Macroeconomic and Monetary Developments in 2007-08

Issued with the Annual Policy Statement for 2008-09

April 29, 2008

Reserve Bank of India

Mumbai

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I. THE REAL ECONOMY

During 2007-08, the Indian economy continued to expand at a robust pace for the fifth consecutive year, although there was some moderation in the growth momentum during the course of the year (Table 1 and Chart 1). According to the advance estimates released by Central Statistical Organisation (CSO), the real GDP growth rate moderated to 8.7 per cent in 2007-08 from 9.6 per cent in 2006-07. The moderation in growth occurred in all the three sectors, *viz.*, agriculture and allied activities, industry and services. Notwithstanding the moderation, the growth performance was in tune with the high average real GDP growth of 8.7 per cent per annum during the five-year period, 2003-04 to 2007-08. India also continued to be one of the fastest growing economies of the world.

Table 1: Growth Rates of Real GDP

(Per cent)

Sector	2000-01 to 2007-08 (Average)	2005-06	2006-07*	2007-08#	2006-07			2007-08			2006-07	2007-08
					Q1	Q2	Q3	Q1	Q2	Q3	April-December	
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Agriculture and Allied Activities	**2.6**	**5.9**	**3.8**	**2.6**	**3.3**	**3.6**	**3.4**	**3.8**	**3.7**	**3.2**	**3.4**	**3.5**
	(20.8)	**(19.6)**	**(18.5)**	**(17.5)**								
2. Industry	**7.2**	**8.0**	**10.6**	**8.6**	**10.0**	**10.7**	**10.3**	**10.6**	**8.3**	**8.4**	**10.3**	**9.1**
	(19.6)	**(19.4)**	**(19.5)**	**(19.5)**								
2.1 Mining and Quarrying	4.8	4.9	5.7	3.4	4.2	4.1	6.1	3.2	7.7	4.9	4.8	5.2
2.2 Manufacturing	7.9	9.0	12.0	9.4	11.7	12.2	11.3	11.9	8.6	9.3	11.7	9.9
2.3 Electricity, Gas and Water Supply	5.0	4.7	6.0	7.8	4.3	6.6	7.6	8.3	7.3	5.3	6.2	6.9
3. Services	**8.9**	**11.0**	**11.2**	**10.6**	**11.6**	**11.5**	**11.1**	**10.6**	**10.4**	**10.3**	**11.4**	**10.4**
	(59.6)	**(61.1)**	**(61.9)**	**(63.0)**								
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	10.3	11.5	11.8	12.1	10.8	12.5	12.0	11.9	11.4	11.3	11.8	11.6
3.2 Financing, Insurance, Real Estate and Business Services	8.8	11.4	13.9	11.7	13.6	13.9	14.7	11.1	10.7	11.6	14.1	11.1
3.3 Community, Social and Personal services	5.8	7.2	6.9	7.0	10.3	7.2	5.6	7.6	7.7	7.6	7.6	7.7
3.4 Construction	10.5	16.5	12.0	9.6	13.1	12.0	10.8	10.7	11.1	8.4	11.9	10.0
4. Real GDP at Factor Cost	**7.2**	**9.4**	**9.6**	**8.7**	**9.6**	**10.1**	**9.1**	**9.3**	**8.9**	**8.4**	**9.6**	**8.9**

Memo: (Amount in Rupees crore)

	2005-06	2006-07*	2007-08#
a) Real GDP at factor cost	26,12,847	28,64,310	31,14,452
b) GDP at current market prices	35,80,344	41,45,810	46,93,602

*: Quick Estimates #: Advance Estimates

Note: Figures in parentheses denote shares in real GDP and may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

Agricultural Situation

The cumulative rainfall during the 2007 South-West monsoon season (June 1 to September 30) was 5 per cent above normal of the long-period average (LPA) as against 1 per cent below normal a year ago. Barring short spells of rainfall deficiency during the first week of June, third and fourth weeks of July, and third week of August, the seasonal rainfall was well-distributed over time. At the end of the season water stock in the 81 major reservoirs was 79 per cent of the full reservoir level (FRL), lower than 87 per cent during the corresponding period of the previous year but higher than the average of 67 per cent during the last 10 years. Cumulative rainfall during the North-East monsoon (October 1, 2007 to December 31, 2007) was, however, 32 per cent below normal as compared with 21 per cent below normal during the corresponding period of the previous year. Of the 36 meteorological sub-divisions, cumulative rainfall was deficient/scanty/no rain in 27 sub-divisions (same as last year) (Table 2). As on April 10, 2008, the total live water storage was 31 per cent (33 per cent last year) of the FRL.

According to the India Meteorological Department (IMD) forecast released in April 2008, the rainfall during the South-West monsoon season (June-September) 2008 for the country as whole is likely to be 99 per cent of the LPA or near normal with a model error of +/- 5 per cent. This is well above the forecast of 95 per cent during the corresponding period of the previous year.

The sowing of *kharif* crops improved during 2007-08 on account of satisfactory rainfall during the South-West monsoon and remunerative market prices. The reported sown area was about 2.8 per cent higher than the previous year. In contrast, area sown under *rabi* crops so far (as reported on April 4,

Table 2: Cumulative Rainfall

(Number of Meteorological Divisions)

Year	South-West Monsoon: Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	South-West Monsoon Spatial Distribution: Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain	North-East Monsoon: Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	North-East Monsoon Spatial Distribution: Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain
1	2	3	4	5	6	7	8	9	10	11
1998	6	12	21	3	0	-	28	6	1	1
1999	-4	3	26	7	0	-	20	7	6	3
2000	-8	5	23	8	0	-	0	4	13	19
2001	-8	1	30	5	0	-	14	10	9	3
2002	-19	1	14	19	2	-33	3	7	12	14
2003	2	7	26	3	0	9	9	9	6	12
2004	-13	0	23	13	0	-11	8	10	17	1
2005	-1	9	23	4	0	10	11	6	5	14
2006	-1	6	20	10	0	-21	3	6	14	13
2007	5	13	17	6	0	-32	2	7	9	18

Excess :+20 per cent or more. Normal : +19 per cent to - 19 per cent. Deficient :- 20 per cent to -59 per cent.
Scanty : - 60 per cent to -99 per cent. No Rain: -100 per cent.
Source : India Meteorological Department.

2008) has been 2.9 per cent lower than a year ago on account of the deficiency in rainfall. The lower sowing under *rabi* was observed across all the major crops except rice and groundnut (Table 3).

Table 3: Progress of Area under Crops - 2007-08

(Million hectares)

Crop	Normal Area	Area Coverage (As on October 26, 2008): 2006	2007	Variation	Crop	Normal Area	Area Coverage (As reported on April 4, 2008): 2007	2008	Variation
1	2	3	4	5	1	2	3	4	5
***Kharif* Crops**					***Rabi* Crops**				
Rice	38.2	37.1	37.3	0.2	Rice	3.7	4.1	4.3	0.2
Coarse Cereals	22.9	22.1	22.0	-0.1	Wheat	26.2	28.2	27.7	-0.5
of which:					Coarse Cereals	6.4	7.1	6.8	-0.2
Bajra	9.4	9.3	8.7	-0.6	*of which:*				
Jowar	4.4	3.8	3.6	-0.2	Jowar	5.0	4.9	4.7	-0.3
Maize	6.2	6.8	7.5	0.6	Maize	0.7	1.0	1.1	0.0
Total Pulses	10.9	11.4	12.6	1.2	Total Pulses	11.4	14.2	13.5	-0.7
Total Oilseeds	15.4	16.8	17.7	0.9	Total Oilseeds	8.8	10.2	9.6	-0.6
of which:					*of which:*				
Groundnut	5.5	4.8	5.4	0.6	Groundnut	0.8	1.1	1.3	0.2
Soyabean	6.6	8.1	8.8	0.6	Rapeseed/Mustard	5.9	6.6	6.0	-0.6
Sugarcane	4.2	4.8	5.1	0.3	Sunflower	1.2	1.3	1.1	-0.1
Cotton	8.3	9.0	9.3	0.4					
All Crops	**100.8**	**102.1**	**104.9**	**2.8**	**All Crops**	**56.5**	**63.8**	**61.9**	**-1.8**

Source : Ministry of Agriculture, Government of India.

According to the Third Advance Estimates for 2007-08, the total foodgrains production is slated to reach an all-time high at 227.3 million tonnes, surpassing the target set earlier (221.5 million tonnes) and recording an increase of 4.6 per cent over the previous year (217.3 million tonnes) (Table 4). The enhanced foodgrains production reflects the expected increase across all major crops. Amongst non-foodgrains, while the production of cotton and oilseeds are expected to increase over the previous year, that of sugarcane is likely to show a decline.

Food Management

Total procurement of rice and wheat during 2007-08 aggregated to 37.5 million tonnes, which was 4.5 per cent higher than that procured during the corresponding period of the previous year, mainly on account of increase in wheat procurement. Total offtake of rice and wheat during 2007-08 (up to December 31, 2007) at 27.3 million tonnes was almost of the same order as that

Table 4: Agricultural Production

(Million tonnes)

Crop	2003-04	2004-05	2005-06	2006-07	2007-08	
					Target	Achievement @
1	2	3	4	5	6	7
Rice	88.5	83.1	91.8	93.4	93.0	95.7
Kharif	78.6	72.2	78.3	80.2	80.0	82.8
Rabi	9.9	10.9	13.5	13.2	13.0	12.9
Wheat	72.2	68.6	69.4	75.8	75.5	76.8
Coarse Cereals	37.6	33.5	34.1	33.9	37.5	39.7
Kharif	32.2	26.4	26.7	25.6	28.7	30.9
Rabi	5.4	7.1	7.3	8.3	8.8	8.8
Pulses	14.9	13.1	13.4	14.2	15.5	15.2
Kharif	6.2	4.7	4.9	4.8	5.5	6.4
Rabi	8.7	8.4	8.5	9.4	10.0	8.8
Total Foodgrains	213.2	198.4	208.6	217.3	221.5	227.3
Kharif	117.0	103.3	109.9	110.6	114.2	120.0
Rabi	96.2	95.1	98.7	106.7	107.3	107.3
Total Oilseeds	25.2	24.4	28.0	24.3	30.0	28.2
Kharif	16.7	14.1	16.8	14.0	18.5	19.0
Rabi	8.5	10.2	11.2	10.3	11.5	9.2
Sugarcane	233.9	237.1	281.2	355.5	310.0	344.2
Cotton #	13.7	16.4	18.5	22.6	22.0	23.2
Jute and Mesta ##	11.2	10.3	10.8	11.3	11.0	11.5

@ : Third Advance Estimates as on April 22, 2008. ## : Million bales of 180 kgs each.

: Million bales of 170 kgs each.

Source : Ministry of Agriculture, Government of India.

during the corresponding period of the previous year. As on February 1, 2008, total stocks of foodgrains with the Food Corporation of India (FCI) and other Government agencies were at 21.4 million tonnes - higher by 18.4 per cent than that a year ago (18.1 million tonnes). While the stock of rice (14.0 million tonnes) was 11.1 per cent higher than that of last year (12.6 million tonnes), the stock of wheat (7.2 million tonnes) was 33.0 per cent higher than that of the previous year (5.4 million tonnes) (Table 5).

Table 5: Management of Food Stocks

(Million tonnes)

Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains Off-take					Closing Stock	Norms
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS - Domestic	Exports	Total		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05	13.1	6.9	20.6	24.0	16.8	40.8	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	26.6	14.8	41.4	31.4	9.8	1.1	0.0	42.3	16.6	
2006-07	13.7	2.0	16.6	26.7	9.2	35.9	31.6	5.1	0.0	0.0	36.8	17.9	
2006-07 #	13.7	2.0	16.6	26.7	9.2	35.9	23.6	3.8	0.0	0.0	27.3	18.1	
2007-08 #	13.2	4.7	17.9	26.4	11.1	37.5	24.7	2.6	0.0	0.0	27.3	21.4	
2006													
April	13.7	2.0	16.6	1.7	8.7	10.3	2.5	0.3	0.0	0.0	2.7	22.8	16.2
May	12.8	9.0	22.8	1.6	0.6	2.2	2.9	0.4	0.0	0.0	3.2	22.3	
June	12.0	9.3	22.3	1.5	0.0	1.5	2.6	0.6	0.0	0.0	3.0	20.5	
July	11.1	8.2	20.5	0.8	0.0	0.8	2.7	0.4	0.0	0.0	3.0	17.1	26.9
August	9.5	7.3	17.1	0.5	0.0	0.5	2.7	0.4	0.0	0.0	3.0	15.5	
September	7.8	6.7	15.5	0.2	0.0	0.2	2.6	0.5	0.0	0.0	3.0	12.6	
October	6.0	6.4	12.6	8.0	0.0	8.0	2.5	0.3	0.0	0.0	2.8	18.6	16.2
November	12.5	6.0	18.7	2.0	0.0	2.0	2.5	0.4	0.0	0.0	2.9	17.8	
December	12.1	5.6	17.8	2.6	0.0	2.6	2.6	0.3	0.0	0.0	3.0	17.5	
2007													
January	12.0	5.4	17.5	4.3	0.0	4.3	2.7	0.4	0.0	0.0	3.1	18.1	20.0
February	12.6	5.4	18.1	2.4	0.0	2.4	2.7	0.5	0.0	0.0	3.1	19.1	
March	14.0	5.1	19.1	1.2	0.0	1.2	2.7	0.5	0.0	0.0	3.2	17.9	
April	13.2	4.7	17.9	0.9	7.9	8.7	2.6	0.2	0.0	0.0	2.8	25.1	16.2
May	13.5	11.6	25.1	1.5	2.6	4.0	2.8	0.2	0.0	0.0	3.0	25.9	
June	12.6	13.3	25.9	1.3	0.7	2.0	2.7	0.4	0.0	0.0	3.0	23.9	
July	11.0	12.9	23.9	0.8	0.0	0.8	2.9	0.4	0.0	0.0	3.2	21.2	26.9
August	9.2	12.0	21.2	0.1	0.0	0.1	2.8	0.3	0.0	0.0	3.0	17.9	
September	6.9	11.0	18.0	0.1	0.0	0.1	2.7	0.3	0.0	0.0	2.9	15.6	
October	5.5	10.1	15.6	7.4	0.0	7.4	2.7	0.3	0.0	0.0	2.9	19.7	16.2
November	10.7	9.0	19.7	1.8	0.0	1.8	2.7	0.3	0.0	0.0	2.9	18.5	
December	10.1	8.4	18.5	3.6	0.0	3.6	2.7	0.3	0.0	0.0	3.0	19.2	
2008													
January	11.5	7.7	19.2	4.5	0.0	4.5	–	–	–	–	–	21.4	20.0
February	14.0	7.2	21.4	3.0	0.0	3.0	–	–	–	–	–	–	
March	–	–	–	1.6	0.0	1.6	–	–	–	–	–	–	

PDS: Public Distribution System. OWS: Other Welfare Schemes. OMS : Open Market Sales. – : Not Available.

: Off-take up to December 31 and stock as at end-January.

Note : Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting off-take, as stocks include coarse grains also.

Source : Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

Table 6: Index of Industrial Production: Sectoral and Use-Based Classification of Industries

(Per cent)

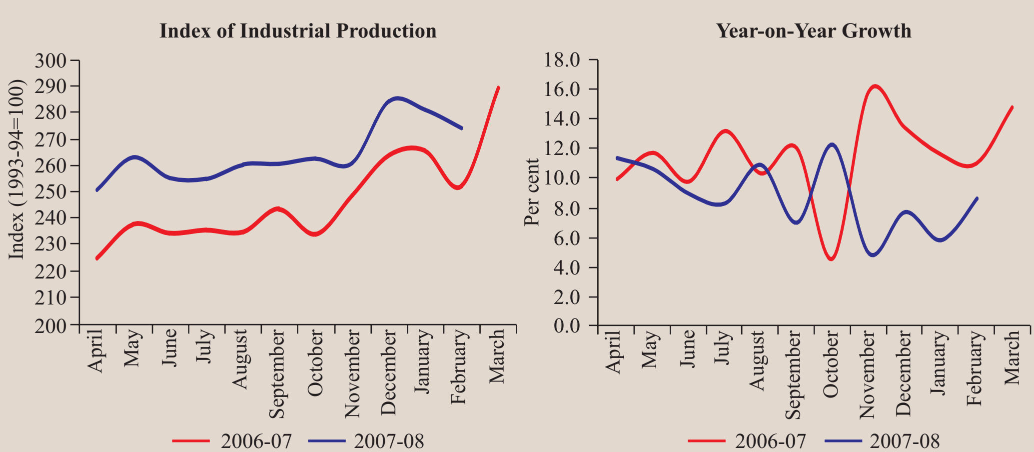
Industry Group	Weight in IIP	Growth			Weighted Contribution#		
		2006-07	2006-07	2007-08 P	2006-07	2006-07	2007-08 P
		April-March	April-February		April-March	April-February	
1	2	3	4	5	6	7	8
Sectoral							
Mining	10.5	5.3	5.0	5.1	3.4	3.3	4.0
Manufacturing	79.4	12.5	12.2	9.1	91.1	91.1	89.5
Electricity	10.2	7.3	7.2	6.6	5.5	5.7	6.5
Use-Based							
Basic Goods	35.6	10.3	10.1	7.4	27.2	27.6	25.6
Capital Goods	9.3	18.2	18.3	17.5	17.6	17.6	23.2
Intermediate Goods	26.5	12.0	11.7	9.2	27.0	27.3	27.9
Consumer Goods (a+b)	28.7	10.1	9.5	6.3	28.5	27.8	23.3
a) Consumer Durables	5.4	9.2	9.7	-1.0	6.7	7.4	-1.0
b) Consumer Non-durables	23.3	10.4	9.5	8.9	21.8	20.4	24.3
General	**100.0**	**11.5**	**11.2**	**8.7**	**100.0**	**100.0**	**100.0**

P : Provisional. # : Figures may not add up to 100 due to rounding off.
Source: Central Statistical Organisation.

Industrial Performance

Industrial growth moderated during April-February 2007-08 primarily reflecting the performance of manufacturing sector (Table 6 and Chart 2). Growth in index of industrial production (IIP) decelerated to 8.7 per cent during April-February 2007-08 from 11.2 per cent during April-February 2006-07 with the

Chart 2: Industrial Production



manufacturing sector growth moderating to 9.1 per cent from 12.2 per cent. While the growth in the electricity sector decelerated to 6.6 per cent during April-February 2007-08 from 7.2 per cent a year ago, that of the mining sector increased marginally to 5.1 per cent from 5.0 per cent over the same period.

The moderation in the manufacturing sector reflected decelerated/negative growth in eleven out of seventeen manufacturing industry groups accounting for 49.3 per cent weight in the IIP (Table 7).

'Machinery and equipment', 'basic metal and alloy industries', 'non-metallic mineral products', 'cotton textiles', 'textile products' and 'transport equipment and parts' were amongst the major groups which registered deceleration in

Table 7: Performance of Manufacturing Groups

(Per cent)

Industry Group	Weight in IIP	Growth Rate			Weighted Contribution #		
		2006-07	2006-07	2007-08 P	2006-07	2006-07	2007-08 P
		April-March	April-February		April-March	April-February	
1	2	3	4	5	6	7	8
1. Wood and wood products, furniture and fixtures	2.7	29.1	21.6	45.8	2.4	1.9	5.6
2. Jute and other vegetable fibre textiles (except cotton)	0.6	-15.8	-13.5	30.8	-0.4	-0.4	0.9
3. Other manufacturing industries	2.6	7.7	10.4	18.7	2.4	3.2	7.5
4. Basic metal and alloy industries	7.5	22.8	22.8	12.9	16.6	17.0	14.0
5. Beverages, tobacco and related products	2.4	11.1	11.8	11.8	4.5	5.0	6.6
6. Leather and leather and fur products	1.1	0.6	1.4	11.8	0.0	0.1	1.1
7. Chemicals and chemical products except products of petroleum and coal	14.0	9.6	9.0	11.3	15.0	14.7	23.6
8. Machinery and equipment other than transport equipment	9.6	14.2	14.2	9.5	18.2	18.6	16.8
9. Rubber, plastic, petroleum and coal products	5.7	12.9	12.4	9.4	6.4	6.3	6.4
10. Food products	9.1	8.5	6.3	6.7	5.7	4.3	5.7
11. Non-metallic mineral products	4.4	12.8	13.1	6.3	6.6	6.9	4.4
12. Cotton textiles	5.5	14.8	14.3	4.5	4.8	4.8	2.1
13. Textile products (including wearing apparel)	2.5	11.5	11.2	4.0	3.2	3.2	1.5
14. Wool, silk and man-made fibre textiles	2.3	7.8	7.4	3.5	1.9	1.9	1.1
15. Transport equipment and parts	4.0	15.0	15.2	3.3	8.2	8.5	2.5
16. Paper and paper products and printing, publishing and allied activities	2.7	8.7	8.6	2.5	2.3	2.3	0.9
17. Metal products and parts (except machinery and equipment)	2.8	11.4	7.7	-3.1	2.3	1.6	-0.8
Manufacturing - Total	**79.4**	**12.5**	**12.2**	**9.1**	**100.0**	**100.0**	**100.0**

P : Provisional. # : Figures may not add up to 100 due to rounding off.
Source: Central Statistical Organisation.

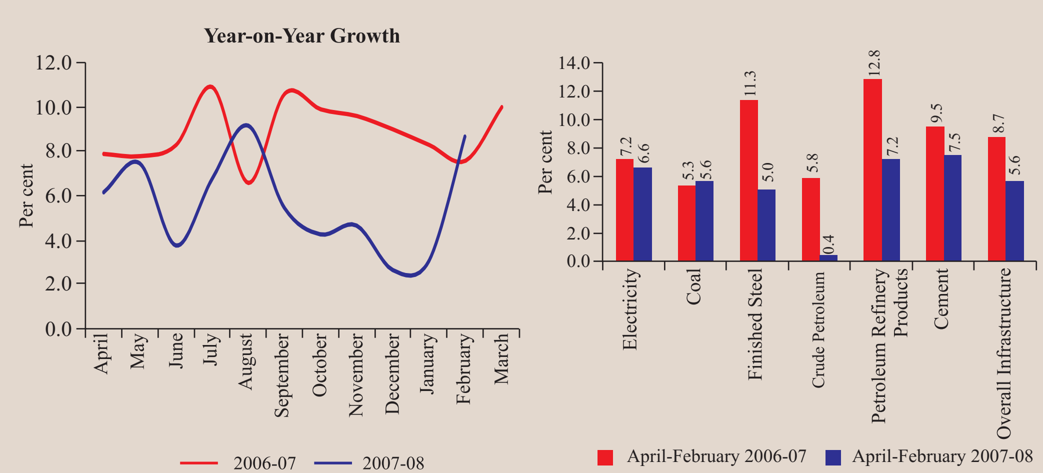
growth largely due to base effect. 'Metal products and parts' recorded negative growth due to decline in the production of tin metal containers, welded link chains and razor blades. 'Chemicals and chemical products except products of petroleum and coal' with the highest weight in the IIP, however, registered a double-digit growth mainly due to strong growth in filament yarn, viscose staple fibre, hair oil and clinical drugs. 'Jute and other vegetable fibre textiles' registered a turnaround with a positive growth during the period.

In terms of use-based classification, the capital goods sector recorded double-digit growth during April-February 2007-08 (see Table 6). The continued capacity addition by manufacturing firms helped the robust growth of capital goods. The growth in the intermediate goods sector decelerated on account of slowdown in production of newsprint bleached, cotton yarn, polished granite/ stone chips, and ball and roller bearings. The growth in consumer goods sector decelerated to 6.3 per cent during April-February 2007-08 from 9.5 per cent during April-February 2006-07 largely due to negative growth in the consumer durables segment, particularly in telephone instruments, motor cycles and wrist watches. The basic goods sector growth decelerated to 7.4 per cent during April-February 2007-08 from 10.1 per cent during April-February 2006-07 due to decline in production in respect of soda ash, fertilisers, carbon steel and steel castings.

Infrastructure

During April-February 2007-08, growth of the infrastructure sector decelerated to 5.6 per cent from 8.7 per cent during the corresponding period of the previous year, reflecting deceleration in all the sectors, except coal (Chart 3). The deceleration in the electricity sector was mainly on account of moderation

Chart 3: Growth in Infrastructure Industries



in thermal power generation and decline in nuclear power generation. High base as well as decline in refinery output in certain public sector refineries contributed to decelerated growth in petroleum refinery products. The slowdown in the cement sector was mainly on account of high base and capacity constraints. The sharp deceleration in crude oil production was attributable to the decline in production in Oil India Limited (OIL) and Oil and Natural Gas Corporation (ONGC) plants by 1.3 per cent and 0.2 per cent, respectively, during April-February 2007-08. In six out of eleven months of 2007-08, the crude oil sector recorded decline in production, which led to decelerated growth at 0.4 per cent for April-February 2007-08. The coal sector recorded a growth of 5.6 per cent during April-February 2007-08 as compared with 5.3 per cent during the corresponding period of last year. High base as also capacity constraints faced by major steel producers led to decelerated growth in the steel sector during the same period.

Services Sector

The services sector maintained its double-digit growth at 10.6 per cent during 2007-08 despite some moderation in pace. It continued to be the major contributor to GDP growth. During April-December 2007, the services sector recorded a growth of 10.4 per cent, somewhat lower than 11.4 per cent during April-December 2006 (see Table 1). The growth in services sector continued to be broad based. 'Trade, hotels, transport and communication', 'financing, insurance, real estate and business services' and 'construction' sub-sectors registered lower but double digit growth rates, while 'community, social and personnel services' recorded a higher but single digit growth during April-December 2007 than during April-December 2006. The sub-sector 'trade, hotel, transport and communication' contributed almost one third (34.5 per cent) to overall real GDP growth during April-December 2007 (Table 8).

Leading indicators of service sector activity for April-February 2007-08 show that the growth rates in tourist arrivals, revenue earning freight traffic of the railways, commercial vehicles production, new cell phone connections, passengers handled by civil aviation at domestic terminals, cement and steel moderated over the previous year (Table 9).

Aggregate Demand

The growth of the Indian economy during 2007-08 was driven by investment demand. The estimated share of gross fixed capital formation

Table 8 : Growth in Services Sectors

(Contribution to real GDP growth; percentage points)

Year/Quarter	Construction	Trade, Hotels, Transport and Communication	Financing, Insurance, Real Estate and Business Services	Community, Social and Personal Services	Total Services
1	2	3	4	5	6
2000-01	0.4	1.6	0.5	0.7	3.2
2001-02	0.2	2.0	0.9	0.6	3.8
2002-03	0.5	2.2	1.1	0.6	4.3
2003-04	0.7	2.9	0.8	0.8	5.2
2004-05	1.0	2.7	1.2	1.0	5.8
2005-06	1.1	3.0	1.5	1.0	6.6
2006-07	0.8	3.1	1.9	1.0	6.8
2007-08	0.7	3.2	1.7	0.9	6.6
2006-07 : Q1	0.9	2.8	1.9	1.4	7.0
: Q2	0.9	3.3	2.0	1.1	7.3
: Q3	0.7	3.1	1.9	0.7	6.5
: Q4	0.8	3.4	1.3	0.8	6.2
2007-08 : Q1	0.8	3.1	1.6	1.0	6.5
: Q2	0.8	3.1	1.6	1.1	6.7
: Q3	0.6	3.0	1.6	1.0	6.1

(GFCF) in real GDP increased to 32.6 per cent in 2007-08 from 30.6 per cent in 2006-07, while that of private final consumption expenditure (PFCE) declined to 67.1 per cent from 68.4 per cent over the same period (Table 10).

Table 9: Indicators of Service Sector Activity

(Growth rates in per cent)

Sub-sector	2005-06	2006-07	2006-07 (April-February)	2007-08 (April-February)
1	2	3	4	5
Tourist arrivals	12.4	13.6	13.0 *	11.3 *
Commercial vehicles production #	10.6	33.0	34.3	4.5
Railway revenue earning freight traffic	10.7	9.2	9.1	9.0
New cell phone connections	89.4	85.4	90.3	40.0
Cargo handled at major ports	10.4	9.5	9.4	12.2
Civil aviation				
a) Export cargo handled	7.3	3.6	3.4	8.0
b) Import cargo handled	15.8	19.4	19.5	20.9
c) Passengers handled at international terminals	12.8	12.1	12.0	12.0
d) Passengers handled at domestic terminals	27.1	34.0	35.3	21.6
Cement **	12.4	9.1	9.5	7.5
Steel **	10.8	11.7	11.3	5.0
Aggregate deposits of SCBs	18.1	23.8	23.8 *	22.2 *
Non-food credit of SCBs	31.8	28.5	28.5 *	22.3 *

* : April-March # : Leading Indicator for transportation.

** : Leading indicators for construction. SCBs: Scheduled Commercial Banks

Source : Ministry of Tourism; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation; Reserve Bank of India; and Centre for Monitoring Indian Economy.

Table 10 : Disposition of GDP at Market Prices (at 1999-2000 Prices)

(Rates as per cent of GDP)

Item	2006-07*	2007-08#	2006-07			2007-08			2006-07	2007-08
			Q1	Q2	Q3	Q1	Q2	Q3	April-December	
1	2	3	4	5	6	7	8	9	10	11
1. Total Final Consumption Expenditure	68.4	67.1	72.1	68.9	69.5	70.2	67.5	68.4	70.1	68.7
(i) Private Final Consumption Expenditure	58.6	57.6	60.6	60.3	60.6	59.7	58.6	59.8	60.5	59.4
(ii) Government Final Consumption Expenditure	9.8	9.5	11.5	8.6	8.9	10.5	8.9	8.6	9.6	9.3
2. Gross Fixed Capital Formation	30.6	32.6	30.8	31.2	29.7	32.7	33.7	31.6	30.5	32.6
3. Change in Stocks	2.1	2.0	2.1	2.2	2.0	2.1	2.1	1.9	2.1	2.0
4. Valuables	1.2	1.5	1.3	1.3	1.2	1.4	1.5	1.6	1.3	1.5
5. Exports	20.6	20.1	24.4	18.5	18.7	23.4	16.6	19.9	20.4	20
6. *Less:* Imports	24.7	24.2	25.5	26.9	24.1	24.8	25.3	24.6	25.4	24.9
7. Discrepancies	1.8	0.9	-5.3	4.8	3.2	-5.0	3.9	1.1	1.0	0.1
Memo:										(Rupees crore)
Real GDP at market prices	31,17,372	33,89,614	7,04,997	7,21,913	8,23,935	7,70,843	7,85,296	8,93,767	22,50,845	24,49,906

* : Quick Estimates. # : Advance Estimates.

Source : Central Statistical Organisation.

Saving and Investment

Gross Domestic Saving (GDS), as a percentage of GDP at current market prices, increased to 34.8 per cent in 2006-07 from 34.3 per cent in 2005-06 mainly due to improvement in the saving performance by the private corporate and public sectors. On the other hand, the household saving rate declined marginally in 2006-07 from the previous year on account of a decline in the financial saving rate. During the Tenth Five-Year Plan period, however, the household saving rate has remained stable, averaging 23.7 per cent (Table 11). The rate of Gross Domestic Capital Formation (GDCF) is estimated to be higher at 35.9 per cent of GDP in 2006-07 than 35.5 per cent in 2005-06. In terms of GDP, while the overall saving rate increased by 0.5 percentage points in 2006-07, the overall investment rate increased by 0.4 percentage points, reflecting a marginal narrowing down of current account deficit.

Corporate Performance

The performance of non-government non-financial companies moderated during 2007-08 (up to December 2007) relative to the previous year, but still remained healthy (Table 12). Sales growth, which slowed down in the first two quarters of the year, accelerated somewhat in the third quarter of 2007-08. On the whole, however, sales growth during the first nine months of 2007-08 at 17.4 per cent was lower than 29.1 per cent in the corresponding period of the previous year. While growth in gross profits and net profits also decelerated during April-December 2007 as compared with the corresponding

Table 11: Rates of Gross Domestic Saving and Investment

(Per cent of GDP at current market prices)

Item	2001-02	2002-03	2003-04	2004-05	2005-06 PE	2006-07 QE	10th Plan Average
1	2	3	4	5	6	7	8
1 Household Saving	22.1	23.2	24.4	23.0	24.2	23.8	23.7
of which :							
a) Financial assets	10.9	10.3	11.4	10.1	11.8	11.3	11.0
b) Physical assets	11.3	12.9	13.0	12.9	12.5	12.5	12.7
2 Private Corporate Saving	3.4	3.9	4.4	6.6	7.5	7.8	6.0
3 Public Sector Saving	-2.0	-0.6	1.1	2.2	2.6	3.2	1.7
4 Gross Domestic Saving	23.5	26.4	29.8	31.8	34.3	34.8	31.4
5 Net capital inflow	-0.6	-1.2	-1.6	0.4	1.2	1.1	0.0
6 Gross Domestic Capital Formation #	22.8	25.2	28.2	32.2	35.5	35.9	31.4
7 Gross Capital Formation	24.2	25.2	26.8	31.6	34.5	36.0	30.8
of which :							
a) Public sector	6.9	6.1	6.3	6.9	7.6	7.8	6.9
b) Private corporate sector	5.4	5.7	6.6	10.5	13.3	14.5	10.1
c) Household sector	11.3	12.9	13.0	12.9	12.5	12.5	12.8
d) Valuables	0.6	0.6	0.9	1.3	1.2	1.2	1.0
8 Total Consumption Expenditure (a+b)	76.9	75.1	73.1	69.4	68.0	66.4	70.4
a) Private Final Consumption Expenditure	64.5	63.3	61.8	58.7	57.6	56.1	59.5
b) Government Final Consumption Expenditure	12.4	11.9	11.3	10.7	10.4	10.3	10.9
Memo							
Saving-Investment Balance (4-6)	0.7	1.2	1.6	-0.4	-1.2	-1.1	0.0
Public Sector Balance	-8.9	-6.7	-5.3	-4.7	-5.0	-4.5	-5.3
Private Sector Balance	8.8	8.5	9.2	6.1	5.9	4.5	6.8
a) Private Corporate Sector	-2.1	-1.9	-2.2	-4.0	-5.8	-6.8	-4.1
b) Household Sector	10.9	10.3	11.4	10.1	11.8	11.3	10.9

PE : Provisional Estimates. QE : Quick Estimates.
: Adjusted for errors and omissions
Note : Figures may not add up to the totals due to rounding off.
Source : Central Statistical Organisation.

period of the previous year, gross profits to sales ratio improved marginally over the same period.

Business Expectation Surveys

According to the survey by the National Council of Applied Economic Research (NCAER) conducted in December 2007, the overall business confidence index (BCI) for the next six months improved over the previous round of the survey but declined on a year-on-year basis (Table 13). A component-wise analysis shows that all four components, *viz.*, overall economic conditions, financial position of the firms, investment climate and present capacity utilisation (being close to or above optimal level) recorded an increase over the previous round; the sharpest improvement was in the investment climate. The BCI in respect of all the main industry groups defined in terms of use-based classification also improved. Amongst the various industry sectors, the largest gain in business confidence was in the services sector, while the smallest gain was in the consumer non-durable sector.

Table 12: Corporate Financial Performance

(Growth rates in per cent)

Item	2005-06	2006-07	2006-07 April-December	2007-08 April-December	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 Q4	2007-08 Q1	2007-08 Q2	2007-08 Q3
1	2	3	4	5	6	7	8	9	10	11	12
Sales	16.3	26.2	29.1	17.4	25.6	29.2	30.3	22.5	19.2	16.0	18.0
Other Income	17.3	7.1	20.9	75.5	21.6	15.5	9.2	0.4	106.7	45.2	70.2
Total expenditure	16.7	23.4	26.3	17.2	24.0	27.7	25.7	20.0	18.0	15.3	18.9
Depreciation	8.1	15.4	17.2	17.1	14.9	16.4	16.8	18.1	18.1	15.8	17.9
Gross profits	24.6	41.9	44.7	25.0	32.7	46.0	52.9	35.5	31.9	22.5	20.4
Interest payments	-2.0	17.4	18.5	23.9	19.9	18.0	11.9	32.3	4.4	18.4	45.7
Profits after tax	32.8	45.2	46.6	29.8	34.7	49.4	59.5	39.6	33.9	22.7	29.4
Select Ratios (Per cent)											
Gross Profits to Sales	12.2	15.5	15.9	16.8	15.2	15.6	15.8	15.4	16.7	16.3	16.2
Profits After Tax to Sales	8.2	10.7	11.1	12.2	10.6	11.0	11.0	10.6	11.6	11.5	12.2
Interest to Sales	2.2	2.1	2.1	2.2	2.2	2.0	2.0	2.0	2.0	2.1	2.5
Interest to Gross Profits	18.1	13.4	13.0	13.1	14.2	13.1	12.6	12.9	11.8	12.8	15.3
Interest Coverage (Times)	5.5	7.5	7.7	7.6	7.0	7.6	7.9	7.7	8.5	7.8	6.5
Memo: (Amount in Rs. crore)											
No of Companies	2,730	2,388	1,871	1,989	2,228	2,263	2,258	2,356	2,342	2,228	2,329
Sales	7,35,216	10,41,894	6,73,056	8,14,569	2,34,610	2,51,125	2,60,064	2,94,223	2,80,814	2,97,110	3,06,238
Other Income*	17,088	23,895	13,021	25,074	4,304	5,282	4,927	8,466	9,151	8,057	9,221
Total Expenditure #	6,43,826	8,78,645	5,64,464	6,83,468	2,00,120	2,11,043	2,17,472	2,49,133	2,37,698	2,49,194	2,57,472
Depreciation provision	28,961	37,095	24,392	29,604	8,449	8,892	9,172	10,338	10,173	10,576	10,961
Gross profits	90,179	1,61,006	1,06,898	1,36,643	35,761	39,055	40,995	45,424	46,780	48,296	49,717
Interest Payments	16,302	21,500	13,870	17,951	5,083	5,121	5,162	5,862	5,504	6,194	7,609
Profits after tax	60,236	1,11,107	75,036	99,272	24,845	27,710	28,698	31,251	32,699	34,266	37,470

*: Other Income excludes extraordinary income/expenditure if reported explicitly.

#: The increase or decrease in stock in trade is accounted under total income instead of total expenditure as was hitherto done.

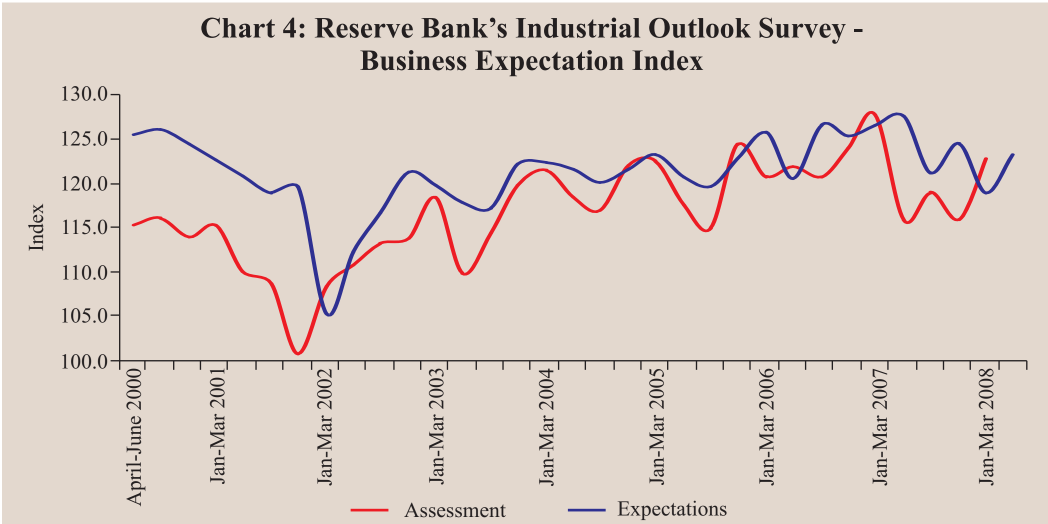
Notes:
1. Data for 2005-06 are based on audited balance sheet, while those for 2006-07 and 2007-08 are based on abridged financial results of the select non-Government non-financial public limited companies.
2. Growth rates are per cent changes in the level for the period under reference over the corresponding period of the previous year for common set of companies.
3. The quarterly data may not add up to annual data due to differences in the number and composition of companies covered in each period.

According to the Reserve Bank's latest Industrial Outlook Survey of manufacturing companies in the private sector conducted in February 2008, the business expectations indices based on assessment for January-March 2008 and on expectations for April-June 2008 increased by 6.0 per cent and 3.9 per cent, respectively, over the previous quarters. The indices, however, declined by 3.8 per cent and 3.4 per cent, respectively, over the corresponding quarter of the previous year (Chart 4).

Table 13: Business Expectations Surveys

(Per cent)

Agency	Business Expectations: Period	Business Expectations: Index	Growth over a year ago	Growth over previous round
1	2	3	4	5
NCAER	January-June 2008	Business Confidence Index	-2.1	5.6
RBI	April-June 2008	Business Expectation Index	-3.4	3.9
Dun & Bradstreet	April-June 2008	Business Optimism Index	-23.6	-9.0



The improvement in expectations index for April-June 2008 over the previous quarter emanated from higher net responses for major parameters of the survey such as working capital requirement, availability of finance, production, order books, capacity utilisation, employment, exports, imports, selling prices and profit margins than in the previous quarter (Table 14). However, even with this improvement, the performance of the manufacturing sector in the first quarter of 2008-09 was expected to be considerably lower than that of the corresponding quarter of the previous year. A significantly higher proportion of respondents expected a decline in the overall business and financial situation and exports, and an increase in the prices of raw material than in the first quarter of 2007-08.

Purchasing Managers' Index

The ABN-AMRO Purchasing Manager's Index (PMI)[1] declined to 57.5 in March 2008 from 59.5 in the previous month. While the index posted the lowest reading in the past eight months, it nevertheless indicated a considerable improvement in operating conditions. At a disaggregated level, the seasonally adjusted output index remained markedly high as Indian manufacturers were reported to continue expanding production at their plants in line with strong sales growth and efficiency gains during the month. Despite a weakening in input price index in March 2008, input costs remained strong due to higher prices for a range of raw materials, including aluminum and oil.

[1] The PMI is a composite indicator designed to provide an overall view of activity in the manufacturing sector. A PMI of 50.0 indicates no change while values above or below this level indicate an expansion or a contraction of manufacturing activity.

Table 14: Reserve Bank's Survey - Net Response on 'A Quarter Ahead' Expectations About the Industrial Performance

(Per cent)

Parameter	Response	Jan-March 2007	Apr-June 2007	July-Sept 2007	Oct-Dec. 2007	Jan-Mar 2008	Apr-June 2008
1	2	3	4	5	6	7	8
1. Overall business situation	Better	53.7 (40.7)	51.7 (43.3)	49.5 (41.2)	50.2 (42.1)	47.7 (42.9)	46.0 (42.7)
2. Financial situation	Better	44.5 (49.9)	43.8 (49.8)	41.3 (49.8)	40.1 (51.3)	40.3 (50.3)	36.6 (51.6)
3. Working capital finance requirement	Increase	36.2 (59.2)	35.3 (59.2)	34.5 (59.2)	32.2 (62.6)	34.7 (60.3)	36.6 (56.5)
4. Availability of finance	Improve	36.2 (56.6)	35.2 (57.2)	32.1 (58.6)	33.8 (58.8)	31.1 (59.5)	32.3 (58.3)
5. Production	Increase	50.7 (40.1)	47.8 (41.6)	46.6 (41.1)	49.0 (40.9)	43.9 (42.3)	45.2 (41.0)
6. Order books	Increase	47.3 (43.1)	45.7 (45.4)	43.6 (46.1)	44.1 (46.0)	37.1 (48.6)	41.5 (44.3)
7. Pending orders, if applicable	Below normal	-2.7 (82.9)	-2.2 (82.8)	-2.2 (82.6)	-3.5 (82.4)	0.4 (80.2)	-4.3 (81.3)
8. Cost of raw material	Decrease	-41.7 (51.0)	-42.1 (52.0)	-46.0 (49.7)	-42.4 (51.0)	-44.1 (49.2)	-48.2 (46.0)
9. Inventory of raw material	Below average	-7.1 (83.8)	-7.3 (85.0)	-5.4 (85.0)	-6.3 (85.0)	-7.3 (84.8)	-7.0 (83.2)
10. Inventory of finished goods	Below average	-5.2 (84.5)	-4.4 (85.2)	-2.7 (87.1)	-3.5 (86.4)	-4.5 (86.1)	-5.8 (84.5)
11. Capacity utilisation (Main product)	Increase	33.3 (57.7)	29.4 (60.4)	27.0 (61.4)	28.4 (61.5)	24.2 (62.3)	25.6 (59.9)
12. Level of capacity utilisation (Compared to the average in the preceding four quarters)	Above normal	12.8 (76.4)	11.5 (77.1)	9.4 (76.5)	10.7 (77.2)	6.4 (78.3)	9.4 (77.0)
13. Assessment of the production capacity (With regard to expected demand in the next six months)	More than adequate	4.8 (81.8)	4.0 (82.2)	3.0 (82.2)	4.2 (83.0)	4.7 (83.8)	8.0 (81.2)
14. Employment in the company	Increase	18.1 (73.7)	18.3 (73.3)	17.4 (73.5)	16.7 (74.1)	14.6 (75.6)	20.8 (68.2)
15. Exports, if applicable	Increase	32.6 (57.3)	33.4 (56.8)	32.6 (55.6)	31.4 (55.9)	24.3 (58.3)	27.7 (53.3)
16. Imports, if any	Increase	20.8 (68.0)	21.6 (68.4)	23.7 (68.2)	20.8 (68.6)	20.1 (70.5)	25.3 (65.6)
17. Selling prices are expected to	Increase	14.2 (69.2)	15.5 (68.9)	19.0 (67.1)	13.0 (68.5)	14.9 (67.1)	19.1 (66.0)
18. If increase expected in selling prices	Increase at lower rate	10.5 (68.1)	12.1 (66.7)	10.4 (65.0)	3.7 (58.9)	13.3 (66.7)	9.0 (64.0)
19. Profit margin	Increase	11.6 (61.7)	9.9 (62.5)	7.5 (62.6)	9.6 (59.6)	5.4 (60.0)	7.2 (61.0)

Notes: 1. 'Net response' is measured as the percentage share differential between the companies reporting 'optimistic' (positive) and 'pessimistic' (negative) responses; responses indicating *status quo* (no change) are not reckoned. Higher 'net response' indicates higher level of confidence and *vice versa*.

2. Figures in parentheses are the percentages of respondents with 'no change over the preceding quarter' as responses.

CMIE Projections

The recent projections for growth rate of industrial production in 2008-09 by the Centre for Monitoring Indian Economy (CMIE) present an optimistic view in the light of the large investments being made in the economy. The CMIE expects the industrial growth to accelerate from the estimated 8.5 per cent in 2007-08 to 10 per cent in 2008-09. Growth rates in manufacturing, mining and electricity sectors are projected at 10.8 per cent, 8.0 per cent and 6.3 per cent, respectively. On the whole, the industrial rebound is expected to be well-spread across all the sectors and would be fuelled by robust growth in capital goods in the wake of large capital goods imports, investments and healthy order-book position as also a pick-up in growth of consumer goods.

Survey of Professional Forecasters

Several central banks conduct 'Survey of Professional Forecasters' on major macroeconomic indicators of short to medium term economic developments so as to gain from the professional expertise and experience of these forecasters. The Reserve Bank has also introduced such a survey from the quarter ended September 2007. The results of the fourth quarter (ended March 2008) survey are presented for select macroeconomic indicators in Table 15.

Forecasts by various agencies for the real GDP growth in 2008-09 are set out in Table 16.

Table 15: Median Forecasts of Select Macroeconomic Indicators by Professional Forecasters : 2008-09

Indicators	2008-09			
	Annual	Q1	Q2	Q3
1	2	3	4	5
1. Real GDP growth rate at factor cost (in per cent)	8.1	8.1	8.3	8.1
a. Agriculture & Allied Activities	3.0	3.0	3.0	2.9
b. Industry	8.1	8.4	8.5	8.6
c. Services	9.7	10.0	9.6	9.8
2. Gross Domestic Saving (per cent of GDP at current market prices)	35.0	-	-	-
3. Gross Domestic Capital Formation (per cent of GDP at current market prices)	36.0	36.2	36.0	36.0
4. Corporate profit after tax (growth rate in per cent)	24.7	21.3	22.6	23.1
5. 91-day Treasury Bills Yield (per cent-end period)	6.8	-	-	-
6. 10-year Government Securities Yield (per cent-end period)	7.8	-	-	-
7. Export (growth rate in per cent)	15.8	-	-	-
8. Import (growth rate in per cent)	20.0	-	-	-
9. Trade Balance (US $ billion)	-115.5	-28.4	-27.5	-28.1

- : Not Available.

Source : Survey of Professional Forecasters, Fourth Quarter 2007-08.

Table : 16 : Projections of Real GDP for India by various Agencies - 2007-08

(per cent)

Agency	Overall Growth	Agriculture	Industry	Services	Month of Projection
1	2	3	4	5	6
ASSOCHAM	7.9	2.6	7.6	9.7	April 2008
Confederation of Indian Industry (CII)	8.0-8.5	-	-	-	March 2008
Citigroup	8.3	-	-	-	February 2008
	7.7	3.0	7.5	9.2	March 2008
Merrill Lynch	8.4	-	-	-	December 2007
	8.2	3.0	7.6	9.9	March 2008
JP Morgan	7.5	-	-	-	December 2007
	7.0	-	-	-	March 2008
Goldman Sachs	7.8	-	-	-	January 2008
CRISIL	8.5	3.0	8.3	10.3	February 2008
	8.1	-	-	-	April 2008
Centre for Monitoring the Indian Economy (CMIE)	9.1	3.3	10.4	10.3	February 2008
	9.5	2.6	11.4	10.6	April 2008
Asian Development Bank	8.5	-	-	-	September 2007
	8.0	-	-	-	April 2008
International Monetary Fund	8.4 *	-	-	-	October 2007
	7.9 *	-	-	-	April 2008
United Nations Organisation	8.2	-	-	-	January 2008
Economic Advisory Council to Prime Minister	8.5	-	-	-	January 2008

- : Not Available. * : Calendar year.

II. FISCAL SITUATION

Combined Government Finances: 2007-08

Combined Government finances were budgeted to improve in 2007-08, with key deficit ratios placed 0.7-0.9 percentage points of GDP lower than in 2006-07, reflecting the improvement in the finances of both the Central and State Governments. The improvement was envisaged to be achieved through a reduction in expenditure (as percentage of GDP), particularly in the revenue account. The combined debt-GDP ratio was budgeted to decline from 77.1 per cent at end-March 2007 to 73.8 per cent at end-March 2008 (Table 17).

The combined fiscal deficit during 2007-08 was budgeted to be financed primarily from domestic resources. Market borrowings were budgeted to finance 53.5 per cent of the gross fiscal deficit (GFD) during 2007-08 (49.1 per cent a year ago), while other liabilities (small savings, provident funds, reserve funds and

Table 17: Key Fiscal Indicators

(Per cent to GDP)

Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities*
1	2	3	4	5
		Centre		
2002-03	1.1	4.4	5.9	63.5
2003-04	-0.03	3.6	4.5	63.0
2004-05	-0.04	2.5	4.0	63.3
2005-06	0.4	2.6	4.1	63.1
2006-07	-0.2	1.9	3.5	61.2
2007-08 BE	-0.2	1.5	3.3	58.5
2007-08 RE	-0.6	1.4	3.1	61.7
2008-09 BE	-1.1	1.0	2.5	57.7
		States		
2002-03	1.3	2.3	4.1	32.0
2003-04	1.5	2.3	4.4	33.2
2004-05	0.7	1.2	3.4	32.7
2005-06	0.2	0.2	2.5	32.6
2006-07 RE	0.4	0.1	2.7	30.6
2007-08 BE	0.1	-0.3	2.3	29.4
		Combined		
2002-03	3.1	6.7	9.5	80.3
2003-04	2.0	5.9	8.4	81.4
2004-05	1.4	3.7	7.4	81.3
2005-06	1.0	2.8	6.7	80.4
2006-07 RE	0.8	2.1	6.4	77.1
2007-08 BE	0.1	1.3	5.5	73.8

RE: Revised Estimates. BE: Budget Estimates. * : Includes external liabilities at historical exchange rates.

Note: The fiscal ratios are based on CSO's estimates of GDP, except for the Centre for the years 2007-08 and 2008-09 which are as per the Union Budget, 2008-09.

deposits and advances) were budgeted to finance 42.9 per cent (47.9 per cent in 2006-07). External assistance was budgeted to finance 3.6 per cent of the combined fiscal deficit during 2007-08 as compared with 3.0 per cent in 2006-07 (Chart 5).

Centre's Fiscal Situation: 2007-08

The process of fiscal correction and consolidation under the Fiscal Responsibility and Budget Management (FRBM) framework continued during 2007-08; the revised estimates for the year placed the revenue deficit and fiscal deficit lower than budget estimates, both in absolute terms and relative to GDP. Revenue deficit at Rs.63,488 crore in 2007-08 was lower by Rs. 7,990 crore than the budget estimates. This reflected the significant increase in the tax and non-tax revenue which more than offset the increase in the revenue expenditure on account of higher provision for interest payments and subsidies. The GFD at Rs.1,43,653 crore in 2007-08 was lower by Rs.7,295 crore than the budget estimates on account of the lower revenue deficit coupled with a decline in capital expenditure. As a result, gross primary surplus in the revised estimates at Rs.28,318 crore was significantly higher than the budget estimates by Rs.20,271 crore.

The reduction in GFD and revenue deficit by 0.4 per cent and 0.5 per cent of GDP, respectively, during 2007-08 (RE) over 2006-07 met the stipulated minimum threshold levels of 0.3 per cent and 0.5 per cent of GDP for GFD and revenue deficit, respectively, under the FRBM Rules, 2004.

Chart 5: Financing Pattern of the Combined GFD

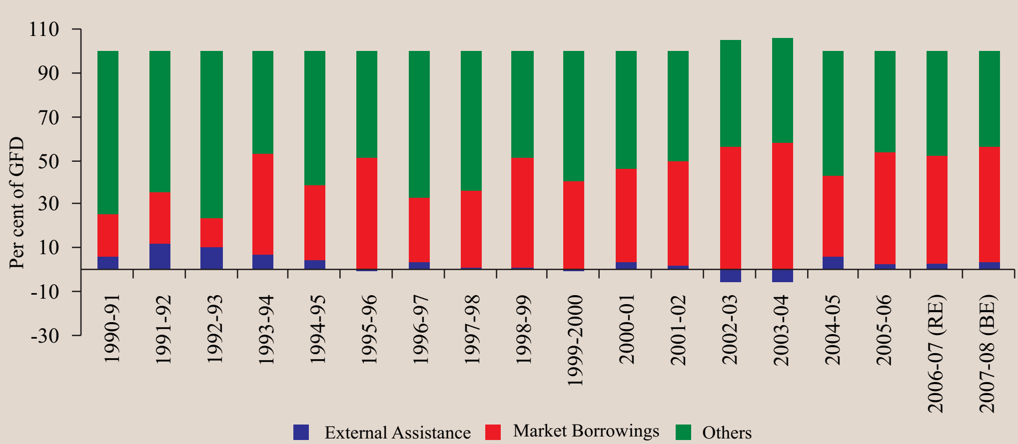


Table 18: Receipts of the Centre

(Amount in Rupees crore)

Item	2006-07 (Accounts)	2007-08 (BE)	2007-08 (RE)	Variation (4 over 3)	
				Amount	Per cent
1	2	3	4	5	6
1. Total Receipts (2+3)	**5,83,387**	**6,80,521**	**7,09,373**	**28,852**	**4.2**
	(14.1)	**(14.5)**	**(15.1)**		
2. Revenue Receipts (i+ii)	4,34,387	4,86,422	5,25,098	38,676	8.0
	(10.5)	(10.4)	(11.2)		
i) Tax Revenue (Net)	3,51,182	4,03,872	4,31,773	27,901	6.9
	(8.5)	(8.6)	(9.2)		
ii) Non-Tax Revenue	83,205	82,550	93,325	10,775	13.1
	(2.0)	(1.8)	(2.0)		
3. Capital Receipts	1,49,000	1,94,099	1,84,275	-9,824	-5.1
	(3.6)	(4.1)	(3.9)		
of which:					
Market Borrowings	1,14,801	1,10,827	1,10,727	-100	-0.1
Recoveries of Loans	5,893	1,500	4,497	2,997	199.8
Disinvestment proceeds	534	41,651	36,125	-5,526	-13.3
Memo Items: Net of transactions relating to transfer of Reserve Bank's stake in SBI					
Total receipts	5,83,387	6,40,521 *	6,75,065 #	34,544	5.4
	(14.1)	(13.6)	(14.4)		
Disinvestment proceeds	5,893	1,651 *	1,817 #	166	10.1

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 State Bank of India (SBI) to the Central Government.

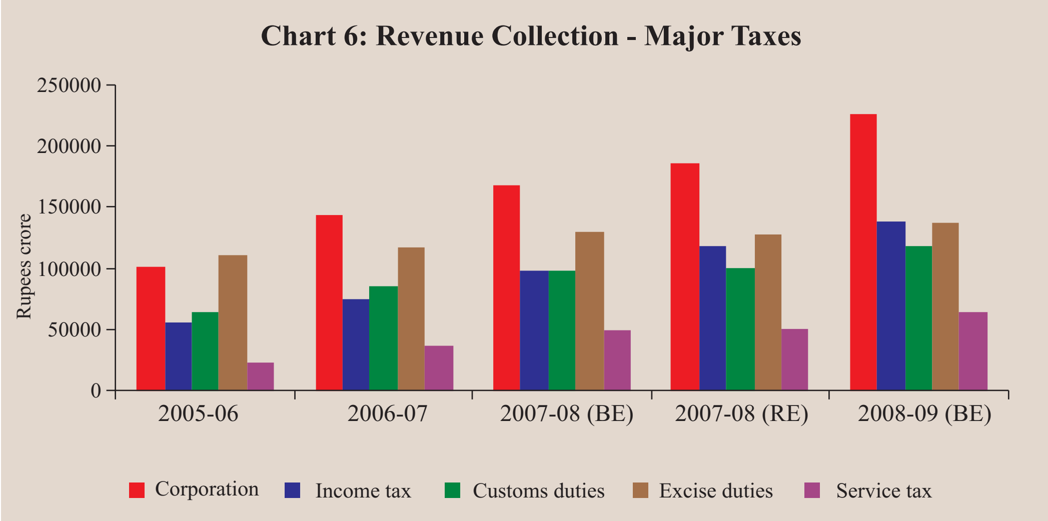
: Net of transfer of profit from the Reserve Bank to the Central Government on account of sale of Reserve Bank's stake in SBI amounting to Rs.34,308 crore.

Note : Figures in parentheses are percentages to GDP.

Revenue receipts in the revised estimates increased by 8.0 per cent over the budgeted level and were placed at 11.2 per cent of GDP (Table 18). This was mainly on account of higher than budgeted net tax revenue, particularly under personal income tax, corporation tax, customs duties, service tax and securities transaction tax. However, collections under excise duties in the revised estimates were lower than the budget estimates (Chart 6).

The collections under non-tax revenues were also higher than the budget estimates on account of dividends and profits which were higher by 6.4 per cent than the budget estimates. Among the capital receipts, recoveries of loans and advances were higher than budgeted.

The aggregate expenditure (adjusted for acquisition cost of Reserve Bank's stake in SBI) in the revised estimates for 2007-08 was 5.2 per cent higher than the budget estimates on account of higher revenue expenditure, particularly in interest payments and subsidies (Table 19). Increase in interest payments was mainly due to higher interest outgo in market loans, securities issued under market stabilisation scheme (MSS) and compensation and other bonds.



The expenditure on subsidies at Rs.69,742 crore (1.5 per cent of GDP) in the revised estimates for 2007-08 was 28.4 per cent higher than the budgeted

Table 19: Aggregate Expenditure of the Centre

(Amount in Rupees crore)

Item	2006-07 (Accounts)	2007-08 (BE)	2007-08 (RE)	Variation (4 over 3) Amount	Per cent
1	2	3	4	5	6
1. Total Expenditure (2+3= 4+5)	5,83,387 (14.1)	6,80,521 (14.5)	7,09,373 (15.1)	28,852	4.2
2. Non-Plan Expenditure	4,13,527 (10.0)	4,75,421 (10.1)	5,01,849 (10.7)	26,428	5.6
of which:					
Interest Payments	1,50,272 (3.6)	1,58,995 (3.4)	1,71,971 (3.7)	12,976	8.2
Defence Expenditure	85,510 (2.1)	96,000 (2.0)	92,500 (2.0)	-3,500	-3.6
Subsidies	57,125 (1.4)	54,330 (1.2)	69,742 (1.5)	15,412	28.4
3. Plan Expenditure	1,69,860 (4.1)	2,05,100 (4.4)	2,07,524 (4.4)	2,424	1.2
4. Revenue Expenditure	5,14,609 (12.4)	5,57,900 (11.9)	5,88,586 (12.5)	30,686	5.5
5. Capital Expenditure	68,778 (1.7)	1,22,621 (2.6)	1,20,787 (2.6)	-1,834	-1.5
Memo Items: Net of transactions relating to Reserve Bank's stake in SBI					
Total Expenditure	5,83,387 (14.1)	6,40,521 * (13.6)	6,73,842 # (14.4)	33,321	5.2
Non-Plan Expenditure	4,13,527 (10.0)	4,35,421 * (9.3)	4,66,318 # (9.9)	30,897	7.1
Capital Expenditure	68,778 (1.7)	82,621 * (1.8)	85,256 # (1.8)	2,635	3.2

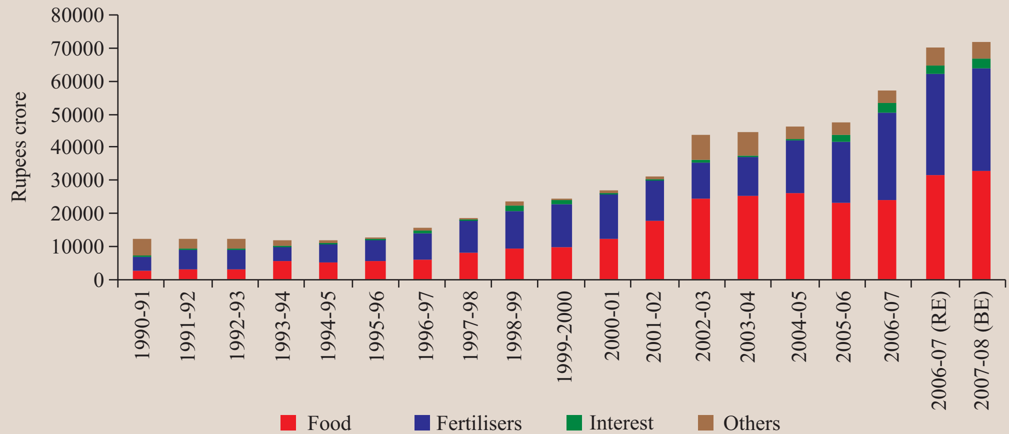
RE: Revised Estimates. BE: Budget Estimates.

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

: Excludes acquisition cost of Reserve Bank's stake in SBI at Rs.35,531 crore.

Note: Figures in parentheses are percentages to GDP.

Chart 7: Composition of Subsidies



amount mainly on account of food and fertiliser subsidies exceeding the budget estimates by Rs.5,850 crore (22.8 per cent) and Rs.8,050 crore (35.9 per cent), respectively (Chart 7). Food subsidies increased to Rs.31,546 crore in the revised estimates mainly due to higher minimum support price and carrying cost. Fertiliser subsidies increased to Rs.30,501 crore mainly on account of increases in input cost of indigenous fertilisers and the cost of imported fertilisers.

Under capital expenditure, while defence capital expenditure declined, non-defence capital outlay adjusted for transactions relating to transfer of Reserve Bank's stake in State Bank of India increased by Rs.3,358 crore or 10.1 per cent. Plan expenditure did not show much variation from the budget estimates, although Central assistance for State and Union Territories (UT) plans increased markedly in the revised estimates.

Financing of the Union Budget

Gross and net market borrowings (dated securities and 364-day Treasury Bills excluding allocations under the Market Stabilisation Scheme) of the Centre for 2007-08 were budgeted at Rs.1,87,769 crore and Rs.1,10,827 crore, respectively. In the revised estimates, net market borrowings were placed marginally lower at Rs.1,10,727 crore, financing 77.1 per cent of GFD. Apart from market borrowings, short-term borrowings (14-day, 91-day and 182-day Treasury Bills) financed 17.7 per cent of GFD in the revised estimates as compared with 0.3 per cent of GFD in the budget estimates. In the public account, deposits and advances, state provident funds and reserve funds financed 5.4 per cent, 3.3 per cent and 2.4 per cent, respectively, of GFD.

According to the Reserve Bank records, gross and net market borrowings (including 364-day Treasury Bills) during 2007-08 amounted to Rs.1,88,205 crore and Rs.1,09,504 crore, respectively, accounting for 99.7 per cent and 99.9 per cent of the estimated borrowings for the year. Gross market borrowings through dated securities by the Central Government during 2007-08 amounted to Rs.1,56,000 crore as against Rs.1,51,000 crore scheduled in the issuance calendar for the year (Table 20). All auctions were re-issuances of existing securities, barring one new issue (10-year security) for Rs.6,000 crore on July 9, 2007. During 2007-08, an amount of Rs.957 crore devolved on primary dealers (PDs). The weighted average maturity of dated securities issued during 2007-08 at 14.90 years was higher than that of 14.72 years during the previous year. The weighted average yield of dated securities issued during 2007-08 was 8.12 per cent as compared with 7.89 per cent during 2006-07.

Cash Management: Central Government

Higher than anticipated spending and a decline in investments in Treasury Bills by the States on account of lower collections under the National Small Saving Fund (NSSF) resulted in the recourse to Ways and Means Advance (WMA) during the greater part of the first quarter of 2007-08 by the Central Government, even as the year commenced with a surplus cash balance of Rs.50,092 crore. The Central Government also resorted to overdraft during this period. A surplus was, however, built up in June 2007, ahead of acquisition of Reserve Bank's stake in SBI, which was used up by the month-end to meet this expenditure and the Central Government reverted to WMA. With the transfer of surplus from the Reserve Bank on August 9, 2007, the Centre's cash balance returned to a surplus mode and remained so thereafter. The cash surplus surpassed Rs.1,00,000 crore on March 19, 2008 on the strength of buoyant advance tax collections. As on March 31, 2008, the surplus cash balance was placed at Rs.76,686 crore. During 2007-08, the Centre took recourse to WMA for 91 days as compared with 39 days during 2006-07. The average utilisation of WMA/OD during 2007-08 was Rs.4,255 crore as compared with Rs.402 crore in the previous year.

Extra-Budgetary Items

The Union Government has recognised that revenue deficit and GFD are understated to the extent the Government incurs liabilities on account of oil, food and fertiliser bonds which are recorded below the line. Therefore, as a step towards bringing about greater transparency in fiscal accounting, the Budget has reported in its revised estimates for 2007-08 the issuance of special securities aggregating Rs.18,757 crore to oil marketing companies (Rs.11,257 crore) and fertiliser companies (Rs.7,500 crore) *in lieu* of subsidies. During 2007-08, the actual issuance of special bonds to oil companies as compensation for under-recoveries and for settlement of contingent liabilities amounted to Rs.20,333 crore and Rs.221 crore, respectively. Special bonds issued to fertiliser companies

Table 20: Central Government Securities Issued during 2007-08

(Amount in Rupees crore/Maturity in years/Yield in per cent)

	Borrowings as per Issuance Auction Calendar			Actual Borrowings			
Sr. No.	Period of Auction	Amount	Residual Maturity	Date of Auction	Amount	Residual Maturity	Yield
1	2	3	4	5	6	7	8
1.	April 5-12, 2007	6,000	5-9	April 12, 2007	6,000	8.39	8.16
		4,000	20 and above	April 12, 2007	4,000	29.15	8.58
2.	April 20-27, 2007	6,000	10-14	April 27, 2007	6,000	9.71	8.16
3.	May 4-11, 2007	6,000	10-14	May 11, 2007	6,000	9.92	8.31
		4,000	20 and above	May 11, 2007	4,000	29.06	8.64
4.	May 18-25, 2007	5,000	5-9	May 25, 2007	5,000	8.26	8.24
		3,000	15-19	May 25, 2007	3,000	14.96	8.40
5.	June 1-8, 2007	6,000	10-14	June 5, 2007	6,000	9.86	8.18
		3,000	20 and above	June 5, 2007	3,000	29.00	8.52
				June 12, 2007 *	5,000	9.84	8.44
6.	June 15-22, 2007	6,000	10-14	June 15, 2007	6,000	9.83	8.35
7.	July 6-13, 2007	6,000	10-14	July 6, 2007	6,000	10.00	7.99
		4,000	20 and above	July 7,2007	4,000	28.91	8.45
8.	July 20-27,2007	6,000	5-9	July 20,2007	6,000	6.10	7.59
		3,000	20 and above	July 20,2007	3,000	25.10	8.34
9.	August 3-10, 2007	6,000	10-14	August 3, 2007	6,000	9.93	7.93
		4,000	20 and above	August 3, 2007	4,000	24.87	8.45
10.	August 17-24,2007	5,000	5-9	August 24, 2007	5,000	6.02	7.87
		2,000	10-14	August 24, 2007	2,000	9.89	7.91
11.	September 7-14, 2007	4,000	10-14	September 7, 2007	4,000	14.43	8.16
		3,000	20 and above	September 7, 2007	3,000	28.74	8.41
12.	October 5-12, 2007	6,000	10-14	October 12, 2007	6,000	9.73	7.91
		4,000	20 and above	October 12, 2007	4,000	25.20	8.45
13.	October 19-26, 2007	4000	5-9	October 26, 2007	4000	5.84	7.74
		4000	15-19	October 26, 2007	4000	14.54	8.13
14.	November 2-8, 2007	5000	10-14	November 8, 2007	5000	14.26	8.26
		3000	20 and above	November 8, 2007	3000	28.57	8.39
15.	November 16-23, 2007	3000	10-14	November 23, 2007	3000	9.62	7.90
		4000	15-19	November 23, 2007	4000	14.47	8.20
16.	December 7-14, 2007	5000	10-14	December 14, 2007	5,000	9.56	7.92
		2000	20 and above	December 14, 2007	2,000	28.47	8.26
17.	January 4-11, 2008	6000	10-14	January 11, 2008	6000	9.49	7.55
		4000	20 and above	January 11, 2008	4000	28.40	7.89
18.	February 1-8, 2008	4000	20 and above	February 8, 2008	4000	28.32	7.77
		5000	15-19	February 8, 2008	5000	14.01	7.62
Total		**1,51,000**			**1,56,000**		

Memo:

Year	Weighted Average Maturity	Weighted Average Yield
2003-04	14.94	5.71
2004-05	14.13	6.11
2005-06	16.90	7.34
2006-07	14.72	7.89
2007-08	14.90	8.12

* : Not scheduled.

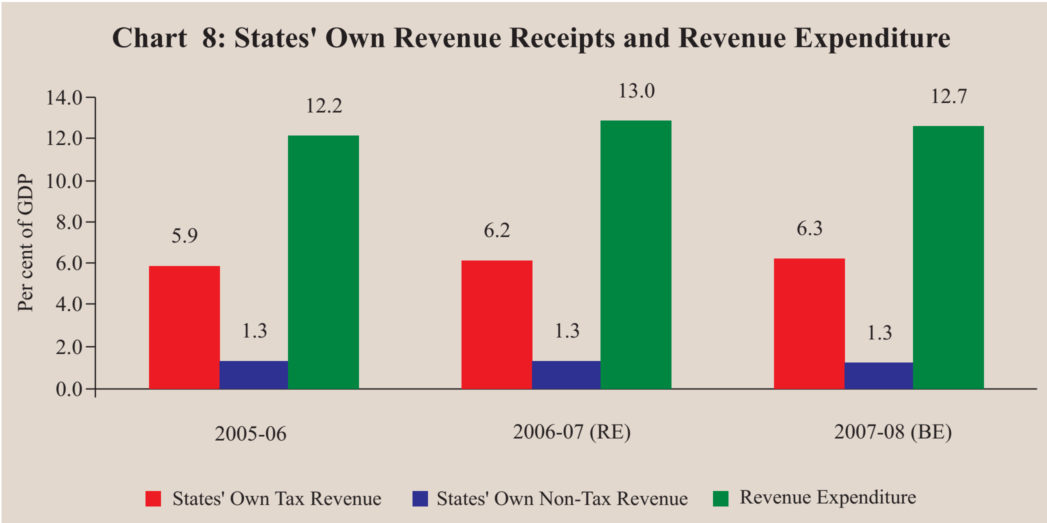
Source : Reserve Bank of India.

as compensation for fertiliser subsidy amounted to Rs.7,500 crore. The Central Government also issued special bonds worth Rs.9,996 crore to State Bank of India as subscription towards State Bank of India's rights issue of equity shares.

State Finances : 2007-08

The State Governments budgeted a revenue surplus of 0.3 per cent of GDP in 2007-08 as against a revenue deficit (RD) of 0.1 per cent in 2006-07 (RE). The gross fiscal deficit (GFD) was budgeted at 2.3 per cent of GDP in 2007-08, lower by 0.4 percentage points over the previous year (see Table 17). The progressive enactment of Fiscal Responsibility Legislation (FRL) by 26 States has enabled them to usher in a rule-based fiscal regime. The efforts of the State Governments towards reducing fiscal imbalances were aided by larger devolution and transfers from the Centre based on the recommendations of the Twelfth Finance Commission (TFC) along with the improvement in tax buoyancy on the strength of macroeconomic fundamentals. Furthermore, all States have implemented Value Added Tax (VAT) in *lieu* of sales tax, which has been an unqualified success in raising the tax revenue for the States. The State Governments while presenting their budgets for 2007-08 took into account the priorities as laid down in the Eleventh Five-Year Plan (2007-12). In order to ensure the quality of human resource development, social sector expenditure was proposed to be raised by higher allocations in 2007-08. In view of the priority given to infrastructure development in the Eleventh Five-Year Plan, the State Governments have envisaged implementation of various projects, especially power and roads. Several State Governments have proposed to implement the infrastructure projects through the framework of public-private partnership (PPP). The State Governments have also undertaken development of urban infrastructure under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

The correction in the revenue account during 2007-08 has been envisaged to be achieved primarily through enhancement in revenue receipts by 14.2 per cent on top of 23.3 per cent growth recorded in the previous year. Revenue receipts as a per cent of GDP have been estimated to increase by 0.1 percentage point to 12.9 per cent in 2007-08, mainly on account of own tax revenue and devolution and transfers from the Centre. The improvement in revenue account would also be facilitated by deceleration in revenue expenditure to 10.8 per cent during 2007-08 from 22.6 per cent growth in the previous year. As a per cent of GDP, the revenue expenditure was placed at 12.7 per cent in 2007-08 (BE) as compared with 13.0 per cent in 2006-07 (RE) (Chart 8).



The decomposition of consolidated GFD of all State Governments based on their budget documents reveals that the surplus in the revenue account would partly finance capital expenditure in 2007-08, in contrast to the previous year when RD constituted 4.9 per cent of GFD. Accordingly, the share of capital outlay in GFD was budgeted to increase from 92.1 per cent to 109.7 per cent in 2007-08. Securities issued to NSSF would continue to be the major financing item of GFD, though its share was budgeted to decline due to expected shortfall 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. Market borrowings would correspondingly finance a higher proportion of GFD during 2007-08 at 24.3 per cent as compared with 16.8 per cent during the previous year (Table 21).

Cash Management and State Governments' Market Borrowings

The net allocation (provisional) for the market borrowings of the State Governments during 2007-08 was placed at Rs.28,781 crore. Taking into account repayment of Rs.11,555 crore during the year, and additional allocation of Rs.40,234 crore (of which Rs. 35,780 crore was on account of allocation made by the Central Government in view of expected shortfall in NSSF collection), the gross allocation of market borrowings was placed at Rs.80,570 crore for the year 2007-08. During 2007-08, the States (including the Union Territory of Puducherry) raised market loans amounting to Rs. 67,779 crore (84.1 per cent of gross allocation) through auctions, as compared with Rs.20,825 crore (78.3 per cent of gross allocation) during the previous year. The cut-off yield ranged between 7.84-8.90 per cent. The weighted average yield on market loans firmed

Table 21: Decomposition and Financing Pattern of GFD of States

(Per cent)

Item	1990-95 (Average)	1995-2000 (Average)	2000-05 (Average)	2005-06 (Accounts)	2006-07 (RE)	2007-08 (BE)
1	2	3	4	5	6	7
Decomposition (1+2+3-4)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1. Revenue Deficit	25.2	47.1	54.6	7.8	4.9	-11.1
2. Capital Outlay	55.4	43.1	40.5	86.1	92.1	109.7
3. Net Lending	19.4	10.0	4.9	6.1	5.7	10.7
4. Non-debt Capital Receipts	-	0.2	-	-	2.7	9.3
Financing (1 to 11)						
1. Market Borrowings	16.1	16.4	26.4	17.0	16.8	24.3
2. Loans from Centre	48.8	39.7	4.3	0.0	1.8	6.0
3. Special Securities issued to NSSF/Small Savings	-	28.9 *	40.2	81.9	51.5	49.6
4. Loans from LIC, NABARD, NCDC, SBI & Other Banks	1.8	2.9	4.0	4.5	5.6	6.8
5. Small Savings, P.F., *etc.*	17.6	16.2	10.1	11.6	9.6	11.4
6. Reserve Funds	6.8	5.6	5.0	5.8	4.2	3.9
7. Deposits & Advances	9.9	9.9	4.2	8.1	1.6	1.4
8. Suspense & Miscellaneous	4.3	2.8	-0.8	8.8	0.0	-1.3
9. Remittances	-1.4	-3.7	0.7	0.1	0.3	0.0
10. Others	0.7	1.4	4.7	0.0	-2.8	-0.9
11. Overall Surplus (-)/Deficit (+)	-4.5	3.0	1.2	-37.7	11.6	-1.1

RE : Revised Estimates. BE: Budget Estimates. -: Nil/Negligible/Not applicable.

NSSF : National Small Savings Fund.

* : Pertains to 1999-2000 as it was introduced from that year only. The sum of items for 1995-2000 (Average) will, therefore, not add up to 100.

Note : 1. Owing to the change in the accounting procedure from 1999-2000, loans from the Centre excludes States' share in small saving collections which is shown under securities issued to the NSSF under internal debt. Accordingly, repayments of small saving collections included under repayments of loans to Centre is shown under discharge of Internal Debt in order to have consistent accounting for receipts and expenditure.

2. 'Others' include Compensation and Other Bonds, Loans from Other Institutions, Appropriation to Contingency Fund, Inter-state Settlement and Contingency Fund.

3. Figures in respect of Jammu and Kashmir and Jharkhand relate to revised estimates.

4. All financing items are on a net basis.

Source : Budget Documents of the State Governments.

up to 8.25 per cent during 2007-08 from 8.10 per cent in the previous year (Table 22).

The average daily utilisation of WMA and overdraft by the States during 2007-08 was Rs. 648 crore, as against Rs.248 crore during 2006-07. The average daily utilisation of WMA since December 2007 has been lower than the corresponding months of the preceding year (Chart 9). During 2007-08, eight States availed of WMA for a period of 1-184 days, of which three States resorted to overdraft for a period ranging between 3-65 days.

The cash surplus position of the States, as reflected in their investments in Treasury Bills (14-day and auction Treasury Bills), remained sizeable,

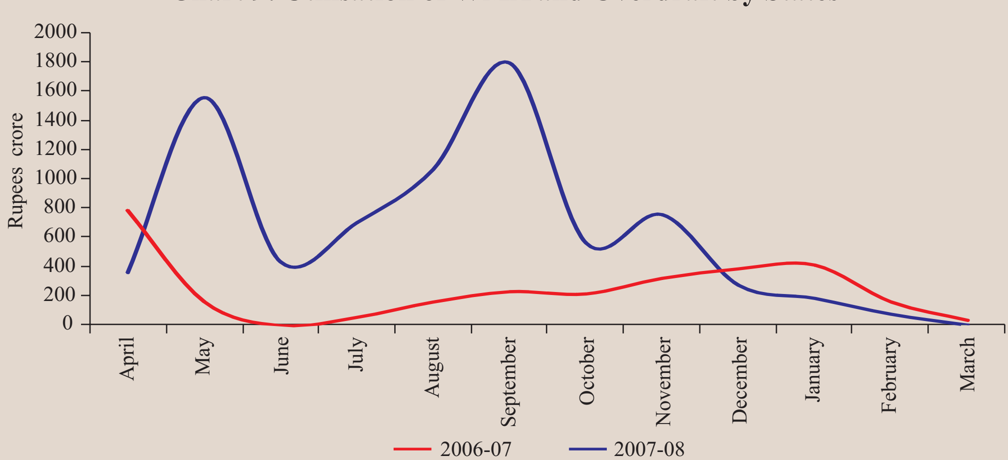
Table 22: Market Borrowings of State Governments - 2007-08

Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees Crore)
1	2	3	4	5
Auctions				
First	April 19, 2007	8.30	10	1,837
Second	May 10, 2007	8.34	10	350
Third	May 17, 2007	8.40	10	1,400
Fourth	June 19, 2007	8.45-8.57	10	3,566
Fifth	July 26, 2007	8.00-8.25	10	1,389
Sixth	August 16, 2007	8.30-8.90	10	3,485
Seventh	September 20, 2007	8.14-8.50	10	3,074
Eighth	October 4, 2007	8.20	10	590
Ninth	October 8, 2007	8.31-8.40	10	4,672
Tenth	November 13, 2007	8.39-8.69	10	5,300
Eleventh	November 30, 2007	8.45-8.50	10	5,212
Twelfth	December 18 ,2007	8.39-8.58	10	2,963
Thirteenth	January 7, 2008	8.03-8.12	10	5,833
Fourteenth	January 24, 2008	7.84-7.98	10	7,778
Fifteenth	February 15, 2008	7.93-8.02	10	7,776
Sixteenth	February 22, 2008	8.12-8.48	10	4,975
Seventeenth	March 7, 2008	8.28-8.45	10	4,349
Eighteenth	March 26,2008	8.35-8.70	10	3,229
Grand Total				**67,779**
Memo:				
Year				Weighted Average Yield (per cent)
2003-04				6.13
2004-05				6.45
2005-06				7.63
2006-07				8.10
2007-08				8.25

Source : Reserve Bank of India.

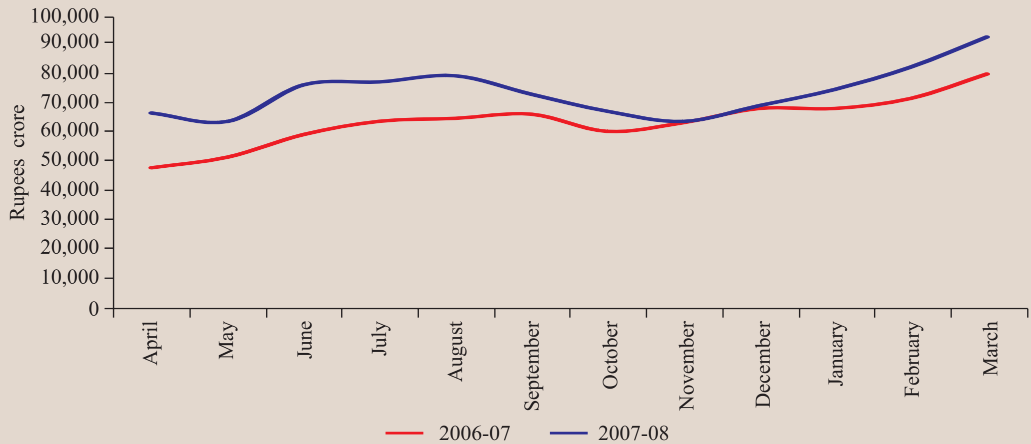
increasing from Rs.73,403 crore at end-March 2007 to Rs.97,615 crore at end-March 2008. The average investment by the States in Treasury Bills during

Chart 9: Utilisation of WMA and Overdraft by States*



* Average of daily outstandings

Chart 10: Investments in Treasury Bills by State Governments*



*Average of Friday outstandings

2007-08 amounted to Rs.73,680 crore as against Rs.63,718 crore during the previous year (Chart 10).

Fiscal Outlook: 2008-09

The Union Budget for 2008-09 proposed to continue the fiscal consolidation process, with the key deficit indicators, *viz.*, revenue deficit and GFD, budgeted to be lower by 0.4-0.6 percentage points and primary surplus higher by 0.5 percentage points of GDP in 2008-09 than in the previous year (Table 23). While the FRBM targets relating to GFD are set to be achieved in accordance with the mandate, the Budget proposed to reschedule the stipulated target of zero revenue deficit by 2008-09 under FRBM Rules, 2004, primarily on account of a shift in plan priorities in favour of revenue expenditure-intensive programmes and schemes. The Budget envisaged a revenue-led fiscal consolidation along with reprioritisation of expenditure to augment allocations for improvement in social and physical infrastructure, particularly in rural areas so as to achieve a 'faster and more inclusive' growth.

The procedural reforms aimed at expanding the tax base, improving efficiency in tax collections and providing certain concessions for investment, which have led to the remarkable improvement in tax collections in recent years, are expected to continue in 2008-09. As a result, the gross tax-GDP ratio, which has been rising since 2002-03, is budgeted to improve from 12.5 per cent in 2007-08 (RE) to 13.0 per cent in 2008-09 (BE) (Table 24).

Aggregate expenditure (adjusted for acquisition cost of Reserve Bank's stake in SBI in 2007-08) is budgeted to increase by 11.4 per cent in 2008-09

Table 23 : Union Budget 2008-09 at a Glance

(Amount in Rupees crore)

Item	2007-08 (RE)	2008-09 (BE)	Growth rate (per cent) 2007-08	Growth rate (per cent) 2008-09
1	2	3	4	5
1. Revenue Receipts (i+ii)	5,25,098 (11.2)	6,02,935 (11.4)	20.9	14.8
i) Tax Revenue (Net)	4,31,773 (9.2)	5,07,150 (9.6)	22.9	17.5
ii) Non-Tax Revenue	93,325 (2.0)	95,785 (1.8)	12.2	2.6
2. Non-Plan Expenditure *of which*:	4,66,318* (9.9)	5,07,498 (9.6)	12.8	8.8
i) Interest Payments	1,71,971 (3.7)	1,90,807 (3.6)	14.4	11.0
ii) Defence Expenditure	92,500 (2.0)	105,600 (2.0)	8.2	14.2
iii) Subsidies	69,742 (1.5)	71,431 (1.3)	22.1	2.4
3. Plan Expenditure	2,07,524 (4.4)	2,43,386 (4.6)	22.2	17.3
4. Revenue Expenditure	5,88,586 (12.5)	6,58,119 (12.4)	14.4	11.8
5. Capital Expenditure	85,256* (1.8)	92,765 (1.7)	24.0	8.8
6. Total Expenditure	6,73,842* (14.4)	7,50,884 (14.2)	15.5	11.4
7. Revenue Deficit	63,488 (1.4)	55,184 (1.0)	-20.9	-13.1
8. Gross Fiscal Deficit	1,43,653 (3.1)	1,33,287 (2.5)	0.8	-7.2
9. Gross Primary Deficit	-28,318 (-0.6)	-57,520 (-1.1)	267.8	103.1

*: Net of acquisition cost of Reserve Bank's stake in SBI at Rs.35,531 crore.
Note : Figures in parentheses are percentages to GDP.

as compared with 15.5 per cent in the preceding year. Revenue expenditure in 2008-09 is budgeted to increase by 11.8 per cent as compared with 14.4 per

Table 24 : Gross Tax Revenues of the Centre

(Per cent to GDP)

Year	Direct	Indirect	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	6.4	8.8
1994-95	2.7	6.5	9.1
1995-96	2.8	6.5	9.3
1996-97	2.8	6.6	9.4
1997-98	3.2	6.0	9.1
1998-99	2.7	5.5	8.2
1999-00	3.0	5.8	8.8
2000-01	3.2	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	4.2	5.5	9.7
2005-06	4.6	5.8	10.4
2006-07	5.3	6.1	11.4
2007-08RE	6.5	6.0	12.5
2008-09BE	6.9	6.1	13.0

cent in 2007-08 on account of containment of subsidies and deceleration in the growth of interest payments. The growth in grants to States and Union Territories is, however, budgeted to be higher at 16.3 per cent than 15.7 per cent a year ago. The capital expenditure comprising capital outlay and loans and advances is budgeted to decline by 23.2 per cent. Adjusting for the impact of expenditure incurred on acquisition of the Reserve Bank's stake in the SBI in 2007-08, the capital expenditure is budgeted to increase by 8.8 per cent in 2008-09. This order of increase would still be significantly lower than the increase of 24.0 per cent in 2007-08. While the defence capital outlay is budgeted to increase by Rs. 10,302 crore (by 27.3 per cent) to Rs.48,007 crore, non-defence capital outlay adjusted for SBI transactions is budgeted to be broadly around the level of 2007-08 (RE).

During 2008-09, net market borrowings (net of MSS) are budgeted to decline from Rs.1,10,727 crore in 2007-08 (RE) to Rs.99,000 crore. Inclusive of repayments of Rs.79,575 crore, gross market borrowings (net of MSS), are placed at Rs.1,78,575 crore in 2008-09. The financing pattern of GFD reveals that the share of net market borrowings (excluding allocations under MSS) declined to 74.3 per cent of the GFD in 2008-09 from 77.1 per cent in 2007-08. On the other hand, the share of external assistance is budgeted to increase to 8.2 per cent from 6.9 per cent in 2007-08. Investments by the National Small Savings Fund (NSSF) in the special Central Government securities are budgeted to finance 7.4 per cent of GFD, as against a negative contribution of 1.3 per cent last year. During 2008-09, the Budget expects draw drown of cash balances to finance 5.4 per cent of GFD, as against build up of cash balances amounting to 12.7 per cent of GFD in 2007-08.

III. MONETARY AND LIQUIDITY CONDITIONS

Monetary and liquidity aggregates continued to expand at a strong pace during 2007-08, *albeit* with some moderation, reflecting large and persistent capital flows. Broad money growth at 20.7 per cent at end-March 2008 was above the indicative trajectory of 17.0-17.5 per cent for 2007-08 set out in the Annual Policy Statement in April 2007. Expansion in bank credit to the commercial sector moderated and remained within the Reserve Bank's policy projection of 24.0-25.0 per cent (April 2007). Accretion to bank deposits, led by time deposits, remained buoyant. Banks' investments in SLR securities increased in tandem with growth in deposits. As a result, their SLR investments as a proportion of their NDTL remained almost at the same level as at end-March 2007. The Reserve Bank continued to actively manage liquidity during 2007-08 by using all the policy instruments at its disposal including cash reserve ratio (CRR), issuances of securities under the market stabilisation scheme (MSS), operations under the liquidity adjustment facility (LAF) and conduct of open market operations (OMO).

Monetary Survey

Broad money (M_3) growth, on a year-on-year (y-o-y) basis, was at 20.7 per cent as at end-March 2008 lower than 21.5 per cent a year ago, reflecting some deceleration in time deposits. Broad money growth, nevertheless, was strong with expansion in aggregate deposits, y-o-y, remaining higher than the projected aggregates of Rs. 4,90,000 crore for 2007-08 set out in the Annual Policy Statement (April 2007). The primary source of monetary expansion continued to be the accretion to net foreign exchange assets, while bank credit to the commercial sector moderated. Expansion in the residency-based new monetary aggregate (NM_3) – which does not directly reckon non-resident foreign currency deposits such as FCNR(B) deposits – was marginally higher at 21.2 per cent at end-March 2008 than 21.0 per cent a year ago. Growth in liquidity aggregate, L_1, at 20.4 per cent at end-March 2008 was marginally lower than that of 20.6 per cent a year ago (Table 25 and Chart 11).

Taking into consideration the evolving monetary and liquidity conditions, while the focus of the Reserve Bank's operations was generally on managing excess capital flows through various instruments at its disposal, it remained vigilant to the evolving situation. The CRR was raised by 150 basis points in

Table 25: Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2008	Variation			
		March 31, 2007		March 31, 2008	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
I. Reserve Money	9,28,317	1,35,935	23.7	2,19,326	30.9
II. Narrow Money (M_1)	11,43,640	139,714	16.9	1,77,550	18.4
III. Broad Money (M_3)	40,02,189	5,86,548	21.5	6,86,096	20.7
a) Currency with the Public	5,67,746	69,786	16.9	84,840	17.6
b) Aggregate Deposits	34,25,379	5,16,134	22.3	5,99,687	21.2
i) Demand Deposits	5,66,829	69,300	17.1	91,142	19.2
ii) Time Deposits	28,58,550	4,46,834	23.5	5,08,546	21.6
of which: Non-Resident Foreign Currency Deposits	56,564	8,185	13.8	-10,897	-16.2
IV. NM_3	40,27,891	5,77,013	21.0	7,03,293	21.2
of which: Call Term Funding from FIs	1,05,857	2,692	3.2	20,021	23.3
V. a) L_1	41,42,470	5,88,644	20.6	7,02,323	20.4
of which: Postal Deposits	1,14,579	11,631	11.2	-970	-0.8
b) L_2	41,45,402	5,88,644	20.6	7,02,323	20.4
c) L_3	41,71,370	5,90,718	20.5	7,03,594	20.3
VI. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	9,04,927	70,969	9.3	67,363	8.0
i) Net Reserve Bank Credit to Government	-1,10,223	-2,384	-	-1,15,975	-
of which: to the Centre	-1,10,353	-3,024	-	-1,12,489	-
ii) Other Banks' Credit to Government	10,15,150	73,353	9.7	1,83,338	22.0
b) Bank Credit to Commercial Sector	25,62,652	4,37,074	25.8	4,32,574	20.3
c) Net Foreign Exchange Assets	12,66,297	1,86,985	25.7	3,53,118	38.7
d) Government Currency Liability to Public	9,228	-493	-5.6	968	11.7
e) Net Non-Monetary Liabilities of the Banking Sector	7,40,915	1,07,987	23.2	1,67,926	29.3
Memo :					
Aggregate Deposits of SCBs	31,92,141	5,02,885	23.8	5,80,208	22.2
Non-food Credit of SCBs	23,04,094	4,18,282	28.5	4,19,425	22.3

SCBs: Scheduled Commercial Banks. FIs: Financial Institutions. NBFCs: Non-Banking Financial Companies.

NM_3 is the residency-based broad money aggregate and L_1, L_2 and L_3 are liquidity aggregates compiled on the recommendations of the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy, 1998).

$L_1 = NM_3$ + Select deposits with the post office saving banks.

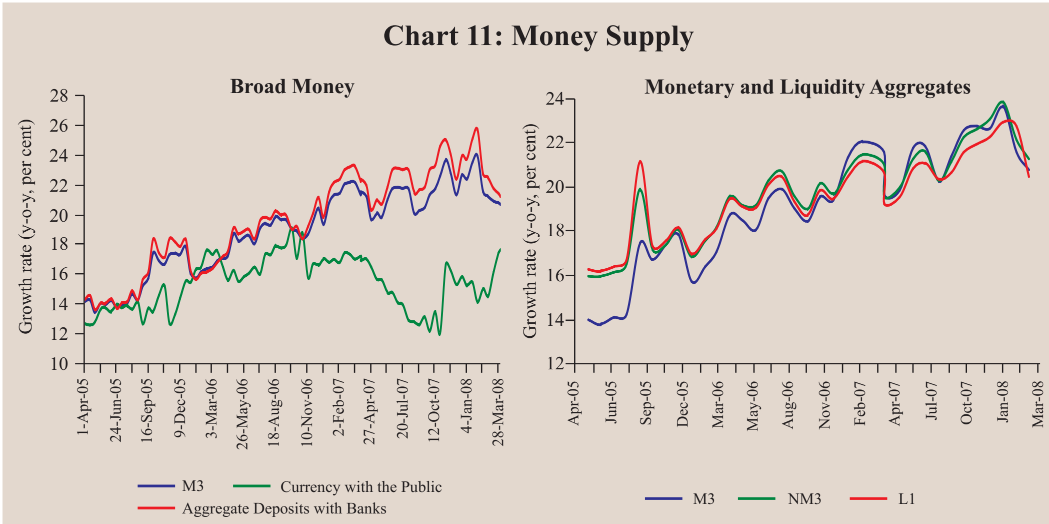
$L_2 = L_1$ +Term deposits with term lending institutions and refinancing institutions + Term borrowing by FIs + Certificates of deposit issued by FIs.

$L_3 = L_2$ + Public deposits of NBFCs.

Note : 1. Data are provisional. Wherever data are not available the estimates for the last available month have been repeated.
2. Data for postal deposits pertain to February 2008.
3. Government Balances as on March 31, 2008 are before closure of accounts.

three phases (April, August and November 2007) during 2007-08. The estimated amount of liquidity impounded in the first round on account of increase in CRR during 2007-08 was Rs.47,000 crore[1]. The ceiling on the outstanding amount under the MSS for the year 2007-08 was also successively raised on four occasions (April, August, October and November 2007) to Rs. 2,50,000 crore

[1] Between December 2006 and March 2008 the Reserve Bank increased CRR by 250 basis points and the estimated amount of liquidity impounded in the first round due to the hike in CRR was Rs. 74,500 crore.



from the initial limit of Rs.80,000 crore. In view of the prevailing liquidity conditions, the Reserve Bank during 2008-09 so far increased CRR by 50 basis points to 8.0 per cent in two stages, 25 basis points in each stage, effective from the fortnight beginning April 26, 2008 and May 10, 2008, respectively. As a result of the above hike in CRR, an amount of about Rs. 18,500 crore of resources of banks is likely to be absorbed.

Expansion in currency with the public was of a lower order throughout 2007-08, except in November 2007, when it increased sharply on account of festive season currency demand. Currency with the public increased by 17.6 per cent, y-o-y, as at end-March 2008, marginally higher than the growth of 16.9 per cent a year ago. Growth in demand deposits, y-o-y, as at end-March, 2008 was higher at 19.2 per cent than 17.1 per cent a year ago. Demand deposits, after remaining subdued for most part of the year, expanded during the brief period of January and beginning of February 2008, mainly reflecting developments in the equity market. Accordingly, growth in narrow money (M_1), y-o-y, was higher at 18.4 per cent at end-March 2008 higher than 16.9 per cent recorded a year ago. The buoyancy in time deposits continued in 2007-08, although some moderation was observed during the last quarter of 2007-08. Growth in time deposits was 21.6 per cent, y-o-y, as at end-March 2008 as compared with 23.5 per cent a year ago (Table 26). The strong growth in time deposits could be attributed, *inter alia*, to robust economic activity, higher interest rates on bank deposits relative to postal deposits and extension of tax benefits under Section 80C for bank deposits. During 2007-08 accretion to

Table 26: Monetary Aggregates - Variations

(Rupees Crore)

Item	2006-07	2007-08	2007-08 Q1	2007-08 Q2	2007-08 Q3	2007-08 Q4
1	2	3	4	5	6	7
M_3 (1+2+3 = 4+5+6+7-8)	5,86,548	6,86,096	73,824	1,93,671	1,15,159	3,03,443
	(21.5)	(20.7)				
Components						
1 Currency with the Public	69,786	84,840	18,237	-14,478	47,731	33,350
	(16.9)	(17.6)				
2 Aggregates Deposits with Banks	5,16,134	5,99,687	56,023	2,09,628	68,233	2,65,804
	(22.3)	(21.2)				
2.1 Demand Deposits with Banks	69,300	91,142	-44,030	58,308	-6,809	83,673
	(17.1)	(19.2)				
2.2 Time Deposits with Banks	4,46,834	5,08,546	1,00,053	1,51,320	75,042	1,82,131
	(23.5)	(21.6)				
3 'Other' Deposits with Banks	628	1,568	-436	-1,479	-805	4,289
Sources						
4 Net Bank Credit to Government	70,969	67,363	24,787	17,137	-37,057	62,495
	(9.3)	(8.0)				
4.1 RBI's Net Credit to Government	-2,384	-1,15,975	-25,483	-54,695	-65,787	29,990
4.1.1 RBI's Net Credit to Centre	-3,024	-1,12,489	-21,825	-55,588	-65,078	30,002
4.2 Other Banks' Credit to Government	73,353	1,83,338	50,270	71,832	28,730	32,505
5 Bank Credit to Commercial Sector	4,37,074	4,32,574	-30,547	1,38,692	89,513	2,34,916
	(25.8)	(20.3)				
6 NFEA of Banking Sector	1,86,985	3,53,118	-17,945	1,18,249	94,204	1,58,610
6.1 NFEA of RBI	1,93,170	3,69,977	-2,745	1,19,430	94,681	1,58,610
7 Government's Currency Liabilities to the Public	-493	968	166	354	312	136
8 Net Non-Monetary Liabilities of the Banking Sector	1,07,987	1,67,926	-97,362	80,760	31,814	1,52,714
Memo:						
1 Non-resident Foreign Currency Deposits with SCBs	8,185	-10,897	-4,202	-1,181	-3,490	-2,025
2 SCB' Call Term Borrowing from Financial Institutions	2,692	20,021	-2,984	5,756	7,441	9,808
3 Overseas Borrowing by SCBs	2,071	13,644	-6,928	7,830	1,734	11,008

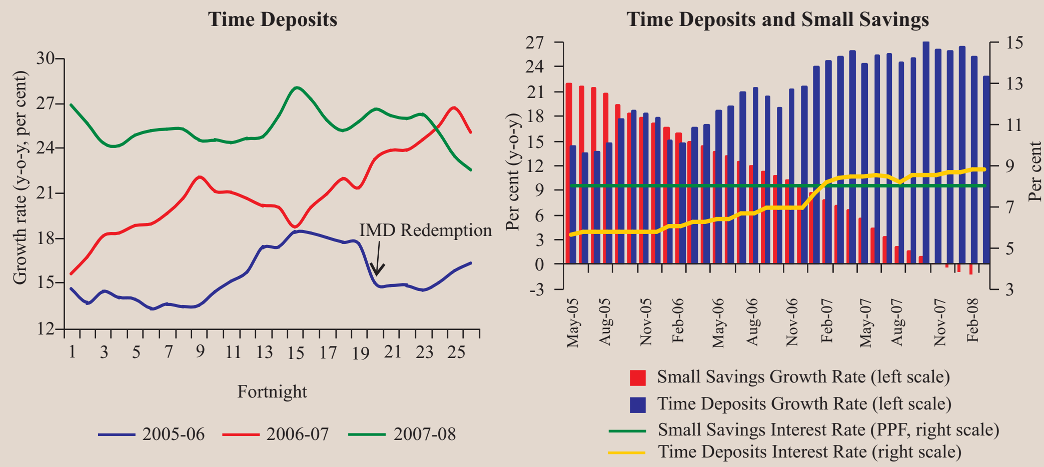
SCBs: Scheduled Commercial Banks. NFEA: Net Foreign Exchange Assets.

Note: 1. Figures in parentheses are percentage variations.
2. Government Balances as on March 31, 2008 are before closure of accounts.

postal deposits decelerated significantly up to November 2007 and started depleting thereafter (Chart 12). In order to revive interest in postal deposits, the Government of India had announced in December 2007 some incentives, including tax benefits for certain postal deposits.

Expansion in the bank credit to the commercial sector moderated during 2007-08 and remained within the Reserve Bank's policy projection in April 2007, after a strong pace of credit expansion for three consecutive years. Non-food credit by scheduled commercial banks (SCBs) expanded by 22.3 per cent,

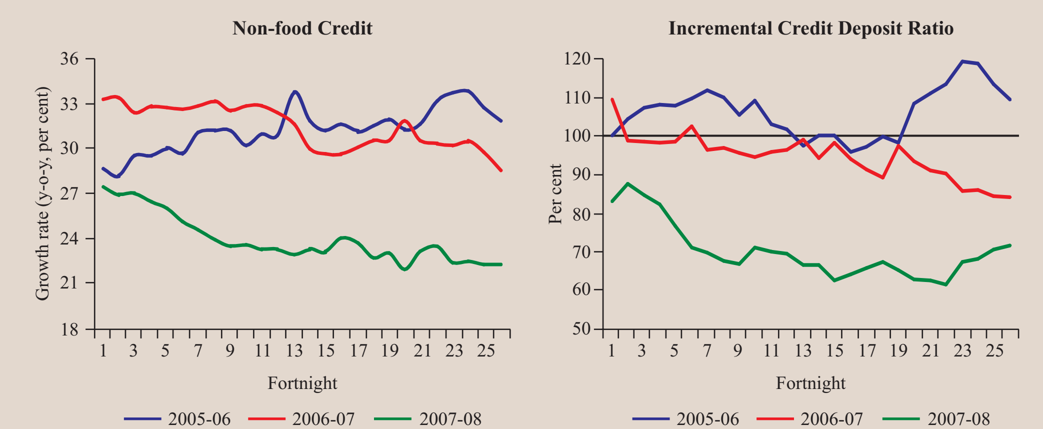
Chart 12: Time Deposits Growth



y-o-y, as at end-March 2008 as compared with 28.5 per cent a year ago. The deceleration in credit growth relative to the acceleration in deposit growth led to a decline in the incremental credit-deposit ratio, y-o-y, of SCBs to 71.9 per cent as at end-March 2008 from 84.3 per cent a year ago (Chart 13).

Disaggregated sectoral data available up to February 15, 2008 showed that about 45 per cent of incremental non-food credit, y-o-y, was absorbed by industry, compared with 36 per cent in the corresponding period of the previous year. The expansion of incremental non-food credit to industry during this period was led by infrastructure (power, port and telecommunication), textile, food processing, iron and steel, engineering, chemicals, vehicles, construction and

Chart 13: Scheduled Commercial Banks' Credit Growth*



* : Year-on-year basis, excluding conversion of a non-banking entity into a banking entity on October 11, 2004.

petroleum industries. The infrastructure sector alone accounted for around 33 per cent of the incremental credit to industry as compared with 21 per cent in the corresponding period of the previous year. The agricultural sector absorbed around 9 per cent of the incremental non-food bank credit expansion as compared with 12 per cent in the corresponding period of the previous year. Personal loans accounted for 16 per cent of incremental non-food credit; within personal loans, the share of incremental housing loans was at 46 per cent. Growth in loans to commercial real estate remained high, notwithstanding some moderation (Table 27).

Table 27: Non-food Bank Credit - Sectoral Deployment

(Amount in Rupees Crore)

Sector/Industry	Outstanding as on February 15, 2008	Year-on-Year Variations			
		February 16, 2007		February 15, 2008	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	**20,60,131**	**3,90,095**	**30.1**	**3,71,053**	**22.0**
1. Agriculture and Allied Activities	**2,41,802**	**46,212**	**28.6**	**34,013**	**16.4**
2. Industry (Small, Medium and Large)	**8,14,976**	**1,41,459**	**28.0**	**1,67,819**	**25.9**
Small Scale Industries	1,41,283	21,052	24.9	35,553	33.6
3. Personal Loans	**5,03,728**	**1,04,225**	**30.6**	**58,669**	**13.2**
Housing	2,51,688	46,019	25.8	26,930	12.0
Advances against Fixed Deposits	42,671	3,018	8.9	5,773	15.6
Credit Cards	19,344	4,003	45.3	6,502	50.6
Education	20,471	5,170	55.3	5,938	40.9
Consumer Durables	9,368	1,720	24.2	525	5.9
4. Services	**4,99,625**	**98,198**	**33.9**	**1,10,553**	**28.4**
Transport Operators	31,984	7,521	50.9	9,669	43.3
Professional & Other Services	26,689	7,154	50.1	5,188	24.1
Trade	1,18,892	23,719	30.9	17,731	17.5
Real Estate Loans	53,897	18,770	79.0	11,361	26.7
Non-Banking Financial Companies	64,106	12,021	39.2	20,979	48.6
Memo :					
Priority Sector	**6,85,567**	**1,09,094**	**22.9**	**99,277**	**16.9**
Industry (Small, Medium and Large)	**8,14,976**	**1,41,459**	**28.0**	**1,67,819**	**25.9**
Food Processing	48,290	7,904	27.6	11,720	32.0
Textiles	90,261	19,191	35.5	16,862	23.0
Paper & Paper Products	13,190	1,650	18.2	2,470	23.0
Petroleum, Coal Products & Nuclear Fuels	39,291	12,489	64.4	7,412	23.3
Chemicals and Chemical Products	60,892	8,610	19.2	7,437	13.9
Rubber, Plastic & their Products	9,788	1,988	31.0	1,355	16.1
Iron and Steel	72,290	14,609	31.8	11,661	19.2
Other Metal & Metal Products	23,302	5,459	38.5	3,634	18.5
Engineering	51,203	6,198	18.1	10,623	26.2
Vehicles, Vehicle Parts and Transport Equipments	26,437	2,028	11.9	7,337	38.4
Gems & Jewellery	24,353	2,619	13.3	2,073	9.3
Construction	23,418	6,132	52.6	5,856	33.3
Infrastructure	1,88,171	29,033	28.2	55,716	42.1

Note : Data are provisional and relate to select scheduled commercial banks.

In addition to bank credit for financing their requirements, the corporate sector continued to rely on a variety of non-bank sources of funds such as capital markets, external commercial borrowings and internal generation of funds. Resources raised through domestic equity issuances during 2007-08 (Rs.48,153 crore) were 68 per cent higher than a year ago. Net mobilisation through external commercial borrowings (ECBs) during April-December of 2007-08 increased by 54 per cent over the corresponding period of the previous year. Mobilisation through issuances of commercial paper (CPs) during 2007-08 was nearly three times the issuances during the previous year. Internal generation of funds continued to provide a strong support to the funding requirements of the corporate sector, despite the profits after tax of select non-financial non-government companies during April-December of 2007-08 witnessing some deceleration as compared with the corresponding period of the previous year (see Table 12). Resources raised in the form of equity issuances through American depository receipts (ADRs) and global depository receipts (GDRs) during 2007-08 (Rs.13,023 crore) were lower by nearly 20 per cent than a year ago (Table 28).

Table 28: Select Sources of Funds to Industry

(Rupees Crore)

Item	2006-07	2007-08	2007-08			
			Q1	Q2	Q3	Q4
1	2	3	4	5	6	7
A. Bank Credit to Industry #	1,41,543 (46,566) *	85,166 *	-15,603	59,776	40,993	32,476^
B. Flow from Non-banks to Corporates						
1 Capital Issues (i+ii)	29,178	51,479	13,788	6,226	14,400	17,065
i) Non-Government Public Ltd. Companies (a+b)	29,178	48,962	13,261	4,236	14,400	17,065
a) Bonds/Debentures	585	809	0	0	0	809
b) Shares	28,593	48,153	13,261	4,236	14,400	16,256
ii) PSUs and Government Companies	0	2,517	527	1,990	0	0
2 ADR/GDR Issues	16,184	13,023	1,251	9,899	289	1,584
3 External Commercial Borrowings (ECBs)	1,04,046 (70,966) *	1,09,592 *	35,808	36,168	37,616	–
4 Issue of CPs	4,970	14,904	8,568	7,358	6,629	-7.651
C. Depreciation Provision +	37,095 (24,392) *	29,604 *	10,173	10,576	10,961	–
D. Profits after Tax +	1,11,107 (75,036) *	99,272 *	32,699	34,266	37,470	–

– : Not Available.
* : April-December. ^ : up to February 15, 2008.
# : Data pertain to select scheduled commercial banks.
+ : Data are based on abridged results of select non-financial non-Government companies. The quarterly data may not add up to annual data due to differences in the number and composition of companies covered in each period (see Chapter 1).

Note : 1. Data are provisional.
2. Data on capital issues pertain to gross issuances excluding issues by banks and financial institutions and are not adjusted for banks' investments in capital issues, which are not expected to be significant.
3. Data on ADR/GDR issues exclude issuances by banks and financial institutions.
4. Data on external commercial borrowings include short-term credit.

Scheduled commercial banks' investment in Government and other approved securities expanded during 2007-08, mainly reflecting the need to maintain SLR requirements in consonance with the increase in their net demand and time liabilities. Investment in SLR securities by SCBs increased by 22.9 per cent, y-o-y, as at end-March 2008 as compared with 10.3 per cent a year ago (Table 29). Commercial banks' holdings of such securities at end-March 2008 remained at 27.9 per cent of their NDTL almost the same as at end-March 2007 (Chart 14). Excess SLR investments of SCBs, thus, increased to Rs.1,02,422 crore as at end-March 2008 from Rs.81,484 crore at end-March 2007. Investment by SCBs in non-SLR securities increased substantially during the year. Banks' overseas foreign currency borrowings accelerated. They also drew down their holdings of foreign currency assets.

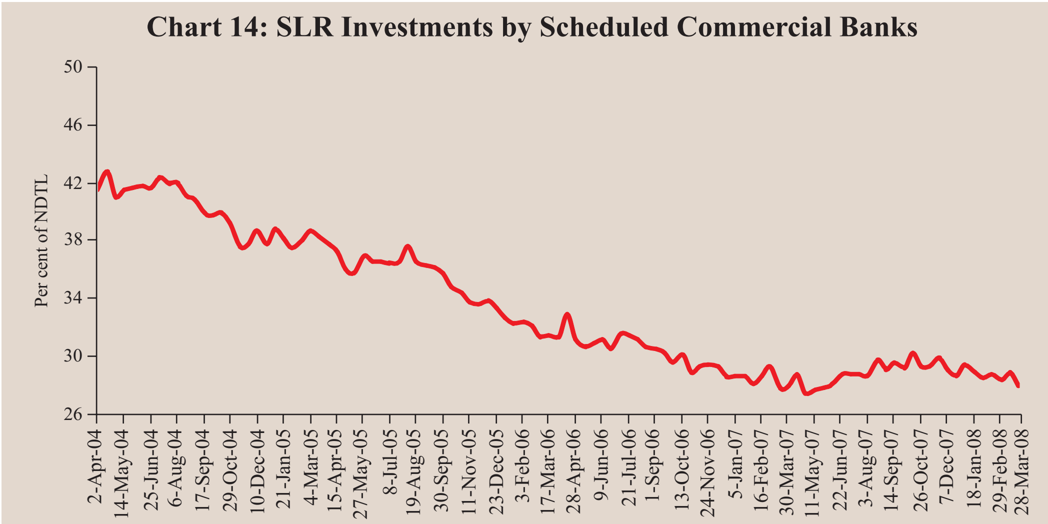
Table 29: Scheduled Commercial Bank's Survey

(Amount in Rupees Crore)

Item	Outstanding as on March 28, 2008	Variation (Year-on-Year)			
		As on Mar 30, 2007		As on Mar 28, 2008	
		Amount	Per Cent	Amount	Per Cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	31,92,141	5,02,885	23.8	5,80,208	22.2
2. Call/Term Funding from Financial Institutions	1,05,857	2,692	3.2	20,021	23.3
3. Overseas Foreign Currency Borrowings	45,549	2,071	6.9	13,644	42.8
4. Capital	43,598	1,461	4.5	9,523	27.9
5. Reserves	2,26,068	23,613	16.3	57,343	34.0
Uses of Funds					
1. Bank Credit	23,48,493	4,24,112	28.1	4,17,304	21.6
of which: Non-food Credit	23,04,094	4,18,282	28.5	4,19,425	22.3
2. Investments in Government and Other Approved Securities*	9,72,738	74,062	10.3	1,81,222	22.9
a) Investments in Government Securities	9,53,525	75,316	10.7	1,77,467	22.9
b) Investments in Other Approved Securities	19,213	-1,255	-7.5	3,755	24.3
3. Investments in non-SLR Securities	1,68,526	5,114	3.8	28,071	20.0
4. Foreign Currency Assets	30,884	15,260	35.1	-27,869	-47.4
5. Balances with the RBI	2,57,122	53,161	41.8	76,900	42.7

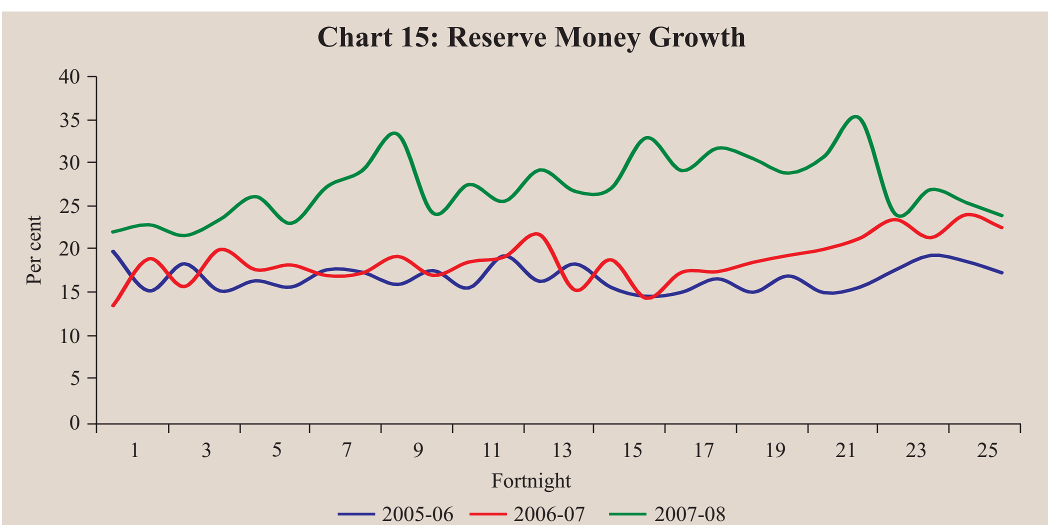
* : Refers to investment in SLR securities as notified in the Reserve Bank notification DBOD No. Ref. BC. 61/ 12.02.001/2007-08 dated February 13, 2008.

Note: Data are provisional.



Reserve Money Survey

Expansion in reserve money as on March 28, 2008, y-o-y, was 23.8 per cent higher than 22.5 per cent a year ago (Chart 15). Reserve money growth was higher at 30.9 per cent, y-o-y, as on March 31, 2008 than 23.7 per cent a year ago mainly due to Reserve Bank's injection of liquidity through LAF, reflecting the year-end liquidity requirements of the banks. Adjusted for the first round effect of the hike in CRR, reserve money growth at 25.3 per cent was higher than 18.9 per cent a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations and movements in bankers' deposits with



the Reserve Bank in the wake of hikes in the CRR and large expansion in demand and time liabilities. Bankers' deposits with the Reserve Bank expanded by 66.5 per cent during 2007-08 as compared with 45.6 per cent during 2006-07. Growth in currency in circulation at 17.2 per cent during 2007-08 was marginally higher than 17.1 per cent a year ago (Table 30).

On the sources side, reserve money continued to be driven by Reserve Bank's foreign currency assets (adjusted for revaluation), increasing by

Table 30 : Reserve Money - Variations

(Amount in Rupees Crore)

Item	Outstanding as on March 31, 2008	2006-07	2007-08	2007-08 Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8
Reserve Money	9,28,317	1,35,935	2,19,326	11,630	60,688	26,607	1,20,402
Components (1+2+3)		(23.7)	(30.9)				
1. Currency in Circulation	5,90,805	73,523	86,606	16,866	-13,297	46,781	36,256
		(17.1)	(17.2)				
2. Bankers' Deposits with RBI	3,28,447	61,784	1,31,152	-4,800	75,464	-19,369	79,857
		(45.6)	(66.5)				
3. 'Other' Deposits with the RBI	9,065	628	1,568	-436	-1,479	-805	4,289
		(9.1)	(20.9)				
Sources (1+2+3+4-5)							
1. RBI's net Credit to Government	-1,10,223	-2,384	-1,15,975	-25,483	-54,695	-65,787	29,990
of which: to Centre (i+ii+iii+iv-v)	-1,10,353	-3,024	-1,12,489	-21,825	-55,588	-65,078	30,002
i. Loans and Advances	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	1,14,593	26,763	17,421	-34,284	4,019	20,874	26,812
iv. RBI's Holdings of Rupee coins	132	-143	121	128	20	3	-31
v. Central Government Deposits	2,25,079	29,644	1,30,031	-12,330	59,627	85,956	-3,221
2. RBI's Credit to Banks and Commercial Sector	6,378	1,990	-2,794	-6,450	-1,256	848	4,064
3. NFEA of RBI	12,36,130	1,93,170	3,69,977	-2,745	1,19,430	94,681	1,58,610
		(28.7)	(42.7)				
of which : FCA, adjusted for revaluation		1,64,601	3,70,550	47,728	1,18,074	1,00,888	1,03,860
4. Governments' Currency Liabilities to the Public	9,228	-493	968	166	354	312	136
5. Net Non-Monetary Liabilities of RBI	2,13,197	56,347	32,849	-46,142	3,145	3,447	72,398
Memo:							
LAF- Repos (+) / Reverse Repos (-)	50,350	36,435	21,165	-32,182	9,067	16,300	27,980
Net Open Market Sales # *		5,125	-5,923	1,246	1,560	-3,919	-4,810
Centre's Surplus	76,686	1,164	26,594	-34,597	15,376	54,765	-8,950
Mobilisation under MSS	1,68,392	33,912	1,05,419	19,643	48,855	31,192	5,728
Net Purchases(+)/Sales(-) from Authorised Dealers		1,18,994	3,00,875 ^	38,873	1,01,814	87,596	72,592 ^
NFEA/Reserve Money @	133.2	122.2	133.2	119.8	125.8	133.4	133.2
NFEA/Currency @	209.2	171.8	209.2	165.7	193.6	194.3	209.2

NFEA : Net Foreign Exchange Assets. FCA : Foreign Currency Assets. LAF : Liquidity Adjustment Facility.
* : At face value. # : Excludes Treasury Bills @ : Per cent, end of period. ^ : up to end-February 2008

Note: 1. Data are based on March 31 for Q4 and last reporting Friday for all other quarters.
2. Figures in parentheses are percentage variations during the fiscal year.
3. Government Balances as on March 31, 2008 are before closure of accounts.

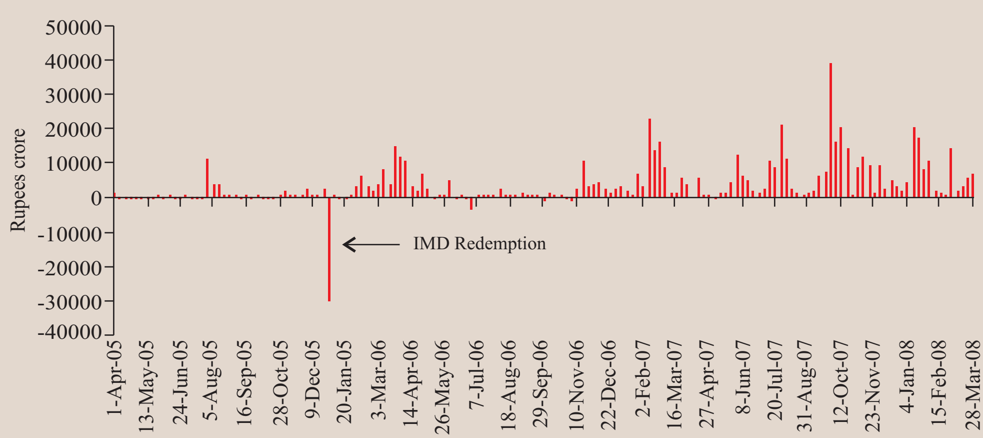
Rs.3,70,550 crore during 2007-08 as compared with Rs.1,64,601 crore during the previous year (Chart 16).

Movements in the Reserve Bank's net credit to the Central Government during 2007-08 largely reflected the liquidity management operations by the Reserve Bank and movements in Government deposits with the Reserve Bank. The sterilisation operations of the Reserve Bank under the MSS led to an increase in Central Government deposits with the Reserve Bank. Surplus cash balances of the Central Government with the Reserve Bank also increased. Reserve Bank's holdings of Central Government dated securities increased on account of injection of liquidity under LAF. Reflecting the net impact of these developments, the Reserve Bank's net credit to the Centre declined by Rs.1,12,489 crore during 2007-08 as compared with the decline of Rs. 3,024 crore during 2006-07.

Liquidity Management

The Reserve Bank continued with its policy of active management of liquidity during 2007-08 through appropriate use of the CRR and open market operations (OMO), including MSS and LAF and other policy instruments at its disposal flexibly. The objective was to maintain appropriate liquidity in the system such that all legitimate requirements of credit were met, consistent with the objective of price and financial stability. The liquidity management operations during 2007-08 had to contend with greater variations in market liquidity, on account of variations in cash balances of the Central Government and capital flows.

Chart 16: Accretion to RBI's Net Foreign Assets



In the first quarter of 2007-08, liquidity conditions remained largely easy with transient periods of tightness (Table 31). Liquidity was modulated mainly through increase in CRR by 50 basis points in April 2007 and issuances of government securities under the MSS as and when required, as the liquidity absorption through reverse repos was capped at Rs.3,000 crore under the modified arrangement of LAF. The annual ceiling of MSS outstandings for 2007-08 was raised to Rs.1,10,000 crore on April 27, 2007 from Rs.80,000 crore (Chart 17). The Reserve Bank injected liquidity through LAF during the brief period of liquidity tightness from June 28-July 2, 2007.

In the second quarter, with the withdrawal of the ceiling on daily reverse repos under the LAF with effect from August 6, 2007, the sustained capital flows and the decline in Central Government balances were reflected in the Reserve Bank's absorption of large liquidity through reverse repos under LAF in addition to sizeable absorptions under the MSS. In view of the large and continuous capital flows, the ceiling of the MSS was again raised to Rs.1,50,000 crore in August 2007. The cumulative impact of the hike in the CRR by 50 basis points to 7.0 per cent in August 2007 and also market operations under the MSS moderated the daily absorption through reverse repos towards the close of the quarter. On account of quarterly advance tax outflow in mid-September, some

Table 31: Reserve Bank's Liquidity Management Operations

(Amount in Rupees Crore)

Item	Variation							
	2006-07 (April - March)	2007-08 (April - February)	2007-08					
			Q1	Q2	Q3	Jan	Feb	March
1	2	3	4	5	6	7	8	9
A. Drivers of Liquidity (1+2+3+4+5)	**62,278**	**2,11,440**	**51,146**	**1,10,891**	**-1,702**	**38,154**	**12,950**	**-**
1. RBI's net Purchases from Authorised Dealers	1,18,994	3,00,875	39,791	1,00,896	88,545	47,554	24,089	-
2. Currency with the Public	-69,786	-71,353	-12,946	9,187	-47,139	-7,220	-13,233	-13,488
3. Surplus Cash Balances of the Centre with the Reserve Bank	-1,164	-18,546	49,992	-30,771	-49,820	9,934	2,119	-8,048
4. WMA and OD	0	0	15,159	-15,159	0	0	0	0
5. Others (residual)	14,234	463	-40,850	46,739	6,712	-12,114	-24	-
B. Management of Liquidity (6+7+8+9)	**-24,257**	**-1,85,361**	**-53,943**	**-68,621**	**-11,189**	**-39,112**	**-12,790**	**67,912**
6. Liquidity impact of LAF Repos	36,435	-37,270	-20,290	-2,825	27,795	-34,850	-7,100	58,435
7. Liquidity impact of OMO (Net) *	720	10,730	10	40	5,260	2,760	2,660	2,780
8. Liquidity impact of MSS	-33,912	-1,12,115	-18,163	-50,336	-28,244	-7,022	-8,350	6,697
9. First round liquidity impact due to CRR change	-27,500	-47,000	-15,500	-15,500	-16,000	0	0	0
C. Bank Reserves (A+B) #	**38,021**	**25,785**	**-2,797**	**42,270**	**-12,891**	**-958**	**160**	**60,133**

- : Not Avaliable WMA : Ways and means advances OD: Overdraft

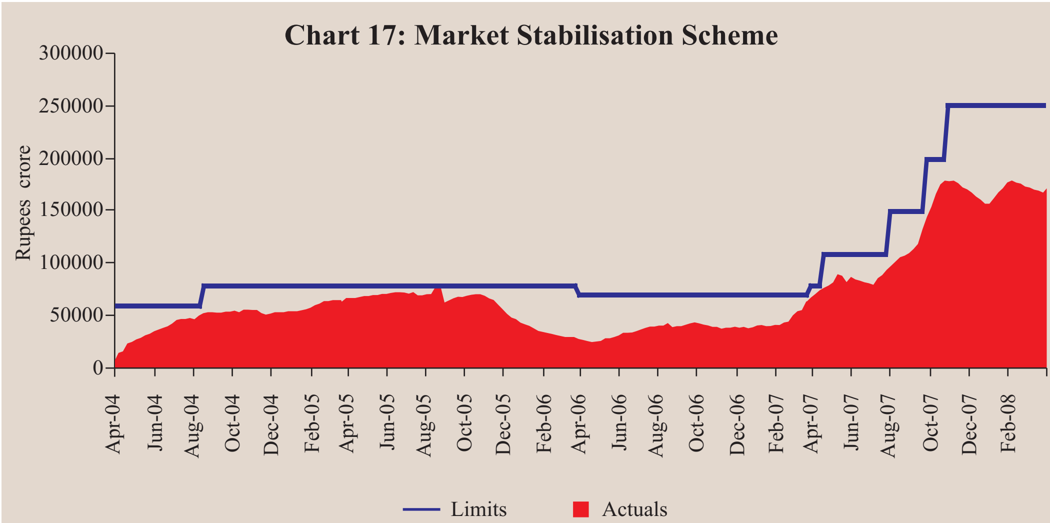
(+) : Indicates injection of liquidity into the banking system. (-): Indicates absorption of liquidity from the banking system.

: Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.

* : Adjusted for Consolidated Sinking Funds (CSF) and including private placement.

@ : Excludes minimum cash balances with the Reserve Bank in case of surplus.

Note : For end-March, data pertain to March 31; for all other months data pertain to last Friday.

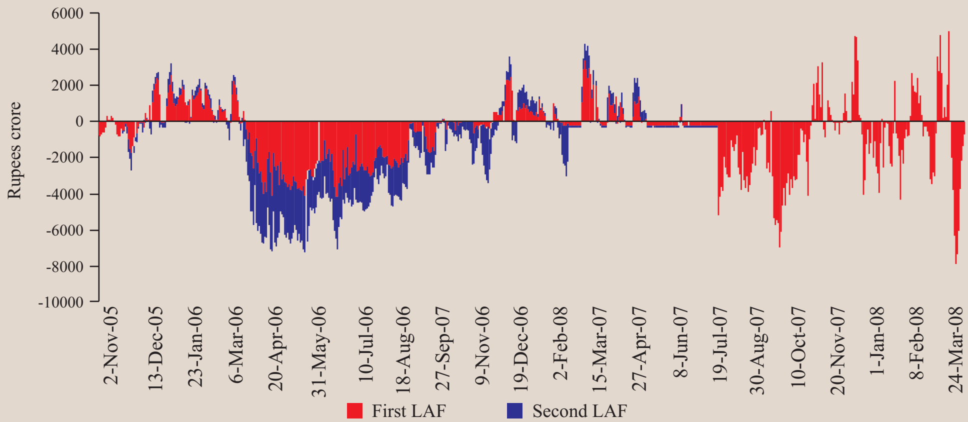


tightness was observed during the end of the quarter and accordingly the Reserve Bank injected liquidity on two occasions through LAF.

Liquidity conditions eased at the beginning of the third quarter on account of a decline in surplus balances of the Central Government and Reserve Bank's foreign exchange operations. Notwithstanding brief periods of tightness on account of festive season currency demand, liquidity conditions remained easy up to November 2007, reflecting continued inflows of foreign capital. This necessitated upward revisions in the ceiling for outstandings under the MSS to Rs. 2,00,000 crore on October 4, 2007 and further to Rs. 2,50,000 crore on November 7, 2007. The CRR was also raised by 50 basis points to 7.5 per cent in November 2007. However, as the surplus cash balances of the Central Government increased, liquidity conditions tightened by the end of the month. The tightness in liquidity condition persisted in December 2007 largely on account of quarterly advance tax outflows. This necessitated injection of liquidity by the Reserve Bank through LAF (Chart 18).

Liquidity conditions in the last quarter of 2007-08 were driven mainly by variation in the Central Government's surplus cash balances and capital flows. Some easing of the liquidity condition was observed in the beginning of the quarter on account of reduction in the surplus cash balances of the Central Government and foreign exchange operations by the Reserve Bank in the wake of large capital flows over the period. Keeping in view the evolving liquidity conditions, auction of dated securities under the MSS was resumed in January 2008, after a gap of two-and-half months (Table 32). However, in the second-half of January 2008, surplus liquidity declined with the increase in Centre's cash balances with the Reserve Bank. The daily average net outstanding liquidity

Chart 18: Repo (+)/ Reverse Repo (-) under LAF



Note: Additional LAF on March 31, 2006 and March 31, 2007 are shown under second LAF. Since August 2007 second LAF was discontinued and, therefore, all special LAF and additional LAF thereafter are included in first LAF.

absorption through LAF was Rs.15,692 crore during January 2008. During February 2008, the LAF window shifted from absorption to injection mode on account of further increase in surplus cash balances of the Central Government with the Reserve Bank. The average daily net outstanding liquidity injection was Rs. 1,294 crore in February 2008. In view of the prevailing liquidity conditions, no auction under the MSS was conducted from the middle of the month. The liquidity conditions eased in the beginning of March 2008 due to reduction in the surplus cash balances of the Centre and purchase of securities under the OMO[2] by the Reserve Bank. The absorption under the LAF was Rs. 30,335 crore as on March 13, 2008.

Liquidity conditions tightened from March 17, 2008 in view of advance tax outflows and concomitantly the Centre's surplus increased from Rs. 66,241 crore on March 14, 2008 to Rs. 1,03,645 crore on March 28, 2008. The Reserve Bank, in anticipation of the usual schedule of advance tax outflows and demand for funds at the end-of-the financial year, made additional arrangements for smoothening the liquidity and conducted (i) three-day repo/reverse repo auctions under additional LAF on March 14, 2008; (ii) seven-day repo auction under additional LAF on March 17, 2008; and (iii) two-day repo/reverse repo auctions under additional LAF on March 31, 2008. Reserve Bank injected Rs. 50,350 crore on March 31, 2008 through its LAF operation. The average daily net outstanding liquidity injection was Rs. 8,271 crore during March 2008.

[2] During 2007-08, the total amount of Government of India securities purchased under OMO was Rs. 13,510 crore. The OMO operations are liquidity neutral up to the amount of redemption of Government securities in the portfolio of the Reserve Bank.

Table 32: Liquidity Management

(Rupees crore)

Outstanding as on Last Friday	LAF	MSS	Centre's Surplus with the RBI @	Total (2 to 4)
1	2	3	4	5
2006				
January	-20,555	37,280	39,080	55,805
February	-12,715	31,958	37,013	56,256
March*	7,250	29,062	48,828	85,140
April	47,805	24,276	5,611	77,692
May	57,245	27,817	-1,203	83,859
June	42,565	33,295	8,621	84,481
July	44,155	38,995	8,770	91,920
August	23,985	42,364	26,791	93,140
September	1,915	42,064	34,821	78,800
October	12,270	40,091	25,868	78,229
November	15,995	37,917	31,305	85,217
December	-31,685	37,314	65,582	71,211
2007				
January	-11,445	39,375	42,494	70,424
February	6,940	42,807	53,115	1,02,862
March *	-29,185	62,974	49,992	83,781
April	-9,996	75,924	-980	64,948
May	-4,690	87,319	-7,753	74,876
June	-8,895	81,137	-15,159	57,083
July	2,992	88,010	-20,199	70,803
August	16,855	1,06,434	20,807	1,44,096
September	-6,070	1,31,473	30,771	1,56,174
October	18,135	1,74,277	23,735	2,16,147
November	-1,320	1,71,468	36,668	2,06,816
December	-33,865	1,59,717	80,591	2,06,443
2008				
January	985	1,66,739	70,657	2,38,381
February	8,085	1,75,089	68,538	2,51,712
March *	-50,350	1,68,392	76,586	1,94,628
April (up to April 18)	7,045	1,72,533	40,283	2,19,861

@ : Excludes minimum cash balances with the Reserve Bank in case of surplus.
* : Data pertain to March 31.

Note: 1. Negative sign in column 2 indicates injection of liquidity through LAF repo.
2. Between March 5 and August 5, 2007, daily reverse repo absorptions were restricted to a maximum of Rs.3,000 crore comprising Rs.2,000 crore in the First LAF and Rs.1,000 crore in the Second LAF.
3. Negative sign in column 4 indicates injection of liquidity through WMA/overdraft.

The liquidity conditions eased from the beginning of April 2008, mainly due to substantial reduction in cash balances of the Central Government. The auctions under the MSS have been resumed and the balances under MSS stand at Rs. 1,72,533 crore as on April 18, 2008. The absorption under LAF stands at Rs. 17,130 crore as on April 23, 2008.

IV. PRICE SITUATION

Headline inflation firmed up in major economies, mostly during the second half of 2007-08, reflecting the combined impact of higher food and fuel prices as well as strong demand conditions, especially in emerging markets. The monetary policy responses during the year, however, were mixed in view of heightened concerns about the implications of credit crunch arising out of the US sub-prime crisis on financial stability and economic growth in the latter part of the year. During the first half of 2007-08, many central banks in developed countries raised/maintained policy rates at elevated levels. In the second half of the year, monetary policy was eased particularly in the US, the UK and Canada following deterioration in financial market conditions. However, many central banks in emerging economies continued with pre-emptive monetary tightening to contain inflation and inflationary expectations on account of excess supply of global liquidity.

Many central banks in major advanced economies (the US Federal Reserve System, Bank of England and Bank of Canada) cut their policy rates during 2007-08, while some others [the Reserve Bank of Australia, the European Central Bank (ECB), Reserve Bank of New Zealand, Norges Bank (Norway), Sveriges Riksbank (Sweden), the People's Bank of China (PBC), Bank of Korea and South African Reserve Bank] raised their policy rates. The US Federal Reserve System also reduced the discount rate to improve market liquidity. Apart from independent actions, there was also a co-ordinated move by major advanced country central banks in terms of injection of short-term liquidity aimed at easing strains on the money markets. The PBC also raised cash reserve requirements to address concerns regarding excess liquidity.

In India, inflation based on the wholesale price index (WPI) declined from 6.4 per cent at the beginning of the fiscal year to a low of 3.1 per cent on October 13, 2007, partly reflecting moderation in the prices of some primary food articles and some manufactured products items as well as base effects. After hovering around 3 per cent during November 2007, inflation began to edge up from early December 2007 to touch 7.4 per cent by March 29, 2008 mainly reflecting hardening of prices of primary articles such as fruits, oilseeds, raw cotton and iron ore, fuel and manufactured products items such as edible oils/ oil cakes and basic metals, partly due to international commodity price pressures. Consumer price inflation, which had eased up to January 2008, also edged up somewhat in February/March 2008. Various measures of consumer price inflation were placed in the range of 5.5-7.9 per cent during February/March 2008 as compared with 6.7-9.5 per cent in March 2007.

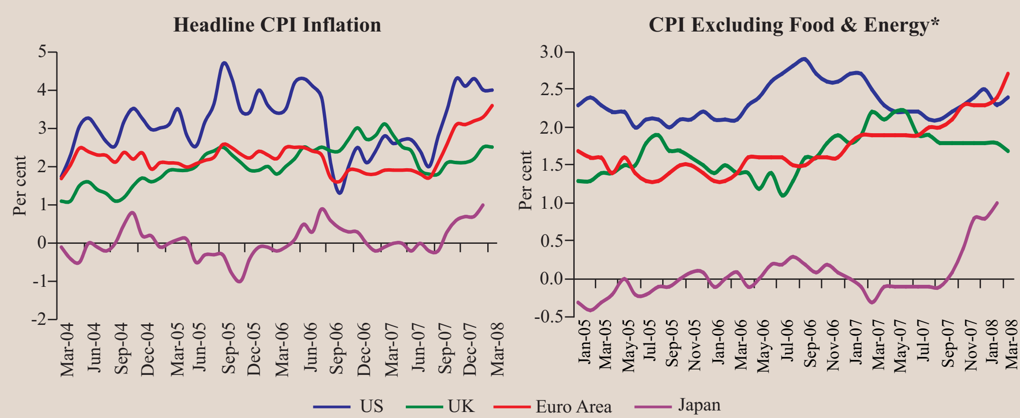
Global Inflation

Headline inflation in major advanced economies firmed up during the second half of 2007-08, mainly reflecting the hardening of food and fuel prices. Inflation hardened to 3.4 per cent in February 2008 in the OECD countries from 2.2 per cent a year ago mainly due to higher energy and food prices (which increased, year-on-year, by 13.9 per cent and 4.9 per cent, respectively, in February 2008). Amongst major advanced economies, headline inflation in the US and the UK, which had moderated up to August 2007, increased thereafter up to March 2008 (Chart 19). Producer price inflation also rose sharply in the US and the UK in March 2008 from a year ago, driven by energy and food prices. Core inflation also remained firm in major economies. In the OECD countries, CPI inflation (excluding food and energy) was 2.0 per cent in February 2008 as compared with 2.2 per cent a year ago. Financial markets, however, came under considerable stress in the aftermath of the US sub-prime crisis, which led to a credit squeeze in many advanced economies, including the UK and the euro area. Notwithstanding hardening of inflation, therefore, many central banks in advanced economies resorted to monetary easing in order to forestall the adverse impact of the tightening of credit conditions on the broader economy.

According to the International Monetary Fund (IMF), headline inflation is likely to firm up further in 2008 across all major economies. However, consumer price inflation in India is expected to moderate in 2008 (Table 33).

In the US, headline inflation softened from 2.8 per cent in March 2007 to 2.0 per cent in August 2007, before increasing to 4.0 per cent in March 2008,

Chart 19: Consumer Price Inflation



* : Data for Japan is excluding fresh food only.

Source : International Financial Statistics, IMF and official website of respective countries.

driven by food, energy and transportation prices. Producer price inflation increased to 6.9 per cent, year-on-year, in March 2008 from 3.1 per cent a year ago driven by energy and food prices. CPI inflation (excluding food and energy) also remained firm at 2.4 per cent in March 2008 (2.5 per cent a year ago). The US Federal Open Market Committee (FOMC) in its meeting held on March 18, 2008 expected inflation to moderate in the coming quarters, reflecting a projected levelling-out of energy and other commodity prices and an easing of pressures on resource utilisation. The FOMC, however, recognised that uncertainty about the inflation outlook had increased with inflation remaining at elevated levels and some indicators of inflation expectations rising. Recent information, however, indicates further weakening of the outlook for economic activity. Viewing that the tightening of credit conditions and the deepening of housing contraction are likely to weigh on economic growth over the next few quarters, the FOMC cut its target for the federal funds rate further by 75 basis points to 2.25 per cent on March 18, 2008, taking cumulative reduction to 300 basis points from September 2007 when it began cutting rates. The discount rate was also cut by a total of 375 basis points beginning August 2007 to a level of 2.50 per cent to improve market liquidity. Apart from lowering the discount rate, the US Fed also injected liquidity by auctioning term funds to depository institutions against a wide variety of collaterals at the discount window and through a broader range of counterparties and established foreign exchange swap lines with the ECB and the Swiss National Bank. Although these measures

Table 33: Global Consumer Price Inflation

(Per cent)

Region/Country	2004	2005	2006	2007	2008 P	2009 P
1	2	3	4	5	6	7
Advanced Economies						
Euro area	2.1	2.2	2.2	2.1	2.8	1.9
Japan	0.0	-0.3	0.3	0.0	0.6	1.3
Korea	3.6	2.8	2.2	2.5	3.4	2.9
UK	1.3	2.0	2.3	2.3	2.5	2.1
US	2.7	3.4	3.2	2.9	3.0	2.0
Emerging Economies						
Argentina	4.4	9.6	10.9	8.8	9.2	9.1
Brazil	6.6	6.9	4.2	3.6	4.8	4.3
China	3.9	1.8	1.5	4.8	5.9	3.6
India	**3.8**	**4.2**	**6.2**	**6.4**	**5.2**	**4.0**
Indonesia	6.1	10.5	13.1	6.4	7.1	5.9
Malaysia	1.4	3.0	3.6	2.1	2.4	2.5
Thailand	2.8	4.5	4.6	2.2	3.5	2.5

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

are likely to promote moderate growth over time and help mitigate the risks to economic activity, according to the FOMC, downside risks to growth remain.

In the UK, headline inflation moderated from 3.1 per cent in March 2007 to 1.8 per cent in August 2007 but increased to 2.5 per cent in March 2008, reflecting higher prices of transport, housing and household services. The output price inflation rose to 6.2 per cent in March 2008 reflecting increases in petroleum product prices. The input price index for materials and fuels purchased by manufacturing industry rose sharply by 20.6 per cent, year-on-year, in March 2008. Credit conditions have tightened and the availability of credit appears to be worsening. Inflation is expected to rise further this year, reflecting the continuing impact of higher energy and food prices, as well as the recent depreciation of sterling on import costs. The Monetary Policy Committee (MPC) noted that even if commodity prices remained at their current high levels, inflation should fall back. According to the Committee, to ensure that inflation meets the target of 2 per cent in the medium term, it needed to balance the upside risks of above-target inflation this year raising inflation expectations with the downside risks of the disruption in financial markets leading to a slowdown in the economy that was sufficiently sharp to pull inflation below the target. Business surveys, according to the Committee, suggest that growth has begun to moderate and that a margin of spare capacity will emerge during the year. This should help keep domestic inflationary pressures in check in the medium term. Against this backdrop, the Bank of England cut its policy rate further by 25 basis points on April 10, 2008 - a total of 75 basis points from December 2007 - to 5.00 per cent (Table 34). It had earlier raised the policy rate by 125 basis points during August 2006 - July 2007.

In the euro area, inflation, based on the Harmonised Index of Consumer Prices (HICP), rose consistently from 1.7 per cent in August 2007 to 3.6 per cent in March 2008 (1.9 per cent a year ago), reflecting strong upward pressures from energy and food prices. According to the Governing Council of the ECB, there are upside risks to price stability over the medium term, in a context of very vigorous money and credit growth. The upside risks also included further rises in energy and food prices, the possibility of stronger than currently expected wage growth on account of high capacity utilisation and tight labour market conditions, and stronger than expected pricing power of firms in market segments with low competition. The Council also noted that, at that juncture, it was imperative that all parties concerned met their responsibilities and that second-round effects on wage and price setting must be avoided, to preserve price stability in the medium term. Although the economic fundamentals of the euro area are sound, the Council noted that the level of uncertainty resulting from the turmoil in financial markets remained high. Accordingly, emphasising that firm anchoring

Table 34: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate	Policy Rate (As on April 24, 2008)	Changes in Policy Rate (basis points)			CPI Inflation (y-o-y)		Real GDP Growth (y-o-y)	
			2005-06 (April-March)	2006-07 (April-March)	Since end-March 2007	Mar. 2007	Mar. 2008	2006 (Q4)	2007 (Q4)
1	2	3	4	5	6	7	8	9	10
Developed Economies									
Australia	Cash Rate	7.25 (Mar. 5, 2008)	0	75	100	2.4	4.2	2.9	3.9
Canada	Overnight Rate	3.00 (Apr. 22, 2008)	125	50	(-)125	2.3	1.4	1.9	2.9
Euro area	Interest Rate on Main Refinancing Operations	4.00 (June 6, 2007)	50	125	25	1.9	3.6	3.2	2.2
Japan	Uncollateralised Overnight Call Rate	0.50 (Feb. 21, 2007)	0 **	50	0	-0.2	1.0 ^	2.3	2.0
UK	Official Bank Rate	5.00 (Apr.10, 2008)	(-)25	75	(-)25	3.1	2.5	3.0	2.8
US	Federal Funds Rate	2.25 (Mar. 18, 2008)	200	50	(-)300	2.8	4.0	2.6	2.5
Developing Economies									
Brazil	Selic Rate	11.75 (Apr. 16, 2008)	(-)275	(-)375	(-)100	3.0	4.7	4.4	6.2
India	Reverse Repo Rate	6.00 (July 25, 2006)	75	50	0	6.7	5.5 ^	9.1	8.4
	Repo Rate	7.75 (Mar. 30, 2007)	50	125	0				
			(0)	(100)	(200) *				
China	Benchmark 1-year Lending Rate	7.47(Dec. 21, 2007)		81	108	3.3	8.3	10.7	11.2
				(250)	(600)				
Indonesia	BI Rate	8.00 (Dec. 6, 2007)	425 @	(-)375	(-)100	6.5	8.2	6.1	6.3
Israel	Key Rate	3.25 (Mar. 24, 2008)	125	(-)75	(-)75	-0.9	3.7	7.4	6.8
Korea	Base Rate $	5.00 (Aug. 9, 2007)	75	50	50	2.2	3.9	4.0	5.7
				(80)					
Philippines	Reverse Repo Rate	5.00 (Jan. 31 2008) +	75	0	(-)250	2.2	6.4	5.5	7.3
Russia	Refinancing Rate	10.25 (Feb. 4, 2008)	(-)100	(-)150	(-)25	7.4	13.3	7.1	9.5
				(150)	(200)				
South Africa	Repo Rate	11.50 (Apr. 11, 2008)	(-)50	200	250	6.1	10.6	6.6	4.6
Thailand	14-day Repurchase Rate	5.00 (June 7, 2006)	225	50					
	1-day Repurchase Rate	3.25 (July 18, 2007)		(-)44 @@	(-)125	2.0	5.3	4.3	5.7

@ : Bank Indonesia adopted BI rate as the reference rate with the formal adoption of inflation targeting in July 2005.

* : Includes the CRR hike of 50 basis points in two stages of 25 basis points each to be effective from the fortnight beginning April 26, 2008 and May 10, 2008.

** : The Bank of Japan decided on March 9, 2006 to change the operating target of money market operations from the outstanding balance of current accounts at the Bank to the uncollateralised overnight call rate.

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

^ : February 2008.

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

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

Note : 1. For India, data on inflation pertain to CPI for Industrial Workers.
2. Figures in parentheses in column (3) indicate the date when the policy rates were last revised.
3. Figures in parentheses in columns (5) and (6) indicate the variation in cash reserve ratios during the period.

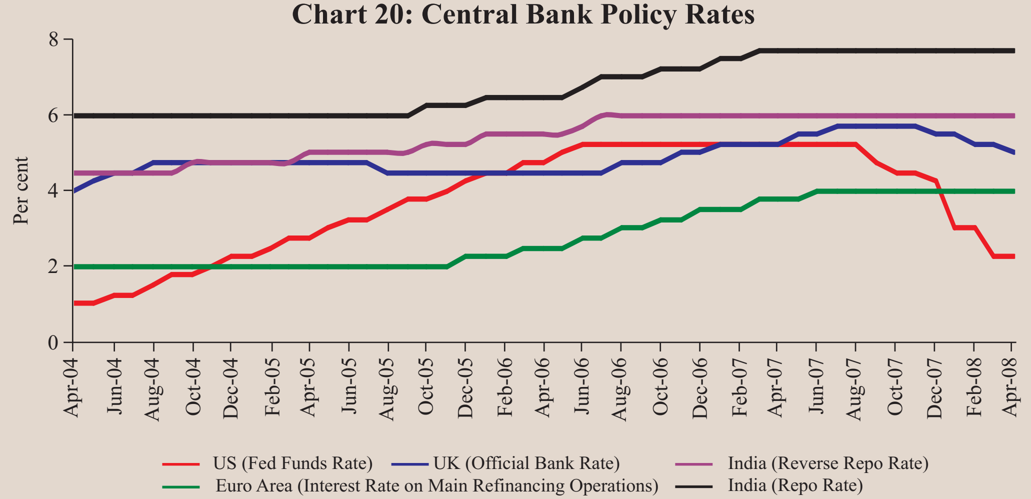
Source : International Monetary Fund, websites of respective central banks and the Economist.

of medium to longer-term inflation expectations was of the highest priority, the ECB left the policy rates unchanged at each of its meeting held beginning June 6, 2007, when rates were last raised by 25 basis points. The interest rate on main refinancing operations remained at 4.0 per cent (Chart 20).

The Japanese economy is expected to grow at a slower pace for the time being and follow a moderate growth path thereafter. According to the Bank of Japan (BoJ), the year-on-year rate of change in consumer prices is projected to follow a positive trend due to the rise in prices of petroleum products and food products in a situation where overall supply and demand in the economy are more or less balanced. Against this backdrop, the BoJ kept its policy rate unchanged at each of its meetings held since February 2007, when it had raised the uncollateralised overnight call rate (the operating target of monetary policy since March 2006) by 25 basis points to 0.50 per cent. It, however, noted that due attention should continue to be paid to factors such as uncertainties regarding future developments in overseas economies and global financial markets, as well as the effects of high energy and materials prices. Amongst the central banks in other major advanced economies, the policy rate was cut by a total of 150 basis points by the Bank of Canada from December 2007 onwards (it had earlier raised the policy rate by 25 basis points in July 2007), while the Reserve Bank of Australia (100 basis points), the Sveriges Riksbank (100 basis points), the Reserve Bank of New Zealand (75 basis points) and Norges Bank (150 basis points) have raised policy rates since March 2007.

Notwithstanding the appreciation of exchange rates in major emerging market economies (EMEs), inflation remained firm on the back of strong growth and ample liquidity. Consumer price inflation in China increased to 8.3 per

Chart 20: Central Bank Policy Rates

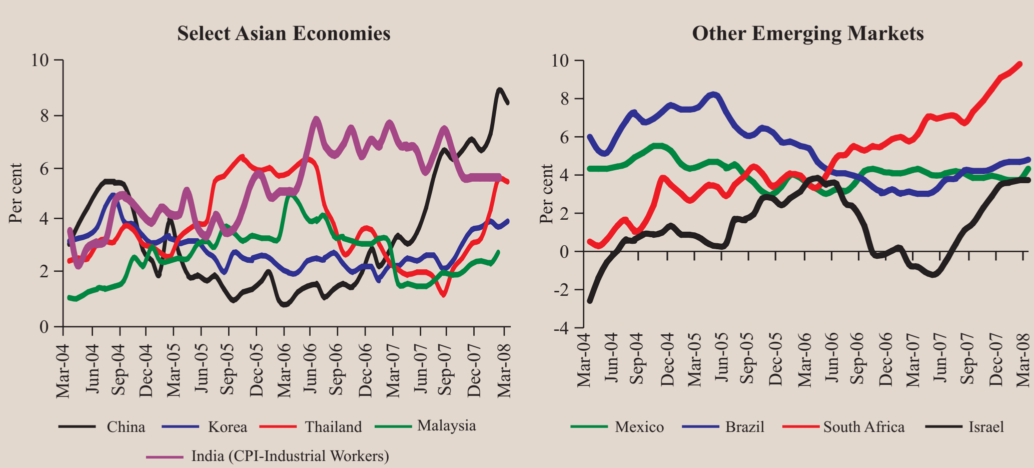


cent in March 2008 from 3.3 per cent a year earlier mainly due to higher food prices (Chart 21). Economic activity in China also continued to be strong with real GDP growth, year-on-year, at 10.6 per cent in the first quarter of 2008. In order to address the excess liquidity in the banking system and ease pressures on money and credit expansion, the PBC increased the benchmark 1-year lending rate by a total of 189 basis points beginning April 2006 to 7.47 per cent on December 21, 2007. Apart from continued issuances of its own bills to mop up liquidity, the PBC also raised the cash reserve ratio (CRR) by a total of 850 basis points to 16.0 per cent between July 2006 and April 2008 to strengthen liquidity management in the banking system and guide the 'rational' growth of money and credit. According to the PBC, these adjustments are conducive to prevent the economy from overheating.

In Russia, consumer price inflation remained high, increasing from 7.4 per cent in March 2007 to 13.3 per cent in March 2008 amidst strong growth. Growth in money supply (M2) decelerated somewhat to 47 per cent, year-on-year, as on March 1, 2008 from 50 per cent a year ago. The Bank of Russia raised the required reserve ratio on credit institutions' liabilities to non-resident banks in roubles and foreign currency by 100 basis points to 4.5 per cent effective January 15, 2008 (it was earlier reduced by 100 basis points effective October 11, 2007). The refinancing rate, which was initially cut by 50 basis points to 10.0 per cent effective June 19, 2007, was raised by 25 basis points effective February 4, 2008 to 10.25 per cent.

The upward trend in inflation continued in South Africa driven by rising energy and food prices, which posed the main upside risks to the inflation outlook. The South African Reserve Bank, therefore, raised its policy rate by a total of 200 basis points in four tranches during 2007-08 and by another 50

Chart 21: Consumer Price Inflation - Emerging Market Economies



basis points to 11.50 per cent on April 11, 2008 in view of deterioration in inflation expectations. The policy rate has thus been raised by 450 basis points since the tightening began in June 2006.

In Korea, inflation increased to 3.9 per cent in March 2008 from 2.2 per cent a year ago mainly influenced by high oil prices. Real estate prices have shown a rebound in some areas and liquidity was still ample in the financial markets. According to the MPC, although the domestic economy was exhibiting some signs of adjustment in its pace of expansion, future economic developments were still surrounded with a high degree of uncertainty largely due to the international financial market turmoil and the US economic slowdown. After raising the policy rate by 50 basis points during July-August 2007, the Bank of Korea, therefore, left its policy rate unchanged thereafter at 5.0 per cent.

In Thailand, inflation accelerated to 5.3 per cent in March 2008 from 2.0 per cent a year ago as a result of higher world oil and commodity prices. The MPC, however, assessed that these pressures were likely to moderate in the latter part of the year in tandem with the slowdown of the global economy. According to the MPC, although the overall growth momentum of the Thai economy has improved, risks to inflation and growth going forward increased making it necessary for it to monitor both issues closely. The MPC, therefore, has left 1-day repurchase rate unchanged at 3.25 per cent since July 18, 2007 (when it was last cut by 25 basis points).

Inflation in Brazil increased to 4.7 per cent in March 2008 from 3.0 per cent a year ago, partly due to robust expansion in demand. After reducing its policy rate by 850 basis points between September 2005 and September 2007, the central bank of Brazil left it unchanged thereafter up to April 15, 2008. The policy rate was raised by 50 basis points to 11.75 per cent on April 16, 2008. Noting that there are important time lags in the transmission of monetary policy stance to economic activity and inflation, the Monetary Policy Committee, had emphasised that the evaluation of alternative monetary policy stances should necessarily focus on the forward-looking inflation scenario and its risks, instead of recent inflation indicators.

Inflation in Indonesia increased to 8.2 per cent in March 2008 from 6.5 per cent a year ago. According to Bank Indonesia, inflationary pressure is forcasted to remain quite strong, dominated by imported inflation related mainly to high international commodity prices. It, however, believes that with close coordination and hard work by all concerned parties, it will be possible to minimise the impact of global economic uncertainties and sustain the momentum for economic growth. Accordingly, after lowering the policy rate by a total of 475 basis points between May 2006 and December 2007, Bank Indonesia left its policy rate unchanged at 8.0 per cent since December 6, 2007. The Bank of Israel, which had earlier raised its policy rate by 75 basis points during

August 2007-January 2008, cut the policy rate by 50 basis points each effective March and April 2008 to 3.25 per cent, following its assessment that inflation will return to within the target range of 1-3 per cent in the second half of the year. The central bank of Turkey also cut its policy rates, *i.e.,* overnight borrowing and lending rates further by 50 basis points and 75 basis points, respectively, beginning end-December 2007 - a total of 225 basis points and 325 basis points from September 2007 onwards - to support economic activity. The MPC noted that rising food and energy prices and ongoing uncertainties in the global economy have worsened inflation expectations and increased the upside risk on inflation. Aggregate demand conditions would, however, continue to support the disinflation process.

An assessment of key macroeconomic indicators in select EMEs shows that consumer price inflation was in the range of 3.7-13.3 per cent during February/March 2008. Real policy rates in most countries ranged between (-) 3.1 and 2.3 per cent in March 2008 (Table 35). Current account in major

Table 35: Key Macroeconomic Indicators: Emerging Markets

(Per cent)

Country	Consumer Price Inflation		Current Account Balance (per cent to GDP)		Real Effective Exchange Rate(REER)		Central Govt. Fiscal Balance (per cent of GDP)		Real Policy Rate		Real GDP Growth	
	Mar. 2007	Mar. 2008	2006	2007	Mar. 2007	Mar. 2008	2006	2007	Mar. 2007	Mar. 2008	2006	2007
1	2	3	4	5	6	7	8	9	10	11	12	13
Brazil	3.0	4.7	1.3	0.3	-0.3	13.6	-3.2	-2.3	9.8	6.6	3.8	5.4
China	3.3	8.3	9.4	11.1	2.1	5.3	-0.8	1.1	3.1	-0.8	11.1	11.4
India	**6.7**	**5.5 ***	**-1.1**	--	**-0.0**	**1.0**	**-3.5**	**-3.1**	**1.1**	**2.3**	**9.6**	**8.7**
	(5.9)	**(7.4)**	**(-6.9)**				**(61.2)**	**(61.7)**	**(1.9)**	**(0.4)**		
Indonesia	6.5	8.2	3.0	2.5	0.5	-6.0	-1.0	-1.2	2.5	-0.2	5.5	6.3
Israel	-0.9	3.7	6.0	3.1	2.8	8.8	-1.8	-0.8	4.9	0.0	5.2	5.3
Korea	2.2	3.9	0.6	0.6	0.0	-13.5	-2.7	-2.3	2.3	1.1	5.1	5.0
Philippines	2.2	6.4	4.5	4.4	2.9	9.6	-1.1	-0.2	5.3	-1.4	5.4	7.3
Russia	7.4	13.3	9.5	5.9	5.1	5.3	7.4	6.6	3.1	-3.1	7.4	8.1
South Africa	6.1	10.6	-6.5	-7.3	-16.8	-12.1	--	--	2.9	0.4	5.4	5.1
Thailand	2.0	5.3	1.1	6.1	7.6	2.6	1.1	-1.7	2.5	-2.1	5.1	4.8
							(26.2)					

*: February 2008.

Note:
1. For India, data pertain to fiscal years 2006-07 and 2007-08.
2. Consumer price inflation data are on a year-on-year basis. Data for India are for CPI-Industrial Workers.
3. Real policy rate is the policy rate less year-on-year consumer price inflation. For India, repo rate is used.
4. Figures in parentheses in columns (2) and (3) refer to wholesale price inflation.
5. Figure in parenthesis in column (4) refers to trade balance/GDP ratio.
6. Data on fiscal balance for Israel pertain to general government balance.
7. Figures in parentheses in columns (8) and (9) refer to central government debt/GDP ratio.
8. Figures in parentheses in columns (10) and (11) for India are based on wholesale price inflation.
9. Data on REER refer to year-on-year variation in broad indices (CPI-based) compiled by the Bank for International Settlements. A positive figure indicates appreciation while a negative figure indicates depreciation. For India, data are based on movements in 6-currency indices.

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

EMEs, except India and South Africa, was in surplus during 2006/2007. The real effective exchange rate (REER) for the select EMEs, barring the currencies in Indonesia, Korea and South Africa, underwent real appreciation, on a year-on-year basis, in March 2008. Although the Central Government's fiscal deficit in India declined during 2007-08, it remained higher than that in most EMEs.

Global Commodity Prices

Global commodity prices firmed up during 2007-08 led by sharp increases in food and crude oil prices. Metal prices, which had witnessed some moderation during June-December 2007, rose again during January-March 2008. Agricultural raw materials prices, however, remained largely range bound during 2007-08 (Table 36 and Chart 22).

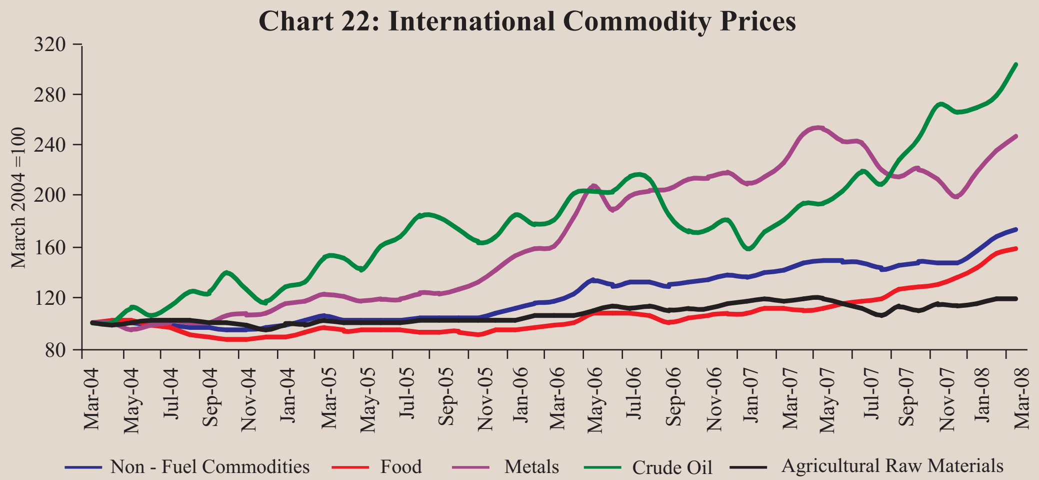
International crude oil prices, represented by the West Texas Intermediate (WTI), has been rising sharply since June 2007, reflecting tight supply-demand balance, geo-political tensions, weakening of the US dollar against major currencies and increased interest from investors and financial market participants

Table 36: International Commodity Prices

Commodity	Unit	2004	Index							Variation (Per cent)	
							2008			Mar. 08/ Dec.07	Mar. 08/ Mar.07
			2004	2005	2006	2007	Jan.	Feb.	Mar.		
1	2	3	4	5	6	7	8	9	10	11	12
Energy											
Coal	$/mt	53.0	100	90	93	124	173	249	233	35.4	122.6
Crude oil (Average)	$/bbl	37.7	100	142	170	188	240	248	270	13.8	68.1
Non-Energy Commodities											
Palm oil	$/mt	471.3	100	90	101	165	225	246	265	31.4	100.6
Soybean oil	$/mt	616.0	100	88	97	143	207	227	238	26.0	104.3
Soybeans	$/mt	306.5	100	90	88	125	177	187	188	11.8	78.9
Rice	$/mt	237.7	100	120	128	137	158	196	236	55.8	76.3
Wheat	$/mt	156.9	100	97	122	163	236	271	280	19.3	120.8
Maize	$/mt	111.8	100	88	109	146	185	197	209	29.4	36.8
Sugar	c/kg	15.8	100	138	206	141	167	188	184	23.7	26.4
Cotton A Index	c/kg	136.6	100	89	93	102	118	121	132	17.5	39.9
Aluminium	$/mt	1716.0	100	111	150	154	143	162	175	26.2	8.8
Copper	$/mt	2866.0	100	128	235	248	246	275	294	28.1	30.8
Gold	$/toz	409.2	100	109	148	170	217	225	237	20.6	47.9
Silver	c/toz	669.0	100	110	173	200	240	264	287	34.3	46.0
Steel Products Index	1990=100	121.5	100	113	111	111	123	140	148	28.0	35.3
Steel cold-rolled coilsheet	$/mt	607.1	100	121	114	107	113	132	132	23.1	23.1
Steel hot-rolled coilsheet	$/mt	502.5	100	126	119	109	119	149	149	36.4	36.4
Tin	c/kg	851.3	100	87	103	171	192	202	233	21.8	42.5
Zinc	c/kg	104.8	100	132	313	309	223	233	240	6.7	-23.2

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

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



Source : International Monetary Fund.

(Table 37). After touching a high of US $ 110.2 a barrel level on March 13, 2008 on the back of a sharp fall in US crude inventories, WTI prices eased somewhat thereafter during the month on deepening concerns about slowdown in the US - the biggest consumer of oil. The WTI prices, however, rose again to

Table 37 : International Crude Oil Prices

(US dollars per barrel)

Year/Month	Dubai Crude	UK Brent	US WTI	Average Crude Price	Indian Basket Price
1	2	3	4	5	6
2001-02	21.8	23.2	24.1	23.0	22.4
2002-03	25.9	27.6	29.2	27.6	26.6
2003-04	26.9	29.0	31.4	29.1	27.8
2004-05	36.4	42.2	45.0	41.3	38.9
2005-06	53.4	58.0	59.9	57.1	55.4
2006-07	60.9	64.4	64.7	63.3	62.4
2007-08	77.3	82.4	82.3	80.7	79.2
March 2004	30.5	33.8	36.7	33.7	31.9
March 2005	45.6	53.1	54.2	50.9	48.8
March 2006	57.7	62.3	62.9	60.9	59.6
March 2007	59.1	62.1	60.6	60.6	60.3
April 2007	63.8	67.4	63.9	65.1	65.2
May 2007	64.5	67.5	63.5	65.2	65.7
June 2007	65.8	71.3	67.5	68.2	67.9
July 2007	69.5	77.2	74.1	73.6	72.4
August 2007	67.2	70.8	72.4	70.1	68.6
September 2007	73.3	77.1	79.9	76.8	74.7
October 2007	77.1	83.0	85.9	82.2	79.4
November 2007	86.7	92.5	94.8	91.3	88.9
December 2007	85.8	91.5	91.4	89.5	88.0
January 2008	87.2	91.9	93.0	90.7	89.0
February 2008	90.0	94.8	95.4	93.4	91.8
March 2008	96.8	103.3	105.5	101.8	99.3

Source : International Monetary Fund and the World Bank.

a historical peak of US $ 119.2 a barrel level on April 22, 2008, reflecting weakening of US dollar and tightening of supply.

Despite prospects for slower consumption growth in advanced economies, international crude prices are expected to remain at elevated levels in view of the relatively tight demand supply-balance (Table 38). According to the US Energy Information Administration (EIA), although higher oil prices and slower economic growth have dampened consumption in the US, available partial data indicate global consumption is still increasing because of continued growth in China, India, Russia and the Middle East oil-exporting countries. This along with low surplus production capacity is putting upward pressure on oil prices. Accordingly, the EIA expects WTI (average) prices to firm up by about 39 per cent from US $ 72.3 a barrel during 2007 to US $ 100.6 per barrel during 2008. The EIA, however, expects that the increase in non-OPEC production in the second half of the year, by contributing to increases in OPEC surplus production capacity, may ease upward price pressures toward the end of 2008. The futures markets also suggest that WTI prices are expected to remain firm at over US $ 113 a barrel level up to November 2008. High and volatile international crude oil prices, thus, pose a major risk to the global inflation outlook.

After increasing up to May 2007, metal prices eased subsequently up to December 2007, reflecting lower import demand and some improvement in supply. Between May 2007 and December 2007, the IMF metals price index declined by almost 21 per cent led by copper (14 per cent), aluminium (15 per cent), zinc (38 per cent) and nickel (50 per cent). Since the beginning of 2008, however, prices of these items have increased, which along with higher prices of tin and lead resulted in the IMF metals price index going up by 23.7 per cent

Table 38 : World Supply-Demand Balance of Oil

(Million barrels per day)

Item	2003	2004	2005	2006	2007	2008 (P)	2008 (P) Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
Demand										
1. OECD	48.7	49.5	49.6	49.3	49.0	49.1	49.6	48.1	48.8	49.8
2. Non-OECD	31.2	33.0	34.4	35.4	36.4	37.5	36.8	37.6	37.7	38.0
of which: China	5.6	6.5	6.9	7.3	7.6	8.0	7.7	7.9	8.0	8.3
3. Total (1+2)	79.9	82.5	84.0	84.7	85.4	86.6	86.4	85.7	86.4	87.8
Supply										
4. Non-OPEC	48.9	50.1	50.3	49.3	49.2	49.8	49.2	49.5	50.1	50.6
5. OPEC	30.7	32.9	34.2	35.3	35.4	36.9	36.9	37.3	37.1	36.1
6. Total (4+5)	79.6	83.1	84.5	84.6	84.7	86.7	86.1	86.8	87.1	86.7
Stock Changes	0.3	-0.6	-0.5	0.1	0.7	-0.1	0.4	-1.1	-0.7	1.1

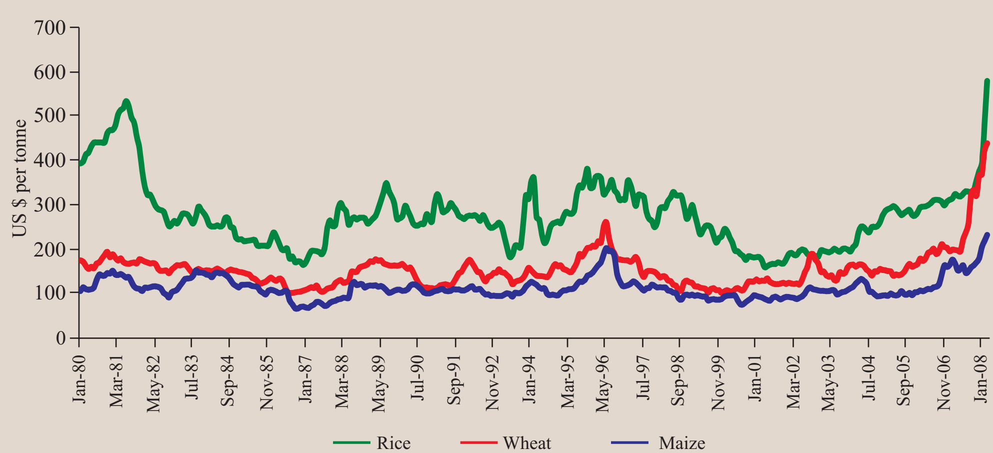
P : Projections.
Source : US Energy Information Administration, April 2008.

during January-March 2008, more than offsetting the previous decline. International steel prices, which were flat during the first half of 2007-08, rose by 33 per cent during the second half of the year despite increase in global crude steel production (by 5.8 per cent, year-on-year, in March 2008), mainly reflecting rising input costs on account of iron ore, energy and freight charges. After remaining flat up to December 2007, international iron ore prices increased by 66 per cent in January 2008 and have remained flat thereafter up to March 2008.

Food prices firmed up during 2007-08, especially in the second half, led by wheat, rice, and oilseeds/edible oils, reflecting surging demand (both consumption demand and demand for non-food uses such as bio-fuels production) and low stocks of major crops (Chart 23). Reflecting these factors, international prices of wheat, rice, soybeans, soybean oils and palm oils increased by 120.8 per cent, 76.3 per cent, 78.9 per cent, 104.3 per cent and 100.6 per cent, respectively, year-on-year, in March 2008. Consequently, the IMF food price index increased by 43.5 per cent, on a year-on-year basis, in March 2008 surpassing the level which was last seen in the late 1980.

The supply side pressures on global food prices do not appear to be abating, especially with the year ending global stock of major crops at historical lows. According to the US Department of Agriculture (USDA) in April 2008, global wheat stocks are expected to decline further by almost 10 per cent during 2007-08 (on top of about 15 per cent decline during 2006-07) to about 112.5 million tonnes - their lowest levels since 1981-82. Global oilseeds stocks are also expected to decline by about 22 per cent during 2007-08 to 57.2 million

Chart 23: Prices of Rice, Wheat and Maize



tonnes, reflecting mainly expected fall in global oilseeds production, mostly caused by a shift of plantings from soybean to maize in northern hemisphere countries and increase in global utilisation of oilseed products. Notwithstanding higher coarse grains production, mainly on account of record production of maize in the US following record high prices (due to significant supply shortage in the face of very strong demand for the production of ethanol in the US) and higher corn production in Brazil, the world's year-ending stocks are projected to decline by about 7 per cent due to forecast about increase in feed use of coarse grains. According to the USDA, rice stocks are projected to marginally improve to 77.1 million tonnes during 2007-08 mainly on account of increase in production in Indonesia and Burma coupled with lower global imports primarily due to the impact of higher global prices and export bans and restrictive policies among many of the leading exporters, including Egypt, India and Vietnam. Thus, global food prices are likely to remain firm given the outlook for various crops and their lower levels of year ending stocks.

International sugar prices had remained largely range bound during the first three quarters of 2007-08, reflecting higher production in traditional importing countries. Subsequently, prices have increased by almost 24 per cent during the past three months, although prices are still lower by 27 per cent from the recent peak of February 2006. According to the International Sugar Organisation (ISO), global sugar production is estimated to exceed global consumption by about 9 million tonnes during 2007-08 (October-September) season. According to the ISO, therefore, the large and growing presence of funds in the market may have a pivotal influence on market sentiment and dynamics, thereby leading to a disconnect between fundamentals and prices in recent months. Global cotton prices, represented by the 'Cotlook A Index', increased by 39.9 per cent, year-on-year, in March 2008, reflecting shortfalls in production. According to the International Cotton Advisory Committee (ICAC), world cotton prices surged to their highest level from August 1997, which equalled the 30-year average recorded between 1973-74 and 2002-03, reflecting increases in prices of competing crops and the increasing role of commodity investment funds rather than fundamental measures of cotton supply and use. According to the ICAC, world cotton stocks are expected to fall further by almost 5 per cent to 11.0 million tonnes and accordingly prices are expected to go up by 8.1 per cent in 2008-09.

In response to high food prices, especially of wheat, rice, corns and oilseeds/edible oils and their implications for headline inflation and inflationary expectations, the Governments in both developed and developing countries have resorted to numerous market interventions in the form of price controls, reduction of import barriers and/or imposition of export restrictions to contain price increases and prevent consumption from falling.

Inflation Conditions in India

Against the backdrop of edging up of inflation rates in India at the commencement of 2007-08, the Annual Policy Statement for 2007-08 (April 2007) of the Reserve Bank reaffirmed its resolve to respond swiftly with all possible measures to developments impinging on inflation expectations and the growth momentum. As the overarching policy challenge was to manage the transition to a higher growth path while containing inflationary pressures, the policy preference for the period ahead was indicated as strongly in favour of price stability and well-anchored inflation expectations with the endeavour being to contain inflation close to 5.0 per cent in 2007-08 and to the range of 4.0-4.5 per cent over the medium-term.

Headline inflation rates turned benign by the first quarter of 2007-08, reflecting the combined impact of lagged and cumulative monetary policy actions and fiscal and administrative measures for supply management. These measures also had a salutary effect on inflation expectations. Nevertheless, the First Quarter Review of the Annual Statement on Monetary Policy for 2007-08 (July 2007) added that monetary management needed to be watchful of movements in commodity prices, particularly oil prices, the elevated levels of asset prices and the re-emergence of pricing power among producers as potential threats to inflation expectations. The outlook for inflation in 2007-08 was, however, left unchanged in the Review. On a review of the then prevailing liquidity situation, the cash reserve ratio (CRR) was raised by 50 basis points with effect from the fortnight beginning August 4, 2007 (Table 39).

The Mid-term Review of the Annual Policy Statement for 2007-08 (October 2007), while indicating that inflation expectations were reasonably well-anchored, recognised that threats to inflation in the future emanated not only from domestic liquidity conditions but also from the underlying global pressures. It also added that the possible impact of injection of liquidity by central banks to meet the recent turbulence in the global financial markets on global inflation was not clear. Accordingly, it persisted with the stance as set out in the Annual Policy Statement for 2007-08 and the First Quarter Review of reinforcing the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supported export and investment demand in the economy so as to enable continuation of the growth momentum. It reiterated the policy endeavour of containing inflation close to

Table 39: Movement in Key Policy Rates and Inflation in India

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio	WPI Inflation
1	2	3	4	5
March 31, 2004	4.50	6.00	4.50	4.6
September 18, 2004	4.50	6.00	4.75 (+0.25)	7.9
October 2, 2004	4.50	6.00	5.00 (+0.25)	7.1
October 27, 2004	4.75 (+0.25)	6.00	5.00	7.4
April 29, 2005	5.00 (+0.25)	6.00	5.00	6.0
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00	4.5
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00	4.2
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00	4.9
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00	4.7
October 31, 2006	6.00	7.25 (+0.25)	5.00	5.3
December 23, 2006	6.00	7.25	5.25 (+0.25)	5.8
January 6, 2007	6.00	7.25	5.50 (+0.25)	6.4
January 31, 2007	6.00	7.50 (+0.25)	5.50	6.7
February 17, 2007	6.00	7.50	5.75 (+0.25)	6.0
March 3, 2007	6.00	7.50	6.00 (+0.25)	6.5
March 31, 2007	6.00	7.75 (+0.25)	6.00	5.9
April 14, 2007	6.00	7.75	6.25 (+0.25)	6.3
April 28, 2007	6.00	7.75	6.50 (+0.25)	6.0
August 4, 2007	6.00	7.75	7.00 (+0.50)	4.4
November 10, 2007*	6.00	7.75	7.50 (+0.50)	3.2

* : The CRR has been further raised by 50 basis points to 8.0 per cent in two stages of 25 basis points each to be effective from the fortnight beginning April 26, 2008 and May 10, 2008.

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

2. Figures in parentheses indicate change in policy rates.

5.0 per cent in 2007-08. In recognition of India's evolving integration with the global economy and societal preferences in this regard, it further resolved to condition expectations in the range of 4.0-4.5 per cent so that an inflation rate of around 3.0 per cent becomes a medium-term objective consistent with India's broader integration into the global economy. On a review of the then prevailing liquidity situation, the CRR was increased by 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007.

The Third Quarter Review of Annual Policy for 2007-08 (January 2008) noted that the domestic outlook remained positive with continued favourable prospects of sustaining the growth momentum in an environment of price and financial stability. In contrast, that the outlook for the global economy had worsened somewhat from the time of the Mid-Term Review with risks to both growth and inflation having accentuated. It also noted that while the dangers of global recession were relatively subdued at that juncture and consensus expectations seemed to support a soft landing, the upside pressures on inflation had become more potent and real than before. Food and energy prices were envisaged to impart a permanent upward shock to inflation globally and, in particular, in EMEs. The future evolution of the sub-prime mortgage crisis was seen to carry the gravest risks for the world economy. Furthermore, the expansion of monetary and liquidity conditions as well as asset prices were felt to contain risks of upward inflationary pressures for the Indian economy, alongside international price pressures. It was indicated that in the period ahead, developments in global financial markets in the context of the sub-prime crisis would warrant more intensified monitoring and swift responses with all available instruments to preserve and maintain macroeconomic and financial stability.

Against the backdrop of increases in inflation since the announcement of the Third Quarter Review for 2007-08 and in light of the current macroeconomic, monetary and anticipated liquidity conditions, the Reserve Bank announced on April 17, 2008 an increase in CRR by 50 basis points to 8.0 per cent, with a view to containing inflation expectations. This increase in CRR would be implemented in two stages of 25 basis points each to be effective from the fortnights beginning April 26, 2008 and May 10, 2008.

Wholesale Price Inflation

In India, headline inflation based on the wholesale price index (WPI) softened from 6.4 per cent at the beginning of the fiscal year to a low of 3.1 per cent on October 13, 2007, partly reflecting moderation in the prices of some primary food articles and some manufactured products items as well as base effects. After hovering around 3 per cent in November 2007, inflation began to edge up from early December 2007 and touched 7.4 per cent by March 29, 2008, mainly reflecting hardening of prices of primary articles, fuel group and some manufactured products items. On a year-on-year basis, twelve items/groups - rice, wheat, milk, raw cotton, oilseeds, iron ore, coal mining, mineral oils, edible oils, oil cakes, basic heavy inorganic chemicals and metals - with a combined weight of about 35 per cent in the WPI basket accounted for over 82 per cent of headline inflation as on March 29, 2008. Increase in domestic prices of some of these commodities reflected the international commodity price pressures (Table 40). The year-on-year (y-o-y) inflation, excluding fuel, at 7.6 per cent, was marginally higher than the headline inflation rate. After rising up to May 2007, the annual average WPI inflation rate (average of 52 weeks), however, eased from the beginning of June 2007 to reach 4.6 per cent during the week ended March 29, 2008 (5.4 per cent a year ago) (Chart 24).

Amongst major groups, primary articles inflation, y-o-y, eased from 12.2 per cent at the beginning of April 2007 to an intra-year low of 3.7 per cent by

Table 40: Key Commodity Price Inflation - Global vis-à-vis Domestic (year-on-year)

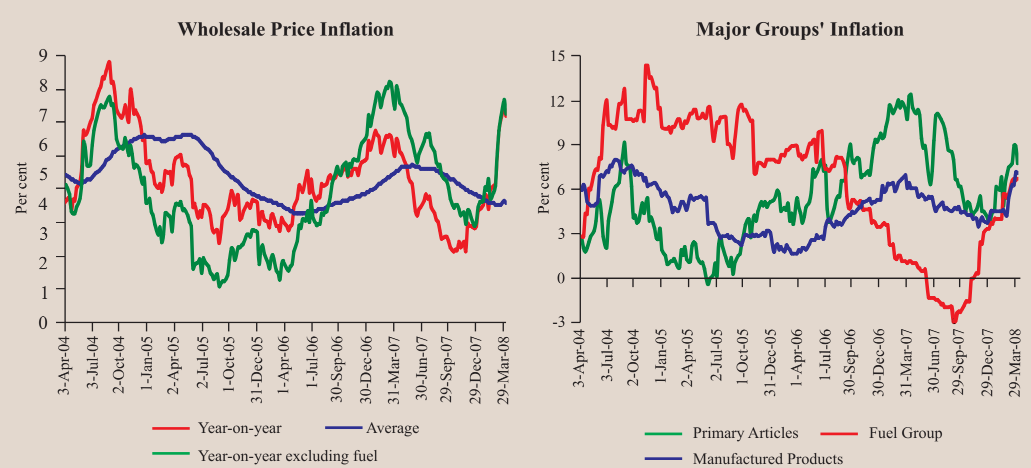
(Per cent)

	Global Inflation	Domestic (WPI)			
		Variation		Weighted Contribution	
	March 2008 over March 2007	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5	6
1. Rice	76.3	5.7	8.2	2.1	2.4
2. Wheat	120.8	7.3	5.1	1.8	1.0
3. Milk	--	8.4	7.6	5.8	4.3
4. Raw Cotton	39.9	21.9	14.0	3.5	2.1
5. Oilseeds	78.9	31.6	18.7	11.0	6.5
6. Iron Ore	66.0	16.9	52.9	2.0	5.6
7. Coal Mining	122.6	0.0	8.8	0.0	2.3
8. Mineral Oils	68.1	0.5	9.2	1.1	15.7
9. Edible Oils	100.6 - 104.3	14.1	20.1	4.7	5.8
10. Oil Cakes	--	32.9	27.2	7.0	5.8
11. Basic Heavy Inorganic Chemicals	--	-3.5	33.2	-0.7	5.1
12. Basic Metals, Alloys and Metal Products	--	11.3	20.0	17.4	25.9
- Iron and Steel	35.3	8.1	34.2	6.0	21.0
Sub-total				**55.7**	**82.5**

Note : 1. Global price increases are based on the World Bank commodity prices data.
2. Global edible oils are represented by palm oil and soybean oil.
3. Global iron and steel is represented by the World Bank's steel products price index.
4. Global mineral oil is represented by crude oil (average) spot prices.

end-December 2007, reflecting easing of food articles prices, especially of pulses, fruits and vegetables, and eggs, fish and meat as well as base effects. Subsequently, primary articles inflation increased to 8.9 per cent on March 29,

Chart 24: Annual WPI Inflation



2008 mainly led by fruits and vegetables, oilseeds, raw cotton and iron ore. Within primary food articles, rice and wheat prices increased by 8.2 per cent and 5.1 per cent, respectively, on a year-on-year basis, on March 29, 2008. The lower order of increase in domestic prices of rice and wheat, in the face of sharp increases in international prices, could be attributed to the various supply-side measures undertaken by the Government. Elevated rice prices, however, continued to be a matter of concern in view of the decline in *rabi* output, low productivity and exposure of the crop to frequent weather-related disturbances in the main producing regions as well as other structural factors. Amongst other primary food items, prices of vegetables increased by 15.8 per cent, y-o-y, on March 29, 2008 (1.2 per cent a year ago), while milk prices increased by 7.6 per cent on top of 8.4 per cent a year ago. Amongst non-food primary articles, prices of oilseeds, y-o-y, increased by 18.7 per cent on March 29, 2008 on top of an increase of 31.6 per cent a year ago, which could be attributed to higher demand, lower estimated *rabi* production (which was down by 10.7 per cent, y-o-y, as per the Third Advance Estimates) as well as rising global prices. Notwithstanding higher domestic production, raw cotton prices were 14.0 per cent higher, y-o-y, as on March 29, 2008 (21.9 per cent a year ago) in line with international price movements; as noted earlier, the Cotlook 'A' Index increased by 39.9 per cent in March 2008 (Chart 25).

Fuel group inflation, which was negative during June-November 2007, reflecting the base effects as well as the cuts in prices of petrol and diesel in November 2006 and February 2007, turned positive from mid-November 2007

Chart 25: Primary Articles Inflation (year-on-year)

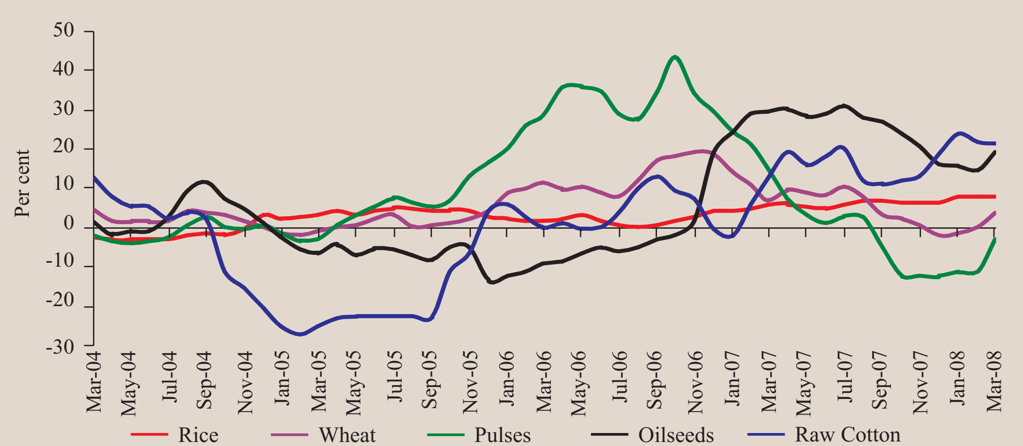


Table 41 : Wholesale Price Inflation in India (year-on-year)

(Per cent)

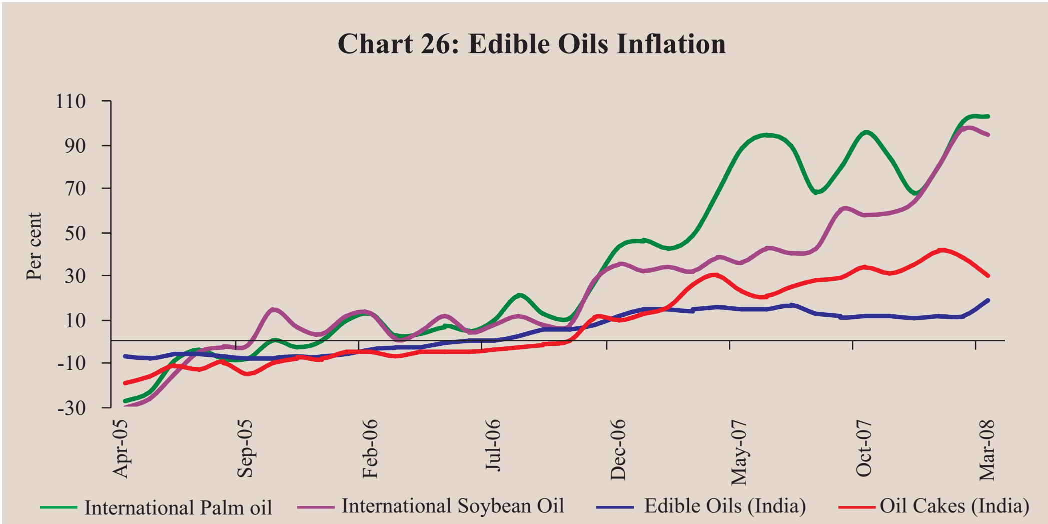
Commodity		2006-07 (March 31)		2007-08 (P) (March 29)	
	Weight	Inflation	WC	Inflation	WC
1	2	3	4	5	6
All Commodities	**100.0**	**5.9**	**100.0**	**7.4**	**100.0**
1. Primary Articles	**22.0**	**10.7**	**39.0**	**8.9**	**27.1**
Food Articles	15.4	8.0	20.8	6.1	12.8
i. Rice	2.4	5.7	2.1	8.2	2.4
ii. Wheat	1.4	7.3	1.8	5.1	1.0
iii. Pulses	0.6	12.5	1.4	-1.8	-0.2
iv. Vegetables	1.5	1.2	0.3	15.8	2.7
v. Fruits	1.5	5.7	1.8	3.1	0.8
vi. Milk	4.4	8.4	5.8	7.6	4.3
vii. Eggs, Fish and Meat	2.2	9.4	3.8	1.5	0.5
Non-Food Articles	6.1	17.2	15.6	11.1	8.9
i. Raw Cotton	1.4	21.9	3.5	14.0	2.1
ii. Oilseeds	2.7	31.6	11.0	18.7	6.5
iii. Sugarcane	1.3	1.1	0.3	-0.4	-0.1
Minerals	0.5	17.5	2.6	41.8	5.5
2. Fuel, Power, Light and Lubricants	**14.2**	**1.0**	**4.0**	**6.7**	**19.4**
i. Mineral Oils	7.0	0.5	1.1	9.2	15.7
ii. Electricity	5.5	2.3	2.8	1.5	1.4
iii. Coal Mining	1.8	0.0	0.0	8.8	2.3
3. Manufactured Products	**63.8**	**6.1**	**57.3**	**7.1**	**53.5**
i. Food Products	11.5	6.1	10.5	9.1	12.5
of which: Sugar	3.6	-12.7	-6.6	0.0	0.0
Edible Oils	2.8	14.1	4.7	20.1	5.8
ii. Cotton Textiles	4.2	-1.0	-0.6	-5.1	-2.2
iii. Man Made Fibres	4.4	3.9	1.3	0.4	0.1
iv. Chemicals and Chemical Products	11.9	3.6	7.1	5.4	8.2
of which : Fertilisers	3.7	1.8	1.0	1.9	0.8
v. Basic Metals, Alloys and Metal Products	8.3	11.3	17.4	20.0	25.9
of which: Iron and Steel	3.6	8.1	6.0	34.2	21.0
vi. Non-Metallic Mineral Products	2.5	9.0	3.6	6.0	2.0
of which: Cement	1.7	11.6	3.2	5.1	1.2
vii. Machinery and Machine Tools	8.4	8.1	8.6	3.6	3.2
of which: Electrical Machinery	5.0	12.9	6.7	4.9	2.2
viii. Transport Equipment and Parts	4.3	2.0	1.2	4.7	2.1
Memo:					
Food Items (Composite)	**26.9**	**7.3**	**31.2**	**7.3**	**25.3**
WPI Excluding Food	**73.1**	**5.5**	**68.8**	**7.5**	**74.7**
WPI Excluding Fuel	**85.8**	**7.4**	**96.0**	**7.6**	**80.6**

WC : Weighted Contribution. P : Provisional.

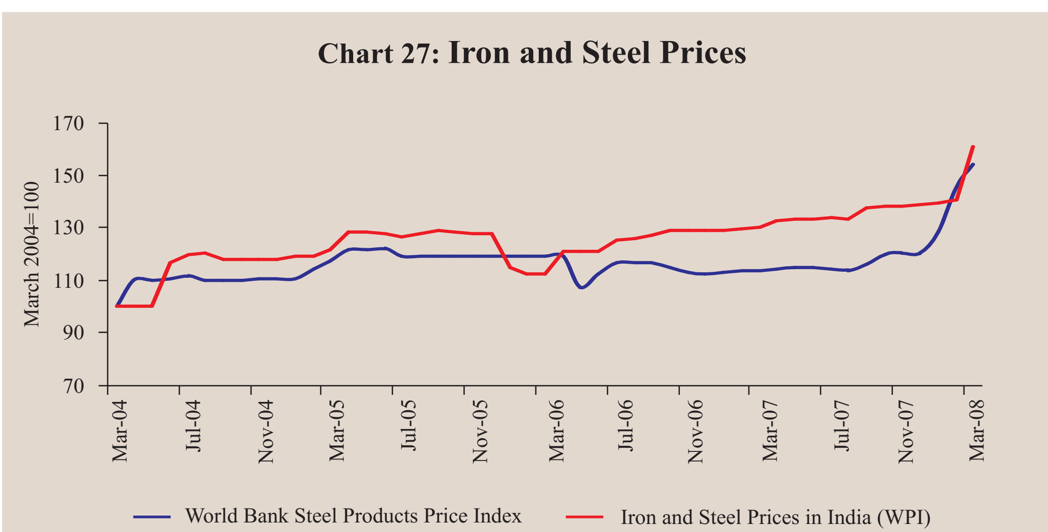
to reach 6.7 per cent on March 29, 2008 (Table 41). The increase since November 2007 could be attributed to further increases in the prices of some petroleum products such as naphtha, furnace oil, aviation turbine fuel (ATF) and bitumen as well the upward revision in the domestic prices of petrol and diesel by Rs. 2 a litre and by Rs. 1 per litre, respectively, effective February 15, 2008 (which came after a gap of almost one year when the prices were cut). In this context, it may be noted that international crude oil prices (Indian basket) increased by almost 76 per cent from US $ 56.6 a barrel in February 2007 to US $ 99.3 a barrel level in March 2008. In rupee terms, the increase in international crude (Indian basket) prices worked out to almost 61 per cent over the same period, while the mineral oil (monthly average) index in the WPI increased by only about 9 per cent. However, the freely priced items (such as naphtha, furnace oil, ATF, etc.) within the mineral oil group have increased within a range of 38.7-44.0 per cent since February 2007. It may be noted that while domestic petrol and diesel prices have been adjusted partially, prices of kerosene and liquefied petroleum gas (LPG) have not been raised by the Government since April 2002 and November 2004, respectively, on grounds of societal concerns. In order to contain fuller pass-through of higher international crude prices to domestic prices, the Government, however, has extended the subsidy schemes for these products, which were available through the public distribution system (PDS) to March 2010. The schemes were earlier available up to March 2007. Furthermore, in October 2007, the Government had also announced to bear the burden to the extent of 42.7 per cent of the under-recoveries in the retail sale of petroleum products by oil marketing companies through issuance of oil bonds. Thus, inflation risks on account of oil prices remain incipient.

Manufactured products inflation, y-o-y, eased from 6.4 per cent at the beginning of the year to 3.5 per cent by November 24, 2007 (5.3 per cent a year ago) led by decline in the prices of sugar, textiles and non-ferrous metals as well as base effects. Subsequently, manufacturing inflation increased to 7.1 per cent by March 29, 2008, mainly reflecting the continued rise in the prices of edible oils/oil cakes, basic heavy inorganic chemicals, and basic metals and alloys. These commodities together contributed almost 45 per cent to the overall WPI inflation on March 29, 2008. The increase in domestic edible oil/oil cakes prices, year-on-year, by 20.1 per cent and 27.2 per cent, respectively, on March 29, 2008 (on top of 14.1 per cent and 32.9 per cent, respectively, a year ago) reflected surge in demand, lower domestic *rabi* 2007 oilseeds production as well as sharp increase in international prices (Chart 26). It may be noted that India has imported large quantities of edible oils at progressively higher prices since November 2007. According to the Solvent Extractors' Association of India, import of edible oils increased by 38 per cent to 1.9 million tonnes during November 2007-March 2008. During this period, international edible oil prices also increased in a range of about 26-31 per cent.

Within manufactured products, basic metals and alloy prices increased sharply (21.4 per cent) during March 29, 2008 over end-February 2008 led by iron and steel (24.8 per cent), which pushed the year-on-year increase in metals group inflation to 20.0 per cent on March 29, 2008 on top of 11.3 per cent increase a year ago (see Table 41). This, along with iron ore, was primarily



responsible for the sharp jump in headline inflation from 5.0 per cent at end-February 2008 to 7.4 per cent on March 29, 2008. The sharp increase in domestic iron and steel prices was in line with the recent hardening of international steel prices (Chart 27). The continued hardening of electrical machinery prices (4.9 per cent on March 29, 2008 on top of 12.9 per cent recorded a year ago) reflected higher input prices as well as investment demand. The continued firming up of cement prices could be attributed largely to the strong demand from the construction sector and high capacity utilisation rates in the cement industry [93 per cent during 2007-08 (April-February) as compared with 90 per cent a year ago]. Basic heavy inorganic chemicals prices also

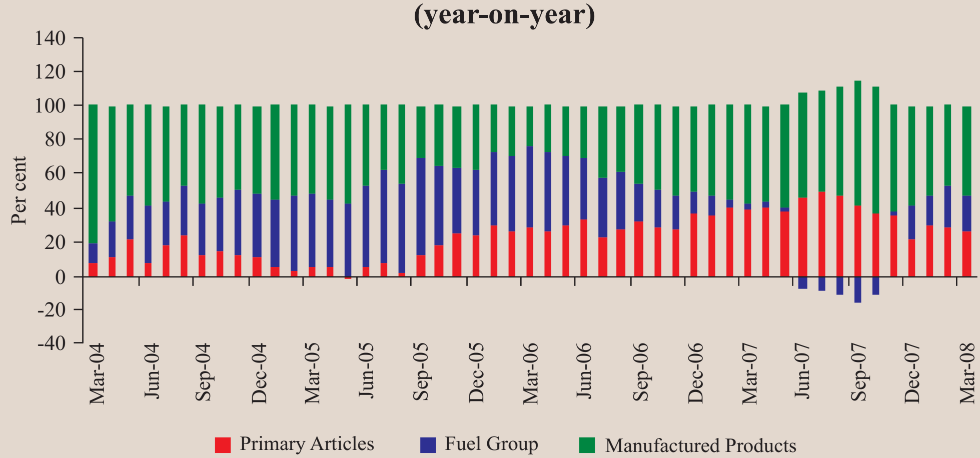


increased sharply by 33.2 per cent, year-on-year, on March 29, 2008 as against a decline of 3.5 per cent recorded a year ago. Amongst other manufactured products, domestic prices of non-ferrous metals declined on a year-on-year basis, although international prices, which had eased up to December 2007, have firmed up from January 2008. Sugar prices remained flat reflecting higher domestic production, although international prices have firmed up in recent months. Despite higher domestic raw cotton prices, cotton textiles prices have declined year-on-year by 5.1 per cent on March 29, 2008 possibly reflecting competitive pressures from the global market and lower export demand.

Overall, manufactured products were the major driver of annual year-on-year WPI inflation as on March 29, 2008 with weighted contribution of 53.5 per cent (57.3 per cent a year ago), followed by primary articles at 27.1 per cent (39.0 per cent) and the fuel group at 19.4 per cent (4.0 per cent) (Chart 28).

In order to contain inflationary pressures, the Government initiated a number of fiscal and supply augmenting measures during 2007-08. 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. The Government also took several measures with the aim of containing food price inflation. The Government reduced customs duty on palm oils by 10 percentage points across the board in April 2007 and import duty on various edible oils in a range of 5-10 percentage points in July 2007. It also withdrew the 4 per cent additional countervailing duty on all edible oils. Import of wheat at zero duty, which was available up to end-December 2006, was extended further to end-December

Chart 28: Major Groups' Weighted Contribution to WPI Inflation (year-on-year)



2007. Customs duty on import of pulses was reduced to zero on June 8, 2006 and the period of validity of import of pulses at zero duty, which was initially available up to March 2007, was first extended to August 2007 and further to March 2009. A ban was imposed on export of pulses with effect from June 22, 2006 and the period of validity of prohibition on exports of pulses, which was initially applied up to end-March 2007, was further extended up to end-March 2008. In order to increase the availability of onion, the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) increased the minimum export price (MEP) by US $ 100 per tonne for all destinations from August 20, 2007 and by another US $ 50 per tonne with effect from October 2007 for restricting exports and augmenting availability in the domestic market. The minimum support price (MSP) for paddy was raised by Rs. 125 per tonne for this year and for wheat by Rs. 150 for 2007-08 and further by Rs. 150 for 2008-09.

In March 2008, the customs duty on semi-milled or wholly-milled rice was reduced from 70 per cent to zero per cent up to March 2009; customs duties on crude and refined edible oil were reduced from a range of 40-75 per cent to 20-27.5 per cent. The export of all edible oils were prohibited with immediate effect from March 17, 2008. Furthermore, on April 1, 2008, the Government announced a ban on the export of non-basmati rice and raised the minimum export price (MEP) to US $ 1,200 per tonne in respect of basmati rice. The Government also announced to allow import of crude form of edible oil at zero duty and refined form of edible oil at a duty of 7.5 per cent. The ban on export of pulses was also extended for one more year beginning April 1, 2008. These measures are expected to help in containing inflation and inflationary expectations.

As per the latest available information on WPI, headline inflation eased marginally to 7.3 per cent during the week ended April 12, 2008 from 7.4 per cent at end-March 2008.

Consumer Price Inflation

Inflation based on year-on-year variation in consumer price indices (CPIs) had eased up to January 2008, mainly reflecting the deceleration in food price inflation. Subsequently, there has been some increase in CPI inflation measures mainly due to food and fuel prices. Various measures of consumer price inflation were placed in the range of 5.5-7.9 per cent during February/March 2008 as compared with 6.7-9.5 per cent in March 2007. Disaggregated data show that food group inflation in various CPI measures eased to a range of 6.2-8.5 per cent in February/March 2008 from 10.9-12.2 per cent in March 2007 (Table 42).

Table 42 : Consumer Price Inflation : Major Groups

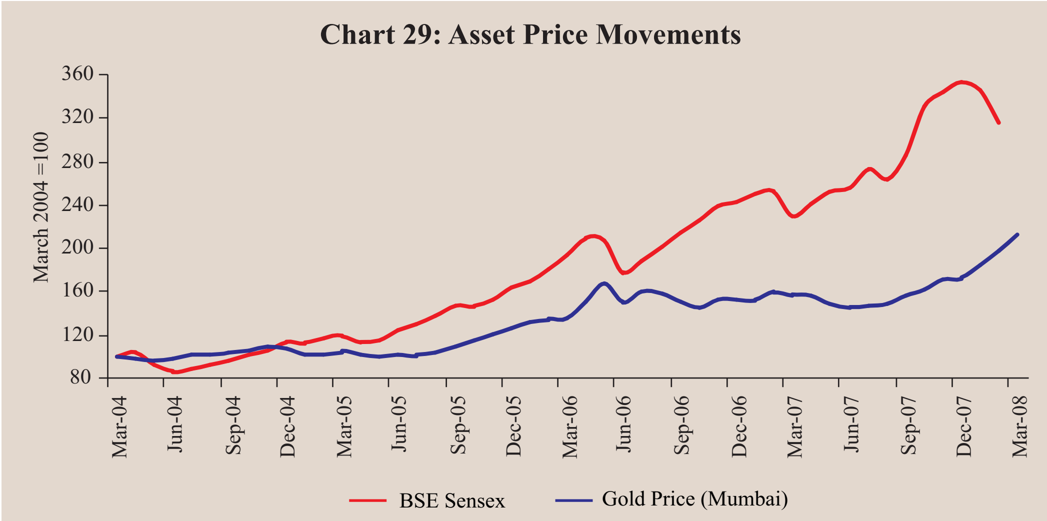
(Year-on-year variation in per cent)

CPI Measure	Weight	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Jun-07	Sep-07	Dec-07	Feb-08	Mar-08
1	2	3	4	5	6	7	8	9	10	11	12
CPI-IW (Base: 2001=100)#											
General	**100.0**	**4.1**	**3.5**	**4.2**	**4.9**	**6.7**	**5.7**	**6.4**	**5.5**	**5.5**	--
Food Group	46.2	3.7	3.1	1.6	4.9	12.2	8.1	8.7	6.2	7.0 *	--
Pan, Supari *etc.*	2.3	1.9	4.2	2.1	3.1	4.4	9.6	10.3	10.3	11.9 *	--
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	3.2	1.6	2.3	2.3	2.3 *	--
Housing	15.3	5.4	3.9	20.4	6.6	4.1	4.1	4.0	4.0	4.7 *	--
Clothing, Bedding *etc.*	6.6	1.5	2.1	2.3	3.0	3.7	4.4	5.3	3.5	3.5 *	--
Miscellaneous	23.3	5.3	3.2	3.9	4.6	3.3	4.0	4.0	4.7	5.5 *	--
CPI-UNME (Base: 1984-85=100)											
General	**100.0**	**3.8**	**3.4**	**4.0**	**5.0**	**7.6**	**6.1**	**5.7**	**5.1**	**5.2**	**6.0**
Food Group	47.1	2.6	3.0	2.2	5.3	10.9	7.7	7.7	6.2	6.2	--
Fuel and Light	5.5	3.1	3.2	9.6	1.9	6.4	7.2	7.0	5.4	5.2	--
Housing	16.4	6.3	5.2	7.5	5.5	5.6	5.6	4.9	4.7	4.0	--
Clothing, Bedding *etc.*	7.0	2.6	2.6	2.0	2.9	3.6	4.3	4.0	4.1	4.4	--
Miscellaneous	24.0	6.0	2.8	4.4	5.1	4.4	3.7	3.2	3.8	4.2	--
CPI-AL (Base: 1986-87=100)											
General	**100.0**	**4.9**	**2.5**	**2.4**	**5.3**	**9.5**	**7.8**	**7.9**	**5.9**	**6.4**	**7.9**
Food Group	69.2	6.0	1.6	2.2	5.5	11.8	8.8	8.8	6.2	6.7	8.5
Pan, Supari *etc.*	3.8	3.5	4.7	-1.3	6.6	5.7	9.1	11.1	11.3	10.2	10.4
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.9	7.4	7.2	6.3	8.0	8.0
Clothing, Bedding *etc.*	7.0	3.0	4.1	2.5	2.2	3.5	2.7	1.9	1.3	1.8	1.8
Miscellaneous	11.7	3.1	2.7	5.5	5.5	6.8	6.7	5.5	5.2	5.9	6.1
CPI-RL (Base: 1986-87=100)											
General	**100.0**	**4.8**	**2.5**	**2.4**	**5.3**	**9.2**	**7.5**	**7.6**	**5.6**	**6.1**	**7.6**
Food Group	66.8	5.6	1.9	1.9	5.8	11.5	8.5	8.8	6.2	6.7	8.2
Pan, Supari *etc.*	3.7	3.5	4.7	-1.0	6.3	5.7	9.3	11.6	11.5	10.4	10.6
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.9	7.4	7.2	6.3	8.0	8.0
Clothing, Bedding *etc.*	9.8	3.3	3.4	2.8	2.7	3.1	2.6	2.1	2.6	2.8	2.8
Miscellaneous	11.9	3.1	3.0	5.5	5.2	6.3	6.2	5.3	5.0	5.9	6.2
Memo:											
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	5.9	4.4	3.4	3.8	5.0	7.4
GDP Deflator based Inflation @		3.9	3.7	4.2	4.9	5.5	5.6	4.1	2.7	--	3.9

\# : Data prior to January 2006 are based on the old series (Base: 1982=100).
* : January 2008.
@ : Data for March pertain to full year.
IW : Industrial Workers. UNME : Urban Non-Manual Employees.
AL : Agricultural Labourers. RL : Rural Labourers.

Asset Prices

Domestic equity prices, which had recorded further gains up to early-January 2008, witnessed sharp corrections thereafter on the back of heightened uncertainties in the global financial markets and concerns about some slowdown in the domestic economy (see Chapter V). Domestic gold prices, mirrored movements in international prices during 2007-08. Domestic gold prices



increased by about 36 per cent, y-o-y, to around Rs. 12,739 per 10 grams in March 2008 in line with movement in international prices, which increased by almost 48 per cent over the same period (Chart 29). International gold prices touched a peak of US $ 1,011 per ounce on March 17, 2008, reflecting weakening of US dollar, hardening of oil prices and increased investor interest following uncertainties surrounding the global financial markets.

V. FINANCIAL MARKETS

International Financial Markets

Global financial markets witnessed turbulent conditions during 2007-08 as the crisis in the US sub-prime mortgage market deepened and spilled over to markets for other assets. Concerns about slowdown in the real economy propelled a broad-based re-pricing of growth risk by the end of the year. In the wake of the persistent uncertainties about the US sub-prime mortgage market and other credit markets exposures, liquidity demand surged. To ease liquidity conditions, major central banks continued to inject liquidity in a more collaborative manner. Elevated inflationary pressures in many economies reflected historical peaks in crude oil prices. Share prices in advanced economies fell, while those in emerging market economies (EMEs), which had shown some resilience, declined sharply from January 2008. Long-term government bond yields in advanced economies softened, reflecting flight to safety by investors and easing of monetary policy in the US. In the currency markets, the US dollar depreciated against major currencies.

Recent financial market developments unfolded against the backdrop of an extended period of strong broad-based global growth and overall financial stability. The congruence of favourable macroeconomic conditions, abundant liquidity and low nominal rates generated perception of low financial risks. Investor appetite for high returns in a low interest rate environment encouraged market participants to undertake progressively higher risks, stimulated further technological development for unbundling and distributing risks through financial markets and boosted demand for a range of high yielding and complex financial products. Greater appetite for structured instruments was evident in the rapid rise in the issuance of asset-backed securities (ABSs), collateralised debt obligations (CDOs) and credit default swaps.

According to the IMF's assessment in April 2008[1], the recent financial market turbulence that erupted in August 2007 has developed into the largest financial shock since the Great Depression, inflicting heavy damage on markets and institutions at the core of the financial system. The turmoil, which was initiated by rapidly rising defaults on sub-prime mortgages in the context of a major US housing correction, subsequently spread to securities backed by mortgages, including CDOs structured to attract high credit ratings.

Delinquency rates on sub-prime mortgages (residential loans extended to individuals with poor credit history) had started rising markedly after mid-2005. However, the trigger for deterioration in the credit market was provided by the

[1] World Economic Outlook, and Global Financial Stability Report, International Monetary Fund, April 2008.

news that two hedge funds, which were active in the structured markets for credit instruments that had sub-prime exposure, had suffered heavy losses and almost lost their capital. The market value of credit products based on sub-prime mortgages also declined[2]. These losses were aggravated by a sharp fall in financial market liquidity as investors became reluctant to invest in such products. These events resulted in a tightening in underwriting standards, with fewer households qualifying for sub-prime loans. Losses on mortgage exposures worsened following adverse developments in the US housing market. There was further downgrading of ABSs with underlying assets as US sub-prime residential mortgages. Many issuers of asset-backed commercial paper (ABCP) programs found it extremely difficult to roll over maturing asset backed paper into new longer-term paper. The uncertainty over financial system exposures spread to banks and hedge funds outside the US as they indicated their exposures to this market. The rating agencies also announced that they would be downgrading asset backed securities with underlying pools of sub-prime mortgages.

In the wake of these events, activity in ABCP dwindled, while concerns about banks being forced to take ABCP exposures on to their balance sheets generated apprehensions about an impending credit crunch. Inability of commercial paper issuing vehicles to finance at longer maturities induced them to seek liquidity needs from their sponsor banks, which in turn, prompted banks to hoard liquidity. The uncertainty about the quality of counter-party assets also aggravated the situation. The disturbances, thus, spilled over into short-term money markets, causing steep increases in overnight interest rates in major economies in August 2007. The steep increases in the inter-bank rates occurred as banks sought to conserve their own liquidity in the face of pressures to absorb assets from off-balance-sheet vehicles for which they were no longer able to obtain funding and uncertainty about the size and distribution of banks' losses on holding of sub-prime securities and other structure credits. The UK witnessed some of the sharpest increases in the inter-bank rates as liquidity problems at the mortgage lender Northern Rock became more pronounced eventually triggering a bank run. The government bond yields in industrialised countries declined sharply with the yield on the 10-year paper in the US dropping by around 65 basis points, and those in the Euro area and Japan by around 40 basis points each by late August 2007 over first half of June 2007 as markets sold off and investors retreated from risky assets.

In August 2007, central banks in the US and other affected economies, therefore, injected liquidity to stabilise inter-bank markets. Open market operations of increased size and maturity were undertaken by the Bank of England, European Central Bank (ECB) and the US Federal Reserve System. The types of securities

[2] Cash flows generated by sub-prime mortgages were often repackaged into structured credit products and sold to investors.

against which banks could borrow were broadened by the US Fed and the ECB to include mortgage backed securities. The US Fed also decided to accept ABCPs as collateral. On August 16, 2007, the US Federal Open Market Committee (FOMC) lowered its discount rate by 50 basis points, bringing in some calmness in markets. The Bank of England provided emergency liquidity assistance to Northern Rock. The US FOMC, at its meeting held on September 18, 2007, decided to cut the fed funds rate target by 50 basis points (bps) from 5.25 per cent to 4.75 per cent and correspondingly the federal discount rate from 5.75 per cent to 5.25 per cent. While the primary concern of the FOMC till August 2007 was the existence of inflationary pressures, the risks to economic growth were indicated as an added concern in its September 18, 2007 statement.

As a consequence of successive central bank liquidity injections into the inter-bank money markets and lower policy rates in the US, the credit markets recovered briefly in early October 2007. Renewed concerns about the uncertainty in the US housing market and direct and indirect exposures to associated economic and financial risks from mid-October 2007 led to widening of credit spreads. Mirroring the developments in the US, the credit spreads widened in the Euro area. Market conditions weakened for structured instruments, reflecting the deteriorating asset quality and uncertainties about valuation of structured credit products. This also reflected worsening of sentiment in the money market beginning mid-October 2007 as liquidity conditions became adverse leading to rise in inter-bank rates. The swap spreads between three-month inter-bank interest rates and overnight index swaps rose sharply reflecting greater preference for liquidity and rising counterparty risk premia. Spreads also increased sharply across other related market segments, including securities backed by credit cards, auto loans, student loans, and commercial mortgages, as a result of concerns about rising default rates, excessive leverage, and questionable securitisation techniques. Market participants evinced keen interest in government paper. Bond yields also fell in anticipation of weakening of economic activity and expectations of further monetary policy easing in the US.

In order to improve liquidity, the US Federal Reserve Board reduced its fed funds rate target by 25 basis points each on October 31, 2007 and December 11, 2007. The Bank of England and the Bank of Canada also reduced their policy rates in December 2007. In the situation of heightened tensions and serious impairment of functioning of the money markets, five central banks, *viz.*, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve and the Swiss National Bank announced measures on December 12, 2007 in a collaborative manner to address elevated pressures. Actions taken by the Federal Reserve included the establishment of a Term Auction Facility (TAF) and the establishment of foreign exchange swap lines with the European Central Bank and the Swiss National Bank. The TAF allowed a potentially much larger pool of banks to bid for funds direct from the Fed. The goal of the TAF was to reduce the incentive for banks to hold cash and increase their willingness to provide credits to households and firms. The ECB announced that the Eurosystem would conduct two US dollar liquidity-providing operations, in connection with the US dollar TAF, against ECB-eligible collateral for a maturity of 28 and 35 days. The Bank of England expanded the amount of reserves offered at three months maturity in its long-term repo open market operations scheduled on December 18, 2007 and January 15, 2008. It also widened the range of collateral accepted for funds advanced at this maturity. The Bank of Canada announced that it would enter into term purchase and resale agreements extending over the calendar year-end.

In the UK, the Government had to extend guarantees to depositors of Northern Rock to avoid contagion in the banking system. The Northern Rock was also provided a large loan by the Bank of England. Under a fresh rescue plan under current consideration of the authority, the money lent to Northern Rock could be converted into government bonds, a move that would allow a private buyer to reduce the burden of heavy loan repayment immediately.

As evidence accumulated on an imminent slowdown in the real economy since January 2008, a broad-based re-pricing of growth risk ensued. In the wake of further worsening of the baseline outlook for real activity in 2008 and increasing downside risks to growth, the US Fed reduced the fed funds rate target sharply by 75 basis points to 3.50 per cent on January 22, 2008 and further by 50 basis points to 3.00 per cent on January 30, 2008, taking the total reduction to 225 basis points beginning September 18, 2007.

Sentiment in the credit market deteriorated along with weak growth in the US manufacturing sector, adverse labour market conditions, and uncertainty about the ability of the financial system to provide and allocate credit. Expectations of downgrading of monoline financial guarantees further affected market sentiment. Thus, global credit markets witnessed further volatility and spreads rose sharply across the board as further writedowns by major financial institutions and adverse news from the US housing sector aggravated the concerns of further weakening of the US economy. Between end-November 2007 and February 22, 2008, the US five-year CDX high-yield index spread rose by 204 basis points to 696, while corresponding investment grade spreads moved by 76 basis points to 152. European and Japanese indices broadly mirrored the performance of their US counterparts. The five-year iTraxx Crossover CDS index climbed 227 basis points to 575, while investment grade spreads rose by 71 basis points to 124. Spreads on the iTraxx Japan index also widened considerably. All the indices had moved to the widest levels since their inception back in 2004 on or around January 22, 2008, before reaching even higher peaks by late February 2008.

Nervousness about the feedback effect between market developments and economic outlook fuelled further volatility among all other segments of the financial market. Equity markets and the government bonds markets also remained volatile in February 2008, reflecting spillover of risks from the credit market to these segments and indications of further slowdown of the US economy. Government bond yields has declined sharply, and investment in commodity markets has escalated as investors sought alternative asset classes. The news of additional monoline downgrades, related recapitalisations and restructuring plans and increased loss estimates for exposures similar to those of the monolines, and renewed concerns about unwinds and structured instruments added further volatility to the financial markets. The equity markets declined in the US, Europe, Japan and other advanced economies. The equity markets in the EMEs, which had shown some resilient, saw more pronounced weaknesses from January 2008. Government bond yields declined further consequent to the decline in the equity markets and increasing safe haven flows towards the government securities market. This was supported by anticipations of further monetary policy easing in the US. The US Federal Reserve on March 14, 2008 announced to provide emergency funding to Bear Stearns, an investment bank. As per the arrangement, the New York Fed will fund the investment bank through its discount window by passing funds to JPMorgan Chase, which has set up a secured loan facility with Bear Stearns. In order to foster market liquidity and to promote moderate growth over time and to mitigate the risks to economic activity, the US Fed reduced the fed funds rate target sharply by 75 basis points to 2.25 per cent on March 18, 2008, taking the total reduction to 300 basis points beginning September 18, 2007.

In strong contrast to earlier periods of global financial disruption, the direct spillovers to emerging and developing economies have been largely contained so far. Issuance activity by these economies has moderated since August 2007, compared with the very high levels of issuance experienced during the previous year. However, the overall foreign exchange flows have been largely sustained, and international reserves have continued to rise. Foreign direct investment and portfolio equity flows have generally remained strong, although there have been sharp portfolio outflows during periods of market nervousness. Most emerging markets have significantly outperformed those in advanced economies since June 2007, even though spreads on emerging economies' sovereign and corporate debt have widened and equity prices retreated in early 2008.

Recent financial market developments raise several issues and concerns. First, according to the IMF's assessment, experience from the past episodes may not provide much guidance for the current unprecedented situation in the financial markets. In particular, the global economy is now facing widespread deleveraging as mechanisms for credit creation have been damaged in both the banking system and in the securities markets: the financial system's twin engines are both faltering at the same time. According to the IMF's staff estimates, potential losses to banks from exposure to the US sub-prime mortgage market and from related structured securities, as well as losses on other US credit classes such as consumer and corporate loans, could be of the order of US$ 440 - US$ 510 billion out of total potential losses of US$ 945 billion, which would put significant pressure on the capital adequacy of the US and European banks. Capital adequacy and leverage ratios were also being adversely affected by the re-intermediation onto bank balance sheets of off-balance-sheet structures such as conduits and leveraged buyout financing underwritten by major banks. According to the IMF, the adverse impact of bank lending reflected tightening of lending standards of the banks rather than deterioration in capital adequacy. In the securities markets, financial tightening measures have affected business conditions due to rise in spreads on corporate securities. For higher-risk borrowers, the rise was somewhat less pronounced than during the 2001 recession. Spreads facing prime corporate borrowers were close to 2002 highs, although overall yields still remain lower given the decline in government benchmarks. According to the IMF's expectations, issuances of complex structured credits are likely to be very limited until underlying weaknesses in the securitisation process are adequately addressed.

Second, while the practices of increased use of innovative credit instruments and complex layering of risk diffusion have reduced information costs, they have also enabled the investor or risk taker to become progressively remote from the ultimate borrowers where the actual risks reside. With a host of intermediaries in the form of mortgage brokers, mortgage companies and societies, packaging their mortgage assets including non-conforming loans and selling down to different categories of investors, including Special Investment Vehicles (SIVs), and hedge funds, the identification and location of risks in the whole chain is becoming increasingly challenging.

Third, the role of rating agencies has also come under scrutiny. The issues such as small number of rating agencies and the possible conflict of interest clearly suggest that the reliance only on rating agencies for risk assessment needs to be avoided.

Fourth, the confidence is also falling in the strength of the insurers that guarantee payments on bonds (monoline industry). Two major bond insurers reportedly have huge exposures in securities backed by assets, including subprime mortgages. Some of the bond insurers in fact, have already been downgraded by the rating agencies because of the losses on the sub-prime mortgage bonds they had insured. The cost of buying protection against defaults by US companies has also risen.

Fifth, as far as role of central banks is concerned, on one hand, there is a view that increased credibility of monetary policy has enhanced expectations for stability in both inflation and interest rates, which has led to the mispricing of risk and hence enhanced risk taking. On the other hand, another view is that the repeated assurances of stability and guidance to markets about the future path of interest rates by the central banks, coupled with the availability of ample liquidity, have led markets to underprice risks.

Sixth, the increased complexity of financial products and markets poses greater challenges to the regulators and supervisors to keep pace with the evolving risks to markets and institutions. As reported in the Report of the Financial Stability Forum[3], supervisors and regulators need to make sure that the risk management and control framework within financial institutions keeps pace with the changes in instruments, markets and business models, and that firms do not engage in activities without having adequate controls.

Seventh, an important lesson emerging from the recent financial market developments is that the focus should not be on how the turmoil should be managed, but on what policies could be put in place to strengthen the financial system on a longer-term basis regardless of specific sources of disturbances[4]. Two important areas that need attention in this regard are architecture of prudential framework and monetary policy. A strong macro-prudential principle to financial regulation and supervision would need to be put in place. This would address the limitations in risk perceptions and in incentives as well as the self-reinforcing processes that lie behind the generalised build-up of risk and financial imbalances. The basic principle would be to encourage a build up of cushions in booms, so that they can be run down, up to a point, in bad times, as the imbalances unwind. In the US, a view has emerged that an objective-based regulatory structure focussing on three goals such as the market stability regulation, prudential financial regulation and business conduct regulation could be the optimal regulatory structure[5] for the future.

The main challenge for monetary policy is that financial imbalances can also build up in the absence of overt inflationary pressures[4]. This suggests that it is important for monetary policy frameworks to allow for the possibility of a tightening even if near-term inflation remains under control – what might be called the "response option". This would limit the risk of a painful macroeconomic adjustment subsequently, as the unwinding of the imbalances can result in macroeconomic weakness, broader financial strains, unwelcome disinflation and possibly even disruptive deflation. On the other hand, when the imbalances unwind, challenges are somewhat different. As in the build-up phase, one relates to adjustments in

[3] Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, April 2008.
[4] Borio, Claudio (2008), "The Financial Turmoil of 2007-?: A Preliminary Assessment and Some Policy Considerations", BIS Working Papers.
[5] The Department of Treasury Blueprint for a Modernised Financial Regulatory Structure, United States, March 2008.

policy rates, *i.e.*, in the monetary policy stance. Additionally, the other one may relate to the central bank's liquidity operations, which are aimed at implementing the policy stance and/or at responding to dysfunctional inter-bank market conditions. Furthermore, there appears to be simultaneous challenges from several angles to the conduct of monetary policy emanating from recent financial turbulence. These relate to abrupt and large shifts in monetary policy measures of the major economies, major realignments in exchange rates within a short period and unprecedented inflationary pressures due to food and energy prices. These warrant significant and innovative ways of cooperation among the central bankers.

Short-term Interest Rates

Short-term interest rates in 2007-08 witnessed a mixed trend. They declined in the US, and in the UK from December 2007, reflecting monetary easing. During 2007-08, the US Fed reduced its fed funds rate target by 300 basis points to 2.25 per cent. The Bank of England, which had increased its policy rate in May 2007 and July 2007, reduced it in December 2007 and February 2008 in the wake of concerns of slow growth. On the other hand, short-term interest rates increased in other advanced economies such as the Euro area and Sweden as central banks in these countries raised their policy rates. In the EMEs, short-term interest rates also witnessed a mixed trend during 2007-08, firming up in Argentina, China, South Korea and the Philippines, while softening in Hong Kong, Brazil and Thailand (Table 43).

Table 43 : Short-term Interest Rates

(Per cent)

Region/Country	End of					
	March 2006	March 2007	June 2007	September 2007	December 2007	March 2008
1	2	3	4	5	6	7
Advanced Economies						
Euro Area	2.80	3.91	4.16	4.73	4.88	4.72
Japan	0.04	0.57	0.63	0.73	0.73	0.75
Sweden	1.99	3.21	3.42	3.54	4.02	4.11
UK	4.58	5.55	5.92	6.28	6.41	6.01
US	4.77	5.23	5.27	4.72	4.16	2.26
Emerging Market Economies						
Argentina	9.63	9.63	9.25	12.31	14.50	10.44
Brazil	16.54	12.68	11.93	11.18	11.18	11.18
China	2.40	2.86	3.08	3.86	4.35	4.50
Hong Kong	4.47	4.17	4.43	4.97	3.73	1.83
India	**6.11**	**7.98**	**7.39**	**7.19**	**7.35**	**7.23**
Malaysia	3.51	3.64	3.62	3.62	3.62	3.62
Philippines	7.38	5.31	6.19	6.94	6.56	6.44
Singapore	3.44	3.00	2.55	2.56	2.56	1.38
South Korea	4.26	4.94	5.03	5.34	5.71	5.32
Thailand	5.10	4.45	3.75	3.55	3.90	3.25

Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

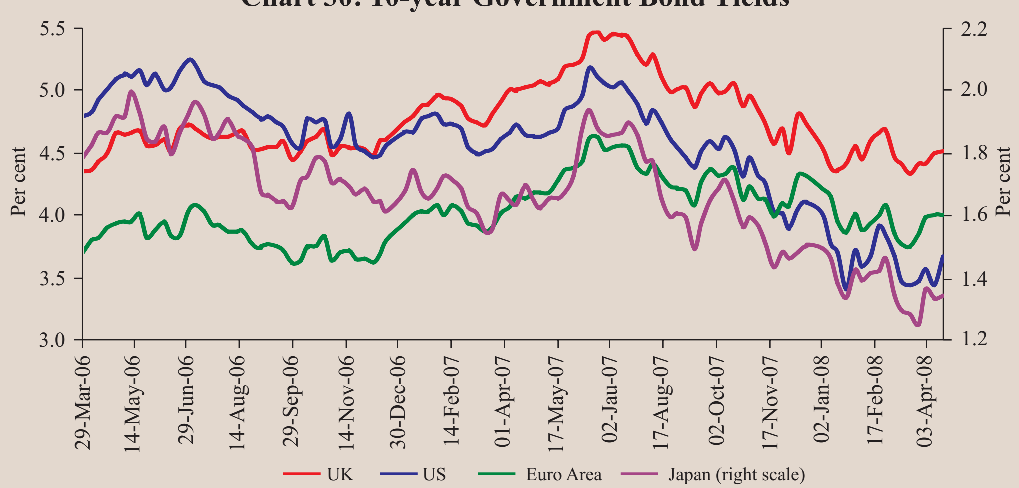
Government Bond Yields

During the first quarter of 2007-08, government bond yields increased in major advanced economies, reflecting higher short-term rates and upward revision in growth expectations. Long-term government bond yields, however, softened in the subsequent part of the year, reflecting lower investor appetite for riskier assets in the wake of deteriorating housing market, turbulence in the credit market and monetary policy easing in the US (Chart 30). The 10-year government bond yield in the US increased from 4.65 per cent on March 30, 2007 to a high of 5.26 per cent on June 12, 2007 but declined to 3.45 per cent on March 31, 2008. On the whole, during 2007-08, the 10-year yield declined by 120 basis points in the US. Yield on 10-year government paper in other advanced economies also declined (49 basis points in the UK, 41 basis points in Japan and 16 basis points in the Euro area).

Equity Markets

Equity markets in the advanced economies declined reflecting concerns over recession in the US economy on account of contraction in the US service industry, weak earnings growth reported by some of the leading US companies, home foreclosures climbing to record high levels and lacklustre retail sales in the US. Equity markets bottomed out around January 22, 2008 following the unanticipated reduction in US short-term interest rates and news of possible capital injections into the monoline insurers. Equity markets rebounded somewhat in late January 2008, but much of these gains subsequently petered out in February-March 2008, reflecting further weakening of growth prospects. Between end-October 2007 and January 23, 2008, the MSCI developed markets index declined by 17.0 per cent and was still down about 14.0 per cent between end-October 2007 and end-March

Chart 30: 10-year Government Bond Yields



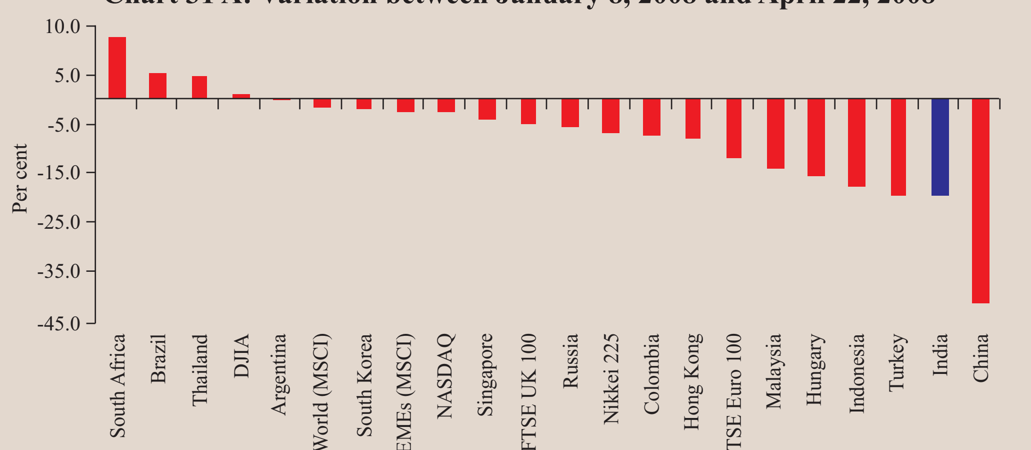
2008. On the other hand, equity markets in the EMEs recorded further gains during most part of 2007-08 amidst sharp intermittent corrections, reflecting healthy corporate earnings, strong portfolio flows and buoyant merger and acquisition activity. After remaining resilient, however, equity markets in EMEs witnessed pronounced weaknesses from January 2008 as risk tolerance and earning expectations were under pressure (Chart 31A). Between end-October 2007 and January 23, 2008, the MSCI emerging markets index declined by 21.1 per cent and was still down by about 17.2 per cent between end-October 2007 and end-March 2008.

Between end-March 2007 and end-March 2008, the MSCI emerging market index increased by 18.9 per cent, while the MSCI developed markets index declined by 5.1 per cent. These gains in the emerging markets were led by stock markets in Indonesia (33.7 per cent), Brazil (33.1 per cent), Thailand (21.3 per cent), India (19.7 per cent), South Korea (17.3 per cent), Hong Kong (15.4 per cent), South Africa (11.5 per cent), China (9.1 per cent) and Russia (6.1 per cent) (Chart 31B).

Foreign Exchange Market

In the foreign exchange market, the US dollar depreciated against the major currencies in the international market during 2007-08, reflecting US sub-prime crisis, fed funds rate cuts and lower than expected economic activity. The US dollar touched a historic low against the euro, Pound sterling and the Japanese yen in the last two quarters. During 2007-08, the US dollar depreciated by 15.8 per cent against the euro, 1.5 per cent against the Pound sterling and 14.9 per cent against the yen. Amongst Asian currencies, the US dollar depreciated by 9.3 per cent against the Chinese yuan, 10.2 per cent against the Thai baht; but it appreciated by 5.5 per cent against the South Korean won (Table 44).

Chart 31 A: Variation between January 8, 2008 and April 22, 2008



Source: Bloomberg.

Chart 31 B : Variation in International Stock Market Indices

Source: Bloomberg.

Domestic Financial Markets

Indian financial markets remained largely orderly during 2007-08, barring the equity market which witnessed bouts of volatility, especially beginning second week of January 2008 in tandem with trends in major international equity markets. Over the year, however, the equity market registered further gains. Brief spells of volatility were observed in the money market on account of changes in capital flows and cash balances of the Central Government with the Reserve Bank. Interest rates in the money markets remained generally within the informal corridor set by reverse repo and repo rates during the year. Interest rates in the collateralised

Table 44: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other Currencies

(Per cent)

Currency	End-March 2006 @	End-March 2007 @	End-March 2008 @	April 21, 2008 *
1	2	3	4	5
Euro	7.1	-9.1	-15.8	-0.5
Pound Sterling	8.5	-11.4	-1.5	0.3
Japanese Yen	9.4	0.2	-14.9	3.8
Chinese Yuan	-3.1	-3.4	-9.3	-0.2
Russian Rubble	-0.6	-6.1	-9.7	-0.1
Turkish Lira	-2.0	3.2	-5.8	0.1
Indian Rupee	**2.2**	**-2.5**	**-9.0**	**-0.2**
Indonesian Rupiah	-4.3	0.5	1.1	-0.3
Malaysian Ringgit	-3.0	-6.2	-7.8	-1.4
South Korea Won	-4.7	-3.7	5.5	0.9
Thai Baht	-0.7	-9.9	-10.2	-0.1
Argentina	5.4	0.7	2.1	0.3
Brazilian Real	-18.1	-6.4	-17.0	-2.8
Mexican Peso	-2.6	1.3	-3.5	-1.2
South African Rand	-0.5	17.2	11.3	-4.0

@ : Year-on-year variation. * : Variation over end-March 2008.

segment of the money market remained below the call rate during the year. In the foreign exchange market, the Indian rupee generally exhibited two-way movements. Yields in the Government securities market softened during most part of the year (Table 45).

Money Market

In the call/notice money market, liquidity pressures eased gradually from April 4, 2007 till mid-April 2007 partly on account of reduction in the cash balances of the Central Government. Reflecting this, the weighted average call/notice rate, which had moved above the repo rate in the second half of March 2007, gradually eased to 3.27 per cent on April 12, 2007. Notwithstanding the continued reduction in the cash balances of the Central Government, liquidity conditions tightened

Table 45: Domestic Financial Markets at a Glance

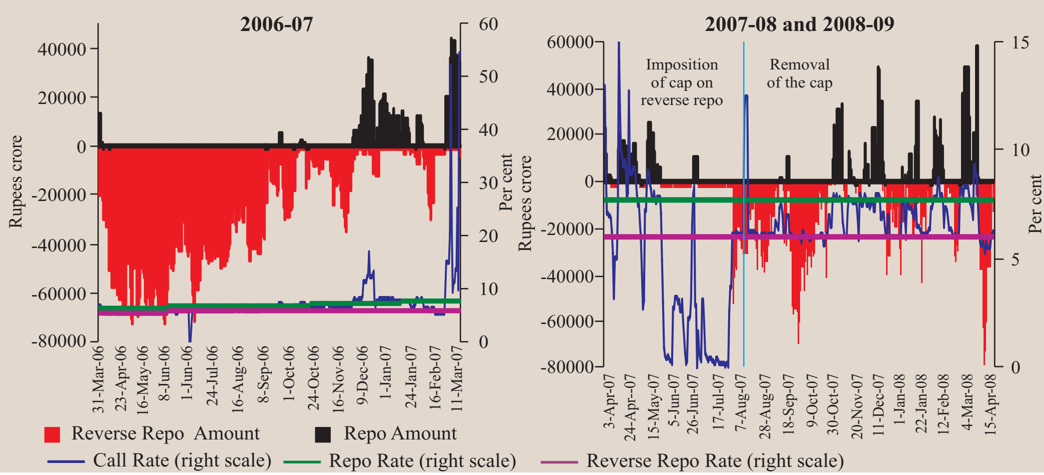
Year/ Month	Call Money		Government Securities		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rs. crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rs. crore)+	Average 10-year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US $ million)	Average Exchange Rate (Rs. per US $)	RBI's net Foreign Currency Sales (-)/ Purchases (+) (US $ million)	Average 3-month Forward Premia (Per cent)	Average MSS Out-standing# (Rs. crore)	Average Daily LAF Out-standing (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. 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**	**8,860**	**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**	**12,655**	**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**	**18,717**	**45.28**	**26,824 ##**	**2.14**	**37,698**	**21,973**	**3,832**	**7,812**	**12277**	**3572**
2007-08	**21,393**	**6.07**	**8,104**	**7.91**	**33,792 P**	**40.24**	**-**	**2.16**	**1,28,684**	**4,677**	**6,335**	**14,148**	**16569**	**4897**
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	13434	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	21,171	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	20,298	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	25,992	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	29,311	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	25,569	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	30,538	40.77	3,192	2.59	83,049	1,689	4,537	9,221	14334	4222
Jul 2007	16,581	0.73	13,273	7.94	32,586	40.41	11,428	1.12	82,996	2,230	5,684	12,147	15253	4474
Aug 2007	23,603	6.31	6,882	7.95	31,994	40.82	1,815	1.59	1,00,454	21,729	4,820	10,511	14779	4301
Sep 2007	21,991	6.41	5,859	7.92	36,768	40.34	11,867	1.45	1,17,674	16,558	6,157	13,302	16046	4660
Oct 2007	18,549	6.03	5,890	7.92	39,452 P	39.51	12,544	1.12	1,58,907	36,665	9,049	20,709	18500	5457
Nov 2007	20,146	6.98	4,560	7.94	30,677 P	39.44	7,827	1.40	1,75,952	-2,742	7,756	18,837	19260	5749
Dec 2007	16,249	7.50	7,704	7.91	31,547 P	39.44	2,731	1.64	1,64,606	-10,804	8,606	19,283	19827	5964
Jan 2008	27,531	6.69	19,182	7.61	38,008 P	39.37	13,625	2.07	1,59,866	15,692	8,071	19,441	19326	5756
Feb 2008	22,716	7.06	12,693	7.57	40,441 P	39.73	3,884	0.24	1,75,166	-1,294	5,808	13,342	17728	5202
Mar 2008	22,364	7.37	5,881	7.69	38,617 P	40.36	-	1.25	1,70,285	-8,271	6,166	14,056	15838	4770

* : 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. NSE : National Stock Exchange of India Limited. P : Provisional - : Not available.
Note : In column 11, (-) indicates injection of liquidity, while (+) indicates absorption of liquidity.

thereafter partly on account of a two-stage hike in the cash reserve ratio (CRR) by 25 basis points each, announced on March 30, 2007; the CRR was placed at 6.25 per cent effective from the fortnights beginning from April 14, 2007 and at 6.50 per cent from April 28, 2007. Consequently, the call/notice money market rates edged higher and exceeded the repo rate during the second half of April 2007 and some part of May 2007. From May 28, 2007 onwards, the liquidity conditions eased significantly, reflecting the reduction in cash balances of the Central Government and Reserve Bank's foreign exchange market operations. In the background of excess liquidity and the cap of Rs. 3,000 crore under the reverse repo window of LAF imposed with effect from March 5, 2007, the call rate remained below the reverse repo rate in June and July 2007. In fact, the call rate was placed below 1 per cent on a number of occasions in June and July 2007; it reached as low as 0.13 per cent on August 2, 2007(Chart 32).

With the withdrawal of the ceiling of Rs.3,000 crore on the daily reverse repo window of LAF with effect from August 6, 2007, the call rate increased but remained mostly within the informal corridor of the reverse repo and repo rates of 6.00-7.75 per cent during August, September and October 2007. In the wake of relative tightness in the liquidity conditions from the second week of November 2007, however, call/notice money market rates edged up and moved around the upper bound of the informal corridor. This was mainly because of festive season demand for currency, increase in Central Government cash balances with the Reserve Bank and further hike in the CRR by 50 basis points to 7.5 per cent with effect from the fortnight beginning November 10, 2007. In December 2007, the call/notice rate continued to move around the repo rate as the liquidity conditions remained tight on account of advance tax outflows.

Chart 32: Liquidity Adjustment Facility and the Call Rate

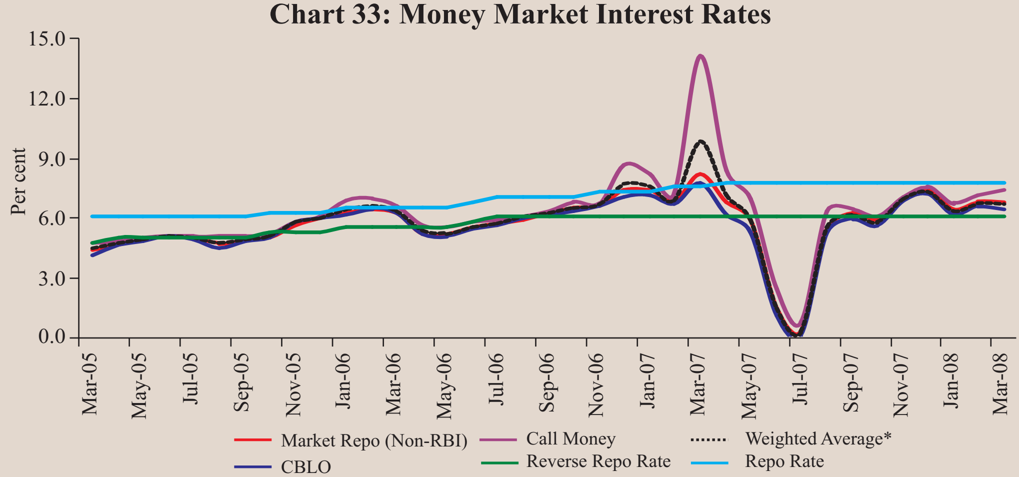


Call rates eased from the first week of January 2008 on the back of improvement in liquidity conditions partly on account of reduction in the surplus balances of the Central Government, but remained within the informal corridor for most of the days. Although call/notice money market rates edged up in the second half of March 2008, pre-emptive steps taken by the Reserve Bank, including special arrangements under the LAF, to smoothen the liquidity management, helped in maintaining orderly conditions in the money market. Call/notice money rates softened during the first three weeks of April 2008 and hovered around the reverse repo rate as liquidity conditions eased. The weighted average call/notice rate was 6.09 per cent on April 23, 2008. In the light of the prevailing macroeconomic, monetary and anticipated liquidity conditions, and with a view to contain inflation expectations, the Reserve Bank increased the CRR by 50 basis points to 8.0 per cent in two stages by 25 basis points each, to be effective from the fortnights beginning from April 26, 2008 and May 10, 2008.

Interest rates in the collateralised segment of the money market – market repo (outside the LAF) and collateralised borrowing and lending obligation (CBLO) – moved in line with call rates, but remained below call money rates during the major part of the year (Chart 33). During 2007-08, interest rates averaged 5.50 per cent and 5.20 per cent and 6.07 per cent, respectively, in market repo, CBLO segment and call/notice money market (6.34 per cent, 6.24 per cent and 7.22 per cent, respectively, a year ago). The weighted average rate in all the three money market segments combined together was 5.48 per cent during 2007-08 as compared with 6.57 per cent a year ago.

The collateralised segment now constitutes the predominant segment of the money market, accounting for around 80 per cent of the total volume (Table 46).

Chart 33: Money Market Interest Rates



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

Table 46: Activity in Money Market Segments

(Rupees crore)

Year/ Month	Average Daily Volume (One Leg)					Commercial Paper		Certificates of Deposit	
	Call Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Total (2+3+4)	Term Money Market	Outstanding	WADR (per cent)	Outstanding	WADR (per cent)
1	2	3	4	5	6	7	8	9	10
2004-05	**7,085**	**4,284**	**3,349**	**14,718**	**263**	**11,723**	**5.34**	**6,052**	**-**
2005-06	**8,990**	**5,296**	**10,020**	**24,306**	**417**	**17,285**	**6.46**	**27,298**	**-**
2006-07	**10,863**	**8,419**	**16,195**	**35,477**	**506**	**21,329**	**8.08**	**64,821**	**8.24**
2007-08	**10,697**	**13,684**	**27,813**	**52,194**	**352**	**33,813**	**9.20**	**1,15,617**	**8.89**
Mar 2006	9,145	7,991	17,888	35,024	669	12,718	8.59	43,568	8.62
Apr 2006	8,455	5,479	16,329	30,263	447	16,550	7.30	44,059	7.03
May 2006	9,037	9,027	17,147	35,211	473	17,067	6.89	50,228	7.17
Jun 2006	8,713	10,563	13,809	33,085	628	19,650	7.10	56,390	7.19
Jul 2006	9,127	9,671	15,670	34,468	432	21,110	7.34	59,167	7.65
Aug 2006	10,647	7,764	15,589	34,000	510	23,299	7.31	65,621	7.77
Sep 2006	11,833	9,185	14,771	35,789	568	24,444	7.70	65,274	7.80
Oct 2006	13,214	9,721	16,964	39,899	466	23,171	7.77	65,764	7.73
Nov 2006	12,825	9,374	16,069	38,268	348	24,238	7.88	68,911	7.99
Dec 2006	12,084	7,170	15,512	34,766	481	23,536	8.52	68,619	8.28
Jan 2007	11,180	6,591	15,758	33,529	515	24,398	9.09	70,149	9.22
Feb 2007	11,627	7,794	19,063	38,484	467	21,167	10.49	72,795	9.87
Mar 2007	11,608	8,687	17,662	37,957	739	17,863	11.33	93,272	10.75
Apr 2007	14,845	7,173	18,086	40,104	440	18,759	10.52	95,980	10.75
May 2007	10,238	8,965	20,810	40,013	277	22,024	9.87	99,715	9.87
Jun 2007	8,413	10,295	20,742	39,450	308	26,256	8.93	98,337	9.37
Jul 2007	8,290	12,322	20,768	41,380	288	30,631	7.05	1,05,317	7.86
Aug 2007	11,802	16,688	26,890	55,380	319	31,527	8.30	1,09,224	8.67
Sep 2007	10,995	17,876	29,044	57,915	265	33,614	8.95	1,18,481	8.57
Oct 2007	9,275	15,300	29,579	54,154	221	42,183	7.65	1,24,232	7.91
Nov 2007	10,073	12,729	28,614	51,416	184	41,307	9.45	1,27,142	8.48
Dec 2007	8,124	13,354	30,087	51,565	509	40,243	9.27	1,23,466	8.81
Jan 2008	13,765	17,029	35,711	66,505	312	50,062	11.83	1,29,123	8.73
Feb 2008	11,358	17,682	36,007	65,047	525	40,642	9.73	1,39,160	9.94
Mar 2008	11,182	14,800	37,413	63,395	571	32,592	10.38	1,43,714 #	9.98 #

- : Not available. WADR : Weighted Average Discount Rate. #: As on March 14, 2008.

In both the CBLO and market repo sub-segments, mutual funds are the major providers of funds, while the commercial banks and primary dealers are the major borrowers of funds.

Certificates of Deposit

The outstanding amount of certificates of deposit (CDs) increased to Rs. 1,43,714 crore (6.0 per cent of deposits of issuing banks) by March 14, 2008 from Rs.93,272 crore at end-March 2007 (4.8 per cent of aggregate deposits) (Table 46). The weighted average discount rate (WADR) of CDs declined from 10.75 per cent as at end-March 2007 to 7.91 per cent in October 2007 and then increased to 9.98 per cent by March 14, 2008.

Commercial Paper

Commercial paper (CP) outstanding rose to Rs. 32,592 crore by March 31, 2008 from Rs. 17,863 crore at end-March 2007 (Table 46). The weighted average discount rate (WADR) on CP declined from 11.33 per cent at end-March 2007 to 7.65 per cent at end-October 2007. Thereafter, WADR hardened to 10.38 per cent as on March 31, 2008 in tandem with the liquidity conditions in the short-term money market. "Leasing and finance companies" continued to be the major issuers of CP, followed by "manufacturing and other companies" and financial institutions (Table 47). The CP issuance has been dominated by the prime-rated companies.

Treasury Bills

Primary market yields on Treasury Bills (TBs) hardened in the range of 41-46 basis points during 2007-08. TBs yields dipped on July 18, 2007, reflecting easy liquidity conditions and very low short-term interest rates (Chart 34). The surplus liquidity in the wake of ceiling of Rs. 3,000 crore in LAF reverse repo resulted in extremely low short-term rates and aggressive bidding in auctions of TBs. Hence, the cut-off yield in auction of TBs declined. Treasury Bills yields hardened during August-September 2007 in tandem with higher money market interest rates and removal of the ceiling on absorption through reverse repo. Yields softened in October 2007, reflecting easy liquidity conditions and cut in the fed funds rate target. Yields hardened again in November 2007 with a hike in the CRR by 50 basis points with effect from November 10, 2007. Following the aggressive rate cuts by the US Fed, yields softened during January-March

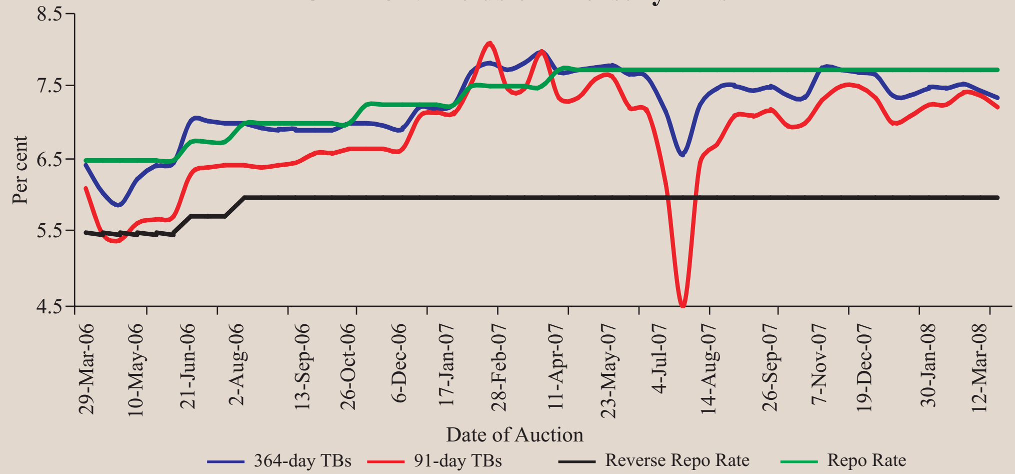
Table 47: Commercial Paper - Major Issuers

(Rupees crore)

Category of Issuer	End of					
	March 2006	March 2007	June 2007	September 2007	December 2007	March 2008
	1	2	3	4	5	6
Leasing and Finance	9,400	12,594	18,260	24,396	27,529	24,925
	(73.9)	(70.5)	(69.5)	(72.6)	(68.4)	(76.5)
Manufacturing	1,982	2,754	3,956	5,538	9,419	5,687
	(15.6)	(15.4)	(15.1)	(16.4)	(23.4)	(17.4)
Financial Institutions	1,336	2,515	4,040	3,680	3,295	1,980
	(10.5)	(14.1)	(15.4)	(11.0)	(8.2)	(6.1)
Total	**12,718**	**17,863**	**26,256**	**33,614**	**40,243**	**32,592**
	(100.0)	**(100.0)**	**(100.00)**	**(100.0)**	**(100.0)**	**(100.0)**

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

Chart 34: Yields on Treasury Bills



2008. The yield spread between 364-day and 91-day TBs was 9 basis points in March 2008 (17 basis points in March 2007) (Table 48).

Table 48: Treasury Bills in the Primary Market

Month	Notified Amount (Rupees crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Average Bid-Cover Ratio		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
2004-05	**1,38,500 @**	**4.91**	**-**	**5.16**	**2.43**	**-**	**2.52**
2005-06	**1,55,500 @**	**5.68**	**5.82**	**5.96**	**2.64**	**2.65**	**2.45**
2006-07	**1,86,500 @**	**6.64**	**6.91**	**7.01**	**1.97**	**2.00**	**2.66**
2007-08	**2,24,500 @**	**7.10**	**7.40**	**7.42**	**2.84**	**2.79**	**3.21**
Mar 2006	6,500	6.51	6.66	6.66	4.17	3.43	3.36
Apr 2006	5,000	5.52	5.87	5.98	5.57	4.96	2.02
May 2006	18,500	5.70	6.07	6.34	1.88	1.84	1.69
Jun 2006	15,000	6.15	6.64	6.77	1.63	1.35	2.11
Jul 2006	16,500	6.42	6.75	7.03	1.82	1.55	3.12
Aug 2006	19,000	6.41	6.70	6.96	2.03	2.71	3.48
Sep 2006	15,000	6.51	6.76	6.91	1.35	1.80	2.92
Oct 2006	15,000	6.63	6.84	6.95	1.31	1.20	2.02
Nov 2006	18,500	6.65	6.92	6.99	1.33	1.22	2.49
Dec 2006	15,000	7.01	7.27	7.09	1.19	1.29	3.34
Jan 2007	19,000	7.28	7.45	7.39	1.02	1.35	1.74
Feb 2007	15,000	7.72	7.67	7.79	2.48	2.56	3.16
Mar 2007	15,000	7.73	7.98	7.90	2.08	2.15	3.87
Apr 2007	15,000	7.53	7.87	7.72	2.87	3.36	3.16
May 2007	18,500	7.59	7.70	7.79	2.33	2.57	2.33
Jun 2007	35,000	7.41	7.76	6.67	3.23	4.11	3.97
Jul 2007	12,500	5.07	5.94	6.87	4.48	2.70	4.56
Aug 2007	20,500	6.74	7.37	7.42	2.11	1.41	2.46
Sep 2007	25,000	7.08	7.33	7.48	2.07	2.91	2.83
Oct 2007	28,500	7.11	7.45	7.37	2.16	1.73	3.23
Nov 2007	22,500	7.47	7.65	7.75	1.63	1.38	1.88
Dec 2007	7,500	7.41	7.60	7.69	4.41	4.67	3.67
Jan 2008	19,000	7.08	7.24	7.39	2.63	1.61	4.36
Feb 2008	15,500	7.33	7.40	7.51	2.15	2.91	2.78
Mar 2008	5,000	7.33	7.45	7.40	3.97	4.17	3.34

@ : Total for the financial year.

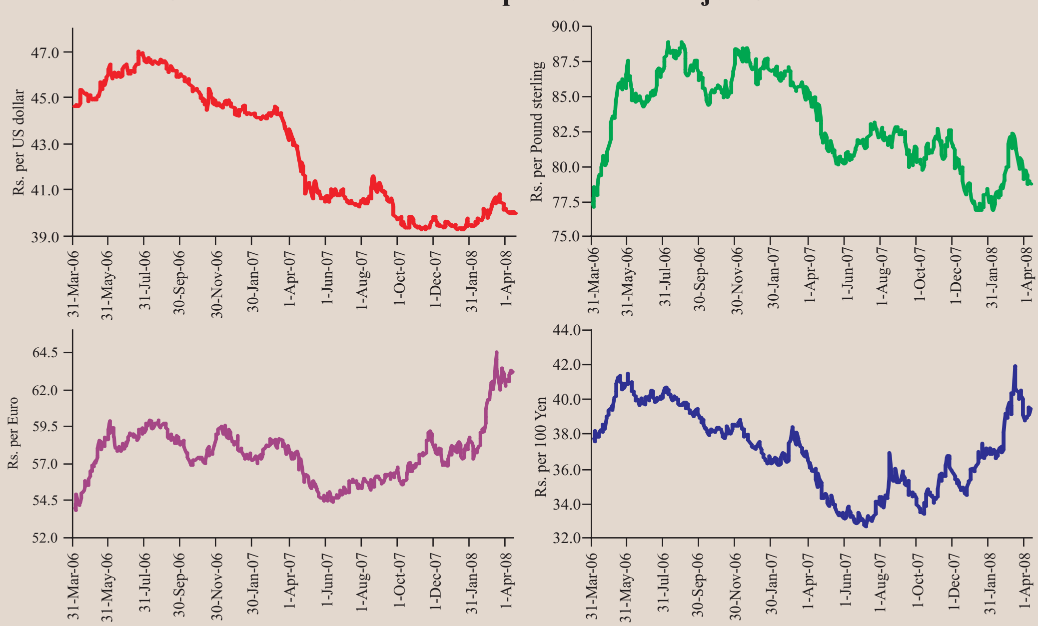
Note: 1. 182-day TBs were reintroduced with effect from April 2005.

2. Notified amounts are inclusive of issuances under the Market Stabilisation Scheme (MSS).

Foreign Exchange Market

During 2007-08, the Indian rupee generally exhibited two-way movements (Chart 35). The rupee moved in the range of Rs.39.26-43.15 per US dollar during 2007-08. The rupee depreciated during the first half of August 2007 due to bearish conditions in the Asian stock markets including India, strong FII outflows and concerns over sub-prime lending crisis in the US, while it appreciated thereafter reflecting large capital inflows, weakening of the US dollar *vis-à-vis* other currencies and strong performance in the domestic stock markets. However, the rupee started depreciating against the US dollar from the beginning of February 2008 on account of bearish conditions in the stock market, capital outflows, rising crude oil prices and increased demand for US dollars by corporates. The exchange rate of the rupee was Rs.39.99 per US dollar on March 31, 2008. At this level, the Indian rupee appreciated by 9.0 per cent over its level on March 31, 2007. Over the same period, the rupee appreciated by 7.6 per cent against the Pound sterling, while it depreciated by 7.8 per cent against the Euro, 7.6 per cent against the Japanese yen and 1.1 per cent against the Chinese yuan. The exchange rate of the rupee was Rs.39.95 per US dollar on April 24, 2008. At this level, the rupee appreciated by 0.1 per cent against the US dollar over its level on March 31, 2008. Over the same period, the rupee appreciated by 0.1 per cent against the Pound sterling, 3.3 per cent against the Japanese yen, but depreciated by 1.1 per cent against the Euro.

Chart 35: Movement of Rupee *vis-a-vis* Major Currencies



On an average basis, the 36-currency trade-weighted nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the Indian rupee appreciated by 5.0 per cent and 4.5 per cent, respectively, between March 2007 and February 2008 (Table 49). During 2007-08, the 6-currency trade-weighted NEER and REER appreciated by 0.4 per cent and 2.7 per cent, respectively. However, 6-currency REER appreciated by 1.4 per cent between end-March 2008 and April 22, 2008; NEER appreciated by 0.1 per cent during the same period.

Table 49: Nominal and Real Effective Exchange Rate of the Indian Rupee (Trade Based Weights)

Year/Month	Base : 1993-94 (April-March) = 100			
	6-Currency Weights		36-Currency Weights	
	NEER	REER	NEER	REER
1	2	3	4	5
1993-94	100.00	100.00	100.00	100.00
2000-01	77.43	102.82	92.12	100.09
2001-02	76.04	102.71	91.58	100.86
2002-03	71.27	97.68	89.12	98.18
2003-04	69.97	99.17	87.14	99.56
2004-05	69.58	101.78	87.31	100.09
2005-06	72.28	107.30	89.85	102.35
2006-07 (P)	68.93	105.47	85.89	98.51
2007-08 (P)	74.13	114.73	92.97	106.17
Mar 2006	72.45	107.41	89.52	101.25
Apr 2006	71.04	105.75	87.73	98.19
May 2006	68.79	103.48	85.43	96.42
Jun 2006	68.21	103.06	85.11	96.57
Jul 2006	67.59	102.25	84.22	95.72
Aug 2006	67.08	102.14	83.61	95.61
Sep 2006	67.84	104.75	84.65	97.98
Oct 2006	69.11	107.25	86.18	99.94
Nov 2006	69.34	107.82	86.50	100.32
Dec 2006	68.82	106.39	85.89	99.16
Jan 2007 (P)	69.77	107.70	87.05	100.73
Feb 2007(P)	69.88	107.71	87.20	100.71
Mar 2007(P)	69.70	107.41	87.11	100.75
Apr 2007 (P)	72.18	111.59	91.50	103.45
May 2007 (P)	74.64	115.67	94.38	106.84
Jun 2007 (P)	74.83	115.28	93.24	106.82
Jul 2007 (P)	74.62	115.27	93.09	106.89
Aug 2007 (P)	73.91	114.24	92.65	106.28
Sep 2007 (P)	74.11	115.14	92.91	106.87
Oct 2007 (P)	74.92	115.91	93.48	107.12
Nov 2007 (P)	73.82	114.03	92.92	105.71
Dec 2007 (P)	74.17	114.67	92.97	106.25
Jan 2008 (P)	73.87	113.97	92.59	106.36
Feb 2008 (P)	73.01	113.20	91.43	105.28
Mar 2008 (P)	70.00	110.27	-	-
April 22, 2008 (P)	70.19	112.71	-	-

NEER: Nominal Effective Exchange Rate. REER: Real Effective Exchange Rate.
P : Provisional. - : Not available.
Note: Rise in indices indicates appreciation of the rupee and *vice versa*.

Spot market conditions kept forward premia on US dollar low during 2007-08 (Chart 36). In February 2008, while the rupee traded one-month forward at discount, three-month and six-month forward premia remained at their lowest levels during the financial year as exporters continued to offload forward positions. The one-month, three-month and six-month forward premia declined from 7.30 per cent, 5.14 per cent and 4.40 per cent, respectively, at end-March 2007 to 3.45 per cent, 2.75 per cent and 2.50 per cent, respectively, as on March 31, 2008.

The average daily turnover in the foreign exchange market increased to US $ 48.1 billion during 2007-08 from US $ 25.8 billion during 2006-07, reflecting large cross border trade and capital flows. While average inter-bank turnover increased to US $ 33.8 billion from US $ 18.7 billion, merchant turnover increased to US $ 14.3 billion from US $ 7.0 billion (Chart 37). The ratio of inter-bank to merchant turnover was 2.4 during 2007-08 as compared with 2.7 a year ago.

Credit Market

The deposit rates of scheduled commercial banks (SCBs) softened, particularly at the longer end of the maturities during 2007-08. Interest rates offered by public sector banks (PSBs) on deposits of maturity of one year to three years were placed in the range of 8.25-9.25 per cent in March 2008 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 8.00-9.00 per cent in March 2008 as compared with 7.50-9.50 per cent in March 2007 (Table 50). Similarly, interest rates offered by private sector banks on deposits of maturity of one year to three years were placed in the range of 7.25-9.25 per cent in March 2008 as compared with 6.75-9.75 per cent in March 2007, while those on deposits of maturity above three years were placed in the range of 7.25-9.75 per cent in March 2008 as compared with 7.75-9.60 per

Chart 36: Movement in Rs./US $ Forward Premia

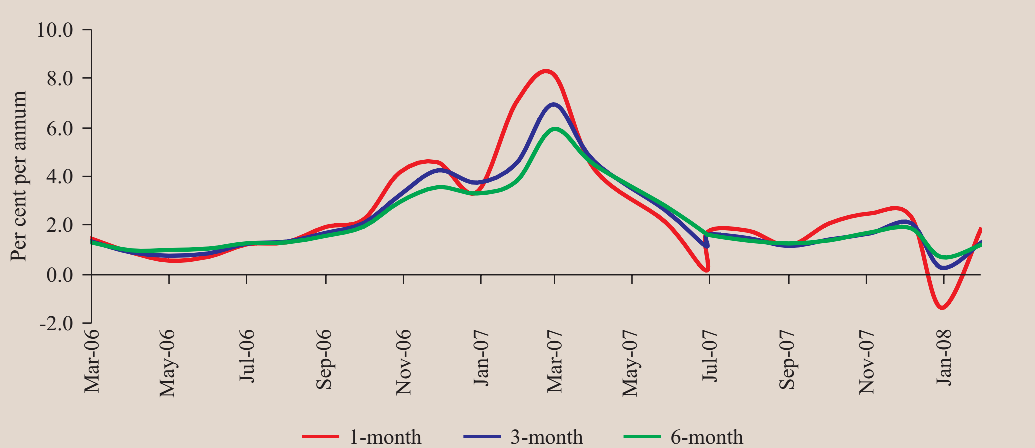
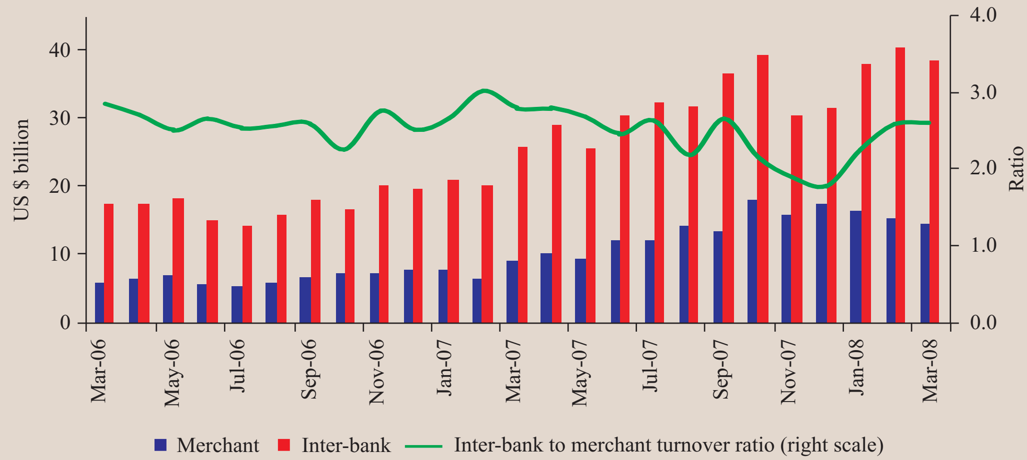


Chart 37 : Daily (Average) Turnover in Foreign Exchange Market



cent in March 2007. Interest rates offered by foreign banks on deposits of maturity of one year to three years were placed in the range of 3.50-9.75 per cent in March 2008 as compared with 3.50-9.50 per cent in March 2007.

Table 50: Deposit and Lending Rates

(Per cent)

Item	March 2006	March 2007	June 2007	September 2007	December 2007	March 2008
1	2	3	4	5	6	7
1. Domestic Deposit Rate						
Public Sector Banks						
Up to 1 year	2.25-6.50	2.75-8.75	2.75-8.75	2.75-8.50	2.75-8.50	2.75-8.50
More than 1 year and up to 3 years	5.75-6.75	7.25-9.50	7.25-9.75	8.00-9.00	8.00-9.25	8.25-9.25
More than 3 years	6.00-7.25	7.50-9.50	7.75-9.75	8.00-9.50	8.00-9.00	8.00-9.00
Private Sector Banks						
Up to 1 year	3.50-7.25	3.00-9.00	3.00-9.50	2.50-9.25	2.50-8.50	2.50-9.25
More than 1 year and up to 3 years	5.50-7.75	6.75-9.75	6.75-10.25	6.25-10.00	7.25-9.60	7.25-9.25
More than 3 years	6.00-7.75	7.75-9.60	7.50-10.00	7.25-10.00	7.25-10.00	7.25-9.75
Foreign Banks						
Up to 1 year	3.00-6.15	3.00-9.50	0.25-9.00	2.00-9.00	2.00-9.25	2.25-9.25
More than 1 year and up to 3 years	4.00-6.50	3.50-9.50	3.50-9.50	2.00-9.50	2.00-9.75	3.50-9.75
More than 3 years	5.50-6.50	4.05-9.50	4.05-9.50	2.00-9.50	2.00-9.50	3.60-9.50
2. Benchmark Prime Lending Rate						
Public Sector Banks	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50	12.50-13.50	12.25-13.50
Private Sector Banks	11.00-14.00	12.00-16.50	13.00-17.25	13.00-16.50	13.00-16.50	13.00-16.50
Foreign Banks	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-15.50	10.00-15.50
3. Actual Lending Rate*						
Public Sector Banks	4.00-16.50	4.00-17.00	4.00-17.75	4.00-17.75	4.00-17.75	-
Private Sector Banks	3.15-20.50	3.15-25.50	4.00-26.00	4.00-24.00	4.00-22.00	-
Foreign Banks	4.75-26.00	5.00-26.50	2.98-28.00	2.00-28.00	5.00-28.00	-
4. Weighted Average Actual Lending Rate	**11.97**	**11.92**	-	-	-	-

- : 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 regards lending rates, the benchmark prime lending rates (BPLRs) of PSBs and private sector banks were placed in the range of 12.25-13.50 per cent and 13.00-16.50 per cent, respectively, in March 2008 as compared with 12.25-12.75 per cent and 12.00-16.50 per cent, respectively, in March 2007 (Chart 38). The BPLR of foreign banks remained unchanged during this period. The weighted average BPLR of PSBs increased from 12.4 per cent in March 2007 to 12.8 per cent in March 2008. Over the same period, the weighted average BPLR of private sector banks increased from 14.3 per cent to 15.1 per cent. The weighted average BPLR of foreign banks also increased from 12.6 per cent in March 2007 to 13.9 per cent in March 2008. The weighted average actual lending rate of SCBs declined from 12.57 per cent at end-March 2005 to 11.97 per cent at end-March 2006 and further to 11.92 per cent at end-March 2007.

Government Securities Market

Yields in the government securities market hardened somewhat during the first quarter of 2007-08, partly reflecting global trends and announcement of an unscheduled auction. Yields, however, remained generally range-bound during July-December 2007, partly reflecting global trends in yields, lower inflation and easy liquidity conditions (Chart 39). Yields softened during January and February 2008, reflecting easy liquidity conditions and lower inflation. From the second half of March 2008 yields hardened reflecting higher inflation. The 10-year yield moved in a range of 7.42-8.32 per cent during 2007-08. As on March 31, 2008, the yield was 7.93 per cent, 4 basis points lower than that at end-March 2007. The 10-year yield was 8.23 per cent on April 23, 2008. The spread between 1-year and 10-year yields was 45 basis points at end-March 2008 as compared with 42 basis points at end-

Chart 38: Deposit and Lending Rates - Public Sector Banks

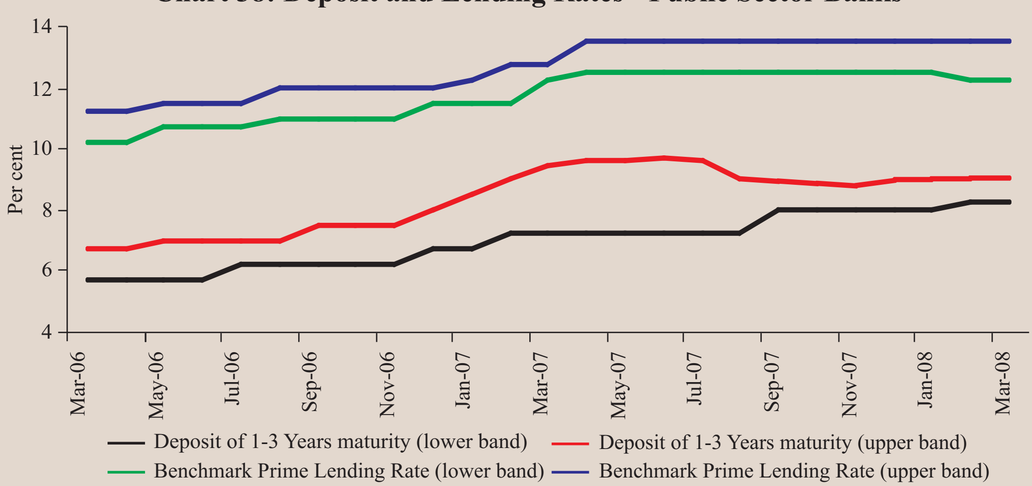
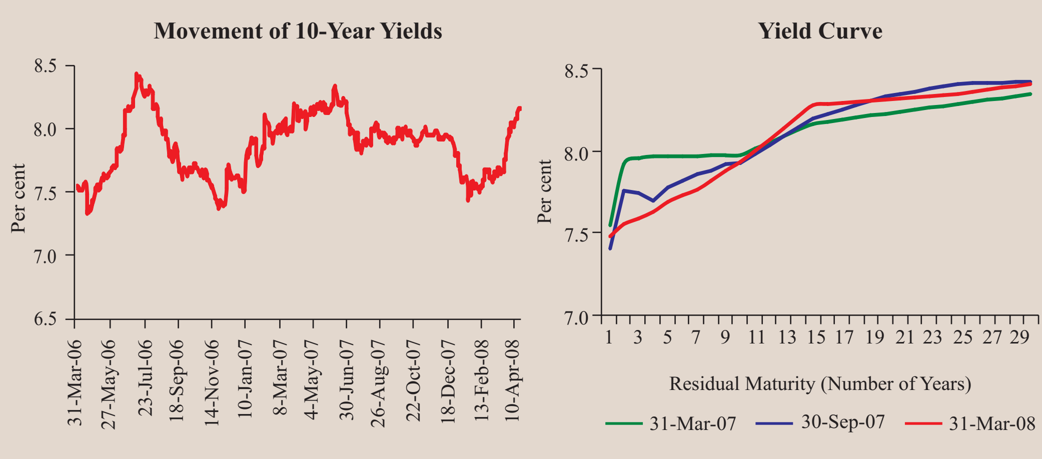


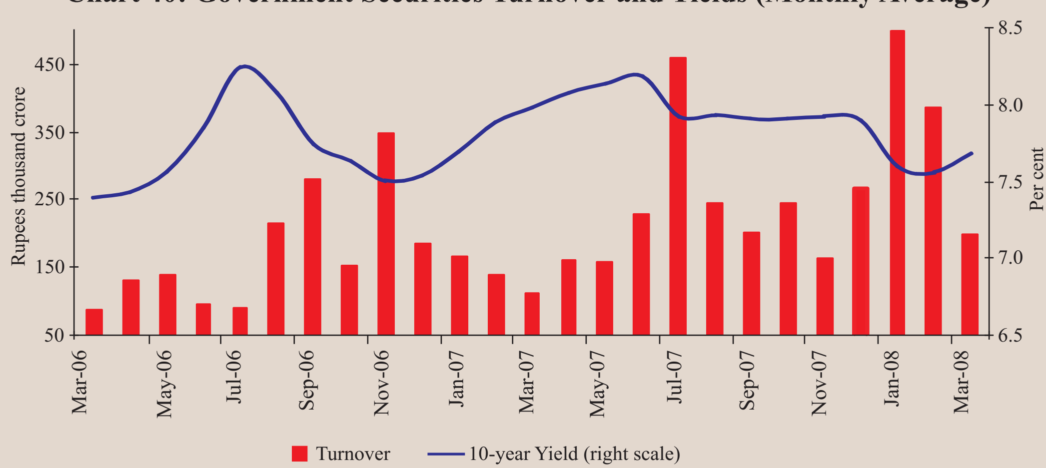
Chart 39: Yields on Central Government Securities



March 2007. The spread between 10-year and 30-year yields was 47 basis points at end-March 2008 as compared with 37 basis points at end-March 2007.

The turnover in the government securities market increased in 2007-08 (Chart 40). The turnover almost doubled in July 2007 from its level in June 2007 on account of low funding cost at the shorter-end, but reverted in August-September 2007 as overnight rates rose to the corridor set by the reverse repo and repo rates. The turnover declined in November 2007 after increasing in October 2007 on account of hike in the CRR. The turnover increased in December 2007 and reached a peak in January 2008, reflecting lower yields. The turnover declined sharply in March 2008 as yields hardened.

Chart 40: Government Securities Turnover and Yields (Monthly Average)



The yield on 5-year AAA-rated corporate bonds softened during May-January 2007-08 in tandem with government securities yield. The credit spread between the yields on 5-year AAA-rated bonds and 5-year government securities was 156 basis points at end-March 2008 as compared with 142 basis points at end-March 2007 (Chart 41).

Equity Market

Primary Market

Resources raised through public issues by the corporate sector increased sharply by 158.5 per cent to Rs. 83,707 crore during 2007-08 over those in last year. The number of issues remained unchanged at 119 in 2007-08 (Table 51). The average size of public issues, however, increased from Rs.272 crore in 2006-07 to Rs.703 crore in 2007-08. All public issues during 2007-08 were in the form of equity, barring three which were in the form of debt. Out of 119 issues, 82 issues were initial public offerings (IPOs), accounting for 47.7 per cent of total resource mobilisation.

Mobilisation of resources through private placement increased by 34.9 per cent to Rs.1,49,651 crore during April-December 2007 over the corresponding period of the previous year (Table 51). Resources mobilised by private sector entities increased by 49.4 per cent, while those by public sector entities increased by only 15.5 per cent during April-December 2007. Financial intermediaries (both from public sector and private sector) accounted for the bulk (68.3 per cent) of the total resource mobilisation from the private placement market during April-December 2007 (69.0 per cent during April-December 2006).

Chart 41 : Credit Spreads

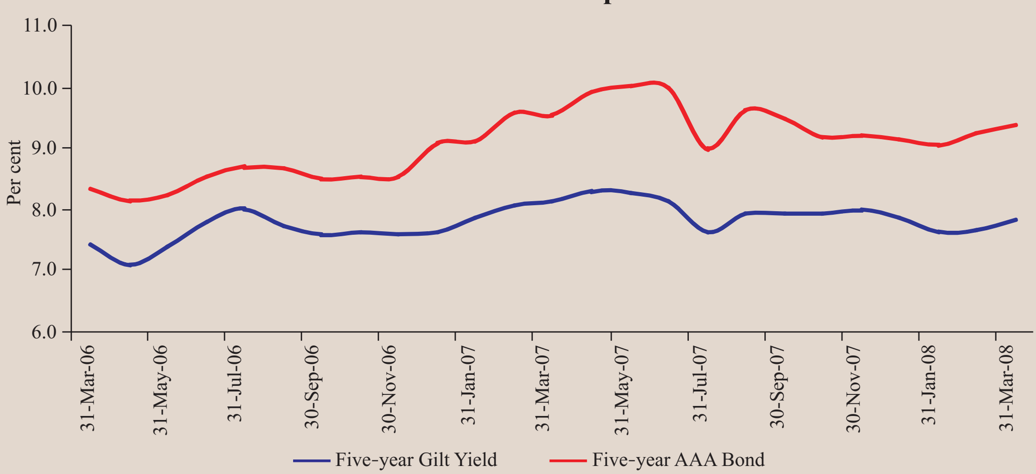


Table 51: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	2006-07		2007-08 P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	**117**	**30,603**	**115**	**63,638**
a) Financial	8	1,425	11	14,676
b) Non-financial	109	29,178	104	48,962
2. Public Sector (a+b+c)	**2**	**1,779**	**4**	**20,069**
a) Public Sector Undertakings	1	997	-	-
b) Government Companies	-	-	2	2,516
c) Banks/Financial Institutions	1	782	2	17,553
3. Total (1+2)	**119**	**32,382**	**119**	**83,707**
of which:				
(i) Equity	116	31,532	116	82,398
(ii) Debt	3	850	3	1,309
	2006-07 (April-December)		2007-08 (April-December) P	
B. Private Placement				
1. Private Sector	**1,145**	**63,418**	**1,248**	**94,746**
a) Financial	462	38,159	696	64,438
b) Non-financial	683	25,259	552	30,308
2. Public Sector	**96**	**47,549**	**111**	**54,905**
a) Financial	78	38,360	74	37,709
b) Non-financial	18	9,189	37	17,196
3. Total (1+2)	**1,241**	**1,10,967**	**1,359**	**1,49,651**
of which:				
(i) Equity	1	57	-	-
(ii) Debt	1,240	1,10,910	1,359	1,49,651
Memo:				
C. Euro Issues	**40**	**17,005**	**26**	**26,556**

P : Provisional. * : Excluding offers for sale. - : Nil/Negligible.

Resources raised through Euro issues – American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) – by Indian corporates during 2007-08 at Rs.26,556 crore were higher by 56.2 per cent than those during the previous year (Table 51).

During 2007-08, net mobilisation of resources by mutual funds increased by 63.6 per cent to Rs.1,53,802 crore over those in 2006-07 (Table 52). Net resource mobilisation by mutual funds increased sharply to Rs. 1,12,824 crore during April-August 2007 due to buoyant capital market conditions. However, resource mobilisation declined to Rs. 40,978 crore between September 2007 and March 2008 due to volatile conditions in the stock market. About 67.5 per cent of net mobilisation of funds by mutual funds during 2007-08 was under income/debt market-oriented schemes, out of which bulk of the resources were mobilised through debt other than assured return schemes. Growth-oriented schemes accounted for only 30.5 per cent of net resource mobilisation during 2007-08.

Table 52 : Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	April-March 2006-07		April-March 2007-08	
	Net Mobilisation @	Net Assets#	Net Mobilisation @	Net Assets #
1	2	3	4	5
Private Sector	79,038	2,62,079	1,33,304	4,15,621
Public Sector *	14,947	64,213	20, 498	89,531
Total	**93,985**	**3,26,292**	**1,53,802**	**5,05,152**

@: Net of redemptions. #: End-period. *: Including UTI Mutual fund.

Note : Data exclude funds mobilised under Fund of Funds Schemes.

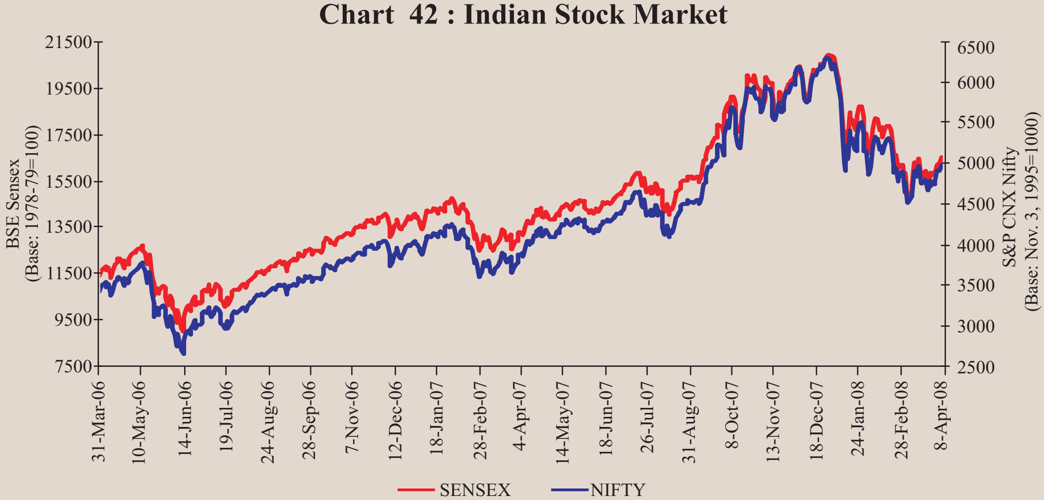
Source : Securities and Exchange Board of India.

Secondary Market

The domestic stock markets, which remained generally firm up to early January 2008, witnessed a sharp correction beginning January 11, 2008 (Chart 42). Liquidity support from foreign institutional investors (FIIs), strong macroeconomic fundamentals, healthy corporate earrings, upward trend in EMEs equity markets and other sector and stock specific news helped to boost the market sentiment during April-December 2007. Although the domestic stock markets during this period witnessed corrections in mid-August, mid-October and mid-December 2007, they again recovered to reach new high. Reflecting this, the BSE Sensex reached an all-time high of 20873.33 on January 8, 2008.

Beginning January 11, 2008, the domestic stock markets witnessed severe bouts of volatility due to heightened concerns over the severity of sub-prime lending crises in the US and its spill-over to other market segments and in other countries.

Chart 42 : Indian Stock Market



Fears of recession in the US economy on account of contraction in the US service industry, weak earnings growth reported by some of the leading US companies, home foreclosures climbing to record high levels and lacklustre retail sales in the US also impacted the sentiment. Liquidity squeeze from the secondary market in the wake of the IPO issuances, heavy sales by FIIs in the Indian equity market, hike in short-term capital gains tax from 10 per cent to 15 per cent announced in the Union Budget 2008-09, increase in domestic inflation rate, rise in global crude oil prices to record highs and decline in ADR prices in the US markets were some of the other factors that adversely affected the market sentiment. Between end-March 2007 and March 31, 2008, the BSE Sensex moved in a wide range of 12455.37-20873.33. The BSE Sensex and the S&P CNX Nifty, closed at 15644.44 and 4734.50, respectively, on March 31, 2008 registering gains of 19.7 per cent and 23.9 per cent, respectively, over end-March 2007. The BSE sensex was 16698.04 on April 23, 2008.

According to the data released by the Securities and Exchange Board of India (SEBI), FIIs have invested Rs.52,574 crore (US $ 12.7 billion) in the Indian stock markets during 2007-08 as compared with net purchases of Rs.26,031 crore (US $ 5.7 billion) during 2006-07 (Chart 43). Between April 1, 2007 and January 8, 2008, FIIs invested Rs.66,898 crore (US $ 16.3 billion) in the Indian stock markets. However, FIIs made net sales of Rs.14,324 crore (US $ 3.6 billion) between January 9, 2008 and March 31, 2008. Mutual funds made net investments of Rs. 15,775 crore during 2007-08 as compared with net investments of Rs.9,062 crore during 2006-07.

The major gainers in the domestic stock markets during 2007-08 were metal, oil and gas, capital goods, fast moving consumer goods, public sector undertakings, banking and consumer durables sector stocks (Table 53).

Chart 43 : Institutional Investment and Stock Market

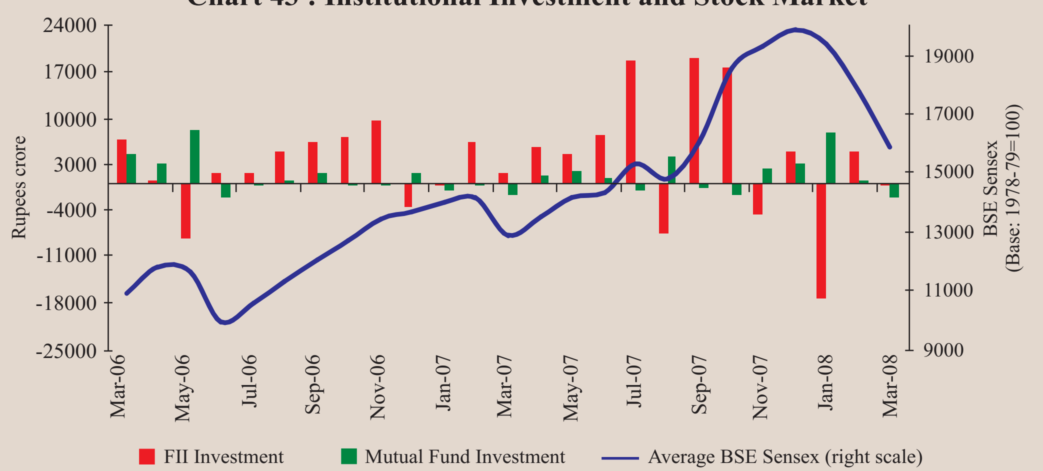


Table 53 : BSE Sectoral Stock Indices

(Base: 1978-79=100)

Sector	Variation (per cent)			
	End-March 2006@	End-March 2007@	End-March 2008 @	April 17, 2008 #
1	2	3	4	5
Fast Moving Consumer Goods	109.9	-21.4	33.3	2.1
Public Sector Undertakings	44.0	-3.2	30.2	0.4
Information Technology	49.2	21.6	-23.3	10.5
Auto	101.2	-8.5	-5.9	-1.5
Oil and Gas	61.1	30.5	63.7	9.0
Metal	40.3	-4.3	72.6	0.0
Health Care	51.2	-5.4	5.6	6.0
Bankex	36.8	24.2	25.4	1.2
Capital Goods	156	11.1	59.3	-7.4
Consumer Durables	115.4	11.1	12.7	4.8
BSE 500	65.2	9.7	29.1	2.5
BSE Sensex	73.7	15.9	19.7	5.3

@: Year-on-year variation. #: Change over end-March 2008.
Source: Bombay Stock Exchange Limited.

Reflecting the upward trend in stock prices, the price-earnings (P/E) ratios of the 30 scrips included in the BSE Sensex rose from 20.3 at end-March 2007 to 28.5 by January 8, 2008 before sliding to 20.1 by end-March 2008 (Table 54). The market capitalisation of the BSE increased sharply by 44.9 per cent between end-March 2007 and end-March 2008. Market capitalisation to GDP ratio improved from 85.5 per cent at end-March 2007 to 156.7 per cent on January 8, 2008 before declining to 109.5 per cent by end-March 2008. The combined turnover of BSE and NSE in the cash segment during 2007-08 was higher by 76.8 per cent than that during 2006-07.

Table 54 : Stock Market Indicators

Indicator	BSE			NSE		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1	2	3	4	5	6	7
1. BSE Sensex / S&P CNX Nifty						
(i) End-period	11280	13072	15644	3403	3822	4735
(ii) Average	8280	12277	16569	2513	3572	4897
2. Coefficient of Variation	16.7	11.1	13.7	15.6	10.4	14.4
3. Price-Earning Ratio (end-period)*	20.9	20.3	20.1	20.3	18.4	20.6
4. Price-Book Value Ratio*	5.1	5.1	5.2	5.2	4.9	5.1
5. Yield* (per cent per annum)	1.2	1.3	1.0	1.3	1.3	1.1
6. Listed Companies	4,781	4,821	4,887	1,069	1,228	1,381
7. Cash Segment Turnover (Rupees crore)	8,16,074	9,56,185	15,78,856	15,69,556	19,45,285	35,51,038
8. Derivative Segment Turnover (Rupees crore)	9	59,007	2,42,308	48,24,174	73,56,242	1,30,90,478
9. Market Capitalisation (Rupees crore) @	30,22,191	35,45,041	51,38,014	28,13,201	33,67,350	48,58,122
10. Market Capitalisation to GDP Ratio	84.4	85.5	109.5	78.6	81.2	103.5

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

VI. THE EXTERNAL ECONOMY

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

International Developments

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

Going forward, the growth in global economy is projected to decelerate to 3.7 per cent in 2008 mainly on account of expected slowdown in most of the advanced economies. The overall balance of risks to the short-term global growth outlook remains tilted to the downside. Interaction between negative financial shocks and the domestic demand remains a serious downside risk for the US and to some extent in Western Europe and elsewhere. However, there is some upside potential for projected domestic demand in emerging economies. The emerging market and developing economies are expected to remain as the stabilising factor in supporting the global economy and in cushioning global downturns. So far, the spillover to emerging markets and developing countries seems relatively contained mainly because of their limited direct exposure to sub-prime related securities. Consumption activity supported domestic demand in emerging Asian economies, while export growth has begun to show some signs of moderation. The strength of domestic demand in the region

Table 55 : Growth Rates - Global Scenario

(Per cent)

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

P : IMF Projections.
Note : Data for India in columns 2 and 3 refer to fiscal years 2006-07 and 2007-08, respectively.
Source : International Monetary Fund; The Economist; and the OECD.

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

The IMF has projected the US economy to grow by 0.5 per cent in 2008 (2.2 per cent in 2007). The US growth prospects would hinge upon the future course of the housing correction, the extent of financial sector dislocation, and the ensuing impact on household and business finances. The Euro area is expected to grow by 1.4 per cent in 2008 (2.6 per cent in 2007) although there are increasing concerns that with spillovers from the US, tightening credit conditions and rising risk spreads may have adverse implications for domestic demand. Growth in Japan is projected to decelerate to 1.4 per cent in 2008 (2.1 per cent in 2007) on account of expected moderation in export growth and consumption. Growth projection for developing Asia is placed at 8.2 per cent for 2008 as against 9.7 per cent in 2007 (Table 56). Growth in emerging Asia during 2007 was led by China and India. Growth in China was driven by investment growth and net exports, although export growth moderated somewhat towards the end of year. GDP in China grew by 10.6 per cent in the first quarter of 2008. The IMF has projected growth in China to moderate to 9.3 per cent in 2008 (11.4 per cent in 2007).

Table 56 : Select Economic Indicators - World

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

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

The IMF has projected that India's growth would moderate to 7.9 per cent in 2008 from 8.7 per cent in 2007 (April-March). The moderation in growth of the Indian economy, however, is projected to be of a lower order in 2008 in comparison with several advanced economies and other emerging market economies. Also, India's growth would remain the highest among the major emerging economies, after China.

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

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

According to the World Trade Organization (WTO) Report released recently, world merchandise trade growth declined to 5.5 per cent in 2007 (lower than 6.0 per cent forecast in April 2007) from 8.5 per cent in 2006, and may grow even more slowly in 2008 at about 4.5 per cent. Sharp economic deceleration in key developed countries is expected to be only partly offset by continuing strong growth in emerging economies. Assuming a basic scenario of global GDP growth between 2.5 per cent and 3 per cent, global merchandise trade, according to the WTO, is expected to slow down to about 4.5 per cent in 2008, or about 1 percentage point lower than in 2007. The global economy and world trade started to slow down in 2007 due to the deceleration of demand in the developed regions. Developing countries' share of world merchandise trade (exports *plus* imports) reached a new record level of 34 per cent in 2007. Developing countries and Commonwealth of Independent States (CIS) region are expected to record faster growth in imports than exports; together they are expected to contribute more than one half of global import growth in 2008.

Table 57 : Growth in Exports - Global Scenario

(Per cent)

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

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

Merchandise Trade

According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports recorded a growth of 22.8 per cent during 2007-08 (April-February), as compared with 23.2 per cent growth posted during the corresponding period of 2006-07, thereby maintaining the momentum. Growth in imports at 30.1 per cent was higher than 25.2 per cent recorded a year ago (Chart 44). Non-oil imports, which recorded a substantial increase of 31.8 per cent (22.6 per cent a year ago), contributed about 72 per cent to overall import growth. Oil imports during April-February 2008 showed a deceleration in growth (26.4 per cent as against 31.2 per cent in April-February 2007). Merchandise trade deficit during April-February 2008 aggregated US $ 72.5 billion, an increase of US $ 23.1 billion over a year ago (US $ 49.4 billion).

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

Chart 44: India's Merchandise Trade

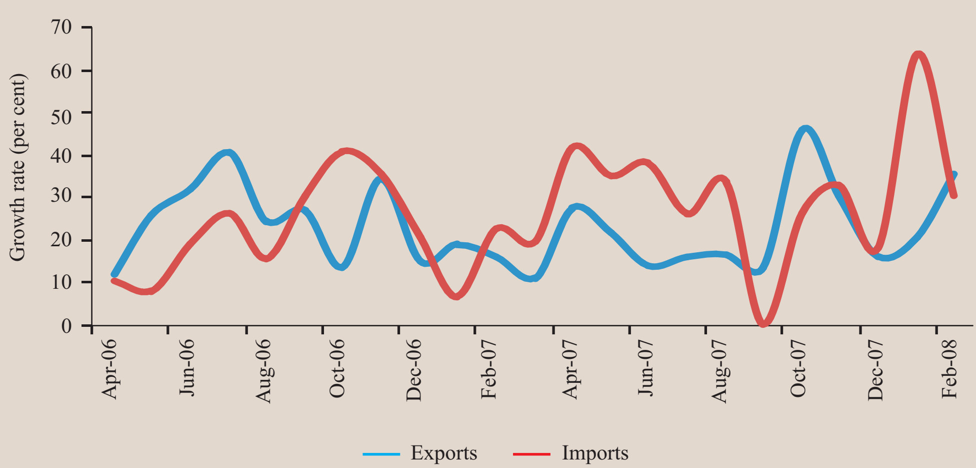


Table 58 : Exports of Principal Commodities

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

Source: DGCI&S.

and textile products, leather and manufactures exhibited lower growth rates. Exports of petroleum products increased at a lower rate of 37.3 per cent as compared to 74.6 per cent during April-December 2006. Non-oil exports, however, posted a higher growth rate of 21.6 per cent than 18.7 per cent recorded in April-December 2006.

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

Commodity-wise details on imports available for April-December 2007 revealed that capital goods, and gold and silver were the main contributors of growth in non-oil imports. Capital goods increased by 31.6 per cent, while imports of gold and silver increased by 34.4 per cent over April-December 2006. Non-oil imports, net of gold and silver, increased at an accelerated pace of 29.2 per cent (22.5 per cent during April-December 2006). Among other non-

Table 59 : Direction of India's Exports

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

Source : DGCI&S.

oil products, imports of pearls, precious and semi-precious stones, chemicals, and iron and steel showed accelerated growth during the period (Table 60).

Source-wise, China was the major source of imports accounting for 11.5 per cent of total imports (oil *plus* non-oil imports) during April-December 2007. The other major sources of imports were Saudi Arabia (7.8 per cent), the US (5.8 per cent), the UAE (5.6 per cent), Switzerland (4.6 per cent), Iran (4.2 per cent) and Germany (3.9 per cent).

Table 60 : Imports of Principal Commodities

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

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

Source : DGCI&S.

India's exports have shown an average growth of 25.6 per cent during the period 2004-05 to 2006-07. It has maintained the growth momentum during 2007-08 with exports recording 22.8 per cent growth during 2007-08 (April-February). This, to an extent, reveals the terms of trade effect emanating from relatively high export prices realised *vis-à-vis* import prices. During 2004-05 to 2006-07, the unit value index of India's exports, on an average, increased by 8.7 per cent as compared with 4.6 per cent for imports. As a result, net terms of trade in favour of exports (unit value index of exports as percentage of unit value index of imports) increased by 5.6 per cent during this period. The improvement in net terms of trade was on account of realisation of higher export prices for commodities such as cereals, ores and minerals, iron and steel, non-ferrous metals and petroleum products- an outcome of surge in global commodity prices.

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

Current Account

Net surplus under invisibles (services, transfers and income taken together) was higher at US $ 50.5 billion in April-December 2007 as compared with US $ 36.3 billion in April-December 2006, reflecting mainly the rise in remittances from the overseas Indians and software services exports (Table 62). Growth in invisible receipts as well as invisible payments decelerated in April-December 2007 mainly on account of deceleration in exports of software and business

Table 61 : India's Merchandise Trade

(US $ billion)

Item	2005-06	2006-07	2006-07	2007-08
			April-February	
1	2	3	4	5
Exports	103.1	126.4	112.7	138.3
Imports	149.2	185.7	162.0	210.8
Oil	44.0	57.1	52.2	65.9
Non-oil	105.2	128.6	110.0	144.8
Trade Balance	-46.1	-59.4	-49.4	-72.5
Non-Oil Trade Balance	-13.8	-20.9	-14.3	..
				Variation (per cent)
Exports	23.4	22.6	23.2	22.8
Imports	33.8	24.5	25.2	30.1
Oil	47.3	30.0	31.2	26.4
Non-oil	28.8	22.2	22.6	31.8

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

Table 62 : Invisibles Account (Net)

(US $ million)

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

PR : Partially Revised P : Preliminary.

services. The major components of invisible payments were travel payments, transportation, business service payments such as business and management consultancy, engineering and other technical services, and dividend and profit payments.

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

Chart 45 : Movement in Current Account Balance

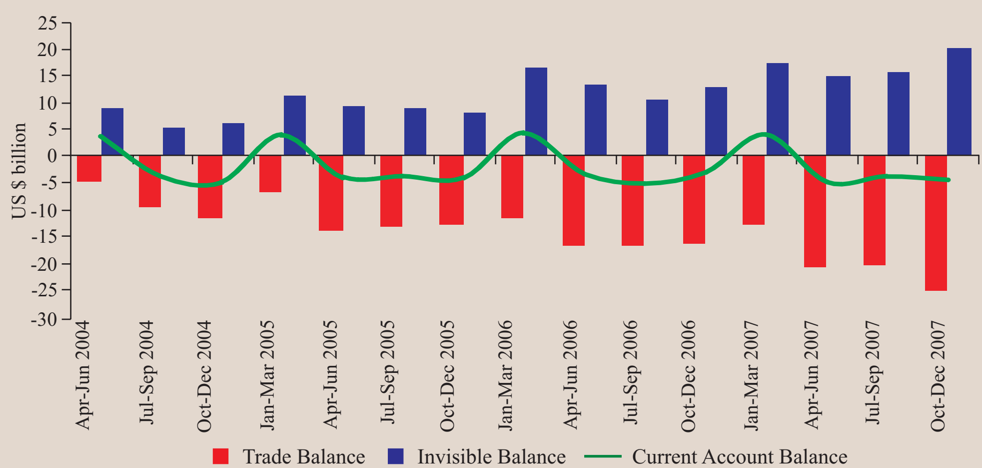


Table 63 : India's Balance of Payments

(US $ million)

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

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

Capital Flows

During the financial year 2007-08 so far (up to February 2008), foreign investment of various components in India recorded increased inflows. The inflows under foreign direct investment (FDI) were US $ 25.5 billion during 2007-08 (April-February) as against US $ 19.6 billion during the corresponding period of the previous year (Table 64). FDI was channelled mainly into manufacturing industries (20.1 per cent), followed by financial services (18.7 per cent) and the construction sector (14.7 per cent). Source-wise, Mauritius, remained the main source of FDI to India during April-February 2007-08, followed by Singapore and the US.

Net inflows by foreign institutional investors (FIIs) aggregated US $ 20.3 billion during the financial year 2007-08. The number of FIIs registered with

Table 64 : Capital Flows

(US $ million)

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

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

the SEBI increased from 997 by end-March 2007 to 1,319 by March 31, 2008. Capital inflows through American depository receipts (ADRs)/global depository receipts (GDRs) were US $ 8.7 billion for 2007-08 (April-February).

During the year 2007-08 (April-December), the inflows (net) under external commercial borrowings (ECBs) amounted to US $ 16.3 billion. Net short-term trade credit was US $ 10.8 billion (inclusive of suppliers' credit up to 180 days) in April-December 2007. Out of total short-term trade credit, the suppliers' credit up to 180 days amounted to US $ 4.2 billion during April-December 2007.

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

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

Foreign Exchange Reserves

India's foreign exchange reserves were US $ 309.7 billion as at end-March 2008, showing an increase of US $ 110.5 billion over end-March 2007. The increase in reserves was mainly due to an increase in foreign currency assets from US $ 191.9 billion at end-March 2007 to

Table 65 : Foreign Exchange Reserves

(US $ million)

Month	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)	*Memo :* Outstanding Net Forward Sales (-) / Purchases (+) of US dollar by the Reserve Bank at the end of the month
1	2	3	4	5	6	7
March 2000	2,974	4	35,058	658	38,694	(-) 675
March 2005	4,500	5	135,571	1,438	141,514	-
March 2006	5,755	3	145,108	756	151,622	-
March 2007	6,784	2	191,924	469	199,179	-
April 2007	7,036	11	196,899	463	204,409	-
May 2007	6,911	1	200,697	459	208,068	-
June 2007	6,787	1	206,114	460	213,362	-
July 2007	6,887	12	219,753	455	227,107	-
August 2007	6,881	2	221,509	455	228,847	-
September 2007	7,367	2	239,955	438	247,762	-
October 2007	7,811	13	256,427	441	264,692	(+) 4,990
November 2007	8,357	3	264,725	435	273,520	(+) 7,553
December 2007	8,328	3	266,553	432	275,316	(+) 8,238
January 2008	9,199	9	283,595	437	293,240	(+) 16,629
February 2008	9,558	-	291,250	427	301,235	(+) 16,178
March 2008	10,039	18	299,230	436	309,723	..
April 2008*	10,039	18	302,988	489	313,534	..

* : As on April 18, 2008.

US $ 299.2 billion as at end-March 2008. As on April 18, 2008, India's foreign exchanges reserves were US $ 313.5 billion. As at end-February 2008, the outstanding net forward purchases of US dollar by the Reserve Bank were US $ 16.2 billion (Table 65).

India holds the third largest stock of reserves among the emerging market economies. The overall approach to the management of India's foreign exchange reserves in recent years reflects the changing composition of the balance of payments and the 'liquidity risks' associated with different types of flows and other requirements. Taking these factors into account, India's foreign exchange reserves continued to be at a comfortable level and consistent with the rate of growth, the share of external sector in the economy and the size of risk-adjusted capital flows.

External Debt

India's total external debt was placed at US $ 201.5 billion at end-December 2007, recording an increase of US $ 31.8 billion (18.7 per cent) over end-March 2007 (Table 66). The increase in external debt during the period was mainly on account of higher commercial borrowings, trade credit and multilateral debt. Based on original maturity, long-term debt amounted

Table 66: India's External Debt

(US $ million)

Item	End-March 1995	End-March 2005	End-March 2006	End-March 2007	End-June 2007	End-Sept. 2007	End-Dec. 2007
1	2	3	4	5	6	7	8
1. Multilateral	28,542	31,744	32,620	35,337	36,058	37,068	37,944
2. Bilateral	20,270	17,034	15,761	16,061	15,841	16,774	17,269
3. International Monetary Fund	4,300	0	0	0	0	0	0
4. Trade Credit (above 1 year)	6,629	5,022	5,420	7,051	7,441	8,202	8,887
5. External Commercial Borrowings	12,991	26,405	26,452	41,657	47,918	52,123	57,012
6. NRI Deposit	12,383	32,743	36,282	41,240	42,603	43,679	43,034
7. Rupee Debt	9,624	2,302	2,059	1,947	2,023	2,071	2,097
8. Long-term (1 to 7)	94,739	115,250	118,594	143,293	151,884	159,917	166,243
9. Short-term	4,269	17,723	19,539	26,376	27,861	31,194	35,207
Total (8+9)	**99,008**	**132,973**	**138,133**	**169,669**	**179,745**	**191,111**	**201,450**
Memo:							(per cent)
Total debt/GDP	30.8	18.6	17.2	17.8	..	..	..
Short-term/Total debt	4.3	13.3	14.1	15.5	15.5	16.3	17.5
Short-term debt/Reserves	16.9	12.5	12.9	13.2	13.1	12.6	12.9
Concessional debt/Total debt	45.3	30.9	28.6	23.3	22.0	21.4	20.5
Reserves/Total debt	25.4	106.4	109.8	117.4	118.7	129.6	136.7
Debt Service Ratio	25.9	6.1	9.9	4.8	4.6	5.5	5.9

.. : Not Available.

to US $ 166.2 billion (accounting for 82.5 per cent of the total external debt) and short-term debt was US $ 35.2 billion (17.5 per cent of the total external debt). The coverage of short-term debt has been made more comprehensive with the inclusion of (i) suppliers' credit up to six months; and (ii) investment by Foreign Institutional Investors (FII) in short-term debt instruments, beginning with the quarter ended March 2005. Based on residual maturity, short-term debt (consisting of principal repayments due during one-year under medium and long-term loans, and short-term debt with original maturity of one year or less) accounted for 36 per cent of the total external debt.

The increase in outstanding debt to an extent was also due to a positive valuation impact during April-December 2007 (around US $ 6.0 billion), reflecting the depreciation of the US dollar *vis-à-vis* other major international currencies. About 54.5 per cent of the external debt stock was denominated in US dollars, followed by the Indian rupee (17.1 per cent), Japanese yen (11.2 per cent) and SDR (10.7 per cent). Amongst the debt sustainability indicators, the ratio of short-term to total debt increased between end-March 2007 and end-December 2007, while the ratio of short-term debt to reserves declined marginally over the same period. Foreign exchange reserves remained in excess of the stock of external debt at end-December 2007.

International Investment Position

India's net international liabilities increased by US $ 6.4 billion between end-March 2007 and end-September 2007, as the increase in international liabilities (US $ 63.3 billion) exceeded the increase in international assets (US $ 56.9 billion) (Table 67). While the increase in the liabilities was mainly due to large capital inflows under portfolio investments, direct investments and external commercial loans, the increase in international assets was on account of an increase of US $ 48.6 billion in reserve assets between end-March 2007 and end-September 2007, followed by direct investment abroad (US $ 6.0 billion). A major part of the liabilities such as direct and portfolio investment reflects cumulative inflows, which are at historical prices.

Table 67 : International Investment Position of India

(US $ billion)

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

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

Note : Figures in parentheses represent percentage to GDP.