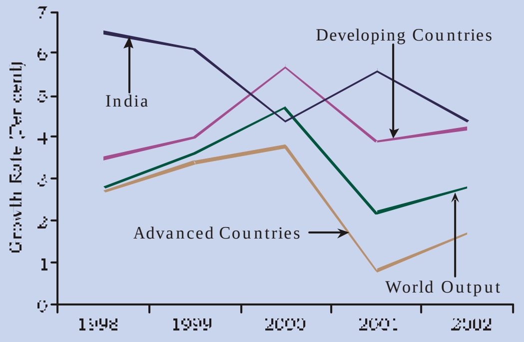
II RECENT ECONOMIC DEVELOPMENTS

Introduction

2.1 India continued to remain among the fastest growing economies in the world in 2002 in an international environment characterised by a hesitant recovery of global output and trade, adverse external factors and heightened risk aversion in financial markets. The international outlook continues to be uncertain especially in view of the delay in economic recovery in the face of persistent weak activity in advanced countries and the ramifications of the military action in Iraq which is still unfolding. According to the International Monetary Fund's World Economic Outlook, September 2002, world output is projected to grow by 2.8 per cent during 2002 and 3.7 per cent during 2003 (Chart II.1).

2.2 Notwithstanding the uncertainties in the global economy, the macroeconomic conditions remain favourable in India. Despite the drought situation in many parts of the country due to a weak and uneven monsoon after 13 years, foodgrain stocks remain comfortable. The industrial sector is continuously showing signs of broad-based recovery, led by all the three major constituents – mining, manufacturing and electricity. Significantly, the production of the infrastructure industries and capital goods has also revived. The services sector continues to sustain the Gross Domestic Product (GDP) with support from knowledge-based services such as professional and technical services. The inflation situation remains benign. Conditions in the financial markets were stable during the year with ample liquidity creating a favourable interest rate environment for investment. Bank credit continued to pick up. In the external sector, a robust performance of exports and invisible earnings, despite an adverse global scenario, was reflected in a modest surplus in the current account, which facilitated a record accretion to foreign exchange reserves. Thus, the macroeconomic situation remains comfortable although the decline in agricultural production, concerns relating to the fiscal position and international political unrest remain downside risks that could constrain growth. Seen in the context of these uncertainties, the performance of the Indian economy during 2002-03 so far demonstrates its intrinsic resilience to shocks.

Chart II.1: Real GDP Growth - Cross-Country Experience



Sources: International Monetary Fund and Central Statistical Organisation.

I. MACROECONOMIC DEVELOPMENTS: 2002-03

2.3 The real GDP growth rate is estimated to be 4.4 per cent in 2002-03 as per the Advance Estimates of the Central Statistical Organisation (CSO), somewhat lower than 5.6 per cent (Quick Estimates) in 2001-02 (Table 2.1). The expected slowdown in GDP growth in 2002-03 is mainly because of a sharp fall in agricultural GDP. Quarterly estimates of agricultural GDP indicated a growth rate of 4.4 per cent and zero per cent in the first and second quarters of 2002-03, respectively, over the corresponding period of 2001-02. Poor rains in the sowing month of July 2002 during the South-West monsoon season have led to an estimated decline of 21.3 million tonnes in *kharif* production to 90.3 million tonnes.

2.4 On the other hand, the CSO Advance Estimates show that the industrial and services sectors are expected to grow at an accelerated pace during 2002-03. The growth rate in the industrial sector is estimated to recover to 5.8 per cent in 2002-03, much higher than 3.2 per cent in the previous year. The expected growth rate would be higher in all the constituent sectors – 'manufacturing', 'mining and quarrying' and 'electricity, gas and water supply'. The industrial recovery is clearly evident in the quarterly industrial GDP, which grew by 4.1 per cent and 6.1 per cent in the first and second quarters of 2002-03 as compared with 2.5 per cent and 2.7 per cent, respectively, during the same quarters of 2001-02. Furthermore, the index of industrial production (IIP) registered an upward trend during 2002-03 (up to January) with the IIP growing by 5.5 per cent as compared with 2.6 per cent during the same period of the previous year. The capital goods sector grew by 10.6 per cent during 2002-03 (up to January), while the infrastructure industries also witnessed a higher growth of 5.2 per cent during 2002-03 (up to February). The services sector is expected to continue to provide strong support to GDP, with its share increasing to 56.0 per cent in 2002-03 from 54.6 per cent in 2001-02 in line with long-term trends. All the sectors, except 'trade, hotels, restaurants, transport and communication' are expected to grow at a higher rate in 2002-03. The robust performance during the first two quarters of 2002-03 demonstrates the strength of the services sector in sustaining output against the backdrop of a significant fall in agricultural GDP.

2.5 The deterioration on the fiscal front continues to be a matter of concern. The gross fiscal deficit (GFD) at 5.9 per cent of GDP in the revised estimates for 2002-03 exceeded the budget estimate of 5.3 per cent. The rising fiscal deficit inevitably constrains augmenting outlays on the much needed social and physical infrastructure and poverty alleviation programmes. Recognising these issues, the Union Budget 2003-04 accorded priority to fiscal consolidation while addressing the basic objectives of eradication of poverty, giving a major boost to infrastructure and laying the foundations for balanced and accelerated growth of agriculture and industry. The Union Budget for 2003-04 envisages a reduction in the GFD to 5.6 per cent of GDP.

2.6 Monetary conditions remained stable with ample liquidity creating a favourable interest rate environment conducive for investment during 2002-03. Abundant liquidity conditions enabled a smooth absorption of the Centre's market borrowing as well as a softening of interest rates. Large and persistent capital inflows were sterilised by timely open market (including repo) operations. Consequently, base money expansion remained moderate at 7.5 per cent during 2002-03 (up to March 14, 2003) as compared with 8.8 per cent during the corresponding period of the previous year. Net of merger effects, broad money (M_3) growth was below the projections made by the Monetary and Credit Policy for 2002-03. On an year-on-year basis, M_3 grew by 12.7 per cent (net of the impact of the mergers) as on March 7, 2003 as compared with 13.9 per cent a year ago. The growth in net bank credit to the Government slowed down to 13.0 per cent during 2002-03 (up to March 7, 2003) from 14.0 per cent during the corresponding period of the previous year. Bank credit to the commercial sector increased by 11.3 per cent (net of the merger impact) as compared with 9.2 per cent during the comparable period of 2001-02. The revival in non-food bank credit, which took root in the last quarter of 2001-02, firmed up throughout 2002-03 reflecting the improvement in the industrial climate. Inflation remained moderate throughout 2002-03 notwithstanding the shortfall in agricultural production and the volatility in oil prices with war risk perceptions. Headline inflation, measured by point-to-point annual changes in the WPI, edged up to 4.7 per cent on March 1, 2003 due to a hardening of international oil prices and base effects. On an annual average basis, the inflation rate decelerated to 3.0 per cent as on March 1, 2003 from 3.9 per cent in the corresponding period of the previous year.

2.7 Financial markets remained generally stable during 2002-03. The co-existence of adequate liquidity conditions and moderation of inflation expectations enabled a softening of interest rates. The Bank Rate, in particular, at 6.25 per cent, is now at a 30-year low. The reduction in interest rates in recent times has taken place across maturities despite a high fiscal deficit. This, combined with a benign inflationary environment, is a welcome development which augurs well for industrial recovery. While at the short-end, the overnight average call money rates moved down by 126 basis points guided primarily by repo rate cuts, the 10-year and the 25-year secondary market yields of government securities softened by 103 basis points and 77 basis points, respectively, during 2002-03 (up to February). The call money market remained stable, with call rates hovering around the repo rate. The government securities market witnessed a continued rally in the prices of government securities during the larger part of 2002-03. Yields have, however, been firming up since mid-January 2003, in the face of international uncertainties and inching up of domestic inflation rates. The foreign exchange market exhibited orderly conditions during 2002-03, with the exchange rate of the rupee trading in a narrow range. The stock markets were affected by a number of adverse factors such as border tensions, unsatisfactory monsoons and subdued trends in international markets.

2.8 The external sector of the Indian economy posted significant gains. Driven by the robust merchandise export performance and the highest ever net invisible earnings in any year, the current account balance recorded a larger surplus than in 2001-02, despite a reasonably well-distributed pick up in imports.

Net capital flows remained stable, particularly foreign direct investment (FDI) and non-resident deposits. These salutary developments resulted in a record accretion of around US $ 20 billion to foreign exchange reserves during 2002-03 (up to March 13, 2003). The foreign exchange reserves stood at US $ 73.9 billion as on March 13, 2003, the seventh largest in the world. On the other hand, the strength of capital flows resulted in a modest appreciation of the exchange rate of the Rupee *vis-a-vis* the US dollar. Besides, the improvement in external-debt indicators now places India in the "less-indebted" country category.

Table 2.1 : Macroeconomic Indicators

(Per cent)

Variable	2001-02	2002-03 so far	2001-02 (corresponding period last year)
	1	2	3
Real GDP	5.6	4.4 $	–
Agriculture and Allied Activities	5.7	-3.1 $	–
Industry	3.2	5.8 $	–
Services	6.5	7.1 $	–
Index of Industrial Production (IIP)	2.8	5.5 (up to January)	2.6 (up to January)
Foodgrains Production (mt)	212.0	183.2	212.0
Food Stocks (mt) (end-March)	51.0	40.1 (end-January)	56.4 (end-January)
GFD / GDP (ratio)	6.1	5.9 (R.E.)	–
Broad Money (M_3)	14.2	14.3 (11.4 &) (up to March 7)	13.0 (up to March 8)
Net Bank Credit to the Government	14.6	13.0 (up to March 7)	14.0 (up to March 8)
Scheduled Commercial Banks' Non-Food Credit (adj. for non-SLR Investments)	12.7	22.9 (15.7 &) (up to March 7)	9.9 (up to March 8)
WPI Inflation (Point-to-point)	1.6	4.7# (March 1)	2.0# (March 2)
Call Money Borrowing Rate (Weighted average)	6.97	5.90 (February)	7.18 (February)
Yield on 10-Year Government Securities ##	7.36	6.34 (end-February)	7.34 (end-February)
BSE Sensex (Average)	3331.95	3210.67 (up to February)	3311.21 (up to February)
Exchange Rate (Rupees/US $)	48.80 (as on end- March)	47.66 (as on March 13)	48.72 (as on March 13)
Export Growth Rate (US $ terms)	-1.6	17.3 (up to January)	-0.3 (up to January)
Import Growth Rate (US $ terms)	1.7	15.9 (up to January)	0.2 (up to January)
Current Account Balance (US $ billion)	1.3	2.5 (up to November)	-1.3 (up to November)
Foreign Investment Inflow (US $ million)	5,925	2,642 (up to December)	4,055 (up to December)
Non-Resident Deposit Inflow (US $ million)	2,728	2,283 (up to December)	2,254 (up to December)
Foreign Exchange Reserves* (US $ million)	54,106	73,918 (March 13)	52,189 (March 15)

* As at the end of the period.
\# On a year-on-year basis.
\## On residual maturity basis.
& Excludes the impact of mergers since May 3, 2002.
$ Advance Estimates from CSO.

II. REAL SECTOR

2.9 Real GDP is likely to grow by 4.4 per cent (Advance Estimates) in 2002-03 as compared with an average growth rate of 5.5 per cent during the Ninth Five Year Plan Period (1997-98 to 2001-02) (Table 2.2). The estimated fall in the GDP growth rate during 2002-03, as already noted, is mainly because of the drought conditions witnessed in several parts of the country. The States which were severely affected by the deficiency of rains during the South-West monsoon 2002 were Haryana, Rajasthan, Punjab, Uttar Pradesh, Orissa, Madhya Pradesh, Gujarat, Tamil Nadu and parts of Karnataka and Kerala. It is expected that the industrial recovery would get more entrenched during 2002-03, while the services sector would continue to act as a cushion to higher GDP growth.

2.10 During 2002-03, the share of services rose significantly to 56.0 per cent, while its relative contribution to the overall growth of 4.4 per cent worked out to 88.3 per cent. The contributions from the industrial and agricultural sectors were 28.8 per cent and (-) 17.1 per cent, respectively, during 2002-03. The trend sectoral composition of GDP indicates a continuous fall in the share of agriculture from an average of 36.4 per cent in the 1980s to 29.1 per cent in the 1990s. The share of agriculture in the overall GDP fell further to 22.2 per cent in 2002-03. On the other hand, the share of industry in the overall GDP rose from an average of 19.5 per cent in the 1980s to 21.9 per cent in the 1990s, and remained almost at the same level in 2002-03. The services sector witnessed a sharp rise in its share in GDP from an average of 44.0 per cent in the 1980s to 49.0 per cent in the 1990s (Chart II.2).

2.11 The available data on the quarterly growth rates of real GDP so far indicate that the growth rate of real GDP is higher in the first and second quarters of 2002-03 as compared with the corresponding quarters of the previous year (Chart II.3). The increase in the growth rate of real GDP in the second quarter of 2002-03 was mainly driven by the industry and services sectors (Table 2.3). The industrial expansion has come about mainly from 'manufacturing' and 'mining and quarrying'.

Table 2.2 : Sectoral Growth Rates of Gross Domestic Product (at 1993-94 prices)

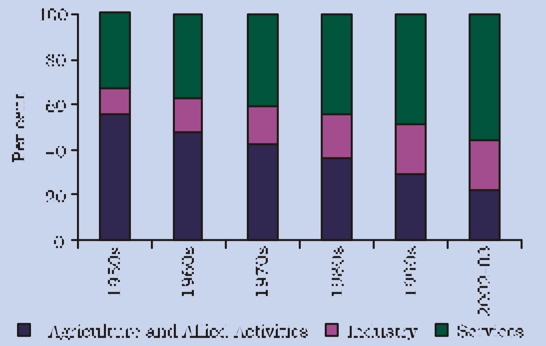
(Per cent)

Sector	Growth Rate						
	1997-98	1998-99	1999-2000	2000-01@	2001-02*	Ninth Plan Average (1997-98 to 2001-02)	2002-03#
	1	2	3	4	5	6	7
1. Agriculture and Allied Activities	**-2.4**	**6.2**	**0.3**	**-0.4**	**5.7**	**1.9**	**-3.1**
1.1 Agriculture	-2.8	6.9	-0.1	-0.6	5.7	1.8	..
2. Industry	**3.0**	**3.2**	**4.1**	**6.5**	**3.2**	**4.0**	**5.8**
2.1 Mining and Quarrying	9.8	2.8	3.3	2.4	1.0	3.9	4.8
2.2 Manufacturing	1.5	2.7	4.0	7.3	3.4	3.8	6.1
2.3 Electricity, Gas and Water Supply	7.9	7.0	5.2	5.0	4.3	5.9	5.2
3. Services	**9.8**	**8.1**	**9.9**	**5.8**	**6.5**	**8.0**	**7.1**
3.1 Construction	10.2	6.2	8.0	6.9	3.7	7.0	7.1
3.2 Trade, Hotels, Restaurants, Transport and Communication	7.7	7.7	8.6	6.9	8.7	7.9	7.8
3.3 Financing, Insurance, Real Estate and Business Services	11.6	7.4	10.6	3.5	4.5	7.5	6.5
3.4 Community, Social and Personal Services	11.7	10.4	12.2	5.6	5.6	9.1	6.4
4. GDP at factor cost	**4.8**	**6.5**	**6.1**	**4.4**	**5.6**	**5.5**	**4.4**

@ Provisional Estimates. * Quick Estimates. # Advance Estimates.

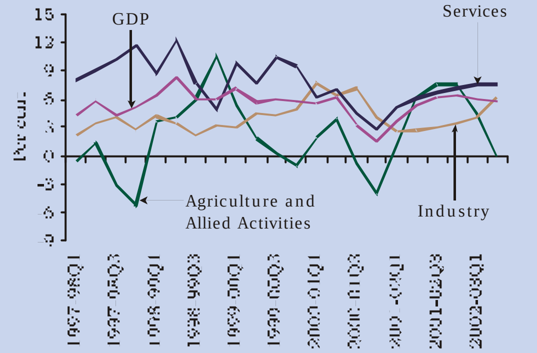
Source : Central Statistical Organisation.

Chart II.2 : Sectoral Composition of GDP



Source: Central Statistical Organisation.

Chart II.3: Trends in Quarterly Sectoral Growth Rates of Real Gross Domestic Product



Source: Central Statistical Organisation.

Saving and Investment

2.12 The rate of gross domestic saving improved marginally to 24.0 per cent in 2001-02 from 23.4 per cent in 2000-01, mainly on account of an increase in the rate of household saving. This reflected increased holdings of both financial and physical assets by households. The rate of saving of the private corporate sector declined marginally in 2001-02. The rate of public sector dis-saving deteriorated further to 2.5 per cent in 2001-02 from 2.3 per cent in 2000-01 and 0.9 per cent in 1999-2000 (Chart II.4 and Table 2.4).

2.13 The investment rate declined to 23.7 per cent in 2001-02 from 24.0 per cent in 2000-01. As a result, the overall saving-investment gap recorded a surplus at 0.2 per cent of GDP in 2001-02 from (-) 0.6 per cent of GDP in 2000-01 (Table 2.4). In line with the

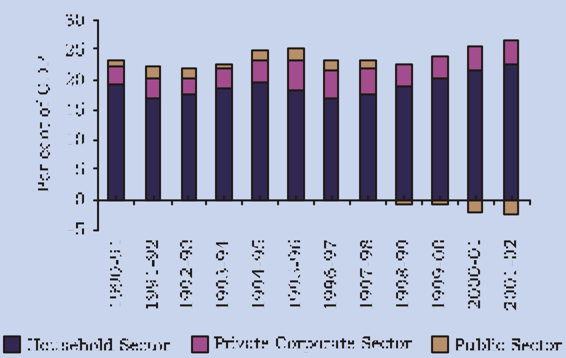
Table 2.3 : Quarterly Sectoral Growth Rates of Gross Domestic Product (at 1993-94 prices)

(Per cent)

Sector	2000-01				2001-02				2002-03	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	1	2	3	4	5	6	7	8	9	10
1. Agriculture and Allied Activities	**1.8**	**3.9**	**-0.8**	**-4.0**	**1.1**	**6.3**	**7.6**	**7.6**	**4.4**	**0.0**
2. Industry	**7.6**	**6.4**	**7.0**	**4.1**	**2.5**	**2.7**	**3.0**	**3.4**	**4.1**	**6.1**
2.1 Mining and Quarrying	4.8	3.6	4.3	0.9	-0.3	0.7	3.1	3.5	5.3	5.1
2.2 Manufacturing	8.1	7.1	7.1	4.6	2.7	2.6	2.9	3.1	3.8	6.4
2.3 Electricity, Gas and Water Supply	7.1	4.5	9.3	4.0	3.9	5.4	3.8	5.4	5.3	4.9
3. Services	**6.3**	**6.9**	**4.4**	**2.9**	**5.1**	**6.0**	**6.6**	**7.0**	**7.5**	**7.6**
3.1 Construction	12.4	10.0	7.2	-1.2	-0.2	2.7	4.4	7.5	6.3	7.2
3.2 Trade, Hotels, Restaurants, Transport and Communication	8.1	6.3	4.8	2.4	4.5	6.3	6.6	7.2	7.4	8.0
3.3 Financing, Insurance, Real Estate and Business Services	3.7	3.9	2.1	2.0	7.0	7.6	8.1	8.3	9.7	8.9
3.4 Community, Social and Personal Services	3.2	9.8	5.0	5.8	6.5	5.4	6.2	5.6	5.7	5.7
4. Gross Domestic Product at factor cost	**5.4**	**6.2**	**3.4**	**1.5**	**3.5**	**5.3**	**6.2**	**6.4**	**6.0**	**5.8**

Source : Central Statistical Organisation.

Chart II.4 : Saving by Institutional Sources



Source: Central Statistical Organisation.

trend observed during the second half of the 1990s, the rate of capital formation in the private corporate sector declined further in 2001-02 (Chart II.5).

Agriculture

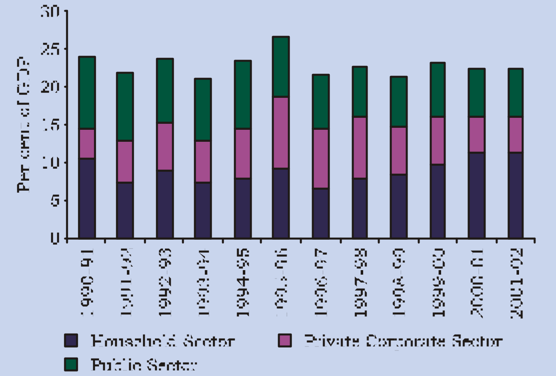
2.14 The prospects for Indian agriculture were adversely affected by deficient monsoons after 13 continuous years of normal rainfall, reflecting the continued rain-dependency of Indian agriculture. The

Table 2.4 : Gross Domestic Saving and Investment

Variable	Per cent of GDP (at current market prices)			
	1998-99	1999-2000	2000-01@	2001-02*
	1	2	3	4
1. Household Saving	18.9	20.3	21.6	22.5
1.1. Financial Assets	10.5	10.8	10.4	11.2
1.2. Physical Assets	8.4	9.6	11.2	11.3
2. Private corporate sector	3.7	3.7	4.1	4.0
3. Public sector	-1.0	-0.9	-2.3	-2.5
4. Gross Domestic Saving (GDS) (1+2+3)	21.7	23.2	23.4	24.0
5. Saving-Investment Gap	-1.0	-1.1	-0.6	0.2
6. Gross Domestic Capital Formation (GDCF) #	22.7	24.3	24.0	23.7
7. Gross Capital Formation (8+9+10)	21.4	23.3	22.5	22.4
8. Public sector	6.6	7.1	6.4	6.3
9. Private corporate sector	6.4	6.5	4.9	4.8
10. Household sector	8.4	9.6	11.2	11.3

\# Adjusted for errors and omissions.
@ Provisional Estimates.
* Quick Estimates.
Source : Central Statistical Organisation.

Chart II.5 : Gross Capital Formation by Institutional Sources

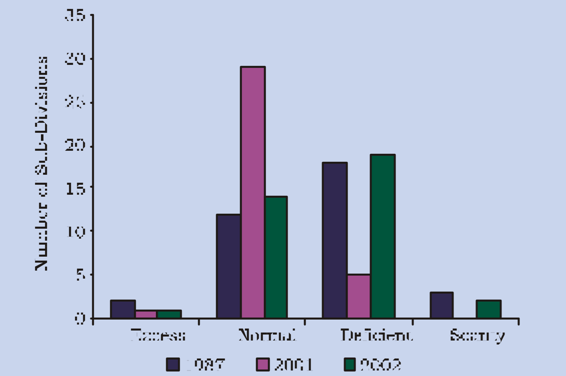


Source: Central Statistical Organisation.

country, as a whole, received about 81 per cent of the long period average (LPA) rainfall during the South-West monsoon season in 2002 as compared with 90 per cent in 2001. As a result, 21 meteorological sub-divisions out of 36 received either deficient or scanty rainfall in comparison with 5 sub-divisions in the previous monsoon. According to the India Meteorological Department (IMD), the shortfall in rainfall during the 2002 South-West monsoon season led to drought in as much as 29 per cent of the land with 19 per cent being declared as moderate drought and 10 per cent as severe drought areas. Furthermore, the scale and intensity of the drought in 2002 has been comparable with that in 1987-88 when 21 sub-divisions received deficient/scanty rainfall and 14 sub-divisions received excess/normal rainfall (Chart II.6).

2.15 The impact of deficient rainfall was the most acute during July 2002, when the deviation of the

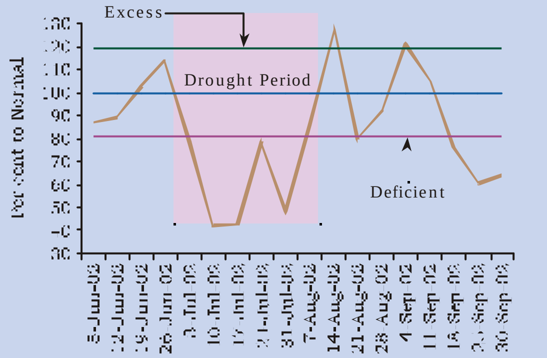
Chart II.6 : South-West Monsoon Cumulative Rainfall (during June 1 to September 30)



Source: India Meterological Department.

actual from the normal crossed 60 per cent for 2-3 weeks, adversely affecting the sowing and agricultural production (Chart II.7). There was, however, a turnaround during August and September 2002 with some rains, which provided respite from the moisture stress for late sown crops. Besides, it also replenished water in the reservoirs. Of the 70 reservoirs monitored by the Central Water Commission, while as many as 51 reservoirs recorded storage below or up to 30 per cent of the Full Reservoir Level (FRL) by end-July, the number fell to 19 by end-September 2002.

Chart II.7 : Weekly Progress of South-West Monsoon (2002)



Note: Excess/Deficient rainfall denotes +/- 19 per cent of the Long Period Average.

Source: India Meteorological Department.

2.16 As a result of drought conditions, the real GDP originating from 'agriculture and allied activities' is estimated to have declined by 3.1 per cent in 2002-03 in contrast to a rise of 5.7 per cent in 2001-02. Quarterly estimates indicate a growth rate of 4.4 per cent and zero per cent in the first and second quarters of 2002-03, respectively, over the corresponding quarters of 2001-02. The damage to agricultural production was, however, controlled to some extent on account of the implementation of a contingency plan for crop production (Box II.1).

Kharif 2002

2.17 The Second Advance Estimates of Agricultural Production by the Union Ministry of Agriculture placed *kharif* foodgrains production in 2002 at 90.3 million tonnes indicating a fall of 21.3 million tonnes from the level attained in *kharif* 2001 (Table 2.5). Further, there has been a slippage in production performance in *kharif* 2002 *vis-a-vis* the targets as well (Chart II.8).

2.18 The progress of the North-East monsoon season (October-December 2002) has also been below the last year's levels. The cumulative rainfall was excess to normal in 10 subdivisions and deficient/ scanty in the remaining 26 sub-divisions (Chart II.9).

Rabi 2002-03

2.19 According to the Second Advance Estimates of Agricultural Production, *rabi* foodgrains production

Box II.1

Drought Relief Measures

- The interest on both the *kharif* crop and agricultural term loans during 2002-03 was deferred. Besides, the loans were rescheduled into term loans which would be recovered over the next 5 years in the case of small and marginal farmers and 3 years in the case of other farmers. The first year's deferred liability of interest on *kharif* loans was waived completely as a one-time measure.
- The Government announced a grant of an input subsidy to small and marginal farmers, amounting to over Rs.1,490 crore. In view of the severity of the drought, the Agricultural Input Subsidy was extended further to cover all other farmers too, for both the sown and unsown areas, up to a ceiling of 2 hectares, as a one-time measure. All the 14 affected States received additional amounts for input subsidies, in excess of Rs.555 crore, for combating drought.
- Short duration crops like green gram (*moong*), *moth* and oil seeds crops like *toriya* (rapeseed) were promoted to tap the benefits of a revival of monsoon during the later part of the South-West monsoon season 2002. In the light of lower availability of surface and ground water for irrigation, farmers were advised to resort to zero tillage and strip-till drills wheat cultivation, utilising the residual moisture available after the rice harvest. Zero tilled wheat saves on about 30 per cent water, energy and labour and also gives either equal or enhanced yield compared to conventional tillage. The objective was to increase crop density so as to achieve maximum production.
- The off-take under Welfare Schemes in the Public Distribution System (PDS) at 38.99 million tonnes during 2002-03 (up to end-January 2003) was higher by 65.9 per cent over the corresponding period of the previous year. One-time special drought relief prices has been announced for various commodities. These range from Rs.20 per quintal for paddy, *jowar, copra* and *sesamum*, Rs.15 per quintal for sunflower seed, Rs.10 per quintal for *bajra* and *soyabean* and Rs.5 for various pulses. An increase of Rs.5 per quintal in Statutory Minimum Price (SMP) was announced for sugarcane farmers in all States. An amount of Rs.25 crore was provided to the Department of Animal Husbandry for support to '*gaushalas*' with more than 1,000 heads of cattle. Free transportation of cattle-grade feed and fodder to State Governments was also sanctioned until end-June 2003.
- On the foodgrains front, the Government sanctioned an allotment of 38.0 lakh metric tonnes of rice and wheat free of cost to the 14 drought-affected States for providing employment in drought affected States. In view of acute water shortage in the drought effected areas of Rajasthan, the Ministry of Railways was instructed to run additional water tanker trains to the State.

Table 2.5 : Season-wise Agricultural Production

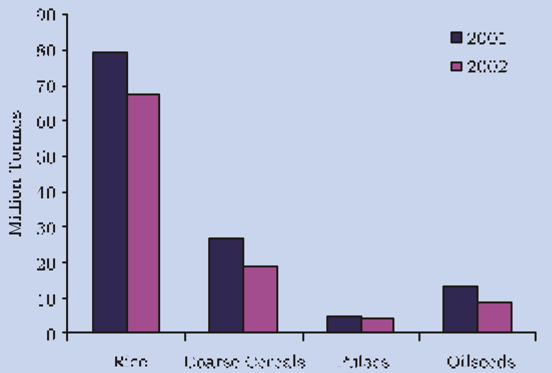
(Million Tonnes)

Crop	*Kharif*			*Rabi*		
	2001-2002	2002-2003		2001-2002	2002-2003	
	A	T	A.E.	A	T	A.E.
	1	2	3	4	5	6
Rice	79.76	78.64	67.41	13.32	14.36	10.31
Wheat	N.A	N.A	N.A	71.81	78.00	68.89
Coarse cereals	26.93	25.84	18.86	7.02	7.16	6.24
Pulses	4.87	6.00	3.99	8.32	10.00	7.47
Total Foodgrains	**111.56**	**110.48**	**90.26**	**100.47**	**109.52**	**92.91**
Oilseeds	12.90	15.90	8.45	7.53	11.10	6.99
Sugarcane	300.10	320.00	285.36	N.A	N.A	N.A
Cotton*	10.09	15.00	8.94	N.A	N.A	N.A
Jute & Mesta $	11.64	12.00	11.50	N.A	N.A	N.A

T Target.
AE Advance Estimates as on February 10, 2003.
** In million bales of 180 kilograms each.
A Achievement.
* In million bales of 170 kilograms each.
Source : Ministry of Agriculture, Government of India.

in 2002-03 is projected to decline by 7.6 million tonnes to 92.9 million tonnes as compared with 100.5 million tonnes in the previous year (Table 2.5). The decline is more for rice than in wheat.

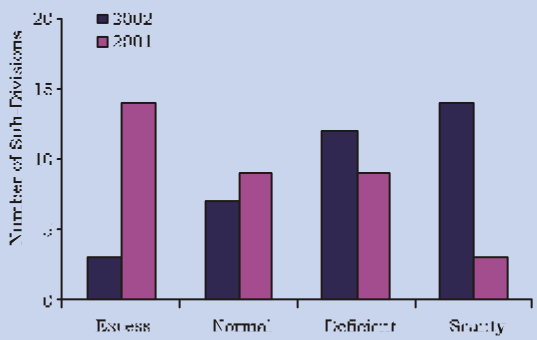
Chart II.8 : *Kharif* Agricultural Production



Source: Ministry of Agriculture.

monsoon season, which was affected by drought. This trend notwithstanding, the severe weather aberrations and its adverse impact on production, reflects the comfortable availability of foodgrains.

Chart II.9 : North-East Monsoon Cumulative Rainfall (during October 1 to December 31)



Source: India Metereological Department.

2.20 The overall performance of agriculture production has been affected adversely by the severe drought in 2002. Production of foodgrains in 2002-03 is estimated to decline sharply to 183.2 million tonnes from the record production of 212.0 million tonnes in the previous year (Table 2.6). The wholesale price index of foodgrains, in general, and that of cereals, in particular, remained stable during the post-South-West

Procurement, Off-take and Stock of Foodgrains

2.21 Despite a sharp fall in production by 28.9 million tonnes, the procurement of foodgrains during 2002-03 (up to February 28, 2003) declined only by 3.2 million tonnes to 37.1 million tonnes as compared with 40.3 million tonnes for the corresponding period of the previous year. The off-take, on the other hand, rose to

Table 2.6 : Crop-wise Targets/Achievements

(Million Tonnes)

Crop	2000-01		2001-02		2002-03	
	T	A	T	A	T	AE
	1	2	3	4	5	6
Rice	90.00	87.70	92.00	93.08	93.00	77.72
Wheat	74.00	69.68	78.00	71.81	78.00	68.89
Coarse Cereals	33.00	31.08	33.00	33.94	33.00	25.10
Pulses	15.00	10.87	15.00	13.19	16.00	11.46
Total Foodgrains	**212.00**	**199.33**	**218.00**	**212.02**	**220.00**	**183.17**
Nine Oilseeds	28.00	18.44	28.00	20.73	27.00	15.44
Sugarcane	325.00	295.96	325.00	292.21	320.00	285.36
Cotton*	14.50	9.52	14.50	11.69	15.00	8.94
Jute & Mesta**	10.00	10.56	11.00	10.79	12.00	11.50

T Target.
AE Advance Estimates as on February 10, 2003.
** In million bales of 180 kilograms each.
A Achievement.
* In million bales of 170 kilograms each.
Source : Ministry of Agriculture, Government of India.

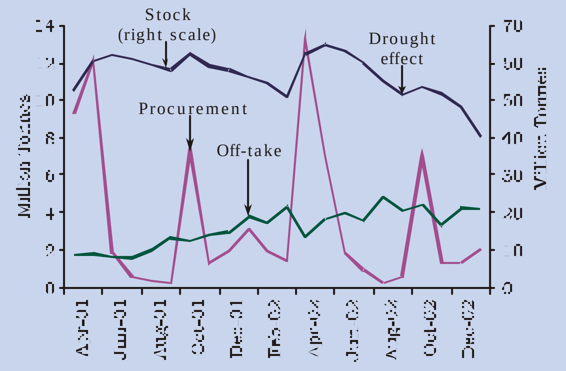
39.0 million tonnes during 2002-03 (up to January 2003) as compared with 23.5 million tonnes in the corresponding period last year. This pick up mainly reflected increased off-take under Other Welfare Schemes (OWS) followed by Open Market Sales (OMS), exports and Targeted Public Distribution System (TPDS). The off-take under TPDS rose following a downward revision of the Central Issue Prices (CIP) for the Above Poverty Line (APL) consumers. The higher off-take under other welfare schemes is attributed to the higher allocation made under various programmes, such as *Annapurna* and the Food for Work Programme, as part of the drought relief measures. Consequent to the increased offtake, foodgrains stock registered a significant decline to 40.1 million tonnes as at end-January 2003 from the peak of 64.8 million tonnes in May 2002. At this level, the stocks are a little less than two and a half times the end-December norm of 16.8 million tonnes (Chart II.10).

Industry

2.22 The recovery of industrial activity during 2002-03 augurs well for the overall growth and investment climate in India despite the hesitant recovery abroad. The industrial sector is estimated to have recovered to 5.8 per cent in 2002-03 from 3.2 per cent in the previous year. The industrial recovery was witnessed in all the constituent sub-sectors, particularly the manufacturing sector, which rose by 6.1 per cent in 2002-03 from 3.4 per cent in 2001-02 (Chart II.11).

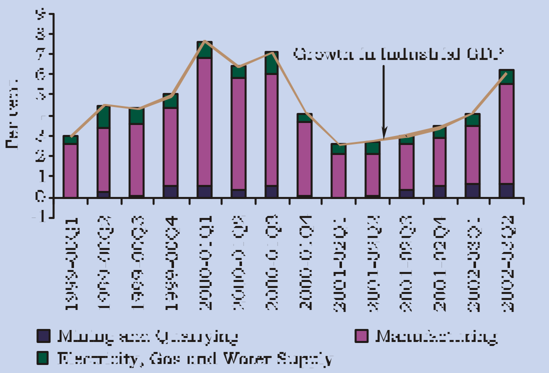
2.23 The index of industrial production (IIP) accelerated to 5.5 per cent during 2002-03 (up to January 2003) from 2.6 per cent recorded during the comparable period of the previous year. All the sub-sectors recorded a higher growth during 2002-03 (up to January) as compared with the corresponding period of 2001-02 (Chart II.12 and Table 2.7).

Chart II.10: Procurement, Off-take and Stocks of Foodgrains



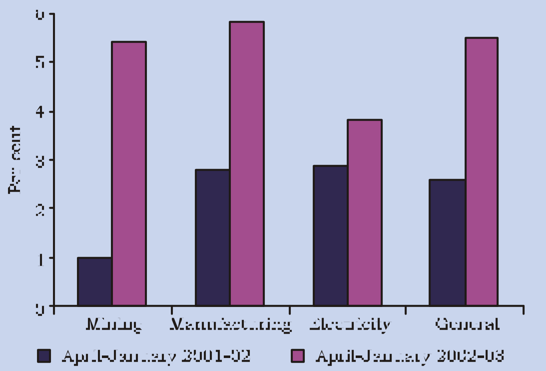
Source: Ministry of Food, Consumer Affairs and Public Distribution.

Chart II.11: Sectoral Contribution to Industrial GDP Growth



Source: Central Statistical Organisation.

Chart II.12: Growth of IIP



Source: Central Statistical Organisation.

2.24 The incipient industrial recovery during 2002-03 essentially emanated from a confluence of favourable impulses, which are both macroeconomic and industry-specific. The revival of industrial activity, therefore, could be partly attributed to a revival of export demand, rising business confidence, softening of interest rates and a slight increase in manufacturing inflation. Besides, the sharp expansion in construction activity also had a favourable impact on industrial demand through its backward linkages, *e.g.*, cement and steel industries, and forward linkages. Moreover, consumer non-durables have emerged as a source of growth for industry suggesting a revival of consumer demand. The leading indicators of industrial production such as non-food credit off-take, exports, capital goods imports and production of capital goods, have all recorded increases, suggesting that the revival of industrial activity is likely to be sustained during the year (Chart II.13). However, there is also a possibility that the delayed monsoon and its subsequent impact on agricultural production could dampen the rural demand for both durable and non-durable consumer goods.

2.25 According to the use-based classification, all the sectors except consumer durables showed an accelerated growth (Chart II.14). Significantly, the capital goods sector registered a positive growth of 10.6 per cent during 2002-03 (up to January 2003).

2.26 During 2002-03 (up to February 2003), the overall growth of infrastructure industries worked out substantially higher at 5.2 per cent as compared with a growth of 3.2 per cent during the corresponding period of the previous year (Chart II.15). All infrastructure industries except coal and petroleum refining products recorded a higher growth during 2002-03 (up to February 2003).

Table 2.7 : Sector-wise Growth of IIP

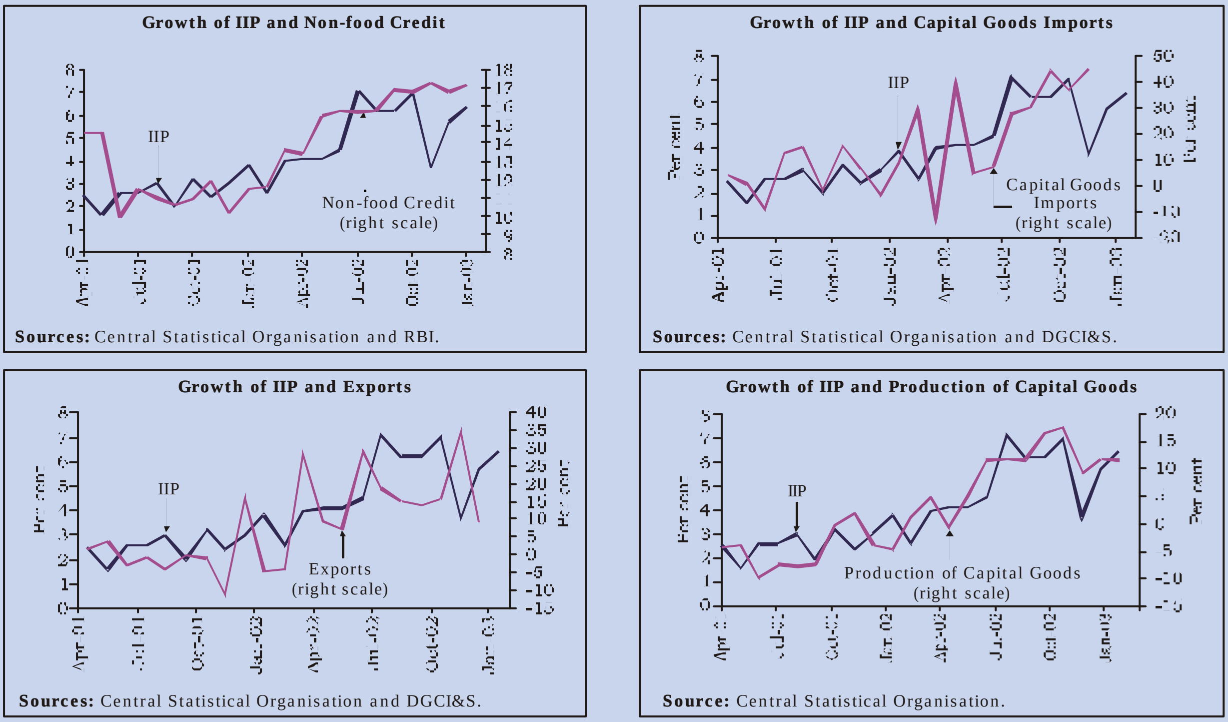
(Per cent)

Month	General (100.00)		Electricity (10.17)		Mining & Quarrying (10.47)		Manufacturing (79.36)	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
	1	2	3	4	5	6	7	8
April	2.5	4.1	1.5	5.2	1.6	3.6	2.7	4.0
May	1.6	4.1	3.0	2.2	-1.9	7.9	1.8	4.0
June	2.6	4.5	2.1	3.8	-4.1	9.0	3.4	4.2
July	2.6	7.1	4.7	6.1	-2.6	12.1	2.9	6.7
August	3.0	6.2	2.7	4.1	0.6	5.7	3.3	6.5
September	2.0	6.2	4.6	-0.4	4.4	1.0	1.4	7.6
October	3.2	7.0	-0.2	7.1	3.8	4.2	3.5	7.3
November	2.4	3.7	2.4	3.5	3.7	3.4	2.3	3.8
December	3.0	5.7	4.2	2.8	1.8	5.5	3.0	6.1
January	3.8	6.4	4.0	4.0	2.3	2.7	4.1	6.9
April -January	**2.6**	**5.5**	**2.9**	**3.8**	**1.0**	**5.4**	**2.8**	**5.8**

Notes : 1. Data for 2002-03 are provisional.
2. Figures in bracket are weights in IIP.

Source : Central Statistical Organisation.

Chart II.13: Leading Indicators of Industrial Growth



Sources: Central Statistical Organisation and RBI.

Sources: Central Statistical Organisation and DGCI&S.

Sources: Central Statistical Organisation and DGCI&S.

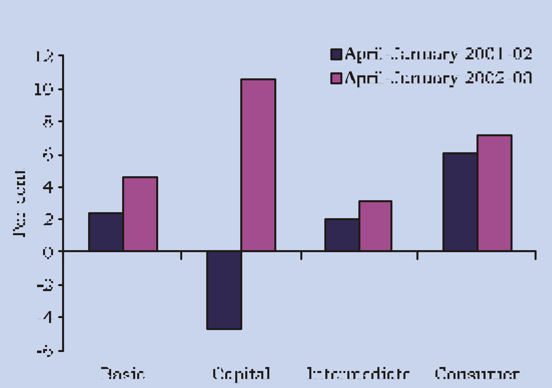
Source: Central Statistical Organisation.

Services Sector

2.27 The buoyancy in the services sector continued to strengthen during 2002-03 as it is expected to grow by 7.1 per cent as against 6.5 per cent in 2001-02 and 5.8 per cent in 2000-01. Among the sub-sectors of services, only the growth rate in 'trade, hotels, restaurants, transport and communication' would be lower at 7.8 per cent during 2002-03 as compared with 8.7 per cent in the preceding year. Despite the lower growth rate, 'trade, hotels, restaurants, transport and communication' with a maximum share in the services GDP, would contribute 3.3 percentage points (46.5 per cent) in the overall growth rate of 7.1 per cent in services GDP during 2002-03 (Table 2.8 and Chart II.16).

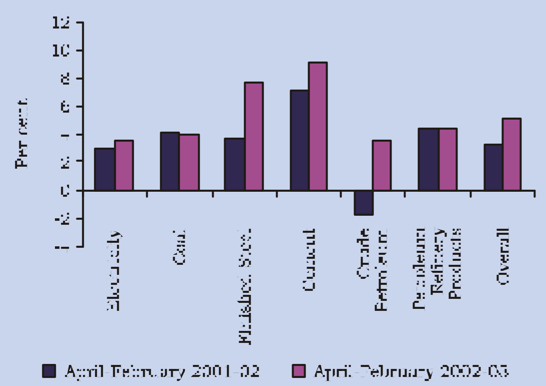
2.28 The quarterly estimates of GDP also indicate that the services sector with a growth at 7.5 per cent and

Chart II.14 : Growth of IIP - Use-based Classification



Source: Central Statistical Organisation.

Chart II.15 : Growth of Infrastructure Industries



Source: Office of Economic Adviser, Ministry of Commerce and Industry, Government of India.

Table 2.8 : Growth in Services Sector

(Per cent)

Sector	2001-02	2002-03
	1	2
Construction	3.7 (0.4)	7.1 (0.7)
Trade, Hotels, Restaurants, Transport and Communication	8.7 (3.7)	7.8 (3.3)
Financing, Insurance, Real Estate and Business Services	4.5 (1.0)	6.5 (1.5)
Community, Social and Personal Services	5.6 (1.4)	6.4 (1.6)
Services Sector Growth	**6.5**	**7.1**

Note : Figures in bracket represent contribution to services growth rate in terms of percentage points.

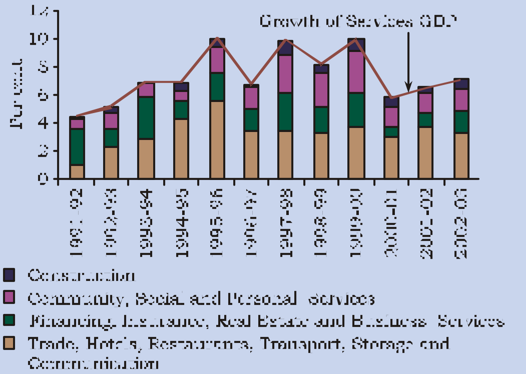
Source : Central Statistical Organisation.

Chart II.17 : Quarterly Growth Rates of Services Sector

Source: Central Statistical Organisation.

7.6 per cent, respectively, in the first and second quarters of 2002-03 is sustaining the GDP growth rate (Chart II.17). The growth rates of almost all the components of services are higher during the first two quarters of 2002-03 over the corresponding quarters of 2001-02.

Chart II.16 : Sectoral Contribution in Growth of Services GDP



Source: Central Statistical Organisation.

2.29 Of late, the information technology (IT) and software services have emerged as one of the most dynamic service-providing sub-sectors in the services sector, with an annual average growth rate of 50.0 per cent during the second half of the 1990s. Reflective of this, the share of IT and software services increased to 2.9 per cent of GDP in 2001-02 from 2.8 per cent in 2000-01, with revenue earnings rising to Rs.48,000 crore in 2001-02 from Rs.37,760 crore in 2000-01. Exports have emerged as the major driver of the IT and software sector, accounting for 76.7 per cent of the total revenue earned in the sector during 2001-02.

III. PUBLIC FINANCES

2.30 The issue of fiscal consolidation continues to be at the centre of public finances, with a commitment to fiscal adjustment at both the Central and State levels. The budgets for fiscal year 2002-03 placed the combined GFD of the Centre and States at 9.5 per cent of the GDP lower than 10.3 per cent in the revised estimates for 2001-02. The combined gross primary deficit and revenue deficit were also placed lower at 3.1 per cent and 6.2 per cent of GDP, respectively, as compared with 4.0 per cent and 7.0 per cent in the revised estimates for 2001-02. The reduction in the deficits was sought to be achieved through higher revenue mobilisation and moderation in aggregate expenditure.

Central Government Finances

2.31 The Union Budget for 2002-03 envisaged ongoing fiscal consolidation, higher growth in revenue collections, enhanced realisation from disinvestment and compression in the growth of aggregate expenditure. All the fiscal deficit indicators were budgeted at lower levels than the previous year's levels. The GFD, revenue deficit, and primary deficit were placed at 5.3 per cent, 3.8 per cent, and 0.7 per cent of GDP, respectively. The process of fiscal consolidation was envisaged through maintaining a higher growth in revenue (15.3 per cent) and a relatively moderate growth in aggregate expenditure (12.6 per cent). In the revised estimates for 2002-03, all the key deficit indicators were placed higher than their budgeted levels (Table 2.9). The deterioration witnessed in the revised estimates *vis-à-vis* budgeted levels, despite a decline in the overall expenditure, was mainly due to a larger shortfall in the realisation of revenue as well as disinvestment receipts.

Table 2.9 : Deficit Indicators of the Centre

(Rupees crore)

Indicator	2001-02	2002-03(BE)	2002-03(RE)	2003-04(BE)	Variation (3 over 2)	
					Rupees Crore	Per cent
	1	2	3	4	5	6
Gross Fiscal Deficit	1,40,955 (6.1)	1,35,524 (5.3)	1,45,466 (5.9)	1,53,637 (5.6)	9,942	7.3
Revenue Deficit	1,00,162 (4.3)	95,377 (3.8)	1,04,712 (4.3)	1,12,292 (4.1)	9,335	9.8
Gross Primary Deficit	33,495 (1.5)	18,134 (0.7)	29,803 (1.2)	30,414 (1.1)	11,669	64.3

Note : Figures in bracket represent per cent to GDP.

2.32 Revenue receipts declined by 3.3 per cent in the revised estimates for 2002-03 over the budgeted level due to a shortfall of 5.1 per cent in tax collection, while non-tax revenue registered a marginal increase over the budget estimates (Table 2.10). The gross tax collections were lower (5.9 per cent) than the budget estimates. Barring customs duties, all the major taxes suffered a decline over the budget estimates. On the capital receipts side, disinvestment receipts, in the revised estimates, were lower by Rs. 8,640 crore than the budgeted target of Rs.12,000 crore. Non-debt capital receipts (disinvestment and recoveries) accounted for 12.9 per cent of the capital receipts while the rest was contributed by debt receipts.

2.33 The aggregate expenditure in the revised estimates for 2002-03 was lower by 1.5 per cent from the budget estimates. The expenditure reduction was solely in the non-Plan expenditure while the Plan expenditure showed a marginal rise. The reduction in

Table 2.10 : Total Receipts and Aggregate Expenditure of the Centre

(Rupees crore)

Indicator	2001-02	2002-03 (BE)	2002-03 (RE)	2003-04 (BE)	Variation (3 over 2)	
					Rupees crore	Per cent
	1	2	3	4	5	6
Total Receipts	3,62,453 (15.8)	4,10,309 (16.0)	4,04,013 (16.4)	4,38,795 (16.0)	-6,296	-1.5
Revenue Receipts	2,01,449 (8.8)	2,45,105 (9.6)	2,36,936 (9.6)	2,53,935 (9.3)	-8,169	-3.3
Tax Revenue (Net)	1,33,662 (5.8)	1,72,965 (6.8)	1,64,177 (6.7)	1,84,169 (6.7)	-8,788	-5.1
Non-Tax Revenue	67,787 (3.0)	72,140 (2.8)	72,759 (3.0)	69,766 (2.5)	619	0.9
Capital Receipts	1,61,004 (7.0)	1,65,204 (6.5)	1,67,077 (6.8)	1,84,860 (6.7)	1,873	1.1
Total Expenditure (1+2=3+4)	3,62,453 (15.8)	4,10,309 (16.0)	4,04,013 (16.4)	4,38,795 (16.0)	-6,296	-1.5
1. Non-Plan Expenditure	2,61,259 (11.4)	2,96,809 (11.6)	2,89,924 (11.8)	3,17,821 (11.6)	-6,885	-2.3
2. Plan Expenditure	1,01,194 (4.4)	1,13,500 (4.4)	1,14,089 (4.6)	1,20,974 (4.4)	589	0.5
3. Revenue Expenditure	3,01,611 (13.1)	3,40,482 (13.3)	3,41,648 (13.9)	3,66,227 (13.3)	1,166	0.3
4. Capital Expenditure	60,842 (2.6)	69,827 (2.7)	62,365 (2.5)	72,568 (2.6)	-7,462	-10.7

Note : Figures in bracket are per cent to GDP.

the non-Plan expenditure was on account of reduced grants and loans to States and Union Territories (UTs) due to non-utilisation of funds under the Fiscal Incentive Fund (Rs.2,184 crore), defence (Rs.9,000 crore) on account of lower capital expenditure, interest payments (Rs.1,727 crore) due to reductions in interest rates on Government securities and pensions (Rs.804 crore). However, the expenditure on subsidies increased by Rs.4,817 crore over the budget estimates with almost 83 per cent of the rise accounted for by food and indigenous fertiliser subsidies.

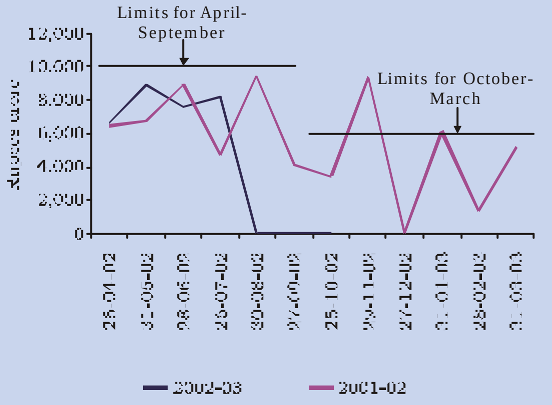
Union Budget for 2003-04

2.34 The Union Budget for 2003-04 accorded priority to fiscal consolidation and debt restructuring as it is essential for sustainable growth. The fiscal policy measures proposed in the Union Budget underscore the Government's commitment to totally eliminate budgetary drags and achieve fiscal consolidation through revenue enhancement under a modern tax administration and expenditure rationalisation. An important element in tax reforms is the switching over to a Value Added Tax (VAT) by States with effect from April 1, 2003; others include strengthening of tax administration through greater application of IT and rationalisation of the tax structure with a view to improving the competitiveness of Indian industry in international markets. The expenditure management envisaged in the Union Budget mainly focuses on better cash management and debt restructuring taking advantage of comfortable foreign exchange reserves and lower domestic interest rates. As part of debt restructuring, a buy back of a large proportion of the banks' holding of Central Government domestic debt contracted under the high interest regime is expected to improve banks' balance sheets. The Government's objective towards fiscal consolidation is, thus, endeavoured through expenditure reprioritisation and revenue augmentation.

2.35 The Union Budget for 2003-04 projects moderate growth rates of 7.2 per cent in revenue receipts and 8.6 per cent in aggregate expenditure. With a relatively higher growth in expenditure, all the major deficit indicators would show increases in absolute terms during 2003-04 from the levels in the revised estimates for 2002-03. However, in terms of GDP, all the deficit indicators would be lower during 2003-04 than the levels in the revised estimates for 2002-03. As proportion of GDP, the GFD for 2003-04 is placed lower at 5.6 per cent than 5.9 per cent in the revised estimates for 2002-03.

2.36 The Centre's ways and means advances (WMA) from the Reserve Bank for the first and second halves of 2002-03 were fixed at Rs.10,000 crore (April-September) and Rs.6,000 crore (October-March), the same as in the previous year. The average utilisation of WMA, at Rs 4,433 crore during 2002-03 (up to March 14, 2003), was lower than the previous year's level. The net Reserve Bank credit to the Centre declined by Rs.24,098 crore during 2002-03 (up to March 14, 2003) reflecting active open market operations by the Reserve Bank (Chart II.18).

Chart II.18: Monthly Position of Ways and Means Advances to the Central Government

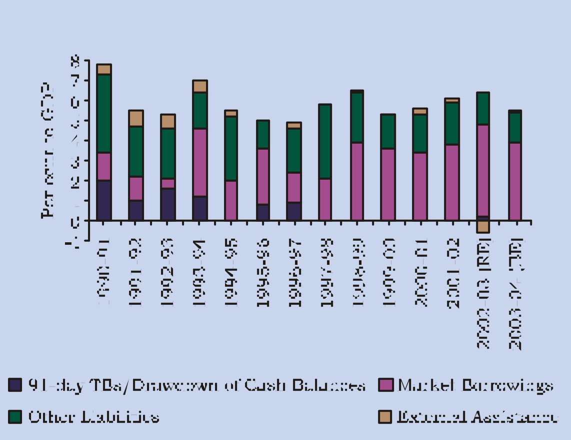


2.37 The gross market borrowings of the Central Government were budgeted at Rs.1,42,867 crore and net market borrowings at Rs.95,859 crore for 2002-03. The outcome in the revised estimates for 2002-03 placed the net borrowings at Rs. 1,12,865 crore which exceeded the budget estimates by 17.7 per cent. For 2003-04, the gross and net market borrowings are budgeted at Rs. 1,66,230 crore and Rs.1,07,194 crore, respectively. Net market borrowings would finance 69.8 per cent of GFD during 2003-04 as against 77.6 per cent in the revised estimates for 2002-03. At the same time, financing through other liabilities would decline to 27.9 per cent from 28.0 per cent and external finance would contribute 2.3 per cent as against a negative share of 9.3 per cent during 2002-03 (Chart II.19).[1]

2.38 The Reserve Bank continued to combine auction issues with private placements of dated securities of the Central Government consistent with market conditions. Devolvements/ private placement with the Reserve Bank amounted to Rs.36,175 crore,

1 As against net external assistance of Rs.770 crore budgeted in 2002-03, the revised estimates show that net external assistance would be negative at Rs.13,496 crore due to higher repayments of Rs.25,210 crore than the budgeted amount of Rs.10,563 crore.

Chart II.19 : Financing Pattern of GFD of the Centre



representing 28.9 per cent of the gross market borrowings of the Centre through dated securities during 2002-03 (up to March 21, 2003). The weighted average maturity of the Government of India dated securities issued so far during 2002-03 declined to 13.83 years from 14.26 years for 2001-02 as a whole. At the same time, the cost of market borrowings of the Central Government continued to fall due to a benign inflation rate and ample liquidity conditions. The weighted average yield of GOI dated securities declined to 7.34 per cent during 2002-03 (up to March 21, 2003) from 9.44 per cent during 2001-02 reflecting the general softening of the interest rate structure. The bid-cover ratio of the primary issuance of dated securities ranged between 0.64-3.8 during the current year so far. The interest rate on the primary issue of 10-year government securities declined from 6.85 per cent on April 5, 2002 to 6.72 per cent on July 18, 2002. The yield on 15-year securities declined from 7.49 per cent on April 16, 2002 to 7.37 per cent on October 17, 2002. Similarly, the yield on 25-year primary bonds declined from 8.62 per cent on May 30, 2002 to 7.48 per cent on November 7, 2002.

State Finances

2.39 The finances of State Governments during 2002-03 are budgeted to record an improvement over the previous year. In the budget estimates for 2002-03, the revenue deficit, as a percentage of GDP, is budgeted lower at 1.9 per cent as compared with 2.6 per cent in the revised estimates for 2001-02. With the compression in the revenue deficit, the GFD as a percentage of GDP is budgeted to decline from 4.6 per cent in 2001-02(RE) to 4.0 per cent in 2002-03. The primary deficit is also budgeted lower at 1.2 per cent of GDP in 2002-03 than 1.8 per cent in the previous year.

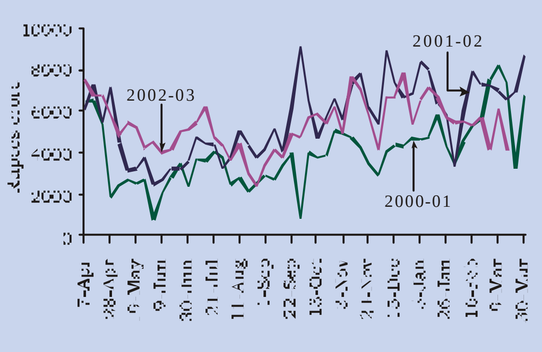
2.40 During 2002-03, revenue receipts are budgeted to rise by 13.3 per cent. States' own revenue receipts are expected to finance 53.6 per cent of revenue expenditure and 44.2 per cent of the aggregate expenditure (49.7 per cent and 41.0 per cent, respectively, in 2001-02). The total expenditure of States is budgeted to grow by 7.3 per cent, as compared with the growth rate of 15.7 per cent in the previous year.

2.41 The States have continued to emphasise fiscal consolidation in their budgets for 2002-03 through expenditure management, revenue augmentation and reforms in public sector undertaking. The proposed measures include enhancement of revenue receipts through a revision of tax rates, broadening of the tax base and improved tax compliance. On the expenditure front, a number of States propose to contain revenue expenditure through a set of economy measures such as restrictions on fresh recruitment/ creation of new posts and controlling administrative expenditure. Some States have initiated measures to provide statutory backing to the fiscal reform process through enabling legislations. While Karnataka has already enacted fiscal responsibility legislation, Maharashtra and Punjab introduced similar bills in their respective legislatures. The Kerala Government proposes to introduce a Fiscal Accountability Bill. Several States have already finalised their Medium-Term Fiscal Reforms Programme (MTFRP). A number of States have also focused on restructuring of public sector undertakings, development of infrastructure, including encouragement to private investment in the infrastructure projects and promotion of growth enhancing sectors like information technology and agro-based industries, consolidated sinking fund, guarantee redemption fund and statutory limits on guarantees.

2.42 The likely fiscal outturn of the State Governments during 2002-03 is not yet evident. During April-July 2002, the outstanding WMA was generally higher than those in the comparable period of the previous year. From August 2002, these have generally remained lower than the outstanding WMA in the comparable period of the previous year. The outstanding WMA and overdrafts of State Governments amounted to Rs.4,060 crore as on March 14, 2003 which was lower by 38.7 per cent as compared with the outstanding amount of Rs.6,622 crore on March 15, 2002 (Chart II.20).

2.43 The gross and net market borrowings allocated to States for 2002-03 (including additional allocation of Rs.10,000 crore under a debt-swap scheme)

Chart II.20 : Outstanding WMA and Overdrafts to States (Weekly)



Note: The relevant date of weeks specified pertains to 2000-01; for other years it relates to corresponding weeks.

amounted to Rs.30,933 crore and Rs.29,144 crore, respectively. During 2002-03 (up to March 20, 2003), the States have raised Rs.30,853 crore. Of this, Rs.27,880 crore (90.4 per cent) was raised through tap-issues at interest rates ranging between 6.6-7.8 per cent and Rs.2,973 crore (9.6 per cent) through auctions at coupon rates ranging between 6.7 per cent and 8.0 per cent. The States that raised funds through the auction route were Andhra Pradesh (Rs.545 crore), Gujarat (Rs.445 crore), Jammu and Kashmir (Rs.70 crore), Karnataka (Rs.200 crore), Kerala (Rs.445 crore), Madhya Pradesh (Rs.247 crore), Maharashtra (Rs.509 crore), Punjab (Rs.85 crore), Tamil Nadu (Rs.275 crore) and West Bengal (Rs.153 crore). The range of coupon rates, at 6.6-8.0 per cent during 2002-03 so far, worked out substantially lower than that of 7.8-10.5 per cent during 2001-02 and 10.5-12.0 per cent during 2000-01 as well as 11.5 per cent in case of loans from the Centre (Plan loans) and 10.5 per cent for loans arising from small saving collections. The decline in the interest rate on States' market borrowings reflected the general softening of interest rates. The coupon rate for the tap *tranche* held in August 2002 was fixed 50 basis points over the then prevailing yield of Government of India 10-year security. However, in the *tranche* conducted in December 2002, the spread was lower at 37 basis points over the then prevailing yield of a Government of India ten-year security.

2.44 The high order of borrowings by the Central and State Governments continue to raise concerns about the sustainability of the public debt. The combined debt-GDP ratio of the Centre and States increased to 70.0 per cent in the revised estimates for 2001-02 and is budgeted to rise further to 71.6 per cent in 2002-03.

IV. MONETARY DEVELOPMENTS

2.45 The monetary policy stance of the Reserve Bank during 2002-03 continued to focus on the provision of adequate liquidity to meet credit growth and support investment demand in the economy with a policy preference for soft interest rates while continuing a vigil on movements in the price level. The Reserve Bank also reiterated its commitment to impart greater flexibility to the interest rate structure in the medium term. In April 2002, the monetary and credit policy for 2002-03 was framed on the basis of a real GDP growth rate of 6.0-6.5 per cent and a rate of inflation of slightly lower than 4.0 per cent under the assumption of a normal monsoon. Consistent with the macroeconomic objectives, indicative projections of M_3 growth and aggregate deposit growth of scheduled commercial banks were placed at 14.0 per cent each, with non-food credit growth (inclusive of non-SLR investments) projected at about 15.0-15.5 per cent. The Mid-Term Review of Monetary and Credit Policy (October 2002) lowered the projection of real GDP growth to 5.0-5.5 per cent in view of the drought conditions in several parts of the country.

2.46 Monetary conditions remained stable during 2002-03. Notwithstanding a higher non-food credit off-take, easy liquidity conditions prevailed during the year on account of strong capital flows, CRR cuts and a decline in food credit. This enabled a smooth absorption of the Centre's market borrowing as well as a softening of interest rates with varying sensitivity across the spectrum. The Reserve Bank continued to steer liquidity conditions by modulating market liquidity with an array of discretionary operations in the form of changes in reserve requirements, open market (including repo) operations and standing facilities, reinforced by interest rate signals, in the form of changes in the Bank Rate and the repo rate. In the backdrop of large and persistent capital inflows, the Reserve Bank absorbed excess liquidity through a policy mix of outright open market operations (OMO) sales and repos under the Liquidity Adjustment Facility (LAF) (Chart II.21 and Table 2.11). This enabled the Reserve Bank to contain primary money creation, on the one hand, and at the same time, ease interest rates by simultaneously cutting the price of discretionary liquidity, on the other.

2.47 During 2002-03, monetary conditions remained easy facilitated by stable foreign exchange market conditions leading to a favourable interest rate environment conducive to investment. A temporary tightening of liquidity resulting from pressures of the government borrowing programme, seasonal cash demand and a revival of credit off-take in end-May

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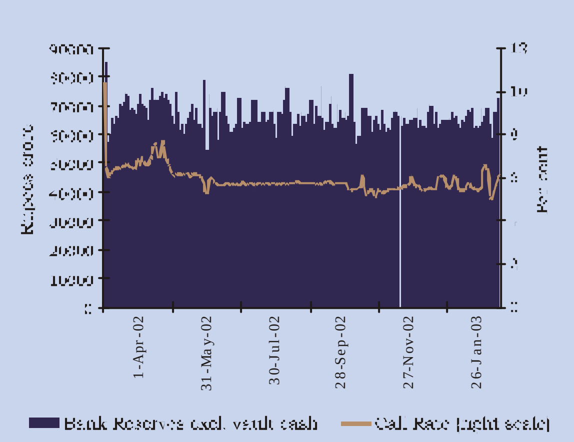
Chart II.21 : Commercial Bank Reserves and Call Rate



2002 was mitigated by a policy mix of private placements and a CRR cut of 50 basis points effective fortnight beginning June 1, 2002. As call rates softened in response, the repo rate was cut by 25 basis points on June 27, 2002. This was reinforced by a further cut of 25 basis points each in the Bank Rate (to 6.25 per cent, the lowest since 1973), the repo rate (both effective October 30, 2002) and the CRR (effective November 16, 2002) as announced in the Mid-Term Review of Monetary and Credit Policy. At the same time, the Mid-Term Review stated that no useful purpose would be served by a further reduction in the Bank Rate in view of the prevailing easy liquidity conditions and the structural downward stickiness in interest rates, and the policy bias would be to keep it stable at least until the end of the financial year. The repo rate was cut by 50 basis points to 5.0 per cent by March 2003.

2.48 In order to tackle the problem of downward rigidities in the interest rate structure, the Reserve Bank encouraged banks to introduce a flexible interest rate system (together with the fixed rate option) for all fresh deposits. To increase the interest rate flexibility, banks were advised to review both their prime lending rates (PLRs) and spreads. The Reserve Bank initiated the process of deregulation of ceiling rates on export credit in rupee terms in a phased manner to encourage greater competition among banks and to extend such credit at lower rates to exporters with good track records.

2.49 The Liquidity Adjustment Facility (LAF) emerged as the principal operating instrument of monetary policy to adjust liquidity on a day-to-day basis as well as transmit interest rate signals especially through periodic fixed rate auctions during the year. Since the LAF was able to provide an effective cushion to the market and with a view to phasing out sector-specific standing facilities, other windows of liquidity support continued to be gradually withdrawn. The collateralised lending facility (CLF), for instance, was phased out effective October 5, 2002. In case of export credit refinance, which is now the only remaining standing facility, the apportionment of normal (at a rate linked to the Bank Rate) and backstop (at a rate linked to LAF operations or NSE-MIBOR) facilities was changed to one-half each effective November 16, 2002, from the earlier ratio of two-third and one-third.

Table 2.11 : Reserve Bank's Net Foreign Assets, Net Credit to Centre, Initial Subscriptions, Open Market Operations and LAF Repos : 2002-03

(Rupees crore)

Month	RBI's NFA (net of revaluation)	Net RBI Credit to Central Government	RBI's Initial Subscription	RBI's Net OMO Sales	Average Daily Repo (LAF) Outstanding
	1	2	3	4	5
April	3,076	11,976	0	5,307	8,119
May	2,394	1,838	20,018	1,524	1,924
June	3,739	-12,359	2,000	189	9,640
July	9,160	8,122	1,157	6,538	14,636
August	7,370	-19,083	0	7,025	11,825
September	5,983	-8,593	0	6,355	12,181
October	8,350	-8,075	0	71	14,656
November	11,791	-1,191	0	11,070	8,141
December	11,297	-8,616	0	4,552	6,855
January	9,375	-3,288	0	10,995	5,018
February	11,062	-6,206	0	88	3,786

Note : Based on data pertaining to the last reporting Friday of the month.

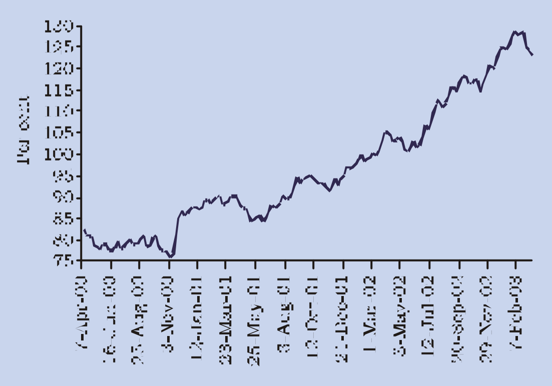
2.50 The Reserve Bank continued with structural reforms with the objective of widening and deepening the financial markets. Non-bank participants are being gradually phased out of the call/notice money markets which is expected to facilitate the development of other segments, such as the repo market and the term-money market. Besides, with effect from November 16, 2002, banks were required to maintain a minimum of 80 per cent of the required CRR balances on a daily basis as against the earlier requirement of a minimum daily maintenance of 50 per cent of required CRR balances during the first week and 65 per cent during the second week of the reporting fortnight. Subsequently, with effect from December 28, 2002, the required minimum daily CRR balance was brought down to 70 per cent.

Reserve Money

2.51 Reserve money increased by 7.5 per cent during 2002-03 (up to March 14, 2003) as compared with 8.8 per cent during the corresponding period of last year, notwithstanding the steady accretion to the Reserve Bank's foreign currency assets by Rs.75,730 crore (net of revaluation) during 2002-03 so far, as compared with Rs.45,740 crore last year. The net domestic assets (NDA) underwent a compensating decline of Rs.50,534 crore, as the Reserve Bank continued to counterbalance domestic and external sources of monetisation as well as neutralise the liquidity released by CRR cuts (Chart II.22).

2.52 Due to a steady rise in net foreign assets led by capital inflows, the ratio of net foreign assets to currency climbed to 123.3 per cent by March 14, 2003, far in excess of 70 per cent as recommended by the Committee on Capital Account Convertibility (Chairman: S. S. Tarapore) (Chart II.23).

Chart II.23 : NFA/Currency Ratio



2.53 The Reserve Bank's subscription to the Centre's fresh dated securities, at Rs.36,175 crore (at face value, inclusive of Rs.13,000 crore towards pre-payment of loans drawn from multi-lateral agencies) during 2002-03 so far, was swamped by net open market sales amounting to Rs.53,772 crore. Reflecting the increased market appetite for government paper in the wake of sustained easy liquidity conditions emanating from capital flows and reductions in reserve requirements, the Reserve Bank was, thus, able to more than offset the monetary impact of deficit financing through secondary market operations (Chart II.24).

2.54 The net Reserve Bank credit to the Central Government declined by Rs.24,098 crore as compared with a decline of Rs.936 crore during the corresponding period of 2001-02 (Table 2.12). In view of the market demand for government paper, the Reserve Bank converted annuities in the form of 4.6 per cent special securities of Rs.40,000 crore into marketable securities.

Chart II.22 : Select Sources of Reserve Money

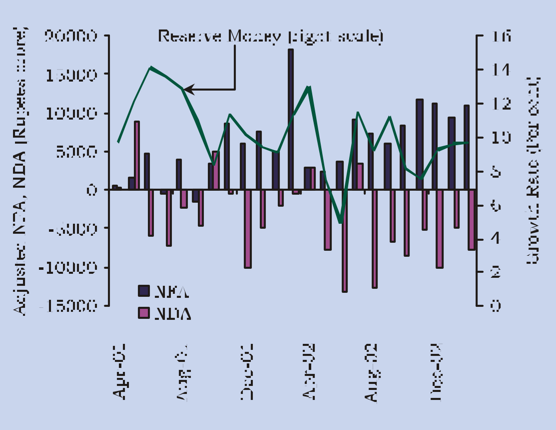


Chart II.24 : Market Operations of RBI and Call Rate

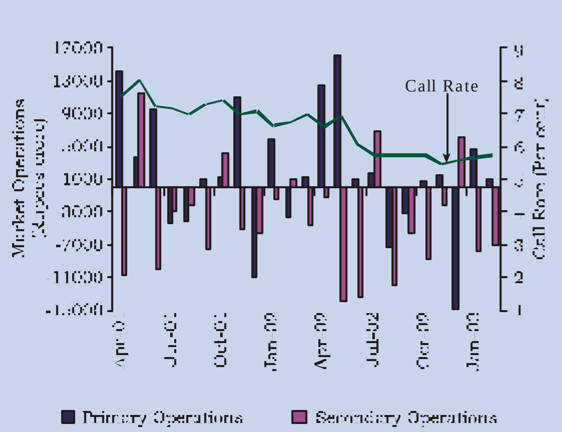


Table 2.12 : Net Reserve Bank Credit to the Centre: Quarterly Variations

(Rupees crore)

Variable	2001-02 Q1	2001-02 Q2	2001-02 Q3	2001-02 Q4	2002-03 Q1	2002-03 Q2	2002-03 Q3	2002-03 Q4$
	1	2	3	4	5	6	7	8
Net Reserve Bank Credit to the Centre (1+2+3+4-5)	**19,523 (13.3)**	**-20,140 (-12.1)**	**-4,770 (-3.3)**	**236 (0.2)**	**1,455 (1.0)**	**-19,555 (-13.7)**	**-17,882 (-14.5)**	**11,884 (11.3)**
1. Loans and Advances	3,619	-7,791	-1,223	5,176	2,472	-7,648	0	0
2. Treasury Bills held by the Reserve Bank	-3	-480	0	18	-18	0	0	0
3. Reserve Bank's Holdings of Dated Securities	13,150	-11,907	-3,529	63	-6,107	-11,761	-17,979	11,979
4. Reserve Bank's Holdings of Rupee Coins	39	38	-18	24	64	-146	97	-91
5. Central Government Deposits	-2,718	0	-1	5,045	-5,044	0	0	4
*Memo Items**								
1. Market Borrowings of Dated Securities by the Centre #	46,000	31,000	24,000	13,213	49,000	35,000	23,000	18,000
2. Reserve Bank's Primary Subscription to Dated Securities	21,000	679	4,000	3,213	22,018	1,157	0	13,000
3. Repos (-) / Reverse Repos (+) (LAF), net position	1,355	1,410	-1,160	-4,605	-20,355	8,845	10,371	4,994
4. Net Open Market Sales #	10,929	13,985	5,273	148	7,020	19,918	15,693	11,141
5. Primary Operations £	27,376	-7,273	1,178	3,368	29,598	-8,642	-12,527	17,969

* At face value. £ Adjusted for Centre's surplus investment. $ Up to March 14, 2003. # Excludes Treasury Bills.

Figures in parentheses constitute percentage variations. Data based on March 31 for Q4 and last reporting Fridays for other quarters.

This enhances the quality of the Reserve Bank's balance sheet, not only by reducing the non-marketable portion of the public debt but also by valuing central bank assets at market-determined rates. Furthermore, commercial banks and PDs redeemed their refinance drawals in view of CRR cuts.

Monetary Survey

2.55 Broad money (M_3) increased by 14.3 per cent (11.4 per cent, net of the impact of the mergers) during 2002-03 (up to March 7, 2003) as compared with 13.0 per cent during the comparable period of 2001-02 (Table 2.13). On an annual basis, the M_3 growth rate worked out to 12.7 per cent (net of impact of mergers) as compared with 13.9 per cent last year. The average year-on-year M_3 growth rate decelerated to 13.9 per cent (net of RIBs/IMDs/merger effects) as on March 7, 2003 from 15.3 per cent in the previous year. Currency

Table 2.13 : Monetary Indicators – Variations

(Absolute variations in Rupees crore)

Indicator	2001-02 Point to Point (Per cent)	2001-02 Monthly Average (Per cent)	2002-03 (up to March 7, 2003) Absolute	2002-03 (up to March 7, 2003) Per cent	2001-02 (up to March 8, 2002) Absolute	2001-02 (up to March 8, 2002) Per cent
	1	2	3	4	5	6
Reserve Money	11.4	11.1	25,196 *	7.5 *	26,608 *	8.8 *
Broad Money (M_3)	14.2	16.2	2,14,249 (1,71,657)	14.3 (11.4)	1,70,536	13.0
Currency with the Public	15.2	12.7	32,932	13.6	34,251	16.3
Aggregate Deposits	14.2	17.0	1,81,759	14.5	1,37,716	12.5
Net Bank Credit to Government	14.6	16.6	76,214	13.0	71,763	14.0
Bank Credit to Commercial Sector	11.3	12.8	1,29,803	17.2	62,763	9.2
Net Foreign Exchange Assets of the Banking Sector	26.0	24.6	82,991	26.4	51,650	20.7

* Up to March 14, 2003 and the corresponding period of the previous year. Data are provisional.

Figures in parentheses are net of the impact of the mergers.

Chart II.25 : Shares of Government and Commercial Sector in Adjusted Domestic Credit

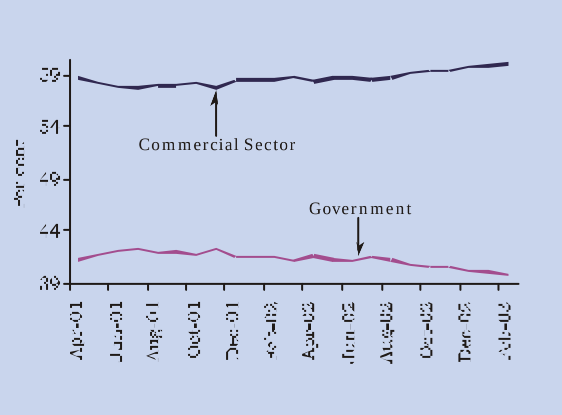
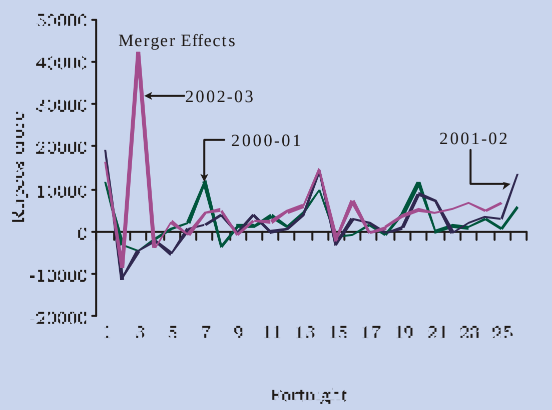


Chart II.26 : Fortnightly Variation in Non-food Credit



with the public decelerated during 2002-03 (up to March 7, 2003), partly reflecting dampened agricultural activity. Aggregate deposit growth, at 11.1 per cent (net of the merger impact), was lower than that of the corresponding period of last year.

Bank Credit

2.56 Domestic credit (including non-SLR investments), at 12.2 per cent (net of merger effects) during 2002-03 (up to March 7, 2003), was higher than 10.9 per cent during the corresponding period of the previous year, driven by higher non-food credit offtake. The share of commercial credit (adjusted for merger effects) in domestic credit, at 58.5 per cent as on March 7, 2003, was the same as a year ago (Chart II.25). Net bank credit to the Government increased by 13.0 per cent during the current fiscal year, as compared with 14.0 per cent during the corresponding period of the previous year. The share of commercial banks in the total draft of resources by the Government from the banking sector during the year climbed to 136.6 per cent as on March 7, 2003, up from 95.2 per cent as on March 8, 2002 in view of the market demand for government paper. Bank credit to the commercial sector rose by 11.3 per cent (net of the merger impact) as compared with 9.2 per cent during the comparable period of 2001-02.

2.57 The growth in non-food credit (adjusted to exclude the merger impact and to include the non-SLR investments) was of 15.7 per cent during the current financial year (up to March 7, 2003) as compared with 9.9 per cent during the corresponding period of 2001-02. The incremental non-food credit in the latter half of the year (up to March 7, 2003) at Rs.57,150 crore was higher than Rs.40,503 crore during the comparable period of the previous year (Chart II.26). Reflecting lower procurement and increased off-take of foodgrains, food credit declined by Rs.4,262 crore during 2002-03 (up to March 7, 2003) as against an increase of Rs.13,913 crore recorded during the corresponding period of 2001-02 (Table 2.14).

2.58 Scheduled commercial banks' investments in government securities accelerated to 25.3 per cent during 2002-03 (up to March 7) from 20.1 per cent during the corresponding period in 2001-02. Commercial banks' holding of government and other approved securities during the year so far has consistently been around 38.0 per cent of the net demand and time liabilities (NDTL) – much higher than the prescribed Statutory Liquidity Ratio (SLR) of 25.0 per cent. The excess liquid funds of the commercial banks flowing into the government securities market contributed to reducing the secondary market yields of Government securities across the spectrum (Chart II.27).

Chart II.27 : Liquid Funds with Banks and Gilt Yield

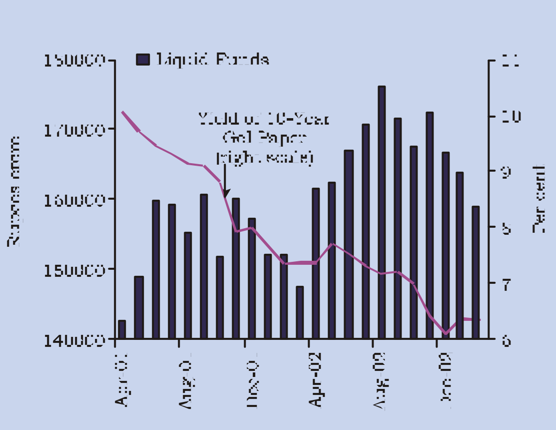


Table 2.14 : Select Banking Indicators : Financial Year Variations

(Rupees Crore)

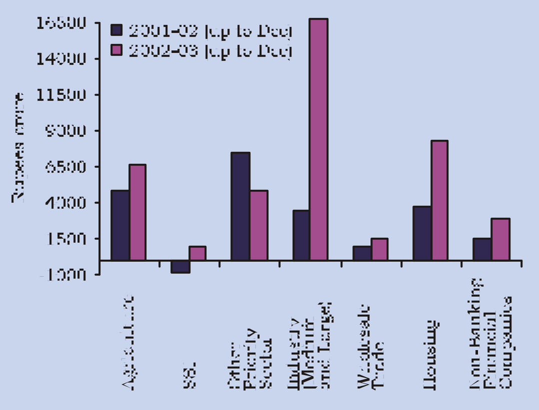
Indicator	2001-02		2000-01		2002-03P (up to March 7)		2001-02 (up to March 8)	
	Absolute	Per cent	Absolute	Per cent	Absolute	Percent	Absolute	Per cent
	1	2	3	4	5	6	7	8
Aggregate Deposits	1,40,742	14.6	1,49,273	18.4 15.2*	1,74,660	15.8 (12.0)	1,29,040	13.4
Demand Deposits	10,496	7.4	15,185	11.9	12,637	8.3	2,398	1.7
Time Deposits	1,30,246	15.9	1,34,088	19.5	1,62,023	17.0 (12.6)	1,26,642	15.4
Bank Credit	78,289	15.3	75,476	17.3	1,24,899	21.2	64,699	12.7
Food Credit	13,987	35.0	14,300	55.7	-4,262	-7.9	13,913	34.8
Non-food Credit	64,302	13.6	61,176	14.9	1,29,162	24.1	50,786	10.8
Investments	68,110	18.4	61,215	19.8	1,03,593	23.6	65,606	17.7
Government Securities	71,141	20.9	61,579	22.1	1,04,097	25.3	68,291	20.1
Other Approved Securities	-3,032	-10.1	-364	-1.2	-504	-1.9	-2,685	-8.9

P Provisional. * Net of IMDs. Parenthetic figures are net of the impact of the mergers.

2.59 An analysis of the deployment of non-food gross bank credit of select scheduled commercial banks during 2002-03 (up to December) suggests that medium- and large-scale industry and housing emerged as the major drivers of growth of non-food credit during the year (Chart II.28 and Table 2.15).

2.60 Amongst the medium- and large-scale industries, the higher credit off-take was fuelled mostly by cotton textiles, iron and steel, cement, computer software, gems and jewellery and infrastructure. It was, however, subdued in case of certain industries like engineering, sugar, coal and petroleum (Chart II.29).

Chart II.28: Sectoral Deployment of Gross Bank Credit



V. THE PRICE SITUATION

2.61 Inflation remained benign during 2002-03 (up to March 1, 2003). A number of factors, like a continuing weakness in global recovery, subdued global inflationary pressures, moderate recovery in investment demand, large buffer stocks and comfortable foreign exchange reserves, have contributed to the moderate inflation outcome during the year. The annual rate of

Table 2.15 : Sectoral and Industry-wise Deployment of Gross Bank Credit of Scheduled Commercial Banks (Fiscal Year Variations)

(Rupees crore)

Sector/Industry	2001-02 up to December		2002-03 up to December	
	Absolute	Per cent	Absolute	Per cent
	1	2	3	4
1. Priority sector #	11,515	7.5	12,420	7.1
o/w Agriculture	4,893	9.4	6,673	11.0
Small Scale	-858	-1.5	910	1.6
Others	7,480	16.1	4,837	8.4
2. Industry (Medium & Large)	3,519	2.2	16,826	9.8
o/w Petroleum	-2,523	-21.8	-633	-5.6
Infrastructure	1,682	14.8	3,858	26.1
Cement	214	5.6	750	17.8
Cotton Textiles	-1,279	-9.7	1,680	14.3
Iron and Steel	925	4.8	1,242	6.2
Coal	-43	-4.2	-71	-5.0
Fertilisers	403	7.7	564	10.3
Computer Software	153	12.5	323	19.4
Gems & Jewellery	-173	-2.6	952	14.7
3. Housing	3,672	22.7	8,287	37.1
4. Wholesale Trade	1,012	5.7	1,528	7.5
5. Rest of the sectors	8,928	11.5	10,480	11.3
Non-food Gross Bank Credit	28,646	6.7	49,541	10.3

Excluding investments in eligible securities.

Note : Data are provisional and relate to select scheduled commercial banks which account for about 90 per cent of bank credit of all scheduled commercial banks.

Chart II.29 : Credit Off-take - Major Industries

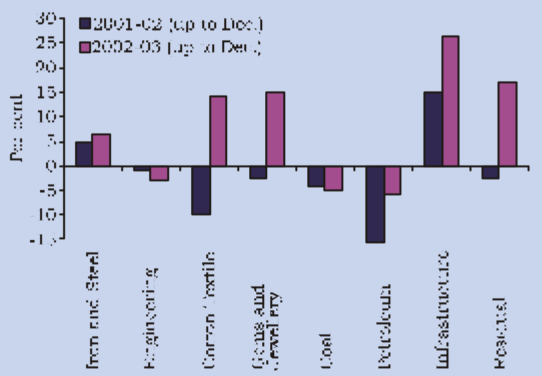
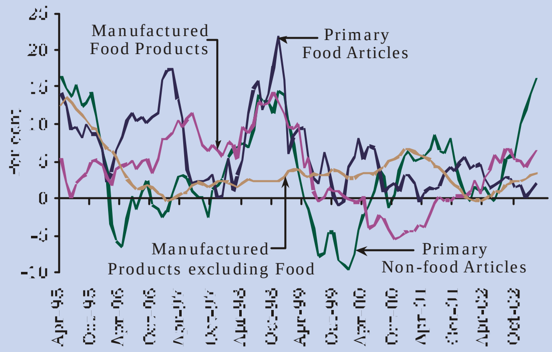


Chart II.31 : WPI Food and Non-food Inflation (Point-to-point)



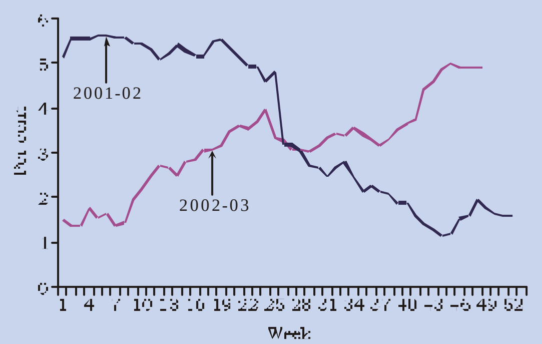
Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

inflation, measured as point-to-point variations in the wholesale price index (WPI), remained low up to mid-December 2002 (3.2 per cent as on December 14, 2002). However, it increased thereafter to touch 5.0 per cent on February 8, 2003 as compared with 1.2 per cent during the corresponding period of the previous year. This edging up of inflation is attributed partly to the the base effects and rising international oil prices (Chart II.30). The annual rate of inflation stood at 4.7 per cent on March 1, 2003.

2.62 Despite the drought affecting *kharif* production substantially, the prices of food articles have risen only moderately. Better food management polices helped in containing the prices of food articles. However, in the post-*kharif* period, the primary non-food articles inflation has gone up substantially which could have some indirect impact on manufacturing prices (Chart II.31).

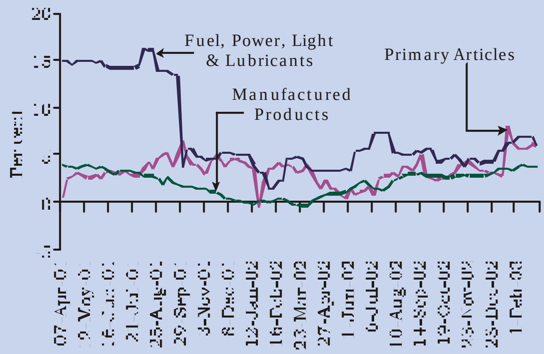
2.63 Manufacturing inflation recovered modestly from a trough in 2001-02, driven by an increase in prices of chemicals and chemical products, fertilisers, edible oils, man-made textiles and iron and steel. The industrial recovery appears to be driving up the prices of manufactured products as reflected in the rise in the prices of intermediate goods. While domestic prices of metals show co-movement with international price movements, the volatility has been relatively low. The annual primary articles inflation, on a point-to-point basis, increased during 2002-03 (Table 2.16 and Chart II.32). The shortfall in production of oilseeds due to poor rains led to a substantial rise in the prices of oilseeds and edible oils, necessitating imports of edible oils. Fuel group inflation, in contrast, is rising since December 2002 in consonance with hardening of international crude prices following mounting tensions in the Gulf.

Chart II.30 : Annual Variation in WPI (Point-to-point)



Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

Chart II.32 : WPI - Major Groups Inflation (Point-to-point)

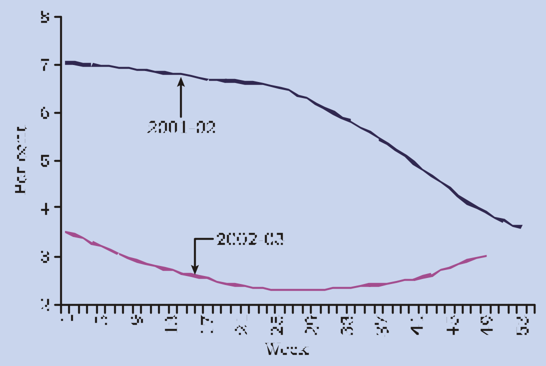


Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

2.64 The annual average inflation, measured on the basis of annual percentage variation in the average wholesale price index, a better indicator of underlying inflation pressures, trended downwards to touch 2.3 per cent on October 12, 2002 and rose thereafter, ruling at 3.0 per cent as on March 1, 2003. The annual average WPI inflation during the comparable period of 2001-02 stood at 3.9 per cent (Chart II.33).

2.65 During 2002-03 (up to March 1, 2003), on an average basis, the primary articles and fuel group inflation decelerated to 3.2 per cent and 4.9 per cent, respectively, from 3.7 per cent and 8.9 per cent during the corresponding period last year. On the other hand, manufactured products inflation increased moderately to 2.4 per cent from 1.8 per cent during the same

Chart II.33 : Annual WPI Inflation Rate (Average Basis)



Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

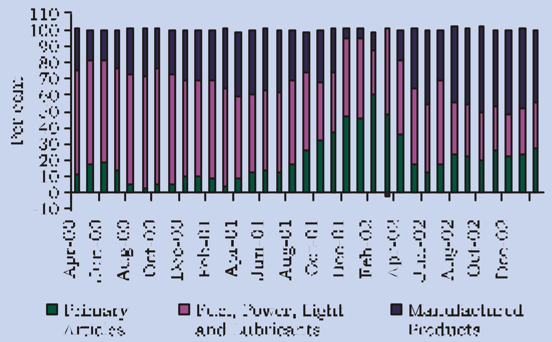
Table 2.16 : Commodity-wise WPI Inflation (Point-to-point)

(Per cent)

Commodity	Weight	Annual Variation		
		2000 -01	2001- 02	2002-03 (As on March 1, 2003)
	1	2	3	4
All Commodities	**100.0**	**4.9**	**1.6**	**4.7**
I) Primary Articles	**22.0**	**-0.4**	**3.9**	**6.0**
i) Cereals	4.4	-5.5	0.8	4.6
ii) Pulses	0.6	7.1	-3.3	-2.6
iii) Fruits & Vegetables	2.9	-2.9	14.4	1.0
iv) Milk	4.4	0.4	4.7	2.5
v) Eggs, Fish and Meat	2.2	-2.1	9.3	-4.3
vi) Condiments and Spices	0.7	-13.8	-0.2	5.1
viii) Fibres	1.5	7.4	-17.9	24.9
ix) Oilseeds	2.7	2.8	6.8	23.4
II) Fuel, Power, Light and Lubricants	**14.2**	**15.0**	**3.9**	**6.1**
i) Mineral Oils	7.0	17.0	1.2	9.2
ii) Electricity	5.5	11.5	9.2	3.4
iii) Coal Mining	1.8	18.1	-1.9	0.0
III) Manufactured Products	**63.8**	**3.8**	**0.0**	**3.7**
i) Sugar, *Khandsari and Gur*	3.9	-6.1	-3.2	-12.6
ii) Edible Oils	2.8	-4.8	12.5	22.2
iii) Food Products	11.5	-3.7	0.3	5.1
iv) Cotton Textiles	4.2	6.3	-6.7	4.7
v) Man-made Textiles	4.7	2.0	-4.7	14.5
vi) Chemicals and Chemical Products	11.9	4.0	2.5	2.5
vii) Fertilisers	3.7	3.4	3.6	1.7
viii) Urea-N-Content	2.2	1.8	4.7	1.1
ix) Cement	1.7	20.3	-4.7	1.4
x) Iron and Steel	3.6	1.3	0.0	6.8
xi) Non-electrical Machinery	3.4	6.9	5.4	2.7
xii) Electrical Machinery	5.0	11.8	-1.1	-0.3
xiii) Transport Equipment and Parts	4.3	5.8	1.3	-1.3

Source : Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

Chart II.34 : Major Groups' Weighted Contributions to WPI



Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

period. An analysis of the weighted contributions of major groups of WPI (on an average basis) during 2002-03 so far indicates that, while the contribution of the manufactured products group increased to 44.6 per cent from 29.6 per cent during the corresponding period of the previous year, that of the fuel group declined to 31.6 per cent from 46.7 per cent over the same period. The weighted contributions of primary articles group was steady at around 23.8 per cent during the same period (Chart II.34).

2.66 At the retail level, consumer price inflation, as measured by the annual variation in the consumer price index for industrial workers (CPI-IW), on a point-to-point basis, decelerated to 3.4 per cent in January 2003 from 4.9 per cent in January 2002. On an average basis, however, consumer inflation stood higher at 4.2 per cent as compared with 3.9 per cent a year ago (Chart II.35).

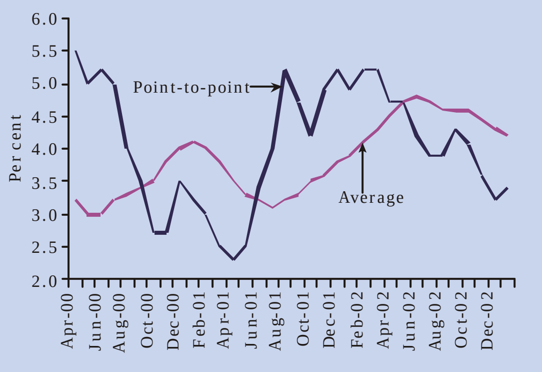
2.67 Inflationary pressures generally remain subdued across the globe during the year. International commodity prices recovered in the second half of 2002 after bottoming out in late 2001 from a prolonged decline in the aftermath of the Asian crisis. Non-fuel commodity prices, however, remain bound by weak demand and inventory drawdown. Since early August 2002, spot oil prices have risen markedly owing to concerns about a further deterioration in the geo-political situation in the Middle East. Thus, the major risk to the current benign outlook for inflation hinges upon the prospects for uncertainty relating to the future movements in international oil prices.

VI. FINANCIAL MARKETS

2.68 Orderly conditions prevailed in the financial markets during 2002-03 (Chart II.36). The presence of adequate liquidity conditions and moderation of inflation expectations enabled a softening of interest rates. The foreign exchange market continued to witness excess supply conditions. The capital market began to recover from November 2002 after being adversely affected by a number of external shocks, including border tensions. At the same time, the Reserve Bank carried forward structural reforms to develop the various financial market segments with a view to enhancing financial stability and improving allocative efficiency.

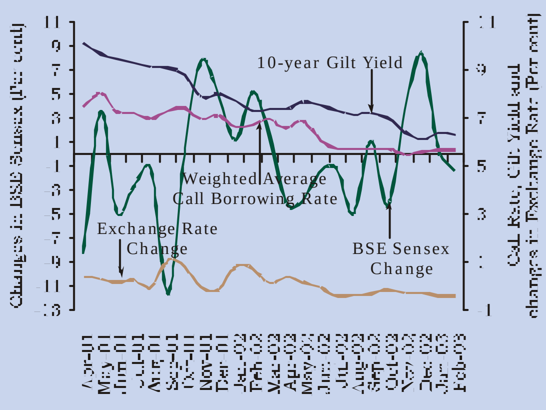
2.69 Reflecting ample liquidity conditions during 2002-03, there was a softening of interest rates across the various segments of the financial market, although the pace of reduction of interest rates was not necessarily uniform. At the short end of the market, the average overnight call rates declined from 6.58 per cent in April 2002 to 5.71 per cent by February 2003 and further to 5.21 per cent on March 17, 2003.

Chart II.35 : Annual CPI Inflation (Industrial Workers)



Source: Labour Bureau, Ministry of Labour, Government of India.

Chart II.36 : Average Call Rate, Secondary Market Yields, Changes in the BSE Sensex and Exchange Rate



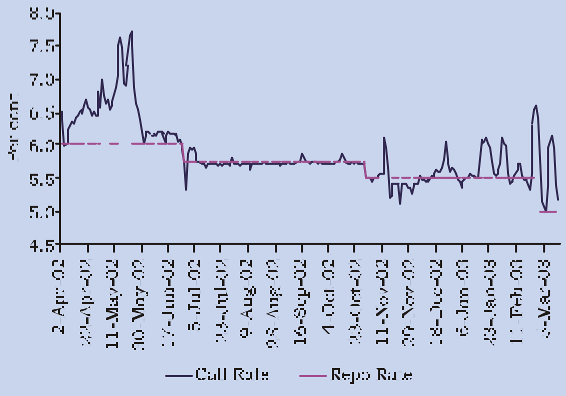
The primary implicit yields of both 91-day and 364-day Treasury Bills declined to 5.89 per cent as on March 19, 2003 from 5.97 per cent and 6.09 per cent, respectively, as on April 3, 2003. At the longer end of the spectrum, the secondary market yields on government securities in the maturity range of 10 to 20 years softened from 7.37-7.91 per cent in April 2002 to 6.34-7.05 per cent by February 2003. Deposit rates of public sector commercial banks with a maturity of more than one year softened from 7.25-8.75 per cent during March 2002 to 5.25-7.00 per cent by end-February 2003. However, the fall in prime lending rates of the public sector banks from 10.0-12.5 per cent during March 2002 to 9.00-12.25 per cent by end-February 2003 did not match the fall in yields in government securities.

Call Money Market

2.70 The call/notice money market was orderly and stable during 2002-03 so far. The weighted average call money borrowing rates remained, by and large, within the informal corridor of the repo and reverse repo rate. After edging up during the first two months of the fiscal year, the weighted average call money borrowing rate softened thereafter, occasionally dipping below the repo rate (Chart II.37).

2.71 Various reform measures were undertaken in the call money market during the year. The phasing out process of non-banks from the call/notice money market began with mapping of a four-stage exit of non-banks from this market. During the first stage, which commenced with effect from May 5, 2001, non-banks were allowed to lend, on an average, up to 85 per cent of their average daily lending in the call/notice market during 2000-01 in a reporting fortnight. Such

Chart II.37: Call Rate and the Repo Rate



limits would come down to 75 per cent as part of stage II from a date to be notified later by the Reserve Bank when the Negotiated Dealing System/Clearing Corporation of India Limited (CCIL) becomes fully operational and widely accessed. Call lending by corporates was disallowed effective July 1, 2001. The Reserve Bank instituted a daily call money borrowing ceiling of 2 per cent of aggregate deposits (as at the end of March of the previous financial year) for urban co-operative banks, which was extended to State Co-operative Banks (SCBs) and District Central Co-operative Banks (DCCBs). In respect of scheduled commercial banks, effective from the fortnight beginning October 5, 2002, the fortnightly average ceiling for call/notice money lending for banks was stipulated at 50 per cent of their owned funds with the daily lending ceiling fixed at 100 per cent of their owned funds. The fortnightly average ceiling for call/notice money borrowing for banks was placed at 150 per cent of their owned funds or 2 per cent of aggregate deposits, whichever is higher, as at end-March of the preceding financial year. The daily borrowing ceiling was specified at 250 per cent of their owned funds. Simultaneously, primary dealers were permitted to lend in the call/notice money market up to 25 per cent of their net owned funds. Effective from the fortnight beginning December 14, 2002, the fortnightly average ceiling for call/notice money lending for banks was further scaled down to 25 per cent of their owned funds and the daily lending ceiling to 50 per cent of their owned funds. The fortnightly average ceiling for call/notice money borrowing for banks is 100 per cent of their owned funds or 2 per cent of aggregate deposits, whichever is higher, as at end-March of the preceding financial year with the daily borrowing ceiling at 125 per cent of their owned funds.

2.72 The progression of money market reforms was smooth with the monthly weighted average call money borrowing rates steadily softening as the current financial year has progressed.

2.73 The fiscal year 2002-03 commenced with easy liquidity conditions as reflected in the substantial amount of repo bids received under the LAF auctions, pulling call rates below the repo rate during the first week of April 2001. The absorption of surplus liquidity through both LAF auctions as well as OMO outright sales and the launching of the government borrowing programme balanced the money market liquidity, reverting the call money rates above the repo rate. The pick up in the tempo of the Government borrowing combined with border tensions in May 2002 tightened liquidity conditions, firming up the weighted average call money borrowing rates to 7.7 per cent on May 22, 2002.

2.74 The Reserve Bank's primary market operations, monetary easing and redemption inflows comforted the money markets in June 2002. The Reserve Bank undertook devolvements and private placements of government primary issuances and advanced the date of the CRR cut of 50 basis points to 5.0 per cent, by a fortnight to June 1, 2002. These measures as well as government bond redemptions softened call money rates steadily to a band of 6.0-6.2 per cent during end-May to June 23, 2002. The easy liquidity conditions also reflected the fact that the repo cut-off rate was brought down by 25 basis points to 5.75 per cent on June 27, 2002.

2.75 The banks appeared to have factored in the two-stage prudential restrictions on their call money market exposures during the third quarter of 2002-03 quite smoothly as the call money borrowing rates hovered mostly at or below the repo rate. Prudential limits on borrowings and lendings of scheduled commercial banks and on lendings of primary dealers in the call/notice money market became operative, effective October 5, 2002. Simultaneously, the collateralised lending facility available to banks and primary dealers was phased out.

2.76 The repo rate reduction on October 30, 2002 by 25 basis points to 5.5 per cent, expectedly brought down the call money rate. However, the call money rates exhibited some volatility with the weighted average borrowing rate inching up above 6.0 per cent on November 12, 2002 reflecting, *inter alia*, outflows on account of a gilt auction as well as a 13-day repo auction at a time when banks were making preparations towards graduating for maintaining a minimum of 80 per cent of eligible CRR balances on a daily basis. The markets, however, soon stabilised with the weighted average call money borrowing rate coming down to 5.27 per cent on November 30, 2002.

2.77 The second stage of prudential restrictions on call money lendings and borrowings of banks became effective fortnight beginning December 14, 2002. The usual advance tax outflows and State loan auctions in December 2002 firmed up call rates temporarily. There was some temporary tightness of liquidity in January 2003 as a result of open market sales. The call rates, however, soon turned easy on account of augmenting of money market liquidity through redemptions, coupon inflows and some selling of government securities with the waning of expectations of any reduction in policy interest rates and war tensions in the Middle East. There was some edging up of call rates towards the last week of February 2003 on account of some outflows of funds towards State loan auctions. Although the repo rate was reduced by 50 basis points to 5.0 per cent, a second round of State loan auctions pushed call rates to 6.2 per cent as on March 12, 2003. The call rate eased thereafter to 5.21 per cent as on March 17, 2003.

Government Securities Market

2.78 The Reserve Bank continued to take measures to deepen and widen the government securities markets. As a step towards enhancing transparency, an indicative calendar for the issuance of marketable dated Government securities for the first half of year 2002-03 was issued on March 27, 2002 to enable investors to plan their investments in a better manner. The calendar was generally adhered to with some minor deviations. In continuation of this, the Reserve Bank announced the calendar for the second half-year (October-March) on September 18, 2002 in consultation with the Government. In future, the calendar would be issued every half-year. A bond with put and call options (6.72 per cent Government Stock 2007/12) exercisable on or after 5 years from the date of issue was issued for the first time. The Reserve Bank issued a 30-year paper in July 2002, in line with the policy of elongating the maturity structure of dated securities.

2.79 Stable and soft money market interest rates, ample liquidity conditions and moderate inflation expectations provided the conditions for a continued rally in the prices of government securities through most of the year up to mid-January 2003. The surplus liquidity in the banking system drove down gilt yields during 2002-03 (up to mid-January 2003). The outlook on gilts turned bearish during the second half of January due to a host of negative factors like the rising oil prices, a worsening situation in the Middle East, a sharp rise in domestic WPI inflation rate and indications of a recovery in industrial production.

2.80 Yields fell in the usual flush of early April liquidity but started firming up by May 2002, with the tightening of liquidity conditions, a lower than expected CRR reduction in the Monetary and Credit Policy of April 2002 and as the market expectation of a Bank Rate cut did not materialise (Chart II.38). Besides, border tensions also affected market sentiment by end-May. This was reflected in a drop in the market turnover. The rise in yields abated as market sentiment improved after the Reserve Bank advanced the CRR reduction by a fortnight in June 2002. As monetary conditions continued to ease mainly due to a sharp rise in capital inflows, yields continuously declined till mid-January 2003. The investor interest in gilts was further strengthened by the monetary easing in the Mid-Term Review of the Monetary and Credit Policy in October 2002. As prices continued to rally, transaction volumes also steadily increased, reaching a peak in November 2002. The OMO sales as well as renewed tensions in the Middle East in January 2003, however, halted the rally and the yields have somewhat firmed up since mid-January 2003. Gilt prices rallied sharply after the Union Budget 2003-04 with a reduction in the repo rate by 50 basis points to 5.0 per cent on February 28, 2003. However, continuing uncertainties and the usual year-end profit booking led to the reversal of post-Budget gains in early March 2003.

2.81 The average decline of yields in the 2-5 year segment has been of the order of 23 basis points while the same for the 6-10 year and 11-20 year sector has fallen by 83 and 89 basis points, respectively. The 10-year yield rose by about 85 basis points to 8.13 per cent by the third week of May 2002 from 7.28 per cent at the beginning of the current financial year and subsequently eased to 6.34 per cent at the end of February 2003. While yields have declined across the maturity spectrum, there has also been a flattening of the yield curve during the year which could be reflecting a combination of factors including a demand for longer-term paper in the face of sustained easy liquidity and subdued inflation expectations. The spread between AAA-rated corporate bonds and government securities, which widened during 2001-02, narrowed by March 2003 (Chart II.39).

Chart II.39 : Spread between AAA-rated Corporate Bond and 5-Year Gilt Yield

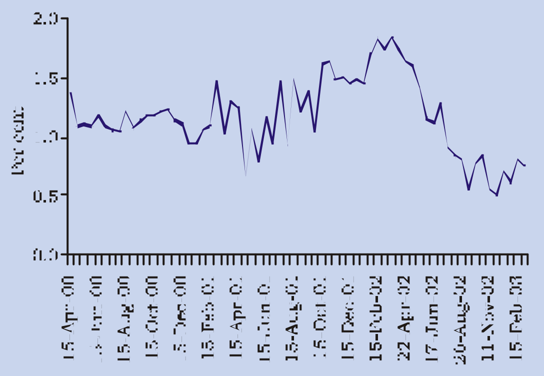
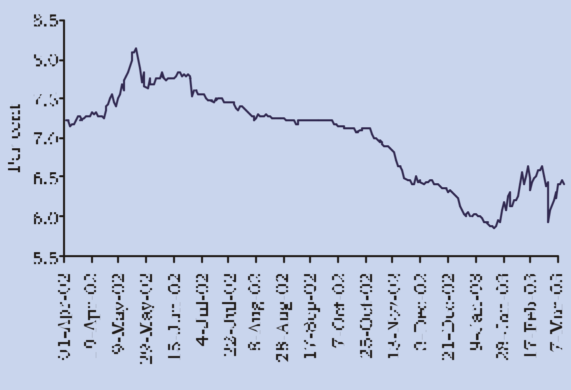


Chart II.38 : 10-Year Gilt Yield



Foreign Exchange Market

2.82 The Indian Rupee generally exhibited an appreciating trend with respect to the US dollar during 2002-03 due to excess supply conditions on account of steady foreign exchange inflows from exporters, foreign direct investment as well as remittances by NRIs coupled with modest corporate demand. The slow growth in imports continued despite some industrial recovery, exacerbating the appreciating pressure. The exchange rate of the Indian Rupee *vis-à-vis* the US dollar moved within a range of Rs.47.63-Rs.49.06 per US dollar during 2002-03 (up to March 13, 2003) (Chart II.40). On the basis of monthly average exchange rates, the Indian Rupee appreciated by 2.5 per cent from Rs.48.92 per US dollar in April 2002 to Rs.47.73 per US dollar in February 2003.

Chart II.40 : Daily Movement in Indian Rupee *vis-a-vis* US Dollar (2002-03)

2.83 The Rupee remained broadly stable during the first quarter of 2002-03, except for a brief period of uncertainty on account of concerns regarding higher global oil prices and border tensions in May 2002. There was appreciating pressure since June 2002 on account of the positive sentiment created by easing of border tensions and the continued weakness of US dollar against other major international currencies on account of doubts over the strength of the US recovery and a series of corporate accounting scandals in the US. The strengthening of the Rupee continued in the following months due to heavy US dollar inflows mainly in the form of foreign direct investments and exporter remittances. This prompted the Reserve Bank to mop up surplus US dollars in the market in order to prevent excessive appreciation of the Rupee.

2.84 Cross-currency movements reveal that due to depreciation of the US dollar against major currencies, the Rupee depreciated steadily against the Euro and the Pound Sterling during 2002-03 (up to February) (Chart II.41). In terms of monthly average exchange rates, while the Rupee depreciated by 8.3 per cent against the Pound Sterling, its depreciation against the Euro was sharper at 15.8 per cent during the 11-month period. The Euro became costlier than the US dollar in terms of Rupees for the first time on November 7, 2002, with the value of Euro rising to Rs.48.54 per Euro as against Rs.48.33 per US dollar on the same day. The Rupee depreciated against the Japanese Yen by 6.6 per cent during the same period.

2.85 The depreciation of the Rupee against major currencies is also reflected in the movements in the nominal effective exchange rate (NEER) and real effective exchange rate (REER) (Chart II.42). The REER of the Indian Rupee depreciates with the depreciation

Chart II.41 : Indian Rupee *vis-a-vis* Major International Currencies (2002-03)

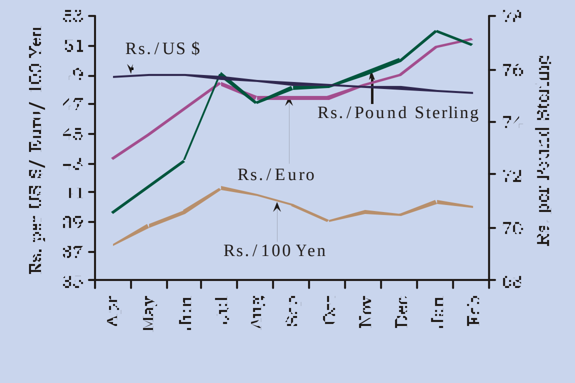
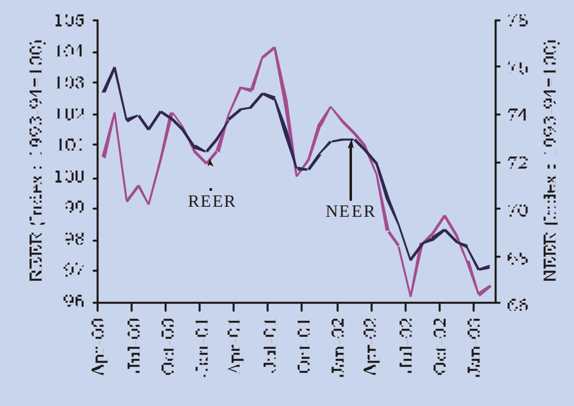


Chart II.42: REER and NEER (5-Country)



in the US dollar against the major currencies as well as depreciation of the Indian rupee against the US dollar. Further, the REER also depreciates with a fall in inflation in India as compared with other major economies included in the basket. Despite the recent appreciation of rupee against the US dollar, the NEER and REER depreciated reflecting a depreciation of the US dollar against the major currencies. Inflation remained subdued in India as well as abroad.

2.86 The Clearing Corporation of India (CCIL), which commenced its operations from February 15, 2002 in clearing and settlement of transactions in government securities, also started settlement of foreign exchange transactions through multilateral netting of member obligations for both the Indian Rupee and US dollar. This process significantly reduces individual funding requirements for every member as well as liquidity risk in the market. The average monthly total turnover in the foreign exchange market marginally increased to US $ 129.2 billion during 2002-03 (up to January 2003) from US $ 118.5 billion in 2001-02. The monthly turnover remained within the range of US $ 22.5-31.7 billion in the merchant segment and in a range of US $ 84.1-124.3 billion in the inter-bank market during 2002-03 (up to January 2003) (Chart II.43). Reflective of the stable foreign exchange market conditions, the ratio of inter-bank to merchant turnover fell steadily from 5.5 per cent in April 2002 to 3.6 per cent in January 2003.

2.87 In the swap segment of the foreign exchange market, the forward premia hardened for all the three maturities (one- three- and six-month) during April-May 2002, partly reflecting uncertainties generated by border tensions. With the return of stability in the spot segment of the foreign exchange market resulting from steady

Chart II.43 : Foreign Exchange Market Turnover (2002-03)

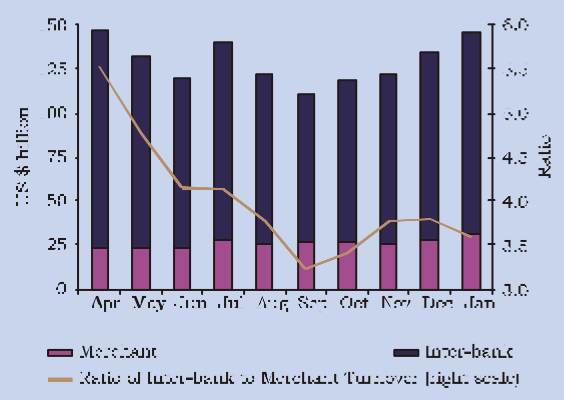
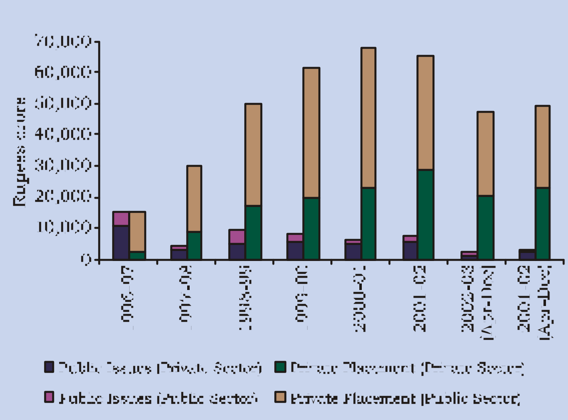


Chart II.45 : Trend in Resource Mobilisation in the Primary Market



supply of US dollar, the forward premia for all three maturities declined steadily during the next nine months (June 2002 – February 2003). In terms of monthly averages, the three-month and the six-month forward premia declined from 6.23 per cent and 6.19 per cent, respectively, in May 2002 to 3.55 per cent, each, in February 2003 (Chart II.44).

Capital Market

2.88 During 2002-03 so far, both the primary and secondary segments of the capital market remained generally subdued on account of several domestic and external factors. Financial assistance sanctioned and disbursed by the all-India Financial Institutions (AIFIs) also declined sharply.

Primary Market

2.89 The public issues market continued to witness depressed conditions during 2002-03 (up to January 2003) as the resource mobilisation aggregating Rs.3,259 crore from 12 issues was lower than Rs.4,375 crore raised through 17 issues during 2001-02 (up to January 2002) and Rs.7,112 crore raised through 24 issues during 2001-02 (Chart II.45). During 2002-03 (up to January 2003), there were five issues aggregating Rs.1,049 crore from the non-Government public limited companies (private sector) and seven issues aggregating Rs.2,210 crore by the public sector entities in the financial sector. The entire resource mobilisation during 2001-02 (up to January 2002) was accounted for by private sector companies.

2.90 The share of equity in the total resource mobilisation increased sharply to 37.0 per cent during 2002-03 (up to January 2003) as compared with 19.6 per cent during the corresponding period of the previous year, following floatation of equity issues from the banks in the public sector (Chart II.46). All the issues during

Chart II.44: Monthly Average Exchange Rates and 3-month Forward Premia (2002-03)

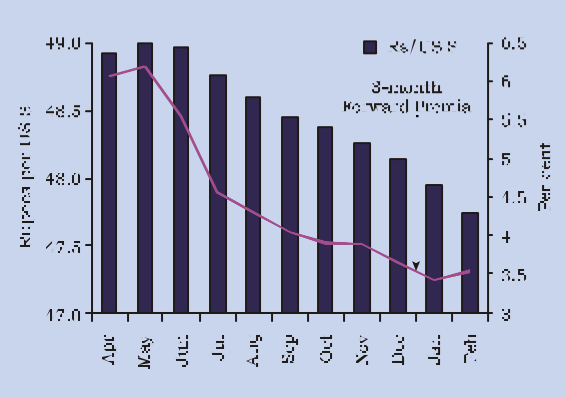
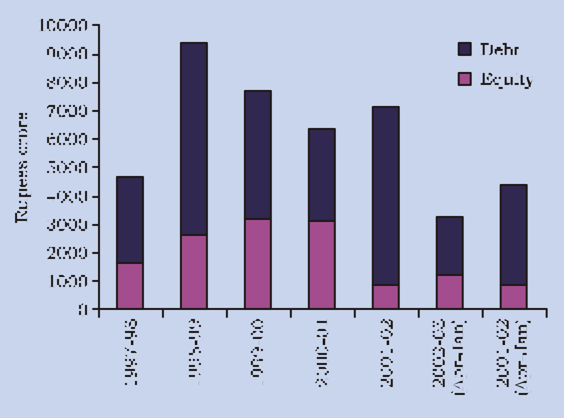


Chart II.46 : Public Issues Market-Instrument Type



2002-03 (up to January 2003) were *mega* issues (Rs.100 crore and above) (except one issue of Rs.36 crore) with the average size of the issues correspondingly working out to Rs.272 crore as compared with Rs.257 crore during the corresponding period of the previous year.

2.91 The private placement market, which has become quite popular in recent years, witnessed some slowdown in resource mobilisation during April-December, 2002. The resource mobilisation from the private placement market, at Rs.46,647 crore was 5.6 per cent lower than Rs.49,437 crore raised during the comparable period of the previous year due to a decline in resource mobilisation by the AIFIs and state-level undertakings in the public sector.

2.92 Resource mobilisation through ADRs, GDRs and FCCBs from the international capital market, at Rs.3,314 crore during 2002-03 (up to January 2003), was 41.5 per cent higher than Rs.2,341 crore raised during the corresponding period of the previous year.

2.93 According to the data available with SEBI, net resource mobilisation by mutual funds (including UTI), at Rs.16,612 crore during 2002-03 (up to January 2003), was 45.9 per cent higher than Rs.11,389 crore during the comparable period of the previous year, mainly due to the sizeable funds raised under debt-oriented schemes. The Unit Trust of India (UTI), however, witnessed a net outflow of Rs.8,720 crore during 2002-03 (up to January 2003).

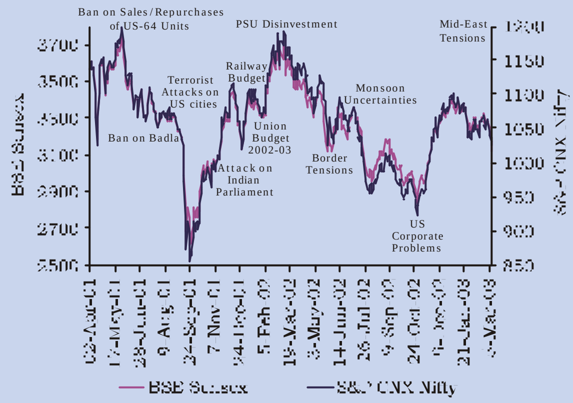
2.94 Financial assistance sanctioned and disbursed by the term-lending institutions, at Rs.13,933 crore and Rs.12,185 crore, respectively, declined sharply by 49.7 per cent and 45.6 per cent, respectively, during 2002-03 (up to January 2003) as compared with the declines of 24.8 per cent and 11.5 per cent (excluding ICICI), respectively, during the corresponding period of the previous year.

Secondary Market

2.95 The stock markets witnessed subdued conditions due to several factors, such as, border tensions, inadequate monsoon and subdued trends in international markets, especially following the discovery of accounting discrepancies in some major US companies and international disturbances (Chart II.47).

2.96 The stock markets began 2002-03 on a positive note, led by a rally in PSU scrips following disinvestment initiatives by the Government but soon turned bearish by end-May 2002 as border tensions mounted. The markets recovered partly in early June 2002 as border tensions abated but the BSE Sensex

Chart II.47 : Trends in Indian Stock Markets

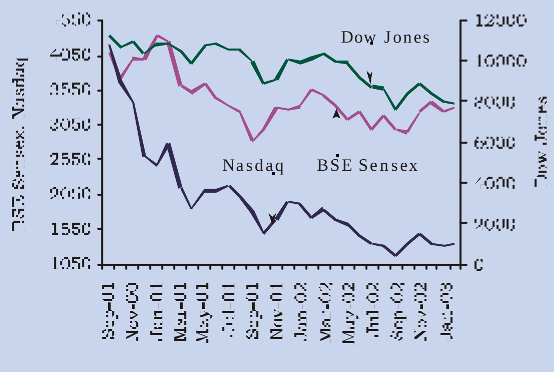


Sources: BSE and NSE.

fell below the 3000-mark by end-July 2002, reflecting monsoon uncertainties and weakening of international markets following the discovery of accounting discrepancies in large US firms (Chart II.48).

2.97 After a brief spell of recovery in August, the markets declined again by October, on account of lower than expected quarterly results and uncertainties regarding PSU disinvestment. The market sentiment turned positive by early November 2002 mainly due to a revival of PSU disinvestment initiatives by the Government, bargain buying by institutional investors, especially in technology scrips and a revival in international markets. A downtrend set in again from end-January 2003 as the market sentiment was affected by the Middle East crisis. Bank scrips were in the limelight following the permission to increase FDI in private sector banks

Chart II.48 : Movements in BSE Sensex, Nasdaq and Dow Jones



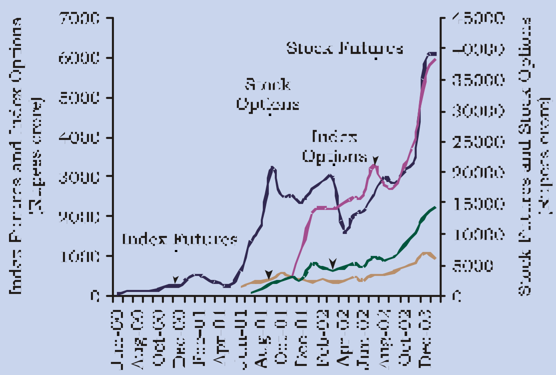
Sources: BSE and Money Line Telerate Information System.

and increase in profitability. PSU stocks also became attractive on account of disinvestment initiatives by the Central Government. In contrast with a 5.4 per cent decline in the BSE Sensex during 2002-03 (up to February 2003), the BSE-500 registered only a marginal decline of 0.3 per cent over the same period reflecting buying interest in PSU scrips and mid-caps outside the ambit of the narrow blue-chip indices.

2.98 The volatility in share prices, as measured by the coefficient of variation, at 5.0 per cent during 2002-03 (up to February 2003), was lower than 7.2 per cent during the corresponding period of the previous year. Foreign institutional investors' (FIIs) net investments in equity markets declined to Rs.2,376 crore during 2002-03 (up to February 2003) as compared with Rs.5,785 crore during the corresponding period of the preceding year. The mutual funds remained net sellers in equity markets during 2002-03 so far.

2.99 The derivative segment continued to expand with the total turnover rising to Rs.50,080 crore during February 2003 from Rs.20,535 crore during March 2002 (Chart II.49).

Chart II.49 : Turnover in Equity Derivatives Markets



Sources: BSE and NSE.

VII. FINANCIAL SECTOR

Scheduled Commercial Banks[2]

2.100 The operating profits of scheduled commercial banks (SCBs) during 2001-02 increased by 50.9 per cent to Rs.29,814 crore. Notwithstanding higher provisioning and contingencies, the net profits in 2001-02 increased by 80.7 per cent to Rs.11,572 crore.

2.101 This increase in bank profitability may be attributed to a softer interest regime resulting in gains from treasury operations coupled with containment in operating expenses. Among the major financial parameters, the growth in income during 2001-02 was 14.4 per cent while that in expenditure was 11.0 per cent. The growth in other income accelerated to 41.6 per cent from 8.8 per cent in the previous year while operating expenditure declined by 1.4 per cent to Rs.33,696 crore, thereby boosting the net profit. The ratio of net profits to total assets of SCBs increased to 0.75 per cent as at end-March 2002 from 0.49 per cent, a year ago. The decline in lending rates together with an increase in competitive pressures impacted on the bottomline as reflected in the decline in net interest income to 2.6 per cent as at end-March 2002 from 2.8 per cent as at end-March 2001 (Chart II.50).

2.102 The ratio of gross non-performing assets (NPAs) to total assets of SCBs declined to 4.6 per cent as at end-March 2002 from 4.9 per cent as at end-March 2001, while net NPAs to total assets declined to 2.3 per cent from 2.5 per cent. For the same period, the ratio of gross NPAs to gross advances declined to 10.4 per cent from 11.4 per cent in 2000-01 and net NPAs to net advances declined to 5.5 per cent from 6.2 per cent (Chart II.51).

2.103 As at end-March 2002, 85 out of 97 SCBs recorded a capital to risk-weighted asset ratio (CRAR) in excess of 10 per cent, seven banks had CRAR between 9 per cent and 10 per cent, while five banks had CRAR below the 9 per cent mark. The corresponding distribution of banks in the previous year was 84 banks, 11 banks and five banks, respectively.

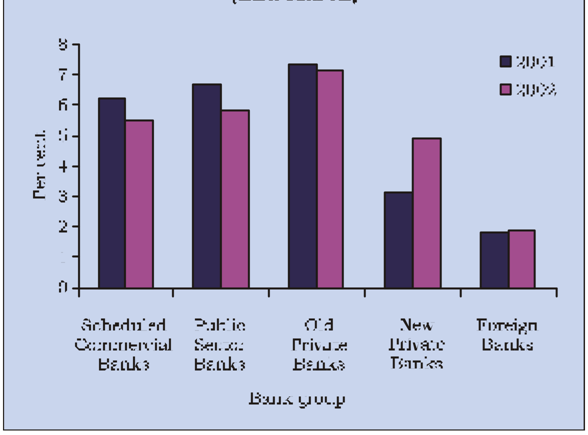
2.104 The Reserve Bank undertook several measures to enhance soundness of the banking sector alongside the deregulation of interest rates and balance sheet restrictions, especially in respect of the investment portfolio (Table 2.17). The Mid-Term Review of Monetary and Credit Policy of October 2002 revised norms for loan classification, according to which, effective March 31, 2005, an asset would be classified as doubtful if it remained in the substandard category for 12 months (instead of 18 months earlier). The additional provision need to be phased in over a four-year period, commencing from the year ending March 31, 2005.

2. Includes the impact of merger of ICICI Ltd. with ICICI Bank Ltd. on assets, liabilities, performance, NPAs and capital adequacy of scheduled commercial banks.

Chart II.50 : Scheduled Commercial Banks : Key Indicators

scheduled UCBs as compared with 51 scheduled UCBs in the previous year. During 2001-02, the total income increased by 2.6 per cent notwithstanding the decline in interest income by 2.9 per cent. The total expenditure of the scheduled UCBs declined by 9.9 per cent in 2001-02. Consequently, the operating profit increased by 1.3 per cent.

Chart II.51 : Ratio of Net NPAs to Net Advances (End-March)



Co-operative Banks

2.105 At the end of March 2002, the number of urban co-operative banks (UCBs) was 2,090. Information on the financial performance of UCBs relating to profits/ losses are available for 1,854 banks, which roughly cover 88.7 per cent of the total UCBs. Of these, 1,629 UCBs registered profits while the rest incurred losses. The percentage of profitable UCBs among the reporting banks increased to 87.9 per cent during 2001-02 from 83.9 per cent in the previous year.

Scheduled Urban Co-operative Banks

2.106 As on March 31, 2002, there were 52

Table 2.17 : Changes in the Regulatory Framework

	Variable	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
		1	2	3	4	5	6	7	8	9	10
1.	**CRAR** (per cent to risk weighted assets)										
	Domestic Banks with International Business	4	8	8	8	8	8	8	9	9	9
	Other Domestic Banks	4	4	4	8	8	8	8	9	9	9
	Foreign Banks	8	8	8	8	8	8	8	9	9	9
2.	**Non-performing Assets** (period overdue in quarters)										
	Sub-standard Assets	4	3	2	2	2	2	2	2	2	2#
	Doubtful Assets	8	8	8	8	8	8	8	8	6	6 ##
3.	**Provisioning Requirements** (per cent to corresponding asset)										
	Standard Assets*								0.25	0.25	0.25
	Sub standard Assets	10	10	10	10	10	10	10	10	10	10
	Doubtful Assets										
	Secured portion**	20-50	20-50	20-50	20-50	20-50	20-50	20-50	20-50	20-50	20-50
	Unsecured portion	100	100	100	100	100	100	100	100	100	100
	Loss Assets	100	100	100	100	100	100	100	100	100	100
4.	**Mark to Market** (per cent)	30	30	30	40	50	60	70	75	$$	$$

1 quarter from the year ending March 31, 2004
4 quarters effective March 31, 2005
* on global portfolio basis
** 20 per cent if a doubtful asset (DA) = 1 year; 30 per cent if DA of 1-3 years; 50 per cent if DA>3 years.
$$ According to the revised classification norms for investment portfolio (including SLR and non-SLR securities) effective half-year ended September 30, 2000, banks should classify the same into three categories, *viz.*, Held to Maturity (HTM), Available for Sale (AFS) and Held for Trading (HFT) categories. The investments under HTM should not exceed 25 per cent of banks' total investments.

Financial Institutions

2.107 The profitability analysis of the nine FIs[3] indicates that the combined net profits of these institutions declined by 46.5 per cent during 2001-02. This reflected a decline in income by 3.2 per cent and a concomitant increase in expenditure by 4.8 per cent, mainly due to a sharp increase of 97.3 per cent in provisions. The industrial slowdown and exposure to certain industries has adversely affected the quality of assets of FIs. The spread (net interest income) as a ratio of total assets worsened from 1.55 per cent in 2000-01 to 1.27 per cent in 2001-02. The share of net NPAs in net loans as at end-March 2002 was highest in the case of Industrial Investment Bank of India (IIBI) at 24.1 per cent, followed by Industrial Finance Corporation of India (IFCI) (22.5 per cent), Tourism Finance Corporation of India (TFCI) (20.2 per cent) and Industrial Development Bank of India (IDBI) (13.4 per cent). The CRAR of all institutions, excepting IFCI (3.1 per cent), were well above the benchmark minimum of 9 per cent.

Non-Banking Financial Companies

2.108 As at end-March 2001, the total outstanding public deposits of the 1,012 deposit holding companies (both registered and unregistered) aggregated Rs.18,243 crore, equivalent to 1.7 per cent of the outstanding deposits (Rs.10,55,386 crore)

3. ICICI Ltd. merged with ICICI Bank Ltd. with effect from March 30, 2002 and is, therefore, excluded.

of scheduled commercial banks (excluding regional rural banks). The aggregate assets of the NBFC sector increased to Rs.54,489 crore as on March 31, 2001 from Rs.51,324 crore as on March 31, 2000. The profitability analysis of the NBFCs (excluding residuary non-banking financial companies) indicates that this segment recorded a net loss of Rs.471 crore in 2000-01 in contrast to a net profit of Rs.137 crore in the previous year. Income registered a decline of 16.5 per cent largely due to a drop in fund-based income while the decline in expenditure was 6.9 per cent. At the disaggregated level, equipment leasing companies registered a sharp growth of 46.7 per cent in public deposits held by them while those held by investment and loan companies declined sharply by 63.5 per cent during the same period.

Insurance Companies

2.109 The process of liberalisation of the insurance market continued to gather pace during 2002-03. The Insurance and Regulatory Development Authority (IRDA) registered one new life insurance company and three general insurance companies taking the number of life insurers and general insurers both to 13 during 2002-03 so far. According to the IRDA, the life insurance business at force (in terms of premium) expanded by 38.9 per cent during 2001-02 as compared with 37.4 per cent during the previous year. The general insurance business (in terms of gross direct premium income) increased by 26.3 per cent during 2001-02 as compared with 5.9 per cent during the previous year. The share of the private insurers, life and non-life worked out to about 0.5 per cent. During 2001-02, all insurance companies satisfied the solvency margins set by the IRDA.

VIII. EXTERNAL SECTOR

Global Economic Scenario

2.110 The near-term outlook for global growth continues to remain uncertain in view of the hesitant and limited nature of the recovery that characterised the global growth process in the second half of 2002. The bursting of the technology, telecom and media bubbles, meltdowns in equity prices, oil price hikes, war tensions and corporate accounting problems continue to hinder the recovery process. According to the estimates generated by the IMF, world output is expected to recover to about 3.7 per cent in 2003 from 2.8 per cent in 2002 and 2.2 per cent in 2001. World trade volume is also projected to exhibit a stronger recovery in 2003 in relation to 2002 (Table 2.18).

2.111 The signs of recovery witnessed around early 2002 in the USA subsequently lost momentum. This has raised concerns about the strength and durability of global recovery in the face of persistent weak economic activity in other major industrial countries as well as war tensions. Quarterly estimates of GDP indicate that the major economies continue to experience slower growth rates which reaffirm the weakness of the recovery process. Activity in Japan and Euro area continue to remain weak. In Japan, a modest rebound is projected for the remaining period of 2002 and 2003. Domestic demand remains sluggish in the Euro area as the recovery is lagging behind in other areas like North America and the emerging markets in Asia (Table 2.19).

2.112 In the currency market, the movement in major exchange rates was dominated by a large depreciation of the US dollar against the euro and yen (Chart II.52). This is partly a reflection of the growing concerns about the large US current account deficit and a

Table 2.18 : Global Economy – Key Indicators

(Annual per cent change)

Variable	September 2002 Projections				Difference from April 2002 projections	
	2000	2001	2002	2003	2002	2003
	1	2	3	4	5	6
1. World Output	4.7	2.2	2.8	3.7	..	-0.3
2. Advanced Economies	3.8	0.8	1.7	2.5	..	-0.5
3. Developing Countries	5.7	3.9	4.2	5.2	-0.1	-0.3
4. World trade (Volume)	12.6	-0.1	2.1	6.1	-0.4	-0.5
5. Oil Prices (US $)	57.0	-14.0	0.5	-0.8	5.8	3.5
6. Non-oil commodity prices (US $)	1.8	-5.4	4.2	5.7	4.3	-1.5

Source : World Economic Outlook, September 2002.

CMYK

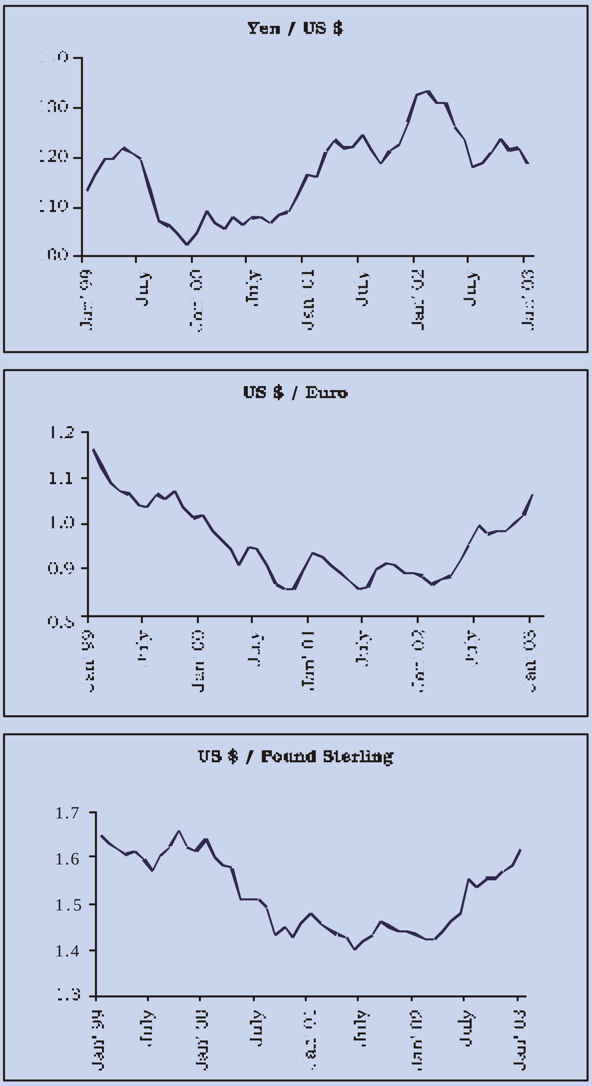
Table 2.19 : Cross-Country Quarterly GDP Growth

(Year-on-year, in per cent)

Area	2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	1	2	3	4	5	6	7	8
USA	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	1.4
Euro Area	2.4	1.5	1.3	0.5	0.3	0.7	0.8	..
Japan	1.0	-2.1	-1.3	-0.4	0.1	1.3	0.7	0.5

Source : US Bureau of Economic Analysis; European Central Bank Monthly Bulletin (Various Issues) and Bank of Japan's Monthly Report on Finance and Economic Development (Various issues).

Chart II.52 : Exchange Rate Movements of Major Currency Pairs



Source: IMF, International Financial Statistics, January 2003.

decline in the attractiveness of US assets. Amidst the global slowdown, the US current account deficit improved very little since 2000. On the other hand, some of the emerging market economies in Asia, Japan and to some extent Europe are witnessing surpluses in their current accounts.

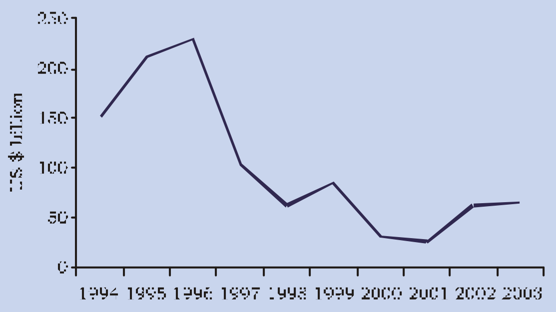
2.113 The outlook for emerging market economies has become increasingly diverse. Latin American countries, in particular, witnessed substantial turbulence, largely due to country-specific factors, including concerns about debt dynamics and political uncertainties, generating a lower risk appetite and the increased possibility of contagion. Developing Asia, on the other hand, saw a recovery, posting a growth of 6.1 per cent in 2002, driven by improvement in both exports and domestic demand. The IMF projections suggest that this region may sustain the same growth rate in 2003, with scope for some further recovery.

2.114 The global financial markets weakened since end-March 2002, reflecting a deterioration in the balance sheets of financial intermediaries, corporates and households, concerns about the strength and durability of the recovery and unsettled geo-political conditions. Equity markets and bond yields weakened sharply, while credit spreads widened in bond markets reflecting concerns relating to corporate earnings. A heightened risk aversion contributed to a sharp rise in interest rate spreads.

2.115 The net private capital flows to emerging market economies grew by more than two and a half times during 2002 as compared with the last year, with the major portion accounted by the emerging market economies of Asia (Chart II.53). The private capital flows to developing Asia increased substantially during 2002.

2.116 There are several downside risks to the growth outlook for 2003. The most prominent concern is the unfavorable geopolitical situation and

Chart II.53 : Net Private Capital Flows to Emerging Markets



Source: IMF, World Economic Outlook, September 2002.

Chart II.54: Monthly Growth Rate of Exports

Source: DGCI&S.

the associated implications for international oil prices. The IMF estimates suggest that a sustained US $ 5 increase in oil prices could lower global GDP growth by 0.3 percentage points. Other downside risks are: i) dependence of the recovery on the outlook for the US, with the pick-up in Europe yet to be self-sustained and domestic demand growth in Japan likely to remain constrained by banking and corporate sector difficulties, ii) volatility in equity markets, iii) possibility of sudden corrections in the US dollar, iv) increased risks in emerging markets, particularly in Latin America and Turkey which could potentially impact on capital flows to emerging market economies, and v) continuing weakness in the economic recovery in Japan and its vulnerability to adverse shocks, such as an appreciation of the yen. Financial market developments also reflect heightened risk aversion. A further decline in asset prices can affect the growth prospects by weakening the balance sheets of corporates, institutions and households.

2.117 The need for industrial countries to maintain accommodative monetary policies has been emphasised by the IMF in the World Economic Outlook of September 2002. Interest rates are already at a very low level in the developed countries. The US Federal Reserve cut its target for the Federal Funds Rate to 1.25 per cent in November 2002, after having already lowered it in eleven steps from 6.5 per cent to 1.75 per cent during 2001. As inflationary pressures abated, the European Central Bank (ECB), which had kept its key interest rate (minimum bid rate on the main refinancing operations) unchanged through 2002 (up to November 2002), reduced it by 50 basis points to 2.75 per cent in December 2002 and further by 25 basis points to 2.5 per cent in March 2003. In the UK, the repo rate was reduced by 25 basis points to 3.75 per cent in February 2003.

Merchandise Trade

2.118 India's exports staged a remarkable recovery during 2002-03 (up to January 2003) after declining by 1.6 per cent during 2001-02 (Chart II.54 and Table 2.20). As per the latest provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's exports during 2002-03

Table 2.20 : India's Foreign Trade

(US $ Billion)

	April-March		April-January	
Item	2000-01	2001-02	2001-02	2002-03 P
	1	2	3	4
Exports	**44.6**	**43.8**	**35.9**	**42.2**
	(21.0)	**(-1.6)**	**(-0.3)**	**(17.3)**
(a) Oil	1.9	2.1	1.7	1.7
	(4,709.7) #	(11.6)	(8.7)	(-1.2)
(b) Non-Oil	42.7	41.7	34.2	40.5
	(16.1)	(-2.2)	(-0.7)	(18.2)
Imports	**50.5**	**51.4**	**42.5**	**49.3**
	(1.7)	**(1.7)**	**(0.2)**	**(15.9)**
(a) Oil	15.7	14.0	11.7	14.3
	(24.1)	(-10.5)	(-14.1)	(22.1)
(b) Non-Oil	34.9	37.4	30.8	35.0
	(-5.9)	(7.2)	(7.0)	(13.6)
Trade Balance	**-6.0**	**-7.6**	**-6.6**	**-7.2**
(a) Oil	-13.8	-11.9	-10.0	-12.6
(b) Non-Oil	7.8	4.3	3.4	5.5

P Provisional.

\# Exports of petroleum products rose sharply to US $ 1,870 million in 2000-01 from US $ 39 million in 1999-00.

Figures in brackets relate to percentage variation over the corresponding period of the previous year.

Note : Figures may not add up to totals due to rounding-off.

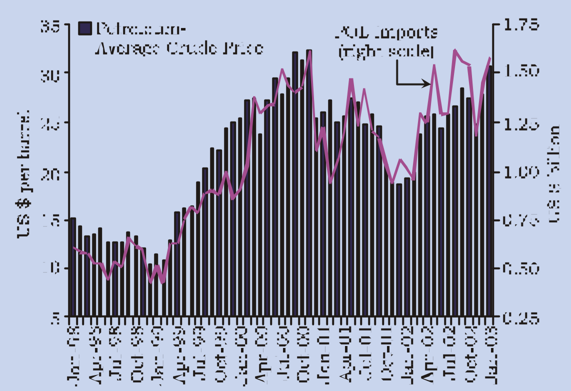
Source : DGCI&S.

(up to January 2003), at US $ 42.2 billion, increased by 17.3 per cent in sharp contrast to a decline of 0.3 per cent during the corresponding period of the previous year. The outlook for export growth during the remainder of 2002-03 remains positive.

2.119 Imports, at US $ 49.3 billion during 2002-03 (up to January 2003), witnessed an increase of 15.9 per cent as compared with a marginal rise of 0.2 per cent during the comparable period of the previous year, mainly on account of higher oil imports (Chart II.55). Oil imports during this period increased sharply by 22.1 per cent as against a decline of 14.1 per cent during 2001-02 (up to January 2002), due to high international crude oil prices. In consonance with a pick-up in industrial activity, non-oil imports, at US $ 35.0 billion, recorded a higher increase of 13.6 per cent as compared with 7.0 per cent during the corresponding period of the previous year. The trade deficit during this period widened to US $ 7.2 billion from US $ 6.6 billion during 2001-02 (up to January 2002).

2.120 The detailed data on commodity/country-wise trade are available up to the period April-November 2002. Exports of manufactured goods as well as primary products posted robust growth as compared with the corresponding period of the previous year. During April-November 2002, while the exports of manufactured goods increased by 16.2 per cent in contrast to the decline of 4.6 per cent during the corresponding period of the previous year, primary products exports recorded a higher increase of 14.9 per cent as compared with that of 3.5 per cent during April-November 2001 (Table 2.21 and Chart II.56).

Chart II.55 : Oil Imports and Crude Prices



Sources: DGCI&S and IMF, International Financial Statistics, March 2003.

Table 2.21 : Growth Rates of India's Principal Exports

(Per cent)

	Item	April-March		April-November	
		2000-01	2001-02	2001-02	2002-03 P
		1	2	3	4
I.	**Primary Products**	**9.2**	**-0.9**	**3.5**	**14.9**
	(a) Agriculture and Allied Products	6.5	-2.0	3.9	4.9
	(b) Ores and Minerals	25.9	5.0	1.0	65.5
II.	**Manufactured Goods**	**15.6**	**-3.5**	**-4.6**	**16.2**
of which:					
	(a) Leather and Manufactures	22.3	-2.0	-2.0	-7.0
	(b) Chemicals and Related Products	25.1	1.7	3.8	16.3
	(c) Engineering Goods	32.3	0.8	1.9	18.3
	(d) Textiles	16.8	-10.0	-9.1	10.3
	(e) Handicrafts	-1.1	-17.2	-19.8	21.0
	(f) Gems and jewellery	-1.6	-1.1	-8.8	29.4
	(g) Carpets	-9.8	-13.5	-14.3	-6.8
III.	**Petroleum Products**	**4,709.7 #**	**13.7**	**24.8**	**11.3**
Total Exports		**21.0**	**-1.6**	**-0.8**	**18.0**

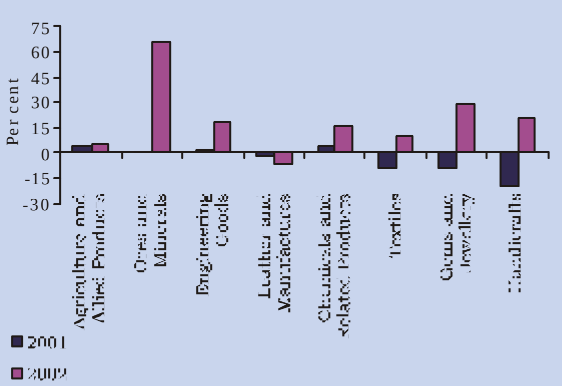
P Provisional

\# Exports of petroleum products rose sharply to US $ 1,870 million in 2000-01 from US $ 39 million in 1999-00.

Source : DGCI&S.

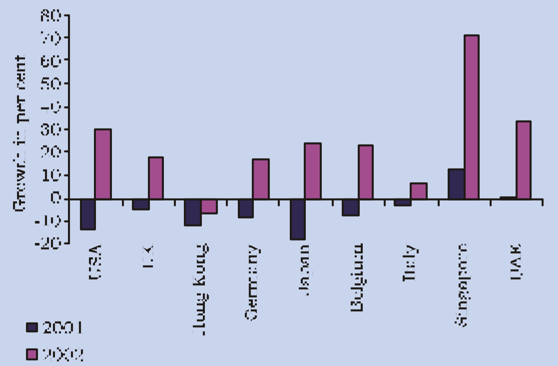
2.121 The destination-wise data showed an increase in the exports to Organisation of Economic Cooperation and Development (OECD), Organisation of Petroleum Exporting Countries (OPEC), Eastern Europe and developing countries of Asia and Latin America. Among the major destination countries, sharp increases in exports were observed in respect of USA, Japan, Belgium, Germany, UK, People's Republic of China, Indonesia, UAE, South Korea, Singapore and Sri Lanka, while the exports to Hong Kong declined (Chart II.57).

Chart II.56: Growth Rates of Exports of Selected Commodities (April-November)



Source: DGCI&S.

Chart II.57: Destination of India's Exports (April-November)



Source: DGCI&S.

2.122 Commodity-wise data on imports during April-November 2002 revealed that non-oil imports increased by 12.8 per cent as compared with 7.7 per cent during the corresponding period of the previous year. There was a decline in the imports of gold and silver by 9.4 per cent during April-November 2002 owing, *inter alia,* to a sharp escalation in their global prices. Non-oil imports excluding gold and silver, recorded an increase of 16.5 per cent mainly brought about by increases in the imports of capital goods and export related items (Chart II.58).

2.123 With a revival in industrial activity, the imports of capital goods showed a robust increase of 30.4 per cent during April-November 2002 as compared with 5.3 per cent during the corresponding period of the previous year. Within the capital goods group, imports of 'electronic goods including computer software' and 'transport equipments' increased significantly. Imports of export-related items like raw cashew nuts increased perceptibly along with that of 'pearls, precious and semi-precious stones'. The imports of industrial raw materials and intermediate goods such as 'pulp and waste paper', 'artificial resins and plastic materials' and crude rubber (including synthetic and reclaimed) also showed an increase consistent with an increase in industrial activity. Imports of fertilisers, 'paper, paperboard and manufactures including newsprint' and 'metalliferous ores and metal scrap' showed a decline.

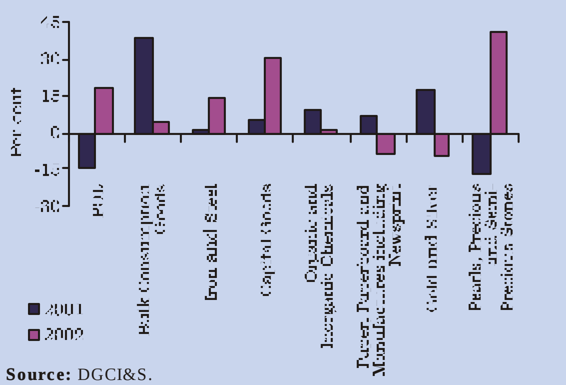
2.124 The country-wise analysis of import data for the period April-November 2002 reveals an increase in imports from the OECD, OPEC, Eastern Europe and developing countries of Asia and Africa, while imports from Latin American countries declined (Chart II.59).

Invisibles and Current Account

2.125 Invisibles earnings continued to provide significant support to India's balance of payments during 2002-03 (up to November). The buoyancy in the invisible account was sustained as the net invisible surplus (on account of transactions in services, transfers and income) increased to US $ 10.0 billion during April-November 2002. According to disaggregated data available up to September 2002, the higher surplus was mainly due to higher software and private transfer receipts. Software exports rose by 13.4 per cent during the first half of 2002-03 from the corresponding half of the previous year.

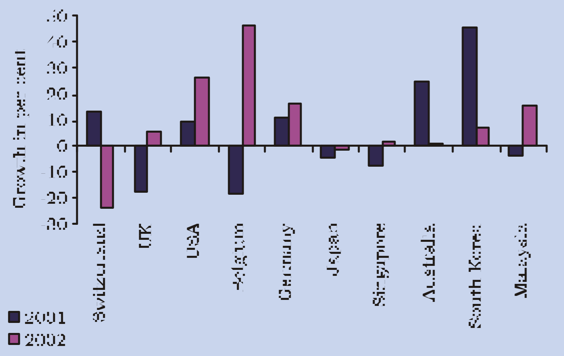
2.126 With the merchandise trade deficit contracting, and the increased invisible surplus, the current account balance moved into a surplus of US $ 2.5 billion during April-November 2002 as against a deficit of US $ 1.3 billion during the corresponding period of 2001 (Chart II.60).

Chart II.58: Growth Rates of Imports of Selected Commodities (April-November)



Source: DGCI&S.

Chart II.59 : Sources of India's Imports (April-November)



Source: DGCI&S.

Chart II. 60 : Current Account Balance

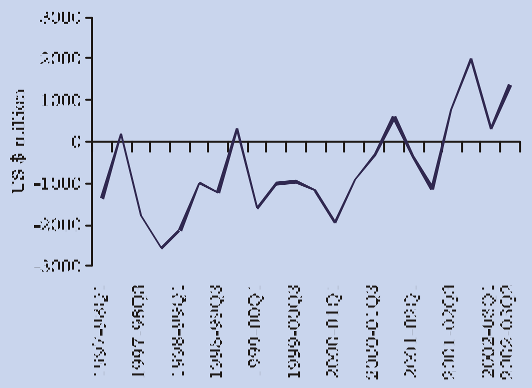
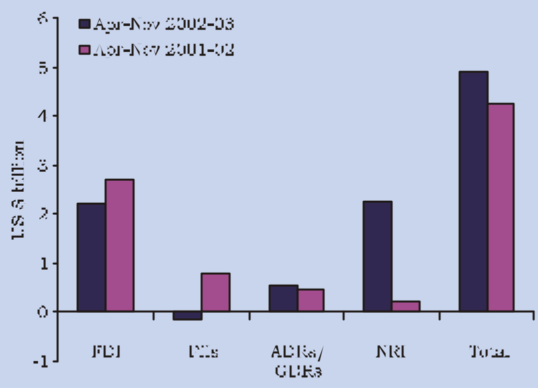


Chart II.61 : Capital Flows by Category



Capital Account

2.127 Net capital flows increased from US $ 6.2 billion during April-November 2001 to US $ 8.0 billion during April-November 2002 (Chart II.61).

2.128 Estimates show that positive exchange rate expectations, a freer trade and payments regime, burgeoning international reserves and improving fundamentals provided a safe haven for adjustments in financial claims leading to larger inflows during April - November 2002 (Table 2.22).

2.129 Amongst the major components of capital flows, while foreign direct investment flows were a little lower than in the previous year, portfolio investment flows failed to pick up (Table 2.23). Outflows under external commercial borrowings increased further as the

Table 2.22 : Estimates of Sources of Accretion to Foreign Exchange Reserves

(US $ billion)

Item	April-November 2001	April-November 2002
	1	2
I. 1. Exports	29.0	34.0
2. Imports	38.3	41.5
3. Invisibles (net)	8.0	10.0
4. Current Account Balance (1-2+3)	-1.3	2.5
II. Capital Account (net)	6.2	8.0
5. Foreign Investment	2.7	1.9
6. Banking Capital, of which:	3.6	4.0
NRI Deposits	2.2	2.1
7. External Commercial Borrowings	-0.9	-1.8
8. External Assistance	0.1	-0.4
9. Short Term Credit	-0.5	0.5
10. Other capital	1.2	3.8
of which:		
(i) Leads and lags in export receipts	0.5	2.8
III. Overall Balance	4.9	10.5
IV. Accretion to Foreign Exchange Reserves (excluding valuation change)	4.9	10.5
V. Valuation change (appreciation'+'/ depreciation '-')	-0.4	+2.1
VI. Accretion to Foreign Exchange Reserves (including valuation change) (IV + V)	4.5	12.6

Table 2.23 : Foreign Investment Flows by Category

(US $ million)

Item	2000-01	2001-02	April-December (P) 2001-02	April-December (P) 2002-03
	1	2	3	4
A. Direct Investment	2,339	3,904	2,712	2,256
a) Government (SIA/FIPB)	1,456	2,221	1,581	925
b) RBI	454	767	564	598
c) NRI	67	35	33	–
d) Acquisition of shares*	362	881	534	733
B. Portfolio Investment	2,760	2,021	1,343	386
a) GDRs/ ADRs #	831	477	477	537
b) FIIs @	1,847	1,505	827	-151
c) Off-shore funds and others	82	39	39	–
Total (A+B)	**5,099**	**5,925**	**4,055**	**2,642**

P Provisional.

* Relates to acquisition of shares of Indian companies by non-residents under Section 5 of FEMA 1999.

\# Represents the amount raised by Indian corporates through Global Depository Receipts (GDRs) /American Depository Receipts (ADRs).

@ Represents net inflow of funds by Foreign Institutional Investors (FIIs).

Table 2.24 : Inflows under NRI Deposit Scheme

(US $ million)

	Scheme			April-December (P)	
		2000-01	2001-02	2001-02	2002-03
		1	2	3	4
1.	FCNR(B)	904	594	585	592
2.	NR(E)RA	860	1,626	1,206	4,582
3.	NR(NR)RD	553	508	463	-2,891
	Total	**2,317**	**2,728**	**2,254**	**2,283**

P Provisional.

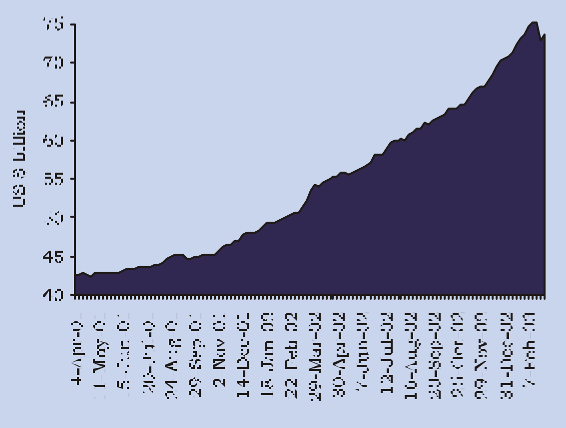
appetite for external finance remained subdued, partly on account of ample domestic liquidity.

2.130 Non-resident deposits were broadly of the same order as in the previous year. Short-term credits rose in line with the increase in POL imports (Table 2.24).

Foreign Exchange Reserves

2.131 The foreign exchange reserves increased by US $ 21.2 billion during 2002-03 (up to February 21, 2003) on the top of an increase of US $ 11.8 billion during 2001-02 (Chart II.62). The foreign exchange reserves declined to US $ 72.9 billion on February 28, 2003 on account of pre-payment of external debt of US $ 2.97 billion by the Central Government. At US $ 73.9 billion as on March 13, 2003, the level of reserves was equivalent to more than a year's imports. The increase in reserves was almost entirely on account of foreign currency assets. Gold holdings of the Reserve Bank increased by a marginal US $ 0.7 billion. Currency valuation effects arising from a realignment of the US dollar with other major currencies accounted for US $ 3.5 billion of the reserve accretion during 2002–03 (up to March 13, 2003).

Chart II.62 : India's Foreign Exchange Reserves



2.132 The recent sustained increase in the reserves have raised issues about the costs and benefits of reserves. The financial cost of additional reserve accretion is estimated to be low, given that debt flows contributed only 23 per cent of the reserve accretion during April-November 2002 while the surplus in the current account, non-debt creating flows and valuation factors, which do not involve contractual servicing obligations, together contributed 77 per cent of the reserve accretion. These costs are likely to be more than offset by the return on additional reserves.

2.133 Forward liabilities of the Reserve Bank were fully extinguished by September 2002. Forward assets of US $ 2.6 billion were accumulated by end-February 2003.

2.134 The accumulation of foreign exchange reserves during the year is in line with the Reserve Bank's policy of maintaining an adequate level of foreign exchange reserves to meet import requirements, unforeseen contingencies, volatility, self-fulfilling and speculative adverse expectations and liquidity risks associated with different types of capital flows. The policy for reserve management continues to be judiciously built upon a host of identifiable factors and other contingencies, including the size of the current account deficit, the size of short-term liabilities (including current repayment obligations on long-term loans), the possible variability in portfolio investment and other types of capital flows, the unanticipated pressures on the balance of payments arising out of external shocks and movements in the repatriable foreign currency deposits of Non-Resident Indians (NRIs). Taking these factors into account, India's foreign exchange reserves are at present comfortable and consistent with the rate of growth, the share of external sector in the economy and the size of risk-adjusted capital flows.

2.135 A number of measures of current and capital account relaxations were undertaken during the year as a part of the ongoing liberalisation of exchange control regulations and taking into account the stable market conditions and healthy foreign exchange inflows (Box II.2).

External Debt

2.136 India's external debt, at US $ 101.97 billion as at end-September 2002, increased by 0.7 per cent from the end-June 2002 level and 3.5 per cent over end-March 2002 (Table 2.25).

2.137 The consolidation of external debt was carried further during the quarter as indicated by key

Box II.2

Current and Capital Account Liberalisation Policies adopted in India: 2002-03

- In order to permit the corporates to take advantage of low interest rates, the Reserve Bank simplified the norms for prepayment of external commercial borrowings (ECBs), by allowing prepayment without any limit out of balances held in EEFC accounts as well as out of local resources/market purchases.
- Funds in Non-Resident Ordinary (NRO) accounts are allowed to be repatriated up to (a) US $ 30,000 per academic year, to meet expenses in connection with education; (b) US $ 1,00,000 to meet the medical expenses abroad of the account holder or his family members and (c) US $ 1,00,000 per year, representing sale proceeds of immovable property, which was held for a period not less than 10 years subject to payment of applicable Indian taxes.
- Considerable liberalisation has been made towards release of foreign exchange for individual residents, with self certification / minimum documentation requirements, for most purposes including travel, education, medical expenses and other current account transactions.
- Non-resident Indians/ Persons of Indian Origin (NRIs/PIOs) have been permitted to repatriate assets in India acquired by way of inheritance/legacy, in addition to other facilities. Full repatriation of current income like rent, dividend, pension and interests of NRIs, even without holding a NRO account in India was also permitted.
- Status Holder Exporters may credit up to 100 per cent of their eligible receipts of foreign exchange to their Exchange Earners Foreign Currency (EEFC) account.
- Remittances towards premium for general insurance policies taken by units located in Special Economic Zones (SEZ) from insurers outside India were permitted.
- Insurance companies registered with the Insurance Regulatory and Development Authority (IRDA) were allowed issuance of general insurance policies denominated in foreign currency.
- The Reserve Bank allowed banks to offer i) foreign currency-rupee swaps to their customers without any limit and ii) hedging facility to FIIs, as well as iii) a facility to freely invest in overseas money and debt market instruments.
- The existing limit of US $ 20,000 on remittance for purchase of foreign securities by resident individuals under the Employees Stock Option (ESOP) Scheme has been removed. Remittances for the acquisition of foreign securities under ESOP is permitted as per terms of offer without any monetary limit subject to conditions.
- Indian companies have been allowed to retain ADR and GDR proceeds abroad for any period to meet their future foreign exchange requirements. Corporates would now be permitted to acquire immovable property overseas for their business and residential (staff) purposes.
- Listed Indian companies have been allowed to invest abroad in companies a) listed on recognised stock exchanges and b) which has the shareholding of at least 10 per cent in an Indian company listed on a recognised stock exchange in India (as on January 1 of the year of the Investment). Such investment shall not exceed 25 per cent of the Indian company's net worth, as on the date of the latest audited balance sheet.
- Mutual funds, which are at present permitted to invest in ADRs/GDRs of the Indian companies and rated debt investments within an overall cap of US $ 500 million, are permitted to invest in equity of overseas companies subject to the overall cap of US $ 1 billion.
- Corporates raising ECBs may retain the funds abroad in a bank account for their future foreign exchange requirements subject to some stipulations.
- Authorised dealers are permitted to allow remittance of assets of foreign nationals, including retired employees/ widows of Indian citizens resident outside India and assets in India acquired by NRIs/PIOs by way of inheritance/legacy up to US $ 1,00,000.
- Resident individuals are permitted to open a Resident Foreign Currency Domestic (RFC(D)) Account with a bank in India and deposit foreign exchange earnings repatriated to India through the banking channel. The earnings could be out of export of goods and/or services, royalty, honorarium *etc*. They can also open/credit the RFC(D) account with currency notes, bank notes and travelers cheques (a) saved from the trip outside India, (b) received as honorarium during the trip outside India, (c) received as gift from persons on visit to India and (d) received from a person on a visit to India for services rendered in India. These accounts are not interest bearing and there is no ceiling on the balances that can be built up in these accounts. The balances held in these accounts can be used for any purpose for which foreign exchange can be bought from a bank in India.
- Companies are allowed to make investment in JV/WOS abroad without prior approval of the RBI up to US $ 100 million, provided that the drawal of foreign exchange from an AD in India does not exceed 100 per cent of the net worth of the Indian Company.
- Listed Indian Companies, resident individuals and mutual funds have been permitted to invest in companies (a) listed on a recognised stock exchange and (b) which has the shareholding of at least 10 per cent in an Indian Company listed on a recognised stock exchange in India.

indicators of debt sustainability. The concessional debt as a proportion to total debt continued to be significant. The size of short-term debt remained modest both in regard to total debt and reserves. The proportion of short-term debt to total debt remained broadly stable at around 3.0 per cent as at end-September 2002 as compared with 3.1 per cent as at end-June 2002 and 2.8 per cent as at end-March 2002. The ratio of short-term debt to foreign exchange reserves declined to 4.8 per cent as at end-September 2002 from 5.3 per cent as at end-June 2002 and 5.1 per cent as at end-March 2002.

Table 2.25 : India's External Debt

	Item	As at the end of					
		March 2002		June 2002		September 2002	
		Amount (US $ Million)	Share in Total Debt (Per cent)	Amount (US $ Million)	Share in Total Debt (Per cent)	Amount (US $ Million)	Share in Total Debt (Per cent)
		1	2	3	4	5	6
1.	Multilateral	31,898	32.4	32,288	31.9	32,132	31.5
2.	Bilateral	15,347	15.6	16,306	16.1	16,234	15.9
3.	IMF	0	0	0	0	0	0
4.	Export Credit	5,005	5.1	4,957	4.9	4,769	4.7
5.	Commercial Borrowings	23,338	23.7	23,081	22.8	22,344	21.9
6.	NRI Deposits (Long-Term)	17,154	17.4	18,617	18.4	20,658	20.3
7.	Rupee Debt	3,002	3.0	2,912	2.9	2,800	2.7
8.	Long-Term Debt (1 to 7)	95,744	97.2	98,161	96.9	98,937	97.0
9.	Short-Term Debt *	2,745	2.8	3,092	3.1	3,035	3.0
10.	**Total Debt (8+9)**	**98,489**	**100.0**	**1,01,253**	**100.0**	**1,01,972**	**100.0**

* Excludes suppliers credit of up to 180 days.