

V. FINANCIAL MARKETS

During the third quarter (October-December) of 2005-06, international financial market conditions generally continued to remain favourable. Equity markets remained buoyant on expectations of improved growth prospects, notwithstanding some increase in long-term rates in major economies. Short-term interest rates moved up in a number of economies as monetary policy was further tightened due to firming up of inflationary pressures emanating from higher energy prices. Consequently, long-term yields edged higher during the quarter ended December 2005 as investors revised upwards their expectations regarding future policy rates. Financing conditions in emerging market economies (EMEs) also remained favourable reflecting improved economic fundamentals.

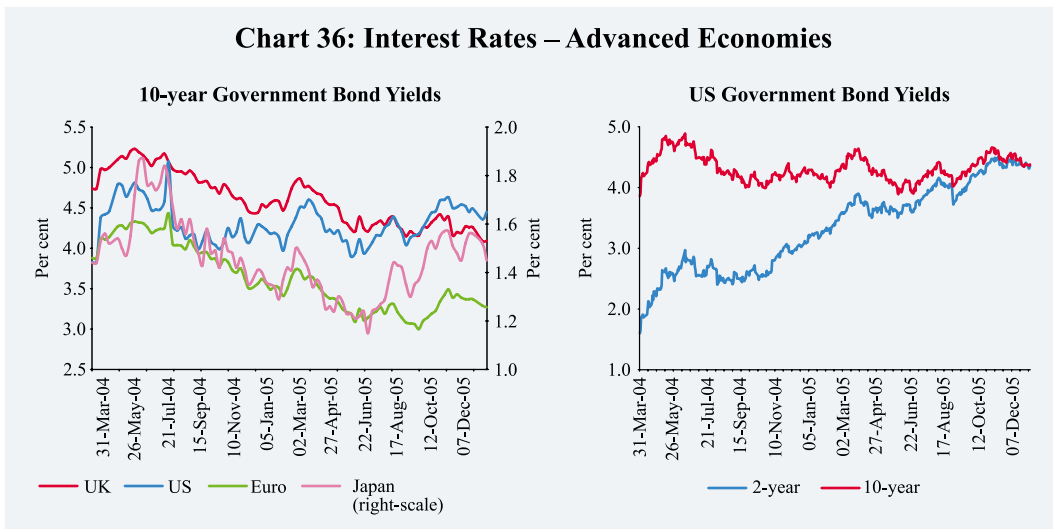
Short-term rates increased by 35 basis points in the Euro area and by 60 basis points in the US between end-September 2005 and January 11, 2006. Amongst EMEs, short-term rates increased by more than 50 basis points in Argentina, India, Singapore and Thailand. The US Federal Reserve raised Federal Funds target rate by 25 basis points for the 13th consecutive time to 4.25 per cent on December 13, 2005. The European Central Bank (ECB) also hiked its key policy rate by 25 basis points to 2.25 per cent on December 1, 2005 after having held it unchanged since June 6, 2003 (Table 30).

(Per cent)					
Country	March 2004	March 2005	June 2005	September 2005	January 2006#
1	2	3	4	5	6
Advanced Economies					
Euro Area	1.96	2.15	2.10	2.15	2.50
Japan	0.03	0.02	0.02	0.02	0.03
Sweden	2.12	1.97	1.48	1.46	1.84
UK	4.31	4.95	4.75	4.56	4.56
US	1.04	2.90	3.33	3.85	4.45
Emerging Market Economies					
Argentina	2.88	4.56	6.94	6.69	8.88
Brazil	16.02	19.25	19.74	19.51	17.95
China	N.A.	2.25	2.30	4.38	2.18
Hong Kong	0.17	2.79	3.36	4.12	4.08
India	4.24	5.37	5.37	5.49	6.19
Malaysia	3.00	2.82	2.87	2.92	3.25
Philippines	9.19	7.25	5.88	8.13	6.75
Singapore	0.69	2.06	2.06	2.34	3.28
South Korea	3.90	3.54	3.52	3.94	4.17
Thailand	1.31	2.64	2.75	3.90	4.50

N.A. : Not available. # : As on January 11, 2006.
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

Long-term Government bond yields increased during October 2005 reversing the softening trend during the first half of the year. Yields had initially declined during April-June 2005 on expectations that monetary authorities could slow down policy tightening due to fragility in the economic recovery. Structural factors such as increased demand for fixed income products from pension funds and insurance companies in response to regulatory changes also provided support to long-term gilts. The US 10-year Treasury yield was at a 14-month low at 3.8 per cent in early-June 2005. During July 2005, yields, however, firmed up in the run up to the widely anticipated revaluation of the Chinese currency on July 21, 2005. With the Chinese authorities continuing to manage the renminbi tightly, the yields reversed their increasing trend. Long-term Government bond yields increased during October 2005 in the US and Euro area in tandem with sharp rise in headline inflation and higher short-term rates which increased expectations regarding future policy rates. In December 2005, 10-year yields eased again. Yield on 10-year US treasuries briefly fell below that on two-year treasuries in end-December 2005 for the first time in the past five years (Chart 36). In the Euro area and Japan, the increase in long-term yields was also on account of improved economic outlook. In the UK, the yields remained almost range-bound reflecting weak growth prospects.

Equity markets in many economies continued to exhibit buoyancy during the third quarter of 2005-06, notwithstanding some increase in long-term interest rates. In the wake of sharp increase in inflation during September 2005 and the prospects of faster pace of monetary tightening, equity prices declined in October 2005 around the world. Equity markets, however, bounced back in November 2005 on signs of robust economic activity in the US. Equity markets were also buoyed by some moderation in international crude oil prices from their record

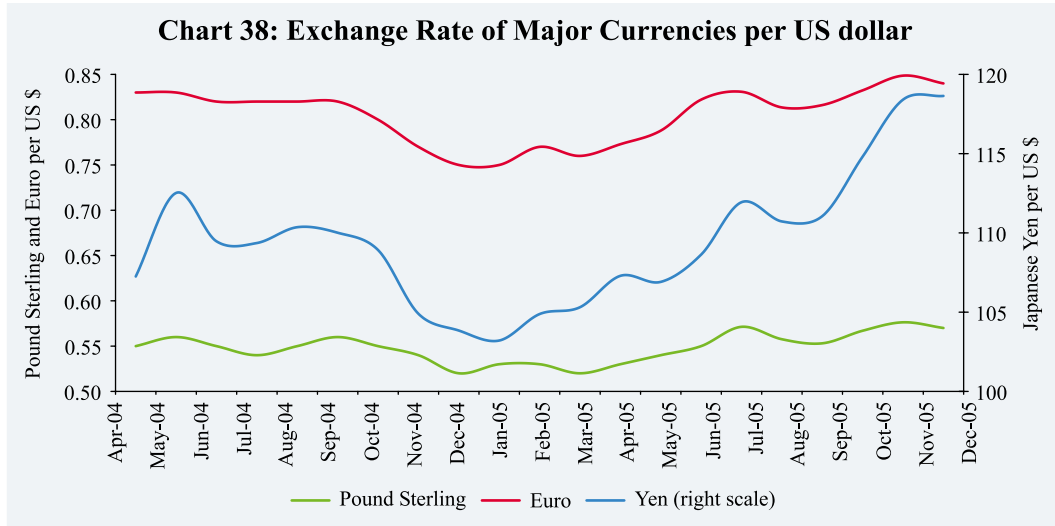




high. During 2005, stock markets in India outperformed major Asian markets (Chart 37). Stock markets in some emerging markets outside Asia yielded even higher returns led by Egypt (141.1 per cent since end-December 2004) followed by Colombia, Saudi Arabia, Russia and Turkey. Equity markets in the US, however, under-performed significantly as equities struggled to cope with the impact of higher US interest rates and increasing activity by US investors in overseas markets. Equity markets in the Euro area registered relatively better returns reflecting improved economic outlook.

Notwithstanding the growing current account deficit, the US dollar appreciated further against major currencies during the third quarter of 2005-06 (2.6 per cent against the Euro, 2.1 per cent against the Pound Sterling and 4.3 per cent against the Yen), reflecting growing interest and growth differential in favour of the US (Chart 38). The US dollar also benefited from a year-long tax break designed to encourage US multinationals to repatriate cash held overseas. The US dollar, however, has depreciated since mid-December 2005 on anticipation that the monetary tightening in the US might be nearing its end.

Indian financial markets have remained broadly stable during 2005-06 so far. During the quarter, the redemption of India Millennium Deposits (IMDs) (December 29, 2005) took place smoothly although the markets witnessed some liquidity pressures during November-December 2005. The Reserve Bank put in place arrangements for redemption of IMDs in close co-ordination with the State Bank of India (SBI). Appropriate preparations and arrangements were made to ensure that the redemption is done smoothly, in time and without causing any impact on the money, Government securities and foreign exchange markets.



Comfortable liquidity kept money market segments generally around the reverse repo rate during April-October 2005. During most part of November-December 2005, however, the call money rate remained above the reverse repo rate reflecting some liquidity pressures. The foreign exchange market remained more or less orderly. Yields in the Government securities market which had hardened in April 2005 reflecting higher crude oil prices and increase in the reverse repo rate have largely remained range bound since then. In the credit market, deposit and lending rates edged up during the quarter ended December 2005. The primary market segment of the equity market gathered momentum with increase in both the number of issues and the resources raised on the back of a buoyant secondary market and strong macroeconomic fundamentals. The secondary market staged a strong rally which pushed the BSE Sensex to new highs crossing 9000 in December 2005 (Table 31).

Money Market

Money markets during 2005-06 till October 2005 were largely marked by comfortable liquidity conditions stemming from the overhang in the system - outstanding Liquidity Adjustment Facility (LAF) and Market Stabilisation Scheme (MSS) balances at end-March 2005 stood at Rs. 83,541 crore. Despite capital outflows in April 2005, the Reserve Bank had to supplement reverse repo operations with sale of Government paper under the MSS to absorb liquidity and balance market conditions. Average daily call money borrowing rates ruled at sub-reverse repo rate levels on many occasions. With the increase in the fixed reverse repo rate by 25 basis points on April 29, 2005, call rates also edged up by a similar magnitude. Towards the end of June 2005, call rates rose above the

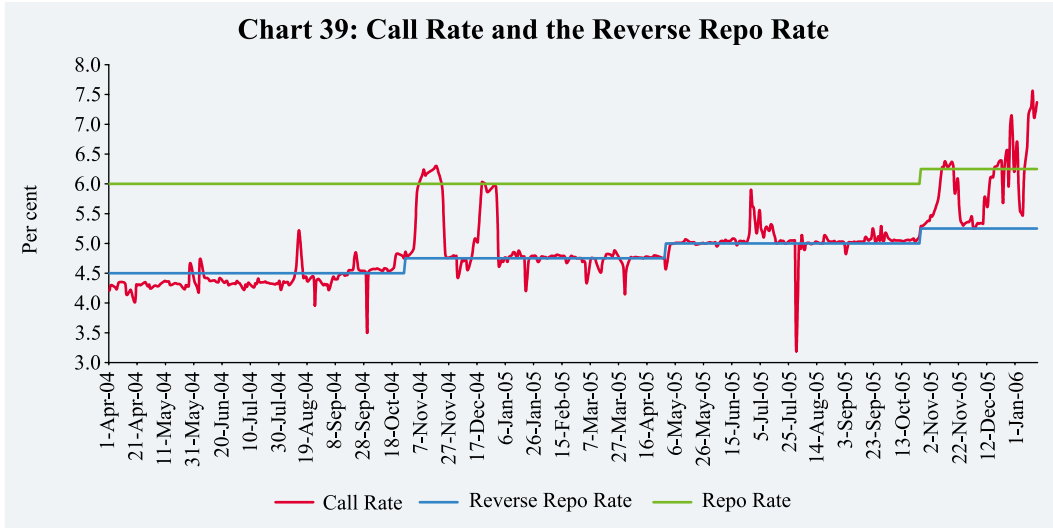
Table 31: Domestic Financial Markets at a Glance

Month	Call Money		Govt. Securities		Foreign Exchange				Liquidity Management			Equity		
	Average Daily Turnover (Rs. crore)	Average Call Rates* (Per cent)	Average 10-Year Yield@ (Per cent)	Average Daily Turnover (Rs. crore)+	Average Daily Exchange Inter-bank Turnover (US \$ million)	Average Exchange Rate (Rs. per US \$)	RBI's net Foreign Currency Sales(-)/ Purchases (+) (US \$ million)	Average Forward Premia (Per cent)	Average MSS Outstanding# (Rs. crore)	Average Daily Reverse Repo (LAF) (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. crore)	Average BSE Sensex**	Average S&P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004-05														
April	12,916	4.29	5.10	10,029	10,302	43.93	7,427	-0.35	14,296	75,006	2,243	5,048	5809	1848
May	10,988	4.30	5.19	6,202	8,882	45.25	-220	-1.33	27,518	74,502	2,188	4,710	5205	1640
June	10,974	4.35	5.50	5,860	7,847	45.51	-413	0.93	35,283	61,981	1,681	3,859	4824	1506
July	8,632	4.31	5.91	4,206	7,756	46.04	-1,180	2.25	43,739	59,594	1,793	4,265	4973	1568
August	11,562	4.41	6.38	4,173	5,947	46.34	-876	2.85	48,541	42,692	1,736	3,948	5144	1615
September	17,088	4.45	6.08	5,854	7,348	46.09	19	2.20	52,421	31,589	1,800	4,023	5423	1692
October	16,666	4.63	6.73	3,636	7,262	45.78	-99	2.87	53,660	10,805	1,730	3,785	5702	1795
November	13,820	5.62	7.14	2,607	9,930	45.13	3,792	2.20	54,157	-5,066	1,787	4,102	5961	1874
December	19,526	5.28	6.73	4,305	9,447	43.98	1,393	2.02	52,085	7,570	2,184	5,026	6394	2022
January	16,534	4.72	6.68	3,566	9,114	43.75	0	2.50	53,790	18,721	2,310	5,249	6307	1978
February	16,041	4.76	6.58	4,640	11,583	43.68	4,974	1.99	58,141	19,895	2,484	4,999	6595	2067
March	15,294	4.72	6.65	2,835	11,286	43.69	6,030	1.82	63,737	29,809	2,706	5,139	6679	2096
2005-06														
April	17,213	4.77	7.02	3,001	9,880	43.74	0	1.96	65,638	30,675	1,890	4,136	6379	1987
May	15,269	4.99	7.13	3,805	10,083	43.49	0	1.57	68,539	22,754	1,971	3,946	6483	2002
June	20,134	5.10	6.88	6,807	10,871	43.58	-104	1.40	70,651	13,916	2,543	4,843	6926	2134
July	20,046	5.02	7.12	3,698	10,812 P	43.54	2,473	1.56	70,758	10,754	3,095	6,150	7337	2237
August	16,158	5.02	7.04	4,239	11,462 P	43.62	1,552	0.69	71,346	34,832	3,452	6,624	7726	2358
September	16,292	5.05	7.04	5,207	9,750 P	43.92	0	0.62	67,617	31,570	3,871	6,923	8272	2512
October	17,164	5.12	7.14	2,815	10,802 P	44.82	0	0.69	68,602	18,608	2,955	6,040	8220	2487
November	22,620	5.79	7.10	3,314	11,001 P	45.73	0	0.67	67,041	3,268	2,635	5,480	8552	2575
December	21,149	6.00	7.13	2,948	13,632 P	45.64	N.A.	1.51	52,040	1,452	3,516	6,814	9162	2773

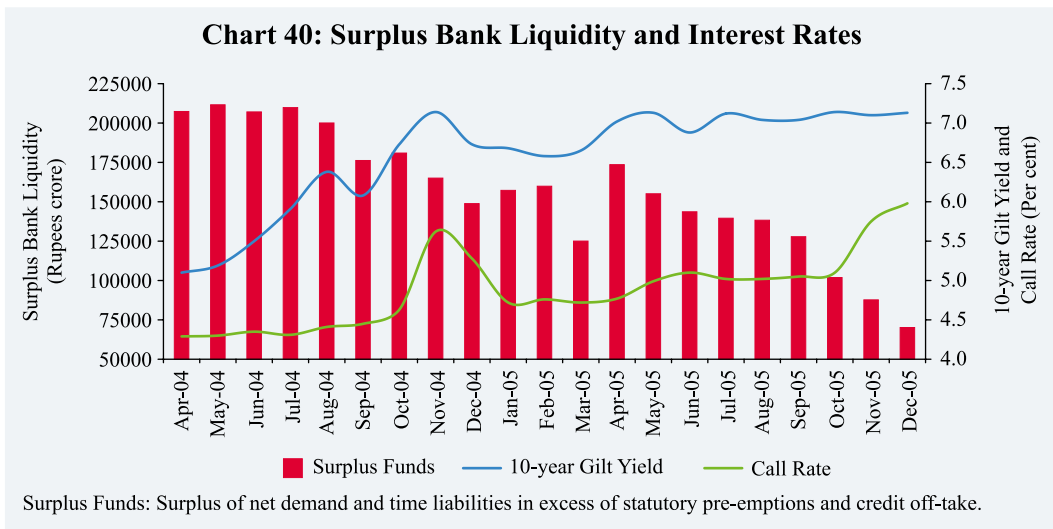
* : Average of daily weighted call money borrowing rates. + : Average of daily outright turnover in Central Government dated securities.
 @ : Average of daily closing rates. ** : Average of daily closing indices. LAF : Liquidity Adjustment Facility.
 MSS : Market Stabilisation Scheme. BSE : The Stock Exchange, Mumbai. NSE : National Stock Exchange of India Ltd.
 # : Average of weekly outstanding MSS. P : Provisional. N.A. : Not Available.

reverse repo rate under liquidity pressures – average balances under LAF reverse repos fell from Rs 22,754 crore during May 2005 to Rs. 13,916 crore during June 2005 – emanating from advance tax payments and scheduled Treasury Bills auctions. Liquidity conditions improved by the second half of July 2005 due to cancellation of some scheduled Treasury Bills auctions and increase in Government spending. Large foreign currency purchases from the authorised dealers during July-August 2005 also improved liquidity conditions and this was reflected in a jump in average balances under LAF reverse repos from Rs. 10,754 crore in July to Rs. 34,832 crore in August 2005. The call money market, thus, remained broadly stable during August 2005 and first half of September 2005. During the second half of September 2005 the call money market witnessed mild pressure, reflecting advance tax outflows and scheduled auctions. For the most part of October 2005, the call money rate hovered around the reverse repo rate as liquidity conditions remained easy (Chart 39).

During November 2005, the call money rate remained generally above the reverse repo rate and also exceeded the repo rate on a few occasions reflecting



liquidity pressures emanating from sustained credit demand, festival demand for currency and scheduled auctions (Chart 40). The Reserve Bank, therefore, injected liquidity into the system through LAF repos on seven occasions during the month. Concomitantly, the notified amount of Treasury Bills auctions under the MSS was also cancelled. The call money rate subsequently hovered around the reverse repo rate. To fine-tune the management of liquidity and in response to suggestions from the market participants, the Reserve Bank introduced a Second Liquidity Adjustment Facility (SLAF), with effect from November 28, 2005. Beginning the second half of December 2005, call money rate again edged up as the market witnessed large liquidity pressures emanating from credit offtake and

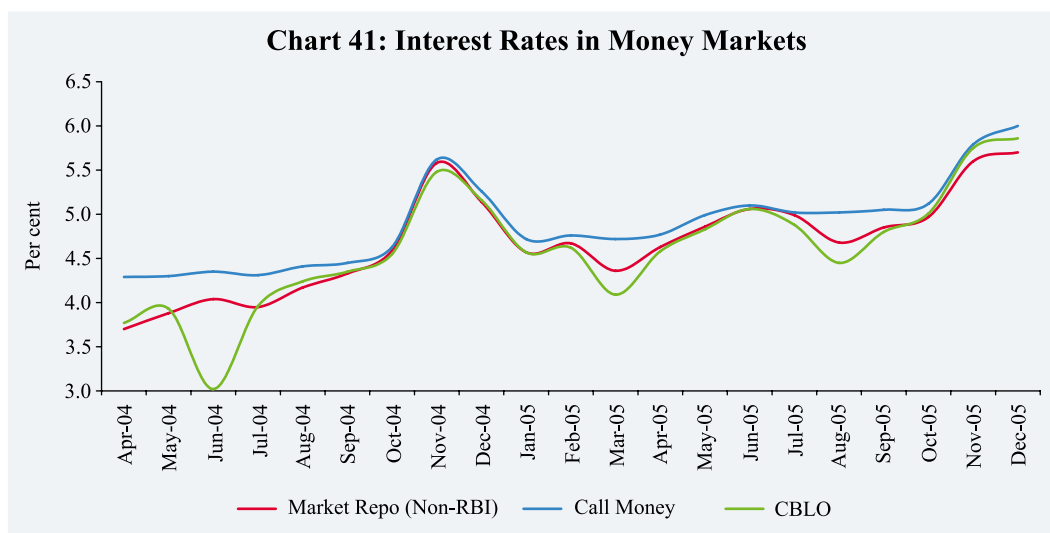


quarter-end advance tax payments amidst uncertainty relating to the redemption of the IMDs. The call money rate eased during the first week of January 2006 with the smooth redemption of IMDs and reduction in the Centre's surplus balances. The call money rate, however, increased during the second week of January 2006 reflecting demand pressures emanating from scheduled auctions of Government securities.

The turnover in the collateralised segments of the money market – the market repo (outside the LAF) and the Collateralised Borrowing and Lending Obligation (CBLO) segments which provide funds at a lower cost – continued to expand during the quarter ended December 2005. Interest rates in the various segments edged up during the third quarter reflecting liquidity conditions (Chart 41). The supply of funds in the CBLO segment has been augmented by the participation of mutual funds and financial institutions. Members operating in the CBLO segment of the Clearing Corporation of India Limited (CCIL) have increased from 110 in March 2005 to 141 in December 2005. On the other hand, the turnover in the call/notice money market during 2005-06 so far has been range bound reflecting the process of phasing out of non-bank participants from the call money market, which was completed on August 6, 2005 (Table 32). The increase in turnover during June-July 2005 and November-December 2005 reflected increased recourse to call money market due to liquidity pressures.

Other Money Market Instruments

Issuances under commercial paper (CP) which had exhibited increases till mid-September 2005 witnessed some moderation in the quarter ended December 2005 reflecting tight liquidity conditions. Accordingly, outstanding

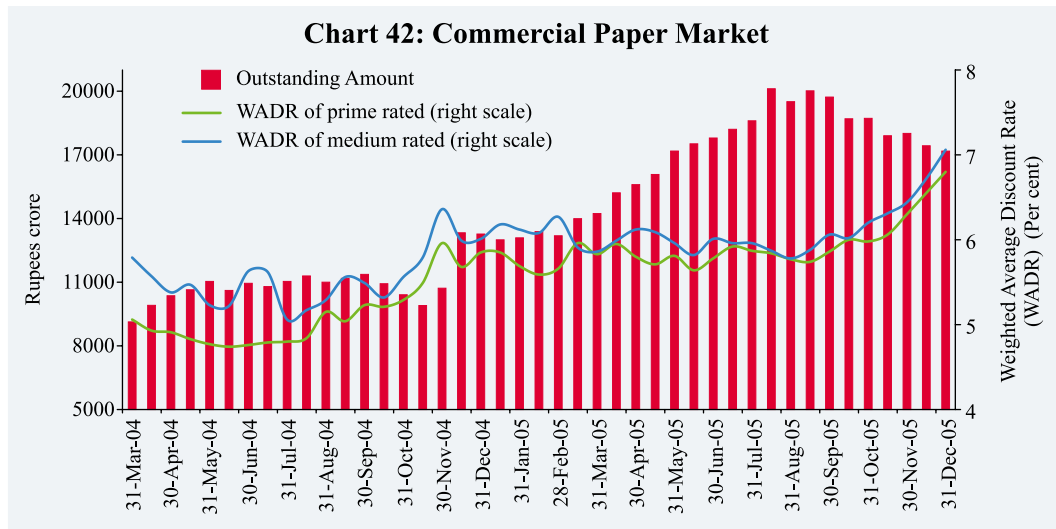


Financial Markets

Table 32: Activity in Money Market Segments

Month	Average Daily Turnover				Outstanding Amount		Forward Rate Agreements/ Interest Rate Swaps (Notional Amount)
	Call Money Market	Term Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Commercial Paper	Certificates of Deposit	
	1	2	3	4	5	6	
(Rupees crore)							
2004-05							
April	12,916	325	15,195	2,496	10,362	4,725	5,76,808
May	10,988	372	15,932	3,872	11,038	4,860	6,11,595
June	10,974	274	17,517	4,015	10,950	5,438	6,04,669
July	8,632	445	19,226	4,508	11,038	5,478	5,90,118
August	11,562	311	13,561	4,962	11,002	4,480	6,40,173
September	17,088	487	18,178	6,149	11,371	5,112	8,53,195
October	16,666	539	15,719	8,466	10,409	4,785	9,25,175
November	13,820	407	18,560	9,651	10,719	6,118	9,50,151
December	19,526	504	21,922	9,962	13,272	6,103	9,75,135
January	16,534	514	17,556	7,701	13,092	4,236	10,14,442
February	16,041	878	17,562	8,952	13,189	9,214	9,46,293
March	15,294	1,253	14,688	9,626	14,235	12,078	10,62,242
2005-06							
April	17,213	661	12,174	10,370	15,598	16,602	10,76,513
May	15,269	545	13,688	12,233	17,182	17,689	10,72,684
June	20,134	534	17,163	11,792	17,797	19,270	10,93,367
July	20,046	717	18,103	15,292	18,607	20,768	12,18,072
August	16,158	754	21,325	14,544	19,508	23,568	13,15,084
September	16,292	1,116	18,872	17,143	19,725	27,641	13,17,829
October	17,164	734	20,980	21,763	18,723	29,193	13,42,335#
November	22,620	917	25,660	20,496	18,013	27,457	N.A.
December	21,149	775	25,574	21,265	17,180	30,445*	N.A.
*: As on December 9, 2005.		#: As on October 14, 2005.		N.A. : Not available.			

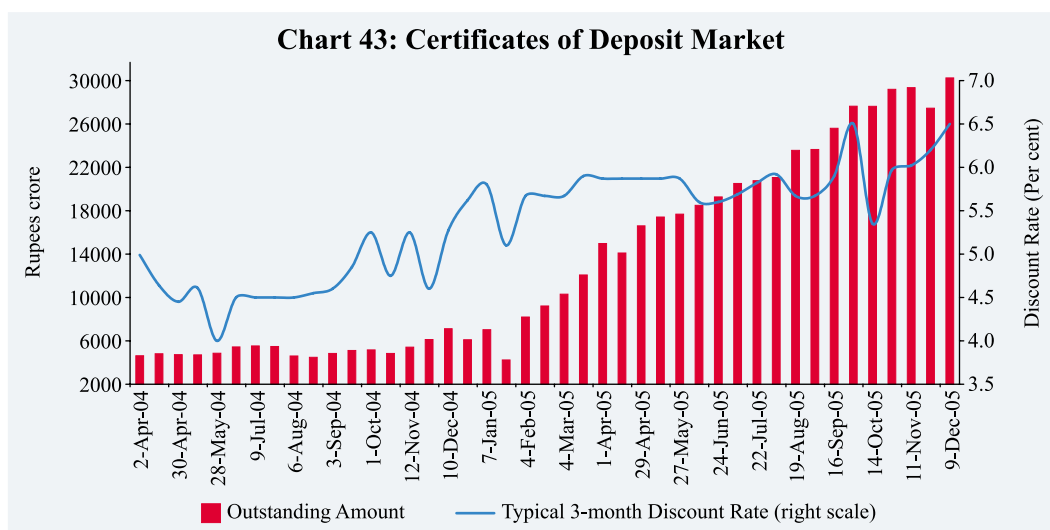
CPs after increasing from Rs.14,235 crore at end-March 2005 to Rs. 20,019 crore by mid-September 2005 fell to Rs.17,180 crore by end-December 2005 (Chart 42).



Concomitantly, the weighted average discount rate (WADR) on CPs increased to 6.81 per cent on December 31, 2005 from 5.81 per cent on March 31, 2005. Leasing and finance companies continue to be the largest issuers of CPs – a share of 65.1 per cent in amount outstanding as on December 31, 2005 – partly reflecting the policy of phasing out the access of these companies to public deposits. Manufacturing and other companies and financial institutions are the other issuers with shares of 29.8 per cent and 5.1 per cent, respectively, as on December 31, 2005.

The market for certificates of deposit (CDs) has remained buoyant during the year so far, reflecting their cost attractiveness to banks *vis-à-vis* time deposits as well as banks' demand for funds in the wake of the acceleration in demand for bank credit. The amount of CDs outstanding doubled from Rs.14,975 crore in early April 2005 to Rs.30,445 crore by December 9, 2005 mainly on account of higher issuances by some private sector banks. The higher recourse to CDs was also driven by the reduction in the minimum maturity period to seven days. Outstanding CDs were 3.0 per cent of aggregate deposits of issuing banks as on December 9, 2005, up from 2.0 per cent a year ago. The typical three-month discount rate on CDs at 6.50 per cent on December 9, 2005 was higher by about 60 basis points over its level at end-March 2005 (Chart 43). As in the case of CPs, mutual funds have emerged as key investors in CDs.

Amongst other money market segments, the market for forward rate agreements and interest rate swaps (FRAs/IRS) continued to expand with the participation of select public sector banks, primary dealers (PDs) and foreign and private sector banks (see Table 32).



Month	Notified Amount (Rs. crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Bid-Cover Ratio		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
2004-05							
April	13,500	4.38		4.44	2.15		2.47
May	12,000	4.39		4.33	2.93		2.46
June	14,000	4.44		4.55	2.61		1.28
July	10,000	4.46		4.60	2.39		2.06
August	10,000	4.76		5.00	1.81		3.36
September	12,000	4.72		5.14	2.51		2.83
October	16,000	5.15		5.46	1.82		2.75
November	5,500	5.47		5.71	2.80		2.64
December	9,500	5.30		5.69	2.69		2.81
January	12,000	5.31		5.69	2.19		2.06
February	12,000	5.25		5.65	2.99		2.81
March	12,000	5.24		5.63	2.31		2.74
2005-06							
April	19,000	5.17	5.36	5.62	4.03	4.48	2.54
May	15,000	5.19	5.35	5.58	3.30	3.37	2.29
June	18,000	5.29	5.37	5.61	1.54	2.42	1.81
July	11,500	5.46	5.67	5.81	1.21	2.58	1.68
August	21,000	5.23	5.42	5.63	3.07	2.68	2.54
September	23,000	5.24	5.37	5.70	1.52	1.45	1.61
October	15,000	5.50	5.71	5.84	1.69	1.53	3.44
November	11,000	5.76	5.87	5.96	2.12	1.97	2.30
December	5,000	5.89	6.04	6.09	3.07	2.97	2.36

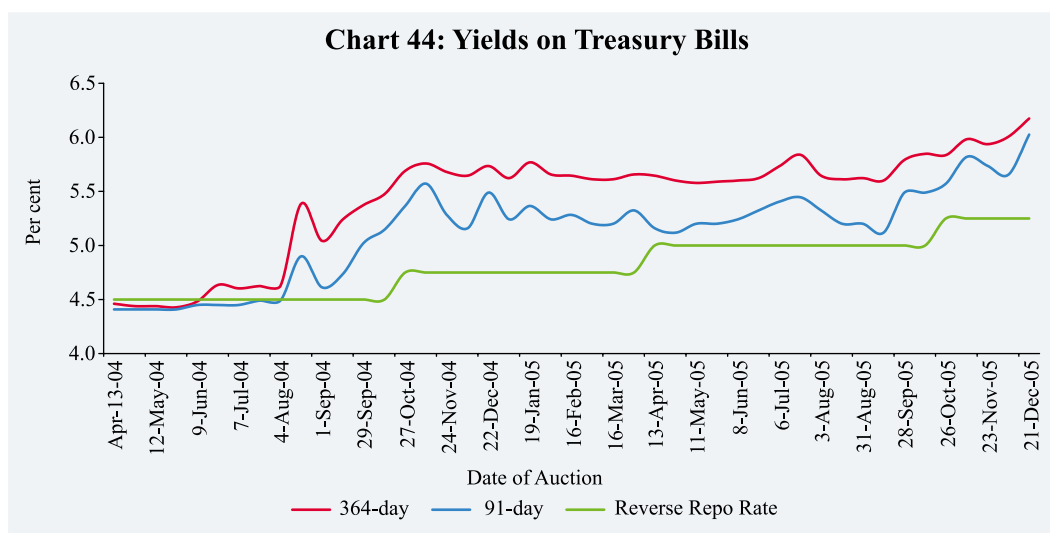
Note: 182-day TBs were reintroduced with effect from April 2005.

Treasury Bills

Yields in Treasury Bill (TB) auctions increased during October-December 2005, reflecting tight liquidity conditions (Table 33). In view of liquidity conditions, the Reserve Bank rejected all the bids for the TB auctions under the MSS scheduled on November 9, 2005 and reduced the notified amount in subsequent auctions by discontinuing absorption under the MSS, effective November 16, 2005. Yields in December 2005 were 39-67 basis points higher over their September 2005 levels and 46-68 basis points higher over their March 2005 levels. The average yield spread between the 91-day and 364-day TBs at 20 basis points in December 2005 was lower than the March 2005 level (39 basis points) (Chart 44).

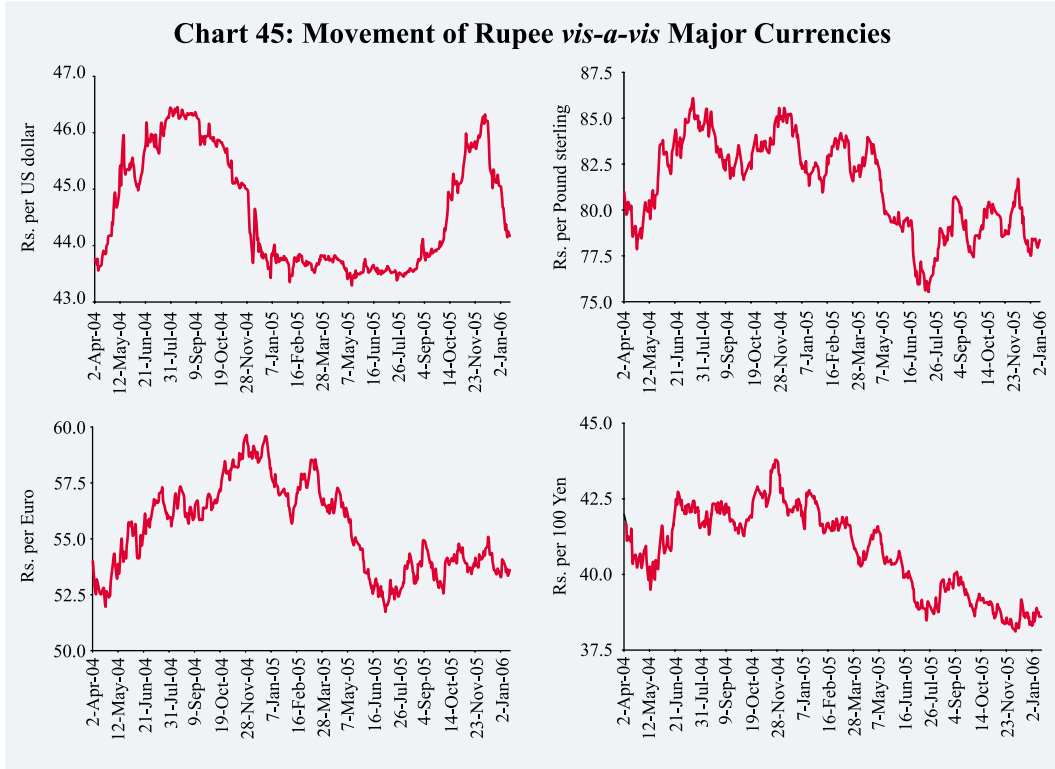
Foreign Exchange Market

In the foreign exchange market, the Indian rupee exhibited two-way movements *vis-à-vis* the US dollar during the third quarter of 2005-06: depreciation during October to mid-December 2005 and appreciation since then. On the whole, the rupee depreciated by 2.4 per cent *vis-à-vis* the dollar during

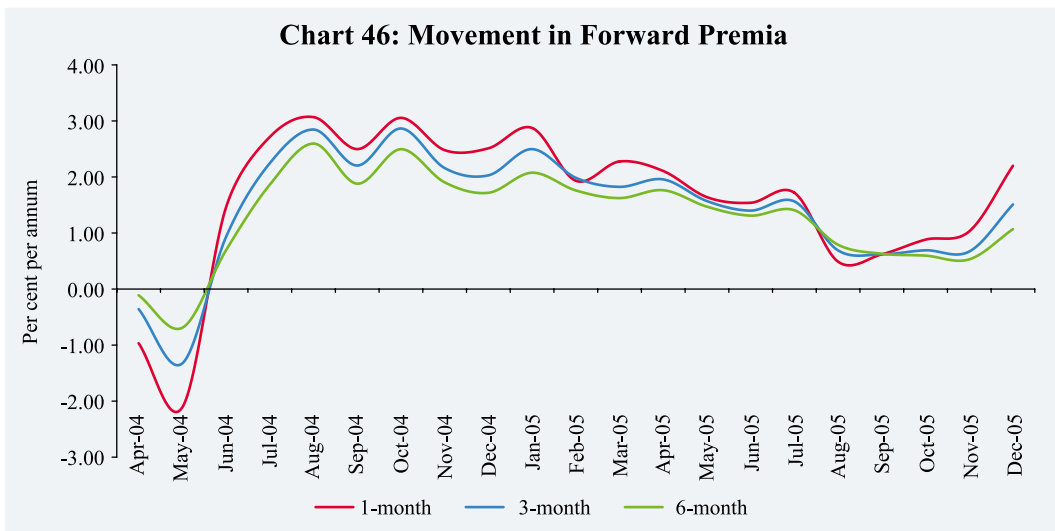


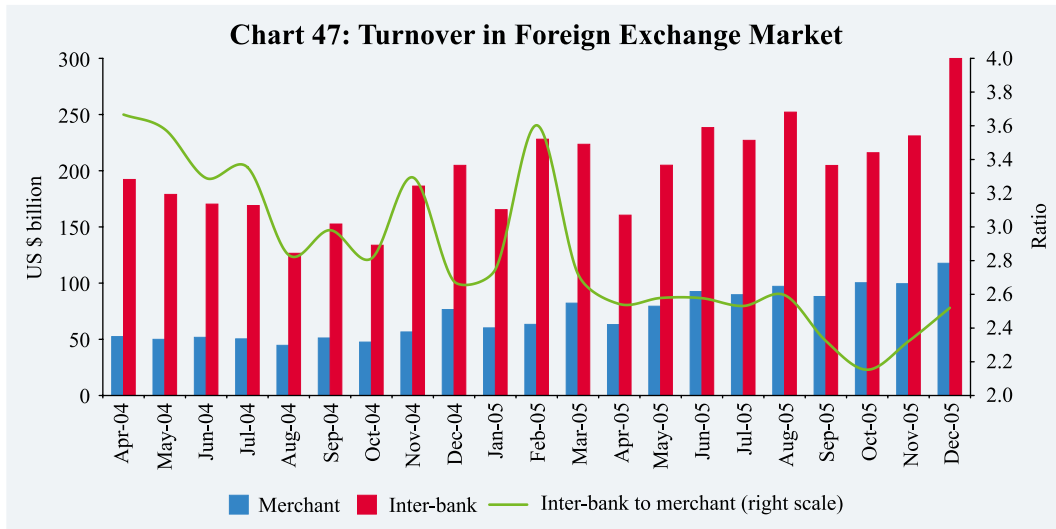
the third quarter of 2005-06. The rupee has moved in a range of Rs.43.30–46.33 per US dollar during 2005-06 so far (up to January 18, 2006). The rupee initially appreciated against the US dollar from Rs.43.76 at end-March 2005 to Rs.43.30 per US dollar on May 12, 2005, despite outflows by FIIs and a higher merchandise trade deficit. Subsequently, the rupee depreciated, reaching Rs.43.76 per US dollar on June 2, 2005 due to strengthening of the US dollar in the international markets. With the revaluation of the Chinese renminbi on July 21, 2005, there were appreciation pressures and the rupee stood at Rs.43.56 per US dollar on August 18, 2005. The Reserve Bank made net market purchases of US \$ 4.0 billion during July-August 2005. The rupee again came under pressure in the last week of August 2005 and reached Rs.44.12 per US dollar on September 1, 2005, under the impact of oil prices touching a peak of US \$ 70.8 per barrel. The rupee faced further pressure in the first week of October 2005 in the face of sharp increase in the current account deficit and strong US dollar. The pressures continued till the first half of December 2005 and the rupee reached Rs.46.33 per US dollar on December 8, 2005. With the revival of FII inflows and weakening of the US dollar in the international markets, the rupee strengthened in the second half of December 2005. The exchange rate stood at Rs.44.48 per US dollar on January 18, 2006. At this level, the Indian rupee has depreciated by 1.6 per cent over its level on March 31, 2005. Reflecting cross-currency movements, the rupee has, however, appreciated against the other major international currencies since end-March 2005: the Euro (5.2 per cent), the Pound sterling (4.8 per cent) and the Japanese yen (6.1 per cent) (Chart 45).

Forward premia increased during December 2005 reflecting higher domestic call money rates. Premia had declined during the first half of 2005-06 in tandem with narrowing interest differential following the hikes in the US interest rates (Chart 46).



The turnover in the foreign exchange market (both merchant and inter-bank) increased during the quarter from US \$ 292.8 billion in September 2005 to US \$ 418.8 billion in December 2005 (Chart 47).





Credit Market

The demand for credit from the commercial sector remained strong during the third quarter of 2005-06 (Chart 48). As on January 6, 2006, the non-food credit extended by scheduled commercial banks grew, year-on-year, by 32.0 per cent on top of 26.6 per cent growth a year ago (net of conversion). Food credit growth recorded a deceleration over its end-March 2005 level on account of lower procurement.

Demand for bank credit has been broad-based led by agriculture, industry and housing (Table 34). The increase in industrial credit was mainly on account

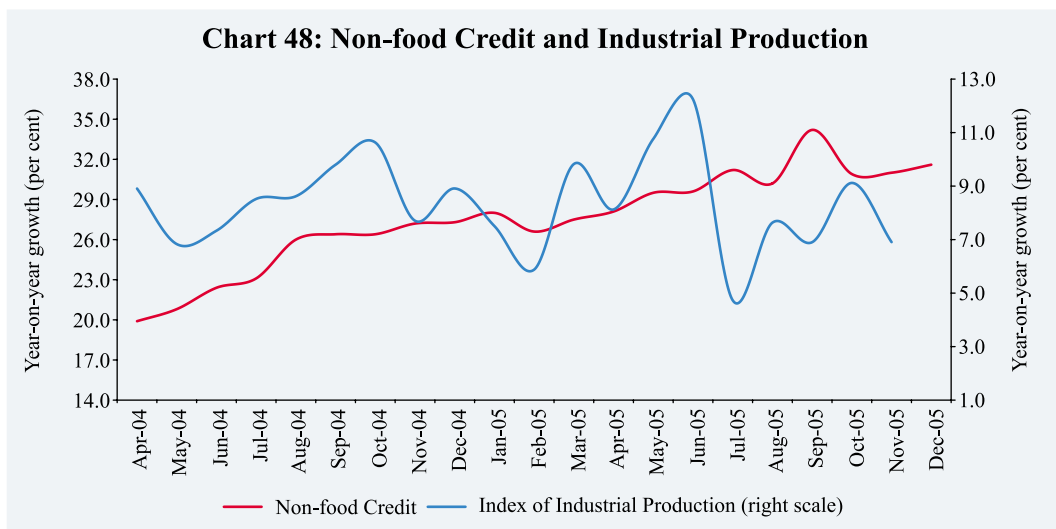


Table 34: Deployment of Non-food Bank Credit

(Amount in Rupees crore)					
Sector/Industry	Outstanding as on October 28, 2005	Financial Year Variations			
		Apr-Oct 2004		Apr-Oct 2005	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit	11,57,769	92,054	12.6	1,57,981	15.8
<i>of which</i>					
Agriculture and Allied Activities	1,41,612	11,267	12.4	16,362	13.1
Industry (Small, Medium and Large)	4,75,915	26,738	8.5	49,023	11.5
Small Scale Industries	78,780	1,322	2.0	4,192	5.6
Trade	69,315	7,580	30.5	11,367	19.6
Housing	1,53,267	N.A.	N.A.	24,539	19.1
Advances against Fixed Deposits	30,283	-651	-2.5	433	1.5
Other Sectors	1,40,082	46,469	15.5	26,048	22.8
Real Estate Loans	20,148	2,663	47.7	6,846	51.5
Non-Banking Financial Companies	25,672	604	3.6	3,188	14.2
<i>Memo:</i>					
Priority Sector	4,33,422	26,181	9.9	51,946	13.6
Industry (Small, Medium and Large)	4,75,915	26,738	8.5	49,023	11.5
Food Processing	26,259	-361	-1.7	1,826	7.5
Textiles	48,229	-44	-0.1	4,252	9.7
Paper & Paper Products	7,910	181	3.0	1,028	14.9
Petroleum, Coal Products & Nuclear Fuels	20,549	3,533	28.8	4,980	32.0
Chemical and Chemical Products	40,723	-847	-2.8	1,231	3.1
Rubber, Plastic & their Products	5,596	249	9.6	1,930	52.6
Iron and Steel	42,138	10	0	6,137	17.0
Other Metal & Metal Products	13,968	1,006	12.3	2,332	20.0
Engineering	32,694	-1,033	-3.9	3,298	11.2
Vehicles, Vehicle Parts and Transport Equipments	15,825	262	4.9	3,963	33.4
Gems & Jewellery	17,880	2,323	25.3	3,574	25.0
Construction	10,726	1,716	28.7	2,604	32.1
Infrastructure	96,639	14,169	27.6	17,630	22.3
N.A. : Not Available.					
Note : 1. 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. Due to change in classification of sectors/industries and coverage of banks, data for 2005-06 are not comparable with earlier data.					

of infrastructure (*viz.*, power and telecommunications), textiles, petroleum, iron and steel, gems and jewellery, engineering, vehicles, rubber and plastic products, and construction. Credit to agriculture recorded a strong growth reflecting various policy initiatives to improve the flow of credit to the sector. Strong demand for credit to the housing sector benefited from low interest rates and tax incentives. Credit to the commercial real estate continued to increase sharply.

During the third quarter, deposit rates increased by 25-100 basis points across various maturities (Table 35). As regards lending rates, while the

Table 35: Movements in Deposit and Lending Rates

Interest Rate	(Per cent)				
	March 2004	March 2005	June 2005	September 2005	December 2005
1	2	3	4	5	6
1. Domestic Deposit Rate					
Public Sector Banks					
Up to 1 year	3.75-5.25	2.75-6.00	2.75-6.00	2.00-6.00	2.00-6.00
More than 1 year and up to 3 years	5.00-5.75	4.75-6.50	5.25-6.25	5.25-6.25	5.50-6.50
More than 3 years	5.25-6.00	5.25-7.00	5.50-6.50	5.50-6.00	5.80-7.00
Private Sector Banks					
Up to 1 year	3.00-6.00	3.00-6.25	3.00-6.25	3.00-6.25	3.50-6.25
More than 1 year and up to 3 years	5.00-6.50	5.25-7.25	5.00-7.00	5.00-7.00	5.50-7.00
More than 3 years	5.25-7.00	5.75-7.00	5.50-7.25	5.75-7.25	6.00-7.25
Foreign Banks					
Up to 1 year	2.75-7.75	3.00-6.25	3.00-5.50	3.00-5.75	3.00-5.75
More than 1 year and up to 3 years	3.25-8.00	3.50-6.50	3.50-6.50	3.50-6.50	4.25-6.00
More than 3 years	3.25-8.00	3.50-7.00	4.00-7.00	4.00-7.00	5.00-7.00
2. Benchmark Prime Lending Rate					
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	10.25-11.25	10.25-11.25
Private Sector Banks	10.50-13.00	11.00-13.50	11.00-13.50	11.00-13.50	11.00-13.50
Foreign Banks	11.00-14.85	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50
3. Actual Lending Rate*					
Public Sector Banks	4.00-16.00	2.75-16.00	3.35-16.50	4.00-15.50	N.A.
Private Sector Banks	4.50-22.00	3.15-22.00	3.15-24.94	4.00-20.00	N.A.
Foreign Banks	3.75-23.00	3.55-23.50	4.00-25.00	2.85-25.00	N.A.
N.A. : Not available.					
* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.					

Benchmark Prime Lending Rates (BPLRs) remained unchanged, banks revised upwards their sub-BPLRs.

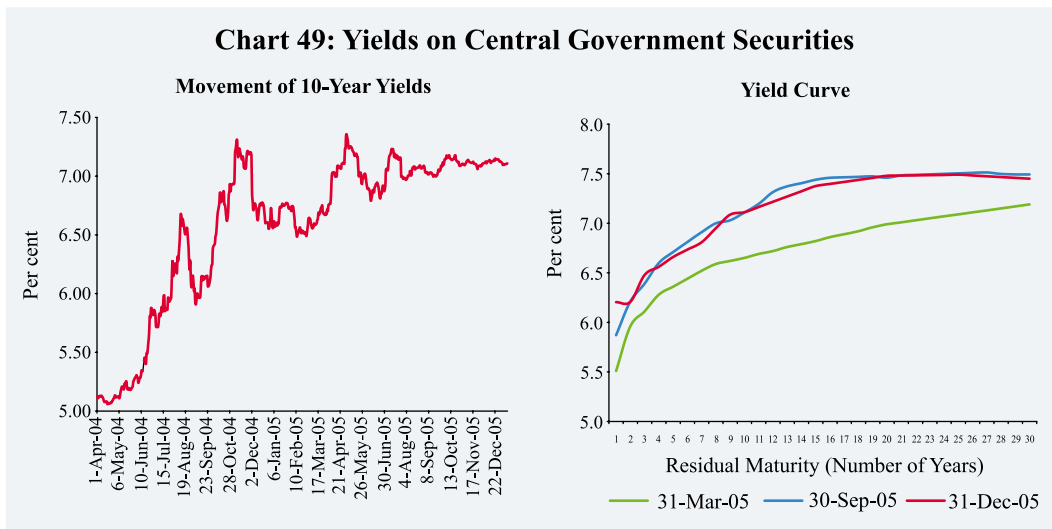
Government Securities Market

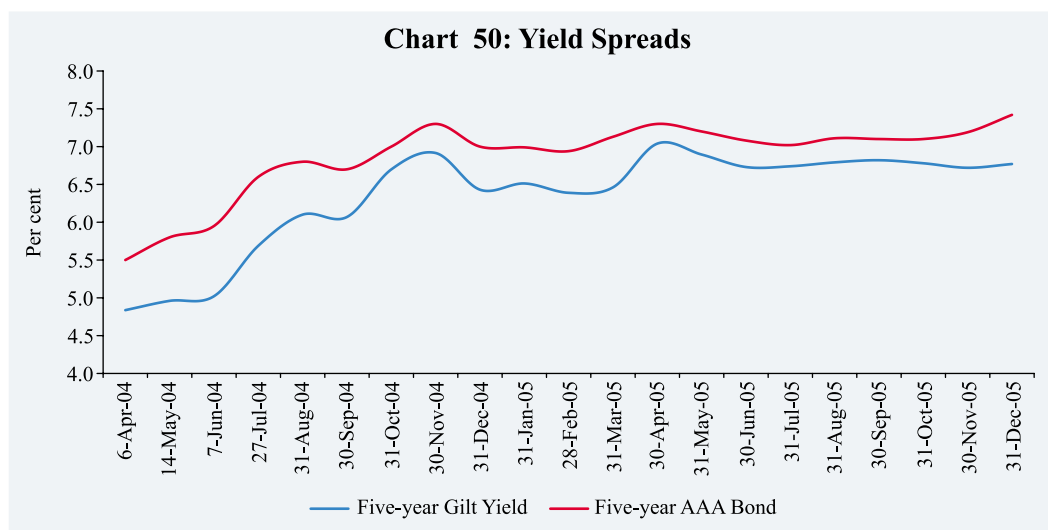
Yields in the Government securities market moved in a narrow range during the third quarter of 2005-06, continuing with the trend witnessed since May 2005. Intra-year movements in yields have been influenced by domestic liquidity conditions, inflationary expectations and volatility in crude oil prices. Yields edged up from the second week of April 2005 reflecting concerns arising from the persistent rise in international crude oil prices, higher than expected inflation and the hike in the reverse repo rate. The 10-year benchmark yield firmed up from 6.65 per cent on March 31, 2005 to 7.31 per cent on April 30, 2005. With the easing of headline WPI inflation, yields softened during May 2005 touching 6.94 per cent in early June 2005. The yields edged up again during the first half of July 2005 reaching 7.23 per cent on July 13, reflecting higher crude oil prices, liquidity concerns and anticipation of an increase in the reverse repo rate. With the reverse repo rate being left unchanged on July 26, 2005 in the First Quarter

Review of the Annual Statement on Monetary Policy and comfortable liquidity conditions, yields softened, reaching 6.98 per cent on July 29. The yields remained broadly stable hovering at around seven per cent during August-September 2005. In October 2005, the yields increased marginally in anticipation of hike in the repo/reverse repo rates in the Mid-Term Review of Annual Policy Statement on October 25, 2005. Despite increases in the repo and reverse repo rates by 25 basis points, the yields fell marginally due to some moderation in international crude oil prices and easing of headline inflation.

Although money markets were marked by liquidity tightness during November-December 2005, yields in the Government securities market remained range bound as domestic inflation and inflation expectations remained well-contained, aided by a moderation in international crude oil prices. The yields on 10-Year Government securities moved in a range of 7.06 - 7.18 per cent during the quarter ended December 2005. The 10-year yield stood at 7.11 per cent on January 18, 2006, one basis point lower than its end-September 2005 level and 46 basis points higher than its end-March 2005 level. The spread between 1-year and 10-year yields narrowed to 91 basis points at end-December 2005 (from 114 basis points at end-March) and that between 10-year and 30-year yields narrowed to 34 basis points (from 54 basis points at end-March) (Chart 49).

The yield on 5-year AAA-rated corporate bonds increased by 32 basis points during the quarter ended December 2005. The yield spread over 5-year Government securities increased to 65 basis points at end-December 2005 from 28 basis points at end-September 2005 but was almost unchanged from that at end-March 2005 (67 basis points) (Chart 50).





Equity Market

Capital markets continued to exhibit buoyancy during the third quarter of 2005-06. Resources raised by Indian corporates through initial public offerings and Euro issues increased further during October-December 2005, driven by bullish trend in the secondary market, robust macroeconomic fundamentals, congenial investment climate and sound business outlook. Indian stock markets touched historical high levels during December 2005. Satisfactory progress of the monsoon, robust industrial growth combined with satisfactory first half 2005-06 financial results of the corporates, strong investments by FIIs and mutual funds and firm trends in international stock markets enthused the market sentiment. On a point-to-point basis, the BSE Sensex increased by 8.8 per cent during the third quarter of 2005-06.

Primary Market

Resources raised through the public issues segment increased by 60.9 per cent during April-December 2005 (Table 36). With the number of public issues more than doubling during April-December 2005, average size of public issues, however, came down to Rs.214 crore during April-December 2005 from Rs.301 crore during the corresponding period of the previous year. Non-Government public limited companies (private sector) accounted for the bulk (86.6 per cent) of resources mobilised by way of public issues during April-December 2005. Three public sector banks raised equity worth Rs.2,520 crore during April-December 2005. Out of 88 issues during April-December 2005, 47 issues were initial public offerings (IPOs), constituting 47.6 per cent of resource mobilisation as compared with 17 out of 39 issues being IPOs during the corresponding period of the last

Table 36: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)				
Item	April-December 2004		April-December 2005 P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	38	9,041	85	16,351
a) Financial	6	3,755	6	6,982
b) Non-financial	32	5,286	79	9,369
2. Public Sector (a+b+c)	1	2,684	3	2,520
a) Public Sector Undertakings	–	–	–	–
b) Government Companies	1	2,684	–	–
c) Banks/Financial Institutions	–	–	3	2,520
3. Total (1+2)	39	11,725	88	18,871
<i>Of which:</i>				
(i) Equity	39	11,725	87	18,753
(ii) Debt	–	–	1	118
B. Private Placement +				
1. Private Sector	331	17,656	473	23,190
a) Financial	147	9,590	181	13,978
b) Non-financial	184	8,066	292	9,212
2. Public Sector	71	12,337	84	22,032
a) Financial	38	5,802	63	13,489
b) Non-financial	33	6,535	21	8,543
3. Total (1+2)	402	29,993	557	45,222
<i>Memo :</i>				
Euro Issues	8	2,370	34	8,825
P : Provisional. * : Excluding offers for sale. – : Nil/Negligible. + : April-September.				

year (constituting 22.8 per cent of resource mobilisation). All the IPOs in the current financial year so far have been by companies in the private sector. Equity issues continued to dominate the public issues market constituting 99.4 per cent of the total resource mobilisation during April-December 2005.

Mobilisation of resources through private placement witnessed a sharp turnaround – an increase of 50.8 per cent during April-September 2005 as against a decline of 9.7 per cent during April-September 2004 (Table 36). Resources mobilised by public sector entities (both financial and non-financial) increased by 78.6 per cent during April-September 2005 as against a decline of 47.2 per cent during April-September 2004. Public sector entities accounted for 48.7 per cent of total mobilisation through private placement during April-September 2005 as compared with 41.1 per cent during the same period of last year. Resources raised by financial intermediaries (both from public sector and private sector) accounted for 60.7 per cent of the total mobilisation by private placement during April-September 2005 (51.3 per cent during April-September 2004).

During April-December 2005, the resources raised through Euro issues – American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs) – by Indian corporates more than trebled to Rs.8,825 crore.

During April-December 2005, gross mobilisation of funds by mutual funds increased by 23.9 per cent to Rs.7,66,735 crore over the corresponding period of the previous year, while net funds (net of redemptions) increased substantially by 543.0 per cent during April-December 2005 over the corresponding period of the previous year (Table 37). Scheme-wise, a bulk (76.0 per cent) of the gross mobilisations of funds was under liquid/money market oriented schemes. Net inflows were witnessed in case of both income/debt-oriented schemes and growth/equity-oriented schemes. Net mobilisation of resources under growth/equity oriented schemes maintained its trend during April-December 2005, mainly due to attractive returns from these schemes in a buoyant secondary market.

Secondary Market

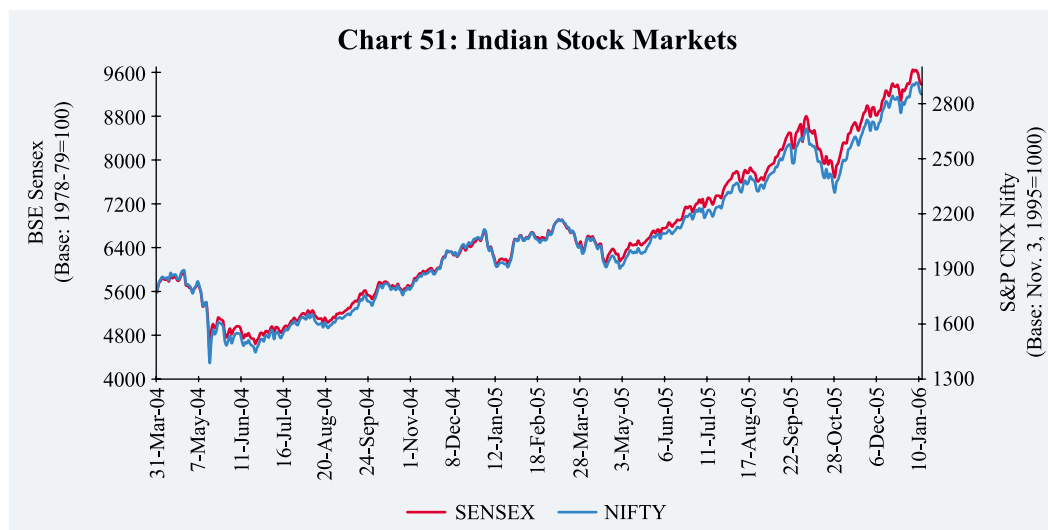
The stock markets remained buoyant during the third quarter of 2005-06 with BSE Sensex and S&P CNX Nifty touching all time highs reflecting strong macroeconomic fundamentals of the Indian economy, robust corporate earnings, congenial investment climate and sound business outlook. Strong liquidity support from both foreign institutional investors (FIIs) and mutual funds, firm trend in the major international equity markets and surge in ADR prices also helped to boost the market sentiment (Chart 51).

After touching a record high on October 4, 2005 on the BSE, the stock markets turned weak during the remainder of October 2005 on account of cautious approach adopted by investors ahead of the second quarter financial results of the companies and slowdown in investments by FIIs. However, the markets resumed buoyancy in the month of November 2005. The announcement of satisfactory financial results by corporates during the second quarter (Table 38),

Table 37: Resource Mobilisation by Mutual Funds

(Rupees crore)							
Mutual Fund	April-December 2004			April-December 2005			
	Gross Mobilisation	Net Mobilisation @	Net Assets *	Gross Mobilisation	Net Mobilisation @	Net Assets *	
1	2	3	4	5	6	7	
Private Sector	5,46,616	8,687	1,18,889	6,42,517	20,824	1,55,260	
Public Sector	39,224	-1,439	10,671	70,094	5,683	18,760	
UTI	32,915	-2,965	20,976	54,124	1,031	25,228	
Total	6,18,755	4,283	1,50,536	7,66,735	27,538	1,99,248	

@ : Net of redemptions. * : As at end of December.
 Source : Securities and Exchange Board of India.



higher real GDP growth rate for the first half of 2005-06 and firm trends in major international equity markets also helped in improving the market sentiment and pushed the BSE Sensex above the 9000-mark. The BSE Sensex reached a new high of 9648 on January 4, 2006. However, the market sentiment turned subdued thereafter, mainly due to lower than expected third quarter financial results declared by some leading companies and slow down in FIIs investments in Indian equity markets. The BSE Sensex closed at 9238 on January 18, 2006.

Table 38: Corporate Financial Performance

(Growth rates in per cent)										
	2003-04	2004-05	2004-05	2005-06	2004-05				2005-06	
			H1	H1	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11
Sales	15.4	25.2	25.1	17.2	24.8	23.7	24.1	21.0	18.5	16.4
Expenditure	12.5	24.0	23.6	16.6	23.4	22.4	24.3	19.8	18.0	16.3
Gross Profits	26.6	38.9	39.4	26.7	36.0	35.8	30.5	35.3	32.0	19.1
Interest Cost	-11.5	-2.0	2.9	-10.3	-3.2	2.1	-13.0	-5.4	-13.5	-8.0
Profits After Tax	57.9	53.8	50.1	41.3	51.2	45.3	45.5	51.4	54.2	27.5
<i>Memo:</i>										
(Amount in Rupees crore)										
Number of Companies	2,201	1,273	1,171	2,168	1,255	1,353	1,464	1,301	2,355	2,361
Sales	4,28,072	5,68,476	2,53,747	3,67,769	1,35,156	1,53,040	1,62,193	1,79,632	1,94,608	2,12,693
Expenditure	4,06,838	4,90,204	2,16,622	3,15,139	1,15,656	1,31,227	1,40,574	1,56,647	1,66,972	1,83,717
Gross Profits	48,852	72,406	33,291	48,781	17,234	20,448	20,017	23,736	25,577	27,620
Interest Cost	14,724	12,528	6,418	8,083	3,597	3,584	3,273	3,177	4,241	4,467
Profits After Tax	26,281	47,333	20,634	32,016	10,396	13,004	13,196	16,798	16,726	18,169

Note: 1. Growth rates are percentage change in the level for the period under reference over the corresponding period of the previous year.
2. Data are based on the audited / unaudited abridged results of the non-financial non-Government companies except column (2) which are based on audited balance-sheets for 2003-04.

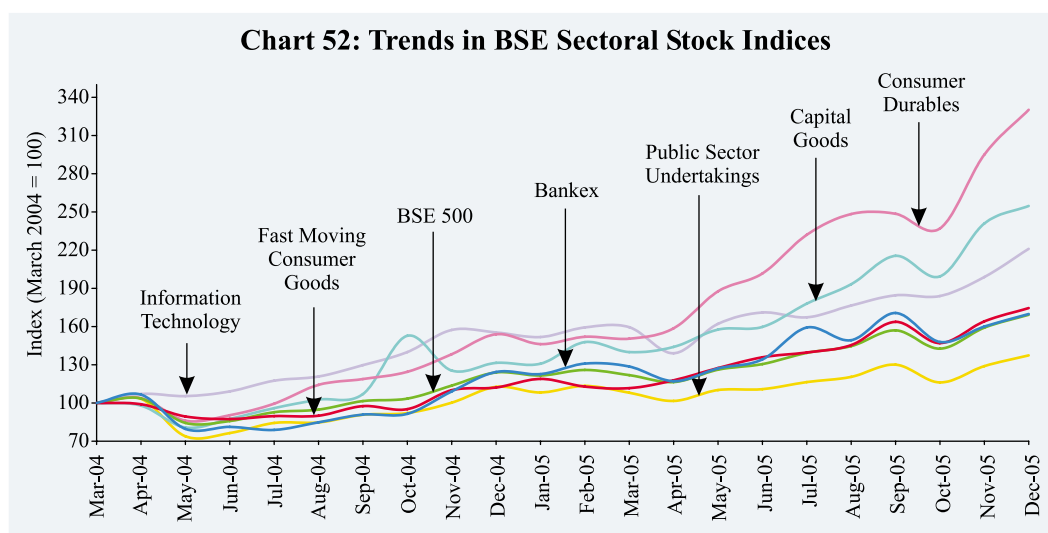
Table 39: Stock Market Indicators

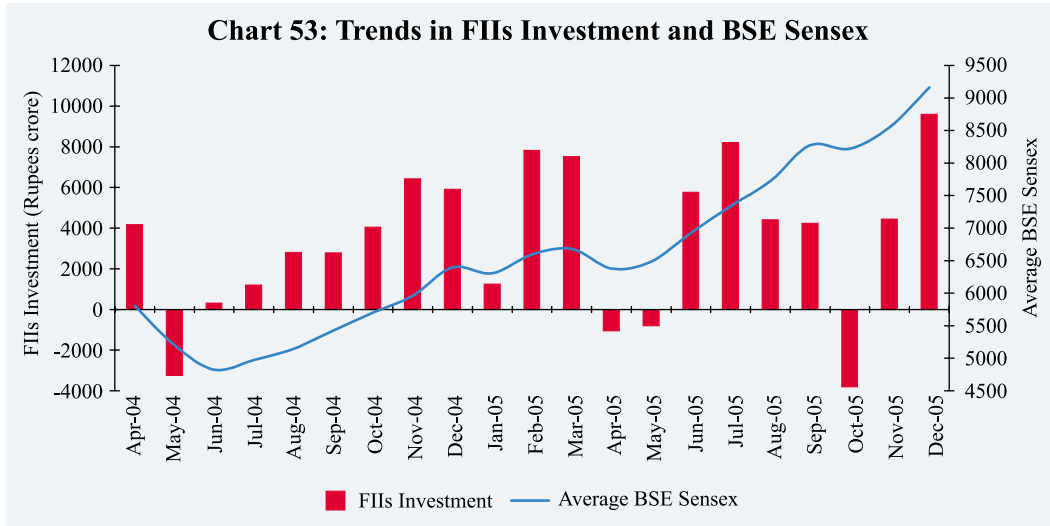
Indicator	BSE				NSE			
	2003-04	2004-05	April-December		2003-04	2004-05	April-December	
			2004-05	2005-06			2004-05	2005-06
1	2	3	4	5	6	7	8	9
Average BSE Sensex/ S&P CNX Nifty	4492	5741	5489	7668	1428	1805	1728	2339
Volatility	22.95	11.15	9.32	12.17	23.3	11.28	9.70	11.26
P/E Ratio (End-period)*	18.57	15.61	17.07	18.61	20.70	14.60	15.32	17.16
Turnover (Rs. crore)	5,02,618	5,18,716	3,65,614	5,47,923	10,99,535	11,40,071	8,27,295	10,75,345
Market Capitalisation (Rs. crore)								
(End-period)	12,01,207	16,98,429	16,85,750	24,89,384	11,20,976	15,85,585	15,79,161	23,22,392

* : For 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty.
Source : The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE).

During the current financial year so far (up to January 18, 2006), the BSE Sensex has risen by 42.3 per cent over its end-March level, while the S&P CNX Nifty has increased by 38.0 per cent. The price-earnings (P/E) ratio of BSE Sensex stood at 17.9 as on January 18, 2006 as compared with 15.6 at end-March 2005 (Table 39).

The rally in the stock markets during the current fiscal has been widespread (Chart 52). On a point-to-point basis during current financial year so far (up to January 18, 2006), BSE 500 has increased by 38.3 per cent, while BSE

Chart 52: Trends in BSE Sectoral Stock Indices




Small-cap and BSE Mid-cap has increased by 63.0 per cent and 48.0 per cent, respectively. Amongst the major sectors, BSE consumer durables index registered the highest gain (111.7 per cent) over end-March 2005, followed by capital goods (86.6 per cent), fast moving consumer goods (FMCG) (53.7 per cent), IT sector (31.4 per cent), banking index (30.3 per cent) and public sector undertakings (PSUs) (26.8 per cent). The consumer durables index rose sharply on account of robust corporate results led by increase in sales in electronics and auto segments and merger and acquisition activities in that sector. The FMCG sector performed well mainly due to normal progress of monsoon and its expected positive effect on sales of the FMCG products. The capital goods scrips were buoyant due to robust industrial activity, specifically in the manufacturing sector and continued encouraging investment climate. Satisfactory corporate results, increasing demand for Indian IT products from abroad and good performance of ADRs of IT sector companies led to a sharp increase in IT sector scrips.

As per the Securities and Exchange Board of India (SEBI), foreign institutional investors (FIIs) have made net investment of Rs.32,964 crore (US \$ 7.4 billion) in the equity market during 2005-06 so far (up to January 17, 2006) on top of net purchases of Rs.24,619 crore (US \$ 5.4 billion) during the corresponding period of the previous year (Chart 53). Mutual funds have also made net purchases in equities of Rs.10,195 crore during 2005-06 so far (up to January 17, 2006) as against net sales of Rs.1,255 crore during the corresponding period of the previous year.

At NSE, the total turnover in the cash segment increased by 30.0 per cent to Rs.10,75,345 crore during April-December 2005 from Rs.8,27,295 crore during the corresponding period of the previous year. The turnover in the NSE's derivative segment continued to be higher than in the cash segment. It increased by 79.8 per cent to Rs.31,09,089 crore during April-December 2005 (Chart 54).

