Macroeconomic and Monetary Developments First Quarter Review 2009-10

Reserve Bank of India
Mumbai

Contents

MACROECONOMIC AND MONETARY DEVELOPMENTS FIRST QUARTER REVIEW 2009-10

Overview

1. The global economic environment continues to remain uncertain, although the rate of contraction in economic activities and the extent of pressures on financial systems eased in the first quarter of 2009-10. Nascent and sporadic signs of improvements in the global conditions do not suggest any clear trend, and as a result, the uncertainty on the timing and pace of global recovery persists. Projections of various international institutions indicate the persistence of global recession, with expectations of beginning of recovery towards the later part of the year, which may get extended into the next year. Reflecting the persistence of the global recession, unemployment rates in advanced countries continue to rise and trade activities remain depressed, affecting the export performance of most of the countries. Appetite for risk seems to have improved modestly in the global financial system, as compared to the earlier flight to safety. Consequently, the stock markets have recovered part of their crisis induced sharp losses. Credit spreads have moderated and the market volatility also has gradually waned. Credit Default Swap spreads, reflecting the cost of insurance against credit risk, have improved. Spreads on emerging market bonds have flattened, suggesting improving access to the international markets for EMEs. The volatility in the exchange rate of the EMEs has generally declined. These signs of improvements in the global financial conditions in the first quarter of 2009-10 are necessary, but not sufficient, to induce a firm global recovery, particularly in view of the depressed demand conditions.

2. Reflecting the contagion from the synchronised global recession, growth impulses remained subdued in India, which was evident from the growth deceleration in the second half of 2008-09. At 6.7 per cent, GDP growth for 2008-09, however, was better than what most had expected, though it reflected a deceleration in relation to the average 8.8 per cent rate recorded during the high growth phase of 2003-04 to 2007-08. The impact of the contraction in global demand was evident in the decline in Indian exports, which also accelerated the rate of deceleration in manufacturing output growth. Services, which account for 64.5 per cent of the GDP, also experienced a modest slowdown.

3. In the first quarter of 2009-10, the core infrastructure sector exhibited higher growth in relation to the growth recorded during the corresponding period of the previous year; the Index of Industrial Production (IIP) registered positive growth (during April-May 2009). However, exports continued to decline. The leading indicators for the services sector such as new cellphone connections (up to May 2009) and *cement production (up to June 2009) indicate signs of improvement. The slow progress of monsoon up to end- June 2009 has affected the kharif sowing, which could have implications for the agricultural production. The progress of monsoon in July 2009, however, has improved considerably.*

4. The growth deceleration in 2008-09 was due to slowdown in both external and domestic demand. The slowdown in domestic demand, in the form of private consumption demand as well as investment demand, warranted appropriate policy response. The fiscal response of the Government came in the form of a large stimulus, which though led to an increase in the fiscal deficit from 2.5 per cent of GDP in 2007-08 to 6.2 per cent in 2008-09 (Provisional Accounts). The Union Budget for 2009-10 has placed the fiscal deficit at 6.8 per cent of GDP in 2009-10. While the fiscal stimulus raised aggregate demand, there is a need to address the challenges for fiscal consolidation with a view to returning to the high growth path at the earliest.

5. The balance of payments, which had come under considerable pressure in the third quarter of 2008-09, exhibited a surplus of US$ 4.7 billion in the current account in the fourth quarter. For the year as a whole, the current account deficit widened to 2.6 per cent of GDP from 1.5 per cent of GDP in the previous year. Reflecting the impact of the contagion operating through capital flow channel, net capital inflows fell to US$ 9.1 billion in 2008-09 as compared with net capital inflows of US$ 108.0 billion in 2007-08. The challenge of dealing with one of the severest external shocks was managed by the Reserve Bank with reserve loss of only US$ 20.1 billion (net of valuation).

6. The conduct of monetary policy had to contend with the scale and pace of external shocks and their spillover effects through the real, financial and confidence channels. The thrust of the various policy initiatives has been on providing ample rupee liquidity, ensuring comfortable US dollar liquidity and maintaining a market environment conducive for continued flow of credit to the productive sectors. Since September 2008, the policy repo rate has been reduced by 425 basis points, the reverse repo rate has been brought down by 275 basis points and the actual/potential liquidity injection/availability was over Rs.5,61,700 crore (excluding Rs. 40,000 crore under SLR reduction). The liquidity enhancing measures taken by the Reserve Bank since mid-September 2008 ensured availability of ample liquidity in the banking system, which was evident in the large and regular absorption of the surplus from the system through LAF by the Reserve Bank.

7. The Indian financial markets continued to function normally and exhibited stability with lower volatility and higher volume in the first quarter of 2009-10. The call rates hovered around the reverse repo rate. The commercial paper market exhibited greater activity, reflecting revival in demand for funds by the NBFCs and the working capital needs of corporates. The government securities market witnessed increase in volume in the primary segment reflecting the large borrowing programme of the

Government. The yield curve at the end of June 2009 had steepened at the short-end due to ample liquidity.

8. The credit market, which had functioned normally even when the global markets were experiencing a severe freeze, witnessed better transmission of monetary policy rates, as both deposit and lending rates showed signs of moderation in the first quarter of 2009-10. With the return of capital flows, the foreign exchange market showed appreciation of the rupee, reversing part of the depreciation in the previous quarter. The equity market recovered a large part of its earlier losses.

9. The WPI inflation, which was on a path of sharp decline from the peak level of August 2008, turned negative in June 2009. The decline in year-on-year inflation in the first quarter of 2009-10 essentially reflects the statistical factor of high base that emanated from sharp increases in commodity prices during the first half of 2008-09. Inflation as per Consumer Price Indices (CPIs) continues to remain at elevated levels.

10. In sum, the deceleration in growth in the second half of 2008-09 reflected the significant impact of global economic crisis through the trade and confidence channels on exports, private consumption and investment demand. This necessitated use of a large fiscal stimulus coupled with accommodative monetary policy to enable offsetting expansion in government expenditure, which ensured the overall growth remained at 6.7 per cent for the full year, which is one of the highest in the world and reasonable in the context of the intensity of the synchronised global crisis. The resultant fiscal stance, however, has led to considerable deterioration in the fiscal position, and faster return to the Fiscal Responsibility and Budget Management Act, 2004 guided fiscal consolidation path remains a key medium-term challenge. Subdued demand for credit from the private sector and negative WPI inflation have allowed both monetary and fiscal stance to support the overriding goal of faster recovery. The inflation outlook, however, could change with the waning of the last year's high base effect. For achieving the higher growth objective, credit flows to the private sector must also increase from the current depressed levels. The monetary policy response to these developments would require continuous coordination with fiscal policy, similar to last year's swift and comprehensive policy action that had to be put in place in response to the contagion from the global financial crisis.

11. The growth outlook for 2009-10 needs to be assessed in the context of indications emerging from lead information so far. While indicators such as growth in IIP, the core infrastructure sector, gradual revival in demand for non-food credit, improved business expectations could be viewed as signs of recovery from the slowdown, there are other factors which may dampen the growth outlook such as the delayed progress of monsoon, decline in exports due to the persistence of global recession, lagged impact of the negative growth in manufacturing in the last quarter of 2008-09 on services demand, negative *growth in capital goods, decline in the production of commercial vehicles, and an accelerated fall in import growth suggesting dampened demand conditions.*

12. On the inflation front, there are indications of inflation firming up by the end of the year due to the waning base effect of last year, increase in commodity prices, delayed progress of monsoon potentially driving up food prices, expansionary fiscal policy, accommodative monetary policy and inflation expectations not declining in step with the WPI inflation in the face of CPI inflation remaining firm. The low inflation environment, on the other hand, could prevail if the protracted global recession leads to dampened commodity prices, agricultural growth remains unaffected despite the delayed progress of monsoon, and the accommodative monetary policy stance returns to normal levels.

13. India's structural growth impulses continue to remain strong, given the high domestic saving rate, sound financial system, and growth supportive macroeconomic policy environment. Domestic deceleration in demand and persistent uncertainty in the global conditions, however, operate as the major drag on a faster recovery. Early indications for India suggest that the revival impulses need to strengthen further to boost the consumer and investor confidence, which could then set off a positive feedback loop to lift the growth momentum over time.

I. OUTPUT

In 2008-09, the growth rate of the Indian economy decelerated to 6.7 per cent from an average growth of 8.8 per cent in the preceding five years. India's GDP growth in 2008-09 was one of the highest in the world and reflected the resilience of the country's growth impulses to a severe external shock as well as the impact of the policy response to contain the adverse effects of the global economic crisis on domestic growth. The overall GDP growth in the fourth quarter of 2008-09 remained at the same level as in the previous quarter, primarily on account of a turnaround in growth in agriculture and allied activities, as industry and services continued to exhibit sustained deceleration over the four successive quarters of the year, with the rate of deceleration rising in the second half reflecting the contagion from the global synchronised recession. Available information on the growth of the core infrastructure sector during the first quarter of 2009-10 and the performance of the Index of Industrial Production (IIP) during April-May 2009, indicate signs of recovery, but the delay in the progress of monsoon in June 2009, which has affected kharif sowing, could operate as a drag on the growth prospects.

I.1 India's GDP growth in 2008-09 at 6.7 per cent was lower than the 9.0 per cent growth in 2007-08 as well as the average growth of 8.8 per cent during 2003-08. The slowdown in growth was largely due to the sharp decline in industrial growth and moderation in the growth of the agriculture and the services sectors. The deceleration in industrial growth was primarily an outcome of a moderate cyclical downturn, which got amplified by the global economic slowdown. In the second half of 2008-09, the synchronised global slowdown dampened the strong growth impulses of the high performance phase of the previous years. The pace of deceleration in economic growth was the sharpest in the third quarter of 2008-09, and the deceleration was halted in the fourth quarter only due to the growth turnaround in the agriculture sector, as the industrial sector exhibited modest negative growth and the deceleration in the services sector persisted.

I.2 During the fourth quarter of 2008-09, the real GDP growth was estimated at 5.8 per cent as compared with 8.6 per cent in the corresponding period of the previous fiscal. All the sub-sectors except 'agriculture and allied activities' and 'community, social and personal services' recorded lower growth in the fourth quarter of 2008-09, compared to the corresponding period of 2007-08 (Table 1). The agriculture sector, which had exhibited contraction in the third quarter of 2008-09, witnessed recovery in the fourth quarter.

Agricultural Situation

I.3 According to the India Meteorological Department, rainfall during the South-West monsoon season of 2009 (June to September) is likely to be below normal at 93 per cent of the long period average (with a model error of ± 4.0 per cent), with the deficiency being the largest for the North-West region of the country.

Table 1: Growth Rates of Real GDP@

(Per cent)

Sector	2007-08*	2008-09#	2007-08				2008-09			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture and Allied Activities	**4.9**	**1.6**	**4.3**	**3.9**	**8.1**	**2.2**	**3.0**	**2.7**	**-0.8**	**2.7**
	(17.8)	**(17.0)**								
2. Industry	**7.4**	**2.6**	**8.5**	**7.5**	**7.6**	**5.9**	**5.1**	**4.8**	**1.6**	**-0.5**
	(19.2)	**(18.5)**								
2.1 Mining and Quarrying	3.3	3.6	0.1	3.8	4.2	4.7	4.6	3.7	4.9	1.6
2.2 Manufacturing	8.2	2.4	10.0	8.2	8.6	6.3	5.5	5.1	0.9	-1.4
2.3 Electricity, Gas and Water Supply	5.3	3.4	6.9	5.9	3.8	4.6	2.7	3.8	3.5	3.6
3. Services	**10.8**	**9.4**	**10.8**	**10.7**	**10.2**	**11.3**	**10.0**	**9.8**	**9.5**	**8.4**
	(63.0)	**(64.5)**								
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	12.4	9.0	13.1	10.9	11.7	13.8	13.0	12.1	5.9	6.3
3.2 Financing, Insurance, Real Estate and Business Services	11.7	7.8	12.6	12.4	11.9	10.3	6.9	6.4	8.3	9.5
3.3 Community, Social and Personal services	6.8	13.1	4.5	7.1	5.5	9.5	8.2	9.0	22.5	12.5
3.4 Construction	10.1	7.2	11.0	13.4	9.7	6.9	8.4	9.6	4.2	6.8
4. Real GDP at Factor Cost	**9.0**	**6.7**	**9.2**	**9.0**	**9.3**	**8.6**	**7.8**	**7.7**	**5.8**	**5.8**
Memo:										(Amount in Rupees crore)
a) **Real GDP at Factor Cost**	31,29,717	33,39,375								
b) **GDP at Current Market Prices**	47,23,400	53,21,753								

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

Note : Figures in parentheses indicate shares in real GDP.

Source: Central Statistical Organisation.

Even though the monsoon set over Kerala on May 23, 2009 (a week ahead of the normal date), its progress has been slow and irregular. The cumulative rainfall during the season so far (up to July 22, 2009) has been less than satisfactory, with rainfall over the entire country being 19.0 per cent below normal as against 2.0 per cent below normal during the corresponding period of the previous year. Of the 36 meteorological sub-divisions, cumulative rainfall was excess/ normal in 17 sub-divisions (21 sub-divisions last year) (Chart 1). As on July 23, 2009, the total live water storage in the 81 major reservoirs of the country was 23.0 per cent of the Full Reservoir Level (29.0 per cent during the corresponding period last year).

I.4 The delayed progress of the South-West monsoon and the associated deficient rainfall in June 2009 has dampened the prospects for agricultural production; however, the rainfall in July 2009 so far has been relatively good and the improved sowing position as on July 17, 2009 indicates that sowing of most pulses, oilseeds and coarse cereals are close to last year's levels, though paddy sowing is still substantially below last year's level (Table 2).

I.5 *Kharif* production, which accounts for about 57 per cent of the overall agricultural production, could be affected, particularly with regard to major *kharif* crops such as rice, *tur, urad,* maize and soyabean

Chart 1: South-West Monsoon Cumulative Rainfall - (June 1 to July 22, 2009)

which are monsoon-dependent. During 2008-09, the lower *kharif* output was made good by the *rabi* output and as a result the overall agricultural production exhibited a turnaround in the fourth quarter of the year. The fourth Advance Estimates place the total foodgrain production during 2008-09 at a record 233.9 million tonnes, 1.3 per cent higher than the previous year production of 230.8 million tonnes (Table 3).

Table 2: Progress of Area Sown Under *Kharif* Crops – 2009-10

(Million hectares)

Crop	Normal Area	Area Coverage (as on July 17)		
		2008	2009	Absolute Variation
1	2	3	4	5
Rice	39.2	14.5	11.5	-3.1*
Coarse Cereals	23.0	11.6	10.2	-1.4
of which:				
Bajra	9.7	4.6	3.5	-1.1
Jowar	3.9	1.7	1.7	-0.1*
Maize	6.8	4.7	4.6	-0.1
Total Pulses	11.2	4.1	3.8	-0.2*
Total Oilseeds	16.9	11.0	10.7	-0.3
Sugarcane	4.4	4.4	4.3	-0.1
Cotton	8.7	6.2	6.9	0.7
Jute	0.8	0.7	0.7	0.0
All Crops	**104.2**	**52.5**	**48.0**	**-4.5**

*: Discrepancies due to rounding off.
Source : Ministry of Agriculture, Government of India.

Table 3: Agricultural Production

(Million tonnes)

Crop	2007-08	2008-09 @	
		Target	Achievement
1	2	3	4
Rice	96.7	97.0	99.2
Kharif	82.7	83.0	84.6
Rabi	14.0	14.0	14.6
Wheat	78.6	78.5	80.6
Coarse Cereals	40.8	42.0	39.5
Kharif	31.9	32.6	28.4
Rabi	8.9	9.4	11.1
Pulses	14.8	15.5	14.7
Kharif	6.4	5.9	4.8
Rabi	8.4	9.6	9.9
Total Foodgrain	**230.8**	**233.0**	**233.9**
Kharif	121.0	121.5	117.7
Rabi	109.8	111.5	116.2
Total Oilseeds	29.8	31.8	28.2
Kharif	20.7	20.0	17.9
Rabi	9.0	11.8	10.3
Sugarcane	348.2	340.0	271.3
Cotton #	25.9	26.0	23.2
Jute and Mesta ##	11.2	11.0	10.4

@ : Fourth Advance Estimates for 2008-09.
\# : Million bales of 170 kgs. each.
\#\# : Million bales of 180 kgs. each.
Source : Ministry of Agriculture, Government of India.

Food Management

I.6 The procurement of foodgrain (rice and wheat) during 2009-10 (up to July 13) was higher than that in the corresponding period of the previous year (Table 4). The foodgrain offtake during 2009-10 (up to April 30) was higher compared to the previous year. The total stock of foodgrain with the Food Corporation of India (FCI) and other Government agencies increased to about 51.8 million tonnes as on May 1, 2009. The stocks of both rice and wheat, at 21.4 million tonnes and 29.8 million tonnes, respectively, as on May 1, 2009 were higher than their norms. (The minimum stocks of rice and wheat to be maintained as on April 1 of a year are 12.2 million tonnes and 4.0 million tonnes, respectively.)

Industrial Performance

I.7 In 2008-09, industrial performance, as measured by the growth in the Index of Industrial Production (IIP), peaked in July 2008. During the second half of the year, industry registered sharp deceleration in growth (year-on-year) with negative growth in December 2008 and March 2009.

I.8 Industrial performance presented a mixed picture in April-May 2009. While the manufacturing and the mining sectors continued to decelerate and pulled down

Table 4: Management of Food Stocks

(Million tonnes)

Month /Year	Opening Stock of Foodgrain			Procurement of Foodgrain			Foodgrain 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
2008-09	13.8	5.8	19.8	32.8	22.7	55.5	34.9	3.4	1.2	0.0	39.5	35.6	
2009-10@	21.6	13.4	35.6	5.3	25.1	30.4	3.3	0.2	0.0	0.0	3.5	N.A.	
				(4.6)	(22.5)	(27.2)	(2.7)	(0.0)	(0.0)	(0.0)	(2.8)	N.A.	
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
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
2009													
January	17.6	18.2	36.2	4.8	0.0	4.8	3.0	0.2	0.3	0.0	3.4	37.4	20.0
February	20.2	16.8	37.4	3.7	0.1	3.8	3.0	0.3	0.2	0.0	3.6	37.1	
March	21.3	15.3	37.1	2.3	0.0	2.3	2.9	0.4	0.02	0.0	3.9	35.6	
April	21.6	13.4	35.6	1.4	19.4	20.8	3.3	0.2	0.0	0.0	3.5	51.8	16.2
May	21.4	29.8	51.8	1.9	4.4	6.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
June	N.A.	N.A.	N.A.	1.3	1.1	2.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
July*	N.A.	N.A.	N.A.	0.6	0.2	0.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	26.9

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

@ : Procurement up to July 13, 2009 and offtake up to April 30, 2009. * : Up to July 13, 2009.

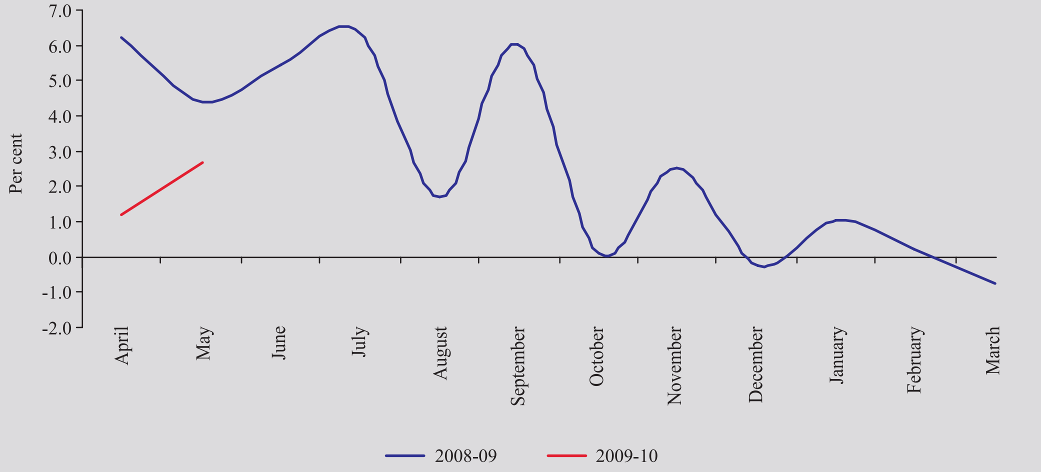
Note : 1. Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting offtake, as stocks include coarse grains also.

2. Figures in parentheses indicate procurement/offtake of foodgrain during the corresponding period of 2008-09.

3. Norms are the total minimum stocks that 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.

Chart 2: Growth in Industrial Production (Year-on-Year)



growth in the headline IIP to 1.9 per cent (as against 5.3 per cent during April-May 2008), the electricity sector registered appreciable increase during the period (Chart 2 and Table 5). The slowdown in manufacturing sector in April-May 2009 is reflected in the decline in 'food products', 'jute and other vegetable fibre textiles',

Table 5: Index of Industrial Production – Sectoral and Use-based Classification of Industries

(Per cent)

Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution #		
			April-May			April-May	
		2008-09	2008-09	2009-10 P	2008-09	2008-09	2009-10 P
1	2	3	4	5	6	7	8
Sectoral							
Mining	10.5	2.6	5.8	3.8	6.7	7.4	13.2
Manufacturing	79.4	2.6	5.6	1.5	84.5	89.3	65.0
Electricity	10.2	2.8	1.7	5.1	8.6	2.8	22.2
Use-Based							
Basic Goods	35.6	2.6	3.5	4.2	29.7	20.1	64.4
Capital Goods	9.3	7.0	8.0	-5.3	34.2	16.7	-31.3
Intermediate Goods	26.5	-2.0	2.5	6.7	-19.9	12.3	88.9
Consumer Goods (a+b)	28.7	4.6	8.0	-1.2	54.3	48.9	-21.3
a) Consumer Durables	5.4	4.5	3.0	14.7	12.8	4.3	55.7
b) Consumer Non-durables	23.3	4.6	9.5	-5.8	41.4	44.5	-77.0
General	**100.0**	**2.6**	**5.3**	**1.9**	**100.0**	**100.0**	**100.0**

P : Provisional.

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

Source: Central Statistical Organisation.

'leather and fur products', 'beverages, tobacco and related products', 'cotton textiles', 'paper and paper products' and 'metal products and parts'. On the other hand, the electricity sector registered a higher growth than last year due to improved thermal and nuclear power generation. The overall industrial performance in April-May 2009 marked an improvement over that during the last quarter of 2008-09.

I.9 Out of the 17 two-digit manufacturing industry groups, 10 groups recorded positive growth during April-May 2009 as compared to 12 industry groups recording positive growth in the corresponding period of last year (Table 6).

Table 6: Growth of Manufacturing Groups

(Per cent)

Industry Group	Weight in the IIP	Growth Rate			Weighted Contribution #		
			April-May			April-May	
		2008-09	2008-09	2009-10 P	2008-09	2008-09	2009-10 P
1	2	3	4	5	6	7	8
1. Food products	9.08	-9.7	-8.4	-27.2	-29.3	-12.4	-129.3
2. Beverages, tobacco and related products	2.38	16.2	34.2	-7.5	32.3	32.4	-33.4
3. Cotton textiles	5.52	-2.1	3.2	-1.7	-3.2	2.4	-4.4
4. Wool, silk and man-made fibre textiles	2.26	-0.2	7.3	6.0	-0.2	3.7	11.5
5. Jute and other vegetable fibre textiles (except cotton)	0.59	-10.1	-10.1	-8.5	-1.2	-0.6	-1.6
6. Textile products (including wearing apparel)	2.54	4.2	4.7	11.5	5.2	3.0	27.1
7. Wood and wood products, furniture and fixtures	2.70	-10.3	-17.3	18.7	-6.0	-4.8	15.2
8. Paper and paper products and printing , publishing and allied Industries	2.65	1.7	2.6	-2.0	2.0	1.4	-3.9
9. Leather and leather and fur products	1.14	-6.9	9.6	-8.6	-2.2	1.4	-4.7
10. Chemicals and chemical products (except products of petroleum and coal)	14.00	4.1	11.7	3.0	30.4	41.9	41.6
11. Rubber, plastic, petroleum and coal products	5.73	-1.5	-5.1	11.0	-3.6	-5.9	42.7
12. Non-metallic mineral products	4.40	1.1	0.9	7.9	2.7	1.1	32.5
13. Basic metal and alloy industries	7.45	4.0	4.4	5.2	15.5	8.1	35.2
14. Metal products and parts (except machinery and equipment)	2.81	-4.1	-0.1	-5.4	-3.3	0.0	-7.0
15. Machinery and equipment other than transport equipment	9.57	8.7	5.8	3.2	54.9	16.4	34.4
16. Transport equipment and parts	3.98	2.1	11.5	4.7	5.4	13.1	21.2
17. Other manufacturing industries	2.56	0.4	1.7	10.9	0.7	-1.0	22.6
Manufacturing – Total	**79.36**	**2.6**	**5.6**	**1.5**	**100.0**	**100.0**	**100.0**

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

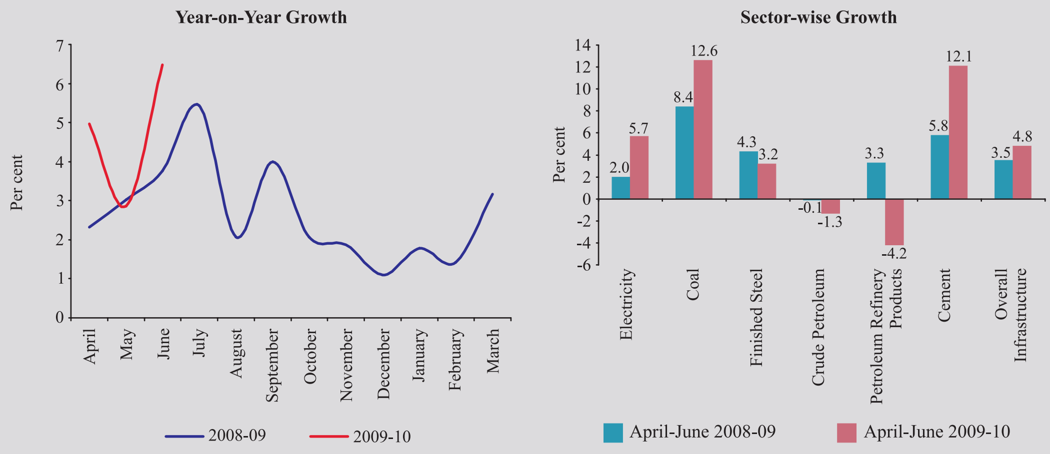
I.10 In terms of use-based classification, the basic, intermediate and consumer durables sectors recorded acceleration in growth, while the capital and the consumer non-durables sectors declined during April-May 2009. After registering a continuous decline for seven successive months, the intermediate goods sector recorded output growth in March 2009 followed by acceleration in growth in April-May 2009. The basic goods sector registered higher growth mainly on account of rise in electricity generation and improved performance of some 'basic metal and alloy industries'. In contrast, the production of capital goods sector declined following weak performance in segments such as 'machinery and equipment other than transport equipment' and 'transport equipment and parts'. Consumer goods sector also registered a decline primarily due to further contraction in the production of consumer non-durables, while the consumer durables segment gained momentum due to rise in the production of 'metal products and parts' and 'transport equipment'. Decline in respect of consumer non-durables was on account of the decline in production of 'beverages, tobacco and related products', 'paper and paper products' and 'basic chemicals and chemical products'.

Infrastructure

I.11 The core infrastructure sector grew by 4.8 per cent during the first quarter of 2009-10 as compared with 3.5 per cent growth during the corresponding quarter of the previous year, led by considerable growth in electricity, cement and coal (Chart 3). The cement sector recorded acceleration indicating revival of construction activity.

1.12 The acceleration in growth of the core infrastructure sector was particularly significant in June 2009 with growth at 6.5 per cent (5.1 per cent in June 2008 and 2.8 per cent in May 2009). The turnaround in June over the previous two months in

Chart 3: Growth in Infrastructure Industries



2009-10 (*i.e.*, April-May) was due to rise in crude petroleum output by 4.0 per cent (negative growth in April-May), stronger electricity and steel output growth, besides continued robustness in coal and cement output. During April-May 2009, natural gas production recorded a growth of 11.7 per cent to 6,345 million cubic metres. This was, however, 13.4 per cent lower than the target.

Services Sector

I.13 The services sector recorded a lower growth of 9.4 per cent in 2008-09 as compared with 10.8 per cent growth in 2007-08. Deceleration was observed in all the constituent sectors except 'community, social and personal services', which registered an increase reflecting the implementation of the Sixth Pay Commission awards. The construction sector was affected by moderation in residential and commercial real estate demand against the backdrop of slowdown in overall economic activity. Similarly, growth in 'trade, hotels, transport and communication' decelerated due to slowdown in trade, business activities and tourism, besides an overall decline in commercial activities. Growth in 'financing, insurance, real estate and business services' suffered due to the financial turmoil, subdued construction activities and lower growth in Information Technology – Business Process Outsourcing (IT-BPO) services during the year. In terms of relative contribution to real GDP growth, 'community, social and personal services' was the only sub-sector that registered an increase in 2008-09 (Table 7).

I.14 The lead indicators of services sector activity for 2009-10 so far suggest decline in growth in respect of foreign

Table 7: Growth in Services Sector

(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
2007-08 QE	0.7	3.4	1.7	0.9	6.7
2008-09 RE	0.5	2.5	1.1	1.7	5.9
2007-08 : Q1	0.8	3.4	1.8	0.6	6.7
: Q2	1.0	3.0	1.9	1.0	6.9
: Q3	0.7	3.1	1.6	0.7	6.0
: Q4	0.5	3.8	1.4	1.3	7.1
2008-09 : Q1	0.6	3.5	1.0	1.0	6.3
: Q2	0.7	3.4	1.0	1.3	6.4
: Q3	0.3	1.6	1.2	2.7	5.7
: Q4	0.5	1.8	1.3	1.7	5.4

QE : Quick Estimates. RE: Revised Estimates.
Source : Central Statistical Organisation.

tourist arrivals, production of commercial vehicles, cargo handled at major ports, cargo handled by civil aviation and passengers handled at domestic and international terminals. New cellphone connections have also registered sharp growth. The production of cement has shown considerable growth indicating early signs of revival in construction activity (Table 8).

I.15 The impact of the monsoon on the agriculture sector in 2009-10 as a whole, would depend on the behaviour of South-West monsoon during August-September 2009, the performance of *rabi* crops and growth in allied sector activities which account for about 60 per cent of the total agriculture and allied activities output. During April-May 2009, ten industry groups (accounting for 55.2 per cent weight in the IIP) recorded a positive growth as against nine industry groups (accounting for 49.5 per cent weight in the IIP) registering positive growth during the whole of 2008-09. During the first quarter of 2009-10, the core infrastructure sector performed better than the corresponding period of last year, with electricity, coal and cement recording notable acceleration in growth. The lead indicators for the services sector present a mixed picture, with some turnaround in June 2009 (tourist arrivals, railway freight traffic and steel production) after subdued/negative growth in the previous two months. Thus, information across the three major components of the GDP indicates that first quarter GDP growth for 2009-10 may not show a major recovery in relation to the second half of 2008-09.

Table 8: Indicators of Services Sector Activity

(Growth rate in per cent)

Indicator			April-June	
	2007-08	2008-09	2008-09	2009-10
1	2	3	4	5
Tourist arrivals	12.2	-2.5	9.3	-1.8
Commercial vehicles production#*	4.8	-24.0	4.6	-23.1
Railway revenue earning freight traffic	9.0	4.9	9.4	5.0
New cell phone connections*	38.3	44.8	42.9	58.6
Cargo handled at major ports*	12.0	2.1	10.4	-1.1
Civil aviation*				
a) Export cargo handled	7.5	3.4	7.6	-0.7
b) Import cargo handled	19.7	-5.7	9.3	-1.5
c) Passengers handled at international terminals	11.9	3.8	9.0	-0.4
d) Passengers handled at domestic terminals	20.6	-12.1	5.9	-11.6
Cement ##	7.8	7.5	5.8	12.1
Steel ##	6.8	0.6	4.3	3.2

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

* : Figures in columns 4 and 5 relate to April-May.

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

II. AGGREGATE DEMAND

Weakening aggregate demand emerged as a major constraint to growth in 2008-09. The significant deceleration in private consumption expenditure as well as the moderation in investment demand required expansionary fiscal policy to arrest the slowdown in growth. Government consumption expenditure, therefore, increased sharply in the third and fourth quarters and contributed 32.5 per cent of real GDP growth (at market prices) in 2008-09, as against an average contribution of 5.9 per cent in the previous five years. The Union Budget for 2009-10 underlined the continued relevance of higher government expenditure to prevent deceleration in growth, which is reflected in the higher budgeted fiscal deficit as percentage of GDP. Corporate sector data indicate sharper deceleration in sales growth during the last two quarters of the year; growth in profits after tax was negative in the last three quarters. Early information on corporate performance for the first quarter of 2009-10 indicate positive growth in both sales and profits over the corresponding period of the previous year. Net exports declined during the last quarter of 2008-09 due to sharper contraction in import growth relative to export growth.

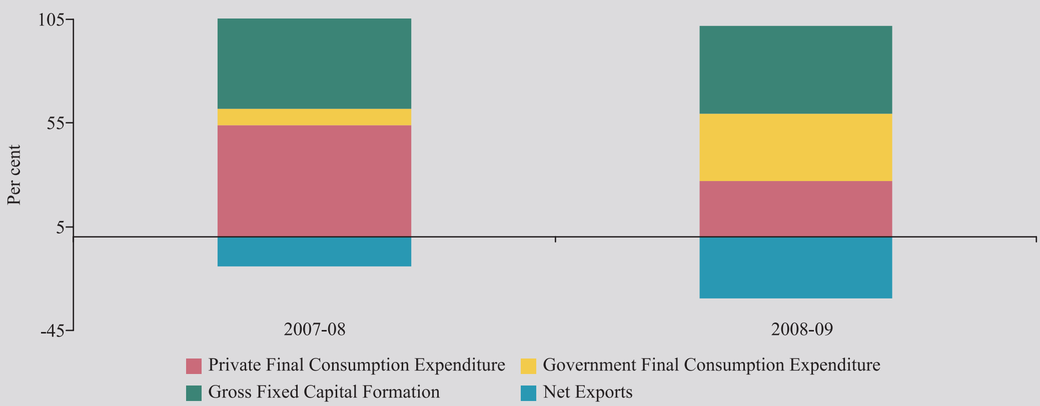
II.1 The hallmark of India's growth acceleration during the period 2003-08 was robust domestic demand. The high growth trajectory was, however, dented in 2008-09 by the knock-on impact of the global financial crisis. In real terms, during 2008-09, the growth in private consumption demand decelerated sharply to 2.9 per cent from 8.5 per cent in 2007-08; the significance of this contraction has to be seen in the context of the high share of private consumption demand in the GDP (55.5 per cent in 2008-09). Investment demand, as could be inferred from the behavior of gross fixed capital formation, also experienced some deceleration. Offsetting expansion in Government consumption expenditure was, therefore, necessary, to contain a sharp slowdown in economic growth in response to deceleration in private consumption demand. The government consumption expenditure expanded by 20.2 per cent in 2008-09, with the sharpest growth taking place in the third quarter of the year. As a result, the contribution of government consumption expenditure to the real GDP growth (at market prices) in 2008-09 was 32.5 per cent as against 8.0 per cent in 2007-08. Reflecting the fiscal response to the growth slowdown, key deficit indicators of the Central Government, *viz.*, the revenue deficit and the gross fiscal deficit in the revised estimates for 2008-09 were significantly higher than the budgeted level as well as those of the preceding years. As the economic growth continued to remain subdued during the current year, the Union Budget for 2009-10 has provided for larger deficits for the year. As a per cent of GDP, revenue deficit would be at an all time high and gross fiscal deficit would be the highest since 1993-94. Corporate performance remained subdued, and the impact of moderation in demand was visible in the substantial deceleration in sales growth in the last quarter of 2008-09. The impact on profitability was also adverse, particularly during the third quarter as growth in sales decelerated. As regards external demand, exports growth turned negative since October 2008 but import growth has fallen more sharply. As a result, net exports (of goods and services) improved in the last quarter of 2008-09. The same pattern seems to have continued in the first two months of 2009-10, as is evident from the behaviour of merchandise trade balance.

Domestic Demand

II.2 In the backdrop of global financial crisis and economic recession, the erosion in investor and consumer confidence was reflected in the contraction in major demand aggregates in the economy. Consumption demand, which had overtaken investment demand as the most important contributor to demand growth in 2007-08, continued to be the dominant contributor to GDP growth in 2008-09. With the sharp deceleration in the growth of private final consumption expenditure (PFCE) in 2008-09, however, there was a compositional shift in the contribution to growth from private consumption expenditure to government consumption expenditure. In real terms, the contribution of private consumption expenditure to GDP growth, which was 53.8 per cent in 2007-08, declined by nearly half, to 27.0 per cent in 2008-09, while that of government consumption expenditure was as high as 32.5 per cent in 2008-09, as against 8 per cent in 2007-08 (Chart 4). Thus, the impact of the slowdown in private consumption and investment demand was cushioned by government final consumption expenditure (GFCE) which received a thrust from additional expenditure on account of Sixth Pay Commission award and counter-cyclical fiscal policy measures.

II.3 According to the latest release of the Central Statistical Organisation (CSO), the PFCE and gross fixed capital formation

Chart 4: Demand side Contribution to Growth (Real GDP at market prices)



Note: As only major items have been included, does not add up to 100.

(GFCF) continued to register subdued growth in the fourth quarter of 2008-09 as compared with the corresponding period of 2007-08. Growth of GFCE continued to partly compensate for the sluggishness in private consumption demand. As a result, the share of GFCE rose during the fourth quarter over the corresponding period of the previous year while that of PFCE declined (Table 9).

Combined Budgeted Finances: 2009-10

II.4 The combined budgetary position of the Central and State Governments for 2009-10 indicates that the key deficit indicators as per cent of GDP are budgeted to remain at elevated levels (Table 10). Although the combined revenue receipts are budgeted to grow mainly on account of increase in tax revenue, the combined tax-GDP ratio is budgeted to marginally decrease in 2009-10 over 2008-09. On the expenditure side, while non-developmental expenditure is budgeted to grow substantially and show a rise in terms of GDP, development expenditure is budgeted to decline in absolute terms and consequently its share in total expenditure and as a ratio to GDP would decrease in 2009-10 (BE) over 2008-09 (RE).

Table 9: Disposition of GDP at Market Prices (at 1999-2000 prices)

(Per cent)

Item	2007-08*	2008-09#	2007-08				2008-09			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
Growth Rates										
Real GDP at market prices	9.1	6.1	9.2	8.8	9.4	8.8	8.2	7.8	4.8	4.1
Total Consumption Expenditure	8.3	5.4	6.6	7.8	8.0	10.6	3.8	2.1	9.0	6.1
(i) Private	8.5	2.9	8.4	7.5	8.9	9.0	4.5	2.1	2.3	2.7
(ii) Government	7.4	20.2	-2.4	10.0	2.0	18.6	-0.2	2.2	56.6	21.5
Gross Fixed Capital Formation	12.9	8.2	13.6	16.0	14.1	8.8	9.2	12.5	5.1	6.4
Change in Stocks	51.7	2.9	54.1	51.7	52.2	49	6	5.6	1.4	-0.9
Exports	2.1	12.8	-4	-4.8	6.1	9.8	25.6	24.3	7.1	-0.8
Less Imports	6.9	17.9	-0.7	-3.6	6.7	24.4	27.4	35.3	21.7	-5.7
Relative shares										
Total Consumption Expenditure	66.9	66.5	70.4	67.3	67.2	63.6	67.5	63.7	69.9	64.8
(i) Private	57.2	55.5	60	58.5	58.9	52.1	58.0	55.5	57.4	51.4
(ii) Government	9.8	11.1	10.4	8.7	8.4	11.5	9.6	8.3	12.5	13.4
Gross Fixed Capital Formation	31.6	32.2	31.9	33	30.8	31	32.2	34.5	30.9	31.6
Change in Stocks	3.1	3.0	3.3	3.3	3.0	3.0	3.2	3.2	2.9	2.9
Net Exports	-4.3	-5.8	-0.8	-7.0	-5.1	-4.3	-1.3	-10.5	-8.5	-2.9
Memo: (Rupees crore)										
Real GDP at market prices	34,02,716	36,09,425	7,70,241	7,88,041	9,01,966	9,42,467	8,33,630	8,49,247	9,45,121	9,81,427

* : Quick Estimates. # : Revised Estimates.

Note: As only major items are included in the table, data will not add up to 100.

Source: Central Statistical Organisation.

Table 10: Key Fiscal Indicators

(Per cent to GDP)

Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities*
1	2	3	4	5
		Centre		
2007-08	-0.9	1.1	2.7	60.1
2008-09 RE	2.5	4.4	6.0	58.9
	(2.6)	(4.6)	(6.2)	
2009-10 BE	3.0	4.8	6.8	59.7
		States		
2007-08 #	-0.6	-0.9	1.3	25.8
2008-09 RE #	0.7	-0.2	2.5	25.2
2009-10 BE #	0.9	0.4	2.7	25.3
		Combined		
2007-08	-1.3	0.2	4.0	73.0
2008-09 RE	3.4	4.4	8.6	72.6
2009-10 BE	4.0	5.2	9.5	74.4

RE : Revised Estimates. BE : Budget Estimates.

* : Includes external liabilities at historical exchange rates.

: Data from 2007-08 onwards pertains to 22 State Governments, *of which* 14 are vote on account.

Note: 1. Negative sign indicates surplus.

2. Figures in parentheses relate to provisional accounts.

Central Government Finances

II.5 The Union Budget for 2009-10, presented against the backdrop of persistent global economic slowdown and the associated dampened domestic demand, has proposed to sustain the fiscal stimulus that was introduced in the previous year to provide the necessary boost to demand and thereby revive growth prospects. Given the stated goal of reverting to the 9 per cent growth path over the next three years, the pronouncements in the Budget were aimed at enhancing consumption demand, investment demand as also domestic savings through appropriate combination of allocations of expenditure and tax concessions. As a result, key deficit indicators, *viz.*, revenue deficit, gross fiscal deficit (GFD) and gross primary deficit (PD) as per cent of GDP, are budgeted higher than those in 2008-09 (RE). While revenue deficit would be at its highest level ever, PD would be the highest in India's post reform period. The increase in revenue deficit is mainly on account of higher growth in revenue expenditure which more than offset the increase in revenue receipts. With capital outlay also increasing substantially, GFD is budgeted to increase over both the revised estimates and provisional accounts for 2008-09 (Tables 10 and 11).

II.6 The continued economic slowdown and the proposed reductions in direct and indirect taxes may affect gross tax revenue which is budgeted to decline to 10.9 per cent of GDP during 2009-10 from 11.8 per cent during 2008-09. Net of assignment to States, the tax revenue to the Central Government during 2009-10 is budgeted at 8.1 per cent of GDP. Non-tax revenue to

Table 11: Union Budget 2009-10 at a Glance

(Amount in Rupees crore)

Items	2007-08	2008-09 (RE)	2009-10 (BE)	Growth rate (per cent) 2008-09	Growth rate (per cent) 2009-10
1	2	3	4	5	6
1. Revenue Receipts (i+ii)	5,41,864 (11.5)	5,62,173 (10.5)	6,14,497 (10.5)	3.7	9.3
i) Tax Revenue (Net)	4,39,547 (9.3)	4,65,970 (8.6)	4,74,218 (8.1)	6.0	1.8
ii) Non-Tax Revenue	1,02,317 (2.2)	96,203 (1.8)	1,40,279 (2.4)	-6.0	45.8
2. Non Debt Capital Receipts	9,586 # (0.2)	12,265 (0.2)	5,345 (0.1)	27.9 #	-56.4
3. Non-Plan Expenditure *of which*:	4,72,058 * (10.0)	6,17,996 (11.6)	6,95,689 (11.9)	30.9 *	12.6
i) Interest Payments	1,71,030 (3.6)	1,92,694 (3.6)	2,25,511 (3.9)	12.7	17.0
ii) Defence Expenditure**	91,681 (1.9)	1,14,600 (2.2)	1,41,703 (2.4)	25.0	23.7
iii) Subsidies	70,926 (1.5)	1,29,243 (2.4)	1,11,276 (1.9)	82.2	-13.9
4. Plan Expenditure	2,05,082 (4.3)	2,82,957 (5.3)	3,25,149 (5.6)	38.0	14.9
5. Revenue Expenditure	5,94,433 (12.6)	8,03,446 (15.0)	8,97,232 (15.3)	35.1	11.7
6. Capital Expenditure	82,707 * (1.8)	97,507 (1.8)	1,23,606 (2.1)	17.9 *	26.8
7. Total Expenditure	6,77,140 * (14.3)	9,00,953 (16.9)	10,20,838 (17.4)	33.1 *	13.3
8. Revenue Deficit	**52,569 (1.1)**	**2,41,273 (4.4)**	**2,82,735 (4.8)**	**359.0**	**17.2**
9. Gross Fiscal Deficit	**1,25,690 * (2.7)**	**3,26,515 (6.0)**	**4,00,996 (6.8)**	**159.8 ***	**22.8**
10. Gross Primary Deficit	**-45,340 * (-0.9)**	**1,33,821 (2.5)**	**1,75,485 (3.0)**	**-395.1 ***	**31.1**

* : Net of acquisition cost of Reserve Bank's stake in State Bank of India (SBI) at Rs.35,531crore in 2007-08.

\# : Net of Reserve Bank's surplus transfer of Rs.34,309 crore on account of sale of its stake in SBI to the Government of India.

** : Includes both revenue and capital expenditure.

Note : Figures in parentheses are percentages to GDP.

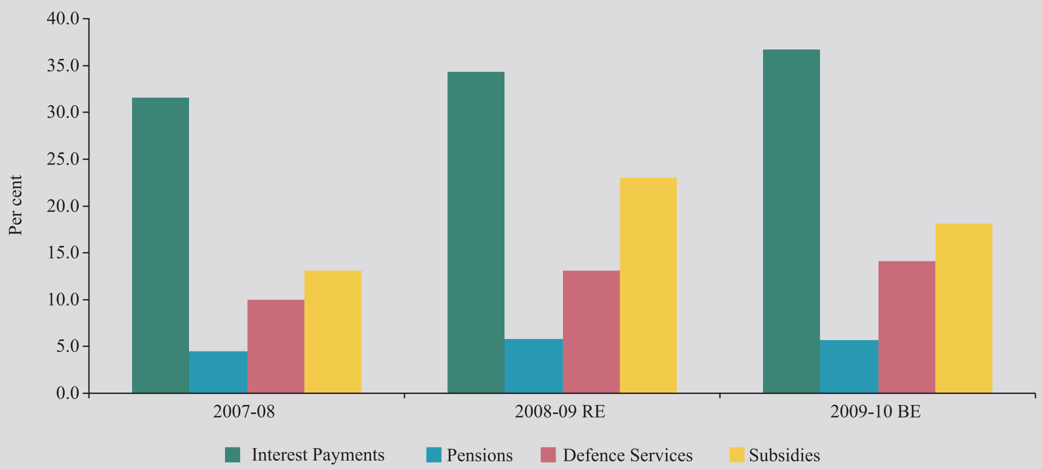
GDP ratio, however, is budgeted to be higher at 2.4 per cent (as against a decline to 1.8 per cent of GDP in 2008-09), mainly on account of anticipated receipts of Rs.35,000 crore from the auction of third-generation (3G) spectrum and Rs.28,600 crore (58 per cent higher than the previous year) in dividend/surplus transfer from the Reserve Bank, nationalised banks and financial institutions.

II.7 The budgeted growth in aggregate expenditure for 2009-10 is lower than the previous year, but on a high base, the planned expansion implies significant additional stimulus to aggregate demand over the previous year. The lower growth in aggregate expenditure in 2009-10 would mainly emanate from moderation of growth in revenue expenditure, particularly through containment of fertiliser subsidies. The major items contributing to the growth of revenue expenditure in 2009-10 are interest payments, defence and non-plan grants to States, which together would account for over 60 per cent of the increase in revenue expenditure. While increase in interest payments would reflect substantial hike in government borrowings and special securities issued to oil marketing companies and fertiliser companies during 2008-09, increase in defence expenditure would arise on account of enhanced provisions for pay and allowances and maintenance expenditure. The ratios of interest payments and defence expenditure to revenue receipts are budgeted to increase, while that of subsidies would decline during 2009-10 (Chart 5). The growth in capital expenditure is budgeted to be higher in 2009-10 than in 2008-09, mainly on account of a higher growth in capital outlay (capital expenditure *less* loans and advances), which is budgeted to increase by 33.6 per cent as against a decline of 22.1 per cent in 2008-09. Defence capital outlay would account for nearly half of the increase in capital outlay. Non-defence capital outlay would increase mainly under economic services. The share of capital expenditure in total expenditure is budgeted to increase to 12.1 per cent in 2009-10 from 10.8 per cent in 2008-09 (RE).

Financing of Central Government

II.8 The financing pattern of GFD as proposed in the Budget reveals that the Government envisages financing almost the entire amount of the deficit during 2009-10 through market borrowings. The Budget

Chart 5: Major Items of Revenue Expenditure as a Proportion of Revenue Receipts



has made no provision for drawdown of cash balances, which had financed 9.2 per cent of GFD in 2008-09. During 2009-10, the share of external borrowings and securities against small savings in GFD financing would be higher than during 2008-09 (Table 12).

Centre's Fiscal Position during April-May 2009.

II.9 According to the latest available information on Central Government finances

Table 12: Financing Pattern of Gross Fiscal Deficit

(Amount in Rupees crore)

Item	2008-09 (RE)	2009-10 (BE)
1	2	3
Gross Fiscal Deficit	3,26,515	4,00,996
Financed by		
Market Borrowings	2,66,539	3,97,957
	(81.6)	(99.2)
Securities issued against Small Savings	1,323	13,256
	(0.4)	(3.3)
External Assistance	9,603	16,047
	(2.9)	(4.0)
State Provident Fund	4,800	5,000
	(1.5)	(1.2)
NSSF	11,206	-103
	(3.4)	(0.0)
Reserve Funds	-16,808	-8,428
	(-5.1)	(-2.1)
Deposit and Advances	12,788	9,026
	(3.9)	(2.3)
Postal Insurance and Life Annuity Funds	2,594	2,672
	(0.8)	(0.7)
Draw down of Cash Balances	29,984	0
	(9.2)	(0.0)
Others	4,486	-34,431
	(1.4)	(-8.6)

Note: Figures in parentheses are percentages to GFD.

for 2009-10 (April-May 2009), revenue deficit and GFD, as percent of the budget estimates were placed substantially lower than the corresponding period of the preceding year, although they were higher in absolute terms (Table 13). Tax revenue as a percent of budget estimate was lower than the previous year, reflecting the impact of economic slowdown and tax cuts. While growth in revenue under corporation tax and personal income tax decelerated during April-May 2009 over April-May 2008, collections under excise and customs duties registered a decline over the same period. As a result, revenue receipts declined by 10.7 per cent during the first two months of 2009 as against an increase of 39.1 per cent during the corresponding period of the preceding year, despite an increase of 48.0 per cent in non-tax revenue. During April-May 2009, growth in aggregate expenditure (at 12.5 per cent) was lower than during April-May 2008 (20.6 per cent), with the relative decline in growth evident both in the revenue and capital expenditures. While non-plan expenditure during April-May 2009, increased by 20.6 per cent (5.7 per cent in the previous year), mainly on account of revenue component of the expenditure, plan expenditure declined by 2.8 per cent (64.2 per cent in the previous year).

State Finances: 2009-10[1]

II.10 The finances of State governments are also expected to be affected by the economic slowdown, which is evident from the budgeted increase in key deficit

[1] Based on the budget documents of twenty-two State Governments, *of which* 14 are vote on account.

Table 13: Central Government Finances during April-May 2009

Item		April-May (Rupees crore)		Percentages to Budget Estimates for	
		2008	2009	2008-09	2009-10
1		2	3	4	5
1.	Revenue Receipts	36,030	32,178	6.0	5.2
	i) Tax Revenue (Net)	31,958	26,152	6.3	5.5
	ii) Non-Tax Revenue	4,072	6,026	4.3	4.3
2.	Non-Debt Capital Receipts	254	231	1.7	4.3
3.	Non-Plan Expenditure	71,496	86,242	14.1	12.4
	of which :				
	(i) Interest Payments	27,229	25,938	14.3	11.5
	(ii) Defence	6,451	12,472	6.1	8.8
	(iii) Subsidies	18,002	25,131	27.1	22.5
4.	Plan Expenditure	37,989	36,925	15.6	11.4
5.	Total Expenditure	1,09,485	1,23,167	14.6	12.1
6.	Revenue Expenditure	1,03,761	1,13,141	15.8	12.6
7.	Capital Expenditure	5,724	10,026	6.2	8.1
8.	Revenue Deficit	67,731	80,963	122.7	28.6
9.	Fiscal Deficit	73,201	90,758	54.9	22.6
10.	Gross Primary Deficit	45,972	64,820	-79.9	36.9

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

indicators. The consolidated revenue account of the State Governments for 2009-10 is budgeted to turn into deficit of 0.4 per cent of GDP after remaining in surplus over the previous three years, on account of higher budgeted increase in revenue expenditure in relation to revenue receipts. The deterioration in revenue account of State Governments during 2009-10 (BE) reflects the combined impact of sluggishness in tax revenue along with higher expenditure on administrative services, on account of implementation of Sixth Pay Commission award by many State Governments, pension and interest payments. During 2009-10 (BE), the GFD at the consolidated level is budgeted to increase to 2.7 per cent of GDP as compared with 2.5 per cent of GDP in 2008-09 (RE), mainly on account of worsening of the revenue account and higher net lending.

Corporate Performance

II.11 An analysis of the performance of select non-financial non-government companies showed that their sales growth moderately decelerated in 2008-09 over the previous year. The impressive sales growth during the first half of 2008-09, enabled partly by price hikes, was adversely affected during the latter half of the year, particularly in the last quarter, due to weak consumer demand and its impact on the pricing power. Profit margins measured in terms of ratios of gross profits to sales and profits after tax to sales came under pressure largely due to high input costs in the first half, provision relating to mark-to-market

(MTM) losses on transactions involving foreign exchange; rise in interest outgo and declining other income. However, softening of pressure on interest payments (that grew by 37 per cent in the quarter ended March 2009 as compared with over 50 per cent in each of the first three quarters of the year), increase in other income, decline in input costs (reflecting fall in commodity prices) and deferment of the implementation of Accounting Standard (AS 11) dealing with changes in foreign exchange rates by two years could be the key factors that helped corporates to limit the year-on-year fall in aggregate profits in the fourth quarter to 19.9 percent as compared with the sharp deterioration of over 50 per cent in the third quarter (Table 14).

II.12 Select non-financial government (oil and non-oil) companies posted a growth of 20.7 per cent in revenue and a decline of 11.4 per cent in net profits during 2008-09 over the previous year. Net profits of non-oil companies recorded a marginal growth of 0.4 per cent. Net profits of oil companies came down by 26.4 per cent during 2008-09. The profits of these companies were affected by higher outgo on interest payments and increase in staff costs due to larger provisioning for anticipated wage revision. During 2008-09, issuance of oil bonds to the three oil marketing companies by the Government of India to partially compensate them for the under-recoveries, enabled them to post combined net profits of Rs.4,260 crore in

Table 14: Corporate Sector - Financial Performance

(Growth rates/Ratio in per cent)

Item	2007-08	2008-09	2007-08				2008-09			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
Sales	18.3	17.2	19.2	16.0	18.0	20.6	29.3	31.8	9.5	1.9
Other Income*	46.2	6.6	106.7	45.2	70.2	28.5	-8.4	-0.6	-4.8	39.4
Expenditure	18.4	19.5	18.0	15.3	18.9	23.3	33.5	37.5	12.6	-0.5
Depreciation provision	14.8	17.4	18.1	15.8	17.9	15.4	15.3	16.5	16.8	19.6
Gross profits	22.8	-4.2	31.9	22.5	20.4	16.8	11.9	8.7	-26.7	-8.8
Interest payments	28.8	57.3	4.4	18.4	45.7	35.8	58.1	85.3	62.9	36.5
Profits after tax	26.2	-18.4	33.9	22.7	29.4	14.1	6.9	-2.6	-53.4	-19.9
Select Ratios										
Gross Profits to Sales	16.3	13.3	16.7	16.3	16.2	15.0	14.5	13.5	11.0	13.7
Profits After Tax to Sales	11.8	8.1	11.6	11.5	12.2	10.3	9.7	8.6	5.3	8.1
Interest to Sales	2.2	3.1	2.0	2.1	2.5	2.2	2.4	2.9	3.8	3.2
Interest to Gross Profits	13.8	23.6	11.8	12.8	15.3	14.6	16.8	21.5	34.6	23.3
Interest coverage (Times)	7.3	4.2	8.5	7.8	6.5	6.8	6.0	4.6	2.9	4.3

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

Notes: 1. Data 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.

2008-09 (as against Rs.9,678 crore in 2007-08).

External Demand

II.13 External demand as reflected in net exports (of goods and services) as a percentage of GDP, deteriorated to (-) 6.0 per cent during 2008-09 as compared with (-) 4.6 per cent in the previous year. The contraction in world demand affected the exports of India, like other countries. The global economic crisis, however, also led to lower international oil and fertiliser prices. The fall in import growth in the last quarter of 2008-09 was sharper than the fall in export growth, with lower oil prices reducing oil imports and domestic slowdown driving the fall in non-oil imports. Thus, the share of net exports in real GDP improved from -10.5 per cent in the second quarter to -2.9 per cent in the last quarter of 2008-09 (see Table 9). Merchandise trade deficit during April-May 2009 stood at US $ 10.2 billion, which was lower by 48.7 per cent than US $ 19.9 billion in April-May 2008, due to relatively larger decline in imports than exports during the period. A detailed discussion on the external demand conditions is set out in Chapter III.

II.14 To sum up, the impact of the slowdown on aggregate demand in the economy during 2008-09 on account of sharp deceleration in private consumption demand and dampened investment demand was partly offset by the increase in government consumption expenditure in the latter half of the year. Union Budget for 2009-10 provided for large Government expenditure and, hence, wider deficits, to continue supporting aggregate demand in the economy. Corporate sector remained subdued in 2008-09, with decelerated sales growth and decline in profits after tax.

III. THE EXTERNAL ECONOMY

The current account of India's balance of payments (BoP) recorded a surplus of US$ 4.7 billion in the last quarter of 2008-09, after seven consecutive quarters of deficit. The pressure on the capital account in terms of net outflows that had started in the third quarter of the year, continued even during the fourth quarter. For the year as a whole, net capital flows fell from US$ 108.0 billion in 2007-08 to US$ 9.1 billion in 2008-09, while the current account deficit widened from 1.5 per cent of GDP to 2.6 per cent of GDP during the same period. The impact of a severe external shock on India's BoP was managed with a loss of reserves of only US$ 20.1 billion (net of valuation) without resorting to any extraordinary measure. The latest available information on certain indicators of capital account suggests revival in capital flows to India during 2009-10 so far. The contraction in exports and imports, however, continues.

III.1 The adverse external environment in terms of a prolonged global recession, associated contraction in global trade and reversal in the pattern of capital flows continued to influence India's BoP during the fourth quarter of 2008-09. The impact of the global economic slowdown was reflected in the negative growth of exports that started in the third quarter of 2008-09 and became more pronounced during the fourth quarter. The transmission of the contagion through the capital flow channel was manifested in net outflows in the capital account, with the fourth quarter outflows exceeding the levels witnessed in the third quarter. During 2009-10 so far, however, there are indications about a revival in capital flows. India's foreign exchange reserves increased from US$ 252 billion at end-March 2009 to US$ 266 billion by July 17, 2009.

International Developments

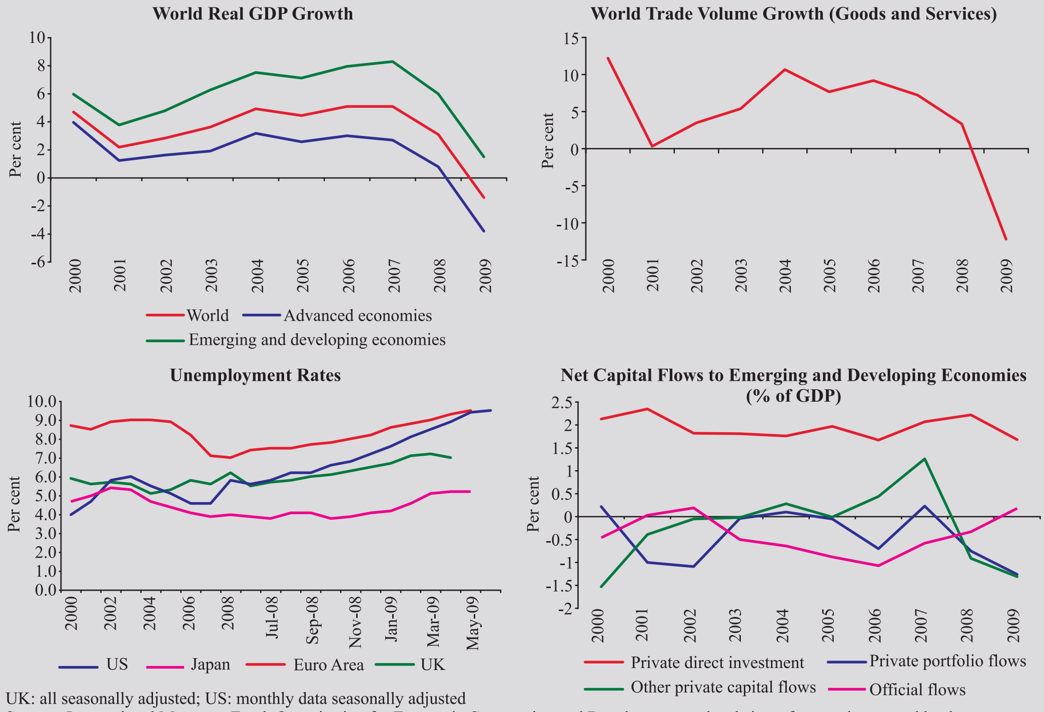
III.2 The synchronised global economic downturn continues to dampen the outlook, notwithstanding the fact that the pace of contraction has weakened considerably and there are tentative signs of bottoming out of the crisis. The timing and the pace of global recovery, however, continues to be uncertain and available projections from leading international institutions do not suggest any sharp recovery in the near term. Recent successive revisions of the growth outlook for 2009 from the International Monetary Fund (IMF) have been in the downward direction. According to the World Economic Outlook (WEO), released by the IMF on July 8, 2009, the global economy is projected to remain in recession, recording a growth of -1.4 percent during 2009 (GDP at purchasing power parity weights).

III.3 According to the World Bank's Global Development Finance released in June 2009, global GDP (at market exchange rates) could decline by a record 2.9 per cent in 2009 with modest recovery of 2.0 per cent in 2010 and 3.2 per cent in 2011. According to the OECD Economic Outlook (June 2009), financial conditions remain tight in spite of some recent easing and the bottom of the recession is likely to be reached only in the second half of 2009 with a possible weak recovery thereafter.

III.4 The global financial crisis impacted the world economy through various channels. In addition to the growth slowdown and trade contraction worldwide, the advanced economies were affected by rising unemployment rates leading to massive loss of employment, while the emerging market economies (EMEs) experienced significant reversal in capital flows (Chart 6).

III.5 The slackening growth impulses in the world economy emerging from the global financial crisis continued to impinge on the world merchandise trade. As per the IMF projections (July 2009), world trade volume (goods and services) is expected to shrink by 12.2 per cent in 2009 from 2.9 per cent growth in 2008 (Table 15). The slowdown in world merchandise exports, witnessed since November 2008, persisted during 2009 with first two months recording much sharper decline. According to International Financial Statistics of the IMF, world merchandise exports (in dollar terms), witnessed a sharp negative growth (-29.3 per cent) during 2009 (January-February), as against significant growth achieved during the corresponding period a year ago (23.9 per cent). Exports from advanced economies declined by 31.3 per cent (23.0 per cent a year ago), while exports from emerging and developing economies contracted by 27.3

Chart 6: Key Global Indicators



UK: all seasonally adjusted; US: monthly data seasonally adjusted
Source: International Monetary Fund, Organisation for Economic Cooperation and Development and websites of respective central banks.

Table 15: Select Economic Indicators – World

Item		2007	2008	2009P	2010P
1		2	3	4	5
I.	**World Output (Per cent change) #**	5.1	3.1	-1.4	2.5
		(3.8)	(2.0)	(-2.6)	(1.7)
	i) Advanced Economies	2.7	0.8	-3.8	0.6
	ii) Other Emerging Market and Developing Countries	8.3	6.0	1.5	4.7
	of which: Developing Asia	10.6	7.6	5.5	7.0
	India	9.4	7.3	5.4	6.5
II.	**Consumer Price Inflation (Per cent)**				
	i) Advanced Economies	2.2	3.4	0.1	0.9
	ii) Other Emerging Market and Developing Countries	6.4	9.3	5.3	4.6
	of which: Developing Asia				
III.	**Net Capital Flows (US$ billion)***				
	i) Net Private Capital Flows (a+b+c)**	617.5	109.3	-190.3	-6.5
	a) Net Private Direct Investment	359.0	459.3	312.8	303.1
	b) Net Private Portfolio Investment	39.5	-155.2	-234.5	-195.3
	c) Net Other Private Capital Flows	219.2	-194.6	-268.5	-114.2
	ii) Net Official Flows	-100.5	-60.0	57.6	-28.1
IV.	**World Trade @**				
	i) Trade Volume	7.2	2.9	-12.2	1.0
	ii) Export Volume	6.1	1.8	-13.5	0.5
	iii) Trade Price Deflator	8.0	11.5	-14.6	2.6
V.	**Current Account Balance (Per cent to GDP)**				
	i) US	-5.3	-4.7	-2.8	-2.8
	ii) China	11.0	10.0	10.3	9.3
	iii) India	-1.0	-2.8	-2.5	-2.6
	iv) Middle East	18.2	18.8	-0.6	3.2

P : IMF Projections.

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

* : Net capital flows to emerging market and developing countries.

** : On account of data limitations, flows listed under 'Net private capital flows' may include some official flows.

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

Source : World Economic Outlook, April 2009 and World Economic Outlook Update, July 2009, International Monetary Fund.

per cent in January 2009 (26.9 per cent growth a year ago) (Table 16).

Merchandise Trade

Exports

III.6 The impact of contagion by way of the trade channel was clearly evident - through first deceleration, and then decline in export performance. Exports have declined on month-on-month basis since October 2008 for eight successive months (Chart 7). With the emerging slackness in domestic growth and economic activity during the second half of the year, imports also witnessed a sharp slowdown.

Table 16: Growth in Exports - Global Scenario

(Per cent)

Region/Country	2007	2008	2008	2009
	January-December		January-March	
1	2	3	4	5
1. World	**13.9**	**14.3**	**22.2**	**-29.1**
2. Advanced Economies	**13.5**	**11.3**	**19.6**	**-30.3**
US	12.0	11.9	17.1	-22.4
France	12.3	9.8	21.3	-31.5
Germany	18.0	10.8	21.1	-31.3
Japan	7.8	12.3	28.7	-41.8
3. Emerging and Developing Economies	**14.7**	**21.1**	**26.9**	**-27.9***
Singapore	10.1	13.0	21.2	-32.7
China	25.6	17.3	21.3	-17.5*
India	23.3	19.7	37.7	-24.4
Indonesia	14.7	24.4	29.2	-30.9
Korea	14.1	13.6	17.4	-24.9
Malaysia	9.6	19.1	19.1	-28.8
Thailand	17.0	12.9	21.3	-21.7

* : Pertains to January 2009 over January 2008.
Sources: 1. IMF (www.imfstatistics.org)
2. DGCI&S for India.

III.7 In terms of composition of exports, manufactured goods continued to account for bulk of the share with 65.9 per cent, followed by petroleum products and primary products during 2008-09 (April-February). All major commodity groups exhibited major slowdown, barring engineering goods (Table 17).

III.8 In terms of the major markets for India's exports, developing countries and OECD countries were the major destinations, with each group accounting for 39.3 per cent share, followed by the OPEC (19.4 per cent share) during 2008-09 (April-February). The US continued to be the single largest market for India's exports, notwithstanding its falling share in 2008-09 (Table 18).

Imports

III.9 After a phase of strong growth up to September 2008, imports growth witnessed a deceleration during October-November 2008, before turning negative thereafter. The decline in imports was the sharpest during April 2009 (-39.4 per cent) in relation to the high growth recorded during April 2008 (41.4 per cent). The decline in imports was on account of both oil and non-oil imports, reflecting the

Chart 7: India's Merchandise Trade

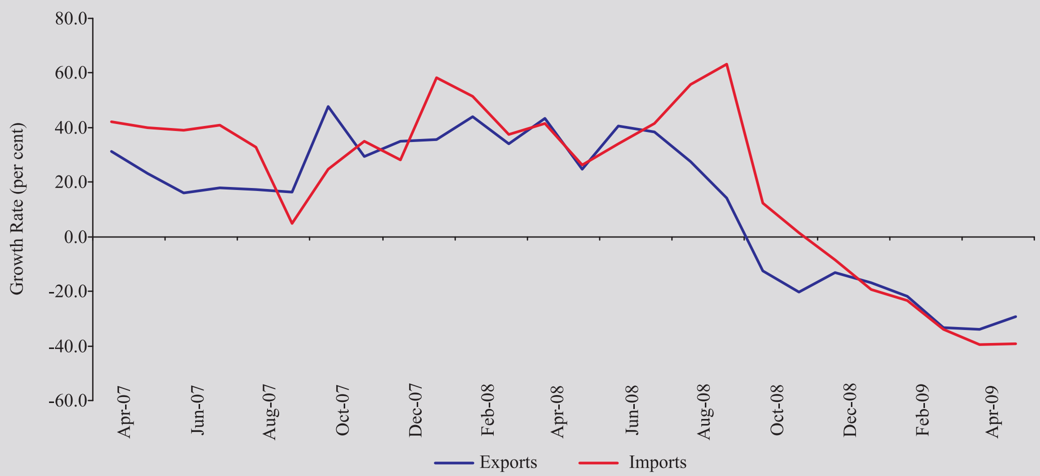


Table 17: Exports of Principal Commodities

Commodity Group	US $ billion			Variation (Per cent)		
	2007-08	2007-08 R	2008-09 P	2007-08	2007-08	2008-09
		April-February			April-February	
1	2	3	4	5	6	7
1. Primary Products	**27.5**	**24.1**	**23.2**	**39.8**	**38.6**	**-3.6**
of which:						
a) Agriculture and Allied Products	18.4	16.1	16.0	45.1	44.2	-0.9
b) Ores and Minerals	9.1	7.9	7.2	30.2	28.4	-8.9
2. Manufactured Goods	**102.9**	**91.6**	**100.9**	**21.2**	**20.2**	**10.1**
of which:						
a) Chemicals and Related Products	21.2	18.5	20.5	22.2	18.9	10.9
b) Engineering Goods	37.4	32.9	40.7	26.3	24.4	23.5
c) Textiles and Textile Products	19.4	17.4	17.7	11.8	10.7	1.4
d) Gems and Jewellery	19.7	17.9	17.2	23.2	25.3	-3.7
3. Petroleum Products	**28.4**	**24.3**	**24.9**	**51.8**	**42.6**	**2.4**
4. Total Exports	**163.1**	**143.6**	**153.0**	**29.0**	**26.6**	**6.6**
Memo:						
Non-oil Exports	134.8	119.3	128.1	25.1	23.8	7.4

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

decline in the international oil prices and the moderation in the domestic economic activity, respectively.

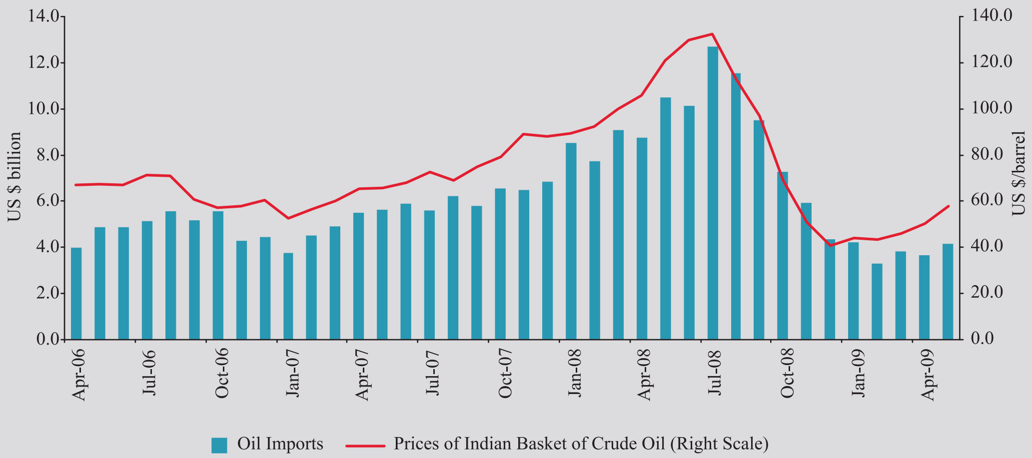
III.10 Commodity-wise, POL imports recorded significant deceleration in growth (22.4 per cent) in 2008-09 (April-February)

Table 18: Direction of India's Exports

Group/Country	US $ billion			Variation (Per cent)		
	2007-08	2007-08 R	2008-09 P	2007-08	2007-08	2008-09
		April-February			April-February	
1	2	3	4	5	6	7
1. OECD Countries	**62.6**	**57.2**	**60.1**	**20.4**	**20.2**	**5.1**
of which:						
a) EU	32.9	30.6	34.1	27.6	27.5	11.4
b) North America	22.0	19.8	19.7	10.0	10.4	-0.9
US	20.7	18.7	18.4	9.8	10.2	-1.6
2. OPEC	**26.7**	**23.9**	**29.6**	**28.8**	**26.7**	**24.1**
of which:						
UAE	15.6	14.0	16.6	29.9	29.3	18.0
3. Developing Countries	**69.6**	**60.5**	**60.2**	**37.1**	**33.6**	**-0.5**
of which:						
Asia	51.5	45.0	44.5	36.9	33.0	-1.0
People's Republic of China	10.8	9.5	7.7	30.6	27.1	-18.1
Singapore	7.4	6.4	7.3	21.4	17.3	13.0
4. Total Exports	**163.1**	**143.6**	**153.0**	**29.0**	**26.6**	**6.6**

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

Chart 8: India's Oil Imports and International Crude Oil Prices



from the high growth during the corresponding period a year ago (35.3 per cent), mainly due to the fall in international crude oil prices since August 2008 and partly due to the slowdown in the volume of POL imports (Chart 8). Non-POL imports growth also witnessed a moderation (21.4 per cent, from 32.0 per cent) driven by deceleration in imports of capital goods, gold, silver and chemicals. The imports of pearls, precious and semi-precious stones and edible oil, however, exhibited higher growth during the period (Table 19).

Table 19: Imports of Principal Commodities

Group/Country	US $ billion			Variation (Per cent)		
	2007-08	2007-08 R	2008-09 P	2007-08	2007-08	2008-09
		April-February			April-February	
1	2	3	4	5	6	7
Petroleum, Petroleum Products & Related Material	79.7	70.6	86.4	39.5	35.3	22.4
Edible Oil	2.6	2.4	3.2	21.4	24.2	32.8
Iron and Steel	8.7	8.0	8.8	35.3	40.3	9.7
Capital Goods	70.8	52.7	58.0	50.5	39.3	10.2
Pearls, Precious and Semi-Precious Stones	8.0	7.2	12.8	6.5	9.4	76.5
Chemicals	9.9	9.1	11.4	26.5	27.5	25.4
Gold and Silver	17.9	16.4	18.0	22.0	24.9	10.1
Total Imports	**251.7**	**216.2**	**263.3**	**35.5**	**33.1**	**21.8**
Memo:						
Non-oil Imports	171.9	145.7	176.9	33.7	32.0	21.4
Non-oil Imports excluding Gold and Silver	153.9	129.3	158.9	35.1	33.0	22.9
Mainly Industrial Inputs*	141.7	117.1	139.1	35.4	30.8	18.7

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

III.11 In terms of sources of imports, OPEC had the highest share (33.2 per cent), followed by the developing countries and OECD countries during 2008-09 (April-February). China continued to be the single largest source of imports, with a share of 10.7 per cent in total imports.

III.12 India's merchandise trade deficit widened from 7.5 per cent of GDP in 2007-08 to 10.1 per cent in 2008-09. However, the merchandise trade deficit declined during 2009-10 (April-May) over the corresponding period of the previous year, reflecting the sharper decline in the imports in relation to exports (Table 20).

Table 20: India's Merchandise Trade

(US $ billion)

Item	2008-09R	2008-09 R	2009-10 P
		April-May	
1	2	3	4
Exports	168.7	31.6	21.8
Oil	24.9 *	5.5	..
Non-oil	128.1 *	26.1	..
Imports	287.8	51.5	32.0
Oil	93.2	19.2	7.8
Non-oil	194.6	32.3	24.2
Trade Balance	-119.1	-19.9	-10.2
Non-Oil Trade Balance	..	-6.1	..
Variation (Per cent)			
Exports	3.4	33.0	-31.2
Oil	2.4 *	27.2	..
Non-oil	7.4 *	38.8	..
Imports	14.3	30.3	-38.0
Oil	16.9	73.3	-59.6
Non-oil	13.2	24.1	-25.0

R : Revised. P : Provisional.
* : April-February .. : Not Available
Source : DGCI&S.

Balance of Payments

Current Account

III.13 During 2008-09, export growth, on balance of payments basis, declined to 5.4 per cent from a high growth of 28.9 per cent in 2007-08. Import growth also declined sharply to 14.3 per cent from 35.2 per cent during the same period. Consequently, on a BoP basis, the trade deficit widened to 10.3 per cent of GDP in 2008-09 from 7.8 per cent of GDP in 2007-08. After recording deficit in three successive quarters of 2008-09, the current account in India's BoP turned surplus in the last quarter, notwithstanding continued ramifications of the depressed global demand conditions. The negative growth in exports that had started during the third quarter of 2008-09, became more pronounced in the fourth quarter (-24.2 per cent); however, the import growth also turned negative (-27.3 per cent) during the same quarter after a gap of almost seven years, driven mainly by lower crude oil prices and lower non-oil imports mirroring subdued domestic economic activity. As a result, the trade deficit moderated during the fourth quarter of 2008-09 (Table 21).

Invisibles

III.14 Gross invisibles receipts and payments, which had slowed down significantly during the third quarter of 2008-09, recorded negative growth during the fourth quarter, reflecting the impact of global recession (Table 22). The decline in invisibles receipts during the fourth

Table 21: India's Balance of Payments

(US $ billion)

Item	April-March		2007-08 PR	2008-09 P			
	2007-08 PR	2008-09 P	Jan-Mar	Apr-Jun	Jul-Sept	Oct-Dec	Jan-Mar
1	2	3	4	5	6	7	8
1. Exports	166.2	175.2	52.5	49.1	49.0	37.3	39.8
2. Imports	257.8	294.6	74.9	80.5	87.7	72.0	54.4
3. Trade Balance (1-2)	-91.6	-119.4	-22.3	-31.4	-38.7	-34.7	-14.6
4. Net Invisibles	74.6	89.6	20.8	22.4	26.2	21.7	19.3
5. Current Account Balance (3+4)	-17.0	-29.8	-1.5	-9.0	-12.5	-13.0	4.7
6. Gross Capital Inflows	433.0	302.5	141.2	90.9	85.0	69.5	57.1
7. Gross Capital Outflows	325.0	293.3	115.2	79.7	77.5	73.7	62.4
8. Net Capital Account (6-7)	108.0	9.1	26.0	11.1	7.6	-4.3	-5.3
9. Overall Balance (5+8)#	92.2	-20.1	25.0	2.2	-4.7	-17.9	0.3
Memo:							
i. Export growth (%)	28.9	5.4	47.2	43.0	28.0	-9.1	-24.2
ii. Import growth (%)	35.2	14.3	55.8	42.9	47.3	7.3	-27.3
iii. Trade balance (as a % of GDP)	-7.8	-10.3					
iv. Invisible receipts growth (%)	29.7	9.4	28.8	30.3	34.3	1.8	-16.6
v. Invisibles payments growth (%)	18.7	-1.4	31.9	13.5	14.4	3.1	-24.7
vi. CAD as a % of GDP	1.5	2.6					
vii. Foreign exchange reserves (as at end-March)	309.7	251.7					

#: Overall balance also includes errors and omissions apart from items 5 and 8.
PR : Partially Revised. P : Preliminary. CAD : Current account deficit.

quarter of 2008-09 was due to decline in all the three major heads namely, services, private transfers and investment income. Nevertheless, during the year as a whole, invisibles receipts recorded a positive growth, supported mainly by the export of software services and private transfer receipts. Invisibles payments recorded sharp decline during the fourth quarter of 2008-09, driven by significant decline in payments under transportation, software services, business services and financial services accounts. For the year as a whole, invisibles payments showed a marginal negative growth. As a result, net invisibles (*i.e.*, invisibles receipts *minus* payments) showed an improvement (7.7 per cent of GDP) during 2008-09 from the level a year ago (6.4 per cent of GDP), which was possible primarily on account of higher receipts under private transfers and software services. At this level, the invisibles surplus financed about 75.0 per cent of trade deficit during 2008-09 as against 81.4 per cent during 2007-08.

III.15 The lower trade deficit on account of larger decline in imports relative to exports coupled with sustained invisibles surplus resulted in a turnaround in the current account to a modest surplus during the fourth quarter of 2008-09, after recording deficits for seven consecutive

Table 22: Invisibles Gross Receipts and Payments

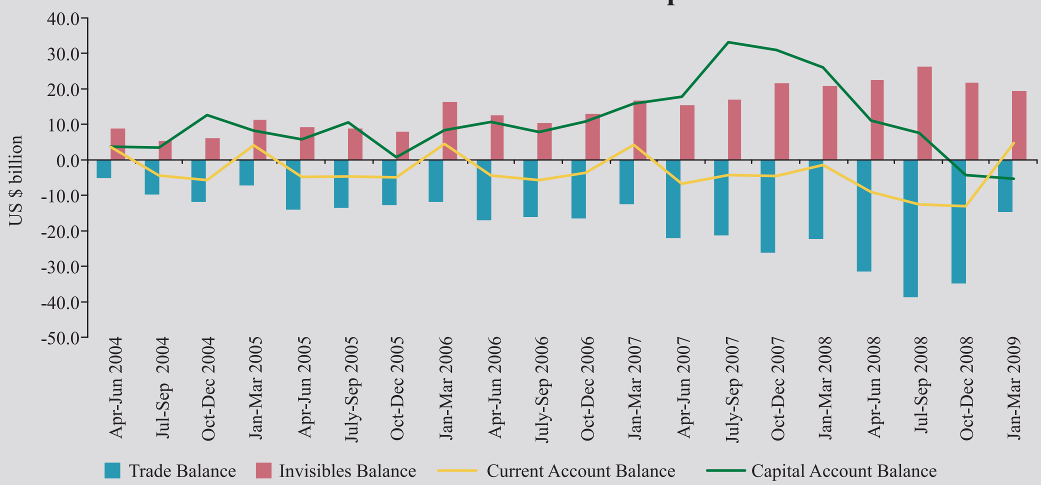
(US $ billion)

Item	Invisibles Receipts				Invisibles Payments			
	April-March		Jan-Mar		April-March		Jan-Mar	
	2007-08 (PR)	2008-09 (P)	2007-08 (PR)	2008-09 (P)	2007-08 (PR)	2008-09 (P)	2007-08 (PR)	2008-09 (P)
1	2	3	4	5	6	7	8	9
1. Travel	11.3	10.9	3.6	2.7	9.3	9.4	2.8	2.6
2. Transportation	10.0	11.1	3.2	2.9	11.5	12.8	3.4	2.5
3. Insurance	1.6	1.4	0.5	0.3	1.0	1.1	0.3	0.3
4. Govt. not included Elsewhere	0.3	0.4	0.08	0.08	0.4	0.8	0.06	0.4
5. Miscellaneous	66.7	77.5	18.6	18.2	30.3	27.3	11.9	7.5
Of which:								
Software	40.3	47.0	12.8	11.2	3.1	2.8	0.7	0. 5
Non-Software	26.4	30.5	5.8	7.0	27.3	24.5	11.1	7.0
6. Transfers	44.3	47.0	14.5	10.0	2.3	2.7	1.0	0.4
Of which								
Private Transfers	43.5	46.4	14.2	9.8	1.8	2.3	0.9	0.3
7. Income	14.3	14.3	4.7	3.4	19.2	18.8	4.9	4.6
Investment Income	13.8	13.5	4.5	3.2	18.1	17.5	4.6	4.3
Compensation of Employees	0.5	0.8	0.2	0.2	1.1	1.3	0.3	0.3
Total (1 to 7)	**148.6**	**162.6**	**45.2**	**37.7**	**74.0**	**73.0**	**24.3**	**18.3**

P : Preliminary. PR : Partially Revised.

quarters (Chart 9). For the year as a whole, however, the larger trade deficit mainly on account of higher growth in imports relative to exports in the first three quarters of the year led to a higher current account deficit at US$ 29.8 billion (2.6 per cent of GDP)

Chart 9: Current Account and Capital Flows



during 2008-09 than US$ 17.0 billion (1.5 per cent of GDP) during 2007-08.

Capital Account

III.16 The pressure on the capital account that had started in the third quarter of 2008-09, reflecting the massive deleveraging during post-September 2008 in the advanced financial markets persisted even in the fourth quarter. The pressure was evident in the form of lower inflows and higher outflows, yielding net outflows in the last two quarters of 2008-09. Capital outflows were mainly driven by large outflows under portfolio investment, banking capital and short-term trade credit. Notwithstanding increased risk aversion on the part of international investors and tightness in the overseas credit markets, which affected other types of capital flows, inflows under foreign direct investment (FDI) and non-resident Indian (NRI) deposits displayed resilience, reflecting continued attractiveness of India as a long-term investment destination and also the positive impact of various policy measures undertaken for improving certain types of inflows in response to the global financial crisis. It is important to note that net capital flows declined from US$ 108.0 billion in 2007-08 to US$ 9.1 billion in 2008-09 (Table 23).

III.17 Component-wise, net inward FDI flows to India remained buoyant during 2008-09, manifesting confidence in India's long-term growth prospects and relatively

Table 23: Net Capital Flows

(US $ billion)

Item	April-March		2007-08 PR	2008-09 P			
	2007-08 PR	2008-09 P	Jan-Mar	Apr-Jun.	Jul-Sept.	Oct-Dec	Jan-Mar
1	2	3	4	5	6	7	8
1. Foreign Direct Investment (FDI)	15.4	17.5	8.5	9.0	4.9	0.4	3.2
Inward FDI	34.2	35.0	14.2	11.9	8.8	6.3	8.0
Outward FDI	18.8	17.5	5.7	2.9	3.9	5.9	4.8
2. Portfolio Investment	29.6	-14.0	-3.7	-4.2	-1.3	-5.8	-2.7
Of which:							
FIIs	20.3	-15.0	-4.1	-5.2	-1.4	-5.8	-2.6
ADR/GDRs	8.8	1.2	0.4	1.0	0.1	0.0	0.02
3. External Assistance	2.1	2.6	0.8	0.4	0.5	1.0	0.8
4. External Commercial Borrowings	22.6	8.2	5.2	1.5	1.7	3.9	1.1
5. NRI Deposits	0.2	4.3	1.1	0.8	0.3	1.0	2.2
6. Banking Capital excluding NRI Deposits	11.6	-7.7	4.7	1.9	1.9	-6.0	-5.4
7. Short-term Trade Credits	17.2	-5.8	6.5	2.4	1.3	-4.0	-5.5
8. Rupee Debt Service	-0.1	-0.1	-0.08	-0.03	–	–	-0.07
9. Other Capital	9.5	4.2	3.0	-0.5	-1.6	5.2	1.1
Total (1 to 9)	**108.0**	**9.1**	**26.0**	**11.1**	**7.6**	**-4.3**	**-5.3**

P: Preliminary. PR: Partially Revised.

better investment climate in India that has been facilitated by gradual liberalisation measures to attract FDI. During 2008-09, FDI to India was channelled mainly into manufacturing sector (21.1 per cent) followed by financial services (19.4 per cent) and construction sector (9.9 per cent). Despite deepening of global recession, overseas investment by the Indian corporates remained high during 2008-09, indicating the Indian corporates' objective of reaping economies of scale, having better access to technology and acquiring presence in offshore markets to withstand the global competition, besides the lower valuations of assets on account of the crisis.

III.18 Portfolio investment, comprising mainly investment by foreign institutional investors (FIIs) in the Indian capital market and issuance of American depository receipts (ADRs)/global depository receipts (GDRs), witnessed large net outflows during 2008-09 due to large sales of equities by FIIs in the Indian stock market, reflecting bearish market conditions and slowdown in the global economy, and also prompted by the global presence of deleveraging and the anxiety driven flight to safety. Net external commercial borrowing (ECB) inflows too slowed down in 2008-09, as disbursements under ECBs to India more than halved from their level in the previous year, reflecting the transmission of shocks from the credit freeze in advanced economies. Notwithstanding higher net inflows under the NRI deposits in response to hikes in ceiling interest rates on such deposits, banking capital flows turned negative during 2008-09 mainly on account of outflows under overseas borrowings and foreign assets of commercial banks.

III.19 Despite apprehensions in the second half of 2008-09 on the availability of short-term trade credit due to tightness in the global credit markets, the gross disbursements reached US$ 39.7 billion during 2008-09 (US$ 48.9 billion in 2007-08), facilitated by various policy measures undertaken such as hike in the all-in-cost ceilings for trade credits of various maturities that was necessary in the context of hardening of cost of funds in the international markets. Hence, financing of short-term trade credit did not pose any significant problem in India, contrary to market perceptions prevailing at some point.

III.20 Notwithstanding the persisting stress in the global financial markets, the latest available information on certain indicators of the capital account suggests a revival in capital flows to India (Table 24). This could be attributed to relatively better macroeconomic performance of India during 2008-09 on the back of various fiscal and monetary stimulus measures as also the positive perceptions of global investors about India's growth potential. The global recovery in risk appetite also led to correction in the stock markets around the world, which facilitated higher inflows to the Indian stock markets.

Table 24: Capital Flows in 2009-10 so far

(US $ billion)

Component	Period	2008-09	2009-10
1	2	3	4
FDI to India	April-May	7.7	4.4
FIIs (net)	April-July*	-6.5	8.7
ADRs/GDRs	April-June	1.0	–
ECB Approvals	April-June	4.1	2.7
NRI Deposits (net)	April-June	0.8	1.9

* : Up to July 17. – : Negligible.
FDI : Foreign Direct Investment.
FII : Foreign Institutional Investors.
ECB : External Commercial Borrowings.
NRI : Non Resident Indians.
ADR : American Depository Receipts
GDR : Global Depository Receipts.

Foreign Exchange Reserves

III.21 During 2008-09, India's foreign exchange reserves declined by US$ 58.0 billion, down from US$ 309.7 billion as at the end of March 2008 to US$ 251.7 billion as at end-March 2009. Of this decline of US$ 58.0 billion, US$ 37.9 billion was on account of valuation changes, and the balance of US $ 20.1 billion decline reflected the financing needs of the BoP. Thus, the impact of an unprecedented external shock on India's BoP was managed with reserve loss of only US$ 20.1 billion, without resorting to any extraordinary measure. In fact the capital account was further liberalised in certain areas such as outward FDI and buyback of FCCBs. Despite net capital outflows, the foreign exchange reserves on BoP basis (*i.e.*, excluding valuation) increased marginally by US$ 0.3 billion during the fourth quarter of 2008-09, mainly due to a modest surplus achieved in the current account. This was in contrast to significant drawdown of reserves witnessed in the previous two quarters of 2008-09 (Chart 10).

III.22 India’s foreign exchange reserves, which had declined to US$ 251.7 billion at end-March 2009, however, increased subsequently to US$ 266.2 billion by July 17, 2009, with portfolio flows reversing

Chart 10: India's Foreign Exchange Reserves

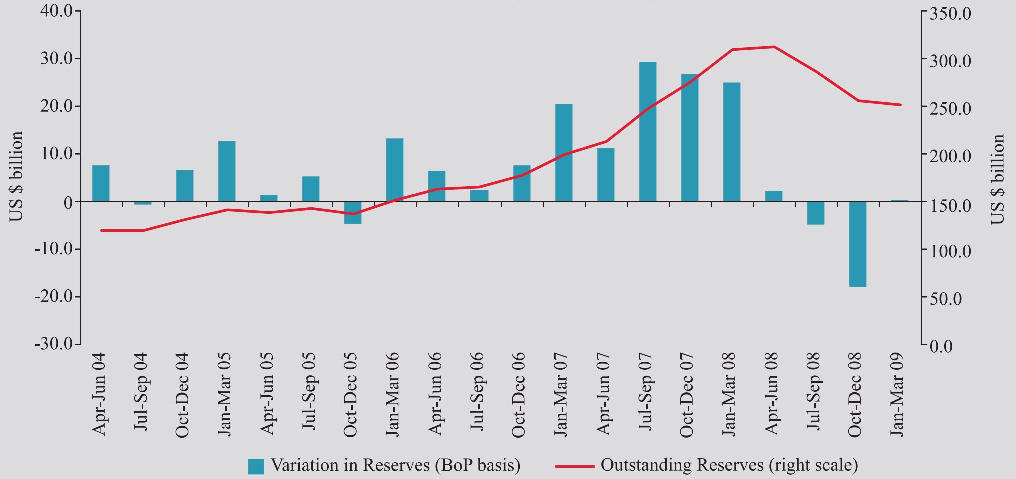


Table 25: Foreign Exchange Reserves

(US $ million)

End of Month	Gold	SDR	Foreign Currency Assets*	Reserve Position in the IMF	Total (2+3+4+5)	*Memo*: Outstanding Net Forward Sales (-) / Purchases (+) 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
March 2009	9,577	1	241,176	981	251,735	(-) 2,042
April 2009	9,231	1	241,487	983	251,702	(-) 1,071
May 2009	9,604	1	251,456	1,245	262,306	(+) 131
June 2009	9,800	1	254,093	1,248	265,142	–
July 2009#	9,800	1	255,138	1,248	266,187	–

* : Exclude US $ 250 million invested in foreign currency denominated bonds issued by IIFC (UK) since March 20, 2009.

\# : As on July 17, 2009. – : Not Available.

the earlier trend and turning significantly positive during 2009-10 so far (Table 25).

External Debt

III.23 During 2008-09, India's external debt increased by US$ 5.3 billion (2.4 per cent) to US$ 229.9 billion as at end-March 2009 over the level at end-March 2008 (Table 26). The increase in external debt stock during 2008-09 was essentially due to increase in trade credits. Long-term debt increased by US$ 2.9 billion as at end-March 2009 mainly due to increase in buyers' credit. NRI deposits declined by US$ 2.1 billion during the year, reflecting valuation changes. Debt denominated in the US dollar, accounted for 57.1 per cent of total external debt as at end-March 2009.

III.24 The debt sustainability indicators remained at comfortable levels at end-March 2009. The debt service ratio, which has been declining steadily over the years, stood at 4.6 per cent as at end-March 2009. The ratio of short-term to total debt, however, increased marginally to 21.5 per cent as at end-March 2009 from 20.9 per cent as at end-March 2008. Further, the ratio of short-term debt to foreign exchange reserves increased to 19.6 per cent as compared with 15.2 per cent during the above period. India's foreign exchange reserves provided a cover of 109.6 per cent to the external debt stock at end-March 2009 (137.9 per cent at end-March 2008).

III.25 Based on residual maturity, the total short-term debt obligations accounted

Table 26: India's External Debt

				(US $ billion)
Item	End-March 2008	End-March 2009 P	Variation 2008-09	
			Amount	Per cent
1	2	3	4	5
1. Multilateral	39.5	39.6	0.1	0.2
2. Bilateral	19.7	20.6	0.9	4.5
3. International Monetary Fund	0.0	0.0	0.0	0.0
4. Trade Credit (above 1 year)	10.4	14.6	4.2	41.0
5. External Commercial Borrowings	62.3	62.7	0.3	0.5
6. NRI Deposit	43.7	41.6	-2.1	-4.8
7. Rupee Debt	2.0	1.5	-0.5	-24.3
8. Long-term (1 to 7)	177.6	180.5	2.9	1.7
9. Short-term	47.0	49.4	2.4	5.1
Total (8+9)	224.6	229.9	5.3	2.4
Memo:				(Per cent)
Total debt /GDP	19.0	22.0		
Short-term/Total debt	20.9	21.5		
Short-term debt/Reserves	15.2	19.6		
Concessional debt/Total debt	19.7	18.2		
Reserves/Total debt	137.9	109.6		
Debt Service Ratio	4.8	4.6		

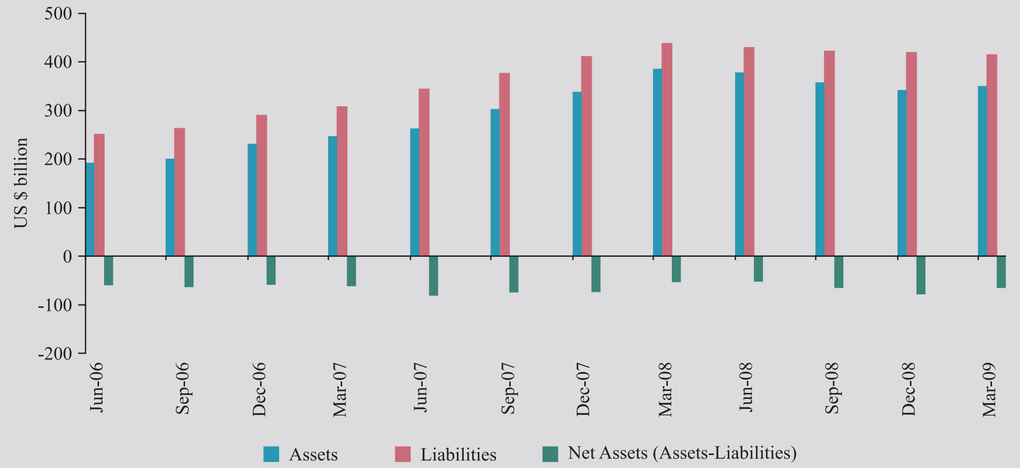
P : Provisional.

for 40.6 per cent of the total external debt outstanding at end-March 2009. The total short-term debt in terms of residual maturity (US$ 93.3 billion) at end-March 2009 consists of short-term debt based on original maturity of US$ 49.4 billion and long- term external debt due for repayment within one year of US$ 43.9 billion. Out of the US$ 43.9 billion, the NRI deposits constitute the major portion (US$ 32.1 billion), which are more likely to be rolled over going by the past trend.

International Investment Position

III.26 During 2008-09, India's net international liabilities (*i.e.*, gross liabilities *minus* gross assets) increased by US$ 12.5 billion to US$ 65.3 billion by end-March 2009, as the decline in international assets was more than the decline in international liabilities (Chart 11). The decline in international assets was mainly on account of decrease in reserve assets amounting to US$ 57.7 billion. The decline in international liabilities could be mainly attributed to outflow by FIIs under portfolio equity investment. Quarter-wise analysis shows that net international liabilities declined by US $ 13.2 billion during the fourth quarter of 2008-09 over the previous quarter on account of an increase in international assets coupled with a decline in international liabilities. Increase in international assets was mainly contributed by direct investment abroad and other investments under trade credits and currency

Chart 11: International Investment Position of India



and deposits. Outflow by FIIs from portfolio equity investment during January-March 2009 and the effect of valuation changes contributed to the decline in international liabilities in the fourth quarter of 2008-09 over the previous quarter.

III.27 Thus, India's balance of payments continued to display resilience and the dampening effects of global economic downturn and contraction in trade were managed without embarking on any extraordinary measures. The shrinking trade deficit on account of larger decline in imports relative to exports coupled with sustained invisibles surplus resulted in a turnaround in the current account, leading to a surplus during the fourth quarter of 2008-09. The pressures on capital account persisted even during the fourth quarter of 2008-09 and as a result capital flows during the year as a whole showed a marked decline. During the first quarter of 2009-10 there has been a revival of capital inflows while exports and imports continue to contract.

IV. MONETARY CONDITIONS

The expansionary and liquidity-enhancing measures taken by the Reserve Bank since September 2008 has ensured ample liquidity in the system, which is evident in the large and sustained absorption of surplus liquidity through the LAF in 2009-10 so far. Broad money growth (year-on-year) remained strong at 20.0 per cent (up to July 3, 2009), driven by robust growth in deposits (21.0 per cent) on the components side and significant increase in banking system's credit to the Government (48.0 per cent) on the sources side. Market absorption of the government borrowing programme was facilitated by dampened demand for credit from the private sector on the backdrop of a high deposits growth. The composition of deposits has been shifting gradually in favour of time deposits since October 2008, partly in response to expectations about deposit rates following the lower policy rates of the Reserve Bank. The deceleration in commercial banks' credit to the commercial sector witnessed over the period October 2008 to May 2009 has started a slow turnaround.

IV.1 Monetary aggregates continued to exhibit strong growth in 2009-10 (up to July 3, 2009), mainly reflecting the large increases in commercial banks' credit to the Government. The expansion in non-food credit, however, moderated to a large extent and net foreign exchange assets with the banking system also declined. Broad money growth during the first quarter of 2009-10 remained strong and above the Reserve Bank's projected trajectory of 17.0 per cent for the year 2009-10. This was on account of strong growth in deposits, particularly time deposits. In the absence of adequate demand for credit from the private sector, commercial banks stepped up their lending to the Government. The increase in net commercial bank credit to the Government reflected the accommodation of enhanced market borrowing programme of the Government during 2009-10, that was essential to revive the growth momentum of the economy. Expansion in non-food credit to the commercial sector witnessed a sharp deceleration and remained below the Reserve Bank's projected trajectory of 20.0 per cent growth for the year 2009-10. The reserve money growth during 2009-10 remained low and turned negative, mainly reflecting large reverse repo operations by the Reserve Bank to absorb the surplus liquidity from the system and the decline in net foreign exchange assets (adjusted for valuation) with the Reserve Bank.

IV.2 The monetary policy responses since September 2008 have been aimed at mitigating the adverse impact of the global economic crisis on the Indian economy. The conduct of monetary policy had to contend with the speed and magnitude of the contagion and its potential spill-over effects on the domestic economy. Accordingly, since October 11, 2008, the Reserve Bank has reduced CRR by a cumulative 400 basis points to 5.0 per cent, repo rate by 425 basis points to 4.75 per cent and the reverse repo rate by 275 basis points to 3.25 per cent. Reserve Bank also took a series of measures to augment rupee and foreign exchange liquidity to avoid shortage of liquidity as a source for market volatility or contraction in credit. The liquidity conditions have remained easy throughout in the recent period, which was evident from the orderly conditions in the market as well as sustained net absorption under the LAF.

Monetary Survey

IV.3 Broad money (M_3) growth (y-o-y) during 2009-10 (up to July 3, 2009) continued to remain strong, although with some moderation as compared with the high growth a year ago. On a year-on-year (y-o-y) basis, M_3 growth was 20.0 per cent as on July 3, 2009 as compared with 21.1 per cent a year ago (Table 27 and Chart 12). The strong growth in M_3 mainly reflected the sustained expansion in aggregate deposits during the period. Within aggregate deposits, time deposits registered a higher growth (y-o-y) during 2009-10 as compared with a year ago, partly reflecting some switching from demand deposits and other savings instruments to time deposits. With increase in risk perception in the face of snowballing uncertainty, risk free high interest rates offered by the banks on time deposits in relation to expected return on other financial instruments would have

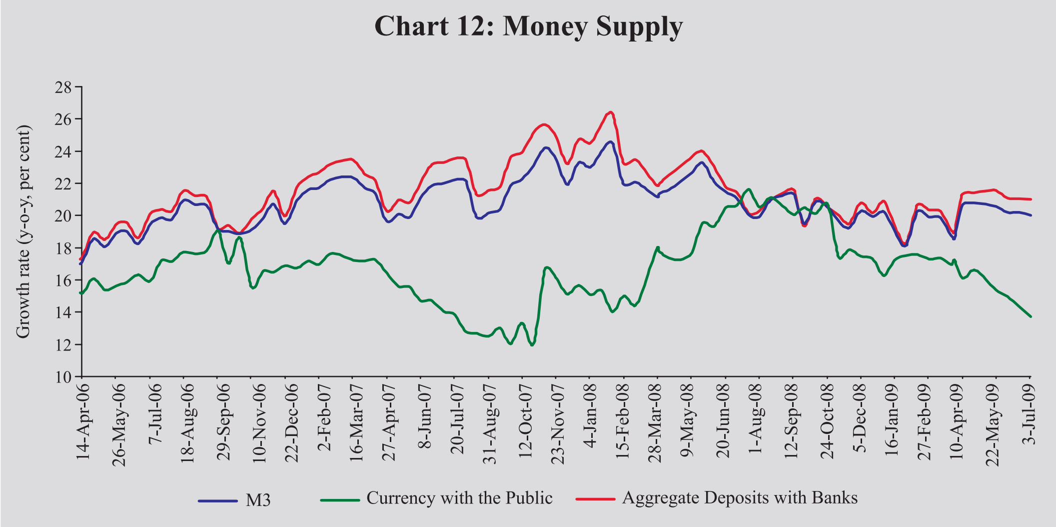
Table 27: Monetary Indicators

(Amount in Rupees crore)

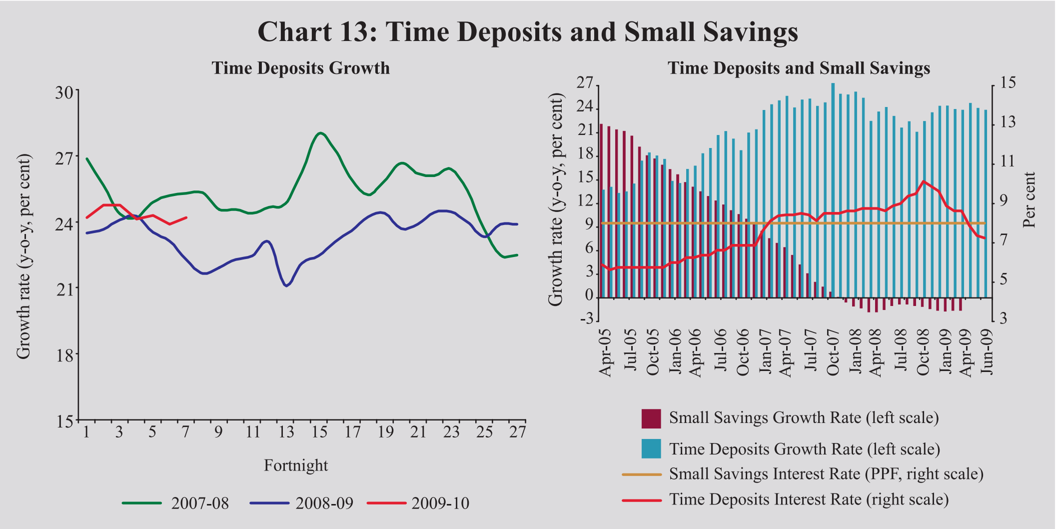
Item	Outstanding as on July 03, 2009	Variation (year-on-year)			
		July 04, 2008		July 03, 2009	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
I. Reserve Money*	9,46,438	1,99,944	26.6	-5,476	-0.6
(Reserve Money Adjusted for CRR changes)			(18.4)		(16.1)
II. Narrow Money (M_1)	12,57,945	1,74,393	18.2	1,27,400	11.3
III. Broad Money (M_3)	49,86,446	7,22,762	21.1	8,30,276	20.0
a) Currency with the Public	6,83,814	1,02,838	20.6	82,523	13.7
b) Aggregate Deposits	42,96,686	6,25,845	21.4	7,46,919	21.0
i) Demand Deposits	5,68,185	77,476	17.3	44,042	8.4
ii) Time Deposits	37,28,501	5,48,369	22.1	7,02,877	23.2
VI. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	14,06,681	40,069	4.4	4,56,294	48.0
i) Net Reserve Bank Credit to Government	24,502	-1,37,189	–	1,33,524	–
of which: to the Centre	24,261	-1,36,827	–	1,33,242	–
ii) Other Banks' Credit to Government	13,82,179	1,77,258	20.1	3,22,770	30.5
b) Bank Credit to the Commercial Sector	30,40,742	5,03,922	23.8	4,20,117	16.0
c) Net Foreign Exchange Assets of the Banking Sector	13,36,383	4,52,621	50.3	-15,590	-1.2
d) Government Currency Liability to Public	10,212	1,022	12.1	763	8.1
e) Net Non-Monetary Liabilities of the Banking Sector	8,07,571	2,74,871	54.8	31,307	4.0

*: Data pertain to July 17, 2009.

Note: Data are provisional. Wherever data are not available, the data for last available month is repeated as estimates.



motivated investors to shift their financial savings to time deposits. The expectations of near-term decline in interest rates as a lagged response to the lower policy rates also contributed to the compositional shift in deposits in favour of term-deposits. Accordingly, demand deposits recorded a lower growth (y-o-y) as compared with the previous year. Demand deposits expanded by 8.4 per cent (y-o-y) as on July 3, 2009 as compared with 17.3 per cent a year ago. The net outflows from small savings schemes that started in December 2007 continued up to March 2009 (the latest period for which the data are available) (Chart 13). Growth in currency with the public moderated to 13.7 per cent (y-o-y) as on July 3, 2009 as compared with 20.6 per cent a year ago, mainly reflecting down turn in economic activity.



IV.4 On a financial year basis, growth in M_3 during 2009-10 (up to July 3, 2009) was 4.7 per cent as compared with 3.4 per cent during the corresponding period of the previous year (Table 28). Currency with the public expanded by 2.6 per cent (up to July 3, 2009) as compared with 5.8 per cent during the corresponding period of the previous year.

IV.5 On the sources side, broad money (M_3) growth (y-o-y) was mainly driven by bank credit to the Government during 2009-10 (up to July 3, 2009). Growth in commercial banks' credit to the commercial sector fell significantly (Chart 14). Net foreign exchange assets with the banking sector also declined.

IV.6 Much of the financial year expansion in broad money (M_3) during 2009-10 (up to July 3, 2009) resulted from the increase in bank credit to the

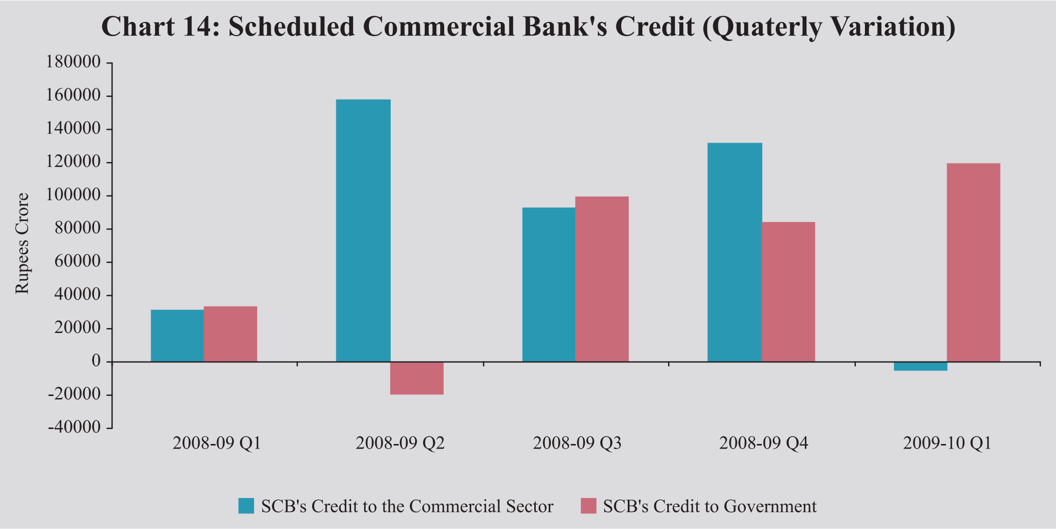
Table 28: Monetary Aggregates – Variations

(Rupees crore)

Item	2008-09 (up to July 04)	2009-10 (up to July 03)	2008-09				2009-10
			Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
M_3 (1+2+3 = 4+5+6+7-8)	1,38,287 (3.4)	2,22,427 (4.7)	89,283	1,76,379	1,60,488	3,19,986	1,72,702
Components							
1 Currency with the Public	32,881 (5.8)	17,451 (2.6)	35,772	-18,037	40,405	39,813	24,449
2 Aggregates Deposits with Banks	1,09,349 (3.2)	2,04,603 (5.0)	57,621	1,93,902	1,13,039	2,87,103	1,42,626
2.1 Demand Deposits with Banks	-54,230 (-9.4)	-13,063 (-2.2)	-79,325	52,771	-62,157	91,586	-33,948
2.2 Time Deposits with Banks	1,63,579 (5.7)	2,17,666 (6.2)	1,36,946	1,41,131	1,75,195	1,95,517	1,76,574
3 'Other' Deposits with Banks	-3,943 (-43.5)	373 (6.7)	-4,110	514	7,045	-6,931	5,626
Sources							
4 Net Bank Credit to Government	50,869 (5.7)	1,29,482 (10.1)	36,124	31,654	1,29,335	1,80,568	1,12,756
4.1 RBI's Net Credit to Government	4,187	-37,078	-13	51,360	30,230	93,212	-11,145
4.1.1 RBI's Net Credit to the Centre	5,655	-37,500	1,430	51,379	29,932	93,657	-11,497
4.2 Other Banks' Credit to Government	46,682	1,66,560	36,137	-19,706	99,106	87,356	1,23,902
5 Bank Credit to the Commercial Sector	41,636 (1.6)	27,405 (0.9)	30,811	1,63,138	90,616	1,49,783	1,640
6 NFEA of Banking Sector	56,841	-15,801	66,858	7,271	-1,32,461	1,15,385	-16,750
6.1 NFEA of the RBI	93,915	-15,801	1,03,932	10,336	-1,56,330	86,048	-16,750
7 Government's Currency Liabilities to the Public	225	157	225	206	186	213	157
8 Net Non-Monetary Liabilities of the Banking Sector	11,284	-81,183	44,735	25,890	-72,812	1,25,962	-74,899

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

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



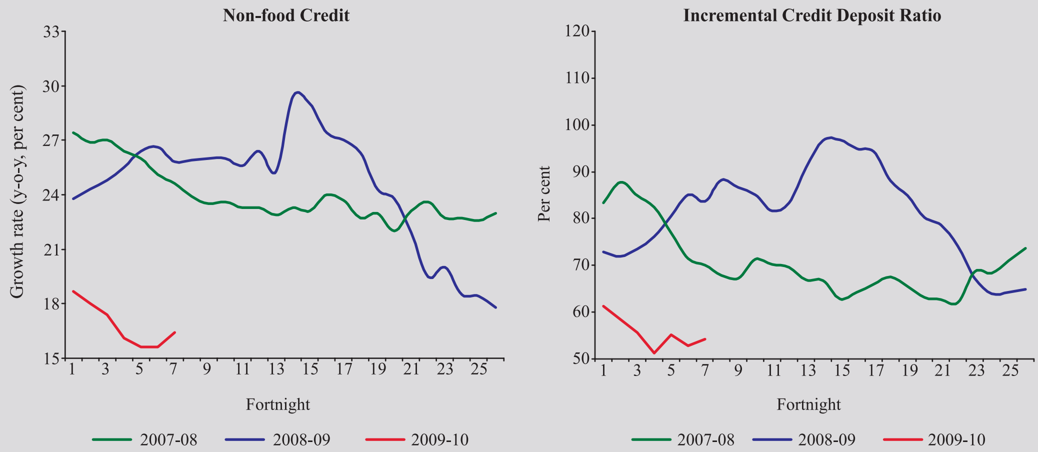
Government from the commercial banks which also includes temporary acquisition of securities from the Reserve Bank under LAF.

IV.7 Non-food credit growth (y-o-y) of scheduled commercial banks (SCBs) that reached its peak in October 2008, witnessed deceleration thereafter. This trend also continued in the first quarter of 2009-10. While it is not unusual for the first quarter to show deceleration in expansion of credit because of seasonal factors, the deceleration was particularly pronounced during the first quarter of 2009-10. This was because of the decline in credit by Rs.18,796 crore to petroleum and fertiliser companies during April-May 2009, as against an increase of Rs.6,530 crore in the corresponding period of the previous year. Since June 2009, some early signs of turnaround in the credit growth could be observed. Non-food credit by SCBs expanded by 16.4 per cent, y-o-y, as on July 3, 2009 as compared with 25.8 per cent a year ago. The lower expansion in credit relative to the expansion in deposits during 2009-10 resulted in a decrease in the incremental credit-deposit ratio (Chart 15).

IV.8 Scheduled commercial Banks' (SCBs') investment in SLR securities as a per cent of their net demand and time liabilities (NDTL) increased during 2009-10 so far. SCBs' investment in SLR securities expanded by 31.5 per cent (y-o-y) as on July 3, 2009 as compared with 19.5 per cent a year ago (Table 29). Commercial banks' holdings of such securities as on July 3, 2009 was at 30.5 per cent of their NDTL as compared with 27.7 per cent a year ago. However, adjusted for LAF collateral securities on an outstanding basis, SCB's holding of SLR securities was 26.9 per cent of their NDTL as on July 3, 2009.

IV.9 The flow of credit from scheduled commercial banks witnessed sizeable moderation (y-o-y) during 2009-10 (up to July 3, 2009) as compared with a year ago. Within the commercial banks the expansion

Chart 15: Scheduled Commercial Banks' Credit



in credit declined sharply for private banks while foreign banks registered a negative growth (Table 30).

IV.10 During 2003-04 to 2008-09, Indian economy experienced an average real GDP growth of 8.5 per cent, average WPI

Table 29: Scheduled Commercial Bank Survey

(Amount in Rupees crore)

Item	Outstanding as on July 3, 2009	Variation (year-on-year)			
		As on July 4, 2008		As on July 3, 2009	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	40,28,707	5,85,449	21.5	7,24,678	21.9
2. Call/Term Funding from Financial Institutions	89,594	20,460	24.8	-13,392	-13.0
3. Overseas Foreign Currency Borrowings	31,610	21,215	84.1	-14,838	-31.9
4. Capital	48,438	9,107	25.4	3,449	7.7
5. Reserves	3,25,389	64,109	30.1	48,092	17.3
Uses of Funds					
1. Bank Credit	27,98,747	4,89,222	25.5	3,93,148	16.3
of which: Non-food Credit	27,41,073	4,82,729	25.8	3,86,195	16.4
2. Investments in Government and Other Approved Securities	13,34,720	1,65,823	19.5	3,19,728	31.5
a) Investments in Government Securities	13,17,926	1,68,691	20.2	3,15,083	31.4
b) Investments in Other Approved Securities	16,794	-2,868	-19.1	4,645	38.2
3. Investments in non-SLR Securities	2,45,195	3,161	1.8	67,934	38.3
4. Foreign Currency Assets	62,109	-28,862	-45.8	27,970	81.9
5. Balances with the RBI	1,96,855	69,889	35.0	-72,626	-27.0

Note: Data are provisional.

Table 30: Credit Flow from Scheduled Commercial Banks

(Amount in Rupees crore)

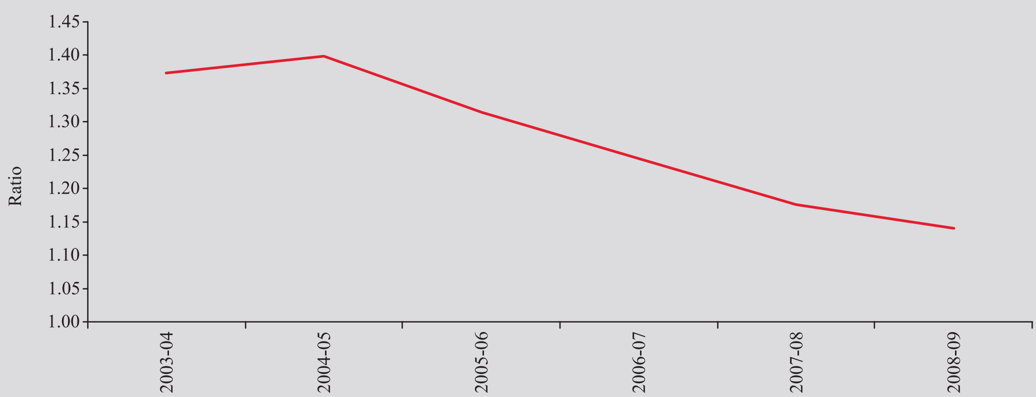
Item	Outstanding as on, July 3, 2009	Variation (year-on-year)			
		As on July 4, 2008		As on July 3, 2009	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
1. Public Sector Banks	20,63,202	3,51,818	26.3	3,71,160	21.9
2. Foreign Banks	1,58,971	42,697	33.3	-12,090	-7.1
3. Private Banks	5,08,707	89,069	22.3	20,409	4.2
4. All Scheduled Commercial Banks*	27,98,747	4,89,222	25.5	3,93,148	16.3

*: Includes Regional Rural Banks.
Note: Data are provisional.

inflation of 5.8 per cent and average money supply growth of 17.9 per cent. Growth and inflation conditions, however, changed significantly during the course of 2008-09, and the broad money growth at 18.6 per cent at end-March 2009 in the face of moderating growth and near zero (year-on-year) inflation has to be seen in the context of significant fall in the velocity of circulation of money or increase in income elasticity of money demand (Chart 16).

IV.11 Disaggregated data on sectoral deployment of gross bank credit available up to May 22, 2009 showed that 47.4 per cent of incremental non-food credit (y-o-y) was absorbed by industry as compared with 43.2 per cent a year ago. The expansion of incremental non-food credit to industry during this period was led by infrastructure, iron & steel, engineering and construction industries. The agricultural sector absorbed 16.9 per cent of the

Chart 16 :Income velocity of Money



incremental non-food bank credit as compared with 10.1 per cent a year ago. Personal loans that accounted for 7.6 per cent of the incremental non-food credit witnessed some moderation; within personal loans, housing loans decelerated to a large extent. Growth in loans to commercial real estate, however, remained high (Table 31).

IV.12 Apart from banks, the commercial sector mobilised resources from a variety

Table 31: Non-food Bank Credit - Sectoral Deployment

(Amount in Rupees crore)

Sector/Industry	Outstanding as on May 22, 2009	Year-on-Year Variations			
		May 23, 2008		May 22, 2009	
		Absolute	%	Absolute	%
1	2	3	4	5	6
Non-Food Gross Bank Credit (1 to 4)	**25,58,250**	**4,23,189**	**24.2**	**3,83,483**	**17.6**
1. Agriculture & Allied Activities	3,29,757	42,745	19.3	64,970	24.5
2. Industry	10,40,363	1,82,857	27.1	1,81,848	21.2
3. Personal Loans	5,57,482	72,777	16.0	29,266	5.5
Housing	2,75,514	31,735	13.8	13,028	5.0
Advances against Fixed Deposits	45,801	3,128	8.0	3,581	8.5
Credit Card Outstanding	26,977	7,116	36.5	381	1.4
Education	28,690	5,914	38.3	7,338	34.4
Consumer Durables	7,997	-534	-6.0	-300	-3.6
4. Services	6,30,648	1,24,810	31.3	1,07,399	20.5
Transport Operators	39,032	9,917	39.1	3,784	10.7
Professional Services	44,665	7,108	28.6	12,723	39.8
Trade	1,42,042	16,902	16.0	19,604	16.0
Real Estate Loans	94,499	17,018	37.7	32,321	52.0
Non-Banking Financial Companies	94,668	27,549	62.0	22,694	31.5
Memo					
Priority Sector	**9,07,956**	**1,27,334**	**20.3**	**1,54,459**	**20.5**
Small Enterprises	2,69,466	84,127	72.1	68,590	34.1
Industry	**10,40,363**	**1,82,857**	**27.1**	**1,81,848**	**21.2**
Food Processing	53,392	13,126	35.1	2,899	5.7
Textiles	1,01,734	16,503	21.3	7,818	8.3
Paper & Paper Products	15,811	2,435	21.4	1,985	14.4
Petroleum, Coal Products and Nuclear Fuels	50,841	18,250	62.8	3,552	7.5
Chemicals and Chemical Products	70,758	13,304	25.5	5,361	8.2
Rubber, Plastic & their Products	13,405	2,261	25.5	2,289	20.6
Iron and Steel.	1,02,439	15,460	24.4	23,605	29.9
Other Metal and Metal Products	30,504	4,873	24.1	5,392	21.5
Engineering	65,266	9,959	23.4	12,715	24.2
Vehicles, Vehicle Parts and Transport Equipments	32,995	6,324	26.7	2,980	9.9
Gems & Jewellery	27,861	1,403	6.0	3,035	12.2
Construction	37,752	5,959	29.6	11,670	44.7
Infrastructure	2,74,758	59,811	41.7	71,427	35.1

Note: Data are provisional and relate to select banks. Data also include the effects of mergers of Bharat Overseas Bank with Indian Overseas Bank, American Express Bank with Standard Chartered Bank and State Bank of Saurashtra with State Bank of India.

of other sources such as capital markets, commercial papers (CPs), non-banking financial companies (NBFCs), financial institutions, external commercial borrowings, American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) and foreign direct investment. During 2008-09 flow of resources from domestic non-bank sources increased while flow of resources from external sources declined sharply as compared with the previous year. Among the domestic non-bank sources, resources raised through systemically important NBFCs, gross private placements by non-financial entities, total gross accommodation by four Reserve Bank-regulated AIFIs and gross investment by LIC increased, while resources raised by other sources declined. Within external sources, resources raised through external commercial borrowing, ADR/GDR issues and short-term credit declined significantly, while investment through FDI routes registered an increase. Thus, besides the decline in the flow of non-food credit during 2008-09 as compared with 2007-08, the flow of resources from non-bank sources also declined substantially, resulting in lower annual flow of financial resources to the commercial sector (Table 32). During

Table 32: Flow of Financial Resources to Commercial Sector

(Rupees crore)

		April-March		April-June	
		2007-08	2008-09	2008-09	2009-10
1		2	3	4	5
A.	**Adjusted non-food Bank Credit (NFC)**	**4,44,807**	**4,21,091**	**30,631**	**5,697**
i)	Non-food credit	4,32,846	4,11,824	37,364	11,735
	of which: petroleum and fertilizer credit	5,057	31,632	6,530*	-18,796*
ii)	Non-SLR investment by SCBs	11,961	9,267	-6,733	-6,038
B.	**Flow from Non-banks (B1+B2)**	**5,87,659**	**4,66,895**	**1,28,490**	**84,969**
B1.	**Domestic Sources**	**2,55,230**	**2,96,679**	**77,138**	**63,984**
1	Public issues by non-financial entities	51,478	14,205	2,031	236
2.	Gross private placements by non-financial entities	68,249	76,184	16,955	29,135
3.	Net issuance of CPs subscribed by non-banks	10,660	5,590	25,104	35,460
4.	Net credit by housing finance companies	41,841	26,634	10,702	-3,792
5.	Total gross accommodation by 4 RBI regulated AIFIs - NABARD, NHB, SIDBI & EXIM Bank	22,267	31,423	-644	-5,513
6.	Systemically important non-deposit taking NBFCs (net of bank credit)	36,460	76,828	21,866*	1,932*
7.	LIC's gross investment in corporate debt, infrastructure and social sector	24,275	65,815	1,124*	6,526*
B2.	**Foreign Sources#**	**3,32,429**	**1,70,216**	**51,352**	**20,985**
1.	External Commercial Borrowings / FCCB	91,180	38,009	6,111	-1,504
2.	ADR/GDR issues excluding banks and financial institutions	34,937	4,788	4,056	215
3.	Short-term credit from abroad	68,878	-31,160	9,636*	416*
4.	Foreign direct investment to India	1,37,434	1,58,579	31,549*	21,858*
C.	**Total Flow of Resources (A+B)**	**10,32,466**	**8,87,986**	**1,59,121**	**90,666**

* : up to May.

2009-10 so far, latest available data indicate that flow of financial resources to the commercial sector was lower as compared with the corresponding period of the previous year.

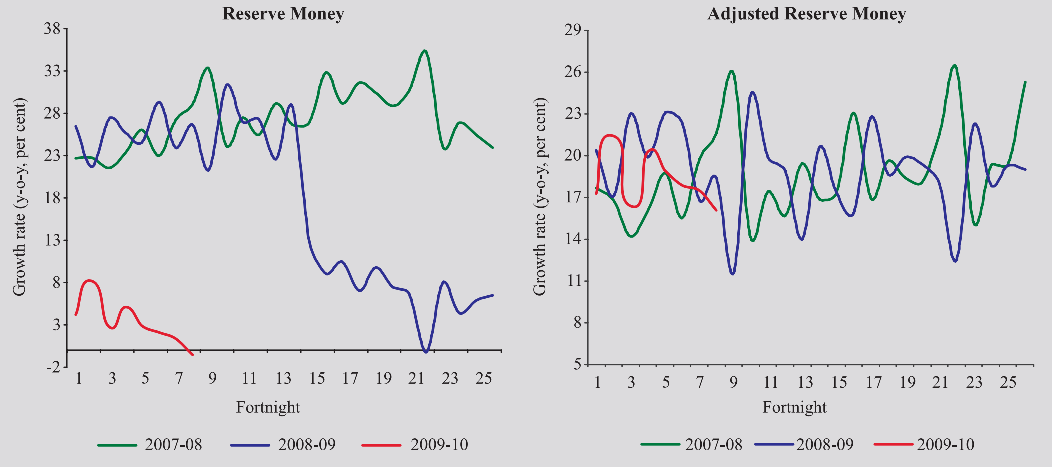
Reserve Money Survey

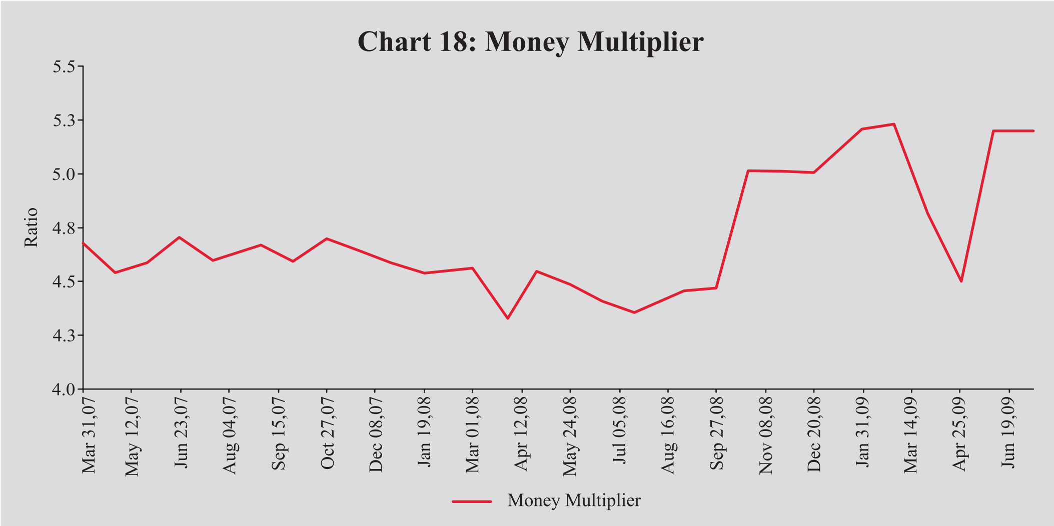
IV.13 Reserve money registered a decline of 0.6 per cent, y-o-y, as on July 17, 2009 as compared with an increase of 26.6 per cent a year ago. In the context of sharp changes in CRR during 2008-09, it is more appropriate, for analytical purposes, to compare reserve money movements adjusted for CRR. The decline in reserve money should not be interpreted as an indication of monetary contraction, since it reflects the impact of a deliberate expansionary monetary policy action in the form of reduction in CRR. While a reduction in CRR may lead to a corresponding fall in reserve money in the first round, the higher money multiplier resulting from lower CRR leads to higher growth in broad money, though with a lag. The adjusted reserve money, thus, makes the trends over time more comparable, since they are adjusted for policy induced changes to the reserve money. Adjusted for the first round effect of the changes in CRR, reserve money growth (y-o-y) as on July 17, 2009 was 16.1 per cent as compared with 18.4 per cent a year ago (Chart 17).

IV.14 The money multiplier, which had declined from 4.7 at end-March 2007 to 4.3 at end-March 2008 in the wake of CRR hikes, increased to 5.2 as on March 31, 2009, reflecting subsequent lowering of CRR by 400 basis points. The money multiplier, however, had declined to 4.5 as at end-April 2009 reflecting large excess cash holdings by banks. The money multiplier reverted to its trend by June 2009 (Chart 18).

IV.15 On a financial year basis during 2009-10 (up to July 17, 2009) reserve money declined by 4.2 per cent as against an increase of 2.5 per cent in the

Chart 17: Reserve Money Growth





corresponding period of the previous year (Table 33). On the sources side, net Reserve Bank credit to the Centre decreased while net foreign exchange assets (adjusted for valuation) increased marginally. Net Reserve Bank's credit to the Centre decreased by Rs.19,780 crore (up to July 17, 2009) as against an increase of Rs.55,581 crore during the corresponding period of the previous year. The Reserve Bank's foreign currency assets (adjusted for valuation) increased by Rs.3,977 crore as against a decrease of Rs.18,139 crore during the corresponding period of the previous year (Chart 19). Adjusted for the first round impact of the changes in CRR (up to July 17, 2009), reserve money declined by 4.1 per cent as compared with a declined of 1.7 per cent during the corresponding period of the previous year.

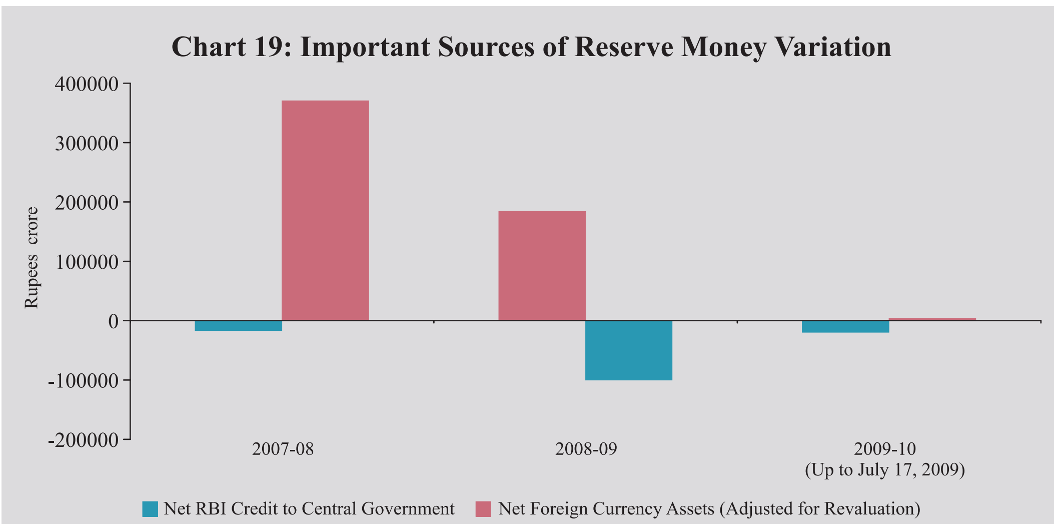


Table 33: Reserve Money - Variations

(Amount in Rupees crore)

Item	2008-09 (April-March)	2008-09 (Up to July 18)	2009-10 (Up to July 17)	2008-09 Q1	2008-09 Q2	2008-09 Q3	2008-09 Q4	2009-10 Q1
1	2	3	4	5	6	7	8	9
Reserve Money	59,698	23,612	-41,563	3,416	25,218	-70,452	1,01,516	-37,443
		(2.5)	(-4.2)					
(Adjusted Reserve Money)		*(-1.7)*	*(-4.1)*					
Components (1+2+3)								
1. Currency in Circulation	1,00,352	35,043	23,428	36,859	-14,516	38,277	39,733	29,595
		(5.9)	(3.4)					
2. Bankers' Deposits with RBI	-37,172	-7,481	-65,057	-29,333	39,219	-1,15,773	68,714	-72,664
		(-2.3)	(-22.3)					
3. 'Other' Deposits with the RBI	-3,482	-3,950	66	-4,110	514	7,045	-6,931	5,626
		(-43.6)	(1.2)					
Sources (1+2+3+4-5)								
1. RBI's net Credit to Government	1,74,789	54,113	-19,640	-13	51,360	30,230	93,212	-11,145
of which: to Centre (i+ii+iii+iv-v)	1,76,397	55,581	-19,780	1,430	51,379	29,932	93,657	-11,497
2. RBI's Credit to Banks and Commercial Sector	17,799	-873	-11,779	-3,358	4,963	5,032	11,163	-9,623
3. Net Foreign Exchange Assets of RBI	43,986	75,552	10,262	1,03,932	10,336	-1,56,330	86,048	-16,750
		(6.1)	(0.8)					
of which : FCA, adjusted for revaluation	-1,00,308	-18,139	3,977	15,535	-31,641	-92,102	7,900	-6,245
4. Governments' Currency Liabilities to the Public	831	289	157	225	206	186	213	157
5. Net Non-Monetary Liabilities of RBI	1,77,706	1,05,470	20,564	97,369	41,648	-50,431	89,120	81
Memo:								
Net Domestic assets	15,712	-51,940	-51,825	-1,00,516	14,882	85,878	15,468	-20,692
LAF- Repos (+) / Reverse Repos(-)	-51,835	-16,025	-1,39,175	-45,350	51,480	-62,170	4,205	-1,32,800
Net Open Market Sales # *	-94,548	-18,183	-43,658	-8,696	-10,535	-7,669	-67,649	-42,001
Centre's Surplus	-60,367	-56,919	-9,547	-42,427	6,199	-32,830	8,691	-13,156
Mobilisation under the MSS	-80,315	3,047	-66,101	6,040	-628	-53,754	-31,973	-65,187
Net Purchases(+)/Sales(-) from Authorised Dealers	-1,78,592	-35,749	-18,966 ^	3,956	-52,761	-1,11,877	-17,910	-18,966 ^
NFEA/Reserve Money @	129.6	137.8	136.3	143.8	141.1	134.7	129.6	132.9
NFEA/Currency @	185.2	209.6	180.6	213.5	220.2	183.3	185.2	175.3

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 May 29, 2009.

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.

IV.16 Movements in the Reserve Bank's net credit to the Central Government during 2009-10 (up to July 17, 2009) largely reflected the liquidity management operations of the Reserve Bank and changes in Central Government deposits with the Reserve Bank. Liquidity condition eased from mid-November 2008, and on an average, Reserve Bank started absorbing large amount of liquidity through reverse repo under the LAF. Accordingly, Reserve Bank's holding of government securities (up to July 17, 2009) declined on account of an increase in absorption under LAF (Rs.1,39,175 crore). On the other hand, unwinding of MSS securities (Rs.66,101 crore) led to a decline in Central Government deposits with the Reserve Bank and, therefore increased net Reserve Bank credit to the Centre. The Centre's surplus cash balances with the Reserve Bank also decreased (Rs.9,547 crore). Furthermore, net open market purchases under OMO/special market operations (SMO) led to higher holding of Central Government securities/bonds (Rs.43,658 crore) by the Reserve Bank. Reflecting combined effect of these developments, the Reserve Bank's net credit to the Centre decreased during 2009-10 (up to July 17, 2009) as against an increase during the corresponding period of the previous year.

IV.17 To sum up, broad money continued to exhibit high growth during 2009-10 (up to July 3, 2009), reflecting large market borrowing programme of the Government on the sources side and high growth in deposits on the component side of monetary aggregates. Sustained moderation in non-food credit growth since October 2008 gave banks additional space to subscribe to the government securities; since end-May 2009, however, some early sign of turnaround in the credit growth could be observed.

V. FINANCIAL MARKETS

The uncertainty about the depth and duration of the global economic recession continued to influence financial markets, though policy measures aimed at stabilising the markets appear to have gained some traction over the period. By the second quarter of 2009, the international markets gained a modicum of stability upon greater public policy action, however, some segments of financial market still appear vulnerable. The Indian markets had functioned normally even during the peak of the financial crisis, and by November 2008, the excessive volatility was contained through appropriate policy response from the Reserve Bank. With receding risks and volatility, the markets improved further in the first quarter of 2009-10 as spreads narrowed significantly and market activity picked up. Reflecting ample liquidity and lower policy rates, the call rate hovered around the LAF reverse repo rate. In the commercial paper market, interest rates moderated. Taking cues from the global developments and the domestic political stability, equity markets regained a large part of the market wealth that had been eroded following the Lehman episode. Resumption of capital flows in the first quarter of 2009-10 reversed the trend of depreciating rupee. The yield curve steepened at the short end, reflecting abundant liquidity, while the medium to long-term yield increased exhibiting mainly the concerns of large government borrowing.

V.1 The global financial markets that remained under stress till Q1 of 2009, witnessed reduction in volatility and risk spreads in Q2 with rebound in activity in some market segments. The flow of new macroeconomic data indicating possible moderation in the pace of slowdown in real activity, better clarity in the rescue plans for the financial sector and on the extent of losses of some major banks, led to resumption of risk appetite and, hence, notable rally in stock prices in the advanced economies. The expected bottoming out of the slowdown in some of the EMEs and the global trends led to a quick rebound in the equity markets across these countries. The comfortable liquidity conditions in money markets along with the further reduction in the policy rates in some of the advanced economies led to continued moderation in the money market rates and restored a semblance of normalcy in the various segments of the market with narrowing spreads. Notwithstanding, according to the Global Financial Stability Report update of the IMF (July 2009), sluggish credit growth in advanced economies, impaired securitisation markets, credit constrain for low quality borrowers, and mounting fiscal burden entail some vulnarabilities. The improving investor risk appetite towards the EMEs was reflected in the significant narrowing of bond spreads. The government bond yields although moderated in response to ample liquidity in the system, the retreat from safe haven concerns and worries about the ballooning deficits and public debt led to hardening of the long-term bond yields.

V.2 The Indian markets, which continued to function normally even during the global financial crisis, witnessed significant reduction in volatility and risk aversion in the first quarter of 2009-10. The sustained policy easing had ensured the return of the overnight money market rates below the upper bound of the Liquidity Adjustment Facility (LAF) corridor. The spreads on various money market segments narrowed significantly and there was a general improvement in the market activity. The resumption in capital flows also enhanced the foreign exchange liquidity and led to appreciation of the domestic currency. The equity markets, on the positive global cues (as mentioned earlier), acceleration in the pace of capital flows to India, positive news on domestic real activity with the fourth quarter of 2008-09 GDP growth turning out higher than expected, and greater political stability, exhibited rebound and outperformed most of the EMEs' and advanced countries' equity markets. There was, however, some correction in equity prices following the Union Budget and the delayed progress of the monsoons. Subsequently, the equity prices resumed their upward trend. The yield curve although initially shifted southward in response of easy liquidity conditions, started northward movement in the subsequent period, particularly in the medium to long-term tenor, reflecting the market response to the large Government borrowing programme.

International Financial Markets

V.3 The global financial markets, after experiencing one of the most severe shocks, witnessed signs of stabilisation in Q2 of 2009 with rebound in activity in some of the market segments. The incipient signs of slowdown in the pace of deterioration of economic conditions in the advanced economies, better than expected corporate performance and confidence building measures by the governments and central banks helped in bolstering general confidence in the markets. The positive outcomes were reflected in a general rise in the investor risk appetite leading to significant recovery in equity prices from their lowest levels in October 2008, narrowing down of credit spreads in some market segments and a decline in the implied volatilities (Chart 20). A series of policy induced measures contributed to waning of market uncertainty and helped stabilise the financial markets in Q2 of 2009. These include further steps by the central banks to ease monetary conditions, the action plan of the G-20 announced in April 2009, publication of the specific rescue package plans for banks, particularly in the US and the UK, and the release of the results of US Fed's bank stress-tests based action plan.

V.4 The central banks continued to ease monetary conditions with the ECB cutting its main refinancing rate by 50 basis points (in May 2009) to a low of one per cent. In the Q2 of 2009, the actions of central banks, including a number of unconventional measures led to drop in treasury yields in advanced economies, mostly at the short end. Although long-term yield moderated for a while, it started hardening due to a number of developments such as return of the risk appetite and retreat from flight to safety among the investors, the concerns arising from rising fiscal deficits and mounting debt burden due to large rescue plans of the governments and sharply declining tax revenues due to recessionary conditions. Developments in interbank markets witnessed narrowing of spreads, with Libor-OIS (overnight index swap) spread and foreign exchange swap spreads showing gradual narrowing down between end-February and end-May 2009.

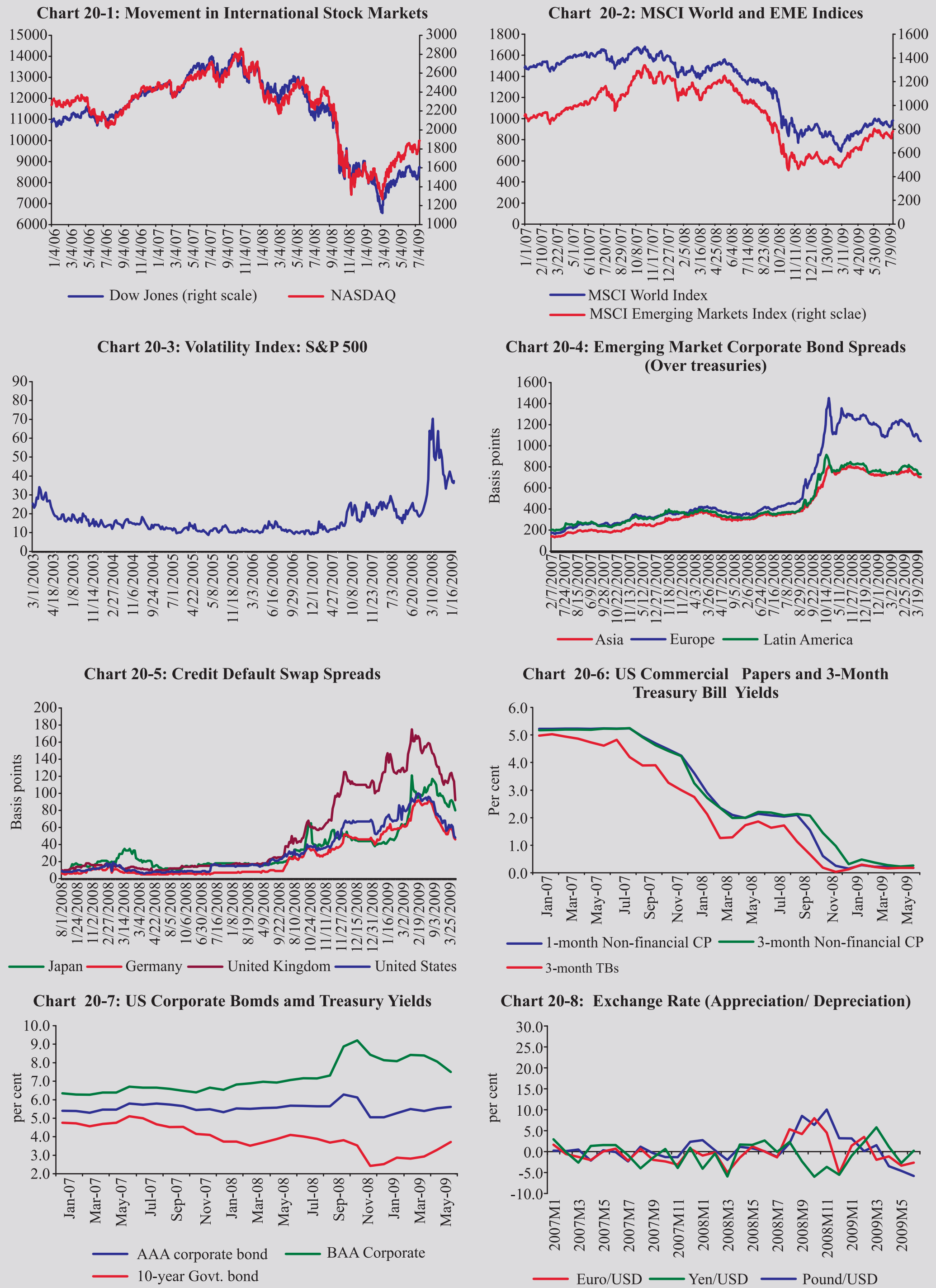
V.5 The equity markets in developed countries as well as EMEs witnessed perceptible recovery since March 2009, with intermittent decline on negative news (Chart 20-1, 2 and 3). Although activity in most economies continued to remain weak with declining output, markets rallied on the macroeconomic data that indicated moderation in the pace of deterioration in economic activity and some early indications of bottoming out in some economies. The Baltic Dry Index, which measures the volume of dry shipping cargo movement and is generally used as an indicator of global economic activity, started moving upward significantly. Between March and July 17, 2009, NASDAQ rose by 23.4 per cent, though marked by intermittent volatility due to occasional adverse news. The rally in the stock markets was somewhat broad-based covering financials, industrials and consumer durables, underpinned by improved corporate earning expectations and reduction in uncertainty in the financial sector due to clear public policy actions.

V.6 In the credit market also, investor risk tolerance increased in Q2 with US banks' credit spreads declining upon public policy action and signs of stabilisation of markets and there was also a generalised decline in risk perception towards EMEs (Chart 20-4 and 5). The spreads, however, continued to remain higher than the pre-Lehman level and weaknesses were evident in the asset backed securities (ABS) and commercial paper (CP) markets. Improving outlook for defaults was reflected in narrowing CDS spreads in Q2 of 2009 across the developed markets. Reflecting the easing pressure on short-term funding markets, the CP spreads witnessed easing (Chart 20-6) and spread on lower rated corporate bonds also moderated (Chart 20-7).

V.7 The investor appetite for EME equities rebounded with MSCI increasing by 41.5 per cent between end-March and July 22, 2009, with a few EME stock markets recovering to the pre-Lehman levels (Table 34). In the foreign exchange market, the appreciating trend of the US dollar witnessed in 2008-09 was reversed with the US dollar depreciating against most currencies during 2009-10 (up to July 21, 2009) (Chart 20-8). Between end-March 2009 and July 21, 2009, the US dollar depreciated by 6.4 per cent, 12.6 per cent and 4.2 per cent against the euro, the pound sterling and the Japanese yen, respectively. Among the Asian currencies, it depreciated against the Indian rupee, Indonesian rupiah, Malaysian ringgit, South Korean won and Thai baht (Table 34).

V.8 Notwithstanding the improvement in global financial markets, the international financial system still remains

Chart 20: Indicators of Global Financial Market Developments



Source: Global Financial Stability Report and World Economic Outlook databases, IMF and the Bloomberg.

Table 34: Currency and Stock Price Movement in EMEs

(Per cent)

Appreciation (+)/Depreciation (-) of the US Dollar			
Items	End-March 2008 @	End-March 2009 @	July 21, 2009*
1	2	3	4
Chinese Yuan	-9.3	-2.6	-0.1
Russian Ruble	-9.7	44.3	-8.0
Turkish Lira	-5.8	27.7	-10.0
Indian Rupee	-8.3	27.5	-5.3
Indonesian Rupiah	1.1	25.6	-13.2
Malaysian Ringgit	-7.8	14.4	-2.9
South Korean Won	5.5	38.9	-8.0
Thai Baht	-10.2	12.9	-4.2
Argentinian Peso	2.1	17.3	2.6
Brazilian Real	-17.0	31.2	-14.9
Mexican Peso	-3.5	32.9	-5.9
South African Rand	11.3	17.2	-17.5
Stock Price Variations			
	End-March 2008@	End-March 2009@	July 22, 2009*
Indonesia (Jakarta Composite)	33.7	-41.4	48.2
Brazil (Bovespa)	33.1	-32.9	29.7
Thailand (SET)	21.3	-47.2	38.6
India (BSE Sensex)	19.7	-37.9	52.9
South Korea (KOSPI)	17.3	-29.2	23.9
China (Shanghai Composite)	9.1	-31.7	38.9
Taiwan (Taiwan Taiex)	8.7	-39.2	34.1
Russia (RTS)	6.1	-66.4	39.6
Malaysia (KLCI)	0.1	-30.1	31.6
Singapore (Straits Times)	-4.9	-43.5	44.2
Memo:			
EME (MSCI)	18.9	-48.4	41.5
World (MSCI)	-5.1	-44.0	24.8
US (Dow Jones)	-0.7	-38.0	16.7

@ : Year-on-year variation. * : Variation over end-March 2009.

Source: 1. Bloomberg.
2. International Financial Statistics, IMF.

fragile on account of heavy dependence on the public support, rising concerns emanating from mounting debt burden of countries, and the lack of clarity about the future exit strategies from monetary easing and fiscal support.

Domestic Financial Markets

V.9 Reflecting the impact of the measures taken by the Reserve Bank, the Indian financial markets returned to normalcy much earlier than the international financial markets. Call rates in the money market have settled back into the informal LAF corridor since November 2008, having breached the upper bound in the preceding two months. In the foreign exchange market, the Indian rupee generally depreciated against major currencies up to the end of the financial year 2008-09, before appreciating in the first quarter of 2009-10, as the capital flows resumed. In the credit market, the lending rates of scheduled commercial banks (SCBs) began to soften at a gradual pace since November 2008. The activity in the government securities market was subdued for most of Q4 of 2008-09, however, the volume picked up in Q1 of 2009-10 and yields rose, particularly of the medium to long-term maturity. Indian equity markets, picking up global cues, staged recovery in the last week of March 2009, which continued in Q1 of 2009-10 (Table 35).

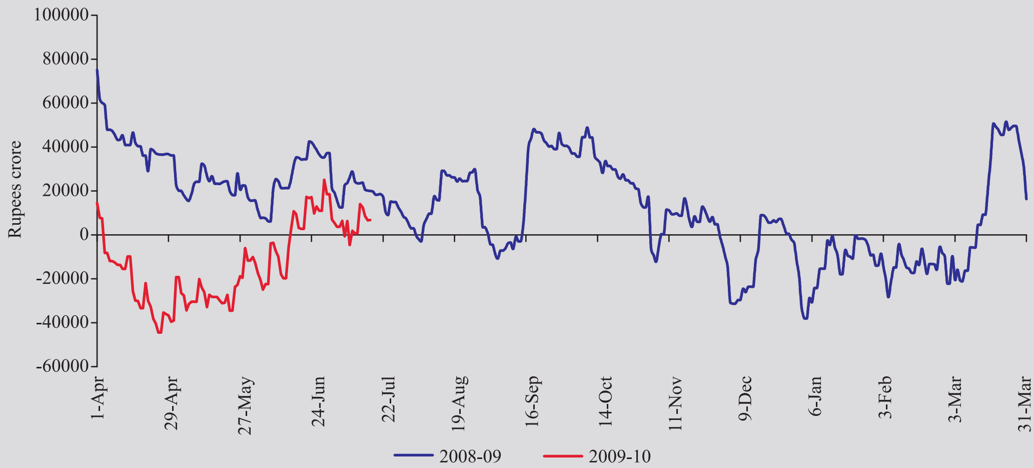
Table 35: Domestic Financial Markets at a Glance

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 MSS Out-standing# (Rs. crore)	Average Daily Reverse Repo (LAF) Out-standing (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. crore)	Average BSE Sensex**	Average S&P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2006-07	**21,725**	**7.22**	**4,863**	**7.78**	**18,540**	**45.28**	**26,824 ##**	**37,698**	**21,973**	**3,866**	**7,812**	**12277**	**3572**
2007-08	**21,393**	**6.07**	**8,104**	**7.91**	**34,044**	**40.24**	**78,203 ##**	**1,28,684**	**4,677**	**6,275**	**14,148**	**16569**	**4897**
2008-09	**22,436**	**7.06**	**7,176**	**7.54**	**34,707**	**45.92**	**-34,922 ##**	**1,48,889**	**2,885**	**4,498**	**11,325**	**12366**	**3731**
Apr 2008	19,516	6.11	6,657	8.10	37,580	40.02	4,325	1,70,726	26,359	5,773	13,561	16291	4902
May 2008	19,481	6.62	6,780	8.04	32,287	42.13	148	1,75,565	11,841	6,084	13,896	16946	5029
Jun 2008	21,707	7.75	6,835	8.43	36,588	42.82	-5,229	1,74,433	-8,622	5,410	12,592	14997	4464
Jul 2008	24,736	8.76	5,474	9.18	38,862	42.84	-6,320	1,72,169	-27,961	5,388	12,862	13716	4125
Aug 2008	23,408	9.1	7,498	9.06	38,388	42.94	1,210	1,71,944	-22,560	4,996	11,713	14722	4417
Sep 2008	23,379	10.52	10,418	8.45	44,700	45.56	-3,784	1,75,666	-42,591	5,147	12,489	13943	4207
Oct 2008	28,995	9.9	4,321	7.85	36,999	48.66	-18,666	1,69,123	-45,612	3,911	10,810	10550	3210
Nov 2008	21,812	7.57	5,866	7.41	31,322	49.00	-3,101	1,47,648	-8,017	3,539	9,618	9454	2835
Dec.2008	21,641	5.92	11,451	5.55	34,874	48.63	-318	1,24,848	22,294	3,851	10,141	9514	2896
Jan 2009	18,496	4.18	9,568	5.84	27,171	48.83	-29	1,13,535	45,474	3,526	9,559	9350	2854
Feb 2009	22,241	4.16	5,916	5.98	24,840	49.26	230	1,02,934	50,649	2,859	7,887	9188	2819
March 2009	23,818	4.17	5,322	6.59	32,876	51.23	-3,388	88,077	33,360	3,489	10,140	8995	2802
April 2009	21,820	3.28	7,998	6.55	27,497	50..06	-2,487	75,146	1,01,561	5,232	15,688	10911	3360
May 2009	19,037	3.17	7,292	6.41	32,156	48.53	-1,437	45,955	1,25,728	6,427	19,128	13046	3958
June 2009	17,921	3.21	7,288	6.83	32,086	47.77	–	27,140	1,23,400	7,236	21,928	14782	4436

* : 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.
MSS : Market Stabilisation Scheme.
BSE : Bombay Stock Exchange Limited.
NSE : National Stock Exchange of India Limited .
– : Not available.

Note : In column 10, (-) indicates injection of liquidity, while (+) indicates absorption of liquidity.

Chart 21: Cash Balances of the Central Government



Liquidity Conditions

V.10 Against the backdrop of global and domestic developments, the Reserve Bank carried forward its stance of maintaining comfortable liquidity in the system. The ample liquidity was also reflected in the large build up of reverse repo balances with the Reserve Bank. The policy rates were reduced further by 25 basis points in April 2009. Liquidity conditions eased significantly during Q1 of 2009-10, mainly reflecting the MSS unwinding, Open Market Operation (OMO) and decline in cash balances of the Central Government with the Reserve Bank, notwithstanding higher market borrowings. In order to ensure smooth government market borrowings, the Reserve Bank expressed its intention to purchase government securities amounting to Rs.80,000 crore under the OMO programme for the first half of 2009-10.

Cash Management of the Government

V.11 During 2009-10 (up to June 30), the Central Government took recourse to ways and means advances (WMA) and overdrafts (OD), while it was holding surplus cash balances all through the corresponding period of the previous year (Chart 21 and Table 36). This reflected, *inter alia*: (i) the lower level of outstanding surplus cash balance as at end-March 2009, and (ii) the increased drawdown of surplus cash balances by States during Q1 of 2009-10. The cash balance turned positive on June 16, 2009 on account of the quarterly advance tax inflows.

Table 36: Cash Management of the Central Government

	2007-08	2008-09	2009-10*
1	2	3	4
Number of Days			
WMA	91	109	76
OD	27	40	28
Cash Deficit	91	109	76
Average Utilisation (Rupees crore)			
WMA	3,605	2,077	11,128
OD	645	1,823	4,185

*: Up to July 22.

Liquidity Management

V.12 The money market continued to witness further easing of liquidity during Q1 of 2009-10 mainly on account of: (i) MSS unwinding (around Rs.65,000 crore including de-sequestering of Rs.28,000 crore); (ii) OMO auction-based purchases (Rs.28,189 crore); and (iii) decline in Central Government cash balances (around Rs.3,400 crore) (Chart 22 and Table 37). The outstanding amount under the reverse repo window of the LAF peaked at Rs.1,45,770 crore during Q1 of 2009-10 (on May 8, 2009). The net absorption increased further to Rs.1,56,655 crore (both LAF and SLAF) on July 3, 2009. The liquidity availed under the foreign exchange swap facility and term repo facility generally declined during April-June 2009. The LAF rates, *i.e.*, repo and reverse repo, were further reduced by 25 basis points effective from April 21, 2009 to 4.75 per cent and 3.25 per cent, respectively.

V.13 On a review of the liquidity conditions, it was decided that only one

Table 37: Liquidity Position

(Rupees crore)

Outstanding as on Last Friday	LAF	MSS	Centre's Surplus with the RBI @	Total (2 to 4)
1	2	3	4	5
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	-56,480	1,73,804	40,358	1,57,682
October	-73,590	1,65,187	14,383	1,05,980
November	-9,880	1,32,531	7,981	1,30,632
December	14,630	1,20,050	3,804	1,38,484
2009				
January	54,605	1,08,764	-9,166	1,54,203
February	59,820	1,01,991	-9,603	1,52,208
March*	1,485	88,077	16,219	1,05,781
April	1,08,430	70,216	-40,412	1,38,234
May	1,10,685	39,890	-6,114	1,44,461
June	1,31,505	22,890	12,837	1,67,232
July 17	1,40,660	21,976	6,672	1,69,308

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

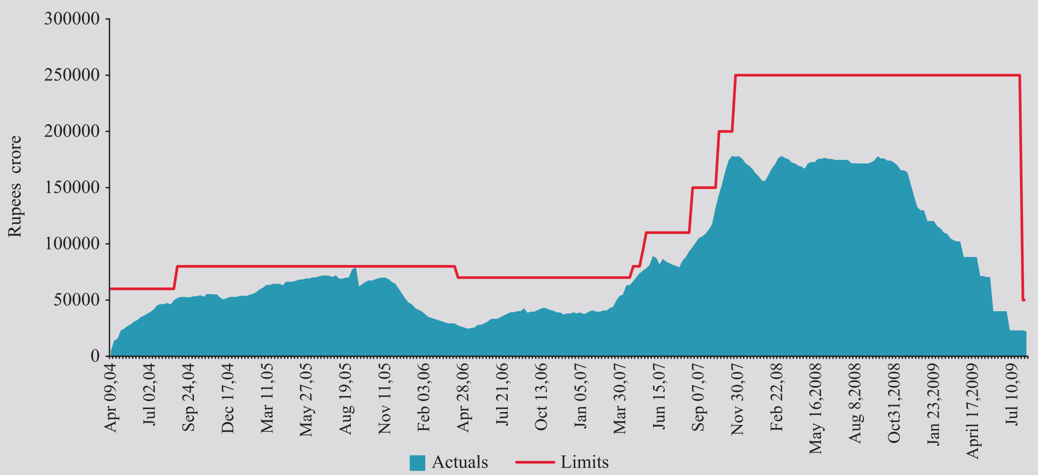
* : Data pertain to March 31.

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

2. The Second LAF, conducted on a daily basis from September 17, 2008 to May 5, 2009 is being conducted only on reporting Fridays from May 8, 2009.

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

Chart 22: Market Stabilisation Scheme



LAF would be conducted with effect from May 6, 2009 and the second LAF would be conducted only on reporting Fridays. The average daily net absorption under the LAF continued to remain over Rs.1,00,000 crore during June 2009, notwithstanding advance tax collections around the middle of the month. During Q1 of 2009-10, the monetary easing continued in the form of OMO purchases and unwinding of MSS. Despite the large market borrowing programme, the surplus liquidity in the system was reflected in the large absorption through reverse repo (Table 38).

Money Market

V.14 As before, the money market continued to remain orderly during Q1 of 2009-10. The call money rate began declining from the beginning of the quarter mainly due to significant easing of liquidity conditions on account of decline in government surplus, MSS unwinding and OMOs as well as reduction by 25 basis points in the LAF policy rates announced in April 2009. Thus, reflecting the surplus liquidity and lower policy rates, call rate continued to hover around the reverse repo rate during Q1 of 2009-10 at 3.2 per cent as compared with 4.2 per cent during the last quarter of 2008-09 (Chart 23). The average call rate was placed at 3.2 per cent for July 2009 (up to July 23).

V.15 Interest rates in the collateralised segments of the money market - the market repo (outside the LAF) and the collateralised borrowing and lending obligation (CBLO) – also moderated in tandem with the call rate during Q1 of 2009-10 and continued to remain below the call

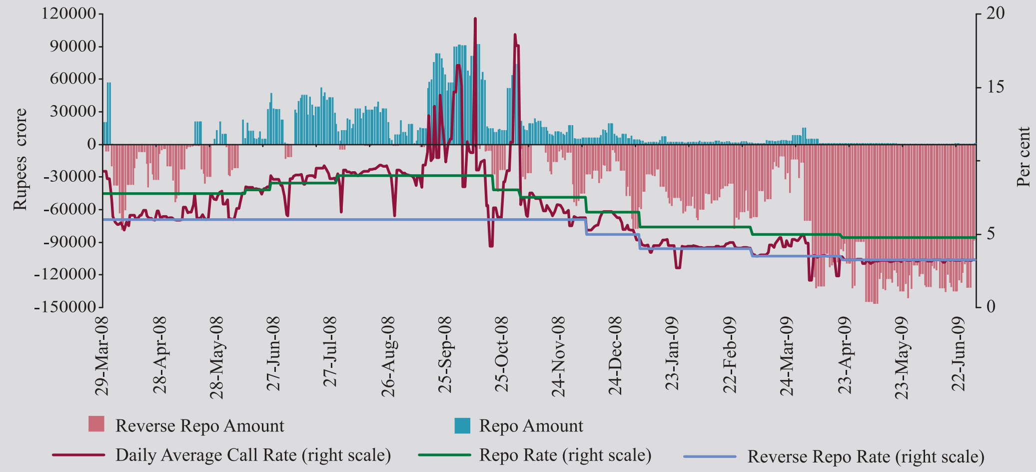
Table 38: Reserve Bank's Liquidity Management Operations

(Rupees crore)

Item	2007-08	2008-09	2008-09				2009-10	
			Q1	Q2	Q3	Q4	April	May
1	2	3	4	5	6	7	8	9
A. Drivers of Liquidity (1+2+3+4)	**2,03,010**	**-1,67,708**	**6,061**	**-18,851**	**-1,01,278**	**-53,640**	**16,842**	**-49,573**
1. RBI's net Purchase from Authorised Dealers	3,12,054	-1,78,592	-8,555	-40,249	-1,12,168	-17,620	-5,695	-13,271
2. Currency with the Public	-85,587	-97,921	-30,063	12,360	-40,070	-40,147	-21,157	-2,629
3. a. Surplus Cash balances of the Centre with the Reserve Bank	-26,594	60,367	40,073	-3,845	36,554	-12,415	16,219	0
b. WMA and OD	0	0	0	0	0	0	40,412	-34,298
4. Others (residual)	3,137	48,438	4,606	12,884	14,406	16,542	-12,937	625
B. Management of Liquidity (4+5+6+7)	**-1,17,743**	**2,35,209**	**-37,659**	**7,217**	**1,33,325**	**1,32,326**	**-69,754**	**45,245**
4. Liquidity impact of LAF Repos	21,165	-51,835	-18,260	24,390	-71,110	13,145	-1,06,945	-2,255
5. Liquidity impact of OMO (net)*	13,510	1,04,480	14,642	11,949	10,681	67,208	19,330	17,174
6. Liquidity impact of MSS	-1,05,418	80,314	-6,041	628	53,754	31,973	17,861	30,326
7. First round liquidity impact due to CRR change	-47,000	1,02,250	-28,000	-29,750	1,40,000	20,000	0	0
C. Bank Reserves (A+B) #	**85,267**	**67,501**	**-31,598**	**-11,634**	**32,047**	**78,686**	**-52,912**	**-4,328**

(+) : Indicates injection of liquidity into the banking system.
(-) : Indicates absorption of liquidity from the banking system.
* : Includes oil bonds but excludes purchases of government securities on behalf of State Governments.
# : Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.
Note : Data pertain to March 31 and last Friday for all other months.

Chart 23: Liquidity Adjustment Facility

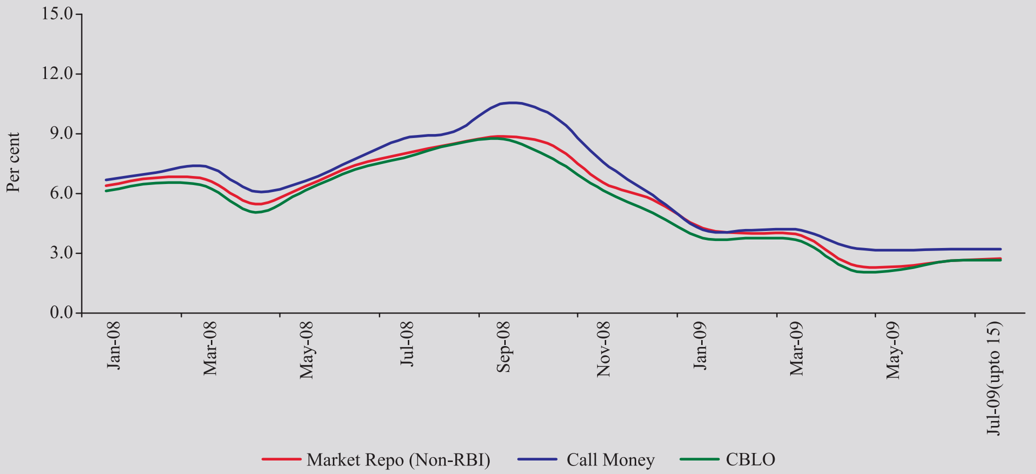


rate (Chart 24). The weighted average interest rate in the collateralised segment of the money market moderated further to 2.4 per cent during Q1 of 2009-10 from 3.8 per cent during Q4 of 2008-09. Transaction volumes in CBLO and market repo segments continued to remain at a relatively high level during Q1 of 2009-10. Around 75 per cent of the lending in the collateralised segment was contributed by the mutual funds, which reflected their enhanced lending capacity. The collateralised market remained the predominant segment of the money market, and accounted for more than 80 per cent of the total volume in the money market.

Certificates of Deposit

V.16 The certificates of deposit (CDs) issued by SCBs, which picked up

Chart 24: Money Market Interest Rates



momentum in Q4 of 2008-09, increased in Q1 of 2009-10, reflecting the general improvement in liquidity with the investors such as mutual funds and financial institutions. The outstanding amount of CDs as on June 19, 2009 accounted for 7.4 per cent of total aggregate deposits of the issuing banks. The overall weighted average discount rate (WADR) of CDs moderated by about 260 basis points between March and June 2009 in line with the other money market rates (Table 39).

Commercial Paper

V.17 The volume in the CP market increased significantly from its lowest levels in December 2008, with a significant pick up in Q1 of 2009-10, reflecting the revival of demand for funds by the NBFCs and working capital demand by the corporates (Tables 39 and 40). Mutual funds were the major investors in the CP market and the preferred tenor of CP issuances was 6 months to 1 year. Despite pick up in volumes, moderation in interest rates on CPs continued in Q1 of 2009-10, with a decline of 468 basis points over March 2009.

Treasury Bills

V.18 The Treasury Bills, which were issued for enhanced amount in 2008-09 and were due for redemption, were rolled over in Q1 of 2009-10. On a review of cash position of the Government, the maturing

Table 39: Activity in Money Market Segments

(Rupees crore)

Year/Month	Average Daily Volume (One Leg)						Commercial Paper		Certificates of Deposit	
	Call	Market Repo	CBLO	Total (2+3+4)	Money Market Rate* (per cent)	Term Money Market	Outstanding	WADR (Per cent)	Outstanding	WADR (Per cent)
1	2	3	4	5	6	7	8	9	10	11
2007-08	**10,697**	**13,684**	**27,813**	**52,194**	**5.48**	**352**	**33,813**	**9.20**	**1,17,186**	**8.94**
2008-09	**11,218**	**14,330**	**30,776**	**56,323**	**6.43**	**397**	**47,183**	**10.54**	**1,62,574**	**9.31**
2008										
April	9,758	14,966	38,828	63,552	5.31	374	37,584	8.85	1,50,865	8.49
May	9,740	14,729	36,326	60,795	6.29	420	42,032	9.02	1,56,780	8.95
June	10,854	11,262	35,774	57,890	7.35	253	46,847	10.03	1,63,143	9.16
July	12,368	8,591	23,669	44,628	8.09	226	51,569	10.95	1,64,892	10.23
August	11,704	10,454	22,110	44,268	8.65	501	55,036	11.48	1,71,966	10.98
September	11,690	10,654	20,547	42,891	9.26	335	52,038	12.28	1,75,522	11.56
October	14,497	9,591	16,818	40,906	8.66	345	48,442	14.17	1,58,562	10.00
November	10,906	15,191	24,379	50,476	6.58	319	44,487	12.42	1,51,493	10.36
December	10,820	16,943	32,261	60,024	5.37	415	40,391	10.70	1,51,214	8.85
January	9,248	18,053	31,794	59,095	3.99	454	51,668	9.48	1,64,979	7.33
February	11,121	19,929	38,484	69,534	3.89	669	52,560	8.93	1,75,057	6.73
March	11,909	21,593	48,319	81,821	3.76	451	44,171	9.79	1,92,867	7.53
2009										
April	10,910	20,545	43,958	75,413	2.41	332	52,881	6.29	2,10,954	6.48
May	9,518	22,449	48,505	80,472	2.34	338	60,740	5.75	2,18,437	6.20
June	8,960	21,694	53,553	84,207	2.69	335	67,239+	5.11+	2,21,491	4.90

* : Weighted average rate of the call, market repo and CBLO.
+ : As on June 15, 2009.
WADR : Weighted Average Discount Rate.

Table 40: Commercial Paper-Major Issuers

(Rupees crore)

Category of Issuer	End of				
	June 2008	September 2008	December 2008	March 2009	June 2009*
1	2	3	4	5	
Leasing and Finance	34,957	39,053	27,965	27,183	35,436
	(74.6)	(75.0)	(73.5)	(61.5)	(52.7)
Manufacturing	8,150	9,925	6,833	12,738	24,238
	(17.4)	(19.1)	(18.0)	(28.9)	(36.0)
Financial Institutions	3,740	3,060	3,257	4,250	7,565
	(8.0)	(5.9)	(8.5)	(9.6)	(11.3)
Total	46,847	52,038	38,055	44,171	67,239

* : As on June 15, 2009.

Note: Figures in brackets are percentage share in total.

amount was decided to be rolled over further till September 2009. The primary market yields softened during Q1 of 2009-10, reflecting the impact of policy rate cut in April 2009 and ample liquidity in the money market (Table 41).

Table 41: Treasury Bills in the Primary Market

Year/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
2007-08	**2,24,500@**	**7.10**	**7.40**	**7.42**	**2.84**	**2.79**	**3.21**
2008-09	**2,99,000@**	**7.10**	**7.22**	**7.15**	**3.43**	**2.91**	**3.47**
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
Sept 2008	25,000	8.69	8.92	8.83	3.06	3.04	3.57
Oct 2008	35,000	8.13	8.36	7.92	1.95	2.42	4.00
Nov 2008	28,000	7.30	7.13	7.23	7.95	2.97	4.33
Dec 2008	16,500	5.69	5.35	5.07	5.36	4.67	5.14
Jan 2009	38,500	4.69	4.60	4.64	4.56	3.22	4.80
Feb 2009	32,000	4.78	4.71	4.62	2.81	1.86	2.62
March 2009	30,000	4.77	4.86	5.25	2.10	2.67	1.44
2009-10							
Apr 2009	44,000	3.81	4.11	4.07	3.22	2.79	5.07
May 2009	29,000	3.26	3.42	3.58	3.18	2.25	3.14
Jun 2009	23,000	3.35	3.49	3.99	3.37	5.65	2.86

@: Total for the financial year.

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

2. Notified amounts are inclusive of issuances under the MSS.

Government Securities Market

Central Government Securities

V.19 Gross and net issuances of dated securities of the Central Government during 2009-10 are budgeted to be higher by 65.2 per cent and 83.4 per cent, respectively over 2008-09. During 2009-10 (up to July 22), the Central Government completed a large part (44.2 per cent) of the budgeted borrowing programme (including amounts raised through additional borrowing and de-sequestering of MSS account). The ample liquidity available in the system facilitated the borrowings without putting much pressure on interest rates. In view of the expected increase in Government's borrowing requirements, the market borrowing programme was front-loaded, as a result of which there were deviations from the amounts notified in the issuance calendar. In order to facilitate the Government's higher financing requirements, on May 2, 2009, Rs 28,000 crore was de-sequestered from the MSS cash account and transferred to the normal cash account of the Central Government and an equivalent amount of government securities formed part of borrowing of the Government (Table 42).

State Government Securities

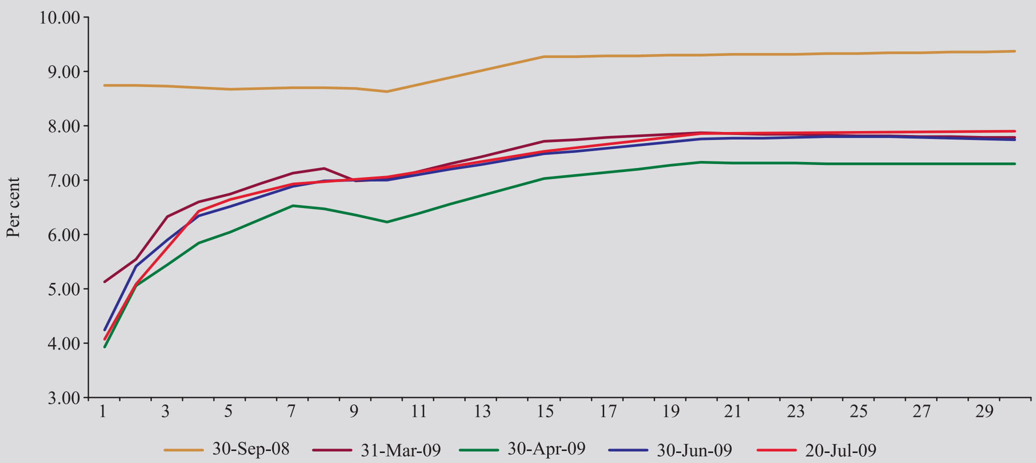
V.20 The allocation of market borrowings for seventeen State Governments received during 2009-10 (up to July 22, 2009) was placed at Rs. 49,883 crore. The Annual Policy Statement for 2009-10 has projected States' net market borrowings at Rs.1,26,000 crore. During 2009-10 (up to July 22), despite higher borrowings, interest rate on the State Government securities moderated, reflecting the market liquidity (Table 42).

Table 42: Issuances of Central and State Government Dated Securities

	2007-08	2008-09	2008-09 (up to July 22)	2009-10 (up to July 22)
1	2	3	4	5
Central Government				
Gross amount raised (Rupees crore)	1,56,000	2,73,000	66,000	2,17,000 @
Re-issuances	34	52	12	39
New issues	1	4	1	4
Bid-cover ratio (range)	1.6-4.8	1.7-4.5	1.6-3.5	1.5-3.6
Weighted average maturity (years)	14.9	13.8	15.7	11.8
Weighted average yield (per cent)	8.12	7.69	8.58	6.94
Devolvement on PDs (Rupees crore)	957	10,773	779	2,186
State Governments				
Gross amount raised (Rupees crore)	67,779	1,18,138	8,712	30,566
Cut-off yield (per cent)	7.84-8.90	5.80-9.90	8.39-9.81	7.04-7.97
Weighted average yield (per cent)	8.25	7.87	8.87	7.64

@ : Includes Rs. 28,000 MSS desequestering.

Chart 25: Government Securities Yield Curve



Secondary Market

V.21 During Q1 of 2009-10, yields in the government securities in the secondary market moderated initially, reflecting substantial easing of liquidity conditions, decline in inflation rate, OMO purchase auctions and reduction in LAF policy interest rates. The 10-year bond yield declined from 7.01 per cent to 6.23 per cent between end-March and end-April 2009. Thereafter, the bond yields, however, started rising following the increase in the size of primary auctions (from Rs.12,000 crore to Rs.15,000 crore) and subsequently on concerns of expected rise in Government market borrowings. The 10-year yield strengthened more than the short end maturity, indicating the expected pressure

Chart 26: Government Securities Market turnover

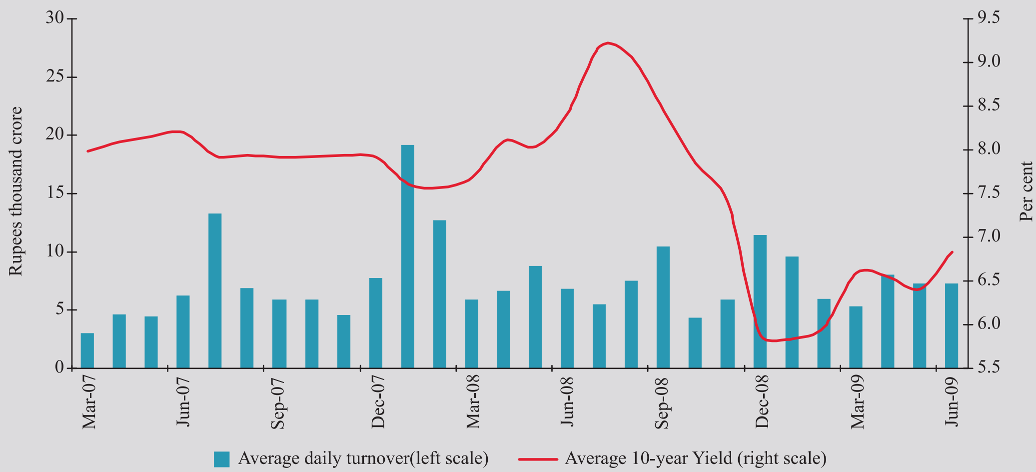
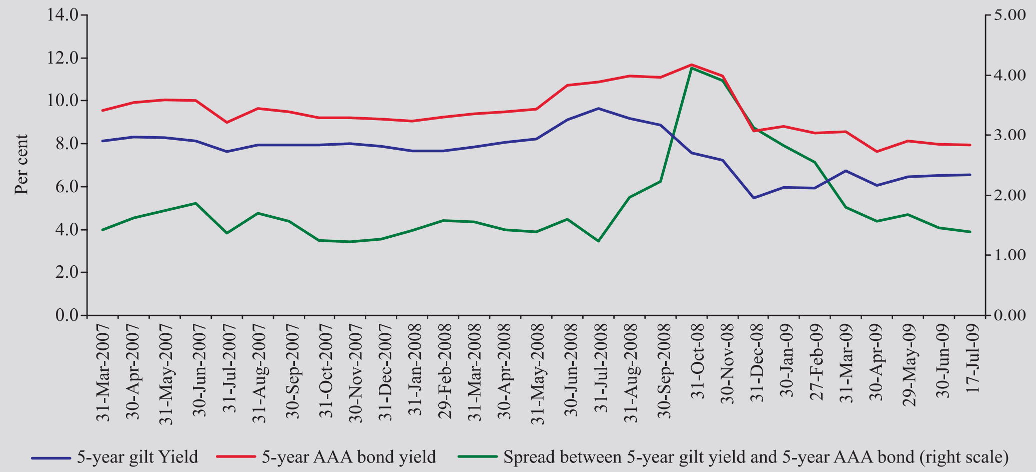


Chart 27: Spread on Private Corporate Bonds



on interest rates (Chart 25). The turnover in government securities market also started showing signs of pick up in Q1 of 2009-10 (Chart 26).

V.22 The yield curve is generally kinked at the 10-year tenor, reflecting the concentration of trading around that tenor but remains more or less flat beyond 15 years. The yields were generally higher by end-June 2009 as compared with end-April 2009. The daily turnover in the Central Government securities (based on number of trading days) averaged Rs.11,523 crore during Q1 of 2009-10, which was 7 per cent lower than that in the preceding quarter.

V.23 The yield on 5-year AAA-rated corporate bonds, which witnessed a hardening trend during Q2 of 2008-09, softened significantly during the Q4 of 2008-09 and remained stable through Q1 of 2009-10 (Chart 27). The risk spread on corporate bonds fell to the level of pre-Lehman episode.

Credit Markets

V.24 The deposit rates of SCBs softened further during April-July 2009 (up to July 20). Interest rates on deposits moderated across the maturity spectrum for public sector banks (PSBs) and to a lesser extent in the case of private sector banks (Table 43). Benchmark prime lending rates (BPLRs) of PSBs and private sector banks declined by 25 to 50 basis points between March and June 2009. The moderation in the credit market rates was evident in the weighted average BPLR of PSBs declining by 38 basis points from 12.48 per cent in March 2009 to 12.10 per cent in June 2009.

V.25 The share of sub-BPLR lending for all SCBs (excluding export credit and small loans) declined from 71.5 per cent in December 2008 to 66.7 per cent in March 2009. At the disaggregated level, under term loans, the major share of sub-BPLR lending of PSBs, private sector banks and foreign banks was for loans

Table 43: Deposit and Lending Rates

(Per cent)

Item	March 2007	March 2008	March 2009	June 2009	July 2009@
1	2	3	4	5	6
1) Domestic Deposit Rate					
Public Sector Banks					
Up to 1 year	2.75-8.75	2.75-8.50	2.75-8.25	1.00-7.00	1.00-7.00
> 1year-3 years	7.25-9.50	8.25-9.25	8.00-9.25	6.50-8.00	6.50-8.00
> 3 years	7.50-9.50	8.00-9.00	7.50-9.00	7.00-8.50	6.75-8.50
Private Sector Banks					
Up to 1 year	3.00-9.00	2.50-9.25	3.00-8.75	2.00-7.75	2.00-7.50
> 1year-3 years	6.75-9.75	7.25-9.25	7.50-10.25	6.00-8.75	5.25-8.25
> 3 years	7.75-9.60	7.25-9.75	7.50-9.75	6.00-9.00	5.75-8.50
Foreign Banks					
Up to 1 year	3.00-9.50	2.25-9.25	2.50-8.50	1.80-8.00	1.25-8.00
> 1year-3 years	3.50-9.50	3.50-9.75	2.50-9.50	2.25-8.50	2.25-8.50
> 3 years	4.05-9.50	3.60-9.50	2.50-10.00	2.25-9.50	2.25-9.50
2) BPLR					
Public Sector Banks	12.25-12.75	12.25-13.50	11.50-14.00	11.00-13.50	11.00-13.50
Private Sector Banks	12.00-16.50	13.00-16.50	12.75-16.75	12.50-16.75	12.50-16.75
Foreign Banks	10.00-15.50	10.00-15.50	10.00-17.00	10.50-16.00	10.50-16.00
3) Actual Lending Rates*					
Public Sector Banks	4.00-17.00	4.00-17.75	3.50-18.00	–	–
Private Sector Banks	3.15-25.50	4.00-24.00	4.75-26.00	–	–
Foreign Banks	5.00-26.50	5.00-28.00	5.00-25.50	–	–

@ : As on July 20, 2009.

* : 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.

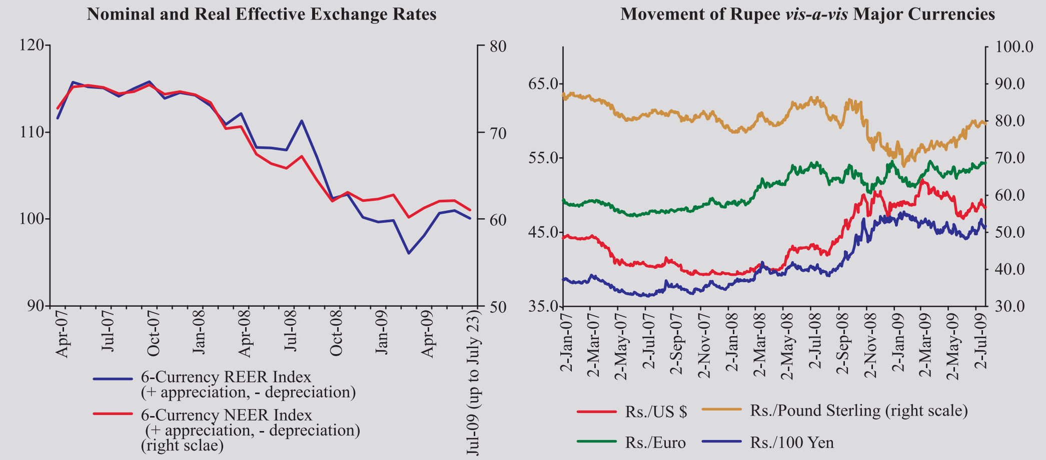
– : Not available.

above 3 years, 5 years and up to 3 years, respectively.

Foreign Exchange Market

V.26 The rupee appreciated against the US dollar during Q1 of 2009-10 on the back of significant turnaround in FII inflows, continued inflows under FDI and NRI deposits, better than expected macroeconomic performance in Q4 of 2008-09 and weakening of the US dollar in the international markets (Chart 28). Additionally, the outcome of the general elections, which generated expectations of political stability, buoyed the market sentiment and contributed towards the strengthening of the rupee, especially in the second half of May 2009. As a result, during 2009-10 so far (up to July 21) the rupee appreciated by 5.5 per cent against the US dollar and 1.1 per cent against the Japanese yen. The rupee, however, depreciated by 8.5 per cent against the pound sterling and 1.5 per cent against the euro (Chart 28).

Chart 28: Nominal and Real Exchange Rates



V.27 The average 6-currency trade-based REER (base: 1993-94=100) appreciated by 5.2 per cent between end-March and end-June 2009, mainly on account of appreciation of the rupee against the US dollar and increase in inflation differential between India and its trading partners (Chart 28). In terms of the broader measure, the 36-currency trade-based REER appreciated by 3.2 per cent between March and May 2009 (Table 44).

V.28 During 2009-10 (up to July 27), forward premia generally exhibited declining trend, reflecting the easing supply conditions in the market led by revival of capital flows. The appreciation of the rupee against the US dollar on account of capital inflows, resulted in the narrowing down of the forward premia during the period. The spread between one-month and six-month premia also narrowed (Chart 29). The daily average turnover in the foreign exchange market started showing signs of improvement in May 2009. The ratio of

Table 44: Nominal and Real Effective Exchange Rate of the Indian Rupee (Trade-based Weights, Base : 1993-94 (April-March) = 100)

Year/Month	6-Currency Weights		36-Currency Weights	
	NEER	REER	NEER	REER
1	2	3	4	5
2007-08	74.17	114.09	93.91	104.81
2008-09 (P)	64.54	104.65	86.15	94.44
Sep. 2008	64.46	107.11	85.42	95.76
Oct. 2008	62.08	102.36	83.23	92.12
Nov. 2008	63.06	102.82	84.69	92.43
Dec. 2008 (P)	62.12	100.18	83.91	90.3
Jan. 2009 (P)	62.28	99.64	83.62	89.89
Feb. 2009 (P)	62.80	99.86	85.20	90.91
Mar. 2009 (P)	60.18	96.04	82.12	88.38
Apr. 2009 (P)	61.30	98.08	82.67	89.22
May 2009 (P)	62.07	100.65	83.53	91.17
June 2009 (P)	62.14	101.00	–	–
Per cent Change (Financial Year Average)				
	2007-08	2008-09 (P)	2008-09 (Apr-June)	2009-10 (Apr-June)
36-REER	6.4	-9.9	-4.3*	3.2*
36-NEER	9.3	-8.3	-1.1*	1.7*
6-REER	8.1	-8.3	-2.4	5.2
6-NEER	6.7	-13.0	-5.7	3.3
Rs/US$	12.5	-12.4	-6.9	6.4

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

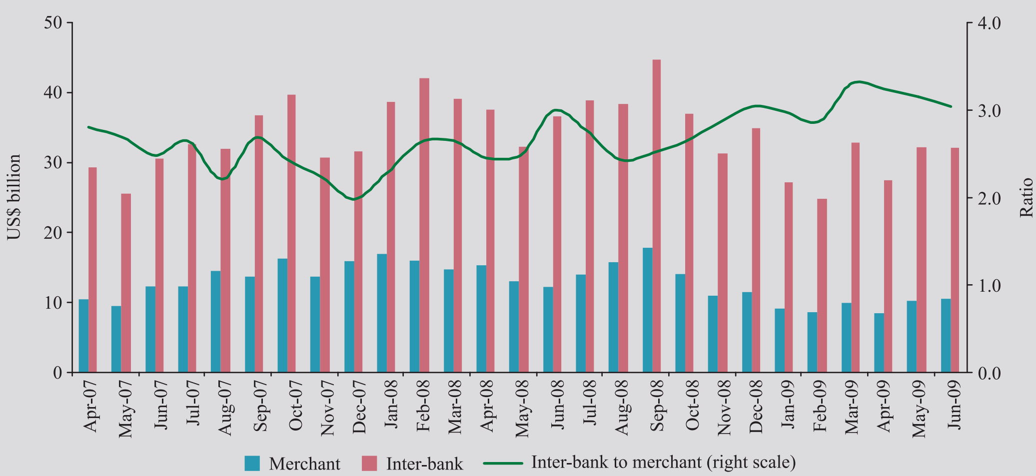
Chart 29: Movement in Rupees/US Dollar Forward Premia

inter-bank to merchant turnover increased to 3.1 during April-June 2009 from 2.6 a year ago (Chart 30).

Equity Market

V.29 While the primary market remained subdued in Q1 of 2009-10 as the domestic industrial activity appeared to be still sluggish, the secondary markets witnessed considerable gains on the back of stability and tentative signs of green shoots in the world economy, improved domestic growth prospects, forecast of near normal monsoon and greater political stability. The turnover of BSE and NSE in the cash segment during Q1 of 2009-10 increased significantly from Q4 of 2008-09. The market capitalisation of the

Chart 30: Daily Average Turnover in Foreign Exchange Market



BSE also increased by 53.9 per cent between end-March 2009 and end-June 2009. The turnover in the derivative segment of NSE also increased during April-June 2009. Although the volatility in the stock market during April-June 2009 was higher compared with the same period of last year, it moderated significantly over the preceding quarters (Table 45).

Primary Market

V.30 The activity in the primary segment of the domestic capital market remained subdued during Q1 of 2009-10. Cumulatively, resources raised through public issues remained low during April-June 2009 with five issuances (Table 46). During April-June 2009, the resources raised through Euro issues by the Indian corporates also remained very small.

V.31 Mobilisation of resources through private placement declined by 5.3 per cent during 2008-09 as against an increase of 45.8 per cent during 2007-08. Resource mobilisation by financial intermediaries (both from public and private sector) registered a decline of 13.3 per cent, while the non-financial intermediaries registered an increase of 11.6 per cent during the same period.

Table 45: Stock Market Indicators

Indicator	BSE				NSE			
	2007-08	2008-09	April-June		2007-08	2008-09	April-June	
			2008-09	2009-10			2008-09	2009-10
1	2	3	4	5	6	7	8	9
1. BSE Sensex / S&P CNX Nifty								
(i) End-period	15644	9709	13462	14494	4735	3021	4041	4291
(ii) Average	16569	12366	16060	13078	4897	3731	4793	3964
2. Coefficient of Variation	13.7	24.2	6.3	13.1	14.4	23.2	6.2	12.3
3. Price-Earning Ratio (end-period)*	20.1	13.7	16.5	19.0	20.6	14.3	17.3	19.8
4. Price-Book Value Ratio(end-period)*	5.2	2.7	3.6	3.5	5.1	2.5	4.0	3.6
5. Yield (per cent per annum) (end-period)	1.1	1.8	1.3	1.3	1.1	1.9	1.4	1.2
6. Listed Companies	4,867	4,929	4,909	4,934	1,381	1,432	1,407	1,426
7. Cash Segment Turnover (Rupees crore)	14,67,865	11,00,074	3,50,729	3,76,679	35,51,038	27,52,023	8,13,578	11,31,671
8. Derivative Segment Turnover (Rupees crore)	2,42,308	12,268	10,474	993	1,30,90,478	28,96,194	26,48,403	39,02,595
9. Market Capitalisation (Rupees crore) (end-period)	51,38,015	30,86,076	43,75,022	47,49,935	48,58,122	1,10,10,482	41,03,651	44,32,596
10. Market Capitalisation to GDP Ratio (per cent)	108.8	52.8	82.2	89.3	102.9	100.3	77.1	83.3

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

Table 46: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	No. of Issues	Amount	No. of Issues	Amount
	2008-09 (April-June)		2009-10 (April-June) P	
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	15	2,031	5	236
a) Financial	-	-	-	-
b) Non-financial	15	2,031	5	236
2. Public Sector (a+b+c)	-	-	-	-
a) Public Sector Undertakings	-	-	-	-
b) Government Companies	-	-	-	-
c) Banks/Financial Institutions	-	-	-	-
3. Total (1+2)	15	2,031	5	236
of which:				
(i) Equity	15	2,031	5	236
(ii) Debt	-	-	-	-
Memo:				
B. Euro Issues	**8**	**4,056**	**2**	**215**

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

V.32 During April-June 2009, net resource mobilisation by mutual funds increased considerably by 161 per cent with liquidity conditions remaining comfortable and stock markets witnessing considerable gains (Table 47). Scheme-wise, during April-June 2009, income/debt oriented schemes witnessed a net inflow of

Table 47: Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	April-March		April-June			
	2008-09		2008-09		2009-10	
	Net Mobilisation	Net Assets	Net Mobilisation	Net Assets	Net Mobilisation	Net Assets
1	2	3	4	5	6	7
Private Sector	-34,017	3,35,527	14,173	4,24,821	81,456	4,67,944
Public Sector *	5,721	81,772	24,264	97,078	18,947	1,14,735
Total	-28,296	4,17,300	38,437	5,21,899	1,00,403	5,82,679

* : Including UTI mutual fund.

Note : 1. Data exclude funds mobilised under Fund of Funds Scheme.
2. Net mobilisation is net of redemption.
3. Net assets is for end-period.

Source : Securities and Exchange Board of India.

Rs.97,267 crore, while growth/equity oriented schemes registered a net inflow of Rs.3,305 crore.

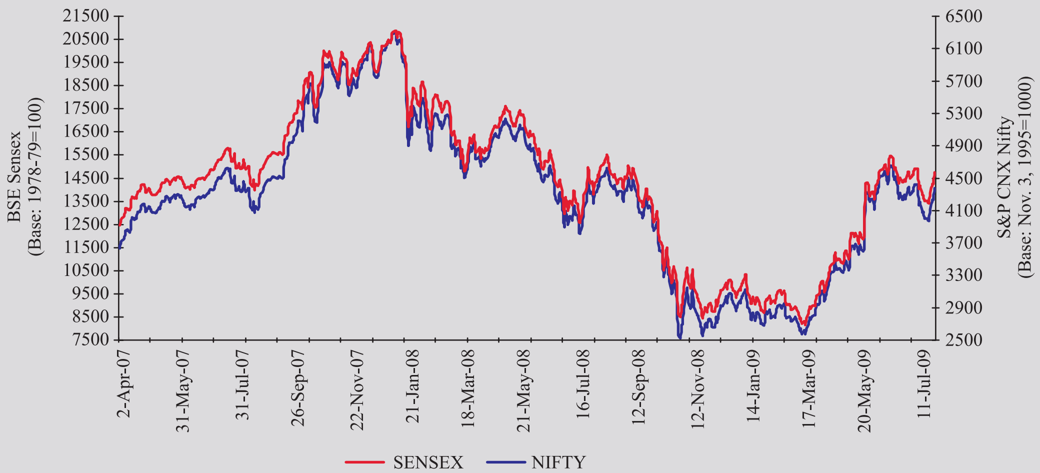
Secondary Market

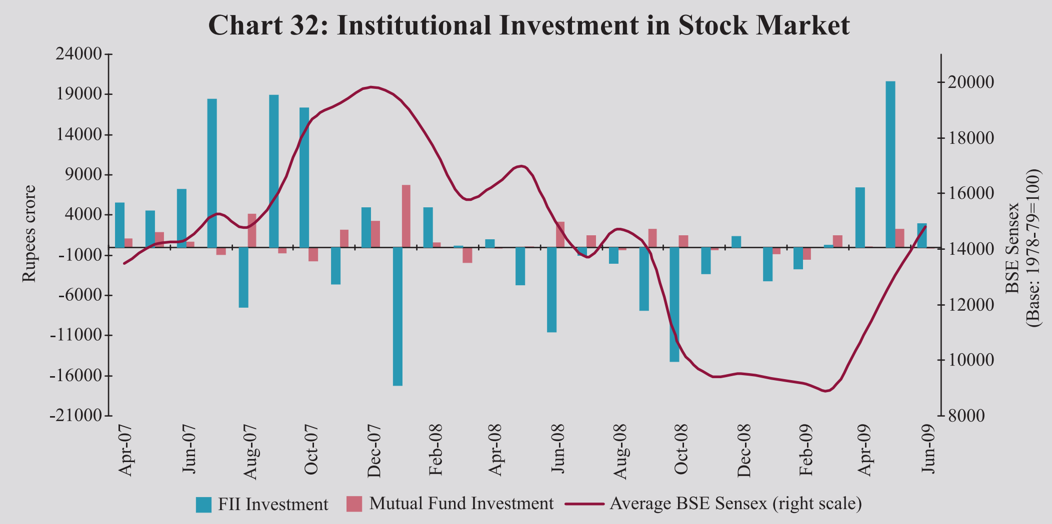
V.33 The market sentiment remained positive during Q1 of 2009-10 mainly on account of rebound in major international equity markets on the back of less than expected deterioration in economic activity and public policy actions, cut in policy rates by the Reserve Bank, better than expected growth of India's GDP in Q4 of 2008-09, positive results for some Indian banks and corporates, forecast of near normal monsoon by the IMD, greater political stability after parliamentary elections and stock specific news. The domestic stock markets responded to the stability mandate in the Lok Sabha election results on May 18, 2009 by hitting the 20 per cent upper circuit barrier. As at end-June 2009, both the BSE Sensex and the S&P CNX Nifty registered gains of 49.3 per cent and 42.0 per cent, respectively, over end-March 2009 (Chart 31).

V.34 Both FIIs and mutual funds resumed their interest in the stock markets in Q1 of 2009-10. According to the data released by the Securities and Exchange Board of India (SEBI), FIIs made net purchases US$ 6.4 billion in the Indian equity market during Q1 of 2009-10 as against net sales of US$ 3.5 billion a year ago (Chart 32). Mutual funds purchases in stock markets also increased during Q1 of 2009-10.

V.35 The sectoral indices witnessed buying pressure across the board during Q1 of 2009-10 with rising investor interest. This resulted in significant gains in prices in sectors such as realty, capital goods, metal, banking, consumer durables, public sector undertakings, auto, IT, oil and gas, healthcare and fast moving consumer goods sector (Table 48).

Chart 31: Movement in Indian Stock Markets





V.36 The stock markets, however, turned bearish following the presentation of the Union Budget 2009-10, and moved down reflecting disappointment with the Budget *viz.*, increased gross fiscal deficit, lack of clarity on disinvestment of PSUs, raising of Minimum Alternate Tax (MAT) and also the unsatisfactory progress of the monsoon. Furthermore, international equity markets sank as uncertainty prevailed about company

Table 48: BSE Sectoral Stock Indices

(Base: 1978-79=100)

Sector	Variation (per cent)		
	End-March 2008@	End-March 2009@	End-June 2009#
1	2	3	4
Fast Moving Consumer Goods	31.7	-11.1	11.1
Public Sector Undertakings	25.4	-29.6	51.5
Information Technology	-27.6	-35.6	43.8
Auto	-7.1	-33.0	49.0
Oil and Gas	56.0	-29.6	33.1
Metal	65.2	-58.7	86.9
Health Care	5.4	-26.5	25.5
Bankex	18.0	-41.8	82.8
Capital Goods	54.4	-53.8	97.9
Consumer Durables	8.8	-58.1	82.0
BSE 500	**24.3**	**-42.8**	**55.9**
BSE Sensex	**19.7**	**-37.9**	**49.3**

@ : Year-on-year variation. # : Variation over end-March 2009.
Source: Bombay Stock Exchange Limited.

profits in the second quarter of 2009 and the likely forecasts for the rest of the year. The BSE Sensex which had registered an increase of 82.7 per cent by July 3, 2009 over March 9, 2009, declined by 10.1 per cent by July 13, 2009. The losses were subsequently recovered as markets rose on better corporate results for Q2 of 2009-10.

V.37 During Q1 of 2009-10, the Indian financial markets exhibited higher degree of confidence, investor risk appetite, narrowing of spreads and reduced volatility. Responding to the continued liquidity easing stance, the overnight rates moderated significantly and remained around the LAF reverse repo rate and spreads on CPs declined. The yield curve, however, moved up on concerns of large Government borrowing programme. The stock markets witnessed considerable gains on expectations of stabilisation in the world economy and better domestic fundamentals and political stability, but exhibited volatility in the post-Budget period due to factors such as high fiscal deficit, budget announcements falling short of investors' expectations and unsatisfactory progress of the monsoon.

VI. PRICE SITUATION

Inflation, as measured by year-on-year variations in the whole sale price index (WPI), had declined sharply to 0.8 per cent by end-March 2009 from the peak of 12.9 per cent on August 2, 2008. In 2009-10, it further declined and turned negative in early-June 2009 and continues to remain negative since then (-1.2 per cent as on July 11, 2009). The observed negative WPI inflation reflects the high base effect on account of sharp increases in prices during the first half of 2008-09. The momentum of the WPI since end-March 2009, however, indicates the existence of price pressures. During 2009-10 (up to July 11, 2009) WPI has registered an increase of 3.5 per cent. The upward revision in prices of administered petroleum products effective from July 2, 2009 on account of increases in international crude prices partly contributed to the increase in WPI during this period. Though international commodity prices had declined substantially from the peak recorded in 2008-09, they exhibited some firming up in the first quarter of 2009-10. The domestic supply prospects of key commodities are also affected by the delay in the progress of the monsoon. The visible signs of price pressures even as the headline inflation number turned negative over the short-run pose complex challenges for the conduct of monetary policy, particularly given the dampened domestic demand conditions. CPI based inflation in India remains high and the divergence between WPI inflation and CPI inflation continues to persist.

VI.1 Inflationary conditions remained moderate among major economies during the first quarter of 2009-10. Pressure from aggregate demand continues to remain subdued on account of the global economic recession and international commodity prices have also remained significantly lower than their peaks recorded during the first half of 2008-09. The monetary policy stance pursued by most central banks in advanced economies as well as emerging economies during the first quarter of 2009-10 continued to be expansionary, as the ramifications of the financial crisis led to a deep recession in most of the advanced economies and significant contagion driven reduction in growth in emerging economies.

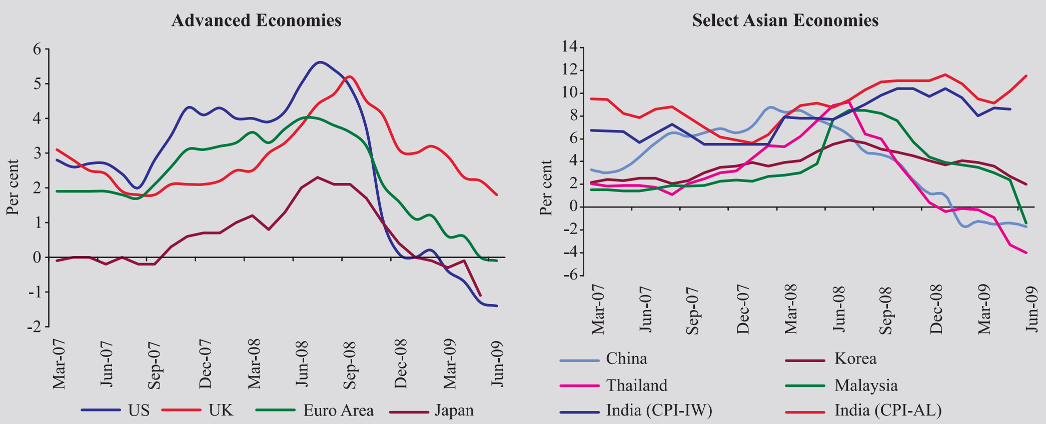
VI.2 In India, inflation as measured by year-on-year (y-o-y) variations in the wholesale price index (WPI), declined during 2009-10 from 0.8 per cent at end-March 2009 to turn negative in June 2009 (-1.2 per cent as on July 11, 2009), largely reflecting the base effect of sharp increase in prices recorded during the first half of 2008-09. During the current financial year (up to July 11, 2009), however, the WPI inflation has increased by 3.5 per cent indicating the existence of price pressures. Consumer price inflation, as reflected in various consumer price indices, remained high in the range of 8.6-11.5 per cent during May/June 2009 (y-o-y) as compared with 8.0-9.7 per cent in March 2009.

Global Inflation

VI.3 Headline inflation in major advanced economies continued to decline from the high levels recorded during the first half of 2008-09. Consumer price inflation in OECD countries declined to 0.1 per cent in May 2009, continuing the sharp fall in annual inflation since its peak of 4.9 per cent in July 2008. The recent decline in inflation in OECD countries was led by a decline in inflation of energy and food articles. Amongst major economies, headline inflation in the US, Japan and Euro Area have entered negative territory while in the UK, inflation declined to 1.8 per cent in June 2009 (Chart 33). Core inflation also moderated in major economies. In OECD countries, inflation, excluding food and energy, came down to 1.8 per cent in May 2009 from 2.4 per cent in September 2008. Producer Price Index (PPI) inflation declined sharper in both advanced and emerging market economies (EMEs). PPI inflation in the OECD countries, which firmed up to 10.3 per cent in July 2008 declined sharply to (-)5.6 per cent in May 2009.

VI.4 The headline inflation in most of the advanced countries fell significantly since mid-2008 and because of negative inflation experienced by the US, Japan and the Euro Area in the first half of 2009, the strong disinflation process created concerns of deflation in the face of persisting recessionary conditions. The major factors that contributed to the disinflation process include sharp decline in oil prices between mid-2008 and May 2009, major downward corrections in food and metals prices, lower shipping costs and the presence of significant slackness because of decline in capacity utilisation. According to the BIS (Annual Report, June 2009), synchronised slowdown and possible increase in household saving could aggravate the disinflation pressures. While short-term inflation expectations have declined, long-term expectations continued to remain

Chart 33: Consumer Price Inflation



IW: Industrial Workers. AL: Agricultural Labourers.
Source: International Financial Statistics and official websites of respective countries.

stable. According to the IMF (July 2009) assessment, global inflation is expected to remain subdued notwithstanding upward pressure from recovering commodity prices because of the significant excess capacity. Risks for sustained deflation are perceived to be small, going by the trends in core inflation and inflation expectations.

VI.5 The monetary policy actions of most central banks continued to be focused on mitigating the adverse impact of the financial crisis. Countries like the US, UK and Japan, which had reduced their policy rates to near zero levels in 2008-09, kept these rates unchanged during the first quarter of 2009-10. Central banks in other advanced economies like the Euro Area, Australia and Canada reduced the policy rates further during the first quarter of 2009-10 (Table 49).

Table 49: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate	Policy Rate (As on July 23, 2009)	Changes in Policy Rates (basis points)		CPI Inflation (y-o-y)		
			Sept 08 - Mar 09	Since end-Mar 09	Jun. 2008	Aug. 2008	Jun. 2009
1	2	3	4	5	6	7	8
Developed economies							
Australia	Cash Rate	3.00 (Apr.8, 2009)	(-) 400	(-) 25	4.5^	5.0@	1.5^
Canada	Overnight Rate	0.25 (Apr.21, 2009)	(-) 250	(-) 25	3.1	3.5	-0.3
Euro area	Interest Rate on Main Refinancing Operations	1.00 (May 13, 2009)	(-) 275	(-) 50	4.0	3.8	-0.1
Japan	Uncollateralised Overnight Call Rate	0.10 (Dec.19, 2008)	(-) 40	0	1.3*	2.1	-1.1*
UK	Official Bank Rate	0.50 (Mar. 5, 2009)	(-) 450	0	3.8	4.7	1.8
US	Federal Funds Rate	0.00 to 0.25 (Dec.16, 2008)	(-) 200	0	5.0	5.4	-1.4
Developing economies							
Brazil	Selic Rate	9.25 (June 11, 2009)	(-) 250	(-) 200	6.1	6.2	4.8
India	Reverse Repo Rate	3.25 (Apr. 21, 2009)	(-) 250	(-) 25	7.8*	9.0	8.6*
	Repo Rate	4.75 (Apr. 21, 2009)	(-) 400 (- 400)	(-) 25 0			
China	Benchmark 1-year Lending Rate	5.31 (Dec 23, 2008)	(-) 216 (-300)	0 0	7.1	4.9	-1.7
Indonesia	Bank Indonesia (BI) Rate	6.75 (July. 3, 2009)	(-) 125	(-) 100	11.0	11.8	3.7
Israel	Key Rate	0.50 (Apr.1, 2009)	(-) 350	(-) 25	4.8	5.0	3.6
Korea	Base Rate	2.00 (Feb 12, 2009)	(-) 325	0	5.5	5.6	2.0
Philippines	Reverse Repo Rate	4.00 (July 9, 2009)	(-) 125	(-) 75	11.4	12.5	1.5
Russia	Refinancing Rate	11.00 (July 13, 2009)	200	(-) 200	15.2	15.0	11.9
South Africa	Repo Rate	7.50 (May. 29, 2009)	(-) 250	(-) 200	11.7*	13.7	8.0*
Thailand	1-day Repurchase Rate	1.50 (Apr. 8, 2009)	(-) 225	(-) 25	8.0	6.4	-4.0

^ : Q2. @: Q3. *: May.

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 column (4) indicate the variation in the cash reserve ratios during the period.

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

VI.6 Since the second half of 2008-09, inflation in emerging economies eased significantly as international commodity prices declined and general slowdown in economic activity set in due to spillover of the global financial crisis. Among the major emerging economies, consumer price inflation in China, Thailand and Malaysia entered negative territory while the other major economies witnessed significant moderation in price pressures. Most central banks in emerging economies (except China) continued to reduce their policy rates to arrest the moderation in growth and to counter the spillover effects of the global financial crisis.

Global Commodity Prices

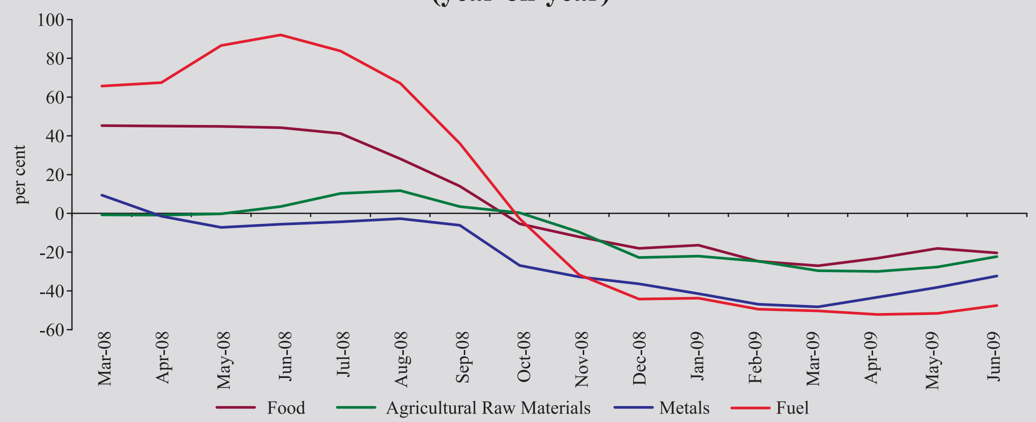
VI.7 International commodity prices, after recording sharp decline during the period July to December 2008, witnessed moderate increases up to June 2008 largely on account of increases in crude and food prices (Table 50). Most commodity prices, however, remained substantially lower than the very high levels recorded during the first half of 2008-09 as reflected by negative year-on-year changes (Chart 34). The expectations about recovery in global economy and weak supply prospects in major agricultural products have been the major drivers of the recent increases in

Table 50: International Commodity Prices

Commodity	Unit	**Market Price** (2004)	**Index (2004=100)**									**Variation** (Per cent)	
			2005	2006	2007	Mar 2008	Jun 2008	Mar 2009	Apr 2009	May 2009	Jun 2009	Jun 09 over Jun 08	Jun 09 over Mar 09
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Energy													
Coal	$/mt	53	90	93	124	223	302	115	120	122	135	-55.3	17.0
Crude oil (Average)	$/bbl	38	142	170	188	270	349	124	133	154	183	-47.4	48.3
Non-Energy Commodities													
Palm oil	$/mt	471	90	101	165	265	257	127	149	170	155	-39.8	22.1
Soybean oil	$/mt	616	88	97	143	240	250	118	130	145	144	-42.4	21.7
Soybeans	$/mt	307	90	88	125	188	203	123	135	152	164	-19.4	32.3
Rice	$/mt	238	120	128	137	250	318	247	231	224	241	-24.4	-2.8
Wheat	$/mt	157	97	122	163	280	222	147	149	167	163	-26.8	10.4
Maize	$/mt	112	88	109	146	210	257	147	151	161	161	-37.5	9.1
Sugar	c/kg	16	138	206	141	184	169	187	190	224	229	35.4	22.6
Cotton A Index	c/kg	137	89	93	102	129	124	83	92	100	99	-20.5	19.0
Aluminium	$/mt	1716	111	150	154	175	172	78	83	85	92	-46.8	17.8
Copper	$/mt	2866	128	235	248	294	288	131	154	159	175	-39.3	33.7
Gold	$/toz	409	109	148	170	237	217	226	218	227	231	6.3	2.3
Silver	c/toz	669	110	173	200	287	255	196	187	211	219	-14.0	11.8
Steel cold-rolled coilsheet	$/mt	607	121	114	107	132	181	148	115	115	115	-36.4	-22.2
Steel hot-rolled coilsheet	$/mt	503	126	119	109	149	199	159	119	119	119	-40.0	-25.0
Tin	c/kg	851	87	103	171	233	261	125	138	162	176	-32.6	40.4
Zinc	c/kg	105	132	313	309	240	181	116	132	142	149	-17.8	28.0

$: 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.



Source: IMF Primary Commodity price data, June 2009

international commodity prices. In July 2009, international prices exhibited considerable volatility.

VI.8 International crude oil prices (monthly average - West Texas Intermediary (WTI)) declined precipitously from the historical high of US$ 133.4 per barrel in July 2008 to US $ 39.2 per barrel in February 2009, reflecting falling demand in the Organisation for Economic Co-operation and Development (OECD) countries as well as some developing countries, notably in Asia, following the economic slowdown. Subsequently, crude oil prices firmed up to around US$ 70 per barrel by end-June 2009 reflecting the expectations of an early global economic recovery and future increases in oil consumption. WTI crude oil prices have been volatile since then and were at US$ 66.0 per barrel as on July 23, 2009.

VI.9 Iron and steel prices declined sharply since August 2008, reflecting falling demand from advanced economies and emerging economies, as global economic downturn has led to lower prospects for construction activity and investment in capital equipments. The World Bank steel price product index declined by 33.7 per cent, year-on-year, in June 2009. According to the ‘OECD Steel Committee’, steel industry is expected to benefit indirectly from the significant and widespread government support to key steel-using sectors, mainly infrastructure, construction and automobiles, as planned in most stimulus packages. A sharp revival in global steel demand, however, is seen to be unlikely by the Committee before the end of 2009.

VI.10 International food prices eased significantly since the second quarter of 2008-09 on the back of improved supply prospects, particularly for oilseeds and grains in major producing countries and unwinding of commodity investments by financial markets participants. Food prices, however, increased since December 2008

(19.6 per cent increase in IMF food price index between December 2008 and June 2009). The recent increase in food prices could be due to a number of factors. The Food and Agriculture Organisation (FAO), in its June 2009 'Food Outlook' points to a reduction in cereal output for the year 2009-10. Supply prospects for other key agricultural products like oilseeds remain tight as the crop prospects in South America have deteriorated, and soybean production estimates had to be lowered several times because of persisting severe weather problems.

VI.11 International sugar prices have remained high in 2008-09 and increased since December 2008 (international sugar prices rose by 40 per cent between December 2008 and June 2009) This price pattern mainly reflected a reduction in global export availability, following a sharp decline in India's sugar output in 2008-09 and expectations of lower crops in the EU, the US, China and Australia. Global cotton prices have also been increasing in recent months. World cotton prices (represented by the 'Cotton A Index') have increased by 19 per cent since March 2009. According to the International Cotton Advisory Committee (ICAC), world cotton production is expected to remain at the same level during 2009-10 as in 2008-09, while global consumption is expected to increase marginally.

Inflation Conditions in India

VI.12 Since September 2008, the Reserve Bank shifted its policy stance from containing aggregate demand to supporting demand expansion with a view to arresting the moderation in growth. Accordingly, between October 2008 and March 2009, the Reserve Bank reduced the repo rate under the LAF from 9.0 per cent to 5.0 per cent, the reverse repo rate under the LAF from 6.0 per cent to 3.5 per cent and the CRR from 9.0 per cent to 5.0 per cent. The aim of these measures was to augment domestic liquidity and to ensure that credit continues to flow to productive sectors of the economy.

VI.13 The Annual Policy Statement (APS) of the Reserve Bank for the year 2009-10 observed that on account of slump in global demand, pressures on global commodity prices had abated markedly around the world. The sharp decline in prices of crude oil, metals, foodgrains, cotton and cement had influenced inflation expectations in most parts of the world. This was also reflected in the domestic WPI inflation reaching close to zero by end-March 2009. Prices of manufactured products have decelerated sharply, while that of the fuel group has contracted, though inflation on account of food articles remains high. Keeping in view the global trends in commodity prices and domestic demand-supply balance, WPI inflation for end-March 2010 was projected at around 4.0 per cent by the APS.

VI.14 The APS had also noted that with WPI inflation falling to near zero and possibly likely to get into a negative territory, *albeit* for a short period, CPI inflation was expected to moderate indicating that inflationary risks have clearly abated. Given this background of abating inflationary pressures, the Reserve Bank announced further monetary stimulus measures in terms of reduction in the repo rate under the LAF from 5.0 per cent to 4.75 per cent and the reverse repo rate under the LAF from 3.5 per cent to 3.25 per cent on April 21, 2009 (Table 51).

VI.15 Unlike WPI inflation which turned negative in June 2009, the CPI inflation continues to remain high in the range of 8.6 to 11.5 per cent during May/June 2009. The APS had highlighted that WPI inflation and CPI inflation which by and large moved in tandem till April 2007, have tended to diverge since then. The divergence in the recent period has been unusually high reflecting the volatilities in commodity prices like fuel and metals which have a higher weight in WPI.

Table 51 : Movements in Key Policy Rates in India

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio	WPI Inflation	CPI (IW) Inflation
1	2	3	4	5	6
April 14, 2007	6.00	7.75	6.25 (+0.25)	6.3	6.7
April 28, 2007	6.00	7.75	6.50 (+0.25)	6.0	6.7
August 4, 2007	6.00	7.75	7.00 (+0.50)	4.4	7.3
November 10, 2007	6.00	7.75	7.50 (+0.50)	3.2	5.5
April 26, 2008	6.00	7.75	7.75 (+0.25)	8.3	7.8
May 10,2008	6.00	7.75	8.00 (+0.25)	8.6	7.8
May 24,2008	6.00	7.75	8.25 (+0.25)	8.9	7.8
June 12, 2008	6.00	8.00 (+0.25)	8.25	11.7	7.7
June 25, 2008	6.00	8.50 (+0.50)	8.25	11.9	7.7
July 5, 2008	6.00	8.50	8.50 (+0.25)	12.2	8.3
July 19, 2008	6.00	8.50	8.75 (+0.25)	12.5	8.3
July 30, 2008	6.00	9.00 (+0.50)	8.75	12.5	8.3
August 30, 2008	6.00	9.00	9.00 (+0.25)	12.4	9.0
October 11, 2008	6.00	9.00	6.50 (–2.50)	11.3	10.4
October 20, 2008	6.00	8.00 (–1.00)	6.50	10.8	10.4
October 25, 2008	6.00	8.00	6.00 (–0.50)	10.7	10.4
November 3, 2008	6.00	7.50 (–0.50)	6.00	8.7	10.4
November 8, 2008	6.00	7.50	5.50 (–0.50)	8.7	10.4
December 8, 2008	5.00 (–1.00)	6.50 (–1.00)	5.50	6.6	9.7
January 5, 2009	4.00 (–1.00)	5.50 (–1.00)	5.50	5.3	10.4
January 17, 2009	4.00	5.50	5.00 (–0.50)	4.9	10.4
March 4, 2009	3.50 (-0.50)	5.00 (-0.50)	5.00	0.9	8.0
April 21, 2009	3.25 (-0.25)	4.75 (-0.25)	5.00	1.7	8.7

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.

2. Figures in parentheses indicate change in policy rates.

Wholesale Price Inflation

VI.16 WPI inflation in India has exhibited strong downward trend since August 2008 and reached 0.8 per cent by end-March 2009, driven by the reduction in the administered prices of petroleum products and electricity as well as decline in prices of freely priced minerals oil items, iron and steel, oilseeds, edible oils, oil cakes and raw cotton. Significant part of the reduction in WPI inflation during this period could also be attributed to the base effect reflecting the rapid increase in inflation recorded during the last quarter of 2007-08.

VI.17 Year-on-year WPI inflation declined further during the first quarter of 2009-10, entered negative territory on June 6, 2009 and continued to remain negative (-1.2 per cent as on July 11, 2009). The negative inflation numbers largely reflect the strong base effect of significant increase in administered prices of petroleum products in June 2008 on account of the substantially high international prices. Freely priced products like iron and steel, non-ferrous metals, chemicals and edible oils also recorded year-on-year decline during this period.

VI.18 WPI exhibited upward trend during the current financial year so far and increased by 3.5 per cent as on July 11, 2009, over end-March-2009. The recent increase in the WPI was largely on account of the upward revision of prices of petrol and diesel (effective July 2, 2009), increase in prices of freely priced products under the fuel group in line with hardening of crude oil prices and higher prices of vegetables, oilseeds/oil cakes, raw cotton and drugs and medicines. Metals prices, however, continued to decline during the current financial year. It may also be noted that, most commodity prices have moved up since March 2009 in line with the increase in international commodity prices (Table 52).

VI.19 In terms of contribution to overall inflation by the major groups, the contribution of fuel group to overall inflation has declined sharply and turned

Table 52: Key Commodity Prices - Global *vis-à-vis* Domestic

(Per cent)

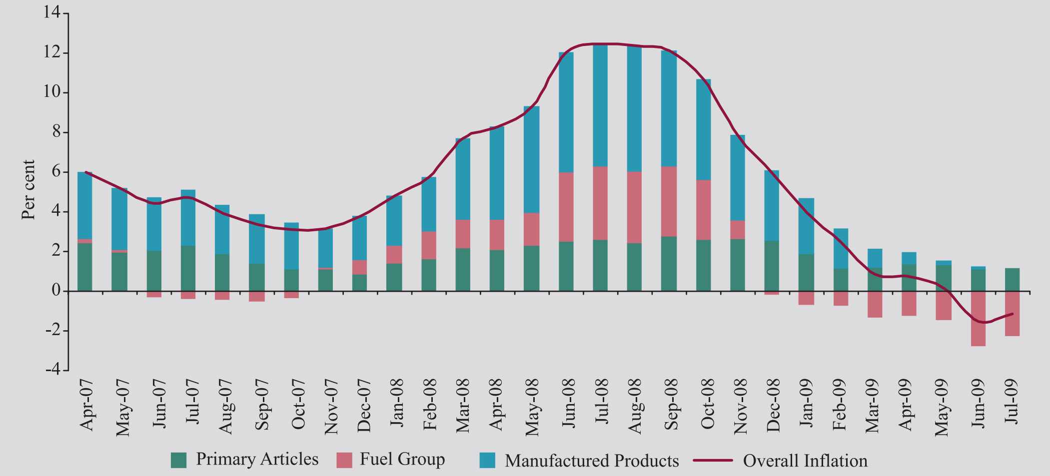
Item	Annual Inflation (y-o-y, June 09)		Recent trends Jun 09 over Mar 09	
	Global	India	Global	India*
1	2	3	4	5
1. Rice	-24.4	14.9	-2.8	0.3
2. Wheat	-26.8	7.2	10.4	2.3
3. Milk	–	4.8	–	0.0
4. Raw Cotton	-20.5	-10.6	19.0	5.2
5. Oilseeds	-19.4	-3.8	32.3	5.3
6. Coal mining	-55.3	-1.0	17.0	0.0
7. Minerals Oil	-47.4	-18.3	48.3	3.7
8. Edible Oils	-39.8	-12.3	22.1	-2.8
9. Oil Cakes	-12.9	12.3	29.7	12.2
10. Sugar	35.4	34.7	22.6	11.5
11. Basic Heavy Inorganic Chemicals	–	-23.1	–	-4.5
12. Basic Metals, Alloys and Products	-32.3#	-14.1	21.1#	-0.5
- Iron and Steel	-33.7	-19.9	-16.4	-0.6

***** : Based on WPI as on June 27, 2009 over end-March 2009.

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

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

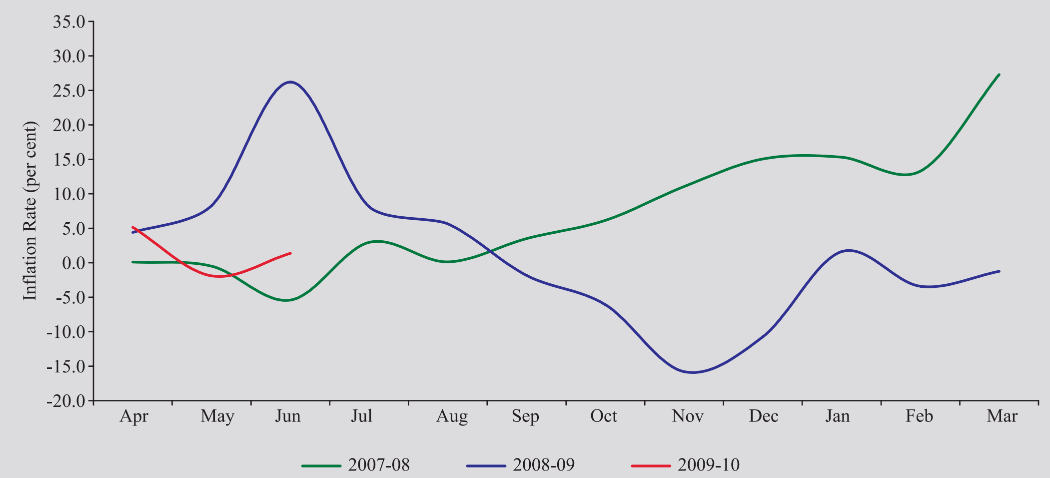
Chart 35: Contribution of Major Groups to WPI Inflation



negative in December 2008 (Chart 35). The contribution of manufactured products group has waned in the declining phase of inflation, whereas, the contribution of primary article group continues to remain positive and strong.

VI.20 Inflation momentum, as indicated by the movement in the annualised month-over-month seasonally adjusted WPI inflation, turned negative in September 2008 (Chart 36). Inflation momentum, however, has turned positive since April 2009 (the negative number of May 2009 is on account of provisional figure not being revised). According to the latest data available, annualised WPI (seasonally adjusted) inflation for the month of June 2009 remains positive. It may be noted that

Chart 36: Annualised M-o-M seasonally adjusted inflation of WPI-All Commodities



though M-o-M seasonally adjusted inflation is a useful indicator of inflationary conditions, it tends to be volatile.

VI.21 At a disaggregated level, the y-o-y inflation, excluding fuel, was at 1.4 per cent as on July 11, 2009 as compared with 10.9 per cent a year ago, indicating that the non-fuel component of WPI continues to record positive inflation. It could be observed that during the period June-October 2008, when WPI inflation was at substantially high level, overall inflation was higher than the WPI excluding fuel inflation. Since October 2008 the overall inflation has been lower than the WPI excluding fuel inflation, indicating that the fuel group contributes substantially to the volatility in inflation in the recent past (Chart 37). The annual average WPI inflation rate (average of 52 weeks) also declined to 5.4 per cent as on July 11, 2009 from 8.3 per cent at end-March 2009.

VI.22 Amongst the major groups, primary articles inflation, y-o-y, was at 5.0 per cent as on July 11, 2009 as compared with 5.2 per cent at end-March 2009, largely reflecting the high base effect. Since end-March 2009, primary articles prices have increased by 4.5 per cent, with increases in both food and non-food article prices. Vegetable prices recorded an increase of over 60 per cent over end-March 2009, reflecting the seasonal pattern as well as lower availability in the market due to strong and extended summer affecting vegetable cropping. Tea prices have increased by about 25 per cent since March 2009 as global tea production is forecast to decline by 16 per cent. Wheat, rice and pulses prices also recorded marginal increase over end-March 2009 (Table 53).

VI.23 Some of the non-food articles such as oilseeds and raw cotton also witnessed increase in prices during this period largely on account of elevated global prices and lower domestic production (raw cotton and oilseeds production are estimated to decline by 10 per cent and 5 per cent respectively

Chart 37: Annual WPI Inflation

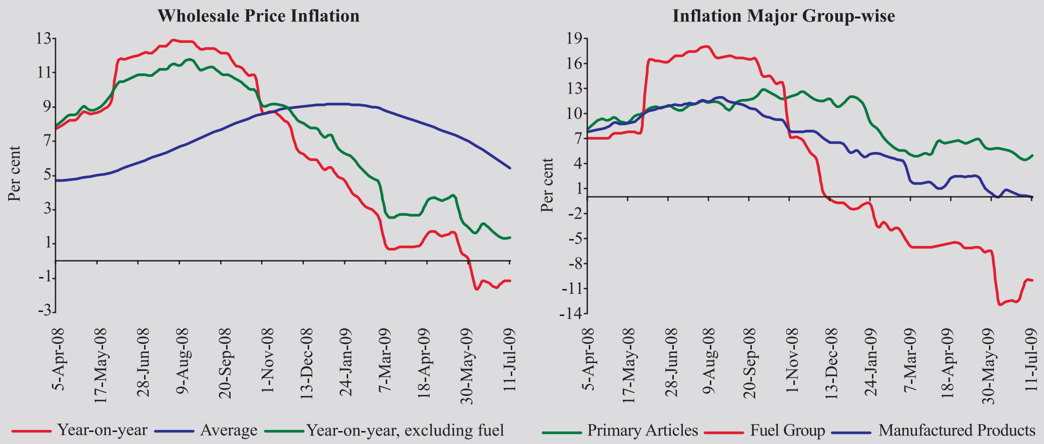


Table 53: Wholesale Price Inflation in India (year-on-year)

(Per cent)

Commodity		2008-09 (July 12)		2008-09 (Mar 28)		2009-10 (July 11) P		Financial Year (over end-March 09) P	
	Weight	Inflation	WC	Inflation	WC	Inflation	WC	Inflation	WC
1	2	3	4	5	6	7	8	9	10
All Commodities	**100.0**	**12.1**	**100.0**	**0.8**	**100.0**	**-1.2**	**100.0**	**3.5**	**100.0**
1. Primary Articles	**22.0**	**10.4**	**19.8**	**5.2**	**141.4**	**5.0**	**96.8**	**4.5**	**30.7**
Food Articles	15.4	5.7	7.6	7.0	128.9	8.2	107.3	4.8	22.4
i. Rice	2.4	8.4	1.5	14.9	38.7	15.2	27.0	1.4	1.0
ii. Wheat	1.4	8.5	1.0	4.5	7.7	2.2	2.6	1.4	0.6
iii. Pulses	0.6	0.5	0.0	9.4	7.4	15.9	8.6	6.7	1.3
iv. Vegetables	1.5	-4.6	-0.7	-5.2	-8.2	21.8	29.4	61.9	21.7
v. Fruits	1.5	12.1	1.5	5.9	12.4	2.5	3.2	-14.0	-7.3
vi. Milk	4.4	7.6	2.7	7.0	35.6	4.8	16.8	0.0	0.0
vii. Eggs, Fish and Meat	2.2	1.4	0.3	3.2	8.9	0.4	0.7	1.7	1.1
Non-Food Articles	6.1	16.3	8.2	0.1	1.0	-2.7	-14.2	4.8	8.3
i. Raw Cotton	1.4	31.5	3.0	2.5	3.5	-10.3	-11.9	6.8	2.3
ii. Oilseeds	2.7	18.5	4.1	-1.6	-5.6	-1.1	-2.8	6.2	4.8
iii. Sugarcane	1.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minerals	0.5	50.0	4.1	7.2	11.6	2.9	3.3	0.0	0.0
2. Fuel, Power, Light and Lubricants	**14.2**	**16.9**	**29.9**	**-6.1**	**-155.7**	**-10.0**	**-192.1**	**5.4**	**30.6**
i. Coal Mining	1.8	9.8	1.5	-1.0	-2.4	-1.0	-1.6	0.0	0.0
ii. Minerals Oil	7.0	26.7	27.6	-8.7	-132.8	-14.6	-176.2	9.4	30.6
iii. Electricity	5.5	1.4	0.8	-2.6	-21.1	-2.6	-14.3	0.0	0.0
3. Manufactured Products	**63.7**	**11.0**	**50.2**	**1.7**	**114.0**	**-0.05**	**-2.3**	**2.5**	**39.3**
i. Food Products	11.5	14.1	11.7	8.8	108.7	9.8	85.7	5.2	16.4
of which: Sugar	3.6	6.0	1.2	18.4	52.8	34.0	65.7	12.2	9.7
Edible Oils	2.8	17.4	3.2	-7.6	-21.6	-12.9	-25.7	-3.2	-2.0
Oil cakes	1.4	49.3	6.5	19.3	43.2	12.4	22.6	12.6	7.9
ii. Cotton Textiles	4.2	6.2	1.6	16.2	53.5	3.4	8.6	0.8	0.7
iii. Man Made Fibres	4.4	6.6	1.1	-1.5	-3.2	-4.3	-6.9	2.5	1.3
iv. Chemicals and Products	11.9	10.0	9.3	2.0	26.4	2.3	21.3	5.5	17.5
of which : Fertilisers	3.7	10.0	2.6	4.8	17.5	-0.4	-0.9	0.3	0.3
v. Non-Metallic Mineral Products	2.5	4.3	0.9	1.9	5.4	3.5	6.7	1.8	1.2
of which: Cement	1.7	3.0	0.4	2.2	4.4	4.2	5.8	2.3	1.1
vi. Basic Metals, Alloys and Metal Products	8.3	22.9	18.0	-12.2	-155.9	-15.1	-134.7	-0.4	-1.1
of which: Iron and Steel	3.6	35.1	13.2	-18.4	-124.4	-21.0	-99.0	-0.5	-0.6
vii. Machinery and Machine Tools	8.4	6.1	3.3	2.6	18.9	-2.4	-12.5	-0.2	-0.3
of which: Electrical Machinery	5.0	6.2	1.7	1.1	4.2	-4.2	-11.6	-0.3	-0.2
viii. Transport Equipment and Parts	4.3	6.0	1.6	3.1	12.0	0.7	2.0	0.5	0.5
Memo:									
Food Items (Composite)	**26.9**	**8.9**	**19.3**	**7.7**	**237.6**	**8.9**	**193.0**	**5.0**	**38.8**
WPI Excluding Food	**73.1**	**13.3**	**80.7**	**-1.6**	**-137.6**	**-4.6**	**-293.0**	**3.0**	**61.2**
WPI Excluding Fuel	**85.8**	**10.8**	**70.1**	**2.7**	**255.7**	**1.4**	**92.1**	**3.1**	**69.4**

WC: Weighted Contribution. P: Provisional.

in 2008-09 over the previous year, as per the fourth advance estimates for 2008-09). Global cotton and oilseeds prices also increased between March 2009 to June 2009. Notwithstanding the recent increase, raw cotton and oilseeds prices continued to remain below the levels recorded during the corresponding period a year ago.

VI.24 The minimum support prices for most of the agricultural crops have been revised upwards during the 2008-09 crop season (Table 54). Part of the increase in prices of primary food articles could be attributed to this increase in minimum support price.

VI.25 Inflation in fuel group is driven by the trends in international crude oil prices. As international crude prices declined between July 2008 and March 2009, domestic prices of freely priced petroleum products followed the trends in international prices and declined substantially. The monthly average Indian basket price for crude oil declined sharply from US $ 132.3 per barrel in July 2008 to US $ 41.2 per barrel in December 2008. Against this backdrop, the Government cut the price of petrol by Rs.5 per litre and diesel by Rs.2 per litre effective from December 6, 2008. As the international crude oil prices (Indian basket) continued to remain around US $ 40 per barrel the Government effected another cut in the price of petrol by Rs.5 per litre, diesel by Rs.2 per litre and LPG for domestic use by Rs.25 per cylinder effective January 29, 2009. Consequently, the fuel group inflation turned negative by March 2009. Reflecting the base effect of upward revision of administered prices in June 2008, the fuel group inflation declined further and was at -10.0 per cent as on July 11, 2009.

Table 54: Minimum Support Price/Procurement Price for Crops

	(Rs. per quintal)			Variation (per cent)	
Commodity/Year	2006-07	2007-08	2008-09	2007-08	2008-09
1	2	3	4	5	6
Paddy (Common) (Procurement price)	580 [a]	645 [b]	850 [c]	11.2	31.8
Wheat (Procurement price)	750 [b]	1000.0	1080.0	33.3	8.0
Coarse cereals (Jowar, Bajra & Ragi)	540.0	600.0	840.0	11.1	40.0
Sugarcane (Statutory minimum price)	80.3	81.2	81.2	1.0	0.0
Cotton (F-414/H-777)	1770.0	1800.0	2500.0	1.7	38.9
Soyabean (Black)	900.0	910.0	1350.0	1.1	48.4
Copra (milling)	3590.0	3620.0	3660.0	0.8	1.1

a: An additional incentive bonus of Rs.40 per quintal is payable on procurement between January 10, 2006 and March 31, 2007.
b: An additional incentive bonus of Rs.100 per quintal is payable over the Minimum Support Price(MSP).
c: Bonus of Rs.50 per quintal is payable over the MSP.

Source : Economic Survey, Government of India, 2008-09.

VI.26 International crude prices (WTI) recovered from the March 2009 levels and reached around US$ 70 per barrel by end-June 2009. Freely priced products under fuel group recorded corresponding increase. Among the various freely priced petroleum products, prices have increased by 46 per cent in case of aviation turbine fuel, 39 per cent in case of naphtha, 31 per cent in case of furnace oil, 23 per cent in the case of light diesel oil since end-March, 2009 (as on July 11, 2009). The Government also announced hikes in administered prices of petrol (by Rs.4 per litre) and diesel (by Rs.2 per litre) effective from July 2, 2009 as under-recoveries of oil companies increased on account of the increase in international crude prices. The direct impact of this increase was reflected in increase of WPI for the week ended July 4, 2009.

VI.27 Manufactured products inflation, year-on-year, has also declined since March 2009 reflecting the base effect and turned negative on July 11, 2009 (-0.05 per cent). The decline in inflation under manufactured group is largely driven by the year-on-year decline in prices of iron and steel, edible oils, man-made fibre and electrical machinery. Prices of sugar and cotton textiles, however, continued to register high annual inflation. During the first quarter of 2009-10, manufactured product groups registered increase in prices driven by the increase in manufactured food products as prices of sugar, oil cakes, drugs and medicines, and cement increased over end-March 2009.

VI.28 Since August 2008, edible oils, oil cakes prices declined reflecting the effect of fiscal measures as well as easing international prices on the back of projected increase in global production. However, according to the Fourth Advance Estimates for 2008-09, domestic oilseeds crop is expected to decline by 5 per cent over the previous year. Moreover, the global prices have increased in recent months on account of the shortage in supply. Reflecting these, oil seeds and oil cakes prices have increased over end-March 2009.

VI.29 Domestic iron and steel prices continued to remain low (-21.0 per cent (y-o-y) as on July 11, 2009). This decline in domestic iron and steel prices could be attributed to declining global prices, expected deceleration in demand, both domestic and external, as well as various fiscal measures in the form of reductions in customs duties and imposition of export duties on various steel items announced by the Government since April 2008.

VI.30 Overall, the negative WPI inflation (y-o-y) has been on account of the sharp decline in fuel group and manufactured products inflation, while prices of primary articles continue to remain positive and strong.

Consumer Price Inflation

VI.31 Inflation based on y-o-y variation in consumer price indices (CPIs) has increased since June 2008, mainly due to increase in the prices of food, fuel and services (represented by the 'miscellaneous' group). Various measures of consumer price inflation remained high in the range of 8.6-11.5 per cent during May/June 2009 as compared with 7.3-8.8 per cent in June 2008 and 8.0-9.7 per cent in March 2009 (Table 55). The higher order increase in consumer price inflation as compared to WPI inflation in recent months could be attributed to the higher prices of food articles, the weights of which are higher in CPIs. Moreover, the miscellaneous group in CPIs, which do not form part of the WPI (having weight in the range of 11.9 per cent to 24 per cent in

Table 55: Consumer Price Inflation - Major Groups

(Year-on-year variation in per cent)

CPI Measure	Weight	Mar-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Apr-09	May-09	Jun-09
1	2	3	4	5	6	7	8	9	10	11
CPI-IW (Base: 2001=100)										
General	**100.0**	**6.7**	**7.9**	**7.7**	**9.8**	**9.7**	**8.0**	**8.7**	**8.6**	**–**
Food Group	46.2	12.2	9.3	10.5	13.1	13.1	10.6	10.4	11.7	–
Pan, Supari *etc*.	2.3	4.4	10.9	7.1	7.8	8.5	8.3	6.7	7.5	–
Fuel and Light	6.4	3.2	4.6	8.4	9.1	9.7	7.4	6.6	5.9	–
Housing	15.3	4.1	4.7	4.7	3.8	3.8	6.0	6.0	6.0	–
Clothing, Bedding *etc*.	6.6	3.7	2.6	2.5	2.5	4.2	5.0	4.2	4.1	–
Miscellaneous	23.3	3.3	6.3	6.2	7.6	8.3	7.4	7.4	7.4	–
CPI-UNME (Base: 1984-85=100)										
General	**100.0**	**7.6**	**6.0**	**7.3**	**9.5**	**9.8**	**9.3**	**8.8**	**9.7**	**–**
Food Group	47.1	10.9	7.8	9.6	13.2	13.4	12.2	11.1	12.9	–
Fuel and Light	5.5	6.4	4.6	5.3	6.2	7.7	5.9	6.7	5.8	–
Housing	16.4	5.6	4.0	3.8	3.5	3.5	5.8	6.0	6.0	–
Clothing, Bedding *etc*.	7.0	3.6	4.3	3.4	3.1	2.7	3.3	4.2	4.2	–
Miscellaneous	24.0	4.4	4.8	6.6	8.4	9.3	8.6	7.6	8.1	–
CPI-AL (Base: 1986-87=100)										
General	**100.0**	**9.5**	**7.9**	**8.8**	**11.0**	**11.1**	**9.5**	**9.1**	**10.2**	**11.5**
Food Group	69.2	11.8	8.5	9.6	12.0	11.9	9.7	9.1	11.2	12.4
Pan, Supari *etc*.	3.8	5.7	10.4	11.2	12.8	13.7	15.3	14.5	14.4	14.2
Fuel and Light	8.4	6.9	8.0	8.9	10.2	11.3	11.5	10.9	10.6	11.0
Clothing, Bedding *etc*.	7.0	3.5	1.8	3.1	6.0	7.0	7.4	7.9	7.6	8.3
Miscellaneous	11.7	6.8	6.1	6.5	7.1	7.0	6.5	6.2	6.6	6.1
CPI-RL (Base: 1986-87=100)										
General	**100.0**	**9.2**	**7.6**	**8.7**	**11.0**	**11.1**	**9.7**	**9.1**	**10.2**	**11.3**
Food Group	66.8	11.5	8.2	9.6	12.0	11.9	10.0	9.1	11.2	12.4
Pan, Supari *etc*.	3.7	5.7	10.6	10.9	12.5	13.4	15.0	14.0	14.1	14.1
Fuel and Light	7.9	6.9	8.0	8.9	10.5	11.3	11.5	10.9	10.6	11.0
Clothing, Bedding *etc*.	9.8	3.1	2.8	4.1	6.5	7.3	8.2	8.4	8.3	8.8
Miscellaneous	11.9	6.3	6.2	6.8	7.4	7.5	6.7	6.2	6.4	6.2
Memo:										
WPI Inflation (End of period)		5.9	7.7	12.0	12.1	5.9	0.8	1.7	0.1	-1.6
GDP Deflator based Inflation*		5.5	4.9	8.0	10.6	8.3	7.8	–	–	–

* : Data for March pertain to full year.
IW : Industrial Workers.
UNME : Urban Non-Manual Employees.
AL : Agricultural Labourers. RL : Rural Labourers.

various CPIs), exhibited significant price pressures, causing part of the divergence. Similarly, metals group in WPI, which does not form part of the CPI group has exhibited significant negative inflation, thereby accentuating the overall difference between CPIs and WPI. Also, there is usually a lag in the movement of CPI inflation in relation to the WPI inflation.

VI.32 Overall, the current negative WPI inflation largely reflects the base effect of sharp increases in prices recorded a year ago. The momentum of WPI since end-March 2009, however, indicates the existence of price pressures largely on account of increases in international commodity prices during the first quarter of 2009-10 and changing domestic supply conditions largely caused by the delay in the progress of South-West monsoon. Consumer price inflation and prices of food articles continue to remain firm; inflation expectations, therefore, are not moderating commensurately with decline in WPI inflation.

VII. MACROECONOMIC OUTLOOK

The forecasts of various international agencies continue to point towards persistence of global recessionary conditions during 2009, though some indications, albeit tentative, of a global economic recovery are becoming visible. The IMF revised the growth projection for India upwards on July 8, 2009 from the earlier 4.5 per cent to 5.4 per cent in 2009. Various surveys of economic activity point towards gradual emergence of optimistic sentiment for the outlook of the Indian economy in the coming months. There are visible upside prospects as well as downside possibilities for the near-term growth outlook. Emerging lead information indicate firming up of inflation over time, even though certain possible developments could help in moderating the inflationary pressures.

VII.1 The macroeconomic outlook of the Indian economy, based on various business expectations surveys indicates that the earlier decline in overall business sentiment has reversed suggesting gradual return of optimism. The Reserve Bank's industrial outlook survey suggests turnaround in general economic sentiments during the first two quarters of 2009-10. The professional forecasters' survey conducted by the Reserve Bank in June 2009 also shows upward revision in the median GDP growth forecast for 2009-10.

Business Expectations Surveys

VII.2 The Business Confidence Index (BCI) of the NCAER (68th round) receded to 81.6 in April 2009 from 91.4 in January 2009. The BCI lost 9.8 points or 10.7 per cent in April 2009 over its January 2009 level (Table 56). The decline was recorded in three constituent indices, namely the "overall economic conditions index over the next six months", "investment climate in the economy now as compared to six months back", and "expectations of financial position of the firm in next six months". The index on "current level of capacity utilisation of the firm relative to optimal operations" remained unchanged during the period.

VII.3 The CII Business Confidence Index (CII-BCI) for April-September 2009 at 58.7 increased by 4.3 per cent over the preceding round (*i.e.*, October-March 2008-09) reflecting an improvement in the ensuing business confidence. The business confidence, however, was lower by 3.8 per cent for April-September 2009 as compared

Table 56: Business Expectations Surveys

Organisation	Business Expectations		Growth over a year ago (per cent)	Growth over previous round (per cent)
	Period	Index		
1	2	3	4	5
NCAER	April 2009	Business Confidence Index	-45.1	-10.7
CII	April-September 2009	Business Confidence Index	-3.8	4.3
Dun & Bradstreet	July-September 2009	Business Optimism Index	-3.3	40.8

to the corresponding period of last year. The Dun and Bradstreet Business Optimism Index for July–September 2009 increased significantly by 40.8 per cent to 132.1 from an all-time low of 93.8 in April-June 2009. On a year-on-year basis, the index, however, recorded a marginal decline of 3.3 per cent over the corresponding quarter of the previous year as compared to a decline of 39.0 per cent in April-June 2009. Five of the six optimism indices, namely volume of sales, net profits, new orders, selling prices, and employee levels recorded an improvement as compared to the previous quarter. Inventory levels, however, registered a decline by 2.0 per cent over the previous quarter.

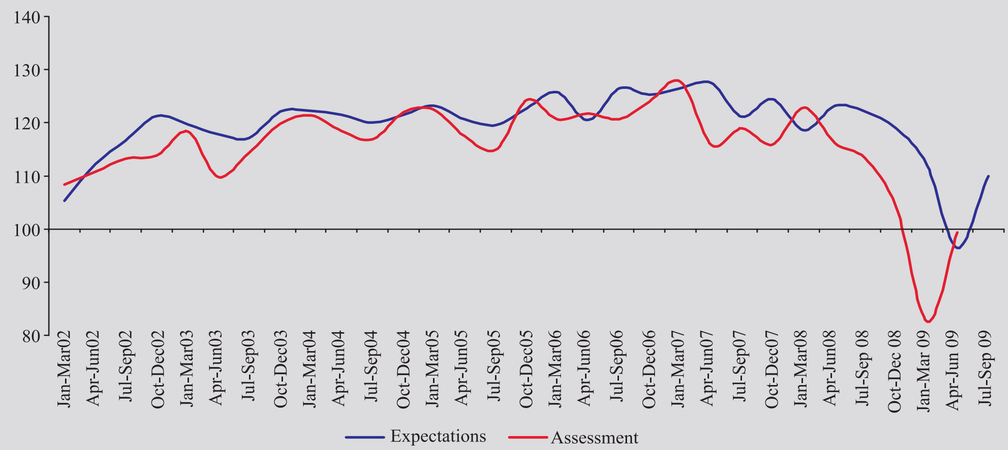
VII.4 The headline Markit India Manufacturing PMI was at 55.3 during June 2009, above the neutral mark of 50.0, indicating recovery in manufacturing for the third straight month after protracted contraction. Production, new orders and manufacturing employment recorded increase during June 2009.

Reserve Bank's Industrial Outlook Survey

VII.5 The Industrial Outlook Survey of the Reserve Bank conducted in April-May 2009 also suggests a turnaround in the business sentiment. For the manufacturing companies in the private sector, the business expectations indices based on an "assessment for April-June 2009" and on "expectations for July-September 2009" improved sharply by 20.3 and 14.0 per cent, respectively, over the previous quarter, when these indices had recorded their lowest level since inception of the Survey (Chart 38).

VII.6 For most of the indicators like production, order book position, capacity utilisation and financial situation, the decline in sentiment has been arrested and reversed. The price expectations show that more companies are expecting rise in input and output prices as compared with the previous quarters. The outlook on raw material cost seems to be complex, as 40.6 per cent of the respondents reported increase in price of raw materials against

Chart 38: Reserve Bank's Industrial Outlook Survey- Business Expectation Index



37.2 per cent in the preceding quarter. Additionally, the share of companies expecting price increase also has increased to 35.8 per cent. Optimism level for selling prices (*i.e.*, increase in selling price) for both assessment and expectations improved as compared with the last survey round mainly on account of increase in the proportion of 'no change in selling price' (Table 57).

Table 57: Reserve Bank's Survey – Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance

Parameter		Response	Apr-Jun 2008	Jul-Sep 2008	Oct-Dec 2008	Jan-Mar 2009	Apr-Jun 2009	Jul-Sep 2009
1		2	3	4	5	6	7	8
1.	Overall business situation	Better	46.0 (42.7)	41.8 (42.6)	33.7 (44.1)	21.1 (43.9)	11.2 (47.6)	26.3 (46.7)
2.	Financial situation	Better	36.6 (51.6)	32.7 (53.0)	27.7 (52.5)	16.4 (53.2)	8.4 (52.7)	16.6 (54.4)
3.	Working capital finance requirement	Increase	36.6 (56.5)	33.6 (57.3)	33.8 (57.7)	32.9 (57.1)	23.2 (61.0)	22.4 (61.7)
4.	Availability of finance	Improve	32.3 (58.3)	30.2 (57.9)	23.3 (59.0)	13.7 (56.3)	9.3 (61.7)	16.8 (62.6)
5.	Production	Increase	45.2 (41.0)	43.5 (36.6)	39.8 (42.1)	26.0 (42.3)	9.9 (44.9)	19.1 (45.5)
6.	Order books	Increase	41.5 (44.3)	38.5 (43.5)	35.7 (46.1)	20.6 (46.1)	6.4 (44.4)	-27.1 (45.8)
7.	Pending orders, if applicable	Below normal	-4.3 (81.3)	2.2 (80.9)	4.6 (82.0)	11.5 (77.8)	23.2 (59.4)	-0.5 (73.4)
8.	Cost of raw material	Decrease	-48.2 (46.0)	-54.7 (39.1)	-61.1 (32.3)	-35.7 (39.7)	-16.2 (33.7)	-1.8 (55.5)
9.	Inventory of raw material	Below average	-7.0 (83.2)	-3.8 (81.8)	-7.6 (77.6)	-3.3 (81.3)	1.1 (80.2)	10.7 (82.7)
10.	Inventory of finished goods	Below average	-5.8 (84.5)	-1.5 (84.5)	-4.3 (82.6)	-4.4 (80.9)	-4.4 (78.4)	-12.1 (80.6)
11.	Capacity utilisation (Main product)	Increase	25.6 (59.9)	22.2 (58.8)	26.4 (56.0)	12.3 (59.1)	-0.7 (55.0)	5.5 (57.5)
12.	Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	9.4 (77.0)	3.6 (74.9)	-0.5 (78.7)	-7.4 (73.7)	-20.8 (66.4)	1.5 (70.8)
13.	Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	8.0 (81.2)	4.6 (81.3)	5.7 (81.7)	11.8 (81.0)	8.9 (70.7)	0.1 (76.9)
14.	Employment in the company	Increase	20.8 (68.2)	15.8 (71.5)	16.6 (70.4)	7.7 (75.7)	-5.1 (74.0)	4.6 (78.6)
15.	Exports, if applicable	Increase	27.7 (53.3)	27.7 (54.9)	27.3 (54.3)	16.0 (54.8)	-3.8 (57.3)	0 (59.0)
16.	Imports, if any	Increase	25.3 (65.6)	21.3 (66.5)	21.4 (67.9)	9.1 (69.7)	-1.4 (68.8)	-100 (70.6)
17.	Selling prices are expected to	Increase	19.1 (66.0)	21.0 (61.5)	26.2 (57.6)	4.1 (61.7)	-9.1 (61.9)	-13.4 (65.6)
18.	If increase expected in selling prices	Increase at lower rate	9.0 (64.0)	3.0 (61.3)	0.6 (54.7)	0.9 (54.0)	25.9 (53.5)	0 (0.0)
19.	Profit margin	Increase	7.2 (61.0)	3.8 (59.8)	-3.6 (54.7)	-12.9 (53.3)	-18.6 (50.6)	0 (54.5)

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.

VII.7 The industry-wise breakup showed that the net sentiments on 'overall business situation' for the sample companies recorded sharp improvement from its lowest level for the quarter April-June 2009. The industry groups, *viz.*, fertilizer, food products, and pharmaceuticals show positive sentiment, with more companies expecting growth than those expecting contraction. The expectations on employment for the July-September 2009 show that the manufacturing sector will be a net hirer. The Business Expectations Index (BEI) for April-June 2009 improved with reference to the previous quarter indicating that the contraction is assessed to be at a much smaller rate. The BEI for July-September 2009 also indicates a turn around and crossed the critical 100 mark into the growth terrain.

Survey of Professional Forecasters[1]

VII.8 The results of eighth round of survey of professional forecasters' conducted by the Reserve Bank in June 2009 placed overall (median) growth rate for 2009-10 at 6.5 per cent, revised upwards from 5.7 per cent in the earlier survey (Table 58). The sectoral growth rate forecast for the agriculture sector was revised downwards from 3 per cent to 2.5 per cent. The forecasts for industry were revised upwards from 4.1 per cent to 4.8 per cent and for services from 7.5 per cent to 8.3 per cent in the current survey. Median forecasts for different quarters of 2009-10 placed higher growth for industry and services in the third and fourth quarters of 2009-10.

VII.9 Forecasts by select agencies for real GDP growth of India in 2009-10 are set out in Table 59. There was a significant upward revision in the projection for India's growth in 2009 by the IMF (July 8, 2009) from 4.5 per cent in April 2009 to 5.4 per cent in July 2009.

Inflation and Growth Outlook

VII.10 The outlook for growth has to be assessed in the context of both upside prospects as well as downside possibilities. Certain lead information available for the year 2009-10 that could indicate recovery in growth include: (a) IIP growth remaining positive during April-May 2009 with increasing number of industry groups showing positive trends, (b) the core infrastructure sector showing higher growth of 4.8 per cent in April-June 2009 as against 3.5 per cent in the corresponding period of the previous year, (c) cement production showing significantly higher growth during April-June 2009 over the corresponding period last year, suggesting picking up of activities in the construction sector, (d) some of the forward looking indicators for services sector activities such as tourist arrivals and railway freight earnings imporving in June 2009 and growth in new cell phone connections showing improvements during April-May

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

Table 58: Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters : 2009-10 and 2010-11

		Actual 2008-09	Annual forecasts 2009-10 E	Annual forecasts 2009-10 L	Annual forecasts 2010-11 E	Annual forecasts 2010-11 L	Quarterly 2009-10 Q1 E	Q1 L	Q2 E	Q2 L	Q3 E	Q3 L	Q4 E	Q4 L	Quarterly 2010-11 Q1 E	Q1 L
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Real GDP growth rate at factor cost (in per cent)	6.7	5.7	6.5	–	7.5	5.3	6.0	5.6	6.2	6.2	6.9	6.5	7.1	–	7.5
	a. Agriculture & Allied Activities	1.6	3.0	2.5	–	3.0	3.0	2.8	2.5	2.4	3.0	3.5	3.0	3.0	–	3.0
	b. Industry	2.6	4.1	4.8	–	7.4	2.1	2.8	3.0	3.5	5.3	5.9	5.9	7.2	–	7.0
	c. Services	9.4	7.5	8.3	–	9.0	7.3	8.1	7.4	8.0	7.5	8.5	8.2	8.5	–	8.8
2	Gross Domestic Saving (per cent of GDP at current market price)	–	34.6	35.0	–	36.0	–	–	–	–	–	–	–	–	–	–
3	Gross Domestic Capital Formation (per cent of GDP at current market price)	–	35.4	36.6	–	37.9	36.2	34.5	34.5	36.4	34.1	38.0	33.8	37.0	–	36.2
4	Corporate profit after tax (growth rate in per cent)*	–	9.0	7.5	–	15.0	-2.5	-1.0	2.0	3.0	16.5	8.0	12.5	9.0	–	15.0
5	Inflation WPI	8.4	1.8	1.6	–	5.5	-1.4	0.3#	-2.5	-1.4	1.6	2.5	4.8	5.4	–	5.9
6	Exchange Rate (INR/US$ end period)	51.0	48.0	46.5	–	44.5	50.0	47.9#	49.0	47.5	48.0	47.0	47.0	46.0	–	45.4
7	91-day Treasury Bill Yield (per cent-end period)	7.1	5.0	4.6	–	5.0	–	–	–	–	–	–	–	–	–	–
8	10-year Government Securities Yield (per cent-end period)	7.6	6.5	7.0	–	7.0	–	–	–	–	–	–	–	–	–	–
9	Export (growth rate in per cent)@	5.4	-4.0	-0.5	–	12.0	–	–	–	–	–	–	–	–	–	–
10	Import (Growth rate in per cent)@	14.3	-8.4	-3.5	–	14.0	–	–	–	–	–	–	–	–	–	–
11	Trade Balance (US $ billion)	-119.4	–	–	–	–	-25.0	-19.0	-27.0	-25.8	-27.1	-31.0	-28.0	-19.9	–	-29.3

E : Earlier Projection. L : Latest Projection.
– : Not Available. # : Actuals. * : BSE listed companies. @ : US $ on BoP Basis

Note : The latest round refers to eighth round for the quarter ended June 2009, while earlier round refers to seventh round for the quarter ended March 2009.

Source : Survey of Professional Forecasters, First Quarter 2009-10.

2009 being significantly higher than the numbers in the corresponding period of last year, (e) large and sustained fiscal stimulus providing the boost to aggregate demand, (f) Reserve Bank's Industrial Outlook Survey conducted in April-May 2009 suggesting significant improvement in the respondents' "assessment for April-June 2009" and "expectations for July-September 2009" by 20.3 per cent and 14.0

per cent, respectively, over the previous survey conducted during January-March 2009, (g) the Reserve Bank's professional forecasters survey conducted in June 2009 showing a median GDP growth of 6.5 per cent for 2009-10, as against 5.7 per cent as per the previous survey conducted in March 2009, (h) non-food credit growth turning positive since the beginning of June 2009 and the year-on-year deceleration in credit growth showing a modest reversal since the last fortnight of June 2009, (i) capital flows, after two consecutive quarters of net outflows in the second half of 2008-09, showing signs of improvement in the first quarter of 2009-10, (j) early information on the corporate performance for the first quarter of 2009-10 indicating positive growth in both sales and profits over the corresponding period of the previous year, (k) the stock market witnessing significant recovery in the first quarter of 2009-10, indicating signs of improving risk appetite, and (l) primary segment of the capital market, which had virtually dried up since October 2008, witnessing signs of revival with one public issue being over subscribed multiple times.

VII.11 Several lead indicators, however, suggest that the dampened growth impulses may continue, which include:(a) significant delay in the arrival of monsoon in certain parts of the country which has already affected the *kharif* showing, (b) persistence of global recession and the associated weak prospects for recovery in export growth in the near-term, (c) the lagged impact of decline in manufacturing growth in the Q4 of 2008-09 on services demand in early 2009-10, (d) capital goods segment in the IIP showing negative growth during April-May 2009, (e) commercial vehicles

Table 59: Projections of Real GDP for India by Various Agencies – 2009-10

(Per cent)

Agency	Latest Projection				Month of Projection	Earlier Projection	
	Overall Growth	Agriculture	Industry	Services		Overall Growth (Per cent)	Month
1	**2**	3	4	5	6	7	8
ADB	**5.0**	–	–	–	Mar-09	7.0	Dec-08
CMIE	**5.8**	-2.0	5.7	8.2	July-09	6.6	May
Economic Advisory Council to PM	**7.0-7.5**	–	–	–	Jan-09	–	–
ICRIER	**4.8-5.5**	–	–	–	Mar-09	–	–
IMF (Calendar year)	**5.4**	–	–	–	July-09	4.5	April-09
NCAER	**6.5-6.9**	2.5	6.0-6.3	7.9-8.5	Apr-09	–	–
OECD	**5.9**	–	–	–	June-09	4.3	Mar-09
World Bank	**5.1**	–	–	–	June-09	4.0	Mar-09
Range	**4.8-7.5**	**-2.0-2.5**	**5.7-6.3**	**7.9-8.5**		**4.0-7.0**	

production registering a negative growth of 23.1 per cent during April-May 2009, and (f) non-oil import growth declining at an accelerated rate.

VII.12 On the inflation outlook, while certain indicators suggest possible firming up of inflation over time, other developments could also help in keeping the inflationary pressures subdued. The major lead information indicating firming up of inflation by the end of the current fiscal year include: (a) the high base effect that resulted from significant increases in the prices of food and international commodities in the first half of the year fading over time, and the base effect almost disappearing by October 2009, (b) the upward momentum in inflation visible from the rising WPI over its end-March 2009 level, (c) increase in commodity prices, particularly oil prices, during the first quarter of 2009-10 and with global recovery, the possibility of commodity and food prices increasing further, (d) increase in Minimum Support Price (MSP) as well as delayed monsoon exerting possible pressures on food prices, (e) price pressures from sugar and oil cakes remain strong, (f) CPI inflation continuing to be inflexible and firm, (g) inflation expectations not moderating commensurately in response to the sharp fall in WPI (point-to-point) inflation, and (h) the inflationary implications of fiscal stimulus and accommodative monetary policy, if sustained longer.

VII.13 Inflationary pressures may abate if: (a) global recession deepens and persists over a longer period, which could then dampen the commodity prices considerably, (b) despite the delayed progress of monsoon, agricultural growth remains unaffected, (c) administered prices, including MSP do not increase further during the year, and (d) the accommodative monetary stance returns to normal levels at the earliest.