Macroeconomic and Monetary Developments

Mid-Term Review 2008-09

Reserve Bank of India
Mumbai

Contents

I. THE REAL ECONOMY

The Indian economy continued to record robust growth during the first quarter of 2008-09 (April-June), although the pace of expansion moderated in comparison with the average growth rate of real GDP during last five years. According to the first quarter estimates of 2008-09 released by the Central Statistical Organisation (CSO) in August 2008, real GDP growth was placed at 7.9 per cent during the first quarter of 2008-09 as compared with 9.2 per cent during the corresponding quarter of previous year and 9.0 per cent during 2007-08. The deceleration was spread across all the three sectors, *viz.*, agriculture and allied activities, industry and services (Table 1 and Chart 1). The growth rate of real GDP during the last five

Table 1: Growth Rates of Real GDP @

(Per cent)

Sector	2000-01 to 2007-08 (Average)	2005-06	2006-07*	2007-08#	2007-08 Q1	2007-08 Q2	2007-08 Q3	2007-08 Q4	2008-09 Q1
1	2	3	4	5	6	7	8	9	10
1. Agriculture and Allied Activities	**2.9 (20.9)**	**5.9 (19.6)**	**3.8 (18.5)**	**4.5 (17.8)**	**4.4**	**4.7**	**6.0**	**2.9**	**3.0**
2. Industry	**7.1 (19.6)**	**8.0 (19.4)**	**10.6 (19.5)**	**8.1 (19.4)**	**9.6**	**8.6**	**8.6**	**5.8**	**5.2**
2.1 Mining and Quarrying	4.9	4.9	5.7	4.7	1.7	5.5	5.7	5.9	4.8
2.2 Manufacturing	7.8	9.0	12.0	8.8	10.9	9.2	9.6	5.8	5.6
2.3 Electricity, Gas and Water Supply	4.8	4.7	6.0	6.3	7.9	6.9	4.8	5.6	2.6
3. Services	**9.0 (59.6)**	**11.0 (61.1)**	**11.2 (61.9)**	**10.7 (62.9)**	**10.6**	**10.7**	**10.0**	**11.4**	**10.2**
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	10.3	11.5	11.8	12.0	13.1	11.0	11.5	12.4	11.2
3.2 Financing, Insurance, Real Estate and Business Services	8.8	11.4	13.9	11.8	12.6	12.4	11.9	10.5	9.3
3.3 Community, Social and Personal services	5.8	7.2	6.9	7.3	5.2	7.7	6.2	9.5	8.4
3.4 Construction	10.6	16.5	12.0	9.8	7.7	11.8	7.1	12.6	11.4
4. Real GDP at Factor Cost	**7.3 (100)**	**9.4 (100)**	**9.6 (100)**	**9.0 (100)**	**9.2**	**9.3**	**8.8**	**8.8**	**7.9**
Memo:									(Amount in Rupees crore)
a) Real GDP at Factor Cost (1999-2000 prices)		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.

years (2003-04 to 2007-08) averaged 8.8 per cent. The moderation during the first quarter of 2008-09 reflected a cyclical downturn, while the structural drivers of the growth process continued to be favourable. Notwithstanding the moderation, the growth rate of the Indian economy continuous to be one of the highest in the world.

Agricultural Situation

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 was near normal. Monsoon covered the entire country by July 10, 2008, five days ahead of the normal schedule of July 15. Rainfall during this year's monsoon (June 1 to September 30) has been near normal, with rainfall over the entire country amounting to two per cent below normal as against five per cent above normal during the corresponding period of the previous year (Table 2). Out of the 36 meteorological sub-divisions, 32 received excess/normal rainfall this year as compared with 30 last year. As on October 1, 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 74 per cent of the full reservoir level (FRL) as compared with 79 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 was at 66 per cent.

As on October 10, 2008, area sown under all *kharif* crops at all-India level was placed at 100.9 million hectares as compared with 103.6 million hectares during the corresponding period of the previous year. While area sown under rice and

Table 2: Rainfall - South-West Monsoon (June-September 2008)

Year	Cumulative Rainfall# (per cent)	Spatial Distribution (Number of Meteorological Sub-Divisions)			
		Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain
1	2	3	4	5	6
1998	6	12	21	3	0
1999	-4	3	26	7	0
2000	-8	5	23	8	0
2001	-8	1	30	5	0
2002	-19	1	14	19	2
2003	2	7	26	3	0
2004	-13	0	23	13	0
2005	-1	9	23	4	0
2006	-1	6	20	10	0
2007	5	13	17	6	0
2008	-2	2	30	4	0

\# : Percentage deviation from long period average rainfall with (-) indicating below normal rainfall.

Excess : +20% or more Normal : +19% to -19% Deficient : -20% to -59%

Scanty : -60% to -99% No Rain : -100%

Source : India Meteorological Department.

oilseeds increased, that sown under coarse cereals, pulses, sugarcane and cotton declined due to floods in some parts of the country and weak spell of rainfall during June/July, particularly in Maharashtra and Karnataka (Table 3).

The Ministry of Agriculture has set target for foodgrains production for 2008-09 at 233.0 million tonnes. According to the First Advance Estimates, the *kharif* foodgrains production during 2008-09 at 115.3 million tonnes is likely to be

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

(Million hectares)

Crop	Normal Area	Area Coverage (as on October 10)		
		2007	2008	Variation
1	2	3	4	5
Rice	39.1	37.1	38.2	1.1
Coarse Cereals	22.7	21.1	19.8	-1.4
of which:				
Bajra	9.2	8.3	7.8	-0.5
Jowar	4.2	3.4	2.9	-0.5
Maize	6.4	7.4	7.1	-0.2
Total Pulses	10.9	12.3	10.4	-1.9
Total Oilseeds	15.9	17.7	18.3	0.6
of which:				
Groundnut	5.4	5.4	5.3	-0.1
Soyabean	7.3	8.8	9.6	0.9
Sugarcane	4.1	5.3	4.4	-0.9
Cotton	8.4	9.2	9.1	-0.1
All Crops	**101.9**	**103.6**	**100.9**	**-2.7**

Source : Ministry of Agriculture, Government of India.

lower than that of the previous year by 4.7 per cent (Table 4). The decline in foodgrains production could be attributed to a fall in the production of both pulses (27.7 per cent) and the coarse cereals (13.6 per cent). However, rice production is expected to exhibit a marginal improvement over the previous year. Among the commercial crops, while the output of sugarcane (13.5 per cent), oilseeds (9.6 per cent), cotton (8.0 per cent) are expected to witness a significant decline, the production of jute and mesta is expected to witness a marginal loss as compared to the previous year.

Food Management

The procurement of foodgrains (rice and wheat) during 2008-09 (up to October 20, 2008) aggregated 34.1 million tonnes, 65.7 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

Table 4: Agricultural Production

(Million tonnes)

Crop	2004-05	2005-06	2006-07	2007-08@	2008-09	
					Target	Achievement @@
1	2	3	4	5	6	7
Rice	83.1	91.8	93.4	96.4	97.0	
Kharif	72.2	78.3	80.2	82.8	83.0	83.3
Rabi	10.9	13.5	13.2	13.6	14.0	
Wheat	68.6	69.4	75.8	78.4	78.5	
Coarse Cereals	33.5	34.1	33.9	40.7	42.0	
Kharif	26.4	26.7	25.6	31.7	32.6	27.4
Rabi	7.1	7.3	8.3	9.0	9.4	
Pulses	13.1	13.4	14.2	15.1	15.5	
Kharif	4.7	4.9	4.8	6.5	5.9	4.7
Rabi	8.4	8.5	9.4	8.7	9.6	
Total Foodgrains	198.4	208.6	217.3	230.7	233.0	
Kharif	103.3	109.9	110.6	121.0	121.5	115.3
Rabi	95.1	98.7	106.7	109.7	111.5	
Total Oilseeds	24.4	28.0	24.3	28.8	31.8	
Kharif	14.1	16.8	14.0	19.8	20.0	17.9
Rabi	10.2	11.2	10.3	9.0	11.8	
Sugarcane	237.1	281.2	355.5	340.6	340.0	294.7
Cotton #	16.4	18.5	22.6	25.8	26.0	23.9
Jute and Mesta ##	10.3	10.8	11.3	11.2	11.0	11.1

@ : Fourth Advance Estimates as on July 9, 2008.
@@ : First Advance Estimates for 2008-09.
\# : 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	26.7	9.2	35.9	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	11.5	22.6	34.1	11.2	0.9	0.0	0.0	12.1	..	
				(9.5)	(11.1)	(20.6)	(11.1)	(1.2)	(0.0)	(0.0)	(12.3)		
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	0.2	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	2.7	0.0	0.0	0.0	2.8	30.7	16.2
May	12.9	17.7	30.7	2.1	8.8	10.9	3.0	0.2	0.0	0.0	3.1	36.4	
June	12.1	24.1	36.4	1.2	0.9	2.2	3.0	0.2	0.0	0.0	3.1	36.3	
July	11.3	24.9	36.3	0.1	0.2	0.3	2.8	0.3	0.0	0.0	3.1	34.3	26.9
August	9.8	24.4	34.3	0.8	0.0	0.8	..	..	..	..	..	..	
September	..	..	..	1.4	0.0	1.4	..	..	..	..	..	..	
October*	..	..	..	4.9	0.0	4.9	..	..	..	..	..	..	16.2

PDS: Public Distribution System. OWS: Other Welfare Schemes. OMS : Open Market Sales. .. : Not Available.

@ : Procurement up to October 20, 2008 and offtake up to July 31, 2008.

* : Procurement up to October 20, 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.

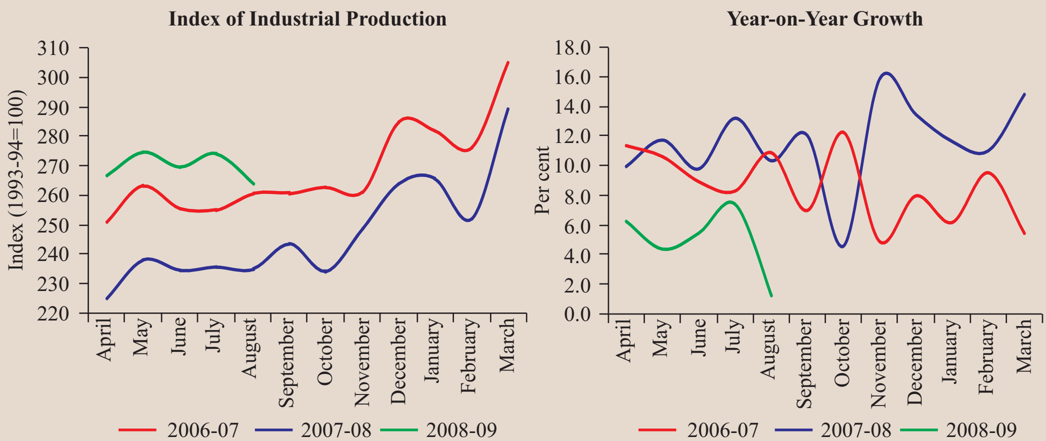
2. Figures in parentheses indicate procurement/offtake of foodgrains during the corresponding period of 2007-08.

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.

2008-09 so far (up to July 31, 2008) at 12.1 million tonnes was marginally lower than that during the corresponding period of the previous year. The total stocks of foodgrains with the Food Corporation of India (FCI) and other Government agencies were at around 34.3 million tonnes as on August 1, 2008, which were higher by 61.8 per cent than that a year ago. The stocks of both rice (9.8 million tonnes) and

Chart 2: Industrial Production



wheat (24.4 million tonnes) were higher than their norms (9.8 million tonnes and 17.1 million tonnes, respectively) for July 1, 2008.

Industrial Performance

The industrial production decelerated during April-August 2008-09, with the year-on-year expansion being 4.9 per cent as against 10.0 per cent during April-August 2007-08 (Chart 2 and Table 6). The deceleration was on account of a lower growth in both the manufacturing and electricity sectors. According to the

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-August			April-August	
1	2	3	4	5	6	7	8
Sectoral							
Mining	10.5	5.1	4.9	4.1	4.2	3.4	5.4
Manufacturing	79.4	9.0	10.6	5.2	89.5	89.3	90.7
Electricity	10.2	6.3	8.3	2.3	6.3	7.3	3.9
Use-Based							
Basic Goods	35.6	7.0	9.9	3.8	24.7	29.8	23.0
Capital Goods	9.3	18.0	20.1	9.2	25.0	22.0	22.3
Intermediate Goods	26.5	8.9	9.9	0.7	27.4	26.8	3.8
Consumer Goods (a+b)	28.7	6.1	6.7	7.8	22.9	21.5	49.4
a) Consumer Durables	5.4	-1.0	-2.3	5.6	-1.0	-1.9	8.6
b) Consumer Non-durables	23.3	8.5	10.0	8.6	24.0	23.5	40.8
General	**100.0**	**8.5**	**10.0**	**4.9**	**100.0**	**100.0**	**100.0**

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

data on Index of Industrial Production (IIP), manufacturing recorded growth of 5.2 per cent during April-August 2008-09 as compared with 10.6 per cent during the corresponding period of the previous year. The electricity sector slowed down sharply to 2.3 per cent - the lowest growth in 1993-94 series for April-August period - on account of deceleration in power generation in thermal and decline in power generation in nuclear and hydro-power plants. The mining sector also decelerated to 4.1 per cent during the period from 4.9 per cent during April-August 2007-08.

The slowdown in the growth of manufacturing was on account of 13 industry groups, with a combined weight of 67.8 per cent in the IIP, recording decelerated/ negative growth during April-August 2008-09 (Table 7). While some industry groups

Table 7: Growth of Manufacturing Groups

(Per cent)

	Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution #		
			2007-08	2007-08 April-August	2008-09 P April-August	2007-08	2007-08 April-August	2008-09 P April-August
1		2	3	4	5	6	7	8
1	Food products	9.08	7.0	16.0	-2.1	6.3	9.3	-2.4
2	Beverages, tobacco and related products	2.38	12.0	9.2	25.1	6.8	4.6	23.3
3	Cotton textiles	5.52	4.3	7.4	0.2	2.0	3.0	0.1
4	Wool, silk and man-made fibre textiles	2.26	4.8	5.6	-1.2	1.5	1.6	-0.6
5	Jute and other vegetable fibre textiles (except cotton)	0.59	33.0	28.0	-7.4	0.9	0.7	-0.4
6	Textile products (including wearing apparel)	2.54	3.7	5.2	5.8	1.4	1.8	3.5
7	Wood and wood products, furniture & fixtures	2.70	40.5	86.5	-10.5	5.3	7.8	-3.0
8	Paper and paper products and printing, publishing and allied Industries	2.65	2.7	0.5	1.8	0.9	0.2	0.9
9	Leather and leather & fur products	1.14	11.7	9.7	1.0	1.1	0.8	0.1
10	Chemicals and chemical products (except products of petroleum & coal)	14.00	10.6	9.5	7.5	22.4	18.3	26.8
11	Rubber, plastic, petroleum and coal products	5.73	8.9	12.4	-4.1	6.1	7.5	-4.8
12	Non-metallic mineral products	4.40	5.7	7.4	1.2	4.1	4.7	1.4
13	Basic metal and alloy industries	7.45	12.1	20.3	6.4	13.4	18.1	11.6
14	Metal products and parts (except machinery and equipment)	2.81	-5.6	1.4	-1.2	-1.5	0.3	-0.4
15	Machinery and equipment other than transport equipment	9.57	10.5	14.8	8.4	19.0	21.8	24.1
16	Transport equipment and parts	3.98	2.9	2.0	13.0	2.3	1.3	14.8
17	Other manufacturing industries	2.56	19.8	8.2	-4.1	8.0	2.9	-2.7
	Manufacturing - Total	**79.36**	**9.0**	**10.6**	**5.2**	**100.0**	**100.0**	**100.0**

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

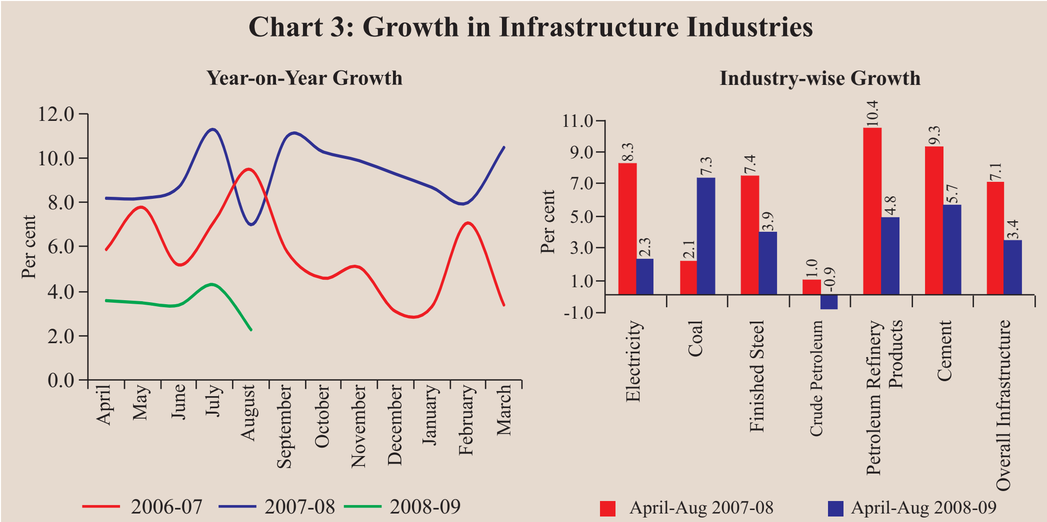
such as 'wool, silk and man-made fibre textiles', 'metal products and parts', 'rubber, plastic, petroleum and coal products', 'other manufacturing industries', 'jute and other vegetable fibre textiles', 'food products' and 'wood and wood products' recorded decline in production, others such as 'leather and leather and fur products', 'machinery and equipment', 'chemicals and chemical products', 'basic metal and alloy industries', 'non-metallic mineral products', and 'cotton textiles' recorded decelerated growth.

In terms of use-based classification of the IIP, all the sectors, except consumer durables, recorded decelerated growth. The basic goods sector decelerated sharply to 3.8 per cent during April-August 2008-09 from 9.9 per cent during April-August 2007-08, mainly due to decline in production of phosphatic fertilisers, and certain steel and aluminium products. Decline in production of some yarns, particle board, corrugated boxes, *etc.*, contributed to the subdued growth of the intermediate goods sector.

The capital goods sector growth was impacted by the lacklustre performance of machinery and equipments, and computer systems and peripherals during the period. The growth of the consumer goods sector recorded a marginal acceleration due to a turnaround in the consumer durables sector. The turnaround in the growth of consumer durables sector occurred primarily on account of strong growth in motor cycle, passenger cars, two wheeler tyres and metal utensils. The consumer non-durables segment moderated during April-August 2008-09 on account of base-effect and decline in production of sugar, wheat flour/maida, and certain edible oils.

Infrastructure

The core sector recorded a lower growth of 3.4 per cent during April-August 2008-09 as compared with 7.1 per cent during April-August 2007-08 (Chart 3). Sharp deceleration in the electricity sector and subdued performance of petroleum refinery products adversely affected the growth of infrastructure during April-August 2008-09. The coal sector, on the other hand, posted higher growth. The cement and steel sectors recorded decelerated growth due to capacity constraints. The production of the crude oil sector declined during April-August 2008-09 due to decline in production in the oil fields of ONGC Ltd. on account of monsoon rains, shortage of input equipments and power shutdowns. The production of the petroleum refinery sector decelerated sharply on account of base-effect and dismal performance of some of public sector refineries.



Services Sector

The services sector recorded double-digit growth during the first quarter of 2008-09, although the growth rate moderated. With this, the services sector recorded double-digit growth for the fourteen consecutive quarters. The deceleration in growth was mainly on account of lower growth witnessed by 'trade, hotels, restaurants, transport, storage and communication' and 'financing, insurance, real estate and business services' sub-sectors during the quarter. The 'construction' and 'community, social and personal services' sub-sectors, however, recorded higher year-on-year 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
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
2008-09 : Q1	0.8	3.0	1.4	1.1	6.4

Source : Central Statistical Organisation.

The lead indicators of services sector activity for 2008-09, so far suggest acceleration in growth in respect of railway revenue earning freight traffic, commercial vehicles production and export cargo handled by civil aviation during April-July 2008-09 as compared with April-July 2007-08. On the other hand, growth decelerated in respect of cargo handled at major ports and other indicators of civil aviation excluding export cargo. Some deceleration was also observed in production of cement and steel during April-August 2008-09, which are among the important leading indicators of the construction industry (Table 9).

Aggregate Demand

The share of total final consumption expenditure at 70.1 per cent during the first quarter of 2008-09 was the same as that during the first quarter of 2007-08. The share of real gross fixed capital formation (GFCF) increased marginally to 32.3 per cent in the first quarter of 2008-09 as compared with 32.0 per cent in the corresponding period of 2007-08 (Table 10).

Corporate Performance

Sales by the corporate sector grew at a higher rate during the first quarter of 2008-09 in comparison with that of the first quarter of 2007-08. However, growth in net profits in the first quarter of 2008-09 was significantly lower as

Table 9: Indicators of Service Sector Activity

(Growth rates in per cent)

Sub-sector	2006-07	2007-08	2007-08	2008-09
			April-July	
1	2	3	4	5
Tourist arrivals	13.0	12.2	12.1 @	8.9 @
Commercial vehicles production#	33.0	4.8	3.4*	8.9*
Railway revenue earning freight traffic	9.2	9.0	6.1	9.4
New cell phone connections	85.4	38.3	57.6	31.0
Cargo handled at major ports	9.5	11.9	14.9	8.3
Civil aviation				
a) Export cargo handled	3.6	7.5	3.6	8.1
b) Import cargo handled	19.4	19.7	23.4	6.6
c) Passengers handled at international terminals	12.1	11.9	11.8	7.9
d) Passengers handled at domestic terminals	34.0	20.6	27.3	-2.2
Cement**	9.1	8.1	9.3 *	5.7 *
Steel**	13.1	5.1	7.4 *	3.9 *
Aggregate deposits of SCBs	23.8	22.4	10.0 @@	7.7 @@
Non-food credit of SCBs	28.5	23.0	6.1 @@	7.8 @@

@ : April-September. # : Leading Indicator for transportation. * : April-August.
** : Leading indicators for construction. @@ : Up to September 26.
SCBs : Scheduled Commercial Banks.
Source : Ministry of Tourism; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation; The Reserve Bank of India; and Centre for Monitoring Indian Economy.

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

(Rates as per cent of GDP at Market Prices)

Item	2006-07*	2007-08#	2007-08				2008-09
			Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
1. Total Final Consumption Expenditure	68.4	67.8	70.1	68.2	69.0	64.6	70.1
(i) Private Final Consumption Expenditure	58.6	58.2	59.8	59.5	60.7	53.4	59.8
(ii) Government Final Consumption Expenditure	9.8	9.6	10.3	8.7	8.3	11.2	10.3
2. Gross Fixed Capital Formation	30.6	31.9	32.0	33.4	31.0	31.6	32.3
3. Change in Stocks	2.1	2.0	2.1	2.1	1.9	1.9	2.1
4. Valuables	1.2	1.3	1.2	1.3	1.4	1.1	1.3
5. Exports	20.6	20.3	23.8	16.8	19.0	21.6	26.3
6. Less: Imports	24.7	24.4	24.9	24.8	25.4	22.8	28.0
7. Discrepancies	1.8	1.1	-4.3	3.1	3.0	1.9	-4.1
Memo:							(Rupees crore)
Real GDP at market prices	31,17,372	33,98,767	7,69,871	7,88,514	8,99,098	9,41,283	8,30,681

* : Provisional Estimates. # : Quick Estimates.

Source : Central Statistical Organisation.

compared with that of first quarter of 2007-08 and double digit growth rates recorded in the previous quarters (Table 11). The net profits grew by 8.2 per cent as against 33.9 per cent in first quarter of 2007-08. Increase in expenditure on account of rising input and staff costs in the past few quarters exerted pressure on profits. Interest payments also rose sharply by 59.7 per cent reflecting the general hardening of interest rates.

Business Expectation Surveys

According to the quarterly business expectations survey of the National Council of Applied Economic Research (NCAER) released in July 2008, the overall business confidence index (BCI) for the next six months has declined (Table 12). Despite the lower overall business confidence, sales and growth in output were expected to show a positive growth. A component-wise analysis shows that all the four components of BCI, *viz.*, overall economic conditions, investment climate, financial position of firms and capacity utilisation declined over the previous round. All five constituting sectors of the BCI, *viz.*, consumer goods (durables and non-durables), intermediates, capital goods and services declined sharply over the previous period.

Table 11: Corporate Sector - Financial Performance

(Growth rates in per cent)

Item	2005-06	2006-07	2007-08	2007-08				2008-09
				Q 1	Q 2	Q 3	Q 4	Q 1
1	2	3	4	5	6	7	8	9
Sales	17.9	26.5	18.3	19.2	16.0	18.0	20.6	30.0
Other Income	19.7	31.3	46.2	106.7	45.2	70.2	28.5	2.6
Expenditure	18.9	24.7	18.4	18.0	15.3	18.9	23.3	34.5
Depreciation	11.6	17.2	14.8	18.1	15.8	17.9	15.4	15.2
Gross profits	20.5	44.7	22.8	31.9	22.5	20.4	16.8	13.1
Interest payments	1.7	24.9	28.8	4.4	18.4	45.7	35.8	59.7
Profits after tax	28.2	44.0	26.2	33.9	22.7	29.4	14.1	8.2
				Select Ratios				(Per cent)
Gross Profits to Sales	12.4	14.2	16.3	16.7	16.3	16.2	15.0	14.6
Profits After Tax to Sales	8.4	9.6	11.8	11.6	11.5	12.2	10.3	9.9
Interest to Sales	2.3	2.3	2.2	2.0	2.1	2.5	2.2	2.4
Interest to Gross Profits	18.6	16.1	13.8	11.8	12.8	15.3	14.6	16.7
Interest Coverage (Times)	5.4	6.2	7.3	8.5	7.8	6.5	6.8	6.0
Memo:								(Amount in Rupees crore)
No of Companies	3,016	3,016	2,359	2,342	2,228	2,329	2,357	2,315
Sales	9,32,524	11,80,089	11,41,711	2,80,814	2,97,110	3,06,238	3,50,917	3,56,498
Other Income *	40,901	53,722	30,958	9,151	8,057	9,221	10,082	8,108
Expenditure #	8,34,079	10,40,205	9,56,930	2,37,698	2,49,194	2,57,472	3,02,105	3,10,320
Depreciation Provision	38,886	45,558	40,664	10,173	10,576	10,961	11,805	11,413
Gross Profits	1,16,362	1,68,351	1,86,665	46,780	48,296	49,717	52,583	51,985
Interest Payments	21,652	27,050	25,677	5,504	6,194	7,609	7,703	8,698
Profits After Tax	78,520	1,13,081	1,34,291	32,699	34,266	37,470	36,109	35,270

* : Other income excludes extra 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 and 2006-07 are based on audited balance sheets, while those for 2007-08 and 2008-09 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.

According to the latest (October 2008) business confidence survey conducted by Federation of Indian Chambers of Commerce and Industry (FICCI), the overall

Table 12: Business Expectations Surveys

(Per cent)

Organisation	Business Expectations		Growth over a year ago	Growth over previous round
	Period	Index		
1	2	3	4	5
NCAER	July-December 2008	Business Confidence Index	-8.8	-15.4
FICCI	July-December 2008	Expectation Index	-20.3	-5.1
RBI	October-December 2008	Business Expectation Index	-4.4	-2.6
Dun & Bradstreet	July-September 2008	Business Optimism Index	-28.1	1.8

business confidence index during April-June 2008 declined by 5.1 per cent over the previous quarter on account of rise in interest rates and stricter credit availability. The FICCI's expectation index for July-December 2008 also declined by 5.1 per cent over the previous quarter and 20.3 per cent over the previous year.

The composite business optimism index for October-December 2008 compiled by Dun and Bradstreet (D&B) increased by 1.8 per cent as compared with the previous quarter, while it declined by 28.1 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 corresponding quarter of the previous year. 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, the business expectations indices based on assessment for July-September 2008 and on expectations for October-December 2008 declined by 2.4 per cent and 2.6 per cent, respectively, over the corresponding previous quarters. Similar trend was observed in these indices when compared over the corresponding quarters of the previous year (Chart 4).

During the period under review, the confidence of manufacturing corporates has declined for major indicators, such as, overall business situation, financial situation, availability of finance, production, order books and profit margins (Table 13).

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

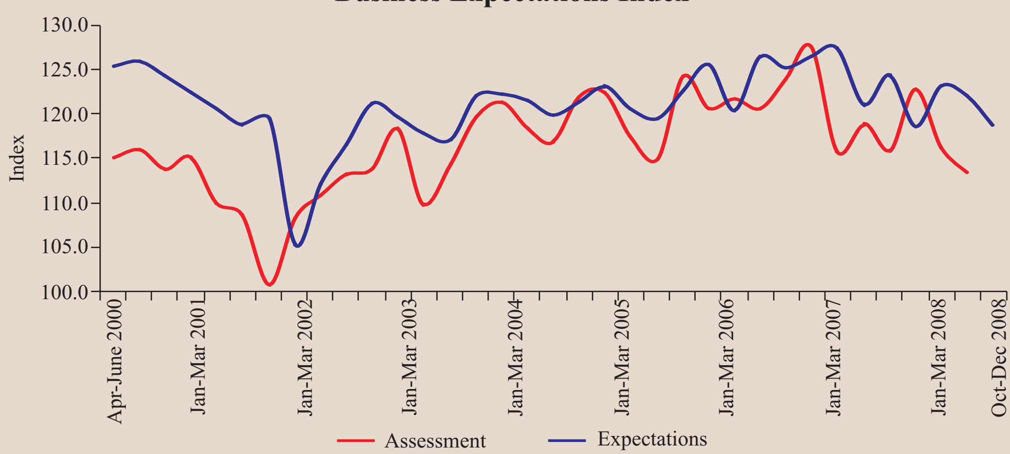


Table 13: Reserve Bank's Industrial Outlook Survey - Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance

(Per cent)

Parameter	Response	July-Sept 2007	Oct-Dec 2007	Jan-Mar 2008	April-June 2008	July-Sept 2008	Oct-Dec 2008
1	2	3	4	5	6	7	8
1. Overall business situation	Better	49.5 (41.2)	50.2 (42.1)	47.7 (42.9)	46.0 (42.7)	41.8 (42.6)	33.7 (44.1)
2. Financial situation	Better	41.3 (49.8)	40.1 (51.3)	40.3 (50.3)	36.6 (51.6)	32.7 (53.0)	27.7 (52.5)
3. Working capital finance requirement	Increase	34.5 (59.2)	32.2 (62.6)	34.7 (60.3)	36.6 (56.5)	33.6 (57.3)	33.8 (57.7)
4. Availability of finance	Improve	32.1 (58.6)	33.8 (58.8)	31.1 (59.5)	32.3 (58.3)	30.2 (57.9)	23.3 (59.0)
5. Production	Increase	46.6 (41.1)	49.0 (40.9)	43.9 (42.3)	45.2 (41.0)	43.5 (36.6)	39.8 (42.1)
6. Order books	Increase	43.6 (46.1)	44.1 (46.0)	37.1 (48.6)	41.5 (44.3)	38.5 (43.5)	35.7 (46.1)
7. Pending orders, if applicable	Below normal	-2.2 (82.6)	-3.5 (82.4)	0.4 (80.2)	-4.3 (81.3)	2.2 (80.9)	4.6 (82.0)
8. Cost of raw material	Decrease	-46.0 (49.7)	-42.4 (51.0)	-44.1 (49.2)	-48.2 (46.0)	-54.7 (39.1)	-61.1 (32.3)
9. Inventory of raw material	Below average	-5.4 (85.0)	-6.3 (85.0)	-7.3 (84.8)	-7.0 (83.2)	-3.8 (81.8)	-7.6 (77.6)
10. Inventory of finished goods	Below average	-2.7 (87.1)	-3.5 (86.4)	-4.5 (86.1)	-5.8 (84.5)	-1.5 (84.5)	-4.3 (82.6)
11. Capacity utilisation (Main product)	Increase	27.0 (61.4)	28.4 (61.5)	24.2 (62.3)	25.6 (59.9)	22.2 (58.8)	26.4 (56.0)
12. Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	9.4 (76.5)	10.7 (77.2)	6.4 (78.3)	9.4 (77.0)	3.6 (74.9)	-0.5 (78.7)
13. Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	3.0 (82.2)	4.2 (83.0)	4.7 (83.8)	8.0 (81.2)	4.6 (81.3)	5.7 (81.7)
14. Employment in the company	Increase	17.4 (73.5)	16.7 (74.1)	14.6 (75.6)	20.8 (68.2)	15.8 (71.5)	16.6 (70.4)
15. Exports, if applicable	Increase	32.6 (55.6)	31.4 (55.9)	24.3 (58.3)	27.7 (53.3)	27.7 (54.9)	27.3 (54.3)
16. Imports, if any	Increase	23.7 (68.2)	20.8 (68.6)	20.1 (70.5)	25.3 (65.6)	21.3 (66.5)	21.4 (67.9)
17. Selling prices are expected to	Increase	19.0 (67.1)	13.0 (68.5)	14.9 (67.1)	19.1 (66.0)	21.0 (61.5)	26.2 (57.6)
18. If increase expected in selling prices	Increase at lower rate	10.4 (65.0)	3.7 (58.9)	13.3 (66.7)	9.0 (64.0)	3.0 (61.3)	0.6 (54.7)
19. Profit margin	Increase	7.5 (62.6)	9.6 (59.6)	5.4 (60.0)	7.2 (61.0)	3.8 (59.8)	-3.6 (54.7)

Note : 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.

Increasing raw material prices have added to negative sentiments of the respondents significantly. Higher input costs are expected to affect profit margins significantly during July-December 2008 and, therefore, to protect their profit margins, more corporates may increasingly pass on the price increase to the consumers.

The Centre for monitoring Indian Economy (CMIE) revised their estimate for overall industrial growth downwards to 8.3 per cent from 9.1 per cent for 2008-09. According to the CMIE, the downward revision reflected specific problems faced by certain industries rather than any general industrial slowdown. On the other hand, the growth projections were revised upwards for those industries which performed better than expected during the current financial year so far. Sectors such as electricity, crude oil and petroleum products, according to the CMIE, are likely to show acceleration in growth in the second half of the 2008-09 and push up the overall industrial growth. Furthermore, the CMIE has again raised the issue of inadequacy of the estimates of industrial production (as per the IIP) in capturing the actual production trends.

The ABN-AMRO Purchasing Managers' Index (PMI)[1] for manufacturing for September 2008 was at 57.3, which, though slightly lower than 57.8 in August 2008, suggests improvement in the health of the industry. Business conditions within the Indian manufacturing sector improved in September 2008, driven by growth in both production and new order levels. New orders from both domestic and foreign markets increased in September 2008 on account of strong market demand and successful promotional activities. Overall, the PMI for September shows some improvement in output along with a pick-up in input and output price inflation.

Survey of Professional Forecasters[2]

The results of professional forecasters' survey conducted by the Reserve Bank in September 2008 suggest further moderation in economic activity for 2008-09

[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 the 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.

on the whole (Table 14). The median forecast of real GDP growth for 2008-09 was 7.7 per cent in the fifth round of the survey (September 2008) as compared with 7.9 per cent in the previous round (June 2008). The sectoral growth rate forecasts for the agriculture and services were, however, kept unchanged. The sectoral growth rate forecast for industry was placed at 7.0 per cent as compared with 7.5 per cent in the previous round. The annual growth rate of imports was expected to be 27.2 per cent as compared with 29.5 per cent.

Table 14: Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters

Indicators	Actual 2007-08	2008-09								2009-10	
		Annual		Q2		Q3		Q4		Q1	
		E	L	E	L	E	L	E	L	E	L
1	2	3	4	5	6	7	8	9	10	11	12
1 Real GDP growth rate at factor cost (in per cent)	9.0	7.9	7.7	8.0	7.7	7.7	7.6	7.6	7.6	7.5	7.5
a Agriculture & Allied Activities	4.5	3.0	3.0	3.1	3.0	3.4	2.5	3.1	3.0	3.8	3.0
b. Industry	8.1	7.5	7.0	7.1	6.9	7.0	6.9	7.4	7.5	7.3	7.3
c. Services	10.7	9.5	9.5	9.9	9.5	9.6	9.5	9.6	9.3	9.5	9.4
2 Gross Domestic Saving (per cent of GDP at current market price)	34.8*	35.0	34.8	-	-	-	-	-	-	-	-
3 Gross Domestic Capital Formation (per cent of GDP at current market price)	35.9*	36.3	36.3	36.6	36.3	36.0	36.2	35.8	36.0	36.1	36.0
4 Corporate profit after tax (growth rate in per cent)	26.2	16.0	18.0	20.3	17.4	17.4	17.5	16.0	17.8	19.5	18.0
5 T-Bill 91 days Yield (per cent-end period)	7.1	8.2	8.4	-	-	-	-	-	-	-	-
6 10-year Govt. Securities Yield (per cent-end period)	7.9	8.8	8.5	-	-	-	-	-	-	-	-
7 Export (growth rate in per cent)	23.7	20.0	20.0	-	-	-	-	-	-	-	-
8 Import (Growth rate in per cent)	29.9	29.5	27.2	-	-	-	-	-	-	-	-
9 Trade Balance (US $ billion)	-90.1	-	-	-31.1	-31.0	-32.1	-31.0	-31.1	-29.0	-29.0	-32.0

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

Note : Latest round refers to fifth round for the quarter ended September 2008, while earlier round refers to fourth round for the quarter ended June 2008.

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

Forecasts by various agencies for real GDP growth in 2008-09 are set out in Table 15.

Table 15: 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 #	7.6	4.0	7.2	9.0	Jul-08
	7.9	2.6	7.6	9.7	Apr-08
Confederation of Indian Industries (CII)	above 8	-	-	-	Sep-08
	8.0 -8.5	-	-	-	Mar-08
Citigroup	7.2	2.0	6.1	9.4	Oct-08
	7.5	2.0	6.8	9.6	Aug-08
	7.7	3.0	7.5	9.2	Mar-08
	8.3	3.0	8.0	10.1	Feb-08
Merrill Lynch	7.5	3.0	5.6	9.3	Oct-08
	7.6	3.0	6.3	9.3	Aug-08
	7.9	2.5	7.4	9.6	June-08
	8.2	3.0	7.6	9.9	Mar-08
Centre for Monitoring Indian Economy (CMIE)	8.7	3.2	8.7	10.4	Oct-08
	9.4	3.2	11.1	10.6	Aug-08
	9.5	3.2	11.4	10.6	July-08
	9.1	-	-	-	Feb-08
NCAER@	7.6	2.3	8.2	8.9	Oct-08
	7.8	2.5	8.4	9.1	July-08
	8.1	3.0	8.1	9.7	May-08
	9.1	-	-	-	Feb-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	7.4				Sep-08
	8.0	-	-	-	Apr-08
	8.5	-	-	-	Feb-08
International Monetary Fund *	7.9	-	-	-	Oct-08
	8.0	-	-	-	July-08
	7.9	-	-	-	Apr-08
	8.4	-	-	-	Oct-07
UNCTAD**	7.6				Sep-08
United Nations Organisation	8.2	-	-	-	Jan-08
Economic Advisory Council to Prime Minister	7.7	2.0	7.5	9.6	Aug-08
	8.5	-	-	-	Jan-08
Reserve Bank of India	around 8.0	-	-	-	July-08
	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.
** : United Nations Conference on Trade and Development.

II. FISCAL SITUATION

Combined Government Finances: 2008-09

An overview of the combined finances of the Central and State Governments budgeted for 2008-09 suggests further strengthening of the fiscal consolidation process. The key deficit indicators are budgeted to decline over the revised estimates for 2007-08, both in absolute terms and as percentage of GDP. Primary balance, which turned surplus in 2007-08 (RE), is budgeted to record a higher surplus of 0.8 per cent of GDP in 2008-09 (BE) (Table 16). The improvement in combined finances would primarily reflect the strengthening of the State Governments' finances, the revenue account of which is in surplus, and reduction in the revenue deficit of the Central Government under the rule-based Fiscal Responsibility and Budget Management (FRBM) framework. The buoyant tax receipts are expected to increase the revenue receipts (by 0.4 per cent of GDP in 2008-09), while revenue expenditure as a proportion of GDP would be maintained at the 2007-08 (RE) level. As a result, the combined revenue deficit in 2008-09 is budgeted to decline by 0.4 per cent of GDP. The anticipated

Table 16: Key Fiscal Indicators

(Per cent to GDP)

Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities*
1	2	3	4	5
		Centre		
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		
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	-0.5	2.1	27.4
		Combined		
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	1.3	5.6	77.0
2007-08 RE	-0.3	0.9	5.3	77.0
2008-09 BE	-0.8	0.5	4.6	73.4

RE: Revised Estimates. BE: Budget Estimates.

*: Includes external liabilities at historical exchange rates.

Note : 1. Figures in parentheses relate to provisional accounts.
2. Negative sign indicates surplus.
3. Data in respect of States relate to 28 State Governments and are provisional from 2007-08 onwards.

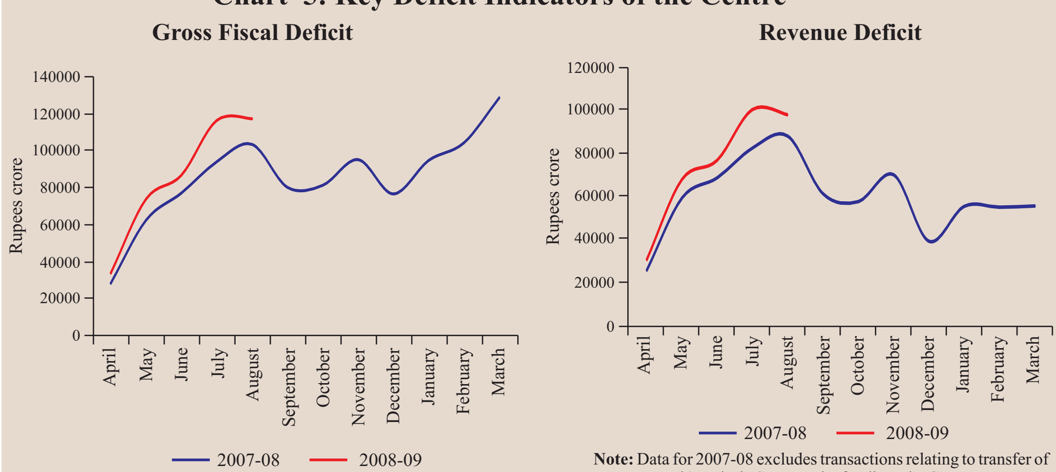
improvement in the revenue account is expected to contribute significantly in bringing down the combined gross fiscal deficit (GFD) by 0.7 per cent of GDP in 2008-09.

Centre's Fiscal Situation: 2008-09

Available information on Central Government finances for the first five months of 2008-09 (April-August) from the Controller General of Accounts indicates that GFD as well as revenue deficit were higher than a year ago (Chart 5). As proportion to GDP, revenue deficit at 1.8 per cent during 2008-09 (April-August) was higher than that of 1.1 per cent in the corresponding period of the preceding year. Adjusting for transfer of profit on sale of Reserve Bank's stake in the State Bank of India (SBI) to the Central Government (included under non-tax revenue[1]), however, revenue deficit as per cent of GDP had constituted 2.0 per cent in April-August 2007. GFD at 2.2 per cent of GDP during April-August 2008 was the same as that of April-August 2007.

An analysis of the pattern of Central Government finances during April-August 2008 shows that despite buoyant net tax revenue which registered a growth of 26.2 per cent during April-August 2008 over the same period of the preceding year, revenue receipts as a proportion of budget estimates were lower than those of the preceding year. However, adjusting for transfer of profit on sale of Reserve Bank's stake in the SBI to the Central Government in 2007, revenue receipts showed a marginal increase over the preceding year. As proportion of budget estimates, revenue expenditure at 39.4 per cent was marginally higher

Chart 5: Key Deficit Indicators of the Centre



Note: Data for 2007-08 excludes transactions relating to transfer of Reserve Bank's stake in State Bank of India to the Government.

[1] The receipts on account of transactions relating to SBI transfer were shown under non-debt capital receipts from April-September 2007 onwards.

than in April-August 2007 (39.0 per cent) on account of higher expenditure on food and fertiliser subsidies, pension and rural development than a year ago. Consequently, during April-August 2008, revenue deficit was 177.4 per cent of budget estimates for 2008-09 as compared with 74.9 per cent (122.9 per cent, net of transfer of profit on sale of Reserve Bank's stake in SBI to the Central Government) a year ago. Aggregate expenditure as per cent of budget estimates (adjusting for acquisition cost of transfer of Reserve Bank's stake in SBI in 2007) was higher in April-August 2008 than in April-August 2007, primarily on account of rise in revenue expenditure. GFD during the same period was 87.7 per cent of the budget estimates as compared with 68.5 per cent in April-August 2007. As against a primary surplus of Rs.57,520 crore budgeted for 2008-09, the Centre recorded a gross primary deficit of Rs.51,049 crore during the first five months of the year (Table 17).

Table 17 : Central Government Finances: April-August 2008

(Rupees crore)

Item	2008-09 (Budget Estimates)	April - August		Per cent of Budget Estimates April-August	
		2007	2008	2007	2008
1	2	3	4	5	6
1. Revenue Receipts (i + ii)	6,02,935	1,64,083 (1,29,774)	1,61,511	33.7 (26.7)	26.8
i) Tax Revenue (Net)	5,07,150	99,356	1,25,436	24.6	24.7
ii) Non-tax Revenue	95,785	64,727 (30,418)	36,075	78.4 (36.8)	37.7
2. Non-Debt Capital Receipts	14,662	3,946	1,203	9.1	8.2
3. Non-Plan Expenditure	5,07,498	1,99,042 (1,63,511)	1,92,962	41.9 (37.6)	38.0
of which:					
i) Interest Payments	1,90,807	63,039	65,841	39.6	34.5
ii) Defence	1,05,600	23,379	24,811	24.4	23.5
iii) Major subsidies	67,037	30,034	51,780	58.6	77.2
iv) Grants to States	43,294	14,643	13,254	38.1	30.6
4. Plan Expenditure	2,43,386	72,325	86,642	35.3	35.6
5. Revenue Expenditure	6,58,119	2,17,598	2,59,390	39.0	39.4
6. Capital Expenditure	92,765	53,769 (18,238)	20,214	43.8 (22.1)	21.8
7. Total Expenditure	7,50,884	2,71,367 (2,35,836)	2,79,604	39.9 (36.8)	37.2
8. Revenue Deficit	55,184	53,515 (87,824)	97,879	74.9 (122.9)	177.4
9. Gross Fiscal Deficit	1,33,287	1,03,338 (1,02,116)	1,16,890	68.5 (67.6)	87.7
10. Gross Primary Deficit	-57,520	40,299 (39,077)	51,049	-	-

Note : Figures in parentheses are adjusted for transactions relating to transfer of the Reserve Bank's stake in State Bank of India (SBI) to the Government. Accordingly, an amount of Rs.40,000 crore was adjusted in non-debt capital receipts as well as in non-plan expenditure, capital expenditure and total expenditure in the budget estimates for 2007-08. During April-August 2007, an amount of Rs.34,309 crore, which represents transfer of profits on sale of Reserve Bank's stake in SBI in August 2007, was adjusted in non-tax revenue as well as in revenue receipts; an amount of Rs.35,531 crore, which represents the actual acquisition cost of Reserve Bank's stake in SBI (including the book value of shares at Rs.1,222 crore) in June 2007, was adjusted in non-plan expenditure, capital expenditure and total expenditure.

Source : Controller General of Accounts, Ministry of Finance.

Cash Management and Central Government Market Borrowings

During 2008-09 (up to October 14, 2008), the actual issuances of dated securities amounted to Rs.1,06,000 crore. All the issuances were in accordance with the issuance calendar for the first half of the year, except on two occasions. In the auction of July 24, 2008, a 10-year benchmark security was issued in place of a higher maturity security in view of uncertain market conditions. An unscheduled auction of dated securities amounting to Rs.10,000 crore was held on September 26, 2008, keeping in view the emerging requirements of the Government, market conditions and other relevant factors. The issuance calendar for dated securities for the second half of 2008-09 (October-March) was released on September 26, 2008 in consultation with the Central Government to raise Rs.39,000 crore. The auction scheduled for October 10, 2008 for dated securities amounting to Rs.10,000 crore was cancelled in view of the prevailing liquidity conditions and other relevant factors. All auctions during 2008-09 (up to October 14, 2008) were for reissuance of existing securities, barring one new issue of 10-year maturity. There was a devolvement of Rs.2,420 crore on primary dealers (PDs) during 2008-09 (up to October 14, 2008) as compared with no devolvement during the corresponding period of the previous year. The bid-cover ratio ranged between 1.42 and 3.49. Gross and net market borrowings (dated securities and 364-day Treasury Bills) during 2008-09 (up to October 14, 2008) amounted to Rs.1,27,872 crore and Rs.64,808 crore, respectively, accounting for 72.8 per cent and 65.5 per cent of the estimated market borrowings for the year. During the corresponding period of the previous year, gross and net borrowings accounted for 60.7 per cent and 63.0 per cent, respectively. The weighted average maturity of dated securities issued during 2008-09 (up to October 14, 2008) at 15.54 years was higher than 14.25 years during the corresponding period of the previous year. The weighted average yield of dated securities issued during the same period increased to 8.80 per cent from 8.21 per cent (Table 18).

The notified amounts for 91-day, 182-day and 364-day Treasury Bills were kept unchanged in the issuance calendar for 2008-09. However, the notified amounts (excluding issuances under Market Stabilisation Scheme) in respect of all three Treasury Bills were raised during the course of the year to finance the temporary cash mismatch, *inter alia*, anticipated to arise from the expenditure on farmers' debt waiver scheme. Thus, during 2008-09 (up to October 13, 2008) an additional amount of Rs.51,500 crore (Rs.32,500 crore, net) was raised over and above the notified amount in the calendar.

Table 18: Central Government Securities Issued during 2008-09

(Amount in Rupees crore/Maturity in years/Yield in Per cent)

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 9,2008	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	23.60	10.02
8.	July 18-25,2008	6,000	15-19 year	July 24,2008	6,000	9.74	9.08
9.	August 1-8, 2008	6,000	10-14 year	August 8, 2008	6,000	9.70	9.14
		4,000	20 year and above		4,000	24.05	9.88
10.	August 14-22, 2008	6,000	15-19 year	August 22, 2008	6,000	18.47	9.86
11.	September 5-12, 2008	5,000	10-14 year	September12, 2008	5,000	9.60	8.30
		3,000	20-year and above		3,000	23.95	8.70
				September 26,2008	6,000	12.65	9.04
					4,000	23.38	9.26
	Total	**96,000**			**1,06,000**		

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 October 14, 2007)	14.25	8.21
2008-09 (up to October 14, 2008)	15.54	8.80

During 2008-09 (up to October 14, 2008), the Central Government took recourse to ways and means advances for 16 days as compared with 91 days during the corresponding period of 2007-08. Commencing the year with a surplus cash balance of Rs.76,686 crore (end-March 2008), the Central Government used up these balances to meet its expenditure needs and resorted to WMA between August 4, 2008 and August 6, 2008. With inflow of indirect taxes and surplus transferred from the Reserve Bank, the cash balances turned into surplus between August 7, 2008 and September 1, 2008. The Central Government again resorted to WMA during September 2-14, 2008 to meet the mismatches in receipts and expenditure. As on October 13, 2008 the Central Government maintained a surplus cash balance of Rs. 35,467 crore with the Reserve Bank. The average daily utilisation of WMA by the Central

Government (up to September 30, 2008) was Rs.411 crore as compared with Rs.8,510 crore in the corresponding period of the preceding year. The Centre had also availed of overdraft during the corresponding period of the preceding year, the daily average being placed at Rs.1,297 crore.

State Finances: 2008-09

The consolidated fiscal position of the State Governments as revealed in their budgets for 2008-09 indicates further improvement, with the revenue surplus budgeted higher at 0.54 per cent of GDP as compared with 0.48 per cent during the previous year. Accordingly, GFD is budgeted lower at 2.1 per cent of GDP in 2008-09 (BE) as compared with 2.3 per cent in 2007-08 (RE). However, the primary account would remain in deficit of 0.1 per cent of GDP in 2008-09 (BE) as in the previous year (see Table 16).

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.44,691 crore. Taking into account repayments of Rs.14,371 crore, the gross market borrowings of the State Governments are estimated at Rs.59,062 crore. During 2008-09 (up to October 14, 2008), 11 State Governments and the Union Territory of Puducherry raised a total amount of Rs.17,896 crore through auctions with cut-off yields in the range 8.39-9.90 per cent as compared with Rs.20,362 crore by 19 State Governments (cut-off yields in the range 8.00-8.90 per cent) during the corresponding period of the previous year. The weighted average interest rate on market loans firmed up to 9.01 per cent during 2008-09 (up to October 14, 2008) from 8.34 per cent during the corresponding period of 2007-08 (Table 19). The spreads on State Government securities over the yields of Central Government securities of corresponding maturity ranged between 30 and 98 basis points as compared with 19 and 90 basis points during the corresponding period of 2007-08.

The average daily utilisation of WMA and overdraft (OD) by the States during April-September 2008 was Rs.243 crore as compared with Rs.986 crore during the corresponding period of 2007 (Chart 6). Five States availed of WMA and three States resorted to OD during 2008-09 (up to October 13, 2008) as compared with seven States and three States, respectively, during the corresponding period of the previous year. The WMA position as on October 13, 2008 was Rs.930 crore as compared with Rs.1,208 crore of WMA/OD a year ago.

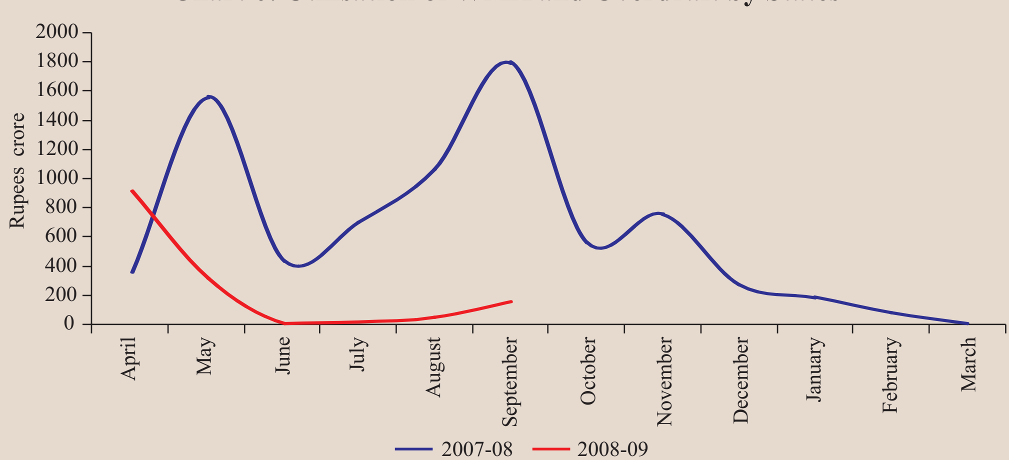
Table 19: Market Borrowings of the State Governments/U.T. - 2008-09

Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees crore)
1	2	3	4	5
Auction				
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
v. Fifth	August 31,2008	9.86-9.90	10	2,100
vi. Sixth	August 26,2008	9.30-9.44	10	2,060
vii. Seventh	September 9, 2008	8.80	10	1,800
viii. Eighth	September 25, 2008	8.81-8.88	10	1,212
ix. Ninth	October 7, 2008	8.50-8.89	10	2,012
Grand Total				**17,896**
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				8.41
2008-09				8.87
2007-08 (up to October 14, 2007)				8.34
2008-09 (up to October 14, 2008)				9.01

Source : Reserve Bank of India.

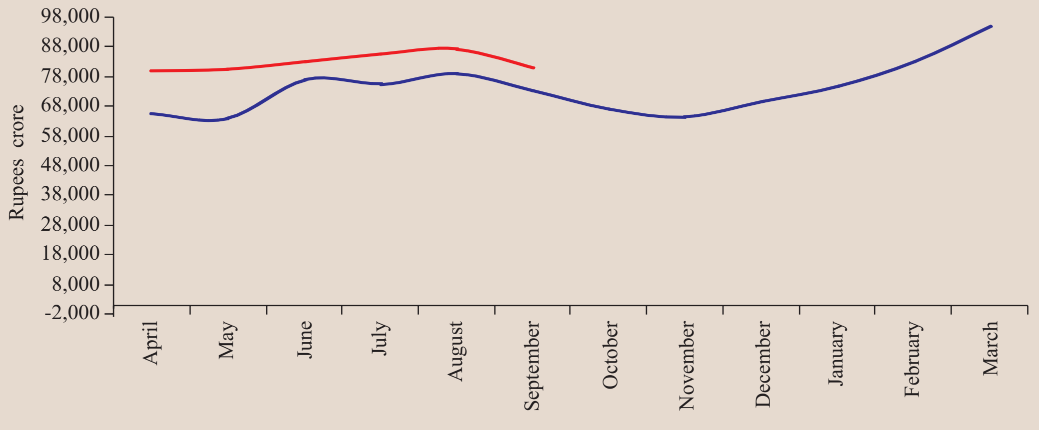
The cash surplus position of the States, as reflected in their average investments in Treasury Bills (14-day Intermediate Treasury Bills and Auction Treasury Bills) remained consistently higher during 2008-09 (up to September 30, 2008) than the corresponding period of the preceding year (Chart 7). The average daily investments by the States in Treasury Bills (14-day Intermediate

Chart 6: Utilisation of WMA and Overdraft by States*



* Average of daily outstandings

Chart 7: Investments in Treasury Bills by State Governments*



*Average of Friday outstandings

Treasury Bills and Auction Treasury Bills) during April-September 2008 amounted to Rs.82,382 crore as compared with Rs.72,805 crore during the corresponding period of 2007-08. The cash surplus position as on October 13, 2008 was Rs.69,507 crore as compared with Rs.66,141 crore a year ago.

III. MONETARY AND LIQUIDITY CONDITIONS

Monetary and liquidity aggregates witnessed some moderation during the second quarter of 2008-09, reflecting decline in capital inflows. Expansion in bank credit to the commercial sector during 2008-09 so far has remained strong and above the Reserve Bank's policy projection of 20.0 per cent for 2008-09 as indicated in the Annual Policy Statement (APS, April 2008). Year-on-year (y-o-y) growth in broad money (M_3) as on September 26, 2008 was above the indicative trajectory of 17.0 per cent set out in the First Quarter Review (July 2008) of the APS[1] for 2008-09. Accretion to bank deposits, led by time deposits, continued to remain strong, although with some moderation. Banks' investments in SLR securities as a proportion of their net demand and time liabilities (NDTL) remained lower than at end-March 2008 and as compared with a year ago. The Reserve Bank has continued to actively manage liquidity during 2008-09 so far by using all the policy instruments at its command, including cash reserve ratio (CRR), operations 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 19.0 per cent as on September 26, 2008 as compared with 21.5 per cent a year ago. Expansion in the residency-based new monetary aggregate (NM_3) - which does not directly reckon non-resident foreign currency deposits such as FCNR(B) deposits - was lower at 19.4 per cent as on September 26, 2008 than 21.3 per cent a year ago. Growth in liquidity aggregate, L_1, was 18.7 per cent at end-September 2008 as compared with 20.7 per cent a year ago (Table 20 and Chart 8).

In view of the continued inflationary pressures, monetary policy recognised the need to smoothen and enable an adjustment of overall demand on an economy-wide basis to bring down inflation from the current high levels and stabilise inflationary expectations. Accordingly, the CRR was raised by 150 basis points in four phases during April-September 2008-09 to 9.0 per cent. The estimated amount of liquidity impounded in the first round on account of the

[1] APS for 2008-09 (April 2008) projected the broad money growth in the range of 16.5-17.0 per cent. This was revised to 17.0 per cent in the First-Quarter Review (July 2008) of the APS.

Table 20: Monetary Indicators

(Amount in Rupees crore)

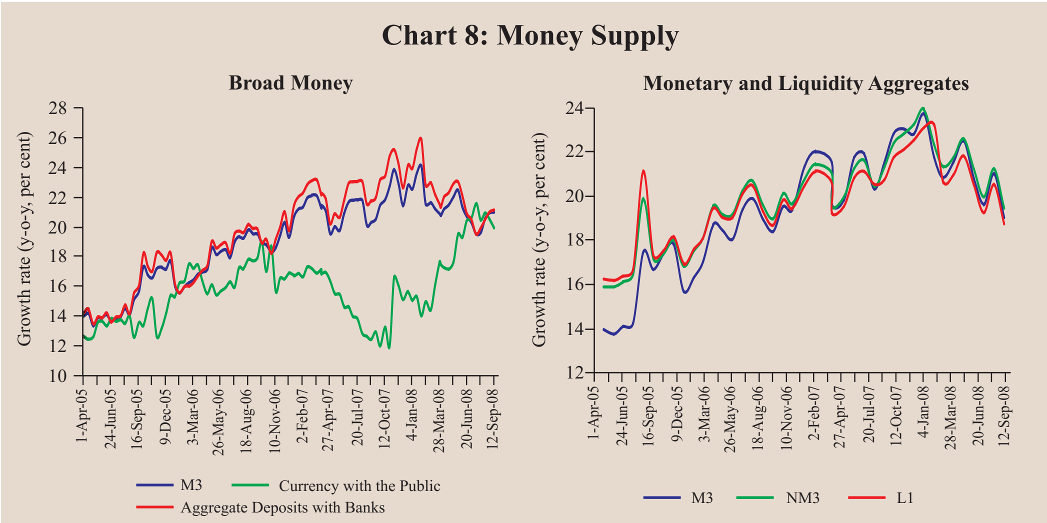
Item	Outstanding as on September 26, 2008	Variation (year-on-year)					
		September 28, 2007		March 31, 2008		September 26, 2008	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
I. Reserve Money*	9,75,081	1,59,261	26.6	2,19,427	30.9	2,17,685	28.7
II. Narrow Money (M_1)	11,37,129	1,34,277	15.8	1,84,864	19.1	1,55,325	15.8
III. Broad Money (M_3)	42,71,086	6,35,669	21.5	6,90,629	20.8	6,82,060	19.0
a) Currency with the Public	5,86,989	52,350	12.1	84,571	17.5	1,00,602	20.7
b) Aggregate Deposits	36,78,683	5,83,446	23.2	6,04,485	21.4	5,81,625	18.8
i) Demand Deposits	5,44,726	82,053	20.1	98,721	20.8	54,890	11.2
ii) Time Deposits	31,13,957	5,01,392	23.8	5,05,765	21.5	5,26,735	20.2
of which: Non-Resident Foreign Currency Deposits	62,595	-2,786	-4.3	-10,525	-15.6	516	0.8
IV. NM_3	42,93,140	6,31,713	21.3	7,08,101	21.3	6,96,334	19.4
of which: Call Term Funding from FIs	1,09,895	3,922	4.6	20,668	24.1	21,287	24.0
V. a) L_1	44,08,647	6,37,572	20.7	7,07,403	20.6	6,94,959	18.7
of which: Postal Deposits	1,15,507	5,859	5.3	-698	-0.6	-1,375	-1.2
b) L_2	44,11,579	6,37,572	20.7	7,07,403	20.5	6,94,959	18.7
c) L_3	44,36,226	6,36,657	20.5	7,08,236	20.4	6,94,943	18.6
VI. Major Sources of Broad Money							
a) Net Bank Credit to the Government (i+ii)	9,68,627	73,768	9.2	72,842	8.7	90,658	10.3
i) Net Reserve Bank Credit to Government	-61,862	-85,441	-	-1,15,632	-	12,564	-
of which: to the Centre	-61,827	-86,092	-	-1,16,772	-	13,450	-
ii) Other Banks' Credit to Government	10,30,489	1,59,209	20.1	1,88,474	22.7	78,094	8.2
b) Bank Credit to the Commercial Sector	27,66,160	3,92,834	21.2	4,39,834	20.6	5,21,187	23.2
c) Net Foreign Exchange Assets	13,72,326	2,09,006	26.0	3,81,952	41.8	3,58,843	35.4
d) Government Currency Liability to Public	9,624	793	9.9	1,064	12.9	844	9.6
e) Net Non-Monetary Liabilities of the Banking Sector	8,45,651	40,731	7.9	2,05,063	36.0	2,89,471	52.0
Memo:							
Aggregate Deposits of SCBs	34,42,138	5,62,024	24.3	5,85,006	22.4	5,68,403	19.8
Non-food Credit of SCBs	24,97,292	3,72,438	22.9	4,32,846	23.0	4,96,821	24.8

*: Data pertain to October 10, 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, the data for last available month is repeated as estimates.

CRR hikes was Rs.57,750 crore[2]. Furthermore, the Reserve Bank during April-September 2008-09 also increased the repo rate by 125 basis points to 9.0 per cent.

On a review of the prevailing liquidity situation in the context of global and domestic developments, the Reserve Bank reduced CRR by 250 basis points to

[2] Between December 2006 and September 2008, the Reserve Bank increased CRR by 400 basis points and the estimated amount of liquidity impounded in the first round due to hikes in the CRR was Rs. 1,32,250 crore.



6.5 per cent with effect from the fortnight beginning October 11, 2008. As a result of this reduction in the CRR, an amount of about Rs.1,00,000 crore was expected to be released into the banking system. Moreover, on October 20, 2008, the Reserve Bank announced a reduction of the repo rate by 100 basis points to 8.0 per cent with immediate effect.

Currency with the public grew by 20.7 per cent (y-o-y) as on September 26, 2008 as compared with 12.1 per cent a year ago. Growth in demand deposits (y-o-y) as on September 26, 2008 at 11.2 per cent was lower than that of 20.1 per cent a year ago. Narrow money growth (M_1), y-o-y, was 15.8 per cent as on September 26, 2008 the same as a year ago. The strong growth in time deposits has continued in 2008-09 so far, although with some moderation. The growth of time deposits was placed at 20.2 per cent (y-o-y) as on September 26, 2008, lower than 23.8 per cent a year ago (Table 21). 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 August 2008, latest period for which data are available.

On a financial year basis, growth in M_3 during 2008-09 (up to September 26, 2008) was 6.6 per cents as compared with 8.2 per cent during the corresponding period of the previous year. Currency with the public expanded by

Table 21: Monetary Aggregates - Variations

(Rupees Crore)

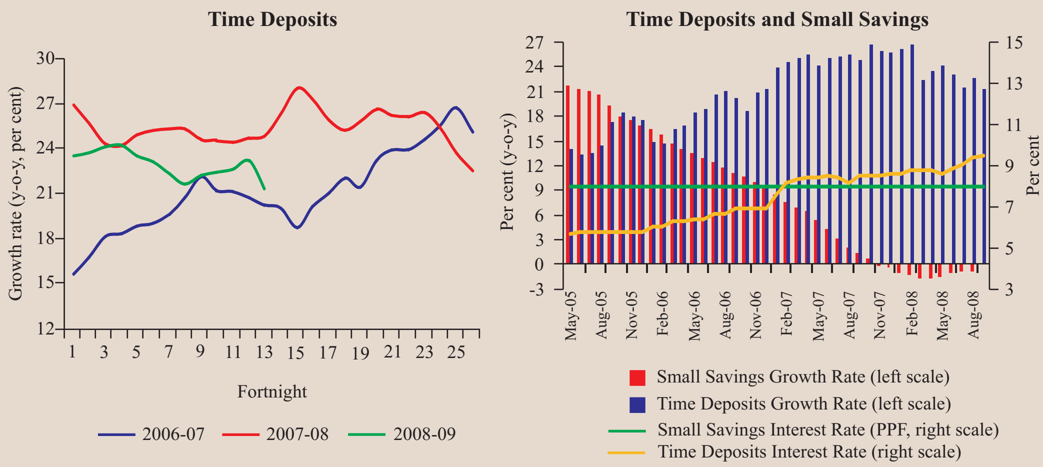
Item	2007-08 (up to Sept. 28)	2008-09 (up to Sept. 26)	2007-08				2008-09	
			Q 1	Q 2	Q 3	Q 4	Q 1	Q 2
1	2	3	4	5	6	7	8	9
M_3 (1+2+3 = 4+5+6+7-8)	**2,72,933**	**2,64,364**	**73,824**	**1,99,109**	**1,16,442**	**3,01,254**	**87,661**	**1,76,703**
	(8.2)	**(6.6)**						
Components								
1 Currency with the Public	3,482	19,513	18,237	-14,756	47,723	33,366	36,317	-16,804
	(0.7)	(3.4)						
2 Aggregates Deposits with Banks	2,71,367	2,48,506	56,023	2,15,344	69,536	2,63,583	55,496	1,93,010
	(9.6)	(7.2)						
2.1 Demand Deposits with Banks	14,149	-29,681	-44,030	58,180	-7,275	91,847	-79,731	50,050
	(3.0)	(-5.2)						
2.2 Time Deposits with Banks	2,57,217	2,78,188	1,00,053	1,57,164	76,811	1,71,736	1,35,228	1,42,960
	(10.9)	(9.7)						
3 'Other' Deposits with Banks	-1,915	-3,655	-436	-1,479	-817	4,305	-4,152	497
Sources								
4 Net Bank Credit to Government	43,734	61,550	28,117	15,618	-36,493	65,601	35,777	25,773
	(5.2)	(6.8)						
4.1 RBI's Net Credit to Government	-76,849	51,347	-22,154	-54,695	-65,787	27,004	-13	51,360
4.1.1 RBI's Net Credit to the Centre	-77,413	52,809	-21,825	-55,588	-65,078	25,719	1,430	51,379
4.2 Other Banks' Credit to Government	1,20,583	10,203	50,270	70,313	29,294	38,597	35,791	-25,588
5 Bank Credit to the Commercial Sector	1,14,895	1,96,248	-30,547	1,45,442	86,877	2,38,062	36,975	1,59,272
	(5.4)	(7.6)						
6 NFEA of Banking Sector	1,00,304	77,194	-17,945	1,18,249	94,204	1,87,444	66,858	10,336
6.1 NFEA of the RBI	1,16,686	1,14,268	-2,745	1,19,430	94,681	1,58,610	1,03,932	10,336
7 Government's Currency Liabilities to the Public	520	300	166	354	312	232	125	175
8 Net Non-Monetary Liabilities of the Banking Sector	-13,480	70,928	-94,033	80,553	28,459	1,90,084	52,074	18,854
Memo:								
1 Non-resident Foreign Currency Deposits with SCBs	-5,382	5,660	-4,202	-1,181	-3,490	-1,653	2,048	3,611
2 SCB' Call-term Borrowing from Financial Institutions	2,772	3,391	-2,984	5,756	7,441	10,455	-1,116	4,506
3 Overseas Borrowing by SCBs	902	13,407	-6,928	7,830	1,734	9,909	9,494	3,914

SCBs: Scheduled Commercial Banks. NFEA: Net Foreign Exchange Assets.
Note: 1. Data are provisional.

3.4 per cent (up to September 26, 2008) as compared with 0.7 per cent during the corresponding period of the previous year.

Bank credit to the commercial sector increased by 23.2 per cent (y-o-y) as on September 26, 2008 as compared with 21.2 per cent a year ago. Non-food credit by scheduled commercial banks (SCBs) expanded by 24.8 per cent, y-o-y, as on September 26, 2008, higher than 22.9 per cent a year ago. The higher expansion in credit growth relative to the expansion in deposit growth resulted

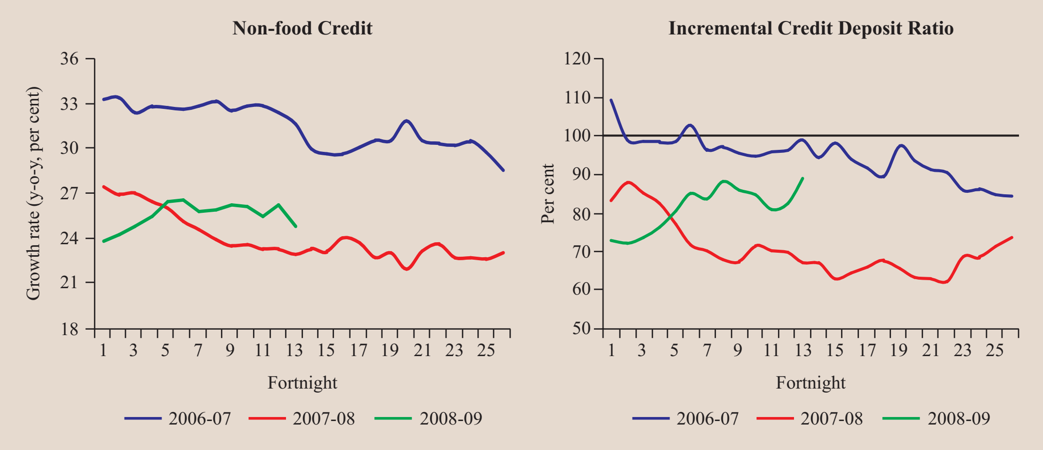
Chart 9: Time Deposits Growth



in an increase in the incremental credit-deposit ratio (y-o-y) of SCBs to 88.8 per cent as on September 26, 2008 from 66.9 per cent a year ago (Chart 10).

Disaggregated sectoral data available up to August 29, 2008 showed that about 45 per cent of incremental non-food credit (y-o-y) was absorbed by industry as compared with 40 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, iron and steel, textiles, chemicals, engineering, food processing, construction and vehicles industries. The infrastructure sector alone accounted for 25 per cent of the

Chart 10: Scheduled Commercial Banks' Credit Growth



incremental credit to industry as compared with 26 per cent in the corresponding period of the previous year. The agricultural sector absorbed around 8 per cent of the incremental non-food bank credit expansion as compared with 13 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 40 per cent. The outstanding credit under credit card witnessed a sharp increase. Growth in loans to commercial real estate remained high, notwithstanding some moderation (Table 22).

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

Table 22: Non-food Bank Credit - Sectoral Deployment

(Amount in Rupees crore)

Sector/Industry	Outstanding as on August 29, 2008	Year-on-Year Variations			
		August 31, 2007		August 29, 2008	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	**23,14,897**	**3,58,296**	**24.4**	**4,89,183**	**26.8**
1. Agriculture and Allied Activities	**2,62,481**	**44,360**	**25.0**	**40,913**	**18.5**
2. Industry (Small, Medium and Large)	**9,32,313**	**1,43,614**	**25.2**	**2,18,246**	**30.6**
of which : Small	1,30,554	28,126	31.0	11,559	9.7
3. Personal Loans	**5,52,090**	**82,953**	**21.4**	**81,729**	**17.4**
Housing	2,68,804	34,333	17.0	32,792	13.9
Advances against Fixed Deposits	44,100	7,900	23.8	2,999	7.3
Credit Cards	29,056	5,161	49.5	13,461	86.3
Education	23,795	5,411	45.9	6,603	38.4
Consumer Durables	8,003	513	6.3	-691	-7.9
4. Services	**5,68,013**	**87,371**	**26.3**	**1,48,295**	**35.3**
Transport Operators	35,989	8,679	44.4	7,772	27.5
Professional & Other Services	38,494	8,193	49.7	13,813	56.0
Trade	1,29,353	20,900	24.5	23,084	21.7
Real Estate Loans	68,196	16,081	52.7	21,595	46.3
Non-Banking Financial Companies	77,039	15,703	49.6	29,683	62.7
Memo:					
Priority Sector	**7,66,506**	**1,09,222**	**20.8**	**1,32,078**	**20.8**
Industry (Small, Medium and Large)	**9,32,313**	**1,43,614**	**25.2**	**2,18,246**	**30.6**
Food Processing	50,415	9,016	29.0	10,266	25.6
Textiles	96,982	17,777	28.7	18,221	23.1
Paper & Paper Products	14,446	1,973	20.4	2,787	23.9
Petroleum, Coal Products & Nuclear Fuels	62,460	8,069	32.9	29,891	91.8
Chemicals and Chemical Products	69,883	7,277	15.3	14,918	27.1
Rubber, Plastic & their Products	12,128	1,967	26.8	2,827	30.4
Iron and Steel	88,276	11,733	21.6	22,235	33.7
Other Metal & Metal Products	26,429	3,071	17.4	5,691	27.4
Engineering	56,562	9,034	24.8	11,108	24.4
Vehicles, Vehicle Parts and Transport Equipments	33,192	6,641	34.2	7,160	27.5
Gems & Jewellery	27,254	1,926	8.9	3,568	15.1
Construction	31,037	6,286	42.9	10,111	48.3
Infrastructure	2,09,390	37,363	32.0	55,236	35.8

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.

funds. Resources raised through domestic equity issuances during the second quarter of 2008-09 (Rs.9,882 crore) were higher than those in the corresponding period of the previous year. Net mobilisation through external commercial borrowings (ECBs) during the first quarter of 2008-09 (Rs.14,663 crore) was lower than (Rs.35,993 crore) the corresponding period of the previous year. Mobilisation through issuances of commercial paper (CPs) during the second quarter of 2008-09 was almost at the same level as 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 the second quarter of 2008-09 so far (Rs.596 crore) were also lower than those during the corresponding period of the previous year. However, 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 April-June 2008-09 witnessing deceleration in comparison with the previous year (Table 23 and Table 11).

Table 23: Select Sources of Funds to Industry

(Rupees Crore)

Item	2006-07	2007-08	2007-08				2008-09	
			Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9
A. Bank Credit to Industry #	1,41,543	1,74,566	-15,603	59,776	40,993	89,400	12,426	47,987 *
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	9,882
i) Non-Government Public Ltd. Companies (a+b)	29,178	48,962	13,261	4,236	14,400	17,065	2,031	9,882
a) Bonds/Debentures	585	809	0	0	0	809	0	0
b) Shares	28,593	48,153	13,261	4,236	14,400	16,256	2,031	9,882
ii) PSUs and Government Companies	0	2,517	527	1,990	0	0	0	0
2 ADR/GDR Issues	16,184	13,023	1,251	9,899	289	1,584	4,056	596
3 External Commercial Borrowings (ECBs)	1,04,046	1,60,221	35,993	36,755	43,093	44,380	14,663	-
4 Issue of CPs	5,145	14,903	8,568	7,358	6,629	-7,651	14,256	7,335
C. Depreciation Provision +	45,558	40,664	10,173	10,576	10,961	11,805	11,413	-
D. Profit after Tax +	1,13,081	1,34,291	32,699	34,266	37,470	36,109	35,270	-

-.: Not Available #: Data pertain to select scheduled commercial banks. *: July-August 2008.

+ : Data for 2006-07 are based on audited balance sheet, while those for 2007-08 and 2008-09 are based on abridged audited/unaudited financial results of select non-financial non-Government public limited 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.

Scheduled commercial banks' investment in SLR securities expanded by 8.6 per cent (y-o-y) on September 26, 2008, as compared with 21.1 per cent a year ago (Table 24). Commercial banks' holdings of such securities as on September 26, 2008 at 26.1 per cent of their NDTL were lower than 27.8 per cent at end-March 2008 and 29.2 per cent a year ago (Chart 11). Excess SLR investments of SCBs declined to Rs.40,336 crore as on September 26, 2008 from Rs. 98,033 crore at end-March 2008; excess investments in SLR securities were placed at Rs.1,29,325 crore a year ago. Simultaneously, SCBs increased their overseas foreign currency borrowings and also drew down their holdings of foreign currency assets.

Reserve Money Survey

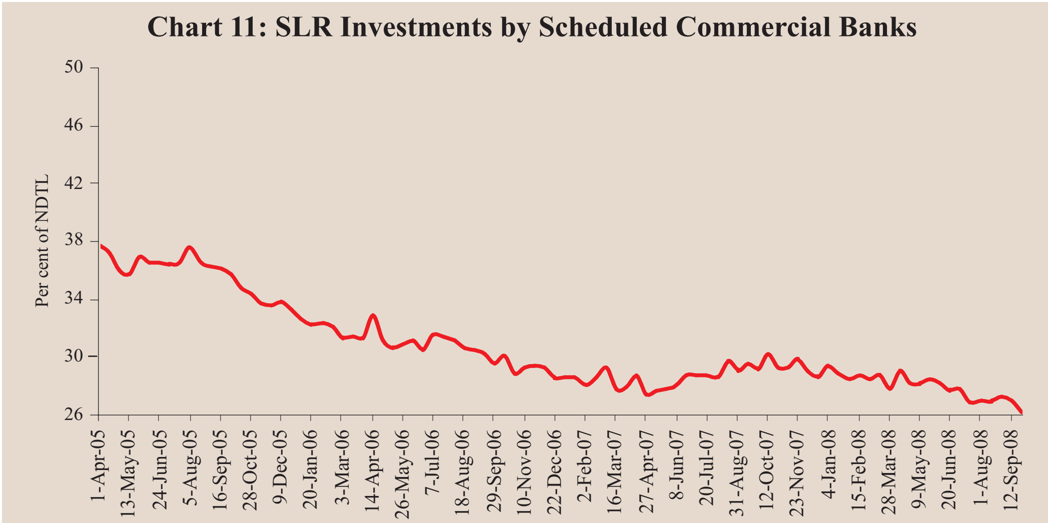
Reserve money growth at 28.7 per cent, y-o-y, as on October 10, 2008 was higher than that of 26.6 per cent a year ago (Chart 12). Adjusted for the first round effect of the hike in CRR, reserve money growth was 20.6 per cent as compared with 16.8 per cent a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations and movements in

Table 24: Scheduled Commercial Bank Survey

(Amount in Rupees Crore)

Item	Outstanding as on Sept. 26, 2008	Variation (Year-on-Year)			
		As on Sept. 28, 2007		As on Sept. 26, 2008	
		Amount	Per Cent	Amount	Per Cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	34,42,138	5,62,024	24.3	5,68,403	19.8
2. Call/Term Funding from Financial Institutions	1,09,895	3,922	4.6	21,287	24.0
3. Overseas Foreign Currency Borrowings	57,858	3,357	11.4	25,051	76.4
4. Capital	45,258	4,814	15.2	8,790	24.1
5. Reserves	2,76,460	53,063	32.3	59,130	27.2
Uses of Funds					
1. Bank Credit	25,42,467	3,75,988	22.6	5,04,988	24.8
of which: Non-food Credit	24,97,292	3,72,438	22.9	4,96,821	24.8
2. Investments in Government and Other Approved Securities	9,87,240	1,58,344	21.1	78,087	8.6
a) Investments in Government Securities	9,68,533	1,60,387	21.8	73,443	8.2
b) Investments in Other Approved Securities	18,708	-2,042	-12.7	4,643	33.0
3. Investments in non-SLR Securities	1,54,383	12,730	8.9	-1,925	-1.2
4. Foreign Currency Assets	25,851	2,102	5.5	-14,657	-36.2
5. Balances with the RBI	3,18,301	1,14,222	81.4	63,732	25.0

Note: Data are provisional.



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 October 10, 2008), reserve money grew by 5.0 per cent as compared with an increase of 6.8 per cent in the corresponding period of the previous year. Bankers' deposits with the Reserve Bank expanded by 3.0 per cent (up to October 10, 2008) as compared with 17.5 per cent during the corresponding period of 2007-08. Currency in circulation expanded by 7.0 per cent as compared with 3.3 per cent during the corresponding period of the previous year (Table 25). On the sources side, net Reserve Bank's

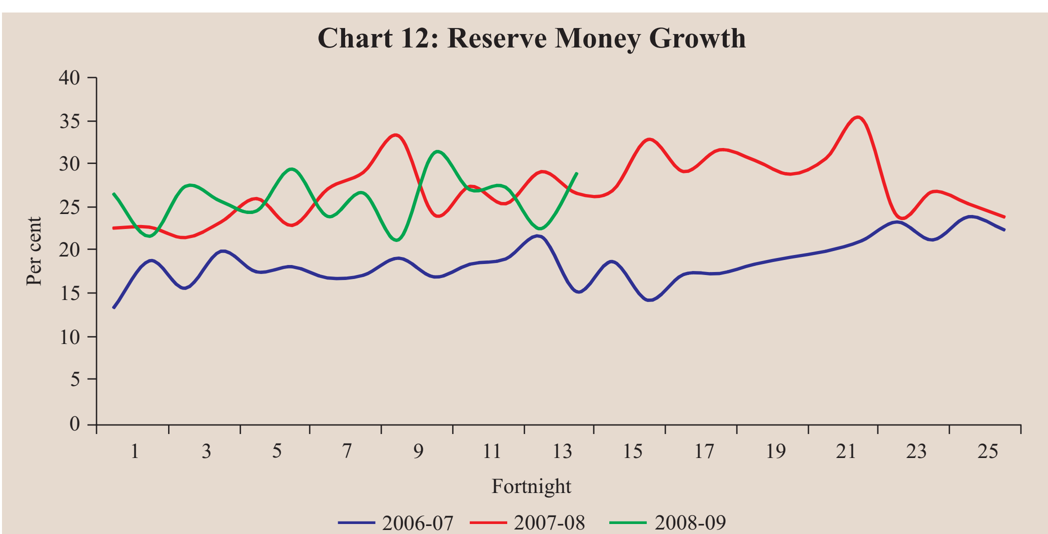


Table 25 : Reserve Money - Variations

(Amount in Rupees crore)

Item	2007-08 (April-March)	2007-08 (Up to Oct. 12)	2008-09 (Up to Oct. 10)	2007-08 Q1	2007-08 Q2	2007-08 Q3	2007-08 Q4	2008-09 Q1	2008-09 Q2
1	2	3	4	5	6	7	8	9	10
Reserve Money	**2,19,427**	**48,405 (6.8)**	**46,663 (5.0)**	**11,630**	**60,688**	**26,595**	**1,20,514**	**3,274**	**25,169**
Components (1+2+3)									
1. Currency in Circulation	86,702	16,449 (3.3)	41,091 (7.0)	16,866	-13,297	46,781	36,352	36,759	-14,546
2. Bankers' Deposits with RBI	1,31,152	34,468 (17.5)	9,807 (3.0)	-4,800	75,464	-19,369	79,857	-29,333	39,219
3. 'Other' Deposits with the RBI	1,573	-2,512 (-33.5)	-4,234 (-46.7)	-436	-1,479	-817	4,305	-4,152	497
Sources (1+2+3+4-5)									
1. RBI's net Credit to Government	-1,15,632	-1,39,134	81,933	-22,154	-54,695	-65,787	27,004	-13	51,360
of which: to Centre (i+ii+iii+iv-v)	-1,16,772	-1,38,948	83,006	-21,825	-55,588	-65,078	25,719	1,430	51,379
i. Loans and Advances	0	0	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	17,421	-55,508	54,511	-34,284	4,019	20,874	26,812	-39,239	56,975
iv. RBI's Holdings of Rupee Coins	121	115	-51	128	20	3	-31	-1	-26
v. Central Government Deposits	1,34,314	83,555	-28,547	-12,330	59,627	85,956	1,062	-40,670	5,570
2. RBI's Credit to Banks and Commercial Sector	-2,794	-7,789	3,859	-6,450	-1,256	848	4,064	-3,358	4,963
3. NFEA of RBI	3,69,977	1,41,949 (16.4)	95,028 (7.7)	-2,745	1,19,430	94,681	1,58,610	1,03,932	10,336
of which : FCA, adjusted for revaluation	3,70,550	2,02,876	-24,581	47,728	1,18,074	1,00,888	1,03,860	15,535	-31,641
4. Governments' Currency Liabilities to the Public	1,064	520	300	166	354	312	232	125	175
5. Net Non-Monetary Liabilities of RBI	33,187	-52,859	1,34,457	-42,812	3,145	3,459	69,395	97,411	41,666
Memo:									
Net Domestic Assets	-1,50,550	-93,544	-48,365	14,375	-58,743	-68,086	-38,096	-1,00,658	14,833
LAF- Repos (+) / Reverse Repos (-)	21,165	-65,730	41,150	-32,182	9,067	16,300	27,980	-45,350	51,480
Net Open Market Sales # *	-5,923	2,997	-19,232	1,246	1,560	-3,919	-4,810	-8,696	-10,535
Centre's Surplus	26,594	-24,274	-27,812	-34,597	15,376	54,765	-8,950	-42,427	6,199
Mobilisation under the MSS	1,05,419	89,811	3,548	19,643	48,855	31,192	5,728	6,040	-628
Net Purchases(+)/Sales(-) from Authorised Dealers	3,12,054	1,76,166	-28,886^	38,873	1,01,814	87,596	83,771	3,956	-32,842 ^
NFEA/Reserve Money @	133.1	133.1	136.5	119.8	125.8	133.4	133.1	143.8	141.1
NFEA/Currency @	209.2	193.6	210.6	165.7	193.6	194.3	209.2	213.5	220.3

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

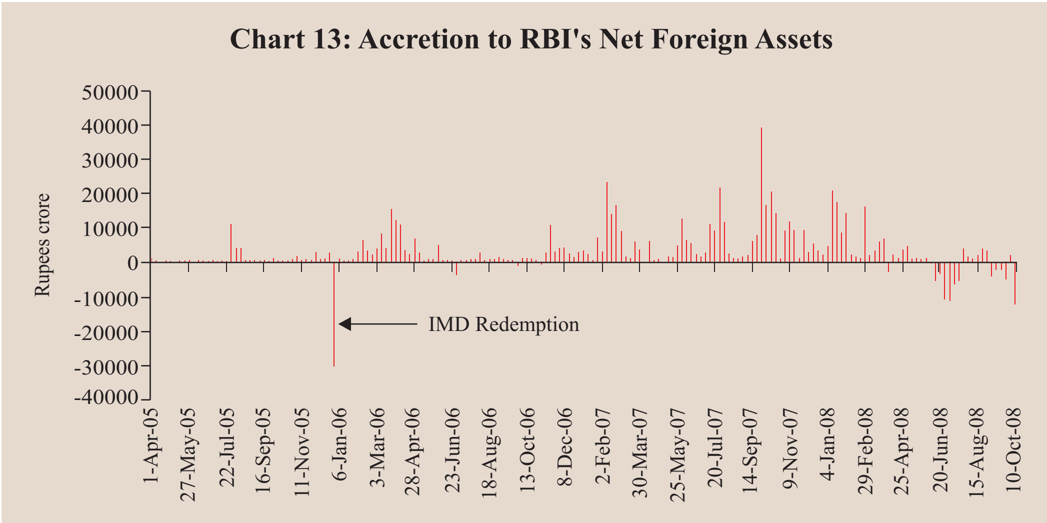
*: At face value. # : Excludes Treasury Bills. @ : Per cent; end of period. ^ : Up to August 29, 2008.

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.

credit to the Centre increased by Rs.83,006 crore as against a decrease of Rs.1,38,948 crore during the corresponding period of the previous year. The Reserve Bank's foreign currency assets (adjusted for revaluations) decreased by Rs.24,581 crore as against an increase of Rs.2,02,876 crore during the corresponding period of the previous year (Chart 13).

Movements in the Reserve Bank's net credit to the Central Government during 2008-09 so far (up to October 10, 2008) largely reflected the liquidity management operations by the Reserve Bank and movements in Government



deposits with the Reserve Bank. Surplus balances of the Central Government with the Reserve Bank declined. The Reserve Bank's holdings of Central Government dated securities increased, reflecting injection of liquidity under the liquidity adjustment facility (LAF) during this period. 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.83,006 crore during 2008-09 so far (up to October 10, 2008) as against a decline of Rs.1,38,948 crore during the corresponding period of the previous year.

Liquidity Management

The Reserve Bank continued with its policy of active management of liquidity during the current financial year through appropriate use of the CRR, and OMO, including MSS and LAF, and other policy instruments at its disposal 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. Developments, on both international and domestic fronts, particularly from mid-September 2008, have impacted domestic liquidity conditions. Nonetheless, liquidity modulation through a flexible use of a combination of instruments has, to a significant extent, cushioned the impact of international financial turbulences on domestic financial market by absorbing excessive market pressure and ensuring orderly conditions. During 2008-09 so far, variations in cash balances of the Central Government and the Reserve Bank's foreign exchange operations remained the key drivers of liquidity conditions.

Liquidity conditions eased at the beginning of the first quarter of 2008-09 on account of substantial reduction in the cash balances of the Central Government (Table 26). On a review of the then prevailing liquidity situation, the Reserve Bank announced a two-stage hike in CRR of 25 basis points each to 8.0 per cent, effective from the fortnights beginning April 26, 2008 and May 10, 2008, respectively. The auctions under the MSS were resumed in April 2008 after a gap of around two months. The average daily net liquidity absorption through the LAF was Rs.26,359 crore during April 2008 and the outstanding balances under MSS were placed at Rs.1,72,444 crore on April 25, 2008. In view of the evolving liquidity situation, the Reserve Bank, in its Annual Policy Statement issued on April 29, 2008, announced a further increase in the 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, the surplus liquidity available in the banking system declined in May 2008 and the average daily net absorption through LAF declined to Rs.11,841 crore during the month. No auction of dated securities under the MSS was conducted during May 2008 and the outstanding balances under the MSS were placed at Rs.1,75,362 crore on May 30, 2008 (Chart 14). On a review of the then 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 8.0 per cent with effect from June 12, 2008. Liquidity conditions turned into deficit mode from June 10, 2008, with the build-up in Central Government balances in the face of advance tax collections. Consistent with the stance of monetary policy set out in the Annual Policy Statement (April 2008)

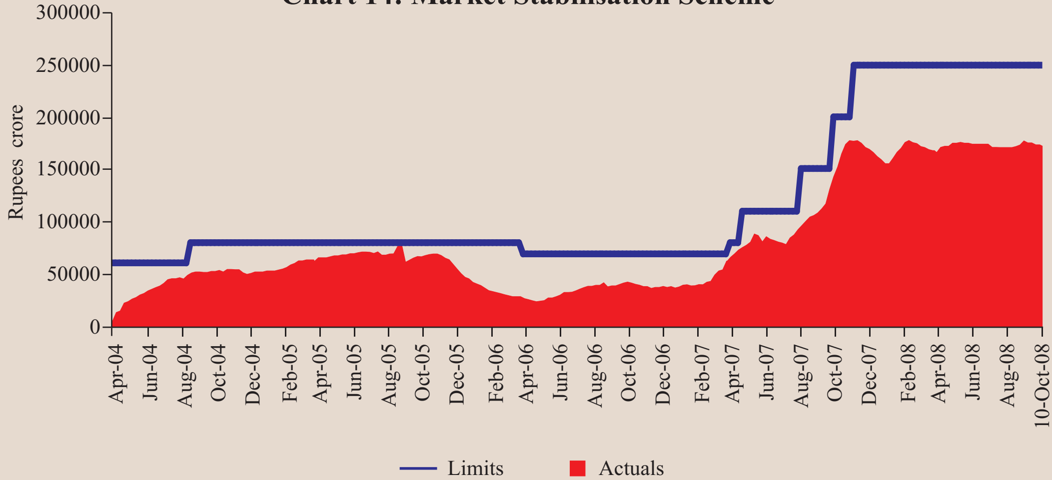
Table 26: Reserve Bank's Liquidity Management Operations

(Rupees Crore)

Item	2007-08	2007-08				2008-09		
		Q1	Q2	Q3	Q4	Q1	July	August
1	2	3	4	5	6	7	8	9
A. Drivers of Liquidity (1+2+3+4+5)	**2,04,026**	**51,146**	**1,11,169**	**-1,694**	**43,405**	**28,473**	**6,411**	**19,920**
1. RBI's net purchases from Authorised Dealers	3,12,054	39,791	1,00,896	88,545	82,822	-8,555	-24,424	4,093
2. Currency with the Public	-84,571	-12,946	9,465	-47,131	-33,957	-30,639	1,222	10,194
3. Surplus cash balances of the Centre with the Reserve Bank	-26,594	49,992	-30,771	-49,820	4,005	40,073	21,470	-2,351
4. WMA and OD	0	15,159	-15,159	0	0	0	0	0
5. Others (residual)	3,137	-40,850	46,739	6,712	-9,465	27,595	8,142	7,983
B. Management of Liquidity (6+7+8+9)	**-1,17,743**	**-53,943**	**-68,621**	**-11,189**	**16,010**	**-51,239**	**5,011**	**-43,445**
6. Liquidity impact of LAF Repos	21,165	-20,290	-2,825	27,795	16,485	-18,260	11,170	-35,660
7. Liquidity impact of OMO (Net) *	13,510	10	40	5,260	8,200	1,062	735	4,547
8. Liquidity impact of MSS	-1,05,419	-18,163	-50,336	-28,244	-8,675	-6,041	3,106	-2,331
9. First round liquidity impact due to CRR change	-47,000	-15,500	-15,500	-16,000	0	-28,000	-10,000	-10,000
C. Bank Reserves (A+B) #	**86,283**	**-2,797**	**42,548**	**-12,883**	**59,415**	**-22,766**	**11,422**	**-23,525**

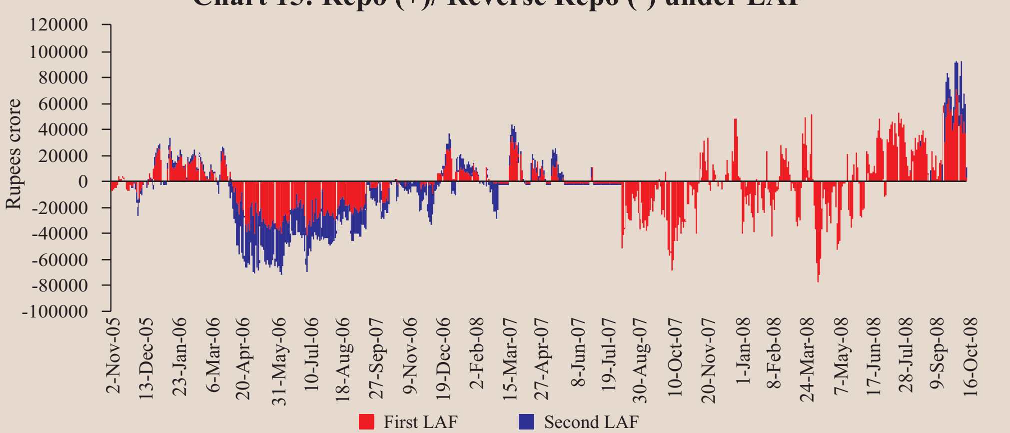
(+) : Indicates injection of liquidity into the banking system.
(-) : Indicates absorption of liquidity from the banking system.
: Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.
* : Adjusted for Consolidated Sinking Funds (CSF) and Oil bonds.
Note : Data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

Chart 14: Market Stabilisation Scheme



which, *inter-alia*, accorded high priority to price stability and well-anchored inflation expectations, and on the basis of the available information on domestic and global macroeconomic and financial developments, the Reserve Bank on June 24, 2008 increased the repo rate under the LAF by 50 basis points to 8.50 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 auction under MSS was conducted during June 2008 and the outstanding balance as on June 27, 2008 was placed at Rs.1,74,433 crore. The average daily net injection during June 2008 through the LAF was Rs. 8,622 crore (Chart 15).

Chart 15: Repo (+)/ Reverse Repo (-) under LAF



Note: Additional LAF on March 31, 2006 and March 31, 2007 are shown under second LAF. Since August 6, 2007 the Second LAF was discontinued and, therefore, all Special LAF and additional LAF thereafter are included in First LAF. The Second LAF was reintroduced on Reporting Fridays with effect from August 1, 2008 and subsequently on a daily basis with effect from September 17, 2008.

Keeping in view the systemic implications of liquidity and other related issues 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. These operations commenced from June 5, 2008. Under SMO, the Reserve Bank in the first leg of operation purchased oil bonds held by public sector OMCs in their own accounts, through designated banks, 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. In the second leg the Reserve Bank provided 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 were synchronous so that there was no liquidity impact on account of these operations. The total amount of oil bonds purchased by the Reserve Bank under SMO aggregated Rs.19,325 crore. The SMO was an exceptional measure for minimising potential adverse consequences for financial markets in a transparent manner. This operation was terminated effective August 8, 2008.

Liquidity conditions eased in the first week of July 2008 mainly on account of a decline in the cash balances of the Central Government, but tightened significantly from July 7, 2008, reflecting the impact of a two-stage CRR hike announced in June 2008 as also the foreign exchange operations conducted by the Reserve Bank. The average daily net liquidity injection through LAF was Rs.27,961 crore during July 2008. Auctions under the MSS, which were kept in abeyance from mid-May 2008, were resumed on July 9, 2008 and the actual balance under the MSS was placed at Rs.1,71,327 crore as on July 25, 2008. In response to suggestions from the market participants for fine tuning the management of bank reserves on the last day of the maintenance period, the Reserve Bank introduced a Second LAF (SLAF) on reporting Fridays effective from August 1, 2008. Keeping in view the assessment of the economy, including the outlook for growth and inflation, the Reserve Bank in its First Quarter Review of the Annual Statement on Monetary Policy hiked the repo rate by 50 basis points to 9 per cent effective from July 30, 2008 and the CRR by 25 basis points to 9 per cent with effect from the fortnight beginning August 30, 2008.

During August 2008, liquidity conditions continued to remain in a deficit mode mainly on account of the two-stage CRR hike implemented in the previous month (July 2008). The average daily net liquidity injection through LAF declined somewhat to Rs.22,560 crore during the month. There was no dated security auction under the MSS in August 2008 and the actual balance under the MSS was placed at Rs.1,73,658 crore as on August 29, 2008 (Table 27).

Table 27: 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	-43,260	1,71,327	15,043	1,43,110
August	-7,600	1,73,658	17,393	1,83,451
September	-56480	1,73,804	40,358	1,57,682
October (Up to October 10)	-91,500	1,71,940	48,774	1,29,214

@: 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.

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 that was discontinued from August 6, 2007 was reintroduced on Reporting Fridays with effect from August 1, 2008 and subsequently on a daily basis with effect from September 17, 2008.

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

Tight liquidity conditions persisted in September 2008 mainly on account of the quarter-ending advance tax outflows and a hike in CRR by 25 basis points from the fortnight beginning August 30, 2008 (as announced earlier). The bankruptcy/sell out/ restructuring of some of the world's largest financial institutions beginning mid-September 2008 brought some pressures on the domestic money and foreign exchange markets, in conjunction with temporary local factors such as advance tax outflows. In order to alleviate these transient pressures which were related largely to external developments, the Reserve Bank announced certain monetary measures on September 16, 2008 *viz.*, (i) continuance of sale of foreign exchange by the Reserve Bank either directly or through agent banks to meet any demand-supply gap, (ii) increase in interest rate ceilings in respect of FCNR(B) by 50 basis points (*i.e.* to LIBOR/Swap rates *minus* 25 basis points) and NR(E)RA deposits by 50 basis points (*i.e.* to LIBOR/

Swap rates *plus* 50 basis points); (iii) additional liquidity support under the LAF with effect from September 17, 2008, which allowed banks to obtain additional liquidity support to the extent of up to one per cent of their net demand and time liabilities and seek waiver of penal interest; (iv) reintroduced SLAF on a daily basis with effect from September 17, 2008 that was earlier discontinued from August 6, 2007. It was indicated that these measures were ad hoc, temporary in nature and would be reviewed on a continuous basis in the light of the evolving liquidity conditions. The average daily net liquidity injection was Rs.42,591 crore during September 2008. There was no auction under the MSS since September 3, 2008 and the actual balance under the MSS was Rs.1,73,804 crore as on September 26, 2008.

Subsequent to the announcement of the above mentioned measures on September 16, 2008, the global financial environment deteriorated with the number of troubled financial institutions rising, stock markets weakening and the money markets coming under stress. Central banks in several major advanced and emerging market economies responded to these extraordinary developments by synchronised policy actions, including measures for liquidity infusion. These developments have impacted the domestic money and foreign exchange markets with a marked increase in volatility and a sharp squeeze on market liquidity as reflected in the movements in overnight interest rates and the high recourse to the LAF. On a review of the liquidity situation in the context of global and domestic developments, on October 10, 2008, the Reserve Bank announced a reduction of CRR by 150 basis points to 7.5 per cent effective from the fortnight beginning October 11, 2008 (instead of the 50 basis points reduction announced on October 6, 2008). As a result of the reduction in CRR, around Rs.60,000 crore was expected to be released into the banking system (instead of the injection of Rs.20,000 crore announced earlier). On October 14, 2008, the Reserve Bank conducted a special 14-day fixed rate repo at 9 per cent per annum for a notified amount of Rs.20,000 crore with a view to enabling banks to meet the liquidity requirements of mutual funds. Till October 17, 2008, a cumulative amount of Rs.7,005 crore was availed under this facility.

On a further review, in the context of the indirect impact of the continuing uncertain global situation on domestic financial markets, the Reserve Bank announced the following measures on October 15, 2008. First, the CRR was reduced by another 100 basis points to 6.5 per cent with retrospective effect from the fortnight beginning October 11, 2008. This measure was expected to release an additional Rs.40,000 crore into the banking system. Second, the 14-day special repo facility (announced on October 14, 2008) was decided to be conducted on a daily basis until further notice up to a cumulative amount of Rs.20,000 crore for the same purpose. Third, purely, as a temporary measure, banks were allowed to avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their NDTL. This support will terminate 14 days from the closure of this special term repo facility. This accommodation will be in addition to the temporary measure announced on September 16, 2008 permitting banks to avail of additional liquidity support to the extent of up to 1 per cent of their NDTL. Fourth, It was also announced that the Reserve Bank will institute a facility similar to SMO, when oil bonds become available. Fifth, the Reserve Bank announced an immediate disbursement of Rs.25,000 crore to scheduled banks and NABARD as the first installment under the Agricultural Debt Waiver and Debt Relief Scheme. Sixth, interest rate ceilings were further raised on FCNR(B) deposits by 50 basis points (*i.e.*, to LIBOR/Swap rates *plus* 25 basis points) and on NR(E)RA deposits by 50 basis points (*i.e.*, to LIBOR/Swap rates *plus* 100 basis points). Finally, banks were permitted to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or US$ 10 million, whichever is higher, as against the existing limit of 25 per cent. These measures would be reviewed on a continuous basis in the light of the evolving liquidity conditions.

In view of the global liquidity constraint as reflected by some signs of strains in domestic credit markets in recent weeks, and to maintain financial stability, the Reserve Bank on October 20, 2008 announced a reduction of the repo rate by 100 basis points to 8.0 per cent with immediate effect.

IV. PRICE SITUATION

Headline inflation remained firm in major economies during 2008-09 so far. However, there are signs of moderation in inflationary pressures reflecting marked decline in food and fuel prices as well as augmentation of downward risks to growth from the intensification of global financial market crisis. The monetary policy responses, which were initially somewhat independent in view of inflation concerns, became more coordinated in terms of simultaneous easing of monetary conditions during the period July-October 2008 in view of the increasing downside risks to growth and the consequent diminishing upside risks to price stability. Accordingly, central banks in major advanced economies such as the US, the UK, Euro area, Canada, Sweden and Switzerland cut their policy rates on October 8, 2008. The Reserve Bank of Australia cut its policy rate twice during this period. This was in addition to the strengthening of co-ordinated move by central banks in major advanced countries in terms of injection of short-term liquidity to reduce strains in the financial markets. Amongst emerging economies, central banks of China, Korea and Israel reversed their earlier policy stance and cut their policy rates during the period, while Bank Indonesia continued to raise its policy rate to curb inflation.

Mirroring global trends, inflation in India hardened during 2008-09 so far, *albeit* with some recent easing. Inflation, measured as year-on-year (y-o-y) variation in the wholesale price index (WPI), increased to 11.4 per cent on October 4, 2008 from 3.2 per cent a year ago and 7.7 per cent at end-March 2008, reflecting the impact of some pass-through of international crude oil prices to domestic prices as well as elevated levels of prices of iron and steel, basic heavy inorganic chemicals, machinery and machinery tools, oilseeds, sugar, raw cotton and textiles on account of strong demand as well as international commodity price pressures. However, there has been some moderation in the prices of freely priced petroleum products and edible oils/oil cakes over end-June 2008. Various measures of consumer price inflation were placed in the range of 8.5-11.0 per cent during August/September 2008 as compared with 7.3-8.8 per cent in June 2008 and 5.7-7.9 per cent in September 2007.

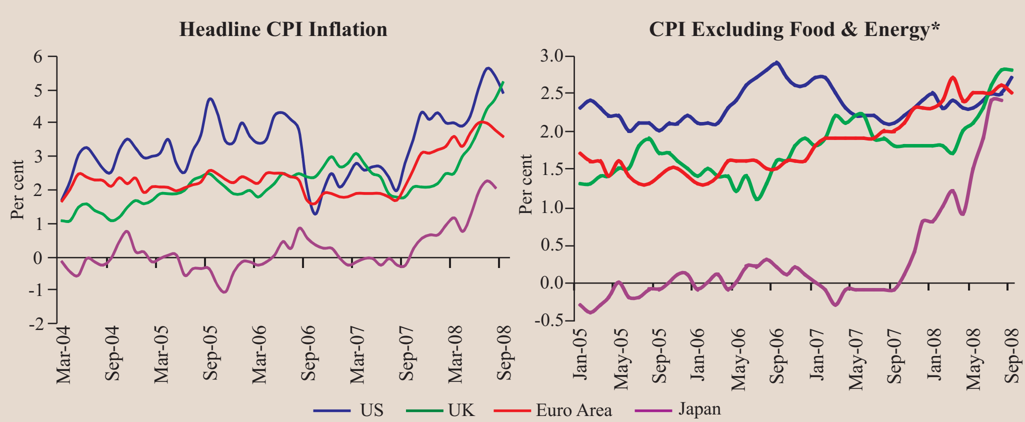
Global Inflation

Headline inflation in major advanced economies remained firm during the second quarter of 2008-09. Inflation hardened to 4.7 per cent in August 2008 in the Organisation for Economic Co-operation and Development (OECD) countries from 1.9 per cent a year earlier mainly due to higher energy and food prices, which increased, year-on-year, by 20.9 per cent and 7.1 per cent, respectively, in August 2008. Amongst major economies, headline inflation in

September 2008 increased in the US to 4.9 per cent (from 2.8 per cent a year ago), in the UK to 5.2 per cent (from 1.8 per cent) and in the euro area to 3.6 per cent (from 2.1 per cent) (Chart 16). Core inflation also remained firm in major economies. In OECD countries, CPI, excluding food and energy, was firm at 2.3 per cent in August 2008 as compared with 2.0 per cent a year ago. In the US, CPI inflation (excluding food and energy) was 2.5 per cent in September 2008 (2.1 per cent a year earlier). Producer price inflation (PPI) also hardened in both advanced and emerging market economies (EMEs). PPI inflation in OECD countries increased to 9.4 per cent in August 2008 from 6.3 per cent in March 2008 and 1.9 per cent a year ago.

In the US, headline inflation continued to be at elevated levels driven by food, energy and transportation prices. However, according to the assessment of the US Federal Open Market Committee (FOMC) on September 16, 2008, inflation was expected to moderate later this year and next year, but the inflation outlook remained highly uncertain. Against this backdrop, after cutting the target for the federal funds rate by 325 basis points during September 2007-April 2008 to 2.0 per cent, the FOMC left it unchanged during April-September 2008. However, in the light of evidence pointing to a weakening of economic activity and a reduction in inflationary pressures, the FOMC reduced the policy rate by 50 basis points to 1.5 per cent on October 8, 2008 as part of the co-ordinated move by major central banks. The discount rate, which was left unchanged at 2.25 per cent during April-September 2008, was reduced by 50 basis points to 1.75 per cent - a total of 450 basis points beginning August 2007 - to improve market liquidity. Apart from these measures, the US Fed also injected liquidity by auctioning term funds to depository institutions against a wide variety of collaterals at the discount window and through a broader

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.

range of counterparties and established foreign exchange swap lines with the ECB, the Swiss National Bank, Reserve Bank of Australia, Sveriges Riksbank, the Danmarks Nationalbank, and the Norges Bank.

In the UK, CPI inflation increased sharply, mainly reflecting upward contributions from prices of housing and household services, clothing and transport costs. According to the latest assessment of the Monetary Policy Committee (MPC), inflation was likely to rise above 5 per cent in the next month or two, but should then drop back, as the contribution from retail energy prices wanes and the margin of spare capacity in the economy increases. Against this backdrop, after keeping the policy rate unchanged since April 2008, the Bank of England cut the policy rate by 50 basis points to 4.50 per cent on October 8, 2008, as part of the joint actions by central banks (Table 28). Thus, the policy rate has been cut by a total of 125 basis points beginning December 2007.

In the euro area, inflation based on Harmonised Index of Consumer Prices (HICP) continued to be at elevated levels and was expected to remain well above levels consistent with price stability for quite some time, moderating gradually during the course of 2009. Furthermore, the economic outlook was subject to increased downside risks, mainly stemming from a scenario of ongoing financial market tensions affecting the real economy more adversely than earlier foreseen. According to the Governing Council of the ECB, taking into account the weakening in demand, upside risks to price stability have diminished somewhat, but they have not disappeared. However, as per the latest assessment of the Council on October 8, 2008, upside inflationary risks have recently decreased further but it remains imperative to avoid broad-based second-round effects in wage and price-setting. Against this backdrop, the ECB reduced the policy rate by 50 basis points on October 8, 2008 as part of the joint action by central banks. After keeping the policy rates unchanged for almost one year, the ECB had earlier raised policy rates by 25 basis points effective July 9, 2008 (Chart 17).

Japan's economic growth, which has been sluggish due to the effects of earlier increases in energy and materials prices and weaker growth in exports, is expected by the Bank of Japan (BoJ) to gradually return onto a moderate growth path as the effects of earlier increases in energy and materials prices abate and overseas economies move out of their deceleration phase. According to the BoJ, it was 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 material prices. Against this backdrop, the BoJ has kept its policy rate unchanged at each of its meetings held since February 2007, when it had raised the uncollateralised overnight call rate (the operating target of monetary policy since March 2006) by 25 basis points to 0.50 per cent. Amongst the central banks in other major advanced

Table 28: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate	Policy Rate (Latest)	Changes in Policy Rates (basis points)			CPI Inflation (y-o-y)		PPI Inflation (y-o-y)		Real GDP Growth (y-o-y)	
			2006-07 (April-March)	2007-08 (April-March)	Since end-March 2008	Sep. 2007	Sep. 2008	Aug. 2007	Aug. 2008	2007 (Q2)	2008 (Q2)
1	2	3	4	5	6	7	8	9	10	11	12
Developed Economies											
Australia	Cash Rate	6.00 (Oct.8, 2008)	75	100	(-) 125	2.1	4.5^	2.4	5.6 ^^	4.2	2.7
Canada	Overnight Rate	2.50 (Oct. 8, 2008)	50	(-)75	(-) 100	1.7	3.5#	-0.7	8.1	2.8	0.7
Euro area	Interest Rate on Main Refinancing Operations	3.75 (Oct. 8, 2008)	125	25	(-)25	2.1	3.6	1.8	8.5	2.6	1.4
Japan	Uncollateralised Overnight Call Rate	0.50 (Feb. 21, 2007)	50	0	0	-0.2	2.1#	1.3	6.8*	1.8	0.7
UK	Official Bank Rate	4.50 (Oct. 8, 2008)	75	0	(-) 75	1.8	5.2	2.9	8.5*	3.0	1.5
US	Federal Funds Rate	1.50 (Oct. 8, 2008)	50	(-)300	(-) 75	2.8	4.9	4.4	8.7*	1.8	2.1
Developing Economies											
Brazil	Selic Rate	13.75 (Sep. 10, 2008)	(-)375	(-)150	250	4.1	6.3	6.9	14.3*	5.4	6.1
India	Reverse Repo Rate	6.00 (Jul. 25, 2006)	50	0	0						
	Repo Rate	8.00 (Oct. 20, 2008)	125	0	25	7.3	9.0#	3.4	11.8*	9.2	7.9
			(100)	(150)	(-100)						
China	Benchmark 1-year Lending Rate	6.93 (Oct. 9, 2008)	81	108	(-) 54	6.5	4.9#	2.6	10.1	11.9	10.1
			(250)	(550)	(100)						
Indonesia	BI Rate	9.50 (Oct. 7, 2008)	(-)375	(-)100	150	7.0	12.1	12.1	35.2&	6.4	6.5
Israel	Key Rate	3.75 (Oct. 12, 2008)	(-)75	(-)25	0	1.4	5.5	3.2	12.6*	4.4	4.9
Korea	Base Rate $	5.00 (Oct. 9, 2008)	50	50	0	2.3	5.1	1.7	12.3	4.9	4.8
			(80)								
Philippines	Reverse Repo Rate	6.00 (Aug. 28 2008) +	0	(-)250	100	2.7	11.9	1.2	5.8	7.5	4.6
Russia	Refinancing Rate	11.00 (Jul. 14, 2008)	(-)150	(-)25	75	9.4	16.1	11.0	31.6	7.8	7.8
			(150)	(200)	(300) ¥						
South Africa	Repo Rate	12.00 (Jun. 13, 2008)	200	200	100	6.7	13.7#	9.6	19.1	5.0	4.5
Thailand	14-day Repurchase Rate	5.00 (Jun. 7, 2006)	50								
	1-day Repurchase Rate	3.75 (Aug. 27, 2008)	(-)44 @	(-)125	50	2.1	6.0	0.3	21.6	4.3	5.3

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

^ : Q2 of 2008. ^^ : Q3 of 2008. & : July. #: August. *: September.

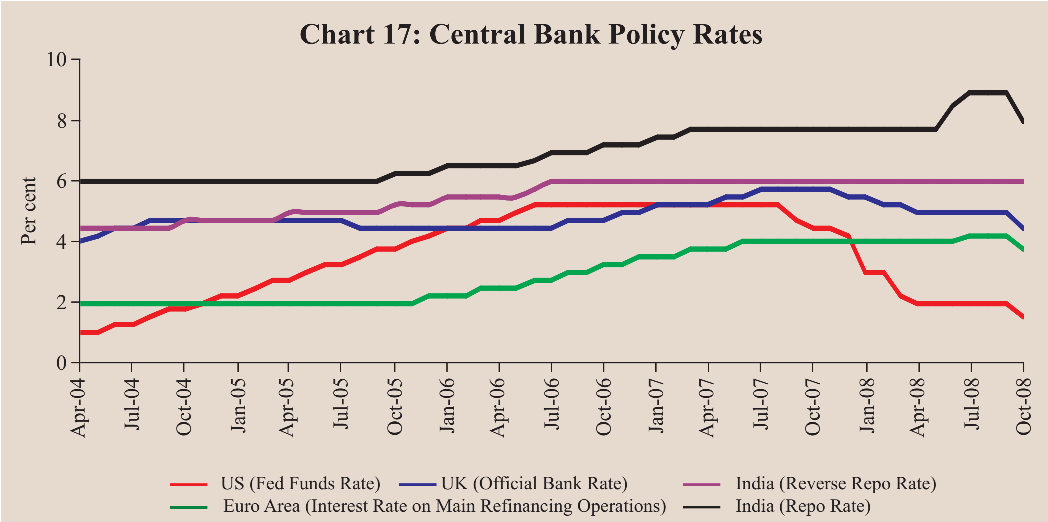
¥ : Includes the increase in reserve ratio of 100 basis points each to be effective from February and March 2009.

\+ : 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 inflation pertain to CPI for Industrial Workers.
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.
4. PPI inflation for Japan, Brazil, Indonesia, Israel and India pertain to WPI inflation.

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



economies, the policy rate was reduced since June 2008 by the Bank of Canada by 50 basis points to 2.50 per cent (a total of 200 basis points beginning December 2007), Sveriges Riksbank (Sweden) by 50 basis points to 4.25 per cent and Swiss National Bank by 50 basis points to 2.50 per cent on October 8, 2008. The Reserve Bank of Australia reduced the policy rate by 25 basis points on September 3, 2008 and further by 100 basis points on October 8, 2008 to 6.00 per cent (it had earlier raised its policy rate by 100 basis points during 2007-08).

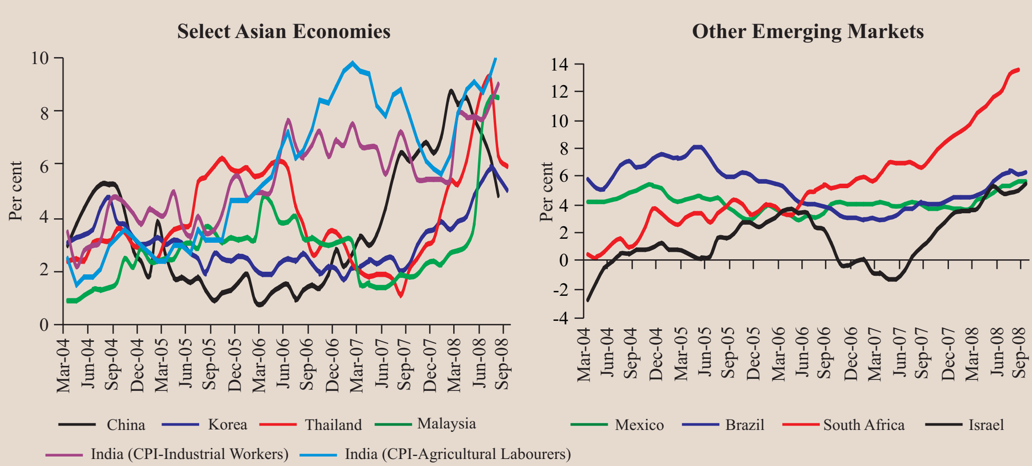
Inflation remained firm in most emerging market economies (EMEs) on the back of strong growth and elevated commodity prices. Consumer price inflation (CPI) in China eased to 4.9 per cent in August 2008 from 6.5 per cent a year ago and 8.3 per cent in March 2008, reflecting decline in the prices of clothing, telecommunications and cultural articles. Prices of foodstuffs, vehicles fuels and residence, however, continued to rise. Real GDP growth decelerated to 10.1 per cent in the second quarter of 2008 from 11.9 per cent a year ago. Against this backdrop, the People's Bank of China (PBC) reduced the benchmark 1-year lending rate twice by 27 basis points each on September 15, 2008 and October 9, 2008 to 6.93 per cent. The cash reserve ratio (CRR) was also reduced by 100 basis points to 16.5 per cent (except for six major banks) on September 15, 2008 to facilitate continued stable and fast development of the national economy. The reduction in the CRR was by 200 basis points for financial institutions in earthquake affected areas. The PBC had earlier increased 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 and the CRR by a total of 1000 basis points to 17.5 per cent between July 2006 and June 2008.

In Korea, consumer price inflation increased to 5.1 per cent in September 2008 from 2.3 per cent a year ago (Chart 18). According to the MPC, consumer price inflation has been slowing gradually due to the decline in international oil prices, but it seemed likely to remain at a high level for some time owing mainly to the depreciation of the Korean won against the US dollar. Financial market price variables such as exchange rates and stock prices were showing unstable movements, largely in response to the spread of international financial market unrest. Financial institutions have been tightening their attitude to lending. Against this backdrop, the Bank of Korea reduced the policy rate by 25 basis points to 5.00 per cent on October 9, 2008 (it had earlier raised the policy rate by 25 basis points to 5.25 per cent on August 7, 2008).

In Thailand, headline inflation accelerated to 6.0 per cent in September 2008 from 2.1 per cent a year ago. According to the assessment of the MPC on October 8, 2008, risks to inflation have declined significantly on account of lower oil prices. Nonetheless, inflationary pressures remained from the continued pass-through of costs and the gradual adjustment of prices under the authorities' price administration measures. Furthermore, the latest economic data pointed towards a slowdown in the Thai economy, due to both domestic and external demand. In addition, risks to economic growth would increase going forward, as a result of the impact of the global financial crisis as well as domestic political factors. Against this backdrop, the policy rate was left unchanged at 3.75 per cent after increasing it by 25 basis points each on July 16, 2008 and August 27, 2008.

In Indonesia, CPI inflation continued to firm up to 12.1 per cent in September 2008 from 7.0 per cent a year ago. According to Bank Indonesia,

Chart 18: Consumer Price Inflation - Emerging Market Economies



domestic inflationary pressures remained strong, mainly because of rapid growth in aggregate demand. The Bank Indonesia observed that pressures from escalating energy, foodstuff and world commodity prices were seen to have eased, but nevertheless warranted continued vigilance. CPI inflation was projected in the range of 11.5-12.5 per cent at end-2008. Against this backdrop, the Bank Indonesia, which had cut its policy rate by a total of 475 basis points during May 2006-December 2007, raised rate subsequently by a total of 150 basis points to 9.50 per cent by October 7, 2008 to curb inflation.

Amongst other emerging markets, consumer price inflation in Russia remained high amidst strong growth. The growth in money supply (M2) moderated to 30 per cent, year-on-year, as on September 1, 2008 from nearly 50 per cent a year ago. Against this backdrop, the Bank of Russia reduced the required reserve ratio (RRR) on credit institutions' liabilities to non-resident banks in rubles and foreign currency by 400 basis points effective September 18, 2008 to 4.5 per cent (it had earlier raised it by a total of 500 basis points beginning January 15, 2008). In order to stabilise the situation on the domestic financial market and maintain banking sector liquidity, the RRR was reduced temporarily by another 400 basis points to 0.5 per cent effective October 15, 2008 with subsequent increases of 100 basis points each effective February 1, 2009 and March 1, 2009 to 2.5 per cent. The refinancing rate has been raised by a total of 100 basis points from February 2008 to 11.0 per cent effective July 14, 2008. In South Africa, according to the latest assessment of the South African Reserve Bank, CPI excluding interest rates on mortgage bonds (CPIX) inflation was expected to peak at an average rate of around 13.3 per cent in the third quarter of 2008 and to average 6.9 per cent in 2009 and expected to return to the inflation target range only by the second quarter of 2010. Against this backdrop, the South African Reserve Bank left the policy rate unchanged after raising it by 100 basis points to 12.0 per cent during the first quarter of 2008-09. The policy rate has been raised by a total of 500 basis points since the tightening began in June 2006. The central bank of Brazil has raised its policy rate by 250 basis points since end-March 2008 to 13.75 per cent on September 10, 2008 for promoting convergence of inflation to the target path. The policy rate was earlier reduced by 850 basis points between September 2005 and September 2007. In light of the sharp increase in uncertainty in financial markets around the world and its implication for Israel's financial markets, the Bank of Israel reversed its policy stance and cut its policy rate by 50 basis points to 3.75 per cent with effect from October 12, 2008. It had earlier raised the policy by a total of 100 basis points during June-September 2008 to bring inflation to the price stability target range of 1-3 per cent.

An assessment of key macroeconomic indicators in select EMEs shows that consumer price inflation was in the range of 4.9-16.1 per cent during August/September 2008. Real policy rates ranged between (-) 5.9 and 7.5 per cent in October 2008 (Table 29). Current account balance in major EMEs, except India and South Africa, was in surplus during 2006/2007. The real effective

Table 29: 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	
	Sept. 2007	Sept. 2008	2006	2007	Sept. 2007	Sept. 2008	2007	2008	Sept. 2007	Oct. 2008#	2006	2007
1	2	3	4	5	6	7	8	9	10	11	12	13
Brazil	4.1	6.3	1.3	0.1	10.7	6.2	-2.3	-1.5	7.2	7.5	3.8	5.4
China	6.2	4.9*	9.4	11.3	5.5	9.3	1.0	0.8	1.1	2.0	11.6	11.9
India	**6.4**	**9.0***	**-1.1**	**-1.5**	**9.7**	**-7.2**	**-2.8 $**	**-2.5 @**	**1.4**	**-1.0**	**9.6**	**9.0**
	(3.4)	**(11.8)**	**(-6.9)**	**(-7.7)**			**(61.5)**	**(57.7)**	**(4.4)**	**(-3.4)**		
Indonesia	7.0	12.1	3.0	2.5	-2.2	4.3	-1.2	-1.7	1.3	-2.6	5.5	6.3
Israel	1.4	5.5	5.9	3.2	-0.4	14.2	--	--	2.6	-1.8	5.2	5.4
Korea	2.3	5.1	0.6	0.6	-2.3	-21.0	-1.5	-1.2	2.7	-0.1	5.1	5.0
Philippines	2.7	11.9	4.5	4.4	6.0	3.8	-0.2	-1.0	3.3	-5.9	5.4	7.2
Russia	9.4	16.1	9.5	5.9	4.8	6.8	6.2	6.1	0.6	-5.1	7.4	8.1
South Africa	7.2	13.7*	-6.5	-7.3	3.4	-5.7	0.9	0.8	2.3	-1.7	5.4	5.1
Thailand	2.1	6.0	1.1	6.4	4.4	-1.4	-1.7	-1.8	1.2	-2.3	5.1	4.8

*: August 2008. # : As on October 20, 2008. $: Provisional Accounts. @ : Budget Estimates.

Note:
1. For India, annual data pertain to fiscal years.
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. Figures in parentheses in columns (8) and (9) refer to central government debt/GDP ratio.
7. Figures in parentheses in columns (10) and (11) for India are based on wholesale price inflation.
8. 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 as compiled by the Reserve Bank of India.

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

exchange rate (REER) for the select EMEs, barring the currencies in Thailand, Korea, South Africa and India underwent real appreciation, on a year-on-year basis, in September 2008. Although the Central Government's fiscal deficit, as per cent of GDP, in India declined during 2007-08 and is budgeted to decline further during 2008-09, it remained higher than that in most EMEs.

Global Commodity Prices

Global commodity prices have eased somewhat during the second quarter of 2008-09 led by a decline in the prices of crude oil, metals and food (Table 30 and Chart 19), but still remains at elevated levels.

International crude oil prices, represented by the West Texas Intermediate (WTI), had touched a historical high of US $ 145.3 a barrel level on July 3, 2008, reflecting strong global demand and low surplus production capacity as well as geo-political tensions, weakening of the US dollar against major currencies and increased interest from investors and financial market participants. Subsequently, crude oil prices eased reflecting decline in demand in OECD countries and improved near-term supply prospects in non-OPEC countries (Table 31).

Table 30: International Commodity Prices

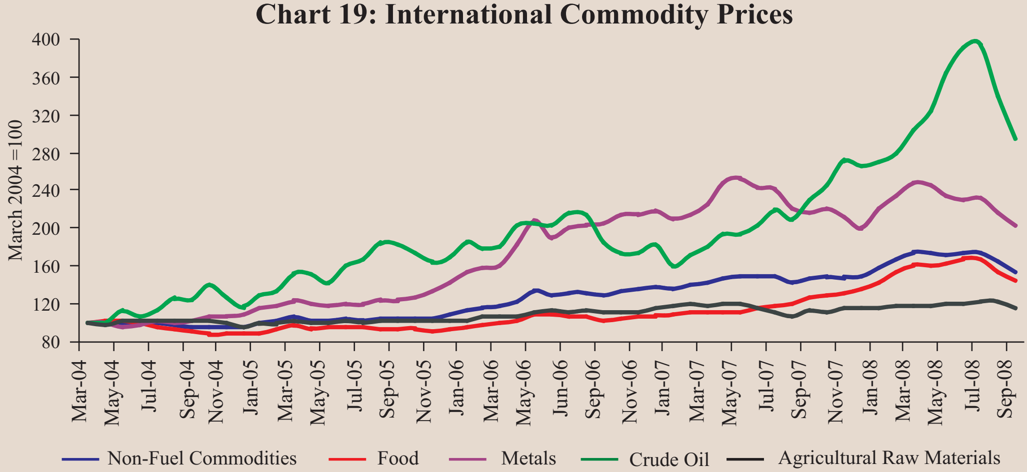
Commodity	Unit	2004 Market Price	Index 2004	2005	2006	2007	2008 Mar.	Jun.	Sep.	Variation (Per cent) Sep.08/ Mar.08	Sep.08/ Sep.07
1	2	3	4	5	6	7	8	9	10	11	12
Energy											
Coal	$/mt	53.0	100	90	93	124	223	302	283	26.8	119.2
Crude oil (Average)	$/bbl	37.7	100	142	170	188	270	349	264	-2.1	29.8
Non-Energy Commodities											
Palm oil	$/mt	471.3	100	90	101	165	265	257	161	-39.2	-9.0
Soybean oil	$/mt	616.0	100	88	97	143	240	250	199	-16.9	28.0
Soybeans	$/mt	306.5	100	90	88	125	188	203	166	-11.6	19.3
Rice	$/mt	237.7	100	120	128	137	250	318	289	15.5	111.2
Wheat	$/mt	156.9	100	97	122	163	280	222	188	-33.0	-9.8
Maize	$/mt	111.8	100	88	109	146	210	257	209	-0.2	42.5
Sugar	c/kg	15.8	100	138	206	141	184	169	189	2.5	38.6
Cotton A Index	c/kg	136.6	100	89	93	102	129	124	119	-8.2	8.0
Aluminium	$/mt	1716.0	100	111	150	154	175	172	147	-15.9	5.6
Copper	$/mt	2866.0	100	128	235	248	294	288	244	-17.2	-8.6
Gold	$/toz	409.2	100	109	148	170	237	217	203	-14.3	16.4
Silver	c/toz	669.0	100	110	173	200	287	255	182	-36.6	-5.7
Steel cold-rolled coilsheet	$/mt	607.1	100	121	114	107	132	181	181	37.5	69.2
Steel hot-rolled coilsheet	$/mt	502.5	100	126	119	109	149	199	199	33.3	81.8
Tin	c/kg	851.3	100	87	103	171	233	261	216	-7.2	22.3
Zinc	c/kg	104.8	100	132	313	309	240	181	166	-30.9	-39.8

$: 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.

International crude oil prices have, however, remained highly volatile on the back of heightened uncertainties following the financial market turmoil. The WTI crude oil price was at around US $ 72 a barrel on October 17, 2008.

Chart 19: International Commodity Prices



Source : International Monetary Fund.

Table 31 : International Crude Oil Prices

(US dollars per barrel)

Year/Month	Dubai Crude	UK Brent	US WTI	Average Crude Price	Indian Basket Price
1	2	3	4	5	6
2001-02	21.8	23.2	24.1	23.0	22.4
2002-03	25.9	27.6	29.2	27.6	26.6
2003-04	26.9	29.0	31.4	29.1	27.8
2004-05	36.4	42.2	45.0	41.3	38.9
2005-06	53.4	58.0	59.9	57.1	55.4
2006-07	60.9	64.4	64.7	63.3	62.4
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
July 2008	131.2	133.9	133.4	132.8	132.3
August 2008	113.2	113.9	116.6	114.6	113.5
September 2008	96.0	99.1	103.9	99.7	97.2

Source : International Monetary Fund and the World Bank.

Notwithstanding the recent easing, according to the US Energy Information Administration (EIA), international crude oil prices are expected to remain at elevated level, in view of the relatively tight demand supply-balance because of sluggish production growth (Table 32).

Table 32: World Supply-Demand Balance of Oil

(Million barrels per day)

Item	2003	2004	2005	2006	2007	2008 (P)	2008			
							Q1	Q2	Q3	Q4(P)
1	2	3	4	5	6	7	8	9	10	11
Demand										
1. OECD	48.7	49.4	49.8	49.6	49.1	48.1	48.7	47.1	47.4	49.1
2. Non-OECD	31.0	33.0	34.0	35.4	36.7	38.1	37.4	38.1	38.2	38.6
of which: China	5.6	6.4	6.7	7.2	7.6	8.0	7.7	7.9	8.1	8.3
3. Total (1+2)	79.7	82.4	83.8	85.0	85.8	86.1	86.0	85.2	85.6	87.7
Supply										
4. OPEC	31.9	34.5	36.1	35.8	35.4	37.1	36.7	36.9	37.4	37.4
5. Non-OPEC	47.7	48.6	48.5	48.7	49.0	48.8	48.6	48.9	48.3	49.3
6. Total (4+5)	79.6	83.1	84.6	84.5	84.4	85.9	85.3	85.8	85.8	86.7
Total Stock Draw	0.1	-0.7	-0.8	0.4	1.4	0.3	0.7	-0.6	-0.2	1.0

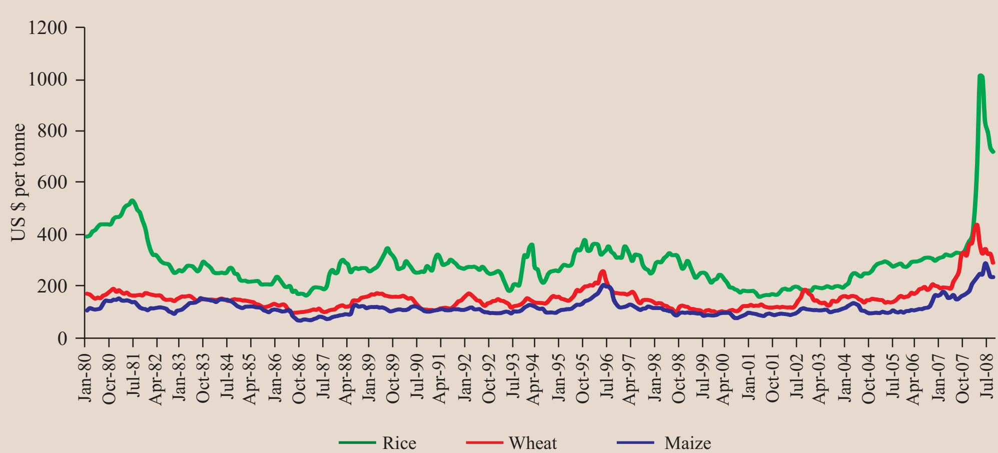
P: Projections.

Source: US Energy Information Administration, October 2008.

Metal prices eased further during the second quarter of 2008-09, reflecting weak construction demand in OECD countries and some improvement in supply, especially in China. Between March 2008 and September 2008, the IMF metals price index declined by around 18 per cent led by lead (38 per cent), zinc (31 per cent), nickel (43 per cent), copper (17 per cent) and aluminium (16 per cent). On the other hand, international steel prices have increased during March-September 2008 (in the range of 33-38 per cent) despite some increase in global crude steel production, mainly reflecting rise in input costs on account of iron ore, energy and freight charges. International iron ore prices remained flat after January 2008, when they rose by about 66 per cent.

Food prices, which had increased sharply up to the first quarter of 2008-09 reflecting higher demand and low stocks, eased somewhat during the second quarter of the year on the back of improved supply prospects, particularly for oilseeds and grains in major producing countries. The World Bank's food price index declined by about 18 per cent during June-September 2008, led by edible oils (20-37 per cent), rice (9 per cent), maize (19 per cent) and wheat (16 per cent) (Chart 20). Notwithstanding the recent easing, however, on a year-on-year basis, international prices of rice (111 per cent), soybeans (19 per cent) and soybean oil (28 per cent) have increased in September 2008 whereas wheat prices have declined by about 10 per cent during the same period. Notwithstanding the recent decline in food prices since June 2008, the IMF food price index in September 2008 was still above the level which was last seen in 1980. According to the US Department of Agriculture, global wheat and

Chart 20: Prices of Rice, Wheat and Maize



rice supplies are projected to increase by about 8 per cent and one per cent, respectively, during 2008-09 to 800 million tonnes and 511 million tonnes. Similarly, global supplies of oilseeds and vegetables oils are also expected to increase by about 6 per cent and 4 per cent, respectively, during 2008-09.

International sugar prices, which had declined somewhat during the first quarter of 2008-09, have increased thereafter by about 12 per cent during June-September 2008, taking the year-on-year increase to 38.6 per cent in September 2008, reflecting anticipated decline in global sugar production. Global cotton prices, which had declined during the first quarter of 2008-09, increased subsequently before declining again in September 2008. Accordingly, cotton prices represented by the 'Cotton A Index' were higher by about 8.0 per cent, year-on-year, in September 2008. According to the International Cotton Advisory Committee (ICAC), world cotton production was expected to decline by 6 per cent in 2008-09. Therefore, world cotton stocks are expected to fall further by about 11 per cent to 10.9 million tonnes. Accordingly, ICAC expects prices to go up by about 8 per cent in 2008-09.

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 appeared to have amplified and, by the then indications, were 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 became 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 erode 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 then appeared to be strongly in evidence. Apart from the build-up in inflationary expectations, this was reflected in (i) strong investment demand; (ii) the pick-up in the growth of domestic capital goods production, *albeit* with some recent moderation; (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.

Consistent with the stance of monetary policy, the evolving liquidity situations and on the basis of incoming information on domestic and global macroeconomic and financial developments, it was decided to increase the cash reserve ratio (CRR) by 25 basis points each on May 10, 2008 and May 24, 2008 to 8.25 per cent. Furthermore, the repo rate under the Liquidity Adjustment Facility (LAF) was increased from 7.75 per cent to 8.00 per cent on June 12, 2008 and further to 8.50 per cent with effect from June 25, 2008. The CRR was again increased by 50 basis points to 8.75 per cent in two stages from July 5, 2008 and July 19, 2008 by 25 basis points each.

The First Quarter Review of the Annual Statement on Monetary Policy for 2008-09 noted that after the announcement of the Annual Policy Statement in April 2008, global as well as domestic developments on both supply and demand sides, pointed to accentuation of inflationary pressures, especially in terms of inflation expectations and perceptions during the first quarter of 2008-09. In an environment of surging global inflation, and with domestic inflation also rising to a 13-year high, the Reserve Bank noted with concern that inflation had emerged as the biggest risk to the global outlook, having risen to very high levels across the world, not generally seen for a couple of decades. The then prevailing inflation was identified to be driven mainly by escalating commodity prices, particularly of energy, food and metals. Growing concerns prevailed across economies that rising food and energy prices were triggering a more generalised inflation spiral through second-round effects. Even if the inflation was expected to rise as per the earlier assessment, the size and pace of the subsequent change was clearly unanticipated. The First Quarter Review observed that while high inflation was now a worldwide phenomenon, country responses differed widely depending on perceptions of the nature of the shock, their expected persistence and the stage of the inflation cycle in terms of the onset of the second-order impact. Against this background, the Review expected that inflation would moderate from the then prevailing high levels in the months to come and a noticeable decline in inflation can be expected towards the last quarter of 2008-09. Accordingly, while the policy actions, according to the Review, would aim at bringing down the then intolerable level of inflation to a tolerable level of below 5.0 per cent as soon as possible and around 3.0 per cent over the medium-term, at that juncture, a realistic policy endeavour would be to bring down inflation from the then prevailing level of about 11.0-12.0 per cent to a level close to 7.0 per cent by March 31, 2009.

The First Quarter Review also noted that in view of the criticality of anchoring inflation expectations, a continuous heightened vigil over ensuing monetary and macroeconomic developments was to be maintained to enable swift responses with appropriate measures as necessary, consistent with the monetary policy stance. Furthermore, in view of the prevailing macroeconomic, liquidity and overall monetary conditions, the First Quarter Review announced an increase in the fixed repo rate under the LAF by 50 basis points from 8.5 per cent to 9.0 per cent with effect from July 30, 2008 and an increase in the CRR by 25 basis points to 9.0 per cent with effect from August 30, 2008 (Table 33).

The extraordinary global developments triggered by the bankruptcy/sell-out/restructuring of some of the world's largest financial institutions since

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

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio	WPI Inflation
1	2	3	4	5
March 31, 2004	4.50	6.00	4.50	4.6
September 18, 2004	4.50	6.00	4.75 (+0.25)	7.9
October 2, 2004	4.50	6.00	5.00 (+0.25)	7.1
October 27, 2004	4.75 (+0.25)	6.00	5.00	7.4
April 29, 2005	5.00 (+0.25)	6.00	5.00	6.0
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00	4.5
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00	4.2
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00	4.9
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00	4.7
October 31, 2006	6.00	7.25 (+0.25)	5.00	5.4
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)	8.9
June 12, 2008	6.00	8.00 (+0.25)	8.25	11.7
June 25, 2008	6.00	8.50 (+0.50)	8.25	11.9
July 5, 2008	6.00	8.50	8.50 (+0.25)	12.2
July 19, 2008	6.00	8.50	8.75 (+0.25)	12.5
July 30, 2008	6.00	9.00 (+0.50)	8.75	12.5
August 30, 2008	6.00	9.00	9.00 (+0.25)	12.1
October 11, 2008	6.00	9.00	6.50 (-2.50)	--
October 20, 2008	6.00	8.00 (-1.00)	6.50	--

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 changes in policy rates/ratios.

September 2008 resulted in a sharp deterioration in the global financial environment. These new developments impacted domestic money and foreign exchange markets with a marked increase in volatility and a sharp squeeze on market liquidity as reflected in the movements in overnight interest rates and the high recourse to the LAF. On a review of the liquidity situation in the context of global and domestic developments, the CRR was reduced by a total of 250 basis points to 6.5 per cent with effect from the fortnight beginning October 11, 2008. It was also noted that these measures would be reviewed on a continuous basis in the light of the evolving liquidity conditions. Against the backdrop of the indirect impact of the global liquidity constraint on the domestic credit markets, the Reserve Bank announced a reduction of LAF repo rate by 100 basis points to 8.0 per cent effective October 20, 2008. The overall stance of monetary policy in 2008-09 would continue to accord high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum.

Wholesale Price Inflation

In India, inflation based on the wholesale price index (WPI) remained at elevated levels during 2008-09 so far, despite some recent easing. As on October 4, 2008, WPI inflation was 11.4 per cent as compared with 12.0 per cent at end-June 2008, 7.7 per cent at end-March 2008 and 3.2 per cent a year ago. This mainly reflected the impact of some pass-through of international crude oil prices to domestic prices as well as elevated levels of prices of iron and steel, basic heavy inorganic chemicals, machinery and machinery tools, oilseeds, sugar, raw cotton and textiles on account of strong demand as well as international commodity price pressures. However, there has been some moderation in the prices of freely priced petroleum products and edible oils/oil cakes over end-June 2008. On a year-on-year basis, 12 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 69 per cent of headline inflation as on October 4, 2008 (as compared with 65 per cent a year ago) (Table 34).

The y-o-y inflation, excluding fuel, was at 10.6 per cent as on October 4, 2008 as compared with 4.7 per cent a year ago. The annual average WPI inflation rate (average of 52 weeks) also increased to 8.0 per cent as on October 4, 2008 from 5.8 per cent at end-June 2008 and 4.7 per cent at end-March 2008 (5.3 per cent a year ago) (Chart 21).

Amongst major groups, primary articles inflation, y-o-y, increased to 12.7 per cent on October 4, 2008 from 5.0 per cent a year ago and 11.0 per cent at

Table 34: Key Commodity Price Inflation - Global *vis-à-vis* Domestic (year-on-year)

(Per cent)

Item	Global Inflation	Domestic Inflation *			
	Sept. 2008 over Sept. 2007	Inflation		Weighted Contribution	
		2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6
1. Rice	111.2	6.7	5.2	4.4	1.0
2. Wheat	-9.8	1.6	7.6	0.7	1.0
3. Milk	..	6.1	7.9	8.0	3.0
4. Raw Cotton	8.0	12.8	37.6	4.0	3.7
5. Oilseeds	18-19	26.1	13.6	17.8	3.2
6. Iron Ore	66.0	0.2	56.3	0.0	3.9
7. Coal Mining	119.2	0.0	9.8	0.0	1.6
8. Minerals Oil	29.8	-2.0	22.6	-8.3	24.9
9. Edible Oils	(-)9/28	10.9	10.9	6.9	2.1
10. Oil Cakes	18.7	34.4	26.0	13.5	3.7
11. Basic Heavy Inorganic Chemicals	..	13.8	30.3	5.1	3.4
12. Basic Metals, Alloys and Products	-6.1 #	4.4	20.5	12.9	17.2
- Iron and Steel	69-82	7.1	29.2	10.0	12.0
Sub-total				**65.1**	**68.7**

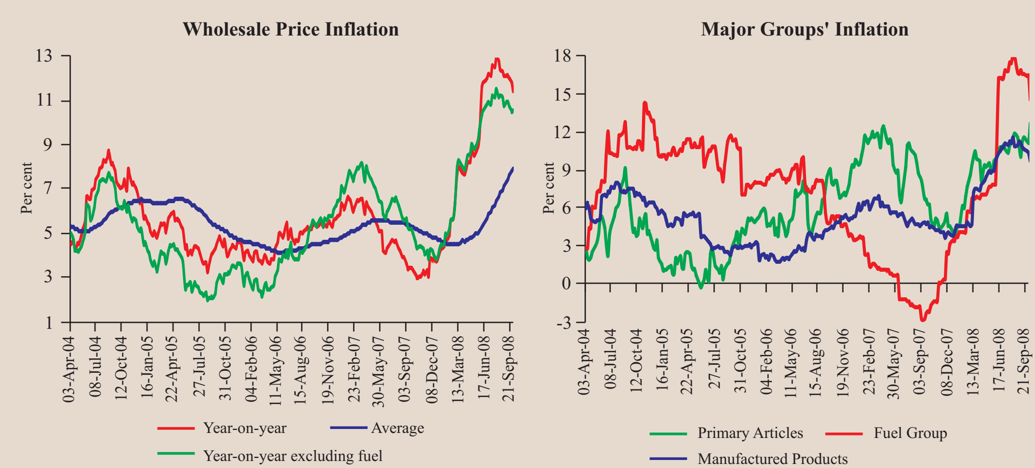
* : Based on WPI as on October 4, 2008.

: 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.

end-June 2008 (9.7 per cent at end-March 2008). This mainly reflected the increase in the prices of food articles, especially of wheat, rice, fruits and vegetables, milk, and eggs, fish and meat as well as non-food articles such as oilseeds and raw cotton. Within primary food articles, rice and wheat prices increased by 5.2 per cent and 7.6 per cent, respectively, on a year-on-year

Chart 21: Annual WPI Inflation



basis, on October 4, 2008 as compared with 6.7 per cent and 1.6 per cent a year ago. The lower order of increase in domestic prices of rice in the face of sharp increases in international prices, was due to the various supply-side measures undertaken by the Government. Amongst other primary food items, prices of milk increased by 7.9 per cent, y-o-y, as on October 4, 2008 on top of 6.1 per cent recorded a year ago, while prices of fruits increased by 19.5 per cent (against a decline of 8.4 per cent a year ago). Vegetables prices also increased by 8.3 per cent (4.6 per cent a year ago). Amongst non-food primary articles, prices of oilseeds, y-o-y, increased by 13.6 per cent as on October 4, 2008 on top of the increase of 26.1 per cent a year ago, which could be attributed to higher demand, estimated lower domestic production under the current *kharif* crop as well as firm global prices. Notwithstanding higher domestic production during 2007-08, raw cotton prices increased by 24.4 per cent over end-March 2008, reflecting estimated lower domestic production under the current *kharif* crop as well as higher exports on the back of firm international prices. Within minerals, iron ore prices increased by 56.3 per cent, y-o-y, as compared with 0.2 per cent a year ago.

Fuel group inflation increased to 14.6 per cent on October 4, 2008 from a decline of 1.8 per cent a year ago and 6.8 per cent at end-March 2008 (it was 16.3 per cent at end-June 2008) mainly due to increase in the prices of minerals oil by 14.3 per cent over end-March 2008. This reflected the effect of the hike in the prices of petrol (Rs.5 per litre), diesel (Rs.3 per litre) and LPG (Rs.50 per cylinder) on June 4, 2008 as well as increase in the prices of freely priced petroleum products such as naphtha, furnace oil, aviation turbine fuel (ATF), bitumen and lubricants. However, in response to easing in international crude oil prices from the peak of early-July 2008, domestic prices declined by about 22 per cent in case of naphtha beginning the first week of August 2008, about 10 per cent in case of furnace oil beginning mid-August 2008 and 22 per cent in case of ATF beginning the first week of September 2008. Despite these easing, prices of freely-priced petroleum products increased by 9-39 per cent between end-March 2008 and October 4, 2008. Overall, prices of minerals oil increased by 22.6 per cent, year-on-year, as on October 4, 2008 as against a decline of 2.0 per cent a year ago. In this context, it may be noted that international crude oil (Indian basket) prices increased by 72 per cent from US $ 56.6 a barrel in February 2007 to US $ 97.2 a barrel in September 2008. In rupee terms, the increase was almost 77 per cent over the same period, while the minerals oil group (monthly average) index in the WPI increased by 27.6 per cent. Coal prices increased by 9.8 per cent, y-o-y, as on October 4, 2008 as compared with ‘nil’ increase last year. Electricity prices, however, remained broadly flat (Table 35).

Table 35: Wholesale Price Inflation in India (year-on-year)

(Per cent)

Commodity		2007-08 (March 29)		2007-08 (October 6)		2008-09 P (October 4)	
	Weight	Inflation	WC	Inflation	WC	Inflation	WC
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**7.7**	**100.0**	**3.2**	**100.0**	**11.4**	**100.0**
1. Primary Articles	**22.0**	**9.7**	**28.2**	**5.0**	**34.8**	**12.7**	**25.3**
Food Articles	15.4	6.5	13.2	2.8	13.8	9.7	13.5
i. Rice	2.4	9.1	2.5	6.7	4.4	5.2	1.0
ii. Wheat	1.4	5.1	1.0	1.6	0.7	7.6	1.0
iii. Pulses	0.6	-1.9	-0.2	-10.9	-2.7	9.3	0.6
iv. Vegetables	1.5	14.2	2.3	4.6	2.2	8.3	1.1
v. Fruits	1.5	4.1	1.0	-8.4	-5.0	19.5	2.9
vi. Milk	4.4	8.7	4.7	6.1	8.0	7.9	3.0
vii. Eggs, Fish and Meat	2.2	2.4	0.8	5.7	4.2	8.6	1.8
Non-Food Articles	6.1	11.4	8.8	12.4	21.3	13.9	7.3
i. Raw Cotton	1.4	14.0	2.0	12.8	4.0	37.6	3.7
ii. Oilseeds	2.7	20.3	6.7	26.1	17.8	13.6	3.2
iii. Sugarcane	1.3	-0.4	-0.1	1.1	0.5	-0.4	0.0
Minerals	0.5	49.9	6.2	-0.5	-0.2	54.5	4.6
2. Fuel, Power, Light and Lubricants	**14.2**	**6.8**	**18.9**	**-1.8**	**-12.5**	**14.6**	**27.4**
i. Minerals Oil	7.0	9.3	15.1	-2.0	-8.3	22.6	24.9
ii. Electricity	5.5	1.5	1.4	-1.8	-4.0	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**	**4.5**	**77.0**	**9.7**	**47.1**
i. Food Products	11.5	9.4	12.4	3.9	12.4	9.8	8.7
of which: Sugar	3.6	1.1	0.4	-15.3	-13.8	13.6	2.8
Edible Oils	2.8	20.0	5.5	10.9	6.9	10.9	2.1
ii. Cotton Textiles	4.2	-6.8	-2.8	-0.5	-0.5	6.4	1.7
iii. Man-made Fibres	4.4	2.8	0.7	-1.7	-1.1	4.9	0.8
iv. Chemicals and Chemical Products	11.9	6.0	8.7	5.9	20.3	9.7	9.6
of which : Fertilisers	3.7	5.1	2.0	1.1	1.1	9.6	2.6
v. Basic Metals, Alloys and Metal Products	8.3	20.3	25.2	4.4	12.9	20.5	17.2
of which: Iron and Steel	3.6	34.2	20.1	7.1	10.0	29.2	12.0
vi. Non-Metallic Mineral Products	2.5	6.4	2.0	10.3	7.4	3.4	0.7
of which: Cement	1.7	5.1	1.1	12.0	6.1	2.3	0.4
vii. Machinery and Machine Tools	8.4	3.5	2.9	7.5	14.6	5.3	3.0
of which: Electrical Machinery	5.0	4.8	2.0	12.8	12.3	5.3	1.6
viii. Transport Equipment and Parts	4.3	3.9	1.7	1.5	1.6	6.5	1.9
Memo:							
Food Items (Composite)	**26.9**	**7.7**	**25.6**	**3.2**	**26.2**	**9.7**	**22.1**
WPI Excluding Food	**73.1**	**7.8**	**74.4**	**3.2**	**73.8**	**12.0**	**77.9**
WPI Excluding Fuel	**85.8**	**8.0**	**81.1**	**4.7**	**112.5**	**10.6**	**72.6**

WC: Weighted Contribution. P: Provisional.

Manufactured products inflation, year-on-year, was 9.7 per cent as on October 4, 2008 as compared with 4.5 per cent a year ago and 10.9 per cent at end-June 2008 (it was 7.3 per cent at end-March 2008). The year-on-year increase in manufactured products prices was driven mainly by sugar, edible oils/oil cakes, textiles, chemicals, iron and steel, and machinery and machine tools. Prices of edible oils and grain mill products, however, eased somewhat over end-March 2008. The increase in domestic edible oils and oil cakes prices, year-on-year, by 10.9 per cent and 26.0 per cent, respectively, as on October 4, 2008 (on top of 10.9 per cent and 34.4 per cent, respectively, a year ago) reflected surge in demand, estimated lower domestic current *kharif* oilseeds production as well as elevated international prices, *albeit* with some recent easing (Chart 22). The sharp increase in domestic iron and steel prices (29.2 per cent, year-on-year) was in line with the recent hardening of international steel prices, which have increased in the range of 69-82 per cent, y-o-y, in September 2008 (Chart 23). Domestic non-ferrous metals prices declined by 3.6 per cent, year-on-year, on October 4, 2008 in line with the decline in international metals prices by around 6 per cent, y-o-y, in September 2008. The increase in textiles prices by 9.8 per cent over end-March 2008 reflected the impact of higher domestic raw cotton prices in line with international trends as well as higher exports. Sugar prices have increased by 6.6 per cent up to October 4, 2008 over end-March 2008, reflecting the estimated decline in current *kharif* sugarcane production and higher international prices.

The 'manufactured products' group was the major driver of year-on-year WPI inflation as on October 4, 2008 with weighted contribution of 47.1 per cent

Chart 22: Edible Oils Inflation

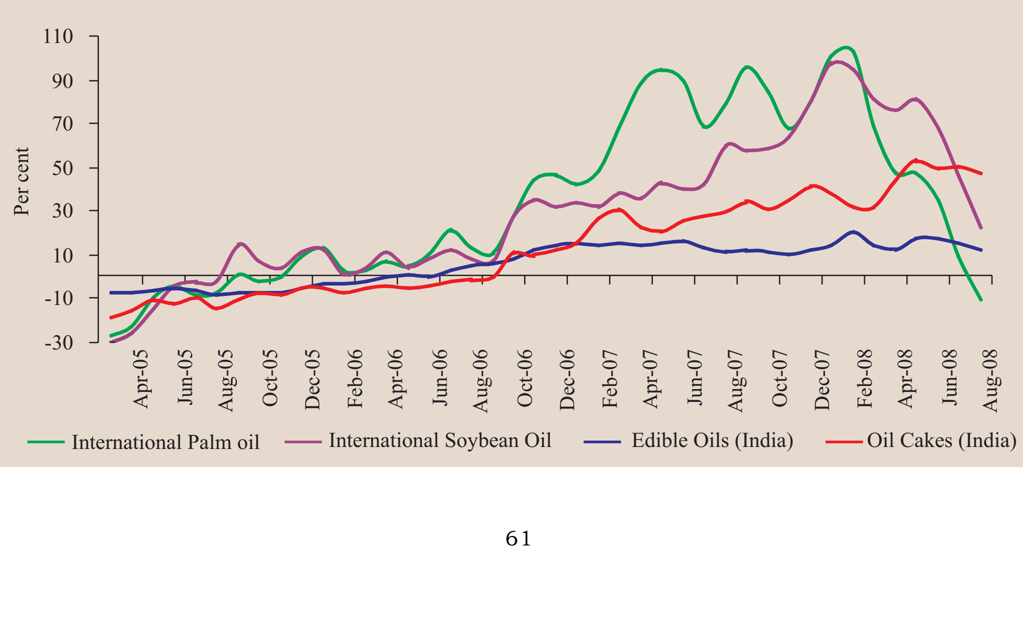
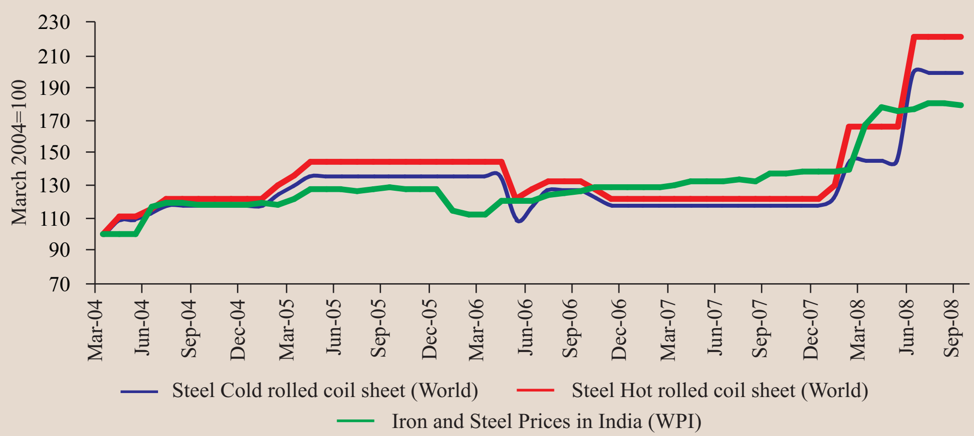


Chart 23: Iron and Steel Prices



(77.0 per cent a year ago) to overall WPI inflation, followed by 'fuel, power, light and lubricants' group (27.4 per cent as against a negative contribution of 12.5 per cent a year ago) and the 'primary articles' group (25.3 per cent as compared with 34.8 per cent a year ago) (Chart 24).

Consumer Price Inflation

Inflation, based on year-on-year variation in consumer price indices (CPIs), hardened further during August/September 2008 mainly due to increase

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

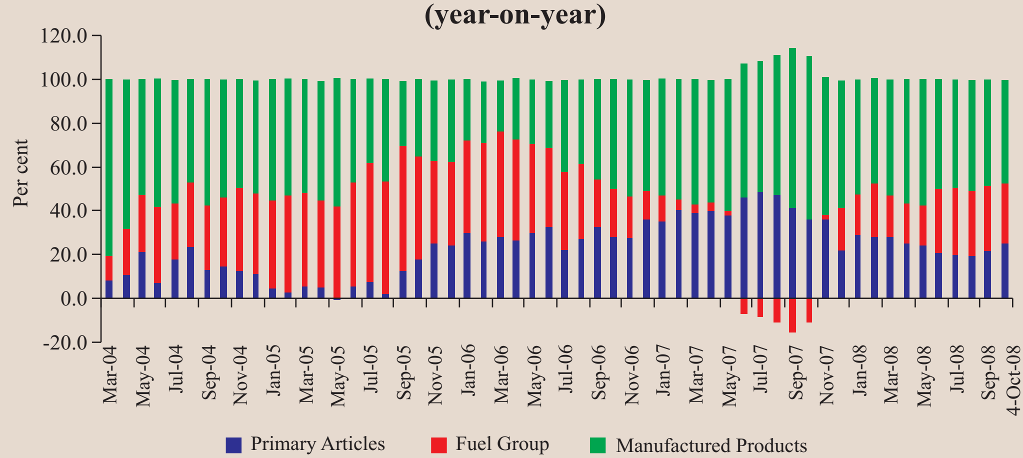


Table 36: Consumer Price Inflation - Major Groups

(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	June 2008	July 2008	Aug. 2008	Sep. 2008
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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**	**7.7**	**8.3**	**9.0**	**--**
Food Group	46.2	3.7	3.1	1.6	4.9	12.2	8.1	8.7	6.2	9.3	10.5	10.3	--	--
Pan, Supari *etc.*	2.3	1.9	4.2	2.1	3.1	4.4	9.6	10.3	10.3	10.9	7.1	6.3	--	--
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	3.2	1.6	2.3	2.3	4.6	8.4	9.2	--	--
Housing	15.3	5.4	3.9	20.4	6.6	4.1	4.1	4.0	4.0	4.7	4.7	3.8	--	--
Clothing, Bedding *etc.*	6.6	1.5	2.1	2.3	3.0	3.7	4.4	5.3	3.5	2.6	2.5	2.5	--	--
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3	4.0	4.0	4.7	6.3	6.2	7.8	--	--
CPI-UNME (Base: 1984-85=100)														
General	**100.0**	**3.8**	**3.4**	**4.0**	**5.0**	**7.6**	**6.1**	**5.7**	**5.1**	**6.0**	**7.3**	**7.4**	**8.5**	**--**
Food Group	47.1	2.6	3.0	2.2	5.3	10.9	7.7	7.7	6.2	7.8	9.6	10.0	--	--
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4	7.2	7.0	5.4	4.6	5.3	6.2	--	--
Housing	16.4	6.3	5.2	7.5	5.5	5.6	5.6	4.9	4.7	4.0	3.8	3.7	--	--
Clothing, Bedding *etc.*	7.0	2.6	2.6	2.0	2.9	3.6	4.3	4.0	4.1	4.3	3.4	3.2	--	--
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4	3.7	3.2	3.8	4.8	6.6	7.3	--	--
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**	**8.8**	**9.4**	**10.3**	**11.0**
Food Group	69.2	6.0	1.6	2.2	5.5	11.8	8.8	8.8	6.2	8.5	9.6	10.7	11.3	--
Pan, Supari *etc.*	3.8	3.5	4.7	-1.3	6.6	5.7	9.1	11.1	11.3	10.4	11.2	10.8	11.8	--
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.9	7.4	7.2	6.3	8.0	8.9	9.3	9.5	--
Clothing, Bedding *etc.*	7.0	3.0	4.1	2.5	2.2	3.5	2.7	1.9	1.3	1.8	3.1	3.6	5.0	--
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.8	6.7	5.5	5.2	6.1	6.5	7.0	6.9	--
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**	**8.7**	**9.4**	**10.3**	**11.0**
Food Group	66.8	5.6	1.9	1.9	5.8	11.5	8.5	8.8	6.2	8.2	9.6	10.5	11.6	--
Pan, Supari *etc.*	3.7	3.5	4.7	-1.0	6.3	5.7	9.3	11.6	11.5	10.6	10.9	10.5	11.5	--
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.9	7.4	7.2	6.3	8.0	8.9	9.3	9.8	--
Clothing, Bedding *etc.*	9.8	3.3	3.4	2.8	2.7	3.1	2.6	2.1	2.6	2.8	4.1	4.3	5.6	--
Miscellaneous	11.9	3.1	3.0	5.5	5.2	6.3	6.2	5.3	5.0	6.2	6.8	7.0	7.2	--
Memo:														
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	5.9	4.4	3.4	3.8	7.7	12.0	12.5	12.1	11.8
GDP Deflator based Inflation*		3.9	3.7	4.2	4.9	5.5	5.4	3.9	2.7	4.2	7.8	--	--	--

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

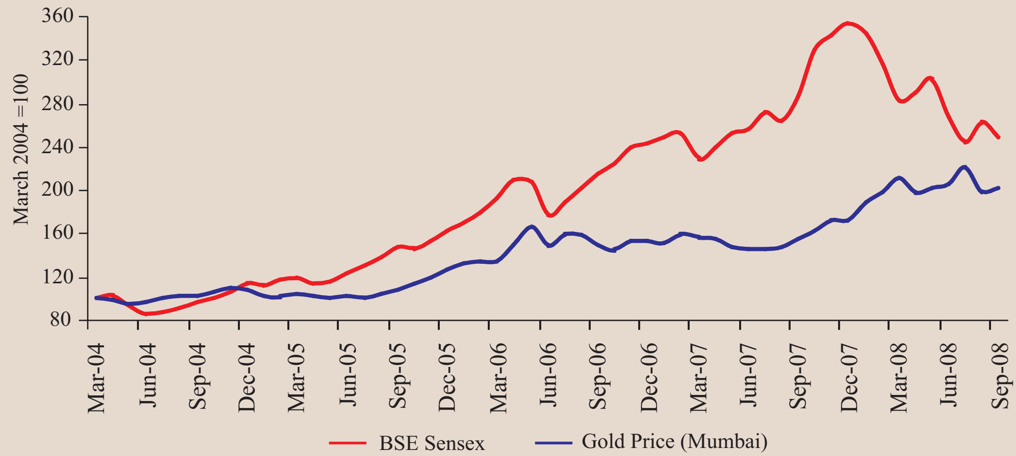
* : Data for March pertain to full year.

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

AL : Agricultural Labourers. RL : Rural Labourers.

in the prices of food, fuel and services (represented by the 'miscellaneous' group). Various measures of consumer price inflation were placed in the range of 8.5-11.0 per cent during August/September 2008 as compared with 7.3-8.8 per cent in June 2008 and 5.7-7.9 per cent in September 2007 (Table 36).

Chart 25: Asset Price Movements



Asset Prices

Domestic equity prices witnessed further corrections during the second quarter of 2008-09 in line with the trends in major international financial markets, which fell due to the persistence of financial market turmoil following the US sub-prime crisis, and concerns about some slowdown in the US economy. The corrections intensified since mid-September 2008 (see Chapter V). Domestic gold prices eased somewhat up to mid-September 2008 over July 2008 mirroring movements in international prices. Subsequently, gold prices have hardened reflecting heightened uncertainties surrounding financial markets in advanced economies. Domestic gold prices, which had declined to around Rs.11,200 per 10 grams during the second week of September 2008, recovered thereafter to over Rs.13,000 per 10 grams by end-September 2008 in line with movement in international prices, which recovered to around US $ 880 per ounce over the same period (Chart 25). Gold prices have been volatile during October 2008 so far. 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.

V. FINANCIAL MARKETS

Global financial market conditions deteriorated substantially during the third quarter of 2008 (July-September). Bankruptcy/sell-out/restructuring became more widespread spreading from mortgage lending institutions to systemically important financial institutions and further to commercial banks. The failure of banks and financial institutions also broadened geographically from the US to many European countries. As a result, funding pressures in the inter-bank money market persisted, equity markets weakened further and counterpart credit risk increased. Central banks continued to take action to enhance the effectiveness of their liquidity facilities. Emerging market economies (EMEs), which had been relatively resilient in the initial phase of the financial turbulence, witnessed an environment of tightened external funding condition, rising risk and high inflation led by elevated food and energy prices.

Financial markets in India, which remained largely orderly from April 2008 to mid-September 2008, witnessed heightened volatility between mid-September and mid-October 2008. In the foreign exchange market, the Indian rupee generally depreciated against major currencies. Indian equity markets declined in tandem with trends in major international equity markets. Liquidity conditions tightened since mid-September 2008 reflecting adverse developments in international financial markets, apart from domestic factors. The Reserve Bank took necessary actions to inject liquidity and reassured the market that the Indian banking system remained sound, well capitalised and well regulated.

International Financial Markets

Global financial market conditions worsened further during June-October 2008[1]. By September 2008, the crisis intensified creating apprehensions about the viability of some systemically important financial institutions. While markets continued to be fragile, worries about the economic outlook and related uncertainties gained prominence, weighing on valuations across asset classes. Credit markets witnessed renewed pressure from end-May 2008 as spreads widened to reflect the implications of the ongoing cyclical adjustment for loss expectations and financial sector balance sheets. Corporate earnings and credit quality eroded as input cost increased and demand subsided in an environment of higher inflation and lower growth. Bond yields in major advanced economies declined reflecting a flight to safety, worsening growth outlook, but possibly improving near-term inflation outlook.

[1] A detailed account of the financial market developments during April-June 2008 was covered in the Macroeconomic and Monetary Developments: First Quarter Review 2008-09.

Equity markets declined further on concerns about growth, news of further financial looses by leading investment banks and deteriorating earnings. In the inter-bank money markets, funding pressures continued and spreads between the London inter-bank offered rate (LIBOR) and corresponding overnight indexed swap (OIS) rates widened on the back of renewed concerns about financial sector writedowns, weak equity markets, counterparty credit risk and liquidity factors.

Strains in financial markets increased significantly in June 2008 and early-July 2008 as negative cyclical expectations were fuelled by further weakness in housing markets. There was further increase in mortgage delinquencies and foreclosures in the US, with house price depreciation projected to extend well into the future. Sentiment deteriorated further as concerns mounted about the losses and longer-term profitability of two US mortgage companies, *viz.*, Fannie Mae and Freddie Mac, triggering apprehensions about their ability to raise new capital. These two institutions were placed under the conservatorship of the US Federal Housing Finance Agency with the US Government pledging additional financial support as needed to maintain adequate capital and funding.

In order to further enhance the effectiveness of its existing liquidity facilities, the US Federal Reserve announced the following steps on July 30, 2008: (i) extension of the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF) through January 30, 2009; (ii) introduction of auctions of options on US$ 50 billion on the TSLF; (iii) introduction of 84-day Term Auction Facility (TAF) loans as a complement to 28-day TAF loans; and (iv) increase in the Federal Reserve's swap line with the European Central Bank (ECB) to US$ 55 billion from US$ 50 billion in May 2008. In association with this change, the ECB and the Swiss National Bank (SNB) also adapted the maturity of their operations. Equity markets recovered somewhat towards end-July 2008, reflecting decline in the crude oil prices.

During the period from end-May to late August 2008, credit default swap (CDS) indices, however, witnessed widening of spreads with the US five-year CDX high-yield index. The spread widened by almost 136 basis points to near 709. European and Japanese CDS indices broadly mirrored the performance of their US counterparts. On August 22, 2008, the 10-year US Treasury bond yield was 3.87 per cent, around 20 basis points down from its level in late May 2008. Over the same period, 10-year yields in the Euro area and Japan fell by about 20 and 30 basis points to 4.22 per cent and 1.45 per cent, respectively.

Strains in the global financial markets exacerbated further in September 2008 by the bankruptcy/sell-out/restructuring of some of the world’s largest financial institutions resulting in severe disruptions of international money markets, sharp declines in stock markets across the globe and extreme investor risk aversion. Central banks and financial regulators continued to work together closely and took steps with both unusual and unconventional measures to facilitate the orderly operation of financial markets and to ensure financial stability.

The US Federal Reserve Board on September 14, 2008 announced several initiatives to provide additional support to financial markets, including enhancements to its existing liquidity facilities. The collateral eligible to be pledged at the PDCF was broadened to closely match the types of collateral that can be pledged in the tri-party repo systems of the two major clearing banks rather than being limited to investment-grade debt securities as was the previous practice. The collateral for the TSLF was also expanded; eligible collateral for Schedule 2 auctions included all investment-grade debt securities instead of the earlier practice of pledging only Treasury securities, agency securities, and AAA-rated mortgage-backed and asset-backed securities. Also, Schedule 2 TSLF auctions were decided to be conducted each week instead of the earlier practice of conducting them every two weeks. In addition, the amounts offered under Schedule 2 auctions increased to a total of US$ 150 billion from US$ 125 billion. Thus, including an amount of US$ 50 billion under Schedule 1 auctions, which remained unchanged, the total amount offered in the TSLF programme was raised to US$ 200 billion from US$ 175 billion.

On September 16, 2008, the US Federal Reserve Board, with the full support of the Treasury Department, authorised the Federal Reserve Bank of New York to lend up to US$ 85 billion to the American International Group (AIG). The US Federal Reserve Board determined that, in prevailing circumstances, a disorderly failure of AIG could add to already significant levels of financial market fragility and lead to substantially higher borrowing costs, reduced household wealth, and materially weaker economic performance.

On September 18, 2008, the Bank of Canada, the Bank of England, the European Central Bank, the US Federal Reserve, the Bank of Japan and the Swiss National Bank announced coordinated measures designed to address the continued elevated pressures in short-term US dollar funding markets and to improve the liquidity conditions in global financial markets. The US Federal Open Market Committee (FOMC) authorised a US$ 180 billion expansion of its temporary reciprocal currency arrangements (swap lines) to provide dollar funding for both term and overnight liquidity operations by the other central banks. The FOMC authorised increases in the existing swap lines with the ECB and the SNB. These larger facilities would support the provision of US dollar liquidity in amounts of up to US$ 110 billion by the ECB, an increase of $55 billion, and up to US$ 27 billion by the SNB, an increase of US$ 15 billion. In addition, new swap facilities were authorised with the Bank of Japan, the Bank of England and the Bank of Canada. These facilities would support the provision of US dollar liquidity in amounts of up to US$ 60 billion by the Bank of Japan, US$ 40 billion by the Bank of England and US$ 10 billion by the Bank of Canada. All of these reciprocal currency arrangements were authorised through January 30, 2009.

The US Federal Reserve Board on September 19, 2008 announced two enhancements to its programmes to provide liquidity to markets. One initiative was to extend non-recourse loans at the primary credit rate to US depository institutions and bank holding companies to finance their purchases of high quality asset-backed commercial paper (ABCP) from money market mutual funds. This would assist money funds that hold such paper in meeting demands for redemptions by investors and foster liquidity in the ABCP markets and broader money markets. To further support market functioning, the US Federal Reserve also decided to purchase from primary dealers federal agency discount notes, which are short-term debt obligations issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks. On the same day, the US Federal Reserve Board approved two interim final rules in connection with its initiative to provide liquidity to markets by extending loans to banking organisations to finance their purchases of high quality ABCP from money market mutual funds. The first interim final rule would provide a temporary limited exception from the Board's leverage and risk-based capital rules for bank holding companies and state member banks. The second would provide a temporary limited exception from sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on requirements for transactions between a bank and its affiliates. The interim final rules will facilitate participation by depository institutions and bank holding companies in this special lending programme as intermediaries between the Federal Reserve and money market mutual funds. These exceptions would expire on January 30, 2009, unless extended by the Board, and are subject to various conditions to promote safety and soundness.

On September 21, 2008, the US Federal Reserve approved the applications of Goldman Sachs and Morgan Stanley to become bank holding companies. To provide increased liquidity support to these firms as they migrate to managing their funding within a bank holding company structure, the Federal Reserve Board authorised the Federal Reserve Bank of New York to extend credit to the US broker-dealer subsidiaries of Goldman Sachs and Morgan Stanley against all types of collateral that may be pledged at the Federal Reserve's primary credit facility for depository institutions or at the existing PDCF. The Federal Reserve has also made these collateral arrangements available to the broker-dealer subsidiary of Merrill Lynch. In addition, the Board also authorised the Federal Reserve Bank of New York to extend credit to the London-based broker-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch against collateral that would be eligible to be pledged at the PDCF.

To further improve the liquidity conditions in global financial markets, the US FOMC authorised the establishment of new swap facilities with the Reserve Bank of Australia, the Sveriges Riksbank, the Danmarks Nationalbank, and the Norges Bank on September 24, 2008. These new facilities would support the provision of US dollar liquidity in amounts of up to US$ 10 billion each by the Reserve Bank of Australia and the Sveriges Riksbank and in amounts of up to US$ 5 billion each by the Danmarks Nationalbank and the Norges Bank. On September 26, 2008, using their reciprocal currency arrangements (swap lines) with the Federal Reserve, the Bank of England, the European Central Bank, and the Swiss National Bank announced the introduction of operations to provide US dollar up to US$ 74 billion with a one-week maturity. These operations were designed to address funding pressures over quarter end.

The US Federal Reserve on September 29, 2008 announced further initiatives to support financial stability and to maintain a stable flow of credit to the economy. Actions by the Federal Reserve included: (i) an increase in the size of the 84-day maturity TAF auctions to US$ 75 billion per auction from US$ 25 billion beginning with the October 6 auction; (ii) two forward TAF auctions totalling US$ 150 billion that will be conducted in November 2008 to provide term funding over year-end; and (iii) an increase in swap authorisation limits with the Bank of Canada, Bank of England, Bank of Japan, Danmarks Nationalbank, European Central Bank, Norges Bank, Reserve Bank of Australia, Sveriges Riksbank, and Swiss National Bank to a total of US$ 620 billion, from US$ 290 billion previously. All of these temporary reciprocal swap facilities have been authorised through April 30, 2009.

The bankruptcy/sell-out/restructuring in the international financial system broadened from mortgage lenders to systemically important financial institutions and further to banks. The US Federal Reserve approved the proposal submitted by the Well Fargo & Company to buy Wachovia Corporation and its subsidiary banks. The Washington Mutual was sold to JPMorgan Chase. The failure of banks/financial institutions became geographically widespread from the US to many European countries. The UK authorities took over the the second mortgage lender, *i.e.*, Bradford & Bingley into public ownership after the events triggered by the collapse of Lehman Brothers, an investment bank, sparked a withdrawal of deposits. Hypo Real Estate Holding AG was rescued by German Government. The Governments of Belgium, Luxembourg and the Netherlands bought sizeable stakes in Fortis, Belgium's biggest lender, after capital fears triggered a fall in shares. The Belgian and Luxembourg authorities bailed out the second bank, *i.e.*, Dexia, the world's largest lender to local government, along with their French counterpart. The US Federal Reserve Board allowed Mitsubishi UFJ Financial Group, Inc., Tokyo, Japan, to acquire up to 24.9 per cent of the voting shares of Morgan Stanley and also to acquire an indirect interest in Morgan Stanley's subsidiary, Morgan Stanley Bank; subsidiary savings association, Morgan Stanley Trust; and subsidiary trust company, Morgan Stanley Trust National Association.

The US Congress agreed to deploy US$ 700 billion under the Troubled Assets Relief Programme (TARP) proposed by the US Department of the Treasury to strengthen the US financial market and promote the flow of credit to businesses and consumers that would enhance its economic growth and prosperity. This package would provide the necessary tools to deploy up to US$ 700 billion to address the urgent needs in the financial system, *viz.*, by purchasing troubled assets broadly, insuring troubled assets, or averting the potential systemic risk from the disorderly failure of a large financial institution. On October 3, 2008, the US Congress temporarily increased FDIC deposit insurance from US$100,000 to US$250,000 per depositor through December 31, 2009.

On October 6, 2008, the US Federal Reserve Board announced that it would pay interest on depository institutions' required and excess reserve balances. The payment of interest on excess reserve balances would give the Federal Reserve greater scope to use its lending programs to address conditions in credit markets while also maintaining the federal funds rate close to the target established by the FOMC. Consistent with this increased scope, the Federal Reserve also announced additional actions to strengthen its support of term lending markets. It increased the sizes of the both 28-day and 84-day TAF auctions to US$ 150 billion each. These increases will eventually bring the amounts outstanding under the regular TAF program to US$ 600 billion. In addition, the sizes of the two forward TAF auctions to be conducted in November 2008 to extend credit over year-end have been increased to US$ 150 billion each, so that US$ 900 billion of TAF credit will potentially be outstanding over year-end.

The commercial paper market in the US was under considerable strain in recent weeks as money market mutual funds and other investors, themselves often facing liquidity pressures, have become increasingly reluctant to purchase commercial paper, especially at longer-dated maturities. As a result, the volume of outstanding commercial paper has shrunk, interest rates on longer-term commercial paper have increased significantly, and necessitating a high percentage of outstanding paper to be refinanced each day. On October 7, 2008, the US Federal Reserve Board announced the creation of the Commercial Paper Funding Facility (CPFF), a facility that will complement the Federal Reserve's existing credit facilities to help provide liquidity to term funding markets. The CPFF would provide a liquidity backstop to US issuers of commercial paper through a special purpose vehicle (SPV) that will purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers. The Federal Reserve would provide financing to the SPV under the CPFF and would be secured by all of the assets of the SPV and, in the case of commercial paper that is not asset-backed commercial paper, by the retention of up-front fees paid by the issuers or by other forms of security acceptable to the Federal Reserve in consultation with market participants.

In a coordinated policy action, several central banks cut policy rates to ease liquidity situation. Some central banks resorted to financial restructuring and recapitalisation of the troubled financial institutions to reduce strains in financial markets. Major central banks decided easing of monetary conditions as inflationary pressures have started to moderate, partly reflecting a marked decline in energy and other commodity prices. The recent intensification of the financial crisis, however, augmented the downside risks to growth and thus has diminished further the upside risks to price stability. Accordingly, on October 8, 2008, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank and the Swiss National Bank reduced their policy rates by 50 basis points each. The US FOMC also decided to lower its target for the federal funds rate by 50 basis points to 1.50 per cent. Central banks in other Asian countries such as the People's Bank of China, the Bank of Korea, the Central Bank of Kuwait, the Hong Kong Monetary Authority and the Central Bank of the United Arab Emirates also reduced their policy rates (Table 37).

On October 13, 2008, in order to provide broad access to liquidity and funding to financial institutions, the Bank of England (BoE), the European Central Bank (ECB), the Federal Reserve, the Bank of Japan and the Swiss National Bank (SNB) jointly announced further measures to improve liquidity in short-term US dollar funding markets. Accordingly, the BoE, ECB, and SNB would conduct tenders of US dollar funding at 7-day, 28-day, and 84-day maturities at fixed interest rates for full allotment. Funds would be provided at a fixed interest rate, set in advance of each operation. Counterparties in these operations would be able to borrow any amount they wish against the appropriate collateral in each jurisdiction. Accordingly, sizes of the reciprocal currency arrangements (swap lines) between the Federal Reserve and the BoE, the ECB, and the SNB would be increased to accommodate whatever quantity of US dollar funding is demanded. The Bank of Japan would be considering the introduction of similar measures.

The US Department of the Treasury, on October 14, 2008, announced a voluntary Capital Purchase Program to encourage US financial institutions to build capital to increase the flow of financing to US businesses and consumers and to support the US economy. Under the program, the US Treasury would purchase up to US$ 250 billion of senior preferred shares on standardised terms as described

Table 37: Recent Global Response to Finance Market Turmoil

Country	Key Measures
1	2
United States	**Monetary Policy Easing** • Federal funds rate target was reduced by 50 basis points (bps) to 1.50 per cent on October 8, 2008. **Liquidity Provisions** • Term funds were auctioned through new channels (TAF, TSLF and PDSLF). • Eligible collaterals and the eligible counterparties (including investment banks) were expanded. • The duration of liquidity support and provision of cross-border liquidity through swap arrangements was extended. • Foreign exchange swaps were established with major central banks for infusing dollar liquidity (made unlimited on October 13, 2008). • Commercial paper (CP) funding facility was created to provide liquidity backstop to CP issuers. **Financial Restructuring** • Write downs were made by financial institutions. • Top investment banks – Bear Stearns, Merrill Lynch and Lehman Brothers ceased to exist; Goldman Sachs and Morgan Stanley were converted into bank holding companies. • 15 banks declared bankruptcy – Washington Mutual Inc. filed for biggest ever bankruptcy after sale of assets of its banking unit to JP Morgan. • Wachovia, the 6th largest US bank was taken over by Wells Fargo & Co. **Recapitalisation of the Financial System** • Fannie Mae and Freddie Mac and AIG were taken over by the US Government in September 2008. • Emergency Economic Stabilisation Act was passed on Oct 3, 2008. • Troubled Assets Relief Program, authorising the US Government to purchase of troubled assets of US$ 700 billion was introduced. • Federal Reserve paid interest on depository institutions' required and excess reserve balances. • Limit on deposit insurance was raised at banks and credit unions from US$ 100,000 to US$ 250,000 per account. • On October 14, 2008, the US Treasury Department of the Treasury announced voluntary Capital Purchase Program. Under the program, the US Treasury would purchase up to US$ 250 billion of senior preferred shares on standardised terms as described in the program's term sheet.
United Kingdom	**Monetary Policy Easing** • Official bank rate was reduced by 50 bps to 4.50 per cent on October 8, 2008. **Recapitalisation of the Financial System** • After Northern Rock, Bradford and Bingley became the second mortgage lender to get nationalised. • Government rescue plan of UK£400 billion for financial institutions was introduced. • The UK government invested as much as UK£50 billion in the banking industry and offered guarantees over as much of UK£250 billion of new bank debt. It further added UK£100 billion to the existing Bank of England short-term loan scheme. • The UK Government took control of Royal Bank of Scotland and Halifax Bank of Scotland. **Other Measures** • Short-selling was temporary banned in specific stocks.
Other Countries	**Monetary Policy Easing** • Central banks in the Euro area, Canada, Sweden and Switzerland reduced their policy rates by 50 bps on October 8, 2008. • Australia reduced twice its central bank policy rate by 125 bps in September-October 2008. • China reduced its policy rate by 54 bps in September-October 2008. China also reduced CRR by 200 bps in September-October 2008. • South Korea reduced its policy rate by 25 bps to 5.00 per cent on October 8, 2008. **Recapitalisation of the Financial System** • Germany bailed out IKB Deutsche Industriebank AG after losses on the US sub-prime investments in June 2008. • Danish central bank rescued Roskilde Bank and Ebh bank in July and September 2008, respectively. • German Government rescued Hypo Real Estate Holding AG. • France and Belgium Governments announced measures to support Dexia SA, the world's largest lender to local governments. • Governments of Belgium, the Netherlands and Luxembourg rescued Fortis, a Belgo Dutch banking and insurance group. **Other Measures** • Short-selling in specific stocks in France, Australia, Ireland, Portugal and Korea was banned/restricted. • Irish government guaranteed deposits from the six major banks. • Germany guaranteed bank deposits of private savers. • Australia guaranteed all bank deposits for three years. • New Zealand guaranteed all deposits for two years.

Source: Websites of respective central banks.

in the program's term sheet. The program was available to qualifying US controlled banks, savings associations, and certain bank and savings and loan holding companies engaged only in financial activities that elect to participate before 5:00 pm (EDT) on November 14, 2008. The US Treasury would determine eligibility and allocations for interested parties after consultation with the appropriate federal banking agency.

According to the IMF's estimates[2], the losses on US sub-prime mortgages and related exposure amounted to US$1.4 trillion. According to the IMF's assessment, increased stress in financial markets in September 2008 reflected bank funding pressures on concern that credit losses were mounting in the grip of a negative feedback loop between the economy and the financial system. Furthermore, bank adjustment was hampered by high funding costs, reduced revenue streams from fee-based securitisation business, and forced accumulation of assets from off-balance-sheet entities and prior loan commitments. At the same time, falling equity prices made raising new capital highly expensive.

Emerging market economies (EMEs), which had been relatively resilient during most of 2007 and 2008, witnessed a changed environment in recent months. External funding conditions began to tighten, implying rising risk, particularly for countries with negative current account positions. High inflation backed by elevated food and energy prices posed a threat to real income and corporate profitability. As a result, the previous views about emerging market decoupling began to be reassessed, and changes in macroeconomic conditions and associated economic policies gained increased investor attention.

The recent episode of global financial market distress, especially during June-October 2008, raises several issues. First, the conditions of global financial markets have witnessed a transition from a broad-based cyclical deterioration to the viability of systemically important financial institutions. The financial crisis seems to be spreading across markets, institutions and countries, reflecting problem of contagion. It needs to be recognised that there has been a breakdown of trust in inter-bank and inter-institutional lending. The reversal of such extreme kind of risk perception and full resolution of the crisis will inevitably take time. Second, in drawing a lesson of the need for financial regulation and supervision of staying ahead of innovation in financial market, there is a distinct risk that too much stringency in regulation may stifle innovation. This risk needs to be guarded. Third, there is a need for inter-agency coordination in which the role of banks, regulators, supervisors and fiscal authorities regarding financial stability needs to be revisited. Central banks should play a central role in maintaining financial stability and should have the necessary informational base to do so effectively. This implies close co-operation among all the agencies entrusted with the task of

[2] World Economic Outlook, and Global Financial Stability Report, International Monetary Fund, October 2008.

maintaining financial stability. Fourth, the unfolding of the crisis has revealed the weaknesses of structured products and derivatives in the credit markets and their financial stability implications thereby raising issues on appropriateness of such products and the need to eliminate shortcomings. Fifth, it is wrongly perceived that the near meltdown of the US financial sector reflects that markets and competition do not work. The right lesson to draw is that markets and institutions do succumb occasionally to excesses, which is why regulators have to be vigilant, constantly finding the right balance between attenuating risk-taking and inhibiting growth. Sixth, the consequence of massive injection of liquidity in an environment of high inflation may lead to moral hazard issues. Seventh, with the failure of systemically important financial institutions, there is a possibility that the overall size of the financial sector would shrink in many markets. In these circumstances, the key is to strike a balance between limiting moral hazard and safeguarding the financial system's effectiveness. Finally, notwithstanding the recent use of innovative and unconventional measures, a more systematic approach would be required to deal with disposition of distressed assets, the degree of protection offered to depositors, and the scale and scope of liquidity support that is offered to institutions and markets.

The Reserve Bank is closely monitoring the developments in the global as well as domestic financial markets and stands ready to take such pre-emptive action as may be necessary to contain excess volatility in the domestic financial markets. In order to alleviate the recent transient pressures on the domestic financial markets which are related largely to external developments, the Reserve Bank announced a host of measures on September 16, 2008. First, the Reserve Bank decided that it would continue to sell foreign exchange (US dollar) through agent banks or directly to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps. Second, the interest rate ceiling on FCNR (B) deposits was increased by 50 basis points, *i.e.*, to LIBOR/Swap rates *minus* 25 basis points. Third, interest rate ceilings on NR(E)RA deposits were increased by 50 basis points, *i.e.*, to LIBOR/Swap rates *plus* 50 basis points. Fourth, scheduled banks were temporarily allowed to avail additional liquidity support under the liquidity adjustment facility (LAF) to the extent of up to one per cent of their net demand and time liabilities and seek waiver of penal interest. Fifth, the Second LAF was re-introduced to provide additional liquidity. Sixth, the Reserve Bank advised Lehman Brothers Capital Pvt. Ltd to seek prior approval of the Reserve Bank before contracting any direct/indirect liability from any institution in India or outside India or making any foreign currency remittance. Lehman Brothers Fixed Income Securities Pvt. Ltd. was advised not to declare any interim dividend or remit any amount to its holding company or any other group company without prior approval of the Reserve Bank. Furthermore, Lehman Brothers Fixed Income Securities Pvt. Ltd. was advised not to undertake transactions in government securities as a primary dealer in the primary market.

The Government and the Reserve Bank also initiated a host of measures to increase capital inflows and improving liquidity conditions. On September 22, 2008, the limit for borrowers in the infrastructure sector for availing external commercial borrowing (ECB) was increased to US$ 500 million per financial year from the earlier limit of US$ 100 million per financial year for rupee expenditure for permissible end-uses under the approval route. The all-in-cost ceiling for ECBs over average maturity of seven years was increased by 50 basis points to 450 basis points over 6-month LIBOR. On October 8, 2008, ECB policy was further liberalised by including development of the mining, exploration and refinery sectors in the definition of Infrastructure sector.

On a review of the liquidity conditions, particularly in the context of the deterioration in the global financial environment, the Reserve Bank announced a reduction of the cash reserve ratio (CRR) by 250 basis points to 6.50 per cent with effect from the fortnight beginning October 11, 2008. The Reserve Bank decided to conduct 14-day repo under the LAF at 9.0 per cent per annum for a notified amount of Rs.20,000 crore on October 14, 2008 with a view to meet the liquidity requirements of mutual funds. It was also decided to conduct this repo every day until further notice to a cumulative amount of Rs.20,000 crore for the same purpose. Furthermore, the restriction on lending against certificates of deposits (CDs) and buy back of CDs was relaxed for a period of 15 days with effect from October 14, 2008, only in respect of CDs held by mutual funds.

In view of the continuing global financial market uncertainties and their indirect impact on Indian financial markets, the Reserve Bank announced a host of measures on October 15, 2008. First, it was decided, purely as a temporary measure, that banks may avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their net demand and time liabilities (NDTL). This additional liquidity support would terminate 14 days from the closure of the special term repo facility announced on October 14, 2008. This accommodation was made available in addition to the temporary measure announced on September 16, 2008 thereby permitting banks to avail of additional liquidity support to the extent of up to 1 per cent of their NDTL. Second, the Reserve Bank instituted a mechanism of Special Market Operations (SMO) for public sector oil marketing companies in June-July 2008 taking into account the then prevailing extraordinary situation in the money and foreign exchange markets. The Reserve Bank announced on October 15, 2008 that it would institute a similar facility when oil bonds become available. Third, the Reserve Bank, at the request of the Central Government, agreed to provide Rs.25,000 crore to the lending institutions immediately under the Agricultural Debt Waiver and Debt Relief Scheme, as the first instalment. Fourth, the interest rate ceiling on FCNR(B) deposits was increased by 50 basis points, *i.e.*, to LIBOR/

Swap rates *plus* 25 basis points. Fifth, the interest rate ceiling on NR(E)RA deposits was increased by 50 basis points, *i.e.*, to LIBOR/Swap rates *plus* 100 basis points. Sixth, banks were allowed to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or US$ 10 million, whichever is higher, as against the earlier limit of 25 per cent. Seventh, assurance was given for supply of foreign exchange to meet supply-demand gap in the market. Eighth, in order to alleviate the pressures of the indirect impact of the global liquidity constraint on domestic financial market reflected by some signs of strain in its credit markets in recent weeks, the Reserve Bank reduced the repo rate under the LAF by 100 basis points to 8.0 per cent on October 20, 2008.

The Reserve Bank is monitoring developments in the financial markets closely and continuously, and would respond swiftly and even pre-emptively to any adverse external developments impinging on domestic financial stability, price stability and inflation expectations. The Reserve Bank is committed to maintaining financial stability and active, and flexible liquidity management by using all policy instruments.

Short-term Interest Rates

During the third quarter of 2008, short-term interest rates in advanced economies witnessed a mixed trend, moving broadly in tandem with the policy rates and liquidity conditions (Table 38). In the wake of the tight liquidity

Table 38 : Short-term Interest Rates

(Per cent)

Region/Country	End of					
	March 2006	March 2007	March 2008	June 2008	September 2008	October* 2008
1	2	3	4	5	6	7
Advanced Economies						
Euro area	2.80	3.91	4.72	4.96	5.07	5.17
Japan	0.04	0.57	0.75	0.75	0.75	0.78
UK	4.58	5.55	6.01	5.93	6.25	6.38
US	4.77	5.23	2.26	2.29	2.04	2.12
Emerging Market Economies						
Argentina	9.63	9.63	10.44	16.50	13.81	16.50
Brazil	16.54	12.68	11.18	12.17	13.66	13.67
China	2.40	2.86	4.50	4.48	4.31	4.23
Hong Kong	4.47	4.17	1.83	2.33	3.66	4.34
India	**6.11**	**7.98**	**7.23**	**8.73**	**8.56**	**8.69**
Malaysia	3.51	3.64	3.62	3.69	3.70	3.68
Philippines	7.38	5.31	6.44	6.00	4.00	5.56
Singapore	3.44	3.00	1.38	1.25	1.78	1.38
South Korea	4.26	4.94	5.32	5.36	5.78	6.03
Thailand	5.10	4.45	3.25	3.65	3.85	3.85

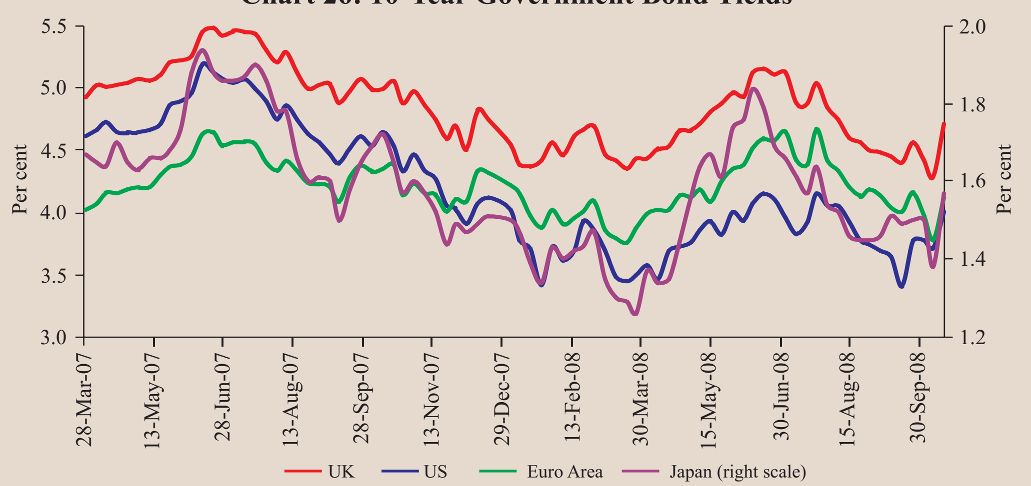
*: As on October 15, 2008.
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

conditions, short-term interest rates in major economics generally increased in October 2008. In the US, short-term interest rates declined till September 2008, but increased in October 2008. In the UK, short-term interest rates increased, notwithstanding cut in the policy rate in the second half of 2007-08 and also in April and October 2008. The Bank of England, which had increased its policy rate in May 2007 and July 2007, reduced the rate in December 2007, February 2008, April 2008 and October 2008 to 4.50 per cent in the wake of concerns over slow growth. Short-term interest rates increased in the Euro area during the quarter ended September 2008 and also in October 2008. The European Central Bank raised its refinance rate by 25 basis points on July 3, 2008 but reduced it by 50 basis points to 3.75 per cent on October 8, 2008. In the EMEs, short-term interest rates generally softened in China, Malaysia and the Philippines but firmed up in Brazil, Hong Kong, Singapore, South Korea and Thailand between end-June 2008 and October 15, 2008. In September and October 2008, the People's Bank of China reduced its benchmark lending rate by 0.27 percentage points each to 6.93 per cent, and also reduced its reserve requirement ratio by one percentage point in September 2008. The Bank of Korea reduced its policy rate by 25 basis points to 5.00 per cent on October 9, 2008.

Government Bond Yields

Long-term government bond yields in major advanced economies, which had softened at end-March 2008, hardened during the second quarter of 2008 on account of reduced safe haven demand for government securities coupled with a reassessment among investors of the need for monetary easing, following the stabilisation of financial markets (Chart 26). However, this trend was reversed subsequently as market expectations regarding price levels and monetary policy shifted against the backdrop of changing oil and commodity prices. Government

Chart 26: 10-Year Government Bond Yields



bond yields in major advanced economies declined in the third quarter of 2008, largely reflecting worsening growth expectations and improved near-term inflation outlook. The 10-year government bond yield in the US declined by 10 basis points between June 25, 2008 and October 15, 2008. During the same period, yields on 10-year government papers declined by 40 basis points in the UK, 46 basis points in the Euro area and 12 basis points in Japan.

Equity Markets

Equity markets, which had recovered somewhat during April-May 2008, made further losses thereafter. During the third quarter of 2008, equity markets in most of the developed and EMEs declined on the back of negative news about the health of financial institutions, concerns over economic slowdown in the US, Europe and Asia, extension of credit losses, high inflation and fears over decline in corporate earnings (Table 39).

Foreign Exchange Market

In the foreign exchange market, the US dollar, which had depreciated against major currencies during April-July 2008, appreciated from early-August 2008 notwithstanding an increase in the unemployment rate and persistent low housing

Table 39: International Stock Markets

(Per cent)

Country/Index	Percentage Variation (year-on-year)		Percentage Variation
	End-March 2007	End-March 2008	October 14, 2008 over End-March 2008
1	2	3	4
Developed Markets			
US (Dow Jones)	11.2	-0.7	-24.1
US (NASDAQ)	3.5	-5.9	-21.9
FTSE UK 100	5.8	-9.6	-22.9
Euro area (FTSE 100)	7.5	-15.7	-21.6
Japan (Nikkei 225)	1.3	-27.6	-24.6
Hong Kong (Hang Seng)	25.3	15.4	-26.3
Emerging Markets			
Russia	34.9	6.1	-57.7
Brazil	20.7	33.1	-31.8
Colombia	-3.7	-16.0	-8.7
South Africa	34.3	11.5	-26.7
South Korea	6.8	17.3	-19.7
Hungary	1.6	-7.3	-24.3
Singapore	28.2	-4.9	-29.2
Malaysia	34.6	0.1	-22.6
Argentina	16.8	0.04	-35.8
Turkey	1.8	-10.6	-21.7
Indonesia	38.4	33.7	-36.4
India	**15.9**	**19.7**	**-26.6**
Thailand	-8.1	21.3	-38.7
China	145.2	9.1	-41.9
Memo:			
World (MSCI)	13.4	-5.1	-28.9
EMEs (MSCI)	17.9	18.9	-39.0
Asia (MSCI)	18.7	18.6	-37.0

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

sales. The dollar depreciated till end-July 2008 against most of the currencies on account of lowering consumer confidence, weaker equity markets, slowing manufacturing productivity growth, higher unemployment with downward non-farm payroll employment, and low housing sales. The US dollar's strength from early-August 2008, however, reflected narrowing of growth differential between the US and the rest of the world, liquidation of positions in the overseas equity and bond markets by US investors and repatriation of the money back to the US due to slowing growth in the Euro area. Between end-March 2008 and October 14, 2008, the US dollar appreciated by 15.0 per cent against the Euro, 13.1 per cent against the Pound sterling and 2.7 per cent against the Japanese yen. Amongst Asian currencies, the US dollar depreciated by 2.7 per cent against Chinese yuan but appreciated by 26.3 per cent against Korean won, 19.4 per cent against the Indian rupee, 11.0 against the Russian ruble, 9.5 per cent against the Malaysian ringgit and 8.9 per cent against Thai baht (Table 40).

Domestic Financial Markets

Indian financial markets remained largely orderly for most part of the second quarter of 2008-09, notwithstanding the abrupt changes in the international financial environment. However, since mid-September 2008, various segments of the domestic financial markets witnessed heightened volatility reflecting uncertain global situation. Interest rates in the money market moved in accordance with evolving liquidity conditions. The daily average call rate, which had remained mostly within the informal corridor set by reverse repo and repo rates of liquidity adjustment facility (LAF) during the first quarter of 2008-09, hovered generally above the corridor during the second quarter. Interest rates in the collateralised segments of the money market moved in tandem with the call rate and continued to remain below the call rate during the second quarter. In the

Table 40: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* Other Currencies

(Per cent)

Currency	End-March 2007 @	End-March 2008 @	Oct. 14, 2008*
1	2	3	4
Euro	-9.1	-15.8	15.0
Pound Sterling	-11.4	-1.5	13.1
Japanese Yen	0.2	-14.9	2.7
Chinese Yuan	-3.4	-9.3	-2.7
Russian Ruble	-6.1	-9.7	11.0
Turkish Lira	3.2	-5.8	4.9
Indian Rupee	**-2.5**	**-8.3**	**19.4**
Indonesian Rupiah	0.5	1.1	5.3
Malaysian Ringgit	-6.2	-7.8	9.5
South Korea Won	-3.7	5.5	26.3
Thai Baht	-9.9	-10.2	8.9
Argentine Peso	0.7	2.1	1.3
Brazilian Peso	-6.4	-17.0	26.4
Mexican Peso	1.3	-3.5	15.9
South African Rand	17.2	11.3	9.5

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

foreign exchange market, the Indian rupee generally depreciated against major currencies. In the credit market, lending rates of scheduled commercial banks hardened. Yields in the government securities market generally softened during the second quarter 2008-09. Indian equity markets declined in tandem with trends in major international equity markets as well as edging up of domestic inflation (Table 41). The recent domestic financial market conditions were essentially a reflection of the adverse developments and extreme uncertainty in international financial markets.

Money Market

Money market rates moderated at the beginning of the first quarter of 2008-09 from their levels witnessed in the second-half of March 2008, as liquidity conditions eased on account of significant reduction in the cash balances of the Central Government. The daily average call rate mostly remained within the informal corridor set by reverse repo and repo rates during the first quarter of 2008-09. During the second quarter of 2008-09, however, the call rate mostly hovered around the repo rate reflecting the impact of, *inter alia*, the hikes in the

Table 41 : 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**	**8279**	**2513**
2006-07	**21,725**	**7.22**	**4,863**	**7.78**	**18,540**	**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**	**33,672**	**40.24**	**78,203 ##**	**2.16**	**1,28,684**	**4,677**	**6,335**	**14,148**	**16569**	**4897**
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	39,682	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	30,683	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	31,567	39.44	2,731	1.64	1,64,606	-10,804	8,605	19,283	19827	5964
Jan 2008	27,531	6.69	19,182	7.61	38,676	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	42,068	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	39,087	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	6,780	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	-5,229	3.78	1,74,433	-8,622	5,410	12,592	14997	4464
Jul 2008	24,736	8.76	5,474	9.19	37,163 P	42.84	-6,320	6.04	1,72,169	-27,961	5,388	12,862	13716	4125
Aug 2008	23,408	9.10	7,498	9.06	38,002 P	42.94	1,210	4.71	1,71,944	-22,560	4,996	11,713	14722	4417
Sep 2008	23,379	10.52	10,418	8.42	44,000 P	45.56	-	2.35	1,75,666	-42,591	5,147	12,489	13943	4207

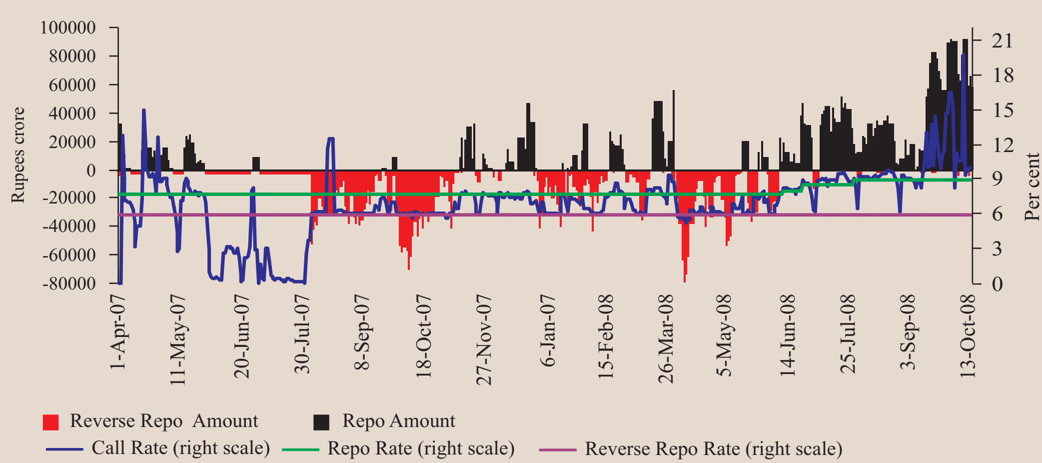
*: Average of daily weighted call money borrowing rates. + : Average of daily outright turnover in Central Government dated securities.
@: Average of daily closing rates. # : Average of weekly outstanding MSS. ** : Average of daily closing indices. ##: Cumulative for the financial year.
LAF: Liquidity 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.

cash reserve ratio (CRR) and repo rate as well as the foreign exchange market operations of the Reserve Bank on liquidity conditions (Chart 27).

The second quarter of 2008-09 (July-September) commenced with easing of liquidity conditions mainly on account of a decline in the cash balances of the Central Government. Accordingly, the call rate declined sharply and moved within the informal corridor of reverse repo and repo rates in the first week of July 2008. Subsequently, the call rate edged above the repo rate on most of days of the month, reflecting the two-stage CRR hike of 25 basis points each (effective from the fortnights beginning July 5 and July 19, 2008, respectively) to 8.75 per cent. The average call rate was 8.76 per cent during July 2008. On a review of the macroeconomic and monetary conditions, the First Quarter Review of the Annual Statement on Monetary Policy for 2008-09 announced a 50 basis points hike in the repo rate (to 9.0 per cent) effective July 30, 2008 and 25 basis points hike in the CRR (to 9.0 per cent) effective the fortnight beginning August 30, 2008. The liquidity conditions mostly remained in a deficit mode during July-August 2008 and accordingly the call rate hovered around the repo rate. The average call rate was 9.10 per cent during August 2008.

Liquidity conditions in the domestic money markets remained tight in September 2008, mainly reflecting capital outflows, advance tax outflows and CRR hike effective August 30, 2008. With a view to assuage pressures on domestic money and foreign exchange markets accentuated by developments in international financial markets, the Reserve Bank, on September 16, 2008, announced a series of measures. Accordingly, it was decided that, purely as a temporary measure, scheduled banks may avail additional liquidity support under the LAF to the extent of up to one per cent of their net demand and time liabilities

Chart 27: Liquidity Adjustment Facility and the Call Rate

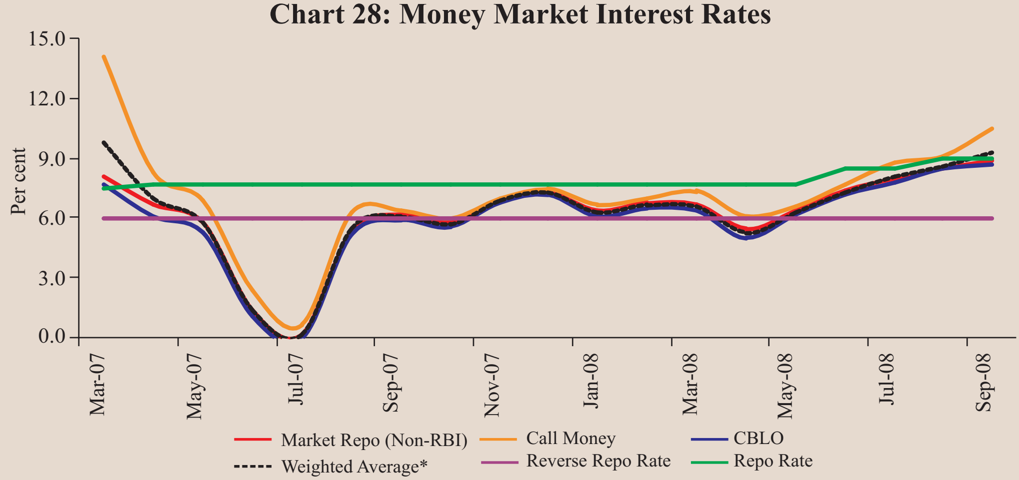


and seek waiver of penal interest effective September 17, 2008. It was also decided that the Second LAF (SLAF) will be conducted on a daily basis till further notice. The call rate continued to remain above the repo rate in the second half of September 2008. The average call rate was 10.52 per cent in September 2008.

In the context of the deterioration in the global financial environment and capital outflows and on a review of the evolving liquidity situation, the Reserve Bank subsequently announced a number of measures over October 6-20, 2008 which included: (i) a reduction in CRR by 250 basis points to 6.5 per cent with effect from October 11, 2008; (ii) introduction of a special term repo facility on a daily basis up to a cumulative amount of Rs.20,000 crore for enabling banks to meet the liquidity requirements of mutual funds; (iii) permitting banks to avail additional liquidity support under LAF up to 0.5 per cent of their NDTL for the purposes of lending to mutual funds; and (iv) reduction in the repo rate by 100 basis points to 8.0 per cent with immediate effect from October 20, 2008. Reflecting the impact of these measures, the average call rate declined from 16.51 per cent on October 1, 2008 to 6.78 per cent on October 20, 2008, after peaking at 19.70 per cent on October 10, 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 remained below the call rate during the second quarter of 2008-09 (Chart 28). During July-September 2008, interest rates averaged 9.46 per cent, 8.45 per cent and 8.33 per cent, respectively, in the call money, market repo and CBLO segments (4.48 per cent, 3.98 per cent and 3.74 per cent, respectively, a year ago). The weighted average rate in all the three money market segments was 8.67 per cent during July-September 2008 (3.97 per cent a year ago).

Chart 28: Money Market Interest Rates



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

The average daily volume in the money market segments – call, market repo (outside the LAF) and CBLO – during July-September 2008 was 15.0 per cent lower than that in the same period of 2007-08. The collateralised market remained the predominant segment of the money market, accounting for about 73 per cent of the total volume during the second quarter of 2008-09 (Table 42). In both the CBLO and market repo segments, mutual funds were the major lenders, while banks and primary dealers were the major borrowers.

Certificates of Deposit

The outstanding amount of certificates of deposit (CDs) increased from Rs.1,47,792 crore at end-March 2008 (6.0 per cent of aggregate deposits of CDs issuing banks) to Rs.1,78,280 crore (6.5 per cent of aggregate deposits) by September 12, 2008. Most of the CDs issued were of more than six months duration. The weighted average discount rate (WADR) of CDs declined from 10.0 per cent at

Table 42: 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**
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	10.75
May 2007	10,238	8,965	20,810	40,013	277	22,024	9.87	99,715	9.87
Jun 2007	8,413	10,295	20,742	39,450	308	26,256	8.93	98,337	9.37
Jul 2007	8,290	12,322	20,768	41,380	288	30,631	7.05	1,05,317	7.86
Aug 2007	11,802	16,688	26,890	55,380	319	31,527	8.30	1,09,224	8.67
Sep 2007	10,995	17,876	29,044	57,915	265	33,614	8.95	1,18,481	8.57
Oct 2007	9,275	15,300	29,579	54,154	221	42,183	7.65	1,24,232	7.91
Nov 2007	10,073	12,729	28,614	51,416	184	41,307	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	8.73
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
Jul 2008	12,368	8,591	23,669	44,628	226	51,569	10.95	1,64,892	10.23
Aug 2008	11,704	10,454	22,110	44,268	501	55,036	11.48	1,71,966	10.98
Sep 2008	11,690	10,654	20,547	42,891	335	54,182 #	11.51 #	1,78,280 *	11.09 *

-: Not available. WADR: Weighted Average Discount Rate.
#: As on September 15, 2008. *: As on September 12, 2008.

end-March 2008 to 9.16 per cent at end-June 2008, but thereafter increased to 11.09 per cent at September 12, 2008.

Commercial Paper

The outstanding amount of commercial paper issued by corporates increased substantially from Rs.32,592 crore at end-March 2008 to Rs.54,182 crore at mid-September 2008 in line with the seasonal pattern observed in case of CP issuances. Leasing and Finance Companies continued to be the major issuers of CP, followed by 'manufacturing and other companies' and financial institutions (Table 43). As earlier, CP issuance was dominated by the prime-rated companies. The discount rate range on CP moved from a range of 9.50-14.25 per cent at end-March 2008 to 10.25-14.25 per cent at mid-September 2008. The WADR on CP declined from 10.38 per cent on March 31, 2008 to 8.57 per cent as on mid-May 2008 but thereafter increased to 11.51 per cent on September 15, 2008 in tandem with the hardening of other money market rates. The most preferred tenor of CP issuance was 'more than 180 days and above'.

Treasury Bills

During the second quarter of 2008-09, primary market yields on Treasury Bills (TBs) hardened further, in tandem with higher money market interest rates and higher inflation (Table 44 and Chart 29). The yield spread between 364-day and 91-day TBs was 14 basis points in September 2008 (7 basis points in March 2008).

Foreign Exchange Market

During 2008-09 (up to October 16), the Indian rupee generally depreciated (Chart 30). During this period, the rupee moved in the range of Rs.39.89-48.84 per US dollar. The rupee continued to depreciate beginning April 2008, reflecting FII outflows, bearish stock market condition, high inflation and higher crude oil prices reflecting higher demand for dollars. The exchange rate of the rupee was Rs.48.84

Table 43: Commercial Paper - Major Issuers

(Rupees crore)

Category of Issuer		End of		
	March 2007	March 2008	June 2008	September * 2008
1	2	3	4	5
Leasing and Finance	12,594	24,925	34,957	39,967
	(70.5)	(76.5)	(76.6)	(73.8)
Manufacturing	2,754	5,687	8,150	10,960
	(15.4)	(17.4)	(17.4)	(20.2)
Financial Institutions	2,515	1,980	3,740	3,255
	(14.1)	(6.1)	(8.0)	(6.0)
Total	**17,863**	**32,592**	**46,847**	**54,182**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0**

* : As on September 15, 2008.
Note : Figures in parentheses are percentage shares in the total outstanding.

Table 44: 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**
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
Jul 2008	16,000	9.07	9.33	9.39	2.35	2.72	2.70
Aug 2008	23,500	9.15	9.31	9.24	2.99	2.86	4.35
Sep 2008	25,000	8.69	8.92	8.83	3.06	3.04	3.57

@ : 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).

per dollar as on October 16, 2008 as compared with Rs.39.99 per dollar at end-March 2008. At this level, the Indian rupee depreciated by 18.1 per cent over its level on March 31, 2008. Over the same period, the rupee depreciated by 5.5 per cent against the Pound sterling, 3.6 per cent against the Euro, 18.0 per cent against the Japanese yen and 20.3 per cent against the Chinese yuan.

Chart 29 : Yields on Treasury Bills

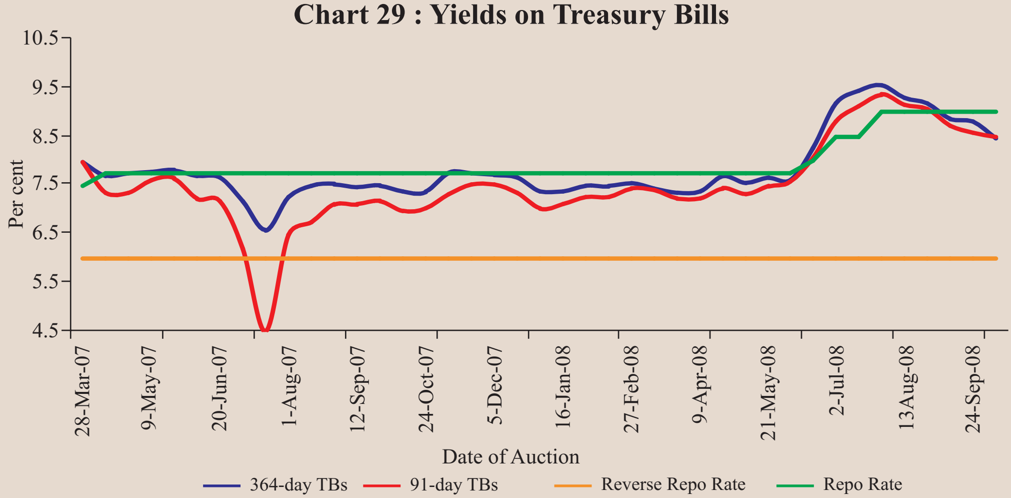


Chart 30: Movement of Rupee *vis-a-vis* Major Currencies

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 appreciated by 4.8 per cent and 4.7 per cent, respectively, between March 2008 and August 2008 (Table 45). Between March 2008 and September 2008, the 6-currency trade weighted NEER and REER of the rupee depreciated by 8.5 per cent and 3.7 per cent, respectively. On October 14, 2008, the 6-currency trade weighted NEER and REER of the rupee experienced a depreciation of 10.8 per cent and 6.7 per cent, respectively, over their end-March 2008 levels.

Forward premia that had increased during first four months of 2008-09 began to decline since August 2008 reflecting cash US dollar shortage in the spot market (Chart 31).

The average daily turnover in the foreign exchange market increased to US $ 52.2 billion during 2008-09 (April-September) as compared with US $ 43.3 billion a year ago (Chart 32). While the inter-bank turnover increased from US $ 31.1 billion to US $ 37.6 billion, the merchant turnover increased from US$ 12.1 billion to US $ 14.6 billion. The ratio of inter-bank to merchant turnover at 2.6 during April-September 2008-09 was almost the same as a year ago.

Credit Market

During the second quarter of 2008-09 (up to September), scheduled commercial banks (SCBs) increased their deposit rates for various maturities by

Table 45: 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	**69.49**	**105.57**	**85.89**	**98.48**
2007-08 (P)	**74.17**	**114.09**	**93.92**	**105.13**
Mar 2007	70.23	107.46	87.11	100.53
Apr 2007	72.74	111.63	91.80	102.88
May 2007	75.19	115.73	94.69	106.30
Jun 2007	75.37	115.22	94.97	106.22
Jul 2007	75.15	115.10	94.84	106.29
Aug 2007	74.44	114.10	94.38	105.62
Sep 2007	74.64	115.03	94.65	106.21
Oct 2007	75.45	115.79	95.29	106.41
Nov 2007	74.34	113.90	94.27	104.95
Dec 2007	74.65	114.52	94.68	105.25
Jan 2008	74.31	114.23	94.29	105.22
Feb 2008 P	73.41	113.06	93.11	103.89
Mar 2008 P	70.38	110.87	90.01	102.35
Apr 2008 P	70.63	112.16	93.27	101.94
May 2008 P	67.48	108.23	89.00	97.89
Jun 2008 P	66.38	108.20	87.62	98.28
July 2008 P	65.83	107.58	85.04	95.94
Aug 2008 P	67.22	111.05	94.32	107.14
Sep 2008 P	64.37	106.79	-	-
Oct 14, 2008 P	62.58	103.67	-	-

NEER: Nominal Effective Exchange Rate. REER: Real Effective Exchange Rate. P: Provisional. -: Not available.
Note: 1. Data from 2007-08 onwards are provisional.
2. Rise in indices indicates appreciation of the rupee and *vice versa*.

25-150 basis points. Interest rates offered by public sector banks (PSBs) on deposits of maturity of one year to three years increased from the range of 8.25-9.50 per cent in June 2008 to the range of 8.75-10.25 per cent in September 2008. Interest rates of private sector banks on deposits of maturity of one year to three years

Chart 31: Rupees/US Dollar Forward Premia

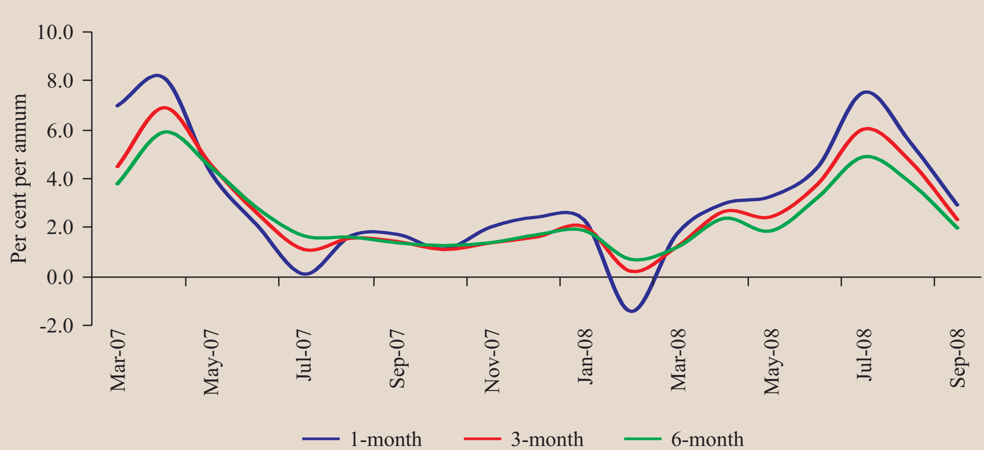
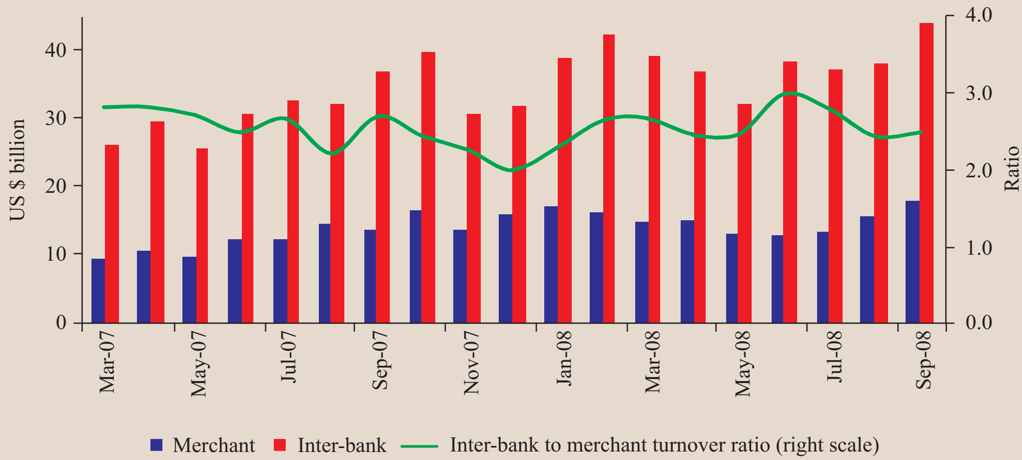


Chart 32 : Daily (Average) Turnover in Foreign Exchange Market



increased from the range of 8.00-9.50 per cent to the range of 8.30-10.50 per cent, while the deposit rates of foreign banks on maturity of one year to three years increased from the range of 3.50-9.75 per cent to the range of 3.50-10.50 per cent during the same period (Table 46).

Table 46: Deposit and Lending Rates

(Per cent)

Item	March 2006	March 2007	March 2008	June 2008	September 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	2.75-10.25
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	8.75-10.25
More than 3 years	6.00-7.25	7.50-9.50	8.00-9.00	8.00-9.35	8.50-9.75
Private Sector Banks					
Up to 1 year	3.50-7.25	3.00-9.00	2.50-9.25	3.00-8.75	3.00-9.75
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	8.30-10.50
More than 3 years	6.00-7.75	7.75-9.60	7.25-9.75	8.00-10.00	8.25-10.25
Foreign Banks					
Up to 1 year	3.00-6.15	3.00-9.50	2.25-9.25	3.00-9.25	3.50-9.75
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	3.50-10.50
More than 3 years	5.50-6.50	4.05-9.50	3.60-9.50	3.60-9.50	3.60-11.00
2. Benchmark Prime Lending Rate					
Public Sector Banks	10.25-11.25	12.25-12.75	12.25-13.50	12.50-14.00	13.75-14.75
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-16.50	13.00-17.00	13.75-17.75
Foreign Banks	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-16.00
3. Actual Lending Rate*					
Public Sector Banks	4.00-16.50	4.00-17.00	4.00-17.75	4.00-18.00	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-24.00	4.00-25.00	-
Foreign Banks	4.75-26.00	5.00-26.50	5.00-28.00	5.00-25.50	-
4. Weighted Average Lending Rate	**11.97**	**11.92**	-	-	-

- : Not available.

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

On the lending side, the benchmark prime lending rates (BPLRs) of PSBs increased by 75-125 basis points from a range of 12.50-14.00 per cent in June 2008 to the range of 13.75-14.75 per cent by September 2008 (Chart 33). Private sector banks and foreign banks also increased their BPLR from the range of 13.00-17.00 per cent and 10.00-15.50 per cent, respectively, to the range of 13.75-17.75 per cent and 10.00-16.00 per cent, respectively, during the same period. The weighted average BPLR of public sector banks, private sector banks and foreign banks also increased from 12.94 per cent, 15.22 per cent and 14.06 per cent, respectively, in June 2008 to 13.92 per cent, 16.37 per cent and 14.38 per cent, respectively, in August 2008.

Government Securities Market

Yields in the Government securities market hardened at the beginning of the current financial year with the yield of the 10-year paper reaching 8.28 per cent on April 21, 2008 in response to increase in domestic inflation (Chart 34). Thereafter, yields began to ease on the back of comfortable liquidity conditions. The decision to keep policy rates unchanged in the Annual Policy Statement for the year 2008-09, announced on April 29, 2008, also helped the market to rally. Subsequently, heightened inflationary expectations emanating from the sharp increase in global commodity prices, especially crude oil prices led to the hardening of yields. The 10-year yield rose to 8.69 per cent by end-June 2008 and further to 9.51 per cent on July 15, 2008 in the backdrop of higher than expected inflation reading and the increased domestic political uncertainty. Government securities yields, however, eased moderately at the beginning of the second fortnight of July

Chart 33: Deposit and Lending Rates - Public Sector Banks

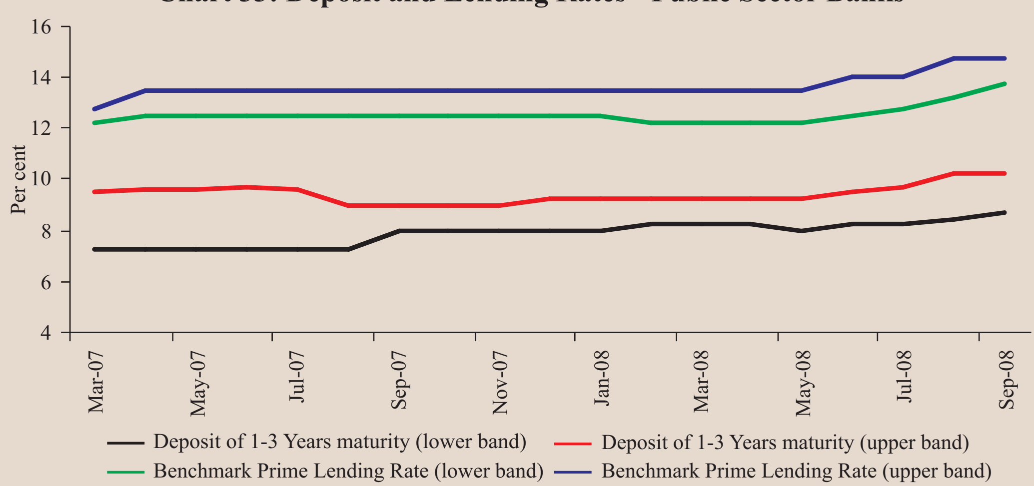
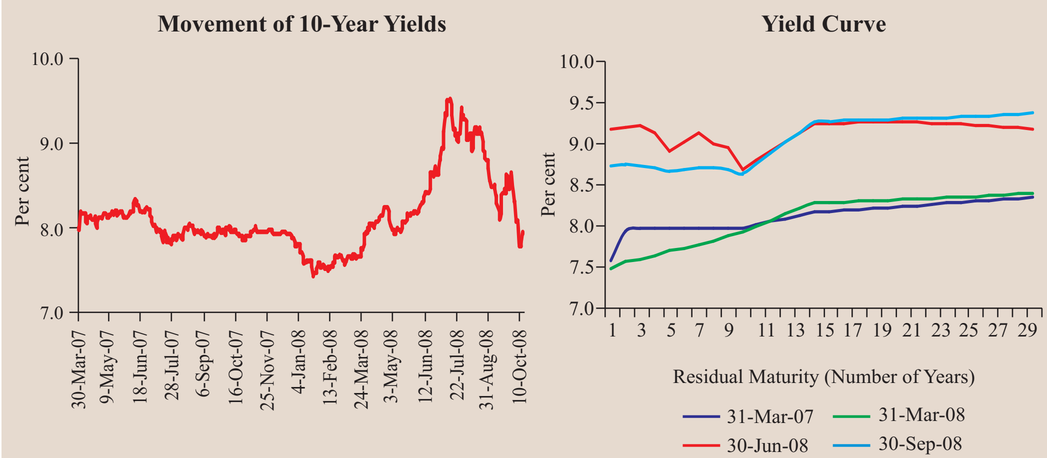


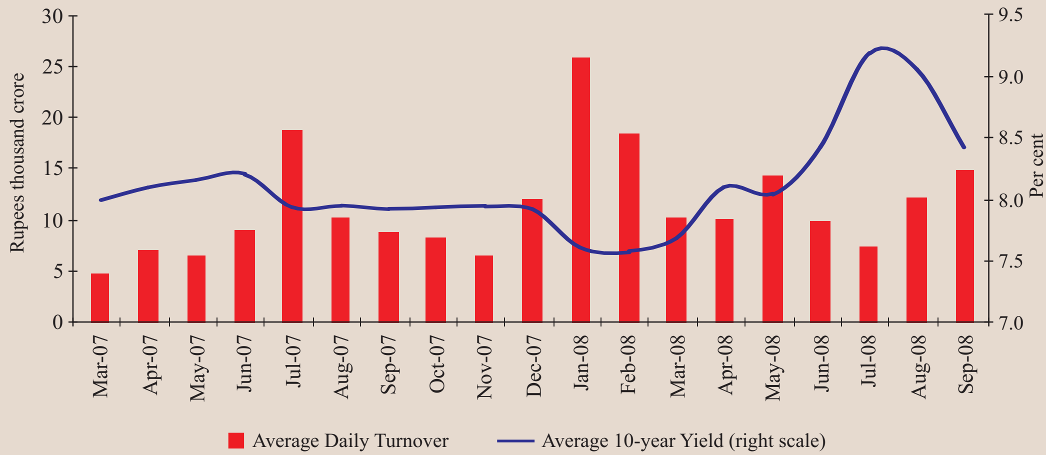
Chart 34: Yields on Central Government Securities



2008 tracking of softening in crude oil prices before hardening subsequent to the increase in the LAF repo rate and the CRR in the First Quarter Review of Annual Monetary Policy for the Year 2008-09. The 10-year yield at end-July was at 9.32 per cent. Government securities yields, however, eased during the first fortnight of August 2008 tracking the fall in global crude oil prices and easing of liquidity conditions at the close of the fortnight. Government securities yields declined and were broadly range-bound thereafter. The 10-year yield at end-August stood at 8.78 per cent. The yields continued to ease during the first fortnight of September 2008 in the backdrop of softening of crude oil prices. The yields, however, hardened considerably in the second fortnight of the month as the liquidity conditions tightened mainly reflecting advance tax outflows in conjunction with the impact of adverse developments in international financial markets. The 10-year yield was placed at 8.63 per cent at end-September 2008. Since then, the Government securities yields have eased. The CRR reduction of 250 basis points with effect from October 11, 2008 has also facilitated the decline of yields. The 10-year yield was placed at 7.69 per cent on October 16, 2008.

The Government securities yield curve, which had moved upward during end-March to end-July 2008, moved downwards subsequently till end-September 2008. A notable feature was inversion of the yield curve with yield of 10-year paper falling below the yields of sub-10-year segment. Accordingly, the spread between 10-year and 1-year yields, which was 45 basis points at end-March 2008, turned negative (-) 11 basis points at end-September 2008 (-49 basis points as at end-June 2008). The yield spread reflected the concentration of trading around the 10-year tenor as well as the impact of monetary policy actions at the short end.

Chart 35 : Average Daily Turnover and Yields in Government Securities Market

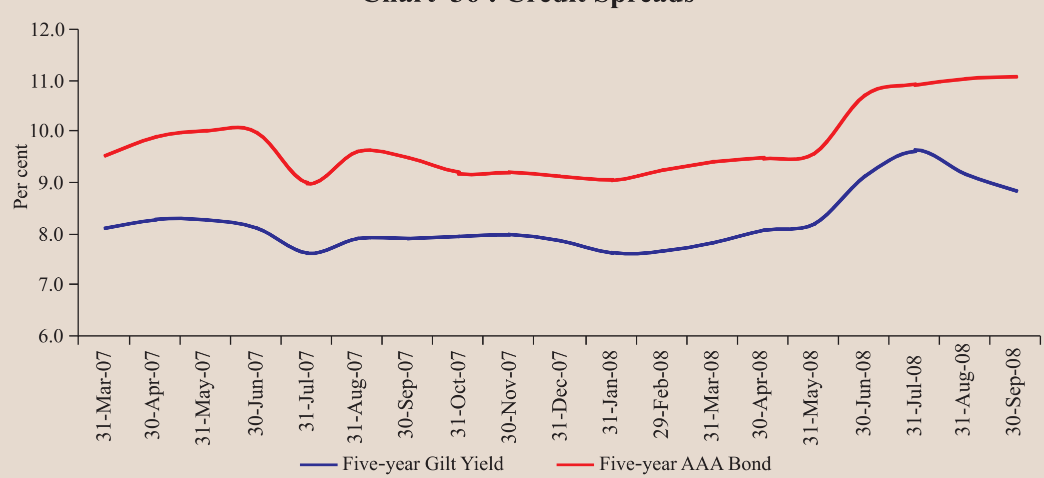


The spread between 30-year and 10-year yields was 74 basis points at end-September 2008 (47 basis points at end-March 2008).

The daily turnover in the Central Government securities market (based on number of trading days) averaged Rs.11,498 crore during July-September 2008, which was around one per cent higher than that in the preceding quarter (Chart 35).

The yield on 5-year AAA-rated corporate bonds hardened during the second quarter of 2008-09. The credit spread between the yields on 5-year AAA-rated bonds and 5-year government securities was 216 basis points at end-September 2008 as compared with 156 basis points at end-March 2008 (Chart 36).

Chart 36 : Credit Spreads



Equity Market

Primary Market

The primary market segment of the domestic capital market witnessed slackness in resource mobilisation during the second quarter of 2008-09. Cumulatively, resources raised through public issues declined sharply to Rs.12,361 crore during April-September 2008 from Rs.31,850 crore during the corresponding period of 2007. The number of issues also declined considerably to 32 from 60 (Table 47). Out of 32 issues during April-September 2008, 19 were initial public offerings (IPOs) issued by private sector companies, constituting 16.0 per cent of total resource mobilisation. Furthermore, all the issues during April-September 2008 were equity issues by private non-financial companies except one issue by private-financial company. The average size of public issues declined to Rs.386 crore during April-September 2008 from Rs.531 crore during April-September 2007.

Table 47: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	April - September 2007		April - September 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)	**57**	**28,518**	**32**	**12,361**
a) Financial	5	11,021	1	448
b) Non-financial	52	17,497	31	11,913
2. Public Sector (a+b+c)	**3**	**3,332**	**-**	**-**
a) Public Sector Undertakings	2	2,516	-	-
b) Government Companies	-	-	-	-
c) Banks/Financial Institutions	1	816		
3. Total (1+2)	**60**	**31,850**	**32**	**12,361**
of which:				
(i) Equity	59	31,350	32	12,361
(ii) Debt	1	500	-	-
	April-June 2007		April-June 2008	
B. Private Placement				
1. Private Sector (a+b)	**428**	**30,744**	**276**	**22,882**
a) Financial	195	13,600	140	13,091
b) Non-financial	233	17,144	136	9,791
2. Public Sector (a+b)	**23**	**19,695**	**28**	**11,837**
a) Financial	17	12,664	12	5,329
b) Non-financial	6	7,031	16	6,508
3. Total (1+2)	**451**	**50,439**	**304**	**34,719**
of which:				
(i) Equity	-	-	-	-
(ii) Debt	451	50,439	304	34,719
Memo:				
C. Euro Issues (April-September)	**10**	**11,284**	**10**	**4,652**

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

Mobilisation of resources through private placement declined by 31.2 per cent during April-June 2008 as compared with an increase of 62.0 per cent during April-June 2007 (Table 47). Public sector entities accounted for 34.1 per cent of total mobilisation during April-June 2008, lower than the corresponding period of the previous year (39.1 per cent). Resource mobilisation through financial intermediaries (both from public sector and private sector) registered a decline of 29.9 per cent over the corresponding period of last year, accounting for 53.1 per cent of the total mobilisation during April-June 2008. Resources raised by non-financial intermediaries also declined by 32.6 per cent (47.0 per cent of total resource mobilisation) during April-June 2008 over the corresponding period of last year.

During April-September 2008, the resources raised through Euro issues – American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) – by Indian corporates declined considerably by 58.8 per cent to Rs.4,652 crore as compared with the corresponding period of the previous year. All the Euro issues during April-September 2008 were GDR issues (Table 47).

During April-September 2008, net mobilisation of funds by mutual funds declined sharply by 97.7 per cent to Rs. 2,477 crore attributed to the uncertain conditions prevailing in the stock markets (Table 48). Net outflows were witnessed under both the income/debt-oriented schemes and growth/equity-oriented schemes.

Secondary Market

The performance of the domestic stock markets during the first half of 2008-09 witnessed four distinct phases (Chart 37). In the first phase between April 1 and May 21, 2008, the markets staged recovery. 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.

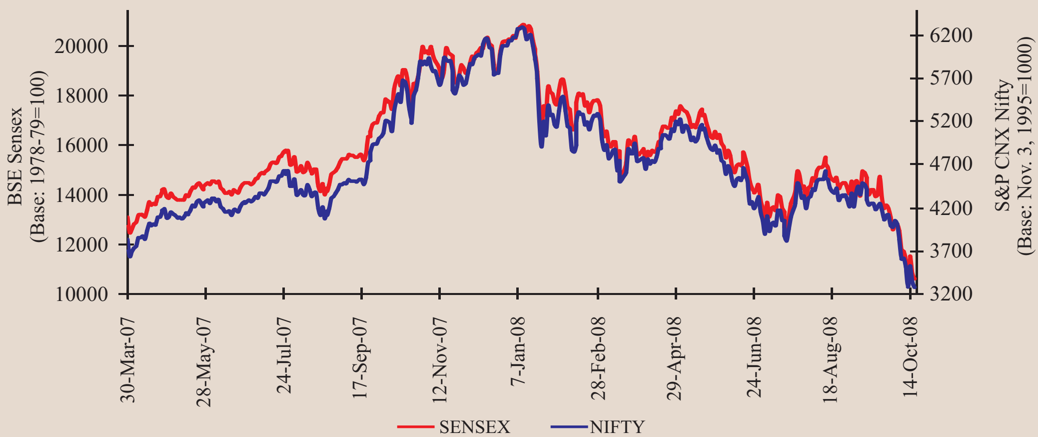
Table 48 : Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	April-March		April-September			
	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	95,845	3,93,431	-2,667	3,95,074
Public Sector *	20,498	89,531	9,768	83,558	5,144	88,205
Total	**1,53,802**	**5,05,152**	**1,05,613**	**4,76,989**	**2,477**	**4,83,279**

@: 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 37 : Indian Stock Market



In the second phase between May 22 and July 16, 2008, the market sentiment turned cautious on account of increase in international crude oil prices, 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, domestic political uncertainties and other sector and stock-specific news. The BSE Sensex closed at 12576 on July 16, 2008.

In the third phase from July 17, 2008 to first week of September 2008, domestic stock markets recovered notwithstanding some intermittent corrections, on account of restoration of domestic political stability and decline in international crude oil prices. As a result, both the BSE Sensex and the S&P CNX Nifty closed higher at 14945 and 4482, respectively, on September 08, 2008, registering gains of 18.8 per cent and 17.4 per cent, respectively, over their July 16, 2008 levels. However, both the BSE Sensex and the S&P CNX Nifty recorded losses of 4.5 per cent and 5.3 per cent, respectively, over their end-March 2008 levels.

In the fourth phase beginning from the second week of September 2008, domestic stock markets turned volatile, reflecting decline in the international stock markets triggered by bankruptcy/sell-out/restructuring of some of the world's largest financial institutions resulting in severe disruptions in international financial markets, heavy net sales by FIIs, sharp fall in the value of rupee, decline in global metal prices and slowdown in industrial growth. The BSE Sensex reached a low of 9975 on October 17, 2008. Efforts were made by Governments and central banks worldwide to restore normalcy in financial markets. In India, the Government, the Reserve Bank and the Securities and Exchange Board of India (SEBI) took several measures to ease liquidity through reduction of CRR, conduct of special 14-day repo to enable banks to meet liquidity requirements of mutual funds, reduction of repo rate, relaxation of external commercial borrowing norms for infrastructure companies and easing of restrictions on issue of participatory notes by FIIs against securities, including derivatives, as underlying. As a result of these measures, the stock markets made some recovery. Both the BSE Sensex and the S&P CNX Nifty closed at 10223 and 3122, respectively, on October 20, 2008, registering losses of 34.7 per cent and 34.0 per cent, respectively, over their end-March 2008 levels. Between end-March 2008 and October 20, 2008, the BSE Sensex moved in a range of 9975-17600.

According to the data released by the SEBI, FIIs made net sales of Rs.32,298 crore (US$ 8,006 million) in the Indian equity market during 2008-09 (up to October 13, 2008) as against net purchases of Rs.61,992 crore (US$ 15,061 million) during the corresponding period of the previous year (Chart 38). Mutual funds, on the other hand, made net purchases of Rs.6,452 crore during 2008-09 (up to October 13, 2008) as compared with net purchases of Rs.3,265 crore during the corresponding period of last year.

The sectoral indices witnessed a downward trend during the current financial year (up to October 14, 2008) (Table 49). Selling pressure was witnessed across the board, *viz.*, metal, consumer durables, capital goods, auto, oil and gas, public sector undertakings, banking, IT, fast moving consumer goods and healthcare sector stocks.

In tandem with the downward trend in stock prices, the price-earnings (P/E) ratios of the 30 scrips included in the BSE Sensex declined from 20.1 at end-March 2008 to 16.2 at end-September 2008. The market capitalisation of the BSE also

Chart 38 : Institutional Investment and Stock Market

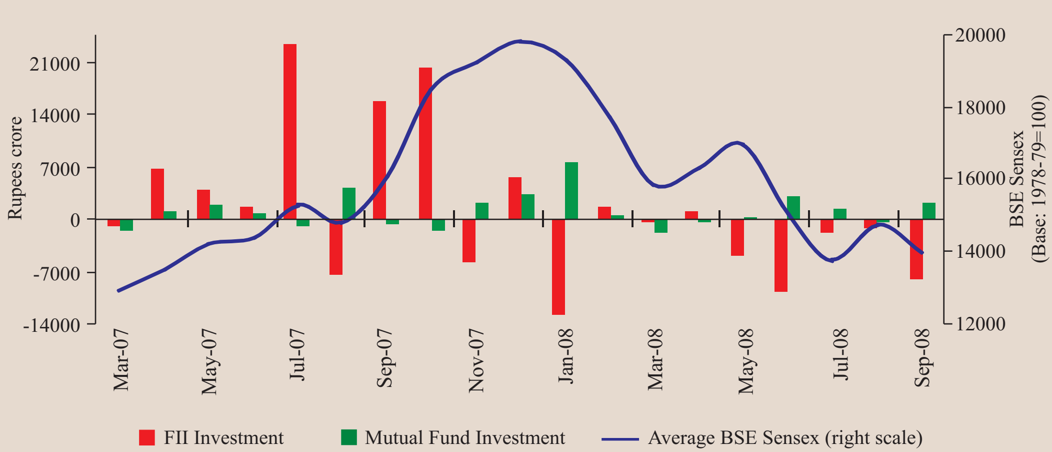


Table 49: BSE Sectoral Stock Indices

(Base: 1978-79=100)

Sector	Variation (per cent)		
	End-March 2007 @	End-March 2008 @	October 14, 2008 #
1	2	3	4
Fast Moving Consumer Goods	-21.4	31.7	-15.2
Public Sector Undertakings	-3.2	25.4	-22.5
Information Technology	21.6	-27.6	-17.1
Auto	-8.5	-7.1	-24.2
Oil and Gas	30.5	56.0	-23.9
Metal	-4.3	65.2	-51.1
Health Care	-5.4	5.4	-11.5
Bankex	24.2	18.0	-21.8
Capital Goods	11.1	54.4	-36.6
Consumer Durables	11.1	8.8	-40.0
BSE 500	**9.7**	**24.3**	**-30.9**
BSE Sensex	**15.9**	**19.7**	**-26.6**

@: Year-on-year variation. #: Variation over end-March 2008.
Source: Bombay Stock Exchange Limited.

declined by 18.9 per cent between end-March 2008 and end-September 2008. The turnover of both BSE and NSE in the cash segment during April-September 2008, however, rose by 16.7 per cent over that in the corresponding period of 2007. The turnover in the derivative segment of both BSE and NSE also increased by 10.6 per cent during April-September 2008 over the corresponding period of the previous year. The volatility in the stock market measured as coefficient of variation, also increased during April-September 2008 (Table 50).

Table 50: Stock Market Indicators

Indicator	BSE				NSE			
	2006-07	2007-08	April-September		2006-07	2007-08	April-September	
			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	17291	12860	3822	4735	5021	3921
(ii) Average	12272	16569	14679	15059	3572	4897	4300	4511
2. Coefficient of Variation	11.1	13.7	6.2	8.7	10.4	14.4	5.9	8.3
3. Price-Earning Ratio @	20.3	20.1	23.3	16.2	18.4	20.6	22.6	16.9
4. Price-Book Value Ratio*@	5.1	5.2	5.5	3.4	4.9	5.1	5.4	3.3
5. Yield* (per cent per annum)@	1.3	1.0	1.0	1.4	1.3	1.1	1.1	1.5
6. Listed Companies	4,821	4,887	4,871	4,926	1,228	1,381	1,319	1,424
7. Cash Segment Turnover (Rupees crore)	9,56,185	15,78,856	6,27,022	6,82,658	19,45,285	35,51,038	13,34,318	16,05,906
8. Derivative Segment Turnover (Rupees crore)	59,007	2,42,308	1,12,316	11,984	73,56,242	1,30,90,478	52,90,968	59,63,895
9. Market Capitalisation (Rupees crore) @	35,45,041	51,38,015	52,02,955	41,65,388	33,67,350	48,58,122	48,86,561	39,00,185
10. Market Capitalisation to GDP Ratio (per cent)@	85.5	109.5	121.2	85.3	81.2	103.1	113.9	79.9

* : 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 during the first quarter of 2008-09 (April-June) reflected a widening of the current account deficit and moderation in capital flows. Merchandise trade deficit recorded a sharp increase during April-August 2008 on account of sustained increase in demand for oil imports. Net surplus under invisibles remained buoyant, led by increase in software exports and private transfers. The large increase in merchandise trade deficit led to a significant increase in the current account deficit over its level during April-June 2007. Net capital inflows have remained volatile during 2008-09 so far. While foreign direct investment into India increased during April-August 2008, portfolio investments showed an outflow during April-October 2008 (up to October 10, 2008). During 2008-09 so far (up to October 10, 2008), foreign exchange reserves declined by US $ 35.7 billion over end-March 2008.

International Developments

The global economy, which expanded by 5.0 per cent in 2007 (5.1 per cent in 2006), has been under significant stress during 2008 so far on account of sustained financial crisis that erupted in August 2007 and a surge in energy and other commodity prices. After four years of continuous strong expansion, global activity is slowing down significantly. Many advanced economies are experiencing recessionary conditions while growth in emerging market economies is also weakening. The financial crisis that first erupted with the collapse of the US subprime mortgage has deepened further during the last six months and entered a new turbulent phase in September 2008, which has severely affected confidence in global financial institutions and markets. According to the projections released by the International Monetary Fund (IMF) in October 2008, global economic activity is estimated to soften further in the second half of 2008 and early 2009 before gradual recovery takes place later in 2009. Slowdown has been witnessed in both advanced as well as emerging market economies in the second quarter of 2008. All major advanced economies like Euro area, Japan, Korea, the UK, the US and OECD countries registered decelerated growth rates in the second quarter of 2008 as compared to those during the first quarter of 2008 (Table 51). The deceleration in growth was also exhibited by emerging and developing economies like Argentina, China, India, Malaysia and Thailand during the second quarter of 2008.

The IMF has projected the US economy to grow by 1.6 per cent in 2008 (2.0 per cent in 2007). The US economy has been severely impacted by the direct effects of the financial crisis that originated in its subprime mortgage market, though aggressive policy easing by the Federal Reserve, a timely fiscal

Table 51: Growth Rates - Global Scenario

(Per cent)

Region/Country	2006	2007	2008P	2009P	2007				2008	
					Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11
Advanced Economies										
Euro area	2.8	2.6	1.3	0.2	3.2	2.6	2.6	2.1	2.1	1.4
Japan	2.4	2.1	0.7	0.5	3.2	1.8	1.7	1.6	1.2	0.7
Korea	5.1	5.0	4.1	3.5	4.0	4.9	5.1	5.7	5.8	4.8
UK	2.8	3.0	1.0	-0.1	2.9	3.0	3.3	2.9	2.4	1.5
US	2.8	2.0	1.6	0.1	1.3	1.8	2.8	2.3	2.5	2.1
OECD Countries	2.9	2.5	1.8	1.7	2.7	2.5	2.9	2.6	2.5	1.9
Emerging Economies										
Argentina	8.5	8.7	6.5	3.6	8.0	8.7	8.8	9.1	8.3	7.5
Brazil	3.8	5.4	5.2	3.5	4.4	5.4	5.6	6.2	5.9	6.1
China	11.6	11.9	9.7	9.3	11.1	11.9	11.5	11.2	10.6	10.1
India	9.6	9.0	7.9	6.9	9.7	9.2	9.3	8.8	8.8	7.9
Indonesia	5.5	6.3	6.1	5.5	6.1	6.4	6.5	6.3	6.3	6.5
Malaysia	5.8	6.3	5.8	4.8	5.5	5.7	6.7	7.3	7.1	6.3
Thailand	5.1	4.8	4.7	4.5	4.2	4.3	4.8	5.7	6.1	5.3

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.

stimulus package, and a strong export performance on the back of a weakening US dollar have helped to cushion the impact of the financial crisis in the second quarter of 2008. According to the IMF, the US economy may contract during the final quarter of 2008 and the first quarter of 2009, as support from fiscal stimulus ebbs, export momentum moderates and tight financial conditions lead to more problems. The IMF expects the US economy to stabilise in the second quarter of 2009 and then recover gradually. The key factors that will determine short-term outlook include effectiveness of recent government initiatives to stabilise financial market conditions, the behaviour of US households in the face of rising stress, the depth of housing cycle and the extent to which inflation concerns constrain monetary policy. The IMF projections envisage a significant slowdown in growth in the Euro area to 1.3 per cent in 2008 from 2.6 per cent in 2007 mainly on account of higher oil prices, tightening credit conditions, housing downturns in several economies and the US slowdown. A very gradual recovery is expected only during the second half of 2009. The growth momentum in Japan is projected to decelerate to 0.7 per cent in 2008 (2.1 per cent in 2007) on account of slowing exports, expected further weakening of domestic demand and slowing down of private investment.

The emerging and developing economies have not decoupled from this downturn. 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 as domestic demand, particularly investment and net exports have moderated (Table 52). Though commodity-exporting countries have gained from the still-high export prices, countries with strong trade links with the US and Europe are slowing down markedly. Also, countries relying on bank-related or portfolio flows to finance large current account deficits have been adversely affected by strong risk aversion, deleveraging and the consequent shrinkage in external financing. Nevertheless, growth in emerging Asia during the second quarter of 2008 was led by China and India. GDP in China eased to 10.1 per cent in the second quarter of 2008 from 11.9 per cent during the corresponding period of the preceding year partly due to slowing of exports. The IMF has projected that

Table 52 : 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	3.9	3.0
	(1.9)	(2.7)	(4.0)	(3.4)	(3.9)	(3.7)	(2.7)	(1.9)
i) Advanced Economies	1.6	1.9	3.2	2.6	3.0	2.6	1.5	0.5
ii) Other Emerging Market and Developing Countries	4.8	6.3	7.5	7.1	7.9	8.0	6.9	6.1
of which: Developing Asia	6.9	8.2	8.6	9.0	9.9	10.0	8.4	7.7
II. Consumer Price Inflation (Per cent)								
i) Advanced Economies	1.5	1.8	2.0	2.3	2.4	2.2	3.6	2.0
ii) Other Emerging Market and Developing Countries	6.8	6.6	5.9	5.7	5.4	6.4	9.4	7.8
of which: Developing Asia	2.1	2.6	4.1	3.8	4.2	5.4	7.8	6.2
III. Net Capital Flows* (US $ billion)								
i) Net Private Capital Flows (a+b+c)**	77.1	162.5	236.5	248.7	223.0	632.8	528.6	286.6
a) Net Private Direct Investment	156.6	166.2	189.0	261.8	246.0	379.0	443.6	414.6
b) Net Private Portfolio Investment	-91.9	-13.0	12.7	-20.4	-107.3	54.5	-6.6	-89.1
c) Net Other Private Capital Flows	12.4	9.2	34.8	7.3	84.4	199.5	91.8	-38.7
ii) Net Official Flows	-1.0	-50.5	-71.1	-109.9	-158.0	-140.7	-158.6	-135.4
IV. World Trade @								
i) Volume	3.5	5.4	10.7	7.6	9.3	7.2	4.9	4.1
ii) Price Deflator	1.2	10.4	9.7	5.6	5.0	8.1	15.3	0.2
V. Current Account Balance (Per cent to GDP)								
i) US	-4.4	-4.8	-5.3	-5.9	-6.0	-5.3	-4.6	-3.3
ii) China	2.4	2.8	3.6	7.2	9.4	11.3	9.5	9.2
iii) Middle East	4.7	8.3	11.7	20.0	21.1	18.4	22.9	17.1

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 (October 2008), International Monetary Fund.

growth in China would moderate to 9.7 per cent in 2008 (11.9 per cent in 2007). In India, growth during the second quarter came down to 7.9 per cent upon weakening of investment though private consumption and exports have performed well so far. According to IMF, India's GDP would grow by 7.9 per cent during 2008.

Going forward, financial conditions are likely to remain fragile, constraining global growth prospects. The IMF has projected global growth to moderate to 3.9 per cent in 2008 from 5.0 per cent in 2007. A gradual recovery is expected to take hold later in 2009. Financial markets are expected to remain under stress throughout 2008 and 2009. There are substantial downside risks to the global growth outlook, which relate to two concerns, *viz.*, financial stress could remain very high and credit constraints from deleveraging could be deeper and more protracted than envisaged. Additionally, US housing market deterioration could be deeper and more prolonged than forecast, and European housing markets could weaken more broadly. Factors that would help in reviving the global economy in 2009 include expected stabilisation in commodity prices, a turnaround in the US housing sector after finally reaching the bottom and support from continued robust demand in many emerging economies despite some cooling of their momentum. Policy makers face the major challenge of stabilising global financial markets, while nursing their economies through a period of slower growth and keeping inflation under control.

According to projections made by the IMF, growth in world trade is expected to moderate to 4.9 per cent in volume terms in 2008 from 7.2 per cent in 2007 (see Table 52). Exports of emerging and developing economies are projected to grow by 6.3 per cent in 2008 (9.5 per cent a year ago), while those of advanced countries are expected to grow by 4.3 per cent (5.9 per cent a year ago).

According to the IMF's International Financial Statistics, world merchandise exports, in US dollar terms, during the first five months of 2008 (January-May) increased by 23.4 per cent from 14.0 per cent during the corresponding period a year ago. Exports from emerging and developing economies recorded a growth of 25.8 per cent (15.3 per cent during January-May 2007), while that of industrial countries grew at an accelerated rate of 21.5 per cent from 13.0 per cent during January-May 2007 (Table 53).

Merchandise Trade

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 35.3 per cent during April-August 2008, which was higher

Table 53: Growth in Exports - Global Scenario

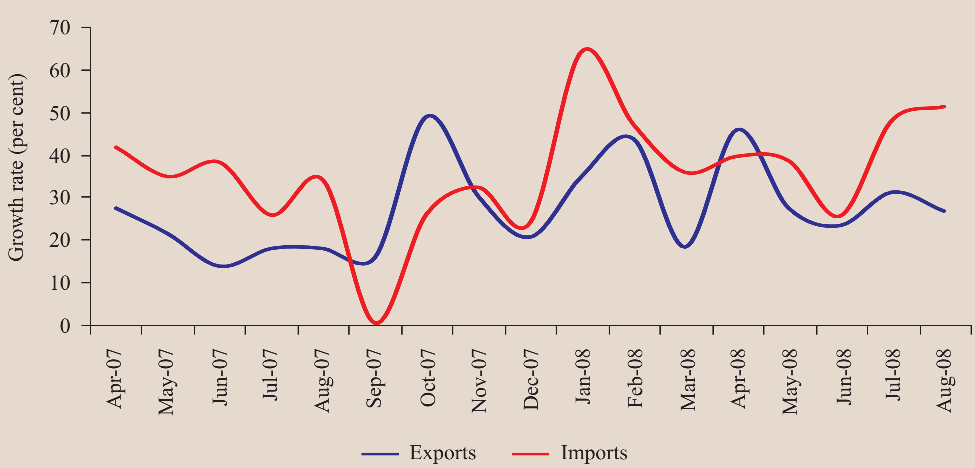
(Per cent)

Region/Country	2006	2007	2007 (January-May)	2008 (January-May)
1	2	3	4	5
World	**15.3**	**15.0**	**14.0**	**23.4**
Industrial Countries	**12.4**	**13.6**	**13.0**	**21.5**
Emerging and Developing Economies	**19.1**	**16.8**	**15.3**	**25.8**
China	27.2	25.6	27.8	22.9
France	9.9	12.0	10.7	21.6
Germany	14.7	18.5	20.7	22.6
India	21.4	20.3	18.7	33.4
Indonesia	18.3	16.8	15.7	27.1
Japan	9.2	9.2	5.6	25.2
Korea	14.4	14.2	14.3	21.2
Malaysia	14.0	9.6	8.0	24.0
Singapore	18.4	10.1	9.5	23.7
Thailand	18.5	16.8	16.8	22.1
US	14.7	12.2	11.0	17.7

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

than that of 19.3 per cent during April-August 2007 (Chart 39). Imports during April-August 2008 grew by 38.0 per cent, higher than the growth of 34.2 per cent recorded a year ago. Petroleum, oil and lubricants (POL) imports grew significantly by 60.0 per cent during April-August 2008 as against 17.9 per cent during April-August 2007, largely due to the escalation in international crude oil prices. Non-oil imports at US $ 84.5 billion showed moderation in growth to 28.3 per cent from 42.7 per cent a year ago (see Table 57).

Chart 39: India's Merchandise Trade



Commodity-wise data available for April-May 2008 show that there was an across-the-board acceleration in the exports of major commodity groups with the exception of petroleum products and gems and jewellery. Exports of primary products recorded an accelerated growth of 69.8 per cent in April-May 2008 (10.9 per cent in April-May 2007) on account of substantial increase in the export of agricultural and allied products such as raw cotton, oil meal and sugar and molasses (Table 54). Among manufactured goods, engineering goods exports increased by 50.7 per cent (29.8 per cent a year ago) and exports of chemicals and related products grew by 26.0 per cent (16.7 per cent). Exports of textiles and textile products witnessed a significant turnaround in April-May 2008, recording a growth of 20.1 per cent as against a decline in exports in April-May 2007 (-0.5 per cent).

Destination-wise, the UAE emerged as the single largest export market for Indian products during April-May 2008 with a share of 10.4 per cent, marginally ahead of the US (10.3 per cent), which has generally been the single largest export destination for India for several years. The other major export markets were Singapore (6.2 per cent), China (6.0 per cent) and the UK (4.2 per cent). Exports to EU, North America, OPEC and Asian developing countries exhibited accelerated growth, while exports to African developing countries decelerated during April-May 2008 (Table 55).

Table 54: Exports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)		
	2007-08	2007-08R	2008-09P	2007-08	2007-08	2008-09
		April-May			April-May	
1	2	3	4	5	6	7
1. Primary Products	**27.1**	**3.2**	**5.5**	**37.5**	**10.9**	**69.8**
of which:						
a) Agriculture and Allied Products	18.1	2.0	3.8	42.4	7.2	89.2
b) Ores and Minerals	9.0	1.2	1.7	28.6	17.3	38.2
2. Manufactured Goods	**101.1**	**14.8**	**19.2**	**19.1**	**17.6**	**29.9**
of which:						
a) Chemicals and Related Products	20.5	3.0	3.7	18.0	16.7	26.0
b) Engineering Goods	36.7	5.3	8.0	24.2	29.8	50.7
c) Textiles and Textile Products	19.0	2.8	3.4	9.5	-0.5	20.1
d) Gems and Jewellery	19.7	2.9	3.2	23.0	18.7	8.6
3. Petroleum Products	**24.9**	**4.3**	**5.5**	**33.1**	**79.2**	**26.7**
4. Total Exports	**159.0**	**23.1**	**31.7**	**25.8**	**24.2**	**36.7**
Memo:						
Non-oil Exports	134.1	18.8	26.2	24.6	16.0	39.0

R : Revised. P : Provisional.

Source : DGCI&S.

Table 55: Direction of India's Exports

Group/Country	US $ billion			Variation (per cent)		
	2007-08	2007-08R	2008-09P	2007-08	2007-08	2008-09
		April-May			April-May	
1	2	3	4	5	6	7
1. OECD Countries	**61.7**	**9.1**	**12.1**	**18.6**	**16.3**	**33.9**
of which:						
a) EU	32.2	4.8	7.3	24.9	21.0	52.5
b) North America	22.0	3.2	3.5	10.0	6.1	7.8
US	20.7	3.0	3.3	9.7	6.2	7.4
2. OPEC	**26.2**	**4.0**	**5.7**	**26.4**	**32.4**	**41.8**
of which:						
UAE	15.4	2.4	3.3	27.7	36.8	38.0
3. Developing Countries	**67.2**	**9.7**	**13.2**	**32.4**	**28.4**	**35.5**
of which:						
Asia	50.1	7.0	9.8	33.2	17.6	39.9
People's Republic of China	10.8	1.3	1.9	30.0	10.0	45.4
Singapore	6.9	1.2	2.0	12.9	-5.3	65.8
4. Total Exports	**159.0**	**23.1**	**31.7**	**25.8**	**24.2**	**36.7**

R : Revised. P : Provisional.
Source : DGCI&S.

Commodity-wise data on imports available for April-May 2008 show that petroleum, oil and lubricants (POL) and capital goods were the major drivers, together accounting for 78 per cent of the import growth. POL imports recorded an accelerated growth of 74.8 per cent during April-May 2008 as compared with 25.7 per cent during April-May 2007. Imports of capital goods grew by 39.7 per cent, accounting for 50.2 per cent of the non-oil imports. Non-oil imports net of gold and silver, moderated at 34.5 per cent, while imports of mainly industrial inputs decelerated to 31.0 per cent from a growth of 37.7 per cent in April-May 2007 (Table 56).

Source-wise, China was the major source of imports in April-May 2008, accounting for 11.1 per cent of total imports, followed by Saudi Arabia (7.1 per cent), the UAE (6.6 per cent), Switzerland (5.8 per cent) and the US (4.3 per cent).

Merchandise trade deficit during April-August 2008 widened to US $ 49.3 billion from US $ 34.6 billion during April-August 2007. Trade deficit on the oil account during April-May 2008 widened to US $ 13.9 billion from US $ 6.8 billion a year ago, while non-oil trade deficit declined to US $ 6.4 billion from US $ 7.2 billion (Table 57).

Table 56: Imports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)		
	2007-08	2007-08R	2008-09P	2007-08	2007-08	2008-09
		April-May			April-May	
1	2	3	4	5	6	7
Petroleum, Petroleum Products and Related Material	79.6	11.1	19.4	39.4	25.7	74.8
Edible Oil	2.6	0.3	0.3	21.3	-4.7	0.6
Iron and Steel	8.7	1.5	1.6	35.2	69.1	4.2
Capital Goods	58.4	8.3	11.6	24.1	32.7	39.7
Pearls, Precious and Semi-Precious Stones	8.0	1.5	0.8	6.5	23.1	-49.3
Chemicals	9.9	1.5	2.4	26.2	32.4	59.5
Gold and Silver	17.8	4.8	4.0	21.8	88.4	-15.7
Total Imports	**239.7**	**37.1**	**52.0**	**29.0**	**38.0**	**40.1**
Memo:						
Non-oil Imports	160.0	26.0	32.6	24.4	44.0	25.3
Non-oil Imports excluding Gold and Silver	142.2	21.2	28.6	24.7	36.8	34.5
Mainly Industrial Inputs*	130.0	20.0	26.2	24.2	37.7	31.0

R : Revised. P : Provisional.

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

Source : DGCI&S.

Current Account

Net surplus under invisibles (services, transfers and income taken together) was at US $ 20.9 billion in April-June 2008 (US $ 14.4 billion in April-June 2007), reflecting mainly the rise in remittances from overseas Indians, large receipts from software exports, higher interest income on reserves and

Table 57: India's Merchandise Trade

(US $ billion)

Item	2006-07	2007-08	2007-08R	2008-09P
			April-August	
1	2	3	4	5
Exports	126.4	159.0	60.1	81.3
Imports	185.7	239.7	94.6	130.5
Oil	57.1	79.6	28.8	46.1
Non-oil	128.6	160.0	65.8	84.5
Trade Balance	-59.4	-80.6	-34.6	-49.3
Non-Oil Trade Balance	-20.9	-25.9	-16.4	..
				Variation (per cent)
Exports	22.6	25.8	19.3	35.3
Imports	24.5	29.0	34.2	38.0
Oil	30.0	39.4	17.9	60.0
Non-oil	22.2	24.4	42.7	28.3

R : Revised. P : Provisional. .. : Not Available.

Source : DGCI&S.

relatively moderate rise in payments of business and professional services (Table 58). Growth in invisible receipts at 29.7 per cent during April-June 2008 was substantially higher than 16.7 per cent in the corresponding period of 2006-07, mainly due to the momentum maintained in the growth of software services exports, travel and transportation, along with the steady inflow of remittances from overseas Indians. Invisible payments grew by 14.8 per cent during the first quarter of April-June 2008 (22.6 per cent during April-June 2007), reflecting the payments on account of travel, transportation, business and management consultancy, engineering and other technical services, dividend, profit and interest payments.

During April-June 2008, the sharp rise in trade deficit, mainly due to higher imports, particularly oil imports, resulted in a widening of the current account deficit to US $ 10.7 billion from US $ 6.3 billion during April-June 2007, notwithstanding an increase in net surplus in the invisibles account (Table 59 and Chart 40). The net invisible surplus offset 66.0 per cent of the trade deficit in April-June 2008 as compared with 69.6 per cent in April-June 2007. Net of remittances, the current account deficit was US $ 22.2 billion during April-June 2008 (US $ 13.8 billion in April-June 2007).

Capital Flows

During 2008-09 so far capital flows have remained volatile. Net capital flows during 2008-09 so far were lower than those in the corresponding period

Table 58: Invisibles Account (Net)

(US $ million)

Item	2007-08 P	2007-08				2008-09
	April-March	April-June PR	July-Sept. PR	Oct.-Dec. PR	Jan.-March P	April-June P
1	2	3	4	5	6	7
Services	37,550	8,729	7,608	10,430	10,783	10,461
Travel	2,118	207	145	905	861	345
Transportation	-2,107	-587	-649	-293	-578	-881
Insurance	543	185	36	191	131	114
Government not included elsewhere	-51	-16	-62	16	11	19
Software	37,051	8,040	7,667	9,257	12,087	9,799
Other Services	-4	900	471	354	-1,729	1,065
Transfers	41,017	7,518	9,265	10,866	13,368	11,522
Investment Income	-5,239	-1,719	-1,142	-1,161	-1,217	-958
Compensation of Employees	-671	-128	-201	-160	-182	-175
Total	**72,657**	**14,400**	**15,530**	**19,975**	**22,752**	**20,850**

PR : Partially Revised. P : Preliminary.

Table 59: India's Balance of Payments

(US $ million)

Item	2007-08P	2007-08				2008-09
	April-March	April-June PR	July-Sept. PR	Oct.-Dec. PR	Jan.-March P	April-June P
1	2	3	4	5	6	7
Exports	158,461	35,752	37,595	42,284	42,830	43,703
Import	248,521	56,453	58,069	67,376	66,623	75,277
Trade Balance	-90,060 (-7.7)	-20,701	-20,474	-25,092	-23,793	-31,574
Invisible Receipts	145,257	29,100	32,322	38,764	45,071	37,730
Invisible Payments	72,600	14,700	16,792	18,789	22,319	16,880
Invisibles, net	72,657 (6.2)	14,400	15,530	19,975	22,752	20,850
Current Account	-17,403 (-1.5)	-6,301	-4,944	-5,117	-1,041	-10,724
Capital Account (net)*	109,567	17,501	34,180	31,855	26,031	12,959
of which:						
Foreign Direct Investment	15,545	2,658	2,808	3,729	6,350	10,117
Portfolio Investment	29,261	7,458	10,876	14,662	-3,735	-4,208
External Commercial Borrowings +	22,165	6,990	4,136	6,212	4,827	1,559
Short Term Trade Credit	17,683	1,804	4,886	4,691	6,302	2,173
External Assistance	2,114	241	468	565	840	351
NRI Deposits	179	-447	369	-853	1,110	813
Change in Reserves #	-92,164	-11,200	-29,236	-26,738	-24,990	-2,235
Memo:						
Current Account net of Private Transfers	**-58,181 (-5.0)**	**-13,832**	**-14,162**	**-15,909**	**-14,278**	**-22,216**

PR : Partially Revised. P : Preliminary

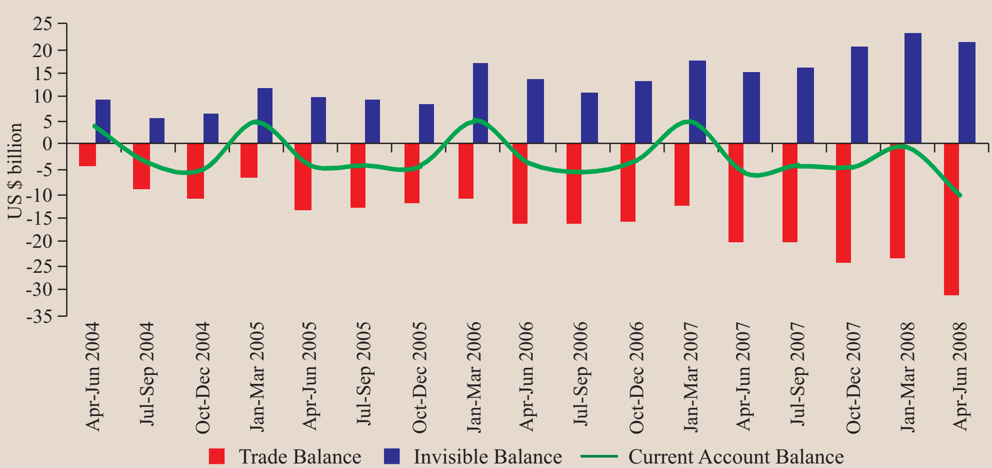
* : Includes errors and omissions. + : Medium and long-term borrowings.

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

Note : Figures in parentheses are percentages to GDP

of 2007-08, mainly on account of outflows by foreign institutional investors (US $ 7.3 billion) during 2008-09 (up to October 10, 2008) in contrast to net FII inflows (US $ 18.9 billion) during the corresponding period of 2007-08. On

Chart 40 : Movement in Current Account Balance



the other hand, net FDI flows into India were placed higher at US $ 16.7 billion during April-August 2008 as compared with US $ 8.5 billion during April-August 2007. The funds raised through issuances of ADRs/GDRs abroad were at US $ 1.1 billion during April-August 2008 (US $ 2.8 billion in April-August 2007). NRI deposits recorded a net inflow of US $ 273 million during April-August 2008 mainly due to inflows under the rupee deposit accounts as against a net outflow (US $ 168 million) during April-August 2007 (Table 60).

With net capital flows being higher than the current account deficit, the overall balance of payments recorded a surplus of US $ 2.2 billion during the first quarter of 2008-09 (US $ 11.2 billion in the first quarter of 2007-08).

Foreign Exchange Reserves

India's foreign exchange reserves were US $ 274.0 billion as on October 10, 2008, showing a decline of US $ 35.7 billion over end-March 2008. The decline in the foreign exchange reserves was due to decline in almost all the components of reserves. While foreign currency assets declined from US $ 299.2 billion as at end-March 2008 to US $ 265.0 billion as on October 10, 2008, gold declined from US $ 10.0 billion to US $ 8.6 billion on account of decline in the value of gold; SDRs declined from US $ 18.0 million in March 2008 to 4.0 million (Table 61).

India holds the third largest stock of reserves among the emerging market economies as at end-September 2008. The overall approach to the management

Table 60: Capital Flows

(US $ million)

Item	Period	2007-08	2008-09
1	2	3	4
Foreign Direct Investment into India	April-August	8,536	16,733
Foreign Direct Investment abroad	April-June	-4,321	-2,019
FIIs (net)	April-October *	18,948	-7,321
ADRs/GDRs	April-August	2,792	1,135
External Assistance (net)	April-June	241	351
External Commercial Borrowings (net)			
(Medium and long-term)	April-June	6,990	1,559
Short-term Trade Credit (net)	April-June	1,804	2,173
Non-NRI Banking Capital (net)	April-June	-472	1,922
NRI Deposits (net)	April-August	-168	273
Other Capital	April-June	-843	518

* : Up to October 10, 2008.

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

Table 61: 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	-
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	(+) 13,700
July 2008	9,735	11	295,918	512	306,176	(+) 11,910
August 2008	8,692	4	286,117	496	295,309	(+) 9,925
September 2008	8,565	4	277,300	467	286,336	..
October 2008*	8,565	4	264,977	458	274,004	..

* : As on October 10, 2008.

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.

External Debt

India's total external debt was placed at US $ 221.3 billion at end-June 2008, recording an increase of US $ 0.6 billion (0.3 per cent) over end-March 2008 (Table 62). The rise in external debt stock was essentially due to increase in short-term debt which rose by US $ 2.2 billion during the quarter. Long-term debt, however, declined as outstanding NRI deposits (despite net inflows) recorded a decline during the first quarter of 2008-09, mainly on account of valuation effect. The appreciation of the US dollar against other major international currencies and Indian rupee resulted in a decline in overall external debt by US $ 4.5 billion. Excluding the valuation effects, the stock of external debt as at end-June 2008 increased by US $ 5.1 billion over the end-March 2008 level. The US dollar remained the leading currency in which India's external debt was denominated, accounting for about 52.3 per cent of total debt.

Table 62: India's External Debt

					(US $ million)
Item	End-March 2005	End-March 2006	End-March 2007	End-March 2008	End-June 2008
1	2	3	4	5	6
1. Multilateral	31,744	32,620	35,337	39,312	39,662
2. Bilateral	17,034	15,761	16,061	19,613	18,683
3. International Monetary Fund	0	0	0	0	0
4. Trade Credit (above 1 year)	5,022	5,420	7,051	10,267	11,004
5. External Commercial Borrowings	26,405	26,452	41,657	62,019	61,458
6. NRI Deposit	32,743	36,282	41,240	43,672	42,612
7. Rupee Debt	2,302	2,059	1,947	2,016	1,866
8. Long-term (1 to 7)	115,250	118,594	143,293	176,899	175,285
9. Short-term	17,723	19,539	26,376	43,820	46,018
Total (8+9)	**132,973**	**138,133**	**169,669**	**220,719**	**221,303**
Memo:					(per cent)
Total debt/GDP	18.5	17.2	17.8	18.7	..
Short-term/Total debt	13.3	14.1	15.5	19.9	20.8
Short-term debt/Reserves	12.5	12.9	13.2	14.1	14.7
Concessional debt/Total debt	30.9	28.6	23.3	19.9	19.3
Reserves/Total debt	106.4	109.8	117.4	140.3	141.0
Debt Service Ratio	5.9	10.1	4.8	5.4	3.9

.. : Not available.

Debt sustainability indicators remained at comfortable levels at end-June 2008. The debt service ratio was placed at 3.9 per cent during the first quarter of 2008-09 as against 5.4 per cent during 2007-08. The ratio of short-term to total debt and short-term debt to reserves increased to 20.8 per cent and 14.7 per cent, respectively, from 19.9 per cent and 14.1 per cent, respectively, at end-March 2008. India's foreign exchange reserves exceeded the external debt by US $ 90.8 billion providing a cover of 141.0 per cent to the external debt stock at the end of June 2008.

International Investment Position

India's net international liabilities declined by US $ 9.0 billion between end-March 2007 and end-March 2008, as the increase in international assets (US $ 135.4 billion) exceeded the increase in international liabilities (US $ 126.4 billion) (Table 63). The increase in international assets was mainly on account of increase in the reserve assets (US $110.5 billion), increase in the Indian investment abroad (US $ 16.8 billion) and increase in other investment, in particular, loan extended to non-residents by the banking sector. On the other hand, the increase in international liabilities was on account of the

Table 63: International Investment Position of India

(US $ billion)

Item	March 2005	March 2006 R	March 2007 PR	March 2008 P
1	2	3	4	5
A. Assets	**165.7**	**184.2**	**246.0**	**381.4**
	(23.0)	**(22.9)**	**(25.9)**	**(32.4)**
1. Direct Investment	10.0	15.9	29.4	46.2
2. Portfolio Investment	0.5	1.2	0.9	0.7
2.1 Equity Securities	0.3	0.8	0.5	0.6
2.2 Debt securities	0.2	0.5	0.4	0.1
3. Other Investment	13.7	15.5	16.5	24.8
3.1 Trade Credits	1.1	-0.3	0.6	0.9
3.2 Loans	1.9	2.5	3.2	10.5
3.3 Currency and Deposits	7.3	9.8	8.5	8.2
3.4 Other Assets	3.4	3.5	4.2	5.2
4. Reserve Assets	141.5	151.6	199.2	309.7
	(19.7)	(18.9)	(20.9)	(26.3)
B. Liabilities	**219.6**	**244.2**	**308.0**	**434.4**
	(30.5)	**(30.4)**	**(32.4)**	**(36.8)**
1. Direct Investment	44.5	52.4	76.3	115.5
	(6.2)	(6.5)	(8.0)	(9.8)
2. Portfolio Investment	56.0	64.3	79.5	119.4
	(7.8)	(8.0)	(8.4)	(10.1)
2.1 Equity Securities	43.2	54.7	63.3	98.2
2.2 Debt securities	12.8	9.5	16.2	21.2
3. Other Investment	119.1	127.5	152.2	199.5
	(16.6)	(15.9)	(16.0)	(16.9)
3.1 Trade Credits	18.3	21.2	27.7	45.7
3.2 Loans	66.0	68.0	80.9	106.4
3.3 Currency and Deposits	33.6	37.3	42.3	44.8
3.4 Other Liabilities	1.2	1.0	1.3	2.6
C. Net Position (A-B)	**-53.9**	**-60.0**	**-62.0**	**-53.0**
	(-7.5)	**(-7.5)**	**(-6.5)**	**(-4.4)**

R : Revised. PR : Partially Revised. P : Provisional.

Note: Figures in parentheses are percentages to GDP.

increase in portfolio investment (equity securities) and direct investment amounting to US $ 39.9 billion and US $ 39.2 billion, respectively. Loans and trade credit components of other investment liabilities increased by US $ 25.5 billion and US $ 18.0 billion, respectively.