

IV. Price Situation

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

Mirroring global trends, inflation in India hardened during 2008-09 so far, *albeit* with some recent easing. Inflation, measured as year-on-year (y-o-y) variation in the wholesale price index (WPI),

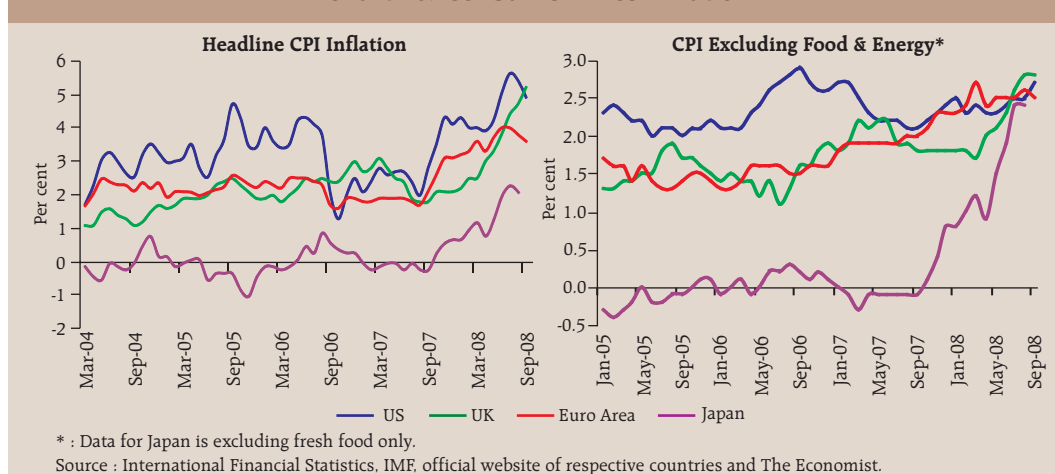
increased to 11.4 per cent on October 4, 2008 from 3.2 per cent a year ago and 7.7 per cent at end-March 2008, reflecting the impact of some pass-through of international crude oil prices to domestic prices as well as elevated levels of prices of iron and steel, basic heavy inorganic chemicals, machinery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

Global Inflation

Headline inflation in major advanced economies remained firm during the second quarter of 2008-09. Inflation

hardened to 4.7 per cent in August 2008 in the Organisation for Economic Co-operation and Development (OECD) countries from 1.9 per cent a year earlier mainly due to higher energy and food prices, which increased, year-on-year, by 20.9 per cent and 7.1 per cent, respectively, in August 2008. Amongst major economies, headline inflation in September 2008 increased in the US to 4.9 per cent (from 2.8 per cent a year ago), in the UK to 5.2 per cent (from 1.8 per cent) and in the euro area to 3.6 per cent (from 2.1 per cent) (Chart 16). Core inflation also remained firm in major economies. In OECD countries, CPI, excluding food and energy, was firm at 2.3 per cent in August 2008 as compared with 2.0 per cent a year ago. In the US, CPI inflation (excluding food and energy) was 2.5 per cent in September 2008 (2.1 per cent a year earlier). Producer price inflation (PPI) also hardened in both advanced and emerging market economies (EMEs). PPI

Chart 16: Consumer Price Inflation



inflation in OECD countries increased to 9.4 per cent in August 2008 from 6.3 per cent in March 2008 and 1.9 per cent a year ago.

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

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

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

In the euro area, inflation based on Harmonised Index of Consumer Prices (HICP) continued to be at elevated levels and was expected to remain well above levels consistent with price stability for quite some time, moderating gradually during the course of 2009. Furthermore, the economic outlook was subject to increased downside risks, mainly stemming from a scenario of ongoing financial market tensions affecting the real economy more adversely than earlier foreseen. According to the Governing Council of the ECB, taking

Table 28: Global Inflation Indicators

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

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

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

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

+ : The tiering system on placement with the BSP was removed and interest rates were adjusted to 6.0 per cent for the reverse repo rate and 8.0 per cent for the repo rate effective July 13, 2007.

\$: Since March 2008, the policy rate has been changed from overnight call rate to "the Bank of Korea Rate or (Base Rate)" and fixed at the same level as the call rate target of 5.0 per cent on March 7, 2008.

Note : 1. For India, data on inflation pertain to CPI for Industrial Workers.

2. Figures in parentheses in column (3) indicate the dates when the policy rates were last revised.

3. Figures in parentheses in columns (4), (5) and (6) indicate the variation in the cash reserve ratios during the period.

4. PPI inflation for Japan, Brazil, Indonesia, Israel and India pertain to WPI inflation.

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

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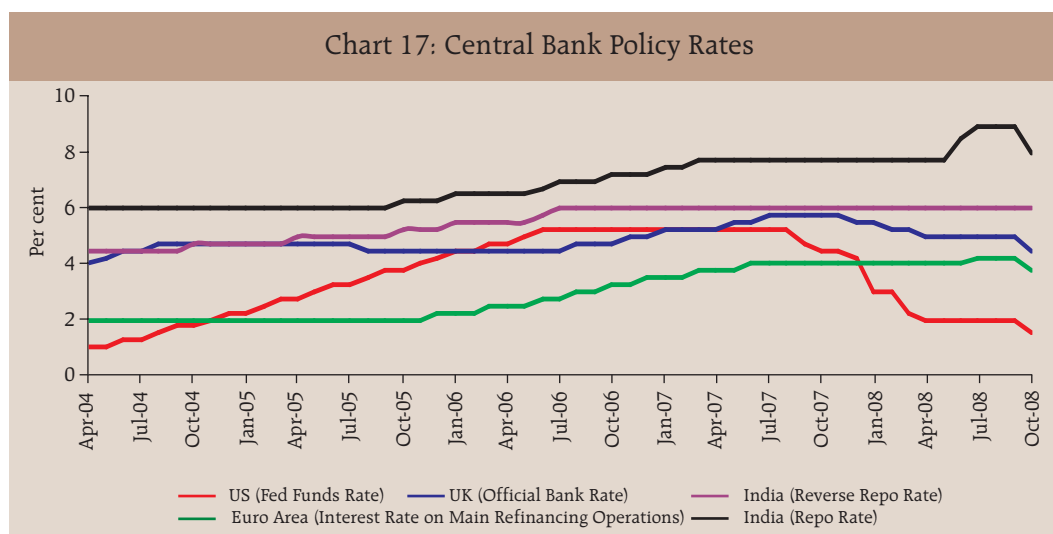
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into account the weakening in demand, upside risks to price stability have diminished somewhat, but they have not disappeared. However, as per the latest assessment of the Council on October 8, 2008, upside inflationary risks have recently decreased further but it remains imperative to avoid broad-based second-round effects in wage and price-setting. Against this backdrop, the ECB reduced the policy rate by 50 basis points on October 8, 2008 as part of the joint action by central banks. After keeping the policy rates unchanged for almost one year, the ECB had earlier raised policy rates by 25 basis points effective July 9, 2008 (Chart 17).

Japan's economic growth, which has been sluggish due to the effects of earlier increases in energy and materials prices and weaker growth in exports, is expected by the Bank of Japan (BoJ) to gradually return onto a moderate growth path as the effects of

earlier increases in energy and materials prices abate and overseas economies move out of their deceleration phase. According to the BoJ, it was necessary to be mindful of upside risks due to changes in the inflation expectations of households and the price setting behaviour of firms in addition to developments in energy and material prices. Against this backdrop, the BoJ has kept its policy rate unchanged at each of its meetings held since February 2007, when it had raised the uncollateralised overnight call rate (the operating target of monetary policy since March 2006) by 25 basis points to 0.50 per cent. Amongst the central banks in other major advanced economies, the policy rate was reduced since June 2008 by the Bank of Canada by 50 basis points to 2.50 per cent (a total of 200 basis points beginning December 2007), Sveriges Riksbank (Sweden) by 50 basis points to 4.25 per cent and Swiss National Bank by 50 basis points to 2.50 per cent on

Chart 17: Central Bank Policy Rates

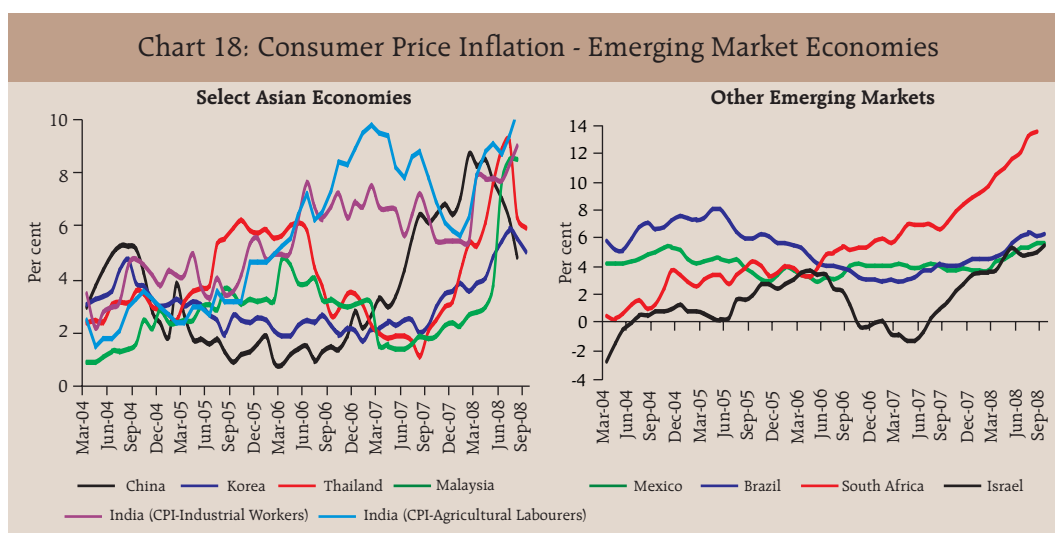


October 8, 2008. The Reserve Bank of Australia reduced the policy rate by 25 basis points on September 3, 2008 and further by 100 basis points on October 8, 2008 to 6.00 per cent (it had earlier raised its policy rate by 100 basis points during 2007-08).

Inflation remained firm in most emerging market economies (EMEs) on the back of strong growth and elevated commodity prices. Consumer price inflation (CPI) in China eased to 4.9 per cent in August 2008 from 6.5 per cent a year ago and 8.3 per cent in March 2008, reflecting decline in the prices of clothing, telecommunications and cultural articles. Prices of foodstuffs, vehicles fuels and residence, however, continued to rise. Real GDP growth decelerated to 10.1 per cent in the second quarter of 2008 from 11.9 per cent a year ago. Against this backdrop, the People's Bank of China (PBC) reduced the benchmark 1-year lending rate twice by 27 basis points each on

September 15, 2008 and October 9, 2008 to 6.93 per cent. The cash reserve ratio (CRR) was also reduced by 100 basis points to 16.5 per cent (except for six major banks) on September 15, 2008 to facilitate continued stable and fast development of the national economy. The reduction in the CRR was by 200 basis points for financial institutions in earthquake affected areas. The PBC had earlier increased the benchmark 1-year lending rate by a total of 189 basis points beginning April 2006 to 7.47 per cent on December 21, 2007 and the CRR by a total of 1000 basis points to 17.5 per cent between July 2006 and June 2008.

In Korea, consumer price inflation increased to 5.1 per cent in September 2008 from 2.3 per cent a year ago (Chart 18). According to the MPC, consumer price inflation has been slowing gradually due to the decline in international oil prices, but it seemed likely to remain at a high level for some



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time owing mainly to the depreciation of the Korean won against the US dollar. Financial market price variables such as exchange rates and stock prices were showing unstable movements, largely in response to the spread of international financial market unrest. Financial institutions have been tightening their attitude to lending. Against this backdrop, the Bank of Korea reduced the policy rate by 25 basis points to 5.00 per cent on October 9, 2008 (it had earlier raised the policy rate by 25 basis points to 5.25 per cent on August 7, 2008).

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

basis points each on July 16, 2008 and August 27, 2008.

In Indonesia, CPI inflation continued to firm up to 12.1 per cent in September 2008 from 7.0 per cent a year ago. According to Bank Indonesia, domestic inflationary pressures remained strong, mainly because of rapid growth in aggregate demand. The Bank Indonesia observed that pressures from escalating energy, foodstuff and world commodity prices were seen to have eased, but nevertheless warranted continued vigilance. CPI inflation was projected in the range of 11.5-12.5 per cent at end-2008. Against this backdrop, the Bank Indonesia, which had cut its policy rate by a total of 475 basis points during May 2006-December 2007, raised rate subsequently by a total of 150 basis points to 9.50 per cent by October 7, 2008 to curb inflation.

Amongst other emerging markets, consumer price inflation in Russia remained high amidst strong growth. The growth in money supply (M2) moderated to 30 per cent, year-on-year, as on September 1, 2008 from nearly 50 per cent a year ago. Against this backdrop, the Bank of Russia reduced the required reserve ratio (RRR) on credit institutions' liabilities to non-resident banks in rubles and foreign currency by 400 basis points effective September 18, 2008 to 4.5 per cent (it had earlier raised it by a total of 500 basis points beginning January 15, 2008). In order to stabilise the situation on the domestic financial market and maintain banking sector liquidity, the

RRR was reduced temporarily by another 400 basis points to 0.5 per cent effective October 15, 2008 with subsequent increases of 100 basis points each effective February 1, 2009 and March 1, 2009 to 2.5 per cent. The refinancing rate has been raised by a total of 100 basis points from February 2008 to 11.0 per cent effective July 14, 2008. In South Africa, according to the latest assessment of the South African Reserve Bank, CPI excluding interest rates on mortgage bonds (CPIX) inflation was expected to peak at an average rate of around 13.3 per cent in the third quarter of 2008 and to average 6.9 per cent in 2009 and expected to return to the inflation target range only by the second quarter of 2010. Against this backdrop, the South African Reserve Bank left the policy rate unchanged after raising it by 100 basis points to 12.0 per cent during the first quarter of 2008-09. The policy rate has been raised by a total of 500 basis points since the tightening began in June 2006. The central bank of Brazil has raised its policy rate by 250 basis points since end-March 2008 to 13.75 per cent on September 10, 2008 for promoting convergence of inflation to the target path. The policy rate was earlier reduced by 850 basis points between September 2005 and September 2007. In light of the sharp increase in uncertainty in financial markets around the world and its implication for Israel's financial markets, the Bank of Israel reversed its policy stance and cut its policy rate by 50 basis points to 3.75 per cent with effect from October 12, 2008. It had earlier raised

the policy by a total of 100 basis points during June-September 2008 to bring inflation to the price stability target range of 1-3 per cent.

An assessment of key macroeconomic indicators in select EMEs shows that consumer price inflation was in the range of 4.9-16.1 per cent during August/September 2008. Real policy rates ranged between (-) 5.9 and 7.5 per cent in October 2008 (Table 29). Current account balance in major EMEs, except India and South Africa, was in surplus during 2006/2007. The real effective exchange rate (REER) for the select EMEs, barring the currencies in Thailand, Korea, South Africa and India underwent real appreciation, on a year-on-year basis, in September 2008. Although the Central Government's fiscal deficit, as per cent of GDP, in India declined during 2007-08 and is budgeted to decline further during 2008-09, it remained higher than that in most EMEs.

Global Commodity Prices

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

International crude oil prices, represented by the West Texas Intermediate (WTI), had touched a historical high of US \$ 145.3 a barrel level on July 3, 2008, reflecting strong global demand and low surplus production capacity as well as geo-political tensions, weakening of the US dollar against

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Table 29: Key Macroeconomic Indicators: Emerging Markets

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

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

Note: 1. For India, annual data pertain to fiscal years.
2. Consumer price inflation data are on a year-on-year basis. Data for India are for CPI-Industrial Workers.
3. Real policy rate is the policy rate less year-on-year consumer price inflation. For India, repo rate is used.
4. Figures in parentheses in columns (2) and (3) refer to wholesale price inflation.
5. Figures in parentheses in columns (4) and (5) refer to trade balance/GDP ratio.
6. Figures in parentheses in columns (8) and (9) refer to central government debt/GDP ratio.
7. Figures in parentheses in columns (10) and (11) for India are based on wholesale price inflation.
8. Data on REER refer to year-on-year variation in broad indices (CPI-based) compiled by the Bank for International Settlements. A positive figure indicates appreciation while a negative figure indicates depreciation. For India, data are based on movements in 6-currency indices as compiled by the Reserve Bank of India.

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

major currencies and increased interest participants. Subsequently, crude oil prices from investors and financial market eased reflecting decline in demand in

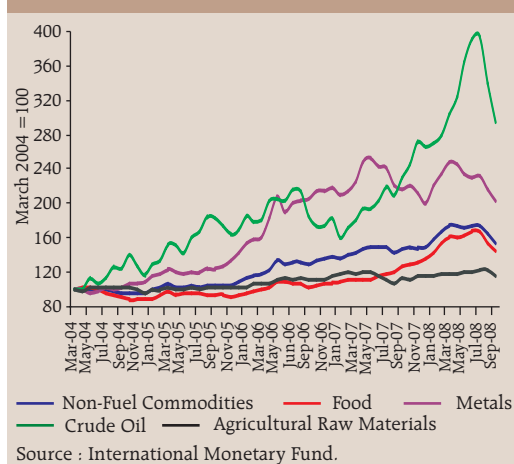
Table 30: International Commodity Prices

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

\$. US dollar. c: US cent. bbl: barrel. mt: metric tonne. kg: Kilogram. toz: troy oz.

Source: Based on World Bank's actual commodity price data. The year 2004 has been taken as the base to better exhibit price trends over the relevant period.

Chart 19: International Commodity Prices



OECD countries and improved near-term supply prospects in non-OPEC countries (Table 31). International crude oil prices have, however, remained highly volatile on the back of heightened uncertainties following the financial market turmoil. The WTI crude oil price was at around US \$ 72 a barrel on October 17, 2008.

Notwithstanding the recent easing, according to the US Energy Information

Table 31 : International Crude Oil Prices

(US dollars per barrel)

Year/Month	Dubai Crude	UK Brent	US WTI	Average Crude Price	Indian Basket Price
1	2	3	4	5	6
2001-02	21.8	23.2	24.1	23.0	22.4
2002-03	25.9	27.6	29.2	27.6	26.6
2003-04	26.9	29.0	31.4	29.1	27.8
2004-05	36.4	42.2	45.0	41.3	38.9
2005-06	53.4	58.0	59.9	57.1	55.4
2006-07	60.9	64.4	64.7	63.3	62.4
2007-08	77.3	82.4	82.3	80.7	79.2
March 2004	30.5	33.8	36.7	33.7	31.9
March 2005	45.6	53.1	54.2	50.9	48.8
March 2006	57.7	62.3	62.9	60.9	59.6
March 2007	59.1	62.1	60.6	60.6	60.4
March 2008	96.8	103.3	105.5	101.8	99.4
April 2008	103.5	110.2	112.6	108.8	106.2
May 2008	119.0	123.9	125.0	122.6	121.0
June 2008	127.6	133.1	133.9	131.5	129.8
July 2008	131.2	133.9	133.4	132.8	132.3
August 2008	113.2	113.9	116.6	114.6	113.5
September 2008	96.0	99.1	103.9	99.7	97.2

Source : International Monetary Fund and the World Bank.

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

Table 32: World Supply-Demand Balance of Oil

(Million barrels per day)

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

P: Projections.

Source: US Energy Information Administration, October 2008.

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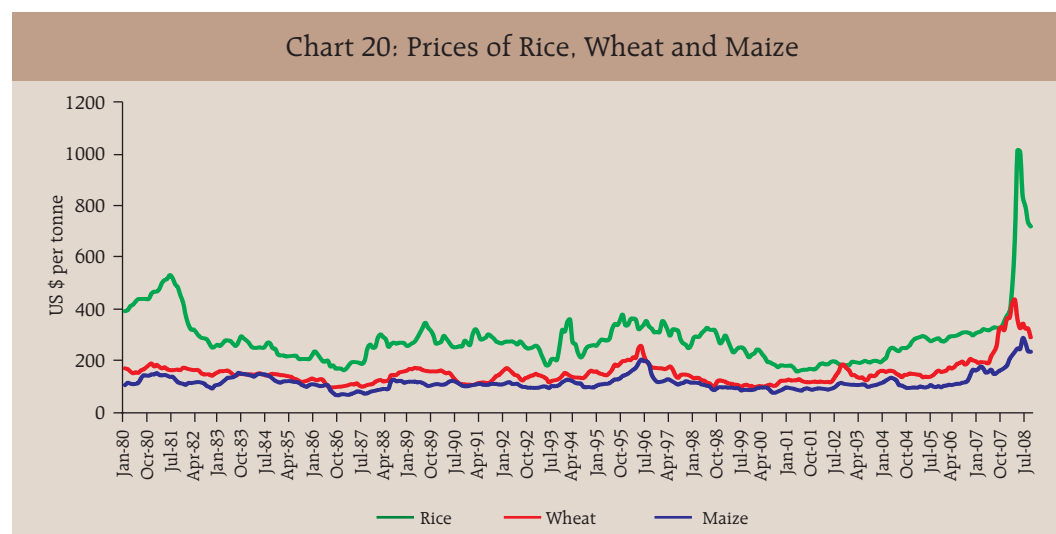
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Metal prices eased further during the second quarter of 2008-09, reflecting weak construction demand in OECD countries and some improvement in supply, especially in China. Between March 2008 and September 2008, the IMF metals price index declined by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

Food prices, which had increased sharply up to the first quarter of 2008-09 reflecting higher demand and low stocks, eased somewhat during the

second quarter of the year on the back of improved supply prospects, particularly for oilseeds and grains in major producing countries. The World Bank's food price index declined by about 18 per cent during June-September 2008, led by edible oils (20-37 per cent), rice (9 per cent), maize (19 per cent) and wheat (16 per cent) (Chart 20). Notwithstanding the recent easing, however, on a year-on-year basis, international prices of rice (111 per cent), soybeans (19 per cent) and soybean oil (28 per cent) have increased in September 2008 whereas wheat prices have declined by about 10 per cent during the same period. Notwithstanding the recent decline in food prices since June 2008, the IMF food price index in September 2008 was still above the level which was last seen in 1980. According to the US Department of Agriculture, global wheat and rice supplies are projected to increase by about 8 per cent and one per cent, respectively, during 2008-09 to

Chart 20: Prices of Rice, Wheat and Maize



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

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

Inflation Conditions in India

The Annual Policy Statement for 2008-09 (April 2008) of the Reserve Bank reaffirmed its resolve to bring down inflation to around 5.5 per cent in 2008-09 with a preference for bringing it as close to 5.0 per cent as soon as possible, recognising the evolving complexities in globally transmitted inflation. As the

potential inflationary pressures from international food and energy prices appeared to have amplified and, by the then indications, were likely to remain so for some time, the policy focused on conditioning perceptions for inflation in the range of 4.0-4.5 per cent so that an inflation rate of around 3.0 per cent became a medium-term objective consistent with India's broader integration into the global economy and with the goal of maintaining self-accelerating growth over the medium-term.

With the inflation rate, based on wholesale price index, hardening since the Annual Policy Statement was announced, an adjustment of overall aggregate demand on an economy-wide basis was warranted to ensure that generalised instability did not develop and erode the hard-earned gains in terms of both outcomes of and positive sentiments on India's growth momentum. In this regard, monetary policy had to urgently address aggregate demand pressures, which then appeared to be strongly in evidence. Apart from the build-up in inflationary expectations, this was reflected in (i) strong investment demand; (ii) the pick-up in the growth of domestic capital goods production, *albeit* with some recent moderation; (iii) revival in the production of consumer goods with a turnaround in the production of durables; (iv) widening trade deficit and some tightening of external financing conditions in the ongoing global

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financial turmoil; and (v) emergence of fiscal pressures due to the possibility of enhanced subsidies on account of food, fertiliser and POL as well as for financing deferred liabilities relating to farm loan waivers.

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

The First Quarter Review of the Annual Statement on Monetary Policy for 2008-09 noted that after the announcement of the Annual Policy Statement in April 2008, global as well as domestic developments on both supply and demand sides, pointed to accentuation of inflationary pressures, especially in terms of inflation expectations and perceptions during the first quarter of 2008-09. In an environment of surging global inflation, and with domestic inflation also rising to a 13-year high, the Reserve Bank noted with concern that inflation

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

The First Quarter Review also noted that in view of the criticality of anchoring inflation expectations, a continuous heightened vigil over ensuing monetary and macroeconomic developments was to be maintained to enable swift responses with appropriate measures as necessary, consistent with the monetary policy stance. Furthermore, in view of the

prevailing macroeconomic, liquidity and overall monetary conditions, the First Quarter Review announced an increase in the fixed repo rate under the LAF by 50 basis points from 8.5 per cent to 9.0 per cent with effect from July 30, 2008 and an increase in the CRR by 25 basis points to 9.0 per cent with effect from August 30, 2008 (Table 33).

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

(Per cent)				
Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio	WPI Inflation
1	2	3	4	5
March 31, 2004	4.50	6.00	4.50	4.6
September 18, 2004	4.50	6.00	4.75 (+0.25)	7.9
October 2, 2004	4.50	6.00	5.00 (+0.25)	7.1
October 27, 2004	4.75 (+0.25)	6.00	5.00	7.4
April 29, 2005	5.00 (+0.25)	6.00	5.00	6.0
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00	4.5
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00	4.2
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00	4.9
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00	4.7
October 31, 2006	6.00	7.25 (+0.25)	5.00	5.4
December 23, 2006	6.00	7.25	5.25 (+0.25)	5.8
January 6, 2007	6.00	7.25	5.50 (+0.25)	6.4
January 31, 2007	6.00	7.50 (+0.25)	5.50	6.7
February 17, 2007	6.00	7.50	5.75 (+0.25)	6.0
March 3, 2007	6.00	7.50	6.00 (+0.25)	6.5
March 31, 2007	6.00	7.75 (+0.25)	6.00	5.9
April 14, 2007	6.00	7.75	6.25 (+0.25)	6.3
April 28, 2007	6.00	7.75	6.50 (+0.25)	6.0
August 4, 2007	6.00	7.75	7.00 (+0.50)	4.4
November 10, 2007	6.00	7.75	7.50 (+0.50)	3.2
April 26, 2008	6.00	7.75	7.75 (+0.25)	8.3
May 10, 2008	6.00	7.75	8.00 (+0.25)	8.6
May 24, 2008	6.00	7.75	8.25 (+0.25)	8.9
June 12, 2008	6.00	8.00 (+0.25)	8.25	11.7
June 25, 2008	6.00	8.50 (+0.50)	8.25	11.9
July 5, 2008	6.00	8.50	8.50 (+0.25)	12.2
July 19, 2008	6.00	8.50	8.75 (+0.25)	12.5
July 30, 2008	6.00	9.00 (+0.50)	8.75	12.5
August 30, 2008	6.00	9.00	9.00 (+0.25)	12.1
October 11, 2008	6.00	9.00	6.50 (-2.50)	-
October 20, 2008	6.00	8.00 (-1.00)	6.50	-

Note: 1. With effect from October 29, 2004, the nomenclature of repo and reverse repo was changed in keeping with international usage. Now, reverse repo indicates absorption of liquidity and repo signifies injection of liquidity. Prior to October 29, 2004, repo indicated absorption of liquidity, while reverse repo meant injection of liquidity. The nomenclature in this Report is based on the new usage of terms even for the period prior to October 29, 2004.

2. Figures in parentheses indicate changes in policy rates/ratios.

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

Wholesale Price Inflation

In India, inflation based on the wholesale price index (WPI) remained

at elevated levels during 2008-09 so far, despite some recent easing. As on October 4, 2008, WPI inflation was 11.4 per cent as compared with 12.0 per cent at end-June 2008, 7.7 per cent at end-March 2008 and 3.2 per cent a year ago. This mainly reflected the impact of some pass-through of international crude oil prices to domestic prices as well as elevated levels of prices of iron and steel, basic heavy inorganic chemicals, machinery and machinery tools, oilseeds, sugar, raw cotton and textiles on account of strong demand as well as international commodity price pressures. However, there has been some moderation in the prices of freely priced petroleum products and edible oils/oil cakes over end-June 2008. On a year-on-year basis, 12 items/groups - rice, wheat, milk, raw cotton, oilseeds, iron ore, coal mining, minerals oil, edible oils, oil cakes, basic heavy inorganic chemicals and metals - with a combined weight of about 35 per cent in the WPI basket accounted for almost 69 per cent of headline inflation as on October 4, 2008 (as compared with 65 per cent a year ago) (Table 34).

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

Amongst major groups, primary articles inflation, y-o-y, increased to 12.7

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

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

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

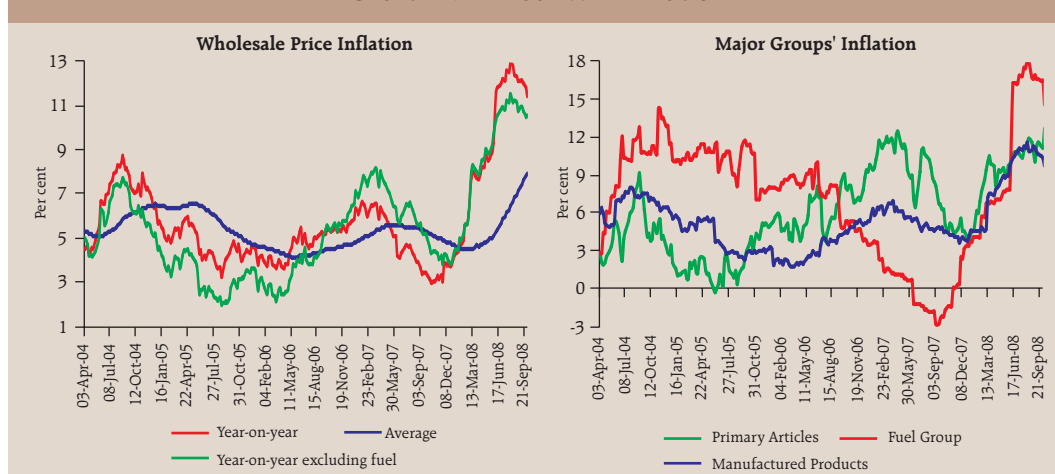
: Represented by IMF metals price index, which covers copper, aluminium, iron ore, tin, nickel, zinc, lead and uranium.

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

per cent on October 4, 2008 from 5.0 per cent a year ago and 11.0 per cent at end-June 2008 (9.7 per cent at end-March 2008). This mainly reflected the increase in the prices of food articles, especially of wheat, rice, fruits and vegetables, milk, and eggs, fish and meat as well as

non-food articles such as oilseeds and raw cotton. Within primary food articles, rice and wheat prices increased by 5.2 per cent and 7.6 per cent, respectively, on a year-on-year basis, on October 4, 2008 as compared with 6.7 per cent and 1.6 per cent a year ago.

Chart 21: Annual WPI Inflation



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

Fuel group inflation increased to 14.6 per cent on October 4, 2008 from a decline of 1.8 per cent a year ago and 6.8 per cent at end-March 2008 (it was 16.3 per cent at end-June 2008) mainly

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

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

(Per cent)							
Commodity	Weight	2007-08 (March 29)		2007-08 (October 6)		2008-09 P (October 4)	
		Inflation	WC	Inflation	WC	Inflation	WC
1	2	3	4	5	6	7	8
All Commodities	100.0	7.7	100.0	3.2	100.0	11.4	100.0
1. Primary Articles	22.0	9.7	28.2	5.0	34.8	12.7	25.3
<i>Food Articles</i>	15.4	6.5	13.2	2.8	13.8	9.7	13.5
i. Rice	2.4	9.1	2.5	6.7	4.4	5.2	1.0
ii. Wheat	1.4	5.1	1.0	1.6	0.7	7.6	1.0
iii. Pulses	0.6	-1.9	-0.2	-10.9	-2.7	9.3	0.6
iv. Vegetables	1.5	14.2	2.3	4.6	2.2	8.3	1.1
v. Fruits	1.5	4.1	1.0	-8.4	-5.0	19.5	2.9
vi. Milk	4.4	8.7	4.7	6.1	8.0	7.9	3.0
vii. Eggs, Fish and Meat	2.2	2.4	0.8	5.7	4.2	8.6	1.8
<i>Non-Food Articles</i>	6.1	11.4	8.8	12.4	21.3	13.9	7.3
i. Raw Cotton	1.4	14.0	2.0	12.8	4.0	37.6	3.7
ii. Oilseeds	2.7	20.3	6.7	26.1	17.8	13.6	3.2
iii. Sugarcane	1.3	-0.4	-0.1	1.1	0.5	-0.4	0.0
<i>Minerals</i>	0.5	49.9	6.2	-0.5	-0.2	54.5	4.6
2. Fuel, Power, Light and Lubricants	14.2	6.8	18.9	-1.8	-12.5	14.6	27.4
i. Minerals Oil	7.0	9.3	15.1	-2.0	-8.3	22.6	24.9
ii. Electricity	5.5	1.5	1.4	-1.8	-4.0	1.4	0.8
iii. Coal Mining	1.8	9.8	2.5	0.0	0.0	9.8	1.6
3. Manufactured Products	63.8	7.3	52.8	4.5	77.0	9.7	47.1
i. Food Products	11.5	9.4	12.4	3.9	12.4	9.8	8.7
<i>of which:</i> Sugar	3.6	1.1	0.4	-15.3	-13.8	13.6	2.8
Edible Oils	2.8	20.0	5.5	10.9	6.9	10.9	2.1
ii. Cotton Textiles	4.2	-6.8	-2.8	-0.5	-0.5	6.4	1.7
iii. Man-made Fibres	4.4	2.8	0.7	-1.7	-1.1	4.9	0.8
iv. Chemicals and Chemical Products	11.9	6.0	8.7	5.9	20.3	9.7	9.6
<i>of which:</i> Fertilisers	3.7	5.1	2.0	1.1	1.1	9.6	2.6
v. Basic Metals, Alloys and Metal Products	8.3	20.3	25.2	4.4	12.9	20.5	17.2
<i>of which:</i> Iron and Steel	3.6	34.2	20.1	7.1	10.0	29.2	12.0
vi. Non-Metallic Mineral Products	2.5	6.4	2.0	10.3	7.4	3.4	0.7
<i>of which:</i> Cement	1.7	5.1	1.1	12.0	6.1	2.3	0.4
vii. Machinery and Machine Tools	8.4	3.5	2.9	7.5	14.6	5.3	3.0
<i>of which:</i> Electrical Machinery	5.0	4.8	2.0	12.8	12.3	5.3	1.6
viii. Transport Equipment and Parts	4.3	3.9	1.7	1.5	1.6	6.5	1.9
<i>Memo:</i>							
Food Items (Composite)	26.9	7.7	25.6	3.2	26.2	9.7	22.1
WPI Excluding Food	73.1	7.8	74.4	3.2	73.8	12.0	77.9
WPI Excluding Fuel	85.8	8.0	81.1	4.7	112.5	10.6	72.6

WC: Weighted Contribution. P: Provisional.

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Manufactured products inflation, year-on-year, was 9.7 per cent as on October 4, 2008 as compared with 4.5 per cent a year ago and 10.9 per cent at end-June 2008 (it was 7.3 per cent at end-March 2008). The year-on-year increase in manufactured products prices was driven mainly by sugar, edible oils/oil cakes, textiles, chemicals, iron and steel, and machinery and machine tools. Prices of edible oils and grain mill products, however, eased somewhat over end-March 2008. The increase in domestic edible oils and oil cakes prices, year-on-year, by 10.9 per cent and 26.0 per cent, respectively, as on October 4, 2008 (on top of 10.9 per cent and 34.4 per cent, respectively, a year ago) reflected surge in demand, estimated lower domestic current *kharif* oilseeds production as well as elevated international prices, *albeit* with some recent easing (Chart 22). The sharp increase in

domestic iron and steel prices (29.2 per cent, year-on-year) was in line with the recent hardening of international steel prices, which have increased in the range of 69-82 per cent, y-o-y, in September 2008 (Chart 23). Domestic non-ferrous metals prices declined by 3.6 per cent, year-on-year, on October 4, 2008 in line with the decline in international metals prices by around 6 per cent, y-o-y, in September 2008. The increase in textiles prices by 9.8 per cent over end-March 2008 reflected the impact of higher domestic raw cotton prices in line with international trends as well as higher exports. Sugar prices have increased by 6.6 per cent up to October 4, 2008 over end-March 2008, reflecting the estimated decline in current *kharif* sugarcane production and higher international prices.

The 'manufactured products' group was the major driver of year-on-year

Chart 22: Edible Oils Inflation

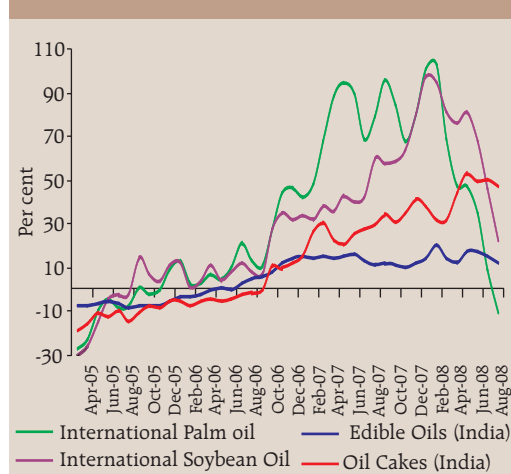
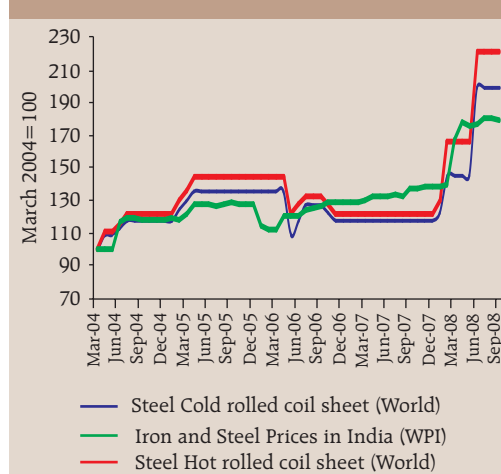


Chart 23: Iron and Steel Prices



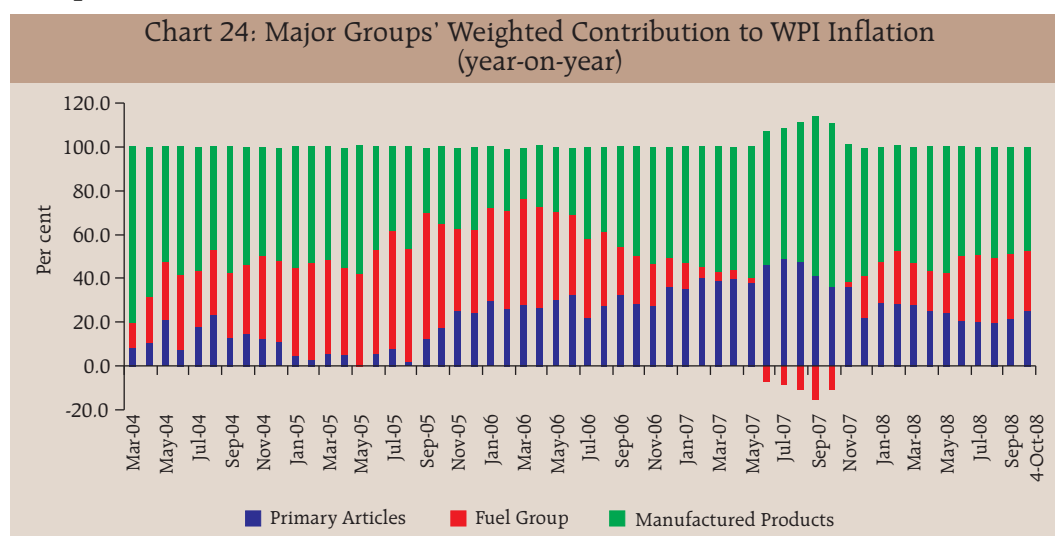
WPI inflation as on October 4, 2008 with weighted contribution of 47.1 per cent (77.0 per cent a year ago) to overall WPI inflation, followed by 'fuel, power, light and lubricants' group (27.4 per cent as against a negative contribution of 12.5 per cent a year ago) and the 'primary articles' group (25.3 per cent as compared with 34.8 per cent a year ago) (Chart 24).

Consumer Price Inflation

Inflation, based on year-on-year variation in consumer price indices (CPIs), hardened further during August/September 2008 mainly due to increase in the prices of food, fuel and services (represented by the 'miscellaneous' group). Various measures of consumer price inflation were placed in the range of 8.5-11.0 per cent during August/September 2008 as compared with 7.3-8.8 per cent in June 2008 and 5.7-7.9 per cent in September 2007 (Table 36).

Asset Prices

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



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Table 36: Consumer Price Inflation - Major Groups

(Year-on-year variation in per cent)														
CPI Measure	Weight	March 2003	March 2004	March 2005	March 2006	March 2007	June 2007	Sep. 2007	Dec. 2007	March 2008	June 2008	July 2008	Aug. 2008	Sep. 2008
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
CPI-IW (Base: 2001=100)#														
General	100.0	4.1	3.5	4.2	4.9	6.7	5.7	6.4	5.5	7.9	7.7	8.3	9.0	--
Food Group	46.2	3.7	3.1	1.6	4.9	12.2	8.1	8.7	6.2	9.3	10.5	10.3	-	-
Pan. Supari <i>etc.</i>	2.3	1.9	4.2	2.1	3.1	4.4	9.6	10.3	10.3	10.9	7.1	6.3	-	-
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	3.2	1.6	2.3	2.3	4.6	8.4	9.2	-	-
Housing	15.3	5.4	3.9	20.4	6.6	4.1	4.1	4.0	4.0	4.7	4.7	3.8	-	-
Clothing, Bedding <i>etc.</i>	6.6	1.5	2.1	2.3	3.0	3.7	4.4	5.3	3.5	2.6	2.5	2.5	-	-
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3	4.0	4.0	4.7	6.3	6.2	7.8	-	-
CPI-UNME (Base: 1984-85=100)														
General	100.0	3.8	3.4	4.0	5.0	7.6	6.1	5.7	5.1	6.0	7.3	7.4	8.5	--
Food Group	47.1	2.6	3.0	2.2	5.3	10.9	7.7	7.7	6.2	7.8	9.6	10.0	-	-
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4	7.2	7.0	5.4	4.6	5.3	6.2	-	-
Housing	16.4	6.3	5.2	7.5	5.5	5.6	5.6	4.9	4.7	4.0	3.8	3.7	-	-
Clothing, Bedding <i>etc.</i>	7.0	2.6	2.6	2.0	2.9	3.6	4.3	4.0	4.1	4.3	3.4	3.2	-	-
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4	3.7	3.2	3.8	4.8	6.6	7.3	-	-
CPI-AL (Base: 1986-87=100)														
General	100.0	4.9	2.5	2.4	5.3	9.5	7.8	7.9	5.9	7.9	8.8	9.4	10.3	11.0
Food Group	69.2	6.0	1.6	2.2	5.5	11.8	8.8	8.8	6.2	8.5	9.6	10.7	11.3	-
Pan. Supari <i>etc.</i>	3.8	3.5	4.7	-1.3	6.6	5.7	9.1	11.1	11.3	10.4	11.2	10.8	11.8	-
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.9	7.4	7.2	6.3	8.0	8.9	9.3	9.5	-
Clothing, Bedding <i>etc.</i>	7.0	3.0	4.1	2.5	2.2	3.5	2.7	1.9	1.3	1.8	3.1	3.6	5.0	-
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.8	6.7	5.5	5.2	6.1	6.5	7.0	6.9	-
CPI-RL (Base: 1986-87=100)														
General	100.0	4.8	2.5	2.4	5.3	9.2	7.5	7.6	5.6	7.6	8.7	9.4	10.3	11.0
Food Group	66.8	5.6	1.9	1.9	5.8	11.5	8.5	8.8	6.2	8.2	9.6	10.5	11.6	-
Pan. Supari <i>etc.</i>	3.7	3.5	4.7	-1.0	6.3	5.7	9.3	11.6	11.5	10.6	10.9	10.5	11.5	-
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.9	7.4	7.2	6.3	8.0	8.9	9.3	9.8	-
Clothing, Bedding <i>etc.</i>	9.8	3.3	3.4	2.8	2.7	3.1	2.6	2.1	2.6	2.8	4.1	4.3	5.6	-
Miscellaneous	11.9	3.1	3.0	5.5	5.2	6.3	6.2	5.3	5.0	6.2	6.8	7.0	7.2	-
<i>Memo:</i>														
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	5.9	4.4	3.4	3.8	7.7	12.0	12.5	12.1	11.8
GDP Deflator based Inflation*		3.9	3.7	4.2	4.9	5.5	5.4	3.9	2.7	4.2	7.8	-	-	-

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

* : Data for March pertain to full year.

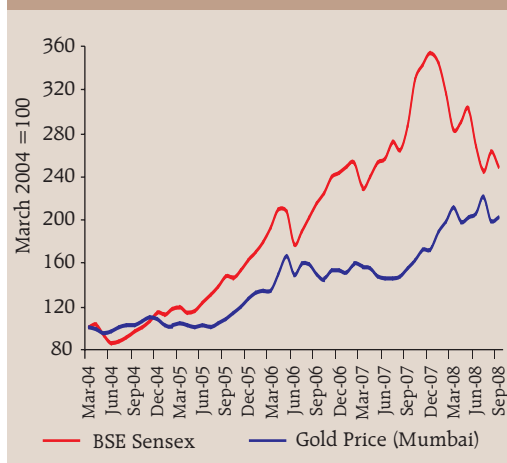
IW : Industrial Workers.

UNME : Urban Non-Manual Employees.

AL : Agricultural Labourers.

RL : Rural Labourers.

Chart 25: Asset Price Movements



per 10 grams by end-September 2008 in line with movement in international prices, which recovered to around US \$ 880 per ounce over the same period (Chart 25). Gold prices have been volatile during October 2008 so far. International gold prices had touched a peak of US \$ 1,011 per ounce on March 17, 2008, reflecting weakening of US dollar, hardening of oil prices and increased investor interest following uncertainties surrounding the global financial markets.