VI. THE EXTERNAL ECONOMY

Merchandise exports, based on Directorate General of Commercial Intelligence and Statistics (DGCI&S) data, recorded a growth of 19.3 per cent during 2006-07 (April-February), lower than that of 26.3 per cent in the corresponding period of 2005-06. Growth in non-oil imports was led by imports of capital goods, indicative of strong investment demand, partly offsetting the decline in imports of pearls, precious and semi-precious stones. Growth in oil imports remained large, although there was some deceleration in consonance with the moderation in international crude oil prices. Net invisibles surplus expanded further during the first three quarters of 2006-07, benefiting from continued growth in exports of services and remittances, and financed a large part of the deficit on the merchandise trade account. The current account deficit was marginally lower than a year ago. Capital flows were substantially higher, led by foreign direct investment (FDI) flows and supported by foreign institutional investors (FIIs) flows and debt flows (external commercial borrowings and non-resident deposits). Outward FDI flows associated with acquisitions by Indian corporates abroad also increased. Capital flows (net) more than financed the current account deficit, resulting in the net accretion of US $ 47.6 billion in foreign exchange reserves during 2006-07.

International Developments

Global economic growth at 5.4 per cent during 2006 (4.9 per cent in 2005) turned out to be stronger than expected, led by a broad-based upswing in advanced economies and rapid growth in the emerging market economies. After a strong first quarter, economic activity in the US slowed down on the back of a significant weakening of the housing market. Nonetheless, for the year 2006, as a whole, economic growth in the US was marginally higher than in 2005. The economic activity in the euro area accelerated to 2.6 per cent – the highest since 2001– led by strong domestic as well as external demand. The Japanese economy expanded at a higher rate than in 2005. Growth momentum remained strong in China, India and other emerging economies as well (Table 51). Developing Asia recorded a growth of 9.4 per cent during 2006, the highest since 1995.

According to the International Monetary Fund (IMF) projections, the global economy is likely to maintain its run of strong growth during 2007, though with some loss of momentum (4.9 per cent from 5.4 per cent in 2006) (Table 52). There are also some downside risks to global growth prospects. These include revival of inflationary pressures in view of narrowing output gaps, the possibility of renewed oil price rise, sharper slowdown in the US economy in case the housing

Table 51: Growth Rates – Global Scenario

(Per cent)

Country	2004	2005	2006	2007 P	2008 P	2005	2006			
						Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
Advanced Economies										
Euro area	2.0	1.4	2.6	2.3	2.3	1.8	2.2	2.7	2.6	3.3
Japan	2.7	1.9	2.2	2.3	1.9	2.8	2.9	2.1	1.5	2.3
Korea	4.7	4.2	5.0	4.4	4.4	5.3	6.3	5.1	4.8	4.0
UK	3.3	1.9	2.7	2.9	2.7	1.8	2.4	2.7	2.9	3.0
US	3.9	3.2	3.3	2.2	2.8	3.1	3.7	3.5	3.0	3.1
OECD Countries	3.2	2.5	3.0	2.5	2.7	3.0	3.3	3.3	2.9	3.3
Emerging Economies										
Argentina	9.0	9.2	8.5	7.5	5.5	9.1	8.6	7.9	8.7	8.6
Brazil	5.7	2.9	3.7	4.4	4.2	1.4	3.4	1.2	3.2	3.8
China	10.1	10.4	10.7	10.0	9.5	9.9	10.3	10.9	10.7	10.7
India	7.5	9.0	9.2	8.4	7.8	9.3	10.0	8.9	9.2	8.6
Indonesia	5.0	5.7	5.5	6.0	6.3	5.0	5.0	5.0	5.9	6.1
Malaysia	7.2	5.2	5.9	5.5	5.8	5.2	5.3	6.2	5.8	5.7
Thailand	6.3	4.5	5.0	4.5	4.8	4.3	6.1	5.0	4.7	4.2

P : IMF Projections.
Note : Data for India in columns 2 to 4 refer to fiscal years 2004-05, 2005-06 and 2006-07, respectively.
Source : International Monetary Fund; The Economist; and the OECD.

sector continues to deteriorate, financial market volatility and possible disorderly adjustment of global imbalances.

Table 52: Select Economic Indicators – World

Item	2001	2002	2003	2004	2005	2006	2007P	2008P
1	2	3	4	5	6	7	8	9
I. World Output (Per cent change) #	2.5	3.1	4.0	5.3	4.9	5.4	4.9	4.9
	(1.5)	(1.8)	(2.6)	(4.0)	(3.3)	(3.9)	(3.4)	(3.5)
i) Advanced economies	1.2	1.6	1.9	3.3	2.5	3.1	2.5	2.7
ii) Other emerging market and developing countries	4.3	5.0	6.7	7.7	7.5	7.9	7.5	7.1
of which: Developing Asia	6.0	7.0	8.4	8.7	9.2	9.4	8.8	8.4
II. Consumer Price Inflation (Per cent)								
i) Advanced economies	2.1	1.5	1.8	2.0	2.3	2.3	1.8	2.1
ii) Other emerging market and developing countries	6.7	5.8	5.8	5.6	5.4	5.3	5.4	4.9
of which: Developing Asia	2.7	2.0	2.5	4.1	3.6	4.0	3.9	3.4
III. Net Capital Flows* (US $ billion)								
i) Net private capital flows (a+b+c)	70.2	88.3	173.3	238.6	257.2	255.8	252.7	259.3
a) Net private direct investment	182.8	152.2	165.3	190.0	266.3	266.9	283.7	288.9
b) Net private portfolio investment	-80.5	-90.9	-12.1	25.0	29.4	-76.3	-62.0	-52.2
c) Net other private capital flows	-32.1	26.9	20.1	23.5	-38.5	65.2	30.9	22.6
ii) Net official flows	6.6	2.3	-44.5	-57.8	-122.6	-143.8	-96.4	-116.6
IV. World Trade @								
i) Volume	0.2	3.4	5.4	10.6	7.4	9.2	7.0	7.4
ii) Price deflator (in US dollars)	-3.5	1.2	10.4	9.8	5.5	5.4	2.8	0.8
V. Current Account Balance (Per cent to GDP)								
i) US	-3.8	-4.5	-4.8	-5.7	-6.4	-6.5	-6.1	-6.0
ii) China	1.3	2.4	2.8	3.6	7.2	9.1	10.0	10.5
iii) Middle East	6.2	4.7	8.4	12.1	18.8	18.1	12.1	10.7

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.
@ : Average of annual percentage change for world exports and imports of goods and services.
Source : World Economic Outlook, IMF, April 2007.

Table 53: Growth in Exports - Global Scenario

(Per cent)

Region/Country	2005	2006
1	2	3
World	**14.0**	**15.7**
Industrial Countries	**8.5**	**12.6**
US	10.8	14.5
France	4.3	10.8
Germany	7.3	15.1
Japan	5.2	9.2
Developing Countries	**21.8**	**19.7**
Non-Oil Developing Countries	**19.2**	**19.7**
China	28.4	27.2
India	29.6	21.1
Indonesia	18.2	16.5
Korea	12.0	14.5
Malaysia	12.0	14.0
Singapore	15.6	18.4
Thailand	14.5	18.7

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

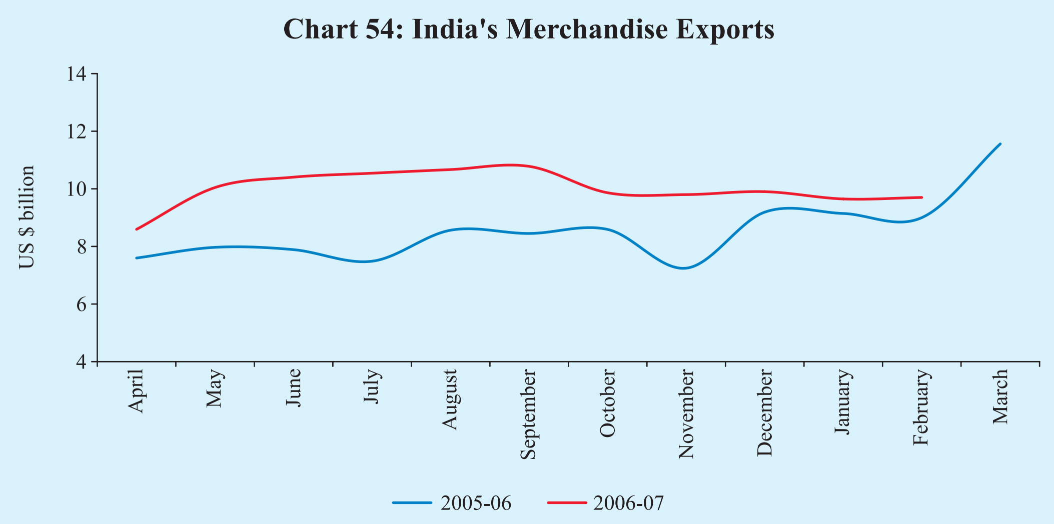
Global merchandise trade grew at a robust pace in 2006 benefiting from favourable economic conditions, high commodity prices and recovery in global investment. Exports of developing countries, notwithstanding some deceleration, continued to post a higher growth in comparison with industrial countries (Table 53).

Merchandise Trade

According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise exports during April-February 2006-07 registered a growth of 19.3 per cent as compared with 26.3 per cent a year ago. The export growth was strong in the first half (April-September 2006) of the fiscal at 27.2 per cent, but decelerated to 14.3 per cent during October 2006-February 2007 (Chart 54).

Commodity-wise data available for April-November 2006 reveal that engineering goods and petroleum products were the major growth drivers, together contributing almost 64 per cent of the export growth during this period. Gems and jewellery, textiles, and ores and minerals, on the other hand, showed decline or deceleration in exports (Table 54). Agriculture and allied products posted strong growth, driven mainly by the increase in the exports of sugar and molasses and raw cotton. Traditional export items like tea, coffee, tobacco and spices also maintained high growth, while exports of rice, wheat, cashew and marine products declined or decelerated.

The US continued to be the major destination of India's exports with a share of 15.4 per cent in 2006-07 (April-November) followed by the UAE (9.9 per cent), China (5.9 per cent), Singapore (5.2 per cent) and the UK (4.5 per cent)



(Table 55). Among the major countries, growth in exports to the UAE accelerated to 57.4 per cent from 22.3 per cent a year ago. On the other hand, growth in exports to China, Singapore and Hong Kong decelerated.

India's merchandise imports registered a growth of 27.8 per cent during April-February 2006-07 on top of 32.7 per cent growth a year ago. After showing a slowdown in the latter half of 2005-06, non-oil imports have picked up since

Table 54: Exports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)		
	2005-06	2005-06	2006-07	2005-06	2005-06	2006-07
		April-November			April-November	
1	2	3	4	5	6	7
1. Primary Products	**16.4**	**9.6**	**11.4**	**20.8**	**29.7**	**18.9**
of which:						
a) Agriculture and Allied Products	10.2	6.0	7.4	20.5	20.4	23.5
b) Ores and Minerals	6.2	3.6	4.0	21.4	49.1	11.2
2. Manufactured Goods	**72.2**	**45.5**	**53.5**	**18.9**	**25.2**	**17.7**
of which:						
a) Chemicals and Related Products	14.8	9.0	10.9	18.6	23.3	21.0
b) Engineering Goods	21.5	13.4	18.5	23.7	33.2	38.5
c) Textiles and Textile Products	16.3	10.1	11.0	20.6	21.8	8.6
d) Gems and Jewellery	15.5	10.3	10.2	12.8	22.5	-0.8
3. Petroleum Products	**11.5**	**7.2**	**12.8**	**64.9**	**63.0**	**79.1**
4. Total Exports	**103.1**	**63.9**	**80.9**	**23.4**	**29.4**	**26.6**
Memo:						
Non-oil Exports	91.6	56.7	68.1	19.6	26.1	20.0

Source : DGCI&S.

Table 55: Direction of India's Exports

Group/Country	US $ billion			Variation (per cent)		
	2005-06	2005-06	2006-07	2005-06	2005-06	2006-07
		April-November			April-November	
1	2	3	4	5	6	7
1. OECD Countries	**45.8**	**28.7**	**33.4**	**25.6**	**29.3**	**16.2**
of which:						
a) EU	22.4	14.0	16.3	27.6	34.5	17.1
b) North America	18.4	11.6	13.2	25.6	25.6	13.0
US	17.4	11.0	12.4	26.1	25.9	12.8
2. OPEC	**15.2**	**9.1**	**13.6**	**15.4**	**19.9**	**50.1**
of which:						
UAE	8.6	5.1	8.0	16.9	22.3	57.4
3. Developing Countries	**39.7**	**24.6**	**32.0**	**25.8**	**35.8**	**30.1**
of which:						
Asia	31.0	19.2	23.8	24.1	35.6	23.7
People's Republic of China	6.8	3.9	4.8	20.4	56.5	22.7
Singapore	**5.4**	3.6	4.2	19.3	63.0	15.3
4. Total Exports	**103.1**	**63.9**	**80.9**	**23.4**	**29.4**	**26.6**

Source : DGCI&S.

September 2006 (Chart 55). During April-February 2006-07, non-oil imports grew by 25.7 per cent and accounted for almost 64 per cent of the rise in total imports.

Major import items like capital goods maintained high growth during April-November 2006, while imports of mainly export related items, particularly, pearls, precious and semi-precious stones declined (Table 56). Imports of capital goods increased by 38.2 per cent during April-November 2006, over and above

Chart 55: India's Non-Oil Imports

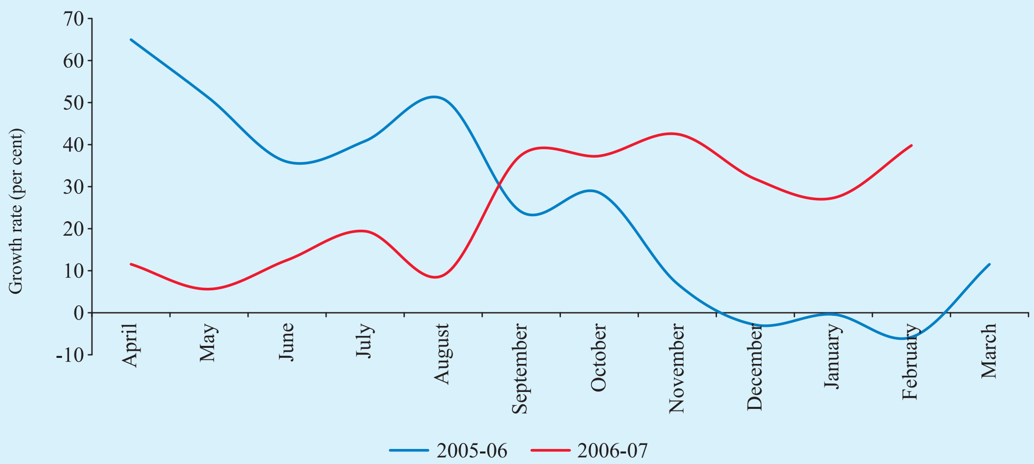


Table 56: Imports of Principal Commodities

Commodity Group	US $ billion			Variation (per cent)		
	2005-06	2005-06	2006-07	2005-06	2005-06	2006-07
		April-November			April-November	
1	2	3	4	5	6	7
Petroleum, Petroleum Products and Related Material	44.0	27.8	39.4	47.3	43.3	41.9
Edible Oils	2.0	1.5	1.5	-17.9	-9.2	3.2
Iron and Steel	4.6	3.2	4.1	71.3	106.4	28.4
Capital Goods	37.7	19.6	27.1	49.9	45.7	38.2
Pearls, Precious and Semi-Precious Stones	9.1	6.7	5.0	-3.1	30.8	-25.6
Chemicals	7.0	4.7	5.2	22.5	37.5	11.8
Gold and Silver	11.3	8.0	9.6	1.5	27.4	21.3
Total Imports	**149.2**	**93.5**	**119.4**	**33.8**	**41.2**	**27.8**
Memo:						
Non-oil Imports	105.2	65.7	80.0	28.8	40.4	21.8
Non-oil Imports excluding Gold and Silver	93.9	57.8	70.4	33.1	42.4	21.8
Mainly Industrial Imports*	87.5	53.3	64.5	34.7	43.8	21.1

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

the growth of 45.7 per cent recorded a year ago, reflecting the continued buoyancy in domestic investment activity. Imports of gold and silver registered a sharp jump during September-November 2006, offsetting the decline during April-August 2006. As a result, the cumulative growth was 21.3 per cent during April-November 2006**.**

Oil imports during April-February 2006-07 rose by 32.6 per cent on top of 49.7 per cent a year ago, reflecting partly the increase in volumes. In volume terms, oil imports increased by 22.5 per cent during April-November 2006 as compared with a growth of 0.8 per cent a year ago. Growth in the Indian basket of crude oil prices, on the other hand, decelerated to 12.7 per cent during 2006-07 from 42.3 per cent during 2005-06.

Source-wise, during April-November 2006, China was the major source of imports with a share of 9.3 per cent in India's total imports, followed by Saudi Arabia (7.9 per cent), the US (5.8 per cent), Switzerland (4.9 per cent) and the UAE (4.7 per cent).

Trade deficit at US $ 55.8 billion during 2006-07 (April-February), according to the DGCI&S data, was higher by 48.5 per cent than the previous year (US $ 37.6 billion) (Table 57). The deficit on the oil account increased by US $ 6.0 billion during April-November 2006 over the corresponding period of 2005, while the non-oil trade deficit increased by US $ 3.0 billion.

Table 57: India's Merchandise Trade

(US $ billion)

Item	2004-05	2005-06	2005-06	2006-07
			April-February	
1	2	3	4	5
Exports	83.5	103.1	91.5	109.2
Imports	111.5	149.2	129.1	165.0
Oil	29.8	44.0	39.8	52.7
Non-oil	81.7	105.2	89.3	112.3
Trade Balance	-28.0	-46.1	-37.6	-55.8
Non-Oil Trade Balance	-5.1	-13.6	-9.0 *	-11.9 *
			Variation (per cent)	
Exports	30.8	23.4	26.3	19.3
Imports	42.7	33.8	32.7	27.8
Oil	45.1	47.3	49.7	32.6
Non-oil	41.8	28.8	26.4	25.7

*: April-November.

Source : DGCI&S.

Current Account

Buoyant net surplus under invisibles (services, transfers and income taken together) continued to finance bulk of the trade deficit during 2006-07 (April-December). Amongst major services, net surplus under software services increased by 29.1 per cent to US $ 20.1 billion during April-December 2006 (Table 58). Private transfers (net) at US $ 18.8 billion during April-December 2006 were 11.6 per cent higher than a year ago. Investment income deficit narrowed from a year ago, on account of higher earnings on India's external assets. On balance, the net surplus under invisibles increased to US $ 40.5 billion during April-December 2006 from US $ 28.1 billion a year ago.

Table 58: Invisibles Account (Net)

(US $ million)

Item	2005-06 PR	2005-06 PR	2006-07 P	2005-06 PR	2006-07		
	April-March	April-December		Oct.-Dec.	April-June PR	July-Sept. PR	Oct.-Dec.P
1	2	3	4	5	6	7	8
Services	23,881	16,416	25,064	4,690	8,612	7,459	8,993
Travel	1,389	788	981	516	220	-31	792
Transportation	-1550	-1,087	-450	-405	-314	-31	-105
Insurance	22	100	365	-126	111	162	92
Government, not included elsewhere	-197	-107	-97	-18	-24	-62	-11
Software	22,262	15,597	20,143	5,755	6,601	6,678	6,864
Other Services	1,955	1,125	4,122	-1,032	2,018	743	1,361
Transfers	24,284	16,937	18,943	6,436	5,689	5,222	8,032
Investment Income	-4,921	-4,741	-3,100	-2,706	-1,043	-1,144	-913
Compensation of Employees	-589	-465	-426	-222	-131	-162	-133
Total	**42,655**	**28,147**	**40,481**	**8,198**	**13,127**	**11,375**	**15,979**

PR : Partially Revised. P : Preliminary.

The net invisible surplus financed 77.4 per cent of the merchandise trade deficit during April-December 2006. Current account deficit at US $ 11.8 billion in April-December 2006 was marginally lower than that in the corresponding period of the previous year on account of higher net invisibles receipts (Table 59 and Chart 56).

Capital Flows

Capital flows during 2006-07 were substantially higher than a year ago, led by foreign direct investment (FDI) flows, on the back of strong growth prospects and buoyant investment demand. FDI inflows at US $ 16.4 billion during April-January 2006-07 were substantially higher than the inflows in the corresponding period of the previous year (Table 60). FDI was channelled mainly into financial services, manufacturing, banking services, information technology services and construction. Mauritius, the US and United Kingdom remain the dominant sources of FDI to India. Outward direct investment from India also exhibited a significant rise to US $ 8.7 billion during April-December 2006 from US $ 1.9 billion a year ago due to some large overseas acquisitions by Indian corporates. Both FDI inflows

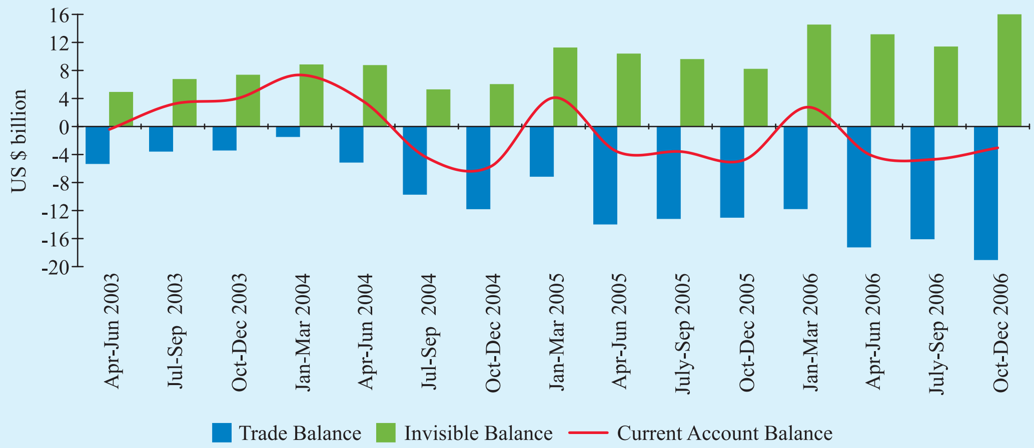
Table 59: India's Balance of Payments

(US $ million)

Item	2005-06 PR	2005-06 PR	2006-07 P	2005-06 PR	2006-07		
	April-March	April-December		Oct.-Dec.	April-June PR	July-Sept. PR	Oct.-Dec. P
1	2	3	4	5	6	7	8
Exports	1,05,152	74,573	91,334	25,318	29,674	32,798	28,862
Imports	1,56,993	1,14,662	1,43,636	38,298	46,898	48,855	47,883
Trade Balance	-51,841 (-6.4)	-40,089	-52,302	-12,980	-17,224	-16,057	-19,021
Invisible Receipts	92,294	63,594	82,633	23,990	25,056	25,576	32,001
Invisible Payments	49,639	35,447	42,152	15,792	11,929	14,201	16,022
Invisibles, net	42,655 (5.3)	28,147	40,481	8,198	13,127	11,375	15,979
Current Account	-9,186 (-1.1)	-11,942	-11,821	-4,782	-4,097	-4,682	-3,042
Capital Account (net)*	24,238 [29,738]@	13,773 [19,273]@	27,972	110 [5,610]@	10,475	6,950	10,547
of which:							
Foreign Direct Investment	4,730	3,347	5,822	1,218	1,273	2,268	2,281
Portfolio Investment	12,494	8,161	5,170	2,748	-527	2,141	3,556
External Commercial Borrowings $	2,723 [8,223]@	-1,211 [4,289]@	9,104	-4,136 [1,364]@	3,947	1,324	3,833
Short-term Trade Credit	1,708	1,731	1,329	759	417	1,554	-642
External Assistance	1,682	1,090	934	681	41	337	556
NRI Deposits	2,789	1,114	3,201	881	1,231	798	1,172
Change in Reserves #	-15,052	-1,831	-16,151	4,672	-6,378	-2,268	-7,505

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

Chart 56: Current Account Balance



and outflows include one transaction amounting to US $ 3.1 billion involving swap of shares. Net of this transaction, FDI inflows and outflows were US $ 13.3 billion and US $ 5.6 billion, respectively, also indicating a significant increase over the previous year.

Portfolio equity inflows by foreign institutional investors (FIIs) were lower than a year ago due to outflows witnessed during a few months on the back of global developments such as meltdown in global commodities and equity markets (May-July 2006), fall in Asian equity markets subsequent to the tightening of capital controls by Thailand (December 2006) and fall in Asian equity markets on account of concerns of slowdown in the US economy (late February 2007). Capital inflows through the issuances of American depository receipts (ADRs)/Global depository receipts (GDRs) during April-January 2006-07 remained higher than in the previous year.

Table 60: Capital Flows

(US $ million)

Components	Period	2005-06	2006-07
1	2	3	4
Foreign Direct Investment (FDI) into India	April-January	5,821	16,444 #
FDI Abroad	April-December	(-)1,939	(-)8,684 #
FIIs (net)	April-March	9,926	3,224
ADRs/GDRs	April-January	2,141	3,506
External Assistance (net)	April-December	1,153	949
External Commercial Borrowings (net) (Medium and long-term)	April-December	4,420 @	9,275
Short-term Trade Credits (net)	April-December	1,731	1,329
NRI Deposits (net)	April-January	1,681	3,686

: Include swap of shares of US $ 3.1 billion. @: Excluding IMD redemption.

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.

Amongst debt flows, demand for external commercial borrowings (ECBs) remained strong in consonance with buoyant domestic investment activity. Net disbursements under ECBs during April-December 2006 were more than double of those a year ago. Net inflows under various NRI deposits during April-January 2006-07 were also more than twice that a year ago, partly attributable to higher interest rates on various deposit schemes up to January 2007. The ceiling interest rate on NRE deposits was raised by 25 basis points each in November 2005 and April 2006 before being scaled down by 50 basis points to "LIBOR/SWAP rates of US dollar *plus* 50 basis points" in January 2007. The ceiling interest rate on FCNR(B) deposits was raised by 25 basis points to "LIBOR/SWAP rates for the respective currency/ maturity" in March 2006 but was reduced by 25 basis points to "LIBOR/ SWAP rates *minus* 25 basis points" in January 2007.

Foreign Exchange Reserves

India's foreign exchange reserves were US $ 199.2 billion as on March 31, 2007, showing an increase of US $ 47.6 billion over end-March 2006 levels (Table 61). The increase in reserves was mainly due to increase in foreign currency assets from US $ 145.1 billion at end-March 2006 to US $ 191.9 billion as at end-March 2007. As on April 13, 2007, India's foreign exchange reserves were US $ 203.1 billion.

Table 61: Foreign Exchange Reserves

(US $ million)

Period	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)
1	2	3	4	5	6
March 1995	4,370	7	20,809	331	25,517
March 2000	2,974	4	35,058	658	38,694
March 2005	4,500	5	135,571	1,438	141,514
March 2006	5,755	3	145,108	756	151,622
April 2006	6,301	6	153,598	772	160,677
May 2006	7,010	–	156,073	785	163,868
June 2006	6,180	–	155,968	764	162,912
July 2006	6,557	7	157,247	766	164,577
August 2006	6,538	1	158,938	767	166,244
September 2006	6,202	1	158,340	762	165,305
October 2006	6,068	7	160,669	648	167,392
November 2006	6,494	1	167,598	548	174,641
December 2006	6,517	1	170,187	546	177,251
January 2007	6,529	10	173,081	541	180,161
February 2007	6,883	2	187,211	467	194,563
March 2007	6,784	2	191,924	469	199,179
April 2007*	6,784	2	195,844	462	203,092

- : Negligible.
* : As on April 13, 2007.

India holds the fifth 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 $ 142.7 billion at end-December 2006, an increase of US $ 16.2 billion over end-March 2006. The increase during the period was mainly on account of higher external commercial borrowings and NRI deposits. As noted earlier, higher commercial borrowings could be attributed to sustained investment and import demand, while the rise in NRI deposits was partly on account of higher interest rates on these deposits for the period. Almost 46 per cent of the external debt stock was denominated in US dollars followed by the Indian Rupee (19 per cent), SDR (14 per cent) and Japanese Yen (12 per cent). Sustainability indicators such as the ratio of short-term to total debt and short-term debt to reserves remained almost unchanged between end-March 2006 and end-December 2006 and continued to be at quite low and comfortable levels (Table 62). Foreign exchange reserves remain in excess of the stock of external debt.

Table 62: India's External Debt

(US $ million)

Indicator	End-March 1995	End-March 2005	End-March 2006	End-June 2006	End-Sept 2006	End-Dec 2006
1	2	3	4	5	6	7
1. Multilateral	28,542	31,702	32,559	33,101	33,594	34,569
2. Bilateral	20,270	16,930	15,727	15,833	15,734	15,770
3. International Monetary Fund	4,300	0	0	0	0	0
4. Trade Credit	6,629	4,980	5,398	5,498	5,658	5957
5. External Commercial Borrowings	12,991	27,024	26,869	31,114	32,421	35,980
6. NRI Deposit	12,383	32,743	35,134	35,651	36,515	38,382
7. Rupee Debt	9,624	2,301	2,031	1,915	1,921	1,983
8. Long-term (1 to 7)	94,739	1,15,680	1,17,718	1,23,112	1,25,843	132,641
9. Short-term	4,269	7,524	8,696	9,105	10,625	10,015
Total (8+9)	**99,008**	**1,23,204**	**1,26,414**	**1,32,217**	**1,36,468**	**142,656**
Memo:						(Per cent)
Total debt /GDP	30.8	17.3	15.8	..	..	..
Short-term/Total debt	4.3	6.1	6.9	6.9	7.8	7.0
Short-term debt/Reserves	16.9	5.3	5.7	5.6	6.4	5.7
Concessional debt/Total debt	45.3	33.0	31.2	30.1	29.3	28.3
Reserves/ Total debt	25.4	114.9	120.0	123.2	121.1	124.3
Debt Service Ratio*	25.9	6.1	9.9	..	..	..

* : Relates to the fiscal year. .. : Not available.

International Investment Position

India's international assets increased by US $ 16.4 billion during the half year ended September 2006 over end-March 2006 levels, mainly on account of an increase in reserve assets. India's direct investment abroad also maintained its rising trend, reflecting growing investment interest by Indian companies in the overseas markets. International liabilities of the country expanded by US $ 14.5 billion between end-March 2006 and end-September 2006, reflecting inflows on account of direct and portfolio investment, recourse to commercial borrowings and non-resident deposits. As the increase in international assets exceeded that in international liabilities during the period, India's net international liabilities declined by US $ 1.9 billion between end-March 2006 and end-September 2006 (Table 63).

Table 63: International Investment Position of India

(US $ billion)

Period	March 2005 PR	March 2006 PR	June 2006 PR	September 2006 P
1	2	3	4	5
A. Assets	**168.2**	**183.5**	**191.8**	**199.9**
	(23.5)	**(22.9)**	**..**	**..**
1. Direct Investment	10.0	13.0	13.6	14.4
2. Portfolio Investment	0.8	1.3	1.1	1.2
2.1 Equity Securities	0.4	0.7	0.5	0.5
2.2 Debt Securities	0.4	0.6	0.6	0.7
3. Other Investment	15.9	17.6	14.2	18.9
3.1 Trade Credits	2.2	0.4	0.3	2.8
3.2 Loans	1.9	2.6	1.6	2.3
3.3 Currency and Deposits	8.4	11.2	8.9	10.3
3.4 Other Assets	3.4	3.5	3.5	3.6
4. Reserve Assets	141.5	151.6	162.9	165.3
	(19.8)	(19.0)	..	..
B. Liabilities	**210.0**	**231.3**	**238.3**	**245.8**
	(29.4)	**(28.9)**	**..**	**..**
1. Direct Investment	44.0	50.7	51.5	54.9
	(6.2)	(6.3)	..	..
2. Portfolio Investment	55.7	64.6	64.8	67.4
	(7.8)	(8.1)	..	..
2.1 Equity Securities	43.2	54.7	52.5	54.8
2.2 Debt Securities	12.5	9.9	12.4	12.6
3. Other Investment	110.3	116.0	122.0	123.5
	(15.4)	(14.5)	..	..
3.1 Trade Credits	9.6	10.5	10.9	12.4
3.2 Loans	65.7	68.2	70.7	72.2
3.3 Currency and Deposits	33.6	36.2	39.2	37.6
3.4 Other Liabilities	1.4	1.1	1.2	1.4
C. Net Position (A-B)	**-41.8**	**-47.8**	**-46.4**	**-45.9**
	(-5.9)	**(-6.0)**	**..**	**..**

PR : Partially Revised. P : Provisional.
Note : Figures in parentheses are percentages to GDP.