

VI. The External Economy

India's balance of payments position remained comfortable during 2007-08 (April-December), despite acceleration in non-oil imports growth. Merchandise exports during 2007-08 (April-February) continued to maintain the growth achieved during 2006-07 (April-February). Imports during 2007-08 (April-February) posted a high growth rate; oil imports, however, recorded a deceleration from the strong growth recorded during the corresponding period of the previous year. Net invisibles remained buoyant during 2007-08 (April-December), led by higher growth in private transfers and software services exports. Despite sharp rise in trade deficit, the surplus on the invisibles account helped in containing the current account deficit, although it remained at a higher level than in the comparable period of 2006-07. Net capital inflows were substantially higher than those in the corresponding period of 2006-07. India's foreign exchange reserves increased by US \$ 110.5 billion during 2007-08.

International Developments

The global economy expanded by 4.9 per cent in 2007 as against 5.0 per cent in 2006. After a stronger than expected growth in the third quarter of 2007, growth in most of the advanced economies decelerated sharply in the last quarter of 2007, mainly on account of the financial crisis that has spread beyond the US sub-prime mortgage market. In contrast, emerging and developing economies continued to grow above the trend, despite some slackening of exports and industrial production towards the end of year (Table 55).

Going forward, the growth in global economy is projected to decelerate to 3.7

Table 55 : Growth Rates - Global Scenario

(Per cent)									
Region/Country	2006	2007	2008 P	2009 P	2006	2007			
					Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10
Advanced Economies									
Euro area	2.8	2.6	1.4	1.2	3.2	3.2	2.5	2.7	2.2
Japan	2.4	2.1	1.4	1.5	2.3	3.0	1.7	1.7	2.0
Korea	5.1	5.0	4.2	4.4	4.0	4.0	4.9	5.1	5.7
UK	2.9	3.1	1.6	1.6	3.0	3.0	3.1	3.2	2.8
US	2.9	2.2	0.5	0.6	2.6	1.5	1.9	2.8	2.5
OECD Countries	3.1	2.7	2.3	2.4	3.0	2.7	2.5	2.9	2.6
Emerging Economies									
Argentina	8.5	8.7	7.0	4.5	8.6	8.0	8.7	8.7	9.1
Brazil	3.8	5.4	4.8	3.7	4.4	4.3	5.4	5.7	6.2
China	11.1	11.4	9.3	9.5	10.7	11.1	11.5	11.5	11.2
India	9.6	8.7	7.9	8.0	9.1	9.1	9.3	8.9	8.4
Indonesia	5.5	6.3	6.1	6.3	6.1	6.1	6.4	6.5	6.3
Malaysia	5.9	6.3	5.0	5.3	5.7	5.5	5.8	6.6	7.3
Thailand	5.1	4.8	5.3	5.6	4.3	4.2	4.3	4.8	5.7

P : IMF Projections.

Note : Data for India in columns 2 and 3 refer to fiscal years 2006-07 and 2007-08, respectively.

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

per cent in 2008 mainly on account of expected slowdown in most of the advanced economies. The overall balance of risks to the short-term global growth outlook remains tilted to the downside. Interaction between negative financial shocks and the domestic demand remains a serious downside risk for the US and to some extent in Western Europe and elsewhere. However, there is some upside potential for projected domestic demand in emerging economies. The emerging market and developing economies are expected to remain as the stabilising factor in supporting the global economy and in cushioning global downturns. So far, the spillover to emerging markets and developing countries seems relatively contained mainly because of their limited direct exposure to sub-prime related securities. Consumption activity supported domestic demand in emerging Asian economies, while export growth has begun

to show some signs of moderation. The strength of domestic demand in the region combined with rising food and energy prices have led to the build-up of inflationary pressures in a number of countries in emerging Asia. Apart from the possibility of further credit crunch, downside risks to global growth include contagion from the likely US recession, increased inflationary pressures driven by rising food and energy prices, and persisting global imbalances.

The IMF has projected the US economy to grow by 0.5 per cent in 2008 (2.2 per cent in 2007). The US growth prospects would hinge upon the future course of the housing correction, the extent of financial sector dislocation, and the ensuing impact on household and business finances. The Euro area is expected to grow by 1.4 per cent in 2008 (2.6 per cent in 2007) although there are increasing concerns that with spillovers from the US,

tightening credit conditions and rising risk spreads may have adverse implications for domestic demand. Growth in Japan is projected to decelerate to 1.4 per cent in 2008 (2.1 per cent in 2007) on account of expected moderation in export growth and consumption. Growth projection for developing Asia is placed at 8.2 per cent for 2008 as against 9.7 per cent in 2007 (Table 56). Growth in emerging Asia during 2007 was led by China and India. Growth

in China was driven by investment growth and net exports, although export growth moderated somewhat towards the end of year. GDP in China grew by 10.6 per cent in the first quarter of 2008. The IMF has projected growth in china to moderate to 9.3 per cent in 2008 (11.4 per cent in 2007).

The IMF has projected that India's growth would moderate to 7.9 per cent in 2008 from 8.7 per cent in 2007 (April-March). The moderation in growth of the

Table 56 : Select Economic Indicators - World

Item	2002	2003	2004	2005	2006	2007	2008P	2009P
1	2	3	4	5	6	7	8	9
I. World Output (Per cent change) #	2.8	3.6	4.9	4.4	5.0	4.9	3.7	3.8
	(1.9)	(2.6)	(4.0)	(3.4)	(3.9)	(3.7)	(2.6)	(2.6)
i) Advanced economies	1.6	1.9	3.2	2.6	3.0	2.7	1.3	1.3
ii) Emerging market and developing countries	4.7	6.2	7.5	7.1	7.8	7.9	6.7	6.6
<i>of which: Developing Asia</i>	6.9	8.1	8.6	9.0	9.6	9.7	8.2	8.4
II. Consumer Price Inflation (Per cent)								
i) Advanced economies	1.5	1.8	2.0	2.3	2.4	2.2	2.6	2.0
ii) Emerging market and developing countries	6.7	6.6	5.9	5.7	5.4	6.4	7.4	5.7
<i>of which: Developing Asia</i>	2.0	2.5	4.1	3.8	4.1	5.3	5.9	4.1
III. Net Capital Flows* (US \$ billion)								
i) Net private capital flows (a+b+c)**	89.8	168.6	241.9	251.8	231.9	605.0	330.7	441.5
a) Net private direct investment	157.2	166.2	188.7	259.8	250.1	309.9	306.9	322.4
b) Net private portfolio investment	-92.2	-13.2	16.4	-19.4	-103.8	48.5	-72.2	31.0
c) Net other private capital flows	25.1	17.1	38.5	13.3	87.5	248.8	98.0	90.0
ii) Net official flows	-0.6	-50.0	-70.7	-109.9	-160.0	-149.0	-162.3	-149.8
IV. World Trade @								
i) Volume	3.5	5.4	10.7	7.6	9.2	6.8	5.6	5.8
ii) Price deflator (in US dollars)	1.1	10.4	9.6	5.5	4.9	8.2	8.6	1.1
V. Current Account Balance (Per cent to GDP)								
i) US	-4.4	-4.8	-5.5	-6.1	-6.2	-5.3	-4.3	-4.2
ii) China	2.4	2.8	3.6	7.2	9.4	11.1	9.8	10.0
iii) Middle East	4.8	8.3	11.8	19.7	20.9	19.8	23.0	19.4

P : IMF Projections.

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

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

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

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

Source : World Economic Outlook, International Monetary Fund, April 2008.

Indian economy, however, is projected to be of a lower order in 2008 in comparison with several advanced economies and other emerging market economies. Also, India's growth would remain the highest among the major emerging economies, after China.

According to the IMF projections, growth in world trade is expected to moderate to 5.6 per cent in volume terms in 2008 from 6.8 per cent in the preceding year (Table 56). Exports of other emerging market and developing countries are projected to grow by 7.1 per cent in 2008 (8.9 per cent a year ago), while those of advanced countries are expected to grow by 4.5 per cent (5.8 per cent a year ago).

World exports (in US dollar terms) in 2007 (January-December) posted a growth of 15.0 per cent, lower than 15.3 per cent in 2006. Exports of industrial countries in 2007 increased at a higher rate of 13.6 per cent than 12.4 per cent in 2006. On the other hand, export growth of emerging and developing economies was lower at 16.8 per cent during 2007 than 19.1 per cent in 2006 (Table 57).

According to the World Trade Organization (WTO) Report released recently, world merchandise trade growth declined to 5.5 per cent in 2007 (lower than 6.0 per cent forecast in April 2007) from 8.5 per cent in 2006, and may grow even more slowly in 2008 at about 4.5 per cent. Sharp economic deceleration in key developed countries is expected to be only partly offset by continuing strong growth in emerging economies. Assuming a basic scenario of global GDP growth between 2.5 per cent and 3 per cent, global merchandise trade, according to the WTO, is expected to slow

Table 57 : Growth in Exports - Global Scenario

(Per cent)			
Region/ Country	2005	2006	2007
1	2	3	4
World	14.0	15.3	15.0
Industrial Countries	8.5	12.4	13.6
Emerging and Developing Economies	22.0	19.1	16.8
Non-Oil Developing Countries	19.3	19.4	17.9
China	28.4	27.2	25.6
France	3.8	9.9	12.0
Germany	7.3	14.7	18.5
India	29.9	21.4	20.3
Indonesia	22.9	18.3	16.8
Japan	5.2	9.2	9.2
Korea	12.0	14.4	14.2
Malaysia	12.0	14.0	9.6
Singapore	15.6	18.4	10.1
Thailand	14.5	18.5	16.8
US	10.8	14.7	12.2

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

down to about 4.5 per cent in 2008, or about 1 percentage point lower than in 2007. The global economy and world trade started to slow down in 2007 due to the deceleration of demand in the developed regions. Developing countries' share of world merchandise trade (exports plus imports) reached a new record level of 34 per cent in 2007. Developing countries and Commonwealth of Independent States (CIS) region are expected to record faster growth in imports than exports; together they are expected to contribute more than one half of global import growth in 2008.

Merchandise Trade

According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports recorded a growth of 22.8 per cent during 2007-08 (April-February), as compared with 23.2 per cent growth posted during the corresponding period of 2006-07,

thereby maintaining the momentum. Growth in imports at 30.1 per cent was higher than 25.2 per cent recorded a year ago (Chart 44). Non-oil imports, which recorded a substantial increase of 31.8 per cent (22.6 per cent a year ago), contributed about 72 per cent to overall import growth. Oil imports during April-February 2008 showed a deceleration in growth (26.4 per cent as against 31.2 per cent in April-February 2007). Merchandise trade deficit during April-February 2008 aggregated US \$ 72.5 billion, an increase of US \$ 23.1 billion over a year ago (US \$ 49.4 billion).

Commodity-wise data available for April-December 2007 show that all major commodity groups, barring agricultural and allied products, ores and minerals, and gems and jewellery group recorded deceleration. Agricultural and allied products, petroleum products, engineering goods, and gems and jewellery were the main drivers of export growth, as these product groups together constituted about 70 per cent of the overall export growth (Table 58). Growth of

manufactured goods in general moderated, as most of the principal components such as engineering goods, chemicals and related products, textiles and textile products, leather and manufactures exhibited lower growth rates. Exports of petroleum products increased at a lower rate of 37.3 per cent as compared to 74.6 per cent during April-December 2006. Non-oil exports, however, posted a higher growth rate of 21.6 per cent than 18.7 per cent recorded in April-December 2006.

Destination-wise, the US continued to be the single largest market for India's exports during 2007-08, although its share declined from 15.3 per cent in April-December 2006 to 13.4 per cent in April-December 2007. The US was followed by the UAE (10.1 per cent), China (6.0 per cent), Singapore (4.5 per cent) and the UK (4.3 per cent). Among the major regions, India's exports to European Union (EU) and Asian developing countries showed accelerated growth, while exports to North America and the OPEC decelerated during April-December 2007 (Table 59).

Chart 44: India's Merchandise Trade

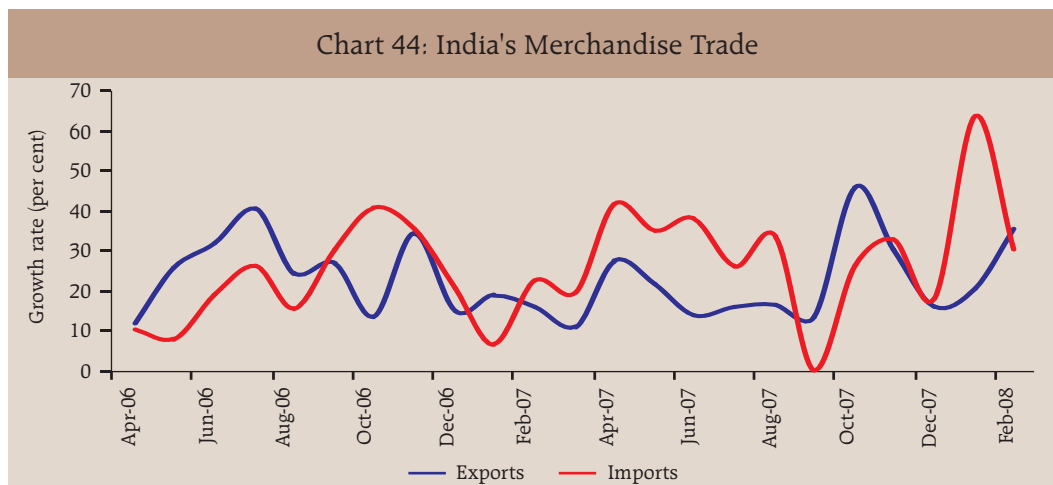


Table 58 : Exports of Principal Commodities

Commodity Group	US \$ billion			Variation (per cent)		
	2006-07	2006-07	2007-08	2006-07	2006-07	2007-08
		April-December			April-December	
1	2	3	4	5	6	7
1. Primary Products	19.7	13.2	17.2	20.2	18.5	30.3
<i>of which:</i>						
a) Agriculture and Allied Products	12.7	8.6	11.6	24.2	23.0	34.9
b) Ores and Minerals	7.0	4.6	5.6	13.6	11.0	21.8
2. Manufactured Goods	84.9	61.5	72.1	17.0	18.7	17.2
<i>of which:</i>						
a) Chemicals and Related Products	17.3	12.6	14.7	17.4	21.3	15.9
b) Engineering Goods	29.6	21.3	25.5	36.1	38.4	19.7
c) Textiles and Textile Products	17.4	12.7	13.7	5.9	8.5	7.9
d) Gems and Jewellery	16.0	11.5	14.5	2.9	2.0	25.6
3. Petroleum Products	18.7	14.3	19.7	60.5	74.6	37.3
4. Total Exports	126.4	91.4	113.4	22.6	25.0	24.1
<i>Memo:</i>						
Non-oil Exports	107.7	77.0	93.7	17.7	18.7	21.6

Source: DGCI&S.

Commodity-wise details on imports available for April-December 2007 revealed that capital goods, and gold and silver were the main contributors of growth in non-oil imports. Capital goods increased by 31.6 per cent, while imports of gold and silver increased by 34.4 per cent over April-December 2006. Non-oil imports, net of gold and silver, increased at an accelerated

pace of 29.2 per cent (22.5 per cent during April-December 2006). Among other non-oil products, imports of pearls, precious and semi-precious stones, chemicals, and iron and steel showed accelerated growth during the period (Table 60).

Source-wise, China was the major source of imports accounting for 11.5 per

Table 59 : Direction of India's Exports

Group/Country	US \$ billion			Variation (per cent)		
	2006-07	2006-07	2007-08	2006-07	2006-07	2007-08
		April-December			April-December	
1	2	3	4	5	6	7
1. OECD Countries	52.0	37.8	44.6	13.5	15.0	18.1
<i>of which:</i>						
a) European Union	25.8	18.5	23.2	15.1	16.2	25.5
b) North America	20.0	14.8	16.1	8.7	10.8	9.3
US	18.9	13.9	15.2	8.7	10.6	9.3
2. OPEC	20.7	15.3	19.2	35.8	44.2	25.4
<i>of which:</i>						
UAE	12.0	8.9	11.4	40.0	48.9	28.0
3. Developing Countries	49.9	36.3	46.7	27.5	29.5	28.7
<i>of which:</i>						
Asia	36.7	26.9	34.0	20.9	23.1	26.3
People's Republic of China	8.3	5.6	6.7	22.7	24.1	20.7
Singapore	6.1	4.8	5.1	11.9	17.2	7.7
4. Total Exports	126.4	91.4	113.4	22.6	25.0	24.1

Source : DGCI&S.

Table 60 : Imports of Principal Commodities

Commodity Group	US \$ billion			Variation (per cent)		
	2006-07	2006-07	2007-08	2006-07	2006-07	2007-08
	April-December			April-December		
1	2	3	4	5	6	7
Petroleum, Petroleum Products and Related Material	57.1	43.9	54.4	30.0	39.4	24.0
Edible Oil	2.1	1.7	2.0	4.2	8.8	18.9
Iron and Steel	6.4	4.5	6.5	40.5	30.8	43.4
Capital Goods	47.1	30.9	40.7	25.0	35.9	31.6
Pearls, Precious and Semi-Precious Stones	7.5	5.9	7.1	-18.0	-20.6	20.8
Chemicals	7.8	5.8	7.3	12.1	11.9	25.4
Gold and Silver	14.6	10.7	14.4	29.4	24.5	34.4
Total Imports	185.7	134.5	172.1	24.5	27.7	27.9
<i>Memo:</i>						
Non-oil Imports	128.6	90.6	117.7	22.2	22.7	29.9
Non-oil Imports excluding Gold and Silver	114.0	79.9	103.3	21.4	22.5	29.2
Mainly Industrial Inputs*	104.7	73.3	94.2	19.6	21.5	28.5

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

cent of total imports (oil plus non-oil imports) during April-December 2007. The other major sources of imports were Saudi Arabia (7.8 per cent), the US (5.8 per cent), the UAE (5.6 per cent), Switzerland (4.6 per cent), Iran (4.2 per cent) and Germany (3.9 per cent).

India's exports have shown an average growth of 25.6 per cent during the period 2004-05 to 2006-07. It has maintained the growth momentum during 2007-08 with exports recording 22.8 per cent growth during 2007-08 (April-February). This, to an extent, reveals the terms of trade effect emanating from relatively high export prices realised *vis-à-vis* import prices. During 2004-05 to 2006-07, the unit value index of India's exports, on an average, increased by 8.7 per cent as compared with 4.6 per cent for imports. As a result, net terms of trade in favour of exports (unit value index of exports as percentage of unit value index of imports) increased by 5.6 per cent during this period. The

improvement in net terms of trade was on account of realisation of higher export prices for commodities such as cereals, ores and minerals, iron and steel, non-ferrous metals and petroleum products- an outcome of surge in global commodity prices.

Trade deficit during April-February 2008 widened to US \$ 72.5 billion, from US \$ 49.4 billion a year ago (Table 61). The trade deficit on the oil account increased by US \$ 5.2 billion during April-December 2007 to US \$ 34.7 billion while non-oil trade deficit increased by US \$ 10.4 billion to US \$ 24.0 billion.

Current Account

Net surplus under invisibles (services, transfers and income taken together) was higher at US \$ 50.5 billion in April-December 2007 as compared with US \$ 36.3 billion in April-December 2006, reflecting mainly the rise in remittances from the overseas Indians and software services

Table 61 : India's Merchandise Trade

(US \$ billion)				
Item	2005-06	2006-07	2006-07	
			April-February	
1	2	3	4	5
Exports	103.1	126.4	112.7	138.3
Imports	149.2	185.7	162.0	210.8
Oil	44.0	57.1	52.2	65.9
Non-oil	105.2	128.6	110.0	144.8
Trade Balance	-46.1	-59.4	-49.4	-72.5
Non-Oil Trade Balance	-13.8	-20.9	-14.3	..
Variation (per cent)				
Exports	23.4	22.6	23.2	22.8
Imports	33.8	24.5	25.2	30.1
Oil	47.3	30.0	31.2	26.4
Non-oil	28.8	22.2	22.6	31.8

.. : Not Available.

Source : DGCI&S.

exports (Table 62). Growth in invisible receipts as well as invisible payments decelerated in April-December 2007 mainly on account of deceleration in exports of software and business services. The major components of invisible payments were travel payments, transportation, business service payments such as business and management consultancy, engineering and other technical services, and dividend and profit payments.

The net invisible surplus offset a large part of the trade deficit (75.9 per cent) during April-December 2007, thereby containing the current account deficit at US \$ 16.0 billion during April-December 2007 (US \$14.0 billion in April-December 2006) (Chart 45 and Table 63). Net of remittances, the current account deficit was US \$ 43.9 billion during April-December 2007 (US \$ 33.5 billion a year ago).

Table 62 : Invisibles Account (Net)

(US \$ million)							
Item	2006-07 PR	2006-07 PR	2007-08 P	2006-07 PR	2007-2008		
	April-March	April-December		Oct.-Dec.	April-June PR	July-Sept PR	Oct-Dec. P
1	2	3	4	5	6	7	8
Services	31,810	21,731	26,372	7,234	8,824	7,459	10,089
Travel	2,438	1,187	1,257	983	207	145	905
Transportation	-18	-248	-1,529	2	-587	-649	-293
Insurance	560	362	412	92	185	36	191
Government, not included elsewhere	-153	-110	-62	-10	-16	-62	16
Software	29,033	20,258	24,964	6,918	8,040	7,667	9,257
Other Services	-50	282	1,330	-751	995	322	13
Transfers	28,168	19,705	27,977	7,447	7,618	9,354	11,005
Investment Income	-6,018	-4,734	-3,358	-1,699	-1,491	-900	-967
Compensation of Employees	-555	-419	-489	-133	-128	-201	-160
Total	53,405	36,283	50,502	12,849	14,823	15,712	19,967

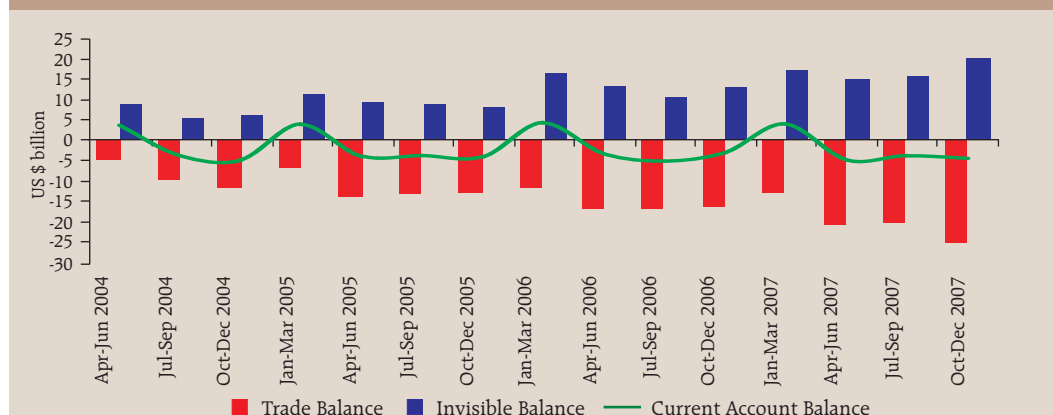
PR : Partially Revised

P : Preliminary.

ANNUAL POLICY STATEMENT

Macroeconomic and Monetary Developments in 2007-08

Chart 45 : Movement in Current Account Balance



Capital Flows

During the financial year 2007-08 so far (up to February 2008), foreign investment

of various components in India recorded increased inflows. The inflows under foreign direct investment (FDI) were US \$

Table 63 : India's Balance of Payments

Item	(US \$ million)						
	2006-07 PR	2006-07 PR	2007-08 P	2006-07PR	2007-2008		
	April-March	April-December		Oct.-Dec.	April-June PR	July-Sept. PR	Oct-Dec. P
1	2	3	4	5	6	7	8
Exports	128,083	92,383	115,084	30,933	35,752	37,595	41,737
Imports	191,254	142,684	181,632	47,460	56,493	58,049	67,090
Trade Balance	-63,171	-50,301	-66,548	-16,527	-20,741	-20,454	25,353
	(-6.9)						
Invisible Receipts	115,074	79,359	100,211	29,460	29,294	32,510	38,407
Invisible Payments	61,669	43,076	49,709	16,611	14,471	16,798	18,440
Invisibles, net	53,405	36,283	50,502	12,849	14,823	15,712	19,967
	(5.8)						
Current Account	-9,766	-14,018	-16,046	-3,678	-5,918	-4,742	-5,386
	(-1.1)						
Capital Account (net)*	46,372	30,172	83,220	11,183	17,118	33,978	32,124
of which:							
Foreign Direct Investment	8,479	7,580	8,402	3,089	2,200	2,575	3,627
Portfolio Investment	7,062	5,213	32,996	3,569	7,458	10,876	14,662
External Commercial Borrowings +	16,155	9,812	16,296	4,077	6,945	4,088	5,263
Short-term Trade Credit	6,612	5,678	10,845	1,813	1,804	4,789	4,252
External Assistance	1,767	1,003	1,250	617	276	453	521
NRI Deposits	4,321	3,673	-931	1,463	-447	369	-853
Change in Reserves #	-36,606	-16,154	-67,174	-7,505	-11,200	-29,236	26,738
Memo:							
Current Account net of Private Transfers	-37,707	-33,540	-43,937	-10,935	-13,549	-14,060	16,328
	(-4.1)						

P : Preliminary.

PR : Partially Revised.

* : Includes errors and omissions.

+ : Medium and long-term borrowings.

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

Note : Figures in parentheses are percentages to GDP.

Table 64 : Capital Flows

(US \$ million)			
Item	Period	2006-07	2007-08
1	2	3	4
Foreign Direct Investment into India	April-February	19,614	25,455
FDI Abroad	April-December	-9,397	-9,534
FII's (net)	April-March	3,225	20,328
ADRs/GDRs	April-February	3,751	8,726
External Assistance (Net)	April-December	1,003	1,250
External Commercial Borrowings (Net) (Medium and long-term)	April-December	9,812	16,296
Short-term Trade Credits (Net)	April-December	5,678	10,845
NRI Deposits (Net)	April-February	3,932	106

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

25.5 billion during 2007-08 (April-February) as against US \$ 19.6 billion during the corresponding period of the previous year (Table 64). FDI was channelled mainly into manufacturing industries (20.1 per cent), followed by financial services (18.7 per cent) and the construction sector (14.7 per cent). Source-wise, Mauritius, remained the main source of FDI to India during April-February 2007-08, followed by Singapore and the US.

Net inflows by foreign institutional investors (FIIs) aggregated US \$ 20.3 billion during the financial year 2007-08. The number of FIIs registered with the SEBI increased from 997 by end-March 2007 to 1,319 by March 31, 2008. Capital inflows through American depository receipts (ADRs)/global depository receipts (GDRs) were US \$ 8.7 billion for 2007-08 (April-February).

During the year 2007-08 (April-December), the inflows (net) under external commercial borrowings (ECBs) amounted to US \$ 16.3 billion. Net short-term trade credit was US \$ 10.8 billion (inclusive of suppliers' credit up to 180 days) in April-December

2007. Out of total short-term trade credit, the suppliers' credit up to 180 days amounted to US \$ 4.2 billion during April-December 2007.

NRI deposits registered an inflow of US \$ 106 million during 2007-08 (April-February). While there were net inflows under Non-Resident Ordinary Rupee (NRO) account scheme and Non-Resident External Rupee Account NR(E)RA deposits scheme, net outflows took place under Foreign Currency Non-Resident (Banks) [FCNR(B)] deposits segment.

With net capital flows being substantially higher than the current account deficit, the overall balance of payments recorded a surplus of US \$ 67.2 billion during April-December 2007, substantially higher than that of US \$ 16.2 billion during April-December 2006.

Foreign Exchange Reserves

India's foreign exchange reserves were US \$ 309.7 billion as at end-March 2008, showing an increase of US \$ 110.5 billion over end-March 2007. The increase in

reserves was mainly due to an increase in foreign currency assets from US \$ 191.9 billion at end-March 2007 to US \$ 299.2 billion as at end-March 2008. As on April 18, 2008, india's foreign exchange reserves were US \$ 313.5 billion. As at end-February 2008, the outstanding net forward purchases of US dollar by the Reserve Bank were US \$ 16.2 billion (Table 65).

India holds the third 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 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.

External Debt

India's total external debt was placed at US \$ 201.5 billion at end-December 2007, recording an increase of US \$ 31.8 billion (18.7 per cent) over end-March 2007 (Table 66). The increase in external debt during the period was mainly on account of higher commercial borrowings, trade credit and multilateral debt. Based on original maturity, long-term debt amounted to US \$ 166.2 billion (accounting for 82.5 per cent of the total external debt) and short-term debt was US \$ 35.2 billion (17.5 per cent of the total external debt). The coverage of short-term debt has been made more

Table 65 : Foreign Exchange Reserves

(US \$ million)						
Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)	<i>Memo :</i> 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	-
April 2007	7,036	11	196,899	463	204,409	-
May 2007	6,911	1	200,697	459	208,068	-
June 2007	6,787	1	206,114	460	213,362	-
July 2007	6,887	12	219,753	455	227,107	-
August 2007	6,881	2	221,509	455	228,847	-
September 2007	7,367	2	239,955	438	247,762	-
October 2007	7,811	13	256,427	441	264,692	(+) 4,990
November 2007	8,357	3	264,725	435	273,520	(+) 7,553
December 2007	8,328	3	266,553	432	275,316	(+) 8,238
January 2008	9,199	9	283,595	437	293,240	(+) 16,629
February 2008	9,558	-	291,250	427	301,235	(+) 16,178
March 2008	10,039	18	299,230	436	309,723	..
April 2008*	10,039	18	302,988	489	313,534	..

* : As on April 18, 2008.

Table 66: India's External Debt

(US \$ million)							
Item	End-March 1995	End-March 2005	End-March 2006	End-March 2007	End-June 2007	End-Sept. 2007	End-Dec. 2007
1	2	3	4	5	6	7	8
1. Multilateral	28,542	31,744	32,620	35,337	36,058	37,068	37,944
2. Bilateral	20,270	17,034	15,761	16,061	15,841	16,774	17,269
3. International Monetary Fund	4,300	0	0	0	0	0	0
4. Trade Credit (above 1 year)	6,629	5,022	5,420	7,051	7,441	8,202	8,887
5. External Commercial Borrowings	12,991	26,405	26,452	41,657	47,918	52,123	57,012
6. NRI Deposit	12,383	32,743	36,282	41,240	42,603	43,679	43,034
7. Rupee Debt	9,624	2,302	2,059	1,947	2,023	2,071	2,097
8. Long-term (1 to 7)	94,739	115,250	118,594	143,293	151,884	159,917	166,243
9. Short-term	4,269	17,723	19,539	26,376	27,861	31,194	35,207
Total (8+9)	99,008	132,973	138,133	169,669	179,745	191,111	201,450
Memo: (per cent)							
Total debt/GDP	30.8	18.6	17.2	17.8	..	..	..
Short-term/Total debt	4.3	13.3	14.1	15.5	15.5	16.3	17.5
Short-term debt/Reserves	16.9	12.5	12.9	13.2	13.1	12.6	12.9
Concessional debt/Total debt	45.3	30.9	28.6	23.3	22.0	21.4	20.5
Reserves/Total debt	25.4	106.4	109.8	117.4	118.7	129.6	136.7
Debt Service Ratio	25.9	6.1	9.9	4.8	4.6	5.5	5.9
.. : Not Available.							

comprehensive with the inclusion of (i) suppliers' credit up to six months; and (ii) investment by Foreign Institutional Investors (FII) in short-term debt instruments, beginning with the quarter ended March 2005. Based on residual maturity, short-term debt (consisting of principal repayments due during one-year under medium and long-term loans, and short-term debt with original maturity of one year or less) accounted for 36 per cent of the total external debt.

The increase in outstanding debt to an extent was also due to a positive valuation impact during April-December 2007 (around US \$ 6.0 billion), reflecting the depreciation of the US dollar *vis-à-vis* other major international currencies. About 54.5 per cent of the external debt stock was denominated in US dollars, followed by the

Indian rupee (17.1 per cent), Japanese yen (11.2 per cent) and SDR (10.7 per cent). Amongst the debt sustainability indicators, the ratio of short-term to total debt increased between end-March 2007 and end-December 2007, while the ratio of short-term debt to reserves declined marginally over the same period. Foreign exchange reserves remained in excess of the stock of external debt at end-December 2007.

International Investment Position

India's net international liabilities increased by US \$ 6.4 billion between end-March 2007 and end-September 2007, as the increase in international liabilities (US \$ 63.3 billion) exceeded the increase in international assets (US \$ 56.9 billion) (Table 67). While the increase in the

Table 67 : International Investment Position of India

(US \$ billion)					
Item	March 2005 R	March 2006 PR	March 2007 PR	June 2007 PR	Sept. 2007 P
1	2	3	4	5	6
A. Assets	165.7	184.0	245.3	261.8	302.2
	(23.0)	(22.9)	(25.8)	..	..
1. Direct Investment	10.0	15.9	29.4	34.0	35.4
2. Portfolio Investment	0.5	1.0	0.8	0.8	0.6
2.1 Equity Securities	0.3	0.5	0.4	0.4	0.4
2.2 Debt securities	0.2	0.5	0.4	0.4	0.2
3. Other Investment	13.7	15.5	15.9	13.7	18.5
3.1 Trade Credits	1.1	-0.3	0.6	-0.6	3.7
3.2 Loans	1.9	2.4	3.0	2.0	3.8
3.3 Currency and Deposits	7.3	10.0	8.1	8.1	6.6
3.4 Other Assets	3.4	3.3	4.2	4.2	4.4
4. Reserve Assets	141.5	151.6	199.2	213.4	247.8
	(19.7)	(18.9)	(20.9)	..	..
B. Liabilities	219.6	243.7	307.6	342.0	370.9
	(30.5)	(30.4)	(32.4)	..	..
1. Direct Investment	44.5	52.4	76.2	87.6	93.5
	(6.2)	(6.5)	(8.0)	..	..
2. Portfolio Investment	56.0	64.3	79.5	93.9	108.3
	(7.8)	(8.0)	(8.4)	..	..
2.1 Equity Securities	43.2	54.7	63.3	75.2	88.2
2.2 Debt securities	12.8	9.5	16.3	18.7	20.1
3. Other Investment	119.1	127.1	151.9	160.5	169.1
	(16.6)	(15.8)	(16.0)	..	..
3.1 Trade Credits	18.3	21.2	27.6	29.8	31.9
3.2 Loans	66.0	68.0	80.9	85.8	90.9
3.3 Currency and Deposits	33.6	37.3	42.3	43.8	44.8
3.4 Other Liabilities	1.2	0.6	1.1	1.2	1.5
C. Net Position (A-B)	-53.9	-59.7	-62.3	-80.2	-68.7
	(-7.5)	(-7.4)	(-6.6)	..	..

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

Note : Figures in parentheses represent percentage to GDP.

liabilities was mainly due to large capital inflows under portfolio investments, direct investments and external commercial loans, the increase in international assets was on account of an increase of US \$ 48.6 billion in reserve

assets between end-March 2007 and end-September 2007, followed by direct investment abroad (US \$ 6.0 billion). A major part of the liabilities such as direct and portfolio investment reflects cumulative inflows, which are at historical prices.