Table 2.20: Expenditure Pattern of State Governments

(Rupees crore)

Item	Average 1990-95	Average 1995-00	Average 2000-02	2002-03	2003-04 BE	2003-04 RE	2004-05 BE	Percentage variation Col.7/6	Percentage variation Col.8/7
1	2	3	4	5	6	7	8	9	10
Total Expenditure				**4,19,450**	**4,84,552**	**5,51,956**	**5,42,824**	**13.9**	**-1.7**
1+2 = 3+4+5	(16.0)	(15.3)	(16.6)	(17.0)	(17.7)	(19.9)	(17.4)		
1. Revenue Expenditure				3,32,563	3,79,513	3,99,541	4,15,687	5.3	4.0
of which	(12.8)	(12.6)	(13.9)	(13.5)	(13.8)	(14.4)	(13.3)		
Interest Payments				69,966	82,667	83,724	91,648	1.3	9.5
	(1.7)	(2.0)	(2.6)	(2.8)	(3.0)	(3.0)	(2.9)		
2. Capital Expenditure				86,887	1,05,039	1,52,415	1,27,137	45.1	-16.6
of which	(3.2)	(2.7)	(2.7)	(3.5)	(3.8)	(5.5)	(4.1)		
Capital Outlay				36,209	55,160	60,751	56,629	10.1	-6.8
	(1.6)	(1.4)	(1.5)	(1.5)	(2.0)	(2.2)	(1.8)		
3. Development Expenditure				2,27,034	2,67,030	2,99,357	2,80,823	12.1	-6.2
	(10.8)	(9.6)	(9.8)	(9.2)	(9.7)	(10.8)	(9.0)		
4. Non Development Expenditure				1,50,264	1,76,009	1,76,821	1,99,065	0.5	12.6
	(4.3)	(4.9)	(5.9)	(6.1)	(6.4)	(6.4)	(6.4)		
5. Others				42,152	41,513	75,778	62,936	82.5	-16.9
	(0.9)	(0.7)	(0.9)	(1.7)	(1.5)	(2.7)	(2.0)		

BE : Budget Estimates. RE : Revised Estimates.

Note : Figures in brackets are percentages to GDP.

Public Debt

2.39 Due to persistent fiscal deficits, the combined outstanding liabilities of the Centre and the State Governments (as a ratio to GDP) have been rising since mid-1990s (Table 2.22). This ratio is expected to increase further by around one percentage point during 2004-05 and is estimated to reach 77.5 per cent as at March 2005. The high level of debt of the Centre as well as the State Governments has resulted in a sizeable increase in interest payments, notwithstanding the softening of interest rate regime in recent years.

Table 2.21: Decomposition and Financing Pattern of Gross Fiscal Deficit of States

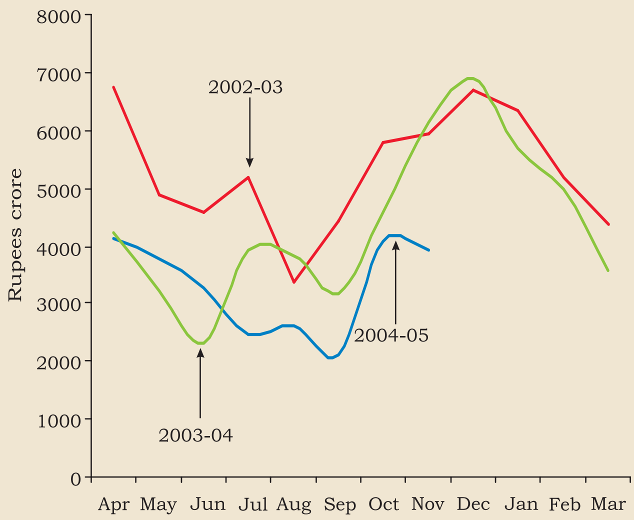
(Per cent)

Item	Average 1990-95	Average 1995-00	Average 2000-02	2002-03	2003-04 BE	2003-04 RE	2004-05 BE
1	2	3	4	5	6	7	8
Decomposition (1+2+3)	100	100	100	100	100	100	100
1. Revenue Deficit	24.7	44.7	60.7	54.0	42.1	51.5	43.0
2. Capital Outlay	55.3	43.2	34.2	35.5	47.5	43.3	50.4
3. Net Lending	20.0	12.1	5.1	10.5	10.4	5.2	6.6
Financing (1+2+3+4+5)	100	100	100	100	100	100	100
1. Special Securities Issued to the NSSF	..	5.8	36.8	49.7	43.2	41.6	53.5
2. Market Borrowings	16.0	16.1	16.0	27.9	14.5	32.1	23.0
3. State Provident Fund	14.3	13.4	10.2	9.6	9.3	8.2	10.9
4. Loans and Advances from the Centre	49.0	40.6	13.5	-1.8	6.7	-15.1	-6.5
5. Others	20.7	24.0	23.6	14.6	26.3	33.2	19.1

.. Not Applicable.

BE : Budget Estimates. RE : Revised Estimates.

Chart II.8 : Utilisation of RBI's WMA (Normal and Special) and Overdrafts by States (weekly averages)



III. MONETARY AND CREDIT SITUATION

Monetary Conditions

2.40 The Annual Policy Statement of May 2004 had indicated that, barring the emergence of any adverse and unexpected developments in the various sectors of the economy and assuming that the underlying inflationary situation does not turn adverse, the overall stance of monetary policy for 2004-05 will be:

- Provision of adequate liquidity to meet credit growth and support investment and export demand in the economy while keeping a very close watch on the movements in the price level.
- Consistent with the above, while continuing with the *status quo*, to pursue an interest rate environment that is conducive to maintaining the momentum of growth and, macroeconomic and price stability.

2.41 Consistent with the expected growth and inflation rates, the Annual Policy Statement placed the growth in broad money (M_3) and non-food credit (including non-SLR investments) at 14.0 per cent and 16.0-16.5 per cent, respectively, for 2004-05. The projection for non-food bank credit (including non SLR investments) growth during the year was revised upwards to around 19.0 per cent in the Mid-Term Review of October 2004. It was felt that the higher credit expansion could be accommodated without putting undue pressure on money supply because of the lower borrowing of the Government from the banking sector. In the eventuality of Government borrowings being larger, unwinding of MSS would facilitate such borrowings. Monetary management in the first half of 2004-05 was conducted broadly in conformity with the monetary policy stance announced in the Annual Policy Statement. In monetary management, the Reserve Bank faced challenges on two counts: overhang of liquidity and the surge in headline inflation. Accordingly, the Reserve Bank undertook calibrated measures. On a review of liquidity conditions, the Cash Reserve Ratio (CRR) was raised by 50 basis points to 5.0 per cent in two stages effective September 18, 2004 and October 2, 2004, even as the Reserve Bank indicated that it will continue to pursue its medium-term objective of reducing CRR to its statutory minimum of 3.0 per cent. This measure reduced the liquidity in the banking system by about Rs.9,000 crore. The Reserve Bank chose to increase the CRR, partly for absorbing liquidity in the system, but more importantly for signalling the Reserve Bank's concern at the unacceptable levels of inflation so that inflationary expectations are moderated while reiterating the importance of stability in financial market conditions. On the interest rate front, the Bank Rate was kept unchanged at 6.0 per cent. However, the fixed repo (now called reverse repo in accordance with international practice) rate was

Table 2.22: Combined Liabilities and Debt-GDP Ratio

Year (end-March)	Outstanding Liabilities (Rupees crore)			Debt - GDP Ratio (Per cent)		
	Centre	States	Combined	Centre	States	Combined
1	2	3	4	5	6	7
1990-91	3,14,558	1,10,289	3,50,957	55.3	19.4	61.7
1995-96	6,06,232	2,12,225	6,89,545	51.0	17.9	58.0
2001-02	13,66,408	5,86,686	16,28,972	59.9	25.7	71.4
2002-03	15,59,201	6,86,142	18,70,519	63.1	27.8	75.7
2003-04 RE	17,24,499	8,05,667	21,25,151	62.2	29.1	76.7
2004-05 BE	19,86,167	9,10,902	24,20,091	63.6	29.2	77.5

RE : Revised Estimates. BE : Budget Estimates.
Note : Data regarding States are provisional since 2002-03.

Table 2.23: Variations in Major Components and Sources of Reserve Money

(Rupees crore)

Item	2003-04	2004-05 (upto December 10)	2003-04				2004-05	
			Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9
Reserve Money	**67,451** (18.3)	**16,293** (3.7)	**16,342**	**-18,235**	**23,980**	**45,363**	**-6,813**	**-6,408**
Components								
1. Currency in circulation	44,555 (15.8)	30,235 (9.2)	17,882	-5,955	17,986	14,641	14,315	-4,166
2. Bankers' Deposits with RBI	21,019	-12,921	-1,606	-12,633	5,961	29,297	-19,665	-2,874
3. Other Deposits with the RBI	1,877	-1,022	65	352	33	1,426	-1,463	632
Sources								
1. RBI's net credit to Government Sector	-75,772	-39,807	-4,451	-53,146	-12,506	-5,669	-34,143	-6,179
of which: to Central Government	-76,065 (-67.3)	-32,294 (-87.5)	434	-53,744	-15,844	-6,911	-30,029	-4,499
2. RBI's credit to Banks and commercial sector	-2,728	-2,351	-1,564	-2,525	-796	2,156	-2,985	-740
3. NFEA of RBI	1,26,169 (35.2)	87,937 (18.2)	22,710	25,720	51,931	25,808	57,525	-5,260
4. Govts' Net Currency Liabilities to the Public	225	44	84	74	43	24	35	8
5. Net Non-Monetary Liabilities of RBI	-19,557	29,530	437	-11,642	14,692	-23,044	27,245	-5,762
Memo:								
1. Net Domestic Assets	-58,719	-71,644	-6,368	-43,955	-27,951	19,555	-64,338	-1,148
2. FCA, adjusted for revaluation	1,41,428	58,301	23,943	31,832	37,560	48,093	33,160	- 3,413
3. NFEA/Reserve Money (per cent) (end-period)	110.0	126.4	98.8	110.8	117.2	111.0	126.1	126.8

NFEA : Net Foreign Exchange Assets. FCA : Foreign Currency Assets.

Notes : 1. Data based on March 31 for Q4 and last reporting Friday for all other quarters.

2. Figures in brackets are percentage variations during the year.

increased, effective October 27, 2004, by 25 basis points to 4.75 per cent.

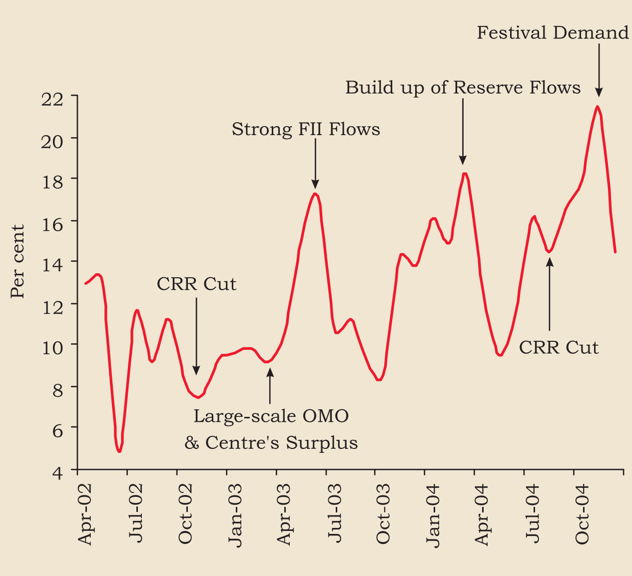
2.42 The overall stance of monetary policy for the second half of 2004-05, as the Mid-Term Review indicated, barring the emergence of any adverse and unexpected developments in the various sectors of the economy and keeping in view the inflationary situation, will be:

- Provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability.
- Consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth.
- To consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations.

Reserve Money Survey

2.43 Reserve money growth during the current fiscal year 2004-05 (up to December 10, 2004), as in the past few years, primarily emanated from the accretion to the Reserve Bank's foreign currency assets (Table 2.23 and Chart II.9).

Chart II.9 : Reserve Money Growth



Box II.1

Market Stabilisation Scheme

On March 25, 2004 the Government of India signed a Memorandum of Understanding (MoU) with the Reserve Bank of India detailing the rationale and operational modalities of the Market Stabilisation Scheme (MSS). The scheme came into effect from April 1, 2004. The ceiling on the outstanding amount under MSS was fixed initially at Rs.60,000 crore which was, however, subject to an upward revision based on the liquidity assessment. The ceiling has been since enhanced to Rs.80,000 crore. An indicative schedule for the issuance of Treasury Bills/ dated securities under the MSS for the first quarter of the 2004-05 (April 1, 2004-June 30, 2004) was also announced to provide transparency and stability in the financial markets. It was proposed to issue an aggregate of Rs.35,500 crore (face value) of Treasury Bills/ dated securities under the MSS during the first quarter of 2004-05. As against this, Rs.39,730 crore was issued during the first quarter reflecting an unscheduled auction of dated securities amounting to Rs.5,000 crore on April 8, 2004 and acceptance of bids amounting to Rs.230 crore (as against the notified amount of Rs.1,000 crore in respect of 364-day Treasury Bills on June 23, 2004). The MSS schedule for the second quarter was issued on June 29, 2004 which indicated issuances of Rs. 36,500 crore (inclusive of rolling over of Rs.19,500 crore under 91-day Treasury Bills issued during the first quarter). On September 29, 2004, an indicative calendar for MSS issuances of Rs.25,500 crore was announced (including of rolling over of Rs.16,955 crore under 91-day Treasury Bills maturing during the quarter).

2.44 The expansionary effect of forex purchases was neutralised through sterilisation operations. These operations were greatly facilitated by the introduction of the Market Stabilisation Scheme (MSS) in April 2004 to absorb liquidity of a more enduring nature (Box II.1). With the introduction of the MSS, the amounts tendered under the Liquidity Adjustment Facility (LAF) declined from an average of Rs.70,523 crore in April 2004 to Rs.10,805 crore in October 2004. There was, however, a net injection of Rs. 5,066 crore in November 2004. During the first quarter of 2004-05, sterilisation was done primarily through the MSS. In the second quarter (July-September), capital flows tapered off. In the subsequent period (October 2004 onwards), the revival of capital inflows in November were mainly offset by the seasonal pick up in cash demand (Table 2.24 and Chart II.10). The total stock of Treasury Bills and dated securities issued under the MSS amounted to Rs.51,334 crore as on December 10, 2004 inclusive of Rs.25,000 crore raised through dated securities with a residual maturity of upto two years. In addition to the MSS and LAF operations, surplus balances in the Central Government account with the Reserve Bank also helped in draining out excess liquidity from time to time.

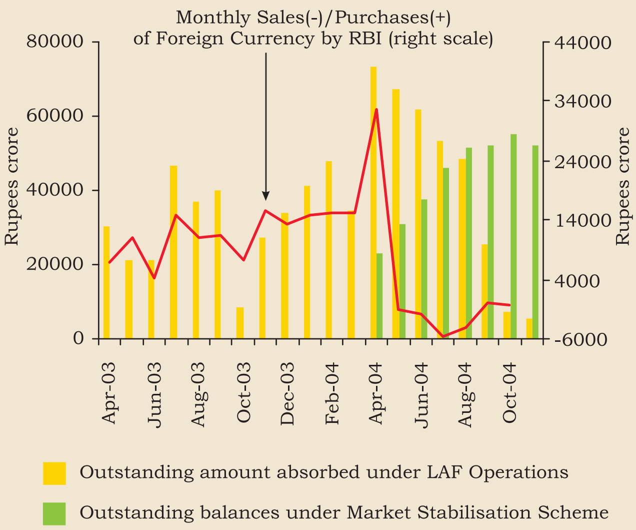
Table 2.24: Phases of Reserve Bank's Liquidity Management Operations

(Rupees crore)

Item	2003-04		2004-05		
	April 1 - December 26, 2003	December 27, 2003 - March 26, 2004	March 27 - June 25, 2004	June 26 - September 24, 2004	September 25 - December 10, 2004
1	2	3	4	5	6
1. RBI's Foreign Currency Assets (adjusted for revaluation)	93,334	46,171	34,971	-3,607	28,748
2. LAF (net repo/reverse repo)*	27,075	31,910	-35	-42,120	-3,425
3. OMO sales (net)	36,517	5,332	429	428	593
4. MSS	–	–	37,812	14,443	-921
5. Currency	29,914	14,641	14,315	-7,195	23,115
6. Others (residual)	8,106	-15,346	-17,547	25,302	8,177
6.1 Surplus Cash balances of the Centre with the Reserve Bank	13,135	-6,685	-18,577	25,139	4,106
Bank Reserves (1-2-3-4-5-6)	**-8,278**	**9,634**	**-3**	**5,535**	**1,209**

* Since October 29, 2004, repo and reverse repo indicates injection (+) and absorption (-), respectively.

Chart II.10 : Liquidity Management



2.45 Reflecting the market operations, the net Reserve Bank credit to the Centre continued to decline. Auctions under the MSS (Rs.51,334 crore) were largely offset by liquidity injections through net repos (Table 2.25). The Reserve Bank's credit to State Governments also declined during the fiscal year so far by Rs.7,268 crore on top of a decline of Rs.1,518 crore in the corresponding period of the previous year.

Monetary Survey

2.46 As on November 26, 2004, the year-on-year growth in broad money (M_3) was 13.5 per cent (net of the impact of the conversion of a non-banking entity into a banking entity) as compared with 12.4 per cent in the preceding year (Table 2.26). The year-on-year growth rate in M_3 was consistent with the indicative trajectory of 14.0 per cent. Both currency and aggregate deposits recorded a strong growth (Chart II.11).

Table 2.25: Variations in Net Reserve Bank Credit to the Centre

(Rupees crore)

Variable	2003-04	2003-04				2004-05		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3 upto December 10, 2004)
1	2	3	4	5	6	7	8	9
Reserve Bank Credit to the Centre (1+2+3+4-5)	-76,067	435	-53,744	-15,845	-6,913	-30,028	-4,500	2,234
1. Loans and Advances	0	8,145	-8,145	0	0	3,222	-3,222	0
2. Treasury Bills held by the Reserve Bank	-3	-3	0	0	0	0	0	0
3. Reserve Bank's Holdings of Dated Securities	-72,227	-11,300	-45,530	-15,795	398	-2,901	22,176	-2,746
4. Reserve Bank's Holdings of Rupee Coins	20	163	-69	-51	-24	175	-11	-36
5. Central Government Deposits	3,856	-3,430	0	-1	7,287	30,525	23,443	-5,017
Memo Items*								
1. Market Borrowings of Dated Securities by the Centre #	1,21,500	44,000	36,000	15,000	26,500	43,000 **	36,000 ***	14,000
2. Reserve Bank's Primary Subscription to Dated Securities	-21,500	-5,000	0	0	16,500	0	847	0
3. Repos (-) / Reverse Repos (+) (LAF), net position £	-32,230	-25,052	1,557	-3,580	-5,155	26,720	-35,205	-10,340
4. Net Open Market Sales #	41,849	-48,160	16,672	14,225	5,332	429	429	593
5. Primary Operations $	-100	25,643	-32,608	2,304	4,560	10,825	-48,150	-923

* At face value. # Excludes Treasury Bills.
£ Includes fortnightly repos. ** Includes Rs. 15,000 crore under MSS.
*** Includes Rs. 10,000 crore under MSS. $ Adjusted for Centre's surplus investment.
Note : Quarterly variations are based on March 31 for Q4 and last reporting Fridays for other quarters.

Table 2.26: Monetary Indicators

(Rupees crore)

Variable	Outstanding as on November 26, 2004	Year-on-Year Variation 2003 (As on November 28) Absolute	Per cent	2004 (As on November 26) Absolute	Per cent
1	2	3	4	5	6
I. Reserve Money*	4,52,805	46,120	13.2	57,444	14.5
II. Broad Money (M_3)	21,35,552	2,08,254	12.4	2,53,760	13.5
a) Currency with the Public	3,43,100	38,547	14.9	45,948	15.5
b) Aggregate Deposits	17,91,780	1,69,277	12.0	2,10,501	13.3
i) Demand Deposits	2,58,756	29,208	15.8	44,606	20.8
ii) Time Deposits	15,29,454	1,40,069	11.4	1,62,326	11.9
Of which: Non-Resident Foreign Currency Deposits	76,306	-4,044	-4.3	-12,824	-14.4
III. NM_3	20,52,190	2,06,561	13.3	2,90,599	16.5
IV. a) L_1	21,31,858	2,20,373	13.7	3,08,003	16.9
Of which: Postal Deposits	79,668	13,811	28.5	17,404	28.0
b) L_2	21,38,106	2,19,480	13.6	3,08,221	16.8
Of which: FI Deposits	6,248	-893	-12.9	218	3.6
c) L_3	21,57,828	2,21,186	13.6	3,07,575	16.6
Of which: NBFC Deposits	19,722	1,706	9.1	-646	-3.2
V. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	7,33,849	79,636	12.3	6,324	0.9
i) Net Reserve Bank Credit to Government	18,204	-54,295	-46.0	-45,634	-71.5
Of which: to the Centre	14,052	-56,021	-49.1	-43,944	-75.8
ii) Other Banks' Credit to Government	7,27,838	1,33,931	25.3	64,151	9.7
b) Bank Credit to Commercial Sector	11,58,505	97,641	11.6	2,16,199	22.9
Of which: Scheduled Commercial Banks' Non-food Credit	9,31,247	1,03,427	16.4	1,98,497	27.1
c) Net Foreign Exchange Assets of Banking Sector	6,07,733	1,04,679	28.3	1,33,772	28.2

* Variations pertain to December 10, 2004 and corresponding period of previous year.

FI : Financial Institutions. NBFCs : Non-Banking Financial Companies.

Notes : 1. M_3, time deposits, net bank credit to government and bank credit to commercial sector are adjusted for the effect of conversion of a non banking entity to a banking entity since October 11, 2004.

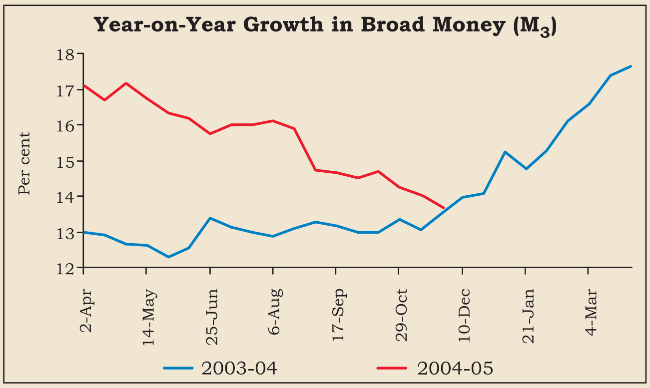
2. For items III, IV and non-resident foreign currency deposits variation figures pertain to end-September 2004.

3. Data are provisional.

Bank Credit

2.47 A positive feature of the current year has been the sharp increase in commercial credit off-take reflecting, *inter alia*, the strong industrial performance (Table 2.27 and Chart II.12). The pick-up in scheduled commercial banks' non-food credit

Chart II.11 : Movements in Broad Money (M_3)



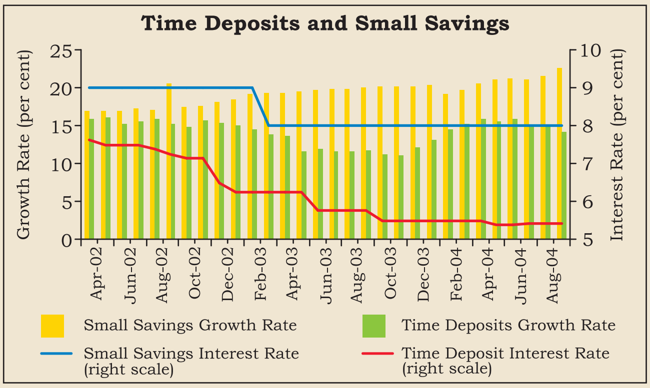


Table 2.27: Scheduled Commercial Banks: Variations in Select Banking Indicators

(Rupees crore)

Item	2002-03		2003-04		Year-on-Year Variation 2003-04 (up to Nov. 28)		Year-on-Year Variation 2004-05 P (up to Nov. 26)	
	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9
Aggregate Deposits	**1,47,822**	**13.4**	**2,23,563**	**17.5**	**1,48,391**	**11.8**	**2,00,894**	**14.3**
Demand Deposits	17,241	11.3	54,733	32.1	26,063	16.3	41,580	22.3
Time Deposits	1,30,581	16.9.	1,68,830	15.2	1,22,328	11.1	1,59,314	13.1
Bank Credit	**94,949**	**16.1**	**1,11,570**	**15.3**	**85,542**	**12.5**	**2,04,415**	**26.6**
Food Credit	-4,499	-8.3	-13,518	-27.3	-17,885	- 32.9	5,918	16.2
Non-food Credit	99,448	18.6	1,25,088	18.4	1,03,427	16.4	1,98,497	27.1
Investments	**1,09,276**	**24.9**	**1,30,042**	**23.8**	**1,20,035**	**22.9**	**44,456**	**6.9**
Government Securities	1,12,241	27.3	1,31,341	25.1	1,21,360	24.2	41,886	6.7
Other Approved Securities	-2,964	-10.9	-1299	-5.4	- 1,325	- 5.4	2,570	11.0

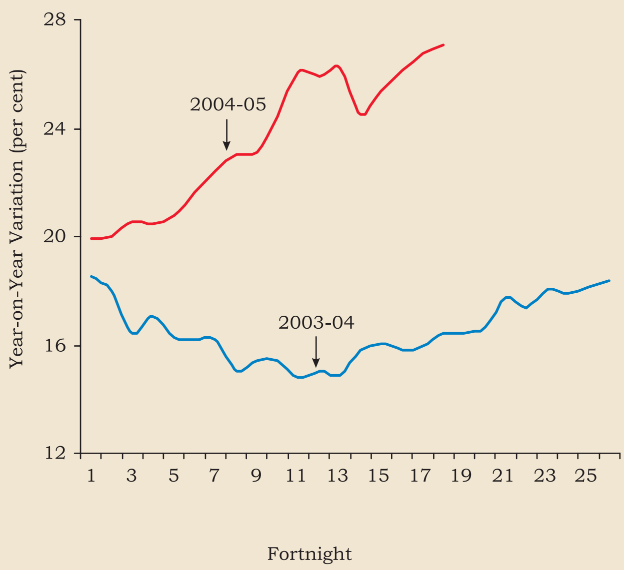
P : Provisional.

Notes : 1. Deposits are adjusted for the full impact of mergers while credit is adjusted for the initial impact of mergers during 2002-03.

2. Data exclude the impact of conversion of a non-banking entity into banking entity from October 11, 2004.

growth at 9.5 per cent during the first half of the year was, in fact, the highest in the 1990s aided partially due to base effects. Food credit reversed its declining trend of the previous year, reflecting higher procurement and lower off-take operations. In the face of the pick-up in credit demand, banks reduced their investments in government securities. Year-on-year growth of banks' investment in Government and other approved securities, therefore, decelerated sharply to 6.9 per cent (net of conversion effect) as on November 26, 2004 from 22.9 per cent a year ago. Nonetheless, the banks' investment in Statutory Liquidity Ratio (SLR) securities at around 40 per cent of net demand and time liabilities (NDTL) remained well above the stipulated 25 per cent.

Chart II.12 : Non-food Credit



2.48 Data on sectoral deployment show that priority sector continued to be the largest recipient of bank credit largely driven by the demand for housing loans below Rs.10 lakh. A noteworthy aspect is the turnaround in industrial credit. This was dominated by two sectors, *viz.*, infrastructure and petroleum, which accounted for as much as 86 per cent of the incremental off-take during April-September 2004. Credit off-take declined for industries such as coal, mining, sugar, tobacco and tobacco products, petro chemicals and computer software. Growth in credit to the housing sector continued to be strong and accelerated even further (Table 2.28).

2.49 The pick-up in industrial credit was supplemented by an increased recourse to external commercial borrowings (Table 2.29). In addition, improved corporate profitability and other internal sources remained a key source of funds for the industry.

Table 2.28: Sectoral and Industry-wise Deployment of Bank Credit of Scheduled Commercial Banks

(Rupees crore)

Sector / Industry	Outstanding as on September 17, 2004	Variation			
		2003 (April-September)		2004 (April-September)	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Priority sector #	2,84,064	13,907	6.6	20,230	7.7
Of which: Agriculture	97,709	3,690	5.0	7,168	7.9
Small Scale	65,571	-990	-1.6	-284	-0.4
Others	1,20,784	11,207	14.4	13,346	12.4
Industry (Medium and Large)	2,65,316	-13,308	-5.7	18,106	7.3
Housing	64,903	5,337	14.6	12,922	24.9
Wholesale Trade	27,108	-147	-0.7	2,241	9.0
Rest of the sectors	1,50,504	7,838	6.9	9,974	7.1
Non-food Gross Bank Credit	**7,91,895**	**13,627**	**2.2**	**63,473**	**8.7**
Memo Items					
(i) Export Credit	56,798	759	1.5	-889	-1.5
(ii) Credit to Industry (Small, Medium and Large)	3,30,887	-14,298	-4.8	17,822	5.7
Petroleum	16,981	-5,552	-37.7	4,715	38.4
Infrastructure	47,795	2,089	7.9	10,571	28.4
Cement	5,698	-473	-7.4	9	0.2
Cotton Textiles	17,677	-918	-5.8	511	3.0
Iron and Steel	26,086	-2,160	-7.7	-209	-0.8
Electricity	15,711	322	2.9	1,621	11.5
Engineering	25,254	-973	-3.7	-1,094	-4.2
Fertilisers	6,180	-404	-5.8	-69	-1.1
Computer Software	2,241	87	3.3	-788	-26.0
Gems & Jewellery	10,295	1,069	14.2	1,117	12.2

Excluding investment 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.

2.50 Reflecting the higher credit off-take, the excess liquid funds with the commercial banks have recorded a sustained decline since August 2004. Moderation in capital flows in the first-half of the year and the increase in the CRR also contributed to the reduction in excess liquid funds.

Table 2.29: Key Sources of Funds to Industry

(Rupees crore)

Item	April-September	
	2003-04	2004-05
1	2	3
1. Bank Credit to Industry	-14,298	17,822
2. Net profits	12,702	18,764
3. Depreciation Provision	7,456	8,380
4. Capital Issues * (i+ii)	115	4,730
i) Non-Government Public Ltd. Companies (a+b)	15	4,730
a) Bonds/Debentures	0	0
b) Shares	15	4,730
ii) PSUs and Government Companies	100	0
5. Euro Issues +	1,819	1,367
6. External Commercial Borrowings (April - June) $	6,113	12,458
7. Issue of CPs #	1,183	3,038
8. Financial assistance extended by FIs (net) @	-2,074	-8,171
9. Flow from Non-banks to Corporates (4 to 8)	7,156	13,422
Total Industry (1+2+3+9)	**13,016**	**58,388**

* Gross issuances excluding issues by banks and financial institutions. Figures are not adjusted for banks' investments in capital issues, which are not expected to be significant.

\+ Include Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) and Foreign Currency Convertible Bonds (FCCBs) excluding issues by banks and financial institutions.

$ Including short-term credit.

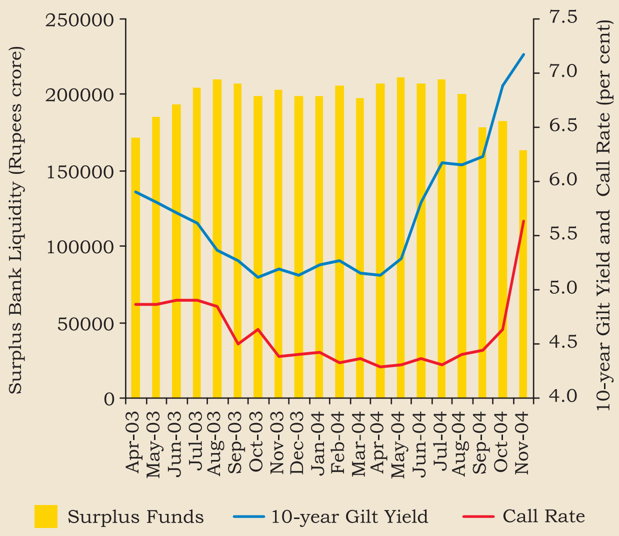
Excluding issuances by financial institutions and banks' investments in CPs.

@ Based on annual accounts, excluding ICICI Ltd. Comprises loans and advances, equity, other investments and bills of exchange and promissory notes discounted/rediscounted. Financial institutions include IDBI, IFCI Ltd., IDFC Ltd., EXIM Bank, IIBI Ltd., SIDBI and TFCI Ltd.

Note : Data are provisional.

Concomitantly, secondary market yields of Government securities increased across the maturity spectrum (Chart II.13). Reflecting these factors, some banks have raised their deposit rates and housing loan rates (Table 2.30).

Chart II.13 : Surplus Bank Liquidity and Interest Rates



Price Situation

2.51 Inflation is hardening worldwide, *albeit* from fairly low levels, on the back of elevated commodity, especially fuel, prices. Commodity prices have been driven by increased demand emanating from the global economic recovery led by the strong expansion of the Chinese economy. Although the base effects are beginning to moderate the metals price inflation, fuel prices have been quite volatile. Fuel prices hit their highest level in October 2004 crossing US $ 55 per barrel, amidst concerns over oil supply bottlenecks, low inventories, and very low spare output capacity as well as nervous market sentiment (Chart II.14). The increase in producer prices is beginning to pull up consumer price inflation in many countries, especially as exhaustion of slack available in capacity utilisation is now forcing producers to pass on higher input costs to consumers (Table 2.31 and Chart II.15).

2.52 Central banks in a number of economies have, therefore, started withdrawing their accommodative stance by raising key policy rates in a measured manner to stabilise inflationary expectations and yet at the same time support economic recovery. The Federal Open Market

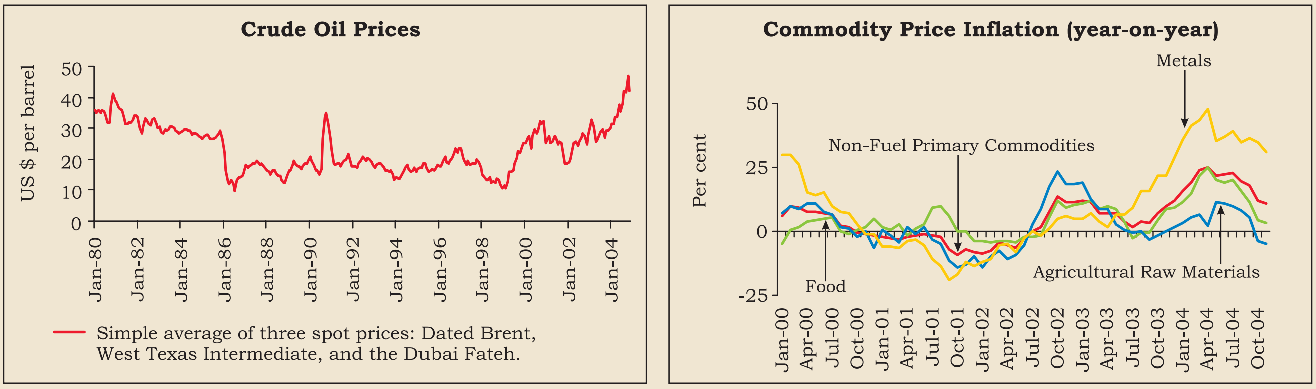
Table 2.30: Deposit and Lending Interest Rates

(Per cent)

Item	March 2002	March 2003	March 2004	September 2004	November 2004
1	2	3	4	5	6
		Domestic Deposit Rates			
Public Sector Banks					
a) Up to 1 year	4.25 – 7.50	4.00 – 6.00	3.75 – 5.25	3.50 – 5.00	3.50 – 5.00
b) 1 year up to 3 years	7.25 – 8.50	5.25 – 6.75	5.00 – 6.75	4.75 – 5.75	4.75 – 5.50
c) Over 3 years	8.00 – 8.75	5.50 – 7.00	5.75 – 6.00	5.25 – 5.75	5.00 – 5.75
Private Sector Banks					
a) Up to 1 year	5.00 – 9.00	3.50 – 7.50	3.50 – 7.50	3.00 – 6.00	3.00 – 6.00
b) 1 year up to 3 years	8.00 – 9.50	6.00 – 8.00	5.75 – 7.75	5.00 – 6.50	5.00 – 6.75
c) Over 3 years	8.25 – 10.0	6.00 – 8.00	6.00 – 8.00	5.25 – 7.00	5.25 – 6.50
Foreign Banks					
a) Up to 1 year	4.25 – 9.75	3.00 – 7.75	3.00 – 7.75	2.75 – 7.50	3.00 – 5.75
b) 1 year up to 3 years	6.25 – 10.0	4.15 – 8.00	3.50 – 8.00	3.25 – 8.00	3.50 – 7.00
c) Over 3 years	6.25 – 10.0	5.00 – 9.00	4.75 – 8.00	3.25 – 8.00	3.50 – 7.00
		Prime Lending Rates #			
a) Public Sector Banks	10.00 – 12.50	9.00 – 12.25	10.25 – 11.50	10.25 – 11.50	10.25 – 11.00
b) Private Sector Banks	10.00 – 15.50	7.00 – 15.50	10.50 – 13.00	9.75 – 13.00	9.75 – 13.00
c) Foreign Banks	9.00 – 17.50	6.75 – 17.50	11.00 – 14.85	11.00 – 14.85	11.00 – 13.00

Benchmark Prime Lending Rate from March 2004.

Chart II.14 : International Commodity Prices



Source : International Monetary Fund.

Committee (FOMC) in the US has raised the federal funds rate target by 125 basis points since mid-2004 through five successive increases of 25 basis points each. The Committee believes that the stance of monetary policy still remains accommodative, which along with robust growth in productivity is supportive of economic growth. The European Central Bank (ECB) expects that the Harmonised Index of Consumer Prices (HICP), at 2.2 per cent in November 2004, would rule above its target of around 2.0 per cent during the remaining part of the year. The ECB, nevertheless, maintained its present monetary policy stance, as it believed that the overall outlook remained consistent with price stability over the medium term despite the presence of certain upside risks that need to be monitored closely. In the UK, demand-side pressures are expected to push CPI inflation, at 1.5 per cent in November 2004, to the target 2.0 per cent in the coming two years. The Bank of England's Monetary Policy Committee, therefore, has raised the repo rate by 125 basis points in five tranches of 25 basis points each between November 2003-August 2004 and kept it unchanged thereafter (Table 2.32). In Japan, although domestic corporate goods' prices have been rising because of higher oil prices, the Bank of Japan continues with its bank reserves target of 30-35 trillion Yen, as consumer price inflation continues to be negligible. Consumer price inflation in China was 2.8 per cent in November 2004. The People's Bank of China has initiated several monetary measures in terms of higher reserve requirements and an increase in the benchmark lending and deposit rates.

2.53 Inflation in India has increased during 2004-05 so far (up to December 4, 2004) (Chart II.16). This essentially reflects supply side pressures emanating

Table 2.31: Annual Consumer Price Inflation

(Per cent)

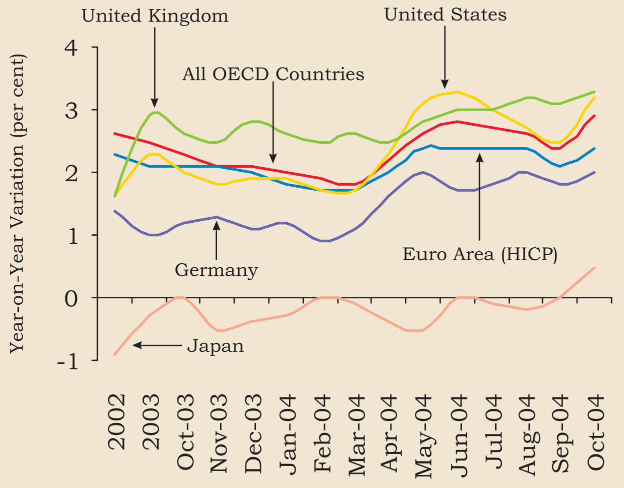
Country/Area	1996	1997	1998	1999	2000	2001	2002	2003	2004 P
1	2	3	4	5	6	7	8	9	10
Advanced Economies	**2.4**	**2.0**	**1.5**	**1.4**	**2.1**	**2.1**	**1.5**	**1.8**	**2.1**
US	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	3.0
Japan	..	1.7	0.6	-0.3	-0.9	-0.8	-0.9	-0.2	-0.2
Euro Area	2.2	1.6	1.1	1.1	2.0	2.4	2.3	2.1	2.1
Other Emerging Market and Developing Countries	**18.1**	**11.6**	**11.3**	**10.4**	**7.3**	**6.8**	**6.0**	**6.1**	**6.0**
Developing Asia	8.2	4.9	7.8	2.5	1.9	2.7	2.1	2.6	4.5
China	8.3	2.8	-0.8	-1.4	0.4	0.7	-0.8	1.2	4.0
India	**9.0**	**7.2**	**13.2**	**4.7**	**4.0**	**3.8**	**4.3**	**3.8**	**4.7**

.. Not Available

P : IMF Projections.

Source : World Economic Outlook, September 2004, IMF.

Chart II.15 : Consumer Price Inflation in Select Economies



Source: OECD.

from the failure of the South-West monsoon as well as a sharp rise in international commodity prices. Core inflation, based on WPI, excluding mineral oil, electricity, coal mining and urea-N-content, increased only marginally to 5.6 per cent on December 4, 2004 from 5.4 per cent as at end-March 2004. Besides the supply pressures, the overhang of liquidity emanating from the strong capital flows in the previous year continued to remain relevant to inflationary expectations.

2.54 The path of WPI inflation during the year reflected the influence of a number of supply-side pressures (Table 2.33). Domestic inflation rose from 4.6 per cent at end-March 2004 to the peak of 8.7 per cent by end-August. This reflected the lagged pass-through effects of the rise in prices of global steel, crude oil, coal and iron ore. This was exacerbated by a sharp increase in prices of vegetables in August 2004 in the wake of the uneven progress of the South-West monsoon. Sugar prices also increased during the year. Given the supply-induced nature of inflation, the Government responded with fiscal measures, particularly relating to oil. Inflation declined thereafter to 7.1 per cent by end-October 2004 partly facilitated by the easing of drought fears as well as the base effects. It, however, rose to 7.8 per cent on November 6, 2004 reflecting the hike in petroleum prices effective November 5,

Table 2.32: Central Bank Policy Rates

(Per cent)

Country	January 1, 2003	January 1, 2004	October 1, 2004	December 15, 2004
1	2	3	4	5
Australia	4.75	5.25	5.25	5.25
Brazil	25.00	16.50	16.25	17.75
Canada	2.75	2.75	2.25	2.50
Euro Area	2.75	2.00	2.00	2.00
India	**6.25**	**6.00**	**6.00**	**6.00**
Indonesia	12.93	8.31	7.39	7.43
Israel	8.90	4.80	4.10	3.90
Japan	0.10	0.10	0.10	0.10
South Korea	4.25	3.75	3.50	3.25
Malaysia	2.72	2.71	2.69	2.69
New Zealand	5.75	5.00	6.25	6.50
Poland	6.50	5.25	6.50	6.50
Sweden	3.75	2.75	2.00	2.00
Switzerland	0.25 to 1.25	0 to 0.75	0.25 to 1.25	0.25 to 1.25
Thailand	1.75	1.25	1.50	2.00
United Kingdom	4.00	3.75	4.75	4.75
United States	1.25	1.00	1.75	2.25

Source : Central Bank websites.

Chart II.16 : Wholesale Price Inflation in India

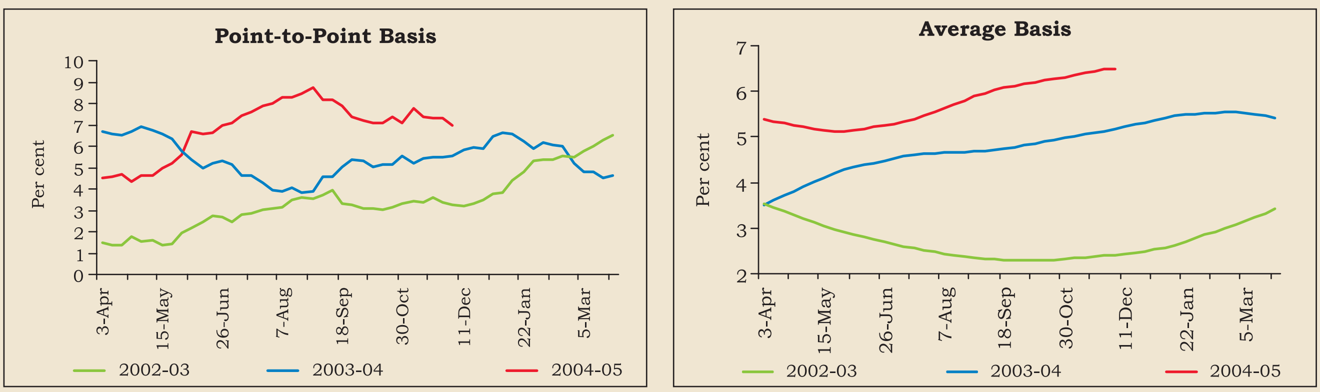


Table 2.33: Annual Point-to-Point WPI Inflation by Component
(Base 1993-94=100)

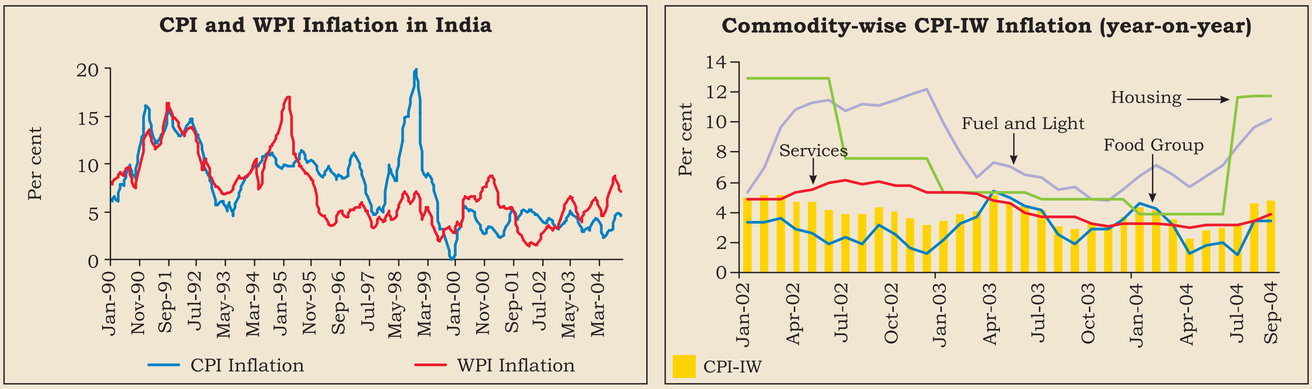
(Per cent)

Group/ Item	Weight	Annual Variation 2001-02	Annual Variation 2002-03	Annual Variation 2003-04	Variation 2003-04 (Dec. 6)	Variation 2004-05 (Dec. 4)	Weighted Contribution 2003-04 (Dec. 6)	Weighted Contribution 2004-05 (Dec. 4)
1	2	3	4	5	6	7	8	9
All Commodities	**100.0**	**1.6**	**6.5**	**4.6**	**5.6**	**7.0**	**100.0**	**100.0**
I. Primary Articles	**22.0**	**3.9**	**6.1**	**1.6**	**3.2**	**3.5**	**13.3**	**11.2**
i) Cereals	4.4	0.8	4.0	-0.3	-1.2	4.1	-1.0	2.5
ii) Pulses	0.6	-3.3	0.3	-2.6	-4.6	1.8	-0.6	0.2
iii) Fruits & Vegetables	2.9	14.4	-1.2	-4.9	7.0	3.9	4.1	1.8
iv) Raw Cotton	1.4	-21.3	34.3	12.3	22.3	-17.7	4.8	-3.5
v) Oilseeds	2.7	6.8	30.0	-1.2	5.3	1.4	2.5	0.5
vi) Sugarcane	1.3	6.2	11.5	6.5	6.5	-1.3	2.0	-0.3
II. Fuel, Power, Light and Lubricants	**14.2**	**3.9**	**10.8**	**2.5**	**7.2**	**13.0**	**26.2**	**38.2**
i) Mineral Oils	7.0	1.2	18.4	0.0	9.1	21.3	17.3	33.0
ii) Electricity	5.5	9.2	3.4	4.9	4.1	0.6	5.8	0.6
iii) Coal Mining	1.8	-1.9	0.0	9.2	9.2	16.2	3.1	4.5
III. Manufactured Products	**63.7**	**0.0**	**5.1**	**6.7**	**6.0**	**6.2**	**61.0**	**50.4**
i) Sugar	3.6	-3.8	-15.0	16.9	7.4	15.8	3.4	5.9
ii) Edible Oils	2.8	12.5	27.4	6.6	8.2	0.1	3.6	0.0
iii) Oil Cakes	1.4	15.0	40.3	5.0	-0.7	8.8	-0.2	1.9
iv) Cotton Textiles	4.2	-6.7	8.3	15.6	16.0	-4.0	10.8	-2.3
v) Man Made Fibre	4.4	-5.0	17.4	-0.4	3.0	5.8	1.3	1.9
vi) Fertilisers	3.7	3.6	2.1	-0.1	0.1	0.4	0.1	0.2
vii) Iron and Steel	3.6	0.0	9.2	34.6	28.6	25.8	16.4	14.3
viii) Cement	1.7	-4.7	1.1	1.3	0.9	0.9	0.2	0.2
ix) Non-electrical Machinery	3.4	5.4	2.5	4.7	3.0	9.8	1.7	4.3
x) Electrical Machinery	5.0	-1.1	-1.3	1.7	0.4	4.5	0.2	2.1
xi) Transport Equipment and Parts	4.3	1.3	-0.9	1.4	0.5	5.3	0.3	2.7

2004 before edging down to 7.3 per cent on November 13, 2004 and further to 7.0 per cent by December 4, 2004.

2.55 Although all measures of inflation have shown uptrend during the year, the increase in consumer price inflation has been relatively muted. The year-on-year variation in the consumer price index for industrial workers (CPI-IW) increased to 4.6 per cent in October 2004 from 3.3 per cent in October 2003 reflecting higher food and fuel prices (Chart II.17). On an annual average basis, consumer price inflation stood marginally lower at 3.7 per cent as compared with 3.8 per cent a year ago. The lower order of consumer price inflation *vis-a-vis* wholesale price inflation is due to two key factors. First, food prices,

Chart II.17 : Consumer Price Inflation in India



which have a much higher weight of 57 per cent in the CPI as against 27 per cent weight in the WPI basket, have risen moderately so far. Second, the main drivers of WPI inflation such as iron and steel and fuel prices have a low weight in the CPI basket.

2.56 Fuel prices continue to hold the key to the inflation outlook. Domestic prices are yet to catch up with past hikes in the prices of petroleum products and administered items such as coal and fertilisers (Table 2.34). Counterbalancing these upside risks are several mitigating factors. First, the inflationary impact of a lower *kharif* 2004 output due to the uneven South-West monsoon now appears to be restricted to a few commodities such as sugar. Although prices of fruits and vegetables continue to be volatile, primary articles prices are expected to moderate further in view of the expected *rabi* crop. Second, adequate foreign exchange reserves as well as food stocks should help contain inflationary expectations in the economy, especially as international prices of wheat and edible oil are softening. Third, metal price inflation has moderated in recent months on account of base effects and capacity expansion - although prices are likely to persist at elevated levels in the coming months. Fourth, the fiscal measures taken have been able to contain partly the impact of imported inflation in the economy. Finally, monetary measures to reduce the liquidity overhang are expected to check inflationary expectations. Pressures on inflation emanating from aggregate demand are thus muted at this stage.

2.57 Assuming there were no significant supply shocks and appropriate management of liquidity during the remaining part of the fiscal year, the Reserve Bank in its Annual Policy Statement (May 2004) had placed the WPI inflation rate for 2004-05, on a point-to-point basis, at around 5.0 per cent. While the overhang of excess liquidity was being managed, domestic as well as external supply shocks put pressure on prices by a magnitude and persistence greater than anticipated. In view of these developments, under the assumption of no further supply shocks and that liquidity conditions remain manageable, the Mid-term Review of Annual Policy (October 2004) revised the inflation projections relevant for monetary policy purposes to around 6.5 per cent for end-March 2005.

IV. FINANCIAL MARKETS

2.58 Financial markets during 2004-05 operated in an environment of uncertainty over the pace of reversal of the interest rate cycle and the impact of the spurt in oil prices on inflation and growth prospects. Notwithstanding these uncertainties, the Indian financial markets have remained generally stable during 2004-05 so far (Table 2.35). Interest

Table 2.34: Price Movements in Domestic and International Markets - Sensitive Commodities

(Per cent)

Item	Global Inflation		Domestic Inflation (WPI)	
	Year-on-Year (November 2004)	Fiscal Year (November over March 2004)	Year-on-Year (December 4, 2004)	Fiscal Year (December 4, over end-March 2004)
1	2	3	4	5
Agricultural Commodities				
1. Cotton	-36.2	-31.8	-17.7 * -4.0 **	-20.1 * -7.2 **
2. Soybean Oil	-9.4	-18.0	0.1 #	-0.6 #
3. Palm Oil	-14.1	-21.4	–	–
4. Rice	32.3	7.6	3.5	2.2
5. Wheat	-2.5	-5.8	1.6	-0.6
6. Sugar	34.3	26.3	15.8	10.3
Non-Agricultural Commodities				
1. Coal (Australia)	72.4	7.7	16.2	16.2
2. Crude Oil (Dubai)	26.8	14.5	21.3	16.1
3. Steel Products	55.3	10.5	25.8	17.6

* Raw cotton in India. ** Cotton textiles in India. # Edible oil in India.

Note : Domestic prices are comparable counterparts from WPI (Base: 1993-94).

Source : World Bank.

rates have witnessed a correction from the record lows seen in 2003-04 in consonance with the international trends and increase in inflation.

Money Market

2.59 Call money rates remained stable during the first half of 2004-05, reflecting the substantial overhang of liquidity in the system. As a result, call rates ruled below the reverse repo rate (earlier the repo rate)[3] during April-September 2004. The Reserve Bank continued to balance the money market through large-scale reverse repo operations, supplemented by the operationalisation of the MSS from April 2004 (Chart II.18). The scenario began to change in October with the pressures emanating from a number of factors: higher non-food credit off-take, upward pressure in inflation and increase in reserve requirements. As a result, call money rate ruled above the reverse repo rate during the second half of the year beginning October 17, 2004. Seasonal festival cash demand drove call rates to a high of 6.30 per cent on November 18, 2004. In order to stabilise the market, the Reserve Bank switched to LAF repo operations in mid-November 2004 to inject liquidity in the system. The call money market stabilised thereafter and the call rate was 4.8 per cent on November 30, 2004. With a view to further enhancing the effectiveness of the LAF and to facilitate liquidity management in a flexible manner, the 7-day and 14-day reverse repo have been discontinued effective November 1, 2004. The fixed repo (now reverse repo) rate was increased by 25 basis points to 4.75 per cent effective October 27, 2004.

2.60 In order to preserve the integrity of the money market and making it more efficient, the following

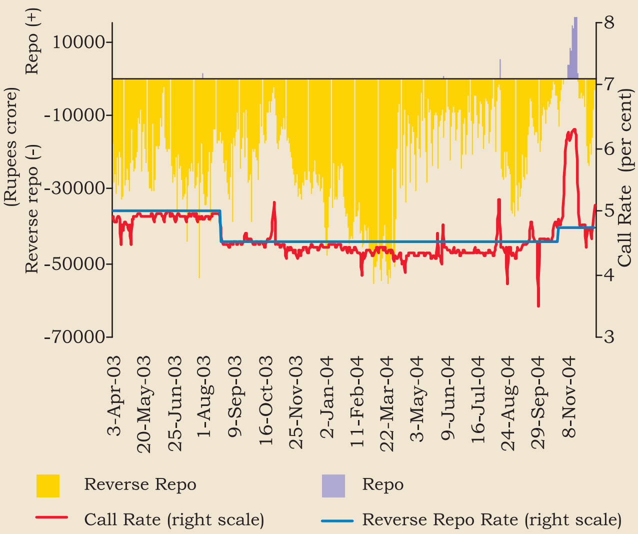
Table 2.35: Domestic Financial Markets - Select Indicators

Year/Month	Call Money		Gilt		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rupees crore)	Average Call Rates (Per cent)	10-year Yield (Per cent)	Turnover in Govt. Securities (Rupees crore) +	Average Daily Inter-bank Turnover (US $ Million)	Average Exchange Rate (Rupees per US $)	RBI's net Foreign Currency Sales (-)/ Purchases (+) (US $ Million)	Forward Premia 3-month (Per cent)	Net OMO Sales(-)/ Purchases (+) (Rupees crore)	Net Average Daily Absorption under LAF Outstanding (Rupees crore)	Average Daily BSE Turnover (Rupees crore)	Average Daily NSE Turnover (Rupees crore)	Average BSE Sensex	Average S & P CNX Nifty
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2003-04														
April	17,338	4.87	5.90	2,26,803	5,585	47.38	1,432	2.08	-7	27,372	1,041	2,449	3037	965
May	18,725	4.87	5.80	2,99,933	5,960	47.08	2,342	1.10	-5,569	25,223	1,072	2,604	3033	963
June	20,544	4.91	5.72	3,00,504	5,837	46.71	896	2.76	-44	24,805	1,187	2,933	3387	1069
July	18,698	4.90	5.62	3,04,587	5,920	46.23	3,146	2.65	-57	42,690	1,434	3,429	3665	1150
August	19,556	4.83	5.36	4,09,539	5,983	45.93	2,352	2.25	-11,546	39,995	1,817	4,267	3978	1261
September	20,584	4.50	5.26	2,65,848	6,862	45.85	2,345	0.91	-5,107	31,373	2,032	4,698	4315	1369
October	23,998	4.64	5.11	3,89,968	7,672	45.39	1,593	0.02	-13,986	13,569	2,288	5,026	4742	1506
November	15,156	4.38	5.19	1,77,063	6,795	45.52	3,449	(-) 0.002	-69	21,182	2,252	4,644	4951	1580
December	15,276	4.40	5.14	1,81,991	6,207	45.59	2,888	(-) 0.30	-132	32,020	2,492	5,017	5425	1740
January	14,189	4.43	5.23	1,81,619	7,306	45.46	3,294	0.50	5,228	38,539	3,125	6,394	5494	1906
February	9,809	4.33	5.26	1,39,130	7,171	45.27	3,357	0.51	-35	46,244	2,709	5,722	5668	1800
March	12,422	4.37	5.15	2,22,685	8,018	45.02	3,382	0.62	-69	54,915	2,308	4,767	5613	1780
2004-05														
April	12,916	4.29	5.14	3,00,864	10,118	43.93	7,427	(-) 0.35	-253	75,006	2,243	5,048	5809	1848
May	10,987	4.30	5.29	1,92,264	8,521	45.25	-220	(-)1.33	-116	74,502	2,188	4,710	5205	1640
June	10,972	4.35	5.81	1,75,802	7,741	45.51	-413	0.93	-60	61,981	1,681	3,859	4824	1506
July	8,632	4.31	6.18	1,30,400	7,684	46.04	-1,180	2.25	-218	59,594	1,793	4,265	4973	1568
August	11,562	4.41	6.16	1,29,373	5,753	46.34	-876	2.85	-78	42,692	1,736	3,948	5144	1615
September	15,691	4.45	6.23	1,75,635	7,266	46.09	19	2.20	-131	31,589	1,800	4,023	5584	1746
October	16,667	4.63	6.89	1,12,709	7,039	45.78	-99	2.87	-189	10,805	1,730	3,785	5672	1787
November	13,764	5.62	7.18	78,225	9,808	45.13	..	2.20	-342	-5,066	1,787	4,102	5961	1874

.. Not Available. + Outright turnover in Central Government dated securities.
OMO : Open Market Operations. BSE : The Stock Exchange, Mumbai. NSE : The National Stock Exchange of India Limited.

[3] With effect from October 29, 2004, nomenclature of repo and reverse repo has been interchanged as per international usage. Prior to that date, repo indicated absorption of liquidity while reverse repo meant injection of liquidity. The nomenclature in this Chapter is based on the new use of terms even for the period prior to October 29, 2004.

Chart II.18 : Repo, Reverse Repo Auctions under LAF and Call Rates



measures were announced in the Mid-Term Review of the Annual Policy Statement for the year 2004-05.

- With the operationalisation of the Negotiated Dealing System (NDS)/Clearing Corporation of India Ltd. (CCIL), moving towards a pure inter-bank call/notice money market has become easier. Effective fortnight beginning January 8, 2005, non-bank participants would be allowed to lend, on average, in a reporting fortnight, upto 30 per cent of their average daily lending in call/ notice money market during 2000-01.

- In order to provide an option to issuers to raise short-term resources through Commercial Paper (CP) as also an avenue to investors to invest in quality short-term papers, the minimum maturity period of CP was reduced from 15 days to 7 days.

- In order to provide transparency and also facilitate benchmarking of CP issues, issuing and paying agents (IPAs) would report issuance of CP on the NDS platform by the end of the day. The date of commencement of reporting would be finalised in consultation with market participants.

- Automated value-free transfer of securities between market participants and the CCIL was facilitated to further develop the Collateralised Borrowing and Lending Operations (CBLO).

2.61 In view of development of repo market as also to ensure balanced development of various segments of money market, Primary Dealers (PDs) have been allowed to borrow with effect from February 7, 2004, on average in a reporting fortnight, upto 200 per cent of their Net Owned Funds (NOF) as at end-March of the preceding financial year in the call/notice money market.

2.62 Amongst the key segments of the money market, there was increased recourse to issuances of Certificates of Deposit (CDs) as well as CPs. The spurt in the growth of CDs has been on account of a number of factors such as issuance of guidelines by the Reserve Bank on investments by banks in non-SLR debt securities, reduction in stamp duty on CDs effective March 1, 2004 and greater opportunity for secondary market trading. These developments have led to greater demand for investment in CDs by mutual funds particularly in the wake of their improved funds position. An encouraging development is that some of the top banks have been getting their CDs rated for better access to the market even when such rating is not required under the extant guidelines. Private banks continued to account for the largest share of CDs outstanding. In consonance with money market trends, the typical discount rates on both CDs and CPs have increased in recent months (Table 2.36).

Table 2.36: Commercial Paper and Certificates of Deposit

Year/ Month	Commercial Paper		Certificates of Deposit	
	Outstanding Amount (Rupees crore)	Weighted Average Discount Rate (Per cent)	Outstanding Amount (Rupees crore)	Interest Rate (Per cent)
1	2	3	4	5
2003-04				
April	5,994	5.98	1,485	5.25-7.40
May	6,820	5.58	1,996	3.94-7.00
June	7,108	5.47	2,183	3.74-6.50
July	7,557	5.45	2,466	5.25-6.75
August	7,646	5.39	2,961	4.75-5.68
September	7,258	5.05	3,098	4.25-6.00
October	6,845	5.18	3,321	4.25-6.50
November	7,956	5.15	3,666	3.75-6.10
December	8,762	5.05	3,830	3.75-6.00
January	9,562	5.04	4,419	3.57-6.11
February	9,379	5.02	4,856	3.75-6.00
March	9,131	5.11	4,461	3.87-5.16
2004-05				
April	9,706	5.04	4,725	3.50-4.45
May	10,328	4.85	4,860	1.09-4.73
June	10,910	4.83	5,438	3.96-6.75
July	10,848	4.86	5,478	4.02-6.75
August	10,956	5.17	4,480	4.50-5.00
September	11,319	5.26	5,112	4.09-5.09
October	10,266	5.40	4,785	4.50-6.26
November	10,150	5.98	5,425 *	3.90-7.00 *

* as on November 12, 2004.