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India Economic Update

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Overview

A Return to Trend Growth, but there are Dark Clouds on the Horizon

In fiscal year 2010-11, India's economy has expanded at a rate close to that observed prior to the global financial crisis. However, growth in the second half of the year slowed, and the performance of industry and investment has been particularly disappointing. Despite some fiscal consolidation and monetary tightening, inflation has emerged as a serious concern because of its effects on the poor, who are usually less able to protect themselves against rising prices, and because of its dampening effects on long-term investment, which is sensitive to interest rate expectations.

India's economic growth reached 8.5 percent, helped by a strong rebound of the agriculture sector because of good rains in the 2010 monsoon season against the near-drought conditions of 2009. On the external side, exports staged an extraordinary recovery and the current account deficit narrowed, while capital flows slowed driven by a pronounced decline in foreign direct investment. Foreign institutional investment remained robust, however, and external borrowing increased to compensate partially for the decline in FDI. The rupee remained stable against the U.S. dollar but showed a small real appreciation against a 36-currency trade weighted index, and Reserve Bank of India foreign reserves increased to more than \$310 billion.

Inflation as measured by the wholesale price index remained high at around 9.5 percent in the six months to May 2011, increasingly driven by core inflation (calculated by excluding food and energy prices). In fact, core inflation has been the main contributor to overall inflation since April 2010.

The central government budget deficit for FY2010-11 is estimated to have reached 6 percent of GDP, an important contraction from the widened fiscal stance of FY2009-10. Budget implementation benefited from higher-than-expected growth in nominal GDP and related higher tax intake, although the tax-to-GDP ratio is still significantly lower than in FY2007-08. The spending-to-GDP ratio, on the other hand, was reduced by 0.7 percent of GDP despite two supplementary demands for grants.

The RBI continued to raise policy rates. During its mid-quarter monetary policy review in May 2011, the RBI hiked the repo rate again by 25 bps, bringing the cumulative increase since the beginning of FY2011-12 to 75 bps. Repo and reverse repo rates now stand at 7.5 percent and 6.5 percent, respectively.

Going forward, fast growth is likely to be sustained, but inflation gives rise to serious concerns. GDP growth for FY2011-12 is likely to reach 8-9 percent in line with potential growth. While agricultural growth is expected to revert to trend (3 percent), the industry and services sectors are expected to become growth engines in FY2011-12 on the back of stronger external and domestic demand. While the current account deficit is likely to widen somewhat because of strong domestic demand and high commodity prices, capital inflows would also strengthen. In fact, capital flows pose risks both on the upside and on the downside. Renewed shocks to the global financial system could quickly change investor perceptions and lead to another "flight to safety". On the other hand, global liquidity remains unusually high with little prospect of monetary policy tightening in major developed countries in 2011. High liquidity could lead to sudden FII surges in emerging markets.

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The central government targets an ambitious consolidation with a deficit reduction of about 1 percent of GDP. The budget envisages high revenue buoyancy and a reduction in the ratio of subsidies to GDP of 0.5 percentage points, through a contraction in nominal spending by 12.5 percent. There are several upside risks to the expenditure projected for FY2011-12, because of high international commodity prices (impacting fuel and fertilizer subsidies), and because of possible new demands on the budget from the food security bill, which has been readied for submission to parliament.

Without additional policy measures, the consolidation target is unlikely to be achieved. Missing the deficit target would damage macroeconomic policy credibility. Successful fiscal contraction in FY2011-12, on the other hand, would constrain aggregate demand and probably lower inflation expectations, even if accompanied by one-off increases in prices of subsidized items. Rationalizing expenditure by cutting unproductive spending on subsidies including for items controlled by state governments (most notably, state electricity boards) and expanding investment could alleviate supply bottlenecks and lower prices more directly and sustainably than through a contraction in aggregate demand.

Monetary policy is walking a tightrope between supporting growth and fighting inflation, but may be faltering on both without more determined action on the fiscal front. Real interest rates are currently below historical averages. Signals about the demand and supply balance in the Indian economy are mixed. Nevertheless, in the absence of clear signals from the fiscal side, the RBI would probably have to tighten monetary policy further with adverse effects on growth in order to anchor inflation expectations.

Section II takes a closer look at inflation and discusses that international commodity prices may have peaked in early 2011 after strong increases starting in the last quarter of 2010. India's inflation trajectory is not dissimilar to that of other emerging market countries, but India's level of inflation is high. In a special section on food inflation, we point out that policies inhibit the private sector from investing in market infrastructure, which could be a contributing factor to sudden, geographically and temporarily limited price spikes, and they also distort price signals and other incentives to farmers, which results in an inadequate supply response to more long-term shifts in food demand toward a high-protein diet. These policies are induced by the strong link between food based social safety nets and public procurement of food grains. Reforms that allow more private investment in market infrastructure would probably lower the relative costs of food items.

Section III presents evidence of a slow-down in foreign direct investment (FDI) coming to India during FY2010-11, and highlights in particular the slow-down in FDI from Mauritius, a tax haven and preferred route of entry to the Indian market by private equity and hedge funds. Recently, increased scrutiny of flows to detect possible tax evasion in India and round tripping of funds through Mauritius may be partly to blame for the slow-down. Inflows from Singapore, the US, and Japan are also lower, while inflows from Europe have increased.

Section IV looks at a particular possible destination for FDI by discussing the effects of expansion of the modern retail sector (super- and hypermarkets) on traditional retailers and the level of employment in the sector. It compares four important emerging market countries and concludes that traditional retail continues to grow albeit at rates slower than those of modern retail, and that the level of employment in the sector is not related to the extent of market penetration of modern retailers.

I. Recent Economic Developments

Real GDP growth is estimated to have recovered close to trend mainly because of a rebound in agriculture. Growth is estimated to have reached 8.5 percent in fiscal year (FY) 2010-11, but the second half of the year saw a slowdown compared to the first half. Growth in the fourth quarter slowed to 7.8 percent, as compared with 8.3 percent in the third quarter. On average, GDP growth measured 8.1 percent in the second half, compared with 9.1 percent in the first half of FY2010-11.

Agriculture recorded a strong growth rate, on the back of robust production and a favorable base effect. Agricultural sector growth is estimated at 6.6 percent in FY2010-11, up from negligible growth in FY2009-10. Food grain production is estimated to have reached around 236 million tons in FY2010-11, which is 8 percent higher than in FY2009-10, and sets a new record from the previous peak in FY2008-09. Pulses, wheat, oilseeds and cotton production are estimated to have reached all time highs in FY2010-11.

Industrial sector production growth slowed markedly since the beginning of the fiscal year. The industrial sector grew at 7.9 percent in FY2010-11, marginally lower than the 8.1 percent growth in FY2009-10. Industrial output growth dropped from 10.6 percent in the first half of FY2010-11 to 5.4 percent in the second half of FY2010-11. A large part of this deceleration is explained by a slowdown in the growth of capital goods to 0.3 percent in H2 FY 2010-11 from 28.8 percent in the first half. The growth of intermediate goods production declined to 7.2 percent from 10.6 percent while consumer non-durables experienced a drop from 24 percent to 19 percent, in H2 FY2010-11 and H1 FY2010-11, respectively. However, the picture changes somewhat with the new series of the industrial production index (IIP), which is based on an update of the base year to 2004-05. According to the new IIP, growth remained around 8 per cent in both halves of the year.

The service sector presented a slightly brighter picture. Service sector growth picked up somewhat with a rate of 8.7 percent in the fourth quarter as compared with 8.4 percent in the previous quarter. While the overall growth dropped marginally to 9.4 percent in FY2010-11 from 10.1 percent in FY2009-10, the decline was driven by a reduction in growth of community, social and personal services on account of a high base effect of the government wage revision in FY2009-10.

A key reason for the deceleration in capital and intermediate goods production could be the sharp deceleration in investment. Investment growth slowed to a crawl in the second half of

Source: CSO. Note: Expenditure GDP growth not always same as production.

FY2010-11. Fixed capital formation growth dropped to 0.4 percent in the last quarter of FY2010-11, reducing H2 FY2010-11 growth to 4.1 percent from 15 percent in H1 FY2010-11. Consumption growth also moderated to 8.0 percent in FY2010-11 from 8.7 percent in FY2009-10 driven by a decline in government consumption, whose growth dropped to 4.8 percent in H2 from 16.4 percent in H1 because of the withdrawal of some stimulus measures and also a high base due to wage revisions in FY2009-10. On the other hand, private consumption growth accelerated to 8.6 percent in FY2010-11 from 7.3 percent in FY2009-10 despite high inflation and rising interest rates.

Despite a strong recovery in exports, the current account deficit widened slightly. Merchandise exports delivered a stellar performance in FY2010-11 with an increase of 35 percent over the previous year and reached a level of \$241 billion. In terms of contribution to overall export growth, China has emerged on top, followed by the UAE, Indonesia, and the US; when aggregating exports to the 27 EU member countries, the combined contribution is smaller than China's, but ahead of the UAE. Regarding commodities, export growth benefited most from growth in non-ferrous metals, petroleum products, transport equipment, and manufactured metals.² More than half of the export increase is constituted by raw and semi-processed materials. Overall export growth for the six months to January 2011 over the same period in the previous year was 32 percent. Imports were up by 21.6 percent to touch \$341 billion. Imports increased especially strongly during March-May 2011, partly on the back of higher oil prices, but non-oil imports also show a very strong increase. A rise in the invisibles surplus and strong remittances contributed to offset some of the trade deficit.

Capital inflows slowed to their lowest quarterly pace since before the global financial crisis. The capital account surplus dropped to \$21.5bn in H2 FY2010-11, as compared with \$38bn in the first half. FDI inflows slowed to \$774 million in Q4 FY2010-11, the lowest quarterly flow since 2002. The overall decline in capital flows from FDI and FII sources was partially compensated by an increase in external commercial borrowings. Inflows recovered somewhat during April-May 2011.

Related to the increase in external commercial borrowing, external debt increased and reached \$297.5 billion by end-December 2010. Short-term debt and external commercial borrowing increased

Note: Seasonally adjusted.
Sources: RBI and author's calculations.

India: Exports by Country and by Commodity, 8/2010-1/2011
(percentage point contribution to overall growth, 6-month average)

Overall exports	31.9	Overall exports	31.9
Top 15	24.3	Top 15	30.5
China	6.8	Non-ferrous Metals	5.7
EU 27	4.7	Petroleum and Crude Products	4.9
United Arab Emirates	3.1	Transport Equipment	4.2
Indonesia	2.0	Manufactures of Metals	3.2
United States	1.7	Processed Minerals	1.8
Singapore	1.4	Electronic Goods	1.7
Iran	1.3	Machinery and Instruments	1.5
Sri Lanka	1.1	Ferro Alloys	1.3
Kuwait	1.1	Cotton Yarn Fabrics Madeups etc	1.2
Belgium	0.9	Sugar	1.1
East Timor	0.9	Cotton Raw incl. Waste	1.1
Pakistan	0.9	Gems and Jewellery	0.8
Italy	0.8	Plastic and Linoleum Products	0.8
France	0.8	Primary and Semi-finished Iron and Steel	0.8
Saudi Arabia	0.8	Drugs, Pharmaceuticals and Fine	0.5
South Africa	0.8	Dyes Intermediates and Coal Tar	0.5
Austria	0.7	Oil Meals	0.5
Brazil	0.7	Rice Basmati	0.4
Israel	0.6	Manmade Yarn Fabrics Madeups	0.4
Bahrain	0.6	Meat and Preparations	0.4
Germany	0.6	Other Ores and Minerals	0.4

Source: Ministry of Commerce, CEIC.

² Indian exports of petroleum products are partly driven by the government's pricing policy: Indian retail prices are not sufficient to cover the full costs and taxes of petroleum products, and oil companies are only partially reimbursed for 'under recoveries'. Private companies therefore export refined products from their refineries in India rather than selling in the domestic market, whereas the public sector companies import the same products to supply the domestic market.

by around 20 percent during April-December 2010. However, the official foreign reserves of the RBI remained at a comfortable level. The ratio of short-term external debt to foreign exchange reserves was 21.1 per cent at end-December 2010, a slight increase from end-March 2010. Foreign exchange reserves at end-April 2011 reached \$313 billion covering more than the total external debt.

The rupee has remained relatively stable against the U.S. dollar and slightly depreciated against the pound and yen in recent months. On average, the 6-currency NEER depreciated slightly by 1 percent during the last six months. However, the REER appreciated 4.1 percent over the same period, largely due to higher inflation rates prevailing in India.

Business sentiment is strong, but capacity utilization is below previous peaks. The RBI's industrial outlook surveys show that companies' perceptions of the financial situation and profit margins have recovered to levels last seen in mid-2007, while selling prices are perceived to be still lower than at the peak at end-2008. On the other hand, the RBI's Order Books, Inventories and Capacity Utilization Survey (OBICUS) indicates that capacity utilization increased during the second quarter of FY2010-11, but remained below the previous peak. Capacity utilization in core infrastructure sectors was largely unchanged from the same period in FY2009-10.

Rating agencies maintained their India ratings. Both Moody's and Fitch upgraded their local currency ratings in early 2010. While Moody's upgraded its rating from Ba2 to Ba1 with a positive outlook, Fitch revised its rating from negative to stable.

Inflation remained high. WPI inflation settled around 9.5 percent during the six months to May 2011. Core inflation is increasingly contributing to overall inflation. A closer look at inflation is taken in Section II below.

Fiscal Developments

Budget implementation in FY2010-11 is estimated to have closed the deficit somewhat from the widened fiscal stance of FY2009-10. The government revised its estimate for the central government deficit for FY2010-11 downward to 6.0 percent of GDP as compared with 6.7 percent estimated at the time of the presentation of the Budget for FY2011-12 in February.³ The budget benefited from higher-than-expected growth in nominal GDP, and tax revenue buoyancy helped to increase the tax-to-GDP ratio by 0.5 percentage points, although it is still significantly lower than in FY2007-08, the year before the slowdown and adoption of stimulus measures. The spending-to-GDP ratio, on the other hand, was reduced by 0.7 percent of GDP. Two supplementary demands for grants added to overall spending. The supplementary demands for grants tabled by the government envisaged an additional expenditure of Rs.1.1 trillion (1.8 percent of GDP), although not all of this is estimated to have been spent. A large part of this expenditure, Rs.744 billion (1.1 percent of GDP), compensated losses by oil marketing companies, financed food and fertilizer subsidies, building of roads and houses under centrally sponsored schemes, and involved transfers to states. The government received a massive windfall revenue of close to Rs.1 trillion (US\$20bn, equivalent to 1.3 percent of GDP) from auctions of telecom licenses in addition to privatization revenue of 0.3 percent of GDP. Subsidies (fuel, food and fertilizer) amounted to 2.1 percent of GDP against a budget of 1.7 percent of GDP. The government debt-to-GDP ratio has fallen significantly partly because of a change in definition: the government now excludes proceeds from the RBI's Market Stabilization Scheme and small saving scheme bonds that are sitting unused in RBI accounts.

³ Under the government's accounting rules the fiscal deficit is estimated to have reached 4.7 percent of GDP in FY2010-11 as compared with 5.4 percent in the earlier estimate. The government counts revenue from disinvestment and the sale of 3G telecom licenses 'above the line', rather than as a financing item 'below the line'.

Monetary Developments

Monetary aggregates grew in line with nominal GDP and the requirements of financial inclusion. Credit growth moderated to 21.0 per cent in March 2011 and 20.6 percent in June 2011 from 24.1 per cent in December 2010. Credit to agriculture and allied sectors grew by 10.6 percent in FY2010-11 as compared to 23.9 percent in FY2009-10 while credit to services witnessed a sharp rise by 24.0 percent compared to 12.5 percent in FY2009-10. Credit to industry grew by 23.6 percent. Growth was led by infrastructure, metal and metal products, textiles, engineering, food processing and gems and jewellery.

The RBI continued to tighten monetary policy citing inflationary conditions as a major concern. During its mid-quarter monetary policy review in May 2011, the RBI hiked the repo rate again by 25 bps, bringing the cumulative increase since the beginning of FY2011-12 to 75 bps. Repo and reverse repo rates now stand at 7.5 percent and 6.5 percent, respectively.

Outlook

Strong growth is likely to be sustained, but inflation has become a serious concern. Inflation hurts the poor, who are usually less able to protect themselves against rising prices than the non-poor, and lowers long-term investment, which is sensitive to interest rate expectations. Inflation has been close to 10 percent for nearly a year. The RBI aims to maintain inflation around 5 percent citing research showing that a moderate rate of inflation is conducive to structural change in an emerging market setting. The Ministry of Finance, on the other hand, considers 6 percent the threshold beyond which inflation damages growth.

GDP growth for FY2011-12 is likely to reach 8-9 percent in line with potential growth. While agricultural growth is expected to revert to trend (3 percent), the industry and services sectors are expected to become growth engines in FY2011-12 on the back of stronger external and domestic demand. This assumes that the slowdown observed in the second half of FY2010-11 in investment and industrial production is short lived. The risks that the downturn turns out to be of longer duration is significant.

With high domestic demand and elevated international commodity prices, the current account deficit is likely to widen somewhat. A rebound in GDP growth would lead to a renewed surge in imports. Growing services surpluses and net transfers have compensated for rising trade deficits in the past. However, the picture now looks less benign. The current account deficit is therefore likely to reach around 3 percent of GDP in FY2011-12.

Capital inflows are expected to recover from the recent slump and pose risks in both directions. While FDI held up well during the global crisis, inflows in H2 FY2010-11 have disappointed. However, a rebound seems to be underway with significantly higher inflows in April-May 2011. Portfolio investments are likely to continue at levels similar to those observed recently, although volatility could be high because of continuing uncertainty about the health of the global economy. Loans have recovered strongly and now constitute the biggest item in the capital account as corporates profit from the larger interest rate differential between India and most developed countries. Inflows are therefore expected to be sufficient to cover the current account gap. However, renewed shocks to the global financial system could quickly change investor perceptions and lead to another “flight to safety”. The risk of such shocks occurring is high in light of the unsettled debt issues in some European countries. On the other hand, global liquidity remains unusually high with little prospect of monetary policy tightening in major developed countries in 2011. High liquidity could lead to sudden FII surges in emerging markets. The RBI has demonstrated its ability to react quickly to short-term capital flows and its reserves remain sufficient to prevent unwanted volatility of the rupee.

The central government budget for FY2011-12 targets an ambitious consolidation. The deficit is targeted to narrow to 5.0 percent of GDP.⁴ The budget envisages high revenue buoyancy and a reduction in the ratio of subsidies to GDP of 0.5 percentage points, or a contraction in the nominal spending amount by 12.5 percent. On the revenue side, the budget estimates are based on the projection of 9 percent growth in real GDP and an inflation rate of 4 percent. Gross tax revenue is budgeted to increase by 18.5 percent to a level of 10.4 percent of GDP. With the moderation in growth witnessed in the second half of FY2010-11, there are downside risks to the revenue targets for FY2011-12. On the other hand, nominal GDP growth is likely to exceed the 14 percent assumed for the budget because of higher-than-envisaged inflation. Tax revenue could therefore exceed the target offsetting some expenditure overruns. Recent data indicate a decline in net direct tax collections during the first two months of FY2011-12 of 48 percent compared with the same period of FY2009-10, a fall to Rs.13 billion from Rs.25 billion in the same period last fiscal year mainly because of an increase in tax refunds. Gross direct tax collections increased by 37 percent at Rs.50.0 billion as compared to Rs 36.7 billion in same period previous year.

India: Central Government Budget, 2007/08-2011/12

	2007/08	2008/09	2009/10	2010/11	2010/11	2011/12
			Est.	Budget	Est.	Budget
Total revenue and grants	10.9	9.7	8.7	9.3	8.8	8.8
Net tax revenue	8.8	7.9	7.0	7.7	7.3	7.4
Gross Tax Revenue	11.9	10.8	9.5	10.8	10.1	10.4
Corporate tax	3.9	3.8	3.7	4.3	3.8	4.0
Income tax	2.1	1.9	2.0	1.8	1.8	1.9
Excise tax	2.5	1.9	1.6	1.9	1.8	1.8
Customs duties	2.1	1.8	1.3	1.7	1.7	1.7
Other taxes	1.4	1.4	0.9	1.0	1.0	0.9
Less: States' share	3.0	2.9	2.5	3.0	2.8	2.9
Less: NCCF expenditure netted from receipt	0.0	0.0	0.0	0.0	0.0	0.0
Non tax revenue 1/	2.1	1.7	1.8	1.6	1.5	1.4
Total expenditure and net lending	14.2	15.7	15.5	15.9	14.8	13.8
Current expenditure	11.9	14.2	13.9	13.8	13.2	12.2
Interest payments	3.4	3.4	3.3	3.6	3.0	3.0
Subsidies	1.4	2.3	2.2	1.7	2.1	1.6
Defense expenditure	1.1	1.3	1.4	1.3	1.1	1.1
Capital expenditure and net lending	2.3	1.5	1.6	2.1	1.6	1.6
Gross fiscal deficit (WB defn)	3.3	6.0	6.8	6.6	6.0	5.0
<i>Memo items</i>						
Disinvestment + 3G licenses receipts	0.8	0.0	0.4	1.1	1.6	0.4
Gross fiscal deficit (GoI defn)	2.5	6.0	6.4	5.5	4.4	4.6
Revenue deficit	1.1	4.5	5.2	4.0	3.4	3.4
Primary deficit (WB Defn.)	-0.1	2.6	3.5	2.5	2.3	2.1
Primary deficit (GoI Defn.)	-0.9	2.6	3.1	1.9	2.0	1.6
Central government domestic debt 2/	41.6	44.4	44.3	47.0	41.0	40.2
Central government debt (including external debt) /2	45.9	49.1	48.1	50.9	50.4	44.2
GDP (market prices, y-o-y change in percent)	16.1	12.0	17.3	5.9	13.6	14.0

Source: Ministry of Finance.

1/ Excludes revenues from 3G licenses.

2/ Net of Liabilities under MSS and NSSF not used for financing CG deficit

There are several upside risks to the expenditure projected for FY 2011-12. Expenditures are projected to rise by only 3.4 percent in FY2011-12. Subsidies are expected to contract by 12.5 percent from Rs.1.64 trillion to Rs.1.43 trillion. While the government announced increases in administered prices for diesel, kerosene, and LPG in June 2011, these were also accompanied by a reduction of import duty.⁵ The net budget overruns from the fuel subsidies could amount to 0.5 percent of GDP if global oil prices remain at June 2011 levels. The impact on food subsidies of the food security bill to

⁴ This will measure 4.6 percent of GDP under the government's accounting rules.

⁵ Price increases for diesel, LPG, and Kerosene amounted to 9, 14.8, and 19.8 percent, respectively.

be introduced in parliament in August 2011 is highly uncertain. While it will lead to somewhat higher outlays in the future, the impact on the current budget may be limited. Nevertheless, without additional policy measures, the consolidation target is unlikely to be achieved. Missing the deficit target would damage macroeconomic policy credibility. Fiscal contraction in FY2011-12, on the other hand, would constrain aggregate demand and probably lower inflation expectations, even if accompanied by one-off increases in prices of subsidized items. Rationalizing expenditure by cutting unproductive spending on subsidies including for items controlled by state governments (most notably state electricity boards) and expanding investment could alleviate supply bottlenecks and lower prices more directly and sustainably than through a contraction in aggregate demand.

Monetary policy is walking a tightrope between supporting growth and fighting inflation, but it may be faltering on both without more determined action on the fiscal front. Real interest rates are currently below historical averages, but the environment for monetary policy decisions is highly uncertain. Monetary policy instruments are not well suited to address partially imported food and energy inflation. External and temporary supply shocks are best accommodated, with the central bank raising rates in steps to prevent real interest rates from falling, as the RBI has done recently. Signals about the demand and supply balance in the Indian economy are mixed: capacity utilization indicators are stable, while recent industrial production and imports data pointed to a slowdown rather than overheating.⁶ Data on housing and car loans also indicate a slowdown despite negative real policy rates. Sales of passenger vehicles reached their lowest level in two years. In the absence of clear signals from the fiscal side, the RBI would probably have to tighten monetary policy further with adverse effects on growth.

II. A Look at Inflation

Inflation moderated somewhat from the double-digit rates it had reached in early 2010, but it has remained at an elevated level. Food inflation saw a significant moderation from the peak of 22.6 percent in December 2009 to a low of 6.4 percent in February 2011, but has since risen again to 7.9 percent in May 2011. Primary food inflation moderated to 8.4 percent, but inflation in processed food items rose to 7.3 percent in May 2011 from 2.4 percent in March 2011. Moreover, a 3-month rolling average of seasonally adjusted annualized monthly inflation in food prices has moved up significantly over March-May 2011 hitting 16 percent in May.

Core inflation (calculated by excluding food and energy prices) has been the main component of overall inflation since April 2010. It reached a high of 10.3 percent during February-March 2011 and moderated to 8.5 percent in the following two months. Inflation in non-food manufactures increased from 6.3 percent in April to 7.3 percent in May 2011. The increase is interpreted by the RBI as a reflection of high commodity prices, rising wages and rising output prices as a result of pass-through of high input costs. Consumer price inflation for industrial workers (CPI - IW) rose from 8.8 per cent in March 2011 to 9.4 per cent in April 2011.

⁶ However, the hitherto used IIP data may give the wrong impression: according to a new index unveiled by CSO in May 2011, IIP growth continued unabated in H2 FY2010-11; the updated Index of Industrial Production has base year 2004-05 instead of 1993. It should also be noted that import activity jumped in April-May 2011.

Some global commodity prices seem to have peaked in the first quarter of 2011 and supply conditions are easing. The last months of 2010 saw a pronounced increase in international prices, in particular those of food commodities. The increase in U.S. dollar prices is moderated somewhat by the U.S. dollar's depreciation against major currencies, but the trajectory is worrying. Most recently in June 2011, an unexpected release of emergency stocks by member countries of the International Energy Agency (IEA) led to a fall in oil prices, in particular that of Brent crude, which had increased relative to the price of West Texas Intermediate (WTI) crude oil because of supply disruptions in Libya.

India's inflation trajectory is similar to that of other emerging markets, but India's level of inflation is relatively high. Inflation accelerated in the run-up to the global financial crisis, dropped into negative territory as global commodity prices collapsed during the crisis, and accelerated again in early-mid-2010. India's inflation was comparable to that of major Asian EMEs and Brazil in the 2008 rally. Inflation in most of the EMEs seems to have passed a peak and dropped in recent months, although inflation in Malaysia and the Philippines accelerated.

Determinants of Food Inflation⁷

Food inflation is strongly influenced by the following four elements: the pass-through of global food (and other commodity) prices, macroeconomic policies, market regulation and short-term supply shocks, and long-term structural shifts and the terms of trade between agriculture and other sectors of the economy.

- Food inflation is partly caused by increases in global food prices. They have risen markedly since mid-2010, which is part of a more general phenomenon of rising global commodity prices. Prices for main staples in India are controlled, trade is limited, and the price pass-through is therefore limited. However, India depends on imports of cooking oil and some non-staple foods. International prices therefore filter through to the Indian consumer.
- While there was some cautious progress toward rolling back macroeconomic stimulus measures which the Indian government had adopted in the wake of the Global Financial Crisis (GFC), there is some way to go to reset the macroeconomic policy stance to neutral. India has a relatively high fiscal deficit and public debt burden, and fiscal policies are still more expansionary than before the GFC. Monetary policy rates are low, and have not risen as fast as inflation. Policy rates are lower than rates in other regions, but growth in monetary aggregates is broadly in line with macroeconomic stability in most countries.

⁷ This section is based on the South Asia Economic Focus (2011), Food Inflation, World Bank: Washington DC.

- Short-term supply shocks to agriculture are mostly weather related. While sharp, often geographically concentrated price spikes are to a large extent caused by insufficient infrastructure (roads, cold storage), red tape also restricts food markets from discharging their resource allocation function smoothly.
- Demand for food is undergoing structural shifts as incomes rise. Growth in consumption of pulses, fruits, meat, eggs, and dairy items is more than double the consumption growth in cereals. Inflation in these items has been higher than in cereals. Public intervention in agricultural marketing in India has high fiscal costs and narrowly supports cereal production, while high food inflation and continuing high rates of food insecurity are linked to an inadequate supply response in non-cereal food products. Input subsidies, on the other hand, contribute to the overuse of water resources, high losses of electricity utilities, and deteriorating soil conditions because of skewed application of fertilizer. While these policies therefore do not contribute to increasing agricultural productivity, their fiscal costs divert resources away from interventions that actually could expand production: investments in agricultural research, education, and rural roads are the three most effective public spending items in promoting agricultural growth and reducing poverty.

The poverty and nutritional impact of food price spikes on the poor is significant since they spend a larger fraction of their income on food than relatively better-off individuals. The largest safety net intervention in India—the public distribution system for staple foods—is characterized by high leakages and therefore costs, while errors of exclusion are actually larger than the reverse; that is, large numbers of the deserving poor are not covered. With regard to food inflation, however, the main impact of the PDS is the spill-over of this food based safety net on agricultural policies. The need to procure large quantities of grains to fill PDS stores leads to large-scale distortions and curbs on the private sector, which lower the ability of market forces to smooth out short-term price shocks and limit the long-term agricultural supply response to rising non-cereal prices.

Inflation Outlook

Inflation developments over the last six months give rise to serious concerns. Food inflation may accelerate again, as indicated by seasonally adjusted monthly data, and a further cost push may come from rising energy and other global commodity prices, because of the time lag with which these filter through to the Indian market. This makes a decline in overall inflation slow at best. Recent increases in administered petroleum prices are expected to add about 0.7 percentage points to overall inflation over time. Partly because of base effects, core inflation is likely to reach double digits again in coming months. Strong momentum in core inflation risks becoming entrenched as indicated by an increase in inflationary expectations. Without determined policy action, inflation is likely to remain around the current level throughout FY2011-12. The Chairman of the Prime Minister's Economic Advisory Council, Dr. C. Rangarajan, expects inflation to drop to around 6.5 percent by end-March 2012, "and that would be considered quite an achievement". Finance Minister Mukherjee considers that the Indian economy "can live with" 6-6.5 percent inflation, but cautions that it "would be a little more this year".⁸ The National Council of Economic Research's Quarterly Review of the Economy April 2011 pegs inflation 6.8 percent average for FY2011-12, but considers the forecast "optimistic".

⁸ http://articles.timesofindia.indiatimes.com/2011-06-29/india-business/29716799_1_financial-sector-calm-price-pressures-tame-inflation.

III. Trends in Foreign Direct Investment

Foreign Direct Investment in India faced an unexpected decline in FY2010-11 when inflows in other countries recovered strongly from the slump in the wake of the global financial crisis. We show a few salient facts about FDI inflows in India, and explore possible reasons for the slowdown.

FDI inflows have increased substantially in the wake of liberalization of the investment rules in the early 1990s. Starting from a low of \$1.66bn at the end of 1990, the stock of FDI jumped to \$17.5bn by the end of 2000, doubled in the period 2000-04, and more than quadrupled during 2004-09.⁹ However, after a high of 3.2 percent of GDP in 2008, FDI inflows in 2009 declined in India as well as in other large emerging markets. In 2010, when FDI into other developing countries recovered with a nearly 10 percent increase, inflows into India declined further by some 32 percent in U.S. dollar terms to reach about 1.5 percent of GDP, the lowest since 2005. On a sectoral basis, FDI in services (which accounts for around 20 percent of total FDI) was down sharply in 2010, but FDI in manufacturing appears to have held up better. As in other countries, mergers and acquisitions rose, while greenfield investments fell. The most visible M&A deal was the \$3.7bn acquisition of Piramal Healthcare by US-based Abbott Laboratories.

Outward FDI from India has been on the rise, reflecting the global ambitions of Indian companies and improving economic conditions in several markets. Two recent examples are Bharti Airtel's \$10.7bn acquisition of the telecoms giant Zain Africa BV, and the \$4.8bn petroleum and natural gas investment in Venezuela's Carabobo Block by a syndicate of Indian investors. However, it should be noted that outward FDI is financed abroad to a large extent and is therefore not captured as capital outflow in India's Balance of Payments.

The geographical spread of source countries for FDI in India is heavily skewed by tax rules. Mauritius has the highest share in total FDI inflows in India because of the Double Taxation Avoidance Treaty (DTAA) between the two countries. Apart from Mauritius, Singapore, and Cyprus have similar tax status, and they figure prominently on the list of source countries. FDI from Mauritius and Singapore recorded the largest decline in 2010, with inflows falling by 37 and 27 percent from 2009, respectively.¹⁰ FDI from the US, Germany, and Cyprus also saw declines, while FDI from European countries increased

FDI by sector (shares in percent)

	2007	2008	2009	2010
Services (Financial & Non financial)	21.68	24.35	21.17	18.05
Construction Activities	7.96	7.52	9.09	7.81
Housing and Real Estates	9.45	8.11	11.83	7.69
Telecommunications	6.72	7.8	9.46	6.78
Power	1.59	4.05	6.08	6.12
Metallurgical Industries	3.19	4.61	1.74	5.43
Computer Software and Hardware	15.18	5.53	2.65	4.72
Automobile Industry	2.31	3.43	4.95	3.89
Industrial Machinery	0.14	0.47	0.72	3.76
Petroleum and Natural Gas	2.19	4.14	1.38	3.07
Mining	2.64	0.13	0.63	0.51

Source: CEIC database

Private equity/venture capital and hedge funds (PE/VC/HF) seem to be disproportionately choosing tax haven jurisdictions for their incorporation. PE/VC/HF mostly enter India from tax haven jurisdictions. From there, they have invested in telecom, information technology, construction, and real estate. Inflows from PE/VC/HF stagnated around \$4bn during 2009 and 2010, about half the level of inflows India received in 2007-08.

⁹ UNCTAD, World Investment data.

¹⁰ Data for Jan. – Nov. 2010 was extrapolated to compare with full-year data for 2009.

A recent study estimates that about 20 percent of FDI inflows in 2009 were round tripped, i.e. they actually originated in India—a steep rise from low single-digit percentages five years ago.¹¹ The study tracked

close to 3,000 individual FDI transactions into India comprising about 88 percent of the total inflows for the five year period 2005-2009. The authors estimate the extent of round-tripping by counting investments by individuals or companies with main bases in India and which have expanded out of India. They estimate that 23 percent of the total FDI inflows analyzed were inflows from PE/VC/HF, and close to half of their investments involved round-tripping. According to these estimates, round-tripping increased to about \$4.8bn in 2009 from \$4.5bn in 2008 in an environment in which overall inflows fell. Round-tripping increased rapidly in the last few years from 2-4 percent of inflows in the period 2004-06.

FDI Inflows by Categories of Investors
(in millions of U.S. dollars)

	2005	2006	2007	2008	2009
FDI	2,482	6,184	5,962	12,526	11,154
PE/VC/HF	540	2,056	4,947	6,959	3,796
Portfolio	209	625	785	3,738	2,093
NRI	17	536	770	2,167	706
Round-tripping	47	126	1,304	3,443	3,400
of which: round tripped PE/VC/HF	65	276	409	1,115	1,387
Unclassified	24	17	8	50	228
Total	3,384	9,820	14,185	29,998	22,764

Note: PE/VC/HF stands for private equity, venture capital and hedge funds.

Source: Rao and Dhar (2011).

Possible explanations for the decline in FDI in 2010 are the sluggish growth in developed countries, a change in enforcement of environmental legislation in India, a clamp down on tax evasion and corruption, and general concerns regarding the prospects of the Indian economy. While hard data to support each of these possible factors is not available, some detail on each of them may be illustrative.

- The growth of exports of software and business process services was sluggish in 2010, owing to weak demand in advanced economies (the main destination for these exports). Investors may thus be in a “wait and see” mode until there is more certainty on the outlook for service sector exports. Sectors whose output is destined for the domestic market (automobiles, power, petroleum, metallurgical industries) have seen continued strong inflows.
- Recently increased scrutiny by the Ministry of Environment and Forests of environmental safeguards has delayed some investment projects, but there is no apparent change in rules and regulation which could have a long-lasting impact on these projects. Some projects that appeared to have had all necessary clearances were halted, some stopped altogether. Most notably, decisions include the cancellation of an alumina refinery in Orissa’s Kalahandi District and a Bauxite mine in the Niyamgiri Hills, the scrapping of three hydro-electric projects in the Bhagirathi basin, the withholding of environmental clearance to any other of the hydro-electric projects planned in the Bhagirathi and Alaknanda basins (tributaries of the Ganges). Delays of a more temporary nature seem to have hit the Korean steel venture POSCO, the construction of the new city of Lavasa in Maharashtra, and licenses for coal mining.
- Foreign investors may have been cautioned by recent scandals around the auction of the 2G wireless spectrum, widespread media coverage of alleged cases of corruption, and an enhanced scrutiny of off-shore bank accounts and investments from tax havens. Income tax officials have been deputed to Mauritius, for example, to intensify checks on FDI coming from there, especially into India’s real estate sector.
- Some analysts also cite concerns about high inflation, and large fiscal deficits which constrain fiscal space to deal with the ongoing increases in global commodity prices. At the same time, the fact that portfolio inflows into the equity market have risen strongly suggests that investors still have a positive view on India’s growth prospects.

¹¹ Rao, K.S., and Biswajit Dhar (2011), ‘India’s FDI Inflows : Trends & Concepts’, Working Paper, Institute for Studies in Industrial Development, New Delhi.

Going forward, most of these possible reasons for a slow-down in FDI in India would seem to be temporary. The recovery in developed countries is on track and service exports should therefore also

recover. In fact, exports could rise rapidly: analysts have pointed out that the recovery in some countries could be a “jobless recovery” with companies relying more than before the crisis on outsourcing. The ‘conditional environmental clearance’ for the integrated POSCO steel project on the Orissa coast in May 2011 is a reassuring signal. Finally, enhanced anti-corruption and anti-money laundering enforcement will enhance India’s image over time resulting in more inflows of “clean” money.

Major Source Countries for FDI Inflows (in percent, unless otherwise indicated)							
	2004	2005	2006	2007	2008	2009	2010 (Jan- Nov)
Mauritius	26.7	48.5	43.9	40.3	42.8	42.7	34.9
Singapore	1.7	7.4	5.6	7.6	11.4	11.3	10.7
U.S.A	17.3	10.8	6.6	4.6	5.4	7.6	6.8
Japan	3.1	3.9	1.0	3.5	1.2	4.7	5.4
Netherlands	13.2	2.7	4.5	3.6	3.0	3.1	4.9
Cyprus	0.1	1.6	0.5	2.8	4.0	6.0	4.7
Switzerland	1.8	1.9	0.6	1.1	0.4	0.5	4.5
UK	3.8	5.0	15.7	2.5	5.1	1.7	3.5
Indonesia	0.0	0.0	0.0	0.0	0.0	0.5	2.3
France	3.1	0.7	0.8	0.7	1.4	1.1	2.1
Germany	4.2	1.9	2.8	1.8	2.4	2.2	1.0
Total (US\$bn)	3.8	4.4	11.1	19.2	33.0	27.0	19.0

Source: CEIC database, DIPP

IV. FDI in Multibrand Retail: Will it Crowd Out the Traditional Retailers and Reduce Employment?¹²

During the 1990s, several emerging market countries have seen a surge of the modern retail sector following deregulation of the domestic market and Foreign Direct Investment (FDI).¹³

Modern retailers—hypermarkets and supermarkets—have also appeared in India in recent years, but so far they are owned by domestic firms only.¹⁴ While FDI in multibrand retail remains banned, there is now an animated debate about how a gradual lifting of the ban might affect the traditional retail sector, and employment in the sector as a whole. Proponents of a lifting of the ban expect beneficial effects on employment and prices from the technological progress that foreign investors would bring to the sector. Opponents fear a negative effect on employment in the traditional retail sector, and labour-saving effects of technical progress. This section summarizes the experience of four emerging market countries—China, Malaysia, Indonesia and the Philippines—which have fairly recently allowed FDI in the retail sector. We compare the growth of the modern retail sector and employment effects in these countries.

In summary, the comparison shows that modern retail has developed very differently in the four countries compared here. Supermarkets and hypermarkets dominate in China and Malaysia, but have only small market shares in the other two countries. Small retailers have continued to grow in all countries. Further, there is no apparent correlation of modern retail market penetration with employment in the retail sector in the four countries, or even in a broader comparison of a more representative set of 45 countries. Translated to the situation of India, this indicates that concerns over a crowding out of traditional kirana stores and large employment losses by modern retail are not supported by the experience of the countries compared here. This comparison, however, cannot shed light on the likely effect of allowing FDI in retail on consumer prices or efficiency gains in the supply chain.

¹² This section is based on a background paper prepared by Shubham Rawool and Lakshmi Iyer (Harvard University), and Ina Hoxha (World Bank).

¹³ Reardon, Thomas and Rose Hopkins ‘The Supermarket Revolution in Developing Countries: Policies to Address Emerging Tensions among Supermarkets, Suppliers, and Traditional Retailers.’ Forthcoming in European Journal of Development Research, 18(4), 2006

¹⁴ Small scale retail consists of small stores (“kirana” in Hindi), pushcarts, and stalls, whereas a typical supermarket’s trading area is about 2,000 – 5,000 sq ft, and hypermarkets trade from 15,000 - 65,000 sq ft of space.

An overview of the retail sectors in China, Malaysia, Indonesia and the Philippines

In **China**, the bulk of investment in the leading retail chains was made by the government in the 1990s. Foreign retailers were initially permitted to enter only six provinces and Special Economic Zones with ownership restricted to 49 percent. Gradual liberalization of retail FDI started in the early 1990s and continued until accession of China to the WTO in 2004. Modern retail in China comprises roughly 10 percent of the national retail sector and 30 percent of urban food markets.¹⁵ Based on a random sample of 1,200 consumers in six large cities in China, a recent study found that modern retailers have a market share of 94 percent in non-food goods, 79 percent in packaged and processed goods, 55 percent in baked goods, 46 percent in meat, 37 percent in fruit, 35 percent in poultry, 33 percent in fish, and 22 percent in vegetables. China's rural areas, in which the majority of the Chinese population resides, remain the principal market for traditional retailing.¹⁶

In **Malaysia**, the relaxation of investment and trade restrictions in the 1990s promoted FDI, which drove the rise of hypermarkets coupled with the multi-nationalization of supermarket chains.¹⁷ With changing lifestyles, higher prices and limited working capital, the traditional, so-called provision shops have been on the decline. From 2000 to 2002, the share of modern retail increased from 20 percent to 28 percent, whereas that of provision stores, grocery stores, personal goods and other stores decreased from 70 to 61 percent.¹⁶

Modern retail in Malaysia is mainly located in urban areas and is dominated by foreign-owned supermarkets such as Giant, Tesco, Makro, and Carrefour. Competition among the retailers, especially hypermarkets, is intense with frequent price wars to capture market share. On the other hand, independent small grocers' sales value declined by 3 percent in 2010. The government recently proclaimed a five-year freeze on new licenses for hypermarkets in the Kuala Lumpur and other urban areas. Hypermarkets are also no longer allowed to operate in towns with less than 350,000 people.

In **Indonesia**, modern retail started in the 1990s with the emergence of domestic chains. Up to 1998, the presence of foreign retailers in Indonesia was minimal. However, since then a loosening of regulation allowed the entry of foreign retailers with large capital bases. The share of foreign chains among the top-seven chains is now roughly 40 percent. Sales of supermarkets are growing at a rate of 15 percent per year, whereas those of traditional retailers decline at 2 percent per year. By 2005, 30 percent of overall food and 15 percent of produce was bought in supermarkets.¹⁸ Similar to China, modern retailing grew more quickly in processed, dry, and packaged foods and in household and personal care products than in fresh produce.¹⁹ Small retailers experienced a decline in their business over the three year period starting in 2004.²⁰

¹⁵ Hu, D., T. Reardon, S. Rozelle, P. Timmer, and H. Wang. 2004. The emergence of supermarkets with Chinese characteristics: Challenges and opportunities for China's agricultural development. *Development Policy Review* 22(4): 557–586

¹⁶ Goldman, A., and W. Vanhonacker. 2006. The food retail system in China: Strategic dilemmas and lessons for retail internationalization/modernization. Paper presented at the Globalizing Retail Conference, University of Surrey, Guildford, UK.

¹⁷ Mad Nasir Shamsudin and Jinap Selamat, Changing Retail Food Sector in Malaysia, paper presented at PECC Pacific Food System Outlook 2005-06 Annual Meeting, China 2005.

¹⁸ The Retail-Led Transformation of Agrifood Systems and its Implications for Development Policies - Background Paper Prepared for the World Bank's World Development Report 2008: *Agriculture for Development*

¹⁹ A C Nielsen. 2007. Survey of consumers' shopping behaviour and perceptions toward modern and traditional trade channels in Indonesia. Report to the World Bank, Jakarta, Indonesia

²⁰ Suryadarma, D., A. Poesoro, S. Budiayati, Akhmadi, and M. Rosfadhila. Impact of supermarkets on traditional markets and retailers in Indonesia's urban centers. SMERU Research Report. SMERU Research Institute, 2007

Source: Euromonitor International. Food and grocery retail is broken down into five categories: hypermarkets; supermarkets; small grocery retailers (convenience stores, forecourt retailers, chained forecourt retailers, independent forecourt retailers, and independent small grocers); food/drink/tobacco specialists, and other grocery retailers. The database does not provide the definition of ‘other grocery’ retailers. For the purpose of this analysis, we assume that ‘food, drink and tobacco specialists’ and ‘other grocery retail’ are traditional retailers.

In the **Philippines**, modern retail started in the 1980s, but initially grew slowly. By 1999, it captured only about US\$1.25 billion of sales of food and non-food products out of a total retail market of US\$34 billion. Liberalization of the sector in 2000 led to phenomenal growth with sales in 2010 reaching 10 times that of 1999, US\$13 billion, of which approximately US\$5.25 billion were food sales. About 45 percent of food retail in the urban areas and 35 percent of food retail overall in the country (urban and rural combined) was through modern retail.

A study of retailers in three districts of Marikina City in Metro Manila, showed that modern retail has had little impact on wet-market stalls sales and only a moderate impact on hawkers and pushcarts, but

it has heavily affected ‘mom and pop’ stores’ produce sales and overall food sales.²¹

Growth in modern retail turn-over and market share

During the period 2005 to 2010, small retailers and other retailers have grown in all four countries compared here, but they have not been able to maintain their share of the market. Hypermarkets and supermarkets have grown at double digit rates, while small retailers and other retailers have expanded in the low single digits. The share of supermarkets and hypermarkets as a percentage of the total retail trade has therefore increased, whereas that of small retailers and other retailers has decreased. However, market penetration by modern retail differs strongly between countries. In Indonesia and the Philippines, the retail sector is still predominantly small scale, while supermarkets and hypermarkets have captured significant market share in China and Malaysia. Within those two, the modern sector is dominated by supermarkets in China, while hypermarkets have the highest market share in Malaysia.

Impact of modern retail on employment

The different developments in the four countries presented here are not correlated with the developments in employment in the retail sector as a whole. The share of the retail sector in total employment increased in the Philippines and Indonesia, while it stagnated in China and declined slightly in Malaysia.²² This impression is supported by a broader comparison of employment in retail in 45 emerging market countries. Plotting overall employment in the retail sector against the share of modern retail in percent of overall retail shows no discernible correlation between the two: countries differ quite strongly with respect to the share of retail employment (with an average of 10 percent of total employment) across a wide range of market penetration of modern retail.

²¹ Lopez, MLT, L. Digal, T. Reardon, R. Hernandez, N. Laorden. The Impact of Modern Retail on Traditional Retail in the Philippines: Focus on Produce in Metro Manila. Report of MSU to Asian Development Bank Under Project Strengthening Institutions For Investment Climate And Competitiveness. June 2010

²² In India, the share of retail declined from 9.9 percent to 9.4 percent of the total. However, due to the rise in overall employment, the retail sector in India has increased from 34 million to 40 million workers over the 12 year period.

India: Selected Economic Indicators

	2006/07	2007/08	2008/09	2009/10	2010/11 Est.	2011/12 Proj
Real Income and Prices (% change)						
Real GDP (at factor cost)	9.6	9.3	6.8	8.0	8.6	9.0
Agriculture	4.2	5.8	-0.1	0.4	5.4	3.0
Industry	12.2	9.7	4.4	8.0	8.1	9.5
<i>Of which:</i> Manufacturing	14.3	10.3	4.2	8.8	8.8	9.5
Services	10.1	10.3	10.1	10.1	9.6	10.2
Prices (average)						
Wholesale Price Index	5.5	4.5	8.0	3.8	9.7	8.0
Consumer Price Index	6.4	6.2	9.1	12.3	10.3	...
Consumption, Investment and Savings (% of GDP)						
Consumption	67.4	65.9	70.6	68.7	69.3	70.0
Public	10.3	10.3	11.0	12.0	11.3	11.3
Private	57.0	55.6	59.5	56.7	58.0	58.8
Investment	35.7	38.1	34.5	36.5	34.4	35.9
Public	8.3	8.9	9.5	8.4	10.6	9.8
Private	26.5	27.9	24.6	25.6	22.0	26.2
Gross National Savings	37.0	39.8	35.3	36.9	37.0	37.5
Public	3.6	5.0	0.5	2.1	3.8	5.7
Private	33.4	34.8	34.8	34.8	33.2	31.8
External Sector						
Total Exports (% change in current US)	24.5	26.6	13.3	-5.1	22.5	20.0
Goods	22.6	28.9	13.7	-3.6	26.0	20.0
Services	28.0	22.4	12.5	-7.8	17.0	18.0
Total Imports (% change in current US)	22.7	31.6	16.4	-0.2	18.0	20.0
Goods	21.4	35.1	19.4	-2.7	14.1	25.0
Services	28.5	16.2	1.1	14.5	20.3	15.0
Current Account Balance (% of GDP)	-1.0	-1.3	-2.4	-2.8	-2.5	-3.0
Foreign Investment (US billion)	14.8	43.3	3.5	52.1	50.0	48.0
Direct Investment, net	7.7	15.9	17.5	19.7	15.0	27.0
Portfolio Investment, net	7.1	27.4	-14.0	32.4	35.0	21.0
Foreign Exchange Reserves (excl. Gold) (US billion)	191.9	299.2	241.4	259.7	301.0	330.7
(in months of goods and services imports)	9.8	11.6	8.1	8.7	8.9	8.5
General Government Finances (% of GDP)						
Revenue	20.0	21.0	19.9	17.3	17.3	19.1
Expenditure	25.4	26.0	28.7	26.3	25.7	26.5
Deficit	5.4	5.0	8.8	9.0	8.4	7.5
Total Debt 1/	73.8	68.7	71.1	73.0	71.9	70.3
Domestic	69.1	64.5	66.4	69.2	67.9	66.3
External	4.7	4.2	4.7	3.8	4.0	4.0
Monetary Sector (% change)						
Money Supply (M3)	21.5	21.2	19.1	16.7	16.0	16.6
Domestic Credit	20.2	17.7	23.4	20.2	19.3	16.1
Bank Credit to Government	8.0	8.7	42.0	19.1	8.1	15.8
Bank Credit to Commercial Sector	25.7	21.1	16.9	15.3	19.8	16.3

Sources: Central Statistical Organization, Reserve Bank of India, and World Bank Staff Estimates.

1/ Net of Liabilities under MSS and NSSF not used for financing CG deficit