

VI. The External Economy

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

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

International Developments

After expanding at an impressive pace of 5.5 per cent in 2006, global economic activity in 2007 so far has remained buoyant, fuelled by growth in major emerging markets. Amongst the major advanced economies, growth of the US

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

According to the projections released by the International Monetary Fund (IMF) in July 2007, growth in the world economy is likely to moderate to 5.2 per cent in 2007 as also in 2008 from 5.5 per cent in 2006 (Table 49). While global economic activity has remained resilient during 2007 so far, protectionist pressures, further rise in oil prices, persisting global imbalances, adjustment in the US on account of housing slowdown and potential shifts in financial market sentiment pose downward risks to global growth prospects.

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

Table 48: Growth Rates – Global Scenario

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

P : IMF Projections.

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

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

Table 49: Select Economic Indicators – World

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

P : IMF Projections.

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

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

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

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

those of advanced countries are expected to grow by 5.5 per cent (8.5 per cent a year ago) (see Table 49).

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

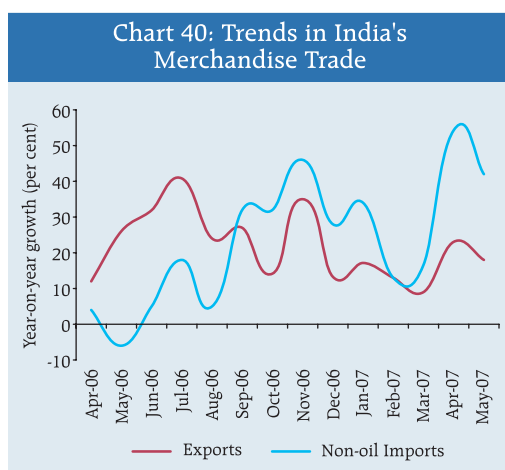
Balance of Payments: 2006-07

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

Table 50: Growth in Exports - Global Scenario

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

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



Commodity-wise data available for 2006-07 (April-February) indicate that exports of both primary products and manufactured products exhibited moderation in growth. The moderation was on account of the decline in the exports of gems and jewellery and deceleration in textiles, chemicals and ores and minerals (Table 51). On the other hand, tea, spices,

sugar and molasses, engineering goods and petroleum products maintained the growth momentum. Engineering goods and petroleum products together contributed 62 per cent to total export growth during 2006-07 (April-February).

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

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

Table 51: Exports of Principal Commodities

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

Source : DGCI&S.

Table 52: Direction of India's Exports

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

Source : DGCI&S.

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

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

Table 53: Imports of Principal Commodities

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

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

Source : DGCI & S.

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

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

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

Current Account

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

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

Table 54: Invisibles Account (Net)

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

PR : Partially Revised.
P : Preliminary.

Table 55: India's Balance of Payments

(US \$ million)

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

Memo:

Current Account net of private transfers	-33,288	-36,804	-4,472	-10,280	-10,047	-10,429	-6,048
	(-4.1)	(-4.0)					

P : Preliminary. PR : Partially Revised.

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

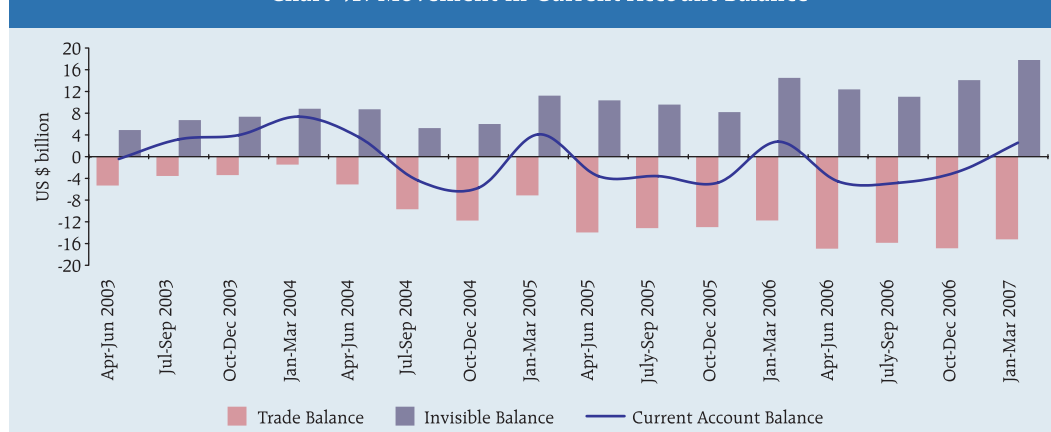
: On balance of payments basis (excluding valuation); (-) indicates increase. @ : Excluding the IMD redemption.

Note : Figures in parentheses are percentages to GDP.

the current account deficit at 1.1 per cent in 2006-07 was the same as in 2005-06 (Table 55 and Chart 41). Net of remittances, the

current account deficit was 4.0 per cent of GDP in 2006-07 (4.1 per cent in 2005-06 and 3.3 per cent in 2004-05).

Chart 41: Movement in Current Account Balance



Capital Flows

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

progressive liberalisation of the external payments regime. Both FDI inflows and outflows during 2006-07 included one transaction amounting to US \$ 3.1 billion involving swap of shares. Net of this transaction, FDI inflows and outflows at US \$ 16.4 billion and US \$ 7.9 billion, respectively, during 2006-07 were significantly higher than the previous year.

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

Table 56: Capital Flows

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

: Includes swap of shares of US \$ 3.1 billion. @ : Excluding IMD redemption.
– : Not available. * : Up to July 13.

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

(intercorporate debt transactions between related entities). Data on equity capital include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad) besides equity of incorporated bodies.

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

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

Net draws under ECBs rose from US \$ 2.7 billion during 2005-06 (US \$ 8.2 billion

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

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

External Debt

India's total external debt was placed at US \$ 155.0 billion at end-March 2007, an increase of US \$ 28.6 billion over end-March 2006. The increase in external debt during the period was mainly on account of the rise in external commercial borrowings and NRI deposits, as alluded to earlier. About 49 per cent of the external debt stock was denominated in US dollar, followed by the

Table 57: India's External Debt

(US \$ million)							
Item	End-March 1995	End-March 2005	End-March 2006	End-June 2006	End-Sept 2006	End-Dec 2006	End-March 2007
1	2	3	4	5	6	7	8
1. Multilateral	28,542	31,702	32,559	33,101	33,594	34,569	35,641
2. Bilateral	20,270	16,930	15,727	15,833	15,734	15,770	16,104
3. International Monetary Fund	4,300	0	0	0	0	0	0
4. Trade Credit	6,629	4,980	5,398	5,498	5,658	5,957	6,964
5. External Commercial Borrowings	12,991	27,024	26,869	31,114	32,421	35,980	42,780
6. NRI Deposits	12,383	32,743	35,134	35,651	36,515	38,382	39,624
7. Rupee Debt	9,624	2,301	2,031	1,915	1,921	1,983	1,949
8. Long-term (1 to 7)	94,739	115,680	117,718	123,112	125,843	132,641	143,062
9. Short-term	4,269	7,524	8,696	9,105	10,625	10,015	11,971
Total (8+9)	99,008	123,204	126,414	132,217	136,468	142,656	155,033
(Per cent)							
<i>Memo:</i>							
Total debt/GDP	30.8	17.3	15.8	—	—	—	16.4
Short-term/Total debt	4.3	6.1	6.9	6.9	7.8	7.0	7.7
Short-term debt/Reserves	16.9	5.3	5.7	5.6	6.4	5.7	6.0
Concessional debt/Total debt	45.3	33.0	31.2	30.1	29.3	28.3	25.7
Reserves/Total debt	25.4	114.9	119.9	123.2	121.1	124.3	128.5
Debt Service Ratio*	25.9	6.1	9.9	—	—	—	4.8

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

Indian Rupee (17.4 per cent), SDR (13.3 per cent) and Japanese Yen (12.5 per cent). The ratios of short-term to total debt and short-term debt to reserves recorded modest increases between end-March 2006 and end-March 2007 (Table 57). Foreign exchange reserves remained in excess of the stock of external debt.

International Investment Position

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

commercial borrowings and non-resident deposits.

Developments during 2007-08

According to the DGCI&S data, growth in merchandise exports as well as imports accelerated during April-May 2007. While exports increased by 20.2 per cent, imports expanded by 33.0 per cent. The increase in merchandise imports was led by non-oil imports, which recorded a growth of 47.3 per cent. Growth in oil imports moderated, mainly reflecting the impact of international crude oil prices. The Indian basket of crude oil price at US \$ 65.6 per barrel in April-May 2007 was lower by 2.1 per cent than a year ago (US \$ 67.0 per barrel in April-May 2006). The trade deficit widened to US \$ 13.3 billion in April-May 2007 from US \$ 8.2 billion in April-May 2006 (Table 59).

Table 58: International Investment Position of India

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

PR : Partially Revised. P : Provisional.

Note : Figures in parentheses are percentages to GDP.

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

India's foreign exchange reserves were US \$ 222.0 billion on July 20, 2007, an increase of US \$ 22.9 billion over end-March 2007 level (Table 60). India holds the fifth largest stock of reserves among the emerging market economies. The overall approach to the management of India's foreign exchange reserves in recent years reflects the changing composition of the balance of payments and the 'liquidity risks' associated with different types of flows and

Table 59: India's Merchandise Trade

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

* : April-February. — : not available.

Source : DGCI&S.

other requirements. Taking these factors into account, India's foreign exchange reserves continued to be at a comfortable level and consistent with the rate of growth, the share of external sector in the economy and the size of risk-adjusted capital flows.

India's foreign exchange reserves increased from US\$ 5.8 billion at end-March 1991 to US \$ 199.2 billion by end-March 2007. The accretion to foreign exchange reserves was on account of net capital flows, which amounted to US \$ 212.2 billion over the period, partly offset

by a deficit of US \$ 34.1 billion in current account. Valuation changes also added US \$ 15.3 billion to reserves. Of the components of capital flows, cumulative foreign investment inflows (net) amounted to US \$ 109.3 billion (including US \$ 52.0 billion under FII inflows), external commercial borrowings (net) were US \$ 37.6 billion and net inflows under NRI deposits were US \$ 29.2 billion.

A comparison of major reserve holding countries over the period 2000-2006 shows that current account surpluses accounted

Table 60: Foreign Exchange Reserves

(US \$ million)					
Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+ 3+ 4+ 5)
1	2	3	4	5	6
March 1995	4,370	7	20,809	331	25,517
March 2000	2,974	4	35,058	658	38,694
March 2005	4,500	5	135,571	1,438	141,514
March 2006	5,755	3	145,108	756	151,622
March 2007	6,784	2	191,924	469	199,179
April 2007	7,036	11	196,899	463	204,409
May 2007	6,911	1	200,697	459	208,068
June 2007	6,787	1	206,114	460	213,362
July 2007 *	6,787	1	214,790	465	222,043

* : As on July 20, 2007.

for 179 per cent and 138 per cent of accretion to reserves in Japan and Russia, respectively, and 56 per cent each in case of China and Korea. In contrast, in India, over the same period, accretion to foreign exchange

reserves was almost entirely due to capital inflows. While net capital inflows were US \$ 143.9 billion during 2000-2006, total reserves increased by US \$ 143.8 billion over the same period.