VI. The External Economy

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

International Developments

The global economy expanded by 5.0 per cent in 2007 as against 5.1 per cent in 2006. After a stronger than expected growth in the third quarter of 2007, most of the advanced economies recorded a sharp deceleration in their growth towards the end of the year 2007 driven mainly by the financial crisis which spread beyond the US sub-prime mortgage market (Table 52). According to the projections released by the International Monetary Fund (IMF) in July 2008, the slowdown in global growth, which started in the middle of last year, is expected to continue through the second half of 2008, with only a gradual recovery

Table 52: Growth Rates - Global Scenario

(Per cent)

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

P : IMF Projections.

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

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

during 2009. However, the fears of a significant slowdown did not come true in the first quarter of 2008. Countries/regions like Euro area, the US and Korea registered more or less same growth rates in the first quarter of 2008 as in the previous quarter. The UK and the Japanese economy exhibited deceleration in the first quarter of 2008. In contrast, emerging and developing economies continued to grow above trend despite some slackening of growth rates in the first quarter of 2008.

The IMF has projected the US economy to grow by 1.3 per cent in 2008 (2.2 per cent in 2007). The US growth prospects, according to the IMF, would hinge upon the future course of the housing correction, extent of financial sector dislocation, and the ensuing impact on household and business finances. The Euro Area is expected to grow by 1.7 per cent in 2008 (2.6 per cent in 2007), while there are increasing concerns that with spillovers from the US, tightening credit conditions and rising risk spreads may have adverse implications for the domestic demand. The growth momentum in Japan is projected to decelerate to 1.5 per cent in 2008 (2.1 per cent in 2007) on account of expected moderation in export growth and consumption. Growth projection for developing Asia by the IMF is placed at 8.4 per cent for 2008 as against 10.0 per cent in 2007 (Table 53). Growth in emerging Asia during the first quarter of 2008 was led by China and India. GDP in China grew by 10.6 per cent in the first quarter of 2008. The IMF has projected that growth in China would moderate to 9.7 per cent in 2008 (11.9 per cent in 2007).

Going forward, the growth in global economy is projected to moderate to 4.1 per cent in 2008 mainly on account of expected slowdown in most of the advanced economies, particularly the US. The overall balance of risks to the short-

Table 53 : Select Economic Indicators - World

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

P : IMF Projections.
: Growth rates are based on exchange rates at purchasing power parities. Figures in parentheses are growth rates at market exchange rates.
* : Net capital flows to emerging market and developing countries.
** : On account of data limitations, flows listed under 'Net Private Capital Flows' may include some official flows.
@ : Average of annual percentage change for world exports and imports of goods and services.
Source : World Economic Outlook, April 2008; World Economic Outlook Update, July 2008, International Monetary Fund.

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

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

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

Balance of Payments: 2007-08

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

Commodity-wise data on India's merchandise exports for 2007-08 showed an accelerated growth in primary products and manufactured products (Table 55). Agriculture and allied products, engineering goods, gems and jewellery, and petroleum products were the main contributors of export growth during 2007-08. Within primary products, exports of agriculture and allied products showed a sharp increase of 42.4 per cent (24.2 per cent a year ago). Exports of manufactured

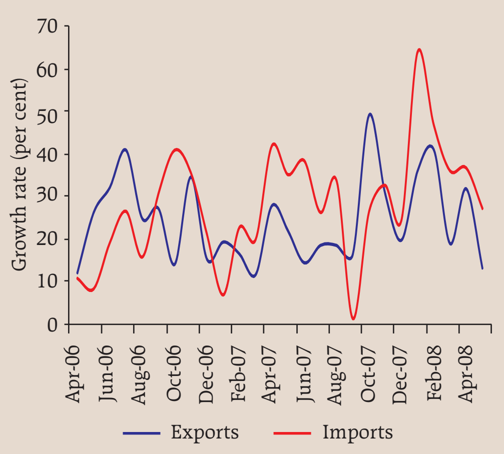
Table 54: Growth in Exports - Global Scenario

(Per cent)

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

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

Chart 40: India's Merchandise Trade



goods increased by 19.1 per cent (17.0 per cent a year ago). Within manufactured goods, gems and jewellery, textiles and textile products, and chemicals and related products recorded higher growth while engineering goods exhibited moderation. Growth in exports of petroleum products during 2007-08 decelerated to 33.1 per cent from 60.5 per cent a year ago.

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

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

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

Table 55: Exports of Principal Commodities

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

Source : DGCI&S.

Table 56: Direction of India's Exports

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

Source : DGCI&S.

Capital goods imports recorded a growth of 24.1 per cent, marginally lower than that of 2006-07 (Table 57).

Source-wise, China was the principal source of imports, constituting 11.3 per cent of total imports (oil plus non-oil) during 2007-08. The other major sources were Saudi Arabia (8.1 per cent), the UAE (5.6 per cent), the US (5.5 per cent), Iran (4.6 per cent), Switzerland (4.1 per cent), Germany (4.0 per cent) and Singapore (3.4 per cent).

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

Table 57: Imports of Principal Commodities

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

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

Current Account

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

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

Capital Flows

Capital inflows to India, both debt and non-debt, remained large during 2007-08. Within non-debt flows, FDI inflows at US $

Table 58: Invisibles Account (Net)

(US $ million)

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

PR : Partially Revised. P : Preliminary.

Table 59: India's Balance of Payments

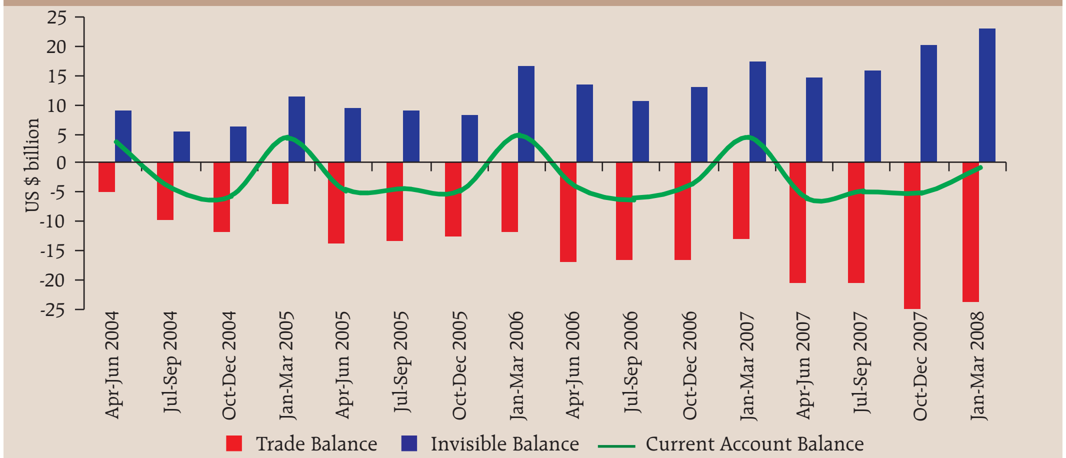
(US $ million)

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

PR : Partially Revised. P : Preliminary
* : Includes errors and omissions. + : Medium and long-term borrowings.
# : On a balance of payments basis (excluding valuation); (-) indicates increase.
Note : Figures in parentheses are percentages to GDP

32.4 billion during 2007-08 (US $ 22.1 billion in 2006-07) reflected the continued strength of sustained domestic activity and positive investment climate. FDI inflows were channeled mainly into financial, manufacturing and construction sectors.

Chart 41 : Movement in Current Account Balance



Country-wise details of FDI flows revealed the continued predominance of Mauritius as the major investor in India. Net outward FDI were US $ 16.8 billion during 2007-08 (US $ 13.5 billion in 2006-07), reflecting the expansion by Indian companies in global markets (Table 60).

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

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

Table 60: Capital Flows

(US $ million)

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

* : Up to July 11, 2008.

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

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

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

External Debt

India's total external debt was placed at US $ 221.2 billion at end-March 2008, recording an increase of US $ 51.5 billion (30.4 per cent) over end-March 2007 (Table 61). The increase in external debt during the period was mainly on account of higher external commercial borrowings, followed by higher short-term trade credit. This was mainly due to financing requirements of Indian companies arising on account of technological upgradation and capacity expansion. Furthermore, out of the increase of US $ 51.5 billion in external debt during the year 2007-08, valuation effect reflecting the depreciation of the US dollar against other major international currencies and Indian rupee accounted for US $ 9.9 billion of the increase. Suppliers' credits up to 180 days maturity and investment by foreign institutional investors in short-term debt instruments have been included in short-term debt of India for the period since

Table 61: India's External Debt

(US $ million)

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

.. : Not available.

March 2005. The short-term debt outstanding increased to US $ 44.3 billion at end-March 2008 from US $ 26.4 billion at end-March 2007, accounting for 34.8 per cent of the total increase in external debt. The US dollar remained the leading currency in which India's external debt was denominated, accounting for about 57.1 per cent of total debt.

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

International Investment Position

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

Developments during 2008-09

According to DGCI&S data, India's merchandise exports posted a growth of 21.7 per cent during April-May 2008 (24.2 per cent during April-May 2007). Imports grew at 31.8 per cent as compared with 37.9 per cent a year ago. Petroleum, oil and lubricants (POL) imports grew by 48.6 per cent during April-May 2008 as against 25.7 per cent in April-May 2007, largely due to the spurt in international crude oil prices. Non-oil imports at US $ 32.3 billion recorded a growth of 24.6 per cent (43.8 per cent a year ago). Merchandise trade deficit during April-May 2008 increased to US $ 20.7 billion from US $ 13.9 billion a year ago (Table 63).

Available information on capital flows indicates that the strong momentum observed in FDI inflows during the year 2007-08 continued during 2008-09 so far with inflows during April-May 2008 amounting to US $ 7.7 billion. In respect of

Table 62: International Investment Position of India

(US $ billion)

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

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

Note: Figures in parentheses are percentages to GDP.

FIIs, however, there were net outflows of US $ 5.6 billion up to July 11, 2008. NRI deposits recorded net inflow of US $ 292 million during April-May 2008 as against net outflows of US $ 559 million during April-May 2007 (see Table 60).

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

The overall approach to the management of India's foreign exchange reserves in recent years reflects the changing composition of the balance of payments and the 'liquidity risks'

Table 63: India's Merchandise Trade

(US $ billion)

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

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

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

Table 64: Foreign Exchange Reserves

(US $ million)

Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)	*Memo :* Outstanding Net Forward Sales (-) / Purchase (+) of US dollar by the Reserve Bank at the end of the month
1	2	3	4	5	6	7
March 2000	2,974	4	35,058	658	38,694	(-) 675
March 2005	4,500	5	135,571	1,438	141,514	-
March 2006	5,755	3	145,108	756	151,622	-
March 2007	6,784	2	191,924	469	199,179	-
April 2007	7,036	11	196,899	463	204,409	-
May 2007	6,911	1	200,697	459	208,068	-
June 2007	6,787	1	206,114	460	213,362	-
July 2007	6,887	12	219,753	455	227,107	-
August 2007	6,881	2	221,509	455	228,847	-
September 2007	7,367	2	239,955	438	247,762	-
October 2007	7,811	13	256,427	441	264,692	(+) 4,990
November 2007	8,357	3	264,725	435	273,520	(+) 7,553
December 2007	8,328	3	266,553	432	275,316	(+) 8,238
January 2008	9,199	9	283,595	437	293,240	(+) 16,629
February 2008	9,558	-	291,250	427	301,235	(+) 16,178
March 2008	10,039	18	299,230	436	309,723	(+) 14,735
April 2008	9,427	18	304,225	485	314,155	(+) 17,095
May 2008	9,202	11	304,875	526	314,614	(+) 15,470
June 2008	9,208	11	302,340	528	312,087	..
July 2008*	9,208	11	297,371	517	307,107	..

* : As on July 18, 2008.