned into surplus in 2007-08 (RE), is budgeted to record a surplus of 0.8 per cent of GDP in 2008-09 (BE). Supported by rise in direct taxes, the combined revenue deficit has declined in recent years, reflecting the build up of surplus in the revenue account of consolidated State Government finances and a reduction in the revenue deficit of the Central Government. The combined debt-GDP ratio of the Central and State Governments is budgeted to decline to 73.4 per cent by end-March 2009 from 77.0 per cent at end-March

Table 17: 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	63.5
2003-04	-0.03	3.6	4.5	63.0
2004-05	-0.04	2.5	4.0	63.3
2005-06	0.4	2.6	4.1	63.1
2006-07	-0.2	1.9	3.5	61.2
2007-08 RE	-0.6	1.4	3.1	61.5
	(-0.9)	(1.2)	(2.8)	
2008-09 BE	-1.1	1.0	2.5	57.7
		States		
2002-03	1.3	2.3	4.1	32.0
2003-04	1.5	2.3	4.4	33.2
2004-05	0.7	1.2	3.4	32.7
2005-06	0.2	0.2	2.5	32.6
2006-07	-0.4	-0.6	1.9	30.2
2007-08 RE	0.1	-0.5	2.3	28.4
2008-09 BE	0.1	-0.6	2.1	27.4
		Combined		
2002-03	3.1	6.6	9.6	80.3
2003-04	2.1	5.8	8.5	81.4
2004-05	1.3	3.6	7.5	81.3
2005-06	1.0	2.8	6.7	80.4
2006-07	0.0	1.4	5.6	77.0
2007-08 RE	-0.3	0.9	5.2	77.0
2008-09 BE	-0.8	0.5	4.6	73.4

RE : Revised Estimates. BE: Budget Estimates.
* : Include external liabilities at historical exchange rates.
Note : 1. Figures in parentheses relate to provisional accounts.
2. Negative sign indicates surplus.
3. Data in respect of States are provisional from 2006-07 onwards and relate to the Budgets of 27 States of which two are *vote-on-accounts*.

2008, reflecting the continued process of fiscal consolidation and buoyant economic growth.

Market borrowings are budgeted to finance two thirds of the combined GFD during 2008-09 (70.5 per cent a year ago). The contribution of small savings in GFD financing, which had fallen sharply to 3.6 per cent in 2007-08(RE), is budgeted to increase to 11.7 per cent in 2008-09 (Table 18).

Centre's Fiscal Situation: 2008-09

The revenue deficit and GFD of the Centre budgeted at 1.0 per cent and 2.5 per cent of GDP, respectively, during 2008-09, would be 0.4 percentage point and 0.6 percentage point lower than those in the revised estimates for 2007-08. In comparison with the provisional accounts for 2007-08, the revenue deficit and GFD in 2008-09 would be lower by 0.2 percentage point and 0.3 percentage point, respectively. However, finances of the Central Government may come under pressure during 2008-09 on account of Sixth Pay Commission (SPC) award including payment of arrears; reduction of duties on petroleum products; higher oil subsidies; increase in fertiliser subsidy due to sharp rise in the prices of raw materials and fertilisers in the international market; and burden of debt waiver to the farmers.

Available information on Central Government finances during April-May 2008 indicates that revenue deficit and GFD were higher than a year ago, both in absolute terms and as percentages to budget estimates (Chart 5 and Table 19). Gross primary deficit in April-May 2008 was also higher than a year ago.

Table 18: Financing of Gross Fiscal Deficit of the Centre and States

(Rupees crore)

Year	Market Borrowings	State Provident Funds	Small Savings	External Borrowings	Others	Gross Fiscal Deficit
1	2	3	4	5	6	7
2004-05	85,498	13,139	87,690	14,753	33,641	2,34,721
	(36.4)	(5.6)	(37.4)	(6.3)	(14.3)	(100.0)
2005-06	1,21,546	15,388	89,836	7,472	5,318	2,39,560
	(50.7)	(6.4)	(37.5)	(3.1)	(2.2)	(100.0)
2006-07	1,27,843	15,130	63,746	8,472	15,373	2,30,564
	(55.4)	(6.6)	(27.6)	(3.7)	(6.7)	(100.0)
2007-08 RE	1,74,325	15,143	8,827	9,970	39,030	2,47,295
	(70.5)	(6.1)	(3.6)	(4.0)	(15.8)	(100.0)
2008-09 BE	1,62,767	16,249	28,498	10,989	25,043	2,43,546
	(66.8)	(6.7)	(11.7)	(4.5)	(10.3)	(100.0)

BE : Budget Estimates. RE : Revised Estimates.

Note : 1. Figures in parentheses are percentages to GFD.

2. Data in respect of States are provisional from 2006-07 onwards and relate to the Budgets of 27 States of which two are *vote on account*.

The widening of fiscal deficit of the Central Government during April-May 2008 was mainly on account of a sharp rise in plan expenditure over April-May 2007. On the other hand, non-plan expenditure was contained mainly due to a moderation in the growth of interest payments and major subsidies, and a decline in defence expenditure (Table 19). While the tax revenue in April-May 2008 was 47.1 per cent higher than that during April-May 2007, non-tax revenue was lower by 2.4 per cent. Receipts of major taxes were higher than those during April-May 2007.

Cash Management and Central Government Market Borrowings

Net market borrowings (dated securities and 364-day Treasury Bills excluding allocations under the MSS) of the Central Government are placed at Rs.99,000 crore during 2008-09. Including repayments of Rs.76,780 crore, gross market borrowings are estimated at Rs.1,75,780 crore during 2008-09. The issuance calendar for dated securities for the first half of 2008-09 released on March 24, 2008, in consultation with the Central Government, provided for mobilisation of Rs.96,000 crore through auctions during April-September 2008 as compared with Rs.97,000 crore raised during the corresponding period of the previous year. During 2008-09 (up to July 18, 2008) the actual issuances of dated securities amounted to Rs.66,000 crore, which is in accordance with the calendar released. All auctions during 2008-09 (up to July 18, 2008) were for reissuance of existing securities, barring one new issue of 10-year maturity. There was a devolvement of Rs.779 crore on PDs during 2008-09 (up to July 18, 2008) as compared with no devolvement during the corresponding period of the

Chart 5: Key Deficit Indicators of the Centre

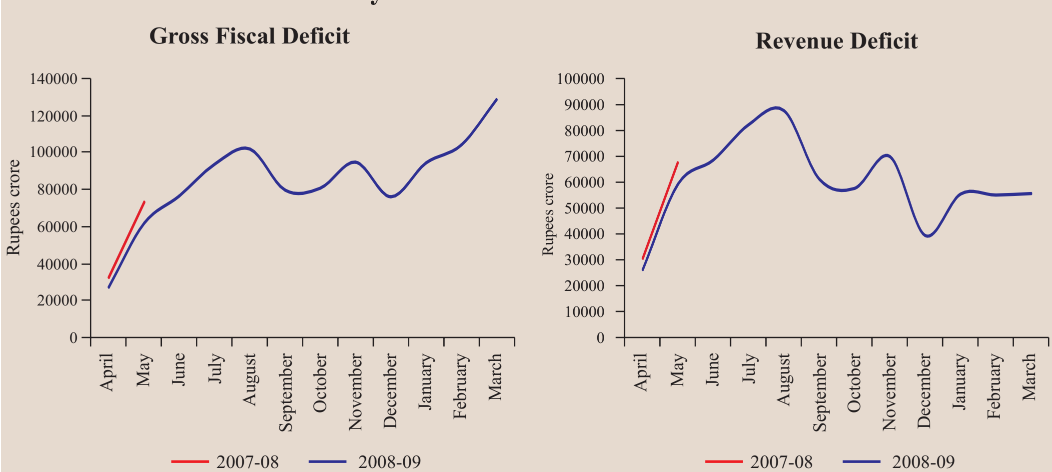


Table 19 : Central Government Finances: April-May 2008

(Rupees crore)

Item	2008-09 (Budget Estimates)	April - May 2007	April - May 2008	Per cent of Budget Estimates April-May	
1	2	3	4	5	6
1. Revenue Receipts (i + ii)	6,02,935	25,899	36,030	5.3	6.0
i) Tax Revenue	5,07,150	21,725	31,958	5.4	6.3
ii) Non-tax Revenue	95,785	4,174	4,072	5.1	4.3
2. Non-Debt Capital Receipts	14,662	2,716	254	86.2 *	1.7
3. Non-Plan Expenditure	5,07,498	67,615	71,496	15.5 *	14.1
of which:					
i) Interest Payments	1,90,807	26,221	27,229	16.5	14.3
ii) Defence	1,05,600	6,770	6,451	7.1	6.1
iii) Major subsidies	67,037	15,508	18,002	30.3	26.9
4. Plan Expenditure	2,43,386	23,135	37,989	11.3	15.6
5. Revenue Expenditure	6,58,119	85,234	103,761	15.3	15.8
6. Capital Expenditure	92,765	5,516	5,724	6.7 *	6.2
7. Total Expenditure	7,50,884	90,750	109,485	14.2 *	14.6
8. Revenue Deficit	55,184	59,335	67,731	83.0	122.7
9. Gross Fiscal Deficit	1,33,287	62,135	73,201	41.2	54.9
10. Gross Primary Deficit	-57,520	35,914	45,972	-	-

N.A.: Not Available

* : Excludes an amount of Rs.40,000 crore in the budget estimates for 2007-08 on account of transactions relating to transfer of the Reserve Bank's stake in SBI to the Central Government.

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

previous year. The bid-cover ratio ranged between 1.63 and 3.49. Gross and net market borrowings (dated securities and 364-day Treasury Bills) during 2008-09 (up to July 18, 2008) amounted to Rs. 77,809 crore and Rs.42,819 crore, respectively, accounting for 44.3 per cent and 43.3 per cent of the estimated market borrowings for the year. During the corresponding period of the previous year, gross and net borrowings accounted for 40.5 per cent and 33.5 per cent, respectively. The weighted average maturity of dated securities issued during 2008-09 (up to July 18, 2008) at 15.67 years was higher than 14.33 years during the corresponding period of the previous year. The weighted average yield of dated securities issued during the same period increased to 8.58 per cent from 8.31 per cent (Table 20).

The cash balance of the Central Government remained in surplus during 2008-09 (up to July 18, 2008). Commencing the year with a surplus cash balance of Rs.76,686 crore (end-March 2008), the Central Government used the balances to meet its expenditure requirements as a result of which the surplus cash balance of the Central Government declined to Rs.19,767 crore on July 18,

Table 20: Central Government Securities Issued during 2008-09

(Amount in Rupees Crore/Maturity in years/Yield in Percent)

Sr. No.	Borrowings as per Issuance Auction Calendar: Period of Auction	Amount	Residual Maturity	Actual Borrowings: Date of Auction	Amount	Residual Maturity	Yield
1	2	3	4	5	6	7	8
1.	April 04 - 11, 2008	6,000	5-9 year	April 11, 2008	6,000	7.38	8.14
		4,000	20- year and above		4,000	24.37	8.67
2.	April 18 - 25, 2008	6,000	10-14 year	April 21, 2008	6,000	10.00	8.24
		4,000	20- year and above		4,000	28.13	8.77
3.	May 2-9, 2008	6,000	5-9 year	May 09,2008	6,000	7.92	7.96
		4,000	20-year and above		4,000	24.29	8.35
4.	May 16-23, 2008	6,000	10-14 year	May 23, 2008	6,000	9.91	8.07
		4,000	20-year and above		4,000	23.72	8.52
5.	May 30- June 6, 2008	6,000	10-14 year	June 6, 2008	6,000	9.87	8.26
		4,000	20 year and above		4,000	24.22	8.72
6.	June 13 - 20, 2008	6,000	15-19 year security	June 20,2008	6,000	18.64	9.25
7.	July 4-11, 2008	6,000	10-14 year	July 4, 2008	6,000	9.79	9.13
		4,000	20 year and above		4,000	23.61	10.03
	Total	**66,000**			**66,000**		

Memo:

Year	Weighted Average Maturity	Weighted Average Yield
2004-05	14.13	6.11
2005-06	16.90	7.34
2006-07	14.72	7.89
2007-08	14.90	8.12
2007-08 (up to July 18, 2007)	14.33	8.31
2008-09 (up to July 18, 2008)	15.67	8.58

2008. During 2007-08 (up to July 18) the Central Government was in cash deficit for 70 days. It had availed of overdraft of Rs.3,593 crore over and above the ways and means advances (WMA) of Rs. 20,000 crore as on July 18, 2007.

State Finances: 2008-09[1]

The State Governments, while presenting the budgets for 2008-09, indicated their commitment to the process of fiscal consolidation and correction. The State Governments budgeted a higher consolidated revenue surplus of 0.55 per cent of GDP in 2008-09 than 0.46 per cent of GDP in the previous year. As a result, GFD is budgeted to decline to 2.1 per cent in 2008-09 from 2.3 per cent a year ago. The improvement in the revenue account during 2008-09 is budgeted to be achieved through increase in revenue receipts (14.3 per cent) and deceleration in revenue expenditure (13.6 per cent). In terms of GDP, while revenue receipts would increase by 0.2 percentage point to 13.5 per cent of GDP in 2008-09 (BE), the revenue expenditure would increase by 0.1 percentage point to 12.9 per cent during the same period. The capital outlay is budgeted to be

[1] Based on information pertaining to 27 State Budgets (excluding Tripura), of which two are *vote-on-accounts*.

maintained at 2.7 per cent of GDP during 2008-09, though it would be higher in absolute terms.

Cash Management and State Government Market Borrowings

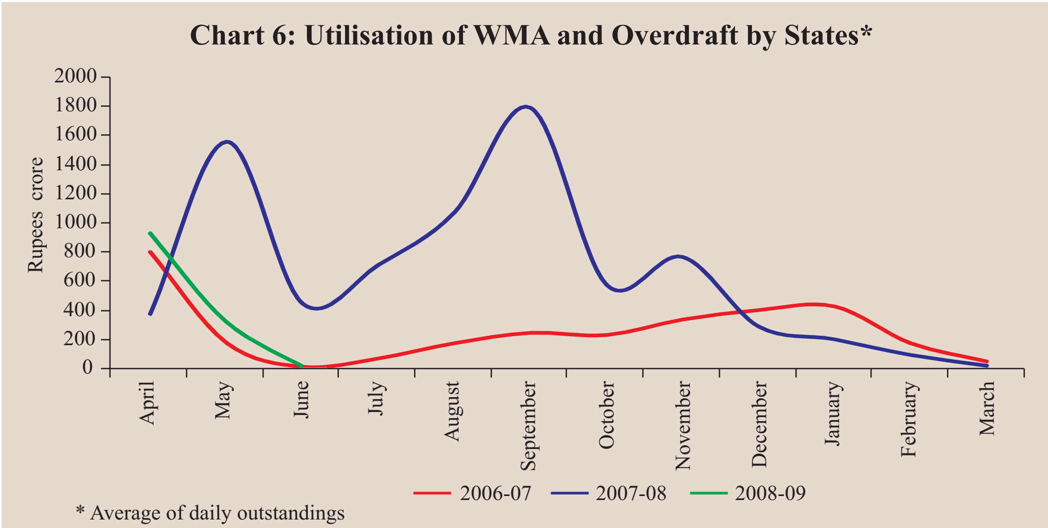
The provisional net allocation under market borrowing programme of the State Governments for 2008-09 is placed at Rs.44,629 crore. Taking into account repayments of Rs.14,371 crore, the gross market borrowings of State Governments are estimated at Rs.59,000 crore. During the current year so far (up to July 18, 2008), eight State Governments raised Rs.8,712 crore through auctions with a cut-off yield in the range 8.39-9.81 per cent as compared with Rs.7,153 crore by 13 State Governments (cut-off yield ranging from 8.30-8.57 per cent) during the corresponding period of the previous year. The weighted average interest rate on market loans firmed up to 8.87 per cent during 2008-09 (up to July 18, 2008) from 8.41 per cent during the corresponding period of 2007-08 (Table 21). The spreads of State Government securities over the yields of Central Government security of corresponding maturity ranged between 30 and 98 basis points as against 22 and 35 basis points during the corresponding period of 2007-08.

The average daily utilisation of WMA and overdraft by the States during 2008-09 (up to July 18, 2008) was Rs.351 crore as compared with Rs. 736 crore during the corresponding period of 2007-08 (Chart 6). Four States availed of WMA and three States resorted to overdraft during 2008-09 (up to July 18, 2008) as compared with six States and three States, respectively, during the corresponding period of the previous year.

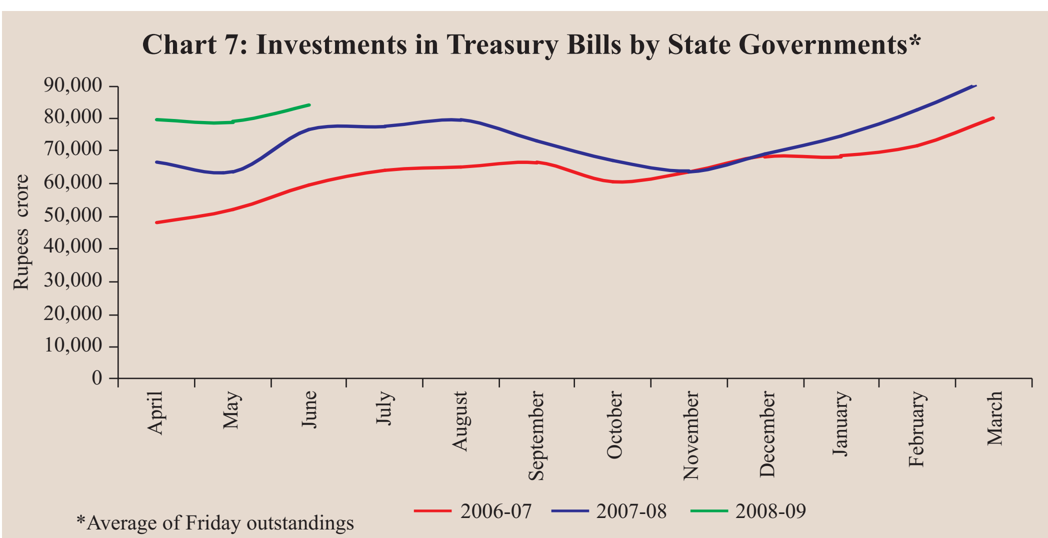
Table 21: Market Borrowings of State Governments - 2008-09

Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees Crore)
1	2	3	4	5
Auctions				
i. First	April 4, 2008	8.50-8.60	10	2,648
ii. Second	May 27, 2008	8.39-8.68	10	3,264
iii. Third	June 27, 2008	9.38-9.59	10	2,300
iv. Fourth	July 10, 2008	9.81	10	500
Grand Total				**8,712**
Memo:				
Year				Weighted Average Yield (per cent)
2004-05				6.45
2005-06				7.63
2006-07				8.10
2007-08				8.25
2007-08 (up to July 18, 2007)				8.41
2008-09 (up to July 18, 2008)				8.87

Source : Reserve Bank of India.



The cash surplus position of the States, as reflected in their average investments in Treasury Bills (14-day Intermediate Treasury Bills and Auction Treasury Bills) was higher at Rs. 82,637 crore on July 18, 2008 than that of Rs.75,659 crore on July 18, 2007. The average investments by the States in Treasury Bills during 2008-09 (up to July 18, 2008) amounted to Rs. 81,750 crore as compared with Rs. 70,608 crore during the corresponding period of 2007-08 (Chart 7).



III. MONETARY AND LIQUIDITY CONDITIONS

Monetary and liquidity aggregates continued to expand during the first quarter of 2008-09. Year-on-year (y-o-y) growth in broad money (M_3) during 2008-09 so far (up to July 4, 2008) was above the indicative trajectory of 16.5-17.0 per cent set out in the Annual Policy Statement (APS) released in April 2008, notwithstanding some moderation mainly reflecting the decline in capital inflows during 2008-09 so far. Accretion to bank deposits, led by time deposits, remained strong, although the pace moderated. Expansion in bank credit to the commercial sector 2008-09 so far was above the Reserve Bank's policy projection of 20.0 per cent for 2008-09 as indicated in the APS (April 2008). Banks' investments in SLR securities as a proportion of their net demand and time liabilities (NDTL) remained almost at the same level as at end-March 2008. Large capital inflows that remained a key driver of monetary and liquidity conditions during 2007-08 have witnessed slowdown during 2008-09 so far. The Reserve Bank continued to actively manage liquidity by using all the policy instruments at its command, including 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 (M_3) growth, on a year-on-year (y-o-y) basis, was placed at 20.5 per cent as on July 4, 2008 as compared with 21.8 per cent a year ago, reflecting the impact of some deceleration in time deposits. 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 - was lower at 20.8 per cent as on July 4, 2008 than 21.5 per cent a year ago. Growth in liquidity aggregate, L_1, at 20.3 per cent at end-June 2008 was marginally lower than that of 20.7 per cent a year ago (Table 22 and Chart 8).

In view of the continued underlying inflationary pressures, monetary policy recognised the need to smoothen and enable an adjustment of overall demand on an economy-wide basis so that inflation expectations were contained. Accordingly, the CRR was raised by 125 basis points in three phases during April-July 2008-09. The estimated amount of liquidity impounded in the first round on account of CRR hikes was Rs.48,000 crore[1]. Furthermore, the Reserve

[1] Between December 2006 and July 2008, the Reserve Bank increased CRR by 375 basis points and the estimated amount of liquidity impounded in the first round due to hikes in the CRR was Rs. 1,22,500 crore.

Table 22: Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on July 4, 2008	Variation (year-on-year) July 6, 2007 Absolute	July 6, 2007 Per cent	March 31, 2008 Absolute	March 31, 2008 Per cent	July 4, 2008 Absolute	July 4, 2008 Per cent
1	2	3	4	5	6	7	8
I. Reserve Money*	9,51,698	1,68,946	29.0	2,19,427	30.9	1,99,628	26.5
II. Narrow Money (M_1)	11,24,308	1,38,122	16.9	1,84,864	19.1	1,69,327	17.7
III. Broad Money (M_3)	41,46,197	6,17,118	21.8	6,90,629	20.8	7,04,046	20.5
a) Currency with the Public	6,00,675	61,336	14.0	84,571	17.5	1,02,483	20.6
b) Aggregate Deposits	35,40,593	5,50,653	23.1	6,04,485	21.4	6,07,668	20.7
i) Demand Deposits	5,18,704	71,658	19.2	98,721	20.8	72,948	16.4
ii) Time Deposits	30,21,889	4,78,996	23.9	5,05,765	21.5	5,34,720	21.5
of which: Non-Resident Foreign Currency Deposits	59,009	-548	-0.9	-10,525	-15.6	-4,135	-6.5
IV. NM_3	41,66,159	6,10,463	21.5	7,08,101	21.3	7,17,186	20.8
of which : Call Term Funding from FIs	1,03,569	-1,853	-2.2	20,668	24.1	21,042	25.5
V. a) L_1	42,26,766	6,03,635	20.7	7,07,012	20.6	7,14,009	20.3
of which: Postal Deposits	1,14,460	9,402	8.8	-1,089	-0.9	-2,113	-1.8
b) L_2	42,29,698	6,03,635	20.7	7,07,012	20.5	7,14,009	20.3
c) L_3	42,55,666	6,06,631	20.7	7,08,284	20.4	7,14,358	20.2
VI. Major Sources of Broad Money							
a) Net Bank Credit to the Government (i+ii)	9,51,475	1,08,683	13.4	72,842	8.7	34,077	3.7
i) Net Reserve Bank Credit to Government	-1,09,022	30,358	-	-1,15,632	-	-1,37,189	-
of which : to the Centre	-1,08,981	30,191	-	-1,16,772	-	-1,36,827	-
ii) Other Banks' Credit to Government	10,60,498	78,325	9.7	1,88,474	22.7	1,71,266	19.3
b) Bank Credit to the Commercial Sector	26,27,205	3,90,915	22.6	4,39,834	20.6	5,07,929	24.0
c) Net Foreign Exchange Assets	13,89,047	1,10,515	14.0	3,81,952	41.8	4,89,695	54.4
d) Government Currency Liability to Public	9,486	593	7.6	1,064	12.9	1,059	12.6
e) Net Non-Monetary Liabilities of the Banking Sector	8,31,016	-6,412	-1.3	2,05,063	36.0	3,28,714	65.4
Memo:							
Aggregate Deposits of SCBs	33,08,225	5,36,617	24.6	5,85,006	22.4	589,646	21.7
Non-food Credit of SCBs	23,57,859	3,69,109	24.6	4,32,846	23.0	485,709	25.9

*: Data pertain to July 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 + Term borrowing by FIs + Certificates of deposit issued by FIs.

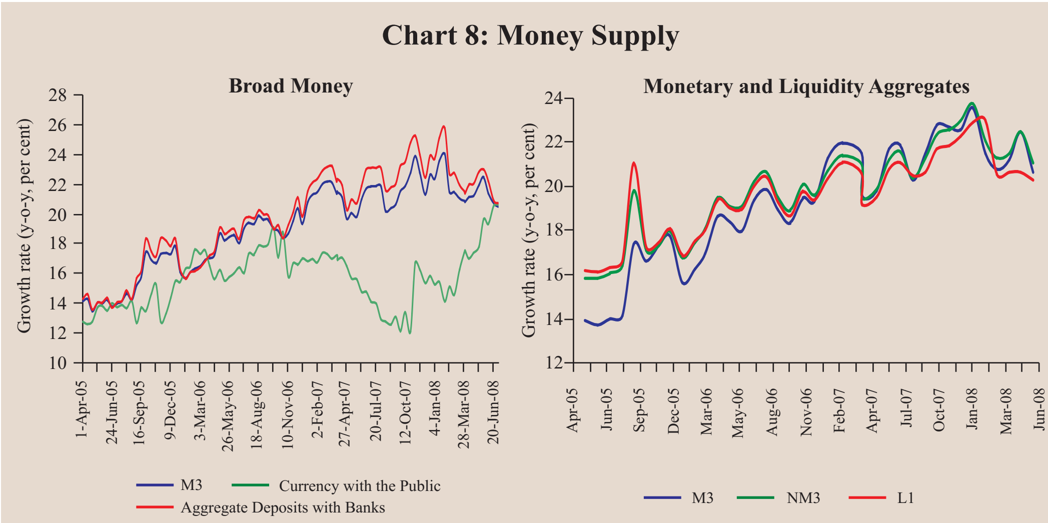
L_3 = L_2 + Public deposits of NBFCs.

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

2. Liquidity aggregates pertain to end-June 2008.

Bank increased the repo rate first by 25 basis points and then by another 50 basis points to 8.5 per cent effective from June 12 and June 25, 2008, respectively.

Currency with the public grew by 20.6 per cent (y-o-y) as on July 4, 2008 as compared with 14.0 per cent a year ago. Growth in demand deposits (y-o-y) as on July 4, 2008 at 16.4 per cent was lower than that of 19.2 per cent a year



ago. Accordingly, narrow money growth (M_1), y-o-y, was 17.7 per cent as on July 4, 2008 as compared with 16.9 per cent a year ago. The growth of time deposits was placed at 21.5 per cent (y-o-y) as on July 4, 2008 as compared with 23.9 per cent a year ago. The strong growth in time deposits could be attributed, *inter alia*, to robust economic activity, higher interest rates on bank deposits relative to postal deposits and extension of tax benefits under Section 80C for bank deposits. During 2007-08, accretion to postal deposits decelerated significantly up to November 2007. Beginning December 2007 there were net outflow from small saving schemes (Chart 9). In order to revive interest in postal deposits, the Government announced in December 2007 some incentives, including tax benefits for certain postal deposits. However, net outflows continued up to March 2008, the latest period for which the data are available.

On a financial year basis, growth in M_3 during 2008-09 (up to July 4, 2008) was 3.5 per cent as compared with 3.8 per cent during the corresponding period of the previous year. Currency with the public expanded by 5.9 per cent (up to July 4, 2008) as compared with 3.2 per cent during the corresponding previous period (Table 23).

Expansion in the bank credit to the commercial sector increased by 24.0 per cent (y-o-y) as on July 4, 2008, as compared with 22.6 per cent a year ago. Non-food credit by scheduled commercial banks (SCBs) expanded by 25.9 per cent, y-o-y, as on July 4, 2008, higher than 24.6 per cent a year ago. The higher

Table 23: Monetary Aggregates - Variations

(Rupees Crore)

Item	2007-08 (up to July 6)	2008-09 (up to July 4)	2007-08 Q1	2007-08 Q2	2007-08 Q3	2007-08 Q4	2008-09 Q1
1	2	3	4	5	6	7	8
M_3 (1+2+3 = 4+5+6+7-8)	**1,26,058 (3.8)**	**1,39,475 (3.5)**	**73,824**	**1,99,109**	**1,09,807**	**3,07,889**	**84,387**
Components							
1. Currency with the Public	15,287 (3.2)	33,199 (5.9)	18,237	-14,756	48,013	33,076	36,481
2. Aggregates Deposits with Banks	1,07,234 (3.8)	1,10,416 (3.2)	56,023	2,15,344	62,600	2,70,519	52,214
2.1 Demand Deposits with Banks	-29,931 (-6.3)	-55,704 (-9.7)	-44,030	58,180	-6,878	91,449	-78,171
2.2 Time Deposits with Banks	1,37,165 (5.8)	1,66,120 (5.8)	1,00,053	1,57,164	69,478	1,79,070	1,30,385
3. 'Other' Deposits with Banks	3,537	-4,141	-436	-1,479	-806	4,294	-4,308
Sources							
4. Net Bank Credit to Government	83,163 (10.0)	44,399 (4.9)	28,117	15,618	-35,538	64,646	32,597
4.1 RBI's Net Credit to Government	25,744	4,187	-22,154	-54,695	-65,787	27,004	-13
4.1.1 RBI's Net credit to the Centre	25,711	5,655	-21,825	-55,588	-65,078	25,719	1,430
4.2 Other Banks' Credit to Government	57,419	40,212	50,270	70,313	30,249	37,642	32,610
5. Bank Credit to the Commercial Sector	-10,802 (-0.5)	57,293 (2.2)	-30,547	1,45,442	82,172	2,42,767	42,252
6. NFEA of Banking Sector	-13,827	93,915	-17,945	1,18,249	94,204	1,87,444	1,03,932
6.1 NFEA of the RBI	1,373	93,915	-2,745	1,19,430	94,681	1,58,610	1,03,932
7. Government's Currency Liabilities to the Public	166	161	166	354	312	232	161
8. Net Non-Monetary liabilities of the Banking Sector	-67,358	56,293	-94,033	80,553	31,343	1,87,200	94,555
Memo:							
1. Non-resident Foreign Currency Deposits with SCBs	-4,317	2,074	-4,202	-1,181	-3,490	-1,653	1,789
2. SCB' Call-term Borrowing from Financial Institutions	-3,309	-2,936	-2,984	5,756	7,441	10,455	-1,664
3. Overseas Borrowing by SCBs	-6,672	3,477	-6,928	7,830	1,734	9,909	9,747

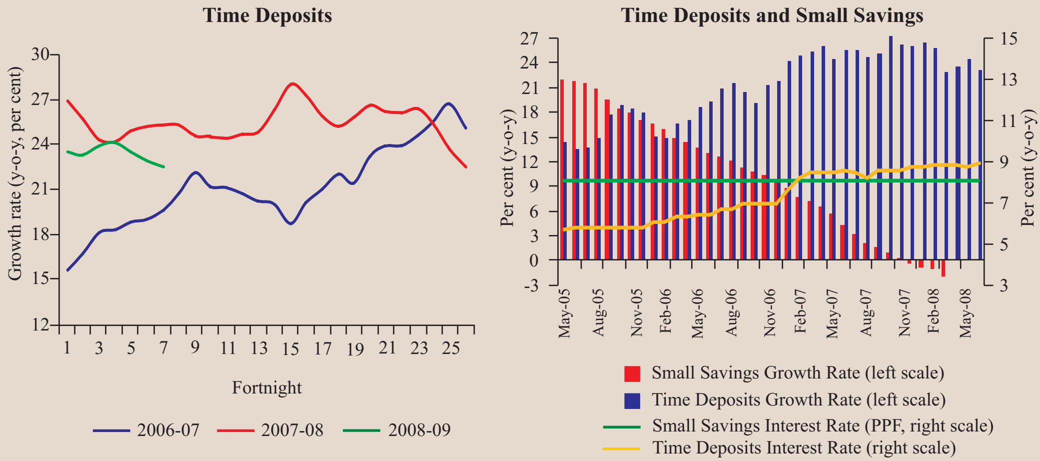
SCBs: Scheduled Commercial Banks. NFEA: Net Foreign Exchange Assets.

Note: 1. Data are provisional.
2. Figures in parentheses are percentage variations.

expansion in credit growth relating to the expansion in deposit growth resulted in an increase in the incremental credit-deposit ratio (y-o-y) of SCBs to 83.5 per cent as on July 4, 2008 from 70.0 per cent a year ago (Chart 10).

Disaggregated sectoral data available up to May 23, 2008 showed that about 43 per cent of incremental non-food credit (y-o-y) was absorbed by industry as compared with 39 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), petroleum, textiles,

Chart 9: Time Deposits Growth



iron and steel, food processing, chemicals, engineering, vehicles and construction industries. The infrastructure sector alone accounted for 33 per cent of the incremental credit to industry as compared with 25 per cent in the corresponding period of the previous year. The agricultural sector absorbed around 10 per cent of the incremental non-food bank credit expansion as compared with 15 per cent in the corresponding period of the previous year. Personal loans accounted for nearly 17 per cent of incremental non-food credit; within personal loans, the share of incremental housing loans was at 44 per cent. Growth in loans to commercial real estate remained high, notwithstanding moderation (Table 24).

Chart 10: Scheduled Commercial Banks' Credit Growth

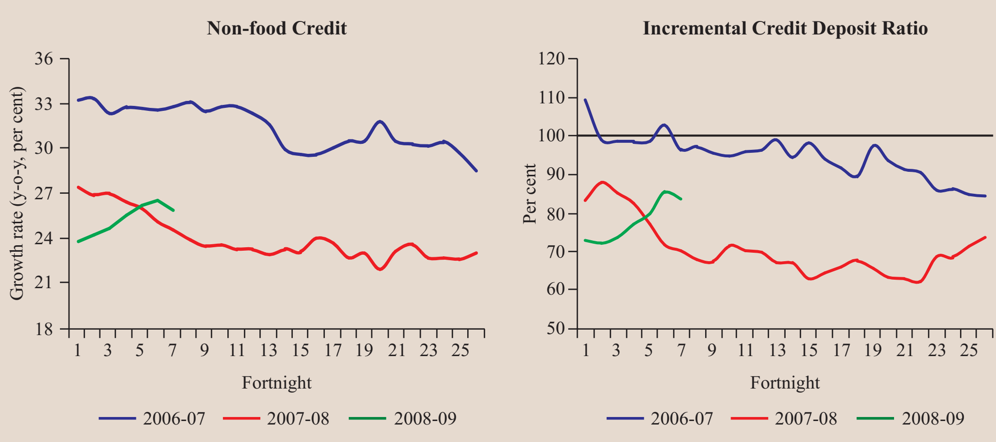


Table 24: Non-food Bank Credit - Sectoral Deployment

(Amount in Rupees Crore)

Sector/Industry	Outstanding as on May 23, 2008	Year-on-Year Variations			
		May 25, 2007		May 23, 2008	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	**21,74,767**	**3,65,814**	**26.4**	**4,22,418**	**24.1**
1. Agriculture and Allied Activities	**2,64,787**	**54,038**	**32.2**	**42,745**	**19.3**
2. Industry (Small, Medium and Large)	**8,58,515**	**1,41,280**	**26.4**	**1,82,075**	**26.9**
Small Scale Industries	1,76,282	26,387	29.5	60,398	52.1
3. Personal Loans	**5,28,046**	**87,944**	**23.9**	**72,607**	**15.9**
Housing	2,62,486	41,066	21.6	31,735	13.8
Advances against Fixed Deposits	42,220	6,237	19.0	3,128	8.0
Credit Cards	26,596	4,411	45.0	12,375	87.0
Education	21,352	4,903	46.5	5,914	38.3
Consumer Durables	8,297	1,661	23.2	-534	-6.0
4. Services	**5,23,249**	**82,551**	**26.1**	**1,24,821**	**31.3**
Transport Operators	35,248	7,922	45.5	9,927	39.2
Professional & Other Services	31,942	8,999	56.8	7,108	28.6
Trade	1,22,438	23,319	28.4	16,902	16.0
Real Estate Loans	61,045	19,010	69.7	14,750	31.9
Non-Banking Financial Companies	71,974	12,401	38.7	27,549	62.0
Memo:					
Priority Sector	**7,39,964**	**1,20,463**	**23.9**	**1,14,666**	**18.3**
Industry (Small, Medium and Large)	8,58,515	1,41,280	26.4	1,82,075	26.9
Food Processing	50,493	6,758	22.1	13,126	35.1
Textiles	93,916	19,223	32.9	16,259	20.9
Paper & Paper Products	13,826	2,243	24.5	2,435	21.4
Petroleum, Coal Products & Nuclear Fuels	47,289	9,884	51.6	18,250	62.8
Chemicals and Chemical Products	65,397	6,511	14.2	12,982	24.8
Rubber, Plastic & their Products	11,116	1,938	28.0	2,261	25.5
Iron and Steel	78,834	13,554	27.2	15,460	24.4
Other Metal & Metal Products	25,112	5,447	36.3	4,658	22.8
Engineering	52,551	8,553	25.1	9,959	23.4
Vehicles, Vehicle Parts and Transport Equipments	30,015	5,267	28.6	6,324	26.7
Gems & Jewellery	24,826	2,572	12.3	1,403	6.0
Construction	26,082	6,632	49.2	5,959	29.6
Infrastructure	2,03,331	35,292	32.6	59,811	41.7

Note: 1. Data are provisional and relate to select scheduled commercial banks.
2. Data also include the figures of Bharat Overseas Bank, which was merged with Indian Overseas Bank on March 31, 2007.

In addition to bank credit for financing their requirements, the corporate sector continued to rely on a variety of non-bank sources of funds such as capital markets, external commercial borrowings and internal generation of funds. Resources raised through domestic equity issuances during the first quarter of 2008-09 (Rs.2,031 crore) were significantly lower than those in the corresponding period of the previous year mainly reflecting the decline in investor optimism in the secondary equity market. Net mobilisation through external commercial borrowings (ECBs) during 2007-08 increased by 54 per cent over the preceding year. Mobilisation through issuances of commercial paper (CPs) during April-June 2008-09 was 66 per cent higher than that during the corresponding period of the previous year. Resources raised in the form of equity issuances through American depository receipts (ADRs) and global depository receipts (GDRs) during April-June 2008-09 (Rs.4,056 crore) were more than three times than those during the corresponding period of the previous year. Internal generation of funds continued to provide a strong support to the funding requirements of the corporate sector, despite the profit after tax of select non-financial non-government companies during 2007-08 witnessing some deceleration in comparison with the previous year (Table 25 and Table 12).

Scheduled commercial banks' investment in SLR securities expanded by 19.6 per cent (y-o-y) as on July 4, 2008, as compared with 10.4 per cent a year ago. The higher growth in investment in SLR securities mainly reflected the need to maintain SLR requirements in consonance with the increase in their net demand and time liabilities (Table 26). Commercial banks' holdings of such securities as on July 4, 2008 were 27.7 per cent of their NDTL as compared with

Table 25: Select Sources of Funds to Industry

(Rupees Crore)

Item	2006-07	2007-08	2007-08				2008-09
			Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
A. Bank Credit to Industry #	1,41,543	1,74,566	-15,603	59,776	40,993	89,400	-13,385 ^
B. Flow from Non-banks to Corporates							
1 Capital Issues (i+ii)	29,178	51,479	13,788	6,226	14,400	17,065	2,031
i) Non-Government Public Ltd. Companies (a+b)	29,178	48,962	13,261	4,236	14,400	17,065	2,031
a) Bonds/Debentures	585	809	0	0	0	809	0
b) Shares	28,593	48,153	13,261	4,236	14,400	16,256	2,031
ii) PSUs and Government Companies	0	2,517	527	1,990	0	0	0
2 ADR/GDR Issues	16,184	13,023	1,251	9,899	289	1,584	4,056
3 External Commercial Borrowings (ECBs)	1,04,046	1,60,221	35,993	36,755	43,093	44,380	–
4 Issue of CPs	5,145	14,903	8,568	7,358	6,629	-7,651	14,256
C. Depreciation Provision +	37,095	38,528 *	10,173	10,576	10,961	11,805	–
D. Profit after Tax +	1,11,107	1,27,968 *	32,699	34,266	37,470	36,109	–

– : Not Available. ^ : Up to May 23, 2008. * : Provisional.

: Data pertain to select scheduled commercial banks.

\+ : Data are based on abridged results of select non-financial non-Government companies. The quarterly data may not add up to annual data due to differences in the number and composition of companies covered in each period (see Chapter 1).

Note : 1. Data are provisional.

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

Table 26: Scheduled Commercial Bank Survey

(Amount in Rupees Crore)

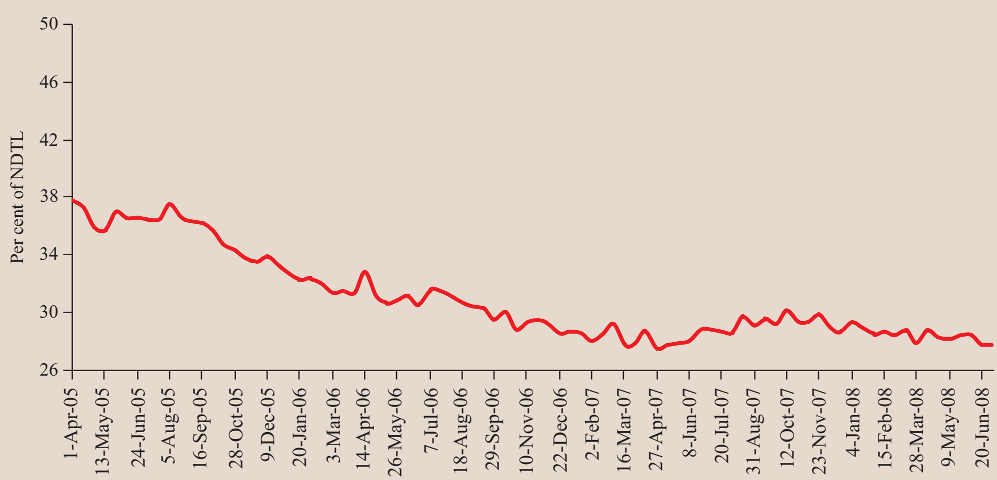
Item	Outstanding as on July 4, 2008	Variation (Year-on-Year) As on July 6, 2007 Amount	Per Cent	As on July 4, 2008 Amount	Per Cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	33,08,225	5,36,617	24.6	5,89,646	21.7
2. Call/Term Funding from Financial Institutions	1,03,569	-1,853	-2.2	21,042	25.5
3. Overseas Foreign Currency Borrowings	47,928	-5,867	-18.9	22,696	89.9
4. Capital	44,424	6,927	23.9	8,541	23.8
5. Reserves	2,74,089	50,943	31.4	60,902	28.6
Uses of Funds					
1. Bank Credit	24,08,579	3,75,483	24.4	4,92,202	25.7
of which: Non-food Credit	23,57,859	3,69,109	24.6	4,85,709	25.9
2. Investments in Government and Other Approved Securities	1,0,15,382	79,938	10.4	1,66,213	19.6
a) Investments in Government Securities	9,96,627	81,310	10.8	1,62,475	19.5
b) Investments in Other Approved Securities*	18,755	-1,372	-8.4	3,738	24.9
3. Investments in non-SLR Securities	1,71,382	23,445	15.6	-2,718	-1.6
4. Foreign Currency Assets	34,364	30,356	93.0	-28,636	-45.5
5. Balances with the RBI	2,69,482	83,877	72.5	69,889	35.0

* : Refers to investment in SLR securities as notified in the Reserve Bank notification DBOD No. Ref. BC. 61/12.02.001/2007-08 dated February 13, 2008.

Note: Data are provisional.

27.8 per cent at end-March 2008 and 28.7 per cent a year ago (Chart 11). Excess SLR investments of SCBs increased to Rs.99,238 crore as on July 4, 2008 from Rs. 98,033 crore at end-March 2008; excess investments in SLR securities were

Chart 11: SLR Investments by Scheduled Commercial Banks



Rs.1,09,366 crore a year ago. Banks' overseas foreign currency borrowings accelerated. Banks also drew down their holdings of foreign currency assets.

Reserve Money Survey

Reserve money growth at 26.5 per cent, y-o-y, as on July 18, 2008 was lower than that of 29.0 per cent a year ago (Chart 12). Adjusted for the first round effect of the hike in CRR, reserve money growth at 18.4 per cent was lower than 21.6 per cent a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations and movements in bankers' deposits with the Reserve Bank in the wake of hikes in the CRR and large expansion in demand and time liabilities.

During the financial year 2008-09 (up to July 18, 2008), reserve money grew by 2.5 per cent as compared with an increase of 6.1 per cent in the corresponding period of the previous year. Bankers' deposits with the Reserve Bank decreased by 2.3 per cent (up to July 18, 2008) as against an increase of 14.0 per cent in the corresponding period of 2007-08. Currency in circulation expanded by 5.9 per cent as compared with 2.1 per cent during the corresponding period of the previous year (Table 27). On the sources side, net Reserve Bank's credit to Government increased by Rs. 54,113 crore (up to July 18, 2008) as compared with an increase of Rs. 19,461 crore in the corresponding period of 2007-08. The Reserve Bank's foreign currency assets (adjusted for revaluations) declined by Rs. 18,139 crore as against an increase of Rs. 72,947 crore during the corresponding period of the previous year (Chart 13).

Chart 12: Reserve Money Growth

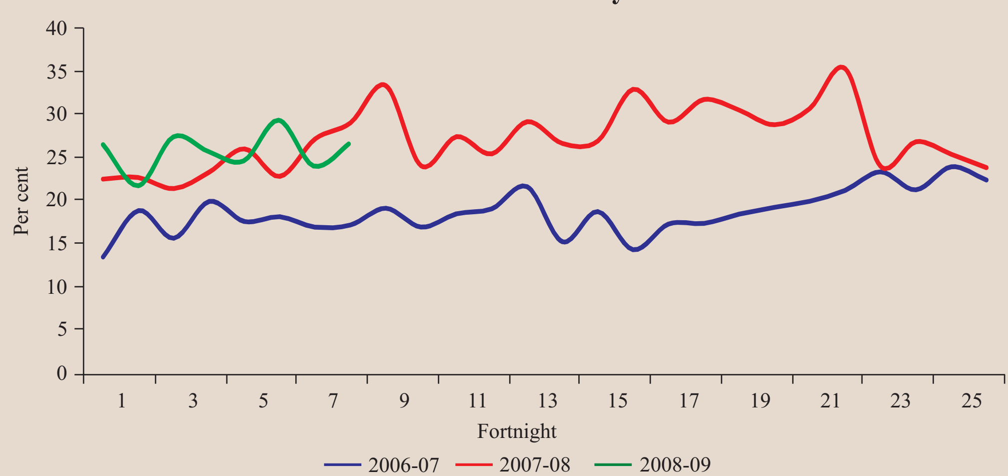


Table 27 : Reserve Money - Variations

(Amount in Rupees crore)

Item	2007-08 (April-March)	2007-08 (Up to July 20)	2008-09 (Up to July 18)	2007-08 Q1	2007-08 Q2	2007-08 Q3	2007-08 Q4	2008-09 Q1
1	2	3	4	5	6	7	8	9
Reserve Money	**2,19,427**	**43,080 (6.1)**	**23,281 (2.5)**	**11,630**	**60,688**	**26,606**	**1,20,503**	**3,155**
Components (1+2+3)								
1. Currency in Circulation	86,702	10,539 (2.1)	34,915 (5.9)	16,866	-13,297	46,781	36,352	36,795
2. Bankers' Deposits with RBI	1,31,152	27,685 (14.0)	-7,481 (-2.3)	-4,800	75,464	-19,369	79,857	-29,333
3. 'Other' Deposits with the RBI	1,573	4,855 (64.8)	-4,153 (-45.8)	-436	-1,479	-806	4,294	-4,308
Sources (1+2+3+4-5)								
1. RBI's net credit to Government	-1,15,632	19,461	54,113	-22,154	-54,695	-65,787	27,004	-13
of which: to Centre (i+ii+iii+iv-v)	-1,16,772	18,875	55,581	-21,825	-55,588	-65,078	25,719	1,430
i. Loans and Advances	0	30,058	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	17,421	-21,182	-2,172	-34,284	4,019	20,874	26,812	-39,239
iv. RBI's Holdings of Rupee Coins	121	79	-68	128	20	3	-31	-1
v. Central Government Deposits	1,34,314	-9,921	-57,821	-12,330	59,627	85,956	1,062	-40,670
2. RBI's Credit to Banks and Commercial Sector	-2,794	-7,778	-873	-6,450	-1,256	848	4,064	-3,358
3. NFEA of RBI	3,69,977	27,735 (3.2)	75,552 (6.1)	-2,745	1,19,430	94,681	1,58,610	1,03,932
of which : FCA, adjusted for revaluation	3,70,550	72,947	-18,139	47,728	1,18,074	1,00,888	1,03,860	15,535
4. Governments' Currency Liabilities to the Public	1,064	330	161	166	354	312	232	161
5. Net Non-Monetary liabilities of RBI	33,187	-3,333	1,05,673	-42,812	3,145	3,448	69,406	97,567
Memo:								
LAF- Repos (+) / Reverse Repos (-)	21,165	-32,185	-16,025	-32,182	9,067	16,300	27,980	-45,350
Net Open Market Sales # *	-5,923	1,910	-18,183	1,246	1,560	-3,919	-4,810	-8,696
Centre's Surplus **	26,594	-49,992	-56,919	-34,597	15,376	54,765	-8,950	-42,427
Mobilisation under the MSS	1,05,419	22,053	3,047	19,643	48,855	31,192	5,728	6,040
Net Purchases(+)/Sales(-) from Authorised Dealers	3,12,054	60,824	17,356 ^	38,873	1,01,814	87,596	83,771	17,356^
NFEA/Reserve Money @	133.1	118.9	137.8	119.8	125.8	133.4	133.1	143.8
NFEA/Currency @	209.2	173.7	209.6	165.7	193.6	194.3	209.2	213.5

NFEA: Net Foreign Exchange Assets. FCA: Foreign Currency Assets. LAF: Liquidity Adjustment Facility.

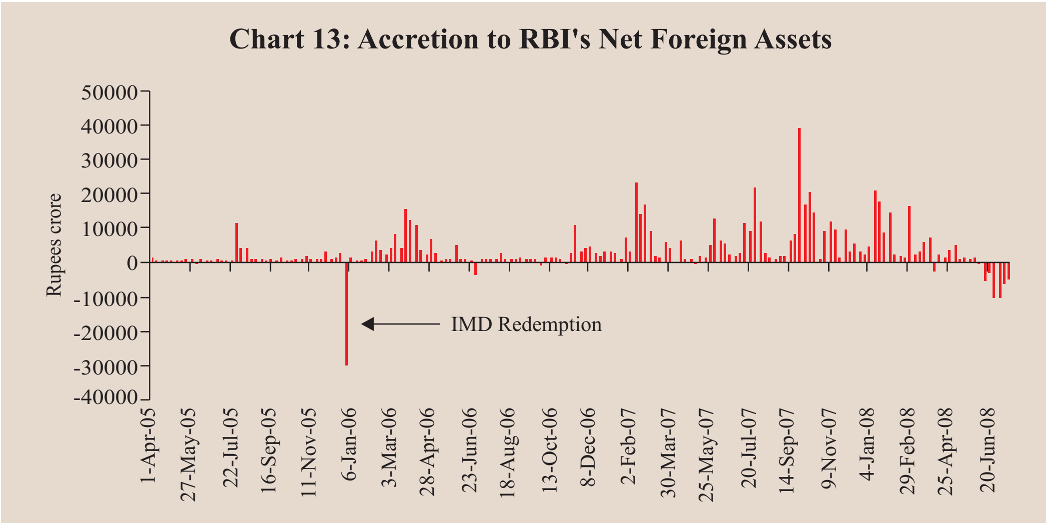
*: At face value. # : Excludes Treasury Bills. @ : Per cent; end of period. ^ : up to May 30, 2008.

** : Excludes minimum cash balances in case of surplus.

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.

Movements in the Reserve Bank's net credit to the Central Government during 2008-09 so far (up to July 18, 2008) largely reflected the liquidity management operations by the Reserve Bank and movements in Government deposits with the Reserve Bank. Surplus cash balances of the Central Government with the Reserve Bank declined. The Reserve Bank's holdings of Central Government dated securities decreased reflecting Reserve Bank's special market operation (SMO) and LAF operations. The sterilisation operations of the Reserve Bank under the MSS led to an increase in Central Government deposits



with the Reserve Bank. Reflecting these developments, the Reserve Bank's net credit to the Centre increased by Rs.55,581 crore during 2008-09 so far (up to July 18, 2008) as compared with an increase of Rs. 18,875 crore during the corresponding period of the previous year.

Liquidity Management

The Reserve Bank continued with its policy of active management of liquidity in 2008-09 through appropriate use of the CRR and OMO, including MSS and LAF, and other policy instruments at its command flexibly. The objective is to maintain appropriate liquidity in the system such that all legitimate requirements of credit are met, consistent with the objective of price and financial stability. During 2008-09 so far variations in cash balances of the Central Government, hikes in the CRR and the Reserve Bank's foreign exchange operations remained the key drivers of liquidity conditions.

Liquidity conditions turned easy after the commencement of 2008-09 mainly due to substantial reduction in the cash balances of the Central Government (Table 28). On a review of the liquidity situation, the Reserve Bank announced on April 17, 2008, a two-stage hike of CRR by 25 basis points each to 8.0 per cent, effective from the fortnights beginning from April 26, 2008 and May 10, 2008, respectively. Auctions under the MSS (which were kept in abeyance since mid-February) were resumed on April 9, 2008 and the balances under the MSS increased to Rs.1,72,444 crore as on April 25, 2008. The daily average net liquidity absorption through the LAF was Rs.26,359 crore during

Table 28: Reserve Bank's Liquidity Management Operations

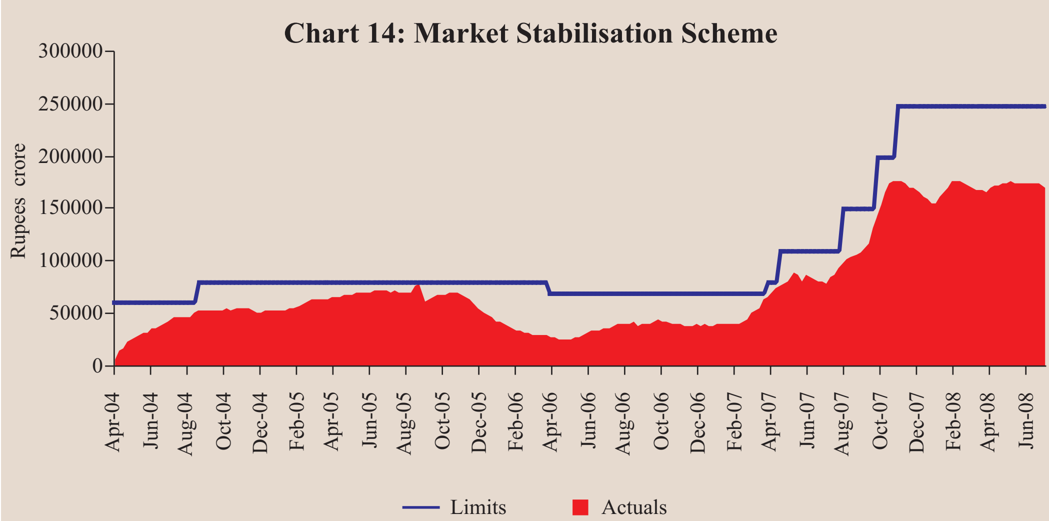
(Rupees Crore)

Item	2007-08	2007-08 Q1	Q2	Q3	Q4	2008-09 April	May
1	2	3	4	5	6	7	8
A. Drivers of Liquidity (1+2+3+4+5)	**2,04,026**	**51,146**	**1,11,169**	**-1,984**	**43,695**	**27,083**	**17,989**
1. RBI's net purchases from Authorised Dealers	3,12,054	39,791	1,00,896	88,545	82,822	11,469	5,887
2. Currency with the Public	-84,571	-12,946	9,465	-47,422	-33,667	-22,1,96	-10,250
3. Surplus cash balances of the Centre with the Reserve Bank @	-26,594	49,992	-30,771	-49,820	4,005	40,037	19,447
4. WMA and OD	0	15,159	-15,159	0	0	0	0
5. Others (residual)	3,137	-40,850	46,739	6,712	-9,465	-2,227	2,905
B. Management of Liquidity (6+7+8+9)	**-1,17,743**	**-53,943**	**-68,621**	**-11,189**	**16,010**	**-86,427**	**21,080**
6. Liquidity impact of LAF Repos	21,165	-20,290	-2,825	27,795	16,485	-83,115	42,365
7. Liquidity impact of OMO (Net) *	13,510	10	40	5,260	8,200	740	133
8. Liquidity impact of MSS	-1,05,419	-18,163	-50,336	-28,244	-8,675	-4,052	-2,918
9. First round liquidity impact due to CRR change	-47,000	-15,500	-15,500	-16,000	0	0	-18,500
C. Bank Reserves (A+B) #	**86,283**	**-2,797**	**42,548**	**-13,173**	**59,705**	**-59,344**	**39,069**

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).
@ : Excludes minimum cash balances in case of surplus.
Note: Data pertain to March 31 and last Friday for all other months.

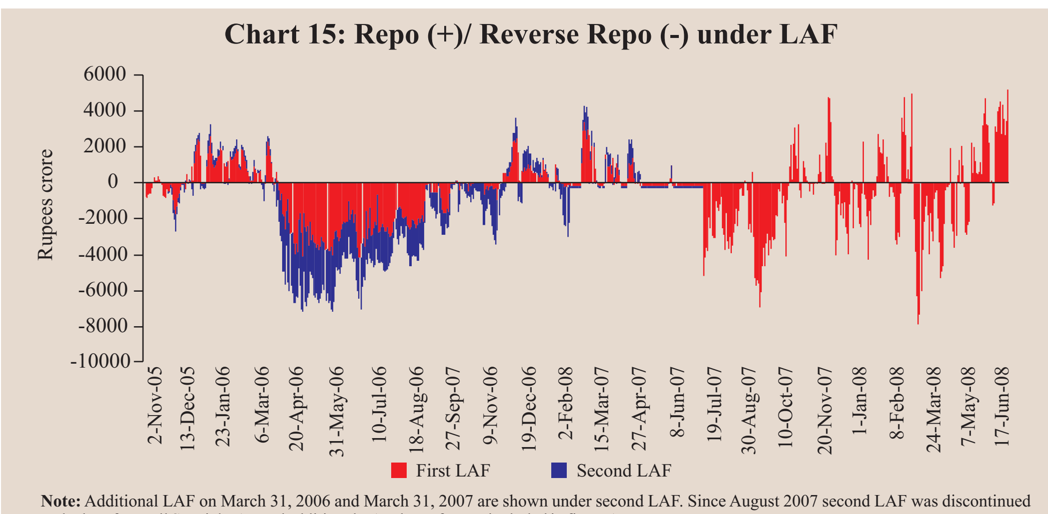
April 2008. On a review of the evolving liquidity situation, the Annual Monetary Policy Statement issued on April 29, 2008, announced an increase in CRR by 25 basis points to 8.25 per cent with effect from the fortnight beginning May 24, 2008. Reflecting the impact of the CRR hikes, average daily net absorption through LAF declined to Rs.11,841 crore during May 2008. No auction of dated securities under the MSS was conducted during May 2008 and the outstanding balance under the MSS was placed at Rs.1,75,362 crore on May 30, 2008 (Chart 14).

Liquidity conditions eased in the early part of June and the average daily net absorption under the LAF was placed at Rs.15,469 crore during June 1-9, 2008. On a review of the prevailing macroeconomic and overall monetary conditions and with a view to containing inflationary expectations, the Reserve Bank increased the repo rate under the LAF by 25 basis points to 8 per cent with effect from June 12, 2008. Subsequently, with the build-up in Central Government balances in the face of advance tax collections, liquidity conditions turned into a deficit mode and the average daily net injection under LAF during June 10-27, 2008 was Rs.17,288 crore (Chart 15). With a view to containing demand pressures, as reflected in the increase in inflation and inflationary expectations, engendered by unrelenting pressures from international commodity prices, particularly crude and metals, the Reserve Bank increased the repo rate under LAF by 50 basis points to 8.5 per cent with effect from June 25, 2008 and also increased the CRR by 50 basis points to 8.75 per cent in two stages (25 basis



points each) with effect from the fortnights beginning July 5 and July 19, 2008, respectively. No MSS auction was conducted during June 2008 and the outstanding balance as on June 27, 2008, was placed at Rs.1,74,433 crore (Table 29). The average daily net injection through the LAF during June was Rs. 8,622 crore.

Liquidity conditions eased during the first week of July mainly on account of a decline in the cash balances of the Central Government but tightened significantly thereafter mainly due to two stage hike in CRR announced in the previous month. The average liquidity injection during July 1-18, 2008 was at Rs. 23,421 crore.



Note: Additional LAF on March 31, 2006 and March 31, 2007 are shown under second LAF. Since August 2007 second LAF was discontinued and, therefore, all Special LAF and additional LAF thereafter are included in first LAF.

Table 29: 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
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	985	1,66,739	70,657	2,38,381
February	8,085	1,75,089	68,538	2,51,712
March *	-50,350	1,68,392	76,586	1,94,628
April	32,765	1,72,444	36,549	2,41,758
May	-9,600	1,75,362	17,102	1,82,864
June	-32,090	1.74,433	36,513	1,78,856
July (up to 18)	-34,325	1,71,440	19,667	1,56,782

@: 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. The Second LAF was discontinued from August 6, 2007.
3. Negative sign in column 4 indicates injection of liquidity through WMA/overdraft.

Keeping in view the systemic implications of liquidity and other related issues currently faced by public sector oil marketing companies (OMCs) arising from the unprecedented escalation in international crude oil prices, the Reserve Bank announced Special Market Operation (SMO) on May 30, 2008, for the smooth functioning of financial markets and for overall financial stability. Under SMO, the Reserve Bank conducts open market operation (outright or repo at its discretion) in the secondary market through designated banks in oil bonds held by public sector OMCs in their own accounts, subject to an overall ceiling of Rs.1,500 crore (revised upwards from Rs.1,000 crore on June 11, 2008) on any single day, and provides equivalent foreign exchange through designated banks at market exchange rate to the oil companies. The settlement of the foreign exchange and the Government securities legs of the operations are synchronised so that there is no liquidity impact on account of these operations. These operations are ad hoc, temporary in nature and subject to review on a continuous basis. These operations commenced from June 5, 2008. The oil bonds purchased by the Reserve Bank under SMO up to July 11, 2008 aggregated Rs. 17,655 crore (face value).

IV. PRICE SITUATION

Headline inflation firmed up further in major economies, during the first quarter of 2008-09, reflecting the combined impact of higher food and fuel prices as well as strong demand conditions, especially in emerging markets. Notwithstanding inflation remaining above the targets/comfort zones, the monetary policy responses during the quarter were mixed in view of growth implications of the persistence of financial market turmoil following the US sub-prime crisis. While many central banks in developed countries such as the US, the UK and Canada, which had reduced policy rate up to April 2008, have paused subsequently, many central banks in emerging economies continued with pre-emptive monetary tightening to contain inflation and inflationary expectations on account of excess supply of global liquidity. Apart from independent actions, the co-ordinated move by major advanced country central banks in terms of injection of short-term liquidity aimed at easing strains on the money markets continued during the quarter.

Mirroring inflation trends in many advanced as well as emerging economies, various measures of inflation in India have also risen significantly since the beginning of this calender year. In India, inflation based on the wholesale price index (WPI) increased from 7.7 per cent at end-March 2008 to 11.9 per cent by July 12, 2008, reflecting the impact of some pass-through of higher international crude oil prices to domestic prices as well as continued increase in the prices of iron and steel, basic heavy inorganic chemicals, machinery and machinery tools, oilseeds/edible oils/oil cakes and raw cotton on account of strong demand, international commodity price pressures and lower domestic 2007-08 *rabi* production of oilseeds. The seasonal hardening of vegetables prices as well as increase in the prices of textiles have also contributed to inflation during 2008-09 so far. Consumer price inflation also edged up generally during the first quarter of 2008-09, reflecting increase in the prices of food items and services, represented by the 'miscellaneous' group. Various measures of consumer price inflation were placed in the range of 6.8-8.8 per cent during May/June 2008 as compared with 6.0-7.9 per cent in March 2008 and 5.7-7.8 per cent in June 2007.

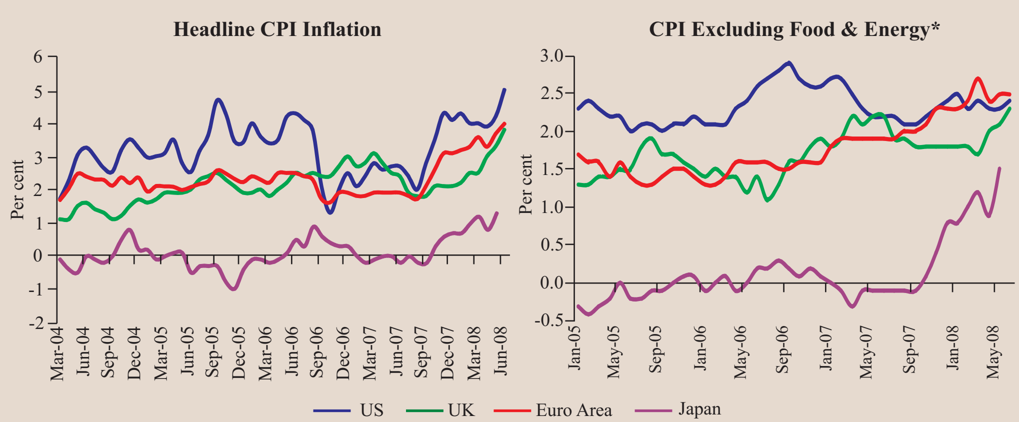
Global Inflation

Inflation has emerged as a global phenomenon in recent months. Headline inflation in major advanced economies firmed up further during the first quarter of 2008-09. Inflation hardened to 3.9 per cent in May 2008 in OECD countries from 2.4 per cent a year ago mainly due to higher energy and food prices, which increased, year-on-year, by 14.6 per cent and 6.1 per cent, respectively, in May 2008. Amongst major economies, headline inflation in the US rose to 5.0 per cent in June 2008 from 2.7 per cent a year ago (4.0 per cent in March 2008) driven by food and energy prices, which increased by 5.3 per cent and

24.7 per cent, year-on-year, in June 2008. Producer price inflation (PPI) increased even more to 9.2 per cent, year-on-year, in June 2008 from 3.3 per cent a year ago. In the UK, headline inflation increased to 3.8 per cent in June 2008 from 2.4 per cent a year ago, reflecting higher prices of food and non-alcoholic beverages as well as transportation costs, and housing and household services. In the UK also the PPI output price inflation rose significantly to 10.0 per cent in June 2008, reflecting increases in petroleum product prices. Furthermore, the input price index for materials and fuels purchased by manufacturing industry rose sharply by 30.3 per cent, year-on-year, in June 2008. In the euro area, inflation, based on the Harmonised Index of Consumer Prices (HICP), doubled to 4.0 per cent in June 2008 from 1.9 per cent a year ago, reflecting strong upward pressures from transport, food and housing prices. Core inflation also remained firm in major economies. In OECD countries, CPI, excluding food and energy, was firm at 2.1 per cent in May 2008, same as a year ago. In the US, CPI inflation (excluding food and energy) remained firm at 2.4 per cent in June 2008 (2.2 per cent a year ago) (Chart 16).

Notwithstanding hardening of inflation, many central banks in advanced economies persisted with accommodative monetary policy aimed at fostering market liquidity and promoting growth over time. In the US, the Federal Open Market Committee (FOMC) in its meeting held on June 25, 2008 expected inflation to moderate from the latter part of the year. However, the FOMC noted that in the light of the continued increases in the prices of energy and some other commodities and the elevated state of some indicators of inflation expectations, uncertainty about the inflation outlook remained high. Against this backdrop, the FOMC left its target for the federal funds rate unchanged at 2.0 per cent. It had earlier cut its policy rate by 25 basis points on April 30, 2008 - taking cumulative reduction to 325 basis points beginning September

Chart 16: Consumer Price Inflation



* : Data for Japan is excluding fresh food only.

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

2007 when it began cutting rates. The discount rate was also cut by a total of 400 basis points beginning August 2007 to a level of 2.25 per cent to improve market liquidity. Apart from these measures, the US Fed also continued to inject 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 ECB and the Swiss National Bank. According to the FOMC, although tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters, the substantial easing of monetary policy combined with the ongoing measures to foster market liquidity should help promote moderate growth over time.

In the UK, housing market conditions deteriorated sharply and the effects of the ongoing tightening in credit conditions were still working through the real economy. According to the Monetary Policy Committee (MPC), CPI inflation would peak around the end of the year and then begin to fall back towards the target of 2 per cent within a period of two years. According to the Committee, a slowdown in activity, reducing pressure on supply capacity and helping to contain wage growth, would be necessary to ensure that inflation returns to the target. Against this backdrop, the Bank of England, which had earlier cut its policy rate by 25 basis points on April 10, 2008 - a total of 75 basis points from December 2007 - to 5.00 per cent, left it unchanged thereafter (Table 30).

In the euro area, HICP inflation rates continued to rise significantly and are expected to remain well above the level consistent with price stability for a more protracted period than previously thought. According to the ECB, continued vigorous money and credit growth, and the absence of significant constraints on bank loan supply in a context of ongoing financial market tensions confirms its assessment of upside risks to price stability over the medium term. At the same time, according to the Governing Council of the ECB, while the latest data confirmed the expected weakening of real GDP growth in mid-2008 after exceptionally strong growth in the first quarter, the economic fundamentals of the euro area were sound. Against this backdrop, the ECB raised its key policy rates by 25 basis points on July 9, 2008 - after keeping it unchanged for almost one year - to prevent broadly based second-round effects and to counteract the increasing upside risks to price stability over the medium term (Chart 17).

Japan's economic growth, which is slowing reflecting weaker growth in business fixed investment and private consumption against the backdrop of high energy and materials prices, is expected to gradually return onto a moderate growth path. According to the Bank of Japan (BoJ), CPI inflation is expected to gradually moderate after becoming somewhat elevated in the coming months.

Table 30: Global Inflation Indicators

(Per cent)

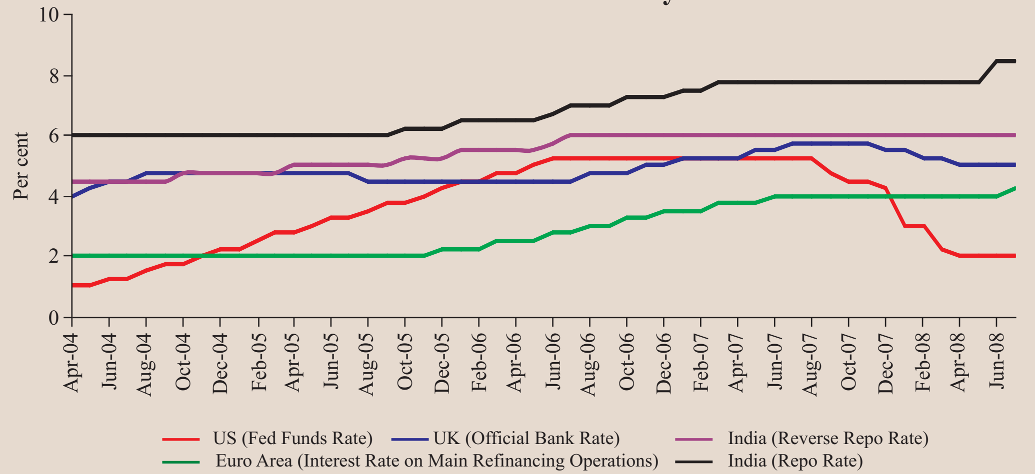
Country/ Region	Key Policy Rate	Policy Rate (Latest)	Changes in Policy Rates (basis points)			CPI Inflation (y-o-y)		Current CPI Inflation	PPI Inflation (y-o-y)		Real GDP Growth (y-o-y)	
			2006-07 (April-March)	2007-08 (April-March)	Since end-March 2008	June 2007	June 2008	Highest Since	June 2007	June 2008	2007 (Q1)	2008 (Q1)
1	2	3	4	5	6	7	8	9	10	11	12	13
Developed Economies												
Australia	Cash Rate	7.25 (Mar. 5, 2008)	75	100	0	2.4	4.2^	Aug. 2001	2.3	4.7	3.8	3.6
Canada	Overnight Rate	3.00 (Apr.22, 2008)	50	(-)75	(-)50	2.2	3.1	Aug. 2005	2.2	2.4#	2.0	1.7
Euro area	Interest Rate on MROs	4.25 (Jul. 9, 2008)	125	25	25	1.9	4.0	May 1992	2.3	7.1#	3.0	2.1
Japan	Uncollateralised Overnight Call Rate	0.50 (Feb. 21, 2007)	50	0	0	0.0*	1.3*	Mar. 1998	1.8	4.7#	2.6	1.3
UK	Official Bank Rate	5.00 (Apr.10, 2008)	75	0	(-)25	2.4	3.8	Jun. 1992	2.5	10.0	3.0	2.5
US	Federal Funds Rate	2.00 (Apr. 30, 2008)	50	(-)300	(-)25	2.7	5.0	May 1991	3.3	9.2	1.9	2.5
Developing Economies												
Brazil	Selic Rate	13.00 (Jul. 23, 2008)	(-)375	(-)150	175	3.7	6.1	Dec. 2005	3.7	15.4#	4.3	5.8
India	Reverse Repo Rate	6.00 (Jul. 25, 2006)	50	0	0							
	Repo Rate	8.50 (Jun. 25, 2008)	125 (100)	0 (150)	75 (125)	6.6*	7.8*	Mar. 2008 ‡	4.4	11.9	9.7	8.8
China	Benchmark 1-year Lending Rate	7.47 (Dec. 21, 2007)	81 (250)	108 (550)	0 (200)	4.4	7.1	§	2.5	8.8	11.1	10.6
Indonesia	BI Rate	8.75 (Jul. 3, 2008)	(-)375	(-)100	75	5.8	11.0	Sep. 2006	13.4	25.5+	6.0	6.3
Israel	Key Rate	3.75 (Jun. 23, 2008)	(-)75	(-)25	0	-0.7	4.8	Mar. 2003	1.4	13.2	5.4	5.2
Korea	Base Rate ++	5.00 (Aug. 9, 2007)	50 (80)	50	0	2.5	5.5	Nov. 1998	2.7	11.6#	4.0	5.8
Philippines	Reverse Repo Rate	5.75 (Jul. 17, 2008)**	0	(-)250	75	2.3	11.4	Dec. 1993	1.5	3.7#	6.9	5.1
Russia	Refinancing Rate	11.00 (Jul. 14, 2008)	(-)150 (150)	(-)25 (200)	75 (150)	7.8*	15.1*	Nov. 2002	2.5	4.5+	7.9	8.5
South Africa	Repo Rate	12.00 (Jun. 13, 2008)	200	200	100	6.9*	11.7*	Dec. 2002	13.2	16.4#	5.4	4.0
Thailand	14-day Repo Rate	5.00 (Jun. 7, 2006)	50									
	1-day Repo Rate	3.50 (Jul.16, 2008)	(-)44@	(-)125	25	1.9	8.9	Jul. 1998	1.8	18.6	4.3	6.0

MROs : Main Refinancing Operations.
^ : Q1 of 2008. *: May. #: Data pertain to May 2008. +: Data pertain to April 2008.
‡ : CPI inflation for India in March 2008 at 7.9 per cent was the highest since April 1999.
§ : CPI inflation for China in February 2008 at 8.7 per cent was the highest since May 1996.
@ : Change over January 16, 2007. Effective January 17, 2007, the 1-day repurchase rate replaced the 14-day repurchase rate as the policy rate.
** : 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.
++ : Since March 2008, the policy rate has been changed from overnight call rate to "the Bank of Korea Rate or (Base Rate)" and fixed at the same level as the call rate target of 5.0 per cent on March 7, 2008.

Note : 1. For India, data on CPI inflation pertain to CPI for Industrial Workers and data on PPI inflation pertain to WPI inflation.
2. Figures in parentheses in column (3) indicate the dates when the policy rates were last revised.
3. Figures in parentheses in columns (4), (5) and (6) indicate the variation in the cash reserve ratios during the period.

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

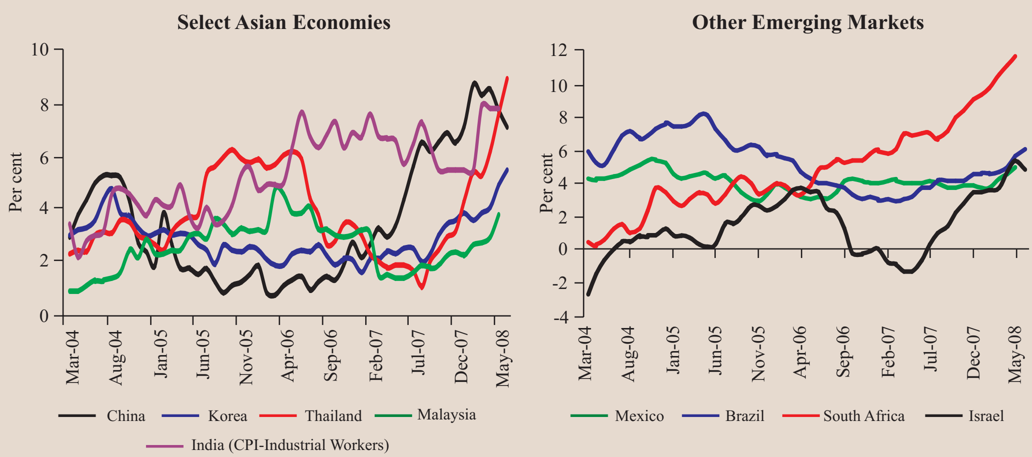
Chart 17: Central Bank Policy Rates



Against this backdrop, the 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. It, however, noted that it is necessary to be mindful of upside risks due to changes in the inflation expectations of households and the price-setting behaviour of firms in addition to developments in energy and materials prices. Amongst the central banks in other major advanced economies, the policy rate was kept unchanged during 2008-09 so far by the Bank of Canada (it had earlier reduced the policy rate by 150 basis points during December 2007-April 2008) and the Reserve Bank of Australia (it had raised policy rate by 100 basis points during 2007-08). After keeping its policy rate unchanged since September 2007, the Reserve Bank of New Zealand reduced rate by 25 basis points on July 24, 2008 to 8.0 per cent (it had raised policy rate by 75 basis points during 2007-08). On the other hand, the Sveriges Riksbank (Sweden) raised its policy rate by 25 basis points, while the Norges Bank (Norway) raised rates by 50 basis points during 2008-09 so far.

Inflation firmed up in most emerging market economies (EMEs) on the back of strong growth, higher oil, other commodity and food prices. Due to the higher weight of food and energy in EMEs, the increase in inflation has typically been significantly higher in these countries. Consumer price inflation in China increased to 7.1 per cent in June 2008 from 4.4 per cent a year earlier mainly due to higher prices of food and articles related to residence, although it has moderated from a high of 8.7 per cent in February 2008 (Chart 18). Economic activity in China also continued to be strong with real GDP growth, year-on-year, at 10.6 per cent in the first quarter of 2008. The People's Bank of China (PBC) has raised the cash reserve ratio (CRR) by 200 basis points since end-March 2008 - 50 basis points each effective April 25, 2008, May 20, 2008,

Chart 18: Consumer Price Inflation - Emerging Market Economies



June 15, 2008 and June 25, 2008 - to 17.5 per cent. Thus, the CRR has been raised by a total of 1000 basis points between July 2006 and June 2008 to strengthen liquidity management in the banking system and guide the appropriate growth of money and credit. According to the PBC, it will give higher priority on its agenda to contain price rises and to curb inflation by implementing a tight monetary policy. After raising the benchmark 1-year lending rate by a total of 189 basis points beginning April 2006 to 7.47 per cent on December 21, 2007, the PBC kept it unchanged thereafter.

In Korea, inflation increased to 5.5 per cent in June 2008 from 2.5 per cent a year ago mainly influenced by high oil prices. The pace of domestic economic growth has slackened. According to the Monetary Policy Committee (MPC), there still remains a high degree of uncertainty surrounding future economic developments, largely due to the run-up in international oil prices, the international financial market unrest and the US economic slowdown. Against this backdrop, the Bank of Korea left the policy rate unchanged at 5.0 per cent during 2008-09 so far (it had earlier raised policy rate by 50 basis points during 2007-08).

In Thailand, consumer price inflation increased to 8.9 per cent in June 2008 from 1.9 per cent a year ago as a result of the continued rise in oil and raw food prices. According to the MPC, risks to inflation have risen markedly, which would affect private sector confidence, making it increasingly difficult to ensure economic stability going forward, and impact potential growth as well as the competitiveness of the Thai economy in the long-run. Against this backdrop, the MPC in its latest meeting held on July 16, 2008 raised the policy rate by 25 basis points to 3.50 per cent (after keeping it unchanged at 3.25 per cent since July 2007, when the policy rate was cut by 25 basis points).

Inflation in Indonesia increased to 11.0 per cent in June 2008 from 5.8 per cent a year ago, reflecting pressures from fuel price hike and soaring food prices. According to Bank Indonesia, there were mounting demand side pressures in line with the rapid expansion in credit and the money supply. There were also indications of stronger inflation expectations that could trigger second round effects. Inflation is predicted to reach 11.5-12.5 per cent in 2008. Accordingly, the Bank Indonesia raised its policy rate further by 25 basis points - a total of 75 basis points since end-March 2008 - to 8.75 per cent on July 3, 2008. The policy rate was cut earlier by 475 basis points between May 2006 and December 2007.

In Russia, consumer price inflation remained high, increasing from 7.8 per cent in May 2007 to 15.1 per cent in May 2008 amidst strong growth. Growth in money supply (M_2) decelerated to 28 per cent, year-on-year, as on June 1, 2008 from almost 60 per cent a year ago. The Bank of Russia raised the required reserve ratio on credit institutions' liabilities to non-resident banks in rubles and foreign currency further by 150 basis points to 7.0 per cent effective July 1, 2008 - a total of 350 basis points from January 15, 2008 (it was earlier reduced by 100 basis points effective October 11, 2007). The refinancing rate was also raised by 75 basis points during 2008-09 so far - 25 basis points each effective April 29, 2008, June 10, 2008 and July 14, 2008 - to 11.0 per cent.

The upward trend in inflation continued in South Africa (11.7 per cent in May 2008) driven by sustained increase in food and petrol prices. According to the South African Reserve Bank, CPI excluding interest rates on mortgage bonds (CPIX) inflation was expected to peak at around 12 per cent in the third quarter of 2008 and to return to within the inflation target range by the third quarter of 2010. Against this backdrop, the South African Reserve Bank raised its policy rate further by 100 basis points during the first quarter of 2008-09 - 50 basis points each effective April 11, 2008 and June 13, 2008 - to 12.0 per cent. The policy rate has thus been raised by 500 basis points since the tightening began in June 2006. The Bank of Israel, which had reduced the policy rate by 50 basis points each effective March and April 2008, reversed its stance and raised policy rate by 25 basis points each effective June and July 2008 to 3.75 per cent to bring inflation to the price stability target range of 1-3 per cent, thereby providing the basis of sustained growth.

Inflation in Brazil increased to 6.1 per cent in June 2008 from 3.7 per cent a year ago, partly due to robust expansion in domestic demand. In light of signals of economy heating, the Monetary Policy Committee noted that monetary policy should act to contribute to the convergence between the paces of expansion of aggregate supply and demand, and avoid inflationary pressures and persistent deterioration of expectations and of the forward-looking inflation scenario. Accordingly, the Central Bank of Brazil raised the policy rate by 175 basis points during 2008-09 so far to 13.0 per cent on July 23, 2008. After reducing its policy rate by 850 basis points between September 2005 and September 2007, the Central Bank of Brazil had earlier left its policy rate unchanged at 11.25 per cent. Amongst other central banks, the Central Bank of Philippines has raised its policy rate by 75 basis points over end-March 2008 to 5.75 per cent on July 17, 2008 to reduce the risks to inflation expectations and the long-term cost to output growth from prolonged high inflation.

An assessment of key macroeconomic indicators in select EMEs shows that consumer price inflation was in the range of 4.8-15.1 per cent during May/June 2008. Real policy rates in most countries ranged between (-) 5.7 and 6.9 per cent in July 2008 (Table 31). Current account in major EMEs, except India and South Africa, was in surplus during 2006/2007. The real effective exchange rate (REER) for the select EMEs, barring the currencies in Brazil, China, Israel, the Philippines and Russia underwent real depreciation, on a year-on-year basis, in June 2008. Although the Central Government's fiscal

Table 31: 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	
	June 2007	June 2008	2006	2007	June 2007	June 2008	2006	2007	July 2007	July 2008#	2006	2007
1	2	3	4	5	6	7	8	9	10	11	12	13
Brazil	3.7	6.1	1.3	0.3	14.3	12.6	-3.2	-2.3	8.3	6.9	3.8	5.4
China	4.4	7.1	9.4	11.1	5.7	6.8	-0.8	0.7	3.4	0.4	11.6	11.9
India	**6.6**	**7.8 ***	**-1.1**	**-1.5**	**11.7**	**-5.8**	**-3.5**	**-2.8 ^**	**1.2**	**0.7**	**9.6**	**9.0**
	(4.4)	**(11.9)**	**(-6.9)**	**(-7.7)**			**(61.2)**	**(61.5)**	**(3.1)**	**(-3.4)**		
Indonesia	5.1	11.0	3.0	2.5	5.4	-5.7	-1.0	-1.2	2.5	-2.3	5.5	6.3
Israel	-0.7	4.8	6.0	3.1	-0.4	16.4	-1.8	-0.8	4.8	-1.1	5.2	5.3
Korea	2.5	5.5	0.6	0.6	0.9	-17.3	-2.7	-2.3	2.3	-0.5	5.1	5.0
Philippines	2.3	11.4	4.5	4.4	14.2	2.2	-1.1	-0.2	3.6	-5.7	5.4	7.3
Russia	7.8 *	15.1 *	9.5	5.9	5.0	8.3	7.4	6.6	2.2	-4.1	7.4	8.1
South Africa	6.9 *	11.7 *	-6.5	-7.3	-2.0	-11.7	--	--	2.6	0.3	5.4	5.1
Thailand	1.9	8.9	1.1	6.1	8.8	-1.1	1.1	-1.7	1.4	-5.4	5.1	4.8

*: May. # : As on July 24, 2008. ^ : Provisional Accounts.

Note:
1. For India, data pertain to fiscal years 2006-07 and 2007-08.
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 Israel pertain to general government balance.
7. Figures in parentheses in columns (8) and (9) refer to central government debt/GDP ratio.
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.

deficit in India declined during 2007-08, it remained higher than that in most EMEs.

Global Commodity Prices

Global commodity prices firmed up further during the first quarter of 2008-09 led by a sharp increase in the prices of crude oil as well as food and agricultural raw materials. Metal prices, which had increased during 2007-08, witnessed some moderation during the first quarter of 2008-09 (Table 32 and Chart 19).

International crude oil prices, represented by the West Texas Intermediate (WTI), continued to rise sharply during the first quarter of 2008-09 reflecting tight supply-demand balance, geo-political tensions, weakening of the US dollar against major currencies and increased interest from investors and financial market participants (Table 33). Notwithstanding concerns about slowdown in the US and the Saudi Arabia's plans to raise production in July 2008 to its 27-year high (at 9.7 million barrels per day), crude oil prices touched a high of

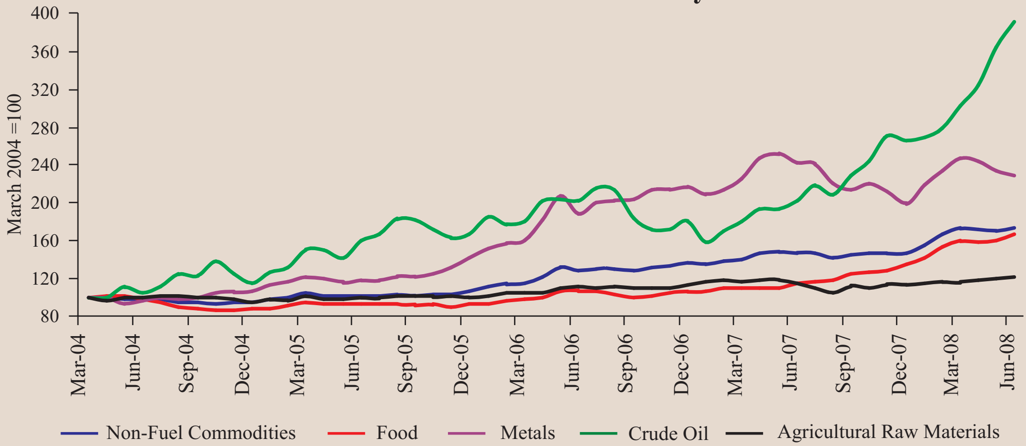
Table 32: International Commodity Prices

Commodity	Unit	2004 Market Price	Index						Variation (Per cent)	
							2008		Jun.08/	Jun.08/
			2004	2005	2006	2007	Mar.	Jun.	Mar.08	Jun.07
1	2	3	4	5	6	7	8	9	10	11
Energy										
Coal	$/mt	53.0	100	90	93	124	223	302	35.1	159.3
Crude oil (Average)	$/bbl	37.7	100	142	170	188	270	349	29.1	92.9
Non-Energy Commodities										
Palm oil	$/mt	471.3	100	90	101	165	265	256	-3.5	49.8
Soybean oil	$/mt	616.0	100	88	97	143	240	247	3.1	82.7
Soybeans	$/mt	306.5	100	90	88	125	188	204	8.7	73.2
Rice	$/mt	237.7	100	120	128	137	250	326	30.5	139.8
Wheat	$/mt	156.9	100	97	122	163	280	222	-20.7	56.3
Maize	$/mt	111.8	100	88	109	146	210	257	22.5	73.8
Sugar	c/kg	15.8	100	138	206	141	184	169	-8.1	30.6
Cotton A Index	c/kg	136.6	100	89	93	102	129	124	-4.0	27.1
Aluminium	$/mt	1716.0	100	111	150	154	175	172	-1.6	10.5
Copper	$/mt	2866.0	100	128	235	248	294	288	-2.1	10.5
Gold	$/toz	409.2	100	109	148	170	237	217	-8.1	35.7
Silver	c/toz	669.0	100	110	173	200	287	255	-11.3	29.6
Steel cold-rolled coilsheet	$/mt	607.1	100	121	114	107	132	181	37.5	69.2
Steel hot-rolled coilsheet	$/mt	502.5	100	126	119	109	149	199	33.3	81.8
Tin	c/kg	851.3	100	87	103	171	233	261	12.3	57.7
Zinc	c/kg	104.8	100	132	313	309	240	181	-24.6	-47.4

$: 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.

US $ 145.3 a barrel level on July 3, 2008 on the back of fall in US crude inventories, supply disruptions in Nigeria and heightened tensions between Iran and Israel raising new concerns about future supplies. The WTI crude prices eased to around US $ 127 per barrel level by July 22, 2008.

Despite prospects for slower consumption growth in advanced economies, international crude prices are expected to remain at elevated level in view of

Table 33 : 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
2007-08	77.3	82.4	82.3	80.7	79.2
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
March 2008	96.8	103.3	105.5	101.8	99.4
April 2008	103.5	110.2	112.6	108.8	106.2
May 2008	119.0	123.9	125.0	122.6	121.0
June 2008	127.6	133.1	133.9	131.5	129.8

Source : International Monetary Fund and the World Bank.

the relatively tight demand supply-balance (Table 34). According to the US Energy Information Administration (EIA), global supply uncertainties, combined with significant demand growth in China, the Middle-East and Latin America are expected to continue to pressure oil markets. Accordingly, the EIA expects WTI (average) crude prices to firm up by about 76 per cent from US $ 72.3 a barrel during 2007 to US $ 127.4 per barrel during 2008. The futures markets also suggest that WTI prices are expected to remain firm at around US $ 127 a barrel level up to February 2009. High and volatile international crude oil prices, thus, pose a major risk to the global inflation outlook.

Metal prices eased somewhat during the first quarter of 2008-09, reflecting lower import demand and some improvement in supply. Between March 2008 and June 2008, the IMF metals price index declined by 7.4 per cent led by lead (38 per cent), zinc (24 per cent) and nickel (27 per cent), partly offset by increase in the prices of tin (12 per cent). On the other hand, international steel prices continued to increase during the first quarter (in the range of 33-37 per cent over March 2008) despite increase in global crude steel production (by 5.9 per cent, year-on-year, in June 2008), mainly reflecting rising input costs on account of iron ore, energy and freight charges. After rising by about 66 per cent in January 2008, international iron ore prices remained flat thereafter up to June 2008.

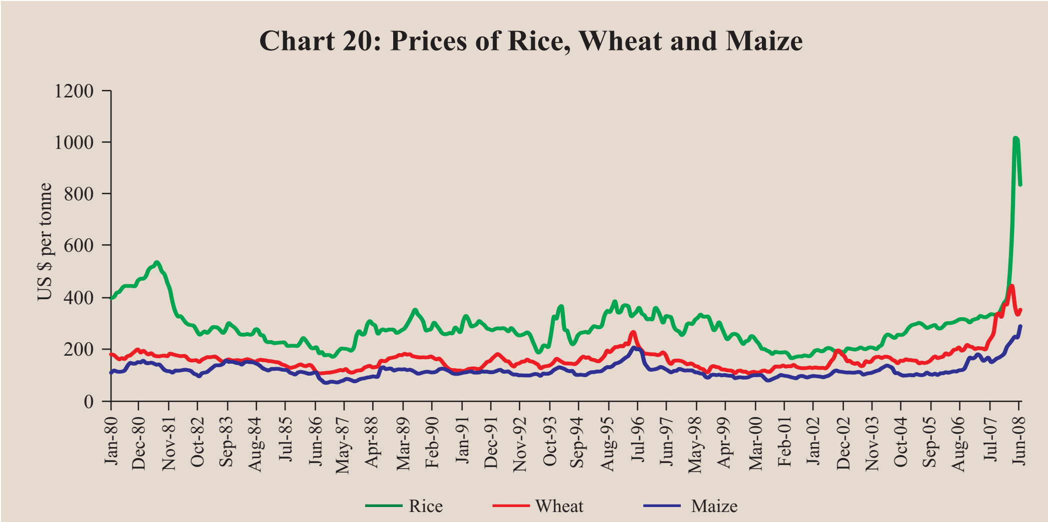
Food prices firmed up further during the first quarter of 2008-09, led by rice, maize and oilseeds/edible oils, reflecting surging demand (both consumption demand and demand for non-food uses such as bio-fuels production) and low stocks of major crops (Chart 20). Reflecting these factors, international prices of rice, soybeans, soybean oil and palm oil increased by 139.8 per cent, 73.2 per cent, 82.7 per cent and 49.8 per cent, respectively, year-on-year, in June

Table 34 : World Supply-Demand Balance of Oil

(Million barrels per day)

Item	2003	2004	2005	2006	2007	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	48.9	48.5	48.5	47.5	48.5	49.4
2. Non-OECD	31.2	33.0	34.4	35.4	36.6	37.9	37.2	38.0	38.1	38.5
of which: China	5.6	6.5	6.9	7.3	7.6	8.0	7.7	7.9	8.1	8.3
3. Total (1+2)	79.9	82.5	84.0	84.7	85.5	86.4	85.7	85.5	86.5	87.8
Supply										
4. Non-OPEC	48.9	50.1	50.3	49.3	49.1	49.4	48.9	49.0	49.7	50.0
5. OPEC	30.7	32.9	34.2	35.3	35.4	37.1	36.8	36.9	37.5	37.3
6. Total (4+5)	79.6	83.1	84.5	84.6	84.6	86.5	85.7	85.9	87.2	87.2
Stock Changes	0.3	-0.6	-0.5	0.1	1.0	-0.1	0.0	-0.3	-0.6	0.6

P : Projections.
Source : US Energy Information Administration, July 2008.



2008. Notwithstanding almost 21 per cent decline during June 2008 over March 2008, the year-on-year increase in wheat prices was 56.3 per cent in June 2008. Consequently, the IMF food price index increased by 44.4 per cent, on a year-on-year basis, in June 2008 surpassing the level which was last seen in 1980. The supply side pressures on global food prices do not appear to be abating, especially with the year ending global stock of major crops at multi-year lows, *albeit* with some improvement in prospects more recently. According to the US Department of Agriculture (USDA) in July 2008, global vegetable oils and oil meals stocks are expected to decline by 1-3 per cent during 2008-09 (on top of estimated decline of 5-6 per cent during 2007-08). On the other hand, global wheat stocks are expected to increase by almost 15 per cent during 2008-09 (against an estimated decline of around 8 per cent during 2007-08) to about 133.1 million tonnes. Global rice stocks are also expected to increase by about 4 per cent during 2008-09 to 82 million tonnes.

International sugar prices have declined by about 8 per cent over March 2008, reflecting higher production in traditional importing countries. On a year-on-year basis, however, sugar prices were higher by about 31 per cent in June 2008. According to the International Sugar Organisation (ISO), global sugar production is estimated to exceed global consumption by about 9 million tonnes during 2007-08 (October-September) season. Global cotton prices, represented by the 'Cotlook A Index', declined by almost 4 per cent over March 2008. Notwithstanding this easing, cotton prices were higher by about 27 per cent, year-on-year, in June 2008. According to the International Cotton Advisory Committee (ICAC), world cotton production is expected to decline by about

3 per cent in 2008-09 and therefore, world cotton stocks are expected to fall further by almost 9 per cent to 11.0 million tonnes. Accordingly, ICAC expects prices to go up by 12 per cent in 2008-09.

In response to high food prices, especially of wheat, rice, corns and oilseeds/edible oils and their implications for headline inflation and inflationary expectations, the Governments in both developed and developing countries continued to make 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 2008-09 (April 2008) of the Reserve Bank reaffirmed its resolve to bring down inflation to around 5.5 per cent in 2008-09 with a preference for bringing it as close to 5.0 per cent as soon as possible, recognising the evolving complexities in globally transmitted inflation. As the potential inflationary pressures from international food and energy prices appear to have amplified and, by current indications, are likely to remain so for some time, the policy focused on conditioning perceptions for inflation 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 and with the goal of maintaining self-accelerating growth over the medium-term.

With the inflation rate based on wholesale price index hardening since the Annual Policy Statement was announced, an adjustment of overall aggregate demand on an economy-wide basis was warranted to ensure that generalised instability did not develop and eroded the hard-earned gains in terms of both outcomes of and positive sentiments on India's growth momentum. In this regard, monetary policy had to urgently address aggregate demand pressures, which appeared to be strongly in evidence. Apart from the build-up in inflationary expectations, this was reflected in (i) strong investment demand; (ii) sustained high growth in domestic capital goods production *albeit* with some moderation in 2008-09 so far; (iii) revival in the production of consumer goods with a turnaround in the production of durables; (iv) widening trade deficit and some tightening of external financing conditions in the ongoing global financial turmoil; and (v) emergence of fiscal pressures due to the possibility of enhanced subsidies on account of food, fertiliser and POL as well as for financing deferred liabilities relating to farm loan waivers.

Keeping in view the liquidity conditions and inflationary pressures in the economy, the cash reserve ratio was raised by 75 basis points to 8.25 per cent during April-May 2008 in three stages of 25 basis points each effective from April 26, May 10, and May 24, 2008. On May 30, 2008, special market operations were announced to alleviate the binding financing constraints faced by public sector oil companies in importing POL as also to minimise the potential adverse consequences for financial markets in which these oil companies are important participants.

On a review of the current macroeconomic and overall monetary conditions and with a view to containing inflation expectations, the repo rate under the Liquidity Adjustment Facility (LAF) was raised by 25 basis points to 8.0 per cent with effect from June 12, 2008. Consistent with the overall stance of monetary policy set out for 2008-09 in April 2008 in terms of ensuring a monetary and interest rate environment that accords high priority to price stability, well anchored inflation expectations and orderly conditions in financial markets and on the basis of incoming information and domestic and global macroeconomic and financial developments, it was decided on June 24, 2008 to increase the repo rate under the LAF by 50 basis points to 8.50 per cent with effect from June 25, 2008 and the CRR by 50 basis points to 8.75 per cent in two stages of 25 basis points each with effect from July 5, 2008 and July 19, 2008 (Table 35).

Table 35: 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	5.4
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
April 26, 2008	6.00	7.75	7.75 (+0.25)	8.3
May 10,2008	6.00	7.75	8.00 (+0.25)	8.6
May 24,2008	6.00	7.75	8.25 (+0.25)	8.2
June 12, 2008	6.00	8.00 (+0.25)	8.25	11.1
June 25, 2008	6.00	8.50 (+0.50)	8.25	11.6
July 5, 2008	6.00	8.50	8.50 (+0.25)	11.9
July 19, 2008	6.00	8.50	8.75 (+0.25)	--

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

2. Figures in parentheses indicate change in policy rates.

Wholesale Price Inflation

In India, inflation based on the wholesale price index (WPI) increased to 11.9 per cent on July 12, 2008 from 7.7 per cent at end-March 2008 and 4.8 per cent a year ago. This mainly reflected the impact of some pass-through of higher international crude oil prices to domestic prices as well as continued increase in the prices of iron and steel, basic heavy inorganic chemicals, machinery and machinery tools, oilseeds/edible oils/oil cakes and raw cotton on account of strong demand, international commodity price pressures and lower domestic *rabi* production of oilseeds. The seasonal hardening of vegetables prices as well as increase in prices of textiles has also contributed to inflation during 2008-09 so far. On a year-on-year basis, twelve items/groups - rice, wheat, milk, raw cotton, oilseeds, iron ore, coal mining, minerals oil, edible oils, oil cakes, basic heavy inorganic chemicals and metals - with a combined weight of about 35 per cent in the WPI basket accounted for almost 77 per cent of headline inflation as on July 12, 2008 (as compared with about 49 per cent a year ago). The increase in domestic prices of some of these commodities also reflected the international commodity price pressures (Table 36).

The y-o-y inflation, excluding fuel, was 10.5 per cent as on July 12, 2008 as compared with 6.6 per cent a year ago (Chart 21). The annual average WPI

Table 36: Key Commodity Price Inflation - Global *vis-à-vis* Domestic (year-on-year)

(Per cent)

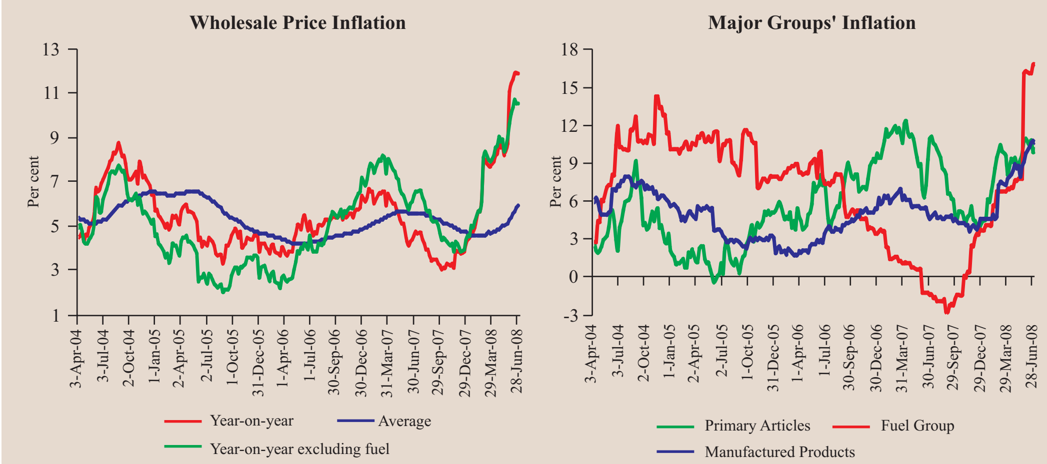
Item	Global Inflation	Domestic Inflation *			
	June 2008 over June 2007	Inflation		Weighted Contribution	
		2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6
1. Rice	139.8	5.6	8.2	2.5	1.5
2. Wheat	56.3	11.1	5.1	3.2	0.6
3. Milk	--	9.4	7.6	8.1	2.7
4. Raw Cotton	27.1	20.7	31.5	4.3	3.0
5. Oilseeds	63-73	30.8	19.0	14.0	4.3
6. Iron Ore	66.0	8.7	52.4	1.5	3.6
7. Coal Mining	159.3	0.0	9.8	0.0	1.6
8. Minerals Oil	92.9	-3.7	26.7	-10.5	28.1
9. Edible Oils	50- 83	16.1	17.2	6.8	3.2
10. Oil Cakes	90.7	23.8	48.3	6.7	6.5
11. Basic Heavy Inorganic Chemicals	--	-0.7	38.7	-0.2	3.8
12. Basic Metals, Alloys and Products	-5.6 #	6.2	22.4	12.3	18.0
- Iron and Steel	69 - 82	6.8	35.1	6.4	13.5
Sub-total				**48.7**	**76.9**

* : Based on WPI as on July 12, 2008.

#: Represented by IMF metals price index, which covers copper, aluminium, iron ore, tin, nickel, zinc, lead and uranium.

Note: Global price increases are based on the World Bank and IMF primary commodity prices data.

Chart 21: Annual WPI Inflation



inflation rate (average of 52 weeks) also increased to 6.0 per cent as on July 12, 2008 from 4.7 per cent at end-March 2008 (5.6 per cent a year ago).

Amongst major groups, primary articles inflation, y-o-y, increased by 10.1 per cent on July 12, 2008 on top of 11.1 per cent a year ago (it was 9.7 per cent at end-March 2008), reflecting increase in prices of food articles, especially of rice, wheat, fruits and milk, and non-food articles such as oilseeds and raw cotton. Within primary food articles, rice prices increased by 8.2 per cent, on a year-on-year basis, on July 12, 2008, in contrast with sharp increase in international rice prices, which increased by almost 140 per cent on a year-on-year basis in June 2008. Wheat prices increased by 5.1 per cent, year-on-year, on July 12, 2008 on top of 11.1 per cent increase recorded a year ago. The lower order of increase in domestic prices of rice and wheat, in the face of sharp increases in international prices, could be attributed to the various supply-side measures undertaken by the Government. Amongst other primary food items, prices of milk increased by 7.6 per cent, y-o-y, on July 12, 2008 (9.4 per cent a year ago), while prices of fruits increased by 11.9 per cent (3.6 per cent a year ago). Vegetables prices increased by 27.5 per cent over end-March 2008, although on a year-on-year basis it declined by 3.4 per cent on July 12, 2008. Amongst non-food primary articles, prices of oilseeds, y-o-y, increased by 19.0 per cent on July 12, 2008 on top of the increase of 30.8 per cent a year ago, which could be attributed to higher demand, lower estimated *rabi* production (which was down by almost 13 per cent, y-o-y, as per the Fourth Advance Estimates) as well as rising global prices. Notwithstanding higher domestic production, raw cotton prices were 31.5 per cent higher, y-o-y, as on July 12, 2008 (20.7 per cent a year ago) in line with international price movements (Chart 22).

Fuel group inflation, increased to 16.9 per cent on July 12, 2008 from 6.8 per cent at end-March 2008 (and a decline of 1.4 per cent a year ago), mainly due to increase in the prices of minerals oil by 16.9 per cent over end-March 2008. This reflected the effect of the hikes in the prices of petrol (Rs.5 per litre), diesel (Rs.3 per litre) and LPG (Rs.50 per cylinder) as well as continued increase in the prices of freely priced petroleum products such as naphtha, furnace oil, aviation turbine fuel, bitumen and lubricants in the range of 15-51 per cent over end-March 2008. Overall, prices of minerals oil increased by 26.7 per cent, year-on-year, as on July 12, 2008 as against a decline of 3.7 per cent a year ago. The increase in the prices of non-administered petroleum products was in line with international price movements, which increased by 93 per cent year-on-year in June 2008. It may be noted that international crude oil prices (Indian basket) increased by almost 129 per cent from US $ 56.6 a barrel in February 2007 (when domestic prices were last revised downwards) to US $ 129.8 a barrel level in June 2008. In rupee terms, the increase was about 122 per cent over the same period, while the minerals oil (monthly average) index in the WPI increased by about 27 per cent. However, the freely priced items within the mineral oil group increased within a range of 15-104 per cent over February 2007. This suggests that pass-through in case of administered petroleum products is still incomplete. Coal prices increased by 9.8 per cent, year-on-year, on July 12, 2008 as compared with 'nil' increase last year (Table 37).

Chart 22: Primary Articles Inflation (year-on-year)

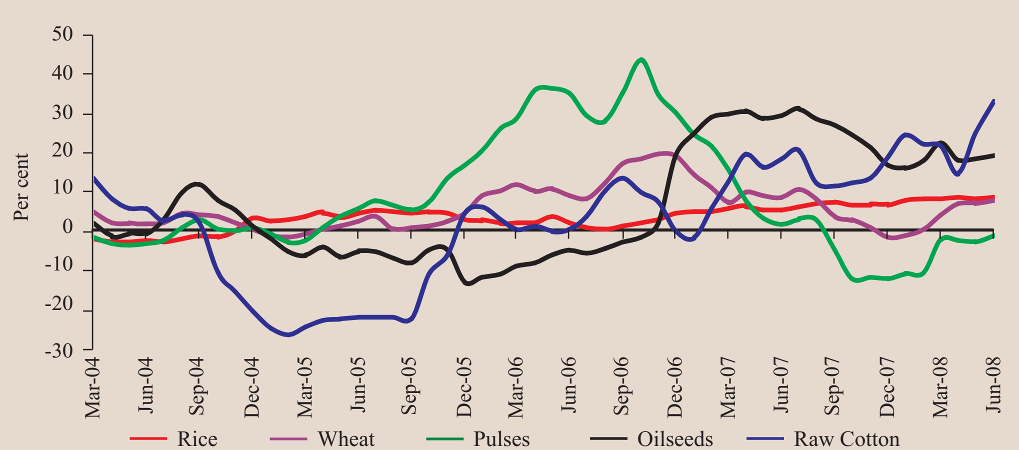


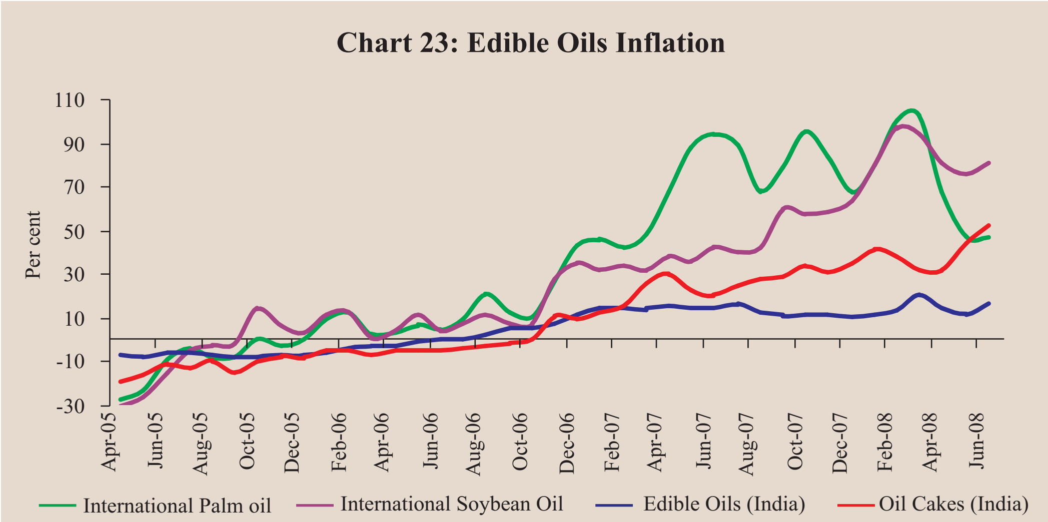
Table 37: Wholesale Price Inflation in India (year-on-year)

(Per cent)

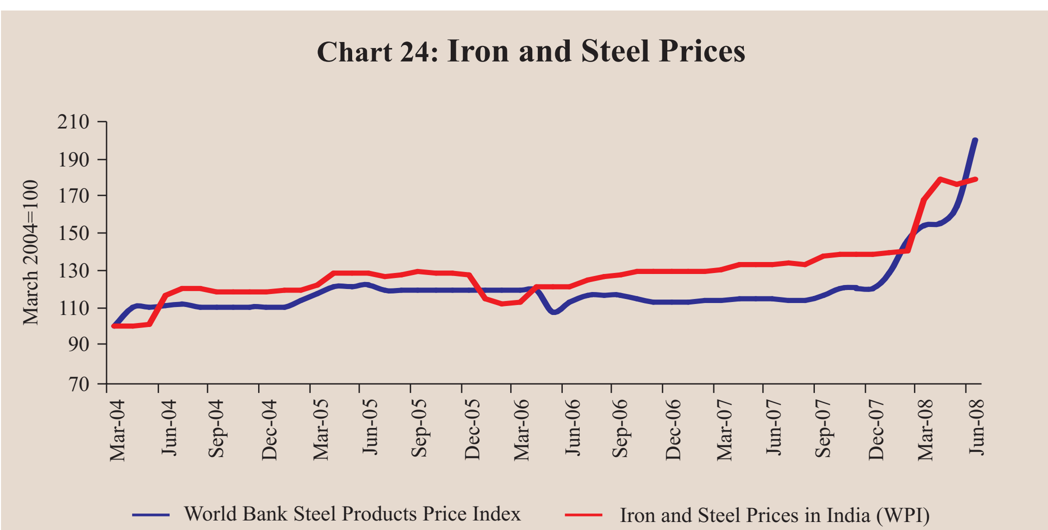
Commodity	Weight	2007-08 (March 29) Inflation	2007-08 (March 29) WC	2007-08 (July 14) Inflation	2007-08 (July 14) WC	2008-09 P (July 12) Inflation	2008-09 P (July 12) WC
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**7.7**	**100.0**	**4.8**	**100.0**	**11.9**	**100.0**
1. Primary Articles	**22.0**	**9.7**	**28.2**	**11.1**	**51.1**	**10.1**	**19.8**
Food Articles	15.4	6.5	13.2	10.4	33.3	5.4	7.3
i. Rice	2.4	9.1	2.5	5.6	2.5	8.2	1.5
ii. Wheat	1.4	5.1	1.0	11.1	3.2	5.1	0.6
iii. Pulses	0.6	-1.9	-0.2	1.8	0.3	0.2	0.0
iv. Vegetables	1.5	14.2	2.3	26.7	8.6	-3.4	-0.5
v. Fruits	1.5	4.1	1.0	3.6	1.1	11.9	1.5
vi. Milk	4.4	8.7	4.7	9.4	8.1	7.6	2.7
vii. Eggs, Fish and Meat	2.2	2.4	0.8	12.4	6.3	1.4	0.3
Non-Food Articles	6.1	11.4	8.8	13.7	16.1	16.5	8.4
i. Raw Cotton	1.4	14.0	2.0	20.7	4.3	31.5	3.0
ii. Oilseeds	2.7	20.3	6.7	30.8	14.0	19.0	4.3
iii. Sugarcane	1.3	-0.4	-0.1	1.1	0.3	-0.4	0.0
Minerals	0.5	49.9	6.2	7.5	1.5	49.1	4.1
2. Fuel, Power, Light and Lubricants	**14.2**	**6.8**	**18.9**	**-1.4**	**-6.9**	**16.9**	**30.5**
i. Minerals Oil	7.0	9.3	15.1	-3.7	-10.5	26.7	28.1
ii. Electricity	5.5	1.5	1.4	2.4	3.6	1.4	0.8
iii. Coal Mining	1.8	9.8	2.5	0.0	0.0	9.8	1.6
3. Manufactured Products	**63.8**	**7.3**	**52.8**	**4.8**	**55.9**	**10.7**	**49.9**
i. Food Products	11.5	9.4	12.4	3.1	6.7	13.7	11.5
of which: Sugar	3.6	1.1	0.4	-17.9	-11.5	5.2	1.0
Edible Oils	2.8	20.0	5.5	16.1	6.8	17.2	3.2
ii. Cotton Textiles	4.2	-6.8	-2.8	1.0	0.7	5.8	1.5
iii. Man Made Fibres	4.4	2.8	0.7	1.8	0.8	6.8	1.1
iv. Chemicals and Chemical Products	11.9	6.0	8.7	3.9	9.2	10.1	9.5
of which : Fertilisers	3.7	5.1	2.0	1.7	1.1	10.5	2.7
v. Basic Metals, Alloys and Metal Products	8.3	20.3	25.2	6.2	12.3	22.4	18.0
of which: Iron and Steel	3.6	34.2	20.1	6.8	6.4	35.1	13.5
vi. Non-Metallic Mineral Products	2.5	6.4	2.0	8.9	4.4	4.3	0.9
of which: Cement	1.7	5.1	1.1	11.1	3.9	3.0	0.4
vii. Machinery and Machine Tools	8.4	3.5	2.9	8.9	11.6	5.4	3.0
of which: Electrical Machinery	5.0	4.8	2.0	16.4	10.4	5.0	1.4
viii. Transport Equipment and Parts	4.3	3.9	1.7	2.3	1.6	5.6	1.6
Memo:							
Food Items (Composite)	**26.9**	**7.7**	**25.6**	**7.5**	**40.0**	**8.6**	**18.9**
WPI Excluding Food	**73.1**	**7.8**	**74.4**	**3.8**	**60.0**	**13.1**	**81.1**
WPI Excluding Fuel	**85.8**	**8.0**	**81.1**	**6.6**	**106.9**	**10.5**	**69.5**

WC: Weighted Contribution. P: Provisional.

Manufactured products inflation, year-on-year, rose further to 10.7 per cent on July 12, 2008 from 7.3 per cent at end-March 2008 (and 4.8 per cent



a year ago), reflecting increase in the prices of edible oils, oil cakes, textiles, chemicals, basic metals, alloys and products, and machinery and machine tools. Prices of sugar and grain mill products, however, eased somewhat from end-March 2008. The increase in domestic edible oils and oil cakes prices, year-on-year, by 17.2 per cent and 48.3 per cent, respectively, on July 12, 2008 (on top of 16.1 per cent and 23.8 per cent, respectively, a year ago) reflected surge in demand, lower domestic *rabi* oilseeds production as well as sharp increase in international prices (Chart 23). The sharp increase in domestic iron and steel prices (35.1 per cent, year-on-year) was in line with the recent hardening of international steel prices (Chart 24).



Overall, 'manufactured products' group was the major driver of year-on-year WPI inflation as on July 12, 2008 with weighted contribution of 49.9 per cent (55.9 per cent, a year ago), followed by 'fuel, power, light and lubricants' group at 30.5 per cent (against a decline of 6.9 per cent) and the 'primary articles' group at 19.8 per cent (51.1 per cent) (Chart 25). The Government has undertaken a series of supply augmenting and fiscal measures to contain inflationary pressures (Annex).

Consumer Price Inflation

Inflation, based on year-on-year variation in consumer price indices (CPIs), increased further during the first quarter of 2008-09 mainly due to increase in food prices and services (represented by the 'miscellaneous' group) prices. Various measures of consumer price inflation were placed in the range of 6.8-8.8 per cent during May/June 2008 as compared with 6.0-7.9 per cent in March 2008 and 5.7-7.8 per cent in June 2007 (Table 38).

Asset Prices

Domestic equity prices witnessed further corrections during the first quarter of 2008-09 in line with trends in major international equity markets, which fell due to heightened concerns over the persistence of financial market stress following the US sub-prime crisis, and concerns about some slowdown in the domestic economy (see Chapter V). Domestic gold prices also eased somewhat during the first quarter of 2008-09 mirroring movements in international prices.

Chart 25: Major Groups' Weighted Contribution to WPI Inflation (year-on-year)

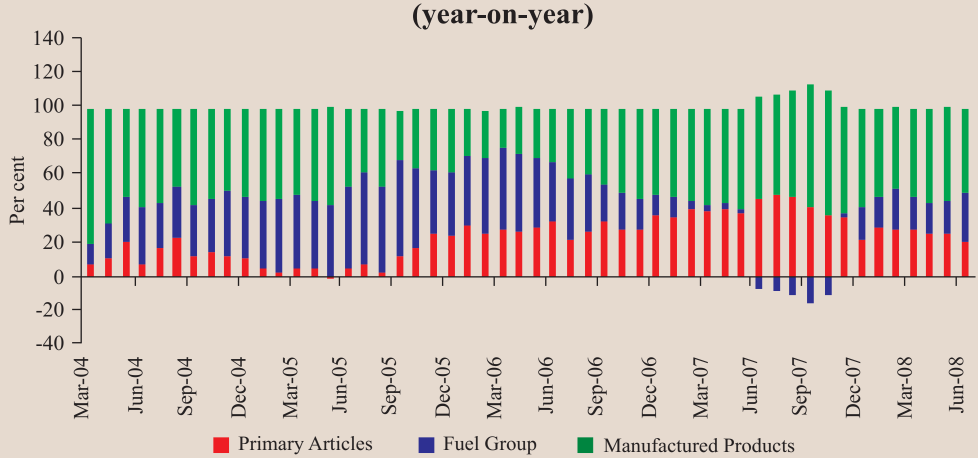


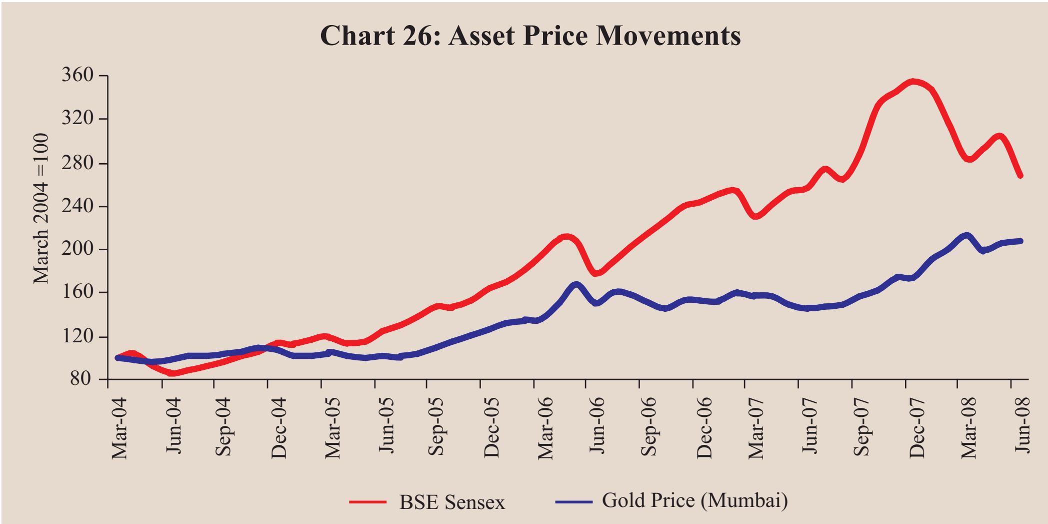
Table 38: Consumer Price Inflation - Major Groups

(Year-on-year variation in per cent)

CPI Measure	Weight	March 2003	March 2004	March 2005	March 2006	March 2007	June 2007	Sep. 2007	Dec. 2007	March 2008	May 2008	June 2008
1	2	3	4	5	6	7	8	9	10	11	12	13
CPI-IW (Base: 2001=100)#												
General	**100.0**	**4.1**	**3.5**	**4.2**	**4.9**	**6.7**	**5.7**	**6.4**	**5.5**	**7.9**	**7.8**	–
Food Group	46.2	3.7	3.1	1.6	4.9	12.2	8.1	8.7	6.2	9.3	10.7	–
Pan, Supari *etc.*	2.3	1.9	4.2	2.1	3.1	4.4	9.6	10.3	10.3	10.9	7.2	–
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	3.2	1.6	2.3	2.3	4.6	3.8	–
Housing	15.3	5.4	3.9	20.4	6.6	4.1	4.1	4.0	4.0	4.7	4.7	–
Clothing, Bedding *etc.*	6.6	1.5	2.1	2.3	3.0	3.7	4.4	5.3	3.5	2.6	3.4	–
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3	4.0	4.0	4.7	6.3	6.3	–
CPI-UNME (Base: 1984-85=100)												
General	**100.0**	**3.8**	**3.4**	**4.0**	**5.0**	**7.6**	**6.1**	**5.7**	**5.1**	**6.0**	**6.8**	–
Food Group	47.1	2.6	3.0	2.2	5.3	10.9	7.7	7.7	6.2	7.8	9.5	–
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4	7.2	7.0	5.4	4.6	0.9	–
Housing	16.4	6.3	5.2	7.5	5.5	5.6	5.6	4.9	4.7	4.0	3.8	–
Clothing, Bedding *etc.*	7.0	2.6	2.6	2.0	2.9	3.6	4.3	4.0	4.1	4.3	3.9	–
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4	3.7	3.2	3.8	4.8	5.6	–
CPI-AL (Base: 1986-87=100)												
General	**100.0**	**4.9**	**2.5**	**2.4**	**5.3**	**9.5**	**7.8**	**7.9**	**5.9**	**7.9**	**9.1**	**8.8**
Food Group	69.2	6.0	1.6	2.2	5.5	11.8	8.8	8.8	6.2	8.5	10.0	9.6
Pan, Supari *etc.*	3.8	3.5	4.7	-1.3	6.6	5.7	9.1	11.1	11.3	10.4	11.1	11.2
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.9	7.4	7.2	6.3	8.0	7.3	8.9
Clothing, Bedding *etc.*	7.0	3.0	4.1	2.5	2.2	3.5	2.7	1.9	1.3	1.8	2.9	3.1
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.8	6.7	5.5	5.2	6.1	6.3	6.5
CPI-RL (Base: 1986-87=100)												
General	**100.0**	**4.8**	**2.5**	**2.4**	**5.3**	**9.2**	**7.5**	**7.6**	**5.6**	**7.6**	**8.8**	**8.7**
Food Group	66.8	5.6	1.9	1.9	5.8	11.5	8.5	8.8	6.2	8.2	10.0	9.6
Pan, Supari *etc.*	3.7	3.5	4.7	-1.0	6.3	5.7	9.3	11.6	11.5	10.6	11.0	10.9
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.9	7.4	7.2	6.3	8.0	7.3	8.9
Clothing, Bedding *etc.*	9.8	3.3	3.4	2.8	2.7	3.1	2.6	2.1	2.6	2.8	3.5	4.1
Miscellaneous	11.9	3.1	3.0	5.5	5.2	6.3	6.2	5.3	5.0	6.2	6.6	6.8
Memo:												
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	5.9	4.4	3.4	3.8	7.7	8.8	11.9
GDP Deflator based Inflation @		3.9	3.7	4.2	4.9	5.5	5.4	3.9	2.7	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.

Domestic gold prices declined by 3.4 per cent over end-March 2008 to around Rs. 12,312 per 10 grams in June 2008 in line with movement in international prices, which declined by over 8 per cent over the same period (Chart 26). International gold prices had touched a peak of US $ 1,011 per ounce on



March 17, 2008, reflecting weakening of US dollar, hardening of oil prices and increased investor interest following uncertainties surrounding the global financial markets.

Annex : Recent Measures by the Government to Control Inflation in India

In order to contain inflationary pressures, the monetary measures undertaken by the Reserve Bank were supplemented by a number of fiscal and supply augmenting measures undertaken by the Government. These include:

(i) *Measures relating to Imports*

Pulses: 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.

Wheat: Import of wheat at zero duty, which was available up to end-December 2006, was extended further to end-December 2007.

Edible oils: Customs duty on palm oils was reduced by 10 percentage points across the board in April 2007 and import duty on various edible oils was reduced in a range of 5-10 percentage points in July 2007. The 4 per cent additional countervailing duty on all edible oils was also withdrawn. Customs duties on crude and refined edible oil were reduced from a range of 40-75 per cent to 20.0-27.5 per cent in March 2008. Import of crude form of edible oil at zero duty and refined form of edible oil at a duty of 7.5 per cent was allowed.

Rice: In March 2008, the customs duty on semi-milled or wholly-milled rice was reduced from 70 per cent to zero per cent up to March 2009.

Maize: Customs duty on maize imported under a Tariff Rate Quota of five lakh metric tonnes was also decreased from 15 per cent to Nil in April 2008.

Milk: In order to ensure adequate availability of milk in lean summer months, basic customs duty on skimmed milk powder was proposed to be reduced from 15 per cent to 5 per cent for a Tariff Rate Quota of 10,000 metric tonnes per annum in April 2008. Similarly, on butter oil, which is used for reconstituting liquid milk, customs duty was reduced from 40 per cent to 30 per cent.

Cement: On April 3, 2007, import of portland cement other than white cement was exempted from countervailing duty (CVD) and special additional customs duty; it was earlier exempted from basic customs duty in January 2007. Exports of cement was prohibited with effect from April 11, 2008.

Iron & Steel: In order to augment the domestic availability of steel products as well as to soften prices, the following measures were announced:

a) reduction in the basic customs duty on pig iron and mild steel products *viz.*, sponge iron, granules and powders; ingots, billets, semi-finished products, hot rolled coils, cold rolled coils, coated coils/sheets, bars and rods, angle shapes and sections and wires from 5 per cent to Nil;

b) full exemption of the import of TMT bars and structurals from CVD, which is currently at 14 per cent;

c) reduction in the basic customs duty on three critical inputs for manufacture of steel, *i.e.* metallurgical coke, ferro alloys and zinc from 5 per cent to Nil.

Cotton: The 10 per cent customs duty on cotton imports along with 4 per cent special additional duty was abolished with effect from July 8, 2008.

Crude Oil & Petroleum products: Customs duty on crude oil was reduced from 5 per cent to 'nil' as well as on diesel and petrol from 7.5 per cent to 2.5 per cent each, and on other petroleum products from 10.0 per cent to 5.0 per cent. Excise duty on petrol and diesel was reduced by Re. 1 per litre.

(ii) Measures relating to Exports

Pulses: 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 first up to end-March 2008 and then for one more year beginning April 1, 2008.

Onion: The minimum export price (MEP) was increased by the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) 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.

Edible Oils: The export of all edible oils was prohibited with immediate effect from April 1, 2008.

Rice: On April 1, 2008, export of non-basmati rice was banned and the minimum export price (MEP) was raised to US $ 1,200 per tonne in respect of basmati rice. On April 29, 2008, an export duty of Rs.8,000 per tonne was imposed on basmati rice along with a commensurate reduction in its minimum export price and thereby re-fixed the MEP at US$ 1,000 per tonne.

Iron & Steel: On April 29, 2008, export duty was imposed on steel items at the following three different rates:

- 15 per cent on specified primary forms and semi-finished products, and hot rolled coils/sheet,
- 10 per cent on specified rolled products including cold-rolled coils/sheets and pipes and tubes,
- 5 per cent on galvanized steel in coil/sheet form.

For this purpose, a uniform statutory rate of 20 per cent has been incorporated in the Export Schedule. These measures are expected to disincentivise the export of steel and augment domestic supply.

Cotton: One per cent drawback benefits (refund of local taxes) on exports of raw cotton was withdrawn with effect from July 8, 2008.

(iii) Other Measures

a) The minimum support price (MSP) for paddy was raised by Rs. 125 per tonne for 2007-08 and for wheat by Rs. 150 for 2007-08 and further by Rs. 150 for 2008-09.

b) Issuance of oil bonds to State-run oil marketing companies.

V. FINANCIAL MARKETS

International Financial Markets

Global financial markets witnessed generally uncertain conditions during April-July 2008[1]. The financial market turbulence that had erupted in the US sub-prime mortgage market in mid-2007 and gradually deepened towards early 2008, witnessed a cautious return of investor risk tolerance in the credit markets between mid-March 2008 and end-May 2008. As a result, spreads narrowed down in credit markets and investor interest revived temporarily in equity markets. In sharp contrast to these favourable developments, inter-bank money markets, however, failed to recover as liquidity demand remained elevated. Central banks continued to work together and also individually to improve liquidity conditions in financial markets. Financial markets, however, came under stress again in June 2008 and early-July 2008 as concerns mounted about the losses and longer-term profitability of two US mortgage companies, *viz.*, Fannie Mae and Freddie Mac.

Inter-bank money markets continued to show signs of stress during March-May 2008 as spreads between LIBOR rates and overnight index swap rates increased in all the three major markets, *viz.*, the US, the UK and the Euro area. Central banks continued to work together on liquidity conditions in financial markets. In view of the persistent liquidity pressures in some term funding markets, the European Central Bank (ECB), the US Federal Reserve, and the Swiss National Bank (SNB) announced an expansion of their liquidity measures in May 2008. On May 2, 2008, the US Federal Reserve announced an increase in the amounts auctioned to eligible depository institutions under its bi-weekly Term Auction Facility (TAF) from US$ 50 billion to US$ 75 billion, beginning with the auction on May 5, 2008. In conjunction with the increase in the size of the TAF, the Federal Open Market Committee (FOMC) authorised further increases in its existing temporary reciprocal currency arrangements with the ECB and the SNB. These arrangements provided US dollars up to US$ 50 billion and US$ 12 billion to the ECB and the SNB, respectively, representing increases of US$ 20 billion and US$ 6 billion since December 12, 2007. In addition, the FOMC authorised an expansion of the collateral that could be pledged in the Federal Reserve's Schedule 2 Term Securities Lending Facility (TSLF) auctions. Primary dealers were allowed to pledge AAA/Aaa-rated asset-backed securities, in addition to already eligible residential and commercial-mortgage-backed securities and agency collateralised mortgage obligations, beginning with the Schedule 2 TSLF auction announced on May 7, 2008, and

[1]A detail account of the recent financial market turbulence was covered in the Macroeconomic and Monetary Developments in 2007-08, April 2008.

settled on May 9, 2008. Treasury securities, agency securities, and agency mortgage-backed securities continued to be eligible as collateral in Schedule 1 TSLF auctions. The Governing Council of the ECB decided, in conjunction with the US Federal Reserve and in the context of the TAF, to increase the amount of US dollar liquidity provided to the counterparties of the Eurosystem to US$ 25 billion in each bi-weekly auction. The ECB intended to continue the provision of US dollar liquidity for as long as the Governing Council considered it was needed in view of the prevailing market conditions. The SNB decided to increase the frequency and amount of US dollar repo auctions. Accordingly, the SNB decided to hold its US dollar auctions on a 14-day basis. The total amount of liquidity made available was increased from US$ 6 billion to a maximum of US$ 12 billion. The SNB also planned to make US dollar liquidity available for as long as it considered this to be necessary. The wider pool of collateral promoted improved financing conditions in a broader range of financial markets.

Credit markets witnessed a cautious return of risk tolerance between mid-March 2008 and end-May 2008, with spreads recovering from the very wide levels witnessed in the first quarter of 2008. Market liquidity improved, allowing for better price differentiation across instruments. The stabilisation of financial markets and the emergence of a somewhat less pessimistic economic outlook also contributed to a turnaround in the equity markets till end-May 2008. Government bond yields rose mirroring the developments in the credit and equity markets. Growing perceptions among investors that the impact from the financial turmoil on real economic activity might turn out to be less severe than had been anticipated also improved investor confidence. Equity markets, however, declined beginning end-May 2008, reflecting hardening of inflation across the developed and emerging market economies (EMEs), surge in crude oil prices to new peaks and concerns over losses of two US mortgage companies, *viz.*, Fannie Mae and Freddie Mac. In view of uncertainty about inflation outlook remaining high, the US Fed decided to keep the fed funds rate target unchanged in its meeting held on June 25, 2008. On July 8, 2008, the Bank of Canada indicated that it would withdraw liquidity from the system in view of improvement in funding conditions witnessed since end-April 2008.

The measures taken by the US Federal Reserve and other central banks improved somewhat the conditions in the financial markets. The recent episode of financial distress, however, raises several issues about financial regulation and the appropriate role of the lender of last resort. An important lesson emerging from the recent financial market turbulence is that the financial system needs to be strengthened with an array of regulatory changes, including strengthening of capital and liquidity rules, stronger risk management practices, closer supervision and management of firm-wide risks, and greater transparency and resilience of the financial infrastructure. Private investors and other market participants have to also play crucial roles in strengthening the financial system.

Short-term Interest Rates

During 2008-09 so far (up to July 16, 2008), short-term interest rates in advanced economies witnessed a mixed trend, moving broadly in tandem with the policy rates (Table 39). In the US, short-term interest rates increased marginally. The US Fed kept its fed funds rate target unchanged at 2.0 per cent in June 2008. The pause occurred after a series of consecutive reductions in the fed funds rate target undertaken between September 18, 2007 and April 30, 2008. In the UK, short-term interest rates declined, reflecting cut in policy rate in the second half of 2007-08 and also in April 2008. The Bank of England, which had increased its policy rate in May 2007 and July 2007, reduced it in December 2007, February 2008 and April 2008 to 5.0 per cent in the wake of concerns over slow growth, thereby prompting a decline in short-term rates. On the other hand, short-term interest rates increased in the Euro Area reflecting increase in the key policy rates on July 3, 2008. In the EMEs, short-term interest rates generally witnessed an uptrend, firming up in Argentina, Brazil, Hong Kong, Malaysia and Thailand. The only exceptions were China, the Philippines and Singapore.

Government Bond Yields

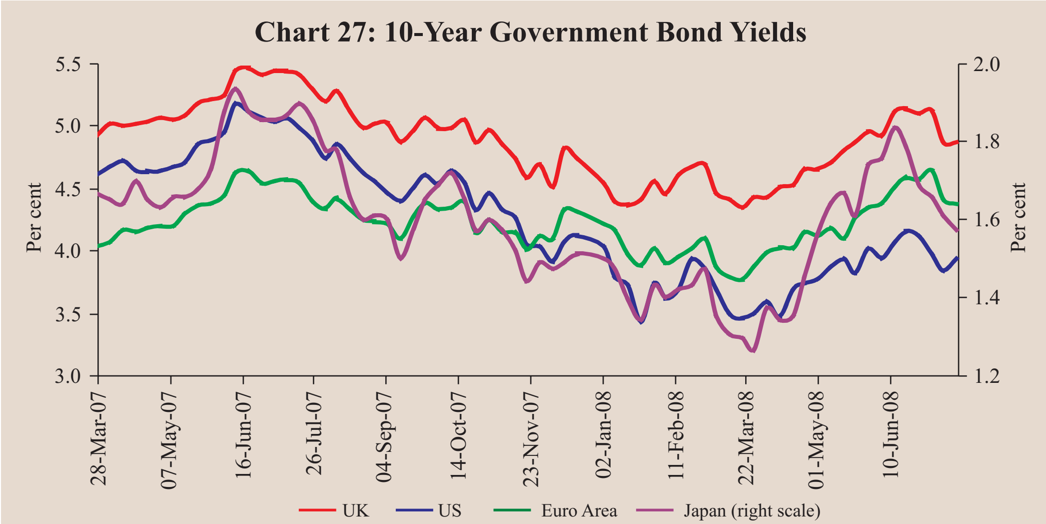
Long-term government bond yields in major advanced economies, which had bottomed out at end-March 2008, hardened during 2008-09 so far (up to July 16,

Table 39 : Short-term Interest Rates

(Per cent)

Region/Country	End of				
	March 2006	March 2007	March 2008	June 2008	July 2008*
1	2	3	4	5	6
Advanced Economies					
Euro Area	2.80	3.91	4.72	4.96	4.96
Japan	0.04	0.57	0.75	0.75	0.75
South Korea	4.26	4.94	5.32	5.36	5.52
Sweden	1.99	3.21	4.11	4.12	4.23
UK	4.58	5.55	6.01	5.93	5.75
US	4.77	5.23	2.26	2.29	2.31
Emerging Market Economies					
Argentina	9.63	9.63	10.44	16.50	16.25
Brazil	16.54	12.68	11.18	12.17	12.17
China	2.40	2.86	4.50	4.48	4.42
Hong Kong	4.47	4.17	1.83	2.33	2.22
India	**6.11**	**7.98**	**7.23**	**8.73**	**9.11**
Malaysia	3.51	3.64	3.62	3.69	3.70
Philippines	7.38	5.31	6.44	6.00	5.94
Singapore	3.44	3.00	1.38	1.25	1.14
Thailand	5.10	4.45	3.25	3.65	3.75

*: As on July 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.



2008) (Chart 27). In addition to reduced safe haven demand for government securities, the rise in yields reflected a reassessment among investors of the need for monetary easing, following the stabilisation of financial markets during April-May 2008. The 10-year government bond yield in the US increased by 44 basis points between March 26, 2008 and July 16, 2008. During the same period, yields on 10-year government papers increased by 51 basis points in the Euro area, 44 basis points in the UK and 31 basis points in Japan.

Equity Markets

During 2008-09, so far (up to July 22, 2008) international equity markets witnessed a two-way movement (Table 40). International equity markets, which had recovered somewhat during April-May 2008, but declined thereafter on concerns over elevated crude oil prices and high inflation. Equity markets in most of the EMEs also declined due to signs of economic slowdown, sharp rise in inflation rate, high international crude oil prices and concerns over stagflation in the US.

Foreign Exchange Market

In the foreign exchange market, the US dollar depreciated against most of the currencies during 2008-09 so far (up to July 21, 2008). The dollar's weakness reflected lower consumer confidence in the wake of elevated global commodity prices, weaker equity markets, lower manufacturing growth, higher unemployment with downward non-farm payroll employment, lower sales of the new houses in the US and selling pressure of the US dollar in the international market. Between end-March 2007 and July 21, 2008, the US dollar depreciated by 0.3 per cent against the Euro, 0.5 per cent against the Pound sterling and 2.7 per cent against the

Table 40: International Stock Markets

(Per cent)

Country/Index	Percentage Variation (year-on-year) End-March 2007	Percentage Variation (year-on-year) End-March 2008	Percentage Variation July 22, 2008 over End-March 2008
1	2	3	4
Developed Markets			
US (Dow Jones)	11.2	-0.7	-5.4
US (NASDAQ)	3.5	-5.9	1.1
FTSE UK 100	5.8	-9.6	-5.9
Euro Area (FTSE 100)	7.5	-15.7	-7.0
Japan	1.3	-27.6	5.3
Hong Kong	25.3	15.4	-1.4
Emerging Markets			
Russia	34.9	6.1	3.4
Brazil	20.7	33.1	-2.2
Colombia	-3.7	-16.0	-2.4
South Africa	34.3	11.5	-7.3
South Korea	6.8	17.3	-6.3
Hungary	1.6	-7.3	-2.6
Singapore	28.2	-4.9	-3.9
Malaysia	34.6	0.1	-11.1
Argentina	16.8	0.04	-7.0
Turkey	1.8	-10.6	-3.6
Indonesia	38.4	33.7	-9.6
India	**15.9**	**19.7**	**-9.9**
Thailand	-8.1	21.3	-16.5
China	145.2	9.1	-18.0
Memo:			
World (MSCI)	13.4	-5.1	-4.2
EMEs (MSCI)	17.9	18.9	-6.2
Asia (MSCI)	18.7	18.6	-11.8

Source: Bloomberg and Bombay Stock Exchange Limited (BSE).

Chinese Yuan. On the other hand, the US dollar appreciated by 6.3 per cent against the Japanese yen and 6.1 per cent against the Thai Baht (Table 41).

Table 41: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other currencies

(Per cent)

Currency	End-March 2007 @	End-March 08 @	July 21, 2008*
1	2	3	4
Euro	-9.1	-15.8	-0.3
Pound Sterling	-11.4	-1.5	-0.5
Japanese Yen	0.2	-14.9	6.3
Chinese Yuan	-3.4	-9.3	-2.7
Russian Rubble	-6.1	-9.7	-1.2
Turkish Lira	3.2	-5.8	-9.3
Indian Rupee	**-2.5**	**-8.3**	**6.9**
Indonesian Rupiah	0.5	1.1	-0.8
Malaysian Ringgit	-6.2	-7.8	1.5
South Korea Won	-3.7	5.5	2.1
Thai Baht	-9.9	-10.2	6.1
Argentine Peso	0.7	2.1	-4.5
Brazilian Peso	-6.4	-17.0	-7.2
Mexican Peso	1.3	-3.5	-4.5
South African Rand	17.2	11.3	-6.5

@: Year-on-year variation. *: Variation over end-March 2008.

Domestic Financial Markets

Indian financial markets remained largely orderly during the first quarter of 2008-09. The main drivers of liquidity, and consequently the rates in the money market, were cash balances of the Central Government with the Reserve Bank, hikes in the cash reserve ratio (CRR) and the Reserve Bank's foreign exchange operations. Interest rates in the call money market mostly remained within the informal corridor set by reverse repo and repo rates during the quarter. As in the past, interest rates in the collateralised segment of the money market remained below the call rate. In the foreign exchange market, the Indian rupee generally depreciated against major currencies. Yields in the Government securities market hardened during the quarter (Table 42). Indian equity markets recovered somewhat

Table 42: 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
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**	**18,719**	**45.28**	**26,824 ##**	**2.14**	**37,698**	**21,973**	**3,832**	**7,812**	**12277**	**3572**
2007-08	**21,393**	**6.07**	**8,104**	**7.91**	**33,746 P**	**40.24**	**78,203 ##**	**2.16**	**1,28,684**	**4,677**	**6,335**	**14,148**	**16569**	**4897**
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	13984	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	29,311	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	25,569	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	30,538	40.77	3,192	2.59	83,049	1,689	4,536	9,221	14334	4222
Jul 2007	16,581	0.73	13,273	7.94	32,586	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	31,994	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	36,768	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	39,452 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	31,547 P	39.44	2,731	1.64	1,64,606	-10,804	8,606	19,283	19827	5964
Jan 2008	27,531	6.69	19,182	7.61	38,008 P	39.37	13,625	2.07	1,59,866	15,692	8,071	19,441	19326	5756
Feb 2008	22,716	7.06	12,693	7.57	40,441 P	39.73	3,884	0.24	1,75,166	-1,294	5,808	13,342	17728	5202
Mar 2008	22,364	7.37	5,881	7.69	38,617 P	40.36	2,809	1.25	1,70,285	-8,271	6,166	14,056	15838	4769
Apr 2008	19,516	6.11	6,657	8.10	36,710 P	40.02	4,325	2.68	1,70,726	26,359	5,773	13,561	16291	4902
May 2008	19,481	6.62	8,780	8.04	31,868 P	42.13	148	2.45	1,75,565	11,841	6,084	13,896	16946	5029
Jun 2008	21,707	7.75	6,835	8.41	38,108 P	42.82	-	3.78	1,74,433	- 8,622	5,410	12,592	14997	4464

* : 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.

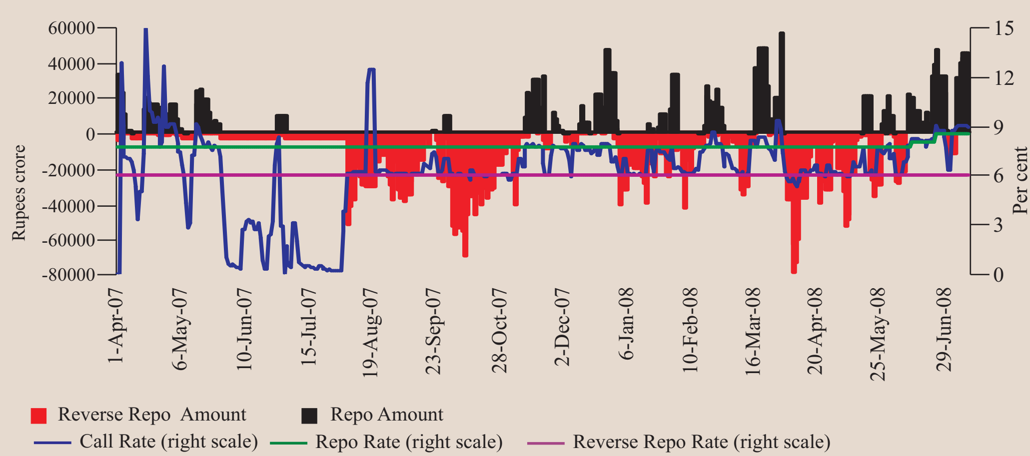
during April-May 2008 but declined thereafter in tandem with trends in major international equity markets as well as edging up of domestic inflation.

Money Market

The Indian money market remained largely orderly during the first quarter of 2008-09. Money market rates declined during the beginning of the first quarter of 2008-09 from their levels witnessed in the second-half of March 2008. The various interest rates in the money market moved in tandem with the evolving liquidity conditions. The daily average call rate, which hovered around the repo rate in the second-half of March 2008, moderated in the beginning of April 2008 as liquidity conditions eased on account of significant reduction in the surplus cash balances of the Central Government with the Reserve Bank. The call rate hovered around the reverse repo rate during April 2008 on account of easy liquidity conditions. In May 2008, the call rate mostly remained within the informal corridor as liquidity remained in a surplus mode. The weighted average call rate in May 2008 was, however, higher than that during April 2008, as the surplus liquidity in the banking system declined in May 2008 due to the cumulative impact of the three-stage hike in the CRR of 25 basis points each to 8.25 per cent. On some occasions during the second-half of May 2008, the call rate hovered around the upper bound of the liquidity adjustment facility (LAF) corridor (Chart 28).

The call rate declined in the beginning of June 2008, but moved above the repo rate on June 10, 2008 as liquidity conditions turned tight, and mostly remained around that level for the rest of the month. In the first week of July 2008, the call rate declined sharply and moved within the LAF corridor as liquidity eased mainly

Chart 28: Liquidity Adjustment Facility and the Call Rate



on account of a decline in the cash balances of the Central Government. Subsequently, the call rate mostly remained above the repo rate reflecting the two-stage CRR hike of 25 basis points each (on July 5 and July 19, respectively) to 8.75 per cent. The call rate was placed at 9.67 per cent on July 23, 2008.

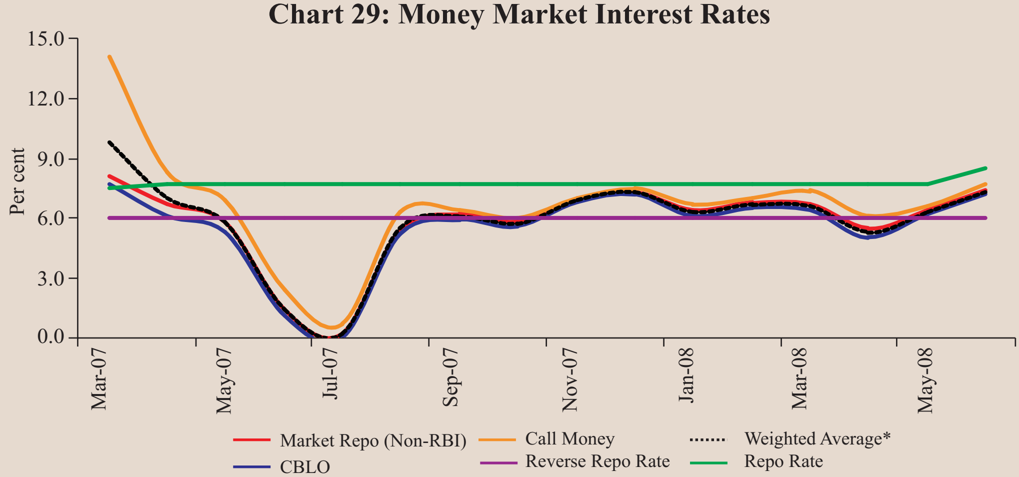
Interest rates in the collateralised segments of the money market – the market repo (outside the LAF) and the Collateralised Borrowing and Lending Obligation (CBLO) – moved in tandem with call rates, and continued to remain below the call rate during the first quarter of 2008-09 (Chart 29). During April-June 2008, interest rates averaged 6.83 per cent, 6.14 per cent, 6.42 per cent in the call, CBLO and market repo segments, respectively (5.90 per cent, 4.17 per cent, 4.66 per cent, respectively, a year ago).

The average daily volume in the money market segments – call, market repo (outside the LAF) and CBLO – during April-June 2008 was around 52 per cent higher than that in the same period of 2007. The collateralised market (market repo and CBLO) remained the predominant segment of the money market, and accounted for more than 80 per cent of the total volume during April-June 2008 (Table 43). Mutual funds were the major lenders in the CBLO and market repo segments, while commercial banks were the major borrowers in both the segments.

Certificates of Deposit

The outstanding amount of certificates of deposit (CDs) issued by scheduled commercial banks (SCBs) increased from Rs.1,47,792 crore at end-March 2008 to Rs.1,63,143 crore as on June 20, 2008 (see Table 43). The outstanding amount of CDs as on June 20, 2008 accounted for 6.2 per cent of total aggregate deposits of the 'CD-issuing' banks with significant inter-bank variation ranging from 0.2 per

Chart 29: Money Market Interest Rates



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

Table 43: 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
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**	**21,329**	**8.08**	**64,821**	**8.24**
2007-08	**10,697**	**13,684**	**27,813**	**52,194**	**352**	**33,813**	**9.20**	**1,15,617**	**8.29**
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	17,863	11.33	93,272	10.75
Apr 2007	14,845	7,173	18,086	40,104	440	18,759	10.52	95,980	10.55
May 2007	10,238	8,965	20,810	40,013	277	22,024	9.87	99,715	9.87
Jun 2007	8,413	10,295	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	41,307	9.45	1,27,142	8.48
Dec 2007	8,124	13,354	30,087	51,565	509	40,243	9.27	1,23,466	8.81
Jan 2008	13,765	17,029	35,711	66,505	312	50,062	11.83	1,29,123	8.82
Feb 2008	11,358	17,682	36,007	65,047	525	40,642	9.73	1,39,160	9.94
Mar 2008	11,182	14,800	37,413	63,395	571	32,592	10.38	1,47,792	10.00
Apr 2008	9,758	14,966	38,828	63,552	374	37,584	8.85	1,50,865	8.49
May 2008	9,740	14,729	36,326	60,795	420	42,032	9.02	1,56,780	8.95
Jun 2008	10,854	11,262	35,774	57,890	253	46,847	10.03	1,63,143	9.16

-: Not available. WADR: Weighted Average Discount Rate.

cent to 37.0 per cent. The overall weighted average discount rate (WADR) of CDs declined from 10.0 per cent at end-March 2008 to 8.49 per cent at end-April 2008 but thereafter increased to 9.16 per cent on June 20, 2008. The top five CD-issuers, two private sector banks, two foreign banks and one public sector bank, accounted for 64 per cent of the new issuances during the fortnight ended June 20, 2008.

Commercial Paper

The outstanding amount of commercial paper (CP) issued by corporates increased from Rs.32,592 crore at end-March 2008 to Rs.46,847 crore on June 30, 2008 (see Table 43). The WADR on CP declined from 10.38 per cent at end-March 2008 to 8.57 per cent on May 15, 2008 but thereafter increased to 10.03 per cent on June 30, 2008. Mutual funds were the major investors in the CP market and the preferred tenor of CP issuances was '6 months to 1 year'.

Table 44: Commercial Paper - Major Issuers

(Rupees crore)

Category of Issuer	End of		
	March 2007	March 2008	June 2008
1	2	3	4
Leasing and Finance	12,594	24,925	34,957
	(70.5)	(76.5)	(74.6)
Manufacturing	2,754	5,687	8,150
	(15.4)	(17.4)	(17.4)
Financial Institutions	2,515	1,980	3,740
	(14.1)	(6.1)	(8.0)
Total	**17,863**	**32,592**	**46,847**
	(100.0)	**(100.0)**	**(100.0)**

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

Leasing and finance companies were the predominant issuers of CP with 75 per cent share, followed by 'manufacturing and other companies' and 'financial institutions' as on June 30, 2008 (Table 44).

Treasury Bills

During the first quarter of 2008-09, primary market yields on Treasury Bills (TBs) hardened, particularly from May 2008, in tandem with higher money market interest rates, hikes in the CRR, higher inflation and inflation expectations (Chart 30 and Table 45). The yield spread between 364-day and 91-day TBs was 8 basis points in June 2008 (7 basis points in March 2008).

Chart 30 : Yields on Treasury Bills

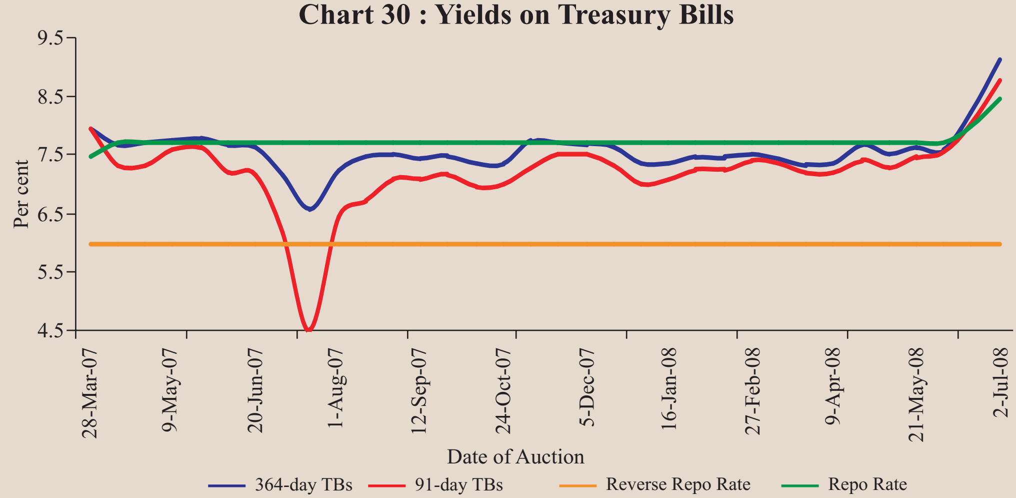


Table 45: Treasury Bills in the Primary Market

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
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**
2007-08	**2,24,500 @**	**7.10**	**7.40**	**7.42**	**2.84**	**2.79**	**3.21**
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	4.67	3.67
Jan 2008	19,000	7.08	7.24	7.39	2.63	1.61	4.36
Feb 2008	15,500	7.33	7.40	7.51	2.15	2.91	2.78
Mar 2008	5,000	7.33	7.45	7.40	3.97	4.17	3.34
Apr 2008	22,000	7.28	7.41	7.53	1.70	1.36	2.36
May 2008	21,000	7.41	7.55	7.61	2.65	2.78	3.05
Jun 2008	11,500	8.01	8.42	7.93	2.00	2.76	2.80

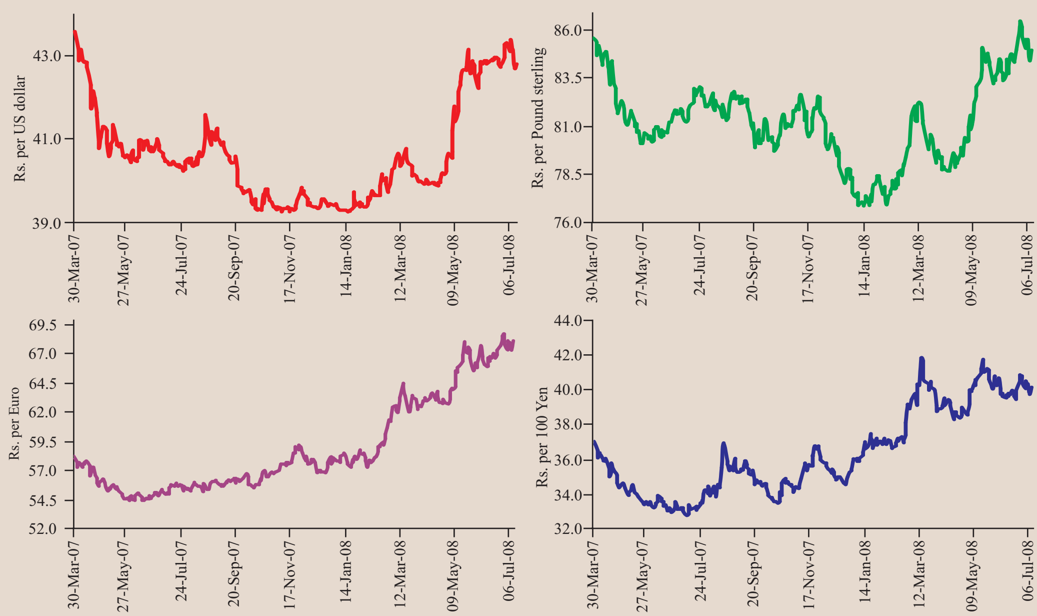
@ : Total for the financial year.
Note: 1. 182-day TBs were reintroduced with effect from April 2005.
2. Notified amounts are inclusive of issuances under the Market Stabilisation Scheme (MSS).

Foreign Exchange Market

During 2007-08, the Indian rupee generally exhibited two-way movements (Chart 31). The rupee moved in the range of Rs.39.26-43.15 per US dollar during 2007-08. The rupee depreciated during the first half of August 2007 due to bearish conditions in the Asian stock markets including India, strong FII outflows and concerns over sub-prime lending crisis in the US, while it appreciated thereafter reflecting large capital inflows, weakening of the US dollar *vis-à-vis* other currencies and strong performance in the domestic stock markets. However, the rupee started depreciating against the US dollar from the beginning of February 2008 on account of bearish conditions in the stock market, capital outflows, rising crude oil prices and increased demand for US dollars by corporates. The exchange rate of the rupee was Rs.39.99 per US dollar on March 31, 2008. At this level, the Indian rupee appreciated by 9.0 per cent over its level on March 31, 2007. Over the same period, the rupee appreciated by 7.6 per cent against the Pound sterling, while it depreciated by 7.8 per cent against the Euro, 7.6 per cent against the Japanese yen and 1.1 per cent against the Chinese yuan.

During 2008-09 so far (up to July 23, 2008), the Indian rupee generally depreciated. The rupee moved in the range of Rs.39.89-43.16 per US dollar during

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



the first quarter. The rupee, which depreciated during fourth quarter of 2007-08, up to mid-March 2008, appreciated thereafter till end-March 2008, reflecting strong FDI inflows. After trading in a range of Rs. 39.89-40.02 per US dollar till April 22, 2008, the rupee broke above the value of Rs. 40.00 per US dollar on April 24, 2008. The rupee depreciated continuously thereafter, reflecting large capital outflows by FIIs (US $ 5.2 billion during the first quarter of 2008-09), increased demand for dollars by the oil companies and bearish stock market conditions. The exchange rate of the rupee was Rs.42.33 per US dollar on July 23, 2008. At this level, the Indian rupee depreciated by 5.5 per cent over its level on March 31, 2008. Over the same period, the rupee depreciated by 5.7 per cent against the Pound sterling, 5.5 per cent against the Euro and 8.2 per cent against the Chinese yuan, while appreciated by 1.8 per cent against the Japanese yen.

On an average basis, both the 36-currency trade weighted nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the Indian rupee depreciated by 3.9 per cent each between March 2008 and May 2008 (Table 46). Over the same period, the 6-currency trade weighted NEER and REER of the rupee depreciated by 4.1 per cent and 2.7 per cent, respectively. On July 22, 2008, the 6-currency trade weighted NEER and REER of the rupee depreciated by 6.4 per cent and 1.7 per cent, respectively, over their end-March 2008 levels.

Forward premia increased during the first quarter of 2008-09, reflecting the rising interest rate differentials on account of higher domestic interest rates and

Table 46: Nominal and Real Effective Exchange Rate of the Indian Rupee (Trade Based Weights)

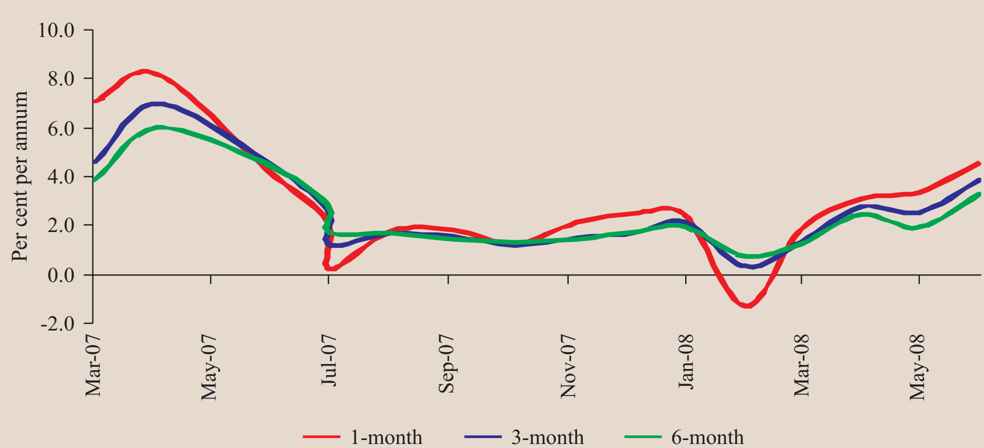
Year/Month	Base : 1993-94 (April-March) = 100			
	6-Currency Weights		36-Currency Weights	
	NEER	REER	NEER	REER
1	2	3	4	5
2005-06	**72.28**	**107.30**	**89.85**	**102.35**
2006-07 (P)	**68.93**	**105.47**	**85.89**	**98.51**
2007-08 (P)	**74.13**	**114.73**	**92.97**	**106.17**
Jan 2007	69.77	107.70	87.05	100.73
Feb 2007	69.88	107.71	87.20	100.71
Mar 2007	70.23	107.46	87.11	100.50
Apr 2007	72.74	111.63	91.80	103.46
May 2007	75.19	115.73	94.69	106.84
Jun 2007	75.37	115.22	93.24	106.82
Jul 2007	75.15	115.10	93.09	106.90
Aug 2007	74.44	114.10	92.65	106.29
Sep 2007	74.64	115.03	92.91	106.88
Oct 2007	75.45	115.79	93.50	107.02
Nov 2007	74.34	113.90	92.48	105.54
Dec 2007	74.65	114.52	92.92	105.93
Jan 2008	74.31	114.23	92.56	105.97
Feb 2008	73.41	113.06	91.42	104.72
Mar 2008	70.38	110.87	88.34	102.43
Apr 2008	70.63	111.52	88.77	102.15
May 2008	67.48	107.90	84.86	98.42
Jun 2008	66.33	108.49	-	-
July 22, 2008	65.68	109.26	-	-

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*.

CRR hikes. The one-month forward premia increased from 3.45 per cent at end March 2008 to 7.57 per cent on July 18, 2008, while the six-month forward premia increased from 2.50 per cent to 5.10 per cent over the same period (Chart 32).

Chart 32: Movement in Rs./US $ Forward Premia



The average daily turnover in the foreign exchange market increased to US $ 49.1 billion during April-June 2008 from US $ 39.2 billion in the corresponding period of 2007 (Chart 33). While the inter-bank turnover increased from US $ 28.5 billion to US $ 35.6 billion, the merchant turnover increased from US $ 10.8 billion to US $ 13.6 billion. The ratio of inter-bank to merchant turnover at 2.6 during April-June 2008 was almost the same as a year ago.

Credit Market

The deposit rates of scheduled commercial banks (SCBs) hardened during 2008-09 so far (up to July 14, 2008). Interest rates of public sector banks (PSBs) on deposits of maturity of up to one year increased to 2.75-9.25 per cent in July 2008 from 2.75-8.50 per cent in March 2008. The deposit rates of private sector banks on deposits of maturity both of one to three years and above three years firmed up to the range of 8.00-10.00 per cent in July 2008 from the range of 7.25-9.25 per cent and 7.25-9.75 per cent, respectively, in March 2008 (Table 47).

The benchmark prime lending rates (BPLRs) of PSBs and private sector banks were placed in the range of 12.75-14.00 per cent and 13.50-17.25 per cent, respectively, in July 2008 as compared with the range of 12.25-13.50 per cent and 13.00-16.50 per cent, respectively, in March 2008 (Chart 34). The BPLR of foreign banks at 10.00-15.50 per cent, however, remained unchanged during the same period.

The weighted average BPLR of PSBs increased from 12.43 per cent in March 2007 and 12.84 per cent in March 2008 to 12.94 per cent in June 2008. The weighted average BPLR of private sector banks increased from 14.33 per cent in

Chart 33 : Daily (Average) Turnover in Foreign Exchange Market

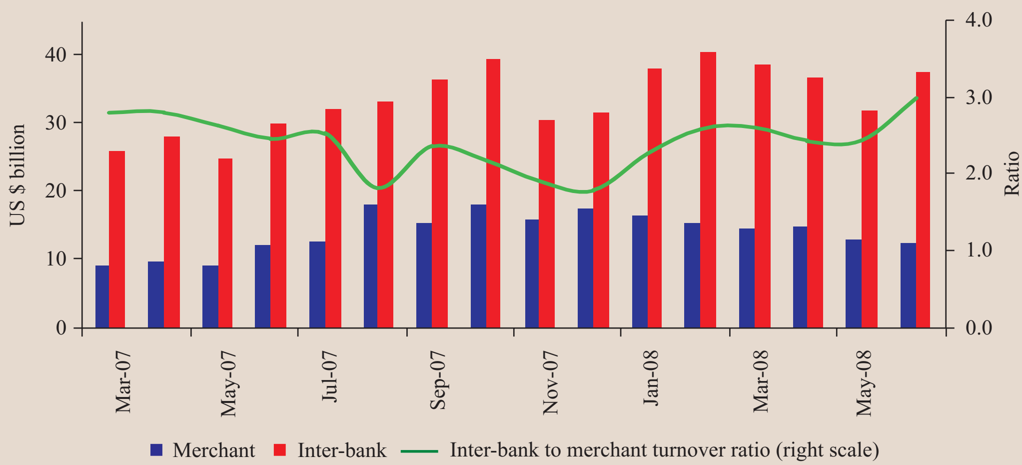


Table 47: Deposit and Lending Rates

(Per cent)

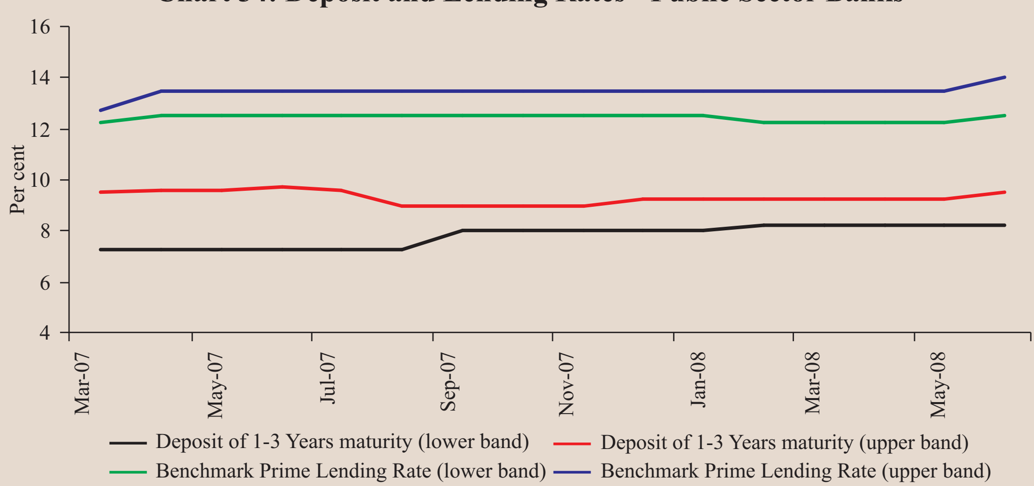
Item	March 2006	March 2007	March 2008	June 2008	July 2008 #
1	2	3	4	5	6
1. Domestic Deposit Rate					
Public Sector Banks					
Up to 1 year	2.25-6.50	2.75-8.75	2.75-8.50	2.75-9.00	2.75-9.25
More than 1 year and up to 3 years	5.75-6.75	7.25-9.50	8.25-9.25	8.25-9.50	8.25-9.75
More than 3 years	6.00-7.25	7.50-9.50	8.00-9.00	8.00-9.35	8.50-9.50
Private Sector Banks					
Up to 1 year	3.50-7.25	3.00-9.00	2.50-9.25	3.00-8.75	3.00-9.00
More than 1 year and up to 3 years	5.50-7.75	6.75-9.75	7.25-9.25	8.00-9.50	8.00-10.00
More than 3 years	6.00-7.75	7.75-9.60	7.25-9.75	8.00-10.00	8.00-10.00
Foreign Banks					
Up to 1 year	3.00-6.15	3.00-9.50	2.25-9.25	3.00-9.25	3.25-9.50
More than 1 year and up to 3 years	4.00-6.50	3.50-9.50	3.50-9.75	3.50-9.75	3.50-9.85
More than 3 years	5.50-6.50	4.05-9.50	3.60-9.50	3.60-9.50	3.60-9.85
2. Benchmark Prime Lending Rate					
Public Sector Banks	10.25-11.25	12.25-12.75	12.25-13.50	12.50-14.00	12.75-14.00
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-16.50	13.00-17.00	13.50-17.25
Foreign Banks	10.00-14.50	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	-	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-24.00	-	-
Foreign Banks	4.75-26.00	5.00-26.50	5.00-28.00	-	-
4. Weighted Average Lending Rate	**11.97**	**11.92**	**-**	**-**	**-**

- : Not available. # : As on July 14, 2008.

* : 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.

March 2007 and 15.10 per cent in March 2008 to 15.22 per cent in June 2008. The weighted average BPLR of foreign banks also rose from 12.63 per cent in March 2007 and 13.87 per cent in March 2008 to 14.06 per cent in June 2008.

Chart 34: Deposit and Lending Rates - Public Sector Banks



Government Securities Market

The yields in the Government securities market hardened initially during the first quarter of 2008-09 on the back of rise in inflation. The 10-year yield increased from 7.98 per cent as on April 2, 2008 to 8.24 per cent as on April 24, 2008. Thereafter, the 10-year yield eased below 8.0 per cent as the policy rates were kept unchanged in the Annual Policy Statement for the Year 2008-09, announced on April 29, 2008. Easy liquidity condition on the back of Government spending also contributed to the decline in yields. Subsequently, heightened inflationary expectations emanating from the sharp increase in global commodity prices as well as international crude oil prices led to the hardening of the yields (Chart 35). Tight liquidity conditions due to monetary measures and advance tax flows towards the end of June 2008 also contributed to the rise in yields. The 10-year yield declined in the third week of July 2008 after reaching a peak of 9.51 per cent on July 15, 2008, reflecting easing of international crude oil prices. The 10-year yield closed at 9.03 per cent on July 23, 2008, 110 basis points higher than that at end-March 2008.

The spread between 1-year and 10-year yields was (-)49 basis points at end-June 2008 as compared with 45 basis points at end-March 2008. The spread between 10-year and 30-year yields was 50 basis points at end-June 2008 (47 basis points at end-March 2008). The entire yield curve as on June 30, 2008 shifted up as compared with March 31, 2008 reflecting tightness in liquidity conditions and the consequent rise in money market rates. The yield curve as on June 30, 2008 continued to exhibit flatness beyond 15 years but was marked by dips around 5-year and 10-year tenors, reflecting demand-supply imbalances around these buckets.

Chart 35: Yields on Central Government Securities

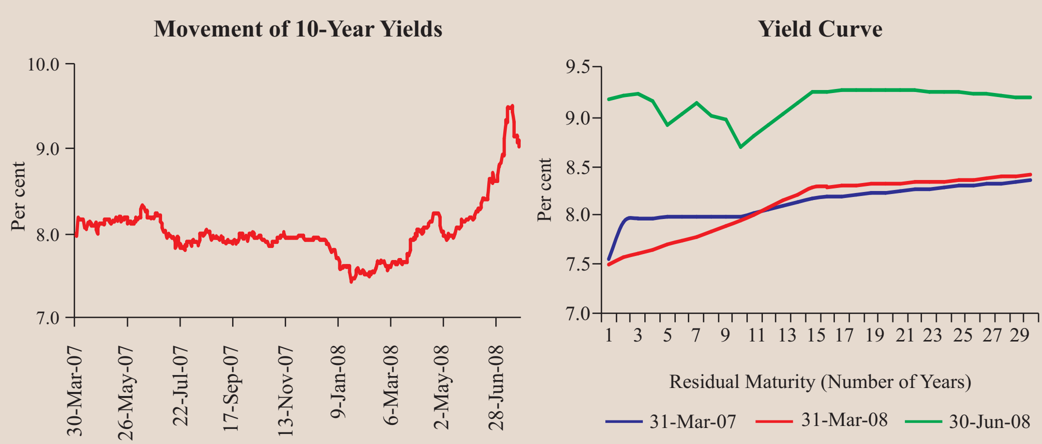
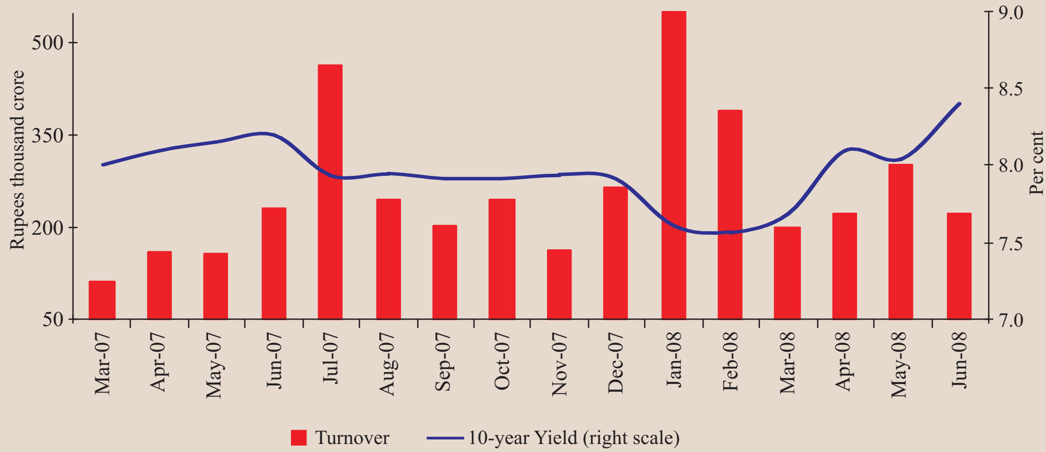


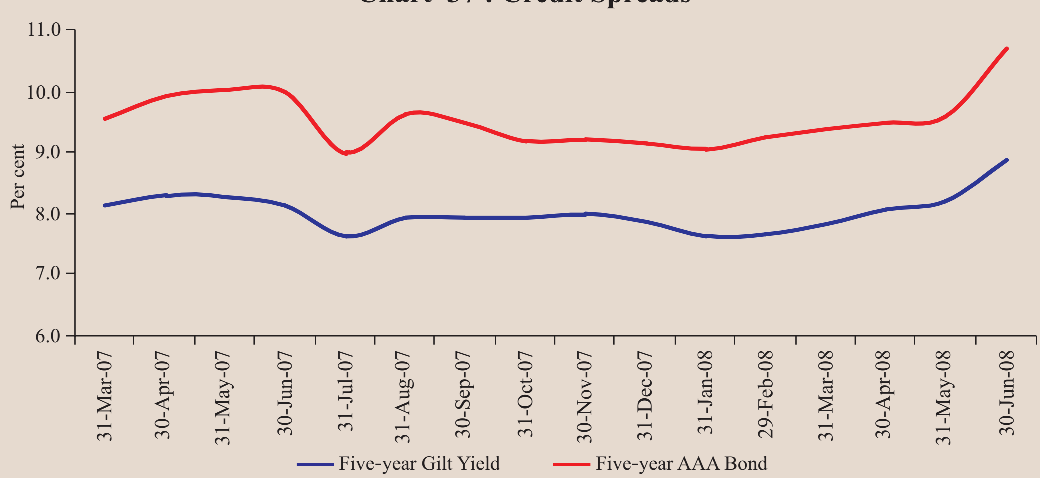
Chart 36: Turnover and Yields in Government Securities Market



The daily turnover in the Government securities market averaged Rs.8,196 crore during April-June 2008, which was 39 per cent lower than that in the preceding quarter (Chart 36).

The yield on 5-year AAA-rated corporate bonds hardened during the first quarter of 2008-09 in tandem with Government securities yield. The spread between the yields on 5-year AAA-rated bonds and 5-year Government securities was 125 basis points at end-June 2008 as compared with 161 basis points at end-March 2008 (Chart 37).

Chart 37 : Credit Spreads



Equity Market

Primary Market

Resources raised through public issues declined by 91.5 per cent to Rs. 2,031 crore during April-June 2008 over those in the corresponding period of last year. The number of issues declined from 24 in April-June 2007 to 15 in April-June 2008 (Table 48). The average size of public issues also declined to Rs.135 crore during April-June 2008 from Rs.994 crore during April-June 2007. All public issues during April-June 2008 were in the form of equity. Out of 15 issues during April-June 2008, 13 issues were initial public offerings (IPOs), accounting for 78.4 per cent of total resource mobilisation.

Mobilisation of resources through private placement increased by 45.7 per cent to Rs.2,12,568 crore during 2007-08 over the previous year. Resources

Table 48: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	April - June 2007		April - June 2008 P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	**23**	**23,324**	**15**	**2,031**
a) Financial	1	10,063	-	-
b) Non-financial	22	13,261	15	2,031
2. Public Sector (a+b+c)	**1**	**527**	**-**	**-**
a) Public Sector Undertakings	1	527	-	-
b) Government Companies	-	-	-	-
c) Banks/Financial Institutions	-	-	-	-
3. Total (1+2)	**24**	**23,851**	**15**	**2,031**
of which:				
(i) Equity	24	23,851	15	2,031
(ii) Debt	-	-	-	-
	2006-07		2007-08 P	
B. Private Placement				
1. Private Sector (a+b)	**1,524**	**81,841**	**1,614**	**1,29,522**
a) Financial	632	48,414	904	88,151
b) Non-financial	892	33,427	710	41,371
2. Public Sector (a+b)	**157**	**64,025**	**198**	**83,046**
a) Financial	127	52,117	132	56,185
b) Non-financial	30	11,908	66	26,861
3. Total (1+2)	**1,681**	**1,45,866**	**1,812**	**2,12,568**
of which:				
(i) Equity	1	57	2	1,410
(ii) Debt	1,680	1,45,809	1,810	2,11,158
	April - June 2007		April - June 2008 P	
C. Euro Issues	**3**	**1,251**	**8**	**4,056**

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

mobilised by private sector entities increased by 58.3 per cent during 2007-08, while those by public sector entities increased by 29.7 per cent. Financial intermediaries (both from public sector and private sector) accounted for the bulk (67.9 per cent) of the total resource mobilisation from the private placement market during 2007-08 (68.9 per cent during 2006-07).

Resources raised through Euro issues – American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) – by Indian corporates during April-June 2008 at Rs.4,056 crore were substantially higher than those during the corresponding period of previous year.

During April-June 2008, net mobilisation of resources by mutual funds declined by 25.3 per cent to Rs.38,437 crore over the corresponding period of 2007 (Table 49). Scheme-wise, during April-June 2008, 90.0 per cent of net mobilisation of funds was under income/debt oriented schemes. Growth-oriented schemes accounted for 7.9 per cent of net resource mobilisation during April-June 2008.

Secondary Market

The domestic stock markets, which remained generally firm up to first week of January 2008, witnessed severe bouts of volatility thereafter due to heightened concerns over the severity of sub-prime lending crisis in the US and its spillover to other market segments and in other countries (Chart 38). The domestic stock markets recovered somewhat during April-May 2008. On May 21, 2008, the BSE Sensex registered gains of 10.2 per cent over end-March 2008. The upward trend was attributed to better than expected fourth quarter results of 2007-08 declared by IT majors, net purchases by FIIs in the Indian equity market, and some easing of international crude oil prices. The market sentiment, however, turned cautious

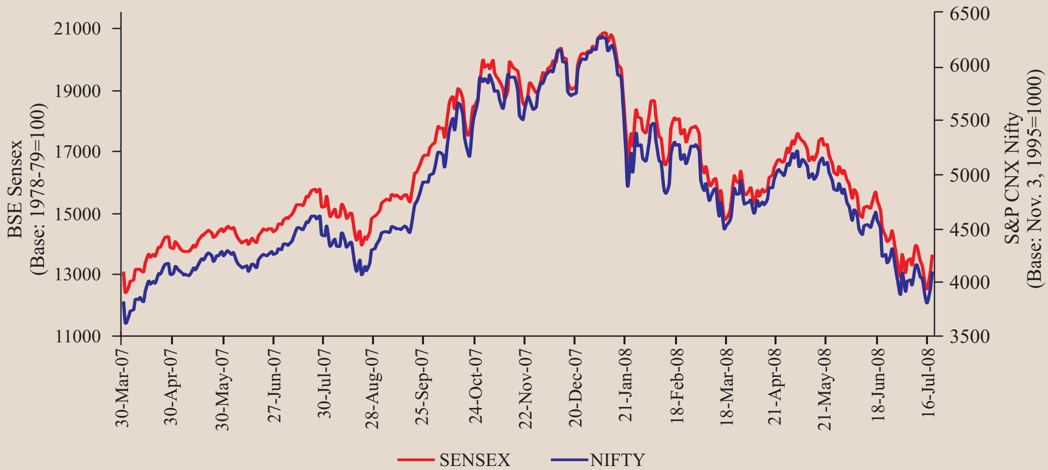
Table 49 : Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	April-March		April-June			
	2007-08		2007-08		2008-09	
	Net Mobilisation@	Net Assets #	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets #
1	2	3	4	5	6	7
Private Sector	1,33,304	4,15,621	48,542	3,29,421	24,264	4,24,821
Public Sector *	20,498	89,531	2,908	71,421	14,173	97,078
Total	**1,53,802**	**5,05,152**	**51,450**	**4,00,842**	**38,437**	**5,21,899**

@: 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.

Chart 38 : Indian Stock Market

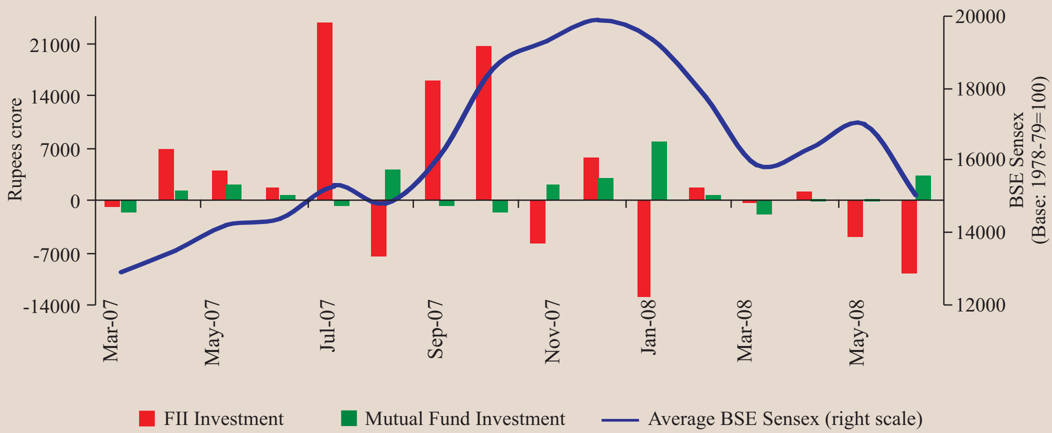


thereafter mainly on account of hike in domestic retail fuel prices, rise in domestic inflation rate, net sales by FIIs in the Indian equity market, concerns over rising trade deficit and depreciation of the rupee, downward trend in major international equity markets, increase in international crude oil prices and other sector and stock specific news. As a result, both the BSE Sensex and the S&P CNX Nifty closed lower at 14942.28 and 4476.80, respectively, on July 23, 2008, registering losses of 4.5 per cent and 5.4 per cent, respectively, over their end-March 2008 level. Between end-March 2008 to July 23, 2008, the BSE Sensex moved in a range of 12576-17600.

According to the data released by the Securities and Exchange Board of India (SEBI), FIIs made net sales of Rs.16,279 crore (US $ 4.0 billion) in the Indian equity market during 2008-09 so far (up to July 17, 2008) as against net purchases of Rs.30,777 crore (US $ 7.4 billion) during the corresponding period of the previous year (Chart 39). Mutual funds, on the other hand, made net purchases of Rs.3,654 crore during 2008-09 so far (up to July 17, 2008) as compared with net purchases of Rs.2,604 crore during the corresponding period of last year.

The sectoral indices witnessed a mixed trend during the current financial year so far (up to July 18, 2008) (Table 50). The losers among the sectoral indices were capital goods, auto, banking, public sector undertakings, metal, fast moving consumer goods, consumer durables and oil and gas, while the gainers were information technology and healthcare sector stocks.

Chart 39 : Institutional Investment and Stock Market



Reflecting the downward trend in stock prices, the price-earnings (P/E) ratio of the 30 scrips included in the BSE Sensex declined from 20.1 at end-March 2008 to 16.5 at end-June 2008. The market capitalisation of the BSE also declined by 14.8 per cent between end-March 2008 and end-June 2008. The volatility in the stock markets, however, increased during April-June 2008 as compared with the corresponding period of last year. The turnover of both BSE and NSE in the cash segment during April-June 2008 was higher by 38.2 per cent than the corresponding period of 2007 (Table 51).

Table 50: BSE Sectoral Stock Indices

(Base: 1978-79=100)

Sector	Variation (per cent)			
	End-March 2007 @	End-March 2008 @	End-June 2008 #	July 18, 2008 #
1	2	3	4	5
Fast Moving Consumer Goods	-21.4	31.7	-9.2	-12.8
Public Sector Undertakings	-3.2	25.4	-23.7	-17.6
Information Technology	21.6	-27.6	13.3	0.9
Auto	-8.5	-7.1	-20.8	-20.4
Oil and Gas	30.5	56.0	-10.1	-7.8
Metal	-4.3	65.2	-5.8	-16.8
Health Care	-5.4	5.4	8.2	3.7
Bankex	24.2	18.0	-23.3	-19.8
Capital Goods	11.1	54.4	-28.0	-20.4
Consumer Durables	11.1	8.8	-10.4	-10.8
BSE 500	9.7	24.3	-15.3	-15.5
BSE Sensex	15.9	19.7	-14.0	-12.8

@: Year-on-year variation. #: Variation over end-March 2008.

Source: Bombay Stock Exchange Limited.

Table 51: Stock Market Indicators

Indicator	BSE				NSE			
	2006-07	2007-08	April-June		2006-07	2007-08	April-June	
			2007	2008			2007	2008
1	2	3	4	5	6	7	8	9
1. BSE Sensex / S&P CNX Nifty								
(i) End-period	13072	15644	14651	13462	3822	4735	4318	4041
(ii) Average	12277	16569	13998	16060	3572	4897	4121	4793
2. Coefficient of Variation	11.1	13.7	3.6	6.3	10.4	14.4	3.9	6.1
3. Price-Earning Ratio (end-period)*	20.3	20.1	21.1	16.5	18.4	20.6	20.6	17.3
4. Price-Book Value Ratio*	5.1	5.2	4.9	3.6	4.9	5.1	5.4	4.0
5. Yield* (per cent per annum)	1.3	1.0	1.1	1.3	1.3	1.1	1.1	1.4
6. Listed Companies	4,821	4,887	4,842	4,909	1,228	1,381	1,283	1,407
7. Cash Segment Turnover (Rupees crore)	9,56,185	15,78,856	2,72,782	3,50,729	19,45,285	35,51,038	5,69,800	8,13,578
8. Derivative Segment Turnover (Rupees crore)	59,007	2,42,308	50,357	10,474	73,56,242	1,30,90,478	21,46,272	26,48,403
9. Market Capitalisation (Rupees crore) @	35,45,041	51,38,014	41,68,272	43,75,021	33,67,350	48,58,122	39,78,381	41,03,651
10. Market Capitalisation to GDP Ratio (per cent)	85.5	109.5	88.8	93.2	81.2	103.5	84.8	87.4

* : Based on 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty. @: As at 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 remained comfortable during 2007-08, notwithstanding a sharp increase in merchandise trade deficit on account of sustained demand for non-oil imports and escalation in international crude oil prices. Net surplus under invisibles remained buoyant, led by high growth in private transfers and software exports, thereby offsetting a significant part of the trade deficit. Consequently, the current account deficit was contained at 1.5 per cent of GDP during the year. Net capital inflows increased substantially during 2007-08, led by foreign direct investment, portfolio investments and external commercial borrowings (ECBs). Outward foreign direct investment increased, reflecting the global expansion by Indian companies. Significantly larger net capital inflows over the current account deficit resulted in an accretion of US $ 110.5 billion to the foreign exchange reserves during 2007-08 (US $ 47.6 billion during 2006-07).

International Developments

The global economy expanded by 5.0 per cent in 2007 as against 5.1 per cent in 2006. After a stronger than expected growth in the third quarter of 2007, most of the advanced economies recorded a sharp deceleration in their growth towards the end of the year 2007 driven mainly by the financial crisis which spread beyond the US sub-prime mortgage market (Table 52). According to the projections released by the International Monetary Fund (IMF) in July 2008, the slowdown in global growth, which started in the middle of last year, is expected to continue through the second half of 2008, with only a gradual recovery during 2009. However, the fears of a significant slowdown did not come true in the first quarter of 2008. Countries/regions like Euro area, the US and Korea registered more or less same growth rates in the first quarter of 2008 as in the previous quarter. The UK and the Japanese economy exhibited deceleration in the first quarter of 2008. In contrast, emerging and developing economies continued to grow above trend despite some slackening of growth rates in the first quarter of 2008.

The IMF has projected the US economy to grow by 1.3 per cent in 2008 (2.2 per cent in 2007). The US growth prospects, according to the IMF, would hinge upon the future course of the housing correction, extent of financial sector dislocation, and the ensuing impact on household and business finances.

Table 52: Growth Rates - Global Scenario

(Per cent)

Region/Country	2006	2007	2008P	2009P	2007				2008
					Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9	10
Advanced Economies									
Euro area	2.8	2.6	1.7	1.2	3.0	2.5	2.7	2.2	2.1
Japan	2.4	2.1	1.5	1.5	2.6	1.6	1.9	2.0	1.3
Korea	5.1	5.0	4.2	4.4	4.0	5.0	5.2	5.7	5.8
UK	2.9	3.1	1.8	1.7	3.0	3.1	3.3	2.8	2.5
US	2.9	2.2	1.3	0.8	1.9	1.9	2.8	2.5	2.5
OECD Countries	3.1	2.7	1.8	1.7	2.8	2.5	3.0	2.7	2.6
Emerging Economies									
Argentina	8.5	8.7	7.0	4.5	8.0	8.7	8.7	9.1	8.4
Brazil	3.8	5.4	4.9	4.0	4.3	5.4	5.7	6.2	5.8
China	11.6	11.9	9.7	9.8	11.1	11.9	11.5	11.2	10.6
India	9.6	9.0	8.0	8.0	9.7	9.2	9.3	8.8	8.8
Indonesia	5.5	6.3	6.1	6.3	6.0	6.3	6.5	6.3	6.3
Malaysia	5.9	6.3	5.0	5.3	5.3	5.7	6.7	7.3	7.1
Thailand	5.1	4.8	5.3	5.6	4.3	4.4	4.9	5.7	6.0

P : IMF Projections.
Note : Data for India in columns 2 and 3 refer to fiscal years 2006-07 and 2007-08, respectively.
Source : International Monetary Fund; The Economist; and the OECD.

The Euro Area is expected to grow by 1.7 per cent in 2008 (2.6 per cent in 2007), while there are increasing concerns that with spillovers from the US, tightening credit conditions and rising risk spreads may have adverse implications for the domestic demand. The growth momentum in Japan is projected to decelerate to 1.5 per cent in 2008 (2.1 per cent in 2007) on account of expected moderation in export growth and consumption. Growth projection for developing Asia by the IMF is placed at 8.4 per cent for 2008 as against 10.0 per cent in 2007 (Table 53). Growth in emerging Asia during the first quarter of 2008 was led by China and India. GDP in China grew by 10.6 per cent in the first quarter of 2008. The IMF has projected that growth in China would moderate to 9.7 per cent in 2008 (11.9 per cent in 2007).

Going forward, the growth in global economy is projected to moderate to 4.1 per cent in 2008 mainly on account of expected slowdown in most of the advanced economies, particularly the US. The overall balance of risks to the short-term global growth outlook remains tilted to the downside. Interaction between negative financial shocks and the domestic demand remains a serious downside risk for the US and to some extent in Western Europe and elsewhere. However, there is some upside potential for projected domestic demand in emerging economies. The emerging market and developing economies are

Table 53 : Select Economic Indicators - World

Item	2002	2003	2004	2005	2006	2007	2008P	2009P
1	2	3	4	5	6	7	8	9
I. World Output (Per cent change) #	2.8	3.6	4.9	4.4	5.1	5.0	4.1	3.9
	(1.9)	(2.6)	(4.0)	(3.4)	(3.9)	(3.7)	(2.6)	(2.6)
i) Advanced Economies	1.6	1.9	3.2	2.6	3.0	2.7	1.7	1.4
ii) Other Emerging Market and Developing Countries	4.7	6.2	7.5	7.1	7.9	8.0	6.9	6.7
of which: Developing Asia	6.9	8.1	8.6	9.0	9.9	10.0	8.4	8.4
II. Consumer Price Inflation (Per cent)								
i) Advanced Economies	1.5	1.8	2.0	2.3	2.4	2.2	3.4	2.3
ii) Other Emerging Market and Developing Countries	6.7	6.6	5.9	5.7	5.4	6.4	9.1	7.4
of which: Developing Asia	2.0	2.5	4.1	3.8	4.1	5.3	5.9	4.1
III. Net Capital Flows* (US $ billion)								
i) Net Private Capital Flows (a+b+c)**	89.8	168.6	241.9	251.8	231.9	605.0	330.7	441.5
a) Net Private Direct Investment	157.2	166.2	188.7	259.8	250.1	309.9	306.9	322.4
b) Net Private Portfolio Investment	-92.2	-13.2	16.4	-19.4	-103.8	48.5	-72.2	31.0
c) Net Other Private Capital Flows	25.1	17.1	38.5	13.3	87.5	248.8	98.0	90.0
ii) Net Official Flows	-0.6	-50.0	-70.7	-109.9	-160.0	-149.0	-162.3	-149.8
IV. World Trade @								
i) Volume	3.5	5.4	10.7	7.6	9.2	6.8	5.6	5.8
ii) Price Deflator	1.1	10.4	9.6	5.5	4.9	8.2	8.6	1.1
V. Current Account Balance (Per cent to GDP)								
i) US	-4.4	-4.8	-5.5	-6.1	-6.2	-5.3	-4.3	-4.2
ii) China	2.4	2.8	3.6	7.2	9.4	11.1	9.8	10.0
iii) Middle East	4.8	8.3	11.8	19.7	20.9	19.8	23.0	19.4

P : IMF Projections.
\# : Growth rates are based on exchange rates at purchasing power parities. Figures in parentheses are growth rates at market exchange rates.
* : Net capital flows to emerging market and developing countries.
** : 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.
Source : World Economic Outlook, April 2008; World Economic Outlook Update, July 2008, International Monetary Fund.

expected to remain the key factor in supporting the global economy and in cushioning global downturns mainly because of their limited direct exposure to sub-prime related securities. Consumption activity supported domestic demand in other emerging Asian economies while export growth began to show some signs of moderation. The strength of domestic demand in the region combined with rising food and energy prices, however, led to the build-up of inflationary pressures in a number of countries in emerging Asia. Apart from the possibility of further credit crunch, downside risks to global growth, therefore, include contagion from the likely US recession, increased inflationary pressures driven by rising food and energy prices, and persisting global imbalances.

According to the IMF, growth in world trade is expected to moderate to 5.6 per cent in volume terms in 2008 from 6.8 per cent in 2007 (see Table 53). Exports of other emerging market and developing countries are projected to grow by 7.1 per cent in 2008 (8.9 per cent a year ago), while those of advanced countries are expected to grow by 4.5 per cent (5.8 per cent a year ago).

World merchandise exports (in US dollar terms) in the first quarter of 2008 (January-March) recorded a growth of 22.9 per cent, as against 13.2 per cent a year ago. Emerging and developing economies recorded a growth of 26.0 per cent, showing a sharp rise from 13.0 per cent a year ago. Exports from industrial countries grew at an accelerated rate of 20.4 per cent in January-March 2008, as compared with 13.5 per cent in January-March 2007 (Table 54).

Balance of Payments: 2007-08

According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports recorded a growth of 25.8 per cent during 2007-08 as compared with 22.6 per cent during 2006-07. Growth of India's imports accelerated to 29.0 per cent in 2007-08 from 24.5 per cent in 2006-07 (Chart 40).

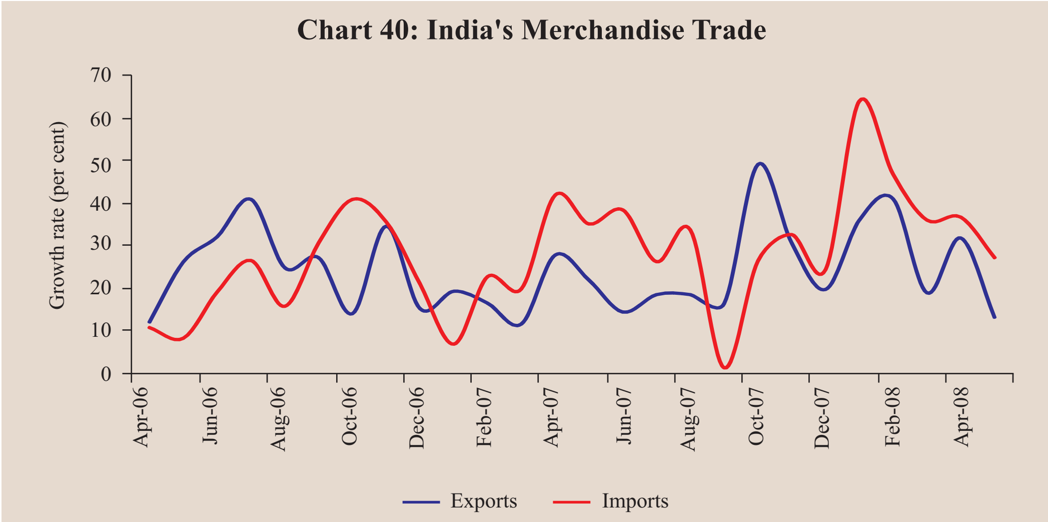
Commodity-wise data on India's merchandise exports for 2007-08 showed an accelerated growth in primary products and manufactured products

Table 54: Growth in Exports - Global Scenario

(Per cent)

Region / Country	2006	2007	2007-Q1	2008-Q1
1	2	3	4	5
World	**15.3**	**15.0**	**13.2**	**22.9**
Industrial Countries	**12.4**	**13.6**	**13.5**	**20.4**
Emerging and Developing Economies	**19.1**	**16.8**	**13.0**	**26.0**
China	27.2	25.6	27.8	21.3
France	9.9	12.0	10.3	22.9
Germany	14.7	18.5	21.2	20.9
India	21.4	20.3	15.2	33.8
Indonesia	18.3	16.8	9.7	34.2
Japan	9.2	9.2	5.4	28.7
Korea	14.4	14.2	14.6	17.4
Malaysia	14.0	9.6	7.6	19.1
Singapore	18.4	10.1	9.9	21.3
Thailand	18.5	16.8	17.2	21.3
US	14.7	12.2	10.8	17.1

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



(Table 55). Agriculture and allied products, engineering goods, gems and jewellery, and petroleum products were the main contributors of export growth during 2007-08. Within primary products, exports of agriculture and allied products showed a sharp increase of 42.4 per cent (24.2 per cent a year ago). Exports of manufactured goods increased by 19.1 per cent (17.0 per cent a year ago). Within manufactured goods, gems and jewellery, textiles and textile products, and chemicals and related products recorded higher growth while engineering goods exhibited moderation. Growth in exports of petroleum products during 2007-08 decelerated to 33.1 per cent from 60.5 per cent a year ago.

Table 55: Exports of Principal Commodities

Commodity Group	US $ billion		Variation (per cent)	
	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5
1. Primary Products	**19.7**	**27.1**	**20.2**	**37.5**
of which:				
a) Agriculture and Allied Products	12.7	18.1	24.2	42.4
b) Ores and Minerals	7.0	9.0	13.6	28.6
2. Manufactured Goods	**84.9**	**101.1**	**17.0**	**19.1**
of which:				
a) Chemicals and Related Products	17.3	20.5	17.4	18.0
b) Engineering Goods	29.6	36.7	36.1	24.2
c) Textiles and Textile Products	17.4	19.0	5.9	9.5
d) Gems and Jewellery	16.0	19.7	2.9	23.0
3. Petroleum Products	**18.7**	**24.9**	**60.5**	**33.1**
4. Total Exports	**126.4**	**159.0**	**22.6**	**25.8**
Memo:				
Non-oil Exports	107.7	134.1	17.7	24.6

Source : DGCI&S.

Destination-wise, although the US remained the principal export market, its share declined to 13.0 per cent during 2007-08 from 14.9 per cent a year ago (Table 56). The other major destinations were the UAE (9.7 per cent), China (6.8 per cent), Singapore (4.3 per cent), the UK (4.1 per cent), Hong Kong (4.0 per cent), Germany (3.2 per cent) and the Netherlands (3.0 per cent). During 2007-08, exports to the EU, North America, Eastern Europe and Asian developing countries showed an accelerated growth, while that to OPEC, African developing countries and Latin American developing countries showed deceleration.

Growth in imports of petroleum, oil and lubricants (POL) accelerated to 39.4 per cent during 2007-08 from 30.0 per cent during 2006-07, mainly reflecting the spurt in the Indian basket of international crude oil prices (higher by 27.4 per cent in 2007-08 than 12.0 per during 2006-07). Growth in non-oil imports was placed at 24.4 per cent during 2007-08 (22.2 per cent a year ago) and contributed about 66.8 per cent to the overall import growth.

Commodity wise data on non-oil imports for 2007-08 indicated that gold and silver recorded a lower growth of 21.9 per cent (29.4 per cent during 2006-07). Non-oil imports net of gold and silver increased at an accelerated rate of 24.7 per cent. The other major non-oil products which recorded accelerated growth in imports were, *inter alia*, edible oil, pearls, precious and semi-precious stones and chemicals. Capital goods imports recorded a growth of 24.1 per cent, marginally lower than that of 2006-07 (Table 57).

Source-wise, China was the principal source of imports, constituting 11.3 per cent of total imports (oil *plus* non-oil) during 2007-08. The other major

Table 56: Direction of India's Exports

Group / Country	US $ billion		Variation (per cent)	
	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5
1. OECD Countries	**52.0**	**61.7**	**13.5**	**18.6**
of which:				
a) EU	25.8	32.2	15.1	24.9
b) North America	20.0	22.0	8.7	10.0
US	18.9	20.7	8.7	9.7
2. OPEC	**20.7**	**26.2**	**35.8**	**26.4**
of which:				
UAE	12.0	15.4	40.0	27.7
3. Developing Countries	**50.8**	**67.2**	**27.8**	**32.4**
of which:				
Asia	37.6	50.1	21.4	33.2
People's Republic of China	8.3	10.8	22.7	30.0
Singapore	6.1	6.9	11.9	12.9
4. Total Exports	**126.4**	**159.0**	**22.6**	**25.8**

Source : DGCI&S.

Table 57: Imports of Principal Commodities

Commodity Group	US $ billion		Variation (per cent)	
	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5
Petroleum, Petroleum Products and Related Material	57.1	79.6	30.0	39.4
Edible Oil	2.1	2.6	4.2	21.3
Iron and Steel	6.4	8.7	40.5	35.2
Capital Goods	47.1	58.4	25.0	24.1
Pearls, Precious and Semi-Precious Stones	7.5	8.0	-18.0	6.5
Chemicals	7.8	9.9	12.1	26.2
Gold and Silver	14.6	17.8	29.4	21.9
Total Imports	185.7	239.7	24.5	29.0
Memo:				
Non-oil Imports	128.6	160.0	22.3	24.4
Non-oil Imports excluding Gold and Silver	114.0	142.2	21.4	24.7
Mainly Industrial Inputs*	104.7	130.0	19.6	24.2

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

Source : DGCI&S.

sources were Saudi Arabia (8.1 per cent), the UAE (5.6 per cent), the US (5.5 per cent), Iran (4.6 per cent), Switzerland (4.1 per cent), Germany (4.0 per cent) and Singapore (3.4 per cent).

India's merchandise trade deficit, on a balance of payments basis, widened from US $ 63.2 billion in 2006-07 to US $ 90.1 billion in 2007-08. As proportion to GDP, the trade deficit increased from 6.9 per cent to 7.7 per cent.

Current Account

Net surplus under invisibles (services, transfers and income taken together) expanded to US $ 72.7 billion in 2007-08 (US $ 53.4 billion in 2006-07), reflecting mainly the rise in remittances from overseas Indians, large receipts from software exports, higher interest income on reserves and relatively moderate decline in payments of business services (Table 58). Growth in invisible receipts at 26.2 per cent during 2007-08 was broadly comparable with that of 28.3 per cent in 2006-07, mainly due to the momentum maintained in the growth of software services exports, travel, transportation, along with the steady inflow of remittances from overseas Indians. Invisible payments grew by 17.7 per cent in 2007-08 (29.3 per cent in 2006-07), reflecting the major payments on account of travel, transportation, business and management consultancy, engineering and other technical services, dividend, profit and interest. The moderation in growth rate of invisible payments during 2007-08 was mainly due to moderate payments relating to a number of business and professional services.

Table 58: Invisibles Account (Net)

(US $ million)

Item	2006-07PR April-March	2007-08P April-March	2006-07PR Jan.-March	2007-08 April-June PR	2007-08 July-Sept.PR	2007-08 Oct.-Dec.PR	2007-08 Jan.-Mar.P
1	2	3	4	5	6	7	8
Services	31,810	37,550	10,079	8,729	7,608	10,430	10,783
Travel	2,438	2,118	1,251	207	145	905	861
Transportation	-18	-2,107	230	-587	-649	-293	-578
Insurance	560	543	198	185	36	191	131
Government not included elsewhere	-153	-51	-43	-16	-62	16	11
Software	29,033	37,051	8,775	8,040	7,667	9,257	12,087
Other Services	-50	-4	-332	900	471	354	-1,729
Transfers	28,168	41,017	8,463	7,518	9,265	10,866	13,368
Investment Income	-6,018	-5,239	-1,284	-1,719	-1,142	-1,161	-1,217
Compensation of Employees	-555	-671	-136	-128	-201	-160	-182
Total	**53,405**	**72,657**	**17,122**	**14,400**	**15,530**	**19,975**	**22,752**

PR : Partially Revised. P : Preliminary.

During 2007-08, the widening of the trade deficit mainly led by imports, resulted in a widening of current account deficit to US $ 17.4 billion (1.5 per cent of GDP) from US $ 9.8 billion (1.1 per cent of GDP) in 2006-07, notwithstanding a large net surplus in the invisible account (6.2 per cent of GDP in 2007-08 as against 5.8 per cent in 2006-07) (Table 59 and Chart 41). The net invisible surplus offset 80.7 per cent of the trade deficit during 2007-08 as compared to 84.5 per cent during 2006-07. Net of remittances, the current account deficit was US $ 58.2 billion or 5.0 per cent of GDP during 2007-08 (US $ 37.7 billion and 4.1 per cent of GDP in 2006-07).

Capital Flows

Capital inflows to India, both debt and non-debt, remained large during 2007-08. Within non-debt flows, FDI inflows at US $ 32.4 billion during 2007-08 (US $ 22.1 billion in 2006-07) reflected the continued strength of sustained domestic activity and positive investment climate. FDI inflows were channeled mainly into financial, manufacturing and construction sectors. Country-wise details of FDI flows revealed the continued predominance of Mauritius as the major investor in India. Net outward FDI were US $ 16.8 billion during 2007-08 (US $ 13.5 billion in 2006-07), reflecting the expansion by Indian companies in global markets (Table 60).

Table 59: India's Balance of Payments

(US $ million)

Item	2006-07 PR	2007-08P	2006-07PR	2007-08 P			
	April-March		Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-March
1	2	3	4	5	6	7	8
Exports	1,28,083	158,461	35,700	35,752	37,595	42,284	42,830
Import	1,91,254	248,521	48,570	56,453	58,069	67,376	66,623
Trade Balance	-63,171	-90,060	-12,870	-20,701	-20,474	-25,092	-23,793
	(-6.9)	(-7.7)					
Invisible Receipts	1,15,074	145,257	35,715	29,100	32,322	38,764	45,071
Invisible Payments	61,669	72,600	18,593	14,700	16,792	18,789	22,319
Invisibles, net	53,405	72,657	17,122	14,400	15,530	19,975	22,752
	(5.8)	(6.2)					
Current Account	-9,766	-17,403	4,252	-6,301	-4,944	-5,117	-1,041
	(-1.1)	(-1.5)					
Capital Account (net)*	46,372	109,567	16,200	17,501	34,180	31,855	26,031
of which:							
Foreign Direct Investment	8,479	15,545	899	2,658	2,808	3,729	6,350
Portfolio Investment	7,062	29,261	1,849	7,458	10,876	14,662	-3,735
External Commercial Borrowings +	16,155	22,165	6,343	6,990	4,136	6,212	4,827
Short Term Trade Credit	6,612	17,683	934	1,804	4,886	4,691	6,302
External Assistance	1,767	2,114	764	241	468	565	840
NRI Deposits	4,321	179	648	-447	369	-853	1,110
Change in Reserves #	-36,606	-92,164	-20,452	-11,200	-29,236	-26,738	-24,990
Memo:							
Current Account	**-37,707**	**-58,181**	**-4,167**	**-13,832**	**-14,162**	**-15,909**	**-14,278**
net of Private Transfers	**(-4.1)**	**(-5.0)**					

PR : Partially Revised. P : Preliminary

* : Includes errors and omissions. + : Medium and long-term borrowings.

: On a balance of payments basis (excluding valuation); (-) indicates increase.

Note : Figures in parentheses are percentages to GDP

Foreign institutional investors (FIIs) made net purchases in the Indian stock market during 2007-08, despite net outflows during August, November,

Chart 41 : Movement in Current Account Balance

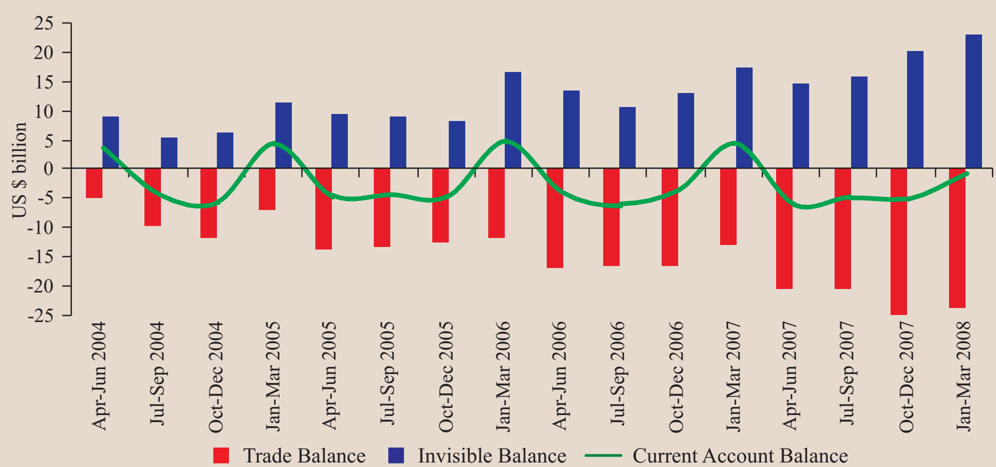


Table 60: Capital Flows

(US $ million)

	2006-07	2007-08	2007-08 April-May	2008-09 April-May
1	2	3	4	5
Foreign Direct Investment into India	22,079	32,435	3,763	7,681
Foreign Direct Investment abroad	-13,512	-16,782	..	..
FIIs (net)	3,225	20,328	8,417 *	-5,648 *
ADRs/GDRs	3,776	8,769	16	998
External Assistance (net)	1,767	2,114	..	..
External Commercial Borrowings (net) (Medium and long-term)	16,155	22,165	..	..
Short-term Trade Credit (net)	6,612	17,683	..	..
Non-NRI Banking Capital (net)	-2,408	11,578	..	..
NRI Deposits (net)	4,321	179	-559	292
Other Capital	3,953	9,627	..	..

* : Up to July 11, 2008.

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 in Chapter V.

February and March. The large FII inflows (net) in 2007-08 at US $ 20.3 billion as against US $ 3.2 billion in 2006-07 also reflected increased participation of FIIs in the primary market. Reflecting the buoyant stock markets, the resources mobilised by the Indian companies through their global offerings of ADRs/GDRs abroad also remained large amounting to US $ 8.8 billion in 2007-08 (US $ 3.8 billion in 2006-07).

Among debt flows, the inflows (net) under external commercial borrowings were higher at US $ 22.2 billion during 2007-08 enabled by finer spreads on ECBs and rising financing requirements. Net short term trade credit was at US $ 17.7 billion (inclusive of suppliers' credit up to 180 days) during 2007-08 as against US $ 6.6 billion during the previous year. The significant rise reflected the increased financing requirements of crude oil imports led by higher crude prices. Out of total short-term trade credit, the suppliers' credit up to 180 days amounted to US $ 6.8 billion during 2007-08 (US $ 3.3 billion in 2006-07). NRI deposits recorded a marginal net inflow (US $ 179 million) during 2007-08 as compared with a large inflow of US $ 4.3 billion in 2006-07, on account of prevailing interest rates on such deposits and large withdrawals from the NR(E)RA for domestic use.

With net capital flows being substantially higher than the current account deficit, the overall balance of payments recorded a surplus of US $ 92.2 billion during 2007-08, as compared with a surplus US $ 36.6 billion during 2006-07.

India's foreign exchange reserves were US $ 309.7 billion as at end-March 2008, showing an increase of US $ 110.5 billion over end-March 2007. The increase in reserves was mainly due to an increase in foreign currency assets. Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for US $ 18.3 billion in total reserves during 2007-08 as against a valuation gain of US $ 11.0 billion during the previous year.

External Debt

India's total external debt was placed at US $ 221.2 billion at end-March 2008, recording an increase of US $ 51.5 billion (30.4 per cent) over end-March 2007 (Table 61). The increase in external debt during the period was mainly on account of higher external commercial borrowings, followed by higher short-term trade credit. This was mainly due to financing requirements of Indian companies arising on account of technological upgradation and capacity expansion. Furthermore, out of the increase of US $ 51.5 billion in external debt during the year 2007-08, valuation effect reflecting the depreciation of the

Table 61: India's External Debt

(US $ million)

Item	End-March 2005	End-March 2006	End-March 2007	End-June 2007	End-Sept. 2007	End-Dec. 2007	End-March 2008
1	2	3	4	5	6	7	8
1. Multilateral	31,744	32,620	35,337	36,058	37,068	37,944	39,312
2. Bilateral	17,034	15,761	16,061	15,841	16,774	17,269	19,613
3. International Monetary Fund	0	0	0	0	0	0	0
4. Trade Credit (above 1 year)	5,022	5,420	7,051	7,441	8,202	8,887	10,267
5. External Commercial Borrowings	26,405	26,452	41,657	47,918	52,123	57,012	62,019
6. NRI Deposit	32,743	36,282	41,240	42,603	43,679	43,034	43,672
7. Rupee Debt	2,302	2,059	1,947	2,023	2,071	2,097	2,016
8. Long-term (1 to 7)	115,250	118,594	143,293	151,884	159,917	166,243	176,899
9. Short-term	17,723	19,539	26,376	28,295	33,276	38,229	44,313
Total (8+9)	132,973	138,133	169,669	180,179	193,193	204,472	221,212
Memo :							(per cent)
Total debt/GDP	18.6	17.2	17.8	..	..	..	18.8
Short-term/Total debt	13.3	14.1	15.5	15.7	17.2	18.7	20.0
Short-term debt/Reserves	12.5	12.9	13.2	13.3	13.4	13.9	14.3
Concessional debt/Total debt	30.9	28.6	23.3	21.9	21.1	20.2	19.9
Reserves/ Total debt	106.4	109.8	117.4	118.4	128.2	134.6	140.0
Debt Service Ratio	6.1	9.9	4.8	4.6	5.6	5.9	5.4

.. : Not available.

US dollar against other major international currencies and Indian rupee accounted for US $ 9.9 billion of the increase. Suppliers' credits up to 180 days maturity and investment by foreign institutional investors in short-term debt instruments have been included in short-term debt of India for the period since March 2005. The short-term debt outstanding increased to US $ 44.3 billion at end-March 2008 from US $ 26.4 billion at end-March 2007, accounting for 34.8 per cent of the total increase in external debt. The US dollar remained the leading currency in which India's external debt was denominated, accounting for about 57.1 per cent of total debt.

Debt sustainability indicators remained at comfortable levels during 2007-08. The external debt to GDP ratio rose to 18.8 per cent at end-March 2008 from 17.8 per cent at end-March 2007; this ratio was 30.8 per cent at end-March 1995. The debt service ratio was placed at 5.4 per cent during 2007-08 as against 4.8 per cent during 2006-07. Reflecting the rise in short term debt during 2007-08, the ratio of short-term to total debt and short term debt to reserves increased to 20.0 per cent and 14.3 per cent, respectively. India's foreign exchange reserves exceeded the external debt by US $ 88.5 billion providing a cover of 140.0 per cent to the external debt stock at end-March 2008.

International Investment Position

India's net international liabilities increased by US $ 11.6 billion between end-March 2007 and end-December 2007, as the increase in international liabilities (US $ 98.0 billion) exceeded the increase in international assets (US $ 86.4 billion) (Table 62). Whereas the increase in international liabilities was mainly on account of increased inflows under external commercial borrowings, foreign direct investment and portfolio investment, the increase in international assets was attributed to the increase in reserve assets and direct investment abroad. The major part of country's external financial assets was in the form of reserve assets constituting around 83.0 per cent, followed by direct investment and other investment accounting for 11.7 per cent and 5.1 per cent, respectively, at end-December 2007. Around 44.1 per cent of country's external financial liabilities were in the form of other investment in India (trade credits, loans, currency and deposits and other liabilities), followed by portfolio investment at 30.7 per cent and direct investment at 25.2 per cent.

Table 62: International Investment Position of India

(US $ billion)

Item	March 2006 PR	March 2007 PR	June 2007 PR	September 2007P	December 2007P
1	2	3	4	5	6
A. Assets	**184.0**	**245.3**	**261.4**	**299.8**	**331.7**
	(22.9)	**(25.8)**	**..**	**..**	**..**
1. Direct Investment	15.9	29.4	34.0	35.4	38.9
2. Portfolio Investment	1.0	0.8	0.8	0.6	0.6
2.1 Equity Securities	0.5	0.4	0.4	0.4	0.4
2.2 Debt securities	0.5	0.4	0.4	0.2	0.2
3. Other Investment	15.5	15.9	13.2	16.0	16.9
3.1 Trade Credits	-0.3	0.6	-1.0	1.2	2.4
3.2 Loans	2.4	3.0	2.0	3.8	3.1
3.3 Currency and Deposits	10.0	8.1	8.1	6.6	6.9
3.4 Other Assets	3.4	4.2	4.1	4.4	4.5
4. Reserve Assets	151.6	199.2	213.4	247.8	275.3
	(18.9)	(20.9)	..		..
B. Liabilities	**243.7**	**307.7**	**341.7**	**372.5**	**405.6**
	(30.4)	**(32.4)**	**..**	**..**	**..**
1. Direct Investment	52.4	76.2	88.1	94.4	102.4
	(6.5)	(8.0)	..	..	..
2. Portfolio Investment	64.2	79.5	93.8	108.5	124.5
	(8.0)	(8.4)	..	..	..
2.1 Equity Securities	54.7	63.3	75.2	88.2	103.5
2.2 Debt securities	9.5	16.1	18.6	20.3	21.0
3. Other Investment	127.1	152.0	159.8	169.6	178.7
	(15.8)	(16.0)	..	..	..
3.1 Trade Credits	21.2	27.7	29.1	32.4	36.1
3.2 Loans	68.0	80.9	85.7	90.9	97.2
3.3 Currency and Deposits	37.3	42.3	43.8	44.8	44.1
3.4 Other Liabilities	0.6	1.1	1.2	1.5	1.3
C. Net Position (A-B)	**-59.7**	**-62.4**	**-80.3**	**-72.7**	**-73.9**
	(-7.4)	(-6.6)	..	..	..

PR: Partially Revised. P: Provisional. .. : Not available.

Note: Figures in parentheses are percentages to GDP.

Developments during 2008-09

According to DGCI&S data, India's merchandise exports posted a growth of 21.7 per cent during April-May 2008 (24.2 per cent during April-May 2007). Imports grew at 31.8 per cent as compared with 37.9 per cent a year ago. Petroleum, oil and lubricants (POL) imports grew by 48.6 per cent during April-May 2008 as against 25.7 per cent in April-May 2007, largely due to the spurt in international crude oil prices. Non-oil imports at US $ 32.3 billion recorded a growth of 24.6 per cent (43.8 per cent a year ago). Merchandise trade deficit

Table 63: India's Merchandise Trade

(US $ billion)

Item	2006-07	2007-08	2007-08	2008-09
			April-May	
1	2	3	4	5
Exports	126.4	159.0	23.1	28.2
Imports	185.7	239.7	37.1	48.8
Oil	57.1	79.6	11.1	16.5
Non-oil	128.6	160.0	26.0	32.3
Trade Balance	-59.4	-80.7	-13.9	-20.7
Non-Oil Trade Balance	-20.9	-25.9	-7.1	..
				Variation (per cent)
Exports	22.6	25.8	24.2	21.7
Imports	24.5	29.0	37.9	31.8
Oil	30.0	39.4	25.7	48.6
Non-oil	22.2	24.4	43.8	24.6

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

during April-May 2008 increased to US $ 20.7 billion from US $ 13.9 billion a year ago (Table 63).

Available information on capital flows indicates that the strong momentum observed in FDI inflows during the year 2007-08 continued during 2008-09 so far, with inflows during April-May 2008 amounting to US $ 7.7 billion. In respect of FIIs, however, there were net outflows of US $ 5.6 billion up to July 11, 2008. NRI deposits recorded net inflows of US $ 292 million during April-May 2008 as against net outflows of US $ 559 million during April-May 2007 (see Table 60).

As on July 18, 2008, India's foreign exchange reserves amounted to US $ 307.1 billion, showing a decline of US $ 2.6 billion over end-March 2008 level, on account of the decrease in foreign currency assets and the decline in the value of gold. As at end-May 2008, the outstanding net forward purchases of US dollar by the Reserve Bank were US $ 15.5 billion (Table 64).

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 size of external sector in the economy and the size of risk-adjusted capital flows.

Table 64: Foreign Exchange Reserves

(US $ million)

Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)	*Memo :* Outstanding Net Forward Sales (-) / Purchase (+) of US dollar by the Reserve Bank at the end of the month
1	2	3	4	5	6	7
March 2000	2,974	4	35,058	658	38,694	(-) 675
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	(+) 4,990
November 2007	8,357	3	264,725	435	273,520	(+) 7,553
December 2007	8,328	3	266,553	432	275,316	(+) 8,238
January 2008	9,199	9	283,595	437	293,240	(+) 16,629
February 2008	9,558	-	291,250	427	301,235	(+) 16,178
March 2008	10,039	18	299,230	436	309,723	(+) 14,735
April 2008	9,427	18	304,225	485	314,155	(+) 17,095
May 2008	9,202	11	304,875	526	314,614	(+) 15,470
June 2008	9,208	11	302,340	528	312,087	..
July 2008*	9,208	11	297,371	517	307,107	..

* : As on July 18, 2008.

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