Table 1.32: Wholesale Price Inflation in India (year-on-year)

(Per cent)

Commodity	Weight	April 1, 2006		March 31, 2007	
		Inflation	WC	Inflation	WC
1	2	3	4	5	6
All Commodities	**100.0**	**4.0**	**100.0**	**5.9**	**100.0**
1. Primary Articles	**22.0**	**4.8**	**25.8**	**10.7**	**39.0**
i. Food Articles	15.4	5.9	22.5	8.0	20.8
Wheat	1.4	12.7	4.3	7.3	1.8
Pulses	0.6	33.3	4.5	12.5	1.4
ii. Non-Food Articles	6.1	-2.4	-3.5	17.2	15.6
Oilseeds	2.7	-9.2	-5.5	31.6	11.0
iii. Minerals	0.5	43.6	6.9	17.5	2.6
2. Fuel, Power, Light and Lubricants	**14.2**	**8.3**	**45.5**	**1.0**	**4.0**
i. Mineral Oils	7.0	12.0	37.2	0.5	1.1
ii. Electricity	5.5	4.5	8.3	2.3	2.8
iii. Coal Mining	1.8	0.0	0.0	0.0	0.0
3. Manufactured Products	**63.8**	**1.9**	**27.7**	**6.1**	**57.3**
i. Food Products	11.5	1.0	2.6	6.1	10.5
Sugar	3.6	6.2	4.7	-12.7	-6.6
Edible Oils	2.8	-3.3	-1.8	14.1	4.7
Oil Cakes	1.4	-8.2	-3.0	32.9	7.0
ii. Cotton Textiles	4.2	2.3	2.1	-1.0	-0.6
iii. Man Made Fibres	4.4	-3.9	-2.1	3.9	1.3
iv. Chemicals and Chemical Products	11.9	3.3	9.7	3.6	7.1
v. Basic Metals, Alloys and Metal Products	8.3	-0.6	-1.5	11.3	17.4
vi. Non-Metallic Mineral Products	2.5	9.6	5.4	9.0	3.6
vii. Machinery and Machine Tools	8.4	3.2	5.2	8.1	8.6
viii. Transport Equipment and Parts	4.3	0.9	0.8	2.0	1.2
Memo:					
Food Items (Composite)	**26.9**	**3.9**	**25.1**	**7.3**	**31.2**
WPI Excluding Food	**73.1**	**4.0**	**74.9**	**5.5**	**68.8**
WPI Excluding Fuel	**85.8**	**2.8**	**54.5**	**7.4**	**96.0**

P : Provisional. WC : Weighted Contribution.

issued oil bonds aggregating Rs.24,121 crore during 2006-07 (Rs.11,500 crore in the previous year).

Table 1.33: Major Group-wise WPI Inflation (year-on-year)

(Per cent)

Year	All Commodities	Primary Articles	Fuel Group	Manufactured Products
1	2	3	4	5
1995-96	4.4	3.1	5.1	4.7
1996-97	5.4	9.2	13.3	2.4
1997-98	4.5	4.6	13.7	2.3
1998-99	5.3	7.6	3.2	4.9
1999-00	6.5	4.0	26.7	2.4
2000-01	4.9	-0.4	15.0	3.8
2001-02	1.6	3.9	3.9	0.0
2002-03	6.5	6.1	10.8	5.1
2003-04	4.6	1.6	2.5	6.7
2004-05	5.1	1.3	10.5	4.6
2005-06	4.1	5.4	8.9	1.7
2006-07	5.9	10.7	1.0	6.1

I.3.38 Manufactured products, on the other hand, emerged as a key driver of inflation during 2006-07 amidst strong growth and demand conditions, and high capacity utilisation. Manufactured products group inflation increased to 6.1 per cent as on March 31, 2007 (from 1.9 per cent a year ago) contributing more than a half of overall y-o-y inflation during 2006-07 (Appendix Table 24). Amongst the manufactured products, prices of metals increased by 11.3 per cent, y-o-y, as on March 31, 2007 contributing 17.4 per cent to headline inflation. Within the metals group, non-ferrous metal prices rose by 29.3 per cent, y-o-y, on top of an increase of 17.5 per cent a year ago, broadly in line with international trends. Iron and steel prices increased by 8.1 per cent, y-o-y, in contrast to a decline of 4.2 per cent a year ago. Cement prices increased by 11.6 per cent, y-o-y, as on March 31, 2007 on top of an increase of 14.9 per cent a year earlier, in consonance with strong domestic demand emanating from construction activity related to both housing and other infrastructure activities. Prices of electrical machinery increased by 12.9 per cent reflecting the buoyant investment demand. Rise in prices of edible oils (increase of 14.1 per cent in contrast to a decline of 3.3 per cent a year ago), oil cakes (increase of 32.9 per cent as against a decline of 8.2 per cent), and grain mill products (increase of 16.6 per cent on top of an increase of 13.5 per cent a year ago) also contributed to manufactured products inflation. Domestic sugar prices declined in line with global trends.

I.3.39 In order to reduce the cost of manufacturing and infrastructure development, the Government took fiscal measures on January 22, 2007 in the form of reduction in customs duties on select items such as inorganic chemicals, non-ferrous metals, cement, capital goods and project imports. The Government further reduced the peak customs duty from 12.5 per cent to 10.0 per cent in the Union Budget, 2007-08 and, in the case of some items, below 10.0 per cent. On April 3, 2007, the Government decided to exempt import of portland cement from countervailing duty and special additional customs duty; it was earlier exempted from basic customs duty in January 2007.

Consumer Price Inflation

I.3.40 Consumer price inflation firmed up during 2006-07 and all the four measures were higher than WPI inflation throughout the year, mainly reflecting the higher order of increase in food prices as well as the higher weight of food items in the CPI (Table 1.34

Table 1.34: Consumer Price Inflation – Major Groups

(Year-on-year variation in per cent)

CPI Measure	Weight	March 2003	March 2004	March 2005	March 2006	June 2006	September 2006	December 2006	March 2007	June 2007
1	2	3	4	5	6	7	8	9	10	11
CPI-IW (Base: 2001=100)#										
General	**100.0**	**4.1**	**3.5**	**4.2**	**4.9**	**7.7**	**6.8**	**6.9**	**6.7**	**5.7**
Food Group	46.2	3.7	3.1	1.6	4.9	10.0	8.9	9.6	12.2	9.2 *
Pan, Supari *etc.*	2.3	1.9	4.2	2.1	3.1	3.7	4.2	4.3	4.4	9.6 *
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	8.7	6.5	5.9	3.2	2.3 *
Housing	15.3	5.4	3.9	20.4	6.6	6.6	7.1	7.1	4.1	4.1 *
Clothing, Bedding *etc.*	6.6	1.5	2.1	2.3	3.0	2.8	2.5	4.0	3.7	3.5 *
Miscellaneous	23.3	5.3	3.2	3.9	4.6	4.7	5.4	4.1	3.3	3.2 *
CPI-UNME (Base: 1984-85=100)										
General	**100.0**	**3.8**	**3.4**	**4.0**	**5.0**	**6.5**	**6.6**	**6.9**	**7.6**	**6.1**
Food Group	47.1	2.6	3.0	2.2	5.3	8.9	8.4	9.2	10.9	7.7
Fuel and Light	5.5	3.1	3.2	9.6	1.9	3.0	4.2	5.9	6.4	7.2
Housing	16.4	6.3	5.2	7.5	5.5	5.5	5.5	5.5	5.6	5.6
Clothing, Bedding *etc.*	7.0	2.6	2.6	2.0	2.9	2.7	3.4	3.8	3.6	4.3
Miscellaneous	24.0	6.0	2.8	4.4	5.1	6.1	6.5	4.6	4.4	3.7
CPI-AL (Base: 1986-87=100)										
General	**100.0**	**4.9**	**2.5**	**2.4**	**5.3**	**7.2**	**7.3**	**8.9**	**9.5**	**7.8**
Food Group	69.2	6.0	1.6	2.2	5.5	8.3	8.0	9.9	11.8	8.8
Pan, Supari *etc.*	3.8	3.5	4.7	-1.3	6.6	5.8	6.5	7.2	5.7	9.1
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.4	7.8	7.3	6.9	7.4
Clothing, Bedding *etc.*	7.0	3.0	4.1	2.5	2.2	2.5	3.3	3.3	3.5	2.7
Miscellaneous	11.7	3.1	2.7	5.5	5.5	5.2	7.0	7.4	6.8	6.7
CPI-RL (Base: 1986-87=100)										
General	**100.0**	**4.8**	**2.5**	**2.4**	**5.3**	**7.2**	**7.0**	**8.3**	**9.2**	**7.5**
Food Group	66.8	5.6	1.9	1.9	5.8	8.3	8.0	9.6	11.5	8.5
Pan, Supari *etc.*	3.7	3.5	4.7	-1.0	6.3	5.8	6.3	7.4	5.7	9.3
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.1	7.2	7.3	6.9	7.4
Clothing, Bedding *etc.*	9.8	3.3	3.4	2.8	2.7	2.9	3.5	2.9	3.1	2.6
Miscellaneous	11.9	3.1	3.0	5.5	5.2	4.9	6.4	7.2	6.3	6.2
Memo:										
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	4.8	5.4	5.9	5.9	4.3
GDP Deflator based Inflation $		3.9	3.7	4.2	4.4	4.6	4.7	5.5	5.3	–

\# : Data prior to January 2006 are based on the old series (Base: 1982=100). $: Data for March pertain to full year. *: May 2007.
IW : Industrial Workers. UNME : Urban Non-Manual Employees.
AL : Agricultural Labourers. RL : Rural Labourers.

and Appendix Table 25). Food items have weights in the range of 67-69 per cent in the CPI for rural labourers and agricultural labourers, and in the range of 46-47 per cent in the CPI for industrial workers and urban non-manual employees as compared with 27 per cent (composite) in the WPI. Disaggregated data show that food group inflation in various CPI measures rose from 4.9-5.8 per cent in March 2006 to 10.9-12.2 per cent by March 2007. As a result of higher order of increase in food prices coupled with their large weight in the indices, various measures of CPI inflation increased from 4.9-5.3 per cent in March 2006 to an intra-year peak of 7.6-9.8 per cent in February 2007 before easing to 6.7-9.5 per cent in March 2007. Higher fuel group prices also contributed to consumer price inflation. Prices of services proxied by "miscellaneous group" exhibited a mixed trend during the year. Housing rent, however, decelerated in the case of CPI for Industrial Workers but marginally increased in the case of CPI for Urban Non-Manual Employees.

I.3.41 Although CPI inflation was significantly higher than WPI inflation during 2006-07, the two inflation measures generally move in tandem in the long-run. During some periods, WPI inflation was higher than CPI inflation and *vice versa*. For instance, while WPI inflation during the 1990s averaged 8.1 per cent, CPI inflation (Industrial Workers) averaged 9.5 per cent. During 2000-01 to 2006-07, WPI inflation averaged 5.1 per cent, while CPI inflation averaged 4.4 per cent.

Asset Prices and Inflation

I.3.42 Domestic equity and bullion markets recorded gains during 2006-07, with intermittent corrections during the course of the year. Overall, the BSE Sensex gained 15.9 per cent during 2006-07. Domestic gold prices increased by about 10 per cent during 2006-07, broadly mirroring movements in international prices. International gold prices initially rose to US $ 715 per ounce on May 12, 2006 but fell to US $ 559 as on June 14, 2006 in consonance with the trends in various commodities in the international market. Gold prices recovered in July 2006 but again eased in September 2006 as headline inflation in major economies eased in tandem with the softening of international crude oil prices. Gold prices rebounded from the fourth quarter of 2006 before easing somewhat to around US $ 660 per ounce by end-March 2007.

Developments during 2007-08

I.3.43 Headline WPI inflation was 4.1 per cent, y-o-y, as on August 4, 2007 as compared with 5.9 per cent at end-March 2007 and 5.1 per cent a year ago. Primary articles inflation was 9.4 per cent (5.2 per cent a year ago), and manufactured products inflation was 4.4 per cent (3.8 per cent). Fuel group, on the other hand, turned negative (-2.1 per cent) from 8.2 per cent a year earlier. The average WPI inflation rate increased to 5.5 per cent as on August 4, 2007 from 4.4 per cent a year ago. Various measures of consumer price inflation were placed in the range of 5.7-7.8 per cent during June 2007.

I.3.44 To sum up, monetary and credit aggregates continued to record high growth during 2006-07. Large capital inflows remained the key driver of reserve money. Acceleration in deposits growth during the year accommodated the buoyancy in credit demand. Although banks' SLR investments increased during the year, the holdings of SLR investments, as a proportion to NDTL, declined further during the year. Headline inflation firmed up during 2006-07, reflecting an inter-play of both demand and supply side pressures. However, pressures from fuel prices eased significantly from September 2006 onwards in line with the easing of international crude oil prices. Pre-emptive monetary actions in the form of various policy instruments in a flexible manner, as warranted by the evolving macroeconomic conditions, by the Reserve Bank along with the timely fiscal and supply side measures undertaken by the Government helped in stabilising inflationary expectations. Cross-country comparison indicates that inflation in India remains higher than major EMEs as well as advanced economies.

IV. GOVERNMENT FINANCES

I.4.1 The combined finances of the Central and State Governments showed an improvement in 2006-07. The key deficit indicators, *viz.,* gross fiscal deficit (GFD), revenue deficit and primary deficit, in 2006-07 were placed 0.2 -0.6 percentage points of GDP lower than the preceding year, largely facilitated by the noticeable increase in tax revenues (Table 1.35). The buoyancy in tax revenue reflected the impact of strong economic growth as well as continued efforts at improving the taxation system through moderation of tax rates and broadening of tax base. A noteworthy feature of the combined finances was enhanced allocation for development expenditure.

Table 1.35: Major Fiscal Indicators: Combined Finances

(Per cent of GDP)

Item	1990-91	1995-96	2005-06	2006-07 RE
1	2	3	4	5
1. Gross Fiscal Deficit	9.4	6.5	6.7	6.4
2. Revenue Deficit	4.2	3.2	2.7	2.1
3. Primary Deficit	5.0	1.6	1.1	0.9
4. Revenue Receipts	18.6	18.3	20.1	21.4
(i) Tax Revenues	15.4	14.7	16.4	17.7
Direct Taxes	2.5	3.5	5.5	6.4
Indirect Taxes	12.9	11.2	10.9	11.3
(ii) Non-tax Revenue	3.2	3.6	3.7	3.7
5. Total Expenditure*	28.7	25.4	27.2	28.2
(i) Developmental Expenditure	17.1	13.9	14.5	15.2
(ii) Non-developmental Expenditure *	11.6	11.5	12.7	12.9
of which:				
Interest Payments	4.4	5.0	5.8	5.6
6. Debt@	64.9	61.3	80.5	77.0
				Per cent
Capital Outlay/ Total Expenditure	13.1	10.8	13.8	14.8
Interest Payments/ Revenue Receipts	23.6	27.2	28.6	26.3
Revenue Deficit/ Gross Fiscal Deficit	44.6	48.8	39.7	32.0

RE : Revised Estimates.
* : Net of repayments.
@ : Includes 'reserve funds' and 'deposits and advances'.

Note : 1. All indicators are based on combined data of the Centre and States with inter-Governmental transactions netted out.
2. Data in respect of the State Governments are related to budgets of 29 State Governments (including National Capital Territory of Delhi). Data are provisional for the years 2005-06 and 2006-07.

Central Government Finances – 2006-07

Revised Estimates

I.4.2 The revised estimates (RE) of the Central Government finances for 2006-07 exhibited an improvement *vis-à-vis* the budget estimates (BE). The key deficit indicators, *viz*., revenue deficit, GFD and primary deficit were placed 0.1 percentage point of GDP lower than their budgeted levels. In absolute terms, the revenue deficit and the primary deficit turned out to be lower than budgeted, while the GFD was higher in the revised estimates than in the budget estimates (Table 1.36 and Appendix Table 26). The improvement in revenue account in the revised estimates was mainly due to higher tax revenues (Appendix Table 27). Collections under all taxes, except excise duties, were higher than budgeted. The buoyancy in revenues more than offset the increase in the revenue expenditure (mainly due to higher interest payment and subsidies), and this enabled a reduction of the revenue deficit in the revised estimates. The GFD was, however, placed higher in the revised estimates than the budget estimates mainly due to higher net lending. Capital outlay, on the other hand, was lower on account of decline in defence outlay.

I.4.3 Although the GFD was higher than budgeted, net market borrowings were 2.9 per cent lower than budgeted, facilitated by a drawdown of cash balances. Net market borrowings financed 72.5 per cent of the GFD in the revised estimates as compared with 76.5 per cent in the budget estimates, while the drawdown of cash balances financed 7.2 per cent of GFD in the revised estimates (nil provision in the budget estimates) (Appendix Table 28). 'Deposits and advances' and external assistance financed 7.6 per cent and 5.2 per cent, respectively, of the GFD in the revised estimates as compared with 7.4 per cent and 5.6 per cent, respectively, in the budget estimates.

I.4.4 The provisional accounts for 2006-07 released by the Controller General of Accounts reveal that both the revenue deficit and GFD, relative to GDP, narrowed down further by 0.1 percentage point and 0.2 percentage point, respectively, *vis-à-vis* the revised estimates, on account of increase in both tax and non-tax revenues (Table 1.37). Primary balance turned surplus.

Debt position of the Central Government

I.4.5 Reflecting the process of fiscal consolidation, the outstanding domestic liabilities of the Central Government - comprising internal debt and other liabilities such as national small savings fund (NSSF), state provident funds, other accounts, reserve funds and deposits - declined to 59.0 per cent of GDP at end-March 2007 (RE) from 60.7 per cent at end-March 2006 and 61.8 per cent at end-March 2005. Internal debt was the largest component of the outstanding liabilities of the Central Government (61.3 per cent of the total debt at end-March 2007) followed by liabilities on account of NSSF, state provident funds and other accounts (29.8 per cent) (Appendix Table 29).

Table 1.36: Major Fiscal Indicators of the Centre

(Amount in Rupees crore)

Item	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)	Variation (3 over 2)		Variation (4 over 3)	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
1. Revenue Receipts	4,03,465	4,23,331	4,86,422	19,866	4.9	63,091	14.9
2. Disinvestment	3,840	528 #	1,651 *	-3,312	-86.3	1,123	212.7
3. Revenue Expenditure	4,88,192	5,06,767	5,57,900	18,575	3.8	51,133	10.1
of which:							
a) Interest Payments	1,39,823	1,46,192	1,58,995	6,369	4.6	12,803	8.8
4. Capital Outlay	66,938	65,164	75,123 *	-1,774	-2.7	9,959	15.3
of which:							
Defence	37,458	34,458	41,922	-3,000	-8.0	7,464	21.7
5. Net Lending	861	4,256	5,998	3,395	394.3	1,742	40.9
6. Revenue Deficit (3-1)	**84,727 (2.1)**	**83,436 (2.0)**	**71,478 (1.5)**	**-1,291**	**-1.5**	**-11,958**	**-14.3**
7. Gross Fiscal Deficit (4+5+6-2)	**1,48,686 (3.8)**	**1,52,328 (3.7)**	**1,50,948 (3.3)**	**3,642**	**2.4**	**-1,380**	**-0.9**
8. Primary Deficit (7-3a)	**8,863 (0.2)**	**6,136 (0.1)**	**-8,047 (-0.2)**	**-2,727**	**-30.8**	**-14,183**	**-231.1**

BE : Budget Estimates. RE : Revised Estimates.

: On account of bonus shares issued by ONGC.

* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of the Reserve Bank's stake in the State Bank of India (SBI) to the Government.

Note : 1. From 2006-07, disinvestment proceeds are being earmarked to National Investment Fund to make such transactions fiscal deficit neutral.
2. Figures in parentheses are percentages to GDP.

I.4.6 The ratio of interest payments to revenue receipts continued to decline during the year. The ratio declined from 53.4 per cent in 2001-02 to 34.5 per cent in 2006-07 (RE), as the growth in revenue receipts (110 per cent between 2001-02 and 2006-07) outpaced the growth in interest payments (36 per cent) (Chart I.13). The average interest rate on outstanding market loans increased during 2005-06,

Table 1.37: Key Deficit Indicators of the Centre for 2006-07 : Provisional Accounts

(Rupees crore)

Indicator	Budget Estimates	Revised Estimates	Provisional Accounts	Variation (per cent)	
				Col. 4 over Col.3	Col.4 over Col.2
1	2	3	4	5	6
Revenue Deficit	84,727 (2.1)	83,436 (2.0)	80,410 (1.9)	-3.6	-5.1
Gross Fiscal Deficit	1,48,686 (3.8)	1,52,328 (3.7)	1,42,793 (3.5)	-6.3	-4.0
Primary Deficit	8,863 (0.2)	6,136 (0.1)	- 6,760 (-0.2)	–	–

Note : Figures in parentheses are percentages to GDP. Figures in parentheses in column 4 are based on CSO's revised estimate for GDP.

Chart I.13: Debt Service Burden of the Central Government

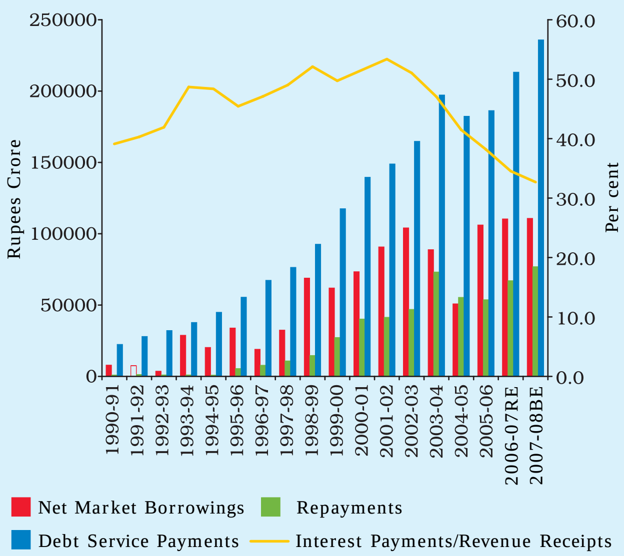


Table 1.38: Average Interest Rates on Outstanding Domestic Liabilities of the Centre

(Per cent)

Year	Market Loans	Small Savings/ NSSF	State Provident Funds	Special Deposits
1	2	3	4	5
1990-91 to1994-95 (Average)	10.86	10.85	11.63	11.53
1995-96 to1999-2000 (Average)	12.39	11.62	11.62	10.93
2000-01	12.99	11.60	10.54	9.87
2001-02	12.83	11.61	9.09	10.5
2002-03	12.11	11.56	8.53	8.82
2003-04	11.11	10.88	7.39	7.94
2004-05	9.87	9.37	7.99	7.65
2005-06	10.07	8.90	7.46	7.25
2006-07(RE)	8.90	8.91	7.63	6.85

RE: Revised Estimates.

Note: 1. Market loans represent dated securities.

2. Small savings represent small saving deposits, certificates and public provident fund. Since 1999-2000, interest on small savings represents interest on Central Government Special Securities issued to the National Small Savings Fund (NSSF).
3. The Government notified the freezing of the corpus of the Special Deposit Scheme as on June 30, 2003.
4. The interest rate for each component is computed by dividing the interest payments in a year by the outstanding liabilities at the end of the preceding year.

reversing the declining trend witnessed since 2000-01 (Table 1.38).

State Government Finances – 2006-07[11]

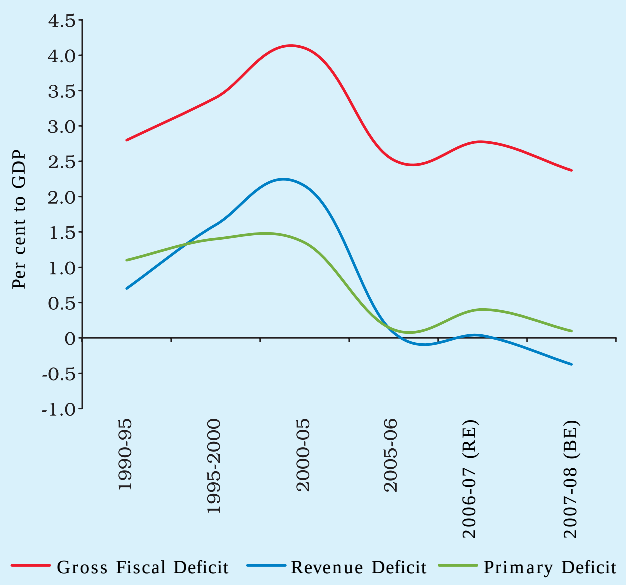
I.4.7 Consolidated fiscal position of States for 2006-07 indicates further progress in the direction of fiscal consolidation, enabled by the enactment and implementation of Fiscal Responsibility Legislations. The consolidated revenue deficit in the revised estimates (RE) for 2006-07 was placed at Rs.1,303 crore (0.03 per cent of GDP) as against a deficit of Rs.4,511 crore (0.11 per cent of GDP) in 2006-07 (BE). Several States have achieved revenue surplus two years ahead of the target for achieving revenue balance by 2008-09 as prescribed by the Twelfth Finance Commission (TFC). This improvement resulted from higher revenue receipts (4.5 per cent above the budgeted level), offsetting the slippage in revenue expenditure (3.9 per cent above budgeted level). The higher revenue receipts in 2006-07 (RE) were due to increase in grants from the Centre (3.6 per cent), shareable taxes (5.8 per cent), States' own tax receipts (3.9 per cent) and States' own non-tax receipts (6.9 per cent). There was, however, a marginal slippage in the GFD/GDP ratio to 2.8 per cent from the budgeted level of 2.6 per cent on account of enhanced capital outlay (10.8 per cent), mainly in respect of education, rural development, irrigation, energy and transport sectors. Capital outlay, as a ratio to GDP, rose by 0.3 percentage points to 2.6 per cent. All the major deficit indicators, as per cent of GDP, were placed much lower in the revised estimates of 2006-07 than their average levels during the period 2000-05 (Chart I.14 and Appendix Table 30).

I.4.8 Flows from the NSSF continued to be the major source of financing the GFD (51.2 per cent of GFD) in 2006-07 (RE) followed by market borrowings (16.5 per cent) and state provident funds (8.8 per cent). With the discontinuation of loans from the Centre to the States following the recommendations of the TFC, there was a reverse flow to the Centre on account of repayments.

Combined Budgetary Position of the Centre and States – 2006-07

I.4.9 During 2006-07, the revenue deficit of the combined Government finances in the revised estimates was placed lower than the budget estimates. Buoyant tax collections, both direct and indirect, and

Chart I.14: Major Deficit Indicators of State Governments



[11] The analysis of State finances and combined finances for 2006-07 (Revised Estimates) and 2007-08 (Budget Estimates) is based on the budgets of 29 State Governments (including National Capital Territory (NCT) of Delhi). All data are provisional.

Table 1.39: Indicators of Combined Finances of the Centre and States

(Amount in Rupees crore)

Item	1990-91	1995-96	2000-01	2005-06	2006-07 BE	2006-07 RE	Variation (RE over BE) Amount	Per cent
1	2	3	4	5	6	7	8	9
Gross Fiscal Deficit [II-IA-IB(a)]	53,580	77,671	1,99,852	2,39,323	2,58,753	2,64,506	5,754	2.2
	(9.4)	(6.5)	(9.5)	(6.7)	(6.3)	(6.4)		
Revenue Deficit [II1-IA]	23,871	37,932	1,38,803	94,989	89,238	84,739	-4,499	-5.0
	(4.2)	(3.2)	(6.6)	(2.7)	(2.2)	(2.1)		
Primary Deficit	28,585	18,598	75,035	33,700	32,174	32,562	388	1.2
	(5.0)	(1.6)	(3.6)	(0.9)	(0.8)	(0.8)		
I. Total Receipts(A+B)	1,51,593	2,96,629	5,94,804	10,31,525	11,18,915	11,33,325	14,410	1.3
A. Revenue Receipts (1+2)	1,05,757	2,17,526	3,78,817	7,17,897	8,42,449	8,82,247	39,798	4.7
1 Tax Receipts (a+b)	87,564	1,74,851	3,05,374	5,85,535	6,93,827	7,28,864	35,037	5.0
a) Direct Taxes	14,267	41,603	80,215	1,95,430	2,42,072	2,62,005	19,933	8.2
b) Indirect Taxes	73,297	1,33,248	2,25,159	3,90,105	4,51,755	4,66,859	15,104	3.3
2 Non Tax Receipts	18,193	42,675	73,443	1,32,362	1,48,622	1,53,383	4,761	3.2
B. Capital Receipts	45,836	79,102	2,15,987	3,13,628	2,76,466	2,51,078	-25,388	-9.2
a) Non Debt Capital Receipts	3,531	6,968	12,591	13,560	13,728	15,399	1,671	12.2
b) Debt Capital Receipts	42,305	72,134	2,03,396	3,00,068	2,62,738	2,35,679	-27,059	-10.3
II. Aggregate Expenditure (1+2+3 = 4+5)	1,62,868	3,02,166	5,91,258	9,70,779	11,14,928	11,62,151	47,223	4.2
1 Revenue Expenditure	1,29,628	2,55,457	5,17,618	8,12,887	9,31,687	9,66,986	35,299	3.8
2 Capital Outlay	21,353	32,594	55,875	1,34,088	1,63,444	1,72,092	8,648	5.3
3 Loans and Advances	11,887	14,115	17,766	23,804	19,797	23,073	3,276	16.5
4 Development Expenditure	97,149	1,65,361	3,08,546	5,17,170	6,00,568	6,28,775	28,207	4.7
5 Non-Development Expenditure@	65,719	1,36,805	2,82,712	4,53,609	5,14,361	5,33,376	19,015	3.7

RE : Revised Estimates. BE: Budget Estimates.

@ : Excludes repayments.

Notes: 1. Inter-Governmental transactions have been netted out.

2. Figures in parentheses are percentages to GDP.

3. Totals may not tally due to rounding off.

higher non-tax receipts enabled a reduction of 0.1 percentage point of GDP in the revenue deficit *vis-a-vis* budgeted level (Table 1.39 and Appendix Table 31). Aggregate expenditure was higher than budgeted on account of increase in both development and non-development expenditures. While development expenditure exceeded the budget estimates on account of higher expenditure on education, health, family welfare and water supply and sanitation, the increase in non-development expenditure was due to higher allocation for administrative services.

Combined Debt

I.4.10 Reflecting the fiscal consolidation as well as strong economic growth, the combined outstanding liabilities of the Centre and the States, as a proportion to GDP, declined by 3.5 percentage points during 2006-07 to 77.0 per cent at end-March 2007 (Table 1.40).

Contingent Liabilities/Guarantees of the Government

I.4.11 The outstanding guarantees of the Central Government increased from Rs.1,07,957 crore at

Table 1.40: Combined Liabilities of the Centre and States

end-March	Outstanding Liabilities (Rupees crore) Centre	States	Combined	(Per cent of GDP) Centre	States	Combined
1	2	3	4	5	6	7
1990-91	3,14,558	1,28,155	3,68,824	55.3	22.5	64.9
1995-96	6,06,232	2,50,889	7,28,208	51.0	21.1	61.3
2000-01	11,68,541	6,02,072	14,92,032	55.4	28.6	70.8
2001-02	13,66,408	7,00,524	17,42,810	59.9	30.7	76.4
2002-03	15,59,201	7,98,921	19,83,298	63.6	32.5	81.0
2003-04	17,36,678	9,23,500	22,52,996	62.9	33.4	81.6
2004-05	19,94,422	10,42,305	25,75,145	63.9	33.3	82.5
2005-06	22,60,145	11,63,834	28,75,674	63.4	32.6	80.5
2006-07 RE	25,36,464	12,60,190	31,87,461	61.5	30.5	77.0
2007-08 BE	27,44,442	13,69,543	34,54,817	59.2	29.6	74.2

RE: Revised Estimates. BE: Budget Estimates.

Note : 1. Data in respect of the States are provisional from 2005-06 onwards and relate to 29 States (including NCT Delhi).

2. Under 'combined liabilities', inter-Governmental transactions are netted out.

3. Data include 'reserve funds' and 'deposits and advances'.

Table 1.41: Outstanding Government Guarantees

(Amount in Rupees crore)

end-March	Centre		States		Total	
	Amount	Per cent of GDP	Amount	Per cent of GDP	Amount	Per cent of GDP
1	2	3	4	5	6	7
1993	58,088	7.8	42,515	5.7	1,00,603	13.4
1994	62,834	7.3	48,865	5.7	1,11,700	13.0
1995	62,468	6.2	48,479	4.8	1,10,947	11.0
1996	65,573	5.5	52,631	4.4	1,18,204	9.9
1997	69,748	5.1	65,339	4.8	1,33,157	9.9
1998	73,877	4.9	73,751	4.8	1,47,628	9.7
1999	74,606	4.3	79,457	4.6	1,72,060	9.9
2000	83,954	4.3	1,32,029	6.8	2,15,983	11.2
2001	86,862	4.1	1,68,719	8.0	2,55,581	12.2
2002	95,859	4.2	1,65,386	7.3	2,61,245	11.5
2003	90,617	3.7	1,84,294	7.5	2,74,911	11.2
2004	87,780	3.2	2,19,658	7.9	3,07,438	11.1
2005	1,07,957	3.5	2,04,426 P	6.5	3,12,383	10.0
2006	1,10,626	3.1	1,77,552 P	5.0	2,88,178	8.1

P: Provisional.

Note : Ratios to GDP may not add up to the total due to rounding off.

Source : 1. Data on Centre's guarantees are from budget documents of the Central Government.

2. Data on States' guarantees are based on the information received from State Governments and pertain to 17 major States up to 2005. For 2006, data pertain to 13 States and hence are not comparable with the previous years.

Table 1.42: Decomposition of the GFD of the Centre

(Per cent)

Year	Revenue Deficit	Capital Outlay	Net Lending	Other Non-debt Receipts @
1	2	3	4	5
1990-91	41.6	27.2	31.2	0
1995-96	49.4	23.4	29.6	-2.3
2000-01	71.7	20.8	9.2	-1.8
2001-02	71.1	18.8	12.7	-2.6
2002-03	74.4	20.1	7.7*	-2.2
2003-04	79.7	27.8	6.3*	-13.8
2004-05	62.6	41.3	-0.4*	-3.5
2005-06	63.0	37.6	0.5	-1.1
2006-07(RE)	54.8	42.8	2.8	-0.3
2007-08 (BE)	47.4	49.8	4.0	-1.1#

@: Include disinvestment proceeds and value of bonus shares.

* : Adjusted for debt swap transactions.

: Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.

end-March 2005 to Rs.1,10,626 crore at end-March 2006; however, as a proportion to GDP, the guarantees declined from 3.5 per cent to 3.1 per cent (Table 1.41). The net accretion to the stock of contingent liabilities in the form of guarantees extended by the Central Government at Rs.2,669 crore constituted 0.06 per cent of GDP for the year ended March 2006, which was well within the limit of 0.50 per cent of GDP stipulated under the FRBM Rules, 2004.

FISCAL OUTLOOK FOR 2007-08[12]

Central Government

I.4.12 The Union Budget 2007-08 sought to strengthen the fiscal correction process as prescribed under the FRBM Rules, 2004. Accordingly, the GFD is budgeted to decline by 0.4 percentage point to 3.3 per cent of GDP during 2007-08 while the revenue deficit is budgeted to decline by 0.5 percentage points to 1.5 per cent of GDP. These budgeted reductions are in consonance with the annual reductions stipulated under the FRBM Rules, 2004. The Budget envisages a primary surplus of 0.2 per cent of GDP during 2007-08 as against a primary deficit of 0.1 per cent of GDP during 2006-07. The underlying strategy for reducing deficits is essentially revenue-led, accompanied by improvements in allocative efficiencies of public expenditure. During 2007-08, as the GFD is budgeted to be lower than the Plan expenditure, the financing of the Plan will not be entirely from borrowed resources. Furthermore, the envisaged reduction in the revenue deficit to GFD ratio will facilitate higher capital outlays (Table 1.42).

Pattern of Receipts

I.4.13 Revenue receipts are budgeted to rise by 14.9 per cent during 2007-08 on top of 21.8 per cent growth recorded in the previous year (Table 1.43). Growth in collections under all the major taxes, except fringe benefit tax and union excise duty, is budgeted to

[12] All comparisons of 2007-08 in this section are with the revised estimates for 2006-07, unless stated otherwise.

Table 1.43: Revenue Position of the Centre

(Rupees crore)

Item	2005-06 (Actuals)	2006-07 (RE)	2007-08 (BE)	Variation			
				2006-07		2007-08	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
Total Receipts (1+2)	5,06,123 (14.2)	5,81,637 (14.1)	6,40,521* (13.8)	75,514	14.9	58,884	10.1
1, Revenue Receipts	3,47,462 (9.7)	4,23,331 (10.3)	4,86,422 (10.5)	75,869	21.8	63,091	14.9
Tax Revenue (Net)	2,70,264 (7.6)	3,45,971 (8.4)	4,03,872 (8.7)	75,707	28.0	57,901	16.7
Non-Tax Revenue	77,198 (2.2)	77,360 (1.9)	82,550 (1.8)	162	0.2	5,190	6.7
2. Capital Receipts	1,58,661 (4.5)	1,58,306 (3.8)	1,54,099* (3.3)	-355	-0.2	-4,207	-2.7
Non-Debt Capital Receipts	12,226 (0.3)	5,978 (0.1)	3,151* (0.1)	-6,248	-51.1	-2,827	-47.3
Debt Capital Receipts	1,46,435 (4.1)	1,52,328 (3.7)	1,50,948 (3.3)	5,893	4.0	-1,380	-0.9
Memo :							
Gross Tax Revenue	3,66,152 (10.3)	4,67,848 (11.3)	5,48,122 (11.8)	1,01,696	27.8	80,274	17.2
i) Corporation Tax	1,01,277 (2.8)	1,46,497 (3.6)	1,68,401 (3.6)	45,220	44.6	21,904	15.0
ii) Income Tax@	55,976 (1.6)	72,710 (1.8)	86,829 (1.9)	16,734	29.9	14,119	19.4
iii) Customs Duty	65,067 (1.8)	81,800 (2.0)	98,770 (2.1)	16,733	25.7	16,970	20.7
iv) Union Excise Duty	1,11,226 (3.1)	1,17,266 (2.8)	1,30,220 (2.8)	6,040	5.4	12,954	11.0
v) Service Tax	23,055 (0.6)	38,169 (0.9)	50,200 (1.1)	15,114	65.6	12,031	31.5
vi) Securities Transaction Tax	2,559 (0.1)	3,750 (0.1)	4,500 (0.1)	1,191	46.5	750	20.0
vii) Banking Cash Transaction Tax	321 (0.0)	550 (0.0)	645 (0.0)	229	71.3	95	17.3
viii) Fringe Benefit Tax	4,772 (0.1)	5,500 (0.1)	6,800 (0.1)	728	15.3	1,300	23.6

RE: Revised Estimates. BE : Budget Estimates.
* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.
@ : Excluding Fringe Benefit Tax.
Note : Figures in parentheses are percentages to GDP.

decelerate in 2007-08, partly due to the high base created by robust growth in the previous years. Nonetheless, the tax/GDP ratio is expected to increase to 11.8 per cent in 2007-08, thus continuing the rising trend that began in 2002-03, led by the sustained rise in direct taxes (Table 1.44).

I.4.14 Growth in non-tax revenue at 6.7 per cent in 2007-08 is budgeted to be higher than that in 2006-07 (0.2 per cent) on account of higher dividends and profits (see Table 1.43). However, interest receipts are expected to continue the declining trend, attributable to the pre-payment of high cost debt by the States

Table 1.44: Gross Tax Revenues of the Centre

(Per cent to GDP)

Year	Direct Tax	Indirect Tax	Total
1	2	3	4
1990-91	1.9	8.2	10.1
1991-92	2.3	8.0	10.3
1992-93	2.4	7.5	10.0
1993-94	2.4	6.5	8.8
1994-95	2.7	6.5	9.1
1995-96	2.8	6.5	9.4
1996-97	2.8	6.6	9.4
1997-98	3.2	6.0	9.1
1998-99	2.7	5.6	8.3
1999-00	3.0	5.8	8.8
2000-01	3.3	5.7	9.0
2001-02	3.0	5.2	8.2
2002-03	3.4	5.4	8.8
2003-04	3.8	5.4	9.2
2004-05	4.3	5.5	9.8
2005-06	4.6	5.6	10.3
2006-07 (RE)	5.6	5.8	11.3
2007-08 (BE)	5.8	6.1	11.8

RE : Revised Estimates. BE: Budget Estimates.

under the debt swap scheme and the operation of the Twelfth Finance Commission (TFC) award. Under the TFC award, incentive linked debt restructuring, which includes interest rate reductions and debt write-offs, has been undertaken for the States that enact fiscal responsibility legislations. Furthermore, the Centre has disengaged from financial intermediation in respect of lending to the States, except for loans under externally aided projects.

I.4.15 In respect of non-debt capital receipts, the recoveries of loans and advances from the State Governments and the Central PSUs are budgeted to decline, reflecting the impact of debt consolidation under the TFC award. The Budget has earmarked disinvestment proceeds of Rs.1,651 crore from sale of equity in specified power corporations to the National Investment Fund set up outside the Consolidated Fund of India.

Pattern of Expenditure[13]

I.4.16 Aggregate expenditure, as percentage of GDP, in 2007-08 is budgeted at 13.8 per cent of GDP as compared with 14.1 per cent of GDP in 2006-07, reflecting containment of non-plan expenditures, particularly, interest payments and subsidies. On the other hand, the Plan expenditure/GDP ratio is budgeted to increase on the back of higher budgetary support for the Central Plan (Table 1.45 and Box I.11). Capital expenditure is budgeted to remain unchanged at 1.8 per cent of GDP in 2007-08. Within capital expenditure, the share of capital outlay is budgeted to increase to 90.9 per cent in 2007-08 from 87.0 per cent in 2006-07 on account of higher defence outlay. While the share of defence capital outlay would increase from 46.0 per cent of total capital expenditure in 2006-07 to 50.8 per cent in 2007-08, that of non-defence capital outlay would decline from 41.0 per cent to 40.2 per cent.

I.4.17 Amongst major development expenditures, the outgo on education and health, as a proportion to total expenditure, is budgeted to continue its rising trend during 2007-08. The combined expenditure on education and health is envisaged to rise from 5.5 per cent of total expenditure during 2006-07 to 6.2 per cent in 2007-08. The share of agriculture and rural development in the total expenditure is, however, budgeted to marginally decline (Table 1.46).

Financing of Gross Fiscal Deficit

I.4.18 Market borrowings would remain the major source of financing the GFD in 2007-08 (73.4 per cent of the GFD), followed by investments by the NSSF (11.8 per cent of the GFD) (Table 1.47). The increase in the proportion of the GFD financed by the NSSF during 2007-08 reflects the reinvestment of redemption proceeds as well as investment from small saving collections following the policy decision to reduce the minimum obligation of the States to borrow from the NSSF to 80 per cent of net collections from 100 per cent.

I.4.19 Apart from the Plan outlay (Plan 'A') of Rs.2,05,100 crore, the Union Budget 2007-08 proposed Plan 'B' for mobilising additional resources of Rs.7,000 crore through better tax administration which will be allocated to key areas such as agriculture, rural development, health and urban infrastructure. The Budget also proposed a Plan 'C' for tapping extra budgetary resources and leveraging them for investment, particularly in infrastructure. The key fiscal indicators such as revenue deficit, non-plan expenditure and gross tax revenue relative to

[13] Adjusted for expenditure of Rs.40,000 crore allocated for acquiring the Reserve Bank's equity holding in the State Bank of India (SBI). This transaction is matched by the non-debt capital receipt of an equal amount and would be deficit neutral.

Table 1.45: Expenditure Pattern of the Centre

(Amount in Rupees crore)

Item	2005-06 (Actuals)	2006-07 (RE)	2007-08 (BE)	Variation			
				2006-07		2007-08	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
Total Expenditure	5,06,123 (14.2)	5,81,637 (14.1)	6,40,521* (13.8)	75,514	14.9	58,884	10.1
1. Non-Plan Expenditure	3,65,485 (10.2)	4,08,907 (9.9)	4,35,421* (9.4)	43,422	11.9	26,514	6.5
i) Interest Payments	1,32,630 (3.7)	1,46,192 (3.5)	1,58,995 (3.4)	13,562	10.2	12,803	8.8
ii) Defence Expenditure	80,549 (2.3)	86,000 (2.1)	96,000 (2.1)	5,451	6.8	10,000	11.6
iii) Subsidies	47,520 (1.3)	53,463 (1.3)	54,330 (1.2)	5,943	12.5	867	1.6
iv) Grants to States	30,475 (0.9)	36,152 (0.9)	38,403 (0.8)	5,677	18.6	2,251	6.2
v) Other non-Plan Expenditure	74,311 (2.1)	87,100 (2.1)	87,693* (1.9)	12,789	17.2	593	0.7
2. Plan Expenditure	1,40,638 (3.9)	1,72,730 (4.2)	2,05,100 (4.4)	32,092	22.8	32,370	18.7
i) Budgetary Support to Central Plan	1,04,658 (2.9)	1,26,510 (3.1)	1,54,939 (3.3)	21,852	20.9	28,429	22.5
ii) Central Assistance for State and UT Plans	35,980 (1.0)	46,220 (1.1)	50,161 (1.1)	10,240	28.5	3,941	8.5
Memo:							
Grants	75,337	89,649	103,611	14,132	18.9	13,962	15.6
Loans	11,337	9,706	7,498	-1,631	-14.4	-2,208	-22.7

BE : Budget Estimate. RE: Revised Estimate.

* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.

Note : Figures in parentheses are percentages to GDP.

GDP for 2007-08 are budgeted higher than the Eleventh Plan projections (Table 1.48).

I.4.20 Although the Central Government's fiscal deficit is budgeted to decline, it still remains considerably higher than several other emerging market economies (Table 1.49).

Central Government Finances : April-June 2007

1.4.21 Revenue receipts of the Union Government, as a proportion to the budget estimates, improved marginally from 13.0 per cent in April-June 2006 to 13.2 per cent in April-June 2007, reflecting higher tax revenues. Total expenditure as a proportion of budget estimates, at 26.4 per cent, was also higher than 23.3 per cent in April-June 2006. This was due to increase in capital expenditure from 11.1 per cent of budget estimates in April-June 2006 to 38.2 per cent in April-June 2007, mainly due to the acquisition of the Reserve Bank's stake in State Bank of India (SBI) for Rs.35,531 crore. This expenditure will be neutralised by realising equal amount of receipts from the Reserve Bank in August 2007 (See Chapter X for details). Net of this transaction, capital expenditure during April-June 2007 works out to Rs.11,295 crore, constituting 13.0 per cent of the budget estimates. While Plan expenditure under economic services rose

Box I.11
Fiscal Consolidation and Plan Expenditure under the Eleventh Plan

Managing fiscal discipline in the midst of competitive demands on public resources and tax expenditures *vis-à-vis* varied and often conflicting expectations of stakeholders is a complex exercise. The Planning Commission's Approach Paper for the Eleventh Five Year Plan incorporates fiscal parameters broadly in line with the Fiscal Responsibility and Budget Management (FRBM) targets. The Paper indicates the possibility of achieving the FRBM target relating to fiscal deficit even with the higher budgetary support in the Eleventh Plan. According to the Approach Paper, the incremental budgetary support to the Eleventh Plan, projected at 2.5 per cent of GDP, could be met through lower non-plan expenditure/ additional tax revenues of around 0.2 percentage points of GDP. However, the fiscal deficit targets would limit the scope for increasing plan expenditure in the first two years unless the reduction in non-plan expenditure could be significantly front loaded. Since the Centre and most of the States have passed fiscal responsibility legislations, the combined fiscal deficit of the Centre and the States could be limited to 6 per cent of GDP from 2008-09 onwards.

As regards the revenue deficit, the Approach Paper discusses the difficulty in adhering to the FRBM target of eliminating the revenue deficit by 2008-09. The only way of meeting the revenue deficit target of the FRBM is by adjusting the time-phasing of revenue expenditure intensive programmes.

The Approach Paper recognises the importance of meeting the FRBM targets, which would have a salutary impact on overall credibility of policy. Adherence to the FRBM targets is critical to ensure budgetary sustainability and macroeconomic stability. This underscores the need to closely monitor non-plan expenditures. The demand for increased plan expenditure in priority sectors could be accommodated by reprioritising and reducing the allocation of public sector funds from existing plan schemes that do not serve priority sector objectives or which have proved to be ineffective. The Planning Commission has recognised the need of weeding out such schemes. The scope for containment of plan expenditure through all these means may, however, be limited, since the composition of Plan has already shifted substantially towards the social sectors.

References

1. Government of India (2006), 'Towards Faster and More Inclusive Growth: An Approach to the 11th Five Year Plan', Planning Commission, December.

2. ______ (2007), 'Union Budget 2007-08', February.

during the quarter April-June 2007 over that in the corresponding period of 2006, Plan expenditure under social services recorded a decline. There was a sharp rise in non-Plan revenue expenditure under interest payments, defence revenue expenditure and subsidies on food and fertiliser. As a proportion to the budget estimates, the GFD and revenue deficit increased to 74.5 per cent and 96.0 per cent, respectively, during April-June 2007 from 52.3 per cent and 83.4 per cent in the corresponding period of 2006. Net of acquisition cost of the Reserve Bank's stake in SBI, GFD during April-June 2007 at Rs.76,873 crore (50.9 per cent of the BE) was, however, lower than that during the corresponding period of 2006 (Rs.77,740 crore or 52.3 per cent of the budget estimates).

Table 1.46: Expenditure on Select Development Heads of the Centre

(Amount in Rupees crore)

Item	2006-07 (RE)	2007-08 (BE)
1	2	3
Agriculture	45,574	48,211
	(7.8)	(7.5)
Education	21,690	26,423
	(3.7)	(4.1)
Health	10,349	13,753
	(1.8)	(2.1)
Rural Development	15,507	16,579
	(2.7)	(2.6)
Irrigation	391	424
	(0.1)	(0.1)

Note: 1. Figures in parentheses are percentages to total expenditure.
2. Total expenditure for 2007-08 (BE) has been adjusted to exclude transactions relating to transfer of the Reserve Bank's stake in SBI.

State Budgets 2007-08

I.4.22 State Governments through their budgets for 2007-08 have committed to bring further improvement in their fiscal position in line with their Fiscal Responsibility Legislations while making higher allocations for the social and rural sectors in line with the priorities set out in the Eleventh Five Year Plan (Box I.12). Notwithstanding the variation

Table 1.47: Financing Pattern of Gross Fiscal Deficit of the Centre

(Amount in Rupees crore)

Item	2006-07 (RE)	2007-08 (BE)
1	2	3
Gross Fiscal Deficit	1,52,328	1,50,948
Financed by:		
Market Borrowings	1,10,500 (72.5)	1,10,827 (73.4)
Securities against Small Savings	3,010 (2.0)	10,510 (7.0)
External Assistance	7,892 (5.2)	9,111 (6.0)
State Provident Funds	5,000 (3.3)	5,000 (3.3)
NSSF	-3,129 -(2.1)	17,850 (11.8)
Reserve Funds	4,265 (2.8)	738 (0.5)
Deposits and Advances	11,647 (7.6)	-2,411 -(1.6)
Postal Insurance and Life Annuity Funds	1,237 (0.8)	1,261 (0.8)
Draw Down of Cash Balances	10,926 (7.2)	..
Others #	980 (0.6)	-1,938 -(1.3)

#: Include savings (taxable) bonds 2003 and deposit scheme for retiring employees.

Note : Figures in parentheses are percentages to GFD.

Table 1.48: Eleventh Plan Projections *vis-a-vis* the Budget Estimates for 2007-08

(Per cent to GDP)

Item	2007-08	
	Eleventh Plan Projections	Budget Estimates
1	2	3
Centre		
1. Gross Budgetary Support to Plan	4.36	4.43
of which:		
(i) Plan revenue Expenditure	2.77	3.76
2. Total Non-Plan	9.57	10.26
of which:		
(i) Interest Payments	3.37	3.43
(ii) Defence	2.20	1.17
(iv) Non-Plan grants to States	0.85	0.83
(v) Subsidies	1.10	1.17
3. Total Expenditure	13.93	14.69 (13.82)
4. Gross tax revenue	11.51	11.83
Less: Share of States	3.13	3.07
5. Net Tax to the Centre	8.38	8.75
6. Non-tax Revenue	1.88	1.78
7. Total Revenue Receipts	10.26	10.50
8. Gross Fiscal Deficit	3.40	3.26
9. Revenue Deficit	1.00	1.54

Note : Figure in parentheses is adjusted for an amount of Rs.40,000 crore on account of transaction relating to transfer of Reserve Bank's stake in SBI to the Government.

across the States, the consolidated revenue balance is budgeted to show a noticeable improvement in 2007-08, with a surplus of 0.4 per cent of GDP as compared with the deficit of 0.03 per cent of GDP in 2006-07 (RE). As a result, the GFD is estimated to decline to 2.4 per cent of GDP in 2007-08 (BE)

Table 1.49: Deficit and Debt Indicators of Central Government for Select Countries

(As per cent of GDP)

Country	Fiscal Deficit				Public Debt			
	2003	2004	2005	2006P	2003	2004	2005	2006P
1	2	3	4	5	6	7	8	9
China	2.2	1.3	1.2	0.5	19.2	18.5	17.9	17.3
Republic of Korea	-0.1	0.5	1.0	1.3	21.9	25.2	29.5	32.2
India	4.5	4.0	4.1	3.7	62.9	63.9	63.4	61.5
Indonesia	1.7	1.0	1.0	1.0	58.3	55.7	46.5	40.9
Malaysia	5.3	4.3	3.8	2.6	68.8	66.7	62.5	56.5
Thailand	-0.5	-0.3	-0.2	-0.1	50.7	49.5	47.4	42.3

.. : Not Available. P: Provisional.

Note : Negative sign indicates surplus.

Source : Asia Economic Monitor 2007, Union Budget documents, Government of India.

Box I.12
Fiscal Responsibility Legislations and State Finances

A significant development in respect of State finances in the recent past has been the enactment of Fiscal Responsibility Legislations (FRLs) by the States. To facilitate adoption of a rule-based fiscal programme at the State level, the Reserve Bank, based on a decision taken in the Twelfth Conference of State Finance Secretaries held in August 2003, constituted a Group with representatives from several State Governments and Government of India to frame a Model Fiscal Responsibility Bill. The Group submitted its report in January 2005. The enactment of FRLs has provided impetus to the process of attaining fiscal sustainability as reduction in key deficit indicators, *viz*., revenue deficit (RD) and gross fiscal deficit (GFD), is critical for reducing the mounting level of debts of the States. Apart from fiscal sustainability, meeting the targets set in FRLs is crucial not only for maintaining credibility in budgetary operations but also ensuring prudent debt management and greater transparency. Recognising this, the Twelfth Finance Commission (TFC) recommended that each State should enact FRL, which would be a pre-condition for availing debt relief.

Twenty six States have so far enacted FRLs. Karnataka was the first to enact the FRL in September 2002 followed by Kerala (2003), Tamil Nadu (2003) and Punjab (2004). Following the recommendations of the TFC, twenty two more States have enacted the FRLs. The States of Sikkim and West Bengal are yet to enact the FRLs. Although there are variations across States in the choice of target and the time frame for achieving the target, most of the FRLs have stipulated elimination of RD by March 31, 2009 and reduction in GFD as per cent of gross state domestic product (GSDP) to 3 per cent by March 31, 2010, in line with the targets prescribed by the TFC. In addition, several States have imposed limits on guarantees and targeted to reduce their liabilities.

Measures for fiscal correction and consolidation undertaken by the States have had a favourable impact on the State finances. Reflecting this, most of the non-special category States are estimated to achieve a revenue balance/surplus in 2007-08 (BE). Four non-special category States, *viz*., Jharkhand, Punjab, West Bengal and Kerala would, however, require annual adjustments of 0.9 per cent, 1.1 per cent, 2.4 per cent and 3.4 per cent of GSDP, respectively, to achieve the TFC target in respect of the revenue balance by 2008-09. While West Bengal has not enacted FRL so far, the Finance Minister of Kerala Government in his budget speech for 2007-08 stated that it would be achieving a revenue deficit of less than one per cent of GSDP by 2010-11. All special category States, except Himachal Pradesh, have budgeted a revenue surplus in 2007-08. As regards GFD, seven non-special category States have budgeted GFD at less than 3 per cent of GSDP in 2007-08, *i.e.*, two years ahead of the target prescribed by the TFC. Of the remaining ten States, nine States would require an annual adjustment of 0.2-0.9 per cent of GSDP in the fiscal years 2008-09 and 2009-10, while one State (Jharkhand) would require an annual adjustment of 2.3 per cent of GSDP in the next two fiscal years. Among special category States, five out of eleven States have budgeted GFD of less than 3 per cent of GSDP in 2007-08. Out of the remaining six States, five would require an annual adjustment of 0.4-1.8 per cent of GSDP; Sikkim, which has not enacted FRL, would require an annual adjustment of 4.4 per cent of GSDP to achieve the TFC target.

Enactment of FRLs by most of the States has ushered in a rule-based fiscal policy framework at the State level. However, the process of correction should not adversely impact capital outlay and expenditure on social sectors. Any deviation from the targets set by the States under the FRLs enacted by them would, however, raise the issue of credibility. Hence, it would be desirable that the States, which have enacted FRLs, adhere to the rules, while the remaining States expedite efforts to adopt the rule-based framework.

from 2.8 per cent of GDP during 2006-07 (RE). The consolidated primary deficit is budgeted at 0.1 per cent of GDP in 2007-08 (Table 1.50 and Appendix Table 30).

Table 1.50: Major Deficit Indicators of State Governments

(Amount in Rupees crore)

Item	Average			2005-06	2006-07 BE	2006-07 RE	2007-08 BE
	1990-95	1995-00	2000-05				
1	2	3	4	5	6	7	8
Gross Fiscal Deficit				89,847	1,07,560	1,14,476	1,09,904
	(2.8)	(3.4)	(4.1)	(2.5)	(2.6)	(2.8)	(2.4)
Revenue Deficit				2,690	4,511	1,303	-17,288
	(0.7)	(1.6)	(2.2)	(0.08)	(0.11)	(0.03)	(-0.37)
Primary Deficit				4,177	8,135	16,591	4,561
	(1.1)	(1.4)	(1.3)	(0.12)	(0.20)	(0.40)	(0.10)

BE: Budget Estimates. BE: Revised Estimates.

Notes : 1. Negative sign indicates surplus.
2. Figures in parentheses are percentages to GDP.
3. Data on GDP for 2005-06 (RE) and 2006-07 (BE) are based on CSO's Quick Estimates and Revised Estimates, respectively. Data on GDP for 2007-08 are as per the Union Budget Documents, 2007-08.

Source : Budget Documents of State Governments.

I.4.23 The improvement in the revenue account during 2007-08 is budgeted to be achieved by increase in States' own tax revenue and higher transfers from the Centre, especially the shareable Central taxes (Table 1.51).

I.4.24 The improvement in revenue account during 2007-08 would also be facilitated by deceleration in revenue expenditure, partly on account of deceleration in expenditure on administrative services, pensions and interest payments. Capital outlay, as a ratio to GDP, is budgeted to remain at 2.6 per cent during 2007-08 as in the previous year. Developmental expenditure will decelerate during 2007-08 after recording a sharp increase in the previous year (Table 1.52).

I.4.25 With the revenue account expected to register surplus in 2007-08, the trend of financing revenue deficit through borrowing would be reversed. Instead, the revenue surplus would finance capital expenditure in 2007-08. Although the share of small savings (NSSF) would come down due to the expected decline in net collections in keeping with the recent trends and the policy decision to reduce the minimum obligation of the States to borrow from the NSSF to 80 per cent of net collections from 100 per cent (Box I.13), it would continue to remain the major source of financing the GFD, followed by market borrowings (Table 1.53 and Appendix Table 32).

I.4.26 As regards resource transfer from the Centre to the States, a perusal of the Union Budget 2007-08

Table 1.51: Aggregate Receipts of State Governments

(Amount in Rupees crore)

Item	(Average)			2005-06	2006-07	2006-07	2007-08	Percentage variations		
	1990-95	1995-00	2000-05		BE	RE	BE	Col.7/5	Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10	11
Aggregate Receipts (1+2)				6,12,688	6,72,116	6,91,307	7,83,504	12.8	2.9	13.3
	(16.1)	(15.2)	(17.6)	(17.2)	(16.3)	(16.8)	(16.9)			
1. Total Revenue Receipts (a+b)				4,41,865	5,20,147	5,43,736	6,22,015	23.1	4.5	14.4
	(12.1)	(10.9)	(11.5)	(12.4)	(12.6)	(13.2)	(13.4)			
(a) States' Own Revenue				2,70,585	3,10,539	3,24,191	3,67,053	19.8	4.4	13.2
	(7.3)	(6.9)	(7.2)	(7.6)	(7.5)	(7.9)	(7.9)			
States' Own tax				2,21,247	2,57,203	2,67,156	3,06,163	20.8	3.9	14.6
	(5.4)	(5.3)	(5.8)	(6.2)	(6.2)	(6.5)	(6.6)			
States' Own non tax				49,338	53,337	57,035	60,890	15.6	6.9	6.8
	(1.8)	(1.6)	(1.5)	(1.4)	(1.3)	(1.4)	(1.3)			
(b) Central Transfers				1,71,280	2,09,608	2,19,544	2,54,962	28.2	4.7	16.1
	(4.9)	(4.0)	(4.2)	(4.8)	(5.1)	(5.3)	(5.5)			
Shareable Taxes				94,024	1,09,419	1,15,737	1,36,184	23.1	5.8	17.7
	(2.6)	(2.4)	(2.4)	(2.6)	(2.7)	(2.8)	(2.9)			
Central Grants				77,255	1,00,188	1,03,808	1,18,778	34.4	3.6	14.4
	(2.3)	(1.6)	(1.8)	(2.2)	(2.4)	(2.5)	(2.6)			
2. Capital Receipts (a+b)				1,70,823	1,51,969	1,47,571	1,61,489	-13.6	-2.9	9.4
	(4.0)	(4.2)	(6.1)	(4.8)	(3.7)	(3.6)	(3.5)			
(a) Loans from Centre@				13,368	13,525	14,199	14,918	6.2	5.0	5.1
	(1.2)	(1.0)	(1.0)	(0.4)	(0.3)	(0.3)	(0.3)			
(b) Other Capital Receipts				1,57,455	1,38,444	1,33,372	1,46,571	-15.3	-3.7	9.9
	(2.9)	(3.2)	(5.1)	(4.4)	(3.4)	(3.2)	(3.2)			

BE : Budget Estimates. RE : Revised Estimates.

@ : With the change in the system of accounting with effect from 1999-2000, States' share in small savings which was included earlier under loans from the Centre is included under internal debt and shown as special securities issued to National Small Savings Fund (NSSF) of the Central Government. The data for the years prior to 1999-2000 as reported in this Table, however, exclude loans against small savings, for the purpose of comparability.

Note : Figures in parentheses are percentages to GDP.

Source : Budget Documents of State Governments.

Table 1.52: Expenditure Pattern of State Governments

(Amount in Rupees crore)

Item	1990-95 (Average)	1995-00 (Average)	2000-05 (Average)	2005-06	2006-07 BE	2006-07 RE	2007-08 BE	Percentage variations Col.7/5	Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10	11
Aggregate Expenditure				5,72,831	6,68,129	7,09,206	7,85,607	23.8	6.1	10.8
1+2=3+4+5	(16.0)	(15.3)	(17.5)	(16.1)	(16.2)	(17.2)	(17.0)			
1. Revenue Expenditure				4,44,555	5,24,658	5,45,039	6,04,727	22.6	3.9	11.0
	(12.8)	(12.6)	(13.6)	(12.5)	(12.7)	(13.2)	(13.1)			
of which:										
Interest payments				85,670	99,425	97,885	1,05,344	14.3	-1.5	7.6
	(1.7)	(2.0)	(2.8)	(2.4)	(2.4)	(2.4)	(2.3)			
2. Capital Expenditure				1,28,276	1,43,471	1,64,168	1,80,881	28.0	14.4	10.2
	(3.2)	(2.7)	(3.9)	(3.6)	(3.5)	(4.0)	(3.9)			
of which:										
Capital outlay				79,064	96,506	1,06,928	1,22,236	35.2	10.8	14.3
	(1.6)	(1.4)	(1.6)	(2.2)	(2.3)	(2.6)	(2.6)			
3. Development Expenditure				3,37,691	3,92,926	4,27,543	4,80,140	26.6	8.8	12.3
	(10.8)	(9.6)	(9.7)	(9.5)	(9.5)	(10.4)	(10.4)			
4. Non-Development Expenditure				1,92,892	2,30,225	2,28,778	2,50,418	18.6	-0.6	9.5
	(4.3)	(4.9)	(6.0)	(5.4)	(5.6)	(5.5)	(5.4)			
5. Others*				42,248	44,978	52,886	55,050	25.2	17.6	4.1
	(0.9)	(0.8)	(1.8)	(1.2)	(1.1)	(1.3)	(1.2)			

RE : Revised Estimates. BE : Budget Estimates.

* : Comprises Compensation and Assignments to local bodies, Grants-in-Aid and Contributions, Discharge of Internal Debt, Repayment of loans to the Centre.

Note : Figures in parentheses are percentages to GDP.

Source : Budget Documents of State Governments.

in conjunction with State Budgets reveals that States have overestimated grants from the Centre during 2007-08, while shareable Central taxes have been underestimated. The flows from the NSSF have also been overestimated in the State Budgets for 2007-08. There are also some differences with regard to loans from the Centre. Taking into account the data on devolution and transfers from the Centre as indicated in the Union Budget 2007-08, the States' revenue deficit and gross fiscal deficit would be somewhat higher than those budgeted by the State Governments.

Combined Finances for 2007-08

I.4.27 An overview of the combined budgetary position of the Central and State Governments for 2007-08 indicates continuance of the fiscal consolidation process. The key deficit indicators are budgeted to decline *vis-à-vis* the revised estimates for 2006-07, both in absolute terms and in terms of GDP (Table 1.54). The improvement in combined finances during 2007-08 would primarily be due to the marked improvement in State finances, reflecting the build-up of sizeable surplus in their revenue accounts.

I.4.28 Revenue receipts are budgeted to increase, led by higher tax revenues (Table 1.55). The combined tax-GDP ratio is budgeted to improve from 17.7 per cent in 2006-07 to 18.3 per cent in 2007-08 (Appendix Table 31). On the expenditure side, the share of development expenditure in the total expenditure is budgeted to improve from 54.1 per cent in 2006-07 (RE) to 57.1 per cent during 2007-08 (BE).

I.4.29 Market borrowings are budgeted to finance a higher proportion of the combined GFD during 2007-08 than in the preceding year. While the share of the State

Box I.13
National Small Savings Fund (NSSF) and Fiscal Deficit of State Governments

In recent years, the securities issued to the National Small Savings Fund (NSSF) have emerged as the dominant source - constituting over two-thirds - of financing the gross fiscal deficit (GFD) of the State Governments. Set up in 1999, the NSSF invests in special securities of the Central and State Governments. Between April 1999 and March 2000, the net small savings collections of the NSSF used to be invested in Special State Government Securities (SSGS) and Special Central Government Securities (SCGS) in the ratio 75:25 which was modified to 80:20 in 2000-01. From 2002-03 to 2006-07, the entire net collections credited to the NSSF were passed on to the States against the issue of special securities. These securities have a 25-year tenor with an initial five-year moratorium on repayment. The interest rate on the SSGS has been gradually reduced from 13.5 per cent in 1999-2000 to 9.5 per cent.

Following the recommendations of the Sub-Committee of the National Development Council (NDC) on *Debt Outstanding of States against NSSF* under the chairmanship of the Union Finance Minister, it was announced in the Union Budget 2007-08 to reduce the share of the States to 80 per cent of net collections in the NSSF, with the option to the States to take up to 100 per cent of their net collections. Furthermore, the interest rate on loans taken by the State Governments from the NSSF from 1999-2000 to 2002-03 has been reset at 10.5 per cent effective April 1, 2007.

The States were required to use a portion of the flows from the NSSF (20 per cent in first year, 30 per cent in second year and 40 per cent in third year) to prepay their high cost liabilities to the Centre under the Debt Swap Scheme (DSS) during 2002-03 to 2004-05. With the expiry of the DSS, the States had access to the entire small savings collection from 2005-06 as against only 60 per cent in 2004-05. The investment in the SSGS against collections as on April 1, 2007 was estimated at Rs.4,49,892 crore.

During 1999-2002 (with 75/80 per cent share for State Governments), the NSSF, on an average, financed about 34 per cent of the GFD of the State Governments. With the increase in the share of State Governments to 100 per cent from 2002-03, flows from the NSSF, on an average, financed 53 per cent of the GFD during the period 2002-07. Following the reduction of share to 80 per cent effective April 1, 2007, the NSSF is budgeted to finance 48.8 per cent of GFD of the State Governments during 2007-08.

The NSSF is an autonomous source of funds for the State Governments as they cannot determine either the quantum or the cost of these borrowings. As a result, several State Governments have had funds in excess of their financing requirements. The accrual of the NSSF funds is reflected in the State Governments maintaining a high level of cash surplus on a continuous basis in the recent past. As a result, the reliance on market borrowings has declined. Apart from announcing the reduction in obligatory share of State Governments in the NSSF to 80 per cent, net flows from the NSSF are budgeted to be lower in the Union Budget for 2007-08 than the previous year, in line with the declining trend witnessed in recent years. The State Governments may, however, not take recourse to higher market borrowings if they use the option of drawing down the surplus cash balances.

Provident Funds is budgeted to increase marginally, the contribution of small savings to the financing of GFD is budgeted to decline during 2007-08 (Table 1.56 and Appendix Table 1.33).

Table 1.53: Decomposition and Financing Pattern of Gross Fiscal Deficit of States

(Per cent)

Item	Average 1990-95	Average 1995-00	Average 2000-05	2005-06	2006-07 BE	2006-07 RE	2007-08 BE
1	2	3	4	5	6	7	8
Decomposition (1 to 4)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Revenue Deficit	24.7	44.8	51.7	3.0	4.2	1.1	-15.7
2. Capital Outlay	55.4	43.3	40.6	88.0	89.7	93.4	111.2
3. Net Lending	20.0	12.2	7.7	9.0	8.9	8.3	13.9
4. Non-debt Capital Receipts*	-0.1	-0.3	0.0	0.0	-2.8	-2.9	-9.3
Financing (1 to 11)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Market Borrowings	16.0	16.1	26.0	17.0	21.2	16.5	23.7
2. Loans from Centre	49.1	40.7	4.1	5.5	4.5	-1.4	4.8
3. Loans against Securities Issued to NSSF	–	28.9**	40.8	82.9	54.1	51.2	48.8
4. Loans from LIC, NABARD, NCDC, SBI and Other Banks	1.8	2.8	4.0	4.5	7.0	5.3	6.2
5. State Provident Fund	14.3	13.4	8.1	10.7	8.1	8.8	10.4
6. Reserve Funds	6.8	5.5	4.9	5.8	4.1	4.1	3.9
7. Deposits & Advances	9.8	9.8	4.2	8.1	-1.1	1.6	1.4
8. Suspense & Miscellaneous	4.3	2.7	-0.8	8.8	3.3	0.0	-1.3
9. Remittances	-1.4	-3.6	0.7	0.1	1.8	0.3	0.0
10. Overall Surplus (-)/Deficit (+)	-4.4	2.6	-2.8	-44.4	-3.7	15.6	1.9
11. Others	3.8	4.1	10.9	0.9	0.7	-2.0	0.2

BE: Budget Estimates. RE: Revised Estimates. –: Not applicable.
* : Includes proceeds from disinvestment and sale of land.
** : Pertains to only 1999-2000 as it was introduced from that year. The sum of items for 1995-2000 (average) will not thus be equal to 100.
Note : 'Others' (item no.11) includes Contingency Fund, Inter-State Settlement, *etc.*
Source : Budget documents of State Governments.

Table 1.54: Measures of Deficit of the Central and State Governments

Year	Amount (Rupees crore)			Per cent to GDP		
	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit
1	2	3	4	5	6	7
1990-91	53,580	23,871	28,585	9.4	4.2	5.0
1995-96	77,671	37,932	18,598	6.5	3.2	1.6
2000-01	1,99,852	1,38,803	75,035	9.5	6.6	3.6
2001-02	2,26,425	1,59,350	84,039	9.9	7.0	3.7
2002-03	2,34,987	1,62,990	75,927	9.6	6.6	3.1
2003-04	2,34,501	1,59,406	56,701	8.5	5.8	2.1
2004-05	2,34,721	1,14,761	42,408	7.5	3.7	1.4
2005-06	2,39,323	94,989	33,700	6.7	2.7	0.9
2006-07 RE	2,64,506	84,739	32,562	6.4	2.1	0.8
2007-08 BE	2,57,867	54,189	5,039	5.6	1.2	0.1

BE : Budget Estimates. RE : Revised Estimates.

Social Sector Expenditure

I.4.30 The combined social sector expenditure, as a proportion to GDP, is budgeted to decline by 0.4 percentage point from 8.5 per cent during 2006-07 (RE) to 8.1 per cent during 2007-08 (BE). The expenditure on education - a major component of social services, with a share of almost 45 per cent – at 2.9 per cent of GDP in 2007-08 would be unchanged from a year ago (Table 1.57).

Table 1.55: Combined Receipts and Disbursements of the Centre and States

(Amount in Rupees crore)

Item	2006-07 (RE)	2007-08 (BE)	Variation	
			Amount	Per cent
1	2	3	4	5
Total Receipts (A+B)	**11,33,325 (27.5)**	**13,25,193 (28.6)**	**1,91,868**	**16.9**
A. Revenue Receipts (1+2)	8,82,247 (21.4)	10,11,549 (21.8)	1,29,302	14.7
1. Tax Receipts (a+b)	7,28,864 (17.7)	8,46,219 (18.3)	1,17,355	16.1
a) Direct Taxes	2,62,005 (6.4)	3,07,299 (6.6)	45,294	17.3
b) Indirect Taxes	4,66,859 (11.3)	5,38,920 (11.6)	72,061	15.4
2 Non Tax Receipts	1,53,383 (3.7)	1,65,330 (3.6)	11,947	7.8
B. Capital Receipts	2,51,078 (6.1)	3,13,644 (6.8)	62,566	24.9
Total Disbursements (A+B)	**11,62,151 (28.2)**	**13,27,295 (28.6)**	**1,65,144**	**14.2**
A. Development Expenditure	6,28,775 (15.2)	7,58,406# (16.4)	1,29,631	20.6
B. Non-Development Expenditure@	5,33,376 (12.9)	5,68,890 (12.3)	35,514	6.7

RE : Revised Estimates. BE : Budget Estimates.
@ : Exclude repayments.
\# : Includes an amount of Rs.40,000 crore on account of transactions relating to transfer of the Reserve Bank's stake in SBI to the Government of India.
Note : Figures in parentheses are percentages to GDP.

Table 1.56: Financing of Gross Fiscal Deficit of the Centre and States

(Rupees crore)

Year	Market Borrowings	State Provident Funds	Small Savings	External Assistance	Others	Gross Fiscal Deficit
1	2	3	4	5	6	7
2004-05	85,498 (36.4)	13,139 (5.6)	87,690 (37.4)	14,753 (6.3)	33,641 (14.3)	2,34,721 (100.0)
2005-06	1,21,546 (50.8)	15,162 (6.3)	89,836 (37.5)	7,472 (3.1)	5,307 (2.2)	2,39,323 (100.0)
2006-07 BE	1,36,540 (52.8)	14,739 (5.7)	86,500 (33.4)	8,324 (3.2)	12,650 (4.9)	2,58,753 (100.0)
2006-07 RE	1,29,438 (48.9)	15,090 (5.7)	61,600 (23.3)	7,892 (3.0)	50,486 (19.1)	2,64,506 (100.0)
2007-08 BE	1,36,927 (53.1)	16,442 (6.4)	57,500 (22.3)	9,111 (3.5)	37,887 (14.7)	2,57,867 (100.0)

BE : Budget Estimates. RE : Revised Estimates.
Note : Figures in parentheses are percentages to GFD.

Table 1.57: Combined Expenditure of the Centre and States on Social Sector

(Amount in Rupees crore)

Item	2005-06	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)
1	2	3	4	5
Expenditure on Social Sector *	2,70,973	3,14,822	3,49,138	3,77,359
Of which: Social Services	2,08,468	2,47,572	2,61,911	3,01,568
Of which:				
i) Education	98,027	1,17,812	1,21,196	1,35,766
ii) Medical and Public Health	47,144	56,932	58,370	67,877
Per cent of GDP				
Expenditure on Social Sector	7.6	7.6	8.5	8.1
Of which: Social Services	5.8	6.0	6.3	6.5
Of which:				
i) Education	2.7	2.9	2.9	2.9
ii) Medical and Public Health	1.3	1.4	1.4	1.5
Per cent of total expenditure				
Expenditure on Social Sector	27.9	28.2	30.0	28.4
Of which: Social Services	21.5	22.2	22.5	22.7
Of which:				
i) Education	10.1	10.6	10.4	10.2
ii) Medical and Public Health	4.9	5.1	5.0	5.1

* : Expenditure on social sector includes expenditure on social services, rural development and food subsidies.

I.4.31 To sum up, the combined Government finances are budgeted to show further improvement during 2007-08. The key deficit indicators of both the Central and the State Governments during 2007-08 are budgeted to be lower than a year ago, with many State Governments expected to record surpluses on their revenue account. The budgeted improvement in public finances is envisaged mainly through an increase in the tax-GDP ratio, aided by the sustained economic growth and stable tax environment. Although substantial improvement in public finances has been witnessed since 2002-03 onwards, the combined fiscal deficit and public debt still remain high *vis-à-vis* international standards.

V. FINANCIAL MARKETS

I.5.1 Indian financial markets remained generally orderly during the most part of 2006-07. There were, however, some spells of volatility, especially in March 2007, reflecting shifts in liquidity conditions arising from large changes in capital flows and cash balances of the Government. Interest rates in various segments of the financial markets hardened in tandem with the policy rates of the Reserve Bank. The overnight rates remained within the corridor set by the Reserve Bank's reverse repo and repo rates during the year, barring some occasions during December 2006-March 2007 (especially, the second half of March 2007), when the overnight rates increased sharply as the market experienced temporary tightness. Interest rates in the collateralised segment of the overnight money market also hardened, but remained below the call rate during the year. In the foreign exchange market, the Indian rupee exhibited two-way movements with a strengthening bias from mid-July 2006. Yields in the Government securities market hardened during the year. However, the yield curve flattened. Banks' deposit and lending rates edged up, especially in the second half of the year. The stock markets reached record highs during the year interspersed with periodic corrections (Table 1.58). The primary market segment of the capital market continued to exhibit buoyancy.

INTERNATIONAL FINANCIAL MARKETS

I.5.2 During 2006-07, short-term interest rates increased further in a number of economies (Table 1.59) as many central banks continued with monetary tightening to contain inflation and stabilise inflationary expectations (see Table 1.28). The increase in short-term rates in the US during 2006-07 was lower than that in other major advanced economies, reflecting the pause by the US Fed since end-June 2006. Short-term interest rates, however, declined in some emerging market economies (EMEs) such as Israel, Thailand and Brazil, reflecting the cut in policy rates during the year. In 2007-08 so far, short-term rates have hardened further in a number of economies in tandem with the policy rates. Short-term rates eased in a few EMEs such as Brazil and Thailand, as central banks in these countries continued to cut policy rates.

I.5.3 In contrast to the upward trend in short-term rates in major advanced economies during 2006-07, long-term Government bond yields exhibited mixed trends. While the long-term yields (10-year Treasuries) declined in the US (by 18 basis points) and in Japan (12 basis points), they rose in the UK (56 basis points) and in the euro area (32 basis points). The decline in the yields in the US could be attributed to the weakening of economic growth and the pause by the Federal Reserve (Chart I.15). The hardening of yields in the euro area and the UK could

Table 1.58: Domestic Financial Markets at a Glance

Year/Month	Call Money		Govt. Securities		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rupees crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rupees crore)+	Average 10-year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US $ million)	Average Exchange Rate (Rs. per US $)	RBI's Net Foreign Currency Sales(-)/ Purchases(+) (US $ million)	Average 3-month Forward Premia (Per cent)	Average MSS Outstanding (Rupees crore) #	Average Daily LAF Outstanding (Rupees crore)	Average Daily BSE Turnover (Rupees crore)	Average Daily NSE Turnover (Rupees crore)	Average BSE Sensex**	Average S & P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004-05	**14,170**	**4.65**	**4,826**	**6.22**	**8,892**	**44.93**	**20,847 ##**	**1.66**	**46,445**	**35,592**	**2,050**	**4,506**	**5741**	**1805**
2005-06	**17,979**	**5.60**	**3,643**	**7.12**	**12,738**	**44.27**	**8,143 ##**	**1.60**	**58,792**	**10,986**	**3,248**	**6,253**	**8280**	**2513**
2006-07	**21,725**	**7.22**	**4,863**	**7.78**	**18,540**	**45.25**	**26,824 ##**	**2.14**	**37,698**	**21,973**	**3,866**	**7,862**	**12320**	**3585**
Jan 2006	17,911	6.83	3,094	7.15	16,713	44.40	0	2.60	40,219	-15,386	3,966	7,472	9540	2893
Feb 2006	13,497	6.95	2,584	7.32	15,798	44.33	2,614	2.85	33,405	-13,532	3,688	7,125	10090	3019
Mar 2006	18,290	6.58	2,203	7.40	17,600	44.48	8,149	3.11	29,652	-6,319	5,398	9,518	10857	3236
Apr 2006	16,909	5.62	3,685	7.45	17,712	44.95	4,305	1.31	25,709	46,088	4,860	9,854	11742	3494
May 2006	18,074	5.54	3,550	7.58	18,420	45.41	504	0.87	26,457	59,505	4,355	9,155	11599	3437
Jun 2006	17,425	5.73	2,258	7.86	15,310	46.06	0	0.73	31,845	48,610	3,131	6,567	9935	2915
Jul 2006	18,254	5.86	2,243	8.26	14,325	46.46	0	0.83	36,936	48,027	2,605	5,652	10557	3092
Aug 2006	21,294	6.06	5,786	8.09	15,934	46.54	0	1.22	40,305	36,326	2,867	5,945	11305	3306
Sep 2006	23,665	6.33	8,306	7.76	18,107	46.12	0	1.31	40,018	25,862	3,411	6,873	12036	3492
Oct 2006	26,429	6.75	4,313	7.65	16,924	45.47	0	1.67	41,537	12,983	3,481	6,919	12637	3649
Nov 2006	25,649	6.69	10,654	7.52	20,475	44.85	3,198	2.07	38,099	9,937	4,629	8,630	13416	3869
Dec 2006	24,168	8.63	5,362	7.55	19,932	44.64	1,818	3.20	38,148	-1,713	4,276	8,505	13628	3910
Jan 2007	22,360	8.18	4,822	7.71	21,065 P	44.33	2,830	4.22	39,553	-10,738	4,380	8,757	13984	4037
Feb 2007	23,254	7.16	4,386	7.90	20,050 P	44.16	11,862	3.71	40,827	648	4,676	9,483	14143	4084
Mar 2007	23,217	14.07	2,991	8.00	24,231 P	44.03	2,307	4.51	52,944	-11,858	3,716	7,998	12858	3731
Apr 2007	29,689	8.33	4,636	8.10	28,131 P	42.15	2,055	6.91	71,468	-8,937	3,935	8,428	13478	3947
May 2007	20,476	6.96	4,442	8.15	24,843 P	40.78	4,426	4.58	83,779	-6,397	4,706	9,885	14156	4184
Jun 2007	16,826	2.42	6,250	8.20	30,122 P	40.77	3,192	2.59	83,049	1,689	4,512	9,221	14334	4222
Jul 2007	17,134	0.73	13,273	7.94	–	40.41	–	1.12	82,996	2,230	4,537	12,147	15253	4474

* : Average of daily weighted call money borrowing rates.
+ : Average of daily outright turnover in Central Government dated securities.
@ : Average of daily closing rates.
# : Average of weekly outstanding MSS.
** : Average of daily closing indices.
: Cumulative for the financial year.
LAF : Liquidity Adjustment Facility.
MSS : Market Stabilisation Scheme.
BSE : Bombay Stock Exchange Limited (BSE).
NSE : National Stock Exchange of India Ltd.
P : Provisional
– : Not available.
Note : In column 11, (-) indicates injection of liquidity while (+) indicates absorption of liquidity.

be attributed to improved growth prospects and further monetary tightening in these regions. Spreads on risky corporate debt in major advanced economies narrowed during the year, reaching record lows in the first quarter of 2007 on the back of strong risk appetite and sound corporate balance sheets. Spreads on emerging market debt also eased during the year, reaching record lows in the first quarter of 2007. During the 2007-08 so far, long-term bond yields have hardened, reflecting higher short-term rates and upward revision in growth expectations.

I.5.4 Global equity markets barring in Thailand recorded further gains during 2006-07, reflecting strong corporate results, decline in crude oil prices, better than expected growth in the euro area, and strong merger and acquisition activity (Table 1.60). These gains were interspersed with intermittent corrections on account of concerns over growing inflationary pressures (mid-May to early June 2006), imposition of unremunerated reserve requirement of 30 per cent on short-term capital flows by Thailand to discourage speculative short-term capital flows (December 2006) and developments in the sub-prime mortgage lending and slowdown in the US economy (March 2007). Notwithstanding these corrections, the Morgan Stanley Capital International (MSCI) World and MSCI emerging markets indices at end-March 2007 were higher by 13.4 per cent and 16.9 per cent, respectively, over their levels at end-March 2006 led by stock markets in China (145.2 per cent). Global equity markets recorded further gains during 2007-08, although the market turned volatile during the second and third weeks of August 2007 due mainly to problems in the US sub-prime mortgage markets.

Table 1.59: Short-term Interest Rates

(Per cent)

Region/Country	At end of			
	March 2005	March 2006	March 2007	August* 2007
1	2	3	4	5
Advanced Economies				
Euro Area	2.15	2.80	3.91	4.53
Japan	0.02	0.04	0.57	0.67
Sweden	1.97	1.99	3.21	3.24
UK	4.95	4.58	5.55	6.35
US	2.90	4.77	5.23	5.39
Emerging Market Economies				
Argentina	4.56	9.63	9.63	11.44
Brazil	19.25	16.54	12.68	11.43
China	2.25	2.40	2.86	3.20
Hong Kong	2.79	4.47	4.17	4.74
India	**5.37**	**6.11**	**7.98**	**6.73**
Malaysia	2.82	3.51	3.64	3.62
Philippines	7.25	7.38	5.31	6.81
Singapore	2.06	3.44	3.00	2.69
South Korea	3.54	4.26	4.94	5.22
Thailand	2.64	5.10	4.45	3.55

*: As on August 15, 2007.
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

I.5.5 In the foreign exchange market, the US dollar depreciated against most of the currencies during 2006-07, reflecting narrowing of interest rate differentials, moderation of activity in the US and robust growth in the euro area (Table 1.61). The US dollar has depreciated further against the major currencies during 2007-08 so far, reflecting narrowing of interest rate differentials.

Chart I.15: 10-year Government Bond Yields

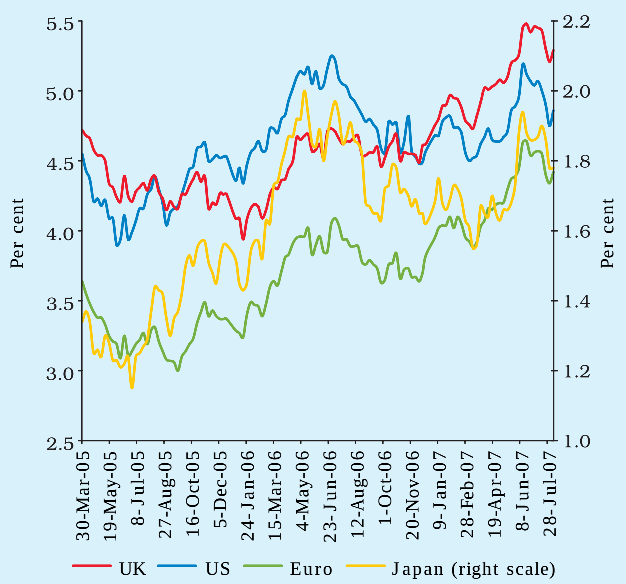


Table 1.60: International Stock Markets

Country (Index)	Percentage Variation (year-on-year)		P/E Ratio		Coefficient of Variation
	End-March 2006	End-March 2007	End-March 2006	End-March 2007	2006-07
1	2	3	4	5	6
Emerging Markets					
China	9.9	145.2	20.9	34.7	26.9
Russia (RTS)	114.5	34.9	11.6	12.9	9.8
India (BSE Sensex)	**73.7**	**15.9**	**20.9**	**20.3**	**11.1**
Brazil (Bovespa)	42.6	20.7	11.0	12.4	8.7
South Korea (KOSPI)	40.8	6.8	10.9	12.6	4.6
Indonesia (Jakarta Composite)	22.5	38.4	16.8	19.1	12.0
Singapore (Straits Times)	18.3	27.5	13.6	14.0	10.7
Taiwan	10.1	19.2	18.2	17.9	6.9
Thailand (SET Composite)	7.6	-8.1	11.1	10.6	5.1
Malaysia (KLSE Composite)	6.3	34.6	12.4	17.0	10.7
Developed Markets					
US (Dow Jones Industrial Average)	5.8	11.2	21.1	17.1	5.0
US (Nasdaq Composite)	17.0	3.5	41.8	34.6	6.0
UK (FTSE 100)	21.9	5.8	16.6	16.7	3.6
Japan (Nikkei 225)	46.2	1.3	40.4	36.9	5.4
Hong Kong (Hang Seng)	16.9	25.3	12.3	15.1	8.6
Memo:					
MSCI World	16.0	13.4	–	–	–
MSCI Emerging	45.1	16.9	–	–	–
MSCI Asia	31.4	20.1	–	–	–

– : Not available.
Source : Bloomberg and Bombay Stock Exchange Limited (BSE).

Table 1.61: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other Currencies

(Per cent)

Currency	End-March 2006 @	End-March 2007 @	August 17 2007 *
1	2	3	4
Euro	7.1	-9.1	-1.0
Pound Sterling	8.5	-11.4	-1.0
Japanese Yen	9.4	0.2	-4.5
Chinese Yuan	-3.1	-3.4	-1.7
Russian Rubble	-0.6	-6.1	-0.9
Turkish Lira	-2.0	3.2	0.1
Indian Rupee	2.2	-2.5	-4.6
Indonesian Rupiah	-4.3	0.5	3.9
Malaysian Ringgit	-3.0	-6.2	1.8
South Korea Won	-4.7	-3.7	0.6
Thai Baht	-0.7	-9.9	-1.9
Argentine Peso	5.4	0.7	2.0
Brazilian Peso	-18.1	-6.4	-2.4
Mexican Peso	-2.6	1.3	0.8
South African Rand	-0.5	17.2	0.9

@: Year-on-year variation. *: Variation over end-March 2007.

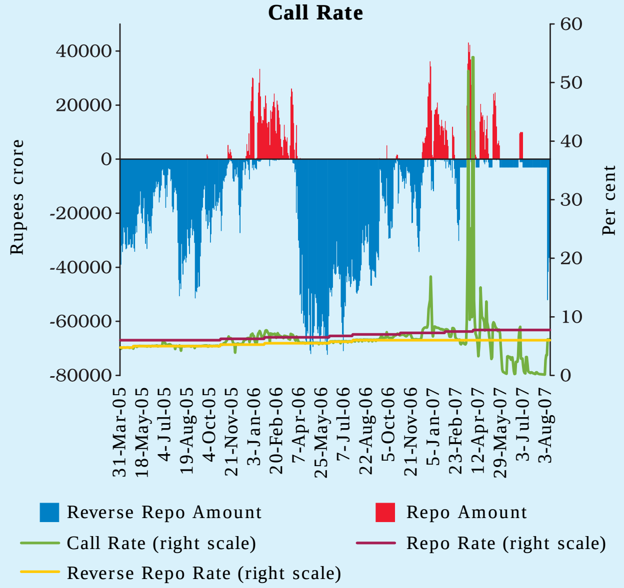
DOMESTIC FINANCIAL MARKETS

Money Market

Call/Notice Money Market

I.5.6 Money market rates edged up during 2006-07, broadly moving in line with the policy rates. The call rate averaged 7.22 per cent during 2006-07, 162 basis points higher than that in 2005-06. Movements of interest rates during the year depended upon the evolving liquidity conditions on account of factors such as advance tax outflows, Government cash balances, festive season currency demand, trends in capital flows and credit demand. The call money rate, which was generally anchored to the reverse repo rate up to mid-September 2006, remained mostly within the repo-reverse repo corridor from mid-September 2006 to December 12, 2006 (Chart I.16 and Appendix Table 35). Effective December 13, 2006, the call rate edged up and crossed the repo rate under the impact of advance tax outflows and the announcement (on December 8, 2006) of a hike of 25 basis points each in the cash reserve ratio (CRR) effective the fortnights beginning December 23, 2006 and January 6, 2007. The weighted average call rate touched 16.88 per cent on December 29, 2006 but eased in the first week of January 2007 on some improvement in liquidity conditions. The call rate, however, continued to remain above the repo rate till the first week of February 2007. The call rate eased further to around 6.5 per cent – below the repo rate – by the second week of February 2007 as a consequence of the Reserve Bank's foreign exchange operation. Following the announcement (on February 13, 2007) of a hike of 25 basis points each in the CRR effective the fortnights beginning February 17, 2007 and March 3, 2007, the call rate again firmed up to about 8.0 per cent by mid-February 2007 but quickly eased to around 6.1 per cent by end-February 2007. On a review of the liquidity conditions, modified arrangements of liquidity management were put in place effective March 5, 2007 under which a flexible arrangement of MSS auctions of dated securities was introduced along with a ceiling of Rs.3,000 crore under the LAF reverse repos (see Chapter III). After easing to below the reverse repo rate between March 5-15, 2007, the call rate hardened as liquidity conditions tightened again due to advance tax outflows, year-end considerations, sustained credit demand and asymmetric distribution of holdings of Government securities across the banks. The call rate averaged 19.84 per cent during March 16-30, 2007 and reached an intra-year high of 54.32 per cent as on March 30, 2007.

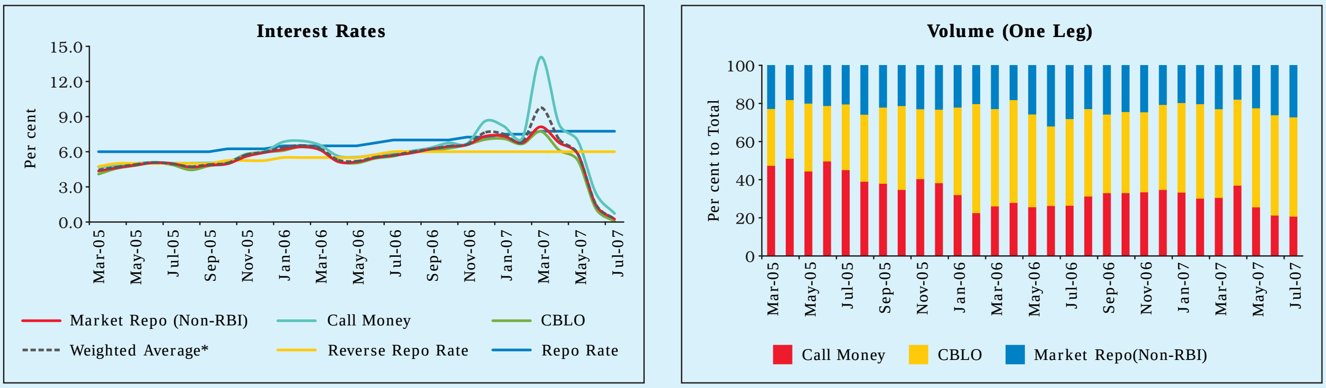
Chart I.16: Liquidity Adjustment Facility and the Call Rate



I.5.7 Interest rates in the collateralised segments of the money market – the market repo (outside the LAF) and the collateralised borrowing and lending obligation (CBLO) – increased in line with call rates. The collateralised market is now the predominant segment in the money market, and it accounted for about 70 per cent of the total volume during 2006-07 (Chart I.17 and Table 1.62). Rates in these segments continued to remain below those in the call market during 2006-07 and exhibited relative stability *vis-à-vis* the call rate. For the financial year 2006-07, as a whole, the interest rates averaged 6.24 per cent (5.34 per cent in 2005-06) in the CBLO segment and 6.34 per cent (5.36 per cent) in the market repo segment, respectively, as compared with 7.22 per cent (5.60 per cent) in the call money market. The weighted average interest rate of the call money, the CBLO and the repo segments rose from 5.43 per cent in 2005-06 to 6.57 per cent in 2006-07.

I.5.8 Beginning from end-May 2007, the call rate eased significantly and on a number of occasions in June 2007 it was below one per cent. The call rate reached 0.23 per cent on June 21, 2007 and remained low except for a couple of days towards end-June 2007. During 2007-08 (May-July), the rates averaged 3.37 per cent, 2.15 per cent and 2.49 per cent, respectively, in the call money, the CBLO and the market repo segments mainly due to liquidity emanating from Government expenditure and the Reserve Bank's foreign exchange operations. After the withdrawal of daily reverse repo ceiling effective August 6, 2007 (see Chapter III), the rates in the

Chart I.17: Money Market – Interest Rates and Turnover



*: Weighted average of interest rates in the call money, CBLO and market repo segments.

overnight money market increased in August 2007. The average rates in call, CBLO, market repo during August 6 – August 16, 2007 were at 6.17 per cent, 5.67 per cent and 5.76 per cent, respectively. Thus, the overnight rates converged to around the lower bound of the informal reverse repo – repo corridor.

Table 1.62: Activity in Money Market Segments

(Rupees crore)

Year/Month	Average Daily Volume (One Leg)					Commercial Paper		Certificates of Deposit Outstanding
	Call Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Total (2+3+4)	Term Money Market	Outstanding	Amount Issued	
1	2	3	4	5	6	7	8	9
2004-05	**7,085**	**4,284**	**3,349**	**14,718**	**263**	**11,723**	**1,090**	**6,052**
2005-06	**8,990**	**5,296**	**10,020**	**24,306**	**417**	**17,285**	**3,140**	**27,298**
2006-07	**10,863**	**8,419**	**16,195**	**35,477**	**506**	**21,372**	**4,644**	**65,021**
Jan 2006	8,956	6,149	12,817	27,922	545	16,431	1,937	34,521
Feb 2006	6,749	6,024	17,081	29,854	407	15,876	3,160	34,487
Mar 2006	9,145	7,991	17,888	35,024	669	12,718	2,813	43,568
Apr 2006	8,455	5,479	16,329	30,263	447	16,550	6,065	44,059
May 2006	9,037	9,027	17,147	35,211	473	17,067	4,701	50,228
Jun 2006	8,713	10,563	13,809	33,085	628	19,650	4,981	56,390
Jul 2006	9,127	9,671	15,670	34,468	432	21,110	5,812	59,167
Aug 2006	10,647	7,764	15,589	34,000	510	23,299	6,460	65,621
Sep 2006	11,833	9,185	14,771	35,789	568	24,444	5,220	65,274
Oct 2006	13,214	9,721	16,964	39,899	466	23,171	3,373	65,764
Nov 2006	12,825	9,374	16,069	38,268	348	24,238	6,392	68,911
Dec 2006	12,084	7,170	15,512	34,766	481	23,536	3,080	68,619
Jan 2007	11,180	6,591	15,758	33,529	515	24,398	3,490	70,149
Feb 2007	11,627	7,794	19,063	38,484	467	21,167	2,763	72,795
Mar 2007	11,608	8,687	17,662	37,957	739	17,838	3,386	93,272
Apr 2007	14,845	7,173	18,086	40,104	440	18,759	3,767	95,980
May 2007	10,238	8,965	20,801	40,004	277	22,024	6,325	99,715
Jun 2007	8,413	10,294	20,742	39,431	308	26,256	7,525	98,337
Jul 2007 (P)	8,290	10,843	20,768	39,901	288	–	–	–

–: Not available. P: Provisional.

Certificates of Deposit

I.5.9 Banks continued to take recourse to certificates of deposit (CDs) to supplement their deposit resources to fund the credit demand. The flexibility of return that can be offered to attract bulk deposits has made CDs the preferred route for mobilising resources for the cash-strapped banks. The outstanding amount of CDs increased from Rs.43,568 crore at end-March 2006 (4.80 per cent of aggregate deposits of issuing banks) to Rs.93,272 crore (4.83 per cent) by end-March 2007 (see Table 1.62 and Appendix Table 36). As on June 22, 2007, the outstanding amount of CDs increased further to Rs.98,337 crore. A substantial part of the CDs issuance (around 20 per cent of total outstanding amount) took place during the first fortnight of March 2007, mainly by private sector banks. Smaller banks having lower deposit base had a higher ratio of CDs to aggregate deposit in comparison with large public sector banks. The weighted average discount rate (WADR) of CDs increased from 8.62 per cent at end-March 2006 to 10.75 per cent at end-March 2007 in tandem with the upward movement of other money market interest rates. The WADR softened to 9.37 per cent at end-June 2007. Mutual funds are the major investors in the CDs.

Commercial Paper

I.5.10 The outstanding amount of commercial paper (CP) issued by corporates increased from Rs.12,718 crore at end-March 2006 to Rs.17,838 crore at end-March 2007. The outstanding amount of CP increased sharply in the first half of 2006-07, but was largely range-bound during October 2006-January 2007 and declined during February-March 2007 (see Table 1.62 and Appendix Table 37). At present, a corporate having minimum credit rating of P2 of CRISIL or its equivalent can raise resource through CP. As a result, CP issuance is dominated by the prime rated companies. For instance, during the fortnight ended March 31, 2007, the prime rated companies raised funds aggregating Rs.1,190 crore (93.0 per cent of total) through CP at a weighted average discount rate (WADR) of 11.3 per cent, whereas medium rated companies raised funds worth Rs.90 crore (seven per cent) at a WADR of 11.78 per cent. Overall, the WADR on CP increased from 8.59 per cent during the fortnight ended March 31, 2006 to 11.33 per cent during the fortnight ended March 31, 2007 in tandem with the increase in other money market rates. The outstanding amount of CP increased to Rs.26,256 crore as on June 30, 2007. The WADR softened to 8.93 per cent in June 2007. The most preferred maturity of CP was for periods ranging from '61 to 90 days' and '181 days and above'.

Table 1.63: Commercial Paper – Major Issuers

(Rupees crore)

Category of Issuer	End of			
	March 2005	March 2006	March 2007	June 2007
1	2	3	4	5
Leasing and Finance	8,479 (59.6)	9,400 (73.9)	12,569 (70.5)	18,260 (69.5)
Manufacturing	2,881 (20.2)	1,982 (15.6)	2,754 (15.4)	3,956 (15.1)
Financial Institutions	2,875 (20.2)	1,336 (10.5)	2,515 (14.1)	4,040 (15.4)
Total	**14,235 (100.0)**	**12,718 (100.0)**	**17,838 (100.0)**	**26,256 (100.0)**

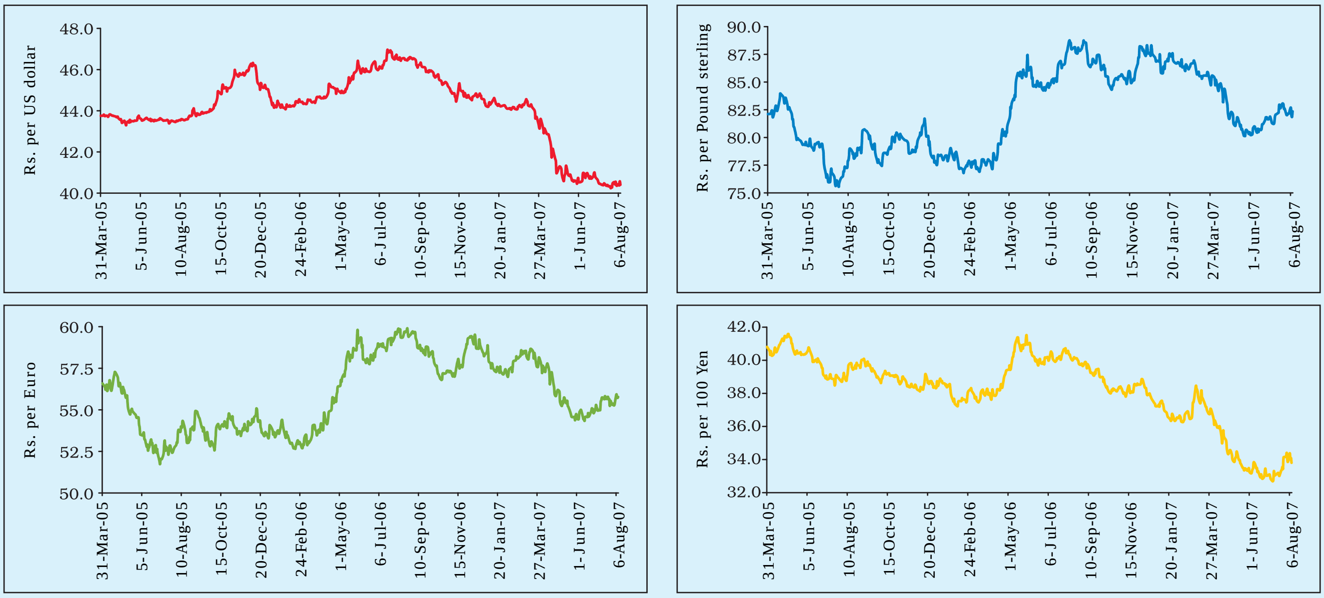
Note : Figures in parentheses are percentage shares in the total outstanding.

I.5.11 Leasing and finance companies accounted for the bulk of the CP – two-thirds of the total outstanding (Table 1.63). The share of the manufacturing corporates remained unchanged. The phenomenon of sub-PLR lending has enabled some of the manufacturing companies to raise funds at comparable rates from banks without incurring any additional cost towards stamp duty, demat costs and fees associated with the issuance of CP.

FOREIGN EXCHANGE MARKET

I.5.12 In the foreign exchange market, the Indian rupee exhibited two-way movements in the range of Rs.43.14–46.97 per US dollar during 2006-07 (Charts I.18 and I.19). The rupee initially depreciated against the US dollar during the year, reaching Rs.46.97 on July 19, 2006, reflecting higher crude oil prices and FII outflows. The rupee, however, strengthened thereafter on the back of moderation in crude oil prices, large capital inflows and weakness of the US dollar in the international markets to reach Rs.43.14 per US dollar on March 28, 2007. The exchange rate was Rs.43.60 per US dollar at end-March 2007. The Reserve Bank's net market purchases of foreign exchange amounted to US $ 26.8 billion during 2006-07 as compared with US $ 8.1 billion in 2005-06 (Table 1.64). Between end-March 2006 and end-March 2007, the Indian rupee appreciated by 2.3 per cent *vis-à-vis* the US dollar and by 2.7 per cent against the Japanese yen, while it depreciated by 9.1 per cent against the Pound sterling and 6.8 per cent against the Euro. Between

Chart I.18: Movement of Rupee *vis-a-vis* Major Currencies



March 2006 and March 2007, the nominal effective exchange rate (NEER) of the Indian rupee in terms of six-currency trade-based weights and the 36-currency trade-based weights depreciated by 3.8 per cent and 2.7 per cent, respectively. Over the same period, while there was no change in the real effective exchange rate (REER) of the Indian rupee in terms of six-currency trade-based weights, it depreciated by 0.2 per cent in terms of 36-currency trade-based weights (Appendix Table 38).

Chart I.19: Foreign Exchange Market Intervention and Exchange Rate

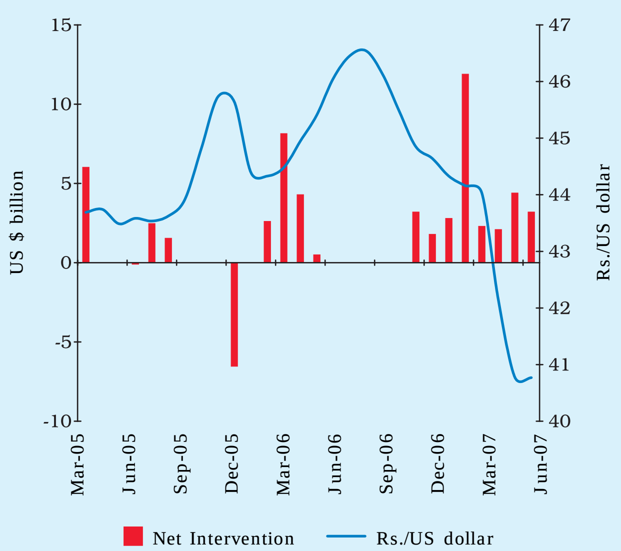


Table 1.64: Purchases and Sales of US dollars by the Reserve Bank

(US $ million)

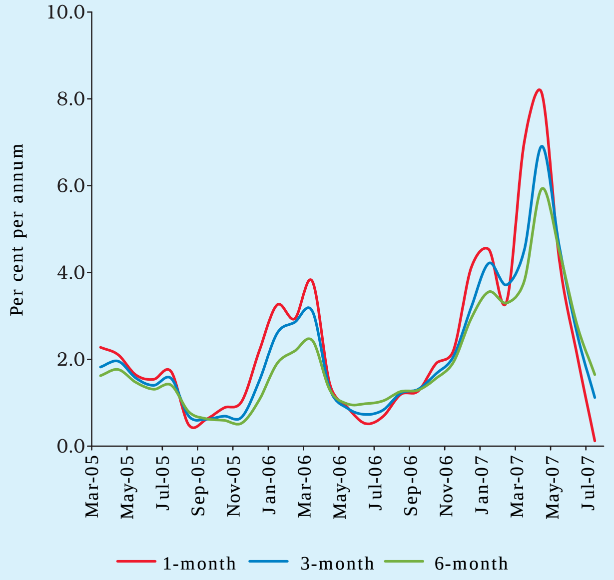
Year / Month	Purchases (+)	Sales (-)	Net (+/-) Purchases (+) Sales (-)	Outstanding Net Forward Sales (-) / Purchases (+) (end of month)
1	2	3	4	5
2004-05	**31,398**	**10,551**	**(+) 20,847**	**781**
2005-06	**15,239**	**7,096**	**(+) 8,143**	**0**
2006-07	**26,824**	**0**	**(+) 26,824**	**0**
Jan 2006	0	0	0	0
Feb 2006	2,614		(+) 2,614	0
Mar 2006	8,149	0	(+) 8,149	0
Apr 2006	4,305	0	(+) 4,305	0
May 2006	504	0	(+) 504	0
Jun 2006	0	0	0	0
Jul 2006	0	0	0	0
Aug 2006	0	0	0	0
Sep 2006	0	0	0	0
Oct 2006	0	0	0	0
Nov 2006	3,198	0	(+) 3,198	0
Dec 2006	1,818	0	(+) 1,818	0
Jan 2007	2,830	0	(+) 2,830	0
Feb 2007	11,862	0	(+) 11,862	0
Mar 2007	2,307	0	(+) 2,307	0
Apr 2007	2,055	0	(+) 2,055	0
May 2007	4,426	0	(+) 4,426	0
Jun 2007	3,192	0	(+) 3,192	0

(+) : Implies purchases including purchase leg under swaps and outright forwards.
(-) : Implies sales including sale leg under swaps and outright forwards.
Note : This Table is based on value dates and data are inclusive of transactions under the India Millennium Deposits.

I.5.13 During 2007-08 so far (up to August 17, 2007), the Indian rupee moved in a range of Rs.40.24-43.15 per US dollar. The Indian rupee was Rs.41.58 per US dollar as on August 17, 2007. Between end-March 2007 and August 17, 2007, the Indian rupee appreciated by 4.9 per cent *vis-à-vis* the US dollar, 4.2 per cent against the Pound sterling, 4.2 per cent against the Euro and 0.3 per cent against the Japanese yen.

I.5.14 Forward premia increased during 2006-07, reflecting growing interest rate differential in view of increase in domestic interest rates. While the one-month forward premia increased from 3.79 per cent in March 2006 to 6.99 per cent in March 2007, the six-month premia increased from 2.43 per cent to 3.80 per cent over the same period. Forward premia has declined during 2006-07 so far (April-July), mirroring the decline in domestic overnight interest rates (Chart I.20). In recent years, the growing investor interest in emerging market economies along with foreign exchange convertibility restrictions have led to the development of an offshore foreign exchange market, called the non-deliverable forward (NDF) market in several emerging market currencies (Box I.14).

Chart I.20: Movement in Forward Premia



I.5.15 The average daily turnover in the foreign exchange market increased from US $ 23.7 billion in March 2006 to US $ 33.0 billion in March 2007 in consonance with the increase in foreign exchange

Box I.14
Non-Deliverable Forward Market

With controls imposed by local financial regulators and consequently the non-existence of a natural forward market for non-domestic players, private companies and investors investing in some economies such as China, India and South Korea look for alternative avenues to hedge their exposure to such currencies. In this context, non-deliverable forwards (NDFs) have become popular derivative instruments for meeting the offshore investors' demand for hedging. NDFs are types of derivatives for trading in non-convertible or restricted currencies without delivery of the underlying currency.

The NDF market for Asian currencies is largely concentrated in Singapore, although their existence is found in London and New York as well. The major trading currencies in the NDF market are the Chinese renminbi, the Korean won, the New Taiwan dollar, the Indian rupee, the Indonesian rupiah and the Philippine peso. The volatility and bid-ask spread in the NDF market for Asian currencies are found to be lower for shorter maturities than for longer maturities.

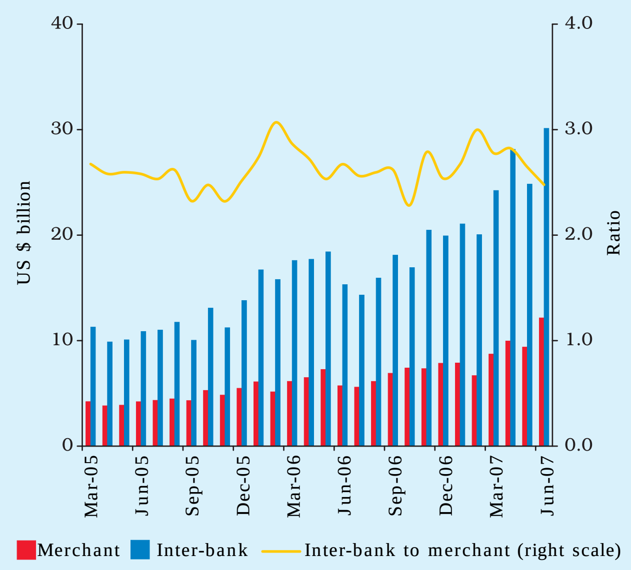
The NDF market in the Indian rupee (INR NDF) has been in existence for around 10 years or so, reflecting onshore exchange controls and regulations. Besides, the INR NDF market also derives its liquidity from (i) non-residents wishing to speculate on the Indian rupee without any exposure to the country; and (ii) arbitrageurs who try to exploit the differentials in the prices in two markets. The spread as well as volatility of the INR NDF is higher than that of onshore spot and forward markets (Misra and Behera, 2006) . Though an accurate assessment of the volumes is difficult, estimated daily INR NDF turnover was around US $ 100 million in 2003/2004 (Ma *et al.,* 2004). NDF volumes have reportedly grown substantially since then. While these volumes are not large enough to affect the domestic onshore market under regular market conditions, in volatile market conditions, however, these may impact the domestic spot market. The NDF turnover for the Indian rupee is estimated to be lower than that in the Chinese renminbi, the Korean won and the New Taiwan dollar. This could be attributed to the gradual relaxation of exchange controls and reasonable hedging facilities available to offshore non-residents with exposures to the Indian rupee.

References

1. Ma, Guanon, Corrine Ho and Robert N. McCulay (2005), “Trading Asian Currencies”, *BIS Quarterly Review*, March.

2. Misra, Sangita and Harendra Behera (2006), “Non-Deliverable Foreign Exchange Market: An Overview”, *RBI Occasional Papers*, Vol.27, No.3, Winter, *Forthcoming*.

Chart I.21: Turnover in the Foreign Exchange Market



transactions. While the turnover in the inter-bank segment rose from US $ 17.6 billion to US $ 24.2 billion, that in the merchant segment rose from US $ 6.1 billion to US $ 8.7 billion (Chart I.21 and Appendix Table 39). The ratio of inter-bank to merchant turnover at 2.6 during 2006-07 was almost the same as a year ago.

GOVERNMENT SECURITIES MARKET

I.5.16 Yields in the secondary segment of the Government securities market hardened during 2006-07 accompanied by some flattening of the yield curve. Yields initially rose during 2006-07 to reach an intra-year peak of 8.40 per cent on July 11, 2006 on the back of sustained domestic credit demand, higher international crude oil prices, apprehensions over domestic fuel price hike and continuous pre-emptive monetary tightening globally as well as in India. Subsequently, however, yields softened in consonance with the easing of Government bond yields in the US, the Fed's decision to keep the fed funds rate target unchanged, easing of international crude oil prices, increased demand for gilts from banks to meet their SLR requirements and the announcement of the borrowing calendar of the Central Government for the second half of 2006-07 which was in accordance with market expectations. The 10-year yield reached a low of 7.38 per cent as on November 28, 2006. There was again some hardening of yields from the second half of December 2006 in tandem with tightness in domestic liquidity conditions on the back of advance tax outflows, higher inflation and hikes in the CRR. The 10-year yield was 7.97 per cent as on March 31, 2007, 45 basis points higher than the level as on March 31, 2006 (7.52 per cent) (Chart I.22).

I.5.17 During 2007-08 so far (up to August 17, 2007), the 10-year yield moved in the range of 7.80-8.41 per cent. Yields hardened up to mid-June 2007 but declined thereafter. The 10-year yield was 8.01 per cent as on August 17, 2007, four basis points higher than that at end-March 2007.

I.5.18 The yield curve flattened during 2006-07, with the spread between 1-10 year yields narrowing down to 42 basis points at end-March 2007 from 98 basis points at end-March 2006. During 2007-08, the increase in the yield spreads as at end-July 2007 indicated that the softening in the 10-year yield did not permeate the longer end of the yield curve. The yield spread of 5-year AAA-rated bonds over 5-year Government securities, however, widened to 142 basis points at end-March 2007 from 91 basis points

Chart I.22: Yields on Central Government Securities

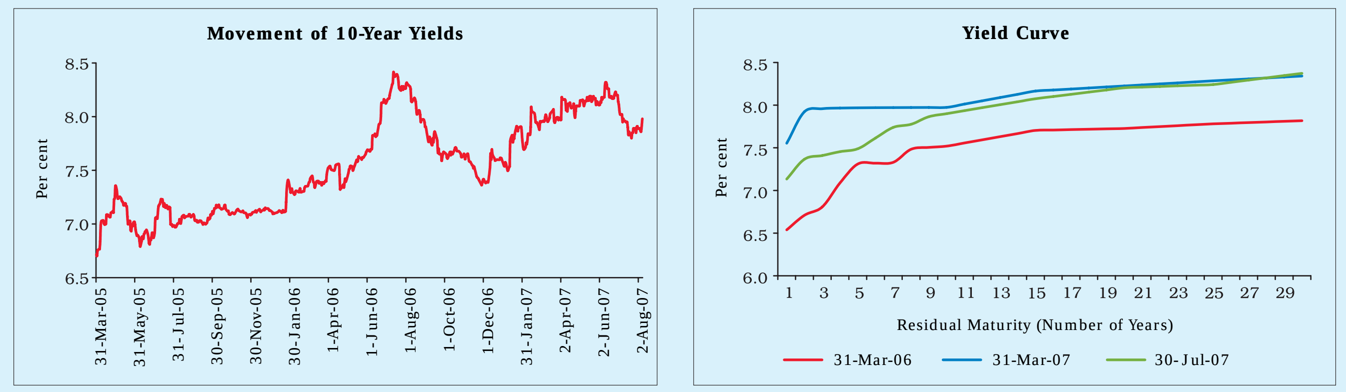


Table 1.65: Yield Spreads

(Basis points)

Year-Month	10 Year-reverse repo rate	10 Year-1 Year	20 Year-10 Year	30 Year-10 Year	5 Year AAA Bond-5 Year G Sec.
1	2	3	4	5	6
2004-05	**164**	**101**	**55**	**77**	**64**
2005-06	**196**	**106**	**36**	**45**	**48**
2006-07	**189**	**77**	**32**	**43**	**106**
Jan 2006	178	51	30	35	67
Feb 2006	186	53	25	30	98
Mar 2006	202	98	21	30	91
Apr 2006	190	118	40	57	105
May 2006	218	120	36	52	86
Jun 2006	237	113	38	41	74
Jul 2006	223	132	49	65	69
Aug 2006	206	103	49	65	96
Sep 2006	167	94	43	61	91
Oct 2006	167	54	30	46	92
Nov 2006	142	47	17	19	95
Dec 2006	161	34	12	17	146
Jan 2007	176	36	32	35	126
Feb 2007	198	37	16	21	152
Mar 2007	197	42	26	37	142
Apr 2007	217	27	19	33	162
May 2007	212	41	25	36	174
Jun 2007	220	65	23	31	186
Jul 2007	190	77	30	47	137

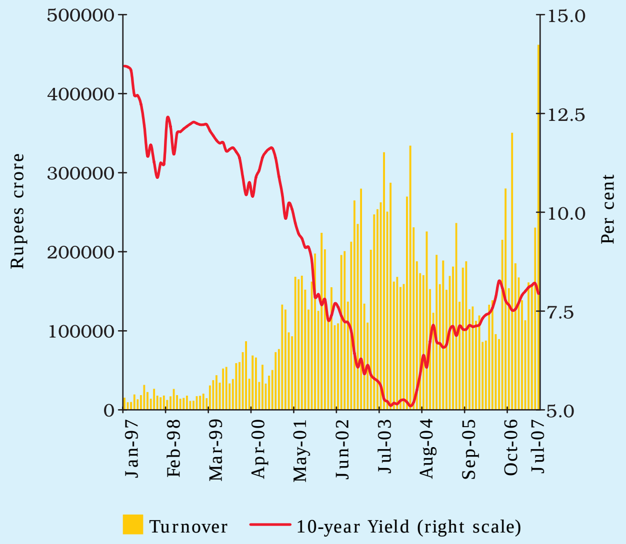
at end-March 2006 after narrowing down to 69 basis points in July 2006 (Table 1.65).

I.5.19 The turnover in the Government securities market broadly mirrored the movements in yields (Appendix Table 40). During the period of rising yields (April-July 2006 and December 2006-March 2007), the turnover was subdued as banks preferred to hold securities rather than trade. During the period (August-November 2006) of softening in the yields, the turnover witnessed a sharp increase. The decline in turnover in October 2006 partly reflected fewer trading days (Chart I.23).

CREDIT MARKET

I.5.20 Deposit and lending rates of scheduled commercial banks (SCBs) increased during 2006-07. For instance, interest rates offered by public sector banks (PSBs) on deposits of maturity of one year to three years rose from a range of 5.75-6.75 per cent in March 2006 to a range of 7.25-9.50 per cent in March 2007, while those on deposits of maturity of above three years increased from 6.00-7.25 per cent

Chart I.23: Turnover and Yields in Government Securities Market



to 7.50-9.50 per cent over the same period. Interest rates offered by private sector banks and foreign banks, generally, were also higher than a year ago (Table 1.66 and Appendix Table 41).

I.5.21 During the first quarter of 2007-08, deposit rates firmed up further. Interest rates of PSBs on deposits of maturity of one year to three years were placed in the range of 7.25-9.60 per cent in July as compared with 7.25-9.50 per cent in March 2007, while those on deposits of maturity of above three years were placed in the range of 7.75-9.60 per cent in July 2007 as compared with 7.50-9.50 per cent in March 2007. There was some softening in deposit rates in July 2007 as compared to June 2007, particularly at the short-end of the maturity spectrum.

I.5.22 The Benchmark Prime Lending Rates (BPLRs) of PSBs increased from a range of 10.25-11.25 per cent in March 2006 to a range of 12.25-12.75 per cent in March 2007. The BPLRs of private sector as well as foreign banks also rose during the year. During 2007-08, BPLRs of PSBs and private sector banks moved to a range of 12.50-13.50 per cent and 13.00-17.25, respectively, by July 2007. The BPLRs of foreign banks remained unchanged during the period. The weighted average BPLR of PSBs increased from 10.7 per cent in March 2006 to 12.4 per cent in March 2007 and 13.1 per cent in July 2007, while that of private sector banks increased from 12.4 per cent to 14.1 per cent and 14.9 per cent over the same period. The weighted average BPLR of foreign banks rose from 12.7 per cent in March 2007 as well

Table 1.66: Deposit and Lending Rates

(Per cent)

Item	March 2004	March 2005	March 2006	March 2007	June 2007	July 2007
1	2	3	4	5	6	7
1. Domestic Deposit Rate						
Public Sector Banks						
Up to 1 year	3.75-5.25	2.75-6.00	2.25-6.50	2.75-8.75	2.75-8.75	2.75-8.50
More than 1 year and up to 3 years	5.00-5.75	4.75-6.50	5.75-6.75	7.25-9.50	7.25-9.75	7.25-9.60
More than 3 years	5.26-6.00	5.25-7.00	6.00-7.25	7.50-9.50	7.75-9.75	7.75-9.60
Private Sector Banks						
Up to 1 year	5.00-6.50	3.00-6.25	3.50-7.25	3.00-9.00	3.00-9.50	1.00-9.25
More than 1 year and up to 3 years	5.00-6.50	5.25-7.25	5.50-7.75	6.75-9.75	6.75-10.25	6.75-10.25
More than 3 years	5.25-7.00	5.75-7.00	6.00-7.75	7.75-9.60	7.50-10.00	7.50-10.00
Foreign Banks						
Up to 1 year	2.75-7.75	3.00-6.25	3.00-6.15	3.00-9.50	0.25-9.00	0.25-8.50
More than 1 year and up to 3 years	3.25-8.00	3.50-6.50	4.00-6.50	3.50-9.50	3.50-9.50	2.50-9.00
More than 3 years	3.25-8.00	3.50-7.00	5.50-6.50	4.05-9.50	4.05-9.50	2.50-9.50
2. Benchmark Prime Lending Rate						
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50
Private Sector Banks	10.50-13.00	11.00-13.50	11.00-14.00	12.00-16.50	13.00-17.25	13.00-17.25
Foreign Banks	11.00-14.85	10.00-14.50	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50
3. Actual Lending Rate*						
Public Sector Banks	4.00-16.00	2.75-16.00	4.00-16.50	4.00-16.50	–	–
Private Sector Banks	4.50-22.00	3.15-22.00	3.15-20.50	3.15-20.50	–	–
Foreign Banks	3.75-23.00	3.55-23.50	4.75-26.00	4.75-26.00	–	–

– : Not available.

* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.

as March 2006 to 13.9 per cent in July 2007. A significant proportion of bank lending continued to be below the BPLR. Almost 79 per cent of the lending by the SCBs was at sub-BPLR at end-March 2007 (69 per cent a year ago). Bank group-wise, the PSBs, private sector banks and foreign banks lent funds at sub-BPLR to the extent of 74 per cent, 92 per cent and 72 per cent, respectively, of their total loans at end-March 2007.

EQUITY AND DEBT MARKETS

Primary Market

I.5.23 The resource mobilisation from the primary market through the public issues (excluding offer for sale) increased by 20.2 per cent to Rs.32,382 crore during 2006-07 (Table 1.67). The bulk of the resource mobilisation continued to be through equity issuances (97 per cent of the total during 2006-07 as compared with 99 per cent during the previous year). The average size of public issues was Rs.272 crore during 2006-07 (Rs.195 crore during 2005-06). Private sector entities continued to dominate the public issues market, mobilising nearly 98 per cent of the total resource mobilisation during 2006-07 (79 per cent during 2005-06) (Chart I.24 and Appendix Table 42). Resources mobilised by financial institutions (public and private sector combined), however, declined during the year. The share of initial public offerings (IPOs), both in terms of number of issues and amounts mobilised, in the total public issues increased substantially during 2006-07. Out of 119 public issues in the financial year 2006-07, 75 issues were IPOs, accounting for 85 per cent of the total resource mobilisation.

I.5.24 The Indian corporate sector continued to rely heavily on the domestic private placement market. Mobilisation of resources through the private placement route during 2006-07 increased by 50.9 per cent to Rs.1,45,571 crore (Table 1.67 and Chart I.24). Bulk of resources from the private placement market during 2006-07 were mobilised by private sector entities – both financial and non-financial – 58.0 per cent as compared with 42.7 per cent in the preceding year. While resources mobilised by the private sector more than doubled during 2006-07, those by public

Table 1.67: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

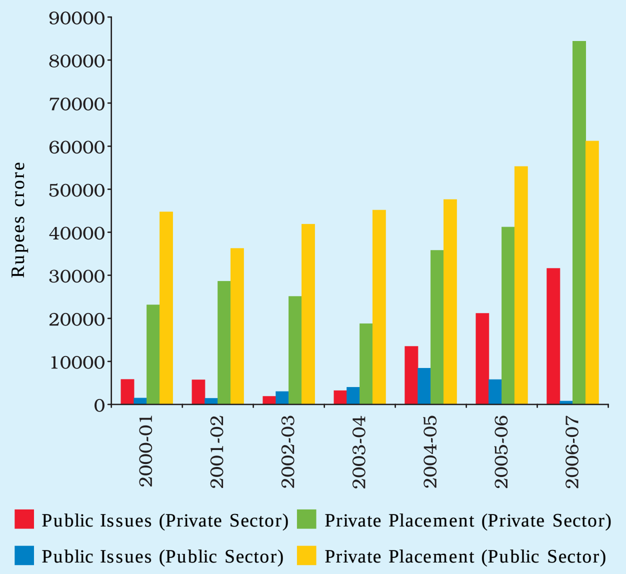
Item	2005-06 No. of Issues	2005-06 Amount	2006-07P No. of Issues	2006-07P Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	**131**	**21,154**	**118**	**31,600**
		(56.9)		**(49.4)**
a) Financial	11	7,746	9	2,420
b) Non-financial	120	13,408	109	29,180
2. Public Sector (a+b+c)	**7**	**5,786**	**1**	**782**
		(-31.2)		**(-86.5)**
a) Public Sector Undertakings	–	–	–	–
b) Government Companies	1	373	–	–
c) Banks/Financial Institutions	6	5,413	1	782
3. Total (1+2)	**138**	**26,940**	**119**	**32,382**
		(23.1)		**(20.2)**
(i) Equity	136	26,695	116	31,535
(ii) Debt	2	245	3	847
B. Private Placement				
1. Private Sector	**946**	**41,190**	**1,539**	**84,387**
		(16.5)		**(104.9)**
a) Financial	375	26,463	649	51,321
b) Non-financial	571	14,727	890	33,066
2. Public Sector	**169**	**55,284**	**139**	**61,184**
		(15.0)		**(10.7)**
a) Financial	137	39,165	108	49,026
b) Non-financial	32	16,119	31	12,158
3. Total (1+2)	**1,115**	**96,473**	**1,678**	**1,45,571**
		(15.7)		**(50.9)**
(i) Equity	1	150	1	57
(ii) Debt	1,114	96,323	1,677	1,45,514
C. Euro Issues #	**48**	**11,352**	**40**	**17,005**
		(315.8)		**(49.8)**

P : Provisional. * : Excluding offers for sale. – : Nil/Negligible.
: Includes only ADRs and GDRs.
Note : Figures in parentheses are percentage variation over the previous year.

sector entities increased by 10.7 per cent. The resource mobilisation by financial intermediaries (both public and private sectors) increased by 52.9 per cent to Rs.1,00,347 crore, accounting for 69.0 per cent of the total resource mobilisation. Within the financial intermediaries group, banks (both public and private sectors) mobilised Rs.30,994 crore, an increase of 2.8 per cent over the previous year.

I.5.25 The resources raised by Indian corporates from international capital markets (ADRs and GDRs) increased sharply by 49.8 per cent to Rs.17,005 crore during 2006-07 (Table 1.67). Out of these, Rs.8,737 crore were mobilised in the form of Global Depository Receipts (GDRs) and Rs.8,268 crore in the form of American Depository Receipts (ADRs). Most of the Euro issues were made by private sector non-financial companies.

Chart I.24: Resource Mobilisation in the Primary Market



Mutual Funds

I.5.26 Net resources mobilised by mutual funds increased by 78.1 per cent to Rs.93,985 crore during 2006-07 due primarily to higher resource mobilisation by private sector mutual funds. Net assets managed by mutual funds also increased significantly by 40.7 per cent to Rs.3,26,292 crore at end-March 2007 on account of increased resource mobilisation and increase in the market value of their portfolio (Table 1.68).

I.5.27 Resources mobilised by mutual funds under income/debt-oriented schemes almost quadrupled during 2006-07. Such schemes are being preferred

Table 1.68: Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	2005-06 Net@ Mobilisation	2005-06 Net Assets*#	2006-07 Net@ Mobilisation	2006-07 Net Assets*#
1	2	3	4	5
Private Sector	42,977	1,81,515	79,038	2,62,079
Public Sector*	9,802	50,348	14,947	64,213
Total	**52,779**	**2,31,863**	**93,985**	**3,26,292**

@ : Net of redemptions. # : As at end of March.
* : Including UTI Mutual Fund. The erstwhile UTI was divided into UTI Mutual Fund (registered with the SEBI) and the specified undertaking of UTI. Data in the Table contain information only of UTI Mutual Fund.
Note : Data exclude funds mobilised under Fund of Funds Schemes.
Source: Securities and Exchange Board of India.

Table 1.69: Funds Mobilised by Mutual Funds – Type of Schemes

(Amount in Rupees crore)

Scheme	2005-06			2006-07		
	No. of Schemes	Net Mobilisation	Net Assets*	No. of Schemes	Net Mobilisation	Net Assets*
1	2	3	4	5	6	7
A. Income/Debt Oriented Schemes	**325**	**16,621**	**1,24,913**	**450**	**64,068**	**1,93,585**
(i) Liquid/ Money Market	45	4,205	61,500	55	4,986	72,006
(ii) Gilt	29	-1,560	3,135	28	-964	2,257
(iii) Debt (other than assured return)	251	13,976	60,278	367	60,046	1,19,322
(iv) Debt (assured return)	0	0	0	0	0	0
B. Growth/Equity Oriented Schemes	**231**	**35,231**	**99,456**	**267**	**28,206**	**1,23,598**
(i) Equity Linked Saving Scheme	37	3,592	6,589	40	4,453	10,212
(ii) Others	194	31,639	92,867	227	23,753	1,13,386
C. Balanced Schemes	**36**	**927**	**7,494**	**38**	**1,711**	**9,109**
D. Fund of Funds Scheme	**13**	**-241**	**1,012**	**33**	**1,164**	**2,215**
TOTAL #	**592**	**52,779**	**2,31,863**	**755**	**93,985**	**3,26,292**

* : As at end-March. # : Total excludes Fund of funds Scheme.
Source : Securities Exchange Board of India.

for parking surplus funds for short periods with minimum risk. Net mobilisation of funds in the case of growth/equity oriented schemes declined during the year. Bulk of the resources mobilised by mutual funds during 2006-07 were under debt market schemes (Table 1.69). The decline in mobilisation under growth/equity oriented schemes and the large increase under income/debt-oriented schemes could be partly attributed to risk aversion on the part of investors against the backdrop of stock markets touching record levels and some episodes of volatility in stock markets.

All-India Financial Institutions

I.5.28 All-India financial institution (AIFIs) can raise resources, both short-term and long-term, provided the total outstanding at any time does not exceed 10 times of its net owned funds (NOF) as per its latest audited balance sheet. Within this overall ceiling, eight FIs, *viz*., IFCI, EXIM Bank, SIDBI, IIBI, TFCI, NABARD, IDFC and NHB have been given umbrella limits to raise resources equivalent to 100 per cent of their NOF through instruments such as term money, term deposit, inter-corporate deposits, CDs and CP. The aggregate mobilisation of resources by these FIs under the umbrella limits increased from Rs.17,046 crore as on March 31, 2006 to Rs.19,001 crore as on March 31, 2007. The outstanding amount increased to Rs.3,293 crore (17.3 per cent of total limits) at end-March 2007 from Rs.1,449 crore (8.5 per cent of total limit) at end-March 2006. Commercial paper was the most preferred instrument by FIs during the year. Only four institutions, *viz*., EXIM Bank, NHB, IDFC and SIDBI were active in mobilising resources through these instruments during 2006-07.

I.5.29 Total resources mobilised by AIFIs in the form of bonds and debentures declined by 9.7 per cent to Rs.14,265 crore during 2006-07 (Table 1.70). Some FIs such as IFCI Ltd., and IIBI Ltd. continued to be barred from mobilising fresh resources on account of their poor financial performance. Financial assistance sanctioned by AIFIs declined by 1.1 per cent during 2006-07, while financial assistance disbursed increased by 52.2 per cent (Appendix Table 43).

Secondary Market

I.5.30 The domestic stock markets recorded further gains during 2006-07 (Chart I.25 and Appendix Table 44). The BSE Sensex at end-March 2007 increased by 15.9 per cent (year-on-year) on top of the increase of 73.7 per cent a year ago. Strong corporate profitability (see Table 1.16) and continued liquidity support from FIIs and domestic mutual funds (Table 1.71) buoyed up the stock markets even as they witnessed sharp corrections on a few occasions (May-June 2006, December 2006 and February-March 2007) in consonance with the trends in global equity markets. During 2006-07, the BSE Sensex moved in a range of 8929 (June 14, 2006) and an all-

Table 1.70: Resources Raised by way of Bonds/Debentures by Select All-India FIs

(Amount in Rupees crore)

Institution	Resources Raised		Outstanding Borrowings		Weighted Average Cost of Funds (Per cent)		Weighted Maturity (years)	
	2005-06	2006-07	End-March 2006	End-March 2007	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9
IIBI	..	..	1,574	1,217	12.1	11.8	6-15	6-8
IFCI	..	..	10,806	10,192	7.8	7.6	7.2	8.6
TFCI	..	..	277	240	10.1	9.9	5.2	4.3
Exim Bank	2,860	2,512	9,384	9,676	6.9	7.3	4.6	4.9
SIDBI	2,610	572	3,836	3,853	5.9	6.5	3.9	4.5
NABARD	8,194	10,899	23,313	31,260	5.8	8.7	3.5	5.0
NHB	2,131	283	13,109	10,411	6.4	7.5	2.2	2.0
Total	**15,795**	**14,265**	**62,299**	**66,849**	**..**	**..**	**..**	**..**

.. : Nil/Not applicable.

Note : 1. Data relate to rupee resources only.
2. Data on resources raised include: long-term resources mobilised through bonds/debentures; short-term resources mobilised through commercial paper, certificates of deposit, ICDs, term deposits and term money.
3. Data are provisional.

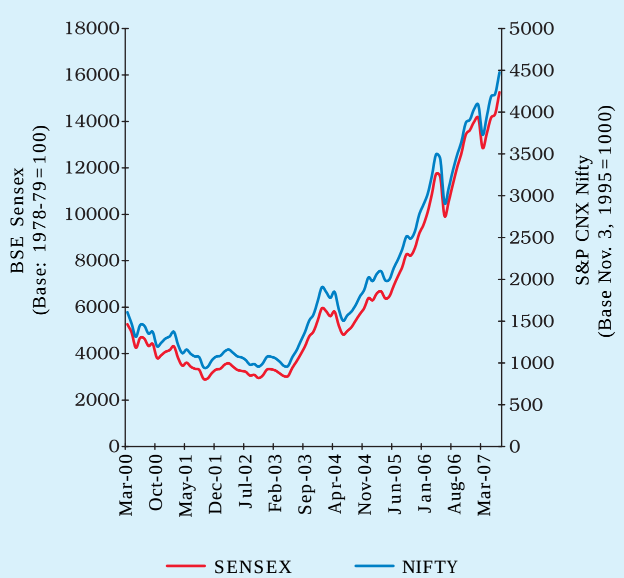
Source : Respective Financial Institution (FI).

time high of 14652 (February 8, 2007), before closing at 13072 on March 30, 2007.

I.5.31 Although net investments by FIIs were lower than a year ago, their gross purchases and gross sales were higher than a year ago indicative of continuous churning of portfolios.

I.5.32 The domestic stock markets recorded further gains during 2007-08 so far (up to August 17, 2007) amidst intermittent corrections. Between end-March 2007 and August 17, 2007, the BSE Sensex moved in a range of 12455-15795. The BSE Sensex reached a record high of 15795 on July 24, 2007. The S&P CNX Nifty also reached a record high of 4621 on July 24, 2007. The BSE Sensex closed at 14142 on August 17, 2007, an increase of 8.2 per cent over end-March 2007.

Chart I.25: Indian Stock Markets



I.5.33 The market capitalisation of the BSE increased by 17.3 per cent during 2006-07, reflecting increase in stock prices as well as new listing of securities (Table 1.72 and Appendix Table 45). The market capitalisation of the BSE, as per cent to GDP, rose from 84.7 per cent at end-March 2006 to 85.9 per cent of GDP at end-March 2007. The price-earnings (P/E) ratio of BSE Sensex scrips was 20.3

Table 1.71: Trends in Institutional Investments

(Rupees crore)

Year	FIIs		Mutual Funds	
	Net Investment in Equity	Net Investment in Debt	Net Investment in Equity	Net Investment in Debt
1	2	3	4	5
2001-02	8,067	685	-3,796	10,959
2002-03	2,528	60	-2,067	12,604
2003-04	39,959	5,805	1,308	22,701
2004-05	44,123	1,759	448	16,987
2005-06	48,542	-7,065	14,306	36,801
2006-07	25,236	5,605	9,024	52,546

Source : Securities and Exchange Board of India.

Table 1.72: Stock Market Indicators

Indicator	BSE			NSE		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
1. BSE Sensex / S&P CNX Nifty						
(i) End-period	6493	11280	13072	2036	3403	3822
(ii) Average	5741	8280	12277	1805	2513	3572
2. Coefficient of Variation	11.2	16.7	11.1	11.3	15.6	10.4
3. Price-Earning Ratio (end-period)*	15.6	20.9	20.3	14.6	20.3	18.4
4. Price-Book Value Ratio*	3.7	5.1	5.1	3.8	5.2	4.9
5. Yield* (per cent per annum)	1.7	1.2	1.3	2.0	1.3	1.3
6. Listed Companies	4,731	4,781	4,821	970	1,069	1,228
7. Cash Segment Turnover (Rupees crore)	5,18,716	8,16,074	9,56,185	11,40,071	15,69,556	19,45,285
8. Derivative Segment Turnover (Rupees crore)	16,112	9	59,007	25,46,982	48,24,174	73,56,242
9. Market Capitalisation (Rupees crore) @	16,98,429	30,22,191	35,45,041	15,85,585	28,13,201	33,67,350

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

at end-March 2007 as compared with 20.9 at end-March 2006. Volatility in the stock market declined substantially during 2006-07, although it remained higher than that in some of the major international stock markets. The turnover in the major stock exchanges increased sharply during 2006-07. While the combined turnover of the BSE and the NSE in the cash segment increased by 21.6 per cent during 2006-07, that in the derivatives segment rose by 53.7 per cent (Appendix Table 46). Trading in stock futures accounted for a significant share of the turnover in equity derivatives.

I.5.34 The rally in domestic stock market during 2006-07 was mainly concentrated in the index heavyweights. While the BSE Sensex gained 15.9 per cent, the broad-based index, the BSE 500 gained 9.7 per cent and the BSE Mid-cap gained only 0.7 per cent. The BSE Small-cap, on the other hand, lost 1.8 per cent during 2006-07. The BSE sectoral indices witnessed a mix trend (Table 1.73).

Wholesale Debt Market Segment of NSE

I.5.35 Activity in the Wholesale Debt Market (WDM) segment of the NSE remained subdued with the turnover declining by 53.9 per cent to Rs.2,19,106 crore in 2006-07. The number of securities available for trading at 3,253 as on March 30, 2007 was higher than a year ago (3,174). Total market capitalisation of the securities available for trading on the WDM segment worked out to Rs.17,84,801 crore as on March 31, 2007.

I.5.36 To sum up, domestic financial markets remained orderly during 2006-07, although there were some episodes of volatility, especially during the last fortnight of March 2007. Interest rates edged up in the various market segments – the money market, the Government securities market and the credit market – during the year broadly mirroring the trend in the Reserve Bank's policy rates. The yield curve flattened during the year. The foreign exchange market witnessed two-way movements. The stock markets reached record highs during 2006-07 interspersed with some corrections.

Table 1.73: BSE Sectoral Stock Indices

(Base: 1978-79=100)

Sector	Year-on-Year Growth (per cent)	
	End-March 2006	End-March 2007
1	2	3
Auto	101.2	-8.5
Bankex	36.8	24.3
Capital Goods	156.0	11.1
Consumer Durables	115.4	11.1
Fast Moving Consumer Goods	109.9	-21.3
Health Care	51.2	21.6
Information Technology	49.2	-5.4
Metal	40.3	-4.3
Oil & Gas	61.1	30.5
Public Sector Undertakings	44.0	-3.2
BSE 500	**65.2**	**9.7**
BSE Sensex	**73.7**	**15.9**

Source : Bombay Stock Exchange Limited.

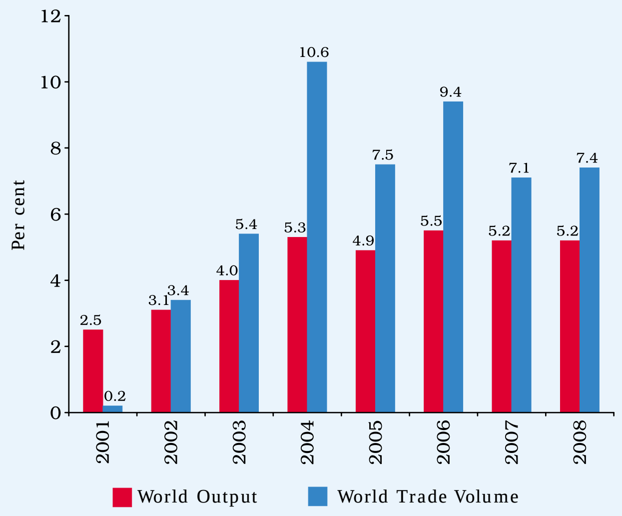
VI. EXTERNAL SECTOR

I.6.1 Developments in India's balance of payments during 2006-07 continued to reflect sustained strength and vibrancy of the external sector. Merchandise export and non-oil import growth remained robust, although there was some deceleration from the strong pace of the previous year. Earnings from exports of software and other business services as well as remittances from Indians working abroad continued to exhibit buoyancy. The net surplus under invisibles expanded further during 2006-07 and continued to finance a large part of the growing merchandise trade deficit. Consequently, the current account deficit remained modest during the year, and, as a proportion to GDP, was at the same level as a year ago. Led by foreign direct investment and external commercial borrowings (ECBs), capital flows (net) to India witnessed a large increase during 2006-07 on the back of strengthening of growth prospects, and buoyancy in domestic investment and import demand. Outward direct investment also witnessed a jump reflecting growing overseas acquisitions by Indian corporates. With net capital flows remaining in excess of the current account deficit, the overall balance of payments recorded a significant surplus, which was mirrored in an accretion of US $ 47.6 billion to foreign exchange reserves during 2006-07. While the stock of external debt rose due to higher ECBs and non-resident deposits, net international liabilities fell, reflecting the continuous build-up of foreign exchange reserves.

INTERNATIONAL DEVELOPMENTS

I.6.2 Global economic activity gathered further pace during 2006, with growth accelerating to 5.5 per cent from 4.9 per cent in 2005 (Appendix Table 47 and Chart I.26). Economic activity was more broad-based, benefiting from the pick-up in the euro area where the growth accelerated to 2.8 per cent in 2006 – its fastest pace in six years – from 1.5 per cent in the previous year due to strengthening of domestic demand, increasing business confidence and improving labour markets. In the US, economic activity slowed down in the second half of 2006 on the back of cooling of the housing market; for the year on the whole, real GDP growth at 2.9 per cent was marginally lower than that in 2005 (3.1 per cent). In Japan, growth accelerated towards the year-end. Emerging market and developing countries, led by China and India, continued to exhibit rapid growth. Growth in Developing Asia accelerated from 9.2 per cent in 2005 to 9.7 per cent in 2006, the fastest pace since 1995, aided by strong global demand, favourable terms of trade, and easy access to external financing (Box I.15).

Chart I.26: Growth in World Output and Trade



Note : Data for 2007 and 2008 are projections.
Source : World Economic Outlook, April 2007 and WEO Update, July 2007, IMF.

I.6.3 Global merchandise trade expanded at a robust pace in 2006, with growth in volume of world trade accelerating from 7.5 per cent in 2005 to 9.4 per cent in 2006 on the back of a notable increase in trade in capital goods driven by recovery in global investment. According to IMF data, private capital flows to emerging market and developing countries in 2006 remained almost at the same level as in 2005 (Table 1.74). Amongst the major components, foreign direct investment flows were almost unchanged from

Table 1.74: Net Capital Flows to Emerging Markets and Developing Economies

(US $ billion)

Item	2004	2005	2006	2007P	2008P
1	2	3	4	5	6
Private Capital Flows	**238.6 (412.5)**	**257.2 (551.4)**	**255.8 (646.8)**	**252.7**	**259.3**
Direct investment	190.0	266.3	266.9	283.7	288.9
Portfolio investment	25.0	29.4	-76.3	-62.0	-52.2
Others	23.5	-38.5	65.2	30.9	22.6
Official Capital Flows	**-57.8**	**-122.6**	**-143.8**	**-96.4**	**-116.6**

P : IMF Projections.
Note : Figures in parentheses pertain to net capital flows to developing countries and are based on Global Development Finance, 2007.
Source : World Economic Outlook, IMF, April 2007; Global Development Finance, World Bank, 2007.

Box I.15
Asia in the Global Economy

The rapid growth of emerging market economies in Asia has been a notable feature of the global economy in recent years. The rise of Asia on the world stage started with the so-called "Asian miracle" - the economic success of Japan beginning in the 1960s and then the small "dragons" and "tigers", *viz*., South Korea, Hong Kong, Singapore and Thailand. The burst of the economic bubble in Japan in the 1990s and the 1997-98 Asian financial crisis cast a shadow over Asia's success story for a short period. Most East Asian economies, however, quickly resumed their growth path. Furthermore, China's rapid emergence as an economic power on the world stage and, more recently, India are adding to Asia's strength and resilience.

In recent years, the driver of the world economy has been Asia, contributing almost 35 per cent of world GDP and nearly half of the world's growth since 2001 in purchasing power parity (PPP) terms. It is interesting to note that among the top four economies in terms of GDP based on PPP, three Asian economies, *viz*., China, Japan and India are ranked second, third and fourth, respectively. It is recognised that the resilience of China and India helped the global economy to avoid a deep recession in 2002. Accordingly, it is perceived that the sharp ongoing slowdown in the US economy could possibly be offset by the growing Asian region.

The impressive performance of Asia has been associated with the region's firm integration into the global economy. The economic and political relations between Asia and the rest of the world, especially the US, have become deeper and assumed new dimensions. As a result, the Asian region has increasingly become a major centre of world trade, global capital flows and other macroeconomic parameters. At present, the share of Asia in global trade is about 29 per cent. Asian emerging economies are capturing a significant portion of total net private capital flows. Two-thirds of private equity flowing into the region are in the form of direct investment. Concomitantly, there has been a substantial accumulation of foreign exchange reserves by several countries of Asia. Asian economies hold foreign exchange reserves of about US $ 3.5 trillion, about 66 per cent of total global reserves. A large part of the current account deficit (CAD) of the US has been financed by surpluses in major Asian economies.

Table: Asia in the World

(Per cent)

Indicator	1991	1997	2006
1	2	3	4
Contribution of Developing Asia in World PPP based GDP Growth	28.1	28.6	38.1
Share of Developing Asia in World PPP based GDP	15.1	20.5	27.0
Share of Asia in World GDP (Current Prices)	20.7	22.8	21.0
Share of Asia in World PPP based GDP	26.2	30.6	35.6
Share of Asia in World Reserves	36.9	47.1	65.7
Share of Asia in World Exports	28.2	29.7	29.8
Share of Asia in World Imports	25.5	27.5	29.0

Note : Developing Asia excludes Japan, Middle-Eastern Asian countries. Asia includes Developing Asia, Japan and Middle-Eastern Asian Countries.

Source : Calculations made on the basis of World Economic Outlook database and International Financial Statistics, IMF.

Asia's remarkable growth performance reflects total factor productivity (TFP) growth, as well as rapid accumulation of both physical and human capital driven by a relatively favourable institutional and policy environment, including, in particular, greater trade openness, macroeconomic stability, financial development, and in many cases educational attainment. However, growth benefits need to trickle down further in Asian economies.

Given the enormous contribution of Asia to global growth and financial stability in recent years, the region needs to be given adequate voice in the international financial architecture. Looking ahead, Asia's high growth and strong fundamentals point to continued interest of global investors in the region, including direct and portfolio investments. The emerging markets of Asia, with their dynamic and increasingly skilled work force, are well-placed to take advantage of new technologies and seize opportunities in the international markets to become a major engine of growth in the global economy.

Fast-growing Asian EMEs, however, face a number of challenges, particularly in sustaining stability while maintaining the growth momentum (Reddy, 2007). First, there are concerns about inflationary pressures being reinforced by ample liquidity driven by excess capital flows and rapidly rising credit. While some appreciation of currencies of countries enjoying current account surplus is evident, the macro policy may need to be predominantly governed by the compulsions of domestic supply and demand considerations. Second, significant improvements have taken place in developing local currency markets, especially bond markets. However, the operations of large players in financial markets in some Asian economies tend to respond more to their global needs than that of host country. Third, the banking sector has been strengthened and non-banking intermediation expanded providing both stability and efficiency to the financial sector in many economies. However, to some extent, aligning the operations of large financial conglomerates and foreign institutions with local public policy priorities remains a challenge for domestic financial regulators in many EMEs. Furthermore, competition in the financial sector is somewhat limited in many Asian economies.

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their 2005 levels, while net private portfolio flows recorded outflows. On the other hand, 'other capital flows' comprising bank and other borrowings registered an increase during 2006 in contrast to outflows witnessed in the preceding year. Emerging Europe followed by the Commonwealth of Independent States and emerging Asia were the major recipient of private capital flows. Emerging Asia continued to dominate in terms of net FDI flows in 2006.

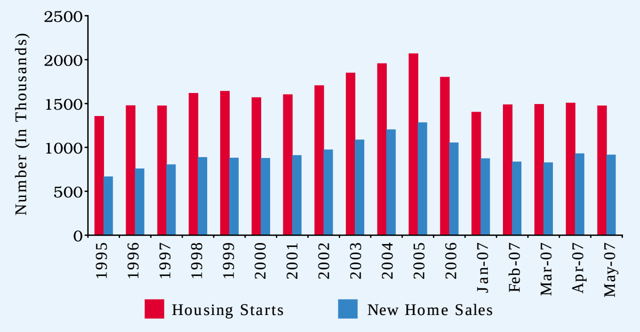
I.6.4 According to the IMF, global growth is likely to witness some moderation in 2007; the volume of trade and the private capital flows are also expected to ease somewhat in 2007 in line with the projected moderation in world growth (Appendix Table 47). Emergence of inflationary pressures due to narrowing output gaps, possibility of further increase in oil and other commodity prices, developments in the US sub-prime market (Box I.16), financial market volatility in

Box I.16
Slowdown in the US Housing Market

One of the downside risks to the global economy at the current juncture is the possibility of a sharper slowdown in the US housing market. In the US, economic growth has slowed down since the second half of 2006 on the back of a substantial cooling of the housing sector. Low interest rates in the US, after the burst of the equity bubble in 2000, provided the property market a boost. Rising house prices boosted consumer wealth, incomes and confidence, and spurred spending on new construction, associated goods and services. However, with the gradual withdrawal of monetary accommodation by the US Fed from June 2004 onwards, construction spending, housing starts, building permits, and sales of existing and new homes started declining from 2006 onwards (Chart). Recent developments in the sub-prime mortgage market add somewhat to the usual uncertainty in forecasting housing demand. Sub-prime mortgage borrowing had nearly tripled during the housing boom years of 2004 and 2005. But decelerating house prices, higher interest rates, and slower economic growth have resulted in increased rate of delinquency among sub-prime borrowers. This increase has occurred almost entirely among borrowers with adjustable-rate (Bernanke, 2007). Mortgage delinquencies and foreclosures are likely to rise further as sub-prime adjustable rate loans face interest rate resets and tightening of lending standards.

At the same time, household consumption in the US has remained relatively resilient so far, supported by robust income growth, still low long-term interest rates, and past stock market gains. Nonetheless, there are concerns that problems in the sub-prime mortgage market may lead to

House Start-Ups and New Home Sales in the US



a more significant tightening of consumer credit, thereby putting household finances under greater strain; more generally, if sub-prime developments are symptomatic of loose lending and underwriting standards over a broader range of markets, this could lead to a more general tightening of the US and global financial conditions that would put downward pressure on activity. Such a development could imply a deeper and more prolonged slowdown or even a recession in the United States, with potential spillovers to other countries. Recent developments indicate that sub-prime lending concerns are spreading globally. Perceiving the shortage of credit, major central banks including the Federal Reserve, the European Central Bank, Bank of Japan and Reserve Bank of Australia have injected liquidity support to their banking systems in order to facilitate orderly functioning of financial markets. Furthermore, in view of tighter credit conditions, deterioration in financial market conditions and increased uncertainty with underlying potential to restrain economic growth going forward in US, the Federal Reserve Board decreased discount rate (interest rate charged to commercial banks and other depository institutions) from 6.25 per cent to 5.75 per cent, effective August 20, 2007.

Although global stock markets have experienced significant disruptions over a credit crunch owing to the problems in the US sub-prime loan sector, its impact on the growth performance of the US economy and in turn, on the rest of the world is yet to be clear. However, if the US economy were to experience a sharper slowdown because of a broader-than-expected impact of the housing sector difficulties, the spillover effects into other economies would be larger, and decoupling from the US economy would be more difficult.

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response to sub-prime developments and possible disorderly adjustment of global imbalances pose downside risks to global growth prospects. Over the past few months, there have been some positive developments for containing large global imbalances and the risk associated with an abrupt unwinding. Relevant developments include a further reduction in the real effective value of the US dollar, some increase in flexibility in the currencies of surplus countries in Asia, and a somewhat more balanced pattern of growth in the global economy.

BALANCE OF PAYMENTS

Merchandise Trade

I.6.5 According to the data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), growth in merchandise exports and imports maintained the growth momentum during 2006-07. India's share in world trade (exports and imports taken together) increased from 1.1 per cent in 2005 to 1.2 per cent in 2006; during 2006, India's exports and imports were 1.0 per cent and 1.4 per cent of world exports and imports, respectively. India was the 28th largest exporter and the 17th largest importer in the world in 2006. The merchandise trade deficit, based on DGCI&S data, widened from US $ 46.1 billion during 2005-06 to US $ 64.2 billion during 2006-07 (Appendix Table 49).

I.6.6 India's merchandise exports recorded a growth of 22.5 per cent during 2006-07 as compared with 23.4 per cent during 2005-06. Commodity-wise data reveal that engineering goods and petroleum products recorded a strong growth during 2006-07, while exports of other principal items like chemicals and related products, gems and jewellery, textiles and related products and ores and minerals showed a moderation in growth (Appendix Table 50). Exports of primary products posted a growth of 19.4 per cent (20.8 per cent in 2005-06), even though ores and minerals showed a deceleration in growth. Within agricultural exports, tea, tobacco, spices and sugar and molasses maintained high growth during 2006-07. Deceleration in exports of chemicals and related products was mainly due to slowdown of growth in exports of drugs, pharmaceuticals and fine chemicals. India's textile exports after registering a sharp acceleration in 2005-06, slowed down in 2006-07.

I.6.7 Over the years, India's merchandise exports have witnessed a shift in the commodity composition. While the share of primary products in total exports remained at almost 16 per cent between 2000-01 and 2006-07, that of manufactured goods fell from 77.1 per cent in 2000-01 to 65.6 per cent in 2006-07. On the other hand, the share of petroleum exports increased substantially (from 4.2 per cent in 2000-01 to 14.7 per cent in 2006-07), reflecting higher refining capacity as well as higher prices. Within the manufactured exports, engineering goods have emerged as the major growth driver in place of gems and jewellery and textiles and related products. The emergence of engineering goods as the major item of India's export basket reflects the technological improvement in India's exports. Apart from iron and steel and machinery and instruments, exports of project goods are also driving growth in exports of engineering goods. The importance given to export of project goods, a technology intensive item, also reflects the growing realisation of the need to promote value added and technology intensive products.

I.6.8 In 2006-07, the US remained the major destination of India's exports accounting for 14.9 per cent of India's total exports, followed by the UAE (9.5 per cent), China (6.6 per cent) and Singapore (4.8 per cent). During 2006-07, growth of exports to most of the major markets, with the exception of the UAE, decelerated (Table 1.75). Acceleration of growth in the exports to UAE can be attributed to the increased petroleum exports to the country. Over the years,

Table 1.75: Direction of India's Exports

Group/ Country	US $ billion		Variation (per cent)	
	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5
1. OECD Countries	**45.8**	**52.1**	**25.6**	**13.6**
of which:				
a) EU	22.4	25.8	27.6	15.3
b) North America	18.4	20.0	25.6	9.0
US	17.4	18.9	26.1	8.8
2. OPEC	**15.2**	**20.7**	**15.4**	**35.6**
of which:				
UAE	8.6	12.0	16.9	39.8
3. Developing Countries	**39.7**	**50.7**	**25.8**	**27.6**
of which:				
Asia	31.0	37.6	24.1	21.3
People's Republic of China	6.8	8.3	20.4	22.7
Singapore	**5.4**	6.0	35.6	11.0
4. Total Exports	**103.1**	**126.3**	**23.4**	**22.5**

Source : DGCI&S.

developing countries, particularly, the Asian countries have emerged as the major destinations of India's exports, while the share of developed countries has tended to decline.

I.6.9 Growth of India's merchandise imports moderated to 27.8 per cent during 2006-07 from 33.8 per cent a year ago (Appendix Table 51). Growth in oil imports moderated to 29.8 per cent during 2006-07 (47.3 per cent a year ago), mirroring some slowdown of growth in the price of the Indian basket of crude oil (12.7 per cent during 2006-07 as compared with 42.2 per cent during 2005-06). On the other hand, growth in the volume of oil imports at 19.3 per cent during 2006-07 was significantly higher than that of 4.2 per cent a year ago.

I.6.10 Growth in non-oil imports moderated to 26.9 per cent during 2006-07 from 28.8 per cent a year ago, mainly on account of decline in imports of pearls, precious and semi-precious stones. On the other hand, imports of gold and silver expanded by 29.4 per cent during 2006-07 as compared with growth of 1.5 per cent a year ago, partly mirroring the movement in gold prices (Appendix Table 51). Gold prices rose by almost 32 per cent during 2006-07 as compared with 15 per cent in 2005-06. Non-oil imports, excluding gold and silver, increased by 26.6 per cent during 2006-07 as compared with 33.1 per cent growth a year ago. Growth in imports of 'mainly' industrial inputs (*i.e.*, non-oil imports net of gold and silver, bulk consumption goods, manufactured fertilisers and professional instruments) also moderated to 26.4 per cent during 2006-07 (34.7 per cent a year ago) mainly due to decline in imports of pearls, precious and semi-precious stones. Imports of capital goods continued to exhibit a buoyant growth (40.6 per cent during 2006-07 on top of 49.9 per cent during 2005-06), in consonance with strong domestic investment demand. Capital goods remained the mainstay of imports, accounting for almost 61 per cent of the increase in non-oil non-bullion imports during 2006-07.

I.6.11 During 2006-07, China remained the major source of total imports (oil *plus* non-oil imports) with a share of 9.1 per cent in India's total imports followed by Saudi Arabia (7.0 per cent),Germany (6.6 per cent), the US (6.6 per cent), Switzerland (4.8 per cent) and the UAE (4.5 per cent) (Table 1.76).

I.6.12 During 2007-08 (April-June), merchandise exports recorded growth of 17.9 per cent (23.5 per cent a year ago). Merchandise imports expanded by 34.2 per cent (18.9 per cent). While oil imports rose by 8.0 per cent (45.2 per cent), non-oil imports increased by 47.4 per cent (8.9 per cent). Merchandise trade deficit widened to US $ 20.6 billion during April-June 2007 from US $ 11.8 billion a year ago.

Table 1.76: Direction of India's Imports

(US $ billion)

Group/ Country	2005-06	2006-07
1	2	3
1. OECD Countries	**51.8**	**69.5**
of which:		
a) EU	25.2	**33.5**
Germany	6.0	12.7
UK	3.9	4.2
b) North America	10.4	14.1
US	9.5	12.6
2. OPEC	**11.2**	**56.1**
of which:		
UAE	4.4	8.6
3. Developing Countries	**37.9**	**59.6**
of which:		
Asia	30.5	47.2
People's Republic of China	10.9	17.4
Singapore	**3.4**	5.5
South Korea	4.6	4.8
4. Total Imports	**149.2**	**190.6**

Note : Data for 2006-07 include country-wise distribution of petroleum imports and are not strictly comparable with 2005-06.

Source : DGCI&S.

Invisibles

I.6.13 Invisibles surplus (services, transfers and income taken together) remained buoyant during 2006-07, led by robust growth in exports of software and other services, and supported by private remittances (Table 1.77 and Appendix Table 52). Gross invisible receipts comprising services, income from financial assets, labour and property and workers' remittances are rapidly catching up with the merchandise exports. Gross invisible receipts were 48 per cent of current receipts during 2006-07 as compared with 29 per cent during 1990-91 (Chart 1.27). The net surplus under invisibles expanded from 2.1 per cent of GDP in 2000-01 to 6.0 per cent of GDP in 2006-07 on the back of sharp expansion in gross invisible receipts from 7.0 per cent to 13.0 per cent. During 2006-07, the net surplus under invisibles financed more than three-fourths of the trade deficit.

Table 1.77: Balance of Payments – Key Indicators

(US $ million)

Item/Indicator	1990-91	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 PR	2006-07 P
1	2	3	4	5	6	7	8	9
i) Trade Balance	-9,438	-12,460	-11,574	-10,690	-13,718	-33,702	-51,841	-64,905
ii) Invisibles, net	-242	9,794	14,974	17,035	27,801	31,232	42,655	55,296
iii) Current Account Balance	-9,680	-2,666	3,400	6,345	14,083	-2,470	-9,186	-9,609
iv) Capital Account	7,056	8,840	8,551	10,840	16,736	28,022	23,400	44,944
v) Overall Balance #	-2,492	5,868	11,757	16,985	31,421	26,159	15,052	36,606
vi) Foreign Exchange Reserves* [Increase (-), Decrease (+)]	1,278	-5,842	-11,757	-16,985	-31,421	-26,159	-15,052	-36,606
Indicators (in per cent)								
1. Trade								
i) Exports/GDP	5.8	9.9	9.4	10.6	11.0	12.2	13.1	13.9
ii) Imports/GDP	8.8	12.6	11.8	12.7	13.3	17.1	19.5	21.1
iii) Trade Balance/GDP	-3.0	-2.7	-2.4	-2.1	-2.3	-4.9	-6.4	-7.1
iv) Export Volume Growth	11.0	23.9	3.9	21.7	6.0	17.5	11.8	n.a.
2. Invisibles								
i) Invisible Receipts/GDP	2.4	7.0	7.7	8.2	8.9	10.0	11.5	13.0
ii) Invisible Payments/GDP	2.4	4.9	4.5	4.9	4.3	5.5	6.2	7.0
iii) Invisibles (Net)/GDP	-0.1	2.1	3.1	3.4	4.6	4.5	5.3	6.0
3. Current Account								
i) Current Receipts@/GDP	8.0	16.9	16.9	18.7	19.8	22.1	24.4	26.9
ii) Current Payments/GDP	11.2	17.5	16.3	17.6	17.6	22.6	25.7	28.0
iii) Current Receipts Growth@	6.6	14.8	4.5	17.6	25.2	28.3	27.7	24.8
iv) Current Receipts@/Current Payments	71.5	96.4	103.8	106.6	112.8	98.0	95.2	96.0
v) Current Account Balance/GDP	-3.1	-0.6	0.7	1.2	2.3	-0.4	-1.1	-1.1
4. Capital Account								
i) Foreign Investment/GDP	–	1.5	1.7	1.2	2.6	2.2	2.5	2.9
ii) Capital Flows (net)/GDP	2.2	2.0	1.8	2.1	2.8	4.0	2.9	4.9
iii) Capital Inflows/GDP	7.2	11.8	9.0	9.1	12.6	14.1	17.6	24.8
iv) Capital Outflows/GDP	5.0	9.8	7.2	7.0	9.8	10.1	14.7	19.9
v) Foreign Investment/Exports	0.6	14.9	18.2	11.2	23.7	18.0	19.2	20.8
5. Others								
i) Debt - GDP Ratio	28.7	22.4	21.1	20.4	17.8	17.3	15.8	16.4
ii) Debt- Service Ratio	35.3	16.2	13.6	16.0	15.9	6.1	9.9	4.8
iii) Liability - Service Ratio	35.6	18.4	14.9	16.1	19.1	7.1	11.5	7.9
iv) Import Cover of Reserves (in months)	2.5	8.9	11.7	14.2	16.9	14.3	11.6	12.4

PR : Partially Revised. P : Provisional.
: Includes errors and omissions. @ : Excluding official transfers. * : Excluding valuation changes. n.a. : Not Available.

Services

I.6.14 Net surplus under services expanded from US $ 23.9 billion during 2005-06 to US $ 32.7 billion during 2006-07 led by an increase of 29.4 per cent in net surplus under software services to US $ 28.8 billion during 2006-07. India's services exports are dominated by exports of software and other business services, reflecting the global competitiveness and the high skill intensity of the Indian workforce (Table 1.78).

I.6.15 The share of India's services exports in the world increased between 1995 and 2005 from 0.6 per cent to 2.2 per cent (Chart I.28). An important feature of India's services exports, besides the shift in the trend level, is the reduced volatility, which has imparted stability to current receipts.

I.6.16 Exports of software and IT enabled services reached US $ 31.3 billion during 2006-07. Notwithstanding increasing competitive pressures,

Chart I.27: India's Invisible Receipts

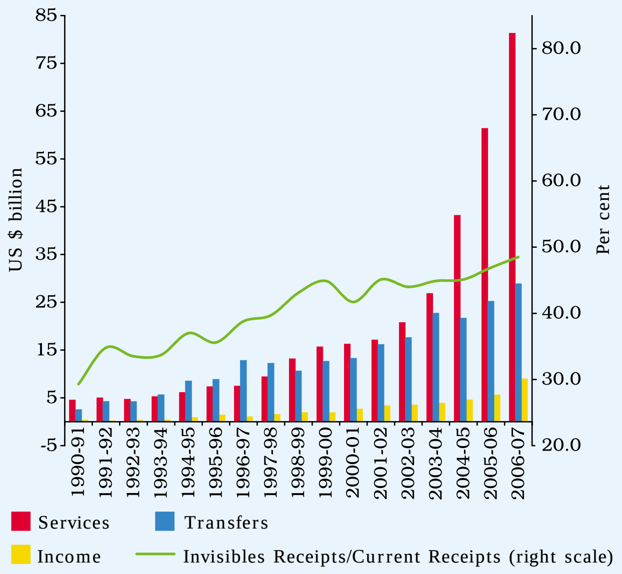
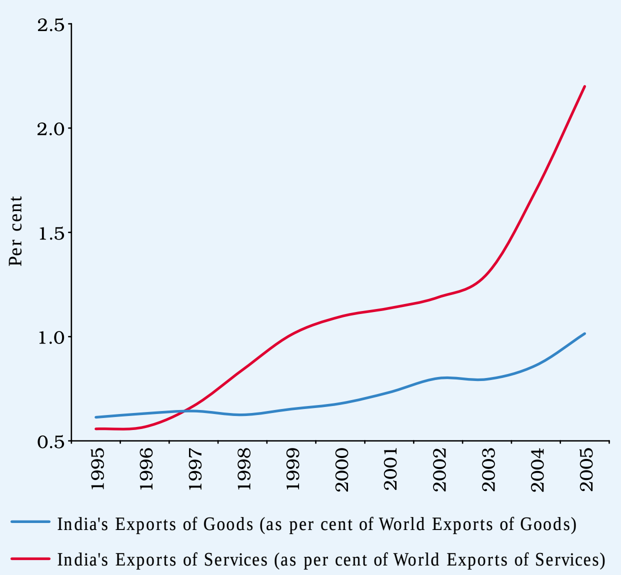


Chart I.28: India's Exports of Goods and Services



India remains an attractive source due to its low cost of operations, high quality of product and services, readily available skilled manpower, and a favourable time zone difference. According to the NASSCOM, India has a share of about 12 per cent of world's total offshore market. To withstand global competition, Indian companies have started moving up the value chain by exploring untapped potential in IT consulting and system integration, hardware support and installation and processing services. Security concerns are also being recognised to maintain customer confidence. Globally, India is the leading exporter of computer and information services (Table 1.79). Growth in non-software business services also remained buoyant during 2006-07, mainly driven by trade related services, business and management consultancy services, architectural and engineering services and other technical services, and office maintenance services.

I.6.17 Amongst the major services, travel receipts continued to benefit from the robust growth in tourist arrivals (Table 1.80). In recent years, travel payments have risen sharply, reflecting the impact of liberalised payment system, rising services trade and associated business travel. The surplus on travel account increased from US $ 1.4 billion during 2005-06 to US $ 2.2 billion during 2006-07.

Table 1.78: Structure of India's Services Exports

Year	Amount (US $ million)	Share in Total Services Exports (Per cent)					
		Travel	Transportation	Insurance	G.N.I.E.	Software	Miscellaneous*
1	2	3	4	5	6	7	8
1970-71	292	16.8	49.7	5.5	13.7	–	14.4
1980-81	2,804	43.5	16.3	2.3	4.0	–	33.9
1990-91	4,551	32.0	21.6	2.4	0.3	–	43.6
2000-01	16,268	21.5	12.6	1.7	4.0	39.0	21.3
2003-04	26,868	18.7	11.9	1.6	0.9	47.6	19.2
2004-05	43,249	15.4	10.8	2.0	0.9	40.9	29.9
2005-06	61,404	12.8	10.2	1.7	0.5	38.4	36.3
2006-07	81,330	11.6	9.9	1.5	0.3	38.5	38.2

* : Excluding software services.
G.N.I.E. : Government not included elsewhere.

Table 1.79: Computer and Information Services Exports, 2005

(US $ billion)

Rank*	Country	2000	2003	2004	2005
1	2	3	4	5	6
1	**India**	**6.3**	**12.8**	**17.7**	**23.6**
2	Ireland	7.5	14.2	18.8	18.7
3	U.K.	4.3	8.2	11.7	10.6
4	Germany	3.8	6.7	8.0	8.1
5	U.S.A.	5.6	6.3	6.8	6.0
6	Israel	4.2	3.7	4.4	4.5
7	Netherlands	1.2	2.9	3.7	3.6
8	Spain	2.0	2.9	3.0	3.6
9	Canada	2.4	2.8	3.1	3.4
10	Belgium	–	2.1	2.4	2.6

* : Ranking is for the year 2005.

Source : Balance of Payments Statistics Yearbook 2006, IMF and Reserve Bank of India.

Private Transfers

I.6.18 Private transfers (net) at US $ 27.2 billion during 2006-07 were 12.8 per cent higher than a year ago. Workers' remittances have remained buoyant in recent years on the back of robust global output growth, amidst constant improvement in remittance infrastructure domestically. India is the leading remittance receiving country in the world with relative stability in such inflows (Table 1.81).

I.6.19 Remittances include repatriation of funds for family maintenance and local withdrawals from the non-resident Indian (NRI) deposits. Private transfers constitute around 3 per cent of GDP. North America is the largest source of remittances (Box I.17).

Table 1.80: Foreign Tourist Arrivals in India and Outbound Tourist Traffic

Year	Arrivals (millions)	Growth Rate (%)	Departure (millions)	Growth Rate (%)
1	2	3	4	5
1992	1.9	11.3	2.2	15.8
2000	2.7	6.9	4.4	7.3
2001	2.5	-7.4	4.6	4.5
2002	2.4	-4.0	4.9	6.5
2003	2.7	12.5	5.4	10.2
2004	3.5	29.6	6.2	14.8
2005	3.9	11.4	7.2	16.1
2006	4.5	15.4	–	–

Source : Ministry of Tourism, Government of India.

Table 1.81: Workers' Remittances – Top Ten Remittance Receiving Countries

(US $ million)

Country	1996	2003	2004	2005
1	2	3	4	5
Brazil	1,866	2,018	2,459	2,480
China	1,672	3,343	4,627	5,495
Colombia	..	3,060	3,170	3,314
Egypt	3,107	2,961	3,341	5,017
India	**10,930**	**21,885**	**20,012**	**23,518**
Mexico	4,224	13,396	16,613	20,035
Morocco	2,165	3,614	4,221	4,589
Pakistan	..	3,963	3,943	4,277
Portugal	3,575	2,752	3,032	2,826
Spain	2,749	4,718	5,196	5,339

Source : Balance of Payments Statistics Yearbook, 2006, IMF and Reserve Bank of India.

Investment Income

I.6.20 Investment income deficit narrowed from US $ 4.9 billion during 2005-06 to US $ 4.3 billion during 2006-07, on account of higher earnings on India's external assets. Investment income receipts continued to rise during 2006-07 in tandem with higher foreign currency assets held by the Reserve Bank as well as rising Indian overseas investment.

Current Account

I.6.21 The sustained rise in invisibles surplus during 2006-07 continued to moderate the impact of the growing merchandise trade deficit (Chart I.29). As a result, the current account deficit could be contained at US $ 9.6 billion during 2006-07, marginally higher than that in the corresponding period of the previous year (Appendix Table 48). As a proportion to GDP, the current account deficit at 1.1 per cent in 2006-07 was the same as a year ago. Merchandise trade deficit, after fluctuating around 3-4 per cent of GDP between the mid-1990s and 2003-04, widened sharply to 7.1 per cent of GDP in 2006-07 on the back of higher oil as well as non-oil imports. The import-led trade deficit and predominance of capital goods imports and export-related items signify the underlying strong investment demand backed by encouraging growth prospects. Nonetheless, the current account deficit has remained relatively low - averaging around one per cent of GDP since 1990-91 - attributable to sustained trend growth in net invisibles

Box I.17
Workers Remittance Inflows to India

In view of the sustained growth in the magnitude of remittance inflows to India since the early 1990s, there has been a growing interest about the micro aspects of remittances such as the modes of transfer, transaction cost, speed of delivery, regularity in sending remittances and the pattern of utilisation. Accordingly, the Reserve Bank conducted a survey on banks, engaged in foreign exchange transactions, during 2006. The survey was based on the data collected through a random sampling of the bank branches across major centres in India. These included Ahmedabad, Bangalore, Chandigarh, Chennai, Puducherry, Delhi, Hyderabad, Jaipur, Kolkata, Mumbai and Kochi. The selected cities are not only representative of the major remittances receiving cities, but are also the corridors for delivering remittances in the interior areas of the States. The study mainly focused on addressing the issues such as (i) relative use of instruments available for remittances transfers, (ii) size and the frequency of remittance transfers, (iii) cost and efficiency of the present system, and (iv) source regions of remittances and the utilisation pattern of remittances. The key findings of the survey are set out below:

- North America is the most important source region of remittances to India (about 44 per cent of the total remittances), while the Asian region (Gulf and East Asia) contributed about 32 per cent of the remittance flows to India. The higher share of North America could be attributed to the growing strength of professionals in software and other technology related areas.
- A predominant portion of the remittances (54 per cent) is utilised for family maintenance, *i.e.,* to meet the requirements of migrant families regarding food, education and health. On an average, about 20 per cent of the funds received are deposited in bank accounts locally and 13 per cent of the funds received are invested in land/property/equity shares.
- The average size of remittances transfer to India is relatively high. The remittances with average size of US $ 1,100 and above accounted for 52 per cent of the total value of remittance inflows. An inverse relationship was observed between the size of the remittance and its frequency, consistent with the findings of various cross-country studies.
- Electronic wires/Swift are the dominant modes of transferring remittances from abroad by the overseas Indians, indicating the preference of the senders for time efficient modes *vis-à-vis* the relatively time consuming means of transfer such as drafts/cheques. Swift transfers (electronic/telegraphic transfer of funds) are found to be the most time efficient means of remitting money, with average time taken being 1-2 days. Transfers through debit/credit cards are also less time consuming (2-6 days). Remittances made through cheques, drafts and money orders can take as long as 30 days, but at relatively low costs. While the cost of sending up to US $ 500 from the US to India is 2.5-8.0 per cent in the case of SWIFT, it is only 0.7-2.0 per cent in the case of drafts/cheques. The handling charges imposed domestically on delivering funds to non-customers or remote locations are found to be in the range of 0.1-0.6 per cent of the total value of funds.

Aspects relating to costing/pricing of remittances have also been examined recently by the Working Group on Cost of NRI Remittances (May 2006). While noting that bank charges in India in respect of inward remittances are relatively nominal, the Group's major recommendations were:

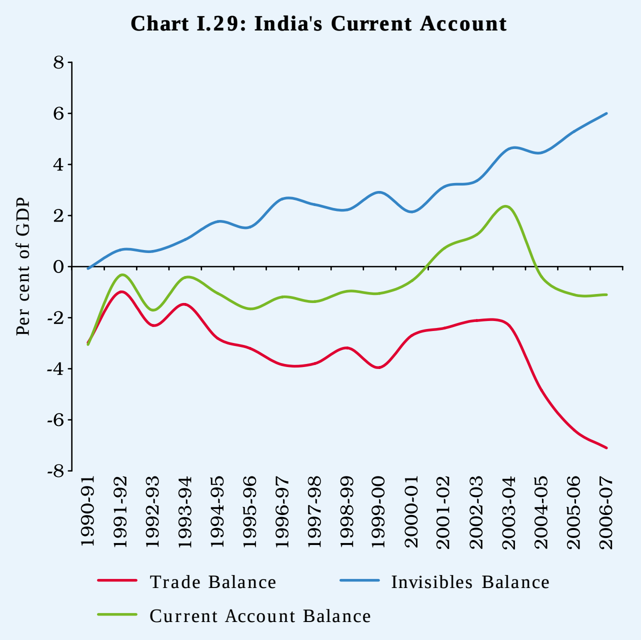
- In order to keep the cost of remittances at the foreign centre low, the NRIs should try to route their remittances though a branch of an Indian bank or a foreign bank with a presence in India.
- Banks active in NRI remittances should view this business as a volume play and consciously reduce the fee based costs so that volume can grow. Banks may, therefore, review their existing scale of charges, while also conducting an awareness programme for the diaspora.
- The restriction on the number of Exchange House relationships that an Indian bank can enter into may be relaxed and perhaps done away with especially for banks that have instituted adequate risk management controls.

References:

1. Reserve Bank of India (2006), "Invisibles in India's Balance of Payments", Reserve Bank of India, Bulletin, November.
2. ______ (2006) "Report of the Working Group On Cost of NRI Remittances", May.
3. ______ (2006), "Remittances from Overseas Indians: A Study of Methods of Transmission, Cost, and Time", November.

surplus from 2.1 per cent of GDP in 2000-01 to 6.0 per cent in 2006-07. Unlike India, a number of EMEs recorded surpluses on trade and current accounts during 2006 (Table 1.82).

I.6.22 India's linkages with the global economy are getting stronger, underpinned by the growing openness of the economy. The ratio of merchandise exports to GDP increased from 5.8 per cent in 1990-91



to 13.9 per cent in 2006-07, while that of imports increased from 8.8 per cent to 21.1 per cent over the same period. Taking into account the earlier noted upward trend in invisible receipts, current receipts (*i.e.*, merchandise exports and invisible receipts taken together) increased from 8.2 per cent of GDP during 1990-91 to 27.0 per cent in 2006-07. Total current account transactions – both receipts and payments – were more than one half of GDP (55.0 per cent of GDP in 2006-07 as compared with 19.4 per cent in 1990-91) indicative of the growing integration of the Indian economy with the rest of the world.

Capital Account

I.6.23 Net capital flows rose further during 2006-07, reflecting growing investor interest in India's growth prospects as well as global liquidity conditions. Capital flows (net) jumped from an average of around US $ 9 billion (1.9 per cent of GDP) during 2000-03 to around US $ 30-31 billion (3.5 per cent of GDP) (adjusted for the IMD effect) during 2004-06, remaining well above the current account deficit. During 2006-07, capital flows (net) were US $ 44.9 billion led by external commercial borrowings and foreign direct investment flows (Appendix Table 53).

Foreign Investment

I.6.24 Foreign direct investment (FDI) to India increased sharply from US $ 7.7 billion during 2005-06 to US $ 19.5 billion during 2006-07 on the strength of expansion in domestic activity, positive investment

Table 1.82: Trade and Current Account Balances in Select Countries

(Per cent to GDP)

Country	2000	2001	2002	2003	2004	2005	2006	Country	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	1	2	3	4	5	6	7	8
Trade Balance								**Current Account Balance**							
Argentina	0.9	2.7	17.6	13.2	8.7	7.2	6.6	Argentina	-3.2	-1.4	8.9	6.3	2.1	1.9	2.4
Brazil	-0.1	0.5	2.6	4.5	5.1	5.1	n.a.	Brazil	-3.8	-4.2	-1.5	0.8	1.8	1.6	1.3
Chile	2.8	2.7	3.5	5.0	10.0	9.1	15.3	Chile	-1.2	-1.6	-0.9	-1.3	1.7	0.6	3.8
China	2.9	2.6	3.0	2.7	3.1	6.0	n.a.	China	1.7	1.3	2.4	2.8	3.6	7.2	9.1
Egypt	-8.4	-7.3	-6.6	-5.2	-8.3	-8.6	n.a.	Egypt	-1.2	0.0	0.7	2.4	4.3	3.2	0.8
India	**-2.7**	**-2.4**	**-2.1**	**-2.3**	**-4.9**	**-6.4**	**-7.1**	**India**	**-0.6**	**0.7**	**1.2**	**2.3**	**-0.4**	**-1.1**	**-1.1**
Indonesia	15.1	14.1	12.0	10.5	7.8	7.8	n.a.	Indonesia	4.8	4.3	4.0	3.5	0.6	0.1	2.7
Japan	2.5	1.7	2.4	2.5	2.9	2.1	1.9	Japan	2.6	2.1	2.9	3.2	3.7	3.6	3.9
Korea	3.3	2.8	2.7	3.6	5.5	4.1	3.3	Korea	2.4	1.7	1.0	2.0	4.1	1.9	0.7
Malaysia	23.1	20.9	19.0	24.7	23.2	25.3	24.4	Malaysia	9.4	8.3	8.4	12.7	12.6	15.2	15.8
Mexico	-1.4	-1.5	-1.2	-0.9	-1.3	-1.0	-0.7	Mexico	-3.2	-2.8	-2.2	-1.4	-1.0	-0.6	-0.2
Philippines	-7.9	-8.8	-7.2	-7.3	-6.6	-7.7	n.a.	Philippines	-2.9	-2.5	-0.5	0.4	1.9	2.0	2.9
Russia	23.2	15.7	13.4	13.9	14.5	15.5	14.2	Russia	18.0	11.1	8.4	8.2	9.9	10.9	9.8
South Africa	3.5	4.4	4.3	2.1	-0.1	-0.5	-2.4	South Africa	-0.1	0.3	0.8	-1.1	-3.2	-3.8	-6.4
Thailand	9.5	7.4	7.2	7.8	6.7	1.8	7.2	Thailand	7.6	4.4	3.7	3.4	1.7	-4.5	1.6
Turkey	-11.1	-2.6	-4.0	-5.8	-7.9	-9.1	n.a.	Turkey	-5.0	2.4	-0.8	-3.3	-5.2	-6.3	-8.0

n.a. : Not Available.
Note : (-) indicates deficit.
Source : World Economic Outlook, International Finanancial Statistics, IMF and Reserve Bank of India.

Table 1.83: Foreign Investment Flows to India

(US $ million)

Item	2003-04	2004-05	2005-06	2006-07P
1	2	3	4	5
A. Direct Investment (I+II+III)	**4,322**	**6,051**	**7,722**	**19,531**
I. Equity (a+b+c+d+e)	**2,229**	**3,778**	**5,820**	**16,065**
a) Government (SIA/FIPB)	928	1,062	1,126	2,156
b) RBI	534	1,258	2,233	7,151
c) NRI	–	–	–	–
d) Acquisition of shares*	735	930	2,181	6,278 ±
e) Equity capital of unincorporated bodies	32	528	280	480
II. Re-invested earnings	**1,460**	**1,904**	**1,676**	**2,936**
III. Other capital #	**633**	**369**	**226**	**530**
B. Portfolio Investment (a+b+c)	**11,377**	**9,315**	**12,492**	**7,003**
a) GDRs/ADRs	459	613	2,552	3,776
b) FIIs @	10,918	8,686	9,926	3,225
c) Off-shore funds and others	–	16	14	2
C. Total (A+B)	**15,699**	**15,366**	**20,214**	**26,534**

P : Provisional
– : Nil/Negligible.
* : Relates to acquisition of shares of Indian companies by non-residents under section 6 of the FEMA, 1999.
± : Include Swap of shares of US $ 3.1 billion.
\# : Data pertain to inter-company debt transactions of FDI entities.
@ : Data represent net inflow of funds by FIIs.
Note : 1. Data on reinvested earnings for 2005-06 and 2006-07 are estimates.
2. Data on foreign investment presented in this table represent inflows into the country and may not tally with the data presented in other tables. They may also differ from data relating to net investment in stock exchanges by FIIs.

climate, progressive liberalisation of the FDI policy regime, and simplification of procedures (Table 1.83). The rising pace of mergers and acquisitions in sectors such as financial services, manufacturing, banking services, information technology and construction also boosted FDI inflows. FDI flows into India during 2006-07 were significantly higher than portfolio flows (Chart I.30). India follows the internationally accepted definition of FDI. According to the IMF definition, FDI is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. In line with international best practices, FDI includes both equity capital, reinvested earnings (retained earnings of FDI companies) and 'other direct capital' (inter-corporate debt transactions between related entities). Data on equity capital include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad), besides equity of incorporated bodies.

I.6.25 Among the developing countries, India has now emerged as the second most preferred FDI destination after China. India's share in global FDI flows increased from 2.3 per cent in 2005 to 4.5 per cent in 2006 (Chart I.31).

Chart I.30: Foreign Investment into India

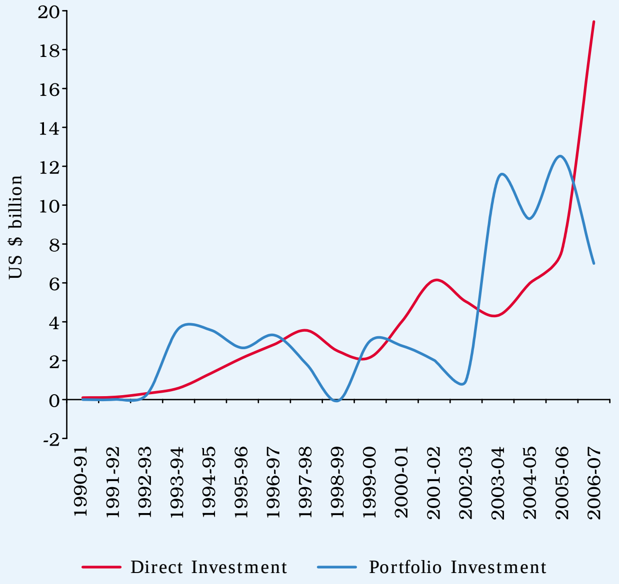
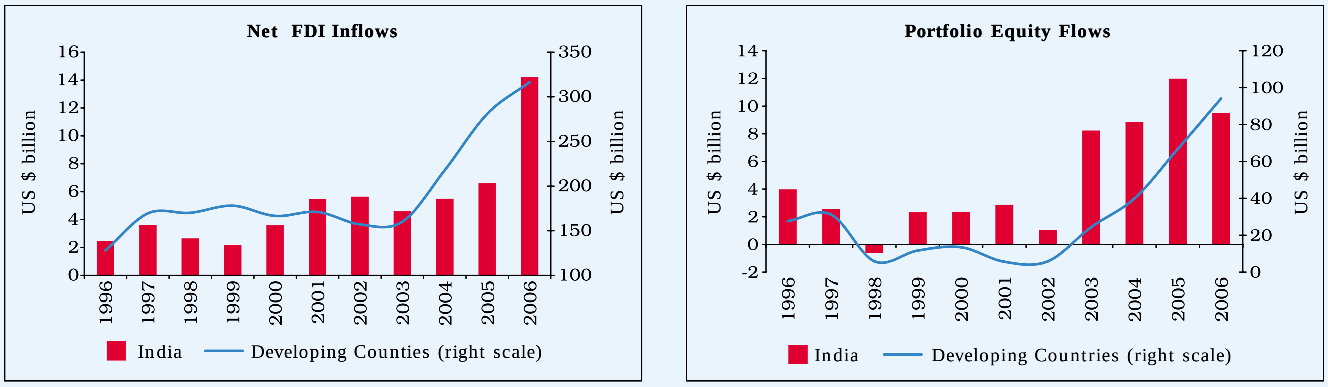


Chart I.31: Foreign Investment Flows to India and Developing Countries



I.6.26 Country-wise, Mauritius and the UK are the major FDI investors in India (Table 1.84). Large flows from Mauritius could be attributed to its use by investors in other countries for channeling FDI flows into India. FDI flows from the US, the Netherlands and Singapore also increased sharply during 2006-07. Sector-wise, manufacturing industries and services, particularly finance and business services, remained the major beneficiary of FDI inflows. The services sector attracted the maximum FDI inflows (US $ 6.1 billion in 2006-07 as compared with US $ 1.4 billion in 2005-06). FDI inflows into the construction sector and 'financing, real estate, and business services' increased substantially during 2006-07.

I.6.27 Overseas direct investment from India also exhibited a significant rise during the year - from US $ 4.5 billion during 2005-06 to US $ 11.0 billion during 2006-07 - reflecting large overseas acquisition deals by Indian corporates to gain market shares and reap economies of scale, amidst the progressive liberalisation of the external payments regime. Both FDI inflows and outflows during 2006-07 included one transaction amounting to US $ 3.1 billion involving swap of shares. Even net of this transaction, FDI inflows and outflows at US $ 16.4 billion and US $ 7.9 billion, respectively, during 2006-07 were significantly higher than those in the previous year. Investments in joint ventures (JV) and wholly owned subsidiaries (WOS) abroad are also a source of increased exports of plants and machinery, and goods from India. Overseas investment which started off initially with the acquisition of foreign companies in the IT and related services sector has now spread to other areas such as non-financial services (Table 1.85).

I.6.28 Foreign institutional investors (FIIs) continued to invest large funds in the Indian securities market

Table 1.84: Foreign Direct Investment to India: Country-wise and Industry-wise*

(US $ million)

Source/Industry	2003-04	2004-05	2005-06	2006-07P
1	2	3	4	5
Total FDI	**1,462**	**2,320**	**3,359**	**9,307**
Country-wise Inflows				
Mauritius	381	820	1,363	3,780
US	297	469	346	706
UK	157	84	261	1,809
Singapore	15	64	166	582
Germany	69	143	45	116
Netherlands	197	196	50	559
Japan	67	122	86	80
France	34	44	12	100
Switzerland	5	64	68	57
South Korea	22	14	61	68
Others	218	300	901	1,450
Industry-wise Inflows				
Fisheries	2	10	28	40
Mining	18	11	6	3
Manufacturing	426	924	1,257	1,610
Food and Dairy Products	64	183	148	9
Electricity	90	14	83	111
Construction	172	209	191	968
Trade, Hotels & Restaurants	67	22	95	277
Transport	20	70	66	140
Financing, Insurance, Real Estate & Business Services	206	363	452	4,416
Computer Services	166	372	770	823
Educational Services	0	2	4	95
Research & Scientific Services	1	5	5	2
Health & Medical Services	15	25	61	37
Other Services	2	10	49	455
Others	213	100	143	321

* : Data in this table relate to only the equity capital under Automatic route and Government route. Acquisition of shares of Indian Company by non-residents under section 6 of FEMA, 1999 and equity capital of unincorporated bodies are not included.

P: Provisional.

Table 1.85: India's Direct Investment Abroad

(US $ million)

Industry	2003-04	2004-05	2005-06*	2006-07*
1	2	3	4	5
Manufacturing	893	1,068	2,933	1,913
Financial Services	1	7	159	21
Non-Financial Services	456	283	881	7,382
Trading	113	181	361	613
Others	31	108	195	1079
Total	**1,494**	**1,647**	**4,529**	**11,008**

* : Based on the latest reported revised data. Therefore, these may differ from the data earlier published as part of balance of payments.

Note : Data include equity and loan components.

(see Table 1.71). Investments during 2006-07 were, however, lower than a year ago mainly due to global developments such as meltdown in global commodities and equity markets (May-July 2006), fall in Asian equity markets subsequent to the tightening of capital controls by Thailand (December 2006) and fall in Asian equity markets on account of concerns of slowdown in the US economy (late February 2007 till mid-March 2007). Resources raised by domestic corporates through the issuances of American depository receipts (ADRs)/global depository receipts (GDRs) at US $ 3.8 billion during 2006-07, however, remained higher than the previous year (US $ 2.6 billion).

I.6.29 According to the IMF definition, portfolio investment refers to cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Generally, FIIs include hedge funds, insurance companies, pension funds and mutual funds. In India, FIIs cover overseas pension funds, mutual funds, investment trusts, asset management companies, nominee companies, banks, institutional portfolio managers, university funds, endowments, foundations, charitable trusts, charitable societies, trustees or power of attorney holders incorporated or established outside India proposing to make proprietary investments or investments on behalf of a broad-based fund (*i.e.*, fund having more than 20 investors with no single investor holding more than 10 per cent of the shares or units of the fund). India is one of the largest recipients of portfolio inflows among EMEs (Table 1.86 and Chart I.31).

Debt Flows

I.6.30 Debt flows witnessed a large expansion during 2006-07 led by external commercial borrowings (ECBs) as well as non-resident deposits. Gross disbursements under ECBs rose from US $ 14.5 billion during 2005-06 to US $ 20.6 billion during 2006-07, reflecting sustained domestic investment demand as well as import demand amidst some hardening of domestic interest rates. Greater risk appetite of global investors for emerging market bonds also facilitated higher ECB drawals. Net inflows nearly doubled to US $ 16.4 billion in 2006-07 from US $ 8.5 billion in 2005-06 (adjusted for IMDs). Net inflows under non-

Table 1.86: Foreign Direct and Portfolio Investment to Select Countries

(US $ million)

Country	Foreign Direct Investment						Foreign Portfolio Investment					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9	10	11	12	13
India	**3584**	**5472**	**5626**	**4585**	**5474**	**6598**	**2345**	**2853**	**1022**	**8216**	**8835**	**11968**
Argentina	10418	2166	2149	1652	4274	4730	-3227	31	-116	65	-86	-48
Brazil	32779	22457	16590	10144	18166	15193	3076	2481	1981	2973	2081	6451
Chile	4860	4200	2550	4307	7173	6667	-427	-217	-320	318	8	1635
China	38399	44241	49308	47077	54936	79127	6912	849	2249	7729	10923	20346
Indonesia	-4550	-2977	145	-597	1896	5260	-1021	442	877	1131	2043	-165
Malaysia	3788	554	3203	2473	4624	3966	0	0	-55	1340	4239	-1200
Mauritius	266	-28	32	63	14	39	-4	-9	-1	8	19	36
Mexico	17773	27142	19044	15256	18941	18772	447	151	-104	-123	-2522	3353
Philippines	2240	195	1542	491	688	1132	-202	125	227	501	518	1461
Russian Federation	2714	2748	3461	7958	15444	15151	150	542	2626	422	233	-215
South Africa	969	7270	735	783	701	6257	4169	-962	-388	685	6661	7230
Thailand	3366	3892	953	1949	1718	4527	901	352	539	1787	1319	5665

Source : Global Development Finance, World Bank Online.

Table 1.87: Balances under NRI Deposit Schemes

(US $ million)

Scheme	Outstanding (End-March)		Net Inflows@ (April-March)	
	2006	2007	2005-06	2006-07
1	2	3	4	5
1. FCNR(B)	13,064	15,129	1,612	2,065
2. NR(E)RA	22,070	24,495	1,177	1,830
Total	**35,134**	**39,624**	**2,789**	**3,895**

@ : All figures are inclusive of accrued interest and valuation changes arising on account of fluctuation in non-dollar currencies against the US dollar.

Note : Net inflows in respect of NR(E)RA deposits in columns 4 and 5 may not match with the differences between the outstanding stocks on account of exchange rate fluctuations during the year.

resident deposits also increased during 2006-07 (Table 1.87), partly attributable to the higher interest rates on various deposit schemes (see Table 3.2) as well as favourable economic conditions in the source regions of such deposits.

I.6.31 India received external assistance (net) of US $ 1.8 billion during 2006-07 (Appendix Table 48). India continued to extend assistance to other countries, mainly in the form of grants and loans (Table 1.88).

Table 1.88: India's Grants and Loans to Foreign Governments

(US $ million)

Item	2000-01			2006-07		
	Grant	Loan	Total	Grant	Loan	Total
1	2	3	4	5	6	7
A. Plan (External Affairs)	**76**	**44**	**120**	**41**	**8**	**49**
B. Non-Plan (i+ii+iii)	**88**	**38**	**127**	**305**	**28**	**333**
i. External Affairs	**81**	**16**	**97**	**290**	**0**	**290**
Bangladesh	2	16	18	4	0	4
Bhutan	44	0	44	108	0	108
Nepal	14	0	14	46	0	46
Africa	1	0	1	4	0	4
Myanmar	4	0	4	9	0	9
Sri Lanka	2	0	2	6	0	6
Other Developing Countries	14	0	14	113	0	113
ii. Finance	7	22	29	14	28	42
Contribution to U.N.D.P.	5	0	5	5	0	5
Mauritius	0	2	2	0	2	2
Myanmar	0	4	4	0	0	0
Sri Lanka	0	3	3	0	22	22
Surinam	0	0	0	0	0	0
Other Countries	2	13	15	4	3	7
Development Assistance	0	0	0	6	0	6
iii. Shipping	1	0	1	0	0	0
Bangladesh	1	0	1	0	0	0
C. Grand Total (A+B)	**165**	**82**	**247**	**347**	**36**	**382**

Source : Union Budgets, Government of India.

India provides aid mainly in the form of technical cooperation and training, with the grants component dominating external aid with a share of over 90 per cent. The major beneficiaries of the assistance during 2006-07 were Bhutan, Nepal, and other developing countries.

EXTERNAL DEBT

I.6.32 Reflecting rise in net inflows under external commercial borrowings and NRI deposits, as alluded to earlier, India's total external debt increased by US $ 28.6 billion during 2006-07. The external debt was placed at US $ 155.0 billion at end-March 2007 (Table 1.89 and Appendix Table 55). The stock of external commercial borrowings rose by US $ 15.9 billion accounting for nearly 55.6 per cent of the increase in the total external debt during 2006-07. Among different components of ECBs, commercial bank loans increased from US $ 16.4 billion at end March 2006 to US $ 25.8 billion at end-March 2007, while securitised borrowings (including FCCBs) increased from US $ 9.7 billion to US $ 15.7 billion. Large flows under the ECBs have implications for the conduct of monetary and exchange rate policy. Loans raised by resident entities from international capital markets with maturity of more than three years are classified as ECBs. The policy stance on ECB, which aims at managing the level of external borrowings within manageable limits, is regularly reviewed and revised by the Government in consultation with the Reserve Bank taking into account a host of factors such as current macro economic situation, borrowing requirements of the

Table 1.89: India's External Debt

(US $ million)

Item	End-March 2006	End-March 2007	Variation during 2006-07	
			Amount	Per cent
1	2	3	4	5
1. Multilateral	32,559	35,641	3,082	9.5
2. Bilateral	15,727	16,104	377	2.4
3. Export Credit	5,398	6,964	1,566	29.0
4. External Commercial Borrowings	26,869	42,780	15,911	59.2
5. NRI Deposit	35,134	39,624	4,490	12.8
6. Rupee Debt	2,031	1,949	-82	-4.0
7. Long-term (1 to 6)	1,17,718	1,43,062	25,344	21.5
8. Short-Term	8,696	11,971	3,275	37.7
Total	**1,26,414**	**1,55,033**	**28,619**	**22.6**

Table 1.90: External Debt Service Payments

(US $ million)

Item	2004-05	2005-06	2006-07
1	2	3	4
1. External Assistance @	2,468	2,666	2,904
2. External Commercial Borrowings*	5,223	14,749	6,819
3. IMF	0	0	0
4. NRI Deposits (Interest Payments)	1,353	1,497	1,969
5. Rupee Debt service	417	572	162
6. Total Debt Servicing	9,461	19,484	11,854
7. Total Current Receipts #	1,54,123	1,96,778	2,45,615
8. External Debt to GDP Ratio (%)	17.3	15.8	16.4
9. Short Term Debt to Total Debt Ratio (%)	6.1	6.9	7.7
10. Short Term Debt to Foreign Exchange Reserve Ratio (%)	5.3	5.7	6.0
11. Foreign Exchange Reserves to External Debt Ratio (%)	114.9	119.9	128.5
12. Debt Service Ratio (6/7) (%)	6.0	9.9	4.8
13. Interest Payments to Current Receipts Ratio (%)	2.5	2.8	2.3
14. Debt to Current Receipts Ratio (%)	93.6	64.2	63.1
15. Liability Service Ratio (%)	7.4	11.2	6.2

@ : Inclusive of non-Government loans. * : Inclusive of interest components of trade credits. # : Excluding official transfers.

Note : 1. Debt service payments in this table follow accrual method of accounting consistent with balance of payments compilation and may, therefore, vary from those recorded on a cash basis.

2. The liability service ratio represents debt service payments and remittances of profits and dividends taken together as a ratio of total current receipts.

3. Ratios at item nos. 8, 9, 10 and 11 are calculated from their respective outstanding balances.

corporate sector, domestic liquidity conditions and external debt parameters. ECB can be raised through two routes, *viz*., (i) Automatic Route and (ii) Approval Route. Under the present guidelines, corporates in India can avail ECB up to US $ 500 million during a financial year under the Automatic Route, with minimum average maturity period of 5 years; in addition, US $ 250 million with average maturity of more than 10 years is permitted under the Automatic Route. ECBs above these limits come under the Approval Route (see Chapter IV).

I.6.33 Almost 49 per cent of the external debt stock was denominated in US dollars, followed by the Indian Rupee (17.4 per cent), SDR (13.3 per cent) and Japanese Yen (12.9 per cent). The ratio of external debt to GDP has witnessed a steady decline since the 1990s, reaching 16.4 per cent at end-March 2007 from 30.8 per cent at end-March 1995. Although India was the seventh largest debtor country in 2005, its debt-GDP ratio was the second lowest among the top 20 debtor countries, next only to China. As at end-March 2007, foreign exchange reserves were 28.5 per cent in excess of the stock of external debt. Current receipts exceeded the external debt stock by 58.4 per cent, reflecting the sustained robust growth in exports of goods, services and remittances. The ratio of short-term to total debt and short-term debt to foreign exchange reserves remained relatively modest. The debt-service ratio fell to 4.8 per cent in 2006-07. The increase in debt service ratio during 2005-06 reflected the one-off impact of the bullet redemption of the IMDs (Table 1.90).

FOREIGN EXCHANGE RESERVES

I.6.34 With capital flows (net) remaining significantly higher than the current account deficit, the overall balance of payments continued to record large surplus during 2006-07. As a result, foreign exchange reserves comprising foreign currency assets, gold, SDRs and the reserve tranche position with the IMF increased by US $ 47.6 billion during 2006-07 to US $ 199.2 billion at end-March 2007 (Table 1.91 and Appendix Table 56). As at end-March 2007, the total quantum of India's contribution under the Financial Transactions Plan (FTP) of the IMF was SDR 493 million.

Table 1.91: Foreign Exchange Reserves

(US $ million)

As at end of March	Gold	SDRs	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)	Use of IMF Credit
1	2	3	4	5	6	7
1993	3,380	18	6,434	296	10,128	4,799
1994	4,078	108	15,068	299	19,553	5,040
1995	4,370	7	20,809	331	25,517	4,300
1996	4,561	82	17,044	310	21,997	2,374
1997	4,054	2	22,367	291	26,714	1,313
1998	3,391	1	25,975	283	29,650	664
1999	2,960	8	29,522	663	33,153	287
2000	2,974	4	35,058	658	38,694	26
2001	2,725	2	39,554	616	42,897	0
2002	3,047	10	51,049	610	54,716	0
2003	3,534	4	71,890	672	76,100	0
2004	4,198	2	1,07,448	1,311	1,12,959	0
2005	4,500	5	1,35,571	1,438	1,41,514	0
2006	5,755	3	1,45,108	756	1,51,622	0
2007	6,784	2	1,91,924	469	1,99,179	0

I.6.35 India held the fifth largest stock of international reserve assets among EMEs at end-March 2007. India's foreign exchange reserves are at comfortable level as reflected by different reserve adequacy indicators. Total reserves were equivalent of over 12.4 months of imports at end-March 2007, and 16.6 times the short-term debt.

I.6.36 Foreign exchange reserves were US $ 226.4 billion on August 17, 2007, US $ 27.3 billion higher than those at end-March 2007.

Management of Foreign Exchange Reserves

I.6.37 Movements in the foreign currency reserves occur mainly out of purchases and sales of foreign exchange by the Reserve Bank in the market. In addition, there is income from the deployment of foreign exchange assets held in the portfolio of the Reserve Bank. External aid receipts of the Government of India also flow into the reserves. In line with the international trends, the Reserve Bank follows the practice of expressing foreign exchange reserves in US dollar terms, which implies that the movement of the US dollar against other currencies in which foreign currency assets (FCA) are held would also influence its share in FCA.

I.6.38 The overall approach to the management of India's foreign exchange reserves takes into account the changing composition of the balance of payments and endeavours to reflect the 'liquidity risks'. The objectives of reserve management in India are preservation of the long-term value of reserves in terms of purchasing power and the need to minimise risk and volatility in returns. The Reserve Bank of India Act, 1934 provides the over-arching legal framework for deployment of foreign currency assets and gold. The relevant provisions, contained in Section 17 of the Act, define the broad parameters in respect of currency, instruments, issuers and counterparties. While the major convertible currencies constitute the choice set for the currency composition of FCA, the investment universe for FCA comprises deposits with other central banks, the Bank for International Settlements (BIS), top-rated foreign commercial banks, securities representing debt of sovereigns and supranational institutions with residual maturity not exceeding 10 years and any other instruments or institutions as approved by the Central Board of the Reserve Bank (Table 1.92). The decisions involving the pattern of investments are driven by the broad parameters of portfolio management with a strong bias for capital preservation and liquidity. The entire FCA is invested in assets of the highest quality with a significant proportion convertible into cash at short notice.

I.6.39 The broad strategy for reserve management places emphasis on managing and controlling the exposure to financial and operational risks associated with deployment of reserves. The risk management functions are aimed at ensuring

Table 1.92: Deployment Pattern of Foreign Currency Assets

(US $ million)

Item	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	March 31, 2007
1	2	3	4	5	6
Foreign Currency Assets	**71,890**	**1,07,448**	**1,35,571**	**1,45,108**	**1,91,924**
(a) Securities	26,929	35,024	36,819	35,172	52,996
(b) Deposits with other Central Banks and BIS	33,463	45,877	65,127	65,399	92,175
(c) Deposits with Foreign Commercial Banks	11,403	26,518	33,625	44,537	46,753

development of sound governance structures in line with the international best practices, improved accountability, a culture of risk awareness across all operations and efficient allocation of resources for development of in-house skills and expertise. In tune with the global trend in this regard, considerable attention has been paid to strengthen the operational risk control arrangements.

I.6.40 With the concurrence of the Government of India, the Reserve Bank compiles and makes public half-yearly reports on management of foreign exchange reserves for bringing about more transparency and also for enhancing the level of disclosure in this regard. The first such report with reference to September 30, 2003 was put in public domain through websites of both the Government of India and the Reserve Bank in February 2004. Subsequently, seven more reports pertaining to position as at end-March 2004, end-September 2004, end-March 2005, end-September 2005, end-March 2006, end-September 2006 and end-March 2007 have been placed on the Reserve Bank's website.

INTERNATIONAL INVESTMENT POSITION

I.6.41 India's net international liabilities declined by US $ 4.6 billion between end-March 2006 and end-December 2006 as the increase in international assets (US $ 41.0 billion) exceeded international liabilities (US $ 36.4 billion). The increase in international assets during 2006-07 was mainly on account of accretion to foreign exchange reserves, and, to some extent, rise in direct investment abroad. India's international liabilities expanded, reflecting inflows on account of direct and portfolio investment, commercial borrowings and non-resident deposits (Table 1.93).

I.6.42 Cross-country data indicate that India's gross international assets and liabilities were lower in comparison to China, Hong Kong, Singapore and Russia at end-December 2005 (Table 1.94). Moreover, while India had international liabilities, China, Hong Kong and Singapore had net international assets.

I.6.43 International liabilities of the Indian banking sector rose by 12.5 per cent between end-March

Table 1.93: International Investment Position of India

(US $ million)

Item	End-March			End-Dec.
	2004	2005PR	2006PR	2006P
1	2	3	4	5
A. Assets	**137.8**	**168.2**	**183.5**	**224.5**
1. Direct Investment	7.8	10.0	13.0	21.6
2. Portfolio Investment	0.8	0.8	1.3	1.2
2.1 Equity Securities	0.4	0.4	0.7	0.6
2.2 Debt Securities	0.4	0.4	0.6	0.6
3. Other Investment	16.3	15.9	17.6	24.4
3.1 Trade Credits	1.9	2.2	0.4	4.1
3.2 Loans	1.7	1.9	2.5	3.6
3.3 Currency and Deposits	9.5	8.4	11.2	12.9
3.4 Other Assets	3.1	3.4	3.5	3.8
4. Reserve Assets	113.0	141.5	151.6	177.3
B. Liabilities	**183.1**	**210.0**	**231.3**	**267.7**
1. Direct Investment	38.2	44.0	50.7	65.3
2. Portfolio Investment	43.7	55.7	64.6	73.6
2.1 Equity Securities	34.0	43.2	54.7	60.0
2.2 Debt Securities	9.8	12.5	9.9	13.6
3. Other Investment	101.2	110.3	116.0	128.8
3.1 Trade Credits	6.3	9.6	10.5	11.8
3.2 Loans	61.9	65.7	68.2	76.2
3.3 Currency and Deposits	32.1	33.6	36.2	39.4
3.4 Other Liabilities	0.9	1.4	1.1	1.4
C. Net Position (A-B)	**-45.3**	**-41.8**	**-47.8**	**-43.2**
D. Net Foreign Liabilities to GDP (%)	**7.4**	**5.9**	**6.0**	
Memo:				
Debt Liabilities/Total Liabilities (%)	60.6	58.5	54.4	53.2
Non-debt Liabilities/Total Liabilities (%)	39.4	41.5	45.6	46.8

PR : Partially revised. P : Provisional.

Table 1.94: International Investment Position: Select Countries

(End-December 2005; US $ billion)

	Argentina	Brazil	Chile	China	Hong Kong	India	Philippines	Russia	Singapore
1	2	3	4	5	6	7	8	9	10
A. Total Financial Assets	**161**	**170**	**92**	**1218**	**1495**	**183**	**41**	**495**	**586**
Direct Investment Abroad	23	79	21	64	471	12	2	139	111
Portfolio Investment	0	11	37	117	437	1	5	18	117
Equity	0	3	33	0	228	1	0	0	54
Debt	0	8	4	117	209	1	5	17	63
Other Investments	110	26	15	211	445	18	16	157	242
Monetary Authority	0	1	0	0	0	0	0	1	0
General Government	7	2	0	0	0	2	0	72	0
Banks	3	12	2	0	351	14	10	31	0
Other Securities	100	10	13	0	95	3	5	53	0
Reserve Assets	28	54	17	826	125	152	18	182	116
Financial Derivatives	0	0	1	0	17	0	0	0	0
B. Total Financial Liabilities	**142**	**499**	**124**	**931**	**1055**	**229**	**76**	**540**	**482**
Direct Investment	55	196	74	610	523	50	15	169	188
Portfolio Investment	34	233	18	77	179	63	22	169	90
Equity	2	126	7	64	168	54	4	121	74
Debt	32	107	11	13	11	9	18	48	16
Other Investment	53	70	31	244	336	116	39	202	204
Monetary Authority	9	0	0	0	0	1	2	11	0
General Government	23	0	1	0	0	45	14	42	0
Banks	3	8	6	0	295	37	9	48	0
Other Securities	18	62	23	0	41	33	14	101	0
Financial Derivatives	0	0	1	0	17	0	0	0	0
C. Net Position (A-B)	**19**	**-329**	**-33**	**287**	**440**	**-46**	**-35**	**-45**	**104**

Source : International Financial Statistics, International Monetary Fund.

Table 1.95: International Liabilities and Assets of Banks in India

(US $ million)

Category/Item	Amount outstanding at end of		
	March-05	March-06P	Dec.-06P
1	2	3	4
Total International Liabilities	**58,292**	**68,723**	**77,326**
of which:			
FCNR(B) Deposits	11,612	13,025	15,042
NRE Rupee Deposits	19,616	22,483	25,070
Foreign Currency Borrowings	10,410	14,283	12,687
Bonds (including IMDs)	6,681	988	1,158
Non-Resident ordinary Rupee Deposits	1,461	1,221	1,390
ADRs and GDRs	2,265	3,325	5,152
EEFC Accounts	1,296	1,348	1,958
Total International Assets	**30,458**	**35,459**	**41,227**
of which:			
Foreign Currency Loans to Residents	13,280	14,176	14,756
Outstanding Export Bills	5,983	7,075	8,173
NOSTRO Balances	8,155	9,980	14,005

P : Provisional.
IMDs : India Millennium Deposits.
ADRs : American Depository Receipts
GDRs : Global Depository Receipts.
EEFC : Exchange Earners' Foreign Currency.
Note : All figures are inclusive of accrued interest.

2006 and end-December 2006. International assets, however, increased by 16.2 per cent during the same period (Table 1.95). Country-wise, the US accounted for nearly one fourth of total international liabilities and assets of Indian banks. While the assets denominated in foreign currency formed 95.9 per cent of total international assets, the proportion of foreign currency denominated liabilities in total international liabilities was 48.6 per cent.

I.6.44 To sum up, the balance of payments remained comfortable during 2006-07. Although the merchandise trade deficit widened further during the year, it was largely, as in the past, financed by the sustained growth in net surplus under invisibles, reflecting mainly exports of software and other business services and remittances from the Indians working abroad. The current account deficit, as per cent to GDP, at 1.1 per cent was at the same level as a year ago. Capital flows (net), on the other hand, increased further led by foreign direct investment and external commercial borrowings (ECBs), offsetting the outflows associated with overseas acquisitions by Indian corporates. The overall balance of payments surplus led to an accretion of US $ 47.6 billion to foreign exchange reserves during 2006-07.