

FOREWORD

The Report on Currency and Finance for 1998-99 was for the first time designed to focus on a single theme as the subject for detailed analysis. The comments received on that Report were generally favourable. Encouraged by this development, the Report for 1999-2000 has been fashioned to set up a tradition of choosing a theme of critical contemporary value. The objective of the theme-based approach is to direct intensive policy oriented research into issues that emerge from the analytical treatment and empirical enquiry of the chosen theme, and to place these analyses in the public domain so as to offer to the readership a comprehensive, balanced and in-depth assessment of the subject against the background of the current times.

The Report for the year 1999-2000 addresses the theme of Financial Sector and Market Integration. The 1990s have arguably been the decade of the financial sector for the Indian economy. An integral element of financial sector reforms has been the gradual development of financial markets. Policy interventions in market processes have been progressively vacated in order to reap efficiency gains associated with the development of markets. But financial development is only a necessary condition for sustainable growth, and by no means a sufficient one. Financial stability has also to be given centre-stage in the designing of public policy.

The structure of the Report reflects these developments. A brief commentary on the Indian economy during 1999-2000 and 2000-01 is provided as a backdrop to the current environment; it is followed by distinct chapters devoted to issues surrounding financial development and economic growth, the structure and integration of financial markets, the challenges relating to financial stability and efficiency of financial markets.

The preparation of the Report is centred in the Department of Economic Analysis and Policy, the research unit of the Bank. Research notes and papers on specific subjects which served as background material for the Report were prepared by Subhra Bhattacharjee, B.K. Bhoi, Binod B. Bhoi, Dhritidyuti Bose, Bhaskar Chatterjee, Sadhan Kumar Chattopadhyay, Pallavi Chavan, Bijay Shankar Choudhary, C. L. Dadhich, Sarat Chandra Dhal, T. Gopinath, Chiranjib Gupta, Sujan Hajra, R.K. Jain, Rajeev Jain, P.D. Jeromi, Asha P. Kannan, Muneesh Kapur, R. Kaushaliya, S.M. Lokare, Jayanta K. Mallik, Sangita Misra, Arghya Kusum Mitra, Dipankar Mitra, J.S. Moses, Narayan Chandra Pradhan, Anand Prakash, A. Prasad, Abha Prasad, M. Ramaiah, Mohua Roy, Sunando Roy, Anamitra Saha, Satyananda Sahoo, Achamma Samuel, Amaresh Samantaraya, Charan Singh, Vineet K. Srivastava, D. Singh and P.S.S. Vidyasagar. A list of notes/papers prepared for the Report is given in the Annexure.

In addition, B.N. Anantha Swamy, R.D. Bangar, S. Chinngaihlian, Saurabh Ghosh, Ramesh Golait, Arnab Gupta, Sanjay Kumar Hansda, R. Kannan, Deepak Mohanty, N. Nagarajan, S.M. Pillai, Ajay Prakash, Deba Prasad Rath, Siddhartha Sanyal, Tarlok Singh Sohal, C.B. Tripathi and R.M. Vasanthakumari contributed in various forms including editing, offering suggestions and comments and designing the overall presentational style. Constructive comments received from operational departments, such as, the Department of External Investments and Operations, the Internal Debt Management Cell and the Monetary Policy Department are gratefully acknowledged.

A Group drawn from the Department undertook the drafting of the various chapters, integrating background material, empirical exercises and narration into the systematic presentation that is contained in the Report. The Group consisted of Saibal Ghosh, M.R. Nair, Michael Debabrata Patra, Sitikantha Pattanaik, Janak Raj, Partha Ray, Mridul K. Saggar, Indranil Sen Gupta and Bhupal Singh.

The full Report is available at the Reserve Bank's website on the Internet at URL: www.rbi.org.in. The Bank would greatly appreciate comments and suggestions on the Report.

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Deputy Governor