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NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

QUARTERLY REVIEW

REVIEW OF THE ECONOMY

Overview
Forecast
Agriculture
Industry
Services
Money and Capital Markets
External Sector
Prices
Public Finance
Data File

August 2007

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Macroeconomic Monitoring and Forecasting Programme Area,
National Council of Applied Economic Research,
Parisila Bhawan, 11, Indraprastha Estate,
New Delhi 110 002
Tel: 2337 9861-63 Fax: 2337 0164
Email: indpack@ncaer.org
Web: www.ncaer.org

Contributors:

Overview: Shashanka Bhide
Forecast: Shashanka Bhide
Agriculture: Anil Kumar Sharma
Industry: Rajesh Chadha and K. Elumalai
Services: Ch. Sambasiva Rao
Monetary and Capital Market: Kanhaiya Singh
External Sector: Rajesh Chadha and Anjali Tandon
Prices: Sanjib Pohit
Public Finance: Anushree Sinha

Data File: Kosar Jamal Khan

Computer and Design Support: Praveen Sachdeva
Secretarial Assistance: Sudesh Bala

Co-ordinator: Shashanka Bhide

Overview

The average annual rate of real GDP growth has now crossed the 8.5 per cent-mark for the three-year period ending 2006-07. The non-agricultural sectors are growing at 10 per cent per year. The manufacturing sector's GDP grew by 12 per cent in 2006-07 as compared to 9 per cent in the previous year. Thus, while higher inflation rate, stronger rupee and tight money policy have been hurdles from the perspective of accelerating economic growth, they have not yet slowed the growth momentum. In terms of overall growth, agriculture, which for long has been stuck in a slow phase, is still awaiting a breakthrough.

Global demand conditions remain favourable, but the momentum may be slowed during 2007 in comparison to 2006, with respect to both output and trade volumes. Low inflation on the oil prices front was expected to be a salutary factor, but there has been a setback on this front recently. Global oil prices are climbing again.

The annual inflation rate, measured in terms of WPI (average for the period over the average in the previous period) was 5 per cent in 2006-07, nearly the same as in 2005-06. It was 6 per cent in 2006-07 as measured by CPI for industrial workers, up from 5 per cent in 2005-06. The primary articles' WPI rose by 10 per cent during 2006-07 because of the tight global supply conditions coinciding with poor agricultural harvest in India.

Net foreign capital inflows surged in 2006-07 to $46 billion, from $19.4 billion in the previous year, and this growth has continued into the current fiscal. Gross FDI inflow amounted to $19.5 billion. This is one factor keeping industrial investment spending at a high level, despite the pressures of a stronger rupee, higher interest rates and inflation. The foreign exchange reserves (excluding gold) are now above $222 billion or 25 per cent of GDP. Export growth appears to have slowed in the first five months of the current calendar year. The import bill has grown thanks to higher import of non-oil items in addition to an enhanced oil bill. The merchandise trade deficit for 2006-07 was at a high of $65 billion (based on BOP data). Net invisible earnings, at $55.3 billion, narrowed the current account deficit to $9.7 billion. The growth of net invisible earnings by about 30 per cent in 2006-07 was critical to keeping the current account balance to below 1.5 per cent of GDP.

The 12 per cent growth of the manufacturing sector was induced by both domestic and export demand. Domestic investment and consumption demand were buoyant as evidenced by the rapid growth of the consumer goods and capital goods production indices. Higher interest rates during the year, combined with a more watchful monetary management by RBI, sent out the signal that investment activity would have to manage the available credit lines more carefully. The net external commercial borrowings, which touched $16 billion, have financed overseas investment activities and acquisition of assets by Indian companies. The role of investment spending in providing favourable demand conditions has been critical to the rise of growth of the manufacturing sector. Higher interest rates may not be favourable to investment spending, but they could lead to more efficient use of financial resources.

The construction sector, a key source of growth since 2003-04, slowed its momentum in 2006-07. The higher interest rates on housing loans may have led to a demand crunch. The housing (personal) loans from the banking sector increased by 22 per cent in 2006-07 over the previous year.

The service sector's GDP grew by more than 11 per cent in 2006-07. Trade, hotels, transport, storage and communication provided the impetus for growth in this sector. Infrastructure sectors, including electricity, grew at a faster rate in 2006-07 as compared to the previous year. It is not only the communications sector that has surged, but there are now indications of significant changes in the trade sector as well. Although these are early days, the entry of organised retail could provide new opportunities for the suppliers as well as consumers.

Real GDP from agriculture and allied sectors registered an annual growth of 2.6 per cent in 2006-07, as rainfall was not well distributed during the monsoon period. Prices of primary articles rose sharply during the year as even global commodity markets experienced short supplies.

The agricultural production outlook for 2007-08 has improved, thanks to expectations of a better monsoon than last year. The weighted average index of rainfall during June-July 2007 is 18 per cent above normal rainfall, as compared to eight per cent for the same period in 2006.

Thus, the overall setting for the current fiscal year is one of high growth and high rate of inflation. The fiscal position of the central government, as reflected in Budget 2007-08, indicates an improving tax revenue position and consolidation of the budgetary deficits to fall in line with the FRBM targets. The high rate of output growth seen in the non-agricultural sector implies that the rate of tax collections has also been high. The gross fiscal deficit of the Central government declined to 3.7 per cent of GDP in 2006-07, and is budgeted to decline further to 3.3 per cent of GDP in 2007-08. The same narrowing of the fiscal deficit may be seen in the states as well.

Business sentiments, as tracked by NCAER's quarterly surveys of the business sector, show a decline in the Business Confidence Index by 8.3 per cent in July 2007 (covering the quarter April-June) over its level in April 2007. The decline, though in line with the seasonal trend, also conveys the impact of higher interest rate, strong rupee and more cautious credit growth on business sentiments. Thus, while output and price expectations do not appear to be pessimistic, the overall sentiments have dampened.

The Doha Round negotiations have not led to agreement so far on the contentious issue of agriculture as well as non-agricultural trade barriers. The lack of a resolution of these issues could hurt the prospects of reduction of trade barriers, and, lead to losses for the economies of both the developed and developing worlds.

Taking into account the trends in various indicators, we have provided a reassessment of the macroeconomic prospects for 2007-08. The first such assessment was provided in April this year. The revised forecast places overall real GDP growth at 8.53 per cent as compared to the previous forecast of 8.3 per cent. Higher growth has been largely due to agriculture and industry. Expectations of better monsoon and the impact of higher capital inflows have led to higher growth estimates for these two sectors. The projected fiscal position of the Centre is close to the Budget expectations. On external balances, we are now projecting a current account deficit of 1.8 per cent of GDP as against the surplus that we had anticipated in our April projections. The key reason for the change is the lowering of projected growth of net invisibles.

Forecast

The climate for economic growth

The recent volatility in global financial markets has also affected Indian capital markets as India is now open to global capital flows. In fact, the present high level of foreign exchange reserves of $ 222 billion (as on July 20), reflects the attraction held out by Indian markets to foreign capital. Net foreign capital inflows in 2006-07, counting only FDI, FII and commercial borrowings, amounted to $31 billion. Though not all capital inflow constitutes investment in terms of plant and machinery or construction, it is likely to impact directly or indirectly on industrial activity. In the current year, foreign capital inflows have maintained their momentum and industrial production activity could see sustained growth during the current year.

The high rate of global economic growth has provided an ideal environment for accelerated growth in the Indian economy over the past three years. The average rate of growth in Real GDP was 8.6 per cent during the past three years, climbing to 9.4 per cent in 2006-07. This is a goal articulated by the Eleventh Five-Year Plan's Approach Paper for the next five years. The usual constraints to sustained high rates of growth do not appear to be insurmountable from the recent experience. While the relatively high rate of growth in the global economy indicates remarkable complementarity across economies, it is also a sign of India's ability to participate in this mutually reinforcing process. There is also evidence of a more responsive supply infrastructure than ever before. While inflationary pressures did emerge, growth has not suffered significantly.

Global economic growth was expected to be satisfactory in 2007, albeit at a slower pace than last year. In fact, the overall trade volume and capital flows to emerging markets were expected to be at a slower pace in the current year than in 2006. There were expectations that the US economy would experience slower growth and yet the overall global demand conditions would remain positive because of the strong demand from emerging economies. Global inflation rates have remained high, exacerbated by crude oil prices returning to rule at levels above $70 per barrel after a gap of 10 months.

The prospect of a good monsoon in the current season has raised hopes of improved supplies of agricultural commodities and relief in the prices of primary articles. Though the conditions affecting prices of manufactured products have not changed significantly, inflation is expected to be lower in the case of primary articles. In the case of fuel prices, however, the prospects are not as benign as they appeared at the beginning of the year. International crude prices, as noted earlier, are at a high level. And the system of administered prices for petroleum fuels leads to delayed passing on of higher prices to domestic consumers. Thus, the fuel price increase that may be necessary to offset higher international crude prices would have the effect of increasing overall price levels during the year.

The latest review of the monetary policy has left the interest rates unchanged but increased the Cash Reserve Ratio (CRR) by 0.5 percentage of the total deposit liabilities of the commercial banks. As a result, commercial lending rates may not increase in the short term, but they would not decline either. The excess liquidity in the financial system is a source of inflationary pressure and attempts to withdraw it through higher CRR may help reduce these pressures. The excess liquidity in the context of slower growth in commercial credit is indicative of the reduced pace of growth in economic activity. However, this may still be a reflection of seasonal easing of the growth momentum, as the first quarter of the economy is usually one of slower output growth.

The Rupee has strengthened relative to the Dollar by about 8 per cent between February 2006 and May 2007 (average for the months). Capital inflows have enforced the Rupee, though RBI interventions have kept it from rising further. While a stronger Rupee has the ability to increase imports leading to a large trade deficit, the volume of capital inflows have offset this external current account imbalance. At $222 billion, the foreign currency reserves are now about a quarter of GDP. The pressure that these reserves put on the monetary policy are significant and the response is likely to ease the restrictions on outflow as well, so that investments abroad by Indian companies and entrepreneurs could also maintain the balance on the capital account. As capital inflows could continue at this high pace, the liberalisation of the capital account would be needed to maintain the pace of the integration of domestic with the global market.

The growth expectations

Within the above overall setting, the expectation of many observers has been that GDP growth would be 8 to 9 per cent in the current year, with the annual inflation rate of about 5 per cent. The growth expectations are based on the rapid expansion of the manufacturing sector in the past year.

The manufacturing sector registered an estimated 12 per cent growth in Real GDP in 2006-07, up from 9.1 per cent in the previous year. The push to overall GDP growth by 0.4 percentage points has come mainly from the industrial sector. The agricultural sector's GDP growth actually declined. For services, the growth was by 1.2 percentage points, similar to the increase in industrial GDP (Table F.1). Thus, performance of the manufacturing sector was critical for sustaining the growth of overall Real GDP in 2006-07 above the 9 per cent mark achieved in the previous year.

Table F.1: Growth acceleration is maintained: Real GDP growth, (Y-O-Y (%)

Sector	2005-06	2006-07 RE
Agriculture and allied sectors	**6.0**	**2.7**
Industry	**9.70**	**10.94**
- Manufacturing	9.1	12.3
- Mining	3.6	5.1
- Electricity, gas and water supply	5.3	7.4
- Construction	14.2	10.7
Services	**9.84**	**11.07**
Total	**9.0**	**9.4**

The growth of exports, rise in investment and higher consumer spending provided the necessary impetus to industrial growth. Capital inflows have sustained investment spending as they have helped in the expansion of industrial capacity. The GDP of the construction sector increased by 10.4 per cent in 2006-07 over the previous year, a considerably lower pace than the

14.2 per cent growth seen in the previous year. Thus, acceleration in manufacturing growth was a key to sustaining the high growth rate of the economy.

Can the past two years' heightened GDP growth rate be sustained in the current year? More specifically, can the growth performance of the manufacturing sector continue for another year? The main drivers of manufacturing growth in the past year have been investment demand and export demand. In the case of the former, inflationary pressures and consequent monetary tightening have led to higher costs of financing investment. The higher interest rates may have a dampening effect on investment spending, although it would only mean that there would be some moderation in the pace of growth. The underlying factors influencing investment growth remain intact. Urbanisation, a young labour force, financial sector reforms in terms of expansion of financial services to larger sectors of the economy and fiscal reforms in terms lower tax rates, have all meant that the demand for consumer goods and services would continue to rise, providing the necessary impetus to new investment. More importantly, investment demand in infrastructure industries could be expected to remain at a high level, given the inadequate supply of these services even at the current level of economic activity.

On the export front, the main dampener has been the strong Rupee. Just as higher interest rates have meant higher interest costs, a stronger Rupee has meant lower realisation on Dollar earnings. The profit margins of exporters who rely mainly on inputs sourced from domestic producers would be lower than before. If this leads to higher scale of operations to preserve overall earnings, the impact on exports would not be significant. However, in the short run, this response may not be forthcoming. Therefore, the current year is likely to see a slow down in the growth of manufactured goods exports.

The domestic demand for transport, trade and communication may be expected to retain last year's momentum.

It is in the construction sector that the momentum of growth slipped during 2006-07: from 14 per cent to about 10 per cent. High interest rates alone may not be the cause. Sluggish demand too would have contributed to this state of affairs. It is not clear from available data whether the current housing sector boom is spread across all segments of the market. To sustain high growth, this would be necessary. In this sense, the growth of the construction sector may be expected to retain its momentum at about 10 per cent, provided the housing sector growth is not broad based. The prevailing, higher interest rates would then add to the downward pressure on demand.

Business expectations

The Business Confidence Index (BCI) constructed by NCAER on the basis of quarterly surveys of the business sector shows a decline by 8.8 per cent in April-June 2007 over its level in the preceding quarter. Against a backdrop provided by strong growth in the manufacturing sector and expectations of a near-normal monsoon, the decline appears to be largely due to seasonal factors. The strengthening Rupee and high interest rates could also have been factors. All four components of the BCI registered a decline indicating that the concerns may not be only seasonal factors.

The drop in BCI was seen across the major manufacturing goods sectors as well as in the service sector. A summary of the BCI across sectors, regions, size and class of firms is provided in Table F2.

Table F.2: Business Expectations decline in April-June quarter: BCI components and BCI across sectors and regions

Components/ Region/ sector	% Change over previous quarter
Components of BCI	
Overall economic conditions over next six months	-10.25
Financial position of the firms over next six months	-11.75
Investment climate now	-17.47
Capacity utilisation now	-0.72
Regional Level BCI	
East	-11.67
West	-6.24
North	-12.69
South	-3.48
Sectoral Level BCI	
Consumer non-durbales	-2.77
Consumer durables	-4.06
Intermediates	-6.91
Capital goods	-15.56
Services	-12.15
All	-8.86

Political Confidence Index

While the business sector is not optimistic about business prospects in the next six months, it appears to be more satisfied by the government's performance on a number of criteria. The "Quarterly Business Expectations" survey was also used to track the assessment of the government's handling of a number of issues and the findings for April-June quarter are reported in Table F3. The overall Political Confidence Index has increased in April-June quarter (July 2007 survey) relative to its level in the previous quarter.

Table F.3: The Political Confidence Index and its components

Issue	April 2007 Survey	July 2007 Survey
% of Positive Ratings on		
Managing overall economic growth	51.2	52.2
Managing government finances	40.7	43.2
Managing inflation	21.4	27.4
Managing unemployment	20.0	25.3
Managing exchange rate	27.5	31.3
Managing conducive political climate	19.7	20.7
External trade negotiations (bilateral and multilateral)	42.0	35.8
Pushing economic reforms forward	41.0	36.7
Overall Assessment		
Political Confidence Index (PCI)	104.0	107.6

Note: PCI is calculated first by averaging the positive ratings on each of the components and then scaling the Index using the findings of the October 2004 survey as 100.

On core issues like managing the inflation and exchange rates, the respondents have expressed greater confidence in the government now than in the previous quarter. Thus, while the high interest rates and stronger Rupee seem to have dampened business optimism, it has not led to the further erosion of political confidence. However, it should be noted that the overall positive rating on these core issues is relatively low to begin with. This suggests that there is indeed a low level of approval for policies on these issues. The issue on which the largest proportion of respondents has expressed positive views on government performance is in managing overall economic growth.

A reassessment of macroeconomic prospects for 2007-08

A forecast for the economy was provided in April this year. It was based on the fiscal parameters available from the central government's budget proposals for 2007-08 and other information on national and international economic parameters. With another quarter's data is now available, we have re-examined the scenario for 2007-08 based on NCAER's macroeconometric model for the Indian economy.

The key assumptions are:

- Monsoon rainfall will be such that the average rainfall during the June-September period would be 5 per cent higher than in the monsoon period for 2006.
- Net foreign capital inflows in the form of foreign direct investment, portfolio investment and external commercial borrowings would be higher by $3 billion as compared to the levels achieved last year.
- The average interest rate (PLR) for the year would be higher by one percentage point as compared to 2006-07.
- The Rupee-$ nominal exchange rate would remain stable during the year.

Table F.4: The Macroeconomic Forecast for 2007-08

Variables	2005-06	2006-07RE	2007-08 Apr Forecast	2007-08 Aug Forecast
Real GDP				
- Agriculture	6	2.7	2.6	3.35
- Industry	8.7	10.0	8.7	9.00
- Services	10	11.2	9.9	10.09
- Total	9	9.2	8.3	8.53
Exports ($-terms)	24.7	21.0	15.7	17.13
Imports ($-terms)	31.5	21.6	18.5	19.18
Inflation (WPI)	4.4	5.4	5.3	5.11
As Percentage of GDPMP				
Fiscal Deficit	4.1	3.7	3.2	3.15
Current Account Balance	-1.3	-1.7	1.3	-1.80

Note: RE= Revised estimates by CSO.

- The average fuel price index (WPI for fuel, power, light and lubricants) will increase by five per cent over the average price level for the previous year.

- Net invisibles would rise by 20 per cent as compared to our previous assumption of a 30 per cent increase.

Based on these key assumptions, we obtain the growth rates for Real GDP from the major sectors of the economy, inflation rate, trade variables and the two aggregate deficits: current account and Central government's fiscal account. The estimates are provided in Table F2.

The revised forecast has increased the Real GDP growth estimate to 8.5 per cent as compared to the previous estimate of 8.3 per cent. The increase is on account of the projected improvements in the growth of all the three sectors of the economy, but more particularly in the cases of agriculture and industry. For agriculture, the improved rainfall scenario provides the impetus for acceleration in output growth. In the case of industry, it is essentially the higher foreign capital inflows that ease some of the constraints posed by higher interest rates and stronger Rupee.

The inflation rate is projected at a slightly lower rate than our April estimates. A lower rise in agricultural prices has meant a slightly lower inflation rate. The Centre's fiscal deficit is projected to decline relative to GDP as GDP growth has also increased by 0.2 percentage points.

In the case of current account balance, there is a significant change in our revised estimate as compared to the April projections. We are now projecting a current account deficit of 1.8 per cent of GDP as compared to our estimate of a surplus in the April forecast. Although export growth is now expected to be stronger, imports are also projected to rise at a faster rate of 19.2 per cent in comparison to the projected growth rate of 18.5 per cent in April. The main reason for the significant change in the external account is the slower projected growth in net invisibles.

The revised projections point to a sustained growth momentum in the current year. Global demand conditions have not changed significantly. On the domestic front, agriculture is expected to do better than last year. An important impetus to growth in the current year would be foreign capital inflows.

Agriculture

Progress of the south-west monsoon

The south-west monsoon arrived four days early in Kerala this year. By May 29, it had covered Kerala, coastal Karnataka and parts of south interior Karnataka and Tamil Nadu. After this brief spell, however, there was a week-long break in its advance. But there was a recovery by the beginning of the second week of June when it advanced to hitherto untouched parts of Karnataka, Tamil Nadu and moved to north-eastern India as well. By the end of the third week of June, the monsoon covered Goa, Andhra Pradesh, Orissa, West Bengal and parts of Maharashtra, Chattisgargh and Jharkhand. When June-end approached, most parts of the country, including northern India, were reporting monsoon rainfall.

Therefore, uncertain start and brief dry spells notwithstanding, the monsoon's progress has so far been a harbinger of hope for the country's agricultural sector. Information provided by the India Meteorological Department (IMD) shows that 29 of the total 36 agro-meteorological sub-divisions, covering a little over 70 per cent of all districts and 78 per cent of the gross cropped area, have received normal to excess rainfall. The nine sub-divisions where rainfall has remained deficient so far include Arunachal Pradesh, Assam and Meghalaya, Uttar Pradesh (east and west), Himachal Pradesh, east Madhya Pradesh

Table A.1: Deviations in the Monsoon Rainfall indices from the normal and from last year (June –July)

S.No.	Region	From Normal Rainfall	From Last Year's Rainfall
1	Eastern	9.2	14.0
2	Western	11.5	20.2
3	Northern	-11.6	-3.5
4	Southern	27.2	49.8
	All India	**7.7**	**17.9**

Source: Computed.

Notes:

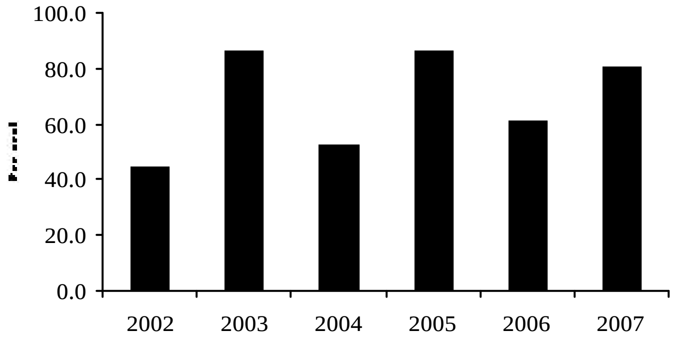
1. These are deviations in regional level rainfall indices computed on the basis of un-irrigated area under foodgrains as weights.
2. The eastern region includes – Assam, Bihar, Jharkhand, Orissa and West Bengal.
3. The western region includes – Chattisgarh, Gujarat, Madhya Pradesh, Maharashtra and Rajasthan.
4. The northern region includes - Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab, Uttar Pradesh and Uttaranchal.
5. The southern region includes Andhra Pradesh, Karnataka, Kerala and Tamilnadu.

and Marathwada. Acute rainfall deficiency was felt in western Uttar Pradesh (-35 per cent), eastern Madhya Pradesh (-34 per cent), Marathwada (-29 per cent), Himachal Pradesh (-29 per cent) and Assam and Meghalya (-25 per cent).

At the other extreme, Assam, Gujarat, Orissa, Rajasthan, West Bengal and some hilly pockets of Uttarkhand and Arunachal Pradesh experienced heavy rainfall. This has adversely affected standing crops, animals and property. But, barring such exceptions, the progress of monsoon rainfall has so far remained more or less satisfactory, both in the spatial and temporal sense.

At the larger regional level, excess monsoon rainfall was received in three of the four major regions of the country. These are the east (Assam, Bihar, Jharkhand, West Bengal and Orissa), west (Chhatisgarh, Gujarat, Madhya Pradesh and Maharashtra) and south (Andhra Pradesh, Karnataka, Kerala, Tamilnadu and Kerala) (Table A.1). In the northern region, which comprises Haryana, Himachal Pradesh, Jammu and

Fig A.1: Shares of Agrometeorological Sub-divisions with normal/excess Rainfall from 2002 to 2007



Kashmir, Punjab, Rajasthan, Uttar Pradesh and Uttaranchal, monsoon rainfall remained below normal.

A comparison of the performance of precipitation during the first two months of the current year with last year's monsoon rainfall reveals that overall rainfall has been significantly more in comparison to last year (Figure A.1). At the regional level too this was true for three of the four regions - east, west and south. In the northern region, however, the performance of the monsoon

Table A.2: Output of selected crops

	2004-05	2005-06	2006-07	
Crop	**Actual Output**	**Actual Output**	**Target**	**Actual Output (Fourth advance estimates)**
Foodgrains	198.4	208.6	220.0	216.1
Rice	83.1	91.8	92.8	92.8
Wheat	68.6	69.4	75.5	74.9
Coarse cereals	33.5	34.1	36.5	34.3
Pulses	13.1	13.4	15.2	14.2
Oilseeds	24.4	28.0	29.4	23.9
Cotton*	16.4	18.5	18.5	22.7
Jute and Mesta#	10.3	10.8	11.3	11.3
Sugarcane	237.1	281.2	270.0	345.3

Source: Ministry of Agriculture, Directorate of Economics and Statistics, New Delhi

Notes:

* Million bales of 170 kg each

Million bales of 180 kg each

Table A.3: Changes in Real Prices of Primary Agricultural Articles (April - June)

S. No.	Product	Increase in 2006 over 2005 (Per cent)	*Increase in 2007 over 2006 (Per cent)*
	Agricultural Products	0.1	4.2
1	Food Articles	1.9	2.7
(i)	Cereals	0.9	2.1
(ii)	Pulses	29.8	-1.0
(iii)	Vegetables	-1.0	11.1
(iv)	Fruits	-8.0	1.1
(v)	Milk	0.1	1.1
(vi)	Eggs, meat and fish	5.9	3.7
2	Non-Food Articles	-4.6	8.4
(i)	Oilseeds	-10.6	22.5
(ii)	Cotton	-3.9	11.6
(iii)	Sugarcane	-3.7	-4.0

Source: Government of India, Office of Economic Advisor, Ministry of Commerce and Industry, New Delhi.

Notes: Changes in wholesale price indices of commodity groups deflated by wholesale prices index for all commodities.

rainfall has been unsatisfactory in comparison to the last year's rainfall during the same period.

Review of agricultural output in 2006-07

The Ministry of Agriculture has made an upward revision in its estimates on agricultural output for 2006-07. As per these figures, foodgrain production is now estimated at 216.1 million tonnes, which is a new record, surpassing the previous high of 213.2 million tonnes achieved during 2003-04. Notwithstanding the fact that the new level of crop output is still 3.9 million tonnes short of the targeted output, the revised estimate is 3.6 per cent higher than the previous year's output.

The estimated output of both rice (92.8 million tonnes) as well as wheat (74.9 million tonnes) marks the second highest levels achieved so far after 93.3 million tonnes for rice achieved in 2001-02 and 76.4 million tonnes for wheat harvested in 1999-2000 respectively. The 5.5 million-tonne increase in wheat production during 2006-07 is just about the size of the imports that the country made during 2006-07 to augment depleted stocks and keep the Public Distribution System ticking.

The output of pulses has also witnessed an increase of about 6 per cent over last year's production of 13.4 million tonnes. The output of coarse cereals too has experienced marginal improvement over previous year's estimates.

The impressive growth performance seen in 2006-07 was not restricted to cereals because the output of two key commercial crops (cotton and sugarcane) has also scaled new heights and exceeded the targets set for the year. The cotton crop is now estimated at a record 22.7 million bales, which is 23 per cent more than last year's output and comes on top the 13 per cent growth recorded last year.

Likewise, sugarcane output has also set a new record of 345 million tonnes, about 23 per cent more than the previous year. It bettered the target of 270 million tonnes set for the year by 28 per cent. Among other crops, oilseeds are the only group that witnessed a fall in production - by about 15 per cent.

Outlook for 2007-08

It is clear from the above that these revisions in the projections of agricultural output are likely to enhance the overall growth performance of the agricultural sector, which had been estimated earlier at 2.7 per cent. This is comforting, as the slow progress of monsoon rainfall this year was being carefully observed by the policy makers in an effort to manage the spiralling domestic prices for agricultural commodities, which was a phenomenon in the marketplace in 2006.

The last year was characterised by high prices of many food articles - pulses, eggs, meat and fish — and to a certain extent cereals as well. Wheat was a particular problem area as its supply situation was less than comfortable. Two successive years of low output (2004-05 and 2005-06) led to the tightening of supplies of these products. High prices continued to dominate during the first three months of the present financial year. The prices of cereals, vegetables, fruits and milk among food items and oilseeds and cotton among non-food items continue to be a source of worry.

The increase in the prices of agricultural commodities due to higher food and non-food demand means higher incentives for producers. This could lead to an increase in supplies during 2007-08, provided, of course, that the rain gods are kind and there is no shortage of inputs.

The positive outlook is further strengthened by the fact that until the end of the third week of July, the areas under cereal cultivation was higher in comparison to that allocated during the same period of last year. Reports also indicate that the area allocated to cotton and oilseeds has also increased, while pulses and sugarcane are reported to have experienced reduction. The mixed reports on crop coverage area, might, however, be caused by the delay in the onset as well as progress of the monsoon in the concerned areas. The recovery of monsoon rainfall during the remaining period, as suggested by the IMD's long-term predictions, would help in improving the acreage in these parts.

The stock of water in 78 major reservoirs increased to 72.12 BCM by the end of the third week of July, which is more than the last year's storage (50.83 BCM - 76 reservoirs) and also much higher than the decade's storage average of 37.28 BCM.

The Food and Agriculture Organisation (FAO) warned about the possibility of locust incursion sometime early July. But reports so far suggest that it has not happened. The state governments had been warned about it and they had taken necessary measures like mobilising teams, equipment and resources. It is also to be noted that no state has reported shortage of chemical / bio-pesticides. This implies that any insect/pest attack can be taken care of.

As far as the supplies of cereals during the year are concerned, the government agencies had approximately 24 million tonnes of cereals with them by the end of June. The Food Corporation of India (FCI) procured 11.1 million tonnes of wheat in the ongoing marketing season, which is approximately 2 million tonnes more than what they procured last year (9.2 million tonnes). As a consequence, the stock of wheat stood at 12.9 million tonnes and that of rice was reckoned at 11 million tonnes as against the buffer stocking norms of 17.1 million tonnes for wheat and 9.8 million tonnes for rice for July 1.

Though the actual stock of wheat is lower than the buffer-stocking norm, it is 4.7 million tonnes more than what the government agencies had with them during the same period of last year. Further, viewing the 5.5-million tonne increase in wheat output and a million-tonne growth in rice production, it is evident that the pressure on PDS is likely to be less this year than what was the experience last year.

Therefore, after considering the rainfall outlook during the recent four-month period and the supply projections for agricultural commodities for 2007-08, the future seems to holds out positive prospects.

Industry

The Indian economy posted robust growth of 9.4 per cent in 2006-07. Despite a sharp deceleration in the agricultural sector, the strong GDP growth of 2006-07 was mainly powered by impressive growth of 10.9 per cent in industry and 11.0 per cent in services. Within industry, the manufacturing sector grew by 12.3 per cent, i.e. 3.2 percentage points over and the above 9.1 per cent growth achieved in 2005-06.

IIP Components

The Index of Industrial Production (IIP) posted smart acceleration in 2006-07. It grew by 11.5 per cent compared to 8.2 per cent growth experienced in 2005-06 (Table I.1). This was experienced in all its three components, namely manufacturing, mining and electricity. It is encouraging to note that electricity output grew by 7.3 per cent in 2006-07 compared to around 5.1 per cent average annual growth rate posted during the preceding triennium.

The acceleration in the IIP of manufacturing has been very convincing. Its 12.5 per cent growth compares well with the 9.1 per cent surge posted in the previous two years. It is now clear that the trend of acceleration in manufacturing output experienced since 2003-04 is well established. The growth rate of IIP manufacturing in 2006-07 is more than twice the 6 per cent growth posted by this sector in 2002-03.

Table I.1: Group-wise Index of Industrial Production (% growth, y-o-y)

Industry	Manufacturing	Mining	Electricity	General
Weight	79.36	10.47	10.17	100.00
2002-03	6.01	5.79	3.22	5.78
2003-04	7.38	5.28	5.04	6.98
2004-05	9.13	4.38	5.15	8.37
2005-06	9.15	1.01	5.16	8.16
2006-07	12.50	5.28	7.26	11.50
April-May				
2006-07	12.16	3.14	5.45	10.82
2007-08	12.74	3.01	9.03	11.75

Source: Central Statisitcal Organisation, Quick Estimates of Index of Industrial Production and Use-based Index (Base 1993-94=100) May 2007, Press Note dated July 12, 2007

The exuberance of industrial output has continued during the first two months of the current fiscal. The IIP has grown by 11.8 per cent during April-May 2007 compared with 10.8 per cent for the corresponding period of 2006. During the corresponding periods of 2007 and 2006, the growth figures for electricity generation were 9 per cent over 5.5 per cent and for manufacturing output 12.7 per cent over 12.2 per cent.

Use-based classification

Use-based classification provides the breakdown of industrial production under four major categories, viz. basic, intermediate, capital, and consumer goods (durable and non-durable). The notable feature is that there has been continued acceleration in capital goods production during the past five years, 2003-04 to 2006-07 (Table I.2).

Table I.2: Index Number of Industrial Prodcution – Use Based Classification (% growth, y-o-y)

Use based group	Basic goods	Interme diates	Capital goods	Consumer goods	Consumer Durables	Consumer Non Durables
Weight	35.6	26.5	9.3	28.7	5.4	23.3
2002-03	4.8	3.9	10.5	7.1	-6.3	12.0
2003-04	5.5	6.4	13.6	7.2	11.6	5.8
2004-05	5.5	6.1	13.9	11.7	14.3	10.8
2005-06	6.7	2.5	15.7	12.0	15.3	10.9
2006-07	10.3	11.9	18.3	10.1	9.1	10.5
April-May						
2006-07	9.2	10.5	20.6	9.7	12.5	8.8
2007-08	9.4	10.5	18.6	12.7	3.8	15.9

Source: Central Statisitcal Organisation, Quick Estimates of Index of Industrial Production and Use-based Index (Base 1993-94=100) May 2007, Press Note dated July 12, 2007

The growth rate of capital goods production has increased steadily from 10.5 per cent in 2002-03 to 18.3 per cent in 2006-07. This is indication enough of growing investment activity in the economy. There has been a surge in infrastructure investment and capacity expansion in industry. The output of basic goods has also posted gradual acceleration during this period. While the output of intermediate goods had decelerated during 2005-06, it picked up again in 2006-07, posting a growth rate of 11.9 per cent.

The continued acceleration in the production of consumer goods during 2003-04 through 2005-06 experienced a sudden retardation in 2006-07. It was caused mainly by a sharp slowdown in the production of consumer durable goods. The output of consumer durable goods grew by 9.1 per cent in 2006-07, compared to 15.3 per cent in 2005-06. The deceleration continued during the first two months of the current fiscal, April-May. The growth rate dipped to 3.8 per cent against 12.5 per cent posted in April-May 2006. The sharp slowdown in the output of consumer durables appears to have been caused by slump in demand on account of the rising rates of interest.

Infrastructure Industries

Among the six core infrastructure industries, growth in the production of petroleum products, crude oil and electricity accelerated during 2006-07 as compared to 2005-06 (Table I.3). The production of coal, steel and cement decelerated, but steel and cement were exceptions. Except for electricity and petroleum production, the output of the remaining four sectors has decelerated during the first two months of the current fiscal. Output of petroleum products has posted a high growth of 15 per cent in April-May 2007, compared with 12.6 per cent experienced during the corresponding period of 2006. The growth in output of steel continued to be quite robust.

Two-digit industry groups

The growth experience in 2006-07 has been one of acceleration (Table I.4). The sectors in which output decelerated in 2006-07 include beverages, tobacco and related products, jute and other textiles, and, other manufacturing industries including many in the consumer durables goods sector. Sharp acceleration was observed in the output of food products, cotton textiles, wool, silk and manmade fibre textiles, wood and wood products, paper and paper prod-

Table I.3: Index of Industrial Production for Infrastructure Industries (% growth, y-o-y)

Infrastructure Industry	Coal	Electricity	Steel	Cement	Crude Oil	Petro Products
Weights	3.22	10.17	5.13	1.99	4.17	2.00
2002-03	4.56	3.17	7.33	8.84	3.44	4.93
2003-04	5.13	5.06	9.76	6.10	0.72	8.24
2004-05	6.20	5.18	8.38	6.58	1.82	4.33
2005-06	6.56	5.12	11.21	12.35	-5.24	2.14
2006-07	6.05	7.32	10.88	9.13	5.56	12.29
			April-May			
2006-07	5.87	5.49	10.41	9.45	-0.30	12.55
2007-08	0.73	9.00	10.15	7.40	-0.11	15.00

Note: The weights of six infrastrucutre industries add upto 26.68 which represents thecomposite infrastructre index

Source: Department of Commerce, Ministry of Commerce and Industry, Index of Six Infrastructure Industries Base: 1993-94=100, Press Release dated July 10, 2007

Table I.4: Production growth in major industry groups of manufacturing sector: Two-digit level (%, y-o-y)

Industry Code	Year	2005-06	2006-07	April-May 2006-07	April-May 2007-08
20-21	Food products	2.0	8.6	-6.8	39.8
22	Beverages, tobacco and related products	15.7	11.2	14.2	6.4
23	Cotton textiles	8.5	14.8	11.7	8.2
24	Wool,silk and man-made fibre textiles	0.0	8.0	12.5	6.2
25	Jute and other vegetable fibre textiles (except cotton)	0.5	-15.8	-2.8	27.8
26	Textile products (including wearing apparel)	16.4	11.5	15.3	11.1
27	Wood and wood products, furniture & fixtures	-5.7	29.1	-14.1	112.2
28	Paper & Paper Products and Printing, Publishing & Allied Industries	-0.9	8.3	13.0	0.3
29	Leather and leather & fur products	-4.8	0.4	-13.4	8.4
30	Basic Chemicals & Chemical Products (except products of Petroleum & Coal)	8.3	9.6	14.5	7.2
31	Rubber, plastic, petroleum and coal products	4.3	12.8	8.3	11.5
32	Non-metallic mineral products	11.0	12.8	13.3	7.0
33	Basic metal and alloy industries	15.8	22.8	21.4	19.5
34	Metal products and parts (except machinery and equipment)	-1.2	11.4	-3.4	7.4
35-36	Machinery and equipment other than transport equipment	11.9	14.1	11.4	19.6
37	Transport equipment and parts	12.7	15.0	20.0	2.3
38	Other manufacturing industries	25.2	7.8	35.9	-5.2
2-3	Total manufacturing	9.15	12.50	12.16	12.74

Source: Central Statisitcal Organisation, Quick Estimates of Index of Industrial Production and Use-based Index (Base 1993-94=100) May 2007, Press Note dated July 12, 2007 ucts, rubber, plastic, petroleum and coal products, basic metal and alloy industries, and, metal products and their parts. There has been continued acceleration in the output of many of these groups even during April-May 2007. The most notable acceleration was seen in the case of capital goods (35-36 per cent), thus indicating the continued investment activity in the economy.

Investment Activity

FDI equity inflow touched $15.7 billion during 2006-07, recording a growth rate of 184 per cent over the previous year. It was the highest amount of FDI received during any financial year since the commencement of economic reforms in 1991. The congenial investment climate seems to have gained the confidence of foreign investors. As of April 2007, the cumulative FDI equity inflow touched $ 56.2 billion. Of the total cumulative FDI inflow from August 1991 to April 2007, the electrical equipments sector received the highest proportion (19.2 per cent) followed by the services sector (18.4 per cent) and telecommunications (8.4 per cent). However, the services sector, including financial and non-financial services, attracted the highest amount of FDI in April 2007. Simultaneously, Indian companies are also making investment inroads abroad. Outward FDI touched $ 11.0 billion during 2006-07.

Special Economic Zones (SEZs) attracted huge investments. The government formally approved more than 360 SEZs. However, only 133 SEZs are notified till date. These have attracted investment to the order of $10 billion and provided direct employment to over 35,000 people and indirect, supporting employment for many more. It is expected that the investments in new SEZs during this year would be of the order of another $12 billion. Suitable policy changes, including on land acquisition, would go a long way in restoring the confidence of domestic investors.

Investment activities are also building up in the development of infrastructures, which is crucial for sustaining buoyant manufacturing growth. In July 2007, India and Japan signed a memorandum of understanding to construct the Delhi-Mumbai Industrial Corridor with proposed investment of $90 billion. Besides connecting the existing seaports, the 1,483-Km industrial corridor will have a 4,000 MW power plant, three ports and six airports.

Corporate Performance

The strong rupee has affected the financial results of the companies differentially, depending on whether they are on the export or import side and the amount of dollar loans they have availed. The aggregate results for 701 comparable companies are presented in Table I.5. It may be observed that total sales grew at 22.4 per cent during the first quarter of 2007-08. The corresponding growth rate was 35.1 per cent in profit before tax (PBT) and 34.5 per cent in profit after tax (PAT). Growth in all the three indicators is lower than that observed during the full year 2006-07. However, "other income" has recorded a growth rate of 107 per cent in the first quarter of 2007-08 which is much higher than the 24.7 per cent growth rate posted during the full year 2006-07. As expected, the rising interest rate has impacted the interest payments by companies. The interest payments have shot up by 46.9 per cent during this first quarter.

Among industry groups, the appreciating rupee has adversely affected

Table I.5: Aggregate Results for 701 comparable results out of 716 companies

Particulars	Quarter Ended		Full Financial Year	
	April-June 2007-08 (Rs Crore)	% change over April -June 2006-07	2006-07 (Rs Crore)	% change over 2005-06
Sales **	220981	22.4	818757	30.0
Other Income **	7288	107.0	20561	24.7
PBIDT	78139	36.1	261558	37.0
Interest	29701	46.9	91678	38.0
PBDT	48438	30.2	169880	36.4
Depreciation	6889	6.7	28512	16.9
PBT	41549	35.1	141368	41.2
Tax	11035	36.9	35994	43.9
PAT	30514	34.5	105374	40.2

** For banks, term-lending institutions, housing finance companies, NBFCs and investment companies, Sales includes other income. The aggregates are based on reported figures and no adjustments are made for any extraordinary items. Tax includes deffered tax.
Source: Capital Market (www.capitalmarket.com)

the software companies' profits. The volatility in the currency market forced the companies to take recourse to hedging to protect profit margins. For instance, among the top four information technology companies -- Infosys, Tata Consultancy Services (TCS), Wipro and Satyam -- the performance of TCS has turned out to be above average during the first quarter of the current year. This is due to TCS' adoption of a relatively long-term hedging strategy to manage the risk. However, the Business Process Outsourcing (BPO) industry and many medium-sized software exporting companies seem to have reported low profits.

The pharmaceutical sector has registered slow growth sales, which resulted in lower profit growth during April-June 2007-08. The reported early results of the two-wheeler and fertiliser sectors reflect sharp deceleration in net profits. On the other hand, capital goods, cement and steel companies seem to have performed well.

Prospects

The NCAER Business Confidence Index had gone down during the last quarter of 2006-07 as well as during the first quarter of 2007-08. Nevertheless, industrial production, particularly manufacturing production, has not lost much of its sheen and exuberance. The impact of rising interest rates and the appreciating rupee may have a lagged effect on the economy. While the rising interest rate has already affected the growth rate of consumer durable goods, the same has not yet affected the output of capital goods output. The appreciating rupee would have a dual impact on India's industrial performance. While it may have some negative influence on the short-term competitiveness of India's export sector, it would also provide Indian industry with cheaper raw materials and intermediate goods. In the longer term, domestic producers would need to become more efficient through increasing their scale and productivity.

Services

Trends in the Services sector

The Services sector comprises services meant for both final and intermediate consumption. Of these two categories, intermediate services such as transport and communications, which are also intermediate inputs of production of other goods and services, account for a major share in the total services output. The share of services meant for final consumption is relatively small. Technological advancements in the field of information and communication technology (ICT) have steadily transformed the Services sector. The latest available information on Gross Domestic Product and contributions made by the Services sector to it are related to the last quarter of 2006-07. Some data on important indicators of performance of the Services sector is related to the first quarter of 2007-08. In addition, figures on growth rates achieved in the earlier quarters are revised as new information is coming in. The analysis of services sector performance is based on these three sets of information. In what follows, a discussion on the notable features of the performance of the Services sector in 2006-07 is undertaken.

Performance of Services sector in 2006-07

Real GDP from services, on the aggregate, registered 11 per cent growth in 2006-07. An average of 13 per cent growth in trade, hotel, transport and communications segments made this double digit

Table S.1: Growth of Services Sector GDP (Constant Prices)

(Annual, per cent)

Year	Trade, Hotel, Transport & Communication	Financing, Insurance, Real Estate	Community, Social & Personal Services	Total services	GDP at Factor Cost
2001-02	9.2	7.3	3.9	7.1	5.8
2002-03	9.1	8.0	3.8	7.3	3.8
2003-04	12.0	4.5	5.4	8.2	8.5
2004-05	10.6	9.2	9.2	9.9	7.5
2005-06	11.5	9.7	7.8	10.0	8.4
2006-07 (Q1)	12.4	10.8	11.3	11.7	9.6
2006-07 (Q2)	14.2	11.1	8.3	11.8	10.2
2006-07 (Q3)	13.1	11.2	6.7	11.0	8.7
2006-07 (Q4)	12.4	9.3	5.7	9.9	9.1
2006-07	13.0	10.6	7.8	11.0	9.4

Source: Central Statistical Organisation

Table S.2: Composition of Services sector and its share in GDP (per cent)

Year	Trade, Hotel, Transport & Communications in Services GDP	Financing, Insurance, Real Estate in Services GDP	Community, Social & Personal Services in Services GDP	Share of Service in GDP
2001-02	45	26	29	50
2002-03	46	26	28	52
2003-04	48	25	27	52
2004-05	48	25	27	53
2005-06	49	25	26	54
2006-07(Q1)	49	26	25	54
2006-07(Q2)	48	26	26	57
2006-07(Q3)	50	25	25	53
2006-07(Q4)	50	25	25	56
2006-07	49	25	26	55

Source: Central Statistical Organisation

growth possible. This segment accounts for 50 per cent share of the services sector.

The financing, insurance and real estate segment registered 10.6 per cent annual growth in 2006-07. The community, social and personal services segments have registered a relatively lower rate of growth (7.8 per cent) as compared to the other two. The relative performance of course has remained unchanged from the previous year. The rates of growth observed during 2006-07 in the first two segments have improved over the previous year. As for growth rates observed in the last quarter, they reflected the adverse conditions faced by the Services sector firms owing to a stronger Rupee and an increasingly tight monetary policy.

The present quarter has witnessed a fall in the rate of output growth. The review of the Services sector undertaken in the last quarter recalled the 11th Five-Year Plan Approach Paper, which had laid down that to achieve 8.5 per cent of overall growth in GDP, the Services sector should clock a rate of 9.4 per cent. The major share of Services in the GDP plainly asserts the linkage between GDP expansion and the performance of this sector. The concern, however, is over the reduced rates of growth observed in the last quarter of 2006-07. Table S1 highlights growth rates of output achieved by various components of services sector.

Relative importance of various segments of Services is provided in Table S2. As mentioned above, the present contribution of Services to GDP is 55 per cent. Within the sector, the share of the trade, hotel, transport and communications segments is hovering at the 50 per cent level. The other two contribute nearly 25 per cent each. The pattern is well set as telecommunications, meanwhile, is growing at an unprecedented rate.

Performance of Services sector in the first quarter (April - June) of 2007-08

The performance of the Services sector, as seen from selected indicators, depicts a mixed picture. During April-June

Table S.3: Growth of Performance Indicators for Services

Indicator	Period	2007-08	2006-07	% change
Tourist Arrivals (numbers)	April--June	9,16,116	8,74,366	4.8
Railways Freight (million tonnes)	April-May	124.53	117.55	5.9
Cargo Handled at Major Ports ('000 tonnes)	April-May	83,602	70,246	19.0
Production of Commercial Vehicles (numbers)	April-May	83.18	71.69	16.0
Telephone Connections (millions)	April--June	19.35	13.1	47.7
Broadband Connections (millions)	April--June	0.18	0.21	-14.3
Aggregate Deposits Variation(Rs. crores)	April-June	59877	36450	64.3
Bank Credit to Commercial Sector Variation (Rs. crores)	April-June	-25063	21898	-214.5

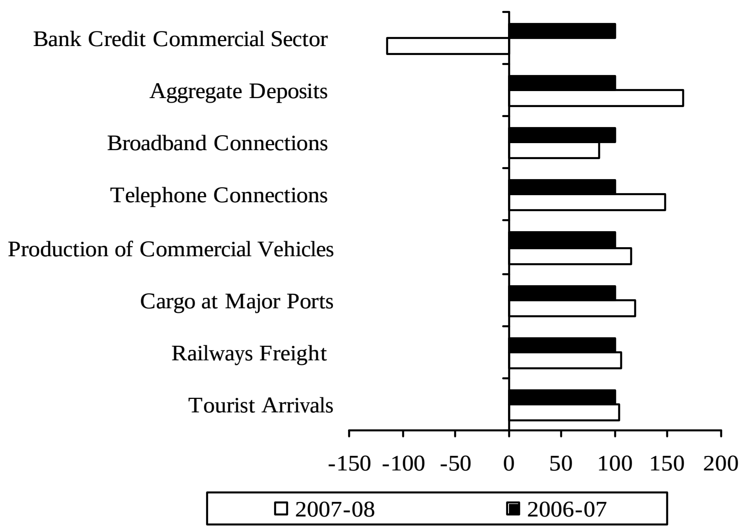
Source: NCAER Database on the Economy

2007, the outstanding bank credit to the commercial sector given by the scheduled commercial banks fell by Rs 25,063 crore. But, the same period of the last year recorded an increase of Rs 21,898 crore. These figures reflect the lessening dependence of the corporate sector on commercial banks for their credit requirements. The higher profits earned by firms in the last financial year despite the higher interest rates indicates they either became self-sufficient or had postponed their investments or a combination of these two options. The other variable to record relatively poor performance in the first quarter is the number of new broadband connections. There were 210,000 new broadband connections in the April-June 2006 period, but during the same period in 2007 the number fell to 180,000 - a 14.3 per cent fall in the growth of new broadband connections.

Broadband is defined as an internet connection that transfers information at a speed greater than 256 Kilobytes per second. It may be recalled that ICT has been progressively transformed into a catalyst of economic growth. The effective provision of many of the applications of ICT depends on the availability of broadband connections. The government is focussing on the proliferation of such facilities in rural areas. In view of this, the falling rate of growth in broadband connections does not augur well for the performance of the economy in general and the Services sector in particular.

The growth performance of various infrastructure sectors is depicted in Figure S1.

Fig S. 1: Growth of Performance Indicators for Services (% change,Y-o-Y)



As regards other indicators, aggregate bank deposits during April-June 2007 were 64 per cent higher than the same period last year. This seems to have been effected by the higher interest rates. The growth in the number of telephone subscribers was about 48 per cent higher in April-June 2007 than in April-June 2006. Cargo handled at major ports and production of commercial vehicles was higher by 19 per cent and 16 per cent respectively as compared to the previous year. The growth in railway freight is about 6 per cent higher in the present during April-May of the current year. Tourist arrivals during April-June 2007 were higher by about 5 per cent in the present financial year. Table S3 provides these trends. They indicate some moderation in the growth rates of these sectors. The signals that emanate warrant a cautious approach from policy makers.

Growth of India's Organised Retail Sector

The National Sample Survey Organisation (NSSO), in its 53rd Round of survey of households, covered small trading units and their basic characteristics in India in 1997. NSSO defined trading as an act of purchase of goods and their disposal by way of sale without any intermediate physical transformation of the goods. This definition sees the retail trader as an intermediary between a wholesaler and his consumers. The retail trader may sometimes purchase goods directly from the producer or manufacturer. NSSO considered 'un-organised small trading units' as either 'Own Account Enterprises' or 'Non-Directory Trading Establishments'. An 'Own Account Trading Enterprise' (OATE) is an enterprise engaged in trading and run only by household workers. No hiring of workers on a regular basis from outside is stipulated. A 'Non-Directory Trading Establishment' (NDTE) is a trading establishment that employs fewer than six workers (household and hired workers taken together). The survey had identified that approximately 119 lakh unorganised small trading enterprises existed in India in 1997, most of which are OATEs and a few are NDTEs. The NDTEs engaged 221.5 lakh people, including child labour, in 1997. The gross value added per month on average per enterprise was Rs 1,722 in rural areas and Rs 4,068 in urban areas.

At present, the Indian retail sector is predominantly unorganised. However, organised retail trading units are fast emerging and becoming the preferred choice of consumers, especially in urban areas. This phenomenon is attributed to a number of factors. First, the liberalisation of the economy has facilitated the entry of multinationals who aim at taking advantage of India's low cost labour and abundantly available raw material to make her a sourcing hub as well as market. Secondly, increasing income levels and a growing sense of brand consciousness among India's middle and higher income groups have led to the emergence of organised retail units. Thirdly, on the socio-cultural side, the emergence of greater numbers of nuclear families, their increasing education levels and women's labour market participation have put women under time pressure. This, in turn, has led to using convenience options such as super markets where they can purchase all their necessities under one roof.

Though there are no authenticate figures available, there are estimates indicating that the Indian organised retail would grow at 25-30 per cent annually and is projected to touch $23 billion by 2010. At these levels, organised retail would constitute about 10 per cent of overall retail sales. At present, the prominent organised retail sector players in

Table S.4: Indian Retail Market Expectations Made in 2006

Retail Segments	India Retail Value (Rs.crore)	Organised Retail (Rs.crore)	Organised as a % of total market Value
Clothing, Textiles & Fashion Accessories	113,500	21,400	18.9
Jewellery	60,200	1,680	2.8
Watches	3,950	1,800	45.6
Footwear	13,750	5,200	37.8
Health & Beauty Care Services	3,800	400	10.6
Pharmaceuticals	42,200	1,100	2.6
Consumer Durables, Home Appliances/equipments	48,100	5,000	10.4
Mobile handsets. Accessories & Services	21,650	1,740	8.0
Furnishings, Utensils, Furniture-Home & Office	40,650	3,700	9.1
Food & Grocery	743,900	5,800	0.8
Catering Services (F & B)	57,000	3,940	6.9
Books, Music & Gifts	13,300	1,680	12.6
Entertainment	38,000	1,560	4.1
Total Estimated Market Value	1,200,000	55,000	4.6

Source: Newspaper stories.

India are: Future Group, Trent Ltd, RPG Enterprise, Vishal Retail Ltd, Shoppers Stop Ltd, Bata India Ltd, Provogue India Ltd, Videocon Appliances Ltd., I.T.C. Ltd, Godrej Agrovert Ltd, and DCM - Hariyali Kisaan Bazaar. More corporate houses and multinational retail firms are entering the industry.

As for the present share of organised retail in the total retail business, market sources have estimated that the shares of watches, footwear, clothes, textiles and fashion accessories were higher with organised retailers in 2006. On the other hand, the organised retailers have lower shares in food and grocery, pharmaceuticals and jewelry. On the whole, about 4.6 per cent of the retailing was controlled by organised retailers in 2006 (Table S4).

Industry sources suggest that about 100 million sq.feet of quality shopping space would be available for organised retailing by 2007-08.

Plans of some of the large retailers

Pantallon. Reliance, RPG, Lifestyle, Rhejas, Piramyd, Trent, Trinethra, Vishal Group and Bharati Group are some of the corporates who have indicated significant investments in this sector.

The organised retail business has been restricted to urban areas. The southern and western parts of the country have more such stores. This phonomenon is expected to spread to tier- two towns before moving to rural areas. Infrastructure constraints, huge distribution costs owing to large geographical area, fragmented market, lack of national distribution networks and hubs are the main constraints faced by organised retailers presently in India. The other main issues faced by organised retail business sector are:

Real estate costs: Organised retailers facing higher costs of real estate which, in turn would lead to a situation of high fixed cost. Unless real estate costs become conducive to retail growth, most retail business will take a longer time for break-even.

Distribution costs: A key bottleneck faced by organised retailers is the absence of distribution networks connecting tier-II towns with regional logistics hubs. There is scope for specialised organised logistics providers like regional transport companies to develop distribution networks, warehouses, cold chains and truck/multi-modal services connecting these locations.

Regulatory aspects: Dated regulations like the Weights and Measures Act expects all goods to be available in factory-packed form at the stores. Similarly, the Agricultural Produce Marketing Committee (APMC) Act considers even small volume purchases to qualify as wholesale deals. There are also variations among states with respect to timings of store functioning.

Skilled retail personnel: There is a shortfall of trained manpower to meet the expansion plans of organised retailers. With increasing competition from other services sectors like information technology and BPOs, manpower shortage could become a critical bottleneck for organised retail.

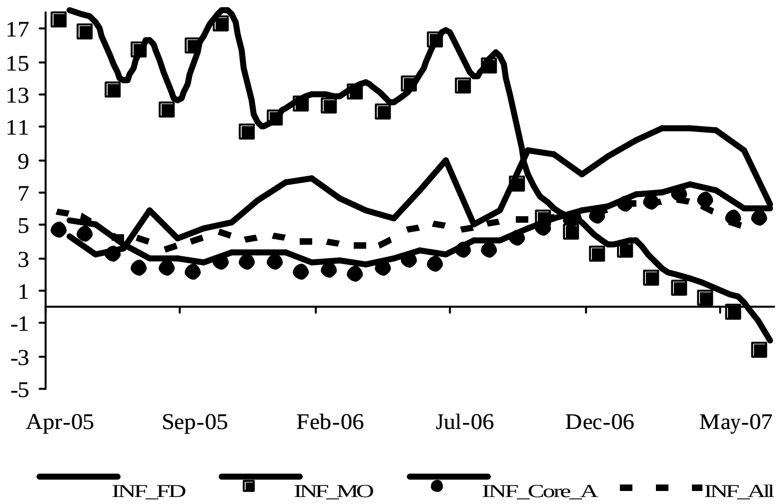
Money and Capital Markets

Policy developments

Quantity control is back at the centre stage of the Monetary Policy stance. With the quarterly review of the Monetary and Credit Policy, Reserve Bank of India has raised the CRR by a whopping 0.5 percentage points to the level of 7 per cent with effect from August 4, 2007. The key reasons appear to be a liquidity overhang caused by the unabated inflow of foreign capital and heavy withdrawals by the central government during the past few months. With first quarter estimates of GDP growth from the Central Statistical Organisation indicating a slow down, concerns of overheating appear to have eased out.

With comfortable headline inflation of below 5 per cent, it is time to take stock what we have achieved and what we have lost during the course of the tightening cycle of the monetary policy. Since April 29, 2005, which was the start of the tightening cycle, the Repo Rate has been increased by 200 basis points and the Reverse Repo Rate hiked by 125 basis points from the levels of 5.75 and 4.75 per cent respectively. The CRR has been raised to 7 per cent. In effect, the interest rates have risen to a level where the risk of non-performing assets, particularly in the housing portfolio of the banking sector, has become real. And, RBI had rightly announced some respite on borrowings of less than Rs 20 Lakh.

Fig M.1 Headline WPI, oil price (INF_MO), food price (INF_FD) and core (non-oil non-food) inflation



What has the tightening cycle done to inflation thus far? The story is captured in data (Figure M.1). Is the recent fall in headline inflation effect of monetary tightening or is it mainly due to easing in supply side pressures, food prices and a deflation in oil prices? On the other hand, the core inflation still remains as strong as it was six months back.

Beginning June 2005, core inflation was pretty much below 3 per cent up to June 2006 and remained below 4 per cent up to September 2006, despite increasing inflation in the mineral oil and food segments (Figure M.1). However, since the start of monetary tightening in April 2005, it kept inching up and has now marched ahead of headline inflation.

Why has the tight policy failed to restrain core inflation so far? It appears that the build up in core inflation could be due to the lagged effect of oil price inflation as well as supply constraints but not from overheating. The world oil price inflation has now clearly slowed down and there is a large content of the base effect in the month-to-month annual inflation. Therefore, the following months may anyway see some stability in inflation even without monetary intervention.

Nevertheless, the monetary policy targets have not been wide off the mark as the financial year ended with an average headline wholesale price index (WPI) inflation below 5.5 per cent (Figures M.2).

Increases in interest rates have decelerated consumption expenditure as well as expenditure on capital goods (Figure M.3). With increasing cost of capital and a possible fall in consumption growth, corporate profits would be affected adversely. That is likely to slow down investment growth (Figure M.3) and capacity expansion, thereby leading to the hardening of prices. This is all the more possible, given the infrastructure constraints and acceleration in remittances and therefore fiscal interventions remain important.

The increases in the Repo Rates have lifted the yield curves. The March-May 2007 curves are about 2.5 percentage point above even the short end of the March 2005 curve and about one percentage point above the longer end (Figure M.4). Thus, during the first quarter of 2007-08, the yield curve is almost flat all along. Commercial banks have been mobilising deposits at high interest rates in the short term, while long terms interest rates are tied to the expected inflation.

The disconnect between market and the RBI action was reflected in the delayed response of the commercial banks

Fig M.2: Monthly progress in headline WPI- Inflation during 2004-07

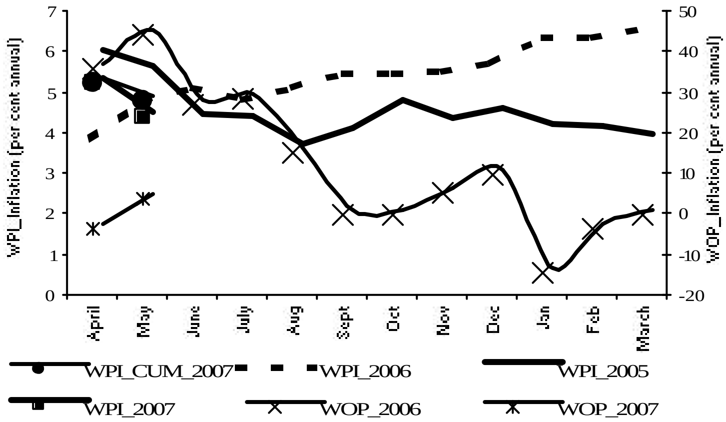


Fig M.3: Annual growth in selected segments of the index of industrial production

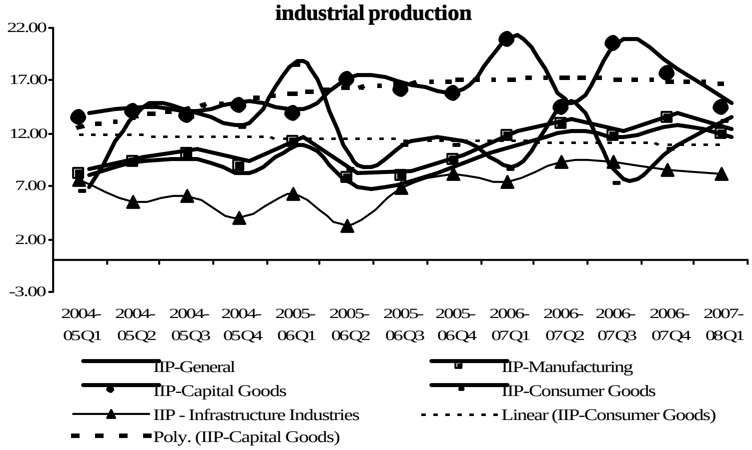
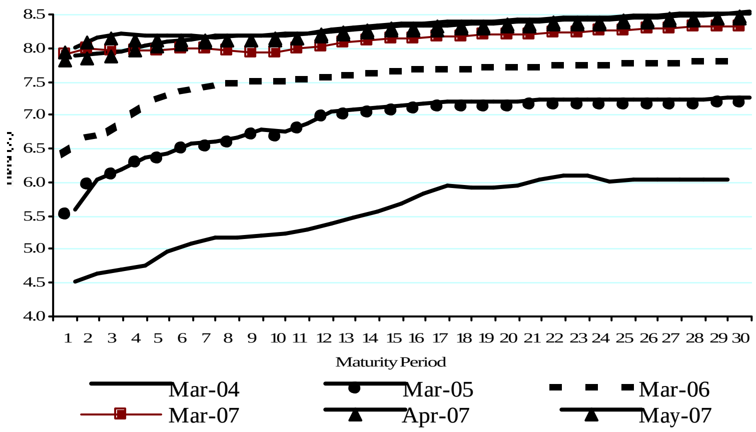


Fig M.4: Month-end yield to maturity of SGL transactions in central government dated securities for various residual maturities securities for various residual maturities



to the policy intervention. They came back with an increase in the prime lending rates (Figure M.5), although the call money rate did respond quickly - and adversely. Before long, housing loans were made costlier. Banks, started selling SLR (statutory liquidity ratio) securities, and reduced the spread between deposits rate and the PLR (possibly under competition) to meet the private sector's credit demand. Use of the most direct instrument of CRR has pulled down the money multiplier from 4.76 in March 2006 to 4.58 at the end of the first quarter of 2007-08 (Table).

The short-term interest rate, which was inching towards world interest rates, has diverged widely from its set path. In fact, the international rate, as indicated by LIBOR, has softened since June 2006 and is stable for few months now. This, however, has put pressure on the rupee during the recent months on a month to month (M-o-M) basis, making imports cheaper and exports less competitive. Both the six-country nominal exchange rates (NEER) as well as real exchange rate index (REER) have appreciated during the first quarter of 2007-08 by 9.5 per cent and 12.2 per cent respectively (Figure M.7).

Fig M.5: Interest rate structure: PLR, deposit rate, 91 Day Treasury Bill rates and spread between PLR and deposit rate

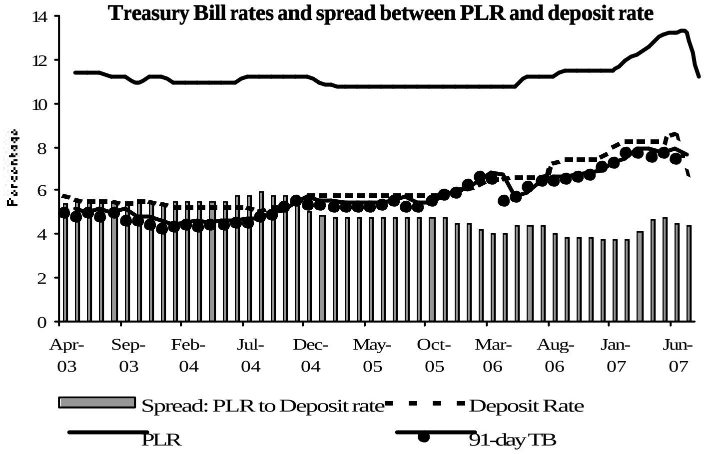


Fig M.6: Interest rate structure: 91-day Treasury Bill Rates and 3-month Libor Rate and spread between them

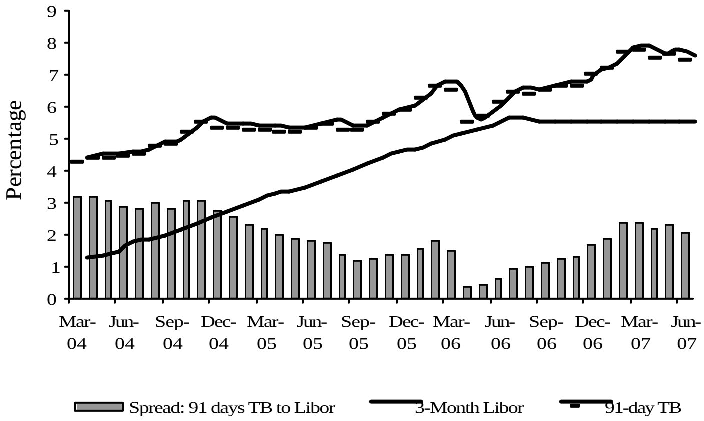
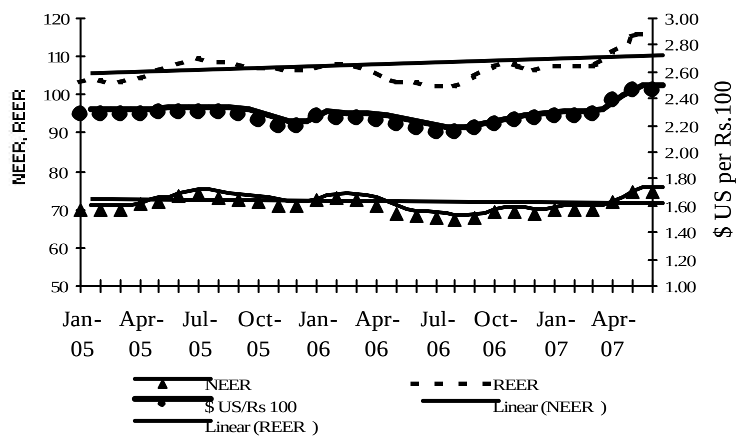


Fig M.7: REER and NEER (6-country bilateral trade weights) Base: 1993-94 (April-March) = 100



Monetary Movements

The Y-o-Y growth in broad money at the end of the first quarter of 2007-08 was 21.69 per cent, as against 18.01 per cent obtained at the end of 2006-07. During the same period, narrow money and reserve money grew by 16.71 and 25.40 per cent as against 19.30 and 18.99 per cent respectively (Table M.1 and Fig M.8). The growth rate of narrow money has reduced considerably and it would be helpful in containing inflationary pressure during 2007-08. However, reserve money is still growing at a relatively higher rate than the recent trend growth rates.

Foreign exchange reserves (FER) touched $222 billion on July 20, 2007, adding over $22.86 billion to the stock of end-March 2007 and $58.70 billion over the stock of July 2006. Most of this increase took place during January-February 2007. In rupee terms, the first quarter of 2007-08 recorded annual growth of 16.18 per cent as against 24.90 per cent growth recorded during 2006-07Q1 (Table M.1). The inflow (in rupee terms), which had accelerated during the fourth quarter of 2006-07, has slowed down in recent months due to the hardening of the rupee against the dollar. There were other reasons too -- softening of the interest rate differential between domestic and international rates (Figure M.6) partly on account of base effects and other reasons namely restrictions on external commercial borrowings, valuation effect and investments in banking capital and NRI deposits.

The banking sector's foreign exchange assets increased by 10.41 per cent as of June 2007 on a Y-o-Y basis against 23.80 per cent growth recorded in June 2006. The year 2006-07 began with 23.8 per cent growth during the first quarter, but it could not be sustained during the second and third quarters. The foreign exchange stock in the banking sector stood at Rs 8,67,526 crore at the end of June 2007 -- less than the February level by Rs 11,614 crore. Thus, each rupee in circulation is now backed by Rs 1.68 in foreign currency.

The net bank credit to the government (NBCG) increased by 12.28 per cent during the first quarter of 2007-08 a Y-o-Y basis, as compared to an increase of 0.96 per cent recorded during 2006-07. With increased CRR, the liquidation of SLR securities by the banks has increased. The SLR investment of the banking sector has gone down to about 30 per cent of time and demand deposits from a level of 33 per cent a year ago.

Fig M.8: Growth rates in monetary aggregates and WPI based inflation

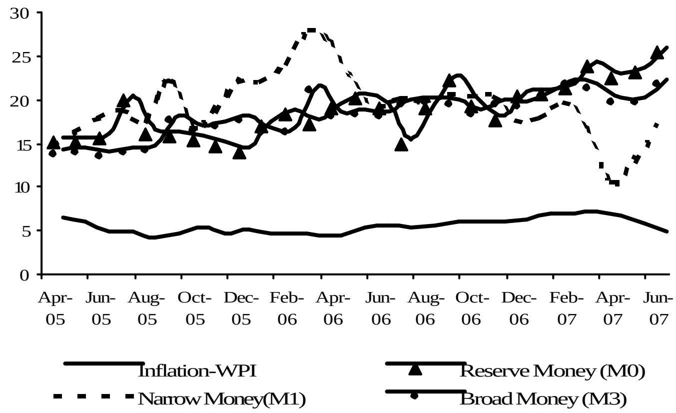
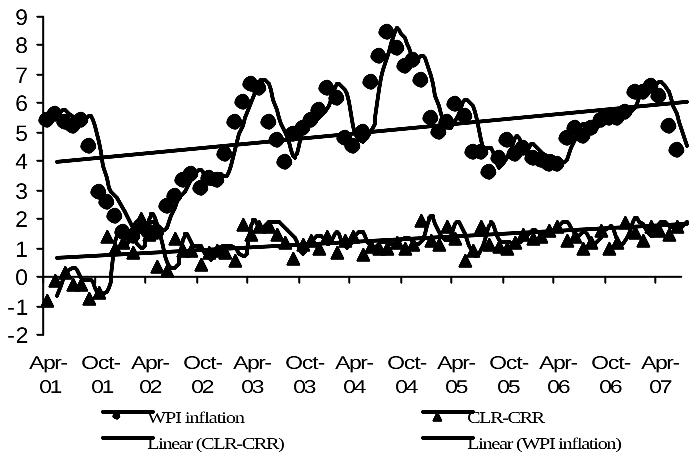


Fig M.9: Trend of liquidity holding against required rate of CRR and WPI based inflation



However, the Y-o-Y growth in bank credit to the commercial sector (BCC) grew at 22.50 per cent during the first quarter of 2007-08 Q1 compared to 27.37 per cent during the corresponding period of 2006-07. Thus, there has been a considerable fall in the private sector's credit offtake growth.

Liquidity situation and possible impact on lending rates:

At the end of the first quarter of

Fig M.10: Movements in BSE sensex (at close) and the P/E ratio

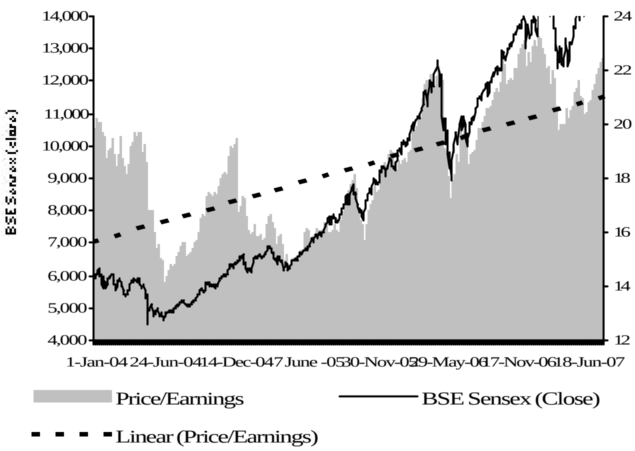


Fig M.11: FII investment and movements in Sensex

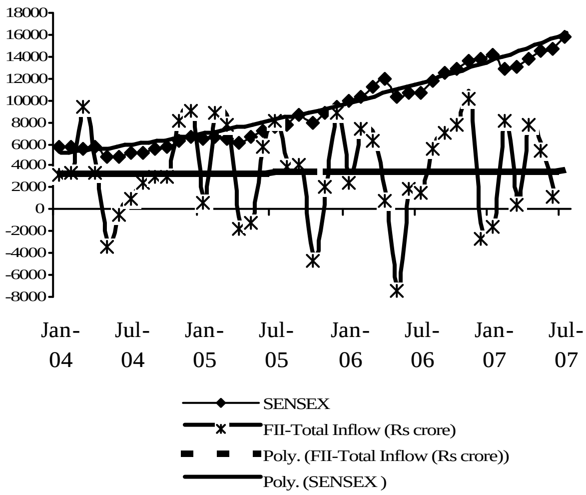


Fig M.12: Group-wise growth of Stock Indices (% y-o-y)

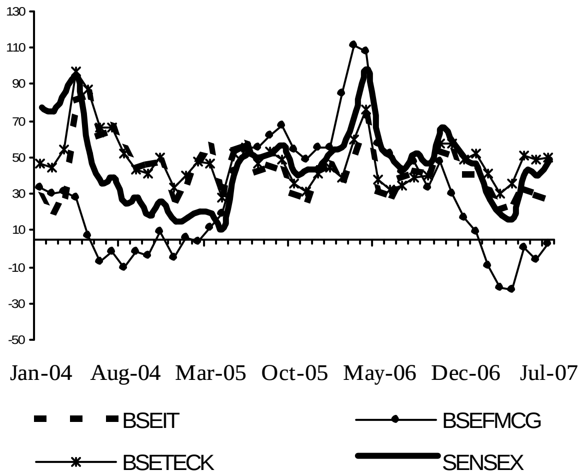
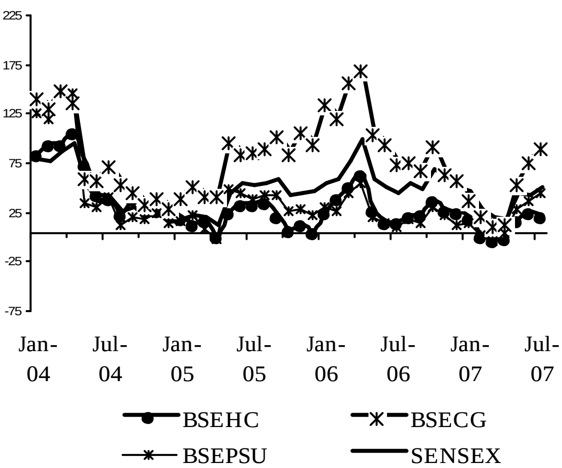


Fig M.13: Group-wise growth of Stock Indices (% y-o-y)



2007-08, effective cash holding stood at about 8 per cent of time and demand liability as against the average 6.125 per cent required by the CRR. One should note that these liquidities are created after selling government securities, because the growth in demand deposits have not kept pace with the credit offtake (Figure M.9). With a comfortable liquidity position, the overnight inter bank call money rate has come down. It is expected that this liquidity overhang would cause some of the lending rates to soften, even if the policy rates are unchanged.

Capital market

Comparing the global stock market performance (in terms of Morgan Stanley's Country Index) over a longer period of about four years (since July 28, 2003), Indian stocks appear to be among the frontrunners. As of July 25, it recorded growth of 464 per cent over July 28, 2003 as compared to 433 per cent growth in BRIC economies and 446 per cent growth in Latin American emerging markets. It also compares favourably with China's growth of about 397 per cent. Thus, the boom in the Indian market is both a part of a global trend and a result of its own fundamental strengths. Notably, the growth in the American market has been lower -152 per cent - in comparison to the European Monetary Union, which recorded a growth of 222 per cent.

The Indian market is more integrated with international trends and, therefore, the role of risk management and supervisory alacrity has increased. In this context, it is argued that the increasing P/E ratio away from the trend is a matter of concern. The market is certainly overpriced (Figure M.10).

In fact, the BSE Sensex experienced the much awaited correction of 542 points on July 27, 2007 after attaining a lifetime high of 15,795 on July 25, registering a growth of 51.7 per cent on a Y-o-Y (Figure M.10). Most affected stocks belong to manufacturing, auto, PSU, and health care (Figures M.12 & M.13). The meltdown was supported by a correction in the composite index of emerging market economies. It may be noted that the Indian market had demonstrated significant resilience during the recent past, despite a net FII outflow of Rs 2,766 crore in December and Rs 1,682 crore in January (Figure 11), which led to a 7 per cent correction during the second week of December. However, the first quarter of 2007-08 received a net increase of Rs 14,153 crore. The tightening of monetary policy through direct instruments and the resulting hardening of interest rates across the board (with no sign of substantial softening in the core inflation), remains a cause of concern for investment.

Table M1: Changes in monetary aggregates and their components

	Stock (Rs.crores)	Annual Growth (end of period)			Quarterly Growth (Y-o-Y, end of period)	
	Jun-07	Mar-05	Mar-06	Mar-07	2006-07 Q1	2007-08 Q1
1. Reserve Money	740703	12.06	17.15	23.73	18.99	25.40
2. Narrow Money	940967	12.07	27.87	16.79	19.30	16.71
3. Broad Money	3388916	12.52	21.10	21.27	18.01	21.69
4. Major Components						
(a) Currency in Circulation	515804	12.66	16.78	17.10	15.85	14.71
(b) Currency with the Public	501223	12.77	16.12	17.02	16.86	14.24
(c) Demand Deposit	439744	11.23	42.26	16.57	22.35	19.67
(d) Time Deposit	2447949	12.70	18.38	23.22	17.49	23.72
(e) Other Deposit	5513	15.10	7.83	7.19	35.99	-18.12
5. Major Sources of M3						
(a) NRBCG	-19731	-140.03	-238.17	-111.28	194.14	-340.95
(b) NBCG	876884	10.75	-3.82	11.03	0.96	12.28
(c) BCC	2098299	25.80	27.29	30.27	27.37	22.50
(d) NFEA of Banking sector	867526	23.30	9.95	21.33	23.80	10.41
6. Major Sources of M0	0	0.00	0.00	0.00	0.00	0.00
(a) NFEA with RBI	868043	24.14	9.82	28.70	24.90	16.18
(b) Net Domestic assets	-127340	116.42	-19.18	57.23	-53.74	18.63
7. Ratios						
(a) M3/M0	4.58	4.61	4.76	4.67	4.71	4.58
(b) M1/M0	1.27	1.32	1.44	1.36	1.36	1.27
(c) Deposit/RM	3.91	3.89	4.05	4.00	3.98	3.91
(d) NFEA (RBI)/RM	1.17	1.25	1.17	1.22	1.26	1.17
(e) NFEA (RBI)/CC	1.68	1.66	1.56	1.72	1.66	1.68
(f) NBCG/M3	0.26	0.34	0.27	0.25	0.28	0.26
(g) NBCC/M3	0.62	0.57	0.60	0.64	0.62	0.62
(h) Credit/Deposit #	0.71	0.65	0.72	0.74	0.71	0.71
(h) Non-Food Credit/Deposit#	0.69	0.62	0.70	0.72	0.69	0.69

NFEA Net Foreign Exchange assets with RBI, NRBCG Net Reserve bank credit to government, NBCG Net other Bank credit to government, NBCC Net Bank credit to commercial sector. # Refers to Bank credit by commercial sector, includes food credit. All ratios are end period. Source: RBI

External Sector

World Economy

The world economy continues to grow at a brisk pace in 2007, after posting 5.5 per cent growth in 2006 (Table E.1.a)[1]. The forecast of growth in 2007 and 2008 is a uniform 5.2 per cent. Measured in market exchange rates, the growth rate was 3.9 per cent in 2006 and the forecast for holds that it would be 3.4 per cent in 2007 and 3.5 per cent in 2008.

While growth in the advanced economies is likely to decelerate from 3.1 per cent in 2006 to 2.6 per cent in 2007, the developing countries are expected to post a robust growth rate of 8 per cent in 2007 compared to 8.1 per cent achieved in 2006. The growth in the US economy is likely to decelerate to 2 per cent in 2007 after 3.3 per cent in 2006. But in the Euro area and Japan, growth was brisk and kept above the trend. Moreover, domestic demand would assume a central role in economic expansion in those areas.

The volume of world trade in goods and services had posted a smart growth of 9.4 per cent in 2006 with value (in Dollar terms) having grown by 14.8 per cent. The forecast for growth in 2007 is 7.1 per cent in volume and 10.9 per cent in value.

There are some downside risks, albeit modest, to the global economic growth outlook. Sustained growth has led to the tightening of supply constraints thus exacerbating inflation risks. The international crude oil price (world average) crossed the $71 per barrel- mark in August 2006. It receded to a low of $50 per barrel in January 2007 and has moved up since to hover above $75 per barrel in August 2007. Thus, the forecast of lower crude prices in 2007 over 2006 may not now hold true (Table E.1.b). However, the non-fuel commodity prices are forecast to decelerate in 2007.

The second quarter of 2007 has also witnessed increased credit and market risks to the global economy, even though continued strong macroeconomic performance continues to underpin financial stability. However, the IMF expects these risks to remain largely contained.

India's Merchandise Trade

India's merchandise exports touched $124.6 billion in 2006-07, posting a growth of 20.9 per cent over exports of $103.1 billion in 2005-06 (Table E.2). India's exports have grown by an average rate of 23.3 per cent per annum during the five-year period 2002-03 to 2006-07. While exports had accelerated during 2002-03 to 2004-05, there had been deceleration since 2004-05. During the latest

1. Discussion in this section is based on the World Economic Outlook, IMF, April 2007; Update and Financial Market Update, IMF, July 2007. The growth rate of the world economy is estimated in terms of purchasing power parity (PPP).

cumulative period of April-May 2007-08, exports have accelerated to 20.4 per cent from 19 cent in the same period of last year.

The Dollar depreciated against the IMF's measure of Standard Drawing Rights (SDR) by 1.5 per cent in 2006-07. Thus, after accounting for the depreciation in the Dollar in the international market, India's exports have grown by 22.4 per cent (SDR terms) in 2006-07.

Total merchandise imports touched $181.4 billion in 2006-07, thus growing by 21.6 per cent over $149.2 billion imported in 2005-06. This implies a sharp deceleration in India's imports from a growth rate of 33.8 per cent posted in 2005-06. Both oil and non-oil imports have decelerated. It is a matter of concern that non-oil imports have decelerated sharply during 2005-06 and 2006-07. While non-oil imports grew by 41.8 per cent in 2004-05, the growth rate slumped to 28.8 per cent in 2005-06 and further down to 17.9 per cent in 2006-07. However, the current fiscal exhibits acceleration in total as well as non-oil imports. During the latest cumulative period of April-May 2007-08, total imports have increased by 33.1 per cent compared to 9.3 per cent growth during April-May of 2006-07. Non-oil imports have posted massive acceleration and have grown by 49.4 per cent compared to -2.5 per cent posted in the corresponding period of last years.

India's trade deficit widened to $56.7 billion in 2006-07 compared to $46.1 billion in 2005-06. It is almost the double of $28.0 billion deficit recorded in 2004-05.

Composition of India's exports

Data on composition of India's merchandise exports for the period April-March 2006-07 is shown in Table E.3. Three of the five broad categories, namely, ores and minerals, manufactured goods and petroleum and crude products have shown deceleration in growth rates during 2006-07. Within manufactured goods, exports of engineering goods and other manufactured products have posted accelerated growth rates of 34.4 and 13.7 per cent respectively. Exports of other commodities registered a remarkable growth of 116 per cent over 11.1 per cent growth recorded in 2005-06. The exports of petroleum and crude products and engineering goods have been the key drivers of export growth.

The commodity composition profile has remained broadly unchanged, though the significance of manufactured exports has declined during the year 2006-07 in comparison to 2005-06. The share of manufactured goods has declined from 70.4 per cent during 2005-06 to 65.6 per cent during 2006-07. Within manufactured goods, the shares of most traditional items such as leather and leather manufactures, chemicals and related products, textiles, readymade garments, gems and jewellery, handicrafts and carpets have shown reduction. The share of engineering goods has increased to 22.9 per cent. The share of petroleum and crude products increased from 11.3 per cent during 2005-06 to 14.7 per cent during 2006-07. The exports of agriculture and allied products have maintained their share while the significance of ores & mineral exports has declined during 2006-07.

Direction of Exports

Of the top 15 destination countries, exports to only five destinations accelerated in 2006-07 - UAE, China, Italy, Belgium and Saudi Arab. Exports to the remaining 10 destination countries have decelerated, including the US (Table E.4). With regard to regional destinations, exports to ASEAN have accelerated while exports to NIEs and EU have decelerated.

The US continued as the most important destination country of India's merchandise exports during 2006-07, accounting for 14.9 per cent of the total exports. However, the share of the US declined in 2006-07 in contrast to 16.8 per cent in 2005-06. The geographical concentration of India's exports has declined during the year 2006-07. While the top 15 destinations accounted for 66.7 per cent of total exports in 2005-06, their share actually got reduced to 64.6 per cent in 2006-07. With regard to regional exports, the share of India's exports to ASEAN has increased while that to NIEs and EU regions has declined during 2006-07.

Composition of Imports

Total non-oil imports decelerated to 17.9 per cent during 2006-07 as against a higher growth of 28.8 per cent over the preceding fiscal (Table E.5). Among the broad categories, imports of food and related items and raw materials and intermediaries have accelerated. Major contributors to import growth have been the raw materials and intermediaries (primarily gold & silver and ores and metal scrap) and manufactured goods (iron and steel).

The composition of total non-oil imports shows a tilt towards capital goods as their share has increased from 37.7 per cent in 2005-06 to 41.4 per cent in 2006-07 thus indicating an increase in industrial activity. The share of raw materials & intermediaries has increased from 25.6 per cent to 27.6 per cent over the same period. The share of manufactured goods has also increased from 11.4 per cent to 12.3 per cent of total non-oil imports. Shares of remaining categories have declined. Particularly, the share of export related imports has reduced from 16.6 per cent in 2005-06 to 12.4 per cent in 2006-07.

Balance of Payments

During the first quarter of 2007-08, the Rupee has appreciated by 6.63 per cent against the Dollar, by 5.19 per cent against the Euro, by 4.41 per cent against the Pound, and, by 10.44 per cent against the Yen. Foreign exchange reserves touched $222 billion on July 20, 2007, which is $22.9 billion higher than the end-March 2007 level[2].

Details of India's balance of payments (net credit) are presented in Table E.6 over the past four years. India's merchandise trade deficit, on balance of payments basis, has widened from $51.8 billion (6.4 per cent of GDP) in 2005-06 to $64.9 billion (7.1 per cent of GDP) in 2006-07, thus posting an increase of 25.3 per cent[3]. Net invisible receipts increased to $55.3 billion (6 per cent of GDP) in 2006-07, a growth of 29.6 per cent over net invisible receipts worth $42.7 billion (5.3 per cent of GDP) in 2005-06. The surplus on net invisbles has thus financed a large part of the merchandise trade deficit. So, the ratio of current account deficit (CAD) to GDP remained at 1.1 per cent in 2006-07, i.e. the same as in 2005-06.

Within invisibles, both services and private transfers have increased, though growth in services has been much higher during 2006-07. A stronger growth in net invisibles, when compared to merchandise trade deficit has resulted in a low expansion of the current account deficit by 4.6 per in 2006-07.

India's Capital Account Surplus (CAS) increased by 92.1 per cent, from $23.4 billion in 2005-06 to $44.9 billion in 2006-07. Much of the increase in CAS has been due to high growth in Foreign Direct

2. Reserve bank of India, First Quarter Review of the Annual Policy Statement on Monetary Policy for the Year 2007-08, July 31, 2007
3. Reserve Bank of India, Macroeconomic and Monetary Developments: First Quarter 2007-08, July 30, 2007

Investment (FDI) and commercial borrowings (including short term credit), which are the two most important components together accounting for 86.3 per cent of CAS. The net FDI inflow has increased by 153.8 per cent, compared with a decline of 43.9 per cent in net FII inflow. Net commercial borrowing has increased by a whopping 336.9 per cent.

The gross credit values on India's balance of payments are shown in Table E.7. In fact, India received a much higher amount of FII than of FDI though the net impact of the FII was highly diluted by high corresponding outward movement (debit) of FII.

The details of India's invisible receipts are shown in Table E.8. Net receipts from services, transfer and income have decelerated in 2006-07. Consequently, total net receipts of total invisibles have decelerated in 2006-07. Net receipts from services account for as much as 59.2 per cent of total net receipts followed by transfers (mainly remittances) making a contribution of 49.6 per cent. Within transfers, private transfers have been much higher than official transfers during 2006-07.

Within invisibles, receipts from gross exports of services have increased from $61.4 billion to $81.3 billion in 2006-07 (Table E.9). The exports to services account for 68.3 per cent of total receipts on invisibles. Within services, gross receipts from exports of travel, transportation, insurance and miscellaneous have increased during 2006-07. Gross receipts from transfers, primarily private transfers have also increased during 2006-07.

Doha Development Round: Roadblock

The DDR negotiations hit a roadblock on June 21, 2007. The G-4, which met in Potsdam, Germany, failed to reach a preliminary agreement which could then be taken forward by the 150 WTO Members under the auspices of Doha Development Round (DDR).

While agriculture has been the main issue of contention, non-agricultural market access (NAMA) has not been very far behind. GATS negotiations on services are simmering over a backburner with slow fire.

The game is clear. While India and Brazil are representing the interests of the developing countries, the EU and the US are attempting to do similar job for the OECD countries. It is surprising to the extent of being inauspicious that one of the major trade player, China, has not been invited to participate in an enlarged G-5 group. Its participation would not only raise the credibility of this small group and to its future negotiations.

India and Brazil are demanding that OECD countries make large cuts in their Overall Agricultural Trade-Distorting Domestic Subsidies (OTDS), particularly in the US and the EU, and greater market access through reduction in tariff protection, mainly by EU and Japan. A large proportion of the total agricultural support in the OECD countries is on account for tariff protection with domestic subsidies playing a much smaller role. The share of export subsidies in total OECD agricultural support is less than 10 per cent. These are provided mainly by the EU. It has already been agreed that these would be phased out. On the other hand, the EU and the United States would like to see meaty reductions in non-agricultural tariffs imposed by the developing countries (NAMA).

India and Brazil must play an important role in getting the DDR back on rails, provided the EU and the US show similar inclination. The failure of the negotiations would have serious implications for world trade. It is bound to be a losing proposition for almost all parties, with the LDCs taking most of the losses. The OECD countries would also have to suffer a major part of the overall absolute losses as well as the associated uncertainty and instability for future scope of making gains from international trade.

Table E.1.a: Growth of World Output and Trade and Consumer Prices (% change, y-o-y)

Country/Region	2005	2006	2007	2008
A .World Output	4.9	5.5	5.2	5.2
I. Advanced Economies	2.6	3.1	2.6	2.8
US	3.2	3.3	2.0	2.8
Japan	1.9	2.2	2.6	2.0
European Union, *of which*	2.0	3.2	3.1	2.8
France	1.7	2.0	2.2	2.3
Germany	0.9	2.8	2.6	2.4
Italy	0.1	1.9	1.8	1.7
United Kingdom	1.8	2.8	2.9	2.7
NIEs of Asia	4.7	5.3	4.8	4.8
II. Other Emerging Market and Developing Countries	7.5	8.1	8.0	7.6
Developing Asia	9.2	9.7	9.6	9.1
China	10.4	11.1	11.2	10.5
Russia	6.4	6.7	7.0	6.8
India	9.0	9.7	9.0	8.4
III. World Growth Based on Market Exchange Rates	3.3	3.9	3.4	3.5
B. World Trade (Goods & Services)				
I. Volume	7.5	9.4	7.1	7.4
II. Price Deflator in US $	5.5	5.4	2.8	0.8
in SDR	5.8	5.9	1.1	0.4
III. Imports				
i) Advanced Economies	6.1	7.6	4.6	6.0
ii) Other Emerging Market and Developing Countries	12.2	15.0	12.8	11.1
IV. Exports				
i) Advanced Economies	5.8	8.5	5.5	6.2
ii) Other Emerging Market and Developing Countries	11.2	11.1	10.7	9.2
C. Consumer Prices				
i) Advanced Economies	2.3	2.3	1.8	2.1
ii) Other Emerging Market and Developing Countries	5.4	5.3	5.4	4.9

Note: Values for 2007, 2008 are IMF projections unless otherwise specified

Table E.1.b: Growth in World Trade Prices

annual percentage change

World Prices	2005	2006	2007	2008
1. World Trade Prices in US$				
Manufactures	3.4	4.4	4.4	1.1
Oil	41.3	20.5	-5.5	6.6
Non-fuel Primary Commodity	10.3	28.4	4.2	-8.8
2. World Trade Prices in SDR				
Manufactures	3.6	4.9	2.7	0.8
Oil	41.6	21.0	-7.0	6.2
Non-fuel Primary Commodity	10.5	29.0	2.5	-9.1
3. World Trade Prices in EURO				
Manufactures	3.2	3.6	0.8	0.7
Oil	41.0	19.5	-8.8	6.1
Non-fuel Primary Commodity	10.0	27.4	0.6	-9.2

Note: Values for 2007, 2008 are IMF projections unless otherwise specified
Source: IMF, *World Economic Outlook*, April 2007

Table E.2: India's Foreign Trade (US$ Million) and Currency Movement (% change, y-o-y)

Year	SDR vis-à-vis US$ (% change)#	REER ## (%)	Exports	Growth rate (%)	Oil imports	Growth rate (%)	Non-oil imports	Growth rate (%)	Total imports	Growth rate (%)	Trade balance
2002-03	-3.6	-2.6	52719.4	20.3	17639.5	26.0	43772.6	17.0	61412.1	19.4	-8692.7
2003-04	-7.4	3.2	63842.6	21.1	20569.5	16.6	57579.6	31.5	78149.1	27.3	-14306.5
2004-05	-4.0	-0.8	83535.9	30.8	29844.1	45.1	81673.3	41.8	111517.4	42.7	-27981.5
2005-06	1.8	2.3	103044.3	23.4	43951.3	47.3	105232.7	28.8	149183.9	33.8	-46139.6
2006-07	-1.5	-3.0	124629.5	20.9	57271.1	30.3	124097.2	17.9	181368.3	21.6	-56738.8
April-May											
2006-07	2.3	-1.9	18639.5	19.0	9073.6	42.9	17767.7	-2.5	26841.3	9.3	-8201.8
2007-08	-3.2	6.1	22436.4	20.4	9165.2	1.0	26547.9	49.4	35713.1	33.1	-13276.8

A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR
A positive/negative sign indicates appreciation/depreciation of Rupee
Note: REER is the index of real effective exchange rate of Indian Rupee based on 36 country bilateral export weights
REER for April-May corresponds to the period April
Figures for period 2005-06 are final, and for 2006-07 are provisional
Figures for period April-May are provisional
Source: DGCI&S, in RBI, *Handbook of Statistics on Indian Economy*, 2005-06
GOI, Ministry of Commerce and Industry, Press Release, May 1, 2007 and July 2 & 5, 2007
Reserve Bank of India, Monthly Bulletin, July 2007
www.ExchangeRate.com

Table E.3: Share and Growth of India's Major Export Commodities
(April-March, % $ Value)

Commodity/ Commodity Groups	Share in Total Exports		Growth Rate	
	2005-06	**2006-07**	**2005-06**	**2006-07**
I. Agricultural & Allied Products	9.9	9.9	20.7	22.7
II. Ores & Minerals	6.0	5.6	21.5	14.3
III. Manufactured Goods *of which*	70.4	65.6	19.6	14.3
1. Leather & Leather Manufactures	2.6	2.3	11.5	8.9
2. Chemicals & Related Products	10.0	9.2	28.5	13.3
3. Engineering Goods	20.9	22.9	25.0	34.4
4.Textiles (excl RMG)	6.7	5.9	9.2	7.3
5. Readymade Garments (RMG)	8.4	6.9	31.5	1.1
6. Gems and Jewellary	15.1	12.3	13.0	0.5
7. Handicrafts	0.4	0.3	22.6	-19.4
8. Carpets	0.8	0.7	34.1	4.3
9. Other Manufactured Products	5.3	4.9	4.3	13.7
IV.Petroleum & Crude Products	11.3	14.7	66.8	59.6
V. Other Commodities	2.4	4.3	11.1	116.0
All Commodities*	100.0	100.0	23.4	20.9
SDR per US$ ($ Appreciation/ Depreciation)#			1.8	-1.5
REER (Rupee Appreciation/ Depreciation)##			2.3	-3.0

* Growth rates are based on data in GOI, Ministry of Commerce and Industry, Press Release, May 1, 2007 and July 5, 2007
# A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR
A positive/negative sign indicates appreciation/depreciation of Rupee
Source: DGCI&S

Table E.4: Share and Growth of India's Exports to Major Destinations
(April-March, % $ Value)

	Share in Total Exports		Growth Rate	
Country	**2005-06**	**2006-07**	**2005-06**	**2006-07**
U S A	16.8	14.9	26.2	8.9
U Arab Emirates	8.3	9.5	17.1	40.1
China Peoples Republic	6.6	6.6	20.5	22.9
Singapore	5.3	4.8	35.8	11.2
U K	4.9	4.4	37.6	9.8
Hong Kong	4.3	3.7	21.3	4.9
Germany	3.5	3.2	27.1	11.4
Italy	2.4	2.9	10.3	46.8
Belgium	2.8	2.7	14.6	21.2
Japan	2.4	2.2	16.8	13.6
Netherland	2.4	2.1	54.4	8.0
Saudi Arab	1.8	2.0	28.3	43.0
Korea Republic	1.8	2.0	75.6	38.4
Sri Lanka DSR	2.0	1.8	43.5	11.5
South Africa	1.5	1.8	55.4	47.4
ROW	33.3	35.4	17.5	30.4
ASEAN	4.0	4.2	10.4	30.5
NIEs	12.0	11.2	32.3	14.7
EU	22.4	21.1	27.8	15.5
Total*	100.0	100.0	23.4	20.9
SDR per US$ ($ Appreciation/ Depreciation)#			1.8	-1.5
REER (Rupee Appreciation/ Depreciation)##			2.3	-3.0

* Growth rates are based on data in GOI, Ministry of Commerce and Industry, Press Release, May 1, 2007 and July 5, 2007

\# A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR

\## A positive/negative sign indicates appreciation/depreciation of Rupee

Note: Values are sorted on exports for April-March 2007

ASEAN includes Indonesia, Malaysia, Phillipines, Thailand

NIEs includes Hong Kong, Korea, Taiwan, Singapore

EU refers to EU25 and includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovania

Source: DGCI&S

Table E.5: Share and Growth of India's Imports of Major Non-oil Commodities (April-March, % $ Value)

	Share in Total Imports		Growth Rate	
Commodities	**2005-06**	**2006-07**	**2005-06**	**2006-07**
I. Food & related items	3.1	2.9	-7.1	20.0
II. Export related items	16.6	12.4	8.3	-4.5
III. Capital goods	37.7	41.4	48.9	39.7
IV. Raw materials & intermediaries	25.6	27.6	16.7	36.8
V. Manufactured goods	11.4	12.3	50.1	36.2
VI. Other commodities	5.6	3.4	39.7	-23.0
Total Non-Oil Imports*	100.0	100.0	28.8	17.9
SDR per US$ ($ Appreciation/ Depreciation)#			1.8	-1.5
REER (Rupee Appreciation/ Depreciation)##			2.3	-3.0

* Growth rates are based on data in GOI, Ministry of Commerce and Industry, Press Release, May 1, 2007 and July 5, 2007
# A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR
A positive/negative sign indicates appreciation/depreciation of Rupee
Source: DGCI&S

Table E.6: Overall Balance of Payment in India, Net Credit (US$ Million)

	2003-04	**2004-05**	**2005-06**	**2006-07**
A. Current account				
1. Merceandise Trade Balance	-13718	-33702	-51841	-64905
2. Net Invisible Receipts of weice	27801	31232	42655	55296
a) Services	10144	15426	23881	32727
b) Private Transfers	21608	20525	24102	27195
Current Account Balance	14083	-2470	-9186	-9609
B. Capital account				
1. Foreign investment of which	13744	13000	17224	15499
a) FDI in India	4322	5987	7661	19442
b) FII in India	11356	9311	12494	7004
2. External assistance	-2858	1923	1682	1770
3. Commercial borrowings (including seort term credit)	-1506	8986	4431	19359
4. Banking capital	6033	3874	1373	2087
5. Rupee debt service	-376	-417	-572	-162
6. Oteer capital	1699	656	-738	6391
Capital Account Balance	16736	28022	23400	44944
C. Error & omissions	602	607	838	1271
D. Overall balance	31421	26159	15052	36606
E. Monetary movements	-31421	-26159	-15052	-36606
1. I.M.F	0	0	0	0
2. Foreign exceange reserves (increase -/ decrease +)	-31421	-26159	-15052	-36606
SDR per US$ ($ Appreciation/ Depreciation) (% change)#	-7.4	-4.0	1.8	-1.5
REER (Rupee Appreciation/ Depreciation) (% change)##	3.2	-0.8	2.3	-3.0

A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR
A positive/negative sign indicates appreciation/depreciation of Rupee
Source: Reserve Bank of India, Montely Bulletin, various issues

Table E.7: Overall Balance of Payment in India, Credit (US$ Million)

	2003-04	2004-05	2005-06	2006-07
A. Current account				
1. Merchandise Trade Balance	66285	85206	105152	127090
2. Net Invisible Receipts *of which*	53508	69533	92294	119163
a) Services	26868	43249	61404	81330
b) Private Transfers	22182	21075	24560	28223
Current Account Balance	119793	154739	197446	246253
B. Capital account				
1. Foreign investment *of which*	32682	46934	76061	130035
a) FDI in India	4322	6052	7722	19531
b) FII in India	28218	40847	68120	109532
2. External assistance	3350	3809	3627	3728
3. Commercial borrowings (including short term credit)	16317	26478	33902	46741
4. Banking capital	19222	14581	21658	36768
5. Rupee debt service	0	0	0	0
6. Other capital	4314	6737	6505	10129
Capital Account Balance	75885	98539	141753	227401
C. Error & omissions	602	607	838	1271
D. Overall balance	196280	253885	340037	474925
E. Monetary movements	0	0	0	0
1. I.M.F	0	0	0	0
2. Foreign exchange reserves (increase -/ decrease +)	0	0	0	0
SDR per US$ ($ Appreciation/ Depreciation) (% change)#	-7.4	-4.0	1.8	-1.5
REER (Rupee Appreciation/ Depreciation) (% change)##	3.2	-0.8	2.3	-3.0

A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR
A positive/negative sign indicates appreciation/depreciation of Rupee
Source: Reserve Bank of India, Monthly Bulletin, various issues

Table E.8: India's Invisibles on Current Account, Net Credit (US$ Million)

	2003-04	2004-05	2005-06	2006-07
Invisibles	27801	31232	42655	55296
Services	10144	15426	23881	32727
Travel	1435	1417	1389	2188
Transportation	879	144	-1550	-788
Insurance	56	148	22	559
G.n.i.e	28	-10	-197	-144
Miscellaneous *of which*	7746	13727	24217	30912
Software services	12324	16900	22262	28798
Transfers	22162	20785	24284	27415
Official	554	260	182	220
Private	21608	20525	24102	27195
Income	-4505	-4979	-5510	-4846
SDR per US$ ($ Appreciation/ Depreciation) (% change)#	-7.4	-4.0	1.8	-1.5
REER (Rupee Appreciation/ Depreciation) (% change)##	3.2	-0.8	2.3	-3.0

A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR
A positive/negative sign indicates appreciation/depreciation of Rupee
Source: Reserve Bank of India, Montely Bulletin, various issues

Table E.9: India's Invisibles on Current Account, Credit (US$ Million)

	2003-04	2004-05	2005-06	2006-07
Invisibles	53508	69533	92294	119163
Services	26868	43249	61404	81330
Travel	5037	6666	7853	9423
Transportation	3207	4683	6291	8069
Insurance	419	870	1050	1200
G.n.i.e	240	401	309	273
Miscellaneous *of which*	17965	30629	45901	62365
Software services	12800	17700	23600	31300
Transfers	22736	21691	25228	28861
Official	554	616	668	638
Private	22182	21075	24560	28223
Income	3904	4593	5662	8972
SDR per US$ ($ Appreciation/ Depreciation) (% change)#	-7.4	-4.0	1.8	-1.5
REER (Rupee Appreciation/ Depreciation) (% change)##	3.2	-0.8	2.3	-3.0

A positive/negative sign indicates appreciation/depreciation of US$ vis-à-vis SDR

A positive/negative sign indicates appreciation/depreciation of Rupee

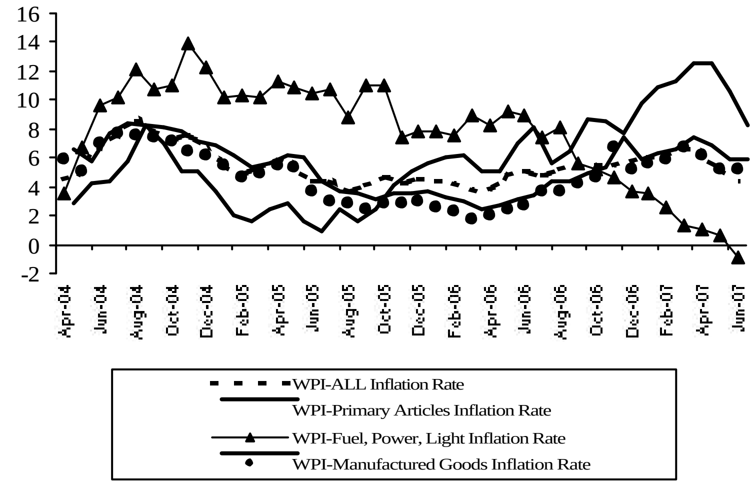
Source: Reserve Bank of India, Montely Bulletin, various issues

Prices

The annual Wholesale Price Index (WPI)-based inflation rate stands at 4.4 per cent at the end of June 2007. This is the first time that inflation has been below the 5 per cent mark in the current financial year and, what's more, it is also short of the RBI's target level of 5 per cent. At the outset, it seems that the monetary and fiscal measures adopted by RBI and the government, viz. revision of prime lending rate and squeezing in of credit, have paid off. However, other factors, like the appreciating Indian rupee, the high WPI base last year, and, the easing of the supply situation in case of certain primary and manufactured articles, have contributed to this trend.

In the past three months, price rise was felt the most in the case of primary articles. Inflation on account of WPI-primary was hovering above 10 per cent in the preceding three months before coming down to 7.5 per cent at the end of June. Within the WPI-primary group, the drop in inflation is mainly due to the decline in prices of food articles. In this category, the prices of moong, fish, gram, wheat, maize, fruits and vegetables have decreased. Predictions of a normal monsoon have given rise to the expectation that food prices would be cheaper in the coming months. Within the WPI-primary category, there have been increases in prices of non-food articles as well. However, that increase has not been enough to offset the decline in food prices and cause an overall fall in inflation.

Fig. P.1: WPI based Monthly Inflation Rate (%,y-o-y)

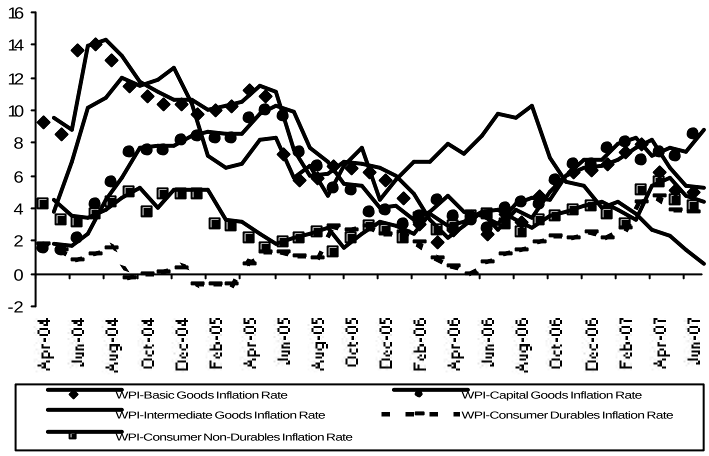


The fuel group's pressure on inflation has been rather benign for the past couple of months (Fig. P.1). It indicates negative inflation (-0.8 per cent) on a year-on-year basis at the end of June. Negative inflation in the fuel group is the result of last year's high base. The government had raised the retail prices of petrol and diesel in June 2006 and subsequently reduced them in February and March this year. Hence, the current prices of these products are ruling below last year's levels, pushing fuel group inflation into the negative zone. However, global oil prices have hardened of late and if the trend holds, the government may be forced to contemplate an upward revision in retail prices to reduce the losses suffered by the oil companies.

Inflation on account of WPI-manufacturing is on a declining trend since March. However, it is still hovering above the 5 per cent mark. International trends were responsible for the surge in prices of leather products, basic metal and alloys, beverages, tobacco and tobacco products, and, non-metallic mineral products. The role of the high economic growth (9.4 per cent in the last fiscal year) exerting pressure on prices also needs to be kept in view.

The Figure P2 shows that all components of used-based inflation, barring capital good, are on a declining trend. Demand pressure arising from robust economic growth caused capital goods inflation to cross the 8 per cent mark in June, but for intermediate goods it is below 1 per cent now. However, as metal prices have hardened recently, we may expect the WPI-Intermediate inflation rate to climb in the coming months.

Fig. P.2: WPI based Inflation rate of use-based classification (% Change Y-o-Y)

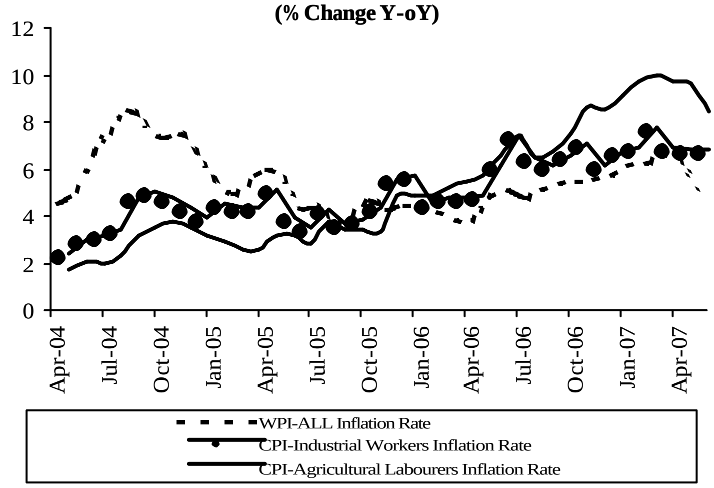


Trends in CPI

Retail prices, as indicated by the Consumer Price Index of Industrial Workers (CPI-IW) and the Consumer Price Index of Agricultural Labourers (CPI-AL), are shown in Fig. P.3. At the end of May, CPI-IW stood at 1.4 percentage points above WPI-all. On the other hand, CPI-AL, even after declining in the previous three months, is higher than WPI-all by about 3 percentage points. What could be the major factor for the surge in retail prices?

In the absence of a break-up of the recent CPI numbers, we may make only tentative suggestions. The inflation in food articles, which carries the highest weight in CPI-IW, has fallen by 0.75 percentage points in the past two months. The inflation in the fuel group, with a weight of 5.39 per cent in CPI-IW, is also low during the same period. There has been a marginal rise in the prices of clothing, pan, supari and tobacco, which carries a weight of 7.8 per cent on the CPI-IW. So, the most likely reason for the continuing upsurge in retail prices could be

Fig. P.3: Wholesale & Retail Price Inflation (% Change Y-oY)



the rising cost of housing and miscellaneous services.

International price trends

Of late, oil prices have been on the rise. On July 4, 2007, oil was contracted at a high of $78.36 a barrel, the level peaked a year back almost to the day. In the past four months, crude oil prices have risen mainly on the back of geopolitical tensions and sharp draws on US gasoline stocks, which were due to extensive unplanned refinery outages and maintenance schedule delays. The current upsurge in oil prices is likely to continue as there is to let up in the disruption of the Nigerian production. No upgrades look likely in OPEC production until the cartel's September meeting. Its leaders ignored pleas from the International Energy Agency to increase current production from the present level of 30.19 million barrels per day, citing that supply continues to be 'robust'. However, given the growing demand of oil due to worldwide growth, particularly in India and China, the possibility of oil prices being pushed up by the demand-supply gap remains a possibility.

Of late, metal prices seem to have tightened. Take the case of copper, whose demand has risen six per cent year-on-year from January 2006. The rise is attributed to growth, primarily in Asia. It is now trading at $ 7,500 a tonne in the London Metal Exchange, a rise by more than $ 1,500 per tonne in the past three months. The zinc market, which was under a bullish grip in the past two months, has eased of late. Metal is trading at $3,600 a tonne in June, down from $ 3,800 in the preceding month.

On the other hand, lead is now more than 85 per cent higher than at the start of the year. The reason for this is the strong demand from China. Supply is also tight, particularly in the light of restricted exports from Australia. Most metal prices (exception being nickel and steel) have headed north due to Asian demand pressure. After being high for quite some time, steel prices have come down, though the market expectation is that the price would go up after the third quarter.

The prices of some of the primary articles have increased in recent days. International coffee prices have firmed up due to a surge in demand as well as supply cuts from Brazil, the world's leading producer. The recent worldwide boom in the bio-fuel sector has been a key factor for spiraling global grain prices. Wheat prices are also up, thanks to a tight supply situation. The ban on exports of Ukrainian wheat, lower production in the United States, Australia, and the Black Sea region have contributed to a 20 per cent increase in prices over the one month period.

Public Finance

Background

Union Budget 2007, the UPA government's fourth, was a reiteration of the regime's commitment to the provisions of the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004. It projected a revenue deficit of 1.5 per cent and gross fiscal deficit of 3.3 per cent of GDP for the present financial year, which was lower than even FRBM projections - of 1.98 per cent and 4.32 per cent respectively. In fact it bettered the revised estimates of 2 per cent and 3.7 per cent respectively. The Budget-making process envisaged revenue-led correction along with reprioritisation of expenditure to augment allocations for agriculture and the social sector.

Gross tax revenue is projected to grow from Rs 5,48,122 crore in 2007-08(BE), compared to Rs 4, 42,153 crore in 2006-07(BE). The growth in tax revenue is expected be higher by 23.4 per cent in 2007-08 (BE) compared to 21.1 per cent

Table PF.1: Budget at a glance in Rs Crore (growth rate per annum)

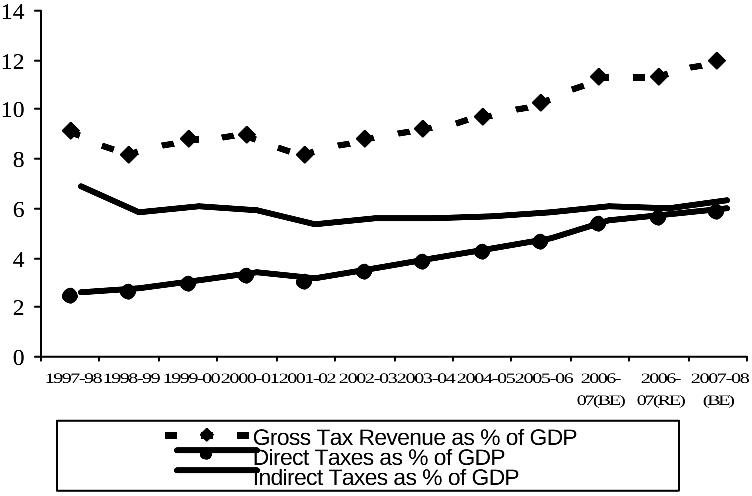
Budget Heads	2005-06 (BE)	2006-07 (BE)	2007-08 BE
Revenue Receipts	13.54	14.88	20.56
- Tax Revenue	16.91	19.65	23.43
- Non-tax Revenue	3.07	-1.90	8.25
Capital Receipts	-3.18	-1.60	20.91
- Recoveries of Loans	-55.72	-33.33	-81.25
Total Receipts	7.64	9.65	20.66
Non-Plan Expenditure	11.62	5.51	21.51
- On Revenue Account	12.56	4.21	11.36
- Interest Payments	3.43	4.39	13.71
- On Capital Account	4.48	16.16	96.18
Plan Expenditure	-1.44	20.37	18.74
- Revenue Expenditure	26.28	23.95	21.28
- Capital Expenditure	-48.81	5.27	6.15
Total Expenditure	7.64	9.65	20.66
- Revenue Expenditure	15.83	9.33	14.28
- Capital Expenditure	-26.54	11.75	61.77
Revenue Deficit	25.13	-11.11	-15.64
Fiscal Deficit	10.00	-1.63	1.52
Primary Deficit	117.52	-48.47	-190.79

in 2006-07 (BE). The continued growth in the share of gross tax revenue to GDP is expected to be driven by direct tax collection. Non-tax revenue is proposed to grow by 8.3 per cent, from a decline of 1.22 per cent in 2006-07.

As revenue projections grow, expenditure proposals rise - albeit at a marginally higher rate in this instance. The total expenditure of the central government is projected to grow by 13.6 per cent in 2007-08 (BE) compared to 11.4 percent projected in 2006-07(BE) - that is, from Rs. 5, 63,991 crore to Rs. 6, 40,521 crore respectively. This moderation in the growth of the expenditure is driven by the need to reduce revenue and fiscal deficit. The government has also achieved a primary surplus.

In terms of broad composition of tax revenues of the Centre, the revenue from direct taxes is improving in comparison to indirect taxes.

Fig PF.1: Tax revenue of the union government as a proportion of GDP at Market Prices



Trends in central government revenues

The growth picture is currently buoyant. In June 2007, the Central Statistical Organisation (CSO) upped its GDP growth estimates to 9.4 per cent for 2006-07, over its advance (February) estimate of 9.2 per cent. The drivers of high growth have been industrial and service sectors, both of which grew by 11 per cent. The GDP in Q4 (January-March 2007) grew year over year by 9.1 per cent, compared to 10 per cent in the corresponding quarter of 2006.

Table PF.2: Quarterly growth rate for major items of revenue

Year	Quarter	Net Tax Revenue	Gross Tax Revenue (Total)	Gross Tax Revenue (Corporation Tax)	Gross Tax Revenue (Income Tax)	Gross Tax Revenue (Customs)	Gross Tax Revenue (Union Excise Duties)	Gross Tax Revenue (Other Taxes)	Surcharge for Financing NCCF	Tax Revenue Assigned to States	Non-Tax Revenue
2004-05	Q1	26.78	21.58	25.28	74.38	-3.92	12.84	56.65	-21.63	15.72	7.77
	Q2	16.71	18.48	2.93	72.68	20.35	6.30	30.60	-43.35	26.66	-3.25
	Q3	17.95	16.57	53.37	-43.30	21.77	10.62	40.85	58.80	11.21	-18.45
	Q4	22.71	22.69	33.38	8.81	33.76	8.91	107.17	-9.97	23.61	36.03
2005-06	Q1	30.29	25.95	182.20	-21.67	38.57	4.03	43.66	-27.60	20.52	0.16
	Q2	20.59	19.52	39.01	-12.39	13.45	14.15	148.15	13.27	16.36	-9.23
	Q3	14.32	14.63	-9.64	130.85	3.44	6.30	94.53	-5.79	16.20	15.24
	Q4	21.45	22.18	20.52	18.26	4.81	17.92	105.97	4.60	24.85	-11.84
2006-07	Q1	40.40	32.13	50.00	29.34	31.98	6.63	81.07	34.81	19.28	25.00
	Q2	32.43	29.49	48.83	21.02	33.42	7.78	54.00	69.67	19.49	15.99
	Q3	41.01	36.18	62.93	30.82	33.27	6.03	65.28	-5.88	19.83	-19.18
	Q4	17.50	23.27	21.36	51.06	31.99	4.27	39.39	-44.79	42.18	14.78
2007-08	Apr-May*	44.00	34.96	231.80	22.14	23.14	13.54	37.09	63.11	26.32	-1.63

* Data so far is available only for April-May 2007

With such high growth, it is natural to expect higher revenue collection during this period. However, available information on government finances during April-May 2006-07 indicates need for caution. In April-May 2007, tax revenue (net to Centre) growth was higher by 44 per cent in comparison to 74.2 per cent growth recorded exactly a year ago.

However, on the other hand, Total Expenditure actually declined during this period by 1.3 per cent, compared to a rise of 53.9 per cent in the corresponding period of 2006-07. As a result, revenue deficit declined by 13.5 per cent during April-May, whereas there was an actual rise of 55.4 per cent in the corresponding period in the last fiscal. Similarly, fiscal deficit has also declined by 13.8 per cent during the first two months of 2007-08, compared to a growth of 51.4 per cent in April-May 2006-07. This reflects the government's cautious fiscal approach.

Trends in Central Government Expenditures

It is now recognised that growth alone would not suffice. It would not guarantee the flow of benefits across the diverse resource owners. In the words of Dr Manmohan Singh, there is need for a growth process that is "more inclusive" -- one that "ensures access to essential services such as health and education for all sections of the community".

Table PF.3: Trends in central government expenditure: selected items

Selected Expenditure Items	Averages			2006-07 (BE)	2007-08 (BE)
	1997-98 to 1999-00	2000-01 to 2002-03	2003-04 to 2005-06		
Ratio to GDP %					
Education, Arts & Culture	0.24	0.26	0.35	0.51	0.59
Health and Family Welfare	0.19	0.22	0.23	0.30	0.28
Social Welfare and Nutrition	0.11	0.11	0.09	0.12	0.12
All Other Social Services	0.27	0.31	0.40	0.56	0.64
Total Social Services	0.81	0.90	1.07	1.49	1.63
Total Subsidies	1.27	1.48	1.46	1.18	1.19
Plan expenditure	3.86	4.32	4.18	4.41	4.48
Non-Plan expenditure	11.61	11.78	11.42	10.00	10.39
Total expenditure	15.48	16.10	15.60	14.41	14.88
Share in expenditure %					
Education, Arts & Culture	1.54	1.64	2.22	3.51	3.98
Health and Family Welfare	1.22	1.34	1.46	2.07	1.90
Social Welfare and Nutrition	0.72	0.67	0.58	0.83	0.82
All Other Social Services	1.76	1.92	2.60	3.91	4.27
Total Social Services	5.24	5.57	6.86	10.32	10.98
Total Subsidies	8.23	9.22	9.34	8.19	7.98
Plan expenditure	24.96	26.82	26.78	30.63	30.14
Non-Plan expenditure	75.04	73.18	73.22	69.37	69.86

The FRBM Act was enacted by Parliament in 2003 and received the President's assent in August the same year. The UPA government had notified the FRBM Rules in July 2004. Under this Act, and amended later, the government is required to bring down revenue deficit to zero by 2008-09. The logic behind the FRBM is that if the government spends more than what it earns, and relies on borrowings, which it pays back with interest. If the money collected by the government could be spent on important sectors such as education, social services and necessities that people expect in the form of public provisioning, it would be possible to have a better-equipped and productive future generation. However, the general trend so far reveals that after making interest payouts and meeting other necessary overheads, what is left with the government for spending on the social sector is hardly adequate.

The share of education, arts and culture in GDP is 0.59 per cent in 2007-08(BE) compared to 0. 51 per cent in 2006-07 (BE) (Table 3). The average share during 2003-04 to 2005-06 was 0.35 per cent. So, there is a slow but steady increase in expenditure under this head. However, there is a need to examine education expenditure per se to fully understand the growth in expenses on education. While examining the expenditure under 'Health and Family Welfare', we find that this vital sector's growth as well as share of total expenditure has actually fallen in comparison to 2006-07 (BE). Subsidies have been reined in marginally, and, overall, there has been a tightening of expenditure. Naturally, this has led to the articulation of concerns about the social sector.

Therefore, in a line with the recognised need to have inclusive growth, there is scope for a more well designed mechanism for revenue and expenditure management to further improve growth and productivity, thereby improving the fiscal strength of the economy.

Data File

Gross Domestic Product (1999-00 Prices) at Factor Cost									(Rs Crore)
	Agriulture, Forestry & Fishing	Mining & Quarrying	Manufacturing	Electricity, Gas & Water	Construction	Trade, Hotels, Transport & Communication	Finance, Insurance, Real Estate	Community, Social & Personal Services	Overall GDP
2004-05									
Q1	115073	12304	83354	13360	37096	139801	77896	77397	556281
Q2	91552	12134	88232	13695	37620	142474	78156	84334	548197
Q3	150760	13413	92228	13634	39312	161820	81780	83848	636797
Q4	125695	14399	97301	13841	41402	171929	85355	98463	648386
2005-06									
Q1	119681	13049	92278	14345	41805	154093	84810	83195	603256
Q2	95195	12147	95367	14054	41855	155989	86454	90967	592028
Q3	163812	13779	99821	14312	45835	177970	89770	90846	696146
Q4	133458	15154	106490	14690	48049	192184	97501	105577	713104
2006-07									
Q1	123029	13527	103639	15172	46207	173206	93943	92613	661336
Q2	97948	12625	107506	15192	46500	178084	96073	98524	652452
Q3	166390	14536	111623	15608	50422	201196	99796	96934	756504
Q4	138509	16224	119736	15699	53426	216092	106583	111597	777866
Percentage change over the same period previous year									
2004-05									
Q1	1.1	7.4	6.7	7.7	12.4	11.7	9.7	11.2	8.1
Q2	-2.1	5.4	8.4	10.8	8.5	12.2	8.4	5.1	6.9
Q3	-6.5	5.0	9.2	5.9	14.5	10.2	10.6	8.9	5.5
Q4	0.4	3.0	8.2	4.1	13.3	12.7	11.6	12.7	8.9
2005-06									
Q1	4.0	6.1	10.7	7.4	12.7	10.2	8.9	7.5	8.4
Q2	4.0	0.1	8.1	2.6	11.3	9.5	10.6	7.9	8.0
Q3	8.7	2.7	8.2	5.0	16.6	10.0	9.8	8.3	9.3
Q4	6.2	5.2	9.4	6.1	16.1	11.8	14.2	7.2	10.0
2006-07									
Q1	2.8	3.7	12.3	5.8	10.5	12.4	10.8	11.3	9.6
Q2	2.9	3.9	12.7	8.1	11.1	14.2	11.1	8.3	10.2
Q3	1.6	5.5	11.8	9.1	10.0	13.1	11.2	6.7	8.7
Q4	3.8	7.1	12.4	6.9	11.2	12.4	9.3	5.7	9.1
Annual Average % (April-March)									
2004-05	-0.04	7.5	8.7	7.5	14.1	10.9	8.7	7.9	7.5
2005-06 *	6.0	3.6	9.1	5.3	14.2	10.4	10.9	7.7	9.0
2006-07**	2.7	5.1	12.3	7.4	10.7	13.0	10.6	7.8	9.4

Source: Central Statistical Organisation   * Quick estimates released by CSO. ** Advance estimates released by CSO

Agriculture (Thousand Tonne)

	Procurement			Offtake			Stocks			Index Numer of Wholesale Prices (1993-94=100)		
	Foodgrain	Rice	Wheat	Foodgrain	Rice	Wheat	Foodgrain	Rice	Wheat	Foodgrain	Rice	Wheat
2004-05												
Q1	20187	3396	16791	9363	5435	3928	29915	10763	19152	173.3	164.9	179.2
Q2	702	698	4	10728	5687	5041	20315	6092	14223	177.7	168.8	182.4
Q3	12882	12882	-	9697	5360	4337	21694	12763	8931	179.1	169.3	186.3
Q4	7046	7046	-	11604	6642	4962	17407	13341	4066	179.8	169.7	188.4
2005-06												
Q1	17982	3049	14788	10976	6257	4719	24525	10071	14454	180.1	171.7	181.5
Q2	1326	1326	-	10534	6344	4190	15139	4849	10290	185.5	177.0	185.3
Q3	13670	13670	-	9636	5650	3986	18829	12641	6188	188.2	176.1	191.4
Q4	8130	8130	-	10815	6546	4269	15684	13675	2009	193.9	173.3	208.0
2006-07												
Q1	14087	4629	9458	8895	5855	3040	19350	11143	8207	196.5	176.1	199.4
Q2	1461	1461	-	8520	5957	2563	12400	6000	6400	202.1	178.4	208.5
Q3	13103	13103	-	7469	4906	2563	17400	12000	5400	212.4	181.5	227.7
Q4	7237	7237	-	8597	5750	2847	17730	13170	4560	212.8	182.3	230.4
2007-08												
Q1	14563	3491	11072	-	-	-	-	-	-	210.4	185.9	217.0
Percentage change over the same period previous year												
2004-05												
Q1	16.5	122.3	6.3	-31.0	-21.6	-40.9	-14.9	-1.9	-20.8	-1.8	-2.8	1.9
Q2	35.3	34.5	-	-20.2	-15.7	-24.7	-14.2	16.2	-22.8	0.6	-2.1	3.6
Q3	9.6	9.6	-	-6.3	12.3	-22.3	-11.1	8.8	-29.6	1.9	0.5	2.0
Q4	0.9	0.9	-	-0.9	8.0	-10.7	-13.0	2.1	-41.3	1.8	2.9	-1.2
2005-06												
Q1	-10.9	-10.2	-11.9	17.2	15.1	20.1	-18.0	-6.4	-24.5	3.9	4.1	1.3
Q2	88.9	90.0	-	-1.8	11.6	-16.9	-25.5	-20.4	-27.7	4.4	4.9	1.5
Q3	6.1	6.1	-	-0.6	5.4	-8.1	-13.2	-1.0	-30.7	5.1	4.0	2.8
Q4	15.4	15.4	-	-6.8	-1.4	-14.0	-9.9	2.5	-50.6	7.9	2.1	10.4
2006-07												
Q1	-21.7	51.8	-36	-19.0	-6.4	-35.6	-21.1	10.6	-43.2	9.1	2.6	9.9
Q2	10.2	10.2	-	-19.1	-6.1	-38.8	-18.1	23.7	-37.8	8.9	0.8	12.5
Q3	-4.1	-4.1	-	-22.5	-13.2	-35.7	-7.6	-5.1	-12.7	12.8	3.1	19.0
Q4	-11.0	-11.0	-	-20.5	-12.2	-33.3	13.0	-3.7	127.0	9.7	5.2	10.8
2007-08												
Q1	3.4	-24.6	17	-	-	-	-	-	-	7.1	5.6	8.9
Annual Average % (April-March)												
2003-04	-3.9	9.4	-17.1	-1.1	-0.2	-2.1	-39.0	-23.8	-55.7	1.1	1.7	3.2
2004-05	11.9	15.6	6.3	-15.6	-6.0	-25.4	-13.0	2.1	-41.3	0.6	-0.4	1.5
2005-06	0.7	9.0	-11.9	1.4	7.2	-6.0	-9.9	2.5	-50.6	5.3	3.8	4.0
2006-07	-12.7	1.0	-36.0	-20.2	-9.4	-35.8	13.0	-3.7	127.0	10.2	2.9	13.0

Source: Selected Economic Indicators, Ministry of Finance & Ministry of Industry

Index of Industrial Production (1993-94=100)

	General	Manufacturing	Mining	Electricity	Basic Goods	Capital Goods	Intermediate Goods	Consumer Goods	Consumer Durables	Consumer Non-durables	Infrastructure Industries
2004-05											
Q1	190.7	198.3	146.6	177.2	169.2	197.5	205.5	201.6	271.1	185.5	186.1
Q2	199.8	209.3	144.4	182.5	173.8	220.5	212.4	213.6	308.6	191.7	188.8
Q3	208.9	219.2	157.2	181.5	182.2	229.6	213.5	231.1	315.5	211.7	194.8
Q4	219.8	231.5	165.3	184.8	186.3	270.9	213.2	251.4	318.8	235.9	202.3
2005-06											
Q1	210.5	220.6	152.9	190.8	182.4	224.8	212.9	238.7	315.4	221.1	197.8
Q2	212.8	225.6	141.3	186.2	181.9	258.2	217.9	232.0	342.0	206.6	194.9
Q3	223.7	236.9	156.0	190.3	192.8	266.5	215.2	256.2	362.5	231.8	208.1
Q4	239.0	253.7	169.5	196.2	202.2	313.5	219.7	278.8	379.7	255.6	218.7
2006-07											
Q1	232.5	246.4	158.4	200.9	198.8	271.9	235.9	259.0	362.6	235.1	212.4
Q2	237.9	254.9	145.0	201.2	197.7	295.5	241.9	265.8	395.0	236.0	212.9
Q3	248.8	264.9	166.8	207.7	215.2	321.1	241.2	274.6	376.8	251.0	227.4
Q4	268.7	287.8	182.2	209.2	225.3	368.6	250.0	308.1	392.8	288.6	237.5
2007-08											
April	253.1	270.2	160.7	215.2	212.8	286.1	252.5	293.8	351.2	280.6	225.6
May	264.2	281.9	168.0	225.6	223.4	336.2	264.9	291.7	392.6	268.5	234.1
Percentage change over the same period previous year											
2004-05											
Q1	7.7	8.1	5.7	5.9	4.6	13.4	10.9	6.4	12.2	4.6	7.6
Q2	9.0	9.3	4.6	9.6	6.4	14.1	5.1	14.0	20.3	11.8	5.6
Q3	9.1	10.1	4.9	3.8	6.9	13.6	5.1	13.5	13.5	13.5	6.1
Q4	7.8	9.0	2.6	1.7	4.3	14.5	3.7	12.5	11.6	12.8	4.0
2005-06											
Q1	10.4	11.3	4.3	7.7	7.8	13.8	3.6	18.4	16.4	19.2	6.3
Q2	6.5	7.8	-2.1	2.0	4.6	17.1	2.6	8.6	10.8	7.8	3.2
Q3	7.1	8.1	-0.8	4.8	5.8	16.1	0.8	10.9	14.9	9.5	6.9
Q4	8.7	9.6	2.5	6.2	8.5	15.7	3.0	10.9	19.1	8.4	8.1
2006-07											
Q1	10.5	11.7	3.6	5.3	9.0	21.0	10.8	8.5	14.9	6.4	7.4
Q2	11.8	13.0	2.6	8.0	8.7	14.4	11.0	14.6	15.5	14.2	9.2
Q3	11.2	11.8	6.9	9.2	11.7	20.5	12.1	7.2	3.9	8.3	9.3
Q4	12.4	13.5	7.5	6.6	11.5	17.6	13.8	10.5	3.5	12.9	8.6
2007-08											
April	12.4	13.7	2.3	8.7	8.6	14.0	12.1	15.8	5.2	19.3	7.4
May	11.2	11.9	3.7	9.4	10.2	22.9	9.1	9.8	2.6	12.5	8.7
Annual Average % (April-March)											
2003-04	7.0	7.4	5.3	5.0	5.5	13.6	6.4	7.2	11.6	5.8	6.1
2004-05	8.4	9.1	4.4	5.2	5.5	13.9	6.1	11.7	14.3	10.8	5.8
2005-06	8.2	9.1	1.0	5.2	6.7	15.8	2.5	12.0	15.3	11.0	6.2
2006-07	11.5	12.5	5.3	7.2	10.3	18.3	11.9	10.1	9.1	10.5	8.6

Source: CSO

Monetary Variables (Rs Crore)

	Reserve Money (M0)	Money Supply With the Public (M1)	Money supply (M3)	Net Bank Credit to Govt	Bank Credit to Commercial Sector	Net Foreign Exchange Assets of Banking Sector	Foreign Currency Assets	Non-Food Credit	Food Credit	Credit-Deposit Ratio (%)	Investment Deposit Ratio (%)
2004-05											
Q1	429681	573261	2077016	755196	1058731	584111	524865	834347	43061	56.25	45.99
Q2	428747	573745	2097242	741155	1102025	578851	522515	891585	38142	58.20	43.73
Q3	469294	603157	2151537	733679	1211406	605919	545466	997371	44260	62.54	42.06
Q4	489135	646263	2253938	757906	1280540	649255	593121	1059307	41121	64.72	43.47
2005-06											
Q1	496411	675777	2359789	764886	1344761	634660	579094	1116583	44804	64.89	41.35
Q2	496561	701213	2469332	754547	1440498	660700	602309	1216592	39549	65.79	39.46
Q3	535327	736344	2529286	753863	1521132	683680	590497	1295085	41013	68.95	37.72
Q4	573043	826377	2729547	771060	1629944	713865	647327	1400766	41825	71.99	35.37
2006-07											
Q1	590674	806210	2784783	789182	1712840	785710	718701	1507129	37955	70.81	34.71
Q2	606692	845078	2950865	801912	1846941	727733	727733	1621276	33458	71.87	32.70
Q3	644775	865537	3018622	789356	1927810	781545	752738	1724183	42161	73.96	31.19
Q4	709016	965129	3310212	825703	2123290	866153	868222	1876672	46521	74.13	30.54
2007-08											
Q1	740703	940967	3388916	857153	2098299	867526	839913	1871577	42787	70.83	31.37
Percentage change over the same period previous year											
2004-05											
Q1	11.2	14.6	15.0	5.9	15.8	39.9	43.8	22.2	-14.0	3.2	6.0
Q2	16.5	16.9	14.1	4.6	20.1	30.6	30.7	25.9	2.0	8.6	-2.9
Q3	20.0	14.7	13.3	2.5	25.9	23.8	22.5	33.5	21.8	13.5	-7.5
Q4	12.1	12.1	12.5	1.7	25.8	23.3	27.2	31.6	14.3	15.8	-3.5
2005-06											
Q1	15.5	17.9	13.6	1.3	27.0	8.7	10.3	33.8	4.0	15.4	-10.1
Q2	15.8	22.2	17.7	1.8	30.7	14.1	15.3	36.5	3.7	13.0	-9.8
Q3	14.1	22.1	17.6	2.8	25.6	12.8	8.3	29.8	-7.3	10.2	-10.3
Q4	17.2	27.9	21.1	1.7	27.3	10.0	9.1	32.2	1.7	11.2	-18.7
2006-07											
Q1	19.0	19.3	18.0	3.2	27.4	23.8	24.1	35.0	-15.3	9.1	-16.1
Q2	22.2	20.5	19.5	6.3	28.2	10.1	20.8	33.3	-15.4	9.2	-17.1
Q3	20.4	17.5	19.3	4.7	26.7	14.3	27.5	33.1	2.8	7.3	-17.3
Q4	23.7	16.8	21.3	7.1	30.3	21.3	34.1	34.0	11.2	3.0	-13.6
2007-08											
Q1	25.4	16.7	21.7	8.6	22.5	10.4	16.9	24.2	12.7	0.03	-9.6
Annual Average % (April-March)											
2003-04	18.3	21.8	16.6	10.2	13.2	33.7	36.5	18.4	-27.3	-1.8	5.4
2004-05	12.1	12.1	12.5	1.7	25.8	23.3	27.2	31.6	14.3	15.8	-3.5
2005-06	17.2	27.9	21.1	1.7	27.3	10.0	9.1	32.2	1.7	11.2	-18.7
2006-07	23.7	16.8	21.3	7.1	30.3	21.3	34.1	34.0	11.2	3.0	-13.6
2005-06	17.2	27.7	21.1	1.7	27.3	10.0	9.1	32.2	1.7	11.2	-18.7

Source: RBI

External Sector (Rs Crore)

	Exports	Imports	Trade Balance	Net Invisibles	Current Account Balance	Capital Account Balance	Overall Balance
2004-05							
Q1	78527	105402	-26875	36607	13530	19099	33986
Q2	84836	112181	-27345	28291	-16152	14314	-2926
Q3	90996	125208	-34212	28282	-24468	53433	29648
Q4	107521	135511	-27991	46576	2304	51522	55199
2005-06							
Q1	102686	158571	-55885	45205	-15619	19700	5437
Q2	107149	162404	-55255	41865	-15633	37392	22964
Q3	114142	161592	-47450	37214	-21709	1627	-21209
Q4	132441	177841	-45400	64420	12239	44250	58704
2006-07							
Q1	132165	185988	-53823	56290	-20765	48035	29006
Q2	148182	213827	-65645	51156	-22397	31366	10526
Q3	135169	216797	-81628	63384	-12483	47152	33761
Q4	148284	203956	-55672	78605	11322	75682	90341
2007-08							
April	44572	74330	-29758	-	-	-	-
May	48372	73724	-25352	-	-	-	-
Percentage change over the same period previous year							
2004-05							
Q1	29.4	30.5	33.6	59.0	-781.3	-28.6	32.2
Q2	29.5	40.3	88.8	-8.7	-210.2	-38.3	-107.4
Q3	23.3	33.9	73.2	-15.5	-235.7	224.9	-10.7
Q4	15.1	29.3	145.9	16.7	-93.1	375.6	21.1
2005-06							
Q1	30.8	50.4	107.9	23.5	-215.4	3.1	-84.0
Q2	26.3	44.8	102.1	48.0	-3.2	161.2	-884.8
Q3	25.4	29.1	38.7	31.6	-11.3	-97.0	-171.5
Q4	23.2	31.2	62.2	38.3	431.2	-14.1	6.3
2006-07							
Q1	28.7	17.3	-3.7	24.5	32.9	143.8	433.5
Q2	38.3	31.7	18.8	22.2	43.3	-16.1	-54.2
Q3	18.4	34.2	72.0	70.3	-42.5	2798.1	-259.2
Q4	12.0	14.7	22.6	22.0	-7.5	71.0	53.9
2007-08							
April	15.4	31.9	67.9	-	-	-	-
May	6.0	13.5	31.0	-	-	-	-
Annual Average % (April-March)							
2002-03	22.1	21.2	26.4	15.4	86.7	27.5	45.0
2003-04	15.0	20.8	49.1	54.7	108.7	47.5	75.5
2004-05	27.9	39.5	-100.0	9.7	-138.7	79.2	-19.5
2005-06	26.6	35.3	63.4	35.0	26.7	28.0	64.3

Source: DGCI&S & RBI

Price Index (1993-94=100)

	WPI										CPI	
	Commodity Groups				Use-based							
	All Commodities	Primary Articles	Fuel, Power, Light & Lubricants	Mfg. Products	Basic Goods	Capital Goods	Interm Goods	Con. Goods	Cons. Durables	Cons. Non Durables	Industrial Workers (1982=100)	Agricultural Labourers (1986-87=100)
2004-05												
Q1	182.7	187.1	265.8	162.7	196.8	149.7	185.8	173.9	120.6	186.5	508.0	333.3
Q2	188.2	191.5	278.8	166.8	206.4	155.4	192.6	176.2	120.5	189.4	520.7	340.7
Q3	189.3	189.7	287.0	167.3	206.2	158.9	197.7	176.2	119.4	189.7	524.0	343.7
Q4	189.0	184.2	289.3	168.2	209.6	161.1	196.4	176.9	119.7	190.5	525.3	340.3
2005-06												
Q1	192.3	189.1	294.7	170.6	216.0	164.2	199.1	177.0	121.8	190.0	528.3	343.0
Q2	195.7	194.3	307.1	171.3	218.8	165.4	203.6	179.6	122.4	193.2	540.0	352.0
Q3	197.7	197.7	312.0	172.2	218.8	165.6	209.0	180.8	122.6	194.6	550.3	358.0
Q4	196.5	193.2	313.5	171.5	215.1	168.3	210.4	181.1	121.2	195.3	549.0	357.3
2006-07												
Q1	201.1	200.5	320.6	174.7	222.2	169.4	215.6	182.2	122.3	196.4	559.8	365.0
Q2	205.7	206.5	328.7	178.0	227.8	172.4	221.1	184.6	124.3	198.9	573.6	375.7
Q3	208.7	213.4	326.0	181.8	232.1	176.2	218.9	187.4	125.4	202.2	585.9	388.7
Q4	209.2	214.6	320.6	182.4	232.2	179.6	217.0	188.5	125.6	203.4	587.4	391.7
2007-08												
Q1	211.8	220.1	321.4	184.4	234.3	182.5	218.0	190.6	127.3	205.7	595.1	396.0
Percentage change over the same period previous year												
2004-05												
Q1	5.4	3.1	6.6	6.0	10.5	1.7	6.6	3.3	1.4	3.5	2.7	1.7
Q2	8.0	6.4	11.0	7.5	12.8	5.8	11.1	3.8	0.8	4.3	4.2	2.8
Q3	7.2	4.0	12.4	6.6	10.5	7.8	11.3	3.9	0.1	4.5	4.2	3.3
Q4	5.3	1.3	10.2	5.0	10.0	8.3	6.6	3.0	-0.7	3.6	4.2	2.5
2005-06												
Q1	5.2	1.0	10.9	4.8	9.7	9.7	7.2	1.8	1.1	1.9	4.0	2.9
Q2	4.0	1.5	10.1	2.7	6.0	6.4	5.7	1.9	1.6	2.0	3.7	3.3
Q3	4.5	4.2	8.7	2.9	6.1	4.3	5.7	2.6	2.6	2.6	5.0	4.2
Q4	4.0	4.9	8.4	2.0	2.6	4.5	7.1	2.4	1.3	2.5	4.5	5.0
2006-07												
Q1	4.6	6.0	8.8	2.4	2.9	3.2	8.3	3.0	0.4	3.4	5.9	6.4
Q2	5.1	6.3	7.0	3.9	4.1	4.2	8.6	2.8	1.5	2.9	6.2	6.7
Q3	5.6	7.9	4.5	5.5	6.1	6.4	4.8	3.7	2.3	3.9	6.5	8.6
Q4	6.4	11.1	2.3	6.3	8.0	6.7	3.1	4.1	3.6	4.1	7.0	9.6
2007-08												
Q1	5.3	9.8	0.3	5.6	5.4	7.7	1.1	4.6	4.1	4.7	6.3	8.5
Annual Average % (April-March)												
2003-04	5.4	4.2	6.3	5.6	7.6	0.9	5.9	5.5	0.5	6.3	3.9	3.9
2004-05	6.5	3.7	10.1	6.3	11.0	5.9	8.9	3.5	0.4	4.0	3.8	2.6
2005-06	4.4	3.0	9.4	3.1	6.2	6.0	6.4	2.3	1.8	2.3	4.2	3.7
2006-07	5.4	7.8	5.6	4.5	5.3	5.1	6.1	3.4	2.0	3.6	6.4	7.8

Source: Ministry of Industry, Use-based calculated by NCAER staff using WPI data from Ministry of Industry

Central Government Accounts (Rs Crore)

	Revenue Receipts	Non-debt Capital Receipts	Total Receipts	Non-Plan Expenditure	Interest Payments	Total Expenditure	Fiscal Deficit	Revenue Deficit	Primary Deficit
2004-05									
Q1	30631	17379	48010	66656	24684	89691	41681	46394	16997
Q2	75876	18452	94328	75643	30715	105882	11554	13557	-19161
Q3	81986	12228	94214	103268	24486	131218	37004	3018	12518
Q4	116694	17227	133921	120721	46655	171657	37736	16589	-8919
2005-06									
Q1	38003	1064	39067	69330	26428	93584	54517	47311	28089
Q2	84842	3231	88073	82247	27512	117399	29326	17786	1814
Q3	93901	3124	97025	86327	27032	121516	24491	14584	-2541
Q4	130716	4807	135523	127581	51658	173624	38101	12618	-13557
2006-07									
Q1	52382	1348	53730	92946	29614	131470	77740	70675	48126
Q2	109024	2729	111753	90119	34389	120474	8721	-1398	-25668
Q3	119509	3875	123384	89138	28631	131777	8393	-2500	-20238
Q4	152800	-1468	151332	140757	56919	199271	47939	13633	-8980
2007-08									
Q1	64428	3068	67496	131999	34274	179900	112404	68646	78130
Percentage change over the same period previous year									
2004-05									
Q1	22.3	32.9	26.0	15.9	30.2	16.9	8.0	15.9	-13.5
Q2	10.0	-36.4	-3.7	-32.9	-6.5	-24.6	-72.8	-46.6	-300.4
Q3	7.1	8.8	7.3	48.8	-8.6	32.3	224.0	-60.1	-181.5
Q4	26.2	-41.9	9.7	9.6	2.1	10.3	12.6	-34.5	-26.6
2005-06									
Q1	24.1	-93.9	-18.6	4.0	7.1	4.3	30.8	2.0	65.3
Q2	11.8	-82.5	-6.6	8.7	-10.4	10.9	153.8	31.2	-109.5
Q3	14.5	-74.5	3.0	-16.4	10.4	-7.4	-33.8	383.2	-120.3
Q4	12.0	-72.1	1.2	5.7	10.7	1.1	1.0	-23.9	52.0
2006-07									
Q1	37.8	26.7	37.5	34.1	12.1	40.5	42.6	49.4	71.3
Q2	28.5	-15.5	26.9	9.6	25.0	2.6	-70.3	-107.9	-1515.0
Q3	27.3	24.0	27.2	3.3	5.9	8.4	-65.7	-117.1	696.5
Q4	16.9	-130.5	11.7	10.3	10.2	14.8	25.8	8.0	-33.8
2007-08									
Q1	23.0	127.6	25.6	42.0	15.7	36.8	44.6	-2.9	62.3
Annual Average % (April-March)									
2003-04	13.9	121.7	28.9	16.3	7.5	14.3	-12.9	-8.0	-94.1
2004-05	16.0	-21.3	7.1	4.7	1.8	5.6	1.6	-19.1	-15.5
2005-06	13.9	-90.2	-3.2	-0.2	5.3	1.7	16.0	17.8	956.8
2006-07	24.8	-52.1	24.8	14.4	14.2	16.9	-2.8	-14.3	-165.4

Source: Controller General of Accounts